

Fanhua Q4 2022 Earnings Conference Call Script

Operator:

Thank you for standing by for Fanhua's Fourth Quarter and Fiscal Year 2022 earnings conference call. At this time, all participants are in listen-only mode. All lines have been placed on mute to prevent background noise. After the management's prepared remarks, there will be a question-and-answer session. Please follow the instructions given at that time if you would like to ask a question. For your information, this conference call is now being broadcasted live over the internet. Webcast replay will be available within three hours after the conference is finished. Please visit Fanhua's IR website at ir.fanhuaholdings.com under the "Events & Webcasts" section.

Today's conference is being recorded. If you have any objections you may disconnect at this time. I would now like to turn the meeting over to your host for today's conference, Ms. Oasis Qiu, Fanhua's investor relations manager.

Oasis Qiu: Good Morning. Welcome to our Fourth Quarter and Fiscal Year 2022 earnings conference call. The earnings results were released earlier today, and are available on our IR website, as well as on newswire.

Before we continue, please note that the discussion today will contain forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause our actual results to differ materially from those projected or anticipated. Such risks and uncertainties include but are not limited to those outlined in our filings with the Securities and Exchange Commission, including our registration statement on Form 20-F. We do not undertake any obligation to update this forward-looking information, except as required under applicable law.

Joining us today are our chairman and chief executive officer, Mr. Yinan Hu, chief financial officer Mr. Peng Ge, chief operating officer Mr. Lichong Liu and Board Secretary Lily Li. Mr. Liu will provide a review of our financial and operational highlights in the fourth quarter and fiscal year 2022. There will be a Q&A session after the prepared remarks. Now I will turn the call over to Mr. Liu.

Lichong Liu [Interpreted]: Good morning and good evening! Thank you for joining today's conference call.

Over the past few years, China's insurance industry has been undergoing ongoing transformation in life insurance distribution. While the traditional pyramid structure of life insurance sales force is deconstructing, life insurance sales teams are transforming to become more distinctly professional, specialized and elite, and are structured in a more flattened, small, dispersed and personalized manner. A large number of scattered individual insurance sales organizations and independent agents are in great need of the support of a third-party public professional platform to ensure continuous professional growth and sustained competitiveness.

We believe that while individual life insurance sales organizations will become more fragmented, support platforms will be more concentrated to enable cost-efficiency and high quality business growth. The competition in the life insurance sales market will ultimately come down to the competition among platforms, driven by digital technology and artificial intelligence.

Fanhua initiated the strategy of ‘Professionalization, Career-based Development, Digitalization and Open Platform’ starting from the second half of 2020, dedicated to transforming from a traditional insurance distributor into a digital technology-based platform company empowering the industry. After more than two years of transition and investment, Fanhua has largely finished the construction of our Open Platform which has brought encouraging results.

1. We have established a professional empowerment system to fulfill agents’ needs for professional and career development.
 - (i) We have established “triple F” (representing “Family Office Consultant, Fanhua Retirement Planner and Family Policy Custodian”) training programs to help agents improve professional skills and help them to transform from focused experts on insurance products to broader experts on family-based asset allocation, and then expanding to experts on elderly care and legacy management. In 2022, a total of more than 26,000 agents have attended these training programs. In addition, we have also rolled out 3A training programs focusing on cultivating sales supervisors’ ability in recruitment, career development and team management, thus supporting agents’ continuous career progression and the sustained development of our sales force as a whole.
 - (ii) Leveraging on our various service resources and technology and the targeted trainings, we have put in place three product lines: first, trust service + insurance; second, health and elderly care service + insurance; and third, insurance policy custodian service + insurance, which are in their essence an Insurance as a Service model to drive agent activity and significantly improve customer experience, leading to better productivity and performance.
 - (iii) We understand that it takes time for agents to achieve professional perfection. Therefore, we implemented a triple-R marketing model which assembles a team of internal and external experts to support agents throughout all the key steps of their engagement with customers as necessary, to make sure that our customers will be able to enjoy consistent high quality professional services and drive better conversion rates.
2. We have pooled a wide range of insurance products as well as quality insurance trust, health care and senior care and wealth management service resources, so as to enable our agents to broaden their service scope to offer a complete set of products and services to their customers by matching customers’ evolving needs throughout their entire life

cycle.

3. We have largely finished the construction of the infrastructure of our digital platform. Since our IPO, we have invested several hundreds of million RMB in building leading insurance technologies and digital tools including Lanzhanggui version 3.0 which enables full insurance transaction processing, our digital operation platform, Fanhua's enterprise Wechat, our insurance policy custodian system, our double-recording system, and our Fanhua Online Academy and Fanhua's Insurance Service Butler Workstation, empowering our agents in managing their book of business. We also rolled out a digital tenant system which modularizes the features on our digital platform, enabling us to offer a customized stand-alone front-end application to each institutional users according to their respective business need, which allows us to open our platform to the industry in a highly efficient way.

With the implementation of the Open Platform Strategy, we have seen significant growth across multiple operating metrics, fully demonstrating the Platform's powerful support for agents in their professional and career development. With our strategy of developing top-performing agents, we have seen a decrease in total performing agents and a growth of productivity among remaining agents, and in particular continued increase of contribution from high-performing agents. The number of "100,000 Premium Agents" has increased year-over-year for three consecutive quarters with their contribution of our new business in 2022 increasing to 56%, up from 45% last year. At the same time, we are also encouraged by the significant progress of our affiliated Fanhua RONS open platform division which has achieved profitability one year into operation as its business model gets more mature. As of the end of 2022, Fanhua RONS Open Platform has connected with over 130 institutional clients, facilitating over RMB250 million first year premiums during the year, representing a growth of six times from 2021.

As such, despite challenges from the surge of COVID-19 cases in late 2022, we delivered approximately RMB3.6 billion in total gross written premiums ("GWP") in the fourth quarter of 2022, up 11.7% year-over-year, of which first year premiums ("FYP") grew by 19.6% year-over-year. Operating income came in at RMB84.9 million, far ahead our guidance while non-GAAP net income attributable to our shareholders grew by 76.1% year-over-year to RMB70.9 million. For 2022, total GWP facilitated by Fanhua grew by 10.3% year over year to RMB12.8 billion, of which FYP reached RMB2.9 billion, up 3.5% year over year. If excluding the impact of the transition towards new critical illness definition framework which created a high base in January 2022, our FYP grew by approximately 20.1% year over year. Operating income for 2022 reached RMB168 million.

As such, we believe it is high time to open our platform to the industry. Therefore, we announced our open platform strategy in the fourth quarter, and initiated several acquisitions including a leading MGA company Zhongrong Huijin and two regional leading companies to accelerate the expansion of our open platform.

Looking ahead to 2023, with the reopening of China post pandemic, steady recovery in China's

economic growth and resumed consumers' confidence in spending will certainly provide a more favorable environment for deepening the transformation and drive the development of the insurance industry. In the meantime, it becomes more evident that independent insurance intermediaries are playing a more important role as customers' demand and product offerings getting increasingly more diversified which will continue to drive the professionalization, personalization and fragmentation of life insurance sales organizations as a whole. Fanhua is well positioned to benefit from such evolving trend.

As we accelerate the execution of our strategic transformation in 2023, we aim to gain more market share by focusing on the following initiatives: (i) enhancing efforts on the professionalization and career-based development of our sales force; (ii) increasing investment in enhancing digital operation capabilities; and (iii) speeding up strategic acquisitions. Our target is to achieve no less than 50% year-over-year growth in both life insurance first year premium and operating income in 2023.

This concludes my presentation. Now the floor will open for your questions.

.....**Q&A Session**.....

- 1. What is the outlook for the insurance agency and broker industry in China. Could you please share some color on the competitive landscape in China and how it will change in the future? Whether the market will be more concentrated and whether we will see more competition in the market and what is Fanhua's position.**

Yinan Hu (Interpreted): Regarding the competitive landscape of the insurance brokerage industry, I will mainly talk about my views on the competitive landscape of the life insurance brokerage industry and how it will evolve in the future. I think the basic conclusion at the moment is that the competition is undergoing fundamental changes, which are reflected in two aspects. Sales organizations are gradually more elite-based, flattened and personalized, while brokerage companies are enhancing the empowerment capabilities of their platforms, driven by digitalization and artificial intelligence technology. Before that, we believed that the brokerage industry was almost all sales-oriented, and mostly were typical sales companies. We believe that in the future, large sales organizations will deconstruct themselves, or companies that define themselves purely as sales brokerages will deconstruct themselves. As we are seeing sales organizations becoming more professional and career-based, they need a platform to support them to achieve professional growth and sustained career development. Therefore, we believe that the existence of a brokerage company should be a platform empowerment company. Large brokerage firms will gradually evolve into digital technology-enabled platform companies. While small sales-oriented organizations includes independent studios, and independent agents will join the empowerment platform to obtain professional support for career development, thereby greatly reducing the cost of obtaining insurance policies. The state is encouraging the digitalization of various industries in China. How does the digitalization of the insurance industry work? Thousands of small and medium-sized sales

companies, whether brokerage companies or agency companies, not every one can invest heavily in building digital platforms to achieve digital transformation.

The future competition must be based on data traffic, and based on the competition of algorithm models and artificial intelligence. I can envision a scenario in the future, which is a digital technology platform, a platform that provides various algorithm models and artificial intelligence core capabilities to empower a large number of sales-oriented organizations.

2. The second question is about the Company's Open Platform Strategy. We have already seen a few acquisitions in the past few months. Could you give us more details on the pace of the Company's future acquisitions and how will this strategy contribute to the Company's revenue and earnings in the next three years.

Yinan Hu (Interpreted): To be clear, we have launched the operation model of "backoffice platform + individual entrepreneurship" back in 18 years ago. This open platform stems from our consistent strategy. The premise of this strategy is specialization and professionalism, that is, the core of the open platform is empowerment. If you can't provide an enabling open platform, there is no difference between simply providing product shelves and transaction tools. Therefore, the essence and premise of the open platform is professional growth empowerment and career development empowerment. Therefore, Fanhua's acquisition has a basic premise, which is after the acquisition, we can help the acquired entities to achieve substantial business growth and greatly reduce their operating costs, especially the investment in IT system, by sharing our middle and back office system. If the acquisition cannot bring substantial business growth to the acquired entities and reduce their operating costs, we will not consider buying them. We have announced three acquisitions and 10 more in the pipeline. We hope to invest in or acquire control stake in 20-30 leading insurance intermediaries within the next two years, of which 10 are expected to be acquired in 2023, contributing no less than RMB1 billion in first year premiums.

As how to empower acquisition targets, or empower sales organizations that join our platform? As many of these sales organizations may not necessarily be willing to be acquired and want to remain independent, we will soon launch our digital tenant system so that sales companies or sales teams in the industry can directly plug into our technology platform. There are four main areas of empowerment. One is a market-wide product offering, and the other is professional empowerment system, including trust services, health care and senior care services, and insurance policy custodian services. Thirdly we will provide them with digital tools, including our digital operation platform, double recording system. The fourth is to provide them with SaaS services, our core business system. According to the requirements of the CBIRC, all licensed institution must be equipped with information system. If they join Fanhua, they can directly use our information system, without having to spend large amount of money to invest in IT themselves.

As for revenue growth and profitability outlook, my personal target is to grow our [life insurance] first year premiums and operating income by 50% on CAGR basis in the next three years.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call and may be modified to correct translation discrepancy.]