

## Fanhua Q2 2022 Earnings Conference Call Script

### Operator:

Thank you for standing by for Fanhua's Second Quarter and First Half 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](http://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 Second Quarter and First Half 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 and chief operating officer Mr. Lichong Liu. Mr. Yinan Hu will provide a review of our financial and operational highlights in the second quarter of 2022. There will be a Q&A session after the prepared remarks. Now I will turn the call over to Mr. Hu.

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

In the second quarter of 2022, as we continued executing on our 'Professionalization, Career-based, Digitalization and Open Platform' strategy and implemented a series of strategic initiatives, the efforts started to show some encouraging results, with positive improvements across various operating metrics.

Our insurance business grew 12.2% year-over-year to RMB2.9 billion in gross written premiums, of which our life insurance first year premiums reached RMB615.7 million, up 43.7% year-over-year and 25.0% quarter-over-quarter. The growth was primarily driven by substantial increases in the number of high-performing agents and their per capita productivity.

During the quarter, both the number of high-performing agents and the per capita performance

indicators have enjoyed great improvements on a year-over-year basis. The number of “3-months 10K Premium Agents” who are defined as those contributing over RMB10,000 annualized premiums equivalent (“APE”) monthly for three consecutive months during the quarter increased by 23.6% year-over-year with per capita productivity up 33.3% year-over-year, while the number of “100K Premium Agents” who are defined as those contributing over RMB100,000 APE during the quarter increased by 41.2% year-over-year with per capita productivity growing 6.3% year-over-year. Correspondingly, as we purposely reduced the number of non-performing and low-performing agents, the total number of Fanhua’s performing agents reduced by 37.6% in the second quarter of 2022. These are clear signs of the positive effects of our strategic focuses on serving mid-to-high end customers and high-performing agents.

With the steady progress in executing our new strategy, we were proud to deliver robust growth in our new business during the quarter, while operating income reached RMB31.0 million, well exceeding our prior expectation. The year-over-year decrease in operating income was mainly due to 1) a loss of RMB7 million within our claims adjusting segment due to impacts of COVID-19 during the quarter, as in our major business area, we failed to operate due to COVID-19, while we made a profit of RMB3.5 million in the same period of last year, meaning that we suffered about RMB10 million loss in our claims adjusting segment due to COVID-19; 2) an increase of investment in our Yuntong branches which correspondingly incurred a loss of RMB15 million during the quarter; and 3) our increased expenditure amounting to RMB10.3 million on refining our IT infrastructure to support digitalization of our operation and empower front-line operation of our agents. Although such investments may have increased our cost pressure, we believe it is necessary investment to strengthen capabilities. If excluding the impact of the above-mentioned factors, our operating income would have been approximately RMB63 million, representing a growth of 34%, which again demonstrates that we are on track for future sustained growth.

After over a year of implementation and continued refinement, our strategy is clear and pragmatic, and the preliminary results have contributed to significant improvement of our brand image in the industry, further boosting the morale and confidence of our staff and sales force.

Building upon the preliminary achievements in the first half of 2022, we will focus on pushing forward the following strategic initiatives to further solidify our core competitiveness.

### **1. Recruitment and training of top talents to build a highly productive sales force**

Firstly, further expanding the coverage of Family Office Consultants (“FOC”) and Family Retirement Planners (“FRP”) training programs among high-performing agents, while starting to initiate training and certification programs for family policy managers which focus on helping agents to develop the ability to offer policy custody services, so as to help our agents 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.

Secondly, Leverage our advantages in insurance trust services and health care services with

the support of our well-proven triple-R marketing model - Account Responsibility, Solution Responsibility and Fulfill Responsibility - and step up efforts to attract industry top talents, especially Million-Dollar Roundtable Members, to achieve the target of 30% YoY growth in 100K Premium Agents.

## **2. Providing scenario-based trust, health care and elderly care services facilitated by standardized triple-R marketing procedures**

1) **Trust + Insurance:** as of the end of June 2022, Fanhua has organized over 100 customer engagement activities, and facilitated in setting up 123 trust accounts for over RMB1.2 billion entrusted assets covering 215 new insurance policies, with each trust account contributing 1-2 insurance policies on average and RMB30 thousand APE per policy. Our strategy of offering referral of insurance trust and family trust services to mid-to-high-net worth customers have delivered significant results, establishing a good reputation in the industry and standing out with a competitive advantage. In the second half of 2022, in combination with our FOC training programs and the triple-R marketing model, we plan to widely organize high-end customer engagement activities, with the professional support of the triple-R talents, to provide a full suite of services from customer engagement, asset allocation planning and solution making, setting up insurance trust accounts, to fulfillment and post-sale services. As such, we expect to offer a closed loop of insurance trust services, making insurance trust accounts a new competitive moat for Fanhua.

2) **Health and elderly care + Insurance:** Established in 2021, Fanhua's Health Management Business Unit is dedicated to pooling quality resources of medical and elderly care on the market to empower our partners, agents and customers. In the first half of 2022, Fanhua has launched a wide spectrum of customer acquisition products and collaborated with providers of quality services such as cord blood banks and high-end medical service providers. Furthermore, we have made a breakthrough in securing access to quality elderly care facilities by sealing an in-depth cooperation agreement with a state-owned enterprise. It also marks the first step for Fanhua to become an open platform for connecting small and medium-sized insurers with third party health and elderly care service facilities. Into the second half of the year, we will make full use of these resources to facilitate scenario-based marketing by organizing on-site visits to healthcare and elderly care facilities for customers to experience quality lifestyles and related services, so as to stimulate their demand for wellness, health, retirement and legacy management solutions, and thus boost sales of insurance products.

3) **Upgraded Lan Zhanggui App to support digitalized operation.** In the first half of 2022, Our Lan Zhanggui App has been upgraded to a 3.0 version, a comprehensive platform that integrates customer engagement, customer service, trading support, online and offline operation, and professional training and personal branding. With the release of the Lan Zhanggui 3.0, we have observed significant improvement in operational efficiency with key performance indicators of the platform also showing remarkable improvements. Specifically, the number of active agents on the platform were up by about 50% and has continued to increase; the productivity of agents using our digital tools was nearly 1.5 times that of agents otherwise; and the productivity of agents that have become a Guanjia, or insurance service butler, was about 20% higher than that of those otherwise.

All this shows that our digitalization efforts have been paying off.

For the second half of 2022, Fanhua will continue to improve user experience by further optimizing key functions and making the system more stable and easier to use, so as to support agents' activities more efficiently.

In the third quarter of 2022, while external factors such as COVID-19 and double-recording may continue to exert a negative impact, Fanhua will continue to further implement our development strategy, and work to improve company value by aggressively pursuing the enormous market opportunities. After considering our planned continued increased investments in technology and training in the near term, which will take time to fully show their benefits, the management is confident in achieving positive growth with an operating income of no less than RMB30 million.

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

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

**1. How do you expect the Company's commission revenue and profit in the second half of 2022?**

**Yinan Hu (interpreted):** Our strategy has been proven to be quite effective in driving the growth of our business. The key part of this strategy is to focus on serving mid-to-high end customers as well as high performing agents with the support of digital empowerment. Although our total number of performing agents declined by 30%, our first year premiums grew substantial which indicated the strong internal driving power of the new strategy. As we continue to execute our strategy, we expect our growth momentum will pick up over time in Q3, Q4 and next year.

However, we also observed two factors that may pose adverse impact on our financial results. Firstly, our product mix. Even though we maintained strong growth in first year premiums, but most of the products are short term products which mean that these products have lower embedded value for the Company. That is why our commission income and profit growth are not exactly in line with our premium growth. The second factor is the resurgences of COVID-19 cases in many regions and the regulatory requirement for double-recording in some of our major markets which may pose some pressure on our business growth.

So the net effect is, we don't expect to see any further substantial decline in our business and we are believe we are bottoming out.

**2. How is the profile of Fanhua's agents in respect of age, region, and education? How about their income and productivity?**

**Yinan Hu (interpreted):** Currently, 60% of our sales agents are in the age of between 40 to 60 years old, which basically aligns with our customer strategy focusing on mid-to-high end customers. Currently, most of the wealthy or affluent population are in the age of 40-60 years old. Particularly for those in the age of 50-60 years old, there are 300 million of them who have strong demand for

retirement, and legacy management. The age profile of our agents largely aligns with our target customer group which will provide strong support for us to execute our strategy. Most of our agents are located in the second or third tiered cities with no very high education level.

In order to make up the shortcoming of those agents, we launched a 3R marketing model which is basically separate the whole sales process into different steps and different roles to be played by different agents. Those agents who do not have very high professional skills will be responsible for customer engagement while those more professional agents will be responsible for providing solution design and executing the transaction. So in the meantime, the Company is also working on recruiting younger agents with higher education level to serve as solution managers and fulfillment managers to support the remaining 60% agents. Currently, about 25% of our agents are in the age of 3-40 years old. These agents have relatively higher education and better learning capabilities. In the first half of 2022, we hosted a lot of FOC (“Family Officer Consultant”) and FRP (“Fanhua Retirement Planner”) training sessions to foster a group of more professional sales agents to support the remaining sales agents to better serve their customers and executing transaction.

As for the productivity of our agents, in the second quarter of 2022, the productivity of our effective agents was RMB20,000 (first year premiums) [monthly] as compared to RMB12,000, indicating an improvement of 60% year-over-year.

### **3. Can you share with us your current product mix? How do you expect the demand for savings products and whether the growth of savings products sustainable?**

**Yinan Hu (interpreted):** in the second quarter, our whole life insurance and annuity products accounted for 79% of our total first year premiums as compared to 68% in the same period of last year while critical illness products accounted for only 7% as compared to nearly 20% in the same period of last year.

As for demand and sustainability of the growth of savings products, we believe the demand will remain strong for at least next 10 years, driven by the baby boomer trend 60 years ago. Since 1962, over 20 million people were born each year which means that starting from 2022, there will be over 20 million people going into retirement age each year in the next 10 years. The key demand of this age group of population is for quality retirement lifestyle, wealth preservation instead of appreciation and legacy management. In the next 10 years, as more and more people turning 60 years old, there will be sustained demand for savings products to address their need for retirement, wealth preservation and legal management.

Considering the strong demand for savings product while the increased contribution from savings products may pose adverse impact on our total embedded value, we have adopted three measures: one is to step up effort to introduce healthcare and elderly care service products to cater to people’s demand for quality retirement lifestyles and second is to expand the offering of trust services to cater to people’s need for wealth preservation and legacy management; thirdly, to optimize our product mix by encouraging the sales of products with longer payment period, particularly those

with over 10-year payment period and in the meantime, cooperating with insurance companies and re-insurance companies to design new products to improve embedded value. For example, we recently cooperated with AVIVA-COFCO to introduce a leverage-style wholelife insurance products. For these products, customers typically prefer longer payment period in the range of 10 to 20 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.]*