MARUI GROUP

Summary of Teleconference Financial Results Briefing for the 3 Months Ended June 30, 2018

< Overview of Financial Results >

I would like to explain the summary of the financial results for the 3 Months Ended June 30, 2018 in line with Digest at the beginning of the FACT BOOK.

First, please look at table ①**Consolidated performance**. Earnings per share (EPS), which has been defined as a key performance indicator in the medium-term management plan, rose 15% year on year, to ¥26.0. In addition, an upturn in revenue led us to record an increase in both 3 month profit and revenue for the first time in 5 years.

- Total Group transactions rose 14% year on year, to ¥587.9 billion, a large increase thanks to ongoing growth in card shopping transactions in the Fintech segment.
- Revenue was up 3%, to ¥58.2 billion, making for the first increase in 3 month revenue in 5 years. This growth was due in part to the smooth expansion of card shopping transactions and rent and other service field revenues in the Fintech segment.
- 3 month gross profit increased for the 8th consecutive year, rising 6%, to ¥44.5 billion.
- Selling, general and administrative (SG&A) expenses were up 4% year on year, to ¥35.9 billion. Although variable costs increased in conjunction with higher Fintech transactions, we were able to limit the rise in SG&A expenses through cost reductions stemming from the transition to shopping centers and fixed-term rental contracts in the Retailing segment.
- As a result of these factors, operating income increased 17%, to ¥8.6 billion, which represented 22% of the full-year forecast, making for progress that is in line with the previous equivalent period.
- For the 3 months ended June 30, 2018, gain on bad debts recovered that would have previously been recorded under non-operating income will be included in revenue. The amount of these gains in the period under review was approximately ¥0.3 billion. Meanwhile, an additional ¥0.3 billion in SG&A expenses was incurred in reflection of the application of the size-based business tax to Epos Card Co., Ltd. The impacts of these two factors on operating income offset each other.
- The only one of these changes that will be applied retroactively is the change in accounting method for gain on bad debts recovered. Accordingly, we have provided figures in brackets for operating income for the 3 months ended June 30, 2017, year-on-year comparisons, and changes that are prior to the retroactive application of the change in accounting method for gain on bad debts recovered. These figures are meant to give a better picture of the actual performance of the Company. Using figures prior to the retroactive application of this change, operating income

shows a 21% year-on-year increase.

- Net income attributable to owners of parent increased 11% year on year, to ¥5.7 billion. The limited amount of this increase is partially attributable to the decline in gain on sale of property and equipment recorded under extraordinary income.

- Over the period from May 2018 to March 2019, MARUI GROUP intends to conduct treasury stock acquisitions totaling ¥7.0 billion. As of June 30, 2018, we had acquired 600,000 shares for approximately ¥1.4 billion.

I would next like to explain table ②**Summary of consolidated balance sheet**.

- Operating receivables on June 30, 2018, were ¥18.9 billion higher than on March 31, 2018, due to ongoing growth in card shopping transactions.

- Interest-bearing debt was up ¥24.0 billion compared with the previous fiscal year-end. This increase in debt was primarily a response to the rise in operating receivables.

- The ratio of interest-bearing debt to operating receivables on June 30, 2018, was 89.8%, an increase of 1.2 percentage points from March 31, 2018, while the equity ratio dropped 0.5 percentage point, to 31.2%.

Let us move on to table ③**Cash-flow**.

- Core operating cash flows, cash flows from operating activities less the change in operating receivables, came to negative ¥1.0 billion, compared with negative ¥1.6 billion in the previous equivalent period. This outcome was a result of income growth. At the same time, net cash used in investing activities increased ¥3.0 billion year on year due to investments in start-up companies.

Moving down to the second row of tables, please look at table ④**Segment income**.

- Operating income in the Retailing segment doubled, reaching ¥2.5 billion. In the Fintech segment, operating income was ¥7.6 billion, up 5% year on year or 9% prior to the retroactive application of the change in accounting method.

Next, I would like to look at each segment individually. We will start with graph ⑤**Factors affecting Retailing segment operating income**.

- Factors included under "Poor sales of consignment agreement sales floors/Improved cost efficiency, etc." actually resulted in a ¥0.1 billion increase in Retailing segment operating income, as we were able to compensate for poor sales with improved cost efficiency.

- Similarly, a ¥0.2 billion boost to operating income came from the "Impacts of inactive floor space" category. This boost was a result of a decrease in the amount of floor space under renovation.

- Income improvements from the transition to fixed-term rental contracts buoyed segment operating income by ¥0.7 billion. The ratio of fixed-term rental contracts was 89% on June 30, 2018, and we are making smooth progress toward our target of 100% for March 31, 2019.

- Despite the impact of higher delivery costs, e-commerce (EC) operations were able to contribute ¥0.1 billion to segment operating income due to a 13% year-on-year increase in transactions.
- An additional ¥0.1 billion came from our platform operations, which include store renovation, advertising, distribution, IT system, and building management operations.
- Due to these factors, Retailing segment operating income increased ¥1.2 billion year on year in the 3 months ended June 30, 2018.

Now, we will look at table ⑥**Fintech segment**.

- Fintech segment operating income was ¥7.6 billion, up 5% year on year or 9% prior to the retroactive application of the change in accounting method.
- This figure represented 23% of our full-year forecast, and this progress was essentially the same as in the previous equivalent period.
- This growth in segment operating income was primarily a result of a 15% increase in fees collected from affiliated merchants stemming from higher card shopping transactions as well as a 13% increase in financial charges earned on installment sales, due to the ongoing expansion of the balance of revolving repayment and payment by installments.
- The number of new cardholders was 190,000 in the 3 months ended June 30, 2018, which was 10,000 higher than in the previous equivalent period and represented a strong start toward our full-year target of 800,000 new cardholders. The number of new cards issued outside of the business area of Marui Group store was up by an impressive 8% year on year, due to our efforts to expand the number of external collaboration partners. Meanwhile, the number of cards issued within our business area centered on Marui Group store increased by a strong 7%.
- The total number of cardholders on June 30, 2018, was 6,620,000, an increase of 230,000 from a year earlier. Of these, the number of Platinum and Gold cardholders rose 270,000, to 1,900,000, indicating steady growth in the number of individuals that use their EPOS card as their main card.
- Total Fintech transactions showed robust growth of 15% year on year, due to the continuation of brisk card shopping transactions spurred by a rise in the number of cardholders and a greater number of individuals using their EPOS card as their main card stimulated by a higher number of Gold cardholders.
- The balance of revolving repayment and payment by installments increased 16%, to ¥308.5 billion. The ongoing growth in this balance was a product of our measures to improve the convenience of payment methods and to expand usage of payments through installments. The balance of cash advances was up 4%, to ¥147.5 billion.
- On page 16 of the FACT BOOK, you will find information on allowance of loss on interest repayment balance. The amount of interest repayment in the 3 months ended June 30, 2018, was ¥1.0 billion, a smooth decrease of 44% from a year earlier. Accordingly, we chose not to increase this allowance in the period under review.

While this information is not included on Digest page, I would like to talk about some **environmental, social, and governance (ESG) topics**.

- First of all, MARUI GROUP was included in the three ESG indexes for Japanese stocks that are utilized by the Government Pension Investment Fund (GPIF) for the second consecutive year.
- We have also become a member of RE100, an international initiative that encourages companies to procure 100% of the electricity used in their business activities from renewable power sources.
- Going forward, MARUI GROUP will seek to become a forerunner in ESG management through the active practice of co-creation sustainability management with its stakeholders to contribute to the development of a flourishing and inclusive society that offers happiness to all.

Next, I would like to touch on our **financial inclusion initiatives**. Specifically, I want to explain our progress in the securities business that was announced at the financial results briefing for the fiscal year ended March 31, 2018, which was held in May 2018.

- TSUMITATE SECURITIES PREPARATORY CO., LTD., a company for which we have made preparations for establishment, was registered as a Type I Financial Instruments Business operation with the Kanto Local Finance Bureau on July 31, 2018. Accordingly, we have changed the name of this company to tsumiki Securities Co., Ltd.
- This company will start allowing customers to open accounts in September 2018.
- By enabling customers to purchase investment trusts applicable under Tsumitate NISA through monthly, set-amount credit payments via EPOS cards, tsumiki Securities supports customers in long-term asset building through cumulative investments.
- This business represents Japan’s first scheme for purchasing investment trusts with credit.
- Through this business, we will aim to grow earnings for the Group in the form of the investment trust fees generated by tsumiki Securities as well as the increase in the lifetime value of our EPOS cards that will be realized by encouraging long-term use by cardholders.

Returning to the digest page of the FACT BOOK, please look at table ⑦**Forecast for the fiscal year ending March 31, 2019**.

- Rates of progress toward full-year forecasts in the 3 months ended June 30, 2018, were essentially the same as in the previous equivalent period, and we have thus chosen not to revise these forecasts.

< Q&A Session >

Q: Segment information shows that adjustments such as “Eliminations / Corporate expenses” increased and affected operating income, what was the reason for this?

A: The main reason was an increase in head office expenses due to the establishment of an exclusive department for the promotion of new businesses. Also some of the inter-group interest rate levels used were adjusted to match market interest rates.

Q: Fintech seems to be doing well, but I was expecting double digit growth (in operating income). Were there any special cost factors or delays in earning booking?

A: Fintech segment operating income progress rate (against full year forecast) is similar to the level seen last year. As card issuance in areas where we operate shops was healthy in the 1st (June 30, 2018) quarter, commission fees paid to the Retailing segment increased. Operating income progressed in-line with our full year (March 31, 2019) guidance levels.

Q: Retailing segment transactions in June were strong helped by bringing forward the Summer Sale, but will there be a backlash negative impact on operating income going forward, because profits were front-loaded, etc.?

A: There will be some cost booking difference between the 1st (June 30, 2018) quarter and the 2nd (September 30, 2018) quarter. First, store renewals will increase going forward so store-related costs will increase. Furthermore, going forward we are considering CRM initiatives to expand life time value in our e-commerce (EC) business, so some related promotional spending is being planned. Therefore at this point in time we do not think Retailing segment operating income is trending ahead of full year forecast. The positive impact to operating income by bringing forward Summer Sale to June was approximately ¥0.1 billion. As the conversion rate to shopping center / fixed-term rental contracts has progressed to 90%, volatility to future revenue and income streams from changes in Retailing segment transactions is declining.

Q: On the shift to fixed-term rental contracts, what is expected completion level by the end of the 1st half?

A: The actual completion level to fixed-term rental contracts was 89% at the end of the 1st (June 30, 2018) quarter. We imagine this ratio should rise by 2~3% to lower 90% levels by the end of the 1st half (September 30, 2018) and the progress rate is in-line with our target to hit 100% by the end of our business year (March 31, 2019).

Q: Regarding investing cash-flow, it was mentioned that investments in start-ups was slightly less than ¥3.0 billion. Relative to the full year plan was cash-out concentrated in the 1st (June 30, 2018) quarter? Would like to know what sort of cash-out impact is likely from the 2nd (September 30, 2018) quarter onwards.

A: In the medium-term management plan we have allocated ¥90.0 billion to growth investments, of which ¥30.0 billion is planned for investment into new businesses. This is broken-down into: ¥9.0 billion FY3/19, ¥10.0 billion FY3/20 and ¥10.0 billion FY3/21. In the current business year (March 31, 2019) we are working to invest ¥9.0 billion as planned – but the actual amount will be influenced by investment acceptance by target companies.

Q: ROIC in Retailing segment has improved by 0.4% points, meanwhile it has deteriorated by 0.1% point in Fintech segment. Was there a temporary increase in sales promotion spending related to the increase in card members? How will full year ROIC target of 3.6% be met?

A: Fintech segment ROIC should basically be quite stable, but there will be some minor improvement / deterioration over particular periods. We are attempting to improve ROIC in the

Fintech segment by increasing service fee income, but service fees tends to grow more in the latter half of the business year. So although levels may seem a little low in the 1st (June 30, 2018) quarter, we consider they are trending on target with our full year forecast. The major driver for overall company ROIC improvement is the Retailing segment but by increasing service fee income in the 2nd half, Fintech segment ROIC should also begin to improve.

Q: Has tsumiki Securities Co., Ltd. been included into Fintech segment profit projections? Shouldn't there be extra revolving payment profit contribution if investment trusts are purchased using EPOS cards?

A: tsumiki Securities Co., Ltd. will not be consolidated as its potential impact on full year (March 31, 2019) earnings should be minor. We are planning to make the securities business turn into the black, as an independent operation, in 5 years. Tsumitate NISA purchase by EPOS card is limited to one-time payment only, purchase using revolving payment is not possible. However, it does promote a certain level of regular credit card spending each month as it is a subscription model, so should improve the probability of regular card members being upgraded to Gold card status. So we believe the securities business should have a positive impact to Marui Group earnings from the start as it should help raise Gold card membership.

Q: It was said that the rent guarantee business would contribute to business by generating service fee income, but specifically how much positive impact is it having on income levels and in boosting card memberships?

A: The rent guarantee business is proceeding smoothly with revenues and contracts both increasing 30% in the 1st (June 30, 2018) quarter. Furthermore, from this year we have started a business alliance with ABLE INC. this should have a big positive impact going forward, as from 2nd half and into next fiscal year our rent guarantee service will be extended across ABLE's nationwide store network.

Q: What caused the ¥0.1 billion profit improvement from the platform business?

A: The biggest income contribution came from the distribution service business. We received a big project order which contributed and this caused the ¥0.1 billion income increase.

Q: The bad debt ratio seems to have increased slightly, is this a problem?

A: Compared to the 1st quarter of last year (June 30, 2017) the ratio seems to be worsening, this is because last year factors such as restriction on bank loans caused an increase in loan delinquencies. This trend gradually came under control from the 2nd half of last year and is continuing into this 1st (June 30, 2018) quarter, with delinquencies and loans growing at the same rate. Given the loan delinquency levels, which are a leading indicator, we think that the full year bad debt ratio will finish either in-line with initial company forecasts or slightly lower.

Q: Is the ABLE rent guarantee business exclusive to the Marui Group? Or will home renters have a selection of rent guarantee providers to choose from?

A: Basically customers can choose the service provider but in practice real estate broker recommendations will have an impact, so we think in practice it is close to an exclusive business.

Q: Could a breakdown of the 17% increase in revolving payment / installment payment transactions be provided? Also, will the same pace of growth continue going forward?

A: Roughly speaking, revolving payment grew 10% and installment payment increased 100%, so essentially doubled. Similar rates are expected in future.

Q: Installment payments seem to be growing very rapidly, does this mean various initiatives taken in the past have started to suddenly have a positive effect?

A: That is correct. The outcome made us realize there were strong underlying needs for installment payment. Two initiatives, expanding the installment payment service to nationwide coverage and allowing customers the option to choose installment payment after purchase, caused installment payment transactions to double.

Q: When revolving / installment payment grows the operating receivable balance increases. This in-turn will affect debt levels on the balance sheet, so would it be correct to assume securitization of operating receivables will take place?

A: The operating receivable balance is expanding at a faster pace than we assumed in our Mid-Term Plan, so as a counter-measure we would like to respond with operating receivable securitization.

Q: Would like a breakdown of selling, general and administrative (SG&A) expenses by the Retailing and Fintech. Was the reason for doubling of Retailing segment profits mainly due to reduction in SG&A expenses? Or was it more to do with a major improvement in rent income coming from improvement in gross profit margins and shift to fixed-term rental contracts?

A: The year on year change in SG&A expenses was: a ¥1.2 billion reduction in Retailing segment and a ¥2.5 billion increase in the Fintech segment. Thus the improvement in Retailing segment income was largely a result of reduction in SG&A expenses.