

MARUI GROUP Co., Ltd.
Financial Results Teleconference for the 9 Months Ended
December 31, 2018
<Questions and Answers>

- Q. Cash outflows from investing activities are increasing due to investments in startup companies and funds. What is the full-year outlook?
- A. In the first 9 months of 2018, cash outflows from investing activities totaled ¥4.8 billion, including ¥1.8 billion from "tsumiki Securities" and ¥3.0 billion from investments in startups and venture capital. The outlook for the year is still uncertain, but we expect an increase of about ¥2.0 billion.
- Q. Has the level of cash and deposits temporarily declined due to some technicalities, or will it continue to decline in the future?
- A. As the level in the previous fiscal year was slightly higher than "normal" there was a slight decline YoY, and it is expected stabilize at the regular level for the fiscal year.
- Q. In terms of the factors behind the increase / decrease in profits in the Retailing segment, the First Quarter ~ the Third Quarter (9 months) net impact from remaining "consignment sales floors, etc" was minus ¥0.2 billion, despite cost efficiency improvement efforts. Meanwhile, in the First Half (6 months) profits here were up ¥0.1 billion, does this indicate that factors such as sluggish apparel sales in the Third Quarter (3 months) had a direct negative impact on profits? As the transition of floorspace to SC type fixed-term rental contracts should exceed 100% in the Fourth Quarter should we assume there should be less of a negative impact in the Fourth Quarter?

- A. Regarding "consignment sales floors, etc" profit improvement of ¥0.1billion in the First Half (6 months), the breakdown was a negative impact of ¥0.9 billion from sales decline and a positive impact of ¥1.0 billion from cost efficiency improvement, etc. The minus ¥0.2 billion over the First Quarter ~ the Third Quarter (9 months), consists of negative impact of ¥1.5 billion from sluggish sales and a positive impact of ¥1.3 billion from cost efficiency improvements, etc. This was due to the combination of the large negative impact stemming from sales decline and smaller reduction in costs. As the overall area of leasable floor space has increased compared to our initial plan, the transition to SC type fixed-term rental contracts is expected to exceed 100% in the fiscal year under review. As a result, the consignment sales floorspace exposure will decrease, so the negative impact on profits is expected to decline.
- Q. I think it's too early to ask about returns on investments in the securities business, venture capital, and start-ups, but I would like you to explain how you are actually managing profitability, investment policy, and your future plans here. Furthermore, how often do you check the status of an investment that is made? I would like to request that you give shareholders more detailed reports at the next financial results briefing.
- A. IRR is used to make investment decisions, we aim for over 30% return for startup companies and over 15% for investment funds. In addition, rather than simply assessing financial returns, we constantly consider synergies with our core FinTech and Retailing businesses. We are making steady progress in collaboration efforts with other companies. Monthly reporting meetings are held on every investment we have made to assess progress rates, and the Company reports the progress to the Board of Directors once a year. We will also make efforts to report progress to our shareholders at the next financial results briefing.
- Q. The scheduled release of the Sustainability Report has been delayed from the end of January to mid-February. Have there been any changes in content, such as numerical targets, from what was discussed during the "Co- Creation Sustainability Briefing" held last December?

- A. There will be modifications to detailed wordings used, but the fundamental part is not expected to change. This year's report will be titled "VISION BOOK 2050" and in it we plan to disclose information such as the uniqueness of each of our Directors. We should be able to issue it in mid-February.
- Q. In the FinTech segment, profit growth was slow compared to top-line growth in the October ~ December Quarter, why was this? Were there any special factors, such as additional costs other than variable costs? Also, in "December Performance Report", the transaction value for QR code payments increased four-fold. Please tell us what changes were made in the FinTech segment from the Second Quarter onwards.
- A. Costs include items such as the promotion of anime cards. It is our policy to concentrate on achieving our annual profit plan, rather than focusing on quarterly profits, which gives us some flexibility in timing of our spending plans. The Company decided it was effective to spend aggressively from within our annual budget in the Third Quarter. As for the expansion of QR code payments, the jump in transactions was due to customers choosing our EPOS cards as the settlement credit card. We have not incurred any special promotional costs.
- Q. Is it correct to assume there was no impact from liquidation or provision for interest repayment in the October ~ December Quarter?
- A. The total gain from the liquidation remains unchanged, but as we are advance-booking five years' worth of profits, just taking the October ~ December Quarter there was a negative impact of ¥0.2 billion from liquidation. Liquidation in the Second Half is expected to be ¥0.4 billion.
- Q. Regarding interest repayments, provisions were made in the Second Quarter. What are your views on future provisioning, will it be affected by developments such as the bank loan problem?
- A. Interest repayment forecasts are made on a quarterly basis by reviewing most recent trends. If there is an acceleration in repayment trends there

could be the need for additional provisioning, but no increase was required in the Third Quarter.

- Q. Smartphone payments grew 2.2 times in the First Half, but what was it during the October ~ December Quarter alone? Is the ratio relative to total transactions growing? I want to find out whether steady expansion is continuing.
- A. Smartphone payments tripled in the October ~ December Quarter, and accounted for approximately 2% of total transaction volume. In December, there were many promotional campaigns conducted by various companies, and success in having consumers select our EPOS card as the settlement method meant that in this particular month transactions increased approximately four-fold YoY.
- Q. Regarding the outlook for the next fiscal year for the Retailing segment, I think the positive impact of the conversion to fixed-term rental contracts can be expected to some extent. Will this mean profit will increase? I would like to confirm whether it is possible to increase profit by roughly under ¥1.0 billion.
- A. Sales floorspace which is being converted to SC type fixed-term rental contracts at the end of this financial year should see improved profits next year. Furthermore, we are reducing inefficient self-managed floorspace, thus more space is scheduled to become available for fixed-term rental tenants.
- Q. Fin Tech's operating profit did not increase significantly in the October ~ December Quarter, why was this? Installment payment fees, stripping-out the impact of liquidation, looks low? Income from revolving credit feels somewhat weak relative to the growth in revolving credit transactions, why is this? Growth of installment payment fees the over the October ~ December Quarter seems small.
- A. Growth appears to be slowing temporarily due to the rise in proportion of installment payments, but margins remain unchanged in both installments and revolving payments. Some customers are

switching-over from revolving credit to installment payments, but most of the increase is coming from new customers, so overall there is net growth.

- Q. Sales promotion expenses in the Third Quarter were higher than in the First Half, but were you front-loading FinTech spending?
- A. We have a flexible approach on timing of annual promotional budget spending, based on strategic needs each quarter.
- Q. Regarding the government-led point redemption program, you have been doing some acquiring activity, but I would like to know if you agree with / support the program and what stance you will take.
- A. We are only engaged in acquiring businesses at limited locations such as Marui / Modi stores. We will respond if requested by tenants.
- Q. Regarding the rent guarantee / others business, service income has not grown significantly compared to the First Half. What is the situation? Will the company's initiatives with Able start in earnest in the Fourth Quarter and contribute to the expansion of new members?
- A. Rent guarantee transactions trends remain unchanged and is continuing to post 30% growth. Initiatives with Able have been expanded since the beginning of the year (calendar year 2019). We foresee an increase in new members, transactions and fees, particularly in March which is peak demand season for the rent guarantee business.

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