MARUI GROUP

MARUI GROUP Co., Ltd.
Summary of Teleconference Financial Results Briefing for the 9 Months Ended December 31, 2018
<Overview of Financial Results>

I will explain the Summary of Financial Results for the 9 months ended December 31, 2018 in line with the digest at the beginning of the FACT BOOK.

First, please refer to ①**Consolidated performance**.
EPS, which is a KPI of the medium-term plan, increased 22% YoY to ¥88.3.
Revenues turned upward, and cumulative 9 months revenues and profits grew for the first time in four years.

- Total Group transactions increased 16% to YoY to ¥1,881.0 billion, as a result of continued growth in the card shopping transaction value in the FinTech segment.

- Revenue increased 5% YoY to ¥186.5 billion and increased for the first time, for the Third Quarter, in four fiscal quarters.
  In addition to card shopping transactions, service field revenues, which includes rent income, expanded steadily.

- Gross profit rose 8% YoY to ¥141.6 billion, marking the third consecutive year of growth.

- SG&A expenses increased 7% YoY to ¥111.1 billion due to an increase in variable costs associated with an increase in FinTech transactions, but we were able to limit the increase in expenses though cost reductions stemming from the transition to shopping centers and fixed-term rental contracts in the Retailing segment.

- As a result, operating income increased 16% YoY to ¥30.5 billion,

marking the third consecutive year of increase.
Progress against the full-year forecast was 74%, almost the same progress rate as the previous year.

- Net income rose 18% YoY to ¥19.3 billion, marking the fourth consecutive year of growth.

Next, I would like to explain ②**Factors affecting operating income**.

- First of all, as we explained at our financial results briefing in November, to improve asset efficiency we liquidated revolving payment receivables in the second quarter. As a result, gain on transfer of receivables of ¥4.2 billion was recorded as revenue.

- Since factoring accounts receivable is the front-loading of future income, if we were to assume it was absent, third quarter revenues would be ¥0.2 billion lower.

- In provision for loss on interest repayment, we decided to book an additional ¥2.5 billion provision as operating expenses in the second quarter. And we have chosen not to change the amount of them in this quarter.

- In addition, because Epos Card Co., Ltd. has been subject to pro forma standard taxation since the fiscal year under review, ¥0.9 billion is included in operating expenses for the 9 months ended December 31, 2018.

- As a result of these factors, there was a ¥0.6 billion increase in operating income due to special factors, but even excluding these extraordinary gains, Retailing income rose ¥2.4 billion YoY, and FinTech income was up ¥2.1 billion YoY.
  Furthermore, due to ¥1.0 billion increase in corporate and eliminations, stemming from factors such as R&D expenses related to new businesses, overall consolidated operating income effectively (excluding special factors) increased by ¥3.6 billion YoY.

Next, I will explain ③**Summary of consolidated balance sheet**.

- Operating receivables increased by ¥44.7 billion from the previous fiscal year-end, due to the continued expansion of card shopping transactions.

- The ratio of factoring accounts receivable was 13.9% as of end of December, compared to a target of 25% for the fiscal year ending March 31, 2021.
- Due to growth in operating receivables, interest-bearing debt increased by ¥35.0 billion from the previous fiscal year-end. However the level of increase was restrained by raising ¥30.0 billion through the factoring accounts receivable.
- Interest-bearing debt as a percentage of operating receivables decreased by 0.8% points from the previous fiscal year-end to 87.8%, while the equity ratio decreased by 1.4% points to 30.3%.

Moving on to the middle row, regarding ④**Cash flows**.

Core operating cash flows, cash flows from operating activities less the change in operating receivables, increased by ¥1.0 billion from the previous year.
In the fiscal year under review we invested in “tsumiki Securities Co., Ltd. ”, 4 startup companies, including “Minna Denryoku Co., Ltd.”, 2 investment funds and renovations. As a result, net cash used in investing activities was ¥7.4 billion, which was ¥5.8 billion higher than in the previous fiscal year.

- Please continue to the table ⑤**Segment income**.
- Operating income in the Retailing segment increased 42% YoY to ¥8.3 billion, and operating income in the FinTech segment increased 12% YoY to ¥26.1 billion.

As explained in ②Factors affecting operating income, excluding the special factors the FinTech segment posted a real increase in operating income of ¥2.1 billion.

- ROIC increased by 0.3 percentage points to 2.7% on a consolidated basis.

Next, we will explain ⑥**Factors affecting Retailing segment income**.

- The biggest factor behind the increase in segment operating income was the ¥1.9 billion income improvement stemming from steady transitioning to shopping center type fixed -term rental contracts.

  The ratio of fixed-term rental contract floor space reached 99% at the end of December.

- Due to a decrease in the amount of floor space under renovation, there was less negative impact from inactive floor space, which had a ¥0.3 billion positive impact on segment operating income.

- In E-Commerce, there was a ¥0.3 billion improvement effect to operating income, thanks to efforts such as improving the UI of smartphone apps and expanding our product lineup.

- In Platform operations, consisting of activities such as store renovation, advertising, distribution, IT system, and building management, there was a ¥0.2 billion improvement in operating income.

- Despite cost efficiency improvement measures operating income from remaining consignment sales floor space decreased by ¥0.2 billion, due to slumping sales.

- As a result of the above factors combined, the Retailing segment reported an operating income increase of ¥2.4 billion, or 42% YoY, for the 9 months ended December 31, 2018.

Next, the status of the ⑦**FinTech segment** is explained in the bottom row.

- As I mentioned earlier, FinTech segment operating income increased 12% YoY to ¥26.1 billion. The progress rate against the full-year forecast was 75%, a progress rate that is essentially the same as the same period in the previous year.

- During the third quarter, the number of new cardholders increased by 40,000 YoY to 590,000.
  Outside the business area of Marui Group stores (regions lacking Marui Group store presence) there was a 10% YoY increase in new card issued, due expansion of external collaboration alliances. Furthermore, the number of cards issued within Marui Group store's business area (regions we have actual store presence) also performed well, increasing 6% YoY.

- The total number of cardholders at the end of December was 6,760,000, an increase of 250,000 from a year earlier.
  Of this, the number of Platinum and Gold card members increased by 300,000 to 2,080,000. The Platinum and Gold card ratio to overall card memberships was 31%, indicating steady progress in number of individuals adopting their EPOS card as their main credit card.

- FinTech transaction value increased 17% YoY to ¥1,710.5 billion due to growth in credit card transactions linked to smartphone payments such as QR code payments and expansion of the rent guarantee business.

- The operating receivables of revolving and installment payments rose 4% YoY to ¥301.3 billion.
  Excluding the impact of factoring accounts receivable, the operating receivables increased 11% YoY.
  The balance has continued to increase on the back of our measures to improve the convenience of payment methods and our initiatives to expand the usage of installment payments.
  Due to an increase in the number of cardholders, the balance of cash advances increased 4% YoY to ¥148.9 billion.

Although not in the FACTBOOK digest ,
I would like to explain **The status of our ESG efforts.**

- Marui Group has become a member of RE100, an international initiative comprised of companies committed to the goal of procuring 100% of their business activity electricity needs from renewable energy sources.

- In October, we issued a Green Bond with the theme of "RE100."
  Green bonds are used to procure 100% electricity from renewable energy sources.
  This was the first Green Bond issued in Japan and also the first to be issued by a domestic retailer.

Next, as one of our financial inclusion initiatives,
I would like to explain **The status of "tsumiki Securities Co., Ltd."**

- Since the launch of this service at the end of August, we have received applications from over 13,000 customers.

- Customers in their twenties to forties, or "asset builders," account for 90% of our customers, with a male-female split of 50%.

- In addition, we have gained a customer base that is different from existing financial institutions, with over 70% of our customers being first time investors.

- Going forward, we will continue to expand our customer base through our unique promotions utilizing our stores.

Returning to the digest, please refer to ⑧**Forecasts for the fiscal year ending March 31, 2019**.

- We revised-up full-year earnings forecasts at the time of second quarter results announcement. We have chosen not to change these forecasts, because the progress rate made in the third quarter compared to the revised forecast was on a par with the previous equivalent period.

- We are aiming for a 13% YoY increase in operating income to ¥41.0 billion, a tenth consecutive increase in earnings, a record high EPS of ¥114.4, and a ROE of 8.9%.