

MARUI GROUP Co., Ltd.
Financial Results Teleconference
for the 9 Months Ended December 31, 2020
<Questions and Answers>

- Q. In terms of interest repayment (kabarai), Claims which was mentioned earlier has increased a little, but I think there was a story that it increased by about 2% in the first half of the year. The first question is how much should we think it has increased currently?
- A. In April and May when the state of emergency was declared, the amount of Claims dropped extremely. I think this is because the lawyer wasn't active either. After that, after the state of emergency was lifted, the amount has exceeded the previous year's level, and that situation has continued for a long time. This had been the same until January, so at the moment it wasn't necessary to add more to the third quarter financial results, but I think we need to keep an eye on this move in the future.
- Q. I would like to ask about tenants. Looking at this third quarter alone, I get the impression that the rent has not dropped that much. I think that the transaction amount has decreased significantly, but the rent ratio to the transaction amount is the commission rate, and it has not decreased so much. It seems from the data that the tenants are not steadily leaving and the conditions are not getting worse, as you said three months ago, but I would like to know what the situation is like in reality. In particular, there are movements such as brand convergence toward March, April, and spring and summer, and I think there was a similar

question three months ago, but I would appreciate it if you could tell us the current tenant replacement situation, or what kind of negotiation you have.

- A. The vacancy rate, or the ratio of the unused area, has not changed much. I think Marui president Aono talked about the renewal status in the first half of this year when the financial results were announced last time, and as he mentioned at that time, 80% of the tenants scheduled to renew in the first half of this year renewed the contracts. About 20%, it means that new tenants have joined. Regarding the second half of this year, the situation has become severe a little, and so far, about 70% of the tenants, which are planning to renew the contracts, have consented to the renewal. There is no rent reduction at the time of the renewal. As a result, places where it is difficult to get renewed contracts increased by about 10% from the first half of the year, so in the future, we are energetically working to fill in the places where they can move in. There are places where there is a strong desire to open stores, including the D2C brand, so we are currently working on it, hoping to deal with those places.
- Q. The medium-term plan is scheduled to be announced in May, and the external environment is a little different from when we had a discussion with you in November. At the moment, the number of newly infected people has been decreasing, and the talk of vaccines has come up, and I feel that we can see the light at the end of the tunnel. In a situation where we don't know what will happen, forecast as of November was a little hopeful, but I think the months after that were tough. What kind of discussion is being held within the Company? I think there is something new to think about in the mid-term plan announced in May, or there is no change in the basic direction that you explain in November because you have already assumed various cases, I would like you to update the area around it.
- A. About the medium-term management plan, there is no change in the

basic, major direction. Basically, the direction of further strengthening the Retail and the FinTech through co-creation investment has not changed, but I feel that we will now scrutinize again, including the situation, and decide the details from now on.

- Q. I'd like to ask you a favor for the next mid-term plan. I feel that it was a great pleasure or a good thing for companies like BASE and giftee to appear. I think it is more important that there are companies that are performing well without being negative and have synergies with your Company, so please let us know in detail. This is just a request.
- A. Sure. I talked about it in November as well, we have set up co-creation projects and we are working on teams of total of 120 people, 5 to 6 people for each investee to promote collaboration with investees. I would like to explain it at a later date again.
- Q. About the FinTech. Based on the transaction volume base from November to December, you have not changed the keynote 107% of the original plan in the second half, but in reality, I don't think you could expect such a reissued state of emergency or an extension after that at the time of your previous plan. As a keynote of credits, there was a talk that travel and entertainment are still tough although ecommerce is growing. In this area, I think that the situation will change from January to March, during the fourth quarter, depending on new events. Even with this in mind, do you think that you should not change your original outlook at this stage?
- A. When we first explained it in November, we were going to keep the keynote 107% all the time. Certainly, after that, the state of emergency was announced in January, and although we have not announced performance of January yet, 107% in the previous year has not been achieved. However, even if the current low level continues, the impact on the FinTech will appear a little later, so I think we will probably be able to achieve our goal this year.

- Q. It's confirmed. In that sense, when we look at the balance of operating receivables, I think it is unavoidable that revolving/installments payments and operating loans have decreased significantly, but the situation where revolving/installments credits have not increased so much has continued. Perhaps even with your Company's full-year assumptions, I have the impression that the balance of revolving / installments operating receivables are weak, but should we consider that this is within the margin of error or something?
- A. As you said, the balance at the end of the term may be a little short. However, in terms of income, I would like you to think that this value is not enough to fluctuate the plan.
- Q. Regarding a mix of tenants that your Company will focus on in the medium term, various experience-based types have been introduced. You may not know the effect because it hasn't been so long since they were introduced. Now, in this difficult situation, is there any difference between the called product sales and the experience-based type, including the response in your Company?
- A. After all, even in the midst of this coronavirus crisis, especially D2C brands think that the store is a place of communication, and from that point of view, the newly opened store is quite happy. I think it was tough to simply sell it there and pay the rent from the gross profit, but they didn't think that way. They are very pleased to open a store in the sense of raising brand recognition and expressing the brand's worldview. I think that customers are pleased with the arrival of new brands so far, so even in this situation, they are quite different from conventional brands.
- Q. Is there something that is hit on the PL, or something that makes a difference in terms of numbers?
- A. It's still small, but for D2C tenants it's not rent but the cost that the D2C brands refer to, the cost for brand recognition, and advertising

costs. I heard that they are sometimes higher than the rent, so in that sense, we haven't reached the stage where we can see results yet, but I think this part is subject to change.

- Q. If you cut out only the transaction amount of revolving/installments in Q3, it is minus 4.5%, which seems to be weak compared to the whole, but this is a little weak due to the influence of COVID-19 on travel, so-called service, leisure related things, so I wonder if it cannot be helped. I would like to know whether or not the transaction amount is expected to be returning once the impact of COVID-19 has subsided.
- A. The deposit for revolving/installments is about 94% of the previous transaction. I think that the balance will increase if the transaction is 94% or more. But, as you said, if the transaction volume is less than 100%, it will not grow significantly. I think that the revolving balance will grow as before when travel and other things with a large transaction volume come back.
- Q. The number of card members who join Marui seems small. The number of new members is 370,000, which is a decrease of 230,000 from the previous year. Among them, the number of new members outside the group stores decreased by 60,000, so I think the decrease of 170,000 at stores seems a little large. Please tell us if this is where the number of customers is decreasing due to the impact of COVID-19, or if there is another reason, or something.
- A. Yes, that's right. As you said, the number of cards issued at Marui has decreased significantly. The biggest reason is that the number of customers is decreasing, in addition, most customers who come to Marui stores already have EPOS Cards. So, compared to other affiliated commercial facilities, the range of decline in the number of cards issued is large in Marui stores. While other than Marui stores, where the development of new commercial facilities is progressing, the

situation is not so negative.

Q. About the Rent Guarantee Business. I think that the latest update of this third quarter shows growth, so I would like to know if there are any changes in the environment.

A. This continues to grow by about 30%, I think it is going well here.

Q. I think there are changes in the environment, or it may be good or bad for your Company. I think many things are changing due to the COVID-19 situation, but is there anything that you feel as a change?

A. Yes, in March and April of last year, or when people were told to refrain from going out, performance did not grow due to the effect of strict restriction, but since then it has grown by about 30%. As for the contents, since rent is an essential expense, I don't think that this will decrease easily, so it is environmentally better. Also, as EPOS Card president Saito explained at the financial results briefing last year, in this environment for the corporates, where the financial position is not good, it seems that the Rent Guarantee Business itself is becoming difficult. It's the same for the landlords, so they often seems to select EPOS Card, Marui Group, from our good financial position. I think there are some environmental factors that are a little positive.

Q. About Overall expenses and cost trends, especially SG&A expenses, I think that you have achieved a level that has been suppressed to a certain extent, but from this point onward, please tell us how you can reduce these expenses, or whether you can proceed firmly even in difficult situations.

A. SG&A expenses have decreased by ¥10 billion in the financial results of this third quarter, but ¥7 billion out of that amount is transferred to extraordinary losses, so other than that, we have achieved a decrease of about ¥3 billion. The big thing is, for example, labor costs. The

number of hires has decreased compared to the number of people who naturally retire, so this has been declining all the time. In addition, about sales promotion, especially retail, even if we work on sales promotion, it will not be effective at all, so such expenses are extremely suppressed. In that sense, it may be a little difficult to handle in terms of sales in the fourth quarter as well, but we haven't changed our plan because we think we can achieve our goal by controlling SG&A expenses. Regarding labor costs, the number of hires will be much smaller than the number of people who will naturally decrease from the next fiscal year onward, so I think that the number of employees will continue to decrease for a while. I think that will be the main factor in reducing costs.

Q. The number of card members has decreased in both QoQ and YoY, and I think that the number of cancellations is probably increasing. Please tell us the background of this.

A. The reason why the number of card members is decreasing is that, as you said, there are many cancellations. Since the number of new members is small, it has decreased, but there are some special factors. Regarding these cancellations, there was a time when the card expiration date was changed from four years to five years, and there was a year when there was no cancellation for one year, and the number of cancellations in the following year was bigger. Because we have the special factors from the fourth quarter of last year to the third quarter of this year, the number of cancellations is getting bigger. However, this increase in the number of cancellations due to the special factors will gradually decrease after the fourth quarter.

Q. I understand that it's not a level that I care about overall, but the bad debt rate has risen a little. I don't mind if you answer that there is nothing to worry about, but I would like to know the background.

A. Reading the calculation of the bad debt rate itself, the bad debt amortization for the current period is the numerator, and the denominator is the balance of receivables at the end of the period. So, in the current situation, the receivables balance at the end of the period did not increase, so the bad debt rate is high. When the balance grows, I think that the bad debt rate itself will be about the same as usual, so we are not so worried about that at the moment. As a result of the year-end receivables balance which did not increase, the bad debt expense is lower than the previous year due to the decrease in the transfer, so I think that the bad debt is in accordance with the current receivables balance situation.