

MARUI GROUP Co., Ltd.
Financial Results Briefing for the Three Months
Ended June 30, 2021
< Questions and Answers >

- Q. Please tell us about the contents of the actual operating income increase of ¥800 million in Retailing. Whether it is cost or return to sales? Or the rents per tsubo have risen steadily by adopting the so-called co-creation model?
- A. One of the first things that happened was that sales from consignment buying system, which were completely absent last year during the period of store closure, started to increase. Another thing is the vacancy area, or the unused area, was 11% at the beginning of last fiscal year, but at the end of June, it was down about 2%. So, the amount of unutilized area has been decreasing as our measures such as the increased number of events or introduction of D2C brands. In addition, in terms of costs, we have reduced the number of directly operated, so the number of personnel there has decreased. This means that we are effectively increasing profits from 3 factors.
- Q. Which is larger when weighted?
- A. You can think of the image as being about a third each.
- Q. I would like you tell us, as far as possible, how the recent re-spread of infection is affecting or not affecting the situation.
- A. One more thing, the most recent impact of COVID-19, in the first quarter, was generally not too far off from our expectations. The same situation continued until the end of July, and the transaction volume was not much

lower than expected, so I was not that worried. For the past few days, the number of infected people has been increasing extremely, and while we think that this may have an impact in the future.

Q. About FinTech, please tell me the number of inquiries from lawyers.

A. In the area of interest repayment, both the amount of layer acceptances and the amount of money returned in the first quarter were higher than last year, because last fiscal year, just in April and May, there were almost no lawyers working. On the other hand, in July, when the impact of last fiscal year had settled down, we saw a decline in the level of the previous year, so I expect that the amount of leading indicator lawyer acceptances will decrease in the future.

Q. What kind of image is it as an absolute standard?

A. Compared to February and March, this July's level is about 90%. Last year, the third quarter was a little high, and the fourth quarter was low, but it was somewhere in between.

Q. Where is the transaction volume of FinTech recovering? For example, is there a recovery in the number of trips that fell last year, or is there growth in areas that are more like recurring income, such as rent?

A. Rent payment increased by 26% in the first quarter compared to the previous year. And ecommerce is up 10%, it grew last year as well, but it continues to grow. Regular payments are also up 10%, and Travel & Entertainment is 227% compared to the previous year, but compared to the year before last, it is 65%, so we are still in the process of recovering. Also, supermarkets and convenience stores increased by 6%, commercial facilities by 60%, and others by 30%, so the total is 126.2%. Travel & Entertainment segment is still in a negative situation compared to the year before last.

- Q. As for balance of revolving payment and payment by installments including liquidated accounts receivables, the results for the first quarter were 100.3%. On the other hand, the annual increase is expected to be a little less than 4%. As a whole, the balance of accounts receivable itself has certainly increased by about 5%, but the growth in this area seems to be slower than the annual plan, how is it?
- A. Last year, the balance was decreasing from the first quarter to the fourth quarter throughout the year. So, if you compare the first quarter of last year with the first quarter of this year, it means that we started from a very negative place. This year, we are assuming that the balance will increase from the first quarter to the fourth quarter, while last year's balance decreased, so in that sense, we believe that the growth rate in the fourth quarter is currently more in line with our assumption than the growth rate in the first quarter.
- Q. Is the ¥6 billion of the extraordinary loss on fixed costs during the period of store closure almost as expected or not? You have actually increased profits by ¥300 million, and you have posted the figure of ¥9.2 billion in consolidated operating income. Is it correct to say that the base figure, excluding all these extraordinary factors, was as expected for both Retailing and FinTech?
- A. This is mostly a return of the portion of last year's fixed costs that were transferred, so it's almost as expected, or rather, it was calculated to some extent from the beginning of the fiscal year. It was also adjusted for the amount transferred to fixed costs this year. In addition to the fact that Retailing will see a slight increase in profits this year and FinTech was expected that profits would decline in the first quarter, so we believe that this substantial ¥300 million increase in profits is also in line with what we originally thought.
- Q. I would like to ask FinTech-related details.

The transaction volume of revolving and installment is recovering by 21% compared to the previous year.

So I would like to know how you evaluate this 21% increase in transaction volume.

A. I think we are almost on track here at the beginning. Travel & Entertainment had quite a bit of negative impact from cancellations last year, partly because we suddenly faced the declaration of a state of emergency.

This year, there was almost no negative impact, and it increased by 2.27 times, which is a very large improvement.

Also, e-commerce continues to grow, and considering that it grew last year and is growing this year as well, we think that it is doing well.

Q. Though it will depend on when travel demand recovers, you are saying that if Travel & Entertainment recovers, it will lead to increase of transaction volume and balance, and it will be easier to see the revolving and installment income for the next fiscal year in the budget?

A. Yes, that's right.

Q. As expected, there was an impact from the store closures this time as well, and I think this had a negative impact on the acquisition of new cardholders. Please tell me about this.

A. Unfortunately, the recovery in the card business has been a bit sluggish at the real stores. For example, measures of acquisition of card members are increasing for anime cards, so we are planning to deal with like that. On the other hand, cards from rent guarantee business are growing steadily, and we would like to continue to strengthen them.

One more thing, we are thinking of increasing the number of online add-ons, but the cost of acquiring card members is rising dramatically online. Therefore, we are considering what kind of measures we should take after reviewing the profitability of the project once again. We believe that the first quarter was a little weak for that reason as well.

- Q. It's good that getting more Gold card holders, but if the overall number doesn't increase, I'm worried about the upside in the future. Even so, I'm not sure if it is a good idea to spend unnecessarily much money to get them online, so I'm hoping to get more cardholders through real or alliances. Please comment on this.
- A. I think you're right about that, too, so we should issue as many cards as possible with high LTV and high loyalty, such as anime cards, so that we can reduce acquisition costs and increase LTV. We would like to actively develop these cards.
- Q. You spent ¥7.5 billion per quarter on advertising in SG&A expenses. In the past, the amount of sales promotion was ¥6.5 billion or ¥7 billion in the quarter before COVID-19, and I think the amount of sales promotion is very large when you consider that there was the period of store closure in this quarter. Although there is an impact of the new revenue recognition standard, I don't think it is that big. Can you tell me if there is anything out of period or biased towards 1 quarter, and what kind of promotion you were doing?
- A. One of the biggest sales promotion expenses is the cost of card rewards. The growth rate is higher there, however, this is not very linked to the transaction volume. It's just a bonus point for Gold or Platinum cards. This card rewards are quite large, and I think that is the reason for the increase compared to the past. The number of those Gold and Platinum cards is increasing even in COVID-19, so I guess that it has an impact.
- Q. Can you tell me about relationship between the impact of store closure of ¥6 billion on the second page of the slide and extraordinary loss of ¥1.8 billion this year at the financial results summary?
- A. In the first quarter of last year, the amount transferred from SG&A

expenses to extraordinary loss was ¥7 billion. In the first quarter of this year, the amount transferred from SG&A expenses was approximately ¥1 billion, which means that the ¥6 billion deducted was the amount transferred from SG&A expenses. For the current fiscal year, the impact of the transfer from SG&A expenses will be ¥900 million for Retailing and about ¥100 million for FinTech. In addition to that, extraordinary loss of ¥900 million is recorded as a reduction and waiver of rent.