# MARUI GROUP Co., Ltd.
# Financial Results Briefing for the Three Months Ended June 30, 2023
# < Questions and Answers >

Q: Thank you for the detailed and clear explanation about FinTech. I understand that the company's profit is virtually negative without liquidation of debt and that is stemming from the imbalanced growth rates between revenue and cost. Is it correct to assume that the balance will be improved in the second half of the fiscal year?

A. We think there are two factors. The first is the balance of revenue and expenses. The second is the commission rates. The commission rates fell below expectations. In terms of balance between revenue and expenses, we expect revenue to recover from the second quarter, and that the recovery will gradually increase on a larger scale. In terms of commission rates, we intend to take a hedging measure as explained. We expect to see recovery to be more significant because the measure will start taking effect from the second half of the fiscal year.

Q. Is the impact on profit in the full-year plan unchanged from ±0? Is it because liquidation of debt is a special factor?

A. Exactly. To improve capital efficiency, we liquidated debt in consideration of capital efficiency because the cashing claim balance was accumulated, though we normally do not liquidate debt in the first quarter. We intend to set an impact on profit to be ±0 on a full-year basis. For this purpose, the impact of liquidation on profit from the second quarter to the fourth quarter is set at -¥700 million, in order to negate the profit of ¥700 million at the end of the first quarter.

Q. What was surprising to us was about affiliate commissions rates. Were there other factors? It was explained previously that card issuance expenses grew due to an unexpected increase in card issuance. It seems that the number of cards issued in this quarter exceeded expectation. Was there any upside impact on expenses?

A. The number of newly issued cards was about 10 thousand, slightly more than expected, and this increased FinTech costs but not significantly.

Q. In terms of rent guarantee, we heard that you set a realistic target this quarter, compared to an aggressive target for the previous quarter. What was the result for the first quarter? Rent guarantee looks to be growing steadily. I am interested if this is due to the large-scale alliance. Please explain the actual result of rent guarantee against the plan.

A. The actual growth of rent guarantee is 116% year on year, as planned. As for another counterparty of large-scale alliance, we are in negotiation. We are expecting growth in the future.

Q. How was operating income for the first quarter compared with the plan? Please share with us the results on a group consolidated basis, for Retailing, FinTech, and company-wide elimination compared with the plan. For example, a full-year company-wide elimination has reached ¥300 million already, compared with the plan of ¥200 million. Please also explain if you anticipated this.

A. We did not expect that profit from FinTech commissions would be smaller by several hundred million yen. Retailing was in line with our expectations because we expected a negative impact from related business. We will take a hedging measure to eliminate the impact of FinTech which was slightly below the plan on the full-year result. In terms of company-wide elimination, a year-on-year increase may be smaller in the second half of the fiscal year, taking personnel allocation into consideration.

Q. I believe that full-year company-wide elimination increased by ¥200 million. If this is the case, the actual amount must be reduced from the second quarter to the fourth quarter rather than reducing the increased amount. Please share with us your opinion.

A. FinTech borrows funds from the Group, and FinTech recognizes the funds as financial expense under operating expenses. Conversely, the head office cost is recognized as revenue, which is expected to increase in the second half of the fiscal year. The revenue is recognized as corporate elimination revenue, which is designed to reduce costs.

Q. As for the reduced expenses of Retailing, we anticipate that they reflect the reduction due to voluntary closure to some extent. Since the negative impact on sales due to voluntary closure is ¥100 million according to the second quarter plan, we anticipate that the expense reduction impact due to voluntary closure in the second half of the fiscal year will be weaker. How are you going to reduce expenses of ¥1.8 billion?

A. Most of the reduced expenses of ¥600 million for the first quarter is personnel expenses related to voluntary closure. The closure continued throughout FY2022, equally in the first half and the second half. There will be no impact of this kind in the current fiscal year. Because personnel transfer takes place in April and October, expenses will be reduced by four to five hundred million yen per quarter throughout this year.

Q. Will the excess personnel in the Retailing segment be normalized by the end of the fiscal year?

A. We have reduced personnel already. A certain number of staff still worked for stores that had closed as of the end of 2022, but that number will be reduced throughout this year.

Q. Total increase in non-transaction-linked revenue during the current fiscal year may be about ¥5 billion (page 24 of the Summary of Financial Results). How is this amount linked to an increase in FinTech sales revenue of ¥12 billion from the second quarter to the fourth quarter (page 26 of the Summary of Financial Results)? Non-transaction-linked revenue has increased by ¥1.3 billion for the first quarter, but will only increase by ¥1 billion in total for the rest of the fiscal year. The company recorded sales revenue of ¥3.1 billion in the other segments for the first quarter. How will the company record ¥12 billion by the end of the fiscal year, or ¥4 billion on average on a quarterly basis? And in that case, what kind of increase do you expect in variable costs?

A. Without growth in any segments, the company will record a revenue increase of ¥3.1 billion for each of the remaining three quarters, totaling about ¥9 billion, as you have pointed out. However, the plan expects a revenue increase of ¥12 billion, which includes another ¥3 billion. We expect an increase in installment and revolving payments of ¥1 billion, and ¥1.1 billion due to an increase in affiliate commissions rates in line with an increase in total transactions for installment and revolving payments. Service revenue, including rent guarantee, is also expected to increase by ¥700 million in the second half of the fiscal year, rather than the first half of the fiscal year. In total, we can expect an increase of about ¥3 billion.

Q. What is the current status of interest repayment?

A. Interest repayment is steadily decreasing. Since receipts, a leading indicator, have decreased to 83% year on year, we do not plan to increase them further but will monitor the status.

Q. The trend of bad debt write-offs and interest repayment is unchanged. Is my understanding correct?

A. Exactly. The trend is unchanged.

Q. May I ask you about the background of the decline in commissions rates of some affiliates? Is it due to a temporary reason, or a competition within the credit card industry? In the latter situation, competition for conditions is expected to occur in other affiliates. I am a little worried whether this situation will continue structurally. Please share your thoughts with us.

A. Commission rates continued to fall moderately with the growing use of recurring transactions such as regular payments. During the quarter under review, commission rates fell in some major affiliates. However, this fall occurred in all of the credit card companies, and was not the result of negotiations by a specific company.

Q. An increase in the use for the payment of utilities leads to a decrease in commission rates, and may not lead to more transactions for installment and revolving payments. Conversely, an increase in the use for travel may also lead to a decrease in commission rates in total but may lead to more transactions for installment and revolving payments because unit prices are greater. Can this be beneficial to Marui Group?

A. Exactly. Fortunately, credit card transactions and transactions for installment and revolving payments continue to increase at a similar rate during the current fiscal year. However, the balance has yet to improve compared with the growth in transactions, which is reflected in revenue.

Q. I suppose that an increase in card rewards results from the high usage by platinum and gold members. In addition, I heard that you plan to review expenses as an action to deal with a change in commission rates of some affiliates. I think you can take advantage of your strength in overseas travel insurance services. Do you, as Marui Group, think the company is currently required to take action in proportion to revenue? If commission rates decline further in the future, what kind of action will you assume to take?

A. As we have to accept the recent change in commission rates, we will take a responsive measure with card rewards. Specifically, we excluded mobile SUICA, etc., from available point-up shop options, and changed the conditions for attaching an overseas travel insurance policy from automatic coverage to restricted coverage. However, we do not think this is a change for the worse. Charging a mobile SUICA card is different from using affiliates in a strict sense. An overseas travel insurance is included if the card is used for train fare in the process of going on a trip. Regarding a change in commission rates or other issues which can deteriorate customer satisfaction, we will carefully discuss and take necessary measures.

Q. As for the rising cost of FinTech, please explain the purpose of "strategic staff increases." If this is due to hiring full-time employees, why does a year-on-year change decrease in the second half of the fiscal year?

A. FinTech staff have increased by about 100; this is composed of staff transferred from Retail in April and October. However, personnel transfer from Retail to FinTech on this scale was completed as of April this fiscal year, and is not planned for the second half of the fiscal year as voluntary closure was completed in the previous fiscal year. A year-on-year change for the second half of the fiscal year may not exceed that for the first half. In addition, the personnel increase is intended to increase the number of sales personnel of dental credit, which we introduced as an embedded finance at the previous IR DAY. As a result, the number of affiliated dental clinics increased. Please note that this strategic staff increase will not be conducted in the second half of the fiscal year.

Q. While I understand that a year-on-year change in card issuance expenses in the fourth quarter was significant because the number of issuances during the period was large, the issuance in the second and third quarters was at a level similar to the first quarter. Why is the issuance cost changed year on year although the number of issuances in the previous year is almost unchanged? I suppose the initial cost for issuance has been reviewed.

A. Among card issuance expenses, the portion paid to the company's Retail section internally will not reach the previous year's level.

Q. Do you mean that the changes in personnel expenses and card issuance expenses may need an explanation solely in the FinTech segment but are immaterial on a Group consolidated basis?

A. While staff may decrease due to attrition, a year-on-year difference in card issuance expenses arises from transactions with the Retail segment.