MARUI GROUP Co., Ltd.
Financial Results Briefing for the Nine Months Ended December 31, 2023
<Questions and Answers>

Q. I understand the outlook for the fourth quarter for FinTech based on your explanation. On the other hand, in terms of Retailing and Eliminations/Corporate, with Retailing up ¥1.7 billion year-on-year and Eliminations/Corporate on an upward trend thus far, the operating income plan for the whole year will not be achieved unless the fourth quarter is negative compared to the previous year. Please explain the background behind your outlook on income to improve in Retailing and Eliminations/Corporate in the fourth quarter.

A. Let me explain the factors behind the strong profit growth in Retailing in the fourth quarter. First, tenant rent revenue will increase significantly compared to previous quarters. Given the further decrease in the unoccupied area as of the end of the third quarter, this decrease is expected to increase revenue. Cost reductions also contribute to higher earnings. Sales promotion expenses had a negative impact of ¥300 million in the nine months ended December 31, 2023, but will have a positive impact of ¥300 million in the fourth quarter. This is because as some of the measures were implemented earlier than last year, that portion of the timing gap will likely result in a positive impact of ¥300 million in the fourth quarter. Further, there is also an impact associated with the related business. Since revenues from the real estate business, which were recorded up until the first half of last fiscal year, have not been earned since the second half of last year, there was a negative impact in the first half and the first nine months of this fiscal year. However, the impact will disappear from the fourth quarter. Finally, in the fourth quarter, the construction of facilities in the related business is underway. In light of these factors, operating income in the related business is expected to increase by ¥200 million in the fourth quarter.

As for Eliminations/Corporate, we expect that expenses including personnel costs related to new businesses will decrease.

Q. I think that provision for bad debts has recently been increasing year-on-year. Will this trend continue also in the fourth quarter? I do not see any particular problem, but I would like to know what to expect in the fourth quarter and thereafter to forecast the future, because it has a major impact on expenses.

A. Looking at the year-on-year change for the third and fourth quarters, provision for bad debts increased significantly in the third quarter but did not increase as much in the fourth quarter. This difference is due to the fact that the provision rate for allowance for doubtful accounts has decreased since the third quarter of last year, and the low level has come full circle. Specifically, expenses appear to have increased in the third quarter of this year due to the lower provision rate for the allowance for doubtful accounts in the third quarter of last year. However, since that impact will largely disappear in the fourth quarter, the increase looks small. As no particular change has occurred, please acknowledge that the level of bad debt expenses has remained low since the third quarter of last year.

Q. Is it not necessary to set aside allowances for interest repayments in the future?

A. As for interest repayments, we cannot say everything is okay at this point because we don't have full control. However, given the steady decline in leading indicators and the fact that this outcome will appear in six months' time, we did not see the need for setting aside additional reserves in the third quarter.

Q. The amount received has decreased, but the amount repaid has not decreased significantly. Is there a possibility of building up additional reserves sometime in the medium to long term?

A. There is still a certain level of balance in the allowance, but in our view, if the situation exceeds our forecast, we will need to add more. Even if we do need to set aside more, it is unlikely that we will need do so in units of several 10 billion yen as in the past. Therefore, we do not think the impact on income will be that big.

Q. I think the explanation regarding the private brands in Retailing provided income declining factors at the time of the second quarter financial closing. It is stated on page 16 of this document that the impact on income for the nine months ended December 31, 2023, was ±0, and that there is no impact on income in the fourth quarter. Why? Has there been any change in the situation since the end of the second quarter, such as a greater than expected reduction in personnel costs being achieved?

A. We have changed the wording in the document from what was stated up until the second quarter. Previously, the portion of decrease in gross margin in the private brands was independently expressed as a decrease in revenue, and the reduction in personnel costs, etc., associated with the withdrawal of a private brand was included in cost reduction. Through a series of discussions at the Board of Directors and other meetings, we reviewed the fact that while there was a decrease in revenue due to the withdrawal of a private brand, there was also a decrease in expenses. It was concluded that these factors should be combined to make the explanation easier to understand, which is why we have used such a description. Therefore, the actual situation has not changed from that up until the second quarter.

Q. With regard to the year-on-year change in FinTech's non-transaction-linked revenue, based on the financial results at the end of the second quarter, it calculates to an increase in revenue of ¥9 billion for the full year, whereas based on this document, the year-on-year change comes to an increase of ¥8.5 billion, which is a negative adjustment of ¥500 million from the forecast at the end of the second quarter. What is the underlying factor for this? Is it due to the downward revision in transactions?

A. There is no particular relevance to the revision of the plan for transactions. Looking at the individual factors, there are some fluctuations, such as the finance charges on installment payments being slightly lower than expected while the interest on cash advances increased. There is also the effect of rounding in units of ¥500 million, and the amount of increase in non-transaction-linked revenue is negative in the illustration. On the other hand, transaction-linked expenses have decreased accordingly. There are slight discrepancies from the plan, but we rounded the numbers and adjusted them.

Q. Does this mean that the time lag in the delayed accumulation of the balance in receivables from installment sales, which had been explained before, was reexamined, and as a result, this adjustment was made?

A. Yes, we have adjusted it that way.

Q. As for EC, you say that the trend temporarily weakened due to the algorithm change. What exactly happened?

A. In the third quarter, we found that when a search is done with keywords such as "fashion" or "dress" on a search engine, our EC site page is shown much lower in the list due to the algorithm change. We verified the cause of the drop in order and made adjustments, so we are on a slightly recovering trend.

Q. Does this mean that although the trend of transactions is recovering, it will not recover to the previous trend of about 115%-YoY level until the next fiscal year or thereafter?

A. Most of the known causes have been dealt with, but it may take some more time for the trend in transactions to fully recover.

Q. Looking ahead to the next fiscal year and beyond, has FinTech returned to a growth level where it can achieve annual income growth of about ¥4 to ¥5 billion excluding the impact of liquidation of receivables?

A. Although FinTech saw a decline in profit in the first half of the year, when looking at the second half of the year alone, we expect profit to increase by approximately ¥2 billion. The major factors are the elimination of temporary factors and the catching up of non-transaction-linked expenses. If these two factors are combined, we expect an increase of about ¥2 billion in the half-year period and an increase of about ¥4 billion yen for the whole year.

Q. Is it correct to say that if the temporary factors are resolved and the transactions and the recurring revenue continue at the current pace, the annual profit growth trend of about ¥4 billion yen will return?

A. Yes, we think so.

Q. How should we think about future profit growth in Retailing?

A. We expect operating income in Retailing to be ¥7 billion for the current fiscal year and ¥12 billion in the fiscal year ending March 2026. By simple calculation, profit will grow by more than about ¥2 billion year after year. The current unoccupied area is about 8,000 tsubo, but by reducing it to 5,500 tsubo, we expect to achieve much of the annual increase in profit of ¥2 billion. In addition, we believe that increasing the frequency of events will increase the unit rent price. Therefore, it is also important to hold events with as little break in between as possible and see how many people we can attract. Taking these factors into account, we believe it is possible to increase the profit level by more than ¥2 billion over the next two years.

Q. It was reported in the summary of financial results that "the number of deals concluded for new tenants and events is increasing as a result of the introduction of OMEMIE." Is the fact that OMEMIE is functioning also important for projecting the future profit growth?

A. The OMEMIE initiative is very significant. We have received applications from companies that we have not come across easily by pursuing our push sales approach. For example, a company that opened a store in HAKATA MARUI engages in the baggage storage business. They offer a baggage check service for inbound customers. We alone could not have easily discovered a tenant in this type of business. But such business operators are joining us through OMEMIE. As a result of these efforts, operating conditions have improved significantly.

Q. Can we expect the establishment of a new unit called the FP&A Department to improve the accuracy of earnings forecasts?

A. Until now, there were some parts of the plan that were not detailed, which might have troubled you. In addition, because of the expansion in the scale of FinTech, even a 0.01% change in commission rates had a significant impact on profits. In light of this situation, we have strengthened our system so that we can closely and timely exchange and analyze information with each operating company. Naturally, we anticipate enhancement of details of the plan set at the beginning of the year. In addition, we will be able to work together as a group in taking initiatives to realize the CEO's strategy quantitatively.

Q. Looking at the document, it looks like this new department does not cover Retailing.

A. Since this organizational change took place during the fiscal year, Retailing is not included. However, we are thinking of establishing the department within the Retailing segment at some point in the future.

Q. In the second quarter, it was explained that the amount of gain on transfer of liquidated accounts receivable for the full year would be the same as that of last year. However, when calculating based on the information on page 29 of this document, it seems that the gain on transfer will increase in this fiscal year from the previous fiscal year. I would like to know the outlook for this year's gain on transfer of liquidated accounts receivable and how to think about the next fiscal year and beyond.

A. In our view, the gain on transfer is not the same amount as posted last year, but is the same amount as the cost arising in connection with liquidation. As amortization expenses, dividends, fees, etc., accumulate each term, our approach is to liquidate receivables by the same amount to eliminate the impact on profits and the year-on-year difference. In that regard, we have more amortization and other expenses this year than last year, so I think we will record the same amount of gain on transfer accordingly. This makes up the difference from the previous year. The outlook for gain on transfer for the current fiscal year is ¥7.3 billion.

Q. I think it was explained that the balance of operating receivables for installment and revolving payments was expected to increase by 10% at the end of this fiscal year, but the latest monthly disclosure shows that the balance of operating receivables increased by 9.1% at the end of December. So, I think it will be difficult to achieve the target unless considerable efforts are made. What is your current view on the growth rate of operating receivables balance for installment and revolving payments?

A. We believe that the balance is moving in line with the plan so far. Therefore, the profit plan was put together based on that assumption. Since 2024 is a leap year, there is one more business day this year, which increases transactions. We have also taken this point into account.