

MARUI GROUP Co., Ltd.
Financial Results Briefing for the Three Months Ended June 30, 2024
<Questions and Answers>

Q. How was the progress towards the 1Q forecast? I understood the explanation about transactions, but I would like to know whether other points were in line with the plan or slightly off.

A. Although there are some adjustments in details, they are basically due to a postponement from the previous quarter and the like. Therefore, we have not changed the internal plan except for transactions. Only the forecast for transactions has been revised due to a slight deviation from the projection.

Q. This time you have revised transactions by ¥30 billion and the revenue by ¥0.3 billion. I think in the past, however, there were cases where revenue of ¥0.3 billion was considered to be within the margin of error and not adjusted. With the new FP&A Department in place, was this revision made because of the increased accuracy, or because of the larger amount involved this time around? I would like to know the background and reasons for the decision to make the revisions at this time.

A. As you say, we have not made many revisions in the past, but now that the FP&A Department is in place, and in the course of our monthly monitoring, including monitoring by our directors, it has become apparent that the status of Travel & Entertainment is clearly not what we set in the initial plan. Since we, including the management, could clearly recognize the cause, it was decided that what was found should be corrected immediately, and therefore we have made the revisions accordingly. On the other hand, there is no impact on operating income due in part to a decrease in reward point expenses.

Q. I would like to know the background behind the revision of ¥30 billion in transactions for FinTech. With the external environment changing dramatically, I would like to know what assumptions you are making about how much the transactions will fall in Travel & Entertainment and what projections you have on exchange rates.

A. Travel & Entertainment transactions are linked to the transactions in overseas travel, which is considerably affected by foreign exchange conditions. It is difficult to predict the future, but looking at the situation in the first quarter, we thought that the yen was further weakening and that transactions in overseas travel would not easily recover. As a result, we revised our forecast for Travel & Entertainment transactions, which we originally estimated at 122% YoY, to 114% of first quarter results of the previous year. The annualized impact of this revision came to ¥30 billion, and we have revised the plan accordingly.

Q. In your briefings, while it was explained before that profit fell short of the plan because of weak travel, for example, this time you are saying that expenses fell as a result and there was no impact

on profit. Compared to the past, I feel that the way you explain the impact of events on profits has changed. As CFO, do you feel that improvements have been made to what had been recognized as issues before, such as the accuracy of the methodology of forecasts for the current fiscal year and of the monthly monitoring? It has only been about three months since the new structure began full operation, but I'd like to hear your honest thoughts.

A. I think accuracy has improved considerably. Each business division has been conducting detailed analysis to date, but coordination among the business divisions was not adequate. Whereas a vertically-structured organizational structure used to hinder the linkage of information, such as in this case costs decrease when transactions decrease, the FP&A Department has contributed to improving accuracy by seeing matters across the organization. I think it is significant that we are now able to see the linkage between expenses and income, etc.

Q. I think it was mentioned earlier that in the results for the first quarter, other than transactions, deviation was primarily due to a postponement from the previous quarter. At the last briefing, I think you mentioned the FinTech data center relocation cost in the plan for the current fiscal year. Does this relate to the aforesaid postponement in the period in any way? Is it correct to assume that no expenses were recorded in the first quarter?

A. Regarding the data center relocation cost, it is not included in the plan nor the results for the first quarter because the relocation itself will take place in the second quarter or later. In the briefing material, the forecast for non-transaction-linked expenses from the second quarter onward is considerably larger than three times the level of the first quarter. Relocation cost is included here.

Q. Will data center expenses be booked proportionally from the second quarter onward?

A. Some expenses are depreciable and some are not. The distinction has not been made yet, but depreciation is prorated while the relocation cost and other lump-sum expenses are recorded as expenses in the second quarter.

Q. Regarding new cardholders, is it correct to view this year's decline as a reaction to the stronger acquisition of new card members in the previous year? The overall number of new cardholders is declining, and the number of new cardholders of cards tailored to each individual's interests is also declining. Is it correct to understand that this is not a situation to be concerned about but a change from the previous year?

A. As for the decline in the number of new cardholders of cards tailored to each individual's interests, last year, new cards such as ZUTOMAYO and Moomin were introduced, and their strong sales led to a significant increase in cardholders. We believe the difference was due to the fact that there were fewer new projects in the first quarter of this year. Therefore, the decline is not a reflection of underperformance this year, but is because the number of projects in the first quarter itself was low. We are not worried because we plan to launch a number of new projects in the future and believe that we will be able to fully make up for the negative results of the first quarter.

Q. Please tell us about the impact of the postponement from the previous quarter, whether it is pushing up or pushing down operating income, and specifically, how much is cut and carried over to the first quarter. I understand that there is no impact on a full-year basis, but I would like to know in advance the impact of the non-consecutive gap in the period in forecasting and analyzing quarterly results.

A. The page on “Retailing Operating Income Forecast” in the presentation material states -¥0.3 billion in sales promotion expenses, which is stated under the item of "Other expenses" in the forecast for second through fourth quarters. About ¥0.1 billion of this amount corresponds to what we refer to as the postponed expenses in the period. Since this is due to a change in the timing of conducting sales promotion, please understand that it does not have a very significant impact.

Q. According to the FACT BOOK (Supplementary Financial Materials), “IT, etc.” under FinTech grew 38.5% YoY in terms of revenue and 78.7% YoY in terms of gross profit. This is very strong growth, but what are the factors contributing to this? Also, is this sustainable?

A. I think you can consider all of the above as the impact of Epos S.S. Insurance, which was included in the consolidated financial results from the fourth quarter of last year. However, Epos S.S. Insurance has a profit impact of no more than ¥100 million.

Q. So does it mean that although the second and third quarters will experience a similar impact, the fourth quarter will see a decrease since the results for the whole year have been included in the fourth quarter of the previous year?

A. That’s correct.

Q. I would like to confirm the impact of the external environment. With wages of younger generations increasing, are revolving payments and cashing increasing, and is consumption robust? Looking at the overall numbers, the impact appears to be neutral, but I believe your company has detailed data by age. Please tell us what you see from the changes in the external environment and if you recognize any areas of opportunity for your company.

A. Partly because real wages had not increased in the first quarter, we do not believe that there was much of an impact even on the younger age groups. On the other hand, the only impact we recognized was from the flat-amount cut of personal income tax implemented in June. The growth of cash advances was limited in June, and we think the flat-amount cut of personal income tax had an impact. Since this tax cut ended in June, it may have no impact going forward. Wages, if they rise in the future, are expected to have a positive impact, but there are no signs at this point in time.

Q. Regarding rent guarantees, you mentioned at the last briefing there was a slight delay in starting operations at the new business partners. How was the progress in the first quarter?

A. New business partners grew steadily in the first quarter, so the overall results of rent guarantees were also very favorable in the first quarter. We currently view that business will likely expand steadily throughout the year.

Q. I am very happy to hear that performance has been on track with the budget this time. The balance between transaction-linked revenues and expenses and non-transaction-linked revenues and expenses is improving, and the newly established FP&A Department has been successfully managing across the organization. Do you feel these factors are contributing to improving the accuracy of numerical management and revenue forecasts? Please tell us about your current confidence level.

A. Accuracy seems to be improving. There is better coordination with each of the Group's operating companies, and within each operating company, there is now a person in charge of analyzing the balance between revenues and expenses, which has eliminated partial corrections and discrepancies. However, there are still some areas for us to make further improvements. For instance, we believe that it is necessary to understand exactly what factors influence the volume of transactions in numerical terms. For this purpose, we also feel that it may be necessary to invite outside experts in statistics and econometrics, for example, so that we can further improve the accuracy.

Q. I imagine it was tough until the second or third quarter of last year, but now that you have a solid footing in the areas of installment and revolving payments, rent guarantees, etc., in terms of transaction-linked expenses and non-transaction-linked expenses. Considering these factors, is it correct to think that you can now avoid business environments where expenses increase first in line with increased transactions, and income comes later?

A. That is correct. The linkage between transactions and reward point costs was something we did not have a complete view over, but now that we have a clear understanding, we will be able to look at it more closely in the future.

Q. "Maruko and Maruo" days held in May and June decreased in number from 14 to 10 days from last year. Please explain the impact of the decrease on sales and expenses. I would also like to know if this impact is significant on a total basis.

A. While the decrease in the number of days held had an impact in that the event ran into the following month, the four-day decrease did not particularly have a significant impact when viewed over two consecutive months. There may have been a slight impact on a monthly basis, but we do not believe that the total impact was particularly significant. The number of days for next year's event has not yet been determined at this time and is subject to change depending on circumstances.

Q. You mentioned that the growth in FinTech's cash advance transactions was sluggish in June due to weaker demand caused by the flat-amount cut of personal income tax. Is there a risk that the transactions forecast of 106.9% year on year will not be achieved in a situation where cash needs are declining?

A. We believe the one-month impact of the flat-amount cut of personal income tax will be limited, given that card cash advances tend to be used primarily for leisure purposes and that demand for domestic travel and other activities is growing. By offsetting the sluggish growth in overseas travel with domestic travel, we believe that card cash advance transactions for the full year can achieve the target.

Q. You mentioned that one of the measures to increase card transactions was to raise the limit on cards tailored to each individual's interests. Has this already been implemented? Or do you plan to implement the measure in the second quarter or thereafter, or the second half or thereafter? Please tell us about your plan.

A. We have been experimentally implementing the expansion of measures since the fourth quarter of last year. We are currently monitoring the circumstances, and no full-fledged expansion has been made. We expect to see rapid expansion in the second half or the fourth quarter of this year.

Q. Please let me know how much impact you think raising the limit on cards tailored to each individual's interests will have.

A. We expect a ¥30 billion impact on transactions. There was some initial talk of including it in the plan, but since the specifics were not then known, it was not factored into the plan this time. If measures are implemented and transactions increase, this will have a positive impact.

Q. In your forecast for Retailing operating income, do you expect expenses to increase year over year from the second quarter to the fourth quarter?

A. The increase expected under the current forecast is as stated, and we are expecting an increase. While it is possible in the first quarter, we believe that events that did not occur in the first quarter will occur in the second quarter and beyond, taking into account the increase in system and utilities costs.

Q. With the increasing number of projects for cards tailored to each individual's interests as well as the discussion on card limits, can we acknowledge that there will be positive effects if things go well?

A. Thirty-five projects are incorporated in the original plan, and raising the limits of good customers for the cards tailored to each individual's interests issued in the past will have a positive impact. Please understand that the 35 projects under the normal limit are already included in the content.

Q. Looking at page 19 of the FACT BOOK, the total number of employees in Retailing and FinTech is down 240 from the previous year's level, and personnel costs are actually down from the previous year as well. I would like to know what the outlook is for the future, taking into account the recent talk on raising the base salary.

A. Looking ahead to the next five years, we will hire approximately 50 new employees each year, while approximately 150 to 200 employees retire at the statutory age each year, and 100 more will retire naturally. Therefore, unless recruitment is specifically increased, the number of employees is expected to continue to decline by approximately 200 per year. Since we are strengthening our hiring of IT personnel, there is a possibility that the number of employees will increase in that area, but we expect the total number of employees to decrease by approximately 150 to 200 per year.

Q. You commented in the fourth quarter that the company's plans for the FinTech business were conservative. Is the situation still the same? If it has not changed, is it safe to assume that the measure on limits for cards tailored to each individual's interests, which is not factored into the earnings forecast, will be implemented in the future and serve as a positive factor?

A. We have been conservative and neutral in setting our plan and have not factored in, for example, the projected ¥30 billion from raising the limit of the cards tailored to each individual's interests. Therefore, from this conservative standpoint, if the card limit is raised as planned and the balance is accumulated as planned, we can expect the effect of an increase in transactions of approximately ¥30 billion against the plan.