

# LTV

## Lifetime Value Management Dramatically Transforming Earnings Structures

The recent transformations in the earnings structure of MARUI GROUP have caused recurring revenue to grow and surpass one-time revenue from product sales. As this recurring revenue is generated on an ongoing basis in accordance with contracts, it can be recognized as contracted recurring revenue to account for the amount of revenue to be generated in a given fiscal year as well as in future fiscal years. The concept of recurring revenue includes the future earnings to be generated by new businesses. As such, recurring revenue is a crucial element of management that focuses on lifetime value (LTV) from a long-term perspective.

### Transition in Earnings Structure from One-Time Revenue to Recurring Revenue from Recurring Payments

MARUI GROUP is endeavoring to forge even longer-term relationships with its customers and business partners through the transformation of its business model. In our retailing operations, the transition to shopping centers and fixed-term rental contracts has made it possible to generate consistent recurring revenues over periods of between three and five years. Meanwhile, increased use of EPOS cards for the purposes of making rent and other recurring payments have enabled us to continue relationships with customers over 10 or even 20 or more years. The profits generated over the course of these relationships are recurring revenue.

In the fiscal year ended March 31, 2019, recurring gross profit amounted to ¥122.7 billion, approximately 2.3 times higher than five years ago, making for an average annual growth rate of 18%. In addition, we have recently been seeing growth in revenue from rent

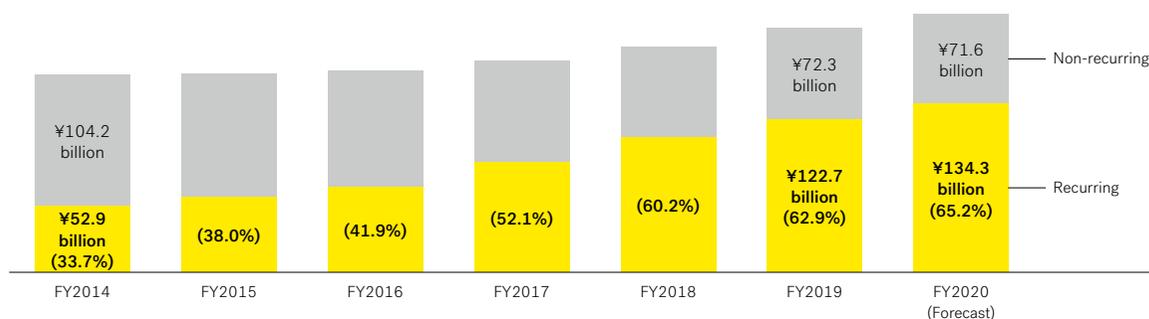
guarantee and asset building services. The markets for these services are expected to continue to expand going forward, and we therefore anticipate strong ongoing growth in recurring revenue in the future.

This earnings structure centered on recurring revenue indicates that MARUI GROUP's business model is similar to that of a SaaS company. These companies are known for producing high levels of LTV with their recurring revenue-oriented earnings structures as well as their distinctive products and services, frameworks for close coordination with customers and business partners, and large total addressable markets.\*1 These strengths are thus all areas warranting attention as MARUI GROUP practices LTV management going forward.

\*1 See "(Reference) Estimate of Total Addressable Market Scale for MARUI GROUP's Rent Guarantee Business" on page 43 for more information.

### Ratio of Recurring Gross Profit to Total Gross Profit\*2

Ratio of recurring gross profit to total gross profit anticipated to continue growing to exceed 65% in the fiscal year ending March 31, 2020



\*2 Calculated as the ratio of a figure combining gross profit and selling, general and administrative expenses paid by business partners

### Recurring Revenue Recognized in the Future

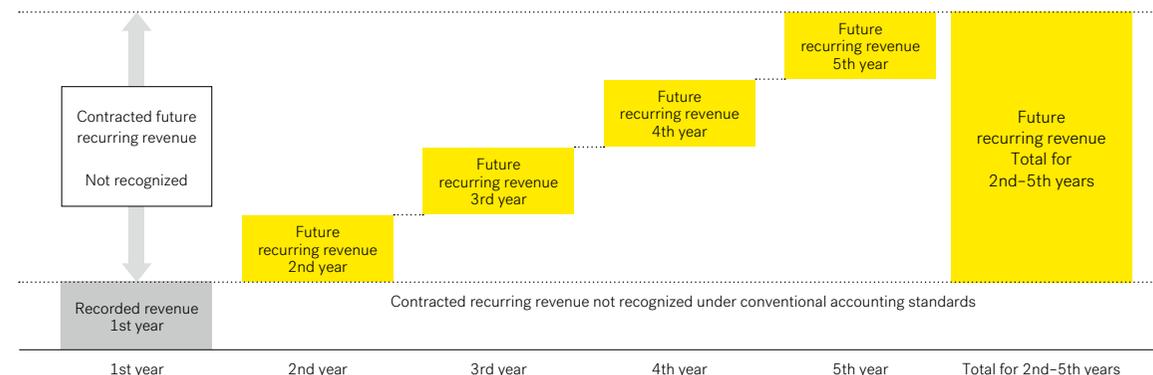
Recurring revenue represents revenues that will continue to be generated well into the future. However, the true value of these revenues is difficult to communicate through the consolidated statements of income due to these statements being limited to one year in scope. For example, if a customer were to conclude a five-year contract in a given fiscal year, the conventional method of recognizing earnings would only see us posting the revenue recorded for the first year of this contract in the fiscal year in question. The remaining four years' worth of outstanding value would not be accounted for.

However, this outstanding value is incredibly likely to be recognized in the future. The concept of contracted future recurring revenue is a tool for quantitatively

recognizing this outstanding value. On April 1, 2019, the amount of outstanding contracted future recurring revenue that will translate to revenue in the future was approximately ¥360.0 billion, roughly 1.4 times higher than the consolidated revenue posted in the fiscal year ended March 31, 2019. The view of contracted future recurring revenue gleaned from MARUI GROUP's new business model helps cast light on the fact that earnings previously recorded on a single fiscal year basis were actually a component of LTV, which continues from the past into the present and on to the future. In this concept, we see the underlying principles of MARUI GROUP's long-term LTV management approach.

⇒ P100 Tracking of LTV

### Concept of Contracted Future Recurring Revenue Underlying Long-Term LTV Management



### Message from an Employee



**Nahoko Kutsukake**  
Investor Relations  
IR Department  
MARUI GROUP CO., LTD.

### Illustration of LTV Management through Engagement with Investors

MARUI GROUP has a unique business model that merges retailing and finance. We understand that this can make it difficult to evaluate the Company, and this recognition has shaped our ongoing engagement activities with shareholders. In these activities, I was made aware of the fact that future earnings scale is an important standard for decisions by investors and that there is a great deal of interest regarding the ratio and growth rate of recurring revenue. This inspired me to research companies deemed to have high LTV. I found that these companies often disclosed information on their anticipated future earnings, including information on market scales, customer bases, sales, and growth rates. In addition to recurring revenue, these companies also presented the concepts of contracted future recurring revenue and total addressable market. I believe that combining such data will make it easier to illustrate MARUI GROUP's approach to LTV management. In the future, we will seek to realize consistent improvements in LTV while also engaging in constant dialogue with investors to facilitate disclosure that accurately portrays MARUI GROUP's market value based on LTV.