MARUI GROUP Co., Ltd.
Financial Results Briefing for the 6 Months Ended September, 2019
<Questions and Answers＞

Q. About the card business, you made additional interest repayment provisions, how does it compared with last year on your basis? What did you see claim situation and also what did you outlook?

A. About interested repayment, in the first half actual interest repayment was ¥2.2 billion, 103% of last year. Claims of lawyer intervention which is leading indicator of actual interest repayments was 104% of last year. Since the second half last year, the claims was very higher compared with previous year and the situation has continued in this half. Based on this trend, we made additional interest repayment provisions in the first half. About future outlook, it's difficult to forecast, but there are the several good signs for the future. Banking loans has declined with stricter screening. The number of self bankruptcy had increased in several years, but it has declined compared with last year most recently. Also, looking at operation receivables of MARUI GROUP, growth of overdue receivables was very lower than growth of operating receivables, and situation of overdue receivable has calmed down. However, there are a lot of factors, therefore we won't be optimistic and we will look very carefully going forward.

Q. You explained EC business had struggle, let us know more concrete what product or what category do not perform well. You said that you are going to increase cosmetics lineup, but everyone is trying to increase cosmetics lineup. What should you have done in terms of your mainstay fashion business, please explain specifically the situation in the first quarter and the second quarter.

A. EC business has struggle, the transactions of the first half was 93% year on year which is ¥0.8 billion less than last year. There are three reasons. Firstly, the purchase by existing customers struggled because of PB brand decline and delaying introduce new brand. It caused a negative impact of ¥0.5 billion, 96% year on year. Second reason was failure to increase new customers because of the recent market situation and decline of advertisement efficiency. It caused a negative impact of ¥0.2 billion, 90% year on year. Third reason was decline of sells by No-MARUI site, which were driving business until last year. It had been expanded 139% year on year until last year, however it was only 102% in this year although exceeded the previous year level. As a measure for the second half, we introduced new apps in September, and the number of downloads are very strong about 150,000. By introduction of the new apps and marketing automation, and also improvement in product lineup with EC, we will make effort to around for better in the second half.

Q. I think it's great to hear that such as BASE finally listed. Taking a long perspective, I don't think you will be keeping all stocks. My question is about your exit policy. It will be difficult for you to part with companies because of the deep of relationship with these companies and stock price increase by listing. What are conditions would you exit? I'm relieved because there is no loss and you also don't want a loss cut. Let us know your exit policy.

A. About our exit policy, we define that investment in startup should contribute our core business, and should be for open innovation. It is for growth investment and we are not expecting financial return because we are not a fund. In a case that there are IPOs, done by giftee and BASE, it depends on synergy being actually realize or not. For example, collaboration with company A is being made successfully and the relationship deepens, such a case we retain and keep maintain company A. But in a case that the synergy effect was less as much as expected, we will enjoy and maximize IPO's finance return. As middle of cases, at least the investment amount should be recovered. That's basic an exit policy.

Q. Thank you for very clear explanation easy to understand. I would like you to more explain for the timeline of return on investment. I don't think the return will be after 10 years, what timeline will be used for discussions? Of course, I understand that it depends on the business type. Let me discuss again on this subject.

Q. As you basis, recurring revenue has been increasing as strong and also there are contracted future recurring revenues, so I think the risk has quite declined. Did you set the target of 30% shareholder's equity ratio with that in mind? Do you think you can have more leverage because of risk decline? Let us know the optimal capital structure can be adjusted or not.

A. Recurring revenue is expanding, but this concept of recurring revenue wasn't conscious in previous. When we have been shifting from flow business to stock business, the concept has become implicit knowledge. This time, we clarified the concept of recurring revenue like subscription companies, SaaS companies and platform companies. In terms of shareholders equity ratio, the first reason is optimal capital structure in past explained. The second reason is opinions of our bond investors. They want keep at the ratio 30%. We respect that opinions and look at optimal capital structure, we set target of shareholders equity ratio at 30%.

Q. The target for 30% has not changed for a while?

A. Yes, that's correct.

Q. Contracted future recurring revenue is not difficult to understand the concept, but liquidation of revolving receivables will devalue contracted future recurring revenue. It becomes difficult for credit card companies to be evaluated even if they make profits as the scale of liquidation increases. In the first half revolving installment business was handling 19%. If the pace continues, you don't have concerned, there may be a view that even if the fiscal year's plan is not met, liquidation should not be forced. If transaction is not increasing, what is your a policy of liquidation? I don't think it's a good idea to stick too much to the profits you promised for the year. Can I have your opinion?

A. As you talks about, liquidation of revolving installment receivables equivalent to accelerated recognition and realization of profits in the contracted future recurring revenue for this year. But there is the another purpose to the contracted future recurring revenues. For example, the right side of the household accounts, recurring payments, is kind of service increase. That’s contracted future recurring revenue. The liquidation of revolving receivables can be advanced, but the different types of earnings which cannot be advanced and recognize such as recurring payments, and increased recurring revenue is so that maximize the LTV (Life Time Value). By doing this, we promote LTV management. As for the optimal balance of liquidation in the future, although one aim is to keep our promised profits, there is another aim of the mid-long term plan. As the balance sheet in the mid-long term, when FinTech business becomes driver business and we raise corporate value, operating receivables should increase. As a result, the balance sheet will exceed to initial target of ¥1.0 trillion assets for the fiscal year ending March 2021. Our shareholder concerned about potential risk of that and requested us to control the balance sheet. Therefore, to keep of the optimal balance sheet, we are planning to raise the ratio of liquidation. That’s why increased ratio of liquidation from the previous 15% to an industry average of 25%. The aim of the medium- to long-term plan is to realize the balance sheet we aim to achieve through this.

Q. I think that the growth of the revolving/installment balance will decrease as installment transaction handled. In several quarter, installment transaction grew strongly, how long will this trend last?

A. According to the theory of general financial and credit card, they recommend revolving payments that has longer payment periods. We also recommended revolving payments business, but customers and our cardholders are worried about when their revolving payments will end.

So we have strongly recommended installments in several years. The balance of installment payments per one customer are lower than that of revolving, but they increase the number of customers and the balance as a result of having a wide range of customers, so we are working to increase them in the same way as the growth of revolving payments. Therefore, the expansion of installment transaction does not mean that the balance of trade receivables decreases.

Q. You mean that rather than having the same customer shift from revolving to installment payments, do you want new customers to use installment payments?

A. Yes. Customers who thought that using revolving payments would be difficult will be able to decide the payment amount and the period themselves, so we will increase the number of new customers and expand the balance.

Q. In terms of short-term results, FinTech's actual operating income growth in second quarter was not significant at approximately ¥0.7 billion and the expanse of point increased. Service revenue supposed to accelerate due to the collaboration with Able, but we don't see too much change. What do you think of this as a general review of FinTech business in first quarter and second quarter?

A. Looking at the balance of operating income over the last six months, we aim to increase actual operating income by ¥1.6 billion in the first half of the year and by ¥4.0 billion in the fiscal year. As for quarterly changes in operating income, you have mentioned the actual situation. However, since the timing of liquidation amortization and the timing of liquidation differ, there may be some irregularities in the balance between expenses and income in each quarter. Although there will be a corresponding variable cost, operating income will be higher in the second half of the year. You can think of the difference of the first half and the second half as the difference of expenses. The main source of service income is the rent guarantee business. We plan to make a significant leap in the second half of this fiscal year by the collaboration with Able, but the system actually went into operation in May, and we expect it to be slightly lower than planned due to a delay in connecting the system. However, the initiative is on track, and if Able's revenues increase about 4 times in the first half of the year, we expect Able alone, not gross, to be effective at around ¥0.4 billion. We therefore expect service revenues to grow by more than 130%.

Q. Regarding the growth investments, you collaborate with the companies and work together, I can understand that, and the amount is ¥0.5 billion so far. So I don’t think it will be that big. However, if you are going to expand to invest in a number of companies, you’ll have to use human resource for that. As the return on investment is neither good nor bad, how much human resources is going to use such investment? Also, I think it is necessary to have discipline to limit the number of companies. What’s your view on that?

A. Regarding human resources and future disciplines related to investment, first of all, in our mid-term management plan by March 2021 we planed to investment ¥30.0 billion for the growth investment. But know-how has not yet been accumulated and progress has been slow, so as explained previously, we have extended the plan to 2 years and until March 2023 we are going to invest ¥30.0 billion. Now, in terms of amount are looked, not the number of companies. We have 5-6 people of our company doing this, and also we have added 2 professionals with investment experience scouted from other companies. Because there are risks if we do it by ourselves, we want to control risks by hiring people who have the know-how.