MARUI GROUP Co., Ltd.
Financial Results Briefing for the 6 Months Ended September, 2020
<Questions and Answers＞

Q. Please tell us the number of introductions by lawyers, and the current situation. Regarding the target for handling around 111% in the second half of the fiscal year, if this level of handling continues, the balance is becoming more difficult to grow. In fact, in the first half of the fiscal year, I think that the overall balance is slightly negative.
In order to increase these balances, will you increase the amount handled more? Or, as you said before, will you increase the number of products that will be handled more and more? I have been asking similar questions every time, so an update from three months ago would be fine, but I would like to hear your current thoughts.

A. Let me talk about the state of interest return first. Interest repayments in the first half of the fiscal year were ¥2.1 billion, a decrease of 94% YoY. However, the amount of lawyer intervention, which is a leading indicator of such intervention, remained almost unchanged at 100% in the first half of the fiscal year, at 102%.
Accordingly, in the first half of the fiscal year under review, we increased the reserve for interest repayment by around ¥3.7 billion in light of the status of the amount received. This is the status of interest repayment.
In terms of turnover, such as revolving installments, the situation in the first half of the year, you were worried about. In the first half of the fiscal year, shopping transaction value was significantly affected by the coronavirus, resulting in a YoY decline. The revolving installment basically moved in line with the transaction value of shopping. In addition to this extreme decrease in the handling of shopping, there were

also benefits from the government, and perhaps there was a little leeway for members to have financial resources.

Therefore, compared to the shopping, the revolving installments have been slightly delayed and are now trending.

Nevertheless, this situation has been reversed after bottoming out in August in the first half of the fiscal year. As shopping transaction value has expanded in September and October, the transaction value of the revolving installment has also recovered, and it has now returned to the 100% level.

Therefore, the balance at the beginning of the fiscal year is now decreasing at the end of the first half of the fiscal year, but we expect that it will recover to the level at the beginning of the fiscal year by the end of the fiscal year.

Q. In the second half of the fiscal year, it will be about 111%, but if it is only about 111%, it will depend on what will happen to the various contents, but it will be difficult to increase the balance. As before, it is difficult to anticipate a situation in which outstanding balances will grow steadily.

Will you take measures to expect a further recovery next year and the year after next from this? Or can you take measures that will be effective for LTV so that the balance can be taken firmly even if the transaction does not grow so much? I would like to have your thoughts.

A. The balance of the revolving installment will basically increase in line with the transaction value of shopping now. Of course, we will continue to change the contents of various services individually, but we recognize that increasing the transaction value will ultimately lead to an increase in the balance. This level of 111% in the second half of the fiscal year has not yet recovered in some areas, particularly Travel & Entertainment. It looks a little lower, but we are firmly on the right side of the household in particular, paying fixed rent or so on, and we are aiming to recover the balance by steadily increasing the transaction value of shopping at the same time.

Q. In connection with the explanation of DX earlier, we were somewhat surprised by a slight decrease in ecommerce sales in the first half of the fiscal year. We know the direction of DX in the future, but why isn't it leveraged, even though you have a great logistics facility in the first place and have a complete fulfillment center? In terms of the trend of the ecommerce in the world, why isn’t there a substantial increase in the appropriate part of the ecommerce, as you referred to earlier EPOS Card?

If you proceed with the collaboration that President Aoi explained earlier, will this grow? You said that you will also invest in logistics in the future. Isn’t it in-house E-commerce, or will it be shifted to other companies' E-commerce? I would appreciate it if you could tell me the current situation in a little more detail.

A. As you pointed out, for Marui's E-commerce, the YoY sales ratio for the first half was 96%. This is 7% higher than last year's 89%. However, as you say, while other companies are expanding significantly in the COVID-19, we are regretting the extremely difficult results.

As I mentioned earlier, E-commerce has not been able to transform itself from sales of about ¥20 billion since 10 years ago. We believe this is because we cannot create uniqueness amid the expansion of major websites and our own websites. I believe that this COVID-19 has clearly clarified the challenges.

Accordingly, in the future we will revise our strategy to create uniqueness for Marui. I would like to create a new customer experience from the viewpoint of OMO. What I explained earlier was that we are going to create a new E-commerce from now on. This is not an E-commerce from other companies, but our own E-commerce. Also, this is just a separate story from the existing E-commerce, and the content of the existing E-commerce will also be renewed, and a new rebuilding of the existing E-commerce and the launch of a new E-commerce will be undertaken. We intend to restructure our strategy in this two-pronged manner.

Q. Let me confirm with you a little. I received an explanation from President Aoi earlier about a new business to be added. In rebuilding existing ecommerce, are you working together, for example, to co-create with external parties or to utilize external human resources?

A. Of course, that is what I think. We intend to change our business not only by doing everything on our own, but also by utilizing external resources.

Q. I think that next month's IR DAY will be postponed, so there will be various discussions in the current situation. You talked about investing in the Housing Business. Which areas are you going to review right now? I think that you will continue to dialogue with the market and other developments, but what is changing from May, six months ago?

A. IR DAY have been postponed, and now we are reviewing. In 2019, we announced Vision 2050, our long-term vision. We have set up various KPIs for it. I was thinking of talking about that progress this time. In the course of doing so, there have emerged areas where it would be better to review them in various ways.

For one example, the reduction of greenhouse gases that Aoi mentioned earlier. We cited Scope one, two, and three as our KPI. However, as we do so in many ways, our customers, society, and reduction of CO2 emission are necessary in order for us to have a greater social impact. So, we are now about creating a Scope four. After we review the KPI which we have set one more time, and when we are able to achieve the KPI again, we would like to tell you about the progress. I hope you will wait a little longer.

Q. Moreover, half a year ago, President Aoi gave an explanation, and the talk you gave me today brought up new topics such as housing and logistics. I was expecting to explanation from you at the IR day next month, but it was postponed. Please tell me if there are any differences between what I heard about six months ago and what you explained today.

A. At the financial results briefing in May, we have done so far in terms of a business model that integrates retail and FinTech, In addition to this, I explained that we will add a new domain of co-creation investment, and that we intend to create a new business model for the future by integrating the three elements of retailing, FinTech, and Co-Creation investment. We explained the progress of our co-creation investment today.
I am currently in the process of diligently considering the medium-term management plan for May next year. This coming medium-term management plan probably 5-years plan. In formulating this plan, as a matter of course, I think that the impact of COVID-19, or how we will look at the changes in the environment caused by COVID-19, will be a major premise when considering the next five years.
Today, I talked about a large part of the premise there in relation to COVID-19. In this context, I referred to investment in the housing sector or investment in distribution centers in part. As I explained today, the COVID-19 has triggered a change in real estate values that has already occurred. Is this change going back, or is it irreversible, or will the change be forever? Those are the controversial topics.
We think that the situation surrounding our flagship stores will become increasingly challenging as a result of this COVID-19. In response, I talked about today's rental housing as we review our investment in real estate holdings and review our portfolio. In the medium-term management plan, I will also discuss investment in logistics.

Q. Looking ahead, Co-Creation investment will increase, and even more in real estate, it will shift from stores to logistics facilities and leasing. On the other hand, although store closures have been reported recently. Next, I think that the portfolio of assets will change dramatically because of the decrease in trade receivables and store assets, and the increase in logistics and housing, and the increase in intangible costs. Will total investment or total assets have a benchmark to some extent and be replaced within it? Or, if there is any growth, is it increasingly, aggressively increasing assets as a driver? Please tell us about the balance.

A. I think that the review of the portfolio and the content of the balance sheet will be one of the key points of the next medium-term management plan, which we are currently reviewing. Accordingly, we would like to put together some indicators in relation to this.

However, in terms of the direction, basically, there is no change in this direction of shifting management from tangible fixed assets to intangible assets, rather intangible investment to greater extent, which I mentioned in May.

Therefore, as I mentioned earlier, the completion of the fixed-term lease will create about ¥15 billion in investment capacity over five years. Therefore, we spend money on rental housing or logistics, where we can expect opportunities, but we do not intend to increase fixed assets. This means maintaining the status quo.

Since the Co-Creation investment startup investment department is increasing, as intangible investment and intangible assets increase, we will move toward the direction that the next medium-term management plan aims to achieve through the trinity in Retailing, FinTech, and Co-Creation investment.

Q. We have an image that customers come to our stores to issue credit cards, but as we have seen in the case of rent, in the sense of continuously acquiring new customers and customers who pay LTV, is it okay to judge that the direction of reorganizing assets is more correct?

Is it fair to say that the next five-year midterm plan will make a big announcement?

A. Store is a significant hub for recruitment of our new membership, but it's no different to be an important interface with the card membership. On the other hand, the ratio of new members at stores to new cardholders has declined to less than one third. Conversely, we have shifted to a

system that allows more than two thirds of new members to recruit outside stores. As a result, if almost 100% of new members join from our stores as in the past, the number of new members will decrease if the numbers of new stores decrease. However, this constraint has not diminished considerably, but it has been eased.
On the other hand, as I mentioned earlier, the risk of vacancy rates for commercial facilities is not limited to ours but may also rise after COVID-19. I think we will have to assume this, so we have already decided to close in Ikebukuro Marui and Shizuoka Marui. We will continue to monitor the efficiency of our stores without having to have too optimistic and hopeful observations, and we will continue to operate our stores so that we can maximize the value of our stores as a whole.

Q. That you have come up with forecast for FY2021 this time, but if you look only at the second half of the fiscal year, I think the budget decreases about ¥3 billion for operating income in the second half of the fiscal year. The liquidation, et cetera, were carried out to a very large extent in the first half of the fiscal year. I think that the impact of coronavirus was in the fourth quarter of the second half of the fiscal year. In the second half of last year, profits declined by nearly 10%, and this will lead to a double-digit decline.
Please tell us if it unavoidable because I am looking closely at the top line or if there are any technical factors around here.

A. There are no special factors.
In the second half of the year, the Retail Business is looking at a trend of 80%. Although it certainly fell last year in March, we assume a transaction value of 88% for the second half even if we take this into account. In addition to this being a factor in the decline in profits, as explained in the first quarter, FinTech's profits have a lagging effect. We expect FinTech's profits to decline as the tough situation in the first quarter will appear in the second half of this year.
In the second half of the fiscal year, the 110% rate will be set as a profit from the next fiscal year onward. In this sense, both FinTech and Retail

will face a slightly tougher situation in the second half of this year, so we will forecast that a profit will go down in the second half of the fiscal year, and there is no further reason for this.

Q. I want to confirm that the underlying trend is an organic trend, and since last year, in the middle of February, especially in March, it has fallen and the so-called budget figure is 111% for shopping, and 88% for retailing?

A. That's right. As Aoi explained earlier in the second half of the year.

Q. About how retail stores should be. I think that you will increase the number of experience-oriented stores that do not sell goods, and that you will increase the number of stores that do not sell goods up to around 60% in five years, how is the progress?
After the fixed-term loan, I think that the COVID-19 situation will result in contract renewals of about one third each. There are many difficult issues, so I think there may be some requests from wage reduction. Please tell me as much as possible.

A. Regarding the progress of the experience type, the composition of this experience-type tenant was 30% at the end of FY2018. This has expanded to 38% by the end of the previous fiscal year. However, due to the impact of coronavirus, negotiations for store openings have temporarily stopped, so I think that it will be delayed switching between six months and a year or so. The desire to open stores for product-selling tenants has declined significantly but players in this experience-type business, particularly those in the online business, are becoming increasingly positive about store openings. Later, by March 2024, the goal of reversing this configuration and extending it to up to 60% will be unchanged.
Another point is how the contract is being renewed. In other words, I think you are worried about the current negotiation situation regarding the risk that the tenant will cancel. In this regard, I know that there is an expiration of 66,200 square meters in this fiscal year, but it is now

that about 80% of these will be able to update the contract. This is the result of our efforts to deal with tenants, including the recent reduction and waiver of rent. However, as there are still risks in the future, we would like to keep a close eye on them.

Q. I would like to ask you more about the contract renewal. You said that 80% will renew. Could you tell us whether or not the rent setting for this 80% is the same as that for the past, and what became the case for 20%?

A. For 80%, there has been no value down, that is, a drop in rents. The contracts are for the same or more rent as now. 20% of the tenants will be withdrawn upon the expiration of the contract, and the tenants will go out of the contract. However, in comparison with the past, more than 20% people usually withdraw, so this fact that even this corona sickness is calm at 20% maybe answer for your worries.

Q. Do you mean that you would like to change these areas into experiential ones as much as possible?

A. That's right. As I explained earlier, the risks are certainly increasing in the future, but I believe that this is an opportunity. The fact that there is a tenant withdrawal means that we can replace a new tenant there, so we would like to take advantage of this and turn it around.

Q. About your approach to earnings in the FinTech Business. The impact of the balance will appear somewhat later. On the other hand, in the current fiscal year, there are no more costs for issuing cards than for recruiting new members. On the other hand, considering the fact that the volume of transactions has improved from the bottom, what should be the earnings perspective of the Fintech Business for the next fiscal year? Please tell me your comments about it.

A. About the outlook for this fiscal year, the overall earnings of FinTech will increase. Looking at the details, although it is a little, we see a decline in revenue. The main reason for this decrease in sales is that the growth in shopping transaction value was extremely harsh, and in addition, the Cash Advance Business has been extremely sluggish. Regarding revolving settlement, although it has been decreasing due to the accumulation of balances at the beginning of the fiscal year, it is forecast that it will be almost flat on the profitability side.

What will happen to this situation in the next fiscal year? For the next fiscal year, while we do not see at all what the impact of COVID-19 will be, it will be in the form of a forecast for the next fiscal year, and there remains a sense of uncertainty. If the current environment continues, we expect a double-digit increase in shopping transaction value to be sufficient for the next fiscal year due to a reaction to the current fiscal year and the emergency situation in April and May. Accordingly, we believe there is the potential for a significant increase in merchant commissions in the next fiscal year compared to the current fiscal year.

With regard to the revolving settlement, which is recorded as sales in terms of the balance, although the accumulation of the balance is certain, from the perspective of earnings, the forecast is for only a slight increase in sales.

We forecast that cash advances will continue to be sluggish in the next fiscal year. As a whole, we anticipate a steady increase in sales for the next fiscal year, although sales will decrease in the current fiscal year.

On the other hand, with regard to expenses, since they will be in the future and not fixed, I cannot say anything. As for new cards, the number of new members declined from the previous fiscal year to about 200,000 due to the suspension of operations at stores this fiscal year. There is uncertainty about the extent to which this will recover, but it will be a steady upfront investment in the future, so we intend to steadily increase the number of new members, so I think that the cost of issuing cards will increase accordingly.

Regarding the operating income of the results, we are carefully examining the total expenses so far, so I would like to report it at a later date and at the time of settlement of accounts.

Q. As DX continues to evolve, you talked of specialized E-commerce, but will multiple deployments start from scratch? In that case, it would seem that something would be a very large investment. In addition, if there is no specialization or anyone doing it, various areas are doing it in various fields, so I wonder if there are such fields left. We would like you to comment on multiple developments of this specialized E-commerce.

A. With regard to the schedule, I am currently considering about five or more of them. I am currently thinking about five or so area themes. Some we have been working on development for quite some time, some we have been working on for several months, and some that we have started working on since October. In any event, we would like to thoroughly determine whether or not we will commercialize the product by around six months or so and whether or not we will make a full-scale investment. As of May, I think we can report on what kind of new products we will be launching.

With regard to investment, we do not think of any major investment. As I explained earlier, even for the construction, operation, and upgrade of E-commerce, there is now an outstanding system that can be developed very inexpensively and is very agile with very external services. By utilizing such services, we would like to start with small investments with little investment.

Regarding whether there are areas that other companies do not deal with I do not intend to say that there is none. There are no areas which could be as much as billions of yen that we intend to deploy. We intend to specialize in such things. So, I have heard about it as a theme, but I would like to have that kind of strategic thinking about whether we will do it in E-commerce or in OMO. I hope you will look forward to it.

Q. Are the areas of specialization in E-commerce that you just mentioned coming from areas where your company has been doing business, such as product sales and ideas obtained through hands-on activities in Retailing?

A. Well, as you are aware, we don't have much focus on categories, business categories, or industries. We look at how the customer demand changes due to changes in customers and the world. We are a very focused Company that looks at this and develops businesses that respond to this new demand and changes.

Therefore, we want these types of services to help our customers enrich their lives and to help them realize their full potential. Or a new lifestyle that customers want to devote themselves to consumption on services or products. In this sense, we would like to develop specialized E-commerce based on the theme of variation.

Q. I'd like to confirm the factor of the decline in retail profits in the second quarter of this fiscal year. Retail sales was ¥3.3 billion, whose factor of decline, a special factor, is the COVID-19 impact. I don't know if it will be here, but is it because of the decline in sales caused due to the coronavirus impact and the decline in sales? I don't know how the Omni-Channel and the platform are included in this report. please let me know.

Aside from this, I think the financial statements also contains figures. I think there is a portion of the fixed costs during the store's shutdown that has been reclassified as a special loss at ¥6.6 billion in retail. I don't know whether this is a rebate to a fairly fixed expense when we return to normal accounting status next year. Depending on the profitability of the Retail Business, I think there is a real risk of an operating loss. What do you think about this?

A. first question the decline in retail profits is ¥3.3 billion, and you think that the Omni-Channel or platform is included in this breakdown.

Although the platform is in this, it is a very small number, and most of the stores will be negative. In terms of Omni-Channel, they are within this category, but this is also impacted by around 5% of the total. This will have a minor impact. The reason for the decline in profits was that the transaction value declined due to coronavirus, which resulted in a negative income, which is ¥3.3 billion.

Another issue is the ¥6.5 billion, which was recorded as a special loss. It will certainly return that amount in the next fiscal year. In fact, when we were closed in April and May, we have also reduced or waived their expenses for 100% of our business partners. Therefore, the amount will normally return if we are able to operate the business. Since the amount of fixed costs recorded as extraordinary losses is about ¥2 billion, we would not lose money if we were operating.