MARUI GROUP

MARUI GROUP Co., Ltd.
Financial Results Briefing for the Six Months Ended September 30, 2022
<Questions and Answers>

Q. E-commerce seems to be the biggest change impacting the first-half Retailing segment results. You mentioned coordination with “eventful” stores, but what factors contributed to the E-commerce sales growth?

A. Our web specialist personnel took the lead in efforts to improve the E-commerce UI/UX. Through SEO and a variety of other improvements, customer traffic has increased 20% from the fourth quarter of the previous fiscal year. Customer traffic was also up 33% during the first half and transaction volume is increasing due to the increase in new customers. Store-linked E-commerce was also up 80% from last year at ¥600 million. That growth was due to product enhancements coupled with UI/UX improvements.

Q. What product categories saw E-commerce transaction volume growth?

A. Mainly non-apparel categories. Apparel also grew, of course, but categories where we’re acquiring new customers like cosmetics, anime, and entertainment saw significant growth.

Q. Looking at the improved E-commerce sales figures, I feel that profit could’ve increased more. It was explained that gross profit contributed ¥400 million and cost cuts contributed ¥1.8 billion. That means you’ve already achieved over 50% of the ¥3 billion cost cut target in the medium-term management plan. Why was the gross profit increase only ¥400 million? Was it because store restructuring hasn’t been completed, or was there some other special factor?

A. Since there was a ¥500 million impact from store closures and withdrawal from directly managed sales floors last year, in real terms gross profit increased by ¥900 million. With regard to the ¥1.8 billion in cost cuts, as we work on expanding revenue from tenants by ¥3 billion, it will be recorded under gross profit and SG&A expenses. Therefore, much of it will be recorded under SG&A expenses as expenses paid by tenants. That latest ¥1.8 billion figure also includes expense revenue paid by tenants.

Q. Would it be correct to assume that the effect of your reforms of existing stores is clearly reflected in the first-half results?

A. Yes, and we intend to get even more done in the second half.

Q. I understand that FinTech transaction volume has recovered to 2019 levels. Do you think the nature of that recovery trend will change over the next six months? Also, is the steady increase in new cardholders having an impact?

A. The stringent restrictions on activities in 2020 and 2021 led to limited consumer outings and credit card use. I think we saw the rebound from that situation becoming clearer in the first half. I believe the recovery is characterized by powerful transaction volume recoveries in the travel & entertainment, commercial facilities, and food categories. The number of new sign-ups is also at last gradually recovering, so we forecast that transaction volume will also see a corresponding powerful increase.

Q. I listened with deep interest to what you said about your FinTech initiatives. When conducting finance business in new fields, how will you approach risk management in areas like credit management?

A. When launching initiatives like BNPL, as a group we naturally have to be rigorous in our operation of credit systems. In terms of security, we require the inputting of one-time passwords for identity verification, and start customers off with small payment limits at first. Their credit limit will be incrementally expanded as their credit score improves. One of the major characteristics of BNPL is API connections with E-commerce affiliate stores. A system for linking up customer information from a variety of affiliate stores with EPOS is now operational. We intend to manage risk through a wide range of initiatives like this.

Q. So would it be fair to say that you'll get the services up and running smoothly by drawing on your internal resources to handle the system development side of things such as API connections with affiliate stores and cybersecurity, in addition to leveraging the unique knowhow you've built up through the EPOS Card business?

A. Yes, that's right.

Q. Looking at the first-half Retailing segment results, the contribution of fixed-term rental contract income to both revenue and gross profit has decreased. It was explained earlier that, as of the first quarter, transaction volume was up while gross profit was down, due in part to changes in both the tenant mix and the balance of fixed and variable rents. Were these first-half results within the scope of your assumptions?

A. Yes, they were. One factor behind the year-over-year decrease in gross profit from fixed-term rental contracts was the impact from store closures. In addition, when the impact of renovations as tenants move in and out is concentrated in the second half of a fiscal year, that creates a positive year-over-year impact.

Q. I believe the impact of variable costs on FinTech revenue can be seen in the presentation materials. It was mentioned in the first quarter presentation that the reason why little progress was being made toward profit targets, despite an increase in new card sign-ups, was that the number of people signing up for cards such as "cards tailored to each individual's interests" increased more than expected, leading to higher expenses. So was the number of new sign-ups also higher than expected for the second quarter? And how should we view the current expense structure?

A. The number of new cardholders in the first half was 350,000, which was slightly higher than expected. Since we expected the number of cardholders to increase from the beginning of the year, revenue and profit targets were naturally based on the assumption that card-issuance expenses would increase accordingly. Therefore, this increase in expenses is almost in line with expectations.

Q. Despite the 22% year-on-year increase in fixed-term contract rental transaction volume, revenue was down 1%. I presume the increase in transaction volume and decrease in rent revenue means the ratio has dropped. Why did that happen, and was it as expected?

A. Although fixed-term contract rental transaction volume increased 22% overall, that doesn't mean a 22% increase for all tenants. The increase was only from tenants with which transactions actually occurred. There were some tenants with which transactions didn't occur, and it's not the case that transaction volume and gross profit are fully interlinked. Therefore, the gross margin and rent ratio haven't decreased. It's due to gross profit mix factors, such as the absence of rent revenue from tenants who have moved out.

Q. Do events and tenants that don't sell have lower gross margins than conventional retail tenants? I'm concerned that if the proportion of such tenants grows significantly, gross profit will necessarily decrease. What are your thoughts on that? I should add that I don't think it's a problem for the Group overall, however, since stores that don't sell and eventful stores boost customer traffic and also contribute significantly to FinTech through the acquisition of high-lifetime-value cardholders.

A. Revenue from stores that don't sell was 10% higher than revenue from conventional stores in the second half of last year as well as in the first half of this year, so there's no need for such concerns.

Q. As with the first quarter, second-quarter growth of service revenue, including rent guarantee revenue, seems a little slow compared with full-year targets. Could you tell me how much progress has been made toward achieving the rent guarantee business's full-year targets such as new business partner negotiations and acquisitions and tenant rent guarantee enhancements.

A. Firstly, when formulating our forecast for rent guarantee revenue for this fiscal year, our forecast was quite aggressive due to the assumption that restrictions on activities would be lifted, leading to a further increase in customers changing residences. While card credit transaction volume is steadily growing due to increased opportunities for outings, the number of customers changing residences is lower than anticipated, and it is revenue from that area that is growing slightly slower than forecast.

With regard to new business partner acquisition, the first-half rent guarantee business transaction volume continued to grow strongly at about 20%, and it's my understanding that it's continuing to grow steadily. Sales are slightly below target because the number of people changing residences has dropped slightly. I think we can expect about 500 office tenant rent guarantee contracts this fiscal year. We expect that to boost revenue by around ¥400 million.

Q. Hearing about the new services announced today such as BNPL and virtual credit cards gave me the impression that you're speeding up service launches. Is that a reaction to the rapid changes in the external environment, or is it a result of your investment in personnel? Could you provide some background on why service launches are being speed up?

A. Although we briefed you on three new services today, we introduced BNPL as an extended feature of EPOS Cards on IR Day in December last year. We subsequently worked on finalizing specifications and will be launching the service in December. There are other companies that have already launched virtual credit cards so our launch is a little late, but I think the introduction of the service has proceeded smoothly since the initial decision to launch it.

I've mentioned this before, but within MARUI GROUP there is a system development company called M&C. I believe that our system development speed is one of the major strengths of our FinTech segment. I think that's why we were able to launch the virtual credit card service so quickly.

As I explained earlier, Owner Cards are to be launched on a trial basis, and we'll be deliberating on a variety of aspects while preparing for a proper launch next year.

Q. I believe that system development company has been in the group for some time, so has there an intentional push recently to launch services in rapid succession?

A. Progress is rapid in the FinTech field. Diverse new technologies keep emerging and it's not our intention to simply imitate them. Rather, considering factors such as the meaningfulness in our adopting them and whether they would enable us to demonstrate MARUI GROUP's strengths and characteristics, is, I believe, an important point for us. We constantly monitor FinTech industry trends and consider optimal ways to launch new business.