MARUI GROUP Co., Ltd.
Financial Results Briefing for the Six Months Ended September 30, 2023
<Questions and Answers>

Q. Regarding the revision of FinTech's full-year plan, even in the first quarter, the company had expected some impact from the reduction of commission rates by some affiliates, among other factors. At that time, it was explained that the company would improve profits by taking various measures such as a review of its cash reward measures in the second half of the year, and I think the direction has not changed even now. What specific changes were made from the outlook as of the first quarter to the revised full-year forecast? Revenue has not changed much from the first quarter forecast, and costs appear to be higher than initially expected, but we would like to know what caused the revision to the forecast.

A. Regarding revisions to the outlook from the first quarter, on the revenue side, a sharp increase in prepaid card charge transactions led to a decline in affiliate commission rates and an increase in cash reward costs. While we work to cope with this situation, we expect transactions to decline from the second half onward due to the revision of the cash rewards program. In addition, actual transactions for the first half of the year were 115% year on year, 1% short of the initial forecast of 116% year on year. Based on the above, we have revised the annual transaction forecast by approximately ¥50 billion. As a result, our revenue slightly decreased from the outlook in the first quarter.

Next, on the expense side, while the planned cost reductions for the first quarter were underway, the outlook for cash reward costs and foreign currency-denominated costs has changed. Regarding cash reward costs, we did not factor in an increase in cash reward costs associated with an increase in the use of prepaid card charges for the first quarter. In addition, although we had initially considered foreign currency-denominated expenses to be a temporary impact, the exchange rate is still over ¥150 to the dollar, which forced us to revise up our expense forecast. As a result of these changes, we have revised our final annual operating income forecast by approximately ¥3 billion.

Q. I understand you did not expect to see anything related to prepaid card charges, but weren't there any signs at the end of the first quarter?

A. As described in the page on cash reward costs of the briefing material, while transactions had been gradually increasing since the second half of last year, our recognition was that the increase was not so remarkable as to require action. However, there was a sharp increase in the first half of this year, especially from the second quarter, so we responded based on the results of the first quarter. In the first quarter, there was some uncertainty about our response, and we had not factored in cash reward costs.

Q. I think the company assumes that the impact of lower commission rates by some affiliates will continue to some extent going forward. Is it correct to say that the continuing negative impact of ¥200 million on page 24 of the briefing material is also due to this impact, and that this portion alone will cause a decline in profit of ¥200 million over the next two to three years? Won't the same thing happen to other affiliates in the future?

A. As the terms for commission rates of large affiliates were changed, the impact will continue in the coming fiscal year and subsequent periods. The impact is described in the document. In the past 10 years, there have been no cases in which a change in the terms of a particular affiliate has caused a decline in the overall affiliate commission rates. As this is the first such case, we cannot say for certain that it will never happen again, but we recognize that it was a very unique case.
(Of the impact of the decline in affiliate commission rates of ¥800 million on page 24 of the briefing material, a negative impact of ¥600 million after excluding the temporary negative impact of ¥200 million will continue going forward.)

Q. In Retailing, I think the company is generally on track and doing well. I would like to know if there are any parts that are working particularly well and any you feel there is still room for growth.

A. One that is doing particularly well is revenue from fixed-term rental contracts. The growth in revenue from fixed-term rental contracts will serve as the engine for achieving our future profit target. In order to achieve our operating income target of ¥7 billion for the current fiscal year, we expect to increase revenue by ¥2 billion or more in revenue from fixed-term rental contracts. We have a sense of confidence that this is possible after seeing our performance for the first half of this year.
As for room for future growth, we feel there is significant room for growth not only in FinTech but also Retailing by means of strengthening the cards tailored to each individual's interests. This card will attract new customers to commercial facilities and increase store value as revenues increase,

including those from events, which will also lead to higher revenue from fixed-term rental contracts. For this reason, we believe that pursuing the strategy for cards tailored to each individual's interests reflects the room for growth in Retailing.

Q. I think it was mentioned that the increase in personnel was one of the reasons behind the stagnancy in productivity improvement in FinTech. With that in mind, I would like to know why productivity hasn't increased. In addition, please explain what specific measures will be taken to make improvements going forward.

A. Within the Group, FinTech has taken on the role of utilizing human resources for more productive work in the context of restructuring Retailing. However, with the need to secure work sites, we focused on expanding nationwide and strengthening our sales capabilities during the restructuring period for Retailing. The number of affiliated facilities with outside companies has increased to about 40, and we are securing human resources through workplace development. The Marui Group's human resources are well-versed in both Retailing and FinTech, and our strength is that we have a large number of employees who can immediately take on active roles. We were able to proceed in parallel with the restructuring of Retailing because we did not have to take into account becoming short of manpower as we expanded nationwide and strengthened our sales capabilities. The processing division has been promoting IT, but the shortage of human resources has become apparent due to the rapid increase in transactions. In order to cope with this situation, we assigned personnel in back office units and secured manpower. In terms of improving productivity in the future, we recognize that the ratio of employees is high. So, we would like to promote low cost operations at our external card center operations by switching from a unit run mainly by employees to one run mainly by local part-time workers. At the same time, we will strengthen our back office structure through promoting DX and not increasing headcount. We plan to increase productivity through taking these initiatives.

Q. While making progress under the medium-term management plan, the synergies among Retailing, FinTech, and Forward-Looking Investments for the future seem to be increasing. I would like to know what factors you feel are going well and any risks or points to be aware of in achieving your future plans.

A. One of the things that has worked well is the collaboration between Retailing and FinTech which has been bringing our whole group together in providing highly unique services. For example, the planning and issuance of cards tailored to each individual's interests may originally not have been the tasks to be engaged by Retailing or Forward-Looking Investments, but the voluntary initiatives taken by our employees have generated a great deal of excitement. I think this reflects the fact that the entire group is working together on a highly unique business that is hard to replicate by other firms.

On the other hand, there are many challenges. In particular, new competitors are emerging as the external environment changes. For example, e-commerce companies, telecommunications companies, and emerging FinTech companies are entering the market one after another. Thus, we need to monitor trends more closely and develop our own strategies that are unrivaled by others. Meanwhile, we regret that we are continuing to struggle with the new business. We have therefore changed our policy to ensure success by focusing on highly reliable businesses that are entrepreneurial-type businesses that take full advantage of our strengths and resources. Also, in terms of investments, we were on a series of trial and error processes over the first seven years of starting investments. Now that we can see issues, we plan to leverage what we have learned from our experiences to make more accurate investments.

Q. Is it correct to recognize that while there are changes in the external environment, among other factors, there will be no change to the targets for the final year of the medium-term management plan?

A. Basically, I think we will be able to achieve our goal, so please rest assured.

Q. On page 62 of the briefing material, the lowering of profit from the new business of ¥2 billion to ¥1 billion does not seem to be reflected.

A. The impact of the new business is included on page 36. In terms of the entire Group, there is a total profit impact of approximately ¥3 billion including the amount of profit contribution from the new business which was reduced to ¥1 billion and a negative ¥2 billion impact in FinTech. Page 62 illustrates how much recovery is possible. The negative impact is described on page 32, and the details of the recovery against such impact are described on page 62.

Q. While there is assurance that the direction of the medium-term management plan is firm and that the plan is progressing steadily, the company’s single-year earnings forecast has been revised down following the previous year's shortfall. Looking at the budget formulation for the past two years, because the direction of the medium-term management plan is firm, but the method of incorporating risk factors and preparing figures for the single fiscal year seems to be lax. If the expected plan is not reached in the next fiscal year, it will be the third consecutive fiscal year, and the achievement of targets under the medium-term management may be on the line. How do you measure the balance between the medium-term management plan and the single fiscal year plan in the budget preparation process?

A. As you say, we deeply regret that we were not able to adequately take extraordinary factors into consideration for the medium-term management plan. In addition, we were a little late in dealing with extraordinary factors, and unfortunately we had to revise our plan for this fiscal year. Yet in the course of the analysis, we found that it was possible to cover the lack to some extent. Thus, from next time, we will detect these extraordinary factors a little earlier and take countermeasures.

Q. As an example of the above, the company had conventionally implemented liquidation of receivables and recorded profit only in the second quarter, and this is the first I heard that profit will be leveled out over the year from this fiscal year. We would like this type of information to be disclosed earlier in the fiscal year.

A. We knew it would be inefficient to implement liquidation of receivables once a year, because it is most efficient to appropriate the funds obtained through securitization to new loans. However, until this fiscal year, the profit earned in the second quarter was substantial every time, so we took that into consideration. In the first quarter of this fiscal year, we liquidated cash advance receivables and found that they were very good in terms of capital efficiency, so we decided to level profit out for the year at that time. We are sorry that advance notification could not be made. We have decided to level out profit earned throughout the year from this fiscal year from the perspective of increasing capital efficiency.

Q. I have an impression that FinTech's profits have not grown much in the last two years. While I think profit will grow for your company, it may be difficult to achieve the kind of growth conventionally aimed at. Is there such awareness not only in the company but also across the industry?

A. Last year, we experienced record-high issuance of new cards, and card issuance cost increased. In addition, our expectation for the post-pandemic recovery of rent guarantee business was too eager. We realize that this was a completely incorrect speculation and caused you a lot of disappointment last year. This year too, I think there is a possibility that some unplanned temporary factors may be causing doubts to arise that the profitability of FinTech itself is declining. However, as explained in quantitative details, our basic earnings structure has not changed, and the decline in earnings for the period under review is due to temporary factors. For this reason, we are maintaining the same earnings structure to continue to increase profits by ¥3 billion or more each fiscal year, and we will further strengthen the earnings structure by promoting new initiatives and cards tailored to each individual's interests. We sincerely regret on having had to revise the plan, but would seek your understanding that the earnings structure has not changed.

Q. It seems that compared to the past, it has become difficult for the industry as a whole to make excess profits because three or four extraordinary factors tend to overlap.

A. The concern about the earnings structure that it has become more difficult to secure profit in FinTech is actually the issue that we're most concerned about, and we are conducting a detailed analysis. We agree with your points and concerns. For example, we regret that we could not notice sooner that the surge in prepaid card charges would have an impact not only on the increase in cash reward costs but also on the decrease in transaction fees. As transactions exceed ¥4 trillion and as we aim to reach ¥5 or ¥6 trillion in the future, even a change of 0.1% will make a big difference in the amount of money. Therefore, we feel we need to respond carefully. On the other hand, as a result of a very detailed examination, we found no structural change in the basic earnings structure, and we have decided to take this opportunity to implement our original strategy ahead of schedule for the cards tailored to each individual's interests. We believe there are still opportunities. There are also points that we look forward to in terms of the earnings structure, and we will continue to provide explanations along with our operating results.