

# **Financial Results Briefing for the Fiscal Year Ended March 31, 2018, and Future Outlook**

MARUI GROUP CO., LTD.

May 10, 2018

## **1. Overview of Performance in the Fiscal Year Ended March 31, 2018, and Forecasts for the Fiscal Year Ending March 31, 2019**

**Hirotsugu Kato**  
Director and Senior Executive Officer,  
General Manager, IR Department, MARUI GROUP CO., LTD.

## **2. Progress of Medium-Term Management Plan**

**Hiroshi Aoi**  
President and Representative Director,  
Representative Executive Officer, MARUI GROUP CO., LTD.

## **3. Directives for the Future**

**Hiroshi Aoi**  
President and Representative Director,  
Representative Executive Officer, MARUI GROUP CO., LTD.

1

**Overview of Performance in the Fiscal Year Ended March 31, 2018, and Forecasts for the Fiscal Year Ending March 31, 2019**  
Hirotsugu Kato, Director and Senior Executive Officer,  
General Manager, IR Department, MARUI GROUP CO., LTD.

- 1. EPS reaches ¥93.2, ROE reaches 7.6%, and ROIC reaches 3.2%, with targets achieved for all three indicators**
- 2. Revenue of ¥239.0 billion (up 1% YoY) and operating income of ¥35.2 billion (up 13% YoY)**
- 3. Annual dividend payments of ¥38 per share (up ¥5 YoY) issued, making for sixth consecutive year of higher dividends**
- 4. ROIC once again exceeds WACC due to profit growth and financial strategies and EVA spread improves**

- EPS shows massive 16% increase, ROE and ROIC achieve targets
- 9th consecutive year of higher operating income and 7th consecutive year of higher net income

	FY2016	FY2017	FY2018	YoY change	YoY difference	vs. target
EPS (yen)	70.7	80.2	<b>93.2</b>	+16	+12.9	+1.6
ROE (%)	6.0	6.7	<b>7.6</b>	–	+0.9	±0.0
ROIC (%)	3.3	3.1	<b>3.2</b>	–	+0.1	+0.1

	Billions of yen	Billions of yen	Billions of yen	%	Billions of yen	Billions of yen
Total Group transactions	1,703.4	1,933.7	<b>2,189.4</b>	+13	+255.7	-14.6
Revenue	245.9	237.0	<b>239.0</b>	+1	+2.0	-6.5
Gross profit [Gross profit margin (%)]	160.0 [65.1]	166.0 [70.0]	<b>174.4</b> [73.0]	+5 [–]	+8.4 [+3.0]	-2.6 [+0.9]
SG&A expenses	130.4	134.7	<b>139.2</b>	+3	+4.5	-2.8
Operating income	29.6	31.3	<b>35.2</b> (35.5*)	+13 (+14*)	+4.0 (+4.3*)	+0.2
Ordinary income	29.2	31.1	<b>35.1</b>	+13	+4.0	+0.2
Net income	17.8	18.7	<b>20.9</b>	+12	+2.2	+0.4

\* Prior to payment of performance-linked bonuses

# Segment Income

- Retailing income up 14% YoY, achieving target
- FinTech income up for 6th consecutive year due to strong growth in card shopping transactions

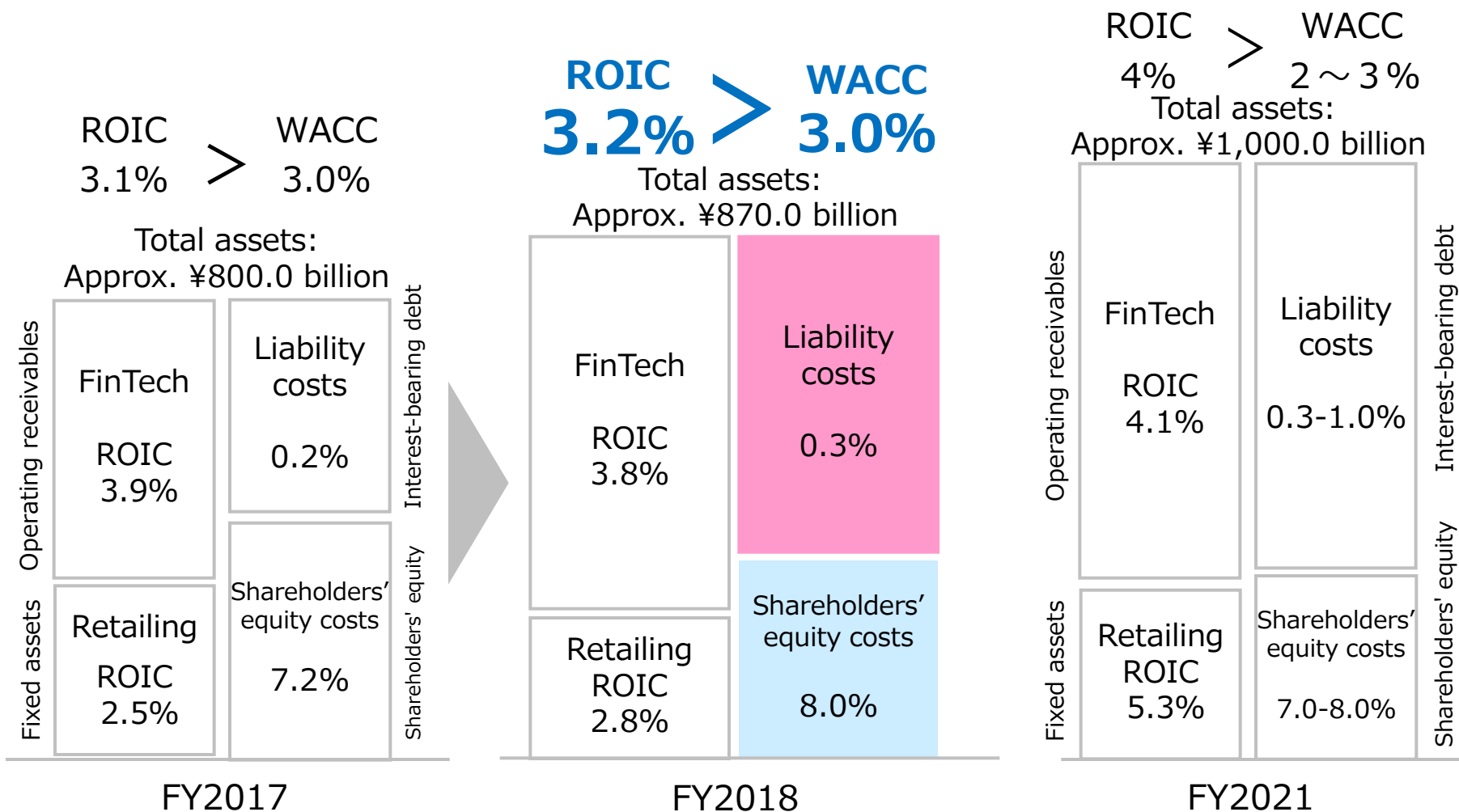
	FY2016	FY2017	FY2018	YoY change	YoY difference	vs. target
				%	Billions of yen	Billions of yen
Retailing	10.7	7.8	<b>8.8</b>	+14	+1.1	±0
FinTech	23.1	27.1	<b>30.3</b>	+12	+3.2	+0.2
Eliminations/ Corporate	(4.1)	(3.6)	<b>(3.9)</b>	+8	-0.3	±0
Consolidated	29.6	31.3	<b>35.2</b>	+13	+4.0	+0.2

# Consolidated Balance Sheets

- Operating receivables up ¥59.3 billion YoY due to increase in card shopping transactions
- Interest-bearing debt up ¥51.0 billion YoY, ratio of interest-bearing debt to operating receivables unchanged YoY at 89%

	March 31, 2016	March 31, 2017	March 31, 2018	Difference
	Billions of yen	Billions of yen	Billions of yen	Billions of yen
Operating receivables	413.9	488.8	<b>548.0</b>	+59.3
Installment sales accounts receivable	279.8	348.2	<b>402.0</b>	+53.8
[Including factoring accounts receivable]	[68.9]	[64.3]	<b>[72.8]</b>	[+8.5]
Operating loans	134.1	140.6	<b>146.0</b>	+5.4
Fixed assets	244.1	247.8	<b>237.2</b>	-10.6
Interest-bearing debt	359.3	434.3	<b>485.3</b>	+51.0
[% of operating receivables (%)]	[86.8]	[88.9]	<b>[88.6]</b>	[-0.3ppt]
Shareholders' equity	281.6	273.9	<b>274.4</b>	+0.6
[Equity ratio (%)]	[38.6]	[34.0]	<b>[31.6]</b>	[-2.4ppts]
Total assets	730.1	806.6	<b>867.2</b>	+60.6

- ROIC once again exceeds WACC due to profit growth and financial strategies; EVA spread improves





- Core operating cash flow (operating cash flow excluding change in operating receivables) up ¥7.7 billion

		FY2017	FY2018	YoY difference
		Billions of yen	Billions of yen	Billions of yen
	Net cash provided by (used in) operating activities	(46.0)	<b>(19.3)</b>	+26.6
	Increase in operating receivables	(74.1)	<b>(55.2)</b>	+19.0
	Core operating cash flow	28.2	<b>35.9</b>	+7.7
	Capital investments	(18.1)	<b>(9.6)</b>	+8.5
	Gains on sales of fixed assets	14.6	<b>1.3</b>	-13.3
	Redemption of guarantees	5.4	<b>9.0</b>	+3.6
	Net cash provided (used in) by investing activities	2.0	<b>0.7</b>	-1.2
	Increase in interest-bearing debt	74.9	<b>50.9</b>	-24.0
	Cash dividends paid	(6.4)	<b>(8.0)</b>	-1.6
	Purchase of treasury stock, etc.	(20.9)	<b>(15.2)</b>	+5.7
	Net cash provided by financing activities	47.6	<b>27.8</b>	-19.9
	Cash and cash equivalents at end of period	36.2	<b>45.4</b>	+9.2

# Full-Year Forecasts for FY2019

- EPS to reach record high of ¥109.8 (up 18%)

	FY2018			FY2019	YoY change	YoY difference
		Prior to accounting changes	Impact of accounting changes*			
EPS (yen)	93.2	–	–	<b>109.8</b>	+18	+16.6
ROE (%)	7.6	–	–	<b>8.6</b>	–	+1.0
ROIC (%)	3.2	–	–	<b>3.6</b>	–	+0.4

	Billions of yen	Billions of yen	Billions of yen	Billions of yen	%	Billions of yen
Total Group transactions	2,189.4	2,500.0	–	<b>2,500.0</b>	+14	+310.6
Revenue	239.0	247.5	+1.5	<b>249.0</b>	+4	+10.0
Gross profit	174.4	184.5	+1.5	<b>186.0</b>	+7	+11.6
[Gross profit margin (%)]	[73.0]	[74.5]		<b>[74.7]</b>	[–]	[+1.7ppts]
SG&A expenses	139.2	144.5	+1.5	<b>146.0</b>	+5	+6.8
Operating income	35.2	40.0	±0	<b>40.0</b>	+14	+4.8
[Operating income margin (%)]	[14.7]	[16.2]		<b>[16.1]</b>	[–]	[+1.4ppts]
Net income	20.9	23.7	+0.3	<b>24.0</b>	+15	+3.1

\* Impact of accounting changes:

Increases of ¥1.5 billion in revenue and gross profit and ¥0.3 billion in SG&A expenses and decrease of ¥1.2 billion in non-operating income due to change in display method for gain on bad debts recovered

Increase of ¥1.2 billion in SG&A expenses and decrease of ¥1.5 billion in tax expenses due to adoption of size-based business tax at Epos Card Co., Ltd.

# Segment Income Forecasts for FY2019

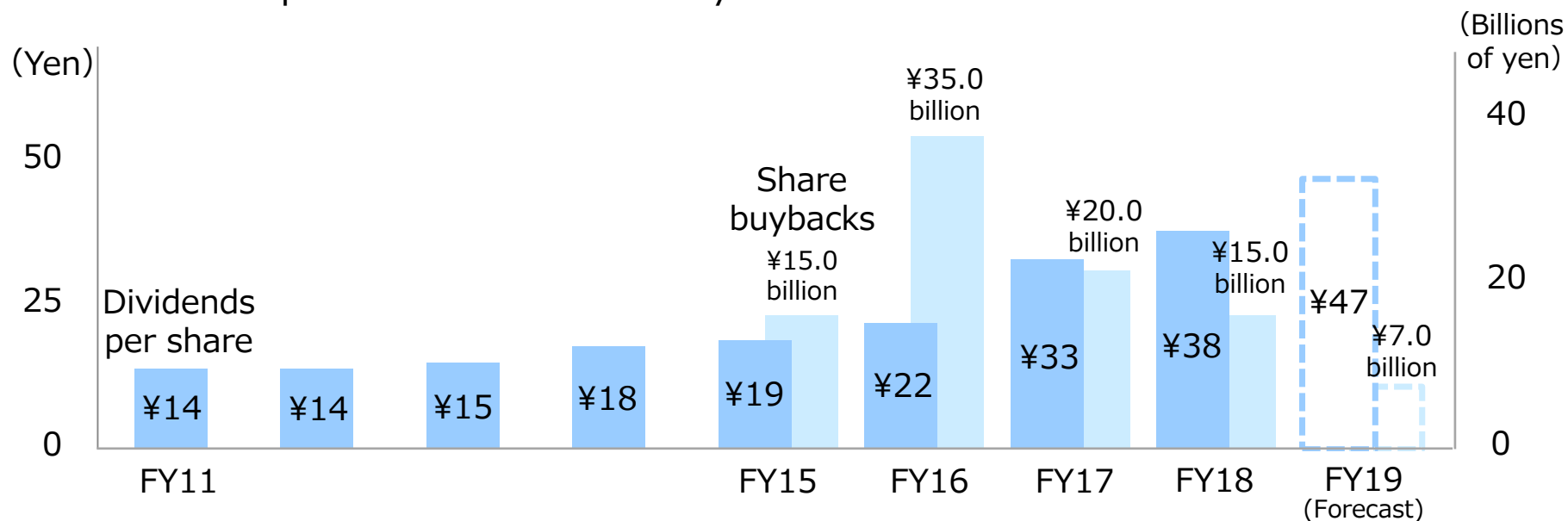
- Retailing income to increase 25% YoY, to ¥11.0 billion
- FinTech income to increase 11% YoY, to ¥33.5 billion

	FY2018	FY2019		
			YoY change	YoY difference
	Billions of yen	Billions of yen	%	Billions of yen
Retailing	8.8	<b>11.0</b>	+25	+2.2
FinTech	30.3	<b>33.5</b>	+11	+3.2
Eliminations/ Corporate	(3.9)	<b>(4.5)</b>	—	-0.6
Consolidated	35.2	<b>40.0</b>	+14	+4.8

# Shareholder Returns

- FY2018 dividends up ¥5, to ¥38 per share, 6th consecutive year of higher dividends
- Record-breaking dividends of ¥47 per share and share buybacks of ¥7.0 billion projected for FY2019

## ■ Dividends per Share and Share Buybacks



[Payout ratio] —————→ More than 30% —————→ More than 40%

[Total return ratio]	73%	31%	32%	125%	227%	148%	112%	72% (Forecast)
[EPS]				¥58.9	¥ 70.7	¥ 80.2	¥ 93.2	¥ 109.8 (Forecast)

2

## **Progress of Medium-Term Management Plan**

**Hiroshi Aoi**

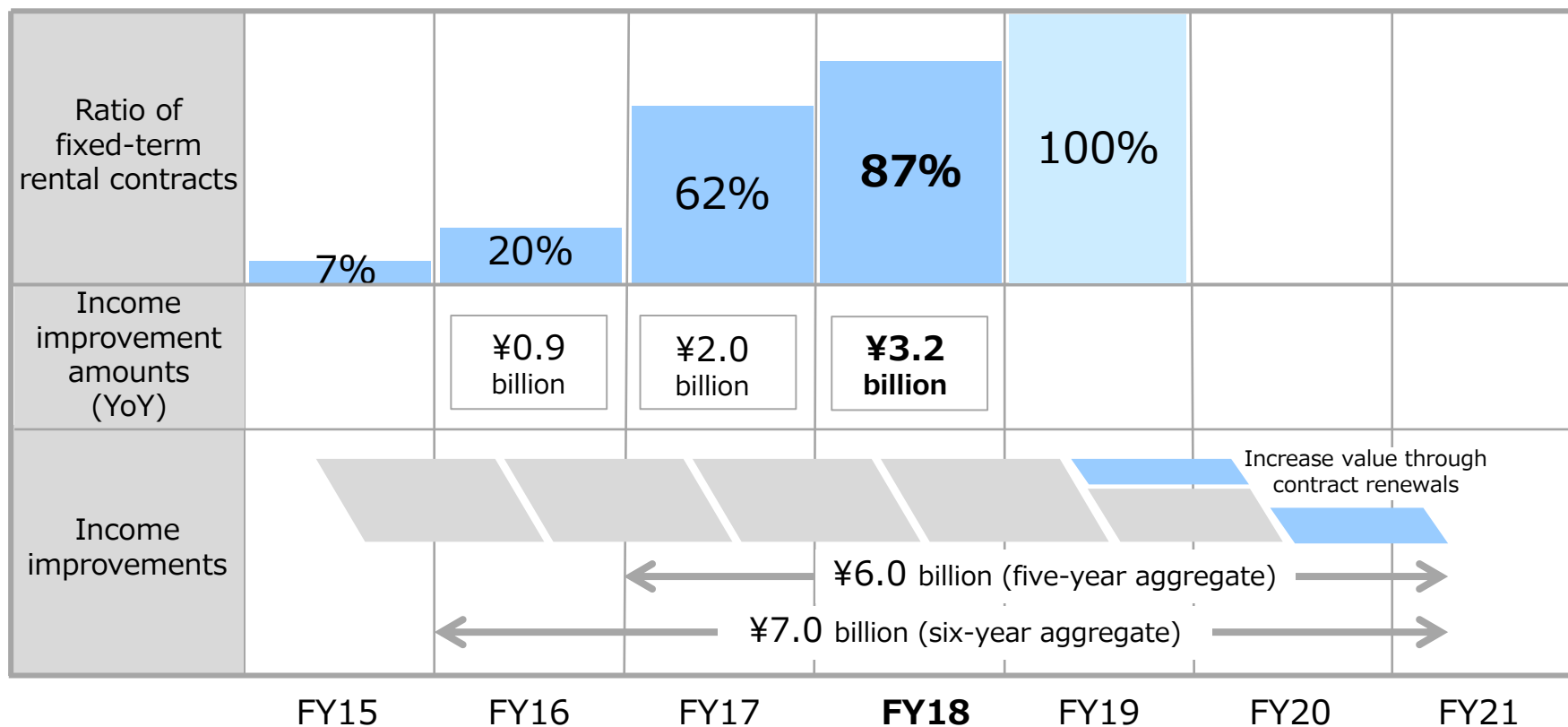
**President and Representative Director,**

**Representative Executive Officer, MARUI GROUP CO., LTD.**

- 1. Transition to Shopping Centers and Fixed-Term Rental Contracts**
- 2. E-Commerce Operations**
- 3. Directly Operated Sales Floors and Private Brands (Specialty Stores)**
- 4. EPOS Cards**
- 5. Service Revenues**
- 6. ESG Topics**

- Steady progress in transition to shopping centers and fixed-term rental contracts leads to ratio of fixed-term rental contracts of 87% in FY2018
- Income improvements of ¥3.2 billion in FY2018 (¥0.5 billion higher than forecast)

■ Plan for and Increases in Ratio of Fixed-Term Rental Contracts and Income Improvements (As of end of each fiscal year)

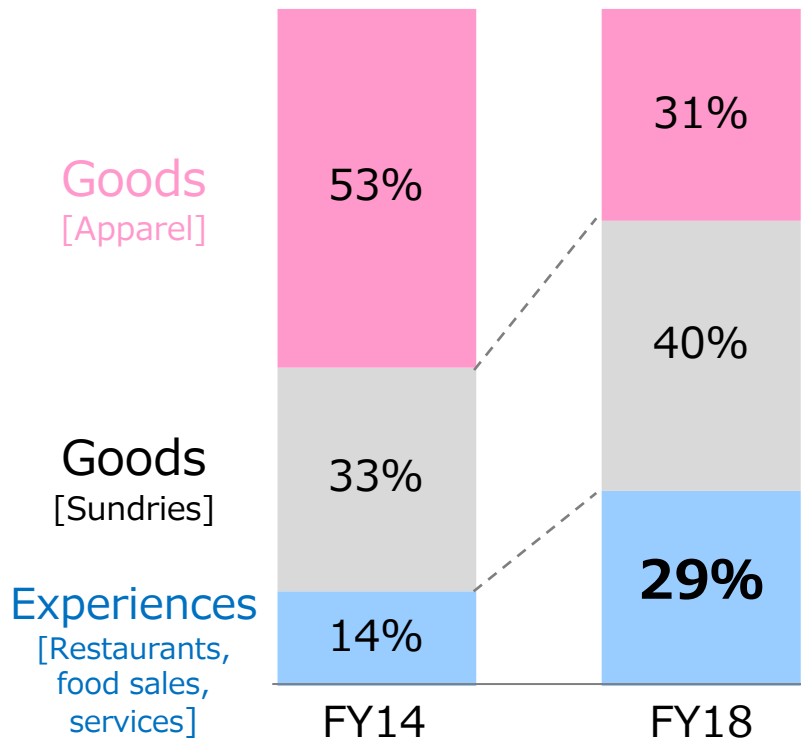


Note: Ratio of fixed-term rental contracts = Fixed-term rental contracted floor space ÷ Total floor space capable of being contracted as fixed-term rental (200,000 m<sup>2</sup>)

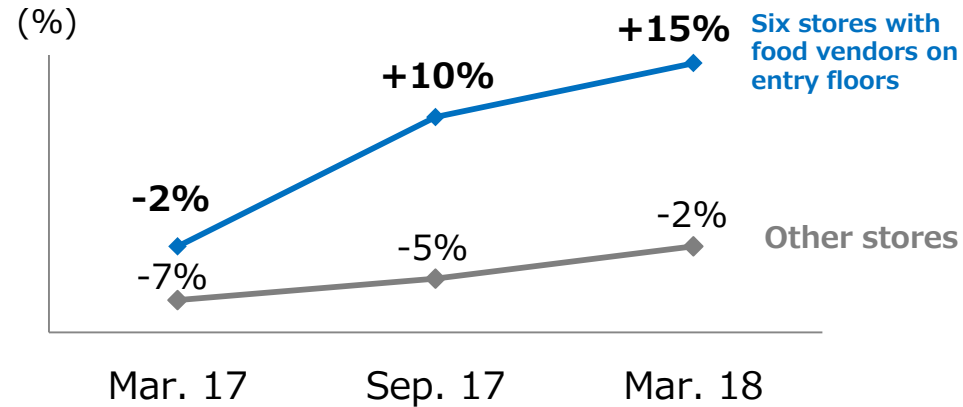
# Changes in Product Category Balance Due to Transition to Shopping Centers and Fixed-Term Rental Contracts

- Ratio of restaurants, food sales, and services up to roughly 30% following the transition to shopping centers and fixed-term rental contracts
- Growth in customer numbers and transaction volumes as a result of introducing food vendors on entry floors

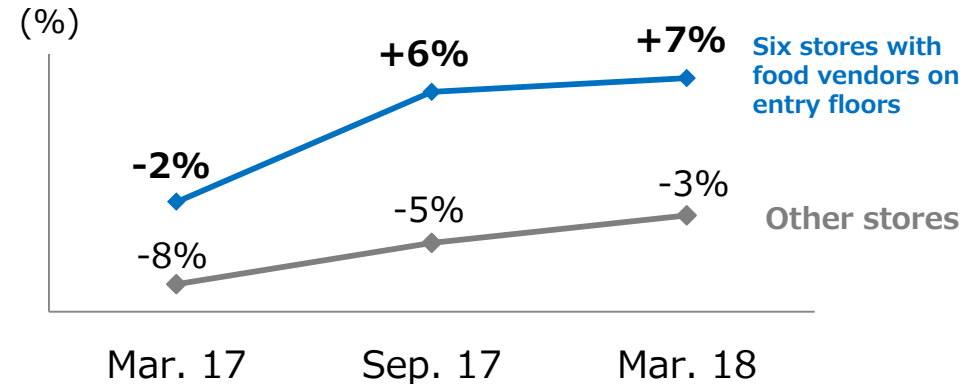
■ Product Category Balance Goods



■ YoY Changes in Number of Purchases



■ YoY Changes in Transaction Volumes

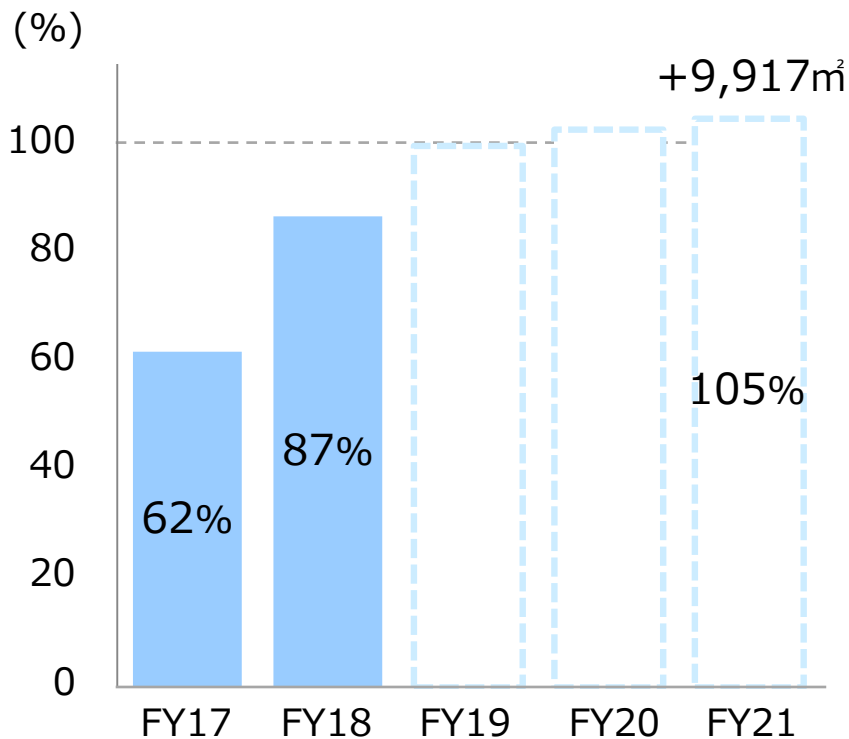




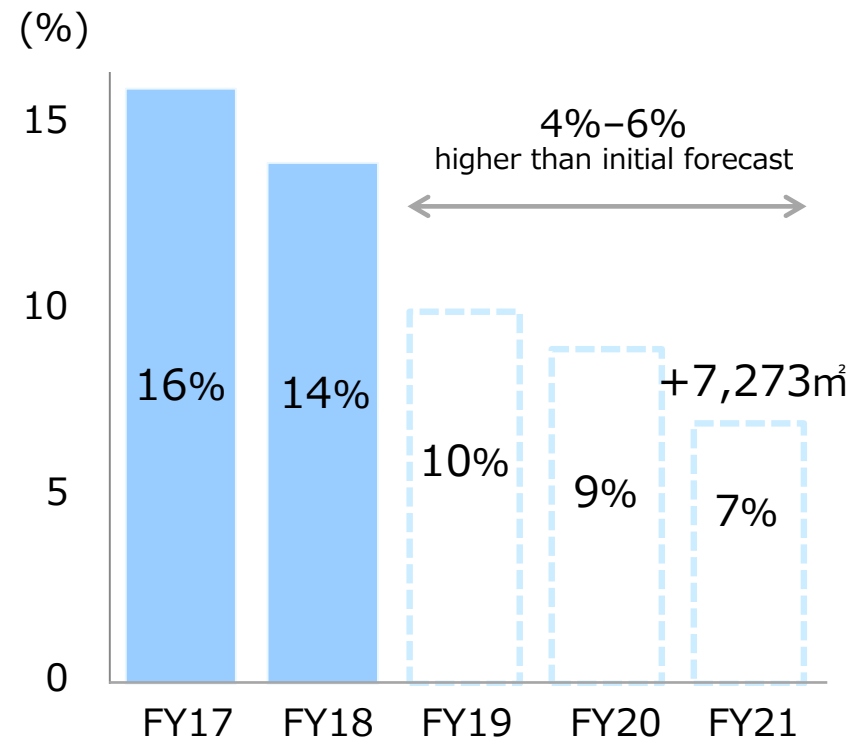
# Future Outlook for Transition to Shopping Centers and Fixed-Term Rental Contracts

- Ongoing transition to fixed-term rental contracts even after achievement of target ratio due to increase in applicable stores
- Idle floor space to increase due to start of tenant replacement following contract expirations in FY2020 and contract cancellations

■ Forecasts for Ratio of Fixed-Term Rental Contracts (vs. initial forecast)

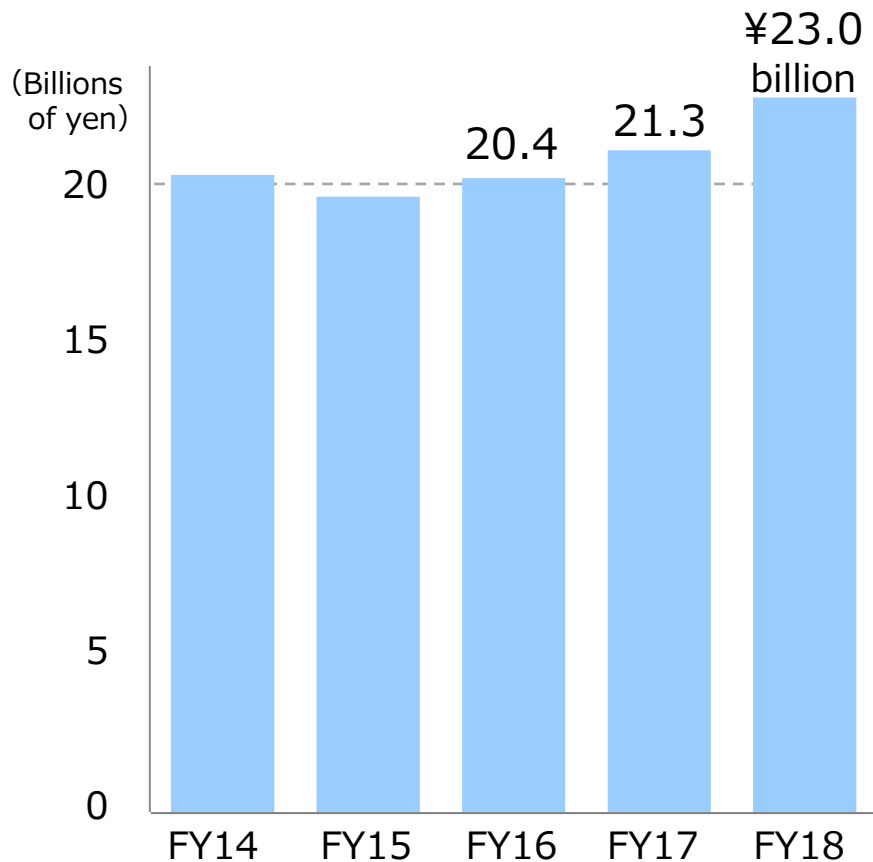


■ Portion of Floor Space That Is Inactive



- Total e-commerce transactions of ¥23.0 billion in FY2018 (up 13% from FY2016) due to growth from FY2016 achieved by strengthening e-commerce operations through coordination with business partners

## ■ Total E-Commerce Transactions



## ■ Initiatives for Expanding E-Commerce Operations

- Share inventory information with business partners to expand lineups of products not in Company warehouses

Number of products sold **Up 50%**

Transactions of applicable products **Up 50%**

- Collaborate with KDDI with regard to Internet sales site (Feb. 2017~)

Transactions in FY2018 **¥1.1 billion**

- Need to address distribution and sales systems and smartphone UI to grow e-commerce operations

## ■ Distribution and Sales Systems

- Lack of space and staff at distribution centers due to increase in stored items
- Increased workloads and delays resulting from system geared toward in-store and catalog sales



- Increase floor space at distribution centers
- Improve efficiency with robots
- Reinvent product management system

## ■ Smartphone UI

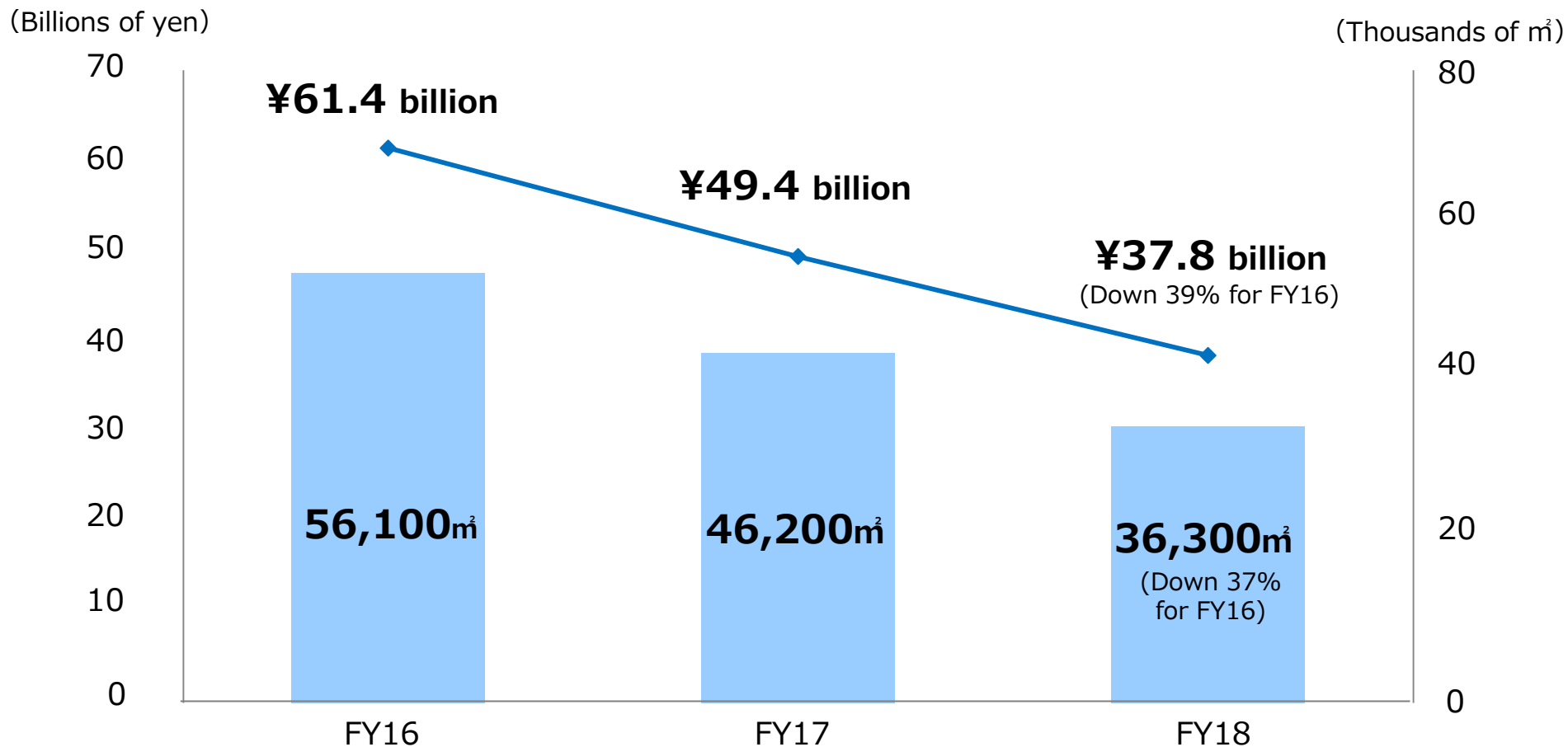
- Inability to stimulate sales through smartphones, despite spread, due to lack of ideal UI
- Complaints from customers regarding difficulty to view and slow display speeds



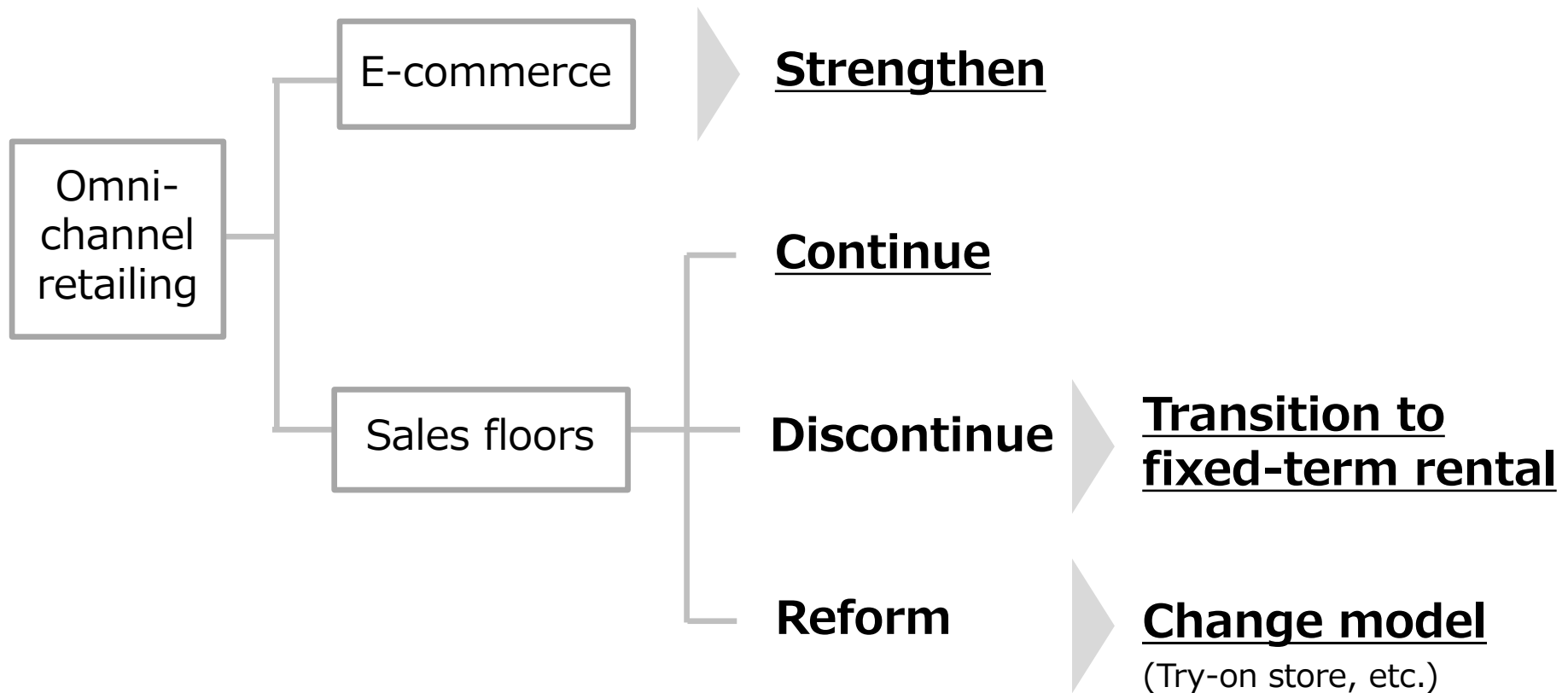
- Improve UI through dedicated UI/UX division established in Oct. 2017
- Drastically revise UI through co-creation with customers

- Reduction in oversized sales floors through transition to shopping centers and fixed-term rental contracts but failure to improve efficiency

## ■ Sales and Area of Directly Operated Sales Floors and Private Brands (Specialty Stores)



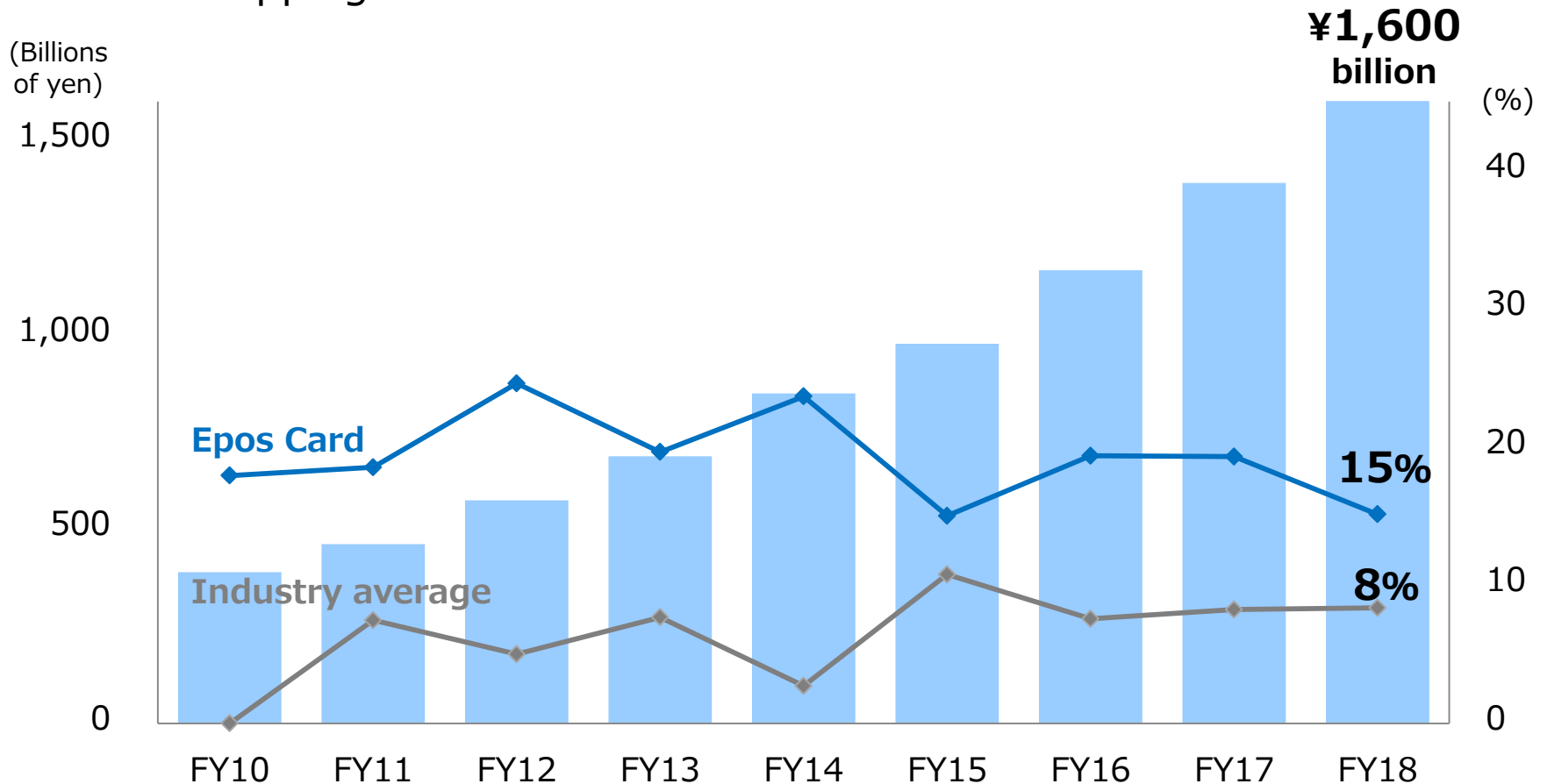
- Decision whether to continue or discontinue sales floors to be based on earnings by product category and new card application trends while strengthening e-commerce operations



# Card Shopping Transactions

- Card shopping transactions post growth exceeding industry averages to reach ¥1,600.0 billion (up 15% YoY)

## ■ Card Shopping Transactions and Growth Rates

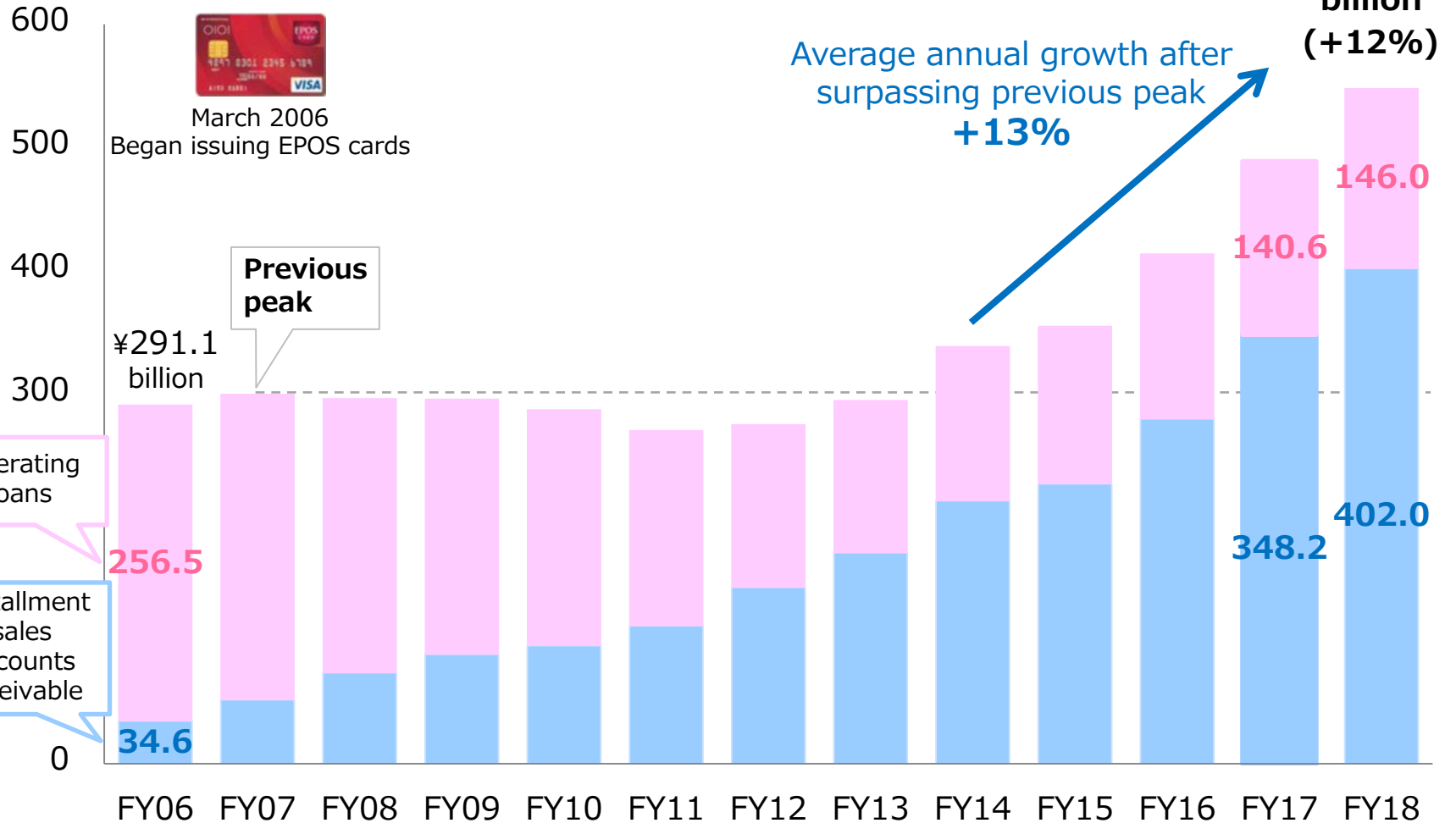


# Operating Receivables

- Operating receivables rise to ¥548.0 billion, growing for 7th consecutive year

## Operating Receivables

(Billions of yen)

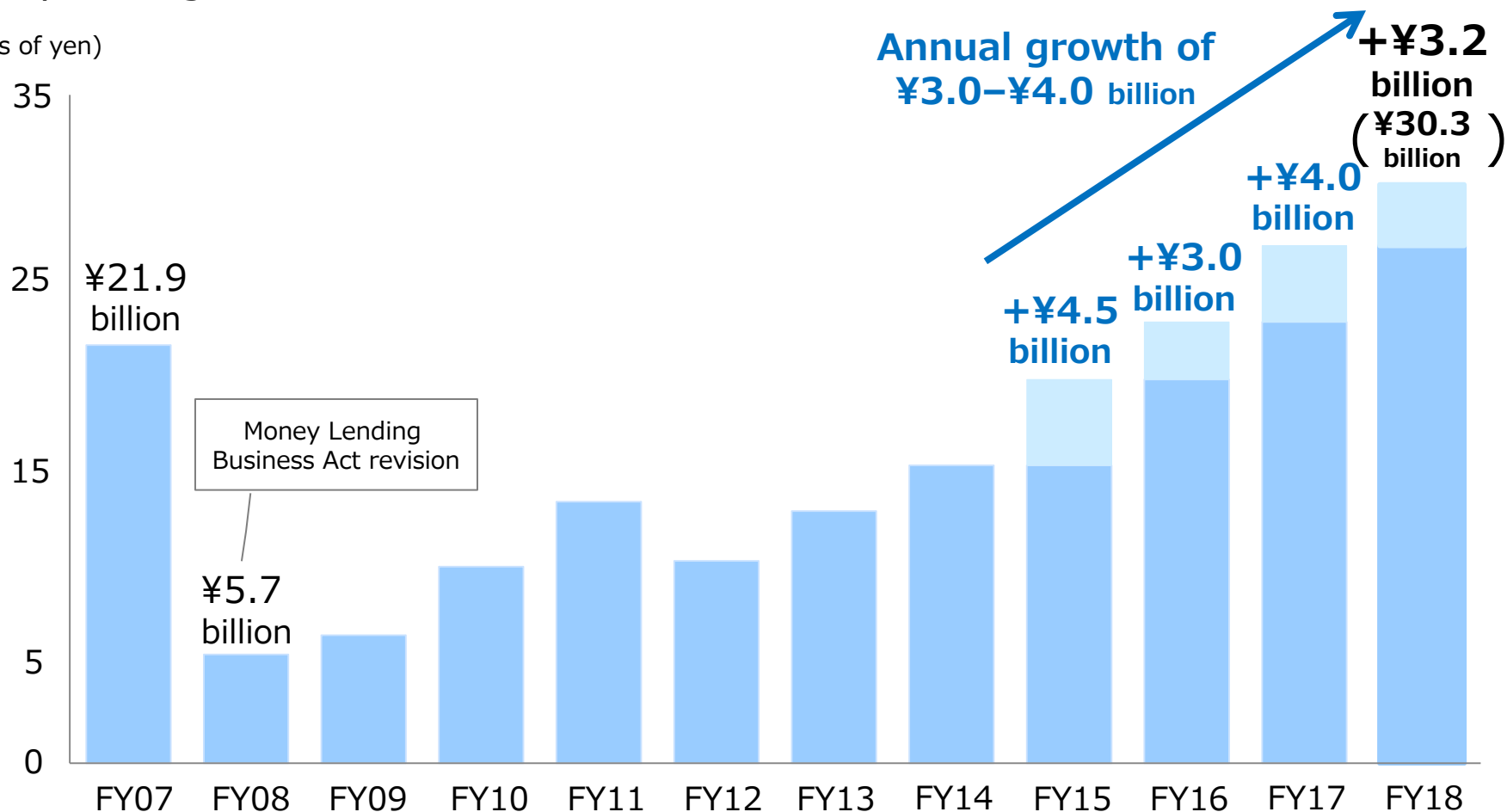


# FinTech Segment Operating Income

- Annual growth of ¥3.0–¥4.0 billion in FinTech segment operating income over past four years; operating income of ¥30.3 billion in FY2018 (up ¥3.2 billion YoY)

## ■ Operating Income

(Billions of yen)



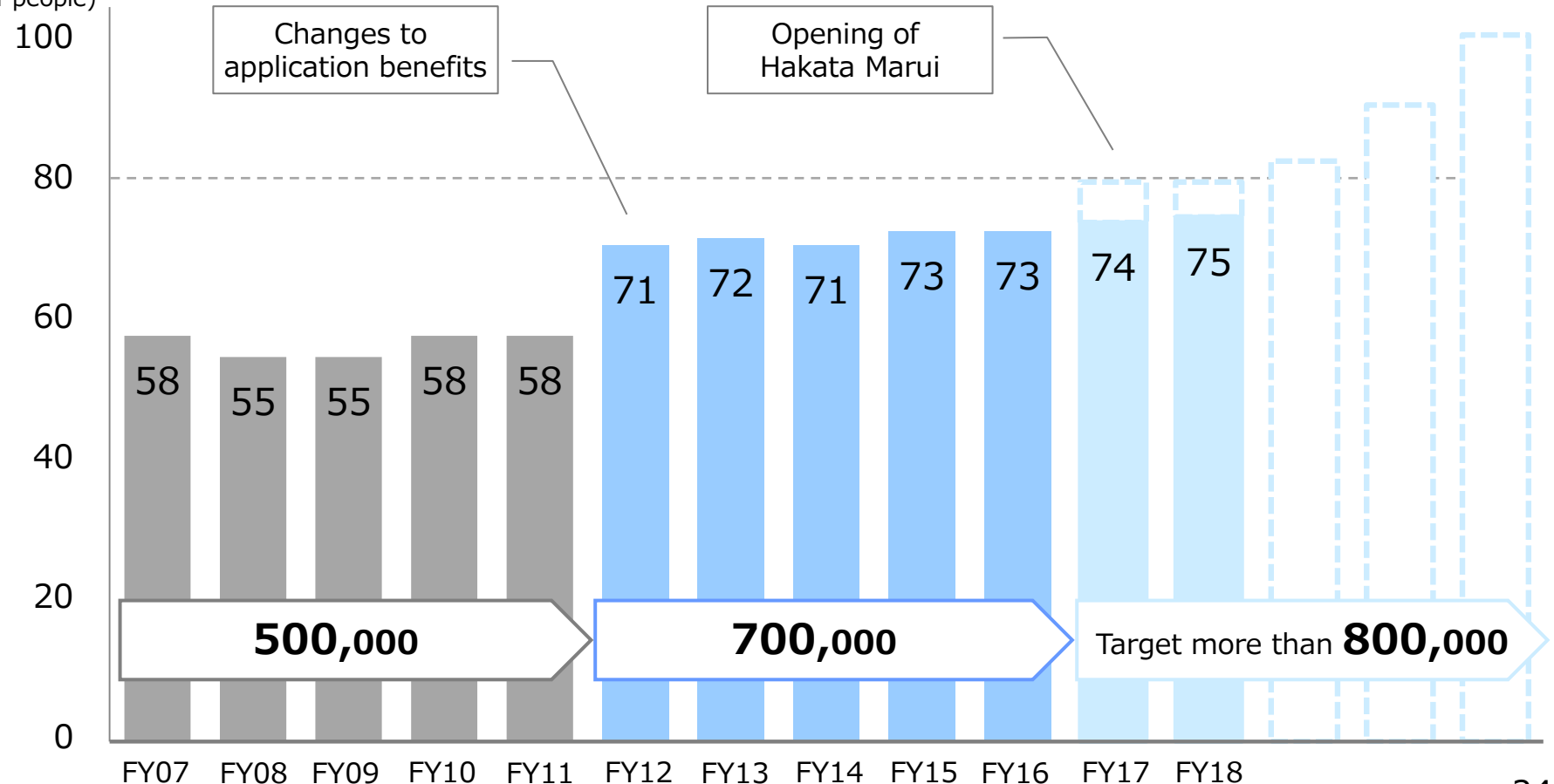


# Failure to Meet New Card Application Targets

- Despite anticipated influx of more than 800,000 new applicants projected in conjunction with opening of Hakata Marui, failure to meet new card application targets for two consecutive years

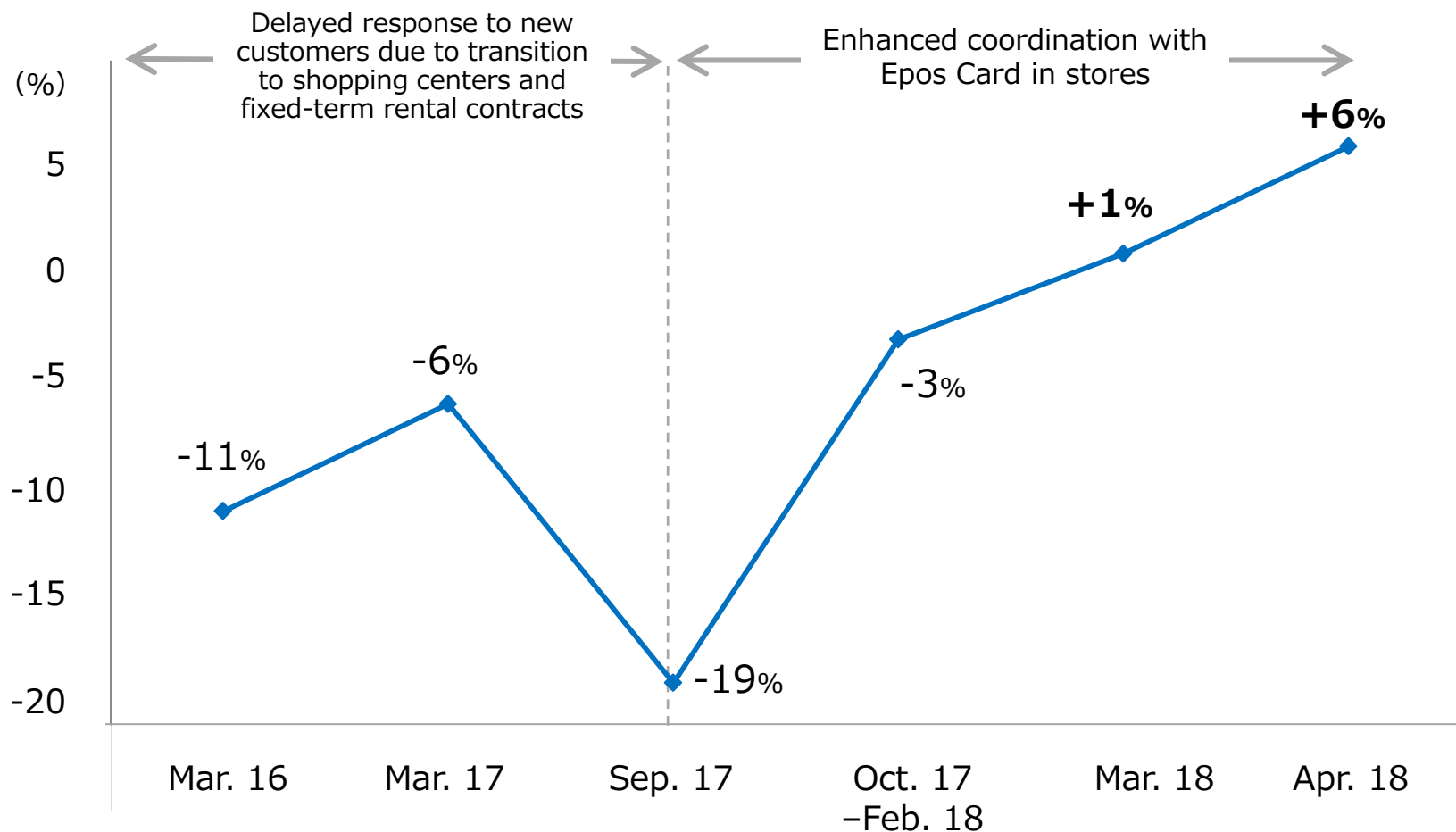
## ■ New Card Applicants

(Ten thousands of people)



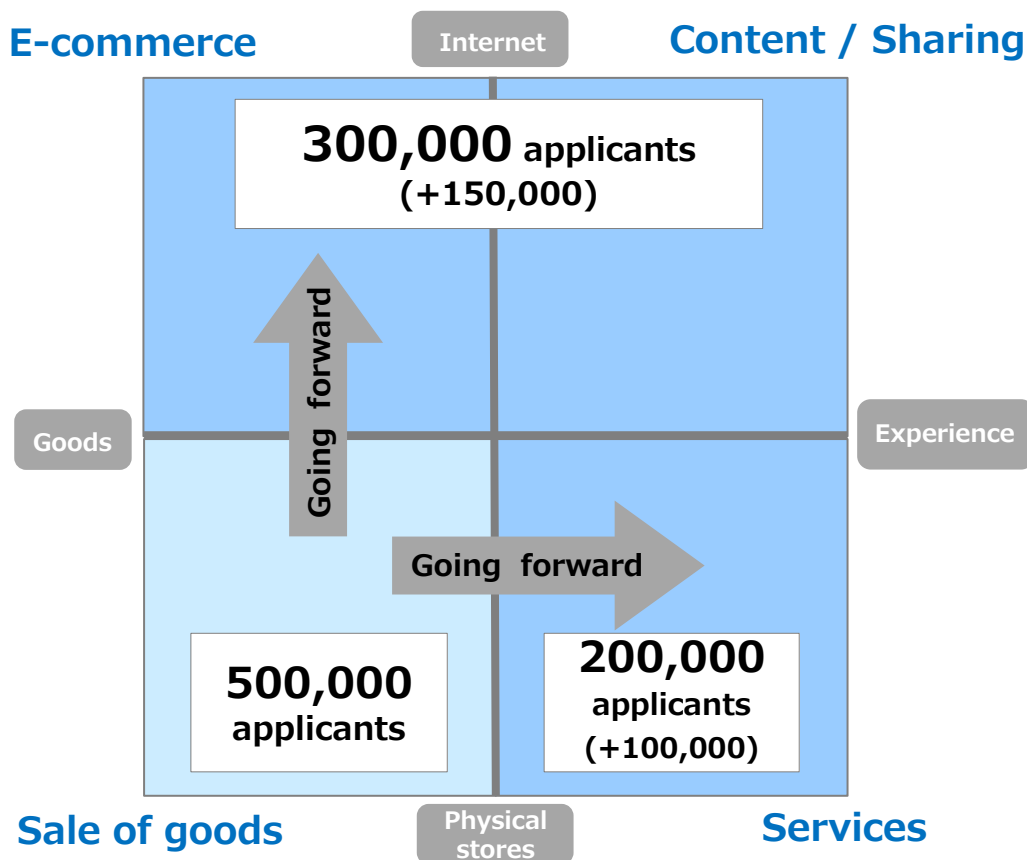
- Steady recovery in application numbers due to store initiatives, YoY increases in March and April 2018

## ■ YoY Changes in New Cards Issued at Stores



- Target 1 million new card applicants in FY2021 by collaborating with Internet and experience field companies as well as with goods and physical store collaboration partners that were previous focus

## ■ Directives for Future Collaboration

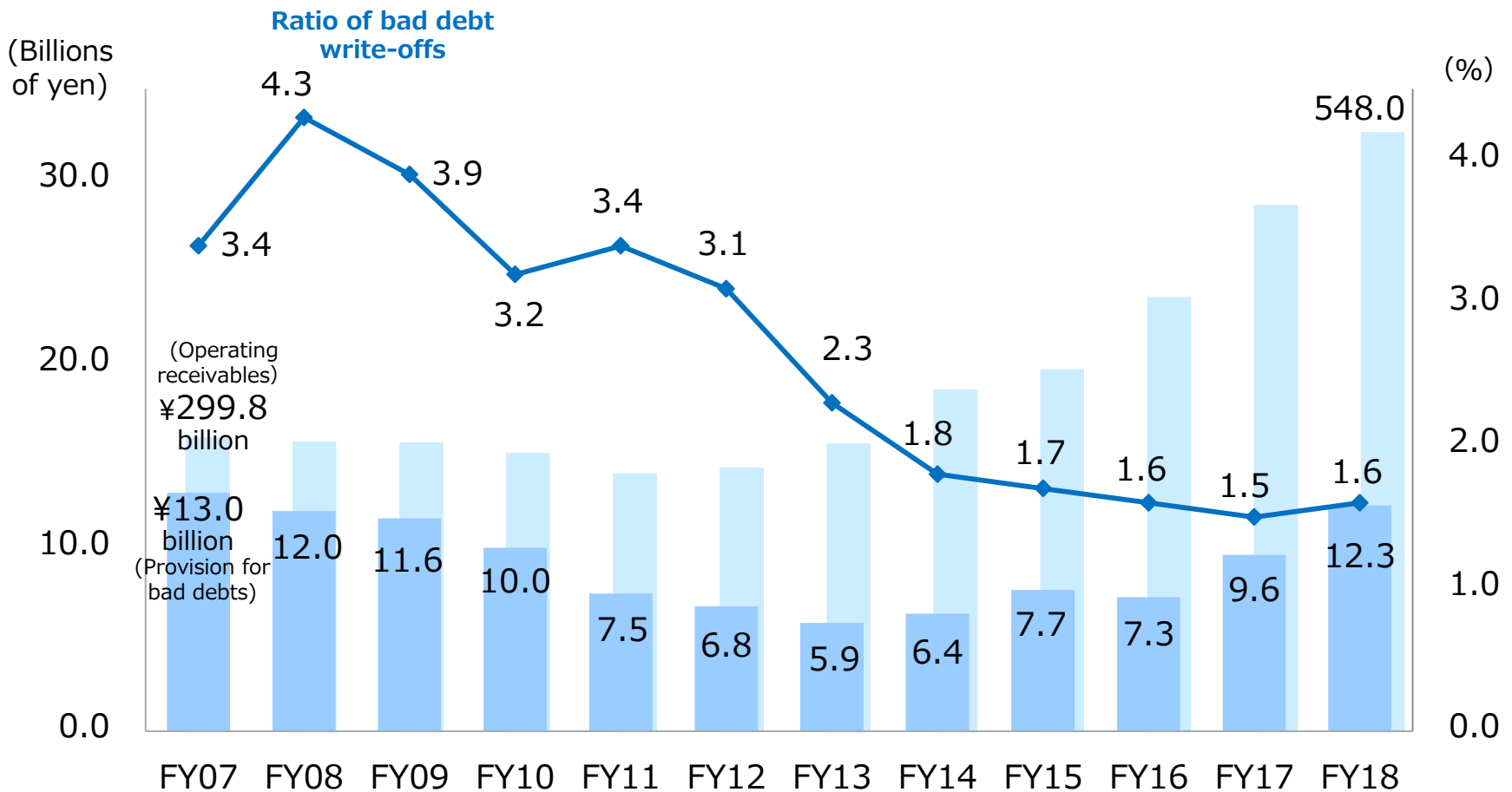


- Internet field  
Expand application channels through online shops utilizing payment services of Japan's largest payment proxy company **GMO Payment Gateway**
- Experience field  
Increase cardholders by collaborating with and utilizing nationwide network of directly operated stores of major rental housing brokerage and management company **ABLE**

# Provision for Bad Debts

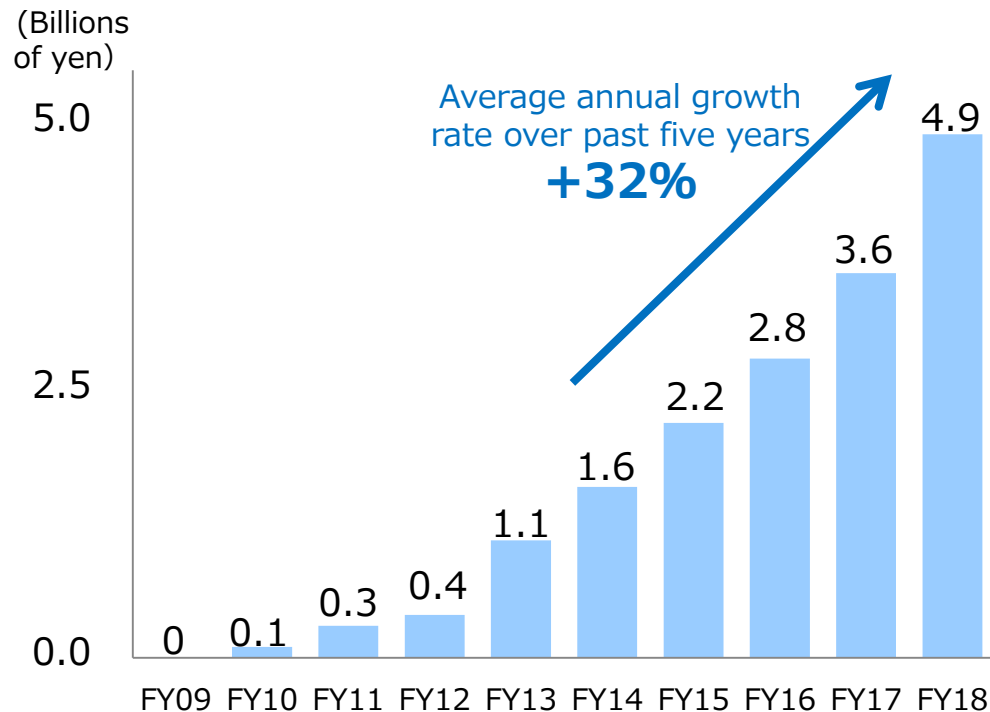
- Increases in provision for bad debts in conjunction with higher operating receivables, but stable ratio of bad debt write-offs of around 1%

## ■ Provision for Bad Debts and Ratio of Bad Debt Write-Offs



- Particularly rapid growth in rent guarantee services among service revenues, which can generate profits without increasing assets

## ■ Revenue from Rent Guarantee Services



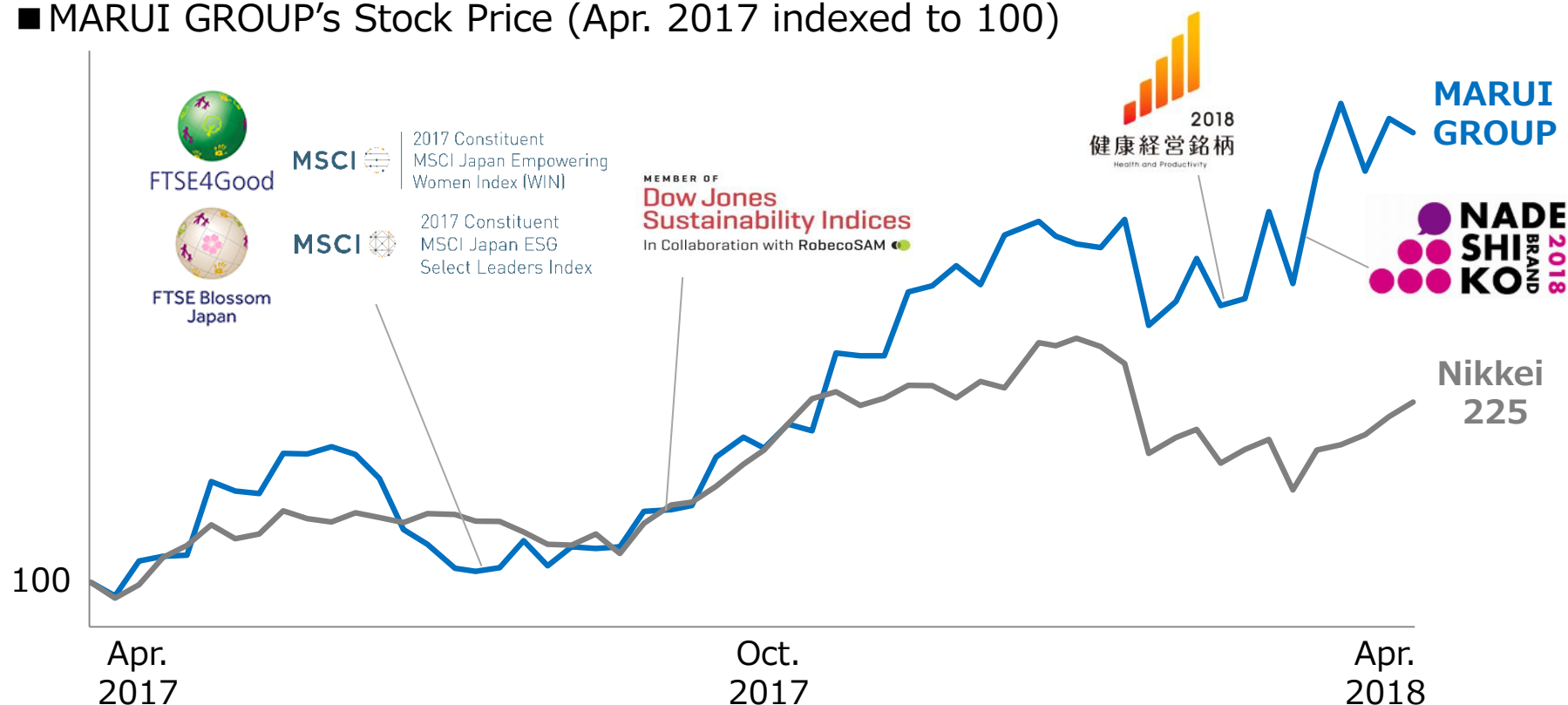
## ■ Conditions and Initiatives Pertaining to Rent Guarantee Services

- Benefits from 2020 Civil Code revision, but intensified competition
- Target revenue of ¥10.0 billion in FY2021 by accelerating growth through collaboration with **ABLE** and other major rental housing management companies

Promote other service operations alongside rent guarantee services

- Corporate value highly evaluated in recognition of MARUI GROUP as a forerunner in ESG management
- Need to establish long-term vision and KPIs to guide further improvements in corporate value

## ■ MARUI GROUP's Stock Price (Apr. 2017 indexed to 100)



Long-term vision and KPIs for long-term sustainability management to be presented at co-creation sustainability explanatory forum (MARUI IR DAY 2018), scheduled to be held in December 2018

3

**Directives for the Future—Incorporating investor feedback—**  
**Hiroshi Aoi**  
**President and Representative Director,**  
**Representative Executive Officer, MARUI GROUP CO., LTD.**

**(1) Progress in Growth Investments**

**(2) Financial Inclusion Initiatives**

**(3) Response to New Payment Methods**

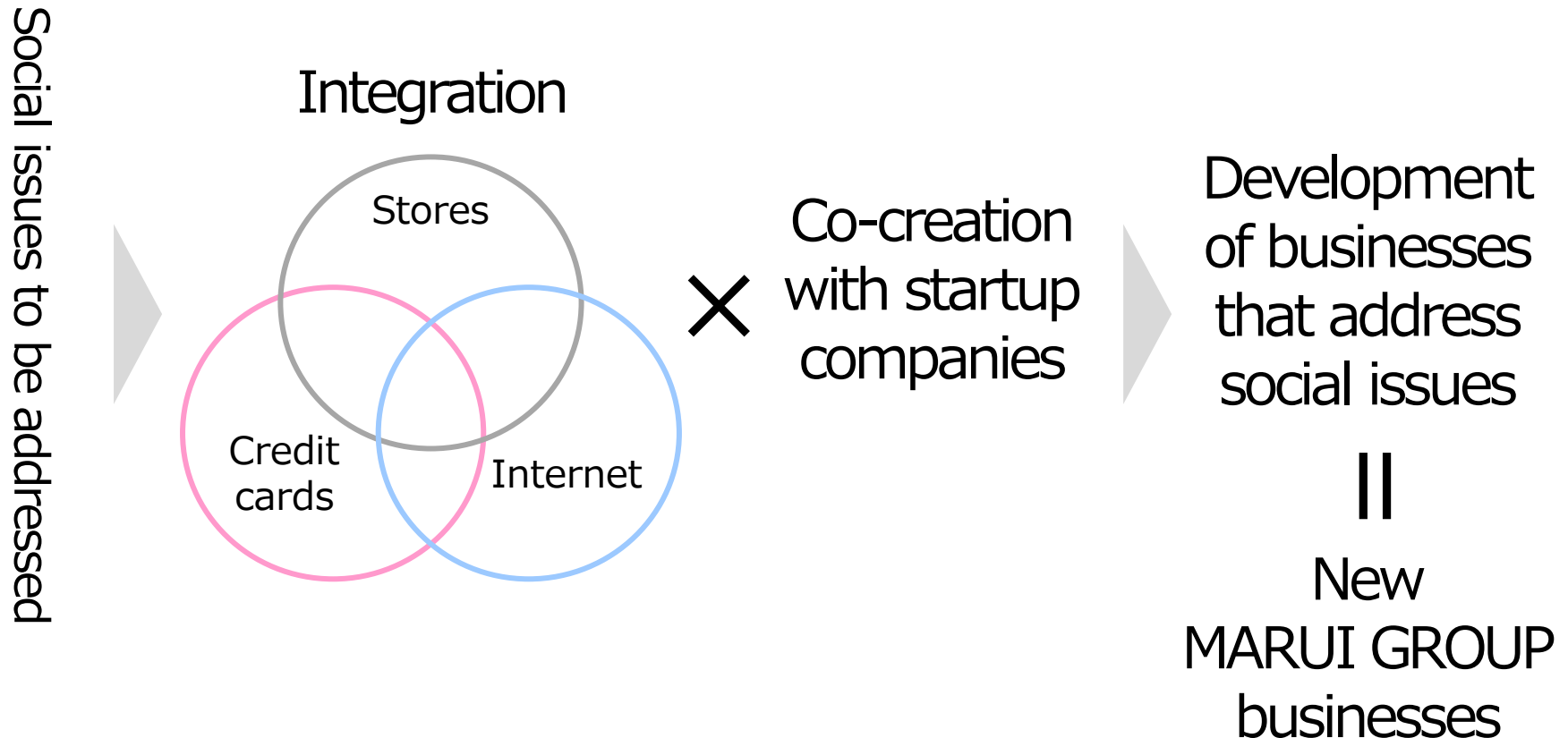
**(4) Directives for Future Capital Measures**



### 3. Directives for the Future

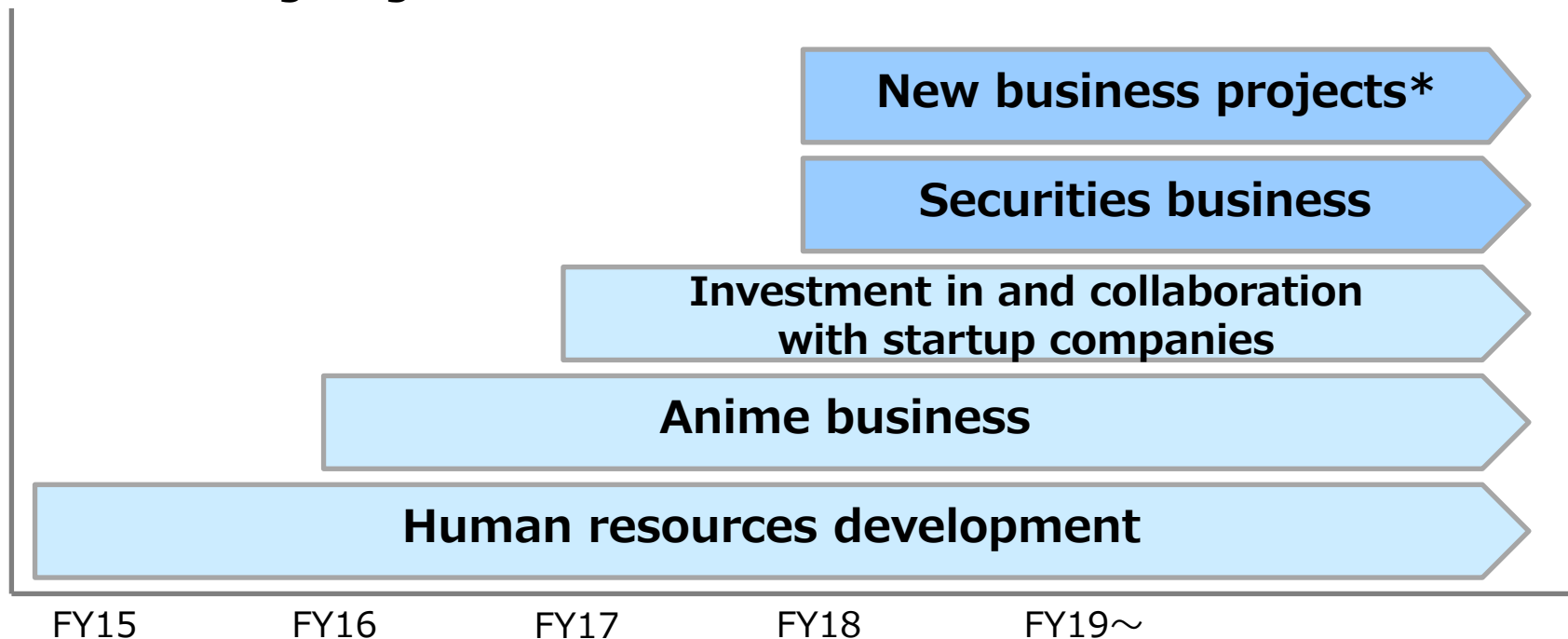
## **(1) Progress in Growth Investments**

- Move beyond boundaries of Retailing and FinTech businesses to develop businesses that integrate stores, credit cards, and the Internet to address social issues
- Proactively invest in startup companies that can co-create new businesses



- Acceleration of growth going forward following start of initiatives targeting new growth
- Currently ¥7.0 billion of ¥30.0 billion worth of new business investments slated for five-year period of medium-term management plan already decided

## ■ Initiatives Targeting New Growth

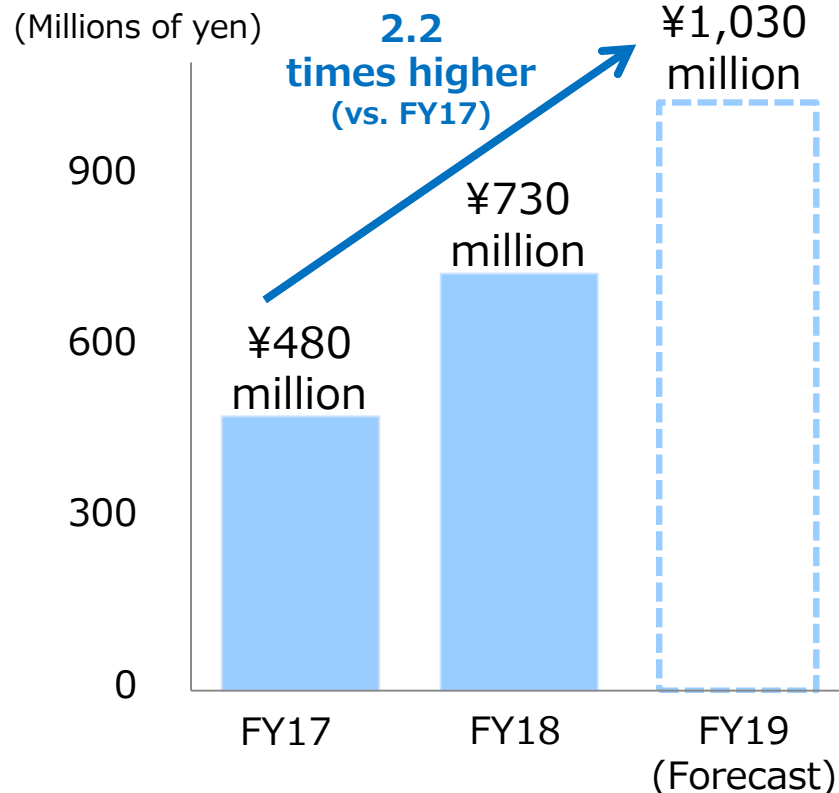


### \* Themes of new business projects

- Sharing
- Share houses
- Financial inclusion
- Development of new food-related business models
- Personalization (sizes)
- Lifestyle applications and wallets

- Promotion of investment out of recognition that human resources are crucial to underpinning new growth
- Cultivation of corporate culture of autonomous thought and action to improve corporate value

## ■ Human Resources Investments



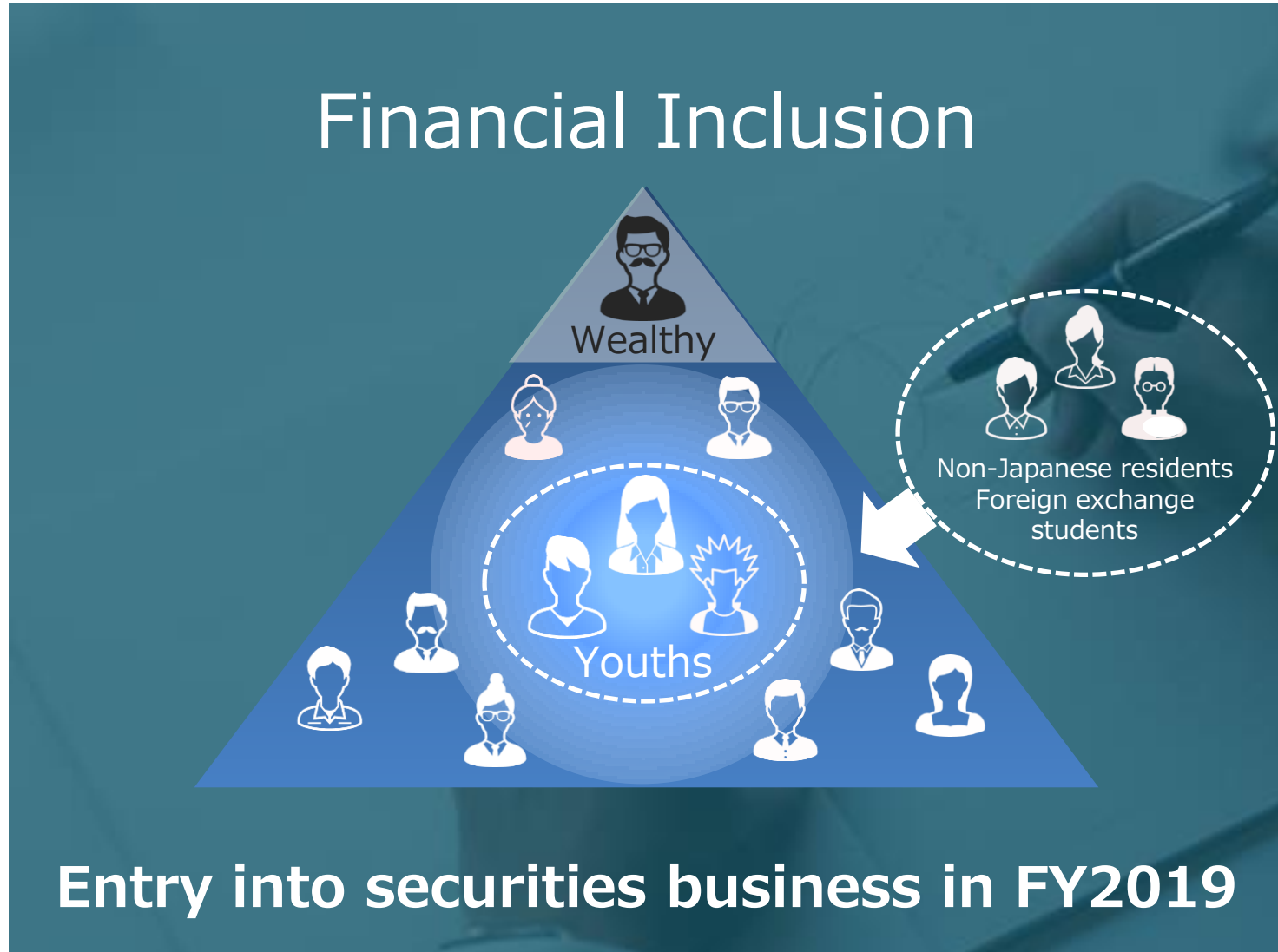
## ■ Major Initiatives

- Future leader development program
- Seconding of employees to startup companies
- Dispatch of employees to business schools and participation in human resources development progress of external organizations
- Medium-Term Management Visionary Committee open to voluntary participation by everyone, from new employees to management
- Project team activities, workshops, and seminars
- Student internships

### 3. Directives for the Future

## **(2) Financial Inclusion Initiatives**

- Provision of financial services for everyone, regardless of age or income



## ■ Concerns of workforce members in their 20s

- No. 1 **Money 59%**
- No. 2 Work 41%
- No. 3 Marriage 32%

Source: Dentsu Communication Institute Inc., 2015

## ■ New Year's resolutions of people aged 20 in January 2017

- No. 1 **Saving for the future 41%**
- No. 2 **Conserving money 34%**
- No. 3 Healthy habits 30%

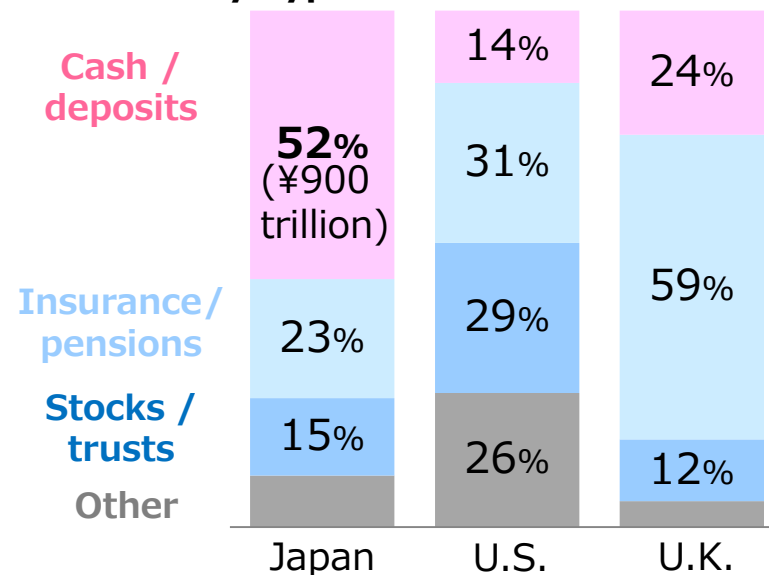
Source: Visa Worldwide Japan Co., Ltd.

## ■ Reason for lack of interest or unwillingness to engage in asset management and lending

- No. 1 **Perceived difficulty or lack of knowledge 60%**
- No. 2 Concern for losses 45%
- No. 3 Lack of monetary leeway 39%

Source: Asset management survey of EPOS cardholders, 2016

## ■ Breakdowns of Private Financial Assets by Type



Financial Services Agency promoting asset formation using ¥900 trillion worth of cash and deposits

Sources: Flow of funds data, Bank of Japan, 2016  
*Progress and Assessment of the Strategic Directions and Priorities 2015-2016*,  
 Financial Services Agency, 2016

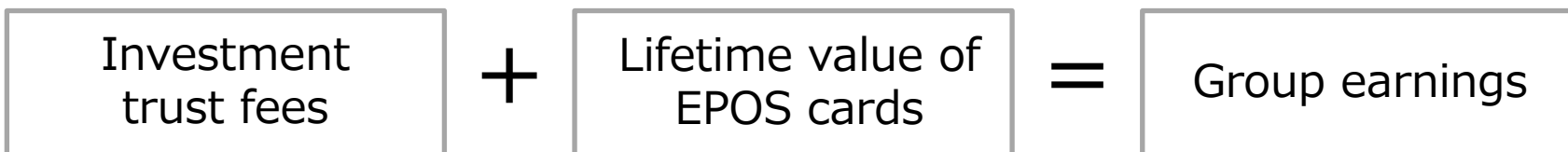
Address social issues by providing new asset formation services

## ■ Services to Be Provided

Who	Younger generations and everyone else
What	Purchases of investment trusts applicable under Tsumitate NISA
How	Credit payment via EPOS cards

Japan's first scheme for purchasing investment trusts with credit

## ■ Structure of Earnings



Note: Discussions with the relevant agencies are currently underway to achieve registration as a securities company.



# Expansion of Customer Base through Integration of Stores, Credit Cards, and the Internet

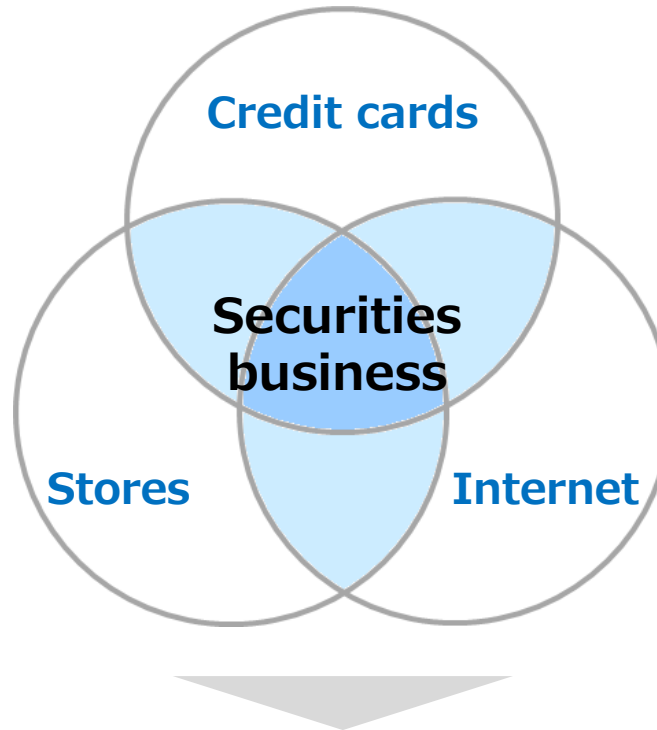
- Utilization of unique MARUI GROUP scheme integrating stores, credit cards, and the Internet to approach customers currently not addressed by existing financial institutions

## Base of 6.5 million cardholders

- Convenient and beneficial credit card payments

## Visits from 200 million customers a year

- Seminars for first-time users
- Application support
- Follow-up seminars



## Platform

- Easy access via smartphone
- Simple and accessible UI
- Low-cost operation

Target 1 million users and ¥1 trillion in balance of assets in 10 years  
Commence operations in summer 2018

### 3. Directives for the Future

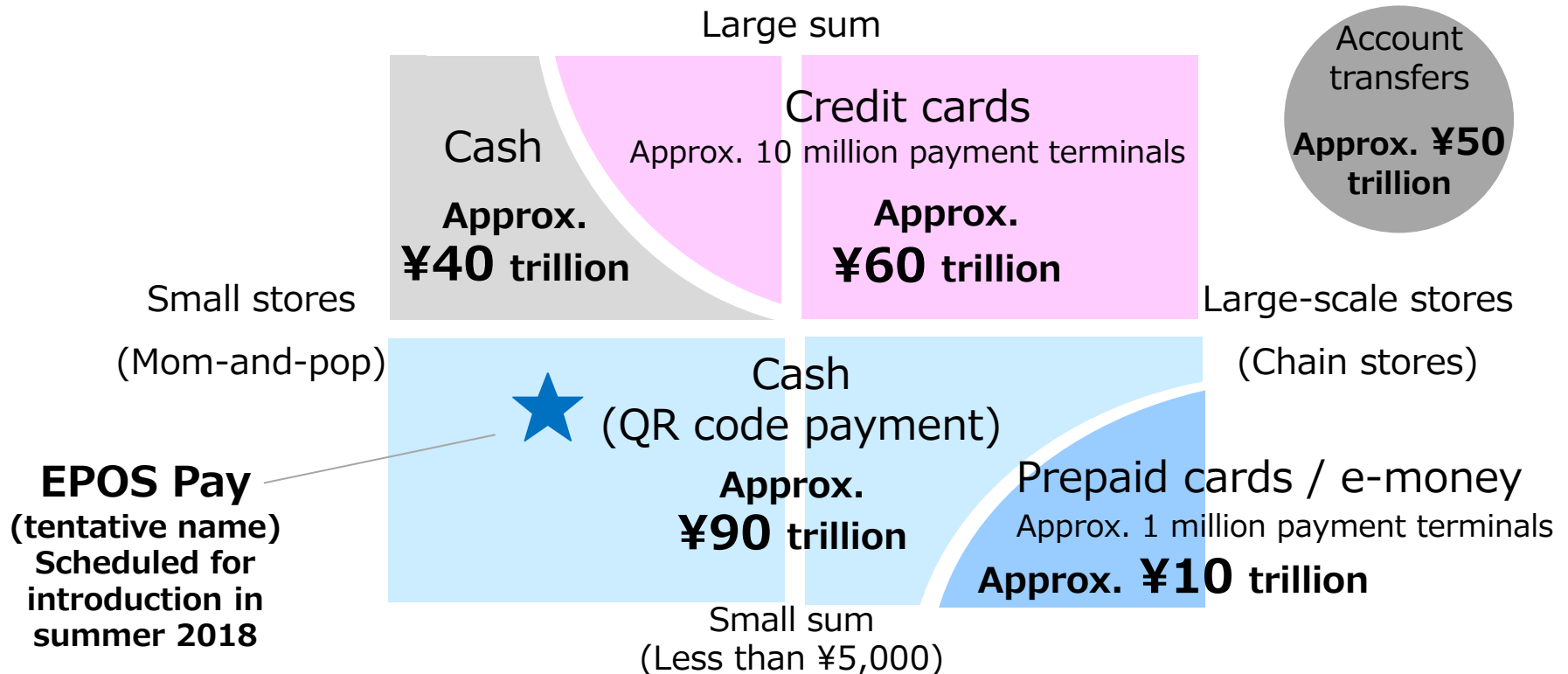
## **(3) Response to New Payment Methods**

- Chance of credit cards becoming obsolete due to spread of new payment methods—

# Market Trends

- Market of approximately ¥90 trillion for small-sum cash payments; QR code payment expected to spread in Japan centered on this market
- Clear division between existing payment methods and new payment methods projected to arise in overall payment services market

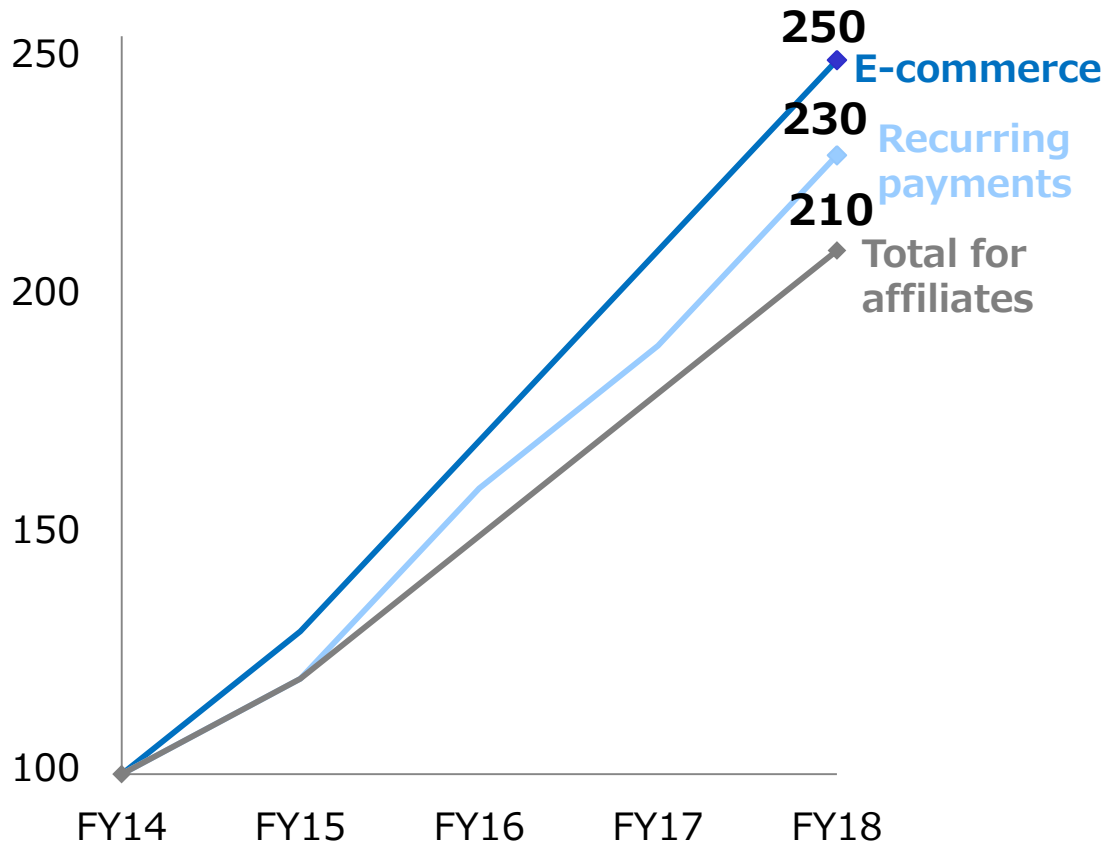
## ■ Market Scale by Payment Method (Based on consumer spending excluding housing loans)



Source: MARUI GROUP CO., LTD. (Based on *National Accounts of Japan*, Cabinet Office; materials from Japan Consumer Credit Association; *General Survey of Payment Methods*, Bank of Japan; *General Survey of Electronic Payment Methods 2017-2018*, CardWave Co., Ltd.; and other materials)

- Growth projected in credit card payment market driven by increases in e-commerce, recurring payments, and subscription payments

## ■ Growth of Transaction Volumes at EPOS Card Affiliates (FY2014 indexed to 100)



## ■ Future Initiatives

1. Expand e-commerce
  - Increase usage of Internet payments through collaboration with GMO Payment Gateway
2. Increase recurring payments
  - Promote rent payment with credit cards through collaboration with ABLE
  - Monthly deposits through Tsumitate NISA in securities business, etc.

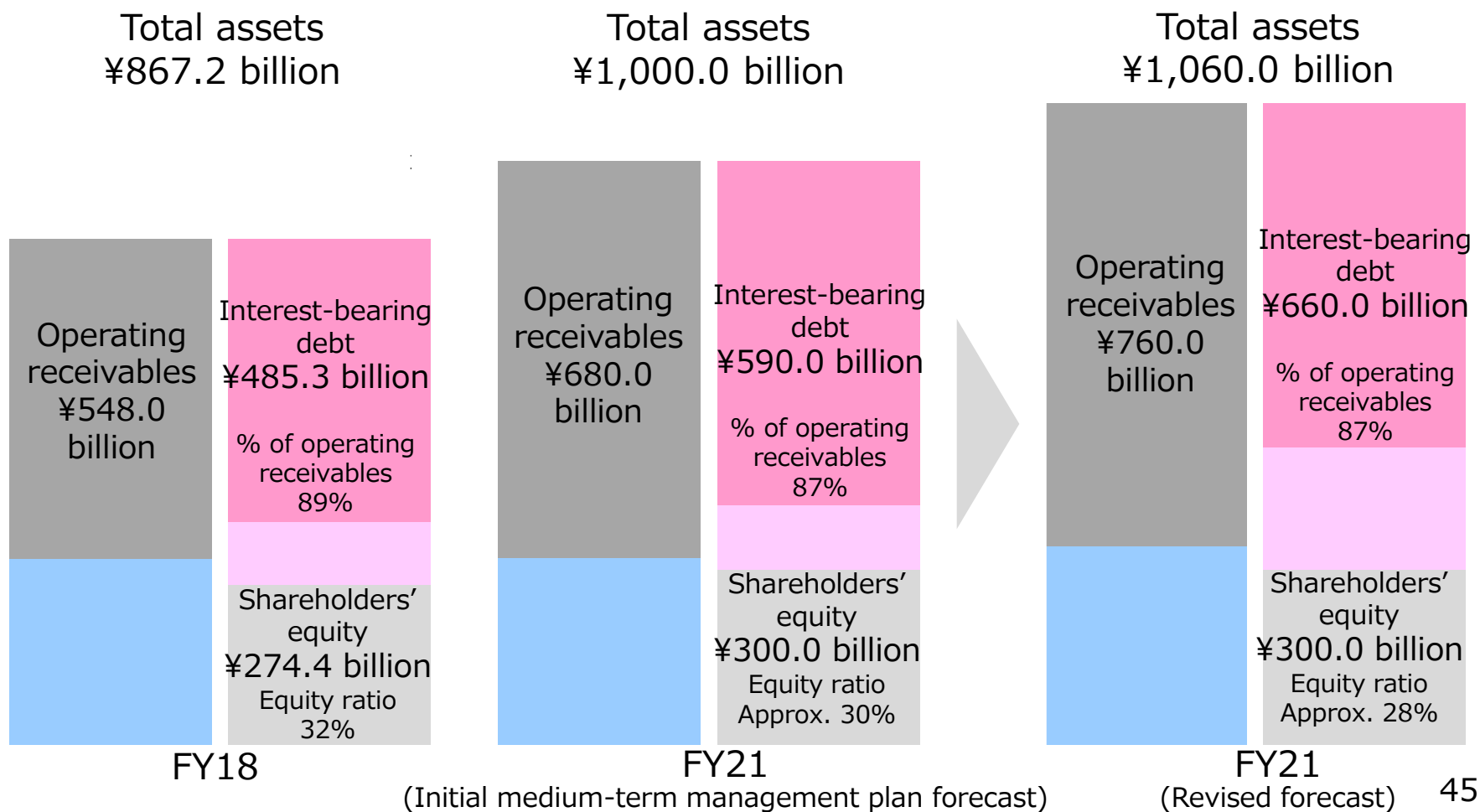
Improve LTV through long-term usage

### 3. Directives for the Future

## **(4) Directives for Future Capital Measures**

# Consolidated Balance Sheet Forecasts

- Equity ratio of 32% in FY2018, approaching ideal capital structure indicated by ratio of 30%
- Operating receivables to exceed forecast and total assets to rise above ¥1 trillion in FY2021

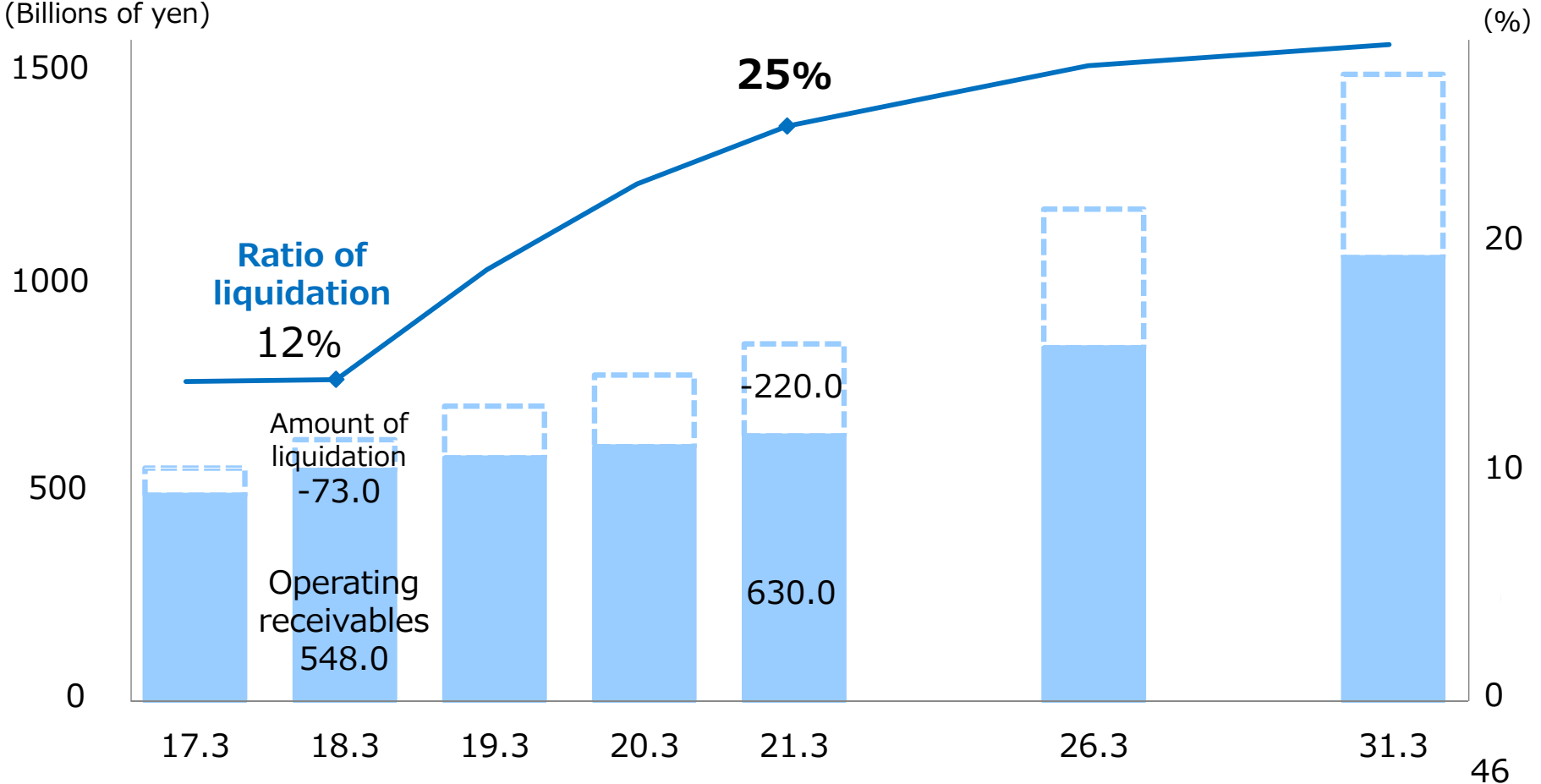


# Future Outlook for Liquidation of Receivables

- Systematic expansion of funds procured through liquidation of operating receivables to around 25% of total receivables, same level as peers, to reduce risks through diversification of procurement methods

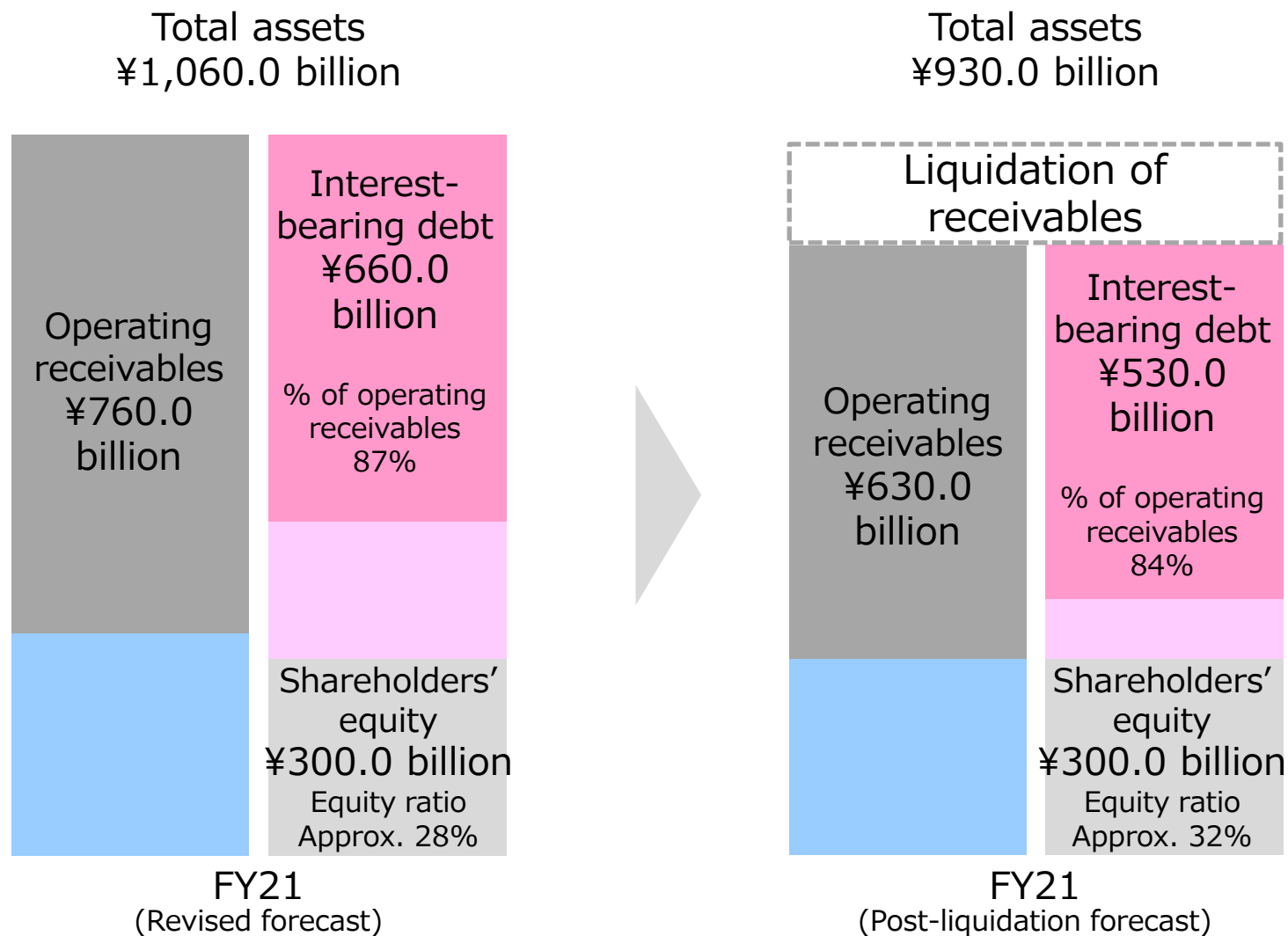
## ■ Operating Receivables and Liquidation

(Billions of yen)



# Forecast for Balance Sheet after Liquidation of Receivables

- Total assets to be reduced to below ¥1 trillion in FY2021 through liquidation of receivables





# Investment Plan

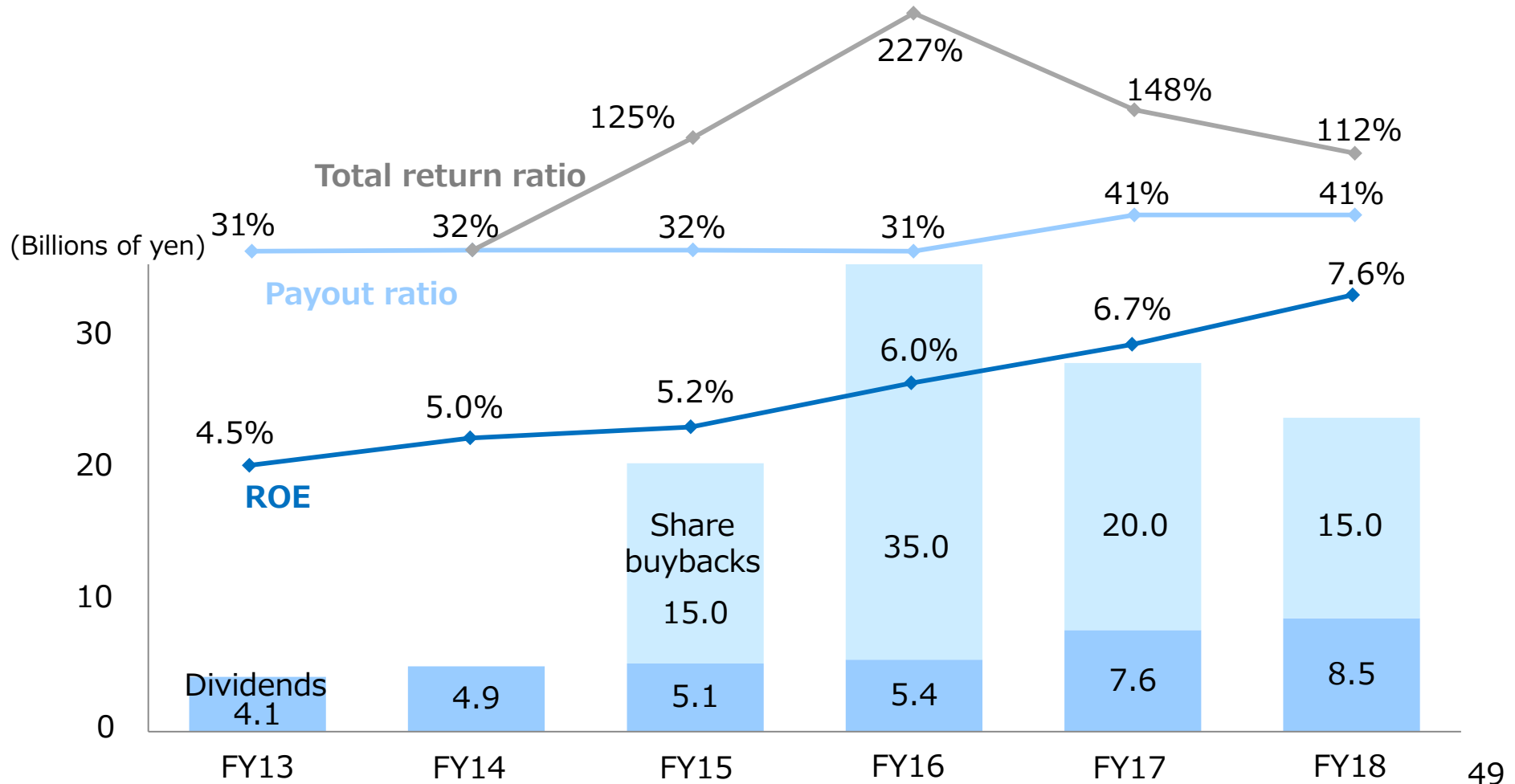
- Investments of ¥11.0 billion in FY2018, ¥22.0 billion forecast in FY2019
- Total five-year investments of ¥60.0 billion in existing businesses and ¥30.0 billion in new businesses to be conducted in line with initial plans

	FY2017	FY2018	FY2019	Five-year total (FY2017–FY2021)
	Billions of yen	Billions of yen	Billions of yen	Billions of yen
Capital investments (Stores, distribution, etc.)	13.5	7.9	8.5	43.0
System investments	2.1	2.4	4.5	17.0
Existing businesses	15.6	10.3	13.0	60.0
New businesses	0.4	0.6	9.0	30.0
Total	16.0	11.0	22.0	90.0

# Shareholder Returns

- Aggregate total of ¥85.0 billion worth of share buybacks conducted since FY2015
- Payout ratio target increased to 40% in FY2017 to facilitate steady dividend increases

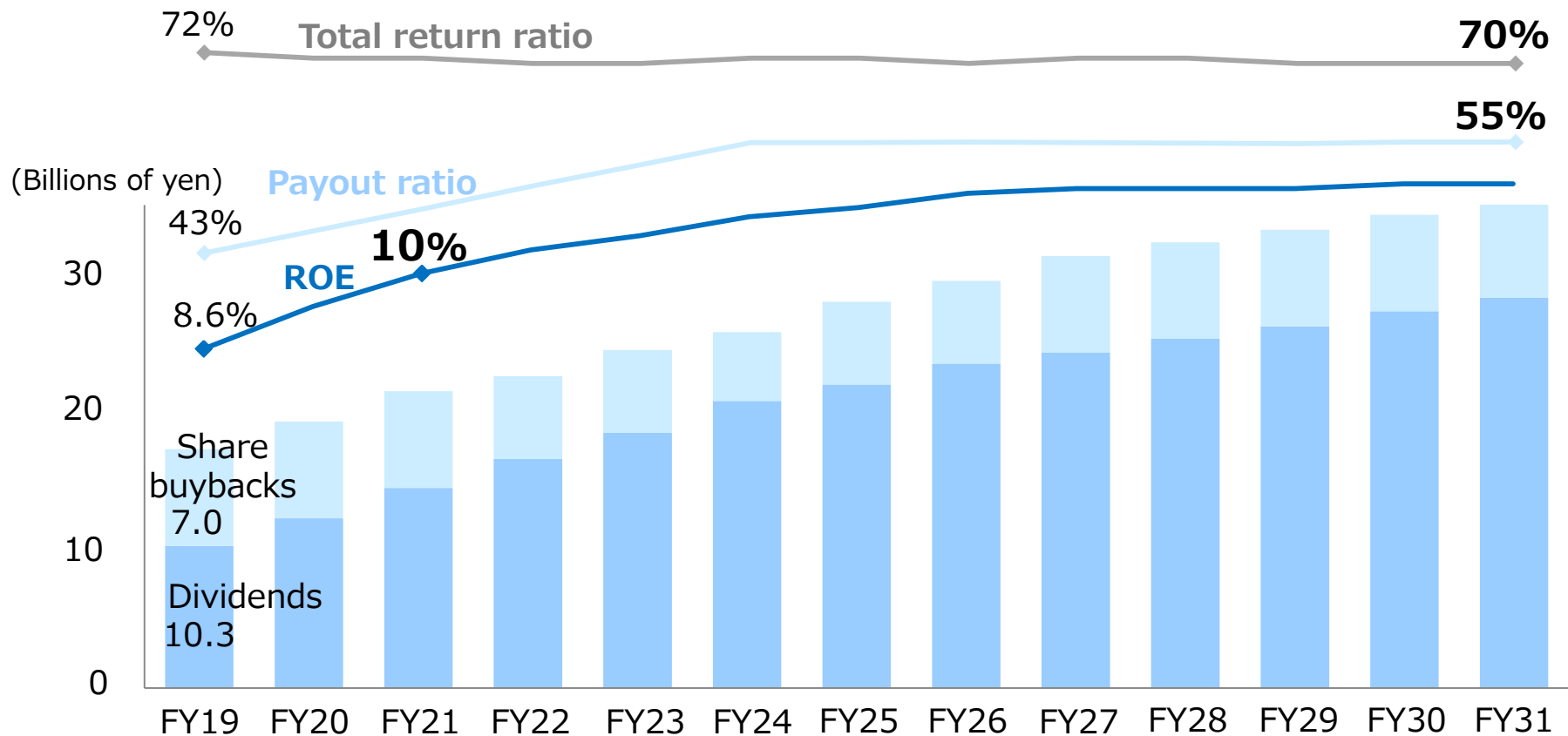
## ■ Shareholder Return Amounts and Related Indicators



# Shareholder Return Policies

- Gradually shift focus of shareholder returns from share buybacks to dividends
- Target total return ratio of 70%, a level that will make it possible to maintain an equity ratio of 30%
- Set upper limit of 55% for payout ratio, as is common in Europe, and target ongoing, long-term dividend increases

## Forecasts for Shareholder Return Amounts and Related Indicators



# Medium-Term Management Plan KPIs

	FY2017	FY2018	FY2019	FY2021
EPS	¥80.2	¥93.2	¥109.8	¥130 or more
ROIC	3.1%	3.2%	3.6%	4% or more
ROE	6.7%	7.6%	8.6%	10% or more
Operating income	¥31.3 billion	¥35.2 billion	¥40.0 billion	¥50.0 billion or more



Forward-looking statements contained in this presentation are based on information available at the time of preparation and on assumptions that have been deemed to be rational. Actual performance may differ greatly due to a variety of factors. Any inquiries may be directed to the IR Department (Tel: 03-5343-0075).