# MARUI GROUP Co., Ltd.
# Financial Results Briefing for the Fiscal Year Ended March 31, 2020
# <Questions and Answers＞

Q. You don't disclose the forecasts for the fiscal year ending March 31, 2020. But it’s good to disclose the COVID-19 impact. I think there is no end to debating whether there is a second wave of infection. You'll finally reopen stores from June 1, but what conditions do you need to know to make full-year forecasts?

A. For example, in scenario A, we assume that the suspension of business will end at the end of May and the business trend will return to normal in the second half of the year. In scenario B, we assume that the business trend will return to normal in April next year. In this way, estimates depend on the length of time that the business trend returns, so we can make accurate predictions if we know when the trend will return. For the time being, we think we can make full-year forecasts around the end of the first half.

Q. In your presentation, you indicated a year-over-year decline in Retailing segment operating income for the fiscal year ending March 31, 2021. To what extent have you factored in cost reductions? Or is it simply based on the assumption that the top line will fall?

A. While we have factored in a reduction in variable costs in our forecasts for the extent of decline in the Retailing segment’s operating income, we have not factored in a reduction in policy costs and other costs. Because this is not a large amount of money.

Q. In your presentation, you said that you would exempt the tenants from common service fees and rent fees. While it seems natural, top line of ¥5.0 billion will disappear. Considering only that, does it become a decrease of ¥5.0 billion in operating income?

A. We will proceed with the rent reduction negotiations for properties we are renting. Some fixed costs incurred during periods of absence may be recorded as extraordinary losses. Therefore, we calculated the impact value taking it into account.

Q. I would like to ask about the profit structure of the FinTech segment. I think your typical major customer, the younger generation, is struggling right now. I think they are enduring by staying home and not spending. When this settles down to some extent, how will they use EPOS Card in the medium to long term rather than in the short term? How do you predict, for example, whether customers will use more card cashing or refrain from using credit cards because they won't be traveling for a while?

A. I will talk about our commitment to card members. The volume of credit card transactions will not recover rapidly. We envisioned a new way of life for consumers through the COVID-19 crisis. And we recognized something new trends through the crisis. First of all, Cashless is expected to progress and E-commerce is expected to grow more and more through the crisis as a result of fewer outings. Under these circumstances, we will further strengthen our digital contact with customers. We would like to expand our business with E-commerce by strengthening cooperation with various business partners. Next, volatility in transaction volume expanded due to the COVID-19 crisis. Stabilization of transactions requires efforts that are not greatly affected by the environment changes. Through our ongoing efforts to maximize the share of household finances in EPOS Card, we will make more effort to implement measures such as recurring payments, which is expected to provide stable transactions every month like utility costs.

As for card cashing services, the decline in ATM usage was significant in April and May due to fewer outings. In the future, we have to make it easier for customers to use caching on apps rather than expanding the ATM network.

Q. The idea of investment was interesting and very understandable. Is the next medium-term management plan for the same five years? How long do you plan to invest?

A. We want to take a year to thoroughly review our next medium-term management plan. The period is assumed to be three or five years. At this point, I think a three-year plan is appropriate. The weight of venture investment is increasing, and it is better to make the plan a little shorter cycle and build up the next action based on the results each time. We set the term of the current medium-term management plan at five years because it will take five years to switch to a fixed-term rental contracts in the Retailing segment. As for the next fiscal year, we emphasize investment in Co-Creation, and I think tree-year plan would be good.

Q. As for new business investment, you said before that you would postpone the plan because you didn't have enough know-how. This time you explained that the investment will double. Has the know-how improved, or is the number of investment projects increasing under these circumstances? I would like to know about the internal environment and the market environment.

A. As for the amount of investments, we planned to invest ¥30.0 billion over the five-year period of the medium-term management plan, but now it is just over ¥17.0 billion. We said we wanted to delay the original plan by about two years, but that hasn't changed. Just as an image of investments, I would like you to think that the speed of investments will be twice as fast as before.

Q. Regarding the breakdown of changes in operating income in the Retailing segment for the fiscal year ended March 31, 2020, the situation in consignment sales floors and E-commerce changed significantly from the third quarter. In the third quarter, consignment sales floors were not expected to recover to operating income decrease of ¥1.0 billion. On the other hand, E-commerce expanded more operating income decline in the fourth quarter. As for consignment sales floors and E-commerce, I think there is a difference from the previous forecasts. Please tell me the background.

A. As for consignment sales floors, we stopped the promotion at all since the number of customers decreased due to COVID-19. As a result, large cost reductions were achieved, and the margin of decrease in profit in consignment sales floors was reduced. E-commerce expanded operating income decline because shoppers didn't come to our E-commerce than expected.

Q. Previously, you said that as the Retailing business grew in conjunction with the FinTech business, Retailing's refinancing was almost complete, the growth driver was E-commerce, and the nature of the stores would change. Do you need the current number of stores in the future? The value of real estate may change after the COVID-19 impact. Given that E-commerce is a growth driver, do you think the current store assets are appropriate from a medium-term prospective?

A. In the future, after the COVID-19 impact in particular will replace the place where goods are sold with the place where experience is provided, and I think that the role of the place as an experience provision will be greatly required. Now, stores are in the process of transforming themselves from places where things are sold to places where experiences are offered. The experience is not limited to central Tokyo, but we provide events, food and drinks in the suburbs. We would like to maintain and improve the real estate value of existing stores by changing the value we provide.

Q. As for the estimation of the COVID-19 effects in the FinTech segment, what kind of changes in transaction volume are included in various scenarios?

A. In the most optimistic pattern, we expect transaction volume to decrease by about minus ¥250 billion against the no-COVID-19 setting and to recover slowly. In the pessimistic scenario, we are looking at ¥540 billion decrease. The volume of transactions fell to 82% in April but recovered to nearly 90% in May. In this way, we assume that if the second wave of infection does not come, the transaction volume will gradually recover.

Q. I think it is a common assumption that bad debt costs will increase in the future. What are your thoughts on the risks of the FinTech segment?

A. As for bad dept, the COVID-19 crisis in April and May led to a slight increase in inquiries from customers whose income decreased due to business closures. On the other hand, the balance of unpaid deposits fell from the previous year due to a decrease in transaction volume. The number of delinquent loans has increased slightly. But that's because the number of call center staff has been cut in half in order to deal with infection, so that we have not been able to thoroughly inform our customers. Thus, considering only the current situation, the impact of bad debt is limited. However, in view of the risk of falling into personal bankruptcy without arrears during the year, we have increased our loan loss provisions for ¥0.4 billion this year.

Q. I understand that about 20% of fixed-term rental contracts areas in stores are renewed every year. Is this correct? You said you would increase the number of experiential tenants from 30% to 60% in the second quarter. I would like you to tell me about fields that can be expected positive impacts and those that are difficult to grow in post-COVID-19.

A. As you say, the average pyeong for renewing a contract is 20,000 pyeong. However, in this fiscal year, the number of pyeong will increase slightly to 22,000 pyeong as contracts will be renewed during the period when the fixed-term rental contracts rapidly expanded three or four years ago. In areas where there is a positive response, the large offline traffic and courteous customer service that we have cultivated over 90 years will contribute to the engagement of experience-based tenants, although there will be some the COVID-19 impact. Brands that don't depend on real store visits will grow in the future. We want to increase our value as commercial facilities by cooperating with such business partners. However, restaurants in the middle and upper floors, which have focused on providing new value to tenants, may face difficulties due to the corona effect. We want to overcome the COVID-19 crisis by thinking about measures such as takeout delivery with tenants and doing Co-Creation.

Q. Despite undecided full-year forecasts, you have set dividends forecasts at ¥51. What led you to this idea? Dividends forecasts are usually based on earnings and EPS forecasts. What were the internal discussions?

A. In order to clarify our basic shareholders returns policies, which is aiming for long-term and stable dividends increase, we have set our dividends forecast at ¥51. As you said, there was a discussion about the dividends increase without the EPS forecast. However, we believe that the FinTech business is stable and the COVID-19 impact will not be extremely large, so we will be able to pay sufficient dividends. Our policies are to maintain a payout ratio of 55% and a total return ratio of 70% over the medium term. We estimated how much profit we would be able to increase dividends if total return ratio of 70% is realized only by dividends. It also expresses our enthusiasm to realize that dividends.

Q. I don't think the transactions will decrease significantly in the FinTech business because there are a lot of withdrawals from bank accounts and recurring payments. However, in view of the employment environment, I think the amount of revolving and installment payments transactions by young people will decrease. It will be difficult to recover profits if revolving and installment payments transactions decrease. As a result, decrease of operating receivables make it impossible to liquidate accounts receivables. If you don’t do liquidation, only amortization will occur. What do you think of this risk?

A. The amount of revolving and installment transactions is linked to the total amount of transactions. As a result of the expansion of installment payments over the past two years, the number of customers using revolving and installment payments is gradually increasing. Therefore, if the total amount of transactions is recovered, the amount of transactions for revolving and installment payments is also recovered.

Q. You are accumulating additional provision for loss on interest repayment. I am worried that interest repayments will increase in the future. How do you predict?

A. Last year, Claims of lawyer intervention, which is leading indicator of actual interest repayments, were more than 100% of compared to the previous year. For that reason, we set aside ¥1.5 billion as additional provisions at the end of last fiscal year. However, the amount of Claims is less than 80% in this fiscal year. We think the reason is that the lawyers are reducing their staff to prevent the COVID-19 infection.

The environment is not good and the current situation is not reliable. Therefore, if Claims are likely to increase, additional provisions will be required.