MARUI GROUP Co., Ltd.
Financial Results Briefing for the Fiscal Year Ended March 31, 2021
<Questions and Answers＞

Q. This time, a huge amount of provision for loss on interest repayments was recorded, we would like to confirm whether or not you will not have to record the provision for loss on interest repayments for a while. I would like to know again what level you estimated it at.

A. First of all, I would like to apologize for the large amount of money we had to allocate due to our drastic misjudgment of the forecast. As a result of increasing the amount of ¥19.4 billion at the end of the fiscal year, the balance of interest repayments on the balance sheet is ¥22.8 billion after.
As for the level, I recognize that common credit card companies and credit loan companies generally make provisions for about 3 years, but in our case, the level exceeds ¥20 billion compared to ¥5 billion of last year, so I think that we have made a conservative provision in some respects. As for the future situation, I cannot say for sure at this stage that everything will be all right, but I recognize that at least some of the risks that we are concerned about have been mitigated by this provision as the new medium-term management plan begins.

Q. FinTech business is doing quite well. Even in the midst of the economic downturn, I think you have been able to maintain a steady trend of profit growth in real terms. I would like to know the background of that. I think that the travel business, which was one of your strong points, has declined, but I would like to know where the growth is and what is driving the overall growth.

A. In terms of the status of our core business, the impact of COVID-19 resulted in only a slight increase in transactions in the fiscal year ended March 2021, which is very disappointing.
On the other hand, there are some categories that are steadily growing, and the transactions of ecommerce steadily expanded due to staying-at-home consumption. It maintained a growth of about 1.3 times. And our rent guarantee and other rent handling services we have strengthened also increased 1.3 times last year, in fact driven by impact of COVID-19, this also grew well.
It is expected that the impact of COVID-19 will continue for the next 2 years and that full-fledged recovery will be in the fiscal year ending March 2024. Until then, I think it will be a difficult situation at travel & entertainment, but we would like to maintain the growth of the handling by firmly expanding what grows.

Q. About retailing business, in the medium-term management plan, you said you are taking a conservative view of the current fiscal year. But from the graph, I think your plan is for profits to improve considerably from this fiscal year to the next. I would like to more specifically know about the background of this, or rather, what kind of measures you are going to take this fiscal year to eventually reach ¥12 billion.

A. The retailing business is currently in a very difficult situation due to COVID-19, and we apologize for the disappointing result. I think you are asking why you are planning to expand your business to ¥12 billion yen in the fiscal year ending March 2026 in the five years of the medium-term plan.
First of all, we are assuming that we will return to the level before COVID-19 in the fiscal year ending March 31, 2024. Next, since the damage from COVID-19 is very serious, we have factored ¥2 billion as the risk of a deterioration in the real estate market. Therefore, the starting point is ¥8 billion compared to the operating income of ¥10 billion of the year before last. And, we explained that we starting from the ¥8 billion, we would aim to increase profits by ¥4 billion after overcoming

the negative impact.
We started the transformation of the department store business last year, before COVID-19, and have seen a steady response, so we believe that we will be able to increase profits by proceeding with it.

Q. I think you say that co-creative investment plays a very important part in the mid-term plan. What have you noticed when you have made co-creative investment so far? This time too I think that you attach great importance to the investors as a stakeholder and collaboration with them. It's okay if it's qualitative rather than the impact of the amount of money, so I would like to know that there was such a good story for the MARUI GROUP.

A. In the medium-term management plan, I said that we position co-creative investment and stores as a platform for integrating online and offline, and aim to become a platformer for them, together with FinTech. As a result of what I've done so far, we have found that startups and emerging companies that originated from the Internet and online are more evaluating the importance of stores and offline, and the effect of expanding their businesses and evolving by integrating their business with offline, than we expected.
We showed in document of financial results briefings the feedback and comments of 3 people from 3 companies, there are many other people who would like to grow their businesses further by collaborating with Marui, which is strong in store management and offline real estate, can connect offline and online through FinTech. In a word, we feel that we have a very strong response.

Q. You said that you are going to strengthen share buybacks. I think the base of your plan is based on an operating cash flow of ¥230 billion but if we are unable to generate the ¥230 billion in cash flow, will the alternative plan be to cut back on investment? I think ¥50 billion share buybacks to improve the balance sheet seems to be unchanged, so will there be a slight reduction of shareholder return?

A. FinTech is the heart of our profits right now, and this is a business where we can expect a relatively steady cash flow as the balance and transaction volume increase. Compared to the time when retailing was the main source of revenue, we are not so worried about volatility in that sense, or up and down fluctuations. Therefore, I believe that we will be able to meet your expectations in terms of shareholder returns and growth investment as I have described here.

Q. I think co-creative investment has been working very well. You mentioned the exit policy earlier, but if things are going well, I think that continuing to maintain the capital relationship with Marui without forcibly exiting could be possible. What do you think about this?

A. Our basic concept is that we will remain holding the shares as long as we continue to work together.
However, there are some issues. I think there are 2 things. One is the balance of investment securities in this B/S. As you know, this is unrealized gains, which are included in shareholders' equity, so there is a paradox that the larger this amount becomes, the lower the ROE becomes. Our goal is to achieve ROE of 13% or higher, so we think it would be better to sell some of our shares during the term.
Another thing is that, as we expand our co-creative investment in the future, in the case of venture investment and start-up investment, impairment losses will occur consistently from the year after the investment is made. Therefore, we believe that it is necessary to sell at least enough to offset this impairment, depending on the situation. In other words, we should curb the growth of our balance sheet, especially our equity capital, and make up for impairment with a gain on sale as the impairment will expand. I believe that we need to incorporate these 2 ideas according to the balance.

Q. According to the outlook for the fiscal year ending March 2022, the transaction value of FinTech shopping credits is expected to be 114% YoY, I would like to know the premise.

In fiscal year ending March 2021, this is that even though COVID-19 had an impact on the last fiscal year, you were still unable to acquire new members during the fiscal year, and ended up gaining only a little over 500,000 new members. As a result, the number of customers itself has also declined. Considering the trend of returning to the level before COVID-19 over the next 2 years, I wonder how many the number of new members return this year. If the number of new members is 700,000 to 800,000 this year as it was in the past, it could be possible. I would like to know about that how the shopping credit volume forecast of 114% was set.

A. First of all, as for the assumption for the shopping transaction volume, 114% comes up this time. Last year COVID-19 was just at the beginning and we did not know what would happen in the world. In particular, the travel and hotel businesses were halted last year. Therefore, for the entire year, the transaction volume of merchants resulted in remaining at 102%. This year, we have gained some experience, and looking at the movement of customers from April to May, we have not seen the extreme decline that we saw last year. Therefore, we believe that there will be a certain amount of reaction to last year's results in this fiscal year. If I may talk about it in more detail, the major driving force will be the transaction volume of ecommerce. Ecommerce, which grew by 1.3 times last year, is growing at a similar rate. As for travel & entertainment, which experienced a large decline last year, we do not expect it to return to the level of the year before last, but since the decline last year was a large one, we expect it to return to some extent. Therefore, although there will be quite a bit of awkwardness in each category, we think that 114% as a whole will be enough.

As for the impact of the decrease in new members, as you mentioned, we had a very difficult time attracting new members last year, and the number of members decreased by about 110,000 at the end of last year. Since new members do not account for a large portion of the total transaction volume, the decrease in the number of new members last year will have only a few tens of billions of yen impact on the transaction volume in the current fiscal year. Therefore, we have maked this forecast based on the fact that the biggest point of estimation is rather how the usage by existing members will be this year.

Q. I understand that the usage by existing members is more important than that by new members in terms of KPIs, but if you do not build up a certain scale of members, I think it will be difficult to achieve the growth of FinTech in 2026. Incidentally, as of the fiscal year ending March 31, 2026, how many customers have you set?

A. First of all, fiscal year ending March 2021, there was a major closure of commercial facilities all over the country, including Marui, and there was a significant drop by that. With the return of those members, we expect the number of new members to return to over 700,000 this year. By the way, by the final year of the medium-term management plan in 2026, we are currently planning to have about 8.5 million members.

Q. About SG&A expenses in the current fiscal year, so the provision has been made, I think it comes to a situation where the amount is reduced once. Compared to the previous year, SG&A expense has decreased by about ¥14.5 billion, I think the largest factor is the decrease in the provision for loss on interest repayments, but is there anything else that should be taken into consideration?

A. The largest part of the consolidated SG&A expenses is that we do not expect provision for interest repayment expenses this fiscal year. There is a decrease of about ¥23 billion for that, so that is most of the decrease. Other than that, there will be a decrease in personnel expenses, etc. On the other hand, in the area of FinTech, we expect that the cost of loyalty points and card-related expenses will increase compared to last year, so we are certain that the reason for the negative figure is interest repayment expense.

Q. When you extend the image up to the fiscal year ending March 2026, I think there will be a certain amount of natural decline in the number of people reaching retirement age in the population pyramid of your company. What do you see as the trend in labor costs over the next 5 years or so?

A. The number of personnel itself is expected to decrease by about 100 people every year, considering new employees, retirees, and natural retirees, so the personnel cost will decrease by about ¥500 million or ¥600 million every year.

Q. About the revenue recognition standard, your company shows them on net amount after deduction of cost of sales, but I think there may be some point expenses as well. So in the specific revenue recognition standard, how much will accounting sales decrease and how much will expenses decrease? I think there will be little impact on operating income, I would like to know about impact.

A. In terms of the revenue recognition standards that will be applied from this fiscal year, in our case, ecommerce sales were previously recorded as full sales, but in terms of the content, there are quite a few commissioned revenue, so that portion will be recorded as net sales.
In our case, points are not often used within MARUI GROUP, so we do not need to reduce the amount of points from sales. It will only be for commissioned sales in EC I mentioned earlier, so there will be no significant impact. For more details, please refer to the FACTBOOK.

Q. If the number of new cardholders shifts from stores to the Internet, based on the experience of COVID-19, I am somewhat concerned about the cost of acquiring cardholders outside of stores and whether the co-creation and new business activities will lead to an increase in cardholders. Please tell us what you think about that as a company.

A. The cost of acquiring new members on the Internet tends to skyrocket as more and more companies enter the market. On the other hand, many customers who join via online have a very high LTV, as they come to us after independently comparing various card companies. Therefore, the key to expanding members from the Internet in the future will be how to increase the number of members while controlling costs, which may be called low-cost operation. In such a situation, we issue very unique cards related to anime and content, and we would like to utilize these cards' fan club sites and media to increase the number of members while keeping costs low. Rather than using affiliate advertising, which would increase costs, we would rather use unique online media to increase the number of online members, thereby reducing costs and increasing the number of members with high LTV.

Q. There was talk that future investment will be involved in FinTech, but does it have a big impact on online membership of anime and content cards? Is it a scenario that attracts new customers, acquires FinTech members, and increases transactions?

A. That's right. There are 2 major synergies with co-creation partners. One is being used in the services by the co-creation partners, and the expansion of transactions by increasing the number of them. The other is to recruit EPOS card members by co-creation investment partners. We predict that the number of members will increase to about 100,000 after 5 years, and the synergy in terms of the increase in members and the increase in transactions will become significant in the fiscal year ending March 2026.

Q. I think you have been a front-runner in governance reform so far. I would like to know if you are thinking of further increasing the value of the Company by welcoming new members as candidates for an executive officer and outside directors, as investee, ESG, and wellness. Could you tell us one more time?

A. Shown page 57 in the document of financial results briefings is what was posted in last year's Co-Creation Management Report. When you look at it from the perspective of our 6 stakeholders, the gray area indicates that we are able to meet their expectations in terms of financial benefits, while the pink area indicates non-financial expectations. We call the financial part "profit" and the non-financial part "happiness," but if you look at a laser chart like this, I think that the part we can meet in terms of profits is less than half of their whole expectations. In this context, we would like to ensure that we can meet the growing expectations of future generations for sustainability and wellbeing, as well as their expectations for companies. This is what we call stakeholder management, and in order to realize this stakeholder management, we would like to start having stakeholders actually join the management team. This is just the first phase, we have Mr. Nakagami from Misaki Capital joining us as a shareholder, Mr. Pedersen joining us in the area of sustainability, and Ms. Kojima, an executive officer who has been very active in the area of wellbeing within the Company, joining us. From now on, we would like to realize stakeholder management in a step-by-step manner by having future generations and employee representatives actually participate in the management.