MARUI GROUP Co., Ltd.
Financial Results Briefing for the Fiscal Year Ended March 31, 2022
<Questions and Answers>

Q. What kind of matters in particular will the newly established HR Strategy Committee discuss going forward?

A. The HR Strategy Committee was established in April for the purpose of securely linking management strategies with human resources strategies. The committee will aim to shed light on the gap between the nature of our current workforce and the human resources we require going forward and consider the best courses of action to fill that gap, while also linking its strategies to those of management. For example, it will examine how best to nurture digital-savvy employees, how it can enhance the goal-oriented and hypothesis-driven thinking required of digital business creation personnel, or what kind of initiatives and how much capital is required for personnel growth investments.

Q. It has been just under a year since you adopted your new director structure. What is different from before and what kind of topics and issues in particular are being discussed?

A. To phrase it somewhat casually, the directors are having more fun in their roles than ever before. The board of directors comprises first-rate business managers or investors, each boasting special skills and qualities, so there is no shortage of extremely incisive questions and straight-to-the-point opinions offered during board meetings. For that reason, discussions among directors are extremely intense and substantial as they go about enhancing the company’s corporate value. Just recently we held the first-ever offsite overnight retreat for executive officers at a location outside Tokyo and there too, everyone was able to engage in open and genuine discussions in a more relaxed setting. Being able to talk frankly about the backlog of topics that we struggle to discuss fully at normal meetings was an important outcome of the retreat.

Q. On what assumptions are your forecasts for this fiscal year for the FinTech and Retailing segments based? What issues and risks do you think will stand in the way of achieving your targets?

A. With regard to the FinTech segment, firstly, how we view the impact of COVID-19 is a key point I think. While it is hard to make projections, we did crunch the numbers to calculate growth rates for this fiscal year by concluding, on a case-by-case basis, which areas of the economy will definitely recover this year, and the areas that will continue to struggle, like overseas travel, for example. Based on that, we factored in expenses and so on to arrive at our profit forecasts. Our targets are neither overly ambitious nor too conservative—we feel it is extremely appropriate in light of the current climate.

As for the Retailing segment, we were more cautious about formulating our profit forecast this fiscal year because the pace of recovery last year was slower than we initially anticipated. Accordingly, we think there is ample possibility that transaction value and the number of customers visiting stores will be higher than anticipated. Looking back on last year, the first year covered by our medium-term management plan, we think the market steadily responded to our strategies. So, taking all this into account, we think the profit target for this fiscal year is more on the cautious side.

Q. You mentioned that e-commerce transaction value in the fourth quarter finally surpassed the year-earlier level because of the appointment of specialist personnel, but could you go into more detail about what other factors drove the recovery in the fourth quarter?

A. In addition to leveraging the capabilities of specialists, there were broadly two factors behind the recovery, one of which was the rebuilding of our website. Short-term measures would not be enough to deliver improvements in e-commerce transactions, which is why we sought to rebuild the e-commerce website in earnest starting last fiscal year. We are currently improving the site's user interface with speedy and agile development. I intend to discuss this in more detail at our IR Day briefing session. And coupled with various other measures, our efforts have seen visitors to the site increase substantially since November last year, rising as much as 20% year on year in the fourth quarter. This trend continues at present, so for this fiscal year we are targeting 20% year-on-year growth in website visitors.

The other factor driving the recovery was growth in transaction value from e-commerce campaigns held in conjunction with stores. By drawing on the unique characteristics of brick-and-mortar stores and leveraging events that link the e-commerce site with offline stores, we are currently seeing a recovery in transactions.

Q. Going forward, how will you work towards achieving the target co-creation investment profit contribution target of ¥5.5 billion for the fiscal year ending March 31, 2026?

A. In the Retailing segment, store openings by co-creation investment tenants correspond to profit contributions. Our collaborative efforts with them will concurrently lead to earnings contributions. In the FinTech segment, however, revenue generated by the use of collaborative cards with co-creation investees are recorded as earnings in that fiscal year. This will build up in proportion to the number of new cardholder sign-ups. This is why the FinTech segment has a much bigger share of the profit contributions. The contributions to profit will increase gradually next year rather than rise sharply.

Q. How much of a profit contribution do you anticipate this fiscal year?

A. My apologies. I don't have any information about that on hand right now.

Q. I think earnings will rebound strongly this fiscal year and cash flow will increase. What plans do you have for capital allocation?

A. Our overall approach to capital allocation is explained in the medium-term management plan we unveiled last year. Even though we plan to allocate capital fairly evenly during each of the years covered by the plan, the only irregular allocation is ¥50 billion for share buybacks in order to optimize capital efficiency. Considering that our share price could be boosted by higher earnings per share, we plan to buy back shares worth ¥50 billion over the two-year period of last year and this year.

Q. What does the allocation of ¥3.6 billion to "Forward-looking investment" actually entail? Does it include the investment in human capital that was mentioned earlier?

A. This is the combined amount of co-creation investment, investment in start-ups, and investment in new Marui businesses. These amounts will be carried on our balance sheet. Meanwhile, we consider the investment in human capital that President Aoi talked about earlier to be an investment recorded as an expense, so that is not included in the ¥3.6 billion investment for the future.

Q. Was the topic of today's presentation on human capital-focused management because you have thus far persisted with reforms and you are now starting to see results materialize?

A. I think the reason for today's presentation is the fact that we are still a long from achieving our longer-term objective of evolving from a retail- and fintech-driven organization into a knowledge-creation company. Given the considerable distance between where we stand now and this longer-term goal, we must really step up our efforts if we are to steadily close the gap over the medium term.

On the other hand, by moving to transform our corporate culture—which could be metaphorically likened to an operating system upgrade—it is encouraging to see a platform being built that is conducive to a new style of management under which we can strike the right balance between impacts as management objectives, earnings, and capital efficiency.

Underpinned by this new corporate culture, we intend to simultaneously push ahead with the initiatives mentioned earlier regarding investments, training, and the establishment of a joint venture company as we look to make rapid progress towards the next stage.

Q. Does this mean you will be advancing inclusive reforms involving the management team, including both internal and external directors, as well as the next generation of executives and young employees?

A. That is correct. Ideally, we are aiming to enhance corporate value while engaging in co-creation with all six groups of stakeholders, including future generations. In addition to our governance structure, we hope to create corporate value together with our stakeholders through a process of co-creation by overcoming the stakeholder conflicts that can arise such as conflicts between shareholders and employees.

Q. In your forecasts for this fiscal year, net profit seems quite low compared to your operating profit target. Do you expect to incur sizeable impairment or extraordinary losses?

A. We expect extraordinary losses this fiscal year to be smaller than last fiscal year. This mainly reflects the expected dropout of ¥2.0 billion in expenses related to COVID-19. At the same time, we have factored in the possibility of impairment losses from co-creation initiatives undertaken over the last two years. That said, nothing is certain, which is why our forecasts take into account future risks.

Q. What has changed in the FinTech segment when comparing the periods before and after COVID-19 restrictions were lifted? What can you tell me about card credit transactions, including the weightings of installment and revolving payments, the number of new cardholders, and cash advance transactions?

A. With restrictions on day-to-day activities no longer in place, shopping transactions are currently brisk. Transactions in the previously struggling travel and entertainment sectors are up roughly 40%, which is nearly on par with pre-pandemic levels. Transaction value and new cardholders have also been extremely brisk in the last month and a half, with new card transactions increasing some 40% year on year. Both installment and revolving payment transactions have returned to nearly the same levels as last year. April and May tend to lag behind somewhat, so I think favorable results will emerge one month later. Cash advances are currently up year on year, but are still recovering, partly because demand for cash to pay for evening entertainment costs has yet to return to pre-pandemic levels, not to mention the ongoing shift towards cashless payments.

Q. Compared to before, SG&A expenses this fiscal year seem rather high. What factors are behind this pace of increase?

A. An extraordinary loss of ¥2.4 billion was recorded as COVID-19 expenses last year as part of fixed costs for store operations. This will return again this year. We also anticipate an increase in variable costs in the FinTech segment.

Q. Could you please tell us about the costs associated with acquiring new cardholders in the FinTech segment? I think you mentioned working with payment agencies because the cost of online advertising is expensive—are you making progress on this front?

A. The customer acquisition cost of online advertising is skyrocketing, but even though sign-ups for our EPOS cards via online advertising are declining, we are seeing extremely strong growth in online sign-ups for cards tailored to individual customer interests and those issued by our co-creation partners, so much so that online sign-ups overall increased year on year. As online sign-ups that structurally cost nothing at all are on the rise, the acquisition cost per card is falling.

Q. Your rent guarantee business is growing steadily and contributing strongly to earnings. What issues and risks lie ahead do you think? Also, how much potential do you see in business services targeting tenants and companies?

A. The rent guarantee business is performing well and thanks to the solid track record we have established so far, we are making good progress on opening up new markets together with a leading property management firm. Subsequently, we think we can sustain our current growth potential for the time being. Furthermore, the tenant rent guarantee and office rent guarantee services we launched last year seems to be very well-received. In fact, we have signed over 100 contracts for each. Being a "blue ocean" market, we intend to expand these services to the extent that they contribute to higher revenue.

Q. At the second quarter results briefing last year you talked about hiring 250 more website personnel for the Retailing segment. What progress have you made on this? You also mentioned that you wanted to link this initiative to the reinforcement of customer touchpoints in a broad range of business domains, not just the e-commerce user interface. Have you made any progress in this area?

Also, your medium-term management plan operating profit targets of ¥9.0 billion in the fiscal year ending March 31, 2024, and ¥12.0 billion in the fiscal year ending March 31, 2026 seem rather ambitious. Are you confident of achieving of them?

A. The discussion about increasing website employee numbers by 250 was in reference to the entire Group, not just e-commerce, and is part of the company's workforce transformation. Also, even though we will be hiring people from outside of the company, part of the plan is to also train up existing employees. For example, eight of the 11 members responsible for the e-commerce user interface that was mentioned earlier were reassigned from elsewhere in the company for the purpose of being trained as digital-savvy employees.

As for the operating profit targets in our medium-term management plan, we are confident about the first year of the plan because we are making steady progress on executing our strategies. The pace of recovery from COVID-19 will probably ease off somewhat, but we are still entirely confident that we can certainly achieve operating profit of ¥12.0 billion in the final year of the plan.