MARUI GROUP Co., Ltd.
Financial Results Briefing for the Fiscal Year Ended March 31, 2023
<Questions and Answers>

Q. I am grateful that President Aoi gave us such a thorough and detailed explanation. I would like to know what caused the delay in both Retailing and Fintech targets and what response you have made. In addition, we would like to hear your thoughts on how to return to forecast levels with a view to achieving the Medium-Term Management Plan if future profit forecasts are not met due to changes in the external environment and other factors.

A. The delays to reaching the target are mostly due to external factors, including COVID-19. We think it's fair to say that most of the negative results from the previous year and our targets are due to temporary factors. However, regarding the rent guarantee business, we honestly feel that the initial expectations were high. We also mentioned that the development of large-scale business partners in the rent guarantee business did not progress well, but we think this was due to the COVID-19 effect, which made it difficult to conduct business even if we wanted to. We can tell you with confidence that we can recover from this fiscal year and beyond, including these points.

We would like to apologize for the failure to meet our target for the rent guarantee business, which was significantly misplanned in this year's financial results.

The biggest reason for this was that the number of new users fell short of our targets. For the fiscal year ended March 31, 2023, we envisioned that the number of new customers, which had been on a temporary downward trend since the COVID-19 pandemic, would recover as restrictions on activity were lifted and the flow of people returned, and we formulated a target for new customers based on this. Not only that, our sales activities went into full swing due to the easing of COVID-19 restrictions, and we made targets on the assumption that the development of new business partners would reach a certain level, but unfortunately it did not go as targeted. This fiscal year marks the third year of the Medium-Term Management Plan, and over the next three years, we will strive to achieve our target of ¥25.0 billion. We think the most important thing here is to make sure we develop new customers. We are currently in negotiations with several major real estate management companies of the same size as ABLE. But the first priority is to ensure that these negotiations are realized, and at the same time, our new business for offices and tenants is gradually getting on track, so we hope to make up for the lost growth.

Q. Regarding the change in the shareholder returns policy, I understand that you are entering the next phase because you have achieved the balance sheet figures you aimed to achieve, but I would like to hear more about the concept of the next phase. Return on equity (ROE) of 13% or more and a payout ratio of 55%, which make up the dividend on equity (DOE) ratio of 8%, are targets that have been in place for some time, and I feel that they have not changed. I understand that the Board of Directors discussed a new shareholder return policy, but what was the background to this?

A. For quite some time now, we wanted to implement DOE because it is a very good method that can both improve capital efficiency and realize a policy of stable, long-term dividend increases. However, since the ROE level was low at less than 8%, we first decided to achieve ROE of 8% or higher along with income growth to get the business on track. With the completion of our balance sheet, which we aim to achieve by acquiring ¥50.0 billion of our own shares over a Medium-Term Management Plan of 2 years, and the level of ROE becoming clear, we introduced DOE with much patience.

Q. In the past, share buybacks had been announced as an “acquisition,” but this time you announced you had “set a quota.” When you talk about buying your shares when future profitability is not fully factored into the share price, what does that mean?

A. This means that planned share buybacks, as we have done in the past, will end with the completion of our capital policy. However, it does not mean that buybacks will not be done at all, but that they may be done flexibly in the future. If future profitability is not fully factored into the share price, such as in the recent or current situation, we would like to be able to purchase our own shares flexibly. Share-price-conscious management is also encouraged by the Tokyo Stock Exchange (TSE) in conjunction with a response of less than 1 times the price-to-book ratio (PBR), and I hope that you will take this as meaning that we are also going to do buybacks with that in mind.

Q. The improvement in profitability as seen in ROE has progressed to some extent, and the balance sheet is now in an ideal form, which is why you are introducing DOE. Is it correct to assume that this does not mean that you are going to enter a phase where DOE is stable but will not grow much, but rather that you will continue to grow, but a base for growth has been established?

A. You are right. Some people may think that using DOE is done by a mature company that does not grow much, but it is a very good system that can combine both continuous improvement in capital efficiency and a policy of stable, long-term dividend increases, and we have wanted to introduce this system for some time. Also, regarding the DOE level of 8%, this is quite high among listed companies. Underpinning this is our confidence that we will definitely achieve our Medium-Term Management Plan target of ROE of 13% or more for the fiscal year ending March 31, 2026. Going forward, we intend to strengthen our human capital investment as I have just explained and enter the next stage of growth.

Q. I would like to confirm the negative factors for the Retailing business target. It is true that the temporary decrease in rent income due to the withdrawal of the directly managed sales floors was a major factor. But I also think that the speed of introducing new non-retail tenants, who should have been on fixed-term rental contracts, was not as fast as expected. In the next fiscal year, your target is to resolve this and increase income, but can we expect steady progress in bringing in new tenants to meet that goal?

A. As you pointed out, although we achieved the operating income target, revenue from fixed-term rental contracts was down ¥2.4 billion against the target. This was due to the delay in bringing in tenants. Since we have withdrawn our private-brand specialty stores in the last four years, the increase in the non-operational floor space coming out of this area, coupled with the expiration of the tenant contract, has expanded, and the reason for this is that we have not been able to fully transition to fixed-term rental contracts. On the other hand, we are confident that we can really recover in the future. This is due to the fact that revenue from fixed-term rental tenants in the third and fourth quarters of the fiscal year ended March 31, 2023 was 101% and 103%, respectively, higher than the previous year. Since we have been able to reduce the non-operational floor space to the 8,000 *tsubo* level (about 26,500 m^2) this fiscal year, we believe that we will be able to increase our revenue by ¥2.1 billion for the current fiscal year under fixed-term rental contracts, as targeted.

Q. The steady growth in transactions has been confirmed by previous financial results. I would like to know the factors behind the delay in the recovery of installment fees. Why was the recovery delayed, even though you formulated the target on the assumption of a time lag between the recording of transactions and the receipt of installment fees?

A. Sales of installment fees are not linked to transactions. After a steady increase in transactions, the balance builds up, which results in revenue. This is almost as expected, and you can assume that we are on pace to achieve the Medium-Term Management Plan.
In the explanation, we think we have explained the two factors why Fintech did not meet the target and why the income growth rate is slowing down. But the installment fee is only a factor in the income growth rate slowing down, not a factor for missing the target.

Q. As for share buybacks, in the past, I think you have always done everything you said you would do when you issued a release about buying back your own shares. But this time you announced that you will do so only when the corporate value is not fully factored into the share price. Does this mean that there is a possibility that you may not buy back shares depending on the share performance after tomorrow?

A. In the past, we had planned share buybacks to optimize our capital, so we had implemented everything we announced. But from now on, we may not trigger a repurchase until future profitability is not fully factored into the share price.

Q. For co-creation investments, the profit contribution increased to ¥1.3 billion, but there were also many write-downs of securities as extraordinary losses. Compared with the profit contribution, there has been an extraordinary loss of about ¥8.5 billion in total for 3 years, which I think has a significant negative impact on earnings per share (EPS). I think this is an area where human capital investment is involved, but is this an area that can't be helped due to the nature of the business? Or if you're discussing narrowing the negative amount, let me know.

A. Co-creative investees are still small, so there are quite a few companies in the red. That would force them to be impaired in accounting terms. On the other hand, the valuation is something that can be assessed if the company itself has the potential to capture cash flow in the future, and it cannot be accounted for in accounting. So, there is a tendency for impairment to occur first. If you take unrealized gains into consideration, the internal rate of return (IRR) is 16%, so that is a timing error and you can expect it to return to earnings in the future.

Q. Compared with your company in the past, there has been a constant loss on valuation of securities over the last three years, which can be seen as impairing EPS. I think it will be difficult to raise the hurdle rate too much because you will lose the connection with good collaborators. What should I think about this?

A. Since the IRR is 16%, we can calculate that we will get back enough of what we lost in an extraordinary loss. We think it's a matter of time scale. It's only been about six years since we started venture investing. Even if it is the first company we invest in, let's say it takes five or seven years to go public (initial public offering or IPO). In the beginning, there are write-downs, but for the next five to seven years, through exits such as IPOs and M&As, there will be profits in the future. Currently, there are more write-downs and realized profits are limited. But looking at it over a span of 10 or more years, we hope you will understand that we are entering a later phase in which profits will emerge.

Q. I think it would be good if you could put together an explanation, including write-downs, from a long-term perspective where risks occur first and returns follow.

A. The listing plan of the investee was delayed due to COVID-19, but it will come out around the end of this fiscal year. So, we would like to organize it so that we can explain the outlook and overall picture of the second half of the investments.

Q. One of the factors that contributed to the failure of Retailing to meet the target of fixed-term rental contract sales was the amount of non-operational floor space. But I think that was partly due to the fact that you were unable to complete the rent reduction/relief. You explained that changing the tenant mix would increase unit prices and value, but I would like to ask if rent reduction/relief will come to an end due to contract renewals and so on.

A. The fact that we were unable to reduce the amount of non-operational floor space means that we did not force ourselves to introduce new tenants at low rents. We could have bridged this gap if we wanted to, but we didn't. As explained earlier, the rent for new tenants in the 250 lots we introduced last year was 26% higher than in the past. This will have a significant impact on revenue from fixed-term rental contracts for the current fiscal year. We regret that we did not meet our target for the revenue from fixed-term rental contracts last year, but we hope that you will be able to look forward to it this fiscal year.

Q. Regarding the comparison with QR payment providers explained on pages 64 and 65 of the briefing materials, I believe that the stock market is more interested in the comparison by target age group than in the comparison of settlement amount and settlement frequency. EPOS Card is aimed at younger people, and I fear that they are more likely to use QR payments. I believe that your company has maintained its position as the first card for the younger generation until now. But the competitive environment as the first cashless means of payment for the younger generation may be changing with the emergence of QR code payments and other such means. QR providers also run a credit card businesses, and credit settings are very flexible, such as using e-commerce (EC) data, so it seems that your company's unique and strong point is that QR providers are also equipped. Please explain this in terms of your company's share of card issuances among young people.

A. We think the fact is that younger people are using QR code quite a lot, taking advantage of its usability that it doesn't require any special credit and can be used immediately via a smartphone. On the other hand, in response to your question about whether this has had a significant impact on EPOS Card's ability to attract younger members—it has not. Rather, I believe that the current selection of cards for young people has become very severe in terms of what benefits they have over the long term, including the so-called altruistic point of view, rather than short-term financial incentives. Cards tailored to each individual's interests have been growing steadily, and the share of young people has increased significantly. It is safe to assume that the ratio of young people has improved compared with before the introduction of these cards tailored to each individual's interests.

Q. I have seen a graph showing that the number of new cardholder signups is increasing, but I also feel that the number of new signups is not particularly increasing compared with pre-COVID-19. Does it mean, although the younger generation is well captured, there is a possibility that the number of withdrawals is increasing, or that the older generation is moving to other companies?

A. The share of young people among new cardholder signups is steadily increasing. It does not mean that other age groups are decreasing, but overall, the number of cardholders has increased 130,000 this year, and the number of new cardholder signups has increased in all age groups