MARUI GROUP Co., Ltd.
Financial Results Briefing for the Fiscal Year Ended March 31, 2024
<Question and Answers>

Q. Could you elaborate a little more on the assumptions and thinking behind your plan for the fiscal year ended March 2024? Operating income was explained in detail in the financial results for the third quarter, but the result was short of the plan. I think the cause of this underachievement was more or less detectable three months ago, so first, please look back and provide a brief explanation including why the target was not achieved. The plan for the fiscal year ending March 2025 looks solid at first glance, but I have some reservations because there always seems to be a reason that is added afterwards, such as in today's explanation that the recovery from the COVID-19 pandemic was delayed by a year. What assumptions are set for the plan for the year ending March 2025?

A. We apologize for falling short of our plan. Operating income was ¥600 million lower in FinTech, and corporate eliminations fell short by ¥300 million. First, FinTech did not achieve the target, because transactions in travel and entertainment did not grow as expected and merchant commissions were a little short. Cash advance fees and rent guarantees also fell slightly short of plan and were down by ¥300 million, respectively. Failure to meet the target for corporate eliminations was due to higher-than-expected recruitment of digital human resources through a joint venture, Muture. Since the plan for the fiscal year ended March 2024 itself was quite challenging, the plan for the fiscal year ending March 2025 was formulated with a certain degree of sureness based on a detailed analysis of transactions and commission rates of each member store performed by the FP&A Department, which was newly established in February. Therefore, we do not expect to see a major deviation in the fiscal year ending March 2025.

Q. I would like to know why you expect to see no major deviation from the plan. For example, you talked about the macro environment, the degree of recovery, and real wages. Are you optimistic about the macro environment? In short, I would like to know what underlying assumptions have been set for the plan in terms of external factors in addition to internal factors.

A. As for macroeconomic factors, people are talking about a rise in real wages, but because we are basing our forecasts on actual results for the fiscal year ended March 2024, a rise in real wages is not factored into our forecasts. If real wages actually rise and spending increases, we recognize that as an upside against the plan. Also, we projected an increase in revenue from the second half of the fiscal year ended March 2024 due to the strengthening of strategies for cards tailored to each individual's interests as explained in the second quarter. However, since the projection was not definite, such indefinite factors were not incorporated in the plan at all. Therefore, we believe that the plan can be achieved.

Q. It seems that Retailing is recovering smoothly, with tenants moving in, including non-retail tenants, and e-commerce is growing. I would like to know more in detail. What specific businesses or types of tenants are there? What are the strong-selling products in e-commerce? On that basis, please explain whether you expect the same trend to continue into the new fiscal year, or whether you are looking for new business opportunities.

A. In the non-retail category of Retailing, we are working on creating stores that integrate online and

offline operations and experience-oriented stores. And we have been receiving an increasing number of inquiries from tenants that have been distributing products online, requesting us to collaborate with them when they open real stores. Specifically, such examples include the showrooms of cosmetics companies N Organic and Galaxy. In addition, we are seeing an increasing number of tenants that offer services to meet the needs of those who "want to learn." Such tenants include operators of English conversation classes and cram schools, as well as operators of mahjong classes, drone schools, casino schools, animation and illustration classes and such like. Ten years ago, the percentage of non-retail was 18%. This has expanded to account for as much as 61% today, which means that revenues are growing as a result. In e-commerce, while fashion merchandise is rising at 104% year over year, non-fashion merchandise is growing at more than 120% year over year, with event-type animation goods, etc., linked to real stores being particularly popular. As such, overall sales have increased by more than 110%.

Q. In FinTech, operating income is up 5%, but while KPIs such as transactions have been growing steadily, I feel that the growth in operating income is somewhat disappointing. If business is recovering so well, shouldn't a double-digit increase in transactions lead to a double-digit increase in operating income as well? Are there any underlying factors that we are not aware of? Please provide details.

A. We apologize for any concerns we may have caused in the first half of the year, but we achieved profit growth of ¥1.5 billion in the second half of the year and turned profitable also for the full year. If this trend of profit growth seen in the second half of the year continues, we expect an increase in profit of approximately ¥3 billion for the full year. However, we plan to invest in systems in the fiscal year ending March 2025. As FinTech expands, we believe there is a need to strengthen our system infrastructure and are considering relocating our data center. This investment includes initial costs, and we project that costs in the range of ¥500 million to ¥1 billion will be incurred in the fiscal year ending March 2025. We recognize that this investment is one factor that is holding back our operating income plan for the current fiscal year to approximately ¥2 billion.

Q. You mentioned earlier that the increase in revenue from cards tailored to each individual's interests was not incorporated into the plan for the fiscal year ending March 2025, but is it safe to assume that FinTech is back on a growth trajectory if there are no special issues such as increase in costs?

A. I personally believe that we have a very conservative top-line plan for the fiscal year ending March 2025, as we have incorporated the factor of the overall market being on a slightly downward trend into the plan. Based on this recognition, we plan to increase profits by ¥2 billion. Although we are not fully sure, we feel the market has recovered to some extent.

Q. In the financial results briefing for the first nine months, it was explained that the outlook for higher revenues in the fourth quarter was attributable to an increase in the number of operating days due to the leap year. I remember management responded that even if this did not happen, it would be all right because profit targets could be achieved by controlling expenses. Comparing the plan and actual results as of the third quarter, it appears that while expenses are on schedule, revenues fell short of the plan in terms of the performance of FinTech. Please explain again the differences from the most recent three-month plan.

A. First of all, although merchant commissions were expected to increase from the previous year due to 2024 being a leap year, they are ¥400 million yen lower than the third-quarter forecast. One main factor behind the decline in merchant commissions is that while February's numbers were better than those of January and March due to the leap year, the base numbers turned out to be lower than expected because of the overall weakness of the industry. In addition, in the rent guarantee service, we concluded partnerships with

leading management companies and were proceeding with the negotiations so that we could start the service in time to meet the highest demand period of March. However, the start was delayed two weeks or more than the initial schedule. The service has begun, and we expect a certain amount of sales effect in the fiscal year ending March 2025. However, we recognize that the delay in the start of the service to the following period caused the misreading of sales forecast for the fiscal year ended March 2024. These are the two major factors.

Q. While I believe the new plan has been formulated in consideration of the challenging environment, I am concerned about how effective the control of expenses will be if revenues do not reach the plan. In the fiscal year ended March 2024, while revenues did not reach the forecast, expenses did not decrease much, giving the impression that revenues and expenses were not well balanced. We are also hearing for the first time about an increase in system expenses, etc., and I am a bit troubled by the fact that new events arise each quarter. The intent of my question is to ask whether the costs are properly balanced against the increase or decrease in the company's revenues. Over the past year, I have been questioning that balance. I would like to hear your view in terms of cost control.

A. For example, when we look at the flow of expenses for the fiscal year ended March 2024, cash reward costs significantly exceeded the plan in the first half of the year, but the expansion of points by means of the prepaid card charge was unexpected. However, during the three-month period, we revised the point program, and expenses leveled off from the second half of the year. Thereafter, we expect the trend to be in line with transactions. Basically, we have full control of expenses to the extent possible and work to respond quickly when unexpected situations arise. In the case of FinTech, since variable costs basically account for 70% of the total costs, cost control requires changing the content of variable costs. We aim to continue our initiatives to reduce the variable ratio as in the case of the recent situation with cash reward costs. Therefore, we recognize that we have been able to adequately control SG&A expenses thus far.

Q. Looking at the financial results as of the end of the third quarter for the fiscal year ended March 2024, consolidated SG&A expenses are about ¥1.1 billion higher than the SG&A plan. Since personnel costs, etc., can decline by normal attrition, I do not think the increase has been very prominent, but even considering that the expenses accumulate given the large denominator of FinTech transactions while the growth rate becomes moderate, the growth rate of SG&A expenses was 7.6% for the fiscal year ended March 2024. The plan for the fiscal year ending March 2025 is 8.4%. I would like to know if this is an organic increase or if there are other factors, and why SG&A expenses were up ¥1.1 billion in the fourth quarter from the revised plan. Why are SG&A expenses rising more than expected while revenues recorded in IT, services and other segments were not particularly poor?

A. Expenses have increased in connection with corporate eliminations. The reason is that in order to secure digitally proficient human resources, the head office needs to hire aggressively when talented persons are found. This caused costs to rise. In addition, Epos S.S. Insurance Co., Ltd. has been included in the scope of consolidation from this fiscal year as it has become a little more influential, and hence sales and expenses have both increased. We believe that the fact that we did not take this into account because the company originally had no impact on a profit basis, caused the discrepancy against the plan.

Q. In regard to interest repayments, I would like to ask about the current status of lawyer acceptance cases. The balance of provision is approximately ¥8.4 billion, which seems to have decreased by about ¥4 billion in a year. If a buildup of additional reserves were to take place during the period, I think a substantial loss might arise in operating income. At this point, since the balance already proceeded to decline in the third and fourth quarters, I am wondering whether it will be a problem even if no building up of additional reserves is made. I would like to know if a slower pace of interest repayments with no buildup of reserves at this time could pose a risk with respect to the recognition of

expenses.

A. The amount received, a leading indicator of interest repayments, has been growing at a slower rate each quarter. Repayments amounted to approximately ¥4 billion yen over the fiscal year ended March 2024, which is about 84% of the previous year's level. The current trend in the amount received has been moving downward since August and is now less than 80%, and into the 70% range of the level of a year earlier. We believe this will impact the amount of repayments for the fiscal year ending March 2025. Thus, although the current balance of provision is approximately ¥8.5 billion, based on the future projection of repayments, the balance will likely be even lower than this year's ¥4 billion. At this time, we do not expect to build up additional reserves unless this trend changes significantly.

Q. The concern is the possibility that if the speed of interest repayments slows down during the process, the amount of provision could be increased by ¥5 or ¥6 billion in the final year of the medium-term management plan, resulting in a significant decrease in operating income. I can't help but think of this risk. How do you feel?

A. We have been advised by our Accounting Auditor at every financial closing that the balance of reserves is appropriate. If this trend were to change abruptly, we would need to take appropriate action, but we recognize that even based on past trends, it is reasonable to assume that the overall trend will remain the same.

Q. In that sense, would you say that there is little need to worry if the current pace of quarterly acceptance continues to trend downward?

A. Yes, that is our assumption.

Q. There was a question about SG&A expenses earlier. Looking at the disclosed items regarding consolidated SG&A expenses for the fiscal year ended March 2024, the rise in sales administration costs was quite high at 20% in the fourth quarter. I assume this may include one-time costs, but please describe specific reasons if known.

A. Sales and expenses were recorded due to the consolidation of Epos S.S. Insurance Co., Ltd. in the fourth quarter. The breakdown of the increase in sales promotion expenses mainly corresponds to personnel and sales administration costs, but since sales are generated as well, we believe operating income is not affected.

Q. Should we assume that Epos S.S. Insurance Co., Ltd. may show a similar increase in the first three quarters of the fiscal year ending March 2025? Also, can we assume that it is factored into the plan?

A. Yes, it is incorporated in the plan. In the year ended March 2024, the amount for the entire year was recorded in the fourth quarter, but in the year ending March 2025, a quarter of that amount will be recorded each quarter.

Q. You mentioned earlier that costs related to the data center will be a profit decreasing factor worth ¥500 million to ¥1 billion in the fiscal year ending March 2025. Was this originally planned in the medium-term management plan? I would also like to confirm whether the profit decreasing factor of ¥500 million to ¥1 billion in the fiscal year ending March 2025 will become somewhat of a profit increasing factor in the following fiscal year ending March 2026.

A. We have considered various options in regard to the data center. We currently have a data center in Toda, but because there is risk also in terms of location, we are considering relocating the data center to accommodate the expansion of our FinTech business. The relocation is expected to require an initial cost of approximately ¥500 million to ¥1 billion. This initial cost will likely be a profit increasing factor in the fiscal year ending March 2026.

Q. While the initial cost will be a profit increasing factor, should we consider that the running cost may increase compared to that of the conventional data center in Toda?

A. While there will be some amortization burden from the purchase of a new system, our current view is that costs will not increase significantly compared to the cost burden at Toda.

Q. The operating income target for the year ending March 2026 in the medium-term management plan is ¥60 billion, and I understand that the recovery from the COVID-19 pandemic has been slower than expected, making it more difficult to achieve the target. Still, I think we need to push up profits a little more in the next fiscal year ending March 2026 than in the current fiscal year. Looking at the page on non-operational floor space in Retailing, I see that the magnitude of growth in Retailing in the fiscal year ending March 2026 may be smaller than in the fiscal year ending March 2025 because of the slower pace of decline compared to that of this year. Therefore, I would like to know what factors, if any, will help push up profit growth for the fiscal year ending March 2026.

A. It is true that non-operational floor space will decrease, 1,800 tsubo in the fiscal year ended March 2024, 1,900 tsubo in the fiscal year ending March 2025 and be the lowest in the final year of the medium-term management plan at 1,000 tsubo. However, since tenant revenue can be realized by multiplying the area by the monthly unit price per tsubo, we believe that the monthly unit price per tsubo can be further expanded in the fiscal year ending March 2026. Regarding the expansion of tenant revenue, revenue from events, and e-commerce profits, we recorded ¥2.1 billion in the fiscal year ended March 2024. We are forecasting ¥2.3 billion for the fiscal year ending March 2025 and ¥2.4 billion in the fiscal year ending March 2026. We believe that the goals of the plan are not difficult to achieve. However, a temporary increase in expenses is projected for the fiscal year ending March 2025. Expenses will increase due to higher utilities expenses and system costs resulting from the replacement of settlement system terminals. Nevertheless, we believe that we will be able to reduce expenses in the fiscal year ending March 2026 and are expecting to achieve the same or higher level of profit growth in the final year of the medium-term management plan.

Q. What level of utilities expenses and one-time terminal replacement cost are you expecting for the fiscal year ending March 2025?

A. Utilities expenses are expected to increase by ¥300 million in the fiscal year ending March 2025. Utilities expenses are mainly recorded in the Retailing segment of the entire Group, which will increase SG&A expenses by ¥300 million. System costs associated with the replacement of terminals will increase by ¥400 million in the fiscal year ending March 2025. Conversely, however, costs will drop ¥200 million in the fiscal year ending March 2026 under our cost reduction plan.