MARUI GROUP

MARUI GROUP Co., Ltd.
Summary of Teleconference Financial Results Briefing for the 3 Months Ended June 30, 2019
<Overview of Financial Results>

I will explain the Summary of Financial Results for the 3 months ended June 30, 2019 in line with the Digest at the beginning of the FACT BOOK.

First, please refer to ①**Consolidated performance**.
EPS, which is a KPI of the medium-term plan, decreased 1% YoY to ¥25.7, and fell for the first time in 5 years due to a decline in net income.

- Total Group transactions increased 17% YoY to ¥685.8 billion, driven by increasing card shopping transactions in the FinTech segment to 18% (increased by 3% points from previous year).

- Revenues was down 1% YoY to ¥57.4 billion due to Retailing revenues declined year on year, marking for the first decrease in 3 months revenue in 2 years.

- Gross profit rose 3% YoY to ¥45.8 billion, marking the 9th consecutive year of growth.

- SG&A expenses increased 3% YoY to ¥37.0 billion, mainly due to variable expenses resulting from the expansion of FinTech services, although cost reductions were achieved through transition to shopping centers and fixed-term rental contracts in the Retailing segment.

- As a result, operating income increased 2% YoY to ¥8.8 billion, marking the 5th consecutive year of increase.
  Progress toward full-year targets was 19%, slightly lower than the previous year.

- Net income was down 2% YoY to ¥5.6 billion, for the first time in 5 years due to rebound of gain on sales of real estate in previous year.

Next, I would like to explain ②**Factors affecting operating income**.

- We liquidated revolving payment receivables in the fiscal year ended March 31, 2019, and operating income increased 6% YoY to ¥9.1 billion including the extraordinary factors of ¥0.3 billion decreases resulting from amortization of liquidated accounts receivable and others in the 1st quarter.
- Amortization of liquidated accounts receivable and others are the extraordinary factors in FinTech segment, even excluding these extraordinary factors, operating income in FinTch segment rose ¥0.9 billion YoY.
- Retailing segment was down ¥0.1 billion YoY.
- Furthermore, due to ¥0.3 billion increase in corporate and eliminations, stemming from factors such as an increase of R&D expenses, overall consolidated operating income excluding extraordinary factors increased by ¥0.5 billion YoY.

Next, I will explain ③**Summary of consolidated balance sheet**.

- Operating receivables (including liquidated accounts receivable) increased by ¥20.2 billion from the previous fiscal year-end, due to the continued expansion of card shopping transactions.
- In the 1st quarter, we raised ¥15.0 billion through liquidation of lump sum payment receivables. As a result, the ratio of liquidated accounts receivable was 19.1% as of end of June, compared to a target of 25% for the fiscal year ending March 31, 2021.
  There was no effect on profit or loss due to the liquidation of receivables

with lump sum payment.

- Due to growth of operating receivables, interest-bearing debt increased by ¥21.7 billion from the previous fiscal year-end.
- Ratio of interest-bearing debt to operating receivables was 89.1%, and the equity ratio was 31.5%.

Moving on to the middle row, regarding ④**Cash flows**.

- Core operating cash flows, net cash provided by used in operating activities less the change in operating receivables, decreased by ¥0.7 billion from the previous year, due to an increase in income taxes paid.
  In the fiscal year under review we invested in 3 startup companies, including "FABRIC TOKYO Inc.", 2 investment funds and renovations. As a result, net cash provided by used in investing activities was ¥7.3 billion, which was ¥2.7 billion higher than in the previous fiscal year.

Please continue to the table ⑤**Segment income**.

- Operating income in the Retailing segment decreased 4% YoY to ¥2.4 billion, and operating income in the FinTech segment increased 7% YoY to ¥8.1 billion.
  As explained in ②Factors affecting operating income, operating income in FinTech segment excluding the extraordinary factors was ¥8.4 billion.
- ROIC was 0.8% on a consolidated basis, unchanged from the previous year.

Next, we will explain ⑥**Factors affecting Retailing segment income**.

- The biggest factor behind the increase in segment operating income was the ¥0.3 billion income improvements stemming from steady transitioning to shopping center type fixed-term rental contracts.
  The ratio of fixed-term rental contract floor space reached 107% at the

end of June, thanks to the continued use of space in the back of stores and switching from directly operated stores.

- On the other hand, income in the consignment sales declined by ¥0.15 billion due to poor sales at directly operated stores and consignment sales.
- In E-Commerce, this was a negative ¥0.15 billion due to reduce sales of existing customers by poor sales of private brand products.
- Due to a decrease in refurbishment of store interiors and others, sales of platforms declined ¥0.1 billion.
- As a result of the above factors combined, the Retailing segment reported an operating income decrease of ¥0.1 billion, or 4% YoY, for the 3 months ended June, 2019.

Next, the status of the ⑦**FinTech segment** is explained in the bottom row.

- As I mentioned earlier, FinTech segment operating income increased 7% YoY to ¥8.1 billion. FinTech segment operating income (excluding extraordinary factors) increased 12% YoY to ¥8.4 billion, and the progress rate toward full-year targets was 22%, a progress rate that is essentially the same period in the previous year.
- During the 1st quarter, the number of new cardholders increased by 10,000 YoY to 200,000.
  The reason why is that the expansion of membership from the Internet and services.
- The total number of cardholders at the end of June was 6,970,000, up 350,000 from a year earlier.
  The number of Platinum and Gold card members increased by 320,000 to 2,220,000. The Platinum and Gold card ratio to overall card memberships was 32%, indicating steady progress in number of individuals adopting their EPOS card as their main credit card.
- FinTech transaction increased 18% YoY to ¥630.8 billion, driven by

transactions of gold and platinum card and the expansion of the rental guarantee business.

- The operating receivables of revolving and installment payments (including liquidated accounts receivable) rose 10% YoY to ¥342.1 billion.
  The balance has continued to increase on the back of our measures to improve the convenience of payment methods and our initiatives to expand the usage of installment payments.
  Due to an increase in the number of cardholders, the balance of cash advances (including liquidated accounts receivables) increased 3% YoY to ¥152.1 billion.

Although not in the FACTBOOK digest ,
I would like to explain **The status of our ESG efforts.**

- First of all, MARUI GROUP was included in the three ESG indexes for Japanese stocks that are utilized by the Government Pension Investment Fund (GPIF) for the 3rd consecutive year.
- MARUI GROUP has also been included in the FTSE4Good Index Series, a series of well-known responsible investment indexes complied by FTSE Russell, for the 3rd consecutive year.

- In addition to IRDAY and Annual Securities Report, TCFD is also described in the latest Financial Results Summaries (in Japanese), so please check it.

- Going forward, MARUI GROUP will seek to become a forerunner in ESG management through the active practice of co-creation sustainability management with its stakeholders to contribute to the development of a flourishing and inclusive society that offers happiness to all.

Returning to the digest, please refer to ⑧**Forecasts for the fiscal year ending March 31, 2020**.

- Although the progress rate for the 1st quarter was slightly lower than the previous year due to a decrease in operating income in the Retailing segment and other factors, there will be no revision of the earnings forecast as we are moving ahead with a review of measures to expand earnings and to reduce costs.