MARUI GROUP Co., Ltd.
Financial Results Teleconference
for the Nine Months Ended December 31, 2019
<Questions and Answers＞

Q. What has been considered about the downward revised forecasts in the Retailing Segment? You mentioned the effects of consumption tax hike and a mild winter as reasons of downward revisions. Is the Third Quarter’s poor performance included in the downward revisions? Or is the outlook for the future also included in? I think it is difficult to determine whether this is one-time factors or continuation factors, but should such impact on income be reduced through the transformation of the business contracture?

A. The revised forecasts include poor performance in the Retailing Segment for the Third Quarter. The decline in operating income in the Third Quarter included negative sales of ¥0.7 billion in consignment sales floors. As a breakdown for a decrease of ¥0.7 billion were decrease of ¥0.2 billion due to store closed by the typhoon, and the rest of decrease due to the effects of consumption tax hike and a mild winter. The typhoon influence will disappear in the Fourth Quarter. And our business days increase 1 day. For these reasons, positive or negative of the consignment sales floors income will seem to even out. It is difficult for E-commerce to raise its top line, but we hope to achieve our targets for the Fourth Quarter by continuing to cut costs. As you said, we have to make sure that income is not affected by changes in environment, and we also have to reflect on ourselves, but still the consignment sales floors are affected by consumption trends and a mild winter. In future, we will further increase the number of restaurants, services, and experience-providing tenants to create stores that are less susceptible to such influences.

Q. As for the FinTech Segment, I think it would have been good performance in the Third Quarter alone, including in the negative impact of the amortization of liquidated accounts receivable. I don't calculate it properly, but the operating income excluding extraordinary factors will be about an increase of 11~13%. I think there were effects such as the 5% points reward of government, but were there any other extraordinary factors? Can I expect this income growth to continue? Also, what is the number of accepted cases of attorneys' intervention in interest repayment?

A. The FinTech Segment operating income excluding extraordinary factors reached a substantial increase of ¥1.3 billion, although the 5% points reward was partially attributable. We expect a similar substantial increase of ¥1.3 billion in the next Fourth Quarter and we believe this will be ordinary increases. And regrettably, the number of interest repayments accepted was higher in the Third Quarter than in the previous year. The number of interest repayment claims seems to be decreasing in a specialty consumer loan company as mentioned in a newspaper article, and we believe that the number of requests for the interest repayments will gradually decrease because we have a similar view.

Q. How much does it exceed? Has it increased a lot or exceeded a little?

A. I think you can consider it a little.

Q. It should be leveled off or decreased, but is it correct to say that it will not decrease easily?

A. That's right.

Q. Marui Group had previously said that the impact of consumption tax hike would be neutral, with little impact on income in both the Retailing and Fintech segments. There have been many effects, such as a mild winter, but what was the biggest factor that upset the forecasts?

A. The forecast of no impact on income was prepared in consideration of the trend at the time of the previous consumption tax hike. According to it, transactions fell on the month after the tax hike, but soon recovered afterwards. This time around, transactions in October dropped sharply. Moreover, decline in transactions in November and December, which may have been affected by the mild winter, was bigger than we had expected. We apologize for our poor performances.

Q. You have revised full-year forecasts, but I can see an income increase in the fourth quarter alone, recouping some of losses in the Third Quarter. I am a little worried that not to be able to cover all negative impact in the Third Quarter by transiting to fixed-term rental contracts, increasing the number of business day and promoting E-commerce initiatives, etc.

A. Raising the top line does not cover everything, so we need to cut costs further. In particularly, E-commerce needs to cut costs very aggressively.

Q. Under previous forecasts, the Retailing Segment operating income would be an increase of ¥0.9 billion by improvements from transition to fixed-term rental contracts, an increase of ¥0.5 billion with E-commerce and an increase of ¥0.1 billion with platform, resulting in an overall increase of ¥1.6 billion. Given the current situation, how did each of these forecasts change?

A. The forecast of platform didn’t change, on the other hand, E-commerce and the consignment sales floors fell unexpectedly. If possible, we would like to make the consignment sales floors income even out. We think that the improvements from transition to fixed-term contracts will be slightly higher than initial forecasts.

Q. The platform forecast has not changed. Does the decline in income in the Third Quarter mean that the start of large-scale construction was delayed?

A. That’s right.

Q. I would like to ask about the way of thinking of the revised forecasts. Marui Group revised down its operating income by ¥1.5 billion. However, I think that you could be cutting back on Selling, general and administrative (SG&A) expenses further, or you could have added gain on transfer of liquidated accounts receivables as same as some listed companies. Although, if it goes too far, it will create problems for the future. What is the real intention for the downward revision of ¥1.5 billion at this quarter? Next fiscal year will be the final year of the mid-term management plan, has the company’s perspective changed with this revision?

A. We think that even to achieve the revised forecasts needs to further cut costs, so we think it difficult to achieve more. Liquidation of receivables is not intended to achieve income targets.

Q. Will they be implemented in line with your company’s financial balance benchmarks?

A. You’re right. As for the medium-term management plan, we did not expect the impact of the consumption tax hike on the main indicators to be as strong as the performance in the Third Quarter of this fiscal year. We are currently examining all indicators for next year as closely as possible.

Q. Regarding the extraordinary loss in the Third Quarter, it can be seen that the more revaluation loss on write-down of investments in subsidiaries and affiliates than the Second Quarter. I would like you to tell me about this.

A. A write-down was recorded due to the deterioration in the financial condition of certain investee companies.

Q. I think it's hard to predict, but because you recorded a write-down in this quarter, won't it come out next year?

A. We accounted for large write-down in the investee companies as we explained, so about these companies, there is no problem with your understanding.

Q. It's assumed that the consumption tax hike affected not only the Retailing Segment's specialty stores and E-commerce sales but also card shopping transaction growth in the FinTech Segment. As explained earlier, there has been also the benefit of the 5% points reward. Please explain these effects numerically.

A. In the FinTech Segment, the impact of the consumption tax hike is not expected to be significant. The growth rate declined slightly in October following the tax hike. But it has been relatively steady since then. Especially, there is high contribution of Service transaction growth. We believe that the 5% points reward greatly affected the increasing use of credit cards.

Q. Will this growth slow down when the campaign ends in June?

A. The effect may become smaller, but I think there is a possibility that it won't change so much if credit cards are used regularly by customers thanks to the 5% points reward.

Q. In terms of the FinTech Segment, the growth has slowed in this quarter and revenue was only 6% growth. I don't think it's going well despite less impacts of consumption tax hike and the 5% points reward. Service revenue was also low considering it was supposed to be increased from the second half of the year, including Able's rent guarantee. What are the prospects for demand next year? And even though revenue's growth has slowed, why does the operating income increase by 10% in the Third Quarter alone? You said expenses increased, but operating income doesn’t increase unless expenses are reduced when revenue fall. Please tell us about the correlation between revenue and operating income.

A. We had a big drop in transaction in October, but it has returned gradually to previous level before consumption tax hike started. In the Third Quarter alone, the FinTech Segment’s transactions were down, but it has returned to previous level and we are not worried. As for the cost, we spent a lot of money on card issuance last year. However, we haven't used much this year, so the cost is relatively low. As for Service revenue, rent guarantee revenue was 127% YOY. We expected it exceeds 130% YOY before, but initiatives with Able started in May and expected to be effective in February and March. For that reason, we believe that can achieve 130% YOY.

Q. Is 130% YOY only in the Fourth Quarter or in this fiscal year?

A. It is in this fiscal year.

Q. What should be done about specialty stores and the remaining parts of spaces which in not fixed-term rental contracts? Although the impact of the mild winter was significant, these factors and E-commerce may have contributed to a decline operating income. What measures will you take in the next couple of years?

A. We plan to increase the number of experience-providing tenants throughout the entire store, regardless of whether consignment sales floor or not. We believe it reads to the elimination of seasonal factors and others. We also plan to close some specialty stores under severe conditions. At the same time, we have recently attracted start-up companies, especially D2C brand shops, and the number of operations outsourced to Marui Group has increased. It seems that our specialty store stuffs can play important roles in such case. So that reason, we are going to increase such shops.

Q. The amount of floor space attributable to selling products is 66% and the amount for floor space accounted by experience-providing tenants, mainly foods and services is 34% throughout the entire store. The plan is to increase the latter ratio to 60%, but considering the attraction of whole stores in currently, do you think 60% is not too much? The optimal solution varies from store to store. Is it all right that stores become including more and more experience-providing tenants aiming for this target ratio?

A. In the present circumstances, I think we still need to increase experience-providing tenants. In the Retailing Segment, D2C companies, which have been growing recently, strongly desire to open real stores, so we need to include these in our stores. D2C companies consider that opening real store is opportunities to acquire new customers and communicate with them. Rather than focusing on the target ratio, we will increase the number of such tenants and consequently the amount of floor space attributable to selling products will decrease.

Q. If we calculate the forecasts for the Fourth Quarter alone by subtracting recent revised forecasts to the actual results for nine months ended, the Retailing Segment operating income will increase by two-digit, the FinTech Segment operating income will decrease and Corporation /Elimination will be smaller YOY. However, weren't the forecasts made from the bottom up? Is it better not to see the incomes of each of these segments only for the Fourth Quarter?

A. There is a difference between a simple calculation and a calculation with extraordinary factors. You are right about the Retailing Segment, but the FinTech Segment operating income excluding extraordinary factors will expected to increase by ¥1.3 billion in the Fourth Quarter as same as the Third Quarter. Although there are extraordinary factors, we have actually created the revised forecasts based on the results of bottom-up efforts.

Q. Is it correct to understand that Corporation/Elimination, which was ¥1.7 billion until now, will down under ¥1.4 billion? Are you seriously aiming for a 20% operating income increase in the Retailing Segment in the Fourth Quarter?

A. That's correct.

Q. Selling, general and administrative (SG&A) expenses are expected to increase by 8% YOY in the Fourth Quarter alone, which is expected to be higher than the First Quarter to the Third Quarter. There is a little sense of discomfort because you have been explained about cost cuts. Please tell us about the background.

A. In the Fourth Quarter, we expect that revenue will increase 7% YOY, as well as 8% increase in SG&A expenses. The SG&A ratio will decrease from nine months ended and we will improve overall cost efficiency.

Q. In terms of transaction of card shopping, you have disclosed monthly performances on the FACTBOOK, but the volume of transactions in October has slowed down, and the levels in November and December are still weaker than before. Please tell us some background, for example, on the difference between light users and core users, such as Platinum and Gold card members. Or stores selling durable goods such as home appliances are weak, but does other shop return to previous level? I feel uneasy when I think the transaction volume is slowing down despite the 5% points reward.

A. The growth rate tends to slow down as the denominator of transaction volume increases. In particular, electronics retail stores continued to struggle in the Third Quarter, but convenience stores and supermarkets, which have been affected by the 5% points reward, have seen significant growth. We are not worried because the transaction volume is probably increasing recently.

Q. Because the durable goods also seem to return to previous level in the future. I see.