

MARUI GROUP Co., Ltd.
Financial Results Teleconference
for the Three Months Ended June 30, 2020
<Questions and Answers>

- Q. You said that the recurring gross profit have helped stabilize profits. I understand that your profit decline is smaller than the entire industry, but I think that because the rent is included in your recurring revenue, the amount has decreased considerably. Please tell me once again about the idea of recurring revenue and recurring gross profit. What are the things that are unwavering in this situation? In addition to regular income, I think there are other things that can be reduced like rent if something like this happens. When you see this COVID-19 shock, how do you evaluate the resistant of the recurring revenues? Specifically, in addition to the rent, I would like you to tell me in more detail if there is a reduction in the amount of the recurring revenues.
- A. As you said, in terms of actual results, the rent has been reduced from recurring revenue. The tenants are supposed to pay the rent, but considering the long-term relationship with our business partners, we decided to return the rent partially this time based on the judgment that it would be better to return it in the long term. Therefore, unfortunately, the recurring revenue has decreased. Basically, all the other recurring revenue are gained based on the contract, so except for the ones judged as such, they are gained. Therefore, we have received everything except the rent income as scheduled this time.
- Q. You have a new scenario called Scenario E-G, and I think that if you can explain it in this detail, you should have submitted the full-year plan even if it is in the form of ranges. The negative range of operating

income under the optimistic scenario became larger as the company no longer expected to see a recovery in sales as compared with the earlier forecast. Under the worst-case scenario, on the other hand, operating income would have fallen by more than minus ¥9.0 billion at the beginning of the year, but this time around ¥8.0 billion. I think the range of profits has narrowed a bit, but what is the reason why you don't have to use the worst-case scenario at the beginning of the year? Also, I am grateful for the fact that you made assumption net income for the current term, which is very easy to understand. In terms of net income, I believe that the negative ¥13.0 billion scenario represents a plan with significant extraordinary losses. What is the definition of this?

- A. For the first point, where the negative range of operating income under the worst-case declined from ¥9.0 billion to ¥8.0 billion, we took a 2-month store closures in this first quarter, and actual performance is a little better off than we had estimated. Taking this into account, the worst-case scenario reduced the negative range of the operating income from ¥9.0 billion to ¥8.0 billion. Second, regarding the large decrease in net income in Scenario G, we have already included in Scenarios E and F extraordinary losses of ¥7.5 billion incurred in the first quarter. In addition, in Scenario G, we assume that there will be another one-month leave period, so we estimate that the amount of extraordinary losses will be larger. As a result, net income declined greatly. As a result, net income is negative ¥9.0 billion to ¥13.0 billion, and negative ¥9.0 billion includes extraordinary losses of ¥7.5 billion. In the case of minus ¥13.0 billion, we take into account additional extraordinary losses in the event of another store closures.
- Q. For clarification, is it possible that Scenario E will incur extraordinary losses related to COVID-19 more than ¥7.5 billion?
- A. No. Scenario E incorporates only ¥7.5 billion.
- Q. As you explained earlier, how did you calculate the negative COVID-19

effect of the Retailing segment to be minus ¥1.3 billion? It seems that you just calculated negative ¥1.5 billion of actual performance minus ¥0.2 billion of consignment sales decline to be ¥1.3 billion, so please tell me how minus ¥1.3 billion was calculated. Second, what is the latest trend in the number of inquiries from lawyers about the FinTech business?

- A. For Retailing's negative ¥1.3 billion, we didn't subtract minus ¥0.2 billion, but calculated minus ¥1.3 billion first. We calculate the drop in sales in April during store closures and this periods compared with the underlying trend of Retailing first, in addition, general variable costs decreased, and taking into account the extraordinary losses of approximately ¥7.0 billion, therefore we calculated negative ¥1.3 billion. Therefore, the amount taken to extraordinary loss is large, so it is only minus ¥1.3 billion. Another point is that interest refunds were very low in April and May, when the world was not moving very much. However, because it was put together in June, the number of Claims, leading indicator of interest refunds, was close to the previous year's level in the first quarter.
- Q. You said that FinTech's transaction volume is expected to be 105%, but how much is expected in terms of revolving and installment payments transactions? In the first quarter, I think the trend is weaker than the overall trend. In particular, when there is a demand for travel and so on, I think that it is easy to get revolving and installment payments, but I need to assume that the growth related to leisure will be a little more weak due to the COVID-19 effects, so please tell me once again how much you expect revolving and installment payments, and why the results in the first quarter were bad.
- A. Regarding the expect of the transactions amount for revolving and installment payments, in the first quarter, the total amount of transactions was 105%, and we see revolving and installment transactions in the same way. For revolving and installment payments,

revenue is proportional to the balance, and in the original scenario 70% of annual revenue are generated from the balance at the beginning of the fiscal year. Therefore, revenue was not affected by the transactions in the current term, but the transaction volume used in the scenario is that in the first quarter, which was not very good. In April and May of this first quarter, the overall trend was down, especially in the real department stores, shopping centers, and what we call “travel and entertainment”, namely travel, movie theaters, and drama theaters. The use in real came back in June, and the total came to 105%. However, considering that the trend had been from 117% to 118%, the difference is close to 15%, and there is no problem to think that the difference is mostly for travel and entertainment. That's why the volume was weak in the first quarter.

Q. Are you expecting 105% for the second quarter and beyond?

A. That's right. 105% is assumed.

Q. Does this mean that the revolving payment and other things are same, so there will be risks in the travel and entertainment sector if it becomes larger? I think that profits of the revolving payments have a strong point to be stable in current period because of slow-acting and depending on its balance. But I am concerned that if transaction volume growth slows, the scenario for recovery in profits in the next fiscal year and year after next may be delayed.

A. That's right. There will be no impact in the current term, but from the next term on, there will be an impact if the transaction volume of this term falls.

Q. The second point is that employment adjustment subsidies are divided into non-operating and special profits. What is the difference between them? Also, is the employment adjustment subsidy all included in the first quarter?

A. With regard to the employment adjustment subsidy, the absence of employees at stores is recorded as extraordinary losses, and other

personnel expenses at the head office are recorded as non-operating expenses due to the absence of employees at the head office. Non-operating expenses are ¥0.6 billion, and extraordinary losses are ¥0.9 billion, so they are mainly equivalent to labor costs for store employees.

Q. Do you mean that the staff of the headquarters and the staff of the store are divided into non-operating income and special profit?

A. That's right. The portion corresponding to the extraordinary losses as a fixed cost is included in extraordinary income.

Q. As for the Retailing business, is it correct to understand that the reduction in revenue due to the exemption of all rent fees during suspension of business was ¥4.2 billion, and that there were about ¥7.0 billion fixed costs incurred in Retailing while the stores were closed, which were included in extraordinary losses? Is it correct to understand that the impact of COVID-19 is a figure that your company calculates originally.

A. ¥4.2 billion is the amount that is exempted from rent and common service fees.

Q. Is it correct to say that while the stores are not operating, the Retailing business is affected by ¥4.2 billion?

A. That's right. Other than that, the gross profit of the products and so on decreased due to the absence from work, so it became minus ¥1.3 billion.

Q. Does that mean that the portion of extraordinary losses is not included?

A. That's right. We removed that part.

Q. In the Retailing business, I think that the rent renegotiation has started

in part for about 25% to 30% of the fixed-term rental contracts for 1 year, but I would like to know qualitatively what kind of story is being settled during the renegotiation.

- A. Some of our business partners are severe situation, and some of them tell us that they want to terminate the contract with a deadline. However, we are working on persuade such business partners to continue, and leasing mainly to new tenants, especially the D2C brand. We believe that how much we can hedge against this impact will contribute to the stabilization of earnings in the future, and we are doing our best to do so. The impact is still there.
- Q. I think it depends on individual cases, but for example, about half of the 30% of fixed-term rental contracts would have been terminated, the average would have dropped this much, or this amount of space would not determined and so on, is there any numerically hint or decided situation?
- A. It is not there yet. In fact, we could not almost negotiations between April and June, and we have started gradually since the latter half of June, so we are in the process of negotiating. As for the reaction of the tenants, they themselves are in a difficult situation, so I feel that we don't always hear good news. In addition, it is severe in the city center, but it is relatively smooth in the suburbs, so I feel that we will be various movements among tenants.
- Q. As for FinTech, you say the situation of the bad debt has not changed, but I would like to know more about that of the card members in their 20s and 30s who are target customers on your company.
- A. Originally, most of the our company card members are young, but if you look at the ratio of bad debt write-offs by age group from the past, you can see that there is no high bad debt rate among young people, and it is a certain rate regardless of age group. Rather, I think young people are using it very safely because elderly people have a higher

ratio of bad debt write-offs. In the past, even after the Lehman Shock and the Great East Japan Earthquake, the rate of bad debt write-offs have not risen at all and has consistently unchanged for a long time, so I think not much affect will occur this time too. In fact, the first quarter had little impact. I think the reason why the cashing transaction volume has dropped significantly is that not only the customer's income has decreased, but also spending has been restrained to some extent, so we don't worry too much at the moment.

Q. In the last earnings report, you estimated that bad debts would increase by about ¥1.5 billion, but when you put this into perspective, is it possible to be smaller than that?

A. In the previous scenario from A to D, we have factored in ¥1.5 billion plus per year, but comparing that forecast with the actual results in the 1st quarter, the actual results in the 1st quarter are a little smaller, so I think we need not to think much about an increase beyond that.

Q. In terms of FinTech's shopping transactions, 20% of the total service transactions is handled by service transactions including travel and entertainment, so I think they are missing, but do you think that outlook will be at the 105% level on the promise that this structure will remain the same?

A. I don't know much about it. However, among the 105%, the level for travel is about 1% YOY, so I think it will increase more than that, but as a scenario, this will continue. I'm sorry, but I don't know what will happen in the future, so I have not decided yet as prediction.

Q. What were the July numbers like?

A. The trip has not come back in July too. Travel and entertainment are almost completely destroying.

Q. That's mean is not much different from June's shopping volume, with growth around 105%?

A. That's right.

- Q. Regarding the effects of rent reduction and COVID-19-related effects, you gave us a range of estimates of the effects of operating income and extraordinary losses, and your outlook for the year. Is it correct to that you do not anticipate the effects of rent reduction to be greater than ¥4.2 billion, which occurred during the 1st quarter during suspension of business?
- A. So far not expected.
- Q. Is it correct to understand that if the second wave comes and stores are closed again, there will be a decrease in revenue by rent reduction or exemption?
- A. In Scenario G, we assume that there will be again store closure, so we assume that there will be again rent reduction or exemption.
- Q. Under the worst-case scenario, how much do you expect to get a rent reduction or exemption per year?
- A. If rent is reduced or exempted due to store closure, fixed expenses for the period will be recorded as an extraordinary loss, and in Scenario E and F, we estimate the amount to be approximately ¥7.5 billion. Scenario G is expected to be less than ¥12 billion. Therefore, if the store is closed again, the extraordinary loss will increase by about ¥5 billion.
- Q. About factors of Retailing segment profit decreased, in consignment minus 200 million, is it correct that E-commerce and platforms are little factor in this first quarter?
- A. Since E-commerce was almost the same as the previous year and the platform was unaffected, the effect is basically limited to the consignment.