MARUI GROUP Co., Ltd.
Financial Results Briefing for the Three Months Ended June 30, 2022
<Questions and Answers>

Q. The number of people testing positive for COVID-19 rose sharply in July. Looking at your monthly transactions data, the number of customers coming to your stores appears to have slowed slightly since June, although you said that until the first quarter this number had been growing steadily, due in part to structural changes in the retailing business. What is the recent situation regarding the correlation between positive COVID-19 case numbers and the number of customers coming to your stores?

A. As you said, the number of positive COVID-19 cases has been increasing fast, which has impacted the number of customers coming to our stores. The impact was limited through June, but the number of customers coming to our stores has fallen 10% from earlier levels after case numbers spiked in late July.

Q. You spoke about the growing share of non-retail tenants. On the other hand, you are seeing a 10% drop in customer traffic at your stores. Is there a disparity between tenants in terms of customer traffic? Is customer traffic more stable for non-retail tenants versus retail tenants at a time when customer traffic is down overall?

A. A precise analysis per tenant is not possible, because we can't record the customer count for individual tenants, although we can do it per store. However, we believe that if the number of customers entering a store falls, it will fall for other tenants as well, so we do not believe that only the number of customers entering non-retail tenants will be firm.

Q. I have a question about Co-Creative investments, which totaled ¥700 million in the first quarter versus the full-year plan of around ¥4.5 billion. While this may not be a firm target, ¥4.5 billion for the full year seems somewhat ambitious.

A. Co-Creative Investment was ¥700 million in the first quarter, but we also have projects that we have decided to invest in, but have not proceeded with yet. At things stand currently, I believe we will spend at least ¥4.0 billion in the current fiscal year.

Q. I would like more details on the recent recovery of the Retailing business. I believe this is because you are making progress in the transition to stores that don't sell. Is the transition driving earnings growth, or are traditional sales floors returning in the form of reopening? Please tell us more about the content of the recent revenue recovery.

A. At present, I believe the recovery of the sales-based rent portion (linked to transaction volume) and new tenant/events portion each account for 50% of the recovery in revenue from tenants on fixed-term rental contracts. For example, events tend to raise rent per tsubo because of the limited period and reduced floor space. We apply this approach when formulating our annual plan, so we think progress is on track.

Q. Can you tell us something about your new tenants?

A. Examples of typical new tenants are MINT, a new online car subscription service, which opened on the first floor of the main building of Shinjuku Marui, and BIO-RAL, a natural supermarket, on the B1 floor. In addition, we have a capital and business alliance with TSUKURUBA Inc., which operates "cowcamo", an online used property sales service that has opened a shop in Marui Kichijoji. These are some of our new tenants, who have proved very popular so far.

Q. I hear that you have successfully attracted brands that are relatively well-known online, and you have had good feedback, because the online business is beginning to work well with stores.

A. That's right. A smartphone case shop recently opened in the Shinjuku Marui Main Building. It's very popular. The cases are made to order, and customers pick them up afterwards. Similar online stores have been very well received by customers.

Q. I have a question about the FinTech segment. Please explain why provision for bad debts is going up slightly, even though bad debt write-offs are about the same as a year ago.

A. The increase is due to the difference between reversal from and transfer to provision for bad debts. The reversal in the previous fiscal year is substantial, because we made a big increase to the provision at the end of the fiscal year ended March 2021. In the current fiscal year, we made a smaller reversal, because we didn't add so much to the provision at the end of the fiscal year ended March 2022. This is the main reason for the increase in provision for bad debts, and in our view, it does not have a major impact in real terms. You can assume that provision for bad debts will increase in line with operating receivables.

Q. Installment and revolving payments are showing a steady increase, but your forecast of a 4% rise in installment and revolving payment fees seems conservative. Please tell us the reasons for your forecast and outlook for installment and revolving payments.

A. First, the growth of installment payments is less than of revolving payments. Installment payments account for more than 50% of total transactions, but only 22% of the total balances. We expect fee revenue to increase slowly because of the slower growth of installment payments.

Q. How long do you expect this pattern to continue? Do you have a timeline, such as one or two years, or until the second half of the current fiscal year, for example?

A. Although the recent weak growth of revolving payments has played a part, revolving transactions have started to pick up, so we expect the revolving balance to increase relatively quickly from now on and start to generate revenue.

Q. Does this mean that there is no need to assume that the annual total will be four times the first quarter result, and that you expect recent conditions will start to produce a positive effect going forward?

A. That is correct.

Q. Transactions for services including the rent guarantee business (rent payments, other) was up 19% year on year in the first quarter, but revenue from services was up 10%. What is the difference between the two? Please also explain your full-year forecast of a 22% year-on-year increase in service revenue.

A. Service revenue is up 10% year on year, but revenue from the rent guarantee business was up 14%. Although growth is slightly less than that of transactions, this is due in part to commission rates and other factors, and the growth rate itself has not changed. So you can assume that there has been no major change in trends.

I should also point out that service revenue includes services other than rent guarantees such as driver's license credit and insurance, whose growth was weak. This is another reason why service revenue growth in the first quarter fell slightly short of our forecast, but we are confident that we can regain lost ground and will continue to work toward reaching the full-year target.

Q. Your full-year forecast for revenue from tenants with fixed-term rental contracts is ¥39.0 billion. Revenue was ¥8.9 billion in the first quarter. A quarter of your full-year forecast is ¥9.7 billion, which suggests the first quarter result was somewhat weak. What is the reason for this?

A. Some of our tenants with fixed-term rental contracts pay a combination of fixed rent and sales-based rent. A typical example of a sales-based rent agreement is to pay 10% of monthly transactions as rent if monthly transactions exceed ¥1.0 billion. In the retailing business, transactions are higher in the second and third quarters tenants with this type of rental contract will therefore pay more rent in the second and third quarters. This is why the first quarter revenue appears slightly low, but based on our current assumptions, we think we are on track to reach our full-year forecast.

Q. Am I correct in thinking that your forecasts for rent reduction/relief, market rent declines, vacancy rates, etc., are unchanged from the beginning of the current fiscal year?

A. There has been no change in the vacancy rate, so this will have no impact.

Q. How did your first quarter results compare with your internal forecast? Please explain for the Retailing and FinTech segments.

A. I can't go into details, because we don't disclose first quarter forecasts, but I can say that results in the first quarter were on track for both the Retailing and FinTech segments. That being said, the FinTech segment issued more new cards than expected, which meant the cost of issuing new cards was greater than planned. This is reflected in revenue being slightly lower than forecast.

Q. You commented that the negative impact on operating profit of transferring fixed expenses to extraordinary loss was ¥900 million, but you booked a COVID-19-related extraordinary loss of ¥1.8 billion in the previous fiscal year. How do you explain the difference between ¥1.8 billion and ¥900 million?

A. Part of the ¥1.8 billion we booked in the previous fiscal year is rent reduction/relief. This portion was recorded as revenue and extraordinary loss, and was excluded from one-time factors affecting operating income in the current fiscal year.

Q. Operating income improved ¥1.7 billion adjusted for one-time factors, and the impact of liquidated accounts receivable is likely offset over the full year. Does that mean that operating income growth adjusted for one-time factors is unlikely to be far off your full-year forecast?

A. That is correct.

Q. As you discussed at the IR Day in May 2022 about the number of new cardholders, I believe more people are signing up online, the number of people signing up at commercial facilities is recovering, and the share of cards tailored to individual among new cards is growing. Am I right in assuming that the acquisition of new cardholders is progressing well? I would also like to know whether this is a positive development in the longer term, even though you mentioned that the cost of issuing cards has gone up.

A. You are correct on both of those points. We expected a slightly lower number of new cardholders, but people signing up for cards tailored to individual increased more than we expected in the first quarter, which resulted in a slightly higher number than planned. We regard the cost of issuing new cards as an upfront investment, so this particular cost increase is not a negative in our view.

Q. You previously mentioned an increase in the cost of acquiring new cardholders in the context of people signing up online. Are you saying that this is not a problem this time around?

A. The way we acquire new cardholders is completely different for cards tailored to individual and cards issued online via affiliates. The recent increase in new cardholders is mainly for cards tailored to individual. The cost of acquiring new cardholders hasn’t gone up, because many people who sign up for cards tailored to individual do so because they like the content, not in response to any particular advertising on our part. That being said, the number of cards issued has gone up, so you can assume that the cost of issuing cards is increasing in proportion to the number of cards.