History-Making Balance Sheet Change

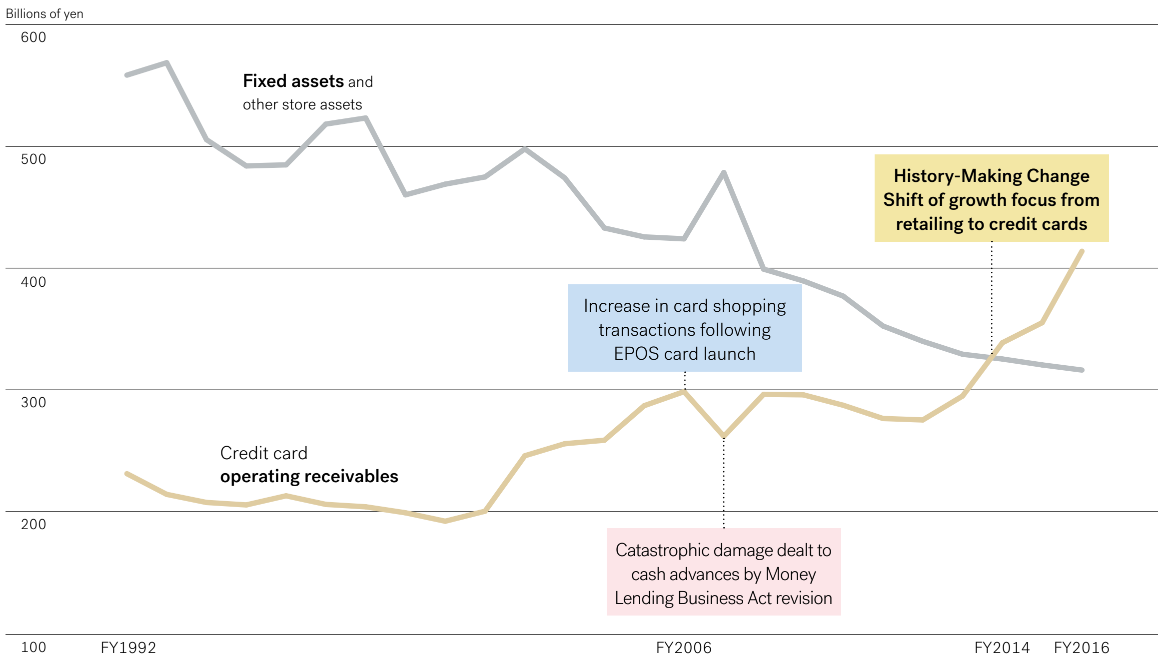
Transition from retailing to credit cards as main driver of growth after 2006 launch of EPOS card
Creation of a credit card-driven business structure capable of achieving stable growth

MARUI GROUP has continued to evolve its unique business model merging retailing and finance since its founding. In the past, it has been retailing that has driven growth while finance supported these operations. During this period, the credit cards offered by the Company were in-house cards only valid at Marui stores, and they primarily generated revenues through cash advances. However, the 2007 revision to the Money Lending Business Act greatly impacted these credit cards, catastrophically damaging cash advances as a revenue source.

We were able to overcome this trial thanks to the EPOS card, which was launched in 2006, one year prior to the regulatory revision. This new card enabled us to increase card shopping transactions, freeing us from past dependence on cash advances and shifting the focus of growth from retailing to credit cards. By positioning credit card services operations, which were able to generate steady income, as the main proponent of its business, the Group was successful in creating a business structure that was capable of achieving stable growth.

This change was most apparent in the Company's balance sheet. While previously the asset portion of the balance sheet had primarily consisted of land, buildings, and other fixed assets for stores, in the fiscal year ended March 31, 2014, the balance of credit card operating receivables accounted for more than half of assets. These receivables thus took center stage on the balance sheet, representing a history-making change from the time of our founding.

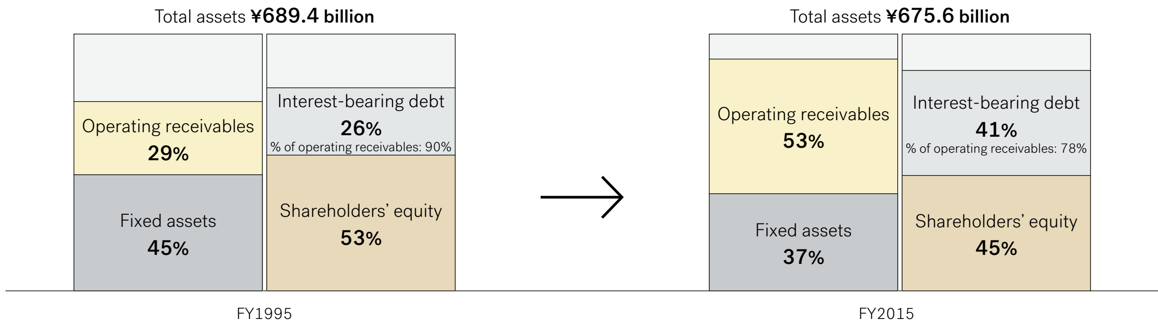
Balance Sheet Assets



Previously

Increase of Operating Receivables on Asset Portion

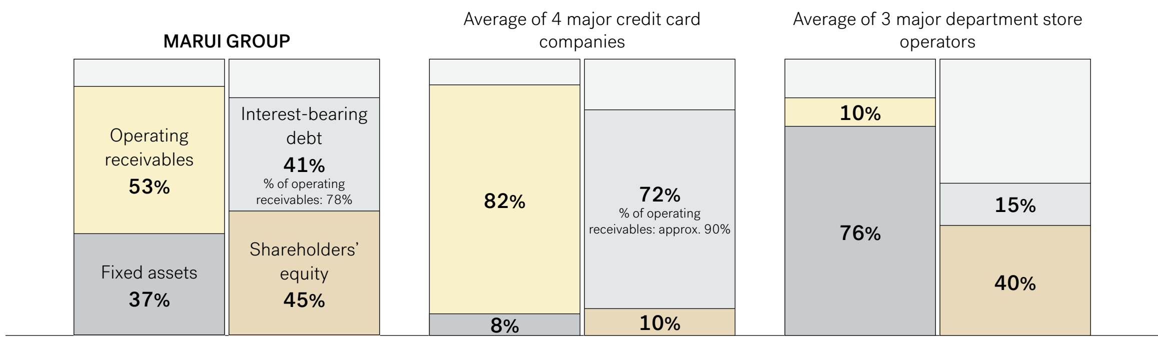
Growth of operating receivables to represent more than half of assets despite total assets remaining relatively the same
Increase of 15 percentage points in ratio of interest-bearing debt to total assets while maintaining high shareholders' equity



The amount of total assets on the balance sheet from the fiscal year ended March 31, 2015, was around the same level as that of the balance sheet from the year ended January 31, 1995, roughly 20 years ago. However, the structure of the balance sheet has changed as operating receivables, which represented less than 30% of assets in 1995, accounted for more than half of assets in 2015. Meanwhile, the increase in the ratio of interest-bearing debt to total assets was around 15 percentage points, and a high level of shareholders' equity has been maintained.

Comparison of Balance Sheet to Industry Peers

Imbalance between assets and liabilities on MARUI GROUP's current balance sheet
Assets now oriented toward credit cards but liabilities still geared toward retailing



(Data from the fiscal year ended March 31, 2015; Source: MARUI GROUP)

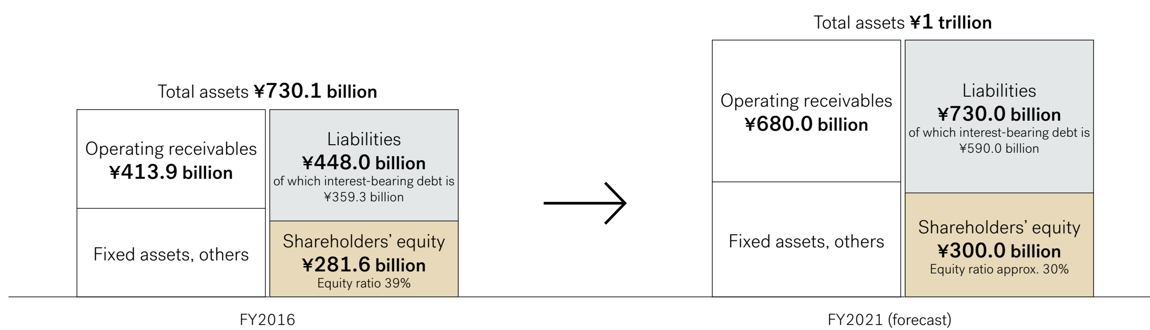
Averaging the balance sheets of four major credit cards, we will see that their ratio of interest-bearing debt to operating receivables is around 90%. For MARUI GROUP, this ratio is 78%. Meanwhile, our shareholders' equity is equivalent to 45% of total assets, greatly above the average for the four credit card companies, which is 10%.

At the same time, the ratio of stores and other fixed assets to total assets on MARUI GROUP's balance sheet is 37%, about half the average ratio for the three major department store operators. Our level of shareholders' equity exceeds the average for these department stores.

Going Forward

Balance Sheet Targeted by MARUI GROUP

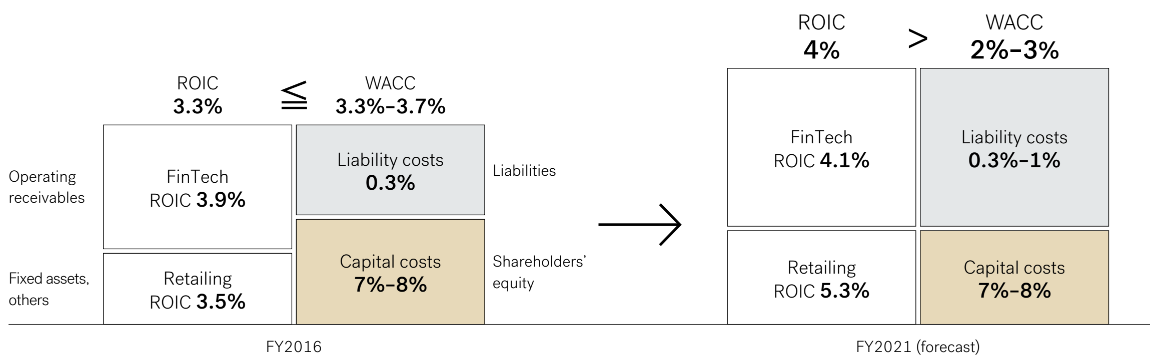
Total assets forecast to reach ¥1 trillion in the fiscal year ending March 31, 2021, due to increased operating receivables
Optimal capital structure defined as having equity ratio of approximately 30%



In order to achieve the balance sheet we target, we will work to bring the liabilities portion of the sheet in line with the Group's earnings structure. As operating receivables increase in the FinTech business, total assets are also expected to grow, reaching around ¥1 trillion in the fiscal year ending March 31, 2021. Meanwhile, we will maintain a level of interest-bearing debt that is equivalent to 90% of operating receivables, while targeting an equity ratio of approximately 30%, the level we view as representing an optimal capital structure.

Creation of Corporate Value through ROIC Exceeding WACC

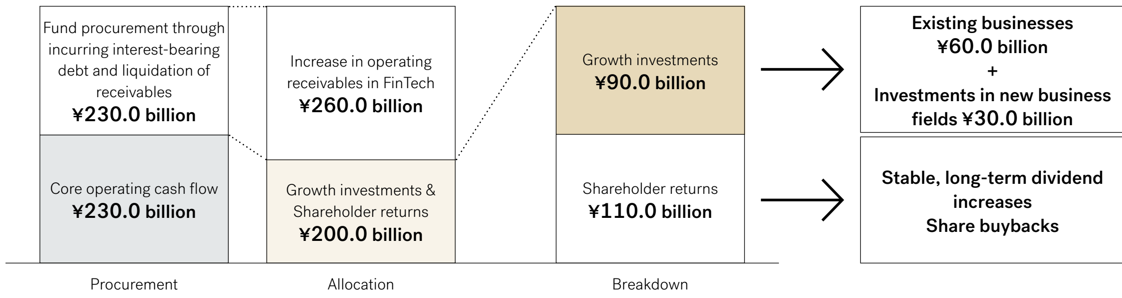
Development of structure in which ROIC consistently exceeds WACC by increasing consolidated ROIC from current 3.3% to 4.0% and lowering capital costs



We will increase ROIC by growing financial service revenues in the FinTech business and transitioning to shopping centers and fixed-term rental contracts in the Retailing business. Meanwhile, we will deploy financial strategies of increasingly procuring funds in the growing FinTech business through low-cost interest-bearing debt to reduce the overall capital costs of the Group and thereby develop a structure in which ROIC consistently exceeds WACC.

Cash Flow Forecasts

Five-year aggregate core operating cash flow of ¥230.0 billion forecast for period of new medium-term management plan (fiscal years ending March 31, 2017–2021)
Allocation of cash flows to growth investments and shareholder returns to achieve ongoing growth and improve capital efficiency



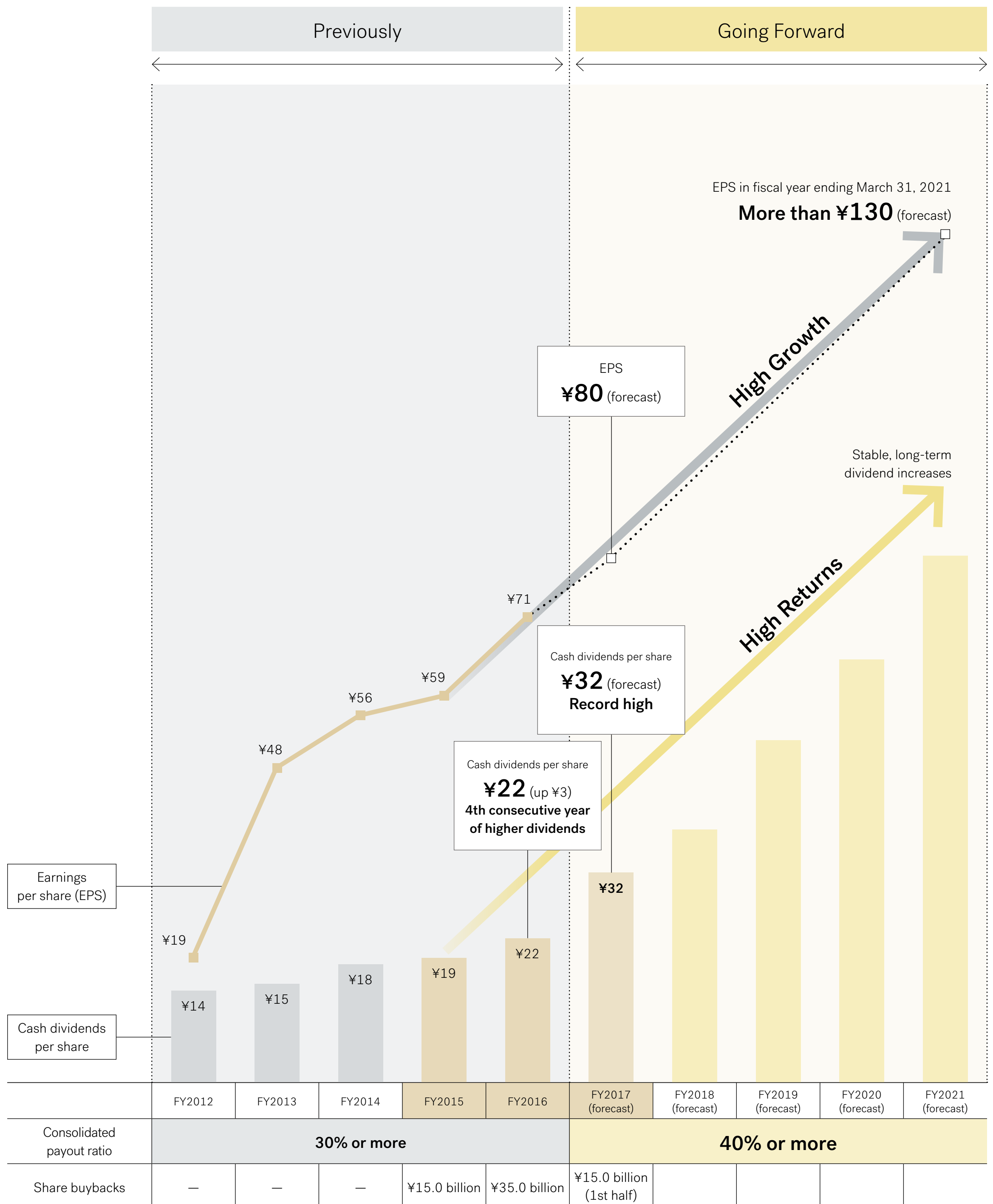
MARUI GROUP will use cash flows generated during the five-year period of the new medium-term management plan to conduct growth investments and enhance shareholder returns. Approximately 90% of the working capital requirements associated with the anticipated increase in operating receivables in the FinTech business will be funded through borrowings. Excluding this increase, core operating cash flow is expected to amount to ¥230.0 billion over the period of the plan. We plan to allocate ¥200.0 billion of this amount to growth investments and shareholder returns. Growth investments of ¥60.0 billion will be directed toward existing businesses to fund the transition to shopping centers and fixed-term rental contracts and invest in IT systems. Meanwhile, ¥30.0 billion has been earmarked for investments in new business fields, and we are examining potential uses for this amount. We intend to use the remaining ¥110.0 billion for enhancing shareholder returns through stable, long-term dividend increases and share buybacks. We will comprehensively evaluate factors such as cash flows when considering share buybacks, targeting the ideal timing for improving capital efficiency and increasing shareholder returns. Acquired treasury stock will, in principle, be canceled.

High Growth Coupled with High Returns

Stable, long-term dividend increases in conjunction with income growth aimed at raising payout ratio from 30% or more to 40% or more

MARUI GROUP positions returning profits to shareholders as an important management priority. Our basic policy is to issue stable and appropriate returns, based on which we have continued to increase dividend levels while considering performance trends and financial conditions. We had previously targeted a consolidated payout ratio of 30% or more. However, we have since received numerous requests from long-term investors and private shareholders stating that they want the Company to reconsider dividend levels, rather than focusing only on share buybacks.

Based on this feedback, we have decided to raise the target payout ratio to 40% or more beginning with the fiscal year ending March 31, 2017. Accordingly, we intend to increase dividends in this year to ¥32 per share, which is ¥10 per share higher than was issued in the fiscal year ended March 31, 2016. This level will represent a record high for dividend payment and make for our fifth consecutive year of increased dividend payments. With the fiscal year ending March 31, 2021, as its final year the new medium-term management plan targets high growth coupled with high returns to be realized through ongoing dividend increases based on long-term growth in EPS.



	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 (forecast)	FY2018 (forecast)	FY2019 (forecast)	FY2020 (forecast)	FY2021 (forecast)
Consolidated payout ratio	30% or more					40% or more				
Share buybacks	—	—	—	¥15.0 billion	¥35.0 billion	¥15.0 billion (1st half)				