

As a long-term investor,
I consider customer satisfaction
to be the most important element
of the companies I invest in.

Hideto Fujino

Discussion of Co-Creation between Long-Term Investor and the President

The Importance of Management’s Timeline

Hideto Fujino, a master at aggressively managing Japanese stocks,
and President Aoi discussed the perception of timelines,
which are important to both management and investors,
and the role of customers as a source of corporate value.

Hideto Fujino
President and Representative Director
Rheos Capital Works Inc.



Hiroshi Aoi
President and Representative Director
Representative Executive Officer
MARUI GROUP CO., LTD.



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shareholders and other
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Hiroshi Aoi



Return to the Basics of Listening to Customers

Fujino: Japan has recently been witnessing the peak of consumption by the baby boom generation. At the same time, the spread of smartphones is bringing about substantial change in the consumption patterns of the younger generations. Moreover, the focus of consumption is shifting from physical goods to more fulfilling lifestyles. I understand that MARUI GROUP has been responding to these trends for quite some time now.

Aoi: We became aware of these changes around 2006. This is when we began having difficulty selling physical products, signifying the ineffectiveness of our previous business model. Progress in IT has driven forward the maturity of the market and the subsequent diversification of customer needs, creating a gap between us and our customers that grew quite large before we realized it. It was this realization that inspired us to return to the basics: listening to our customers.

Co-Creation of Innovation Together with Customers

Fujino: MARUI GROUP is devoting its efforts to developing stores through a process of co-creation. Specifically, what initiatives are you undertaking in this regard?

Aoi: We are engaging in exhaustive conversations with our customers. For example, we hold planning meetings with customers at which we directly introduce our ideas for store concept, floor layouts, and even service and product development, asking for their opinions during this process. Should we discover that any of our ideas are flawed, we discuss the matter thoroughly to get us back on the right track. We have been practicing this approach for nearly a decade. With the innovations co-created with customers, we are striving to generate corporate value.

Fujino: That is a very original approach. What benefits has this approach created thus far?

Aoi: When we first adopted this approach, there were times when our pride as professionals and the successes

we had achieved up until that point got in the way of our efforts. Over the past couple of years, however, we have been feeling the benefits of this approach. These benefits are particularly apparent in Hakata Marui, which was opened in April 2016 as the culmination of more than 600 planning meetings with customers. Truly the product of our co-creation efforts with customers, Hakata Marui features a completely new design and represents a departure from the traditional concept of Marui stores. This refreshing design has proved immensely popular. By taking the lifestyle needs of people living in the surrounding community into consideration, we succeeded in creating a shopping center that can be enjoyed by people of all ages.

Co-Creation Investment Oriented Around Customers

Fujino: Our long-term investment activities are based around the management and sale of stocks through the Hifumi Investment Trust, an active investment fund for Japanese stocks. When we conduct investments, the aspect of investment candidates we focus on the most is the candidate's customers. We use this approach because it is through transactions with customers that companies generate earnings, and it is these earnings that fund dividend payments. The Hifumi Investment Trust is currently managing shares of MARUI GROUP's stocks, and thus our biggest wish is for the Company's customers to become happier. If this happiness can advance improvements in MARUI GROUP's corporate value, the value of our fund will increase, allowing us to return profits to our customers.

Aoi: It makes me very glad that MARUI GROUP is being evaluated from that perspective. As a matter of fact, we have not only been focusing on exchanges with customers over the past couple of years, we have also been putting effort into interacting with shareholders and other investors—and we have learned much through these interactions. The intersection between the joy of customers and the joy of shareholders and other

investors is actually quite large. We therefore believe that we can improve corporate value by increasing the size of this intersection.

Fujino: Our fund is estimated to have approximately 150,000 customers. While these customers are shareholders, they are also standard consumers. For this reason, if MARUI GROUP's co-creation management succeeds and the Company is able to bring joy to its consumers in the regions it serves with its stores and EPOS cards, this success may also contribute to the happiness of our customers, as they too are such consumers. For this reason, our investment in MARUI GROUP could be seen as a type of co-creation investment. My support for MARUI GROUP is based on this belief.

Importance of a Long Timeline for Management

Fujino: In increasing the intersection between the values sought by different types of stakeholders, your timeline becomes incredibly important. If both management and investors adopt long timetables, the intersection of the interests that they share will grow large. However, if these timelines are short, conflicts of interest will appear. The

pursuit of short-term gains will likely result in the interests of one party being sacrificed for the interests of the other. On the other hand, these conflicts can be reconciled through a long-term perspective looking five to 10 years into the future.

Aoi: I have experienced this principle in the past. If we become overly concerned with the short term, we end up being unable to gain customer support, which results in failure to improve our business performance and live up to the expectations of our shareholders. It is for this reason that we are committed to practicing management from a long-term perspective. At the same time, we will work to make the differing timelines of investors match up better through active interactions. Furthermore, we will submit our various opinions to the scrutiny of investors in order to build stronger management.

Fujino: This approach of pursuing co-creation management through an active dialogue with all stakeholders is truly an undertaking that is characteristic of MARUI GROUP. We at Rheos Capital Works look forward to supporting the Company over the long term, and we have high anticipations for your ongoing growth.



Hideto Fujino

President and Representative Director
Rheos Capital Works Inc.

Mr. Fujino established Rheos Capital Works in 2003, after gaining experience in stock positions at Nomura Investment Advisory Co., Ltd. (currently Nomura Asset Management Co., Ltd.), Jardine Fleming (currently JP Morgan Fleming Asset Management), and Goldman Sachs Asset Management Co., Ltd. Beginning as chief investment officer (CIO), he became a director at Rheos Capital Works in 2009 before assuming his current position in October 2015. Mr. Fujino has an extensive career as a fund manager with abundant experience in the management of small-to-mid cap and emerging growth equity investments. He also serves as a teaching fellow at the JPX Academy.

