

MARUI GROUP's CO-CREATION PHILOSOPHY

Since its founding in 1931, MARUI GROUP has continued to evolve its unique business model, which merges retailing and finance, in response to changes in the times and in consumer needs. Today, we are engaged in co-creation sustainability management, a practice that entails creating value together with all of our stakeholders. Our goal is to co-create happiness, which is born out of the harmony between the interests of all stakeholders. We are focused on the concept of “inclusion” as the key to responding to customer needs and social issues, which change with the times, and forging a better future. Through co-creation activities advanced with all stakeholders, MARUI GROUP will endeavor to help build a flourishing and inclusive society that offers happiness to all.

Mission

Contribute to co-creating a flourishing and inclusive society
that offers happiness to all

Corporate Philosophy

Continue evolving to better aid our customers
Equate the development of our people with
the development of our company

Founding Spirit

Creditability should be built together with customers
Pioneer spirit of creating opportunities

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CO-CREATION OF CREDITABILITY

MARUI's Core Value

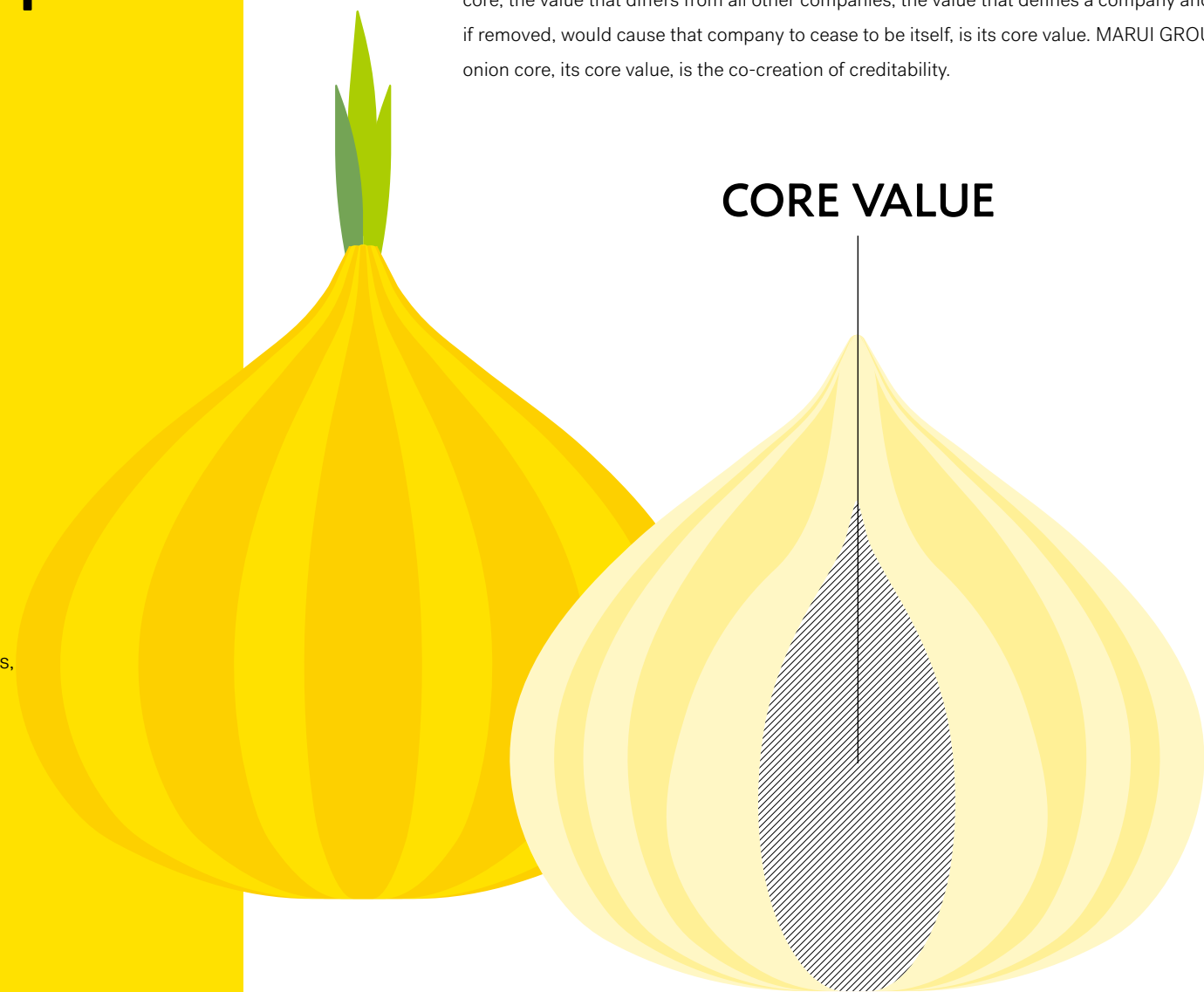
The co-creation of creditability is a concept based on the belief of MARUI GROUP's founder that creditability should be built together with customers, rather than assigned to them.

MARUI GROUP's "Onion Core"

The core value of MARUI GROUP is like the core of an onion. Onions consist of several layers that must be peeled back before reaching their core. Companies are the same, and there are aspects of a company that may be easily visible from the outside while the inner layers may be more difficult to see.

For MARUI GROUP, the outer layers of the onion are the Marui and Modi stores located in major cities across Japan and the 6.6 million EPOS cardholders. These are aspects of the Company that anyone can see, but they do not represent the distinctive value of MARUI GROUP. In fact, these aspects both represent value that can be found in numerous other companies. After all layers of the onion have been peeled away, all that is left will be the core. This onion core, the value that differs from all other companies, the value that defines a company and that, if removed, would cause that company to cease to be itself, is its core value. MARUI GROUP's onion core, its core value, is the co-creation of creditability.

CORE VALUE



TRUST



Co-Creation of Creditability

The concept of the co-creation of creditability is one of the principles rooted in the belief of the Company's founder that creditability should be built together with customers. At the time of its founding, MARUI GROUP's business involved selling furniture through monthly installment payments. Installment payments were a system designed to allow a wider range of customers to purchase furniture. The Company would loan money for the purchase to customers, which they would repay in monthly installments. Compared to business models based on cash payments, which often resulted in relationships ending after a single interaction, installment payments were effective in fostering long-term relationships with customers as they proceeded to repay their debts in 10, 12, or 24 installments after purchases.

So long as customers made payments on time, they would continue to build creditability the more they borrowed and the longer the period over which they borrowed. It was this type of relationship with customers that gave rise to the principle of building creditability together with customers. This principle has guided us in working together with customers to build creditability, rather than assigning a credit rating based on their income, profession, or assets, resulting in birth of the concept of the co-creation of creditability.

Co-Creation of Happiness

With the co-creation of creditability as its core value, MARUI GROUP proceeded to engage in co-creation with its customers through its products, stores, credit cards, and other offerings. In recent years, we have been expanding the scope of our co-creation activities to encompass all stakeholders.

This expanded scope led us to focus on the concept of inclusion. This concept entails incorporating and including individuals that had previously been excluded. By reconceptualizing its management based on the concept of inclusion, MARUI GROUP took its first step forward in the practice of co-creation sustainability management through which the Company aims to help build a flourishing and inclusive society that offers happiness to all.



Realization of New Value to Shape the Future through Co-Creation Sustainability Management

Hiroshi Aoi

President and Representative Director
Representative Executive Officer

Review of the Fiscal Year Ended March 31, 2018

Record-Breaking Income and Dividends

In the fiscal year ended March 31, 2018, we posted earnings per share of ¥93.2, an increase of 16% year on year, and return on equity of 7.6%, up 0.9 percentage point, thereby accomplishing our targets for both of these items. In addition, we set new records for operating income, which rose for the ninth consecutive year, to ¥35.2 billion, up 13%, and for dividends, which were increased for the sixth consecutive year, to ¥38, up ¥5. Furthermore, MARUI GROUP's stock price stood at ¥2,168 on March 31, 2018, an increase of 43% from March 31, 2017, exceeding the 13% growth seen in the Nikkei 225.

This impressive performance brought with it a high evaluation of our corporate value. What I mean by this is that at the end of the previous year, our stock price was 6% lower than at the beginning of the year, despite the fact that our performance in this year was every bit as impressive as in the fiscal year under review. Moreover, there was a significant gap between the change in our stock price and the 13% increase seen in the Nikkei 225. The large improvement in our perceived corporate value in the fiscal year ended March 31, 2018, illustrates the high evaluation that I am referring to. I would next like to review this year and analyze the factors behind this improvement.

Effectiveness of Unprecedented Transition to Shopping Centers and Fixed-Term Rental Contracts

I would first like to talk about the increased income in the Retailing segment that stemmed from the transition to shopping centers and fixed-term rental contracts. This transition entails transforming all of our department stores into stores that employ a real estate business

model. The aim of this transition is to allow us to better accommodate the long-term trend in consumer needs that is the shift from consumption of goods to consumption of experiences. Through this transition, our goal has been to cater to such customer needs by developing stores that deal in food, services, and experiences in addition to goods and to improve the previously stagnant income of the Retailing segment.

In the fiscal year ended March 31, 2017, the Retailing segment suffered a decline in income. This decline was a side effect of the rapid transition to shopping centers and fixed-term rental contracts, which resulted in a temporary increase in the area of inactive, or non-revenue generating, floor space following sales floor replacements and renovations. The transition of all stores to shopping centers and fixed-term rental contracts was an unprecedented undertaking. This downturn in performance no doubt confirmed the concerns held by shareholders and investors worried about the success of this strategy. We diligently explained that this was only temporary and that income was sure to improve as the benefits of the transition emerged. However, as this transition was, once again, unprecedented, shareholders and investors stated that they would have to wait and see the results.

In the fiscal year ended March 31, 2018, the progress of the transition and the decline in inactive floor space resulted in an upturn in income in the Retailing segment, as had been expected. Shareholders and investors were therefore finally able to understand the effectiveness of our strategy. In addition, other companies undertook similar transitions, which helped investors better understand MARUI GROUP's strategy.



President Aoi in Q-COURT British-style garden on the roof of Shinjuku Marui Main Building (certified as an "Urban Oasis")

Second Consecutive Year of ROIC Exceeding WACC

The second factor behind the higher evaluation of the Company was our ability to improve corporate value by increasing surplus income. Due in part to the higher income of the Retailing segment, return on invested capital (ROIC) in the fiscal year ended March 31, 2018, increased 0.1 percentage point year on year, to 3.2%, exceeding weighted average cost of capital (WACC) for the second consecutive year. Based on discussions with shareholders and other investors, we defined the balance sheet that we will work toward over the next five years and set targets for the optimal capital structure.

By implementing financial and capital measures based on this plan, we generated surplus income in the fiscal year ended March 31, 2017, by reducing WACC. We then created additional surplus income in the fiscal year ended March 31, 2018, by improving ROIC. In this manner, we have at last become able to start developing a corporate constitution that will enable ongoing increases in corporate value. This ability is a product of continuous discussion with shareholders and other investors.

Goal of Becoming a Forerunner in ESG Initiatives

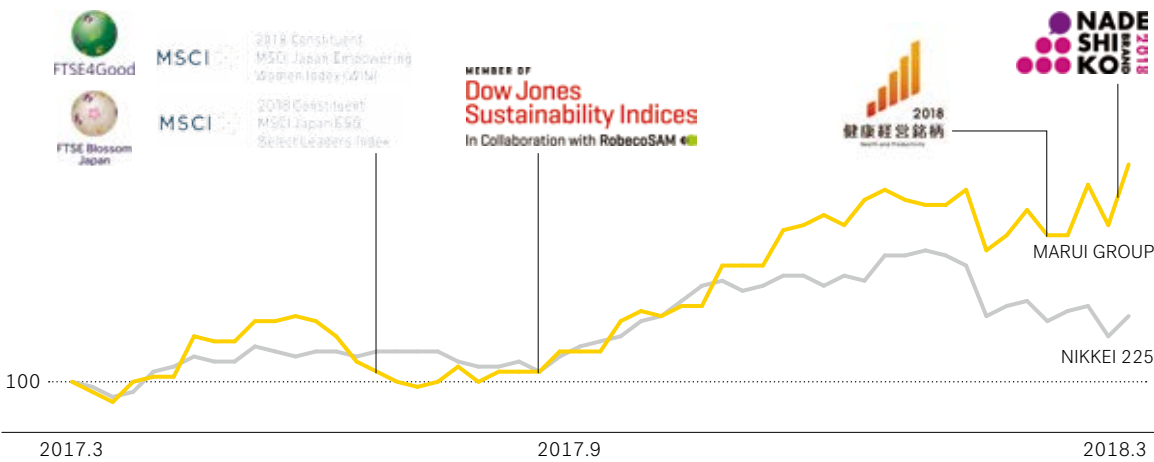
The third factor is the high evaluation of our environmental, social, and governance (ESG) initiatives. In 2008, a step ahead of the rest of the corporate sector, we began implementing what have now come to be referred to as “work style reforms” in Japan. Initiatives to empower our female employees were kicked off in 2013. Then, in the

fiscal year ended March 31, 2017, we defined the ESG theme most important for us to address as “inclusion.” By linking the concept of inclusion to the United Nations Sustainable Development Goals, we identified four core themes and commenced full-fledged initiatives based on these themes.

Our efforts to become a forerunner in ESG initiatives have won high praise from outside of the Company. In the fiscal year ended March 31, 2018, we were selected for inclusion in the three ESG indexes that are utilized by the Government Pension Investment Fund of Japan and in Dow Jones Sustainability Index, which is administered by a global rating institution. MARUI GROUP was also included in the FY2018 Nadeshiko Brand and the FY2018 Health & Productivity Stock Selection (Figure 1). Probably as a reaction to our inclusion in these selections, an investor stated that “MARUI GROUP is neither a retailer nor a financial company; it is an ESG company,” at a financial results briefing. This praise not only brings us joy but also indicates the path we should follow in the future.

As I have explained, the fiscal year ended March 31, 2018, was a year in which our initiatives related to strategies, finances, and pre-financial information—information that has not yet impacted financial information but is still as important as financial information—were linked to each other and advanced in an integrated manner, earning high evaluations for our corporate value. I am most appreciative for the support we received from stakeholders throughout this process.

Figure 1: MARUI GROUP's Stock Price (March 2017 indexed to 100)



Vision for Stores of the Future a Decade from Now

Ultimate Goal of Transition to Shopping Centers and Fixed-Term Rental Contracts

I would next like to explain our plans for future value creation. I will begin this explanation by talking about our initiatives for after the transition to shopping centers and fixed-term rental contracts, which we have been advancing based on a five-year plan and are scheduled for completion in the fiscal year ending March 31, 2019. As we have proceeded to improve income in the Retailing segment through this transition, we have simultaneously shrunk the amount of floor space dedicated to apparel while increasing the space allocated to food vendors and service providers. This move is meant as a response to the long-term shift in consumption from goods to experiences. For example, we have been applying the idea of positioning food vendors on all entry floors at various stores. This was a successful initiative at Hakata Marui, a store that overturned previous department store conventions, and its application to other stores has resulted in increases in overall customer numbers and transaction volumes at all stores.

However, the income improvements and the revitalization of stores through product category rebalancing achieved via the transition to shopping centers and fixed-term rental contracts are merely by-products of the process of the transition and not the ultimate goal of the transition itself. The ultimate goal of the transition is to reinvent the very concept of stores to realize a new vision for the stores of the future a decade from now. By shifting from our prior department store model to the current real estate model, we will position ourselves to begin the creation of the stores of the future.

Threats Faced by Conventional Stores

The stores of the future that MARUI GROUP aims to create could be explained as “stores that do not sell.” The conventional concept of a store is an establishment that sells some type of product or service. However, such conventional stores will face major threats over the medium-to-long term because of two reasons.

The first threat comes in the form of the spread of e-commerce while the second threat could be seen to be the commoditization of products and services. As e-commerce becomes more mainstream going forward, it can only be expected that the sale of products and services will come to be primarily conducted through e-commerce venues. In the United States, the spread of shopping through Amazon has led to shopping mall closures and bankruptcies of specialty shop chains of an unprecedented scale. At the same time, the global commoditization of products and services is driving down prices, resulting in fierce price competition for both brick-and-mortar and e-commerce venues. The trend has placed enormous pressure on all retailers with the exception of those limited few of a scale that enables them to exercise leverage in setting prices.

Faced with these threats, conventional stores will likely have to either choose to close or to resign themselves to chronically low profit margins due to never-ending price competition.

Option of Stores That Do Not Sell

MARUI GROUP, however, believes that there is a third option: the stores of the future—stores that do not sell. The stores of the future we envision offer the value of experiences and community as opposed to the sale of products and services. Up until now, we have devoted ourselves to customer service and sales at our stores. This led us to wonder if our customer service efforts to date had purely been for the purpose of sales and what would happen if sales were conducted through an e-commerce venue and we devoted ourselves to customer service.

We found our answer in 2017 when we investigated numerous stores in the United States. This answer was to create a store that brought joy to both customers and staff. The stores in which we saw this answer were those operated by companies that had initially grown as e-commerce businesses and that used their physical stores as points of contact with customers. Customers did not need to buy products in those stores. They were thus able to feel

more freedom and enjoyment in their shopping experience. Similarly, members of the store staff did not need to sell products but instead were able to help customers try out various products and answer their questions in a friendlier manner. This approach also brought joy to customers; it was an enjoyable place for everyone there.

Seeing this store made me realize the joy that could be provided by stores that do not sell. This realization gave a clear form to our vision, which had previously been no more than an abstract concept. The stores of the future that would accurately respond to the megatrend that is the shift from consumption of goods to consumption of experiences are not stores that simply increase the amount of space devoted to food vendors and service providers. No, the stores of the future are those that coordinate with e-commerce to offer experiences and a sense of community. Creating these stores will require a complete change in direction, a transformation from stores that sell goods and services to stores that do not sell.

Sales as a Result of Not Selling

We thus embarked on our journey toward the future. The U.S. stores I speak of employed an omni-channel retailing approach, and we therefore began introducing tenants that adopted similar approaches. We also developed and launched the try-on store scheme for our private brand women's shoes. Another step in this journey entailed welcoming Apple Store Shinjuku into Shinjuku Marui Main Building in spring 2018. Apple Store

Shinjuku is an experience-based store, the exact type of store we had longed for. Next to this store, you will find lululemon, which deals in athletic wear among other offerings. A representative of lululemon stated that their policy is that employees can do anything but sell, making lululemon truly a store that does not sell. Instead of selling, lululemon holds in-store yoga workshops and other events for fostering a sense of community among customers. Of course, Apple Store Shinjuku and lululemon both offer products and boast world-leading per-area sales efficiency. However, their main focus is providing experiences and community. Sales are *simply a result* of those efforts, not the goal of their activities. This is the primary difference between these stores and conventional stores.

Furthermore, SHIBUYA BASE was opened in Shibuya Marui in June 2018 through collaboration with start-up company BASE, Inc. This store offers a physical venue that can be used by e-commerce business operators developing their own brands to engage with fans of their brands and meet new customers. Many business operators have high expectations for this new type of store.

By furthering the development of and introducing such tenants, as well as shops of the same vein operated by MARUI GROUP, we will create the stores of the future. The transition to shopping centers and fixed-term rental contracts laid the groundwork needed to develop such stores. After the transition is complete, our journey of creating value for the future will begin.



Apple Store Shinjuku serving as a representative example of experience-based stores (Shinjuku Marui Main Building)



Athletic wear brand store lululemon (Shinjuku Marui Main Building)



SHIBUYA BASE physical venue for e-commerce sites developed through collaboration with BASE, Inc. (Shibuya Marui)

Power to Change Threats into Opportunities

QR Code Payments Igniting Spread of Cashless Payments

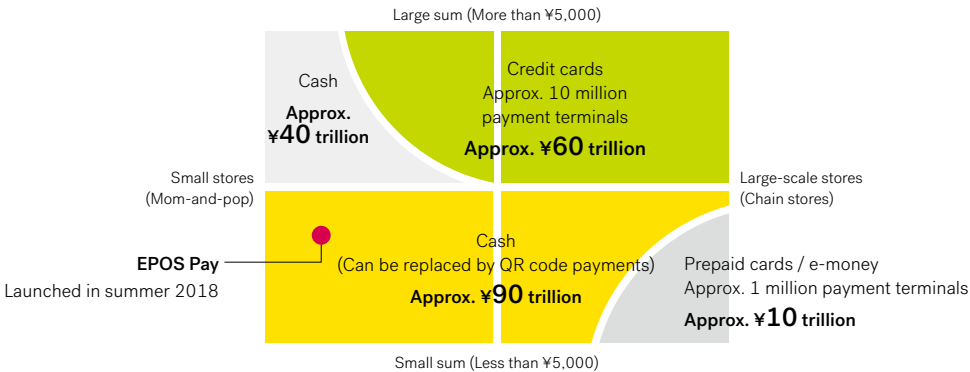
The trend toward cashless payments is one example of a medium-to-long-term change in the operating environment impacting the FinTech business. Over the years, we have continued to contribute to the spread of cashless payments with our credit cards. Looking ahead, we expect that QR code payments, which have exploded in the Chinese market, will also ignite the spread of cashless payments in the Japanese market. The spread of QR code payments does indeed represent a threat that may replace credit cards. However, I believe that the impacts of this threat will be limited. In fact, I suspect that the spread of QR code payments may actually have a positive impact on credit cards.

To get a better understanding of the threats and opportunities presented by QR code payments, let me provide an overview of our outlook for the future spread of cashless payments (Figure 2). Excluding bank transactions and housing loans, the payment market in Japan has a scale of around ¥200 trillion. Of this amount, credit card payments account for approximately ¥60 trillion and are primarily used for large-sum payments of more than ¥5,000 at chain stores and large-scale stores. Meanwhile, prepaid cards and e-money payments represent ¥10 trillion of this amount, mainly through small-sum payments

of less than ¥5,000 conducted at transportation venues, convenience stores, and other such stores. In this manner, each payment method has carved out its own corner of the market comprising the uses for which it is most convenient. We therefore expect that the new payment of QR code payments will find a market of around ¥90 trillion centered on small to medium-sized businesses and small-sum payments of less than ¥5,000.

We therefore project that, as the overall spread of cashless payments advances, a clear division between the use of these three payment methods will be maintained. It is said that a similar division between payment methods is already being seen in China. One reason behind this division is that, while QR code payments have the potential to function as a new payment method, they can also become a new means of making payments through existing methods. For example, it is possible to make credit card payments through one's smartphone by using QR codes if one links the credit card information registered with their smartphone to a QR code payment system. Payments through this method do not involve a physical credit card and may appear to be QR code payments, but they are indeed credit card payments. Apparently, many Chinese people select payment via credit card, even when using QR codes, if they are making large-sum payments.

Figure 2: Trend toward Use of Credit Cards for Large-Sum Payments and QR Code Payments and E-Money for Small-Sum Payments



Sources: MARUI GROUP CO., LTD. (Based on National Accounts of Japan, Cabinet Office; materials from Japan Consumer Credit Association; General Survey of Payment Methods, Bank of Japan; General Survey of Electronic Payment Methods 2017-2018, CardWave Co., Ltd.; and other materials; excludes bank transactions and housing loans)

A similar trend can be seen with Apple Pay and other services already in use in Japan. Apple Pay allows users to register their IC e-money card and credit card with their iPhone. I suspect that the majority of users make payments via Apple Pay with their IC e-money card at transportation venues and with their credit card when making larger-sum payments. Initially, it may seem as though the spread of QR code payments and other payments via smartphone has the potential to limit opportunities for credit card payments. However, as illustrated by the examples I just explained, it is likely that usage of credit cards to make payments will actually increase.

**Introduction of EPOS Pay
QR Code Payment Service**

MARUI GROUP fully intends to capture the opportunity that QR code payments present. To this end, we launched EPOS Pay, a QR code payment service that is tied to our EPOS cards, in summer 2018. We are forming affiliate agreements with business owners around Marui stores to promote usage of EPOS cards for small-sum payments in stores where our cards previously could not be used. At the same time, we will utilize the data collected as through this service to conduct marketing activities that offer benefits for both customers and affiliates. We thereby aim to create regional economic spheres centered on customers. Our goal is to differentiate ourselves from competitors by developing a platform that enables QR code payments to be made anywhere in Japan.

**Collaboration for Growing E-Commerce
and Sharing Economies**

Two medium-to-long-term trends we anticipate will buoy the growth of credit cards going forward are the



Smartphone application that allows for payments to be made by reading QR codes at stores

proliferation of e-commerce and the development of sharing economies. E-commerce has been a consistent proponent behind the growth of credit cards. In fact, the greatest contributor behind the growth of EPOS cards in recent years has been the use of these cards through e-commerce venues. With an eye to further promoting the use of EPOS cards for e-commerce payments, we allied with GMO Payment Gateway, Inc., in May 2018.

Another driving force behind the growth of our credit cards is recurring transactions, which include payments for electricity, gas, water, and other utilities as well as for smartphone bills. Going forward, we will be collaborating with ABLE, INC. with the aim of gaining access to recurring transactions in a domain where credit cards previously could not be used: rent payments. Together with ABLE, we will encourage customers to pay their rent with their credit card.

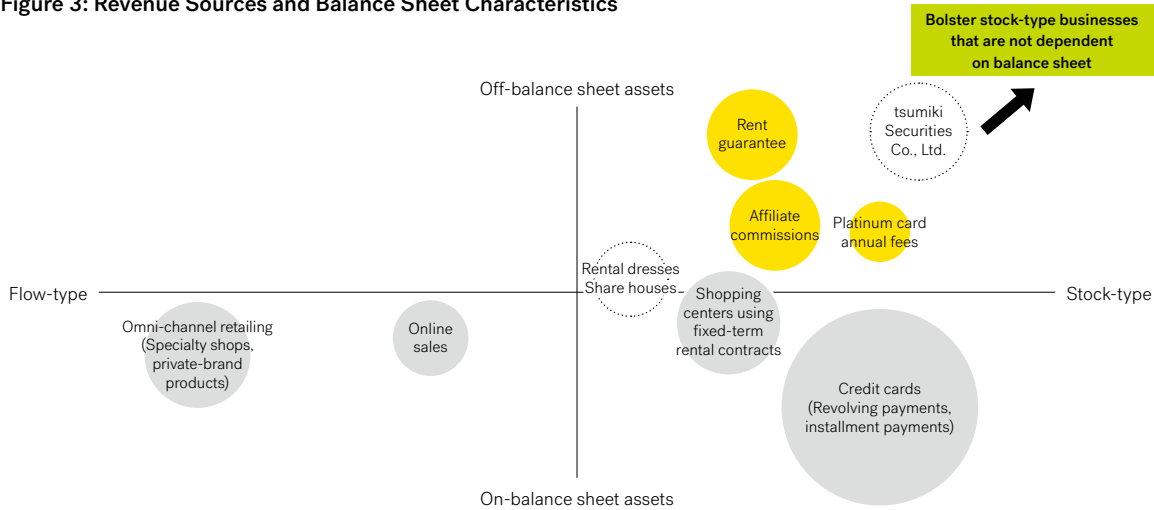
Another form of recurring transaction is subscription payments. Such payments are expected to become more common in conjunction with the development of sharing economies and are therefore anticipated to contribute to further increases in recurring transactions. MARUI GROUP is collaborating with sharing facilitators offering brand-name bags, luxury watches, clothing, and other items to encourage the use of credit cards for the recurring transactions their services entail. We therefore anticipate that the development of sharing economies will drive growth in card shopping transactions.

Businesses That Are Not Dependent on the Balance Sheet

It can be expected that credit card businesses will witness steady growth going forward if they are able to take advantage of the megatrends represented by the spread of cashless payments, the proliferation of e-commerce, and the development of sharing economies. However, this growth will not be without challenges. Specifically, I refer to the risks of bloated balance sheets that stem from the expansion of credit card businesses and the interest rate hike risks that accompany higher liabilities.

To address the risks of bloated balance sheets, MARUI GROUP will enact a phased increase in the amount of liquidation of receivables from the prior 12% to around 25%. Through this progress, we will seek to improve funding reliability and achieve an optimal capital structure by diversifying procurement methods. By realizing this level of liquidation, we should be able to keep

Figure 3: Revenue Sources and Balance Sheet Characteristics



total assets below ¥1 trillion in the fiscal year ending March 31, 2021. This amount of assets should enable us to maintain an equity ratio of 30% or more in this year, even if receivables in our credit card services business are higher than expected. At the same time, we will work to improve capital efficiency by developing rent guarantee and securities operations and other businesses that are not dependent on our balance sheet (Figure 3).

Our response to interest rate hike risks has included

upping the ratio of funding sources with fixed interest rates; achieving a balanced mix of short-, medium-, and long-term borrowings; and seeking to keep payments level across fiscal years. As a result, the portion of borrowings that will be impacted by future interest rate hikes will be limited, and we will be able to spread the impact across a longer period of time. We therefore expect to be able to minimize the impacts of such interest rate hikes on income.

Resolution of Social Issues through Co-Creation Sustainability Management

Strength of Business Model Integrating Stores, Credit Cards, and the Internet

Lastly, I would like to explain how we are creating value through new businesses. The end of the transition to shopping centers and fixed-term rental contracts is now in sight and our credit card services business has been put on the growth track. Accordingly, we are now poised to devote our efforts to developing new businesses beginning from the fiscal year ending March 31, 2019. We aim to develop new businesses that will drive the future growth of MARUI GROUP and contribute to improved corporate value. In developing these businesses, we will not limit ourselves to the boundaries of

retailing and FinTech, and we will seek to devise businesses that leverage the strength of our business model integrating stores, credit cards, and the Internet.

To date, MARUI GROUP has proceeded to develop and cultivate new businesses that go beyond the boundaries of retailing and FinTech. The anime business is one example. Over the two years since its launch, the anime business has grown to boast annual transactions of ¥5.0 billion, or ¥3.0 billion on a lifetime value (LTV) basis. Looking ahead, we will maintain our focus on the development of businesses that leverage the strength of our business model integrating stores, credit cards, and the Internet to resolve social issues. We hope that these

businesses will allow us to make progress in the practice of co-creation sustainability management, which represents the next stage of MARUI GROUP's evolution.

Invigoration of the Securities Business

The first step in this evolution will be the promotion of financial inclusion. MARUI GROUP's business began with installment payment sales. After issuing Japan's first credit card in 1960, we have continued to provide credit to people of all ages, regardless of their income. This commitment to equal-opportunity credit is ingrained in the very DNA of MARUI GROUP. We are therefore compelled to provide financial services other than credit for everyone. We call this "financial inclusion" and have defined it as part of our mission.

Our first forays into financial inclusion began with our entry into the securities business in the fiscal year ending March 31, 2019. Asset building has previously been an area of services only available to a very limited group of wealthy individuals. We aim to make these services available to younger generations and to everyone else. In the background of our decision to pursue this goal is the concern younger generations harbor for the future. A survey released in June 2017 indicated that nearly 60% of people belonging to younger generations have concerns for the future in relation to money, inspiring them to save and conserve money. Meanwhile, many of these people find themselves unable to move forward with asset building due to a lack of knowledge or apprehension regarding investment. At the same time, the ratio of private financial assets accounted for by cash and deposits in Japan is higher than in any other developed country. In fact, the amount of cash and deposits in Japan is ¥900 trillion. This situation has resulted in slow growth in financial assets in comparison to other countries, prompting the Financial Services Agency to encourage people to shift their assets from savings to asset building. The goal of our securities business is to transform this concern for the future into hope and thereby help resolve this social issue. As we are new to this market, we will utilize flexible thinking and other advantages of being a newcomer to invigorate our securities business with a unique business model.

Specifically, our securities business will specialize in sales of investment trusts applicable under Tsumitate NISA in order to help younger generations build assets steadily over extended periods of time. We have carefully

selected the trust managers we will partner with, choosing only those that share our ambitions, so that we can recommend investment trusts with complete confidence. This business represents Japan's first scheme for making cumulative investments via credit cards, EPOS cards specifically. Our securities business will receive backup through support and financial education provided at our stores as we implement new branding and marketing initiatives utilizing the receptiveness that is characteristic of retail. We thereby aim to grow this business to serve one million users and handle a balance of ¥1 trillion in assets within 10 years.

New Businesses That Resolve Social Issues Shaping MARUI GROUP's Future

Beginning with the securities business, MARUI GROUP will undertake the simultaneous development of various new businesses related to sharing economies, new food business models, and technology-powered personalization, among other areas. The majority of these businesses will represent efforts to commercialize initiatives for addressing social issues utilizing MARUI GROUP's unique business model. We plan on accelerating co-creation with start-up companies in developing such businesses. These new businesses will shape the future of MARUI GROUP and help us create new value alongside existing businesses.

I look forward to your ongoing support and understanding.

August 2018

Hiroshi Aoi

Hiroshi Aoi

President and Representative Director
Representative Executive Officer

Messages from President Aoi can be accessed through the following links.

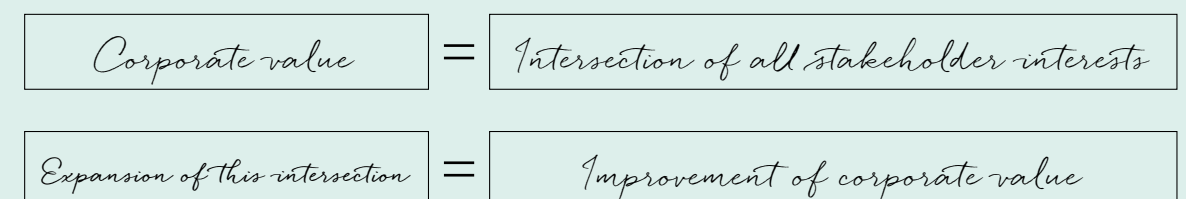
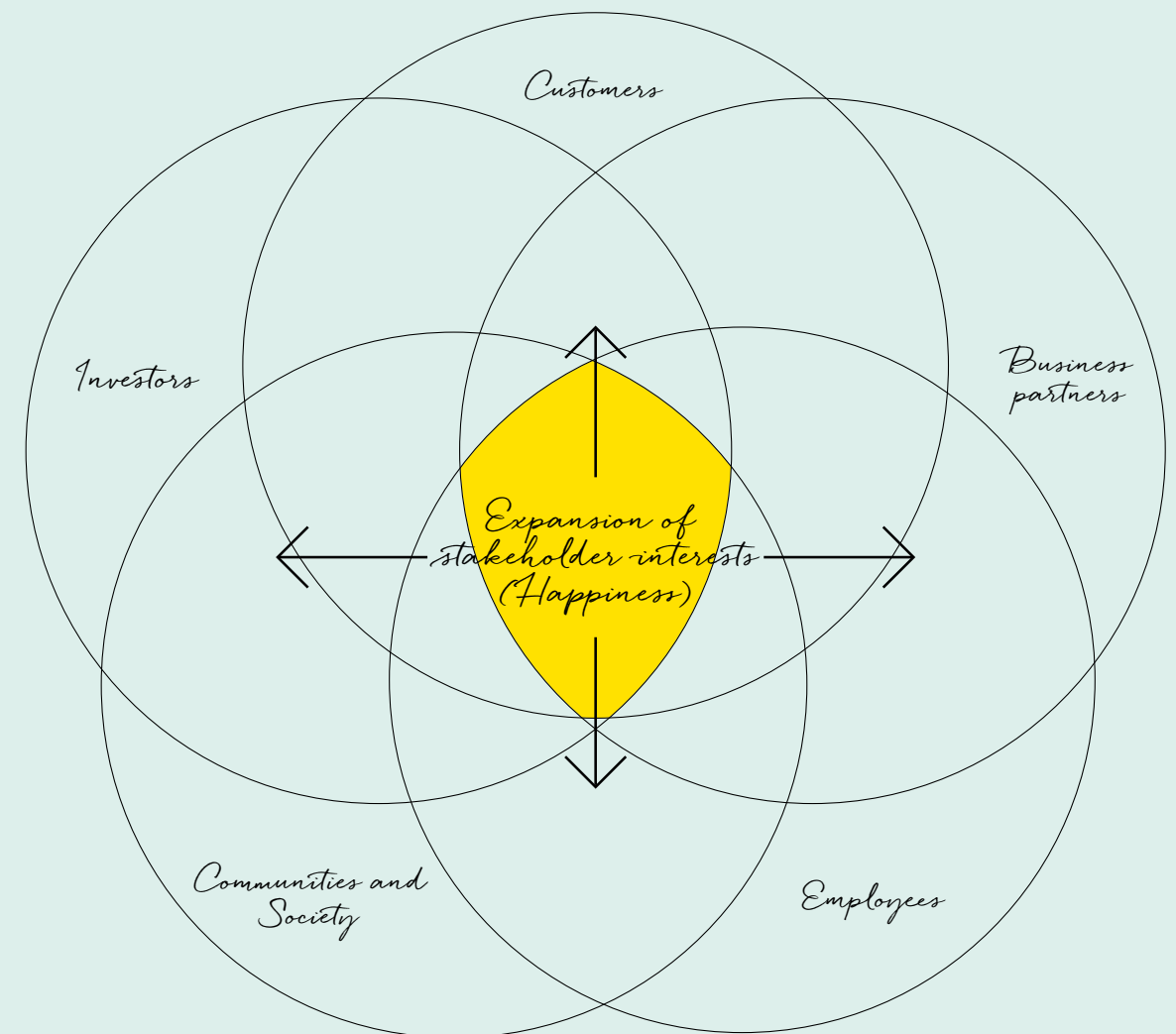
Fiscal Year Ended March 31, 2015:
Co-Creation Management Declaration
www.0101maruigroup.co.jp/en/ir/message/ceo_2015.html

Fiscal Year Ended March 31, 2016:
Co-Creation Management from a Corporate Value Perspective
www.0101maruigroup.co.jp/en/ir/message/ceo_2016.html

Fiscal Year Ended March 31, 2017:
Co-Creation Management Business Model
www.0101maruigroup.co.jp/en/ir/message/ceo_2017.html



MARUI GROUP's Vision for the Co-Creation of Corporate Value



“Good Companies” Achieving Both Economic and Social Benefits to be Deemed Necessary to Society

The concept of sustainability management, which entails working to achieve both economic and social benefits, is gaining attention, and there are those long-term investors that have begun offering their full support to “good companies” that are deemed necessary to society going forward. We arranged a discussion between Kazuhiro Arai, founder of KAMAKURA INVESTMENT MANAGEMENT CO., LTD., and President Aoi of MARUI GROUP CO., LTD., on the new potential that can be created through a focus on happiness, helpfulness, and inclusion.

Kazuhiro Arai

Director
General Manager, Asset Management Division
KAMAKURA INVESTMENT MANAGEMENT CO., LTD.
(at time of discussion)



Hiroshi Aoi

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



Asset Building and Society Building through a New Type of Finance

Aoi: Prior to starting up KAMAKURA INVESTMENT MANAGEMENT, Mr. Arai, I understand that you were at the forefront of the financial field. Today, you are still in finance, but on the opposite side of the field. What prompted you to undertake this drastic change?

Arai: I realized that there was a limit to the extent to which I could manage assets based on numbers. I previously worked at Barclays Global Investors Ltd. (currently BlackRock Japan Co., Ltd.), which was then the world leader in quantitative investment, which is based on numbers. There, I treated investment as a science. I would statistically analyze the performance forecasts of analysts from across the globe and use the results of these analyses to conduct stock trades in which trillions of yen would change hands. However, I developed a serious, stress-related illness in 2007, which led to my decision to leave this company. It was then that I encountered *Nihon de Ichiban Taisetsu ni Shitai Kaisha* (“The Company That Should Be Most Valued in Japan”), a book written by Koji Sakamoto. This book transformed how I viewed the world. Up until then, I only saw companies as things to be traded based on numbers, but this book made me realize that companies are driven by people. Looking to take an approach toward investment that was the polar opposite of my previous approach, I started up KAMAKURA INVESTMENT MANAGEMENT.

Aoi: So, you could say that you saw both poles of the investment world. However, one cannot help but think that investment trusts would not function at the opposite pole. How do you balance this new approach with the need for functioning trusts?

Arai: KAMAKURA INVESTMENT MANAGEMENT provides an environment in which we can guarantee the returns of 4% to 5% that represent the minimal necessary amount for customers’ asset building. The only other conditions we care about are the social benefits of companies; we seek to invest in good companies that contribute to society. We cannot resolve social issues without funding companies that are not concerned with profits. Even if we do not realize profits in the short term, if we invest in a mixture of companies that have grown to the point of generating income and companies that are not yet at this stage, we should be able to guarantee returns for our customers. This type of investment based on social benefits is what I wanted to do. I had hoped to be the type of financier that companies need, and I therefore committed myself to standing by companies in both the good times and the bad times.

Entrenchment of Sustainability in Corporate Culture as the Most Basic Growth Strategy

Aoi: How many companies do you invest in?

Arai: We invest in 63 companies. We invest in companies that remain true to their vision or to their desire to



Kazuhiro Arai

Director
General Manager, Asset Management Division
KAMAKURA INVESTMENT MANAGEMENT CO., LTD. (at time of discussion)

After working at domestic trust banks and foreign asset management companies, a serious illness prompted Mr. Kazuhiro Arai to establish KAMAKURA INVESTMENT MANAGEMENT together with four of his colleagues in 2008. Yui 2101, an investment trust overseen by Mr. Arai, has continued to adhere to its unique style of evaluating companies based on their benefits to society and disclosing all investees. On July 31, 2018, this trust boasted more than 19,000 private investors and net assets of over ¥37.2 billion. Mr. Arai has written books on topics such as how to achieve success through principled investment, the knowledge of work and money held by happy people, and sustainable capitalism.



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Kazuhiro Arai



be a good company. We have withdrawn investment from a total of seven companies in the past. The reasons for these withdrawals have included acquisitions, delisting, and other formal issues. Other reasons have involved changes in policies following the appointment of new managers that made it impossible for us to continue pursuing the social good together with these companies.

Aoi: It is common for Japanese companies to change their leader once every four years. Changes in leadership bring changes in management policies, and the new policies can sometimes be 100% different from the prior policies. I believe it would be better for companies to keep the same leader for at least a decade. If not, it will be impossible to truly root the idea of being a good company or of sustainability within a company.

Arai: I agree completely. This is one of the reasons that many of the companies we choose for investment are still led by their founder or are family businesses.

Aoi: The majority of companies that keep the same leader over the long term are of this nature. I see this as a serious issue. When thinking about the future, it seems apparent that other companies will also need to install long-term leadership if we are to realize a sustainable society. I recently had the opportunity to speak with an individual from Marks & Spencer Group plc of the United Kingdom. This individual stated that sustainability is the most basic growth strategy and that view did not need to change no matter who managed the company. This commitment to sustainability has entrenched this concept in the corporate culture of Marks & Spencer throughout its 124-year history.

Arai: It takes a decade or two for a manager to shape the corporate culture of their company. I think that the restraint

function of corporate governance should actually be designed to ensure that managers and employees are remaining true to the purpose of their company and that the appropriate corporate culture is being fostered. The belief that it is better to replace managers after short terms in office may be common, but this belief is mistaken.

Managers' Resolution to Shape Society through Their Business as Important Aspect of ESG

Aoi: I think that the evaluation of companies based on ESG factors is a positive trend.

Arai: The concept of ESG itself is a positive development. However, if we only focus on raising scores using ESG evaluations, then there is a risk that all companies will end up becoming the same. Individuality and resolution are of utmost importance to companies. People cannot be inspired by a lack of resolve. Sometimes, my customers lodge complaints citing the unclear nature of a company's business. When I receive such a complaint, I go speak with the management of the investee, looking to see the resolve of managers. I want to see the commitment of management to shape society in a certain way through their business. If I do not see such resolution, I will not feel compelled to invest in a company.

Aoi: MARUI GROUP preaches the overarching values of co-creation and inclusion. Nonetheless, when I asked several new recruits why they wanted to join the Company, I was still surprised when all of their answers involved our commitment to inclusion. A strong message will attract a strong response. This realization has reaffirmed my commitment going forward.

Arai: The future of a company is decided by its



employees, and the opinions of employees are a company's most important intangible asset. The happiness of employees and the atmosphere of a company are factors that we are not yet able to quantify. Nonetheless, KAMAKURA INVESTMENT MANAGEMENT is currently researching means of tracking these metrics. We hope that such research will help us ensure that these assets are evaluated.

Fundamental Purpose of Financing as Bringing Joy

Aoi: What type of customers does KAMAKURA INVESTMENT MANAGEMENT serve?

Arai: All of our approximately 19,000 customers have a high degree of social awareness and most are in their 30s or 40s. Around 60% of these customers conduct cumulative investments. We have committed ourselves to standing by the companies we invest in, even during when performance is bad. This resolve was tested by the Great East Japan Earthquake. After the earthquake, many funds saw an outflow of capital as investors predicted catastrophic damage to the Japanese stock market. However, not one of our customers canceled their accounts.

Aoi: If one predicts a downturn in the Japanese stock market, they will likely immediately sell their holdings. I find issue with this common practice.

Arai: The reason we focus on investment trusts is because I wanted to make a community that is not preoccupied with money. I see the most fundamental purpose of financing as bringing joy to all parties involved. To fulfill this purpose, it is crucial to create a financing scheme that goes beyond a simple business model.



Corporate Growth by Continuously Helping Customers and Society

Arai: I have made use of Marui in the past. The Marui of today is much different than before.

Aoi: I became president of MARUI GROUP in 2005. At this time, I looked back at our past to try and ascertain how the Company had managed to continue growing over the 70 years since its founding. What came to mind was customers saying that they had "made use of Marui," a sentiment I had been hearing since I was a child. They did not say "I went to Marui" or "I shopped at Marui," but rather they said "I made use of Marui." I then came to realize that the core value driving our growth over the past 70 years was the aspect of Marui that made customers hold this sentiment. Customers' "I made use of" translates to "we helped" from the perspective of the Company. This realization made me recognize that our struggling performance back then was a consequence of Marui's diminished ability to be of help to customers. Faced with this wall, I was reminded of our corporate philosophy, which inspired me to commence management reforms. It is for this reason that what you, Mr. Arai, do and say resonates so much with me.

Arai: My expectations for MARUI GROUP in the future are very simple. Rather than clinging to the MARUI GROUP of the past, I want you to develop a MARUI GROUP of today. The concept of inclusion that you mentioned will likely be key to accomplishing this objective. The younger generations are empowered. Accordingly, if you can attract individuals from these generations, you will be able to attract anyone. I hope to see you grow MARUI GROUP into a place where people gather, a base for social activity.

Customers' "I made use of" translates to "we helped" from the perspective of the Company.

Hiroshi Aoi