Diverse Touchpoints with Customers

MARUI GROUP's idea of retailing entails relationships that do not end with the sale of a product in a store. Rather, we aspire to create a diverse range of touchpoints with customers and foster long-term relationships by providing experience value along with services that help resolve customer concerns and issues. To this end, we are joining hands with companies, commercial facilities, collaboration card partner facilities, and digital native brands that share our aspirations to expand the scope of our co-creation initiatives by reshaping our customers' touchpoints to exceed the boundaries of a physical store-oriented approach to achieve a form that is suited to the post-digital world.

Physical Stores in Prime Locations

MARUI GROUP boasts a network of 25 Marui and Modi stores positioned in prime locations in major cities and other locations across Japan that see large amounts of people traffic. These stores receive visits from an aggregate total of 210 million customers a year. Such direct touchpoints with customers enable us to identify changes in customer needs while also providing a platform through which customers may gather.

EPOS Collaboration Card Partner Facilities

MARUI GROUP has established EPOS card application centers at collaboration card partner facilities across Japan, including those in regions where there are no Marui or Modi stores. Inviting to EPOS cardholders and non-cardholders alike, these application centers are staffed by MARUI GROUP employees. The number of partner facilities with EPOS card application centers has risen to 25.

Directly Operated and External Partner Internet Shopping Sites

MARUI GROUP's directly operated "marui web channel" Internet shopping site is a marriage of Internet and physical venues, allowing customers to pick up or return items purchased through the site at physical Marui and Modi stores. In addition, we post our products on KDDI CORPORATION's "au Wowma!" Internet shopping site as well as on Rakuten and Amazon as part of our efforts to expand customer touchpoints.

Shinjuku Marui Main Building

Yurakucho Marui

Shibuya Modi

Hakata Marui

EPOS card application center

01

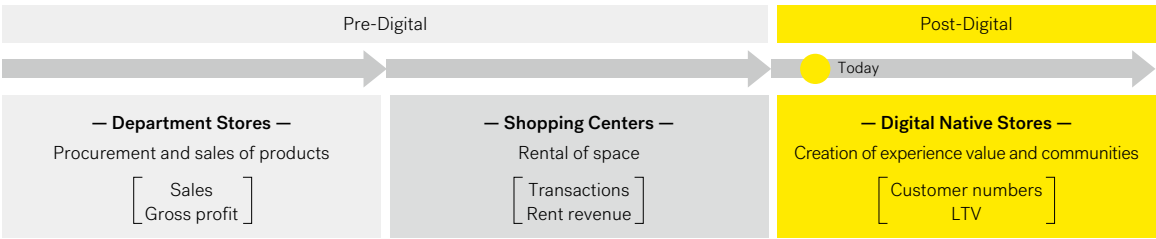## Transition for Retailing Focused on Sales of Goods to Digital Native Stores

Our physical world is linked to a wealth of information and activities via digital technologies accessed through our smartphones and other terminals. The younger generations of today, who grew up in an environment permeated by IT technologies and products, are referred to as "digital natives" in reflection of their natural affinity for the Internet and social media. To address the lifestyle changes that digital natives herald, MARUI GROUP is targeting a transition to digital native stores as the next step of its evolution.
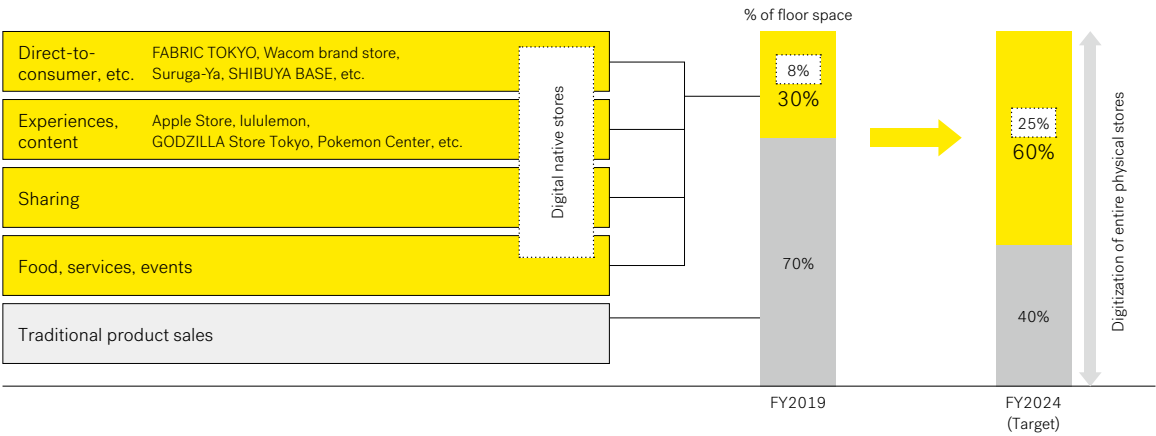
Digital Native Stores

In the past, our operations have focused on physical stores, with digital venues serving a complementary function. In today's post-digital world, however, physical stores have already been incorporated into digital spaces, and the relationship between physical and digital touchpoints has been inverted. If physical stores only sell goods, they will be unable to compete with the convenience of digital stores. There is thus no need for physical stores of this nature. Rather, it is important for physical stores to be used to create the type of experience value and communities that cannot be replicated by digital venues.

For this reason, MARUI GROUP will continue its efforts to expand food vendors and service providers. We will also work to encourage store openings by the direct-to-consumer, sharing, and subscription business digital native brands that primarily develop their operations through e-commerce venues and that have been appearing around the world. Through these efforts, we will transform our physical stores into venues for encounters of the type unique to such physical venues.

Change in Focus Indicators in Conjunction with Evolution of Stores

Pre-Digital		Post-Digital
— Department Stores — Procurement and sales of products [Sales / Gross profit]	— Shopping Centers — Rental of space [Transactions / Rent revenue]	— Digital Native Stores — Creation of experience value and communities [Customer numbers / LTV]

Today

"Digitization" of Stores to Raise Ratio of Digital Native Stores to 25%

		% of floor space
Direct-to-consumer, etc.	FABRIC TOKYO, Wacom brand store, Suruga-Ya, SHIBUYA BASE, etc.	
Experiences, content	Apple Store, lululemon, GODZILLA Store Tokyo, Pokemon Center, etc.	8% / 30%
Sharing		
Food, services, events		70%
Traditional product sales		

Digital native stores

FY2019: 8% / 30% / 70%
FY2024 (Target): 25% / 60% / 40%

Digitization of entire physical stores

02

Venues for Providing Experience Value and New Encounters

Some e-commerce-oriented brands employ approaches in which they use physical stores purely as venues for providing experiences to customers to encourage them to purchase their products via Internet shopping sites. For this reason, these brands often have trouble negotiating to open stores in commercial facilities as they do not produce sales in the store. MARUI GROUP, meanwhile, views the mission of its physical stores to be providing medium-to-long-term benefits to business partners, which includes offering venues for promoting e-commerce sales and engaging with customers. In addition to inviting brands that do not make in-store sales, we are also welcoming brands with no experience in operating physical stores. For the latter, contract operation services are available in which MARUI GROUP staff will operate stores on the brand's behalf. We are thereby working to supply digital native brands with value distinct to physical stores.

FABRIC TOKYO
FABRIC TOKYO Inc. offers a brand of business wear that seeks to fit its customers' lifestyles and values. Its store in Shinjuku Marui Main Building allows customers to have their measurements taken so that this size data can be used to purchase suits that fit them online. Everything from production to sales is performed by partner factories. (MARUI GROUP has concluded a capital and business alliance with FABRIC TOKYO.)

BASE
BASE, Inc. offers a free-to-use Internet shopping site production service that is used by 800,000 shops, including fashion, accessory, handmade item, and food product providers. In response to requests from shop owners for support in showcasing their items in physical stores, BASE opened a location in Shibuya Marui that allows owners to set up shop for as little as three days. (MARUI GROUP has concluded a capital and business alliance with BASE.)

Suruga-Ya
Suruga-Ya is a major Internet shopping site for secondhand hobby items that primarily offers plastic models, figures, and other anime goods. Its location in Shinjuku Marui Annex boasts a higher ratio of female customers than its Internet shopping site and its other physical stores, meaning that this location is functioning as a touchpoint with a different group of customers.

•••• **Message from an Employee**

Satoshi Hirano
Wacom Brand Store
Shinjuku
Events
Shinjuku Marui Annex
MARUI CO., LTD.

MARUI GROUP employees have developed an acute level of responsiveness during the process of transforming our stores. This responsiveness is an important element of our ability to cater to the desires of business partners. I suspect that we have proved to Wacom that contracting MARUI GROUP employees to perform customer service, which is outside of this company's wheelhouse, will resolve any issues in this regard. At the Wacom brand shop, I go about my daily work while thinking about how I can help increase the number of Wacom fans and provide customers with more enjoyable experiences.

Wacom
Wacom Co., Ltd., is a leading pen tablet company. Seeking to establish a venue at which customers can sit down and try its products, Wacom opened a location in Shinjuku Marui Annex, the flagship store for our anime business, in recognition of the overlap between its customer base and that of this store. The Wacom brand store has no inventories, serving only as a venue for customers to experience products. (MARUI GROUP is contracted to operate this store.)

DRENi
DRENi is a store that allows customers to rent dresses, purses, and accessories, all items for which opportunities to use are rare. This new rental service is friendly to both the environment and to customers' wallets. Not only does it help free up closet space in customers' homes, this service has won praise for allowing customers to try dresses of designs and colors that they would be hesitant to purchase. A DRENi showroom has been opened in Yurakucho Marui. (DRENi stores are operated directly by MARUI GROUP.)
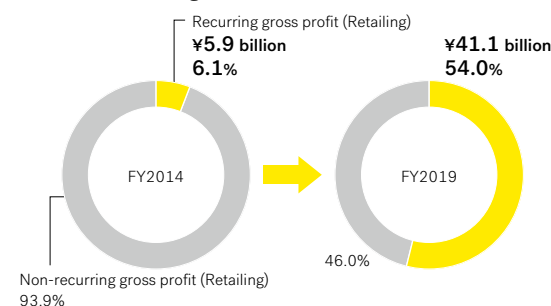
03

LTV Vision for Retailing Operations

The business model transition from department stores to shopping centers resulted in massive growth in recurring revenue in our retailing operations. Looking ahead, MARUI GROUP will promote digital native stores in order to increase LTV by providing venues for engagement to high-LTV digital native stores.

Growth in Recurring Revenue through Transition to Shopping Centers and Fixed-Term Rental Contracts

In the fiscal year ended March 31, 2015, MARUI GROUP embarked on a transition to shopping centers and fixed-term rental contracts, which was completed in the fiscal year ended March 31, 2019. This transition entailed a switch in the main revenue source from product sales, which are recorded on a single fiscal year basis, to rent revenues, which generate recurring revenue over a period of three to five years, and thus resulted in massive growth in recurring revenue. Recurring gross profit in the fiscal year ended March 31, 2019, amounted to ¥41.1 billion, which represen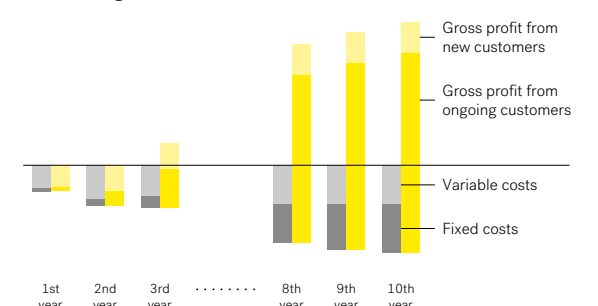ted more than 50% of total gross profit and was around seven times higher than the level before the transition to shopping centers and fixed-term rental contracts.

LTV Associated with Digital Native Brands

Many digital native brands view physical stores as venues for connecting with new customers and increasing customer engagement. Possessing both physical and digital touchpoints contributes to higher customer retention rates and increased sales. For these brands, the costs of opening a physical location exceeds the associated revenues for several years. However, revenues will eventually grow to surpass costs as a brand expands its base of ongoing customers, and profits will continue to rise thereafter.

Ratio of Recurring Gross Profit to Total Gross Profit*

Recurring gross profit (Retailing)
¥5.9 billion
6.1%

¥41.1 billion
54.0%

FY2014 → FY2019

46.0%

Non-recurring gross profit (Retailing)
93.9%

* Calculated as the ratio of a figure combining gross profit and selling, general and administrative expenses paid by business partners

LTV of Digital Native Brands

Gross profit from new customers
Gross profit from ongoing customers
Variable costs
Fixed costs

1st year | 2nd year | 3rd year | ·········· | 8th year | 9th year | 10th year

•••• **Message from a Business Partner**

Yuichiro Mori
CEO/Founder
FABRIC TOKYO Inc.

Shaping of Trends Together as Partners

Many take a dualist view of e-commerce and stores. For this reason, MARUI GROUP's concept of digital native stores and their commitment to respecting customer value made me interested in partnering with the Company. At MARUI GROUP, wherever you look, you will see everyone, from senior management to employees, exercising a robust pioneer spirit and a drive to action. I thus feel that there is a lot we can learn from MARUI GROUP. After opening our physical location, sales per customer doubled and the ratio of repeat purchases jumped significantly. While about 80% of repeat purchases are made online, we see several customers revisit the physical location to check out our fabrics and consult with our coordinators. The synergies between physical and online venues are undeniable. Whether in retailing or in other fields, I have no doubt that we have reached an era in which business must be prefaced on the digital. It can be expected that digital native stores will become commonplace three years from now. At this time, the trailblazers in this field will find themselves at a great advantage. FABRIC TOKYO hopes to stand at the forefront of retail. I therefore look forward to sharing frank feedback with MARUI GROUP as we shape trends together as partners.

Co-Creation Credit Expertise

MARUI GROUP's concept of finance is not the limited financial services that have traditionally been provided almost exclusively to the wealthy. Rather, we advocate financial inclusion with the goal of providing everyone with the financial services they need when they need them, regardless of income or age. This goal has been the driving force behind our promotion of the co-creation of creditability since our founding. The co-creation of creditability entails helping people who would be deemed to have no financial creditability in Japan, such as students and younger individuals with little or no income, to build this creditability. Through this approach to finance from the customer's perspective, we have achieved the industry's lowest ratio of delinquent debt of 1.80%.

Cardholder Base Largely Comprising Younger Generations and Women

Utilizing the unique credit expertise of Epos Card Co., Ltd., our cardholder base has come to largely comprise university students and minors without credit card experience, adults aged 18 to 39, and women. Furthermore, 30% of these individuals received their first ever credit card from MARUI GROUP.*

* Source: Epos Card Co., Ltd.

Credit Philosophy Continuing from Founding

MARUI GROUP's basic credit philosophy is that creditability should be built together with customers. Accordingly, Epos Card sets credit limits for customers that are within their means and gradually increases this limit based on their usage history.

Initial Credit
Utilization of big data based on credit expertise acquired from time of founding
Reduction of application declines by setting low credit limits for applications that would have been declined by other companies

→

Credit Monitoring
Spirit of co-creation based on founder's words stating that "creditability should be built together with customers"
Credit limit increases based on usage frequency and amount and payment histories

Industry's lowest ratio of delinquent debt of 1.80%

	Standard Approach	MARUI GROUP's Credit Philosophy
Definition of creditability	Assigned based on age, profession, income, etc.	Built based on customer usage and payment histories regardless of age, profession, income, etc.
Overdue payments	Responsibility lies with customer	Responsibility lies with both customer and card issuer (MARUI GROUP), repayment method sought together
Inability to issue	Industry average rate of application declines: 24%	Ongoing improvement of credit inspection accuracy to reduce rate of application decline (with appreciation) Average rate of application declines in stores: 8%

TM & © TOHO CO., LTD.

01

Maximization of Share of Household Finances throughout Customer Lifestyles
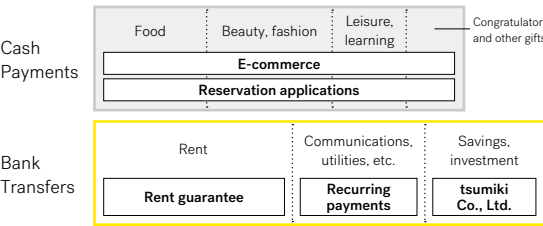
Various companies are launching smartphone payment services, resulting in intensifying competition in the cashless payment market. Many of these companies have adopted strategies that focus on gathering data through smartphone payment services that can be used for deploying financial services in the future. Conversely, MARUI GROUP's strategy is to use EPOS cards to deliver unique payment services targeting all areas of household finances in order to maximize the share of EPOS card payments in household finances throughout customer lifestyles.

STRATEGY 1

Target Rent, Utilities, and All Other Areas of Household Finances

MARUI GROUP's primary target is the areas of household finances represented by payments made via bank transfers. In this area, we will step up efforts to encourage customers to use their credit cards to make recurring payments while also enabling customers to pay their rent with their card via our rent guarantee services. In addition, securities company tsumiki Co., Ltd., is supplying cumulative investment services that can be used via credit cards in the investment and savings field. We thereby seek to increase the share of EPOS card payments in all areas of household finances.

Approach Targeting All Areas of Household Finances

Cash Payments	Food	Beauty, fashion	Leisure, learning	Congratulatory and other gifts
	E-commerce			
	Reservation applications			
Bank Transfers	Rent	Communications, utilities, etc.	Savings, investment	
	Rent guarantee	Recurring payments	tsumiki Co., Ltd.	

STRATEGY 2

Conversion of All Family Members to Cardholders with EPOS Family Gold Cards

Gold and Platinum cardholders have high loyalty, usage rates exceeding 90%, and low turnover rates. In June 2018, we launched the EPOS Family Gold card, a Gold card with no annual fees that can be used by family members of Gold and Platinum cardholders. In the fiscal year ended March 31, 2019, the number of households using EPOS Family Gold cards rose to 50,000 as 50,000 Gold cardholders introduced these cards to 60,000 family members. When all members of a household have Gold cards, the average share of EPOS card payments in household finances rises

from 14% to 23% on average. Going forward, we will look to cultivate a cardholder base of more than 1,000,000 individuals in 500,000 households by the fiscal year ending March 31, 2024.

Usage Statistics by EPOS Card Type

	Standard	Gold	Platinum	Total
Usage rates (%)	54	92	100	66
Card user numbers (thousands of people)	2,530	1,930	70	4,530

• Shift in emphasis from cardholder numbers (card numbers) to LTV
• Improvement in ratio of Gold cardholders by stepping up initiatives pertaining to rent, other recurring payments, and e-commerce

STRATEGY 3

Broadening Range of Uses for Money Realized through EPOS Card Application

In the area of household finances represented by cash payments, reservation applications are garnering attention for the new opportunities they represent. By coordinating with reservation applications through the EPOS card application, we will seek to increase use of EPOS cards and thereby contribute to the spread of cashless payments.

Message from an Employee

Saho Tsunematsu
CS Promotion Division
Member Services Department
Epos Card Co., Ltd.

Epos Card is focused on increasing the use of EPOS cards for recurring payments, which in turn will expand its share of household payments. There are no other credit card companies that allow for points to be accumulated by paying monthly utility bills. I hope to maximize the share of EPOS card payments among household finances by incorporating feedback from customers.

02

Subscription-Type Businesses Based on Recurring Transactions

Areas in which initiatives will be accelerated going forward include those for encouraging the payment of rent, the largest outflow among household finances, with EPOS cards as well as asset building services offered through tsumiki Co., Ltd., enabling investment trusts to be purchased via credit card. Encouraging customers to use their EPOS card to make recurring transactions will lead to the creation of subscription-type businesses that contribute to ongoing growth in LTV.

ROOM iD Advance-Payment Rent Guarantee Service

The ROOM iD advance-payment rent guarantee service combines a rent guarantee service, which eliminates the need for a guarantor when renting an apartment, with the ability to make rent payments via credit cards. Rent is the largest outflow among household finances. Although it is not normally possible to pay rent with a credit card, our rent guarantee service allows for such payments to be made. Revenue from this service is growing smoothly thanks to its strengths, including the ability to accrue points by making rent payments, a unique characteristic, as well as the backing provided by MARUI GROUP's creditability. Future initiatives with regard to this service will be

aimed at increasing users through both internal efforts and external partnerships. To this end, we will step up coordination with prominent partners, such as Sumitomo Forestry Residential Co., Ltd., and ABLE INC. In addition, we will advertise to cardholders buildings at which ROOM iD can be used through our proprietary website.

Services of tsumiki Co., Ltd., for Younger and Inexperienced Investors

Established in August 2018, tsumiki Co., Ltd., is a securities company specializing in cumulative investments, a form of investment that is highly accessible even to inexperienced investors. On March 31, 2019, a mere seven months after it started service, tsumiki Co., Ltd., had already received applications from approximately 16,000 customers. The easy-to-use online application form, high convenience of credit card payments, and an easy-to-understand user interface have helped users feel more familiar with asset building, winning great praise from many younger and inexperienced investors.

Strengths of MARUI GROUP

	EPOS Cards	Competitors
Points accrued for rent payments	Accrued	Not accrued
Operations	Integrated with credit card operations	Stand-alone operations
Systems	Custom-made systems developed in-house	Built-to-specification systems (Outsourced)
Reliability	MARUI GROUP's creditability	Small to medium sized (Only four listed dedicated rent guarantee companies)

tsumiki

Message from an Employee

Provision of Inclusive Products and Services Matched to Diversifying Living Options

A large portion of the users of our ROOM iD advance-payment rent guarantee service are younger, and men and women both represent about half of our user base. Given that the vast majority of EPOS cardholders are women, I feel that ROOM iD is helping us form connections with new customers. Our rivals do not offer services that allow points to be accrued by making rent payments, and our service has thus won strong support from customers, with some stating that they hope to use ROOM iD again as they move to new apartments. Among the strengths we have to offer are the sense of reliability and creditability attached to Marui and Modi stores, the unique services and customer base of Epos Card, and our ability to respond to system-related needs. The 20-year-old customers living in rental housing today will be 50 in 30 years. I expect that the range of living options available will grow more diverse over this time. For this reason, it will be necessary for us to revise our screening processes going forward. We will also need to coordinate our services with other housing-related services, including monitoring services, emergency dispatch services, household chore proxies, cleaning services, and furniture and appliance rentals. Our goal is to continue evolving to assist real estate management companies, tenants, and property owners by providing inclusive products and services, including those that accommodate non-Japanese individuals.

Chizuko Umehara
Sales Section 2, Home Business Division 1,
Home Business Department
Epos Card Co., Ltd.

03

LTV Vision for Finance Operations

Usage amounts and retention rates will be crucial to improving the LTV of EPOS cards. Accordingly, we will seek to bolster subscription revenues to contribute to increases in these areas and thereby improve LTV.
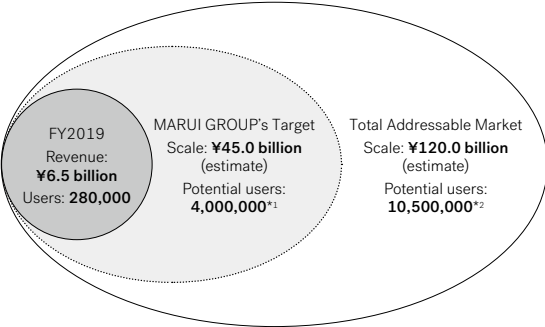
Improvement of LTV by Bolstering Subscription Revenues

The LTV of credit cards is measured as the difference between the revenues generated from a user over the period from application to cancellation of their card and the costs incurred over this period. The initial cost of issuing an EPOS card is quite large, meaning that LTV is almost always in the negative over the first year after application. However, costs are lower in subsequent years. As such, if usage frequency increases, we can recover the initial costs and begin generating profits over the next few years. Consistent profits will be produced thereafter.

Going forward, we will continue to reinforce rent guarantee and other subscription-type services. As subscriptions entail recurring payments, these services will contribute to increased usage amounts and higher retention rates. In this manner, we will seek to improve the LTV of our credit cards by bolstering subscription revenues.

(Reference) Estimate of Total Addressable Market Scale for MARUI GROUP's Rent Guarantee Business
In the fiscal year ended March 31, 2019, revenue from the rent guarantee business amounted to ¥6.5 billion, and the average annual growth rate of the past five years was 30%. The scale of the total addressable market for the rent guarantee business can be estimated to be around ¥120.0 billion through a preliminary calculation. Accordingly, we see the potential for ongoing growth in this business.
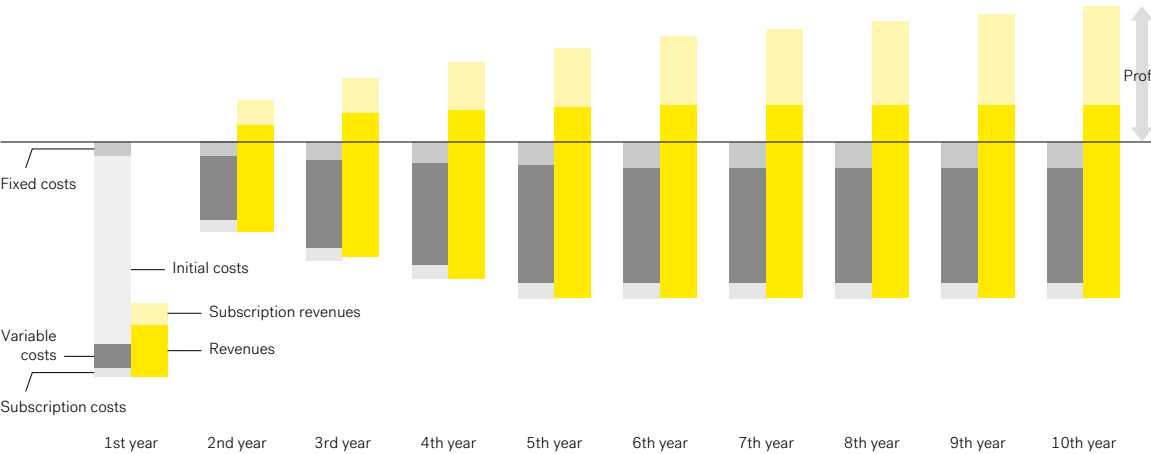
Estimate of Total Addressable Market Scale for Rent Guarantee Business in 2025

FY2019	MARUI GROUP's Target	Total Addressable Market
Revenue: ¥6.5 billion	Scale: ¥45.0 billion (estimate)	Scale: ¥120.0 billion (estimate)
Users: 280,000	Potential users: 4,000,000[*1]	Potential users: 10,500,000[*2]

*1 Rental housing residents with EPOS cards + (Rental housing residents without EPOS cards × Market share) (as of March 31, 2024)
*2 Estimated rental housing units + Number of users of rent guarantee services (as of March 31, 2021)

Credit Card LTV after Application

Fixed costs
Initial costs
Subscription revenues
Variable costs
Revenues
Subscription costs
Profit

1st year | 2nd year | 3rd year | 4th year | 5th year | 6th year | 7th year | 8th year | 9th year | 10th year

IT Capabilities Generating Synergies

MARUI GROUP views IT as a tool for maximizing synergies between its areas of strength, namely retailing and finance. IT is a crucial element of MARUI GROUP's foundation without which all of its businesses would cease to function. Although those outside the Company may evaluate MARUI GROUP's retailing and finance operations separately, we instead view these two areas as linked. We thus seek to merge our strengths through IT in these areas to maximize the intersection between them and generate unique synergies.

> "Synergy is the only word in our language that means behavior of whole systems unpredicted by the separately observed behaviors of any of the system's separate parts or any subassembly of the system's parts."
>
> *Operating Manual for Spaceship Earth*, Richard Buckminster Fuller

Unique Big Data Amassed through the Co-Creation of Creditability

Guided by its principle of the co-creation of creditability, MARUI GROUP has continued to provide financial services through credit cards to younger generations and a wide range of other customers. We have thereby amassed a unique collection of big data on credit cards and on the purchasing behavior of these wide-ranging customers. By utilizing this big data via IT, we are improving the accuracy of our unique credit expertise.

On-the-Spot In-Store Credit Card Issuance Supported by Big Data and IT

MARUI GROUP encourages the customers that use its stores to apply for EPOS cards. To ensure that these customers do not have to wait longer than necessary and to offer our credit card services to a wide range of customers, we capitalize on IT and the big data we have accumulated thus far to realize on-the-spot issuance of IC-chipped-equipped Visa cards in stores in as little as 20 minutes. These cards can be used on the day they are issued, contributing to higher usage rates.

•••• **Message from the CDO**

Takeshi Ebihara
Executive Officer and CDO
Director and General Manager, Digital Transformation Promotion Department, M & C SYSTEMS CO., LTD.
Director, Epos Card Co., Ltd.

Realization of a Flourishing and Inclusive Society with Digital Technologies
The advancement of digital technologies is driving the spread of IoT technologies aimed at the realization of a flourishing and inclusive society. This trend has made the smartphone an indispensable part of our lives while producing other noteworthy changes in the environment surrounding us.
In the midst of these trends, MARUI GROUP aspires to deliver new value and continue to grow. Accomplishing these goals will require that we accelerate business structure reforms by promoting digitization and technological innovation.

Through its business model integrating retailing, finance, and IT, MARUI GROUP has cultivated strength in the form of its information systems, distribution platforms, and human resources that understand customer needs. I believe that we can install digital technologies into our existing businesses while also creating new businesses that resolve social issues by fully capitalizing on these management resources in our promotion of digitization.

By accelerating digitization initiatives through a concerted Groupwide effort, we will harness the power of digital technologies to help build a flourishing and inclusive society that offers happiness to all.

01
Hybrid In-House System Development

MARUI GROUP manages and develops the systems for maximizing synergies between retailing and financing in-house, and we have a robust history of IT-driven innovation, as seen in our introduction of the industry's first computer and of Internet infrastructure for stores. Today, M & C SYSTEMS CO., LTD., established in 1984, is performing system and software development and information management tasks for Group companies through hybrid operation with business partners.

Co-Creation with Business Partners in Developing 230 Systems a Year

As we practice integrated Group management through a pure holding system, M & C SYSTEMS is less of a separate Group company and more like an IT arm of MARUI GROUP. Moreover, we do not develop systems completely in-house, but rather engage in hybrid in-house development of systems through a unique scheme of co-creation between MARUI GROUP's development team of approximately 140 staff and the roughly 100 employees of business partners that are positioned within the Company. This scheme allows for teams to be formed between MARUI GROUP employees, who are well versed in internal operations and frameworks, and business partners with which strong ties have been formed over the course of long-term relationships. These teams develop around 230 systems of various sizes each year through short-term projects advanced side-by-side based on business policies. Our business partners have stated that this scheme allows for development that is 50% faster than traditional development projects that entail complete outsourcing of systems development. This hybrid in-house development scheme has thus been deemed ideal for MARUI GROUP's business model integrating retailing, finance, and IT in terms of speed, expenses, skills, and flexibility.

Characteristics of Hybrid In-House Development Scheme

		Completely Outsourced	Completely In-House	MARUI GROUP
Overview		All aspects outsourced to business partners	All aspects performed by in-house employees	System design and programming outsourced
Characteristics	Speed	Time required to understand work processes	Quick starts and speedy responses possible	Quick starts and speedy responses possible
	Expenses	Outsourcing expenses incurred for entirety of systems development projects	Costs fixed in form of personnel expenses for development staff	Outsourcing expenses incurred only for design and programming Limited outsourcing expenses due to performing overall management and concept design in-house
	Skills	No skills accumulated in-house	Specialized skills accumulated in-house	Basic skills accumulated in-house
	Flexibility	Dependence on availability of business partners	Difficulty in maintaining necessary staff due to inconsistent workloads	Ability to receive priority staff allocation due to long-term relationships

Division of Development Process Workload

Employees	Business Partners	Employees
Condition Identification / Concept Design	System Design / Development	Verification Tests
Concept design by employees knowledgeable about operations and frameworks	Service by business partners well versed in MARUI GROUP's systems	Verification by employees to confirm conformity with requests

02

Approximately 90% of IT Staff with Customer-Oriented Perspectives from Liberal Arts Backgrounds

M & C SYSTEMS, MARUI GROUP's IT arm, has a staff of approximately 290 employees, approximately 90% of whom are from liberal arts backgrounds. Each year, around 70 employees with customer-oriented perspectives that thrive on change are transferred to M & C SYSTEMS through our intra-Group profession change system. These employees are assigned actual IT work after undergoing the necessary training. Some may wonder why we conduct such frequent rotations of IT personnel, who are generally thought to require specialized skills. The reason is because we believe that this approach has three major benefits.

BENEFIT 1

Customer-Oriented Perspective Fostered in Stores
It is likely difficult for systems development staff to fully understand the needs of stores and customers under normal circumstances. At MARUI GROUP, however, we assign employees to our IT arm that have the experience of addressing customer needs through customer service at stores or at EPOS card centers. For this reason, our systems development staff are accustomed to thinking from the customer's perspective.

BENEFIT 2

Speed Achieved by Leveraging Business Experience
All employees that are assigned to our IT arm have experience in stores, credit card services, or other Group businesses. As such, there is no need to provide these employees with detailed explanations on the services and the businesses for which they will be developing systems. This fact expedites the process of understanding the purpose of systems and defining the necessary conditions, increasing development speed.

BENEFIT 3

Intra-Group Coordination between Divisions
The active utilization of MARUI GROUP's profession change system creates cross-divisional connections between employees across the Group. Based on their shared desire to serve customers, employees from the Group company requesting the system and from the IT arm actively discuss how best to maximize synergies between retailing and finance in order to develop the optimal system.

•••• Message from an Employee ───

Ayami Torihata
Group Process Innovation
R&D Center, Digital Transformation Promotion Department
M & C SYSTEMS CO., LTD.

Promotion of Swift Digitization from Customer's Perspective
It was in my third year at MARUI GROUP when I transferred to M & C Systems, a company that promotes swift digitization from the customer's perspective. My first three months were devoted to IT training from new transfers, after which I was able to go about my duties without issue, despite being from a liberal arts background. One day, I received a request from a Group company looking to adopt robotic process automation (RPA) for its work processes. I examined this possibility from various perspectives, including whether RPA was truly the best option and whether there was a need to revise work processes. Digital technologies are, at the end of the day, a tool. For this reason, our duty is to assess the current situation from an overarching perspective while remaining conscious of the ultimate goal, improvements to productivity or corporate value, for example. A key strength of M & C SYSTEMS is that its employees share the same set of values as those in the Retailing and FinTech segments. At this company, my duties are completely different from when I was in sales. What remains the same is that the underlying standard for my judgments is whether my actions will benefit customers. This shared desire unites the Group and enables us to pursue swift digitization.

03

Aggressive IT Management through Upgrades to Legacy Systems

In 2019, MARUI GROUP was included for the first time in the Competitive IT Strategy Company Stock Selection organized by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange. This selection compiles, by industry, listed companies that are aggressively using IT to reform management, improve profitability, or boost productivity from the perspectives of medium-to-long-term increases in corporate value and enhanced competitiveness. One factor behind the Company's selection was its quick upgrades to its legacy systems.

Swift Decision Enabling Issuance of EPOS Cards
MARUI GROUP has been transitioning to open systems for its mainframes since 2002 to accommodate the commencement of new businesses and address the so-called "2007 issue,"[1] kicking off a gradual process of upgrading our prior retailing and credit card systems. It was these quick upgrades to our legacy systems that enabled us to begin issuing EPOS cards in 2006 and then to concentrate investments on the development of frameworks and new initiatives for accommodating the spread of the Internet. We were also thereby able to overcome the "2025 cliff"[2] issue relatively early.

In October 2017, a chief digital officer (CDO) was appointed to further enhance our aggressive IT management approach through the use of digital technologies. MARUI GROUP's IT management goes beyond the common goals of improving and reforming work processes to focus on resolving social issues and creating new value. At the same time, the role of the Group's IT arm is to expand the intersection between retailing and finance.

MARUI GROUP is committed to promoting digital transformations from the customer's perspective in both new businesses and in structural reforms to existing businesses.

*1 The "2007 issue" refers to the issue that will arise when Japan's baby boomer generation, which includes the primary individual maintaining the mainframe computers supporting core processes at financial and other institutions, retires leaving no one else with the knowledge needed to maintain these computers. This issue threatens to halt such processes and could thereby have a catastrophic impact on the economy.
*2 The "2025 cliff" refers to the possibility for economic losses of up to ¥12 trillion to occur after 2025 if companies are not able to address the potential diminishment of the competitiveness of their legacy systems, which have become somewhat of one-of-a-kind black boxes.

Process of Upgrading Legacy Systems

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Upgrades to store retail systems									Completion of transition to open systems
	Upgrades to credit card systems								
						Upgrades to e-commerce systems			

Aggressive IT investment made possible by swift upgrades to legacy systems

MARUI GROUP Information Security Policy
🌐 www.0101maruigroup.co.jp/en/security/index.html

🌐 www.0101maruigroup.co.jp/en/sustainability/pdf/s_report/2018/s_report2018_a3.pdf