

Need to Aggressively Communicate New Business Models to Investors

Okajima: MARUI GROUP's strength is rooted in its DNA of innovation and in the frameworks that allow employees embodying this DNA to create innovation. The Company has been cultivating employees capable of responding to change through a variety of measures over the past 10 or so years. The central pillar for these initiatives has been the leadership of President Aoi. Another major factor has been the development of frameworks for advancing initiatives through an approach that is simultaneously top down and bottom up.

Sampei: You could not be more right. It is clearly apparent, even to me, that MARUI GROUP has been implementing various innovative initiatives and that this spirit of innovation and change is permeating its employees. However, investors do not yet appear to be able to completely understand what type of business model will arise from this innovation in the future. While it may seem that the Company's stock price is doing well, I think that the market has yet to evaluate MARUI GROUP correctly.

Muroi: MARUI GROUP's co-creation sustainability management is almost perfect, and it has an incredibly sincere corporate culture. I therefore think that the risks associated with the Company are few. In fact, I first thought that there was not much for me to do

First Panel for Face-to-Face Discussion between Long-Term Investors and External Directors

As companies come to be expected to engage in constructive dialogue with investors regarding the improvement of their corporate value, exchanges between external directors and institutional investors are becoming increasingly more important. We therefore invited two long-term investors to sit down with three external directors and discuss MARUI GROUP's business model and the ideal relationship with the employees that support this model.

at MARUI GROUP, given that the role of external directors is supposed to be monitoring. To address the issue that you, Mr. Sampei, point out, it would probably be a good idea to think of ways to improve the materials provided at meetings with investors and to supply data that backs the Company's assertions.

Sampei: Data should not be the top priority. Around 70% to 80% of the work should be done by alleviating investor concerns through explanations of the Company's policies, its frameworks, and the areas with which it is exercising caution. The role of data comes around when investors ask for evidence after hearing such an explanation. If the data can supply the remaining 20%, everything should click with investors. The other day, I spoke with Director and Managing Executive Officer Hirotsugu Kato on the subjects of financial inclusion and credit management. He put forth a clear vision together with a wealth of data. The fund managers and analysts from my firm that were present at the time were quite impressed with this explanation. To investors, it is important to be able to paint a clear picture of the next step in a company's evolution and of its business model. If a company can aggressively broadcast such information to market representatives, the expectations of the market for this company will increase. This is the bridgehead MARUI GROUP needs.

Taguchi: MARUI GROUP's spirit of innovation is its unbreakable backbone, and the Company boasts a responsiveness to change that spurs it toward the

appropriate action, regardless of the means or methods. I believe that these qualities are contributing to increases in lifetime value from customers. I would like to ask: When a company puts forth a new business model, how do investors judge this model? What benchmark do you use in these cases?

Sampei: We do not have a particular benchmark. New business models are exactly that, something completely new, and we therefore have nothing with which to judge them against. What is important is the elements of the business model that will allow it to continue. I tend to take interest in business models that I judge to have the potential to continue for 10 or 15 years.

Makino: At the moment, the main factors behind any variation when I assess MARUI GROUP's corporate value are the growth rates of EPOS Gold cardholders, the per card usage amounts, and how the Company intends to improve these indicators. However, although Gold cardholders may be highly loyal to MARUI GROUP, their income tends to be around the same level as the standard cardholders of rivals. The question then turns to the degree to which revolving and cash advance transactions can grow through these cardholders. MARUI GROUP estimates that one-third of women living in the Tokyo metropolitan area will hold an EPOS card in the future. However, one cannot help but question the validity of this estimate. I cannot say for sure at the moment. However, if MARUI GROUP's stock price is



This face-to-face discussion started with a photograph session. The anxious gazes captured in this photograph are symbolic of the curiosity regarding the course of this discussion between external directors and investors.

From left: External Director Yoshitaka Taguchi, Nao Makino, Hiroki Sampei, External Director Etsuko Okajima, and External Director Masahiro Muroi

Hiroki Sampei

Head of Engagement
Fidelity International, Japan

After graduating from Waseda University's School of Science and Engineering in 1987, Mr. Hiroki Sampei joined Nippon Life Insurance Company. He worked as a foreign stock analyst and portfolio manager in New York, Tokyo, and London in the years that followed. Mr. Sampei was also a member of the Ministry of Economy, Trade and Industry's *Ito Report* project team, and he took part in the formulation of the ministry's *Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation: ESG Integration, Non-Financial Information Disclosure, and Intangible Assets into Investment*.



struggling, it is probably because it is reaching the limits of evaluation frameworks developed under its current business model. MARUI GROUP has a lot of potential for the future, including its financial inclusion and other initiatives. However, it is currently hard to judge which of these initiatives will begin generating value and when.

Positive and Negative Aspects of Not Appearing Business-Like

Sampei: MARUI GROUP's co-creation sustainability management has become well-known. However, there is a bit of a communication gap experience when talking on this subject with frontline staff enacting this type of management at operating companies.

Taguchi: When you are on the front lines, your perspective tends to be focused on this area. It is only natural for this perspective to change as one's rank rises and they find themselves positioned in different divisions.

Muroi: Looking back at my own experience, after transferring from being head of a business segment to working in the investor relations division, it took a year or two before I could truly bridge the communication gap with medium-to-long-term investors. The perspectives of those overseeing operations and those viewing a company from the outside are fundamentally different.

Okajima: I understand what you are saying. In my time at MARUI GROUP, I have probably met more than half of the Group's roughly 5,000 employees, including those taking part in the Co-Creation Management Academy (CMA) future leader development program. Overall, MARUI GROUP's employees are good, devoted, and honest people. Most of them seem as though they were

born with the purpose of working with or for the sake of customers. This is definitely a strength, but at the same time this situation does not appear business-like. Specifically, there is not much consideration of how to monetize the efforts of employees.

Makino: There are both positive and negative aspects of not appearing business-like. MARUI GROUP is advocating the idea of stores that do not sell with the goal of transitioning to a business model that generates earnings by stimulating growth in the lifetime value of customers. Not appearing business-like is perhaps a way of facilitating the development of long-term relationships with customers. Still, it will be impossible to maximize the value of this model without employees that are able to understand and effectively implement it. I have high expectations for MARUI GROUP's idea of lifetime value. However, there may be cases in which increasing lifetime value will require decisions to continue operating a business at a loss in order to achieve future cash flows. Earnest dedication to turning a profit on a single fiscal year basis is not enough in these cases. On the contrary, the Company will need to foster employees with the type of acumen that allows them to develop frameworks and businesses that, for example, force customers to use EPOS cards, despite their not having a desire to do so. A company only needs a handful of such employees, and I truly hope that MARUI GROUP will be able to cultivate them, through the CMA or some other such initiative.

Okajima: The clearest example I can think of such unorthodox human resource development is Masahisa Aoki, who was recently promoted to a director of MARUI GROUP. Mr. Aoki joined MOVING CO., LTD., as a truck driver. He later became the general manager of the Anime Business Department at MARUI GROUP and



Nao Makino

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Mr. Nao Makino graduated from the University of Tokyo Faculty of Law in 2012 and then joined Morgan Stanley MUFG Securities Co., Ltd., where he was responsible for researching Japanese stocks. He later took up a position at a socially responsible investment research firm, providing consultation services on ESG investment in Japanese companies.

then was appointed to the position of president and representative director of MARUI CO., LTD., at age 49. I suspect that such examples will become more common going forward.

Makino: Similarly, Ms. Asumi Kantake, who was in charge of investor relations until just a few years ago, is now representative director and CEO of tsumiki Co., Ltd. MARUI GROUP's co-creation management reports let readers track the growth of various employees, offering another way to enjoy these reports.

Venues for Deeper Communication with Long-Term Investors

Sampei: In regard to stakeholder engagement, I see that dialogue with employees and customers has become common place within MARUI GROUP. How are shareholders and other investors positioned among stakeholders? MARUI GROUP's co-creation management reports feature an image of six overlapping rings of stakeholders, and investors are included among these rings. However, I feel that the number of venues for engagement with shareholders and other investors are few and the information provided is lacking and unsatisfactory. This rings especially true when looking at the level of communication practiced with other stakeholders.

Okajima: MARUI GROUP has an incredible power to draw people into its orbit, and it has appointed experts in various areas to serve as advisors. It may need to establish a capital market advisory board next.

Taguchi: I definitely think it would be a good idea to establish such a board. Japanese companies are often thought to be good at following rules, but bad at making them. However, I suspect that MARUI GROUP

will be able to propose a new, made-in-Japan benchmark for assessing companies: the rule that companies should engage in co-creative, sustainable management. **Muroi:** External directors could be seen as agents of institutional investors. This is because our job is to raise the questions that you two investors have at meetings of the Board of Directors. For this reason, it is incredibly important that we have opportunities to speak with institutional investors. I therefore think that your comment about the need for venues for deeper communication is right on the mark. MARUI GROUP is quick to address issues, so I hope to see the rapid resolution of such issues in the future.

Makino: I feel that there is a close relationship between external directors and the executive team at MARUI GROUP. General shareholders may look at this relationship and wonder how oversight functions can be effectively exercised given this closeness. I hope that you can draft a narrative that will enable you to answer this question by illustrating how there is still a healthy degree of tension in this relationship, allowing for oversight to be exercised, along with a narrative about how this relationship makes it possible for external directors with a greater understanding of internal affairs to support management.

Sampei: The gap between the perspectives of shareholders and other investors and companies, while not going as far as to represent a dichotomy, still signifies a lack of shared recognition. There is a need to actively approach the other party and to foster understanding, and this could be said of both companies and investors. I think that one major takeaway from this discussion was that it highlighted the shared recognition of the need for mutually deepening communication going forward.