Business Merging Retailing and Finance, and Earnings Structure

Since its founding as a company selling furniture on installment payments in 1931, MARUI GROUP has continued to evolve its distinctive business model merging retailing and finance. Today, our operations are divided into the Retailing segment and the FinTech segment, but these segments share the same customer base, making for a model that is conducive to generating synergies. This business model merging retailing and finance also has a uniquely ideal earnings structure in which the earnings structures of both of our segments compensate for the deficiencies of the other segment's model while capitalizing on its strengths.

Business Merging Retailing and Finance

Building appealing stores increases revenues from fixed-term rental contracts while also enhancing our ability to draw customers, which in turn benefits credit card operations by creating more opportunities to recruit new cardholders. Furthermore, as we issue cards on-the-spot in stores, customers often use them right away, which effectively increases active user rates and card revenues. The higher card revenues can be reinvested in retail stores. Through this process, MARUI GROUP's business model generates an ideal virtuous cycle (see Figure 1). Our value journey can be explained by looking at how this business model functions across a timeline (see Figure 2).

Our relationships with customers generally begin in stores, and around 400,000 customers apply for credit cards at our stores every year, often times using them immediately. This process allows for smooth, low-cost recruitment activities and is a significant benefit of our store operations. Stores also serve as venues for ongoing contact, which can create lifelong relationships with customers while encouraging them to upgrade to Gold cards. This multitude of unique advantages is a major characteristic of MARUI GROUP's business model merging retailing and finance.

Figure 1: MARUI GROUP's Business Model

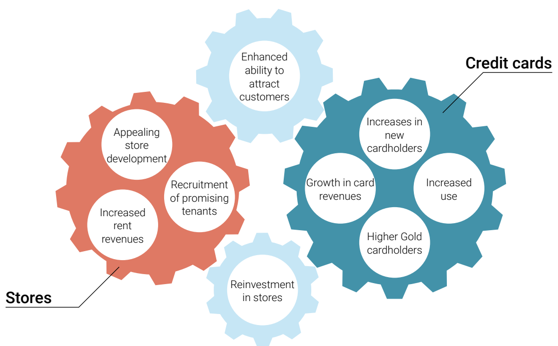
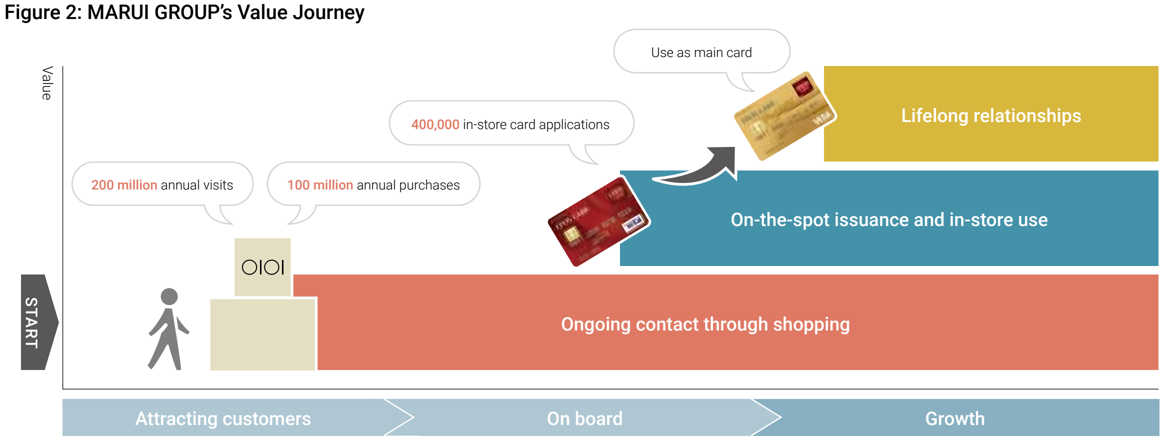


Figure 2: MARUI GROUP's Value Journey



Earnings Structure Based on Distinctive Business Model

MARUI GROUP's distinctive business model merging retailing and finance has an earnings structure that is equally unique (see Figure 3). In our credit card operations, the issuance costs and other initial expenses associated with new cards means that money is actually lost on new cardholders in their first few years. However, once these cardholders start generating profit, this profit can be anticipated to continue growing steadily thereafter. In the Retailing segment, meanwhile, we expect consistent earnings and cash flows following the completion of the transition to fixed-term rental contracts. The combination of these two structures is MARUI GROUP's earnings structure. The consistent retail revenues ensure the Company does not incur overall losses no matter how much profit may be lost on new cardholders in their first year while card revenues continue to grow after they climb into the positive. This earnings structure of MARUI GROUP's business model merging retailing and finance is one of the factors behind the Company's continuously high profit growth.

Changes in Earnings Structure and Clear Indicators for LTV Emphasizing Management Growth of Recurring Gross Profit

Another major characteristic of MARUI GROUP's business model merging retailing and finance is how increases in customer contact points are effective at driving improvements in LTV. Increases in ongoing transactions also spur growth in LTV. MARUI GROUP displays the revenue produced through those ongoing transactions via the indicator of recurring gross profit. The transition to fixed-term rental contracts in the Retailing segment and measures for enhancing rent guarantee and other operations in the FinTech segment are contributing to increases in recurring gross profit. As a result, recurring gross profit rose to ¥131.1 billion in the fiscal year ended March 31, 2020, representing 65% of total gross profit (see Figure 4). Recurring gross profit has grown rapidly over the past five years in both amount and portion of total gross profit, compared to recurring gross profit representing less than 50% of total gross profit prior to the start of the current medium-term management plan.

Figure 3: Earnings Structure Based on Distinctive Business Model

Unique structure combining high growth potential of credit card business with consistent revenues from fixed-term rental contracts

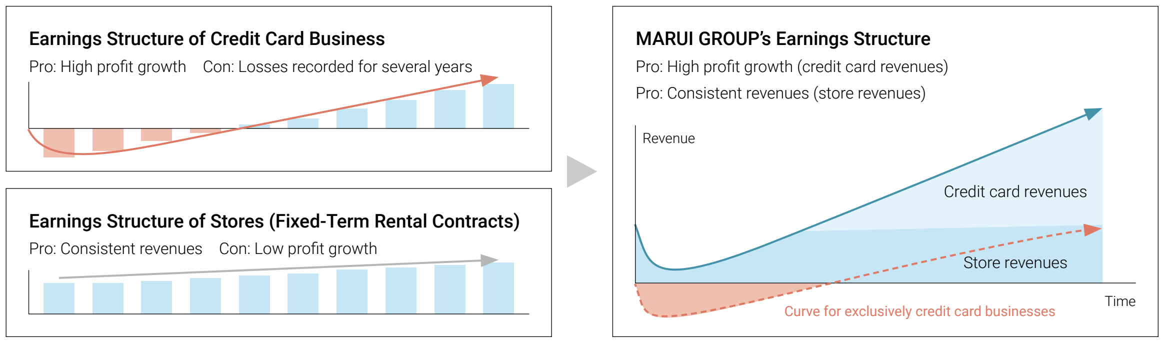
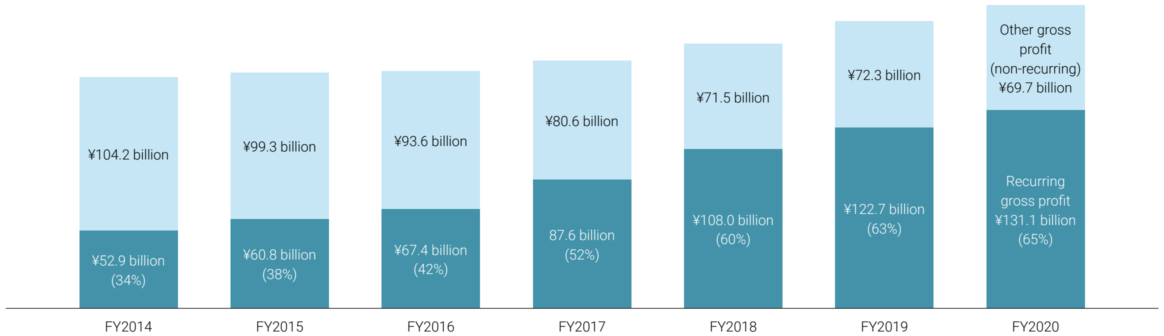


Figure 4: Ratio of Recurring Gross Profit to Total Gross Profit*

Ongoing improvement in ratio of recurring gross profit to total gross profit



* Gross profit includes selling, general and administrative expenses paid by business partners.