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

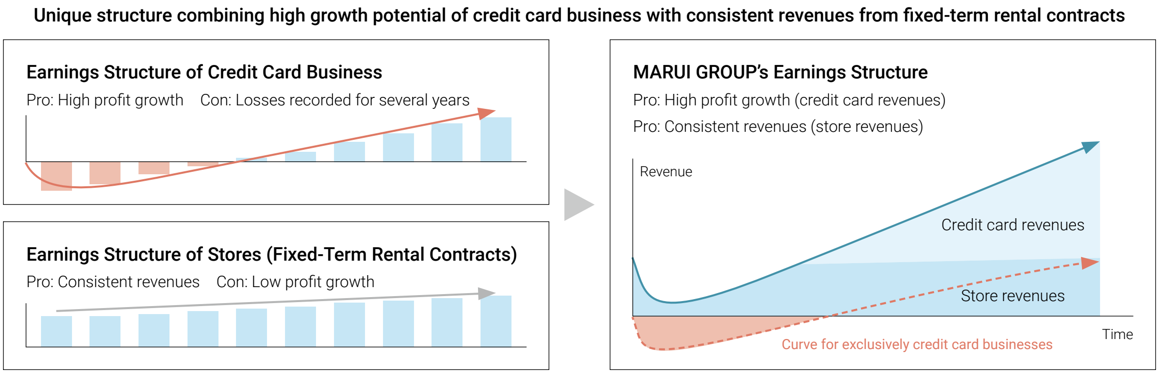
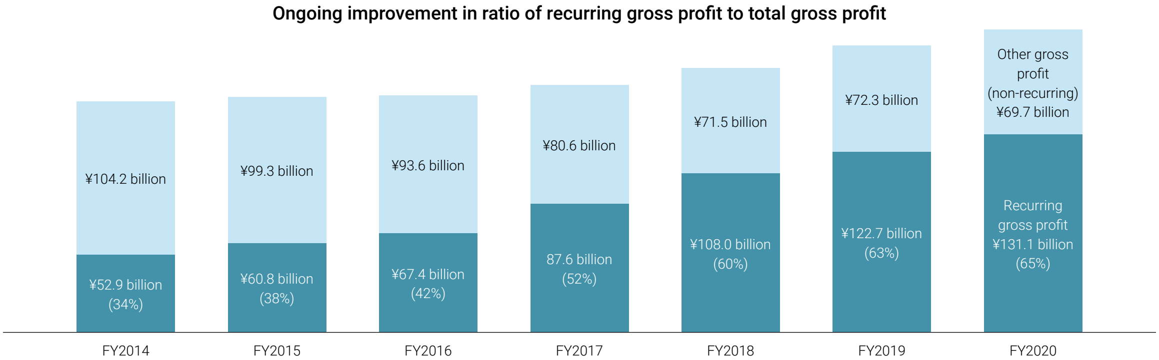


Figure 4: Ratio of Recurring Gross Profit to Total Gross Profit*



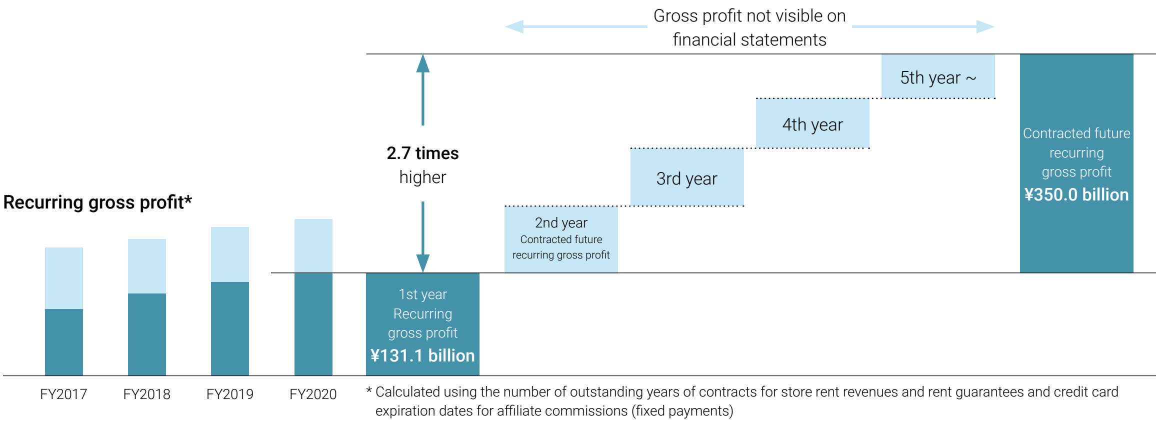
* Gross profit includes selling, general and administrative expenses paid by business partners.

Expansion of Contracted Future Recurring Gross Profit and Resilience

Recurring gross profit represents profit that has already been generated. However, ongoing transactions also entail profit that will be generated in future fiscal years based on contracts. This profit does not appear on the financial statements for a given fiscal year, but it is still an incredibly important indicator of revenue stability and growth potential. For this reason, MARUI GROUP displays this profit through the indicator of contracted future recurring gross profit. On March 31, 2020, contracted future recurring gross profit amounted to ¥350.0 billion, 2.7 times higher than the amount of recurring gross profit recorded in the fiscal year ended March 31, 2020. This figure indicates that the Company has already secured nearly three years' worth of future revenue, which has greatly increased the stability and growth potential of our revenue. This stability makes for improved resilience in times of crisis, such as during the COVID-19 pandemic (see Figure 5). Using finance charges on revolving and installment payments, the primary form of earnings in the FinTech segment, as an example, revolving and installment payment transactions are projected to decline by between ¥30.0 billion and ¥60.0 billion in the fiscal year ending March 31, 2021, due to the impacts of the pandemic. Regardless, earnings from these transactions are anticipated to be up year on year. The reason for this projection is that roughly 70% of finance charges on revolving and installment payments for the fiscal year will be attributable to contracted future recurring gross profit that is already contracted at the beginning of the fiscal year (see Figure 6).

Figure 5: New Financial Indicator—Contracted Future Recurring Gross Profit

Contracted future recurring gross profit = Recurring gross profit that can be expected to recur in subsequent years after initial transaction



* Calculated using the number of outstanding years of contracts for store rent revenues and rent guarantees and credit card expiration dates for affiliate commissions (fixed payments)

Figure 6: Mechanism Increasing Finance Charges on Revolving and Installment Payments

Revolving and installment payment transactions projected to decrease by ¥30.0–¥60.0 billion in FY2021 due to COVID-19 pandemic, but revenue from finance charges to increase as 70% will be attributable to balance at beginning of year