

# MARUI GROUP's BUSINESS MODEL

Co-Creation Ecosystem

## BUSINESS

### New Business Model Integrating Retailing, FinTech, and Co-Creative Investment

As a responsible member of society, MARUI GROUP takes steps to resolve social issues while improving corporate value. Our approach to this task entails identifying the social issues to be addressed from the perspective of inclusion and working toward resolutions in our business through co-creation with stakeholders. Efforts on this front going forward will be advanced under a new business model that includes the third pillar of co-creative investment along the prior pillars of retailing and fintech founded on our core value—the co-creation of creditability. By pursuing synergies through this business model, we aim to generate value that is greater than the sum of its constituents.

**Co-creative investment: An experimental venue for creating new future-changing businesses based on MARUI GROUP's existing business platform**



# MARUI GROUP's **Three** Businesses

## CO-CREATIVE INVESTMENT

### Vinyl Record Structure with A-Side and B-Side

MARUI GROUP's view of investment differs from the standard venture capital approach, which targets investment returns and dividends. We rather seek to ally ourselves with comrades sharing our vision and to pool our strengths and generate synergies as partners for co-creating a happier future. Our co-creative investment is structured like a vinyl record, with an A-side and a B-side. The A-side is growth support investment, where we invest in venture companies that share our philosophy and vision and with which we can collaborate. On this side, we conduct investments as a form of support for providing the resources that future generations, who will be both digital natives and sustainability natives, will need to commercialize their passions. The B-side is investments that synergize with our main business. Here, we invest in companies and new businesses entailing superior intangible assets and pursue collaboration to grow the earnings of our respective businesses while resolving social issues.



Yurakucho Marui

### Physical Stores That Do Not Sell in the Post-Digital World

MARUI GROUP views retailing as being more inclusive than the one-time transactional relationships that end with the sale of a product in a store. In our retailing business, we provide customers with experience value while forging ongoing relationships through a diverse range of contact points formed via the provision of services that address customer concerns and issues. The greatest strength of our retailing business is our network of 23 Marui and Modi stores that are visited by 200 million customers a year. We are currently in the process of increasing our number of tenants that position stores not as vessels for selling products but as venues for providing experience value and engaging with customers, such as D2C brands, content providers, and subscription service providers. We thereby aim to create stores that do not sell and are designed to provide value unique to physical stores in the post-digital world. Brands with business models centered on e-commerce are anticipated to be able to raise lifetime value by utilizing physical stores as venues for engagement.

## RETAILING

## FINTECH

### Strategy of Maximizing Share of Household Finances for Improving Lifetime Value

MARUI GROUP sees fintech as a means of promoting financial inclusion to provide access to financial services, which were previously limited to wealthy individuals, to everyone, regardless of their age or income, so that they can use the services they need when they need them. This vision has inspired us to continue to practice the co-creation of creditability since our founding. Through this approach, we offer younger people who still have low income credit cards with low credit limits and proceed to build creditability with them as they continue to use their card and pay their bills. Currently, our FinTech segment is advancing a strategy of maximizing its share of household finances. Under this strategy, we provide services that allow customers to use their EPOS cards to make payments for rent, utilities, and even investment, which are usually performed through bank account transfers. The goal of this strategy is to improve lifetime value by increasing usage amounts while forging long-term relationships with customers.



## Co-Creative Investment Philosophy

Over the four-year period beginning with 2016, MARUI GROUP conducted a wide variety of growth investments. These included investments for launching our anime and securities businesses, developing new businesses for accommodating sharing economies, and financing sustainability and financial inclusion companies to further us toward our long-term vision. Among these investments, we at last successfully commenced co-creative investments for financing and collaborating with venture companies after a rigorous process of investment for the purposes of acquiring investment expertise, fostering necessary human resources, and laying other foundations.

In January 2020, we established D2C & Co. Inc. to facilitate full-fledged co-creative investments. This company is coordinating with MARUI GROUP's Co-Creative Investment Department to advance the development of a co-creation ecosystem. The goal of co-creative investment goes beyond simple investment returns to target the generation of synergies with partners in co-creating a happier future. Investment candidates are selected based on criteria including vision feasibility, growth potential, and potential synergies.

Over the past four years, we have invested a total of ¥15.7 billion in new business domains. Of this, ¥7.1 billion was directed toward investments in 20 venture companies. Calculated based on recent market prices, the internal rate of return (IRR)\*1 from these investments comes to 34%, despite the global COVID-19 pandemic, exceeding our internal hurdle rate of 10%.

\*1 Rate calculated using recent procurement prices for applicable marketable securities and based on amounts if listed stocks were to be sold at the end of the respective fiscal year

### New Business Field Investments

#### Fiscal Year Ended March 31, 2020

tsumiki Co., Ltd. D2C & Co. Inc.	¥1.9 billion ¥1.6 billion
Venture companies	¥7.1 billion
Funds	¥5.1 billion

Total ¥15.7 billion

#### 20 Investees

Note: Figures represent rate of growth from stock prices at time of acquisition and at recent procurement timing.

More than 1.1 times

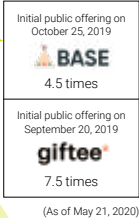
4 companies

More than 1.0 times

14 companies

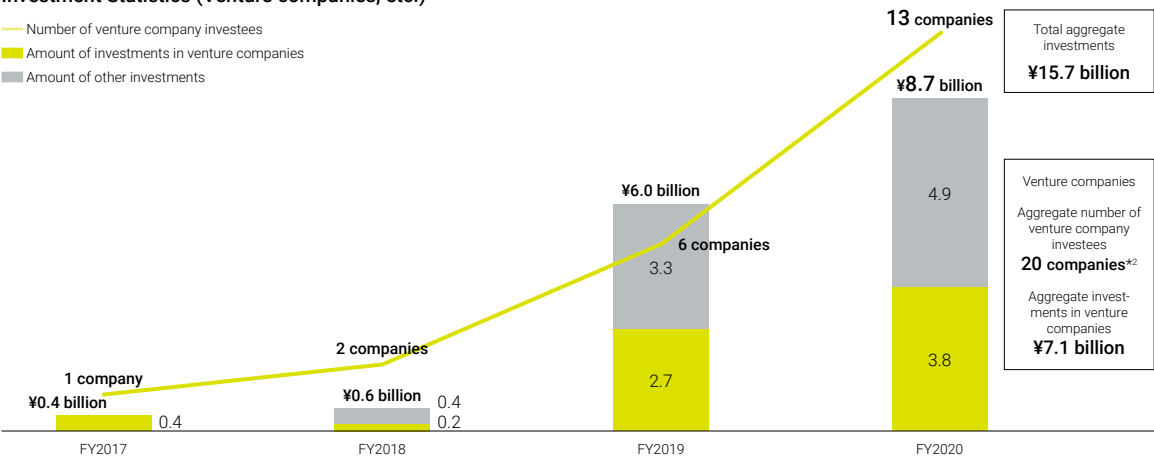
Less than 1.0 times

IRR 34%



### Investment Statistics (Venture companies, etc.)

- Number of venture company investees
- Amount of investments in venture companies
- Amount of other investments



### Retailing

#### Creation of New Businesses Aimed at Future Generations Together with D2C Brands

It is commonly thought that the retailing industry is currently facing an exceptionally challenging environment due to factors such as population decline and sluggish consumption. However, I do not agree. I cannot deny that demand for mass production and consumption of goods and services will decline and conventional retailing business models will cease to be effective. Regardless, demand for personalized offerings that allow individuals to express themselves is growing at an accelerated rate among younger people. I therefore feel that retailers can enjoy an incredibly prosperous future if they can develop business models that respond to this demand for living a fulfilling and happy life. A key ally in developing such a business model will be D2C brands. When negotiating store openings with Western D2C brands, I was struck by how perfectly they matched the sustainable worldview that future generations are projected to embrace. Conversely, these brands lacked experience in operating physical stores and offering customer service as they primarily operate online. MARUI is equipped to help compensate for this deficiency. I am confident that this partnership will be effective for creating new businesses for serving future generations.



**Masahiro Aono**

Senior Executive Officer  
President and Representative Director, MARUI CO., LTD.  
Director, AIM CREATE CO., LTD.

### Co-Creative Investment

#### Start of Co-Creative Investment for Collaborating with Start-Up Companies and D2C Brands

The co-creation ecosystem we target will not be developed by MARUI GROUP alone. Rather, we will build an ecosystem that extends across society together with future generations to help ensure the happiness of all stakeholders. Our business model merging retailing, fintech, and co-creative investment will be integral to the realization of this ecosystem. Co-creative investment in start-up companies and D2C brands is a new pillar in this model alongside retailing and fintech. This form of investment employs a model in which we pursue synergies in our main business through collaboration with investees to grow as partners. We have set the goal of investing ¥30.0 billion in new business areas over the seven-year period leading up to the fiscal year ending March 31, 2023. Smooth progress is being made toward this goal with total investments currently at ¥15.7 billion. Venture capital investments by other companies are generally aimed purely at financial returns. MARUI GROUP's co-creative investments, meanwhile, are quite different in that they emphasize the extent to which we share the same vision and the feasibility of realizing this vision. We invite all those interested to join hands with us in growing and evolving while coordinating with MARUI GROUP's retailing and fintech operations.



**Masahisa Aoki**

Director and Senior Executive Officer  
General Manager, Co-Creative Investment Department  
Director, D2C & Co. Inc.

### FinTech

#### Collaboration with Co-Creative Investees to Resolve Social Issues and Grow Business

In collaboration with co-creative investees, we believe it is important to focus on the growth of not only EPOS cards but also new fintech businesses. We recognize that we are collaborating with companies engaged in cutting-edge initiatives based on projected future trends. Even if the value gained through this collaboration seems small at first, we anticipate that it will grow and blossom in the future. Through our collaboration with Minna-denryoku, for example, we made application for renewable energy, something shown to be in high demand by EPOS cardholder surveys, much easier by allowing customers to register their card data for this purpose. By effectively promoting this service, we aim to help facilitate movements for drawing attention to environmental issues across Japan. These initiatives are not just aimed at contributing to society; we also expect massive returns in terms of profit as customers increasingly use their EPOS cards to make various payments. We will continue to develop services that are highly convenient for customers going forward from the perspective of resolving social issues while growing our business.



**Yoshinori Saito**

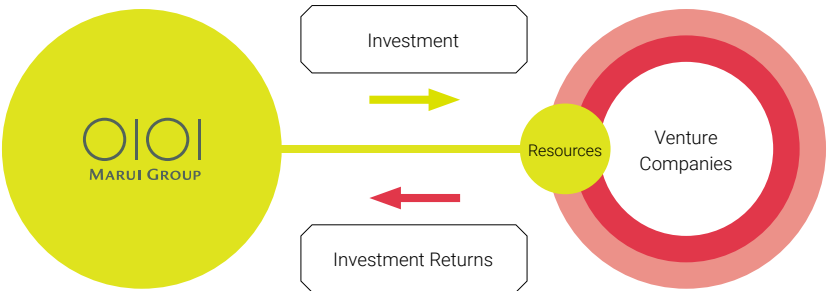
Managing Executive Officer  
In charge of FinTech Business  
President and Representative Director,  
Epos Card Co., Ltd.  
Director, MRI Co., Ltd.



# Co-Creative Investment

## A - S I D E G R O W T H   S U P P O R T

Growth support investment is conducted in venture companies that share MARUI GROUP's philosophy and vision and with which collaboration can be pursued. Investees are provided access to MARUI GROUP's resources, including its Marui and Modi stores, which are visited by 200 million customers a year; its more than 7 million EPOS cardholders; and its seasoned retail staff. Arming investees with these resources, we collaborate to drive their growth and heighten our returns. Targets of these investments include e-commerce business operations, D2C brands, and financial inclusion companies.



### MAJOR INVESTEES



### TOPICS

#### Establishment of D2C & Co. Inc.

MARUI GROUP established D2C & Co. Inc. in January 2020 to carry out co-creative investments. This company will invest in and finance start-up companies developing D2C brands while capitalizing on MARUI GROUP's resources to support the growth of these companies through means such as customer referral. D2C & Co. will also advance a variety of initiatives across D2C-related fields spanning from physical store opening to operation. MARUI GROUP hopes to develop a D2C ecosystem through these efforts.



Press conference held on February 12, 2020



Please refer to D2C & Co.'s website for inquiries regarding investment or store openings (Japanese only).  
www.d2c.company/

# b8ta

Investment	Tenant store opening	Employee secondment
Store locations: Shinjuku Marui Main Building		

## Japan Debut of Silicon Valley-Originating b8ta Experience-Oriented Store

Established in San Francisco in 2015, b8ta (read "beta") is an experience-oriented store that defines its mission as "retail designed for discovery." To expand upon its store network, which previously comprised 23 stores in the United States and one in the United Arab Emirates, b8ta opened two stores in Japan in August 2020, one in the Yurakucho Denki Building and one in Shinjuku Marui Main Building. These stores employ retail as a service business model with the aim of making retail more easily accessible to everyone. Partnering with b8ta, we hope to build the type of value that can only be provided by physical stores by injecting MARUI GROUP's resources.



#### Customer Behavioral Analyses Provided to Exhibitors

Numerous cameras and sensors have been installed at b8ta Tokyo-Shinjuku Marui to analyze customer behavior. We are thereby able to provide product exhibitors with information on the number of customers that stop in front of certain products and the questions posed to staff members for use in marketing and other strategies.



#### b8ta Tokyo-Shinjuku Marui (located on first floor of Shinjuku Marui Main Building)

At b8ta Tokyo-Shinjuku Marui, staff members receive direct training on all exhibited products from the exhibitor prior to the start of sales to enable them to communicate with customers based on a deeper understanding of these products. The store is staffed by eight individuals, six of whom are MARUI GROUP employees.



#### Exhibition Spaces Offered on a Subscription Basis

At b8ta Tokyo-Shinjuku Marui, 40cm x 60cm exhibition spaces are provided on a subscription basis with contracts as short as six months. These spaces are used to display gadgets, cosmetics, and other products from a variety of companies. Customers can even take these items in hand.

### MESSAGE FROM AN EMPLOYEE

I have long had an interest in D2C brands and start-ups. I was therefore excited to volunteer to be among the initial staff members at b8ta Tokyo-Shinjuku Marui, the first store of its kind in Asia. The view of stores as sales floors necessarily leads one to focus on sales. In this store, however, we take the role of "b8ta testers," and it is our job to internalize the passion exhibitors have poured into their products and communicate this to customers so that they can make new discoveries and have new experiences. Customers' responses to the products on display are varied, so I work to collect data that cannot be extracted from the behavioral analyses performed by our cameras. The b8ta store provides an atmosphere that helps us remember the fundamental reason we enjoy shopping in a manner that is not emotionally stressful as we spend time with our loved ones amid the COVID-19 pandemic. I think that experience-oriented, digital native stores like this show us the appeal that brick-and-mortar stores can have in the future.



**Kumiko Tanabe**  
b8ta Tokyo-Shinjuku Marui  
MARUI CO., LTD.

# MEDULLA

Investment	Tenant store opening	Employee secondment
Store locations: Yurakucho Marui		

## Japan's First Personalized Shampoo Brand

The D2C brand MEDULLA is the first brand in Japan to provide shampoo that can be personalized to address the concerns of individual customers, meaning that it can be customized to respond to the various hair-related issues that can arise based on weather, lifestyle, or age. A flagship store for this brand was opened in Yurakucho Marui in December 2019, and we are examining the possibility of engaging in EPOS card collaboration with this brand.



**Hair and Scalp Data from More Than 100,000 Customers**  
MEDULLA's ever-expanding lineup encompasses shampoo as well as a wide range of other haircare products. This brand also offers custom hair oil that is prepared based on hair diagnoses calling upon a database of hair and scalp data collected from more than 100,000 customers.



**Approximately 30,000 Combinations for Personalized Proposals**  
By answering just nine questions on MEDULLA's website, customers can receive personalized proposals that select the products best for them from among approximately 30,000 combinations. Formulations are blended based on the individual customer's needs and shipped to them once every two months. This ease and the effectiveness of these products have led subscription numbers to climb past 200,000 (as of September 2020).



**Content Experiences Unique to Physical Stores**  
Seeking to respond to customer demand to preview products and fragrances at stores, MEDULLA opened an experience-oriented store in Yurakucho Marui. This store allows customers to enjoy content experiences, such as scalp diagnosis and gift wrapping, that can only be offered at physical stores.

### MESSAGE FROM A BUSINESS PARTNER

Physical stores make it possible to solicit direct customer input that cannot be gained from the numerical data collected via e-commerce venues. They also provide a valuable opportunity for customers that would have not encountered the MEDULLA brand online to learn of us. I therefore see great potential for physical store openings. We see visits from numerous customers who want to undergo scalp diagnoses, preview the fragrance of our products, or experience our brand in some other way that is only possible offline. MARUI GROUP's staff is incredibly understanding of D2C brands, and they have supported us in a variety of ways. This is why we chose to set up shop in one of MARUI GROUP's stores. Their service is fast and courteous, even in the midst of the COVID-19 pandemic, and they even helped us set up live broadcasts from our store. In the future, I hope to expand our collaborative relationship beyond stores to include personnel exchanges and joint business development in order to co-create the ideal form for D2C brands and ultimately for digital native stores in Japan.



**Yosuke Miyama**  
Representative Director  
Sparty, Inc.

# # FABRIC TOKYO

Investment	Tenant store opening	Employee secondment
Store locations: Shinjuku Marui Main Building, Shibuya Modi, Yurakucho Marui, Ikebukuro Marui, and Kobe Marui		

## Made-to-Order Suits That Fit Your Life

Based on the concept of "Fit Your Life," FABRIC TOKYO provides made-to-order suits that match customers not only in terms of size but also in terms of their lifestyles and values. This company handles all aspects of this process spanning from taking customer measurements to production at affiliated factories and sales. Apparel products have long been associated with the issue of mass waste. However, this issue can be addressed through made-to-order options in which items are only made after an order has been received. This sustainable approach resonates with MARUI GROUP. Customer measurements are taken at FABRIC TOKYO's physical stores, and this size data can be used to order suits that perfectly fit each individual customer online.



**Impeccable Quality at Affordable Prices**  
Online, FABRIC TOKYO customers are able to manage their favorite styles and size data while also ordering clothing that perfectly fits their bodies. In addition, FABRIC TOKYO uses a factory-to-customer scheme to directly link purchasers and producers so that it can deliver products with impeccable quality at affordable prices.

### MESSAGE FROM A BUSINESS PARTNER

FABRIC TOKYO is a D2C brand that was born on the internet. However, the products we deal in require professional skills to measure customer bodies and adjust to make an appealing silhouette. We therefore have to develop stores with facilities for this purpose. Our first forays into physical stores took the form of the limited-time opening of a location in Yurakucho Marui. This store proved ideal given that its location and customer base matched our target demographic. We thus chose to expand our presence in Marui stores starting with Shinjuku Marui Main Building. We also felt that a 10% discount for EPOS cardholders would be an appealing way to gain new customers without discounting our brand. Sure enough, these discounts have been making large contributions to the growth of our business. Furthermore, MARUI GROUP employees have been dispatched to work together on our projects, and this has proven to be a good opportunity to deepen our understanding of each other's business.



**Junichi Mukai**  
Store Development Specialist  
FABRIC TOKYO Inc.



**Personalized Coordination Support**  
Customers can visit FABRIC TOKYO stores at Shinjuku Marui Main Building and other locations to have their measurements taken by specialized coordinators with consideration paid to the characteristics of their body. These coordinators will also sit down with customers to discuss their concerns and the image they want to portray in order to offer personalized coordination support matched to their lifestyles.



**Commitment to Quality Transmitted to the Future**  
FABRIC TOKYO cuts out intermediary distributors to form direct relationships with all of its affiliated producers with respect for openness and transparent traceability. These relationships allow it to make information on production sites and distribution openly available.

### MESSAGE FROM AN EMPLOYEE

In the past, I had the opportunity to observe physical D2C brand stores in the United States through MARUI GROUP's overseas dispatch program, giving me a sense of the potential for stores that do not sell. I later volunteered to be seconded to FABRIC TOKYO based on the belief that MARUI GROUP needed to change how it operated its stores. FABRIC TOKYO has a corporate culture that aims to prevent situations in which specific jobs can only be performed by certain people, translating often unspoken customer service techniques into words that anyone can understand. This has resulted in a high level of customer service proficiency among its staff. In the future, I hope to utilize my secondment experience to create physical stores that offer a sense of excitement without being bound by preconceptions.



**Yusuke Iwamoto**  
Seconded to FABRIC TOKYO Inc.  
MARUI CO., LTD.  
(As of August 2020)



## Potential of D2C Brands as an Ecosystem

Direct-to-consumer (D2C) brands are brands that employ a new business model of forming relationships directly with consumers, via a directly operated e-commerce website or social media, without going through a retailer.

MARUI GROUP looks to support D2C start-up companies and develop a D2C ecosystem. D2C & Co. Inc. was established in January 2020 for this purpose. D2C brand operator Yuichiro Mori, who has opened physical stores for his brand at Marui stores, joined MARUI GROUP's Hirotosugu Kato for a discussion on the potential of D2C brands as an ecosystem.

### Lack of Visibility of Brands Dependent Solely on E-Commerce

**Kato:** We first met, Mr. Mori, around three years ago if I recall correctly. I still remember how much everyone seemed to be enjoying their work when I visited your office. Despite this light-hearted atmosphere, questions about work were met with detailed, data-driven explanations using computer screens. I was shocked and amazed to get such a response from a start-up company. What made you think about launching your own business?

**Mori:** I have always loved fashion. When I was at university, I started up a fashion media outlet and even went to see fashion collection presentations in Paris and Milan. I believe that fashion has the power to fill you with positivity when you wear an outfit or items that you particularly like. Entering into the fashion industry after university, however, I felt that the industry was too tied up in past success stories, and was thus behind the times. I had previously thought that fashion was about proposing something new, so this experience was incredibly disheartening. Lost in this despair, I saw a new light in the IT industry and in venture companies and start-ups. I later took part in the early days of a real estate venture company and the marketplace app operator Mercari, Inc. This experience made me realize that I was more suited to the management style of start-ups, but I still couldn't shake my attachment to fashion.

**Kato:** During the bubble period, we were developing a business centered on fashion, which proved incredibly popular at the time. After that, however, we fell into a long period of stagnancy. I think our preoccupation with past successes was one reason for this fall. During this time, customer surveys brought scathing opinions, like how our stores were unsettling as they had nothing but clothes and how our customer service approach was a bit intimidating.

**Mori:** Apparently, my father bought his first suit at Marui, and I too strongly associated Marui stores with fashion. D2C brands are garnering attention at the moment. I feel that these brands

are founded less on the quality of their products and more on how much customers enjoy the overall experience of the brands, including their creative vision, the experience of purchasing items, and the sense of community they offer. I started a D2C fashion brand with the goal of creating a business model that combined my love of fashion with IT.

**Kato:** People who have been involved in traditional retailing operations tend to be highly conscious of sales targets. This consciousness often leads to interactions with customers ending in one-time transactions, and it can be quite difficult to shift to a perspective focusing on long-term relationships. I understand that you, Mr. Mori, keep up-to-date on your customers. It is amazing how much a difference effective quantitative analysis can make in the value of stores.

**Mori:** When I was at a real estate venture company, I learned that encouraging existing customers to continue to live in our properties was a better path to consistent earnings than trying to secure large numbers of new customers. Today, we refer to this idea with the term "lifetime value." If customers continue to buy our products over the decades to come, they will continue to shape our brand over the long term. You could even say that I embraced the concept of unit economics right from the start of FABRIC TOKYO.

**Kato:** Our ultimate goal is to make stores that do not sell. D2C brands like FABRIC TOKYO will be a core part of accomplishing this goal. As D2C brands can sell their product directly to customers through the internet, what value do you gain from physical stores?

**Mori:** Physical stores are a venue for soliciting the creative vision of our brand and for allowing prospective customers to experience our brand. They also serve a function similar to a media outlet. If we depend solely on e-commerce sites, we lack visibility, like opening a store in the middle of the desert. Physical stores, meanwhile, are a part of customers' everyday lives, making it much easier for customers to find us in them. Also, online advertising fees are skyrocketing. Accordingly, if we are able to make good use of both online and offline venues, we can



YUICHIRO MORI x HIROTSUGU KATO

Yuichiro Mori

CEO/Founder  
FABRIC TOKYO Inc.

Hirotosugu Kato

Director, Managing Executive Officer, and CFO  
MARUI GROUP CO., LTD.  
President and Representative Director, D2C & Co. Inc.





**D2C brands can provide their products on a nationwide or even global basis. Even niche brands can thus attract tens of thousands of customers if they grow their customer base on a global scale. This potential is one of the appeals of D2C brands.**

#### Yuichiro Mori

CEO/Founder  
FABRIC TOKYO Inc.

Born in Okayama Prefecture in 1986, Yuichiro Mori joined fashion event production company DRUMCAN inc. after graduating from university, where he took part in the planning and production of fashion shows and events. He later began joining venture companies, being involved in the early days of real estate venture Global Agents and the launch of the Mercari marketplace app. He used this experience to start up the FABRIC TOKYO (formerly LaFabric) made-to-order business wear brand in February 2014. Through FABRIC TOKYO, Mori aims to provide customers with suits that perfectly fit not just their bodies but also their lifestyles. FABRIC TOKYO stores can be found across Japan in locations such as Shinjuku Marui Main Building and Kobe Marui.

attract customers more affordably. I also like to use physical stores as a testing ground for new ideas before we implement them on our e-commerce site.

**Kato:** I think a lot of people would be surprised to hear what you just said, as it is commonly believed that attracting customers via the internet is cheaper. I want to spread understanding of such value to be gained from physical stores and to see other D2C brands set up more locations in our stores.

#### Consistent Sales During State of Emergency, Record Performance Thereafter

**Kato:** We had to close our stores for nearly two months due to the COVID-19 pandemic. This is the first time stores have been closed for this long since World War II. Was FABRIC TOKYO affected by the pandemic? I heard that the growth of e-commerce sites in the United States doubled as a result of the pandemic.

**Mori:** We too had to close our physical stores, which put a halt on the acquisition of new customers. Luckily though, existing customers continued to buy our products through our e-commerce site, and sales actually did not decline as a result. That is one of the advantages of a D2C brand. For us, the number of users with registered measurement data is our most important key performance indicator. We were able to post a record-breaking performance with regard to this indicator in the last week of July 2020, after stores were reopened following the lifting of Japan's state of emergency declaration. Size is more important for business suits than it is for other forms of clothing. We have thus seen a rise in demand for the option we provide to purchase made-to-order suits online, causing customers to flock to our physical stores.

**Kato:** That shows just how popular the FABRIC TOKYO brand is. What do you think inspires customers to become fans of FABRIC TOKYO?

**Mori:** We don't refer to our customers as "fans"; we call them loyal customers. This is because it's tough for fans to stay fans forever. We recognized the danger this truth represents, and thus started taking steps to monitor customer loyalty. We also value our concept of "Fit Your Life" above all else. By this, we mean that we want our suits to fit customers' lifestyles as well as their bodies. This concept is the common thread running throughout our website, store, and organizational measures. In fact, we often hear people raising the question "But does that 'Fit Your Life'?" at meetings.

#### Sustainability of the Made-to-Order Model

**Kato:** The concept of "Fit Your Life" is important to personalization, and personalization is in turn crucial to sustainability. A rather shocking data point from the apparel industry is that roughly half of what is made is not sold. That creates a lot of waste.

**Mori:** That is one of the reasons we adopted the made-to-order model. We are keenly aware of manufacturing-related issues, and we have thus defined technology, sustainability, and traceability as principles positioned under our concept of "Fit Your Life." In Japan, around 280,000 suits are put on the market every year, but only 130,000 of these were sold in 2019. Plus, 10% of the world's CO<sub>2</sub> and 20% of its wastewater are emitted by the apparel industry. This industry is polluting the earth to make products that it throws away. Our made-to-order model, meanwhile, is sustainable as we only make the products for which we receive orders.

**Kato:** It seems to me that a lot of start-up companies run businesses that address social issues. Could it be that the relative youth of their management is related to this high level of issue awareness?

**Mori:** That might be a factor. My generation witnessed a number of serious issues, including massive natural disasters, terrorist attacks, and the 2008 financial crisis, over the span of only two or three years. This experience could have sparked our awareness of such issues. People often talk of three types of value, but it would appear that this used to be two types: value for customers and value for business. The third type of value is new. This is value for society. The idea of developing a business targeting the intersection between these three types of values is commonly shared among younger entrepreneurs.

**Kato:** MARUI GROUP seeks to provide value that is shared by all stakeholders. In 2019, we newly identified future generations as the sixth group of stakeholders to which we aim to provide this value. Viewing future generations as stakeholders means that we have to consider environmental and food issues in our business. This has naturally led us to practice sustainability management.

**Mori:** That is quite admirable. I guess it was that thinking that led MARUI GROUP to invest in and collaborate with a sustainable power producer.

#### Growth of Quality Business and Brands After Acquisition of Necessary Management Resources

**Kato:** Many say that D2C brands are unlikely to show significant growth in terms of quantity. What factors do you think need to happen for D2C brands to grow in the future? If a brand were to come along that eliminated the issues faced by customers, would it grow?

**Mori:** We are only looking at the tip of the iceberg when it comes to D2C brands. These brands are currently in their infancy, and there are a lot more stages for them to go through their development. Those brands that are able to formulate a clear vision for the future stages of their development will likely be the market leaders of the future. FABRIC TOKYO's goal is to join the top 10 apparel companies within the next decade. I have the utmost confidence in our ability to accomplish this goal. After all, the products that see growth are those that are used every day and transform customer lifestyles, such as clothing, furniture, home electronics, food, and cosmetics.

**Kato:** The use of D2C brands is common among a younger demographic in the United States, and it can thus be assumed that millennials and younger generations in Japan will come to

increasingly embrace such brands. It is also likely that we will see an increase in the number of young people that aspire to set up their own D2C brand.

**Mori:** To increase such brands, we will need a healthy D2C ecosystem. Creating this system will require ambitious entrepreneurs followed by employees and other team members and eventually partner companies. When all of the necessary management resources have been acquired, including people, supplies, money, and information, we will see the growth of quality businesses and quality brands. D2C & Co. will have an incredibly important role to play in this ecosystem, and I truly hope that this company will come to be a leading force in the industry.

**Kato:** I too hope to work together with you, Mr. Mori, to build a co-creation ecosystem that includes D2C brands and contribute to society through this process.

**Mori:** D2C brands can provide their products on a nationwide or even global basis. Even niche brands can thus attract tens of thousands of customers if they grow their customer base on a global scale. This potential is one of the appeals of D2C brands.

**Viewing future generations as stakeholders means that we have to consider environmental and food issues in our business. This has naturally led us to practice sustainability management.**

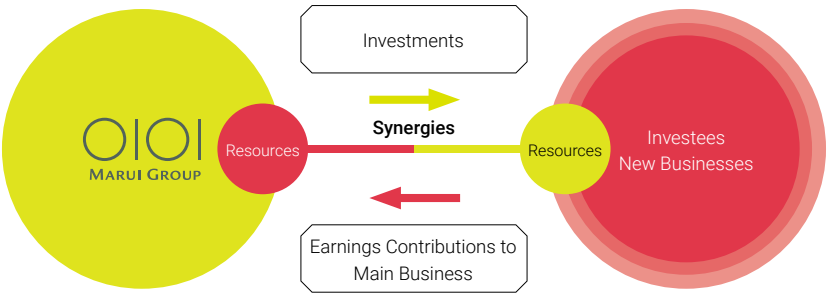
#### Hirotsugu Kato



# Co-Creative Investment

## B - S I D E S Y N E R G I Z E

Investments that synergize with our main business are defined as investments in companies and new businesses that entail superior intangible assets. Through these investments, we aim to incorporate the unique expertise and other intangible assets of these companies into MARUI GROUP while generating synergies by means of collaboration to grow the earnings of our main business. In cases in which we can expect synergies with our main business, we will invest in venture companies not anticipated to make initial public offerings or in listed companies. This was the case with the anime business launched in the fiscal year ended March 31, 2016. We also invest in sustainability companies as well as in new businesses, such as the securities business of tsumiki Co., Ltd.



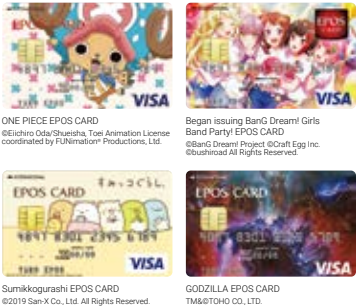
### MAJOR INVESTEES



### TOPICS

#### First B-Side Song—Anime Business

MARUI GROUP established the Anime Business Department in April 2016 to create a new business for contributing to earnings in our main business by facilitating the growth of our retailing and fintech businesses. Over the four-year period encompassing the fiscal years ended March 31, 2016–2020, we have invested a total of ¥120 million in anime movies. These investments have generated significant returns in the forms of synergies with our main business and contributions to consolidated operating income totaling ¥4.3 billion.



Investment

Pocket Marche offers a direct distribution platform that allows consumers to purchase ingredients directly from farmers and fishermen. This platform communicates not only the appeal of the items being offered but also the stories of their producers, providing consumers with the option to make purchases based on their values or a story they found particularly compelling while also emphasizing the value of direct communication between products and consumers. Through its business and capital alliance with this company, MARUI GROUP is examining possible initiatives for creating new value including in-store events and benefits for EPOS cardholders as it works to create new experience value.



## TSUKURUBA

Investment

New business development



Shaping spaces through a combination of design, business, and technology is the business of TSUKURUBA Inc. Specific aspects of this business include providing living proposals matched to customers' individuality through development of offices for start-up and IT companies and the cowcamo service that lets users find their one-of-a-kind dream home from among a limited selection of secondhand and renovated properties. As our first collaborative venture, we will jointly develop a renovated rental condominium brand by pooling our resources and expertise. Through this collaboration, MARUI GROUP aims to ramp up its efforts in the area of housing, where we expect to be able to improve lifetime value through long-term relationships with customers.

### MESSAGE FROM A BUSINESS PARTNER

At TSUKURUBA, co-creation has been an important theme in our corporate culture and in our business since the time of our founding. When looking for partners, we became aware of MARUI GROUP's co-creation management philosophy. Recognizing that this philosophy resonated with our own, we decided to join hands. It has been a number of years since the emergence of the buzzword "open innovation," but there are still only a few cases of true success in open innovation. Success in open innovation requires ongoing commitment, in both rhetoric and action, until it becomes an unwritten part of a company's corporate credo. This is, of course, easier said than done. Meanwhile, I see co-creation as an effective method of maximizing the value we provide to consumers and to society. The goal I envision for our partnership with MARUI GROUP is the maximization of the experience value we offer the consumers that are our customers. This partnership will begin with the development of a renovated rental condominium brand. We will take a broad perspective with regard to this initiative, seeking to evolve the experiences offered in the rental housing field to include digital experiences. I pledged with President Aoi to create an example of successful open innovation in Japan, and I am absolutely committed to ensuring the success of this undertaking.



**Hiroki Murakami**  
CEO  
TSUKURUBA Inc.



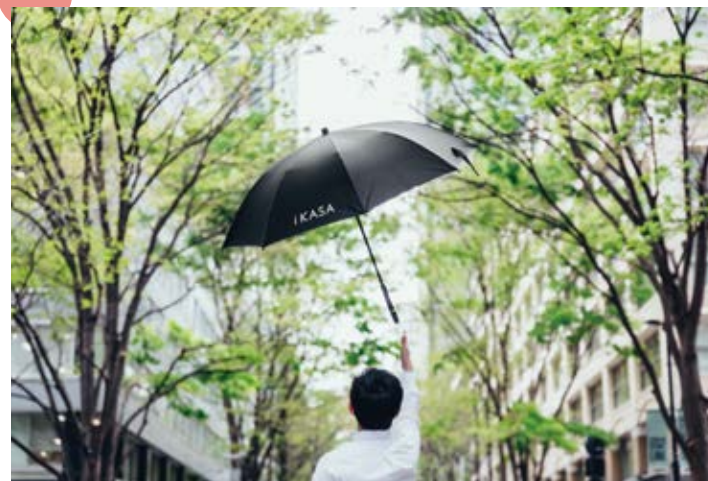


iKASA

Investment

Employee secondment

Nature Innovation Group Co., Ltd. is developing iKASA Japan's first umbrella sharing service. With iKASA, there is no need to rush to buy an umbrella in the event of sudden rainfall; customers can rent one for 24 hours for only ¥70 and then return it to the most convenient location, keeping them safe and dry from the rain. The iKASA service is being developed as a piece of infrastructure for ensuring mobility on rainy days by eliminating the restrictions placed on movement if one does not have an umbrella while freeing them from the discomfort of getting wet. This service also contributes to the sustainability of society by reducing the number of plastic umbrellas that are purchased and promptly thrown away. We are steadily introducing the iKASA service at Marui and Modi stores across Japan while engaging in other collaborative ventures with Nature Innovation Group.



Investment

New business development

Life is Tech, Inc. offers Life is Tech!, one of Japan's largest IT education programs for junior high school and high school students. This program is designed to foster creativity and allow students to learn about technologies for creation through the study of app development and other programming disciplines as well as cutting-edge technologies such as digital art. MARUI GROUP has formed a business and capital alliance with this company through which we aim to jointly create new businesses with an eye to future generations. Our participation is taking the form of support from employees for giving form to the ideas of students as we accelerate new business development and other co-creation activities. Life is Tech, Inc. is capitalizing on its expertise to contribute through overall planning, student recruitment, and mentoring to further expand co-creation activities oriented toward future generations.



MARUI GROUP wants to hear revolutionary ideas for changing the future from university and graduate school students. Application is open until mid-November 2020 (Japanese only).  
www.0101maruigroup.co.jp/future/



Investment

Tenant store opening

Employee secondment

Collaboration cards

Store locations: Shinjuku Marui Annex, Marui City Yokohama, Hakata Marui

A-to inc. operates Suruga-Ya, a major e-commerce website specializing in secondhand hobby items centered on plastic models, figures, and other anime merchandise. Together with this company, we launched the SURUGAYA EPOS CARD in 2020. Moreover, A-to has opened Suruga-Ya stores in Marui stores. These stores see higher visitation from female customers than A-to's directly operated e-commerce site or physical locations in other stores. These locations are thus helping this company make contact with a new group of customers. We have also launched a new service in which shipments of items that customers wish to sell can be conducted at dedicated service counters in Marui and Modi stores. This option was previously only available through standard courier services or at Suruga-Ya locations. In the future, we look forward to further improving customer experiences through collaborative initiatives that take advantage of our stores and the distribution networks of subsidiary MOVING CO., LTD.



MARUI GROUP is pursuing synergies with its main business through co-creation in forms other than co-creative investment.

mercari

Service coordination

Tenant store opening

Operation contracting

Store locations: Shinjuku Marui Main Building



#### First Physical Mercari Station Location

In June 2020, Mercari, Inc., opened its first physical Mercari Station location in Shinjuku Marui Main Building. This shop offers offline experiences and services centered on digital technologies, making it highly compatible with MARUI GROUP's store development strategies. Mercari, Inc., has also set up a Mercari Station at the LaLa terrace MUSASHIKOSUGI shopping center (not associated with MARUI GROUP). Operation of both of these locations is outsourced to MARUI GROUP employees.

#### MESSAGE FROM A BUSINESS PARTNER

Customers visiting Mercari Station include both existing Mercari users and individuals who have yet to experience the app. These customers are all ages and even come from locations outside of Tokyo. Post-visit survey results have shown impressive satisfaction rates of nearly 90%. Customers who thought the Mercari app would be a hassle have expressed that their visit made them see how simple the app was and that they now want to list an item. MARUI GROUP provides us with support for operating our store while also proposing methods of recruiting customers and improving operating practices. Mercari Station provides numerous opportunities for making contact with customers, through Mercari experiences, workshops, events, and live broadcasts. Through this venue, we hope to communicate the appeal of the Mercari Group and increase our fan base.

#### Yukiko Ohdo

Business Development OMO & mercari Station Manager  
Mercari, Inc.



More details can be found on the following website (Japanese only).  
www.to-mare.com/news/2020/post-3.html

#### New Global Marketplace for Creating New Value

"I want to circulate our limited resources to help society thrive." The Mercari marketplace app was born out of this realization by the founder of Mercari, Inc., as he traveled the world. This company aspires to harness the power of technology to make it easy for people around the world to link up and enjoy the experience of buying and selling with each other. Mercari, Inc., is expanding its range of online and offline touch points to allow prospective sellers with no previous experience to try out the Mercari experience while also making the app more familiar and convenient for current users.



#### Venue for Enjoying Learning About and Experiencing Mercari

Mercari, Inc., holds Mercari Workshops to teach people how to use the Mercari app. At these workshops, instructors guide students through the experience of finding and purchasing products and of listing unneeded items for sale while also teaching them other ways to enjoy Mercari. Support is also offered for sellers in such ways as booths for photographing products and consultation.



#### Easy and Convenient Shipping Using Unmanned "Mailboxes"

Mercari Post, an unmanned "mailbox" that allows sellers to ship sold items simply by dropping them in one of these boxes. These easy and convenient shipping kiosks provide services ranging from automated shipping label preparation to shipping. They are particularly appealing as sellers can perform all processes leading up to shipments while receiving support from staff members by just bringing in the sold items.

#### MESSAGE FROM AN EMPLOYEE

Our co-creation activities with Mercari, Inc., match up with MARUI GROUP's vision for digital native stores and stores that do not sell. We provide Mercari, Inc., with store operation expertise and employees skilled in customer service as well as a venue for allowing customers to experience the Mercari app. This venue helps to enhance this company's offline customer contact points and to increase engagement with Mercari. Those of us who have been entrusted to staff Mercari Station go about operating the store while emphasizing the importance of both customers and the needs of Mercari, Inc. We also realize that trust is indispensable to long-term co-creation partnerships. During the Mercari experiences offered at Mercari Station, we frequently see customers form a natural connection and begin to teach one another, making us aware of the potential for this store to foster a sense of community. In my own capacity, I hope to help develop a new model for Marui stores that will continue to be used for three decades.



#### Ryo Matsumoto

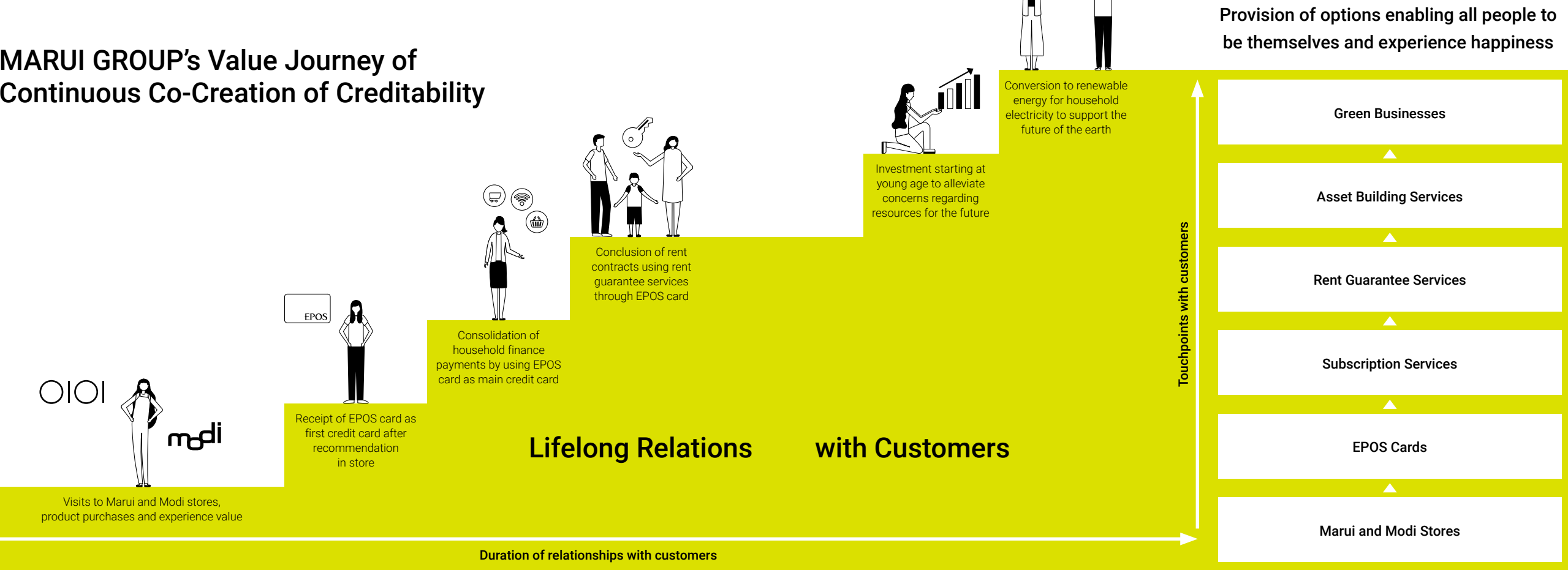
Mercari Station  
Shinjuku Marui Main Building  
MARUI CO., LTD.



# VALUE JOURNEY

Co-Creation Ecosystem [ Business ]

## MARUI GROUP's Value Journey of Continuous Co-Creation of Creditability



### Ongoing Relationships as Opposed to One-Time Transactions

Rather than one-time interactions that end with a single transaction, we seek to foster ongoing relationships with customers by providing experience value and diverse services in stores. These long-term relationships enable us to practice the co-creation of creditability.

### Lifelong Relations

MARUI GROUP joins hands with customers that resonate with a sustainable mind-set, thinking of one's future self and of future generations, to co-create a happier society.

### Spirit Continuing from Installment Payments at Time of Founding Seen in Co-Creation of Creditability

MARUI GROUP's business initially involved selling furniture through monthly installment payments. Furniture in those days was exceptionally expensive. We helped customers make such expensive purchases by loaning 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. The services we offer customers have changed with the times. Regardless, we have continued to practice the co-creation of creditability throughout the years by mutually building creditability with customers based on their usage histories.

### Co-Creation Ecosystem Built on Long-Term Relationships

MARUI GROUP is increasing its diverse lineup of services centered on EPOS cards as well as subscription services that are not dependent on selling goods in order to foster even longer-term relationships with customers. Rent guarantee and asset building services, for example, entail recurring transactions with customers over the course of long-term relationships that can last 5, 10, or even 20 or more years. These services thereby encourage customers to use EPOS cards as their main cards and contribute to increases in Gold and Platinum cardholders.

Looking ahead, we will encourage customers that resonate with our sustainability-based mind-set to partake of services such as switching to renewable sources for their household electricity in order to contribute to the resolution of social issues while bolstering medium-to-long-term profits. We thereby aim to build a co-creation ecosystem that extends across society together with our six groups of stakeholders, including future generations, and help shape a happier future.

# VALUE JOURNEY