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

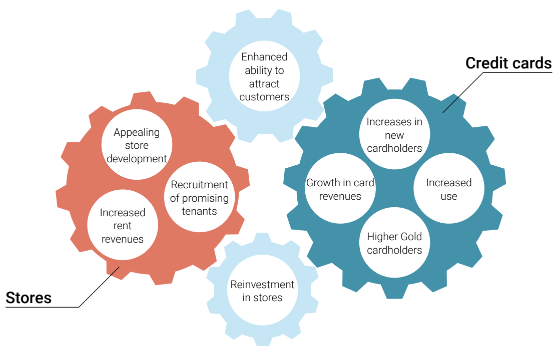
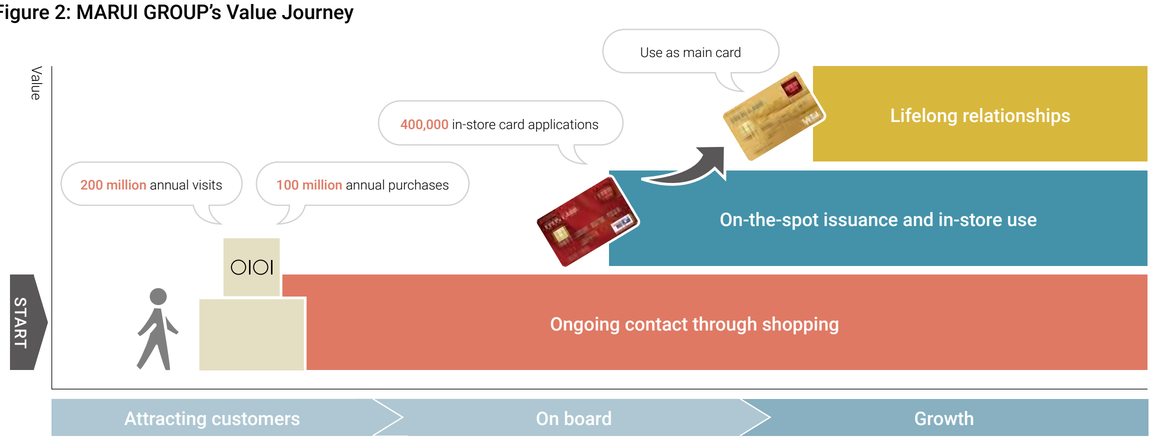


Figure 2: MARUI GROUP's Value Journey



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

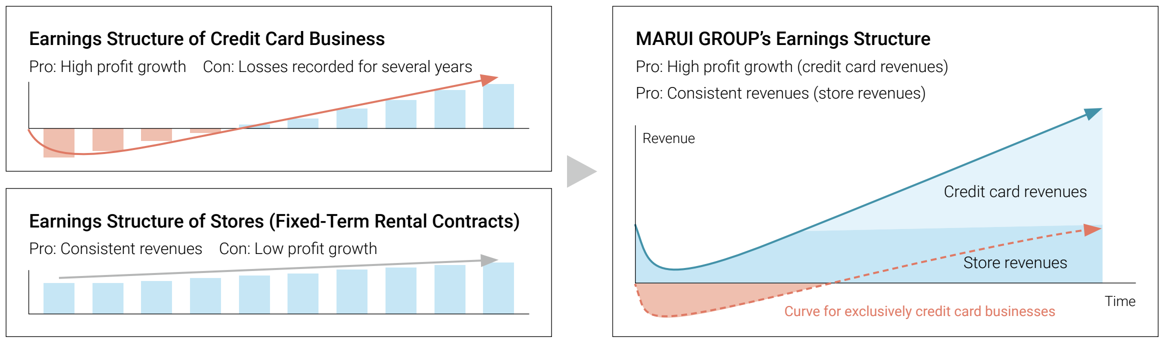
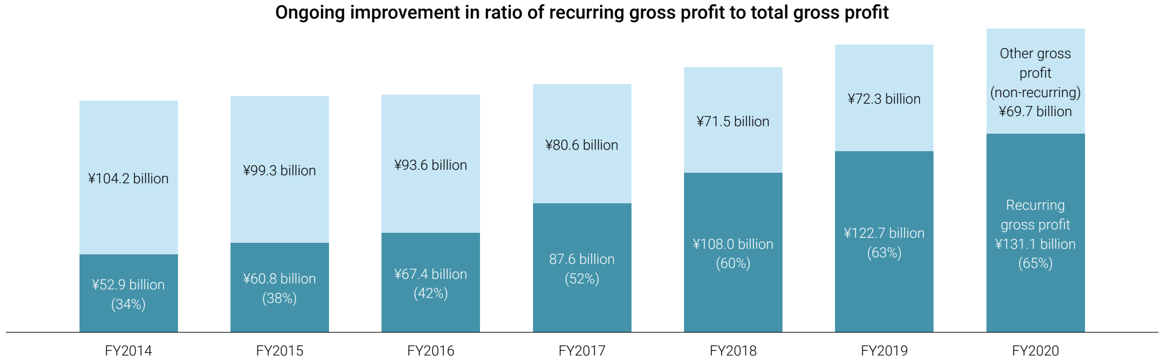


Figure 4: Ratio of Recurring Gross Profit to Total Gross Profit*

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



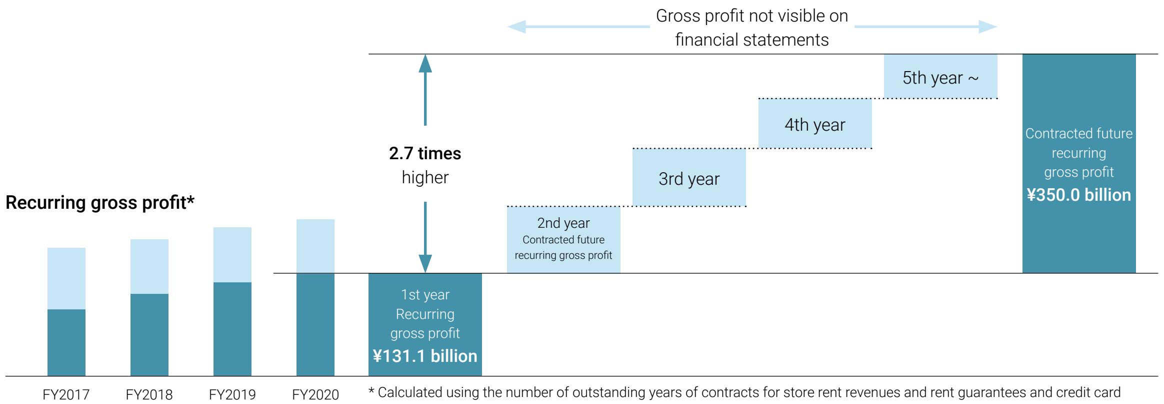
* Gross profit includes selling, general and administrative expenses paid by business partners.

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

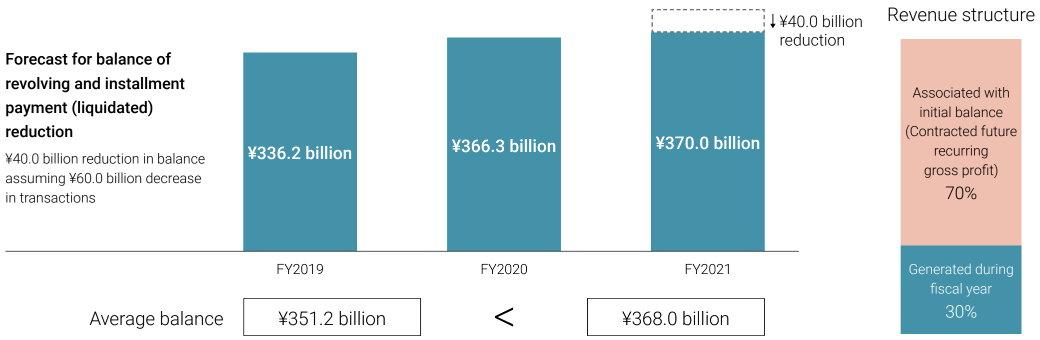
Contracted future recurring gross profit = Recurring gross profit that can be expected to recur in subsequent years after initial transaction



* 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

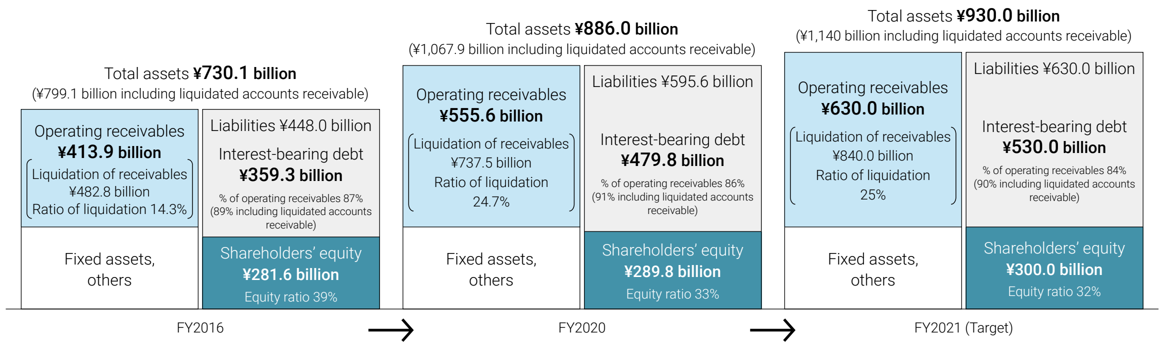
Revolving and installment payment transactions projected to decrease by ¥30.0–¥60.0 billion in FY2021 due to COVID-19 pandemic, but revenue from finance charges to increase as 70% will be attributable to balance at beginning of year



Capital Measures for Achieving Targeted Balance Sheet

The medium-term management plan slated to conclude with the fiscal year ending March 31, 2021, defines a target balance sheet. Achieving this balance sheet will entail procuring funds through interest-bearing debt in response to increases in operating receivables and other capital measures, seeking a level of interest-bearing debt equivalent to roughly 90% of operating receivables, and maintaining an equity ratio of approximately 30% (see Figure 7). After the establishment of the plan, operating receivables increased to a degree that exceeded initial expectations due to growth in the FinTech segment, creating the possibility for excessive growth in interest-bearing debt. For this reason, the Company decided to begin systematically liquidating operating receivables in the fiscal year ended March 31, 2019, targeting a ratio of liquidation of 25%. In the fiscal year ended March 31, 2020, the ratio of liquidation was 24.7%. This level will be maintained in the fiscal year ending March 31, 2021, while net assets are kept below ¥1.0 trillion to maintain the ideal equity ratio of approximately 30%.

Figure 7: Balance Sheet



Creation of Corporate Value through Earnings Structure Transformation and Capital Measures—Development of Structure with ROIC Exceeding WACC and ROE Surpassing Cost of Shareholders' Equity Consistently

The growth of recurring gross profit and other transformations to MARUI GROUP's earnings structure together with capital measures aimed at achieving the targeted balance sheet are leading to the development of a structure in which ROIC exceeds WACC and ROE surpasses cost of shareholders' equity consistently. In the fiscal year ended March 31, 2020, ROIC came to 3.7%, exceeding WACC, which was 3.0%, for the fourth consecutive year, despite the decrease in income due to the COVID-19 pandemic. In addition, ROE surpassed cost of shareholders' equity for the second consecutive year, with figures of 8.8% for the former and 6.9% for the latter (see Figure 8).

Figure 8: ROIC, WACC, ROE, and Cost of Shareholders' Equity