CAPITAL POLICY

03

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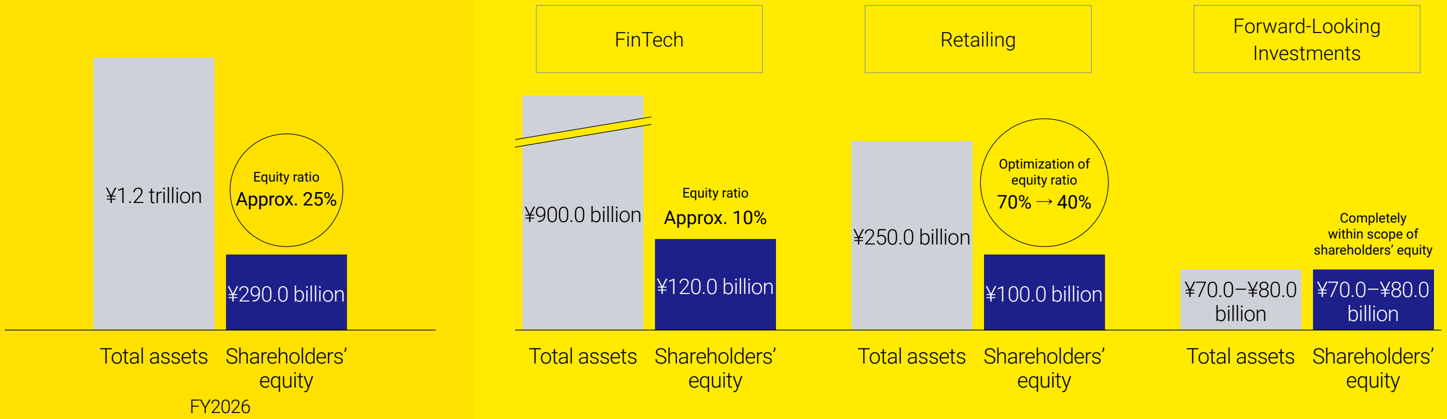
DEVELOPMENT OF OPTIMAL BALANCE SHEET MATCHED TO BUSINESS STRUCTURE REFORMS

At the time of formulation of the previous medium-term management plan, MARUI GROUP was supported by its credit card business, which has been consistently generating earnings since the launch of the EPOS card in 2006. This situation made for a business structure through which the Company was able to sustain steady growth. The targeted balance sheet defined in this plan was based on the transition to this business structure driven by the FinTech segment. As a result of this emphasis, we were able to build the balance sheet we targeted by optimizing the capital structure in this segment.

The balance sheet we are targeting in the fiscal year ending March 31, 2026, the final year of the new medium-term management plan, will require us to optimize the capital structure of the Retailing segment, which generates stable cash flows. Our balance sheet will also see a large shift in the ratio of capital allocations from tangible assets to intangible assets in conjunction with the creation of a new business model incorporating forward-looking investments. The forward-looking investments driving this shift, which include co-creative investments and new business investments, have the potential to produce significant returns, but also carry significant risks. For this reason, we intend to limit the amount of assets associated with forward-looking investments to the scope of shareholders' equity. With this focus, MARUI GROUP will reorient its investments toward intangible assets with the goal of improving corporate value by evolving into an intellectual creation company.

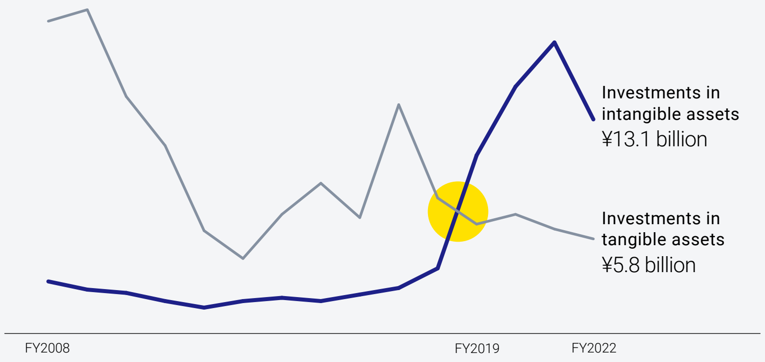
Balance Sheet Targeted under Medium-Term Management Plan



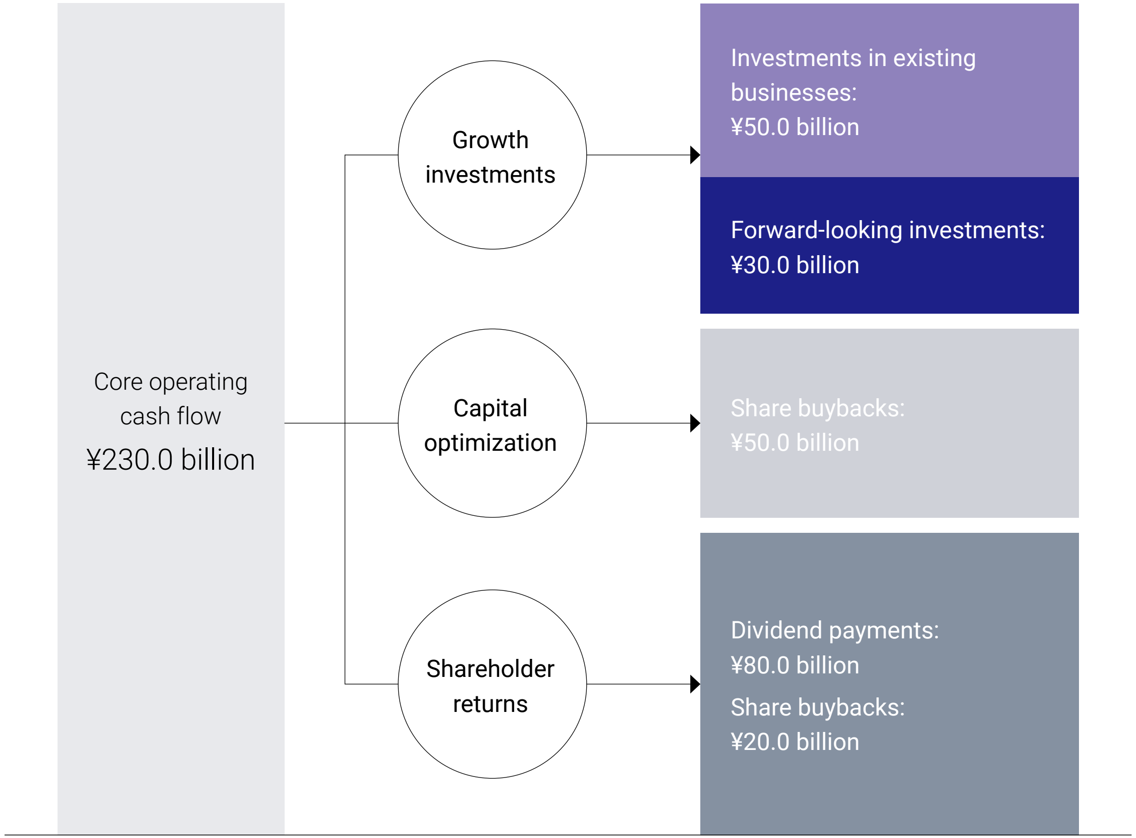
Shift Toward Investment in Intangible Assets

In the fiscal year ended March 31, 2019, the amount invested in intangible assets surpassed the amount invested in tangible assets. Moreover, investments in intangible assets in the fiscal year ended March 31, 2020, were 7.6 times higher than in the fiscal year ended March 31, 2015, and twice the amount invested in tangible assets. Our portfolio of intangible assets will be growing over the five years following the fiscal year ended March 31, 2022, as we have earmarked ¥80.0 billion of the core operating cash flow to be generated over this period for forward-looking investments and other growth investments in intangible assets. In addition, we plan to allocate ¥50.0 billion to share buybacks for the purpose of optimizing our capital structure and ¥100.0 billion to shareholder returns, which will comprise ¥80.0 billion in dividend payments and an additional ¥20.0 billion in share buybacks.

Amounts of Investment in Tangible and Intangible Assets



Capital Allocation Plan (April 1, 2021–March 31, 2026)



Redefinition of Human Capital Investments

Investments in human resources under the previous medium-term management plan were primarily limited to education and training purposes. However, we have since reframed these investments as human capital investments, and half of the personnel expenses for co-creative teams, for employees involved in new businesses, and for seconded employees, which were previously considered R&D expenses, will be counted as human capital investments going forward. This new definition for human capital investments also includes the personnel expenses incurred during the first year after employees have undergone intra-Group profession changes as well as investments in okos Co., Ltd., an incubation company (see figure below). The total level of human capital investments is scheduled to be raised to ¥12.0 billion in the fiscal year ending March 31, 2026. These investments are projected to account for 35% of all personnel expenses, an increase from the ratio of 22% seen in the fiscal year ended March 31, 2022. As we expand human capital investments anticipated to contribute to future earnings, we will pursue medium- to long-term improvements in corporate value, as opposed to single-year earnings.

Breakdown of Human Capital Investments (FY2022)

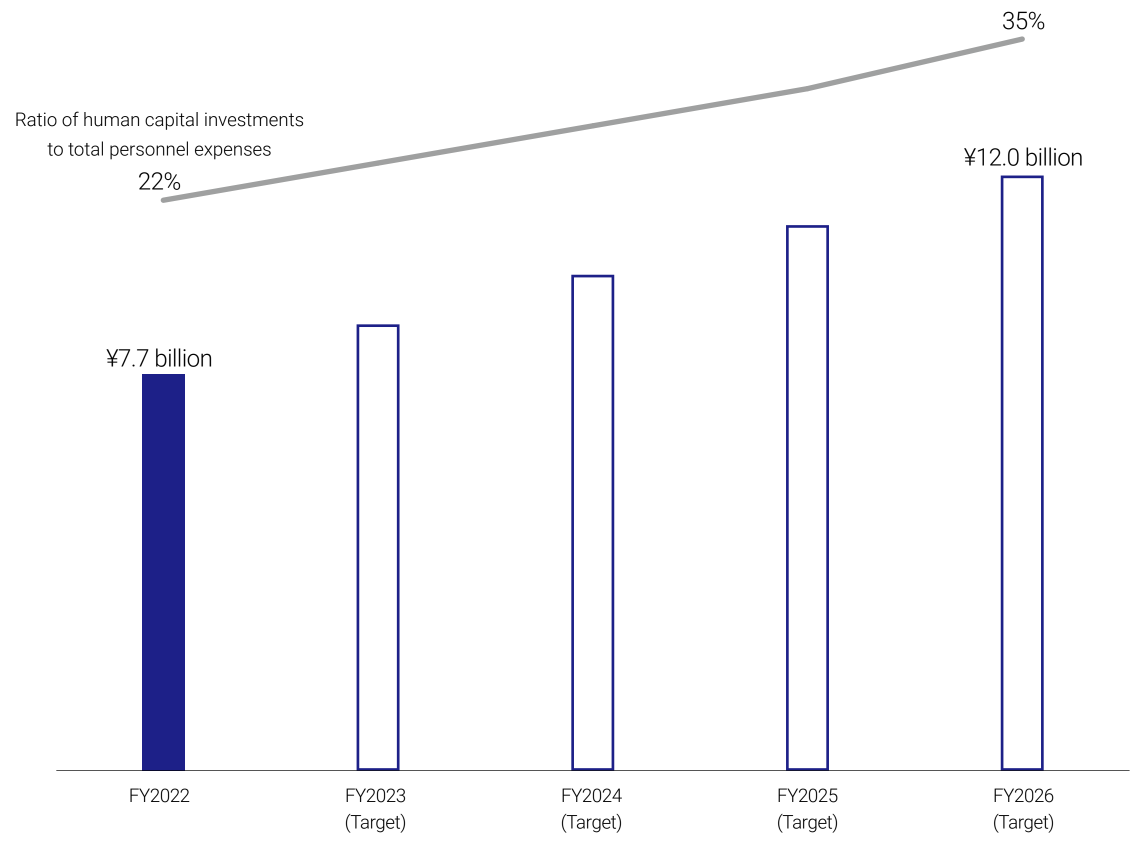
Others — ¥4.5 billion
- Personnel expenses incurred during first year after intra-Group profession changes
- Investments in okos Co., Ltd.

Research and development expenses — ¥2.2 billion
- New business-related personnel expenses
- Co-creative team-related personnel expenses
- Personnel expenses related to seconded employees

Human resource investments — ¥1.0 billion
- Education and training
- Medium-Term Management Visionary Committee, project teams, participation in initiatives

Human capital investments ¥7.7 billion

Human Capital Investments



Pursuit of High Growth Coupled with High Returns

The capital policies implemented for the purpose of achieving our targeted balance sheet have enabled us to achieve an optimal capital structure in which return on equity (ROE) consistently surpasses cost of shareholders' equity, and return on invested capital (ROIC) exceeds weighted average cost of capital (WACC). Meanwhile, MARUI GROUP is targeting high growth coupled with high returns through ongoing dividend increases in conjunction with long-term growth in earnings per share (EPS). For the fiscal year ended March 31, 2022, the Company issued annual dividend payments of ¥52 per share, while share buybacks totaling ¥30.0 billion were conducted in this fiscal year. Going forward, consistent, long-term increases in dividends will be implemented with the goal of achieving a payout ratio of 55% and a total return ratio of 70% in the fiscal year ending March 31, 2026, the final year of the medium-term management plan.

Capital Efficiency Indicators

	FY2020	FY2024 (Target)	FY2026 (Target)
EPS (yen)	117.0	140.0	200.0
ROE (%)	8.8	10.0	13.0
Cost of shareholders' equity (%)	6.9	8.0	8.0
ROIC (%)	3.7	3.8	4.0
WACC (%)	3.0	3.4	3.4

Dividends and Share Buybacks