Main Questions and Answers in the Credit Saison FY2020 Financial Results Briefing

Q1.
(P.14) Regarding the capital policy, the figures disclosed in this briefing indicate that the investable limit is estimated to be 20 billion yen as of the end of March. However, in the future, could you tell me if there are any conditions in the event a buyback is implemented.
A1.
As I mentioned earlier, while the business plan thoroughly covers the decrease in the balances, we also need to ask ourselves a question, ″How much growth can be achieved?″ — when we take into account the impact of the global COVID-19 pandemic in addition to other conditions, such as the conversion to in-house production of the system, transition from the labor-intensive model to systemization, and overseas expansion as addressed by President Mizuno, as well as circumstances associated with risk-capital margins. Albeit we face these complex factors, we intend to thoroughly consider shareholder returns by means of buybacks or dividend increases as we discuss the matters in the Board of Directors' Meeting.

Q2.
(P.19) You explained about the conversion to in-house production of the system, but will the interface part of the joint core system be included in the targets of such in-house production, or will it also become possible to supply services that don't use the core system? Could you share your understanding in this matter? Also, please share how the costs will be incurred and what kind of changes we will see in the market consensus on system-related costs.
A2.
The core system isn't focused on in-house production at this time. We 'd like to actively pursue in-house production of peripheral systems or the interface part, which acts as the touch point with customers. As for the API connections and gateway mechanisms, currently we're in the process of placing personnel for the in-house production so as to verify what would be the optimal. In addition, given that we have in-house SEs, programmers, etc., we plan to actively promote the agile development, in particular. As we see it, it's possible to implement the system development with a sense of speed, i.e., the development process that allows the contents of any changes in the system to be modified in a prompt manner if any of the changes creates a trouble or inconvenience to our customers or business partners. In particular, we would like to refine the components that act as the contact points with our customers to the uttermost extent of our ability. In regard to the rough estimate of the cost, we have a sense that the cost of development, which had been outsourced to vendors in the past, can be basically absorbed because we have an internal in-house production team this time. Our CTO-cum-CIO, Mr. Ono, is currently leading a comprehensive assessment in order to grasp the overall sense of the situation. Although we have a sense that the cost will be under control, we don't have the exact number at this point. We will consider the possibility of disclosing additional details at a later date.

Q3.
According to your presentation concerning the investable limit and surplus capital today, the surplus capital has increased by only about 10 billion yen from the end of the previous fiscal year. But, according to our calculation (as we attempted to the extent of our ability), we believe that there is an increase by about 37 billion in the capital if we take into account the 46-billion increase in the equity capital, of which 20% at the minimum is allocated to the capital. It means, I think, that risk capital has increased by approximately 25 billion yen, give or take. But please share if you have any information from analyses on the background and factors behind the increase in risk capital. In connection thereto, risk capital is increasing while the operating assets have not increased. So, I feel that, when this pattern returns to normal, it will be more difficult to generate surplus capital. So, please explain again about the liquidation of asset-building loans and what kind of conditions and environments must come together to facilitate such a liquidation.
A3.
We are currently in the process of calculating an estimate of the surplus capital. In my presentation, I mentioned that it is about 20 billion yen. We have not yet been able to determine precisely how much margin

will be available for risk capital. So, I'd like to brief the surplus-capital calculation result in the upcoming financial results briefing in second quarter. Under the current circumstances and in actuality, the surplus risk capital has temporarily increased due to the decrease in revolving credits, cashing, and credit guarantee balance. As a result, the surplus is 20 billion as I previously mentioned. On that note, almost all these three productswill show increased amounts. In the meantime, based on the fact that the balances of asset-building loans show accumulations, we can see that additional risk capital is allocated back. Regarding revolving credits, cashing, and credit guarantees, there isn't much demand for funds due to the COVID crisis. However, if the economy goes back to the pre-COVID era as more people are vaccinated in and after the second half of this year, I believe we can grow the balances, although it will take time. Also, in terms of the shopping transaction volume, we would like to expand our top line of products by implementing strategies that utilize various products in the post-COVID era. Regarding the liquidation of assets, the asset-building loan balances are increasing at a steady pace even in the middle of the COVID crisis. Accordingly, we're considering the possibility of liquidating these loans in order to procure funds while reducing the risk capital. Based on the current environment, we should be able to proceed with the liquidation at a more concrete level when the COVID situation settles down. We intend to have an ongoing discussion on this matter in the coming days.

Q4.

Please share any update on the investment in Grab or Grab Financial, if any.

A4.

First of all, we have made a small investment in Grab's main bodies, which is scheduled to be listed on SPAC. In that regard, the investment was made upon receiving an offer for a shared ride in the multilateral negotiation if such a negotiation occurs upon the establishment of GSFA (Grab Financial Services Asia). However, our joint venture (GFSA) is in a very difficult situation due to COVID. For example, GFSA is currently struggling with the business because of our reluctance to make contact with one another and travel restrictions due to COVID. Additionally, our local members are actively engaged in discussions regarding cooperation with GFG (GFSA's holding company, which bundles Grab Pay and insurance). The relationship with Grab is very good, since they have kindly provided us with prior notifications of the SPAC listing as previously mentioned. Nevertheless, in Southeast Asia they have received a proposal for a merger of Gojek and Tokopediaas well as offers for collaboration with major game and e-commerce IT companies such as Sea, which is already listed on the New York Stock Exchange. By working together with Grab in these areas, their window for partnership with us has become slightly narrower. Despite the current situation in the partnership with Grab, we hope to build a progressive relationship with Grab. We, as a company, would like to realize multiple alliances with various competitors in Asia as we have done in Japan. We will let each of you know in the future, once such alliances are brought into reality.

Q5.

Regarding the management structure, the questioner still has a strong impression that the company is CEO Rinno's company, but the questioner's interest is in how roles are distributed between the CEO and the COO. The homepage includes a comment that the preparation for a large-scale expansion is complete. Would you share your thoughts?

A5.

Rinno has led our company's growth for many years. As I explained earlier in the business strategy presentation, Rinno wants to operate with his focus on driving the successful execution of strategies for the entire group and providing advice on the management of each company in the group. On another front, since I was appointed as the president, I have actively participated in the operation of local sites by visiting them despite the COVID crisis. Mainly by focusing on local sites across Japan, such as the branch offices and five centers established throughout the country, I plan to engage in direct dialogue so as to discuss how we should proceed with future reform in areas such as human resources and the like. As I mentioned earlier, the management structure I have in mind is as follows: I'm considering the possibility of distributing the role of strategic planning to Rinno while I handle the execution of strategies.

Q6.

(P.9) It is unlikely that the medium-term management plan will be achieved. If possible, could you share the objectives and a sense of direction for the next medium-term plan? I'm interested in at what timing you plan to achieve the business profit of 60 billion. Also, I'd like you to comment on whether COVID was the only factor in the failure to fulfill the medium-term management plan.

A6.

As you pointed out earlier, the medium-term management plan was thrown into unexpected situations due to the onset of pandemic last year, which our company couldn't have predicted. In particular, as I mentioned in the business strategy presentation earlier, our company's strengths was in brick-and-mortar store sales. Consequently, we got ourselves cornered in situations where we couldn't open stores through the brick-and-mortar channels. Travel was restricted, and it became impossible to commute or take business trips. The objective for the next medium-term management plan is to reinvent our style of operation and thereby adapt to the presence of COVID so that we can continue to yield operating revenues while promoting significant digitalization, which was described in the earlier presentation as a pillar of the business strategy. As you pointed out earlier, the medium-term management plan was thrown into unexpected situations due to the onset of pandemic last year, which our company couldn't have predicted. In particular, as I mentioned in the business strategy presentation earlier, our company's strengths was in brick-and-mortar store sales. Consequently, we got ourselves cornered in situations where we couldn't open stores through the brick-and-mortar channels. Travel was restricted, and it became impossible to commute or take business trips. The objective for the next medium-term management plan is to reinvent our style of operation and thereby adapt to the presence of COVID so that we can continue to yield operating revenues while promoting significant digitalization, which was described in the earlier presentation as a pillar of the business strategy. We believe that the reason we couldn't achieve the operating revenue of 60 billion yen is ultimately the fault of the COVID pandemic. The sectors that were affected by many unexpected or unprecedented situations seem to have contributed to the failure to achieve the operating revenue. At this moment, the company is continuing its discussion of the next medium-term management plan. When the time comes, I'd like to talk about which direction we should take.

Q7.

Regarding the capital policy, as I recall, we've received the same explanations that you've been using the capital for the expansion of the real-estate-related loan business and that during the past year or so you had considered various frameworks for your company's capital. In today's conversation, you mentioned things like liquidation. It would be great if the liquidation could go smoothly, but has the capital efficiency been really poor in the first place? Could it be that your idea of risk allocation in the capital model might not be in alignment with the actual risks? I'd like to know specifically how you've progressed and made changes during the past two years. Also, how about the surplus capital if the balance in unsecured, high-margin businesses, such as revolving credit, cashing and credit guarantees didn't decrease? Is it 100 instead of 200, or is it less? Please share specific numbers, if you have them.

A7.

First, regarding our approach to risk capital, we have a history of using a third-party consulting company to quantify risk models. Additionally, each year there is a review by a rating agency. We believe that we're ensuring an appropriate level of risk allocation through a process designed to keep our perspectives aligned. We also implement another verification process, in which the board of directors discuss the risk capital based on inputs from the internal ALM committee. Although we made quantitative disclosures only in the last few years, we have already started our own internal endeavor about 10 years ago. Given the current situation, there isn't much demand for funds when it comes to unsecured products. I believe that the demands will change once COVID is resolved. While a very important factor is how we generate the volume needed to meet our profit goals (which was disclosed to each of you earlier), such as the medium-term management plan and earnings forecasts in particular, we also look at the capital efficiency and thus tackle each situation from both aspects. More specifically, we approach it from the standpoint of increasing the bottom-line profit while expanding the balances and from the standpoint of creating margins for risk capital through effective utilization of assets, such as by means of slicing portions thereof or by means of liquidation. Although I cannot elaborate on what kind of discussion took place within the company, we intend to proceed while firmly maintaining the equilibrium between the aspects of investment for future growth and shareholder returns.

Q8.

According to the forecast for the fiscal year ending March 2022, the doubtful-account reserve ratio is lower. Is that because the allowance for doubtful accounts has increased in the end of this fiscal year and it will be actually used? Please share your view on this matter. Also, we're looking at a disclosure of so-called delinquent receivables. However, the disclosure doesn't tell us if any of the receivables are provided with an extension on payment and therefore aren't treated as delinquent. If so, what would be the balance and risk of each such receivable? Please share how many of those receivables are included in the delinquent receivables and how they have changed during the term.

A8.

Most payment extensions involve credit guarantees. For credit guarantees, the allowance was calculated on the assumption that the receivables were provided with payment extensions or were paid in subrogation afterward. So, for this portion the allowance is actually accumulated even when payment extensions have been provided. Extension periods of payments for other products, such as leases and credits, are very short. Therefore, we believe they have only small effects.

Q9.

Please tell us about the vertical balance of the company plan for this term. According to your plan, it appears that the second half is slightly overemphasized for the revenue, whereas the first half overly emphasizes profit. How do you factor the impact of the new pneumonia in the revenue? Also, it seems that slightly higher costs are incurred during the second half, according to the plan. What kind of vertical cost allocation are you planning for the advertising and sales-promotion costs, service expansion costs, credit costs, etc.?

A9.

Regarding the matter of profit, I feel that we're currently under various restrictions due to the state of emergency on one hand. However, each day more people are vaccinated, so we expect a gradual recovery in and subsequent to the second half of this year, as I mentioned earlier. Especially for items such as cashing and revolving store credits that have shown declining balances, new products and more will be introduced in and subsequent to the second half. We believe that this will help our revenue to grow and recover the balances in and subsequent to the second half. Given these factors, I will appreciate your understanding in regard to the possibility that the revenue in the first half of the year will appear slightly weak. Regarding the bottom-line profit, we would like to actively deploy our efforts in advertisement and card development in the first half of the year on one hand. On the other hand, the vertical balance of the bottom-line profit itself may appear slightly off as COVID is likely to make such deployment difficult. Furthermore, I'd like to ask for your understanding for the possibility that, in the process of introducing new products, you may see a slight time lag after each introduction before it generates a revenue and bottom-line profit.

Q10.

Based on the actual performance, ROE was 7.1% in the previous fiscal year. What percentage do you think the actual value of ROE is at this point?

A10.

The ROE at the annual closing of accounts in 2020 was 7.1%, an increase of 2.4% compared to the previous year. In the medium to long term, we have set an equity ratio of about 15% and an ROE of over 10%, as stated on Page 14. For example, it is technically possible to increase ROE through buybacks, but I also believe that it is important to increase returns in a reliable manner with actual performance especially during the period of overseas expansion. While setting the goal in excess of 10% in the medium to long term, we also intend to maintain a conscious awareness of the previously mentioned two aspects (i.e., profits and capital efficiency) as we allocate assets by investing management resources in the already deployed overseas businesses.

Q11.

Regarding this term's plan, how likely will it be possible to control the cost if profits fall below the plan? There will be new products. So, is it your intension to make wise investments in the costs?

A11.

Regarding cost control in this term's plan, we plan to introduce new products throughout this term. In addition to the conventional sales promotions, we're going to pursue efficiency, by repeated trials and errors, through the utilization of never-been-used new media and the conversion to technology-based in-house production, as mentioned by President Mizuno earlier, doing so by making the necessary investment in the cost but discontinuing any attempt that doesn't bear fruit. So far, we've tended to come short in terms of the ability to stop once we started running. However, we now believe the expenses will be under control once the conversion to in-house production moves forward to some extent. We would like to maintain our awareness of bottom-line profits while firmly controlling costs.

Q12.

What are President Mizuno's current top priorities in the company management?

A12.

His top priorities are the conversion of global businesses (with which he has been involved for the past 10 years) into profits, the expansion of new business partnerships and new business development in Japan. He truly regrets that the current COVID situation has turned our original strengths (brick-and-mortar store sales) into a weakness. As I mentioned before, we will make intensive efforts in the promotion of DX. As for the sectors, for which the domestic network has been built on the premise of the brick-and-mortar business model, we also plan to put them under a scalpel as soon as possible in order to re-evaluate the model and its network. As the DX infiltrate into the global market, customers and business partners have been very positive about DX and, in fact, more positive than our company is. We intend to capture this opportunity to actively propel the restructuring of the network.

That is all.