Credit Saison Co., Ltd. FAQ for the FY2021 Financial Results Briefing

Q1.

(P. 11) Regarding the capital policy, is there an approximate value for the investable limit as of the end of the March, 2022? If so, please share it. Also, you mentioned revising the risk capital allocation model. Could you please explain whether this will have a positive or negative impact on investable limit as well?

A1.

We are planning to revise this to an appropriate model. The current model was initially created over 10 years ago, and although we have implemented various adjustments to it over the years, there are initiatives such as global expansion and new services which we are working on now that were not a part of our business at that time, so we are planning to revise the model to account for these differences.
In addition, systems which were still under construction 10 years ago are now in stable operations, and as a result of this factor, we believe the effect is likely to be a positive one.
On the other hand, we are also more proactive in our global expansion, so there are positive and negative influences. However, this has been pointed out in the IR field as well, so we are planning to transition to a more suitable model. The details are still under consideration, so we intend to make a public announcement again on this matter at the announcement of first half of the year results.
As for the approximate investable limit value, partly because of this ongoing revision, it is not possible to answer this at present. Thank you for your understanding.

Q2.

(P. 39) Regarding the restarting of the payment business, we saw recovery to 44 billion yen in card shopping revolving credit balance and 30 billion yen in cashing balance at the mid-term planning period. You provided an explanation of initiatives such as your AMEX project, but do you have a sense of the ratio accounted for by the contributions of your own efforts, rebound from COVID-19, and the effects of reopening? If so, please share this.

A2.

Regarding the card shopping revolving credit and cashing balances, although the COVID-19 pandemic had a major impact, looking at the consumption trends from this April, when the semi-state of emergency COVID-19 measures were lifted, proactive usage has increased markedly, in fact there was a double-digit increase in total transaction volume for April compared to the previous year. Although the changes caused by the condition of the COVID-19 pandemic can be difficult to predict, individual consumption and cashless transaction ratios are both increasing dramatically as well. First of all, we believe that raising our top line will be one of the major key factors moving forward.
On the other hand, increased revolving credit arises spontaneously when large unit price purchases increase. Although we sometimes take the initiative to approach revolving credit changes, our primary focuses are making steady gains in our top line and attracting customers to facilities that promote large purchases and leisure-related consumption.
In addition, conditions for cashing are the same as shopping, and when people’s movement becomes more active, transaction volume tends to increase a great deal. On this point, although overseas travel will probably still take a bit more time to open up, we are planning to increase balances by selling our existing cashing and card loan products to appropriate customers. We have not planed precise ratios for spontaneous increase and our own efforts, but policies should produce a certain amount of results.

Q3.

(P. 12) Regarding dividends, they increased in fiscal 2021 and increased still further in 2022. Based on the DPS trends shown, this appears to be the first instance of two consecutive years of increases. You mentioned that your policy of stable continuous dividends has not changed, but is there any aspect of your thinking regarding dividends which has?

A3.

As this question states, at the general shareholders meeting next month, dividends for 2021 will be issued at rates 10 yen per share higher than the previous year, and the current forecast for 2022 is an additional increase of 5 yen.
With the exception of overpayment which we consider a transient factor, we achieved the business profit goal of the previous medium-term management plan, 60 billion yen. In addition, I personally believe that overpayment has peaked, so the dividends were raised by 10 yen.
As for the 5 yen increase in the coming fiscal year, although final income for 2021 and 2022 are expected to be at roughly identical levels, the business profit goal set in the new medium-term management plan is 70 billion yen. Accordingly, since the next level of profit and global expansion seem to be on the horizon, we set the forecast for dividends as a 5-yen increase.
Basically, we hope to maintain a firm commitment to stable and continuous dividend policy while carefully considering shareholder returns including growth, dividends, and share buy-backs, continually carrying out initiatives for elevating our corporate value.

Q4.

Regarding payment recovery, since there has been a tendency for the Company to fail to achieve plans established at the start of the year in the past, especially for shopping transactions volume, I was personally anticipating cost structure reform as a second option for increasing the probability of achieving profit goals. Although there was no mention of a target for fixed cost reductions this time, are you considering anything like this?

A4.

We carried out a structural reform plan in the previous term, and we have made significant progress in digital transformation, especially for variable personnel expenses involving operation components that relied on manual labor and large-scale manpower in the past. For this aspect of our operations, we are striving to reduce secondary personnel expenses as a matter of course, and we are also carrying out revision of the way our work has been carried out for many years as a means of improving the efficiency of our operations. We are carrying out structural reforms related to a variety of factors such as telecommunications costs, various operation costs, and outsourcing fees.
This is not limited to human resources either. For example, there are expenses involved in functions such as sending out credit cards and mailing monthly transaction information, and we intend to move forward with structural reforms without considering these areas untouchable, continuing these transformations without interruption to maintain profit even if our top line doesn't increase.
This aspect doesn't come across well in overall figures, but I am convinced we are making progress, and I hope to achieve additional structural reform within the next 1-2 years.

Q5.

What kind of economic environment are you picturing when drafting the medium-term management plan? I would like to know about details such as interest rates and bad debts.

A5.

The extent to which conditions such as COVID-19 and the Ukraine conflict are interwoven into it is a difficult thing to explain, but as for interest rates, the trends of the Bank of Japan's interest rates and the expectation of an increase in these rates is incorporated into our calculations.
As for bad debts, although they were on the decline due to improvements in credit quality progressing alongside the effects of the COVID-19 pandemic, the medium-term management plan incorporates an increase in bad debt costs anticipated as part of our future plans to raise our top line.

Q6.

(P. 9) Could you please explain a specific costs usage example for "increase in operating expenses, etc." and share whether the advance investment level is expected to stay the same or drop in 2023 and beyond?

A6.

Regarding advance investment, we intend to actively push forward with our gold strategy, which is linked to the top line of our payment business, including sales promotion costs. If this gold strategy achieves a certain level of performance, there is a possibility we may push further to drive the top line up. However, if our customers become gold members, the costs thereafter are expected to standardize, so we will observe conditions and decide based on them.

Q7.

Regarding the 2021 finance-related business balance, I believe the initial plan, including elements such as asset formation loans, was not achieved. Could you please explain your analysis of the factors causing this and the accuracy of the approximately 40% growth estimated to be achieved by 2024?

A7.

Regarding Flat 35, I believe we fell slightly short of the goals of the initial plan. On the other hand, approximately 30 billion yen of our asset formation loan credit has been transferred, and although that may appear to be a balance decrease, I hope you will understand that it is irregular.

Q8.

You presented a divided increase this time. However, you decided not to implement repurchase of stock. Could you explain the background for this?You explained earlier that the investable limit will be completed by the next interim period. However, does this mean we can expect actions such as stock repurchases to be taken in preparation of this interim period?

A8.

We are discussing our options internally at the moment, including repurchasing of stock. We are well aware of dividends and stock repurchasing as methods for shareholder returns, and although we have chosen to increase dividends this time, that does not mean we will definitely not implement repurchase of stock. Please understand that this is merely the selection result at present.

Q9.

Related to capital policy, you chose dividends for shareholder returns this time. However, the dividend payment amount is expected to incrase by 2 billion yen this time, and considering the investable limit for the second quarter of 2021 was more than 30 billion yen, it doesn't seem to match. Could you please explain how progress of your assessment regarding investable limit including your growth strategy has since you announced in the second quarter?

A9.

By raising dividends by 10 yen this time, our total dividend payout will increase by approximately 1.6 billion yen. Regarding the difference from the 30-billion-yen investable limit at the previous interim period, this is being utilized in certain areas such as business expansion, advance investment, and especially for investments and loans to the JULO company in Indonesia as part of our global expansion.

In addition, from the perspective of our payment business, there have been striking decreases in shopping revolving credit and cashing balances due to the impacts of COVID-19, and this is a factor in the decrease of the investable limit from 30 billion yen. However, we believe that the promotion we are planning to conduct in the future will cause changes in our surplus.Please understand that the decision to increase dividends was made through comprehensive consideration of factors such as natural business growth, future investment, and risk capital usage conditions.

Q10.

I believe the most important aspect within the qualitative goals this time is the achievement of a new record high in shopping transaction volume by 2024. In terms of market growth and expansion of the Company's market share, what changes are you expecting to achieve this figure? Please explain how the content of the advance costs will be used to achieve this goal.

A10.

I believe what this question is asking is how we intend to raise up the top line of our shopping transaction volume. This point is combined with the gold strategy mentioned earlier. In addition, in the course of determining the reason for sluggish top line growth through comparisons with other companies, spending per customer was weaker than other companies. When we drafted the new medium-term management plan, we spent time thoroughly investigating this.

In particular, we are planning to raise yearly single-customer spending from 100,000 yen to 150,000 yen, and the first step within this plan is conversion of existing customers to be gold customers. Since past data indicates this produces a significant increase in single-customer spending, we will promote this conversion and create an investment which makes our products easier to use. The second step is to incorporate the number of payment situations increased by promoting cashless transactions for bill such as rent. The third step is utilization of SME and AMEX. For example, since there are already SME customers with extremely high yearly spending, we will carry out skillful promotion to raise the standard for high-spennding users and increase the single-customer LTV for both SME and individuals. In this way, we are planning to raise overall top line performance.

That is all.