

Main Question and Answers -

Credit Saison Co., Ltd. Financial Results Briefing for 2nd Quarter of Fiscal Year 2018

Q1:

Regarding the timeline of the new projects on card services development on page 14, you mentioned that projects with existing partners are expected to contribute 7.5 billion yen to the income. To what extent are these projects being confirmed? What is the expected volume of contribution to the income in fiscal year 2019?

A1:

Before we released Helios (the Associated Core System), even though the process to completion was time-consuming, we already received a lot of requests from our clients to start new projects as soon as possible, therefore I believe that these projects are likely to proceed. We are working on to shorten the time needed for each project so we could complete the 400 projects on the waiting list. Regarding the volume of contribution, as we summarized in the report, the 3 categories each contributes approximately 1.5 billion yen, the remaining 1 category contributes approximately 3 billion yen per year, hence huge volume of contribution is expected. On top of that, the uncertainty on how long is the time needed to complete these projects, is recognized as a major issue.

Q2:

Is it possible for the system to respond technically to the government's initiative of 2% points rebate on top of consumption tax hike? What is the percentage of merchant stores with card handling fee more than 4%?

A2:

Currently, there are no specific requests from the government yet. If it is possible, we will work on it, but if it is not possible, we plan to explain the situation. As we are one of the members of the Commission for Promotion of Cashless Settlement towards realizing a cashless society, we also plan to explain during the meeting. The number of merchant stores with card handling fee exceeding 3% is low. Hence, we believe that the impact on business performance is minor.

The newspaper reported that the maximum handling fee is set to 3.25%, but according to our on-us merchant agreement, the transaction volume of stores with handling fee of 3% and above is only around 50 billion yen. Even if it falls by 1%, the loss will be minor at around 500 million yen.

Q3:

You mentioned that the downward revision is made to prioritize the stable operation of the system, therefore the numbers of new card application were suppressed in the planning of the beginning of the year, yet the target of active card members was set considerably high. Although, the target was now adjusted to a more realistic figure, what are the specific efforts planned to achieve the initial target? Why couldn't the initial plan work together with the system? If the system is fully operational, would it be possible to achieve high target of number of active card members?

A3:

Due to unable to develop new services that were initially planned to achieve top line growth, downward revision was made and the forecasted operating revenue was revised to 5.5 billion yen.

In the initial plan, we took into account these new projects and their contribution. However, as a result of prioritizing the stable operation of the second release of the Associated Core System, we were unable to carry out these projects because they have to be postponed.

Q4:

Does that mean, in the initial plan, new services development projects were expected to greatly increase the active card members?

A4:

It seems so from the results, but we could not tell clearly how they are correlating to each other, as the plans were not made based on the number of active card members. However, we foresee the number of active card members will increase under next year plan due to completion of these new services development projects.

Q5:

Regarding the mid-term forecast of the earnings of Credit Services segment, operating income for second quarter is 3.8 billion yen. Although the number of consignment projects tends to show an upward trend, but 3.8 billion yen is rather low for the time being. Upon stable operation of the new system, as foreseen, to what degree will the income level increase?

A5:

The system depreciation costs will be accounted throughout the year so the operating costs will be up. Regarding credit card business, the top line growth contributed by newly-issued services or cards is depending on the developing speed of the new system. Meanwhile, the labour cost is very high, so we are discussing on revising the labour cost used in credit card business to support other businesses. Card counters were set up at various shops as our main card promoting strategy. We will review the significance of setting up counters in order to improve productivity and reduce labour cost. Regarding the system, I think it is an important issue on how much outsourcing projects we can handle. For the consignment business, it is also depending on how much we can develop the market in relation to system development of other companies, so we will carefully investigate these situations and explicitly state in the plan for next fiscal year.

Q6:

It is stated that the initial target of ordinary income in this mid-term plan is 60 billion yen, but it seems to be difficult to achieve judging from current situation. Are you aware of this? Besides that, do you have plans on constructing a business foundation that could possibly help to achieve the target?

A6:

I think that it is not a hurdle that cannot be overcome. Currently, although EDP expenses increased by 9.1 billion yen, but we believe that by steadily realizing the management strategies explained today, we could create an environment that raises profits, therefore the base revenue will be sufficient to compensate the loss.

Q7:

The handling fee for SG&A expenses is rising. Is this effective for only this year or even for the following years?

In addition, regarding the Asset Formation Loans, the growth is favourable in the first half as usual. It seems that your company is more approachable than the other financial institutions, where a lot of customers could not seem to get a loan from, so the business is growing due to your active efforts. I think you do perform strict examination, but what kind of examination do you perform in exact? And how strict do you examine? Also, regarding the Asset Formation Loans, could you provide the breakdown for one-room studio loans and apartment loans?

A7:

As the EDP expenses increase, system depreciation cost will also be increased slightly. Regarding other maintenance fees, we are planning to reduce them since we have been running Universe (the old system for UC card brand) in parallel with the new system. As viewing from mid-term point, the increase of EDP expenses tends to be suppressed. As for the Asset Formation Loans, we are handling with strict examination since the past. Our Finance Business Division does not only increase the number of vendors, but also commence projects introduced by trusted vendors and provide loans only if they had passed our examination. Since we have to secure a long-term profit of 35 years, we will do a thorough examination in accordance with changes in the environment and circumstances of borrowers. Regarding the breakdown of apartment loans and one-room studio loans, the details will be provided later on by the person in charge.