

Main Questions and Answers in the Credit Saison FY2020 H1 Results Briefing

Q1.

(P. 23) On the pipelines in your partnership strategy, you say that potential revenues are in the range of tens of billions of yen. Is that an aggregate estimate for multiple companies in the communications and retail fields, or is it the potential revenue from one project?

Also, in addition to revenue, do you have reasonable expectations on a business-profit basis?

A1.

Around ten billions yen in revenue is a total figure for projects in which partnerships are currently being prepared. Though some projects will contribute more revenue than others, one or two companies are expected to contribute significant revenues. However, we cannot discuss the scale of profit at this time as we are still working out the details with our partners.

Q2.

(P. 12) On capital policy, you have ¥10.5 billion available for investments as you build up internal reserves. How do you plan to invest those funds? What is your approach regarding return to shareholders?

A2.

Our plans for the ¥10.5 billion available for investments are spelled out under “Distribution of capital surplus” on P. 11. They can be divided broadly into two categories, “aggressive investment in growth fields” and “appropriate shareholder returns.” Aggressive investment in growth fields refers to our belief that we must invest in overseas development and in reaccelerating growth in the domestic payment business. On the dividend policy for return to shareholders, our policy is to commit to a stable and continuous dividend. We have announced that this policy remains in place despite the pandemic. Stock buybacks are one option we are considering. In any case the Company will respond in a balanced fashion.

Q.3

Please explain the assumptions on which you based your revision of the forecast of business results for the full fiscal year. In the previous fiscal year’s guidance, your analysis of revenue increases and decreases from the fiscal year before that indicated that you had reserve funds for investment in new businesses and so on. In the revised plan for this fiscal year, what level of expense outlay do you foresee for service expansion and so on?

A3.

Expense outlay for issuance of new cards, service expansion and so on is expected to be in the neighborhood of 8 to 9 billion yen in total.

The COVID-19 pandemic in H1 limited our ability to develop opportunities through face-to-face meetings. However, in H2 we are looking forward to the release of SAISON CARD Digital, a new service, as well as expanding our lineup of services for the young, female and affluent segments. We also want to invest management resources in new partnerships with processing acceptance contractors. In terms of allocation, we will

watch progress and reactions in each segment to invest resources as efficiently as possible.

Q4.

(PP. 11–12) In capital policy, your figure for risk capital is from half a year ago (as of March 31, 2020), while the figure explained in the business-results video is about ¥10 billion. Could the risk-capital figure be a little out-of-date, in consideration of future capital applications? In its deliberations currently in session, is the ALM Committee taking current conditions into account? For example, in those deliberations is the Committee considering that risk is presumably declining as balances in the payment business shrink?

A4.

Specific discussions by the ALM Committee concern the payment business, which is the Company's mainstay business, as well as the status of countries overseas in which the Company operates amid the COVID-19 pandemic. On the matter of shrinking balances in the payment business, previously we had been unable to respond to new partner projects due to the impact of system development. However, efforts on new partnerships are now beginning to bear fruit. Accordingly, even though balances in the payment business are shrinking at this point, we expect that by advancing new partnerships we can reverse the shrinking of balances and return to a growth trend.

Q5.

(P. 35)

Please tell us about shopping transaction volumes using credit cards in Japan. Rakuten Card is perceived as the sole winner, growing around 20% from July to September. Meanwhile Credit Saison's market share is declining. What's your view concerning market share going forward?

A5.

Rakuten Card is growing its transaction volume tremendously by leveraging the Rakuten business bloc. Meanwhile, while Credit Saison is benefiting from increasing transaction volume from e-commerce, boosted by stay-at-home demand for e-commerce amid the COVID-19 pandemic, as well as for video-distribution services such as Netflix, these operations comprise less than a 20% share of Credit Saison's shopping transaction volume. Even significant growth in these areas was insufficient to offset declines in H1 due to decreases in high-unit-value travel, dining out, events and so on, as well as in the department-store and retail industries, with which Credit Saison has a close relationship. Currently we are moving forward with new partnerships, so our policy is to grow under a different model than Rakuten Card's.

Q6.

(P. 23) Tell us about those new partnerships. Will the ones you're going to release lead to an expansion of your share of transaction volume?

A6.

We recognize two aspects to growth: growth from capturing market share and growth as part of overall market growth. One field in which we expect great overall market growth

is the BtoB domain. In the BtoB domain, we aim to grow the size of the overall pie by expanding sales in the SME market and partnering with platform providers. In the BtoC domain, we hope that products to be issued to capture the young, female and affluent markets will lead to expanded market share of transaction volume.

Q7.

What's your time-frame for issuing partner cards? Will your establishment of new organizational units bring that schedule forward?

A7.

The timing of product releases will depend on coordination with partners, but we want to bring them to market as rapidly as possible.

Q8.

(PP. 11–12) Will your current strategy improve ROA and ROE? You haven't shaken up your portfolio to any great degree over the past five years. We understand that you have been investing in systems and repaying interest and that you have suffered from the effects of the COVID-19 pandemic, but isn't the achievement of your ROE target of 10% a long way off? Are you considering setting a hurdle rate for each business and rejigging your portfolio when you don't reach it, as other companies have done?

A8.

Over the past 10 years or so, Credit Saison has been unable to acquire new partners in its mainstay payment business, hampered by the impact of system development. Instead, we've been building profits while investing management resources in the finance business. In effect we've hardly shaken up our portfolio at all during that decade.

On the other hand, for the past four or five years we've been investing proactively in overseas operations. While COVID-19 has caused some delays, we expect to improve ROA and ROE by incorporating stability in Japan and growth overseas.

Credit Saison is complementing its mainstay payment business by expanding its lineup in the finance business, enhancing services such as rent guarantees, asset formation loans and Flat 35 loans. By offering these services to card members, Credit Saison hopes to boost profit per customer, thereby bolstering profitability. The timing of portfolio reshuffling and progress in new partnerships depends on negotiations with counterparties, so we cannot discuss these matters at this time. However, we want to respond as quickly as possible.

Q9.

If you can boost revenue in the payment business, will profitability improve too?

A9.

Expanding the range of partnerships in the payment business will increase our customer base. As the number of customers rises, we will be able to offer services we couldn't previously. Profitability should improve as a result of that. Also, we aim to enhance capital efficiency by increasing cost efficiency.

Q10.

(P. 12) Please tell us about the distribution of the ¥10.5 billion available for investment between H1 and H2.

A10.

Some overseas investment projects were implemented by Saison Capital in H1. As for how much of the ¥10.5 billion available for investment was invested, we are not making specific figures public at this time.

Q11.

Please explain your approach to securitization of asset formation loans and the scale of that securitization.

A11.

Credit Saison is considering the securitization and/or sale of asset formation loans on the order of tens of billions of yen. Because of the COVID-19 pandemic, however, we need to consider carefully whether we should implement these moves during the current fiscal year, given the prevailing business and other conditions. On the other hand, the sale of asset formation loans would improve asset efficiency, so Credit Saison will consider this approach not only in the current fiscal year but in the next fiscal year and afterward, as the Company reshuffles its business portfolio.