

[REPORT ON THE FIFTH INVESTORS FORUM]

Forum of Investors Japan

Theme:	“What kind of investor helps company to boost its value creation?”
Time:	April 22, 2016, 6:30 p.m. – 8:30 p.m.
Venue:	Meeting Room, QUICK Corporation
Guest Speaker:	Mr. Hiroshi Aoi (President and Representative Director of Marui Group Co., Ltd.)
Participants:	34 persons
Purposes:	<ul style="list-style-type: none">• Japan’s Stewardship Code was made with an expectation that institutional investors help investee companies to improve their corporate value and promote sustainable development through constructive dialogue with each other, and that the companies commit to their responsibility to increase the mid- to long- term returns on their customers’ and beneficiaries’ investments. Among others, Principle 7 of the Code requires that, “[t]o contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment and skills and resources needed to appropriately engage with the companies and make proper judgments in fulfilling their stewardship activities.” It is an imperative issue to foster better awareness and understanding of how they can contribute the investee companies for their sustainable growth and improvement of their corporate value.• In this Fifth Investors Forum, we discuss “What kind of investor helps companies to boost their value creation?” To make the discussion active and fruitful, we invited Mr. Hiroshi Aoi, the President and Representative Director of Marui Group Co., Ltd. (“Marui Group”) to participate in our discussion. First, we would like Mr. Aoi to talk about what gave him the awakening to transform the management of Marui Group (i.e. Did any investor encourage him to make such change by giving him any information or opinions?) and, from business manager’s perspective, “What kind of investor is a beneficial investor who can raise management’s awareness?” Then we start our discussion on today’s topic: “What kind of investor helps company to boost its value creation?” with Mr. Aoi. The outcome of this Forum is published for other investors and companies. (Mr. Aoi’s statement is summarized at the end of this report.)

Below, we have listed without modification to the extent possible the main opinions of the Guest Speaker and the participants of the Fifth Investors’ Forum. Note that, in order to clarify the points of discussion and the details of the opinions, competing opinions (if any) are presented together.

1 What makes fruitful dialogue for companies?

The term “*Taiwa*”

- ✓ The Japanese “*Taiwa*” is multisense and ambiguous word. It may be translated as “engagement” or “dialogue” in English. Any conversation with people may be called “*Taiwa*”, but just as a matter of form. “*Taiwa*” which is prompted in Japan’s Stewardship Code and Corporate Governance Code is no such thing.

The Attitude toward Dialogue

- ✓ It is essential to have a future-oriented attitude, such as “How to make the company better”. Sharing objectives to improve corporate value is also important. Corporate managers and investors think in a different timeframes each other, but we can engage in a dialogue taking such difference as given. Investors are, in essence, future-oriented and we would like to hear about the prospect of corporate value and the story about the prospective growth rather than the retrospect. A constructive dialogue is a product of future-oriented communication rather than past-oriented criticism.
- ✓ When the management is moving forward to change, giving encouraging advice to the management is one of the important roles that investors can play. When an investee company is in the middle of a crisis or a transition, the dialogue would be productive if investors send a message to support the company focusing on how to make a V-shaped recovery rather than bring up its bad performance showing no sympathy.
- ✓ The preferable attitude in the investor-investee dialogue is that the investor and the investee share the passion for corporate-value creation, or the investor and the investee can share their ideas with each other and discuss various possibilities. I cannot say that many investors can foster such relationship with investee companies, but such investors do exist.
- ✓ Companies tend to be afraid of having a dialogue with investors without any prior arrangement, since they do not have many opportunities to see investors. Evaluation of corporate value is a job for investors, and it is natural for investee companies act defensively because they are the evaluated party. In the dialogue, companies tend to hesitate to lead the conversation for fear of negative evaluation.
- ✓ It is important to have such an attitude or device that makes the dialogue productive. For instance, one may have to accept the other party instead of negating them and try to understand why they think that way. One may have to forget about which parties is right and which one is not, and instead, work together to solve problems and create a new value. We need to bear in mind that we have to focus on long-term issues, and not on providing a quick fix.

The Awareness by Dialogue

- ✓ Companies sometimes arrive at an “awareness” by investors’ telling them how a certain action looks like for investors. Companies would have to communicate steadily their present situation and their prospects to the investors. Things that are natural for companies are not always shared with investors.
- ✓ Companies do not always welcome investor’s advice on their management policies, but awareness-raising questions are always welcome.

Perspective from Investors

- ✓ It is important for investors to offer a broader perspective that goes beyond the borders of business sectors or countries and unnoticed perspective based on universal and tough logical thinking rather than expertise in a particular business sector.

2 Attitude investors are supposed to have toward a suggestive dialogue

“Responsible Dialogue”

- ✓ It is important for investors to have self-awareness about themselves as partner to improve corporate value. Investors should have a clear recognition of not only a “constructive dialogue”, but also “responsible dialogue”.
- ✓ Pressing an opinion or criticizing without regard to constructive exchange is not what a good investor does.
- ✓ Investors sometimes said to have no commitment to companies. An investor today might sell their stocks next year. Engaging in a dialogue only while being the shareholder could give companies an impression of emptiness.
- ✓ It is better to consider being a long-term shareholder and engaging in a dialogue with a long-term perspective separately. Investors’ positions vary according to multiple perspectives, and it is natural to sell stocks at a certain point. An investor can be a valuable partner if the investor keeps paying attention to the company’s management even if the investor will not be a shareholder at the point of the dialogue.

Expectations for Analysts

- ✓ Companies are not always familiar with what the institutional investors really are, and sometimes investors are regarded as a power whose interest conflicts with companies’. I believe such misunderstanding would fade away with continuous dialogue.
- ✓ Analysts can play a role of an interpreter between companies and investors. Via proper interpretation, investors’ perspective may offer the management a different look at their own company.

Re-realizing the Purpose of the Dialogue

- ✓ Asking nitpicky questions or asking CEO about figures in detail is far from what the dialogue is aiming for.

3 Attitude companies are supposed to have toward a suggestive dialogue

Shared Interest among Stakeholders

- ✓ The perception that shareholders' interests can be prioritized is not always right. Different stakeholders' interests may not go together in the short term, but mid-to long-term interests should overlap in some part. The job of corporate management is expanding such overlapping area of interests.

Respect for Diversity

- ✓ Some people think that investors are importunate. It is also true that the management can manage their company without regard to a specific shareholder's interest by having sufficiently diversified shareholders as a public company. For instance, if a company executed MBO, the management will have to have consent of creditors in every decision-making under heavy restriction on their autonomy.
- ✓ A universal mechanism or rule, a universal perspective that goes beyond the borders of business sectors and robust logic can be a force to create an innovation. With a question by an investor who sees the company from an overhead view, the management can become aware of some missing perspective in what they believe is natural. Thinking internally according to company's way of thinking tends to form a continuum from the past and complete by itself.

Corporate Disclosure

- ✓ Regarding Investor Relations, some companies do not disclose any more information than major companies or their competitors do. Companies should make their own attitudes clearly based on their philosophy rather than lockstep mentality.
- ✓ Some companies still seem to treat investors as they did to the corporate racketeers and believe the less disclosure is better. The corporate racketeers are gone now. Investors should be treated as one of their stakeholders just as customers and client companies. Those companies need to change their mindset.
- ✓ Companies should hold internal meetings to share criticisms and questions they received from investors at IR meetings.
- ✓ By expressing their distinct corporate identity through integrated report and the like, optimal matching with investors who appreciate the content of the reports will be realized.

Conclusion

- ✓ This Forum is also a reviewing meeting for investors. Investors are expected to be a partner for companies to improve their corporate value, and such investors are awaited. Even if investors act like such partner, but only if so while being a shareholder, it is not enough to be a truly dedicated partner to co-create corporate value. The investor-investee dialogue should be constructive, but it also has to be "responsible" with self-awareness as a sustainable partner of the company.

<Summary of Mr. Aoi's Statement>

What gave him the awakening to transform the management of Marui Group?

- ✓ Marui Group made the shift to more corporate-value oriented management in October 2015 and started engaging in the dialogue with investors. This change in attitude was brought by some institutional investors among many others and by ideas loomed out of the trial and error process that I have been through.
- ✓ Our Group registered losses twice for the first time since listing due to the amendment of Money Lending Business Act in 2007. After having such tough times, we announced the recovery at the closing in 2013, and presented our mid-term management plan at the IR meeting held on May 2015.
- ✓ This mid-term management plan was fairly audacious one in that we transfer the development and management function of all the 26 stores to our real estate business and expand the credit-card issuing function from Marui stores alone to all the stores and commercial facilities including Marui stores. The responses from investors were terrible and cold. They just did not believe in it. I was even told something like “We would just wait and see how it works.”
- ✓ In the middle of my disappointment, a sell-side analyst requested me to make a presentation. The analyst said to me “Marui Group has achieved everything they said they would. I believe you will make it happen this time, too.” I felt very happy with such trust and support.
- ✓ Preparing the presentation, one of my acquaintances pointed out that the handouts in our results briefing do not contain EPS (Earnings Per Share) which is an important management index, and regarding ROE (Return On Equity), only 6% that is our essential target was shown, but our internal target of 10% was not. The things we think natural are not always shared with investors. This awakening led us to issue the integrated report so that we can communicate what we are and what we are hoping to become with investors.
- ✓ I also heard from a fund manager that companies were going to be encircled by Japan's Stewardship Code, Corporate Governance Code, Ito Review and ISS' benchmark policy guidelines, and these rules would change rock-solid corporate action in 2015, and I felt I should lead that change, and thus I accelerated the reform.
- ✓ We used to use sales and gross margin per unit area as our KPI (Key Performance Index) as a retailer, but we had no idea what indices to choose as our KPI. A real estate analyst whom I asked told me that the return rate of NOI (Net Operating Income) or Capitalization Rate, which is calculated by dividing the NOI by the current market value of the property, should be our KPI, and I realized that it is identical with ROE that investors mention.

- ✓ Until then, I somehow felt that the customers' interest and investors' do not go together; however, those two seemingly-conflicting interests overlap in some part, and identifying such overlapping interests and devoting effort and resources would lead up to improvement of our corporate value. I truly understood that the pursuit of the happiness and interests of both customers and investors altogether boosts our corporate value.

“CO- CREATION REPORT 2015” of Marui Group

http://www.0101maruigroup.co.jp/ir/pdf/i_report/i-report2015_ena4.pdf

“Fiscal Results Briefing for Six Months Ended September 30, 2015”

http://www.0101maruigroup.co.jp/pdf/settlement/0015F02q-01_en.pdf

▪ <Forum of Investors Japan: Mission Statement>

With the aging and decreasing population in Japan, how to maintain and generate national wealth has become a crucial issue for the Japanese. In order to deal with this issue, a more effective use of capital to create value, that is, a more effective combination of human capital, intellectual capital and financial capital will be required. Companies are the stage for this. Reinforcement of the competitiveness and earning power of every company is believed to be the condition necessary for building the strength to create value in Japan as a whole.

On the other hand, the role of investors is to provide capital to companies that take on such task (retained earnings is a form that investors provide capital, in addition to IPOs and POs). Return from invested capital will be reinvested, which will promote the creation of more value to companies. As the main body of the investment chain that creates such virtuous cycle, investors are expected to assume the crucial role of "stewardship responsibilities".

From these perspectives, we want to understand in more depth measures taken by the companies to create values in the long-term, and to hold straight-forward talks with listed companies about the issues that the companies encounter.

With regard to our interests as mentioned above, the implementation of the Corporate Governance Code is expected to create a better environment for "dialogue with shareholders", but at the same time, as the Japan's Stewardship Code and Ito Review point out (Notes 1 and 2), institutional investors are required to enhance their "capability" to share knowledge and experience in order to have better dialogue with companies and make better judgments.

We operate the "Forum of Investors Japan" for the purpose of supporting institutional investors acquire skills to appropriately fulfill their stewardship responsibilities toward their investee companies, and thereby realize constructive dialogue between the institutional investors and investee companies, and contribute to the sustainable growth of such companies.

(Note 1) Japan's Stewardship Code, Principle 7-3

Exchanging views with other investors and having a forum for the purpose may help institutional investors conduct better engagement with investee companies and make better judgments.

(Note 2) Ito Review (pp.116-117)

"In order to enhance their capability for having dialogue with companies, it is important for a platform to be established in which institutional investors can share knowledge and experience, and have frank discussions on this matter. It is expected that this platform will help to provide a shared intellectual basis for dialogue and engagement, including issues such as the depth, appropriate counterparty at the company, and focus of dialogue.

* Please see the website below for more information on the activities of the Forum of Investors Japan
<http://investorforum.jp>