CFO Message

We will triumph over a changing operating environment and provide financial support for our businesses as they undergo transformation.

Hideki Wakabayashi
Director and Senior Managing Executive Officer in charge of Corporate Management, Head of Corporate Management Division

More than six years have passed since AEON Financial Service became a comprehensive financial group. However, the external environment has changed significantly during that time, and competition has become very challenging. We must therefore evolve our earnings structure to ensure sustainable growth.

This was the rationale for the April 2019 transition from a bank holding company to a business company, and for establishing an organization that will fundamentally reform our business model. The scope of our business has expanded substantially, which has greatly increased the potential for business development. Our goals are to make strategic investments toward achieving our vision and to build a financial structure that matches our business model.

Investment in IT Systems

We are in the process of investing ¥100 billion in IT systems over the three years from fiscal 2017 through fiscal 2019 to adapt to the rapid advancement of digital technology and improve labor productivity. Based on target ROI levels, we have carefully chosen investment areas and are focusing on key performance indicators (KPIs) such as earnings growth rate, bad debt allowance ratio, and labor cost efficiency to measure the effectiveness of our investments.

In fiscal 2019, the AEON Group will make a unified effort to prioritize the promotion of cashless transactions in Japan. We will leverage the advantages of being part of one of Japan's largest retail groups to achieve cost efficiency. We will also use new customer acquisition and the growing transaction volume within the AEON Group as a springboard for expanding the use of our products and services outside the AEON Group, and thereby generate earnings growth over the medium and long term.

In the Global Business, the ratio of bad debt allowance and personnel expenses to ordinary income has continued to decrease each year, but their combined ratio to ordinary income was still high at nearly 40% as of the end of fiscal 2018. In this respect, we believe digitalization will have a substantial positive effect. We have invested around ¥4 billion to that end in each of the past three fiscal years. In fiscal 2019, we will introduce AI technology for credit screening and receivables management, and use smartphone apps as a way to consolidate our product and service channels. Overseas development and introduction costs are lower and rate of return is higher than in Japan, so this shall be a focus

Key Performance Indicators

	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019 (Plan)
Consolidated Ordinary Income (YoY)	+9%	+4%	+9%	+8%	+7%*
Reference: Ordinary Income	¥359.6 billion	¥375.1 billion	¥407.9 billion	¥439.0 billion	¥470.0 billion*
Domestic Business					
Ratio of Bad Debt Allowance to Ordinary Income	6%	7%	7%	7%	7%
Ratio of Personnel Expenses to Ordinary Income	18%	17%	16%	16%	15%
Global Business					
Ratio of Bad Debt Allowance to Ordinary Income	25%	26%	24%	23%	22%
Ratio of Personnel Expenses to Ordinary Income	15%	15%	15%	15%	14%

* Due to a change in fiscal year, fiscal 2019 is the 11-month period from April 1, 2019 to February 29, 2020, but the above figures are annualized for the 12-month period from April 1, 2019 to March 31, 2020.

Plan for IT System and Digitalization Investments

	Fiscal 2019 Plan: Main Investments (Total: ¥30 billion)
Domestic ¥20 billion	**Mobile apps:** Addition of card application and payment functions
	Development of new products and expansion of fee businesses
	Strengthen security: Use of smart cards, construction of system platforms
	Promote cashless transactions: More convenient point programs, etc. and enhanced benefits
	Call centers: Use of AI, updates to credit screening system
Global ¥7 billion	Better marketing promotions, credit screening and receivables management through improvements in analysis
	Operational support: Introduction of robotics and RPA
Efficiency ¥3 billion	Automation-focused system updates

Ratio of IT System Investment to Global Business Profit

	Fiscal 2016	Fiscal 2017	Fiscal 2018
Ordinary Profit (YoY)	¥23.2 billion (+21%)	¥28.3 billion (+22%)	¥34.5 billion (+22%)
Ratio of IT System Investment to Profit*	23%	17%	15%

* Profit before non-controlling interests

Capital Efficiency before/after Management Integration

	Fiscal 2012 (before management integration)	Fiscal 2015	Fiscal 2018
Shareholders' equity	¥231.3 billion	¥291.1 billion	¥380.6 billion
Return on equity	7.0%	12.7%	10.5%
Earnings per share	¥88.12	¥180.09	¥182.64
Book value per share	¥1,235.28	¥1,465.31	¥1,764.05

of investment. Furthermore, by actively adopting successful technologies in Japan, we should be able to increase efficiency Group-wide.

Our investments for the integration of IT into our products and services will result in dramatic improvements to operating efficiency. In the Global Business in particular, this will enable us to more quickly provide financial products and services that also feature greater security. It will also open up completely new channels and models, enabling us to target people who previously lacked access to financial services from banks or other institutions. We will complement the introduction of cutting-edge technology by working with a variety of partner companies to propose new service approaches and diversify sources of earnings.

Centralized Funding Functions

We have begun to centralize external funding for subsidiaries in Japan, in conjunction with our transition to a business company. We will implement effective financial management by positioning AEON Financial Service as the nerve center for external funding, in a move to reduce funding costs and consolidate financial functions at our head office, and by consolidating, integrating and combining the resources of each of our business companies. For overseas subsidiaries, we will make effective use of favorable low-interest funding available in Japan and build a system that contributes to stable funding.

Improved Capital Efficiency

To date, we have consolidated companies engaged in financial business within the AEON Group and conducted M&A with external companies in the course of building a business model that takes advantage of the funding capabilities of a bank to improve capital efficiency while growing our businesses and enhancing our performance.

We will continue to steadily reform our business model and invest in IT to optimize the allocation of resources and provide high-value-added services.

The management integration of 2013 coincided with the introduction of a new operating structure that transformed our capital efficiency. Similarly, we intend to improve profitability and efficiency through our most recent transition to a business company. Our goal for capital efficiency is to support long-term earnings growth as measured by a target ROE of 15%.

Policy for Shareholder Returns

Our basic policy for shareholder returns is to appropriately distribute profits to shareholders while increasing AEON Financial Service's competitiveness by deploying internal reserves to expand our businesses and increase labor productivity. We intend to maintain the payout ratio between 30% and 40% over the medium term while investing in growth.

We will invest to strengthen our operating fundamentals, expand our businesses, and generate shareholder returns with the goal of sustainable growth in corporate value.