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# FY2023 Second Quarter IR Presentation Materials

October 10, 2023



**AEON Financial Service**

Stock Listing: Tokyo Stock Exchange, Prime Market

Code No: 8570

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# 1 Financial Results Highlights

# Summary of Financial Results

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## (1) First Half Performance

- ▶ Although revenues increased due to an increase in transaction volume, consolidated operating profit was ¥20.2 bn (YoY 64%) due to an increase in expenses

## (2) Stock stacking

- ▶ Outstanding operating receivables steadily increased in Domestic and Global

## (3) Increased expenses

- ▶ Domestic : Costs are ahead of investment in expanding customer base, including AEON Pay.
- ▶ Global : Bad debt related expenses increased over the previous year due to the impact of inflation on households.

## (4) Dividend

- ▶ The interim dividend will be ¥25 per share as originally forecasted

# The Highlights of the Consolidated Results

[Domestic] : Operating profit decreased due to an increase in bad debt related expenses due to an increase in the balance of loans and sales promotion expenses to expand the customer base

[Global] : Although bad debt related expenses increased, top line sales grew steadily

	Consolidated		Domestic		Global		FY2023 Forecast	Progress
		YoY		YoY		YoY		
Operating Revenue	¥237.5 bn	107 %	¥144.2 bn	102 %	¥94.2 bn	117 %	¥480.0 bn	49 %
Operating Profit	¥20.2 bn	64 %	¥1.6 bn	16 %	¥18.4 bn	84 %	¥61.0 bn	33 %
Ordinary Profit	¥21.3 bn	62 %	—	—	—	—	¥61.0 bn	35 %
Profit attributable to owners of parent	¥7.2 bn	40 %	—	—	—	—	¥27.0 bn	27 %

※As a result of the domestic business integration, the results of AEON Financial Service Co., Ltd., which had been included in the adjustment amount, are included in the domestic segment.  
YoY is calculated by reorganizing the previous year's results into the changed segments.

# The Highlights of the Consolidated Results -2Q Fiscal Quarter

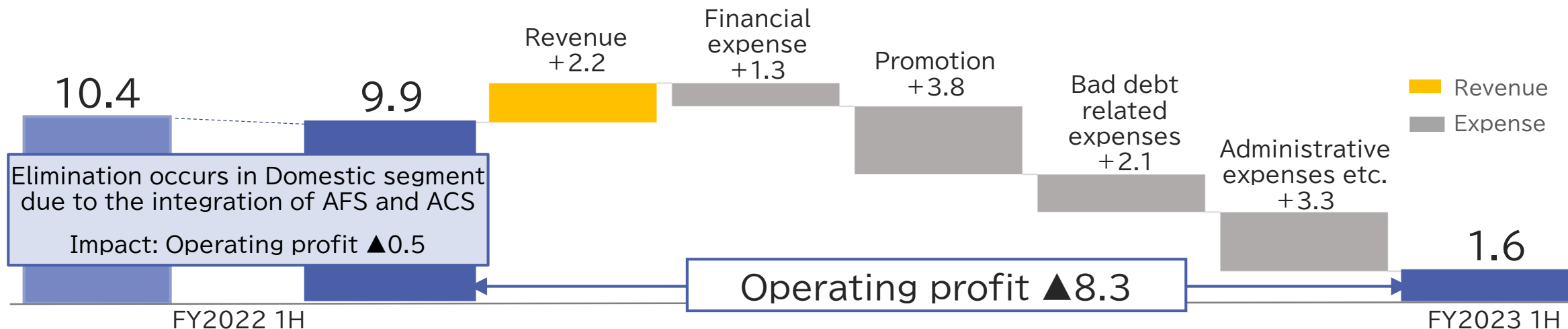
[Domestic] : ¥400mn in business integration costs recorded as an extraordinary loss

[Global] : Operating profit in the Malay area increased by 145% YoY, and the business turned to higher profits

	Consolidated	YoY	Domestic		Global	
				YoY		YoY
Operating Revenue	¥120.9 bn	106 %	¥72.8 bn	100 %	¥48.8 bn	117 %
Operating Profit	¥11.0 bn	67 %	¥0.2 bn	3 %	¥10.3 bn	114 %
Ordinary Profit	¥11.7 bn	65 %	—	—	—	—
Profit attributable to owners of parent	¥3.6 bn	35 %	—	—	—	—

# [Domestic] Breakdown of Operating Profit

- Increased sales due to expansion of shopping and cash advance use due to revitalization of consumption
- Profit decreased due to an increase in bad debt related expenses associated with an increase in outstanding balances and sales promotion expenses to expand the customer base



## Main factors of variation

### [Operating revenue]

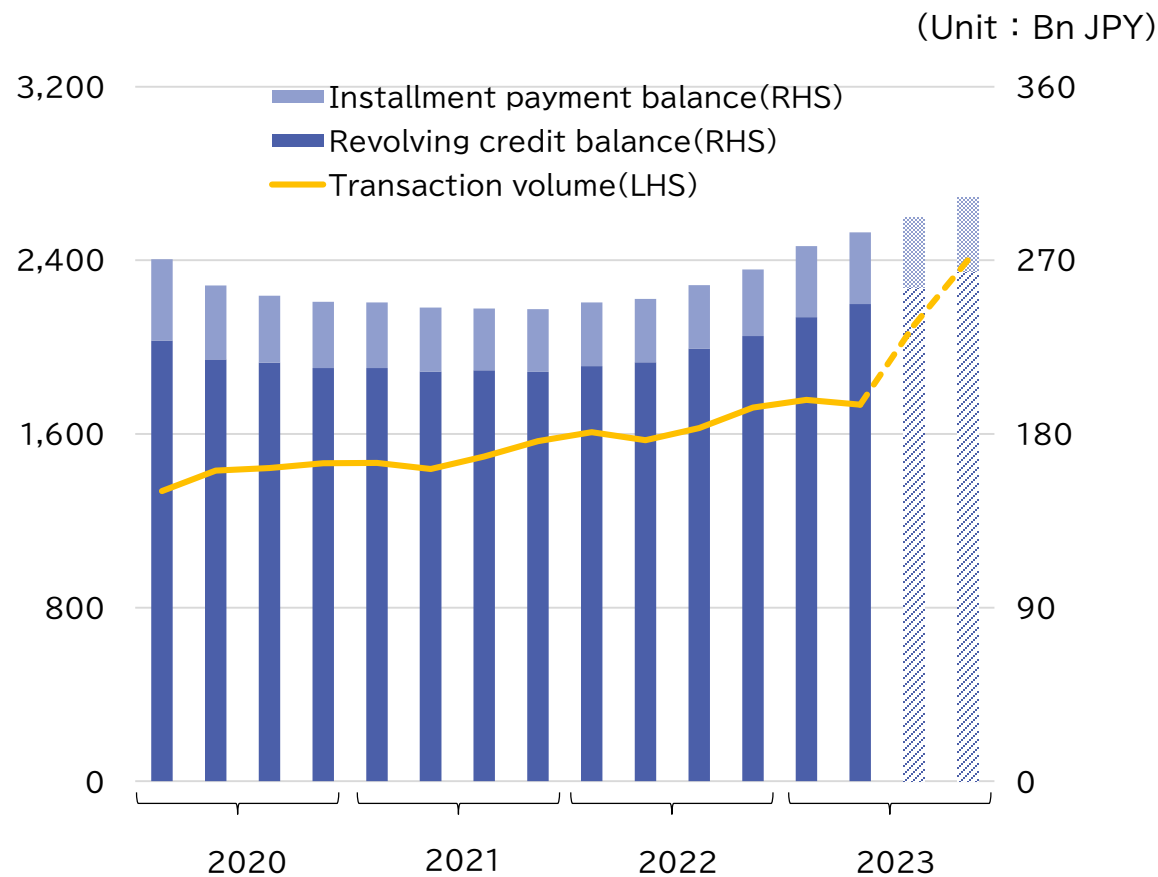
- Card Revenue +3.9 (Credit card business +2.7, financing +1.1)
- FeliCa Pocket Marketing Consolidated Impact +0.7
- Installment sales finance ▲0.5
- Insurance ▲0.6
- Revenue from services transactions in banking business ▲0.8

### [Operating expenses]

- Financial expenses +1.3 (Replacement of securities +¥1.1, Interest payments on foreign currency products +0.3)
- Promotion +3.8 (Online recruitment +0.9, promotion of card use +0.8, Branding +0.6)
- Bad debt related expenses +¥2.1 (Impact of receivables expand)
- Administrative expenses +3.3 (System operating cost +1.3, international brand fee +0.7, Consolidated impact of FeliCa Pocket Marketing +0.6)

# [Domestic] Shopping Transactions and Receivables

- Transaction volume was driven by travel and leisure as daily consumption recovered
- Revolving balances continue to grow at double-digit rates year-on-year due to the expansion of users



## Shopping Transaction Volume

- 1H results: ¥3,491.9bn (YoY 110%)
- Incorporation of micropayments with AEON Pay contributed
- Due to the increase in the number of Gold Card users and the number of registered payers of utility bills, etc., the use of the card as a main card is becoming more established

## Revolving and Installment Balance

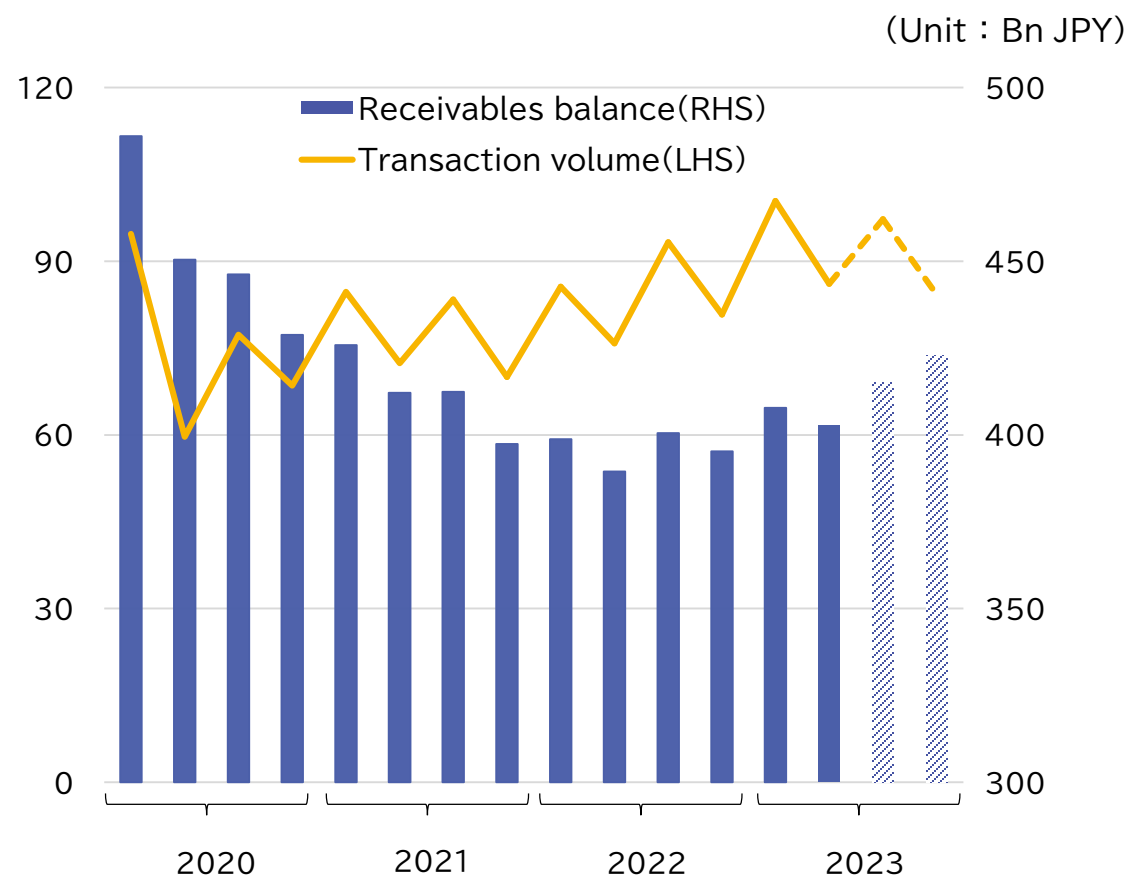
- 1H results: Revolving balance ¥247.4bn (YoY 114% / YTD +¥16.5bn)
- Installment balance ¥37.1bn (YoY 113% / YTD +¥2.6bn)

- Introduced a “repayment simulation function” that allows you to see the expected payment amount after the revolving payment change in advance.



# [Domestic] Cash advance transaction volume and receivables balance

- Approach to new and dormant members continues to drive double-digit yoy growth in transaction volume
- The balance also turned positive YoY from FY23 1Q and has been on an upward trend



## Cash Advances Transaction Volume

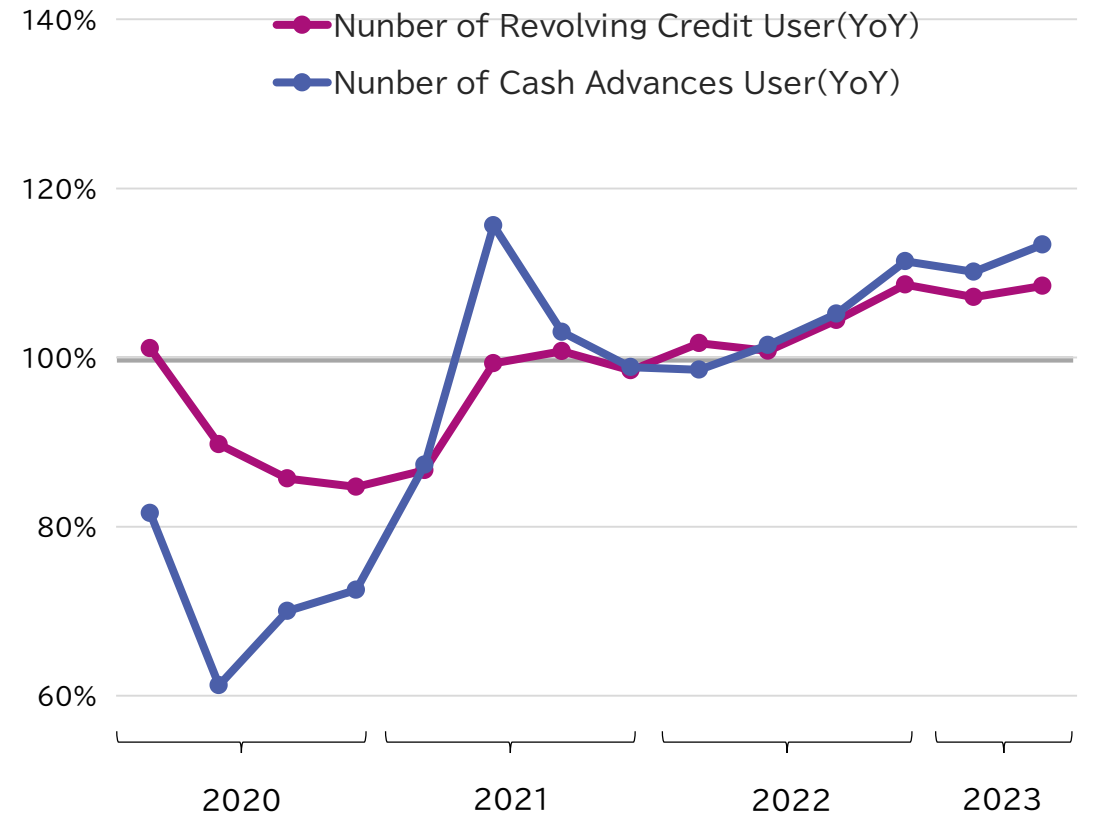
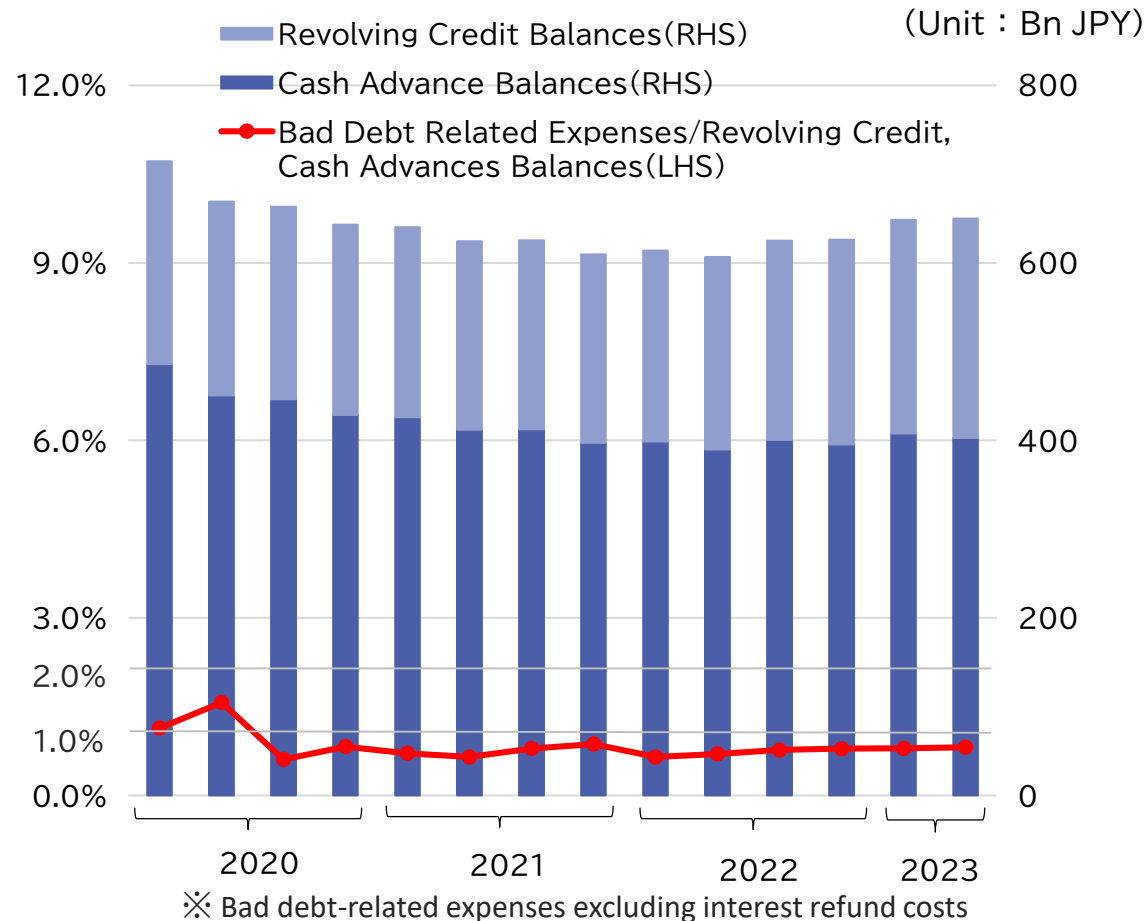
- 1H results: ¥186.2bn (YoY 115%)
- In addition to the recovery in personal fund demand, the optimization of credit lines, which had been tightened due to the pandemic, and the approach to dormant members were successful
- Online cash advances are expanded by appealing the benefits of instant transfer to a designated account at any time

## Cash Advances Balance

- 1H results: ¥402.6bn (YoY 103% / Initial difference + ¥7.3bn)
- In addition to an increase in transaction volume, the online change from lump-sum payment to revolving from this fiscal year contributed to improved customer convenience and increased balance

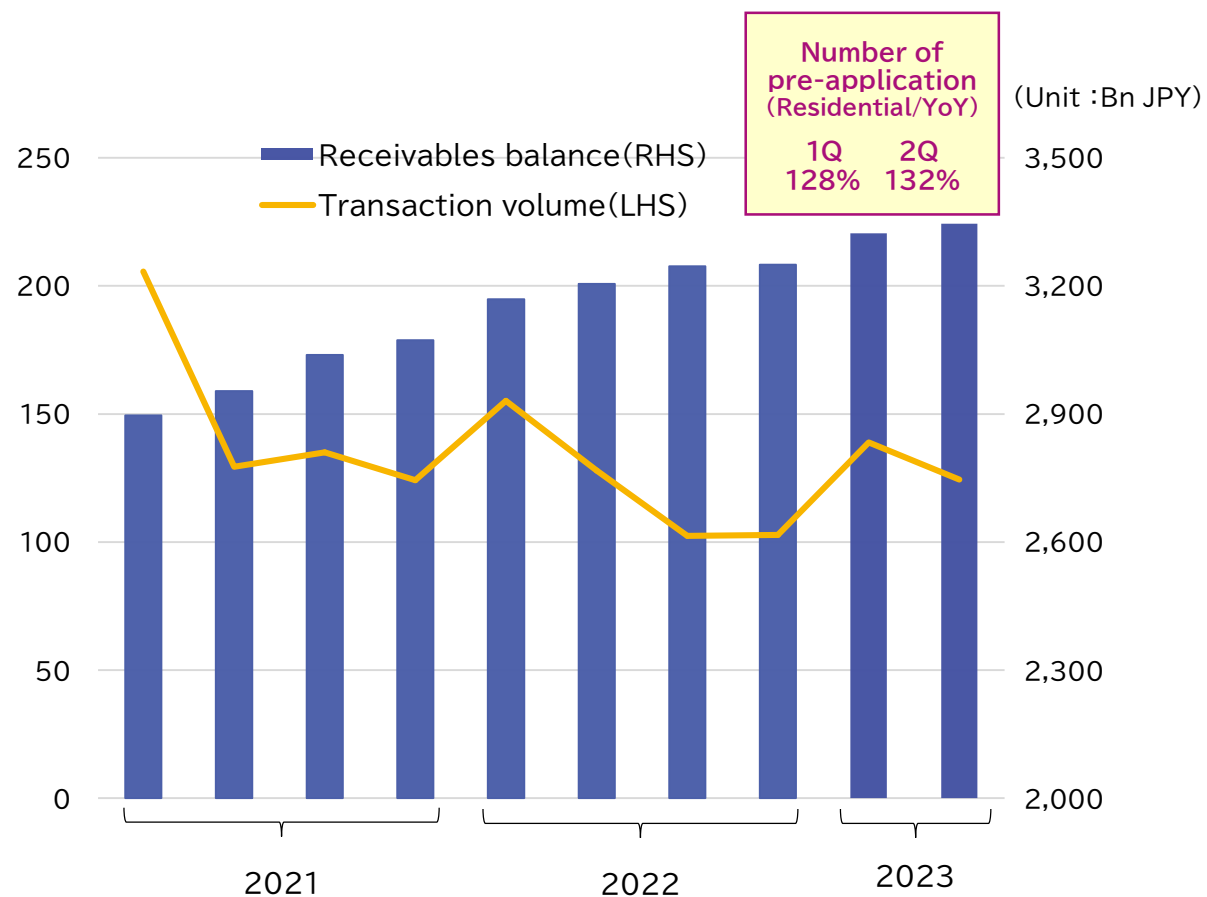
# [Domestic] Revolving Credit and Cash Advances, and Bad Debt Related Expenses

- The ratio of bad debt-related expenses to outstanding receivables remains low at less than 1%
- The number of users of both revolving and cash advances continued to increase, and the outstanding amount of receivables expanded



# [Domestic] Housing loan transaction and receivables balance

- Competitive interest rates and expanded AEON Select Club benefits led to a 30% year-on-year increase in pre-registrations
- Transaction volume is currently recovering, and balances are steadily accumulating.



## Housing loan transaction volume

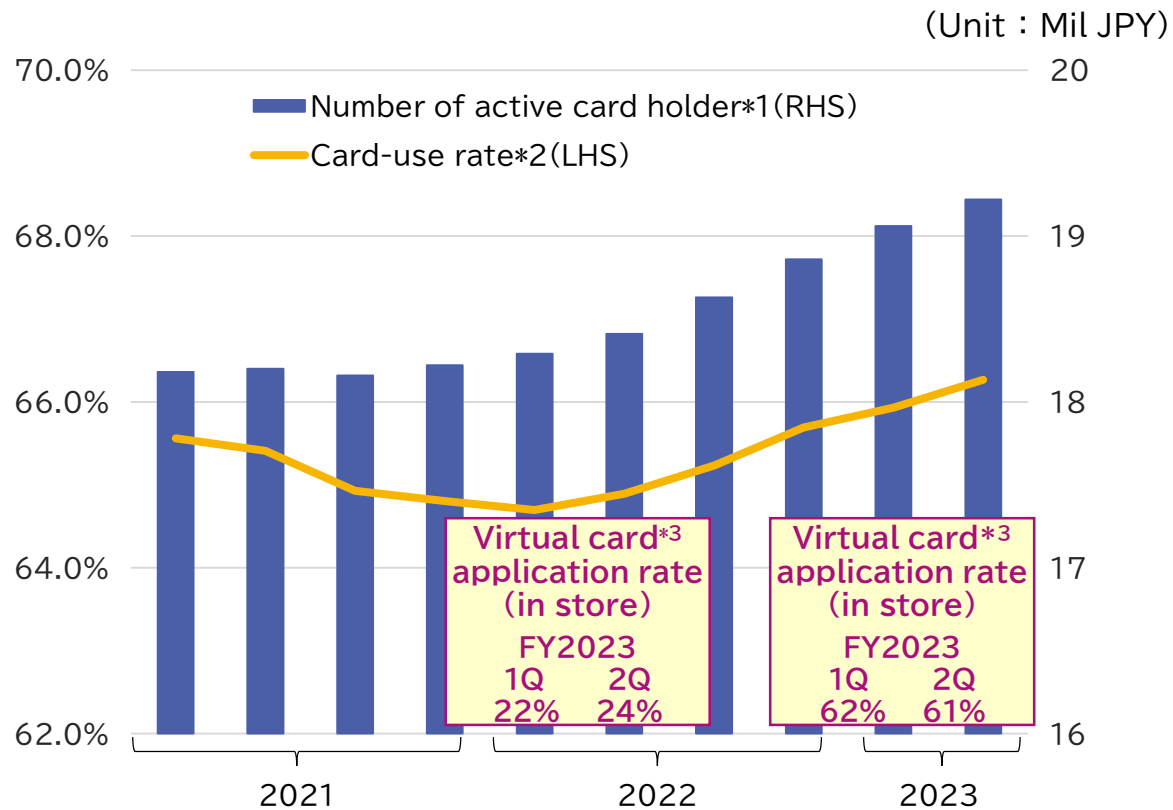
- 1H results : ¥263.2bn (YoY 93%)
  - Although the increase in new projects continues to take a long time from application to execution, the number of consultations is 130% yoy
  - With the introduction of the simulation function of AEON Select Club benefits and the appeal at stores and online results in recovery trend
- Residential loans in August was 117% yoy

## Housing loan balance (before securitization)

- 1H results : ¥3,425.1bn  
( Initial difference +105.0bn)
- Transaction volume decreased by YoY, but the balance steadily accumulated

# [Domestic] Status of ID expansion

- Although the acquisition of new members was sluggish, the number of active members increased due to the success of improving initial operation and promoting the use of gold cards



※1: number of cardholders who have used their cards at least once within the previous 12 months  
 ※2: number of active cardholders/Average number of cardholders in Domestic excluding affiliated card members (2022/9~2023/8)×100

## Number of new members acquired

- New cardholders acquired in the first half: 840,000 (YoY 96%)
- Due to delays in affiliated cards, the acquisition of new members decreased from the same period of the previous year
- The AEON Wallet app was renewed in September. Customers other than AEON Cardholders can also use AEON Pay to acquire future cardholders

## Number of active members

- 1H results : 19.22 million (YoY 104%)
- In order to improve the initial active rate after enrollment, we promoted the registration of virtual cards at the time of in-store enrollment and the use of gold cards with a high active rate

# Global Business by Segment 1H Performance Highlights

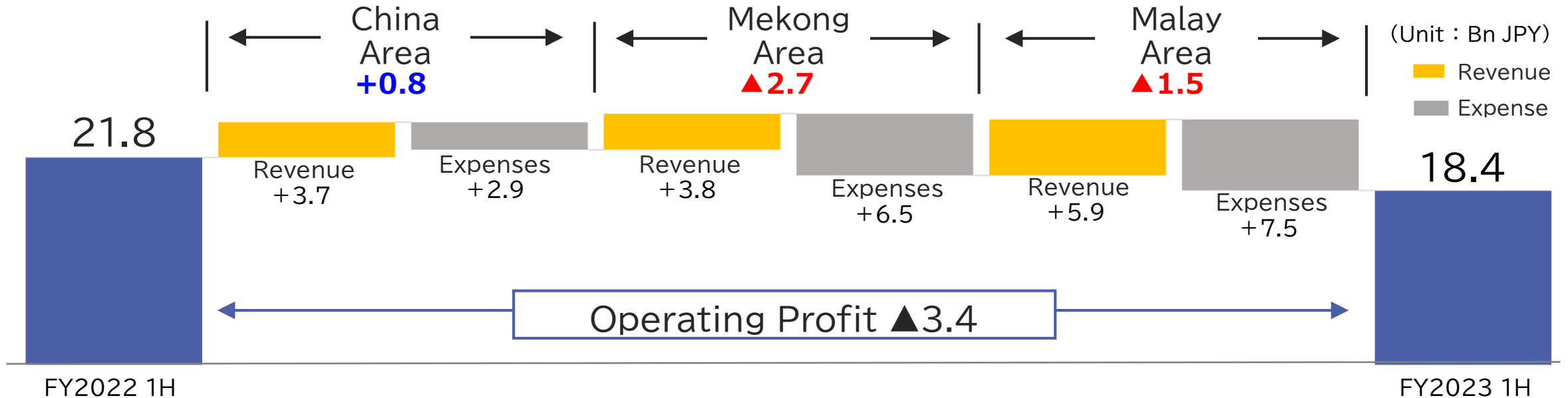
- Operating revenue increased in all three and sales and profits continued to increase in China area
- In the 2Q accounting period, profits also increased in the Malay area, and the Global business also turned to higher revenues and profits

1H cumulative period	China area	YoY	Mekong area	YoY	Malay area	YoY
Operating revenue	¥14.2bn	136 %	¥45.0bn	109 %	¥34.8bn	121 %
Operating profit	¥4.2bn	125 %	¥6.8bn	72 %	¥7.3bn	82 %
<Reference> Bad debt related expenses	¥2.9bn	198 %	¥16.6bn	130 %	¥9.5bn	156 %

2Q accounting period	China area	YoY	Mekong area	YoY	Malay area	YoY
Operating revenue	¥7.5bn	128 %	¥23.3bn	112 %	¥17.9bn	121 %
Operating profit	¥2.1bn	112 %	¥4.1bn	95 %	¥4.0bn	145 %
<Reference> Bad debt related expenses	¥1.7bn	195 %	¥8.1bn	116 %	¥4.3bn	89 %

# [Global]1H Operating Profit Breakdown

- The main reason for the decline in the previous FY was an increase in bad debt related expenses in the Mekong and Malay area



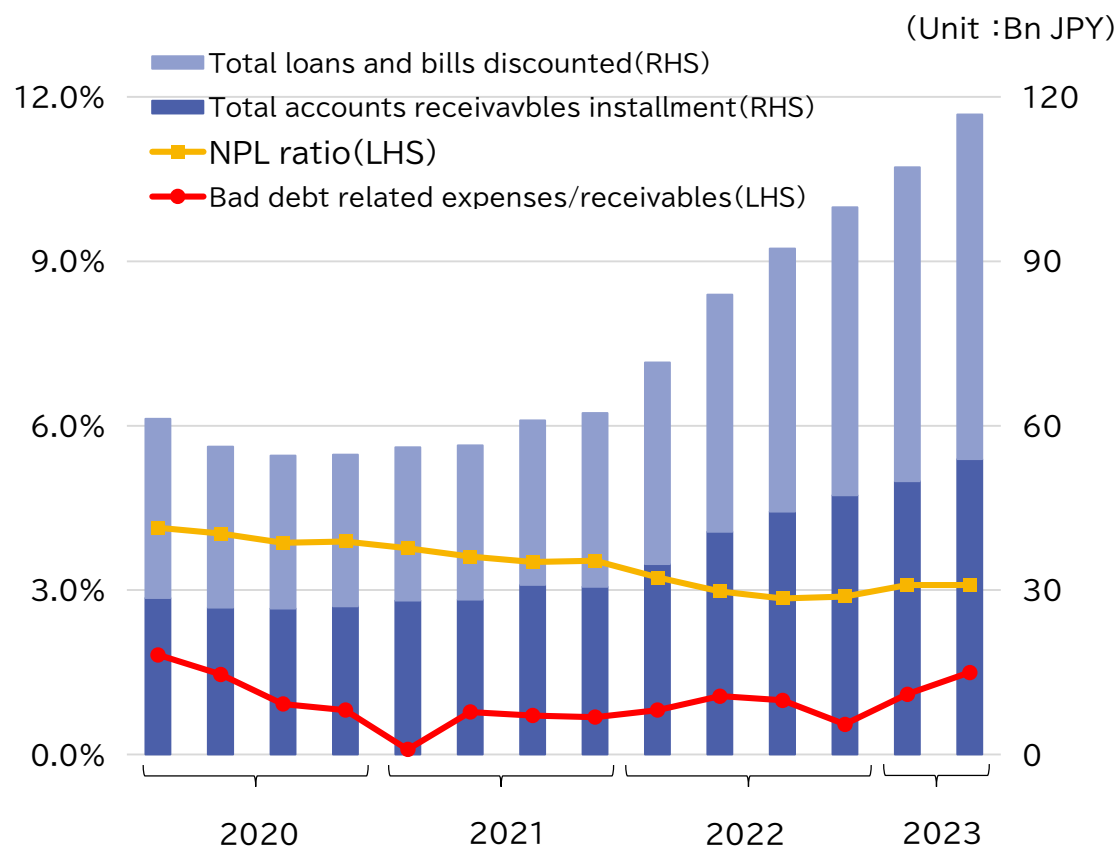
FY2022 1H

FY2023 1H

Main Factor of variation	FY2022 1H		FY2023 1H	
	Item	Value	Item	Value
Main Factor of variation	<b>[Operating Revenue]</b>		<b>[Operating Revenue]</b>	
	•Credit card business	+2.2	•Credit card business	+0.6
	•Financing	+1.5	•Financing	+2.1
			•Recoveries of written off receivables	+0.8
	<b>[Operating Expenses]</b>		<b>[Operating Expenses]</b>	
	•Bad debt related exp.	+1.4	•Bad debt related exp.	+3.8
•Financial	+0.5	•Financial	+1.1	
•Administrative	+0.3	•Administrative	+0.7	
		<b>[Operating Revenue]</b>		
		•Installment finance	+3.3	
		•Financing	+1.9	
		<b>[Operating Expenses]</b>		
		•Bad debt related exp.	+3.4	
		•Financial	+0.8	
		•Personnel	+0.9	
		•Administrative	+0.7	
		•Digital Bank	+1.0	

# [Global] Operating Receivables and NPL of ACS Asia (HK)

- Outstanding receivables increased steadily to YoY 139%
- Take preventive measures against sudden bankruptcy risk and expect bad debt related expense to peak out in the 2H of the FY



## External environment

- CPI rises for 32 consecutive months (as of Aug. 2023)
- Policy rates rose to 5.75% in July, +0.25% in line with US rates

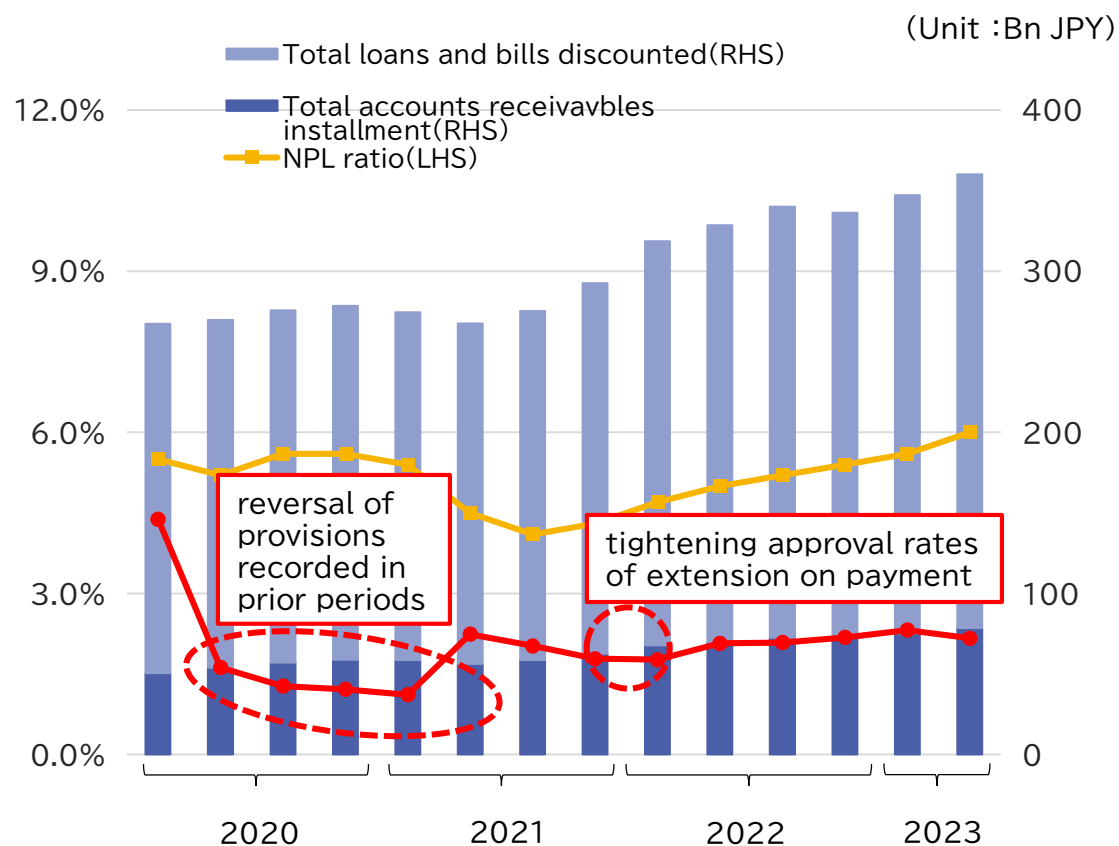


## Impact on bad debt-related expenses

- Outstanding operating receivables YoY 139% YTD +16.9 bn
- NPL ratio increased slightly due to increase in outstanding receivables
- ⇒ Utilize bankruptcy prediction scores to discuss restructuring contracts with customers who are concerned about future bankruptcy and reduce the risk of sudden bankruptcy

# [Global] Operating Receivables and NPL of AEON Thana Sinsap

- NPL ratio continues to rise, but revision of provision rate calculation method controls bad debt related expenses



## External environment

- CPI rises for 24 consecutive months (as of Aug. 2023)
- Minimum wage will remain unchanged from Oct. 2022
- GDP growth in April-June '23 was positive but lower than the previous quarter

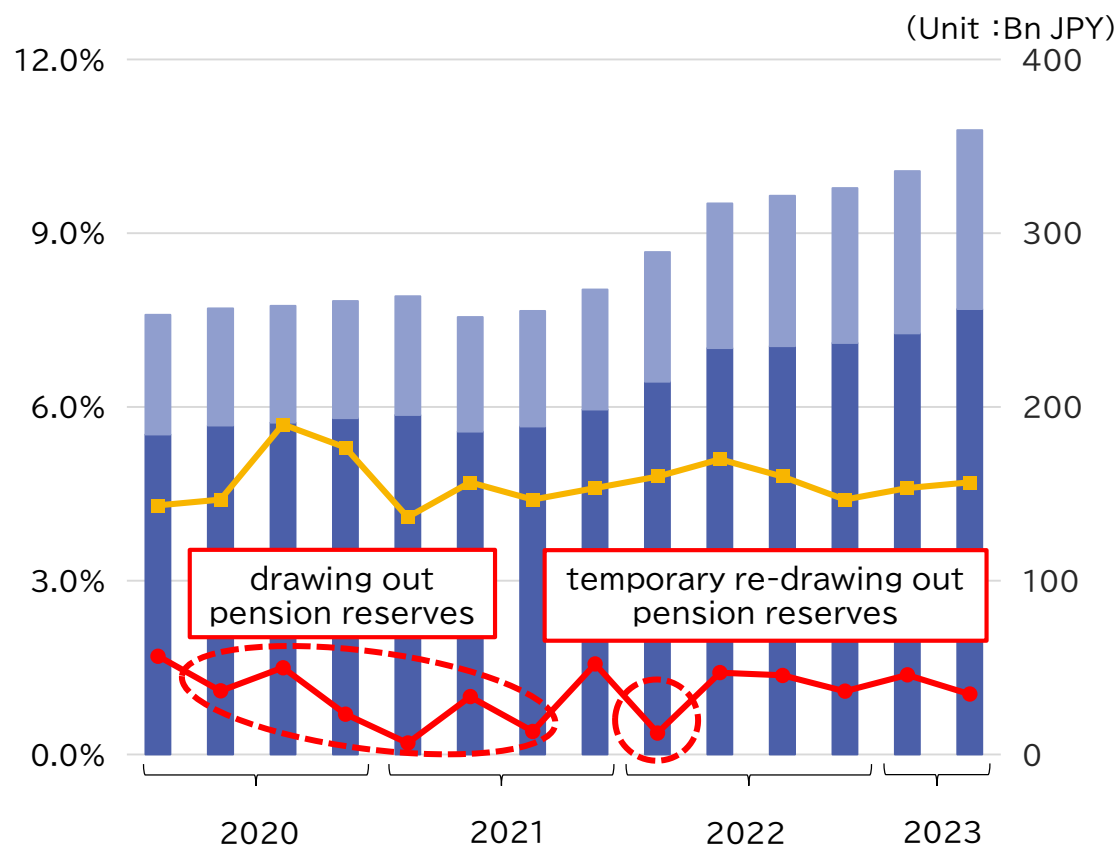
## Impact on bad debt-related expenses

- Outstanding operating receivables YoY110% YTD+23.8bn
- The unemployment rate among young people in particular continues to be high, and the NPL ratio is rising in the market as a whole
- The revision of the provision rate calculation method lowered the QoQ bad debt related expense ratio
- ⇒ The new administration has set policies to raise the minimum wage and reduce the household debt of the people, and the current cost of living burden is showing signs of improvement. Increase the credit ratio to middle-income earners with stable incomes and aim to expand the outstanding balance of receivables while balancing credit costs.



# [Global] Operating Receivables and NPL of ACS Malaysia

- In the 1Q of the previous FY, bad debt related expenses improved significantly due to special factors
- Outstanding receivables mainly personal loans steadily expanded, but NPL ratio remained stable



## External environment

- CPI rises for 31 consecutive months (as of Aug. 2023)
- GDP growth in April-June' 23 was positive, but slowed for three consecutive quarters

## Impact on bad debt-related expenses

Outstanding operating receivables YoY113% YTD+33.3bn

- The NPL ratio remained stable, and the QoQ bad debt related expense ratio also declined due to the expansion of normal loans and the renewal of the provision ratio
- ⇒ Average wages are currently rising, and screening accuracy has been improved by expanding the use of e-KYC and introducing biometric authentication to merchants Lower credit costs while expanding personal loans and individual installments.

## 2 Priority Measures

# Environment Surrounding the Company and the Direction of Initiatives

- Re-organize Domestic business and reform overseas business models in order to maximize the value provided to customers

**External Environment :** Digitalization / Price Rise / Interest Rate Fluctuation / Wage Increase / Recovery of People Flow / Climate Change

**Internal Environment :** Continuation of upfront investment ( 【Domestic】 Points / Insurance 【Global】 Digital Bank )

## Domestic Business Restructuring

- ① Improve profitability by strengthening sales capabilities
- ② Improve productivity through deduplication
- ③ Cross-sell propulsion

Strengthening sales capabilities

Productivity improvement

Strengthening Governance

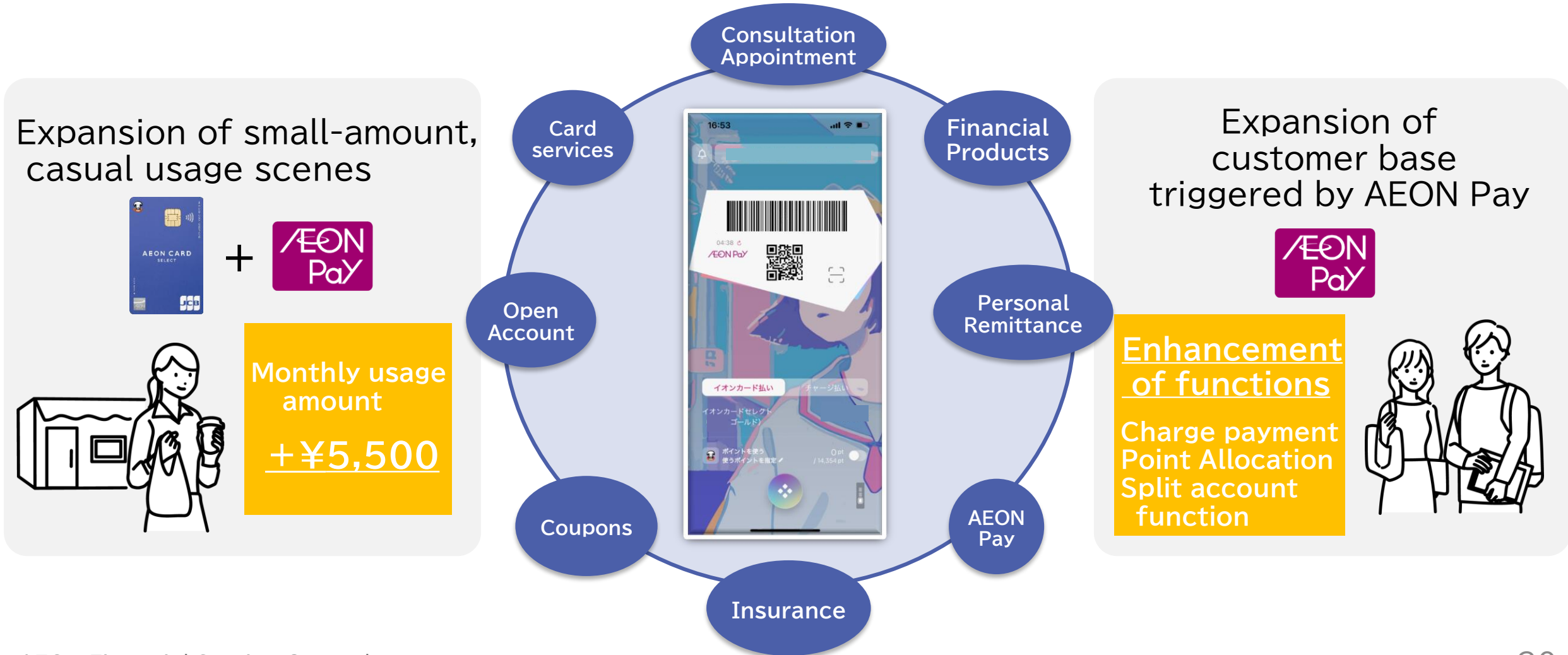
## Overseas Business Model Reform

- ① Process transformation through digitalization
- ② Strengthening screening and collection by utilizing AI
- ③ Prospect new revenue source

**Maximize the value provide to customers**

# [Domestic] Expansion of Touchpoints (AEON Wallet)

- Expanding the functions of the AEON Wallet app according to the customer's lifestyle
- Expand new customer base and promote cross-selling by accumulating data through apps



# [Domestic] Expansion of the Economic Zone (Strengthening of Regional Cooperation)

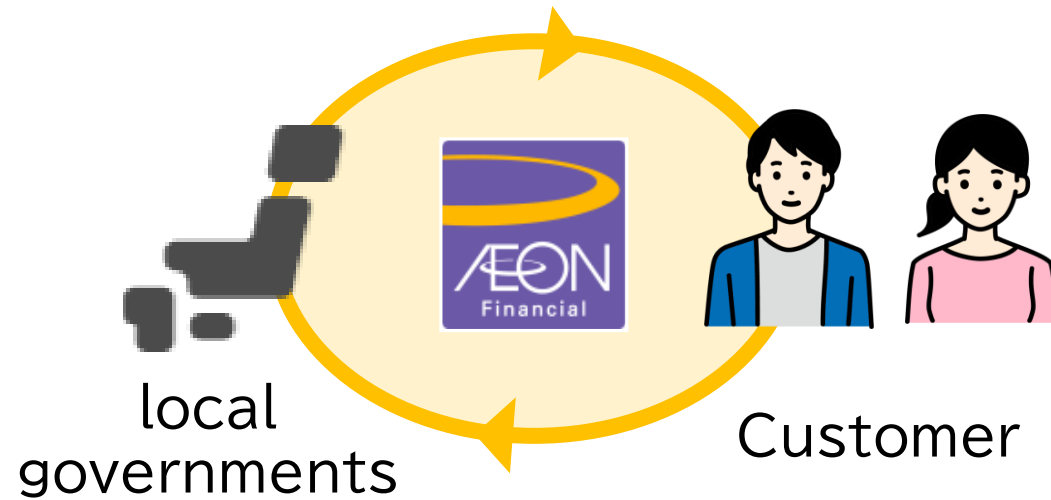
- Consolidated FeliCa Pocket Marketing, which provides Community Currency and apps
- Expanding community-based services to local governments



Hometown tax payment



Projects encourage consumer spending



local governments

Customer



Community Currency



Community Apps

# [Global] Control of bad debt related expenses

- Enhance sophistication at each transaction stage to strengthen control of bad debt expenses

## Application

- Thorough identity verification through e-KYC(Thailand, Malaysia)
- Introduction of biometric authentication to merchants (Malaysia)

## Screening

- Using bankruptcy prediction score (Hong Kong)
- Creating a new AI scoring model (Thailand)

## Collection

- Improving Collection Efficiency with AI Talkbot (Thailand)

## Utilization of AI Talkbots

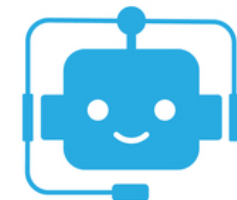


Improving collection efficiency with AI Talkbots (Thailand)

Classification according to past trends and credit risk



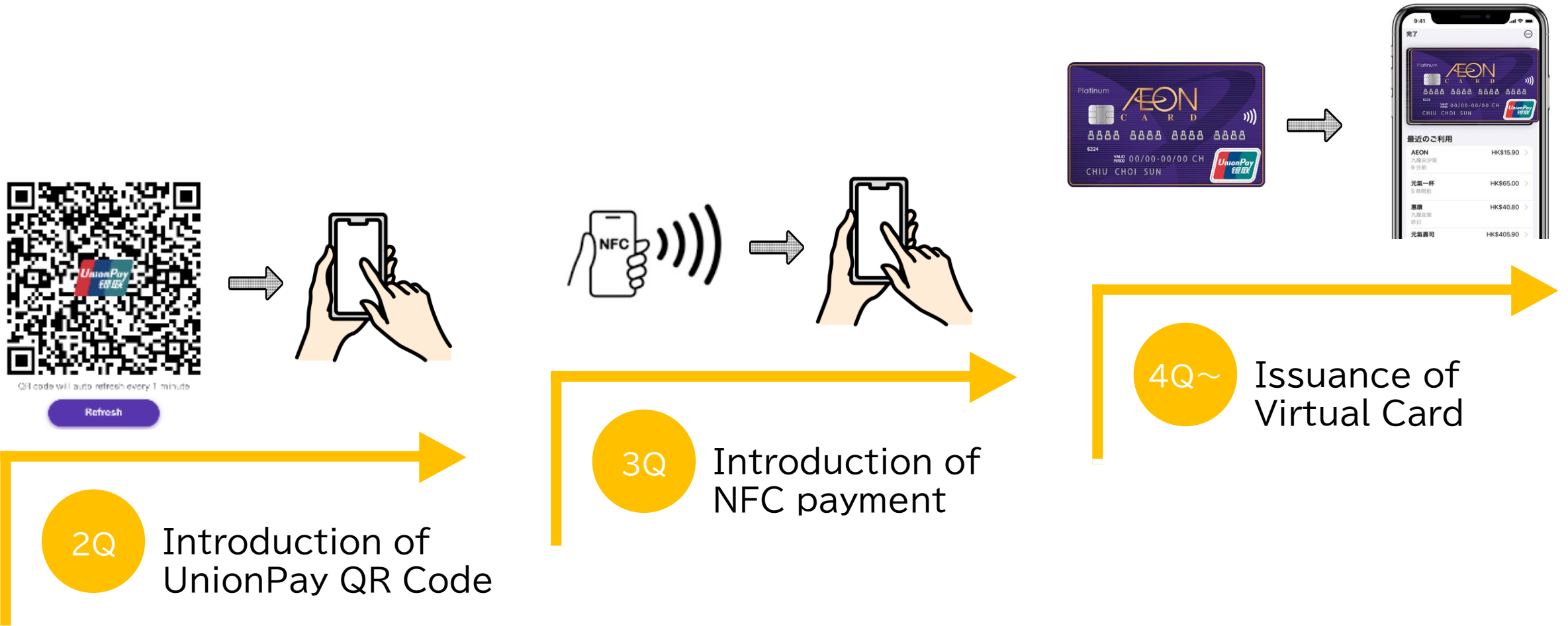
Employees focus on highly negotiated projects



- AI-based call support for some collection operations
- Scheduled to be introduced after the 4Q

# [Global/Hong Kong] Expansion of payment opportunities

- Expand mobile payment capabilities to improve customer experience



# [Global/Thailand] Expansion of payment opportunities

- Incorporate the code payment function into the company's app to acquire new customers and expand transaction volume

Introduced

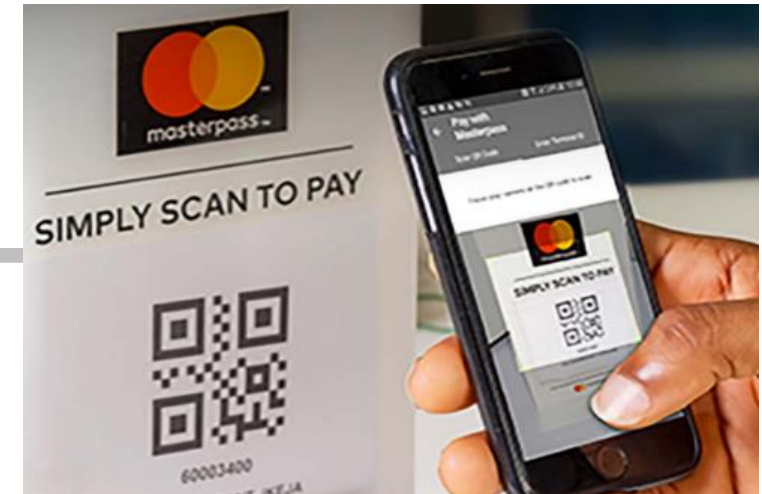


Prompt Pay



Payment Apps  
in Thailand

Scheduled to be introduced  
after the 3Q



Scan to pay

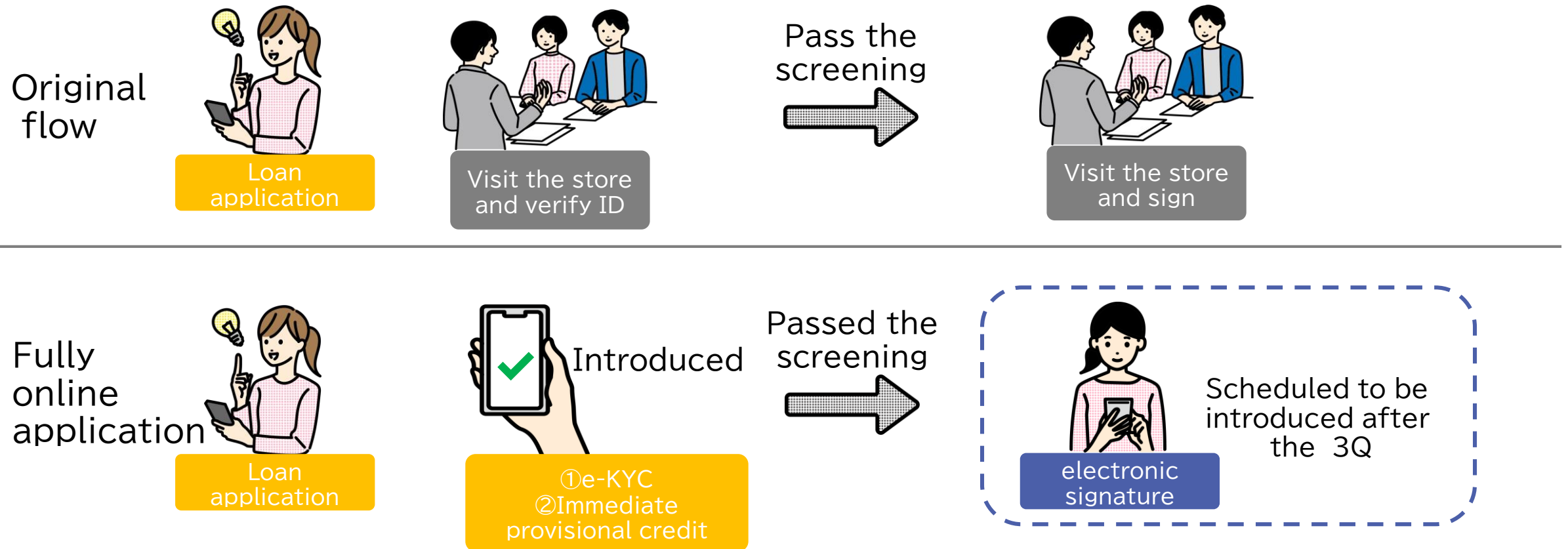
In Thailand, where the cashless ratio is about 60%

QR code payments through AEON Thana Sinsap's app will be possible in more places



# [Global/Malaysia]Expansion of revenues

- Completely online application flow improves the convenience of personal loans



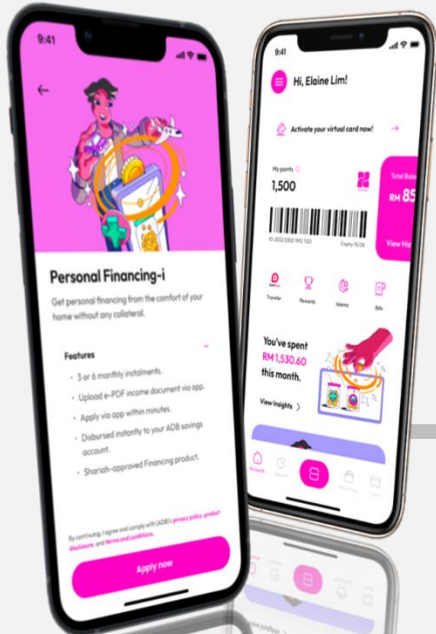
In the conventional operation, it was necessary to visit the store in the flow from application to payment, but it is no longer necessary

In addition to individual installments, personal loans will also be fully online

# [Global/Malaysia] New Business Models

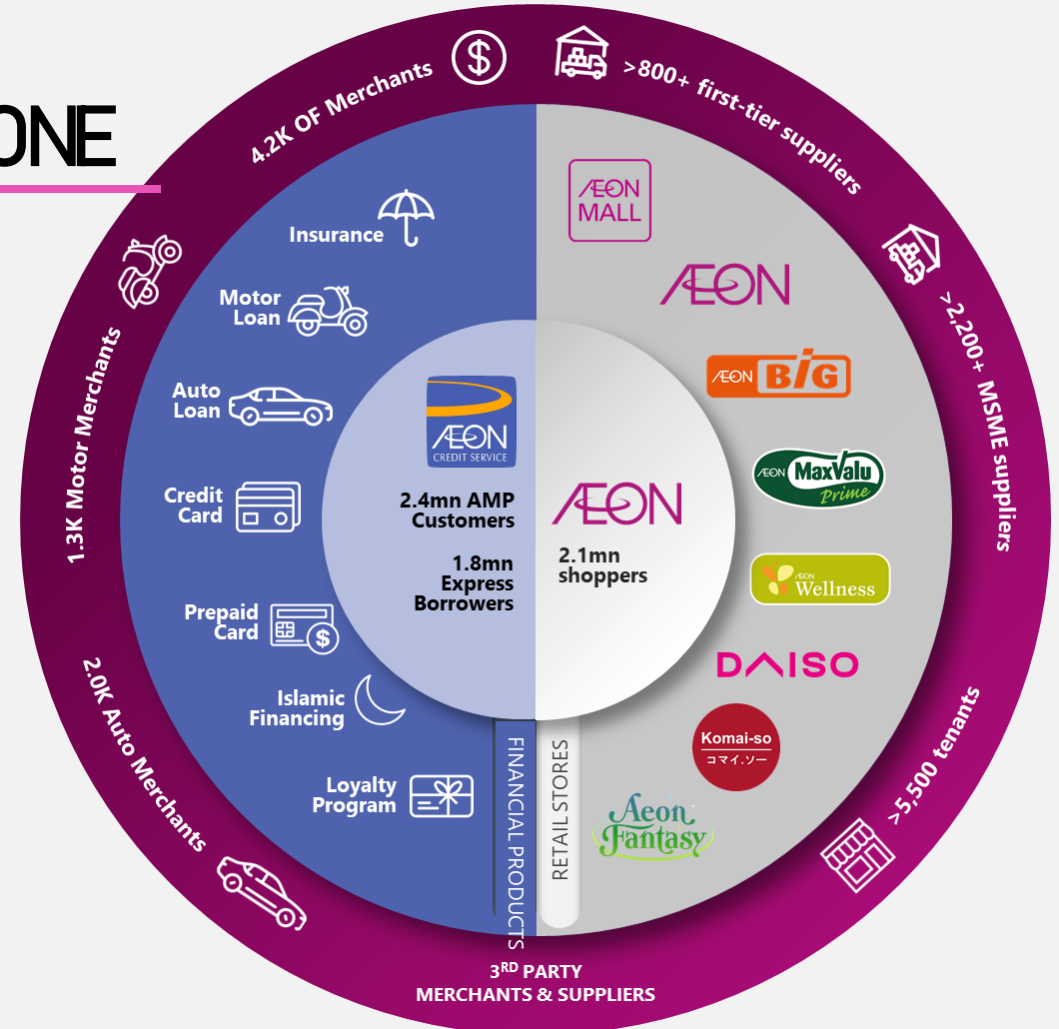
- AEON Digital Bank caters for our own ecosystem

## ACTIVATING THE AEON LIVING ZONE



We look to provide our own customers all their financial needs

※Image is for illustration purposes



# 3 Earnings and Dividend Forecasts

# FY2023 earnings forecast, dividend forecast

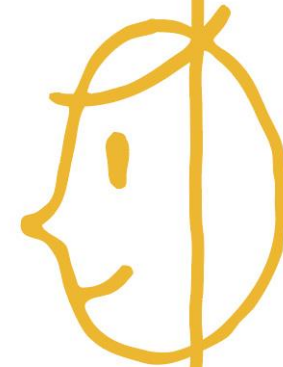
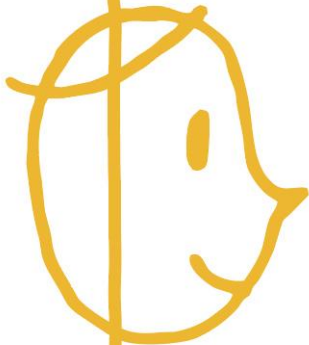
- There is no change in earnings and dividend forecasts

	Consolidated	YoY	Dividend forecast			
			Domestic	YoY	Global	YoY
Operating Revenue	¥480.0 bn	106 %	¥290.0 bn	103 %	¥190.0 bn	112 %
Operating Profit	¥61.0 bn	104 %	¥19.0 bn	111 %	¥43.0 bn	101 %
Ordinary Profit	¥61.0 bn	99 %	Dividend per share		Payout ratio	
Profit attributable to owners of parent	¥27.0 bn	88 %	Annual: ¥53	Interim: ¥25 Year-end: ¥28	42.4 %	

# Our Purpose

**Our purpose is to bring  
“finance” closer to everyone.**

**By committing  
to each and every person,  
we brighten up everyday lives  
with peace of mind and smiles.**





# Appendix

# Consolidated Balance Sheet

(Unit : billions of yen)	FY 2023			FY 2023	
	Results	YTD		Results	YTD
Cash and deposits	698.0	△ 144.5	Deposits	4,506.0	+108.1
Operating Loans	899.9	+54.6	Accounts payable-trade	286.8	+31.1
Loans and bills discounted for banking business	2,235.7	+74.9	Interest-bearing debt (excl. deposits)	1,295.1	+84.5
Accounts receivables-installment	1,933.3	+163.7	Other	263.6	+9.5
Allowance for doubtful accounts	△ 128.4	△ 1.0	Total liabilities	6,351.6	+233.3
Other	1,274.5	+105.8	Total net assets	561.5	+20.3
Total assets	6,913.2	+253.7	Total liabilities and net assets	6,913.2	+253.7

# Results by Segment

(Unit : billions of yen)	Domestic Total ※1			Global Total ※1				Consol. Total ※2
		Retail	Solutions		China Area	Mekong Area	Malay Area	
Operating Revenue	144.2	85.7	93.0	94.2	14.2	45.0	34.8	237.5
YoY	102%	100%	109%	117%	136%	109%	121%	107%
Operating Profit	1.6	0.4	2.2	18.4	4.2	6.8	7.3	20.2
YoY	16%	10%	35%	84%	125%	72%	82%	64%
Operating Profit Ratio	1.1%	0.5%	2.4%	19.6%	29.9%	15.3%	20.9%	8.5%
Change	▲5.9pt	▲4.3pt	▲4.9pt	▲7.5pt	▲2.5pt	▲8.0pt	▲9.7pt	▲5.8pt

Reference: The impact on earnings due to securitization ¥7.1 bn (+¥0.3bn compared to the same period of the previous year)

※1 Total of Domestic and Global figures amounts after elimination of transactions between segments

※2 Include Holding company, Shared functions and elimination of Consolidated adjustments



# Results by Area

(Unit : billions of yen)		Transaction volume	YoY	Operating receivables	
				(Before securitization)	YTD
Domestic	Credit card	3,678.2	110%	1,709.2	+116.4
	Shopping	3,491.9	110%	1,306.5	+109.1
	Cash advances	186.2	115%	402.6	+7.3
	Installment finance	103.5	106%	733.8	+10.7
	Housing loan	263.2	93%	3,345.6	+95.9
	Others	-	-	1102.9	+101.2
	Total	-	-	6,971.1	+333.5
Global	Credit card	280.1	120%	295.2	+27.8
	Shopping	207.8	124%	148.1	+12.2
	Cash advances	72.3	110%	147.1	+15.6
	Installment finance	68.7	119%	275.4	+21.7
	Personal loans	98.0	123%	308.9	+28.6
	Total	-	-	879.6	+78.2

## 2Q Cumulative Results of 3 Overseas Listed Companies (Local Currency)

		FY 2022	FY 2023	
		Results	Results	YoY
AEON CREDIT SERVICE (ASIA) HK\$' 000	Revenue	571,730	783,109	137%
	Profit before tax	211,111	230,865	118%
	Profit for the period	176,774	191,426	117%
AEON THANA SINSAP (THAILAND) BAHT' 000	Revenue	10,960,066	11,135,562	102%
	Profit before tax	2,619,571	1,887,040	72%
	Profit for the period	2,090,039	1,507,735	72%
AEON CREDIT SERVICE (M)Berhad RM' 000	Revenue	789,442	924,404	117%
	Profit before tax	315,582	291,145	92%
	Profit for the period	238,718	219,552	92%

## 2Q Cumulative Results of 3 Overseas Listed Companies (Yen conversion)

		FY 2022	FY 2023		Exchange rates
		Results	Results	YoY	
AEON CREDIT SERVICE (ASIA)	Operating Income	9.4bn	13.9bn	148%	<u>(JPY / HKD)</u> ・ FY2022 2Q : ¥16.49 ・ FY2023 2Q : ¥17.79
	Operating Profit	3.4bn	4.1bn	118%	
	Net Income	2.9bn	3.4bn	117%	
AEON THANA SINSAP (THAILAND)	Operating Income	40.8bn	44.7bn	110%	<u>(JPY / THB)</u> ・ FY2022 2Q : ¥3.73 ・ FY2023 2Q : ¥4.02
	Operating Profit	9.7bn	7.5bn	78%	
	Net Income	7.7bn	6.0bn	78%	
AEON CREDIT SERVICE (M)Berhad	Operating Income	23.4bn	28.3bn	121%	<u>(JPY / MYR)</u> ・ FY2022 2Q : ¥29.70 ・ FY2023 2Q : ¥30.69
	Operating Profit	9.3bn	8.9bn	95%	
	Net Income	7.0bn	6.7bn	95%	

# Transaction Volume and Operating Receivables of Global Business

(Unit : billions of yen)		China Area (Hong Kong)		Mekong Area (Thailand)		Malay Area		Global Business	
			YoY (Change)		YoY (Change)		YoY (Change)		YoY (Change)
Credit card	Transaction volume	<b>104.1</b>	133%	<b>146.8</b>	114%	<b>29.0</b>	114%	<b>280.1</b>	120%
	Operating Receivables	<b>89.7</b>	+24.3	<b>180.0</b>	+22.3	<b>25.4</b>	+2.8	<b>295.2</b>	+49.5
Installment finance	Transaction volume	-	-	<b>10.6</b>	150%	<b>58.0</b>	115%	<b>68.7</b>	119%
	Operating Receivables	-	-	<b>27.9</b>	+3.1	<b>247.4</b>	+24.7	<b>275.4</b>	+27.8
Personal loans	Transaction volume	<b>14.2</b>	128%	<b>52.0</b>	111%	<b>31.6</b>	147%	<b>98.0</b>	123%
	Operating Receivables	<b>27.0</b>	+8.5	<b>178.3</b>	+8.1	<b>103.6</b>	+20.1	<b>308.9</b>	+36.8
Total	Transaction volume	<b>118.4</b>	132%	<b>209.6</b>	114%	<b>118.8</b>	122%	<b>446.9</b>	121%
	Operating Receivables	<b>116.7</b>	+32.8	<b>386.3</b>	+33.6	<b>376.5</b>	+47.7	<b>879.6</b>	+114.2

## Allowance for Doubtful Accounts and Provision for Loss on Interest Repayment by Segments

### [Allowance for Doubtful Accounts ]

(Unit : billions of yen)	Domestic			Global Total	Global			Consol. Total
	Total	Retail	Solutions		China Area	Mekong Area	Malay Area	
Allowance for doubtful accounts balance at beginning of period	57.1	3.8	53.7	69.4	3.3	40.7	25.3	127.4
Provision of allowance for doubtful accounts	10.4	▲ 0.3	10.7	29.1	2.9	16.6	9.5	39.5
Write-off of doubtful accounts (including transferred debt)	13.4	0.0	13.4	25.0	1.8	13.6	9.5	38.5
Allowance for doubtful accounts balance at end of period	54.0	3.4	51.0	73.4	4.3	43.6	25.4	128.4

※Balance at end of period of Domestic Subsidiaries

<Retail> AEON Bank:3.4

<Solutions> AEON Financial Service:37.2、  
AEON Product Finance:8.4、  
AEON Housing Loan Service:1.2

### [Provision for Loss on Interest Repayment ]

(Unit : billions of yen)	FY2022 2Q	FY2023 2Q
Beginning of period	6.4	4.8
Provision	-	-
Interest Repayment	1.5	1.5
End of period	4.9	3.2

Statements contained in this report with respect to the Company's management strategies, business policies and results forecasts are forward-looking statements about the future performance of the Company, which are based on the assumptions and beliefs in light of the information currently available. These forward-looking statements involve various uncertain factors including known and unknown risks such as economic trends, industry competition, market demand, exchange rates, tax and other systems that may cause the Company's actual results, performance or achievements to differ materially from the expectations expressed herein.



# AEON Financial Service