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Orient Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending March 2020

November 6, 2019

Event Summary

[Company Name]	Orient Corporation	
[Event Type]	Earnings Announcement	
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2020	
[Fiscal Period]	FY2019 Q2 (Six months Ended September 30, 2019)	
[Date]	November 6, 2019	
[Number of Pages]	22	
[Time]	10:59 – 11:54 (Total: 55 minutes, Presentation: 29 minutes, Q&A: 26 minutes)	
[Venue]	3F Orico Head Office, 5-2-1 Kojimachi Chiyoda-ku, Tokyo 102-8503	
[Venue Size]		
[Participants]	90	
[Number of Speakers]	4	
	Masaaki Kono	President and Representative Director
	Hideyuki Matsuoka	Executive Manager
	Masaru Kakuchi	General Manager
	Takaharu Kikuchi	General Manager

Moderator: Thank you for waiting. Welcome to the briefing session of Orient Corporation for the second quarter of the fiscal year ending March 2020. Thank you for joining us despite your busy schedule. I'm Murata from the Corporate Planning Department and am serving as moderator today.

First of all, please check the materials on hand. There are five kinds of materials. From top to bottom, the first is the Power Point material of A4 horizontal, which is the financial results briefing material. Today, we will explain mainly according to this material. The second is the A4 vertical financial summary. The third is the financial highlights of A3 horizontal. The fourth is the disclosure document, the announcement concerning partial redemption and cancellation of preferred stock as of October 30th. The fifth is a questionnaire for today's financial results briefing.

Now, I will explain today's schedule. First, Kono, President and Representative Director, will explain in accordance with the material of A4 horizontal in color, "the material of the briefing for the second quarter of the fiscal year ending March 31, 2020". After the presentation is completed, we will have a time for questions. This briefing is scheduled to be completed at 12:00.

Before starting the presentation, please let me introduce the attendees of the briefing today. First, Kono, President and Representative Director, who is at the far left. Next, to the right is Matsuoka, Executive Manager and General Manager of the Corporate Planning Department. Next, to the right is Kakuchi, General Manager of the Finance Department. And, at the far right is Kikuchi, General Manager of Corporate Communication Department.

Now, we are starting the presentation by Kono, President and Representative Director.

Kono: Hello, everyone. We would like to thank you for participating in our financial results briefing today, despite your busy schedule. Today, I, Kono, will present to you. Thank you for your cooperation.

We will proceed based on "the material of the briefing for the second quarter of the fiscal year ending March 31, 2020", which is prepared as A4 horizontal in color.

Please turn the cover and you will see the table of contents on page one.

We will start with the financial results details of the second quarter of the fiscal year ending March 2020, following our initiatives to achieve the management targets of the Medium-term Management Policy, and then the Shareholder Return Policy.

決算の概要

	20/3期 上期	前年 同期差	増減率	主な要因	通期計画 進捗率	20/3期 通期計画※
営業収益	1,226	73	6%	カードショッピング、個品割賦 が伸長	51%	2,400
営業費用	1,066	27	3%	貸倒関係費が減少したものの、 一般経費が増加	50%	2,150
経常利益	159	45	40%	-	64%	250
当期純利益	129	△ 72	△ 36%	主に前年同期に繰延税金資産を 追加計上したこと等により減益	62%	210

※2019年5月9日に公表した業績予想から変更はありません

I would like to explain the second quarter results. Please turn the page and see page three.

This fiscal year marks the first year of the new three-year medium-term management policy, and I believe that the first half of the fiscal year, the start of this plan, has begun smoothly. This is an overview of the financial results.

Operating revenues amounted to 122.6 billion yen, an increase of 7.3 billion yen, or 6%, year-over-year, due to growth in credit card shopping and installment credit. Operating expenses amounted to 106.6 billion yen, an increase of 2.7 billion yen year-over-year, mainly due to an increase in general expenses despite a decrease in bad debt-related expenses. As a result, ordinary profit was 15.9 billion yen, an increase of 4.5 billion yen, or 40%, year-over-year. Profit attributable to owners of parent was 12.9 billion yen, a decrease of 7.2 billion yen year-over-year, but this was mainly due to the recording of additional deferred tax assets in the same period of the previous fiscal year.

The table on the right shows the full-year forecast and the progress rate against it. Ordinary profit reached 64% and profit attributable to owners of parent reached 62% of the target. We have not revised its full-year forecast announced on May 9, 2019, in light of the current economic environment and uncertainties on consumption trends after the consumption tax hike.

営業収益の状況

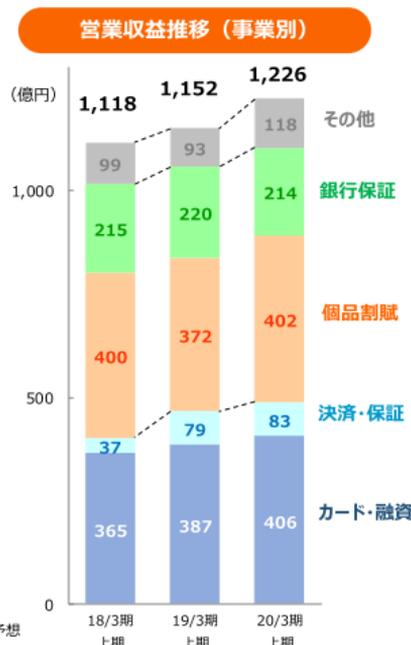
【成長事業】カードショッピング、決済・保証ともに増収。(前年同期比+5%)

【基幹事業】個品割賦は増収。銀行保証は残高減少により減収。(前年同期比+4%)

(億円)		20/3期 上期	前年 同期差	増減率	20/3期 通期計画
営業収益		1,226	73	6%	2,400
成長事業	カード・融資	406	19	5%	805
	カードショッピング	278	24	10%	533
	融資	128	△ 5	△ 4%	272
	決済・保証	83	4	6%	177
基幹事業	個品割賦	402	30	8%	787
	オートローン	260	23	10%	504
	ショッピング	142	6	5%	282
	銀行保証	214	△ 6	△ 3%	429

営業収益の内訳は主な事業セグメントを記載

*2019年5月9日公表の通期業績予想

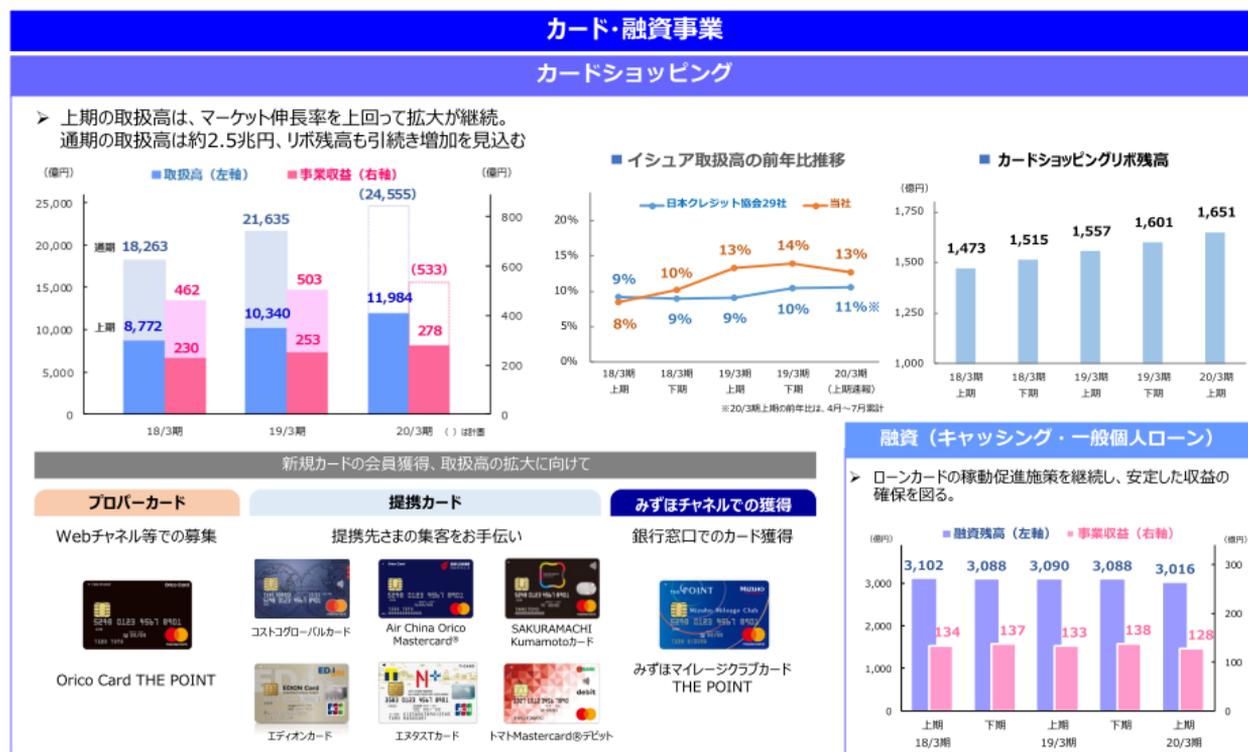


Next, please see page four. The breakdown of operating revenues is shown on this page.

Under this new medium-term management policy, we place the Credit Cards and Cash Loans Business and the Settlement and Guarantee Business as our “Growth Businesses”, and we place the Installment Credit Business and Bank Loan Guarantee Business as our “Core Businesses”. In Growth Businesses, both credit card shopping, settlement and guarantee increased, resulting in a year-over-year increase of 5% in the total Growth Businesses. In Core Businesses, revenues of bank loan guarantees declined, due to a decrease in the outstanding balance of guarantees, but installment credit rose, resulting in a 4% year-over-year increase in the total Core Businesses.

The bar chart on the right shows the trends in operating revenues by Business Segment in the three halves of the fiscal years. You can see that revenues are steadily increasing, mainly on Credit Cards and Cash Loans Business, in dark blue, and the Settlement and Guarantee Business, in light blue.

事業別の状況・見通し 成長事業①



I will explain the status of each business and its future outlook. Please turn to page five.

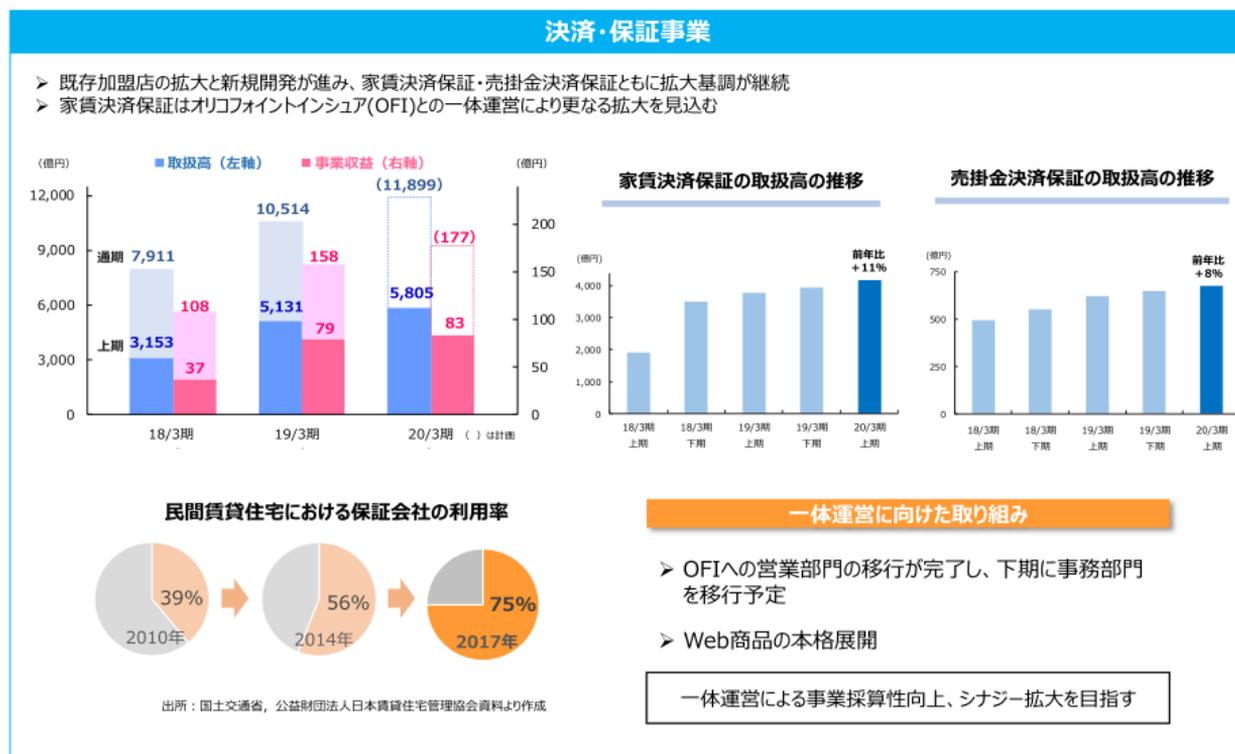
First, the Credit Cards and Cash Loans Business.

In the upper left graph, the blue bars show transaction volume, and the pink bars show Business revenue. The transaction volume of the credit card shopping for the first half of the fiscal year ending March 2020 was approximately 1.20 trillion yen. This was mainly due to a steady increase in the number of members in “Orico Card THE POINT”, which is a proprietary card, as well as favorable growth in the number of large-scale co-branded credit cards.

The graph on the right shows the year-to-year trend in issuers’ transactions, and that our growth rate for the first half of fiscal year ending March 2020 is 13%, which is exceeding the market. The credit card shopping revolving balance was steadily increasing, as shown in the bar graph on the right. We are aiming for a total transaction volume of approximately 2.5 trillion yen, with the expansion of the market due to the spread of cashless payments and other factors.

For the Cash Loans Business shown in the lower right-hand graph, the loan outstanding decreased to 301.6 billion yen in the first half of this fiscal year. We will continue to implement measures to promote the use of loan cards and aim to secure stable earnings.

事業別の状況・見通し 成長事業②



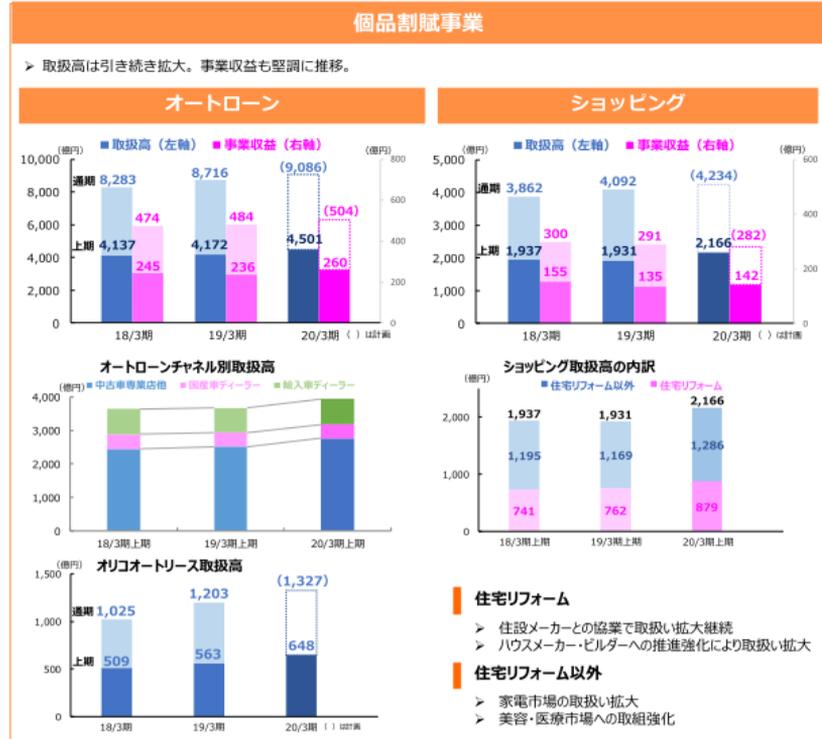
Next, please see page six for the Settlement and Guarantee Business.

Transaction volume for the first half of the fiscal year ending March 2020 was 580.5 billion yen. In the Rent Guarantee Business, the transaction value steadily increased due to the strengthening of initiatives for existing partners and the development of new alliance partners with rising demand for guarantees, resulting in an increase of 11% year-over-year.

Accounts receivable settlement guarantees also remained firm, and transaction volume for the first half of this year increased by 8% year-over-year.

In the Rent Guarantee Business, we are working to integrate the management with Orico Forrent Insure. In the first half of this fiscal year, we completed the transfer of sales division to Orico Forrent Insure, and we plan to transfer the administrative operations in the second half of this fiscal year. In addition, we will incorporate Orico's Web-based products into Orico Forrent Insure on a full scale, aiming to improve profitability and expand synergies through integrated management.

事業別の状況・見通し 基幹事業



Please turn to the next page. We will explain our Core Businesses here.

First, the Installment Credit Business.

In the first half of the fiscal year ending March 2020, the transaction volume of auto loans, shown in the graph on the upper left, was 450.1 billion. This was attributable to an increase in transactions at used car dealership, as well as to favorable transactions in Orico Auto Leasing and in Thailand. The last-minute demand prior to the consumption tax hike was particularly conspicuous for auto loans, and the monthly transaction volume in September increased by about 20% year-over-year.

In the shopping credit, the transaction volume for the first half was 216.6 billion yen. This was mainly due to an increase in the transaction volume of home renovation, as shown in the graph below, which shows a breakdown of shopping transaction volume.

Next is the Bank Loan Guarantee Business. The guaranteed outstanding balance at the end of the first half of fiscal year ending March 2020 was approximately 1.29 trillion yen, which declined partly due to efforts to tighten the credit control. However, since the market has recently remained almost unchanged, the downward trend in the balance may weaken in the second half of this fiscal year. The initiatives with financial institutions, as shown in the lower right-hand side of the material, will be introduced in the following topics.

営業費用の状況・見通し

(億円)	20/3期 上期	前年 同期差	増減率	主な要因	20/3期 通期計画*
営業費用	1,066	27	3%		2,150
一般経費	738	30	4%	■ 新基幹システム稼働に伴う電算償却費が増加(前年同期差+45億円)するも、プロセスイノベーションの取り組みにより増加額を抑制	1,491
貸倒関係費	263	△18	△6%		545
貸倒引当金繰入額	244	△4	△2%	■ 過払金返還額が47億円(前年同期差△18億円)と減少したこと等による	102
利息返還損失引当金繰入額	18	△14	△43%		
金融費用	48	2	4%		

営業費用の内訳は主な項目を記載

*2019年5月9日公表の通期業績予想



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Next, please turn to the next page. This is an outlook and the status of operating expenses.

Operating expenses for the first half of this fiscal year increased 2.7 billion yen year-over-year. Within it, general expenses rose 3 billion yen due to initiatives of process innovation, despite an increase of 4.5 billion yen in computer depreciation expenses accompanying the start of operations of the new core system. We will explain our process innovation initiatives in more detail later.

Bad debt-related expenses decreased by 1.8 billion yen year-over-year, mainly due to a decrease in provision for losses on interest repayment.

The amount of interest repayment is shown by quarter in the graph at the bottom right. In the first half of this fiscal year, the total of 1Q and 2Q is 4.7 billion yen. This represents a decrease of 1.8 billion yen year-over-year.

経営目標の達成に向けた取り組み

中期経営方針の基本戦略に基づき、具体的な取り組みを加速化

2019年	サステナビリティ取組み強化	国内市場において公募形式によるグリーンボンド（無担保普通社債:50億円）発行
4月	プロセスイノベーションの実践	機能別業務体制の構築に向け、センター等のライン機能を集約
5月	デジタルイノベーションの実践	「Orico Digital Fund」を10億円から20億円に増枠し、スタートアップ企業への出資、協業を加速
	サステナビリティ取組み強化	サステナビリティKPIを設定
6月	プロセスイノベーションの実践	新基幹システムの機能を活用し、センター間での相互支援を開始
	デジタルイノベーションの実践	LINE Creditにおいて「LINE Score」提供開始
7月	デジタルイノベーションの実践	株式会社Handiiと提携し、同社が提供予定の国内初となる法人向けウォレットサービス「paid」に対応
	オリコグループのシナジー拡大	オリコフォレントインシュアへ、家賃決済保証の営業部門を移行完了
8月	デジタルイノベーションの実践	グルメSNSアプリを運営する株式会社GINKANの株式を第三者割当増資により取得
	コンサルティング営業の強化	株式会社トマト銀行と提携し、国際ブランドデビットカードの取扱い開始
	コンサルティング営業の強化	長崎県独自の電子マネー「エヌタスマネー」を搭載した「エヌタスTカード」募集開始
	コンサルティング営業の強化	熊本県の大型複合商業施設「SAKURA MACHI Kumamoto」公式カード新規募集開始
	コンサルティング営業の強化	中国国際航空との提携カード「Air China Orico Mastercard [®] 」発行で合意
	デジタルイノベーションの実践	LINE Creditにおいて「LINE Pocket Money」提供開始
9月	デジタルイノベーションの実践	LINE Payにおいて「Visa LINE Payクレジットカード」先行案内開始
	アジアへの事業展開の拡大	フィリピンにオートローン事業会社を設立
10月	コンサルティング営業の強化	慶應義塾大学と学費サポートプランで新規提携
	サステナビリティ取組み強化	LGBTへの取り組みを評価する「PRIDE指標」で最高評価の「ゴールド」受賞
	株主還元方針	I種優先株式の一部償還（150億円）を決定



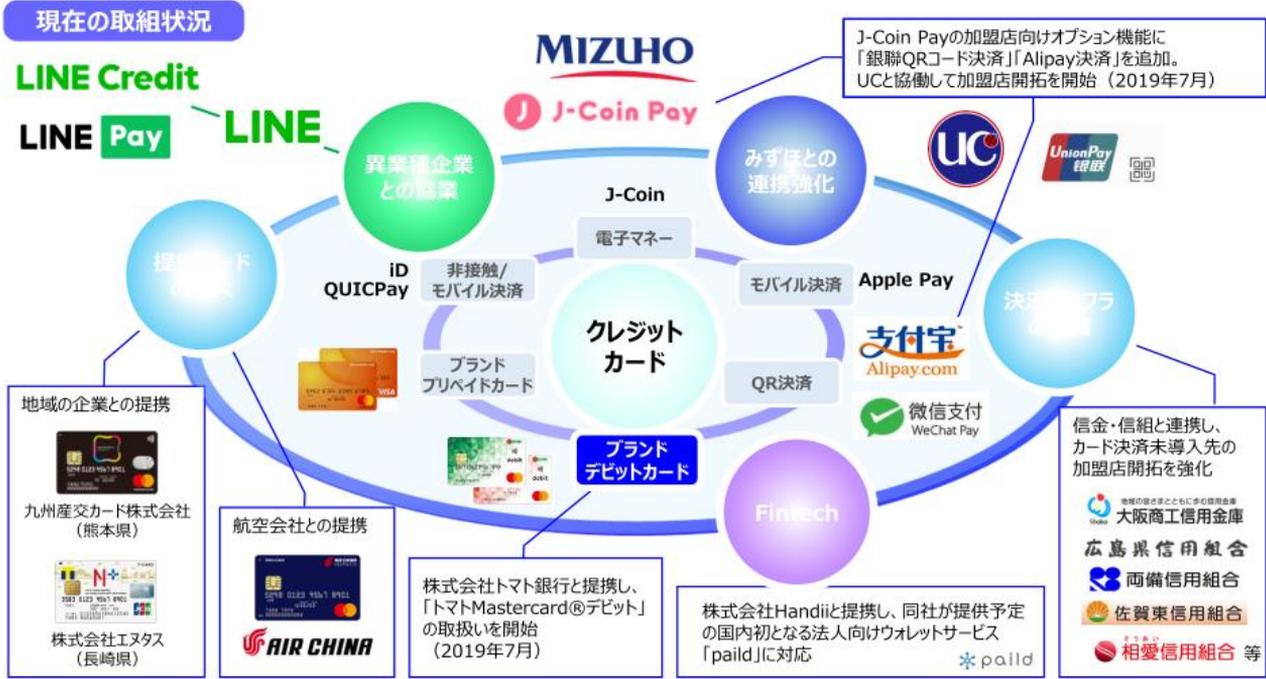
Next, I would like to introduce the initiatives we have made over the past six months in relation to the medium-term management policy that we launched in the current fiscal year. Please see page 10.

There is an illustration in the lower right corner of this page. Under the medium-term management policy, “Innovation for Next Orico” is the basic policy, and is as described. With a thorough approach based on the six basic strategies of “implementation of digital innovation”, “implementation of process innovation”, “business expansion in Asia”, “expansion of synergies within the Orico Group”, “enhancement of consulting sales”, and “enhancement of sustainability initiatives”, we are making a concerted effort to rebuild our solid earnings structure and create new business models.

We have listed major topics since April 2019, and are implementing a variety of initiatives, including the launch of “LINE Pocket Money” services in LINE Credit in August, and the establishment of an auto financing company in the Philippines in September.

キャッシュレス化への取り組み

ビジネスチャンスを実実に捉え、22/3期カードショッピング取扱高3兆円を目指す



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From the next page, I will explain the main topics in detail. Please see page 11.

First, I would like to talk about our initiatives for cashless payments. With regard to the point redemption measures by Japanese Government for cashless payments that began in October, we will strive to promote cashless payments by participating in the business as a card issuer and a member store contractor (acquirer). As described at the center of this material, we strive to expand payment opportunities, including infrastructural arrangements, in line with the diversification of payment scenes with a focus on credit cards including mobile payments, QR-code payments such as Alipay and WeChat Pay. In addition to the brand prepaid cards that we have traditionally handled, we formed an alliance with Tomato Bank, Ltd. in July to start handling international brand debit cards for the first time in our history. Going forward, we will continue to deepen our relationships with financial institutions while accurately grasping settlement needs and responding swiftly.

Collaboration with regional financial institutions is shown on the right-hand side of the material. In collaboration with credit associations and credit cooperatives throughout Japan, we are strengthening efforts to develop member stores that have not yet adopted credit card payments. We will focus on developing payment and settlement infrastructures to contribute to cashless payments in regional economies.

Collaboration with local companies is shown on the left side of the material. The Company is strengthening the issuance of new co-branded credit cards that meet local needs, in partnership with local companies. These include the issuance of official credit card of “SAKURAMACHI Kumamoto,” Kumamoto prefecture's large combined commercial facility, and the issuance of “N+T Card,” which is equipped with electric money unique to Nagasaki prefecture and is highly convenient for buses, taxi services and other forms of transportation.

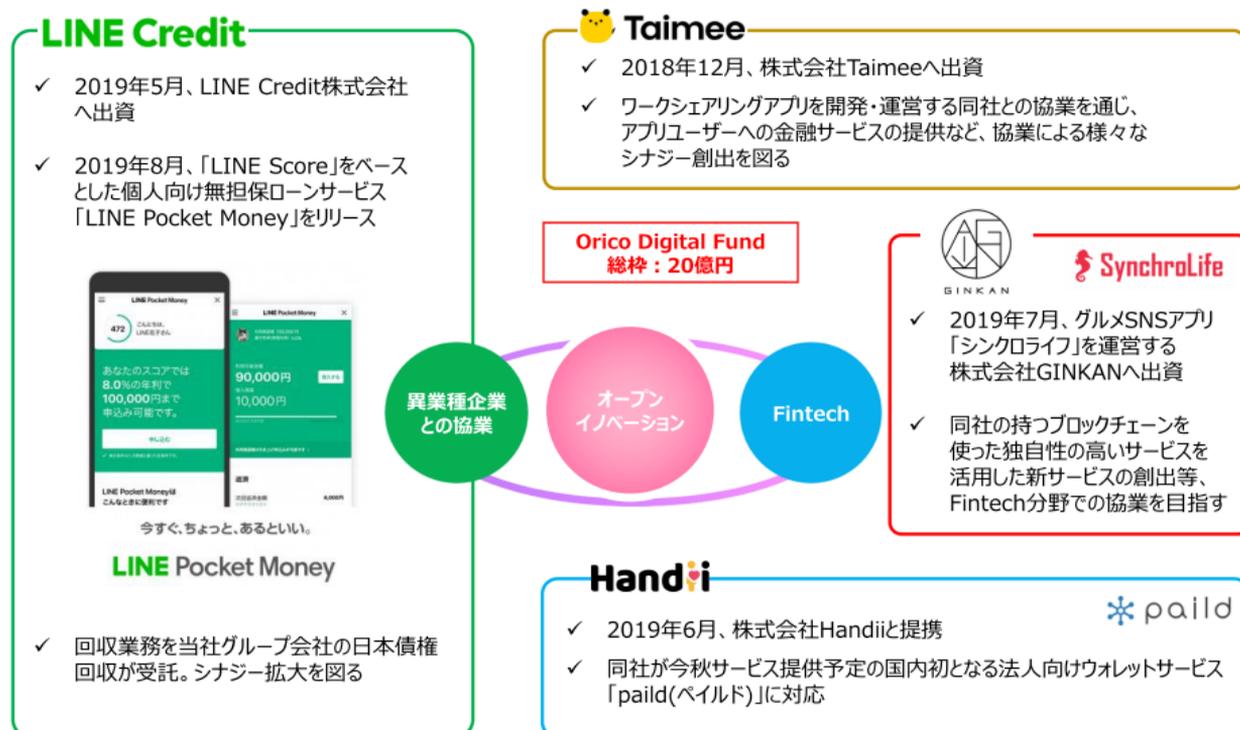
Also, we worked on the issuance of “Air China Orico Mastercard(R),” in partnership with Air China. We will continue to accelerate our efforts to expand the number of co-branded credit cards.

In addition to these unique initiatives, we will definitely work on the initiatives to expand credit card business and seize the business opportunity for cashless transactions in collaboration with Mizuho Bank and UC Card, as shown in the upper section of this material. Through these efforts, we aim to achieve a card shopping transaction value of 3 trillion yen in the fiscal year ending March 2022.

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デジタルイノベーションの取り組み



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Next, please see page 12. This is “the Initiative for Digital Innovation”.

Through our initiatives for digital innovation, we aim to expand our new business domains and increase our corporate value through collaboration with companies in other industries and collaboration with start-ups with advanced technologies. LINE Credit Corporation, in which we invested using “Orico Digital Fund” in May 2019, released “LINE Pocket Money,” an unsecured loan service based on “LINE Score.” About two months have passed since the launch, and the applications have been steadily received. I feel that we have made a smooth start. Japan Collection Service Co., Ltd., our Group company, will be commissioned to collect these, and we will strive to further expand synergies through group-wide initiatives.

As stated above, we will work to increase our corporate value and create new business models by actively investing in those companies that we can expect synergies with our business, such as supporting the nation’s first wallet service for corporates “Paield,” which is to be provided by Handii, Inc. and acquiring shares of GINKAN, Inc., which operates the gourmet social networking app “Synchro Life,” and possesses unique services using blockchain.

アジアへの事業展開の拡大

✓ 今年度内にフィリピンで営業開始予定。アジアでの事業展開を本格化

フィリピン

- 2019年9月、オートローン事業会社を設立。ファイナンス会社の許認可を取得済み。今年度内の営業開始に向け対応中。

名称: Orico Auto Finance Philippines Inc.
本社所在地: マニラ首都圏 オルティガスセンター
資本金: 6億フィリピンペソ(約12億円)
株主構成: 当社100%

タイ

- 2019年5月、10月、新たに郊外に営業拠点を2拠点開設。
- 持続的成長に向け、強固な事業基盤の確立を図る。



インドネシア

- 地場ファイナンス会社への資本参画によるオートローン事業進出に向け調整中

カンボジア

- 地場ファイナンス会社の買収に向けて取り組み中

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Please see page 13 for “Business Expansion in Asia.”

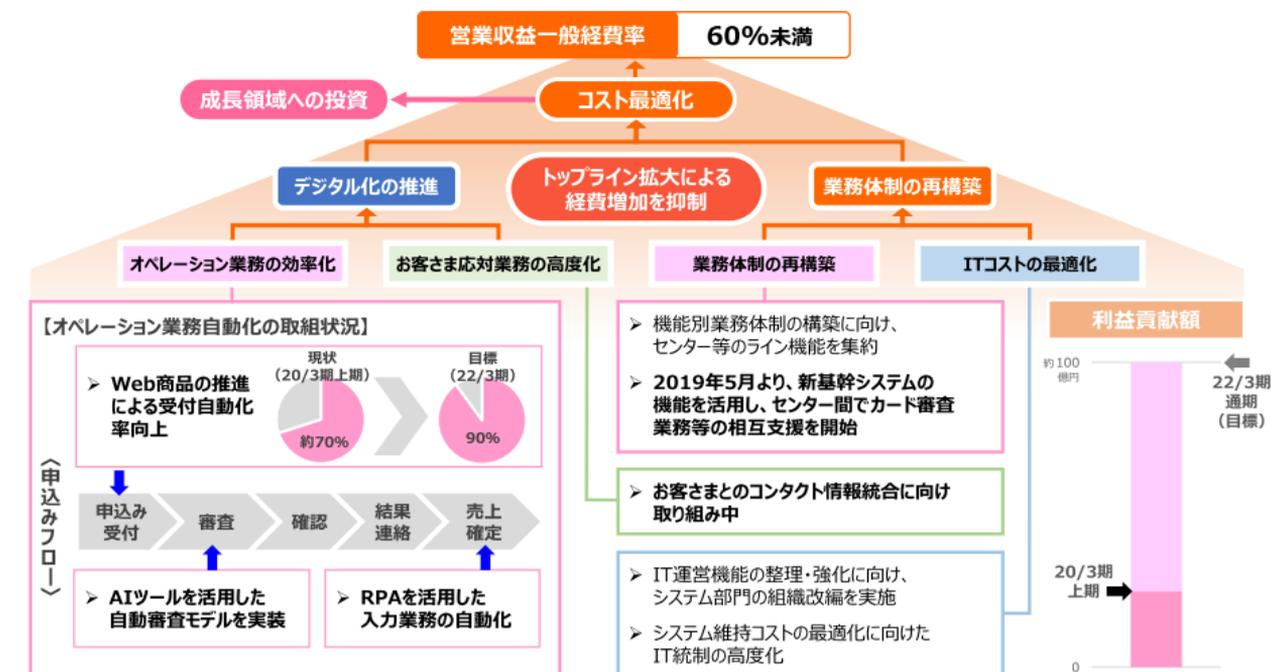
The status of Thailand is shown at the bottom left of the material. Our sales offices in Thailand have been expanding mainly in urban areas, but in May and October 2019, we opened two new offices in the suburbs. As shown in the graph below, the transaction volume in Thailand is steadily expanding, along with the expansion of our sales network. We will continue to work to establish a solid business foundation for the sustainable growth of the business in Thailand.

The business in the Philippines is described on the upper left of the material. At the previous financial results briefing held six months ago, we announced that we decided to enter the market of Philippines as the second market after Thailand. Subsequently in September, we established “Orico Auto Finance Philippines Inc.,” an auto loan company. We are currently in the process of preparing for the start of operations within this fiscal year. We are aiming to make the most of the know-how we have cultivated in Thailand to achieve profitability in the third year.

In addition, we intend to quickly enter the markets of ASEAN countries, such as Indonesia and Cambodia, and to develop our business in Asia in earnest.

プロセスイノベーションの取り組み

✓ 業務自動化が進展。最適なオペレーション体制の構築に向けた取り組みを加速。



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The following page 14 shows the current progress of “Process Innovation Initiatives”.

As shown in the top section of this material, we are working to optimize costs by controlling increases in expenses by top-line expansion through initiatives such as “Improving Operational Efficiency,” “Enhancing Customer Service,” “Restructuring Our Business Structure,” and “Optimizing IT Costs.” At the same time, we are aiming to achieve the ratio of general expenses to operating revenues of less than 60% while allocating management resources to growth domains.

The status of operational automation initiatives is shown at the lower left of the material. In terms of operational flow, we are making steady progress in automating operations, such as accepting applications, credit screening, and input operations, using the Web, AI tools, and RPA. Approximately 70% of our application handling is currently automated through the promotion of Web-based products, and we will expand this to 90% in the fiscal year ending March 2022 with the aim of further efficiency.

With regard to the restructuring of our business structure, we have leveraged the functions of the new core system and commenced mutual support for credit card screening operations among the administrative centers in May 2019. I feel that these efforts are steadily yielding results.

With regard to process innovation, we aim to contribute approximately 10 billion yen to profits by the fiscal year ending March 2022, the final fiscal year of our medium-term management policy. In the first half of this fiscal year, approximately 20% of that was realized, and I feel that we have been able to suppress the increase in general expenses as I mentioned earlier. We intend to further accelerate these efforts to achieve our goals.

働き方改革



Next, on page 15, I would like to introduce the “Work Style Reforms” we are advancing.

As the labor force continues to shrink, we have implemented a variety of personnel system reforms, as described in the middle of this material, in order to respond to changes in the social environment, such as diversified approach to work and departure from long working hours. The work style reform is one of the important themes for “Enhancement of Sustainability Initiatives.” By reforming our personnel system, enhancing our education and training system, and putting health management into practice, we aim to achieve sustainable growth and increase corporate value through fostering the human resources who will lead Orico in the new era and creating a workplace where employees can continue to work with satisfaction.

株主還元方針

株主還元にあたっての基本方針

強固な収益基盤を築くことにより、適正な自己資本の水準を確保しつつ安定的・継続的な配当を実施することとしており、また優先株式を買入れ償還することも当社の重要な経営課題

基本方針の下での具体的な対処

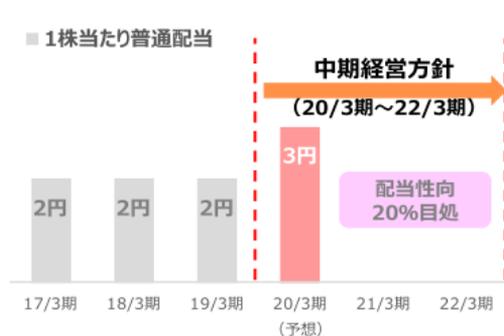
普通株式配当

中期経営方針期間においては
連結普通配当性向20%を目処に配当を実施予定

I種優先株式

22/3期を目処に優先株式の償還完了
をめざす

《普通配当推移》



《期末残高推移》



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Next, please see page 16 for the “Shareholder Return Policy”.

Our basic policy on returning profits to shareholders is as shown in the top section. As already announced, the Company forecasts an ordinary dividend of 3 yen per share for the year ending March 2020, an increase of 1 yen from the previous fiscal year. We have also decided to redeem Class I Preferred Stock by 15 billion yen out of the 50 billion yen balance this time, with the goal of completing redemption by the fiscal year ending March 2022, as a concrete countermeasure.

This is all from the materials, and I would like to conclude with a few words. As explained at the beginning, we have launched a new medium-term management policy starting this fiscal year. As targets for the fiscal year ending March 2022, the final year of our medium-term management policy, we set consolidated ordinary profit of 35 billion yen or more, the ratio of general expenses to operating revenue of less than 60%, and ROE of 10%. We believe that we were able to start steadily in achieving our management objectives.

The basic strategies of the medium-term management policy will gradually be crystallized. The effects of process innovation, which I explained earlier, have also become apparent, and we are on the way to a solid earnings structure. At the same time, we are making steady progress in sowing seeds that will support future growth, such as implementing digital innovation and expanding our business in Asia, and I feel that we are making progress toward becoming a strong Orico. With “Innovation for Next Orico” as our basic policy, we will strive to achieve sustainable growth and increase corporate value.

This is all from me. Thank you for your attention.

Question & Answer

Moderator: Now, we are receiving your questions. When asking questions, please state your company name and your name. Please raise your hand if you have a question. Anyone?

Analyst A: Thank you for your presentation. I have two questions. The first question is regarding the pace at which increase of general expenses related to the medium-term management policy will be curbed. Looking at the material on page 14, the progress of the contribution is described in the lower right, and it is probably about 20% today. Considering there are still two and a half years left, I think the progress is steady. There are a number of projects listed on the left for improvement. For example, is there a possibility that this pace would speed up?

Second, what are your expectations for LINE Pay credit cards? Considering the 3-trillion-yen target for the fiscal year ending March 2022 for the current transaction volume of 13% increase, it is likely that it will settle down to about 10%, which is the average level of the industry. The outlook for that is unclear. Can it be interpreted that it is not factored in very much? These are the two questions from me.

Kono: The question is about the handling of general expenses or cost control. In the process innovation efforts on page 14, we set a target of 10 billion yen over the three years, and in the first six months of this fiscal year, we made about 20% progress. The question is about this pace.

I said about 20%, but more precisely, including some deemed parts, it is about 2.5 billion yen, so I would like to say that it is about 2.5 billion yen. We have made progress to that extent, and we feel that it is a very good start. Looking at the breakdown, there are some areas where computer costs are reduced by about billion yen compared to the previous year, and also, with such factors as the mutual support among centers, the personnel expenses like so-called dispatched employees and contract employees have been considerably decreased. As a result, we recognize that the effect of some 2-billion-yen total has been realized.

Regarding this pace, for example, for this fiscal year, since we have less than half a year left now, we are able to estimate the effect. We believe that we will be able to reach around 4 billion yen. In the first year of three-year plan, we expect to achieve about 40% of the target, and we will continue to work toward this in the second half of the fiscal year. For these initiatives, I mentioned specifically about the automation of operations earlier. Including that, these initiatives have been making progress sequentially.

For example, about 70% of acceptance has been automated regarding “Automation of Operations,” and this is a result of gradual progress. It was 30% to 40% a few years back. We intend to use the new core system to drive this area at once. In addition, we are currently making progress in the process of automated credit screening. It is currently 40% to 50% and is proceeding to be 70% to 80% in the end. The key is how to drive these areas quickly.

I also mentioned that we began to provide mutual support among centers for “Restructuring of Our Business Structure.” This is also the effect of the new core system. The data that each center held can now be shared by a single server. Therefore, initiatives such as leveling of operations among centers across the country has been proceeding at a rapid pace. In the first half of this fiscal year, for example, we began to conduct credit screening operations in Fukuoka that had been handled in Tokyo. Such initiatives had been made on a trial basis, and I feel that these activities have actually been effective. We will further drive these as well. Therefore, for 10 billion yen over the three-year period, I feel that we would like to achieve at an early stage.

What I often say internally is that the goal is not 10 billion over three years but it is what follows that. I think the key point is how to create a system over the next two and half years that will enable steady cost control by continuing to innovate processes of operation flow, and I would like to drive it forward.

In addition, I think the second question is related to cashless. The question is whether or not the effects of LINE Pay credit card and other factors are factored in for the progress of card transaction volume. This is on page 11.

The upper section states that the credit card shopping volume of 3 trillion yen is targeted for the fiscal year ending March 2022. We introduced our regional co-branded cards earlier, and we will continue to make progress on co-branded credit cards with large-scale partner companies. With these, we would like to firmly achieve this goal of 3 trillion yen.

In addition, I would like to ask you to look at the credit card business on page five. Here is a description of 2.5 trillion yen. The previous 3 trillion yen is the target for the fiscal year ending March 2022. The target for this fiscal year is approximately 2.45 trillion yen, which is rounded to 2.5 trillion yen. With that, I believe that 3 trillion yen in two years' time is within reach. We have secured a growth rate of more than 10%, and we believe there are many business opportunities amid the progress of cashless payments. Therefore, we intend to achieve nearly 2.5 trillion yen this fiscal year and to raise it to 3 trillion yen in two years' time.

Under these circumstances, for the question on whether or not the effect of LINE Pay credit card is factored in, it is not factored in, basically. I believe that it is highly achievable without factoring it in considering the growth of proprietary cards or large-scale co-branded credit cards and that the 3-trillion-yen target will be achieved without any doubt. Does this make sense?

Analyst A: I see. Thank you very much.

Moderator: Does anyone else have a question?

Analyst B: I have two questions. First, you explained about rent guarantees on page six of the materials. Having the amendment to the Civil Code in April next year, will the revision itself become the trigger to accelerate the growth rate? Or, have you already factored this in? Could you share your thoughts on this?

Second, regarding the relationship with Mizuho Group, I think that your company has not issued the integrated version of Mizuho Mileage Club Card and cash card. I would like to hear whether you can see any advantages in this area, or whether your company is working on some initiatives.

I would like to address another point related to Mizuho. I think that it used to operate business separating the functions of acquiring and issuing for UC Card and Credit Saison. As you approach Mizuho this time, do you have any discussions on this matter?

Kono: The second and third questions are related, so I would like to answer them together. First, I would like to answer regarding the Rent Guarantee Business. The market itself is growing by more than 10%, and it is currently growing very rapidly. On the left side of page six, there is a guarantee company usage rate for private rental housing. As shown in the pie chart from 2010, the guarantee company usage rate and the usage rate for using our services are steadily increasing. This is partly due to the revision to the Civil Code that you have pointed out. There is no doubt that business opportunities such as institutional guarantees have grown steadily in an environment that basically makes it more difficult to provide personal guarantees.

In addition, while Japan's population is shrinking, the statistics shows the fact that the number of single-person households is increasing. For example, there are an aging population and a population of late marriage. That said, the Rent Guarantee Business is an extremely high business opportunity for us, and hence, we

acquired a rent guarantee company from Recruit Holdings Co., Ltd two years ago, which was the first M&A in a long time, and made it a 100% subsidiary. That is Orico Forrent Insure.

Two years have just passed and we began to integrate our sales division by pursuing further synergies with OFI, as I explained earlier. We will further improve efficiency by integrating back-office and administrative functions. Orico focused on large-scale alliance partners, and Orico Forest Insurance worked on wide-ranging sales activities. We integrated these, and we are now working to share the products and the screening system for further integration.

We have been striving to reach the target of 1 trillion yen in transaction volume, which seems to be achieved soon. Of course, there are other guarantee companies, but based on the transaction volume, we are close to the number one, which makes us strive more. Therefore, although the volume is still small compared to other businesses, the growth rate is quite high. This is because the Settlement Guarantee Business has been clearly positioned as a Growth Businesses and as the fourth Business Segment.

As for the revision to the Civil Code, it is of course one of the important triggers. The additional factor is the increase in the number of single-person households that I mentioned earlier. We would like to seize business opportunities in these areas.

Now, the second question concerning the relationship with Mizuho. We have been collaborating with Mizuho for some time now, but specifically for credit cards, our collaboration finally started two years and several months ago when Mizuho banks started handling the Mizuho Mileage Club Card issued by Orico. Mizuho Mileage Club Card has been acquired at Mizuho bank's branches for two years and several months, and the number of cards issued has reached a certain level. The card that is integrated with the cash card and Mizuho Mileage Club Card that you asked about is currently under consideration, including system details. We are discussing the detailed requirements with Mizuho in the direction to issue the integrated Mizuho Mileage Club Card as the Orico Card as well.

In connection with this, I think that the question was what our credit card strategy as a whole Group will be moving forward considering the relationship with UC Card, or Mizuho's dissolution of comprehensive strategic business alliance with Credit Saison. The collaboration of these three companies, which are Mizuho, UC Card, and Orico, have already begun with member store development of Mizuho's J-Coin Pay, Alipay of ours, and member store development of UnionPay with UC Card. We are currently discussing whether we can generate further collaborative synergies as a next step, but I feel that there would be great opportunities waiting for us.

With Mizuho Group, there is the breadth of customers base including corporations and individuals. So, we have been cooperating with the development of member stores for some time, but we are considering if we can utilize this in the Credit Card Business as well. UC Card is considering if they can leverage the strengths of acquiring functions, UC brand or B2B businesses as a group. I believe that the combined effects of these three companies, such as our strength as an issuer and our nationwide member stores network cultivated through installment credit business, will be considerable.

It has not reached a point where we can discuss the details. At any rate, we intend to take advantage of these opportunities through thorough discussions with Mizuho and UC Card.

Moderator: Are there any other question?

Analyst C: I have only one question regarding how to consider impact by the Visa LINE Pay Credit Card that will be issued next year on the performance of your company. Regardless of the size of transaction volume, I believe it is a high-return card with a 3% reward in the first year and is a contract that your company will bear considerable costs in Visa. As a margin, please let me ask whether it would be positive, negative, or neutral

next year? After that, I think that the rate of reward has not yet been decided, but will your company aim for a contract that will allow your company to make a margin in the flow of handling at least? Or, for example, if you can make money from revolving or else, would you accept minus margin in the flow of handling? I would like to know what your thoughts are on this.

Kono: Thank you. This is a question about the co-branded credit card with LINE Pay. At this stage, we are currently in the process of considering the specific requirements you mentioned, and we are not yet in the condition to give you specific figures. However, we have experiences with such a large-scale co-branded credit card, and it is one of our strengths. At the initial stage, exactly what you mentioned would happen. The issuance costs and other costs tend to be upfront. We already have a lot of experience in this.

Therefore, the key points will be what kind of promotions will be conducted to what extent in terms of issued volume of credit card in the first year, how will promotions be conducted for the second and third years, and what kind of initiatives will be taken place on how to raise operating ratio for profitability at an early stage. We will continue to provide the know-how that we have cultivated moving forward.

The specific promotions and other details are not yet determined in total. I'm afraid I can't share them with you right now. However, I can say at least now that we expect virtually no impact, only slight impact at far later in the second half of this fiscal year, or for this fiscal year in total.

As for the next fiscal year and beyond, it will depend to a great extent on how to incorporate the front-loaded cost at an early stage, and so, at the current condition, we cannot say how much amount we are expecting. We would like to take initiatives with the effort to realizing profitability at an early stage to ensure that the negative impact will not be brought about in the next fiscal year.

We basically do not adapt such idea that a certain unprofitable business can be covered by the other profitable business. We intend to make profits as an issuer in the credit card business in discussing details moving forward. Does this answer to your question?

Analyst C: Thank you.

Moderator: Does anyone else have a question?

Analyst D: I think it will include the underlying story, but I would like to ask a question on credit card shopping. I would like you to tell us about the cashless measure by Japanese Government policy from three perspectives. It may not have been concluded yet, but in October, what kind of effects did your company experience, if any?

Second, if any, how is it used? Are there any activities that differ from the other usual cards of your company? Finally, my understanding was that there would be little impact on the rate of member store commission fees. Was it really the case?

Kono: Thank you. I think this question is about effects of the government's policy started in October, such as point redemption measures. It has been a month. Just a week ago, when we announced our financial results, we received a similar question from the media at a press conference. I answered that we still did not know. One week has passed since then, and we can now make a comment with having received preliminary reports on transaction volume by Business Segment in October.

For example, in September, the auto loan grew by about 20% year-over-year. Then, what happened in October is actually a decline of 17% to 18%. Shopping credits have also fallen slightly, and I feel that there has been a rebound. So, what about the credit card? The transaction volume for credit card shopping in October, based on the preliminary report, is 107% year-over-year. The overall consumption seems to have declined. This has also been reported by the statistics of department stores. In September, there was a last-minute demand,

and in October, there was a decline in reaction to the demand. Despite these conditions, our transaction volume of credit card shopping in total was not as high as 110% year-over-year, but was not a decline.

Looking at this result, I guess there has been some effect. However, honestly speaking, I don't know what the details are. At least, we are currently working with Credit Cards Business as our Core Businesses, and the 107% increase would certainly be due to the usage of credit cards. We do not have figures regarding QR-code payments, and so, I'm afraid I can't discuss it.

There is a limit of 3.25% for member stores commission fees. As I mentioned earlier, since we have been developing our business mainly through large-scale co-branded credit cards, our card member stores are basically mainly major companies. We have few member stores that are relatively medium- to small-sized companies, or very small companies, and that pay member store commission fees of 3.25% or more, totaling less than 1% in transaction volume. As the transaction volume of those who pay more than 3.25% is less than 1%, we see that there would not be an impact basically, and we currently do not see such impact. Does this answer to your question?

Moderator: The scheduled closing time of this briefing is approaching. Does anyone have a question?

The question and answer session is now concluded. We would like to ask for your cooperation on the questionnaire on hand. Once you complete it, please leave it on your desk.

Thank you for your participation at the briefing session of Orient Corporation for the second quarter of the fiscal year ending March 2020.

Thank you for joining us despite your busy schedule.

Kono: Thank you for your participation.

[END]
