



# **MONEX GROUP**

## **Monex Group, Inc.**

Financial Results Briefing for the Fiscal Year Ended March 2020

May 7, 2020

## Event Summary

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[Company Name]	Monex Group, Inc.		
[Event Type]	Earnings Announcement		
[Event Name]	Financial Results Briefing for the Fiscal Year Ended March 2020		
[Fiscal Period]	FY2019 Annual		
[Date]	May 7, 2020		
[Number of Pages]	37		
[Time]	15:00 – 15:52 (Total: 52 minutes, Presentation: 39 minutes, Q&A: 13 minutes)		
[Venue]	Webcast		
[Venue Size]			
[Participants]	100		
[Number of Speakers]	2		
	Oki Matsumoto	CEO	
	Toshihiko Katsuya	CFO	
[Analyst Names]*	Takayuki Hara	SMBC Nikko Securities Inc.	

\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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## Presentation

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**Matsumoto:** Today, we are holding a briefing session on our company's performance online, which is a new attempt for us. First, I will talk about our company's performance, followed by CFO Katsuya, and then myself again, which will take some 20 to 30 minutes in total, and then we will move on to the question and answer session. In the Q&A session, please ask your questions via chat. Thank you in advance for your cooperation.

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**The financial performance of Monex Group has been strong** despite the global economic downturn, benefiting from extraordinary market activities and volumes.

### Social trends in response to the spread of COVID-19

- More people are staying at home in worldwide lockdown
- A spike in market volatility in both Japan and the US brings higher trading volume
- COVID-19 stimulates strong demand for investment and trading opportunities among both experienced and novice investors and traders

### Direct impact to the Company's financial status

#### Trading Volume

A spike in volatility combined with more time to trade at home drove higher market transactions of online brokers. In March, trading volumes reached their highest level since 2013 at Monex Securities and set a **new record** in DARTs at TradeStation

#### Active Accounts

Number of account openings and reactivation of dormant accounts increased due to higher investment opportunities triggered by recent social uncertainty and falling stock prices. Number of active accounts sets **new records** at all brokerage companies in the group

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Well, then, let me start.

I think that the financial results for this term were basically good, in which the coronavirus crisis has increased volatility in the markets across the world including Japan, the US and Hong Kong, and brought about an increase in the number of remote workers and telecommuters. As a result, the number of people who trade from home has grown. Under these circumstances, our overall business performance was favorable.

In addition, we saw individual investors buying the dips when the market went down. I think that this and many other factors worked favorably.

As you can see on page three, the volume of trading has increased considerably for the reasons I have just mentioned, and with the TradeStation, our DARTs or Daily Average Revenue Trades reached a record high exceeding that of the Global Financial Crisis in 2008 following the collapse of Lehman Brothers.

The number of active accounts has not only increased, but also reached record highs in all of our business bases of Japan, the US and Hong Kong because many customers reactivated their accounts or started using their once-dormant accounts through, for example, contacting our call centers to reset their passwords for existing accounts.

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Monex Group maintains robust systems and operations in high market volumes. Cost-cutting initiatives done at TradeStation on April 28.

<b>System</b>	<b>Systems remain stable</b> across the segments despite the increase in transactions
<b>Operation</b>	Employees have shifted to working remotely where feasible in each of the segments without any negative impact to operations. At the end of April, <b>55%</b> of employees at Monex Securities, <b>75%</b> at Coincheck and <b>90%</b> at TradeStation are working from home
<b>Margin &amp; Leveraged Trading</b>	<b>Bad debts from margin, option and forex trading are minimal</b> at Monex Securities, TradeStation and Monex Boom Securities
<b>Cost-cutting</b>	At TradeStation, adapting to zero commissions and low interest rates environments, Reduction In Force of approx. 50 employees (approx. 10% of the entire company) done to achieve approx. <b>¥ 750M p.a. reduction in cost.</b>

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Under these circumstances, as shown on page four, various problems occurred in the systems of other companies in the US and Japan, such as system shutdown, especially during the first wave of the coronavirus crisis. But our Group's system kept operating stably in Japan, the US, and Hong Kong. Because of this, especially in the US, we have been able to attract a lot of customers from the Robinhood app and so on.

As for our operations, since we are an online securities company from the beginning, our employees are used to teleworking. As you can see here, with 55% of the employees in Monex Securities, 75% in Coincheck, 90% in TradeStation telecommuting, totaling some 1,200 telecommuters worldwide on a consolidated basis, we have achieved the average telecommuting rate of some 75%. Even with so many employees working from home, our operations have been going smoothly.

The reason why the telecommuting rate in Monex Securities stands at 55% while that of TradingStation is 90% is that Monex Securities has a call center, which has required us to retain a certain number of employees working in the office. In addition, in the US, where companies are given a greater flexibility in the ways of working, we were able to respond more flexibly to adopt telecommuting, reflecting the difference in the responses of administrative agencies between the US and Japan.

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The markets have been showing drastic moves. For example, the US crude oil future contract reached unprecedented lows of negative USD38. At the TradeStation, our offerings include crude oil futures. Despite these, we have seen few cases of margin deficiency in our three business locations, which attests that our Group's risk management has evolved considerably.

Against this backdrop, at the end of April, we reduced the number of employees in the US and TradeStation by about 10%, or about 50 employees, and reduced the annual cost by about JPY750 million. This is not due to the coronavirus crisis because our Group's performance has been good despite the crisis. It has more to do with the fact that the US has deregulated the stock trade fees and cut interest rates to zero at once amid the coronavirus crisis. The job cuts we did have been planned to secure profit in the current environment in which massive headwinds from the coronavirus crisis are blowing against us. We carried out the planned job cuts and achieved the cost savings of JPY750 million.

I will explain this in detail later, but we have been doing really well in the US despite the severe environment, and our commission income has actually been increasing and the business performance is excellent. Even if the volatility due to the coronavirus crisis decreases, there are some factors we see that attest that buying and selling will remain in a high range. Nevertheless, we took quick and decisive actions to deal with a new environment characterized by the elimination of trade fees and falling interest rates.

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## Market activity accelerates our new business-model transformation

### Japan

Launch of the **Monex Activist Fund** to shift to an asset-management model. Mutual fund installment accounts, deposits and the total units of installment have increased with recent stock price correction as a background

### US

Launch of **TradeStation Crypto** and **YouCanTrade** provides a framework to diversify US revenues. Both services have seen early positive signs of customer acceptance, while focus continues on accelerating user growth and expanding product set

### Crypto Asset

Revenue growth from **higher volatility** in the cryptocurrency market. The world's first Lisk staking service (see P.42) and new cryptocurrency offering started.

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Against this backdrop, as we see on page five, we intend to transform structural changes and reforms by transitioning from a brokerage-model to asset-management model in Japan while building communities in the US.

We have set the goal of getting out of being a trading brokerage firm and it has been going smoothly now. Looking only at the current situation, as I mentioned earlier, volatility has risen and there has been an increase in the number of people who can trade at home. Therefore, the flow in our financial results has shown a great increase. Although our efforts to change our business model to an asset-management model are continuing, the current situation shows an increase in the flow.

However, the Money Activist Fund, which is a driving force in our efforts to transform business into an asset-management model, has been successfully launched, and the number of savings accounts, deposited amounts, and accounts for investment trusts have been increasing.

In addition, while the US has been showing good performance in the flow, both TradeStation Crypto and virtual currency businesses have also been growing steadily, and YouCanTrade, an investment educational community, has been well received and expanded.

Cryptoassets and Coincheck businesses performed well, thanks to good market conditions, cost-control measures, and the launch of new businesses. For example, we have the world's first coin staking service called Lisk, which has been delivering good results. I will talk about this in detail on the next page.

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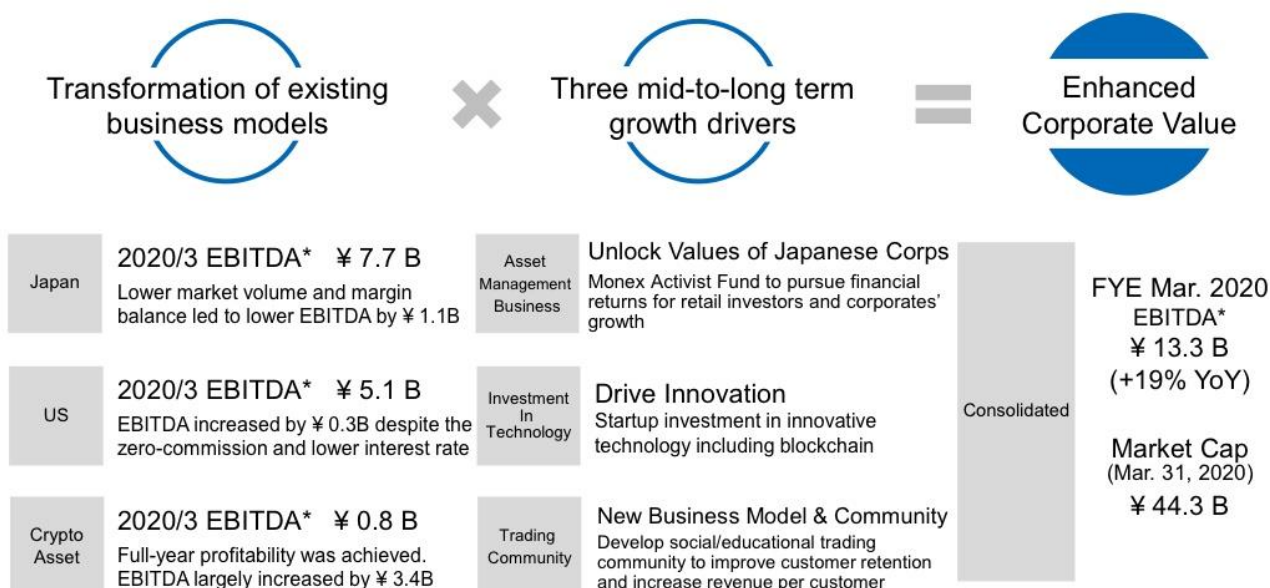
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EBITDA increased almost 20% YoY despite the challenging business environment.  
 Enhance corporate value by the mid-to-long term growth drivers



\* EBITDA = The amount equivalent to operating income + depreciation and amortization cost + interest expense of US segment (the same hereinafter) 6

On page six, we provide our financial results in EBITDA. Because we see our Company as being in the growth stage, we tend to make advance investment. So, here, we show our results in EBITDA to see our corporate power. As shown at the far right, EBITDA for this fiscal year ending March is JPY13.300 billion, which is about 20% increase from the previous fiscal year.

The major drivers of this 20% growth were cryptoassets and Coincheck businesses. The EBITDA for cryptoassets and Coincheck businesses have grown from negative JPY2.6 billion in the previous fiscal year to positive JPY0.8 billion in the current fiscal year, amounting to positive JPY3.4 billion, as shown at the bottom left. As a result, cryptoassets and Coincheck businesses have become greatly profitable and their EBITDA greatly increased, contributing to the increased EBITDA for the entire Group.

The EBITDA for our Japanese business decreased by JPY1.1 billion to JPY7.7 billion due to the headwind blown against the topline. It continues to be the biggest earner of all of The Group's business segments.

The US business segment suffered from severe headwinds such as the elimination of trade fees and a decline in the interest rates, but the segment recorded an EBITDA of JPY5.1 billion, up JPY0.3 billion from the previous fiscal year.

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While our existing brokerage model has delivered strong results, such as cryptoassets having become greatly profitable, and the US business has grown steadily despite the headwinds, there are growth drivers at the center. That is the full-fledged entry into the asset management business centered on Japan Catalyst, Inc, an investment advisory firm, and Monex Asset Management. We will explain the Monex Activist Fund in detail later.

In addition, we are focusing on investing in innovations lead by Monex Ventures and in community-based businesses promoted on TradeStation as our major drivers of growth. Through these efforts, we hope to further increase The Group's EBITDA which has increased by 20% or 19% over the previous fiscal year.

From here on, CFO Katsuya will explain the figures. After his briefing is over, I will appear once again to explain some hot spots of our business and operations.

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<b>Japan</b>	Trading volume recovered during the 2nd half of the year. Segment profit* was ¥ 2.3B. (Adjusting ¥ 0.3B of unrealized loss on investment securities and ¥ 0.2B of impairment loss on fixed asset, segment profit was ¥ 2.8B)
<b>US</b>	Profit increased due to higher trading volume during market fluctuations even after the decline in interest rates and the introduction of commission free plans. Segment profit was ¥ 1.8B (Normalized segment profit after adjusting ¥ 0.2B of impairment loss on fixed asset was ¥ 2B)
<b>Crypto Asset</b>	Achieved full year profitability for the first time after the acquisition. Revenue increased due to higher trading volume and large cost reduction was executed with a focus on fixed cost to lower a break-even point. Segment profit was ¥ 0.3B
<b>Asia Pacific</b>	Segment loss* was ¥ 0.2B due to a reserve for bad debt margin loans, even though transaction volumes in HK market increased (Normalized segment loss after adjusting the bad loan reserve was ¥ 10M)
<b>Investment</b>	Recorded ¥ 0.15B in unrealized gain and realized gain on sale of investment securities. Expenses were small and segment profit was ¥ 0.1B

\* Segment profit (loss) = Pre-tax profit (loss). The same hereinafter

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**Katsuya:** Hello, I am Katsuya, CFO. I would like to explain the Company's results.

Please see pages 7 and 11 of the materials. Here on page seven, you can find the 12-month highlights of our business performance.

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## Achieved quarterly segment profit in all five segments for the first time

<b>Japan</b>	Segment profit was ¥ 0.5B driven by an increase in transactions. (Adjusting ¥ 0.3B of unrealized loss on investment securities and ¥ 0.2B of impairment loss on fixed asset, segment profit was ¥ 1B)
<b>US</b>	Revenue increase due to active market outweighed revenue decrease due to lower interest rates. Segment profit was ¥ 0.3 B. (Normalized segment profit after adjusting ¥ 0.2B of impairment loss on fixed asset was ¥ 0.5B)
<b>Crypto Asset</b>	Segment profit was ¥ 0.3B driven by higher trading volume in booming market
<b>Asia Pacific</b>	Segment profit was ¥ 40M due to account growth and significant increase in trading volume due to the volatile market activity
<b>Investment</b>	MV I Investment Limited Partnership expanded its portfolio to 34 companies as of Mar 2020. Segment profit was ¥ 10M due to unrealized gain on investment

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Here on page 11, you can find the three-month highlights of our business performance.

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(JPY million)	FYE Mar. 2019 (Apr. 2018– Mar. 2019)	FYE Mar. 2020 (Apr. 2019– Mar. 2020)	Variance	Rate of change	Reference
Total operating revenue after deducting financial expenses	47,417	47,990	573	1%	P18: Analysis of Japan segment P20: Analysis of US segment (USD) P22: Analysis of Crypto Asset segment
SG&A	44,690	42,835	-1,855	-4%	P19: Analysis of Japan segment P21: Analysis of US segment (USD) P23: Analysis of Crypto Asset segment
The amount equivalent to operating income	2,727	5,155	2,428	89%	
Other income / expenses (net)	-937	-1,025	-87		Breakdown in DATA BOOK P20: - Consolidated financial results (Other income and other expenses)
Profit before income taxes	1,790	4,131	2,341	131%	
Profit attributable to owners of the Company	1,181	3,011	1,829	155%	
EBITDA	11,120	13,277	2,157	19%	

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The performance figures are shown on page 16 onward. Today, I would like to explain the cumulative results for the 12 months of this fiscal year in comparison with the previous fiscal year, and explain the details using the three-month comparison.

Looking at page 16, operating revenues after deducting financial expenses for the fiscal year ending March 31, 2020, totaled JPY47.990 million, up 1% YoY.

The major factor that lead this figure was a decrease in commissions due to a decrease in the trading value from individual investors in the Japanese segment while virtual currency transactions in the cryptoassets business segment increased, resulting in an increase in the overall sales.

As for the sales, general, and administrative expenses, the depreciation expense in the Japan segment decreased, and the costs in cryptoassets business segment also decreased dramatically, resulting in a 4% decrease in SG&A.

As a result, the profit before tax increased by 131% to JPY4.131 billion and the profit attributable to owners of the parent reached JPY3.011 billion.

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(JPY million)	Japan		US		Asia Pacific		Crypto Asset		Investment	
	2019/3	2020/3	2019/3	2020/3	2019/3	2020/3	2019/3	2020/3	2019/3	2020/3
Total operating revenue after deducting financial expenses and cost of sales	25,739	24,342	19,338	19,887	808	634	2,077	3,812	414	148
SG&A	23,013	21,671	17,250	17,877	883	898	4,766	3,502	23	54
The amount equivalent to operating income	2,726	2,671	2,088	2,010	-75	-263	-2,689	310	391	94
Other income / expenses (net)	-1,479	-420	-111	-246	26	33	957	-17	-9	-0
Profit before income taxes	1,247	2,251	1,978	1,763	-48	-230	-1,732	293	382	94
Profit attributable to owners of the Company	1,284	1,569	1,439	1,418	-13	-208	-1,826	224	326	47
EBITDA	8,820	7,680	4,817	5,140	-3	-144	-2,557	800	391	94
Note	See P18 "total operating revenue after deducting financial expenses and cost of sales" for more details See P19 "SG&A" for more details		See P20 "total operating revenue after deducting financial expenses and cost of sales" for more details See P21 "SG&A" for more details				See P22 "total operating revenue after deducting financial expenses and cost of sales" for more details See P23 "SG&A" for more details			

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On page 17, you can see the results by business segment. If you see the figures in comparison with the ones in the previous fiscal year, we saw that the US and cryptoassets business segments have increased in revenue while other segments have decreased in revenue. As for profit, Japanese and cryptoassets business segments have shown an increase. Looking at the degree of contribution to profits, Japan and the US business segments recorded the highest contribution, and the cryptoassets business segment has returned to profitability throughout the year.

To add more information for each business segment, net sales in the Japanese business decreased due to a decrease in brokerage commissions resulting from sluggish trading value in the market compared with the same period of the previous fiscal year and a decrease in the net financial income. SG&A expenses also decreased due to a decrease in depreciation and amortization.

In the US business segment, net financial income and brokerage commissions increased YoY, resulting in an overall increase in revenue. On the other hand, selling, general and administrative expenses increased due to the launch of new businesses.

In the Asia-Pacific business segment, sales and profits decreased YoY due to a decrease in commissions resulting from a decrease in the volume of transactions in the Hong Kong market, and an increase in provisions for margin transactions in the 2Q and 3Q.

In the cryptoassets business segment, we were registered as a virtual currency exchange service provider in January last year. As a result, in this fiscal year, we were able to provide all services, which fully contributed to the results. This registration and an increase in transaction volumes together with the implementation of significant cost-cutting measures resulted in the increased sales and profit.

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(JPY million)

	3Q FYE Mar. 2020 (Oct. 2019- Dec. 2019)	4Q FYE Mar. 2020 (Jan. 2020- Mar. 2020)	Variance	Rate of change	Reference
Total operating revenue after deducting financial expenses	11,157	13,556	2,400	22%	P26: Analysis of Japan segment P28: Analysis of US segment (USD) P30: Analysis of Crypto Asset segment
SG&A	10,270	11,452	1,182	12%	P27: Analysis of Japan segment P29: Analysis of US segment (USD) P31: Analysis of Crypto Asset segment
The amount equivalent to operating income	886	2,104	1,218	137%	
Other income / expenses (net)	-17	-1,037	-1,020		Breakdown in DATA BOOK P20: - Quarterly consolidated financial results (Other income and other expenses)
Quarterly profit before income taxes	869	1,066	198	23%	
Quarterly profit attributable to owners of the Company	573	758	185	32%	
EBITDA	2,886	4,179	1,293	45%	

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We would like to explain our results for three months in the 4Q on page 24 onward.

In this quarter, the operating revenues increased by 22% to JPY13.556 billion and net income increased by 32% to JPY758 million compared with the previous quarter.

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## QoQ Comparison (3 months) Segment Performance



	Japan		US		Asia Pacific		Crypto Asset		Investment	
(JPY million)	2020/3 3Q	2020/3 4Q	2020/3 3Q	2020/3 4Q	2020/3 3Q	2020/3 4Q	2020/3 3Q	2020/3 4Q	2020/3 3Q	2020/3 4Q
Total operating revenue after deducting financial expenses and cost of sales	6,293	6,821	4,514	5,451	65	278	481	1,256	-34	29
SG&A	5,366	5,863	4,227	4,951	208	253	583	987	15	14
The amount equivalent to operating income	927	958	287	501	-143	25	-102	269	-50	15
Other income / expenses (net)	-26	-495	-2	-217	4	16	-25	-0	-0	0
Quarterly profit before income taxes	901	463	286	284	-139	41	-127	269	-50	15
Quarterly profit attributable to owners of the Company	623	322	243	167	-121	32	-138	242	-32	-0
EBITDA	2,168	2,276	1,077	1,270	-113	54	-10	362	-50	15
Note	See P26 "total operating revenue after deducting financial expenses and cost of sales" for more details. See P27 "SG&A" for more details.		See P28 "total operating revenue after deducting financial expenses and cost of sales" for more details. See P29 "SG&A" for more details.				See P30 "total operating revenue after deducting financial expenses and cost of sales" for more details. See P31 "SG&A" for more details.			

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On page 25, you can see the breakdown by segment. Compared to the previous quarter, sales increased, but profits decreased in the Japanese and US business segments, while the other segments saw increases in sales and profits. This five-segment structure was established two years ago, and segment income was recorded for the first time in all the business segments.

Looking at the degree of contribution to profits, we see that Japanese business segment tops the list, followed by the cryptoassets business segment. In the US business segment, we recorded net income of JPY167 million for the quarter despite headwinds such as the elimination of trade fees and decreased market interest rates, which was made possible by the increased revenue and an increase in other profits offsetting such headwinds.

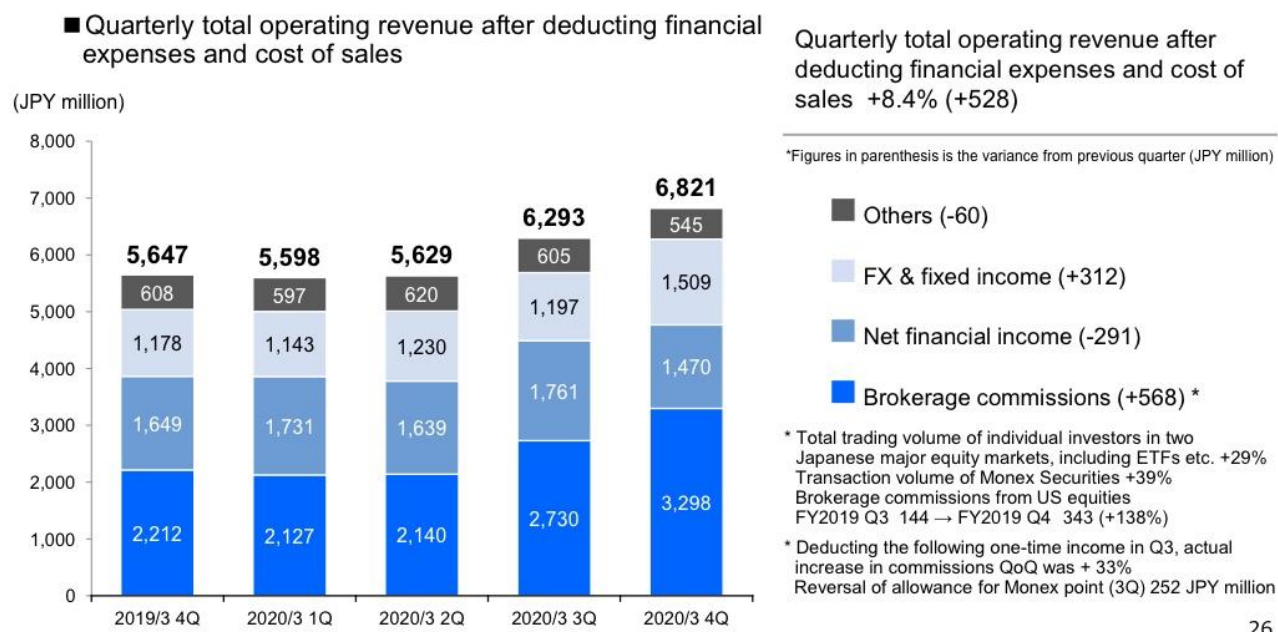
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**Japan : Trading volume of Japanese equities at Monex Securities increased more than the market. Brokerage commissions from US equities continue to increase and the total brokerage commissions increased**



Now, I will explain the revenues and expenses for the three main business segments.

First of all, looking at the revenues of the Japanese business segment on page 26, the revenue of the quarter increased by 8.4%, or JPY528 million, compared with the previous quarter, to JPY6.821 billion. The main reasons for the increase in sales include an increase of about 30% in the market's personal trading value from the previous quarter, which provided a very favorable environment. In addition, brokerage commissions increased by JPY568 million as a result of growth in US equity-related revenues. Revenue from FX and bond-related businesses also increased by JPY312 million due to the active FX market.

In December of last year, we eliminated the sales charges for investment trusts, as well as the margin transaction fees for TFs and REIT and made them free-of-charge. Thanks to the elimination of these fees plus the active trading environment, by the end of March, the net increase in sales of the investment trusts reached JPY10 billion. For margin trading of ETFs and REIT, the trading value has tripled compared with the figure before the elimination of the fees.

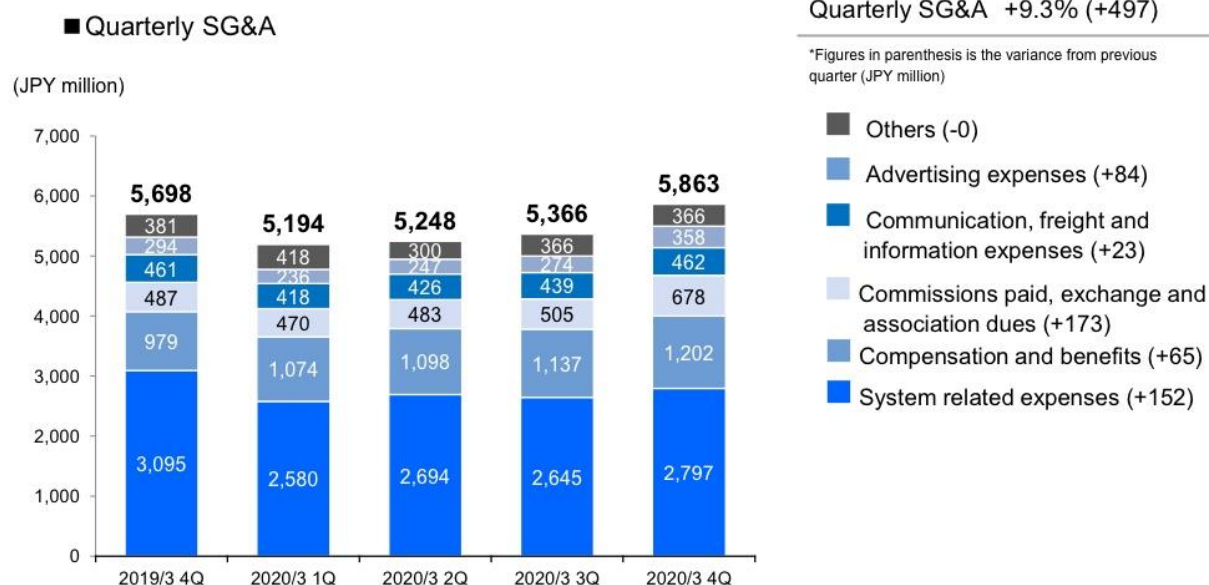
These growths were made possible partly because the market was very good, but we believe that the impact from the elimination of the fees was about JPY160 million for investment trusts and some JPY100 million for margin trading.

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Japan : Commissions paid increased in the market with increased volume, and advertising expenses increased due to account growth



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Regarding expenses in the Japanese business segment on the next page, they increased by 9.3% or JPY497 million from the previous quarter to JPY5.863 billion. Due to the increase in revenues, variable costs such as commissions paid and advertising expenses increased.

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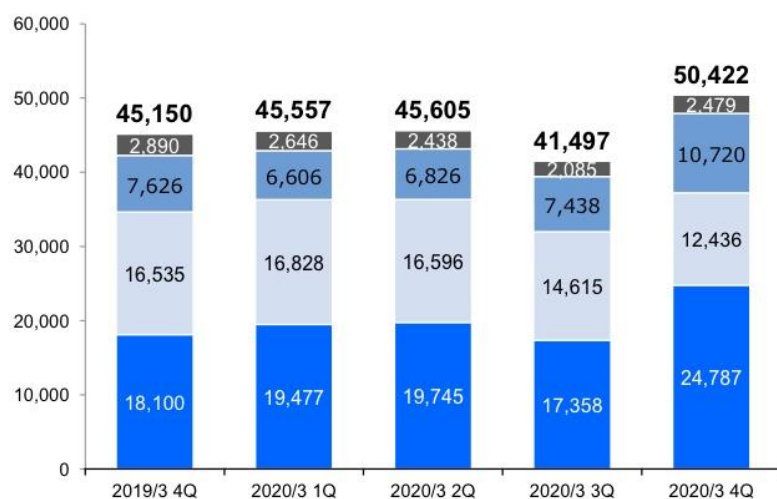
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**US : Brokerage commissions and other commission increased by over 40% QoQ due to higher VIX. This drove an increase in total revenues of 21.5% despite a decline in net financial income due to lower interest rates**

■ Quarterly total operating revenue after deducting financial expenses and cost of sales

(USD thousand)



Quarterly total operating revenue after deducting financial expenses and cost of sales +21.5% (+8,926)

\* Figures in parenthesis is the variance from previous quarter (USD thousand)

- Others (+394)
- Other commission (+3,282)
- Net financial income (-2,179)
- Brokerage commissions (+7,429)\*

\* VIX Daily Average: 14.0→31.2

DARTS QoQ: Equities +98%

Options +33%

Futures +73%

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In the US business segment, revenues increased by USD8.92 million YoY, or 21.5%, to USD50.42 million. The main reason for the increase in revenues was a significant increase in brokerage commissions brought about by a significant increase in the market volatility. In addition, there was a substantial increase in commissions received, such as payment-for-order-flow, which also resulted in an increase in revenues.

On the other hand, the net financial revenue decreased due to a significant reduction in market interest rates as a result of the turmoil brought to markets by state of emergency declarations issued in various countries in response to the spread of the coronavirus infection. However, the decreased net financial revenue was offset by the factors for revenue increase that I explained earlier, resulting in an overall increase of 21.5%.

In the US business segment, we introduced a zero-commission plan called TS GO/Select last year. The decline in brokerage commissions brought about by this plan was some USD4.2 million throughout the fiscal year under review, which is roughly in line with our forecast when we announced our financial results three months ago.

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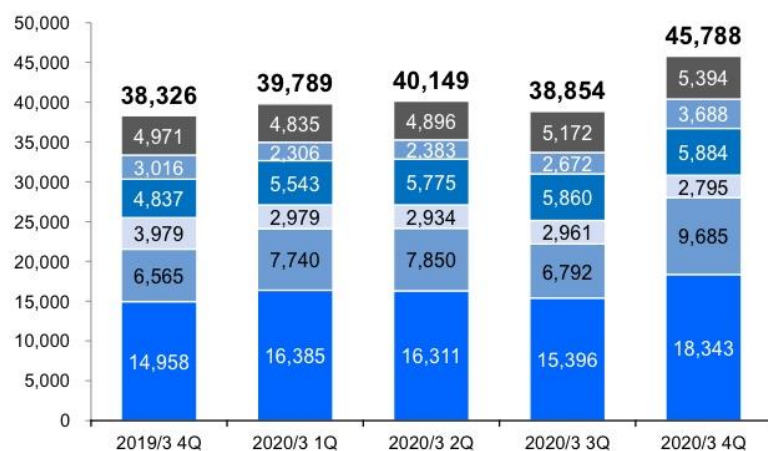
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US : Variable costs increased due to higher commissions paid and an increase in incentive compensation earned from the favorable company performance.  
 Advertising expenses increased due to official launch of new business

■ Quarterly SG&A

(USD thousand)



Quarterly SG&A +17.8% (+6,935)

\*Figures in parenthesis is the variance from previous quarter (USD thousand)

- Others (+222)
- Advertising expenses (+1,015)
- Amortization and depreciation (+24)
- Communication, freight and information expenses (-166)
- Commissions paid and association dues (+2,893)
- Compensation and benefits (+2,947)

29

Looking at page 29, the expenses for the US business segment expenses increased by 17.8% or USD6.93 million from the previous quarter to USD45.78 million. Commissions paid increased due to an increase in transactions. Expenses also increased as a result of the increased advertising expenses for new businesses such as YouCanTrade and virtual currency transactions.

**Support**

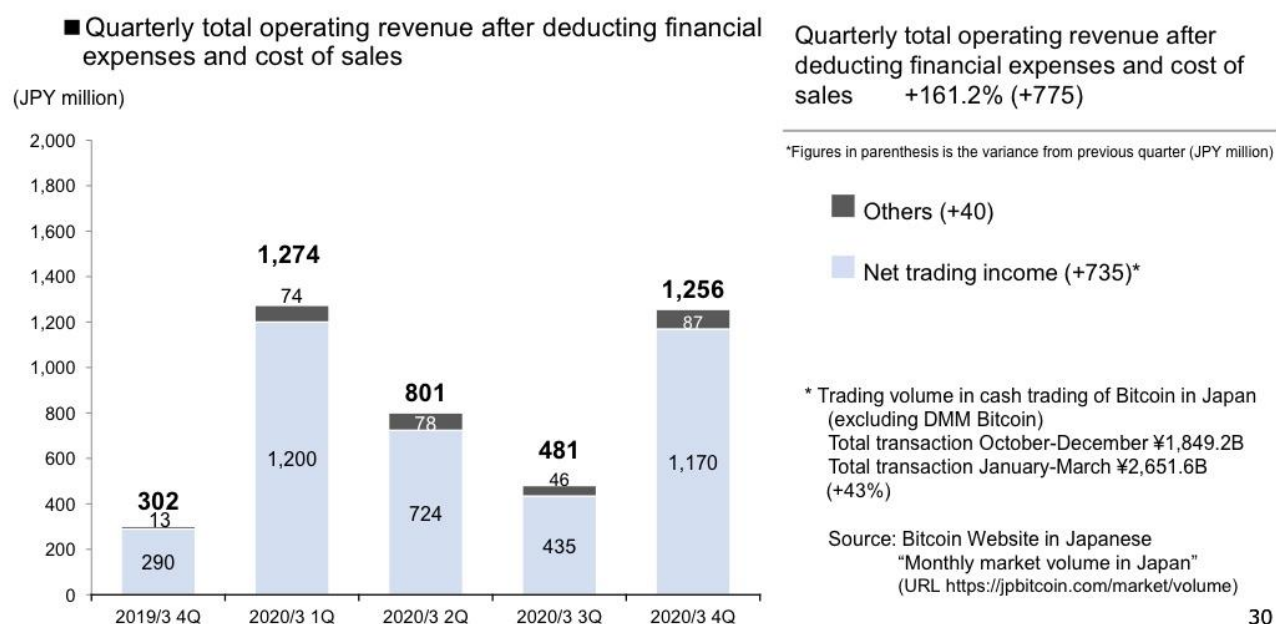
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## Crypto : Net trading income drastically increased due to larger market volume driven by higher volatility



Finally, in the cryptoassets business segment, revenues grew significantly by JPY775 million, or 161.2%, from the previous quarter to JPY1.256 billion. Trading revenues rose sharply against the backdrop of a rapid recovery in the virtual currency market this year.

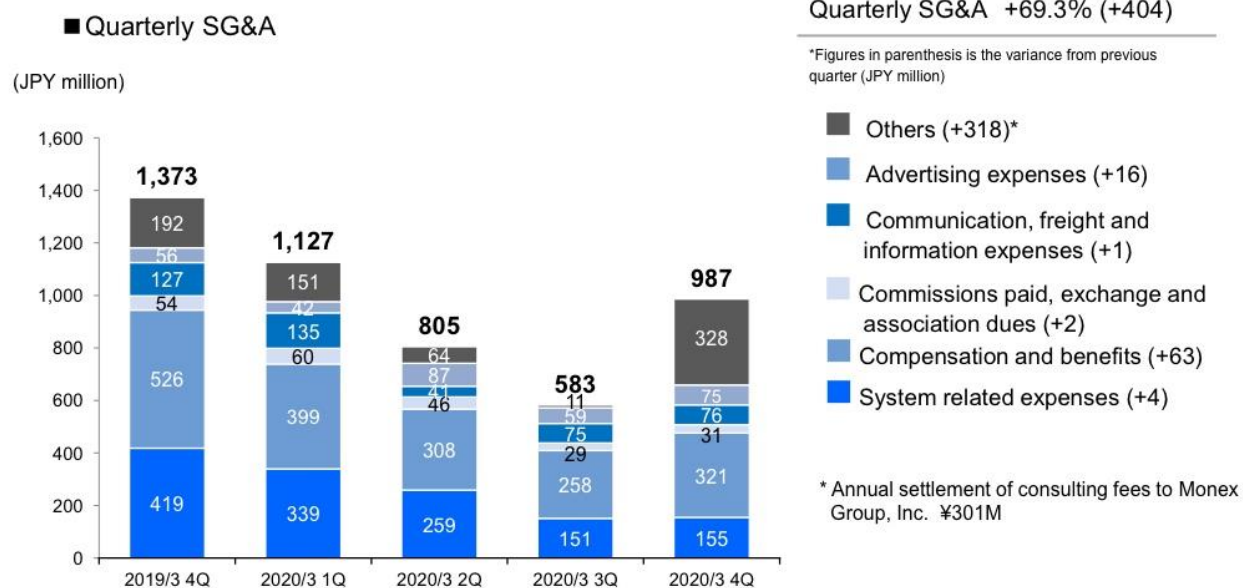
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**Crypto : SG&A increased due to an increase in incentive compensation linked to the favorable company performance and consulting fee (including full year catch-up) to the Company**



31

Expenses increased by JPY404 million from the previous quarter, or 69.3%, to JPY987 million. However, JPY300 million out of this increase of JPY400 million was attributable to the increase in expenses due to the annual settlement of management guidance fees for our parent Company, so the actual increase in expenses is JPY100 million. In addition, approximately half of this increase was due to an increase in the provision for bonuses as a result of The Group's improved business performance.

That's all for my briefing on our consolidated financial results.

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## Monex Activist Fund has started investments in April and will offer publicly offered investment trusts to individual investors in June

### Restore sovereignty to individual investors, the anchor of capital markets

- Best time to invest considering the recent correction of the market. Under the corporate governance reforms, the fund will play an important role in the society when Japanese companies have more chances to change
- Japan Catalyst, Inc. consists of professional and diverse members from inside and outside of our group

#### Career Background

AllianceBernstein,  
Goldman Sachs AM,  
SPARX AM,  
Hedge Fund (H Co., M Co.),  
“Murakami Fund”,  
Nomura, McKinsey, etc.



#### Professional Fields

Bottom-up research-based funds,  
Hedge funds,  
Activist funds  
Fund engagement,  
Management consulting,  
M&A banking

35

**Matsumoto:** Now, I will give you some business updates.

Let's first look at page 35. This page shows the activities of the Monex Activist Fund and the Japanese business segment. These will serve as very important leading segments for us in promoting efforts to transform our Japanese business segment into an asset-management model. The investment advisory team of Japan Catalyst, Inc. put together a strong team dedicated to this mission.

As we have seen, the team has been established by putting together a group of wide-ranging and nicely diverse specialists from Alliance Bernstein, Goldman Sachs Asset Management, SPARX, hedge fund firms, Murakami Fund and so on, who have solid and nicely diverse experiences. The team has already been well-established and started managing the fund's assets.

The team has already started managing this Monex Activist Fund and is currently managing the Monex Group's money, but we have a plan to launch the investment trust of this fund in June for individual investors of Monex Securities and are now making preparations.

This is an important step for us to promote transformation of Monex Securities and the Japanese businesses into an asset-management model. At the same time, this is an effort to provide a final touch to the corporate governance reform efforts pursued by the Japanese capital markets. In addition, I believe that the investment advisory teams of Japan Catalyst, Inc. and Monex Activist Fund have an important role to play in further promoting and supporting necessary transformations required in this coronavirus crisis in the face of necessity and opportunities for pursuing such transformations.

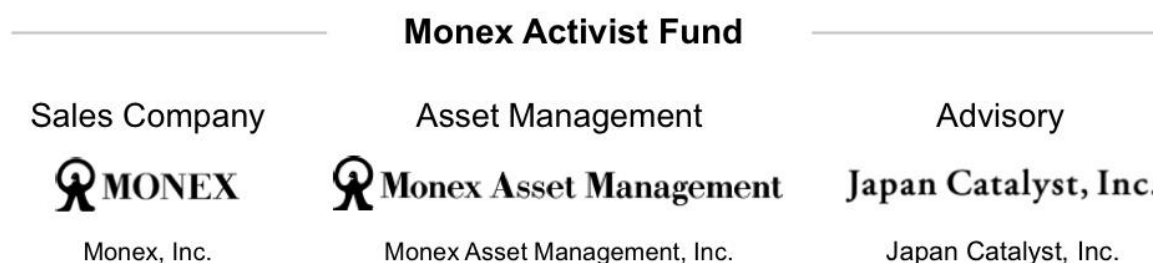
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## Monex Asset Management starts managing **Monex Activist Fund**, being advised by Japan Catalyst

- Monex-Saison-Vanguard was renamed as Monex Asset Management which will become a wholly-owned subsidiary of Monex Group as its core company for transforming itself to an asset-management model
- Start investments for the fund to seek for corporates' growth in Japan
- The formation of the fund is completed in Monex Group as below. The fund will both enlighten individual investors on the activism as well as execute the engagement to the companies invested



36

Now, looking at page 36, this shows the entire structure of the Activist Fund in which the Japan Catalyst, Inc. provides advice on the entire process and Monex Asset Management, formally called Monex-Saison-Vanguard, manage the fund's assets and will sell the fund to individual investors in the future as a sales Company. Thus, our Group will be responsible for managing all necessary processes for the Monex Activist Fund, which will provide a major boost to transforming our Group's business into an asset management-based model.

In fact, I am also substantially involved in this project, and I have even begun making concrete efforts to engage people. As I look at boards of directors for companies in which I've actually started investing or I want to invest, I found many people serving as external directors or in the management that I already knew. There are so many cases like that. From what I have experienced in the past one month, I would say that I can directly get in touch with the board directors of approximately three-quarters of the companies that I want to invest in, which I think will give us a considerable edge.

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## Steady growth in mutual fund services. Launch of new services for asset management transformation

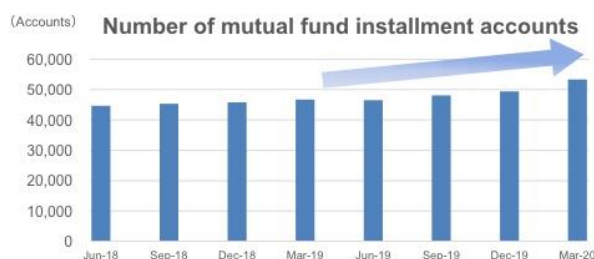
### Mutual Fund

#### “ON COMPASS” (discretionary investment)

- Rebranded from MSV LIFE to “ON COMPASS” and improved UI/UX for further user-friendliness
- More financial institutions are expected to introduce a face-to-face service “ON COMPASS+”

#### Mutual Fund

- Daily installment service was launched in January, which drove growth in the number of installment account by 8% QoQ (about 50k)



### New service for asset management transformation

#### Monex SP Trust, Inc.

- The online inheritance procedures service was launched on April 27. Monex SP and Monex Securities also prepares for a testamentary trust service

#### IFA Services

- Launched IFA service, which gives tailor-made portfolio advices to increase customers' assets and contributes to customer acquisition from beginner investors to the wealthy class

#### ferci (Trading community app for beginner traders)

- “ferci” is designed to provide a new choice for asset creation to those unfamiliar to the existing financial services
- Enable users to trade Japanese equities via Monex Securities API while checking other users' review of each individual stock

37

Page 37 shows the other services of our Japanese business segment. Our investment trust service has been growing steadily with the launch of the daily accumulation fund plan. We have also strengthened the Monex Asset Management's wrap account service with its name changed from the former MSV LIFE to ON COMPASS.

Monex SP Trust, Inc. has started offering trust services, online inheritance, and web-based inheritance support services. We have already received inquiries from customers about these services, but we will put more efforts on developing products and services, as we believe that more and more people will become interested in making necessary inheritance preparations without direct face-to-face contact in the midst of today's coronavirus crisis.

We have also started offering IFA services. As we are in the middle of the coronavirus crisis, we would have to adjust service times and so forth, but, we have begun offering IFA services in order to answer complicated questions about our ongoing efforts to turn our business model into an asset management-based model and to meet a variety of needs of clients for trust services that we started offering.

We do a smartphone-based security app called “ferci” which we have been growing, but the app has actually been in operation. This app, like the TradeStation in the US, also has the abilities to help build communities of customers. Using these abilities, we will focus on increasing the number of app users, especially young people.

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## Favorable growth YoY in US equity. Higher market share in margin trading

### US Equity Trading



- Number of transactions and active accounts increased by 350% and 250% respectively YoY
- Launched simultaneous account opening for basic brokerage accounts and US equity account. Account openings are increasing
- 25k users are using mobile-phone app, Monex Stock Scouter for US Equity every day
- Manage customers' deposit in US dollars



### Margin Trading

- In addition to the service expansion of general margin trading service, smart-order routing and PTS margin trading will be introduced in Q1 FY2020
- Service expansion drove higher market transaction volume share in margin trading



38

On page 38, the figure on the left shows the status of US equity trading in Japan, and the number of executed transactions increased significantly by 4.5 times compared with the same period of the previous fiscal year, and 2.5 times from the previous quarter. We are the only Japanese financial institution offering full service to retail customers in the US who have overwhelming strengths in US stocks. Prompted by these strengths, we were able to achieve this growth.

Every day, 25,000 people use the US stock version of our StockScouter.

Margin trading also accounted for 5.2% of the trading value. The increase seems to be just a slight one in the graph, but this is a huge increase in the world of margin trading. So, our margin trading has been growing steadily.

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## Trading volume significantly increased due to high volatility and commission-free plans. Number of active accounts continues to grow

### Trading volume

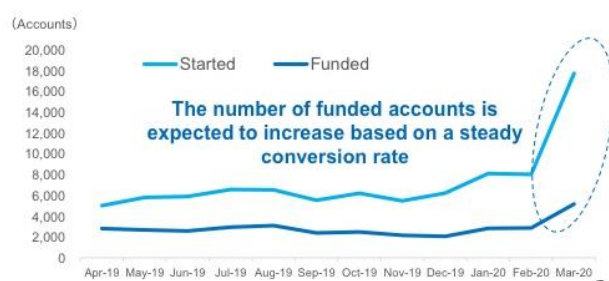
- Trading volume (DARTs) increased approx. 1.8 times QoQ
- Market volatility spikes drive higher transaction volume, particularly in our futures and more active equity accounts
- Commission-free plans, which lower the barrier to trade, also contribute to higher transaction volume which in turn, drives higher PFOF and other commission related fees

### Account acquisitions

- Number of account openings significantly increased due to marketing, API growth and higher market volatility.
- Rated Best "Professional Platform" by TASC\* Readers' Choice Awards.

Rated "Best for Active Trading" and "#1 Platform Technology" in the StockBrokers.com 2020 Online Broker Review

\*Technical Analysis of Stocks and Commodities



39

On page 39 onward, we will talk about our US business. The red line at the lower left shows VIX, which has been growing. The revenue from commissions for VIX has also been increasing. As Mr. Katsuya explained to you earlier, on a quarter-to-quarter basis, the topline was down from Q2 to Q3 due to the elimination of trade fees. However, the topline grew significantly in the 3Q and 4Q.

This growth was made possible in spite of the elimination of trade fees as the elimination resulted in a large increase in the number of transactions in the midst of increasing volatility. As the number of transactions increases, we can receive commissions from security exchanges in the form of payment-for-order-flow even if we receive no commissions from customers. Or, you can get a commission on futures transactions whose commissions have not been eliminated. Alternatively, even if the publicized trade fees are zero, there are other non-publicized fees including contract fees, and when these are combined, there are some fees that increase as the number of transactions rise even though the publicized trade fees are zero. As a result, the income from commissions increased significantly, despite the elimination of trade.

In addition, as shown on the right, an increase in the number of new accounts was large. As shown in this light blue graph, the number has grown at a very rapid pace, but the increase in the number of deposited account has not kept pace. This will keep up in the future. We think that deposits will be made to these new accounts, and even when the coronavirus crisis subsides and volatility declines in the future, these funded accounts will increase, which will provide us with support.

In addition, payment-for-order-flow and other transaction-related fees increase as transactions increase due to the effects from the elimination of trade fees. Combining these effects with those from the reduction of some 10% personnel or 50 employees and annual cost cut of about USD7 million through the reduction, I believe that we will continue to be profitable after going through a tough period briefly despite the declining interest rates.

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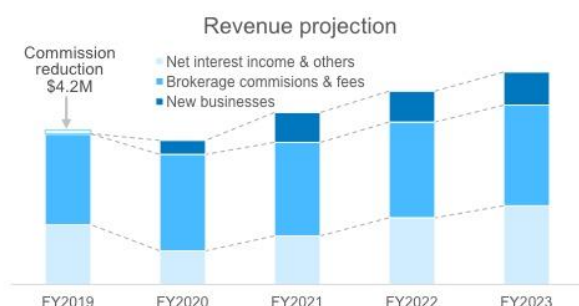
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## New business initiatives to offset revenue decline

### Revenue Dynamics

- Net interest income in 4Q was \$10M. Net interest income in FY2019 was \$50M
- Commission decline resulting from the commission-free plans, TS Go/Select, was \$4.2M in FY2019
- Market volatility and various price increases on legacy products have mitigated impact of free commissions and lower interest rates



### New business

- Revenues from TradeStation Crypto, Inc. (TCI) increased due to active market. TCI grew approved accounts over 5x during quarter to 3,782, of which 1,044 have fund
- YouCanTrade grew community members to 4,500+, while also starting to focus on conversion to premium subscribers.

#### What's YouCanTrade?



An online investment education media service and community designed to help traders. YouCanTrade brings the power of a social community to traders by offering channels and courses (see below) where they can share trading approaches and techniques

Contents	Overview	Price
Channels	View trading demonstrations. Ask questions and chat with other members. Receive real-time trade alerts from the coaches	\$59~149/month
Courses	Learn trading skills from professional coaches	\$199~1,997

40

Specifically, as shown in the image on page 40, even though the impact of the elimination of trade fees will be felt more strongly in the ongoing quarter from the quarter we are looking at today, factors such as an increase in the number of accounts, a substantial increase in the revenue from the payment-for-order-flow and other fees, the cost cuts that we have achieved thoroughly, and the growth of community business will be realized.

In addition to these factors, (Monex) Crypto (Bank) will also help us increase profit in a steady manner possibly after receding a little in this ongoing quarter.

On the right-hand side, the number of accounts for Crypto grew steadily and profits increased. In addition, YouCanTrade is an investment community similar to a community college, a culture college, or a culture school in Japan. The community members have been taking its courses, including the large-scale ones with up to USD2,000 in monthly tuition, indicating that the members are studying about and actually do trading rather seriously. These are the type of people who are in our YouCan Trade community.

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## Full-year profit of ¥0.3B (\*) with larger revenue streams driven by higher trading volume and the cost-reduction with creating efficient operations

### Crypto-assets

- Monthly average trading amount per user

**+33% QoQ**

- Monthly active users

**+75% QoQ**

→ On the back of recent market trends, favorable performances of the two indicators above will result in our revenue stability (P.42)

\* Revenue and cost for FY2019  
 Total operating revenue after deducting financial expenses ¥3.8B  
 SG&A ¥3.5B

### New initiatives

- Started new currency offering of Qtum to expand more investment options. Coincheck offers 12 cryptocurrencies in total (#1 in Japanese crypto-exchanges as of May 2020)
- The world's first "Lisk staking service" provider. Adding the "Periodic Purchases", it expands stock-revenue services
- Launched the "One-day Identity Verification" to improve account opening process for customer acquisition
- OTC trading expanded to 5 currencies for 24-hours, 7 days a week

41

From page 41 onward, we will talk about Crypto. Its topline has grown significantly as a result of the increased volatility and a growth in the number of traders.

As shown in the lower left-hand corner, Coincheck is a company of a considerable scale, with a yearly top line of JPY3.8 billion. As I mentioned at the outset, its EBITDA for the last fiscal year was negative JPY2.6 billion in, but was positive JPY0.8 billion this fiscal year, recording a whopping increase of JPY3.4 billion, which makes Coincheck quite a promising company. Despite various challenges in the environment, I believe that we have developed this company into a business of great promise.

The efforts we made within this company have been like rehabilitation. I feel that our efforts are finally bearing fruit.

As shown on the right-hand side, we are constantly developing and introducing new services, such as adding a new currency, Qtum, and launching the world's first coin staking service called Lisk, to increase the area where we can make profits. We are also creating revenue sources that do not rely solely on trading, such as staking service.

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No.1 app downloads in the cryptocurrency exchanges in Japan (\*)  
 No.1 in the number of cryptocurrencies available in Japanese exchanges

**Registered and ID-confirmed Users**

**Number of app downloads**  
**2.87M**

**Registered Users**  
**2.03M**

**Users with ID confirmed(\*\*)**  
**0.94M**

\* Bitcoin App downloads No.1

Term: January 2019 to December 2019 . Source: App Annie

\*\* Definition has changed. 0.92 M users at the end of Q3 based on the new formula

**Create Stable Revenue Streams**
**Asset creation with Lisk staking service**

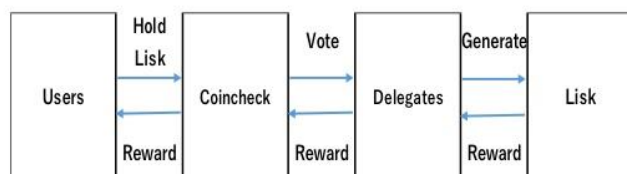
- Certified Lisk holders get rewards when delegates are ranked within top 101

**Long-term asset creation without large impacts of the market volatility**

- Added new "Daily Purchases" plan to Periodic Purchases and expanded to other cryptocurrencies than BTC

**User acquisitions from group synergies**

- Monex Points is exchangeable to cryptocurrency at Coincheck
- Monex Group's shareholders can receive BTC as its shareholders' benefit at Coincheck.

**Overview of Lisk staking service**


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Page 42 describes the specifics of our staking service and the cooperation structure within The Group.

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Provide market insight of crypto-assets and blockchain to investors as well as offer related services to society

#### Crypto-assets



A web-based media delivering latest trends and news regarding blockchain and crypto-assets. In-house professional writers provide higher-quality and competitive information. Report "Blockchain trends in China 2020" was publicly released with charges



A smartphone app "Cheeese" gives users Bitcoin just by reading news feed or answering a survey on the app. Users can receive Bitcoin for their online shopping as well

#### Crypto-assets and blockchain



Offers holistic database services, delivering information on companies and products involved in crypto-assets and blockchain, aiming to expand paid subscribers



Preparing a platform to manage genomic information, healthcare information such as EHR (Electronic Health Record) and PHR (Personal Health Record) using blockchain, IoT and AI

43

As shown on page 43, BLOCK INSIGHT has published the book titled, *Chinese Blockchain Trends 2020*, probably the most detailed information source on the trends in China, which is now on sale. In Cheeese, we are enhancing various survey functions. And, in our Company, GENEX, we are currently developing a service that manages the blockchain of genome-related information. As you can see from these developments, we have been incubating new blockchain-related businesses within The Group.

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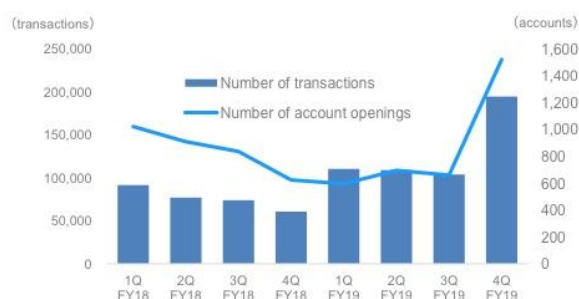
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## Revenue increased by higher trading volume. Number of active accounts significantly increased

### Monex Boom Securities (HK)

- Number of transactions +87% QoQ
  - Number of account openings +130% QoQ
- Monex Boom Securities promotes trading activation measures such as promotion of preferential trading fees for Hong Kong and US equities for new customers for a limited time



### Cherry Technology Co., Ltd (China)

- Providing technology and knowledge of online brokerage business through a joint venture in PRC. Recorded profit of equity method investments for the last twelve consecutive quarters



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Now on to page 44. Our Hong Kong business, like other business segments, has enjoyed better results amid the increasing volatility. In addition, although the online joint venture in China is not very large, it is steadily growing.

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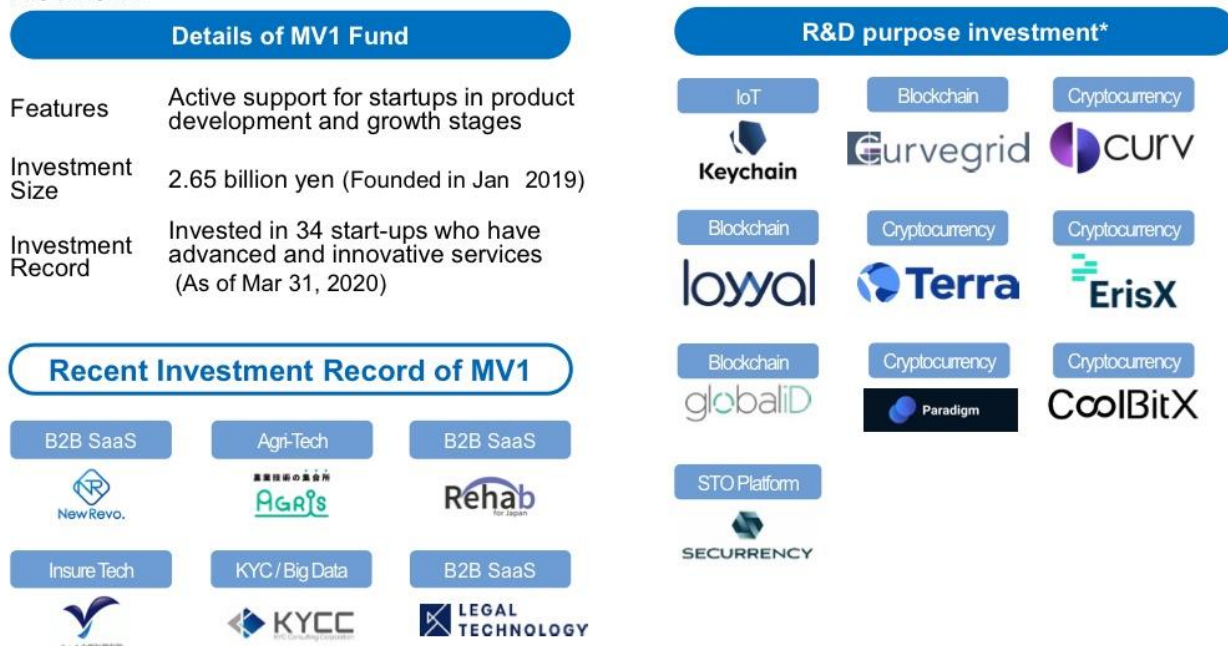
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## MV1 attracts promising investment opportunities by leveraging its unique network



\* Including the investments aside from Investment Segment

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On page 45, I'll talk about the investment business segment. As shown, MV1 or Monex Venture 1 has invested in businesses, including Insure Tech, B2B SaaS and various types of technology-related KYC/big data companies. We are investing in these businesses as a professional investor, which also allows us to discover a lot of new things.

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## Contribute to the sound development of the capital market and promote initiatives that lead to sustainable growth of Monex Group

### Materiality Matrix

#### Disclosing Materiality Matrix

- Prioritized ESG topics based on our group challenges and the social problems. The chart below is disclosed on our website\*



\*<https://www.monexgroup.jp/en/esg.html>

### ESG Initiatives

#### Corporate Governance

- Established a corporate governance system by global standards (P52)

#### Risk Management

- Monex Group organizes a monitoring system to covers each subsidiary's risks comprehensively

#### Cyber Security

- Risk-based approach helps with planning a countermeasures for identified risks and implement continuous improvement activities

#### Other ESG Initiatives

- Financial education program to "democratize" capital market in Japan, US, Hong Kong
- Created group policies on "Code of Conduct" & "Human Rights Policy" \*
- Famiee's "Partnership Certificate" for same-sex partners decided to be adopted in employee benefit application procedures

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Page 46 presents the materiality matrix of our ESG initiatives, and we will make improvements while updating it.

As shown on the right, we are constantly striving to improve governance and risk management. We also formulate and disclose The Group-wide human rights policy, and we will cooperate with the company called Famiee that issues partnership certificates for same sex couples. Our Company operates on the LGBT-free basis in Japan, providing same-sex couples with the same treatments as heterosexual couples. We would like to further promote such initiatives.

That's about it. To sum up, our Group has performed well like other online security firms. What makes us stand out from other online security firms is that we operate globally and that we also have Crypto. Crypto's EBITDA improved significantly from negative JPY2.6 billion to positive JPY0.8 billion. In our US business, revenue from commissions has been increasing despite the elimination of trade fees and declining interest rates. We also cut costs at the end of April. The Japanese business is facing challenges, but the investment advisory firms Japan Catalyst, Inc. and Monex Activist Fund have gotten off to a good start and are now transforming their businesses.

We are firmly building up our overall business portfolio to make sure that the businesses grow steadily. Being in today's situation in which nobody knows what the future, even the immediate future, holds, we are glad to have the current business portfolio. We also feel that there are still many areas that can be improved and challenges we have to tackle, and we will surely keep working on them.

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## Question & Answer

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**Matsumoto:** Now, I would like to take your questions.

The first question is from Mr. Hara of SMBC Nikko Securities about what made us decide to abolish TradeStation and the impact in terms of cost from the abolition?

Three to four years ago, we began in-house production of Galaxy, our Group's core system in Japan. Since then, we have made steady efforts to refine this system. Through these refinement efforts, the original service, which was like a general-purpose machine, has developed to become increasingly effective as we operate Galaxy with a system that was built in-house. Galaxy has not become effective enough to respond accurately to the needs of active traders.

On the other hand, although active traders rated the TradeStation tools highly, there were several issues, such as the inability to go public or the inability to participate in an IPO. Therefore, it is becoming increasingly possible to offer TradeStation functions with Galaxy, and there continue to be functions that TradeStation cannot offer. In addition, the TradeStation business, unfortunately, has been unprofitable in Japan. So, we decided to part with the TradeStation and, instead, focus on refining Galaxy.

In terms of the impact on PL, the TradeStation business has recorded a deficit of about JPY200 million per year in the current periods, and with this deficit disappearing, PL will have to enjoy an increase of some JPY200 million per year. In PL, revenue and cost are roughly JPY200 million and JPY400 million, respectively. Am I right? The combined PL was negative JPY200 million, which will disappear.

Second, in the US, personnel costs rose due to the launch of new services, but the Company has cut jobs. Are there strategic changes in the personnel mix, and is the JPY750 million brought about by the job cuts reductions included in temporary expenses? If so, please share the plan for it.

First of all, there are both good and bad sides to the way they do business in the US, but there are some basic practices followed by many. For example, there are two common practices to do business. The one is to increase the number of employees as the Company expands by adding new services, and review and make necessary changes to the portfolio of businesses once in a few years without cutting back on employees. The other is to resize the organization every time when the environment changes greatly and then proceed to the next step.

In October last year, the elimination of trade fees, which is equivalent to the modern version of the Mayday, took place and the interest rate fell to zero in the wake of the coronavirus crisis, which changed the environment completely. Therefore, we decided we should resize the organization on an irregular basis and, regardless of what we have done so far, resized the Company for the time being.

JPY750 million is the run rate; at the run rate of JPY750 million per year. Either way, this is the figure for the ongoing fiscal year, not for the fiscal year ended March 2020. It is for the fiscal year ending March 2021.

Since we put together the figure for the fiscal year ending March 2021 on April 28, the figure does not fully cover 12 months, and there are some temporary costs like severance packages. Combining these together, it will be about USD7 million per year, but the impact on the financial year ending March 2021 will be about USD6 million per year. Therefore, I think it will be about JPY650 million, including all temporary costs.

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The third question is about the chart that appears on the left-hand corner of page 40. What are the bases to assume that the V-shaped recovery will be made in the net financial revenue? And what are the reasons for assuming the increase in commissions received shown in the material for the 3Q?

The net financial revenue includes those from stock lending, and I would like to ask you to first understand that our deposit management is not conducted at the federal funds rate. Some of them are managed at the LIBOR linked and others use swaps when the curve is formed. Therefore, if/when the FF becomes zero, our financial revenue will not be zero. Instead, a variety of measures are being taken to improve the financial revenue.

In addition, our Group is making steady efforts to strengthen stock lending, and the number of such lending has been increasing. Now, the number of new accounts is growing fairly smoothly, and the accompanying new deposits are increasing, so the denominator, or the base, has been expanding, resulting in an increase in the net financial revenue. Several factors such as these will overlap to increase the financial revenue in a way shown in the image here.

As for commissions received, as I mentioned earlier, the volume of transactions has increased significantly following the elimination of trade fees, and the accompanying payment-for-order-flow has greatly increased. That's one big thing, yes, and there was also a class change, wasn't it? We have yet to grasp the effect of these accurately, but it is a major reason that the financial revenue will increase in any case, which will lead to an increase in assets under custody.

With regard to commissions received, there are payment-for-order-flow and so on, so even with the elimination of trade fees, the revenues from transactions turned out to be better than we had expected. We thought that the revenues would go down following the elimination of trade fees. The results were better than what we had thought. In the future, as shown in this image, we will see some decline in revenues from commissions as the effects from the elimination of trade fees proceed. However, there are things that are increasing as the number of transactions increases, so it is like this kind of round-trip.

Fourth, if you were to engage others to invest in your Company, what would you encourage them to do? This is a rather tough question, though I think it is only a hypothetical one.

Clearly, I would encourage them to invest in Crypto as the company has increased its EBITDA from negative JPY2.6 billion to positive JPY800 million. And the US business segment, which has been steadily making profits by responding, even in seemingly precarious day-to-day management, to the changes in the environment including the elimination of trade fees and doing what it can do to manage costs and more to grow its businesses.

In the meantime, the fixed costs in the Japanese business segment have prevented us from reaching the top line that is worth the efforts we have spared, so I will focus on strengthening it. If we can't make it strong, then we have to cut fixed costs. If we are to engage others to invest in our businesses, the issues such as these will be important, like how we will go about balancing the income and costs with respect to the properties of MS or Monex Securities.

While some upfront investments have been made in the Monex Group, including in Asia that involves blockchains and so forth, there are two points to note: one is capital that uses the returns of all of these investments, and the other is if the returns on those investments will be commensurate with the scale of the investments.

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Tollfree 0120.966.744

North America 1.800.674.8375  
Email Support [support@scriptasia.com](mailto:support@scriptasia.com)



How do we balance the income and cost of MS and Monex Securities? How do we look at the return on capital in segments other than the Japanese business, the US business, and the Coincheck business? Whether we have any plans to liquidate or close any of the businesses? These are factors that will help engage others outside The Group, and I believe that, as CEO of The Group, the biggest challenge in considering how to lead this Group today is how to address a balance issue the Japanese business segment and profitability issue in segments other than Japanese, US, and Crypto businesses.

Do you have any other questions? You can ask a question via chat. If you are not too keen to use the chat box, please call our Company. We can probably answer your questions via telephone. Any questions?

This online information session has been a new attempt for us, so I am still feeling a bit uncomfortable with how to proceed. Does anybody have any questions? I will answer them. Any questions?

Overall, as I have said before, our businesses and financial results have become increasingly, significantly balanced. And we are clearly aware of challenges we have to tackle. Coincheck has become significantly profitable. The US business has successfully responded to the changes in the environment. Although there are still issues in the Japanese business, we have been working to address them. We are continuing our efforts to transform our business into an asset management-based model mainly through the investment advisory team of Japan Catalyst, Inc. and Monex Activist Funds. The total EBITDA was JPY13.3 billion, up 19% from the previous fiscal year.

If you have any additional questions, please call or send an email to our IR department. We will make sure to answer all of your questions.

Thank you for being with us today.

[END]

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### **Document Notes**

1. *Portions of the document where the audio is unclear are marked as follows: [Inaudible].*
2. *This document has been translated by SCRIPTS Asia.*

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