



MONEX GROUP

Monex Group, Inc.

Q2 Financial Results for the Fiscal Year Ending March 2020

October 28, 2019

Event Summary

[Company Name]	Monex Group, Inc.		
[Event Type]	Earnings Announcement		
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2020		
[Fiscal Period]	FY2019 Q2		
[Date]	October 28, 2019		
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[Venue]	1-8-1 Marunouchi, Marunouchi Trust Tower N Kan, 11F Room1, Chiyoda-ku, Tokyo, 100-0005		
[Venue Size]	148 m ²		
[Participants]	40		
[Number of Speakers]	2		
	Oki Matsumoto	CEO	
	Satoshi Hasuo	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

Matsumoto: We are pleased to hold a briefing on the Monex Group's financial results for the second quarter of the fiscal year ending March 31, 2020. First, I will briefly give an explanation, and then CFO Hasuo will explain the figures, and I will again provide an overview of the business.

In a word, although the figures have not changed significantly, I believe there is a sufficient possibility that the environment will become extremely severe, especially in Japan, in the future. We are now working hard to implement structural reforms at our company, especially in Japan.

In the US, there has already been a major change due to the elimination of commissions at the beginning of October. We have already taken steps for the TradeStation as a group, and made preparations for this time too, so we have been able to quickly respond to the elimination of commissions of other companies, and we have a solid outlook for our future business.

As for cryptocurrency business, we have steadily improved the cost structure and, as a result, the business has been almost breakeven. As a result, if the market recovers in the short term, or regulations are relaxed in a constructive fashion, or if a new service begins and gains traction, the business can make a firm profit in the short, medium, and long term. In other words, we have created a nearly cost-free call option. So, we are not worried much about it as well.

A variety of severe conditions are seen in the United States, but we are not worried much because we have taken measures well. Regarding cryptocurrency, it has recovered to break-even despite the difficult environment and become a call option.

The biggest problem is Japan, and it seems that the environment surrounding the Japanese business will become worse, and I believe that the structural reform of Monex Securities is necessary.

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As US online brokerages moved to the stage of zero-commissions, Japan and US segments further strengthen the offering of **asset-based services**

	- Discount Competition Stage -	- Zero Commission Stage -
Primary Service	Transaction Service	Asset-based Service
User Experience	Low-cost transaction features for diverse financial products	Added-value services to increase assets (Asset management, advisory)
Growth Driver	Transaction volume Market share	Customer base Assets in custody
Revenue Stream	Brokerage commission	Asset management fee Advisory fee
Profit Structure	Revenue linked to transaction volume	Revenue related to asset management

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Please refer to the page four of the material on hand. In regards to the online brokerage business both in Japan and the United States, which is our Group's main business, it is necessary to transform transaction-based business into asset-based business.

As I mentioned repeatedly, this is already underway in the United States, but Japan is lagging behind both nationally and industrially, including the Company, so I believe that we must move forward with a firm determination.

The user experience that online brokerage has offered to date has been the ability to trade a variety of financial products at low prices. The point is to give the customer a tool for trading financial products and to charge a commission if they are used. However, we must shift to a business that we offer investment management or management advice that would increase the assets in custody of customers and we receive commissions for the added value.

As for growth driver, volume and market share have always been important but, going forward, the size of the customer base and assets in custody will become increasingly important. Major revenues will also decrease the dependence on brokerage commissions, and the company will steadily shift toward asset management fees and advisory fees.

At the second May Day in early October, when major online securities in the United States eliminated commissions, the stock prices of US online securities firms declined significantly, but the stock price of Charles Schwab has already returned to almost its original level.

This was because Charles Schwab is less dependent on commissions and manages many customers' assets through IFAs, which are brought together by Charles Schwab. The majority of its assets under management are ETFs and mutual funds managed by Charles Schwab, and the investment management fees are so high

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that they are resilient to such shifts. Therefore, Charles Schwab's stock price has recovered. Our revenues must also be shifted in such a way.

As a matter of course, the earnings structure is changing from flow revenue to stock revenue. The US online brokerages have moved to zero commission. In Japan, there is no payment for order flow, and it is also difficult for Japanese customers to pay for advice.

In the United States, even if transaction fees are zero at face value, there are many other things you can get from business transactions or from customers. Since this is not the case in Japan, it is not easy to eliminate commissions. Nevertheless, since this trend is still clear, we must respond to it.

In addition, in the context of the progress of AI, it analyzes public information and considers the direction of stock prices. AI will develop rapidly in the future, and the time will come when AI reads public information instantaneously and digests it, and the price discovery process will end instantaneously.

I think that the environment surrounding analysts will become more difficult and, if that happens, the conventional model of a securities company may not hold well. While stock prices have fluctuated with a variety of speculation, investments have been made within the gap between perception and reality. But we believe that a time will come when such something extras become a thing of the past due to AI's advances.

Against this backdrop, we believe that we cannot survive unless we provide services that increase the assets of our customers. We will work on structural reform with a strong determination. And we are now making efforts.

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US	TradeStation launched “TSgo”, a new offering with free stock, ETF and options trading on web and mobile, in response to the industry’s recent adoption of zero commission trading. To manage through the lower interest rate environment, diversification of profits will be sought through the offering of differentiated products, services, and education in addition to the community-based platform that includes gamification elements
Japan	In addition to revenue generated from the existing transaction service, Monex Securities will focus on creating a new asset-based revenue stream through asset management advisory services and asset investment management service
Crypto Asset	Despite the market stagnation, Coincheck strictly carried out cost reduction as planned and successfully lowered the break-even point to build a minimal carry-cost call option. As a result, it secures the upside opportunity associated with a market recovery going forward and will actively pursue adding new cryptocurrency and new business development. Coincheck also strives to acquire more users in a cooperation with the group companies

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Page five shows the current situation regarding the three main pillars of our group: The United States, Japan, and Crypto.

As I mentioned, in the United States, free stock, ETF, and option trading have allowed us to choose a TSgo plan with no fees for websites and mobiles, for our TradeStation. Unlike Charles Schwab or TD Ameritrade, however, we keep super active traders as our main strong clientele, so downloadable tools, called platforms, for them continue to be available for a fee.

The commission is fee-charging, but if a customer doesn't pay a fee, we charge a usage fee for the platform. People who want to use a platform just online or on a mobile device can choose the TSgo. Therefore, it does not mean that full cannibalization occurs immediately.

And gamification. We educate customers who have begun trading with game-like feeling, and bundle them with a community. We are going forward with investing in a gamification company, acquiring an education company, and forming an alliance with the world's largest trading community. Although the environment is difficult, we have made solid preparations and are now in a position to take immediate action.

As I mentioned earlier, as for Japanese business, we need to move forward with a shift from transactions to asset-based businesses. I would like to inform you of this again later.

With regard to Crypto Asset, as I mentioned at the beginning, we have achieved solid cost reductions and the business is breaking even. This means that we are able to develop new services. According to recovery of the market in the short term, and while developing new services in the medium to long term, we will newly make profits.

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The virtual currency rule is probably strictest now. By breaking through this phase, I believe we created solid call options as our business grew constructively. Therefore, I do not feel any major problems with the US and Crypto business, but I think there are challenges in the Japan business in the future.

US keeps the highest profitability among the five segments while Crypto Asset decreased SG&A as planned

Japan	Segment profit* remained to be about ¥0.4B securing surplus. Monex Securities will further strengthen the asset-based services
US	With an expansion of its customer base, segment profit is ¥0.6B which is the largest among five segments
Crypto Asset	Despite unfavorable market condition, Coincheck has accomplished cost reduction by reducing fixed costs. Segment profit remains profitable
Asia Pacific	Monex Boom Securities recorded a bad debt of margin loan, ¥0.11B. Segment loss* is ¥0.1B
Investment	Recorded valuation gains of shares owned is ¥ 0.13B. MV I Investment Limited Partnership expands its portfolio to 14 companies (As of Sep 30)

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

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On page six, the outline for three months of the second quarter is described. In the Japan business, both sales and profit declined, resulting in segment profit of 0.4 billion yen. In the US, despite the interest rates and other factors, segment profit was 0.6 billion yen, which was the highest profit among segments. As I will talk about later, the number of new accounts has also reached a record high, and the business is expanding steadily.

The situation of the Crypto Asset business is as mentioned earlier, and the business posted a profit for the second consecutive quarter.

We recorded provisions for margin loans in Boom in Asia-Pacific. I will explain this later on. The situation in Hong Kong is uncertain. However, Monex Boom Securities is not reliant much on Hong Kong, and, unlike fashion consumption, securities transactions have not experienced a downturn so much and the securities business is a stable business. However, there was a provision for margin loans this time.

The Investment Segment continued to make steady investments and recorded valuation gains.

Then, Mr. Hasuo will give you some explanations on the analysis of the figures.

Hasuo: I am CFO Hasuo. I would like to explain the figures.

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(JPY million)	FYE Mar. 2019 2Q (Apr. 2018– Sep. 2018)	FYE Mar. 2020 2Q (Apr. 2019– Sep. 2019)	Variance	Rate of change	Reference
Total operating revenue after deducting financial expenses	23,845	23,277	-567	-2%	P13: Analysis of Japan segment P15: Analysis of US segment (USD) P17: Analysis of Crypto Asset segment
SG&A	22,193	21,112	-1,080	-5%	P14: Analysis of Japan segment P16: Analysis of US segment (USD) P18: Analysis of Crypto Asset segment
The amount equivalent to operating income	1,652	2,165	513	31%	
Other income / expenses (net)	178	30	-147	-83%	Breakdown in DATA BOOK P22: Quarterly consolidated financial results (Other income and other expenses)
Quarterly profit before income taxes	1,830	2,195	366	20%	
Quarterly profit attributable to owners of the Company	1,745	1,679	-66	-4%	
EBITDA*	5,794	6,212	417	7%	

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

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Please refer to the material on hand on page 11 for a brief comparison of the six-month cumulative figures, followed by a more detailed explanation of the 3-month comparison.

Looking at the cumulative second quarter for the year ending March 31, 2020, overall sales and profits fell. Net operating revenue after deducting financial expenses was 23.2 billion yen, and net income attributable to owners of the parent was 1.679 billion yen. While the bottom line was roughly the same as in the same period of the previous fiscal year, income before income taxes was slightly better in the current fiscal year.

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(JPY million)	Japan		US		Asia Pacific		Crypto Asset		Investment	
	2019/3 2Q	2020/3 2Q	2019/3 2Q	2020/3 2Q	2019/3 2Q	2020/3 2Q	2019/3 2Q	2020/3 2Q	2019/3 2Q	2020/3 2Q
Total operating revenue after deducting financial expenses and cost of sales	13,111	11,227	9,238	9,921	413	292	1,256	2,075	315	154
SG&A	11,553	10,442	8,632	8,699	436	437	2,244	1,932	4	25
The amount equivalent to operating income	1,558	785	66	1,221	-23	-145	-988	143	310	129
Other income / expenses (net)	239	101	-36	-28	7	12	140	9	18	-0
Quarterly profit before income taxes	1,798	886	570	1,194	-15	-133	-847	152	328	129
Quarterly profit attributable to owners of the Company	1,631	624	444	1,008	-24	-119	-600	120	297	80
EBITDA	4,607	3,236	1,922	2,817	13	-86	-955	448	310	129
Note	See P13 "total operating revenue after deducting financial expenses and cost of sales" for more details See P14 "SG&A" for more details		See P15 "total operating revenue after deducting financial expenses and cost of sales" for more details See P16 "SG&A" for more details				See P17 "total operating revenue after deducting financial expenses and cost of sales" for more details See P18 "SG&A" for more details			

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The contents are here. We are seeing significant improvement in both the US and Crypto Asset businesses. The US segment is the most profitable of all segments. Sales and profits increased in the US business. The Crypto Asset business posted a loss in the same period of the previous fiscal year, but it achieved profitability in the second quarter under review. This is also the result of cost reductions, etc., as I will mention later.

On the other hand, in Japan, both sales and profits declined, mainly due to sluggish individual stock trading value compared to the previous fiscal year. However, the decline in depreciation expenses has led to a significant decline in SG&A expenses compared to the previous fiscal year. I will explain this later.

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(JPY million)	1Q FYE Mar. 2020 (Apr. 2019- Jun. 2019)	2Q FYE Mar. 2020 (Jul. 2019- Sep. 2019)	Variance	Rate of change	Reference
Total operating revenue after deducting financial expenses	11,881	11,397	-484	-4%	P21: Analysis of Japan segment P23: Analysis of US segment (USD) P25: Analysis of Crypto Asset segment
SG&A	10,666	10,446	-220	-2%	P22: Analysis of Japan segment P24: Analysis of US segment (USD) P26: Analysis of Crypto Asset segment
The amount equivalent to operating income	1,215	950	-265	-22%	
Other income / expenses (net)	-19	50	69		Breakdown in DATA BOOK P22: - Quarterly consolidated financial results (Other income and other expenses)
Quarterly profit before income taxes	1,196	1,000	-196	-16%	
Quarterly profit attributable to owners of the Company	849	830	-19	-2%	
EBITDA	3,177	3,035	-142	-4%	

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Now, please jump to page 19. I will give an explanation in comparison with the first quarter.

Looking at the overall results, both revenues and profits declined, but the extent of the decline in revenues was extremely small, and we were able to secure revenues at roughly the same level as in the first quarter. After-tax income was 830 million yen, down 19 million yen, or 2%, from the previous quarter, which was a small decline.

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QoQ Comparison (3 months) Segment Performance



	Japan		US		Asia Pacific		Crypto Asset		Investment	
(JPY million)	2020/3 1Q	2020/3 2Q	2020/3 1Q	2020/3 2Q	2020/3 1Q	2020/3 2Q	2020/3 1Q	2020/3 2Q	2020/3 1Q	2020/3 2Q
Total operating revenue after deducting financial expenses and cost of sales	5,598	5,629	4,996	4,925	195	96	1,274	801	12	142
SG&A	5,194	5,248	4,364	4,336	212	225	1,127	805	14	11
The amount equivalent to operating income	404	381	633	589	-16	-129	147	-4	-2	131
Other income / expenses (net)	53	48	-13	-15	3	9	-5	13	0	-0
Quarterly profit before income taxes	457	429	620	574	-13	-119	142	9	-2	131
Quarterly profit attributable to owners of the Company	313	311	464	544	-16	-103	99	21	-4	83
EBITDA	1,576	1,660	1,425	1,392	13	-99	299	149	-2	131
Note	See P21 "total operating revenue after deducting financial expenses and cost of sales" for more details. See P22 "SG&A" for more details.		See P23 "total operating revenue after deducting financial expenses and cost of sales" for more details. See P24 "SG&A" for more details.				See P25 "total operating revenue after deducting financial expenses and cost of sales" for more details. See P26 "SG&A" for more details.			

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As in Q1, second quarter's earnings in the US segment were largest, at 544 million yen. The Japan segment was in second place. Looking at the EBITDA at the bottom, however, the Japan segment posted 1.66 billion yen. In terms of the ability to generate earnings, the Japan segment is still large.

In the Japan segment, sales increased slightly, but the bottom line declined. In the US segment, on the other hand, sales declined slightly, but the bottom line increased. And in the Crypto Asset segment, both sales and profit declined, but it maintained a surplus.

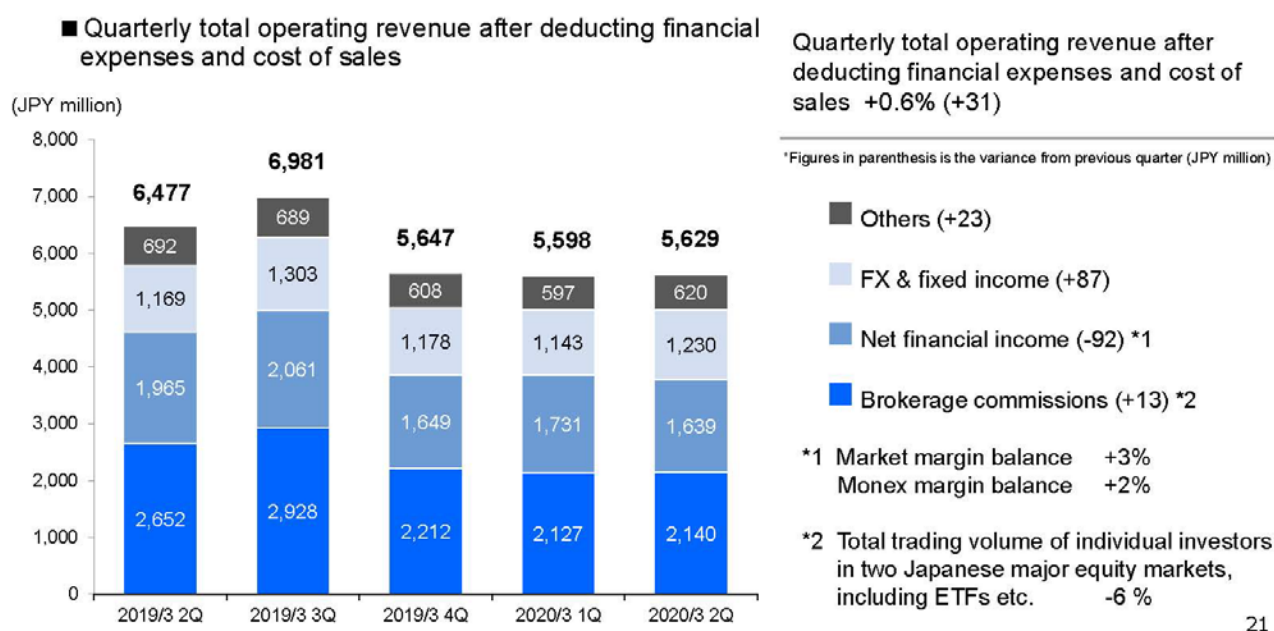
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Japan : Tightened spread of FX services contributed to keep the market share of trading volume at the highest level



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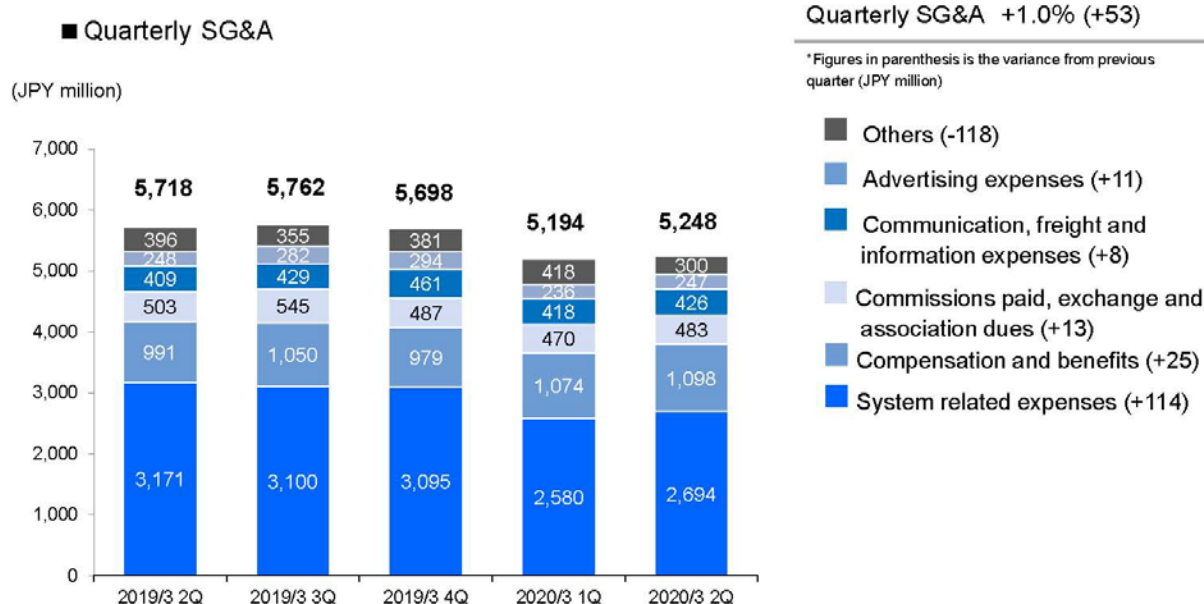
I would like to give a brief explanation of the revenues and expenses for each segment. Firstly, as you can see, revenue in Japan has remained almost unchanged. The main factor is a decline in retail trading value, which was offset by an increase in business days. In addition, a narrowing of spreads on FXs worked well. As a result, net financial income increased by 92 million yen. As shown on top of that, FX and fixed income of 87 million yen has contributed to the surplus.

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Japan : The impairment in the previous fiscal year contributed to lower SG&A



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Next, expenses in Japan have increased only by 1% compared to the previous quarter. But seeing the trend from the previous year, the impairment loss was recorded at the end of the fourth quarter in the previous fiscal year. Furthermore, the depreciation period has been reviewed from this fiscal year and, as a result, system-related expenses have decreased as a whole.

The quarterly comparison shows a slight increase, but we announced that depreciation and amortization will be reduced by approximately 1.6 billion yen in the fiscal year ending March 2020 compared to the previous year. The figure is almost in line with the guideline.

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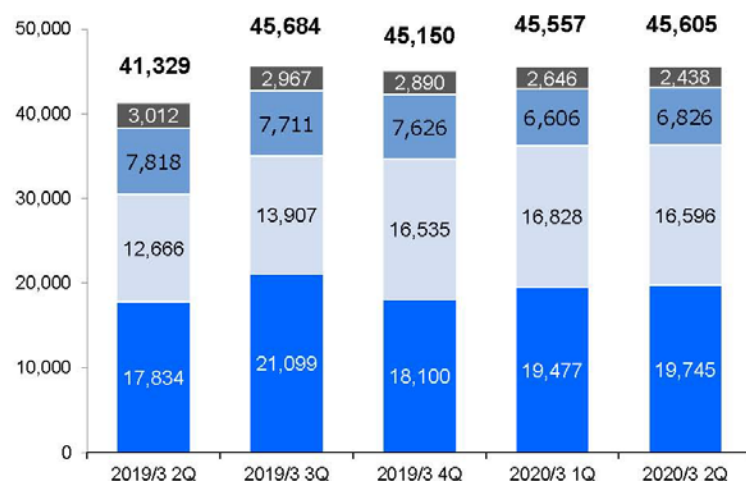
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US : Revenue remains solid due to an increase in brokerage commissions driven by higher volatility

■ 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 +0.1% (+48)

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

- Others (-208)
- Other commission (+220)
- Net financial income (-232)
- Brokerage commissions (+267)

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This is followed by earnings in the United States. It remained almost unchanged compared to the previous quarter. More specifically, the volatility has risen slightly, and the brokerage commissions have increased accordingly. The brokerage commissions have a positive aspect in that they increase by payment for order flow in line with the increase in transactions. On the other hand, as interest rates in the United States are currently declining, net financial income has been gradually decreasing. The negative and positive results offset each other, resulting in an almost break-even result.

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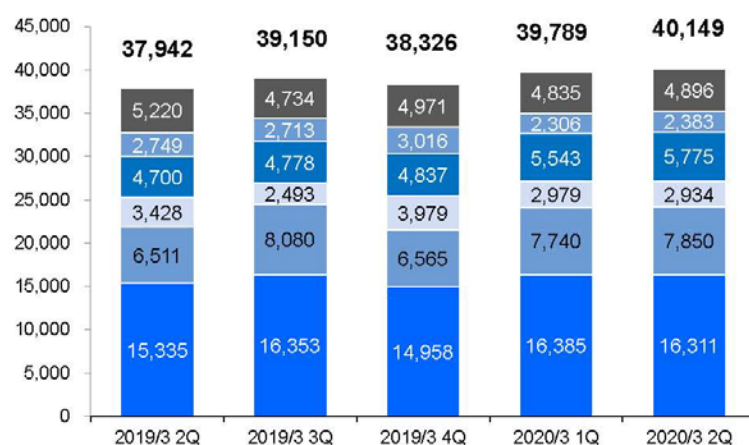
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US : Amortization and depreciation cost slightly increased due to system investments for new business developments. Total SG&A is well under control

■ Quarterly SG&A

(USD thousand)



Quarterly SG&A +0.9% (+360)

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

- Others (+60)
- Advertising expenses (+76)
- Amortization and depreciation (+232)
- Communication, freight and information expenses (-45)
- Commissions paid and association dues (+110)
- Compensation and benefits (-73)

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On the other hand, the amount of expenses has increased by about 1%, which is the same as the increase in revenue. We are controlling both variable costs and fixed costs so that they do not rise, and this is going well.

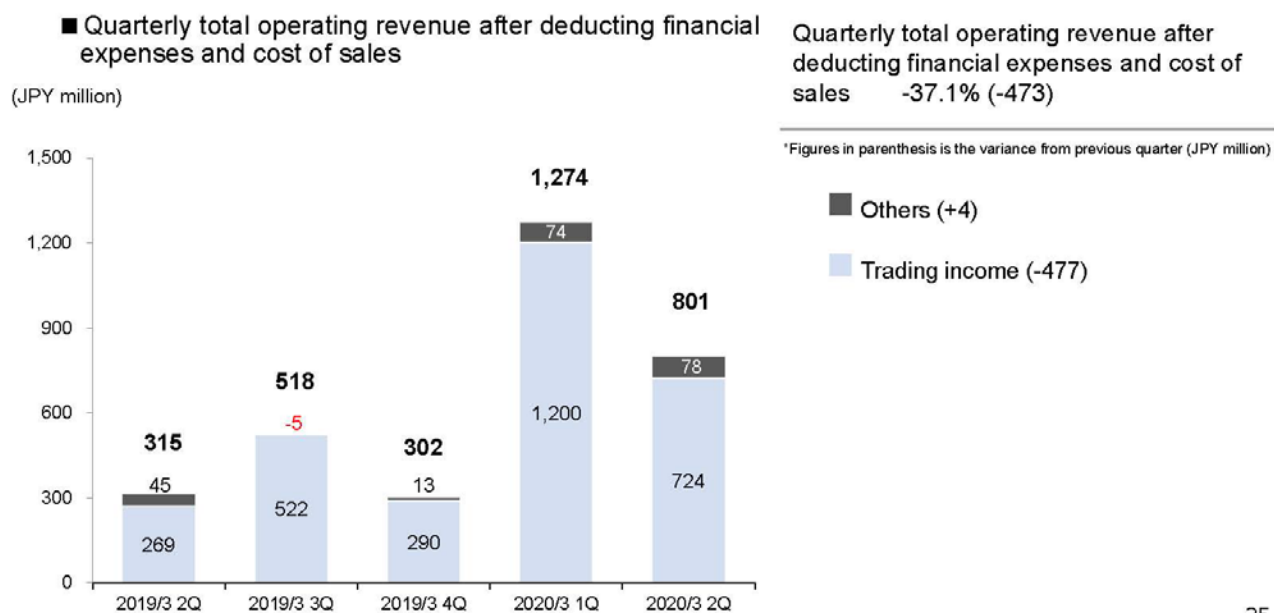
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Crypto : Transaction volume and revenue declined as the uptrend of cryptocurrency market has been in a break



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The Crypto has increased its revenue sharply in the first quarter due to the surge in the prices of virtual currencies, centering on the bitcoin, but the overheating of prices stopped in this second quarter. As a result, revenue decreased by 37% compared to the previous quarter.

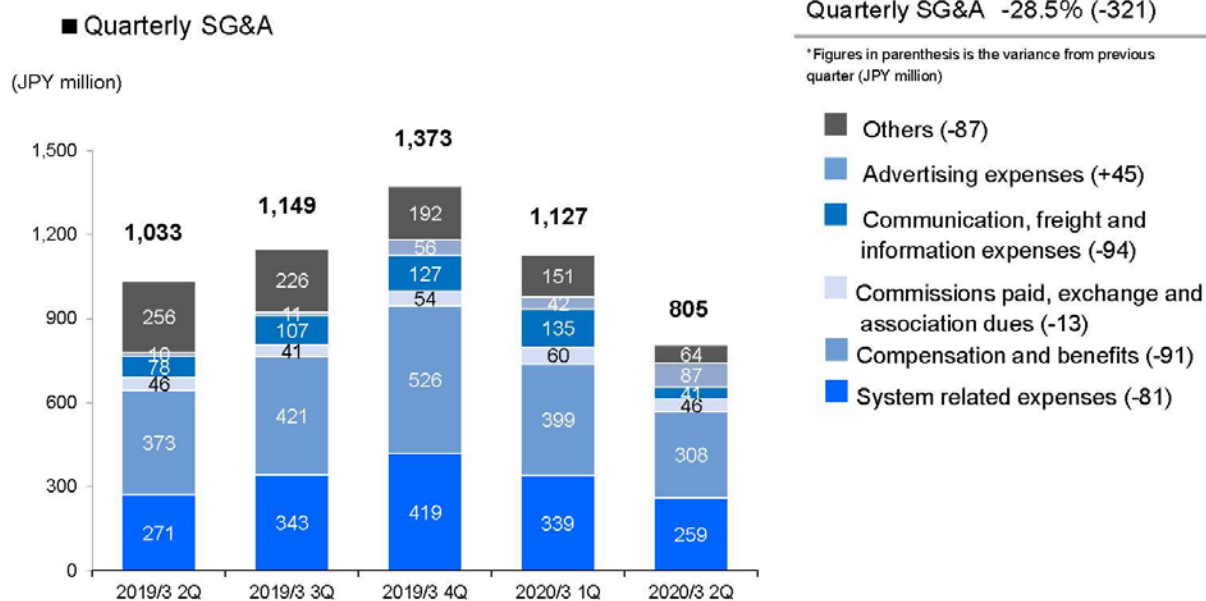
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Crypto : Coincheck executed a significant fixed cost reduction



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On the other hand, in regards to the reduction of SG&A expenses, mainly fixed costs, we were able to reduce to a level of 800 million yen on a quarterly basis by consolidating offices, reducing personnel costs, and reducing outsourcing costs. As I mentioned earlier, in the Crypto segment, we have created almost zero-cost options.

That's all from me.

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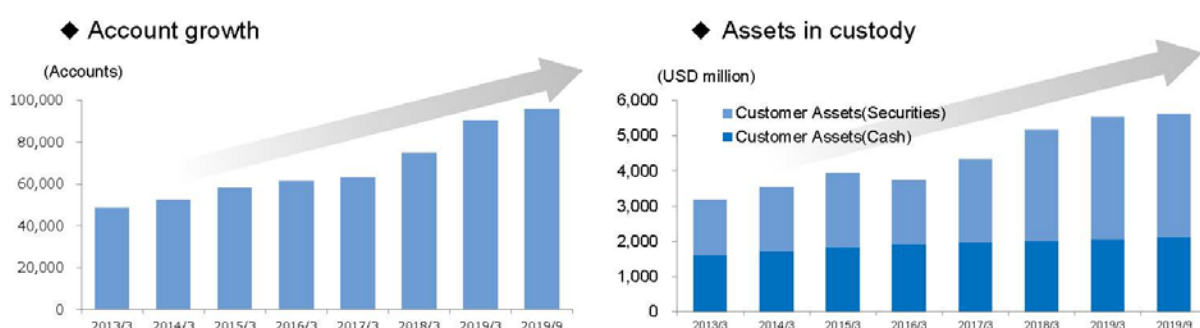
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Account growth was at the record high. “TSgo” will accelerate the growth further

- New branding and simplified offerings continue to successfully attract casual traders/millennials to expand customer base
- Free trade campaign was a key driver to record highest number of quarterly account openings
- Limited impact expected in FY19 from the conversion of legacy commission plans to “TSgo”
- Efforts to differentiate through product, service and education in a community-focused platform that includes gamification elements are already underway towards the launch



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Matsumoto: Next, from page 30 onward, I will briefly explain our business. Pages 30 and 31 show the situation in the United States. In the United States, we have expanded customer numbers, mainly in Millennial Generation, through brand renewals and other campaigns prior to the introduction of zero-commission program TSgo. This quarter, we achieved a record high in the number of accounts opened. As shown in the graph below, both the number of active accounts and assets under management are growing steadily.

The acquisition of a trading education company, investment in a gamification company, and collaboration with a large community have changed our view that the community is the object of our business, not the transaction. This has started in Robinhood in the US and has been active.

Charles Schwab started as a broker and is now receiving huge management fees. Fidelity and Vanguard began as investment managers, and now are offering BtoC services and brokerage services. In this way, the brokerage model in the United States is making the shift to community-based or asset-based businesses. Amid such a situation, our TradeStation is also taking a firm approach.

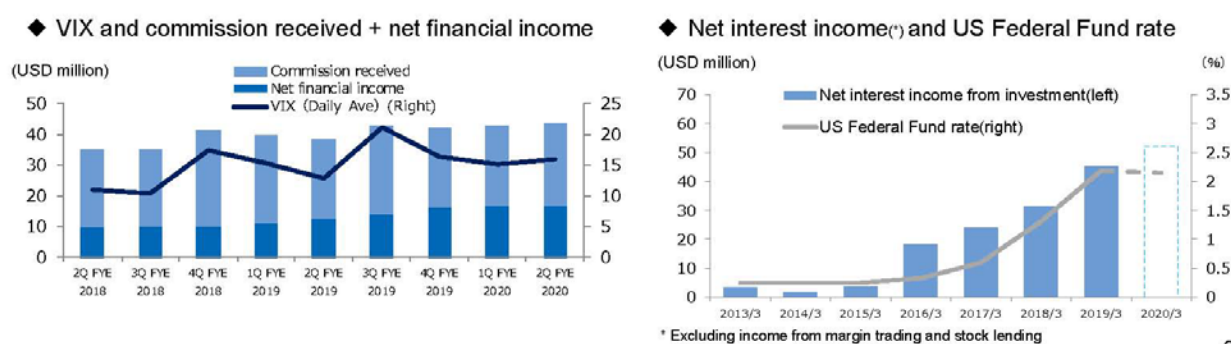
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Diversify the revenue stream with the development of new businesses while growing existing profits through expansion of customer base

- Commission received plus net financial income increased by 1% on QoQ. Commission received increased by approximately 1% under higher intraday volatility due to the market uncertainty over the rate cut, trade war, etc.
- Net interest income in 2Q was \$14M. Net interest income in FYE March 2020 is expected to be between \$51M and \$53M, even if there are additional rate cuts during the remainder of the year (Net interest income in FYE March 2019 was approximately \$45M)
- TradeStation Crypto, Inc. launched beta-testing of its cryptocurrency service in October and is preparing for an official launch in November



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Please refer to page 31. For the US brokerages, financial income is also a very important source of revenue. While short-term interest rates are fluctuating, as noted above, net financial income has generally reached a similar level. As described in the middle paragraph, last year's financial balance was 45 million dollars.

This year, even if the Fed lowers the interest rate by 25 basis point in the second half of the year, net interest income will be 51 million dollars to 53 million dollars. Although the environment is not as optimistic as it was around last year, we still have a higher financial income compared to the previous fiscal year.

In the United States, a company called TradeStation Crypto has already been founded, and we are planning to provide virtual currency services. The service for families and employees has already been offered, and the platform is very good. This is already working well, and preparations are underway with the plan to release it to the public in November.

Unlike the Coincheck, the TradeStation is directed at semi-professional traders, so the Crypto business of the TradeStation is also a service for semi-professionals.

We will make up for the lower commissions with revenues from gamification, education, and community, as well as with revenue from the Crypto business.


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Aiming to expand customer base and to create a new asset-based revenue stream

Wealth Creation Service	Intermediary Service
<p>Monex Stock Scouter</p> <ul style="list-style-type: none"> - Implemented several feature updates including optimization for mobile phone usage <p>Mutual Fund</p> <ul style="list-style-type: none"> - Widened the list of mutual funds qualified for Monex Points. Monex Securities will strengthen fund reserve as well as improve UI/UX <p>Monex SP Trust, Inc.</p> <ul style="list-style-type: none"> - In response to the wealth management needs for super-aged society, Monex SP prepares for property management/inheritance services <p>IFA Services (Independent Financial Advisor)</p> <ul style="list-style-type: none"> - Established Wealth Management Promotion Office to prepare for IFA service launch, planning to increase asset in custody as well as to provide a better asset management to high-net-worth clients 	<p>API Cooperation</p> <ul style="list-style-type: none"> - Utilizing APIs, generated from in-house system, with Money Forward, Inc. and Zaim, Inc. promote the wealth creation of individual traders <p> Monex-Saison-Vanguard Investment Partners, Inc.</p> <ul style="list-style-type: none"> - "MSV LIFE" is in the process of fully improving its UI/UX - Several financial institutions introduced a face-to-face support service "MSV COMPASS+" including Okachi Securities Co., Ltd who started in Oct 2019 <p>Financial Instruments Intermediary Service</p> <ul style="list-style-type: none"> - Shizuoka Bank, FIDEA Holdings Co., Ltd. and TOMONY Holdings, Inc. offer financial instruments intermediary service in partnership with Monex Securities - Also provide intermediary service of US equities to several securities firms

32

Pages 32 through 33 show the situation in Japan. We must move to an asset-based business. We strengthened our investment trust services and established Monex SP Trust, but we are now developing a trust service for the elderly and also preparing IFA, where we are behind. Instead of letting them do transactions and getting commissions, we are strengthening our services for assets by offering trust services and various advices from IFA.

As shown on the right, we are also working on API cooperation, strengthening Monex-Saison-Vanguard services, and BtoB collaborations.

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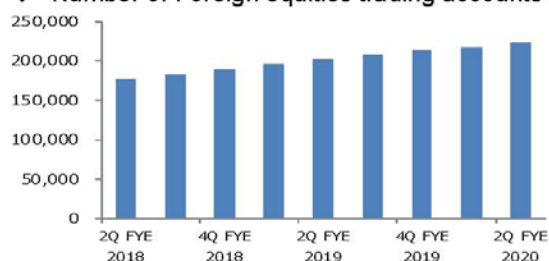
Favorable growth in US equity trading and FX market share

US Equity Trading

- The minimum transaction fee for US equities was abolished from the beginning of July
- Number of transactions and number of active accounts increased by 46% and 34% QoQ
- The ratio of US equity transactions through mobile phone application reached 35%. The app specialized for US equity trading and is the only offering among the major online brokers*

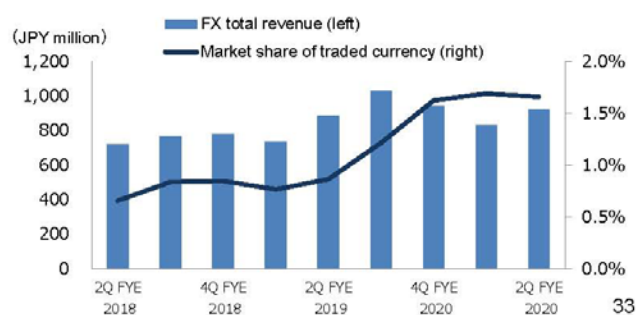
* SBI SECURITIES CO., Ltd., kabu.com Securities CO., Ltd.,
Matsui Securities Co.Ltd., Rakuten Securities, Inc, Monex, Inc.

◆ Number of Foreign equities trading accounts

**FX Trading**

- Market share of traded currency in FX trading reached to 1.7%, twice as large as 2Q FYE 2018
- The spread of the Monex Securities' FX service "FX PLUS" was tightened in Nov 2018. Additionally, the spread of USD/JPY transaction was tightened further in Oct 2019

◆ Total FX revenue and market share



As you can see on page 33, in Monex, US and FX stocks are doing well. US stocks are increasing steadily, and FX stocks are recovering at a good pace. Therefore, while the transition to an asset-based business is a major trend and our direction, we naturally should provide the transactions that customers want to do, and we will make every effort to strengthen the competitiveness of our services in this area.

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Promote initiatives for activation of Japanese stock market

Acquisition of Active Traders	Activism Initiatives
<p>Margin Trading Services</p> <ul style="list-style-type: none"> - Expanded the list of stocks for short trading service of general margin trading, especially those coming with some shareholders benefits - Reduced margin transaction lending fees for general margin trading to the lowest level among the major online brokers - Preparing for margin trading service at PTS 	<p>Monex Activist Forum (since Jan 2019)</p> <ul style="list-style-type: none"> - Aims to facilitate communication between individual investors and companies, and enhance the value of Japanese equities. It also deepens individual investors' understanding of shareholders' rights and encourage them to exercise their rights properly as activist investors - Founded a company, Monex Activism Japan Initiative, Inc.(MAJI), to strengthen and sustain the activity of Monex Activist Forum. Monex will keep enhancing engagement and activism to lead to the activation and prosperity of the Japanese capital market

34

On page 34, we are also strengthening our margin trading business and are currently strengthening or preparing for general credit and PTS credit.

As described on the right, we are going ahead with the Monex Activist Forum since January this year. As a global sign, there is an excessive bias toward index investing, especially in Japan, and interest in individual stocks is diminishing among investors.

As a result, the price discovery process for individual stocks has weakened or there has been little engagement with individual issuers, resulting in low liquidity and low multiples such as the PBR. If this trend is too large, it makes no sense to build an index. There are indexes only if there are individual stocks.

In a situation of the excessive bias toward index, we have been calling for individual investors to be an activist under the name of Monex Activist Forum since January, in an attempt to raise their interest in individual stocks once again. We also cooperate with activist funds in Japan and overseas to conduct a variety of educational activities.

In order to further strengthen this, we established the Monex Activism Japan Initiative (MAJI) at the end of September, in order to further strengthen our activities of the Monex Activity Forum and promote engagement and activism on a permanent basis in Japan.

Japan should have made considerable progress in strengthening the corporate governance or fiduciary duty under the Abe Cabinet. However, the last step is still not achieved. On the other hand, some confusions are also seen, such as the recent problems with the Foreign Exchange Act.

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Against this backdrop, as indexation progresses, we will strengthen our engagement with individual issuers in Japan and improve corporate governance. We believe that this will lead to the development of capital markets and the increase in market liquidity, and we will strengthen this activity at MAJI.

We would like to see the MAJI become a catalyst for the revitalization or optimization of Japan's capital markets. However, we would like to have an opportunity to provide information on specific activities by the end of the year.

Successfully reduced fixed cost and lowered its break-even point. Promote new initiatives including customer expansion and adding new cryptocurrencies

Revenue Stream and Competitiveness

- Operates BTC exchange/market place and the market place of 9 altcoins in Japan
- Easy-to-use UI/UX for beginners, reaching young people with little investment experience
- In adding new cryptocurrencies, an organizational structure to comprehensively research and select the cryptocurrencies reliable to offer to customers and an in-house blockchain engineer system that allows immediate and flexible development are managed
- Conduct thorough cold wallet management for all cryptocurrencies to minimize risks

New Initiatives

- Started to study IEO (Initial Exchange Offering) fundraising model with several companies
- "Blockchain Lab" sought collaboration with several companies with an aim to develop services other than cryptocurrency exchange

35

Pages 35 through 37 are the Crypto business. We recovered it to break-even, and then will increase the new currency. Currently, Coincheck deals in the largest number of currencies in Japan, and there is room to increase the number of new currencies. Or, as shown below, there is room to develop various new services such as IEO.

While the business is break-even, if the market booms, it will be quite profitable soon. Furthermore, by increasing new currencies and adding new services, in the medium term as well, we can generate profits amid changes in the environment.

However, as I mentioned earlier, I feel that the regulation is strictest now, and the business will grow in the future as it is organized in a progressive manner. We believe that we have completed the construction of call options with little carry cost.

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Number of registered users increased by alliances with group companies

Registered and ID-confirmed Users

Number of app downloads

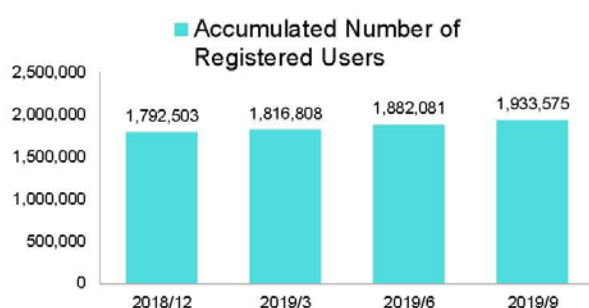
2.62M

Registered users

1.93M

Users with
ID confirmed

0.92M



User Acquisitions

Monex Group Shareholders' Benefits

Grant ¥500 worth of Bitcoin to Monex Group shareholders who opened a Coincheck account during the period

Monex Securities Offline Seminar

Coincheck exhibits at the Monex Securities's offline events and provide guidances to open Coincheck account, expanding its reach to stock traders

Monex Points Exchangeable with Cryptocurrencies

Monex Points can be exchanged with cryptocurrencies and users can receive them in Coincheck account

36

On page 36, the left-hand side is the customer base of Coincheck. It has a sizable number of people, which is roughly the same, or a slightly larger than Monex Securities. I was interested in the linkage between Monex Securities and Coincheck's customer base, which I believe is very important.

As shown on the right, the listed Monex Group distributes bitcoins as a shareholder benefit, or Coincheck offers a variety of explanations at a venue-based event of Monex Securities, or we introduce a system that the Monex Point accumulated by trading in Monex Securities can be exchanged for virtual currencies such as Bitcoin, Ethereum, etc. In various ways, we are going to move forward with cross-selling between the securities account and virtual currency accounts.

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Monex Crypto Bank launched a new database service “LOOKBLOCK”



Offers holistic database services, delivering information on companies and products involved in cryptoassets and blockchain, aiming to expand its institutional users and planning to shift from free-use to subscription model



Users can earn Bitcoin by answering simple questionnaires or read cryptocurrency related articles through “Cheese” app



A web-based media “Block Insight” is delivering news and information regarding cryptoassets under a brand of “Monex Cryptocurrency Lab”

37

Page 37 shows another business area around virtual currencies. I will not explain in detail, but we are also advancing the accumulation of various know-how related to blockchain and the construction of networks.

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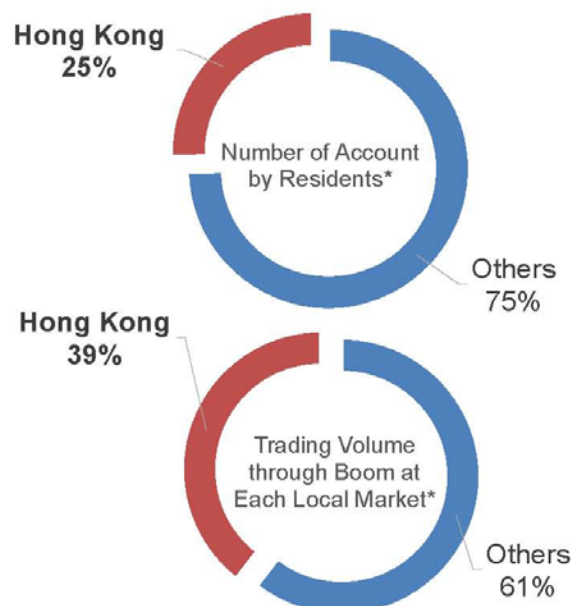
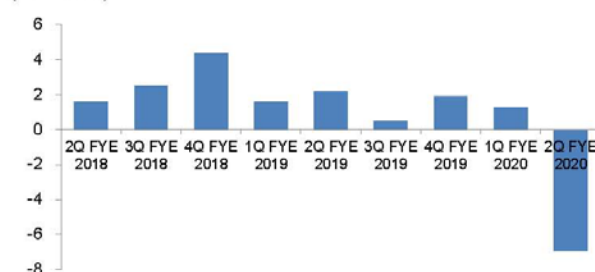
Hong Kong residents account for only 25% of Monex Boom Securities customers. The revenue impact from the political instability is limited

Monex Boom Securities (HK)

- Temporary loss from a bad debt for margin loan lending ¥0.11B caused the first deficit after the fiscal year 2017
- Limited impact is expected from the political instability in Hong Kong

◆ Amount equivalent to total operating revenue

(HKD million)



* Average of monthly ratio in Q2 FYE 2020

38

Page 38 shows the situation in Hong Kong. As mentioned at the beginning, our dependence on Hong Kong is not so high, with 25% for customers and 39% for transactions, and the number of businesses has not decreased so much. Although provisions for margin loans were recorded this time, the business has basically been stable.









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MV1 attracts promising investment opportunities by leveraging its unique network

Details of MV1 Fund		R&D purpose investment*		
Features	Active support for startups in product development and growth stages	IoT	Blockchain	Cryptocurrency
Investment Size	2.5 billion yen (Founded in Jan 2019)	 Keychain	 Curvegrid	 CURV
Investment Record	Invested in 14 start-ups who has an advanced and innovative services (As of Sep 30)	Blockchain	Cryptocurrency	Cryptocurrency
		 loyal	 Terra	 ErisX
		Blockchain	Cryptocurrency/OTC	
		 globaliD	 Paradigm	
* Including the investments aside from Investment Segment				

Recent Investment Record of MV1		
Asset Management	EC	Market Place
 ONE MILE PARTNERS	 TRICERA	 vivid garden
B2B SaaS	Ad Tech	
 COCKTAIL MAKE	 VRize	

39

As for Monex Ventures on page 39, we are continuing to invest in blockchain and new technology areas. The venture capital investment of our group is to invest in seeds and early stages, and we are also strong in blockchain and cutting-edge technology fields. I believe that we have achieved a certain level of differentiation compared to other venture capital firms. The results are also good so far.

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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*



ESG Initiatives

Awarded Gold Rating for PRIDE index

- Monex Group and Monex Securities each awarded the highest ranked PRIDE Index 2019 Gold Rating for their LGBT initiatives

Other ESG Initiatives

- Financial education program to "democratize" capital market in Japan, US, Hong Kong
- Disclosed "Code of Conduct" and "Human Rights Policy" *
- Return rate after the maternity leave in Japan segment is almost 100% (37 people). Monex also promotes male childcare leave

Risk Management System

- Monex Group, Inc. investigates the risks of each subsidiary and overseas

Corporate Governance

- Please refer to P47

*<https://www.monexgroup.jp/jp/esg.html> 40

In terms of ESG initiatives, on page 40, the left-hand side of the slide presents the materiality matrix. As can be seen on the right-hand side, we received the highest rating from PRIDE, an organization that promotes LGBT in Japan. In addition, we disclosed "Human Rights Policy," and in the Japanese segment, all female employees who have entered maternity leave have returned to the Company. We have taken various steps to improve ESG, sustainability, and governance.

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Established global-standard corporate governance practices and emphasis on dialogue with retail/institutional investors

Adoption of “company with three committees” structure - highly effective executive management monitoring system

- Adopted “company with committees” structure in June 2013
- Each of the three committees is chaired by an independent & outside director

Directors with various backgrounds

- Six out of nine directors qualify as “independent & outside” directors and four out of six independent & outside directors have managed companies
- Appointed a lead outside director. Actively exchanges opinions at meetings led by the lead outside director and composed mainly by independent & outside directors
- Various backgrounds: **Management experience** (current/former CEOs of listed companies or global companies), **expertise** (lawyer, CPA), **business experience** (finance, IT, global business), **culture & society** (gender, country of residence, nationality)

Fair disclosure and dialogue for retail/institutional investors

- Timely and fair information disclosure both in Japanese and English
- Active dialogue with shareholders: CEO holds quarterly presentation sessions for retail shareholders
- Annual general meeting of shareholders is held on weekend so that retail shareholders can attend the meeting, also we stopped to ask the questioner to make a statement of his/her name or the shareholder number at its Q&A session
(Reference)
15th ordinary general meeting of shareholders (June 22, 2019); Attendance of shareholders: 529

47

Regarding governance, we have been making great progress for a long time. Please refer to the page 47. That is all.

As I mentioned at the beginning, the figures themselves remain the same as in the previous fiscal year. Looking at the contents, although there are significant fluctuations in the market in the US, we have been able to respond appropriately to them. Crypto has potential in the future, but it is not yet profitable. However, because we controlled it to break-even, we hold call options at zero cost in the short- to long-term. We are not so worried about these two points. But of course we have many things to do.

We consider the Japan business to be the biggest challenge. Though this is not a matter of immediate concern, I believe that there is a high likelihood that we will face major challenges in Japan going forward.

Under these circumstances, the Company will work with a strong readiness and awareness to convert from a transaction-based business model to a business model that provides services to client assets and receives fees for them. The Monex Activist Forum will be further promoted in the future under the Monex Activism Japan Initiative. I believe that these are the main points of this quarter.

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Question & Answer

Matsumoto: As we still have about 20 minutes, we would like to receive your questions. If you have any questions, please raise your hands. Currently, I will bring a microphone.

Hara: I am Hara from SMBC Nikko Securities. I have two questions.

The first point is about Japanese stocks. You mentioned about the shift to the client assets business. How much time do you think this will take? You have done various Internet securities business such as mutual funds and robo-advisor. If you are going to grow in the future, on which do you place emphasis, products or channel? Please explain your strategy.

Matsumoto: I believe that we must change over the course of two to three years. Considering that there is no payment for order flow in Japan and customers are unwilling to pay fees for advice, it seems impossible to convert the model in two to three years. Conversely, in light of changes in the world and the pace of changes in overseas businesses, I strongly believe that if we do not change the model within two to three years, we will not be able to survive.

Of course, there are channels and products, but I believe that our strength is products. Our origination or ability to develop products is a point where we can pursue and gain advantages over other online brokers, considering our people, or our various networks in the community. Of course, this does not mean ignoring channel strategies, but I believe that strengthening the capabilities and capacity of the product side is extremely important.

Hara: The second point is the Crypto business. This time the cost has been lowered. Is this a new normal and is it controlled by variable costs? Or is there still room to cut costs?

Last Saturday and Sunday, the virtual currency market was buoyant. Please tell us about the current business situation.

Matsumoto: I don't know whether this is a new normal. But common sense tells us that this area is the bottom of the trade volume. Even though there have been a number of changes, such as a great concentration from altcoin to bitcoin, we have a sense that we could know the bottom level of the overall volume of trading and profits.

This is a new normal and, from here, with variable costs. I think we will respond in a variable manner by increasing marketing activities when we go up, or by increasing the number of development and marketing personnel to the extent that is necessary in some cases.

It's difficult at present. When Google made an amazing quantum computer, the stock market crashed with an anxiety that the cryptography was broken and, when Xi Jinping talked about blockchain on the next day, the stock prices recovered by an amount more than that of the crash. Finally, I think the market won't increase in price or volume unless the number of players who buy and sell virtual currencies increases.

Libra could be a huge trigger, if it made growth, but looking at the current situation, the headwinds are quite strong in the United States. What is emerging in return is the digital RMB. It is said that it will be implemented on November 11. The RMB is not a crypto, but CBDC. I think it's not a crypto-technology, but a Suica type of digital currency.

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The digital renminbi should be designed for use worldwide, and should be designed for use by us, and the various wallet technologies used there, and so on, should be common to virtual currencies. Actually, Libra would be good, but when the digital RMB comes into play, some virtual currencies will be vibrant. China, Iran, and North Korea were among the first countries to embark on digital currency, inspired by the Libra.

There is a feeling that it isn't better to leave this to such countries only, so I believe that a variety of countries and companies will emerge. If this expands the base, I think it will be better. Currently, we have not yet reached that point. This difficult situation continues, as we don't have any news.

In addition, it is said that the FATF checks the Japanese market in November. Since the digital RMB is said to be introduced on November 11, and the revised Payment and Settlement Law will be enforced on April 1, I think the prices will recover around that time, from November to April. But it's tough now. I feel that this is a time for steadily achieving break-even.

However, this weekend was surprisingly good and if the wind blows, it will be immediately profitable.

Tsujino: I am Tsujino from Mitsubishi UFJ Morgan Stanley Securities. There are two points.

First, in 2Q the prices of cryptocurrencies declined, while it has only risen in 1Q. In this respect, the volume returned and revenue declined a little this time, but expenses also declined, so there was not much impact.

How were the margins of the trading revenue on the trading volumes in 1Q and 2Q, and how should we look at it in the future? I want to know it because we cannot hedge like a common stock.

Matsumoto: We do not disclose accurate figures for trading volume, so we cannot answer the percentage or basis points. Spreads don't change according to the market conditions. However, I believe there is room for improvement. For example, there are operational know-hows to increase profits by managing various risks, such as exchange marry o hedge the FX business within the Group, or warehousing.

That's hasn't necessarily been achieved via position management by Coincheck until now. Although there are a variety of technical problems, we are now in the process of advancing it. I believe that this will allow us to pick up a little.

As an answer to your question, the spread is not changing in 1Q and 2Q, depending on the market conditions. I believe that it will probably improve in the future. I believe that the better will be the spread, especially when the market does not move much, or the profitability can be raised even more, by improving position management practices.

Tsujino: The second point: You mentioned that the regulations related to the cryptographic currency are most stringent today, but I would like to ask you to tell me more details.

When derivatives in cryptocurrencies become financial instruments, do they require a securities business license? If so, I think it will be more troublesome for others, and the regulations may be even more severe. So far, the maximum leverage of credit for FX is 25 times, but I thought that there could be a possibility that the leverage of credit might become even more severe in the future, as I saw the discussions at the workshop up to last year. Could you tell us about it as well?

Matsumoto: Leverage is expected to become extremely tight now. The leverage for FX is 25 times, but for the stock is 3.3 times. When virtual currencies are converted into derivatives under the Financial Instruments and Exchange Act, credits are considered about at the same level with that of stock, in low singles such as four times, three times, or twice.

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As for Coincheck, we aren't doing leveraged transactions, so there is no impact on results of operations. If it begins, it will only be positive, but what is widely said is that leverage will be very strictly regulated.

The idea is to manage derivatives in virtual currencies under the FIEA, so basically it should be done by securities companies. It's an arrangement in which registered companies like securities companies do it.

Everything around is already known. That's why we are not going to face such a severe situation from now on, but we are already in this situation.

From here, however, the digital renminbi came out, and Zuckerberg received criticism. Currently, the situation in the US is very bad, particularly for the Libra. The digital renminbi has emerged, and Monetary Authority of Singapore and the Central Bank of Canada have been developing central bank digital currencies, and Mark Kearney of Bank of England showed approval for it.

People in China, North Korea, and Iran are trying to make something different from US, and people in Canada, Singapore, and the United Kingdom are also doing it. It's no doubt that something like Stablecoin or Digital Fiat will emerge. Within this trend, how will it be dealt with in virtual currencies?

Naturally, a virtual currency is like a fungible base currency that can be easily exchanged when buying or selling a virtual currency, rather than a legal tender. I may be Libra or digital renminbi. If there is a fungible settlement currency, probably trading volume will increase significantly.

In fact, the Binance Company offers a coin called BNB that can be parked to buy or sell in the Binance. As they have such a virtual currency that can be parked and that is not priced, when they buy bitcoins, they are able to keep them as BNB. In this way, they are able to increase transactions more and more.

In that sense, if there are such developments, such as the digital renminbi or the revival of the Libra, or the moves triggered by them, the markets for virtual currencies will probably be greatly revitalized. And if regulations are not organized, there will be troubles, including tax issues. Then, I think, regulations will emerge in a form that is easy to use and in a more comprehensive manner.

So, perhaps after April, the FATF came out of Japan, the revised law went into effect, and the government decree was made. Japan is the only industrialized country that can still fail a virtual currency. The United States is now very reluctant because of Facebook. France and Germany are now trying to regulate at great speed. In this context, I feel that the United Kingdom, Canada, Japan, and Singapore have a favorable reaction to the virtual currency so, when considering the size of Japan, I think Japan should move forward with that. So, we have some expectations for this situation.

Do you have any other deals?

Watanabe: Watanabe from Daiwa Securities. I have two questions.

The first point concerns the direction of the fee business. In the question and answer, you explained that the focus will be on products. On the other hand, is there any new inorganic strategy, such as building a platform for IFA or collaborating with other companies? This is the first question.

Matsumoto: We are currently making preparations for the IFA. As I mentioned earlier, we are building various types of channels such as IFA and BtoB. We will also work with other regional financial institutions.

That's what we do, but when we decide to sell Japanese stocks as an IFA or collaborating with regional financial institutions, I think that our customers will doubt the profitability, looking at the current liquidity and growth potential of Japanese stocks. That's why products are needed.

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Because we don't sell air, we need something to sell in the channel, whether we make it ourselves or make it outside. I believe it is important to create products that can be clearly differentiated from competitors, and I believe that this is an important part of the Group's competitiveness and an area where we can take advantage of it.

Watanabe: Thanks. As the second point, I would like to confirm the figures. Page 23 of the material, brokerage commissions in the United States. In 2Q, 19.7 million dollars is charged, but is affected by the free commission. Please tell me what level of profit is tied to it.

Matsumoto: The TSgo doesn't include futures. It consists of stocks, ETFs and options. And for options, the first fee is zero in TSgo, but there is a per-ticket charge. We don't reduce it to zero.

The TSgo we're doing is an opt-in type. If the customers don't choose it, they are not be able to enter it. And the use of the platform to do very active trading requires platform fee.

If anything, if everyone gets involved in the TSgo, the impact will be about US 20 million dollars a year. So about a quarter of the commissions written here will be affected by everyone's changeover to that commission-liberalization plan.

As I mentioned earlier, there is only one commission in Japan, but in the case of the United States, there are a variety of layers, so the zero-commission doesn't mean directly that there are no fees at all at once.

Therefore, it will be maximum US 20 million dollars. However, we have to do opt in. Charles Schwab and TD Ameritrade have automatically turned the relevant fees for those using the services into free fees. TradeStation's TSgo structure was not changing services automatically free, but free only if the customer chooses it. Because the platform tool for super active traders remained a premium.

This is the same for Interactive Brokers. Interactive Brokers launched free-of-charge IBKR Lite. So the TradeStation is like it. The difference is that Charles Schwab, TD Ameritrade, etc. do not deal with super active traders, so they made a certain part free of charge.

In the case of the TradeStation, a free system will be introduced if a person who wants use only some services opts in. So it will be maximum 20. However, according to our simulation, the impact for the current fiscal year will be at most US 1 million dollars to 2 million dollars. It is necessary to observe how much cannibalization will occur in the future.

Maximum 20 for the full year. In contrast, I believe it is possible to recover a large portion by gamification, education, community, and so on. And by expanding the customer base with the zero plan, the number of associated businesses and net financial income will increase. So even if we introduce the TSgo, we will probably be able to manage a soft landing for US businesses. There may be some periods of slight penetration, but we will be able to make more growth. I'm not worried so much.

Do you have any more questions? If you have any additional questions, I'll answer them.

Amid a challenging business environment, I don't think that the United States and Crypto businesses are very challenging. However, I believe that the Japan business must make steady structural reforms, and we intend to work on this with a firm awareness.

I wish you continued success.

[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. This document has been transcribed based on simultaneous interpretation provided by the Company.*

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