



**MONEX GROUP**

**Monex Group, Inc.**

1Q Financial Results Briefing for the Fiscal Year Ended March 2020

July 26, 2019

## Event Summary

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|                      |   |  |
|----------------------|---|--|
| [Company Name]       | Monex Group, Inc.   |  |
| [Event Type]         | Earnings Announcement   |  |
| [Event Name]         | 1Q Financial Results Briefing for the Fiscal Year Ended March 2020              |  |
| [Fiscal Period]      | FY2019 Q1   |  |
| [Date]               | July 26, 2019   |  |
| [Number of Pages]    | 29  |  |
| [Time]               | 15:00 – 15:50<br>(Total: 50 minutes, Presentation: 33 minutes, Q&A: 17 minutes) |  |
| [Venue]              | Tokyo Sankei Building, 3F<br>1-7-2 Otemachi, Chiyoda-ku, Tokyo, 100-0004        |  |
| [Venue Size]         | 229 m <sup>2</sup>  |  |
| [Participants]       | 80  |  |
| [Number of Speakers] | 2   |  |
|                      | Oki Matsumoto   | Representative Executive Officer, President<br>& Chief Executive Officer |
|                      | Satoshi Hasuo   | Executive Officer, Chief Financial Officer                               |

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# Presentation

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**Matsumoto:** Now, we will start 1Q Financial Results Briefing for the Fiscal Year Ended March 2020 of Monex Group, Inc.

First of all, I would like to briefly give an overview, then Mr. Hasuo, CFO, will discuss some analysis, and then I would like to take your questions after I talk a little again.

Business Overview 1/2



Japan, the pillar of earnings long since founding, is struggling to improve its profitability under the current equity market condition. TradeStation which joined the Group under the “Global Vision”, turned into the biggest earner. Coincheck turned black for the first time after the acquisition under “New Beginning” to accelerate our transformation into a financial conglomerate of new age. Achieving a surplus in all three major segments illustrates that our new business portfolio has been established

## Share Repurchase

Monex Group decided to implement a share repurchase as all three major segments achieved surplus

### Objective

- Flexible capital policies corresponding to changes in the business environment
- Enhance shareholder returns through the improvement of capital efficiency

### Details of share purchase

- Class of shares to be repurchased : Common stock of the Company
- Total number of shares to be repurchased : Up to 10,000,000 shares  
(3.76% of the total number of shares issued and outstanding (excluding treasury stock))
- Total cost for repurchase : Up to 4,000,000,000 yen
- Repurchase Period : From July 26, 2019 to Aug 16, 2019

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In a word, the Japanese stock market is extremely illiquid, and I think it is a difficult situation, whether the environment is very adverse or severe. We have five segments: Japan, US, Asia Pacific, Crypto Asset, and Investment. The three major segments: US, Crypto Asset, and Japan have achieved solid profits.

In general, Japanese securities companies’ portfolios are inevitably heavily influenced by Japan's securities markets. But for us, our operations also include the US and Crypto Asset businesses, which are performing firmly. Along with that, we intend to establish three pillars by either reorganizing or strengthening the securities business in Japan.

In 2011, we launched the Global Vision and acquired TradeStation, which is the sixth largest online securities company in the United States. Since then, interest rates and volatility have declined significantly, leading to a deficit. But we turned this loss into a profit two or three years ago, and now we have grown to become an earner, the most profitable segment of the Group.

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In the autumn of 2017, we announced our “New Beginning,” meaning the creation of new finance and concepts using blockchains and other resources. In this context, Coincheck joined the Group in April 2018. Since then, we have incurred costs due to the strengthening of our internal control system and security, while the market has become extremely calm, and this resulted in a deficit. However, we have achieved profitability as a result of controlling costs, adding new currencies, and the return of the market.

Although the business environment in Japan is quite severe, we are making a solid profit, and we are now in a situation where these three pillars are in place.

Against this backdrop, today we have announced our own share purchase of up to 4.0 billion yen or 10 million shares.

|              |   |
|--------------|---|
| US           | US segment turns into the biggest earner in our group. Revenue base continues to expand with steady growth in customer assets and account openings. TradeStation Crypto, Inc. is expected to launch a cryptocurrency trading offering this October  |
| Crypto Asset | Promotes cost reduction while strengthening internal control and cyber security. Coincheck became profitable for the first time after joining our group, driven by the rapid account growth, new offering of a cryptocurrency and favorable market activity throughout the quarter  |
| Japan        | Remains profitable despite the lowest level of transaction volume by individual investors in the last seven years. Looking to leverage synergies with Coincheck and offer competitive US equities trading services to expand customer base. Keeps striving to grow other revenue source than brokerage commissions from Japanese equities |

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Page five shares our perception of these three pillars: US, Crypto Asset, and Japan. The US segment is growing steadily at any rate, and as I will explain later, it is becoming increasingly independent of volatility. As a result, the number of accounts is steadily increasing, and we expect the business and profits to continue to grow in the future.

We are slated to launch a crypto business and virtual currencies business in October of this year via a company called TradeStation Crypto, Inc. in the US, and we are currently preparing for this.

As I mentioned earlier, Crypto Asset increased costs by strengthening the internal control system and cyber security, et cetera, in response to requests from the Financial Services Agency after the acquisition, while on the other hand, the market became quiet. In January of this year, the business was registered, and then the cost was controlled firmly. This was the first new currency to be added in Japan since a series of stricter regulations. The number of accounts also grew very steadily, with the rapid growth of those accounts, the addition of new currencies, and the booming market leading to a surplus.

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I will talk about this later, but we are bullish about virtual currencies as a whole. There are many new topics regarding not only the markets, the Libra of Facebook, and so on, but also FATF or strengthened regulations by global regulatory teams. We believe that these factors will increase the confidence and popularity of virtual currencies. In the future, we believe that virtual currencies will grow steadily, and that Coincheck and our Crypto Asset businesses will also grow greatly, in terms of both profits and revenue.

In Japan, the liquidity situation has fallen to the same level as that seen at the time of the Noda administration. However, Monex Securities is actively pursuing such initiatives as collaborating with Coincheck and making minimum fees for US equity services free, which is an overwhelming advantage. By doing so, we aim to expand our customer base.

At the same time, we are working to strengthen our other businesses, aside from Japanese stock brokerage commissions in the Japan segment, so that we can earn profits as soon as possible without problems, even when Japanese stocks are illiquid.

On the other hand, as I will talk about later, we are not simply commenting on the illiquidity of Japanese stocks. Rather, we intend to continue or further strengthen our efforts to take the initiative in improving the situation, using the Monex Activist Forum, which began at the beginning of the year.

Highlights 1Q of FYE Mar. 2020 (3 months) 1/4



US became most profitable among the five segments while Crypto Asset significantly increased its revenue. Japan remains profitable despite the low market condition and seeks to improve its profitability

|              |  |
|--------------|--|
| Japan        | Segment profit* remained to be about ¥0.5 billion remaining profitable, while the volume of stock trading by individual investors decreased            |
| US           | EBITDA significantly increased from 1Q FYE Mar. 2019. Segment profit is ¥0.6 billion which is the largest among five segments                          |
| Crypto Asset | Trading volume increased by adding a new cryptocurrency offering, rapid account growth and favorable market condition. Segment profit is ¥0.14 billion |
| Asia Pacific | Monex Boom Securities remains profitable. Segment loss* is ¥13M due to costs preceding earnings by Monex Securities Australia                          |
| Investment   | MV I Investment Limited Partnership steadily expands its portfolio   |

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

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Page six shows a simple summary of the five segments. Segment profit in Japan is 0.5 billion yen. US recorded the largest segment profit of 0.6 billion yen. Crypto Asset also posted a profit of 0.14 billion yen for the reasons mentioned earlier.

From here on, Mr. Hasuo, CFO, will discuss the analysis of numbers.

**Hasuo:** I'm Hasuo. Now, I would like to explain the results in numerical terms.

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| (JPY million)  | FYE Mar. 2019<br>1 Q<br>(Apr. 2018–<br>Jun. 2018) | FYE Mar. 2020<br>1 Q<br>(Apr. 2019–<br>Jun. 2019) | Variance | Rate of<br>change | Reference  |
|--|---|---|----------|-------------------|--|
| Total operating revenue after deducting financial expenses | 12,358  | 11,881  | -477     | -4%               | P13: Analysis of Japan segment<br>P15: Analysis of US segment (USD)<br>P17: Analysis of Crypto Asset segment   |
| SG&A   | 11,255  | 10,666  | -589     | -5%               | P14: Analysis of Japan segment<br>P16: Analysis of US segment (USD)<br>P18: Analysis of Crypto Asset segment   |
| The amount equivalent to operating income                  | 1,102   | 1,215   | 112      | 10%               |  |
| Other income / expenses (net)                              | 27  | -19   | -47      |                   | Breakdown in DATA BOOK P20:<br>- Quarterly consolidated financial results<br>(Other income and other expenses) |
| Quarterly profit before income taxes                       | 1,130   | 1,196   | 66       | 6%                |  |
| Quarterly profit attributable to owners of the Company     | 1,196   | 849   | -347     | -29%              |  |
| EBITDA*  | 3,148   | 3,177   | 29       | 1%                |  |

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

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First, this is a year-on-year comparison. First of all, revenues declined by around 4% year-on-year. Net profit was approximately 30% down year-on-year. Income before income taxes, however, increased from the same period of the previous fiscal year. This is the result of some special tax factors in the first quarter of the previous year.

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## YoY Comparison (3 months) Segment Performance



|  | Japan  |              | US   |              | Asia Pacific |              | Crypto Asset   |              | Investment   |              |
|--|--|--------------|--|--------------|--------------|--------------|--|--------------|--------------|--------------|
| (JPY million)  | 2019/3<br>1Q   | 2020/3<br>1Q | 2019/3<br>1Q   | 2020/3<br>1Q | 2019/3<br>1Q | 2020/3<br>1Q | 2019/3<br>1Q   | 2020/3<br>1Q | 2019/3<br>1Q | 2020/3<br>1Q |
| Total operating revenue after deducting financial expenses and cost of sales | 6,634  | 5,598        | 4,619  | 4,996        | 192          | 195          | 942  | 1,274        | 222          | 12           |
| SG&A   | 5,835  | 5,194        | 4,389  | 4,364        | 207          | 212          | 1,211  | 1,127        | 1            | 14           |
| The amount equivalent to operating income                                    | 799  | 404          | 230  | 633          | -16          | -16          | -269   | 147          | 220          | -2           |
| Other income / expenses (net)  | 161  | 53           | -21  | -13          | 6            | 3            | 10   | -5           | 12           | 0            |
| Quarterly profit before income taxes   | 959  | 457          | 209  | 620          | -9           | -13          | -259   | 142          | 233          | -2           |
| Quarterly profit attributable to owners of the Company                       | 1,055  | 313          | 191  | 464          | -13          | -16          | -190   | 99           | 156          | -4           |
| EBITDA   | 2,314  | 1,576        | 861  | 1,425        | 2            | 13           | -258   | 299          | 220          | -2           |
| Note   | See P13 "total operating revenue after deducting financial expenses and cost of sales" for more details<br>See P14 "SG&A" for more details |              | See P15 "total operating revenue after deducting financial expenses and cost of sales" for more details<br>See P16 "SG&A" for more details |              |              |              | See P17 "total operating revenue after deducting financial expenses and cost of sales" for more details<br>See P18 "SG&A" for more details |              |              |              |

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Looking at the results by segment, we see that the greatest contribution to the overall increase was made by the Crypto Asset business, which achieved profitability for the first time. This contributed significantly to the Group's earnings.

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| (JPY million)   | 4Q FYE Mar.<br>2019<br>(Jan. 2019-Mar.<br>2019) | 1Q FYE Mar.<br>2020<br>(Apr. 2019-<br>Jun. 2019) | Variance | Rate of<br>change | Reference  |
|---|---|--|----------|-------------------|--|
| Total operating revenue after<br>deducting financial expenses | 11,017  | 11,881   | 864      | 8%                | P21: Analysis of Japan segment<br>P23: Analysis of US segment (USD)<br>P25: Analysis of Crypto Asset segment   |
| SG&A  | 11,290  | 10,666   | -624     | -6%               | P22: Analysis of Japan segment<br>P24: Analysis of US segment (USD)<br>P26: Analysis of Crypto Asset segment   |
| The amount equivalent to<br>operating income                  | -273  | 1,215  | 1,488    | -                 |  |
| Other income / expenses (net)                                 | -1,160  | -19  | 1,141    |                   | Breakdown in DATA BOOK P20:<br>- Quarterly consolidated financial results<br>(Other income and other expenses) |
| Quarterly profit before<br>income taxes                       | -1,433  | 1,196  | 2,628    | -                 |  |
| Quarterly profit attributable to<br>owners of the Company     | -1,515  | 849  | 2,364    | -                 |  |
| EBITDA  | 1,877   | 3,177  | 1,300    | 69%               |  |

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I would like to explain more detail about the quarter-on-quarter comparison, which is shown on page 19. Total operating revenue after deducting financial expenses was up 8% compared with the previous quarter. Furthermore, we posted a net profit of 0.849 billion yen, which was a loss in the previous quarter, and we were able to post a solid profit in the current quarter.

In the previous quarter, we recorded a loss due to some impairment losses, et cetera in the Japan segment, as a special factor. However, in the current quarter, we recorded a profit because there were no such special factors.

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## QoQ Comparison (3 months) Segment Performance



| (JPY million)  | Japan   |              | US  |              | Asia Pacific |              | Crypto Asset  |              | Investment   |              |
|--|---|--------------|---|--------------|--------------|--------------|---|--------------|--------------|--------------|
|  | 2019/3<br>4Q  | 2020/3<br>1Q | 2019/3<br>4Q  | 2020/3<br>1Q | 2019/3<br>4Q | 2020/3<br>1Q | 2019/3<br>4Q  | 2020/3<br>1Q | 2019/3<br>4Q | 2020/3<br>1Q |
| Total operating revenue after deducting financial expenses and cost of sales | 5,647   | 5,598        | 4,985   | 4,996        | 209          | 195          | 302   | 1,274        | 89           | 12           |
| SG&A   | 5,698   | 5,194        | 4,231   | 4,364        | 228          | 212          | 1,373   | 1,127        | 17           | 14           |
| The amount equivalent to operating income                                    | -51   | 404          | 754   | 633          | -19          | -16          | -1,071  | 147          | 73           | -2           |
| Other income / expenses (net)  | -1,636  | 53           | -5  | -13          | 15           | 3            | 511   | -5           | 1            | 0            |
| Quarterly profit before income taxes   | -1,687  | 457          | 749   | 620          | -4           | -13          | -560  | 142          | 74           | -2           |
| Quarterly profit attributable to owners of the Company                       | -1,139  | 313          | 528   | 464          | 41           | -16          | -989  | 99           | 47           | -4           |
| EBITDA   | 1,472   | 1,576        | 1,459   | 1,425        | -2           | 13           | -997  | 299          | 73           | -2           |
| 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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This slide shows the figures for each segment. First, in the Japan segment, in terms of topline operating revenue, there was a slight decline. As for profit, there was a special factor in the fourth quarter, but in the first quarter, the results were positive.

The US segment saw a slight increase in sales, but a slight decrease in profit.

In addition, the Crypto Asset segment was profitable.

Looking at the horizontal comparison by segment, in terms of the absolute amount of profit, the US segment recorded the highest revenue in both the first quarter and the fourth quarter of the previous fiscal year.

The bottom shows EBITDA and this indicates how profitable we are. Both the Japan segment and the US segment recorded EBITDA of approximately 1.5 billion yen in this quarter, and I believe that both of these segments constitute the core of our earnings power.

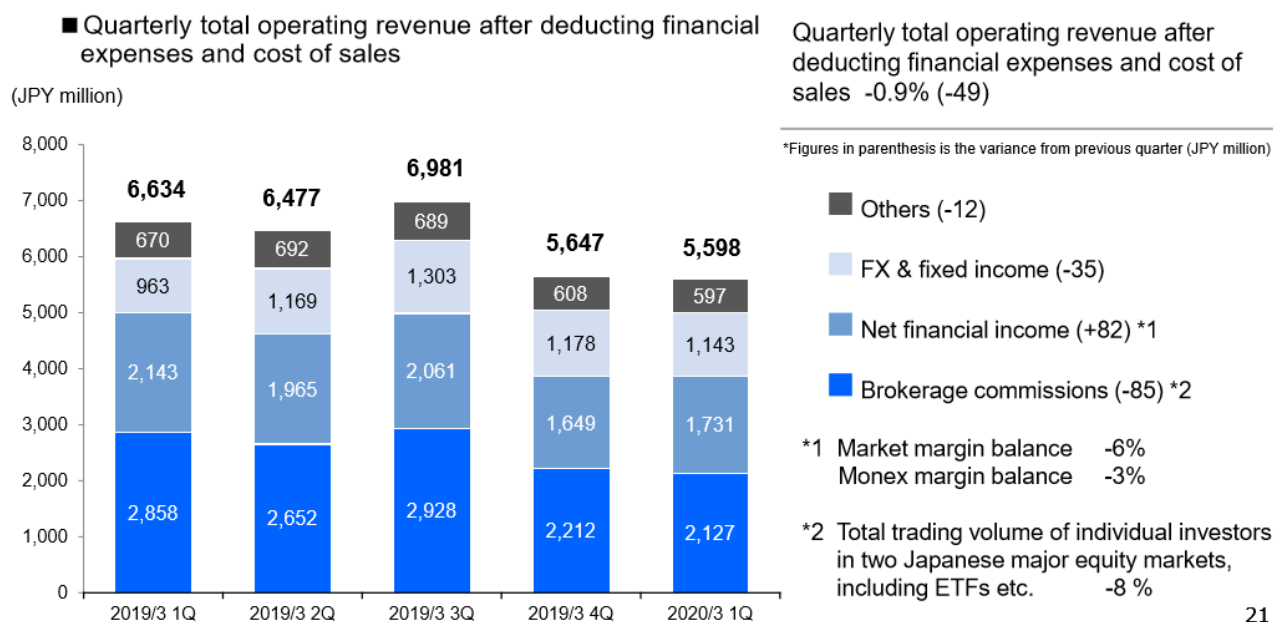
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## Japan : Brokerage commissions decreased due to the lowest trading volume by individual traders in about seven years



Let me now turn to the earnings analysis of the Japan segment. In the Japan segment, trading volume of individual traders in the market has declined to below 1 trillion yen, the lowest level in seven years. Against this backdrop, brokerage commissions declined.

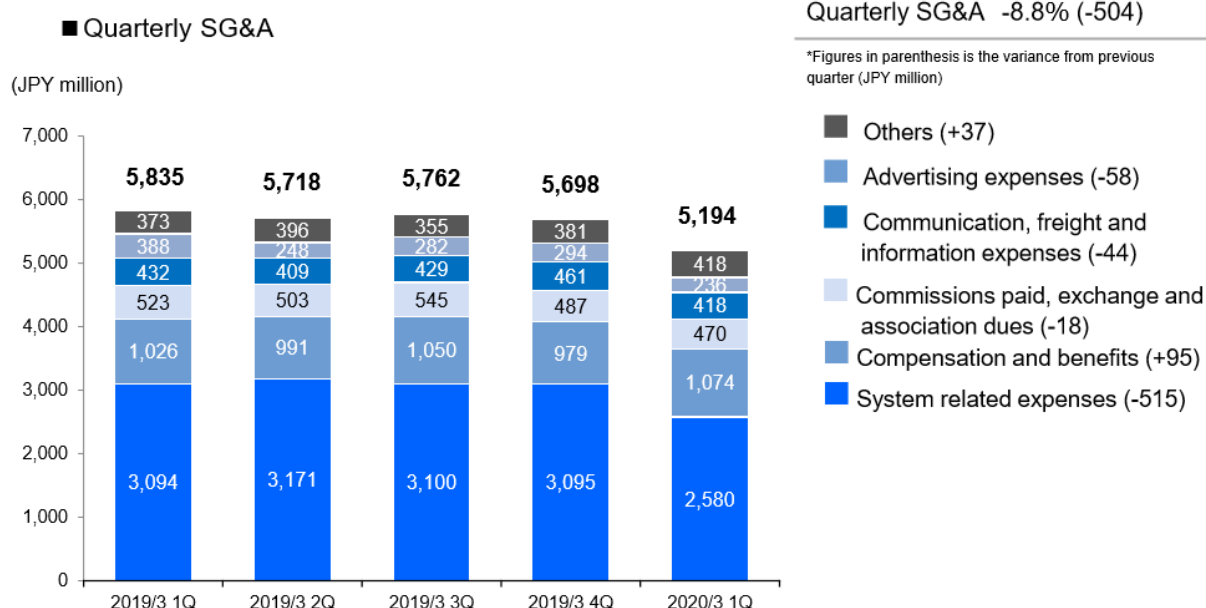
Nevertheless, net financial income slightly underpinned the balance. As dividend income from stock lending increased, which was partially due to seasonal factors, however, net financial income became positive, and quarterly total operating revenue after deducting financial expenses and cost of sales was slightly negative as a whole.

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Japan : System related expenses largely decreased due to lower depreciation cost caused by the impairment in the previous quarter



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Regarding SG&A, on the other hand, the level of expenses clearly dropped from this first quarter. Overall, SG&A expenses decreased by about 9% year-on-year, but the biggest factor was a decline in depreciation expenses within system related expenses. This figure was down by about 0.35 billion yen, but this was due to the recording of the impairment loss mentioned earlier in the previous fiscal year and a partial review of the depreciation period, which resulted in a decrease in system related expenses.

As a result, SG&A expenses were kept to around 5.2 billion, and the Japan segment was able to post solid profits. Other factors, including curtailment of advertising expenses and other contributions, contributed to the segment's profitability.

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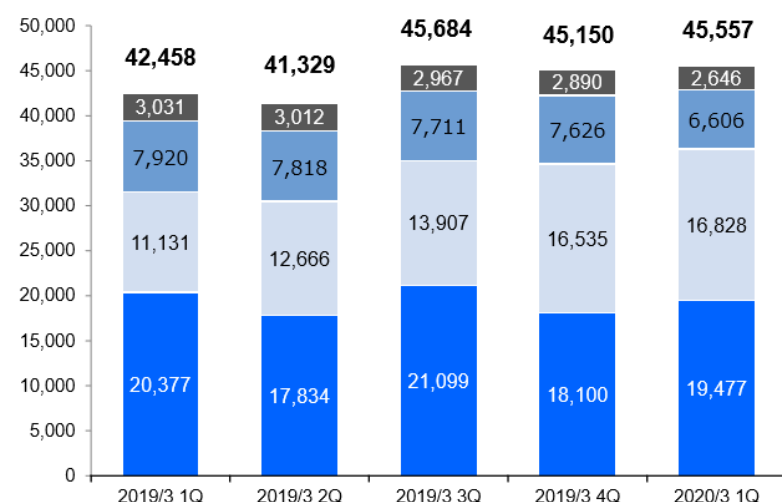
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**US :** Revenue remains solid, keeping the increase in net interest income for 6 quarters in a row. Brokerage commissions increased driven by larger futures trading volume from an increase in intraday volatility

■ 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 +0.9% (+406)

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

- Others (-244)
- Other commission (-1,021)
- Net financial income (+293)
- Brokerage commissions (+1,378)

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This shows the results of the US segment. The Dow market as a whole was trying to achieve its record-high. Volatility is declining on a closing price basis, but there has been a significant increase in intraday volatility, which has resulted in an 8% increase in brokerage commissions.

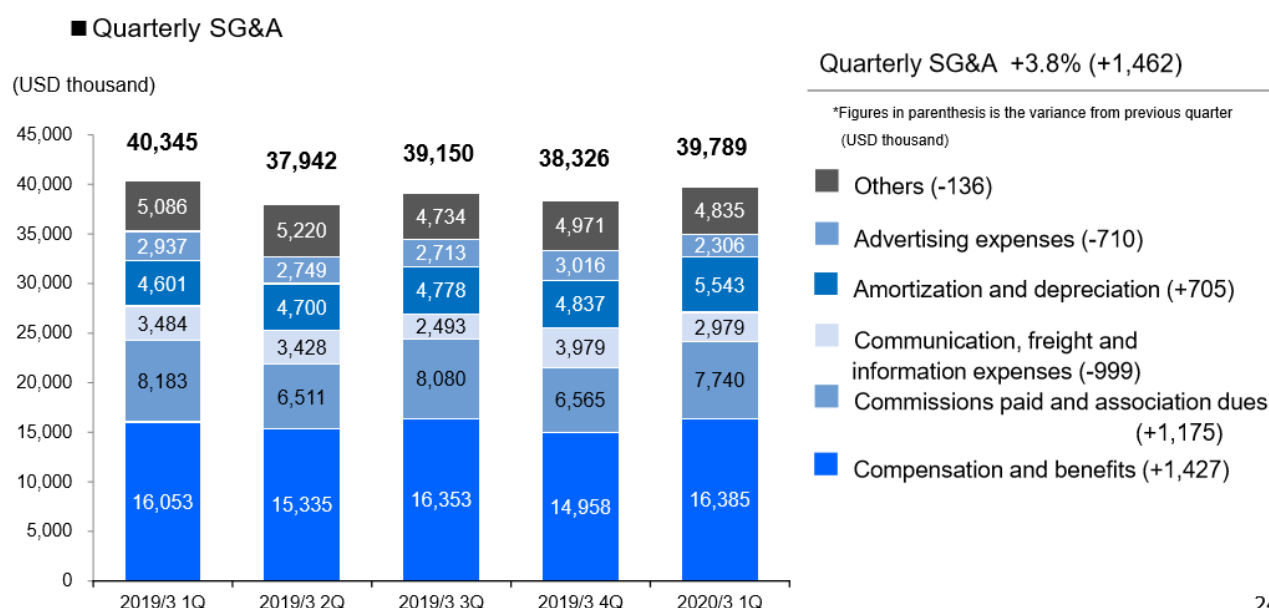
And speaking about net financial income, as short-term interest rates have been rising in the US for a long time, this has resulted in a six-quarter increase in net financial income, which has resulted in an overall increase of around 1%.

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## US : Commissions paid increased due to larger futures trading volumes



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Regarding SG&A expenses, they slightly increased due to an increase in commissions paid as a result of an increase in transactions. This represents a total increase of about 4%.

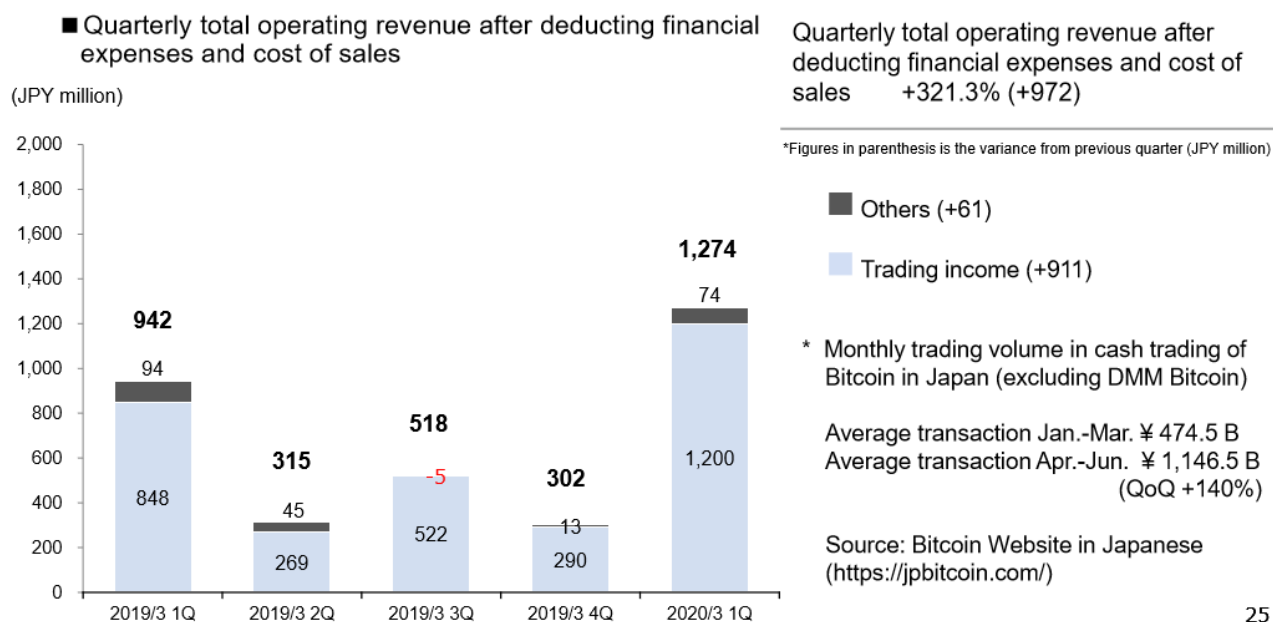
The amortization and depreciation expenses appear to be increasing. Due to the adoption of IFRS16, which has been applied since the current fiscal year, some leased assets are recorded as amortization and depreciation expenses. This reclassification caused other expenses to reduce and depreciation expenses to increase. As a result, the total amount of amortization and depreciation expenses remains unchanged. That amount is about 0.7 million dollars.

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**Crypto : Revenue increased approximately 4 times while the monthly market transaction(\*) in Japan increased 2.4 times from the previous quarter**



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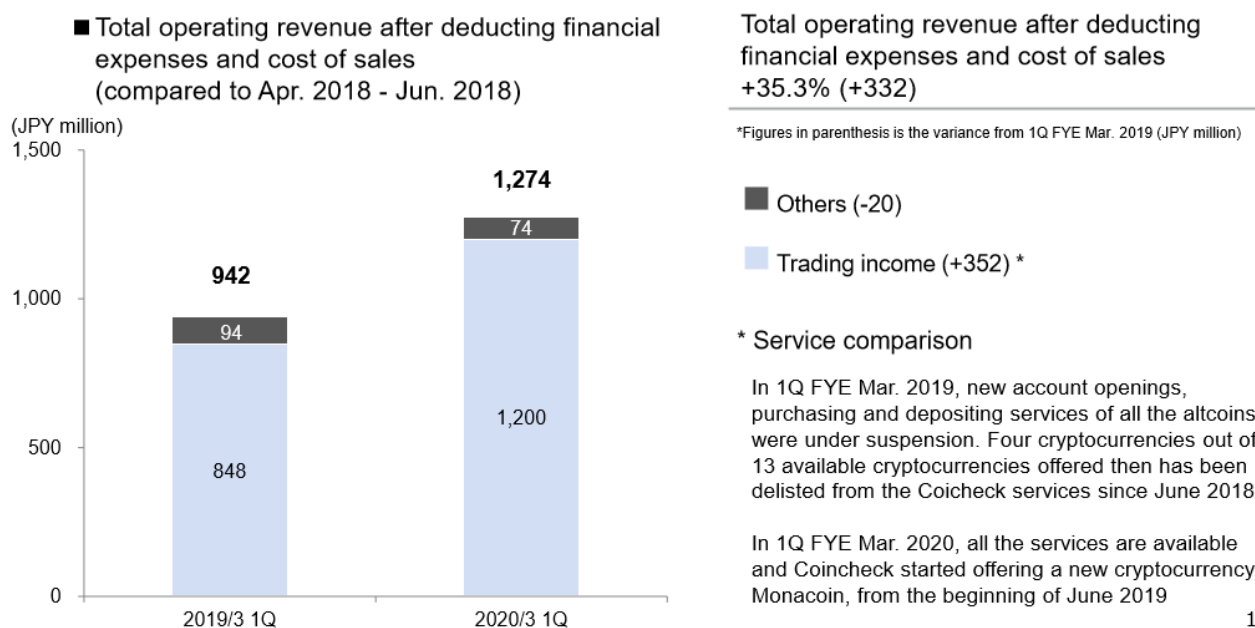
Lastly, is Crypto. From this fiscal year, we have also added a slide for the explanation of Crypto. According to the data on the slide showing the trend of the transaction of bit coins, compared with the previous quarter, we can see that the market has increased roughly 2.4 times. Against this backdrop, we are seeing a four-fold increase in revenues from Coincheck.

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**Crypto : Coincheck sequentially resumed its services since October 2018. Favorable market condition of this quarter drove higher trading income**



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By the way, the first quarter looks comparatively high, and the first quarter in the previous fiscal year also looks comparatively high. These details are explained on page 17. In the first quarter of the previous fiscal year, we had decided to abolish the handling of four currencies, and because some of the revenue from the sale was recorded in this quarter, we have seen a lot of profit.

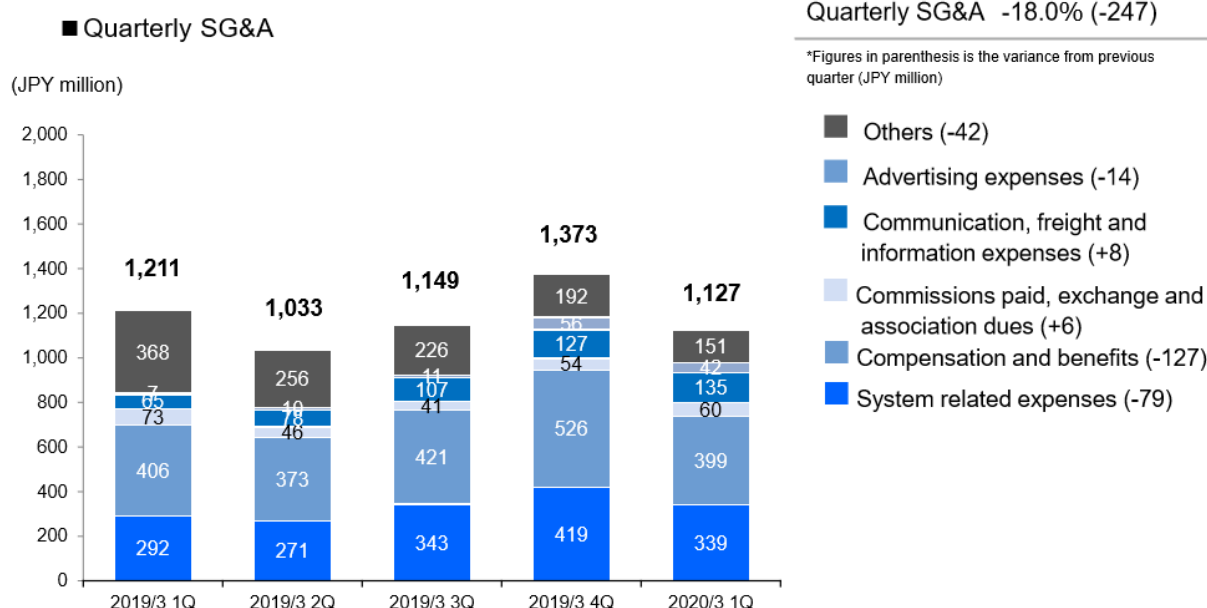
Going back to page 25, if you exclude this amount, you can see an increase in the number of currencies handled and a gradual increase in revenue as a virtual currency exchange business while following such a process.

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## Crypto : Coincheck saved outsourcing expenses as a part of cost reduction efforts



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Finally, this is the cost of the Crypto segment. This was down about 18% from the previous quarter. There has been a temporary increase in costs due to the use of various security measures, but we will continue to invest in this matter. On the other hand, due to the ongoing efforts to steadily reduce costs and expenses, expenses decreased by about 18% in the current quarter, which is the first quarter. This was mainly due to the achievement of a decrease in outsourcing expenses.

I will conclude my explanation here.

**Matsumoto:** Please let me add a little more. Looking back at page 20, the top line is almost the same both for Japan and the US, which are 5.5 billion yen and 4.9 billion yen, respectively. Their income before income taxes were 4.5 billion yen and 6.2 billion yen, with 1.5 billion yen and 1.4 billion yen in EBITDA. The online securities business for the Japan and US segments is almost the same in size, both on the topline and on the bottom-line.

Topline of Crypto Asset has also been growing significantly and came to 1.274 billion yen. What I have in my head is that we can't just stand at the same level, but have to grow the Japan, US, and Crypto segments.

The US segment is expected to grow steadily, and Crypto is also expected to grow rapidly, but the Japan segment is facing many challenges. To tackle those, I have some ideas, such as diversification and some others, which I can't specifically discuss at this point. But I would like to firmly strengthen Japan's business while having the US and Crypto businesses perform strongly and serve as the engines. As a result, I hope that the three pillars of Japan, US, and Crypto segments, will be firmly established.

Again, I would like you to understand that our business portfolio is not only our Japanese online securities company alone, but also the US online securities business and the Crypto Asset business.

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For pages 30 and beyond, I will talk briefly and then start the Q&A session.

Strengthened margin trading and TradeStation for Japanese equities trading. A trust company joined our group with an aim of contributing to the super-aged society

**Active traders / Super-aged society of Japan**

**Monex Stock Scouter**

- Various functions helping the investment judgement; “Corporate performance for 10 years” and “Graphic PER and PBR for 5 years”. More than 70K monthly users on the average

**Margin trading initiatives & TradeStation for Japanese equities trading**

- Launched short trading service with an indefinite repayment period. TradeStation tool takes stable operation as its top priority and aims to acquire more active traders

**Monex SP Trust, Inc.**

- Acquired Shiawase Partners Trust Co., Ltd and renamed it as Monex SP Trust, Inc. expecting to create services that contribute to the resolution of super-aged society in Japan

**Intermediary Service with Financial Institutes**



**Monex-Saison-Vanguard Investment Partners, Inc.**

- “MSV LIFE” is in the process of comprehensively improving its UX/UI
- Several financial institutes plan to introduce its asset management service “MSV COMPASS+” by the end of this fiscal year

**Financial Instruments Intermediary Service**

- Shizuoka Bank, FIDEA Holdings Co., Ltd. (Shonai Bank and Hokuto Bank), and TOMONY Holdings, Inc. (Tokushima Bank and Kagawa Bank) offer financial instruments intermediary service in partnership with Monex Securities

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On page 32, on the lower left Monex SP Trust, Inc. is shown. Several weeks ago, we purchased a company called Shiawase Partners Trust Co., Ltd. Amid the 100-Year Life and pension problems, we believe that it is necessary to respond earnestly to the super-aged society, including will trusts, etc. Our group’s customers will be steadily aging, so that they will become a truly core customer segment for Monex Securities. We will work to be able to respond to this situation in a solid manner.

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## “Monex Activist Forum” was well-received among retail and institutional investors

“Monex Activist Forum” aims to facilitate communication between individual investors and companies, and enhance the value of Japanese equities. Monex Securities will deepen individual investors’ understanding of shareholders’ rights and encourage them to exercise their rights properly as activist investors

### “Monex Activist Forum” organized on May 19 (Over 600 participants and 500 live viewers)

The Activist Forum was hosted inviting individual investors. Fund managers, activist fund managers, and experts dedicated to improve corporate value got together and discussed how shareholders should communicate with companies

- Majority of the participants at the forum had experiences in exercising voting rights, which illustrates the rise in engagement sentiment by individual investors
- More than 90% of the respondents answered that they “became more confident to exercise their voting rights” and “felt positive toward the activist forum”
- Going forward, continuous effort will be made to enhance in-depth engagement between individual investor and corporate to contribute to the development of the Japanese stock market

(Monex Securities periodically reports the expert interviews and organizes online seminars)

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The Activist Forum on page 33 has been in place since the beginning of the year. Japan's stock markets have been in a severe situation with liquidity falling to the level of the Noda administration, seven years ago, and the situation on Monday this week was even worse.

Liquidity is low, PBR is low, and the Tokyo Stock Exchange looks like a giant private equity market. Mothers also looks like the Series A market from a global standpoint, and the situation is not very lively.

We have been holding this Activist Forum since the beginning of the year, not just looking at the situation, but taking the initiative to revitalize it. We were asked a question in the media presentation that the US and Crypto businesses are going well, but what will we do with the Japan business under these circumstances? Are you expecting poor results?

Now, rather than leave it alone, we, as a securities company, have taken the lead in making a variety of recommendations on the Japanese stock market, and I would like to contribute to the revitalization of the market. I would like to explain the details in a concrete manner at some point.

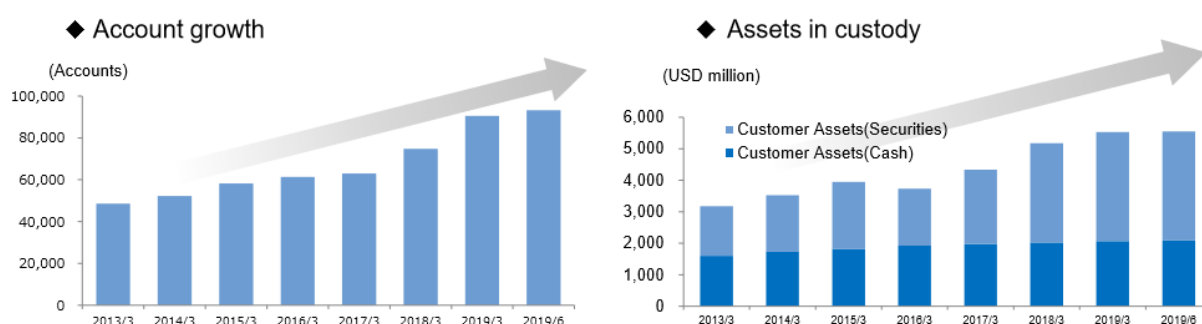
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## Number of active accounts continues to grow and total client assets increased, consistent with overall market rise

- Account growth remains steady as new branding and simplified offerings continue to successfully attract casual traders/millennials that expand customer base
- Launched free trade campaign to drive account growth during the coming summer season
- Went live with new futures options offering in partnership with Trading Technologies
- TradeStation Crypto, Inc. is preparing to launch a U.S. cryptocurrency trading offering this fall



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On page 34, regarding the situation in the US segment, as you can see from the graph, the number of accounts and assets in custody are steadily increasing.

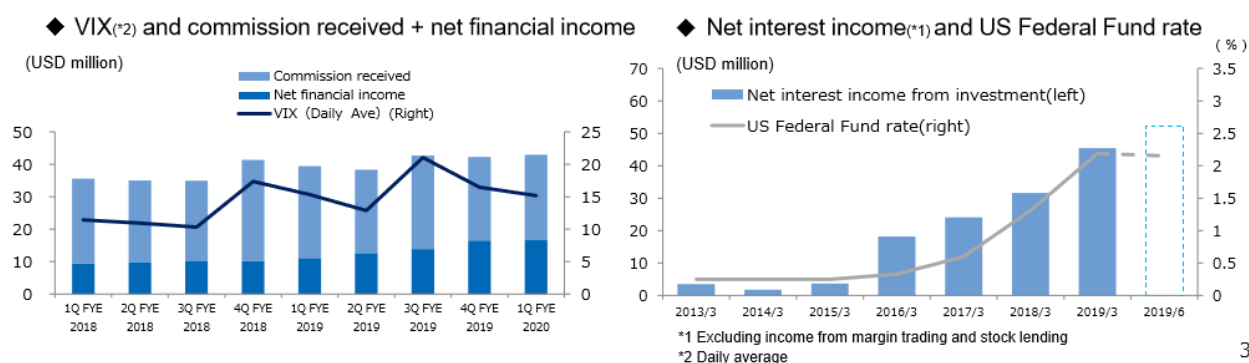
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## Net financial income is forecasted to increase in FYE March 2020, driven by larger net interest income

- Commission received plus net financial income increased by 1.5% from previous quarter
- Commission received increased by approximately 1% under higher volatility from the influence of US-China trade war
- Net interest income in 1Q reached approximately \$15M
- Net interest income in FYE March 2020 will be approximately \$52M with rates pressure expected during latter part of year (Net interest income in FYE March 2019 was approximately \$45M)



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On page 35, the line graph on the lower left shows the trend of VIX. We have succeeded in improving our business structure by keeping profits unchanged, even if volatility declines. This is attributed to two factors: the strengthening of derivatives and options trading, and the considerable expansion of the rebranded customer base. These do not rely on volatility. Traditionally, TradeStation has had super-active traders and has relied heavily on volatility, but now this dependency has been reduced.

The graph on the right shows net interest income. There is a mechanism that allows US securities firms to make higher profit with higher short-term interest rates, but there is no preconceived view at this moment. It is said that the Fed will lower interest rates shortly, but as you can see, there has been a significant increase in net interest income in the previous fiscal year and the fiscal year before that. We believe that this year, even if the Fed cuts short-term interest rates in the way anticipated by the market, we will still have higher net financial income than the previous fiscal year.

At TradeStation, therefore, I believe that the overall level of net interest income will be at a very high level, and that it will be possible to do so even if there is a Fed problem.

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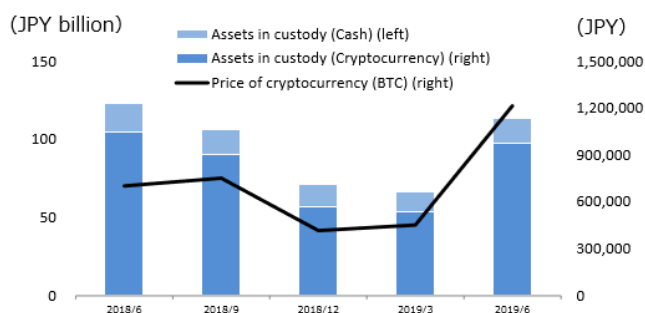
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Assets in custody and the number of users with personnel identity confirmed increased due to favorable market condition

### Assets in Custody

Correlating with cryptocurrency prices, customers' assets in custody at Coincheck has steadily increased

#### ◆ BTC price and assets in custody of Coincheck at the end of each quarter



### Registered / ID-confirmed users

Number of app downloads

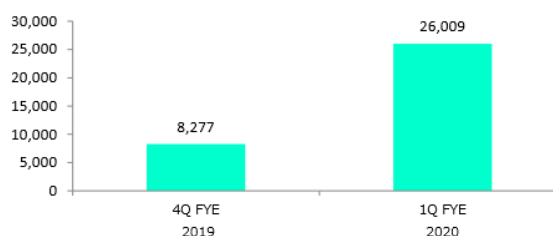
**2.5M**

Number of registered users of app      Number of users with personnel identification confirmed

**1.88M**

**0.90M(\*)**

#### ◆ Number of new users with ID confirmed



\* Changed the definition of number of users with personnel identification confirmed. Number of users confirmed in 4Q of FYE March 2019 was 0.87 million

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Skipping page 36, as the situation of Crypto and Coincheck on the left of page 37 shows, assets in custody are growing in a way that matches the rise in the price of virtual currencies. As shown on the right, the app has 2.5 million downloads, 1.880 million registered users, and new users with ID confirmed of 0.9 million. Currently, among virtual currency exchangers in Japan, we are once again growing the number of new users with ID confirmed at the fastest pace.

This customer base is roughly the same size as Monex Securities. They are flawed, and Coincheck is larger for some indicators, and Monex Securities is larger for others, but they are roughly equal for others.

We will discuss this in the next page, so please notice that the assets in custody on the left are worth approximately 100.0 billion yen in virtual currencies alone.

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Cryptocurrency market is in the process of leading to the healthy development, with the introduction of transparent regulations and the entry of a global company, where Coincheck expands its business maintaining a competitive advantage

### Initiatives

- Enhanced the investment opportunity by adding new tradable cryptocurrencies which started with the new offering of Monacoin in June
- Reduce the cyber security risk by limiting the maximum amount of assets stored in hot wallet to ¥ 2.5 billion
- Made Monex Point issued by Monex Securities exchangeable to cryptocurrency at Coincheck and organized cryptocurrency seminars with Monex Securities to reach out to the stock traders
- "Blockchain Lab" sought collaboration with several companies with an aim to develop services other than cryptocurrency exchange

### Revenue base / competitiveness

- In addition to the BTC exchange/market place, market place of 9 Altcoin is operated in Japan (10 currencies in total)
- Easy-to-use UX for beginners, reaching young people with little investment experience
- Periodic price review secures competitive price difference

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On page 38, the addition of Monacoin in June was the first new currency in Japan after the tightening of regulations. We are working to expand the business in this way. On the other hand, there have been hackings at BITPoint Japan recently. Against the backdrop of the situation, we have reduced the upper holding limit in hot wallets to 2.5 billion yen, and this had been lowered since before the BITPoint hackings happened.

In the case of BITPoint, I believe this was about 13% to 14% of the value of coins in custody. In the case of Coincheck, since the value of coins in custody is about 100.0 billion yen, the 2.5 billion yen shown here represents about 2.5%. Going forward, we will continue to lower that, or manage that.

This doesn't mean that what is inside the hot wallet is risky. We have been implementing solid security measures to our hot wallet, which of course, we consider safe. The size of our capital is much larger than that of the BITPoint group from the point of view of general investors and Monex Group shareholders.

On the other hand, regarding hot wallet, we have written it to ensure that investors in general feel comfortable, even if they are unfamiliar with virtual currencies, because the perceived risks are smaller than those in general. We are confident that we will be able to safeguard what we store in the hot wallet. We are taking appropriate measures to ensure such security. This is what we are doing.

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## Familiarize individuals with cryptocurrency by utilizing a smart-phone app “Cheeese” and a web-based news media “Monex Cryptocurrency Lab”

- A smart-phone application “Cheeese” to give away small amount of Bitcoin by answering simple questionnaires and read the articles published by Monex Cryptocurrency Lab
- Monex Cryptocurrency Lab offers unique information such as cryptocurrency's market projection and industry trend studied by Nana Otsuki, known as an analyst of financial sector, and Lab writers
- Otsuki recently coauthored a paper on Bitcoin performance and published in the leading American scientific journal “*Applied Economics*”

### QR Link to Cheeese App



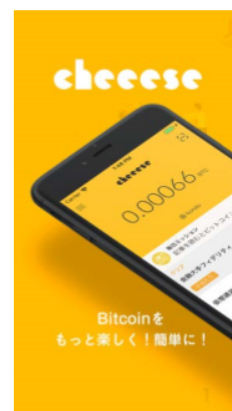
iOS QR code



Android QR code

### Description of Cheeese

- Users can earn Bitcoin by answering simple questionnaires or read cryptocurrency related articles through “Cheeese” app
- This makes individual traders and investors more familiar with cryptocurrency and cryptocurrency trading



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Page 39 explains Monex Cryptocurrency Lab. As I might have mentioned in the previous briefing session, Ms. Nana Otsuki, Director, has submitted a paper to a journal published in the US. She is almost the only researcher in the world who is seriously analyzing capital markets and virtual currencies together, and is currently working to obtain a PhD in blockchain and virtual currencies.

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## The flagship fund “MV I Investment Limited Partnership” has successfully made several investments

### Entity and scope of investment

|   |   |
|---|---|
| Monex Ventures, Inc.                        | : Principle investment with a focus on Fintech companies  |
| MONEX EDISON Investment Limited Partnership | : Leveraging track-record of investments in Fintech companies, its investment scope is expanding further to include non-financial start-ups in seed- and early-stages                       |
| MV I Investment Limited Partnership         | : Investment to new financial infrastructure or its application providers as well as companies in other area specializing in cutting edge technology (Seven investments have been executed) |

### Listed/Sold investments record

|   |   |
|---|---|
| Online life insurance<br>invested in 2006<br><br>Listed in Mar. 2012<br>on TSE Mothers (sold)<br>PFM*<br>/Crowd Accounting<br>invested in 2012<br><br>Listed in Sep. 2017<br>on TSE Mothers (sold) | Information platform<br>/Curation<br>invested in 2009<br><br>Listed in Oct. 2016<br>on TSE Mothers (sold)<br>Online reservation<br>App for upper-end<br>invested in 2016<br><br>Sold all shares in Dec. 2018 |
|---|---|

### R&D purpose investment\*\*

|   |  |  |
|---|--|--|
| IoT<br>Invested in 2018<br><br>Blockchain<br>Invested in 2018<br><br>Blockchain<br>Invested in 2018<br> | Blockchain<br>Invested in 2018<br><br>Cryptocurrency<br>Invested in 2018<br> | Cryptocurrency<br>Invested in 2018<br><br>Cryptocurrency<br>Invested in 2018<br> |
|---|--|--|

\* PFM=Personal Financial Management






\*\* Including the investments aside from other than Investment Segment

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## Business Update Investment Segment

(Portfolio of Monex Ventures, Inc., MONEX EDISON Investment Limited Partnership and MV I Investment Limited Partnership)

## Expanded investments mainly to Fintech companies, to which Monex Securities can propose to be IPO lead arranger

|   |  |   |   |  |  |
|---|--|---|---|--|--|
| P2P lending<br><br>(registered as Type 2 Financial Instruments Business) | EC<br>              | Payment<br>  | DLT*  | Mortgage loan consulting<br><br>(registered as moneylender) | AI/Big Data<br>                       |
| B2B Robo-advisor<br>   | AI/Big Data<br>     | Custom-designed investment platform<br><br>(registered as Type 1 Financial Instruments Business) | Stock Investment type Crowd funding<br><br>(registered as Type 1 Small Amount Electronic Public Offering Service Provider) | Crypto asset related business<br>                           | Web media<br>                         |
| Vertical EC<br>  | AI/Big Data<br>     | Robot Advisor<br>  | Crypto-asset related business<br>  | Photo EC<br>  | AI/Big Data<br>                       |
| VR<br>   | Vacation Rental<br> | Interactive Advertisement<br>  | Online hair salon reservation platform<br>   | Sales management tool in Africa<br>                         | P2P transaction of hotel bookings<br> |
| IoT<br>  | IoT<br>             | Gift EC<br>  | Mental Health Care<br>   | Sleep improvement service<br>                               | E-money platform<br>                  |
| Car dealing platform<br>   | Drone<br>           | SaaS<br>   | Logistics<br>  | SaaS<br>  |  |

\* DLT=Distributed Ledger Technology

Invested in 2014

Invested in 2015

Invested in 2016

Invested in 2017

Invested in 2018

Invested in 2019

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Pages 40 and 41 show the status of our investments in startup companies within MV I, et cetera. The right-hand side of this page shows blockchain relationships. Most are overseas, and we are investing in the world's promising and well-known blockchain startups. Page 41 shows the status of investment in startups at Monex Ventures, et cetera.

We do not believe that the Japanese stock market is very bright, but in our group, the US segment is very strong and continues to grow steadily. With regard to virtual currencies, we turn a deficit into a solid surplus. As to the future outlook, as Libra has become a topic of concern, it will spark a storm of controversy in the world, and will eventually come into its own.

While FATF, Financial Action Task Force, has tightened regulations for virtual currencies, it will continually strengthen its trust in virtual currencies and security, gaining popularity and trust, and becoming increasingly active in virtual currency businesses. Coincheck, which has a very large client base, will greatly benefit from this, and both revenues and profits will grow significantly. So, the US and Crypto segments have very positive and optimistic outlooks.

While the Japan segment is experiencing a severe situation, we are making a profit. We are working to establish a structure as soon as possible that allows the Japan segment to generate surplus, even if brokerage commissions for Japanese stocks are zero.

In addition, we will actively take on initiatives such as Activist Forum to firmly revitalize the Japanese stock market. I would like to do that.

Now, I would like to conclude our presentation here and start to take your questions.

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## Question & Answer

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**Matsumoto:** If you have a question, please raise your hand. Does anybody have questions?

**Participant:** I have a couple of questions. The first point is about the prospects for quarterly expenses in each segment, focusing on fixed expenses.

Perhaps the first quarter will no longer have a special factor, so please tell us how to look at it in the future. That is the first point.

The second point is the monthly trend of the Crypto segment. How did trading volume and revenue fluctuate in April, May, and June? I would like you to tell us about the monthly trends, taking into account the situation in July, if possible.

Third, you said you intend to actively take actions to revitalize the market under this harsh situation, and its details can't be clarified at this point. However, could you tell us just the rough image of that? For example, is it something done by the Company alone, or by partnering with somebody else?

Finally, regarding stock repurchases. Until last year, I think ToSTNeT had not been included in this purchase method. This time, ToSTNeT-3 is also included. Please tell us about your intentions. Is there a specific seller? Or is there any specific reason behind that? This is all.

**Matsumoto:** I think expenses in the first segment have remained almost unchanged. It has been flat for some time in Japan, but when the depreciation of our backbone system GALAXY is over, new investments start, so there's some drop, but it's not a sharp drop. However, it is still a few years from now, and I think it will remain flat for the time being.

The business in US is well-managed based on TradeStation Crypto, Inc. which just started operation. With the exception of that, the expenses essentially remain unchanged, but since this is operated in the US, variable costs include performance-linked bonuses and other expenses, and the US also tends to increase variable costs as the top line increases. I think there is some fluctuation as profits increase, variable costs also increase, but the basic situation remains unchanged.

However, please note that we invest in TradeStation Crypto, Inc. We are already investing now, but I don't remember a detailed schedule of capitalization. I think that the costs have not yet increased so much, but once the business has actually started, I think that part of it will come out as expenses.

This cost is not a large amount. Crypto is so volatile in volume anyway, and accordingly fluctuation in SG&A expenses is extremely wide. So, based on our experience in Coincheck, we have designed TCI, TradeStation Crypto, Inc. to make almost all of expenses variable, so that it will not be too troublesome even when there is very little trading. So, it is not a great expense.

Then, the second question, Crypto's bimonthly activity status showed a sudden increase after the series of holidays in May. There are a number of reasons for this, but perhaps the biggest reason is some of President Trump's comments, which triggered a plummet in stock prices. To date, some people who buy Bitcoin purchase a family office on their own.

Virtual currency was a stand-alone asset. But then, stocks were sold. If the correlation function for every asset such as stocks and bonds increases after the Lehman shock when stocks were sold, you want to move to

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uncorrelated assets in the aftermath of this fear. When the US stocks were sold right after the holiday, money appeared to move to Crypto from there. It seemed to have a big impact.

In addition, there were reports that Yale University had begun to invest in virtual currencies. Or, although FATF strengthened regulations, so-called travel rules, on Bitcoin in various ways, that has contrarily led to a sense of security, as I mentioned earlier.

In addition, the Libra was announced. There is a fairly strong correlation between the number of virtual currencies accounts and the prices of the Bitcoin and other currencies. This may sound like common sense, but this was first advocated by Ms. Otsuki. As a result, amid the announcements of the Libra, the price of the Bitcoin rose sharply amid expectations of an increase in the number of people who trade virtual currencies worldwide. This is why the number of transactions has jumped from mid-May to June.

July is not a fever like May or June, and it has recently become quiet, but it has still entered a different category than before the holidays. In terms of liquidity, rather than price, it seems to have entered a different territory from before the holidays. Although the situation has been somewhat calm, it has become much more active than before the holidays.

Some people may think we should take active initiatives by partnering with others to revitalize the Japanese market, but this is not the kind of joint asset design forum of the four online brokerages we've been doing, and this should be basically carried out on our own. In our activities, however, there may be some partners and others who work with us. But this is different from what we do in the form of a forum. We will be the one who takes the initiative.

With regard to share repurchases, the description of ToSTNeT-3 doesn't mean anything special. It hasn't been written before, but we just put it as a general cautionary statement, as a formality.

**Participant:** How should we take the cost of the Crypto segment?

**Matsumoto:** Crypto is now steadily reducing costs for Coincheck. As I explained in this presentation, we have curtailed fixed costs from around spring, and will continue for the time being. So, I believe fixed costs will continue to decrease until October.

However, these costs may rise slightly, depending on the market conditions. Unlike the securities business, this does not mean paying money to a certain exchange. Most of operation is managed in Coincheck, so there is little cost, even if business becomes active. Of course, there are some things that go up, such as communications costs and server usage fees, but there are only a few.

Depending on market conditions and social environments, we may begin to spend money on advertising, and naturally, it is possible that variable costs will increase depending on the environment.

**Participant:** If fixed costs continue to be reduced until October, how much decrease is expected, compared to the current situation?

**Matsumoto:** The cost for this quarter is 1.127 billion yen, so when divided by 3, it is 0.38 billion yen. I think a 12% could be reduced. We would like to reduce this figure by more than 10% compared to the average figure for the first quarter.

**Participant:** Thank you.

**Matsumoto:** Is there anything else?

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**Participant:** I have a detailed question, about the prospects for future revenues of Crypto's business. After the total volume of the world's markets increased by 2.4 times, operating revenues quadrupled. Is the reason for this that booked revenues from some positions at the end of the period were added, and revenues increased more than the volume of that market?

Or, as you mentioned earlier, for example, Crypto has a structure in which it constantly outperforms the entire market in terms of volume, by keeping companies that have some real demand, for example, and constantly maintaining a flow that exceeds the market. I hope that you will be able to answer that to the extent possible.

**Matsumoto:** I think there are two things. We are not doing any special things, but there are two things. The first is that in Coincheck, margin trading is not carried out, so this is a long position for an individual. In Coincheck, what happens then is that when prices go up, trading volume increases. This is very similar to the feature of Monex Securities, compared to other online brokers. In essence, business of companies that do nothing more than margin trading does not change much, whether the market goes up or down. But companies that have a lot of trading in actuals start to turn over as the market goes up. That happened.

Second, the Coincheck business simply represents retail volume. I don't know the amount of trading volume in Japan per month. It might include the volume of trading between businesses. I don't know that for sure because there is no way to confirm that. If this is the case, there will be a yield, and if we look at only retail transactions, there will be a slight discrepancy. I believe there are two parts that will cause a slight discrepancy. In particular, in the situation where the market has risen, as in this case, I feel that the difference has been large.

The number of new accounts for Coincheck has increased considerably during this period. Currently, the growth in the number of new users with ID confirmed is the largest in Japan. So, I believe that the rapid growth in the number of new accounts is also a factor behind this growth rate.

Is there anything else? No more questions?

As I mentioned at the beginning, we are not a Japanese online securities company, but a company that provides business globally. The US was struggling with a decline in interest rates and volatility. However, the situation is that it has become the most profitable because it has improved firmly, and it has also improved its business structure.

We are one of the few publicly traded companies in the world with a moderately sized Crypto business. There are probably only a few companies. I think there are less than five companies, but one of our characteristics is that Crypto has been growing in the black, with a firm control over costs. By responding to Japan's challenges in the future, we will firmly establish the three pillars of the US, Crypto, and Japan, and create corporate value unmatched by other companies.

Thank you very much for your attention, 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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