

## Highlights of Online Securities Companies' Financial Results for Period from April to September 2020

The following is Japan Credit Rating Agency, Ltd. (JCR)'s perception of the current status and highlights for rating concerning the financial results for the period from April to September 2020 for Japan's five major online securities companies: SBI SECURITIES Co., Ltd., Rakuten Securities, Inc., Monex Group, Inc., MATSUI SECURITIES CO., LTD., and au Kabucom Securities Co., Ltd.

### 1. Industry Trend

Regarding Japan's stock market, the Nikkei Stock Average plunged from around 23,000 yen to middle of 16,000 yen level between late February 2020 and mid-March 2020 due to the effects of expansion of COVID-19 pandemic. It recovered thereafter, and maintained the recovery trend in general from slightly below 18,000 yen at the end of March to around 23,000 yen at the end of September. Trading became active underpinned by the increased stock price volatility and other factors, and individual stock brokerage trading value was at a high level, up approximately 50% from a year earlier. Many of face-to-face trading service providers' retail division faced difficulties as the sales volume of investment trusts and others dropped due to voluntary restraints on the sales activities. However, online securities companies seemed to be hardly affected by the effect mentioned above. All five major online securities companies rather increased their market shares for individual stock brokerage trading value for the period from April to September 2020 (the first half of FY2020), and this can be considered that transactions through online securities companies, which do not require physical interaction, were more preferable under the turmoil of the pandemic. The business environment drastically turned around and positively worked for the online securities companies for the first half of FY2020 from that for the first half of FY2019, during which time individual stock brokerage trading value dropped to the lowest in the last few years.

### 2. Financial Results

As for the financial results for the first half of FY2020 for the five major online securities companies, the four companies except for au Kabucom Securities were good in general backed by the favorable business environment and reported substantial increase in revenue and income from a year earlier. au Kabucom Securities reported only a small amount of increase in revenue as it was affected by the commission-free services on margin transactions and was the only company, which decreased income. Main factor causing the increased revenue for each company was a substantial increase in brokerage commissions backed by active trading. The increased brokerage commission seemed to be contributed by fees for future, option as well as foreign stocks; however, it was largely attributable to an increase in brokerage trading value of stocks and others. Rakuten Securities and SBI SECURITIES increased the trading value more than 80% and more than 70% respectively, which substantially exceeded an increase in the overall market, and their rates of increase in the market share were particularly large. Monex Group and au Kabucom Securities also increased the trading value more than 60%. Brokerage commission also increased together with the increased trading value for each company. However, only au Kabucom Securities slightly decreased the amount as an overall brokerage commissions due to its commission-free services on margin transactions while the rate of increase in trading commissions for spot-trading stocks was close to that of trading value. The balance of margin transactions increased for the four companies except for au Kabucom Securities, and each company seemed to increase net income relating to margin transactions in the net financial income. au Kabucom Securities also increased net financial income contributed by rising interest rate on margin transactions.

For SBI SECURITIES, other than the brokerage commission, it decreased revenues from corporate-related business due to effects of expansion of the pandemic; however, it increased net operating revenues more than 30% and ordinary income approximately 50% thanks in part to a substantial increase in trading profit and loss associated with cryptographic assets and foreign currency denominated bonds. Monex Group increased brokerage commissions and other fees received in

Japan and the U.S. through expansion of transaction volume, and net financial income decreased due to a decline in interest rate in the U.S. As a result, it increased operating revenue after deducting financial expenses 16%. It held down an increase in SG&A expenses approximately 50% of the rate of increase in revenues, and the amount equivalent to operating income almost doubled. An increase in net income of crypto asset business also contributed to the increase in income. au Kabucom Securities could not offset the decrease in commissions on margin transactions by the increase in net financial income, and it reported only a 3% increase in its net operating revenues. Ordinary income decreased due to an increase in allowance for bad debt, and where the impact of the allowance for bad debt is excluded, its profit level was almost the same level as that a year earlier. Both Rakuten Securities and MATSUI SECURITIES increased net operating revenues and ordinary income around 30% and around 50% respectively due mainly to an increase in brokerage commissions.

Looking at the customer base, all five companies increased the number of accounts and balance of assets in custody as of September 30, 2020 from a year earlier. A pace of increase for the top two companies, SBI SECURITIES and Rakuten Securities, was still high. However, the remaining three companies decreased the balance of assets in custody as of September 30, 2020 compared to that as of September 30, 2018. Monex Group increased the assets in custody as a whole group due to contribution of the U.S. operation.

### 3. Points of interest in ratings

Amid intensified competitions as all five companies successively have indicated to stop charging investment trust sales commissions, margin transaction fees, etc. since around November 2019, financial results were favorable in general for the first half of FY2020, which was largely attributable to upturn of the market environment. JCR views that it is important to stabilize revenues through minimizing a decrease as much as possible where the market condition deteriorates or commission-free services expand. In order to compensate the decrease in revenues in association with the commission-free services, each company strives for expanding revenues linked to the balances of transactions including trust fees for investment trusts and interest on margin transactions as well as revenues from other sources than stock brokerage commissions including FX and cryptographic assets-related transactions. While positive outcomes are seen for the initiatives for cryptographic assets, etc., there also are a number of issues to solve. JCR views that it will take time for shifting earnings structure as the balance of margin transactions and net financial revenues have not expanded from the past, and the balance of periodic investment in investment trusts is increasing but the trust fees are on decrease at many companies and other factors. Presently some companies further expand scope of commission-free services for domestic stock transactions; however, it may expand difference in competitiveness as the services offering individual companies vary due to a degree of diversification of the income streams, etc. Since deterioration in the market condition may possibly occur at any time and countermeasures for the free-commission services may lead to curbing a decrease in revenue when the market condition deteriorates, it is necessary to take actions promptly and produce positive outcomes. Many of the companies, which increased income year-on-year for the first half of FY2020, decreased income level compared to that for the first half of FY2018 as most of them declined efficiencies due to increased SG&A expenses. Therefore, whether the companies will be able to improve the earnings structure going forward is also a point of interest.

Kengo Sakaguchi, Tatsuya Shimizu

\*Rakuten Securities settles accounts in December. Six-month period from April to September of Rakuten Securities is used as its first half in this document.

(Chart) Financial Results of Online Securities Companies (from April to September)

(Unit: JPY mn)

	SBI SECURITIES (consolidated)			Rakuten Securities (consolidated) *1			Monex Group (consolidated) *2		
	2019	2020	YoY	2019	2020	YoY	2019	2020	YoY
Operating Revenues	57,864	74,030	27.9%	27,373	35,346	29.1%	26,034	29,317	12.6%
Commissions	24,846	31,240	25.7%	9,597	15,945	66.1%	11,456	16,838	47.0%
Brokerage Commissions	13,416	21,689	61.7%	6,748	12,997	92.6%	8,669	12,612	45.5%
Underwriting and Distribution Commissions	1,529	485	-68.3%	23	38	65.2%	56	24	-57.1%
Subscription and Distribution Commissions	999	1,040	4.1%	703	442	-37.1%	119	4	-96.6%
Other Commissions	8,901	8,025	-9.8%	2,122	2,468	16.3%	2,612	4,198	60.7%
Net Gain on Trading	14,918	24,605	64.9%	7,608	8,137	7.0%	4,254	4,445	4.5%
Financial Revenues	18,070	18,146	0.4%	9,716	9,672	-0.5%	9,949	7,486	-24.8%
Financial Expenses	3,516	3,711	5.5%	1,272	1,254	-1.4%	2,756	2,211	-19.8%
Net Operating Revenues *2	51,972	68,858	32.5%	26,101	34,091	30.6%	23,277	27,106	16.4%
SG&A Expenses	33,902	41,621	22.8%	20,833	26,835	28.8%	21,112	22,851	8.2%
Operating Income *2	18,069	27,237	50.7%	5,268	7,255	37.7%	2,165	4,255	96.5%
Ordinary Income	18,291	27,316	49.3%	4,789	7,329	53.0%	-	-	-
Net Income Attributable to Owners of Parent	11,734	18,988	61.8%	3,060	4,212	37.6%	1,679	2,919	73.9%
Assets in Custody (JPY 100 mn) *3	116,496	141,779	21.7%	61,831	88,223	42.7%	49,359	54,903	11.2%
Number of Accounts (10 thousand accounts) *3	495	595	20.2%	320	440	37.3%	183	189	3.2%

	MATSUI SECURITIES (unconsolidated)			au Kabucom Securities (unconsolidated)		
	2019	2020	YoY	2019	2020	YoY
Operating Revenues	11,269	14,188	25.9%	9,537	9,572	0.4%
Commissions	6,015	8,789	46.1%	3,630	3,165	-12.8%
Brokerage Commissions	5,681	8,425	48.3%	2,842	2,585	-9.0%
Underwriting and Distribution Commissions	6	26	333.3%	-	-	-
Subscription and Distribution Commissions	28	-	-	57	3	-94.7%
Other Commissions	301	338	12.3%	730	576	-21.1%
Net Gain on Trading	602	414	-31.2%	609	744	22.2%
Financial Revenues	4,651	4,984	7.2%	4,974	5,531	11.2%
Financial Expenses	885	749	-15.4%	1,685	1,578	-6.4%
Net Operating Revenues	10,384	13,440	29.4%	7,634	7,915	3.7%
SG&A Expenses	6,397	7,570	18.3%	6,306	7,095	12.5%
Operating Income	3,987	5,869	47.2%	1,327	819	-38.3%
Ordinary Income	4,065	5,912	45.4%	1,398	831	-40.6%
Net Income Attributable to Owners of Parent	2,806	5,488	95.6%	1,101	252	-77.1%
Assets in Custody (JPY 100 mn) *3	23,167	24,842	7.2%	22,175	23,235	4.8%
Number of Accounts (10 thousand accounts) *3	120	128	6.3%	113	119	5.2%

(Source: Prepared by JCR based on financial materials of above companies)

- \*1: As Rakuten Securities settles accounts in December, figures in the table are the cumulative figures of the 6 month-period from April to September in 2019 and 2020.
- \*2: As Monex Group adopts IFRS, figures in the table are reclassified figures based on JGAAP. Its “total operating revenue after deducting financial expenses” should be read as Net Operating Revenues and “the amount equivalent to operating income” should be read as Operating Income.
- \*3: Assets in Custody as of the end of September are used for all companies. The Number of Accounts as of the end of June is used for Rakuten Securities and that of the end of September is used for other companies.

<Reference>

Issuer: SBI SECURITIES Co., Ltd.

Long-term Issuer Rating: A-                      Outlook: Stable

Issuer: Monex Group, Inc.

Long-term Issuer Rating: BBB                      Outlook: Stable

Issuer: au Kabucom Securities Co., Ltd.

Long-term Issuer Rating: A+                      Outlook: Stable

**Japan Credit Rating Agency, Ltd.**

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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