

Highlights of Online Securities Companies' Financial Results for Period from April to September 2021

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 2021 (first half of fiscal year ending March 2022 (FY2021)*) 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. Business Environment

Looking at the domestic stock market, the Nikkei Stock Average recovered to the 30,000-yen level in February 2021 for the first time in about 30 years, and then generally weakened to about 27,000 yen in late August. However, it then rose at a rapid pace through the middle of September, and there are phases where it recovered to 30,000 yen again. Although there were signs of a slowdown in the individual stock brokerage trading value in the first half of FY2021, compared to the large increases of approximately 50% year-on-year in the first half and second half of FY2020 against the backdrop of rising stock volatility and stock price recovery after the COVID-19 outbreak, the trading value during the period increased by approximately 10% year-on-year and remained at a high level, thanks partly to a sharp increase in trading in September. In addition, U.S. stock prices have been rising for a long time, and they continued to rise in the first half of FY2021. Although there have been moves to lower trading commissions or make them free of charge, trading has remained relatively active, and the business environment has been generally favorable.

2. Financial Results

In the first half of FY2021, four companies of the five major online securities companies, with the exception of Rakuten Securities, posted higher revenues and profits compared to the same period of the previous year. Rakuten Securities was the only company to report a decline in profit due to an increase in SG&A expenses, despite an increase in revenue. One of the main reasons for the increase in revenue common to all companies was the improvement in net financial income. In recent years, there has been a trend to lower or eliminate trading and other commissions for domestic stocks, and many companies are focusing on expanding margin transactions as an alternative measure to compensate for the decline in revenue. The balance of margin transactions has been increasing for all companies, and the increase in interest income from margin transactions is believed to have contributed to the improvement in the net financial income. Although brokerage commissions decreased at SBI SECURITIES, Monex Group, and MATSUI SECURITIES, the increase in net financial income at each of these companies was sufficient to offset the decrease. As for the balance of margin transactions at the end of September 2021, Rakuten Securities and SBI SECURITIES showed particularly strong growth, with increases of about 50% and over 30%, respectively, compared to the end of the same month year earlier. The balance of Monex Group and MATSUI SECURITIES increased by over 20%, and that of au Kabucom Securities increased by about 10%. As for brokerage trading value for stock, etc., the value of Rakuten Securities, SBI SECURITIES, and MATSUI SECURITIES increased by around 10%, but the value of other companies decreased.

SBI SECURITIES, outside of net financial income, saw the net operating revenues increase by more than 10%, thanks partly to an increase in corporate-related business compared to the previous year when it was affected by the COVID-19 pandemic, despite a decrease in brokerage commissions due to the introduction of free brokerage commissions. Its ordinary income increased only slightly due to a large increase in SG&A expenses, mainly transaction-related expenses. Although Monex Group's US segment posted a loss due to upfront investments to expand its business, its crypto-asset business segment expanded rapidly on the back of strong crypto-asset market conditions and strengthening of business base, resulting in an increase in the total operating revenue after deducting financial expenses of more than 70% and an increase in the amount equivalent to operating income of nearly four times, which were second only to SBI Securities, the top company in terms of the amount. At au Kabucom Securities, net

operating revenues increased by a little less than 10%, despite a decline in brokerage trading value for stock, etc., thanks partly to an increase in brokerage commissions following the restoration of margin trading commissions, which had been free of charge. Its ordinary income rose about threefold, partly with cost containment and reaction to an increase in provision of allowance for doubtful accounts in the previous fiscal year. Rakuten Securities saw the net operating revenues increase by a little less than 20% with an increase in brokerage commissions in addition to the increase in the net financial income, but the ordinary income declined by more than 10% due to a large increase in SG&A expenses, mainly transaction-related expenses. At MATSUI SECURITIES, both net operating revenues and ordinary income increased by around 10%, thanks mainly to an increase in net financial income.

Looking at the customer base, the number of accounts and assets under custody increased for all companies. In particular, the top two companies, SBI SECURITIES and Rakuten Securities, continued to increase at a rapid pace. Among the remaining three companies, au Kabucom Securities is doing well in terms of account acquisition. Monex Group is steadily expanding its customer base not only in domestic securities but also in the US and crypto-asset business.

3. Highlights for Rating

The revenue growth for all companies in the first half of FY2021 was partly driven by the business environment. On the other hand, the free-of-charge for commissions has been gradually progressing. JCR is paying attention to the progress of the companies' efforts to diversify and stabilize their revenue sources in preparation for a downturn in the market and further progress of the free-of-charge for commissions. While there are differences in companies, their efforts are bearing fruits in addition to the aforementioned margin transactions and crypto assets. In recent years, companies dealing in U.S. equities have been expanding their transactions and revenues have been growing, and with the establishment of a margin trading system for U.S. equities scheduled for July 2022, it is expected to become a new source of revenue. In terms of stable earnings, the balance of investment trusts is steadily increasing along with the expansion of installment investment trusts, and many companies are seeing an increase in trust fees, although the scale is still small. It is considered that there are a relatively large number of transactions by young people and investment beginners in foreign stocks and installment investment trusts and the increase in the number of customers is thought to have led to an increase in transactions. In order to be chosen by customers, it is necessary to differentiate themselves from their competitors, while reducing unfavorable comparison with competitors in terms of commission levels, products and services. As for stock trading commissions, etc., there are moves to bring them closer to the industry's lowest level, similar to those of the top two firms, and the trend toward free-of-charge will not be avoided. On the other hand, system costs related to the acquisition of customers and the introduction of new products and services are on the rise, and clear expenses are required. The shift in the earnings structure is not yet sufficient, and the differences in management strength and customer base may show up as differences in business performance when the environment is bad, so JCR will pay close attention to the efforts of each company to improve its competitiveness.

Kengo Sakaguchi, Tatsuya Shimizu

*Rakuten Securities settles accounts in December. The six-month period from April to September 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		
	2020	2021	YoY	2020	2021	YoY	2020	2021	YoY
Operating Revenues	74,030	82,027	+10.8%	35,346	42,449	+20.1%	29,317	49,094	+67.5%
Commissions	31,240	36,270	+16.1%	15,945	18,263	+14.5%	16,838	18,237	+8.3%
Brokerage Commissions	21,689	19,612	-9.6%	12,997	13,796	+6.1%	12,612	12,115	-3.9%
Underwriting and Distribution Commissions	485	2,132	+339.6%	38	69	+81.6%	24	57	+137.5%
Subscription and Distribution Commissions	1,040	1,822	+75.2%	442	685	+55.0%	4	9	+125.0%
Other Commissions	8,025	12,703	+58.3%	2,468	3,714	+50.5%	4,198	6,056	+44.3%
Net Gain on Trading	24,605	24,263	-1.4%	8,137	8,861	+8.9%	4,445	21,891	+392.5%
Financial Revenues	18,146	21,458	+18.3%	9,672	13,022	+34.6%	7,486	8,361	+11.7%
Financial Expenses	3,711	3,165	-14.7%	1,254	2,349	+87.3%	2,211	2,280	+3.1%
Net Operating Revenues *2	68,858	77,253	+12.2%	34,091	40,100	+17.6%	27,106	46,799	+72.7%
SG&A Expenses	41,621	49,669	+19.3%	26,835	33,959	+26.5%	22,851	30,670	+34.2%
Operating Income *2	27,237	27,584	+1.3%	7,255	6,142	-15.3%	4,255	16,129	+279.1%
Ordinary Income	27,316	27,684	+1.3%	7,329	6,463	-11.8%	-	-	-
Net Income Attributable to Owners of Parent	18,988	18,684	-1.6%	4,212	3,973	-5.7%	2,919	12,027	+312.0%
Assets in Custody (JPY 100 mn) *3	141,779	188,000	+32.6%	88,232	139,818	+58.5%	54,903	72,780	+32.6%
Number of Accounts (10 thousand accounts) *3	595	772	+29.7%	440	624	+41.9%	189	197	+4.4%

	MATSUI SECURITIES (unconsolidated)			au Kabucom Securities (unconsolidated)		
	2020	2021	YoY	2020	2021	YoY
Operating Revenues	14,188	15,316	+8.0%	9,572	9,759	+2.0%
Commissions	8,789	8,719	-0.8%	3,165	3,507	+10.8%
Brokerage Commissions	8,425	8,309	-1.4%	2,585	2,660	+2.9%
Underwriting and Distribution Commissions	26	42	+61.5%	-	-	-
Subscription and Distribution Commissions	-	0	-	3	25	+733.3%
Other Commissions	338	369	+9.2%	576	821	+42.5%
Net Gain on Trading	414	374	-9.7%	744	593	-20.3%
Financial Revenues	4,984	6,222	+24.8%	5,531	5,528	-0.1%
Financial Expenses	749	569	-24.0%	1,578	1,060	-32.8%
Net Operating Revenues *2	13,440	14,747	+9.7%	7,915	8,623	+8.9%
SG&A Expenses	7,570	8,123	+7.3%	7,095	6,158	-13.2%
Operating Income *2	5,869	6,624	+12.9%	819	2,464	+200.9%
Ordinary Income	5,912	6,647	+12.4%	831	2,415	+190.6%
Net Income Attributable to Owners of Parent	5,488	6,397	+16.6%	252	1,748	+593.7%
Assets in Custody (JPY 100 mn) *3	24,842	29,535	+18.9%	23,235	27,051	+16.4%
Number of Accounts (10 thousand accounts) *3	128	136	+6.4%	119	133	+12.1%

(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 2020 and 2021.
- *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 “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. The Number of Accounts for Monex Group is the number for Japan segment only.

<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

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