



April 25, 2019

Minutes of QA Sessions
FY 2018 Results Briefing

【Participants from ZOZO】

Yusaku Maezawa (President and Representative Director)
Koji Yanagisawa (Executive Vice President and CFO)
Kotaro Sawada (Director)
Masahiro Ito (Director)
Takanobu Muto (Director)
Mineki Ohkura (Director)
Toshiaki Shimizu (Director)
Akiko Oishi (Director)
Fuminori Hirose (General Manager of Business Administration Division)

【About ZOZOARIGATO Membership】

Q. Regarding ZOZOARIGATO, the service slated to end, please explain the internal process of deciding the launch of the service. Also, prior to the launch, have you implemented thorough simulations?

A. (Answerer: Sawada)

Same as the ordinary decision-making process, it was discussed and resolved at the Board of Directors meeting. Various proposals for new initiatives are made from staffs including Mr. Maezawa, those proposals are discussed at the Board of Directors appropriately and proceed if the final decision was made. Prior to the decision-making of initiatives, thorough simulations, test verifications are conducted by designated teams. However, in terms of ZOZOARIGATO's case, we did not have a chance to conduct test verifications under the circumstance receiving actual fee. Since the outcome was lower than what we had expected, we decided to end the service.

Q. Is ZOZOARIGATO the only reason for brands leaving ZOZOTOWN? Would it happen in the future?

A. (Answerer: Maezawa)

Reasons behind closure are different by brands, therefore factors of secession are not always related to ZOZOARIGATO. Overall, we have been receiving positive feedbacks from brands on the platform about ending of ZOZOARIGATO. We believe further secession would not happen in the future.

【About the Private Brand(PB)】

Q. Please tell about the operation of the PB business going forward and medium-term perspective.

A. (Answerer: Maezawa)

The private brand will continue this fiscal year, but the policy of operation is to digest existing inventories and sales of items such as socks, necktie, inner wear etc. which are less handled by the brands on ZOZOTOWN as supplementary. On the other hand, formal wear using ZOZOSUIT will continue for the future.

For the longer-term perspective, we are confident that the world without sizes in S, M and L exists. In order to realize that as soon as possible, we reached to the conclusion that it is best to collaborate with brands.



Q. How much the loss of the Private Brand will be reduced in this fiscal year?

A. (Answerer: Hirose)

First of all, the reason why the amount of loss expanded in the Q4 of the last fiscal year was recording of valuation loss on PB item inventories. The loss for this ongoing fiscal year is expected to be around 3 billion yen including expected inventory loss, payroll and staff costs of the PB business division and delivery costs of ZOSUIT. Inversely, engineer costs and inventory storage costs are excluded.

【About new initiatives】

Q. Under MSP (Multi Size Platform) business, will items be manufactured in planned production using bigdata of body sizes? If so, how would you overcome challenges of costs, difficulties, cumbersome inventory management etc.?

A. (Answerer: Maezawa)

Details such as planned production or made-to-order are now being negotiated with brands and since it would differ by items or time, they are not finalized yet. As this fiscal year is positioned as a trial period for business expansion from the next fiscal year, we will scrutinize how much inventories are need to be stocked or order status within relatively small risks of the gross merchandise value of 1 billion yen.

Q. How much is the amount of expected loss from China business?

A. (Answerer: Yanagisawa)

The target date of starting the China business is November of this year and net sales are not included to the plan. The expected costs from this business will be a few hundred million yen.

Q. Downward revision of business forecasts in the last fiscal year and stock price decline seemed mostly originated from those new businesses such as measurement accuracy of ZOSUIT and secession of brands from ZOZOARIGATO. Many new initiatives such as ZOZOCARD, MSP, China business etc. are planned in this fiscal year but how much preliminary researches and trials are conducted?

A. (Answerer: Maezawa)

The initiatives of this fiscal year do not require large investments. Therefore, in the case where performances are not progressing as expected, it would not lead to large loss like the PB from the previous fiscal year.

【About business forecast of the fiscal year ending March 2020】

Q. Merchandise value growth rate of ZOZOTOWN Business (consigned shop) for this fiscal year is +15%; what do you think about this growth rate?

A. (Answerer: Maezawa)

We disclosed the downward revision of full-year business forecast back in January 2019 for the last fiscal year, the same should not be happening. Therefore, budgets for the gross merchandise value is solid.

Q. The plan for BtoB business was expected that it will continue to grow due to own e-commerce expansion of the brands; why is the forecast for this fiscal year not growing?

A. (Answerer: Yanagisawa)

As for this fiscal year, there is an effect from operation support of United Arrows' own e-commerce



site leaving whereas we are expecting orders from new partners. As a total, the plan is that the gross merchandise value for this fiscal year is slightly lower than the last fiscal year.

Q. Net sales plan of the advertisement business is 2.1 billion yen but why is it lower than the expectation of the fiscal year ending March 2020 from the medium-term management plan?

A. (Answerer: Maezawa)

We put the utmost priority to the concentration of ZOZOTOWN business therefore as for the advertisement business, we set a sounding budget.

Q. The operating profit margin of the Q4 of the last fiscal year excluding the PB was 10.8% whereas this fiscal year's projection is 8.7%. What is the background of this gap?

A. (Answerer: Hirose)

Q4 is a quarter with higher average shipping price and operating profit margin tandems. It would be difficult to compare but the factors are 1) higher payroll and staff costs since we are planning on hiring of staffs mainly engineers and 2) expecting increases in advertisement expenses from the PGA tour and reward points of ZOZOCARD.

【Others】

Q. Please explain the challenges of logistics infrastructure and investment plan on consolidation and construction of logistics bases.

A. (Answerer: Ohkura)

As of today, there are 2 logistics bases with shipping function: Narashino and Tsukuba. At peripheral of those, there are bases for inventory management but the cost increase of inventories transfer between the bases is becoming a challenge, therefore we are planning on compressing the cost by consolidating bases near Narashino and Tsukuba. Furthermore, securing workers is also an urgent challenge thus we are considering labor saving measures. Within capital expenditure of 7.2 billion yen for this fiscal year, 3.2 billion yen is related to logistics.

Q. The PGA Tour will take place this year. Do you have a plan on starting golf wear?

A. (Answerer: Maezawa)

Although we are discussing surprises to the peers, there are nothing we can make comment as of today.

Q. Mr. Maezawa's stocks are pledged as collateral for borrowings. Could you explain more about its detail?

A. (Answerer: Maezawa)

All the information available is what is included in the large shareholding report.