



April 30, 2020

Minutes of QA Sessions
FYE March 2020 Results Briefing

This is a summary of the questions received
at the conference call with institutional investors held on April 28, 2020. Some details are revised.

[Company Participants]

Kotaro Sawada (Representative Director, President & CEO)

Koji Yanagisawa (Director, Executive Vice President & CFO)

Yusaku Kobayashi (VP of Strategic Planning and Development Department)

[Impact of the spread of the COVID-19]

Q. What specific impacts are currently occurring from the spread of the COVID-19? To what extent are the impacts expected to continue?

A. (Answerer: Sawada) Inventory was affected positively by the fact that we received inventory from our brands following the temporary closure of their physical stores. On the other hand, negative impacts include a decline in demand for fashion due to a decline in opportunities to go out. Currently, the two effects have been offset, and we see that the impact of the spread of the COVID-19 is flat. Regarding the future, we recognize that brands are willing to aggressively sell products through eCommerce in order to digest inventory, but as demand is expected to decline continuously, it is very difficult to determine which of these will have a major impact.

Q. What is the sales situation after the declaration of an emergency state in April?

A. (Answerer: Yanagisawa) As explained, even after the declaration of the emergency state has been issued, although there is a tailwind for eCommerce due to self-restraint of going out, fashion demand is declining due to staying at home.

Q. Over the next five years, the eCommerce penetration in Japan will still be lower than that in China, and the West. Is it possible to increase the eCommerce penetration after the spread of the COVID-19?

A. (Answerer: Sawada) We foresee that this will clearly accelerate Japan's eCommerce ratio. From our experience, we know that once you have experienced and learned about the convenience of buying online, you will be keep using it in the future. Therefore, we hope that the number of people using eCommerce for the first time will increase under this circumstance. We also believe that this will lead to significant changes in how physical stores operate and expect the shift to eCommerce will accelerate through further simplification and personnel saving.

Q. Under these circumstances, for example, new entrants to the Japanese Uber Eats have occurred for stores that had not participated in the past. Is the same trend observed in ZOZOTOWN?

A. (Answerer: Yanagisawa) Currently, we are not seeing cases where brands, which we have not been in business with, are opening their shops on ZOZOTOWN. However, since brands are unable to sell in physical stores now, it is true that brands are sending more inventory than ever before. Looking ahead, we believe that there are possibilities that we may bring in brands which we could not previously bring in to ZOZOTOWN, as those brands become more motivated to sell through eCommerce.



Q. Are there any changes in how WEAR is used under self-restraint of going out?

A. (Answerer: Sawada) Although it is not currently being actively used, there is an impression that the way of enjoying the service that is unique to this situation, as seen in the increase in posts that encourage people to enjoy home time and show off about their room outfit.

[Measures for the fiscal year ending March 31, 2021]

Q. At the results briefing, there was an update on the measures to be focused on in the future. What are the measures that Mr. Sawada places the highest priority on? What are the measures that are likely to produce the most results and what is the most difficult measure?

A. (Answerer: Sawada) We recognize that both sales space expansion and product expansion are initiatives that we focus hard on. Expansion of the gross merchandise value through PayPay Mall and ZOZOMAT, ZOZOSHOES, which are already in operation, will be the top priority. One of the major points in the future is to implement the cart function in WEAR and increase the number of traffic line of purchase. Although it will require some time to develop, we expect that once it is implemented it will lead to an expansion of the gross merchandise value, so we will develop quickly. On the other hand, the expansion of the revenue model is a medium-term strategy, and it will take time for the profit contribution.

Q. What is WEAR monetization policy?

A. (Answerer: Sawada) The policy is to promote monetization within this fiscal year. As explained at the results briefing, we plan to implement a function that enables products to be purchased on WEAR.

Q. It was announced that PB business will be ended and D2C will begin, but isn't this eventually be simply the repetition of the same thing?

A. (Answerer: Yanagisawa) D2C is a measure by supporting everything from production to sales, enabling influencers, who are more like individuals rather than celebrities, to launch their own brands. We are not going to take inventory risks. Rather, we are in the position of supporting, and this is entirely different from the PB business.

Q. Are there possibilities of entering non-fashion categories?

A. (Answerer: Sawada) We are planning to aggressively expand into fields such as cosmetics and furniture.

[Business Results for the Fiscal Year Ended March 2020]

Q. Why the growth rates of the gross merchandise value and net sales diverge in Q4? Will they continue?

A. (Answerer: Kobayashi) The reason why the growth rate of net sales increased compared to that of the gross merchandise value in Q4 was, that net sales for the same period was lower due to the large-scale discount measures implemented by ZOZOARIGATO in the Q4 in the previous fiscal year. As ZOZOARIGATO was implemented until the end of May 2019, this impact is expected to continue until the middle of Q1 of the ongoing fiscal year.

Q. In consignment shop, Q4's actual gross merchandise value decreased by 5.9% YoY, but was there any other factor other than ZOZOARIGATO?

A. (Answerer: Kobayashi) Apart from the impact of ZOZOARIGATO, it is possible that some customers from ZOZOTOWN were transferred to PayPay Mall Shop opened in last Q3.



Q. As for the monthly gross merchandise value, has the trend changed from January to April? It seems that global eCommerce players, including Japanese ones, are seeing the growth acceleration in April, but what about ZOZO?

A. (Answerer: Yanagisawa) January to March growth rate for the gross merchandise value was not very high but there were signs of recovery toward the end of the quarter. However, since the outbreak of the COVID-19, as we have been specializing in fashion, we are seeing both positive and negative impacts; we cannot make any comment at the moment.

Q. There is a significant decline in the average order value in Q4, but what is your outlook for a decline in the future?

A. (Answerer: Yanagisawa) Q4's average order value declined significantly in the double-digit due to the impact of ZOZOARIGATO implemented in the Q4 of the previous fiscal year. As the impact of this trend will continue in Q1 in the current fiscal year, the degree of the impact is uncertain, but a significant downward trend is expected to continue. Subsequently, the rate of decline after Q2 is likely to improve slightly.

[PayPay Mall Shop]

Q. PayPay Mall Shop's gross merchandise value had a cumulative result of 6.19 billion yen, but it seemed like started well in January, and slowed down in February and March thereafter. How is the situation after April?

A. (Answerer: Yanagisawa) In this Q4, the gross merchandise value at PayPay Mall Shop has been affected by seasonality, not gradually slowed down. Since January is a fall/winter discount sales season and gross merchandise value is also high, the gross merchandise value is higher than February due to seasonality. On the other hand, in March, it turned positive at the time of the spring and summer launch, but the spread of COVID-19 has had an impact on the situation since the latter half of March, therefore it is impossible to talk about the situation after April.

Q. Regarding PayPay Mall Shop, how can you collaborate with Z HOLDINGS in order to further expand the gross merchandise value?

A. (Answerer: Yanagisawa) Regarding PayPay Mall Shop, we have high hopes that they are attracting new customers, which had been a challenge in ZOZOTOWN. New customers acquired in Q4 are divided among in ZOZOTOWN and PayPay Mall Shop, and approximately half are acquired by PayPay Mall Shop. Both are complementary to each other, where ZOZOTOWN is strong in 20s and 30s, and PayPay Mall Shop is strong in 40s and over. PayPay Mall specializes in selling discounted items to customers who are price conscious. We therefore expect that characteristic of both malls are complementary to each other in addition to age differences.

Q. Does a brand need to close ZOZOTOWN shop in order to open a shop in PayPay Mall?

A. (Answerer: Yanagisawa) No. Conversely, brands cannot open shops in PayPay Mall unless they have opened stores in ZOZOTOWN.

[Future prospect]

Q. If the growth rate of the gross merchandise value is in the single digit range, can we expect the growth rate of operating profit to be higher (in the double-digit range) by controlling costs? Or does the growth rate of operating profit move in tandem with that of the gross merchandise value?



A. (Answerer: Yanagisawa) It becomes more similar to the latter. Since our expenses are highly variable, the number relies on the gross merchandise value growth rate. The fixed cost ratio is about 30%, but recently the warehouse utilization rate has been at a low level due to lease of new logistics facilities, so difficult to leverage and very costly.

Q. At the results briefing, there was an explanation that ZOZO would make its utmost efforts to support the apparel industry; though I think this is an excellent initiative in this situation, but there are also concerns about costs. Are there policies to use promotional costs, such as to maintain the growth rate of operating profit same as that of gross merchandise value?

A. (Answerer: Sawada) Although it is uncertain how long the COVID-19 infection will continue, we will fully control costs based on future outlook.

Q. Will there be no concern about a decline in profits because of the need to increase promotion costs to support the apparel industry?

A. (Answerer: Sawada) We will definitely confirm the cost efficiency, so we do not expect this to be a major factor behind the decline in profits.

Q. Having completed the reward point program for ZOZOTOWN members (Ordinary reward point) for 1% of the selling price, what are your thoughts on reward point measures in the future?

A. (Answerer: Yanagisawa) The ordinary reward point provision has been ended, but we intend to continue with measures to give ZOZO points as a spot-based promotional campaign in the future.

[Other]

Q. At the results briefing of Q3, there was a comment that ZOZOTOWN would be personalized. Is there any change in the schedule? I was assuming that there is a major renewal accompanying with a large-scale promotional cost would be spent for branding.

A. (Answerer: Sawada) Several functions have already been implemented in Q4 to ZOZOTOWN. The UI /UX have not been drastically renewed, but they are internally personalized, which users do not see at first glance. We have confirmed the effect of improving CVR by improving the display of search results, etc. We will continue to make improvements in the future and are not planning to invest large-scale promotion costs for branding.

Q. How much capacity can the logistics warehouse be accommodated once the investment in the warehouse has been completed?

A. (Answerer: Yanagisawa) The expansion plan of the logistics warehouse is scheduled to be completed in October 2020, and it will be possible to handle 600-700 billion yen in the gross merchandise value.

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