



July 29, 2021

Minutes of Q&A Session
First Quarter of FYE March 2022 Results Briefing

This is a summary of the questions received
at the conference call with institutional investors held on July 29, 2021. Some details are revised.

[Company participants]

Kotaro Sawada (Representative Director, President & CEO)

Koji Yanagisawa (Director, Executive Vice President & CFO)

Fuminori Hirose (Director & COO)

Yusaku Kobayashi (VP of Strategic Planning and Development Department)

[Performance for the first quarter of the fiscal year ending March 2022]

Q. The amount of inventories arrived is going up steadily and the advertisement business is doing well, but consignment sales were up by only 6.1% YoY. I assume the growth in the first quarter may be due to the good performance of PayPay Mall, but what do you think about the gap between the growth of the consignment sales and PayPay Mall?

A. (Answer: Sawada) It doesn't mean that consignment sales were sluggish. We believe that PayPay Mall was growing remarkably. Though performance of the entire PayPay Mall is only visible to ZHD, if you look at the ZOZOTOWN PayPay Mall Shop alone, it is doing extremely well. Regarding the advertisement business, our efforts are the factor in the strong performance, in addition to the fact that brands are also responding positively to our advertisement business. Specifically, we have achieved the figures in the current first quarter by improving our sales structure, system configuration, etc. We do not see any cannibalization between businesses, but rather that an important measure has moved one step forward.

Q. Compared to the full-year budget, the advertisement business and PayPay Mall are doing well, while consignment sales seem weak. What do you think about this?

A. (Answer: Sawada) We believe that they are all doing well, including consignment sales.

Q. Does the most recent update of ZOZOTOWN affect the ratio of outright purchase/production & sales to consignment sales? Also, do you have any specific policy for the ratio?

A. (Answer: Sawada) It doesn't have major impact on the ratio. There is no particular policy for the ratio, but we intend to basically keep the ratio of consignment sales higher.

Q. How good were the results of the current first quarter compared to the internal plan, and what were the key points that contributed to the results?

A. (Answer: Sawada) PayPay Mall and advertisement business performed better than what we internally planned. Others proceeded as planned.

Q. As the graph of the amount of inventories arrived shows, brands sent more inventories than usual in the past years due to the impact of COVID-19 in the first quarter of previous fiscal year, but it shows the same growth rate in the first quarter of current fiscal year. Can we understand that the growth rate in the first quarter of current fiscal year has increased in YoY?



A. (Answer: Sawada) Last year, there was a period when we temporarily stopped accepting new inventories in warehouse due to tight capacity. If we hadn't stopped at that time, we would have been able to expect further growth in volume of inventories. We are accepting more than that amount in current fiscal year, and that indicates a solid growth in volume of inventories.

[About Advertisement business]

Q. How do you plan to expand the advertisement business in the future? If you have any new products, please tell us about that.

A. (Answer: Sawada) At the moment, we already have a system of how to reach customers with the products of each brand on ZOZOTOWN, but we are thinking about other systems in the future. Although the timing is yet to be determined, we are considering accepting advertisements from hair salons and other industries close to fashion, etc. We believe that the advertisement business is very important as a revenue source other than GMV of ZOZOTOWN.

Q. In the past, it was mentioned that you were careful about the amount of advertisement on the website to maintain usability, but why are you considering expanding the advertisement business, such allowing advertisements of companies other than the brands on ZOZOTOWN?

A. (Answer: Sawada) As we mentioned in the previous financial results briefing, we are promoting our business to increase traffic other than "buying. As ZOZOTOWN becomes a place where people can enjoy the fashion itself, we can expand to provide personalized advertisements to a wider range of users. For example, we can recommend clothes that match with their hairstyle by using the hair style search technology that we have already developed.

Q. To sell products, you are accelerating the advertisement business, but why do we see discontinuous acceleration? Please explain including the development of WEAR.

A. (Answer: Hirose) Starting from the first quarter of previous fiscal year, each brand changed their stance to focus on eCommerce, and their amount spent in advertising gradually increased. We are still considering advertisement on WEAR, but we hope to generate revenue.

[About ZOZOCOSME]

Q. What is the background behind the gradual increase in the number of brands handled, such as DIOR and CHANEL?

A. (Answer: Sawada) We had started sales activity to brands before the launch of ZOZOCOSME in March 2021, but we could not make some brands open by the launch due to logistical systems and internal adjustments. It is the same reason why CHANEL and DIOR could not open at the timing of launch of ZOZOCOSME.

Q. In the first quarter, there were two more shops in outright purchase/production & sales. Are DIOR and CHANEL included?

A. (Answer: Sawada) Specific names are not disclosed.

Q. Is the increase in outright purchase/production & sales due to ZOZOCOSME? Please explain the GMV ratio of outright purchase/production & sales to consignment sales of ZOZOCOSME.



A. (Answer: Sawada) The increase in revenue from outright purchase/production & sales includes the contribution of some brands in ZOZOVILLA. In addition, we would like to open new shops on consignment basis, but there are some brands to have contracts with for outright purchase basis.

Q. You mentioned that 60% of items sold in ZOZOCOSME were sold together with apparel, but how many of them were bought by new customers?

A. (Answer: Sawada) We can't disclose how many of them were new customers. As we mentioned before, the number of newly acquired members has been boosted by about 10% by customers who ordered ZOZOGLASS, so we believe that there is a certain amount of new customer base through cosmetics. We still see a big difference compared to the number of new customers via apparel now.

Q. DIOR, CHANEL, etc., have joined, but are you planning on any marketing measures to boost sales in the future?

A. (Answer: Sawada) We are not planning any promotions using costs at the moment. Our strategy is to induce people who have bought apparel on ZOZOTOWN to buy cosmetics.

[About PayPay Mall]

Q. It was surprising that the GMV of PayPay Mall in the first quarter was 9.8 billion without any major campaign. Do you expect it to grow at this rate in the future as well?

A. (Answer: Hirose) As for PayPay Mall, we were refraining from conducting promotion in the first quarter of previous fiscal year, but in current fiscal year, we continued our promotion from the fourth quarter of previous fiscal year. We expect promotions for the second quarter of the current fiscal year to be the similar level of the same quarter of the previous quarter, as we resumed promotions in the latter. We will strive to achieve our budget of 33 billion yen for current fiscal year.

Q. Regarding the customer attributes of the PayPay Mall, you mentioned that they do not compete with that of ZOZOTOWN, but what is the overlap rate and what is the outlook for the future?

A. (Answer: Sawada) We cannot disclose specific figures, but there are overlapping cases of users in ZOZOTOWN and PayPay Mall. There are users shifting from one to another, and users using both services. Specifically, users select which service to use depending on the timing of discount sales and campaigns. Such users tend to spend more in LTV basis.

[Others]

Q. Is it correct to assume that the reduction in the cost of payment collection fees is related to the change in the vendor for the deferred payment? Is it related to settlement fees of PayPay?

A. (Answer: Yanagisawa) It is a collection agency for the credit card payment. There is no change for the deferred payment. As PayPay is QR code payment, it is different from the cost of payment collection.

Q. I would like to know more about the details of other GMV. As the amount is large as 10 billion yen, please explain the prospect for the future.

A. (Answer: Yanagisawa) It is the merchandise value of shops concluded "ZOZO Option" contracts in the fashion category stores excluding ZOZOTOWN in PayPay Mall (service that enables those shops enjoy merits through sales support such as to participate special events by ZOZO). We started to record the merchandise value of ZOZO Option from the third quarter of the previous fiscal year.



Q. What are the reasons why the growth rate of the average retail price and the average order value have become positive in YoY? Will that continue?

A. (Answer: Sawada) The average retail price and the average order value were positive as they were abnormal in the first quarter of previous fiscal year. In the first quarter of previous fiscal year, brands actively marked down prices due to the impact of COVID-19 and it affected largely. Therefore, there is possibility that they may go back to original trend, become negative in the second quarter of current fiscal year.

A. (Answer: Yanagisawa) In addition to that, the fact that the summer sales events in the first quarter of previous fiscal year were implemented earlier than usual, was another reason. The timing of the winter sales events in the fourth quarter of previous fiscal year were almost same as usual.

Q. I think PayPay Mall is very strong and working with ZHD is going well. How do you think of collaborating with LINE?

A. (Answer: Sawada) We do not have anything to answer, but we are proceeding various plans with LINE. We would like to attract LINE users into ZOZO, and we are expecting the potential of LINE as a contact channel for customer.

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