



October 28, 2021

Minutes of Q&A Session
Second Quarter of FYE 2022 Results Briefing

This is a summary of the questions received
at the conference call with institutional investors held on October 28, 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 second quarter of the fiscal year ending March 2022]

Q. Looking back on this quarter, what do you think about the business environment? I think during the Olympics in August, the whole fashion industry was not vibrant and traffic to the site decreased, but was there any change from September? Please tell us about your thought for the business environment in the next quarter based on the current situation where physical stores are reopening.

A. (Answer: Sawada) The impact of the Olympics was greater than we expected. We have never imagined how this big event affect our business, and we assume it had certainly weakened the traffic to our site. We recognize that other eCommerce companies were in the same situation Also, it was hard to increase the traffic once it drops so it took us some time to recover. Although traffic did not increase due to the continuous high temperature after late September, we are expecting it would recover soon as the temperature is sharply declining recently.

Q. What do you think about the impact of reopening of the physical stores and an increase in human flow?

A. (Answer: Sawada)

We do not recognize that sales will be significantly affected by the declaration of the state of emergency. In other words, we do not think that the environment has changed significantly in this quarter.

Q. Regarding GMV, it seems that the growth of consigned business and PayPay Mall was weak in this quarter. You pointed out that this was due to the Olympics, so can we assume it could have been better if there were no Olympics? Also, does the sales of advertisement business grow along with the increase of GMV?

A. (Answer: Sawada) Some users are shifting from ZOZO to PayPay Mall, so we would like you to look at the result that shows the achievement of double-digit growth in total of ZOZOTOWN and PayPay Mall. As profit margin of each site is almost same, it does not matter which site users choose in terms of profitability. There is no problem with your recognition about advertisement business sales. We have achieved an outcome by the improvement of advertisement logic. Another factor is the growth in the use of brands.

Q. Please let me ask about the total amount of inventory. Are there any changes in the inventory of autumn/winter and next spring goods compared to the previous year in terms of SKU?

A. (Answer: Hirose) There is not much change in the total inventory. Some brands are reducing SKU, but some are increasing so there is no significant change in total.



[About consignment business]

Q. It seems that there is not much GMV in this quarter compared to GMV in the same quarter of the previous year, despite there were sales promotion events. Did you expect more impact of promotions by Z holdings in PayPay Mall on the GMV?

A. (Answer: Sawada) We think that, despite the impact of the Olympics, we had benefit from sales promotions by Z holdings. We believe that PayPay Mall business, which originally grew rapidly, has stabilized somewhat.

Q. It seems the commission rate of the consignment business is decreasing. What is the factor behind this?

A. (Answer: Kobayashi) The main reason for this is the investment in point program and personalized discount, which was larger than that of the same quarter of the previous year.

Q. Will the percentage of the commission rate be the standard rate in the future?

A. (Answer: Kobayashi) The commission rate applied to brands remains at the same level from before the previous year, and it varies depending on the degree of the investment of point distribution or personalized discount. We believe that the level in the second quarter will continue.

[About ZOZOMO and FAANS]

Q. How do you monetize the layaway order through ZOZOMO while increasing traffic from other than “buy”?

A. (Answer: Sawada) We transfer customers to the physical stores through ZOZOMO, then sales of brands is recognized at the same time as the confirmation of the actual visit on FAANS. We are going to provide it for free in this short time period to enhance use rate. There is no prospect of big impact on PL during the current fiscal year.

Q. Regarding ZOZOMO, I think only brands will take the advantage if users are sent to stores. Also, I think it would be better to use WEAR rather than FAANS to recommend the clothing coordination.

A. (Answer: Sawada) Although it could be said that your concern is intuitively true, we are expecting to increase traffic from a long-term perspective. First, we would like to concentrate on creating user experience which enables them to feel convenience strongly. ZOZOMO is a system where affiliate fees are generated based on customer transfer. We think that the increase in traffic itself will create future affiliate fee, which would consequently boost GMV as well. Posts on FAANS are also reflected to ZOZO, and the information is also linked to WEAR. Brands can confirm the results, such as sales by the posts on FAANS, and we believe that visualization of the revenue is the significance of FAANS.

Q. I'm expecting that ZOZOMO and FAANS will enable users to check stock status of products, enhance users' convenience, increase traffic to the site, and have a positive impact on both brands and ZOZO, then ZOZO can gather more inventory. Is my understanding correct?

A. (Answer: Sawada) As for the inventory, we do not have any concerns since the beginning of this pandemic. Through ZOZOMO and FAANS, we can extend manageable inventory up to the physical stores, and we think it is important to attract more customers there.

Q. Regarding ZOZOMO, what operations and infrastructures are needed on the brand side and how fast is the stock status of products status reflected? Also, can only big companies or major brands use this system? Is the status of layaway reflected to brands' system?

A. (Answer: Sawada) In the past, latest status of the inventory was not updated immediately, but nowadays it has



been improved and we can confirm the status nearly at the same time as the change. We have already received the inventory information from the physical shops, and we have the function to cover the inventory that is not in ZOZOBASE from the physical shop. With that function, we do not impose a burden on the brand staff when they use the system. Some operations are needed in order to update brands' system, since FAANS and system at the physical are not linked.

Q. Are you going to integrate FAANS and Brands' systems?

A. (Answer: Sawada) There are too many kinds of brands' system, so that is not realistic.

[About users]

Q. The number of active members increased by 12% whereas the number of shipments increased by 7%. However, it seems frequency of purchases per person are sluggish regardless further penetration of eCommerce. What kind of qualitative factors do you think there are behind this?

A. (Answer: Yanagisawa) We recognize that the users who became our member after the expansion of COVID -19 are less interested in fashion compared with our old users. As steady acquisition of user is continuing, the composition of less interested in fashion users is increasing.

Q. I think the growth rate of active members is slowing down, is this because of the impact by growth in PayPay Mall business?

A. (Answer: Sawada) The growth rate of PayPay Mall business is certainly high. At the same time, some people use PayPay Mall in conjunction with ZOZOTOWN. We have not found any negative data in it.

[About ZOZOCOSME]

Q. Please updated the status of ZOZOCOSME.

A. (Answer: Hirose) New brands are opening one after another, including the opening of CHANEL in July. In order to get users to buy it once, we have implemented measures such as giving 1,000 points for the first purchase or free shipping.

Q. Regarding TV commercial of ZOZOCOSME, I would like to know if there is any difference in the aim between this time and the previous time.

A. (Answer: Hirose) The last time, it was intended to get ZOZOCOSME to known, but this time it is WEB commercial, and the content is to promote the product lineup of each brand. We intend to show a variety of brands through the TV commercial, and in the future, we are planning functional extensions that are unique to cosmetics and brand expansion as our main axis to acquire users.

Q. You mentioned GMV of 10 billion yen as a target for ZOZOCOSME, but how about its progress, and is there any findings in the ZOZOCOSME users?

A. (Answer: Sawada) We do not disclose GMV of ZOZOCOSME, but is steady in terms of internal budget. Now we can see the roadmap to GMV of 10 billion yen. We recognize that many users are younger than average, and the expectations of cosmetics brands correspond with it, so we think we are now fulfilling brands' needs.



[Others]

Q. How was the ticket sales of PGA tours going? How about the impact on profits?

A. (Answer: Yanagisawa)

We have limited the number of spectators up to 5,000, which has no significant impact on profits. Please assume the cost level is just like before. PGA tour continues for six years.

Q. Can we assume that ZOZOMAT for Hands will be distributed by only BVLGARI for a limited time?

A. (Answer: Sawada) Their high season is December, so distribution will be stopped temporarily with that timing to avoid the increase in operational burden. In the meanwhile, customers can only measure and restart to distribute them from the new year.

Q. How come ZOZOMAT for Hands started with BVLGARI that offers high-priced merchandise? Isn't it better to start with brands that offers lower priced merchandises?

A. (Answer: Sawada) BVLGARI showed interest in this technology first. We believe that it was significant that both of us moved to the new challenge together. We would like to expand this service to other brands in the future, and we hope it will eventually be deployed on ZOZOTOWN as well.

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