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July 29, 2022

Minutes of Q&A Session

FYE 2023 1Q Results Briefing

This is a summary of the questions received
at the financial results briefing held on July 29, 2022. 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)

[About the Gross Merchandise Value]

Q. The growth rate of the consignment sales was 10.8% and that of the ZOZOTOWN business was 11.5%, although the growth rate of PayPay Mall in the first quarter did not reach the target growth rate on the guidance, and I thought it was performing very well. Please tell us about the factors behind this strong performance. Also, please explain why the Company has successfully conducted the measures to attract customers and sales promotions so efficiently.

A. (Answer: Sawada) As we have mentioned before, one of the reasons for the success of the ZOZOTOWN business is that the amount of people's mobility does not significantly impact attracting customers. We believe that ZOZOTOWN is becoming the "place to buy clothes" for users. We acquired new users by conducting promotions in the third and fourth quarters of the previous fiscal year, and these users are continuing to purchase. In addition, we believe that continuously brushing up on our promotional activities through trial-and-error is contributing to our strong performance.

Q. Please tell us about the progress of ZOZOCOSME.

A. (Answer: Hirose) Although we are not disclosing specific numbers, we are making steady progress toward the plan, and new shop openings by popular brands such as IPSA are increasing. In the first quarter, we implemented promotions such as a free shipping campaign and a point granting campaign for combined purchases with apparel. We believe that the timing of the special feature of the "coffret" in October, Christmas, and the second anniversary of the opening of ZOZOCOSME in March will be major sales highlights for us.

Q. The Gross Merchandise Value growth rate for PayPay Mall was about 15%. Can we assume that this is the organic growth rate for PayPay Mall in the future? Or are there any temporarily strong/weak factors in this 15% growth?
A. (Answer: Hirose) Many of the shipments and sales associated with the Super PayPay Festival implemented at the end of the year before last were recorded in the first quarter of the previous fiscal year, whereas many of the shipments and sales associated with the super PayPay festival implemented at the end of the last fiscal year were completed during the previous fiscal year. For that reason, the Gross Merchandize Value for this quarter was weak. In addition, we have struggled in the first quarter of this fiscal year in terms of attracting customers. However, from the second quarter onward, we hope to make up for this through the promotional investment by Z Holdings and approach our full-

year guidance of 30% growth.

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[About SG&A expenses]

Q. Could you tell us about the actual promotion-related expenses? Compared to the second half of the previous fiscal year, the first quarter results were lower. While you invested heavily in sales promotion expenses in the second half of the previous fiscal year, you seem to be holding back this quarter. Is it correct to assume that the cost ratio to the Gross Merchandise Value will increase from the second quarter onward like the previous fiscal year? Or is it right to assume that the actual promotion-related expenses ratio will decrease this fiscal year due to improved sales promotion efficiency? As you explained in the guidance presentation, is it OK to assume that the Company will use about 3.5% of the Gross Merchandise Value for the entire year?

A. (Answer: Sawada) In the third and fourth quarters of the previous fiscal year, we decided that it was the right time to invest heavily in sales promotion expenses, and we aggressively invested in promotions. We spent almost as planned in the first quarter of the current fiscal year. Our policy to spend about 3.5% of the Gross Merchandise Value for the entire year has not changed. Therefore, it is OK to assume that promotion-related expenses will increase in the second half of this fiscal year as in the previous fiscal year.

Q. Do the actual promotion-related expenses include points? The commission rate for the consignment sales seems to have decreased by about 0.5%. Is this due to the impact of points?
A. (Answer: Yanagisawa) Yes, exactly.

Q. In the guidance, you mentioned that you would like to prepare for the future even if the profit margin would temporarily decline due to employee hiring and system investments. However, the first quarter results show an improvement in the profit margin, which leads me to believe that costs were not higher than the Company had planned. Is the use of expenses that the Company planned at the beginning of this fiscal year going well, and do you think it is necessary to change your stance on the full-year forecast?
A. (Answer: Sawada) Some of the costs planned for the first quarter have been deferred to the second quarter or later. On the other hand, we are making more progress than initially planned in reducing costs and improving efficiency regarding costs at logistics bases. These two factors have led to an improvement in the profit margin in the first quarter compared to the same quarter of the previous fiscal year. We believe that the cost reductions at our distribution centers will continue to be effective in the future.

Q. Among payroll and staff costs, the logistics-related expenses ratio was lower than last year's results. I believe considerable progress has been made in improving operational efficiency within distribution centers. Is this effect limited to the first quarter, and should we assume a deterioration in logistics efficiency from the second quarter onward?
A. (Answer: Sawada) One special factor in the first quarter was the delay in receiving Chinese-made merchandise due to the lockdown in Shanghai. The reduced volume of incoming inventory meant that we did not need so many personnel, and the cost was not as high as the level we had assumed. While the situation regarding incoming inventories did not go as planned, the Gross Merchandise Valued remained steady, thanks to better-than-expected sales of merchandise that were launched before the previous fiscal year and the risk diversification effect through the transactions with a large number of brands. Regardless of the special factors I just mentioned, it is also true that improvements in operational efficiency at our distribution centers are having a positive effect. If this effect continues in the second

quarter and beyond, we believe we will be able to operate within the cost range assumed at the time the guidance was created, even from the perspective of the entire year.

[About the revision of the shipping policy and an increase in merchandise prices due to raw material price hike]

Q. If the Company revises the shipping income per order from 210 yen to 250 yen (both include tax), will the ratio of shipping expenses to the Gross Merchandise Value minus the ratio of shipping income remain at the current level? Or will the profit margin deteriorate due to the increased burden on the Company as well as the price pass-through to the customer?

A. (Answer: Yanagisawa) We cannot comment on it specifically, but we do not think that the revision of the shipping policy will have a significant impact on our business results, either positively or negatively.

Q. Was the revision of the shipping policy scheduled to start on August 17 incorporated into the guidance?
A. (Answer: Sawada) We did not incorporate it into our guidance.

Q. You mentioned that the merchandise price would increase from the launch of fall/winter items due to the raw material price hike. Is it correct to assume that an increase in the merchandise price purchased by users will positively affect earnings by reducing the ratio of shipping expenses? Or should we view it cautiously since the growth of Gross Merchandise Value might slow down due to higher merchandise prices?
A. (Answer: Sawada) If the average retail price of merchandise purchased by customers and the average order value increase, the shipping expenses ratio will decrease, positively impacting earnings. A decrease in demand for clothes due to higher merchandise prices is also possible, but we do not assume a significant impact at the moment. In the past, we have never seen any decrease in the growth of the Gross Merchandise Value due to the price hike of merchandise.

[Others]

Q. Regarding the integration of Yahoo! Shopping and PayPay Mall, will there be any changes in the participating brands and commission rates? Will there be any positive factors for the Company since the Company will be able to access customer information of Yahoo! Shopping? What will be the growth rate of PayPay Mall considering this change?
A. (Answer: Sawada) The integration of these malls might cause withdrawal by some brands that currently have shops in ZOZOTOWN on PayPay Mall from the platform run by Yahoo Japan corporation, but we believe that the impact on our business performance will be minimal. We think that the commission rate will not change significantly. As for promotions, we would like you to ask Yahoo Japan Corporation directly. While there is a possibility that we will focus on promotions when we find appropriate opportunities, we do not think that there will be any additional costs beyond what we planned when we created the guidance.

Q. SHEIN's MAU has been growing significantly since the beginning of this year. I think SHEIN differs from the Company's target customers in terms of age group and retail price level, but could it be a threat to ZOZOTOWN in the future?
A. (Answer: Sawada) We have been gathering information on SHEIN, and we are aware of what SHEIN's strategy is.

We see SHEIN as a potential threat from a medium- to long-term perspective, and we intend to take adequate measures to deal with it.

Q. Please tell us about the increase in average retail price and order value in the first quarter. I would like to know whether these increases are sustainable or will go down.
A. (Answer: Sawada) Regarding the average retail price, it is strongly influenced by the sales methods of brands. In the first quarter, many brands implemented sales methods to secure profit margins without lowering prices. Hence, the average retail price exceeded the same quarter of the previous fiscal year. What will happen in the future is uncertain, as it depends on the pricing strategy of each brand. However, considering the price hike in crude oil, we believe there is a strong possibility that prices will rise.

Q. I think you mentioned that promotion efficiency has been improving. Has the conversion rate (the rate of complete purchases to the number of site visits) improved?
A. (Answer: Sawada) We do not disclose figures related to the conversion rates.

Q. Do hot summers have a positive effect on eCommerce?
A. (Answer: Sawada) We believe temperatures impact our business performance. We recognize that a sudden temperature shift will be a tailwind for business performance rather than because of high temperatures.