



October 28, 2022

Minutes of Q&A Session  
FYE 2023 2Q Results Briefing

This is a summary of the questions received  
at the financial results briefing held on October 28, 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 and operating profit]

Q. Regarding the Gross Merchandise Value, the combined total of ZOZOTOWN business and PayPay Mall continues to grow by more than 10%. Will this trend continue in the second half of the current fiscal year? What is your outlook on it considering the people's mobility, which I think is recovering?

A. (Answer: Sawada) Regarding the Gross Merchandise Value, we evaluate it as a reasonable growth in the second quarter, continuing from the first quarter. On the other hand, we are not sure whether demand will rise or fall in the future, so we cannot talk about the details.

Q. Regarding the changes in the Gross Merchandise Value during the second quarter, did the growth rate fluctuate significantly from month to month? Or did it grow at the same pace each month?

A. (Answer: Sawada) The growth rate slowed down in September as we struggled due to the weak temperature drop from early to mid-September.

Q. I assume that the level of operating profit would be higher than the guidance in the first half of the year. You will likely invest in promotional activities in the second half of the year, and will you be able to spend as much as you had planned?

A. (Answer: Yanagisawa) As I answered in another question, there are many uncertainties regarding how much the Gross Merchandise Value will grow in the second half, so it is difficult to make a comment taking into consideration the outlook. It is true that the operating profit is progressing well.

Q. Were the second quarter's results in line with management's expectations or slightly above? Could you comment on the Gross Merchandise Value and operating profit, respectively?

A. (Answer: Sawada) From the perspective of the first half of the fiscal year, operating profit was higher than expected.



[About the integration of PayPay Mall and Yahoo! Shopping]

Q. Regarding PayPay Mall, I understand that the Gross Merchandise Value usually declines in the second quarter compared to the first quarter, considering the seasonality. On the other hand, the actual performance was higher in the second quarter than in the first quarter, and the growth rate is also increasing. What is the reason behind this strong performance, which is a different trend from Consignment sales and the whole fashion industry?

A. (Answer: Hirose) The "Sundays with number 5" event held in September was the catalyst for sales, resulting in a higher growth rate than the first quarter. In other words, please consider that sales promotions that were not implemented last year were effective.

Q. I feel that the growth rate of PayPay Mall is insufficient. During the second half of this current fiscal year, will Z Holdings Corporation take any special measures to achieve the guidance even after the integration of PayPay Mall and Yahoo! Shopping?

A. (Answer: Hirose) Regarding PayPay Mall, a high return rate has been maintained for us even after the integration with Yahoo! Shopping. In addition, the point return rate on weekdays is now being hiked to resolve the extremely high point rate on Sundays. We would like to see some supportive measures from Yahoo Japan Corporation, but it is not up to us, so we cannot comment on that.

Q. Regarding PayPay Mall, how will it be operated in the future now that the app is no longer available?

A. (Answer: Hirose) Yahoo! Shopping and PayPay Mall were integrated in early October. The user interface was changed for the integration, and it is now easier to use than before.

Q. What is the impact of the integration of Yahoo! Shopping and PayPay Mall? We have heard that the promotions continue to offer a high return rate, but we assume that there are risks, such as ZOZOTOWN being buried in Yahoo! Shopping due to a large number of stores. I would like to know if this change is positive or negative for you.

A. (Answer: Hirose) Regarding the risks that ZOZOTOWN will be buried in Yahoo! Shopping, we assume that ZOZOTOWN's presence will not diminish, because we are working with Yahoo Japan corporation to improve the user interface within the fashion category leveraging our know-how. We would say it is neutral if you ask us whether it is positive or negative.

[About SG& A expenses]

Q. It seems that the number of employees has not increased as much as the plan you previously shared. In terms of recruitment of IT-related talents and other investments, how are they progressing, and how are you evaluating them? Also, are these going as planned?

A. (Answer: Sawada) We announced that we would like to invest in human resources, IT, and logistics, but we are particularly struggling with recruitment. This means recruitment is not going as smoothly as we had thought when we formulated the budget. Regarding IT-related investments, the replacement of ZOZOTOWN's core system is progressing smoothly. As for logistics, we believe that investments will increase in the second half of the current fiscal year. TSUKUBA 3 will be launched around this time next year, and we will increase hiring in preparation for that, so we expect costs related to that to increase in the second half of the year.

Q. Regarding shipping expenses, the growth rate in the second quarter was only 3%, while the number of shipments grew by 7.8%. Considering the price increase in shipping fees, I assume that the unit price of shipping expense per



shipment is decreasing, and is this due to corporate efforts such as changes in delivery size?

A. (Answer: Yanagisawa) Although there was an increase in shipping fees due to the acceptance of fuel surcharges, the unit price of shipping expenses per shipment has decreased.

A. (Answer: Kobayashi) This is due to the successful optimization of packaging materials. Implementing Neko-Pos and other services has helped lower the cost per shipment.

Q. Logistics-related expenses per shipment appear to have dropped considerably following the first quarter. Is this also due to corporate efforts?

A. (Answer: Sawada) Logistics-related expenses are largely dependent on the status of inventory storage capacity in our warehouses. In the first half of the current fiscal year, we received fewer shipments than we expected at the beginning of the fiscal year due to the impact of the lockdown in Shanghai, etc. On the other hand, sales remained steady, allowing us to operate with ample inventory storage capacity, resulting in more efficient warehouse operations.

[About the physical store development]

Q. We have been told that the Company's next step is to develop a physical store. What management issues do you recognize, and what kind of ideas are driving this initiative?

A. (Answer: Sawada) We will announce the details in early November. To tell you as much as we can right now, we added "Explore your style. Make you delighted" to the management strategy and will focus on that point. Therefore, we would like to develop services that would contribute to that goal.

Q. On page 25 of the presentation material, there is one large box. Is this something symbolic, or are you expanding into multiple stores?

A. (Answer: Sawada) We are preparing to open a store, and we will first open a store in Tokyo. Please wait for our official announcement for further details.

Q. Have you already incorporated the plan for the physical store, which you will announce officially in early November, into the initial guidance?

A. (Answer: Sawada) Yes, we have.

[About the average retail price and average order value]

Q. It was explained that the retail price set by the brands increased by 3-5%. Considering the impact of the weak currency, I think the prices could have increased even more. FAST RETAILING CO., LTD. has raised prices by about 15%, and are there any other brands that conducted price hikes likewise?

A. (Answer: Sawada) The degree of price increase varies from brand to brand. In many cases, branding-oriented brands charge high prices, while others do not. By having brands in a wide range of prices on ZOZOTOWN, we recognize that customers are not giving up buying because the merchandise is more expensive, but instead, they are buying what they want in the price range they want.

Q. I think the YoY increase in the retail prices will be higher for Autumn/Winter items than for Spring/Summer items. Therefore, is it correct to assume that the average order value will also increase in the third quarter compared to the same quarter of the previous fiscal year?

A. (Answer: Sawada) I cannot give you details on the average order value for the third quarter, but I believe that the



average order value will be linked to the degree of retail price increases.

[Others]

Q. I would like to know about the progress of ZOZOCOSME. Have there been any changes or updates due to the partnership between Amazon.com, Inc. and istyle Inc.?

A. (Answer: Hirose) ZOZOCOSME is showing steady progress, and we do not see the partnership between Amazon.com, Inc. and istyle Inc. as impacting us. Well-known brands such as “Aesop”, for example, have opened stores on ZOZOTOWN and we think the performance of ZOZOCOSME is favorable.

Q. Events such as the Coffret-season and Christmas are coming soon. Do these events push up the Gross Merchandise Value?

A. (Answer: Hirose) Yes, we believe that October through December is the highlight for earning the Gross Merchandise Value, and we will maximize it through promotional activities such as web advertisements.

Q. Please tell us about the inventory situation for Autumn/Winter merchandise. What is the situation in terms of the number of merchandise? Are there any production reductions on the brand side?

A. (Answer: Sawada) The inventory volume has been lower than expected since the first quarter. We assume the same situation to continue going forward. However, the situation is okay since we are not struggling with sales opportunity loss due to the low inventory volume.

Q. I would like to know if the number of spectators for the ZOZO Championship, a PGA golf tournament, was at or below the expected level.

A. (Answer: Yanagisawa) It was a high turnout compared to past figures, but it was weak compared to our expectations.

Q. Do you think ZOZOCOSME would benefit if the government announced that people need not wear masks?

A. (Answer: Hirose) If there were an announcement from the government that masks are no longer required, it would be up to individuals to decide whether to wear masks beyond that point. Still, we believe that it would be a tailwind for sales of makeup items if people stopped wearing masks.

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