



January 31, 2023

Minutes of Q&A Session
FYE 2023 3Q Results Briefing

This is a summary of the questions received
at the financial results briefing held on January 31, 2023. 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 overall performance for the third quarter of the current fiscal year]

Q. Overall, the results were favorable, especially operating profit was solid. However, the actual promotion-related expenses were considerably increased. Is it correct to understand that the reason for the solid operating profit despite the visible increase in expenses, other than the increase in gross profit due to the growth in the Gross Merchandise Value, was mainly due to the significant cost reductions in logistics-related expenses and shipping expenses?

A. (Answer: Sawada) Yes, exactly. We are doing well in all aspects of logistics matters. In addition to internal efforts to reduce costs, external factors such as higher order value also have led to a reduction in the cost ratio to the Gross Merchandise Value.

Q. Has the income and expenditures of the PGA golf tournament worsened compared to the last year?

A. (Answer: Yanagisawa) We cannot provide specific income and expenses. However, costs were higher than last year due to the impact of currency rates.

Q. The actual promotion-related expenses were high in the third quarter. Please tell us about new initiatives or measures that have become very cost-effective.

A. (Answer: Sawada) Nothing new or anything dramatically increased efficiency. Overall, we invested more money. However, we have been conscious of the timing of the measures to maximize cost-effectiveness. In addition, we are focusing on promotions to acquire new customers.

Q. Please explain why the ratio of "Others" within SG&A expenses to the Gross Merchandise Value in the third quarter improved by 0.3% compared with the previous year's results.

A. (Answer: Yanagisawa) We were able to control various cost increases. There is no other particular reason for this.



Q. I would like to ask about the relationship between the average retail price and the number of purchase pieces per order. While the average retail price is on an upward trend, the number of purchase pieces per order is declining. Do you actually see this as a particular problem because there is a significant impact by the higher average retail price?

A. (Answer: Sawada) The relationship between the average retail price and the number of purchase pieces per order is such that if one goes up, the other goes down. Therefore, neither is more important than the other, but rather that the users' purchase amount should not go down.

Q. Looking only at the third quarter's three months, the Outright purchase/ production & sales growth rate appears to be very high. Please give us some background.

A. (Answer: Hirose) There is a mix of various elements in Outright purchase/ production & sales. It includes some items from luxury brands, influencer brands, and Made by ZOZO. In this third quarter, sales of items planned for influencer brands made a significant, albeit transient, contribution.

[About the revised business forecast and outlook for full-year results]

Q. Please allow me to confirm the assumptions of the revised plan. Although the Gross Merchandise Value remains unchanged, the growth rate seems low when comparing the cumulative Q3 results with the revised plan. Is it correct to assume that Yahoo! JAPAN Shopping will fall short of the plan and that ZOZOTOWN will cover the difference?

A. (Answer: Yanagisawa) I cannot give you the details, but that idea is correct. Regarding operating profit, we have made an upward revision due to the significant effect of streamlining SG&A expenses.

Q. Looking at the revised plan, I would expect a slight decrease in profits in the fourth quarter compared to the fourth quarter of the previous fiscal year. Will there be one-time oversized costs?

A. (Answer: Sawada) We see additional expenses for promotional activities and employee bonuses, but we do not anticipate any other special expenses.

Q. Do you plan to significantly increase costs in the logistics bases in the fourth quarter?

A. (Answer: Sawada) New costs will incur as we hire and train personnel in preparation for the opening of our new logistics base, which is scheduled to begin operations in August of the next fiscal year. However, we do not expect a significant impact limited to the fourth quarter of the current fiscal year.

Q. When you announced the initial plan, you said that you would spend up to 3.5% of the Gross Merchandise Value (excluding others) on the actual promotion-related expenses for the whole year, but at this briefing, you mentioned the possibility of spending more than 3.5%. Therefore, should we expect to use more than 5% of the Gross Merchandise Value (excluding others) in the fourth quarter?

A. (Answer: Sawada) We cannot give you a specific cost scale or ratio. But our policy is to spend a large amount of money by specializing in promotions that will increase the LTV of customers in the future.



Q. Regarding ZOZOCOSME, you mentioned aiming for 10 billion yen for the whole year. Please tell us how it is progressing.

A. (Answer: Hirose) We are steadily progressing, acquiring new brands continuously. And we are considering launching a TV commercial to coincide with our second anniversary in March, to maximize sales.

Q. Could the growth in Gross Merchandise Value in the fourth quarter be further boosted by the cold weather this winter?

A. (Answer: Sawada) This winter has been slower to get cold. Although the cold weather has intensified recently, we do not think this will be a particularly large tailwind to the growth rate.

[About market environment]

Q. The Gross Merchandise Value at ZOZOTOWN continues to grow by more than 10%. Please tell us about your understanding and views on the changes in the growth of Gross Merchandise Value, including qualitative factors.

A. (Answer: Sawada) We used to think that the number of customers who spend much money on clothes would decrease. In other words, fewer customers would be able to contribute to the growth of the Gross Merchandise Value. However, we have not seen this trend lately. COVID-19 might have triggered it, but we recognize that customers who started buying clothes on ZOZOTOWN in the past few years took to ZOZOTOWN and continue to use it.

[About the outlook of ZOZOTON in Yahoo! JAPAN Shopping]

Q. The growth rate of the Gross Merchandise Value of ZOZOTOWN on Yahoo! JAPAN Shopping dropped significantly in the third quarter. Please explain the background behind this.

A. (Answer: Hirose) Since the integration of the malls last October, there has been a change in the point return rate. The summary of the change is that we used to offer an extra-large return on Sundays, but we have equalized it to weekdays as well. We recognize that while weekday sales rose, Sunday sales declined, leading to a slowdown in growth in the third quarter. We think that future growth in the Gross Merchandise Value will depend on promotions on Yahoo! JAPAN Shopping. Although we have received spot promotions for preferential point return rates in the fourth quarter of the current fiscal year, we assume that it is challenging to expect as solid growth as in the second quarter and before.

Q. How should we consider the impact of the change in sales promotion policy by Z Holdings Corporation?

A. (Answer: Sawada) As you can see from the figures, it is true that the growth of Gross Merchandise Value is on a decelerating trend. On the other hand, the current situation is being covered by the strong performance of ZOZOTOWN. However, it is also true that there was a time in the past when ZOZOTOWN's weak performance was covered by the strong performance of Yahoo! JAPAN Shopping. Therefore, there is no change in our plan to achieve more than 10% year-on-year growth by combining both malls.



Q. How will ZOZOTOWN on Yahoo! JAPAN Shopping be positioned in the future? I remember it was initially a place to attract customers with lower fashion sensitivity.

A. (Answer: Hirose) It is true that there are customers whom ZOZOTOWN cannot attract for some reason, and we are considering Yahoo! JAPAN Shopping as a place to attract customers whom ZOZOTOWN cannot attract.

Q. What problems does Yahoo! JAPAN Shopping have as a website? I'm sure there are many points, but I would like to know your views.

A. (Answer: Sawada) We are sharing our knowledge used to increase sales at ZOZOTOWN with them. However, it is specialized in the fashion area. On the other hand, Yahoo! JAPAN Shopping is a general mall, so it is not enough only to increase fashion sales. We would like to make it a better place by utilizing the know-how of both companies.

[Others]

Q. Do you expect the amount of inventory sent from brands to increase with the start of the operation of the new logistics base?

A. (Answer: Sawada) We do not intend to conduct sales activities in which we ask for an increase in inventory brands send just because storage capacity has increased. We believe that the amount of inventory sent from brands will increase in line with the Gross Merchandise Value.

Q. Do you plan to advertise ZOZOTOWN more on the PayPay app?

A. (Answer: Sawada) I think that is possible. We are in the process of discussing this with both companies. However, we do not believe that the growth rate of Gross Merchandise Value will increase at an accelerated rate just because we increase the amount of advertising.

Q. Is there any significant cost increase we can see for the next fiscal year? People are struggling with soaring labor costs and price hikes in shipping costs, but what do you expect to happen?

A. (Answer: Sawada) It is true that our suppliers have approached us to raise prices for various expenses, but we would like to cover the cost increase through our efforts as much as possible.

Q. Is the schedule for the launch of TSUKUBA 3 proceeding as planned?

A. (Answer: Sawada) The start of leasing is expected to be delayed by one month due to a delay in the procurement of concrete. However, our initial assumption regarding the start of operations is still the same.

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