



October 31, 2024

Minutes of Q&A Session
FYE 2025 Q2 Results Briefing

This is a summary of the questions received
at the financial results briefing held on October 31, 2024. 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)

【Regarding business results as of the end of the second quarter】

Q. Regarding the Gross Merchandise Value from Consignment sales, the results appear weak compared to the plan. Is this entirely due to weather factors in September, or are there other contributing issues?

A. (Answer: Sawada) The impact is largely due to the lingering summer heat in September. Although last year was also affected by severe lingering summer heat, this year had an even greater impact, with autumn seemingly delayed by an entire month. Based on last year's experiences, brands have adjusted their merchandising to address the lingering summer heat, resulting in autumn/winter items arriving later than usual. Now, stock levels of autumn/winter items are finally increasing, and I believe the key will be how much we can recover in the third quarter from October onward.

Q. Regarding the advertising business, the growth rate exceeded the full-year plan at the end of the first half of the current fiscal year. Is this in line with your expectations?

A. (Answer: Hirose) Regarding ZOZOAD, which makes up a large portion of the advertising business, progress was generally on track as planned at the end of the first half of the year. This was due to an increase in the unit price for each click from April, along with a boost from an increase in advertising slots starting in the middle of the second quarter.

Q. I would like an update on the status of ZOZOCOSME.

A. (Answer: Hirose) ZOZOCOSME continued to make steady progress in line with the plan at the end of the first half of the current fiscal year, building on momentum from the first quarter. New shop openings have been progressing well, including the addition of "KANEBO" from the Kao Group, and we have observed an increase in both new purchasers and repeat purchases.

【Regarding LY Corporation Commerce】

Q. The Gross Merchandise Value of LY Corporation Commerce exceeded the plan at the end of the first half. What is the outlook for the second half?

A. (Answer: Hirose) We have heard that LY Corporation will continue to actively invest in promotions on Yahoo! JAPAN Shopping in the second half of the year. Although specific measures have not been confirmed, we hope to progress toward achieving our plans through ongoing discussions with LY Corporation.



【Regarding promotional measures】

Q. Regarding the free shipping measures, is it correct to assume that the maximum amount was invested in the second quarter? I understand that the effects of free shipping measures may diminish over time, but have you prepared any new promotional measures?

A. (Answer: Sawada) As for the free shipping measures, we are concerned that any further increase may reduce efficiency, so we consider the current level of investment to be appropriate. We are also continuously exploring and developing new promotional measures. Recently, we began trialing a feature that organizes limited sale events based on customer segmentation. Additionally, we are implementing more straightforward approaches, such as sending direct mail to members who have previously purchased but have since become inactive. We are testing various promotional strategies, aiming for consistent, small successes rather than launching new measures with potentially explosive effects.

Q. It is said that Gross Merchandise Value is significantly influenced by the climate, and there is a possibility that warm weather risks and similar factors may continue to arise in the future. Is it correct to assume that effective promotional measures will be key in such cases?

A. (Answer: Sawada) As you mentioned, we believe that our response to climate effects will continue to impact the growth of Gross Merchandise Value in the future. As explained at the financial results briefing, we plan to mitigate the risks of unfavorable weather by leveraging e-commerce-specific methods, such as adjusting recommended items based on region and temperature.

【Regarding costs】

Q. It was explained that the reason for the higher-than-planned operating profit was due to unused costs. Could you provide more details on this?

A. (Answer: Kobayashi) The higher-than-planned operating profit is due to unused variable and fixed costs. For variable costs, promotion-related expenses, logistics-related expenses, and shipping expenses were below planned levels. Promotion-related expenses are scheduled to be utilized from the third quarter onwards, with their timing shifted. As for logistics-related expenses, productivity improvements exceeded expectations, resulting in unused costs that positively impacted the operating profit plan. Regarding shipping expenses, while the plan anticipated a flat average order value compared to the previous year, it was actually higher in the first half, contributing positively to the operating profit plan. In terms of fixed costs, there were unused payroll costs for employees and outsourcing commissions. However, the positive impact on operating profit from these fixed costs is limited compared to the impact of variable costs.

Q. Regarding logistics-related expenses, the expense ratio to Gross Merchandise Value improved compared to the same quarter of the previous fiscal year. Was this improvement factored into the plan? Additionally, is there potential for further improvement in the second half of the year?

A. (Answer: Yanagisawa) A certain level of productivity improvement was factored into the plan at the beginning of the fiscal year. However, in the second quarter, the improvement exceeded expectations, resulting in a significant cost benefit. We are currently unable to predict how performance will align with the plan in the second half of the year, as it will depend on factors like the arrival of new items and the sales environment.

Q. Regarding expenses for "others," there hasn't been much increase compared to Q1, but were there any temporary costs associated with the start of operations at the newly established IBARAKI 5 (DPL Tsukuba Chuo)?

A. (Answer: Kobayashi) Compared to IBARAKI 4 (ZOZOBASE TSUKUBA 3), which was newly established last year, IBARAKI 5—without a shipping function—incurred limited one-time costs associated with the start of operations,



such as equipment purchases. For IBARAKI 5, we recorded one-time costs of just over 100 million yen in the "others" category by the end of the second quarter, but these were less than initially budgeted.

【Regarding the use of AI technology and automation initiatives】

Q. Are there any measurable impacts from the use of AI and automation initiatives?

A. (Answer: Sawada) We monitor the impacts closely by analyzing data, and every time we implement updates, we conduct AB tests to check for changes in CVR (Conversion Rate). Given the substantial scale of Gross Merchandise Value, even a 0.1% change in CVR can significantly affect overall sales, so we are carefully observing any fluctuations. Even minor adjustments can have a big impact, so we are customizing and personalizing ZOZOTOWN on a daily basis. We have already released over 20 versions of our personalization logic. Although it is difficult to specify an exact amount, we hope you understand that we are generating Gross Merchandise Value on the scale of tens of billions of yen through machine learning-based recommendations.

Q. Is there any unique initiative you can introduce that reflects ZOZO's distinct approach?

A. (Answer: Sawada) With a wide variety of brands opening shops and offering diverse items, we find it extremely valuable to provide this vast amount of item data to a large customer base. The most important asset is the data that only we can collect—data that other companies don't have. We believe that ZOZO's strength lies in our ability to leverage this data and use it to enhance personalization.

Q. Has the function linked to weather data from Weathernews Inc. already been implemented?

A. (Answer: Sawada) While we began implementing it in September, it is still in the trial stage, and we are considering expanding its use in the future.

【Others】

Q. What progress has been made, if any, on the expansion of new categories following cosmetics?

A. (Answer: Sawada) We are currently in the preparation stage for expanding new categories. We hope to provide an update at the time of the full-year results briefing.

Q. I believe the contract with the PGA TOUR has ended. Have you decided how to allocate the freed-up funds for the next fiscal year and beyond?

A. (Answer: Sawada) While the six-year contract with the PGA TOUR has ended, there has been no decision regarding contract renewal or continuation in the coming fiscal years, so we cannot provide an answer at this time. There is a possibility that we may not proceed with it, and if that is the case, we plan to explore how to allocate the budget accordingly.

Q. Regarding WEAR, looking at external data, it appears that traffic is coming back. What are your expectations and strategies for future growth?

A. (Answer: Sawada) WEAR has seen a V-shaped recovery in traffic, which had been declining in recent years, since the renewal in May. We are now working strategically to drive more customers to ZOZOTOWN through WEAR. In the medium to long term, we aim to evolve WEAR into an app for discovering one's "style." In other words, our current goal is to make WEAR an app that can address fashion-related needs and suggest a one's "style." Achieving this will require continuous updates to data and technology, and it may take some time to reach this ultimate vision. However, once complete, we are also considering integrating it into ZOZOTOWN.

Q. Are there any risks at present regarding the regulation of BNPL (Buy Now Pay Later: deferred payment



settlement)?

A. (Answer: Sawada) While we are aware of the information, we are still in the process of assessing what risks may materialize for us, and currently, we do not have any information to share.

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