



July 31, 2024

Minutes of Q&A Session
FYE 2025 1Q Results Briefing

This is a summary of the questions received
at the financial results briefing held on July 31, 2024. Some details are revised.

[Company participants]

Koji Yanagisawa (Director, Executive Vice President & CFO)

Fuminori Hirose (Director & COO)

Yusaku Kobayashi (VP of Strategic Planning and Development Department)

【About the financial results for the first quarter of the year ending March 31, 2025】

Q. Regarding the Gross Merchandise Value of consignment sales, the growth rate in the first quarter seems somewhat weak compared to the whole-year plan. How is this evaluated internally?

A. (Answer: Hirose) Regarding the Gross Merchandise Value of consignment sales, we finalized the plan considering the bad weather in early April. Therefore, we had anticipated a lower growth rate for the first quarter of the current fiscal year compared to the second quarter onwards. Although the year-on-year growth rate for the first quarter is lower compared to the whole-year plan, it is generally progressing as expected. We intend to accumulate sales from the second quarter onwards to achieve the target growth rate for the whole year.

Q. The take rates for consignment sales and LY Corporation Commerce have both improved year-on-year in the first quarter. What are the reasons for this?

A. (Answer: Kobayashi) The take rate for consignment sales has increased by 0.1 percentage points year-on-year, primarily due to changes in the brand mix. Similarly, the take rate for LY Corporation Commerce has risen by 1.0 percentage points year-on-year, also due to changes in the brand mix. Particularly for LY Corporation Commerce, the increase was larger than expected because brands with relatively higher take rates performed well.

Q. Regarding the sales of the advertising business, the first quarter seems to have performed very well. How do you evaluate the results compared to the plan? What are the main growth drivers?

A. (Answer: Hirose) The advertising business is performing very well, and the strong performance can be attributed to the increase in the unit price per click for ZOZOAD (ZOZOTOWN's search listing ads) since April. While we were concerned about the potential withdrawal of brands due to the price increase, brands have continued to actively utilize our services.

Q. We had previously heard that profits were expected to fall in the first quarter, but they have risen slightly. The Gross Merchandise Value was in line with the plan, and operating profit slightly exceeded the plan. So, what was better than expected?

A. (Answer: Yanagisawa) As we mentioned, operating profit is slightly ahead of the plan, but this is primarily due to the unused promotional costs. We plan to use the promotional costs that were not used in the first quarter from the second quarter onwards.



【About promotional costs and specific measures】

Q. Do you take the view that in the first quarter you were able to make sales without using the promotional costs you were prepared to spend, or is it purely a case of a delay in the timing of the use of promotional costs?

A. (Answer: Yanagisawa) If anything, we believe that we were able to generate sales even without using the promotional costs.

Q. We have heard that you have been strengthening promotions targeting young people and families. What is the current situation?

A. (Answer: Yanagisawa) We have been strengthening promotions targeting young people and families since the previous fiscal year and intend to continue doing so this year as well.

Q. Regarding the free shipping measures, the frequency of implementation was high in the first quarter as well. What is the background behind this frequent implementation? How do you consider its continuity in the future?

A. (Answer: Yanagisawa) The free shipping measures are a relatively cost-effective measure and were implemented with a reasonable frequency in the first quarter under the idea of using them effectively. We will continue to monitor the situation and consider implementation within a range that is not too excessive.

Q. With regard to sales promotion measures in the first quarter, the number of days for ZOZOWEEK in May and the summer sale event increased compared to the same quarter of the previous fiscal year. Has this had any impact on costs?

A. (Answer: Kobayashi) As you are aware, the number of days for ZOZOWEEK in May and the summer sale event increased by two days in the first quarter compared to the same quarter of the previous fiscal year. The longer campaign implementation period resulted in an increase in advertising expenses, particularly due to the use of web commercials to appeal to the family segment, which had not been implemented in the same quarter of the previous fiscal year.

【About KPIs (number of annual buyers (active members), the age of active members) for the first quarter】

Q. You said that the number of active members among the annual buyers increased steadily in the first quarter, but have there been any new measures implemented in terms of acquiring new members since the beginning of this fiscal year?

A. (Answer: Yanagisawa) We have not implemented any new special measures. The most important factor for the recovery in new member acquisition is that the weather has improved, and the temperature has risen to normal levels. We do not think that the first quarter was particularly strong, but rather that the fourth quarter of the previous fiscal year was particularly weak.

Q. The average age of active members in the fourth quarter of the previous fiscal year was 34.9 years old, while in the first quarter it was 33.3 years old. This level is the youngest in the last four years, but what is causing the average age to get younger? And will this trend continue in the future?

A. (Answer: Kobayashi) This is due to a review of the calculation method for the average age from the first quarter: due to the specifications of the ZOZOTOWN member registration form, there were some customers who registered at a much older age than their actual age. As a result of excluding such customers, the average age has become younger, but this does not mean that the number of young customers has suddenly increased.



【About LY Corporation Commerce】

Q. LY Corporation Commerce has continued to maintain a strong growth rate since the second half of the previous fiscal year. Do you feel that you will be able to continue the strong growth rate in the second quarter and beyond?

A. (Answer: Hirose) In the first quarter of the previous fiscal year, promotions on Yahoo! JAPAN Shopping were quite restrained, but in the first quarter of the current fiscal year, we were able to achieve solid growth thanks to the continued aggressive promotional investment by LY Corporation from the second half of the previous fiscal year. We do not have any new measures in the pipeline for the second quarter onwards, but we would like to build sales in consultation with LY Corporation.

Q. Were there any quarterly variations in the intensity of promotional measures for LY Corporation Commerce in the previous fiscal year?

A. (Answer: Hirose) In the previous fiscal year, promotional measures by LY Corporation were implemented most intensively in the fourth quarter. In terms of the difference in the intensity of measures between the previous fiscal year and the current fiscal year, I believe this first quarter will show the most significant variation.

【About the increase in the shipping fees by YAMATO TRANSPORT CO., LTD.】

Q. On page 8 of the presentation material, regarding the increase-decrease analysis of operating profit (year-on-year comparison), it is stated that the increase in other gross profit due to an increase in shipping income, etc. was +1.11 billion yen, while the increase in variable costs due to an increase in the Gross Merchandise Value and an increase in shipping expenses was -1.65 billion yen. If only the increase in shipping expenses is taken out, is it offset by the increase in shipping income?

A. (Answer: Yanagisawa) The increase in the shipping fees is offset by the increase in shipping income.

Q. There was a price increase in the shipping fees paid to YAMATO TRANSPORT CO., LTD. Please give us an estimate of the extent of the increase.

A. (Answer: Kobayashi) In consideration of the convenience of YAMATO TRANSPORT CO., LTD., we would like to refrain from directly mentioning the extent of the increase. We would appreciate it if you could make your own assumptions, taking into account the year-on-year increase in the shipping expense ratio compared to the Gross Merchandise Value and the year-on-year change in the average order value.

Q. Is the agreement on shipping fees with YAMATO TRANSPORT CO., LTD. an annual contract? When will the next negotiations take place and are further price increases likely?

A. (Answer: Yanagisawa) The contract is an annual contract. We have a good relationship with YAMATO TRANSPORT CO., LTD., so even in the unlikely event of a further price increase in the future, we will be informed in advance to some extent and a decision will be made after the negotiation process.

【About changes in the shipping policy】

Q. Has the revision of shipping charges to 330 yen (including tax) had any impact on the number of shipments, etc.? Is there still an advantage compared to the industry standard for fashion e-commerce? You also previously expressed concerns about setting shipping charges above 300 yen. What is your current thinking?

A. (Answer: Yanagisawa) There has been no particular increase in restrained buying or combined purchases due to the revision of the shipping policy. In the past, we discussed concerns about setting the shipping charges above 300 yen, but after various simulations, we decided there would be no problem and revised the shipping policy accordingly.



【About SG & A expenses】

Q. Compared to the fourth quarter of the previous fiscal year, depreciation in the first quarter has decreased. Will the downward trend continue from the second quarter onwards?

A. (Answer: Kobayashi) Compared with the fourth quarter of the previous fiscal year, depreciation and amortization in the first quarter decreased by over 200 million yen. This decrease is a reaction to the slightly higher level in the fourth quarter of the previous fiscal year due to the impact of one-off depreciation of assets. The actual amount for the first quarter was 1.03 billion yen, but this is expected to gradually increase from the second quarter onwards.

【Others】

Q. I think the Gross Merchandise Value via WEAR was around 5%. Have you seen any changes since the WEAR renewal? I feel the WEAR renewal itself is not well known.

A. (Answer: Yanagisawa) There has been no significant change in the Gross Merchandise Value via WEAR after the renewal, and we have not implemented any promotion that would require a large cost allocation for the WEAR renewal.

Q. Please tell us about the progress of ZOZOCOSME.

A. (Answer: Hirose) We are making steady progress towards our target of 13 billion yen in Gross Merchandise Value for the full year. The main factors are that brands have a good understanding of how to sell on ZOZOTOWN and make good use of "limited-time sale", and that brands that opened new shops in the second half of the previous fiscal year have been active in the current fiscal year. Additionally, the fact that well-known brands, such as Korean cosmetics, have opened new shops is also a major factor.

DISCLAIMER:

This document is a summary translation of the Japanese version. All readers are recommended to refer to the original Japanese version for complete information. The Japanese version shall prevail in any discrepancies, errors, or omissions.