



October 31, 2023

Minutes of Q&A Session
FYE 2024 2Q Results Briefing

This is a summary of the questions received
at the financial results briefing held on October 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 the Gross Merchandise Value】

Q. The Gross Merchandise Value growth rate in the first half seems a little unsatisfactory due to the lingering summer heat. Have you analyzed the reasons for this?

A. (Answer: Sawada) The fierce heat of this summer had quite an impact on our business. The recovery in people's mobility also had some effect. As people's mobility recovered after COVID-19, there was a movement in the opposite direction of the drift toward e-commerce during the pandemic. Daily trends showed that many shoppers stayed away from the Internet, especially during the summer vacation period due to high demand for going out.

Q. There was a recovery in people's mobility last year too. Would it be correct to understand the slowdown in the Gross Merchandise Value growth this year to a more pronounced recovery in people's mobility?

A. (Answer: Sawada) Yes, that would be a correct understanding. Although we have not ascertained detailed information on other e-commerce businesses, some brands have experienced substantial negative effects on e-commerce, and one often hears that physical stores are doing well, while it would be difficult to exceed last year's results in e-commerce. However, we are encouraged by the fact that ZOZO is maintaining some degree of growth even as people's mobility has recovered further.

Q. Could you describe monthly conditions in July, August, and September during the second quarter?

A. (Answer: Sawada) September was the toughest month in terms of year-on-year growth. While in the typical year fall/winter merchandise begins to sell in September even if the weather remains somewhat warm, this year's lingering summer heat had a strong dulling effect on sales of fall/winter merchandise. Sales of fall/winter merchandise have recovered since temperatures fell quickly in October. The recovery in people's mobility due to the effects of summer vacation and other factors also had an effect that cannot be ignored on e-commerce in August.



Q. As it stands now, your full-year plan calls for year-on-year the Gross Merchandise Value growth of about 8% in Consignment sales and about 7% overall. It would seem that to achieve this plan you will need to record substantial growth in the second half. Do you expect similar growth rates in the next period and beyond?

A. (Answer: Hirose) While from a look at Consignment sales alone, the hurdles toward achieving the plan would appear to be high, we are aiming to achieve it in terms of totals with Yahoo! JAPAN Shopping. I would like to refrain from answering your question on our perspective on growth in the next period and beyond at this time because we plan to consider the matter from now on.

【About the actual promotion-related expenses and specific measures】

Q. While the ratio of actual promotion-related expenses to the Gross Merchandise Value in the second quarter was higher than before, at 3.8%, growth in the Gross Merchandise Value was lackluster. Was this due more to the very strong impact of the September weather or costs associated with ZOZOFIT, Nialab, and other investments?

A. (Answer: Sawada) While the investments in ZOZOFIT and Nialab did have some effect, they were not that large compared to total actual promotion-related expenses. Basically, we are spending on promotions related to ZOZOTOWN, and we accumulated considerable actual promotion-related expenses in the second half of both last year and the year before, but this year we formulated an actual promotion-related expenses plan to correct this imbalance. For this reason, the amount of investment in the first half was higher this year than last year, but since the business environment was not very favorable this investment was less cost-effective than expected, and the Gross Merchandise Value has not risen by even more.

Q. We discussed measures targeting light users in the first quarter. Has there been any progress since then?

A. (Answer: Sawada) As we noted last time, we would like to concentrate promotion on individual user segments, not just light users alone. Examples include strengthening our approaches to younger users in their late teens and young mothers. While ZOZO already offers a large range of products for kids, we consider the low level of recognition of this fact to be an issue that we must address. It is mothers who purchase products for kids, and our investment in these measures gradually is generating results.

Q. You said that you will implement promotions separately by segment. Would you describe the conditions of promotions as of the second quarter and roughly when in the second half you expect them to start to affect the Gross Merchandise Value? Also, are you making progress on data analysis?

A. (Answer: Sawada) While we have begun promotional efforts already starting in the second quarter, rather than looking at instantaneous increases in the Gross Merchandise Value we emphasize LTV in terms of how many years it will take to recover the cost. For this reason, we expect results to be generated over several years into the future, instead of a sudden effect on the Gross Merchandise Value. Put another way, while there are ways to increase the Gross Merchandise Value rapidly, we are refraining from them from the perspective of long-term soundness. On the subject of data analysis, that is not something that we have begun focusing on this year in particular but has built up gradually over the years. It is not a simple matter of identifying clear subjects for investment of promotion-related expenses from the results of data analysis. Instead, we are proceeding by considering how to put what we have built up through now to efficient use.



Q. Are there any differences in second-half events and sales between last year and this year?

A. (Answer: Hirose) We will implement ZOWEEK on ZOZOTOWN in November, as usual. However, it will last a little longer this year than last year. We don't plan any other major changes in particular. I cannot make any definitive statements about Yahoo! JAPAN Shopping because it will depend on how LY Corporation ("LY") uses its costs and carries out promotions.

Q. Do you have no plans for events or sales in March?

A. (Answer: Hirose) We usually do not conduct any in March. ZOZOCOSME is planning an anniversary event, as it does every year.

【About KPIs (average retail price, average order value, purchase pieces, annual purchase amount, etc.)】

Q. Although demand for fall/winter merchandise was delayed in the second quarter due to the negative effects of the weather, do you expect average retail prices and average order value to increase in the third quarter? While I think the bottoming out of the average purchase pieces per order is providing underlying support for Gross Merchandise Value, will it start to decrease again if you stop promotions of combined purchases? Or do you think that users have become accustomed to inflation, and it no longer has an effect on the average purchase pieces per order?

A. (Answer: Sawada) As you say, the start of the season has been delayed, and sales of fall/winter merchandise finally have started to grow. While we expect the trend in heavy apparel to have a major impact from now on, it is difficult to forecast because it depends on the weather. Since there is a negative correlation between the average purchase pieces per order and the average retail price, we would prefer to look at these two KPIs together instead of individually.

Q. Would it be difficult to increase purchase pieces while raising the average retail price?

A. (Answer: Sawada) I think that would be a tough hurdle to overcome.

Q. How long do you expect the upward trend in annual purchase amount to continue? Also, I believe that you are aiming to increase the frequency of purchases, but wouldn't that lead to a decrease in average order value? How will you attempt to achieve it?

A. (Answer: Sawada) Annual purchase amount is highly dependent on the frequency of site access. While of course, we will take steps to encourage site visitors to make purchases, we believe that from a long-term perspective, it is even more important to increase the frequency of access. We plan to use data from Nialab to increase the frequency of purchases by making shopping on ZOZOTOWN even more enjoyable.

【About Yahoo! JAPAN Shopping and the relationship between Z Holdings and LY】

Q. While your initial plans for Yahoo! JAPAN Shopping were largely unchanged from last year's results, you are trending higher than planned as of the end of the first half. Is there a possibility of more rapid growth in the future? If so, please tell us about that possibility.

A. (Answer: Sawada) First-half results are higher than initially planned. This is due mainly to dynamic promotion by LY, and at this time we see a potential for surpassing our initial plan. Plans call for launching LYP Premium in late November, and we expect that to result in a change in LY's promotion policies as well. While to some extent future results will depend on such policies, we would like to engage in discussions with LY to accelerate future growth. Please speak to LY concerning the details of LYP Premium.



Q. As of the end of the first half, have your expectations for the Gross Merchandise Value of Yahoo! JAPAN Shopping increased compared to the beginning of the period?

A. (Answer: Sawada) Our expected figures for Yahoo! JAPAN Shopping have increased since the beginning of the period. While the initial plan was based on projections for a case of very narrowly focused promotions, since customers seem to respond if we invest enough in promotions we expect future results to reflect promotional investments.

Q. What kind of impact do you expect the ZOZOTOWN on Yahoo! JAPAN Shopping mini-app in the PayPay app to have?

A. (Answer: Sawada) I think LY would be better able to answer that question.

【About ZOZOCOSME and the cosmetics industry】

Q. I would like an update on ZOZOCOSME. Are there any issues or concerns about achieving the full-year plan of 13.0 billion yen? Are you making steady progress toward this plan?

A. (Answer: Hirose) The Gross merchandise value plan for this year of ZOZOCOSME is high at 13.0 billion yen. While we are running a little short of the plan, we are maintaining steady double-digit growth. Recently, major brands such as PRADA BEAUTY, shu uemura, and RMK have opened shops, and it is growing stronger as a platform. We plan to add a review feature to ZOZOCOSME in late November. Word of mouth is extremely important to cosmetics shoppers, and we will aim to increase sales by adding this feature.

Q. Tell us about the e-commerce ratio in the cosmetics industry. One cosmetics maker appears to be targeting an e-commerce ratio of 30% over the next two years. Are other brands trying to increase their e-commerce ratios too?

A. (Answer: Hirose) As you know, the cosmetics industry has a low e-commerce ratio. The desire of individual brands to increase their e-commerce ratios is one factor behind their opening shops in ZOZOTOWN.

【About Costs】

Q. How were ZOZO Championship audience turnout and costs compared to last year?

A. (Answer: Yanagisawa) Audience turnout showed no major changes from last year. While details of costs are undisclosed, the devalued yen did have an effect this year.

Q. Both Yamato Transport and Sagawa Express have announced rate increases. What effect will these price hikes have in this year and the next? Also, to what degree will you pass them on to users?

A. (Answer: Sawada) At this time, we do not expect them to have an effect during this year. Currently, we are negotiating repeatedly with Yamato Transport about next year and beyond. We do not disclose information on passing along higher shipping costs to customers or details of negotiations.

【About returns to shareholders】

Q. What is behind the increase in the target dividend payout ratio to 70%?

A. (Answer: Yanagisawa) We changed the target dividend payout ratio to 70% based on comprehensive consideration of how much treasury stock to purchase and simulation of the use of cash for capital investment and other purposes to achieve a total payout ratio of more than 80%, premised on expected trends in ROE over the coming three to five years.



Q. Is there any problem with increasing Z Holdings' equity stake as you purchase treasury stock?

A. (Answer: Yanagisawa) If we proceed as expected, then Z Holdings' stake would rise by only a few percentage points. We do not expect any problems at all.

Q. How should we expect you to respond to any demand for large-scale funding over the next three to five years?

A. (Answer: Yanagisawa) Since generally we are aiming for a total payout ratio of more than 80% as a five-year average, we expect to keep a degree of cash on hand. We should be able to respond to a reasonable demand for funds using cash on hand. If we needed a large amount of cash, then we might consider revising our policy on returns to shareholders or borrowing, but at this point, we believe that we will be able to handle the demand for funds.

【Others】

Q. Tell us about price hikes on fall/winter merchandise.

A. (Answer: Sawada) List prices seem to have risen by more than 5% year on year. Since this has been the case for more than a year, it has not had a major effect on demand.

Q. How will you respond to predictions of a warm winter?

A. (Answer: Sawada) We believe that the greatest strength of e-commerce is its mobility. While temperatures are forecast to remain higher than average, we can be certain that at some point the temperature will fall, and we plan to implement the kind of measures that e-commerce makes possible at that time.

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.