



April 27, 2021

Minutes of Q&A Session
FYE March 2021 Results Briefing

This is a summary of the questions received
at the conference call with institutional investors held on April 27, 2021. Some details are revised.

[Company Participants]

Kotaro Sawada (Representative Director, President & CEO)

Koji Yanagisawa (Director, Executive Vice President & CFO)

Masahiro Ito (Director & COO)

Yusaku Kobayashi (VP of Strategic Planning and Development Department)

[Full-year forecast for the fiscal year ending March 31, 2022]

Q. It was mentioned in a previous briefing that digital shift was progressing while fashion demand was declining; how should we think about the +10.1% YoY increase in the GMV target of ZOZOTOWN Business for the current fiscal year?

A. (Answer: Sawada) We do not think too much about the COVID-19 as it is a factor that affects all of the market conditions. In the previous fiscal year, we acquired many new active members, and their retention were stable. We formulated our budget for the current fiscal year based on this trend, but we believe we must achieve that double-digit growth.

Q. The operating profit margin target for the current fiscal year is 10.6% of the GMV (excluding other GMV), and there is a decrease of 0.2 point compared to the previous fiscal year. Please tell us the reason for this.

A. (Answer: Yanagisawa) There are two reasons for this. First, we are planning to spend 2.5% to 3.0% of the GMV on advertising and promotion in the current fiscal year. In the previous fiscal year, due to the impact of the COVID-19, spending of promotions was small in the first half of the fiscal year, so advertising and promotion expenses was 2.0% of GMV. Secondly, we expect an increase of ratio of packaging and freight to GMV, due to declines of average retail price and average order value.

Q. The sales for the advertising business for the current fiscal year seems conservative compared to the growth rate in the previous fiscal year. Please tell us more about the targets.

A. (Answer: Sawada) This target for the current fiscal year is formulated solely based on the growth of the existing advertising menu. Add-ons for new strategies are not included. Since it takes time to prepare items related to new strategies, there is possibility of add-ons realization in the next fiscal year or later.

Q. Within the SG&A expenses for the current fiscal year, will the personnel expense ratio decrease due to the impact of year-end bonuses in the previous fiscal year, or will it level off due to an increase in hiring? Also, packing and freight costs are expected to rise compared to the GMV; is this because of fluctuations in shipping fees?

A. (Answer: Yanagisawa) The labor cost ratio is expected to remain almost the same as the number of employees is expected to significantly increase in the current fiscal year. The packing and freight rate is expected to remain almost same because we expect a decline in the average order value, not changes in



shipping fees.

[About ZOZOCOSME]

Q. What is ZOZOCOSME's share of this year's GMV target? Also, what are the good points that you found after the launch of ZOZOCOSME and what are the challenges in the future?

A. (Answer: Sawada) In the previous fiscal year, we were able to raise awareness through ZOZOGLASS and promotional activities, and we had a good start. We do not disclose specific targets of ZOZOCOSME for the current fiscal year, but we will make solid investments in order to increase GMV. We also understand what brands our customers want, so we will keep contacting brands to open their shops.

Q. Though ZOZOCOSME's target for the current fiscal year is not disclosed, what share of the GMV do you aim to achieve in the next five to ten years? Also, how is the profitability of ZOZOCOSME when compared to the apparels in ZOZOTOWN?

A. (Answer: Sawada) We are aiming for a 2-digit billion yen as early as possible. ZOZOCOSME profitability will not decline because we set take rates while keeping an eye on the balance with the apparel brands. We aim to increase GMV by leveraging our ZOZOTOWN user base, which is one of our strengths and a differentiating factor from competitors.

Q. I feel that the number of pre-order products in ZOZOCOSME has been increasing recently. Is this showing sales opportunity losses?

A. (Answer: Sawada) It is true that there are some products that are short in stock. As shipping cycle of cosmetic brands to their stores and our warehouses are different from apparel brands, we are currently in discussions with brands to solve the issue.

[About PayPay Mall Shop]

Q. Please tell us whether PayPay Mall's good performance in the previous fiscal year was because of the tailwind of the COVID-19 or its true strength. Also, please tell us about the approach to budgeting for the current fiscal year and its initiatives with ZHD.

A. (Answer: Sawada) Results for the previous fiscal year are not a reference value from the tailwind. We were worried about a one-time purchase at the beginning, but a variety of data showed us that repeat customers were entrenched and had better results than we expected. I feel that the challenges for UI at the time of the start are becoming better with ZHD's development resources. The frequency of purchases and the purchase amount by customers who use both PayPay Mall Shop and ZOZOTOWN are increasing.

Q. The GMV target for PayPay Mall for this fiscal year is +17.0% YOY, but I think the target could be a bit higher.

A. (Answer: Sawada) We have set this as a solid target, but we also think it could become higher. One of the major uncertainties is the timing of the convergence of the COVID-19. We have set this target while carefully monitoring the impact of the epidemic.

Q. In PayPay Mall, there are apparel, shoes, bags, etc., but cosmetics are not available yet. Do you plan to create traffic to ZOZOCOSME by improving the functions of PayPay Mall in the future?

A. (Answer: Sawada) Currently, cosmetics are not available at PayPay mall stores, but we would like to consider it.



[About WEAR]

Q. With regard to one of the three pillars of the strategy is "Evolving ZOZO to the place "for" fashion.", what is the strategy of WEAR?

A. (Answer: Sawada) Regarding WEAR, we said at the financial results briefing during the previous fiscal year that we would add a cart function, but we are sorry that we were unable to achieve this. Currently, WEAR has been working as a coordination collection engine, but we are now looking at ways to monetize and make WEAR a stand-alone business. We hope to make some kind of announcement about it within the current fiscal year.

Q. I feel that WEAR lacks video function. How do you think about it?

A. (Answer: Sawada) As for video content, we are trying it out in various places during the previous fiscal year. However, there is no point in continuing the tests, so we are planning to add a function to post videos on ZOZOTOWN or WEAR in near future. Also, we are planning to include the function into "FAANs" which is under preparation. We would like to make it a lively place while having users utilize it.

[Strategy in the future]

Q. At the consolidated business results briefing, you said "profit structure that does not rely solely on GMV," but how big is it going to be in the future?

A. (Answer: Sawada) With three pillars of strategy, we intend to achieve operating profit of two-digit billion yen in the several years.

Q. How do you plan to monetize user-sizing data obtained through ZOZOMAT?

A. (Answer: Sawada) As for the specific business model for sizing data, we are still in the process of exploring partnership ideas with various companies and have not yet finalized it. However, for instance, we could establish a joint venture with our technologies and services of other companies or get paid for providing measurement technologies.

Q. Regarding ZOZOMAT for HANDS, are you thinking of establishing and strengthening a category for jewelry?

A. (Answer: Ito) The development is almost complete, and we are currently in the testing phase. It can measure the size of fingers and rings, but we are thinking of licensing the technology to global jewelry brands first, and we do not intend to strengthen the jewelry content immediately on ZOZOTOWN.

[Other]

Q. All of the ZOZOTOWN KPIs, such as the average retail price, have declined. Is ZOZOCOSME included to these KPIs? I thought ZOZOVILLA had a positive impact on KPIs. I would like a detailed explanation of KPIs.

A. (Answer: Yanagisawa) The disclosed figures include the results of both ZOZOCOSME and ZOZOVILLA. As for KPIs such as average retail price, ZOZOCOSME has not caused a decline, but the sales of apparel products in relatively low price continued to grow. Although the number of new members is increasing due to the spread of the COVID-19, both the average retail price and the average order value are on a downward trend because first-time buyers purchase products with relatively low prices. We expect this trend to continue in the future. Also, as for ZOZOVILLA, we are expecting the zone for strengthening branding instead of expanding GMV size. The current sales size is small and the impact on KPIs is



insignificant.

Q. Is PGA Golf Tournament scheduled to be held this fiscal year as well?

A. (Answer: Yanagisawa) At this moment, the event is scheduled to be held in Japan in this fiscal year, but we expect the cost to be lower compared to the one held in Japan in 2019, as we expect the audience to be somewhat lesser.

Q. The growth of consignment sales in the fourth quarter in the previous fiscal year seems to be slowed down. Are there any issues in the ZOZOTOWN?

A. (Answer: Yanagisawa) We do not think that the growth is weakening; PayPay Mall had a big growth due to the Super PayPay Festival in March, but there is no big change in the composition ratio of ZOZOTOWN to PayPay Mall in other months. ZOZOTOWN is growing steadily, and the number of purchasers is increasing, so we do not see any problem.

Q. There was a net increase of 1.3 million active members in the previous fiscal year, but are there any changes in customer demographics due to PayPay Mall? How do you think the number will grow in the future?

A. (Answer: Sawada) There has been no change in customer demographics. We have been acquiring new members at a good pace, and we hope this will continue in the current fiscal year. Also, please note that the figures in the business results briefing materials are figures excluding PayPay Mall.

Q. The annual purchase amount per active member continues to decline, but will it look different if results of ZOZOTOWN and PayPay Mall are added?

A. (Answer: Sawada) As for the annual purchase amount, we do not look at the figures for both malls combined, but for the PayPay Mall alone, the number of repeat customers is increasing.

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