



January 31, 2025

Minutes of Q&A Session
FYE 2025 Q3 Results Briefing

This is a summary of the questions received
at the financial results briefing held on January 31, 2025. Some details are revised.

[Company participants]

Koji Yanagisawa (Director, Executive Vice President & CFO)

Fuminori Hirose (Director & COO)

Yusaku Kobayashi (General Manager of Corporate Planning Office)

【Regarding the Gross Merchandise Value】

Q. Considering the current temperatures, there seems to be a tailwind for the apparel industry in January. What is the actual situation?

A. (Answer: Yanagisawa) In the third quarter, brands reduced production volumes and adjusted their inventory strategies, leading to a higher proportion of lightweight clothing, such as T-shirts, compared to outerwear. After mid-November, inventory sell-through improved as temperatures dropped, particularly during the period when outerwear was sold at full price, although the initial volume of such items was low. As a result, the sale event began without an excess of autumn/winter inventory, leading to a shortage of sale inventory and weak results in January. We hope that from February onwards, temperatures will warm up earlier, driving demand for spring clothing.

Q. Regarding LY Corporation Commerce, my understanding is that the results benefited from LY Corporation's increased promotional investment. Is this correct? Additionally, to what extent is this sustainable?

A. (Answer: Yanagisawa) In the third quarter, LY Corporation Commerce experienced significant year-on-year growth, driven by an increase in sales promotion efforts by LY Corporation. However, we cannot definitively comment on its sustainability, as it depends on LY Corporation's future policies.

Q. Could you provide an update on the status of ZOZOCOSME?

A. (Answer: Hirose) ZOZOCOSME continued to perform well in the third quarter, supported by increased coupon promotions from brands, particularly during sale events such as ZOWEED, and the ongoing addition of new shops.

【Regarding the advertising business】

Q. How is the advertising business progressing?

A. (Answer: Yanagisawa) Until the third quarter, progress was excellent, as brands were fully willing to place advertisements and allocate budgets. However, sales in January were sluggish, leading to a decline in brands' willingness to advertise in line with sales performance. As a result, the outlook for the fourth quarter remains uncertain. If sales improve, we expect strong demand from brands.

Q. Is there a possibility of slightly increasing the advertising space on ZOZOTOWN, despite potential conflicts with usability?

A. (Answer: Yanagisawa) We will continue to approach this carefully, considering the balance between UI and UX, as



well as overall usability. Since the advertising business is highly profitable, we plan to gradually expand it while closely monitoring the situation.

【Regarding promotional measures】

Q. In the consignment sales and ZOZOTOWN business, you have been implementing initiatives to broaden your customer base. Do you feel these efforts are yielding positive results?

A. (Answer: Hirose) We have been conducting targeted promotions based on user segmentation to reach a wider range of customers. We are seeing positive responses, particularly from initiatives aimed at families with children and younger generations. The impact of these measures is gradually becoming evident in the steady increase in the number of active members.

Q. Regarding promotion strategies, I have the impression that they have become more sophisticated recently. Has cost-effectiveness improved?

A. (Answer: Yanagisawa) Based on the data we have gathered so far, we are building a system that allows us to execute more efficient promotion strategies. While cost-effectiveness tends to improve when demand is strong, we sometimes face challenges in achieving sales targets due to other factors, such as inventory issues or promotion strategy problems.

Q. Regarding the free shipping measure, it continues to be effective in increasing the average order value. What is the current level of investment, and what is the outlook for future investment in this measure?

A. (Answer: Yanagisawa) In the third quarter, we increased the frequency of the free shipping measure compared to the second quarter, and we plan to continue this approach in the fourth quarter. As for the next fiscal year and beyond, we are currently formulating our strategy, so we are unable to provide a definitive outlook at this time.

Q. How is the progress of promotional measures other than the free shipping measure, such as personalized promotions by segments?

A. (Answer: Yanagisawa) Personalized discounts (point-based discounts) are an efficient promotional measure, and we intend to make active use of them going forward.

【Regarding KPIs (average retail price, the number of employees, etc.)】

Q. Regarding the average retail price, you mentioned that the increase in list prices has leveled off on an in-stock basis. However, it seems that price increases across the entire apparel industry remain in the low single-digit range. Is the situation different for ZOZO?

A. (Answer: Yanagisawa) As mentioned, I have the impression that the increase in list prices on an in-stock basis has leveled off. Of course, as you pointed out, we have confirmed that some brands have raised prices by a few percent. However, on average, we believe the overall price increase has nearly leveled off.

Q. Regarding the average retail price from mid-November to December, I believe that autumn/winter clothing, such as outerwear and warm clothing, arrived during this period. How did the average retail price change compared to the same period of the previous fiscal year at that time?

A. (Answer: Yanagisawa) Regarding the average retail price, which is based on sales rather than arrivals, the latter half of the third quarter had a more positive impact on a year-over-year basis compared to the first half of the third quarter.

Q. Regarding the number of employees in the third quarter, please explain the background to the slight decrease



from the second quarter and any differences from the initial plan of the current fiscal year, if any.

A. (Answer: Kobayashi) The slight decrease from the second quarter is due to recruitment falling short of the initial plan. On the other hand, the employee turnover rate has generally been in line with expectations. Since the number of employees remains below the initial plan, we will intensify efforts to increase staffing in the fourth quarter, such as by expanding the use of recruitment channels.

【Regarding costs】

Q. The initial plan remains unchanged, but it seems that the operating profit target will still be achieved even if profits decline in the fourth quarter. How do you plan to allocate the costs?

A. (Answer: Yanagisawa) We primarily plan to invest in actual promotion-related expenses. Rather than implementing completely new promotional initiatives, we aim to strengthen and broaden existing promotional measures. Since we have faced relatively challenging conditions in January, we believe it is necessary to continue making strong promotional investments from February onward to improve the situation. Additionally, we are considering allocating a portion of our budget to initiatives that will lay the groundwork for growth in the next fiscal year and beyond.

Q. During the third quarter, logistics-related expenses and expenses for “others” have decreased in absolute terms compared to the same period of the previous fiscal year. Could you explain the background behind this?

A. (Answer: Kobayashi) In the third quarter of the previous fiscal year, an excessive supply of inventory led to severe congestion in our logistics centers, causing a significant decline in operational efficiency. As a result, logistics-related expenses, including expenses for part-time and temporary staff, were abnormally high. On the other hand, in the third quarter of the current fiscal year, we expanded our logistics centers and optimized inventory management by returning slow-moving inventory to brands, etc. These measures created a much more efficient working environment, significantly improving operational efficiency. While the volume of transactions that needed to be handled increased due to the growth in the merchandise value, we were able to reduce the number of personnel required, which led to a decrease in logistics-related expenses compared to the same period of the previous fiscal year. Regarding expenses for “others,” in the third quarter of the previous fiscal year, we incurred approximately 1 billion yen in one-time costs related to ZOZOBASE TSUKUBA 3. Since no similar costs were recorded in the third quarter of the current fiscal year, this was a major factor in the year-over-year decrease in expenses for “others“. Additionally, communication costs, which account for a significant portion of expenses for “others“, were reduced as a result of successful cost-saving initiatives, contributing in part to the overall decrease in expenses for “others“ compared to the same period of the previous fiscal year.

Q. Can we assume that the efficiency gains in logistics-related expenses reflect the impact of logistics center expansion and labor-saving effects of automation initiatives?

A. (Answer: Yanagisawa) As you noted, logistics center efficiency has improved significantly, particularly since the summer of this fiscal year. The third-quarter results are a direct reflection of the hard work of our on-site teams, and we acknowledge their significant contribution to our profits.

Q. In which categories and to what extent have costs remained unused?

A. (Answer: Kobayashi) While we cannot disclose specific figures, the most significant unused costs as of the third quarter cumulative results compared to the initial plan are logistics-related expenses, actual promotion-related expenses, and shipping expenses. Regarding logistics-related expenses, inventory optimization progressed beyond initial expectations, leading to improved operational efficiency and a significant amount of unused costs. As for actual promotion-related expenses, we plan to allocate the unused portion in the fourth quarter. For shipping expenses, our initial plan assumed that the average order value would remain flat year-over-year. However, as of this



fiscal year, the average order value has exceeded the previous year's figures in each quarter. As a result, we have been able to suppress the number of shipments more than initially anticipated, leading to unused costs.

Q. There is a comment that the introduction of some logistics-related facilities has been postponed to the next fiscal year. How much impact will this have on the capital investment amount for this fiscal year? Will there also be an impact on depreciation expenses?

A. (Answer: Kobayashi) Based on the current outlook, capital investment for the full year is expected to be around 5.5 to 6.0 billion yen. Regarding depreciation expenses, the initial plan projected 4.7 billion yen for the full year, but they are now expected to end up approximately 300 million yen lower. The variance from the initial plan will be carried over to the next fiscal year.

【Others】

Q. Is there any progress on future category expansion?

A. (Answer: Yanagisawa) We intend to provide an update on the category expansion strategy for the next fiscal year and beyond during the full-year financial results briefing, so we appreciate your patience until then.

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