



January 31, 2024

Minutes of Q&A Session
FYE 2024 3Q Results Briefing

This is a summary of the questions received
at the financial results briefing held on January 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)

【Financial results for the cumulative period through the third quarter and the quarter】

Q. You noted that operating profit in the cumulative period through the third quarter was higher than planned. How did Gross Merchandise Value, operating profit, and SG&A perform compared to plans?

A. (Answer: Yanagisawa) In the third quarter Gross Merchandise Value, not including other Gross Merchandise Value, performed favorably vs. total plans, while operating profit was slightly below plans. Unexpected results included an increase in logistics-related expenses as a percentage of Gross Merchandise Value due to worsening inventory turnover at logistics bases, a component of SG&A. At the same time, other SG&A proceeded according to plan.

Q. You seem to have worked hard on Gross Merchandise Value even as the third quarter was affected by an unseasonably warm winter. How did you increase Gross Merchandise Value? How did it look on a monthly basis?

A. (Answer: Hirose) The Black Friday sale event at the ZOZOTOWN at the end of November was well received, and this contributed greatly to growth in Gross Merchandise Value in the third quarter. Since most of the orders received during this event shipped in December, a look at monthly trends from a shipment point of view shows tolerable growth in October and November and a very strong rate of growth in December. At Yahoo! JAPAN Shopping, the rate of growth in Gross Merchandise Value was strong each month.

Q. What was behind the growth in Gross Merchandise Value despite the difficulty in selling outerwear and similar products due to the unseasonably warm winter?

A. (Answer: Hirose) While the trend in heavy apparel slowed, we were able to grow Gross Merchandise Value centered on relatively lighter apparel. While brands faced difficult challenges, we enlisted their cooperation through efforts such as actively issuing brand coupons.



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

Q. In the first half, you grew Gross Merchandise Value through a YoY increase in actual promotion-related expenses as a percentage of Gross Merchandise Value. At the same time, even though that same cost's percentage of Gross Merchandise Value was down YoY in the third quarter, the rate of growth in Gross Merchandise Value exceeded that in the first half. Did you change the way you used actual promotion-related expenses from the first half to the second, or is this the cumulative result of measures made through now?

A. (Answer: Hirose) Average retail price and average order value tend to be high during the third quarter due to the nature of apparel so the Gross Merchandise Value tends to be higher in the second half than the first. For this reason, the ratio of actual promotion-related expenses to Gross Merchandise Value fell YoY. There was no major change from the first half to the second half in how we used actual promotion-related expenses. The pace of growth in the number of active buyers has accelerated from the second quarter to the third quarter, and this contributes to growth in Gross Merchandise Value as existing promotional activities targeting dormant users begin to have an effect.

Q. In the third quarter, the ratio of actual promotion-related expenses to Gross Merchandise Value fell YoY, but Gross Merchandise Value showed solid growth. Should we consider this to reflect the favorable performance of Black Friday sales promotion efforts and more efficient promotion targeting light users? Also, did PGA income growth contribute to higher promotional efficiency?

A. (Answer: Yanagisawa) That would be a correct understanding of how sales-promotion measures contributed to higher Gross Merchandise Value. PGA did not affect efficiency improvements since the balance of payments has not improved YoY.

【About the behind the worsening of inventory turnover and opening a new logistics base (Ibaraki 5)】

Q. What factors were behind the worsening of inventory turnover? Also, is the worsening of inventory turnover related to opening the new Ibaraki 5 logistics base?

A. (Answer: Yanagisawa) There are two main factors behind this worsening of inventory turnover. The first is the relatively temporary issue of higher inventory volumes due to the warm winter, and the second is the continuing issue of higher-than-expected carried inventories of products for example, sales in the next season. While at first, we explained that we would be able to handle up to 700 billion yen of Gross Merchandise Value when we opened the Ibaraki 4 (ZOZOBASE TSUKUBA 3), we decided to open the new Ibaraki 5 logistics base as a storage facility mainly to resolve the second issue, which is related to tough inventory conditions. This is intended to alleviate tough inventory conditions and improve work efficiency.

Q. In connection with the worsening of inventory turnover, what were the factors behind the gap between actual and expected inventories supplied from brands? Also, I've heard that since COVID-19 brands have been narrowing down production volumes and controlling inventories supplied to ZOZOTOWN. Have brands' attitudes and conditions changed? Or has ZOZOTOWN become more important as a sales channel?

A. (Answer: Yanagisawa and Hirose) While of course, we decide on supplies of inventory through prior discussions with brands, since our sales are on consignment naturally some brands ship more inventories than expected. For this reason, it is a challenge to keep inventories in line with projections. Regarding production volumes, while brands have made adjustments since COVID-19, while brand physical stores face difficult conditions due in part to the effects of the unseasonably warm winter this year expectations for ZOZOTOWN have increased, and this has led to higher inventories. We believe that inventory turnover has worsened due to a vicious circle that results when ZOZOTOWN too is unable to sell its inventories of heavy apparel.



Q. Why does higher volume lead to lower work efficiency?

A. (Answer: Yanagisawa) Excessively high inventories inevitably will lower work efficiency at a logistics base. As a simple example, if a shelf is jam-packed with goods and another shelf is loosely packed, the former takes longer to pick.

【About Yahoo! JAPAN Shopping】

Q. The rate of growth in Gross Merchandise Value on Yahoo! JAPAN Shopping was high during the third quarter. What kinds of promotions were effective? Do you expect favorable conditions to continue in the fourth quarter as well?

A. (Answer: Hirose) “Serious ZOZO Festival” intended to enhance rewards, was a major contributor to the favorable performance of Yahoo! JAPAN Shopping. Since plans for similar measures depend on LY Corporation's promotional policies, it would be difficult to give a clear answer on the continuity of this measure. At present, we have conducted this event only once during the fourth quarter, on January 1.

【About ZOZOCOSME】

Q. How is ZOZOCOSME progressing? Since November you have added a review feature and a succession of new brand shops, but have there been any results or changes in conditions?

A. (Answer: Hirose) While achieving full-year targets remains a difficult challenge, promotional efforts such as point programs are keeping sales up YoY. Under these conditions, we have been able to achieve steady growth thanks to measures such as opening new brand shops. The review feature added in November has been well received by users, and we believe that it has generated favorable tailwinds for ZOZOCOSME. In the future, we plan to implement promotional campaigns to increase the number of reviews and quantify and verify the results through AB testing on whether or not users wrote reviews.

Q. How much do you plan to increase cosmetics brands over the coming one or two years?

A. (Answer: Hirose) The number of cosmetics brands is growing steadily, and the coverage rate of department-store cosmetics brands is increasing in particular. While I am not able to say specifically how much they will increase, we are thinking about further enhancing brands including somewhat lower-priced Korean cosmetics and drugstore cosmetics.

【About Costs】

Q. Other expenses grew considerably during the cumulative period through the third quarter. How much of an impact did the large-scale purchase of supplies for the new logistics base have?

A. (Answer: Kobayashi) Temporary costs of supplies related to the new logistics base accounted for a little under 1 billion yen of other expenses in the cumulative period through the third quarter.

Q. What kind of effects will the opening of the new logistics base (Ibaraki 5) have on rent expenses, depreciation, and other accounts in the year ending March 2025?

A. (Answer: Kobayashi) Since this is a matter still being considered I would have to answer in rough estimates. We expect annual rent expenses of roughly 800 million to 1 billion yen and depreciation of about 100 million yen. Since this facility will specialize in storage, it does not require the costly materials handling and other equipment that was needed at Ibaraki 4.



【Others】

Q. Am I correct in thinking that Yamato Transport's delivery price hikes would not lead directly to worsening profitability?

A. (Answer: Yanagisawa) That's right. We are considering the following three measures to maintain earnings. Matters such as the weighting of these three measures are to be determined.

1. Reduce other costs through in-house efforts
2. Introduction of "Slow Delivery" that combines multiple orders into one delivery (Scheduled to begin test operation from March 2024)
3. Change our shipping policy

Q. How much of an impact do you expect AI to have on your business? If you have begun any practical measures already, I would like to hear about them.

A. (Answer: Yanagisawa) We consider AI to be extremely important, and we are using it in some marketing activities already. While I cannot describe them in detail, ultimately, we would like to deliver products that are "your style" to users by using AI with data collected through Nialab.

Q. Do you expect the use of AI to contribute greatly to future performance growth?

A. (Answer: Yanagisawa) It would be difficult to say to what degree it would contribute. Our approach is one of delivering products that are "your style" to users, and we expect the development of such a solution to have substantial positive effects on future growth.

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