



April 27, 2022

Minutes of Q&A Session
FYE 2022 Results Briefing

This is a summary of the questions received
at the conference call with institutional investors held on April 27, 2022. 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 business forecast for the FYE 2023]

Q. Profit growth seems insufficient in light of the aim to seek the growth rate of 10% in gross merchandise value (hereinafter, referred to as “GMV”) in total for PayPay Mall and ZOZOTOWN business. Although this was referred to in the financial results briefing, would you please explain the background for a lower growth rate in operating profit than GMV again?

A. (Answer: Sawada) There are some factors for it. The first factor is the investment in logistics. We are planning to start full-scale operation of the new distribution center in the next fiscal year, and we need to prepare our facilities and employees in the current fiscal year. In addition, we assume warehouse operations will be more inefficient as we receive more inventories until the new facility is completed. The second factor is an increase in IT investment. We are now in the process of the renewal of our IT infrastructures. Specifically, we are replacing old architecture with new architecture to prepare for future growth. And this is resulting in a partially overlapping investment, which continues throughout the current fiscal year. The third factor is the promotion-related expenses. We used considerable promotion-related expenses in the previous fiscal year, and we plan to continue the promotion activities at the same level in the current fiscal year. Although we have these three factors above, we intend to keep growing while maintaining an operating profit margin of 10% to GMV.

Q. Is there no chance of achieving greater than 10% growth in GMV in light of the background, such as increased fashion demand due to the recovery of people’s mobility?

A. (Answer: Sawada) In the past few years, sales of non-store (eCommerce-only) brands have been strong. We believe that if those brands continue to grow in the current fiscal year, we might be able to achieve more than 10% growth. In an interview with Mr. Nakayama, the President of PayPay Corporation, PayPay plans to focus on growing its economic zone. We believe that if the PayPay economic zone were to expand in the future, then sales of ZOZOTOWN PayPay Mall shops also would increase. Although we cannot go into this in detail right now because we have to make sure the intentions of Z Holdings, we believe there is a possibility that performance could exceed the plans.

Q. The growth rate of GMV in PayPay Mall was about 2% in the fourth quarter of the previous fiscal year. The full-year



business forecast shows the growth rate of 29%. How should we understand this difference?

A. (Answer: Hirose) Please note that the hurdle of the fourth quarter in the previous fiscal year was extremely high. We intend to achieve this fiscal year's target of 29% growth through the seasonal promotion measures with Yahoo Japan Corporation.

Q. In the previous fiscal year, sales of the advertising business grew by about 35%. Considering factors such as an expansion of the denominator, would it be correct to expect 25-30% growth in the current fiscal year?

A. (Answer: Hirose) Inventories received for the advertising menu are growing steadily. If we can sell these thoroughly, then the sales growth in the advertising business might be higher than planned.

[About SG&A expenses and capital expenditures]

Q. I have a question about costs. Logistics-related costs, IT investment costs, and promotion-related costs, will the cost increase impact be in this order?

A. (Answer: Sawada) Not in that order. We assume the impact of cost increase will be roughly at the same level.

Q. I have a question about SG&A expenses. In the previous fiscal year, there was a difference in the amount spent on advertising expenses between the first and second halves of the year, with emphasis placed on the second half.

Will the advertising expenses increase from the beginning of this fiscal year to the same level as in the second half of the previous year? Is the increased hiring of engineers a factor in pushing up SG&A expenses? In addition, did the advertising expense ratio, including personalized discounts in the previous fiscal year, land at the same level as the plan?

A. (Answer: Sawada) We do not have a specific promotion plan. We will manage advertising measures flexibly and make judgments every month depending on the situation. For example, it is assumed that sales could decrease during the Golden Week holidays in May, because more people are expected to be out than past few years, and we are discussing whether we should carry out promotion measures. The hiring of engineers will be conducted as a part of the IT investment referred to earlier, and we assume increases in personnel and other costs for engineers. The sum of advertising expenses and personalized discounts were higher than planned in the previous fiscal year due to an increase in gross profit from higher GMV and a reduction in other costs, which created more margin for profit.

Q. What amounts of capital investment are you thinking of from the current fiscal year to the following fiscal year and beyond?

A. (Answer: Yanagisawa) We are thinking of about 10 billion yen in the current fiscal year. We project a capital investment of more than 10 billion yen in automation for TSUKUBA 3. The capital investment for TSUKUBA 3 alone is expected to be 6.5 billion yen in the current fiscal year and 5 billion yen in the next fiscal year. We also project about 2 billion yen in IT investment and other areas.

Q. I have a question about logistics efficiency. While the expense ratio is assumed to increase in the current fiscal year, I expect the peak of the expense ratio to slow down after the launch of the new distribution center. Please tell us when the peak will be reached.

A. (Answer: Sawada) We think it will peak around the end of the year. The fall/winter season's merchandise is bulky and includes many items on sale, which reduces operating efficiency and results in a peak in the expense ratio. Since this can be forecasted, we will take action so that we can overcome it.



Q. So you do not expect the expense ratio to improve until the launch of a new distribution center in August 2023?

A. (Answer: Sawada) Yes, exactly.

Q. Similarly, do you expect IT investment to continue in the next fiscal year and later?

A. (Answer: Sawada) We will need to invest in accordance with the issues we are facing. As we mentioned earlier, there are some overlapping investments, and it is necessary to make an upfront investment in recruiting human resources. So, it is not easy to forecast the future trend.

[About ZOZOCOSME]

Q. The target GMV of 10 billion yen on the full-year business forecast for the cosmetics category has been moved up one year from what we had heard earlier. Although I thought you became more confident about the future results, I would like to know how it has changed.?

A. (Answer: Sawada) The major factors are an increase in the number of brands that have not yet opened stores expressing an interest in opening new stores and repeated customer purchases. We also plan to conduct promotion measures actively. For these reasons, we expect to be able to achieve the target of 10 billion yen in GMV in the current fiscal year.

Q. Does the GMV of 5.7 billion yen in ZOZOCOSME represent the results of 12 months of the previous fiscal year? Also, may I assume that you plan to achieve the GMV of 10 billion yen during the current fiscal year?

A. (Answer: Sawada) Yes, both of your comments are correct.

[Others]

Q. Please tell me about the assumptions regarding the sales of the advertising business in the current fiscal year. Does this include new services? How was your evaluation of the actual results in the previous fiscal year, and what kind of trends do you expect through the first and second halves of the current fiscal year?

A. (Answer: Hirose) We assume that most of the sales are from ZOZOAD, which is shown at the top of search results. In addition, we started a bidding-based new advertising menu for the advertising spaces that appear at the very top of the search results from March 2022. The unit price for this service is higher than that of ZOZOAD.

Q. Regarding positioning in the “Top-of-mind awareness”, how would you position yourself compared to other channels, and where do you see growth potential?

A. (Answer: Sawada) The figures reported here are the results of a survey that includes companies that have physical stores. ZOZOTOWN was the first in “Top-of-mind awareness” in the eCommerce domain. While channels regarded as competitors are general shopping malls, our competence is its specialization in apparel. For this reason, our results exceeded those of competitors. Since there are some elements where we are lacking when physical stores are included, we will make improvements going forward. The top companies of “Top-of-mind awareness”, including physical stores, are brands everybody knows.

Q. What are the comparison subjects for increasing visits and visitors by collaborating with physical stores under



ZOZOMO?

A. (Answer: Sawada) First, target customers are extracted to some extent for comparison. Then we select similar people in terms of membership history, frequency of site visits, frequency of purchases, and geographic location. After that, numerical comparisons are made between those who placed layaway orders and those who did not.

Q. I have a question about the withdrawal of UNITED ARROWS LTD. (hereinafter referred to as “UNITED ARROWS”) from the BtoB business. Does your plan for the current fiscal year assume the withdrawal of UNITED ARROWS and little growth in other clients? What are the circumstances regarding UNITED ARROWS' intention to create its eCommerce website?

A. (Answer: Sawada) I can only say that the scale of sales of UNITED ARROWS was too large. The withdrawal itself had been decided sometime earlier. This does not mean that the sales of the eCommerce websites via other supported brands are not expected to grow. We provided UNITED ARROWS with logistics support and system development support for its eCommerce website. But UNITED ARROWS and some other brands in the BtoB business decided to reduce the portion of system development of their eCommerce websites a few years ago. It would have been impolite to withdraw support soon after the decision, so we continued to support UNITED ARROWS for the past several years until they were ready. We are now providing only logistics support with them. To obtain a new contract to support a brand with the same level of sales as UNITED ARROWS, it would take a long time to develop a sales strategy.

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