



January 28, 2022

Minutes of Q&A Session  
Third Quarter of FYE 2022 Results Briefing

This is a summary of the questions received  
at the conference call with institutional investors held on January 28, 2022. Some details are revised.

[Company participants]

Kotaro Sawada (Representative Director, President & CEO)  
Koji Yanagisawa (Director, Executive Vice President & CFO)  
Fuminori Hirose (Director & COO)  
Christine Edman (Executive Officer)  
Yusaku Kobayashi (VP of Strategic Planning and Development Department)

[Summary of Business Results and Market Trends]

Q. I think growth of the gross merchandise value (hereinafter, referred to as the “GMV”) in the third quarter was strong. As you explained at the last results briefing, the Olympic Games affected the traffic but seems like the impact was temporary. Is this due to the recovery of traffic to the e-commerce site and amount of inventory from brands in warehouses? Please explain about the factors behind the growth in GMV more specifically.

A. (Answer: Sawada) There are various factors behind the strong performance in the third quarter. In terms of inventory, the amount of inventory for e-commerce remains the same while the total amount of production was decreased. With close communication with brands, we managed to secure inventory in warehouses and the traffic to our website is growing steadily as well. We do not see any impacts from the recovery of people’s mobility. Likewise, we believe customers’ behavior does not change significantly depending on the status of COVID-19. Also, though we suffered from a warm winter last year, temperature for this year is normalized and it boosted sales of outerwear.

Q. Regarding growth of the GMV, YoY growth rate of ZOZOTOWN was 6% in both first and second quarter whereas it was 10% in the third quarter. Was the increase of growth rate due to the success of promotions such as TV commercials and personalized discounts during ZOZOWEEK, or new measures that are different from the conventional ones? Furthermore, will the effects continue in the fourth quarter?

A. (Answer: Sawada) We are now able to see the optimal solution of the “Advertisement Mix”. As for personalized discounts, there are measures such as LINE notification which is very straightforward and effective. To promote this, we gave users reward points for linking their LINE accounts to ZOZO accounts, which resulted in the improvement of LTV. We conducted successful coupon measures using our unique algorithm based on AI and other technologies.

Q. Do you think the synergy with Z Holdings in the data analysis know-how has realized?

A. (Answer: Sawada) Yes.



Q. In addition to the number of users, the conversion rate also improved. What kind of new measures did you implement for this improvement? Also, you said the effect of promotion is now becoming visible, but how much is that when compared to the best efforts?

A. (Answer: Sawada) Sorry, we do not disclose the conversion rate, but at least it is not declining. Discounts can be one of the factors to increase the conversion rate, but we did not conduct extreme discounts. You can think that it is progressing steadily. To the comparison of the best-efforts promotion, we believe we are now about 60% to that. However, technology will evolve in the future so we believe there is still a lot we can do.

Q. Take rate for the third quarter seems to be lowered from the second quarter. How come the take rate of, particularly in the consignment business, BtoB business, and others decreased? Does it recover to the level of the second quarter in the fourth quarter?

\*Take Rate: Calculated by dividing sales by GMV of the corresponding business

A. (Answer: Yanagisawa) The take rate for the consignment business varies depending on how much the company spent for personalized discounts and reward points promotions. There are no changes to the take rate for the brands. Until last fiscal year, we recorded point related expense as one of the SG&A expenses. But from this fiscal year, with the adoption of accounting standard for revenue recognition, point related expense is now deducted from sales. Therefore, the take rate which is calculated by dividing sales by GMV appears to decline due to the different accounting treatment on reward points when we compare the rate between these fiscal years. In addition, when comparing each quarter of the current fiscal year, the take rate fluctuates somewhat, depending on the number of reward points measures implemented.

In the third quarter, the take rate was lower than ones in other quarters due to a large amount of investment in personalized discounts and reward points measures. We assume some fluctuations will continue to happen going forward.

In addition, the reason for the decline in the take rate in BtoB business and others compared with the second quarter was due to the seasonality of the fashion/apparel industries, and the same trend was also seen in the previous fiscal year. As a result of higher average order value in the third quarter compared with the second quarter, the percentage of shipping income in both businesses declined, resulting in lower take rate. Please note that this is not a special case for this fiscal year.

Q. What is the latest market trend in January? Is there any impact from the COVID-19 pandemic?

A. (Answer: Sawada) Business performance is no longer affected by the status of the COVID-19. Sales do not increase as people's mobility decline due to the Omicron variant and sales do not decrease with surge of people's mobility. There is no need to worry too much about the status of the COVID-19.

[About ZOZOVILLA · ZOZOCOSME and shoe categories]



Q. Was there any surprise in either a positive or a negative way from your point of view about ZOZOCOSME? I would like to know if there is anything surprising from the brand side as well.

A. (Answer: Hirose) There is no surprise for us, and we think we just achieved what we planned. Our business is a “stock business” model, so we are aiming to acquire new buyers and make them repeat customers, and we are sure that we have achieved this. Brands are responding to the strong sales in makeup products. Generally, the percentage of sales in skincare products is higher than that of other products. Brands also appreciate our strong reach to Gen-Z customers.

Q. Do you mean the fact that makeup products are selling better than expected and stronger reach to Gen-Z was surprising to the brands?

A. (Answer: Hirose) Brands are seeing it satisfactory as reaching to younger generation is realized after the launch of ZOZOCOSME, as we originally appealed that point to the brands.

Q. Please tell us about the current business size and growth rate of ZOZOVILLA.

A. (Answer: Sawada) Sorry, the business size of ZOZOVILLA is undisclosed. Different from normal ZOZOTOWN, we conduct more specified promotional measures. Although the business model is the same, we think it is necessary to consider how much we can customize promotions to sell products of luxury brands effectively.

Q. Please tell us how much impact cosmetics and shoes businesses have on growth of ZOZOTOWN.

A. (Answer: Sawada) The sales of cosmetics category have no impact yet. We are planning to disclose it when it starts to contribute to the whole. The sales size is not still big, but it is progressing on track compared with the original plan. Regarding shoes category, it has been having certain percentages to the whole and it continues to show steady growth.

[About PayPay Mall]

Q. GMV at PayPay Mall seemed sluggish in the second quarter but accelerated in the third quarter. I think Z Holdings has been actively conducting promotion measures, and are they going to have further promotion compared with the previous and current quarters?

A. (Answer: Hirose) Sales grew strongly thanks to the success of measures such as Super PayPay Festival and Fashion Festival. In November of the last fiscal year, Z Holdings began to strengthen promotions for PayPay Mall, and after a full year of continuous efforts, sales in the third quarter also grew.

Q. How come PayPay Mall was sluggish in the second quarter?

A. (Answer: Hirose) Like ZOZOTOWN, there was a decrease in the traffic due to the Olympic Games and temperature.



[About promotion related expenses]

Q. Was the increase in promotion related expenses of the third quarter due to the sponsorship of the PGA Tour? You said TV commercial will be broadcasted in the fourth quarter too, but will not promotion related expenses in the fourth quarter be as high as in the third quarter?

A. (Answer: Yanagisawa) The impact of the PGA Tour is significant but sorry, the actual numbers are undisclosed. The promotion related expenses in the fourth quarter are not expected to be as high as in the third quarter.

Q. Promotion related expenses have increased by about 1.3 billion yen on YoY basis. How much did the company spend on TV and Web commercials? Also, please clarify the effects of those measures to the GMV.

A. (Answer: Sawada) Sorry, we do not disclose the breakdown of promotion related expenses. We found that conducting both TV Commercial and Web Commercial is more efficient, rather than conducting only one measure. We are deciding what to do by looking at the best balance of the measures. For example, we not only broadcast TV commercial but also use the same content as an advertisement on YouTube, and conduct some promotional activities on ZOZOTOWN as well when users visit our website. As we are finding the optimal solution of "Advertisement-mix", we will continue to conduct measures under this direction.

Q. The PGA Tour had limited spectators this year. What will be the profit and loss for next year tournament if there is no limitation?

A. (Answer: Yanagisawa) We will have the ticket revenue, so we can expect the improvement of the profitability.

[About ZOZOMO]

Q. How was the reaction from the brands after launching ZOZOMO? Please clarify the points they appreciated and issues you need to work on.

A. (Answer: Sawada) ZOZOMO started last November and is performing well. Although there are issues with the number of participating brands, major brands participated at the end of last year and customers also started to use the service. Currently, there are 22 shops that can show the number of stocks at the physical stores, and 13 shops where users can request layaway order. This service enables users to purchase items which are out of stock on ZOZOTOWN, at the physical stores, and that is the ideal form which we have been aiming for. Brands are also showing a positive reaction for creating store sales via ZOZOMO, and we think the number of brand participants will increase in the future.

Q. Currently 22 shops are participating in ZOZOMO, but are you going to expand more quickly?

A. (Answer: Hirose) It takes some time to link store stock data from brands to show stock status on ZOZOTOWN. We can also assist brands to sell store stock based on customer orders. In that case, the brands that have been sharing stock data with us can run operations immediately. However, if the brands have not shared the data with us, it would take some time to start the service.



[The new executive officer]

Q. I would like to ask Mr. Sawada. What do you expect most from Mr. Edman?

A. (Answer: Sawada) She has excellent experiences of leading global companies, and we are very happy to have her on our management team. As she worked for LVMH Group and has a tremendous network that can help ZOZOVILLA and other businesses. We also expect her to lead ZOZOCOSME as a female leader.

Q. I would like to ask Ms. Edman about ZOZO from the perspective of former CEO at GIVENCHY Japan. What do you think about the potential and points to be improved regarding ZOZOVILLA and ZOZOCOSME?

A. (Answer: Edman) Within the market, factors such as Gen-Z, sustainability, and digital transformation are regarded as important issues. At ZOZO, we would like to create partnerships with more brands to transform ZOZOTOWN into “omni-channel” and provide new experiences to customers. We would like to offer contents, news, and collaborations for Gen-Z with the essence of technology from the perspectives of luxury and cosmetics.

[Others]

Q. What are your prospects for the next stage after the achievement of 10 million annual buyers? TSUKUBA 3 will be start operating soon, and I think you are aiming to acquire more users. Please tell us about the next goal you pursue.

A. (Answer: Sawada) We are very happy with the achievement of 10 million annual buyers. We will not pursue the specific goals but will aim to increase the e-commerce ratio among the ratio of shopping at the physical stores and online. I think there is still room for growth.

Q. What are the factors behind the large growth in sales of others? Please tell us where the PGA tour-related revenues are reflected. Are there any changes in the unit price of shipping fee?

A. (Answer: Yanagisawa) For the PGA Tour, the results of profit and loss are recorded as advertising expenses. The increase in sales of others was mainly due to an increase in shipping income and settlement commissions due to the business expansion, and sales from a consolidated subsidiary yutori's own e-commerce website (minimal in the previous year). The unit price of the shipping fee has not been changed.

Q. I guess the cost of TSUKUBA 3 is likely to be higher than other warehouses. How much impact does it have on the income statement for the next fiscal year? Please tell us if there will be any positive effects other than the increase in depreciation.

A. (Answer: Yanagisawa) The investment is expected to be about 10 billion yen. The depreciation period may be longer than 10 years, depending on the items. In terms of the impact on the income statement, capital expenditures are 2.5 times larger than normal. Sorry, we cannot tell you the effects of capital investment at the moment.



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