

Consolidated Financial Results

For the First Quarter of Fiscal Year Ending March 31, 2021 [JGAAP]

July 30, 2020

Company Name: ZOZO, Inc. Listed stock exchange: Tokyo
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 Scheduled date to file the financial report: August 14, 2020 Scheduled date of dividend payment: -
 Supplementary materials for quarterly financial results : Yes
 Quarterly results briefing : Yes (For analysts and institutional investors)

(Rounded down to million yen)

Consolidated business results for the first quarter of the fiscal year ending March 31, 2021 (April 1 to June 30, 2020)

(1) Consolidated business results (cumulative) (Percentages indicate YoY changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First quarter of fiscal year ending March 31, 2021	33,674	19.4	10,423	33.9	10,473	37.5	7,321	37.5
First quarter of fiscal year ending March 31, 2020	28,197	6.2	7,786	32.6	7,618	30.0	5,326	27.9

(NOTE) Comprehensive income First quarter of fiscal year ending March 31, 2021 7,340 Million yen (38.3%)
 First quarter of fiscal year ending March 31, 2020 5,307 Million yen (27.2%)

	Net profit per share	Fully diluted net profit per share
	Yen	Yen
First quarter of fiscal year ending March 31, 2021	23.98	-
First quarter of fiscal year ending March 31, 2020	17.45	-

(NOTE) Fully diluted net profit per share is not presented because there are no potential shares with dilutive effects.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
First quarter of fiscal year ending March 31, 2021	92,390	36,380	39.4
Fiscal year ended March 31, 2020	94,186	34,534	36.7

(Reference) Shareholders' equity First quarter of fiscal year ending March 31, 2021 36,378 Million yen
 Fiscal year ended March 31, 2020 34,533 Million yen

2. Dividends

	Annual dividends				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2020	-	12.00	-	18.00	30.00
Fiscal year ending March 31, 2021	-				
Fiscal year ending March 31, 2021 (Forecast)		15.00	-	22.00	37.00

3. Consolidated financial forecast for the fiscal year ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(Percentages indicate YoY changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net profit per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending March 31, 2021	143,700	14.5	39,500	41.6	39,500	42.9	27,600	46.8	90.40

※ Notes

(1) Changes of important subsidiaries during the period : None

(Changes in specified subsidiaries resulting in changes in the scope of consolidation)

New - , Exclusion -

(2) Application of particular accounts procedures to the preparation of quarterly consolidated financial statements : None

(3) Changes in accounting policies and changes or restatement of accounting estimates

① Changes in accounting policies caused by revision of accounting standards : None

② Changes in accounting policies other than ① : None

③ Changes in accounting estimates : None

④ Restatements : None

(4) Number of shares outstanding (Ordinary stock)

① Year-end shares outstanding (including treasury stocks)

Q1 of fiscal year ending March 2021	311,644,285 Shares	Fiscal year ended March 2020	311,644,285 Shares
Q1 of fiscal year ending March 2021	6,349,103 Shares	Fiscal year ended March 2020	6,349,103 Shares
Q1 of fiscal year ending March 2021	305,295,182 Shares	Q1 of fiscal year ended March 2020	306,214,590 Shares

② Number of year-end treasury stocks

③ Average number of shares during the period

※ Quarterly financial report is not subject to quarterly review by a certified public accountant or an auditing firm.

※ Explanations and other special notes concerning the appropriate use of business performance forecasts

-The earnings forecasts and other statements related to the future contained in this material are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Actual results may differ materially from these forecasts due to various factors. Please refer to "(3) Explanation of consolidated business forecast and other forward-looking statements " on page 11 for the assumptions underlying the forecasts and cautionary statements regarding the use of the forecasts.

-The Company is scheduling to hold a financial result briefing for institutional investors and analysts on July 30, 2020. The Company plans to post the content of the briefing and the briefing materials used on the day on its website promptly after the briefing.

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1. Qualitative Information on results for the first quarter ended June 30, 2020

(1) Overview of business results

Business results for the current fiscal year

[Table 1] YoY comparison

(Unit: Million yen)

	Consolidated cumulative first quarter of previous fiscal year (April 1, 2019 to June 30, 2019)		Consolidated cumulative first quarter of current fiscal year (April 1, 2020 to June 30, 2020)		YoY
Gross merchandise value	79,743	(100.0%)	95,330	(100.0%)	19.5%
Net sales	28,197	(35.4%)	33,674	(35.3%)	19.4%
Gross profit	26,270	(32.9%)	32,283	(33.9%)	22.9%
Operating profit	7,786	(9.8%)	10,423	(10.9%)	33.9%
Ordinary profit	7,618	(9.6%)	10,473	(11.0%)	37.5%
Net Income attributable to owners of parent	5,326	(6.7%)	7,321	(7.7%)	37.5%

Figures in parentheses are percentages to the gross merchandise value

Under the corporate philosophy of “Make the World a better place, bring smiles to the World. Be unique. Be equal.,” ZOZO, Inc. (hereinafter, referred to as the “Company”) group mainly operates the following businesses: Japan's largest fashion eCommerce website ZOZOTOWN and a fashion media WEAR.

In the consolidated cumulative first quarter of the current fiscal year, it was extremely challenging for the apparel industry, as operation of physical stores are restricted under the spread of COVID-19. Against this backdrop, the Company group focused on creating ZOZOTOWN more attractive for both users and brands in order to expand the number of unique users and improve the conversion rate (purchasing rate of unique users). Specifically, the Company implemented free shipping campaign for 6 days in weekends to support brands whose sales channels were limited due to temporary store closures. In May of the same year, the Company held sales event “ZOZOWEEK” from 10 days between the 15th and the 24th, and started summer sales from June 5, 2020 which is earlier than the precedented year in order to maximize sales at ZOZOTOWN. Furthermore, the Company proactively welcomed new brands in a wide range of genres to meet diversifying needs of users.

On December 17, 2019, the Company opened ZOZOTOWN in PayPay Mall, an online shopping mall operated by Yahoo Japan Corporation. Approximately 90% of the shops in ZOZOTOWN also sell in PayPay Mall and sales are gradually expanding. Since its opening, the Company has leveraged its strength in pricing by strong reward points. Accordingly, the Company has been able to expand its customer base by increasing contact points with a wide range of users, which differ in characteristics from conventional ZOZOTOWN users. Going forward, the Company will continue to promote collaboration with the parent companies and make every effort to maximize synergies.

As for the MSP (Multi-Size Platform) business which began in the fall of 2019, the Company expanded the numbers of brands and items, and sold spring and summer merchandise. As for the body measurement device, the Company began delivery of the ZOZOMAT from February 27, 2020, which enables to measure plurality of parts required for shoe selection by converting foot shape into 3D data. The number of people measured exceeded a million on June 11, 2020. Through this initiative, the Company aims to expand the gross merchandise value of shoe category in ZOZOTOWN and expects that it can provide new purchase experience that will enable users to conveniently find and select shoes that are comfortable. Despite the strong self-restraint of going outside in the consolidated cumulative first quarter of the current fiscal year, sales of the shoe category grew steadily from contribution of the opening of ZOZOSHOES, a mall specializing in shoes on March 4, 2020.

Regarding the B2B business, the Company has been focusing “Fulfillment by ZOZO,” a service specialized in fulfillment support, which started from October 2019. The Company will work on the minimization of opportunity losses by centralizing inventory of ZOZOTOWN and brands’ own eCommerce sites whose shops are on ZOZOTOWN. Further expansion of the business is expected in the current fiscal year, as more brands are willing to sell merchandise through their own eCommerce sites under the trend of the digital shift.

Consequently, the gross merchandise value in the consolidated cumulative first quarter of the current fiscal year was 95,330 million yen (+19.5% YoY), net sales were 33,674 million yen (+19.4% YoY), and gross profit was 32,283 million yen (+22.9% YoY). The ratio of gross profit to the gross merchandise value (gross profit margin) was 33.9%, an improvement of 1.0% point from the same quarter of the previous fiscal year.

Due to the spread of COVID-19, the YoY growth rate of the gross merchandise value was higher than those in recent quarters. Despite the negative impact of a slowdown in consumer spending on fashion item due to the self-restraint of going outside following the declaration of emergency state through late May, the Company put its utmost efforts to become selling channel for the brands that had to temporarily close their physical stores by leveraging the sales capabilities of ZOZOTOWN. The Company recorded a high-growth rate as a result of the positive impact of the digital shift offsetting the abovementioned negative impact.

As for net sales, the YoY growth was on par with that of the gross merchandise value. The growth rate of consignment shop exceeded that of the gross merchandise value, due to impact from ZOZOARIGATO until the end of May 2019, the paid-membership service which the cost is borne by the Company. However, there are negative impacts such as shrink in business size of ZOZOUSED and the PB business, revenue decrease from the said paid-membership service and decrease in shipping income etc. from free shipping campaign in April 2020 where the cost is borne by the Company. The amount of the gross merchandise value is represented in the amount before deductions of the said service and other discount promotions borne by the Company. On the other hand, as for the net sales, it is represented in the amount after the discounts.

The main factors behind the improvement in gross profit margin were an improvement in the consignment sales commission rate (toward the gross merchandise value) from the reverse impacts from the abovementioned ZOZOARIGATO etc. and shrink in the business size of the PB business.

Selling, general and administrative expenses was 21,860 million yen (+18.3% YoY) and its ratio to the gross merchandise value was 22.9%, a decrease of 0.3% points compared to the same period of the previous fiscal year. The main reasons for the decline in the SG&A-to-sales ratio in YoY basis were as follows.

- Rising (worsening) factor
 - ① Packing and freight (toward the Gross merchandise value) rose 0.7% points due to the drop in the average retail price.
 - ② Logistics-related expenses (toward the gross merchandise value) rose 0.2 % points due to a rise in the ratio accompanying a decline in average retail price, an increase in hourly wages for part-time workers, and revision in contracts with temporary staffing companies.
 - ③ Personnel expenses (toward the gross merchandise value) increased 0.1% points due to an increase in the number of employees.
- Decrease (improvement) factor
 - ① On April 1, 2020, ZOZOTOWN ended 1% worth of ZOZO points rewards for item price to members. As a result, point-related expenses (toward the gross merchandise value) declined 0.2% points.
 - ② As the gross merchandise value grew, rent (toward the gross merchandise value) declined by 0.2% points.
 - ③ Due to the completion of goodwill amortization of Yappa Co., Ltd. (currently ZOZO Technologies, Inc.), amortization of goodwill (toward the gross merchandise value) decreased by 0.1% points.
 - ④ Others expenses (toward the gross merchandise value) decreased by 0.8% points mainly due to a decrease in on-the-spot expenses that occurred in the same period of the previous fiscal year.

Consequently, operating profit of the consolidated cumulative first quarter of the current fiscal year was 10,423 million yen (+33.9% YoY) and operating profit margin was 10.9% toward the gross merchandise value, an increase of 1.1% points compared with the same period of the previous year. Ordinary profit was 10,473 million yen (+37.5% YoY) and net profit attributable to owners of parent was 7,321 million yen (+37.5% YoY).

Since the Company group is a single segment of the eCommerce business, information by segment is omitted. However, the performance of each business segment within each single segment is shown below.

[Table 2] Previous year comparison by business unit

Business Segment	Consolidated cumulative first quarter of previous fiscal year (April 1, 2019 to June 30, 2019)			Consolidated cumulative first quarter of current fiscal year (From April 1, 2020 to June 30, 2020)			Merchandise Value YoY (%)	Net sales YoY (%)
	Merchandise value (million yen)	Ratio (%)	Net sales (million yen)	Merchandise value (million yen)	Ratio (%)	Net sales (million yen)		
ZOZOTOWN Business								
(Consignment shop)	73,129	91.7	19,892	82,390	86.4	24,077	12.7	21.0
(Purchased stock shop)	103	0.1	99	15	0.0	15	-85.2	-84.6
(ZOZOUSSED)	3,574	4.5	3,294	2,093	2.2	2,093	-41.4	-36.5
Subtotal	76,807	96.3	23,286	84,499	88.6	26,185	10.0	12.5
PayPay Mall	-	-	-	4,371	4.6	1,270	-	-
PB business	462	0.6	452	178	0.2	178	-61.4	-60.6
MSP business	-	-	-	322	0.3	322	-	-
B2B business	2,474	3.1	533	5,959	6.3	1,161	140.8	117.6
Advertisement business	-	-	584	-	-	776	-	32.9
Others	-	-	3,340	-	-	3,779	-	13.1
Total	79,743	100.0	28,197	95,330	100.0	33,674	19.5	19.4

① ZOZOTOWN Business

The ZOZOTOWN Business consists of three business forms: consignment shop, purchased stock shop, and ZOZOUSSED. "Consignment Shop" handles consignment inventory of merchandise from each brand and sell them on consignment basis. "Purchased stock shop" purchases fashion merchandise from each brand and sell them as in-house inventory. "ZOZOUSSED" mainly buys and sells used fashion-related merchandise from individual users. The Company recognizes that increasing the number of buyers and increasing the rate of ZOZOTOWN use in fashion consumption are the key factors in achieving sustainable growth. To this end, the Company is working to create websites that are attractive to both users and brands.

Transition of major KPIs for the ZOZOTOWN Business are as follows.

(Number of shops, etc.)

[Table 3] Number of shops and brands

	Previous consolidated fiscal year				Current consolidated fiscal year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Shops on ZOZOTOWN (Note) 1	1,297	1,312	1,345	1,337	1,348	-	-	-
Purchased stock shop (Note) 2	5	5	5	5	5	-	-	-
Consignment Shop	1,292	1,307	1,340	1,332	1,343	-	-	-
Number of brands (Notes) 1, 2	7,349	7,305	7,462	7,643	7,989	-	-	-

(NOTE)

1. Figures are as of the end of quarter accounting period.
2. Private brand "ZOZO" and "Multi-Size" are not included.

The number of new shops opened in the first quarter consolidated accounting period of the current fiscal year was 28 (net increase of 11 from the previous quarter). The major new stores are LOEWE (limited-time store opening) a luxury brand in Spain from LVMH group, STELLA McCARTNEY a brand pursues a sustainable collection, and the reopening of casual wear selection store Right-on.

(Number of annual buyers)

[Table 4] Changes in number of annual buyers

	Previous consolidated fiscal year				Current consolidated fiscal year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of annual buyers (Note) 1,2,4	8,121,663	8,226,388	8,156,256	8,273,603	8,662,560	-	-	-
(YoY)	729,537	456,842	82,584	147,079	540,897	-	-	-
(QoQ)	-4,861	104,725	-70,132	117,347	388,957	-	-	-
Number of active members (Note) 1,3,4	6,557,144	6,749,012	6,800,435	6,839,666	7,223,753	-	-	-
(YoY)	1,098,501	966,785	643,598	388,980	666,609	-	-	-
(QoQ)	106,458	191,868	51,423	39,231	384,087	-	-	-
Number of guest buyers (Note) 1,4	1,564,519	1,477,376	1,355,821	1,433,937	1,438,807	-	-	-
(YoY)	-368,964	-509,943	-561,014	-241,901	-125,712	-	-	-
(QoQ)	-111,319	-87,143	-121,555	78,116	4,870	-	-	-

(NOTE)

1. The calculating period is the most recent one-year period prior to the end of the accounting periods.
2. Numbers of annual buyers are sum of active members and guest buyers who purchased more than once within the past year from each quarter.
3. Numbers of active members are members who purchased more than once within the past year from each quarter.
4. Buyers of "PayPay Mall" are not included.

In the first quarter consolidated accounting period of the current fiscal year, the number of annual buyers increased as a result of an increase in the number of active members in both YoY and QoQ. The number of active members increased substantially compared with the previous quarter from the digital shift in line with the expansion of COVID-19. The number of guest buyers also increased slightly from the previous quarter. This was due to reverse impact of guest buyers turn into active members from ZOZOARIGATO implementation.

(Annual purchase amount and annual purchase pieces)

[Table 5] Transition in annual purchase amount and annual purchase pieces

	Previous consolidated fiscal year				Current consolidated fiscal year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annual purchase amount (Total) (Note) 1, 2, 3, 4	46,934	47,506	47,593	46,519	45,128	-	-	-
(YoY)	0.1%	3.0%	3.4%	0.4%	-3.8%	-	-	-
(QoQ)	1.3%	1.2%	0.2%	-2.3%	-3.0%	-	-	-
Annual purchase pieces (Note) 1, 2, 3	11.3	11.6	11.7	11.8	11.8	-	-	-
(YoY)	-0.4%	3.5%	5.1%	6.5%	4.9%	-	-	-
(QoQ)	2.0%	2.9%	0.8%	0.7%	0.4%	-	-	-
Annual purchase amount (Existing members) (Note) 1, 2, 3, 4	55,048	54,750	54,092	53,027	52,175	-	-	-
(YoY)	-7.6%	-4.9%	-3.9%	-5.0%	-5.2%	-	-	-
(QoQ)	-1.3%	-0.5%	-1.2%	-2.0%	-1.6%	-	-	-
Annual purchase pieces (Note) 1, 2, 3	13.3	13.4	13.4	13.4	13.6	-	-	-
(YoY)	-6.2%	-2.7%	-1.6%	-0.1%	2.4%	-	-	-
(QoQ)	-0.8%	0.6%	-0.3%	0.4%	1.6%	-	-	-

(NOTE)

1. The calculating period is the most recent one-year before the end of the accounting periods.
2. Indexes for each active member.
3. Buyers of "PayPay Mall" are not included.
4. The amounts are in yen.

During the first quarter consolidated accounting period of the current fiscal year, the annual purchase amount (Total) decreased in both YoY and QoQ. This was due to an increase in the composition of new members as a result of the steady acquisition of new members from the digital shift in line with the expansion of COVID-19.

YoY and QoQ decreases in the annual purchase amounts of existing members were reflecting an increase in the percentage of existing active members with short membership history (annual purchase amounts tends to increase according to length of membership). Contrarily, the numbers of annual purchase pieces increased in both YoY and QoQ due to a decrease in the average retail price.

(Average retail price etc.)

[Table 6] Transition of average retail price, average order value and number of shipments

	Previous consolidated fiscal year				Current consolidated fiscal year			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Average retail price (Note) 1, 2, 3	3,903	3,516	4,501	3,909	3,443	-	-	-
(YoY)	-1.4%	-3.9%	-5.6%	-10.7%	-11.8%	-	-	-
Average order value (Note) 1, 2, 3	8,390	7,529	8,973	8,304	7,409	-	-	-
(YoY)	3.2%	-3.3%	-6.3%	-12.5%	-11.7%	-	-	-
Average purchase pieces per order (Note) 1, 3	2.15	2.14	1.99	2.12	2.15	-	-	-
(YoY)	4.6%	0.6%	-0.8%	-1.9%	0.1%	-	-	-
Number of shipments (Note) 1, 3	9,209,344	10,347,938	10,101,875	9,757,344	11,472,548	-	-	-
(YoY)	9.3%	16.7%	6.2%	7.6%	24.6%	-	-	-

(NOTE)

1. Figures for quarter accounting period are used.
2. The amounts are in yen.
3. "PayPay Mall" is not included.

The average retail price decreased in YoY. The reason why it decreased was the proportion of discount sales in the gross merchandise value increased as a result of active implementation of sales events such as the summer sale, ZOZOWEEK, time-limited sales etc., and brands switching to discounted sales prices at an early stage in order to clear inventory. In addition, from the abovementioned ZOZOARIGATO, which the costs were borne by the Company, the paid members benefited from the discount. Based on this, there was a tendency for those members to purchase items in higher-priced ranges than their usual purchases. Similarly, average order value also declined in YoY basis.

Results for ZOZOTOWN Business (consignment shop, purchased stock shop and ZOZOUSED) are as follows:

a. Consignment Shop

In the consolidated cumulative first quarter of the current fiscal year, the merchandise value was 82,390 million yen (+12.7% YoY), accounting for 86.4% of the gross merchandise value (+91.7% in the same period of the previous fiscal year). Net sales were 24,077 million yen (+21.0% YoY). As of the end of June 2020, the number of consignment shop was 1,343 (1,332 as of the end of March 2020).

b. Purchased Stock Shop

In the consolidated cumulative first quarter of the current fiscal year, the merchandise value was 15 million yen (-85.2% YoY), accounting for 0.0% of the gross merchandise value (0.1% in the same period of the previous fiscal year). Net sales were 15 million yen (-84.6% YoY). As of the end of June 2020, the number of purchased stock shop is 5 (5 as of the end of March 2020).

c. ZOZOUSED

In the consolidated cumulative first quarter of the current fiscal year, the merchandise value was 2,093 million yen (-41.4% YoY), accounting for 2.2% of the gross merchandise value (4.5% in the same period of the previous fiscal year). Net sales were 2,093 million yen (-36.5% YoY).

② PayPay Mall

ZOZOTOWN opened a shop on "PayPay Mall" an online shopping mall operated by Yahoo Japan Corporation. In the consolidated cumulative first quarter of the current fiscal year, the merchandise value was 4,371 million yen, accounting for 4.6% of the gross merchandise value. Net sales were 1,270 million yen.

③ PB business

In the PB business, the Company sells in-house designed apparel products tailored to individual bodies of users. In the consolidated cumulative first quarter of the current fiscal year, the merchandise value was 178 million yen (-61.4% YoY), accounting for 0.2% of the gross merchandise value (0.6% in the same period of the previous fiscal year). Net sales were 178 million yen (-60.6% YoY).

④ MSP business

The MSP business manufactures a portion of item line-up from shops with strong user demands and sell them on ZOZOTOWN, by combining the know-how of manufacturing clothes in a variety of sizes; accumulated from the Company's PB business, sales capability and planning ability of shops on ZOZOTOWN. The Company offers products in recommending sizes by users providing their height and weight data. In the consolidated cumulative first quarter of the current fiscal year, the merchandise value was 322 million yen, accounting for 0.3% of the gross merchandise value. Net sales were 322 million yen.

⑤ B2B business

The B2B business is a business model which the Company is commissioned to build and operate brands' own eCommerce sites. In the consolidated cumulative first quarter of the current fiscal year, the merchandise value was 5,959 million yen (+140.8% YoY), accounting for 6.3% of the gross merchandise value (3.1% in the same period of the previous fiscal year). Net sales (consignment sales commission) were 1,161 million yen (+117.6% YoY). As of the end of June 2020, the number of consigned sites was 51 (50 as of the end of March 2020).

⑥ Advertisement business

The advertisement business is a business model that generates advertising revenue by providing advertising space to client brands and ad agencies by utilizing the user reach base of ZOZOTOWN and WEAR. In the consolidated cumulative first quarter of the current fiscal year, net sales were 776 million yen (+32.9% YoY). As for WEAR, the Company will reduce the monetization of advertising and focus on expanding the number of users and contents. As of the end of June 2020, the number of app downloads exceeded 14 million, and the number of monthly active users is growing steadily.

⑦ Others

Within the others segment, net sales generated from businesses related to ZOZOTOWN (shipping income, settlement commission, paid-membership program etc.), and other revenues from the consolidated subsidiaries are included. In the consolidated cumulative first quarter of the current fiscal year, net sales were 3,779 million yen (+13.1% YoY).

(2) Explanation of financial position

(Unit: Million yen)

	Previous consolidated fiscal year	first quarter consolidated accounting period	Increase/ decrease rate
Total assets	94,186	92,390	-1.9%
Liabilities	59,651	56,010	-6.1%
Net assets	34,534	36,380	5.3%

(Total Assets)

Total assets amounted to 92,390 million yen, a decrease of 1,795 million yen (-1.9% from the previous consolidated fiscal year end). Current assets decreased by 1,454 million yen, or 2.1%, compared with the previous fiscal year end, amounted to 68,974 million yen. Major components are a decrease of cash and deposits of 5,973 million yen and an increase of accounts receivable- trade of 4,143 million yen. Non-current assets decreased by 340 million yen, or 1.4%, compared with the previous consolidated fiscal year end, amounted to 23,416 million yen. Major components are a decrease of 67 million yen in goodwill and a decrease of 201 million yen in investments and other assets.

(Liabilities)

Liabilities amounted to 56,010 million yen, a decrease of 3,640 million yen (-6.1% from the previous consolidated fiscal year end). Current liabilities decreased by 3,899 million yen, or 6.9%, compared with the previous fiscal year end, amounted to 52,227 million yen. Major components are a decrease of 974 million yen in deposits received for consignment sales, a decrease of 606 million yen in income taxes payable and a decrease of 2,000 million yen in short-term borrowings. Non-current liabilities increased by 258 million yen, or 7.3%, compared with the previous consolidated fiscal year end, amounted to 3,783 million yen. Major components are an increase of 110 million yen in retirement benefit liability and an increase of 146 million yen in asset retirement obligations.

(Net Assets)

Net assets amounted to 36,380 million yen, an increase of 1,845 million yen (+5.3% from the previous consolidated fiscal year end). Major components are an increase of 1,995 million yen due to the recognition of profit attributable to owners of parent and a decrease of 5,495 million yen due to cash dividends.

(3) Explanation of consolidated business forecast and other forward-looking statements

[Table 7] Consolidated business forecast

(Unit: Million yen)

	Previous consolidated fiscal year (April 1, 2019 to March 31, 2020)		Current consolidated fiscal year (April 1, 2020 to March 31, 2021)		YoY
Gross merchandise value	345,085	(100.0%)	387,300	(100.0%)	12.2%
Net sales	125,517	(36.4%)	143,700	(37.1%)	14.5%
Operating profit	27,888	(8.1%)	39,500	(10.2%)	41.6%
Ordinary profit	27,644	(8.0%)	39,500	(10.2%)	42.9%
Profit attributable to owners of parent	18,056	(5.2%)	27,600	(7.1%)	46.8%

Figures in parentheses are percentages to the gross merchandise value.

The business forecast for the fiscal year ending March 31, 2021 has been yet-to-be determined because it was difficult to calculate appropriately and reasonably the impact of the spread of COVID-19 on our business. However, the Company is announcing the business forecast based on the information available at this time and the forecast.

the domestic fashion eCommerce market, which is the axis and focus of the Company group, is still at low level compared to the fashion eCommerce ratio of the West and China. Combined with efforts of brands to strengthen own eCommerce business, it is expected that that overall trend of expansion will continue in the future. Furthermore, due to the spread of COVID-19, the digital shift of brands has been progressing further, and it has been the following wind to expand the fashion eCommerce market. Under such circumstance, in addition to continuing to focus on making of a more attractive

site for both users and brands, the Company is aiming to increase the gross merchandise value with sum of 2 malls; ZOZOTOWN and ZOZOTOWN PayPay Mall Shop. PayPay Mall is operated by Yahoo Japan Corporation and the Company opened its shop inside the mall on December 17, 2019. In the current consolidated fiscal year, the Company will see these as two pillars and use selling spaces of these separately and efficiently.

The breakdown of the current consolidated fiscal year's merchandise value by business segment is as follows:

[Table 8] Merchandise value plan by business segment

Business segment	Previous consolidated fiscal year (April 1, 2019 to March 31, 2020)		Current consolidated fiscal year (April 1, 2020 to March 31, 2021)		YoY (%)
	Merchandise value (million yen)	Ratio (%)	Merchandise value (million yen)	Ratio (%)	
Consignment shop	308,888	89.4	331,000	85.4	7.2
Purchased stock shop	204	0.1	-	-	-
ZOZOUSED	15,753	4.6	14,900	3.8	-5.4
PayPay Mall	6,199	1.8	20,000	5.2	222.6
PB business	1,255	0.4	200	0.1	-84.1
MSP business	752	0.2	1,200	0.3	59.6
B2B business	12,032	3.5	20,000	5.2	66.2
Total	345,085	100.0	387,300	100.0	12.2

Regarding of consignment shop, the Company aims to grow the gross merchandise value by “increasing the number of purchasing users” and “increasing ZOZOTOWN utilization rate in fashion-related consumption”. Specifically, the Company will acquire new active users, expand the range of items, brands and categories to meet diversifying needs of users, and expansion of services that are unique and value-added. As for ZOZOTOWN PayPay Mall shop, on top of the same initiatives as consignment shop, the Company will focus on acquiring new customer segments that differ from conventional ZOZOTOWN users by cooperating with PayPay Mall promotions. As for ZOZOUSED, the Company will continue to improve usability as a value-added service for ZOZOTOWN users to purchase new products. Regarding the PB business, the Company will not produce new products and will terminate the business as soon as existing inventory is sold out. Going forward, by leverage the know-how cultivated through the business, the Company will shift toward the MSP business which manufactures a portion of item line-up from shops on ZOZOTOWN in a variety of sizes. In B2B business, the Company will continue to support the operation of the existing commissioned websites and further strengthen new contracts of “Fulfillment by ZOZO”. Furthermore, the Company will focus on expanding advertisement business; planning 4,200 million yen (+54.6% YoY) as the net sales for advertisement business.

Operating profit margin (toward the gross merchandise value) is expected to improve compared to the previous fiscal year. This is because the Company expects that 1) point-related expenses will decline due to the completion of rewarding regular points, 2) further streamlining promotional expenses by curbing measures with the costs borne by the Company, and 3) costs incurred in PB business in the previous fiscal year will be reduced.

The above projections do not assume a large-scale slowdown in consumption activity caused by the relapse of COVID-19. Actual results may differ materially depending on future trends.

2. Consolidated financial statements

(1) Quarterly consolidated balance sheets

(Unit: Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	1 st quarter consolidated accounting period of current fiscal year (As of June 30, 2020)
Assets		
Current assets		
Cash and deposits	33,602	27,629
Accounts receivable- trade	31,547	35,691
Merchandise and finished products	1,664	1,898
Raw materials and supplies	106	101
Others	3,508	3,654
Total current assets	70,429	68,974
Non-current assets		
Property, plant and equipment	10,493	10,445
Intangible assets		
Goodwill	2,148	2,080
Others	820	797
Total intangible assets	2,968	2,877
Investments and other assets	10,295	10,093
Total non-current assets	23,756	23,416
Total assets	94,186	92,390
Liabilities		
Current liabilities		
Accounts payable- trade	60	33
Deposits received for consignment sales	18,998	18,023
Short-term borrowings	22,000	20,000
Income taxes payable	3,812	3,077
Provision for bonuses	459	700
Provision for point certificates	1,387	1,073
Provision for sales returns	107	120
Others	9,300	9,199
Total current liabilities	56,126	52,227
Non-current liabilities		
Retirement benefit liability	2,007	2,118
Asset retirement obligations	1,497	1,643
Others	20	21
Total non-current liabilities	3,525	3,783
Total liabilities	59,651	56,010

(Unit: Million yen)

	Previous consolidated fiscal year (As of March 31, 2020)	1 st quarter consolidated accounting period of current fiscal year (As of June 30, 2020)
Net assets		
Shareholders' equity		
Amount of Capital	1,359	1,359
Capital surplus	1,328	1,328
Retained earnings	56,340	58,167
Treasury shares	-24,412	-24,412
Total shareholders' equity	34,616	36,442
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	-0
Foreign currency translation adjustment	-11	4
Remeasurements of defined benefit plans	-71	-68
Total accumulated other comprehensive income	-83	-64
Share acquisition rights	1	1
Total net assets	34,534	36,380
Total liabilities and net assets	94,186	92,390

(2) Quarterly consolidated statements of income and consolidated statements of comprehensive income

Quarterly consolidated statements of income

Consolidated cumulative first quarter

(Unit: Million yen)

	Consolidated cumulative first quarter of previous fiscal year (April 1, 2019 to June 30, 2019)	Consolidated cumulative first quarter of current fiscal year (April 1, 2020 to June 30, 2020)
Net sales	28,197	33,674
Cost of sales	1,953	1,377
Gross profit	26,244	32,296
Reversal of provision for sales returns	92	107
Provision for sales returns	66	120
Gross profit- net	26,270	32,283
Selling, general and administrative expenses	18,483	21,860
Operating profit	7,786	10,423
Non-operating income		
Interest income	0	1
Received rent	-	47
Foreign exchange gain	-	7
Operations support fee	34	-
Income from recycling	10	8
Subsidy income	0	33
Gain on unused points	13	26
Others	15	3
Total non-operating income	74	129
Non-operating expenses		
Interest expenses	23	19
Provision for allowance for doubtful accounts	183	10
Rent expense	-	45
Commission expenses	1	2
Foreign exchange losses	33	-
Total non-operating expenses	242	78
Ordinary profit	7,618	10,473
Extraordinary losses		
Loss on sales and retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	7,618	10,473
Income taxes- current	1,975	2,938
Income taxes- deferred	315	213
Total income taxes	2,291	3,151
Net income	5,326	7,321
Net profit attributable to owners of parent	5,326	7,321

Quarterly consolidated statements of comprehensive income

Consolidated cumulative first quarter

(Unit: Million yen)

	Consolidated cumulative first quarter of previous fiscal year (April 1, 2019 to June 30, 2019)	Consolidated cumulative first quarter of current fiscal year (April 1, 2020 to June 30, 2020)
Net Income	5,326	7,321
Other comprehensive income		
Valuation difference on available-for-sale securities	-22	-0
Foreign currency translation adjustment	-0	15
Remeasurements of defined benefit plans, net of tax	4	2
Total other comprehensive income	-18	18
Comprehensive income	5,307	7,340
(Breakdown)		
Comprehensive income attributable to owners of parent	5,307	7,340

(3) Notes to quarterly consolidated financial statements

(Notes on going concern assumptions)

Not applicable.

(Notes on significant changes in shareholders' equity)

Not applicable

DISCLAIMER:

This document is summary translation of Japanese version. All readers are recommended to refer the original Japanese version for complete information. In the event of any discrepancy, errors and/or omissions, the Japanese version shall prevail.