



April 27, 2023

Minutes of Q&A Session
FYE 2023 Results Briefing

This is a summary of the questions received
at the financial results briefing held on April 27, 2023. 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 the Gross Merchandise Value plan of the ZOZOTOWN Business and Yahoo! JAPAN Shopping】

Q. In the plan for the fiscal year ending March 31, 2024, the growth rate for the ZOZOTOWN business and Yahoo! Shopping combined is calculated to be 7.2%; you have set a growth rate of less than 10%, but what is the background behind the formulation of this plan?

A. (Answer: Sawada) Regarding the growth rate of Yahoo! JAPAN Shopping, we have set a target figure that reflects the thoughts of Z Holdings and have left the actual results unchanged from the fiscal year that ended on March 31, 2023. As for the ZOZOTOWN business, we made aggressive investments and pushed certain parts of the business performance to make up for the delay in Yahoo! JAPAN Shopping. The plan for the fiscal year ending March 31, 2024, assumes that the business will return to a reasonable cruising speed, taking into account these aspects. Additionally, there are many uncertainties in the external environment, such as high prices and the impact of reopening, so we have taken a somewhat conservative approach in setting our figures for the ZOZOTOWN business.

Q. I thought you were thinking of a 10% growth rate for the ZOZOTOWN business plus Yahoo! JAPAN Shopping. Is the change in thinking limited to this fiscal year?

A. (Answer: Sawada) We have made this plan because we thought it would be difficult to achieve 10% growth only for the current fiscal year. The ZOZOTOWN business has been performing well in recent February and March, and we could have formulated the plan with a slightly higher viewpoint, but it is true that we disclosed somewhat conservative figures.

Q. Is it correct to think that the target of 0% growth in the Gross Merchandise Value for Yahoo! JAPAN Shopping is a figure set by Z Holdings?

A. (Answer: Sawada) You would have to ask Z Holdings for details, but we have heard that Z Holdings' Commerce Business does not have a policy of forcibly using costs to increase the Gross Merchandise Value, but rather aims for healthy growth.



Q. Please tell us about the guidance for Yahoo! JAPAN Shopping. The Gross Merchandise Value of Yahoo! JAPAN Shopping as a whole is probably considered to have negative growth. On the other hand, is the reason why the planned Gross Merchandise Value of ZOZOTOWN on Yahoo! JAPAN Shopping is unchanged from the previous year's results because you assume that promotions that prioritize ZOZO will continue?

A. (Answer: Sawada) We cannot discuss the details of Z Holdings' promotion policy in Yahoo! JAPAN Shopping. However, ZOZOTOWN on Yahoo! JAPAN Shopping has been a relatively successful store in Yahoo! JAPAN Shopping. This is a result of the variety of merchandise and our various innovations. We will continue to make various efforts in the future.

【About cost assumptions in the plan for the year ending March 31, 2024】

Q. I would like to ask about the actual promotion-related expenses. The ratio of the actual promotion-related expenses to the Gross Merchandise Value (excluding other GMV) exceeded the planned 3.5% (=4.1%) that was announced in the guidance for last fiscal year. How much investment is planned for this fiscal year?

A. (Answer: Yanagisawa) We are assuming 4% of the Gross Merchandise Value (excluding other GMV) this fiscal year. Therefore, it will be a factor to improve the profit margin, albeit slightly, compared to the last fiscal year.

Q. You said that the actual promotion-related expenses to the Gross Merchandise Value (excluding other GMV) will increase from 3.5%, the previous target, to 4% in the new fiscal year. Is this a temporary high level for the new fiscal year, or will it continue to rise in the future?

A. (Answer: Sawada) We are not aware that it will continue to rise in the future. We believe that the actual promotion-related expense ratio will continue to be 3.5% to 4% in the future.

Q. I have an additional question regarding the actual promotion-related expense ratio. In the future, the ratio will be 3.5% to 4% of the Gross Merchandise Value (excluding other GMV). However, considering the goal of reaching 800 billion yen in the Gross Merchandise Value as mentioned in the presentation, it may be necessary to approach users who have not yet used ZOZOTOWN, which could potentially increase the burden of promotion expenses. Can you please explain the background behind your belief that the actual promotion-related expense ratio can be maintained within 4% over the medium term.

A. (Answer: Sawada) While it is true that increasing the acquisition cost per user and the share of ZOZOTOWN in apparel consumption per user could raise our overall promotion expenses, we have not tried promotions limited to certain segments before. Furthermore, we do not plan to rely solely on promotions. Instead, we believe that targeting customers more precisely and appealing to them within our website is a more effective strategy. For example, the introduction of deferred payment not only added a new payment option but also attracted more younger customers, and we are still seeing the positive effects. We have a proven track record of growing steadily by providing services and functions that appeal to specific generations, and we are confident that we can continue to do so in the future.

Q. Regarding shipping-related expenses, have you received any request from Yamato Transport Co., Ltd. to raise the price?

A. (Answer: Sawada) As of now, we have not received any request from Yamato Transport Co., Ltd. to increase their shipping fees. However, we acknowledge that we may receive requests for price increases not only from logistics providers but also from suppliers of materials and other items. If we do receive such requests, we will disclose them in a briefing or Q&A session.



Q. Is the reduction of logistics-related expenses associated with the automation of operations at the new logistics center included in the plan?

A. (Answer: Yanagisawa) It is included in the plan.

Q. What level of average order value do you assume for the new fiscal year?

A. (Answer: Yanagisawa) We cannot give you a specific figure, but we assume it to be higher than last year's results. We expect an increase based on a 5-10% rise in the list price of products depending on the product category.

【About other things on plans for the year ending March 31, 2024】

Q. I have a question regarding the sales guidance. The growth rate of net sales is higher than the growth rate of the Gross Merchandise Value; one reason is the growth of sales in the advertising business. Could you tell us about other factors?

A. (Answer: Kobayashi) The increase in shipping revenue, which took effect in August of last fiscal year, is expected to contribute to the full year results. Additionally, ZOZOFIT, which was mentioned in the presentation, is also expected to grow to some extent, and will contribute to the higher sales growth rate due to its Gross Merchandise Value being equivalent to sales. Furthermore, the sales growth rate is expected to be high due to the accumulation of other small factors.

Q. I would like to ask about the plan for the fiscal year ending March 31, 2024. What is the reason for the 0.1% decrease in the operating profit margin compared to the previous fiscal year?

A. (Answer: Kobayashi) We assume that the growth rate of sales in the advertising business will be higher than the growth rate of the Gross Merchandise Value. The gross profit margin is expected to be higher than in the previous fiscal year. On the other hand, the SG&A ratio is expected to be higher than in the fiscal year ending March 31, 2023. Specific reasons for the higher SG&A ratio are: increased payroll costs for employee (mainly in the area of engineering and aggressive hiring), an increase of nearly 3 billion yen in rent and depreciation related to the new logistics center, and many other factors that are expected to increase costs due to the impact of inflation.

【About medium to long-term growth strategy】

Q. In the presentation, it was mentioned that you intend to attract customers in a wide range of age groups, but I don't think there has been any particular change in the age range of customers since the launch of the former PayPay Mall and current Yahoo! JAPAN Shopping. What kind of approach are you considering for the expanding age group as a target?

A. (Answer: Sawada) The composition ratio of active members by age group shown in the presentation materials is limited to ZOZOTOWN, and does not include former PayPay Mall and current Yahoo! JAPAN Shopping. We can expand our reach to customers in the older age group by opening stores on former PayPay Mall or current Yahoo! JAPAN Shopping. We are aware that we can also reach customers in an older age group at ZOZOTOWN, considering that we handle the same items as on former PayPay Mall or current Yahoo! JAPAN Shopping. Although we have not previously targeted the older age group, we believe that we can get a positive response if we approach them appropriately through the way we organize our services and promotions. Speaking of the age group connection, until



a few years ago, we thought that if we approached the younger generation strongly enough, considering their disposable income, there would be no strong effect reflected in the numbers. However, since about a year ago, we have been implementing targeted measures and gained confidence that results will follow if we take this approach. Fashion is also something that excites young people, so we would like to strengthen our promotions with young people in mind at the same time.

Q. Do you think it is effective to appeal to people in their 40s and older on ZOZOTOWN?

A. (Answer: Sawada) There are many people who think that it is difficult to shop for a certain brand in a physical store, but it is easy to shop for it in EC. The strength of e-commerce is the ability to shop for a variety of products across generations, so we believe that appealing to such customers will be effective.

Q. What do you think about the increase in the average retail price? I heard that list prices are being raised for spring and summer merchandise, but are there any changes in the brands' sales policy? Will they return to their pre-COVID sales style in the future?

A. (Answer: Hirose) More and more brands are focusing on the full price sell-through rate. In addition, compared to the past, more brands are setting the off rate for sales at a lower level.

Q. I would like to ask a question regarding your policy of attracting a broader range of generations. Reviewing the presentation materials, it is clear that the older the age group, the more dormant members there are. Do you think that it is necessary to expand the brands because the older the members get, the less satisfied they are with the current brand lineup and the more dormant they become?

A. (Answer: Sawada) We look at a certain long period of time to determine whether a customer is dormant or not, so I think it is inevitable in the data calculation that the number of dormant members increases as the age group gets older. We do not believe that the brand mix is biased toward or against any particular age group.

Q. How many years do you think it will take to reach 15 million active users and 800 billion yen in the Gross Merchandise Value?

A. (Answer: Sawada) In the past, we announced our goal of achieving a Gross Merchandise Value of 500 billion yen, and it took us a considerable amount of time to reach it. However, I don't believe it will take as long to reach our new targets. While I can't provide a specific timeframe, I would estimate it to be somewhere between 2-3 years and 10-20 years.

【About ZOZOCOSME】

Q. Regarding ZOZOCOSME, the target for the Gross Merchandise Value for the fiscal year ended March 31, 2023 was 10 billion yen, but the figure was 9.1 billion yen. What is your target for the fiscal year ending March 31, 2024?

A. (Answer: Hirose) We are targeting 13 billion yen in the Gross Merchandise Value. We are aware that we are still inferior to other cosmetics e-commerce sites, and we would like to achieve our plan by increasing the number of brands we open while creating ZOZOCOSME's features and reasons to buy our products.



Q. What is the inventory situation regarding ZOCOSME? Is there any change in the availability of stock due to the lifting of the mask-wearing requirement, etc.?

A. (Answer: Hirose) We have plenty of stock. We are not in a situation where we do not have enough stock to sell.

Q. Has there been any change in the situation of combined purchases of cosmetics and apparel?

A. (Answer: Hirose) We have been conducting promotions to encourage combined purchases, so combined purchases have increased, albeit somewhat, compared to the past.

【About special expenses in payroll and staff costs for the fourth quarter of the fiscal year ended March 31, 2023 and outlook for the future】

Q. I would like to ask about SG&A expenses for the fourth quarter of FY2023. Looking at payroll and staff cost, I see that the Company paid out the year-end bonuses. Were they paid not only to employees but also to part-time workers? Also, please tell us if there are any factors that would lead to a constant increase in staff cost, including wage hikes.

A. (Answer: Yanagisawa) We made provisions for bonuses not only for employees but also for part-time workers. Since the operation of a new personnel system started in the new fiscal year, there will be a partial increase in staff costs associated with it. Other than that, there is nothing that will lead to a permanent increase in personnel costs.

DISCLAIMER:

This document is a summary translation of the Japanese version. All readers are recommended to refer to the original Japanese version for complete information. In case of discrepancies, errors, and omissions, the Japanese version shall prevail.