



July 31, 2023

Minutes of Q&A Session
FYE 2024 1Q Results Briefing

This is a summary of the questions received
at the financial results briefing held on July 31, 2023. 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)

【About the Gross Merchandise Value】

Q. Regarding growth in the Gross Merchandise Value, you mentioned that you would have liked to have seen more at the start of the sale. While I believe that the performance was slow in June, how were the monthly trends? Also, why did the sale get off to a slow start?

A. (Answer: Hirose) Results in May were strong thanks to the strong performance during the Golden Week holidays and ZOZOWEEK. Results in June were lower than planned due to weather factors. While ZOZOTOWN sales on June 25 were strong as many brands issued coupons timed to coincide with the "Serious ZOZO Festival" on Yahoo! JAPAN Shopping on that day, the performance was down on other days, due to the summer heat starting later this year than last year. Steady warming in July has contributed to favorable results in that month.

Q. The year-on-year increase of 6.3% in the total merchandise value of the Consignment sales and Yahoo! JAPAN Shopping seems low compared to your full-year plan. Would it be correct to say that despite this, there is no gap vs. the plan on a profit basis?

A. (Answer: Hirose) The total merchandise value of the Consignment Sales and Yahoo! JAPAN Shopping largely is in line with the plan, so it does not show any particular signs of weakness. Results generally were according to the plan in April, May, and June.

A. (Answer: Yanagisawa) First-quarter profit was higher than the plan.

Q. It is my understanding that the Gross Merchandise Value grew steadily as offline sales became more active. What kind of impact has the trend toward consumers visiting physical stores had on your business results?

A. (Answer: Hirose) While monthly data from various apparel companies show steady growth in the performance of physical stores, we have not seen any particular negative effect on ZOZOTOWN.

Q. So there are no particular signs that people's mobility to the "offline" is leading them to shop less online?

A. (Answer: Hirose) That is our understanding.



Q. The growth rate in the merchandise value of the Consignment Sales seems low compared to your full-year plan. Am I correct in understanding that while the growth rate was in line with full-year plans from April through mid-June, it slowed in late June?

A. (Answer: Hirose) Performance in June could have been better overall. A look at monthly results shows reasonable results in April, stronger than planned results in May, and results slightly below the plan in June, so the results for the first quarter were in line with the plan.

Q. If the merchandise value of the Consignment sales was in line with the plan in the first quarter, then it will need to grow by about 9% in the second and later quarters. Does this mean that your plan places a heavier weight on the second half?

A. (Answer: Hirose) Our plan reflects the view that we can achieve a higher growth rate in the second and later quarters compared to the first quarter, based on consideration of last year's results, promotional measures, and seasonal factors.

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

Q. I would like to ask about how you use promotional expenses. You mentioned that you had made some investments in promotional expenses since the start of the period, and it's true that you invested about 1 billion yen more in the first quarter than in the same quarter of the previous fiscal year. Where do these measures seem effective, and where have they not led to results? Also, would you elaborate on how you will use the costs over the full year?

A. (Answer: Yanagisawa) As we noted, we have allocated a higher budget than last year since the start of this fiscal year. In general, we recognize that unless we spend somewhat more than the previous fiscal year, we will not be able to generate results, due to environmental factors and other considerations. Based on this understanding, we engaged in strong promotional measures during the first quarter of this year. We believe that these have generated favorable results both in sales and in attracting new customers.

Q. Please tell me about the types of advertising and promotion you used in the first quarter. While I'm sure there are various types of measures, did you spend money on ones that lead directly to sales?

A. (Answer: Yanagisawa) As shown on page 23 of the financial results briefing materials, in the first quarter we invested heavily in the point program. We carried out more sales-promotion measures targeting existing customers.

Q. I would like to confirm how you spend promotional expenses. You say you have spent a lot from the start of the year through this quarter. Am I correct in understanding that the expenses recorded in the first quarter are in line with the planned level of 3.3% of the Gross Merchandise Value?

A. (Answer: Yanagisawa) Yes, that is correct.

Q. Does this mean that the quarterly balance of investment in the actual promotion-related expenses may differ in some ways between the previous fiscal year and this year?

A. (Answer: Yanagisawa) Yes, it does.

Q. I would like to ask about how you use promotional expenses. Isn't there a risk that devoting considerable expenses to measures targeting light users could lessen investment in existing active members?

A. (Answer: Yanagisawa) We plan to carry out measures targeting light users without greatly slowing the pace of measures for existing active members. For light users, we are studying measures to help prevent disaffection, including promoting services, instead of reward points only.



Q. In the last financial results briefing, you said you would implement higher-precision sales-promotion measures. How is the level of precision right now?

A. (Answer: Yanagisawa) Since sales-promotion measures using AI technologies grow more precise as they learn, we expect precision to increase from one period to the next.

【About KPIs (Average retail price, annual number of buyers, Average order value)】

Q. I have a question about the increase in the retail price per item. Prices have continued to rise by 6-7% since the second quarter of the previous fiscal year. Speaking with various apparel companies, most said they intended to raise prices in the fall and winter season of this year as well. What kind of trend do you expect in prices in the future?

A. (Answer: Yanagisawa) Since the retail price depends on the brands, which have the right to decide prices. We expect prices of the fall and winter merchandise to show a strong trend as the apparel companies made comments.

Q. What kind of price increases do you expect?

A. (Answer: Yanagisawa) We hope to see the trend remain at about the same level as in the first quarter.

Q. I would like to confirm the number of active members, shown on page 25 of the financial results briefing materials. You mention a recovery beginning in the second quarter onward. What kind of measures are you thinking of to achieve a recovery?

A. (Answer: Yanagisawa) While we are performing well in attracting new users, we have learned that the retention rate among light users is not as strong as expected. The number of active members as a whole is not showing much growth because some active members through the fourth quarter of the previous fiscal year have left in the first quarter of this fiscal year. We plan to implement measures to prevent the disaffection of customers.

Q. Will you strengthen measures targeting light users?

A. (Answer: Yanagisawa) Not only how much money we invest in them, but we are also considering other individual measures.

Q. From the comment on page 25 of the financial results briefing materials, you seem to have worked hard to grow the annual number of buyers by 8% year on year. Why did you set the plan at a higher level than this? Also, why was the Gross Merchandise Value according to the plan in light of these conditions?

A. (Answer: Yanagisawa) While results are favorable compared to the same quarter of the previous fiscal year, on a quarter-to-quarter basis they were somewhat disappointing compared to growth in the past few quarters. This comment was intended to reflect the feelings of investors rather than the comparison to the plan.

Q. Is it the case that while the trend in the annual number of buyers is a result of disaffection among light users, figures from active members were higher than expected?

A. (Answer: Yanagisawa) The Average order value is trending above the level anticipated when formulating the plan. While the annual number of buyers is slightly lower than planned, ultimately the effect of the increase in order value was stronger, so the Gross Merchandise Value was in line with the plan.

Q. It seems to me that an analysis of the main factors behind the growth rate in the average order value shows that it is driven by the increased average retail price and purchase pieces per order. What is the reason behind the increase in purchase pieces per order, which had been decreasing through the fourth quarter of the previous fiscal year? Have "buy one, get one" promotions been effective?



A. (Answer: Kobayashi) While changes in buying behavior involve numerous aspects that cannot be understood perfectly because they are connected to consumer psychology, our survey results show that the purchase pieces per order increased in general, from first-time buyers to existing customers. It seems like customers were more driven to purchase multiple items together around the time of the switch from autumn/winter to spring/summer lines. While "buy one, get one" promotions have had some effects, we believe that this is due more to a natural trend.

【About Yahoo! JAPAN Shopping and the relationships with Z Holdings Corporation.】

Q. Would you please describe the background behind the fact that Yahoo! JAPAN Shopping commission rate was higher than the previous fiscal year?

A. (Answer: Kobayashi) The Yahoo! JAPAN Shopping consignment commission rate in the first quarter was 29.7%, which was higher than in the previous quarter. The main reason for this increase is the fact that brands with a higher commission rate accounted for a larger share of sales due to a change in the brand mix purchased on Yahoo! JAPAN Shopping.

Q. To what extent do you expect to be able to utilize data through the linkage of IDs among group platforms such as Yahoo!, LINE, and PayPay?

A. (Answer: Yanagisawa) We expect the degree to which we will be able to utilize such data to be a subject of specific discussions once the linkage of Yahoo! and LINE IDs is complete.

Q. What are your expectations regarding ID linkage? Do you think you will be able to grow active members from a different approach than you have used until now?

A. (Answer: Yanagisawa) Since it remains unclear at this stage to what extent we would be able to use the data, we do not have overly high expectations.

【About ZOZOCOSME】

Q. Would you please give us an update on ZOZOCOSME?

A. (Answer: Hirose) It has settled at a level slightly lower than planned, due to the fact that we had set planned figures on the high side for the first quarter. We would like to make it meaningful to shop with ZOZOCOSME. Since some major brands will join it from the second through the third quarters, we would like to achieve a swift recovery then.

Q. By what percentage has ZOZOCOSME grown?

A. (Answer: Hirose) I cannot disclose that here.

【Others】

Q. Do the illustrated comments in the financial results briefing materials represent differences from the plan or some other perspective?

A. (Answer: Kobayashi) These are our comments regarding the internal quarterly plan.

Q. Does your internal plan have the same perspective as those announced externally?

A. (Answer: Kobayashi) Yes, exactly.



Q. Would you please tell us about the progress toward bringing TSUKUBA 3 (the new logistics center) into operation? Also, have the delivery company mentioned any price increases?

A. (Answer: Yanagisawa) TSUKUBA 3 is proceeding according to the plan. It will begin operation in August. We have not heard anything in particular about price increases from the delivery company.

Q. With regard to payroll costs, it seems to me that costs have not increased by much even though you are hiring more aggressively. Do you expect the rate of increase for the full year to be about the same as in the first quarter? What kind of rate of increase should we expect in payroll costs in the future?

A. (Answer: Yanagisawa) While we expect to increase employees, we have changed the accounting treatment of some payroll costs for development engineers by recording them under software assets. As a result, the subject payroll costs are recorded as depreciation expenses, and this has slowed the rate of increase in payroll costs. We do not expect any major changes in the rate of increase in the second or later quarters.

Q. Your competitors are advertising proactively on TV. Has this had an effect on you? How will you compete in the future?

A. (Answer: Yanagisawa) While we recognize that other companies are advertising proactively on TV, we do not think that it has had much of an effect.

A. (Answer: Hirose) We do not consider them to be competitors in the exact same market as us. Many brands have chosen to concentrate on us among numerous competitors.

Q. Again in July a major shareholder sold large volumes of stock. Are you planning any measures such as buying treasury stock?

A. (Answer: Yanagisawa) We consider responses to the sale by a major shareholder and the purchase of treasury stock as separate matters. First, since the seller has already been removed from the management, it would be difficult for us to respond. On the other hand, since Z Holdings holds stock as the parent company, in consideration of matters such as percentages of shares held, it would not be easy to purchase treasury stock under current conditions. Still, we do recognize that ROE is declining, and we intend to consider ways of responding constantly.

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