



April 30, 2024

Minutes of Q&A Session
FYE 2024 Results Briefing

This is a summary of the questions received
at the financial results briefing held on April 30, 2024. 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 financial results for the fourth quarter of the year ended March 31, 2024, and recent conditions】

Q. Is it accurate to say that weather conditions had a significant impact on the Gross Merchandise Value of the ZOZOTOWN Business?

A. (Answer: Sawada) Yes. As you mentioned, the significant impact of weather conditions has resulted in continued challenging situations. Because of the warm winter weather, it is hard to say that January's results were strong. In addition, low temperatures that continued at the start of the spring merchandise sales season resulted in particularly weak March results compared to the previous year.

Q. Has the market recovered from those poor conditions?

A. (Answer: Sawada) The market seems to be recovering as temperatures rise gradually. However, with only the month of May left in the season when spring merchandise sells strongly, there is a possibility that the negative initial sales trend could persist. Given the unpredictability of weather impacts, we might continue to face challenges from weather-related factors in the future. However, our policy to leverage agile promotion measures unique to the e-commerce industry remains unchanged.

【About KPIs (Number of active members, Average purchase pieces, Number of shops in ZOZOTOWN, etc.)】

Q. The pace of growth in the number of active members has slowed down. Are you implementing any measures or exercising any restraint to approach the future medium- to long-term target of 15 million users?

A. (Answer: Sawada) As there are no quick fixes, we will conduct promotion measures continuously. Although the pace of growth in active members slowed down in the fourth quarter of the fiscal year ended March 31, 2024, due to market conditions, we are aiming to shift the trend of active members back to an upward trajectory moving forward.

Q. You mentioned that free-shipping measures contributed to the increase in the average purchase pieces. To what extent have you implemented free-shipping measures compared to the same period of the previous year? When do you plan to implement them in the future?

A. (Answer: Kobayashi) While we hardly implemented free-shipping measures in the same period of the previous year, we conducted those measures more than 10 times during this period. For this reason, the effects of free-shipping measures account for a large share of the increase in the average purchase pieces. We will decide when to implement these measures in the future based on the state of progress on profits.



Q. The number of shops on ZOZOTOWN decreased net by 10 shops. Can you break down the number of new shops and the number of shops that closed? Also, how many of the closed shops were due to consolidation or discontinuation of brands? Is there a concern that progressive consolidation and discontinuation of brands could cause a continuing decrease in the number of shops on ZOZOTOWN in the future?

A. (Answer: Kobayashi) We saw 17 new shops newly opened and 27 shops closed. Of these, 21 shops closed due to consolidation or discontinuation of brands or to closure. Although the number of shops that closed exceeded the number of newly opened shops in the fourth quarter, we will continue to attract new shops in the future and assume that it will show a slight increase in the number of shops on ZOZOTOWN.

【About LY Corporation Commerce】

Q. In the fourth quarter of the fiscal year ended March 31, 2024, LY Corporation Commerce showed steady growth in the Gross Merchandise Value, although the growth rate was high in the same period of the previous year. Was this due to effective new promotion measures or an increase in the volume of measures taken?

A. (Answer: Hirose) “Serious ZOZO Festival” was held twice in January and once in March in the same period of the previous year, compared to once each in January, February, and March this year. Although the number of times remained the same as three, the results in February during this period were very favorable as a result of the difference in the timing of the event. In addition, the point return measures to LYP Premium Members, which were not conducted in the fiscal year ended March 31, 2023, have generated steady results, contributing to favorable performance on the Gross Merchandise Value.

Q. The Gross Merchandise Value of LY Corporation Commerce was strong in the fourth quarter of the fiscal year ended March 31, 2024. Is any cannibalization occurring between it and ZOZOTOWN?

A. (Answer: Sawada) We constantly monitor for any signs of cannibalization, and currently, there are no particular concerns. We observe more users shopping on both sites, choosing the one that suits them best for each occasion and situation. As the growth rate of LY Corporation Commerce fluctuates based on the volume of promotion measures taken, we can confidently say that customers respond positively to promotional efforts, indicating its potential as a sales venue.

Q. Last year, LY Corporation implemented various measures, such as ID integration and the LYP Premium Membership. Is the Company benefiting from these measures?

A. (Answer: Sawada) Currently, we are not experiencing any specific benefits from these measures, especially since they do not offer any special advantages on ZOZOTOWN specifically for LYP Premium members, and we are not actively targeting those customers. We are currently evaluating what types of measures would be effective in the future. However, there has been a positive impact on Yahoo! JAPAN Shopping, as LYP Premium members can enjoy benefits such as a favorable point return rate.



【About the plan for the fiscal year ending March 31, 2025】

Q. Does your plan for the Gross Merchandise Value include growth generated by any special measures?

A. (Answer: Sawada) We do not plan on implementing any new special measures specifically aimed at boosting the Gross Merchandise Value. Instead, we will continue to segment users and implement promotions targeted at each segment. Looking ahead from a medium- to long-term perspective, our strategy involves leveraging WEAR and other measures to enhance engagement with customers who are at the forefront of fashion trends

Q. Regarding the Gross Merchandise Value of LY Corporation Commerce, you are planning 10.2% growth in the fiscal year ending March 31, 2025, compared to 0% growth in the fiscal year ended March 31, 2024. Can I assume that the growth rate will be higher in the first half and then slow down in the second half as the effects of enhanced sales promotions wear off, in response to the fact that sales promotion was restrained in the first half of the previous year?

A. (Answer: Hirose) When formulating the plan for the fiscal year ended March 31, 2024, it was uncertain how much LY Corporation would implement promotional measures. As a result, a growth rate of 0% was projected. However, they ended up implementing more promotional measures than anticipated, leading to a full-year growth rate of 15.7%. The plan for the fiscal year ending March 31, 2025, reflects the assumption that promotional measures would continue similarly to the previous year. Of course, we are assuming differences in growth rates between the first and second half due to these measures.

Q. What is your target Gross Merchandise Value for ZOZOCOSME?

A. (Answer: Hirose) Our target Gross Merchandise Value for ZOZOCOSME is approximately 13 billion yen. In the fiscal year ending March 31, 2025, our goal is to enhance its reputation as a go-to destination for cosmetics, leading to further growth. We have implemented a system that incentivizes customers to visit ZOZOTOWN through measures like daily coupons. Likewise, we aim to create a comparable system with daily promotions to encourage regular visits to ZOZOCOSME as well.

Q. Please tell us about your cost plans. What kinds of cost increases are you anticipating?

A. (Answer: Sawada) We anticipate an increase in shipping expenses due to price hikes demanded by Yamato Transport. However, since we have also raised shipping charges for customers, we expect to offset the impact on operating profit with the increase in shipping revenue. Additionally, we foresee increases in fixed costs related to rent expenses and depreciation associated with logistics centers.

Q. How much are you planning to allocate for promotion-related expenses?

A. (Answer: Sawada) Our budget for promotion-related expenses is slightly over 4% of the Gross Merchandise Value (excluding Gross Merchandise Value (others)), which is approximately the same as the actual figure for the fiscal year ended March 31, 2024.

Q. What are your budget allocations for rent expenses and depreciation?

A. (Answer: Yanagisawa) We anticipate an increase in rent expenses due to the full-year contributions of ZOZOBASE TSUKUBA 3 and the initiation of a new logistics base lease in April 2024. Our planned depreciation figures are provided on page 14 of the materials for the financial results briefing. We project a full-year depreciation of 4.7 billion yen.



Q. Considering cost increases, I assume there will be an impact of about 3 billion yen due to higher rent expenses and depreciation related to logistics centers. Assuming the percentage of promotion-related expenses to the Gross Merchandise Value remains the same level as the previous year and there is a price hike on shipping expenses, the plan indicates that you can still maintain operating profit margin. Are there any areas where you can improve efficiency in terms of costs?

A. (Answer: Yanagisawa) While we cannot provide specific amounts, we are going to reduce the increase in payroll and staff costs for the fiscal year ending March 31, 2025.

Q. What average retail price and average order value are you expecting?

A. (Answer: Kobayashi) We expect the average retail price to increase by a few percent as some brands are continuing to increase their list prices. However, it is difficult to control the average order value, and assuming an increase in the average order value might cause a significant deviation from the plan. Therefore, our plans reflect the same level as in the fiscal year ended March 31, 2024.

Q. Will the WEAR update impact planned figures such as Gross Merchandise Value and operating profit?

A. (Answer: Sawada) While WEAR generates some revenues through advertising and other means, we anticipate its revenues will remain low compared to ZOZOTOWN. We view the WEAR update as more significant for controlling the upstream of fashion than generating revenues on its own. We will discuss this in detail in a press conference planned for a later date.

【About management plans】

Q. Are you confident about achieving the medium-/long-term target Gross Merchandise Value of 800 billion yen? Also, would it be more challenging to increase the number of active members or to increase ZOZO's share of members' fashion purchases?

A. (Answer: Sawada) We have set the target Gross Merchandise Value of 800 billion yen as the minimum size we need to reach. Increasing the number of active members and increasing ZOZO's share of members' fashion purchases each require different approaches, and we consider both equally challenging. For the former, we need to continue existing measures steadily while enhancing their quality. For the latter, we believe that we need to adopt new measures based on innovative thinking.

Q. On page 25 of the presentation materials, does the graph depicting the awareness rate among young people include only the top four companies? Is SHEIN included in this graph?

A. (Answer: Sawada) The graph shows companies whose business models are similar to ours. It is not limited to just the top four. While I can't mention specific company names, you should be able to discern from the graph whether SHEIN is included or not.



Q. While your awareness rate among young people is improving, do you have an advantage over competitor sites such as SHEIN? Also, could you share whether you are considering or implementing any measures to address competitor sites?

A. (Answer: Sawada) Against the backdrop of the growth of competitor sites targeting young people, ZOZO has carried out various promotional activities, including lowering the target age range from 18 and older to 15 and older. As a result, we are making progress in increasing name recognition and new customer acquisition among young people. While I cannot directly compare with competitor sites, our internal analysis shows positive effects from these efforts, and we plan to continue focusing on this area.

Q. While the presentation materials on page 28 indicate a sense of excitement encouraging apparel purchases immediately after the fit experience, have you observed any changes in the frequency of purchases over a longer period, such as three or six months after the event?

A. (Answer: Sawada) While the team in charge is monitoring results from various angles, I am unable to provide an answer at this time because I do not have the data in front of me.

Q. You mentioned that you have already chosen the next category for expansion. Could you give us some hints about it? Also, roughly when do you plan to launch this expansion?

A. (Answer: Sawada) We believe that one major reason why ZOZOTOWN is used by so many users in the fashion field is that it reflects a thorough understanding of user psychology. In broadening our categories in the future, we aim to propose categories selected as the best fit for us because it would not be a good idea to expand into categories that are not suited to our sensibilities. The timing of launching this expansion is yet to be determined, as we are currently in a preparatory phase.

【About ZOZOCOSME】

Q. How much progress do you believe ZOZOCOSME has made in terms of the number of brands that have opened shops on the platform compared to the time it was launched?

A. (Answer: Hirose) Regarding the brand acquisition, we have seen steady growth in the number of department-store cosmetics brands on ZOZOCOSME. However, there is still room for improvement in attracting drugstore cosmetics brands and Korean cosmetics brands. We will continue our efforts to enhance brand diversity on the platform.

Q. What is the conversion rate for ZOZOCOSME?

A. (Answer: Hirose) We do not disclose specific conversion rates for ZOZOCOSME.

【Others】

Q. In the third quarter of the fiscal year ended March 31, 2024, you mentioned the worsening of operation efficiency due to inventory pressures in logistics centers. Has there been any improvement?

A. (Answer: Yanagisawa) The status of inventories has normalized following the winter sale and switching to relatively lighter inventories for spring and summer.



Q. The number of employees decreased from the previous quarter in the fourth quarter of the fiscal year ended March 31, 2024. What are your full-year forecasts for the fiscal year ending March 31, 2025?

A. (Answer: Kobayashi) The decrease in the number of employees was primarily due to the removal of yutori, Inc., from our consolidated figures after the sale of its stock. However, the number of employees in the parent company continues to grow. The pace of increase in the number of employees for the fiscal year ending March 31, 2025 is expected to be slower than in the past.

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