



July 30, 2019

Minutes of QA Sessions
FY2019 Q1 Results Briefing

[Company Participants]

Koji Yanagisawa, Executive Vice President and CFO

Masahiro Ito, Director

Fuminori Hirose, Executive Officer, General Manager of Corporate Administration Division

[About Gross Merchandise Value]

Q. The year-on-year growth rate in the gross merchandise value of consignment shops was +21% in the Q4 of the previous fiscal year, compared with the Q1 of +13% in the current fiscal year. What are reasons behind this variance? How will you work from Q2 to achieve the full-year target of +15%?

A. (Respondent: Hirose)

The main factors contributing to the 4Q in the previous fiscal year were that the significant uplift impact of ARIGATO membership, whereas that impact decreased due to the announcement to end the measures at the last results briefing, and the end of the service during the 1Q of the current fiscal year. Also acquisition of new members slowed due to the lack of significant investment in promotion-related expenses. From Q2 onward, we will invest in promotions and increase the number of new members, thereby aiming to achieve the full-year target.

Q. It was explained that ARIGATO membership affected and slowed down the growth rate of the gross merchandise value, but that of Q3 of the previous fiscal year, which is the period prior to the launch of this initiative, was +20%. Has the growth in merchandise value from users who have not registered to the initiative slowed?

A. (Respondent: Yanagisawa)

There was a considerable negative impact on the gross merchandise value by brands that closed or ceased to sell due to the ARIGATO membership. However, brands that had been suspended have resumed sales, so we believe that it will be normalized from 2Q onwards. In addition, there are no signs that the purchasing behavior of existing users is deteriorating.

Q. Please explain in detail the reasons why you do not disclose factors composing the growth rate of the gross merchandise value anymore.

A. (Respondent: Yanagisawa)

The periods of 20-25% growth in the past were explained separately in order to explain the factors behind the increase, but from the beginning of the previous fiscal year, we have been struggling to separate each factor. It would be difficult to continue to explain the growth rate in the first half of the 10% range in the same manner. For example, the effects of new stores are including the effects of coupons partially. As the separation of effects became a cumulative figure based on assumptions and could possibly be misleading, we decided to stop disclosing the information. However, for the times we will initiate large-scale promotions, we will analyze and report on the degree of contribution to the gross merchandise value.



[SG&A expenses]

Q. It is said that some costs supposed to be incurred in Q1 were postponed to Q2 onward. Please explain more specifically.

A. (Respondent: Hirose)

In addition to some promotion-related expenses, the purchase of equipment at the logistics center, which will be in operation in October this year, has been postponed, but specific amounts are not disclosed.

Q. The promotion-related expenses accounted for 1.2% of the gross merchandise value in the current fiscal year Q1, but the full-year forecast is 2.9%. From Q2 onward, will it hover around 3% or higher? As a concrete sales promotion initiative, please tell about the progress of the ZOZOCARD.

A. (Respondent: Hirose)

We may invest in the Q2 or later, but the Brand Conference held on May 20 was included in promotion-related expenses for budgetary purposes. However, we have accounted this item to a different accounting item, so please note that the guidance and actual accounting items do not equal necessarily. Regarding the ZOZOCARD, we currently do not offer large-scale incentives for acquiring new users, so we believe that these incentives can become promotion-related expenses to be used in the future.

[PB/MSP]

Q. Are inventories of about 6.2 billion yen at the end of the Q1 (the sum of "merchandise and finished products" and "raw materials and supplies" on the balance sheet) related to PB? If so, are inventories large relative to actual sales while changing the PB strategy?

A. (Respondent: Yanagisawa)

Since there are no new items produced in the PB business and the MSP business has yet to be launched, the total amount is the sum of inventories of existing PB and ZOZOUSUED. We do not believe that this number will increase significantly in the future.

Q. Are there any updates to the MSP business, although the form of the business has not been determined? In particular, please explain about likeliness of inventory risks to be occurred and the production structure.

A. (Respondents: Ito)

Although we are still in the process of determining its business format, we will try a variety of initiatives including preorders. In the PB business, we have a certain amount of inventory in order to sell basic products throughout the year. However, as MSP products will be manufactured reflecting seasonality, design and fashion trend, our policy is not to hold much inventory than necessary. In terms of production costs, we have a track record of shipping PB denim in more than 3,000 sizes, and have accumulated experiences in multi-size production that is both efficient and low cost. On the other hand, since MSP products will be offered in 20 to 50 sizes, it is unlikely to have a significant increasing factor in production costs.

[ZOZOMAT]

Q. Even if various data of feet are acquired by the ZOZOMAT, if there is no data of shoes, users cannot figure out if they can be matched. How do you deal with this?

A. (Respondent: Yanagisawa)



At this point in time, we cannot disclose anything specific, but we are considering a variety of matching mechanisms.

[Other]

Q. In October of this year, it is expected that the consumption tax hike will take place, but to what extent do you expect the impact of this (rush demand)?

A. (Respondent: Yanagisawa)

Although there were two tax hikes in the past, there were no special impact.

Q. The name of Mr. Maezawa was given as the attendee for the briefing, but why is he not attending?

A. (Respondent: Yanagisawa)

Since there was the launch of the PB business in the previous fiscal year, Mr. Maezawa attended the meeting every quarter for explanation, but prior to that, he did not attend the meetings in Q1 and Q3. At the time of sending announcement of the results briefing, it was not clear whether the amount of the impact of the PB business would be within the assumptions. But since then, it was confirmed that the results would be within the assumptions, therefore we have returned to the former form.