



January 31, 2020

Minutes of QA Sessions  
FY2019 Q3 Results Briefing

**【Company Participants】**

Kotaro Sawada (Representative Director, President & CEO)

Koji Yanagisawa (Director, Executive Vice President & CFO)

Masahiro Ito (Director & COO)

Fuminori Hirose (Executive Officer)

Yusaku Kobayashi (VP of Strategic Planning and Development Department)

**【About PayPay Mall】**

Q. In the 2 weeks from the opening of PayPay Mall Shop to the end of the third quarter, it recorded the gross merchandise value of about 400 million yen and there are days selling more than 100 million yen a day. What is your satisfaction with this? If this trend continues, can we expect the gross merchandise value of the fourth quarter and its business size in the future be positive?

A. (Respondent: Sawada)

As a result of rushing the opening of PayPay Mall Shop, we recognize that there was a loss of sales due to parts not functioning well. Toward the end of this fiscal year, it is important to fill the gap of potential. We are sincerely and actively discuss the ideal UI/UX of the fashion category with Z Holdings and based on this, Z Holdings has invested a considerable amount of resources to UI/UX improvements, thus, we feel that it will continue to grow. Regarding the size of the business in the future, Z Holdings has the goal of PayPay Mall as a whole and we are operating the fashion category within that. Therefore, we recommend that it would be better to confirm the overall goal to Z Holdings.

Q. It was explained that UI/UX of PayPay Mall Shop is still not fully completed, but when will that become satisfactory?

A. (Respondent: Sawada)

With timely updates, we will try to achieve 100% satisfaction by the end of the fiscal year.

Q. At the last result briefing, it was explained that profitability of PayPay Mall Shop was roughly the same as that of ZOZOTOWN. Is there any burden, such as the cost of upgrading the system?

A. (Respondent: Sawada)

There is no big difference in profitability between PayPay Mall Shop and ZOZOTOWN. Regarding system upgrades, although we make proposals to design specifications, Z Holdings is solely in charge of development. Accordingly, we will not incur any costs on our side, including personnel costs.

Q. Approximately 60% of buyers at PayPay Mall Shop are new customers. Does that mean the remaining 40% are shifting from ZOZOTOWN and have a negative impact on ZOZOTOWN?

A. (Respondent: Sawada)

Since it has been a short period of time from the opening, we need to keep watching very closely, but it was expected that people who can enjoy the greatest discounts, such as SoftBank's mobile



phone users, will be shifting. We believe that inflow of ZOZOTOWN users to PayPay Mall Shop will stabilize at some point, but there must be a group of people which makes a complete transition.

**【About Gross Merchandise Value】**

Q. Weather factors were cited as one of the factors behind slowdown in gross merchandise value growth. I would like to know this in more detail. Were there any internal factors in addition to external factors?

A. (Respondent: Sawada)

In this third quarter, the whole fashion industry was hit hard by significant decline in consumption mind from seasonal factors. As an internal factor, the pace of new members acquisition has not been going well compared to the previous fiscal year. In the previous fiscal year, with ZOZOSUIT as a driving force we were able to bring in new members. In this fiscal year year, we are steadily building up our web promotions and other initiatives, but since we have a basic policy of service-oriented, we will promote ZOZOMAT and other new measures to the society, enhance branding of the company, and promote new members acquisition.

Q. The gross merchandise value growth rate of consignment shop was +14% on a year-on-year basis for both the first quarter and the second quarter. However, in the third quarter, which showed a sharp deterioration of +1% year-on year. Were you able to achieve double-digit growth in the third quarter, excluding special factors such as weather and the consumption tax hike? Also, how do you think about this trend in the future?

A. (Respondent: Sawada)

Due to the impact from the warm winter, expensive products such as outerwear were not selling well. However, the temperature has recently been falling, and if this continues, we believe that the fundamental strength of ZOZOTOWN should also return. We also believe that if PayPay Mall Shop continues to grow, we will be able to achieve double-digit growth in total with ZOZOTOWN.

Q. In 2016, the company revisited its standard for shop openings at ZOZOTOWN and strengthened its expansion to mass market. With the transition to fashion-centric, what will be the target size of the gross merchandise value?

A. (Respondent: Sawada)

According to a survey conducted independently by the company, those who have a high level of fashion sensitivity are equivalent to approximately 15% of the Japanese population from teens to 50s, and the market size is approximately ¥2.2 trillion. Secondly, people with moderate fashion sensitivity account for about 50% of this population, or about 2.7 trillion yen. As for ZOZOTOWN, we are targeting the former, meaning the gap between the market size and our current gross merchandise value is the growth potential.

Q. In the past, the gross merchandise value was the most important KPI. What are the KPIs which the new management thinks important?

A. (Respondent: Sawada)

Basically, it is the gross merchandise value and has not been changing. However, if sales of BtoB services, which are not directly linked to the gross merchandise value, increase, there is a possibility that the gross merchandise value becomes not the only top priority. We will explain if there are any changes in the policy.



**【About Promotion】**

Q. Going forward, if ZOZOTOWN is targeting at people with high fashion sensitivity, it will no longer be sales centered on promotion. Please tell us about the way you think about promotions. In order to further increase the gross merchandise value in the future, are you considering investing PayPay Mall Shop?

A. (Respondent: Sawada)

In light of the current situation, we believe it is extremely inefficient to conduct price promotions at ZOZOTOWN. We will implement steady promotions for the right people, but in the future, we will concentrate on using ZOZOMAT and selling shoes etc. Furthermore, at present, we are not planning to make promotions on PayPay Mall Shop which require expenses borne by the company.

Q. In the last few years, the ratio of promotion expenses to the gross merchandise value has been around 2%. Is it reasonable to think that the ratio will return to that level in the future?

A. (Respondent: Yanagisawa)

As ZOZOTOWN has expanded to the mass market, we believe that we need to rebrand it for people with high fashion sensitivity. Therefore, in addition to ZOZOMAT, we need implement measures that are different from price promotions, to acquire new users. At this point, we are not able to talk about the budget for the next fiscal year, but we do not see that the cost will fall dramatically.

**【Other】**

Q. Looking at the cumulative third quarter results, it may be difficult to achieve the full-year financial forecast. Is an increase of the gross merchandise value from PayPay Mall Shop the only factor to achieve that goal?

A. (Respondent: Sawada)

In addition to contributions from PayPay Mall Shop, we are working to secure guiding from Z Holdings. We will continue to work to achieve this goal through the accumulation of a variety of measures.

Q. Within the shops currently on ZOZOTOWN, it seems like there are shops targeting the mass market. How do you differentiate ZOZOTOWN and PayPay Mall Shop?

A. (Respondent: Sawada)

In PayPay Mall Shop and ZOZOTOWN, we differentiate the two through promotions and presentation of merchandise, rather than dividing them among shops and merchandise. In ZOZOTOWN, personalization has been delayed, and there have been cases where appropriate merchandise is not displayed according to customers' objectives. Therefore, we will work to resolve this issue first and attract more high fashion sensitive users to ZOZOTOWN.

Q. The company also plans to strengthen its fashion tech, but I would like to know more about it. Is it the idea to develop products that other companies cannot imitate, and to acquire and protect patents?

A. (Respondent: Ito)

Our approach to fashion tech is with technology as supplementary, we will make customers to feel that shopping at ZOZOTOWN is overwhelmingly convenient. For example, we developed ZOZOMAT to enable customers to feel comfortable when they are purchasing shoes while enjoying a new



experience without any anxiety.

Q. What is the progress of the MSP business?

A. (Respondent: Ito)

Full-fledged shipments began in the third quarter and the business is performing fairly. We are receiving a variety of feedback from customers and brands, and we have seen a winning pattern toward the next fiscal year. We will continue to brush up that toward the future.