



July 31, 2020

Minutes of Q&A Session
First Quarter of FYE March 2021 Results Briefing

This is a summary of the questions received
at the conference call with institutional investors held on April 28, 2020. Some details are revised.

[Company participants]

Koji Yanagisawa (Director, Executive Vice President & CFO)

Yusaku Kobayashi (VP of Strategic Planning and Development Department)

[Performance of first quarter]

Q. Why is the amount of gross profit not significantly different from the amount of net sales?

A. (Answer: Kobayashi) As most of our businesses do not involve cost of sales, the amounts of gross profit and net sales do not vary significantly. However, for the first quarter, gross profit margin toward net sales improved compared to previous quarters, as composition of net sales of PB business and ZOZOUSSED decreased, which require recording of cost of sales.

[Business forecast for fiscal year ending March 31, 2019]

Q. There were many discounts, coupons, etc. at ZOZOTOWN. Is it possible to maintain the growth of gross merchandise value at the same level as this first quarter from second quarter onward?

A. (Answer: Yanagisawa) As stated in FY2020 target by business segment, YoY growth in consignment shop is expected to be +7.2%. Therefore, we do not expect double-digit growth to continue as in the first quarter. However, we believe that the wave of the digital shift is not a temporary one, and will bring a positive effect to our business.

Q. B2B business's gross merchandise value target for the current fiscal year is +66.2% YoY. Why do you expect this to happen? Is the COVID-19 spread affecting this?

A. (Answer: Yanagisawa) Due to the impact of the recent COVID-19 spread, the whole apparel industry has been shifting digitally, and each brand/company is focusing on their own eCommerce, so we believe that this is a tailwind for us.

(Answer: Kobayashi) The growth rate of fiscal year ending March 31, 2021 has been supported by Fulfillment by ZOZO (FBZ) since October of the previous fiscal year, and, FBZ is a growth driver with a net increase.

Q. In order to achieve ZOZOUSSED's gross merchandise value target for the current fiscal year, it is necessary to increase revenues in some quarters after the second quarter, but what are the drivers?

A. (Answer: Yanagisawa) Gross merchandise value of ZOZOUSSED for the first quarter fell sharply YoY because we had to secure warehousing capacity to focus on sales of consigned products due to the COVID-19 spread; suspended the trade-in of ZOZOUSSED temporarily. We are planning to return to normal operations from the second quarter onward, so we believe that we can achieve this goal by normal operations.



Q. Will promotional expenses such as advertising expenses and point-related expenses continue to shrink?

A. (Answerer: Yanagisawa) We are assuming the promotion-related expenses will be around 2.5-3.0% of gross merchandise value. Although there is a tailwind for eCommerce due to the COVID-19 spread, we would like to spend promotion costs to acquire new users. We are planning to spend expenses similar to those in the past years.

Q. Operating profit target in FY2020 forecast is also high at ¥39.5 billion, but does it include the cost of the PGA tour? Also, is there room for the profit margin to improve after the second quarter?

A. (Answerer: Yanagisawa) The cost of the PGA tour has already been included. Factors behind the increase in operating profit include a decrease in costs such as personalized discounts such as ZOZOARIGATO, and an improvement in the elimination of PB-related losses.

(Answerer: Kobayashi) Though the amount is not disclosed, there will be no advisory fees related to the tender offer by ZHD last year.

[About average order value]

Q. Due to the impact of the COVID-19 spread, I think the brands were aggressively making promotions to digest inventory. How should I expect the average order value decline in the future?

A. (Answerer: Yanagisawa) YoY decline in the average order value of the first quarter was as large as around 10%, but we believe that it will continue to decline by around 5% going forward.

[About Advertisement business]

Q. In order for advertisement business to achieve its net sales target of ¥4.2 billion for the current fiscal year, it will need to grow more than 60% from the second quarter onward. What are the factors behind this growth?

A. (Answerer: Yanagisawa) Advertisement business is growing steadily, but in addition to this growth, we are expecting advertising from group companies, which is the growth driver. We have already included this into our forecasts for the current fiscal year. However, depending on the impact of the COVID-19 spread, the growth rate may change slightly.

Q. The attractiveness of ZOZOTOWN is increasing not only as a mall but also as a medium because of the attraction of buyers. I think most of the advertisement is listing-type advertising models, but do you think there is room for expansion if you switch to other types of advertising?

A. (Answerer: Yanagisawa) The main is the listing-type model, but I think there is still room for improvement in its efficiency. Other than that, there is no plan for expansion at this point. We would like to consider other options if there is no possibility that the ZOZOTOWN site image will be destroyed.

[PayPay related synergies]

Q. PayPay Mall's gross merchandise value growth rate was -25% from the previous quarter. How should we think about this slowdown?

A. (Answerer: Yanagisawa) In the fourth quarter of the previous fiscal year, there were large-scale promotional campaigns at PayPay Mall. However, this first quarter was restrained, and the rate of growth slowed down. When starting a new mall, it is difficult to grow without incurring promotional costs, but we are carefully seeing the situation of the COVID-19 spread for a while.



Q. Regarding PayPay Mall, there was a comment that ZHD will control promotional expenses. Do you see any changes in ZHD? How about the improvement of UI, etc.?

A. (Answerer: Yanagisawa) We cannot make any comment on how to use the cost in the future, because it is the matter of ZHD. Regarding UI for PayPay Mall, we have regularly improved the parts related to ZOZOTOWN after its opening, but we will continue to do so in the future.

Q. The commission for consignment sales at both ZOZOTOWN and PayPay Mall ZOZOTOWN Shop are about 29%, but how will it change in the future?

A. (Answerer: Yanagisawa) We believe there will be no major change in the level in the future.

Q. How much do you expect PayPay Furima contribution to ZOZO' s profit and loss statement?

A. (Answerer: Yanagisawa) We will receive a commission from PayPay Furima, but we do not expect any major contributions as gross merchandise value and net sales will be recorded on PayPay.

Q. It is said that PayPay payment will be introduced from August. How much is composition of the payment to the whole? And when will be the implementation of the deferred payment function of PayPay?

A. (Answerer: Yanagisawa) We don't expect any particular composition target because we don't know it until it is actually introduced. The deferred payment function will be handled by PayPay, so we cannot answer when we can implement that function.

[Other]

Q. Are users acquired after the declaration of emergency state different from those prior to the declaration in terms of retention?

A. (Answerer: Yanagisawa) There is no particular difference.

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