



January 29, 2021

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

This is a summary of the questions received at the Q&A session with institutional investors held on January 29, 2021. Some details are revised.

[Company Participants]

Kotaro Sawada (Representative Director, President & CEO)

Koji Yanagisawa (Director, Executive Vice President & CFO)

Masahiro Ito (Director & COO)

Yusaku Kobayashi (VP of Strategic Planning and Development Department)

[About ZOZOCOSME]

Q. What was the most challenging aspect of ZOZOCOSME launch and its competitive advantages?

A. (Answer: Ito) ZOZOCOSME is a project that we have devoted our resources over the last year. It is a comprehensive service, rather than having a superior point. It consists good brands line-up, offering a new buying experience, revamping UI/UX of a new site, and so on. Users can purchase the latest titles of the best brands with confidence, and can experience unprecedented proposals such as color recommendation etc. We believe that this is our competitive advantage.

Q. Please tell us the ratio of female to project members in ZOZOCOSME. Also, how do you make ZOZOCOSME unique, like other services of ZOZO?

A. (Answer: Ito) Most of the project members are women. Since the launch on March 18, we plan to make recommendations by the ZOZOGLASS, and as in the case of ZOZOSHOES, we will make feature articles with famous person in a way that is unique to ZOZO. Brands also expect to have connection with new users, so we would like to steadily refine ourselves to meet that expectation.

Q. Will lipsticks and blush also be available at the time of ZOZOCOSME launch, March 18?

A. (Answer: Ito) At the time of launch, only the foundation is available, but we would like to roll out lipsticks and blush as soon as possible.

Q. Are commission rate of cosmetics and luxury around 30%?

A. (Answer: Sawada) Commission rate is not disclosed.

Q. What is the primary differentiator of ZOZOZCOSME from competitors? Should I see the lineup of 500 brands is sufficient? Are you thinking of any initiatives to make users try?

A. (Answer: Ito) 500 brands are highly selected brands, so it is definitely not small. We believe that it is a lineup covering all the things you want. Regarding initiatives, we plan to introduce functions from time to time that will enable younger users to try, such as ordering samples and trying on virtual.

[About luxury brands]

Q. More than 70 luxury brands will open stores. How many brands did you talk to, and what percentage of those brands have decided to open? What was difficult in negotiating store openings?



A. (Answer: Sawada) We cannot tell you about the names of individual brands, but negotiations to open stores for foreign brands were difficult. This is because there were many cases in which approval from Japanese subsidiaries were obtained whereas approvals from the headquarters were not. However, due in part to the recent market conditions, we are increasingly getting approval from the headquarters, so we look forward to the development of luxury brands.

【About Promotion】

Q. Promotional expenses for the third quarter of the current fiscal year have declined to approximately 2.8 billion yen from approximately 4.9 billion yen in the previous fiscal year. Does the only reason for the decline be the Basquiat Exhibition and the distribution of free ZOZOHEAT? Is the PGA tour affecting as well?

A. (Answer: Yanagisawa) In addition to the Basquiat Exhibition and ZOZOHEAT, expenditures for PGA tours have also declined in the current fiscal year. In the previous fiscal year, revenues declined due to no spectator games caused by unseasonable weather, resulting in higher costs. Meanwhile, this fiscal year, the event was held in the U.S., which was in line with expectations at the beginning of the fiscal year. (Kobayashi) Regarding the loss of ticket income, the coverage by the insurance contract is not within the third quarter, and the results of the income and expenditure appear to be worse than the actual situation. The fourth quarter has been charged to advertising expenses to cover the costs of these transactions.

Q. It was explained that the Company is planning to make strategic investments in the fourth quarter; please tell us about specific measures and amounts.

A. (Answer: Sawada) We are planning to deploy promotional costs, such as costs for the early launch of ZOZOCOSME. The main objective is to acquire new members, and we are not aiming for creating the gross merchandise value in the short term, to grow over the medium to long term.

Q. Will the ratio of promotional expenses to the gross merchandise value change with the start of ZOZOGLASS and luxury?

A. (Answer: Yanagisawa) Regarding promotional expenses, there are two types, one is SG&A expenses and the other is net sales deductions. There is no change in the policy of considering that total will be operated at an upper limit of 2.5% to 3% of the gross merchandise value.

[About ZOZO Options]

Q. I would like a new explanation of ZOZO options.

A. (Answer: Yanagisawa) In PayPay Mall, our policy was to take lead of proposals for marketing plans and special feature planning at fashion category stores. The gross merchandise value of stores contracted for ZOZO options upon approval of this policy is recorded from the third quarter, in the other gross merchandise value.

Q. What is the revenue impact of ZOZO options?

A. (Answer: Yanagisawa) Specific revenue impact is not disclosed, but although the gross merchandise value is recorded, profits and costs are not significant. Though there is a possibility that ZOZO options will expand in the future, we do not think it will be significant for the time being. We will continue to disclose the gross merchandise value, excluding ZOZO options, as well as profitability and other indicators using the gross merchandise excluding ZOZO options.



[Business results and forecasts for the current fiscal year of third quarter]

Q. The company expects the strong gross merchandise value growth in the fourth quarter of the current fiscal year where it has been a year after opening PayPay Mall. Despite the impact of the COVID-19, are ZOZOTOWN growing significantly this year compared to last year?

A. (Answer: Sawada) We use A.I. closely to make purchases by visiting customers and to encourage them to visit ZOZOTOWN again. We believe this is due to the progress we have made in acquiring new users in the COVID-19, because of the accumulation of multiple measures.

Q. Looking at the growth in new purchasers, there has been a significant growth in November and December 2020. What are the reasons for this?

A. (Answer: Sawada) In addition to the impact to the warm winter from October last year, we changed discount sales in line with demand trends in the third quarter. In addition to the implementation of ZOZOWEEK as a sales event in November, we brought some sales events earlier than the past years. The impact of the current third wave of the COVID-19 is not entirely clear, but growth continues to be somewhat stable.

Q. Fall and winter are basically a period when the high unit price merchandise is sold, but average retail price continues to fall. There have been aggressive measures taken at PayPay Mall. Do you think the fall derives from these measures?

A. (Answer: Sawada) PayPay Mall have different customers segments from ZOZOTOWN and different fashion sensitivity, thus the purchase amount is different. Since we target differences in user characteristics, we recognize that this difference in unit price is inevitable. However, we are making progress in acquiring new purchasers due to falling unit prices, and we do not think this is a major issue. (Kobayashi) The figures disclosed are only for ZOZOTOWN, so the results for PayPay Mall are not included.

Q. Of others gross merchandise value, what is the results of yutori's own e-commerce website (consolidated subsidiary)?

A. (Answer: Yanagisawa) yutori's gross merchandise value is not disclosed, but most of the other gross merchandise value's is ZOZO options.

Q. I think that the trend will be for apparel companies to curb their spring/summer orders. In this situation, do you think the current favorable trend will continue?

A. (Answer: Sawada) In the second half of this fiscal year, I feel that that brands are understanding that they are able to sell by keeping inventory in ZOZOTOWN, and I feel that the policy of shifting to e-commerce is clear. Therefore, we do not think securing inventory is a problem.

Q. Growth in BtoB business's gross merchandise value fluctuates quarterly. How should you see the 6 billion yen result for the third quarter of the current fiscal year?

A. (Answer: Yanagisawa) Growth rates may fluctuate significantly depending on the measures of each brand, and we cannot control them. We will refrain from making comments on individual brand's gross merchandise value.

Q. In revisions to the business forecast of the fiscal year ending March 31, 2021, the growth of net sales is small than that of the gross merchandise value. What is the reason for this?



A. (Answer: Kobayashi) ZOZOUSER is the business which its Gross merchandise value equals to net sales, but it is expected to be below the original guidance.

Q. What specifically did you improve work efficiency within the logistics bases? Will the positive effects of this improvement continue after the fourth quarter?

A. (Answer: Sawada) This is due to the accumulation of small improvement measures by KPIs in each division. One of the major factors behind this is that the retention rate of part-time workers is rising. Amid the difficulty of finding part-time jobs due to the COVID-19, the improvement in retention rates led to an improvement in proficiency rates and ultimately, improved work efficiency. Since logistics operations have been established, we believe that the effects will continue unless unexpected circumstances occur.

[Other]

Q. Previously, it was explained that WEAR would equip a cart function. What is the status of that?

A. (Answer: Sawada) Due to the status of development resource, we are planning to implement WEAR's cart function within the next fiscal year.

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