

Z HOLDINGS

Z Holdings Corporation FY2019-3Q Business Results

February 5, 2020

FY2019-3Q Earnings Results Briefing – Highlights

Net income **grew +59% YoY** due to steady growth in Commerce/Advertising businesses

Expected full year consolidated op. income: **¥150 B** (higher end of guidance)

Due to consolidation of ZOZO, Shopping business transaction value: Approx. **+37% YoY**;
19 consecutive quarters of double digit growth since FY2015-1Q

Shopping-related advertising revenue (e.g. listing fee of PayPay Mall) grew **+20% YoY** due to growth in Shopping business

Growth recovered for total advertising revenue: Approx. **+6% YoY growth**

PayPay

No. of PayPay payments for January alone **exceeded 100 million**

Cumulative registered users continued to grow steadily: **exceeded 24 million** (Feb.2)

FY2019-3Q Financial Results

FY2019-3Q Consolidated Income Statement

Item	FY2018-3Q	FY2019-3Q	YoY
Revenue	242.5 (¥B)	275.4 (¥B)	+13.6 %
Operating income	36.5 (¥B)	47.8 (¥B)	+30.9 %
EBITDA ^{*1}	50.2 (¥B)	70.1 (¥B)	+39.6 %
Equity in earnings of associates and joint venture	-9.1 (¥B)	^{*2} -6.2 (¥B)	n.a.
Net income	14.6 (¥B)	26.9 (¥B)	+84.2 %
Net income attributable to owners of the parent	15.0 (¥B)	23.8 (¥B)	+58.9 %
Diluted EPS	¥ 2.96	¥ 5.01	+69.7 %

*1 Change in EBITDA is mainly due to application of IFRS 16, Leases

*2 Mainly due to PayPay Corporation

FY2019-3Q Factors of Change in Consolidated Operating Income

Op. income growth **exceeded 30% (the first in 11 quarters)**, due also to ZOZO

Item		Amount (¥B)	YoY	Major factors of change (¥B)
FY2018-3Q Results		36.5		
YoY difference	Revenue	+32.8	+13.6 %	<ul style="list-style-type: none"> • Increase due to consolidation of ZOZO +24.1 • Advertising revenue +4.1 • YJ Card +2.0
	Cost of sales	+3.1	+3.1 %	<ul style="list-style-type: none"> • Increase due to consolidation of ZOZO +2.1 • Increase due to growth in ad revenue
	SG&A	+18.4	+17.9 %	Increase due to consolidation of ZOZO +17.7
	(major items only↓)			
	Depreciation and amortization	+8.7	+66.1 %	<ul style="list-style-type: none"> • Increase due to consolidation of ZOZO +3.3 • Increase in depreciation expense of right-of-use assets due to application of IFRS16 (rental expense decreased instead) • Increase in software, servers, etc.
	Sales promotion cost	-4.1	-21.1 %	<ul style="list-style-type: none"> • Increase due to consolidation of ZOZO +1.4 • Decrease in point reward cost
	Personnel expenses	+3.6	+15.7 %	Increase due to consolidation of ZOZO +2.9
	Shipping cost	+3.3	+53.7 %	Increase due to consolidation of ZOZO +3.9
	Commissions expenses	+3.1	+265.8 %	Increase due to consolidation of ZOZO +2.5
	Business commissions	+2.8	+20.0 %	Increase due to consolidation of ZOZO +1.9
	Advertising and promotional expenses	+1.2	+62.1 %	Increase in expenses related to PayPay Mall, PayPay Flea Market
FY2019-3Q Results		47.8	+30.9 %	

FY2019-3Q Impact from Consolidation of ZOZO

Consolidated from Nov.

Item	ZOZO FY2019-3Q (2 months)	FY2019-3Q (excl. ZOZO)	YoY
Revenue	24.1 (¥B)	251.3 (¥B)	+3.6 %
Operating income	*1 4.2 (¥B)	43.6 (¥B)	+19.3 %
Net income	2.8 (¥B)	24.1 (¥B)	+64.8 %
Net income attributable to owners of the parent	1.4 (¥B)	22.4 (¥B)	+49.5 %

*1 Reflects amortization of identifiable assets as a result of PPA

Goodwill	Total	• PPA is provisional	212.9 (¥B)
PPA	Total	• PPA is provisional	502.1 (¥B)
	Amortization	FY19-3Q (2 months)	2.2 (¥B)
		FY19-full year (5 months)	*2 5.5 (¥B)

*2 Estimate figure for 4Q

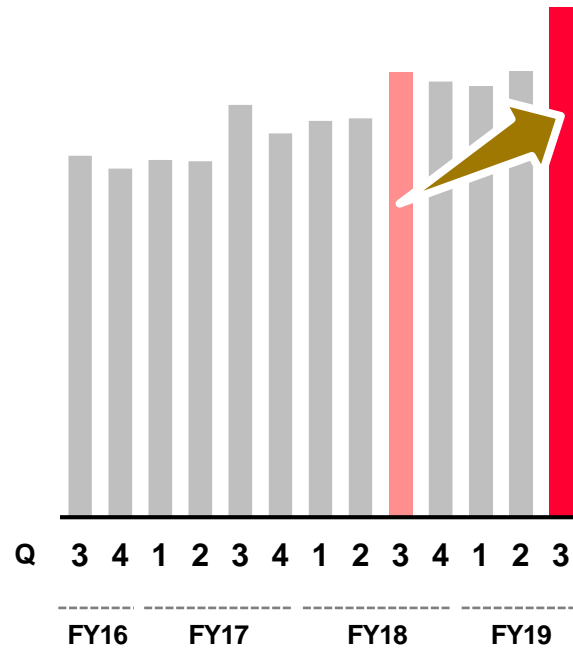
*3 Indefinite-lived intangibles

Item	Amount	Amortization period (Straight line)
Customer base (Shops/users)	322.0 (¥B)	18-25 years
Trademark*3	178.7 (¥B)	-
Others	1.4 (¥B)	4 years

Each business base showing YoY growth

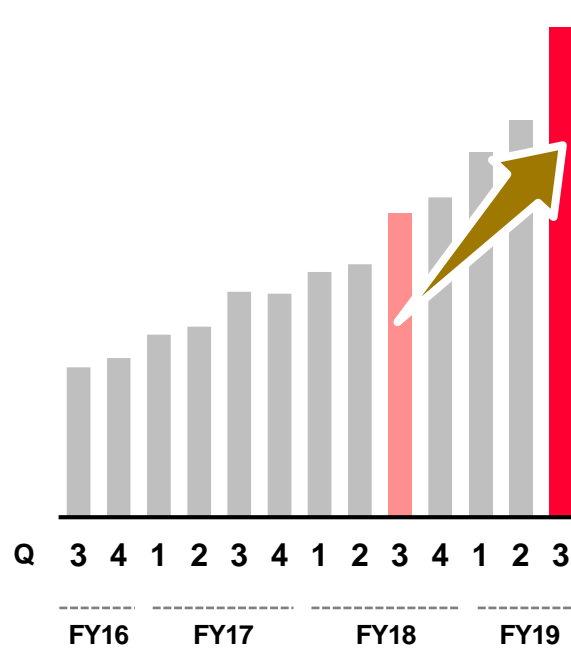
EC transaction value

¥690.4B
YoY +15%



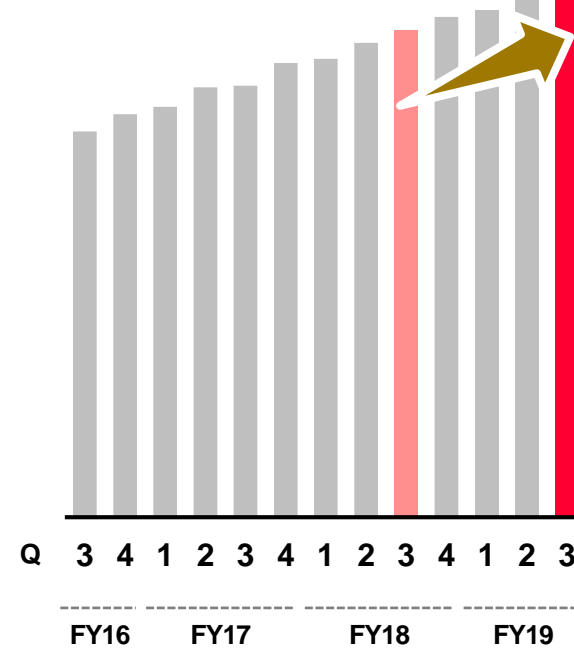
Credit card transaction value

¥568.7B
YoY +61%



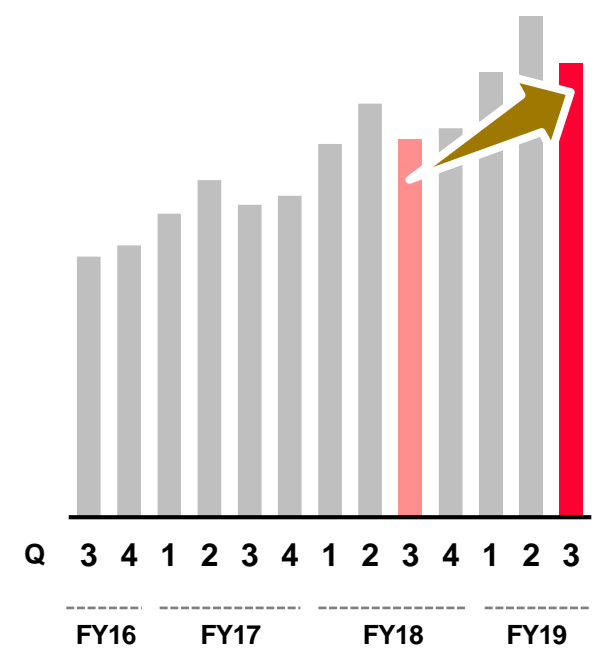
No. of
monthly logged-in user IDs

50.11Mil IDs
YoY +6%



Time spent by logged-in
users via smartphones*

2B hours
YoY +20%



FY2019 Expected Full Year Results (Consolidated Basis)

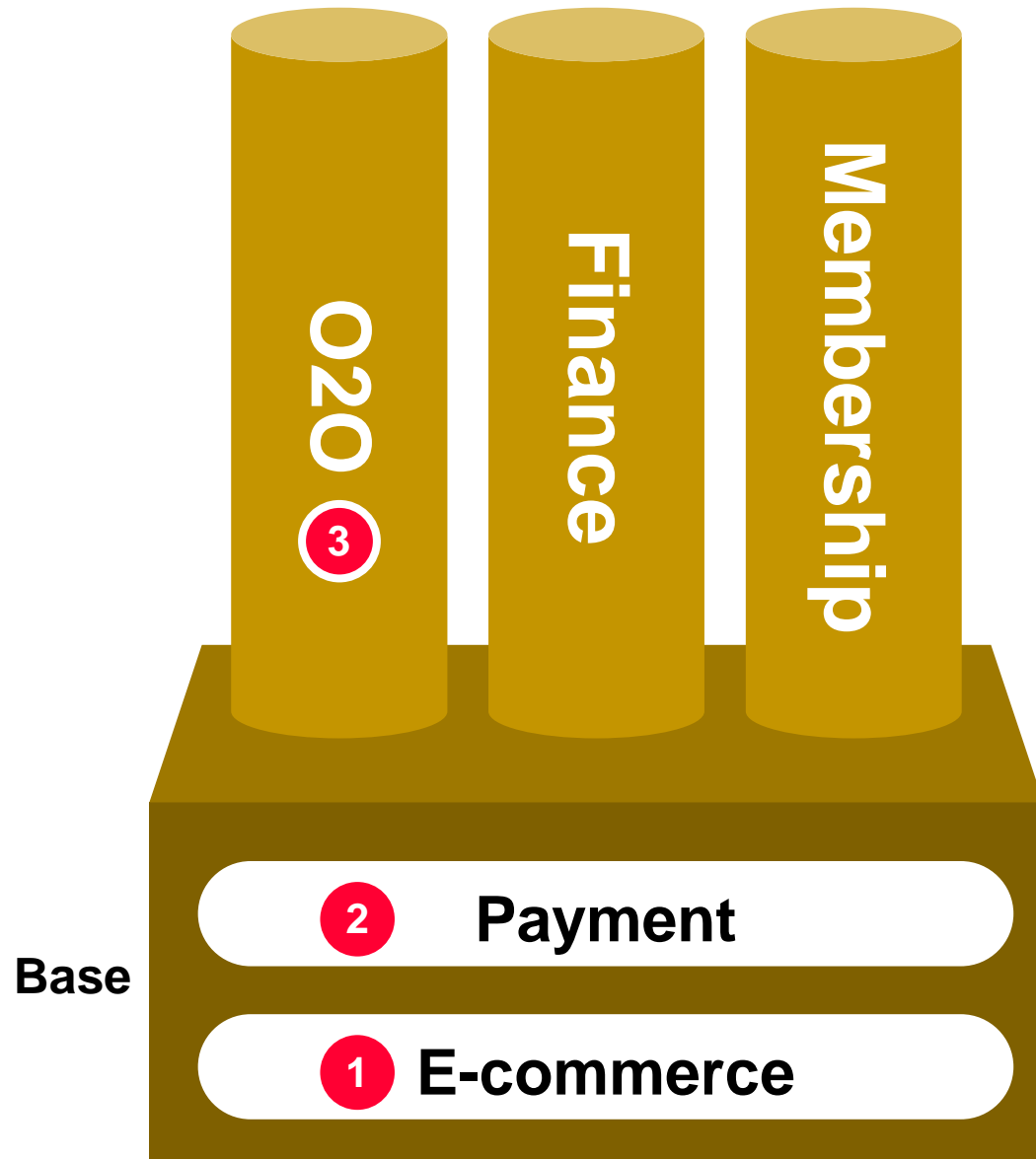
Op. income: higher end of guidance due to consolidation of ZOZO

Net income: near the lower end of guidance due to PayPay's active investments (4Q)

Item	FY2019 (Full year guidance)	FY2019 (Expected full year results)	YoY
Revenue	Over ¥1 T	¥1.04 T	+9 %
Operating income	¥140.6 to 150.0 B	¥150.0 B	+7 %
Net income attributable to owners of the parent	¥79.0 to 85.0 B	¥77.0 to 80.0 B	-2 to +2 %
Basic EPS	¥14.8 to 15.9	¥15.8 to 16.4	+7 to 12 %
Dividend per share	¥8.86	¥8.86	Same

Business Topics

Commerce Business



Business base growing steadily

Item	Details
3 O2O	O2O transaction value grew +16% YoY despite impact of typhoons and consumption tax hike
2 Payment	Credit card transaction value grew +61% YoY backed by cashless rebate program
1 E-commerce	Shopping business transaction value expanded +37% YoY due to consolidation of ZOZO

FY2019-3Q Commerce Business – KPI Results

Item	Actual result	YoY	Major measures / Major factors of change
EC transaction value	690.4 (¥B)	+ 14.6 %	
Sale of goods	578.1 (¥B)	+ 14.9 %	
Shopping business	295.2 (¥B)	+ 36.6 %	<ul style="list-style-type: none"> • Approx. +7% growth excluding impact from consolidation of ZOZO (2 months) • Expanded due to launch of PayPay Mall
Reuse business*1	204.1 (¥B)	- 5.8 %	Affected by curtailment in sales promotional cost for YAHUOKU!
Services and digital contents*2	112.2 (¥B)	+ 12.7 %	<p>Despite impact of typhoons and consumption tax hike,</p> <ul style="list-style-type: none"> • Travel business grew approx. +15% • Dining reservation business grew approx. +18%
Credit card transaction value	568.7 (¥B)	+ 61.0 %	<ul style="list-style-type: none"> • Increase in new card holders due to cashless rebate program • Increase due to synergies with PayPay

*1 Changed name from YAHUOKU!

*2 Changed name from Non-sale of goods

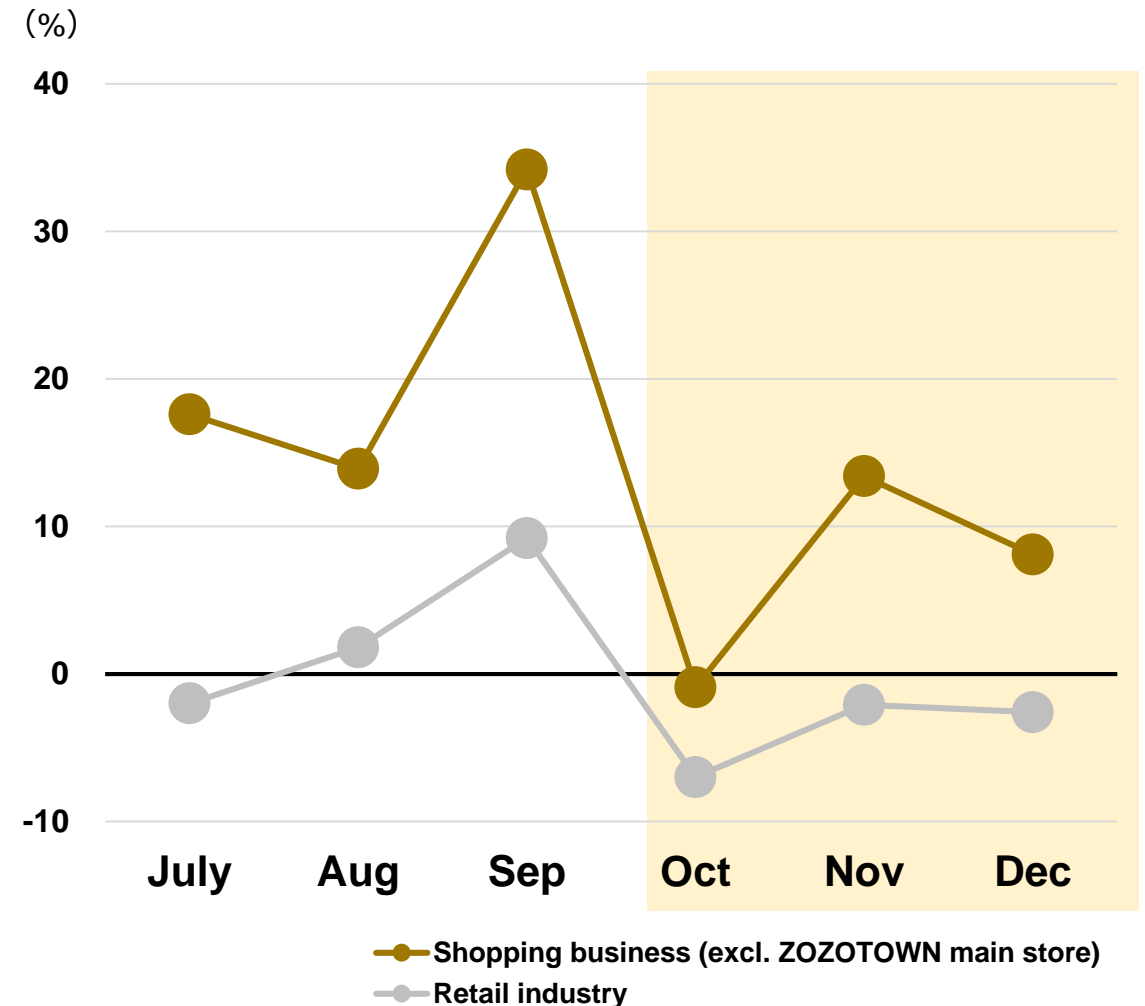
Our Shopping Business vs. Retail Market

Our transaction value surpassed market growth, despite consumption tax hike

Item	Amount	YoY
Shopping business transaction value (excl. ZOZOTOWN main store)	232.0 (¥B)	+7.4 %

Item	YoY
Retail sales value*	-3.8 %

*Source: METI Preliminary Report on the Current Survey of Commerce



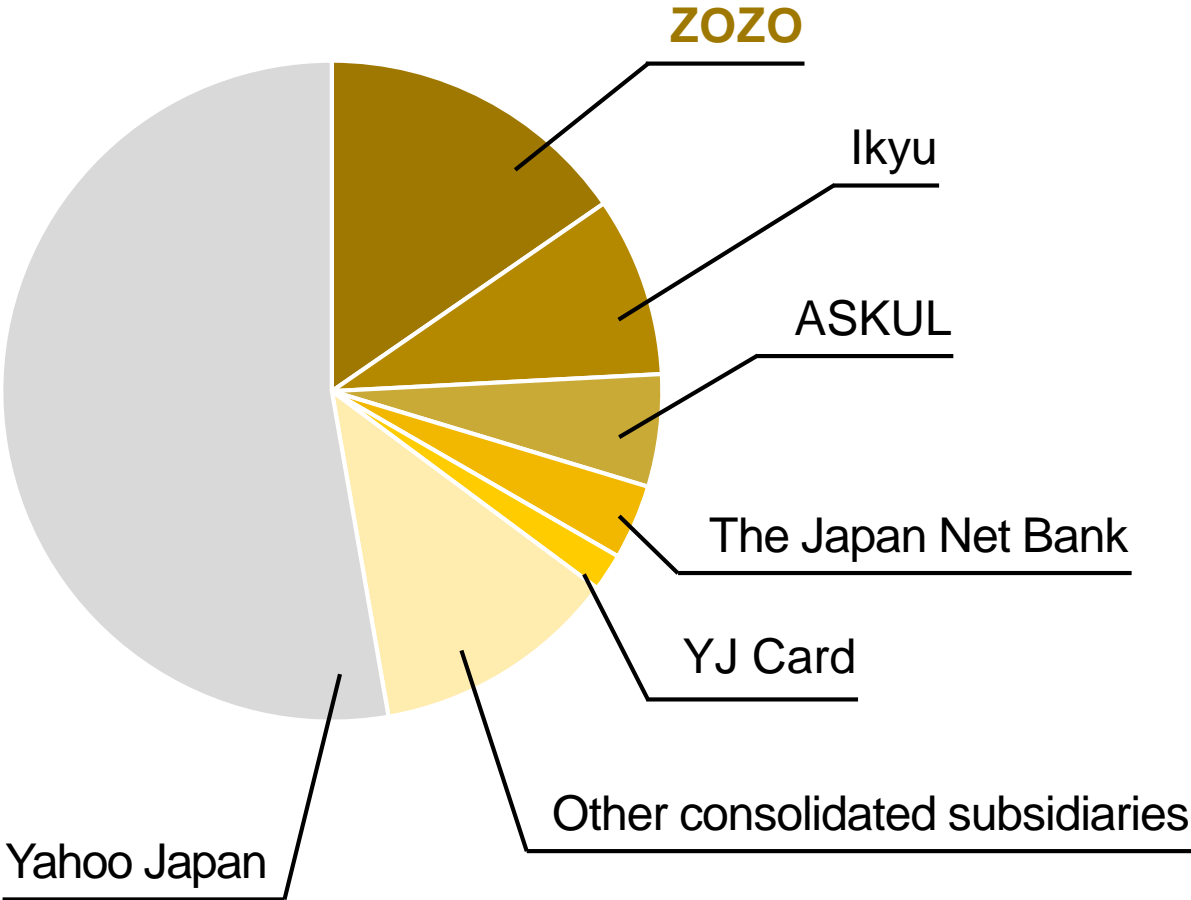
Expecting to surpass high initial targets partly due to consolidation of ZOZO

Item	Full year initial targets	Full year expected results
EC transaction value (Sale of goods)	+ Double-digit %	+13-15 %
Shopping business	+20 %	+30 %
Reuse business*	+ Mid-single digit%	Negative low- single digit %

*Changed name from YAHUOKU!

FY2019-3Q Commerce Business – Breakdown of Operating Income

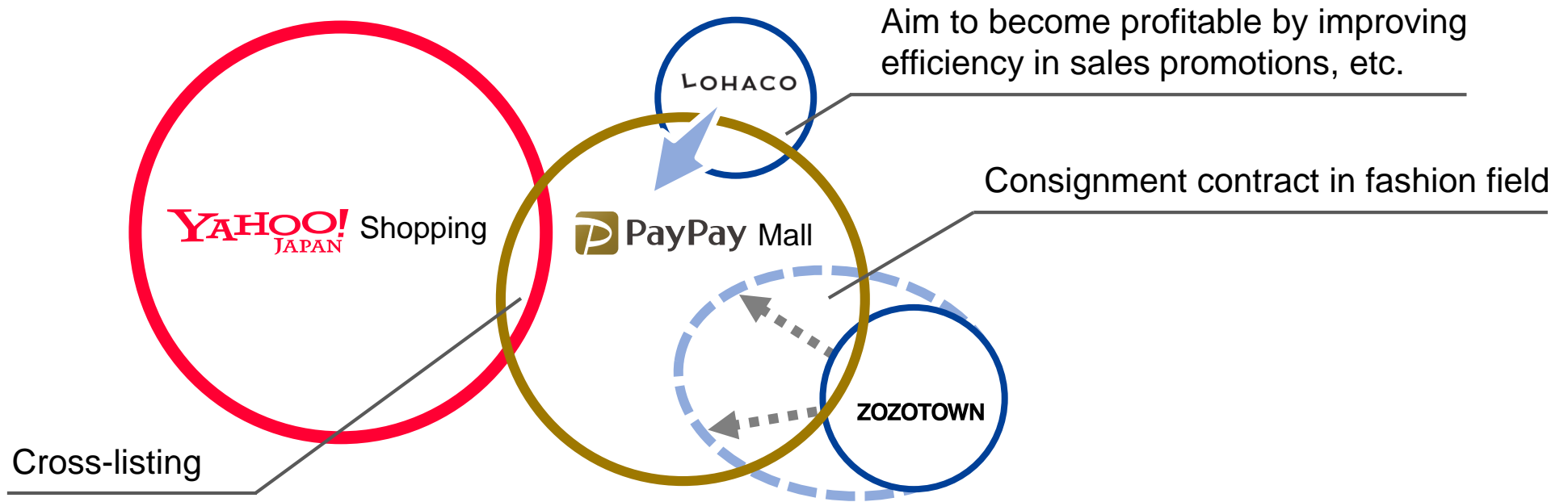
**% of non-Yahoo Japan companies in operating income increased due to ZOZO.
Striving for a solid operating income base by maximizing group synergies**



Breakdown of operating income for Commerce business (¥ B)	
ZOZO (2 months from Nov.)	4.2
Ikyu	2.4
ASKUL	1.5
The Japan Net Bank	1.0
YJ Card	0.5
Other consolidated subsidiaries	3.3
Yahoo Japan	14.4
Total operating income for Commerce business	27.5

Note: After eliminations for consolidated statements. Operating income for each company is rounded down, thus the sum of all operating incomes may differ from the total amount. 15

E-commerce ecosystem that fulfills diverse needs



Value Propositions

Marketplace that has every kind of item

Next-rank shopping experience^{*1}

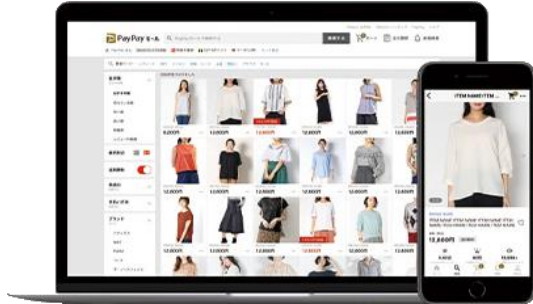
Category-specific marketplace^{*2}

^{*1} Safe store and items + easy search/comparison + best buys + returnable within 14 days

^{*2} ZOZOTOWN and LOHACO are category-specific marketplaces that have original product lineup and high-quality delivery service

YAHOO!
JAPAN

PayPay Mall



Listing fee
3%

Premium online shopping mall



Note: PayPay Mall is a business of Yahoo Japan Corporation.
“PayPay” is a registered trademark of Yahoo Japan Corporation.

Providing a fun and value-added shopping experience to as many users

★★★ Limited period campaign ★★★

10 B Yen Giveaway Campaign in PayPay Mall

+9% PayPay Bonus Lite

(Until March 31, 2020)

Strict selection of stores

511

(Launched in Oct.)



785

(End of Dec.)

Companies that have not opened stores or listed products in Yahoo! Shopping are joining PayPay Mall one after the other.

acer

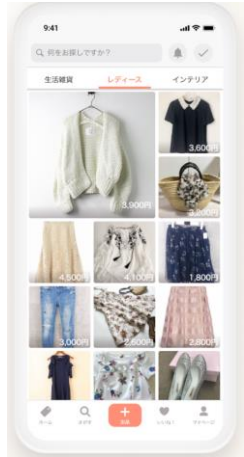
P&G

KOKUYO



(A few examples)

PayPay Flea Market



Flea market app that allows simple and value-for-money deals using PayPay

 **PayPay Flea Market**

Sales
commission
10%

Note: PayPay Flea Market is a business of Yahoo Japan Corporation.
“PayPay” is a registered trademark of Yahoo Japan Corporation.

Cumulative downloads

Exceeded 2 mil

Free app download ranking in Japan

No.1 in shopping category

Source: AppAnnie (Total of iOS & Android;
Cumulative total for Nov. 2019 to Jan. 2020)

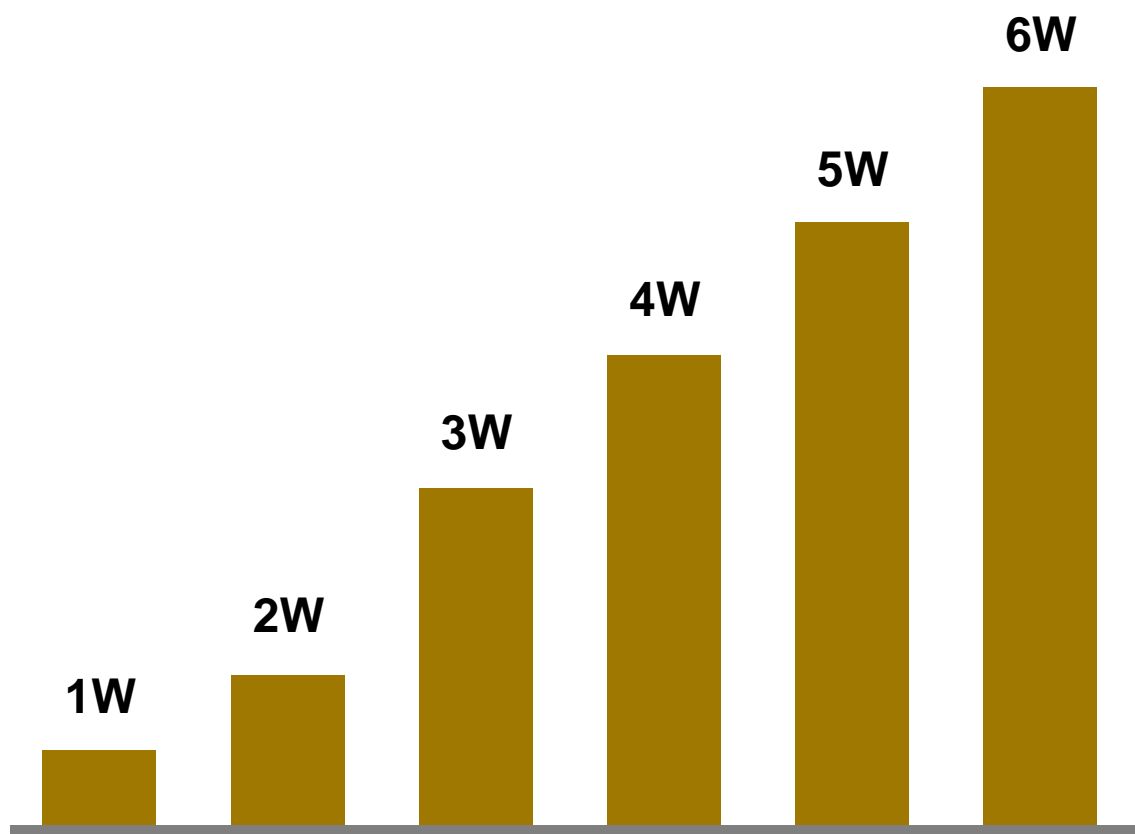
- Acquiring new users: **Only 5% overlap** of users between PayPay Flea Market and YAHUOKU!
- Purchase can be made also from website in addition to app; further reach to users (released on Jan. 29)
- Conducting **listing campaign** whereby sales commission is virtually 3%, lowest in industry (until March 31) to promote use





“ZOZOTOWN” PayPay Mall Store – Flying Start

Transaction value steadily expanding since grand opening (Dec. 17)



Note: Results of PayPay Mall + Yahoo! Shopping (Dec.17, 2019 - Jan.26, 2020)

Acquiring new users as planned

Breakdown of buyers



Approx. **60%** of
PayPay Mall buyers
are new customers
for ZOZO

Segregation Between “ZOZOTOWN” Main Store and PayPay Mall Store

**Fueling growth with 2 engines,
leveraging customer/business bases of both companies**



Collaborate in various fields leveraging enormous synergy potentials

Short term



Mid term

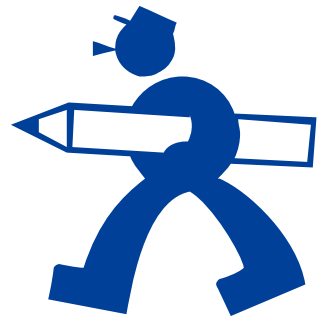
Items	Expected impacts
Introduction of PayPay	<ul style="list-style-type: none">• Capturing PayPay users• Reduction of cost for payment commissions utilizing group companies
Collaborations with SoftBank	<ul style="list-style-type: none">• Promote use by SoftBank users through in-store promotions and reward program
Media/Advertising business	<ul style="list-style-type: none">• Joint promotion of advertising business using ZOZOTOWN and WEAR, with Yahoo Japan.
Collaborations with Reuse business	<ul style="list-style-type: none">• Collaborations with YAHUOKU!, PayPay Flea Market, ZOZOUSED• Construction of eco-system with Shopping business
Cooperation among engineers	<ul style="list-style-type: none">• Use of data science• Improvement in product recommendation
Collaboration in logistics	Use of ZOZOBASE

Working as one team, we will create the future of e-commerce

SoftBank

Z HOLDINGS






ASKUL

Working together to further enhance corporate value

Management Structure

- Feb. 5
Board of directors resolved proposal on new independent directors
- 
- March 13
Extraordinary shareholders meeting
- Capital and business alliance with Z Holdings will be maintained and continued


Results

ASKUL Group
3Q Operating income

¥1.5 B (YoY +175%)

Note: After eliminations for consolidated statements

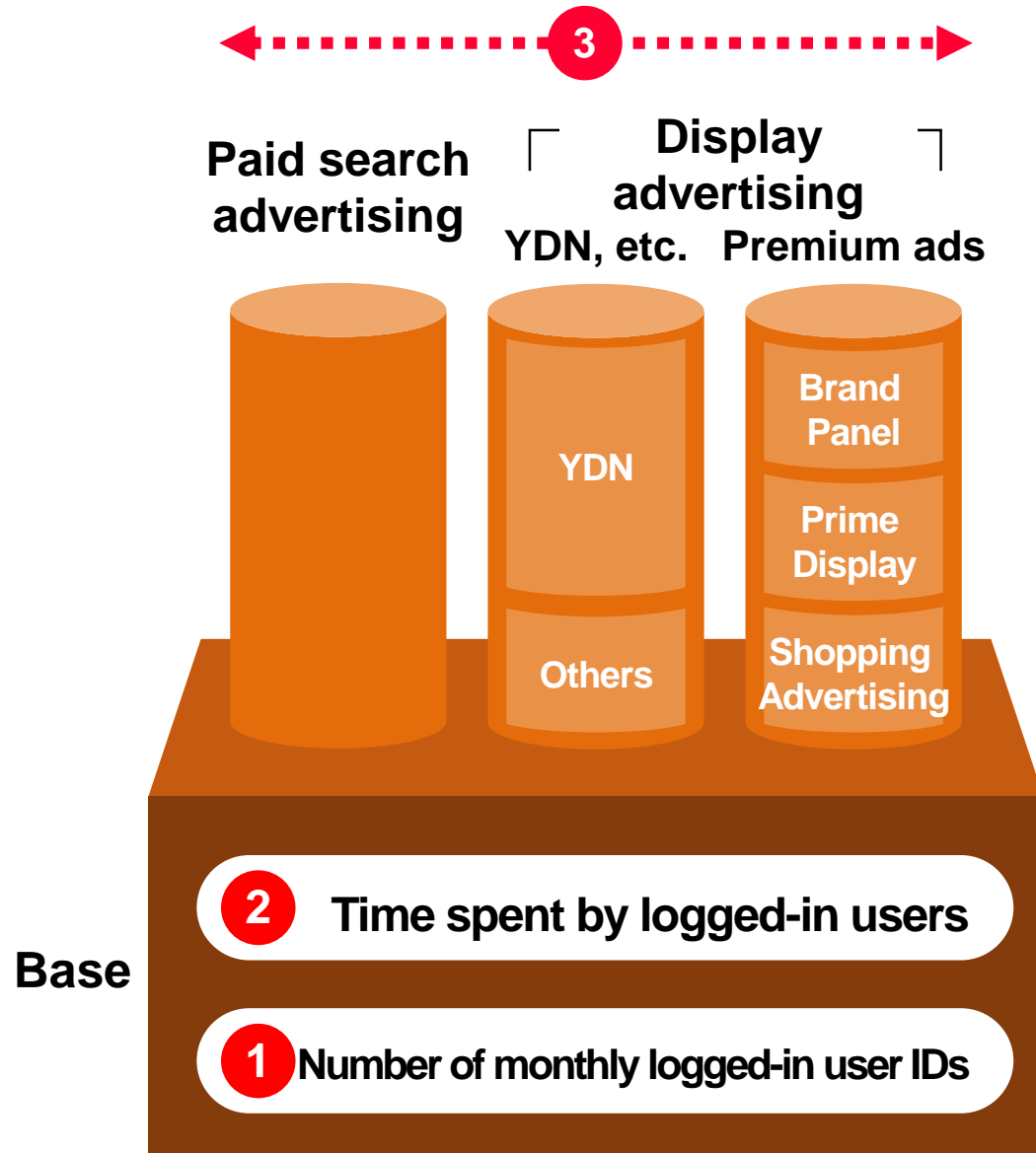
LOHACO

- Improve profitability
 - Balance logistics cost-cutting and improved quality in delivery
 - Further strengthen collaboration with Yahoo Japan (Expand sales from store in PayPay Mall)
- 

Aim to achieve profitability by FY ending May 2023

Media Business

FY2019-3Q Media Business – Uses



Growing mainly in smartphones

Item	Details
3 Total advertising revenue	+ 6% YoY growth
2 Time spent by logged-in users via smartphones	+20% YoY growth
1 Number of monthly logged-in user IDs	+6% YoY growth

FY2019-3Q Total Advertising Revenue - Results

Item	Actual results (¥B)	YoY (YoY difference ¥B)	Major measures / Major factors of change
Total advertising revenue	87.6	+5.7% (+4.6)	
Paid search advertising	43.8	+6.0 % (+2.4)	<ul style="list-style-type: none"> • Successful results from improvement in display options
Display advertising	43.8	+5.3 % (+2.2)	
YDN, etc.	26.1	+1.5 % (+0.3)	<ul style="list-style-type: none"> • Positive impact of multiple product measures (e.g. Programmatic distribution in PC Brand Panel slots) • Revenue decrease due to termination of some products • Effect of anti-tracking (approx. negative ¥0.4 B)
Premium advertising (incl. shopping ads)	17.6	+ 11.6 % (+1.8)	<ul style="list-style-type: none"> • Growth in shopping ads • Strong growth in high-priced products (e.g. video ads)



Business sluggish in 1H, but catching up in 2H. Total advertising expected to be within target range.

(Decrease in ad placements due to novel coronavirus pneumonia is taken into account)

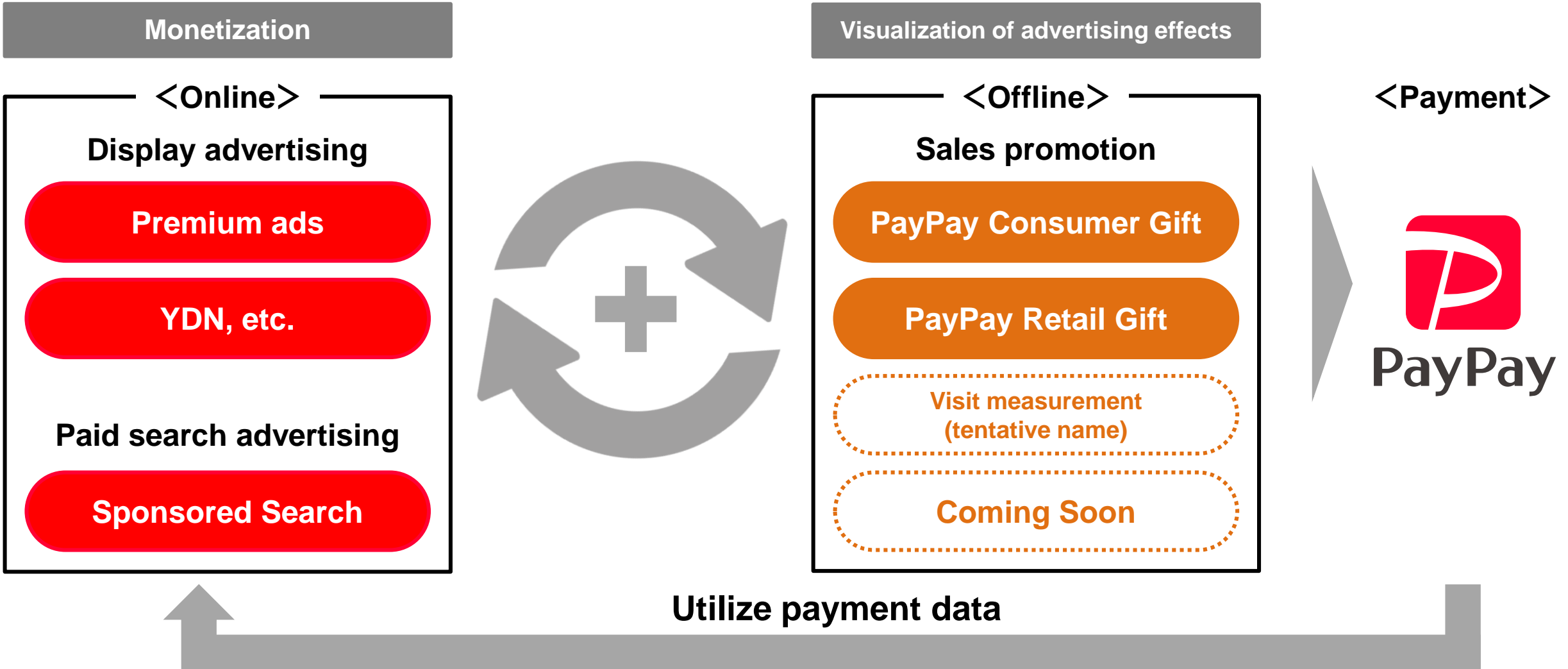
Items	Full year initial targets	Full year expected results
Total advertising revenue	+ Mid-single digit to double digit %	+3 to 6 %
Paid search advertising	+High-single digit %	+Low to mid-single digit %
Display advertising	+ Mid-single digit to high-single digit %	+Mid-single digit %

YAHOO!
JAPAN

Releasing products that can visualize advertising effects

		User actions	Encounter	Search	Visit store	Purchase (Pay)
<Fields>						
Integrated marketing solution	 Digital (Online)	Advertising	Display ads	Paid-search ads		
	 Brick & mortar (Offline)	Sales promotion		Coming Soon	Visit measurement (tentative name) Feb. (plan)	PayPay Consumer Gift Released in 3Q PayPay Retail Gift Released in 4Q

Marketing that merges online with offline, and visualizes effects



New product – PayPay Retail Gift



Sales Promotion

2nd Initiative
Released on Jan.14

PayPay Retail Gift

- Campaigns notified on online ads in Yahoo! JAPAN services prompt users to purchase products in participating stores.
- Users enter a lottery draw on the campaign website, and go to the participating stores.
- PayPay Bonus Lite given for purchase of applicable product with PayPay payment.

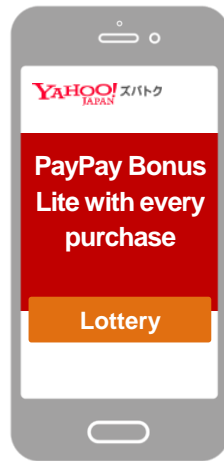
Example of test marketing: Lawson, Inc. & Kirin Brewery Company, Limited

Notify campaign



See ad in
Yahoo! JAPAN

Enter lottery/draw



Draw a lottery
in Yahoo! Zubatoku

Visit store



Go to store

Pay



Pay with PayPay

Bonus given



Get PayPay Bonus Lite

Illustrative purpose only

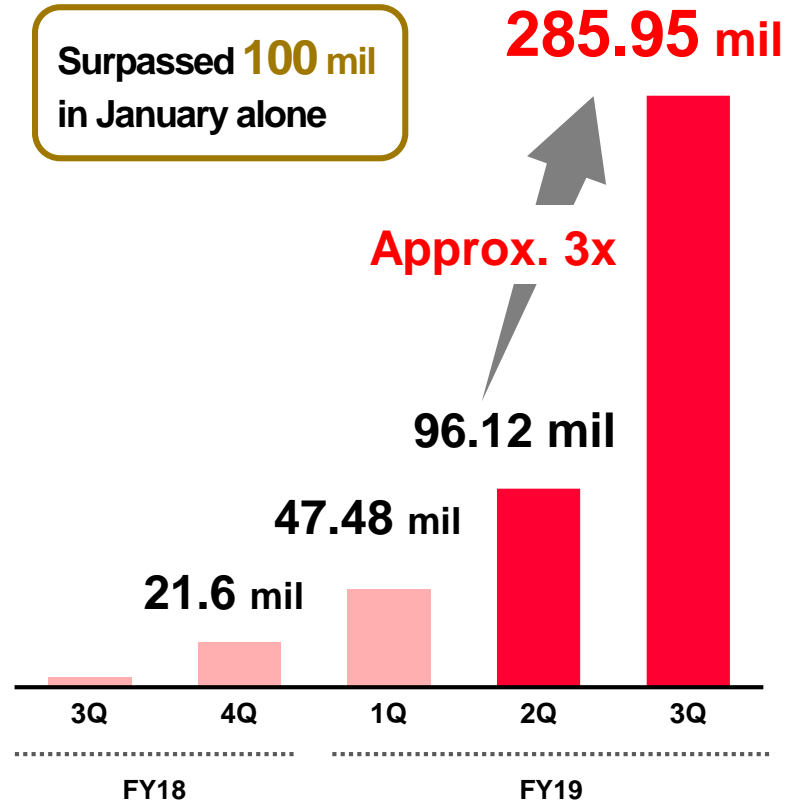
Strategic Measures

Strategic Measures

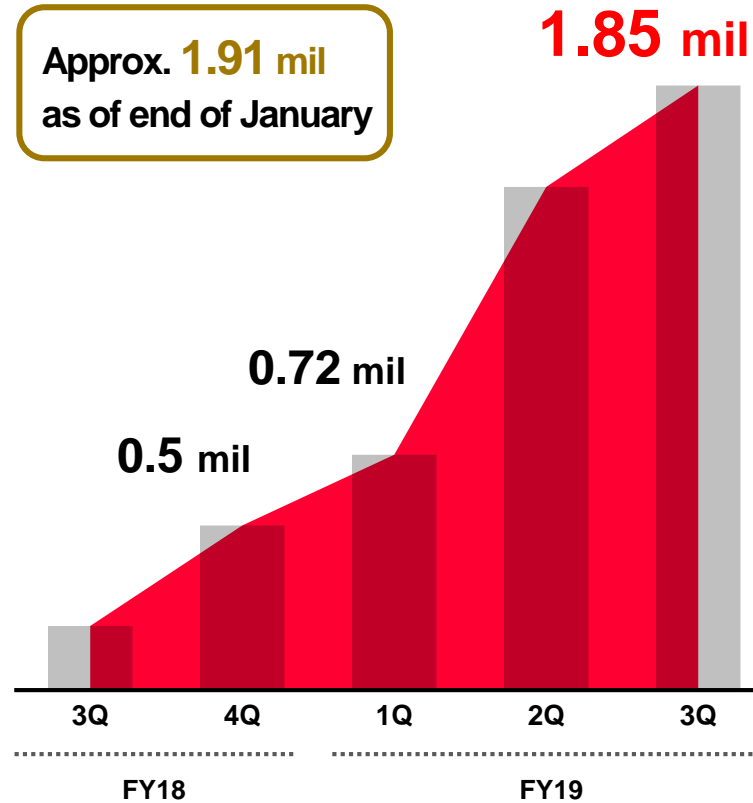


Business base expanding steadily, backed by cashless rebate program

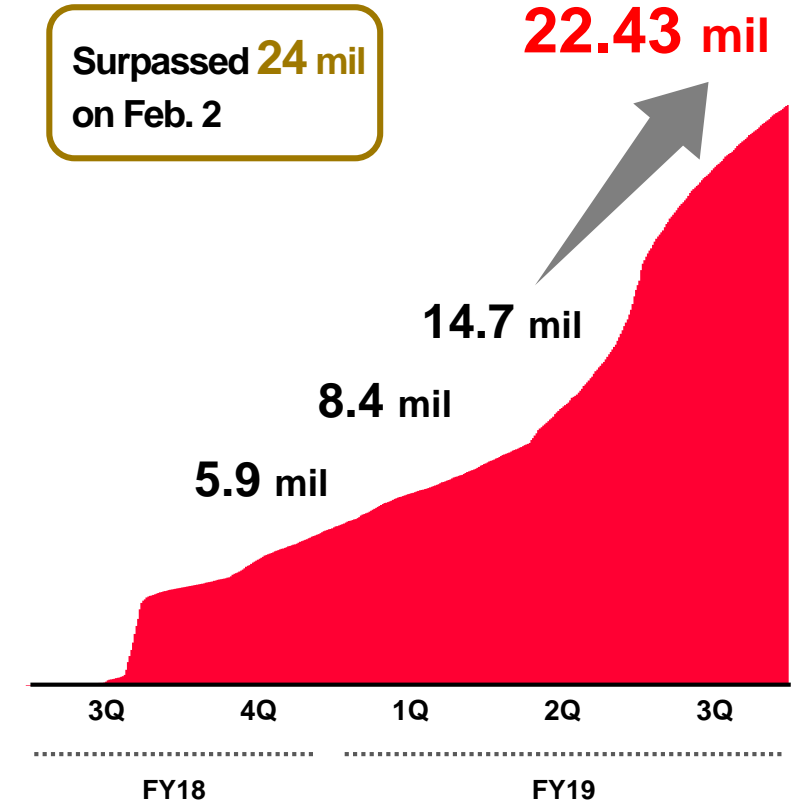
No. of PayPay
payments (quarter)



No. of merchants
(quarter-end)



No. of registered users
(quarter-end)



Ranked high in various rankings

App ranking

App Store
Best of 2019
Top Free App
ranking

Google Play
Best of 2019
Users' Choice App
category


No.1


Winner

Usage ranking of cashless payment

Rank	Type	Usage rate
1	Credit card	84.8%
2	PayPay	37.2%
3	WAON	34.7%
4	nanaco	32.7%
5	Prepaid card	32.6%
6	Suica	30.7%
7	Rakuten Edy	23.6%
8	Rakuten Pay	19.0%
9	LINE Pay	18.1%
10	PASMO	15.4%

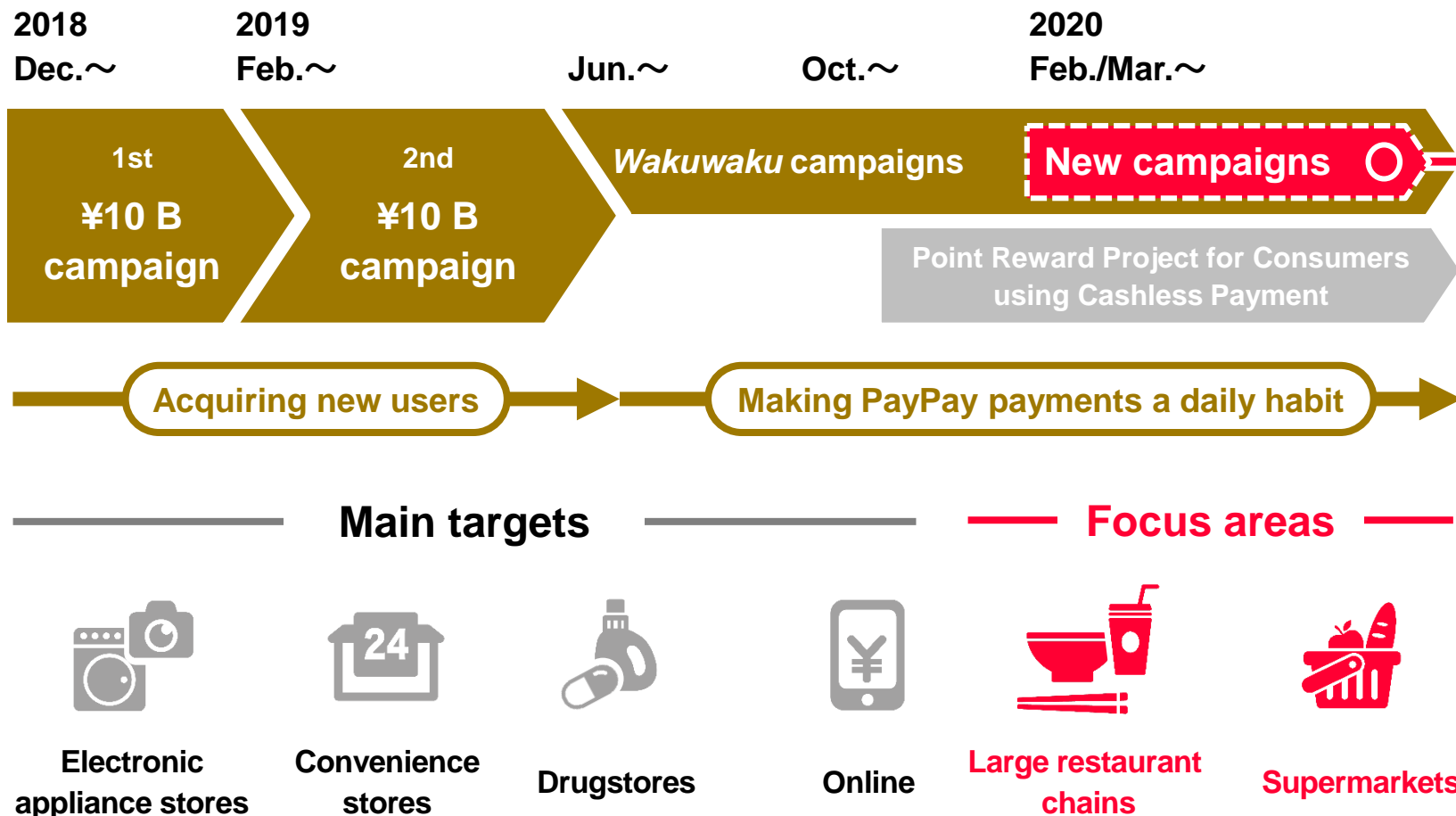
Next to credit cards,
**No. 2 in
usage rate**

Ranking of penetration rate of cashless
payment across 47 prefectures 2020 –
Survey outline

- Survey period: October 10 - 14, 2019
- Survey planned by: Nikkei Business Publications (NIKKEI×TREND, Nikkei Business)
- Survey consigned to: Macromill

PayPay – Campaign Measures

Conducting strategic campaigns with new campaigns aimed at bringing cashless payments closer to consumers



Payments made with PayPay Balance at participating restaurants receive

40% cashback

50% cashback for Yahoo! Premium members

Period: Feb. 1 - 29

6,500+ stores nationwide
+
Approx. 210,000 Coke ON Pay supported vending machines

Participating companies

※ Max. cashback amount ¥500/payment, ¥1,500/period
Payments with credit cards (incl. Yahoo! Card) are not entitled for this cashback.

Campaign for supermarkets is scheduled in March

PayPay – Aspiration

Promote financial services, our focus area for 2020, under a “multi-partner” strategy

Offline

Convenience store Hair salon
Restaurant Retail shop Drugstore

Utility bill + Tax

Utility charge Tax
Mobile phone bill

Online/O2O

EC Taxi Hotel Air ticket
Ticket Movie ticket

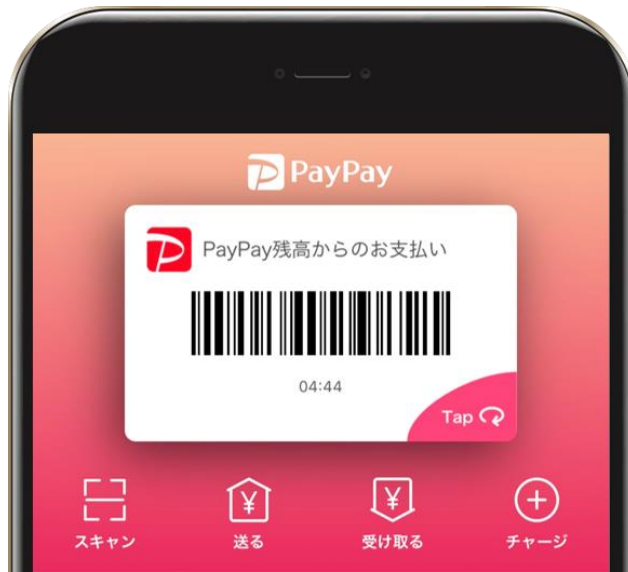
2020 Focus area

Financial services

Loan Investment
Deferred payment Insurance

**Tie-up with various financial institutions
inside and outside the group**

Aim to become
a “Super App”



P2P/Social

Person to person transfer Splitting the bill
 (“Warikan”)
Donation

Note: Items in golden letters already accept payments by PayPay.

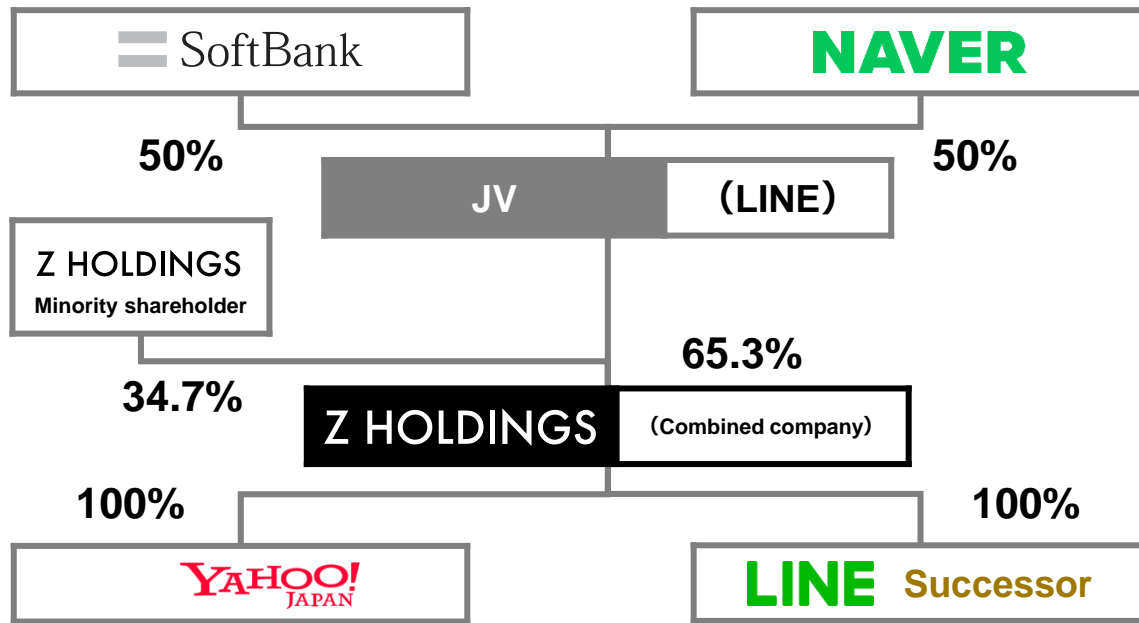
Business Integration with LINE

LINE

Outline of Business Integration with LINE

In the process of business integration

Structure after business integration



T&Cs

- Stock exchange ratio (ZHD) 1 : 11.75 (LINE)
- No. of Z Holdings shares will increase from 4.8 B to 7.7B due to stock exchange
 - All incremental shares are issued to JV
 - No. of treasury stocks to be allocated - TBD

Schedule



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**Unleashing the infinite potential of all people,
with the power of information technology**

..... **Q & A**

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