INTEGRATED REPORT PORTAL

Last updated: 09/28/2020

A Message from the CEO

We are determined to build a new future by continually taking up new challenges.

President and Representative Director
Co-CEO
CEO(Chief Executive Officer)

Kentaro Kawabe

Profile

1995	Established Dennotai Corporation
1999	Established PIM Corporation
2000	Joined Yahoo Japan Corporation / Producer, Yahoo! Mobile
2007	Producer, Yahoo! News
2009	Representative Director, GYAO Corporation
2012	Senior Executive Vice President, Chief Operating Officer (COO)
2018	President and Representative Director, Chief Executive Officer (CEO)

- 1.Responding to COVID-19
- 2.Review of Fiscal 2019, Policies for Fiscal 2020
- 3.Our Future Vision as a Japan-Based Platform Operator
- 4.Growth Investment, Enhancement of ESG Management
- 5.To Our Stakeholders

Responding to COVID-19

We worked to fulfill our social mission by ensuring the health and safety of our employees.

I would like to begin by offering my sincere condolences to the families of those who have lost their lives as a result of the COVID-19 pandemic, and my sympathies to those who have suffered and are suffering from the disease. I would also like to express my profound admiration to the central and local government workers who are battling to prevent the spread of the disease, to the medical professionals who are working day and night to treat those infected, and to the essential workers who are helping to maintain our way of life.

As the COVID-19 crisis continues, I have gained a more profound awareness of the social mission of the Z Holdings Group and the reasons for its existence. The diverse services provided by our group companies, including Yahoo! JAPAN, are helping the many people who are anxious to acquire accurate and up-to-date information about the COVID-19 situation. We are also helping to prevent spread of the disease by providing data to the Japanese government, while taking the greatest possible care to maintain privacy and information security. We have experienced rapid surges of access when major earthquakes, typhoons and other large-scale disasters have occurred in the past, and we have been keenly aware since the start of the present COVID-19 crisis of the mission that society expects us to fulfill as Japan’s leading Internet platform operator.

Our most important priority was the protection of our employees. We are absolutely determined to avoid any threat to the health of our employees and their families, since that

would prevent us from providing our vital services. As soon as COVID-19 arrived in Japan in the last week of January, we immediately decided to adapt work attendance systems in Yahoo Japan Corporation according to the level of infections. We already had a remote working mechanism known as “Dokodemo Office” (Office Anywhere), and we were planning to switch all employees to remote work during the Olympic and Paralympic Games Tokyo 2020, which were scheduled to start within a few months. We brought that concept forward, and by mid-February most of our employees were working from their homes. We also directed those who needed to be physically present at the office to shift their commuting times to avoid crowded trains. As a result, 95% of the employees of Yahoo Japan Corporation, other than those working in security, have transitioned to remote working from safe locations. This approach has allowed us to maintain the timely provision of essential information in step with the continually changing situation surrounding the pandemic.

The current COVID-19 crisis has highlighted delays in the digitalization of industries and government services that depend on face-to-face contact, such as healthcare and education. Because of the threat of new waves of infection, digital transformation (DX) in these areas should be seen as an urgent national priority. As a platform operator based in Japan, I believe that we have a vital social mission to play an active role by offering ideas in this area.

I am sure that the knowledge and expertise that we have accumulated in the user interface (UI) and user experience (UX) fields since the founding of the Z Holdings Group can be used to drive the DX process in many fields. LINE Corporation (LINE), with which we plan to integrate in March 2021, is already a leader in the provision of services to the government. We will expand our collaboration with them so that we can contribute further to the digital transformation in Japan.

> Feature: Response to the COVID-19 Pandemic

Review of Fiscal 2019, Policies for Fiscal 2020

In a year of rapid change, we made significant progress toward the creation of a new future.

In fiscal 2019, consolidated revenue increased by 10.3% year on year to ¥1.05 trillion, operating income by 8.4% to ¥152.2 billion, and EBITDA by 18% to ¥235.6 billion. All of these results were substantially higher than our initial targets.

Fiscal 2019 brought some of the most far-reaching changes in the two decades since our founding. In addition to reorganizing the group following our transition to a holding company structure, we also launched the integrated marketing solutions business and acquired ZOZO, Inc. (ZOZO). The smartphone payment service business, provided by PayPay Corporation, expanded dramatically. Another major source of change, starting in the fourth quarter, was the emergence of the COVID-19 pandemic. I see also fiscal 2019 as a year in which we made significant progress toward the creation of a new future. The impact of the COVID-19 pandemic on our business has not been entirely negative. For example, fourth-quarter advertising revenues showed 9% year on year growth to ¥93 billion, while e-commerce transaction value was 27.6% higher at ¥611.1 billion.

Our two most important missions in fiscal 2020 are to make good progress in the PMI process for ZOZO, and to ensure the success of our business integration with LINE. In addition, I believe that the Z Holdings Group is still at the growth investment stage, and our policy calls for continuing proactive investment, including M&A, if we discover opportunities to invest in companies that are introducing competitive services in the midst of industry

restructuring in Japan.

We will also need to modify the work styles of our employees in preparation for the with-corona or post-corona environment of the future. My priority is to ensure that we have diverse options. I want us to develop an environment that will support creativity, and in which individual employees can choose work styles that suit their preferences and lifestyles, whether they want to continue remote on a permanent basis, or to return to physical attendance at the office. Of course, we will also focus on the development and provision of new services that reflect needs in the with-corona or post-corona environment. For example, we could offer a service that allows people to access real-time information about the level of crowding in a supermarket that they plan to visit. We aim to contribute to the creation of new lifestyles by introducing services that enhance convenience in a with-corona or post-corona era.

We will create totally new user experiences through unique service combinations

When we established Z Holdings in the fall of 2019, we adopted “UPDATE THE WORLD” as our group mission, and “Mankind can be free and be in control” as our vision. These words express our determination to use information technology to liberate the unlimited potential of humanity, and to create a world in which people can enjoy total freedom.

In today’s Internet sector, a few giant companies—the five GAFAM*1 companies in the United States, and the three BAT*2 companies in China—are seeking global dominance. The aim of the Z Holdings Group is to work from Japan as a third center of gravity, and as a focus for competition against these American and Chinese giants. Our business integration with LINE will allow us to offer the world’s Internet users with another option in the form of highly original services that are not provided by the GAFAM and BAT companies.

Our strength lies in the broad scope of our business activities. Each of the GAFAM companies specializes in a particular area, with Amazon, for example, focusing on e-commerce, Facebook on social networks, and Google on searching. None of these companies is actively diversifying laterally. In contrast, we are building a wide-ranging business portfolio that encompasses search, media, e-commerce, messaging, payments, and financial services. We are also a group member under the umbrella of SoftBank Corp., which is a telecommunications carrier. No other corporate group in the world provides such a comprehensive coverage, from telecommunications carrier services to most of the major Internet services. We believe that this uniqueness will allow us to offer totally new user experiences. For example, a person with a single user ID provided by the Z Holdings Group will be able to access all of our services, including telecommunications. Moreover, we will be able to personalize those services to provide an optimized response to the needs of each user.

The Internet sector is evolving into a more data-driven and AI-oriented industry. Until now competition has focused mainly on ways to digitize non-digital information. In the future, success will be determined by how well a company can realize the potential of the accumulated data itself. We will make optimal use of the advantages provided by the broad scope of our business activities to evolve into a group that can offer individual users personalized, optimized services centering on our three super-applications: Yahoo! JAPAN, PayPay, and LINE.

*1 Google, Apple, Facebook, Amazon, Microsoft
*2 Baidu, Alibaba, Tencent

In addition to our proactive investment in R&D and human resource development, we are also prioritizing the enhancement of ESG management.

The management resource that we most need to strengthen as we pursue this strategy is our human capital. Obviously we need people with advanced skills, but another extremely important element in terms of enhancing our competitiveness in global markets and achieving sustainable growth is the diversity of our human resources. Recruiting overseas talent was not easy as it was difficult for us to expand our business globally in the Yahoo Japan Corporation era. The transition to a holding company structure has given us greater freedom, and our ability to recruit talent globally will be further enhanced by our integration with LINE, which has overseas service properties. In part because of the impact of the COVID-19 crisis, an environment is evolving in which people can work anywhere in the world. We aim to diversify our work styles and employment formats on a global basis. For example, we will have employees who are working to expand services in their own countries or working in operations in Japan while living in their home countries, as well as some who have demonstrated excellent abilities after relocating to Japan.

There is also need for further efforts to strengthen our R&D capabilities. The human and financial resources that GAFAM and BAT companies can allocate to R&D exceed our capacity by an order of magnitude. They are able to invest on this scale because the user bases for their services and the revenues generated by those services are also an order of magnitude greater. To compete with those companies, we need to earn the support of large numbers of people on a global basis by creating highly convenient services that the GAFAM and BAT companies do not offer, and to develop services with even greater value by investing the profits earned in R&D.

An increasingly important priority as we work to achieve this will be the integration of the various excellent services that are already offered, through collaboration with SoftBank Vision Fund, the investment arm of the SoftBank Group. We were able to access the technology used to create PayPay and Yahoo! JAPAN Maps services because SoftBank Vision Fund had invested in the Indian company paytm and the American company Mapbox.

To achieve sustainable growth as a company, we also need to strengthen our initiatives in non-financial areas, such as the environmental, social, and governance (ESG) aspects of our activities. From an environmental perspective, we are actively transitioning to clean energy to provide the substantial amounts of electric power used in our data centers. In addition to the aforementioned efforts to enhance our human resources, we are also prioritizing social initiatives in step with current social trends in such areas as cyber-security and the protection of personal information and privacy.

Our policies also call for continuing reinforcement of our corporate governance systems. After the integration with LINE, we plan to increase both the number of outside directors and the diversity of our Board of Directors. We will also reduce the number of SoftBank directors on our Board from three at present to one. In addition, we will establish a Nominating and Remuneration Committee to improve the transparency of our governance structures.

> Sustainability initiatives

We will continue to take up new challenges in our quest to create greater freedom.

Since becoming CEO in 2018, I have worked to strengthen our business portfolio by bundling the various services offered by the Z Holdings Group to create multiple data solutions and promote monetization. The Group has made steady progress toward the creation of a future in which people will enjoy greater freedom, including the acquisition of ZOZO and the formation of a partnership with SoftBank Corp. in fiscal year 2019, and the upcoming business integration with LINE in March 2021.

We have established a strategic direction that answers the vital question of how we can compete with the GAFAM and BAT giants. We are achieving that by offering users another option based on the combination of multiple management assets in ways that will be unparalleled anywhere in the world. This has raised expectations toward us as a team of people who can do amazing things. I take pride in this as a sign that we have made significant progress.

Yet we have only just begun to pursue this growth strategy for the Z Holdings Group, and our task now is to develop real content for the strategy. As I said at the start of this message, we will proactively offer to implement DX in such areas as healthcare, education, and government services. There are still many issues that need to be overcome in order to be free and in control in the with-corona or post-corona world, including labor management for remote working, the promotion of electronic signing, and a shift to online elections and court procedures. Our policy in the immediate future will be to prioritize growth investment in activities that maximize the number of solutions that we can develop and provide for these issues.

We look forward to the continuing support of our shareholders and investors from a long-term perspective.

Copyright (C) Z Holdings Corporation. All Rights Reserved.