INTEGRATED REPORT PORTAL

Last updated: 09/28/2020

Commerce Business

Overview of Commerce Business

Major Services

- **E-commerce-related services focused on the Shopping business (Yahoo! JAPAN Shopping, PayPay Mall, ASKUL, LOHACO, ZOZOTOWN, etc.)**
- **E-commerce-related services focused on the Reuse business (YAHUOKU!, PayPay Flea Market, etc.)**
- **E-commerce-related services focused on the O2O (Online to Offline) business (Yahoo! JAPAN Travel, Ikyu, etc.)**
- **Membership services (Yahoo! JAPAN Premium, Yahoo! JAPAN BB, etc.)**
- **Payment-related services (Yahoo! JAPAN Wallet, Yahoo! JAPAN Card, Japan Net Bank, etc.)**

Results for Fiscal 2019

Revenue

742 billion

Operating income

80 billion

Operating margin

10.9 %

Market Environment

According to a survey by the Ministry of Economy, Trade and Industry (METI),*1 the Japanese business-to-consumer (B2C) e-commerce market expanded 7.65% year on year in calendar 2019, reaching ¥19.4 trillion, and e-commerce sales accounted for 6.76% (up 0.54 percentage points year on year) of all merchandise sales. Although the ratio of e-commerce sales to total sales in Japan is still low compared with that of other countries, the figure is on an upward trend and we see considerable upside potential. The market size of online auction is estimated to be ¥1.13 trillion.*2

Amid this growth in the e-commerce market, the domestic credit facility amount, a measure of actual credit card utilization volume, continued to rise reaching ¥73.43 trillion, up 10.1% from the previous year.*3 A government-led reward scheme that awarded reimbursements in the form of points for using cashless payment methods (January 2019 to June 2020) had a big influence on consumer awareness, and movement toward electronic payment methods is gaining momentum. Additionally, as we face the unprecedented crisis of the coronavirus disease (COVID-19) pandemic, we are being forced to change the way we live, and this has further accelerated the shift to online activities in a range of areas. Going forward, we expect the Commerce business market to expand, and the online and offline domains to merge even further through the use of technologies such as big data analysis and

the spread of payment methods such as mobile payment.

*1,2 Source: International Economic Research Project Exploring the Formation of Integrated Internal and External Economic Growth Strategies in 2019 (Market Research on Electronic Commerce Transactions), Ministry of Economy, Trade and Industry
*3 Source: Credit Statistics of Japan (2019), Japan Consumer Credit Association

Growth Strategies—Basic Policies

Our Commerce business offers e-commerce-related services, membership services, and financial and payment-related services under the following growth strategies.

- Sustainable growth of e-commerce transaction value
- Merger of online and offline worlds driven by PayPay
- Expansion of Financial business

In October 2019, we launched two new services, PayPay Flea Market and PayPay Mall. PayPay Flea Market provides customers with an easy way to sell things at prices they set themselves, while PayPay Mall only partners with carefully selected stores. By fully entering the growing market for flea market apps, we are growing business focused on distributing reusable goods. We are also making users' e-commerce experiences more satisfying by offering PayPay Mall, which offers stores from popular consumer electronics retailers and fashion brands, alongside Yahoo! JAPAN Shopping, which includes a variety of different types and sizes of stores. These initiatives are further accelerating the growth of our Shopping business. We are also working with the smartphone payment service PayPay to provide various services that will make PayPay Flea Market even more user friendly. Through the combination of these efforts, we aim to raise the transaction value of Yahoo! JAPAN's entire e-commerce business.

PayPay Corporation is a joint venture between Z Holdings Corporation, SoftBank Group Corp., and SoftBank Corp. It has grown an overwhelming lead in the Japanese smartphone payment market and is leading the shift toward cashless payment methods. Based on its payment function, we will evolve PayPay into a super app that makes users lifestyles more convenient and fulfilling. As part of this, in November 2019 we launched a mini app function that enables users to make reservations, place orders and pay for products and services provided by our partner companies through the PayPay app. We will continue this evolution beyond cashless payment systems to include the provision of services that are a useful and enriching in people's lives.

Operating a Financial business requires stronger governance and business and financial measures that are different to those in Internet services. Therefore, in May 2019, we established Z Financial Corporation as a subsidiary tasked with overseeing our Financial business. We are putting a strong focus on advancing "scenario finance" which leverages a multi-partner strategy and our Group services with the aim of further expanding our business fields and maximizing corporate value.

Business Strategies–Progress and Outlook

Fiscal 2019 Results

In the Commerce business, revenue rose 14.3% year on year, to ¥742.7 billion in fiscal 2019, accounting for 70.5% of total revenue. This was due to an increase in advertising revenue for Yahoo! JAPAN Shopping and increases in the revenues of the ASKUL Group and YJ Card Corporation, as well as contributions from ZOZO, Inc., which was made a subsidiary in November 2019. Operating income increased 44.7% year on year to ¥80.7 billion, due to increased efficiency introduced into sales promotional activities, etc.

Shopping business transaction value was ¥1.03 trillion, an increase of 34.5% year on year, as the business continued to exceed the market growth rate and expand its market share. Advertising revenue from stores in Yahoo! JAPAN Shopping grew 26.5% year on year, to ¥41.6 billion. The ratio of advertising revenue to transaction value in Yahoo! JAPAN Shopping and PayPay Mall grew to the 5% range for the full year. By streamlining our expenditures for sales promotional activities (e.g. point-reward programs), we were able to grow transaction value and enhance profitability. Additionally, in November 2019, ZOZO, Inc. was consolidated as a subsidiary (see Highlights). The transaction value of our Reuse business declined 1.3% year on year to ¥804.1 billion. As stated above, we have started providing services through PayPay Flea Market to fully enter into the market for flea market apps, which offers huge growth potential. The transaction value of O2O business (travel and dining reservations, including Ikyu Corporation) was affected by factors such as typhoons, a reaction to the raising of consumption tax in Japan, and people choosing to stay at home due to the COVID-19 pandemic. Even so, it increased 16.1% year on year to ¥414.8 billion.

In the Payment business, we received a boost from synergies realized with PayPay, as well as from the government's cashless payment reward scheme. As a result, the number of valid credit card holders rose 13.2% year on year, realizing 7.16 million holders in the six years since the start of service. The transaction value also grew by a significant 55.2% year on year, to ¥2.02 trillion. We will continue to grow our proprietary payment services and improve profitability.

Measures of Focus for Fiscal 2020

In the area of e-commerce (merchandise), we are constantly evolving to establish a convenient and comfortable environment for both buyers and sellers with the aim of realizing the highest transaction value in Japan. In fiscal 2020, we will continue to focus on initiatives from this perspective. For example, in PayPay Mall, we have enabled users to search inventories of physical stores, make purchases, and then pick up their purchased product from a preferred location. Going forward we will continue striving to deliver high added value proposals by aiming to create services not found in other online malls. Also, to strengthen our presence in the fashion category, we are creating synergies with ZOZO, Inc. through collaborations. Since ZOZOTOWN set up a store on PayPay Mall, the number of new buyers and transaction value in the fashion category have grown, and we have introduced PayPay into ZOZOTOWN.

In our Financial business, we aim to continue realizing our scenario finance initiative. The Group's strength lies in its provision of a wide range of services that encourage user actions, including exploring, purchasing, making

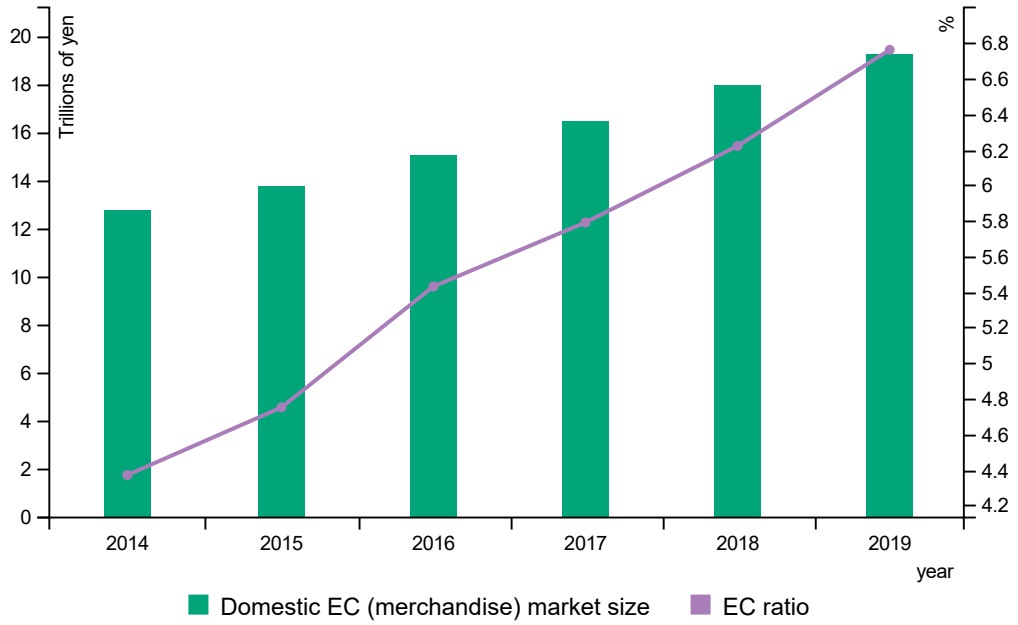
reservations and paying, in areas such as search, e-commerce, payment, and travel. We will leverage this strength to propose financial products that are optimized to fit specific scenarios within the services we provide. For example, for YAHUOKU!, we will enable users to apply for repair warranties on the same screen through which they purchase used products. In this way, we will increase opportunities for users to buy and apply for financial products in one stop, when they take other actions. We think that this scenario finance initiative will increase convenience for users and make the services themselves more appealing. In the future, we hope to make our Financial business a third pillar of earnings alongside our Commerce and Media businesses.

Data

Market Data

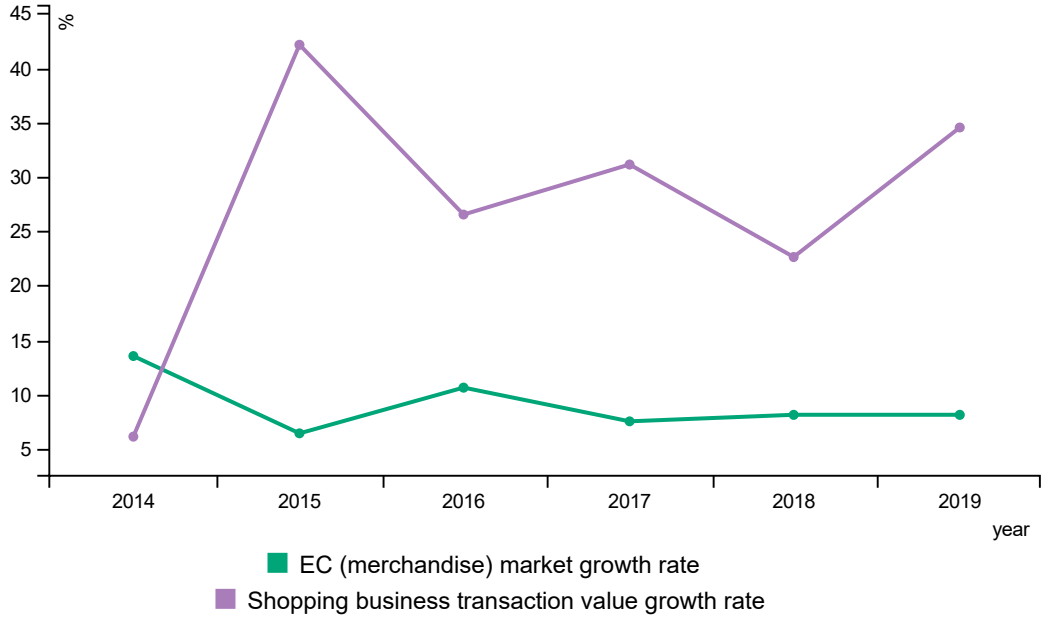
Domestic EC (merchandise) market size and EC ratio

*** Source: International Economic Research Project Exploring the Formation of Integrated Internal and External Economic Growth Strategies in 2019 (Market Research on Electronic Commerce Transactions), Ministry of Economy, Trade and Industry**



Comparison between EC (merchandise) market* and Shopping business transaction value growth rates

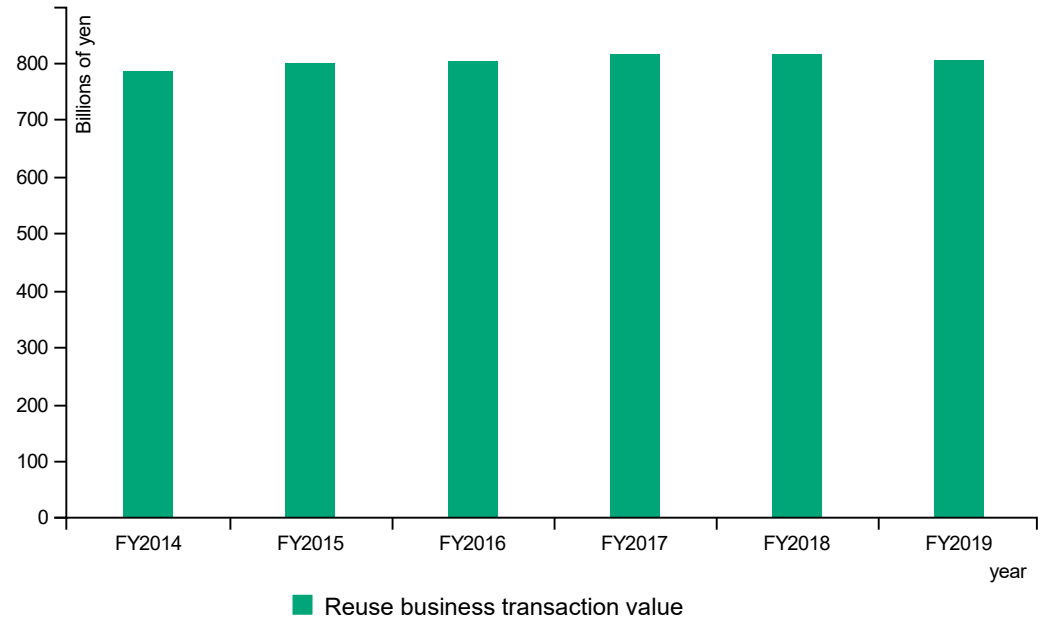
*** Source: International Economic Research Project Exploring the Formation of Integrated Internal and External Economic Growth Strategies in 2019 (Market Research on Electronic Commerce Transactions), Ministry of Economy, Trade and Industry**



KPIs (Key Performance Indicators)

Shopping business transaction value

Reuse business transaction value



Commerce Business Related Data

Yahoo! JAPAN Card—Number of valid credit card holders

Highlights

Capital and Business Alliance with ZOZO Inc.

In November 2019, we acquired ZOZO Inc. with the aim of strengthening our Commerce business in the fashion category. ZOZOTOWN, a fashion e-commerce site operated by the company, established a store on PayPay Mall. This attracted new users making first-time purchases who had not been shopping in the fashion category on Yahoo! JAPAN Shopping, raising transaction value. As many of these new customers were also new users for ZOZO Inc., the alliance has resulted in a mutual increase in customers and growth for both companies. In fiscal 2020, we plan to introduce PayPay into ZOZOTOWN Main Store. Following this, we will continue creating synergies through various collaborations to realize further growth for both Z Holdings Corporation and ZOZO Inc.

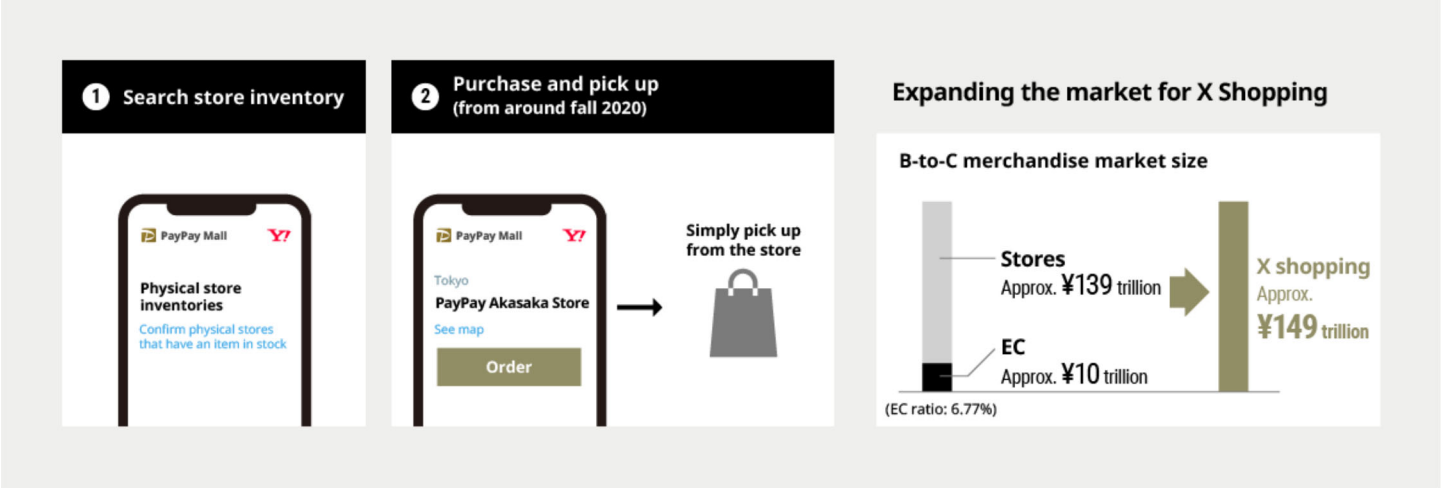
A New Commerce Strategy Centered on Logistics

In March 2020, we reached a memorandum of understanding on a business alliance with Yamato Holdings Co., Ltd. This was part of efforts to strengthen logistics and distribution based on our policy of realizing services that enable users to “get what they want, when they want,” a follow-up to 2013’s “e-commerce revolution,” in which Yahoo! JAPAN Shopping completely eliminated store tenant fees and system-use fees.

The alliance will greatly improve the quality of our logistics operations, increase the number of next day deliveries and reduce cost for stores that use the e-commerce services of Yahoo Japan. Also, since March 2020, we have been testing a store inventory display service in PayPay Mall, based on the concept of “X (Cross) shopping.” Going forward we will enable users to make purchases through these inventory lists*. The realization of X shopping will increase the number of products each store can offer on PayPay Mall, provide a greater selection of products for users, and even expand the B-to-C merchandise markets in which we do business, including in offline areas. We will continue advancing these kinds of initiatives to make strong progress toward becoming No. 1 for e-commerce in Japan.

* In addition to providing a function that allows users to search the inventories of physical stores through PayPay Mall and make purchases, users will be able to pick up their purchase at their nearest physical store. This will provide users with a greater choice of goods and allow them to receive their purchase when they want it, without having to wait for delivery. In addition to bringing greater numbers of customers to the physical stores of PayPay Mall tenants, we expect it will lead to add-on purchases as customers who come to collect their purchases then buy other items at these physical stores.

> Press Conference on New Commerce Strategy to Strengthen Logistics and Delivery



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