Message from the GCFO

Last updated: 12/22/2022

We aim to maximize corporate value by actively pursuing strategic investment, while also focusing on the improvement of capital efficiency.

Ryosuke Sakaue
Senior Managing Corporate Officer,
GCFO (Group Chief Financial Officer)

Results of PMI Initiatives

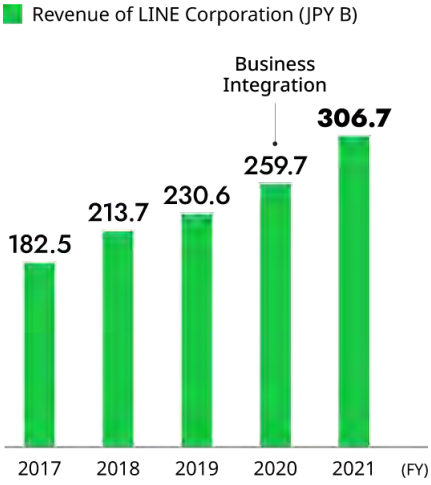
With LINE now achieving sustained income, we are determined to maintain the recovery in capital efficiency.

Since the business integration with LINE Corporation (“LINE”) in March 2021, the Z Holdings Group has targeted expansion in all of its business segments, while pursuing synergies across a wide range of areas. Cost efficiency improvements resulting from these initiatives yielded cost synergies totaling around JPY10 billion in the fiscal year ended March 2021. In addition, collaboration across the Group’s various services is also starting to generate business-related synergies. In the fiscal year ended March 2022, we set new records, with revenue increasing by 30.0% year on year to JPY1.56 trillion, and adjusted EBITDA by 12.4% to JPY331.4 billion.

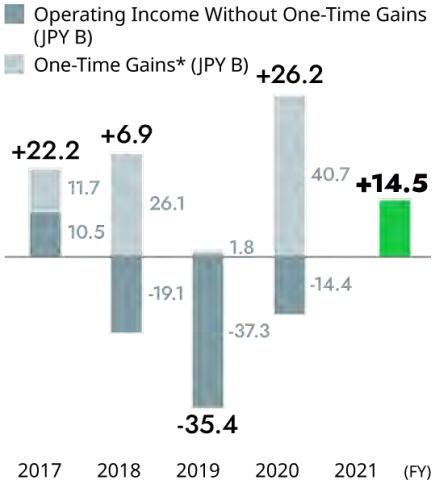
As Group CFO, I recognize in particular LINE’s sustained income growth as one of the major achievements of PMI. LINE was showing continuous revenue growth before the business integration, but its income performance had been somewhat inconsistent, with net income in negative figures since fiscal 2018. I am sure that a number of investors were concerned about this fact at the time of the business integration. However, LINE’s advertising business expanded significantly after integration thanks to group synergies. In addition, LINE has applied the disciplined approach of the Z Holdings Group to its development and marketing activities, and further emphasis on investment efficiency has been reflected in a major improvement in income margin and a substantial contribution to income growth across the entire Group.

Another consequence of the business integration with LINE was a substantial increase in the number of shares outstanding and net assets. We recognize that this has created a financial issue in the form of temporary declines in earnings per share (EPS) and capital efficiency indicators, such as return on invested capital (ROIC) and return on equity (ROE), and we are determined to return these indicators to pre-integration levels as quickly as possible. Our ability to improve our KPIs ultimately depends on the extent of our capacity to generate profit. We aim to first achieve our FY2023 adjusted EBITDA target of JPY390.0 billion through growth in our various business segments, combined with the generation of integration synergies by furthering PMI initiatives.

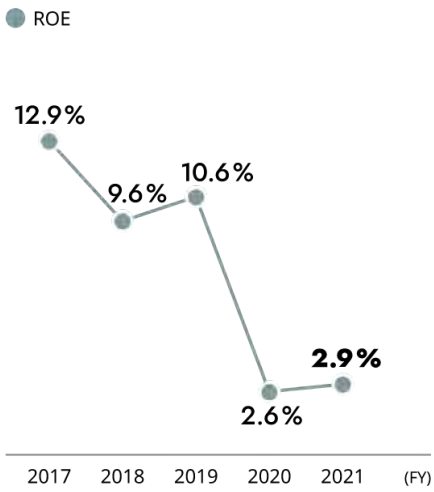
LINE Corporation — Revenue



LINE Corporation — Operating Income



Return on Equity (ROE)



Future Investment Strategy

We will execute timely strategic investment according to the growth phase of each business.

One of the most important missions for financial management is to ensure the appropriate allocation of capital. We are working to achieve growth in each business area through an active investment strategy based on medium- to long-term perspectives, and plan to execute strategic investments totaling JPY50-70 billion across the Group in FY2022.

Looking at individual segments, the Media Business encompasses extremely powerful services used by the majority of people in Japan, including LINE, Yahoo! JAPAN, and PayPay, and is a major contributor to the Group's earnings. Centered on these powerful products, we plan to continue investment in strategic areas such as the digitalization of marketing, with an EBITDA margin of 40% as a guideline.

The main contributors to earnings in the Commerce Business are ZOZO and ASKUL, as well as reuse businesses such as YAHUOKU! and PayPay Flea Market. Given that the use rate of e-commerce in Japan is lower compared to other countries, we believe that there is still ample scope for growth in these areas. We will pursue growth by leveraging the user bases of LINE, Japan's number one messaging service, and PayPay, the top payment service, to create unique sales platforms that cannot be matched by our competitors. Following the integration of Yahoo! JAPAN Shopping and PayPay Mall in October, we are implementing the industry's biggest point reward campaign (up to 5% every day) and will continue to invest in the expansion of businesses with the aim of maintaining an EBITDA margin of 10-20% across the segment.

Our businesses in the Strategic Business, including PayPay, credit cards, securities, and credit, are all still in the up-front investment phase. However, digitalization is accelerating even further in the payment and financial fields than in the e-commerce field, as evidenced by the decision to legalize digital salary payments from April 2023. We expect this trend to create new business areas, and will actively pursue strategic investment without missing the opportunity. In the past, we have invested in major sales promotion efforts including the "PayPay 10 Billion Yen Giveaway Campaign" which have enabled us to achieve the number one status in this area. We are likely to implement further large-scale investment in sales promotions, and therefore expect it to take several years for the entire segment to become profitable.

Human capital is a vital resource for the creation of new services, and for this reason, we have made investment in people our top priority for the allocation of management resources in all three segments. In terms of budget allocation to each segment, we make decisions about the level of strategic investment and the types of services and businesses that should be targeted through discussions in the Product Committee, of which I am a member. We also monitor progress regularly after executing investments.

In FY2022, we are implementing a company-wide cost optimization program in response to an economic downturn that has impacted advertising in particular. We believe that our current measure to reinforce our earnings structure will lead to higher investment returns and profitability in the future.

Our Approach to M&A and Financing

Business expansion through large-scale M&As is always on the horizon. While ensuring financial soundness, we will also use external funds.

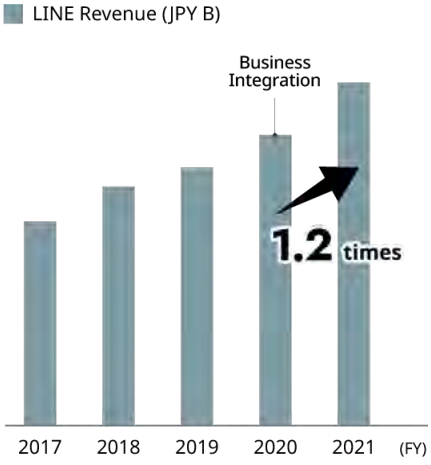
M&A strategies are obviously one of our options when allocating funds with the aim of achieving sustainable business growth. In recent years, major M&As including the acquisition of ZOZO, Inc. in 2019 have supported the growth of the Z Holdings Group. Further M&As are always a possibility under our future growth strategy, and we are continually updating our long list.

For M&A, three standards have been developed internally for determining the selection of companies. First, we must be able to concretely envision the target company generating synergies with our business activities. Second, it must be the leading or only company in the area concerned. Third, we must be able to acquire the company as a subsidiary. Our past M&A cases, such as Ikyu Corporation and ZOZO, Inc. demonstrate the importance that we place on these criteria.

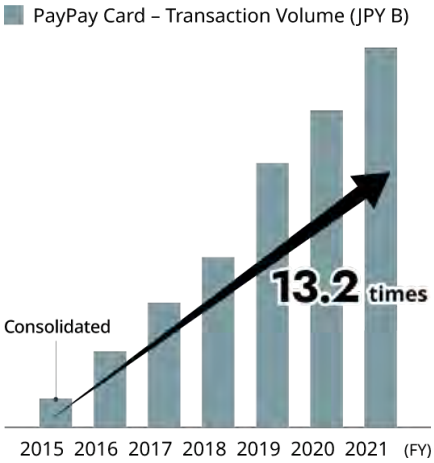
Our basic policy is to provide the funds needed for M&A from free cash flows generated by our business operations. However, we need to consider external funding, such as bond issues or bank loans, in the case of large-scale M&A involving investments of JPY100 billion or more. Major M&As in the past have resulted in our total interest-bearing liabilities to increase and as there is a need to maintain financial soundness, we have introduced a new external funding standard requiring the ratio of net debt to EBITDA to be 3.0 or lower.

In October, PayPay Corporation became a consolidated subsidiary of the Z Holdings Group. Because of the different approaches to the procurement of funds for finance businesses and service businesses, we will from now on prepare and disclose separate balance sheets for our finance and Internet businesses. Following this separation, the aforementioned standard limiting the ratio of net debt to EBITDA to 3.0 or lower will be based on income (adjusted EBITDA) from Internet businesses.

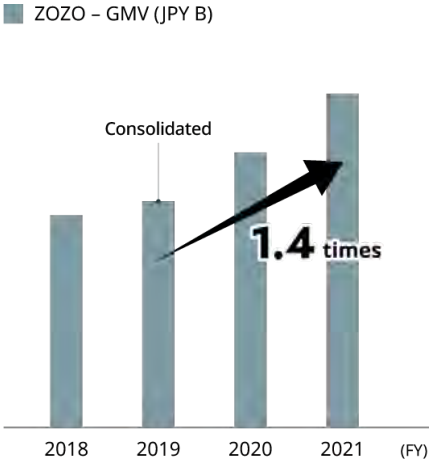
LINE Revenue



PayPay Card — Transaction Volume



ZOZO — GMV



ESG Initiatives

We aim to realize a sustainable society by addressing materiality-issues across the Z Holdings Group.

In addition to financial initiatives, it is more important than ever for companies to engage in non-financial activities such as ESG initiatives, to achieve sustainable growth and to support a sustainable society. At the Z Holdings Group, an ESG Management Committee has been established, which I lead as Group CFO. This Committee collaborates with each Group company (divisions in charge of CSR management, corporate matters, and business matters) on promoting ESG measures.

The mission of the Z Holdings Group is to "UPDATE THE WORLD." This means using the power of our accumulated knowledge on information technology to create the future and enhance our corporate value by overcoming various social issues, while we ourselves also achieve sustainable growth. In order to fulfill this mission we have identified "Six materialities" (key issues).

Our first materiality calls for the use of data and AI to provide new (WOW!) experiences. Numerous services provided by our companies, including LINE, Yahoo! JAPAN, and PayPay, have transformed the convenience and comfort of life for people in Japan. Going forward, we will leverage the power of information technology and the Internet to bring enhanced convenience and comfort to even more areas of society, including the digitalization of healthcare, and the digital transformation of local governments.

Another of our materialities is to fulfill our responsibilities for the global environment and future generations. In addition to declaring a target of achieving carbon neutrality across the entire Z Holding Group by FY2030, in June 2022, we announced our participation in RE100, a global initiative calling a shift to 100% renewable energy for electricity used in business activities. We will step up our efforts to contribute to the realization of a carbon neutral society by further strengthening collaborations with stakeholders within and beyond the Z Holdings Group.

Policy on Shareholder Returns

We are determined to raise our share price through improved business performance, and to provide returns to shareholders through dividends and share buyback initiatives.

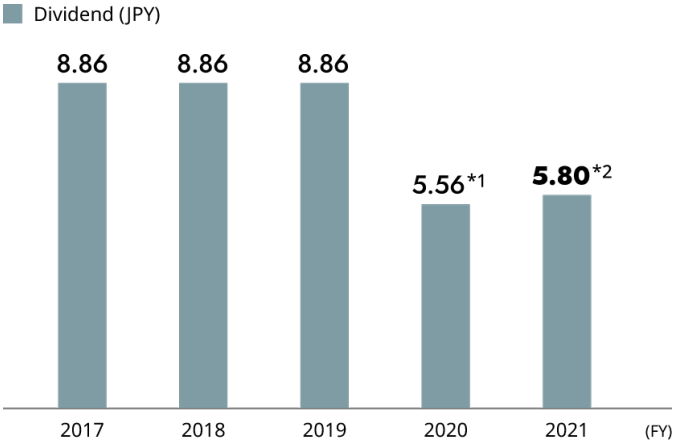
The Z Holdings Group is dedicated to sustained growth in corporate value over the medium-to long-term future. That will require active measures focused on future growth, including upfront investments in our services, capital expenditures, and the formation of capital and business alliances. As Group CFO, I am also aware that we have an important responsibility as a listed company to provide returns to the shareholders who continue to support us.

My first priority in terms of providing returns to shareholders is the creation of capital gains through increases in our share price. I believe that the best way to return profits to shareholders is by achieving medium- to long-term growth in our share price. We aim to achieve that by maximizing our management indices, which are revenue and EBITDA, through business growth driven by strategic growth investment under rigorous investment discipline.

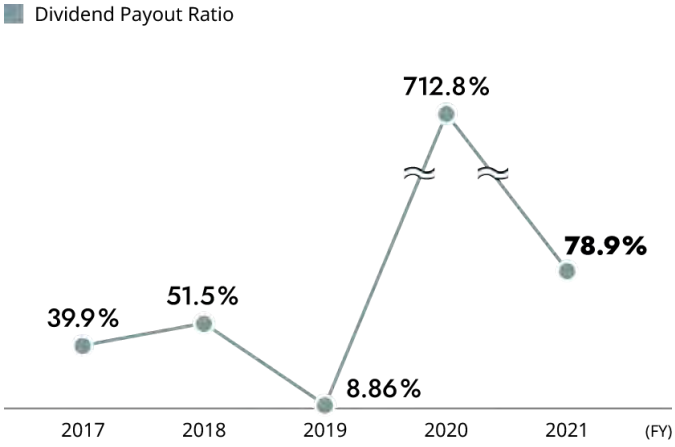
Of course, we will also continue our efforts to provide direct shareholder returns, such as dividends and share buybacks. In the fiscal year ended March 2022, we paid a total dividend of JPY5.81 per share, consisting of an ordinary dividend of JPY5.56 per share, which was the same as in the previous fiscal year, together with a JPY0.25 commemorative dividend as an expression of our gratitude to shareholders on the first anniversary of our business integration with LINE Corporation. The total amount distributed as dividends was JPY43.5 billion. We also plan to flexibly implement share buybacks, while balancing our financial position, growth investment, shareholder dividends, and other factors.

We aim to maximize the growth of each business and corporate value of the Z Holdings Group through active strategic investment with an awareness of capital efficiency. We look forward to the continued support and understanding of our shareholders.

Shareholder Dividends



Dividend Payout Ratio



*1 Dividend per share was lower than in the previous year because of an increase in the number of outstanding shares due to the integration.

*2 Includes a JPY0.25 commemorative dividend to mark the first anniversary of business integration with LINE Corporation.

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