Growth Strategy and KPIs

Last updated: 12/22/2022

Company-Wide Medium-Term Targets

The Z Holdings Group had upheld achieving a record-high income, an operating income of JPY225.0 B, as medium- to long-term target. However, M&A and capital investments have been increasing in recent years; thus, we have changed the income-related KPI to adjusted EBITDA in order to facilitate a cash-based evaluation that also takes into account the impact of accounting treatments related to these investments and the effects of strategic investments.

Achieving a revenue of JPY2 trillion and an adjusted EBITDA of JPY390.0 billion (equivalent to the former operating income target of JPY 225.0 billion) is our new medium-term management index. This represents our firm determination to achieve this income target regardless of the bold strategic investments we will be making from the increased profits expected from the business integration with LINE Corporation ("LINE"). In addition to achieving the income target, we will make investments to accelerate medium- to long-term growth, aiming to realize significant growth that would not have been possible without this business integration.

Company-Wide Medium-Term Targets (Management Index)

Revenue (FY2023 Management Index)

JPY 2 T

Adjusted EBITDA*1 (FY2023 Management Index)

JPY 390.0 B

Appropriate financial leverage conscious of maintaining credit rating

Maintain net leverage ratio*2

2.5 - 3.0 x

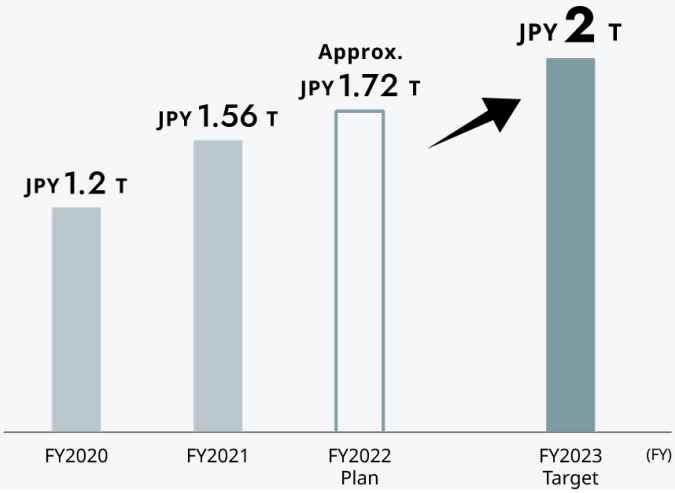
Maintain credit rating

R&I: A+, JCR: AA-

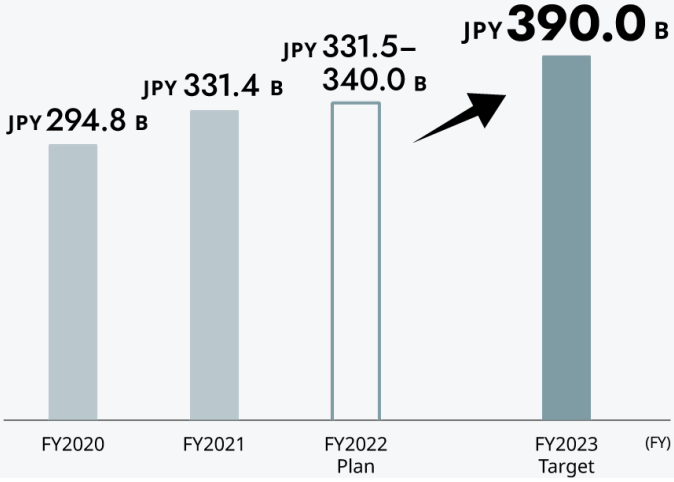
*1 Adjusted EBITDA: Operating income + Depreciation & amortization ± EBITDA adjustment items
EBITDA adjustment items: Gains/losses on non-recurring and non-cash transactions within operating revenue and expenses (loss on retirement of fixed assets, impairment losses, stock compensation expenses, losses/gains on step acquisition, other transactions with undetermined cash outflows (one-time provisions, etc.), etc.)

*2 Excludes banking business

Revenue



Adjusted EBITDA



Results of FY2021

Both revenue and adjusted EBITDA for FY2021 reached a record high of JPY1.5674 trillion and JPY331.4 billion respectively. In particular, LINE's revenue exceeded JPY300.0 billion, due to the steady growth of its advertising business. It also achieved a stable profit due to enhanced investment discipline, which contributed to the increase in the adjusted EBITDA and the operating income of the consolidated financial statement.

In addition to working on the reinforcement of data governance as top priority, we have implemented various PMI measures after the business integration such as generation of cost synergies in the size of JPY10.0 billion, organizational and business restructuring, and others.

In the Media Business, we have begun distributing ads from Yahoo! JAPAN Ads to the LINE NEWS section. We have also begun the sales of advertising package products targeting top clients, through sales collaborations among LINE, Yahoo Japan Corporation ("Yahoo! JAPAN") and SoftBank Corp.

In the Commerce Business, LINE GIFT has recorded a significant growth as a result of the collaborations among Yahoo! JAPAN Shopping, PayPay Mall[*4], and ZOZOTOWN. Moving on, we will expand services leveraging the wide array of services of the Z Holdings Group. Services that no other competitor can offer are also steadily expanding. For example, Yahoo! JAPAN, ASKUL Corporation ("ASKUL"), and Demae-can Co., Ltd. ("Demae-can") collaborated to launch Quick Commerce (instant delivery service), providing a new commerce experience to our users. This service identifies needs for immediate delivery of daily necessities and groceries as well as feasibility of locations and delivery operations, and delivers goods to users in as little as 15 minutes after ordering.

In the Strategic Business, the linkage of QR/barcode payment business of PayPay and LINE Pay in Japan is steadily underway. Linkage of MPM (Merchant Presented Mode) began in August 2021, enabling payment by LINE Pay at PayPay merchants supporting user scan payment method. This linkage has increased locations where LINE Pay can be used to make payments, enhancing the usability of LINE Pay. Furthermore, we have also launched PayPay Card and PayPay Atobarai (deferred payment), solidly expanding the financial business. We have transferred all the shares of YJFX, Inc., to promote selection and concentration in the payment and financial business, while also considering future generation of synergies with the PayPay business.

In terms of synergy generation in human capital and corporate cultures, we prioritized the integration of corporate cultures. As each department communicated and worked closely with the other, mutual understanding and rules were developed between LINE and Yahoo! JAPAN.

*4 Integrated to Yahoo! JAPAN Shopping as of October 12, 2022.

Segment	Outcomes in FY21
Whole Group	**Reinforcement of data governance throughout the ZHD Group** • Final report received from the Special Advisory Committee on Global Data Governance. **Promoted initiatives to improve the Group's governance.** **Achieved record results** • Revenue: **JPY1.56 T (YoY +30.0%)**, adjusted EBITDA: **JPY331.4 B (YoY +12.4%)** • LINE's revenue exceeded **JPY300 B.** **Achieved operating profit for the full year**, by enhanced investment discipline. **Promotion of PMI following the business integration** • **Cost synergy of JPY10 B achieved** (consolidation of offices, decrease in operating expense of LINE Pay, etc.) • **Streamlined businesses and promoted organizational/business restructuring** (consolidation of e-book businesses, investment in Demae-can, sales of YJFX! and SRE Holdings shares, etc.)
Media	• Yahoo Japan advertising revenue: **achieved first double-digit growth since FY2013** (JPY392.6 B (YoY +11.0%)) • LINE advertising revenue: **recorded high growth for the second consecutive fiscal year** (JPY188.9 B (YoY +25.0%)) • **Progress in collaboration: began ad distributions** from Yahoo! JAPAN Ads to LINE NEWS sections, **joint sales of ad package products by Yahoo! JAPAN/LINE/SoftBank**
Commerce	• Reuse transaction value: **achieved highest growth since FY2013** (JPY928.8 B (YoY +9.2%)) • **Progress in collaboration: promoted introduction of LINE Official Account** to merchants of Yahoo! JAPAN Shopping and PayPay Mall, promoted the growth of **LINE GIFT and Yahoo! JAPAN Mart**, etc.
Strategic	• **Dramatic growth and new initiatives: PayPay GMV** grew to **approximately JPY5.4 T (YoY +67.2%).** **Launched PayPay Card and PayPay Atobarai (deferred payment).**

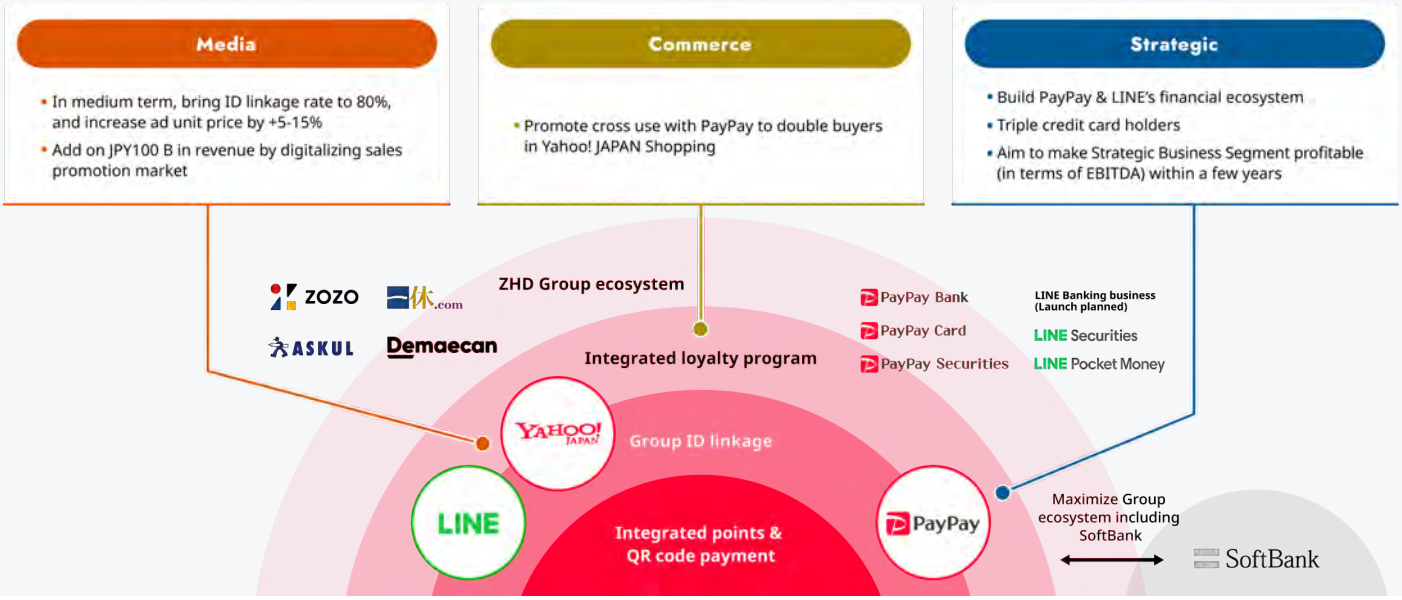
Priority Initiatives for FY2022

We expect a double-digit growth in revenue to approximately JPY1.7 trillion and adjusted EBITDA within the range of JPY331.5 to 340.0 billion for FY2022.

In FY2022, we plan to make strategic investments of JPY50.0-70.0 billion, out of which around 20% will be allocated to the Media Business, around 50% to Commerce Business, and around 30% to Strategic Business. Under the investment policy of each segment, we will execute investments that contribute to medium- to long-term growth based on flexible decision-making, taking into consideration the business environment and market conditions.

Furthermore, to accelerate medium- to long-term growth, we have three focus areas.
The first is encouraging the cross-use of services and expansion of the Group's ecosystem. By linking the three action points of LINE, Yahoo! JAPAN, and PayPay, which are the Group's unique assets, we will fortify one of Japan's largest user base which will serve as the foundation of our monetization, and will dramatically develop our three major businesses: Media, Commerce, and Strategic.

The second focus area is the development of the Commerce Business leveraging the strengths of Z Holdings. We aim to increase the number of new buyers by strengthening services that take advantages of the characteristics of Z Holdings and by capturing diverse user needs. The third focus area is the expansion of payment/financial business around PayPay. We will further enlarge the financial ecosystem from PayPay by increasing the number of PayPay users even more, and reinforcing the linkage between each financial service such as the credit card business.

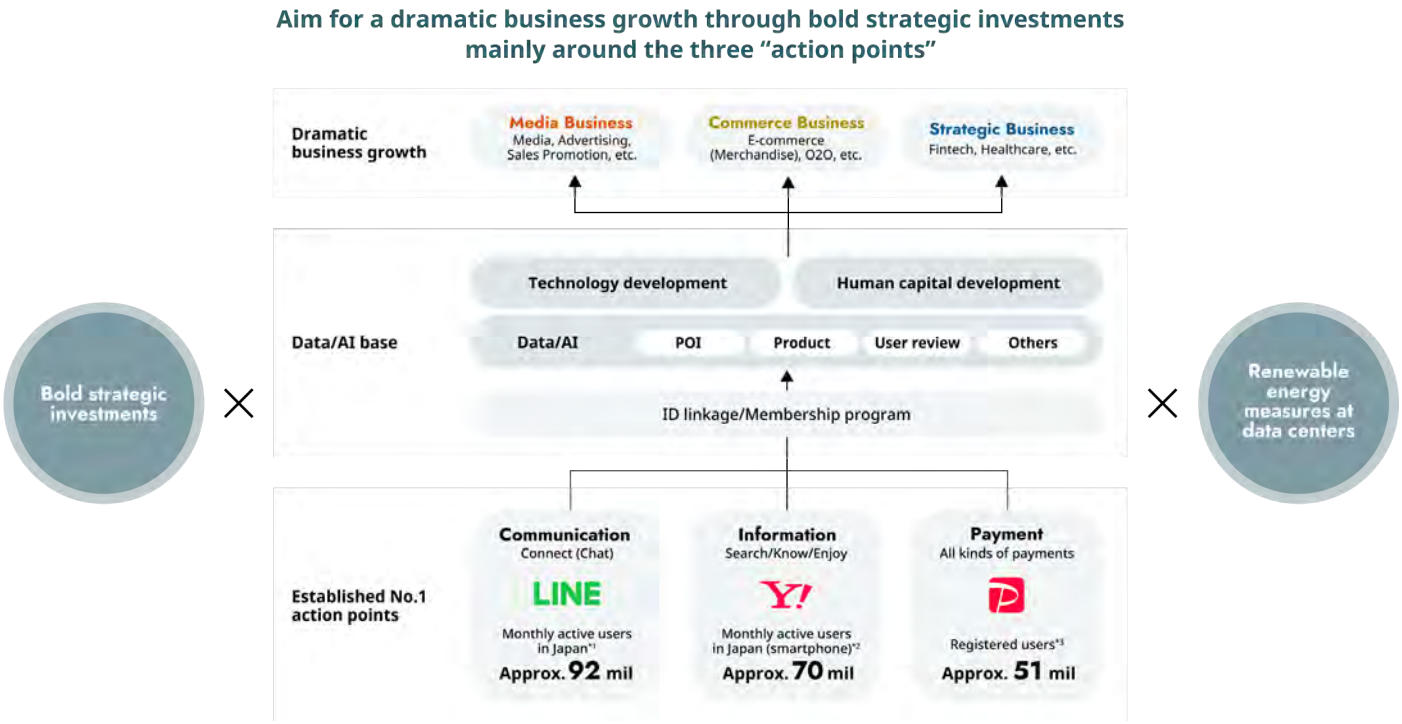


Business/Service Growth Policy

Ever since the foundation of Yahoo! JAPAN in 1996, the Z Holdings Group has developed its service with "user first" as one of its key values and under the mission statement "UPDATE THE WORLD." In March 2021, the Group completed its business integration with LINE, becoming one of Japan's largest Internet corporate group used by over 300 million users in Japan.

As a result of the integration with LINE, the Z Holdings Group has come to encompass three action points: "Information & People (Yahoo! JAPAN)," "People & People (LINE)," and "People & Payments (PayPay)." Since these action points cover the vast majority of Internet users in Japan, we will use them to differentiate our services by linking user IDs (with user permission) and membership programs, and analyzing the collected data by AI to provide services optimized for each user.

For this, strengthening our technologies and human capital are essential. Through bold strategic investments, we will reinforce the recruitment of engineers and other human resources, integrate advertising platforms, and accelerate the development of new services and the expansion of our customer base. These moves will enable us to better leverage the Group's assets to offer unique values and services and thereby aim for further business growth.



*1 Own survey; LINE app monthly active users in Japan; as of June 30, 2022.

*2 Calculated by Yahoo Japan Corporation based on "Nielsen NetView/Mobile NetView Custom Data Feed."
Average monthly active users: Monthly average from July 2021 to December 2021 based on "Nielsen Mobile NetView."
[Figure for smartphone access to Yahoo! JAPAN (brand level, includes use of app)]
* Rounded to the third significant digit.

*3 Own survey: PayPay registered users as of September 30, 2022

Media Business — Growth Strategies and KPIs

Media Business

Realize full-funnel 1:1 marketing

- **Double-digit growth in total advertising revenue (incl. sales promotional products)**
- **Guideline: adjusted EBITDA margin 40-50%**

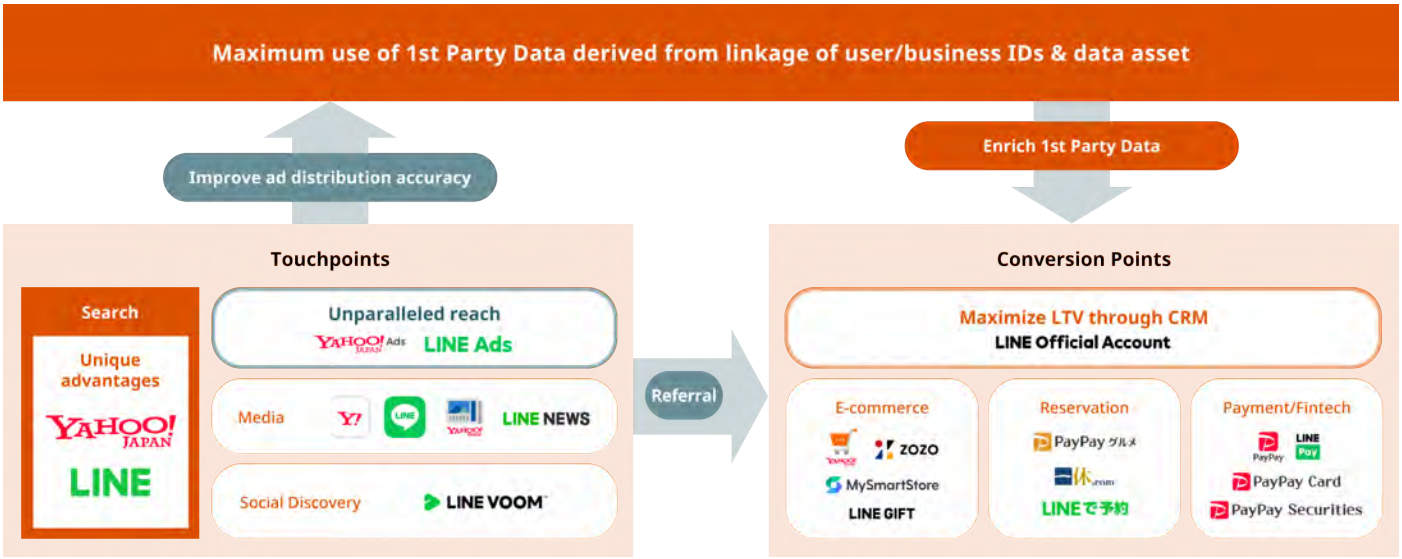
The Z Holdings Group has three competitive edges.
The first is our first party data derived from the Group's rich touchpoints and conversion points. In recent years, ad targeting using third-party cookies has become increasingly regulated. However, by utilizing the first-party data that we have accumulated to continuously improve the accuracy of ad distributions, we will be able to provide highly effective ad distributions.
Second, as touchpoints, we have search services in addition to display advertising.
LINE Official Account*1, the Group's unique asset and stock-type product, is our third unrivalled advantage.

By fully utilizing these unique and diverse assets, we will provide new marketing solutions that cannot be offered by our competitors. More specifically, we will realize one-stop solutions that not only addresses the funnel for new customer acquisition (e.g., recognition, awareness, interest), but also the funnel for purchase and boosting customer loyalty. Moving forward, we will provide solutions that will lead to customer retention by encouraging consumer actions such as purchase and repurchase through the use of accumulated payment data from PayPay, CRM utilizing LINE, and others.

In the short-term, we will promote the mutual distribution of advertisements within the Group, as well as sales collaborations. In the medium- to long-term, we will raise the ad unit price by optimizing ads and improving distribution accuracy, which will be achieved by utilizing data acquired through ID linkage. In addition, we will conduct measures to generate both business and cost synergies, such as integrating reports and ad distribution systems. Through these initiatives, we will maximize the revenue of existing advertising, and approach new markets such as sales promotion and CRM products, to aim for a double-digit growth in total advertising revenue.

*1 Three subscription plans are available: a) Free plan (No monthly fees); b) Light plan (Monthly fee: JPY5,000); c) Standard plan (Monthly fee: JPY15,000). Revenue from the paid plans of LINE Official Account is recorded as revenue every month.

→ More details on the status of the Media Business


Maximum use of 1st Party Data derived from linkage of user/business IDs & data asset
Improve ad distribution accuracy
Enrich 1st Party Data
Touchpoints
Search
Unique advantages
YAHOO! JAPAN
LINE
Unparalleled reach
YAHOO! Ads
LINE Ads
Media
LINE NEWS
Social Discovery
LINE VOOM
Referral
Conversion Points
Maximize LTV through CRM
LINE Official Account
E-commerce
ZOZO
MySmartStore
LINE GIFT
Reservation
PayPay グルメ
LINEで予約
Payment/Fintech
PayPay Card
PayPay Securities

Commerce Business — Growth Strategies and KPIs

Commerce Business

Maximize transaction value across online/ offline domains while refining fundamental values

- In early 2020's become No.1 in domestic e-commerce merchandise transaction value
- Make social commerce using LINE, a future growth driver

The e-commerce market for merchandise has been growing every year, but majority of purchases are still offline in Japan. Compared to other countries, the ratio of e-commerce is still low, and there is still room for e-commerce to grow.

We believe that it is essential to refine the intrinsic value of our services to further expand transaction value, and we recognize that logistics and delivery are important elements. Through collaborations with Yamato Holdings Co., Ltd., and Blue Ribbon Delivery[*2] initiative, we will raise the delivery standards and aim for a sustainable improvement in user experience. Another Group-wide initiative of note is Quick Commerce (instant delivery service), which utilizes the assets of Yahoo! JAPAN, ASKUL, and Demae-can. A demonstration experiment began in July 2021, and the initiative was launched in full-scale from January 2022 as Yahoo! JAPAN Mart by ASKUL.

In addition, Yahoo! JAPAN Shopping and PayPay Mall were integrated into a renewed Yahoo! JAPAN Shopping from October 12, 2022, combining the strengths of the two platforms. We have changed the content of promotions and point award rates to be simpler and easier to understand, enabling our customers to easily decide when and where to buy and save. Together with the integration and renewal of the sales platforms, we began a new benefit/sales drive that lets users save up to 5% PayPay Points every day. We aim to create a shopping mall that users can go to every day to find what they want any time at a great price.

The competitive edge of Z Holdings is the ability to provide users with new shopping experiences using Group assets such as LINE's social graph, collaborations with Yahoo! JAPAN Shopping, PayPay Mall[*3], and others. By strengthening the services that bring together the best of Z Holdings' features and by incorporating diverse user needs, we will lead the creation of a future world in which new shopping experiences based on communication, such as social gifts, live commerce and team purchase, are the norm.

In our O2O business, we will expand the services transaction value in three domains: travel, dining, and delivery. This will be achieved by reinforcing the areas of customer attraction and reservation, utilizing the wide range of customer segments in the Group's services and LINE Official Account.

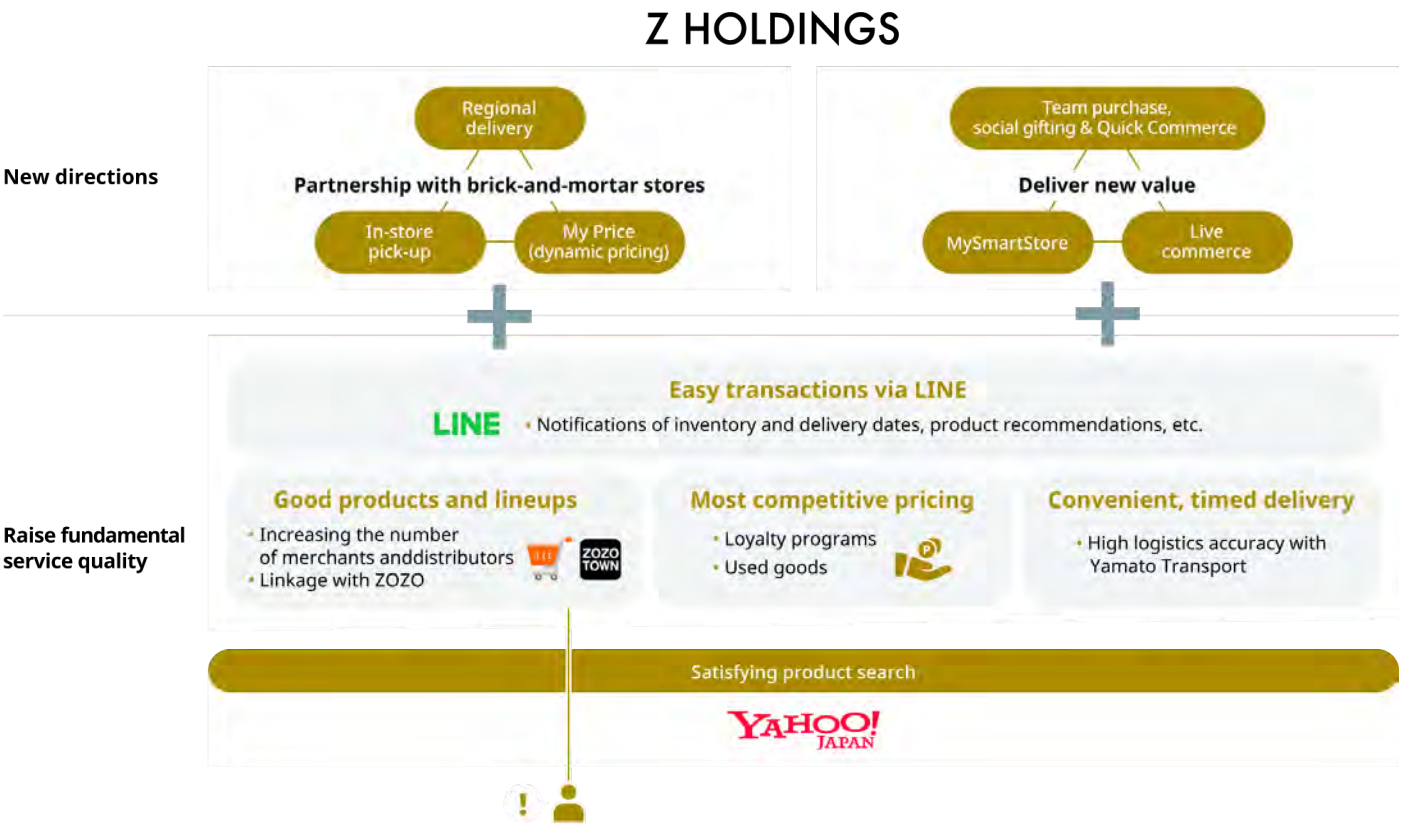
Through these initiatives, the Z Holdings Group aims to accelerate the use of e-commerce to hike the EC ratio in Japan, and to achieve No.1 in domestic e-commerce merchandise transaction value in the early 2020's.

*2 Same day delivery or within 2 days of order date, and deliveries from stores whose shipping delay rate is less than a certain criteria.

*3 Integrated to Yahoo! JAPAN Shopping on October 12, 2022.

→ More details on the status of the Commerce Business

Strategy Overview



Strategic Business — Growth Strategies and KPIs

Strategic Business

Create new revenue pillar mainly in fintech

- Realize revenue growth of over YoY +20%
- Aim to generate JPY100.0 B adjusted EBITDA in the future

The Japanese payment transaction market is 32.5% cashless as of 2021, with QR code payments making up only a small fraction of those transactions. The government of Japan is aiming to improve consumer convenience and to stimulate store sales by increasing the ratio of cashless payments to 40% by 2025 and then further to the world's highest level, of 80%.

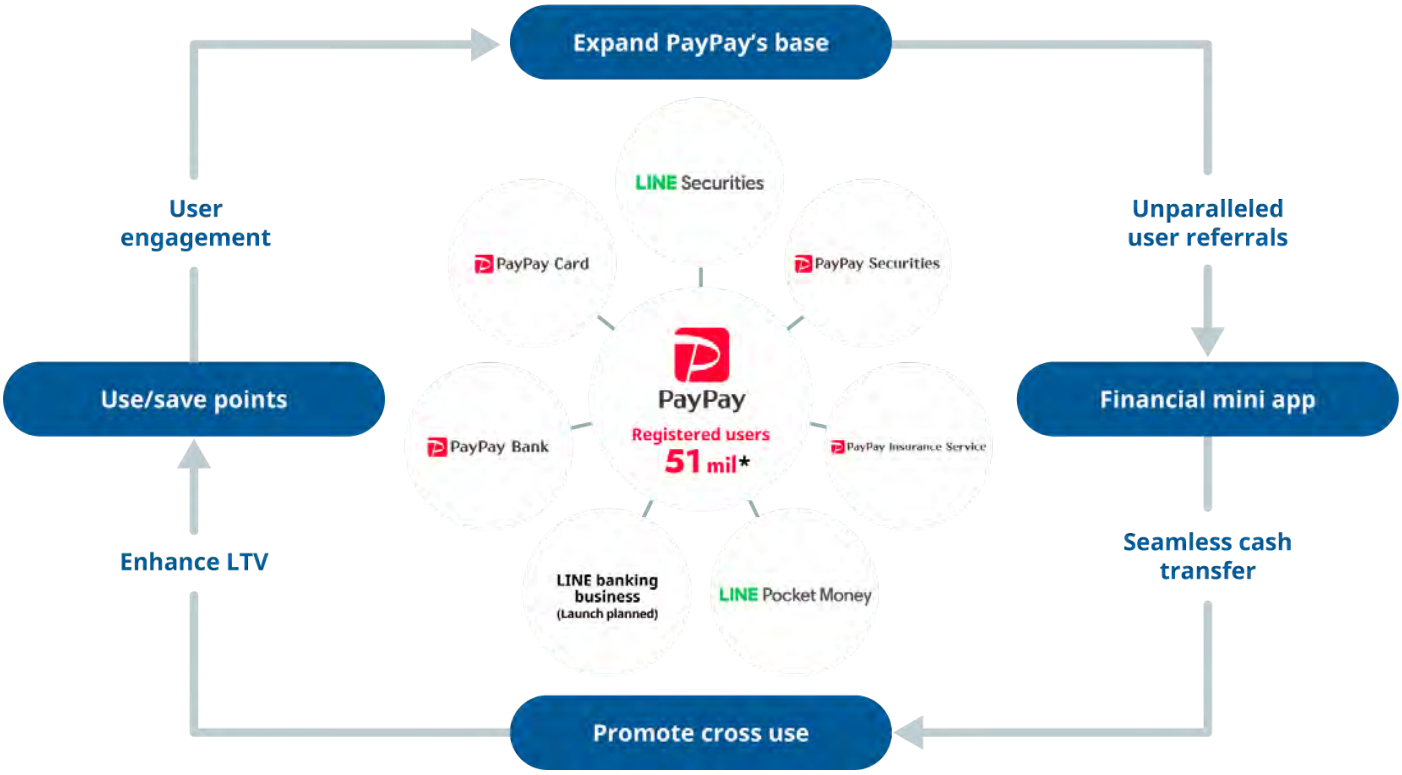
Starting with the payment services in the fintech domain, the Z Holdings Group will expand its businesses to all kinds of financial services to achieve full-scale monetization. In particular, we will leverage the user base of PayPay, which is Japan's most widely used QR/barcode payment method, to vigorously develop the market for cashless services in Japan.

We will also develop financial services in the loan, asset management, and insurance markets, all of which have close correlations with payment services. PayPay will be the hub for strengthening new linkages with various financial services of LINE to promote cross-use. Ultimately, we will aim to expand earnings in the financial business by building a payment/financial ecosystem with one of the largest user bases in Japan.

We are also launching various new businesses, not limited to the payment/financial business. For example, in the area of healthcare, LINE Healthcare Corporation provides the service LINE Doctor, a platform on which users can receive online medical consultation any time using the LINE app.

→ More details on the status of the Strategic Business

PayPay/LINE financial ecosystem around PayPay



* Own survey; Number of PayPay registered users as of September 30, 2022.

Non-financial Strategy

→ Sustainability Initiatives

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