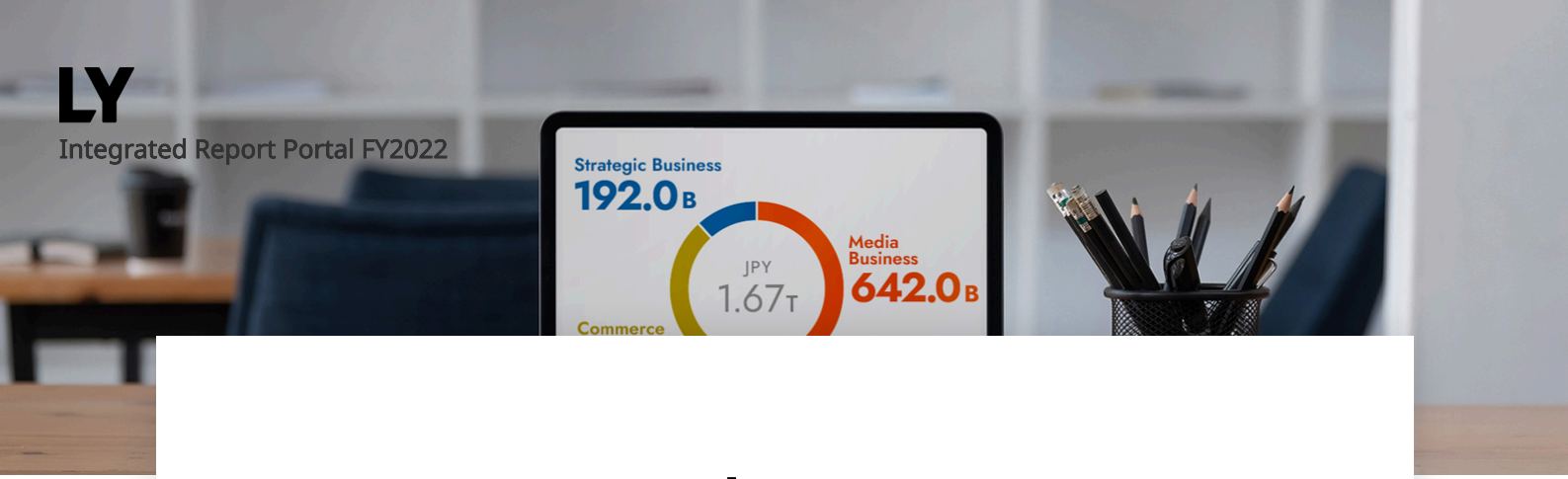

Growth Strategy

Last updated: 10/17/2023

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Results After the Business Integration and Our View on the Business Environment

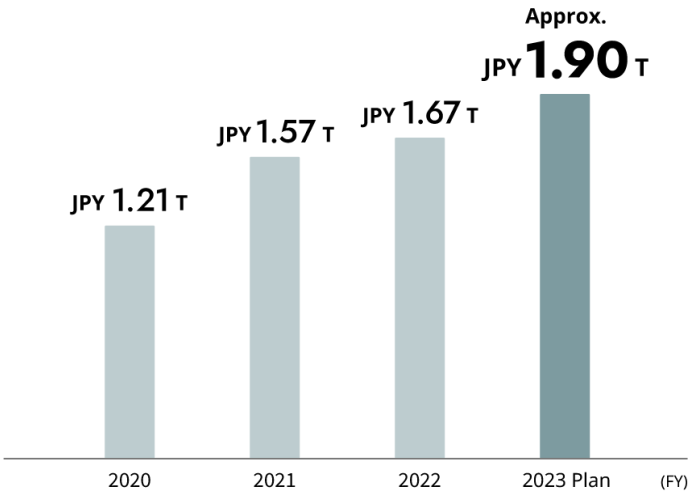
Results After the Business Integration

At the business integration of LINE Corporation and Z Holdings Corporation in February 2021, the LY Corporation Group upheld revenue of JPY2 trillion and adjusted EBITDA of JPY390.0 billion in FY2023 as a medium-term management target.

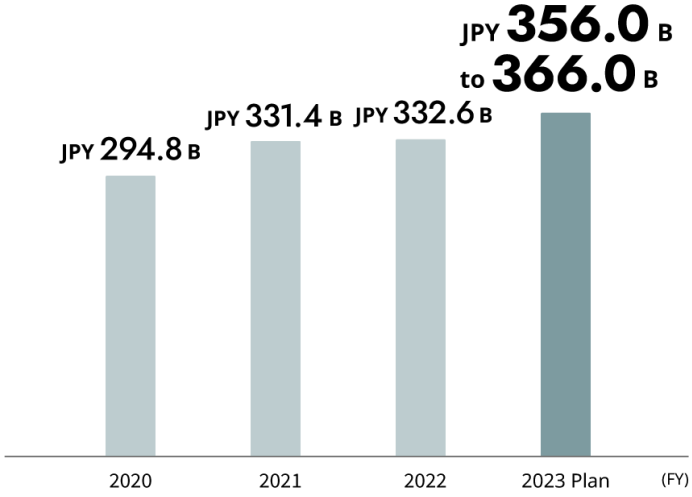
To achieve this target, the Group actively promoted PMI during the two years following the business integration. On the business front, the Group implemented various synergy measures, including the sales cooperation of advertising products between LINE Corporation and Yahoo Japan Corporation, creation and expansion of services that leverage the strengths of the two companies (e.g., social gift and Quick Commerce). On the cost side, the Group generated cost synergies totaling approximately JPY24.0 billion (compared to FY2020) over the two-year period. The cost synergies were derived through measures such as streamlining of business commissions (particularly system development costs), joint purchasing among Group companies, joint use of data centers, and cost optimization in duplicated services.

In addition to business growth, these measures to generate synergies resulted in a revenue of JPY1.67 trillion (YoY +6.7%) and adjusted EBITDA of JPY332.6 billion (YoY +0.3%) for FY2022.

Revenue



Adjusted EBITDA*



Our View on the Business Environment

The business environment surrounding the LY Corporation Group has significantly changed in the last two years. The Internet advertising market in Japan, the main market for the Group's mainstay Media Business, continues to undergo remarkable changes externally, including the emergence of powerful new services due to technological innovation and the rapid growth of new advertising formats in response to diversifying user needs. In this environment, the Group's relative competitiveness has continued to deteriorate, as evidenced in the Group's share in the Japanese advertising market and in search queries. Furthermore, the advertising market has entered a slowdown in the second half of FY2022 due to the worsening economic environment, and the business environment remains challenging for the Media Business.

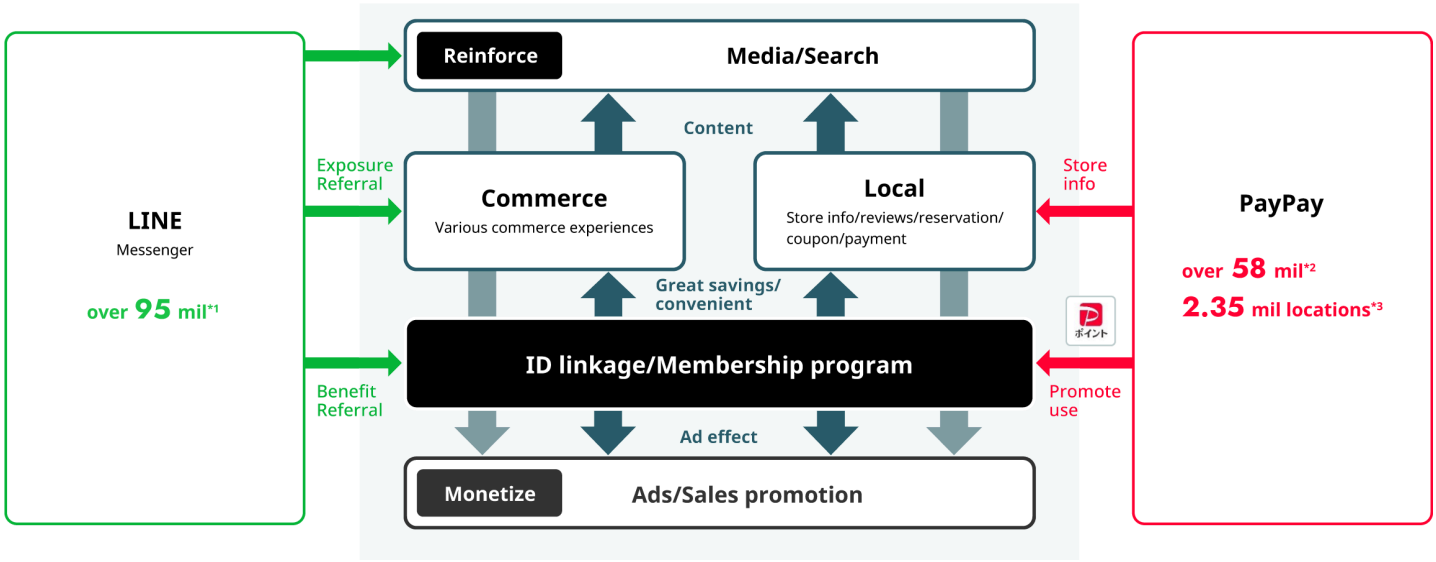
The Commerce Business, which showed continued growth since the "e-commerce revolution" in 2013, also faced the limitations in its conventional growth model which was supported by active sales promotions. The Group's share in Japan's e-commerce market and the growth of its merchandise transaction value are both declining, despite the changes in the environment due to factors such as the pandemic.

In light of these situations, in February 2023, the LY Corporation Group decided to withdraw its medium-term management targets, reorganize the Group companies, and change the management structure.

* Adjusted EBITDA=Operating income + Depreciation & amortization ± EBITDA adjustment items.
Depreciation & amortization=Depreciation, depreciation of right-of-use assets, certain rents.
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, gains/losses on step acquisition, other transactions with undetermined cash outflows (one-time provisions, etc.), etc.) Also, gains/losses on sales of shares held by certain funds. Changed the definitions from FY2022-Q3. Added certain rents to depreciation and amortization, and gains/losses on sales of shares held by certain funds to EBITDA adjustment items.

Growth Strategy

The LY Corporation Group will aim for a medium- to long-term growth through measures centered around the reinforcement of highly profitable media and search businesses. It will implement a series of initiatives such as the ID linkage of LINE, Yahoo! JAPAN and PayPay and the introduction of paid membership programs across the Group, utilizing the user base of each asset and strengthening the corresponding service collaborations.



*1 Number of monthly active users (Japan) of LINE app as of March 31, 2023.

*2 Number of PayPay registered users as of June 2023.

*3 Number of merchant locations where "PayPay" is available as of March 2023.

Priority Initiatives for FY2023

The LY Corporation Group has designated FY2023 as the year of structural reform. The Group will make concerted efforts to improve business efficiency through reorganization of Group companies and to build a foundation for renewed growth in FY2024 and beyond.

To improve business efficiency, the Group will reduce approximately JPY30.0 billion in fixed cost compared to the previous fiscal year and selectively reorganize businesses. More specifically, the Group will review business commissions, reduce executive remuneration, continue with the hiring freeze of mid-career recruitment, narrow down marketing expense, consolidate offices, and integrate/rationalize duplicated functions. The Group will also selectively reorganize businesses mainly in loss-making domains and consolidate management resources.

For the growth in FY2024 and beyond, the Group will vigorously promote the integration and unification of user bases and services. In particular, the Group began the ID linkage between LINE and Yahoo! JAPAN in October 2023. The existing paid membership services of LINE and Yahoo! JAPAN will be integrated and upgraded, and a group-wide premium membership program, "LYP Premium" will begin in November. The Group will integrate and strengthen its user base by encouraging members to link their IDs and by promoting the use of the Group's services.

As a result of these initiatives, the Group expects the revenue for FY2023 to increase by approximately 14% year on year to approximately JPY1.90 trillion, and adjusted EBITDA to be in the range of JPY356.0 billion to JPY366.0 billion, increasing by around 10% year on year.

Renewed Growth for FY2024 and Beyond

In FY2024 and beyond, the LY Corporation Group will aim for renewed growth by making maximum use of the Group's user base, which is one of the largest in Japan, and by re-empowering media and search, which are highly profitable and relatively competitive, to organically link the Group's services and to expand the Group's ecosystem.

In addition to the ID linkage between LINE and Yahoo! JAPAN which began in October 2023, the Group plans to link the IDs of PayPay, which has a registered users of over 57 million, and LINE, which has monthly active users of 95 million, within FY2024. In addition, the LY Corporation Group will reinforce the user base from FY2024 by enhancing the paid membership program. Furthermore, in addition to promoting the use of the Group's services through the paid membership program, the Group aims to improve its competitiveness as a media and search platform by strengthening its products, especially in the commerce and local areas. By strengthening the user base and improving the competitiveness of the platform, the Group aims to expand its ecosystem and maximize earnings in the advertising and sales promotion areas.

	FY2023	FY2024 Onwards
Revenue	Approx. JPY1.90 T	Regrowth under new strategy
Adjusted EBITDA	JPY356.0 to 366.0 B	
Investment policy	Reduction in fixed cost/selective focus in key businesses (Review of policies at the time of business integration: strategic investment and recruitment)	Disciplined strategic investments
Growth strategy	ID linkage between LINE and Yahoo! JAPAN*: From October 2023 LYP Premium–Paid membership program: Scheduled to begin in November 2023	• Reinforcement of media/search based on ID linkage • Traffic referral among Group services leveraging paid membership program • Product reinforcement in Commerce/Local domains

* ID linkage between LINE and PayPay scheduled to begin within FY2024.

Financial Strategy

Net leverage ratio* (Excluding financial business)	Maintain credit rating
Maintain 3X or less	R&I:A+, JCR:AA-

In the management of the Group, which belongs to the Internet industry that is constantly advancing due to technological innovation, a flexible financial strategy is the key to stable growth over the medium- to long-term. Through appropriate capital allocation, the LY Corporation Group aims to achieve continuous growth and maximize corporate value with an awareness of both financial soundness and capital efficiency.

Using business profits generated mainly from the Media Business as a basic source of funds, the Group proactively implements measures for growth, such as upfront investments, capital expenditures, and capital and business alliances. In the event of large-scale acquisition or merger (M&A), the LY Corporation Group considers issuing corporate bonds and using bank loans. In these cases, the Group raises funds under the financial discipline of "maintaining a net leverage ratio (excluding the financial business) of 3 times or less" while keeping an appropriate level of financial soundness.

In addition, since shareholder returns are also important for increasing corporate value over the medium- to long-term, we will proactively consider and implement shareholder return measures, including direct measures such as share buybacks, in addition to dividend payments, while giving due consideration to the balance with growth investments.

With regard to capital efficiency, we consider it an important issue in our financial strategy to restore and even exceed the return on equity (ROE) and other ratios to the levels before the business integration with LINE Corporation. In improving capital efficiency, we will basically aim to increase net income, the numerator of ROE. In FY2023, we aim to generate adjusted EBITDA of JPY356.0 billion to JPY366.0 billion, an increase of approximately 10% over the previous year, through cost efficiency and selective focus in key businesses and services. In the medium- to long-term, under the new growth strategy, we will accelerate the generation of synergies to achieve further profit growth.

* Net leverage ratio=Net interest-bearing debt/Adjusted EBITDA (Figures for the last 12 months used for calculating adjusted EBITDA).

Non-financial Strategy

→ Sustainability Initiatives

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