Message from the CFO

Last updated: 10/1/2024

Through structural reforms focusing on key business areas, we aim to achieve a lean corporate structure and an adjusted EPS of over JPY20 in FY2025.

Ryosuke Sakaue
Executive Corporate Officer, CFO (Chief Financial Officer)

Summary of FY2023 performance

Structural reforms are progressing smoothly, and we recorded the highest-ever revenue and income.

Revenue for the fiscal year ended March 2024, which was the first financial results after the intra-Group reorganization, reached a record high of JPY1.8146 trillion (YoY +8.5%). Adjusted EBITDA [*1] also renewed its record at JPY414.9 billion (YoY +24.7%), showing significant growth. In addition to the steady growth of PayPay, the continued recovery of the internet advertising market, as well as the advertising revenue growth rate which exceeded that of FY2022, contributed to the top-line growth.

In addition, the cost control promoted by each company prior to the intra-Group reorganization in October 2023 also had a positive impact. We have worked to improve the earnings structure by streamlining costs and creating a lean and mean business organization that can generate profits more easily. At the same time, we promoted business growth by investing capital in areas where it is needed. Furthermore, the selective focus on key business areas, namely the restructuring and reorganization of unprofitable businesses and businesses with ongoing upfront investments, also greatly contributed to profit growth.

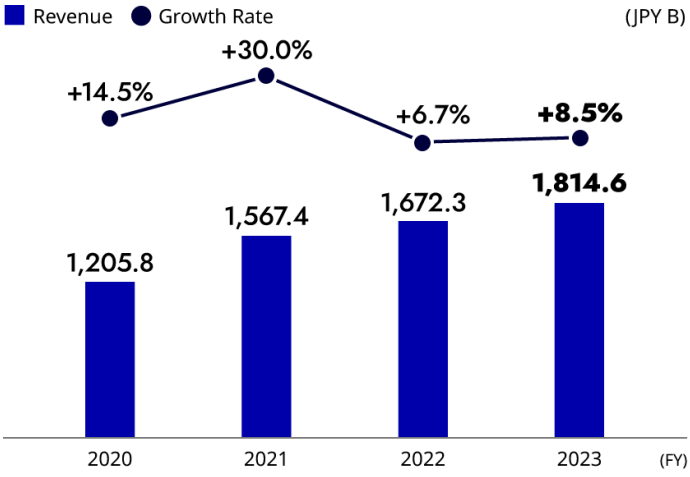
By segment, revenue from the Media Business increased to JPY707.6 billion (YoY +1.8%) as a result of an increase in account advertising, and the revenue of the Media Business accounted for 39.0% of total revenue. In addition to the recovery of the advertising market, the number of paid accounts increased due to the revision of the pricing plan for LINE Official Account in June 2023, resulting in a 22.3% year-on-year increase in account advertising revenue. We will continue to improve the user interface (UI) and user experience (UX), including integrated commerce search, to ensure the continuous growth of our Media Business. For example, we will reinforce traffic from search to commerce by revamping the Yahoo! JAPAN app, as well as promote LINE users to use our commerce services through the revamping of LINE.

Revenue from the Commerce Business was JPY821.5 billion (YoY +3.6%). Since the second half of FY2022, we have shifted our sales promotional policy for the shopping business, which previously was centered around large-scale initiatives providing points as benefits, and have focused on realizing a more user-friendly and satisfying UI and UX while reducing sales promotional expenses. For example, we focused on improving the ratio of blue-ribbon delivery, in which items are delivered a day after or two days after the order date. As a result of this product refinement, the ratio of blue-ribbon deliveries to all orders in the shopping business is approaching the target of 50%. Furthermore, we have focused on the acquisition of LYP Premium members and have strengthened efforts to promote the use of Yahoo! JAPAN Shopping. As a result, the transaction

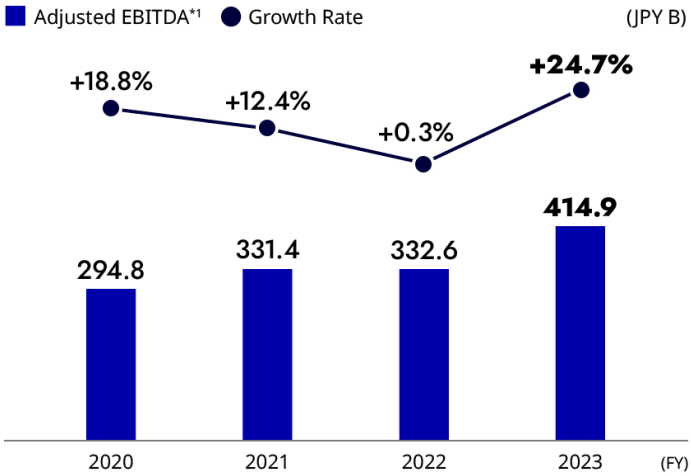
value of Yahoo! JAPAN Shopping in the fourth quarter of FY2023 achieved a double-digit growth, increasing by 10.3% year on year.

In the Strategic Business, the consolidated GMV, which forms the revenue base of PayPay, grew significantly due to the continued strong momentum related to code payments. As a result, the revenue of the Strategic Business amounted to JPY289.9 billion (YoY +51.0%). In addition, the adjusted EBITDA *1 of the Strategic Business amounted to JPY11.5 billion, achieving profitability for the first time on a full-year basis. This was due to the revenue improvement derived from the selective focus on key business areas and growth of PayPay consolidated. The cost effectiveness of PayPay marketing was further enhanced, and the ability to keep costs down was also a major contributor to the turnaround.

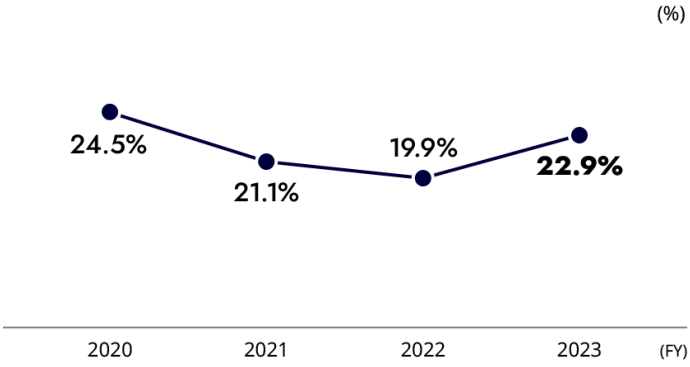
LY Corporation Revenue/YoY Growth Rate



LY Corporation Adjusted EBITDA *1 /YoY Growth Rate



LY Corporation Adjusted EBITDA *1 Margin



Progress and Results of Structural Reforms

We are reconstructing the corporate structure through business restructuring and significantly improving profitability.

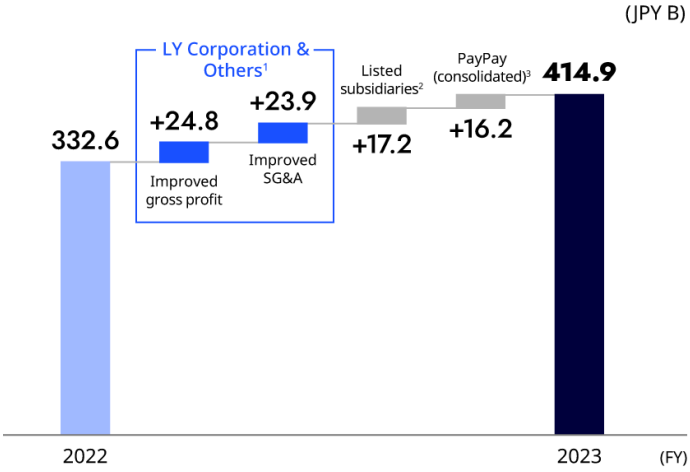
We have designated FY2023 as the year of structural reform and have focused on streamlining management through the reorganization of Group companies and other means. We have almost completed our efforts to make large-scale cost reductions within FY2023, and the effects of cost reductions are becoming increasingly apparent, mainly in outsourcing and sales promotional expenses. As the CFO, I have particularly focused on controlling the sales promotional expenses. Specifically, we have established an internal standard that the future revenue forecast (Lifetime Value: LTV) obtained from acquired users should be, in principle, at least four times the cost of acquiring new users (Customer Acquisition Cost: CAC), and we make decisions on sales promotional measures based on this discipline. We believe this has increased the cost effectiveness of our sales promotional activities and has allowed us to control costs so that they do not expand beyond our estimates.

In addition, we have selectively focused on key business areas especially in the Strategic Business segment. For example, we reorganized the financial businesses of the former LINE Corporation, which was posting significant losses, such as the termination of the LINE Bank project in Japan and the transfer of business in LINE Securities. The AI Company business that was promoted by the former LINE Corporation was transferred to WORKS MOBILE Japan Corp. (now LINE WORKS Corporation) through an absorption-type company split. In June 2024, we also announced plans to terminate the LINE Pay business in Japan at the end of April 2025.

We aim to achieve profitability in equity in earnings and losses of associates and joint ventures in FY2025, and we will continue to work on improving the profitability of each individual business. We will consider optimal exit strategies such as withdrawal or transfer for affiliated companies and businesses that find it difficult to turn a profit even in FY2025.

In this way, we will continue to optimize the allocation of the Group's management resources through selectively focusing on key business areas in FY2024 and beyond, and our policy is to basically maintain the EBITDA margin of FY2023 beyond FY2024.

Factors Behind Change in Adjusted EBITDA *1



Improvements in FY2023 (SG&A/Adjusted EBITDA *1)

Reduction of business commissions[4]	**+13.2 B** (Excluding listed subsidiaries, PayPay (consolidated))
Optimization of sales promotion costs[4]	**+9.9 B** (Excluding listed subsidiaries, PayPay (consolidated))
Selective focus on key business areas[5]	**+23.0 B**

1. Excluding ZOZO, Inc., ASKUL Corporation, ValueCommerce Co., Ltd., and PayPay Corporation (consolidated).
2. ZOZO, Inc., ASKUL Corporation, and ValueCommerce Co., Ltd.
3. Includes PayPay Corporation and PayPay Card Corporation. Figures are shown after the elimination of internal transactions between the two companies and have been independently calculated following relevant IFRS adjustments.
4. Amount of improvement according to financial accounting-based SG&A.
5. Amount of improvement according to financial accounting-based EBITDA.

Outlook for FY2024

We aim to achieve a revenue of JPY1.93 trillion and adjusted EBITDA[*1] of JPY430.0 to 440.0 billion.

For FY2024, our target figure for our revenue is JPY1.93 trillion and adjusted EBITDA[*1] JPY430.0 to 440.0 billion. To achieve this, we will implement measures based on three policies: "security measures," "product reinforcement," and "disciplined cost allocation." Regarding "security measures," we are preparing to invest JPY15.0 billion yen in costs, terminate the outsourcing relationship with NAVER Corporation, and implement necessary security measures ahead of schedule.

In "product reinforcement," we plan to make further reinforcements on our service perspective. Specific measures include the expansion and enhancement of LYP Premium and revamping of LINE and the Yahoo! JAPAN app. We will further enhance convenience by strengthening the traffic referral to each service so that users can use more of the Group's diverse services from each app. For example, one of the aims of revamping the Yahoo! JAPAN app is to significantly improve the UI to promote the use of our various services, including Yahoo! JAPAN Search.

Furthermore, LYP Premium, launched in the last fiscal year, is expected to boost inflow to our commerce services, which is evidenced by the fact that the usage rate of Yahoo! JAPAN Shopping by LYP Premium members has reached about 40%[*2]. In the future, we will continue to review member benefits and enhance our loyalty program to make it more attractive to users, thereby accelerating the traffic to our Commerce Business and expanding transaction value.

As for our third initiative, "disciplined cost allocation," we will increase investments for "security measures" and "product reinforcement" by JPY15.0 billion each compared to the previous fiscal year, while keeping other costs at the same level as the previous fiscal year based on the investment discipline we have established. As a result, we aim to make our corporate structure leaner and maintain the adjusted EBITDA[*1] margin.

As medium- to long-term strategies for each segment, in the Media Business, we will continue to steadily grow account advertising, which is our unique asset. For the Commerce Business, we believe that there is still room for growth if we promote LINE users to use our commerce services. PayPay will continue to drive the growth of our Strategic Business. In FY2023, PayPay achieved full-year profitability in adjusted EBITDA[*1] on a consolidated basis, and PayPay’s operating profit is within reach in FY2024. Focusing on the profit growth of PayPay, we aim to increase the adjusted EBITDA[*1] of Strategic Business to the scale of JPY100.0 billion within a few years, bringing it to the same level as the Media and Commerce Businesses.

Segment	Item	FY2023	FY2024	YoY
Entire Group	Revenue	JPY1.81 T	Approx. JPY 1.93 T	Approx. +7%
	Adjusted EBITDA *1	JPY414.9 B	JPY 430.0 to 440.0 B	+3.6 to 6.0%
	Adjusted EPS (Excludes merger tax effects)	JPY 18.9 (JPY 15.2)	JPY 14.3 to 15.3	Negative JPY 4.6 to Negative 3.6 (Negative JPY 0.9 to +0.1)
Media	Revenue	JPY 707.6 B	-	Low single digit %
	Adjusted EBITDA *1	JPY 254.6 B	JPY 261.0 B	+2.5%
Commerce	Revenue	JPY 821.5 B	-	Middle single digit %
	Adjusted EBITDA *1	JPY 143.2 B	JPY 147.0 B	+2.7%
Strategic	Revenue	JPY 289.9 B	-	Lower 20% range
	Adjusted EBITDA *1	JPY 11.5 B	JPY 21.5 B	+87.0%
Other/Adjustments	Adjusted EBITDA *1	JPY 5.5 B	JPY 5.5 B	0%

Source: FY2023 Full Year and Q4 Financial Results Briefing Materials

Capital Allocation

To maintain listing on the Prime Market and to return profits to shareholders, we have conducted a JPY150.0 billion share buyback.

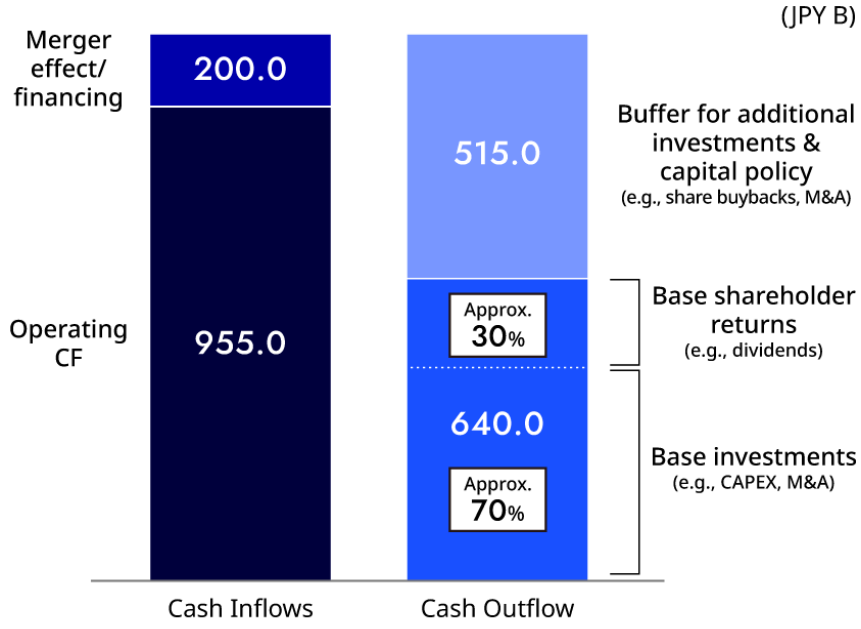
To maintain our listing on the Prime Market and to return profits to shareholders, we have repurchased JPY150.0 billion of our own shares and canceled approximately 6.4% of total number of outstanding shares [*3]. In accordance with the capital allocation policy presented at the FY2023 Q2 financial results announcement, the repurchase is within the additional buffer of JPY515.0 billion. We will continue to consider share buybacks as appropriate within the scope of our capital allocation policy .

To explain again about the capital allocation policy, we plan to have a cash inflow of approximately JPY1.15 trillion over the three years from FY2023 to FY2025 for the internet business excluding the financial businesses [*4]. As for the use of cash, out of approximately JPY1.15 trillion, about JPY640.0 billion is planned to be allocated to investments such as CAPEX and M&A, as well as shareholder returns including dividends. Furthermore, approximately 30% of the JPY640.0 billion will be used as a source of funds for fixed shareholder returns, and the remaining 70% will be used to fund investments necessary for the existing business operations and future business growth, such as CAPEX and M&A, which also include investments in data centers and servers.

Approximately JPY515.0 billion, which is the result of subtracting JPY640.0 billion from approximately JPY1.15 trillion, was allocated as an additional buffer for this share buyback of JPY150.0 billion. Regarding the remaining JPY365.0 billion, the policy is to prioritize its use as funds to supplement investments and M&A that contribute to business growth, as well as share buybacks.

Meanwhile, based on the approach of operating financial business [*4] with funds raised by itself, the capital allocation (including financing) for the financial business is managed separately from the internet business. Working capital for PayPay is expected to increase as it continues its business expansion. However, we intend to raise funds through various methods including the effective use of funds within the PayPay Group, as well as securitization of the receivables of PayPay Card.

Capital Allocation Policy (Excluding Financial Business [*4]) Cumulative Approximate Value for FY2023-2025



Growth Investment

We will intensively invest in areas where LY Corporation's strengths can be demonstrated.

One of the important targets for future growth investment is the AI field because there is a possibility to significantly innovate the UI and UX of the Group’s services if we use AI effectively. We have already introduced AI features in multiple services. For example, in Yahoo! JAPAN Knowledge Search, we have implemented a feature where AI answers users' questions on behalf of humans.

We have signed a contract to utilize Open AI’s ChatGPT for the foundational parts, such as LLM (Large Language Model), and we are actively using AI not only for user services but also for internal business improvements. Due to the significant costs involved in developing LLMs, our current policy is not to develop them in-house, but to contract with multiple vendors such as OpenAI and Microsoft, and to use the most suitable LLMs according to our business and service content.

Our strength lies in having numerous touchpoints with many users and possessing vast and diverse data. Therefore, for AI, we plan to aggressively invest in developments that make effective use of these data while utilizing existing engines.

Furthermore, we are constantly considering M&A, targeting the number one and only one service in each category, in line with our existing policy. Basically, we aim to acquire services that can enhance the added value of our own services and accelerate business growth through collaboration with our Group's existing services.

It is true that our capital investment scale is small compared to overseas competitors. However, Yahoo! JAPAN, LINE, and PayPay are services with one of the leading user bases in Japan, and the abundance of user data related to media, commerce, strategy, and messaging is a unique strength of our Group. We will provide our customers with more refined services by intensively investing management resources in areas where we can demonstrate this strength.

Capital Efficiency

As CFO, I am committed to achieving an adjusted EPS of over JPY20 yen for FY2025.

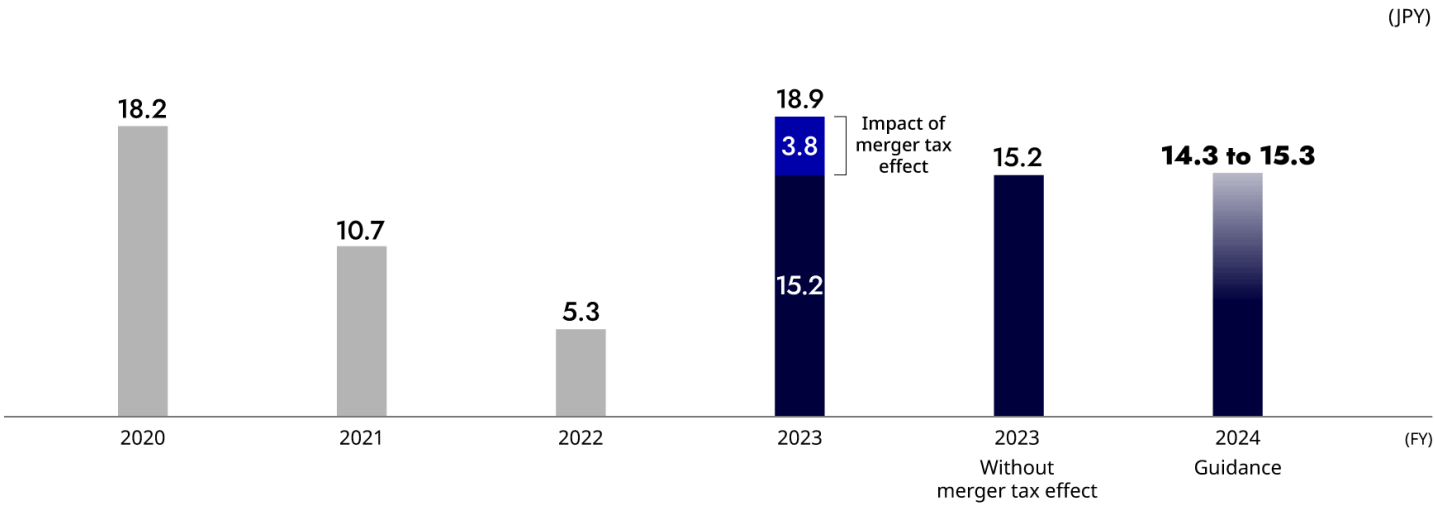
EPS (earnings per share) has diluted as a result of the business integration between LINE Corporation and Z Holdings Corporation, and as CFO, I recognize this as an important issue and aim to quickly restore adjusted EPS to a level above the pre-integration level of JPY18.7. The board of directors also takes this issue seriously and from FY2023, the improvement of adjusted EPS has been incorporated as one of the evaluation indicators for directors.

In FY2023, there was a temporary improvement effect due to the recording of deferred tax assets associated with the intra-Group reorganization. As a result, adjusted EPS exceeded the target at JPY18.9. However, excluding temporary factors, the actual value has not reached the pre-integration level, and the adjusted EPS for FY2024 is expected to be around JPY15. We believe it is necessary to clearly indicate to our shareholders and investors the time when we will exceed the pre-integration level, and thus have set a target of achieving an adjusted EPS of over JPY20 in FY2025. You can take this as my commitment as the CFO.

Adjusted EBITDA [*1] is expected to increase due to the top-line growth of each business in FY2025, and we expect to achieve profitability in equity in earnings and losses of associates and joint ventures. We anticipate that if each measure is implemented without fail, adjusted EPS will reach a level of over JPY20.It is difficult to present detailed target figures for FY2026 and beyond at this point, but we aim for continued growth in adjusted EBITDA [*1] in the high-single to double digits, and we believe that adjusted EPS will also improve sustainably in line with this growth.

We also recognize that improving ROE is extremely important. To improve ROE, we first aim to focus on increasing profits, which is the numerator. In the future, we are considering streamlining the denominator through measures such as share buybacks, but we believe it is necessary to take a certain amount of time to make improvements considering the relationship with the parent company.

Adjusted EPS



Financial Discipline

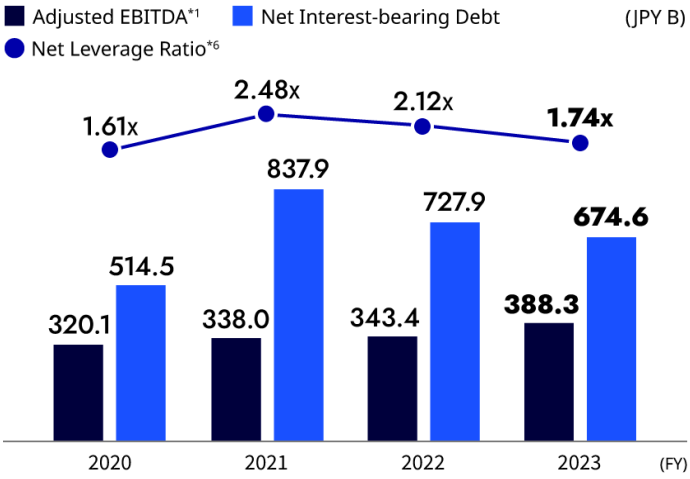
We will reduce equity capital in the internet business while promoting the securitization of receivables in the financial business *4.

First, the business structure of the financial business *4 is such that receivables tend to inflate significantly on the balance sheet, so we plan to promote the securitization of receivables, mainly in PayPay Card. In fact, the securitization of credit card receivables reached approximately JPY423.0 billion as of the end of March 2024. Since the credit card business has a longer cash conversion cycle than the internet business and PayPay's payment business, the securitization scheme has become one of the main financing instruments. We expect securitization to continue to increase in line with the expansion of credit card transaction volume at PayPay Card Corporation. In this way, we will work to diversify financing methods for the financial business *4 by actively utilizing asset finance, not relying solely on external funding, so that the financial business can finance itself. In addition, we plan to improve the capital adequacy ratio to a certain extent, mainly in our banking business.

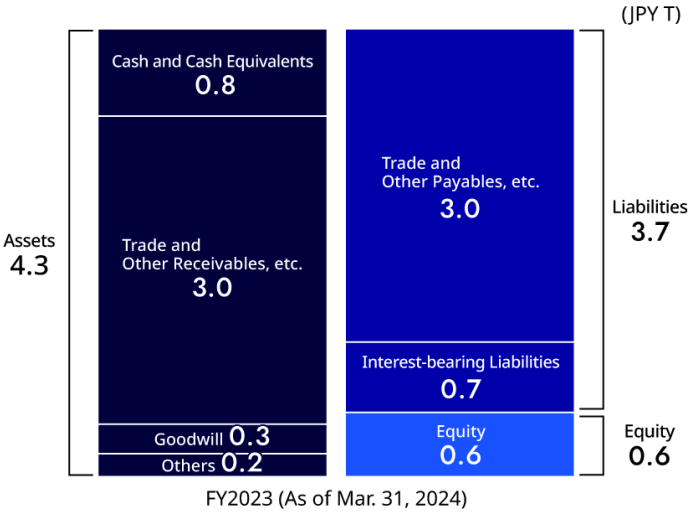
We will maintain a net leverage ratio *6 of 3x or less for the internet business excluding the financial business *4. Another issue on the balance sheet is restraining the size of equity capital. Excluding the financial business *4, we believe that we should keep equity capital low in our balance sheet. Our equity capital has significantly expanded as a result of the business integration of LINE Corporation and Z Holdings Corporation and the increase in goodwill due to the consolidation of PayPay Corporation. Therefore, we plan

to utilize our buffer of JPY515.0 billion to restrain the size of equity capital. Please note that the goodwill of the former LINE Corporation recorded due to the business integration has remained flat since the business integration and we do not anticipate any impairment of goodwill in the future.

Net Leverage Ratio *6 (Excluding Financial Business *4)

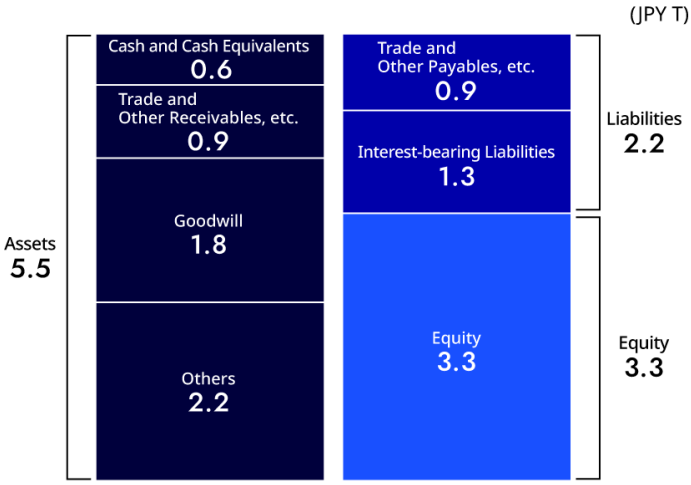


Balance Sheets *7 (Excluding Financial Business *4)



FY2023 (As of Mar. 31, 2024)

Balance Sheets *7 (Financial Business *4)



FY2023 (As of Mar. 31, 2024)

Shareholder Returns

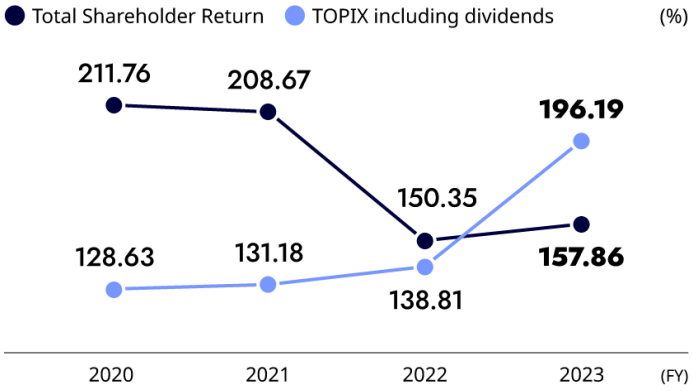
We will invest in business growth while maintaining our dividend per share.

We believe that as a listed company, it is our important responsibility to not only achieve medium- to long-term and sustainable growth in corporate value, but also to reward our shareholders and investors through stable stock dividends and share buybacks. Under this policy, we will actively engage in upfront investments in services, capital expenditures, M&A, and capital and business alliances in anticipation for future growth, while maintaining the dividend amount per share. Regarding the additional buffer of JPY515.0 billion explained in capital allocation, we basically intend to prioritize its use for M&A that contributes to business growth, but we also consider the possibility of using it as a source for continuous shareholder returns such as share buybacks.

As for the current issue of PBR falling below 1x (as of mid-August 2024), the top priority is to increase the profits of our core businesses while enhancing products that can be expected to grow in the future. In addition, reducing the number of shares issued through share buybacks is always an option. However, as mentioned earlier, there is also the issue of the shareholding ratio with the parent company, and is not something that can be decided solely by our company. Therefore, we would like to wait for the appropriate timing and act flexibly.

LY Corporation will continue to provide more attractive products and services to our users, aiming for sustainable business growth and increasing corporate value to meet the expectations of our shareholders and investors. We thank our stakeholders for their continued support.

Total Shareholder Return (Benchmark: TOPIX including dividends)



*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, gains on remeasurement relating to business combinations, other transactions with undetermined cash outflows (one-time provisions, etc.), etc.). Also, gains/losses on sales of shares held by certain funds.
Definitions changed from FY2022. Added certain rents to depreciation and amortization, and gains/losses on sales of shares held by certain funds to EBITDA adjustment items.

*2 Calculated based on the usage performance of Yahoo! JAPAN Shopping in March 2024 by users who newly became LYP Premium members between November 29, 2023 to March 31, 2024.

*3 Decided in August 2024. Cancelled on September 30, 2024.

*4 The financial business includes PayPay Corporation, PayPay Card Corporation, the financial subsidiaries of Z Financial Corporation, such as PayPay Bank Corporation, and financial subsidiaries of LINE Financial Plus Corporation.

*5 Credit card receivables securitization has been transferred from financial cash flows to operating cash flows.

*6 Net leverage ratio=Net interest-bearing debt/Adjusted EBITDA (Figures for the last 12 months used for calculating adjusted EBITDA). Net interest-bearing debt=Interest bearing debt – Cash and cash equivalents.

*7 The figures are rounded down to the nearest 10 billion yen and then rounded to the nearest trillion yen.

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