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A Message from the GCFO

Maximizing corporate value through bold investments for medium- to long-term growth

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The LINE integration completes the financial structure needed to create the future.

The business integration with LINE in March 2021 brings into the Group numerous key assets with excellent prospects to contribute to the Group's medium- to long-term growth. The integration also strongly boosted our ability to generate cash flow, which allows us to raise our strategic investments to a new level. As GCFO, I will be looking to invest even more aggressively to grow all of our businesses.

The Internet industry has huge growth potential, but at the same time it is an extremely competitive winner-take-all market. We intend to allocate cash when and where we need it to advance our business and establish sustaining growth, and we plan to make ¥500 billion in strategic investments over the next five years with funds primarily from business cash flow. While we will be aggressive with our investments, we will also maintain strict financial discipline by using our financial leverage wisely (maintaining a net leverage ratio 2.5-3.0x, excluding the banking business) and ensuring we preserve our credit rating.

Our medium- to long-term growth targets for fiscal 2023 are revenue of ¥2 trillion and adjusted EBITDA of ¥390 billion. We changed our primary management indicator to adjusted EBITDA in fiscal 2021 to provide a more accurate measure of the performance of our strategic investments.

Overview of Fiscal 2020

Dynamic offensive and defensive strategies generated a second straight year of rising revenue and income

Fiscal 2020 was a challenging year as the COVID-19 pandemic made it virtually impossible to predict how our world would emerge after the pandemic. We accordingly took a cautious and flexible stance in our management decisions while diligently trying to anticipate any and all possible scenarios.

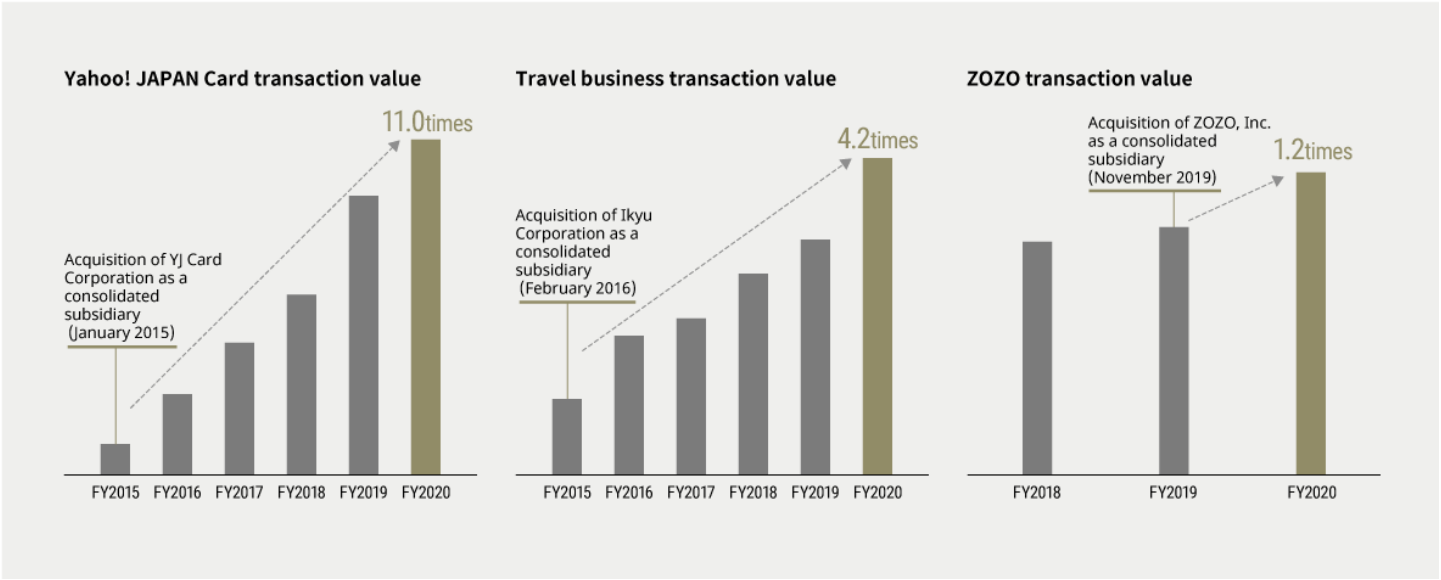
During the unprecedented conditions, we revised our management activities to ensure effective operations. While our management team usually convened about twice a month to verify business conditions and forecast our business performance for the coming three to six months, since the pandemic began we have been regularly meeting once and sometimes twice each week. At these meetings, we devised a contingency plan for the Group, including ASKUL and ZOZO, and decided to invest capital in response to new market movements and to limit non-essential spending.

The pandemic had various effects on our businesses. Some operations struggled, but our overall business was brisk as the stay-at-home conditions increased Internet usage and the measures to prevent the virus from spreading increased demand for cashless transactions. We ultimately recorded a second straight year of double-digit growth with revenue up 14.5% year on year to ¥1.20 trillion and adjusted EBITDA up 18.8% to ¥294.8 billion.

Steadily advancing PMI to maximize our integration synergies

The integration of all Yahoo! JAPAN and LINE services is being reviewed by the newly created Product Committee, a special committee that meets weekly to examine and discuss the companies' overall operations to consolidate services, eliminate overlap, and activate mutually beneficial synergies. Overlapping services will not be merely combined because they could still have distinct customer bases or other merits. Unique services like LINE Official Account and LINE GIFT are already being adapted to enable cross selling by Group companies, and the Product Committee is examining all of the services to maximize business potential, so that when integrated, the services will become greater than the sum of their parts.

We have a long track record of success with post-merger integration (PMI). We created cost synergies for ASKUL's LOHACO by introducing Yahoo! JAPAN's XS (Cross-Shopping) Engine to lower the fixed costs for its site operations. Linking the PayPay Card to Yahoo! JAPAN e-commerce and combining the Ikyu and Yahoo! JAPAN Travel operations has significantly increased the transaction value and revenue for both operations. ZOZO's transaction value and operating margin have also increased since joining the Group, and its market capitalization value has doubled since the time of acquisition, to approximately ¥1.2 trillion. We believe that we will be able to make the integration with LINE a success by applying the diverse PMI know-how gained through these successful cases.



Efficient use of management resources

Effective investment and thorough selection and concentration in the three business segments

This year, we reorganized our business activities into the three segments of the Media Business, Commerce Business, and Strategic Business. Strategic investments will now be conducted in accordance with these three segments. The Internet advertising, e-commerce, and cashless markets all still have substantial growth potential. To generate their full potential, we will aggressively invest to secure AI professionals and in marketing to increase the value of our services.

The efficient use of management resources requires prompt and resolute decisions by the GCFO also regarding which businesses to withdraw from. In just the last three years, we have sold several companies, and this fiscal year we have already made the decision to sell the FX business. As we consider the recent significant increase in our assets, we will need to make many important decisions about whether owning a business is in the best interests of the Group. This selection and concentration of assets will be based on comprehensive evaluations of business performance as well as the compatibility with our management strategies and the market potential.

Yahoo Japan Corporation places a financial controller at each of its businesses to manage every aspect of investment return, even for the smallest promotion activities. This system has proven very efficient, and we have already introduced similar performance management know-how to the Group companies. We believe that applying this system can also boost the profitability at LINE.

Addressing social issues

Doing our part to realize a sustainable future through various activities, including aiming for carbon neutrality

Fulfilling our objective to maximize shareholder value requires a balanced investment in both financial and non-financial areas. As such, one of my duties is to manage our environmental, social, and governance (ESG) efforts. Z Holdings and companies worldwide are doing their part to help realize a sustainable society. As our Group grows, so does our social responsibility.

We have made reducing our carbon dioxide emissions our top priority. Yahoo! JAPAN's data centers generated the bulk of its CO2 emissions, but the company has been steadily improving the environmental performance of the centers for over five years and has announced that it will achieve 100% renewable energy by the end of fiscal 2023. This year, Z Holdings became the first domestic Internet company in Japan to issue a green bond. The funds raised through the green bonds will be used to construct and operate data centers that are even more energy efficient and to procure renewable energy. In addition, to promote local efforts in Japan to decarbonize and use renewable energy, we are using the corporate version of the Japanese enterprise hometown tax donation program to support decarbonization efforts of local governments.

The Group is also making a concerted effort to help create a sustainable society by cooperating and collaborating with various organizations and groups. The effort includes supporting the government and local governments working to advance digital transformation, and expanding the LINE Healthcare platform for online medical examinations.

Shareholder return policy

A total return approach through dividends, share buybacks, and stock price growth

Our objective to establish continuing medium- to long-term growth in corporate value requires us to engage in aggressive upfront investment and other capital investment geared toward realizing growth in the future. At the same time, we honor our responsibility as a listed company to reward our shareholders by returning profits. In fiscal 2020, we distributed profits to shareholder through dividends amounting to ¥5.56 per share, representing a total payout of ¥42.2 billion, which was roughly equivalent with the previous fiscal year.

We believe that the best way to return profits to our shareholders is to improve our business performance through aggressive growth investment and by raising our stock price over the medium to long term. We will continue seeking to maximize corporate value by actively and strategically investing to improve capital efficiency while also directly returning profits to shareholders through dividends and share buyback programs.

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