Last updated: 10/25/2021

Growth Strategy

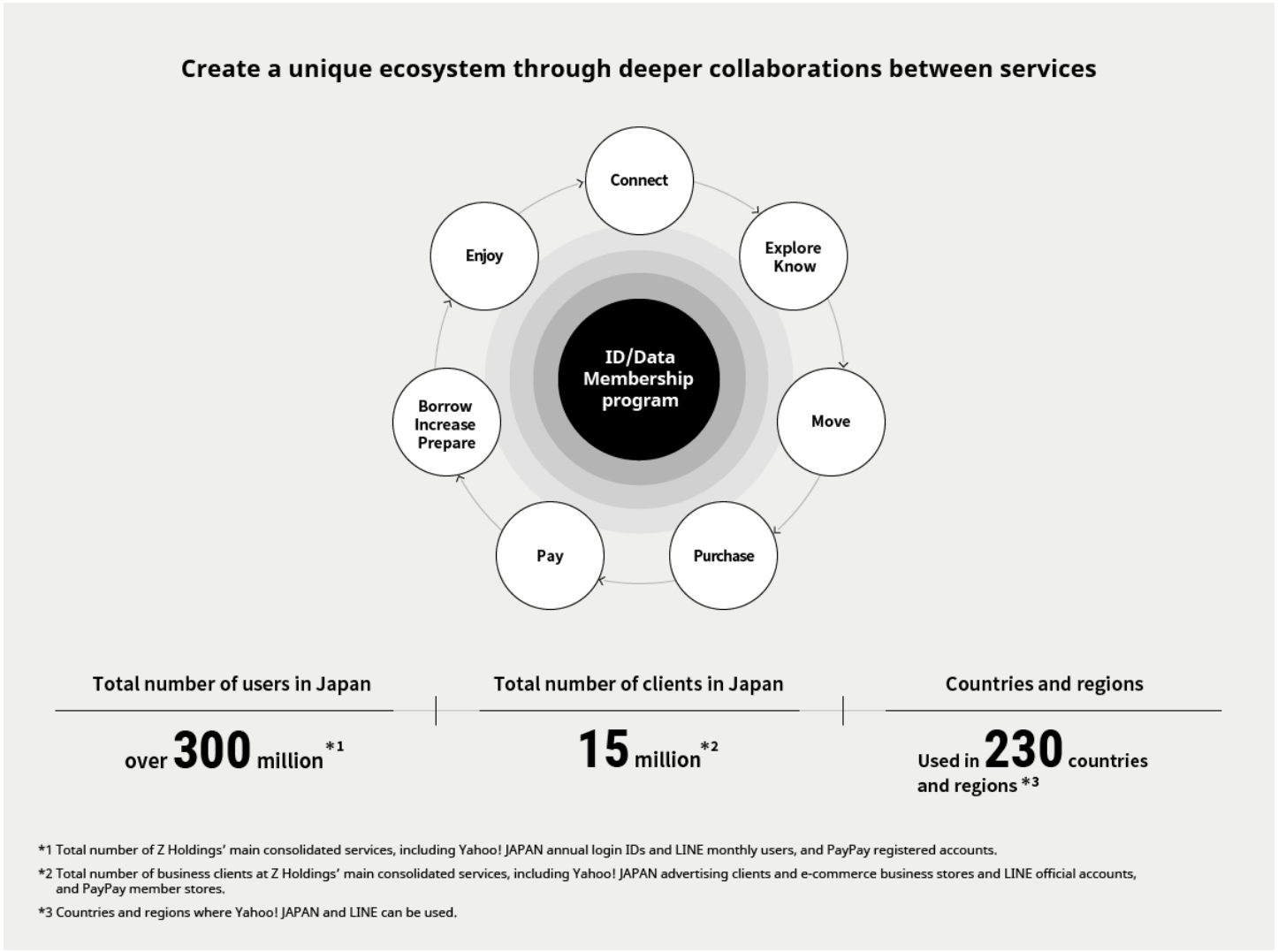
Using our unparalleled and diverse asset portfolio to become a mega platform operator from Japan and Asia

The Z Holdings Group has been providing services through its “UPDATE THE WORLD ” mission and has been promoting “user first” as one of its key values since the establishment of Yahoo Japan Corporation (Yahoo! JAPAN) in 1996. Our business integration with LINE Corporation in March 2021 made us one of Japan’s largest Internet service groups, with over 300 million domestic users, giving us contact with virtually everyone who uses the Internet in the country.

Our massive user base provides an overwhelming presence for Yahoo! JAPAN, the LINE social media business, and the PayPay payment business and combines with NAVER’s AI technology and SoftBank’s telecom business to offer over 200 services in more than 200 markets. Our assets, encompassing everything from media to communication, are unparalleled in the world and are the inspiration for our value creation and foundation, from which we are developing and innovating services that are only possible with our diverse wealth of assets.

We are linking the Group’s wide range of services to form our own ecosystem for providing new value to society that will establish us as the world’s third mega-digital platform operator group, alongside GAFAM*1 and BATH*2.

*1 GAFAM = Google, Apple, Facebook, Amazon, and Microsoft
*2 BATH = Baidu, Alibaba, Tencent, Huawei



Formulating KPIs

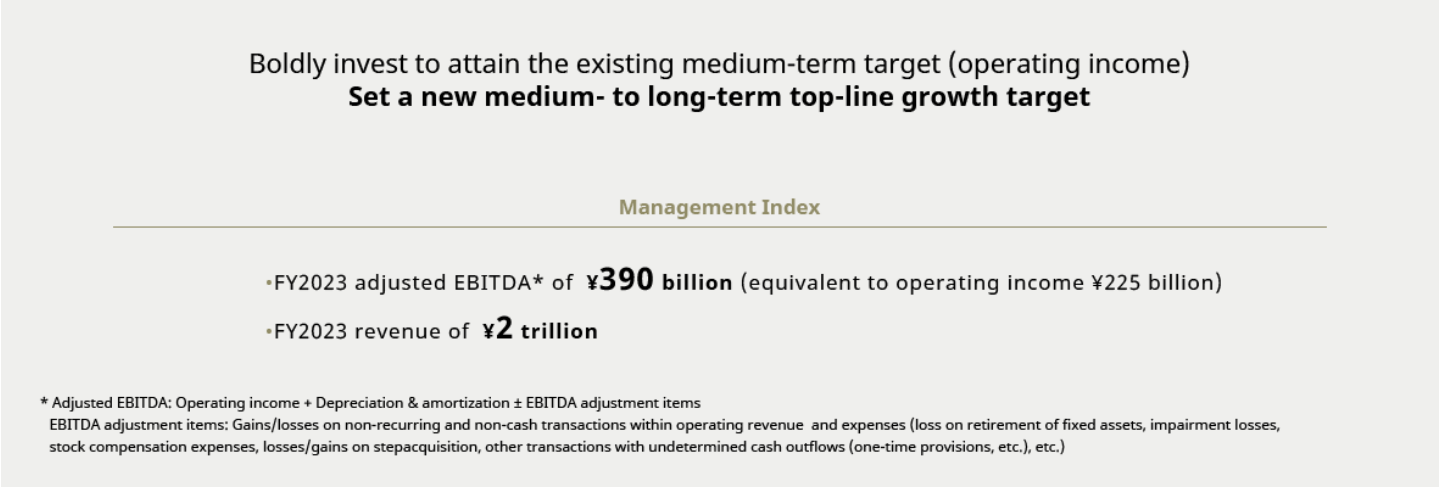
Top-line medium- to long-term growth targets

The Z Holdings Group has set a medium- to long-term target of achieving record-high operating income of ¥225 billion in fiscal 2023. However, we have now adopted adjusted EBITDA as our KPI for profit. Adjusted EBITDA is a better indicator of our cash base performance because it factors in strategic investments and their effects, aggressive M&A and capital investments, and accompanying changes in accounting over the past few years.

The new medium-term management index sets fiscal 2023 targets for revenue of ¥2 trillion and adjusted EBITDA of ¥390 billion, which is the converted equivalent of the previous ¥225 billion operating income target. Essentially unchanged in terms of profit performance, the target demonstrates management's steadfast commitment to attaining the target, which includes using the increased profit from the business integration with LINE to make bold strategic investments. By achieving our income target as well as making investments to accelerate medium- to long-term growth, we aim to achieve significant growth that would not be possible without this business integration.

In the fiscal year that commenced in April 2021, we reorganized our operations into three business segments: the Media Business, the Commerce Business, and the Strategic Business.

> Medium-to Long-term Management Index and KPIs



Investment Strategy

Bold strategic investments in the three “action points” to propel our business growth

Through the integration with LINE, the Z Holdings Group has come into possession of three action points that cover the vast majority of Internet users in Japan: “Information & People (Yahoo! JAPAN),” “People & People (LINE),” and “People & Payments (PayPay).” We will use these action points to differentiate our services by linking user IDs (with user permission) and membership programs, and then using AI analysis of the collected data to provide services optimized to each user.

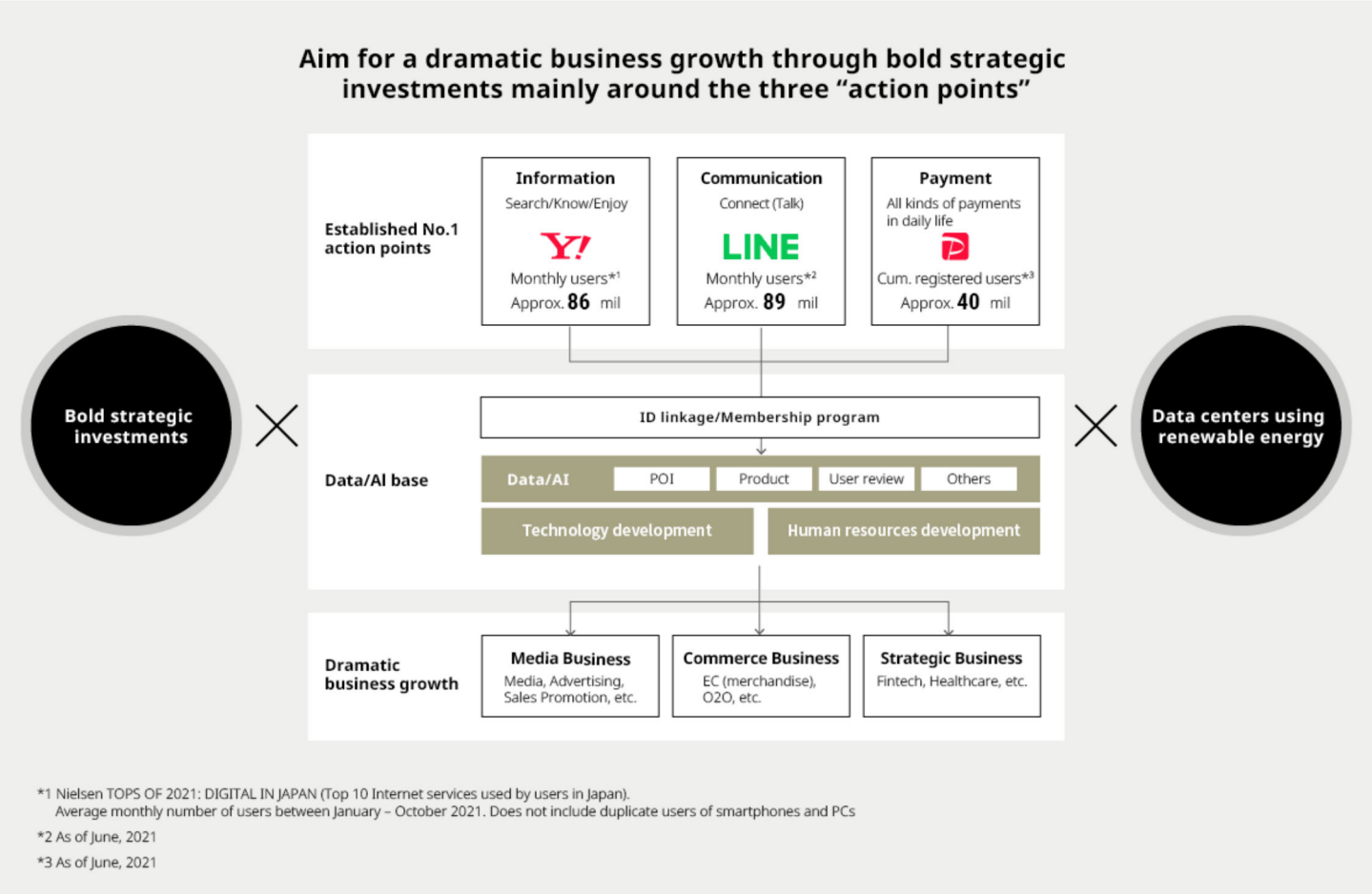
To do this, we are budgeting roughly ¥500 billion over five years to strengthen our technologies and human resources. The investments will lay the foundation for future growth by making us better able to recruit engineers and other human resources, integrating our advertising platforms, and accelerating 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 value and services.

We will also build our global business by leveraging LINE’s overseas business bases in Thailand, Taiwan, Indonesia and other areas.

This business expansion will be accompanied by measures to minimize the environmental footprint of our activities. One of our key focuses will be to convert our data centers to using renewable energy supply sources.

> Data centers powered by 100% renewable energy

Business/Service Growth Policy



*1 Nielsen TOPS OF 2021: DIGITAL IN JAPAN (Top 10 Internet services used by users in Japan).
Average monthly number of users between January – October 2021. Does not include duplicate users of smartphones and PCs

*2 As of June, 2021

*3 As of June, 2021

Media Business Strategy

Increase the target markets by using Group assets for 1:1 marketing

Annual spending on Internet advertising has been growing at a double-digit pace in Japan and surpassed TV advertising spending for the first time in 2019. The pace temporarily slowed during the COVID-19 pandemic, but the shift to digital advertising is certain to continue in the future.

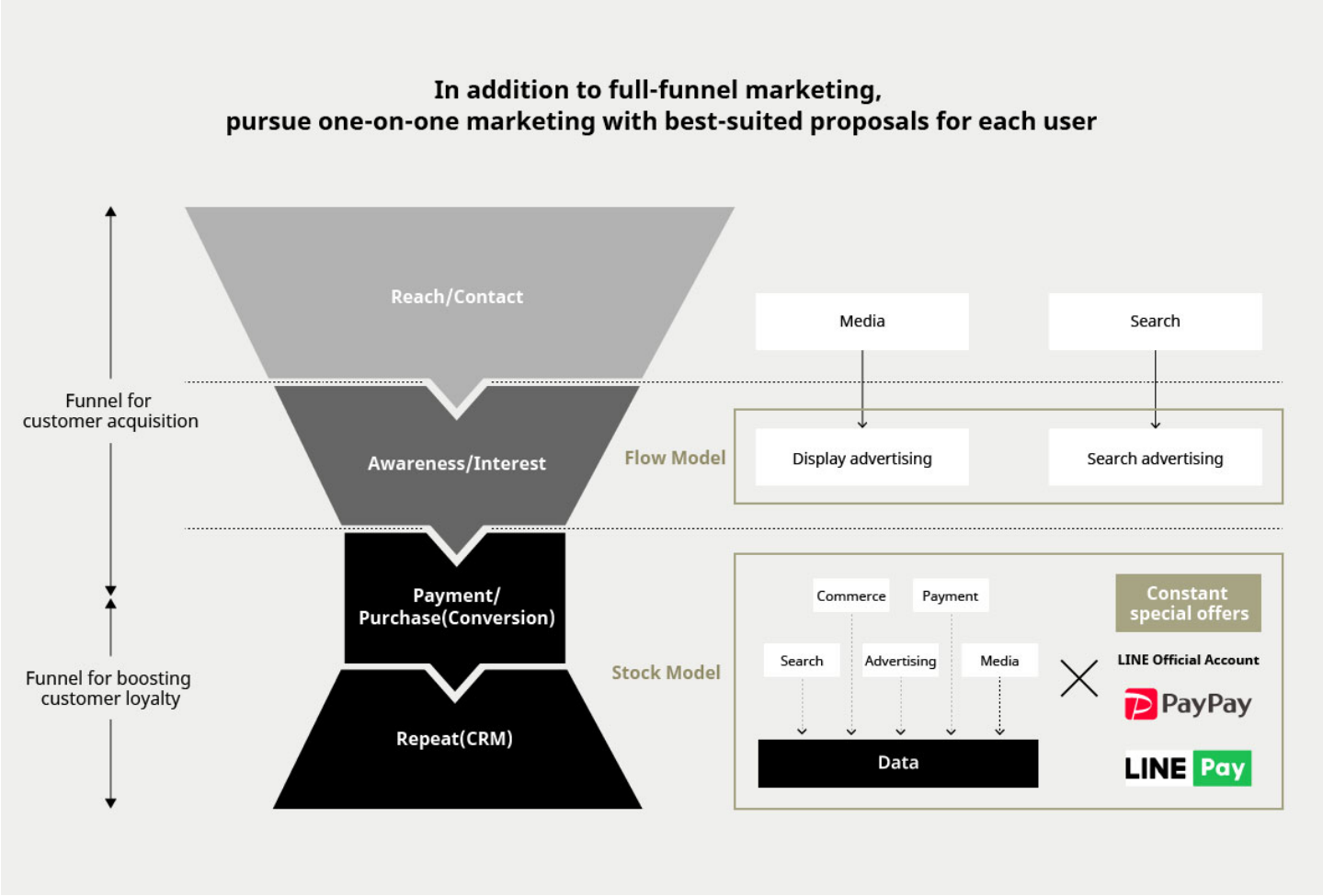
Our strength is our unique and diverse set of assets. We will use the full force of our assets to offer marketing solutions beyond the reach of our competitors. For example, we will create full marketing funnels that encompasses purchase and customer loyalty, going beyond the fundamental levels of awareness, interest, and consideration to attract new customers. We will use data collected from PayPay payments and customer relationship management (CRM) using LINE to provide solutions for customer retention by encouraging consumers to complete purchases and return for repeat transactions.

In the near term, we will use cross-platform ad distribution and linked ID data within the Group to optimize ad placement and targeting accuracy and raise our advertising unit prices. In the medium to long term, we will integrate the reporting system and ad distribution systems and take steps to generate business and cost synergies. Through these measures, we will maximize sales of existing advertising services and enter new markets for sales

promotion and CRM products with the aim of expanding our total addressable market (TAM) to spur double-digit annual growth in advertising revenue.

> Overview of Media Business

Brand New Marketing Solution Created by Yahoo! JAPAN and LINE



Commerce Business Strategy

Maximize transaction value in both the online and offline domains

The e-commerce market for merchandise has been growing every year and received a further boost from the pandemic conditions. Online sales in Japan still have significant room to grow, however, as the majority of purchases are still offline and e-commerce makes up a smaller percentage of overall consumer purchases compared to many other countries. We are responding to these conditions by launching “X (Cross) Shopping” services allowing online purchases from inventory in brick-and-mortar stores and preparing to introduce a “My Price Initiative (dynamic pricing)” for users making in-store purchases.

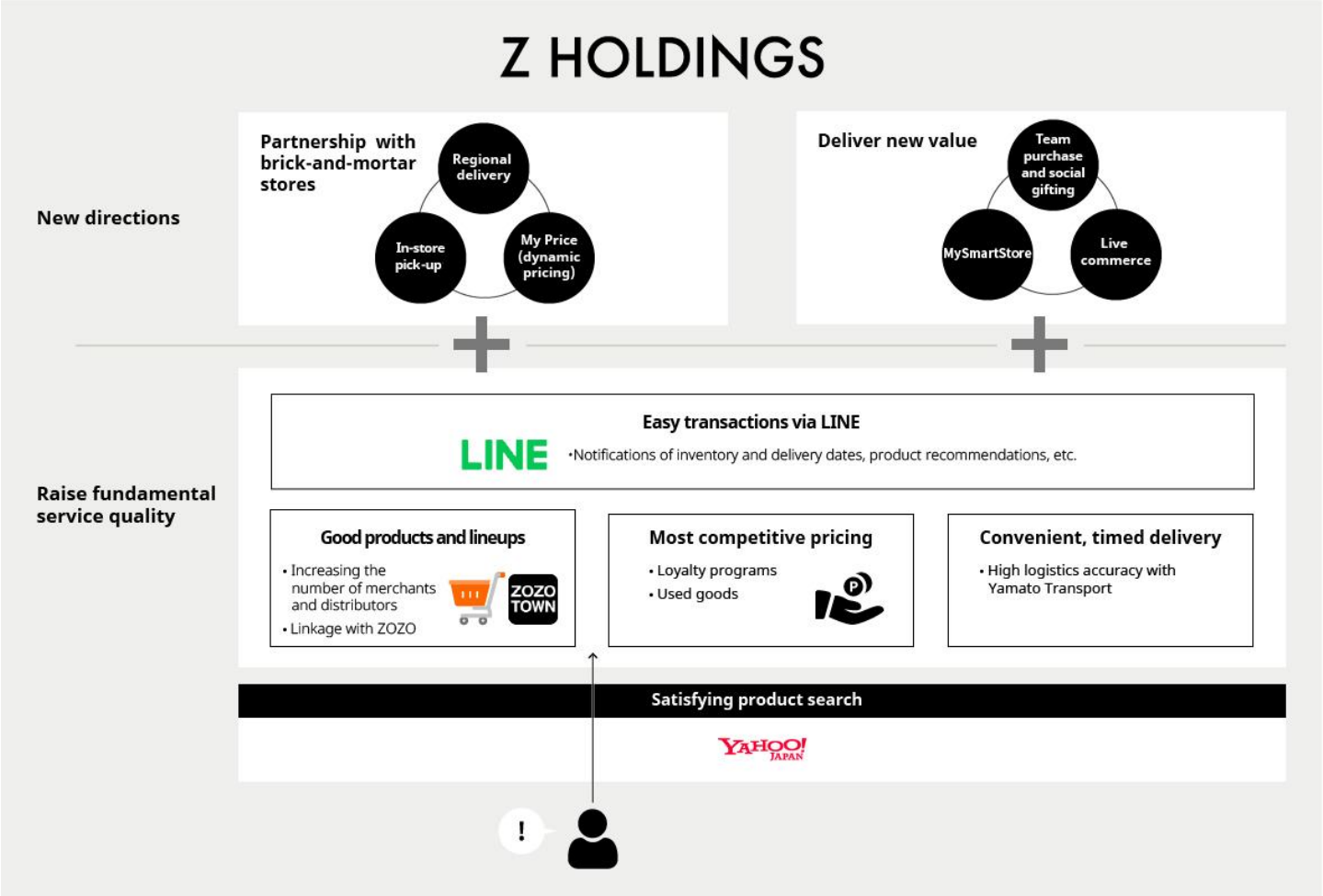
We will also expand the loyalty program to include LINE services and create a groupwide ecosystem. We plan to be the leader in creating a world where the social-network-centered shopping experiences of group purchasing, social gifts, and live commerce are the norm. In online to offline (O2O) businesses, we will use the broad customer base for the Group’s services and LINE Official Accounts to heighten our ability to attract customers and prompt reservation orders to raise the services transaction value in travel, dining, and delivery business domains.

Logistics and delivery capabilities are also key to our future success and growth. In addition to the ZOZO and ASKUL warehouse and delivery systems, we will mobilize the assets of our partner firms. One of these efforts is an alliance with Yamato Holdings Co., Ltd., which we announced in March 2020, to augment the quality of our distribution services and continue enhancing the user experience. As we expand the X Shopping experience to offer the choice of in-store pickup of online purchases, we will seek to improve the service quality covering the last mile of delivery. In July 2021, we began using the ASKUL and Demae-can delivery networks to test “instant delivery” services and gain on-the-ground knowledge and know-how for last-mile solutions.

These strategies are designed to catapult the Z Holdings Group to No. 1 in e-commerce merchandise transaction value in Japan by 2025.

> Overview of Commerce Business

Strategy Overview



Strategic Business

Create new revenue pillars centered on fintech

The Japanese payment transaction market is currently less than 30% cashless, with QR code payments making up only a small fraction of those transactions. The government of Japan is aiming to improve consumer convenience and 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 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. We will leverage PayPay's formidable customer base as Japan's most popular smartphone-based payment system to aggressively develop the market for cashless services.

We will also develop financial services in the loan, asset management, and insurance markets, all of which have close correlations with payment services. The financial services will be developed using Group assets as well as the key financial partners outside the Group, including the Sumitomo Mitsui Financial Group, which is affiliated with the PayPay Bank, and the Mizuho Financial Group, which assisted in the formation of the LINE Bank

Preparatory Company.

We are also offering services in the healthcare field. The LINE Doctor service provided by LINE Healthcare Corporation is a platform for online medical consultation at any time using the LINE app. We are developing an environment where users can use the app for the entire process of arranging for medical attention from locating a doctor and making an appointment to consulting with medical staff via a LINE video call and paying the fee. The next step will be to develop this service to offer online professional medication guidance as we progress toward our ultimate objective of making full health management services accessible through a smartphone.

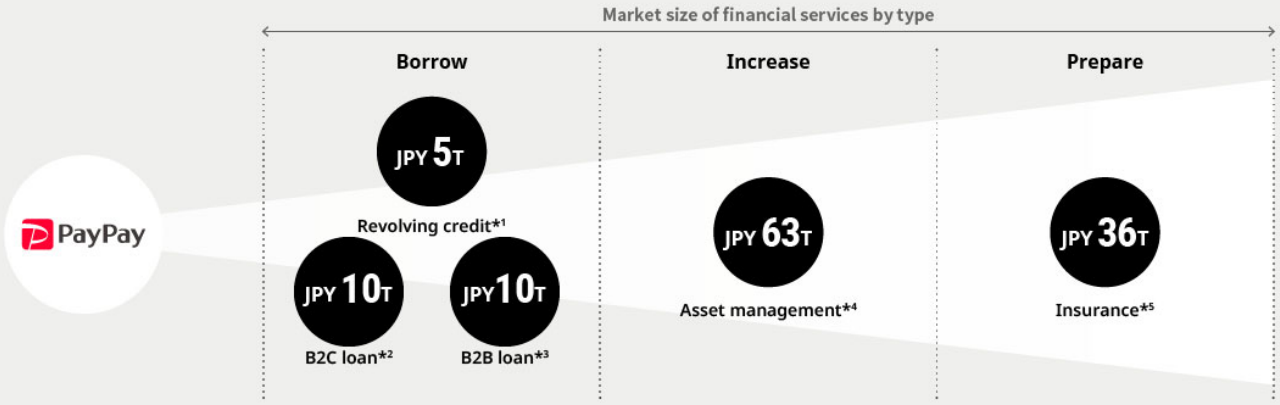
> PayPay Corporation (Japanese Only)

Become the Third/Forth Revenue Pillars Following Media and Commerce

Create "new" market around Fintech

To monetize, expand financial services from "Payment"

Use PayPay as a foothold to develop financial services market



*1 JAPAN CONSUMER CREDIT ASSOCIATION "Credit Statistics of Japan (2019)": "Payment exceeding two months in credit card shopping"

*2 Sum of consumer/unsecured loan balance (JPY 4.3T) (monthly status survey by Japan Financial Services Association) and bank card loan balance (JPY 5.7T) (follow-up survey results on bank card loans, by Financial Services Agency)

*3 Estimate from: 1) JPY 7.7T loan to retailer/dining, out of loans by banks & shinkin banks towards SMEs (working capital excluding loans for equipment) (Bank of Japan statistics), and 2) JPY 4.6T non-bank/card loan to businesses (excluding collateral loans) (Japan Financial Services Association)

*4 Bank of Japan "Flow of Funds": Amount of "Investment trust beneficiary certificates" out of "Financial assets held by households"

*5 The Life Insurance Association of Japan "Life Insurance Fact Book": Total annualized premium of new policies and policies in force of individual insurance and individual annuity insurance + The General Insurance Association of Japan "Statistics by Line ": FY2019 total net premiums written

Non-Financial Capital Strategy

Strengthening the technologies and human resources that drive our growth

The Group is integrating AI into its media, commerce, fintech, and all businesses to offer unparalleled convenience and usability to all users and enhance profitability across the board. The ¥500 billion investment to strengthen our technologies in the next five years will be primarily used to integrate AI into our operations and to add 5,000 AI engineers in Japan and overseas.

Adding talent will be critical. The Ministry of Economy, Trade and Industry estimates that Japan's AI sector will face a shortfall of 88,000 AI specialists in 2025, rising to 124,000 in 2030. In addition to stepping up talent recruitment in Japan and overseas, we are enhancing our in-house training programs and creating opportunities for AI professionals in the Group to share their information and expertise. We have also created the Z AI Academia

community for training AI talent in the Group. Part of the Group's Z Academia corporate university, the community will develop professional researchers and engineers as well as high-level talent in occupations where AI expertise will be advantageous.

We will counter the anticipated shortage of AI professionals by training our own talent and raising the level of AI literacy and practical skills throughout the Group. We aim to become a world-leading AI tech company from Japan and Asia.

Z AI Academia

Z Academia
President
Yoichi ITO

ZOZO, Inc.
Vice President,
AI R&D Division
Ryuji NOGUCHI

Yahoo Japan Corporation
Head of Yahoo! JAPAN Research
Akira TAJIMA

Yahoo Japan Corporation
CDO
Hiroki TANIGUCHI

LINE Corporation
Executive officer
AI Company, Company CEO
Shinichiro ISAGO

Ikyu Corporation
President and CEO
Jun SAKAKI

ASKUL Corporation
Executive officer
CDXO
Noritomo MIYAZAWA

Data centers powered by 100% renewable energy

The Japanese government, in response to the increasingly intense effects of climate change, has declared its goal for Japan to be fully carbon neutral by 2050. Z Holdings is committed to taking action to mitigate the impact of climate change, and our first step is to improve the energy consumption of Yahoo Japan Corporation, the Group's core company, whose data center operations account for some 95% of its electricity consumption. We have launched our 100% Renewable Energy Challenge in Fiscal 2023 to accelerate our efforts to convert Yahoo Japan's data centers and other operations to renewable energy sources. While most companies are setting goals for 2040 or 2050, we are setting a new bar by aiming to reach the 100% goal in just three years.

Yahoo Japan Corporation is already making meaningful progress on improving its environmental performance. The company has installed the latest energy-efficient technologies at its data centers in Fukuoka and Fukushima prefectures in Japan and is operating on virtually 100% renewable energy from hydroelectric power for its roughly 1,600 server racks at its data centers in the United States. While reducing our environmental footprint, these measures also provide cost benefits from the increased operating efficiency of the data centers. We plan to introduce environmental systems for LINE and throughout the Group.

The Z Holdings Group is also taking active steps to become member of the RE100 global initiative, bringing together the world's most influential businesses committed to 100% renewable electricity. In fiscal 2021, the Group plans to declare a long-term commitment to using 100% renewable energy for all Group operations.

> Yahoo! JAPAN Declares "FY2023 100% Renewable Energy Challenge"
> Carbon Neutrality Declaration

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