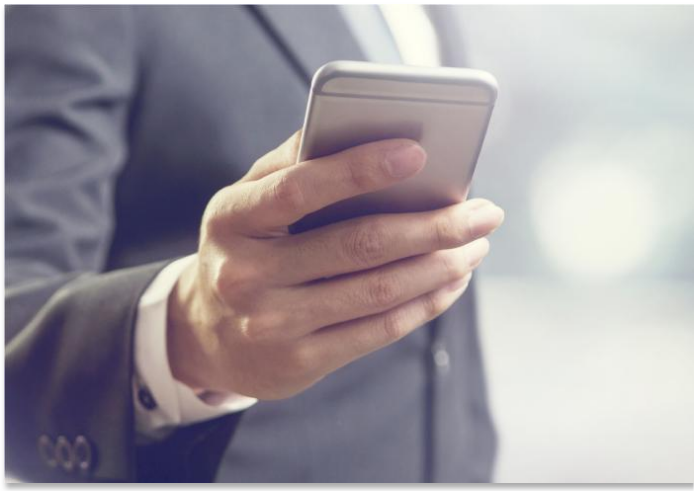
Last updated: 10/25/2021

Media Business

Overview of Media Business



Major Services

- **Media-related services (e.g. Yahoo! JAPAN Top Page, Yahoo! JAPAN News, LINE Stickers, and LINE GAME) *1**
- **Yahoo! JAPAN Ads (e.g. search advertising and display advertising), and LINE Ads (e.g. display advertising and account advertising)*2**

*1, *2: LINE media and advertising services were added in fiscal 2021.

Results for Fiscal 2020

Revenue	Operating income	Operating margin
340 billion	150 billion	44.1 %

Market Environment

2020, total advertising expenditure in Japan showed negative growth for the first time in the nine years since the Great East Japan Earthquake in 2011, with an 11.2% year on year decline to ¥6.2 trillion. This reflects the postponement or cancellation of various events and advertising and sales promotion campaigns due to the effects of the expanding COVID-19 pandemic. In

contrast, expenditure on Internet advertising led a recovery trend and showed positive growth, reflecting the dramatic acceleration of the digital transformation of society. Results for individual media categories show that total advertising expenditures in the four traditional media markets of television, newspapers, magazines and radio shrank for the sixth consecutive year with a year on year decline of 13.6%*1. The only category in which total advertising expenditure recorded positive growth was Internet advertising expenditure, which increased by 5.9%*1 over the previous year's level thanks to growth in digital advertising derived from the four traditional media categories and from merchandise-related e-commerce platforms.

With people spending more time at home during the COVID-19 pandemic, there was sustained growth in online video viewing. Video advertising expenditure grew by 21.3%*2 over the previous year's level, accounting for over 20% of total Internet advertising media expenditures. Expenditure on social advertising on social media sites and video sharing platforms also remained on a steep growth trend with a year on year increase of 16.1%*2. Furthermore, as the shift to next-generation 5G communications moves into high gear, there has been an increase in video viewing on smartphones, while video advertising has replaced still images as the dominant format. In addition, lifestyle changes triggered by the COVID-19 pandemic are driving growth in the use of e-commerce. This was reflected in a 24.2% increase in expenditure on advertising on merchandise-related e-commerce platforms*2.

The outlook remains unpredictable because of the continuing impact of the COVID-19 since 2020. However, new marketing methods are emerging in response to these major environmental changes, resulting in an accelerating shift to digital technologies in business sector marketing activities. Z Holdings has high hopes that these trends will continue to drive growth in the Internet advertising market.

*1 Source: 2020-nen Nihon no Kokokuhi (Advertising Expenditure in Japan 2020), DENTSU Inc.
*2 Source: Nihon no Kokokuhi Intanetto Kokokuhi Baitaihi Shosai Bunseki No. 3 (Advertising Expenditure in Japan—Detailed Analysis of Expenditure on Internet Advertising Media, No. 3), DENTSU Inc.,

Growth Strategies–Basic Policies

Our media businesses attract large numbers of users by offering diverse media services that are essential to people's daily lives and record earnings through advertising.

- Pursue full-funnel,*1 1:1 marketing
- Expand the total addressable market (TAM)*2

During the COVID-19 pandemic, we have consistently supplied accurate and timely information and services with the aim of supporting the daily lives of users by providing access to the information that they need. This commitment has enhanced our reputation and resulted in increased use of our services by users. We have also earned excellent scores in multiple surveys by independent organizations.

We aim to increase our share of the continually expanding Internet advertising market by leveraging synergies resulting from the integration with LINE. In addition, we will expand our TAM with a focus on the sales promotion market as our new target. For example, in the past, we have captured the awareness and interest of users through advertising targeted toward users who visit the various services offered on the Yahoo! JAPAN top page. Going forward, we will also offer marketing designed to encourage purchasing through the use of PayPay, and solutions based on the use of LINE Official Accounts*3 to promote repeat purchases. Through these initiatives, we will implement 1:1 marketing based on efficient and continual offers to each individual user, with the aim of expanding our target markets by capturing demand not only from the Internet advertising market, but also from the sales promotion market.

*2 Total addressable market (TAM): The maximum size of the market that can be captured in a given market category

> *1 Full-funnel: An approach that encompasses all stages of consumer behavior from awareness to purchase
> *3 LINE Official Account: A service that creates contact points between LINE users and companies and merchants(Japanese Only)

Business Strategies—Progress and Outlook

Fiscal 2020 Results

In the Media Business, revenue in fiscal 2020 increased by 1.4% year on year to ¥340.6 billion, while operating income was 4.4% lower at ¥150.1 billion. The Media Business contributed 28.2% of consolidated revenue. Revenue from Advertising-related business, propelled mainly by the Media Business, was 0.1% above the previous year's level at ¥305.0 billion.

Search advertising contributed to revenue growth thanks to improvements in advertising display designs and the launch of new functions. However, performance was impacted by the COVID-19 pandemic, which caused advertisers to cut their budgets, resulting in a year on year revenue decrease of 4.3% at ¥162.9 billion.

In contrast, revenue from display advertising showed double-digit growth, with an 11.7% year on year increase to ¥190.9 billion. The main driver for this growth was programmatic advertising. Revenue from this category increased by 19.5% over the previous year's total to ¥164.5 billion. The main reason for this growth was an increase in the number of advertisements displayed when large numbers of users visited the services in Yahoo! JAPAN Top Page and other sources in search of information about the COVID-19 pandemic. Another contributing factor was a sharp increase in demand for advertising in Yahoo! JAPAN Shopping, most of which includes programmatic advertising, due to the increased use of e-commerce by people confined to their homes by the pandemic. Revenue from reservation advertising in the display advertising category declined by 20.7% year on year to ¥26.3 billion. This trend reflects a demand shift from reservation advertising to programmatic advertising.

Priority Initiatives in Fiscal 2021

Our Media Business aims to create new revenue sources by pursuing full-funnel 1:1 marketing to develop and roll out new advertising and sales promotion products. We also aim to increase the value of existing advertising through the linkage and integration of Yahoo! JAPAN and LINE assets.

The key to 1:1 marketing is the provision of information that is optimized for individual users. We have started to work toward this goal with a decision to fully introduce LINE Official Accounts as infrastructure for Z Holding's BtoC communication. LINE Official Accounts will play an extremely important role in marketing activities by encouraging users to make further purchases after an initial purchase. We aim to establish full-funnel 1:1 marketing and expand LINE's account advertising revenue by accelerating the expansion of the number of LINE accounts available to the advertisers of Yahoo! JAPAN.

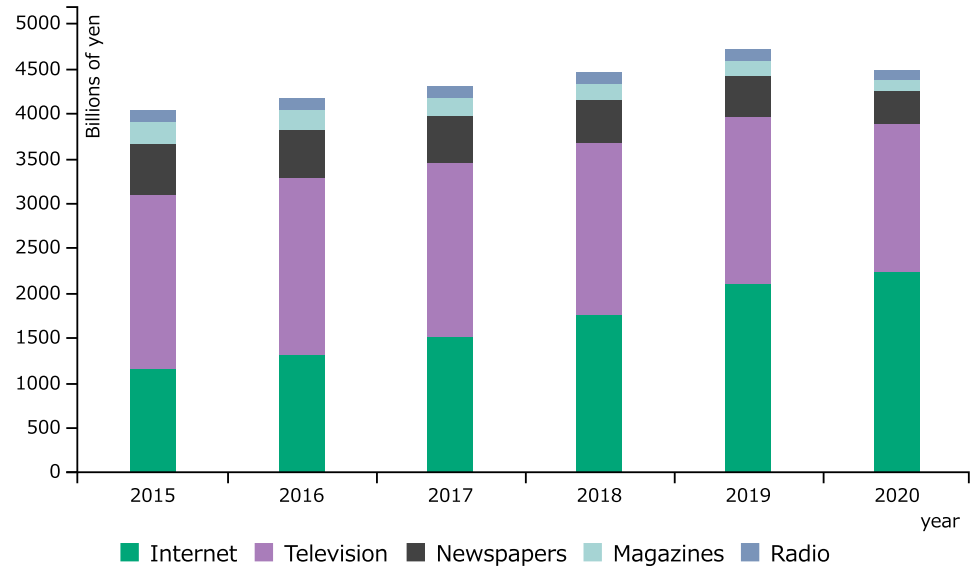
The Media Business is the segment in which we expect to achieve the most significant synergies from our integration with LINE. We will work steadily to realize those synergies.

Data

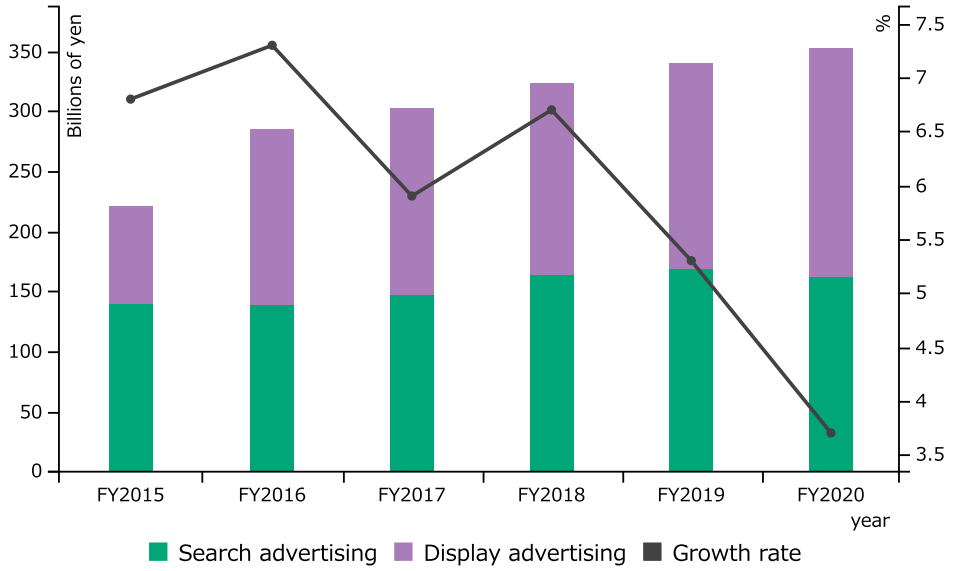
Market Data

Advertising expenditures by media type

*** Source: 2020 Advertising Expenditures in Japan, DENTSU INC.**

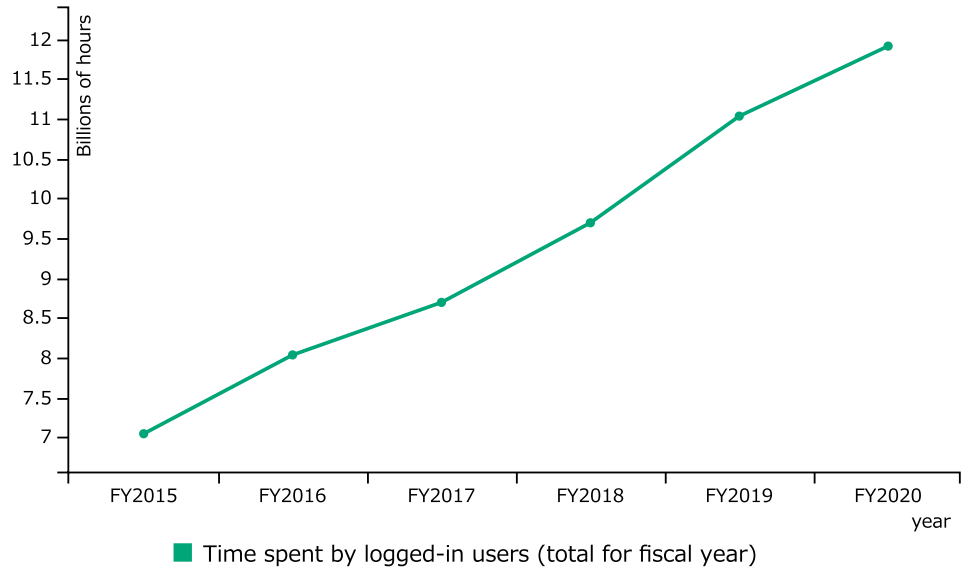


Total advertising revenue
(by advertising products)

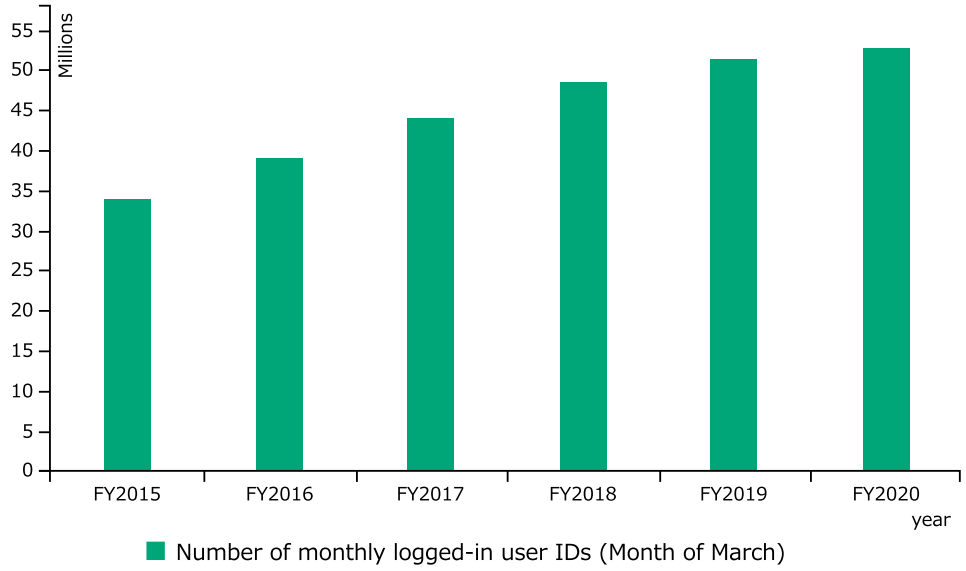


KPIs (Key Performance Indicators)

Time spent by logged-in users

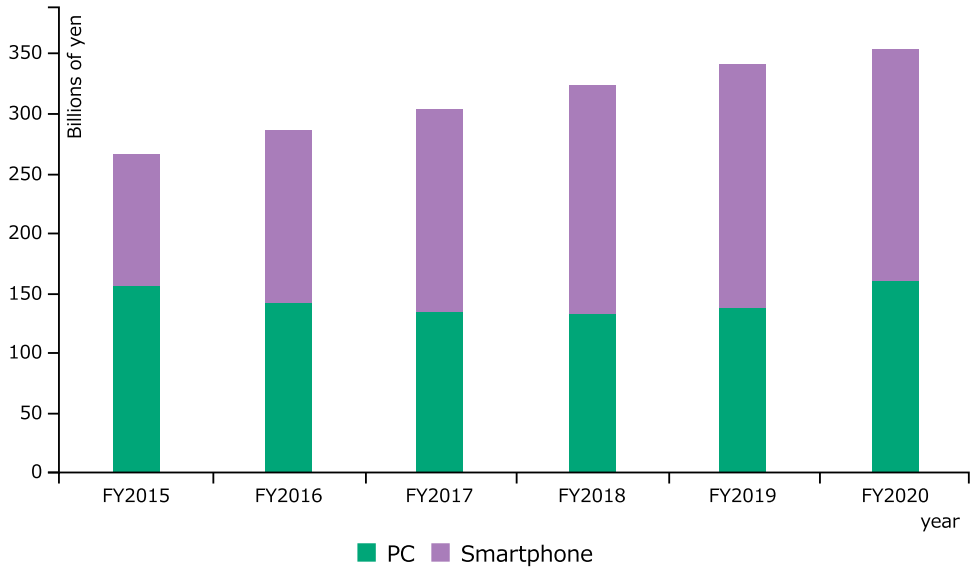


Number of monthly logged-in user IDs



Media Business Related Data

Total advertising revenue (by device)



Highlights

Raising Awareness about COVID-19 through Banner Advertising

The cumulative total of people infected with COVID-19 reached 0.3% of Japan's population as of February 21, 2021. We launched an initiative to counter a waning sense of emergency while also disseminating accurate information by displaying banner advertisements to 0.3% of users. We also added a COVID-19 tab to the Yahoo! JAPAN app and the top page the Yahoo! JAPAN smartphone browser version. By clicking this tab, users can view data about COVID-19 vaccination rates in Japan.

Distribution of banner advertisements to the same percentage of users as the cumulative percentage of Japan's population infected by COVID-19 (0.3%)

Access to current vaccination information via the COVID-19 tab

Regular Release of “Transparency Report on Advertising Service Quality”

Yahoo! JAPAN regularly releases a “Transparency Report on Advertising Service Quality” based on quality screening results to enhance its advertising service quality. This report also serves to provide information about improvement initiatives so that advertisers, advertising agencies, and advertisement distribution partners can use Yahoo! JAPAN services and advertising with confidence.

• New initiatives on advertising screening
Yahoo! JAPAN has established the Yahoo! JAPAN Ad Publishing Guidelines to prevent the appearance of inappropriate advertising. In addition to advertising that contravenes laws and regulations, such as false, exaggerated, and fraudulent advertising, Yahoo! JAPAN also prohibits advertising that is offensive or disturbing to users. The guidelines are continually updated to reflect law changes and social trends. In fiscal 2020, Yahoo! JAPAN revised several publishing guidelines and began applying the new guidelines to the screening process.

• Introduction of screening system based on past violations
In January 2021, Yahoo! JAPAN announced that product advertisements that had previously violated its rules would be deemed to represent a high risk of further violations, and that advertisements for the products concerned would not be accepted, even if the content of the advertising was subsequently modified.

• Launch of system to suspend advertising based on user input
The viewpoints of Yahoo! JAPAN users are an important source of information for efforts to improve the quality of advertising. Yahoo! JAPAN has announced that, from January 2021, advertising will be suspended if the number of negative views expressed by users exceeds a certain threshold.

> Transparency Report on Advertising Service Quality (Japanese only)

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