Last updated: 10/25/2021

Commerce Business

Overview of Commerce Business

Major Services

- **E-commerce-related services focused on the Shopping business (Yahoo! JAPAN Shopping, PayPay Mall, ASKUL, LOHACO, ZOZOTOWN, LINE FRIENDS, LINE GIFT*1etc.)**
- **E-commerce-related services focused on the Reuse business (YAHUOKU!, PayPay Flea Market, etc.)**
- **E-commerce-related services focused on Services (Yahoo! JAPAN Travel, Ikyu Travel, etc.)**
- **Membership services (Yahoo! JAPAN Premium, etc.)**
- **Payment-related services*2 (PayPay Card, PayPay Bank, LINE Securities, etc.)**

*1 LINE services added in fiscal 2021

*2 Financial and payment-related services were transferred to the Strategic Business segment in fiscal 2021

Results for Fiscal 2020

Revenue	Operating income	Operating margin
840 billion	111 billion	13.2 %

* Results for former Commerce Business

Market Environment

According to a survey*1 conducted by the Japanese Ministry of Economy, Trade and Industry, the Japanese business-to-consumer (B2C) e-commerce market shrank by 0.43% year on year to ¥19.3 trillion in 2020, while the percentage of merchandise sold through e-commerce increased by 1.32 percentage points to 8.08%. The main factors contributing to this growth were the expansion of home shopping by consumers spending more time at home during the COVID-19 pandemic, and market expansion in merchandise and digital areas. Markets in service-related areas, such as travel and dining, shrank significantly, but the e-commerce ratio continued to rise, reflecting a sustained shift toward digital commerce. The consumer-to-consumer (C2C) market, including online auctions and flea-market apps, is estimated to have increased by 12.5% year on year to ¥1.9 trillion*2.

The expansion of the e-commerce market in Japan also resulted in a slight increase in the credit facility amount, a measure of actual credit card utilization volume, which was 1.4% higher than in 2019 at ¥74.46 trillion*3. The number of places and situations in which cashless payments can be used has increased dramatically, and we anticipate accelerating growth in the use of digital payment methods. The COVID-19 pandemic has reduced opportunities for people to go out, with the government calling for consumers to stay home and shop from home. This situation has accelerated a shift to e-commerce among business operators who formerly relied primarily on transactions in bricks-and-mortar stores. We expect these factors to result in further expansion of our e-commerce business.

> *1, *2: Source: Ministry of Economy, Trade and Industry, FY2020 Industrial Economic Research Commissioned Project (E-Commerce Market Survey)
> *3 Source: Japan Consumer Credit Association, Credit Card Statistics 2020

Growth Strategies—Basic Policies (Commerce Business)

Services provided through our Commerce Business include e-commerce-related services, membership services, and financial and payment-related services.

- Further expansion of e-commerce transaction value through improvements to logistics and delivery
- Provision of new e-commerce experiences through synergies with LINE
- Expansion of Financial and payment business

In the Shopping business area, we partnered with Yamato Holdings Co., Ltd. to launch a new logistics service for Yahoo! JAPAN Shopping and PayPay Mall. The aim is to create a shopping experience that allows people to obtain the things they want when they want them. Moving on, we will also reduce the shipment workload for merchants by providing a fulfillment service covering all stages from order acceptance to shipment and delivery, and a pick and delivery service that covers part of this process. We are determined to accelerate the growth of the Shopping business by enhancing our users' satisfaction with e-commerce experience through the improvement of delivery quality.

Another strategy designed to achieve further expansion of our Commerce Business involves the development of social commerce based on LINE as a further growth driver. This unique initiative will leverage the strengths of Yahoo! JAPAN and LINE, which both have extremely large user bases in Japan, to differentiate our services from those of our competitors by offering new functions and value. Social commerce is still an emerging market in Japan. We will study success stories in other countries, such as China and South Korea and work dynamically to build up the market.

The Financial and payment business, including the businesses of LINE in this area, was previously part of the Commerce Business, but in fiscal 2021 it was transferred to the Strategic Business segment, a new business segment. Going forward, we will develop third and fourth revenue pillars from the Strategic Business segment, in addition to our existing Media Business

and Commerce Business. In the Financial and payment business, which will form the nucleus for this expansion, we will shift our monetization efforts into high gear by using payment services as a starting point for expansion into all types of financial services.

Business Strategies–Progress and Outlook

Fiscal 2020 Results*

In fiscal 2020, revenue from the Commerce Business increased by 24.4% year on year to ¥840.2 billion, or 69.7% of total consolidated revenue. Reasons for this growth included a strong trend in the revenues of ZOZO, Inc. which became a consolidated subsidiary in November 2019, growth in shopping-related advertising revenue, and an increase in the revenue of YJ Card Corporation. This growth was reflected in operating income, which grew by 45.7% year on year to ¥111.2 billion.

The total transaction value for the Shopping business was 45.1% above the previous year's level at ¥1.50 trillion. Increased demand during the COVID-19 pandemic was a major growth driver. Shopping-related advertising revenue expanded by 31.5% year on year to ¥54.7 billion, while the ratio of advertising revenue to the transaction value of Yahoo! JAPAN Shopping and PayPay Mall rose to over 5% for the fiscal year. Thanks to our efforts to improve the efficiency of sales promotion expenditure, including the use of reward points, the expansion of transaction value was accompanied by an improvement in profitability.

In addition to the growth of YAHUOKU!, the transaction value of Reuse business also benefited from the expansion of PayPay Flea Market transactions and increased by 5.7% year on year to ¥850.2 billion.

Despite voluntary curbs on activities outside of the home due to the COVID-19 pandemic, the transaction value of our O2O travel and dining reservation business, which includes Ikyu Corporation, increased by 24.8% over the previous year's result to ¥517.9 billion. This growth was attributable in part to the government's "Go To" campaigns, the Japanese government's initiatives to promote travelling and dining

Credit card transaction volume was 20.1% higher year on year to ¥2.43 trillion. Contributing factors included synergies with the PayPay payment business, and the government's cashless rebate program. Deposit balance of PayPay Bank steadily increased by 32.2% over the previous year's level to ¥1.22 trillion, and the loan balance of PayPay Bank increased by 153.8% to ¥247.2 billion.

* Result for the former Commerce Business

Priority Initiatives for Fiscal 2021

We will continue to work with Yamato Holdings Co., Ltd. to enhance logistics and delivery services for the Shopping business. Improvements in this area will reduce the shipment workload for merchants while also helping to increase next-day delivery ratios. We also aim to expand the sales of merchants that provide superior delivery services by improving the shopping experience for users through initiatives to support blue ribbon delivery performance. We see these efforts to create a better and more convenient environment for both sellers and buyers as part of our continuing evolution toward the achievement of Japan's highest e-commerce merchandise transaction value.

We will also encourage the introduction of LINE Official Accounts by Yahoo! JAPAN Shopping and PayPay Mall merchants as a way of expanding the transaction value of our Shopping business. In addition, we aim to make steady progress toward substantial growth in the Group's Commerce Business by popularizing new shopping experiences based on communication,

such as gift experiences using LINE's social graphs*1, and discounted shopping through team purchasing with friends.

In the Financial and payment business, which we have identified in the new Strategic Business segment, we will step up our monetization efforts by leveraging the user base of PayPay Corporation to expand our financial services. By rolling out financial services under the PayPay brand and offering diverse financial products under the multi-partner strategy, we will develop this area into a new revenue pillar centering on fintech.

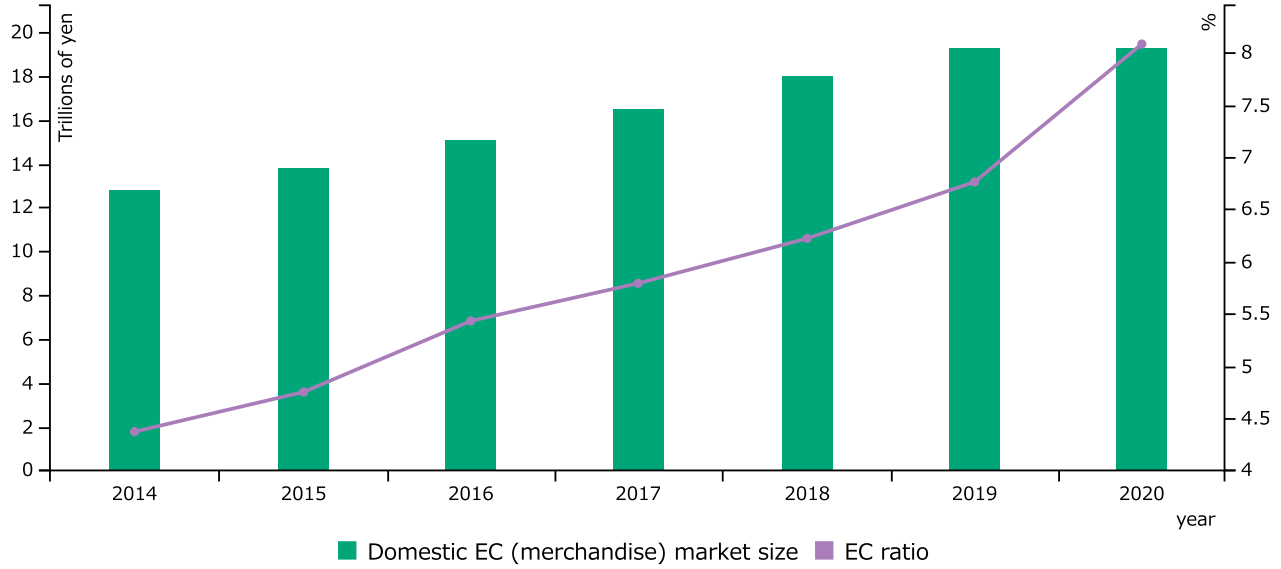
*1 Relationship charts showing online relationships and inter-personal links

Data

Market Data

Domestic EC (merchandise) market size and EC ratio

*** Source: Ministry of Economy, Trade and Industry, FY2020 Industrial Economic Research Commissioned Project (E-Commerce Market Survey)**

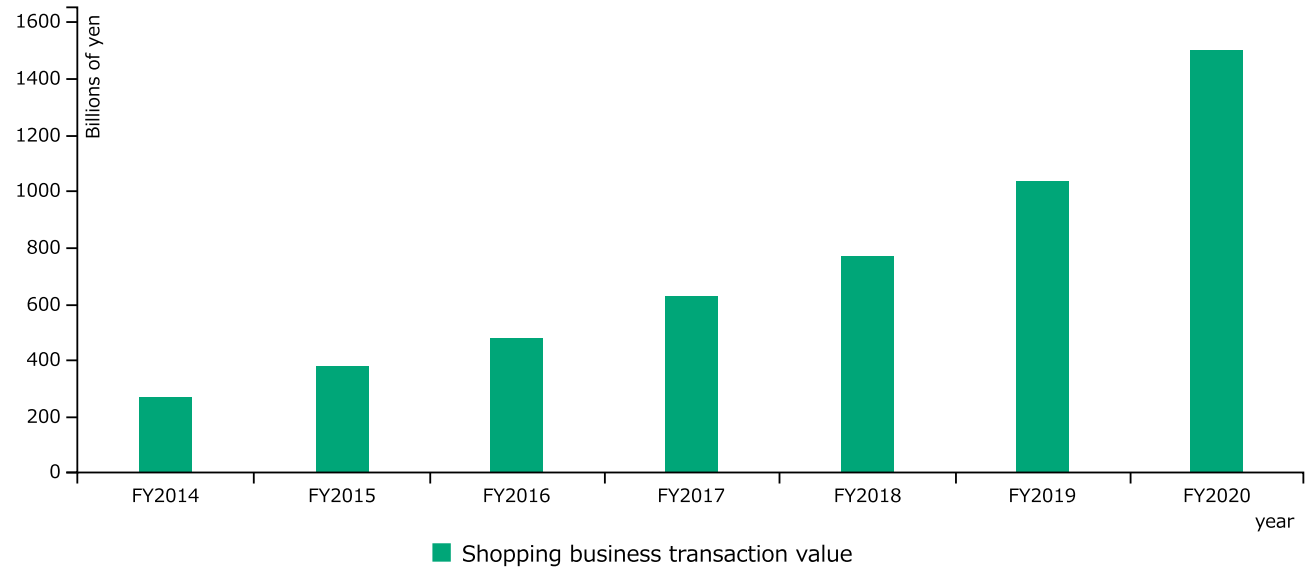


Comparison between EC (merchandise) market* and Shopping business transaction value growth rates

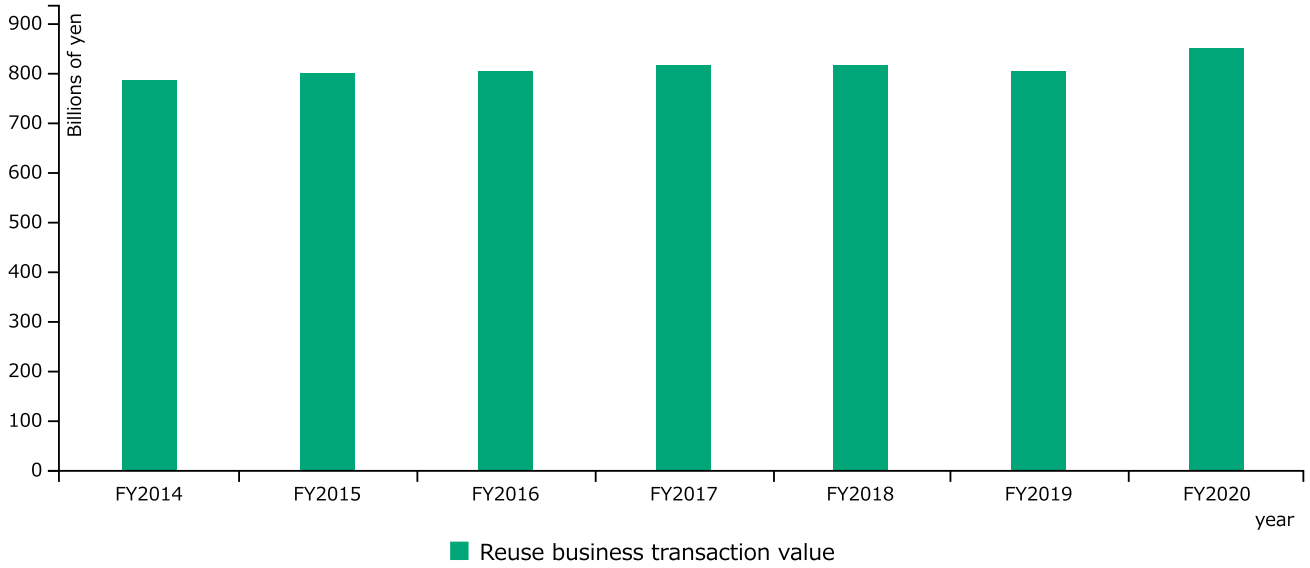
*** Source: Ministry of Economy, Trade and Industry, FY2020 Industrial Economic Research Commissioned Project (E-Commerce Market Survey)**

KPIs (Key Performance Indicators)

Shopping business transaction value

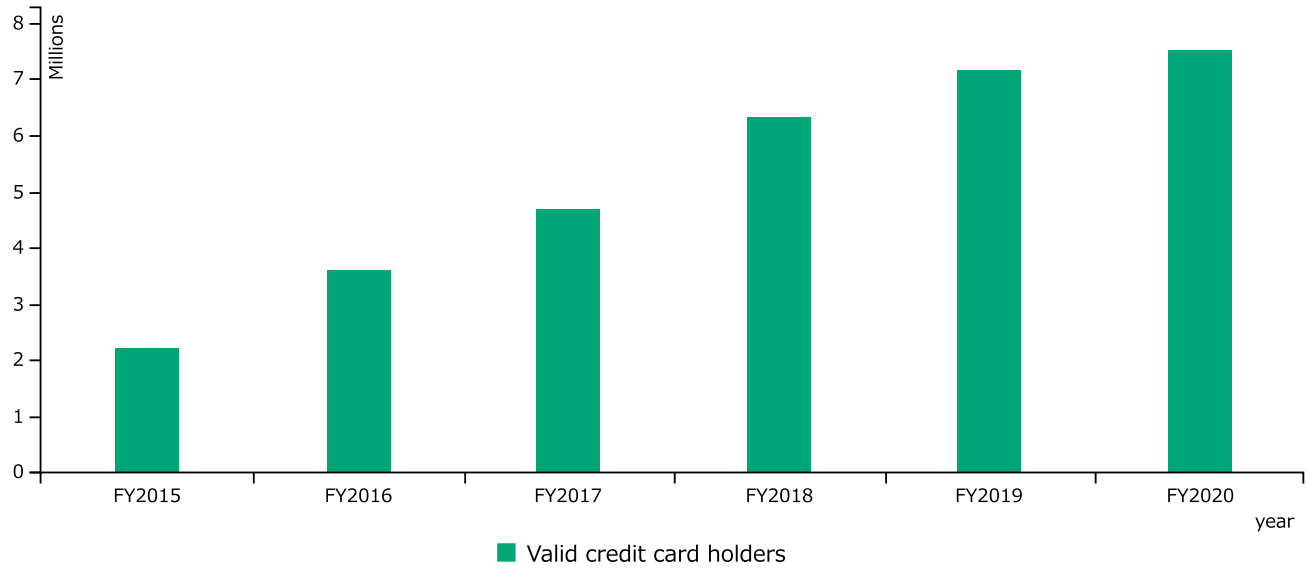


Reuse business transaction value



Commerce Business Related Data

Yahoo! JAPAN Card—Number of valid credit card holders



Highlights

Introduced Blue Ribbon Delivery Icon

User experience enhancement through fundamental improvements in service quality is an extremely important factor for service expansion. In an e-commerce context, these efforts focus on the improvement of delivery quality. We have introduced a policy under which merchants who meet specific standards established by Yahoo! JAPAN Shopping and PayPay Mall can display a “Blue Ribbon Delivery” icon on their search results and product display pages. The standards include the percentage of late shipments and the time taken between the acceptance of an order for a product and the delivery of that product. This highly visible indication of products that offer superior delivery quality provides users with information that can be used when making purchase decisions. Results from a survey*1 of people who have actually experienced the Blue Ribbon Delivery show that the icon gives users greater confidence concerning timely shipment. In February 2021, we launched a campaign to expand the range of products offering superior delivery performance by paying rebates of up to 100 yen to merchants for each Blue Ribbon Delivery product ordered. As a result of this initiative, by June 2021 the value of Blue Ribbon Delivery items as a percentage of total transaction value had increased by around 1.2 times from the February level. We will implement measures to support merchants in order to increase Blue Ribbon Delivery items that will be chosen by the users with greater confidence.

*1 A survey of Yahoo! JAPAN Shopping and PayPay Mall users

Labeling with Blue Ribbon Delivery icon

The Blue Ribbon Delivery label is applied to items that meet criteria designated by Yahoo Japan (e.g., shipment delay rate, time from product order to shipment).

> Blue Ribbon Delivery (Japanese only)

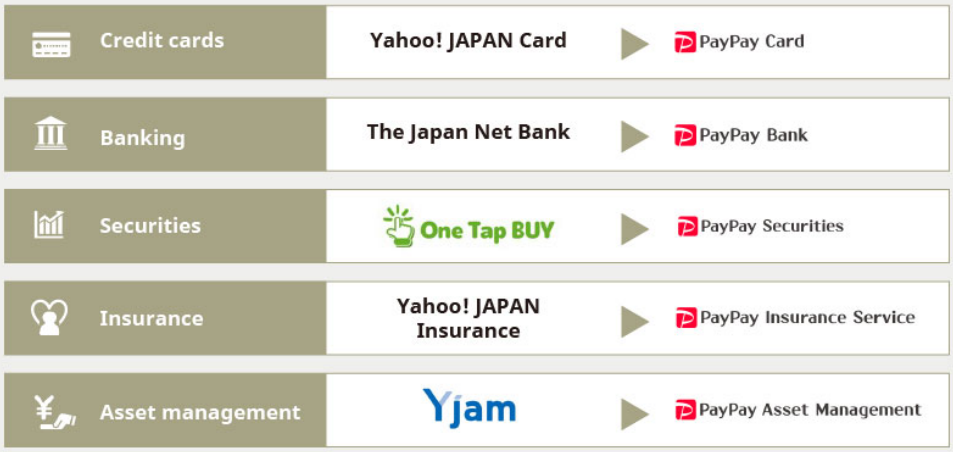
Uniform Branding of Financial Services

Yahoo Japan Corporation (“Yahoo Japan”), a core company in the Z Holdings Group, is a shareholder in PayPay Corporation, which operates the PayPay smartphone app. Evidence of PayPay’s rapid growth into a service used by large numbers of users includes the fact the cumulative user base is now in excess of 42 million*1. Yahoo Japan is accelerating the growth of its Commerce Business by working closely with PayPay to capture PayPay’s rapidly expanding user base through initiatives that include the introduction of PayPay payment options for Yahoo! JAPAN online services, the provision of a “PayPay Bonus” and other incentives, and the launch of e-commerce services such as PayPay Flea Market and PayPay Mall.

We also aim to accelerate the growth of our financial business by strengthening collaboration between PayPay and financial services provided by Z Holdings affiliates and investees, such as banking, credit cards, and insurance. To enhance the visibility of these services and foster user affinity, we have decided to unify company and service names under the PayPay brand.

Under its “super-app” concept, PayPay is working to enhance user convenience and add value to lifestyles. We will work toward the realization of that concept through closer collaboration with PayPay and the expansion of Z Holdings Group financial services available through the PayPay app, including loans, and insurance.

*1 The cumulative total of users who have registered accounts (as of September 2021)



> Press release

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