Future Envisioned by Z Holdings, the First Japanese Internet Company to Issue Green Bonds

Green bonds are bonds issued to finance initiatives aimed at protecting the environment, such as introducing renewable energy and tackling global warming. Originating in Europe, green bonds are recently gaining momentum in companies in Japan, too. This fiscal year, Z Holdings Corporation became the first company in the Japanese Internet sector to issue green bonds. We asked Keiji Nakayama, Head of Finance Department at Z Holdings Corporation, and Shuichi Nishida, Corporate Officer in charge of CSR at Yahoo Japan Corporation, concurrently serving as the Head of ESG Management Office at Z Holdings Corporation, about the motivation behind this move.

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Keiji NAKAYAMA, Head of Finance Department, Finance Management Division, Z Holdings Corporation/Senior Manager, Finance Department, Finance Management Group, Yahoo Japan Corporation
After working for a trading company, Keiji Nakayama joined Yahoo Japan Corporation in 2003, and as a financial officer, was responsible for the management of cash flow, fundraising, etc. Between 2013 and 2015, Nakayama was seconded to the Finance Department of SoftBank Corp. (now SoftBank Group Corp.) and gained experience in structured finance and other financing for renewable energy. He became Senior Manager, Finance Department, Finance Management Group at Yahoo Japan Corporation in 2017, and concurrently serves as the Head of Finance Department at Z Holdings Corporation from 2021.

Shuichi NISHIDA: Head of ESG Management Office, Z Holdings Corporation/EVP, Corporate Officer, President of Social Responsibility Promotion Group, Corporate Group, Yahoo Japan Corporation
After working at an advertising agency, Shuichi Nishida joined Yahoo Japan Corporation in 2004. From 2006, he was the manager of the Yahoo! JAPAN top page. In 2013, he transferred to the search division and launched "Search for 3.11: Searching is Supporting," a campaign supporting the reconstruction from the Great East Japan Earthquake. Having served as the Vice President of the Search Business Division and Unit Manager from 2015, he assumed the current position in 2017. From 2021, he concurrently serves as the Head of ESG Management Office at Z Holdings Corporation.

ESG Investment Market Following a Course of Expansion in Japan

-- Green bonds originated in Europe. Could you give us a bit of background first, on their situation right now in companies in Japan?

Nakayama: The Japanese government announced a domestic CO2 reduction target of 46% by 2030 compared with 2013 levels, and a nation-wide effort on decarbonization is currently underway. In fact, according to a summary by the Ministry of the Environment, the number of green bonds issued by Japanese companies is on a constant rise: 58 green bonds (JPY823.8 billion) in 2019, 77 (JPY1,017 billion) in 2020, and 57 (over JPY700 billion) just in the first half of FY2021.
In Europe, which is leading the way in ESG investment, investors have the mindset to question not only the financial status of a company, but also their stance on environmental matters. It is therefore important for Yahoo Japan, which serves as a core company of the Z Holdings Group, to ensure that investors have a clear understanding of our existing environmental initiatives and approach. Deciding the issuance of JPY20 billion in green bonds this July was the first step.

-- Will the expansion of ESG investment also be a trend in the Japanese market?

Nakayama: I think so. Whenever a company issues environmental bonds such as green bonds, there is a clear increase in the number of investors who express their support for such initiative or declare investment in such bonds. More and more investors are publicizing the amount they are investing in green bonds on their corporate websites, and I believe that this will increasingly be the trend in the future.

Nishida: In order for Z Holdings to make a shift towards sustainability, some costs will naturally occur. Our idea is to meet these costs with the help of stakeholders who agree with our cause, while building services that are safe and secure for our users. Yahoo Japan is dedicated to the mission of solving the problems of people and the society by leveraging the power of IT (information technologies)*. More importantly, we see significance in Yahoo Japan taking the lead in an area where there is no precedent in the Internet sector.

*Providing "Richness" and "Happiness" with the Power of IT (Top Message)
https://about.yahoo.co.jp/en/csr/message/

-- How does Yahoo Japan specifically plan to use the funds raised by the green bonds?

Nishida: Yahoo Japan has established a goal of replacing 100% of its electricity used in business operations with renewable energy by FY2023. At present, 95% of our electricity is consumed by the

company's data centers, and our two main points of focus will be to convert this to renewable energy, and to save energy. In other words, the funds raised by the green bonds will be put towards improving existing data centers and building new ones.
The CO2 we emit may not necessarily be neutral, i.e., zero. Therefore, in the long run, we may also need to consider allocating the funds to purchase credits for this, or to invest in the development of wind and solar power generation technologies.

-- Why did you decide to issue green bonds to fund projects that address the environmental problem of Yahoo Japan, ahead of other companies in Z Holdings?

Nishida: Although we now have many companies in Z Holdings including LINE, which we integrated with in March 2021, Yahoo Japan, has a track record of ESG investment from before the business integration. For example, Yahoo Japan began constructing environmentally friendly data centers from 2008. As Yahoo Japan has a large number of users and uses a large number of servers within the group, we think that we can get other Group companies involved if Yahoo Japan makes a firm commitment to addressing environmental issues. Of course, it is possible that LINE and ZOZO will follow*.

*Realizing a Low-Carbon Society
https://www.z-holdings.co.jp/en/sustainability/stakeholder/19/

In 2018, Yahoo Japan built a 100% renewable energy data center in the United States
https://about.yahoo.co.jp/en/pr/release/2018/03/09a/

How to Demonstrate the Synergy of Z Holdings in the Field of Environment

-- Why do you think it has taken more time for this kind of ESG investment to take off in Japan compared to Europe?

Nakayama: This is just my personal view, but perhaps the fact that Japan has long been involved in recycling efforts, and had a high level of environmental awareness, conversely created some barriers for environmental bonds. In other words, it was difficult to issue bonds for new initiatives because companies were already committed to various activities. Another factor we cannot ignore is that government subsidies for such initiatives are drastically low compared to other countries. In our case, we are not eligible for subsidies as we operate data centers abroad, but I think this has had a significant impact.

Nishida: Also, we cannot ignore the fact that when it comes to CSR, we have very different approaches between Europe and the United States, and Japan. Especially after the 2008 financial crisis, when many companies were on the verge of collapse, companies in Europe and the United States came to realize the critical importance of trust and started to invest more in CSR, whereas in Japan, I have the impression that many companies prioritized the rebuilding of businesses over CSR. If you look at the current situation, we are trying to adjust to the rules created by European and US companies designed to build a better society while gaining the trust of users and shareholders, so naturally, we are following their footsteps.

-- Since the cost of renewable energy is inevitably high at the moment, corporate strength may also be an inhibiting factor.

Nishida: Yes, there is no doubt that renewable energy costs more at the moment. However, under the government's Green Growth Strategy, the cost would and must be incrementally reduced. On the other hand, schemes such as carbon pricing, which taxes energy according to carbon emissions, will create a situation where we have no choice but to shift to renewable energy sources. Z Holdings' conclusion was that if this is going to be the case, we need to move in advance.

Constructing an environmentally friendly next generation data center
https://www.z-holdings.co.jp/en/sustainability/stakeholder/19/

-- In the press release on green bonds, you also mentioned that you are aiming to achieve early accession to the international initiative "RE100."

Nishida: I think we still need to determine whether we are aiming for Yahoo Japan, or for Z Holdings as a whole, to become an RE100 company, but once the replacement with 100% renewable energy is realized, that will naturally come into view. In fact, ASKUL, in our Group, is already an RE100 company. For us, it is a way of showing our commitment, and in terms of ESG investment, ESG financing, and other so-called financing, such initiatives will increasingly be under evaluation.

-- So, in the future, if you raise funds not only through green bonds but also through broader ESG investments, what are the possible uses?

Nakayama: For the use of funds to solve social issues, we have a large media, Yahoo Japan, so disaster prevention and disaster mitigation are evident areas. However, if the amount of money is not sufficient, it will probably be difficult for investors to get involved, so we need to consider carefully the scale and method of investment.

Released an open call for Yahoo! JAPAN's Regional Carbon Neutrality Promotion Project aiming at domestic decarbonization
https://about.yahoo.co.jp/csr/effort/204.html
(Japanese only)

	Name of Municipality	Outline of Project	Amount (Fractions Omitted)	
1	Mikasa City, Hokkaido	CO2 fixation in coal mining sites	JPY100 million	Sink Fixation
2	Miyagi Prefecture	Appropriate management of coastal disaster prevention forests Construction of seaweed bed	JPY27 million	Sink Fixation
3	Saitama Prefecture	CO2 visualization project for SMEs	JPY7.6 million	Emission reduction
4	Hiratsuka City, Kanagawa Prefecture	Commercialization of wave power generation, and conversion of fishing boats to battery-powered propulsion vessels Construction of seaweed beds around power plants	JPY24 million	Power generation using renewable energy / Sink Fixation
5	Niigata Prefecture	Control/reduction/sink measures for greenhouse gases emitted by primary industries	JPY4 million	Emission reduction / Sink Fixation
6	Yamanashi Prefecture	Soil carbon fixation in fruit orchards	JPY10 million	Sink Fixation
7	Owase City, Mie Prefecture	Rejuvenation of city-owned Owase cypress forest	JPY26 million	Sink Fixation
8	Osaki Town, Kagoshima Prefecture	Deployment of Osaki System, with No. 1 recycling rate	JPY46 million	Emission reduction

-- Finally, how do you see the synergy of Z Holdings being utilized in the future in the areas of environmental measures and social engagement? Please tell us about your future prospects.

Nakayama: I believe that we have a huge advantage of being a company that is well-recognized by society. There are a lot of companies with name value within our Group, and that is why it is important for us to come up with solid environmental measures and make them known. In this regard, reporting on our efforts is equally important in the future.

Nishida: As a result of the business integration between Z Holdings and LINE, we are now able to offer services to a wider range of users. Although GAFAM and other major overseas companies stand in the path when competing globally, I am certain of one thing: in a disaster-prone country like Japan, we are the company with the capability of being truly helpful to the Japanese society*.

*Ten Years from 3.11 - Our Challenge to Transform Japan from a Disaster-prone Country to a Disaster-resilient Country Stakeholder Dialogue 2021
https://www.z-holdings.co.jp/en/sustainability/report/02/

In particular, in the event of a disaster, there will be great significance in Yahoo Japan, as an information dissemination medium, and LINE, as a communication tool, working together and utilizing their strengths. We will continue to do our best to enable people to secure their safety as soon as possible in such cases. Goal 11 of the SDGs is to "Make cities and human settlements inclusive, safe, resilient and sustainable," and I believe it is our mission to realize this goal in Japan*.

*Basic Environmental Policy
https://www.z-holdings.co.jp/en/sustainability/stakeholder/11/

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