

Z Holdings Corporation Business Results

FY2022 Q2

November 2, 2022

Z HOLDINGS

Revenue increased in all segments.

Revenue: JPY394.3 B – highest second quarter revenue.

Adjusted EBITDA: approx. 50% of guidance despite unstable macro environment.

Topics

- LINE's account ads maintained a double-digit growth (YoY +17.8%). Yahoo Japan's search advertising grew YoY +6.3%. LINE VOOM growing steadily in various KPIs.
- E-commerce transaction value recorded JPY1,026.2 B (YoY +13.5%) due to strong travel business from economic reopening.
- PayPay's deficits steadily decreased due to introduction of transaction fees to SMB merchants.

Guidance

- Will maintain full-year adjusted EBITDA guidance by thoroughly optimizing expenditures despite impacts of PayPay consolidation and uncertain future.

- 1 Consolidated Business Results – Whole Group**
- 2 Topics/Business Results – By Segment**
- 3 FY2022 Business Results Forecast**

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- **Achieved record-high Q2 revenue** despite a challenging macro environment.
- Decrease in adjusted EBITDA due to absence of YJFX sales gain recorded previous fiscal year and execution of strategic investments.

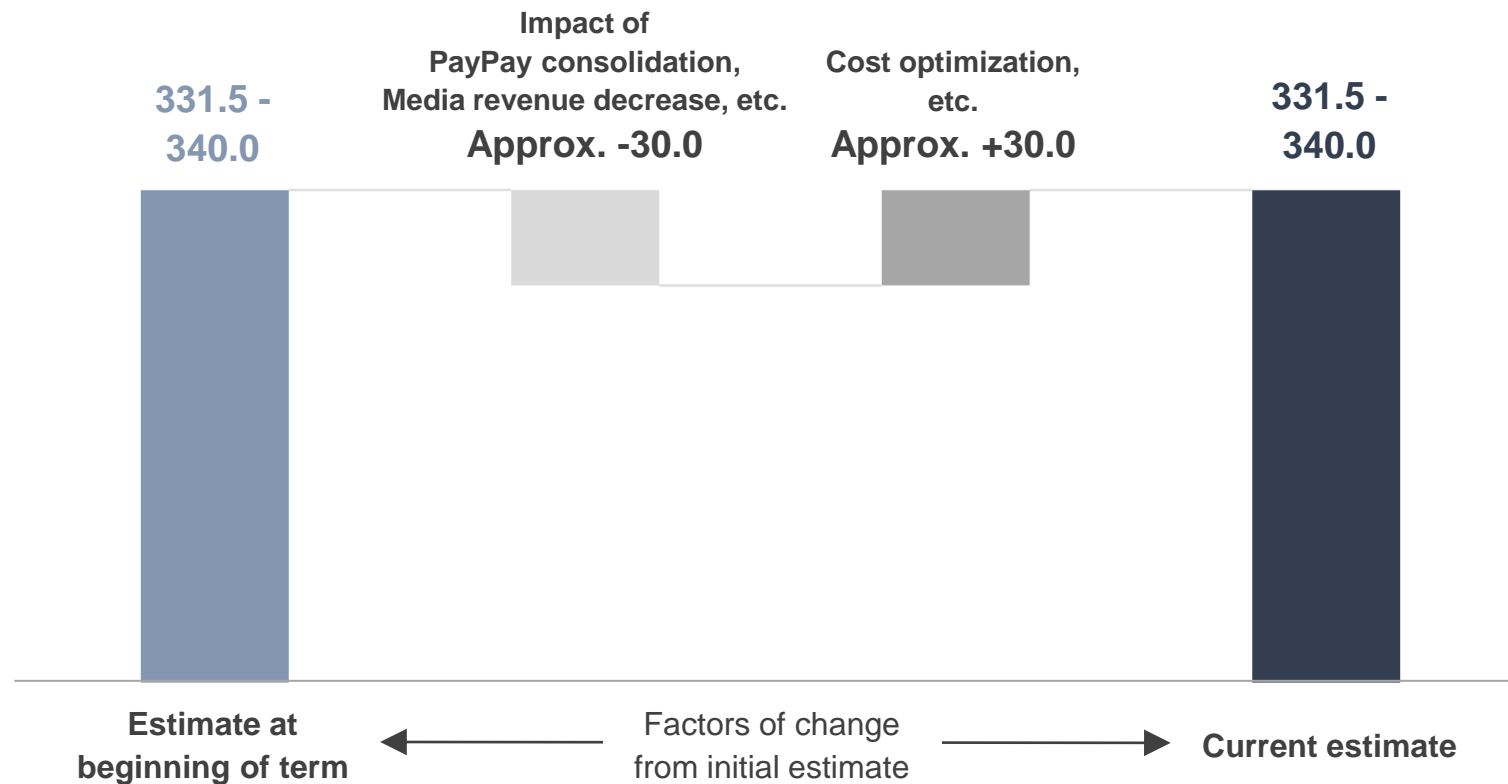
Segment	Item	FY2021 Q2	FY2022 Q2	YoY
Whole Group	Revenue	JPY377.6 B	JPY394.3 B	+4.4%
	Adjusted EBITDA	JPY100.8 B	JPY80.6 B	Negative 20.0%
	Adjusted EPS	JPY4.00	JPY1.25	Negative 68.8%
Media Business	Advertising Revenue (LINE) ¹	JPY46.1 B	JPY48.6 B	+5.3%
	Advertising Revenue (Yahoo Japan) ²	JPY93.7 B	JPY96.5 B	+2.9%
	Adjusted EBITDA ¹	JPY63.5 B	JPY60.1 B	Negative 5.4%
Commerce Business	Group EC Transaction Value ³	JPY904.5 B	JPY1,026.2 B	+13.5%
	Adjusted EBITDA ¹	JPY35.8 B	JPY35.9 B	+0.1%
Strategic Business	Fintech Revenue ¹	JPY28.3 B	JPY33.3 B	+17.7%
	Adjusted EBITDA ¹	JPY9.5 B	Negative JPY5.6 B	Negative 159.5%
Other/Adjustments	Adjusted EBITDA ¹	Negative JPY8.1 B	Negative JPY9.6 B	-

1. From FY2022 Q1, Yahoo Japan Corporation's financial service which had formerly been recorded in Strategic Business has been transferred to Media Business. LINE Corporation's services that had been recorded in Adjustments have been transferred to each business segment. Figures have been retroactively revised from FY2021 Q1.
2. Includes Shopping-related advertising revenue. Shopping-related advertising revenue is classified in Commerce Business.
3. Domestic merchandise transaction value + domestic services transaction value + domestic digital content transaction value + overseas e-commerce transaction value. Figure for FY2021 Q2 has been retroactively revised to include overseas e-commerce transaction value. Please refer to page 26 of the Appendix for definition of overseas e-commerce transaction value.

- **Absorb impacts of PayPay consolidation and revenue decrease in Media Business, etc. through cost optimization.**
- **Aim to achieve initial adjusted EBITDA guidance of JPY331.5 - 340.0 B** although changes in the macro environment continue to pose uncertainty.

Factors of Change in Adjusted EBITDA

(JPY B)



Cost Optimization Items

Implement efficient sales promotion/
optimize acquisition cost
mainly in
Commerce/Strategic businesses

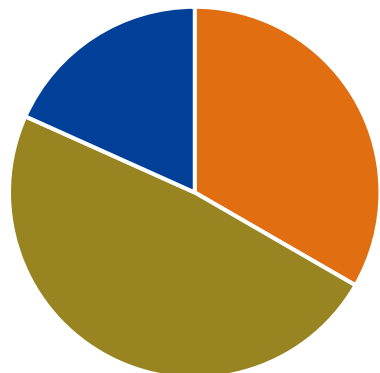
Cost optimizations in line with
business environment
(e.g., personnel expense)

- In Q2, **executed strategic investments of approximately JPY11.0 B** mainly in Commerce Business. Due to the consolidation of PayPay Corporation, strategic investment towards PayPay Card has not been implemented since acquisition efficiency will be enhanced from Q3 onwards.
- **In light of uncertain business environment and market conditions, reviewing investments with an eye to profitability and returns, for Q3 onwards.**

Breakdown of Q2 by Segment

Strategic Business

Approx. **20%**



Media Business
Approx. **30%**

Commerce Business

Approx. **50%**

Q2 Major Investments/Investment Effects

Segment	Major Investments	Investment Effects
Media	Vertical search	Improved user convenience by enriching information and improving search results
Commerce	Strengthening logistics of Yahoo! JAPAN Shopping	Ratio of transaction value of blue-ribbon delivery YoY 2.0X
	Sales promotion/development of LINE overseas e-commerce	Transaction value JPY84.7 B (YoY +40.5%)
Strategic	LINE NFT	Sept. 2022 Launched global NFT platform DOSI

▶ Other investments: sales promotion of Yahoo! JAPAN Loco, improvement of ads functionality, sales promotion of Yahoo! JAPAN Shopping, Yahoo! JAPAN Mart

- **Taking prudent measures** due to changes in social conditions surrounding information management.
- **System development progressing smoothly without major delays.**

Status of Actions to Begin ID Linkage (Scheduled to begin from 2023 onwards)

1

Establishment of data governance structure

Taking more prudent measures than originally planned

due to larger volume of personal information from
LINE/Yahoo! JAPAN/PayPay linkage, and tighter regulations on
personal information protection and social changes

2

System development for ID linkage

Progressing smoothly without major delays

according to initial plan

- After business integration, mainly promoted **product/sales collaboration, integration of overlapping areas, selection and concentration of businesses, etc.**
- Having consolidated PayPay and as a Group with powerful assets, will **further focus on generation of synergies from businesses of the ZHD Group.**

	Media	Commerce	Strategic	Whole Company/Business Reorganization, etc.
FY2021	<ul style="list-style-type: none"> Began collaborations in ad distribution and sales forces, etc. L Y Launched Talk Head View Custom (Sep. 2021) L Sales collaboration of LINE Official Account (Sales to stores of Yahoo! JAPAN Shopping/PayPay Mall) L Launched PayPay Gourmet (Oct. 2021) Y Launched LINE VOOM (Nov. 2021) L 	<ul style="list-style-type: none"> Launched Yahoo! JAPAN Mart (Jul. 2021) Y Tested social commerce (LIVEBUY) & sequential full-scale rollout L Tested MySmartStore & sequential full-scale rollout L Unified points to PayPay Point (abolished use/provision of T Points) Y 	<ul style="list-style-type: none"> Launched LINE Bank (Taiwan) (Apr. 2021) L Launched LINE Bank (Indonesia) (Jun. 2021) L Began linkage of domestic QR payment (Aug. 2021) L Launched PayPay Atobarai* (Feb. 2022) L Y *Deferred payment 	<ul style="list-style-type: none"> Acquired Yahoo Japan license (Jul. 2021) Y Transferred YJFX (Sep. 2021) Y Consolidated e-book businesses (Mar. 2022) L Y Terminated linkage with T Points (Mar. 2022) Y Sold stake in SRE Holdings (Mar. 2022) Y
FY2022	<ul style="list-style-type: none"> Consolidated LINE MUSIC (Sep. 2022) L Intensified Group-wide sales of LINE Official Account (Oct. 2022) L 	<ul style="list-style-type: none"> Integrated Yahoo! JAPAN Shopping & PayPay Mall (Oct. 2022) Y 	<ul style="list-style-type: none"> Launched global NFT platform DOSI (Sep. 2022) L Consolidated PayPay (Oct. 2022) L Y Launch PayPay Gold Card (Plan) Begin operation of LINE Bank (Plan) 	<ul style="list-style-type: none"> Transfer of livedoor business (Dec. 2022) L Integration of loyalty programs (Plan) L Y
Now	<ul style="list-style-type: none"> New sales promotional service (Plan) Y 			

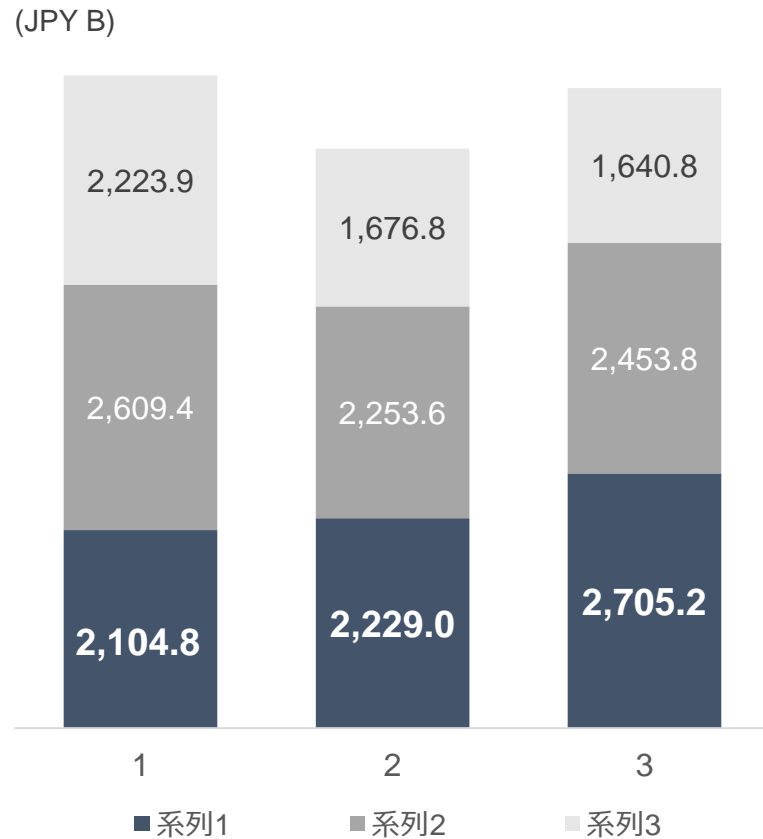
1. Month completed shown in parentheses.

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Media Business

- Japan's advertising market is steadily digitalizing but continues to be affected by macro and business conditions, especially in **display ads**.
- ZHD's unique **account ads** and **search ads** are less affected by market conditions and demonstrate product strengths.

Digitalization in Japan's Advertising Market¹



1. Advertising Expenditure in Japan 2021, DENTSU Inc.

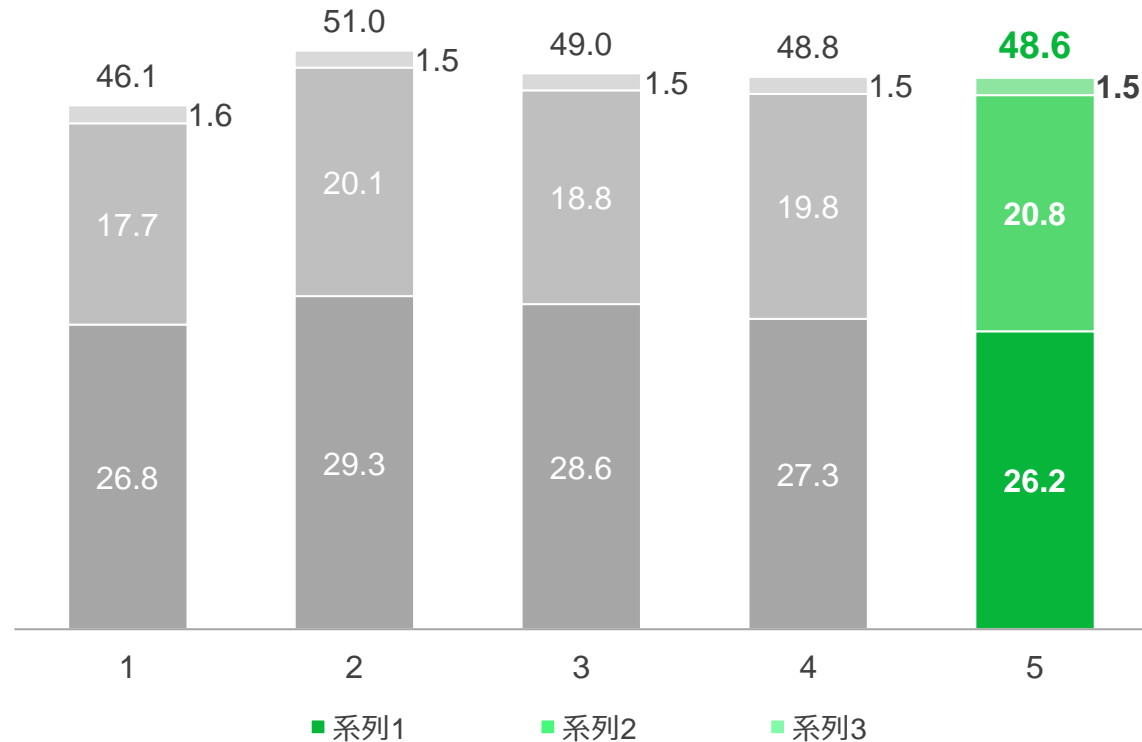
Current Status Based on Advertisers' Demand Trends

<p>L Y</p> <p>Display Ads</p>	<ul style="list-style-type: none"> • Continued decrease in advertisements due to supply chain problems and semiconductor shortage in the automobile and telecommunications industries, etc. • Decrease in the number of users after the increase last year due to Olympics and other factors
<p>L</p> <p>Account Ads</p>	<ul style="list-style-type: none"> • SaaS business model stimulates firm demand • Increase in customer LTV-oriented marketing by advertisers
<p>Y</p> <p>Search Ads</p>	<ul style="list-style-type: none"> • Relatively stable demand continues, as well as positive boosts towards economic reopening (e.g., travel, job)

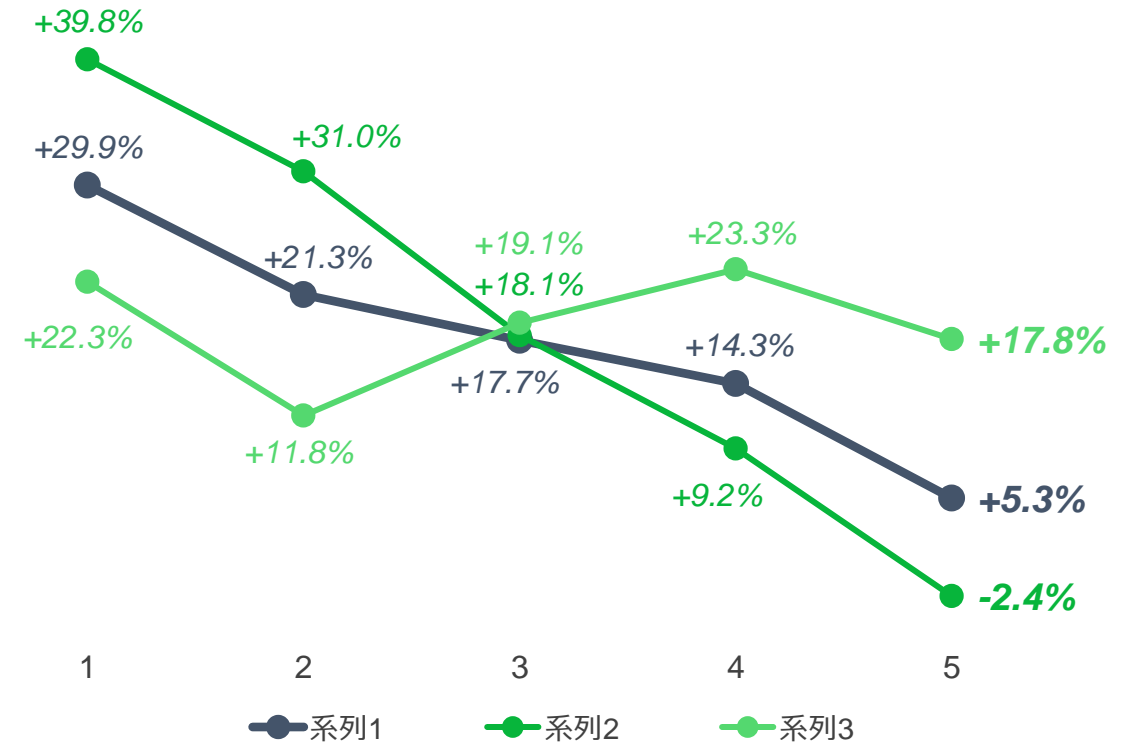
- Account ads: **strong double-digit growth due to acquisition of new customers and continued increase in ad distributions by major clients.**
- Display ads: **slight YoY revenue decrease** due to decline in advertising in some industries affected by economic conditions.

Total Advertising Revenue^{1,2}

(JPY B)



Total Advertising Revenue - YoY Growth Rate^{1,2}



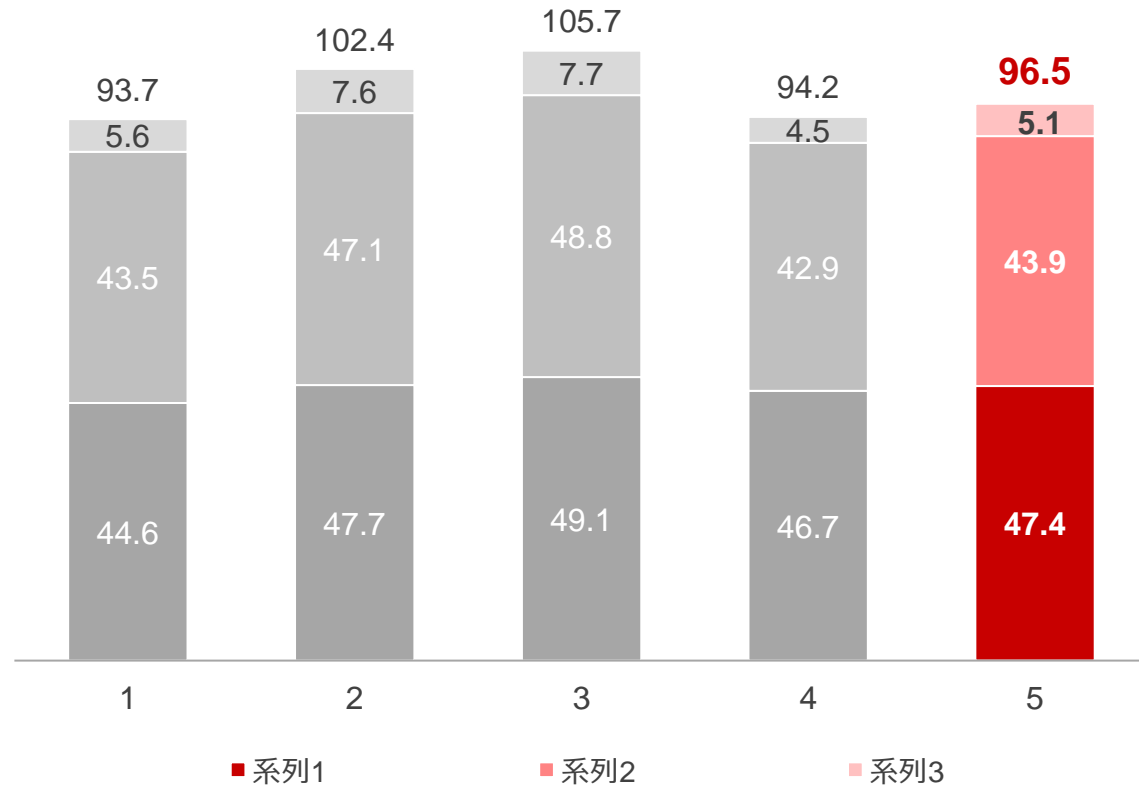
1. Results are adjusted according to the accounting period of Z Holdings Corporation (fiscal year ending in March).

2. From FY2022 Q1, LINE Corporation's services that had been recorded in Adjustments have been transferred to each business segment. Figures have been retroactively revised from FY2021 Q1.

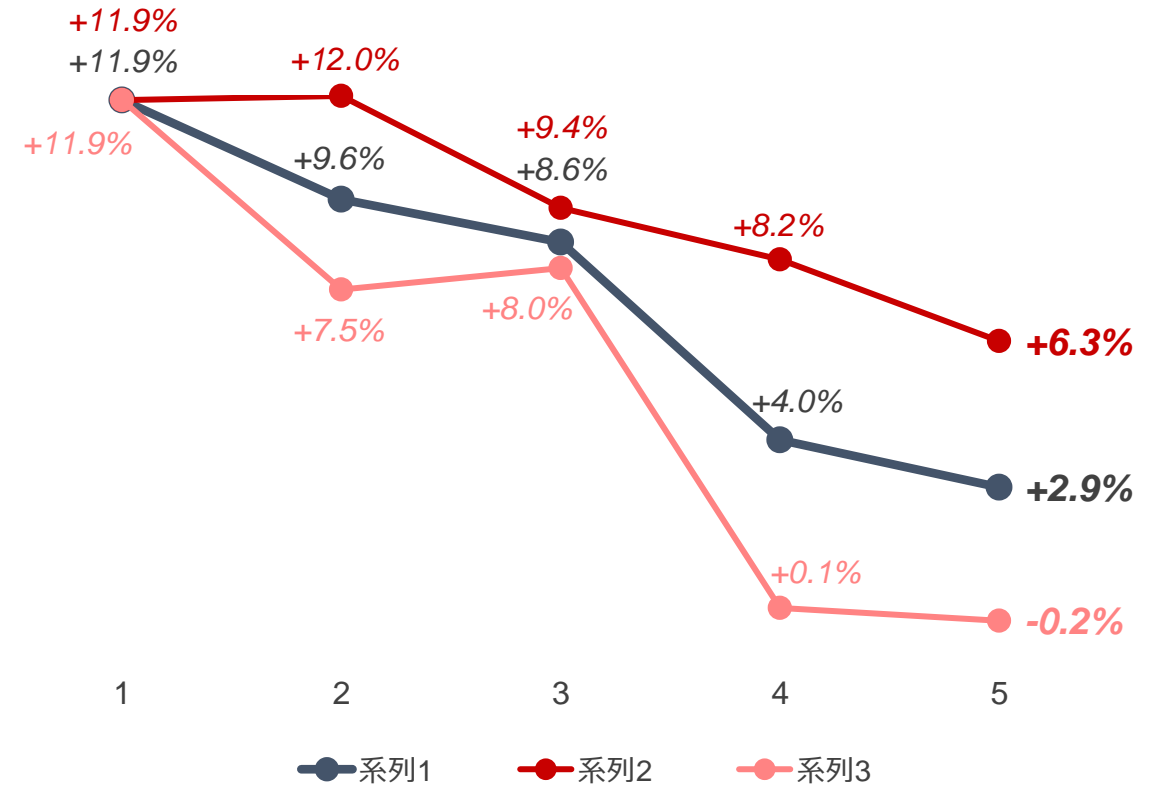
- Search advertising **performed well even in an unstable macro environment** due to its ease of measuring effectiveness.
- In addition to absence of the special demand for the Olympics in last fiscal year, display advertising continued to see a decline in advertising demand due to macro factors, **and result remained at the same level as the previous fiscal year.**

Total Advertising Revenue

(JPY B)






Total Advertising Revenue - YoY Growth Rate



- To reduce the impacts of macro/business conditions, strengthen measures for video/app advertising which are growth areas in **display ads**.
- Further develop ZHD’s unique assets, **account ads** and **search ads** through product refinement and strengthening of sales capability.

Product-Specific Initiatives

 Display Ads	Short-term	<ul style="list-style-type: none"> • Introduce ad formats with high affinity with video media
	Medium-term	<ul style="list-style-type: none"> • Functional improvement of LINE VOOM (introduction of Lights Ad/Full Viewer), strengthen ad distributions • Strengthen features for app/e-commerce ads which have scalable markets • Improve ARPA/CPM by revising ad format, service UI/UX and ad screening criteria
 Account Ads	Short-term	<ul style="list-style-type: none"> • Establish and expand sales of new solutions through collaborations between ZHD and SoftBank Corp.
	Medium-term	<ul style="list-style-type: none"> • Revise fee plans to hike ratio of paid services and customer spend • Reinforce CRM feature which can contribute to advertisers’ customer LTV • Provide monetizing solutions by maximizing activities related to LINE Official Accounts
 Search Ads	Medium-term	<ul style="list-style-type: none"> • Reinforce products by enriching information and enhancing search results • Strengthen local/vertical businesses

- **Various KPIs are growing steadily** after last fiscal year’s renewal: **growth in video play time, no. of views and viewers.**
- Will acquire/develop creators, improve user experience to **promote monetization through video advertising.**

Status after Renewal¹

Video play time

YoY 2.0x

No. of video views

YoY 2.4x

No. of video viewers

YoY +29.1%

Future Key Measures

1 Acquire/develop creators

- Acquire top-class creators
- Promote “LINE VOOM Lab Creator Program,” a creator development program to differentiate content

3 Fully deploy video advertising

- Introduce ad formats with high affinity with video media
- Increase horizontal video ad slots

2 Improve user experience

- Uplift motivation by introducing “Like” feature on comments, etc.
- Reinforce suggest feature and improve search pages
- Implement a camera function that allows users to make effects/music settings while video shooting and editing

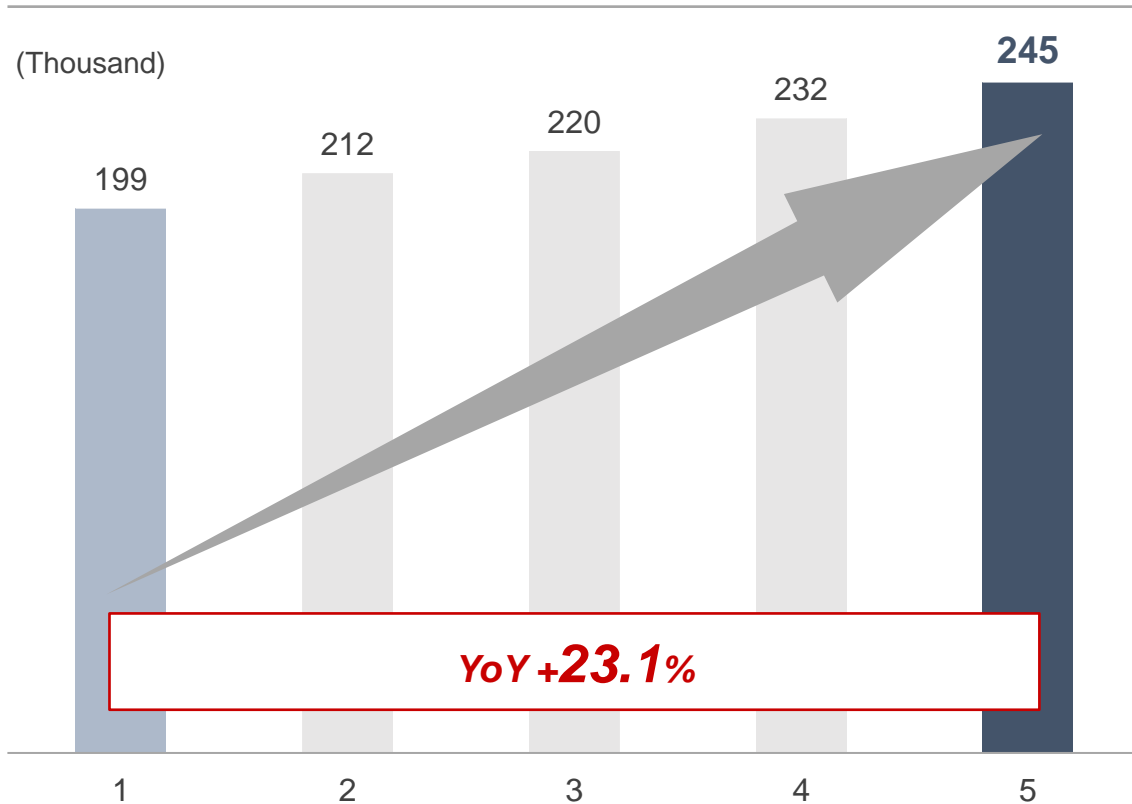


Create video experience for the growth of video advertising on LINE platform

1. All figures: comparison between September 2021 and September 2022.
 2. Image for illustrative purpose to show the development in progress.

- **No. of paid accounts increasing steadily** as LINE Official Account becomes more prevalent as a communication infrastructure with customers.
- In addition to leveraging the ZHD Group’s rich touchpoints, will **promote use through product reinforcement, stronger monetization and sales.**

No. of Paid LINE Official Accounts¹



Focus Areas and Measures

Enhance product appeal	<ul style="list-style-type: none"> • Provide high-definition customer information based on usage history of Official Accounts and first/third-party data • Maximize effect by strengthening message distribution feature
Expand monetization	<ul style="list-style-type: none"> • Provide monetizing solutions by maximizing Official Account-generated user actions (e.g., Reserve with LINE) • In addition to functional enhancements, uplift % of paid accounts and customer spend by revising fee plans
Reinforce sales capacity	<ul style="list-style-type: none"> • Increase SMB clients leveraging sales force of Z Holdings and SoftBank Corp. • Reinforce product collaborations with PayPay and Yahoo! JAPAN

1. The number of paid accounts is the total of Japanese and overseas accounts.

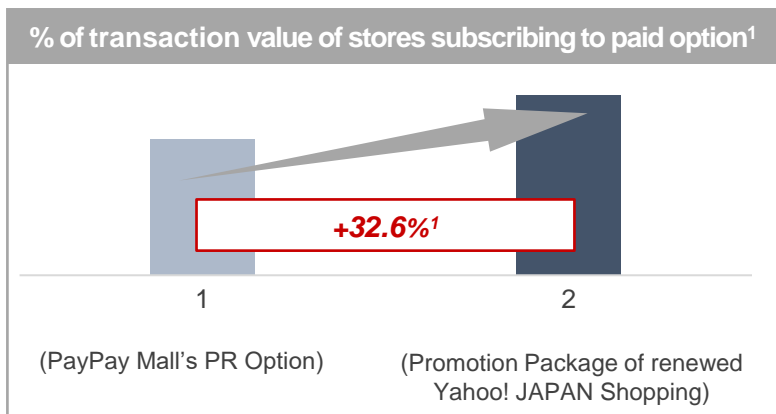
Commerce Business

- Merchants' applications to Promotion Package Plan exceeded expectations and the ratio of blue-ribbon delivery is steadily increasing.
- With the integration of sales platforms, will simplify sales promotional measures and uplift recognition as an everyday, first-choice e-commerce platform.

Key Topics Before/After Integration of Sales Platforms

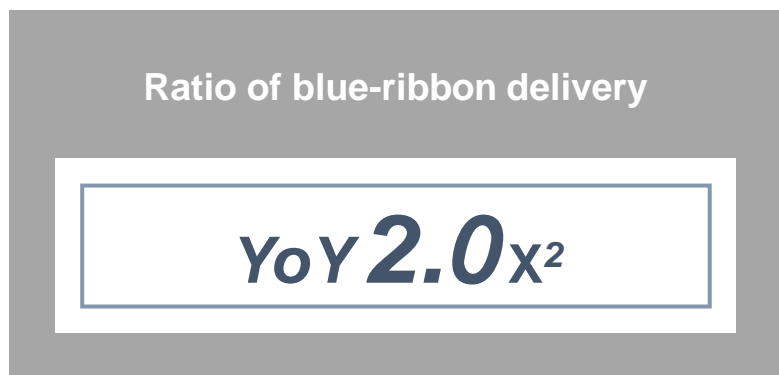
1 Applications to paid option

- Ratio to transaction value increased +32.6%¹ compared to before platform integration
- Promoted measures to maintain/improve take rate (e.g., PR Option measures, monetization of stores' sales promotion)



2 Increase in blue-ribbon delivery stores

- Measure to prioritize blue-ribbon delivery stores in search results is increasingly acknowledged
- Built a structure so that blue-ribbon stores are more marketable, improving shopping experience both for merchants and users



3 Unification of sales promotional measures

- Rebuilt basic reward to "Every Day 5% to All"
- Simple/easy-to-understand rewards



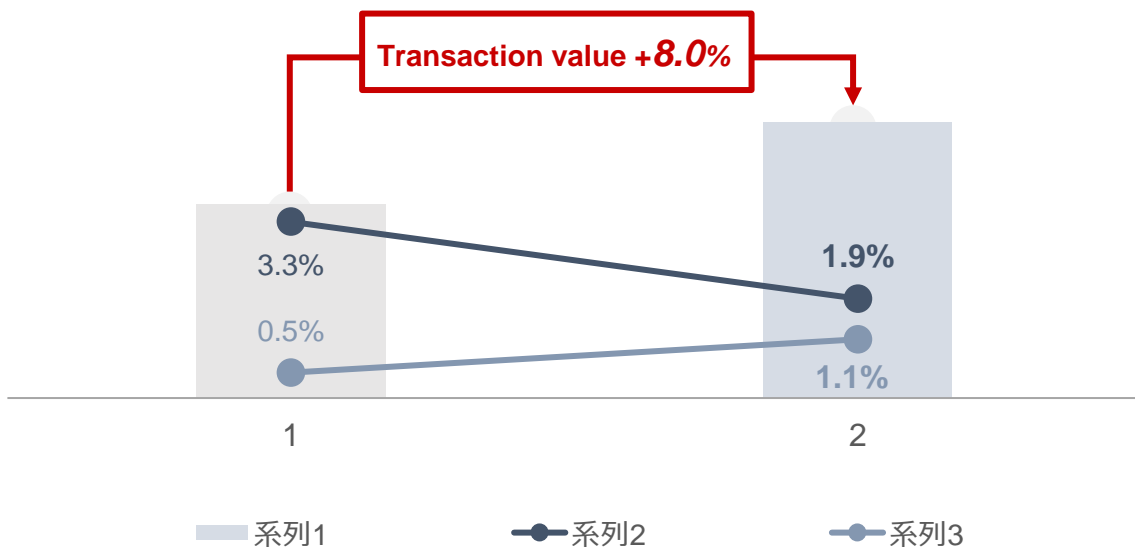
1. As of October 26, 2022. Before integration of sales platforms: ratio of transaction value of stores that applied to PayPay Mall's PR Option to total transaction value of Yahoo! JAPAN Shopping and PayPay Mall for October 1–11, 2022. After integration of sales platforms: ratio of transaction value of stores that applied to Promotion Package to total transaction value of Yahoo! JAPAN Shopping and PayPay Mall for October 12-26, 2022.

2. Compared the ratio of blue-ribbon delivery to transaction value of September 2022 with the result of September 2021.

- After the integration of sales platforms, **for sales promotion in mall-type e-commerce, will focus on user retention rate and LTV**, aiming to achieve stable growth in transaction value.
- Instead of fixed point-provisions, **implement effective point provision measures that will contribute to new user acquisition and their retention.**

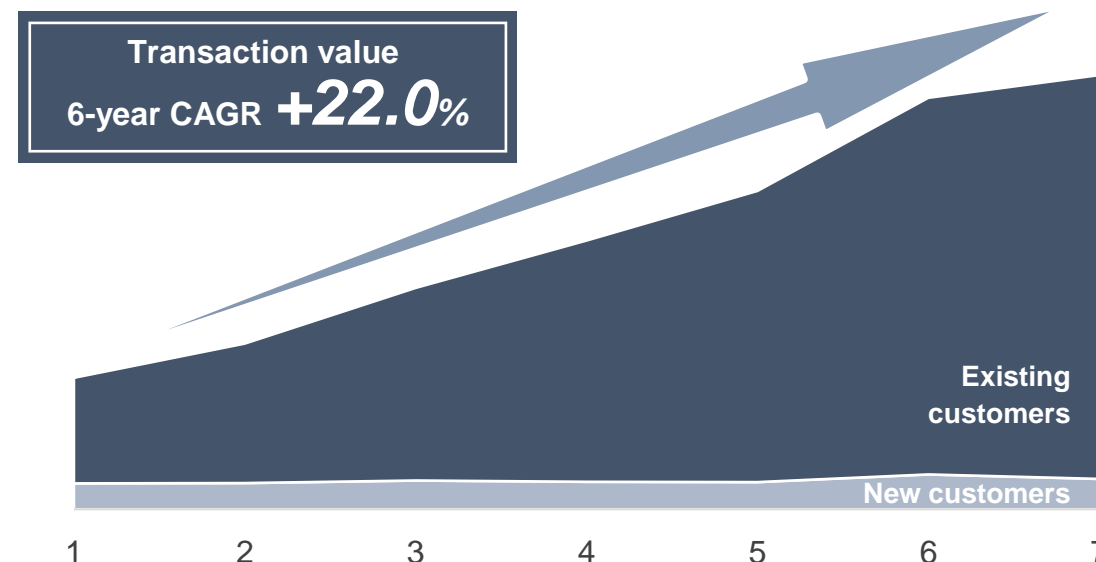
Transaction Value of Yahoo! JAPAN Shopping/PayPay Mall and % of Sales Promotional Cost

While making effective use of “fixed points¹” allocate sales promotion expense to new user acquisition for a stable growth of transaction value



Cohort Analysis of User Attributes²

Focus on New User Retention Rate and LTV



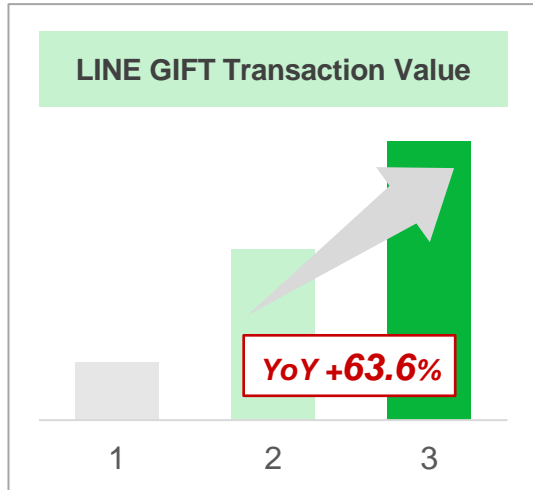
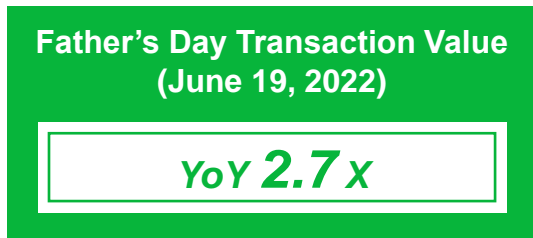
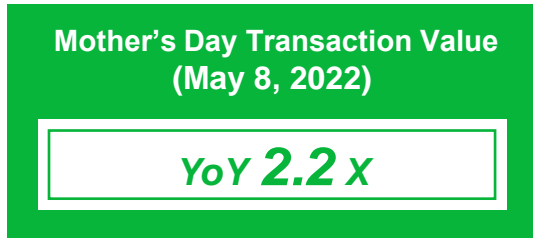
1. Yahoo! JAPAN Premium membership benefit and point provision cost such as “+10% Every Sunday for SoftBank Smartphone Users”

2. Existing users are users who have purchased in the past 12 months up to the previous month. New users are users who have not purchased in the past 12 months up to the previous month.

- For platforms that can only be operated by Z Holdings, continue future-oriented yet disciplined developments/investments.
- Further increase transaction value by **enriching product lineup (e.g., cosmetics) and increasing products handled through linkage of order data.**

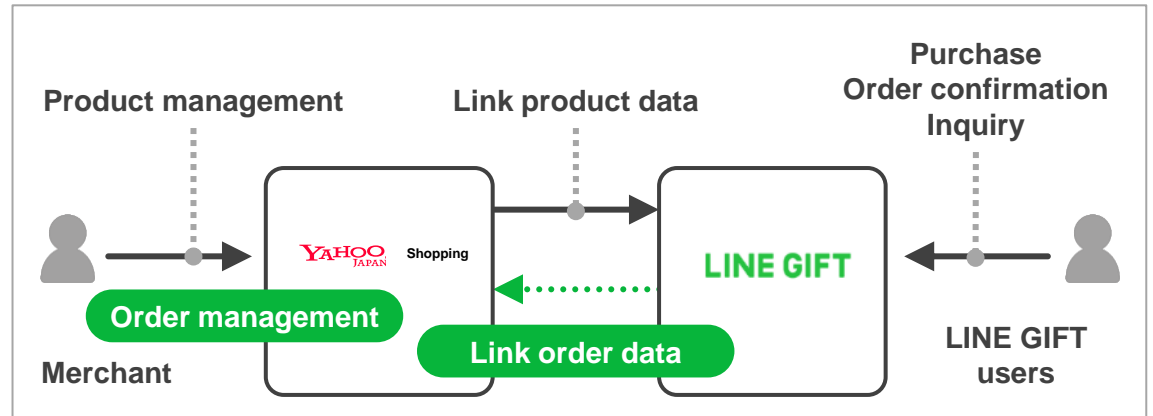
Growth of LINE GIFT

- Increasingly used for seasonal events; **online gifts becoming customary**
- Transaction value increasing steadily without large-scale promotions



New Measures

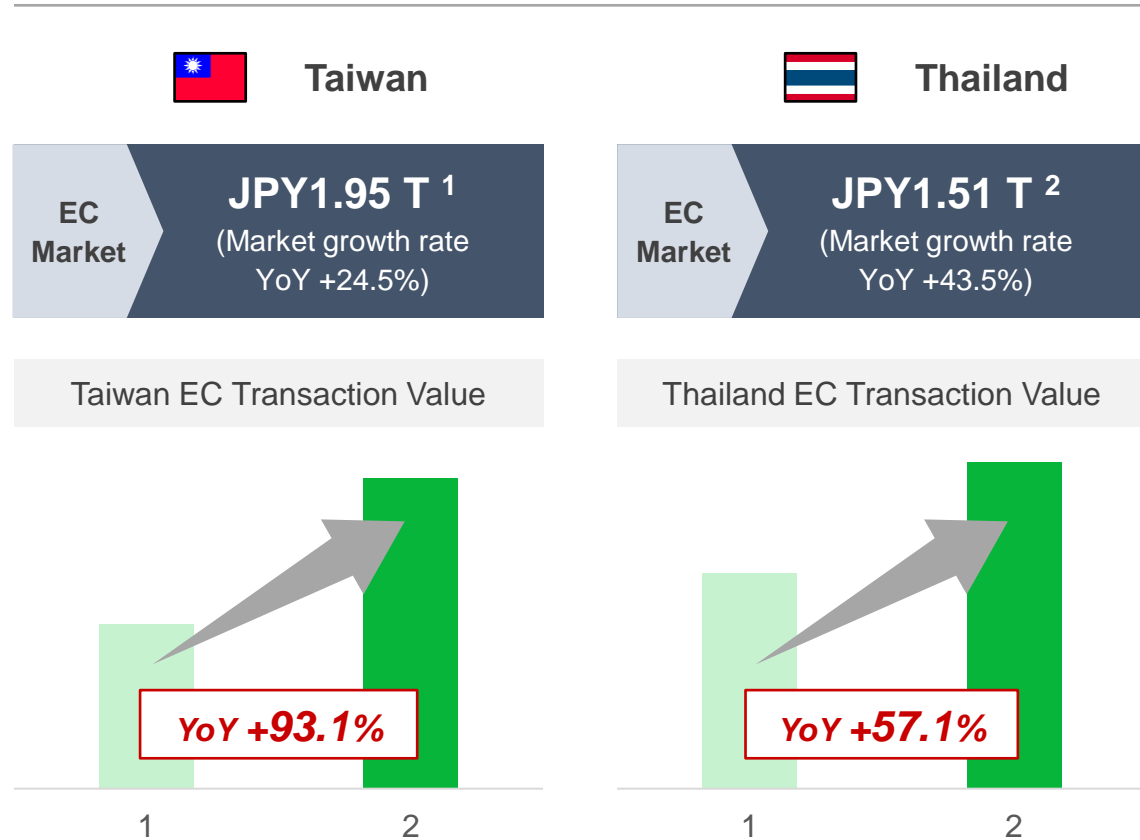
- **Begin order linkage¹** between LINE GIFT and Yahoo! JAPAN Shopping
- **Enrich product line-up** by reducing operational load



1. Began order linkage from October 3, 2022.
 2. As of October 2022

- **E-commerce markets in Taiwan/Thailand, focus markets, continue to grow.**
- In response to changes in macro environment, will **maintain investment discipline while improving profitability through product improvements.**

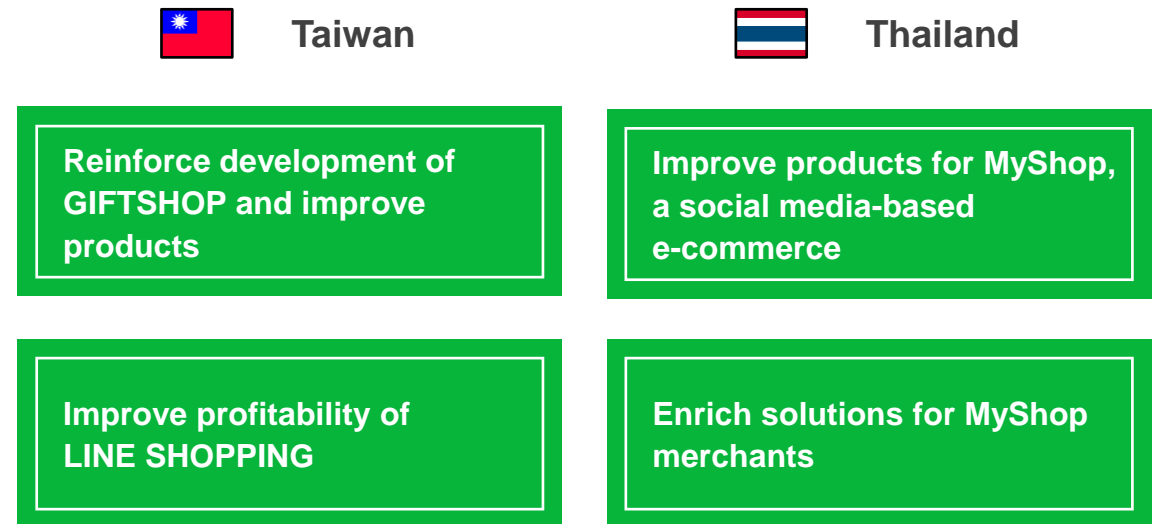
Overseas E-Commerce – Market Size/Transaction Value



1. 2021 Taiwan EC market size in equivalent JPY. Data from Ministry of Economic Affairs, R.O.C.
 2. 2021 Thailand EC market size in equivalent JPY. Survey by Z Holdings Corporation.

E-Commerce Measures in Taiwan/Thailand

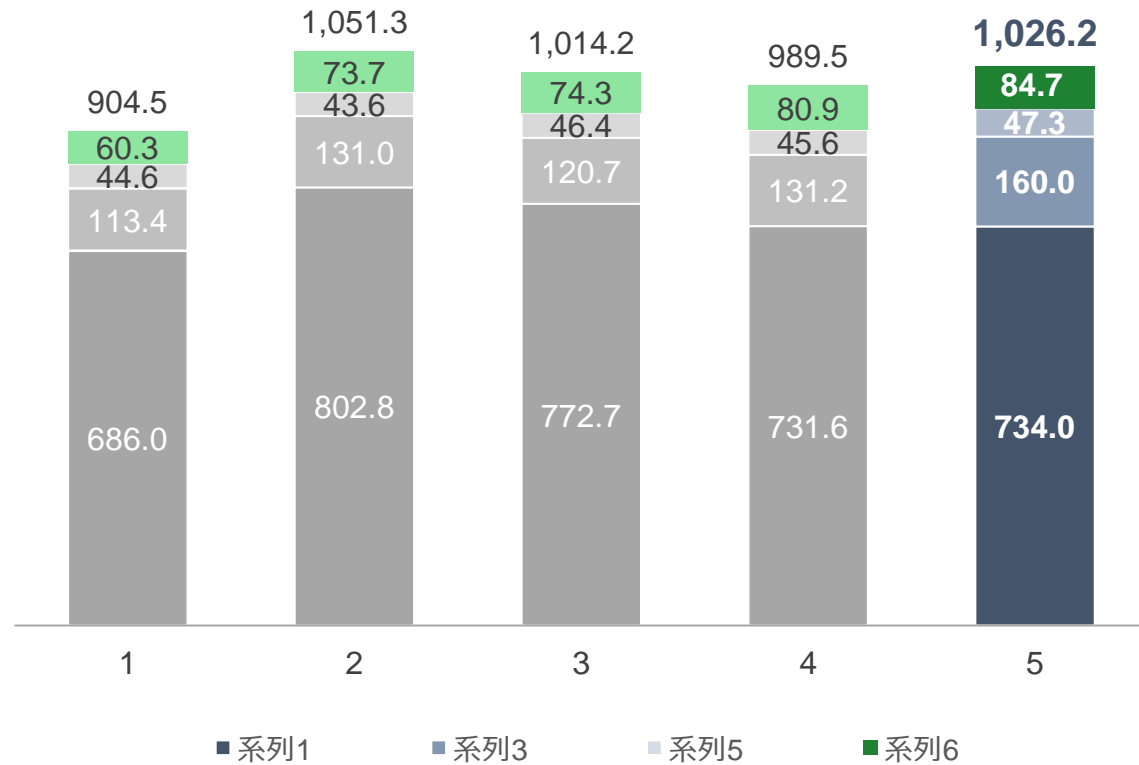
- Provide original/seamless e-commerce services leveraging communication platform and social graphs
- Improve investment discipline, focus on product improvement, and pursue intrinsic growth



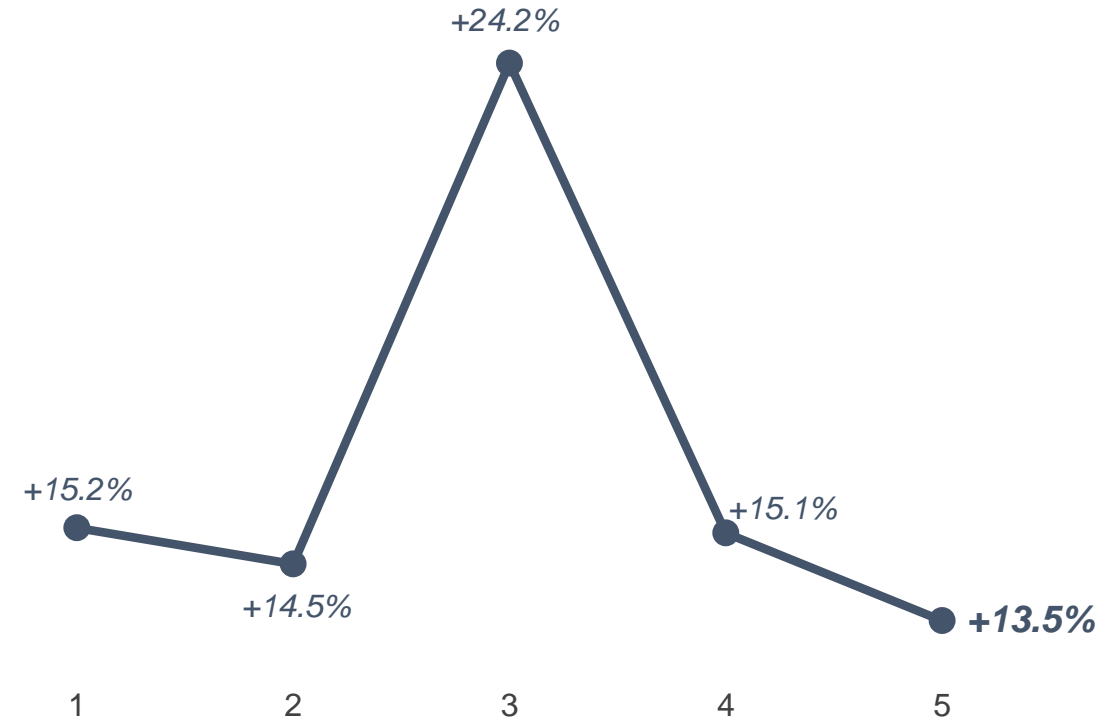
- **Group EC transaction value** continued to record double-digit growth: **JPY1.0262 T (YoY +13.5%)**.
- **Domestic services EC** grew to **JPY160.0 B (YoY +41.1%)** driven by favorable growth in travel business due to economic reopening.

Group EC Transaction Value¹

(JPY B)



Group EC Transaction Value¹ - YoY Growth Rate

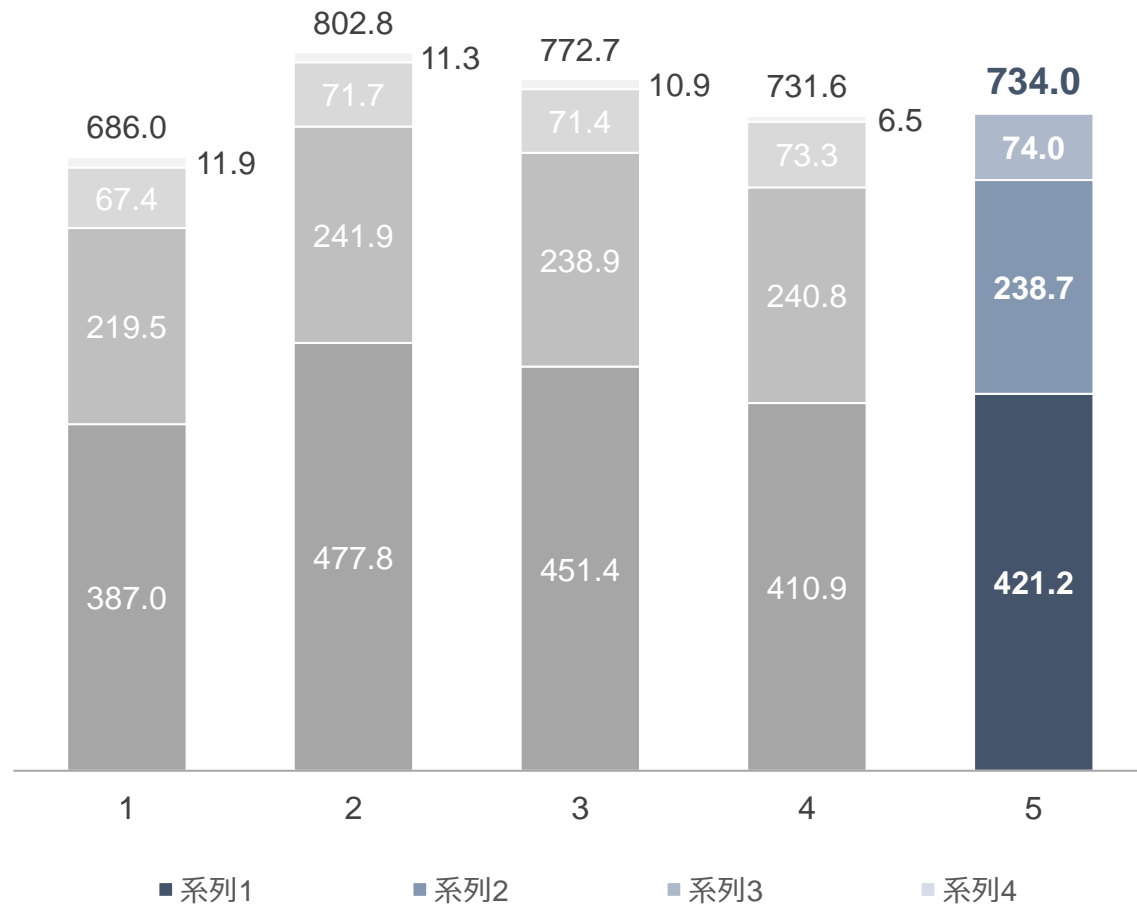


1. Please refer to page 26 of the Appendix for definition of transaction value.

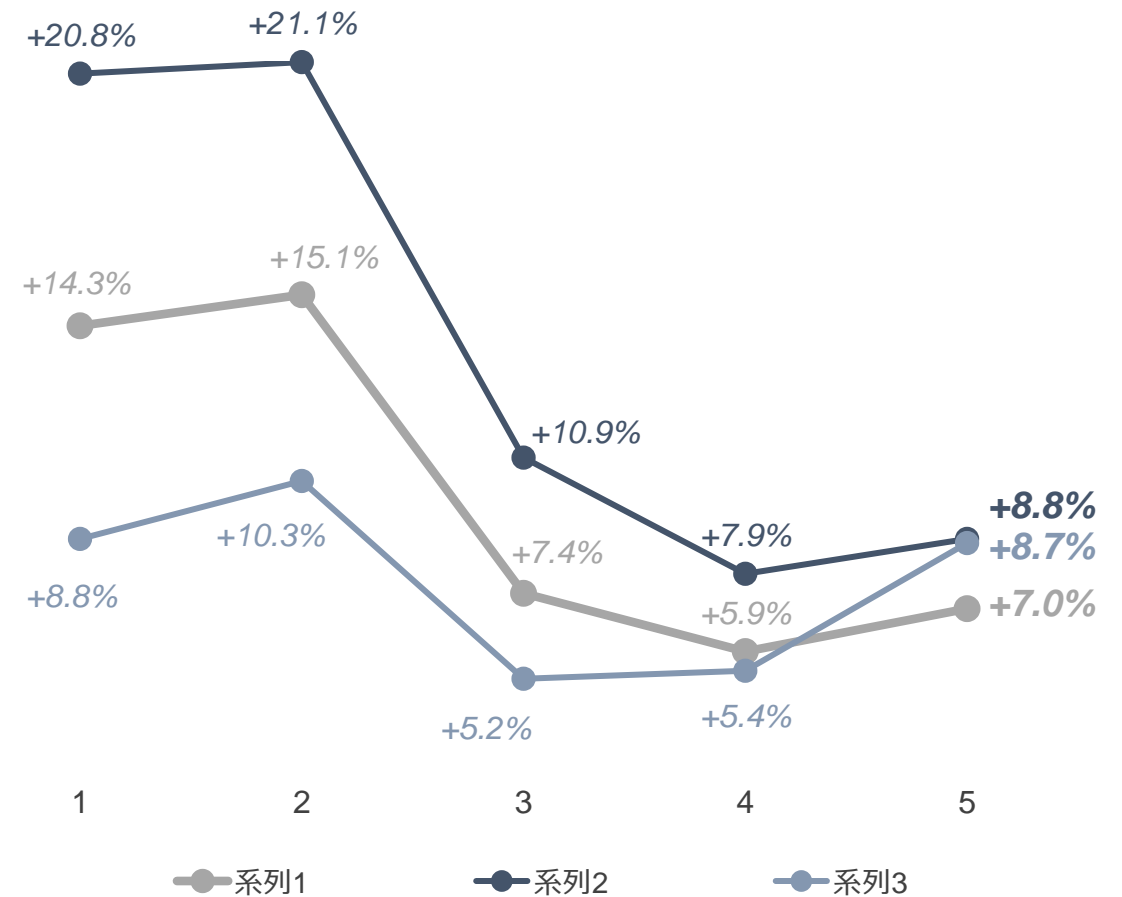
- Although **shopping/reuse businesses recorded stable growth of YoY +8.7-8.8%**, **growth of domestic merchandise transaction value was YoY +7.0%** due to closure of “Ouchi-Direct.”

Domestic Merchandise Transaction Value¹

(JPY B)



Domestic Merchandise Transaction Value¹ – YoY Growth Rate

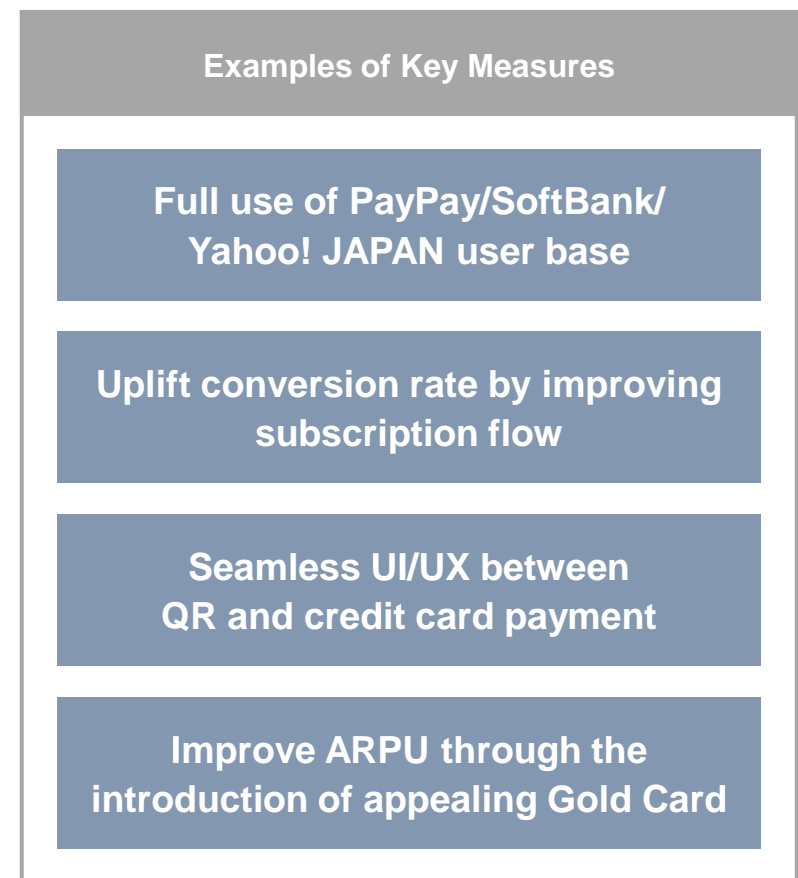
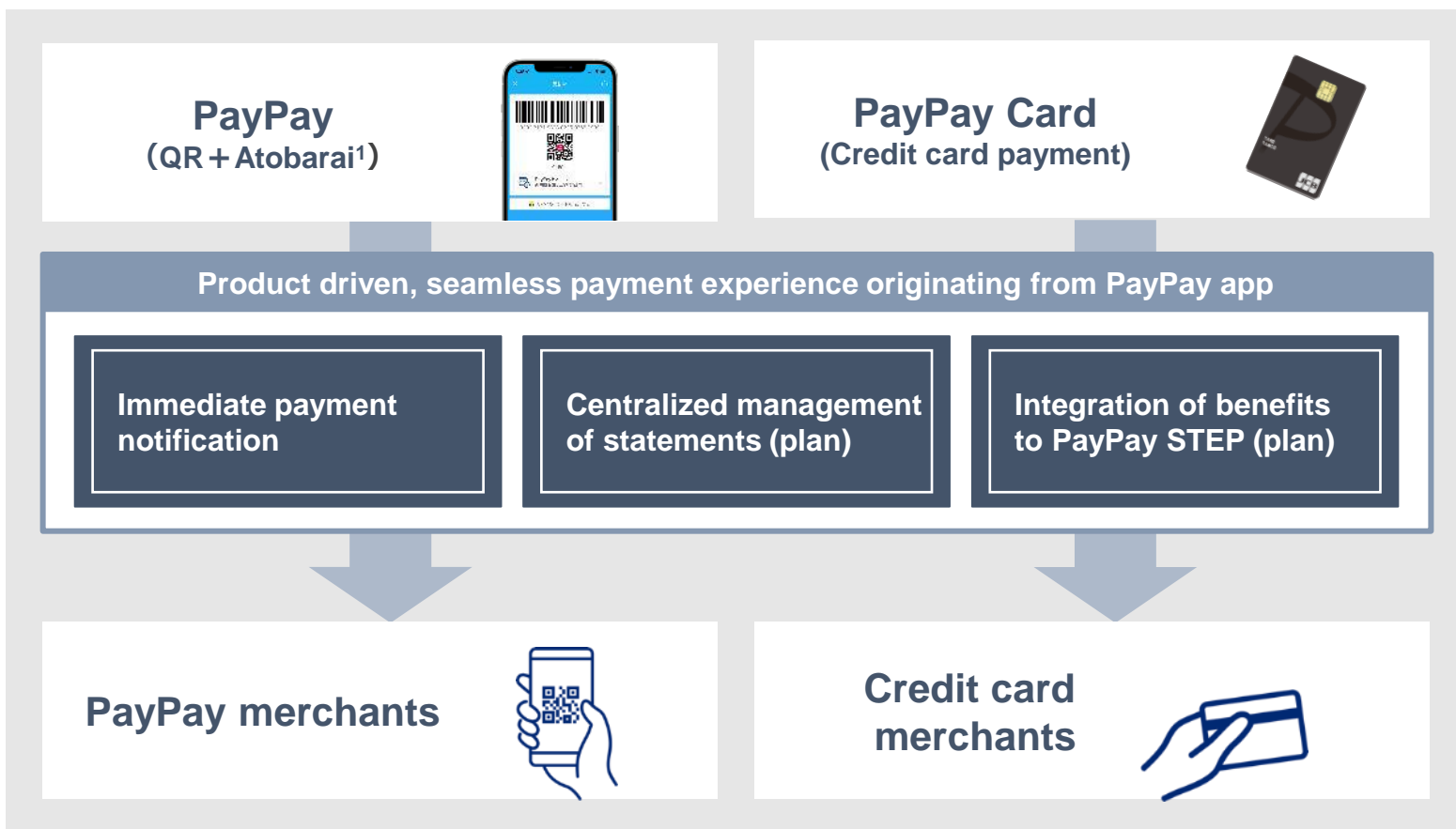


1. Please refer to page 26 of the Appendix for definition of transaction value.

Strategic Business

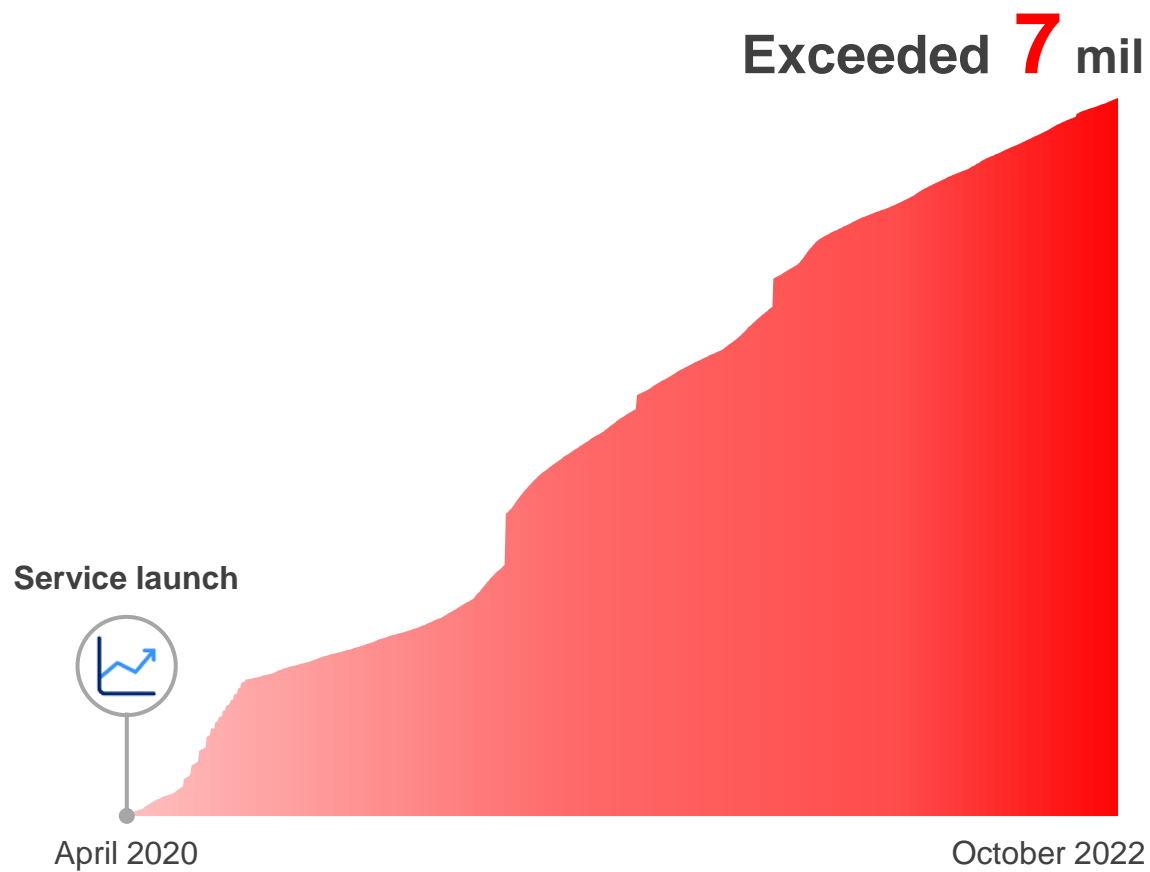


- Provide seamless payment experience from PayPay app for all payment methods so that PayPay-branded payments can be used in various situations.
- Aim to improve ARPU by expanding use of both QR & credit card payments which have different payment amount and frequency.

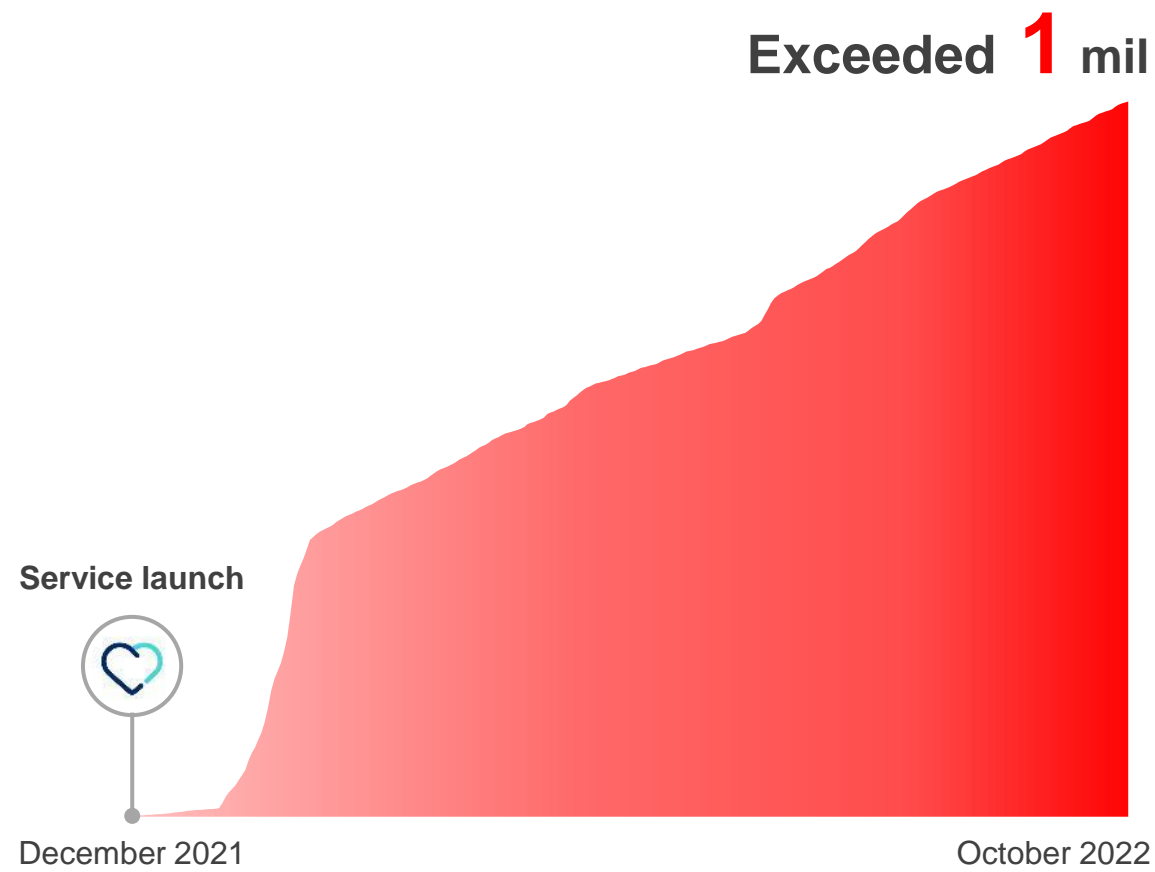


- PayPay Point management users exceeded 7 mil and subscribers of PayPay Insurance mini app also continues to grow.
- Steady progress in monetization measures in non-payment domains.

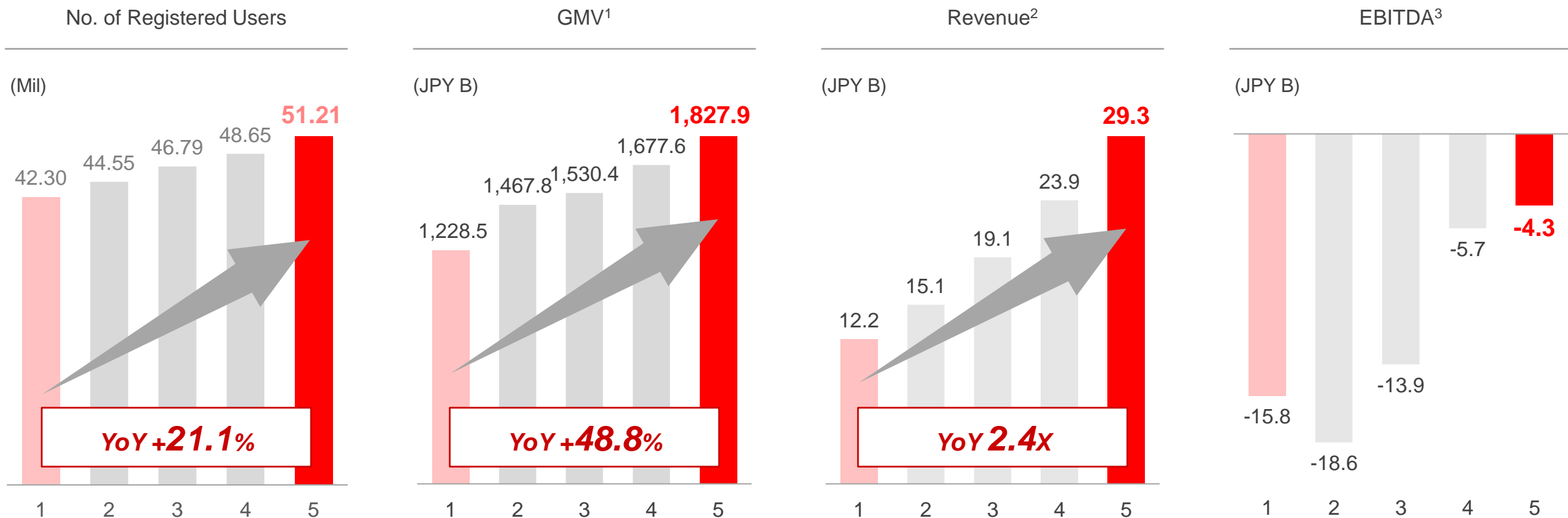
No. of PayPay Point Management Users



Cumulative Subscribers of PayPay Insurance Mini App



- No. of registered users exceeded 50 mil. **GMV remains at high level.** Aim to expand business even further through consolidation.
- **Revenue increased** after charging transaction fees to SMB merchants. **EBITDA improving steadily.**



1. From FY21 Q4 onwards, includes GMV via Alipay and LINE Pay, etc. Includes GMV of PayPay Atobarai which was launched from February 2022.

2. PayPay (standalone) revenue. In FY2021 Q4 changed the accounting treatment related to cash rebate, etc. Changed the accounting treatment of excess cash rebates, etc. over revenue from recording in expenses to deducting from revenue. Figures for FY2021 Q1-Q4 have been calculated on the assumption that this accounting change was conducted in FY2021 Q1 (No impact on full-year FY2021 revenue). Revenue for FY2022 has not been audited.

3. PayPay (standalone) EBITDA. Depreciation and amortization cost added back to operating income. Unaudited figure.

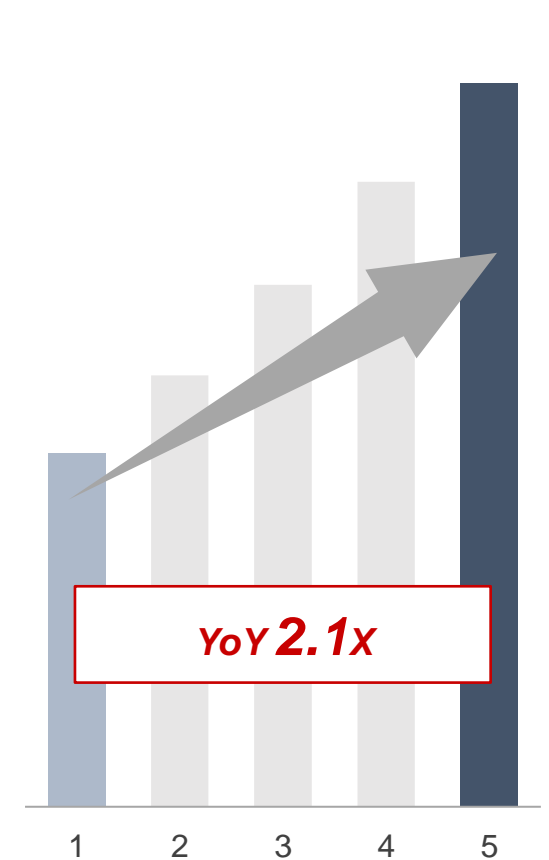
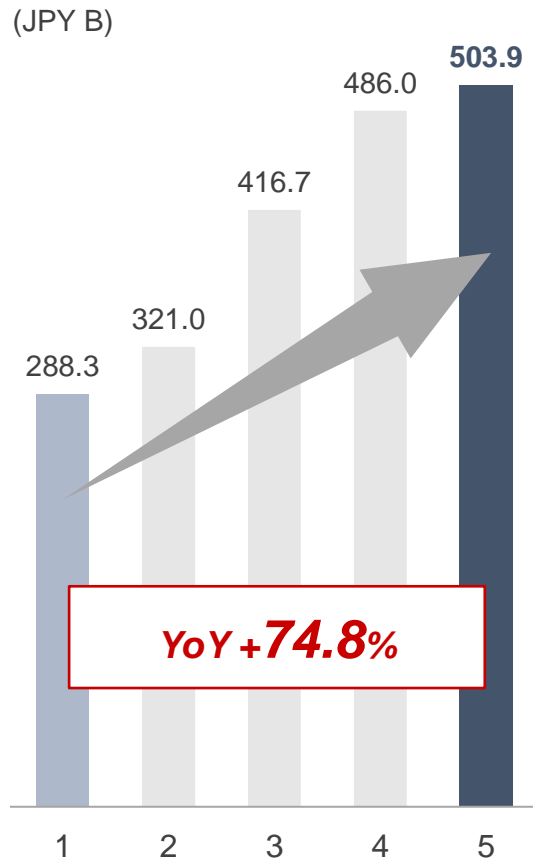
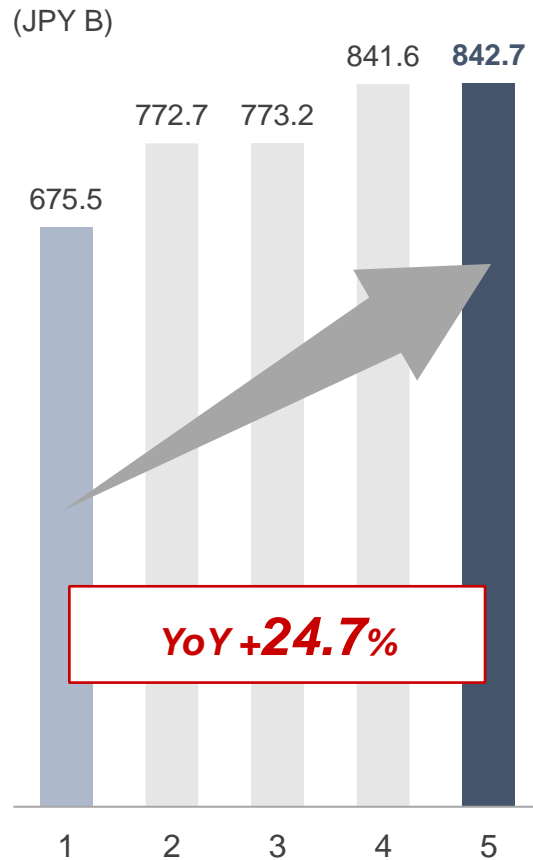
- PayPay Card and PayPay Bank will expand businesses through strengthened collaborations with PayPay.
- LINE’s domestic financial business has largely grown, capturing potential financial needs through LINE.

PayPay Card – Transaction Volume

PayPay Bank – Loan Balance

LINE Securities – No. of Accounts¹

LINE Pocket Money – Loan Balance²



1. Exceeded 1.5 million accounts on September 30, 2022.
 2. Includes balance of LINE Pocket Money Refinance.

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- Consolidation of PayPay is a revenue increase factor but will **maintain full-year revenue guidance (whole group) of approx. JPY1.72 T** due to revenue decrease in Media Business, etc.
- **For adjusted EBITDA (whole group), aim to achieve initial guidance of JPY331.5-340.0 B**, despite continued uncertainties caused by changes in macro environment.

Segment	Item	FY2021 Results	FY2022 Previous guidance	FY2022 New guidance	YoY
Whole Group	Revenue	JPY1.56 T	Approx. JPY1.72 T	Approx. JPY1.72 T	Approx.+10%
	Adjusted EBITDA	JPY331.4 B	JPY331.5 to 340.0 B	JPY331.5 to 340.0 B	+0.0 to 2.6%
Media Business	Advertising Revenue (LINE) ¹	JPY188.9 B	JPY204.0 to 215.3 B	JPY198.3 to 207.7 B	+5.0 to 10.0%
	Advertising Revenue (Yahoo Japan)	JPY392.6 B	JPY403.8 to 427.3 B	JPY392.6 to 412.1 B	+0.0 to +5.0%
	Adjusted EBITDA	JPY266.1 B	JPY277.6 B	JPY268.2 B	+0.8%
Commerce Business	E-Commerce Transaction Value ²	JPY3.83 T	JPY4.02 to 4.40 T	JPY4.02 to 4.40 T	+5.0 to 15.0%
	Adjusted EBITDA	JPY131.5 B	JPY136.1 B	JPY153.0 B	+16.4%
Strategic Business	Fintech Revenue	JPY114.2 B	JPY125.6 to 148.5 B	JPY190.0 to 210.0 B	+66.4 to 83.9%
	Adjusted EBITDA	Negative JPY12.8 B	Negative JPY41.7 B	Negative JPY49.0 B	-
Other/ Adjustments	Adjusted EBITDA	Negative JPY53.2 B	Negative JPY40.5 B	Negative JPY40.6 B	-

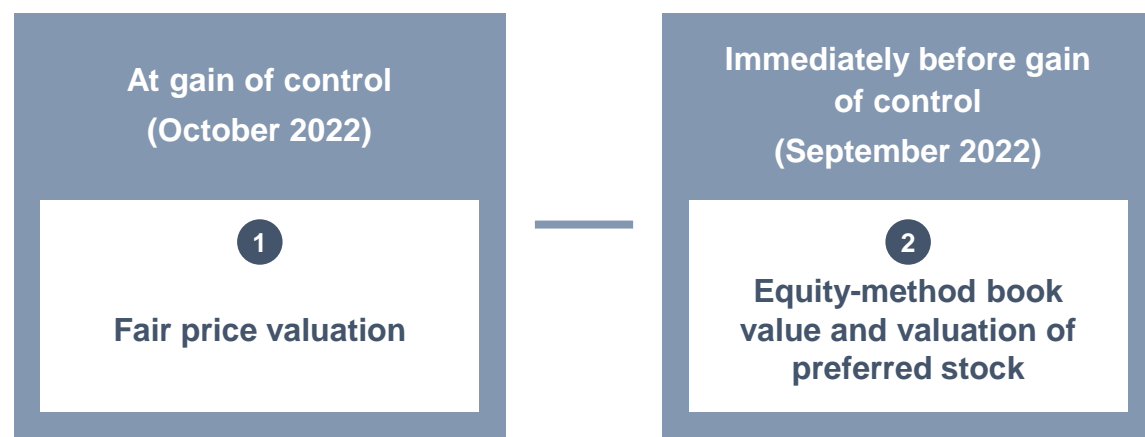
1. Results for FY2021 have not been retroactively adjusted.

2. Includes Shopping-related advertising revenue. Shopping-related advertising revenue is classified in Commerce Business.

3. Domestic merchandise transaction value + domestic services transaction value + domestic digital content transaction value + overseas e-commerce transaction value. Overseas e-commerce transaction value included from FY2021. Please refer to page 26 of the Appendix for definition of overseas e-commerce transaction value.

- In FY2022 Q3, plan to record a gain on remeasurement relating to business combinations of JPY148.0 B (EBITDA adjustment item).
- To win in the wildly fragmented cashless payment market, **made bold investments to establish its position as a QR code payment infrastructure in Japan, in just four years since service launch. Will recover a large return on investment to make the service a third business pillar** next to Media and Commerce.

Gain on Remeasurement Relating to Business Combinations – Recording Mechanism



Gain on Remeasurement Relating to Business Combinations

Approx. JPY**148.0** BPPA Amount (Provisional) ¹

Item	Amount (JPY B)	Annual Amortization Amount (JPY B)	Amortization Period (Straight Line)
PPA ¹	72.0	9.4	-
Customer asset	64.0	6.4	10 years
Contracts	8.0	3.0	

1. Current provisional figure. Subject to change based on the results of discussions with the audit firm, etc.

Statements made at the meeting or included in the documents that are not historical facts are forward-looking statements about the future performance of Z Holdings Corporation (Company, Z Holdings, ZHD) and its consolidated subsidiaries and affiliates.

The Company cautions you that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements.

Such factors include, but are not limited to, the items mentioned in “Risk Factors” in “Consolidated Financial Statements and Independent Auditor's Report” (Japanese only). Unauthorized use of the information or the data in this document is not permitted.

Unless otherwise specified, English-language documents are prepared solely for the convenience of non-Japanese speakers.

If there is any inconsistency between the English-language documents and the Japanese-language documents, the Japanese-language documents will prevail.

Z HOLDINGS

**Unleashing the infinite potential of all people,
with the power of information technology**