

Z Holdings Corporation Business Results

FY2022 Q3

February 2, 2023

Z HOLDINGS

Revenue: JPY453.6 B – highest quarterly revenue due to consolidation of PayPay.

Adjusted EBITDA: approx. 79% of guidance despite impact of market changes.

Consolidated
performance

- Adjusted EBITDA (excluding PayPay standalone) increased due to cost optimization and selective focus on key businesses.
- PayPay registered users largely grew to 54.0 million (YoY +21.2%), PayPay GMV to JPY2.22 T (YoY +51.5%). Aim for further growth through PayPay consolidation.
- Due to weakening advertising market conditions, etc., will revise adjusted EBITDA guidance for the whole group to the lower limit of the guidance range.

Whole Group
topics

- Decided on the policy to merge ZHD/LINE Corporation/Yahoo Japan Corporation by around the end of FY2023, to further expedite decision making on Group management. Will transition to a new management structure from April 2023.

1 Consolidated Business Results – Whole Group

2 Topics/Business Results – By Segment

3 Merger of Core Group Companies

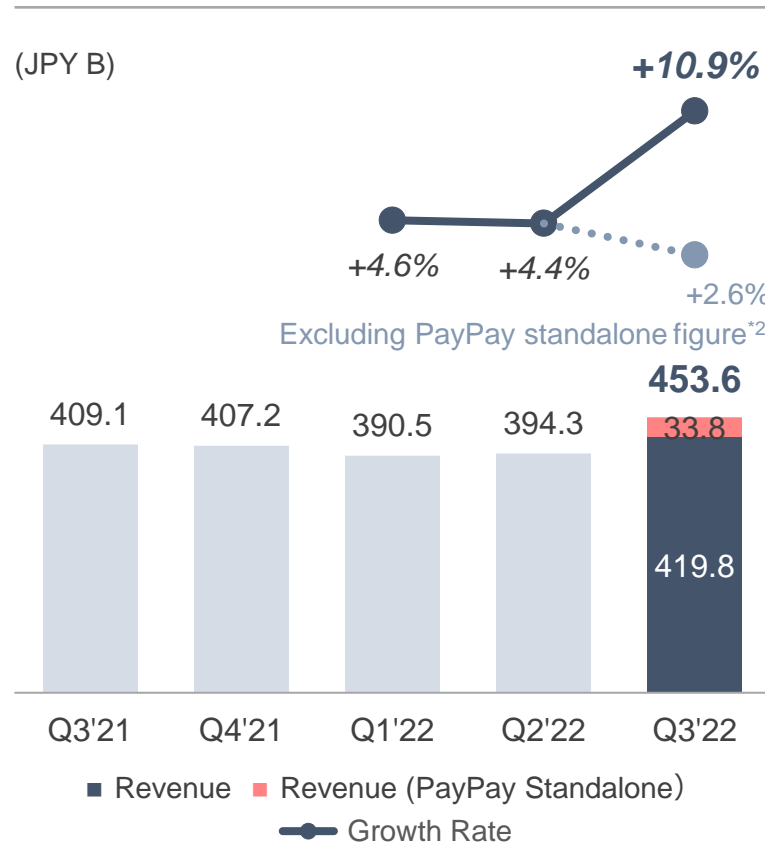
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2 Topics/Business Results – By Segment

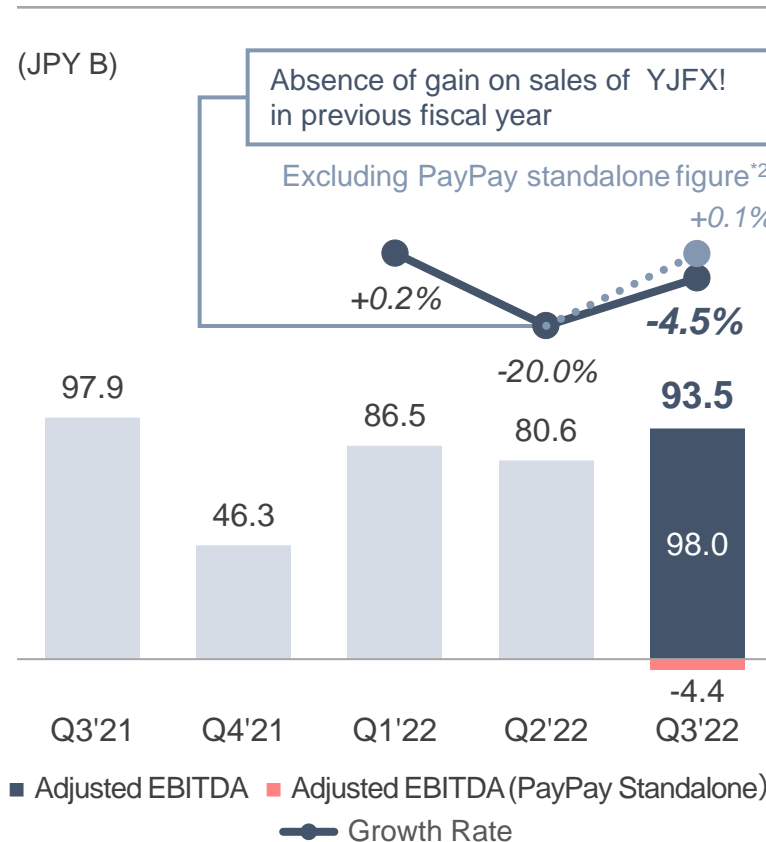
3 Merger of Core Group Companies

- Consolidated PayPay in Q3. **Achieved highest quarterly revenue** although challenging macro environment continues.
- **Adjusted EBITDA excluding PayPay standalone increased** as a result of **cost optimization** and **selective focus on key businesses**.

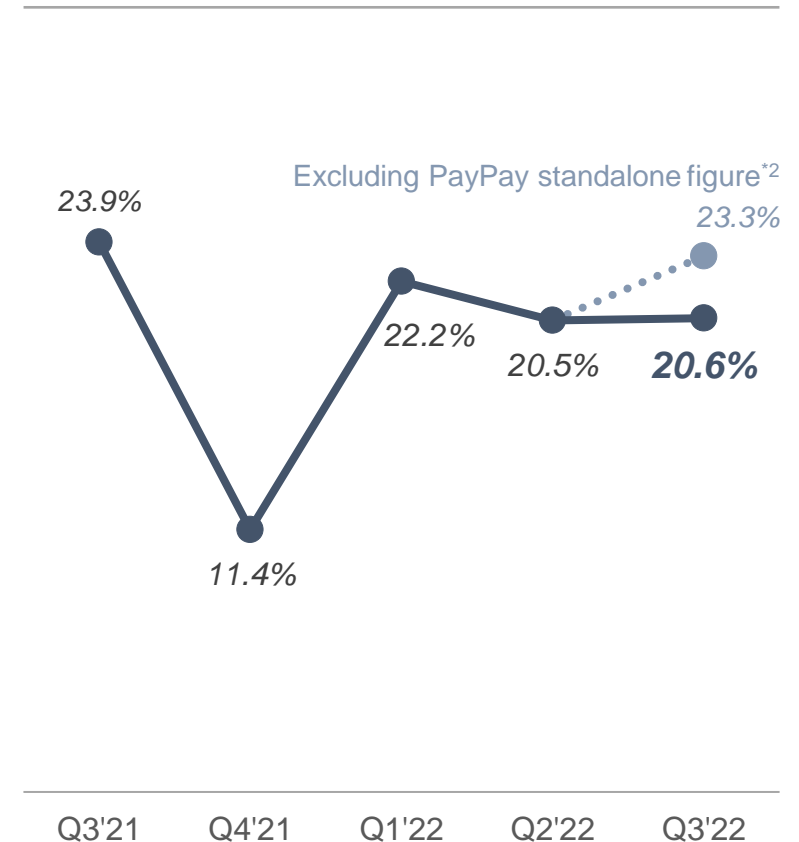
Revenue/YoY Growth Rate¹



Adjusted EBITDA/YoY Growth Rate¹



Adjusted EBITDA Margin



1. YoY comparison for period after business integration only, due to the business integration between Z Holdings Corporation and LINE Corporation in FY2020 Q4.

2. Before offsetting internal transactions. Independently calculated by adjusting relevant IFRS elements from the JGAAP non-consolidated figures.

- **Adjusted EBITDA for the whole group revised from disclosing a range of guidance to JPY331.5 B.**
- Aim to achieve the revised guidance by **absorbing market changes and impact of PayPay consolidation through cost optimization, etc.**

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	+0.0%
Media Business	Advertising Revenue (LINE) ¹	JPY188.9 B	JPY198.3 to 207.7 B	JPY198.3 to 207.7 B	+5.0 to 10.0%
	Advertising Revenue (Yahoo Japan) ²	JPY392.6 B	JPY392.6 to 412.1 B	JPY392.6 to 412.1 B	+0.0 to 5.0%
	Adjusted EBITDA	JPY266.1 B	JPY268.2 B	JPY268.2 B	+0.8%
Commerce Business	E-Commerce Transaction Value ³	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	JPY153.0 B	JPY153.0 B	+16.4%
Strategic Business	Fintech Revenue	JPY114.2 B	JPY190.0 to 210.0 B	JPY190.0 to 210.0 B	+66.4 to 83.9%
	Adjusted EBITDA	Negative JPY12.8 B	Negative JPY49.0 B	Negative JPY49.0 B	-
Other/Adjustments	Adjusted EBITDA	Negative JPY53.2 B	Negative JPY40.6 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.

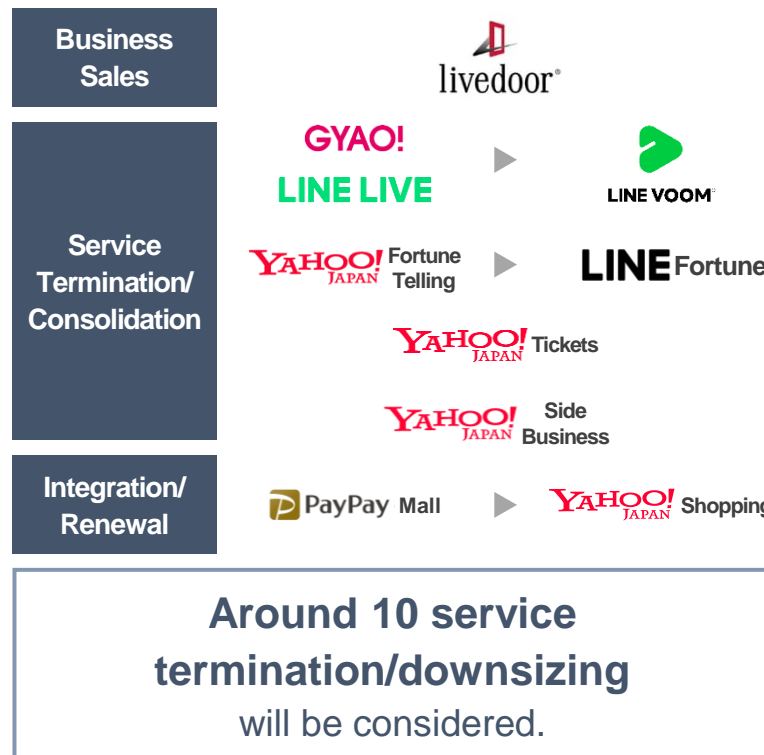
3. Domestic merchandise transaction value + domestic services transaction value + domestic digital content transaction value + overseas e-commerce transaction value. Overseas e-commerce transaction value included from FY2021. Please refer to P. 27 of the Appendix for definition of overseas e-commerce transaction value.

- **Optimized costs (mainly sales promotional costs). Hiring freeze will make full contribution from the next fiscal year onward.**
- **Selective focus on key businesses;** promoted the consolidation of overlapping businesses within the Group.
- **Equity in losses of associates and joint ventures improving,** due to progress in business monetization, cost optimization, etc.

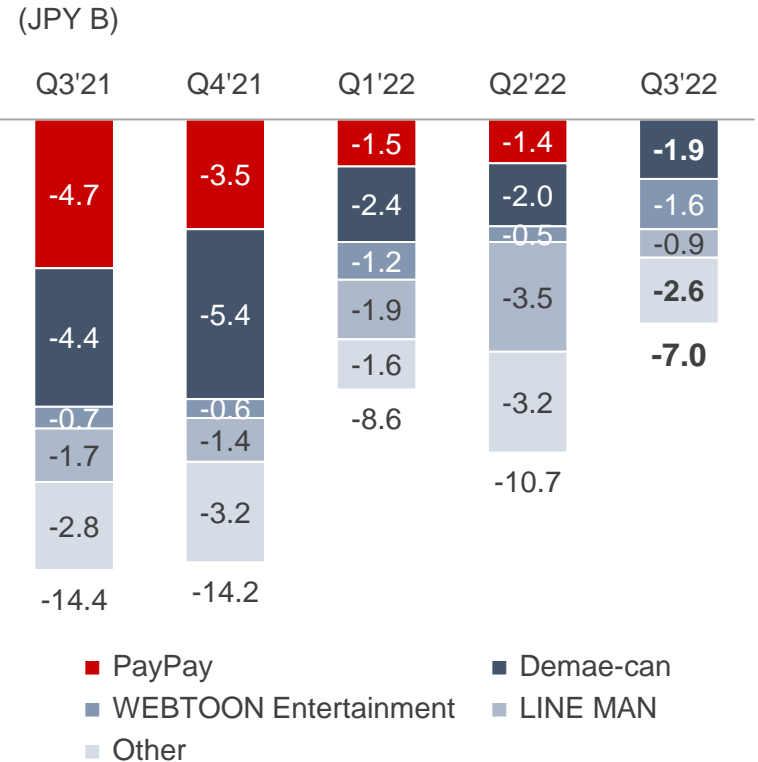
Cost Optimization Items & Scheduled Cost Reduction in H2 (JPY B)

Media	Sales promotional cost/review of services	3.4
Commerce	Sales promotional cost/logistics cost	22.0
Strategic	Sales promotional cost	8.3
Other	<ul style="list-style-type: none"> • Reduction in recruiting cost across the Group • Reversal of sales promotion/advertising costs (Reversal of allocation expense due to decline in Media revenue, etc.) 	-3.5
Total		30.2

Selective Focus on Key Businesses



Equity in Losses of Associates and Joint Ventures



- Accompanying the consolidation of PayPay, **revised financial index/financial guidance¹ to reflect business characteristics.**
- **Guidance for net leverage ratio² (excluding financial business³) will be 3X or less** to balance investment and disciplined financial strength.

Financial Index	Until FY22 Q2 (Before PayPay Consolidation)	FY22 Q3 Onwards (After PayPay Consolidation)
Cash flow	<ul style="list-style-type: none"> • Excluded banking business • Free cash flow 	<ul style="list-style-type: none"> • Disclose figure excluding financial business and that for financial business • Net cash flow
Interest-bearing debt/ Net interest-bearing debt	<ul style="list-style-type: none"> • Excluded banking business 	<ul style="list-style-type: none"> • Exclude financial business
Net leverage ratio	<ul style="list-style-type: none"> • Excluded banking business • Maintain 2.5X to 3X 	<ul style="list-style-type: none"> • Exclude financial business • Maintain 3X or less

1. Please refer to P. 11-12 of the Appendix for FY2022 Q3 presentation material for the results and definitions of each index, etc.

2. Net interest-bearing debt/adjusted EBITDA. Figures for the most recent 12 months of the relevant quarter will be used for adjusted EBITDA to calculate net leverage ratio.

3. Financial business includes PayPay Corporation, PayPay Card Corporation, PayPay Bank Corporation and the financial subsidiaries of LINE Corporation.

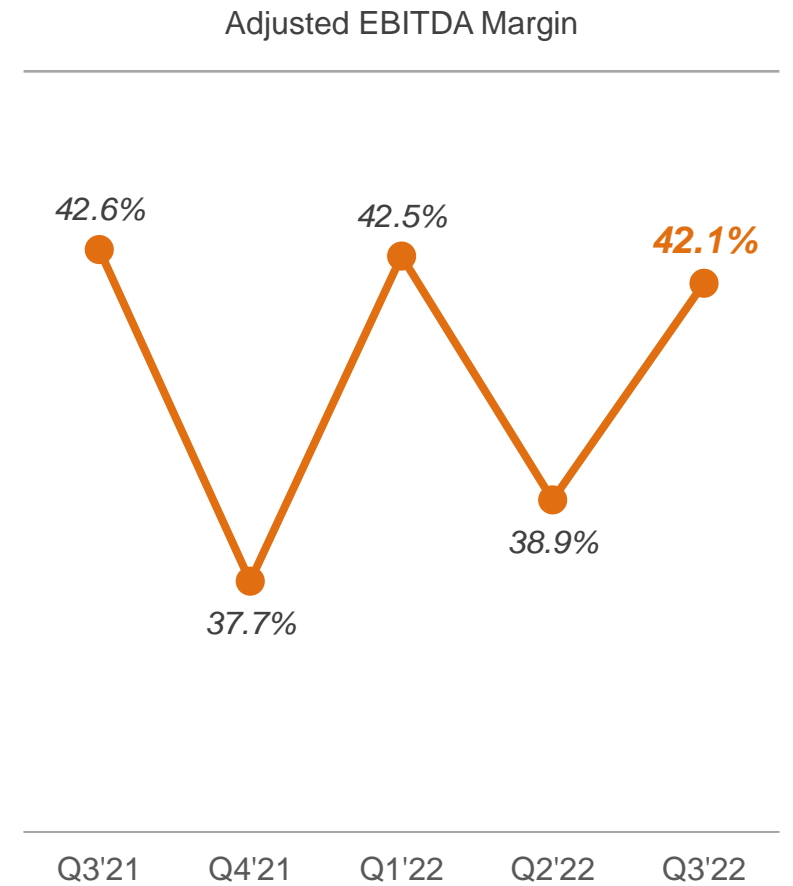
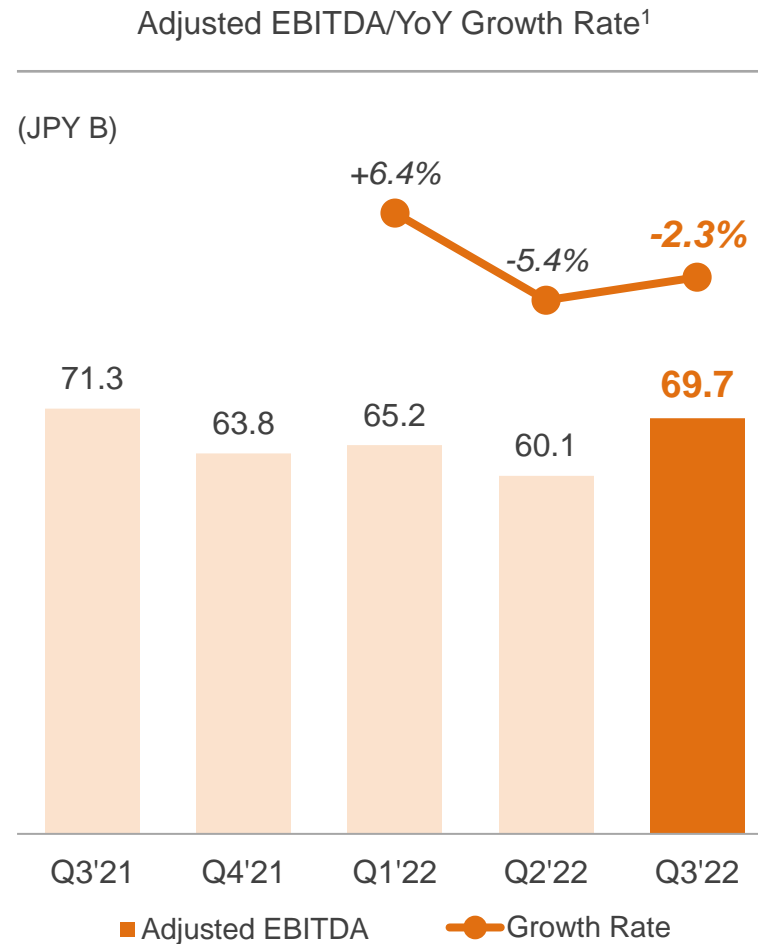
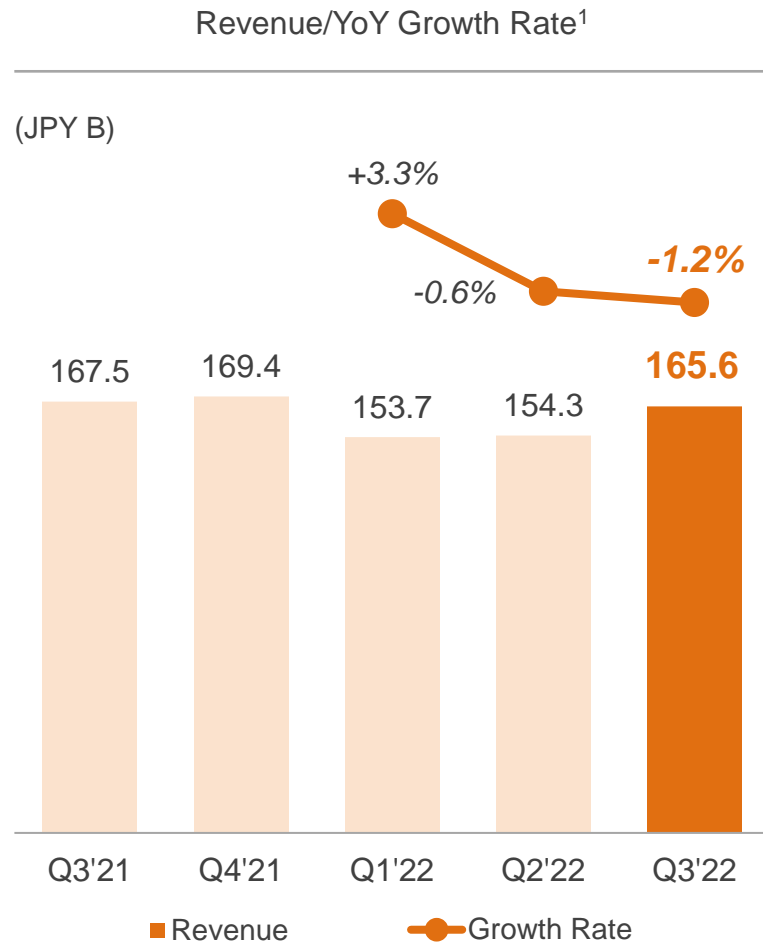
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Media Business

- In addition to **change in market conditions and impact from renewals of some services, effects from the launch of new products have tailed off.**
- **Adjusted EBITDA margin maintained 40% level**, due to **measures** that meet changes in market conditions and structures.

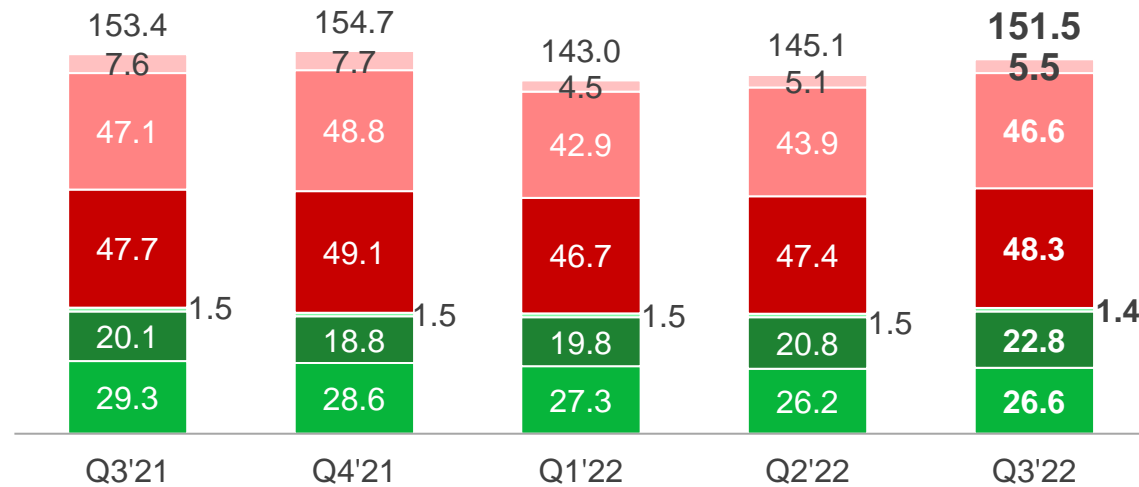


1. YoY comparison for period after business integration only, due to the business integration between Z Holdings Corporation and LINE Corporation in FY2020 Q4.

- Yahoo Japan display ads: **Programmatic ads** (excluding commerce ads) **maintained last year’s level, but placements for reservation ads continue to decrease. Revenue of commerce ads also decreased due to cost optimization.** LINE display ads revenue decreased due to market conditions and **impact of VOOM renewal, etc.**
- Account ads & search ads **continue to grow leveraging ZHD’s unique strengths.**

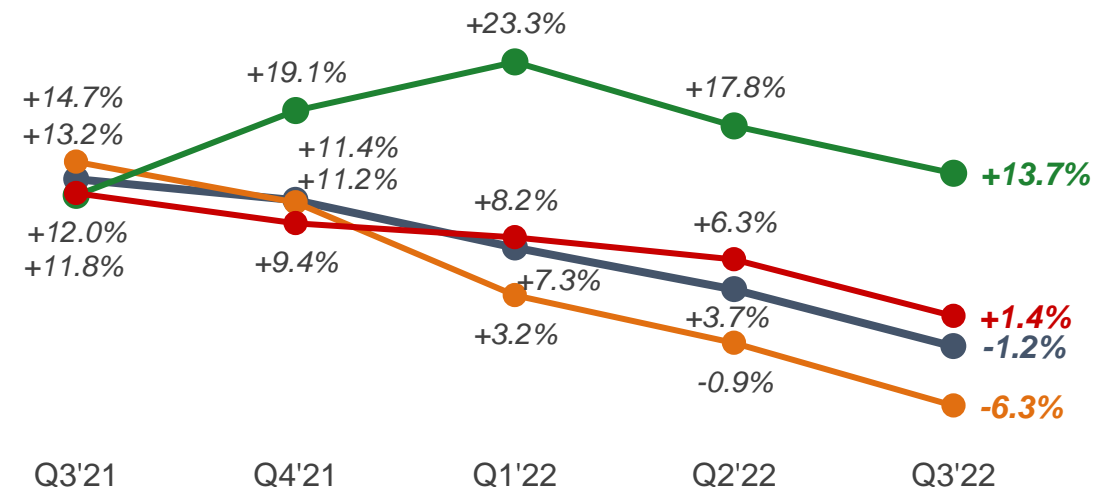
Whole Group – Advertising Revenue¹

(JPY B)



合計
 ■ Yahoo Japan Display (Programmatic) ■ Yahoo Japan Search Ads
 ■ LINE Others Ads ■ LINE Account Ads

Whole Group -- Advertising Revenue YoY Growth Rate^{1, 2} (YoY)



● Whole Group ● Display Ads ● Account Ads ● Search Ads

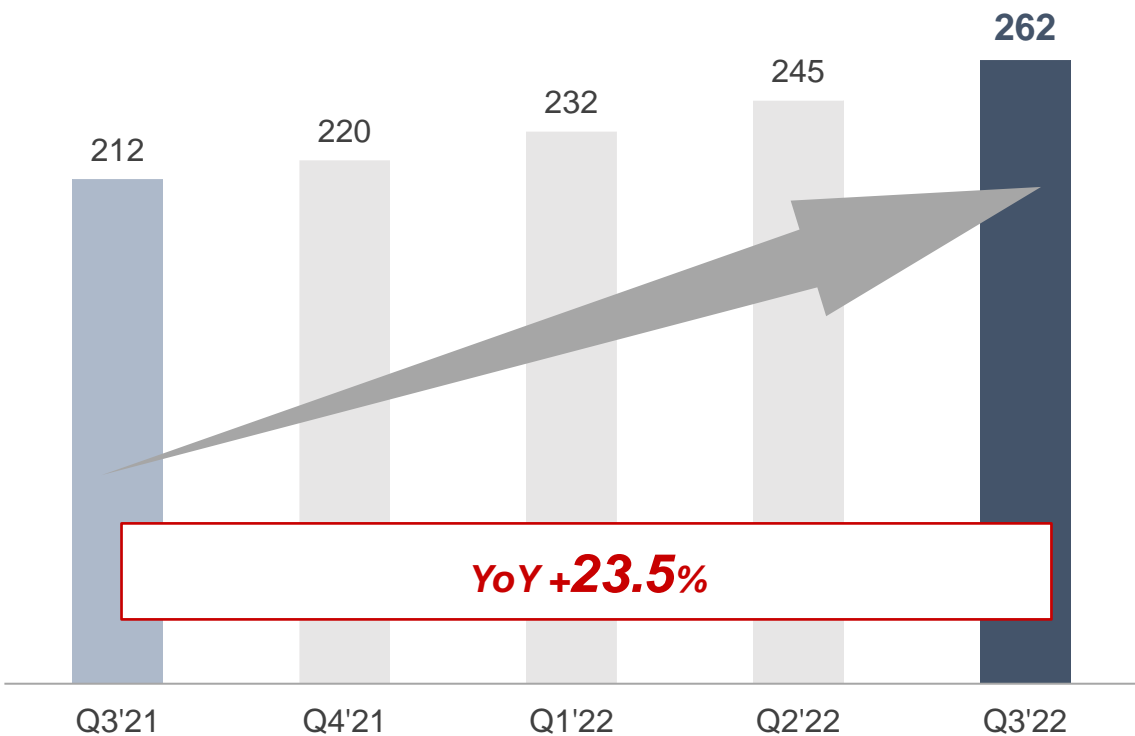
1. From FY2022 Q1, LINE Corporation’s services that had been recorded in Adjustments have been transferred to each business segment. Accordingly, figures for LINE’s advertising business have been retroactively revised from FY2021 Q1.

2. LINE total advertising revenue added to FY2020 Q3 & Q4 to calculate growth rates of FY2021 Q3 & Q4 due to business integration between Z Holdings Corporation and LINE Corporation in FY2020 Q4.

- Despite changes in market conditions, **no. of paid accounts increasing steadily** due to its unique product feature which **is increasingly recognized as an important CRM tool.**
- Aim to achieve medium- to long-term revenue growth by **promoting continued use through feature expansions to maximize user contact.**

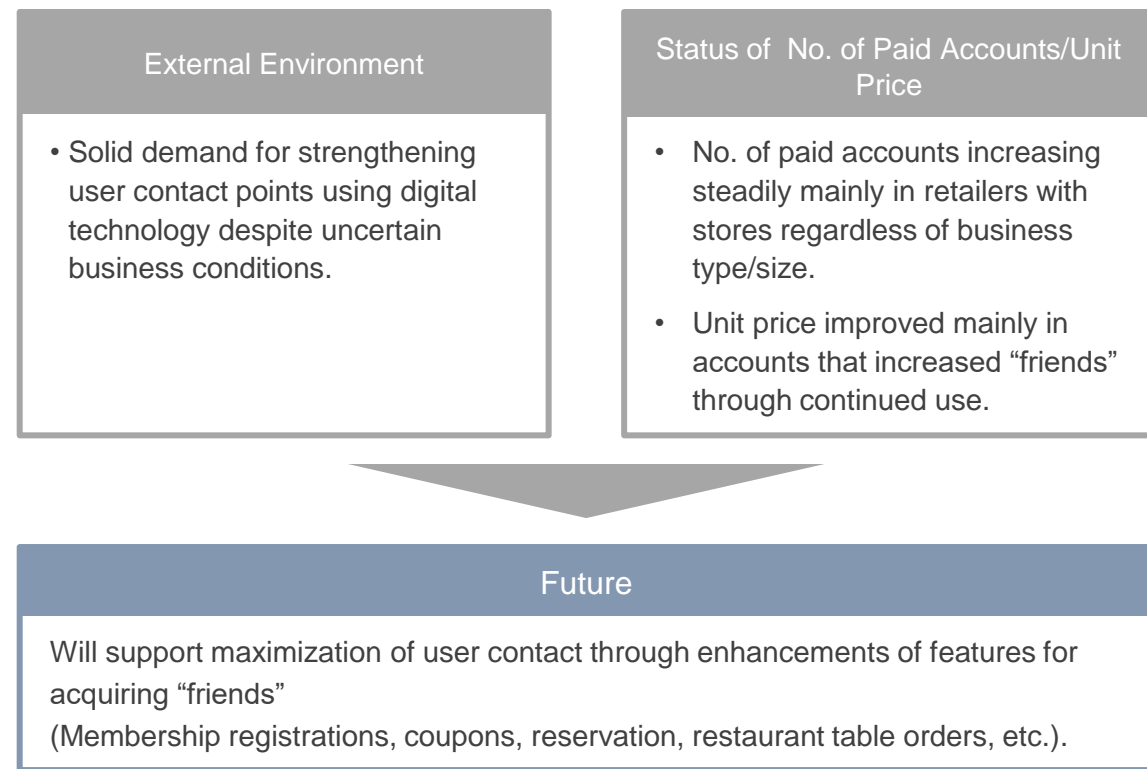
No. of Paid LINE Official Accounts¹

(Thousand)



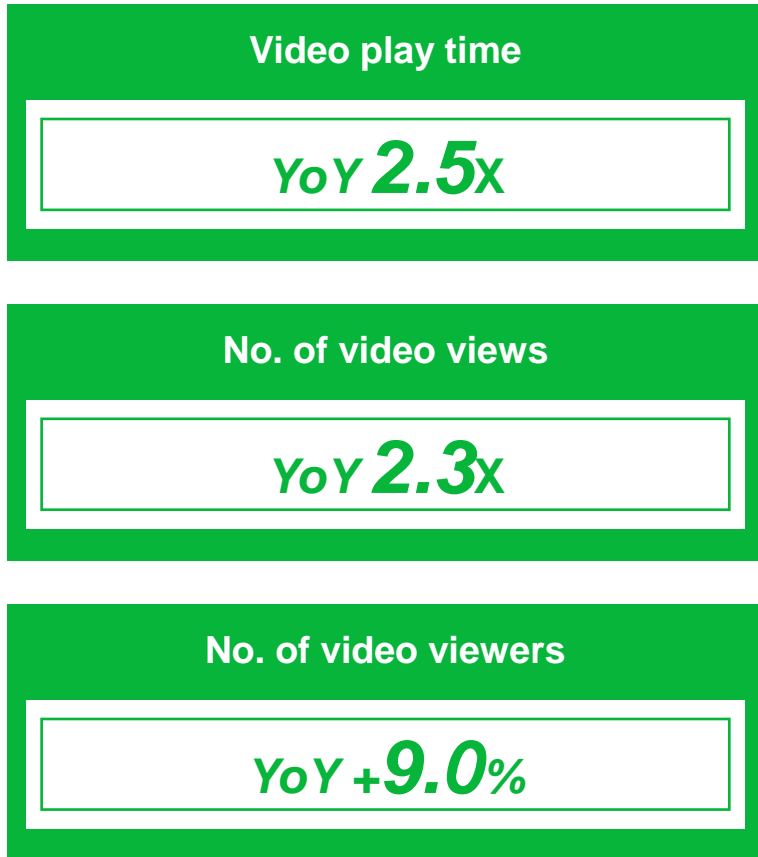
1. The number of paid accounts is the total of Japanese and overseas accounts.

Usage Increasing as a Communication Infrastructure

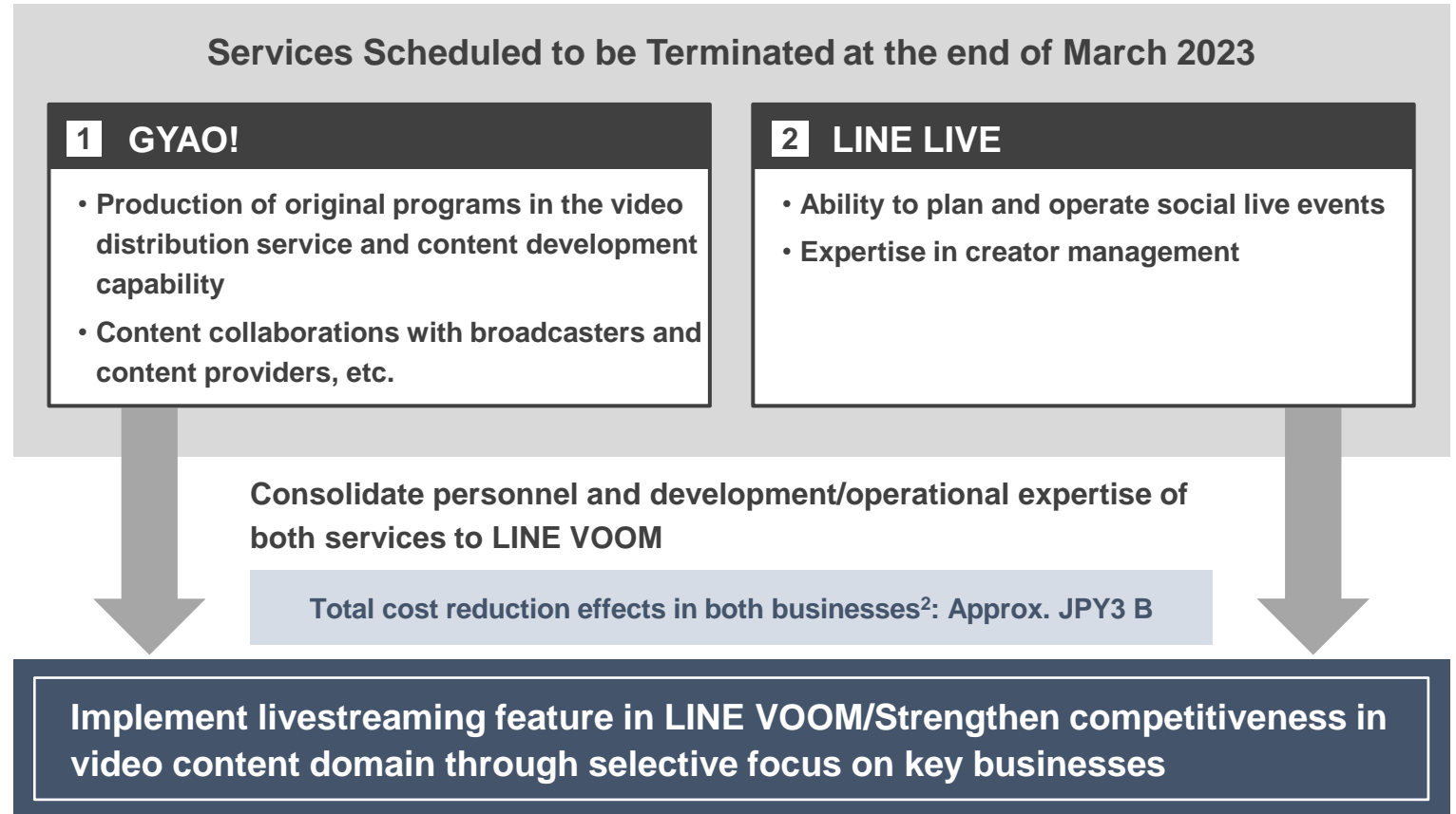


- **Service KPIs expanded steadily** despite changes in audience demographics due to renewal to LINE VOOM.
- **To capture demand in growing video ad market, selectively focused on key businesses.**

Status after Renewal¹



Selective Focus on Key Businesses



1. All figures: comparison between FY2021 Q3 and FY2022 Q3

2. Annual total cost reduction effects

- Introduced sales promotion solution for manufacturers to maximize the LTV of brands, **to make a full-scale development of digital sales promotion market.**
- In collaboration with manufacturers/retailers, will seek real-time POS linkage to **upgrade the CRM platform.**

LINE/Yahoo! JAPAN/PayPay Mileage

Constant sales promotional solution for both online/offline domains

Scheduled in March 2023

Accumulate mileage with purchase of specific products

Acquire benefits e.g., PayPay Points

Targeted offer & promotion of repeat purchase¹

Advantages for Manufacturers

- Able to visualize who bought where
- Continuous CRM to specific customers & lifting of brand loyalty

Product-Specific Coupons²

On-the-spot sales promotional solution

Scheduled in or after May 2023

Acquire product-specific coupon

Coupon automatically applied at payments

Able to immediately check granted points

Advantages for Manufacturers

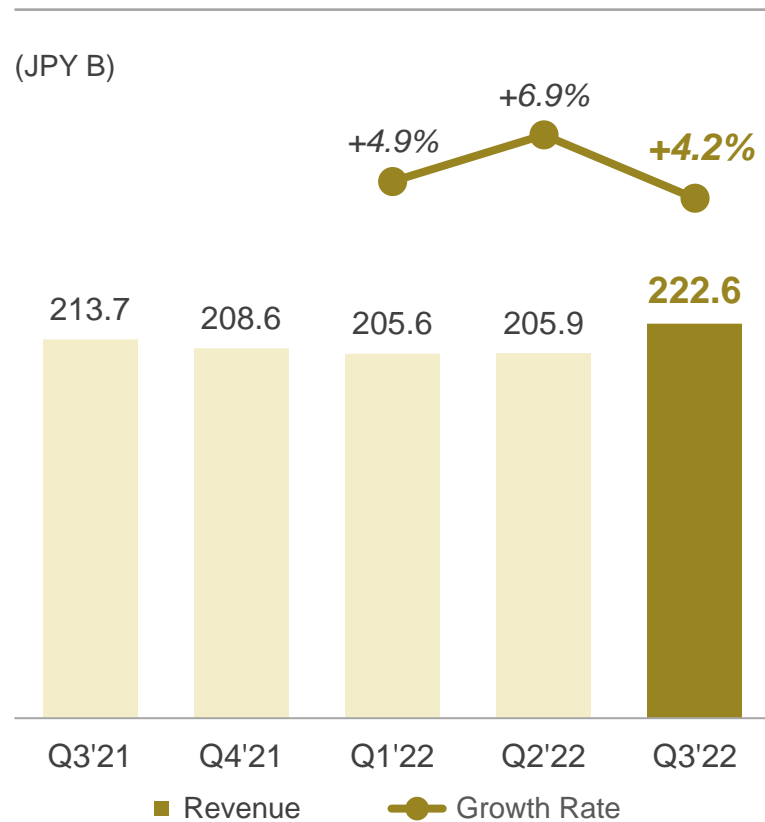
- Able to visualize who bought where
- Flexible marketing activities (e.g., sales promotion of new products)

1. Scheduled to be implemented after linkages of IDs of LINE Corporation, Yahoo Japan Corporation, and PayPay Corporation.
 2. PayPay Coupon's new feature.

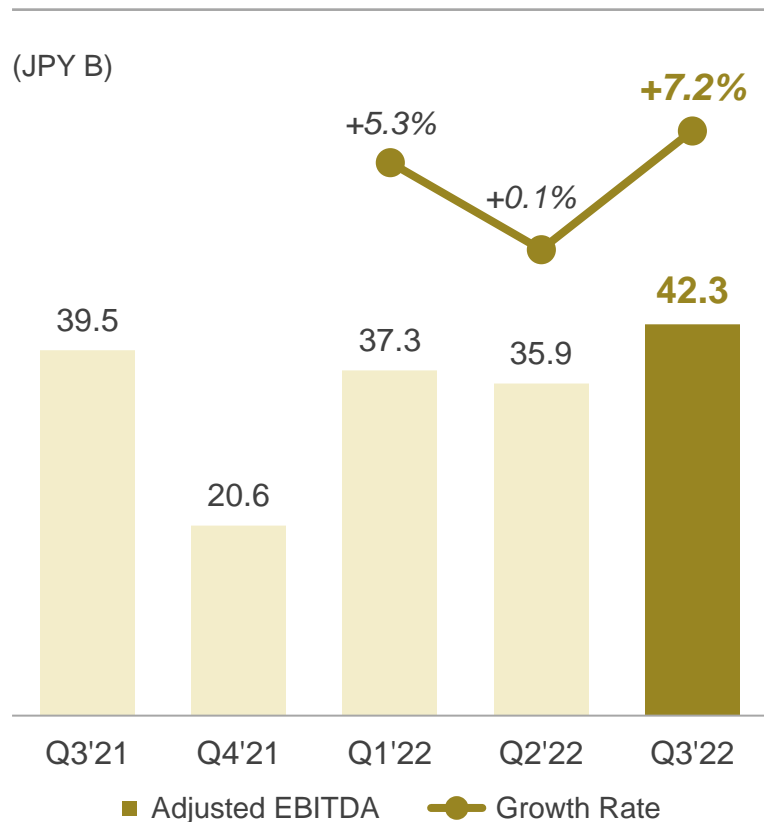
Commerce Business

- Improving the balance between growth and profitability through cost optimization and fundamental reinforcement of products.
- Aim to hike Japan’s EC ratio and to achieve long-term growth by expanding PayPay’s ecosystem and through new e-commerce initiatives.

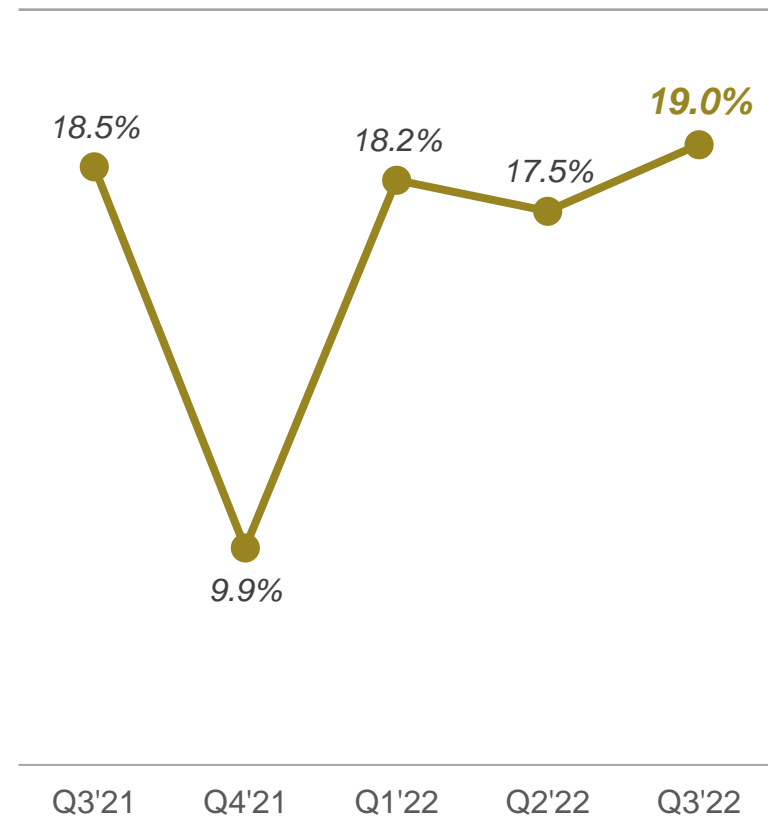
Revenue/YoY Growth Rate¹



Adjusted EBITDA/YoY Growth Rate¹



Adjusted EBITDA Margin

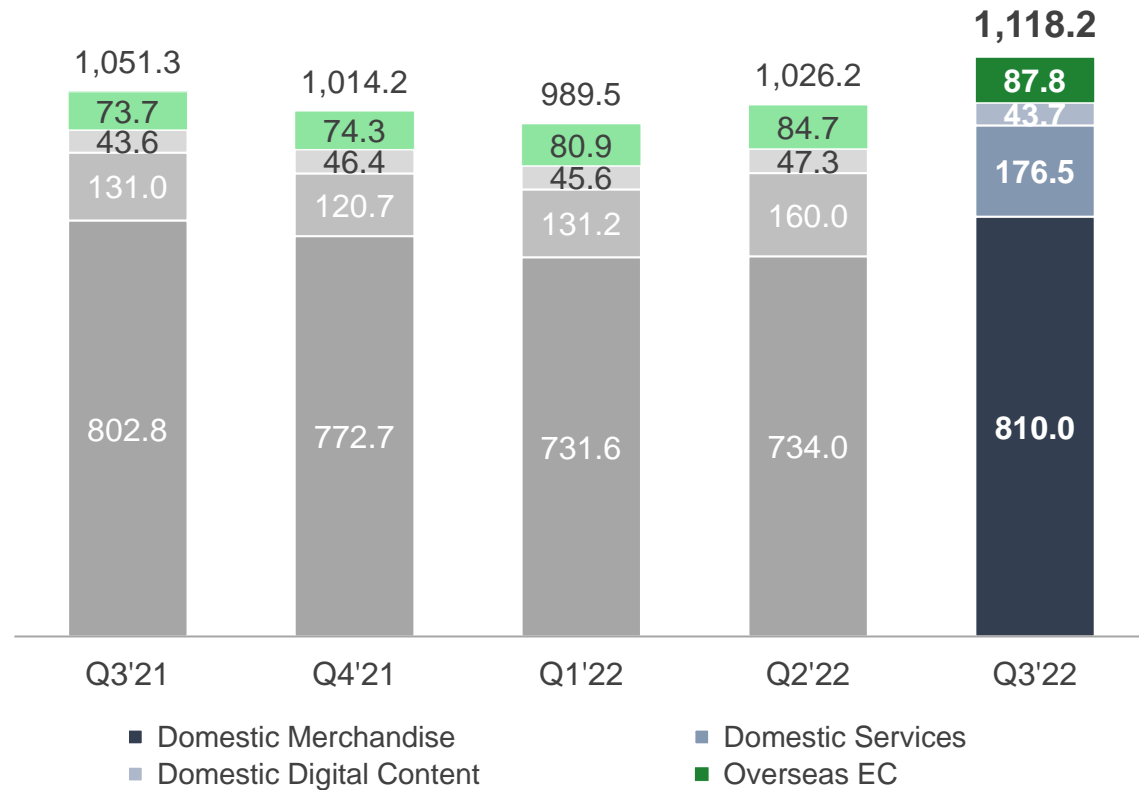


1. YoY comparison for period after business integration only, due to the business integration between Z Holdings Corporation and LINE Corporation in FY2020 Q4.

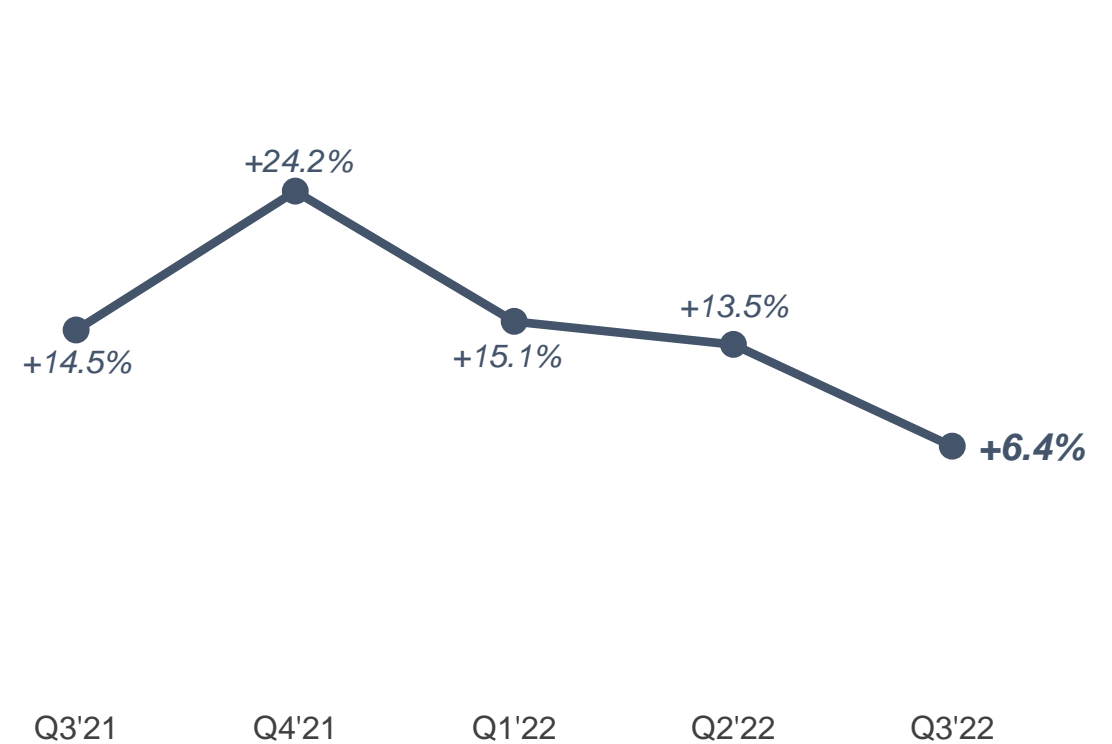
- Group EC transaction value achieved JPY1.11 T (YoY +6.4%) as planned, mainly due to **progress in cost optimization**.
- **Domestic services EC grew to JPY176.5 B (YoY +34.8%)** due to economic reopening and Japan's nation-wide travel incentives.

Group EC Transaction Value¹

(JPY B)



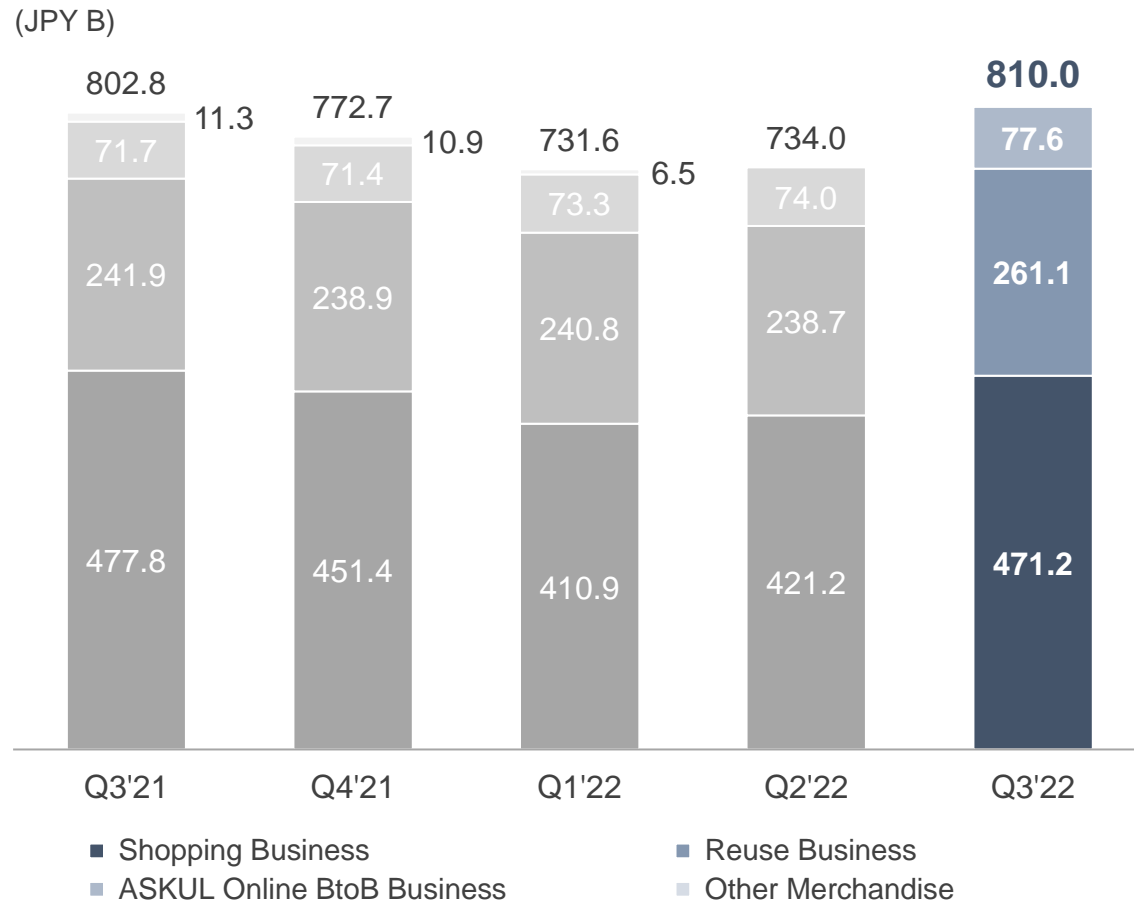
Group EC Transaction Value¹ - YoY Growth Rate



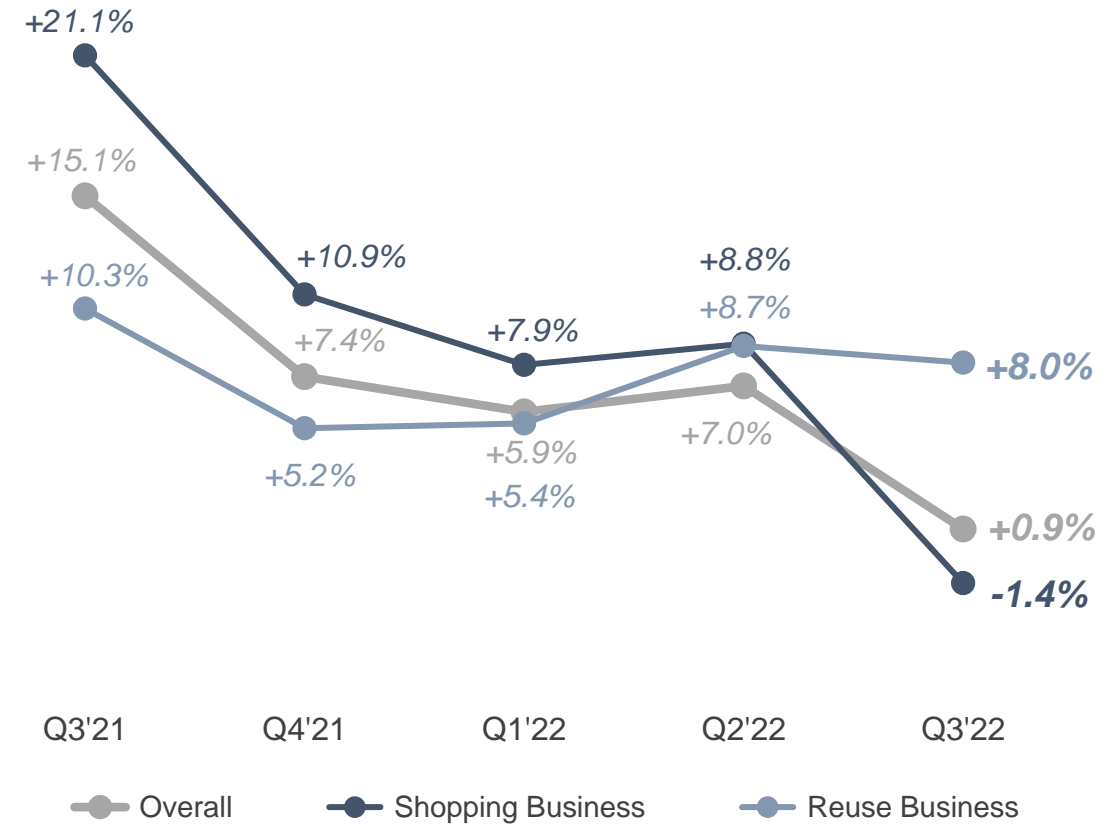
1. Please refer to P. 27 of the Appendix for definition of transaction value.

- Shopping business: **Cost optimized through changes in campaign programs, achieving JPY471.2 B (YoY -1.4%) as expected.**
- Reuse business: **Continues to grow steadily, mainly driven by PayPay Flea Market, expanding to JPY261.1 B (YoY +8.0%).**

Domestic Merchandise Transaction Value¹



Domestic Merchandise Transaction Value¹ – YoY Growth Rate



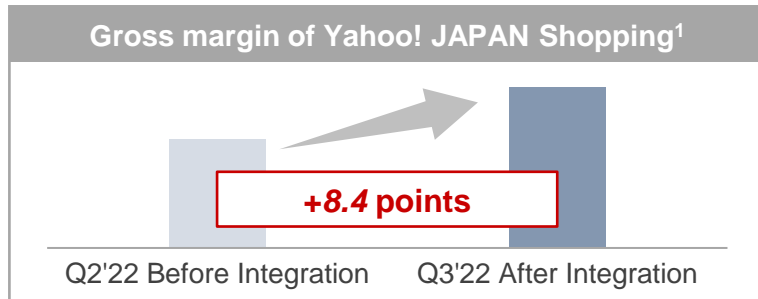
1. Please refer to P. 27 of the Appendix for definition of transaction value.

- **Through cost optimization, cut costs (mainly fixed point-provision expense) and improved gross profit. Impact on transaction value from sales platform integration was within expectations.**
- **Will transform to sustainable growth while improving profitability** through rebuilding of basic reward and fundamental improvement of products.

Status After Integration of Sales Platforms

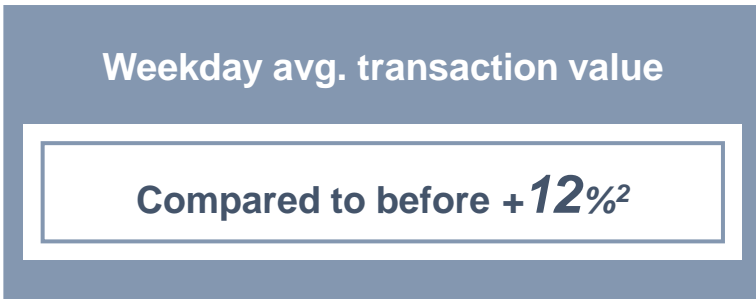
1 Impact of Cost Optimization on Profitability

- Impact on transaction value due to increased efficiency in sales promotion was within expectations
- Gross margin improved due to improved ad take rate and efficient sales promotions



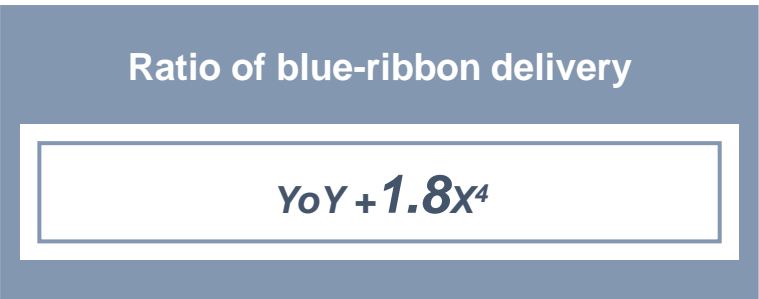
2 Rebuilding of Basic Reward

- Rebuilt into simple/easy-to-understand rewards for daily use to take root
- Weekday transaction value increased mainly in existing customers



3 Blue-Ribbon Delivery & Otoku Shitei Bin³

- Ratio of blue-ribbon delivery steadily increasing
- Otoku Shitei Bin is well received by both stores & users, improving logistics stability and delivery experience

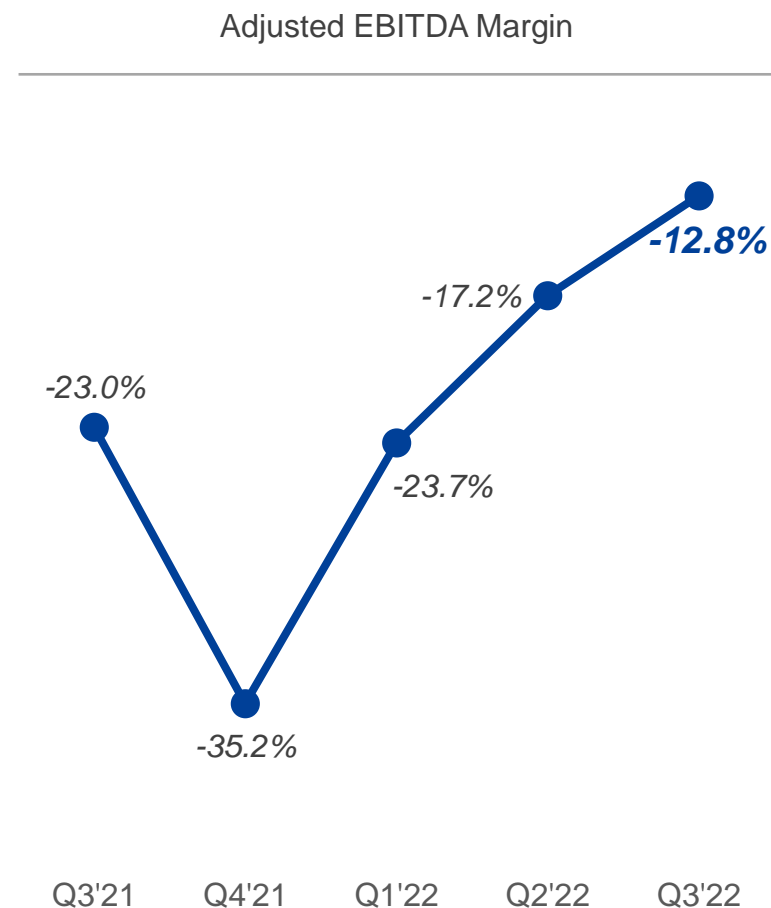
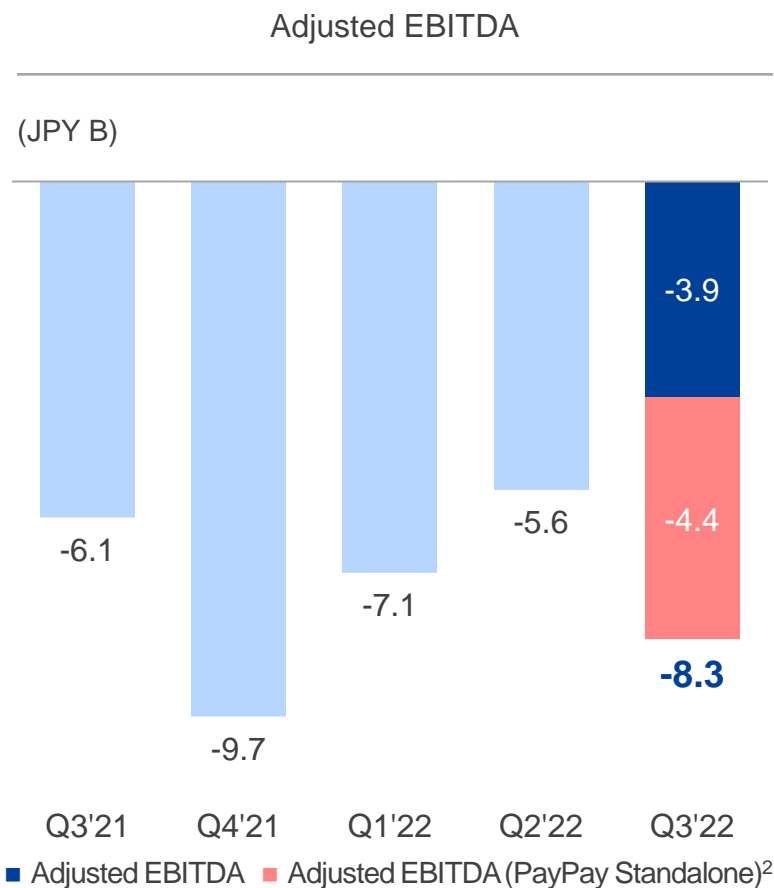
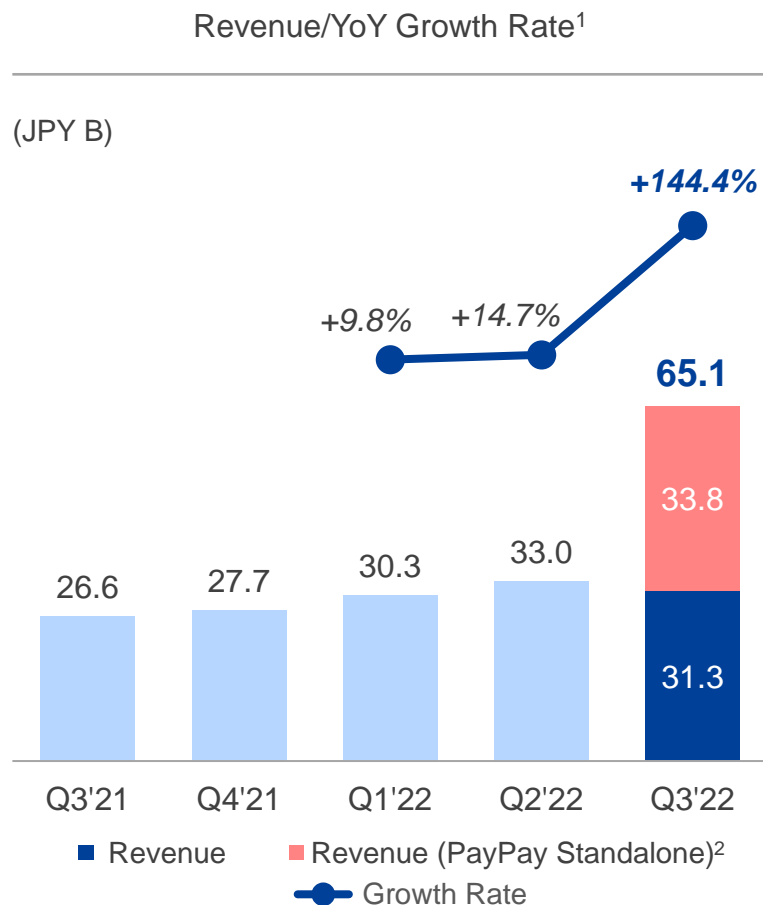


1. Gross margin of Yahoo! JAPAN Shopping and PayPay Mall. Managerial accounting figure dedcuting variable expenses (point-provision expense, sales promotional expense, etc.) from revenue (ad revenue, payment commission, etc.). Yahoo! JAPAN Shopping and PayPay Mall integrated in October 2022, and renewed to a new Yahoo! JAPAN Shopping.
2. Compared the weekday average transaction values for October 2022, before and after the change in basic reward.
3. “Otoku Shitei Bin” is a delivery service that gives PayPay Points to users who specify a later-than-standard delivery date for shopping made in two stores: LOHACO Yahoo! JAPAN Store and LOHACO by ASKUL. (As of January 31, 2023)
4. Compared the ratio of blue-ribbon delivery to transaction values as of December 31, 2021, and December 31, 2022.

Strategic Business



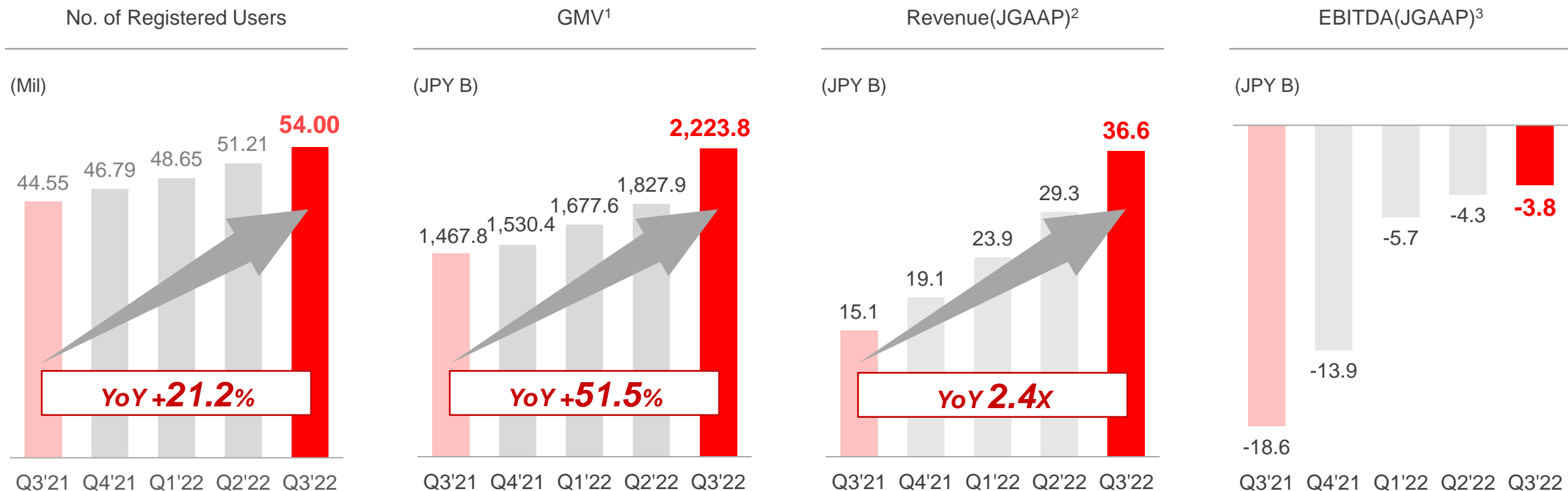
- Large increase in revenue due to PayPay consolidation in FY2022 Q3.
- Will improve profitability through growth in PayPay, cost optimization and reduced losses in new businesses, and selective focus on key businesses.



1. YoY comparison for period after business integration only, due to the business integration between Z Holdings Corporation and LINE Corporation in FY2020 Q4.

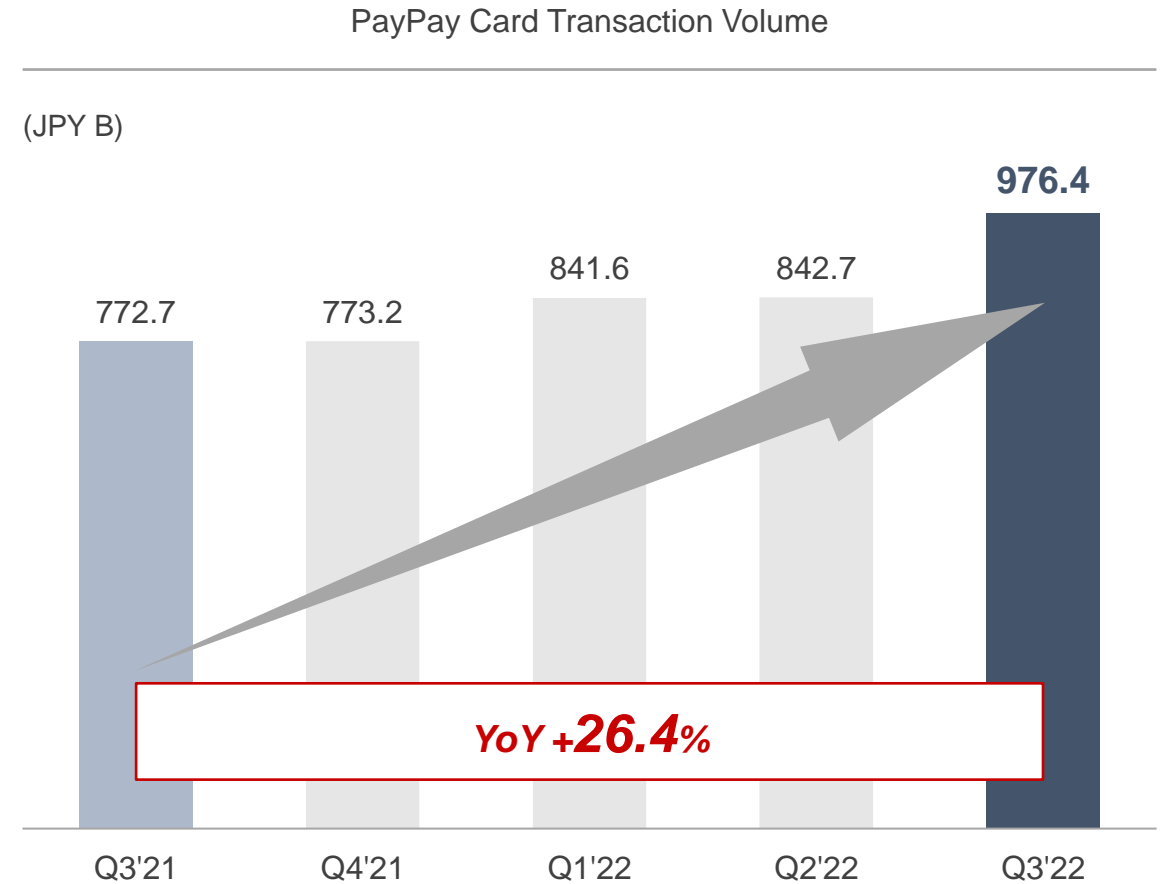
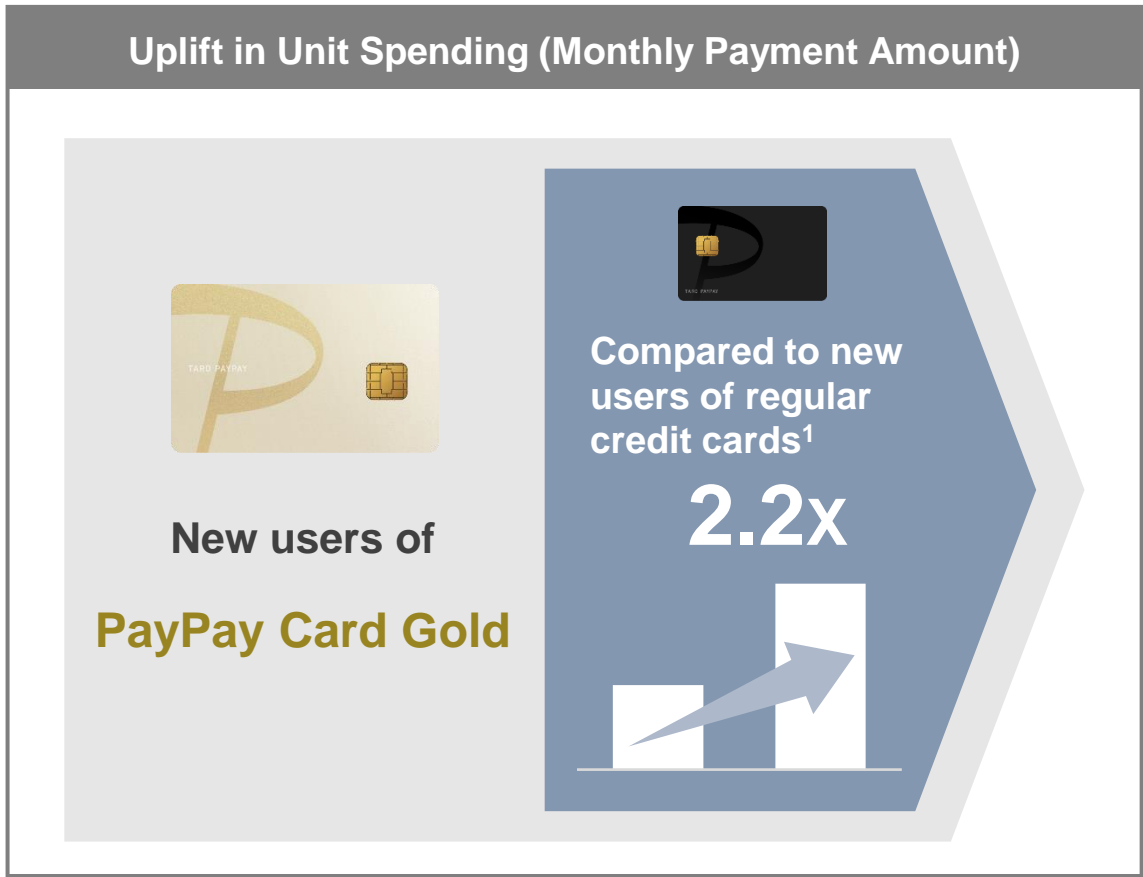
2. Independently calculated by making relevant IFRS adjustments from non-consolidated figures under JGAAP.

- In addition to measures related to Japanese government’s promotion of individual number card, **average spend and no. of payments increased**. No. of registered users/GMV also steadily increased.
- **Accelerated growth in revenue while EBITDA is steadily improved.**



1. The use of the “Send/Receive” function of “PayPay Balance” between users is not included. From FY2021 Q4 onward, payments via Alipay and LINE Pay, etc. are included. Payments through the deferred payment “PayPay Atobarai” launched in February 2022 are included.
2. PayPay Corporation’s standalone revenue. In FY2021 Q4, PayPay Corporation changed its accounting treatment on cash rebates, etc. Cash rebates, etc. that exceed revenue is deducted from revenue instead of recording it as an expense. Figures for FY2021 Q1-Q4 are calculated by assuming that this change in accounting treatment was applied in FY2021 Q1 (no impact on FY2021 full-year revenue). FY2022 revenue has not been audited.
3. PayPay Corporation’s standalone EBITDA. Calculated by adding depreciation and amortization to operating income. Figures have not been audited.

- **Launched PayPay Card Gold** to be used as first-choice credit card (from November 24, 2022). Made a good start (uplift in unit spending, etc.).
- PayPay Card transaction volume **steadily increased (YoY +26.4%)** due to successful collaborations with PayPay (e.g., Atobarai (deferred payment)).



1. Comparison of use in December 2022, by users who newly became members of PayPay Card or PayPay Card Gold from November 24 to November 30, 2022.

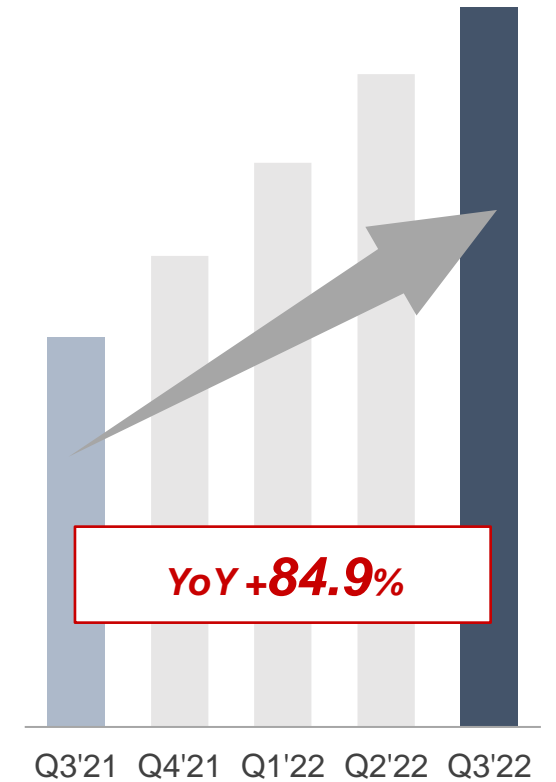
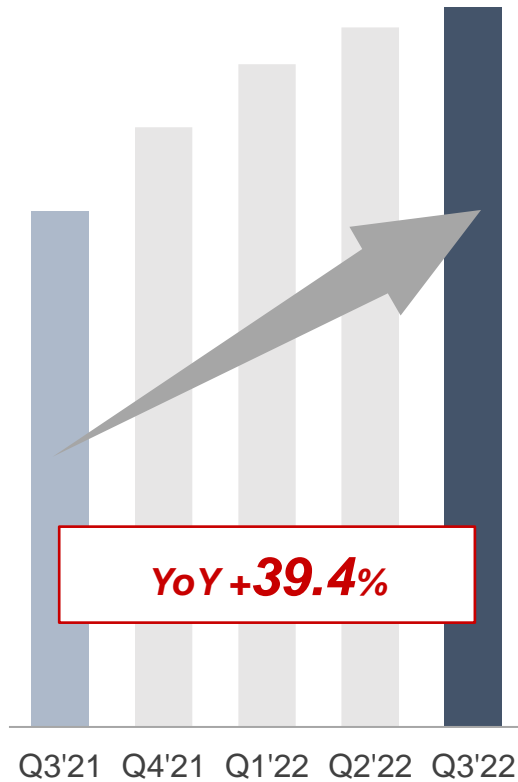
- PayPay Card and PayPay Bank will further expand businesses through strengthened collaborations with PayPay.
- LINE’s domestic financial business has steadily grown, capturing potential financial needs through LINE.

PayPay Card – Revolving Balance¹

PayPay Bank – Loan Balance

LINE Securities – No. of Accounts²

LINE Pocket Money – Loan Balance³



1. Includes PayPay Atobarai (deferred payment) which was launched from February 2022.
 2. Exceeded 1.5 million accounts at the end of September 2022.
 3. Includes balance of LINE Pocket Money Refinance.

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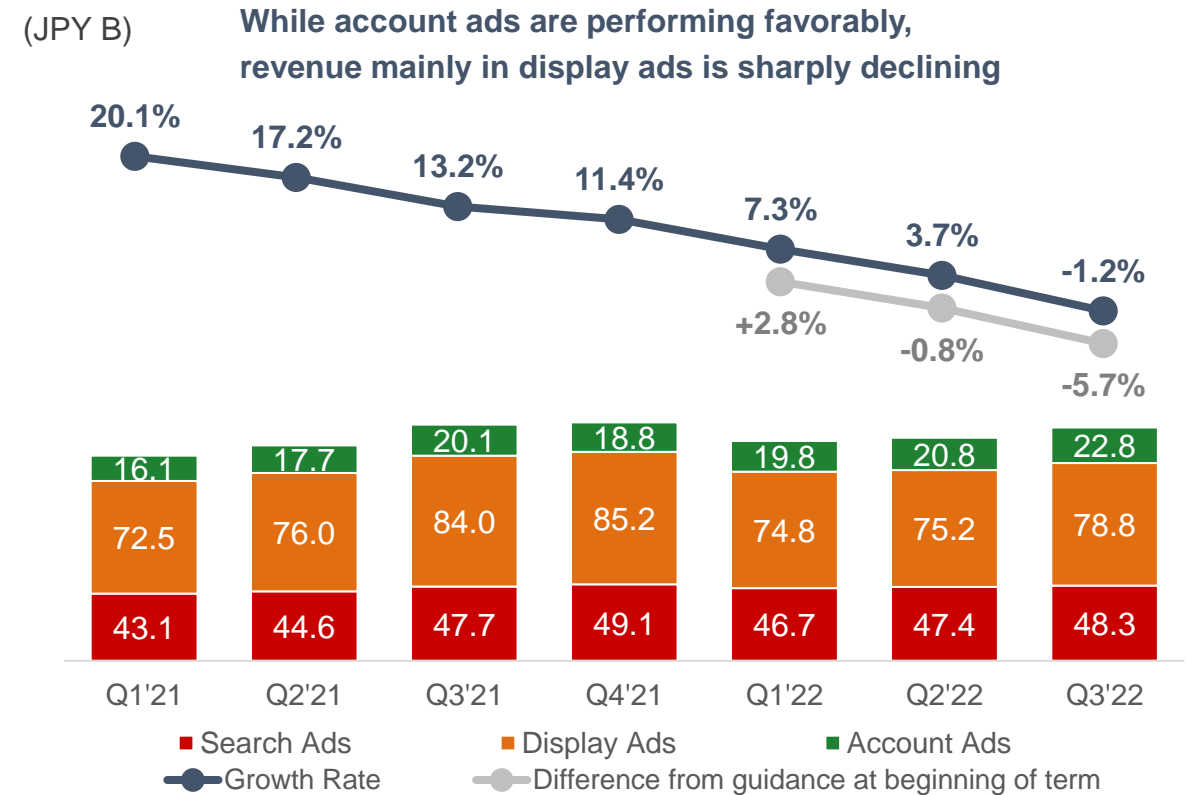
Changes in the Advertising Market Environment

- Rapid deterioration in market environment from latter half of FY2022.
- **Revenue rapidly decreasing** in advertising which had been the growth driver. **Declining competitiveness as an advertising product is also becoming a factor of the decrease.**

Growth Rate of Japan's Internet Advertising Market¹



Z Holdings Group – Total Advertising Revenue²



1. Ministry of Economy, Trade and Industry of Japan "Survey of Selected Service Industries." Growth rate for Oct-Nov 2022 only since result for December 2022 is yet to be announced.

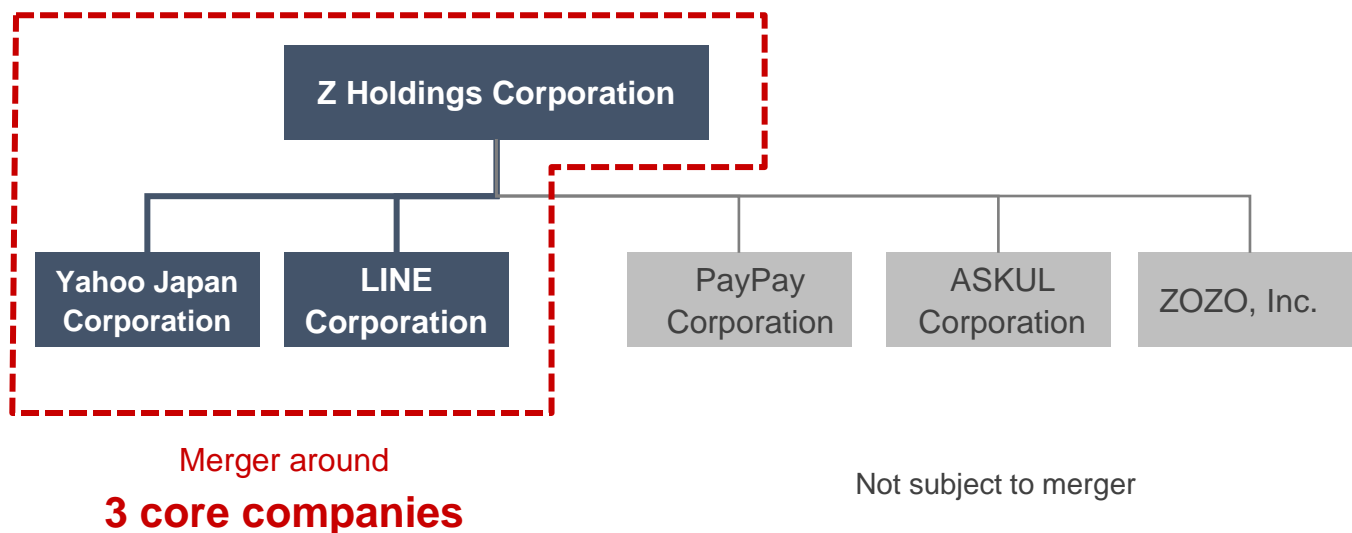
2. Difference from guidance at beginning of term: Difference between total quarterly growth rates of LINE and Yahoo Japan for FY2022, and growth calculated from the total lower limits of guidance at beginning of term (+4.5%). Growth rates for FY2021 are compared with the total advertising revenues of LINE and Yahoo Japan for FY2020.

To Make a Breakthrough...

Merger Among Z Holdings Corporation & LINE Corporation & Yahoo Japan Corporation (Scheduled)

- Decided on the policy of **merging Z Holdings Corporation and its core wholly owned subsidiaries: LINE Corporation and Yahoo Japan Corporation** by around the end of FY2023.
- Will further expedite decision-making on Group management, and control costs through integration/elimination of overlapping functions and services.**
- Revise “FY2023 Revenue JPY2 T, adjusted EBITDA JPY390.0 B,” “Early 2020’s No.1 in domestic EC merchandise transaction value.” (For FY2023, aim to achieve around YoY +10% increase in adjusted EBITDA)**

Companies Subject to Merger



Will consummate merger by around the end of FY2023 and transition to a new business structure

Changes in Management Index

April 2018 Start of current management structure	Early 2020's No.1 in domestic EC merchandise transaction value
March 2021 Business integration with LINE	FY2023 Revenue JPY2 T, adjusted EBITDA JPY390.0 B

Domestic EC merchandise transaction value

Seek both growth & profitability through maximum use of Group assets instead of point-provisions/sales promotions

FY2023 Adjusted EBITDA

Aim to achieve around YoY +10% increase in adjusted EBITDA

Details will be explained in the full-year FY2022 earnings results briefing

Changes in Management Structure

- From April 1, 2023, **transition from Co-CEOs structure to single CEO. Shin, GCPO¹ is scheduled to assume office as Representative Director.**
- After merger, **plan to introduce company system for each business domain. Delegate authority to promote rapid service development and accelerate autonomous growth.**

March 2021 (Business Integration) to Now

As of April 1, 2023 (Schedule)

Structure After Merger
(Target: Within FY2023)

Co-CEOs

**Abolish Co-CEOs structure
Shin to become Representative Director**

**Plan to introduce “companies” for
each business domain**

President and
Representative
Director,
Co-CEO

Kentaro Kawabe

Chairperson and
Representative
Director

Kentaro Kawabe

Chairperson and
Representative
Director

Kentaro Kawabe

Representative
Director,
Co-CEO

Takeshi Idezawa

President and
Representative
Director, CEO

Takeshi Idezawa

President and
Representative
Director, CEO

Takeshi Idezawa

Representative
Director,
GCPO¹

Jungho Shin

Representative
Director,
GCPO¹

Jungho Shin

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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.

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Z HOLDINGS

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