

Z Holdings Corporation Business Results

FY2023 Q1

August 3, 2023

Z HOLDINGS

Revenue: JPY430.5 B (YoY+10.2%), adjusted EBITDA: JPY99.9 B (YoY+15.6%).
Both renewed the highest record for Q1.

PayPay consolidated: in Q1, turned **profitable** in adjusted EBITDA¹ for the first time.

Consolidated Results

- Revenue of **account ads** maintained **double-digit growth**. Steady growth in revenue of **search ads (YoY+5.2%)**.
- **Adjusted EBITDA margin of Commerce Business exceeded 20%** due to subsidiaries' growth and profitability improvement.

Topics

- **Reorganize domestic financial businesses** to expand Group synergies and secure sustainable profit growth.

1. Includes PayPay Corporation and PayPay Card Corporation. Figures after elimination of internal transactions between the two companies. Independently calculated by making relevant IFRS adjustments.

1 Consolidated Business Results – Whole Group

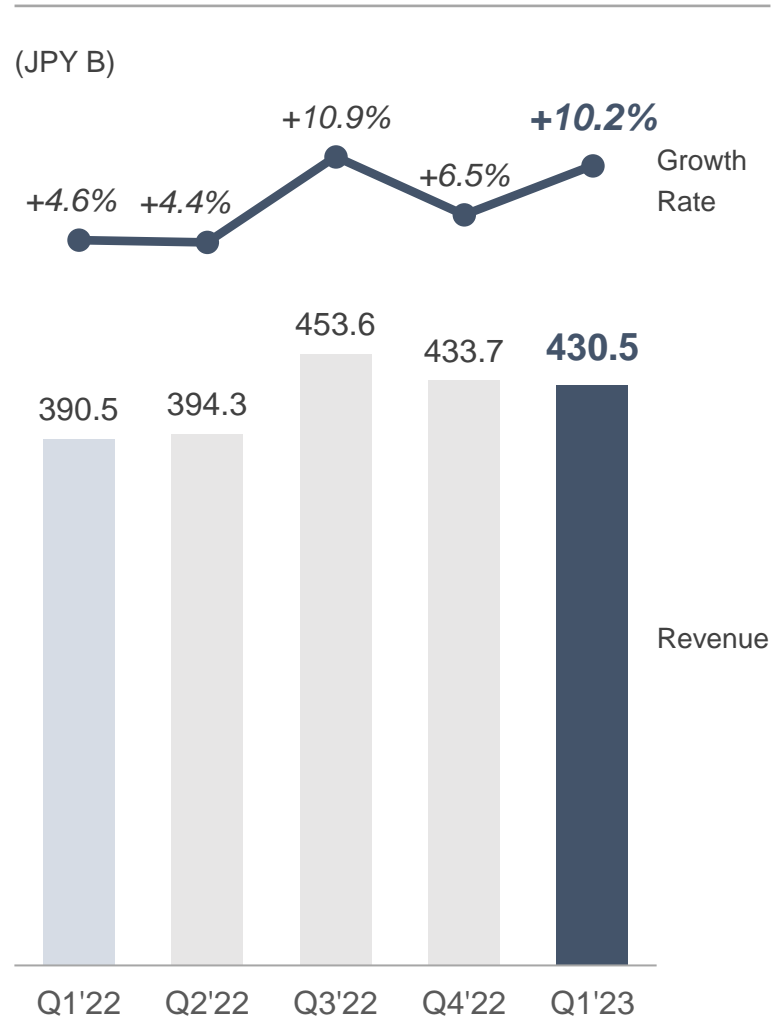
2 Business Results/Topics – By Segment

1 Consolidated Business Results – Whole Group

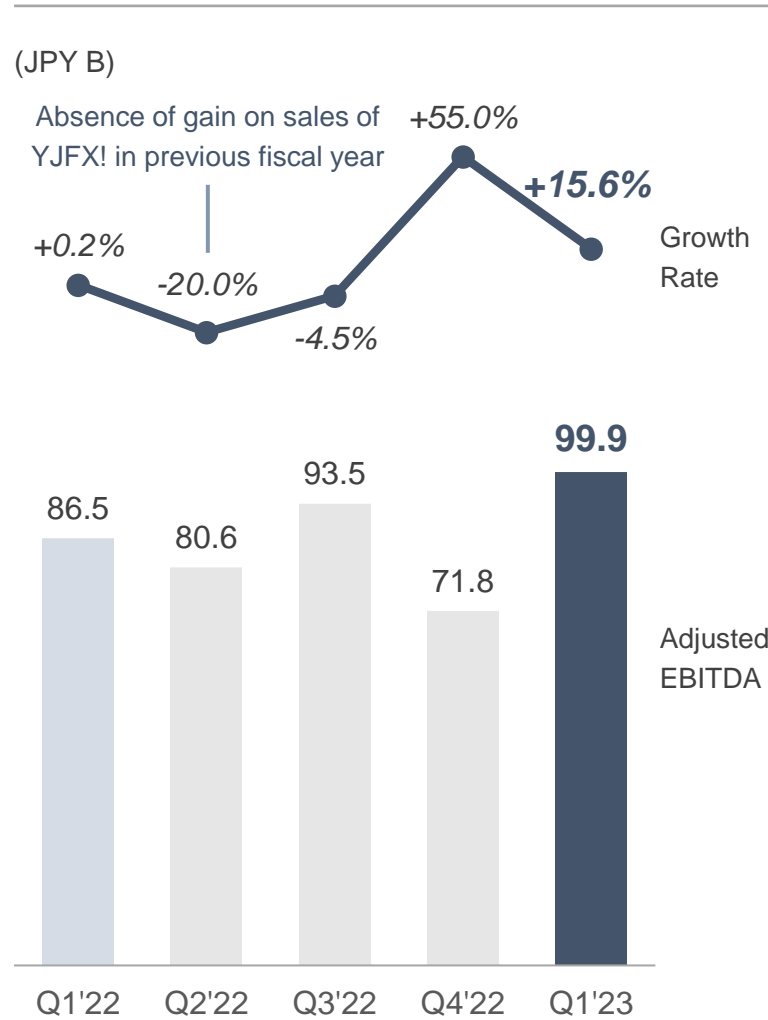
2 Business Results/Topics – By Segment

- Both revenue and adjusted EBITDA achieved double-digit growth.

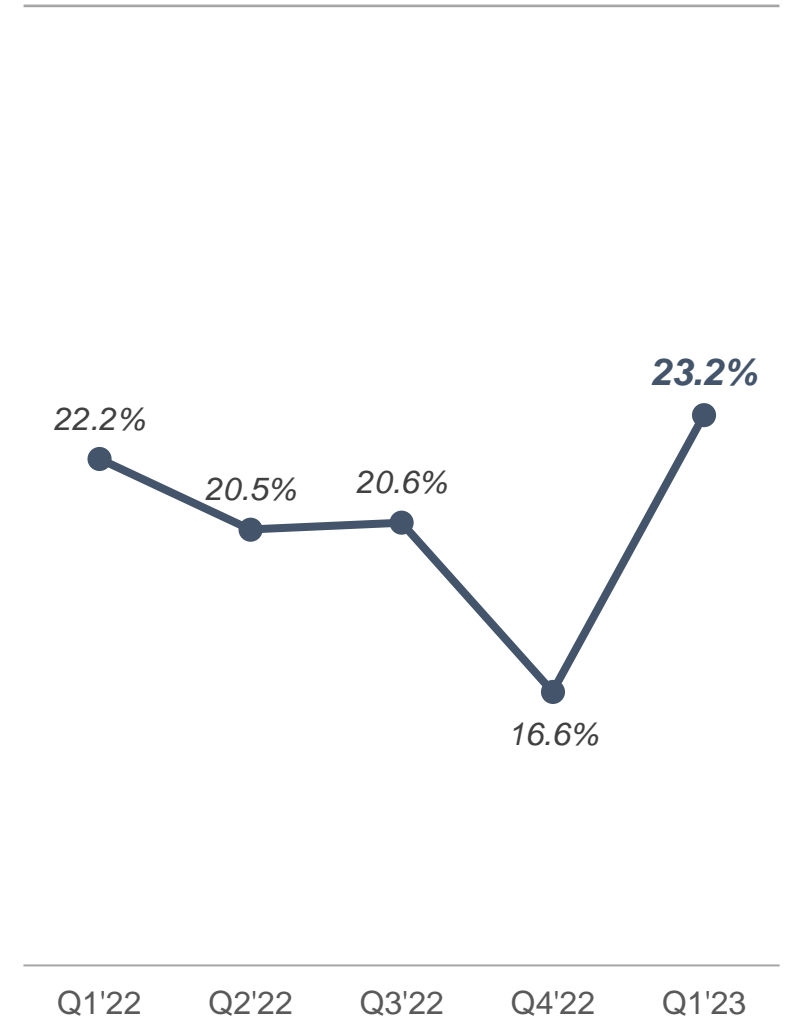
Revenue/YoY Growth Rate



Adjusted EBITDA/YoY Growth Rate



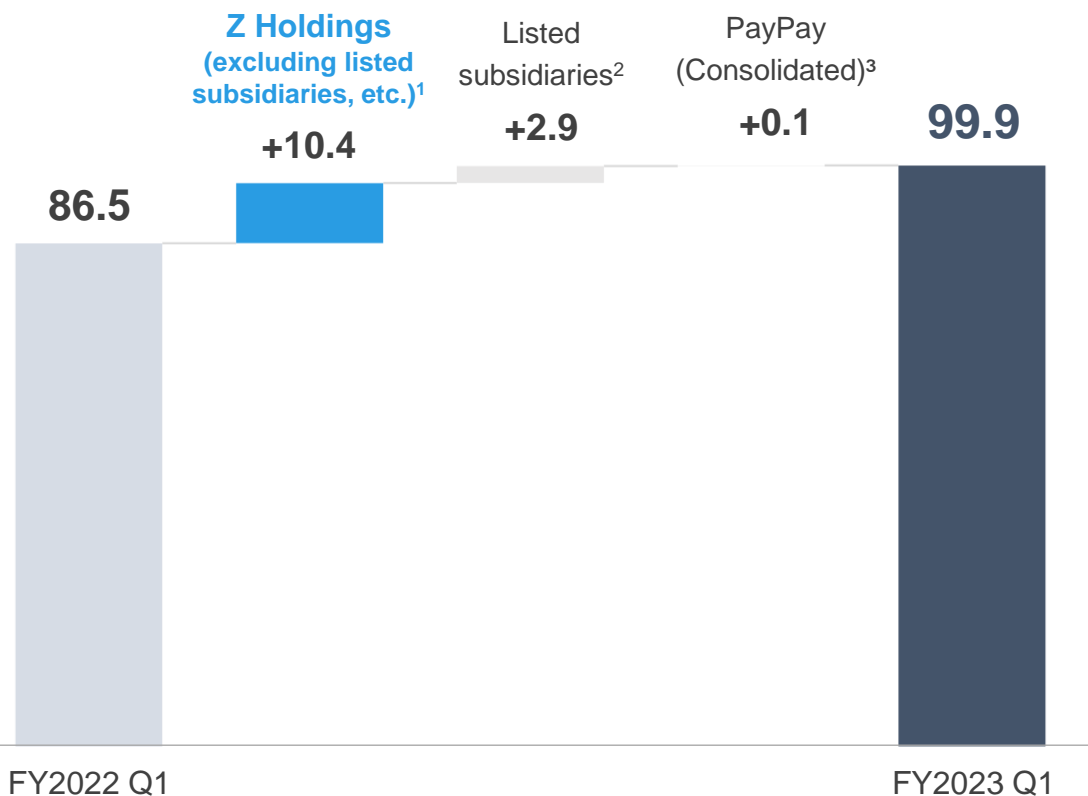
Adjusted EBITDA Margin



- Adjusted EBITDA increased due to cost optimization and selective focus on key businesses.

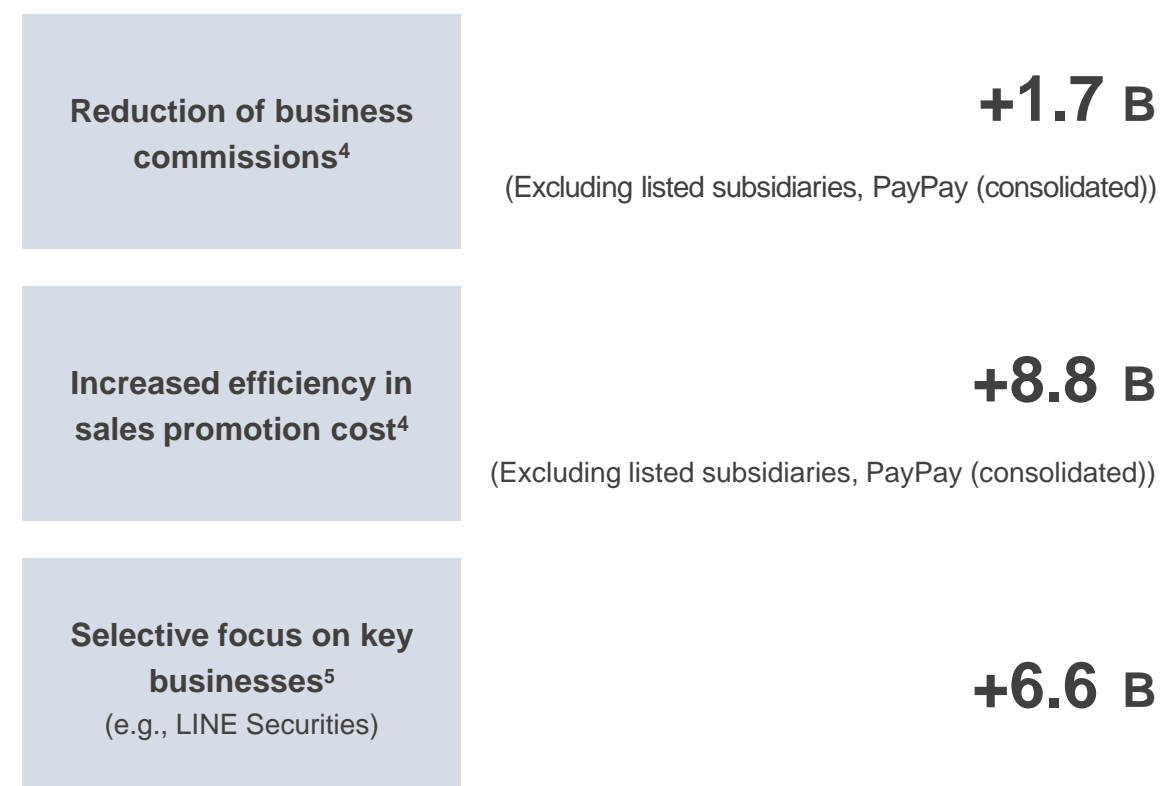
Factors of Change in Adjusted EBITDA

(JPY B)



Major Factors of YoY Change in FY2023 Q1 (SG&A/EBITDA)

(JPY)



1. Excluding ZOZO, Inc., ASKUL Corporation, ValueCommerce Co., Ltd., and PayPay Corporation (consolidated).

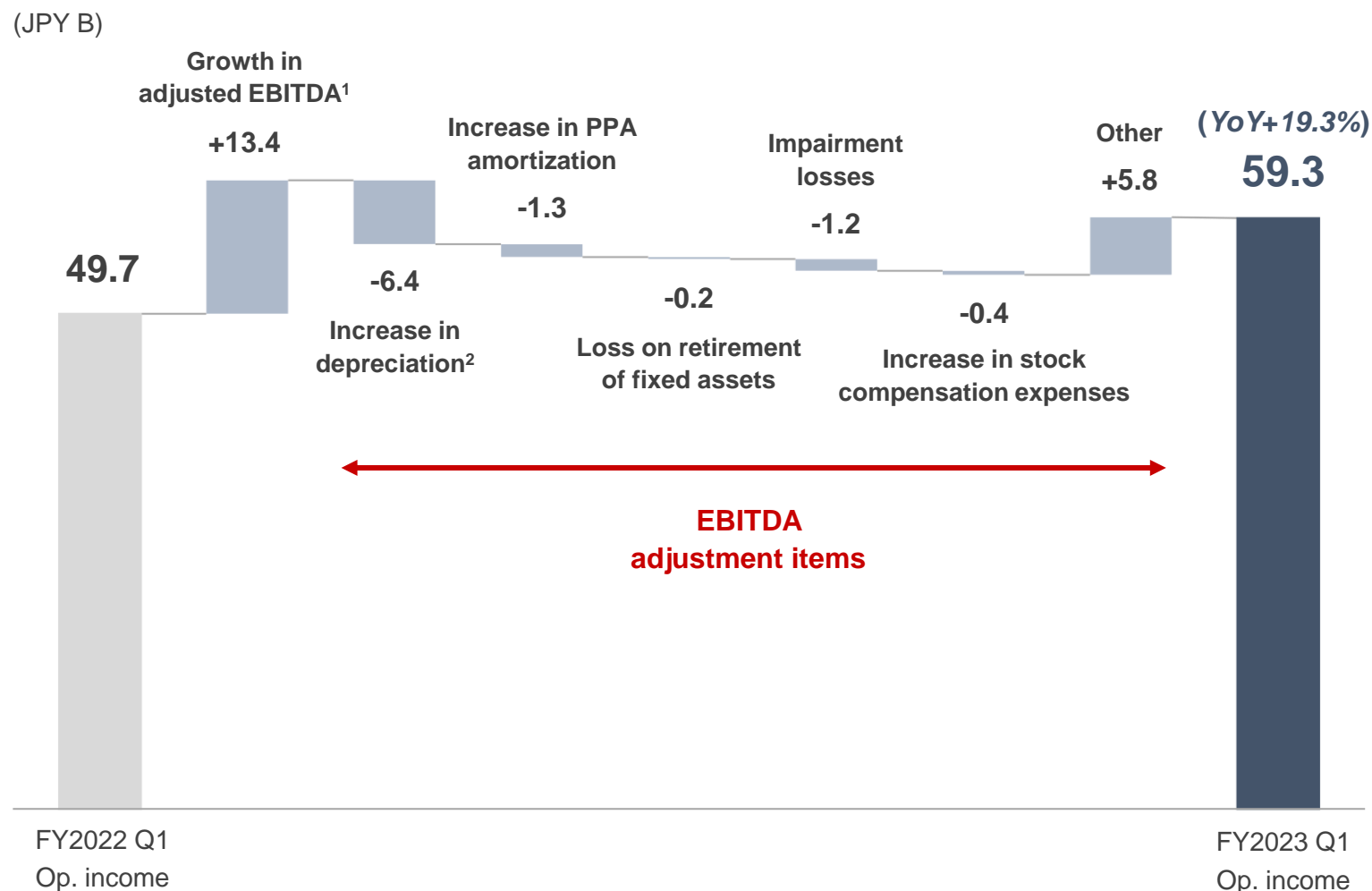
2. ZOZO, Inc., ASKUL Corporation and ValueCommerce Co., Ltd.

3. Includes PayPay Corporation and PayPay Card Corporation. Figures after elimination of internal transactions between the two companies. Independently calculated by making relevant IFRS adjustments.

4. Amount improved in financial accounting-based SG&A.

5. Amount improved in financial accounting-based EBITDA.

- Op. income grew YoY +19.3% due to growth in adjusted EBITDA, despite increase in depreciation and amortization.



(JPY B)

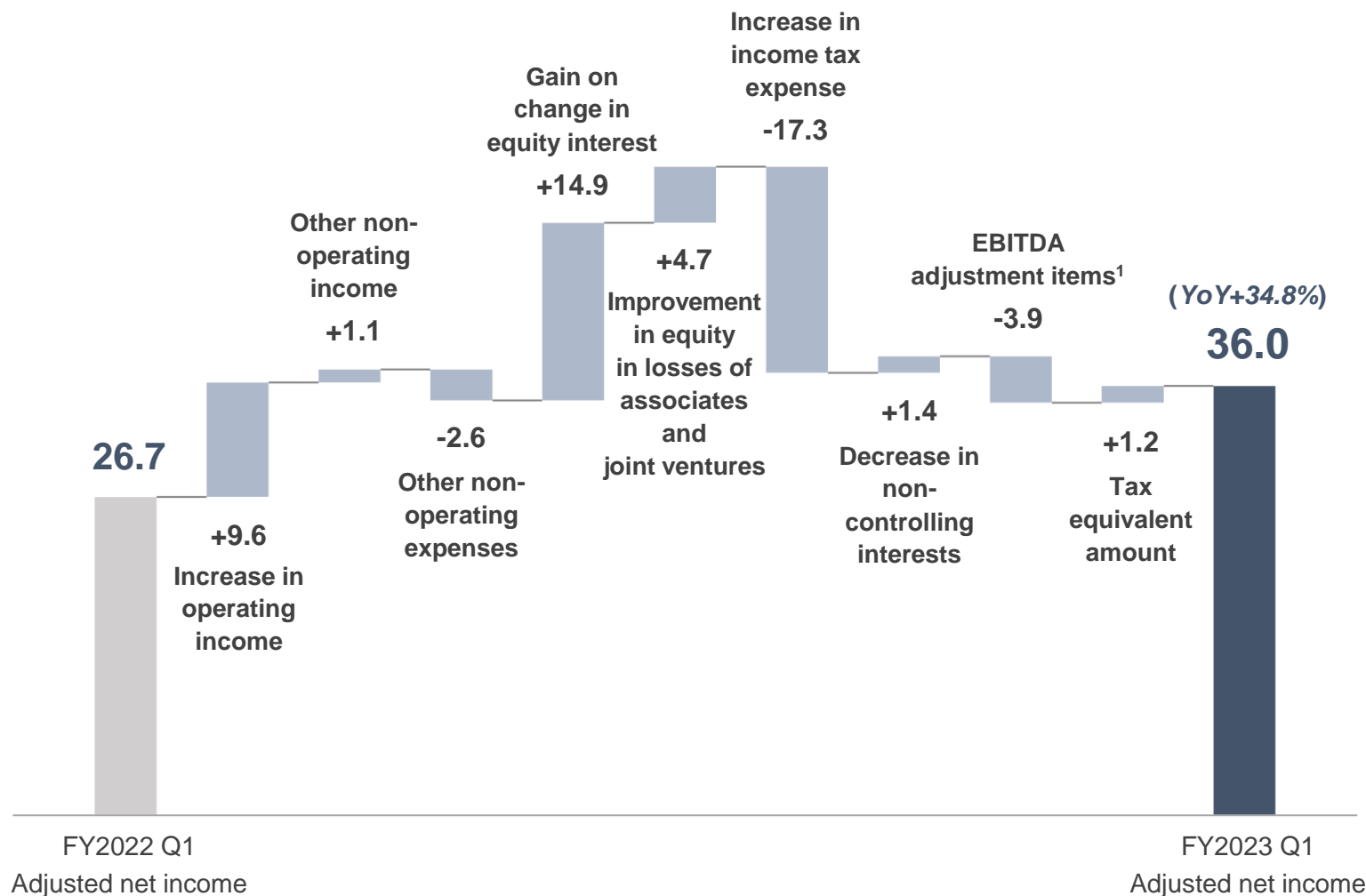
	FY2022 Q1	FY2023 Q1	YoY
Adjusted EBITDA¹	86.5	99.9	+13.4
Depreciation ²	26.6	33.0	+6.4
PPA amortization	7.9	9.3	+1.3
Loss on retirement of fixed assets	0.2	0.5	+0.2
Impairment losses	0.2	1.5	+1.2
Stock compensation expenses	3.4	3.8	+0.4
Other	-1.8	-7.6	-5.8
Operating income	49.7	59.3	+9.6

1. Adjusted EBITDA: Operating income + Depreciation & amortization ± EBITDA adjustment items. EBITDA adjustment items: Gains/losses on non-recurring and non-cash transactions within operating revenue and expenses (loss on retirement of fixed assets, impairment losses, stock compensation expenses, gains/losses on step acquisition, other transactions with undetermined cash outflows (one-time provisions, etc.), etc.) Also, gains/losses on sales of shares held by certain funds. Changed the definitions from FY2022 Q3. Added certain rents to depreciation and amortization, and gains/losses on sales of shares held by certain funds to EBITDA adjustment items.

2. Depreciation & amortization: Depreciation, depreciation of right-of-use assets, certain rents.

- Adjusted net income: YoY +34.8%, due to gain on change in equity interest in Webtoon Entertainment.

(JPY B)



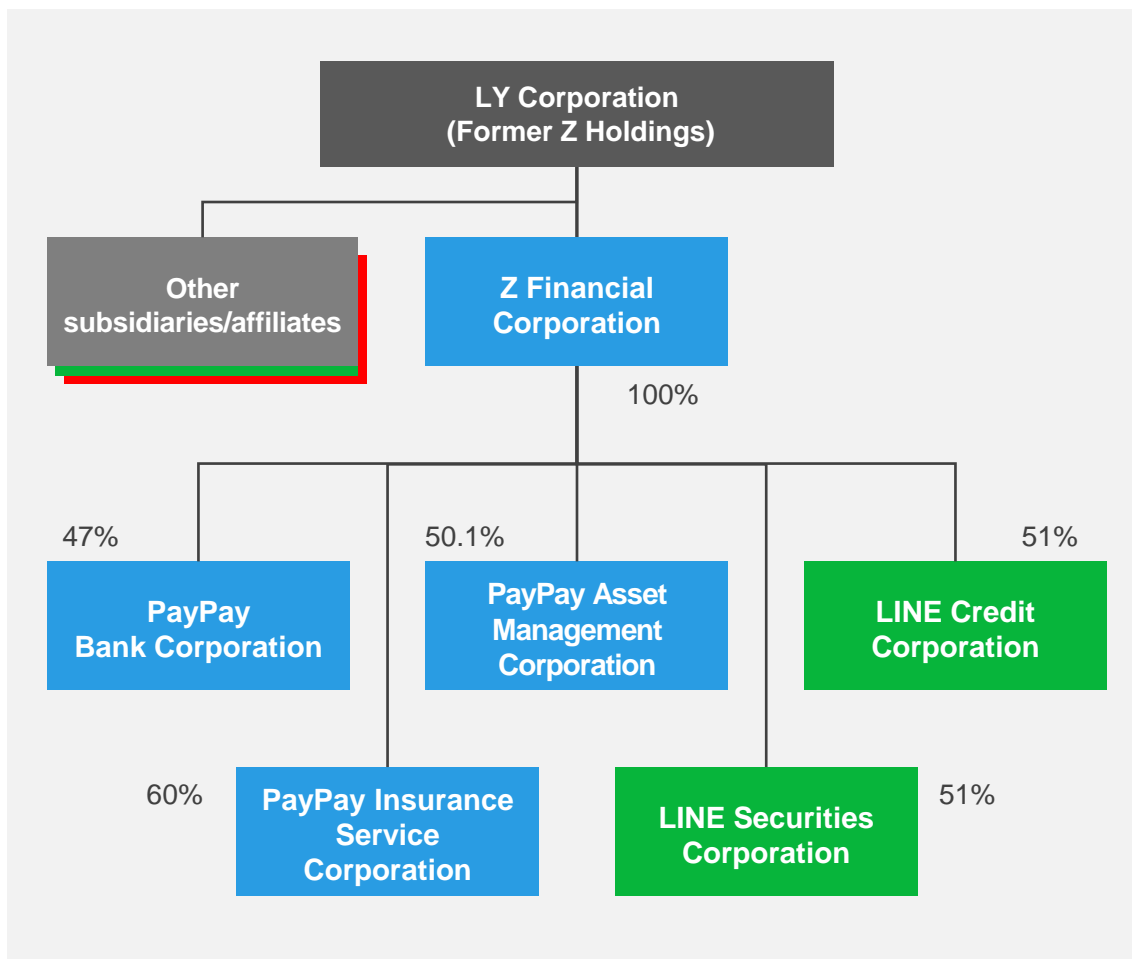
(JPY B)

	FY2022 Q1	FY2023 Q1	YoY
Operating income	49.7	59.3	+9.6
Other non-operating income	3.5	4.6	+1.1
Other non-operating expenses	3.5	6.1	+2.6
Gain on change in equity interest	4.1	19.1	+14.9
Equity in losses of associates and joint ventures	-8.6	-3.9	+4.7
Income tax expense	15.3	32.6	+17.3
Non-controlling interests	4.6	3.1	-1.4
Net income attributable to owners of the parent	25.2	37.3	+12.0
EBITDA adjustment items ¹	2.1	-1.7	-3.9
Tax equivalent amount	0.6	-0.5	-1.2
Adjusted net income	26.7	36.0	+9.3

1. EBITDA adjustment items: Gains/losses on non-recurring and non-cash transactions within operating revenue and expenses (loss on retirement of fixed assets, impairment losses, stock compensation expenses, gains/losses on step acquisition, other transactions with undetermined cash outflows (one-time provisions, etc.), etc.) Also, gains/losses on sales of shares held by certain funds.

- Reorganize financial businesses to expand Group synergies.

Structure After Reorganization¹



1. From October 1, 2023.

Reorganization of Domestic Financial Businesses

1 LINE Securities

Transferred securities business to focus on profitable FX business

2 LINE Bank (Japan)

Halted project

3 Integration of financial holding companies

- Reposition LINE Securities/LINE Credit under Z Financial
- Consolidate LINE Financial's functions to Z Financial

- **Leveraging generative AI, working to improve services and increase work efficiency.**

Applications in Services

Increased Efficiency

PayPay Flea Market¹



- **Feature to assist composition of text to explain items** using generative AI of OpenAI began in August 2023. Application in YAHUOKU!² currently being considered.

PayPay Gourmet



- Introduced **OpenAI's plugin for ChatGPT** in July 2023³.
- Recommends restaurants based on preferences and requirements.

LINE Profile Studio



- In May 2023, launched **AI-assisted** service in which **visual images** are **auto-generated**.

Auto-generates various image styles for registered facial portraits



Introduction of GitHub Copilot⁴

- **Introduce to enhance engineer productivity.**
- Test conducted by a total of approx. 550 engineers from LINE and Yahoo Japan.
- Considering a company-wide introduction in or after October 2023, after evaluation and preparation.

Enterprise Agreement with OpenAI on Use of APIs

- Agreement concluded on the usage of all APIs provided by OpenAI.
- Original assistant service introduced to approx. 20,000 employees of LINE Group and Yahoo Japan.
- **To be used for creation of templates, revision of drafts, research, categorization of texts, translation, idea generation, etc.**
- To promote operational productivity, service quality improvement, and creation of new services.

1. PayPay Flea Market is scheduled to be renamed to Yahoo! JAPAN Flea Market in autumn of 2023.
2. YAHUOKU! is scheduled to be renamed to Yahoo! JAPAN Auction in autumn of 2023.
3. ChatGPT Plus, the paid version of ChatGPT can be used.
4. AI-powered code autocompletion tool developed by GitHub, Inc.

- Introduce new structure to boost product innovation capability and improve profitability.¹

Objectives

Speedier Decision-Making

Streamline board of directors.

Delegation of Authorities

Company CEO to assume authority and responsibility for the management of business domains.

Product-Based Evaluation

Evaluate the level of achievements in KPI, revenue, profit, productivity, etc.

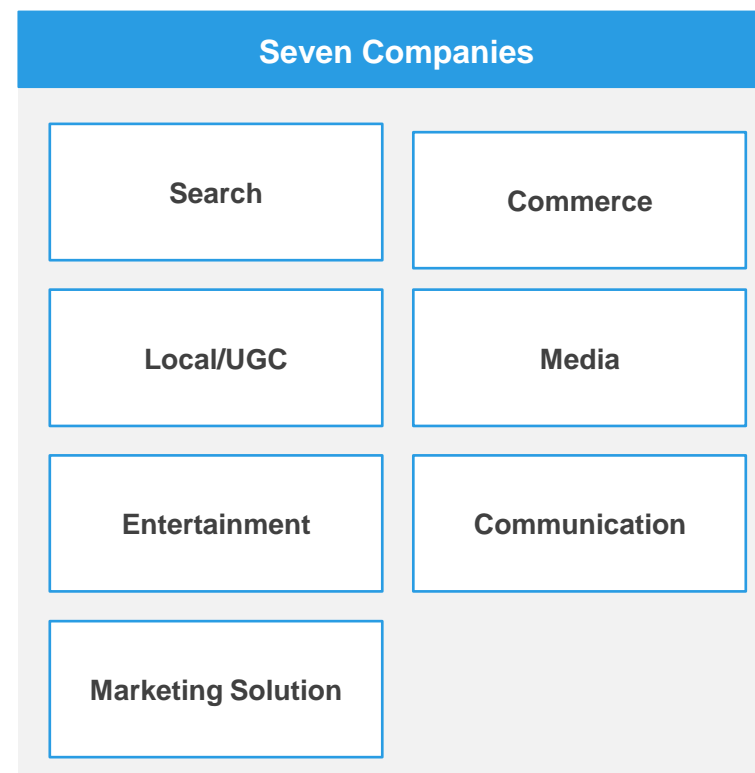
Board of Directors

New Title	Name
Chairperson and Representative Director	Kentaro Kawabe
President and Representative Director CEO (Chief Executive Officer)	Takeshi Idezawa
Representative Director CPO (Chief Product Officer)	Jungho Shin
Director CSO (Chief Strategy Officer)	Taku Oketani
Outside Director (Independent Director) Full-time Audit and Supervisory Committee Member	Yoshio Usumi
Outside Director (Independent Director) Audit and Supervisory Committee Member	Maiko Hasumi
Outside Director (Independent Director) Audit and Supervisory Committee Member	Tadashi Kunihiro

Current directors, Takao Ozawa, Jun Masuda, and Rehito Hatoyama, will resign as of September 30, 2023. From October 1 onwards, Jun Masuda is scheduled to assume office as Entertainment Company CEO and Takao Ozawa as the Company's advisor.

Organizational Structure

Seven Companies



**Cross-Sectional
Technologies**

**Corporate
Administration**

1. As of October 1, 2023.

- Newly added advertising revenue and revenue of Commerce Business to guidance.

Segment	Item	FY2022 Results	FY2023 Guidance	YoY
Whole Group	Revenue	JPY1.67 T	Approx. JPY1.90 T	Approx. +14%
	Adjusted EBITDA	JPY332.6 B	JPY356.0 to 366.0 B	Approx. +10%
Media	Advertising revenue ¹	JPY542.4 B		Low single digit %
	Adjusted EBITDA	JPY258.0 B	JPY265.0 B	+2.7 %
Commerce	Revenue	JPY836.4 B		Mid to high single digit %
	Adjusted EBITDA	JPY154.1 B	JPY172.0 B	+11.6 %
Strategic	Adjusted EBITDA	Negative JPY46.1 B	Negative JPY25.5 B	-
Other/Adjustments	Adjusted EBITDA	Negative JPY33.3 B	Negative JPY51.5 B	-

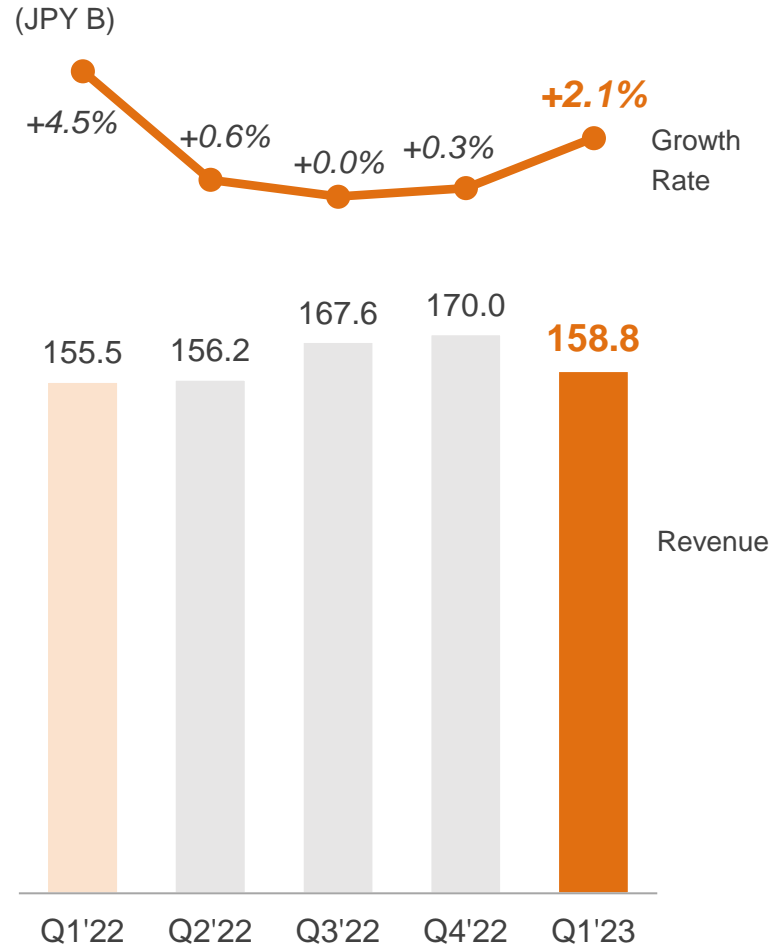
1. Media Business revenue minus "Others" in Media Business.

1 Consolidated Business Results – Whole Group

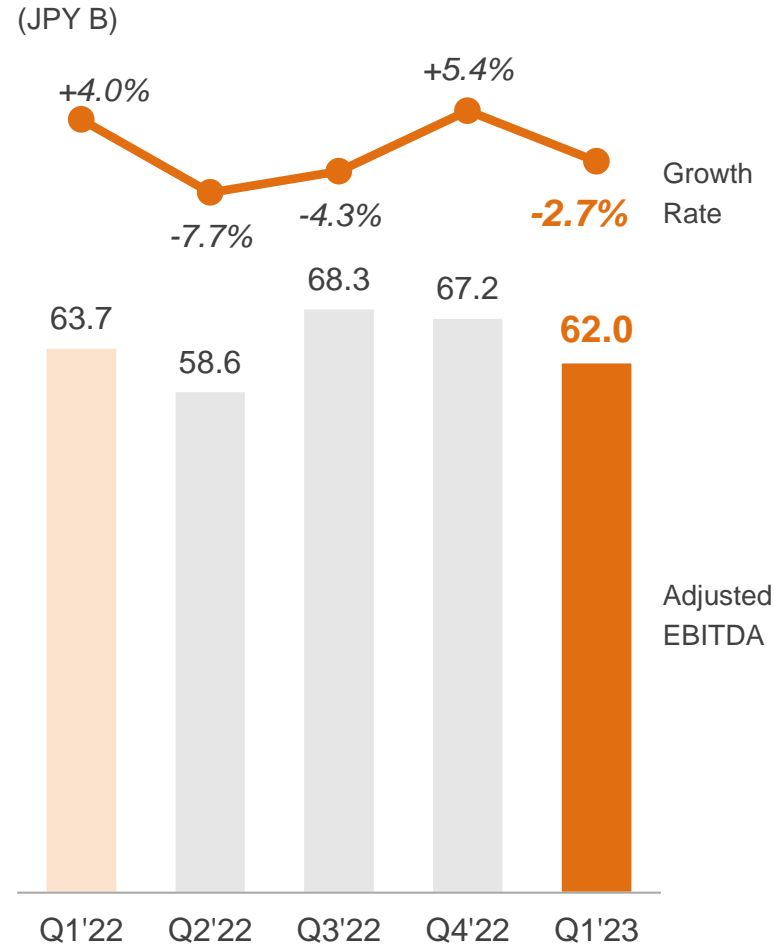
2 Business Results/Topics – By Segment

- Revenue increased due to recovery in ads on media sections. Income decreased due to increase in personnel expense, etc.

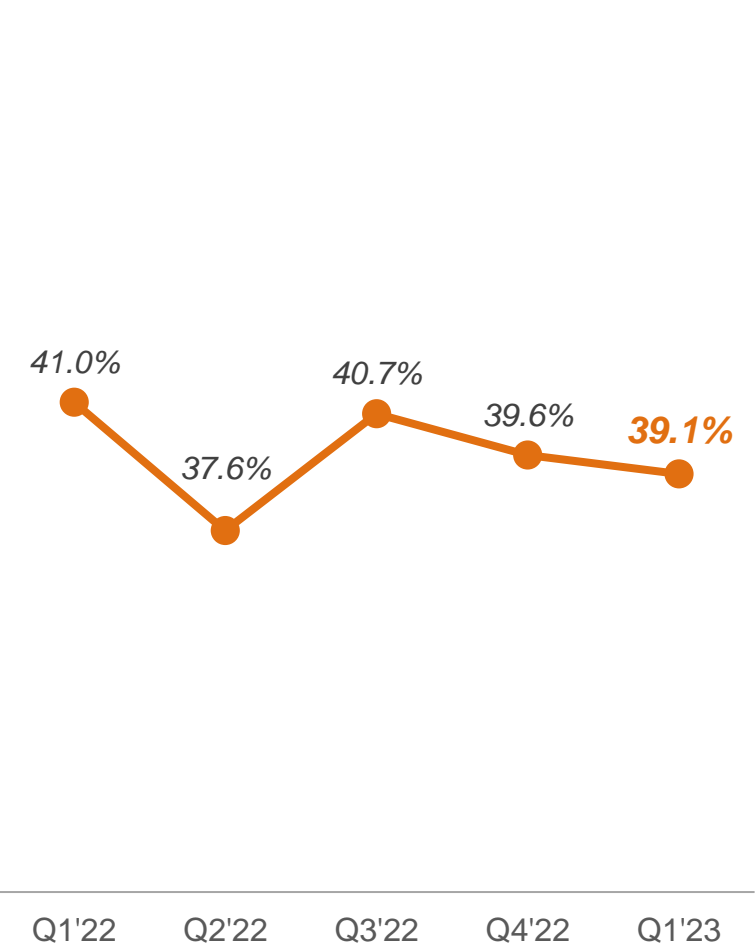
Revenue/YoY Growth Rate¹



Adjusted EBITDA/YoY Growth Rate¹



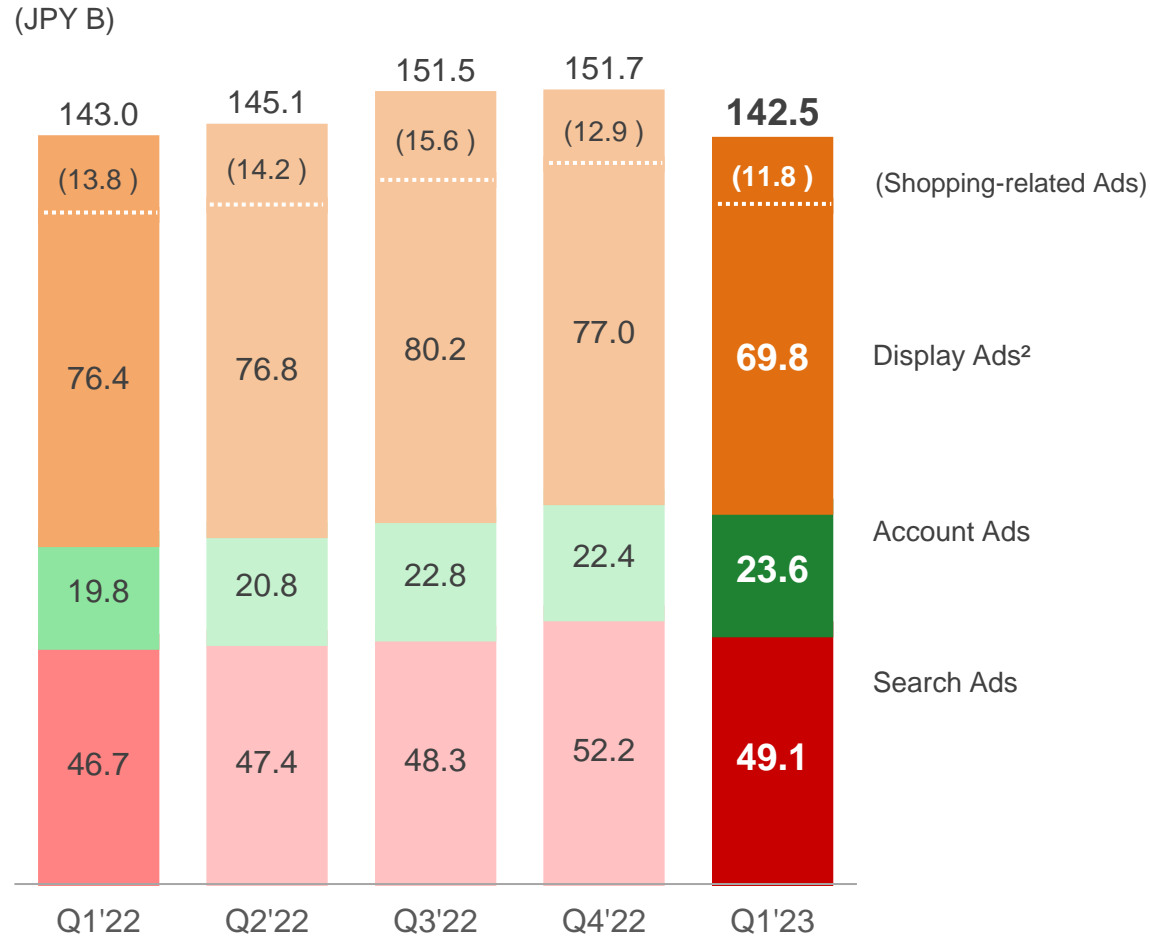
Adjusted EBITDA Margin



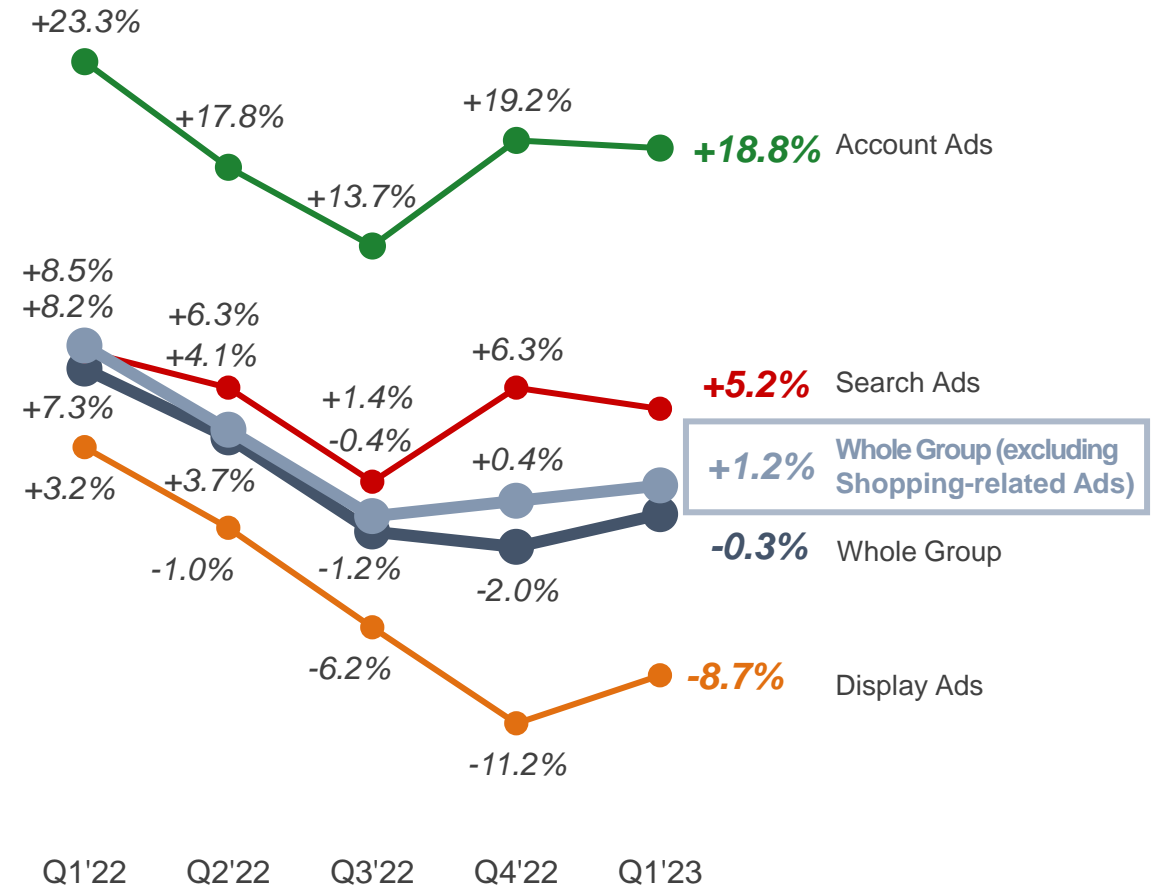
1. From FY2023 Q1, Yahoo Japan Corporation's data solution service and dely Inc.'s service were transferred from Others to Media Business; and part of the expenses related to LINE Corporation and its subsidiaries which were allocated in Others and Adjustments, have been allocated to Media Business. Segment information for FY2022 has been revised as a result.

- Total advertising revenue, excluding Shopping-related ads, increased YoY +1.2%; signs of bottoming out.

Whole Group – Total Advertising Revenue¹



Whole Group – Total Advertising Revenue YoY Growth Rate¹

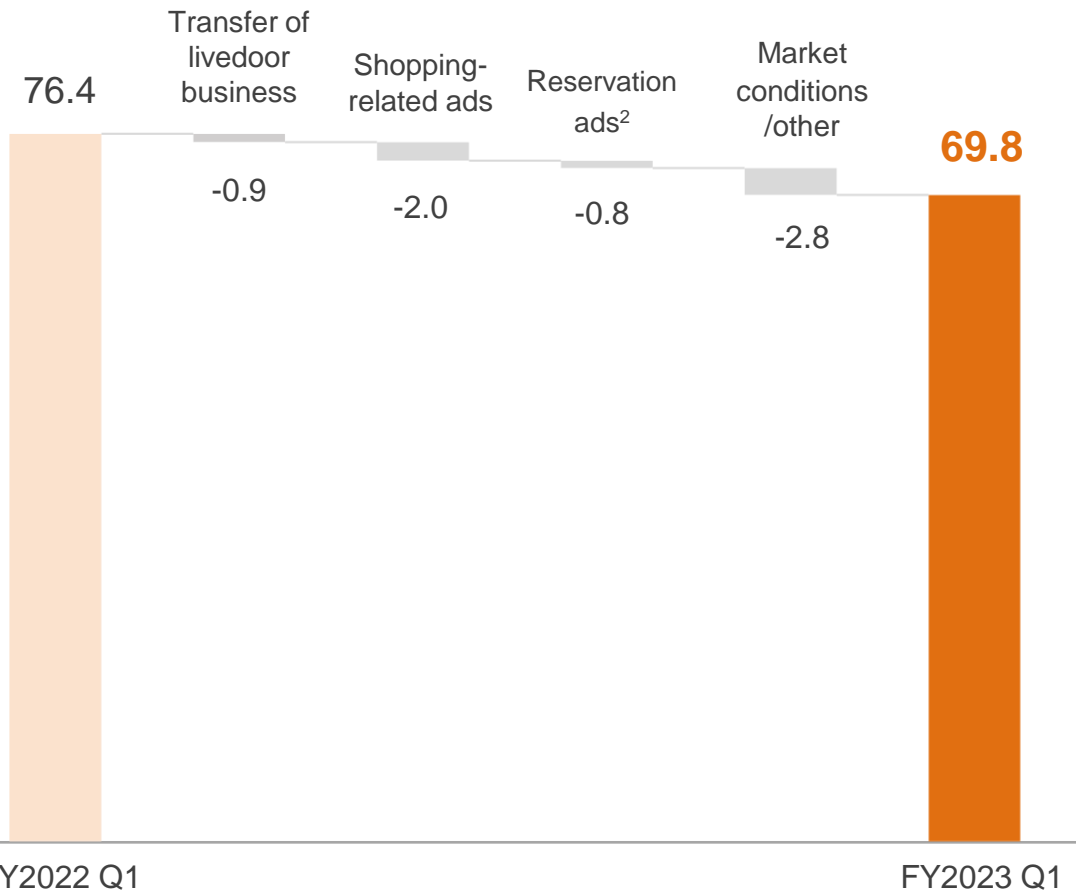


1. From FY2022 Q1, LINE Corporation's services that had been recorded in Adjustments have been transferred to each business segment. Total advertising revenue of LINE Corporation has been retroactively adjusted from FY2021 Q1.
 2. Display ads include revenues of other LINE ads and Shopping-related ads. Shopping-related advertising revenue is classified in Commerce Business.

- Revenue decreased due to shopping ads, reservation ads, and market conditions.

Factors of Change in Display Ads¹ (Revenue)

(JPY B)



Future Initiatives

Short-Term	ID linkage/ unified sales team	<ul style="list-style-type: none"> • Reinforce targeting across both platforms and ad delivery optimization • Proposal of integrated solution based on analysis across both platforms and reports
	Mid- to Long-Term	<ul style="list-style-type: none"> • One-stop reach to massive user base • Use vast and unique data of both companies to enhance the precision of optimization features and targeting menus
	Capture video ad market	<ul style="list-style-type: none"> • Introduce video ads in Group company's media • Strengthen LINE VOOM's features and propel service growth

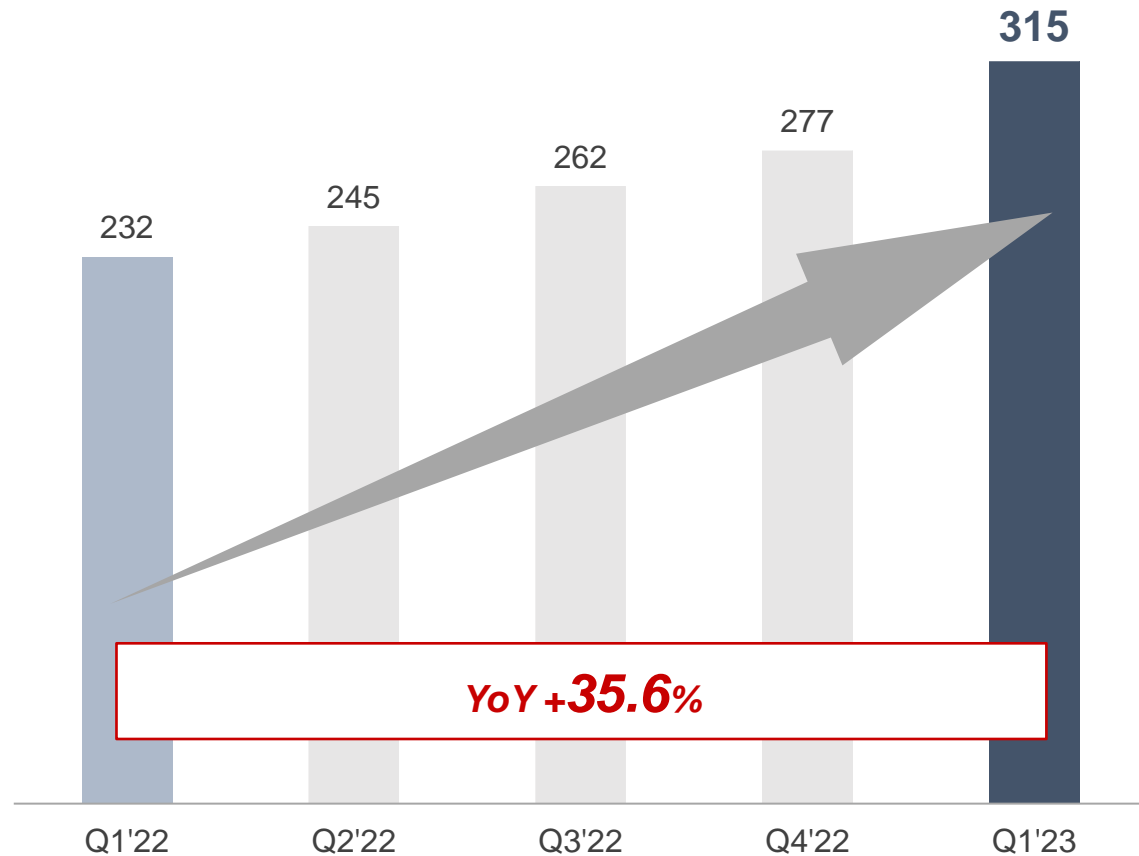
1. Display ads include revenues of other LINE ads and Shopping-related ads. Shopping-related advertising revenue is classified in Commerce Business.

2. Excluding Shopping-related ads.

- Due to revision in fee plans, no. of paid accounts increased while cancellations were curbed.

No. of Paid LINE Official Accounts (Global)¹

(Thousand)

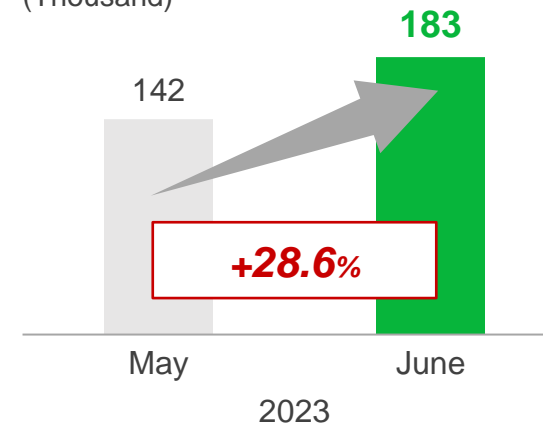


Revision of Fee Plans (Revised on June 1, 2023)

- | | |
|------------|---|
| Objectives | <ul style="list-style-type: none"> • Further strengthen features and reinforce collaborations among services of the ZHD Group • Increase paid accounts |
| Effects | <ul style="list-style-type: none"> • No. of paid accounts increased immediately after fee revision • Cancellation ratio did not deteriorate, thus expect positive impact on revenue |

No. of Paid Accounts (Japan)²

(Thousand)

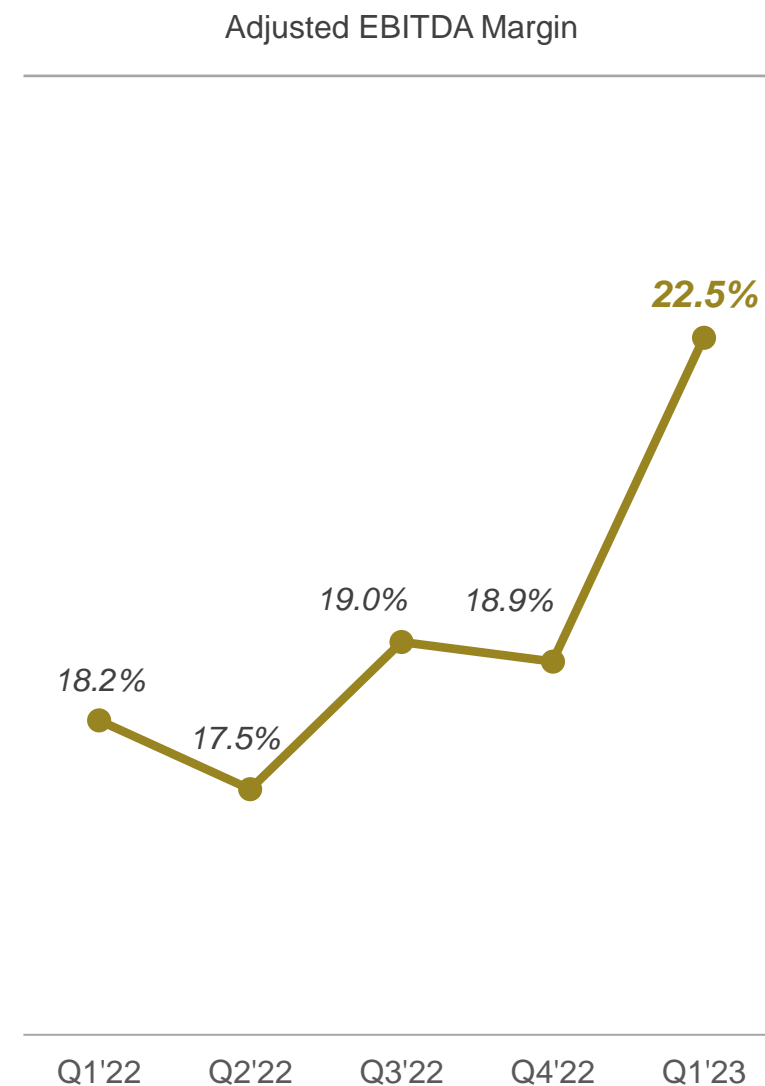
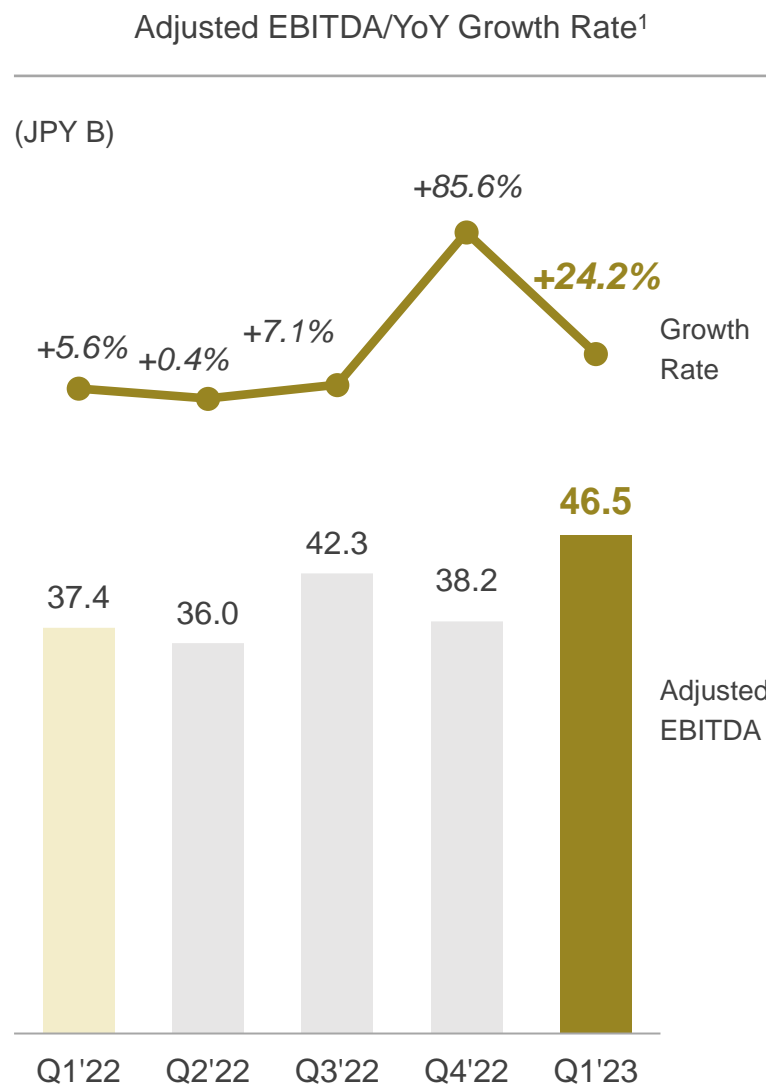
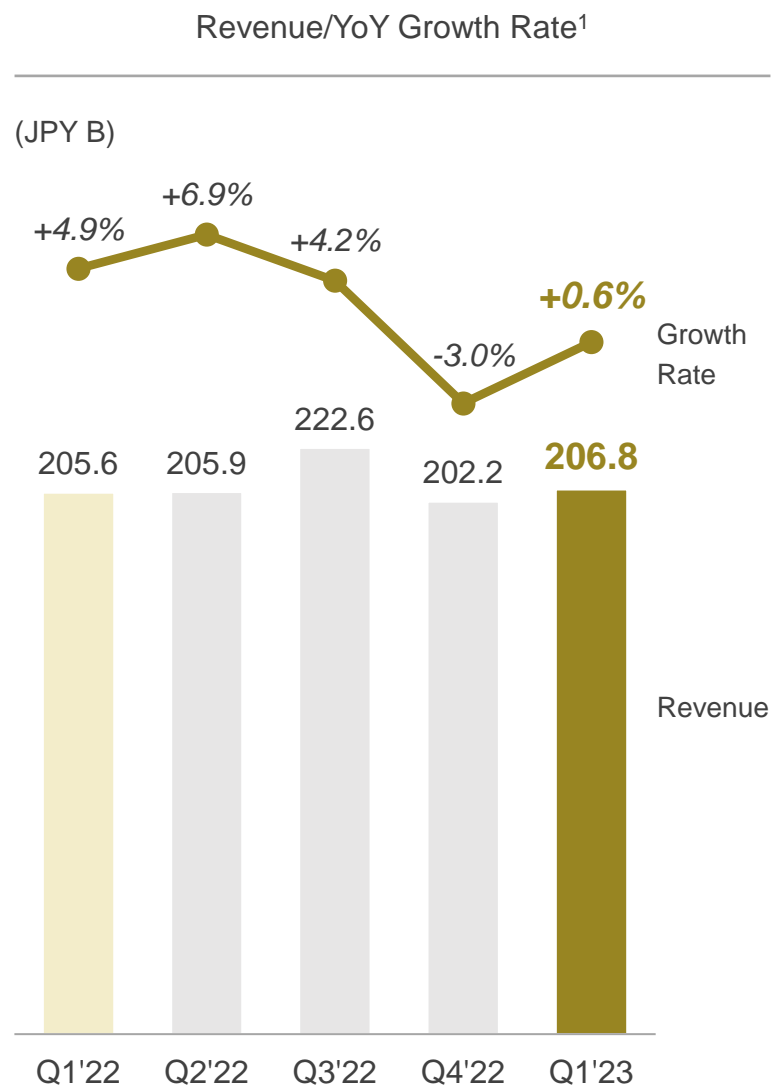


Cancellation Ratio (Japan)³



1. The number of paid accounts is the total of Japanese and overseas accounts. Figures are as of the end of each quarter.
 2. Comparison between the number of paid accounts in Japan May 31, 2023 and for June 30, 2023.
 3. No. of cancellations in this month ÷ No. of paid accounts in the previous month.

- Adjusted EBITDA margin exceeded 20% due to improved profitability.

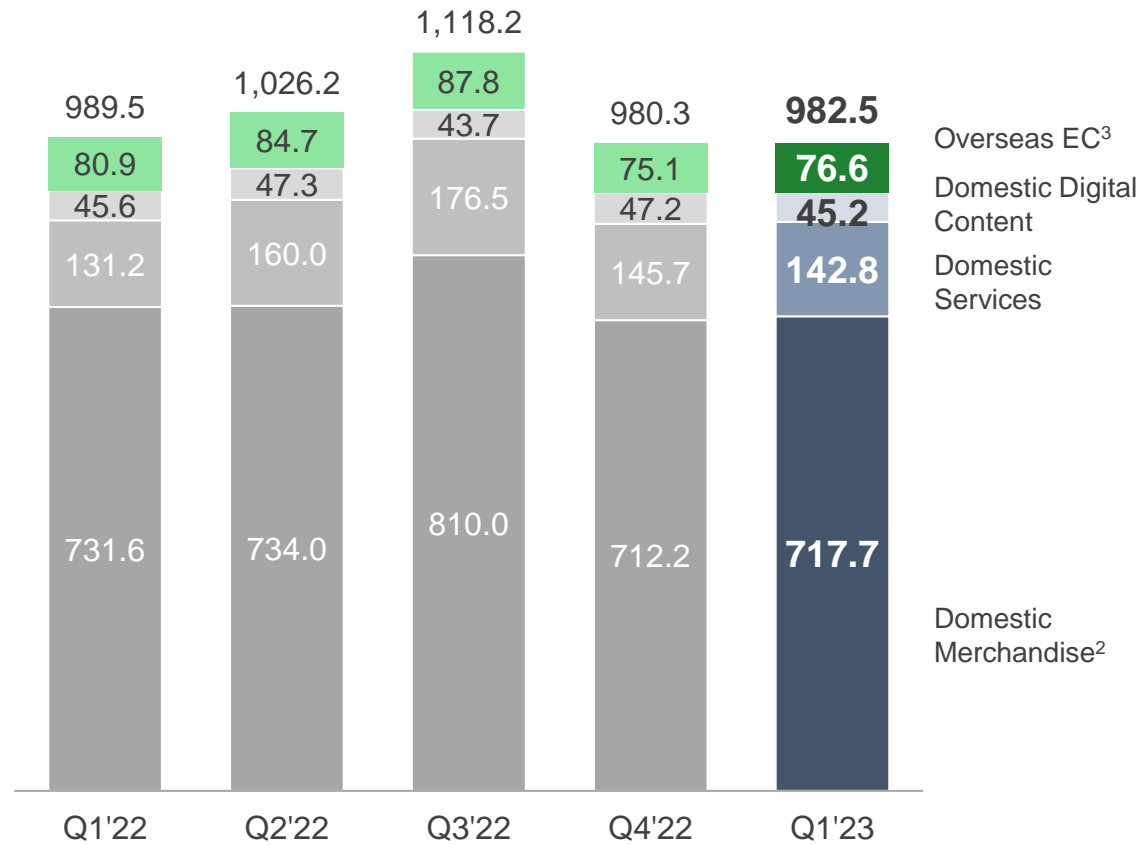


1. From FY2023 Q1, part of the expenses related to LINE Corporation and its subsidiaries which were allocated in Others and Adjustments, have been allocated to Commerce Business. Segment information for FY2022 has been revised as a result.

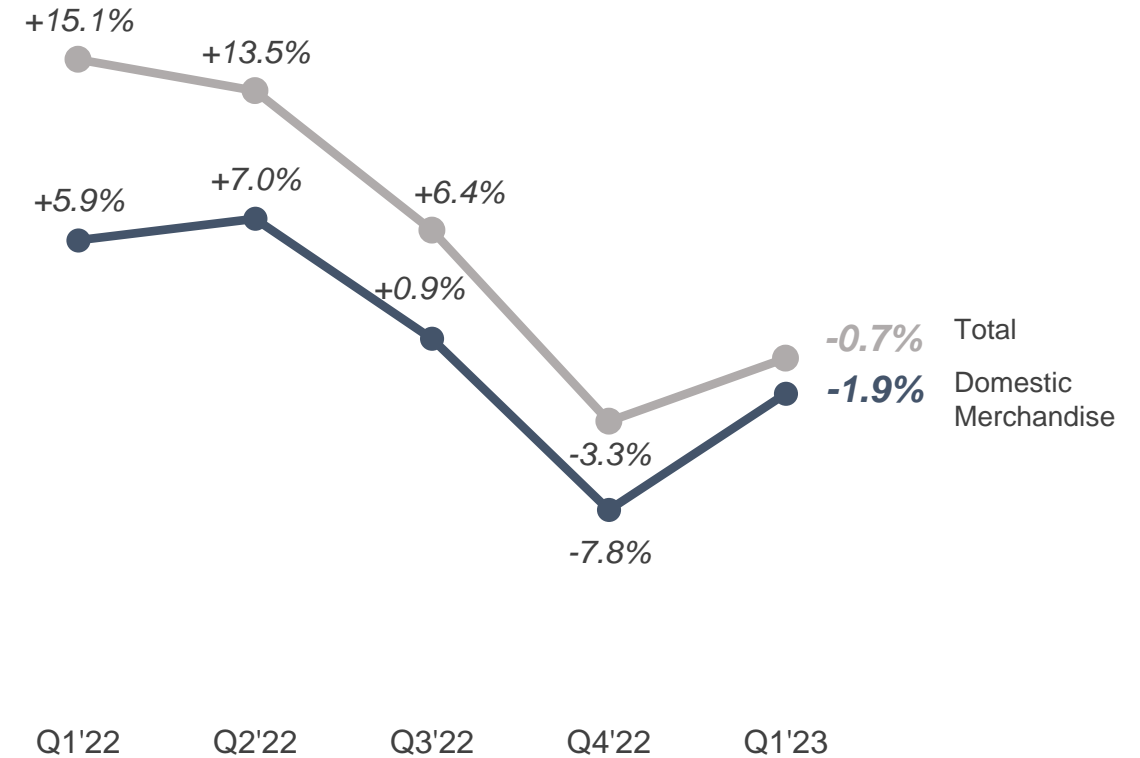
• Decline in domestic merchandise transaction value bottoming out.

Group EC Transaction Value¹

(JPY B)



Group EC Transaction Value¹ - YoY Growth Rate

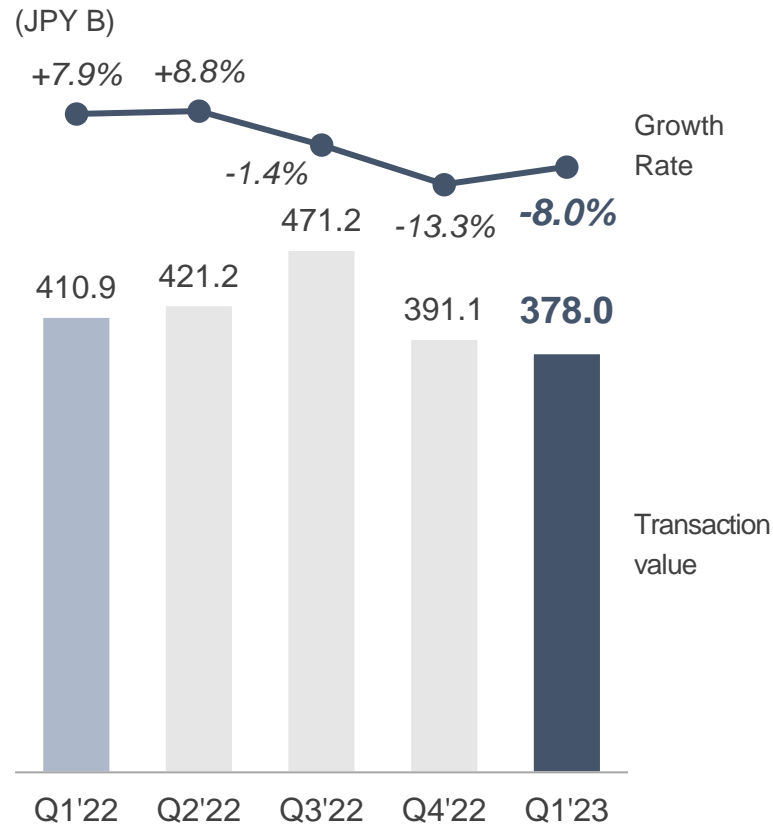


1. Please refer to P. 19 of the Appendix for definition of transaction value.
 2. From FY2023 Q1, changed definition to include APMRO and FEED DENTAL to ASKUL online BtoB business.
 3. From FY2023 Q1, includes transaction value of ZOZOFIT.

• Shopping's results within expectations; travel maintained favorable growth.

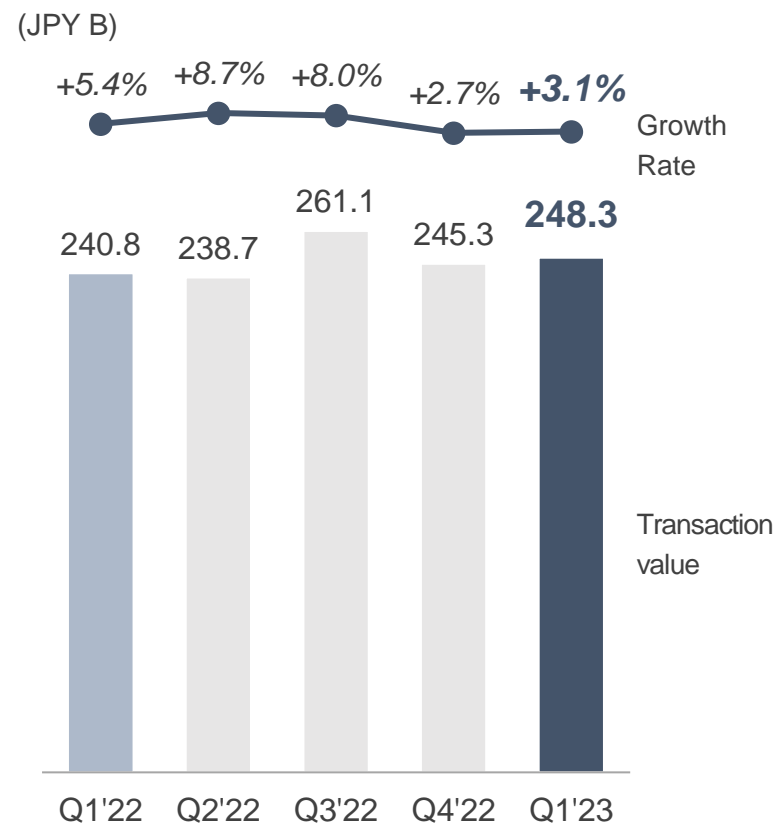
Domestic Shopping Transaction Value¹
– YoY Growth Rate

Yahoo! JAPAN Shopping, LINE GIFT, ZOZOTOWN, LOHACO, etc.



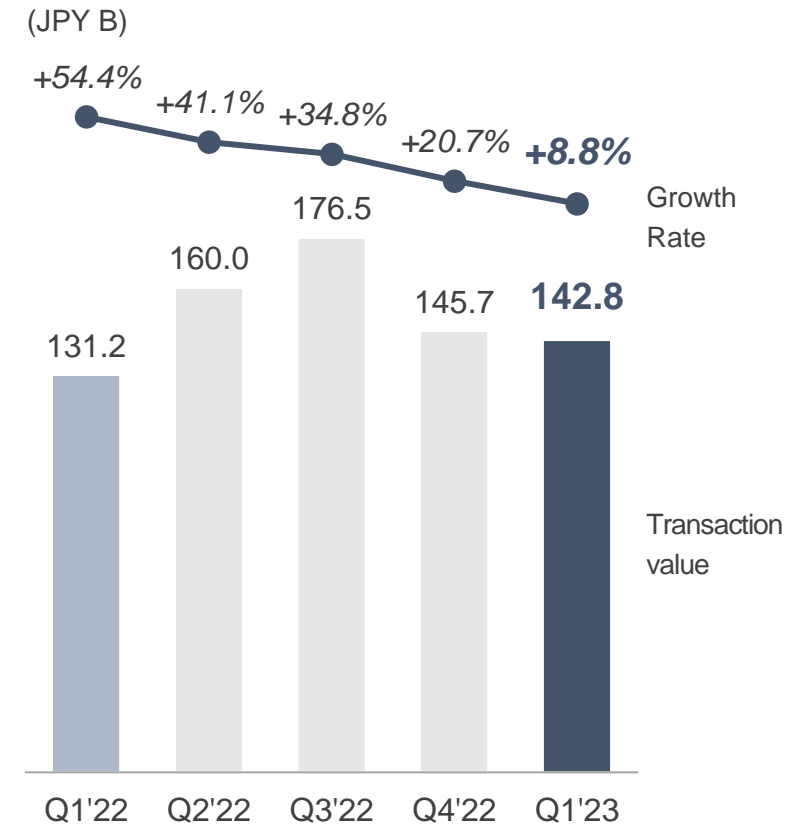
Domestic Reuse Transaction Value¹
– YoY Growth Rate

YAHUOKU!², PayPay Flea Market³, ZOZOUSED



Domestic Service Transaction Value¹
– YoY Growth Rate

Ikyu.com, Yahoo! JAPAN Travel, Yahoo! JAPAN Loco, Demae-can, etc.

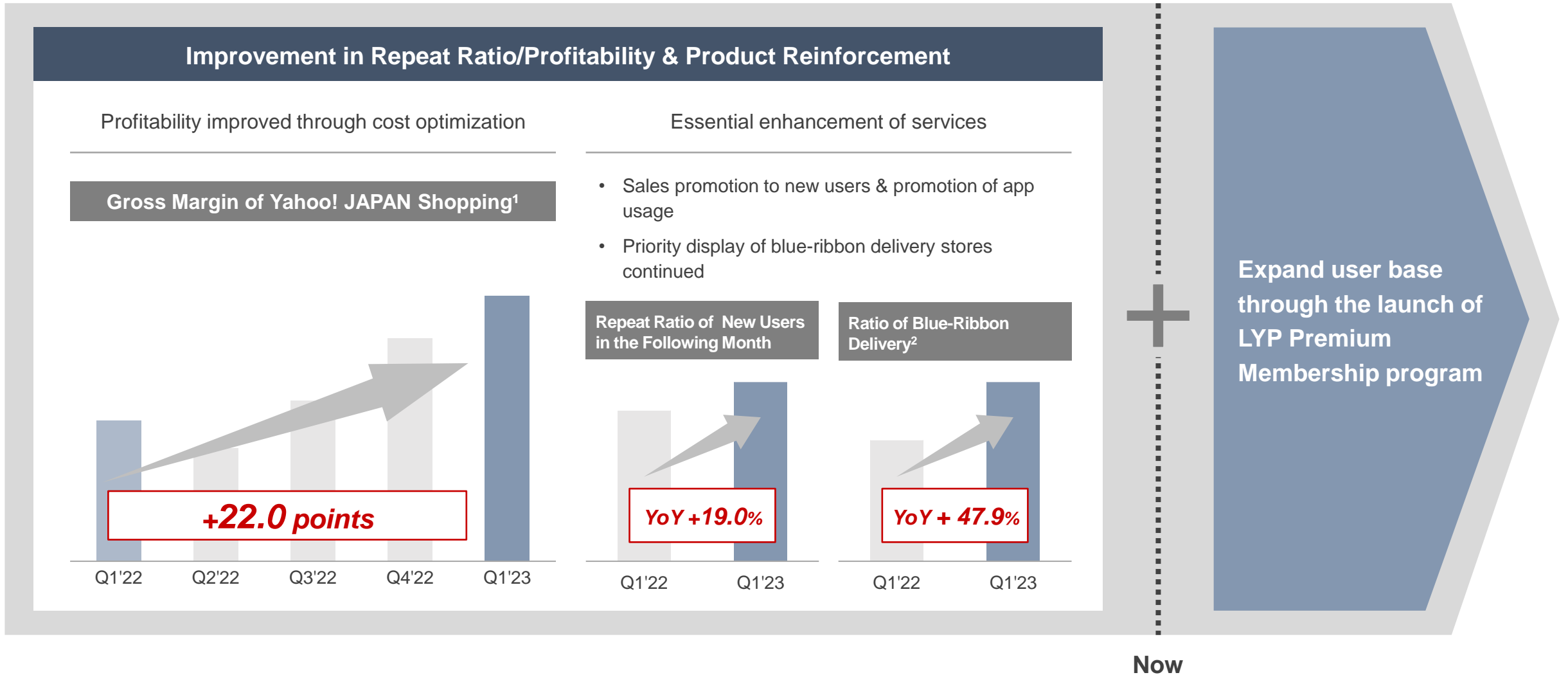


1. Please refer to P. 19 of the Appendix for definition of transaction value.

2. YAHUOKU! is scheduled to be renamed to Yahoo! JAPAN Auction in autumn of 2023.

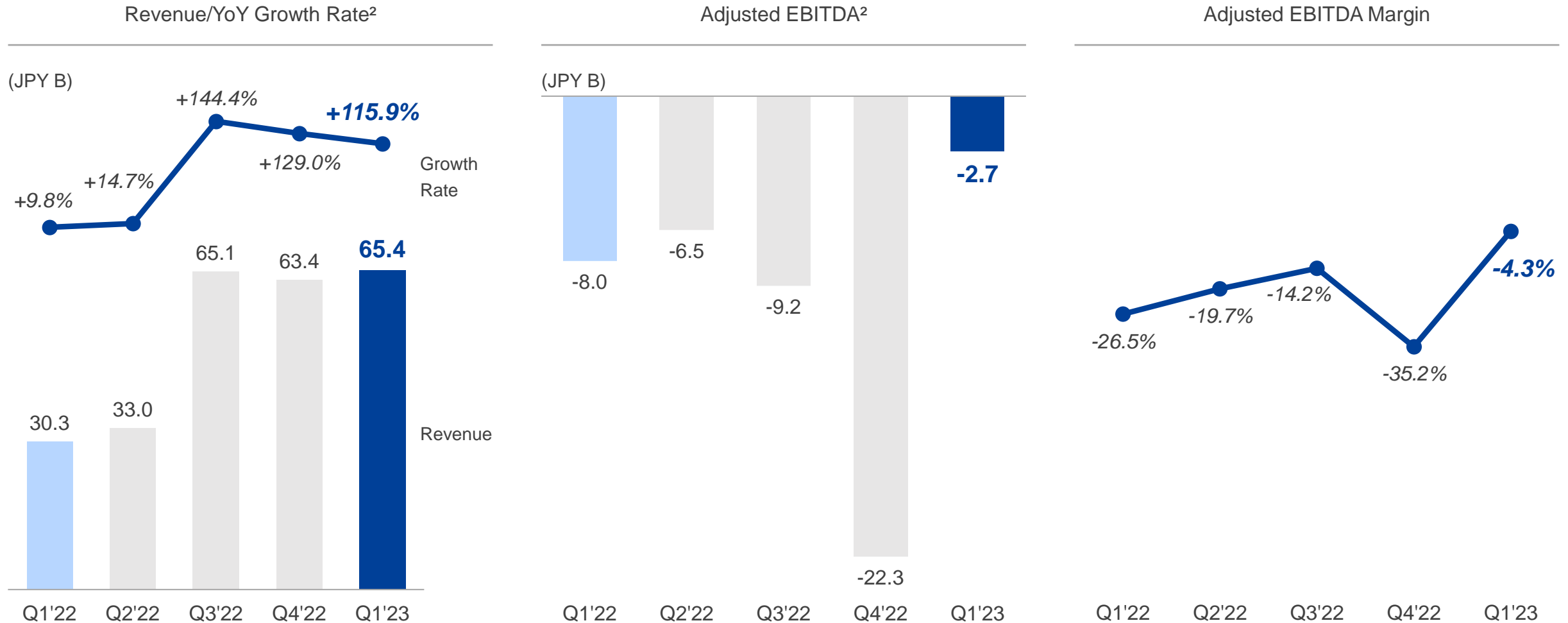
3. PayPay Flea Market is scheduled to be renamed to Yahoo! JAPAN Flea Market in autumn of 2023.

- Profitability significantly improved; steady progress made in essential enhancement of services.



1. Gross margin of managerial accounting figures of Yahoo! JAPAN Shopping and PayPay Mall. Yahoo! JAPAN Shopping and PayPay Mall integrated in October 2022.
 2. Compared the ratio of blue-ribbon delivery to transaction values of FY2022 Q1 and FY2023 Q1.

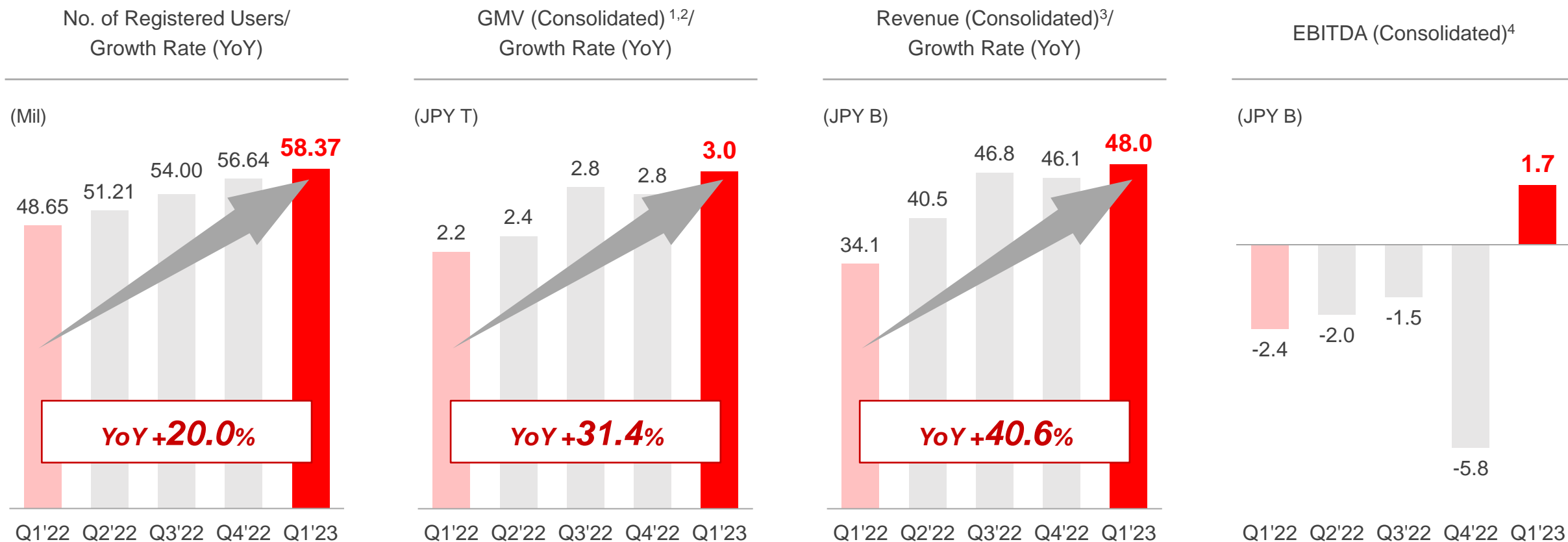
- **Significant improvement in profitability — adjusted EBITDA¹ of consolidated PayPay results turned profitable; progress made in selective focus on key businesses.**



1. Includes PayPay Corporation and PayPay Card Corporation. Figures after elimination of internal transactions between the two companies. Independently calculated by making relevant IFRS adjustments.

2. From FY2023 Q1, part of the expenses related to LINE Corporation and its subsidiaries which were allocated in Others and Adjustments, have been allocated to Strategic Business. Segment information for FY2022 has been revised as a result.

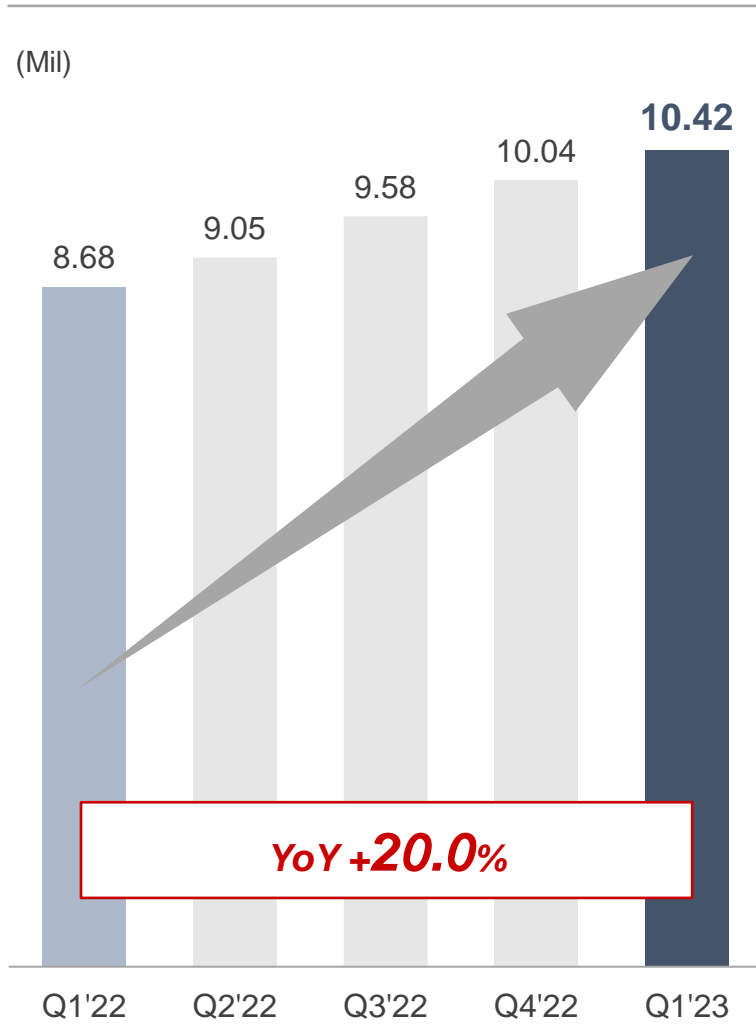
- Consolidated revenue recorded continued growth exceeding YoY +40%; as a result, EBITDA (consolidated) turned profitable for the first time.



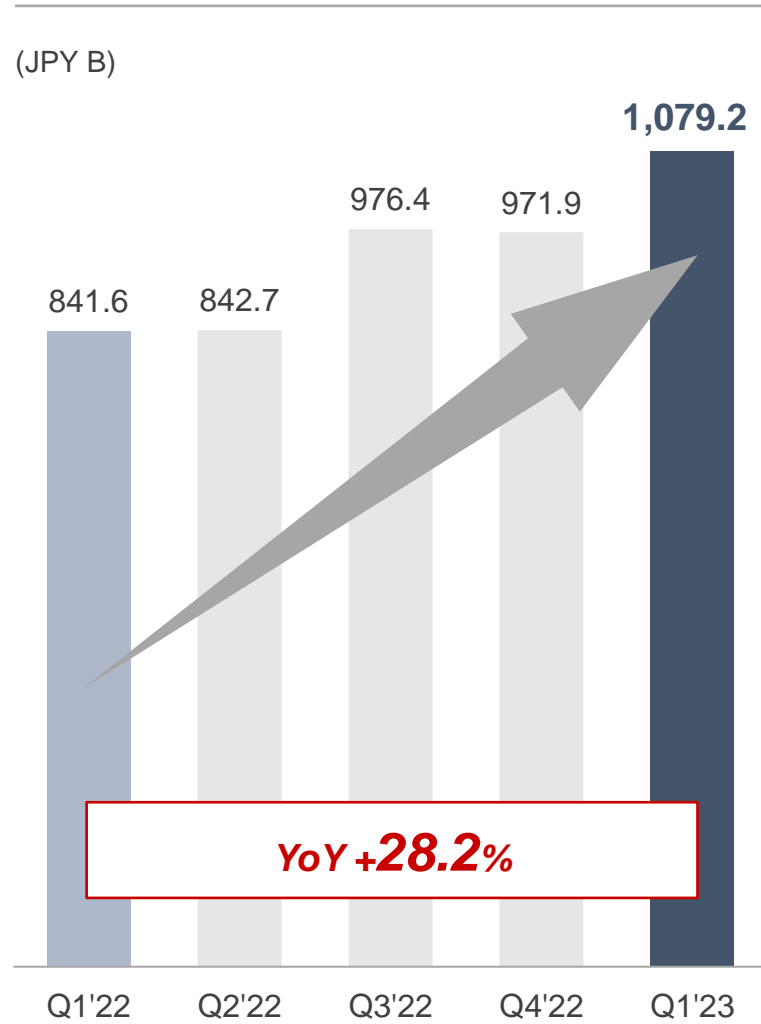
1. The use of the "Send/Receive" function of "PayPay Balance" between users is not included. From FY2021 Q4 onward, payments via Alipay and LINE Pay, etc. are included. Payments through "Credit (Pay later, former Atobarai)" launched in February 2022 are included.
2. Figures are rounded down to the nearest billion yen and rounded off to the nearest JPY100 billion.
3. PayPay Corporation's consolidated revenue. Consolidated financial statements of PayPay Card Corporation from the beginning of FY2021 due to the application of pooling of interest method. Figures after elimination of internal transactions between the two companies. Unaudited.
4. PayPay Corporation's consolidated EBITDA. Calculated by adding depreciation and amortization to operating income. Consolidated financial statements of PayPay Card Corporation from the beginning of FY2021 due to the application of pooling of interest method. Figures after elimination of internal transactions between the two companies. Unaudited.

- No. of cardholders, transaction volume maintained over YoY +20% growth, due to synergies with PayPay, etc.

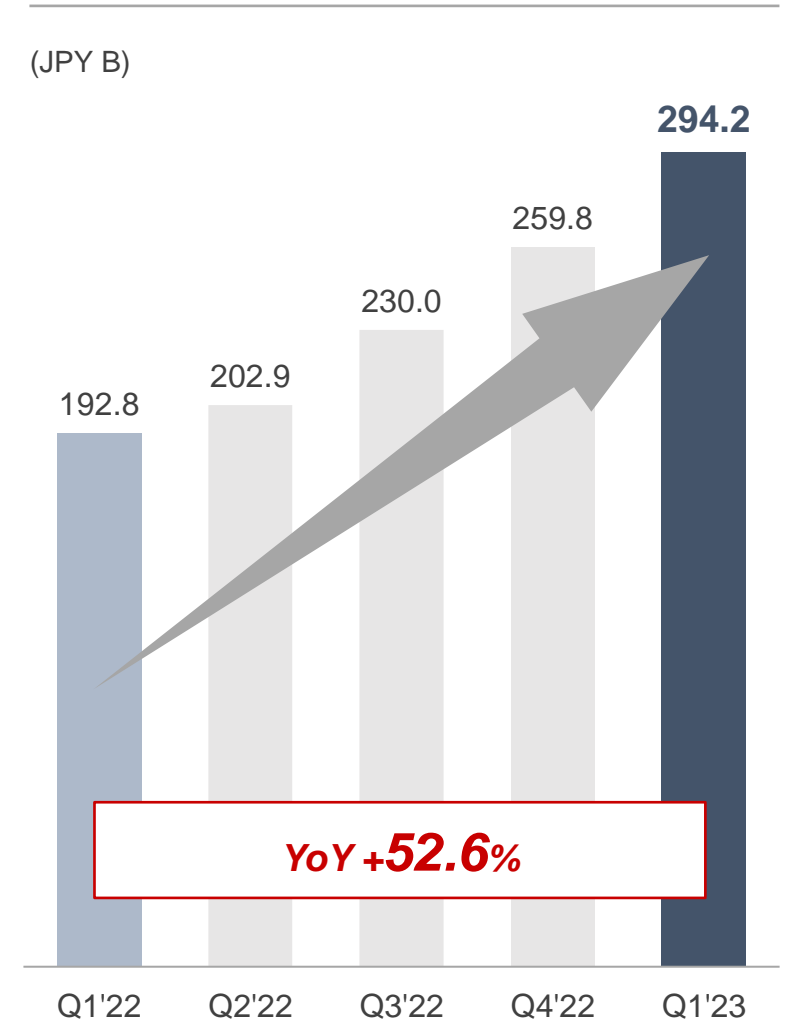
Active Cardholders/Growth Rate (YoY)



Transaction Volume¹/Growth Rate (YoY)



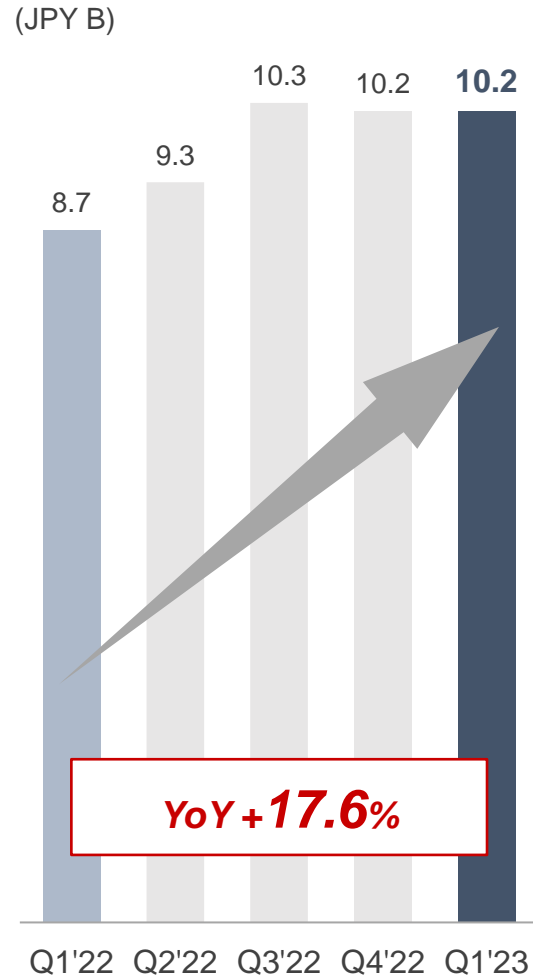
Revolving Balance/Growth Rate (YoY)



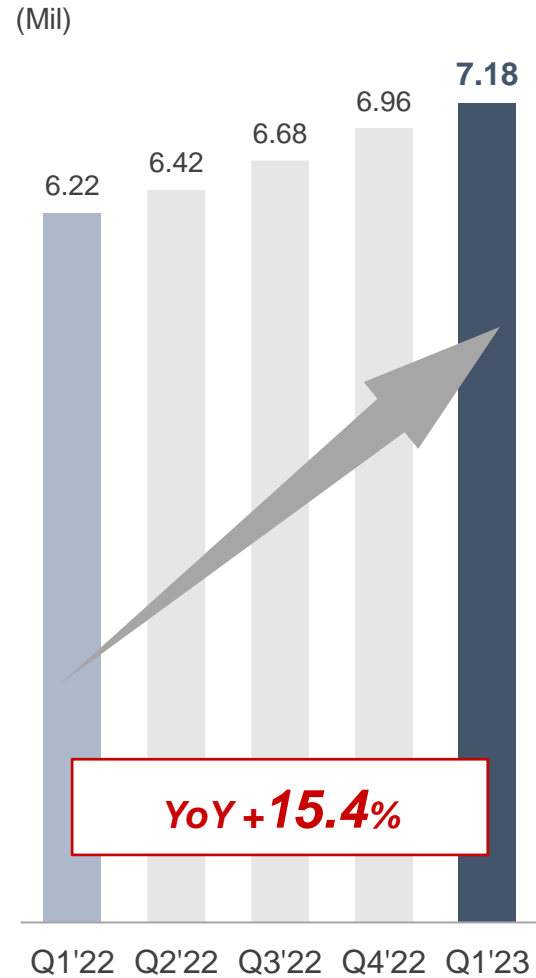
1. Payments through "Credit (Pay later, former Atobarai)" launched in February 2022 are included.

- All indices resulted in steady YoY increase.

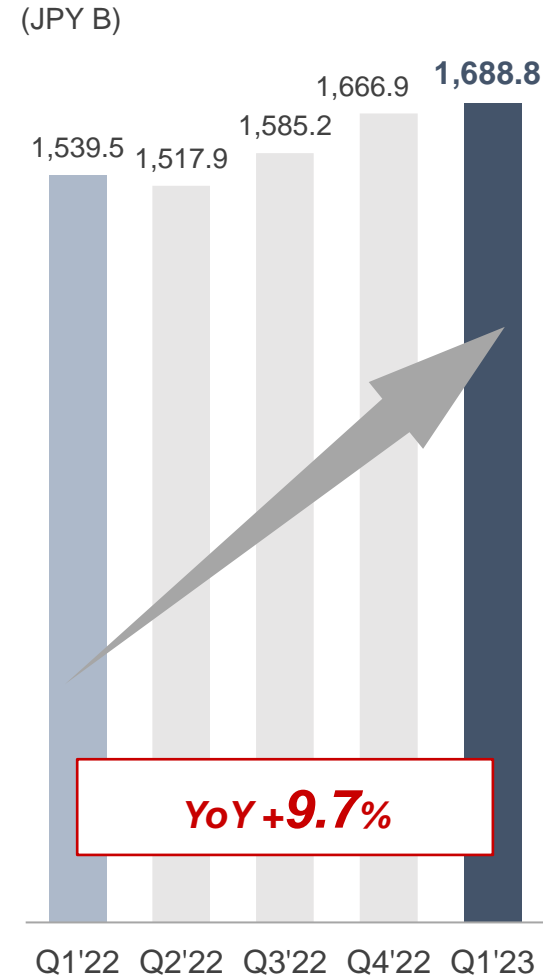
Revenue/Growth Rate (YoY)



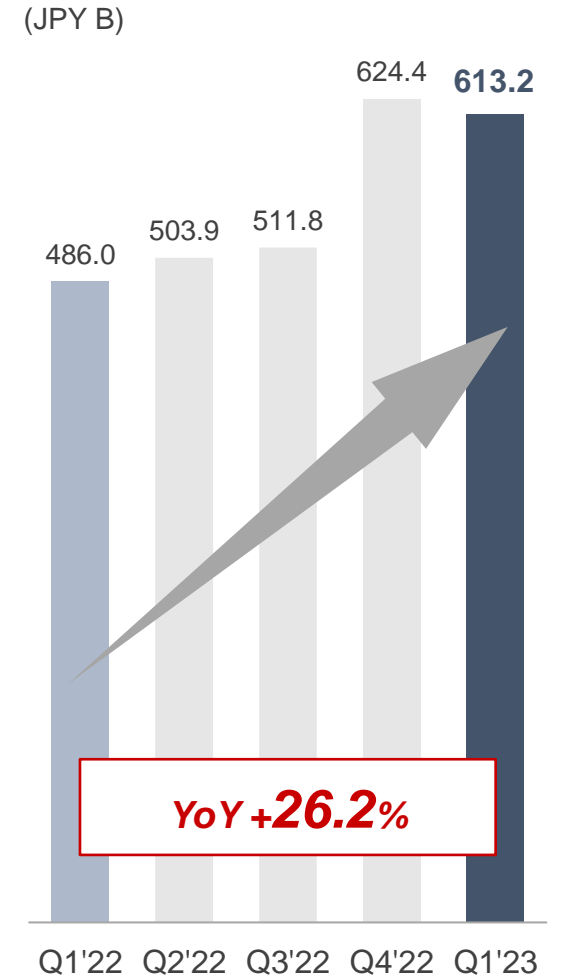
No. of Accounts/Growth Rate (YoY)



Deposit Balance/Growth Rate (YoY)



Loan Balance/Growth Rate (YoY)



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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.

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.

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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**