

January 31<sup>st</sup>, 2018

Minutes of QA sessions  
FY2017 3Q Results Briefing.

**【About PB(Private Brand)】**

Q. How do you set profitability and manage the cost of PB items (T-shirt and denim pant)? What is the expected profit margin for each item?

A. Through the price setting of PB items, we believe the common sense in the apparel industry will drastically change. It is very meaningful to achieve low price with high cost rate by eliminating various unnecessary. Since PB items will be offered at the lowest price we could therefore these will not be discounted. As for the operating profit for PB, we would like to aim for higher margin compared to the existing business.

Q. What is the expected production capacity for PB? Delivering PB items to customers within 2 weeks after the distribution of ZOZOSUIT seems tough to manage. Please tell us about the production line also.

A. It is necessary to expand the production capacity of PB items as we create ZOZOSUIT, but we have been conferring with factories so that the production of ZOZOSUIT and that of PB items would balance.

Q. The reason behind the postponement of ZOZOSUIT delivery was due to enhancement of measurement accuracy, but is there any effect from unexpected and exceeding orders from customer? Was the postponement within the expectation?

A. The number of orders was within our expectation. However, after the reexamination, it was found that there are errors for measuring special body sizes thus we took sufficient time to improve it.

Q. How is the quality of products?

A. You may find out by touching items, but these are made from fine fabric with firm stitches. Numbers of examination were implemented to maximize the quality improvement. We believe the quality compared to the prices are very high.

Q. Is there anything new to the production process?

A. We are unable to provide any specific information because it is one of the confidential corporate information.

Q. The goal of business size of PB in the future is similar to that of ZOZOTOWN business, but how much growth is the target? Please tell us the future roadmap.

A. We will try our best to make PB to be cited as one of the top fashion players in the world.

Q. Is profitability of PB in the upcoming fiscal year not so high?

A. The cost of a ZOZOSUIT is not so expensive as everyone imagines. In E-commerce industry, it is often said and evaluated with new customer acquisition cost for advertisement expense, but ZOZOSUIT will not cost as much as that.

Q. Are you partnering with strong factories?

A. We already built cooperative relationship with the factories and are gaining appraisals to the existing ZOZOTOWN business.

Q. Tell us more specifically about order-made.

A. We will provide customers the most suitable patterned item from measurement results from a few thousands SKU (Theoretically speaking it is close to 10 thousand SKU).

Q. How many orders are there for ZOZOSUIT as of today? How should we evaluate the associated cost in the future?

A. We do not disclose the specific number of orders at the present. The figure we have disclosed was 230 thousand orders in the first day. The cost will be accrued from free distribution, but impact to the financials of this fiscal year will be minimal.

Q. Starting from denim pant and T-shirt, what other item categories are you going to offer in the future?

A. Cut and sewn, casual shirt and business shirt are planning to be introduced.

Q. About ZOZOSUIT delivery. Those who ordered after December last year may need to wait 8 months at maximum to obtain one. Since technical issues are cleared, what is the bottleneck of this delivery belatedness?

A. It is mainly due to budget and production management balance. Actual production lines are already operating.

**【About ZOZOTOWN Business】**

Q. The original plan of promotion cost towards the total transaction value was 3.5% but it is currently at 1.8%. For future topline growth, what is the plan for promotion cost level?

A. We are planning to maintain the current level in 4Q as well.

**【About shipping fee and delivery】**

Q. From November 2017 the shipping fee was amended to 200-yen flat. Is there any effect on purchase behavior of customers?

A. We no longer see customers who ordered slightly below 5,000 to increase their baskets in order



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to avoid shipping fee, but there is not a huge impact on financials from this disappearance.

Q. From the end of last year, the constraint of delivery amount by shipping carriers are spreading throughout the industry. Is there any bottleneck to the delivery of ZOZOTOWN?

A. It may require extra days to correspond during busy periods of a year but the effect is almost none.