



November 12, 2020

Q2 financial results for the fiscal year ending March 31, 2021 (FY03/21)—A message from Koji Obuchi, president and CEO of the CROOZ Group

I am Koji Obuchi, president and CEO of the CROOZ Group. Earlier today, on November 12, 2020, we announced our financial results for Q2 FY03/21. Now, I would like to share with you my thoughts and impressions to give you a better understanding of the current situation.

In Q2 FY03/21, consolidated sales were JPY8,952mn and consolidated operating profit was JPY538mn. Our profitability has improved compared to the consolidated operating loss of JPY41mn we recorded in Q2 FY03/20, and quarterly consolidated operating profit has remained in the black since Q3 FY03/20. As I mentioned in Q1, there is no need to worry about losses going forward.

The key driver of the improvement in Q2 consolidated operating profit was substantially higher operating profit in the SHOPLIST Business segment, which I will discuss in more detail below. Other reportable segments also continue to become businesses that steadily produce results within the scope of the 23 companies^{*1} we cultivated since FY03/19. Now allow me to explain the results of each segment in detail.

First, I would like to address the SHOPLIST Business. In Q2 FY03/21, sales rose 4.5% YoY to JPY6,784mn, with operating profit coming in at JPY448mn and operating profit margin at 6.6%. Both operating profit and margin rose YoY compared to Q2 FY03/20 operating profit of JPY126mn and operating profit margin of 1.9%.

Now, I will go over operating profit. As I have mentioned previously, we have attached utmost importance to improving operating profit in the SHOPLIST Business segment since FY03/20. In FY03/19, higher shipping charges in the transportation industry and other external factors had an impact on the entire e-commerce industry. In addition, we expanded and relocated our distribution warehouses to secure future growth. As a result of these expenditures, our logistics cost-to-sales ratio rose and we posted an operating loss of JPY544mn in Q4 FY03/19. We have been drafting and implementing a variety of measures since FY03/20, giving top priority to quickly returning our cost structure to its normal level. These efforts led to substantial improvements, with operating profit coming in at JPY585mn in Q1 and JPY448mn in Q2 FY03/21.

Our curtailment of logistics costs has had a marked impact on results. We have limited open space within our warehouses as much as possible and increased efficiency by collaborating with



Group subsidiary CROOZ EC Partners to share warehouse space and by implementing a variety of initiatives that include handling logistics operations for external clients. As a result of these efforts, our logistics cost-to-sales ratio fell from 15.8% in Q2 FY03/20 to 14.5% in Q2 FY03/21.

We also reduced our promotional cost-to-sales ratio from 12.7% in Q2 FY03/20 to 10.3% in Q2 FY03/21. The ratio decreased primarily because we conducted thorough investigations regarding promotional costs and measures with the involvement of a director in charge of the CROOZ Group's advertising starting in Q1 FY03/21, and because we accelerated our PDCA cycle and conducted efficient advertising investment. Q2 sales grew 4.5% YoY as we simultaneously curtailed costs and grew sales, which resulted in improving our cost structure.

Having improved our cost structure, it is essential that we expand sales moving forward. To achieve our medium- to long-term target of JPY100bn in annual SHOPLIST sales, we are simply pursuing two key indicators included in our results briefing materials: 1) 5 million annual unique purchasers and 2) an annual spend per user of JPY20,000. There are many measures we should be implementing to achieve these two key indicators, but we are most focused on encouraging users who visit the SHOPLIST website to make purchases before leaving and on increasing the number of repeat users who come back and make a second purchase through the website. We believe that strengthening the lineup of each company brand will be a key driver contributing to the achievement of these key indicators and, accordingly, continue to focus on bolstering this lineup.

As a result of aggressively pursuing our goal of opening 150 shops with high user recognition in FY03/21, we were able to open 52 shops from a total of 43 companies by the end of Q2. In addition, from FY03/21, we plan to expand our product lineup by providing products in categories which we have not previously handled, such as sports and outdoor apparel brands and cosmetics. While expanding product categories and brands, we will thoroughly analyze data to enhance our UI/UX and step up promotional measures so that customers will make multiple visits to the SHOPLIST website and continue to purchase products.

In terms of new businesses, CROOZ Media Partners, a reportable component of the Advertising Agency Businesses segment, generated Q2 sales of JPY762mn and operating profit of JPY15mn. As I have been mentioning since FY03/20, we lost a contract from one major client, which has resulted in a 55.8% YoY sales decline in Q2 FY03/21, but we are starting to see sales recovery thanks to orders from several other clients. We will fine-tune this business to ensure that it can achieve stable growth over the medium- to long-term while acknowledging that a degree of short-term performance volatility is all but inevitable for a business that is less than three years old.

In the Media Business segment, in Q2 FY03/21 sales grew 43.5% YoY from JPY207mn in Q2



FY03/20 to JPY297mn, and operating profit came to JPY97mn. Sales and profit were driven by Rank King, Inc., an e-commerce-related media operator in its second year of business, which we established in September 2019. If we look at it as an early-stage venture company that just started operations, it is growing quickly enough to go for an IPO.

As I mentioned above, as in Q1, operating profit improved in Q2 FY03/21 as we cut logistics costs associated with SHOPLIST and reduced promotional costs through efficient promotion-related investment. Through short-term cost cutting, we have established a management structure that allows us to generate profit, but we believe that reinvesting this profit and expanding our businesses are essential as we move forward, and we plan to implement them as such. Going forward, we will achieve a balance between sales and profit by reinvesting in sales expansion while generating profit.

Therefore, we don't expect to see the same level of profit in 2H as we did in Q1 and Q2 as we will be reinvesting in ideas that have the potential to create breakthroughs. However, we will not invest to the point of incurring losses as we have done in the past, and there is no need to worry about full-year operating losses. We aim to maximize sales of the CROOZ Group by mainly investing in promotions and ideas with breakthrough potential in the SHOPLIST Business, as well as in developing games to be released by StudioZ in FY03/22.

I will also make two additional points regarding our recent disclosures. First, regarding the sale of shares in our consolidated subsidiary Candle, which we disclosed in Q1, there was a misunderstanding that we would incur an extraordinary loss of approximately JPY1bn in FY03/21, so I would like to add an explanation. The bottom line is that the only impact on the consolidated financial results in FY03/21 resulting from the sale of Candle shares is an impairment loss of roughly JPY200mn, which was already recorded in our Q2 results, and there will be no further losses. The remaining JPY800mn was already recorded in the consolidated income statements in FY03/20 and prior fiscal years through Candle's income statements and goodwill amortization. Secondly, in September 2020 we filed a lawsuit against Amagasa to claim payment of approximately JPY400mn, but most of the claim is for future earnings to be generated during the remaining contract period based on the breach of contract by Amagasa, and this does not mean that we currently have JPY400mn of uncollected receivables. Therefore, please be assured that we will not incur a loss of JPY400mn as a result of uncollectible receivables in the future.

Last but not least, I have taken front-line command at actual worksites at SHOPLIST, joined by CROOZ directors who have previously contributed to the growth of several businesses, and we are making it our top priority to gather information on issues and develop solutions on a daily basis. Currently, members of all departments at SHOPLIST hold daily meetings to identify all



issues big and small. For issues identified at the meetings that have strong potential to boost sales or substantially reduce costs and workload, we have established a Critical Project Program wherein the members themselves become project owners and work directly under me, with the same authority as I have. In the Critical Project Program, the project owners dig deeper into the background and reasons for challenges, and use various data to come up with solutions. The program is structured in such a way that every day the critical issues and proposed solutions for 10 to 15 projects are reported to me, and various solutions are being worked on in parallel. I am very hopeful that when we resolve challenges of all the projects, we will see substantial improvements that are unthinkable coming from our current level of sales and operating profit, and we will be able to give back significantly to our shareholders and investors through business expansion.

In Q1 FY03/21, I said “Due to participation from the team of directors at CROOZ headquarters in SHOPLIST, we do not believe we would benefit from involving our entire team of directors if we continue implementing prior methods as we work to resolve business issues. Accordingly, we will instead achieve breakthroughs by decisively altering our approach.” Since I became the president of CROOZ SHOPLIST, Inc., on top of my position of president and CEO of CROOZ, Inc., the number of challenges we have collected has grown from 70 to 1,500, the number of critical projects we have created from those challenges has increased to 157, and the number of projects with breakthrough potential has risen to 23. The critical projects are in progress and it may take some time to see the results, but we will be giving it our all.

This concludes the CEO’s message, but I thought you might want to know what I feel, so here’s what I’ve felt since I started concurrently serving as the president of CROOZ SHOPLIST.

- Although I am now also the president of an operating company, I am really enjoying operating the business.
- Since I started concurrently serving as president of CROOZ SHOPLIST, I had some doubts about whether I could make it grow again, but now I can see the challenges and mostly see the solutions.
- For the past three months since I started concurrently serving as president of CROOZ SHOPLIST, I have received reports on nearly 10 critical projects every day, and my mind is 99.9% occupied with solving challenges for these critical projects.
- As I explained in the results announcement video, there are some low-level challenges, and there are as many as 1,500 other challenges, but we were still able to reach JPY25bn in sales. To put it another way, I have nothing but high hopes for the future, when we’ve solved all of these challenges.



November 12, 2020

Koji Obuchi

*1 Number of Group companies as of September 30, 2020. This figure indicates the number of Group companies that are actually involved in the Company's operations and does not include funds or other entities that are considered subsidiaries in consolidated financial reporting.