



Q1 FY03/23

Message from Koji Obuchi, President and CEO of
CROOZ Group

(August 9, 2022)

I am Koji Obuchi, president and CEO of the CROOZ Group. Earlier today, on August 9, 2022, we announced our financial results for Q1 FY03/23. Now, as the representative of the Group, I would like to share my thoughts and impressions to give you a better understanding of our current situation.

For the whole Group, Q1 consolidated transaction value was JPY7,599mn (-8.9% YoY) and consolidated operating profit came to JPY246mn (-42.9% YoY).

The main reason for the year-on-year decline in consolidated operating profit was an operating loss in the mainstay SHOPLIST business, as I will explain in more detail below.

Now, I will start with a detailed explanation of the results of each business segment.

First, let's look at our E-commerce business, which consists of the SHOPLIST business and other e-commerce related businesses such as e-commerce contract development and operation agency services. My focus will remain on the SHOPLIST business, as the e-commerce related businesses are still comparatively small in scale. In Q1 FY03/23, the SHOPLIST business recorded transaction value of about JPY5,242mn (-14.6% YoY) and an operating loss of approximately JPY45mn (compared with an operating profit of JPY365mn in Q1 FY03/22). We have been focused on rebuilding the SHOPLIST business by reforming the business and organization through the Critical Project Program¹ and other measures. Although we feel that we are gradually making improvements—including the internal structure—, tangible results have yet to manifest themselves, and we feel that it will take more time before we can achieve a full-scale comeback.

Now I will talk about transaction value. The two primary reasons for the 14.6% YoY decline in Q1 transaction value were (1) the decline in the number of visitors via SEO and (2) the decrease in the number of visitors via advertisements, both of which continued from FY03/22.

As I have explained in the past concerning the decline in visits via SEO, Yahoo has not yet fully recovered. The main reason for Yahoo's recovery not keeping pace with that of Google is that Yahoo affiliates' services are now displayed at the top of its search results pages, and the most favorable SEO position is now displayed further down the page than before. Since this is not something we can control, we will continue to compensate for Yahoo's recovery lag by strengthening SEO measures for Google and implementing effective advertising promotion measures.



Next, regarding the decrease in visits from advertising, we have been actively promoting advertisements compared with FY03/22, but we have yet to see results from these efforts. In response to this decrease, we will continue our campaign which is limited to buyers via apps to bolster the number of visitors from ads on social media such as Twitter and apps with high purchase rates. Furthermore, we resumed TV commercials in July, and we will continue to conduct more effective advertising operations by implementing the PDCA cycle to attract users—particularly F1 users, which is SHOPLIST's forte—and to promote the continuous acquisition of new users. With regard to the improvement of the stock-out rate of top-selling products, which was previously cited as an issue we had to address, the introduction of a demand forecasting system for such products based on past sales data has helped standardize and streamline merchandising necessary to boost sales, resulting in an improvement in the stock-out rate. As a result, together with a number of measures such as appropriate product exposure measures through search and recommendation tuning, we have succeeded in significantly improving the purchase rate, from 87% of FY03/22 at its lowest point to nearly 100%. In addition, the accuracy of sales forecasting for each top-selling product is expected to improve to nearly double the previous level in the future, which is expected to result in further improvement in the purchase rate.

Next, I will talk about operating profit. In Q1 FY03/23, we recorded an operating loss of about JPY45mn (operating profit of about JPY365mn in Q1 FY03/22), primarily attributable to the decrease in transaction value.

As for other important cost-related items, purchase-costs-to-transaction-value were up 2.2% in Q1, mainly due to an increase in the cost of goods paid to brands. Logistics-costs-to-transaction-value decreased 0.4% YoY to 14.4% in Q1, owing to improved operational efficiency, including a review of materials and improved packaging workflows. The company has been able to reduce the ratio of logistics-costs-to-transaction-value even though transaction value was down—testimony to the solid progress on our efforts to cut costs.

Promotion-costs-to-transaction-value increased 2.4% from 7.3% in Q1 FY03/22 to 9.7% in Q1 FY03/23. This is partly due to the decline in transaction value, but also because we are aggressively investing in measures such as social media advertising, as I mentioned earlier. As we will continue to invest aggressively in measures to restore and further increase transaction value, the level of promotion expenses is expected to remain high for some time, but we will identify and enact more effective advertising and promotion measures while implementing the PDCA cycle.

Labor-costs-to-transaction-value rose 1.4% from 2.3% in Q1 FY03/22 to 3.7% in Q1 FY03/23. This is partly due to the decrease in transaction value, but mainly because critical projects in FY03/22 required major system upgrades and new developments, and of the capitalization of personnel expenses related to these projects as software. Outsourcing-costs-to-transaction-value



increased 0.1% from 2.3% in Q1 FY03/22 to 2.4% in Q1 FY03/23, but this is mainly due to the decrease in transaction value, and actual outsourcing costs fell. We expect that the level of outsourcing costs will continue to decline in the future, and eventually return to pre-Q2 FY03/21 levels, around JPY100mn per quarter. At that level of costs, the outsourcing-costs-to-transaction-value in Q1 FY03/23 will be about 1.8 to 1.9%, and we can expect further improvement in the profit margin.

This concludes my explanation of Q1 results for the SHOPLIST business. To be honest, I feel that more time will be required for the business to fully recover. Although we regret that it is taking longer than we had initially expected, our first priority will be the recovery of the transaction value. To achieve this, we need to turn around the reduction in the number of visitors as rapidly as possible. With regard to the decline in the number of visitors, as I noted earlier, we resumed TV commercials and will continue to work toward fortifying advertising promotions, particularly on social media. In addition, the introduction of a demand forecasting system for top-selling products has improved the stock-out and purchase rates, and this has resulted in more efficient advertising, which will further enhance advertising promotions and drive an increase in the number of visitors. In FY03/23, we are more proactively pursuing investments to boost transaction value, including bolstering investments in advertising and promotions. While we may see reduced profits in the short term, we will adhere to this policy, and restoring transaction value will remain our first priority.

In addition to improving the variety of brands we handle, we will carefully select new, well-known brands that have the ability to attract customers, and launch campaigns to make shopping more enjoyable for existing users.

Now I would like to talk about the Game business. Q1 FY03/23 sales were about JPY836mn (+73.5% YoY), and operating profit was around JPY81mn (operating loss of approximately JPY99mn in Q1 FY03/22). Looking at the latest status, *Elemental Story*, which celebrated its seventh anniversary in June, has collaborated with many famous intellectual properties and has been enjoyed by more users than last year. We are also releasing original stories and expanding the contents of *SHAMAN KING Funbari Chronicle*, and will continue to make the game attractive to both existing users—including *SHAMAN KING* fans—as well as new users to ensure they derive enjoyment from the game.

Let's look now at our Online Advertising and Media business. Q1 transaction value reached about JPY825mn (-10.5% YoY), and operating profit was around JPY191mn (+9.4% YoY). This is due to the strong performance not only of Rank King—which has already been officially announced—but also of other new media and advertising agency businesses, primarily in the



financial sector. The business is starting to show stable earnings. Furthermore, the profit margin is high, and we forecast substantial growth, so we will continue investing aggressively toward expanding earnings.

This concludes my review of the results of each segment. Challenges remain for the SHOPLIST business, but there are still measures that can be taken to reverse the decline in the number of visitors. In the Game business, the release of a new game has eliminated the burden of development costs, and the business is expected to generate stable earnings in the future. The Online Advertising and Media business continues to perform well and generate profits. The Other business has returned to profitability and we expect it will continue to accumulate sales and profits. Therefore, we don't see any reasons to be pessimistic for the Group overall and believe there is a sufficient room for future growth.

Since we succeeded in solidifying the foundation for cost reduction, operational streamlining, and organizational structure improvement by FY03/22, we have devoted most of our resources to critical projects oriented toward achieving significant growth in transaction value in Q1. In particular, I have devoted more than 90% of my attention to this goal, but we haven't made the progress we had hoped for. The main reason for this was the greater-than-expected drop in visitors, but we will continue to work to recover the numbers to SHOPLIST—not only through advertising promotions, but also by opening new brands that have the ability to attract customers as well as through the implementation of campaigns. We intend to restore transaction volume and get back on a growth trajectory by simply pursuing first of all to prepare products that are attractive to and meet the needs of users who visit the site, to reduce the stock-out rate and build up sufficient inventory of top-selling products.

August 9, 2022

Koji Obuchi

*1 Critical Project Programs are those that are directly under the supervision of the president, and the project owners are given the same authority as the president to dig deep into the background of and reasons for issues, use various data to come up with solutions, and rebuild SHOPLIST.