



Q2 FY03/23

Message from Koji Obuchi, President and CEO of

CROOZ Group

(November 10, 2022)

I am Koji Obuchi, president and CEO of the CROOZ Group. Earlier today, on November 10, 2022, we announced our financial results for Q2 FY03/23. 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, 1H FY03/23 consolidated transaction value totaled JPY14,938mn (-8.6% YoY) and consolidated operating profit came to JPY96mn (-82.0% YoY). Consolidated transaction value for Q2 was JPY7,339mn (-8.3% YoY) while we recorded a consolidated operating loss of JPY149mn (vs. operating profit of JPY106mn in Q2 FY03/22).

The reasons for the year-on-year decrease in consolidated operating profit in Q2 are discussed in detail below, but primarily include the incentive payment based on the Vision for Continual Evolution announced in May 2018 and an operating loss in the mainstay SHOPLIST business.

I would now like to offer a detailed explanation of the results in each business segment.

First, let's look at our E-commerce business. It consists of the SHOPLIST business and other e-commerce related businesses such as e-commerce contract development and operation agency services. However, since the e-commerce-related business is still comparatively small in scale, my focus will remain on the SHOPLIST business. In 1H FY03/23, the SHOPLIST business recorded transaction value of around JPY10,512mn (-9.4% YoY), and an operating loss of approximately JPY91mn (compared with an operating profit of about JPY400mn in 1H FY03/22). Transaction value in Q2 was approximately JPY5,270mn (-3.6% YoY), and operating loss was approximately JPY45mn (compared with an operating profit of about JPY34mn in Q2 FY03/22). In spite of the continued challenges in the business environment, with transaction value remaining below that of the previous year, the downward trend of nearly 80–85% YoY, which had continued from the previous fiscal year through Q1 FY03/23, is gradually improving. Although we feel that achieving a full-fledged recovery will require a bit more time, we will continue to make every effort to restore transaction value.

The two primary reasons for the 3.6% YoY decline in Q2 transaction value were (1) the continued decline in the number of visitors via SEO and (2) the decrease in the number of visitors via advertisements.



As I have explained previously with regard to the decline in the number of visitors via SEO, Yahoo SEO has not fully recovered. The main reason Yahoo's recovery is not keeping pace with that of Google is that Yahoo affiliates' services are now displayed at the top of its search results pages, which has resulted in the most favorable SEO position now being displayed further down the page. Since this is out of our control, we will continue to compensate for the lag in Yahoo's recovery by reinforcing SEO measures for Google and putting effective advertising promotion measures into practice.

Next, regarding the decrease in the number of visitors via advertisements, we have been actively promoting advertisements compared with FY03/22, but this has not yet led to significant results. In response to this decrease, we will continue to implement campaign measures limited to those who purchase via apps to increase the number of visitors via social media advertisements on platforms such as Twitter and apps with high purchase rates. Furthermore, we resumed airing 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, in which SHOPLIST specializes—and to promote the continuous acquisition of new users.

The unit shipment price was down YoY due to lowering the purchase price for which free shipping is applied as part of a campaign measure to boost transaction value. We will consider a combination of various measures to increase the unit shipment price while implementing this campaign measure.

Next, I will explain operating profit. In Q2 FY03/23, we posted an operating loss of about JPY45mn (operating profit of about JPY34mn in Q2 FY03/22), mainly due to the fall in transaction value.

As for other significant cost-related items, purchase-costs-to-transaction-value increased 2.1% in Q2, owing primarily to an increase in the cost of goods paid to brands. Logistics-costs-to-transaction-value decreased 0.2% YoY in Q2 to 14.8% on the back of 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 despite the decline in transaction value, which indicates that we are making steady progress with our measures to reduce costs.

Promotional-costs-to-transaction-value decreased 1.8% from 11.5% in Q2 FY03/22 to 9.7% in Q2 FY03/23. The reason is that temporarily stepped-up promotions led to additional costs being incurred in Q2 FY03/22. We will continue to invest aggressively in measures to recover and further boost transaction value, and although we may temporarily incur costs as we did in Q2 of the previous fiscal year, we believe that promotional costs will basically remain at the same level as in Q2 this fiscal year. We will continue to identify and enact more effective advertising promotion measures while implementing the PDCA cycle.



Labor-costs-to-transaction-value was up 0.4% from 2.9% in Q2 FY03/22 to 3.3% in Q2 FY03/23. This is mainly due to critical projects in FY03/22 requiring major system upgrades and new developments, and to the capitalization of personnel expenses related to these projects as software, so actual labor costs decreased from Q2 FY03/22 as the number of employees was down. Outsourcing-costs-to-transaction-value decreased 0.6% from 2.7% in Q2 FY03/22 to 2.1% in Q2 FY03/23. Ultimately, we believe that the amount will be at pre-Q2 FY03/21 levels, at around JPY100mn per quarter. At that level of costs, the outsourcing-costs-to-transaction-value in Q2 FY03/23 should be around 1.8 to 1.9%, and we do anticipate further profit margin improvement.

This ends my explanation of Q2 results for the SHOPLIST business. To be honest, I feel that a full recovery of the business will need some more time. Although we regret that it is taking longer than we had anticipated, our first priority will be the recovery of transaction value. To achieve this, we need to turn around the reduction in the number of visitors as rapidly as possible. Regarding the decline in the number of visitors, as mentioned above, we have resumed airing TV commercials and will continue to take measures related to the reinforcement of advertising promotions, particularly on social media platforms. Moreover, the introduction of a demand forecasting system for hot-selling products has led to improved stock-out and purchase rates, and this has resulted in more efficient advertising, which will further enhance advertising promotions and drive an increase in visitors. In FY03/23, we are more aggressive in our pursuit of investments to boost transaction value, including bolstering investments in advertising and promotions. While short term profits may be negatively affected, we will adhere to this policy, with our first priority being the restoration of transaction value.

In addition to improving the variety of brands we handle, we will carefully select new, well-known brands that are attractive to customers, and launch campaigns to enhance the shopping experience for existing users.

Let's now turn our attention to the Game business. Q2 FY03/23 sales were approximately JPY487mn (-17.8% YoY), and we recorded an operating loss of around JPY79mn (operating loss of JPY215mn in Q2 FY03/22). Looking at the latest status, *Elemental Story*, which celebrated its seventh anniversary in June, has collaborated with numerous well-known intellectual properties and has been enjoyed by more users than last year. As for *SHAMAN KING Funbari Chronicle*, sales have declined more than initially forecast due to a drop in monthly active users, but the release of original stories and other activities from July to September have been well received, and we are preparing for the first anniversary celebration in December. We 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.

Next, I will explain our Online Advertising and Media business. Q2 transaction value was approximately JPY714mn (-23.3% YoY), and operating profit was around JPY114mn (-29.8% YoY). The key factor in the decline in transaction value was the large spot contracts in the advertising business in FY03/22. Operating profit, meanwhile, fell due to the above-mentioned decrease in transaction value and the temporarily higher costs due to the policy of allocating profits generated by the Media business—mainly for Rank King—to investment toward growing transaction value. Our view is that the Media business will continue its strong performance, and as it is a highly profitable business with high growth potential, we intend to invest aggressively as needed to further expand earnings.

The operating loss of approximately JPY151mn in the Other segment is not attributable to a specific business, but is due to the payment of incentives to subsidiary officers and employees related to the Vision for Continual Evolution. This initiative was announced in May 2018 to create a mechanism for the constant birth of the next generation of businesses and managers toward continued growth without affecting the speed of the venture. About four years after the announcement of the initiative, the number of new challenges and businesses we have created is in the double digits or more, and several companies have each posted operating profits in the hundreds of millions of yen. Payments equivalent to a portion of the profits generated were made to the executives and employees of companies that have produced significant profits, an example of this being the Online Advertising and Media business. The resulting one-off expense was recorded, but did not impact the structure of the business.

Challenges remain for the SHOPLIST business, but there are still measures that can be taken to reverse the decline in the number of visitors. The effect on the Game business of the decline in monthly active users of *SHAMAN KING Funbari Chronicle* has exceeded our initial forecast, but we are taking measures to achieve stable earnings. The Online Advertising and Media businesses continue to be profitable, and other businesses are no longer in the red and should accumulate sales and profits going forward. Therefore, we don't see any reasons to be pessimistic for the Group overall and believe there is sufficient room for future growth.

Moreover, although not included in the Game business, we began entering the GameFi field as a new challenge in Q2 FY03/23. Specifically, we will participate in game planning, development, and operation as part of a project called PROJECT XENO. It will be a



revenue sharing model. GameFi is already attracting attention in the gaming industry internationally, with mega-hit services with millions of daily active users and market capitalizations of up to several tens of billions of yen. Our aim is to create a game with a level of playability to fit into the e-sports market, but also to overturn the existing business model and create a play & earn game capable of sustainable growth. We also aim to hold offline world championships in the future. On the marketing front, we are already working aggressively to develop the brand by appointing YouTuber Hikaru as an ambassador and collaborating with professional boxer Floyd Mayweather, Jr. We plan to further promote the optimal ambassadors and collaborations in each region, such as the United States, South Korea, Southeast Asia, and the Middle East, to conduct marketing on a global scale. In order to achieve these lofty goals, CROOZ is combining the expertise we have accumulated in game development to deliver attractive, superior-quality games, and I have high expectations for the games we are developing. We will issue press releases on information related to PROJECT XENO as appropriate.

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 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 value 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.

November 10, 2022

Koji Obuchi