Q3 FY03/23
Message from Koji Obuchi, President and CEO of
CROOZ Group
(February 9, 2022)

I am Koji Obuchi, president and CEO of the CROOZ Group. Earlier today, on February 9, 2022, we announced our financial results for Q3 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, cumulative Q3 consolidated transaction value totaled JPY22,974mn (-8.3% YoY) and consolidated operating profit was JPY509mn (-32.1% YoY). Consolidated transaction value for Q3 was JPY8,035mn (-7.7% YoY) while we recorded consolidated operating profit of JPY412mn (+93.6% YoY).

The reasons for the year-on-year increase in consolidated operating profit in Q3 are discussed in detail below, but primarily include increases of about JPY198mn in the Game business and approximately JPY175mn in the Online Advertising and Media 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, which 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 cumulative Q3 FY03/23, the SHOPLIST business recorded transaction value of around JPY16,339mn (-10.6% YoY), and an operating loss of approximately JPY16mn (compared with an operating profit of about JPY729mn in cumulative Q3 FY03/22). Transaction value in Q3 was approximately JPY5,826mn (-12.7% YoY), and operating profit was around JPY74mn (-77.4% YoY). Though the business environment remains challenging, with transaction value still lagging behind that of last year, we are seeing a gradual improvement. 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.

Let me explain the transaction value. The two primary reasons for the 12.7% YoY decline in transaction value in Q3 are the continued drops in the number of visitors via SEO and advertisements.

As I have explained previously concerning the decline in the number of visitors via SEO, Yahoo SEO has not fully recovered. The main reason the recovery is not occurring at the same pace as Google is that Yahoo affiliates' services are now displayed at the top of Yahoo's search results page, which has led to the most favorable SEO position now being displayed further down the page. Since this is something that we have no control over, we will continue to compensate for the lag in Yahoo's recovery by reinforcing SEO measures for Google and implementing effective advertising promotion measures.

Next, regarding the decrease in the number of visitors via advertisements, despite continuing to seek out efficient advertising promotions, we have yet to see significant results. In response to this decline, we will continue to implement campaign measures limited to those who purchase via our app to boost the number of visitors via the app, which has high purchase rates, as well as advertisements on social media platforms such as Twitter. We will continue to improve and raise the number of users by putting more effective advertising operations into practice through the implementation of the PDCA cycle—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 the lowering of the purchase price for which free shipping is applied as part of a campaign measure to boost transaction value. On the other hand, we are seeing a recovery in annual unique users (UUs) of purchasers owing to free shipping and other promotional measures. If we can accumulate existing and new users and continue to rally in terms of the number of annual purchasers, it should lead directly to a recovery in transaction value at a certain point in time. Moreover, we will consider a combination of various measures to raise the unit shipment price.

Next, I will explain operating profit. In Q3 FY03/23, we posted an operating profit of approximately JPY74mn (-77.4% YoY), with the decline primarily attributable to the fall in transaction value.

As for other significant cost-related items, purchase-costs-to-transaction-value increased 2.6% in Q3, owing mainly to an increase in the cost of goods paid to brands. Logistics-costs-to-transaction-value increased 1.5% YoY to 14.5% in Q3. While we have succeeded in lowering costs and enhancing efficiency, the increase occurred due to a decline in the unit price of shipments.

Promotional-costs-to-transaction-value decreased 2.0% from 9.1% in Q3 FY03/22 to 7.1% in Q3 FY03/23. In order to recover and further increase transaction value, we will continue to identify and enact more effective advertising promotion measures while implementing the PDCA cycle, although we may invest more as needed.

Outsourcing-costs-to-transaction-value was down 0.6% from 2.2% in Q3 FY03/22 to 1.6% in Q3 FY03/23. Until FY03/22, some of our key projects required major system modifications and new developments, and the outsourced engineering costs associated with these projects were significant, but the elimination of these costs played a key role in this change.

This concludes my explanation of Q3 results for the SHOPLIST business. Honestly speaking, I feel that it will take some more time for the business to fully recover. While we regret that it is taking longer than we had initially expected, we will first work toward 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, we will continue to reinforce advertising promotions, particularly on social media platforms. Furthermore, the introduction of a demand forecasting system for hot-selling products has produced benefits such as improved stock-out and purchase rates. This has resulted in more efficient advertising, which will further enhance advertising promotions and drive an increase in visitors. Although there is a possibility that profits will be negatively affected in the short term due to investments to increase transaction value—including increased investments in advertising and promotions—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 customers find appealing, and launch campaigns to enhance the shopping experience for existing users.

Now let's look at the Game business. Q3 FY03/23 sales amounted to around JPY514mn (-16.5% YoY), and operating profit was approximately JPY40mn (compared with an operating loss of JPY158mn in Q3 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 seen a YoY increase in users. We intend to offer the *Elemental Story* experience in various forms, including the implementation of live events. Moreover, we are constructing a system to generate steady profits by acquiring new contracts.

Next, I'd like to review our Online Advertising and Media Business. Q3 transaction value was approximately JPY783mn (+3.0% YoY), while operating profit totaled about JPY327mn (+114.9% YoY). Rank King has continued to grow steadily, with a CAGR of more than 50% in sales in its fourth fiscal year since its establishment. Our policy is to apply the profits generated by the Online Advertising and Media business toward expanding the transaction value of Rank King, and we intend to actively invest as necessary for further expansion. As announced on February 6, 2023, the termination of a contracted service agreement related to online advertising with a large client with whom we have traditionally done business will have a negative impact on sales and profit. However, we have traditionally positioned Rank King as our focus business in the Online Advertising and Media business, and we believe that this business as a whole will exhibit significant medium- and long-term growth.

Although not yet included in specific reportable segments such as the Game business, we entered the GameFi field as a new challenge in Q2 FY03/23. As a first step, we are participating 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 over JPY1tn for in-game crypto assets. 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. Development is progressing smoothly, and we are on schedule in terms of executing key pre-launch milestones, including exhibiting at the Tokyo Game Show, listing on the crypto asset exchange, and holding an auction sale. 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.

We have also announced the original game *Elemental Story World* and a joint development project with gumi Inc. as GameFi's second and third projects following PROJECT XENO. Currently in the planning stage, these projects are also progressing well.

Entering the GameFi field is a new challenge for CROOZ, and many unknowns exist. In order to achieve these lofty goals, we are 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 GameFi as appropriate.

In the SHOPLIST business, it has taken some time for transaction value to recover, but we intend to achieve restoration through the various measures I alluded to earlier. Additionally, the businesses we will focus on as our mainstays will be the Rank King and GameFi domains. We will strive to increase the success rate of blockchain games in the GameFi field, in particular, as it is a global market as well as a domestic one, and has the potential to bring in large profits.

The CROOZ Group will continue to invest in existing businesses and take on the challenge of new businesses in order to create second and third pillars for the future.

February 9, 2023

Koji Obuchi