

2024 Mercari CEO and Shareholder Dialogue

In September 2024, Mercari's Representative Executive Officer and CEO Shintaro Yamada held interviews with several of Mercari's major shareholders and other institutional investors. As we place great importance on fair disclosure and strive to enhance the fairness and transparency of our IR activities, we have compiled and disclosed a summary of these interviews below.

Consolidated

Q. As CEO, how do you view Mercari's FY2024.6 financial results?

A. FY2024.6 had some achievements, such as enhanced profitability in our existing businesses and promising growth in new businesses. However, we were unable to increase GMV growth rates in either Japan or the US, so I can't say I'm satisfied with the results. I believe that many of our processes, including product development and releases, have grown slower, which is something I regret. To address this, we are striving to increase the speed of execution within the company under the motto of "back to startup." For example, over the past few years we have adopted a work style where the majority of our work is done remotely, but we are now increasing opportunities for employees to work from the office. As a result, I feel that our decision-making speed is gradually increasing.

I also believe that we have allocated too much of our workforce to our core C2C business. Aiming for further growth, we will reallocate resources to areas of high growth going forward.

Q. It feels as if Mercari's direction and focus on profitability is not getting across to the market. What do you think is the reason for this difference in understanding?

A. Upfront investments in Fintech, US, and other areas placed pressure on our profits, sending an unintended message that Mercari is not aiming to grow profits. To correct this message, we decided to disclose a consolidated financial forecast and mid-term targets, including quantitative profit targets. We also took this action because it has become easier to anticipate consolidated profits within a range as our C2C marketplace has achieved a sizable scale and Fintech is entering a phase of generating profits.

Q. With a forecast of increased profits in the medium term, how do you plan to use your cash assets?

A. Our plan is to strengthen our financial foundation through internal reserves while investing in areas of high growth. At present, our retained earnings are negative, so from a legal perspective it is difficult for us to pay dividends, but going forward, when we have more flexibility, we believe that we will need to consider shareholder returns, such as dividends and stock buybacks, in balance with our internal reserves, taking into account management results, our financial situation, business plans, and other factors.

There is a possibility that we will carry out M&As as part of our investments for growth, but we would first like to focus on growth of our existing businesses in Japan and the US.

Q. As CEO, how do you spend your time?

A. It changes month-to-month, but to give one example, in FY2024.6 Q4, I spent much of my time on discussions regarding FY2025.6 roadmaps and business plans, which we formulate for each company, leading up to June, the final month in our fiscal year.

I believe that product development is one of my strong areas, and in the current phase of executing our plans, I am taking more opportunities to have face-to-face discussions with engineers and designers. One point that I believe needs improvement is that I have left too much to employees on the ground in recent years; while being careful not to micromanage, I hope to give various directions from a broader viewpoint to create better products.

Marketplace**Q. What do you believe is the main factor slowing down the GMV growth rate? What initiatives are you considering to increase the growth rate?**

A. We believe that the main factor is that we were not able to take on bold challenges. Some areas, such as crossborder transactions and B2C, are showing strong growth, but they have not been able to boost our overall top line. This also stems from our organization as a whole moving more slowly; we need to allocate people to these areas of high growth.

In the C2C domain, we feel that the increase in features has made the UI more confusing, and we would like to shape *Mercari* into a simple and good product by leveraging AI and other technology to organize information better. We have also been considering initiatives to drastically change the listing experience, and released AI listing support on September 10. We believe that offering a great user experience will yield a larger impact.

Q. As MAU growth rate is slowing down, do you plan to focus on ARPU growth going forward?

A. We aim to increase both MAU and ARPU. We believe that both MAU and ARPU have significant room to grow, and that by leveraging AI, we can grow listings further. On the UI side, we hope to activate purchases by rearranging areas that have become complex.

Q. How do you view the competitive environment, including the impact of primary distribution companies in China?

A. We don't have exact numbers, but we believe that the impact on our businesses in Japan is limited. We are working to strengthen categories with high price ranges, which are not categories that primary distribution companies in China specialize in, so we are not necessarily directly competing with them in all categories. By introducing authentication services, strengthening categories with high price ranges, and other actions, we believe that we can continue to grow AOV going forward and hope to use this to enhance ARPU as well.

We feel that competition for low-price items is stronger in the US than in Japan, intensifying with the increasing number of offline secondhand shops. We hope to rise to the competition by establishing mechanisms to encourage listings, including changes to our fee model.

Q. Are there any particular categories you want to strengthen in the future?

A. In FY2025.6, we are focusing on strengthening automobile-related categories and luxury brand items. For example, automobiles are currently listed on *Mercari*, but in many cases they do not reach

the actual transaction process. Additionally, going forward, we would like to strengthen categories of household assets that are not yet widely circulated.

Q. How much progress has *Mercari Hallo* made so far? As a late entrant to the market, how do you plan to take on more established companies?

A. The need for on-demand work is extremely large in Japan these days, as the labor shortage worsens. Many *Mercari* users have already signed up for *Mercari Hallo* as workers, from which we sense a strong need for cash-in opportunities through on-demand work. Unlike the *Mercari* marketplace, where buying and selling takes place online, working is a physical activity, which comes with a different set of challenges, but we believe that on-demand work has synergy with our other businesses, such as cashed-in wages contributing to the payment and credit businesses and enhancing purchasing power on *Mercari*. It's true that *Mercari Hallo* is a relatively late entrant to the market, but with the worsening labor shortage, traditional mediums for hiring part-time workers are no longer sufficient, and even using on-demand work services, it is difficult for businesses to secure enough talent through any one platform, so we have seen strong demand from businesses. Because of this, we believe that this is not necessarily a market in which the winner takes all, and that we can steadily grow the business by responding to market demand.

Q. I understand that there is some synergy between *Mercari Hallo* and existing businesses, but do you have any knowledge of customer success? Are you considering collaboration with external partners?

A. Unlike worker acquisition, where we can leverage *Mercari*'s user base of approx. 23M users, partner acquisition is challenging, but our company has business experience involving the acquisition of merchants through our other businesses such as *Merpay* and *Mercari Shops*, so we do have a degree of knowledge in this area. We constantly maintain a flexible mindset when it comes to collaboration with external partners.

Q. What is your vision of *Mercari Hallo*'s profitability in the next three years?

A. We have not disclosed when we think the business will become profitable, but we expect to collect 30% service fees from partners in the future (no fees have been collected yet as of September 2024 due to a promotional campaign), which will make *Mercari Hallo* a high-revenue business. Therefore, we do not envision the business will continue to incur losses in the long term.

Fintech

Q. When will adjusted core operating profit see profitable figures?

A. As we disclosed in our presentation materials for FY2024.6 Q4, we are aiming for a core operating profit of 10.0B JPY or more in FY2027.6. Once we can achieve this, we estimate that we will see a certain extent of adjusted core operating profit since our overall revenue base will increase.

Q. What drivers have you directed toward profitability?

A. Going forward, we will continue to focus on our credit services as drivers of profitability. Up until FY2024.6, as a result of growing credit services by investing in the acquisition costs of *Mercard*, Fintech's revenue base became even firmer. By building credit balances while continuing to invest in *Mercard*, we project that we will enter a phase of expanding revenue starting in FY2025.6, and we believe that we will steadily build profits going forward.

US

Q. What sorts of discussions does Mercari's management have regarding the US business? Other than macro-economic factors like high inflation, what do you see as the issues for the US business?

A. The US business grew substantially on account of the COVID-19 pandemic, and therefore we strengthened our investment in the US even more to build up our teams. We improved our product premised on the idea that it already had good market fit. However, the growth we saw was actually due to the increase in time users spent at home during the pandemic; this and other external factors such as inflation kept us from sustaining a high level of growth post-pandemic when brick-and-mortar businesses reopened. As a result, for roughly the last three years GMV growth has been negative. At the start of FY2023.6, we set an internal goal of breaking even in FY2025.6, but once we realized that we would not achieve this with GMV growth, we reorganized our cost structure. As a result of this, we believe that we have prepared the foundation needed to break even in the current fiscal year of FY2025.6.

From the product aspect, because we were not able to reap the effects we had expected to gain from detailed feature improvements, in March 2024, we made wide-reaching changes to our fee model. Although we have yet to see the effects of these dramatic changes, we believe it is important to focus on continuous improvements.

Q. How have users reacted to the changes to your fee model?

A. Our users have voiced a variety of opinions. The number of listings has grown substantially, which is what we were aiming for. However, when it comes to items in the high price range, the 10% service fee is reflected significantly on buyers, and therefore, we have yet to see a positive impact on high-priced items, and overall, GMV growth is in negative territory. As a company focusing on acquiring Gen-Z users, an increase in items in the low price range is positive, but going forward, we would like to create a ripple effect that touches high-priced items as well.

Q. Is there a possibility of entering a partnership with another company?

A. We periodically speak with a variety of companies, and while we have not reached any concrete decisions, entering into a partnership is one possibility available to us.

Disclaimer

This material has been prepared based on information gathered at the time of its preparation and is not in any way intended as a commitment to future implementation. In the interest of clarity and readability, some of the content has been edited from the actual interviews.