mercari

Financial Results for FY2024.6 Q4 - Q&A Summary

Consolidated

Q1. Why did you choose to announce guidance for both FY2025.6 and the medium term for the first time? Also, regarding your forecasted core operating profit of 22.0–25.0B JPY for FY2025.6, am I correct in assuming that you are committed to achieving the lower limit of 22.0B JPY? Is there any possibility that you will achieve a profit higher than the upper limit of 25.0B JPY?

A1. We chose to disclose guidance this time for two main reasons. The first is that our C2C marketplace has reached a significant size, and Fintech is moving into the profit-generation phase, which has made it easier to anticipate consolidated profit within a certain range. The second is that not disclosing profit targets thus far has given the wrong impression to certain markets that Mercari is not interested in generating profits. In order to correct that impression, we decided to disclose guidance for revenue and core operating profit for both FY2025.6 and the medium term.

Regarding our approach to the forecasted consolidated core operating profit of 22.0–25.0B JPY for FY2025.6, we believe that the lower limit is a target value that we should exceed. In the event that we anticipate exceeding the upper limit of 25.0B JPY, we will make additional investment decisions as appropriate taking into consideration the investment area, timing, and ROI.

Q2. Why did you set a target core operating profit CAGR of 25% or higher for FY2024.6–FY2027.6? Will you continue to take the same approach to balancing growth and profitability going forward?

A2. We have disclosed medium-term top-line growth targets for Marketplace in the past, but this is the first time that we have disclosed medium-term targets for consolidated profit. This is meant to indicate Mercari Group's intent to significantly increase not just top-line growth, but profit growth as well.

We have calculated our medium-term target core operating profit CAGR of 25% or higher based on the assumption that we will make the necessary investments in areas where we can expect high growth, create Group synergy, and increase our ability to generate profits in order to achieve this target. We do not anticipate decreasing investment amounts further than we have in the past. That said, we have also anticipated the possibility of things not going according to plan, and so we have formulated this target considering multiple scenarios for each business and various combinations.

Additionally, we will continue to take the same approach to balancing growth and profitability that we have so far. In the event that our top-line growth does not increase as much as we anticipate, we will handle the situation flexibly by taking actions such as reconsidering investments, changing the allocation of investments, and prioritizing profit generation.

Q3. Your forecast for consolidated core operating profit for FY2025.6 indicates that you plan to increase core operating profit by approximately 3.0–6.0B JPY YoY. Given that the guidance for each business indicates that you expect Marketplace, Fintech, and US to have increased profits, are you expecting a major decrease in profits in other segments?
A3. We have disclosed our FY2025.6 guidance for adjusted core operating margin for Marketplace as 37–42%, and our consolidated operating profit will change depending on where it lands within that range. Our policy for Marketplace is to invest in high-growth areas such as *Mercari Hallo* in addition to crossborder transactions and B2C. Because our adjusted core operating margin in Marketplace will fluctuate depending on the size of those investments, we will communicate our progress thoroughly each quarter.

Marketplace

Q4. You didn't achieve your GMV growth rate target for Marketplace for FY2024.6, and I think your target GMV growth rate of around +10% in FY2025.6 will be difficult to achieve as well. What conditions need to be in place to reach this target?
A4. In FY2024.6, we carried out various initiatives, but we were not able to achieve bold improvements that would significantly change the product, which is something we see as regrettable. We believe that there is ample room for improvement in UI/UX, including leveraging AI, as well as in high-price categories, and we will work to achieve drastic improvements in FY2025.6. Additionally, areas such as crossborder transactions and B2C showed strong growth in FY2024.6, and we believe that they continue to have significant room to grow in FY2025.6 as well. We understand that you may think that the hurdle for achieving a GMV growth rate target of around +10% is high, but given Marketplace's potential, we believe that it will be possible to achieve this target.

Q5. What specific changes will we see as a result of utilizing AI/LLMs?
A5. Specifically, we believe that we can further simplify the listing process, which is something we have been working on already. We are also considering bold changes to the home screen and expect the use of AI to enhance the accuracy of matching algorithms. Additionally, we are moving ahead with changes on the organization side to improve our development speed, and plan to enhance UI/UX while leveraging AI APIs and open-source projects that are already available.

Q6. The on-demand work market seems to have a winner-take-all quality to it. As Mercari Group joined the industry late in the race, what is your plan for attaining success?
A6. Based on there being multiple business operators in the part-time and dispatch work industries, I think there's room to debate as to whether the industry is a winner-take-all domain. *Mercari Hallo* has actually received many inquiries from business operators, and we have registered over 5 million users just a few months after we started our business.
I believe that our plan for success lies in leveraging the assets of Mercari Group such as *Mercari*'s MAU and the seamless link with *Merpay*'s services. By improving the matching accuracy of job postings with workers while leveraging the company's strengths, we will focus on improving the satisfaction rates of both merchants and workers and trace a trajectory toward becoming no. 1 in the mid-to-long term.

Fintech

Q7. In Q4, the total investment in new services was 2.8 billion JPY. Do you plan to continue to use the same level of costs to grow the company going forward?
A7. Fintech is a stock-type business, and as such we feel that it is a business for which it is easier to envision a concrete picture of future growth and profit generation by accumulating credit balance while maintaining and improving our collection rate. On the other hand, over the course of a year our promotional costs may vary quarter over quarter depending on factors such as seasonality and whether we hold large promotions or not. Therefore, we ask that you think of things like our investment in advertising costs as something that will vary with each quarter.

US

Q8. It's been 10 years since the US business started, and the company continues to struggle. I would like to hear your thoughts on this as the CEO, Mr. Yamada. In addition, do you think it's possible to build the business while keeping costs down?
A8. During the pandemic, GMV grew substantially, and we made an executive decision to make a large investment in order to grow the business; the investment also included investing in talent. However, since then we have been unable to achieve the results we were aiming for, and our company management is now reflecting on this. We would like to continue to grow GMV going forward while leveraging what we have learned from this experience. However, if we were to judge that it will be difficult for us to grow, we will have to consider various other options.
Personally, I want to build a global service, but the US management plan is not based on my personal feelings. We must weigh the risks and returns with a level head and decide on a plan as a company.
Regarding the costs, following the restructuring of the organization, we have returned our US operations to an appropriate size by reducing our scale by the portion of the increased investment that we made during the pandemic, and we would like to expand

our focus areas which will allow us to both break even and grow while leveraging limited resources.

Q9. After the changes to the service fee model at the end of March, I had the impression that there were some scathing reviews from users, but what is the actual situation like?
A9. When we first changed the service fee model, we made it possible to return items for any reason to encourage purchasing, but this caused us to receive some complaints mainly from heavy sellers. However, we have since rolled back our return policy, and this has resolved the issue. By changing our service fee model, we have enabled listers to list their items without worrying about service fees or shipping costs, and so the number of listings is increasing; in particular, the number of low-price-range items has increased. However, we believe there is an issue with the number of high-price range item transactions. We would like to resolve this issue by implementing and continually enhancing the accuracy of a system in which fee rates fluctuate based on factors such as supply and demand and unit prices.