



GMO Pepabo, Inc.

Q3 Financial Results Briefing for the Fiscal Year Ending December 2021

November 8, 2021

Event Summary

[Company Name]	GMO Pepabo, Inc.	
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[Event Type]	Earnings Announcement	
[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending December 2021	
[Fiscal Period]	FY2021 Q3	
[Date]	November 8, 2021	
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[Time]	16:30 – 16:56 (Total: 26 minutes, Presentation: 14 minutes, Q&A: 12 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	2	
	Kentaro Sato	Representative Director and CEO
	Yoshito Igashima	Executive Director and CFO
[Analyst Names]*	Kazuki Tokunaga	Daiwa Securities Co. Ltd.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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Presentation

Moderator: Dear investors, thank you very much for taking time out of your busy schedules to join us today for participating in the financial results briefing of GMO Pepabo, Inc. for Q3 for the fiscal year ending December 31,2021.

I would now like to introduce today's attendees. Kentaro Sato, Representative Director and CEO.

Sato: I'm Sato. Thanks.

Moderator: Yoshito Igashima, Executive Director and CFO.

Igashima: Thanks.

Moderator: These 2.

Today, Sato will provide an overview of our financial results. This will be followed by an audio question-and-answer session. How to ask questions will be explained later. It will take about 45 minutes overall.

Sato will now provide an overview of our financial results. Thank you.

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引き続き、巣ごもり需要が一服した影響で 前年同期比で増収、減益

- スtock型サービスのロリポップ!とカラーミーショップが堅調に推移
- 人件費やプロモーション等の費用増加により減益

1

Sato: Once again, I am Sato, Representative Director and CEO. Thank you for taking time out of your busy schedule to join us today.

We will begin our financial results briefing for Q3 for the fiscal year ending December 31, 2021.

Here are the key points of this financial statement.

In Q3, due to the impact of a lull in demand for nesting demands, sales increased, and profits decreased YoY. Although revenue increased due to steady growth in stock-type services, profit decreased due to an increase in promotion and other expenses.

There is no change in the direction in which we are aiming for improvement, mainly in terms of profit, by continuing to control costs.

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AGENDA

- 2021年12月期3Q 決算概況 3 ページ
- 2021年12月期3Qの進捗と今後 26 ページ

GMOペパホ



Here is the agenda for this session.

I will spare you the explanation, but in the latter half of this document, you will find the Company profile, including service overview and shareholder returns, as reference material.

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売上高は前年同期比108.0%と売上成長を維持したものの、営業利益はプロモーション等の費用増加により73.1%

四半期純利益は事業譲渡益の計上により85.1%

(百万円)	2020年 (3Q)	2021年 (3Q)	増減額	前年同期比
売上高	8,293	8,958	+ 664	108.0%
営業利益	965	706	△ 259	73.1%
営業利益率 (%)	11.6	7.9	—	—
経常利益	1,021	739	△ 282	72.4%
親会社株主に帰属する 四半期純利益	627	533	△ 93	85.1%

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First, I would like to provide an overview of this quarter.

While sales in Q3 maintained growth at 108% YoY, operating income was 73.1% YoY due to the impact of increased promotion expenses and personnel expenses.

Net income for the quarter was 85.1% of the previous year's level due to the transfer of the blog media service business, JUGEM, in the second quarter.

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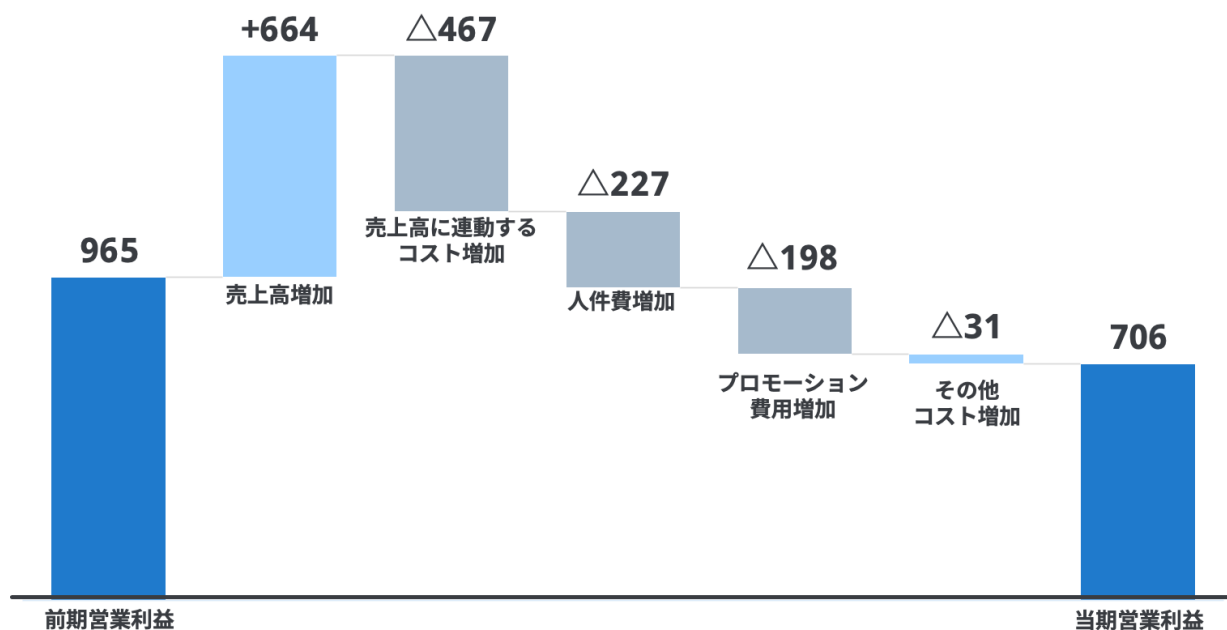
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人件費やプロモーション費用等の増加により、前年同期比73.1%の706百万円

(単位：百万円)

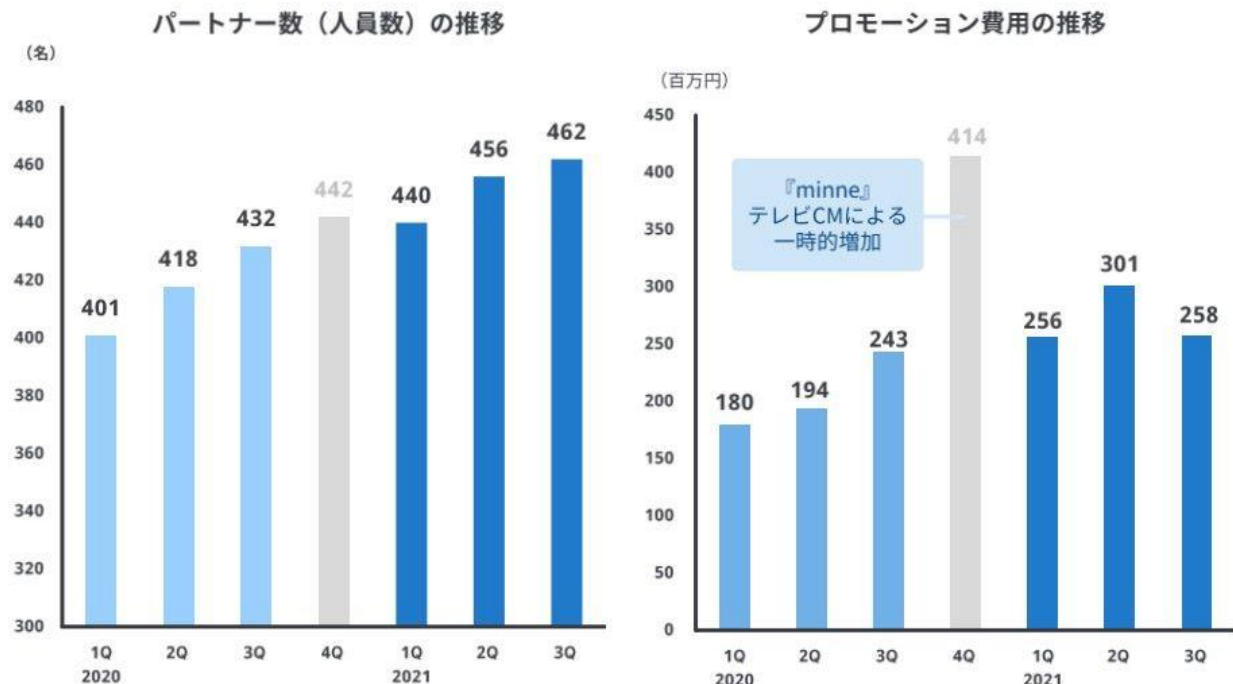


5

Here is a graph showing the analysis of changes in operating income YoY.

Operating income was JPY706 million due to increased promotion costs and personnel expenses.

EC関連サービスの業績拡大に伴い、人員数・プロモーション費用が増加



6

Here are the details of the cost portion.

In last year's nesting demand, we made a plan based on the assumption that the EC field would grow significantly, so although the increase in personnel and promotion costs were higher YoY, compared to Q2 of this year, the trend in Q3 has been toward restraint.

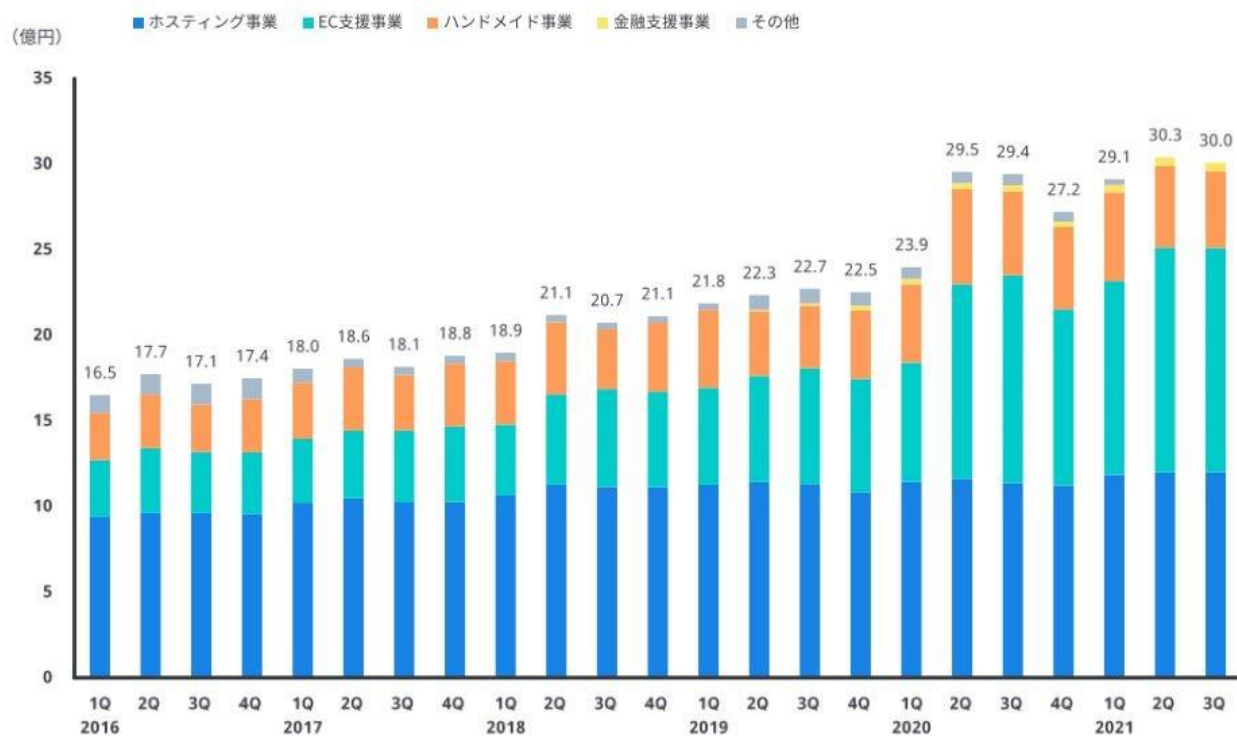
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Next is the quarterly sales trend.

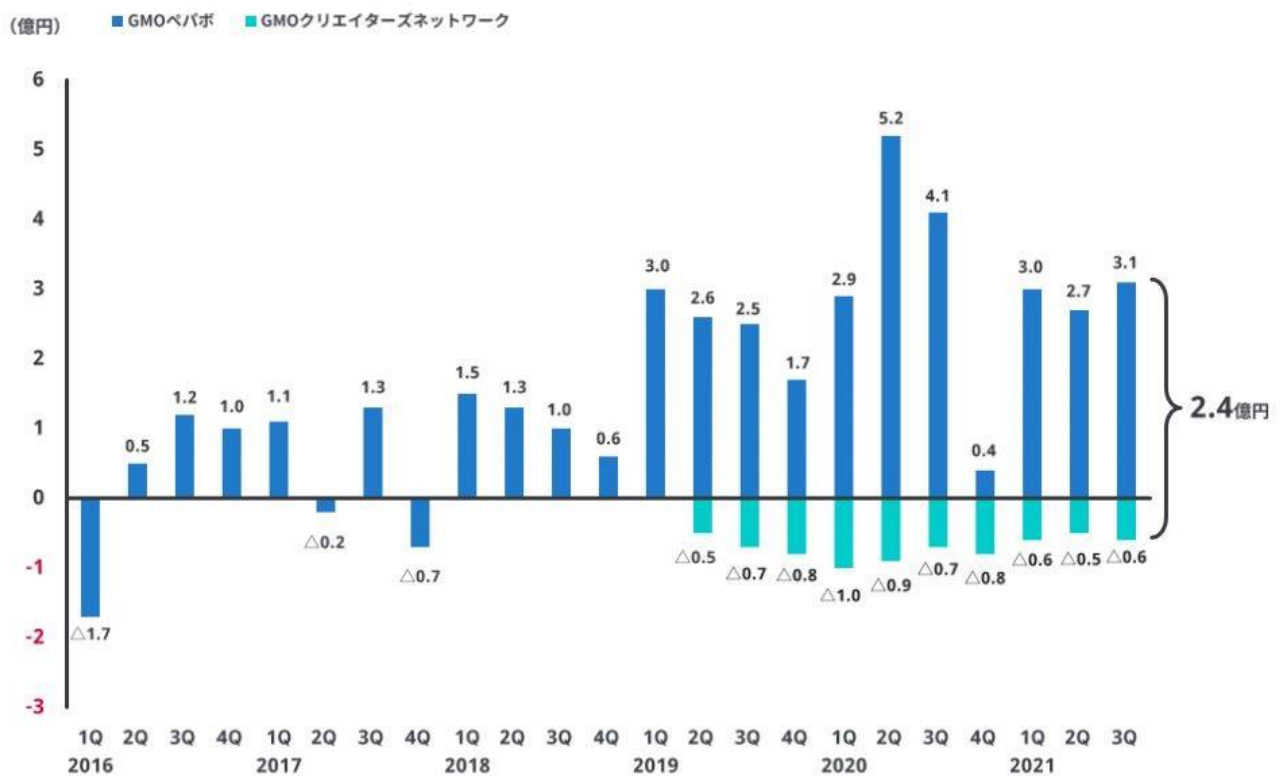
In the third quarter, we continued to maintain a JPY3,000 million level.

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This is followed by the quarterly operating income trend.

Operating income of JPY240 million was recorded in the third quarter due to progress in cost reduction compared to the second quarter.

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主力サービスを中心に堅調な推移		
ホスティング	売上高：	3,583百万円（104.1%）
	営業利益：	1,088百万円（103.4%）
売上は順調に成長も「SUZURI」が想定を下回る		
EC支援	売上高：	3,754百万円（123.4%）
	営業利益：	884百万円（89.5%）
巣ごもり需要の一服により前年同期比で減収、減益		
ハンドメイド	売上高：	1,441百万円（95.7%）
	営業利益：	168百万円（56.0%）
利用者数や請求書買取額が増加、営業利益は大幅に改善		
金融支援	売上高：	145百万円（145.9%）
	営業利益：	△113百万円（116百万円増）

※（ ）内は前年同期比

9

Next is the status by segment.

In the Hosting business, Lollipop! and MuuMuu Domain have been enhanced to strengthen cooperation, and there was the price revision of Lollipop!, which resulted in an increase in both sales and operating income YoY.

In the EC support business, although net sales maintained growth YoY, SUZURI fell short of expectations, resulting in a YoY decline in profits.

In the Handmade Products business, both sales and profits fell below the previous year's levels due to sluggish growth in the distribution amount and the number of orders.

In the Financial Support business, the number of users and the number of invoices purchased are on an upward trend, resulting in significant growth in sales and an improvement in operating income.

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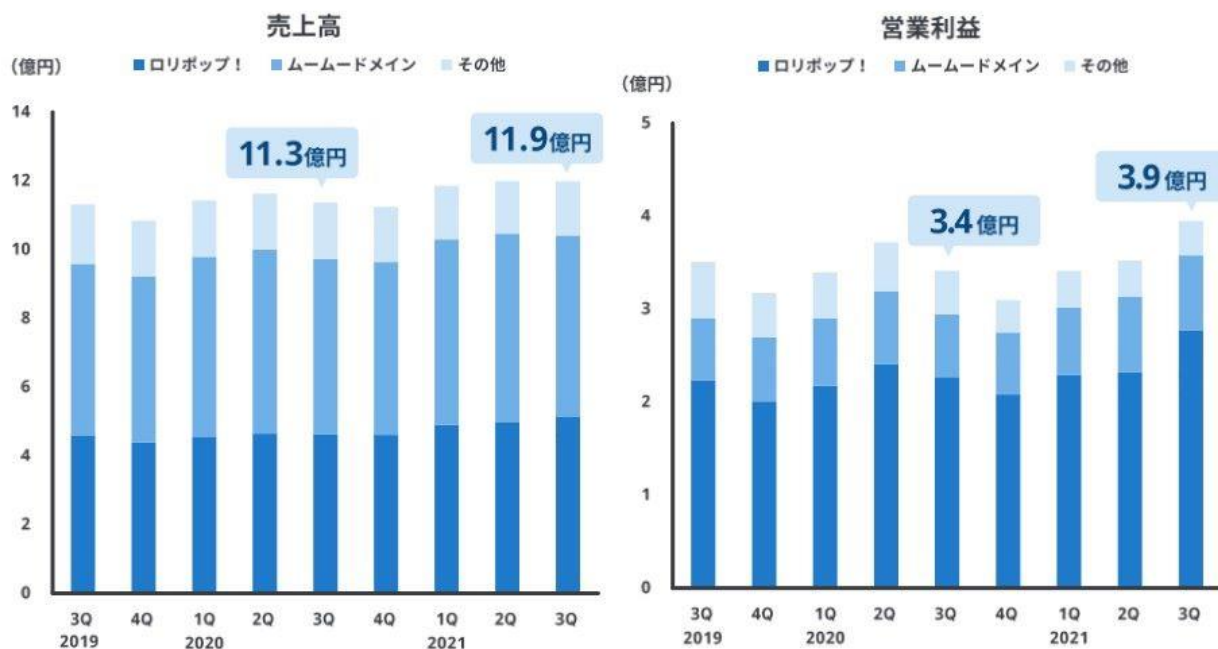
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累計期間

売上高： 3,583百万円 (前年同期比 104.1%)

営業利益： 1,088百万円 (前年同期比 103.4%)



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Now, I would like to explain each segment.

First, the Hosting business.

In the Hosting business, net sales increased to JPY3,583 million, or 104.1%YoY, and operating income increased to JPY1,088 million, or 103.4% YoY.

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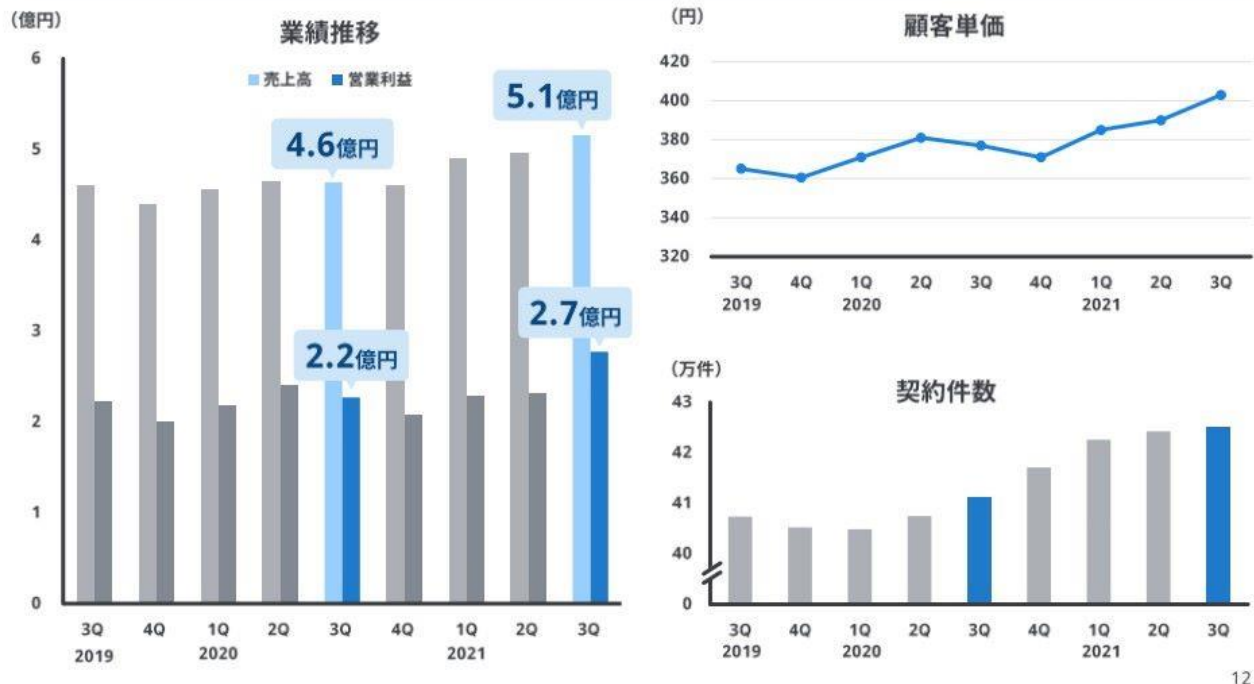
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累計期間

売上高：1,502百万円（前年同期比 108.4%）

営業利益：738百万円（前年同期比 107.7%）



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The following are the details of each major service. This is Lollipop!

Net sales increased to JPY1,502 million, or 108.4% YoY. Operating income was JPY738 million, up 107.7% YoY.

Unit prices per customer increased due to the impact of price revisions and a higher percentage of contracts for higher-end plans.

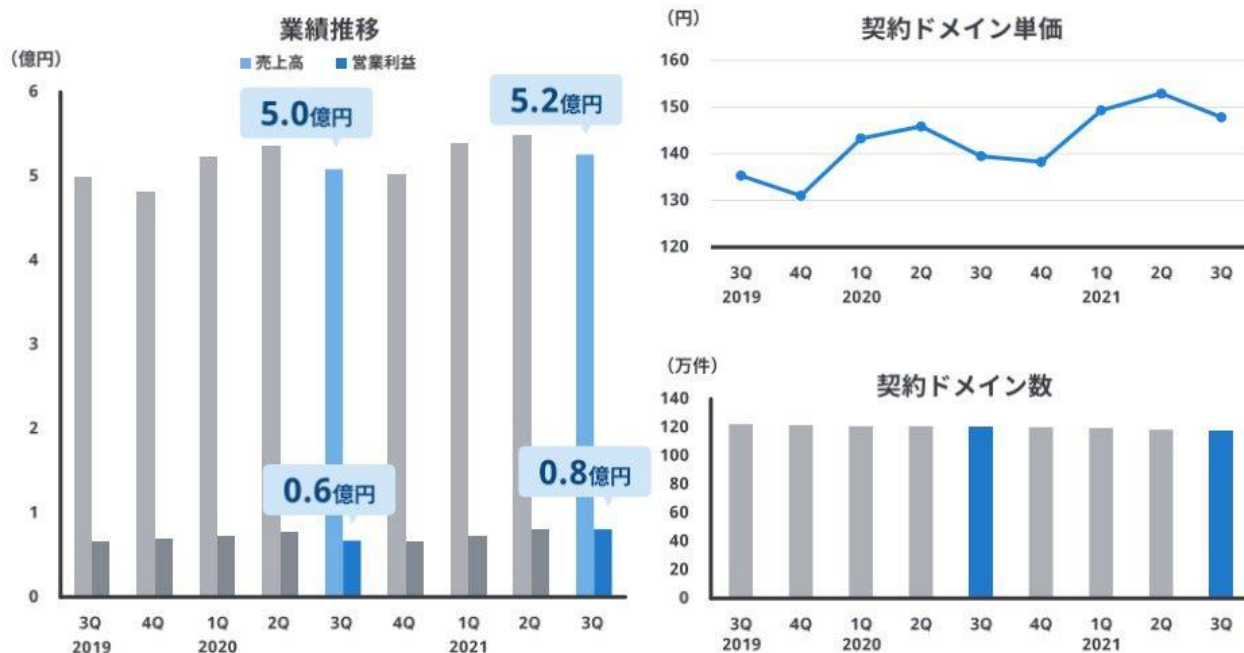
In addition, the number of contracts has been increasing due to the strengthening of cooperation with MuuMuu domain and the increase in new contracts through affiliates.

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累計期間

売上高： **1,614百万円**（前年同期比 **103.1%**）営業利益： **234百万円**（前年同期比 **107.7%**）

13

Next is the domain name acquisition service of MuuMuu domain.

As a result, net sales increased to JPY1,614 million, or 103.1% YoY, and operating income increased to JPY234 million, or 107.7% YoY.

Although the number of contracted domains continued to decline due to the struggles of new contracts, both sales and profits increased due to the rise in the renewal rate and the increase in the unit price of domains.

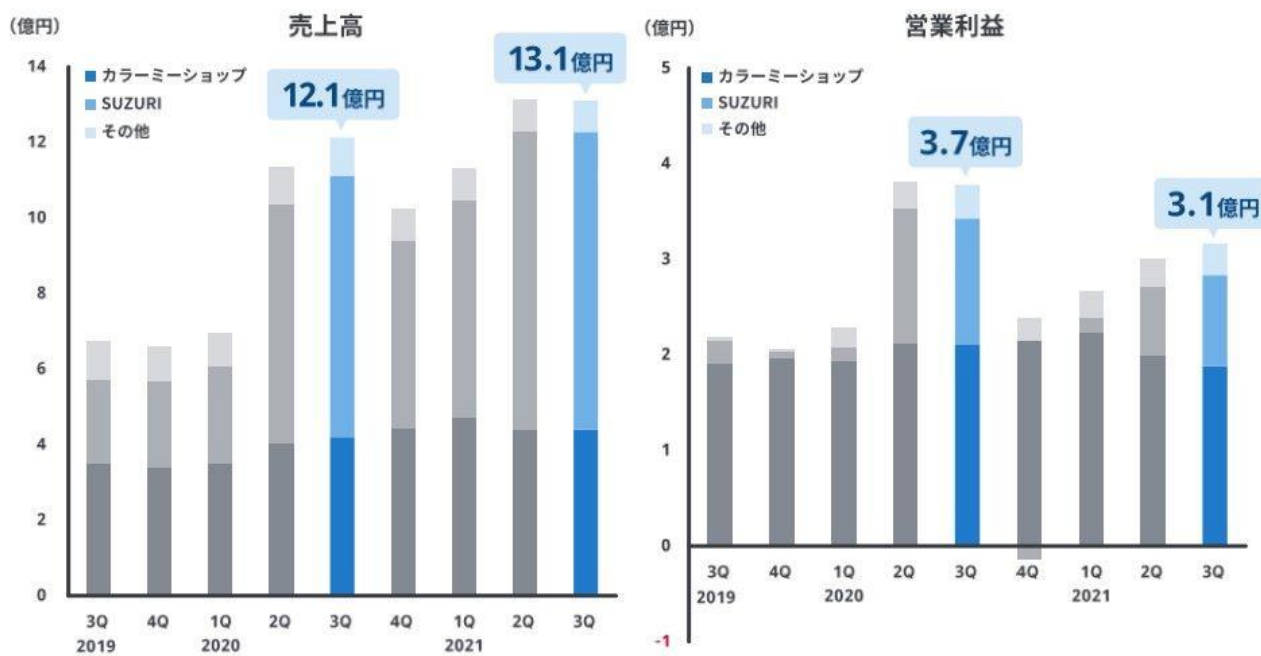
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累計期間

売上高： **3,754**百万円 (前年同期比 **123.4%**)営業利益： **884**百万円 (前年同期比 **89.5%**)

15

Next is the EC support business.

Net sales increased significantly to JPY3,754 million, up 123.4% YoY, while operating income was JPY884 million, or 89.5% YoY.

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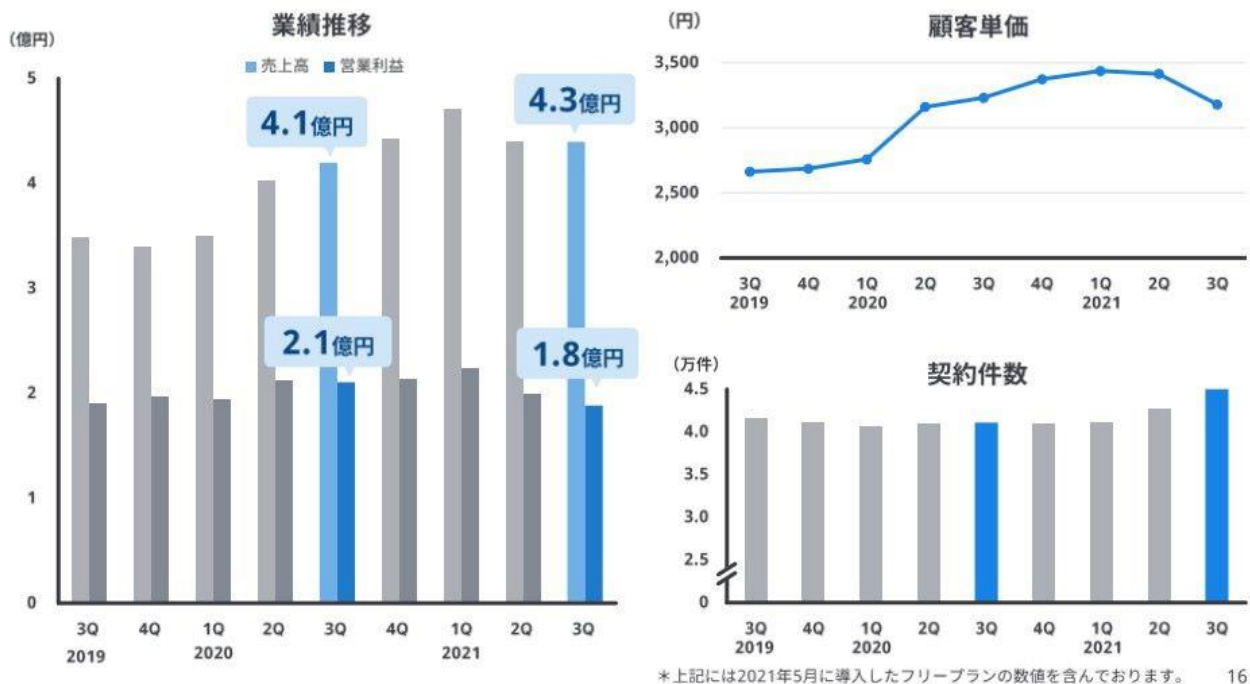
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累計期間

売上高：1,351百万円（前年同期比 115.2%）

営業利益：611百万円（前年同期比 99.2%）



16

The following are the details of each major service.

In the online store creation service, COLOR ME Shop, net sales increased to JPY1,351 million, or 115.2% YoY, and operating income was JPY611 million, or 99.2% YoY.

Due to the impact of the release of the free plan in May of this year, the unit price per customer has decreased.

On the other hand, the number of contracts has been steadily increasing and is on the rise.

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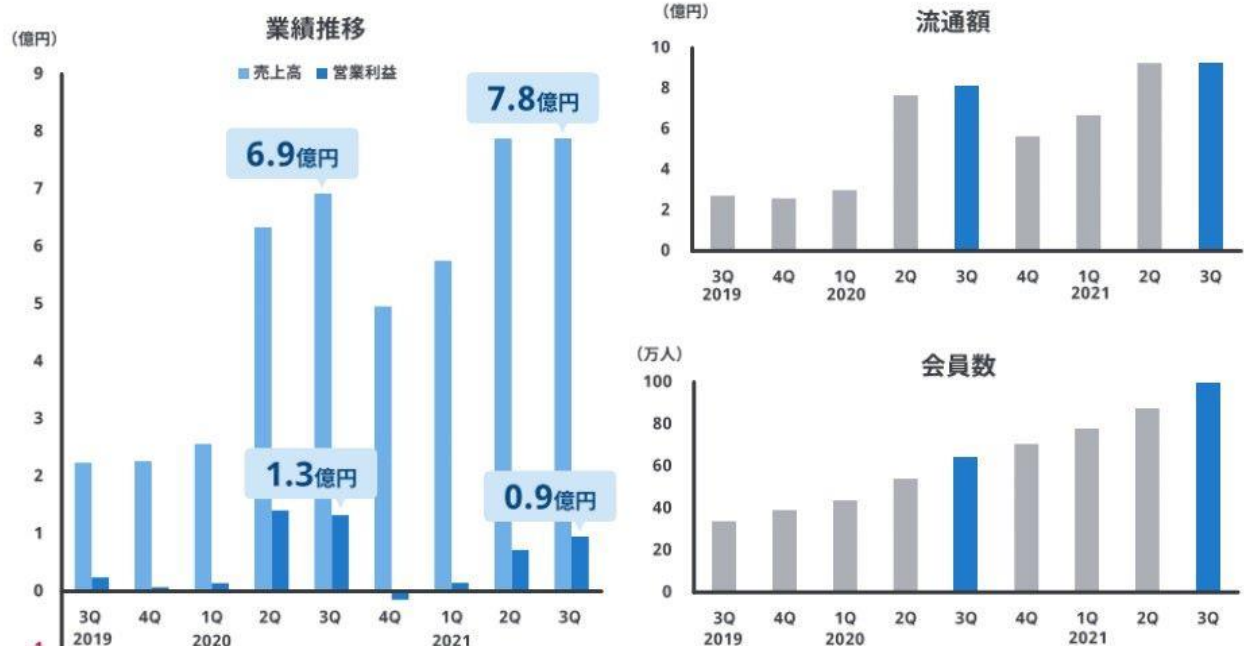
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累計期間

売上高： 2,150百万円 (前年同期比 136.0%)

営業利益： 181百万円 (前年同期比 63.3%)



17

Next, there is SUZURI, a service for creating and selling original goods.

Net sales increased to JPY2,150 million, or 136% YoY. Operating income was JPY181 million, or 63.3% YoY.

Due to the extension of the T-shirt sale period and the introduction of new items, the amount of sales distribution increased YoY.

On the other hand, operating income was lower YoY due to an increase in expenses, moreover, as a result of strengthening promotions and personnel structure.

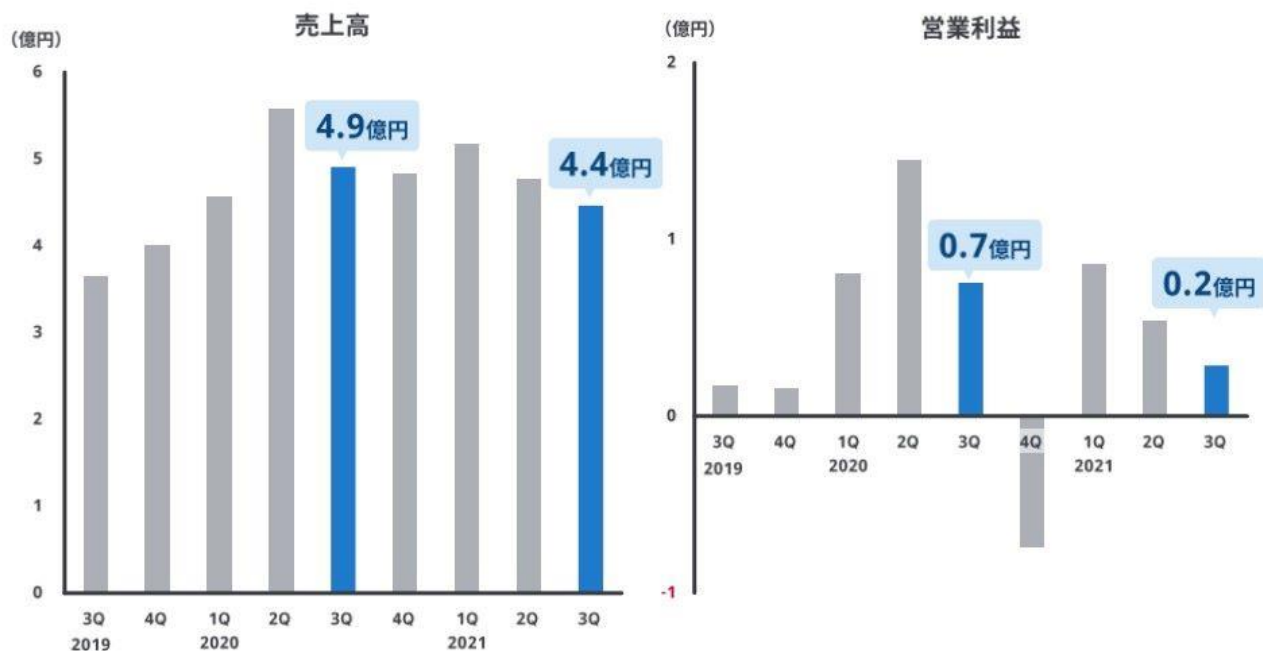
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累計期間	売上高：	1,441百万円 (前年同期比 95.7%)
	営業利益：	168百万円 (前年同期比 56.0%)



19

Next is the Handmade Products business.

As for the handmade market, minne, despite the measures taken in Q3 to enhance the search function for works and to strengthen the web inflow, net sales decreased to JPY1,441 million, or 95.7% YoY, and operating income decreased to JPY166.8 million, or 56% YoY, due to the impact of the lull in the nesting demand from last year.

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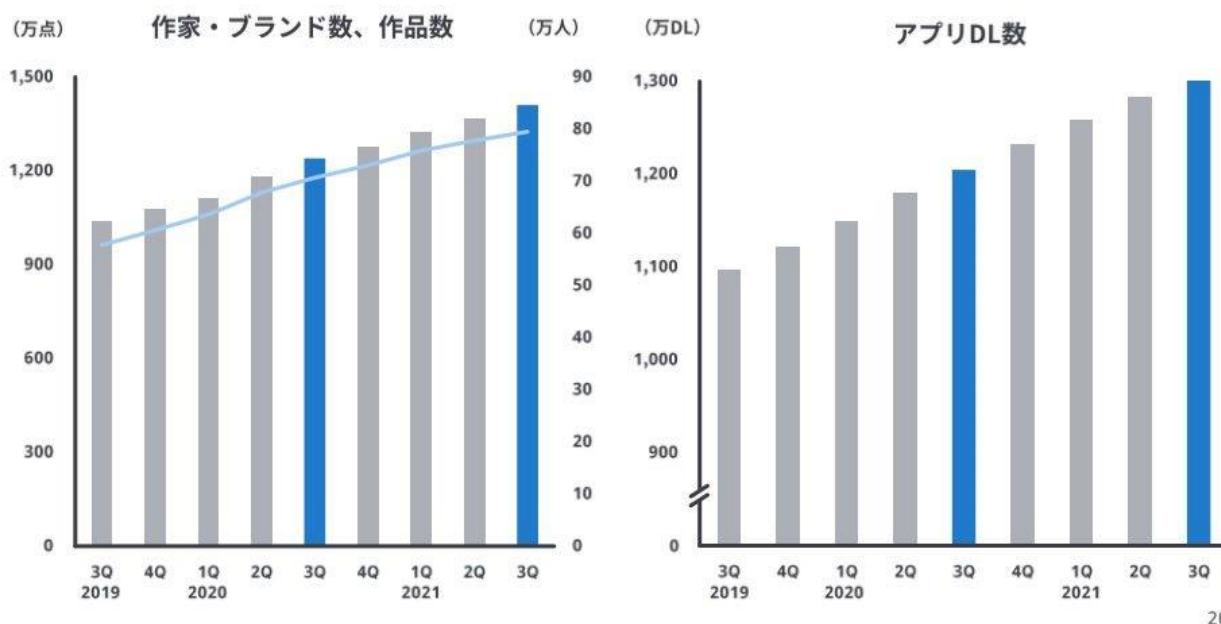
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作家・ブランド数 : **79万人** (前年同期比 **112.5%**)
 作品数 : **1,410万点** (前年同期比 **113.8%**)
 アプリDL数 : **1,306万DL** (前年同期比 **108.4%**)



20

Here are the various KPIs for minne.

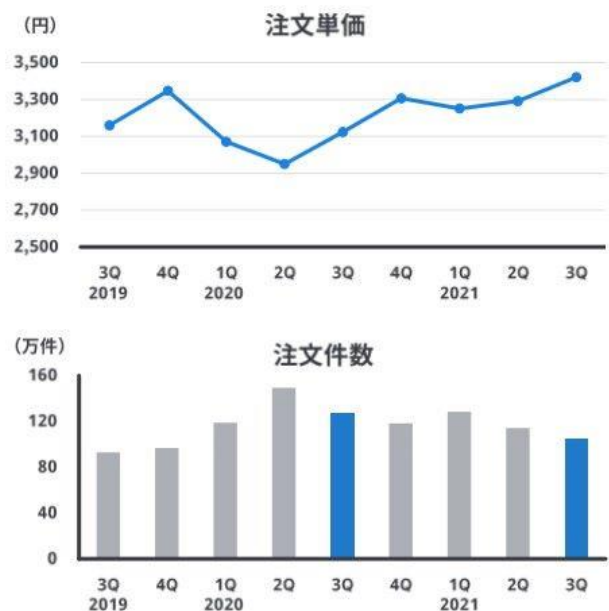
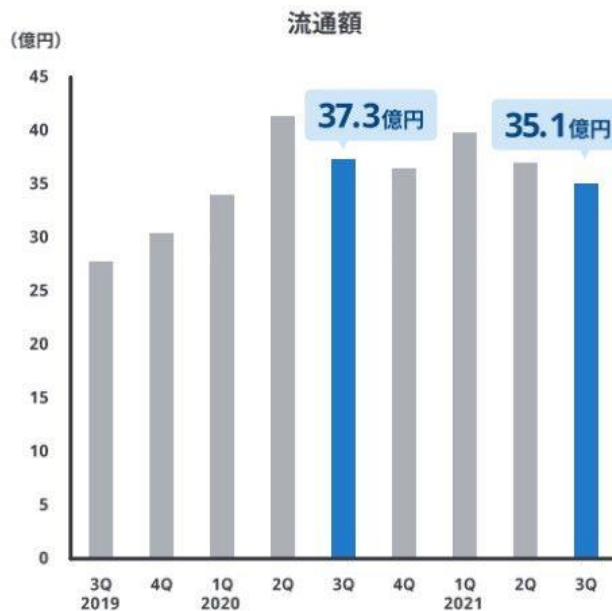
The number of authors and brands is 790,000, the number of works is 14.1 million, and the number of app downloads is 13.06 million.

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累計期間	流通額：	111.9億円	(前年同期比 99.4%)
	注文単価：	3,421円	(前年同期比 109.5%)
	注文件数：	347.7万件	(前年同期比 87.8%)



21

The distribution value decreased YoY due to a decrease in the number of orders, affected by the lull in nesting demand from last year.

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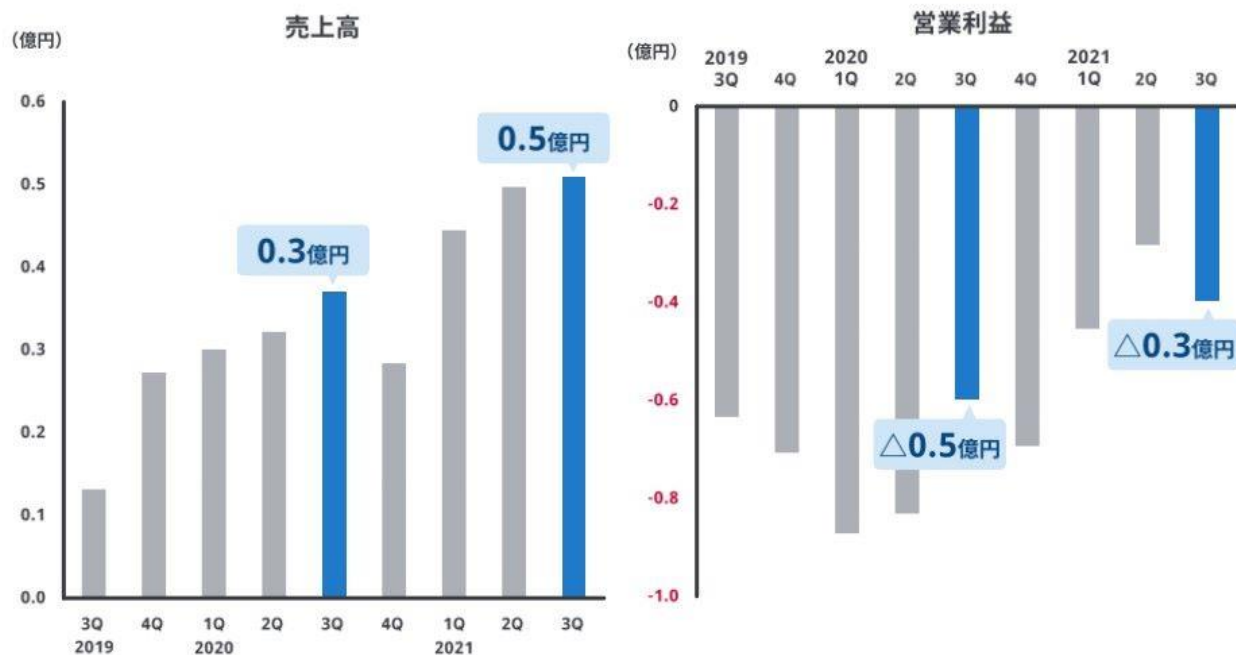
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累計期間

売上高： **145百万円** (前年同期比 **145.9%**)営業利益： \triangle **113百万円** (前年同期比 **116百万円増**)

23

Then, finally, there is the Financial Support business.

FREENANCE is included in the financial support business.

Net sales were JPY145 million, up 145.9%YoY, and operating income was minus JPY113 million. Profit improved by JPY116 million YoY.

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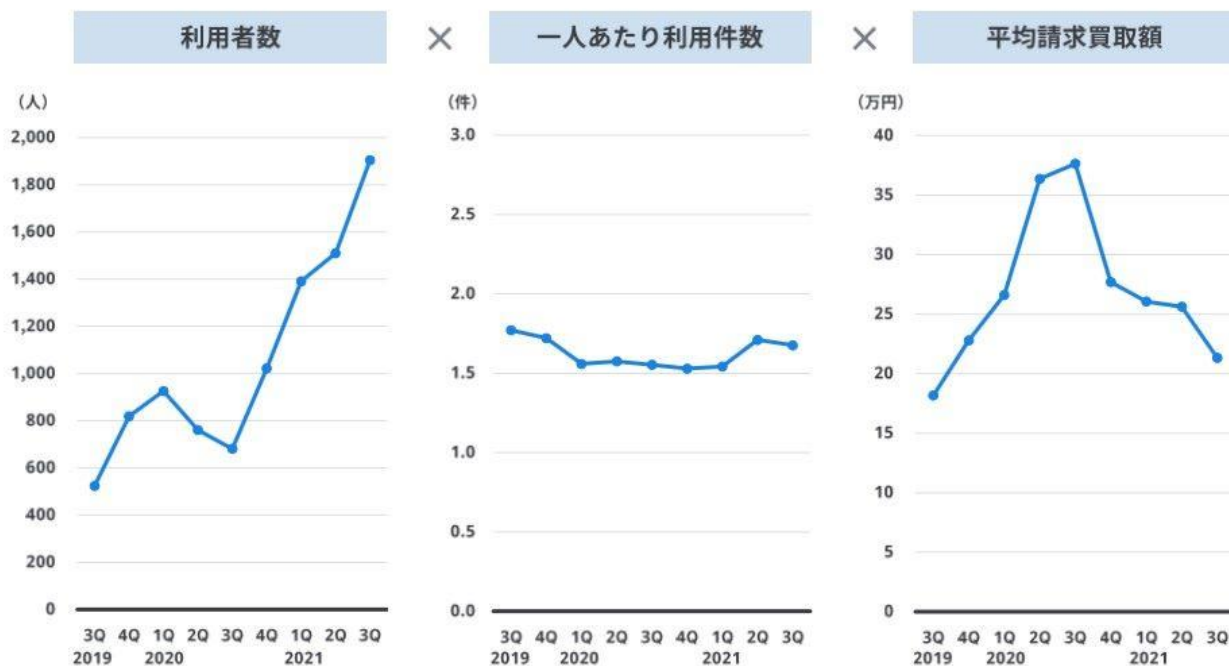
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請求書買取総額

II



24

Here is the KPI for FREENANCE.

The number of users of FREENANCE increased as we strengthened our API collaboration with companies that have a strong relationship with FREENANCE, as well as our OEM offerings.

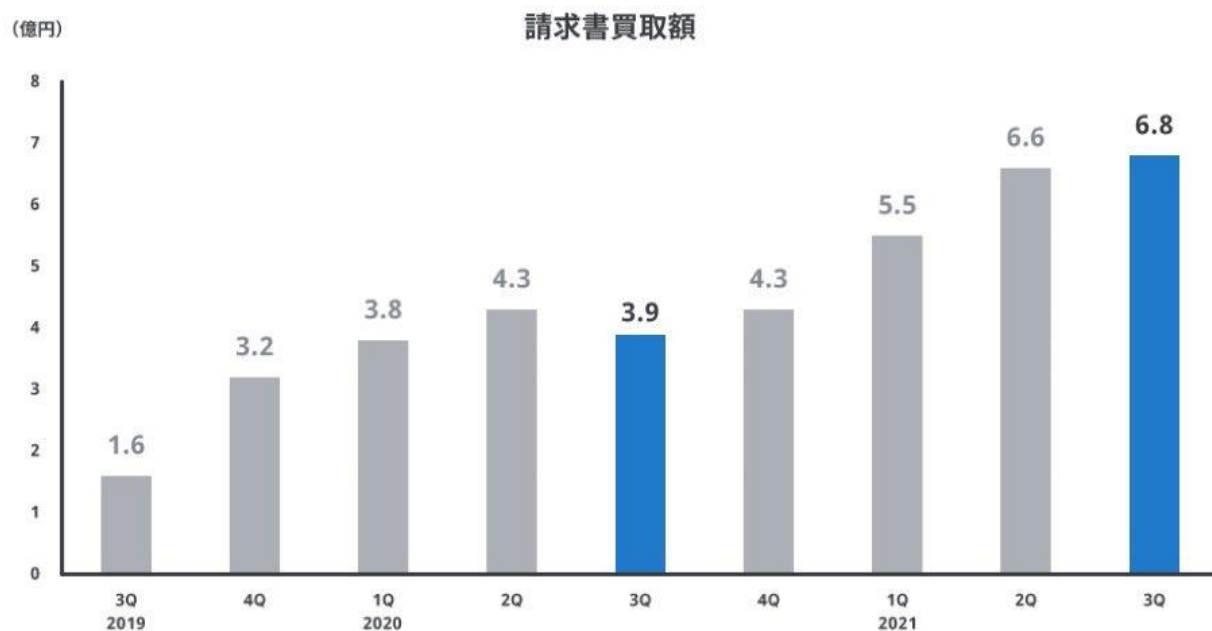
In August, we also started to link up with our EC-related services, such as COLOR ME Shop, SUZURI, and minne, and we will continue to aim to expand the number of users.

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利用者数は増加傾向にあり、請求書買取額も過去最高を更新



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Here is the invoice purchase amount.

The situation is such that the number of invoices purchased is also continuing to increase.

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(百万円)		2021年通期 業績予想	2021年3Q累計 実績	進捗率
単価上昇等の影響を受け、事業全体が堅調に進捗				
ホスティング	売上高：	4,733	3,583	75.7%
	営業利益：	1,413	1,088	77.0%
ストックビジネスが順調に進捗しているものの、「SUZURI」が想定を下回る				
EC支援	売上高：	5,762	3,754	65.2%
	営業利益：	1,343	884	65.8%
巣ごもり需要が一服した影響で売上/利益ともに前年を下回る				
ハンドメイド	売上高：	2,498	1,441	57.7%
	営業利益：	428	168	39.4%
請求書買取額が拡大、損失幅は縮小傾向				
金融支援	売上高：	199	145	72.9%
	営業利益：	△ 200	△ 113	—

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From here, I will explain the progress made up to Q3 and the future.

First, I would like to explain the progress of our business performance for this fiscal year.

The Hosting business and the Financial Support business are making steady progress against the plan. In the EC support business, the stock business model, COLOR ME Shop, is performing as expected.

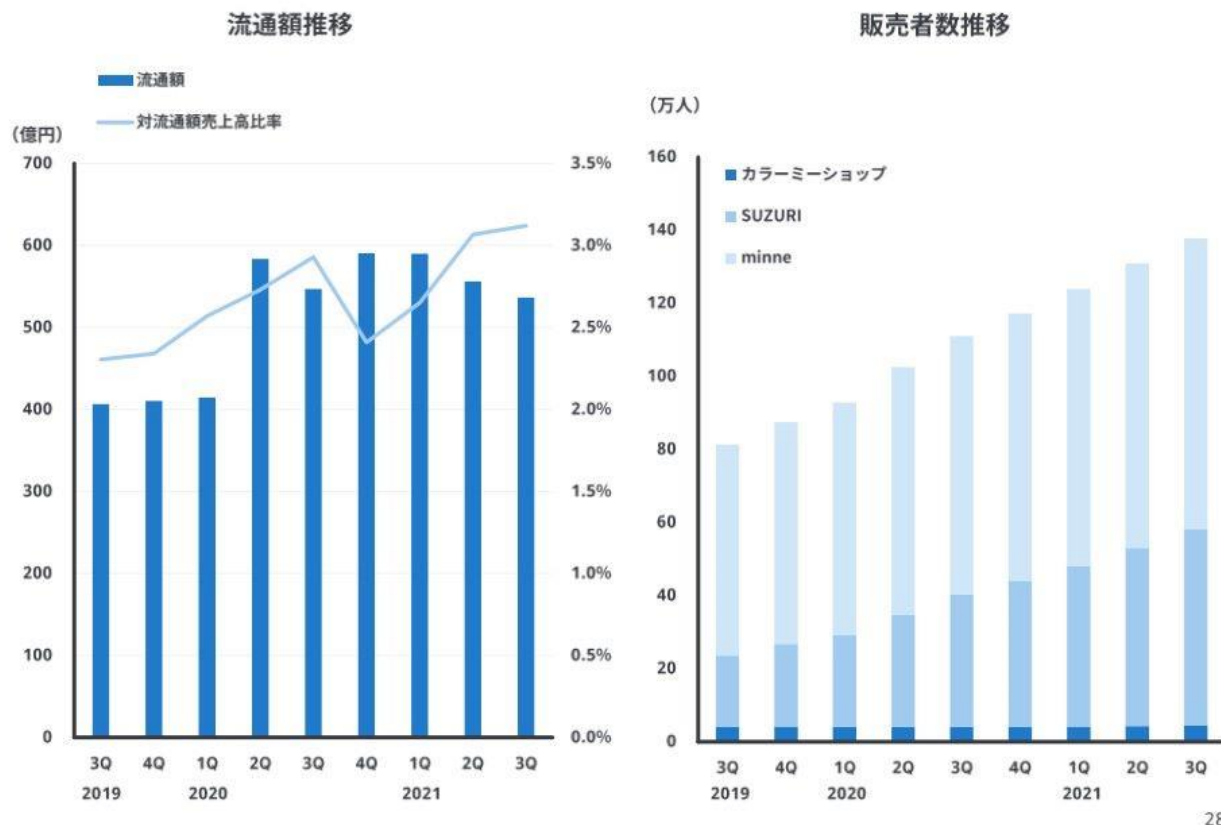
In the current fiscal year, on the other hand, we continue to make slow progress in SUZURI, our EC support business, and minne, our Handmade Products business.

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This graph shows the total distribution value of the 3 EC-related services: COLOR ME Shop, SUZURI, and minne.

In Q1 of the current fiscal year, the distribution amount was strong due to preparations for the new life in COLOR ME Shop and contributions from stores with specific products, but after Q2, sales of such specific products tended to settle down.

In most years, the distribution amount tends to increase during the year-end sales season in Q4, so we will continue to work to increase the distribution amount during the year-end season.

On the other hand, the nesting demand has run its course, and last year there were a lot of sales in specific fields, such as masks and items that are necessary for spending time at home.

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カラーミーショップは当社サービスとの連携・地方連携などを中心に展開 SUZURI、minneは引き続き各KPIの改善に注力

	3Qの施策	4Q以降の施策
カラーミー ショップ	<ul style="list-style-type: none"> ・フリープランの機能充実 ・地方銀行での取引先開拓 ・ショップ開設セミナー等の実施 → 契約件数は45,000件以上に拡大	<ul style="list-style-type: none"> ・当社サービス等との連携強化 ・地方連携強化、ID決済の導入促進 ・フリープランの利便性拡大 → 10/14フリープランのプランアップ対応開始
SUZURI	<ul style="list-style-type: none"> ・アイテムの追加(ドライTシャツ) ・Tシャツセール期間の拡充(15日間) ・SNS等を通じた拡販の実施 → 8月は月の売上が過去最高を記録	<ul style="list-style-type: none"> ・アイテムの追加(リュック、ボアフリース) ・ウインターセールの実施 ・各種イベントやキャンペーンの実施 → 10/4に会員数が100万人を突破
minne	<ul style="list-style-type: none"> ・作品検索機能の強化 ・SNSやWEB経由の流入強化 ・特集や企画の実施 → 9月の購入者数は改善傾向	<ul style="list-style-type: none"> ・アライアンス企画や業務提携の開始 ・作品検索機能とWEB流入の強化を継続 ・決済手段の拡充 → 10/10に一日の売上が過去最高を記録

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In such a situation, the following is the progress and measures in each service.

As of October 14, 2012, COLOR ME Shop has been upgradable from the free plan to avoid the risk of being graduated when the sales of the stores using the system expand or to meet the needs of users who want to step up. As a result, customers who set up stores with no fees can continue to operate their businesses and stores with less fees, even when the sales of their stores increase.

SUZURI recorded the highest sales ever in August due to the addition of items and the expansion of the sale period. From Q4 and onwards, we will continue to add items, hold winter sales, and strengthen SNS campaigns to increase the number of visitors and members.

We have seen a gradual improvement in minne since around September due to improvements in the search function. We will also continue to improve the search function and strengthen the web inflow in order to increase the number of visitors and purchase rate.

Lastly, in Q3 of the fiscal year ending December 31, 2021, as I mentioned from the beginning, the impact of a lull in nesting demand continued to affect us, resulting in an increase in revenue but a decrease in profit when compared to the previous year.

In spite of these circumstances, we will continue to focus on improving profits in the current fiscal year. However, we are confident that the market for EC-related services will continue to grow in the next fiscal year and beyond.

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Although SUZURI and minne are currently struggling against their plans, we believe that they are areas with potential for growth in the long term. The sales of COLOR ME Shop and free plan stores are expected to increase little by little.

We will continue to focus on EC-related services in order to achieve business growth in the future.

This is the end of my presentation. Thank you.

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Question & Answer

Moderator: We will now move on to the question-and-answer session.

Let's start with Mr. Tokunaga from Daiwa Securities Group. Please.

Tokunaga: 3 questions, please.

First, as you mentioned at the end of your presentation, you said that you would continue to grow your business with a focus on EC-related services, but if there are any strategies that are necessary or lacking at this point in time to achieve the long-term revenue increase of 20% or more that you set out at the beginning of the fiscal year, what are your thoughts? This is the first question.

Sato: Our assumption for 20% growth this fiscal year was based on the increase in the nesting demand last year, and the increase in the number of businesses and individuals who have started EC.

Although there has been an increase, there has been a slight change in consumer trends or mindset this quarter. Last year, many things were purchased during the nesting demand, but this year, there were no such purchases, and little by little, the situation has become such that purchases can be made outside, which is a change we did not anticipate.

On the other hand, I believe that there will be no decrease in the number of EC businesses and individual creators, so we need to support them so that they can continue to grow. I think we need to support them so that we can bring them back to the growth trend.

In terms of strategies necessary for future growth, for example, for COLOR ME Shop, we are working on a free plan to expand the scope of our business and to become more comparable to our competitors. However, running a free plan will still take 2 years or 3 years to grow, so in order to make sure that growth is achieved in those 2 years or 3 years, we need to provide support for management, or improve functions so that people don't graduate.

On the other hand, there are many businesses that are growing and want to move to the next stage, so we will strive to be able to provide them with functions and sales support. I think we need to think differently about how to improve the functionality and the scope of the project, and how to provide functionality to the higher level people.

In the future, how to support the sales of these top-ranking people, and the functions that will be necessary as sales increase will change rapidly. We need to continue to improve the functionality of these applications, or even work with external third parties to improve functions of our apps, so we will continuously put in efforts for this area.

Also, in terms of SUZURI and minne, which are similar to C2C for consumers, we are not only targeting a certain genre of people at the moment, but we would also like to add various items and develop new categories in the future. By increasing the number of genres of people who buy our products, creators will be able to expand their fields of activity. Therefore, we need to cultivate new customers on the C2C side as well.

Tokunaga: Thank you very much. I want to ask 1 follow-up question. In your explanation, you mentioned that you achieved the highest sales in October and that the GMV has been improving recently. On the other hand, if you look at the competition, you can see that companies like Mercari and Amazon are entering your market.

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Are you now feeling the pressure of increased competition? Or are you more interested in the uptrend, like the recovery from the re-opening? I would like to know what you are experiencing at the moment, including the competition situation. Thanks.

Sato: As for competition, the situation has become much more difficult. I believe that there is an increase.

For example, Mercari is doing the same, and Amazon is also very aware of the handmade products market. Also, the number of competitors for SUZURI is also increasing, so I feel that the EC field will grow in the future, and I think that the number of businesses that are doing so will increase, and the environment for competitors will become even more severe.

On the other hand, our strength lies in the fact that we have been operating the business for a long time, and in our support capabilities. In addition, we believe that we can use the synergies of the GMO Group to realize initiatives that other competitors cannot offer. I'd like to create winning points in those areas.

Tokunaga: Thank you very much. The second point is that you have reduced promotion expenses in Q3, which has led to an increase in profits, and I am grateful for that. However, I would like to ask you to break down the promotion expenses in Q3 and how you will spend on promotion in the future.

For example, in the past, I saw that you probably cut back on hosting and shifted your efforts to supporting EC. Please tell us about your current and future promotion spending. Thanks.

Sato: As for the situation for Q3, Igashima will explain.

Igashima: I will give you my answer regarding the cost of promotion.

For Q3, we have not disclosed specific figures, but roughly speaking, regarding the promotional costs, the ratio of EC to Hosting is 3 to 1. If you include other services such as FREENANCE, the overall cost is 2 for hosting, 1 for other services, and 7 for ecommerce.

Tokunaga: Can you tell us something about each service? For example, like minne, Color Me, and SUZURI is about the same, and so on? If you have a strong or weak quarter for these services, please let me know.

Igashima: In terms of specific ratio, minne and SUZURI spent about the same, while COLOR ME shop is spent slightly less. Have I answered your question?

Tokunaga: Thank you very much. Do you have any foresight?

Igashima: Regarding the foresight, we will consider future allocations based on the current situation, but we will make decisions based on the current allocations for the first 3 quarters of the fiscal year. As for the fourth quarter, decisions will be made based on the situation as appropriate.

Tokunaga: Thank you. The third point is that the number of users of FREENANCE is increasing rapidly, and we are very grateful for the growth. Is this due to the success of your company's various strategies, or is it due to changes in the external environment, such as the reopening of the market, or the increase in the freelance market? What are the factors behind the increase in the number of these users? That is all.

Sato: You mean the FREENANCE service, right?

Tokunaga: Yes.

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Sato: With regard to FREENANCE, freelancers used a lot of the government's support last year, such as the government's subsidy for sustainability. The situation where the need for the service itself was a bit lost has gradually improved.

During this time, we have been enhancing factoring transactions from a 2-way relationship between the FREENANCE service and our users, but to a 3-way factoring transaction including the people who use our platform. Of course, there has been a recovery and increase in the bilateral portion of FREENANCE, but in addition to that, the increase in 3-party factoring has made a significant contribution to the situation.

Tokunaga: Thank you very much. Are there any particular services that have performed well, regarding business partners?

Sato: I don't have any specific examples of where we've been successful, but I can tell you about some of the big ones, such as the delivery platform. We have received reports that partners who have delivery drivers of their own have seen a large increase.

Tokunaga: Thank you. That's all.

Sato: Thank you very much.

Moderator: Thank you very much, Mr. Tokunaga.

Do you have any other questions?

There are still a few minutes left, but since there are no other questions, we will conclude the question-and-answer session.

This concludes the online financial results briefing for GMO Pepabo, Inc. for Q3 of the fiscal year ending December 31, 2021. Thank you very much.

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