

GMO Pepabo, Inc.

3633

Tokyo Stock Exchange Prime Market

19-Apr.-2022

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* This is an English translation of a report issued on March 29, 2022.

Summary

Business results return to a growth trajectory, due to growth in e-commerce-related services and restoration of profitability in the Financial Support business

GMO Pepabo, Inc. <3633> (hereinafter “the Company”) is a group company of GMO Internet, Inc. <9449>. The Company provides platform services that link Internet users together, in addition to offering infrastructure services that support creative activities over the Internet. Its main services include the rental server service Lolipop!, the online shop creation service Color Me Shop, the SUZURI service for creating and selling original goods, and the handmade products market service minne. Moreover, in 2019 the Company started providing FREENANCE, a factoring service for freelancers, through a subsidiary. Additionally, following the reorganization of the Tokyo Stock Exchange in April 2022, the Company is scheduled to transition to the Prime Market.

1. Outline of FY12/21 results

In the consolidated results for FY12/21, the Company reported net sales of ¥11,879mn, up 7.9% YoY, reaching an all-time high. However, operating profit suffered a downturn, decreasing 4.2% to ¥888mn. This decrease was mainly because of an increase in personnel expenses as the Company took measures to strengthen the system of services related to e-commerce from 2H FY12/20 to respond to growth in stay-at-home demand. In the Hosting business, net sales and profit both increased. In the Financial Support business, the amount of loss contracted in step with increased net sales. Meanwhile, in the EC Support business, net sales increased but profit decreased owing to measures to strengthen the workforce and an increase in promotion cost. In the Handmade business, net sales and profit both declined as stay-at-home demand ran its course. Gross merchandise value for e-commerce, which combines the EC Support business and Handmade business, increased 5.6% YoY, marking sustained growth, but did not reach the Company’s initial target. This underperformance was one reason why the Company’s results fell below its business forecasts (net sales of ¥13,223mn and operating profit of ¥1,114mn).

2. FY12/22 outlook

As for the consolidated results for FY12/22, the Company is forecasting net sales of ¥11,482mn and operating profit of ¥1,143mn. The effects of application of the Accounting Standard for Revenue Recognition, etc. (hereinafter, the “Revenue Recognition Standard”) on results were as follows. Application of the Revenue Recognition Standard had the effects of reducing net sales by ¥2,192mn and increasing operating profit by ¥8mn. When converted to the previous standard, the Company is forecasting net sales to increase by 15.1% to ¥13,674mn, which would mark double-digit growth, and operating profit to increase 27.7% to ¥1,135mn. The Company expects increases in net sales and profits across all business segments and is targeting YoY growth of more than 11% in the gross merchandise value for e-commerce-related services. Additionally, in the Financial Support business, the Company will form collaborations with major companies engaging in cloud sourcing and e-commerce businesses. At the same time, the Company will increase the number of invoices purchased by working to enhance convenience. Through these efforts, the Company aims to achieve restoration of profitability in the Financial Support business for the first time since launching this business.

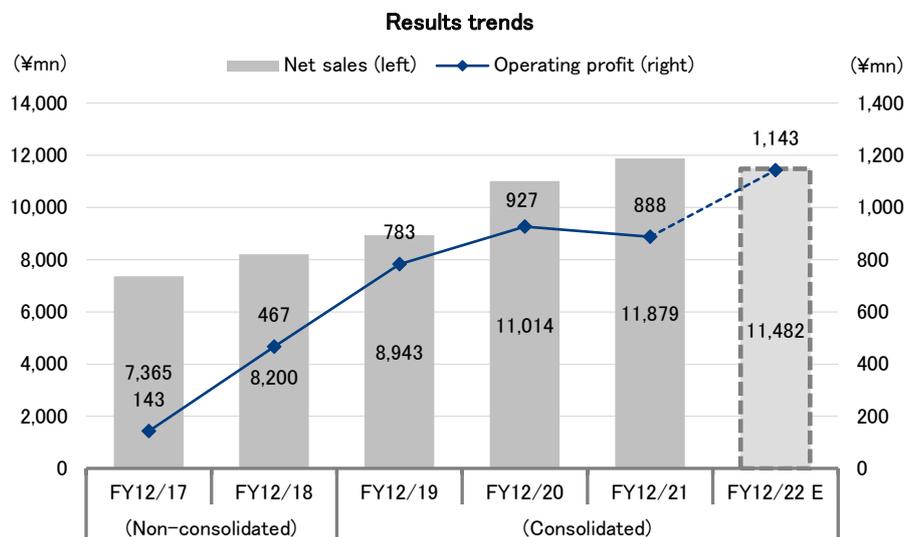
Summary

3. Future growth strategy

The Company is targeting operating profit of ¥2.5bn for FY12/25. The Company will accelerate growth by striving to achieve stable growth in the Hosting business and Color Me Shop, both of which are recurring-type services, along with working to improve the profitability of offerings such as non-recurring-type services, etc., including new services. The domestic e-commerce market is expected to continue growing at an annual rate in the range of 10%. It appears that driving double-digit growth in e-commerce-related services, such as Color Me Shop, SUZURI, and minne holds the key to achieving the Company's targets. The Company plans to realize an increase in the number of users and earnings growth by working to expand the functionality of these services and improve their convenience, and by forming collaborations in each service. Future trends in these areas will need to be watched closely. Moreover, the Financial Support business will transition to a profit growth phase. In addition, the Company released the beta version of GMO Renshu in January 2022 as a new service. GMO Renshu is a member-based cloud service for out-of-school learning programs that allows users to manage fee collection and communication tasks in one place on their PCs or smartphones. The service helps to make management of such programs more efficient. As with the Financial Support business, this new service will initially experience an upfront investment period for the first few years, but it is expected to contribute to earnings over the medium term.

Key Points

- In FY12/21, net sales hit a record high, but profit fell mainly due to an increase in personnel expenses
- In FY12/22, although net sales will decline due to the application of the Revenue Recognition Standard, net sales and profits are both forecast to effectively increase by double digits
- Aiming for operating profit of ¥2.5bn in FY12/25 through stable growth in recurring-type services and expansion of non-recurring-type services, etc., including new services



Note: The Company has applied the Revenue Recognition Standard from FY12/22.
 Source: Prepared by FISCO from the Company's financial results

■ Company profile

Providing a wide range of services to support the creative activities of individuals and sole proprietors over the Internet

1. Company profile

Based on the Corporate Philosophy of “Make it more playful” and the Mission of “Using the Internet to deliver new possibilities,” which was established in 2013, the Company develops and provides tools and services that support the activities of people who seek to use the Internet to start something new. The Company mainly provides services such as the rental server service Lolipop! and the online shop creation service Color Me Shop to individuals and sole proprietors. More recently, the Company has also been supplying advanced functionality services to enterprises. Currently, the Company is focusing on minne, which is Japan’s largest handmade products market, and SUZURI, which is a service for creating and selling original goods. It is also focusing on FREENANCE, a factoring service for freelancers. FREENANCE is managed by GMO Creators Network, Inc., which became a subsidiary in February 2019.

2. History

The Company was founded as paperboy&co. Limited*1 in January 2003 to conduct a Web hosting business for individuals. The Company began operations when it assumed control of businesses such as Lolipop! from the limited partnership*2 that was its predecessor. In 2004, the Company began providing MuuMuu Domain, a domain acquisition service, and JUGEM, a blog service. The Company was reorganized into a joint stock corporation and at the same time, it became a consolidated subsidiary of Global Media Online Inc. (currently, “GMO Internet, Inc.”).

*1 The Company’s name derives from the fact that Kazuma leiri, the founder, used to deliver newspapers. Mr. leiri met many different people as he worked as a paperboy, and these encounters inspired him to start a business. To keep his roots close to heart, Mr. leiri named his company “paperboy,” which refers to a boy who delivers newspapers, and added “&co.” as an abbreviation of “company,” which can mean a group of associates.

*2 The predecessor of the Company is Madame Planning G.G., which was a limited partnership (goshi gaisha) established by Kazuma leiri in October 2001 to provide Web hosting services for individuals. In November 2001, it began providing the “Lolipop! Rental Server” service out of a desire to enable all people, including students and women, to enjoy building websites.

In 2005, the Company entered the e-commerce support business by starting to provide the online shop creation service Color Me Shop. Thereafter, the Company grew its business results by developing and providing a wide range of services using the Internet. In December 2008, the Company achieved a listing on the JASDAQ Securities Exchange (currently Tokyo Stock Exchange (hereinafter, “TSE”) JASDAQ Standard). (The Company’s listing was changed to the TSE Second Section in December 2019 and the TSE First Section in December 2020). In April 2014, to mark its 10th founding anniversary and to improve synergies, market recognition and reliability as part of the GMO Internet Group’s brand strategy, the Company added “GMO” to its name and was renamed GMO Pepabo, Inc., which includes the Company’s nickname “Pepabo.”

From 2015 onward, the Company has actively invested in the business of minne, a handmade products market for which service began in 2012, with a view to developing it into a third revenue driver. Meanwhile, the Company has also sought to concentrate on core competencies in its business portfolio. To this end, the Company transferred its e-book-related business to BOOKOFF CORPORATION in January 2016, followed by the sale of the high-speed mobile Internet service PEPABO WiMax to GMO Internet, Inc. in February 2017. More recently, the Company sold the JUGEM blog service to MEDIANO Ltd. in April 2021.

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Company profile

Additionally, the Company is focusing on the development of new businesses. Notably, the Company acquired the shares of GMO Creators Network, Inc., which manages the FREENANCE factoring service for freelancers, making this company a consolidated subsidiary.

History

| Date | Major event |
|----------------|--|
| January 2003 | Founded as paperboy&co. Limited in Chuo-ku, Fukuoka City, Fukuoka Prefecture, with the business purpose of conducting a Web hosting business for individuals. The Lolipop! business was transferred to the Company from its predecessor, Madame Planning G.G., and the Company entered the Web hosting business. |
| January 2004 | Started to provide Color Me Shop! Mini, an online shopping cart function, as part of the Lolipop! rental server |
| January 2004 | Started to provide MuuMuu Domain, a domain name acquisition agency service |
| February 2004 | Started to provide JUGEM, a rental blog service |
| March 2004 | Changed the organization from a limited liability company to a joint stock corporation |
| March 2004 | Conducted a capital increase through a third-party allotment of shares to Global Media Online Inc. (currently GMO Internet, Inc.), the allottee, and became its consolidated subsidiary |
| February 2005 | Started to provide Color Me Shop! pro (currently, "Color Me Shop"), an online shop creation service, and entered the e-commerce support business |
| November 2005 | Started to provide heteml, a rental server for creators |
| April 2006 | Started to provide Caramel, an online shopping mall |
| April 2008 | Started to provide 30days Album, an online photo album service |
| December 2008 | Listed on the JASDAQ Securities Exchange (currently Tokyo Stock Exchange JASDAQ Standard) (Stock Code: 3633) |
| May 2009 | Started to provide Goope, an ASP service for building websites |
| October 2009 | Started to manage BookLog, a book review community site |
| June 2010 | Started to provide Puboo, an e-book production and sales platform |
| January 2012 | Started to provide minne, a handmade products market |
| June 2012 | Conducted a company split of the e-book-related business and founded BookLog, Inc. |
| August 2012 | Started to provide Sqale, a cloud hosting service for developers |
| October 2012 | Started to provide Jugem Cart, which is an ASP shopping cart service for English-speaking countries and entered the overseas business |
| April 2014 | The Company changed its trade name from paperboy&co. Inc. to GMO Pepabo, Inc. |
| April 2014 | Started to provide SUZURI, a service for creating and selling original goods |
| November 2014 | Started to provide PEPABO WiMAX, a high-speed mobile Internet service |
| June 2015 | OC Island, Inc. (trade name changed to GMO Pepabo OC, Inc. in January 2016), which operates tetote, a handmade products market, and conducts related activities, became a Group company. |
| January 2016 | Sold the e-book-related business of BookLog, Inc. to BOOKOFF CORPORATION |
| July 2016 | Founded Pepabo R&D Institute, a research and development organization pursuing the creation and implementation of new technologies |
| January 2017 | Merged with GMO Pepabo OC, Inc., with the Company as the surviving company, to further accelerate the growth of the handmade products business |
| February 2017 | Sold the PEPABO WiMAX business, which provides a high-speed mobile Internet service |
| November 2017 | Started to provide Color Me Repeat, a repeat online direct sales service |
| April 2018 | Assumed control of the Canvath business, which provides an on-demand original goods production service managed by Basic Inc. |
| June 2018 | Invested in Newworld, Inc., which provides marketing support for traditional craft artisans. |
| September 2018 | Established GMO Pepabo Guardian, Inc. as a subsidiary, with the business purpose of conducting the information security business |
| February 2019 | The Company made GMO Creators Network, Inc. a consolidated subsidiary by assuming a capital increase through a third-party allotment of shares. GMO Creators Network, Inc. manages FREENANCE, a financial support service for freelancers. |
| December 2019 | Listed market changed to the Second Section of the Tokyo Stock Exchange |
| December 2020 | Designated to the First Section of the Tokyo Stock Exchange |
| April 2021 | Sold the JUGEM blog service |

Source: Prepared by FISCO from the Company's securities report and web page

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Business overview

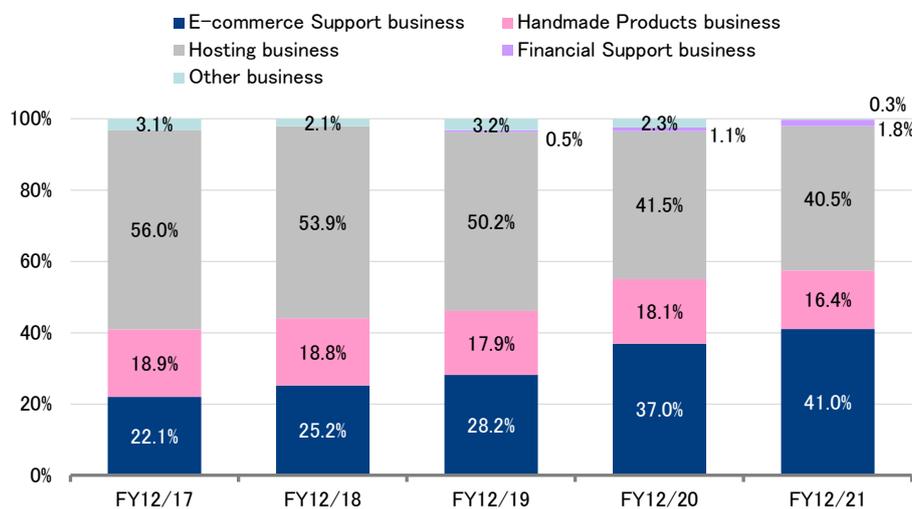
Achieved growth through both the Hosting business and the E-Commerce Support business, while making the Handmade Products business, which will become a third growth driver, profitable in 2019

1. Business segment

The Company is engaged in businesses comprising the Hosting business, which includes Lolipop!, a rental server service, and MuuMuu Domain, a domain name acquisition agency service; the E-Commerce Support business, which includes Color Me Shop, an online shop creation service, and SUZURI, a service for creating and selling original goods; the Handmade Products business, which includes the minne handmade products market, and the Financial Support business, which includes FREENANCE, a factoring service for freelancers.

Looking at the composition of net sales by business segment for FY12/21, the Hosting Business represented 40.5% of net sales, the E-commerce Support business 41.0%, the Handmade Products business 16.4%, the Financial Support business 1.8% and the Other business 0.3%. E-commerce-related services (E-commerce Support business and Handmade Products business) accounted for 57.4% of net sales (50.4% of operating profit before corporate expenses). This ratio has remained on an uptrend in step with growth in the e-commerce market.

Trend in composition of net sales by business segment



Source: Prepared by FISCO from the Company's financial results

(1) Hosting business

In the Hosting business, the Company provides servers, various functions, domains and other infrastructure needed to create websites. The Hosting business is based on a recurring-revenue business model, where usage fees for various services are recognized as net sales. The main services are as follows:

Business overview

a) Lolipop!

Lolipop! is the Hosting business' mainstay service, representing just over 40% of net sales and almost 70% of profit. With Lolipop!, the Company provides rental server services targeting a wide range of customers, from Internet beginners to heavy users. Previously, hosting services presented a high hurdle for Internet users and were not easily accessible. By supplying these services at low prices, the Company became a pioneer in developing the rental server market for individuals. The Company provides the software and various ASP services needed to create websites, in addition to offering an extensive manual that allows users to easily create websites and providing customer service with fast response times. By making various fee plans* and optional services available, the Company has broadened its targeted customers from sole proprietors to small and medium-sized enterprises.

* The fee structure for the monthly basic fee plan (tax included) was revised in November 2021. The Company now provides five plans: Economy (starting from ¥99), Light (starting from ¥220), Standard (starting from ¥440), High-Speed (starting from ¥550), and Enterprise (starting from ¥2,200). (Fees vary with the contract period.)

The Company started to provide Lolipop! Managed Cloud in April 2018. This service realizes high-speed, stable operation even in temporary periods of concentrated access through a container-type virtualization technology developed internally. The targeted customers are users facing the risk of websites becoming inaccessible due to concentrated website access (such as individual creators and small and medium-sized enterprises). The fee plan comprises a monthly basic fee of ¥1,078 (tax included plus a pay-as-you-go system. In other areas, the Company provides services such as heteml (starting from a monthly fee of ¥1,100 (tax included)), which is a high-performance hosting service. The Company's domestic share for rental server services, which combines all these services, stands at approximately 18%, marking the top market share*.

* The figure represents the sum of users of Lolipop! and heteml. Research from "Japan Web Hosting Market Share 2022 Web Hosting Market Share in Japan" by HostAdvice.com (as of February 2022).

b) MuuMuu Domain

MuuMuu Domain, which represents just over 40% of net sales and just over 20% of profit, is a low-cost domain acquisition agency service. It stands out for allowing users to easily complete domain registration online. Since the service commenced in 2004, more and more individuals have acquired domains as the Internet has become widely used, and the number of registered domains reached 1.17 million at the end of December 2021. Because MuuMuu Domain is an agency service, the profit margin is relatively lower than that of other services. Also, part of the procurement cost is subject to the impact of foreign exchange rate fluctuations, so the Company enters into forward exchange contracts depending on the conditions.

(2) E-commerce Support business

In the E-commerce Support business, the Company provides services such as the online shop creation service Color Me Shop and the SUZURI service for creating and selling original goods. The Company has operated Color Me Shop as a recurring-revenue business model in which monthly fixed usage fees account for most of net sales. In May 2021, the Company started to provide services based on a non-recurring revenue business model, in which fees are obtained in line with gross merchandise value, with no initial cost or monthly usage fee charged to users. Meanwhile, the main feature of SUZURI is that it is based on a non-recurring-revenue business model that depends on gross merchandise value. Services are outlined as follows.

Business overview

a) Color Me Shop

Color Me Shop, which represents nearly 40% of net sales and just over 70% of profit in this business segment, has the main feature of allowing users, even beginners in operating online shops, to open and operate online shops easily and at low cost, just as if they were creating a blog. Since the service was launched in 2005, the number of contracts has reached 46,000 as of the end of December 2021. Color Me Shop is Japan's largest service of its kind that is available with a monthly fee plan*, and it has extensive functions that meet a wide spectrum of needs of users, ranging from individual merchants to large-scale retailers. In addition, users can customize the design of their stores in detail, so the service is also used as a means of self-expression. Net sales comprise monthly usage fees and commissions for payments assessed according to gross merchandise value. Along with this, when various apps provided in the app stores are used, an app fee is also charged as an additional fee.

* There are two monthly basic fee plans (tax included): the ¥3,300 and ¥7,945 plans. The Company added a new free plan in May 2021 (No monthly basic fee, with a sales payment fee of 6.6% + ¥30 per transaction. The 6.6% fee applies to the total order amount, comprising the merchandise price and shipping cost.) A revision to the fee structure of the monthly plan is scheduled for April 2022. There will be two plans: the ¥4,950 and ¥9,595 plans. Each plan will include certain option usage fees.

b) SUZURI

SUZURI represents nearly 60% of net sales and nearly 20% of profit in this business segment. It is a service that allows users to easily create and sell various original goods, such as T-shirts, mugs, and smartphone cases, by simply uploading illustrations or digital photos they have created to the SUZURI website. The Company started this service in April 2014. SUZURI provides comprehensive one-stop support, from the creation to delivery of items (production and delivery is outsourced to external partners), without any risk of initial investment, inventory management and so on. Therefore, the SUZURI service enables users to sell and purchase creative works with peace of mind. The Company's net sales from SUZURI comprise a certain margin of profit added to the production cost (which is the creator's procurement price), and the creator is free to set their sales price by adding their own profit margin to the procurement price. The Company's gross profit margin is set in the range of around 40-60%, although the actual margin varies with items. For this reason, this service is based on a non-recurring-revenue business model that is almost completely linked to gross merchandise value. As of the end of December 2021, the total number of members was 1.06 million, and the number of creators was around 560,000. Following the application of the Revenue Recognition Standard from FY12/22, the Company has changed its method of recognizing net sales to a method where net sales is recognized as the portion of proceeds excluding the merchandise cost (purchasing prices and expenses for outsourced processing), etc. Accordingly, net sales from SUZURI will appear to decrease.

(3) Handmade Products business

The Handmade Products business consists of the operation of minne, which is Japan's largest handmade products market. minne enables users to easily list and sell handmade products over the Internet. Net sales from minne primarily comprise sales fees (9.6% (tax excluded) of the transaction amount). The main features of minne include allowing beginners with no website creation experience to easily create gallery pages fitted with sales functions, and allowing creators and buyers to conduct transactions with peace of mind as minne acts as an agent in the payment process. minne carries out sales of handmade products such as accessories, fashion goods, handbags, and wallets, and the materials needed to make such products.

Business overview

Moreover, minne revised its Terms of Use in July 2019 and enlarged its business field from a “Consumer-to-Consumer Handmade Products Market” to a “Comprehensive Manufacturing Platform.” Based on the belief that processed products that are not handmade, and products manufactured by subcontracting some processes to third parties, are also part of the creative activity that is manufacturing, minne enabled users to list such products on its site. minne now also allows companies, including brands and manufacturers that emphasize manufacturing, to list their products on the site. Through these efforts, minne’s business field has expanded from the “Consumer to Consumer” field to the “Business to Consumer” field. As of the end of December 2021, the number of registered creators and brands was 800,000, the number of registered products was 14.53 million items, and the number of app downloads was 13.28 million.

(4) Financial Support business

The Financial Support business comprises the FREENANCE business. FREENANCE is a factoring service for freelancers provided by GMO Creators Network, Inc., which became a subsidiary in February 2019. This service acts as an intermediary between freelancers and their customers, purchasing freelancers’ invoices (accounts receivable), and paying freelancers on the same day instead of their customers. In this business model, the Company receives 3-10% of the face value of the invoice (tax included / consumption tax is shown when tax is excluded) from the user as a fee. The fee rate is reduced as the user’s transaction record builds up. The invoice (accounts receivable) amount that can be purchased starts from ¥10,000, and the upper limit on this amount was abolished in April 2020. Additionally, another feature of the service is that the Company has enhanced functions that lead to improved convenience for users, such as the supply of various types of insurance protection services (including insurance protection against losses caused by accidents, information leaks, and other events that might occur while conducting business) and a profile function* free of charge.

* A function that shows a customer that a freelancer or sole proprietor has undergone a check against anti-social forces and identity verification.

Additionally, in November 2020 the Company rolled out FaaS (FREENANCE/Factoring as a Service), which supply services, including same-day payment, to external customers. The Company is advancing collaboration with companies that have a strong compatibility with freelancers, such as LANCERS, INC. <4484>. These initiatives have contributed to an increase in the amount of invoices purchased.

Business overview

Outline of major services

| | Business model | | Fees and number of subscribers, etc. | Description of services, etc. |
|------------------------------------|------------------------|----------------------|--|---|
| | Monthly billing system | Pay-as-you-go system | | |
| Hosting business | | | | |
| Lolipop! | ○ | | Usage fee: Starting from ¥99/month Number of contracts: 420,000 (410,000) | One of Japan's largest rental server services, supporting a wide spectrum of needs ranging from beginners to businesses based on the slogan "Immediately and always usable." |
| MuuMuu Domain | ○ | | Usage fee: Starting from ¥66/year Number of registered domains: 1.17 million (1.20 million) | Comprehensive domain services for acquiring and managing more than 400 types of domain and premium domains with high scarcity value |
| E-commerce Support business | | | | |
| Color Me Shop | ○ | ○ | Usage fee: Starting from ¥0/month Number of contracts: 46,000 (41,000) Launched no-monthly-fee plan in May 2021 | An online shop management service that caters to expansive needs, from those of fully fledged online shops to people who want to open shops as a hobby |
| SUZURI | | ○ | Number of creators: 560,000 (390,000) Number of members: 1.06 million people (700,000 people) | A service that allows users to create and sell original goods, such as T-shirts and smartphone cases, by simply uploading the illustrations they have designed or the photos they have taken to the website. |
| Handmade Products business | | | | |
| minne | | ○ | Number of creators and brands: 800,000 (730,000) Number of registered products: 14.53 million (12.78 million) Number of app downloads: 13.28 million (12.31 million) | Japan's largest handmade products market. On this market, users can sell, display and purchase handmade products that reflect the creator's aspirations, such as accessories, handbags, sundry items and furniture. |
| Financial Support business | | | | |
| FREENANCE | | ○ | The fee rates are 3-10% of the face value of invoices (tax included / consumption tax is shown when tax is excluded). | A financial support service for freelancers that pays out cash on the same day to freelancers by purchasing invoices |

Note: Fees include taxes. The figures for the number of contracts and certain other items are as of December 2021. The figures in parentheses are as of December 2020.

Source: Prepared by FISCO from the Company's results briefing materials and financial results

The Company's strengths are its development and planning capabilities that enable it to provide services at reasonable prices primarily to individuals and sole proprietors

2. Strengths and competition

The Company's strengths are that it has so far independently developed and operated more than 30 Internet-related services and has accumulated expertise in this area. Another major feature of the Company is that it has demonstrated originality in the naming of services and the design of websites, apps and other infrastructure. This originality has been one of the Company's strengths since its founding.

The services supplied by the Company have relatively low barriers to entry, so the number of competitor companies have been increasing since the Company started to provide services. Looking at the main competitor companies, in the Hosting business (rental server), SAKURA internet inc. <3778> and Xserver Inc. count among the Company's main competitors. While new entrant companies abound, the Company provides services at the lowest fee levels in the industry, so the Company's market share has remained at a stable level over the last few years.

Business overview

In addition, numerous companies, including Estore Corporation <4304> have entered the business of supplying e-commerce-site creation systems such as Color Me Shop, which is part of the E-commerce Support business. Recently, competition has been intensifying in step with market growth, notably with the emergence of companies that provide services with no monthly usage fees, such as BASE, Inc. <4477>. For these reasons, the Company is working to enhance peripheral apps that lead to improved convenience for users and growth in the sales of shops. Also, the Company has commenced a new free plan featuring no initial cost and no monthly usage fees.

Growth in the consumer-to-consumer market has spurred an increase in the number of new entrant companies in original goods creation and sales services such as SUZURI. Examples of competing services in this field include pixivFACTORY, which is offered by pixiv Inc., Up-T, which is offered by Marui Orimono Co., Ltd., and T-SHIRTS TRINITY, which is offered by Graphic on Demand Inc. In terms of scale, we at FISCO believe that the Company is running at the head of the pack as the industry leader. With SUZURI, customers can easily start e-commerce by simply uploading illustrations and photos to the site. After orders are received, manufacturing and shipping are carried out automatically. Thus, one of SUZURI's main features is that customers are not exposed to inventory risk and can skip the hassle of shipping procedures and related tasks. SUZURI's strength lies in the fact that it has built a network of manufacturing contractors to realize low costs.

In the Handmade Products business, CREEMA LTD. <4017> (the operator of Creema, the industry's second largest site by number of items) can be identified as a competitor. Creema carries around 13.50 million items (as of March 2022) and has 220,000 registered creators (as of November 2021). Although these numbers are slightly lower than minne's 14.53 million items and 800,000 registered creators, Creema has actively conducted advertising services (including both internal and external services) on its site. For FY2/22 Q3 (September to November 2021), Creema's gross merchandise value was ¥3.94 billion, which is almost the same amount as the Company's gross merchandise value of ¥3.95 billion for FY12/21 Q4. The average unit price per transaction is ¥5,395, which is 1.5 times higher than that of the Company. The difference in unit price per transaction can be attributed to differences in the composition of merchandise distributed on each site. The future priorities for the Company include working to increase the number of users who access the site and improve the purchasing rate by making the site more user friendly through enhancing its functions, and to strengthen categories with high unit prices, such as furniture.

3. Business risks

Looking at business risks, the likelihood of an information leak, such as a leak of personal information, is not negligible, given the character of the Company's services, which are intended primarily for individual customers and therefore handle large amounts of data. In practice, there was an incident in the Color Me Shop service in January 2018, where some credit card information of customers (shop owners) was leaked due to unauthorized access from the outside. The Company responded to the situation immediately. It set up a Recurrence Prevention Committee, investigated the facts and causes of the incident, and put together recommendations on how to prevent a recurrence. In early March 2018, the Company published an Investigation Report. Going forward, the Company plans to continuously strengthen information security measures.

Results trends

In FY12/21, net sales hit a record high, but profit fell mainly due to an increase in personnel expenses

1. Outline of FY12/21 results

In the consolidated results for FY12/21, the Company posted an increase in net sales and decrease in profits. Net sales increased 7.9% YoY to ¥11,879mn, while operating profit decreased 4.2% to ¥888mn, ordinary profit declined 1.6% to ¥968mn and profit attributable to owners of parent was down 13.8% to ¥715mn. The Company recorded gain on sales of businesses of ¥96mn as extraordinary income in connection with the sale of the Web content production business in January 2021 and the sale of the JUGEM blog service in April 2021.

Net sales increased in all business segments except for the Handmade Products business, hitting a consecutive record high. However, profits decreased due to an increase in personnel expenses (+¥221mn) associated with measures to strengthen the workforce and an increase in promotion cost (+¥76mn). The number of partners (the number of employees) as of the end of December 2021 was 462, up 20 from the previous fiscal year-end. In addition, net sales and each profit item were more than 10% below the Company's initial forecasts. This performance was heavily impacted by net sales of e-commerce-related services falling short of the initial forecast, which was due partly to the snapback from stay-at-home demand seen in the previous fiscal year.

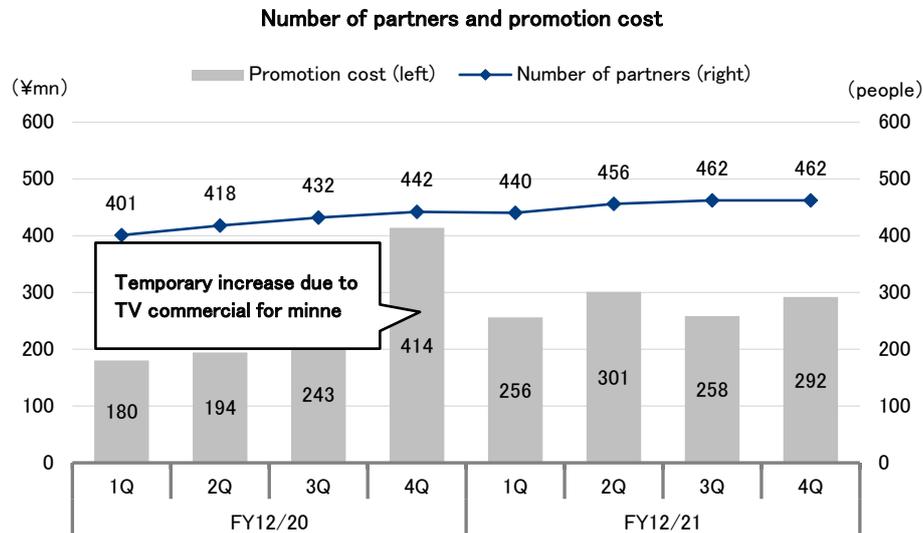
Track record of FY12/21 consolidated results

(Unit: ¥mn)

| | FY12/20 | | Forecast | FY12/21 | | | |
|--|---------|---------------|----------|---------|---------------|--------|--------------|
| | Results | Vs. net sales | | Results | Vs. net sales | YoY | Vs. forecast |
| Net Sales | 11,014 | - | 13,223 | 11,879 | - | 7.9% | -10.2% |
| Gross profit | 6,481 | 58.8% | - | 6,732 | 56.7% | 3.9% | - |
| Selling, general and administrative expenses | 5,554 | 50.4% | - | 5,843 | 49.2% | 5.2% | - |
| Of SG&A expenses, promotion cost* | 1,033 | 9.4% | - | 1,109 | 9.3% | 7.4% | - |
| Operating profit | 927 | 8.4% | 1,114 | 888 | 7.5% | -4.2% | -20.2% |
| Ordinary profit | 983 | 8.9% | 1,127 | 968 | 8.2% | -1.6% | -14.1% |
| Extraordinary income (losses) | 250 | 2.3% | - | 96 | 0.8% | -61.3% | - |
| Profit attributable to owners of parent | 829 | 7.5% | 795 | 715 | 6.0% | -13.8% | -10.0% |

* Promotion cost is the sum of advertising expenses, promotion expenses, and provision for point card certificates)
 Prepared by FISCO from the Company's financial results and financial results briefing materials

Results trends



Source: Prepared by FISCO from the Company's financial results briefing materials

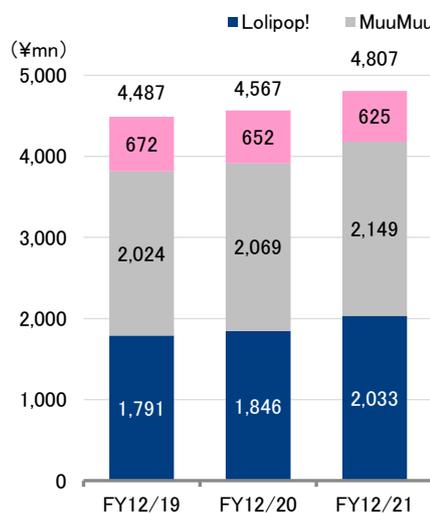
Net sales and profits increased in the Hosting business, while the E-commerce Support business and the Handmade Products business were impacted as stay-at-home demand settled down

2. Trends by business segment

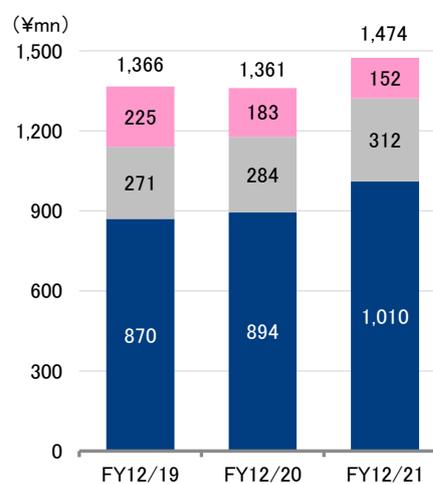
(1) Hosting business

In the Hosting business, net sales increased 5.2% YoY to ¥4,807mn, and operating profit rose 8.3% to ¥1,474mn. Net sales increased consecutively, and operating profit turned upward for the first time in three years. Both net sales and operating profit reached all-time highs.

Trend in net sales of the Hosting Business

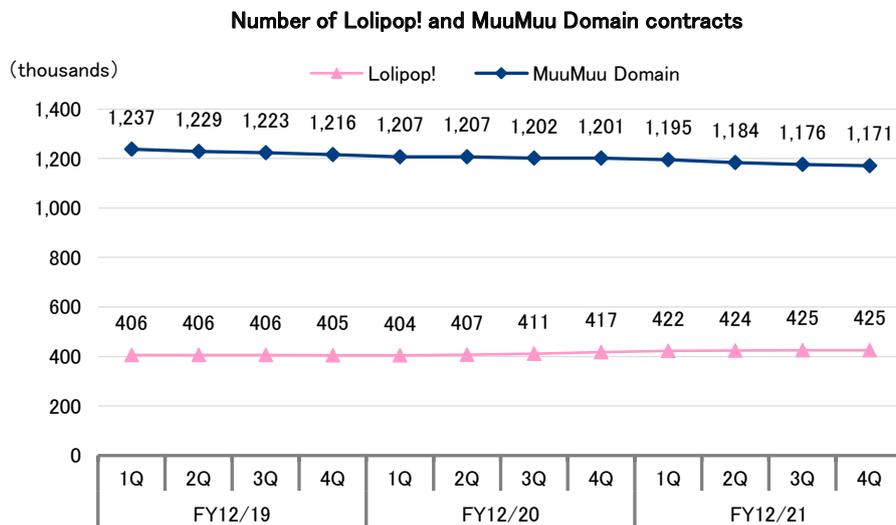


Trend in operating profit of the Hosting Business



Source: Prepared by FISCO from earnings presentation materials

Results trends



Source: Prepared by FISCO from the Company's financial results

For Lolipop!, net sales increased 10.1% YoY to ¥2,033mn and operating profit rose 13.0% to ¥1,010mn, marking higher net sales and profits and a record-high profit for the first time in three years. Spending per customer rose 6.1% YoY to ¥398, mainly because the Company strengthened efforts to guide customers to high-end service plans and optional functions and revised certain fee plans in April and November 2021. In addition, the number of contracts remained on an uptrend, increasing 2.1% from the previous fiscal year-end to 425,000, as the Company strengthened coordination with MuuMuu Domain and acquired new contracts through affiliates. The increase in spending per customer was a key factor behind the higher net sales and profit. Spending per customer rose to ¥414 in Q4 (October-December 2021) due partly to the effect of revising price plans. Therefore, it is highly likely that the growth trend in spending per customer will continue in FY12/22.

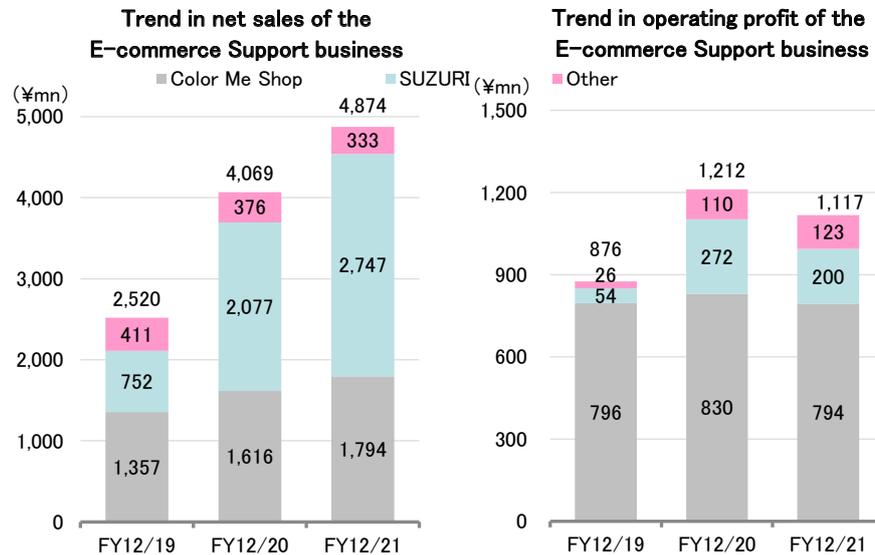
* As part of a revision to the fee structure undertaken in November 2021, the monthly fee of each plan was revised according to the contract period. For example, in the case of the Economy Plan, the price was formerly set uniformly at ¥110 (tax included, hereinafter the same). The new price was set at ¥132 for 1-to-24 month contracts and ¥99 for 36 month contracts. In the case of the Standard Plan, the former price was ¥660 for 1-month and 3-month contracts and ¥550 for contracts of 6 months or longer. For the new prices, the fee structure is designed so that customers will pay higher prices for shorter term contracts. For example, the price of a 1-month contract is set at ¥880, a 3-month contract ¥770, a 6-month contract ¥715, a 12-month contract ¥660, a 24-month contract ¥550 (unchanged) and a 36-month contract ¥440. Under the new fee structure, when customers select long-term contracts, they will effectively receive a discount.

For MuuMuu Domain, net sales increased 3.8% YoY to ¥2,149mn and operating profit increased 9.9% to ¥312mn, reaching a consecutive record high. The number of registered domains remained on a slight downtrend, decreasing 2.5% from the previous fiscal year-end to 1,171,000 due to a decline in the number of new subscribers. However, a rise in the domain renewal fee for existing customers was a key factor behind the increases in net sales and profit.

(2) E-commerce Support business

For the E-commerce Support business, net sales increased 19.8% YoY to ¥4,874mn, while operating profit decreased 7.8% to ¥1,117mn. While Color Me Shop and SUZURI both achieved double-digit growth in net sales, items such as personnel expenses and promotion cost increased.

Results trends



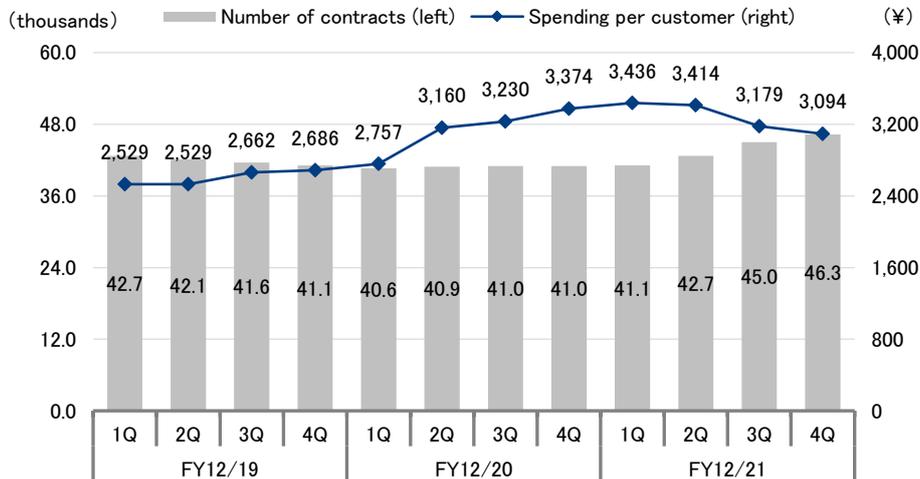
Source: Prepared by FISCO from earnings presentation materials

Net sales of Color Me Shop, which is the Company's mainstay online shop creation service, increased 11.0% YoY to ¥1,794mn, while operating profit of this service declined 4.4% to ¥794mn. There was an upturn in the number of contracts, which increased 12.9% from the previous fiscal year-end to 46,300, due partly to the start of a free plan with no initial cost or monthly usage fee in May 2021, stepped-up efforts to acquire customers through such means as holding seminars in collaboration with regional banks and the Central Federation of Societies of Commerce and Industry. In addition, spending per customer rose 4.8% YoY to ¥3,281, mainly due to increased use of sales promotion support apps and optional functions. The increase in spending per customer was a key factor behind the higher net sales. On the profit front, profit was impacted by measures to ramp up server capacity in H2 FY12/21 as part of efforts to enhance service quality, and by an increase in personnel expenses.

The events leading up to the Company's introduction of the free plan are as follows. Growth in the e-commerce market had spurred an increase in the number of sole proprietors who are seeking to casually open e-commerce shops. In this environment, the emergence of competitors offering services through free plans had made it increasingly difficult for the Company to bring this customer base onboard. Additionally, as growth in gross merchandise value continued, the Company had determined that it could not sufficiently capitalize on market growth to drive net sales with a business model primarily focused on a traditional monthly basic fee, and that it needed to introduce a plan linked to gross merchandise value. From the perspective of e-commerce shops, a rough watershed level for choosing between a free plan or a fee plan is monthly turnover of approximately ¥100,000. If monthly turnover is greater than ¥100,000, the fee plan will effectively have a lower cost burden for an e-commerce shop. Previously, there were cases where sole proprietors who had been using the free plans of competitor companies migrated to the Company's fee plan as their businesses grew. Offering its own free plan will allow the Company to bring these customers onboard and surround them with services from the very beginning.

Results trends

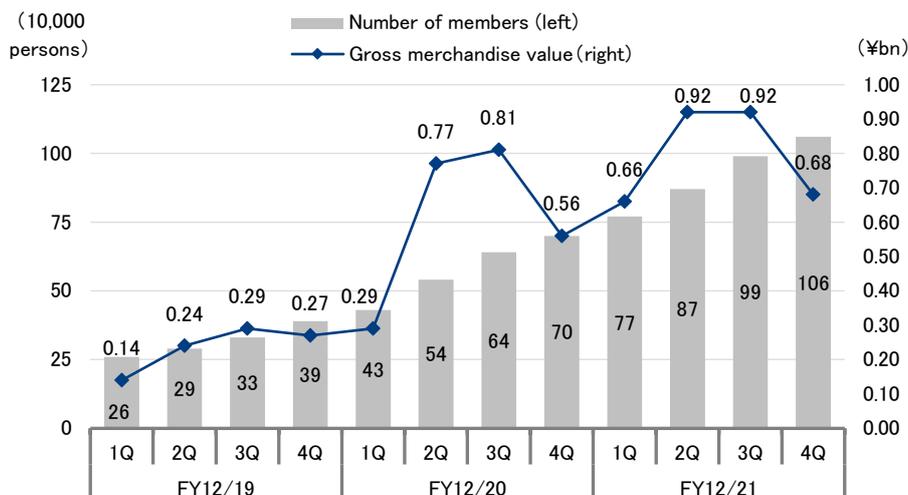
Trends in the number of contracts for Color Me Shop and spending per customer



Source: Prepared by FISCO from the Company's financial results

Net sales of SUZURI increased 32.2% YoY to ¥2,747mn while operating profit of this service declined 26.2% to ¥200mn. The main reasons for this performance were an increase in personnel expenses due to measures to strengthen the workforce in step with business growth and an increase in promotion cost. Gross merchandise value increased by 31.2% YoY to ¥3.2bn, marking double-digit growth. This was mainly the result of the addition of new items such as face masks and boa fleece, and an extension of a summer T-shirt sales campaign. In addition, the number of creators rose by 43.6% from the previous fiscal year-end to 560,000 and the number of members increased by 51.1% to 1.06 million. The number of users has increased steadily in step with growth in market recognition of the SUZURI service. Furthermore, gross merchandise value tends to be concentrated in the Q2-Q3 period because the mainstay merchandise category is T-shirts.

Gross merchandise value and number of members of SUZURI

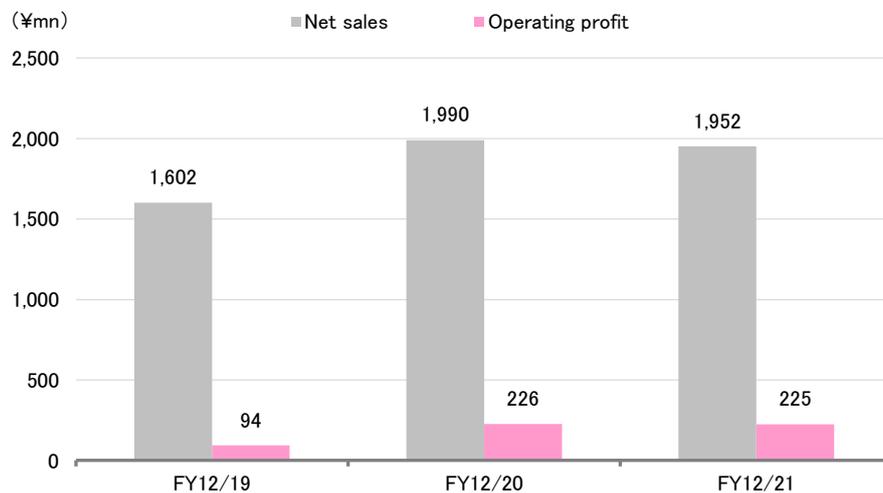


Source: Prepared by FISCO from the Company's financial results

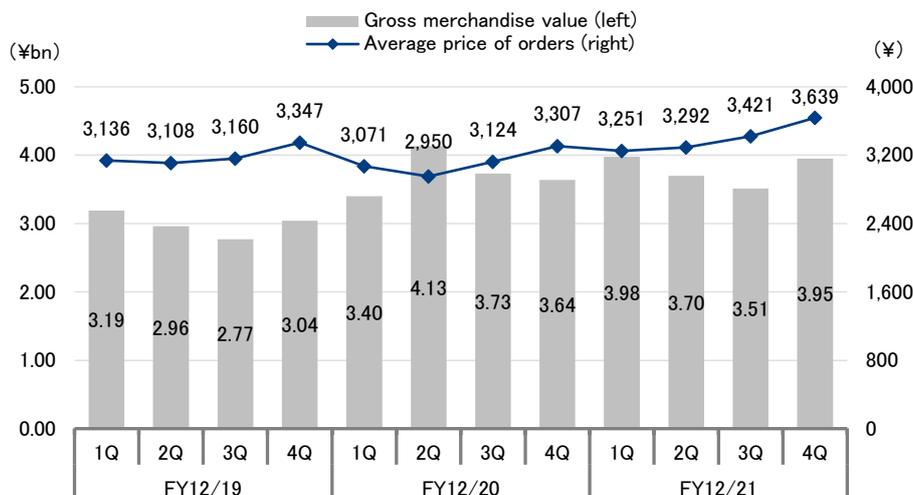
Results trends

(3) Handmade Products business

In the Handmade Products business, net sales decreased 1.9% YoY to ¥1,952mn and operating profit decreased 0.6% to ¥225mn. Gross merchandise value grew substantially in the previous fiscal year due to an increase in stay-at-home demand and special demand for face masks. However, the snapback from this demand in FY12/21 was greater than expected, so gross merchandise value rose by only 1.6% to ¥15.1bn. Considering that gross merchandise value for FY12/20 included nearly ¥1.0bn from special demand for face masks, gross merchandise value excluding this factor effectively grew by around 8%. Net sales decreased slightly despite the increase in gross merchandise value. This result was mainly because of a decrease in net sales from commissions for payments, which was caused by declines in the ratio of convenience store payments and carrier payments. By holding promotion cost to a level on par with the previous fiscal year, profit remained at a mostly flat level.

Trend in results of the Handmade Products business


Source: Prepared by FISCO from the Company's financial results

Trend in gross merchandise value of minne and average price of orders


Prepared by FISCO from the Company's financial results and financial results briefing materials

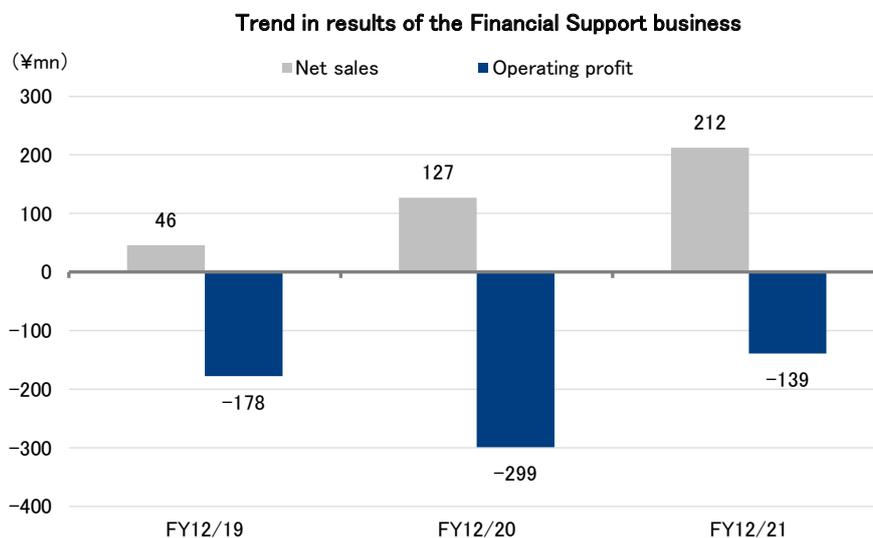
Results trends

Looking at the quarterly trend in gross merchandise value, gross merchandise value peaked out at ¥4.13bn in FY12/20 Q2, when there was special demand for face masks, and subsequently appears to have followed a sluggish growth trend, staying in the upper ¥3.0bn range. That said, bright signs have started to emerge. Notably, in FY12/21 Q4, gross merchandise value increased 8.5% YoY, returning to an increase for the first time in three quarters and setting a record high for Q4. This strong performance reflects the effect of functional improvements, such as adding categories to make it easier to search for products and a new function that allows users to register product characteristics. Another key factor was that the average price of orders in Q4 increased 10.0% YoY to ¥3,639, owing to efforts to strengthen sales of high-unit-price merchandise, such as furniture.

(4) Financial Support business

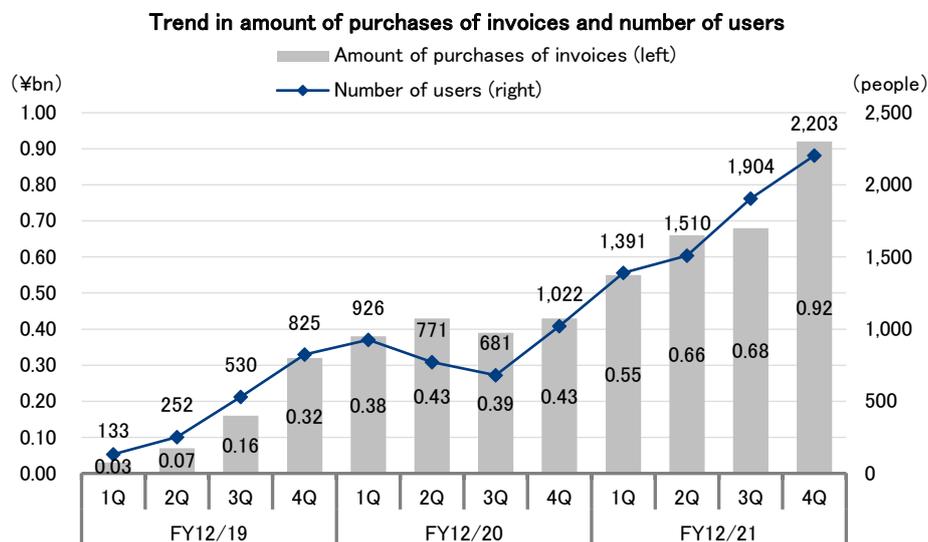
In the Financial Support business, net sales rose 66.5% YoY to ¥212mn and operating loss was ¥139mn (compared with operating loss of ¥299mn in FY12/20). In FY12/20, a government benefit program was set up in response to the COVID-19 pandemic, causing temporarily sluggish demand. In FY12/21, the number of users increased continuously as the Company expanded partnerships with major companies with strong relationships with freelancers, such as cloud sourcing and EC companies, and API integration, leading to substantial growth in net sales.

Amount of purchases of invoices increased 71.4% YoY to ¥2.8bn. Looking at Q4 alone, amount of purchases of invoices increased 114.0% to ¥0.92bn, indicating an acceleration in the growth rate. On the profit front, the amount of the loss contracted due to the implementation of cost controls centered on promotion cost, in addition to the positive impact of higher net sales.



Source: Prepared by FISCO from the Company's financial results

Results trends



Source: Prepared by FISCO from earnings presentation materials

(5) Other

In Other business, net sales decreased 87.2% YoY to ¥32mn and operating loss was ¥12mn (operating profit of ¥47mn in the previous fiscal year). The Company sold the Web content production business, which is managed by a subsidiary, in January 2021, and the JUGEM blog service in April 2021.

The Company's financial position is sound with debt-free management, despite an equity ratio in the 30% range

3. Financial condition and cash flows

As of the end of FY12/21, total assets were ¥8,870mn, an increase of ¥658mn from the end of FY12/20. In terms of the main factors behind this change, under current assets, notes and accounts receivable – trade increased by ¥129mn and accounts receivable – other increased by ¥217mn. In addition, under non-current assets, property, plant and equipment rose by ¥105mn, intangible assets increased by ¥75mn, and investment securities increased by ¥186mn.

Total liabilities were ¥5,916mn, an increase of ¥249mn from the end of FY12/20. Under current liabilities, income taxes payable decreased by ¥120mn, while advances received rose by ¥226mn. Moreover, under non-current liabilities, lease obligations increased by ¥134mn and deferred tax liabilities increased by ¥61mn. Total net assets were ¥2,953mn, an increase of ¥408mn from the end of FY12/20. Retained earnings increased, due to the recording of profit attributable to owners of parent of ¥715mn, partially offset by the payment of dividends of ¥426mn. Additionally, valuation difference on available-for-sale securities increased by ¥66mn.

Looking at cash flows, the Company recorded positive free cash flow of ¥390mn, as net cash provided by operating activities of ¥669mn absorbed net cash used in investing activities of ¥278mn. Meanwhile, net cash used in financing activities was ¥392mn, owing mainly to the payment of dividends. As a result, cash and cash equivalents as of the end of FY12/21 was ¥3,620mn, a decrease of ¥1mn from the end of FY12/20.

Results trends

Looking at business indicators, the equity ratio, which indicates business stability, rose slightly from the end of FY12/20 to 32.9%. Considering that the Company practices debt-free management and cash on hand has been in the ¥3.0bn range, it can be judged that the Company has maintained financial soundness. In terms of profitability, ROE, ROA and the operating margin all decreased YoY due to a decrease in profits. However, partly because the Company has a hybrid-type earnings structure with a mix of recurring-type and non-recurring-type services, ROE has been in the 20-30% range and ROA in the 10% range, remaining at high levels in a stable manner.

Simplified balance sheet

| | (Unit: ¥mn) | | | | |
|-----------------------------------|-------------|---------|---------|---------|---------|
| | FY12/18 | FY12/19 | FY12/20 | FY12/21 | Change |
| Current assets | 4,853 | 4,916 | 6,648 | 6,943 | 295 |
| Cash and deposits* | 2,702 | 2,453 | 3,622 | 3,620 | -1 |
| Non-current assets | 1,224 | 1,455 | 1,562 | 1,926 | 363 |
| Property, plant and equipment | 266 | 263 | 321 | 426 | 105 |
| Total asset | 6,077 | 6,371 | 8,211 | 8,870 | 658 |
| Current liabilities | 4,294 | 4,574 | 5,640 | 5,694 | 53 |
| Non-current liabilities | 76 | 27 | 27 | 222 | 195 |
| Total liabilities | 4,370 | 4,601 | 5,667 | 5,916 | 249 |
| (Interest-bearing debt) | - | - | - | - | - |
| Total net assets | 1,706 | 1,769 | 2,544 | 2,953 | 408 |
| (Stability indicators) | | | | | |
| Equity ratio | 27.1% | 27.0% | 30.6% | 32.9% | 2.3pt |
| Current ratio | 113.0% | 107.5% | 117.9% | 121.9% | 4.0pt |
| (Profitability indicators) | | | | | |
| ROE | 33.3% | 31.6% | 39.2% | 26.3% | -12.9pt |
| ROA | 9.2% | 13.1% | 13.5% | 11.3% | -2.2pt |
| Operating margin | 5.7% | 8.8% | 8.4% | 7.5% | -0.9pt |

* Cash and deposits include deposits paid to subsidiaries and associates

Note: Figures for FY12/18 are non-consolidated.

Source: Prepared by FISCO from the Company's financial results

Simplified cash flow statement

| | (Unit: ¥mn) | | | |
|---|-------------|---------|---------|---------|
| | FY12/18 | FY12/19 | FY12/20 | FY12/21 |
| Cash flows from operating activities (a) | 674 | 698 | 1,253 | 669 |
| Cash flows from investing activities (b) | -311 | -452 | -5 | -278 |
| Cash flows from financing activities | -51 | -494 | -78 | -392 |
| Free cashflow (a) + (b) | 363 | 245 | 1,247 | 390 |
| Cash and cash equivalents at end of period | 2,702 | 2,453 | 3,622 | 3,620 |

Note: Figures for FY12/18 are non-consolidated.

Source: Prepared by FISCO from the Company's financial results

Business outlook

In FY12/22, although net sales will decline due to the application of the Revenue Recognition Standard, net sales and profits are both forecast to effectively increase by double digits

1. Outlook for FY12/22

For the 12/22 consolidated results, the revenue recognition method for certain businesses will be changed to the method of recognizing revenue at the net amount. Accordingly, the Company is forecasting net sales of ¥11,482mn and operating profit of ¥1,143mn. In comparison with figures based on the previous standard, net sales and profits are projected to increase by double digits. Net sales are forecast to increase 15.1% to ¥13,674mn and operating profit is forecast to increase 27.7% to ¥1,135mn. Moreover, the Company forecasts ordinary profit of ¥1,148mn, an increase of 18.6%, and profit attributable to owners of parent of ¥779mn, an increase of 8.9%.

Consolidated results outlook for FY12/22

(Unit: ¥mn)

| | Before application of Revenue Recognition Standard | | | After application | |
|---|--|-------------------|-------|-------------------|-------|
| | FY12/21 Results | FY12/22 Forecasts | YoY | FY12/22 Forecasts | YoY |
| Net sales | 11,879 | 13,674 | 15.1% | 11,482 | -3.3% |
| Operating profit | 888 | 1,135 | 27.7% | 1,143 | 28.7% |
| Ordinary profit | 968 | 1,148 | 18.6% | 1,156 | 19.5% |
| Profit attributable to owners of parent | 715 | 779 | 8.9% | 785 | 9.7% |
| Profit per share (¥) | 135.22 | - | | 147.92 | |

Note: The Company is scheduled to apply the Revenue Recognition Standard from the beginning of FY12/22 Q1. Forecasts represent figures after the application of this standard.

In terms of comparisons of figures for FY12/22 before the application of the new standard, the Company is forecasting net sales of ¥13,674mn, up 15.1% YoY, operating profit of ¥1,135mn, up 27.7%, ordinary profit of ¥1,148mn, up 18.6%, and profit attributable to owners of parent of ¥779mn, up 8.9%.

Source: Prepared by FISCO from the Company's financial results

Looking at the specific effect of the application of the Revenue Recognition Standard by business segment, the new standard will have the effect of reducing net sales in the E-commerce Support business by ¥1,888mn. The effect is mainly caused by a change in the accounting treatment of the merchandise cost of SUZURI, including purchase prices and expenses for outsourced processing, to recognition as net amounts. Also, the accounting treatment of certain net sales related to commissions for payments and bank transfers, as well as freight costs, will be changed to recognition as net amounts. In the Handmade Products business, the new standard will have the effect of reducing net sales by ¥314mn. The accounting treatment of certain net sales related to commissions for payments and bank transfers of minne, as well as related freight costs, will be changed to recognition as net amounts. Meanwhile, in the Hosting Business, the application of the Revenue Recognition Standard will have the effect of increasing net sales by ¥14mn and operating profit by ¥8mn. The main reason is a change from lump-sum revenue recognition at the time of the conclusion of contracts to recognition based on proportionally divided monthly fees over the contract period mainly with respect to Lolipop! and MuuMuu Domain.

Business outlook

Looking at business performance based on the previous standard, all business segments are forecast to post increases in net sales and profit. In the Financial Support business, profitability is expected to be achieved for the first time since the start of this business. The operating margin is expected to increase from 7.5% in FY12/21 to 8.3% in FY12/22. Although promotion cost will increase by around ¥0.2bn YoY, the main factor behind the increase in the profit margin will be that the rise in personnel expenses will be held to modest levels, as the increase in personnel has been largely completed. Another positive factor on the profit margin will be the effect of higher net sales. Additionally, the rate of increase in profit attributable to owners of parent will be slightly lower than that of ordinary profit, owing to the absence of the extraordinary income recorded in FY12/21.

The key to achieving these financial results forecasts lies in whether the Company will be able to restore e-commerce-related services, which were affected by stay-at-home demand settling down in FY12/21, to a steady cruising speed and put these services back on a growth trajectory. The Company is targeting growth of more than 11% YoY on a gross merchandise value basis, and we at FISCO believe that if the Company achieves this target, it will also be able to meet its financial results forecasts.

In FY12/22, the Company aims for higher net sales and profits across all business segments, particularly in the E-commerce Support business and the Financial Support business.

2. Outlook by main business segment

Net sales by main segment

(Unit: ¥mn)

| | Before application of Revenue Recognition Standard | | | | | After application | |
|-----------------------------|--|---------------|---------------|-----------------|--------------|-------------------|----------------|
| | FY12/19 | FY12/20 | FY12/21 | FY12/22 (E) (2) | YoY | FY12/22 (E) (1) | Impact (1)-(2) |
| Hosting business | 4,487 | 4,567 | 4,807 | 5,045 | 4.9% | 5,059 | 14 |
| E-commerce Support business | 2,520 | 4,069 | 4,874 | 5,715 | 17.3% | 3,826 | -1,888 |
| Handmade Products business | 1,602 | 1,990 | 1,952 | 2,356 | 20.7% | 2,041 | -314 |
| Financial Support business | 46 | 127 | 212 | 552 | 159.4% | 549 | -2 |
| Other Business | 286 | 258 | 32 | - | - | - | - |
| Total | 8,943 | 11,014 | 11,879 | 13,674 | 15.1% | 11,482 | -2,192 |

Prepared by FISCO from the Company's financial results and financial results briefing materials

Operating profit by main segment

(Unit: ¥mn)

| | Before application of Revenue Recognition Standard | | | | | After application | |
|-----------------------------|--|------------|------------|-----------------|--------------|-------------------|----------------|
| | FY12/19 | FY12/20 | FY12/21 | FY12/22 (E) (2) | YoY | FY12/22 (E) (1) | Impact (1)-(2) |
| Hosting business | 1,366 | 1,361 | 1,474 | 1,553 | 5.3% | 1,561 | 8 |
| E-commerce Support business | 876 | 1,212 | 1,117 | 1,390 | 24.4% | 1,390 | - |
| Handmade Products business | 94 | 226 | 225 | 262 | 16.5% | 262 | - |
| Financial Support business | -178 | -299 | -139 | 4 | - | 4 | - |
| Other Business | 43 | 47 | -12 | - | - | - | - |
| Adjustment | -1,419 | -1,621 | -1,776 | -2,074 | - | -2,074 | - |
| Total | 783 | 927 | 888 | 1,135 | 27.7% | 1,143 | 8 |

Prepared by FISCO from the Company's financial results and financial results briefing materials

Business outlook

(1) Hosting business

In the Hosting business, the Company is forecasting net sales of ¥5,045mn based on the previous standard, an increase of 4.9% YoY, and operating profit of ¥1,553mn based on this standard, an increase of 5.3%. The Company has set a target for the number of contracts of 430,000 or higher (425,000 at the end of FY12/21). To achieve this target, the Company will continue to promote the simultaneous use of Lolipop! and MuuMuu Domain by fostering collaboration between these services. The Company also expects to raise spending per customer by winning contracts for high-end service plans and enhancing server functions (provision of WordPress package and strengthening of options), among other measures. As noted earlier, spending per customer is on an increasing trend, due partly to a fee structure revision undertaken in November 2021. We at FISCO believe that single digit increases in net sales and profit are highly likely to continue in FY12/22.

In MuuMuu Domain, the Company has set a target for the number of domains under contract of 1.17 million or higher (1.171 million as of the end of FY12/21). To achieve this target, the Company will strengthen efforts to acquire new contracts through the implementation of sales campaign programs. Also, the Company is expected to continue to achieve increases in net sales and profit by strengthening sales of secondary (used) domains, which have a high unit price.

(2) E-commerce Support business

In the E-commerce Support business, the Company is forecasting net sales of ¥5,715mn based on the previous standard, an increase of 17.3% YoY, and operating profit of ¥1,390mn based on this standard, an increase of 24.4%. With Color Me Shop, the Company expects to drive growth in gross merchandise value of at least 11% YoY. The Company will strive to expand gross merchandise value by continuing efforts to acquire new customers in collaboration with regional banks and other partners, in addition to strengthening categories such as food products for which demand is growing in the e-commerce channel. The Company is strong in providing various apps in its app store that lead to sales support, such as wholesaling functions. By working to encourage the use of these apps, the Company will seek to expand gross merchandise value.

Moreover, the Company plans to conduct system renovations to maintain operation when the system is highly loaded and to improve service quality. The implementation of new plans and fee structure revisions are scheduled for April 2022. For fee plans, monthly fees will be raised uniformly by ¥1,650. The plans will incorporate the main fee-based options (original domains, Always-On SSL, e-mail newsletters) from the beginning. The new plans will effectively offer a discount when the whole fee is considered, including the option fees*. Another key point is that customers will have access to more options in terms of the functions that they can use. For example, functions previously restricted to high-end plans and fee-based apps in the app store will become available for use in each plan. For the free plan, one-stop registration and renewal functions for merchandise have been added and plans call for adding review functions and shop coupon functions going forward. This revision of the content of plans is expected to pave the way for energizing e-commerce shops.

* For contracts starting on or after April 5, 2022, the monthly fees for each plan will be raised by ¥1,650. The monthly fee of the Economy Plan will be raised from ¥1,100 (tax included, hereinafter the same) to ¥2,750, that of the Small Plan will be raised from ¥1,540 to ¥3,190, that of the Regular Plan will be raised from ¥3,300 to ¥4,950 and that of the Large Plan will be raised from ¥7,945 to ¥9,595. The total fee for the three fee-based options is ¥1,980. Therefore, users who had previously used all three of these options will receive a discount of ¥330.

Business outlook

Meanwhile, with SUZURI, the Company is targeting growth in gross merchandise value of at least 27% YoY. (Gross merchandise value increased by 31.2% in FY12/21.) Considering that the YoY growth rate in gross merchandise value in FY12/21 Q4 was 21.4%, the Company will need to accelerate growth moving forward. The Company will implement key measures such as improving market recognition and the rate of purchases through the introduction of iD-based payments and collaboration with YouTube involving influencers and other partners. Efforts will also be made to facilitate the participation of creators and enhance merchandise by additionally providing six new item categories in a year. New item categories such as acrylic key holders are planned. Moreover, the Company plans to start overseas development and implement promotions. While merchandise can already be shipped overseas, the Company will further advance multi-lingual support for the website. On the profitability front, measures to strengthen the workforce have been largely completed, so there are no major reasons for costs to increase. Therefore, if gross merchandise value steadily increases, the SUZURI business is expected to start achieving earnings growth.

(3) Handmade Products business

In the Handmade Products business, the Company is forecasting net sales of ¥2,356mn based on the previous standard, an increase of 20.7% YoY, and operating profit of ¥262mn based on this standard, an increase of 16.5% YoY. The Company is targeting growth in gross merchandise value of at least 14% YoY, compared with an increase of 1.6% in FY12/21. Although this target would seem somewhat difficult to achieve, the Company intends to achieve it by stepping up efforts to promote sales in growing categories such as food products and efforts to enhance video content, beginning with education-oriented content. It will also develop new areas such as antiques in addition to existing categories and strive to continuously improve functions for searching and recommendation.

Furthermore, in November 2021, the Company announced a business alliance with FUJIKYU CORPORATION to energize the handmade products industry and acquire new customers through mutual customer referrals. FUJIKYU CORPORATION sells products such as handicraft supplies, apparel, clothing accessories and related sundry goods, mainly through Craft Heart Tokai specialty handicraft supply stores. Under this business alliance, the two companies plan to hold various joint events using both online and offline platforms. The business alliance is expected to lay the groundwork for activities that lead to an increase in the gross merchandise value of minne.

(4) Financial Support business

In the Financial Support business, the Company is forecasting net sales of ¥552mn, an increase of 259.4% YoY, and operating profit of ¥4mn (compared with operating loss of ¥139mn in FY12/21). The Company expects to deliver substantial growth in net sales by achieving a 1.7-fold increase in the number of invoices purchased through FaaS, meaning that the Company plans to increase the number of such invoices from 5,476 (just over 40% of the total) in FY12/21 to 9,394. For this, the Company will seek to develop business with more contracted companies in FaaS. Currently, the Company's main collaboration partners for FaaS are Lancers, Inc., GMO Makeshop Co., Ltd., and en Japan Inc., etc. Looking ahead, the Company plans to continue to strengthen collaborations with major companies engaged in cloud sourcing and e-commerce businesses.

Moreover, the Company launched GMO Freelance Factoring in February 2022. The launch of this new service is notable as an initiative that could lead to an increase in the number of users. Looking at the service's main features, no member registration is required, the application review process can be completed in 30 minutes, which is the industry's shortest period, and the fee rate is set uniformly at 9.5% (below the industry average but slightly above the average fee rate of 7-8% for existing services). GMO Freelance Factoring appears to be a highly valuable service to use at such times when cash is urgently needed.

Business outlook

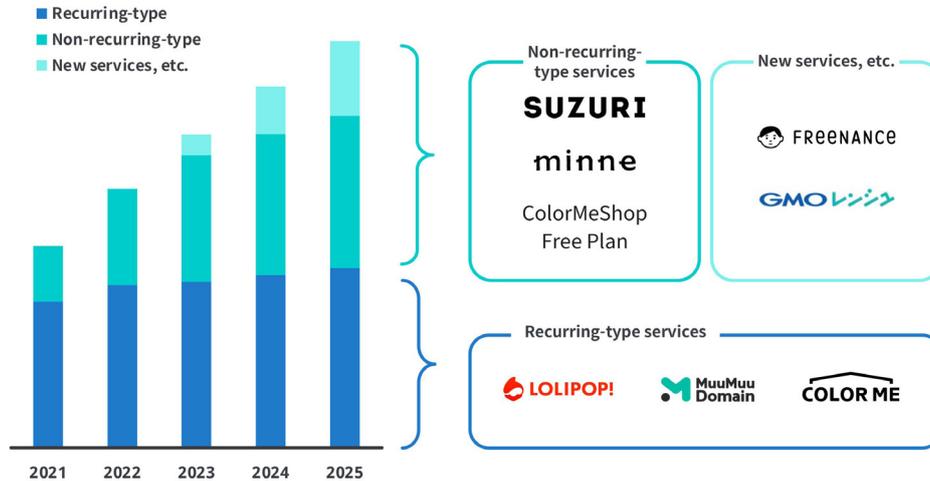
On the profit front, another factor behind the increase in profit is progress on improving the credit loss ratio, in addition to the effect of higher net sales. The Company has built a receivables collection operation over the last 1-2 years, and this has helped significantly. Going forward, the freelance market is expected to continue growing further, and the business performance of FREENANCE, which mainly targets this market, is anticipated to shift from an upfront investment stage to a growth stage from FY12/22 onward.

Aiming for operating profit of ¥2.5bn in FY12/25 through stable growth in recurring-type services and expansion of non-recurring-type services, etc., including new services

3. Future growth strategy

The Company's future growth strategy is to strive to achieve stable and steady growth in recurring-type services, along with working to improve the profitability of growth businesses such as non-recurring-type services, etc., including new services. Through these efforts, the Company is targeting operating profit of ¥2.5bn in FY12/25, a 2.8-fold increase from the result for FY12/21 and marking an annual profit growth rate of 30%. In FY12/21, recurring-type-services accounted for most of the Company's profits. By FY12/25, the Company expects non-recurring-type services to expand to the same level as recurring-type services, and new services are anticipated to contribute to profit to a certain extent.

Conceptual image of how operating profit targets will be achieved over the medium to long term

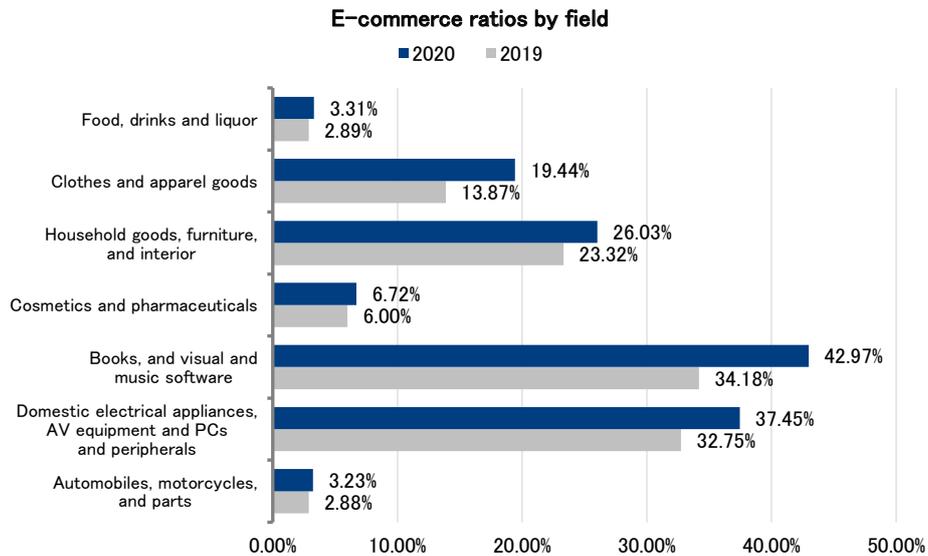


Prepared by FISCO from the Company's results briefing materials

Business outlook

Notably, growth in e-commerce-related services, such as SUZURI, minne, and Color Me Shop (Free Plan), which are non-recurring-type services, hold the key to achieving the Company’s targets. According to the FY2020 Industrial Economic Research Commissioned Project (E-Commerce Market Survey) conducted by the Ministry of Economy, Trade and Industry (METI), the scale of the domestic B-to-C e-commerce market in the merchandising sector continued to grow at an annual pace of 11.1% over a five-year period beginning in 2015. The e-commerce ratio was 8.08% in 2020 (6.76% in 2019). Based on this ratio, it appears that there is still substantial potential for growth in e-commerce. The e-commerce ratio for “Clothes and apparel goods,” which are the main categories of SUZURI and minne, rose sharply to 19.44% in 2020, compared with 13.87% in the previous year, due partly to the impact of the COVID-19 pandemic. In 2021, the pace of this increase seems to have slowed due to a snapback from rapid growth. However, growth is expected to continue, supported by a continued increase in the e-commerce ratio. In addition, the e-commerce ratio for the food product category, which the Company has identified as a field to strengthen in minne and Color Me Shop, was still low at 3.31% in 2020, harboring even larger potential for growth. This shows that the Company’s strategy for working to strengthen this category is on the right track.

Competition is fierce precisely because this is a growing market. The Company provides a wide range of Internet services beyond e-commerce-related services, such as financial support services and hosting services. By working to foster collaboration among various services and conduct related initiatives, the Company will be able to provide added value that competitor companies do not possess. We at FISCO would like to closely monitor how the Company’s activities evolve going forward.



Source: Prepared by FISCO from the FY2020 E-Commerce Market Survey conducted by the Ministry of Economy, Trade and Industry (METI)

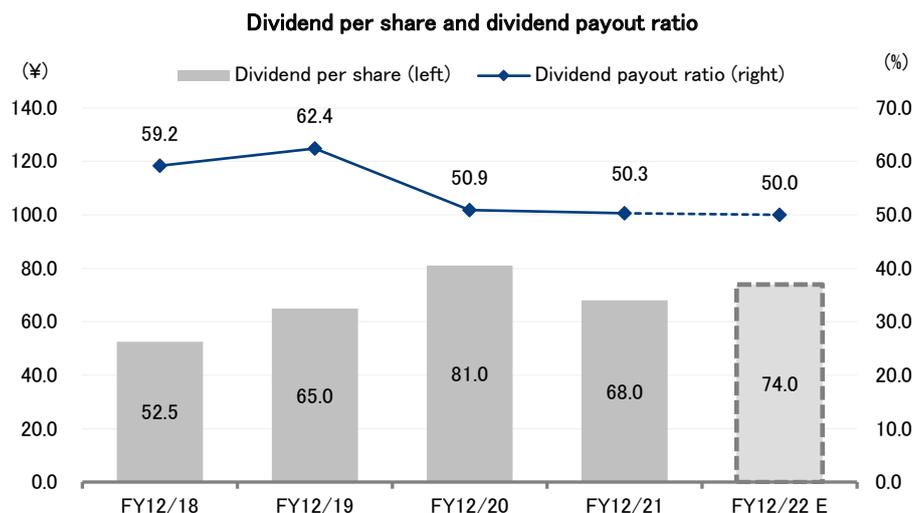
In January 2022, the Company released the beta version of GMO Renshu as a new service following on from FREENANCE. GMO Renshu is a member-based cloud service for out-of-school learning programs that allows users to manage fee collection and communication tasks in one place on their PCs or smartphones. The future development of new services is eagerly anticipated.

Shareholder return policy

Paid out dividends based on a dividend payout ratio of 50% and introduced a shareholder benefits program

The Company has announced a dividend policy of paying performance-linked dividends based on a consolidated dividend payout ratio of 50%. For FY12/21, the Company paid a dividend per share of ¥68.0 (consolidated dividend payout ratio: 50.3%). For FY12/22, the Company plans to pay a dividend per share of ¥74.0, an increase of ¥6.0 YoY (consolidated dividend payout ratio: 50.0%).

In addition, the Company has introduced a shareholder benefits program. For shareholders holding 100 or more shares (the record dates for dividends fall at the end of June and December), the Company mainly grants points and coupons that can be used for its Internet services (granting of points and coupons worth ¥1,500 or ¥3,000). The annual investment yield per trading unit, including shareholder benefits (points or coupons granted by the Company), was estimated as 4.4% based on the Company’s closing share price on March 2, 2022 (¥2,348).



Note: A two-for-one stock split of common shares was conducted on April 1, 2019. Figures have been retrospectively adjusted.

Source: Prepared by FISCO from the Company’s financial results

Description of shareholder benefits

- Granting of points or coupons (points or coupons worth ¥1,500 for holding 100 to less than 200 shares; points or coupons worth ¥3,000 for holding 200 or more shares)
 Shareholders may select one of the following: Osaipo! Points, GMO Points or minne Coupons
 Points or coupons can be used for the Company’s Internet services, etc.
- Cashback on buying commission fees for purchases of shares in the Company (100 or more shares)
 Buying commission fees at GMO CLICK Securities are eligible for cashback, with no upper limit.
- Cashback on trading commission fees (Up to ¥1,500 for shareholders holding 100 to less than 200 shares; Up to ¥3,000 for shareholders holding 200 shares or more)
 Trading commission fees at GMO CLICK Securities are eligible for cashback.

Source: Prepared by FISCO from the Company’s web page

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