## Event Summary

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<td>Kentaro Sato</td>
<td>Representative Director and CEO</td>
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<td>Yoshito Igashima</td>
<td>Executive Director and CFO</td>
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Presentation

**Moderator**: Thank you very much for joining the financial results briefing of GMO Pepabo, Inc. for the first quarter of the fiscal year ending December 31, 2022.

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

**Sato**: I’m Sato. Thank you for joining us today.

**Moderator**: Yoshito Igashima, Executive Director and CFO.

**Igashima**: Thanks.

**Moderator**: These two. Today, Sato will provide an overview of our financial results. Please.

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**Sato**: Hello, everyone. I am Sato, the President. Thank you very much for taking time out of your busy schedule to join us today. We will begin our financial results briefing for the first quarter of the fiscal year ending December 31, 2022.

In the first quarter of the fiscal year ending December 31, 2022, both sales and profits increased YoY. The hosting and financial support businesses got off to a good start.
From the second quarter onward, we plan to strengthen promotions such as TV commercials for SUZURI, an e-commerce related service, with the aim of increasing distribution value by attracting visitors to the site.

Here is the agenda for this meeting.

I will spare you the explanations, but you can find the Company profile and other reference materials in the latter half of the document, and I hope you will look through them when you have time.
First, here is a summary of the financial results for first quarter of the fiscal year ending December 31, 2022.

Consolidated results for the first quarter are as shown.

The new revenue recognition standard has been applied from this fiscal year. Since the impact on sales is particularly large before and after the application, I will explain the figures for the previous year by replacing them with the new revenue criteria for the current year. The previous year's figures after application of the new revenue are unaudited.

Figures before the application of the new revenue recognition standard are shown on the far left.

As for the first quarter of fiscal 2022, net sales were JPY2,535 million, or 103.6% of previous year's level. Operating income was JPY225 million, or 98% of previous year's level.

Ordinary income was 103.9% of the previous year's level due to an increase in non-operating income such as gain on investment partnership management.

Net income was 94.1% of the previous year's level due to the absence of a gain on the transfer of a business that occurred in the previous year.
For quarterly sales trends, we have replaced the first quarter of 2022 with pre-application figures to facilitate understanding of long-term trends.

Sales for the first quarter totaled JPY2.96 billion, an increase compared to the fourth quarter of the previous year.
Quarterly operating income trends are presented under the new revenue standard from the first quarter of the fiscal year ending December 31, 2022, as the impact of the adoption of the new revenue standard is immaterial.

Operating income increased compared to the fourth quarter of the previous fiscal year.
This will be followed by an analysis of operating income.

Compared to the first quarter of the previous fiscal year, promotional expenses increased by about JPY30 million. Mainly, there was an increase in promotion expenses to expand distribution on minne.

In addition, costs increased mainly due to the enhancement of Color Me Shop's infrastructure to meet the growing demand for EC services.
In the hosting business, the overall business remained strong due to an increase in the ratio of contracts for high-end plans and the price revisions made in the previous fiscal year.

In the EC support business, expenses increased mainly due to lower-than-expected distribution value for SUZURI and the strengthening of the system to cope with increased traffic on Color Me.

As for the handmade products business, quarterly distribution reached a record high, but promotion and other expenses increased.

As for the financial support business, the amount of invoice purchase increased, and operating income improved significantly from the previous year.
Now, I would like to explain each segment.

As for YoY comparisons by segment, we will continue to compare the previous year’s figures using the new revenue standard.

First is the hosting business.

Net sales were JPY1,247 million, or 107.2% of previous year’s level. Operating income was JPY413 million, 122.9% of previous year’s level.
First is about the rental server service, Lolipop!

Lolipop! posted sales of JPY551 million and operating income of JPY308 million.

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.

In addition, unit prices per customer continued to increase due to a higher ratio of higher-end plans and the effect of price revisions implemented in the previous fiscal year.
Next is the domain acquisition service, MuuMuu Domain.

MuuMuu Domain posted sales of JPY544 million and operating income of JPY71 million.

Although the number of subscriptions continued to decline, the renewal rate of domain names remained high, resulting in an increase in the unit cost per customer.
Next is the EC support business.

Sales were JPY735 million, or 96.1% of previous year’s level. Operating income was JPY213 million, or 79.7% of previous year’s level.
The first one is Color Me Shop, an online store creation service.

Net sales were JPY442 million, and operating income was JPY176 million. With regard to sales, the amount of sales from IT introduction subsidies, which was recorded in the previous fiscal year, decreased.

Operating income was affected by increased expenses due to the reinforcement of systems and infrastructure to meet the growing demand for store distribution.

While the overall number of contracts for Color Me Shop increased with the introduction of the free plan, the number of contracts for paid monthly plans decreased due to an increase in new applications for the free plan.

The unit price per customer, which previously included free plans, has been revised to include only monthly plans. Unit prices are on the rise as store distribution of monthly plans expands.
Next, there is SUZURI, a service for creating and selling original goods.

SUZURI's net sales were JPY212 million, and operating income was JPY6 million.

Although sales were flat YoY, operating income was 42.5% of that of the same period last year due to an increase in expenses resulting from the strengthening of the organization for business expansion.

Although the distribution amount was lower than the previous year, we will explain the countermeasures for this later in the report.
Next is minne, a handmade business.

Sales of minne amounted to JPY460 million, or 104.7% of previous year’s level, and operating income was JPY49 million, or 57.3% of previous year’s level.

While sales increased due to the implementation of measures for the entrance and enrollment season and other measures, operating expenses such as promotions also increased.
As for minne’s KPIs, the number of authors and brands reached 820,000, the number of works reached 14.84 million, and the number of app downloads is now 13.51 million.
First-quarter circulation was JPY4.19 billion, the highest quarterly figure ever.

The distribution amount increased as a result of the sales promotion plans for the entrance season I mentioned earlier and strengthened inflow centered on SNS, as well as measures to increase the number of artists and users.
Next is the EC support business.

Net sales were JPY90 million, or 204.2% of previous year’s level. Operating income was minus JPY4 million, an improvement of JPY41 million YoY.
This is about FREENANCE's KPIs.

In addition to strengthening ties with companies, the number of users has increased since the Company began handling GMO freelance factoring, which offers convenience and immediacy without the need for membership registration.
The amount of invoice purchases has been increasing in line with the increase in the number of users, and the number of purchases for the first quarter of 2022 was JPY1.21 billion.

This concludes the description of each segment.
Next, I will explain the progress of our business performance for the first quarter of the fiscal year ending December 31, 2022, and our future plans.

First is the hosting business.

In the first quarter, performance was solid thanks to an increase in the ratio of top plans and the effect of price revisions implemented in the previous fiscal year.

As for the future, in order to support the monetization of blogging and side business users and to encourage more users to use our Lolipop!, on April 18, we launched a beta version of our blog monetization and side business start pack.

In the second quarter and beyond, we will continue to increase the number of subscriptions through campaigns and domain linkages.
Next, EC related services.

The first is Color Me Shop, an e-commerce support business.

With the introduction of the free plan last year, the overall number of contracts has increased. It takes about two to three years to develop free plan customers, so we do not currently see a significant contribution to earnings, but we believe it is within our expectations.

In addition, we have strengthened our infrastructure to handle the increase in traffic from each store, and costs have increased. However, with the infrastructure now somewhat in place, we have revised our monthly plan pricing starting in April. Going forward, the Company intends to expand earnings by continuing to strengthen the food category while observing the effects of price revisions.

As for SUZURI, the number of visitors to the site is decreasing and the distribution amount is also lower than the previous year. We will work to increase the number of visitors by strengthening marketing activities and promotions using SNS and influencers.

As for minne, our handmade business, quarterly distribution value has reached a record high, and we will continue to attract more artists and increase the number of buyers to expand the distribution value.
The total distribution value of the three services, Color Me Shop, SUZURI, and minne, remained flat YoY. The number of sellers is increasing.
As reported earlier, SUZURI has seen an increase in competitors and a decrease in the number of visitors to the site via SNS, resulting in a decrease in the number of customers visiting the site and in the amount of distribution.

In the future, we aim to increase the number of visitors by encouraging creators who use SUZURI to send out more information via SNS, as well as by encouraging visitors to come in from our other services.

In addition, due to an increase in competition, we are considering TV commercials and other measures to coincide with the T-shirt sale to address the current lower-than-expected inflow to the site.
As for minne circulation, quarterly circulation reached a record high of JPY4.19 billion, surpassing the JPY4.13 billion in the second quarter of 2020, which was impacted by the nesting demand.
In the second quarter and beyond, to continuously attract new artists and users, we will continuously strengthen new areas such as antique and vintage, as well as implement measures to expand distribution, such as holding a contest themed on the Sylvanian Families, which have many fans regardless of age.
With respect to FREENANCE, the financial support business, the tripartite factoring transactions through corporate collaborations are growing rapidly.

The amount of invoices purchased for the tripartite factoring transactions through corporate collaborations has increased significantly by 406.8% YoY, with users mainly engaged in the shipping and transportation industry expanding their use of this service.

In the future, we would like to expand our business not only to the transportation industry, but also to other industries, and increase the number of companies that collaborate with our API to expand our revenue.
The progress of each segment toward the full-year forecast is shown in the table below.

The progress rate of the financial assistance business is 16.4%, but this is within our expectation. The amount of invoice purchases is also increasing steadily, and we will continue to expand revenues.
From this point on, the Pepabo3 Promotion Office was newly established in March 2022 as a Company-wide initiative.

The Pepabo3 Promotion Office aims to acquire technology and knowledge related to Web3 as well as a new economic sphere using blockchain technology.

It also functions as a department that promotes cooperation with other services, for example, providing support for those who would like to exhibit their NFT works and contents in the future.
As for Web3, it is assumed that NFT and other individual-centered economic spheres will be established in the future.

We believe that Web3 has a very high affinity with our company, which supports the expressive activities of creators through Internet services.

Recently, the Liberal Democratic Party has been discussing making Web3 a pillar of the country's growth strategy, and we will be actively working with a sense of speed in this context.
新規事業(GMOレンシュ)

2022年4月4日、チーム・教室のための連絡集金サービス「GMOレンシュ」正式版をリリース

In addition, a new service, GMO Renshu, was launched on April 4.
This service supports businesses that operate lessons, such as soccer and dance classes. The size of the market for sports and other lessons is assumed to be more than JPY2.6 trillion.

As a percentage, sports classes account for 30% of the total, and we would like to start with users who operate soccer classes and other related users.
The service offers three management options: online payment, announcements, and scheduling.

We aim to DX the education and learning market by reducing the burden caused by contacting and collecting money from those who run sports and other classes.

As for Renshu, we are just beginning to develop the service. We are running a free campaign until August, and we intend to be proactive in the future to make this a new revenue pillar.

This is the end of my presentation. Thank you very much for your kind attention.

Moderator: This concludes our explanation of the financial results for this fiscal year. Thank you very much.
Question & Answer

**Moderator [M]:** We will now move on to the question-and-answer session. After you have stated your company name and name, please tell us what your question is.

First, Daiwa Securities, Mr. Tokunaga, please.

**Tokunaga [Q]:** Thanks. I’m Tokunaga from Daiwa Securities. I have three questions. The first point is regarding SUZURI. In the first quarter, sales declined YoY, which is a significant deviation from the past growth trend, but is it correct to say that this is due to increased competition?

Also, based on this, you are planning to conduct TV commercials, etc. What are your current prospects for both sales and profits toward the Company's full-year plan for this fiscal year? I would be glad to receive your quantitative explanation. This is my first question. Thanks.

**Moderator [M]:** President, please.

**Sato [A]:** Thank you for your question, Mr. Tokunaga. First, SUZURI has two major points in mind. The first is the impact of the fact that the nesting demand over the past two years has settled down to some extent. Also, I am concerned if the impact of the competition is conceivable.

In terms of the impact of the nesting demand, the growth trend was actually weaker last year in 2021 than in 2020. But in the case of SUZURI, it was still growing.

In the current fiscal year, the number of customers who are selling on the Internet or who want to sell at SUZURI since the event is no longer available is decreasing, and those who are buying on the Internet are shifting to the outside, especially for apparel. This is the image of the overall trend.

As far as competition is concerned, as far as we can see, we were the only one to advertise, but now multiple competitors are advertising, and other competitors are running TV commercials. Moreover, creators themselves have registered with multiple services and are advertising those services through SNS, so many options or competitors are now out in the market. We believe this is the reason for the decline in sales in the first quarter.

As for the TV commercials, we are currently planning to step up promotions in conjunction with the summer sales, especially the T-shirt sales. By combining the period of TV commercials with the period of the sale, the impact on the full-year results will be minimal, and although we do not expect this to have a significant positive effect on profits, we are now making plans for promotions that will allow us to recover the cost of the sale within the year. I hope I gave you a satisfying answer.

**Tokunaga [Q]:** Thank you very much. I just want to follow up on two points. Regarding the first being SUZURI’s competition, should we be looking primarily at the T-shirt market? I wonder if it would be better to see more competition in other products, such as hoodies, as well.

Second, can we assume that the promotional costs for the TV commercials will be recovered from SUZURI alone, rather than coming from the costs of other services such as minne? Those are my two questions.

**Sato [A]:** Thanks for your questions. Competitors also sell items other than T-shirts, but their main selling point is their T-shirts.
On the other hand, in the case of SUZURI, we do not only sell T-shirts, so I think we are competing especially for the T-shirt part. I think we need to do something more to promote T-shirts as a strong point.

As for costs, we are in the process of designing a promotion within SUZURI, not from other services, so that we can recover the costs within this year.

**Tokunaga [Q]:** I understand. Thank you very much. Second, please tell us about Color Me Shop. I believe that you are anticipating a rate revision after April, and I believe that you are currently doing so as well. In addition, your competitors also started fixed cost plans in April, and I believe the competitive environment has changed significantly.

Have there been any changes in the number of subscriptions, unit prices, or GMV trends between April and now due to the price revisions? Am I correct in my impression that you are doing well? What is the status of the Color Me price revisions? This is my second question.

**Moderator [M]:** Thank you very much. President, please.

**Sato [M]:** I think you can answer in more detail, Mr. Igashima, or would you prefer me to answer?

**Igashima [M]:** I’d prefer if you can answer, President.

**Sato [A]:** Okay. First, regarding changes in trends, we do not see any major changes in new applications, with a large percentage of applications for free plans since the launch of the free plans.

The increase in contract cancellations, for example, is within the range of our expectations, and although the number of cancellations is slightly higher than in the past, it is not really a dramatic increase. As a result, the unit price itself has increased.

We do not know what kind of changes are taking place in our competitors' situation. We are not aware of any changes in our competitors that would increase the number of transfers to us, or conversely, the number of customers leaving us.

Therefore, the price revision has led to an increase in the unit price, which we are interpreting positively.

On the other hand, there are still many contracts for the free plan, so we have made some investments in the attractiveness of the fixed-cost plan itself, and there are some positive aspects, so we would like to properly promote these aspects and bring the fixed-cost plan into an upward trend. That’s all from me.

**Tokunaga [Q]:** I understand. Thank you very much. Third and final, what are the risk factors and upside to the Company's plan?

The upside is that hosting and financial support are going quite well, but there are also negative factors such as the current economic recession and rising electricity costs. Please tell us whether this current surge in electricity costs and other such factors are having a negative impact on your company at the moment, for example, the increase in the reserve ratio, or whether we can assume that other positive factors will be sufficient to counteract the negative impact of the economic downturn. That’s all from me.

**Sato [A]:** The major impact is expected to be from the depreciation of the yen. The major impact on our domain business is that we procure some of our products in dollars, so if the yen continues to depreciate over the long term, or even more so, our cost ratio will rise, and we may have to pass the price on to our customers. This may lead to a negative impact on our business.
Another factor is the high cost of oil and raw materials, which is beginning to have a slight impact on the rising cost of materials at SUZURI. We have not yet been affected by this, but if it continues for a prolonged period of time, it may affect our customers’ willingness to purchase. We imagine these factors to be negative points for our business. Was there anything else?

Igashima [A]: Well, we are not sure if the increase in interest rates will have any impact on the financing part of FREENANCE, although this is still unknown at this point. Under such circumstances, we will adjust the selling price, or rather, the interest rate to the customer. That’s all from me.

Tokunaga [Q]: Thank you very much. Then, is it correct for me to assume that the first quarter has not been particularly affected yet, and there may be some impact from the second quarter onward, but the situation is not that worrisome at this point? Or should I be concerned a little more about this issue?

Sato [A]: Yes, the first quarter did not receive that much of an impact, and the application of the new revenue recognition standard does not include to some extent the portion that used to be included in cost, so I don’t think the figures will shift that much.

On the other hand, however, there is still a possibility that consumption trends will change, and we are concerned about how this will change from the second quarter and onwards.

Tokunaga [M]: I understand. That’s all from me. Thank you very much.

Sato [M]: Thank you very much.

Moderator [M]: Thank you very much, Mr. Tokunaga. 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 for the first quarter of the fiscal year ending December 31, 2022. Thank you very much for joining us.

Sato [M]: Thank you very much.

Igashima [M]: Thank you very much.

[END]

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1. Portions of the document where the audio is unclear are marked with [Inaudible].
2. Portions of the document where the audio is obscured by technical difficulty are marked with [TD].
3. Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.
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