

GMO Pepabo, Inc.

3633

Tokyo Stock Exchange Prime Market

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Summary

Promoting initiatives aimed at returning to growth in the e-commerce-related services and on the verge of a period of rapid progress 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 transited to the Tokyo Stock Exchange Prime Market.

1. Outline of 1H FY12/22 results

In the consolidated results for 1H FY12/22 (from January 2022 to June 2022), the Company reported net sales of ¥5,106mn, down 14.2% YoY, and operating profit of ¥248mn, down 45.9% YoY. From FY12/22 the Company is applying the Accounting Standard for Revenue Recognition, etc. (hereinafter, the “new accounting standard”), and the effect of this was a ¥847mn decline in net sales, and a ¥30mn increase in operating profit. If the year-earlier period were converted using this new accounting standard, net sales would have increased 3.5%, while operating profit would have declined 45.2%. (Hereinafter, the YoY growth rate is shown as a comparison with the new accounting standard.). Although net sales in the E-commerce Support business turned lower, declining 7.3% YoY due to the snapback in stay-at-home demand, this was covered by the increase in net sales in the Hosting business and the Financial Support business. In particular, net sales in the Financial Support business rapidly increased, growing 2.3 times YoY, partly due to the impact of the increase in collaborating companies. Meanwhile, in terms of profits, the double-digit decline in profit in the E-commerce Support business and the Handmade business due to the dulling of growth in the e-commerce market had an impact. In particular, the main factor that held profit down was the ¥204mn YoY increase in promotion costs, including spending ¥180mn on the implementation of a TV commercial campaign related to SUZURI.

2. FY12/22 outlook

As for the consolidated results for FY12/22, the Company has kept its forecast of net sales of ¥11,482mn and operating profit of ¥1,143mn unchanged. The progress rate through 2Q was 44.5% for net sales, while it was only 21.7% for operating profit, but in 2H the ¥180mn outlay for SUZURI TV commercials will disappear, profit growth is expected in the Hosting business and the Financial Support business, and the Company will work to reduce head office costs, including limiting personnel hiring. Through these and other efforts, the Company will aim to achieve its forecast. Moreover, in the Financial Support business, there has been an increase in collaborating companies, and the amount of invoices purchased is increasing with time., In FY12/22, the Company expects net sales to increase 2.6 times YoY to ¥549mn, and operating profit to be ¥4mn (a ¥139mn loss in the previous fiscal year), as it is expecting to achieve profitability for the first time since launching the business.

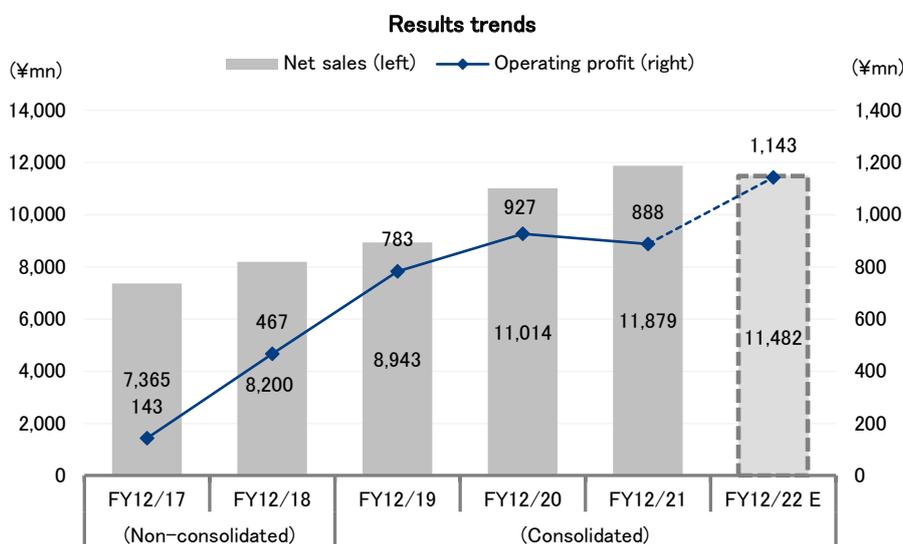
Summary

3. Future growth strategy

The Company is targeting operating profit of ¥2.5bn for FY12/25. The Company plants to 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 assumption was that the domestic e-commerce market was expected to continue growing at an annual rate above 10%, but e-commerce market growth has been sluggish since the second half of 2021 due to the snapback in stay-at-home demand, and the same trend has been seen in the Company's e-commerce-related services. However, looking over the medium-to-long term, the e-commerce market is expected to continue to grow, and the Company is planning to recover to double-digit annual growth by advancing new initiatives. In terms of specific initiatives, the Company plans to go beyond the sale of goods, and expand the e-commerce domain into non-merchandising, such as services and digital content. For minne, the Company plans to start selling educational materials, digital materials, how-to video content and other content before the end of 2022, so future developments will be watched. In the Financial Support business, the Company will work to further increase the number of users by expanding the number of collaborating companies, as well as aim for high growth by developing insurance and other peripheral services.

Key Points

- 1H FY12/22 consolidated profit declined, but there was rapid growth in the Financial Support business
- Expecting a recovery in profitability from 2H FY12/22 onward due to cost reductions, etc.
- 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. Also, 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 developed 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. (The Company’s listing was changed to the TSE Second Section in December 2019, the TSE First Section in December 2020 and it moved to the TSE Prime Market in April 2022). 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. The Company has also been focusing on developing new businesses. This effort includes the 2019 acquisition of the shares of GMO Creators Network which operates FREENANCE, a factoring service for freelancers, and making it a consolidated subsidiary.

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Company profile

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 (which later became the TSE 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 Carvath 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
April 2022	Listed market changed to the TSE Prime Market

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

Business overview

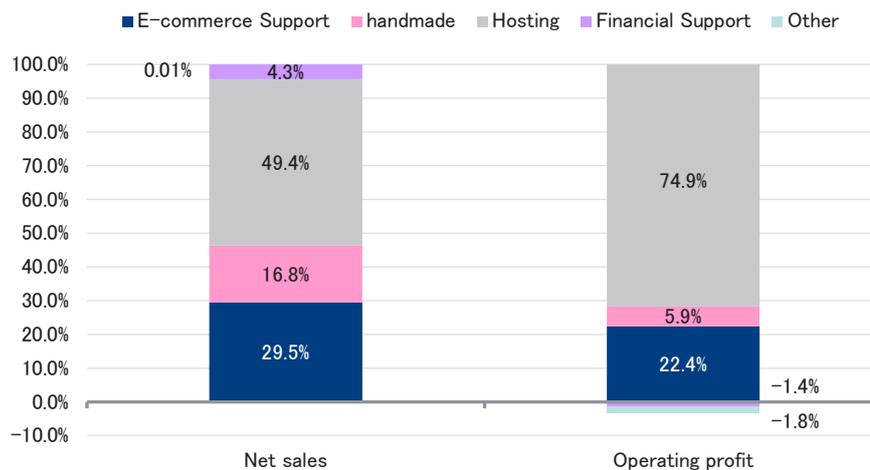
Achieved growth through both the Hosting business and the E-commerce Support business, while making the Handmade Products business, which will become a third growth driver, profitable in 2019

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 1H FY12/22, the Hosting business accounted for 49.4% of net sales, the E-commerce Support business 29.5%, the Handmade Products business 16.8%, and the Financial Support business 4.3%. In terms of operating profit (before corporate expenses), the Hosting business accounted for 74.9% of operating profit, the E-commerce Support business 22.4%, the Handmade Products business 5.9%, while the Financial Support business posted a slight loss. Currently, the Hosting business, which is a recurring-revenue business, is a source of stable earnings, while going forward the Company will focus on e-commerce-related services (E-commerce Support business and Handmade Products business), which is expected to grow, and the Financial Support business, and has established a strategy aiming for earnings growth while diversifying the earnings portfolio.

The composition of net sales by business segment



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

Business overview

(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:

a) Lolipop!

Lolipop! is the Hosting business' mainstay service, representing just over 40% of net sales and over 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" by HostAdvice.com (as of August 2022).

b) MuuMuu Domain

MuuMuu Domain, which represents just over 40% of net sales and just below 20% of profit in this business segment, 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 1.16 million at the end of June 2022. 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.

In conjunction with the application of the new accounting standard from FY12/22, the Company changed the timing of recognizing revenue from the completion of the domain acquisition to a method of recognizing revenue throughout the contract period.

Business overview

(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.

a) Color Me Shop

Color Me Shop, which represents around 60% of net sales 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 49,000 as of the end of June 2022 (of which just over 10,000 were free plans). Color Me Shop is Japan's largest service in terms of the number of stores and which 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. 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.

* The Company revised its monthly basic fee plans (tax included) in April 2022. It now has a regular plan which includes usage fees for certain options for ¥4,950 (old fee: ¥3,300) and the large plan for ¥9,595 (old fee: ¥7,945). Regarding the free plan (no monthly basic fee), the Company charges a sales payment fee of 6.6% of sales (merchandise price + shipping cost) + ¥30 per transaction.

In conjunction with the application of the new accounting standard from FY12/22, the Company changed the timing of recognizing revenue for initial cost sales from the time when the service provision begins to a method of recognizing revenue throughout the service contract period.

b) SUZURI

SUZURI represents roughly 30% of net sales 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. SUZURI provides comprehensive one-stop support, from the creation to delivery of items (production and delivery are 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 is cultivating demand as a service ahead of the industry, and from the launch of the service in 2014 until the end of June 2022, the cumulative number of members has grown to 1.22 million, and the number of creators has increased in 620,000. Creators sell their works on SUZURI by setting their sales price by adding their own profit margin to the procurement price received from the Company (outsourcing cost to production company + the Company's net sales). Because orders are sent to outsourcing companies after buyers placing orders, there is no inventory risk, and it is a non-recurring-revenue business model that is almost completely linked to gross merchandise value.

Following the application of the new accounting standard from FY12/22, the Company has changed its method of booking revenue from a total amount booking method (booking outsourcing costs in net sales and cost of sales) to a recognition of net amounts (excluding outsourcing costs). Accordingly, net sales from SUZURI appear to decrease, but there is no impact on profit.

Business overview

(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. In addition to sales of handmade products such as accessories, fashion goods, handbags, wallets, foods and the materials needed to make such products, minne also sells antique and vintage items.

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 June 2022, the number of registered creators and brands was 830,000, the number of registered products was 15.31 million items, and the number of app downloads was 13.71 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 invoice (accounts receivable) amount that can be purchased starts from ¥10,000, and the upper limit on this amount was abolished in April 2020.

In November 2020 the Company rolled out FaaS (FREENANCE/Factoring as a Service), which provides financial support services, including same-day payments, to external companies. An increasing number of companies are introducing this service, including LANCERS <4484> and other companies in the personnel services industry, as well as the IT industry and the transport industry, all of which have a high affinity with freelancers. Trilateral transactions through FaaS have relatively lower commission rates compared to bilateral transactions, and referral fees arise, so the profit margin is lower than for bilateral transactions. On the other hand, it also holds the advantage of being able to efficiently expand the number of users.

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 (420,000)	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 ¥53/year Number of registered domains: 1.16 million (1.17 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: 49,000 (46,000) 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: 620,000 (560,000) Number of members: 1.22 million people (1.06 million 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: 830,000 (800,000) Number of registered products: 15.31 million (14.53 million) Number of app downloads: 13.71 million (13.28 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 June 2022. The figures in parentheses are as of December 2021.

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 free plan featuring no initial cost and no monthly usage fees to respond to diverse needs.

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. As of August 2022, Creema carried around 14.44 million items and had 230,000 registered creators. Although these numbers are slightly lower than minne, the average sales price is higher, and the gross merchandise value is about the same. Also, the Company is actively conducting advertising services (including both internal and external services) on its site and monetizes them, which differentiates the Company from its competitors.

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

1H FY12/22 consolidated profit declined, but there was rapid growth in the Financial Support business

1. Outline of 1H FY12/22 results

In the consolidated results for 1H FY12/22, the Company posted an increase in net sales and decrease in profits. Net sales increased 3.5% YoY to ¥5,106mn, while operating profit decreased 45.2% YoY to ¥248mn, ordinary profit declined 44.4% YoY to ¥258mn and profit attributable to owners of parent was down 48.7% YoY to ¥182mn.

Track record of 1H FY12/22 consolidated results

(Unit: ¥mn)

	1H FY12/21			1H FY12/22			
	Results (previous standard)	Results (new standard)	Vs. net sales	Results (previous standard)	Results (new standard)	Vs. net sales	YoY*1
Net Sales	5,950	4,936	-	5,954	5,106	-	3.5%
Cost of sales	2,576	1,861	37.7%	2,556	2,167	42.4%	16.4%
Selling, general and administrative expenses	2,915	2,620	53.1%	3,180	2,691	52.7%	2.7%
(promotion cost*2)	558	558	11.3%	762	762	14.9%	36.6%
Operating profit	459	453	9.2%	217	248	4.9%	-45.2%
Ordinary profit	470	465	9.4%	227	258	5.1%	-44.4%
Profit attributable to owners of parent	362	356	7.2%	-	182	3.6%	-48.7%

*1 Comparison with figures from the year-earlier period converted based on the new accounting standard.

*2 Promotion cost = advertising expenses + promotion expenses + provision for point card certificates

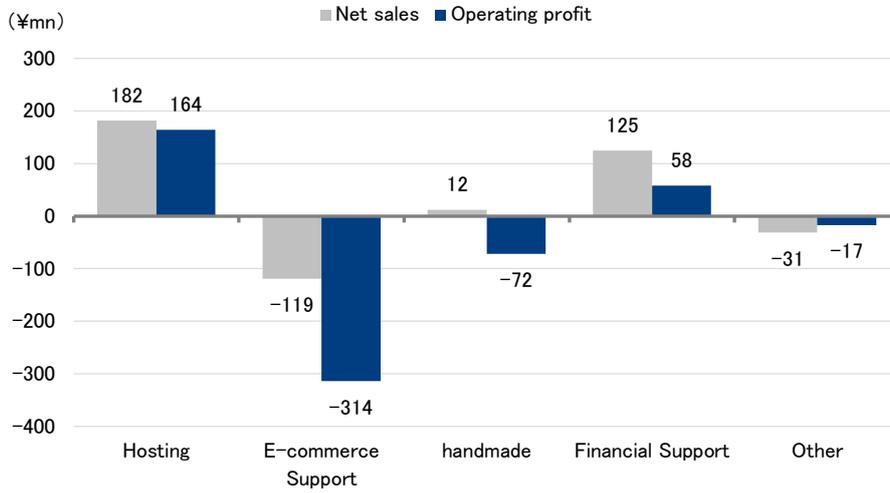
Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

Net sales increased in the Hosting business and the Financial Support business, but net sales in the E-commerce Support business, which enjoyed high growth through FY12/21, declined, while the Handmade Products business net sales only grew slightly, as the low growth was mainly caused by the sluggishness in the e-commerce-related businesses due to the snapback in stay-at-home demand. Operating profit increased in the Hosting business and the loss amount contracted in the Financial Support business, but these did not make up for the decline in operating profit in the E-commerce Support business and the Handmade Products business. Looking at overall results, the pace of progress fell short of the forecast, but it appears that the Financial Support business has entered the high-growth stage, with net sales increasing 2.3 times YoY, and it is worth noting that this business is now in a position where it can be expected to contribute to earnings going forward.

Looking at the factors changing operating profit, net sales increased by ¥170mn, while there was a ¥72mn increase in costs linked to net sales, a ¥15mn increase in personnel expenses, a ¥204mn increase in promotion costs, and an ¥83mn increase in other costs. Looking at the promotion costs specifically, a major factor for the increase was the ¥180mn investment in TV commercials, etc. for SUZURI. Also, ¥40mn of the increase in other costs was due to the increase in reserves for doubtful accounts. This is mainly in the Financial Support business, and related to the rapid increase in the value of invoices purchased. As of June 30, 2022, the number of partners (number of employees) was 468, an increase of 12 employees YoY.

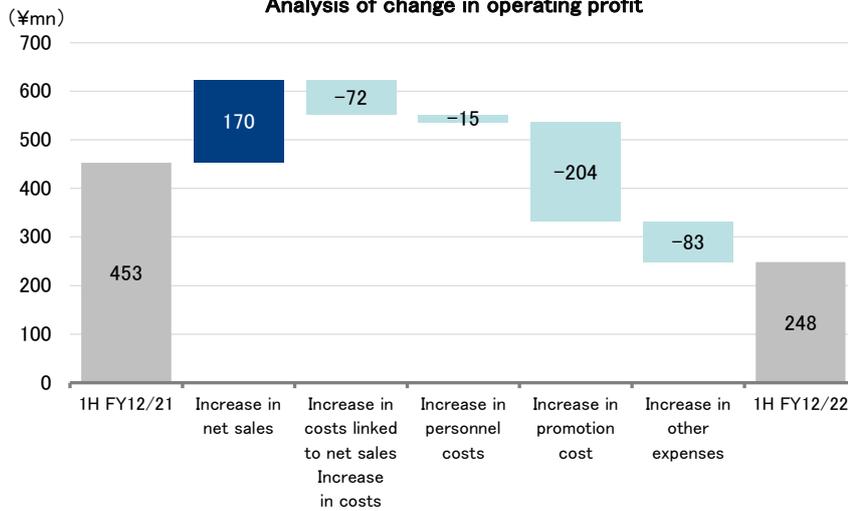
Results trends

YoY changes in each business segment



Note: Comparison with year-earlier figures converted based on the new accounting standard
 Source: Prepared by FISCO from the Company's financial results briefing materials

Analysis of change in operating profit



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

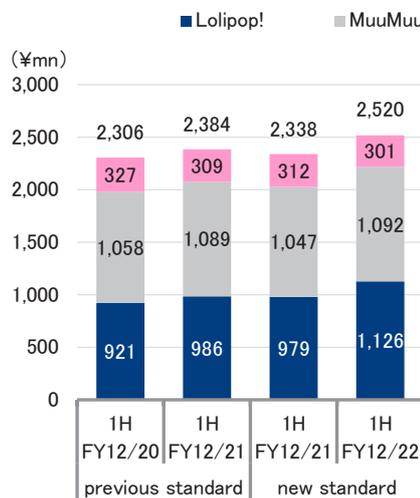
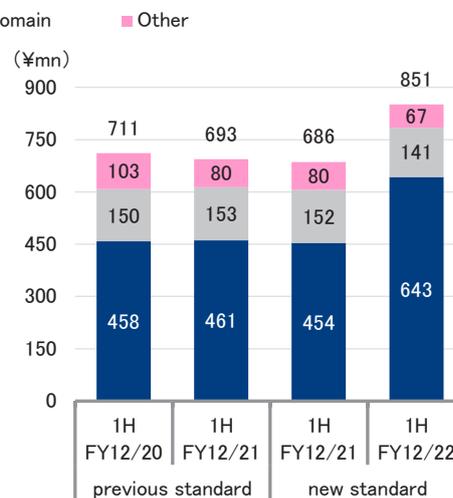
Results trends

Increase in sales and profit in Hosting business, Financial Support business achieved rapid growth and is within striking distance of turning profitable

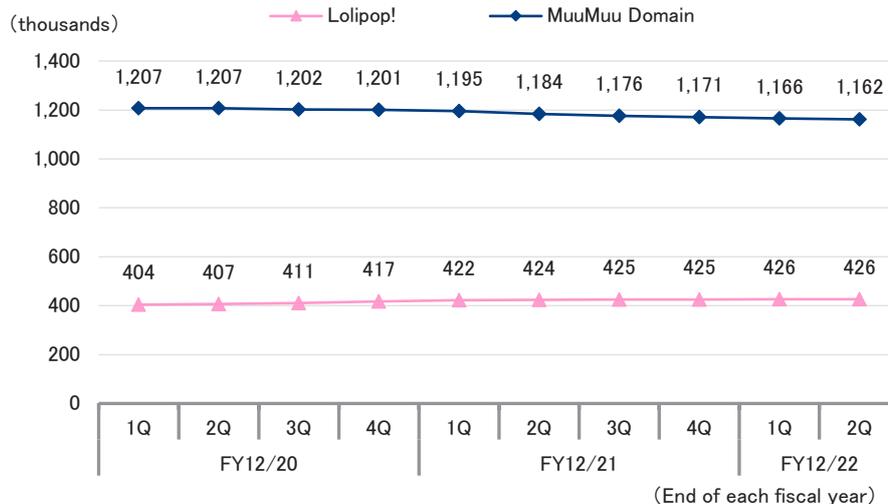
2. Trends by business segment

(1) Hosting business

In the Hosting business, net sales increased 7.8% YoY to ¥2,520mn, and operating profit rose 24.0% YoY to ¥851mn, continuing the trend for increased sales and profits, which reached all-time highs for a first half-year.

Trend in net sales of the Hosting Business

Trends in operating profit of the Hosting Business


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

Number of Lolipop! and MuuMuu Domain contracts


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

Results trends

For Lolipop!, net sales increased 14.9% YoY to ¥1,126mn and operating profit rose 41.4% YoY to ¥643mn, marking a record-high operating profit. The number of contracts remained on an uptrend, albeit a slight one, for the ninth consecutive quarter, increasing 0.6% from the end of the year-earlier period to 426,000. This was mainly due to strengthened coordination with MuuMuu Domain, the rollout of services for affiliates (blog monetization and side business starter pack*) (launched beta version in April 2022, for new contract holders with high-speed plans of 12 months or longer), as well as continued efforts to increase the renewal rate. The higher sales growth rate was due to the continued effects of the price revisions made in November 2021, as well as the increase in the percentage of new contract holders enrolling in the high-speed plan for ¥550 per month, and the average spending per customer rose from ¥431 in 1Q (up 11.9% YoY) to ¥449 in 2Q (up 15.1% YoY), as the upward trend continued. In conjunction with the application of the new accounting standard from FY12/22, the Company changed the accounting method for net sales from a lump-sum revenue recognition at the time of the conclusion of contracts to recognition based on proportionally divided monthly fees over the contract period.

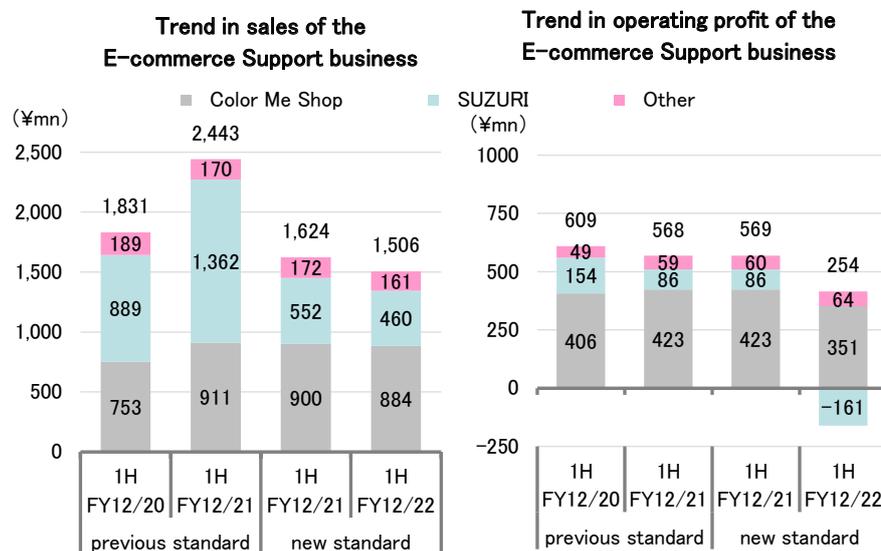
* The blog monetization and side business starter pack (beta version) provides WordPress's automated set-up function, guides to help monetize blogs, a side business study gift (¥500 Amazon gift), and an exclusive affiliate program for users on how to get their first achievement payment by writing an article.

For MuuMuu Domain, net sales increased 4.2% YoY to ¥1,092mn and operating profit decreased 7.2% YoY to ¥141mn, as sales increased while profit declined. As of the end of 1H, the number of registered domains remained on a slight downward trend, decreasing 1.8% from the end of the year-earlier period to 1,162,000 due to a decline in the number of new members. However, a rise in the domain renewal rate for existing customers led to an increase in average spending per customer (price increases in the second year for annual renewals) and was a key factor behind the increase in net sales. In terms of profit, the increase in procurement costs due to the depreciation of the yen was a major factor for the decline. In conjunction with the application of the new accounting standard from FY12/22, the Company changed the accounting method for net sales from a lump-sum revenue recognition at the time of domain acquisition to recognition based on proportionally divided monthly fees over the contract period.

(2) E-commerce Support business

For the E-commerce Support business, net sales decreased 7.3% YoY to ¥1,506mn, while operating profit decreased 55.3% YoY to ¥254mn. The domestic e-commerce market was sluggish due to the snapback in stay-at-home demand, which led to a decline in sales for both Color Me Shop and SUZURI, while SUZURI posted an operating loss due to the airing of TV commercials.

Results trends

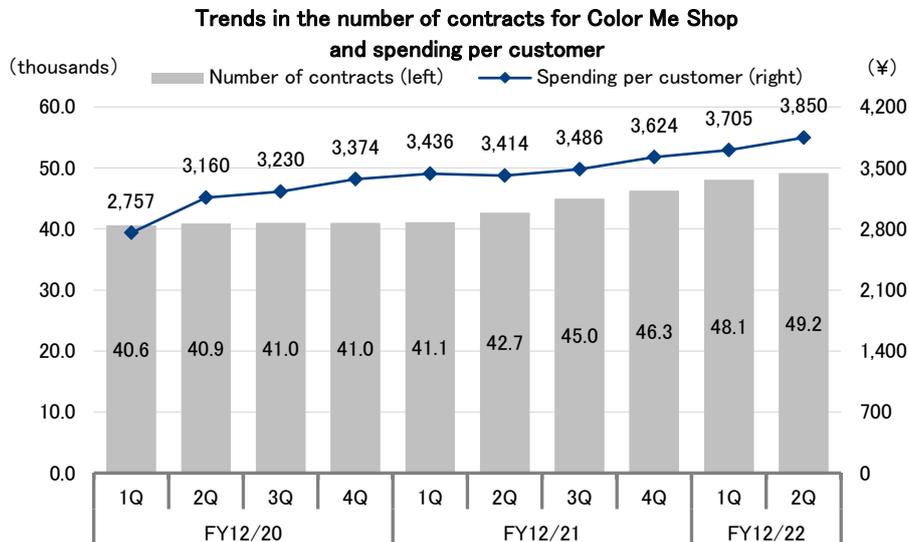


Source: Prepared by FISCO from the Company's financial results briefing materials

Net sales of Color Me Shop decreased 1.9% YoY to ¥884mn, while operating profit declined 17.2% YoY to ¥351mn. In profit, the double-digit decline was due to the increase in costs resulting from holding events and strengthening infrastructure. As of the end of 1H, the number of contracts increased 15.4% from the end of the year-earlier period to 49,200, due to the increase in the number of free plan users, but the number of paid plan contracts turned lower from 2Q FY12/21 when the free plan was introduced, and the number of contracts at the end of 2Q FY12/22 was 36,000-37,000, with a roughly 10% decline. Meanwhile, the average spending per customer for the paid plan increased (average spending per customer in 1Q increased 7.8% YoY to ¥3,705, while it increased 12.8% YoY to ¥3,850 in 2Q) due to the increase in usage of the sales promotion support apps as well as the effect of the price revisions implemented in April 2022, and this more or less offset the impact of the decline in the number of paid plan contracts.

Although the number of contracts for the free plan did not reach the Company's forecast, the rate of decrease for the paid plan was smaller than forecast. The reason for this is that the closing rate from trial to actual contract, exceeded expectations. Meanwhile, the gross merchandise value was expected to increase in the 10% range YoY, but decreased marginally, and the fee income linked to the gross merchandise value was less than the forecast. With the adoption of the new accounting standard, some net sales related to settlement fees and bank transfer fees were changed to the net amount accounting method, so net sales were lower than they would have been under the previous accounting standard, but there was no impact on operating profit.

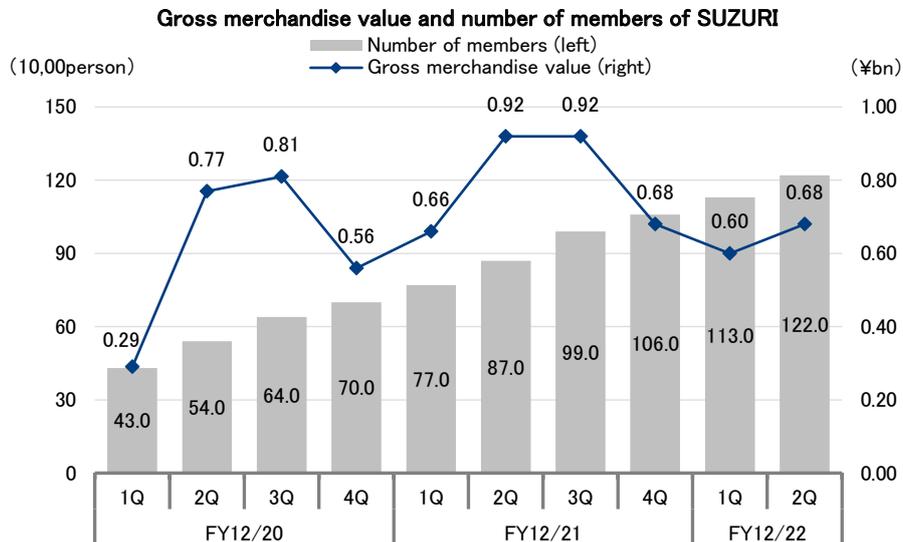
Results trends



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

Net sales of SUZURI decreased 17.0% YoY to ¥460mn, while operating loss was ¥161mn (¥86mn operating profit in year-earlier period). The Company carried out promotions, including the airing of TV commercials to coincide with SUZURI's summer T-shirt sale period which is the period of highest demand, and the Company focused on increasing exposure through SNS, which led to a 40.3% YoY increase in members to 1.22 million. Meanwhile, the number of visitors to the site declined due to the snapback in stay-at-home demand and intensifying competition, while the T-shirt sale period was moved to later than in the previous year (began in May 2021 but then in the middle of June in 2022), so shipments of some of the items for which orders were received during the sale period were pushed back until July. As a result, the gross merchandise value declined 18.6% YoY to ¥1.29bn. Accompanying the application of the new accounting standard, cost of merchandise purchased and of outsourced processing, were recognized as net amounts. The accounting treatment of certain net sales related to settlement fees and bank transfer fees, as well as freight costs, were also changed to recognition of net amounts. With these changes, net sales declined, but there was no impact on operating profit.

Results trends



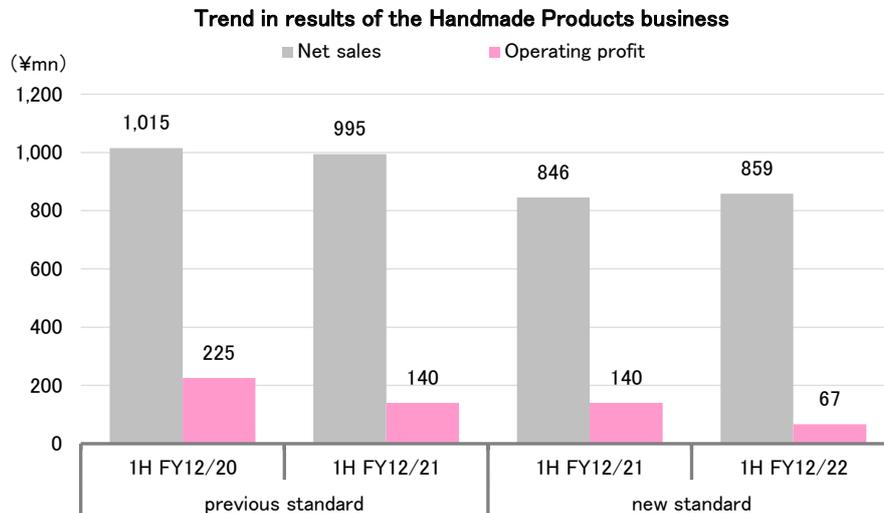
Source: Prepared by FISCO from the Company's financial results briefing materials

(3) Handmade Products business

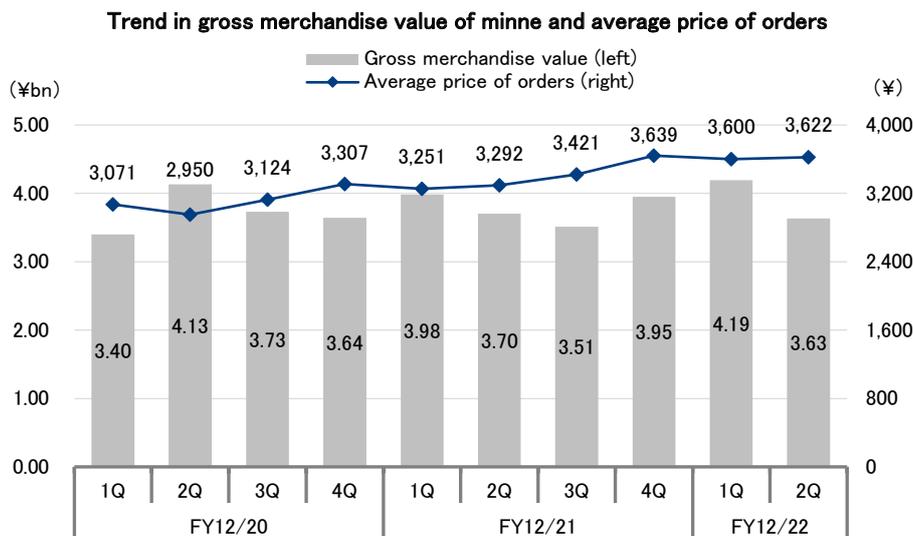
In the Handmade Products business, net sales increased 1.5% YoY to ¥859mn and operating profit decreased 52.1% YoY to ¥67mn. Gross merchandise value has been sluggish since 2021, when special demand for home-made masks and other items settled down, but it increased 1.9% YoY to ¥7.82bn, barely setting a new record high, as a result of the resumption of offline event exhibitions, which the Company had been refraining from holding due to the COVID-19 pandemic, as well as the implementation of sales promotion campaigns including discount events. However, looking just at 2Q, gross merchandise value turned lower, declining 1.9% YoY to ¥3.63bn, as it has not yet returned to double-digit annual growth. The average order price increased around 10% YoY to the ¥3,600 range due to the success of efforts to bolster sales of high-price merchandise, such as furniture and interior goods, but the number of orders declined 8.0% YoY to 2.23 million, and this caused the decline in gross merchandise value. As a result, a challenge for the Company will be increasing the number of visitors to the site and growing the purchase ratio. In terms of profit, the main factor for the decline in profit was the increase in sales promotion costs.

Accompanying the application of the new accounting standard, the accounting treatment of certain net sales related to settlement fees and bank transfer fees, as well as freight costs, were changed to recognition of net amounts. With these changes, net sales declined compared to under the previous accounting standard, but there was no impact on operating profit.

Results trends



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

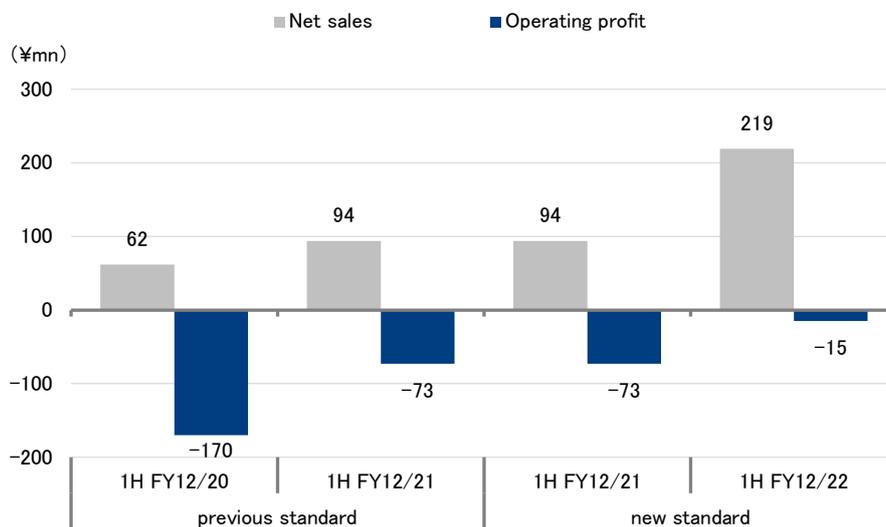


Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

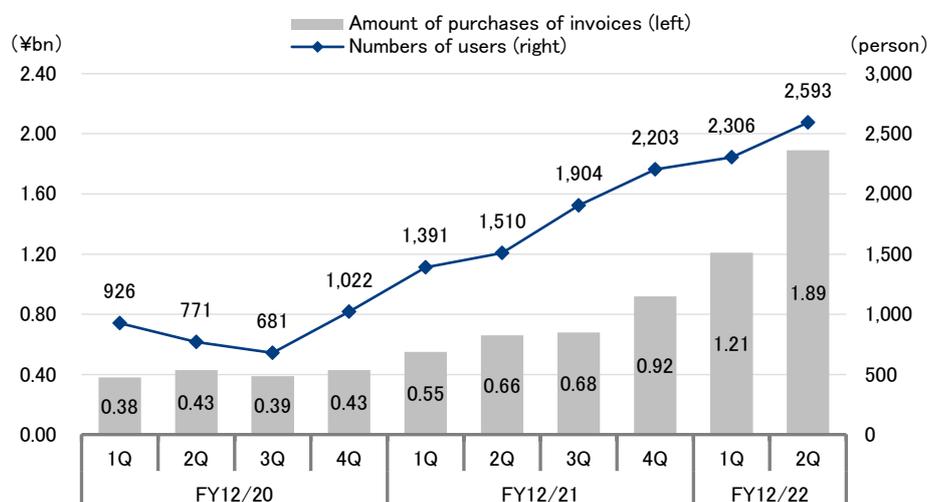
Results trends

(4) Financial Support business

In the Financial Support business, net sales spiked 134.5% YoY to ¥219mn and operating loss contracted to ¥15mn (compared with operating loss of ¥73mn in the year-earlier period). The number of users has increased due to the rise in companies introducing FREENANCE as a result of FaaS, which the Company started in November 2020, and the amount of invoices purchased rose significantly by 154.4% YoY to ¥3.10bn, and this was the main reason for the increase in net sales. Due to the enhancement of recognition and the bolstering of the sales platform, the number of companies that have introduced FaaS has increased from 10-20 companies a year ago to more than 100 companies. Looking only at the amount of invoices purchased via FaaS, the amount increased by four times YoY to ¥1.75bn. In terms of profit, despite the increase in the amount of invoices purchased and the increase in provisions for doubtful accounts, these were absorbed by the increase in sales, and the business is on the verge of becoming profitable.

Trend in results of the Financial Support business


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

Trend in amount of purchases of invoices and number of users


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

We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends

(5) Other

In Other business, net sales decreased 97.7% YoY to ¥0.7mn and operating loss was ¥20mn (operating loss of ¥3mn in the year-earlier period). In December 2021, the Company sold the Web content production business and the JUGEM blog service, resulting in a decline in sales. Currently, the Other business includes new businesses, such as GMO Renshu, the service that allows for centralized cloud-based management of contacts and payment collection for out-of-school learning organizations and teams.

Financial position is sound even with taking out bank loans in order to respond to the robust demand for funds in the Financial Support business

3. Financial condition

As of the end of 2Q FY12/22, total assets were ¥10,152mn, an increase of ¥1,281mn from the end of FY12/21. In terms of the main factors behind this change, under current assets, deposits paid to subsidiaries and associates decreased by ¥450mn while notes and accounts receivable – trade decreased by ¥191mn, while accounts receivable – other increased by ¥643mn, and prepaid expenses increased by ¥1,229mn accompanying the application of the new accounting standard. In addition, under non-current assets, property, plant and equipment rose by ¥86mn, intangible assets increased by ¥87mn, and investment securities decreased by ¥49mn.

Total liabilities were ¥7,678mn, an increase of ¥1,761mn from the end of FY12/21. Under current liabilities, income taxes payable decreased by ¥96mn, while short-term borrowings increased by ¥200mn and contract liabilities (advances received at the end of FY12/21) increased by ¥1,650mn due to the application of the new accounting standard. The borrowings were to respond to the increase in demand for funds in the Financial Support business, and the Company is increasing its credit lines from financial institutions in anticipation of further growth going forward. Total net assets were ¥2,473mn, a decline of ¥479mn from the end of FY12/21. While the Company recorded profit attributable to owners of parent of ¥182mn, the decline in total net assets was mainly due to payment of dividends of ¥360mn, the execution of ¥60mn of share buybacks, as well as the ¥173mn reduction in retained earnings at the start of the fiscal year in conjunction with the application of the new accounting standard.

Looking at business indicators, the equity ratio, which indicates business stability, declined from 32.9% at the end of FY12/21 to 24.3%, partly due to the impact of applying the new accounting standard, however cash on hand is ample at over ¥3.0bn, so it can be judged that the Company has maintained financial soundness. The Company has a hybrid-type earnings structure with a mix of recurring-revenue and non-recurring-revenue services, which allows it to have relatively high earnings stability. The Company's financial position is expected to remain sound going forward, partly due to the fact that demand for funds is not particularly high, except for promotion costs and for the Financial Support business.

Results trends

Simplified balance sheet

(Unit: ¥mn)

	FY12/18	FY12/19	FY12/20	FY12/21	2Q FY12/22	Change
Current assets	4,853	4,916	6,648	6,943	8,100	1,156
Cash and deposits*	2,702	2,453	3,622	3,620	3,145	-474
Non-current assets	1,224	1,455	1,562	1,926	2,051	125
Property, plant and equipment	266	263	321	426	513	86
Total asset	6,077	6,371	8,211	8,870	10,152	1,281
Current liabilities	4,294	4,574	5,640	5,694	7,424	1,730
Non-current liabilities	76	27	27	222	253	31
Total liabilities	4,370	4,601	5,667	5,916	7,678	1,761
(Interest-bearing debt)	-	-	-	-	200	200
Total net assets	1,706	1,769	2,544	2,953	2,473	-479
(Stability indicators)						
Equity ratio	27.1%	27.0%	30.6%	32.9%	24.3%	-8.6pt
Current ratio	113.0%	107.5%	117.9%	121.9%	109.1%	-12.8pt

* 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

Business outlook

Expecting earnings to recover from 2H FY12/22 onward due to cost reductions and other factors

1. Outlook for FY12/22

For the 12/22 consolidated results, the Company is forecasting net sales of ¥11,482mn, operating profit of ¥1,143mn, ordinary profit of ¥1,156mn, and profit attributable to owners of parent of ¥785mn. In comparison with figures based on the previous accounting standard, net sales and profits are projected to increase by double digits. Net sales are forecast to increase 15.1% YoY to ¥13,674mn and operating profit is forecast to increase 27.7% YoY to ¥1,135mn. In terms of the rate of progress through 2Q under the new accounting standard, the rate of progress of net sales was 44.5% and the rate of progress of operating profit was 21.7%, both at low levels, but in 2H the Company will aim to achieve its forecasts based on the fact that it is expecting earnings growth to continue in both the Hosting business and the Financial Support business, the non-recurrence of ¥180mn in promotion costs for SUZURI, and efforts to reduce head office costs by curbing both personnel hiring and expenses.

In its initial forecast, the Company had a growth rate target in e-commerce-related services (E-commerce Support business and Handmade Products business) of above 11% on a gross merchandise value basis, but as discussed above, these services have seen continued sluggishness through 2Q. Going forward, in these businesses the Company plans to get back on a recovery track by working on measures aimed at increasing the gross merchandise value.

Business outlook

Consolidated results outlook for FY12/22

(Unit: ¥mn)

	Previous accounting standard			New accounting standard		2Q progress rate
	FY12/21 Results	FY12/22		FY12/22		
		Forecasts	YoY	Forecasts	YoY	
Net sales	11,879	13,674	15.1%	11,482	-3.3%	44.5%
Operating profit	888	1,135	27.7%	1,143	28.7%	21.7%
Ordinary profit	968	1,148	18.6%	1,156	19.4%	22.4%
Profit attributable to owners of parent	715	779	8.9%	785	9.8%	23.3%
Profit per share (¥)	135.22	-		147.92		

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

The progress in the Hosting business exceeding the forecast, while there are expectations for full-year results in the Financial Support business to be raised due to rapid growth

2. Outlook by main business segment

Net sales by main segment

(Unit: ¥mn)

	Previous accounting standard				New accounting standard		
	FY12/20	FY12/21	FY12/22 (E) (2)	YoY	FY12/22 (E) (1)	Impact (1)-(2)	2Q progress rate
Hosting business	4,567	4,807	5,045	4.9%	5,059	14	49.8%
E-commerce Support business	4,069	4,874	5,715	17.3%	3,826	-1,888	39.4%
Handmade Products business	1,990	1,952	2,356	20.7%	2,041	-314	42.1%
Financial Support business	127	212	552	159.4%	549	-2	40.0%
Other Business	258	32	0	-	0	-	-
Total	11,014	11,874	13,674	15.1%	11,482	-2,192	44.5%

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

Profit by main segment

(Unit: ¥mn)

	Previous accounting standard				New accounting standard		
	FY12/20	FY12/21	FY12/22 (E) (2)	YoY	FY12/22 (E) (1)	Impact (1)-(2)	2Q progress rate
Hosting business	1,361	1,474	1,553	5.3%	1,561	8	54.5%
E-commerce Support business	1,212	1,117	1,390	24.4%	1,390	0	18.3%
Handmade Products business	226	225	262	16.5%	262	0	25.6%
Financial Support business	-299	-139	4	-	4	0	-
Other Business	47	-12	-	-	-	-	-
Adjustment	-1,621	-1,776	-2,074	-	-2,075	-	42.8%
Total	927	888	1,135	27.7%	1,143	8	21.7%

Source: 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 full-year net sales of ¥5,059mn and operating profit of ¥1,561mn, which is around a 5% increase in both net sales and profit based on the previous accounting standard. Looking at the progress rate through 2Q, net sales were at 49.8% and operating profit was at 54.5%, and considering that Lolipop!, which is a recurring revenue-type business, is going to see an increase in spending per customer in 2H as well, we at FISCO believe that there is a high likelihood of exceeding full-year forecasts.

In terms of 2H initiatives, for Lolipop!, the Company will continue to bolster collaboration and implement a simultaneous registration campaign with MuuMuu Domain, and thereby aim to increase the spending per customer as well as aim for more than 430,000 contracts (426,000 at the end of 2Q). In terms of spending per customer, the Company is expecting a 13-15% YoY increase for the full fiscal year.

In MuuMuu Domain, the Company had set a target for the number of domains under contract of 1.17 million or higher (1.162 million as of the end of 2Q FY12/22), to be achieved by strengthening efforts to acquire new contracts through the implementation of sales campaign programs. However, with the intensification of price competition, in 2H the Company will aim for higher sales and profits by emphasizing profitability.

(2) E-commerce Support business

In the E-commerce Support business, the Company forecasts net sales of ¥3,826mn and operating profit of ¥1,390mn, and based on the previous accounting standard, an increase of 17.3% YoY in net sales and a 24.4% YoY increase in operating profit with double-digit growth in sales and profit. The 2Q progress rate was 39.4% for net sales and 18.3% for operating profit, which were low. Based on the fact that there have been no major changes in the trend in gross merchandise value since the start of 3Q, it looks increasingly difficult for the Company to achieve its forecast. The Company will aim for a recovery in earnings in 2H by working on the following initiatives.

With Color Me Shop, the Company will continue to work to strengthen the food product category, bolster option sales such as sales promotion support apps, and encourage the switching of settlement agency companies. In the food products category, the Company will cultivate customers through efforts including introducing apps that will lead to increased convenience. In the app store, the Company's strength is that it provides various apps that lead to sales support, such as Instagram shopping functions, product recommendation functions, and cross-border e-commerce functions. By working to encourage the use of these apps the Company will seek to expand gross merchandise value. Additionally, the Company will continue to focus on cultivating customers through collaboration with regional financial institutions and bolstering online promotions, along with other measures.

Business outlook

Meanwhile, with SUZURI, the Company was targeting growth in gross merchandise value of more than 27% YoY (Gross merchandise value increased by 31.2% in FY12/21), but as discussed above, there has been a struggle in this area, including the continuation of YoY declines through 2Q, and the Company expects the same trend as in 2Q to continue in 3Q. Amid this, as measures to spark a recovery in gross merchandise value, the Company will add new items and carry out measures to promote repeat purchases. Concerning new items, the Company has added items such as acrylic key holders and cushions, while going forward the Company will add items for which demand is expected, as the situation dictates. Additionally, in May 2022 the Company began handling items originating from non-fungible tokens. As a measure to promote repeat purchases, the Company plans to distribute coupons to new members that the Company acquired through its TV commercials in June and through other efforts. In order to increase the number of visitors to the site, the Company will continue to improve market recognition through efforts including collaboration with YouTube using influencers. Elsewhere, from July 2022, in the on-demand printing service, the Company added an AR function (limited to smartphone browsers), and announced that it was compatible with standard T-shirts. By using this function, users can know how the product will be used before purchasing it, and creators can use the function for product PR, so it is attracting attention as an initiative that will spur growth in gross merchandise value.

(3) Handmade Products business

In the Handmade Products business, the Company is forecasting full year net sales of ¥2,041mn and operating profit of ¥262mn. Based on the previous accounting standard, this is a 20.7% YoY increase in net sales and a 16.5% YoY increase in operating profit, as the Company is forecasting double-digit growth in both sales and profit in this business. The Company was targeting growth in gross merchandise value of at least 14% YoY (compared with an increase of 1.6% in FY12/21), but this business has been sluggish through 2Q, and its rate of progress in earnings has been low, at 42.1% for net sales and 25.6% for operating profit.

In 2H, the Company is aiming to increase gross merchandise value by working on acquiring more registered creators as well as buyers. Specifically, the Company will work to expand overseas sales channels by increasing the number of partners among cross-border e-commerce product purchase agency service providers, as well as by implementing a summer special sales event and working on initiatives related to non-merchandising. With respect to non-merchandising, the Company plans to begin handling teaching materials and digital materials in order to further widen manufacturing activities and fun, and developments going forward will be watched. Concerning the advertising service which competitors have introduced, the Company is still in the stage of studying the situation, and the timing of introduction has yet to be determined. Regarding promotions, the Company is planning online promotions, but has no plans for large-scale promotions.

(4) Financial Support business

In the Financial Support business, the Company is forecasting net sales of ¥552mn, an increase of 159.4% YoY, and operating profit of ¥4mn (compared with operating loss of ¥139mn in FY12/21). The Company expects to achieve substantial growth in net sales by cultivating even more companies using FaaS and achieving an increase in the number of trilateral invoices purchased. The progress rate for net sales through 2Q was 40.0%, but net sales rapidly increased from ¥90mn in 1Q to ¥129mn in 2Q, and if sales grow at the same pace in 3Q and onward, there is a chance that net sales could increase to around ¥600mn.

Business outlook

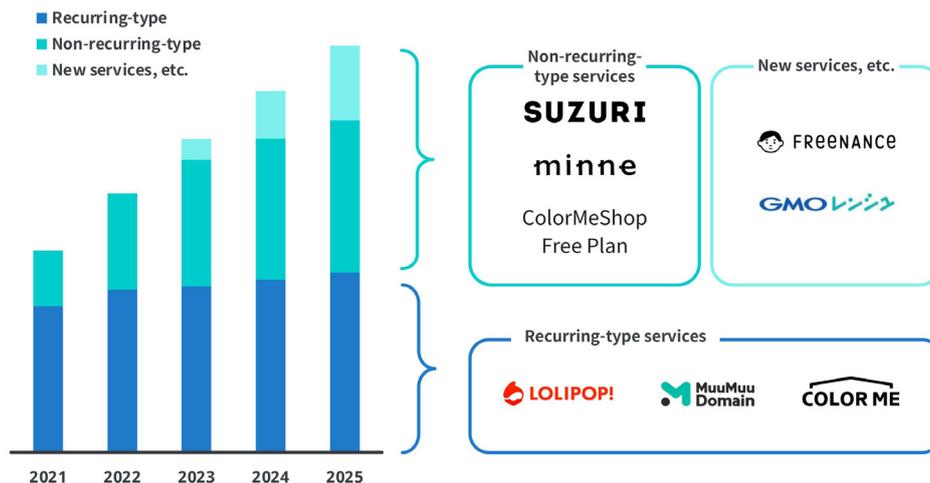
In terms of 2H initiatives, the Company will further expand the number of companies that have introduced FaaS, and strengthen the promotion of GMO Freelance Factoring, which it started in February 2022. Looking at the service's main features, no member registration is required, the application review 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). This is a service for users in urgent need of cash. In addition, the Company is developing insurance products for freelancers jointly with insurance companies, and its strategy is to expand the business while diversifying its earnings. The freelance market is expected to continue growing in the future, and the Financial Support business, which mainly targets the freelance market, appears to have entered a full-fledged growth stage, and is expected to contribute to the growth in consolidated results.

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. Medium- and long-term 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. It is expected to increase FY12/25 results by 2.8 times with CAGR at a pace 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



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

Business outlook

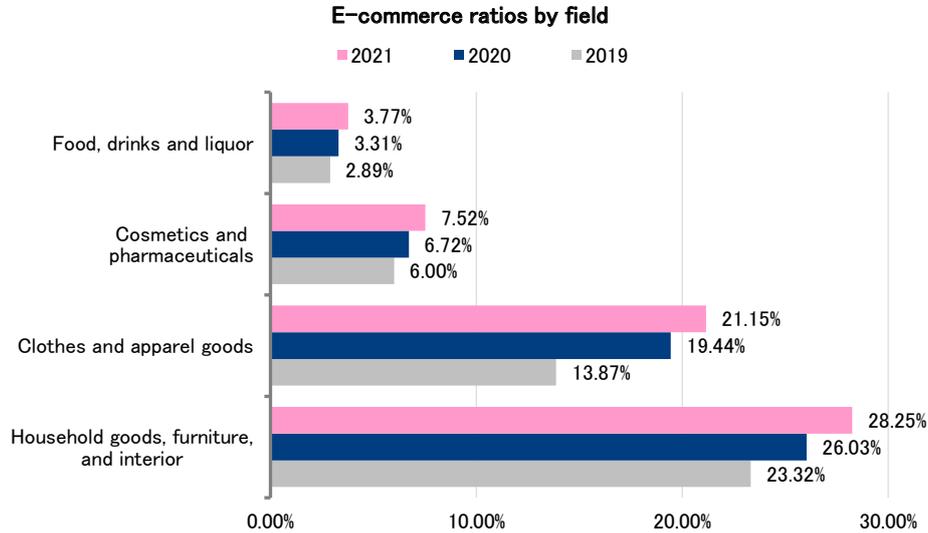
The key to achieving the Company’s targets are the e-commerce-related services, such as SUZURI, minne, and Color Me Shop (Free Plan), which are non-recurring-type services. According to the FY2021 Industrial Economic Research Commissioned Project (E-Commerce Market Survey) conducted by the Ministry of 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 10.0% over the seven-year period since 2014. Looking at the YoY growth rate, there was significant growth of 21.7% in 2020 due to stay-at-home demand, but due to the snapback in 2021, the growth rate decelerated to 8.6%, and this slowdown trend seems to be continuing in 2022. Still, considering the fact that the e-commerce ratio is at 8.78% and the number of e-commerce users is expected to increase going forward, as well as the fact that the growth rate is above 10.0% in Europe, the U.S. and the Chinese markets, there is still a lot of room for growth over the medium to long term.



Source: Prepared by FISCO from the FY2021 E-commerce Market Survey conducted by METI

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 to the stay-at-home demand, and in 2021 the rising trend continued, with an e-commerce ratio of 21.15%. Going forward, the e-commerce ratio is expected to continue to rise due to the use of digital technology such as AR functions. In addition, in minne, growth is expected by expanding the domain to include non-merchandising. Meanwhile, in Color Me Shop, the Company is working to bolster the food products category. The e-commerce ratio in the food products category was still low at 3.77% in 2021, so there are high expectations for future growth.

Business outlook



Source: Prepared by FISCO from the FY2021 E-Commerce Market Survey conducted by METI

In the e-commerce market, 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 advance collaboration among various services and conduct related initiatives, the Company will be able to adequately 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.

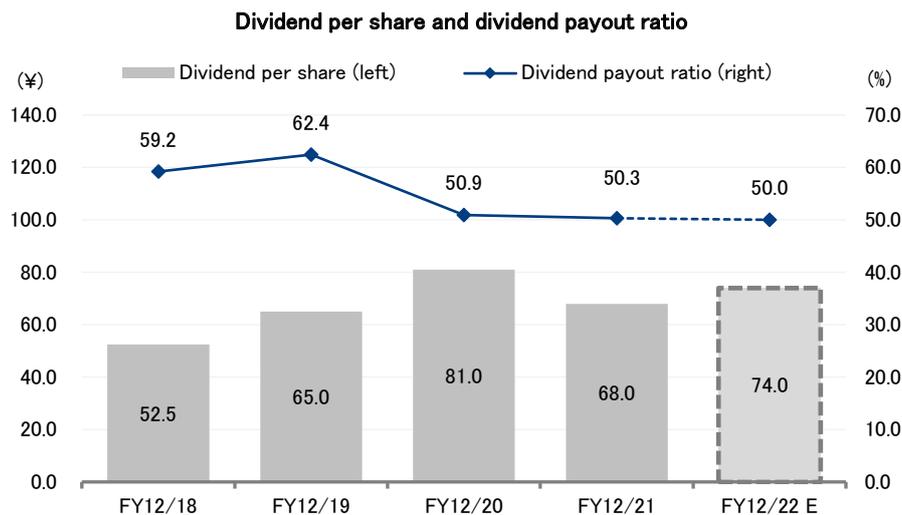
In April 2022, the Company released GMO Renshu as a new service following on from FREENANCE. GMO Renshu is a member management cloud service for sports, abacus learning and all other types of out-of-school learning, and it allows members to centrally manage payment collection and contact tasks via PC or smartphone. In managing teams and classrooms, there are still many cases where contact and payment collection works are still managed using analog methods such as handing money over manually and contacting people by telephone. This service makes it easy for people who find it difficult to contact people using various means, and it eliminates worries about things such as having one's child carry cash to later give to an instructor. Regarding membership fee collection and management services, since there are multiple leading services, it seems that the key to monetization will be how the Company can differentiate this service from the other competing services.

Shareholder return policy

Paid out dividends based on a dividend payout ratio of 50.0% 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 50.0%. Based on the same policy, 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 5.7% based on the Company's closing share price on August 12, 2022 (¥1,830).



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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