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GMO Pepabo

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Executive summary

GMO Pepabo, Inc. (TSE Standard: 3633) offers services for individuals and corporate clients, including web hosting, online shop construction, production and sales of original goods, and facilitation of the buying and selling of handmade products. It also provides services that stabilize cash flows for freelancers. The company's mission is to "increase the output of humanity" by providing affordable services that lower the hurdles to using the internet and support the creative activities of individuals and creators. In FY12/23, the company reported revenue of JPY10.9bn, an increase of 3.5% YoY, and an operating loss of JPY341mn (vs. profit of JPY732mn in FY12/22) due to the recognition of bad debt-related expenses in the Financial Support business segment. Five-year CAGR was 5.1% for revenue. While recurring revenue businesses such as web hosting and online shop creation services have grown, one-time revenue businesses have been negatively affected by changes in consumer behavior after the COVID-19 pandemic.

GMO Pepabo was initially established in January 2003 as paperboy&co., a limited liability company, to provide web hosting services to individuals through Lolipop!, a web hosting business inherited from its predecessor. In March 2004, paperboy&co. was incorporated and became a consolidated subsidiary of GMO Internet Group, Inc. (TSE Prime: 9449; ownership of 57.5% as of end-FY12/22) through a third-party share allotment. In April 2014, the company changed its name to GMO Pepabo, Inc.

The company has four business segments: Hosting, E-Commerce Support, Handmade Products, and Financial Support. The Hosting business (accounting for 52.8% of revenue and OPM before adjustments of 33.4% in FY12/23) primarily provides the web hosting service Lolipop! and the domain registration service MuuMuu Domain. The E-Commerce Support business (accounting for 27.5% and OPM before adjustments of 25.2% in FY12/23) mainly offers the online shop creation service Color Me Shop and the original goods creation and sales service SUZURI.

Meanwhile, the Handmade Products business segment (accounting for 13.7% of revenue and OPM before adjustments of 4.2% in FY12/23) operates the handmade marketplace service minne, and the Financial Support business segment (accounting for 6.0%, operating loss of JPY1.1bn in FY12/23) offers factoring services for freelancers through FREENANCE. The company has been expanding its business and accelerating growth by investing the recurring revenue generated by Lolipop!, MuuMuu Domain, and Color Me Shop into one-time revenue businesses such as SUZURI, minne, and FREENANCE.

Lolipop! (accounting for 23.0% of revenue and OPM before adjustments of 53.2% in FY12/23), the company's mainstay service, primarily provides web hosting services for individuals. According to the company, while there is a lack of significant differentiation in the web hosting market, Lolipop! has achieved a leading position in serving individual customers in Japan, thanks to its reasonable pricing and strong, long-standing brand. Lolipop! does not charge initial fees and offers monthly plans starting from JPY99 (Economy plan; plans vary depending on server capacity). While primarily used by individuals for blogging and other forms of content creation, the number of customers using the service for affiliate marketing and personal business websites are growing.

Lolipop! is a recurring revenue business where revenue is calculated by multiplying the number of contracts with the average monthly fee. As of end-FY12/23, contracts numbered approximately 413,000 (-2.3% YoY), and customer spend was JPY499 (+11.1% YoY). According to the company, the monthly cancellation rate remains below 2%.

MuuMuu Domain (21.5% of revenue and OPM before adjustments of 12.9% in FY12/23) is a domain registration service. Since there is only one organization (registry) that handles the registration of domains, there is no significant difference in costs for acquiring the same domain among companies (registrars) that provide domain registration services. The business model is thus simple: acquire domains, provide them to customers, and collect domain fees. There is price competition stemming from the lack of differentiation between registrars, resulting in limited profitability. However, the company positions MuuMuu Domain as a gateway to other services, including offering it for free to higher-tier users of Lollipop!

MuuMuu Domain is also a recurring revenue business where revenue is calculated by multiplying the number of contracts with domain fees. As of end-FY12/23, contracts numbered approximately 1,103,000 (-7.1% YoY), and the average monthly domain fee based on Shared Research's estimate was JPY173 (+7.7% YoY).

Color Me Shop (19.0% of revenue and OPM before adjustments of 34.7% in FY12/23) is an e-commerce website creation service in which the company designs e-commerce stores and provides the necessary functions for their operation, such as payment methods and server compatibility. Although there are many competing services, Color Me Shop differentiates itself with a high degree of flexibility, including its highly customizable design, support for various sales methods such as overseas sales, wholesale sales, and cold chain shipping, as well as support for different payment methods. According to the company, most users have annual revenue of JPY1mn to JPY100mn.

Similar to MuuMuu Domain, Color Me Shop operates on a recurring revenue model, where revenue is calculated by multiplying the number of contracts with the average monthly fee. The service also charges initial fees and payment processing fees depending on the payment method. As of end-FY12/23 (including the Free Plan), contracts numbered 50,379 (-0.6% YoY), and the average monthly customer spend was JPY5,238 (+26.3% YoY). According to the company, the monthly cancellation rate remains below 2%.

SUZURI (8.4% of revenue and OPM before adjustments of 9.1% in FY12/23) is a service for creating and selling original goods, such as T-shirts with original designs. Creators who register for free on the SUZURI website can easily create and sell items such as T-shirts by simply registering designs, images, and other data. When a user purchases an item, the company places an order with a factory for production. Once manufactured, the factory ships the item to the buyer, and the company pays a portion of the purchase price to the creator. Creators set the selling price by adding the amount they want to make on top of the company's cost table when registering the design data. As of end-FY12/23, creators numbered 770,000 (+14.9% YoY), members 1,630,000 (+20.7% YoY), and the gross merchandise value amounted to JPY2.4bn (-8.6% YoY).

minne (13.7% of revenue and OPM before adjustments of 4.2% in FY12/23) is a marketplace for handmade products—the largest in Japan, according to the company. It generates revenue from a 9.6% (pre-tax) commission on the sum of the product selling price and shipping fees. As of end-FY12/23, products numbered 17,100,000 (+7.1% YoY), creators 900,000 (+5.9% YoY), and app downloads 14,730,000 (+4.4% YoY). In FY12/23, the gross merchandise value was JPY12.9bn (-14.5% YoY), the number of orders was 3,965,000 (-4.7% YoY), and the average order value was JPY3,246 (-10.3% YoY).

FREENANCE (6.0% of revenue, an operating loss of JPY1.1bn in FY12/23) primarily provides online factoring services for freelancers and individual business owners, offering same-day payment for invoices sent by users to their trading partners. The company purchases the invoices and provides immediate cash payment, collecting compensation from the trading partner on the due date. The minimum invoice size is JPY10,000. FREENANCE earns revenue by charging a fee of 3–10% of the invoice amount. In FY12/23, the number of users reached 13,113 (+20.3% YoY), the total invoice purchasing value was JPY8.5bn (-2.2% YoY), the number of invoices purchased was 22,432 (+10.4% YoY), and the average invoice purchasing value was JPY378,000 (-11.4% YoY). The company curtailed its acquisition of large-scale receivables due to bad debt-related expenses for overdue receivables it recognized through Q2 FY12/23.

The company says that its main competitors are SAKURA internet Inc. (TSE Prime: 3778) and Xserver Inc. (unlisted) for Lolipop!, Xserver Inc. for MuuMuu Domain, and BASE, Inc. (TSE Growth: 4477) and STORES, Inc. (unlisted) for Color Me Shop.

Earnings trends

Revenue for full-year FY12/23 increased by 3.5% YoY to JPY10.9bn, operating loss widened by JPY341mn (profit of JPY732mn for FY12/22), recurring loss widened by JPY247mn (profit of JPY767mn for FY12/22), and net loss attributable to owners of the parent widened by JPY629mn (profit of JPY510mn for FY12/22). The company recorded an operating loss due to the recognition of bad debt-related expenses for overdue receivables in the Financial Support business segment. Progress versus the company's full-year FY12/23 forecast was 100.1% for revenue. The company recorded an operating loss of JPY341mn (versus full-year forecast of a loss of JPY642mn), a recurring loss of JPY247mn (loss of JPY576mn), and a net loss attributable to owners of the parent of JPY629mn (loss of JPY867mn).

For FY12/24, the company forecasts revenue of JPY11.0bn, operating profit of JPY700mn, recurring profit of JPY700mn, and net income attributable to owners of the parent of JPY421mn.
The company expects higher revenue and profit in the recurring revenue businesses in the Hosting business segment and the E-commerce Support business segment, lower operating profit in the Handmade Products business segment due to higher promotional expenses despite higher revenue, and a significant reduction in operating loss in the Financial Support business segment despite lower sales due to restraints on the purchase of large loans.

The company has set consolidated operating profit of JPY1.6bn for FY12/26 as a management target in its medium-term management plan (FY12/23–12/26). To achieve the target, the company will leverage the stable and high profitability of the recurring revenue businesses, such as Lollipop!, MuuMuu Domain, and Color Me Shop to invest in high-growth businesses such as SUZURI, minne, FREENANCE, and new businesses. In addition, the company plans to revise its medium-term management plan targets for FY12/26 following the revision of its FY12/23 forecasts.

Strengths and weaknesses

Shared Research sees the company's strengths as the following (see Strengths and weaknesses section for details):

- The company's structure, which allows it to quickly develop and launch services that meet the latest needs of creators
- A portfolio of recurring revenue businesses comprising Lolipop! (web hosting), MuuMuu Domain (domain registration), and Color Me Shop (e-commerce store creation)
- The ability to leverage assets such as data centers of the GMO Internet Group

Meanwhile, we see its weaknesses as:

- Limited growth potential in the Hosting business, which the company relies upon heavily to produce earnings
- The need to establish a more formidable sales structure to target corporate clients in the e-commerce store creation service
- The GMO Internet Group's structure may present obstacles to the company's growth, as targeting new areas within its core services may infringe on the domains of other group companies

Key financial data

Income statement	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23	FY12/24
(JPYmn)	Cons.	Cons.	Cons.	Non-cons.	Non-cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Company forecast
Revenue	**4,534**	**5,698**	**6,890**	**7,365**	**8,201**	**8,943**	**11,014**	**11,880**	**10,531**	**10,904**	**10,963**
YoY	8.8%	25.7%	20.9%	-	11.3%	-	23.2%	7.9%	-11.4%	3.5%	0.5%
Gross profit	**2,412**	**3,070**	**3,912**	**4,436**	**4,908**	**5,251**	**6,482**	**6,733**	**6,076**	**5,931**	**-**
YoY	7.1%	27.2%	27.4%	-	10.6%	-	23.4%	3.9%	-9.7%	-2.4%	-
Gross profit margin	53.2%	53.9%	56.8%	60.2%	59.8%	58.7%	58.8%	56.7%	57.7%	54.4%	-
Operating profit	**724**	**-621**	**108**	**144**	**468**	**784**	**927**	**889**	**732**	**-341**	**700**
YoY	-0.2%	-	-	-	225.6%	-	18.3%	-4.2%	-17.6%	-146.6%	-
Operating profit margin	16.0%	-10.9%	1.6%	2.0%	5.7%	8.8%	8.4%	7.5%	7.0%	-3.1%	6.4%
Recurring profit	**743**	**-598**	**135**	**173**	**524**	**836**	**984**	**968**	**767**	**-247**	**700**
YoY	-0.1%	-	-	-	203.2%	-	17.7%	-1.6%	-20.8%	-132.2%	-
Recurring profit margin	16.4%	-10.5%	2.0%	2.3%	6.4%	9.3%	8.9%	8.2%	7.3%	-2.3%	6.4%
Net income	**410**	**-798**	**153**	**120**	**467**	**543**	**830**	**715**	**510**	**-629**	**421**
YoY	0.5%	-	-	-	289.8%	-	52.9%	-13.8%	-28.7%	-223.3%	-
Net margin	9.1%	-14.0%	2.2%	1.6%	5.7%	6.1%	7.5%	6.0%	4.8%	-5.8%	3.8%
Per-share data (split- and reverse split-adjusted; JPY)											
Number of shares outstanding at end of period(000 shares)	2,671	2,634	2,634	2,634	2,638	5,213	5,277	5,307	5,277	5,277	-
EPS	75.87	-149.97	29.12	22.75	88.65	104.11	159.07	135.22	96.37	-119.16	79.95
Dividend per share	33.75	0.00	15.00	12.50	52.50	65.00	81.00	68.00	50.00	0.00	40.00
Book value per share	394.70	192.16	212.50	220.37	312.45	329.88	476.66	549.33	509.58	343.22	-
Balance sheet(JPYmn)											
Cash and cash equivalents	2,108	1,157	1,524	1,591	1,802	1,754	2,472	2,371	2,559	2,760	
Total current assets	**3,501**	**3,074**	**3,785**	**4,358**	**4,853**	**4,916**	**6,649**	**6,944**	**9,311**	**8,569**	
Tangible fixed assets	186	332	309	298	266	264	321	427	652	843	
Intangible assets	235	200	202	245	336	403	477	553	734	675	
Investments and other assets	493	456	475	476	623	789	764	946	738	787	
Total assets	**4,415**	**4,063**	**4,770**	**5,377**	**6,078**	**6,372**	**8,212**	**8,870**	**11,436**	**10,875**	
Notes and accounts payable	110	138	132	122	148	177	255	272	249	258	
Short-term debt	0	0	0	0	0	0	0	38	1,290	357	
Total current liabilities	**2,291**	**3,038**	**3,532**	**4,100**	**4,294**	**4,575**	**5,640**	**5,694**	**8,439**	**7,914**	
Long-term debt	0	0	0	0	0	0	0	134	281	1,120	
Total fixed liabilities	**16**	**12**	**53**	**54**	**77**	**27**	**27**	**223**	**308**	**1,150**	
Total liabilities	**2,307**	**3,050**	**3,585**	**4,154**	**4,371**	**4,602**	**5,667**	**5,917**	**8,747**	**9,064**	
Total net assets	**2,108**	**1,012**	**1,185**	**1,223**	**1,707**	**1,770**	**2,544**	**2,953**	**2,689**	**1,811**	
Total interest-bearing debt	0	0	0	0	0	0	0	172	1,572	577	
Cash flow statement(JPYmn)											
Cash flows from operating activities	1,033	-503	705	640	675	698	1,253	669	-213	1,779	
Cash flows from investing activities	-202	280	-137	-294	-312	-453	-6	-278	-510	-326	
Cash flows from financing activities	-252	-328	0	-79	-52	-494	-79	-393	712	-703	
Financial ratios											
ROA (RP-based)	18.1%	-14.1%	3.1%	3.4%	9.2%	13.1%	13.5%	11.3%	7.6%	-2.2%	
ROE(ROE)	20.5%	-51.6%	14.6%	10.5%	33.3%	31.6%	39.2%	26.3%	18.2%	-27.9%	
Equity ratio	47.8%	24.2%	23.5%	21.6%	27.1%	27.0%	30.6%	32.9%	23.5%	16.7%	

Source: Shared Research based on company materials

Note: Figures may differ from company materials based on differences in rounding methods

Recent updates

Recording of non-operating expenses and extraordinary losses

2024-02-13

GMO Pepabo, Inc. (TSE Standard: 3633) announced that it will record non-operating expenses and extraordinary losses in FY12/23.

Non-operating expenses

Provision for doubtful accounts (non-consolidated)

Regarding the loans to GMO Creators Network, Inc. ("CN"), a consolidated subsidiary, the company assessed the recoverability and recorded a provision for doubtful accounts amounting to JPY1.2bn, which will be eliminated in the consolidated results having no impact on performance.

Extraordinary losses

Impairment losses (consolidated and non-consolidated)

In the Hosting business, a portion of the development costs had been capitalized as software development in progress. However, following a conservative assessment of recoverability based on the Accounting Standard for Impairment of Fixed Assets—taking into account future earnings prospects and other factors—the company decided to recognize the full book value of this software development in progress as an extraordinary loss amounting to JPY118mn.

Losses on valuation of investment securities (consolidated and non-consolidated)

The company recorded a loss on valuation of investment securities of JPY29mn as an extraordinary loss due to a decline in the real value of some of the company's investment securities holdings compared to their acquisition cost.

Losses on valuation of shares of subsidiaries and affiliates (non-consolidated)

The company recorded an extraordinary loss of JPY117mn on valuation of shares of affiliated companies due to the decline in the real value of CN's shares held by the company compared to the acquisition price. As this amount will be eliminated in the consolidated results, it will have no impact on performance.

Impact on earnings

The impact described above is reflected in the financial results for FY12/23 (Japanese GAAP), released on February 13, 2024.

Trends and outlook

Quarterly trends and results

Earnings (cumulative)	FY12/22				FY12/23				FY12/23	
(JPYmn)	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of forecast	Company forecast
Revenue	2,536	5,107	7,810	10,531	2,736	5,524	8,226	10,904	100.1%	10,894
YoY	-12.9%	-14.2%	-12.8%	-11.4%	7.9%	8.2%	5.3%	3.5%		3.4%
Cost of revenue	1,081	2,167	3,292	4,455	1,221	2,478	3,715	4,973		
YoY	-13.9%	-15.9%	-15.1%	-13.5%	12.9%	14.4%	12.9%	11.6%		
Cost ratio	42.6%	42.4%	42.1%	42.3%	44.6%	44.9%	45.2%	45.6%		
Gross profit	1,455	2,940	4,518	6,076	1,515	3,046	4,511	5,931		
YoY	-12.2%	-12.9%	-11.1%	-9.7%	4.1%	3.6%	-0.2%	-2.4%		
Gross profit margin	57.4%	57.6%	57.9%	57.7%	55.4%	55.1%	54.8%	54.4%		
SG&A expenses	1,229	2,691	3,948	5,344	1,479	3,872	5,094	6,272		
YoY	-13.6%	-7.7%	-9.8%	-8.6%	20.3%	43.9%	29.0%	17.4%		
SG&A ratio	48.5%	52.7%	50.5%	50.7%	54.0%	70.1%	61.9%	57.5%		
Operating profit	226	248	570	732	36	-826	-583	-341	-	-642
YoY	-3.8%	-45.9%	-19.3%	-17.6%	-84.0%	-	-	-		-
Operating profit margin	8.9%	4.9%	7.3%	7.0%	1.3%	-	-	-		-
Recurring profit	238	258	600	767	105	-747	-505	-247	-	-576
YoY	2.0%	-45.1%	-18.9%	-20.8%	-56.0%	-	-	-		-
Recurring profit margin	9.4%	5.1%	7.7%	7.3%	3.8%	-	-	-		-
Net income	170	183	419	510	41	-892	-724	-629	-	-867
YoY	-8.1%	-49.5%	-21.6%	-28.7%	-75.7%	-	-	-		-
Net margin	6.7%	3.6%	5.4%	4.8%	1.5%	-	-	-		-

Earnings (quarterly)	FY12/22				FY12/23			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	2,536	2,571	2,703	2,722	2,736	2,788	2,702	2,678
YoY	-12.9%	-15.4%	-10.1%	-6.8%	7.9%	8.5%	0.0%	-1.6%
Cost of revenue	1,081	1,086	1,125	1,163	1,221	1,257	1,237	1,258
YoY	-13.9%	-17.8%	-13.5%	-8.4%	12.9%	15.8%	10.0%	8.1%
Cost ratio	42.6%	42.2%	41.6%	42.7%	44.6%	45.1%	45.8%	47.0%
Gross profit	1,455	1,485	1,578	1,558	1,515	1,531	1,465	1,420
YoY	-12.2%	-13.5%	-7.5%	-5.6%	4.1%	3.1%	-7.2%	-8.9%
Gross profit margin	57.4%	57.8%	58.4%	57.3%	55.4%	54.9%	54.2%	53.0%
SG&A expenses	1,229	1,463	1,256	1,397	1,479	2,393	1,222	1,179
YoY	-13.6%	-2.1%	-13.9%	-5.0%	20.3%	63.6%	-2.7%	-15.6%
SG&A ratio	48.5%	56.9%	46.5%	51.3%	54.0%	85.8%	45.2%	44.0%
Operating profit	226	22	322	162	36	-862	243	242
YoY	-3.8%	-90.0%	30.1%	-11.2%	-84.0%	-	-24.5%	49.4%
Operating profit margin	8.9%	0.9%	11.9%	5.9%	1.3%	-	9.0%	9.0%
Recurring profit	238	21	341	167	105	-852	242	258
YoY	2.0%	-91.3%	27.2%	-26.9%	-56.0%	-	-29.1%	54.4%
Recurring profit margin	9.4%	0.8%	12.6%	6.1%	3.8%	-	9.0%	9.6%
Net income	170	13	236	91	41	-934	168	96
YoY	-8.1%	-92.9%	37.4%	-49.7%	-75.7%	-	-28.7%	4.6%
Net margin	6.7%	0.5%	8.7%	3.4%	1.5%	-	6.2%	3.6%

Source: Shared Research based on company materials

Note: Figures may differ from company materials based on differences in rounding methods

Quarterly trends by segment(cumulative)	FY12/22				FY12/23				FY12/23	
(JPYmn)	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of forecast	Company forecast
Revenue	2,536	5,107	7,810	10,531	2,736	5,524	8,226	10,904	100.1%	10,894
YoY	-12.9%	-14.2%	-12.8%	-11.4%	7.9%	8.2%	5.3%	3.5%		3.4%
Hosting business	1,319	2,663	4,054	5,438	1,369	2,792	4,258	5,758	100.5%	5,729
YoY	11.3%	11.7%	13.1%	13.1%	3.8%	4.8%	5.0%	5.9%		5.3%
% of revenue	52.0%	52.1%	51.9%	51.6%	50.0%	50.5%	51.8%	52.8%		52.6%
E-Commerce Support business	665	1,364	2,133	2,843	701	1,522	2,284	2,997	102.2%	2,934
YoY	-41.2%	-44.2%	-43.2%	-41.7%	5.5%	11.6%	7.1%	5.4%		3.2%
% of revenue	26.2%	26.7%	27.3%	27.0%	25.6%	27.6%	27.8%	27.5%		26.9%
Handmade Products business	461	859	1,233	1,651	413	761	1,131	1,490	95.5%	1,560
YoY	-11.0%	-13.7%	-14.5%	-15.5%	-10.3%	-11.4%	-8.3%	-9.7%		-5.5%
% of revenue	18.2%	16.8%	15.8%	15.7%	15.1%	13.8%	13.8%	13.7%		14.3%
Financial Support business	90	220	386	594	252	448	552	656	98.5%	666
YoY	103.1%	133.3%	166.2%	179.1%	178.5%	104.0%	43.0%	10.4%		12.2%
% of revenue	3.6%	4.3%	4.9%	5.6%	9.2%	8.1%	6.7%	6.0%		6.1%
Other	1	1	2	3	1	1	1	1		
YoY	-97.7%	-97.7%	-93.2%	-91.7%	-3.7%	18.6%	-49.8%	-48.0%		
% of revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
Adjustments	-	-	-	-	-	-	-	-		
Operating profit	226	248	570	732	36	-826	-583	-341	-	-642
YoY	-3.8%	-45.9%	-19.3%	-17.6%	-84.0%	-	-	-		-
Operating profit margin	8.9%	4.9%	7.3%	7.0%	1.3%	-	-7.1%	-3.1%		-5.9%
Hosting business	452	930	1,439	1,891	427	902	1,410	1,922	98.9%	1,943
YoY	32.5%	34.1%	32.2%	28.2%	-5.6%	-3.0%	-2.0%	1.6%		2.7%
Operating profit margin	34.3%	34.9%	35.5%	34.8%	31.2%	32.3%	33.1%	33.4%		33.9%
% of operating profit	68.4%	81.8%	74.9%	73.7%	83.2%	-	-	-		-
E-Commerce Support business	175	176	436	661	163	391	586	756	102.3%	739
YoY	-34.5%	-69.0%	-50.7%	-40.8%	-6.8%	122.1%	34.3%	14.3%		11.8%
Operating profit margin	26.3%	12.9%	20.5%	23.3%	23.3%	25.7%	25.7%	25.2%		25.2%
% of operating profit	26.5%	15.5%	22.7%	25.8%	31.8%	-	-	-		-
Handmade Products business	49	67	70	82	27	42	41	63	85.2%	74
YoY	-42.7%	-52.1%	-58.6%	-63.5%	-44.2%	-37.6%	-41.4%	-23.3%		-10.0%
Operating profit margin	10.7%	7.8%	5.7%	5.0%	6.6%	5.5%	3.6%	4.2%		4.7%
% of operating profit	7.5%	5.9%	3.6%	3.2%	5.4%	-	-	-		-
Financial Support business	-4	-15	5	-26	-94	-1,172	-1,140	-1,065	-	-1,348
YoY	-	-	-	-	-	-	-	-		- %

Operating profit margin	- - 1.2% -	-	-	-	-			-202.4%		
		% of operating profit	-0.6%	-1.4%	0.2%	-1.0%	-18.3%	-	-131.4%	-65.2% -
	Other		-11	-21	-30	-43	-11	-20	-29	-43
		YoY	-	-	-	-	-	-	-	-
		Operating profit margin	-	-	-	-	-	-	-	-
		% of operating profit	-	-	-	-	-	-	-	-
	Adjustments		-435	-889	-1,350	-1,835	-476	-969	-1,451	-1,975
Quarterly trends by segment				**FY12/22**				**FY12/23**		
(JPYmn)			**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Revenue			2,536	2,571	2,703	2,722	2,736	2,788	2,702	2,678
		YoY	-12.9%	-15.4%	-10.1%	-6.8%	7.9%	8.5%	0.0%	-1.6%
	Hosting business		1,319	1,344	1,391	1,384	1,369	1,422	1,466	1,501
		YoY	11.3%	12.1%	16.0%	13.1%	3.8%	5.8%	5.4%	8.4%
		% of revenue	52.0%	52.3%	51.5%	50.9%	50.0%	51.0%	54.3%	56.0%
	E-Commerce Support business		665	699	769	710	701	821	761	714
		YoY	-41.2%	-46.7%	-41.3%	-36.6%	5.5%	17.4%	-1.0%	0.5%
		% of revenue	26.2%	27.2%	28.5%	26.1%	25.6%	29.5%	28.2%	26.7%
	Handmade Products business		461	398	374	418	413	348	370	359
		YoY	-11.0%	-16.6%	-16.2%	-18.3%	-10.3%	-12.6%	-1.1%	-13.9%
		% of revenue	18.2%	15.5%	13.8%	15.3%	15.1%	12.5%	13.7%	13.4%
	Financial Support business		90	129	166	208	252	197	104	104
		YoY	103.1%	160.3%	227.2%	206.6%	178.5%	52.0%	-37.5%	-50.1%
		% of revenue	3.6%	5.0%	6.2%	7.6%	9.2%	7.1%	3.9%	3.9%
	Other		1	0	2	1	1	0	0	0
		YoY	-97.7%	-99.1%	-	4445.5%	-3.7%	16800.0%	-84.1%	-40.0%
		% of revenue	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
	Adjustments		-	-	-	-	-	-	-	-
Operating profit			226	22	322	162	36	-862	243	242
		YoY	-3.8%	-90.0%	30.1%	-11.2%	-84.0%	-	-24.5%	49.4%
		Operating profit margin	8.9%	0.9%	11.9%	5.9%	1.3%	-30.9%	9.0%	9.0%
	Hosting business		452	478	509	452	427	475	508	512
		YoY	32.5%	35.7%	28.9%	17.0%	-5.6%	-0.6%	-0.2%	13.2%
		Operating profit margin	34.3%	35.6%	36.6%	32.7%	31.2%	33.4%	34.7%	34.1%
		% of operating profit	68.4%	100.3%	65.0%	70.0%	83.2%	-	70.1%	66.8%
	E-Commerce Support business		175	1	260	225	163	228	195	170
		YoY	-34.5%	-99.6%	-17.8%	-3.6%	-6.8%	18687.7%	-25.2%	-24.4%
		Operating profit margin	26.3%	0.2%	33.8%	31.7%	23.3%	27.8%	25.6%	23.8%
		% of operating profit	26.5%	0.3%	33.2%	34.8%	31.8%	-	26.8%	22.2%
	Handmade Products business		49	18	3	12	27	14	-1	22
		YoY	-42.7%	-66.9%	-90.5%	-78.3%	-44.2%	-19.6%	-	79.3%
		Operating profit margin	10.7%	4.5%	0.7%	2.9%	6.6%	4.1%	-0.2%	6.1%
		% of operating profit	7.5%	3.8%	0.3%	1.9%	5.4%	-	-0.1%	2.9%
	Financial Support business		-4	-11	20	-31	-94	-1,079	32	76
		YoY	-	-	-	-	-	-	60.4%	-
		Operating profit margin	-	-	12.0%	-	-	-	30.9%	73.1%
		% of operating profit	-	-	2.6%	-	-	-	4.4%	9.9%
	Other		-11	-10	-9	-13	-11	-9	-9	-13
		YoY	-	-	-	-	-	-	-	-
		Operating profit margin	-	-	-	-	-	-	-	-
		% of operating profit	-	-	-	-	-	-	-	-
	Adjustments		-435	-454	-461	-484	-476	-493	-481	-524

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

Full-year FY12/23 results

- Revenue: JPY10.9bn (+3.5% YoY)
- Operating loss: JPY341mn (profit of JPY732mn for FY12/22)
- Recurring loss: JPY247mn (profit of JPY767mn for FY12/22)
- Net loss attributable to owners of the parent: JPY629mn (profit of JPY510mn for FY12/22)

Progress versus the company's full-year FY12/23 forecast was 100.1% for revenue. The company recorded an operating loss of JPY341mn (versus full-year forecast of a loss of JPY642mn), a recurring loss of JPY247mn (loss of JPY576mn), and a net loss attributable to owners of the parent of JPY629mn (loss of JPY867mn).

Revenue

In FY12/23, revenue increased by 3.5% YoY. The recurring revenue businesses such as the Lolipop! web hosting service and the online shop creation service Color Me Shop performed steadily due to the effects of price revisions. On the other hand, due to changes in consumer trends accompanying the reopening of the economy, the gross merchandise value of SUZURI, a service for creating and selling original goods, and minne, the largest handmade products marketplace in Japan, decreased YoY.

Operating loss

On the profit side, FREENANCE (Financial Support business) recorded a loss due to a provision for bad debts related to overdue receivables it recognized until end-1H.

Several factors affected operating profit. An increase in revenue of JPY372mn and a decrease in promotion expenses of JPY254mn contributed to profit growth, while an increase in expenses linked to revenue of JPY323mn, an increase in personnel expenses of JPY110mn, an increase in bad debt-related expenses of JPY897bn, and other factors of JPY368mn reduced profit.

Recurring loss

The recurring loss was JPY247mn because the company, in addition to the operating loss, recorded a non-operating income of JPY95mn as a gain on investment in partnership.

Results by segment

Hosting business

- Revenue: JPY5.8bn (+5.9% YoY)
- Operating profit: JPY1.9bn (+1.6%)

Lolipop!

In FY12/23, revenue increased by 9.1% YoY to JPY2.5bn and operating profit increased by 3.8% YoY to JPY1.3bn. For Lolipop!, despite initiating a discount campaign for fixed-price website production plans and efforts to acquire contracts for high-price plans, the number of new contracts for low-price plans at end-FY12/23 decreased by 2.3% YoY to 412,781. On the other hand, due to the price revision in February 2023 and an increase in the proportion of higher-tier plans, average revenue per user (ARPU) for the full-year FY12/23 rose to JPY499 (+11.1% YoY).

MuuMuu Domain

In FY12/23, revenue increased by 4.5% YoY to JPY2.3bn and operating profit decreased by 3.2% YoY to JPY302mn. In response to the impact of rising electricity costs and increased procurement prices due to the depreciation of the yen, MuuMuu Domain introduced service maintenance adjustment fees for new domain registrations and renewals starting in February 2023, which resulted in an increase in customer spend. According to Shared Research's estimate, MuuMuu Domain's ARPU for the full-year FY12/23 was JPY173, up 7.7% YoY. On the other hand, the number of registered domains fell 7.1% YoY to 1,102,604 due to a decline in new subscriptions against the backdrop of ongoing campaigns by other companies.

E-Commerce Support business

- Revenue: JPY3.0bn (+5.4% YoY)
- Operating profit: JPY756mn (+14.3%)

Color Me Shop

In FY12/23, revenue increased by 11.6% YoY to JPY2.1bn and operating profit decreased by 8.4% YoY to JPY718mn. In January 2023, Color Me Shop began offering the Premium Plan to support larger-scale e-commerce site operations. In September 2023, the company held Color Me Shop Grand Award 2023 to recognize the best shops among more than 50,000 e-commerce sites nationwide. The number of contracts for the Free Plan, which allows customers to set up an e-commerce site with no initial and monthly fees, increased. However, due to a reduced rate of increase, the total came to 50,379 contracts, a 0.6% decrease compared to end-FY12/22. In addition, the customer spend for monthly paid plans for the full-year FY12/23 increased to JPY5,238 (+26.3% YoY) due to the effect of the price revision implemented in April 2022 and an increase in the ratio of contracts for higher-tier plans. While revenue increased YoY due to an increase in customer spend, profit was affected by higher infrastructure and other costs.

SUZURI

In FY12/23, revenue decreased by 4.2% YoY to JPY918mn and operating profit was JPY84mn (vs. operating loss of JPY96mn in FY12/23). In addition to T-shirt sales and new items, SUZURI began handling digital content such as 3D models and audio files, and the number of registered members increased to 1,630,000 (+20.1% from end-FY12/22). Additionally, to increase the number of visitors to the site, the company implemented measures that utilized highly attractive content and IPs and offered a new merchandise creation experience using image-generating AI. In FY12/23, the gross merchandise value was JPY2.4bn (-9.4% YoY), while on the profit side, the company worked to curb costs, especially promotional expenses. The number of creators at end-FY12/23 increased by 14.9% YoY to 770,000.

Handmade Products business

- Revenue: JPY1.5bn (-9.7% YoY)
- Operating profit: JPY63mn (-23.3%)

minne

In FY12/23, revenue decreased by 9.7% YoY to JPY1.5bn and operating profit decreased by 23.3% YoY to JPY63mn. In April 2023, minne began handling digital content related to handicrafts, including digital works, materials, and lesson videos that provide know-how and information on how to make things. In September 2023, the company held the large-scale offline event minne Handmade Market 2023 and released minne Ads, which allows artists and brands to display their works to interested buyers to promote sales. The number of registered artists increased by 5.9% YoY to 900,000 and the number of products at end-FY12/23 was up by 7.1% YoY to 171,000, and the number of app downloads was up 4.4% YoY to 14,730 downloads. Meanwhile, the gross merchandise value for the full-year FY12/23 was JPY12.9bn (-14.5% YoY), the number of orders was 3,365,000 (-19.1% YoY), and the average order value was JPY3,825 (+5.6% YoY) due to the shrinking scale of distribution of low-priced works.

Financial Support business

- Revenue: JPY656mn (+10.4% YoY)
- Operating loss: JPY1.1bn (JPY26mn for FY12/22)

FREENANCE

In FY12/23, revenue increased by 10.4% YoY to JPY656mn. The company recorded an operating loss of JPY1.1bn (vs. JPY26mn in FY12/22). In FREENANCE, due to provisions for bad debts related to overdue receivables recognized until end-1H, the company curtailed the acquisition of large-scale receivables, resulting in an invoice purchasing value for the full-year FY12/23 of JPY8.5bn (-2.2% YoY). For the full-year FY12/23, the number of users increased by 20.3% to 13,113, the number of invoices purchased increased by 10.4% to 22,432, and the average invoice purchasing value decreased by 11.4% to JPY378,000. On the profit front, while the company recorded an operating loss due to provisions for bad debts related to overdue receivables recognized until end-1H, the operating loss narrowed following 1H due to progress in receivables collection.

Other

- Revenue: JPY1mn (-48.0% YoY)
- Operating loss: JPY43mn (JPY43mn for FY12/22)

In FY12/23, revenue decreased by 48.0% YoY to JPY1mn. The company recorded an operating loss of JPY43mn (vs. JPY43mn in FY12/22). Also included in Other is GMO Renshu, a service that enables centralized management of communication and collection of fees for extracurricular activities and team/classroom operations on the cloud.

Topics

Full-year company forecasts

Company forecast	FY12/23			FY12/24
(JPYmn)	1H results	2H results	FY results	Company forecast
Revenue	5,524	5,380	10,904	10,963
YoY	8.2%	-0.8%	3.5%	0.5%
Operating profit	-826	485	-341	700
YoY	-	0.2%	-146.6%	-
Operating profit margin	-	9.0%	-	6.4%
Recurring profit	-747	500	-247	700
YoY	-	-1.7%	-132.2%	-
Recurring profit margin	-	9.3%	-	6.4%
Net income	-892	264	-629	421
YoY	-	-19.4%	-223.3%	-
Net margin	-	4.9%	-	3.8%

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

By segment	FY12/23			FY12/24
(JPYmn)	1H results	2H results	FY results	Company forecast
Revenue	5,524	5,380	10,904	10,963
YoY	8.2%	-0.8%	3.5%	0.5%
Hosting business	2,792	2,967	5,758	5,927
YoY	4.8%	6.9%	5.9%	2.9%
E-Commerce Support business	1,522	1,475	2,997	3,005
YoY	11.6%	-0.3%	5.4%	0.3%
Handmade Products business	761	729	1,490	1,501
YoY	-11.4%	-7.8%	-9.7%	0.7%
Financial Support business	448	208	656	518
YoY	104.0%	-44.5%	10.4%	-21.0%
Operating profit	-826	485	-341	700
YoY	-	0.2%	-	-
Operating profit margin	-15.0%	9.0%	-3.1%	6.4%
Hosting business	902	1,020	1,922	1,983
YoY	-3.0%	6.1%	1.6%	3.2%
Operating profit margin	32.3%	34.4%	33.4%	33.5%
E-Commerce Support business	391	365	756	822
YoY	122.1%	-24.8%	14.3%	8.7%
Operating profit margin	25.7%	24.7%	25.2%	27.4%
Handmade Products business	42	21	63	54
YoY	-37.6%	40.8%	-23.3%	-14.3%
Operating profit margin	5.5%	2.9%	4.2%	3.6%
Financial Support business	-1,172	108	-1,065	-54
YoY	-	-	-	-
Operating profit margin	-	52.0%	-	-

Source: Shared Research based on company materials
Note: Figures may differ from company materials due to differences in rounding methods

Full-year FY12/24 company forecast (out February 13, 2024)

- Revenue: JPY11.0bn (+0.5% YoY)
- Operating profit: JPY700mn (JPY341mn loss for FY12/23)
- Recurring profit: JPY700mn (loss of JPY247mn for FY12/23)
- Net income attributable to owners of the parent: JPY421mn (loss of JPY629mn for FY12/23)

The full-year company forecast for FY12/24 calls for revenue of JPY11.0bn, operating profit of JPY700mn, recurring profit of JPY700mn, and net income attributable to owners of the parent of JPY421mn.

Major initiatives by segment

Hosting business

Acquiring new contracts through the introduction of MuuMuu servers

The company began offering MuuMuu servers on November 15, 2023, to provide a comprehensive service from domain acquisition to server contracts. Previously, contracts for the MuuMuu Domain and the web hosting service Lolipop! were signed separately, resulting in the company losing server contracts to other companies. By allowing users to sign up for both MuuMuu Domain and Lolipop! at the same time and consolidating payments and management, the company aims to acquire new contracts through simultaneous applications. Since the launch of the Muumuu server service, the number of new contracts has been increasing, with 236 contracts signed in November, 418 in December, and 430 in January. For the full-year FY12/24, the company expects to acquire more than 5,000 new contracts.

New server for multiplayer gaming and decentralized social media to be released as new product in Q2 FY12/24

In a rapidly diversifying user landscape where the usage of servers and play styles have significantly increased, the company plans to launch a new server supporting multiplayer gaming and decentralized social media from Q2 FY12/24. The key features of the new server will be ease of use (allowing users to get started quickly and easily from anywhere), functionality (enhancing multiplayer gaming experiences), and a simply structured, flat-rate pricing system.

E-Commerce Support business

Acquiring more contracts by strengthening sales of the Premium Plan, a higher-tier plan of Color Me Shop and other measures

The company will seek to increase the number of contracts by strengthening sales of the Premium Plan and other plans and by implementing initiatives to support increased purchasing opportunities on e-commerce sites. To expand outreach to medium-sized and larger stores and acquire customers in high-end stores with large distribution sizes, the company will strengthen the development of medium-sized stores by increasing cooperation with brokers for the Regular Large Plan. In the Premium Plan, the company will acquire top-tier stores through direct sales efforts, aiming to win new contracts in FY12/24 against the backdrop of improved convenience in building and operating e-commerce sites by introducing free WordPress and Amazon Pay in FY12/23.

Aiming to increase gross merchandise value by focusing on smartphone apps that drive growth in the gross merchandise value of SUZURI

With regard to SUZURI, there is a trend of increasing gross merchandise value through smartphone apps, with an expected transaction volume of JPY640mn for FY12/23. In FY12/24, the company aims to further increase the gross merchandise value generated through the app to JPY1.0bn by enhancing user experience within the app and promoting the utilization of digital content and intellectual property (IP).

Handmade Products business

minne aims to expand its revenue through promotions such as minne Ads and the introduction of new products.

At minne, the company is facing challenges such as a decrease in the gross merchandise value of low-priced works, a decrease in advertising efficiency and profitability due to discount campaigns, and a decrease in new artwork registrations and site visitors. To address these challenges, the company will provide authors with new products such as minne Ads, support for author activities, improved efficiency through the use of AI, and enhanced site features to increase the number of purchased products in the mid-price range and above, improve the efficiency of minne Ads and promotions, and enhance convenience for authors by creating an author community.

Company-wide initiatives

Securing competitive talent and technological R&D

The company plans to increase its ratio of personnel who create (engineers, etc.) and conduct technological R&D to increase the output of humanity and achieve sustainable growth. By strengthening the hiring of engineers and focusing on regional recruitment, the company has been able to secure outstanding talent, resulting in an increase in the proportion of creators from 57% in December 2022 to 60% in December 2023 (27% engineers, 10% designers, 22% directors). The company aims to further increase the proportion of creators in the medium- to long-term. Additionally, as part of business growth and future-oriented technological R&D, the company will promote the overall use of AI, including feature extraction using AI-based imaging for recommending similar products in e-commerce and identifying user characteristics to prevent fraudulent use, as well as large-scale language models. The company aims to focus on technological R&D for medium- to long-term business growth and expand technology use in its services.

New AI-driven initiatives - AX business (creating the Future with AI)

As AI becomes more commonplace, the company will develop AI-centered products for growth in 2025 and the more distant future and roll out the AX business, a new service that creates the future with AI, aiming to commercialize the business in 2024. In the 2B (corporate) market, under the slogan "AI Transformation," it will provide its corporate clients with new services that automate customer service using AI and solutions that offer its accumulated know-how on customer support and AI utilization. In the 2C (individual) market, the company will enter the particularly growing market in the digital content field by providing a service that offers new ways of expression utilizing AI in the distribution field, under the banner of AI eXperience.

Medium-term earnings outlook

The company has set consolidated operating profit of JPY1.6bn for FY12/26 as a management target in its medium-term management plan (FY12/23–12/26). To achieve the target, the company will leverage the stable and high profitability of the recurring revenue businesses, such as Lollipop!, MuuMuu Domain, and Color Me Shop to invest in high-growth businesses such as SUZURI," minne, FREENANCE, and new businesses. In addition, the company plans to revise its medium-term management plan targets for FY12/26 following the revision of its FY12/23 forecasts.

Initiatives for recurring revenue businesses

In recurring revenue businesses, the company aims to acquire top-tier customers for more stable and higher profitability, as well as targeting corporate customers through strategic initiatives.

Lollipop! and MuuMuu Domain

- Acquisition of contracts through affiliate marketing (from 2023)
- High-quality and business-oriented services (from 2024)
- Convenient and versatile service offerings (from 2024)

Color Me Shop

- Offering plans tailored to the expansion of existing stores (from 2023)
- Providing features for stores with monthly revenue of over JPY2mn (from 2023)
- Store support by e-commerce advisors (from 2023)

Initiatives for one-time revenue businesses

In one-time revenue businesses, the company is making efforts to expand from its existing product sales e-commerce categories into new areas by undertaking challenges such as the provision of minne college and digital content. At FREENANCE, the focus is on strengthening the collection of overdue receivables and the governance structure, with a focus on recovering funds and preventing a recurrence of recording bad debt-related expenses.

Expansion of GMV growth at SUZURI and minne

- Strengthening of successful categories such as accessories and food (from 2023)
- Full-scale rollout of minne college and digital content (from 2024)
- Promotion of cross-border support (from 2023)

Expansion of invoice purchasing value at FREENANCE

- Review of receivables collection and management structure (from 2023)
- Implementation of measures to prevent recurrence of significant bad-debt related expenses (from 2024)
- Rebuilding of business strategy (from 2024)

Business

Business description

GMO Pepabo, Inc. (TSE Standard: 3633) offers services for individuals and corporate clients, including web hosting, online shop construction, production and sales of original goods, and facilitation of the buying and selling of handmade products. It also provides services that stabilize cash flows for freelancers. The company's mission is to "increase the output of humanity" by providing affordable services that lower the hurdles to using the internet and support the creative activities of individuals and creators. In FY12/23, the company reported revenue of JPY10.9bn, up 3.5% YoY. Meanwhile, it recorded an operating loss of JPY341mn (vs. profit of JPY732mn in FY12/22) on as it recorded bad debt-related expenses in the Financial Support business. Five-year CAGR was 5.1% for revenue due to growth in the recurring revenue business such as web hosting and online shop creation services, while one-time revenue businesses have been negatively affected by changes in consumer behavior as the economy has reopened following the COVID-19 pandemic.

GMO Pepabo was initially established in January 2003 as paperboy&co., a limited liability company, to provide web hosting services to individuals through Lolipop!, a web hosting business inherited from its predecessor. In March 2004, paperboy&co. was incorporated and became a consolidated subsidiary of GMO Internet Group, Inc. (TSE Prime: 9449; ownership of 57.5% as of end-FY12/22) through a third-party share allotment. In April 2014, the company changed its name to GMO Pepabo, Inc.

The company has four business segments: Hosting, E-Commerce Support, Handmade Products, and Financial Support. The Hosting business (accounting for 52.8% of revenue and OPM before adjustments of 33.6%) primarily provides the web hosting service Lolipop! and the domain registration service MuuMuu Domain. The E-Commerce Support business (27.5%, 25.2%) mainly offers the online shop creation service Color Me Shop and the original goods creation and sales service SUZURI.

Meanwhile, the Handmade Products business segment (accounting for 13.7% of revenue and OPM before adjustments of 4.2% %) operates the handmade marketplace service minne, and the Financial Support business segment (6.0%, operating loss of JPY1.1bn) offers factoring services for freelancers through FREENANCE. The company has been expanding its business and accelerating growth by investing the recurring revenue generated by Lolipop!, MuuMuu Domain, and Color Me Shop into one-time revenue businesses such as SUZURI, minne, and FREENANCE.

By segment	Main service	Service details
Hosting business	Lolipop!	Web hosting and ASP services
	MuuMuu Domain	Domain acquisition service
	heteml	Web hosting and ASP services for creators
	Goope	Website creation service
E-Commerce Support business	Color Me Shop	E-commerce store creation service
	SUZURI	Original goods creation and sales service
Handmade Products business	minne	Handmade marketplace service
Financial Support business	FREENANCE	Factoring services for freelancers

Source: Shared Research based on company materials

Revenue/operating profit by segment	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
(JPYmn)	Cons.	Cons.	Cons.	Non-cons.	Non-cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Revenue	4,534	5,698	6,890	7,365	8,201	8,943	11,014	11,880	10,531	10,904
YoY	8.8%	25.7%	20.9%	-	11.3%	-	23.2%	7.9%	-11.4%	3.5%
Hosting business	3,091	3,489	3,816	4,122	4,418	4,487	4,568	4,807	5,153	5,758
YoY	6.2%	12.9%	9.4%	8.0%	7.2%	1.6%	1.8%	5.2%	7.2%	11.7%
% of revenue	68.2%	61.2%	55.4%	56.0%	53.9%	50.2%	41.5%	40.5%	48.9%	52.8%
E-Commerce Support business	1,169	1,804	1,428	1,624	2,069	2,520	4,070	4,874	3,131	2,997
YoY	19.6%	54.4%	-20.9%	13.8%	27.4%	21.8%	61.5%	19.8%	-35.8%	-4.3%
% of revenue	25.8%	31.7%	20.7%	22.1%	25.2%	28.2%	37.0%	41.0%	29.7%	27.5%
Handmade Products business			1,178	1,393	1,545	1,602	1,991	1,953	1,651	1,490
YoY			-	18.2%	10.9%	3.7%	24.2%	-1.9%	-15.5%	-9.7%
% of revenue			17.1%	18.9%	18.8%	17.9%	18.1%	16.4%	15.7%	13.7%
Financial Support business						46	128	213	594	656
YoY						-	177.4%	66.5%	179.1%	10.4%
% of revenue						0.5%	1.2%	1.8%	5.6%	6.0%
Community business	274	277	222							
YoY	-1.0%	1.1%	-20.1%							
% of revenue	6.0%	4.9%	3.2%							
Other		128	246	226	168	287	258	33	3	1
YoY		-	93.1%	-8.2%	-25.5%	70.3%	-10.1%	-87.2%	-91.7%	-48.0%
% of revenue		2.2%	3.6%	3.1%	2.1%	3.2%	2.3%	0.3%	0.0%	0.0%
Adjustments	-	-	-	-	-	-	-	-	-	-
Operating profit	724	-621	108	144	468	784	927	889	732	-341
YoY	-0.2%	-	-	-	225.6%	-	18.3%	-4.2%	-17.6%	-
Operating profit margin	16.0%	-	1.6%	2.0%	5.7%	8.8%	8.4%	7.5%	7.0%	-3.1%
Hosting business	937	1,045	1,242	1,313	1,415	1,367	1,362	1,475	1,730	1,922
YoY	0.2%	11.5%	18.8%	5.7%	7.8%	-3.5%	-0.3%	8.3%	17.3%	11.1%

Operating profit margin	30.3% 30.0% 32.5% 31.8%	32.0%	30.5%	29.8%	30.7%	33.6%	33.4%					
		% of operating profit	69.1%	-	122.7%	114.0%	88.7%	62.0%	53.4%	55.3%	67.4%	-
	E-Commerce Support business		341	-958	636	776	832	877	1,212	1,118	824	756
		YoY	-13.8%	-	-	22.1%	7.2%	5.4%	38.2%	-7.8%	-26.3%	-8.2%
		Operating profit margin	29.2%	-	44.5%	47.8%	40.2%	34.8%	29.8%	22.9%	26.3%	25.2%
		% of operating profit	25.2%	-	62.8%	67.4%	52.1%	39.8%	47.6%	41.9%	32.1%	-
	Handmade Products business				-946	-1,037	-682	95	227	225	82	63
		YoY			-	-	-	-	139.5%	-0.6%	-63.5%	-23.3%
		Operating profit margin			-	-	-	5.9%	11.4%	11.5%	5.0%	4.2%
		% of operating profit			-93.5%	-90.1%	-42.8%	4.3%	8.9%	8.5%	3.2%	-
	Financial Support business							-179	-299	-140	-26	-1,065
		YoY						-	-	-	-	-
		Operating profit margin						-	-	-	-	-
		% of operating profit						-	-	-	-	-
	Community business		78	89	97							
		YoY	63.8%	13.8%	8.5%							
		Operating profit margin	28.6%	32.2%	43.7%							
		% of operating profit	5.8%	-	9.6%							
	Other			-23	-16	100	31	43	47	-13	-43	-43
		YoY		-	-	-	-68.5%	38.7%	8.3%	-	-	-
		Operating profit margin		-	-	44.0%	18.6%	15.1%	18.2%	-	-	-
		% of operating profit		-	-	8.7%	2.0%	2.0%	1.8%	-	-	-
	Adjustments		-633	-775	-904	-1,007	-1,128	-1,419	-1,621	-1,777	-1,835	-1,975
Impact of the adoption of revenue recognition standards, etc.												
	Revenue										-1,653	
	Operating profit										101	

Source: Shared Research based on company materials

Note: Figures may differ from company materials based on differences in rounding methods

Hosting business (52.8% of revenue and OPM before adjustments of 33.4% in FY12/23)

The Hosting business is a core business that accounts for 52.8% of the company's total revenue for FY12/23 with OPM before adjustments of 33.4%. The business consists primarily of the Lolipop! web hosting service and the MuuMuu Domain domain acquisition service. Additionally, it includes the heteml web hosting service for creators and the Goope website creation service, the latter of which the company transferred from the E-Commerce Support business in FY12/23.

Lolipop! (23.0% of revenue and OPM before adjustments of 53.2% in FY12/23)

Source: Company website

Overview

The company's flagship service, Lolipop!, is a web hosting service mainly catering to individuals. GMO Pepabo's predecessor launched the service in November 2001, transferring it to GMO Pepabo at the time of the company's establishment. As of end-FY12/23, the number of Lolipop! contracts stood at 412,781. Although there is no longer a major differentiating factor in the web hosting market, the company states that Lolipop! has achieved the largest number of contracts among services targeting individuals in Japan, thanks to its reasonable pricing and strong brand recognition cultivated over its long history. Lolipop! does not charge initial fees and offers monthly plans starting from JPY99 (Economy Plan, 36-month contract) that vary depending on server capacity. Individuals increasingly use the service for blogging and other forms of content distribution, as well as for business purposes such as affiliate marketing and personal business websites.

Lolipop! pricing plans

Lolipop! offers four plans: Economy, Light, Basic, and Enterprise, which differ in capacity (combined file storage, email storage, and database storage; as of July 2023). Monthly fees vary depending on the contract period. The cheapest option, the Economy Plan, costs JPY99 per month and involves a 36-month contract. The Light plan costs JPY220 per month, the Basic Plan JPY550 per month, and the Enterprise Plan JPY2,200 per month. According to the company, the breakdown of the 422,596 contracts was approximately 50% for the Light Plan, slightly less than 30% for the Standard Plan (which stopped accepting new enrollments as of April 30, 2023), approximately 10% for the Basic Plan, and the remainder for the Economy

Plan (as of end-FY12/22). The company is currently promoting subscriptions to the Basic Plan, and expects the composition ratio of the Basic Plan to increase in the future. The most common contract period is for 12 months.

		Economy	Light	Basic	Enterprise	Standard
						(Stopped accepting new enrollments)
Monthly fee( )	One month	198	550	1,430	2,640	1,100
	Three months	198	495	1,320	2,640	1,045
	Six months	198	462	1,210	2,420	935
	12 months	198	418	990	2,365	770
	24 months	198	352	935	2,255	605
	36 months	99	220	550	2,200	440
Initial fee( )		0	0	0	0	1,650
Capacity		100GB	200GB	400GB	1.2TB	300GB
Own domain		50	100	Unlimited	Unlimited	200
WordPress		×	○	○	○	○
Transmission capacity		Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Telephone support		×	×	○	○	○

Source: Shared Research based on company website

Business model

Lolipop!'s business model is to provide users with servers from GMO Internet Group's data centers for a monthly fee, while the company pays data center usage fees to GMO Internet Group for providing the servers. GMO Pepabo acquires customers through online ads, affiliate ads, and service comparison sites.

Number of contracts

The number of contracts (including web hosting other than Lolipop! through FY12/18) showed an increasing trend from FY12/13–12/21. However, since FY12/22, there were factors such as the impact of price hikes, resulting in a slight decrease. According to the company, the monthly cancellation rate for Lolipop! is below 2%. The majority of subscribers have long-term contracts, and the cancellation rate shows a temporary increase to some extent when certain price-sensitive subscribers cancel their contracts due to price hikes.

Lolipop!	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
Number of contracts	396,000	410,000	423,000	434,278	438,171	405,218	417,117	425,982	422,596	412,781
YoY	6.7%	3.5%	3.2%	2.7%	0.9%	- %	2.9%	2.1%	-0.8%	-2.3%

Source: Shared Research based on company materials

Lolipop ! Number of contracts at end of the fiscal year	FY12/22				FY12/23			
(quarterly,)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of contracts	426,074	426,651	424,528	422,596	419,605	417,710	415,394	412,781
YoY	0.8%	0.6%	-0.2%	-0.8%	-1.5%	-2.1%	-2.2%	-2.3%

Source: Shared Research based on company materials

Average revenue per user (ARPU)

The quarterly-based ARPU has been trending upward since FY12/20. In particular, the ARPU for Q4 FY12/21 increased by 11.6% YoY to JPY414, and the ARPU for Q4 FY12/23 also showed strong growth, with an increase of 13.2% YoY. The company attributes this to the enhancement of premium plans and price hikes. The company implemented price hikes for the Economy Plan, Standard Plan (new enrollments stopped on April 30, 2023), and High-Speed Plan (renamed to the Basic Plan in May 2023) in November 2021 to improve service quality. In February 2023, it implemented another round of price hike for all plans to help cover increased costs resulting from rising electricity prices, forex fluctuations, and semiconductor shortages.

Lolipop ! Customer spend(quarterly)	FY12/22				FY12/23			
(JPY/month)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Customer spend	431	449	457	461	471	495	511	522
YoY	11.9%	15.1%	13.4%	11.4%	9.3%	10.2%	11.8%	13.2%

Source: Shared Research based on company materials

Earnings structure

The business follows a recurring revenue model where revenue accumulates as a function of the number of contracts and average monthly fees. As of end-Q3 FY12/23, the number of contracts was 412,781 (-2.3% YoY) and the ARPU was JPY522 (+13.2% YoY). Main expense items include data center usage fees paid primarily to the GMO Internet Group, labor and outsourcing costs related to service development, depreciation and leasing fees for servers, online advertising expenses, and performance-based payouts to affiliate advertisers. Fixed expenses make up the majority of expenses, aside from data center usage fees, which are quasi-fixed expenses that fluctuate based on a certain server capacity unit.

MuuMuu Domain (21.5% of revenue and OPM before adjustments of 12.9% in FY12/23)

MuuMuu Domain

Source: Company website

Overview

MuuMuu Domain is a domain registration proxy service that began in January 2004. Since there is only one organization (registry) that handles the registration process for each domain, there is no significant difference in costs between registrars to acquire any given domain name.

MuuMuu Domain pricing structure

MuuMuu Domain charges domain fees annually at the time of registration, renewal, and transfer. The contract duration varies depending on the domain, but according to the company, the majority of contracts are for one year. It should be noted that the transfer fee includes a one-year extension of the contract period.

Major domain fee (as of March 6, 2024)		.com	.net	.jp	.co.jp
(JPY/year)					
MuuMuu Domain	Acquisition	1,620	1,628	2,035	1,980
	Renewal	1,728	1,628	3,344	4,378
	Transfer	1,728	1,628	3,344	0

Source: Shared Research based on company website

Business model

MuuMuu Domain operates a simple business model of acquiring domains and providing them to customers, earning domain fees in return. The company procures domains through the GMO Internet Group. While there is limited differentiation among registrars and intense price competition, the company considers its domain services business to have value as a gateway to other services, such as Lolipop! and Color Me Shop.

Number of contracts

There was an upward trend in the number of domain contracts from FY12/13 through FY12/18. Then from FY12/19 to FY12/21, the number of domain contracts continuously declined. In FY12/22, however, the number of domain contracts rose as the company implemented new registration discounts and various campaigns. However, in FY12/23, the number of domain contracts declined again due to the impact of other companies' campaigns among other factors. It is difficult to achieve differentiation in the domain registration proxy services market other than by price, and the number of domain contracts is susceptible to fluctuations due to the change in new contract signups based on the existence of sales campaigns, as well as the cancellation rate of existing customers.

GMO Pepabo positions MuuMuu Domain as a gateway to its other mainstay services such as Lolipop! and Color Me Shop. Shared Research therefore considers the change in the number of MuuMuu Domain users who simultaneously use other services such as Lolipop! and Color Me Shop to be an important indicator. Efforts to promote use of the company's other services, such as providing domains for free to top-tier users of Lolipop!, make it less likely for customers to transfer providers even if competitors set domain fees low. As a result, cancelled contracts are mostly centered on customers using the MuuMuu Domain service alone.

MuuMuu Domain	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
Number of contracted domains	885,000	950,000	1,058,000	1,194,557	1,241,668	1,216,447	1,201,695	1,171,750	1,186,748	1,102,604
YoY	8.2%	7.3%	11.4%	12.9%	3.9%	-2.0%	-1.2%	-2.5%	1.3%	-7.1%

Source: Shared Research based on company materials

MuuMuu Domain	FY12/22				FY12/23			
(quarterly)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of contracted domains	1,166,641	1,162,930	1,155,961	1,186,748	1,139,334	1,125,732	1,114,075	1,102,604
Net increase	-5,109	-3,711	-6,969	30,787	-47,414	-13,602	-11,657	-11,471

Source: Shared Research based on company materials

Domain fees

Based on calculations by Shared Research, the average domain fee has ranged from approximately JPY140 to JPY180 since FY12/20. However, fees can basically vary depending on the mix of domain contracts. Since Q1 FY12/21, domain fees have trended upward YoY, though this is primarily due to forex fluctuations. In Q3 FY12/22, there was a significant YoY increase of 12.8%, mainly because the company traded some domains at high prices in pre-owned domain auctions. Although the domain fees continued to rise in FY12/23, the service maintenance adjustment fee introduced in February 2023 had a large impact.

MuuMuu Domain customer spend (quarterly)	FY12/22				FY12/23			
(JPY/month)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Customer spend	155	157	167	163	159	170	178	186
YoY	3.4%	2.0%	12.8%	7.7%	2.1%	8.5%	6.6%	13.9%

Source: Shared Research estimates based on company materials

Earnings structure

The business operates according to a recurring revenue model where revenue accumulates as a function of the number of contracts and average domain fee. According to the company, the majority of contracts are for one year. Starting from FY12/22, revenue recognition is recorded over the contract period in accordance with the Accounting Standard for Revenue Recognition. As of end-FY12/23, contracts numbered 1,102,604 (-7.1% YoY) and the monthly average domain fee for the full-year FY12/23 based on Shared Research calculations was JPY173 (+7.7% YoY). The company states that the procurement cost of domains amounts to approximately 80% of revenue. The company also incurs expenses related to online ads to acquire customers, performance-based rewards for affiliate advertisers, and personnel expenses.

Earnings trends

The Hosting business has shown a trend of increasing earnings, mainly driven by the increase in the number of web hosting contracts, mainly through Lolipop!, and the growth in the number of domain contracts for MuuMuu Domain from FY12/13 to FY12/18. In FY12/19, revenue rose 1.6% and operating profit fell 3.5% due to the impact of the discontinuation of certain services and a decrease in the renewal rate of domains registered during a discount campaign in FY12/18. In FY12/20, revenue rose 1.8% and operating profit fell 0.3%. This was the result of the decrease in domain contracts due to a decline in the renewal rate for domains registered during past discount campaigns, despite growth in the number of Lolipop! contracts. Earnings growth has accelerated from FY12/21 onwards, primarily driven by price hikes that boosted Lolipop! revenue.

Hosting business	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
(JPYmn)										
Revenue	3,091	3,489	3,816	4,122	4,418	4,487	4,568	4,807	5,153	5,758
YoY	6.2%	12.9%	9.4%	8.0%	7.2%	1.6%	1.8%	5.2%	7.2%	11.7%
Lolipop !							1,845	2,032	2,295	2,503
MuuMuu Domain							2,068	2,148	2,248	2,348
Other							655	627	610	907
Operating profit	937	1,045	1,242	1,313	1,415	1,367	1,362	1,475	1,730	1,922
YoY	0.2%	11.5%	18.8%	5.7%	7.8%	-3.5%	-0.3%	8.3%	17.3%	11.1%
Operating profit margin	30.3%	30.0%	32.5%	31.8%	32.0%	30.5%	29.8%	30.7%	33.6%	33.4%
Lolipop !							892	1,008	1,282	1,331
MuuMuu Domain							282	311	312	302
Other							188	156	136	289
Segment asset	484	699	674	658	642	650	694	892	2,334	2,606
Depreciation	86	111	142	132	122	118	132	159	200	272
Goodwill amortization	-	-	-	-	-	-	-	-	-	-
Increase in Property, plant and equipment and intangible assets	181	285	116	163	98	110	196	304	487	460
Impact of the adoption of revenue recognition standards, etc.										
Revenue									18	
Operating profit									103	
Number of Lolipop! contracts( )	396,000	410,000	423,000	434,278	438,171	405,218	417,117	425,982	422,596	412,781
Net increase	25,000	14,000	13,000	11,278	3,893	-	11,899	8,865	-3,386	-9,815
Number of MuuMuu Domain contracts( )	885,000	950,000	1,058,000	1,194,557	1,241,668	1,216,447	1,201,695	1,171,750	1,186,748	1,102,604
Net increase	67,000	65,000	108,000	136,557	47,111	-25,221	-14,752	-29,945	14,998	-84,144

Source: Shared Research based on company materials

Notes: Figures may differ from company materials based on differences in rounding methods.

The number of contracts for the Lollipop! service included heteml and other web hosting through FY12/18.

E-Commerce Support business (27.5% of revenue and OPM before adjustments of 25.2% in FY12/23)

The E-Commerce Support business accounted for 27.5% of the company's revenue in FY12/22 with OPM before adjustments of 25.2%. The business includes the e-commerce store creation service Color Me Shop and the original goods creation and sales service SUZURI. The website creation service Goope was also part of the E-Commerce Support business in FY12/22, but the company transferred it to the Hosting business in FY12/23.

Color Me Shop (19.0% of revenue and OPM before adjustments of 34.7% in FY12/23)

Source: Company website

Overview

Color Me Shop is an e-commerce store creation service launched in February 2005 as an ASP service called Color Me Shop! pro. Services include e-commerce store design and provision of the necessary functions for site operation, such as payment methods and server compatibility. Although there are many competing services, Color Me Shop differentiates itself by offering freedom to the customer with its high degree of design customization, flexibility in supporting different kinds of sales (e.g., international, wholesale, cold chain shipping), and compatibility with multiple payment options.

Color Me Shop pricing structure

The current pricing plans for Color Me Shop include a Free plan for which it does not charge initial or monthly fees, as well as three paid plans: Regular for JPY4,950 per month, Large for JPY9,595 per month, and Premium for JPY39,600 per month. The Free plan targets those starting out in e-commerce, the Regular plan is for those with monthly revenue exceeding JPY150,000, the Large plan is for users pursuing wholesaling, and Premium is for users who want to further expand their revenue and receive support from e-commerce advisors.

According to the company, of the 50,663 contracts as of end-FY12/23, one-third were for the Free plan, and two-thirds were for paid plans. Among the paid plans, just under half were for the Regular plan, and just over half were for the old plans (Economy, Small). The Large plan has a very small number of users. The company stopped accepting new contracts for the Small plan (JPY3,190) in February 2020 and for the Economy plan (JPY2,750 per month) at end-August 2021. The company launched the Premium plan in January 2023.

		Color Me Shop			
		Free	Regular	Large	Premium
Initial fee(JPY/month)		0	3,300	3,300	22,000
Monthly fee(JPY/month)		0	4,950	9,595	39,600
Commission fee		-	-	-	-
Payment processing fee	Credit payment	6.6%+JPY30	4.0% -	4.0% -	3.14% -
	Payment after service	6.6%+JPY30	4.0% -	4.0% -	4.0% -
Disk capacity		200MB	5GB	100GB	100GB
Linked with Amazon		-	,JPY100 + usage volume	Usage volume	Usage volume
Wholesale		-	,JPY190 + usage volume	Usage volume	Usage volume
Made to order		-	JPY550/month + usage volume	Usage volume	Usage volume
E-commerce advisors		-	-	-	○

Source: Shared Research based on company website (as of July 2023)

Business model

Color Me Shop's business model is to provide e-commerce store creation services for its shop owner user base in exchange for system usage fees. Users sell and ship their products on the e-commerce stores created by Color Me Shop and receive payment from buyers. The Color Me Shop system mainly utilizes GMO Internet Group's data centers. The company primarily acquires Color Me Shop customers through online ads, but it also uses direct sales, including telemarketing, to pursue leads for Premium services.

Initially, the service targeted individual customers, but due to the subsequent growth of stores, there has been an increase in corporate customers, and the focus is shifting towards corporate clients. According to the company, the majority of contracts are for one year, and the most common user group consists of users with monthly sales ranging from JPY1mn to JPY100mn.

Number of contracts

The number of contracts grew from FY12/13 through FY12/17. However, in FY12/18, there was a 4.0% YoY decrease as the company reduced sales campaigns and other activities, affected by an information leak. This downtrend continued through FY12/20. Later, the company introduced the Free plan in FY12/21, which, along with other factors, put the number of contracts back on a growth trajectory. However, the number of contracts slightly decreased in FY12/23 due to sluggish growth in acquiring new customers. According to the company, the monthly cancellation rate for Color Me Shop is less than 2%. The majority of contract holders are long-term subscribers, and cancellations mainly come from shop owners who are unable to secure revenue.

Color Me Shop	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
Number of contracts	41,300	42,400	44,200	45,056	43,238	41,181	41,059	46,369	50,663	50,379
YoY	3.3%	2.7%	4.2%	1.9%	-4.0%	-4.8%	-0.3%	12.9%	9.3%	-0.6%

Source: Shared Research based on company materials

Color Me Shop	FY12/22				FY12/23			
(quarterly)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of contracts	48,123	49,277	50,282	50,663	50,537	50,337	50,264	50,379
Net increase	1,754	1,154	1,005	381	-126	-200	-73	115

Source: Shared Research based on company materials

Customer spend

Customer spend has continuously trended upward on a quarterly basis since FY12/20. This is thanks to measures to upsell customers to higher-tier plans, as well as an increase in payment processing fees driven by growth in gross merchandise value stemming from at-home demand in FY12/21. The upward trend has gained further momentum starting in Q2 FY12/22, mainly due to the price hike implemented in April 2022 as well as the increase in the composition ratio of the higher-tier plans.

Color Me Shop customer spend(quarterly)	FY12/22				FY12/23			
(JPY/month)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Customer spend	3,705	3,850	4,250	4,778	5,014	5,213	5,233	5,492
YoY	7.8%	12.8%	21.9%	31.8%	35.3%	35.4%	23.1%	14.9%

Source: Shared Research based on company materials

Earnings structure

The business operates on a recurring revenue model, where revenue accumulates as a function of the number of contracts and the average monthly fee. However, the company also records initial costs and transaction fees based on the payment method. As of end-FY12/23, contracts (including free plans) numbered 50,379 (-0.6% YoY) and average monthly customer spend for the full-year FY12/23 was JPY5,238 (+26.3% YoY). Expenses include usage fees for GMO Internet Group's data centers used for the Color Me Shop system, labor costs and outsourcing expenses for engineers, depreciation expenses for software development, and online advertising expenses to acquire customers.

SUZURI (8.4% of revenue and OPM before adjustments of 9.1% in FY12/23)

Source: Company website

Overview and business model

SUZURI is a service for creating and selling original goods. It was launched in April 2014. The service allows registered creators to easily create and sell items such as T-shirts and mugs by simply uploading design and image data to the SUZURI website. When a user purchases an item, the company places an order with a factory for production. The factory then ships the manufactured item to the purchaser, and the company pays a percentage of the purchase amount to the creator. Creators set the selling price by adding the amount they want to make on top of the company's cost table when registering the design data.

SUZURI	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
Number of creators ('000)						220	390	560	670	770
YoY						- %	77.3%	43.6%	19.6%	14.9%
Number of members ('000)			140	185	230	390	700	1,060	1,350	1,630
YoY			- %	32.5%	24.1%	69.6%	79.5%	51.4%	27.4%	20.7%
Gross merchandise value (JPYmn)						940	2,430	3,180	2,660	2,430
YoY						- %	158.5%	30.9%	-16.4%	-8.6%

Source: Shared Research based on company materials

SUZURI (quarterly)	FY12/22				FY12/23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of creators('000)	590	620	650	670	690	720	750	770
YoY	30	30	30	20	20	30	30	20
Number of members('000)	1,130	1,220	1,300	1,350	1,410	1,490	1,560	1,630
YoY	70	90	80	50	60	80	70	70
Gross merchandise value(JPYmn)	600	680	790	590	520	750	650	510
YoY	-9.1%	-26.1%	-14.1%	-13.2%	-13.3%	10.3%	-17.7%	-13.6%

Source: Shared Research based on company materials

Earnings structure

The application of Accounting Standard for Revenue Recognition in FY12/22 has resulted in the company's revenue being recorded as the amount net of the manufacturing cost of items and the amount paid to creators. The main expense items include infrastructure costs (labor costs, personnel expenses, server costs) and advertising and promotional expenses. At end-Q3 FY12/23, creators numbered 770,000 (+14.9% YoY) and members numbered 1,630,000 (+20.7% YoY). Gross merchandise value for the full-year FY12/23 was JPY2.4bn (-8.6% YoY).

Earnings trends

There was a continued decline in operating profit in FY12/13 and FY12/14 in the E-Commerce Support business. In FY12/15, the business incurred an operating loss, primarily due to an increase in expenses related to minne (now part of the Handmade Products business), specifically, strategic investment of JPY1.5bn in advertising and promotion expenses. In FY12/16, minne results were recorded under the Handmade Products business, and operating profit turned positive. The business then showed a trend of revenue growth until FY12/21, due in part to at-home demand during the COVID-19 pandemic. However, operating profit declined in FY12/21 as promotion expenses increased, and the company hired more personnel to strengthen the E-Commerce Support business.

In FY12/22, the application of the Accounting Standard for Revenue Recognition resulted in a 35.8% decrease in revenue YoY. However, applying the same standard to the previous year's results, we see that revenue only fell 2.2% YoY in real terms. The 26.3% YoY decline in operating profit was mainly the result of an increase in promotion expenses, including the implementation of TV commercials for SUZURI.
Excluding the impact of Goope, which was transferred to the Hosting business in January 2023, revenue was up 5.4% YoY and operating profit was up 14.3% YoY.

E-Commerce Support business	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
(JPYmn)										
Revenue	1,169	1,804	1,428	1,624	2,069	2,520	4,070	4,874	3,131	2,997
YoY	19.6%	54.4%	-20.9%	13.8%	27.4%	21.8%	61.5%	19.8%	-35.8%	-4.3%
Color Me Shop							1,614	1,793	1,853	2,068
SUZURI							2,076	2,746	958	918
Other							380	335	319	12
Operating profit	341	-958	636	776	832	877	1,212	1,118	824	756
YoY	-13.8%	-	-	22.1%	7.2%	5.4%	38.2%	-7.8%	-26.3%	-8.2%
Operating profit margin	29.2%	-53.1%	44.5%	47.8%	40.2%	34.8%	29.8%	22.9%	26.3%	25.2%
Color Me Shop							829	792	784	718
SUZURI							271	199	-96	84
Other							112	127	136	-46
Segment asset	379	954	299	356	492	681	1,107	1,201	1,291	1,100
Depreciation	37	46	37	46	61	70	86	106	119	154
Goodwill amortization	-	-	-	-	9	12	-	-	-	-
Increase in Property, plant and equipment and intangible assets	148	129	65	152	217	201	169	159	232	178
Impact of the adoption of revenue recognition standards, etc.										
Revenue									-1,424	
Operating profit									-2	
Number of Color Me Shop contracts	41,300	42,400	44,200	45,056	43,238	41,181	41,059	46,369	50,663	50,379
Net increase	1,300	1,100	1,800	856	-1,818	-2,057	-122	5,310	4,294	-284
Number of SUZURI creators('000)						220	390	560	670	770
Net increase						-	170	170	110	100
Number of SUZURI members('000)			140	185	230	390	700	1,060	1,350	1,630
Net increase			-	45	45	160	310	360	290	280
SUZURI gross merchandise value(JPYmn)						940	2,430	3,180	2,660	2,430
YoY						- %	158.5%	30.9%	-16.4%	-8.6%

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

Handmade Products business (13.7% of revenue and OPM before adjustments of 4.2% in FY12/23)

The Handmade Products business accounted for 15.7% of revenue with OPM before adjustments of 4.2% in FY12/23. The business includes minne, a marketplace service for handmade products.

minne (13.7% of revenue and OPM before adjustments of 4.2% in FY12/23)

minne

Source: Company website

Overview and business model

minne is a marketplace service for handmade products. It was launched in January 2012. According to the company, minne is the largest marketplace of its kind in Japan. The business generates revenue through a 9.6% (pre-tax) commission on the sum of the product selling price and shipping fees.

minne	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
Number of products('000 pieces)		2,090	4,630	6,890	9,130	10,770	12,780	14,530	15,960	17,100
YoY		- %	121.5%	48.8%	32.5%	18.0%	18.7%	13.7%	9.8%	7.1%
Number of creators('000)		174	307	390	490	600	730	800	850	900
YoY		- %	76.4%	27.0%	25.6%	22.4%	21.7%	9.6%	6.3%	5.9%
Number of app downloads('000 downloads)		4,410	6,790	8,630	10,270	11,210	12,310	13,280	14,110	14,730
YoY		- %	54.0%	27.1%	19.0%	9.2%	9.8%	7.9%	6.3%	4.4%
Gross merchandise value(JPYmn)	1,060	4,460	8,398	10,290	12,070	11,960	14,900	15,140	15,060	12,870
YoY	488.9%	320.8%	88.3%	22.5%	17.3%	-0.9%	24.6%	1.6%	-0.5%	-14.5%
Number of orders('000 orders)						3,991	5,140	4,592	4,160	3,965
YoY						- %	28.8%	-10.7%	-9.4%	-4.7%
Average order value( )						2,997	2,899	3,297	3,620	3,246
YoY						- %	-3.3%	13.7%	9.8%	-10.3%

Source: Shared Research based on company materials

minne (quarterly)	FY12/22				FY12/23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of products('000 pieces)	14,840	15,310	15,680	15,960	16,250	16,560	16,870	17,100
YoY	310	470	370	280	290	310	310	230
Number of creators('000)	820	830	840	850	870	880	890	900
YoY	20	10	10	10	20	10	10	10
Number of app downloads('000 downloads)	13,510	13,710	13,920	14,110	14,280	14,420	14,540	14,730
YoY	230	200	210	190	170	140	120	190
Gross merchandise value(JPYmn)	4,190	3,630	3,410	3,830	3,780	3,210	2,770	3,110
YoY	5.3%	-1.9%	-2.8%	-3.0%	-9.8%	-11.6%	-18.8%	-18.8%
Number of orders('000 orders)	1,217	1,011	937	995	1,022	836	733	774
YoY	-5.1%	-11.3%	-11.0%	-10.8%	-16.0%	-17.3%	-21.8%	-22.2%
Average order value( )	3,600	3,622	3,743	3,919	3,823	3,888	3,901	4,071
YoY	10.7%	10.0%	9.4%	7.7%	6.2%	7.3%	4.2%	3.9%

Source: Shared Research based on company materials

Earnings structure

minne earns a 9.6% (pre-tax) commission on the sum of the product selling price and shipping fees. Main expense items include infrastructure costs (labor costs, personnel expenses, server costs) and advertising and promotion expenses. As of end-FY12/23, the number of works on the platform was 17,100,000 (+7.1% YoY), the number of creators was 900,000 (+5.9% YoY), and the number of app downloads was 14,730,000. Gross merchandise value for the full-year FY12/23 was JPY12.9bn (-14.5% YoY), the number of orders was 3,965,000 (-4.7% YoY), and the average order value was JPY3,246 (-10.3% YoY).

Earnings trends

Since FY12/16, the increase in the number of creators, works, and app downloads on minne has caused growth in gross merchandise value. Additionally, during FY12/20, there was a strong upward trend in revenue due to increased at-home demand during the COVID-19 pandemic. Operating profit also showed improvement through FY12/20, driven by increased revenue and cost controls on promotions. However, during FY12/21, revenue and operating profit dipped due to sluggish growth in gross merchandise value as at-home demand subsided, as well as a decrease in payment commission income due to a decline in payments through convenience store and mobile service providers. Revenue for FY12/22 was down 15.5% YoY, mainly due to the application of the Accounting Standard for Revenue Recognition. However, when applying the same standard to FY12/21 results, the decrease was only 1.2% in real terms. Operating profit declined due to the decrease in gross merchandise value following the reopening of the economy and the increase in infrastructure costs due to factors such as soaring energy prices. In FY12/23, revenue and profits decreased again on the back of lower gross merchandise value.

Handmade Products business	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
(JPYmn)										
Revenue			1,178	1,393	1,545	1,602	1,991	1,953	1,651	1,490
YoY			-	18.2%	10.9%	3.7%	24.2%	-1.9%	-15.5%	-9.7%
Operating profit			-946	-1,037	-682	95	227	225	82	63
YoY			-	-	-	-	139.5%	-0.6%	-63.5%	-23.3%
Operating profit margin			-80.3%	-74.5%	-44.2%	5.9%	11.4%	11.5%	5.0%	4.2%
Segment asset			928	1,222	1,285	1,288	1,532	1,569	1,492	1,205
Depreciation			1	1	-	-	-	-	-	-
Goodwill amortization			-	-	-	-	-	-	-	-
Increase in Property, plant and equipment and intangible assets			5	1	-	-	-	-	-	-
Impact of the adoption of revenue recognition standards, etc.										
Revenue									-245	
Operating profit									-	
Number of minne products ('000 pieces)		2,090	4,630	6,890	9,130	10,770	12,780	14,530	15,960	17,100
YoY		- %	121.5%	48.8%	32.5%	18.0%	18.7%	13.7%	9.8%	7.1%
Number of minne creators('000)		174	307	390	490	600	730	800	850	900
YoY		- %	76.4%	27.0%	25.6%	22.4%	21.7%	9.6%	6.3%	5.9%
Number of minne uploads('000 downloads)		4,410	6,790	8,630	10,270	11,210	12,310	13,280	14,110	14,730
YoY		- %	54.0%	27.1%	19.0%	9.2%	9.8%	7.9%	6.3%	4.4%
minne gross merchandise value(JPYmn)	1,060	4,460	8,398	10,290	12,070	11,960	14,900	15,140	15,060	12,870
YoY	488.9%	320.8%	88.3%	22.5%	17.3%	-0.9%	24.6%	1.6%	-0.5%	-14.5%
Number of minne orders('000 orders)						3,991	5,140	4,592	4,160	3,965
YoY						- %	28.8%	-10.7%	-9.4%	-4.7%
average order value ( )						2,997	2,899	3,297	3,620	3,246
YoY						- %	-3.3%	13.7%	9.8%	-10.3%
Promotion cost(JPYmn)				1,296	1,024	272				
YoY				- %	-21.0%	-73.4%				

Source: Shared Research based on company materials

Note: Figures may differ from company materials based on differences in rounding methods

Financial Support business (6.0% of revenue and operating loss of JPY1.1bn in FY12/23)

The Financial Support business accounted for 5.6% of revenue and booked an operating loss of JPY1.1bn in FY12/23. The operating loss increased due to bad debt-related expenses on overdue receivables the company recorded before and in Q2 FY12/23. The business provides freelancers with factoring services through FREENANCE. GMO Creators Network, Inc. (76.6% stake), which became a consolidated subsidiary in February 2019, is the main operator of this business.

FREENANCE (6.0% of revenue and operating loss of JPY1.1bn in FY12/23)

Source: Company website

Overview and business model

FREENANCE provides online factoring services for freelancers and individual business owners, allowing them to receive same-day payments for their invoices and free liability insurance. Users sell their invoices to the company, which then provides immediate cash payment. The company then collects the invoice payment from the liable third party on the due date. The minimum invoice amount is JPY10,000. The company earns revenue by charging fees that range from 3% to 10% of the invoice amount.

FREENANCE	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
Invoice purchasing value(JPYmn)						580	1,630	2,810	8,670	8,480
YoY						- %	181.0%	72.4%	208.5%	-2.2%
Number of invoices purchased						2,982	5,263	11,841	20,310	22,432
YoY						- %	76.5%	125.0%	71.5%	10.4%
Average invoice purchasing value (JPY'000)						195	310	237	427	378
YoY						- %	59.2%	-23.4%	79.9%	-11.4%
Number of users( )						1,740	3,400	7,008	10,901	13,113
YoY						- %	95.4%	106.1%	55.6%	20.3%

Source: Shared Research based on company materials

FREENANCE (quarterly)	FY12/22				FY12/23			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Invoice purchasing value(JPYmn)	1,210	1,890	2,600	2,970	3,120	2,550	1,410	1,400
YoY	120.0%	186.4%	282.4%	222.8%	157.9%	34.9%	-45.8%	-52.9%
Number of invoices purchased	4,086	4,805	5,407	6,012	6,006	6,204	5,146	5,076
YoY	90.4%	86.0%	69.3%	53.4%	47.0%	29.1%	-4.8%	-15.6%
Average invoice purchasing value (JPY'000)	296	394	482	495	519	412	275	276
YoY	13.8%	53.9%	126.3%	109.7%	75.3%	4.6%	-42.9%	-44.2%
Average invoice purchase commission rate	7.0%	6.7%	6.3%	6.8%	7.8%	7.6%	6.8%	6.6%
Number of users( )	2,306	2,593	2,848	3,154	3,298	3,459	3,246	3,110
YoY	103	287	255	306	144	161	-213	-136

Source: Shared Research based on company materials

Earnings structure

FREENANCE revenue consists of a fee ranging from 3% to 10% of the invoice amount. Main expense items include infrastructure costs (labor costs, personnel expenses, server costs), advertising and promotion expenses, and provision for bad debt. In full-year FY03/23, users numbered 13,113 (+20.3% YoY), invoice purchasing value amounted to JPY8.5bn (-2.2% YoY), the number of invoice purchases was 22,432 (+10.4% YoY), the average invoice purchase value was JPY378,000 (-11.4% YoY), and the average invoice purchase commission rate in Q4 FY12/23 was 6.6% (6.8% in Q4 FY12/22). The invoice purchasing value significantly decreased from Q3 FY12/23 as the company suspended high-value invoice purchases since May 2023.

Earnings trends

Since FY12/19, revenue from the Financial Support business has been increasing due to an increase in fee income as the number of invoice purchases and invoice value grows as a result of an increase in the number of users. On the other hand, the company has been experiencing operating losses. These losses expanded in FY12/20 as growth in total invoice purchasing value slowed against the backdrop of hiring, continued software development, online promotions, as well as poor corporate performance in the general economy and a decrease in the use of freelancers due to the COVID-19 pandemic. However, through FY12/22, the increase in the total invoice purchasing value has contributed to revenue growth, which has helped to narrow the operating loss.

In FY12/23, the operating loss increased due to bad debt-related expenses for overdue receivables recorded before and during Q2 FY12/23, but the operating loss narrowed from Q3 FY12/23 onward due in part to progress in receivables collection.

Financial Support business (JPYmn)	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
Revenue						46	128	213	594	656
YoY						-	177.4%	66.5%	179.1%	10.4%
Operating profit						-179	-299	-140	-26	-1,065
YoY						-	-	-	-	-
Operating profit margin						-387.8%	-234.3%	-65.7%	-4.4%	-162.3%
Segment asset						137	175	369	1,655	506
Depreciation						4	-	-	-	-
Goodwill amortization						5	-	-	-	-
Increase in Property, plant and equipment and intangible assets						-	-	-	-	-
Impact of the adoption of revenue recognition standards, etc.										
Revenue									-2	
Operating profit									-	
Invoice purchasing value(JPYmn)						580	1,630	2,810	8,670	8,480
YoY						- %	181.0%	72.4%	208.5%	-2.2%
Number of invoices purchased						2,982	5,263	11,841	20,310	22,432
YoY						- %	76.5%	125.0%	71.5%	10.4%
Average invoice purchasing value (JPY'000)						195	310	237	427	378
YoY						- %	59.2%	-23.4%	79.9%	-11.4%
Number of users						1,740	3,400	7,008	10,901	13,113
YoY						- %	95.4%	106.1%	55.6%	20.3%

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

Non-consolidated results

In FY12/22, GMO Pepabo directly operates the Hosting, E-Commerce Support, and Handmade Products businesses, while its consolidated subsidiary GMO Creators Network, Inc. (76.6% stake) operates the Financial Support business. Therefore, the difference between consolidated and non-consolidated results is mostly the performance of the Financial Support business.

Income statement(Parent)	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22
(JPYmn)										
Revenue	**4,133**	**4,504**	**5,632**	**6,811**	**7,365**	**8,201**	**8,738**	**10,726**	**11,657**	**9,937**
YoY	8.8%	9.0%	25.0%	20.9%	8.1%	11.3%	6.6%	22.7%	8.7%	-14.8%
Cost of revenue	1,891	2,106	2,592	2,952	2,929	3,293	3,557	4,361	5,062	4,323
Gross profit	**2,242**	**2,398**	**3,040**	**3,859**	**4,436**	**4,908**	**5,181**	**6,365**	**6,595**	**5,614**
YoY	8.6%	7.0%	26.8%	27.0%	14.9%	10.6%	5.6%	22.8%	3.6%	-14.9%
Gross profit margin	54.2%	53.2%	54.0%	56.7%	60.2%	59.8%	59.3%	59.3%	56.6%	56.5%
SG&A expenses	1,509	1,671	3,623	3,724	4,292	4,440	4,176	5,079	5,465	4,746
SG&A ratio	36.5%	37.1%	64.3%	54.7%	58.3%	54.1%	47.8%	47.4%	46.9%	47.8%
Operating profit	733	**727**	**-583**	**135**	**144**	**468**	**1,005**	**1,286**	**1,130**	**869**
YoY	3.1%	-0.7%	-	-	6.6%	225.6%	114.9%	27.9%	-12.1%	-23.1%
Operating profit margin	17.7%	16.1%	-10.3%	2.0%	2.0%	5.7%	11.5%	12.0%	9.7%	8.7%
Non-operating income	22	49	32	34	35	68	80	88	105	63
Non-operating expenses	4	30	6	5	6	12	143	389	201	18
Recurring profit	**751**	**746**	**-557**	**164**	**173**	**524**	**942**	**984**	**1,033**	**914**
YoY	3.6%	-0.6%	-	-	5.1%	203.2%	79.7%	4.5%	5.0%	-11.6%
Recurring profit margin	18.2%	16.6%	-9.9%	2.4%	2.3%	6.4%	10.8%	9.2%	8.9%	9.2%
Extraordinary gains	-	6	-	50	-	45	12	264	51	10
Extraordinary losses	66	67	153	79	17	115	172	13	-	6
Income taxes	268	272	56	50	36	-13	202	441	350	284
Implied tax rate	39.2%	0	0	0	0	0	0	0	0	0
Net income	**416**	**414**	**-767**	**85**	**120**	**467**	**579**	**794**	**734**	**634**
YoY	-1.4%	-0.5%	-	-	41.0%	289.8%	23.9%	37.1%	-7.5%	-13.7%
Net margin	10.1%	9.2%	-	1.2%	1.6%	5.7%	6.6%	7.4%	6.3%	6.4%

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

Labor costs and fees and commissions were the main items of cost of revenue (non-consolidated) in FY12/22. Fees and commissions include domain costs for MuuMuu Domain, data center-related expenses, and settlement fees. The significant decrease in outsourcing costs in FY12/22 was due to the deduction of SUZURI manufacturing costs based on the application of the Accounting Standard for Revenue Recognition. The company does not disclose a cost of revenue breakdown by business.

Cost of revenue(Parent)	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22
(JPYmn)										
Labor costs	290	322	399	414	381	394	456	567	675	658
Wages	253	280	347	360	330	341	396	492	584	565
Statutory welfare expenses	38	42	51	53	48	49	55	68	82	82
Retirement benefit expenses	-	-	1	2	3	4	6	8	9	12
Outsourcing expenses	120	117	143	215	239	429	600	1,175	1,576	182
Various costs	1,481	1,664	2,044	2,316	2,306	2,465	2,493	2,602	2,797	3,483
Commission expenses	1,153	1,315	1,701	1,921	1,921	2,056	2,058	2,138	2,287	2,917
Depreciation	119	132	155	182	179	183	188	216	262	317
Rents	38	39	41	61	62	61	61	59	59	63
Transportation expenses	9	9	12	12	11	11	11	4	1	6
Communication expenses	138	141	113	124	119	136	158	169	171	161
Other	24	27	21	15	14	17	18	16	17	20
Utility expenses	3	4	4	3	3	3	3	1	1	2
Leasing expenses	7	9	10	11	11	13	14	14	14	15
Maintenance expenses	5	11	5	2	1	1	1	1	2	2
Other	8	3	3	0	0	0	0	0	0	0
Purchase costs	-	3	6	7	3	5	8	18	14	0
CoGS	1,891	2,106	2,592	2,952	2,929	3,293	3,557	4,361	5,062	4,323

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

SG&A expenses (non-consolidated) mainly comprise salaries and allowances, advertising and promotion expenses, and fees and commissions. In FY12/22, fees and commissions fell as some were reclassified as cost of revenue. The other category, which includes sales promotion expenses such as coupons, statutory welfare expenses, outsourcing fees, and rent, also accounts for a significant amount of SG&A expenses.

SG&A expenses(Parent)	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22
(JPYmn)										
Salaries and allowances	555	571	654	747	850	936	1,100	1,278	1,478	1,466
Depreciation	11	11	16	26	28	29	35	37	35	30
Amortization of goodwill			-	-	-	9	12	-	-	-
Commission expenses	251	270	498	711	879	973	1,045	1,387	1,448	701
Advertising expenses	193	282	1,794	1,390	1,447	956	502	747	821	991
Provision for doubtful accounts	2	2	2	14	-2	2	1	2	3	-0
Provision for bonuses	-	-	-	-	41	88	75	83	23	59
Provision for directors' bonuses	-	-	-	-	7	13	-	13	-	-
Points provision	-	-	-	-	-	32	-28	-3	-0	-
Other	497	537	658	837	1,042	1,403	1,436	1,536	1,658	1,499
Total	1,509	1,671	3,623	3,724	4,292	4,440	4,176	5,079	5,465	4,746
SG&A ratio	36.5%	37.1%	64.3%	54.7%	58.3%	54.1%	47.8%	47.4%	46.9%	47.8%

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

The variance in SG&A expenses between consolidated and non-consolidated results is primarily due to costs related to GMO Creators Network, Inc., a consolidated subsidiary (76.6% stake), which operates the Financial Support business.

SG&A expenses(Cons.)	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Non-cons.	Non-cons.	Cons.	Cons.	Cons.	Cons.
Salaries and allowances	561	581	678	769	850	936	1,176	1,407	1,591	1,595
Commission expenses	258	274	515	738	879	973	1,064	1,423	1,473	735
Advertising expenses	193	282	1,796	1,394	1,447	956	579	864	874	1,055
Retirement benefit expenses	-	-	-	-	-	-	16	23	28	31
Provision for bonuses	-	-	-	-	41	88	75	83	23	59
Provision for directors' bonuses	-	-	-	-	7	13	-	13	-	-
Provision for doubtful accounts	2	2	2	14	-2	2	12	54	26	186
Points provision	-	-	-	-	-	32	-28	-3	-0	-
R&D expenses	-	-	-	-	19	25	27	33	30	30
Other	512	551	701	888	1,051	1,416	1,547	1,659	1,798	1,655
Total	1,526	1,688	3,691	3,803	4,292	4,440	4,467	5,554	5,844	5,344
SG&A ratio	36.6%	37.2%	64.8%	55.2%	58.3%	54.1%	50.0%	50.4%	49.2%	50.7%

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

At end-FY12/22, the consolidated headcount (excluding the yearly average number of temporary employees) was 372. The E-Commerce Support business had the highest number with 129 employees, followed by the Hosting business with 73 employees, the Handmade Products business with 54 employees, and the Financial Support business with 14 employees. Companywide (common) employees, including customer service representatives, numbered 101. The consolidated headcount was 475 including temporary employees. Engineers accounted for 25% of the total, directors for 23%, customer service representatives for 22%, back office employees for 11%, designers for 10%, sales representatives for 1%, and others for 8%.

Number of year-end employees(Cons.)	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22
	Cons.	Cons.	Cons.	Cons.	Non-cons.	Non-cons.	Cons.	Cons.	Cons.	Cons.
Cons.	206	208	228	240	257	278	327	355	367	372
YoY	12	2	20	12	-	21	-	28	12	5
Number of temporary employees(external, annual average)	26	29	51	75	75	66	77	77	89	94
Hosting business	66	72	54	56	60	65	69	75	71	73
YoY	-21	6	-18	2	-	5	-	6	-4	2
Number of temporary employees(external, annual average)	11	13	16	19	19	17	15	16	18	20
E-Commerce Support business	68	78	97	61	72	87	103	112	127	129
YoY	16	10	19	-36	-	15	-	9	15	2
Number of temporary employees(external, annual average)	12	15	34	20	22	22	25	29	38	36
Handmade Products business	-	-	-	50	56	48	54	60	61	54
YoY	-	-	-	-	-	-8	-	6	1	-7
Number of temporary employees(external, annual average)	-	-	-	32	30	25	27	23	23	25
Financial Support business	-	-	-	-	-	-	-	10	10	14
YoY	-	-	-	-	-	-	-	-	-	4
Number of temporary employees(external, annual average)	-	-	-	-	-	-	-	4	4	6
Community business	16	16	12	5	2	-	-	-	-	-
YoY	-3	-	-4	-7	-	-	-	-	-	-
Number of temporary employees(external, annual average)	1	1	-	2	1	-	-	-	-	-
Other	-	-	4	3	-	3	21	10	1	1
YoY	-	-	-	-1	-	3	-	-11	-9	-
Number of temporary employees(external, annual average)	-	-	-	-	-	-	4	1	-	-
Companywide(common)	56	42	61	65	67	75	80	88	97	101
YoY	20	-14	19	4	-	8	-	8	9	4
Number of temporary employees(external, annual average)	2	-	1	2	3	2	5	4	6	7

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

Market and value chain

Main competitors

The company says it mainly competes with SAKURA internet Inc. (TSE Prime: 3778) and Xserver Inc. (unlisted) in the Lolipop! business, Xserver Inc. in the MuuMuu Domain business, and BASE, Inc. (TSE Growth: 4477) and STORES, Inc. (unlisted) in the Color Me Shop business.

In the SUZURI business, the company mainly competes with Graphic On Demand Inc. (unlisted), which operates T-Shirt Trinity, an online customizable T-shirt store, and Original Lab Co., Ltd. (unlisted) which operates TMIX, a service for creating and selling original T-shirts. Other competitors include Maruori Group (unlisted), which operates Up-T, another service for creating and selling original T-shirts, and Pixiv Inc. (unlisted), which operates pixiv, an online community for artists.

In the minne business, the company competes with CREEMA LTD. (TSE Growth: 4017), which provides the handmade product marketplace Creema. In the FREENANCE business, competitors include Paytner Inc. (unlisted) which offers online factoring services for freelancers (Paytner Factoring), and labol Inc., a wholly-owned subsidiary of CERES INC. (TSE Prime: 3696).

Competitors in the Hosting business

The company mainly competes with SAKURA internet Inc. (TSE Prime: 3778) and Xserver Inc. (unlisted) in the Lolipop! business, and Xserver Inc. in the MuuMuu Domain business.

SAKURA internet Inc. (TSE Prime: 3778)

SAKURA internet Inc. was established in August 1999 with the aim of providing web hosting and dedicated server services. The company currently operates in three segments: Cloud Services, Physical Base Services, and Others. The Cloud Services segment offers shared hosting services, including on public cloud services and web hosting. The Physical Base Services segment provides housing services that include space, connectivity, and power to install customer-owned telecoms equipment in group-operated data centers, as well as services that allow dedicated use of physical servers owned by the group. The Others segment provides ancillary services associated with the Cloud Services and Physical Base Services segments.

For FY12/23, the company reported revenue of JPY20.6bn (+3.0% YoY), operating profit of JPY1.1bn (+43.2% YoY), and a customer base of over 480,000. FY12/23 revenue for the Cloud Application, which mostly comprises web hosting services, was JPY3.8bn (+3.4% YoY), or 18.7% of overall revenue.

(JPYmn)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23
Revenue	10,046	10,577	12,086	13,962	17,033	19,501	21,909	22,168	20,019	20,623
YoY	5.9%	5.3%	14.3%	15.5%	22.0%	14.5%	12.3%	1.2%	-9.7%	3.0%
Cloud Service								9,994	10,964	11,841
YoY								-	9.7%	8.0%
% of revenue								45.1%	54.8%	57.4%
Cloud Infrastructure								6,428	7,239	7,991
YoY								-	12.6%	10.4%
% of revenue								29.0%	36.2%	38.7%
Cloud Application								3,566	3,724	3,849
YoY								-	4.4%	3.4%
% of revenue								16.1%	18.6%	18.7%
Physical Base Services								6,198	4,497	3,638
YoY								-	-27.4%	-19.1%
% of revenue								28.0%	22.5%	17.6%
Housing Services	3,000	2,688	2,576	2,467	2,487	2,644	2,408			
YoY	-3.5%	-10.4%	-4.2%	-4.2%	0.8%	6.3%	-8.9%			
% of revenue	29.9%	25.4%	21.3%	17.7%	14.6%	13.6%	11.0%			
Dedicated Server Services	2,627	2,697	2,722	2,996	3,841	3,998	5,055			
YoY	-8.0%	2.7%	0.9%	10.1%	28.2%	4.1%	26.4%			
% of revenue	26.1%	25.5%	22.5%	21.5%	22.6%	20.5%	23.1%			
Rental Server Services	2,169	2,366	2,820	2,990	3,139	3,277	3,380			
YoY	12.2%	9.1%	19.2%	6.0%	5.0%	4.4%	3.1%			
% of revenue	21.6%	22.4%	23.3%	21.4%	18.4%	16.8%	15.4%			
VSP/Cloud Services	1,226	1,919	2,707	3,684	4,615	5,306	5,835			
YoY	81.6%	56.5%	41.0%	36.1%	25.3%	15.0%	10.0%			
% of revenue	12.2%	18.1%	22.4%	26.4%	27.1%	27.2%	26.6%			
Other	1,024	906	1,262	1,825	2,951	4,276	5,230	5,976	4,558	5,144
YoY	12.7%	-11.5%	39.3%	44.6%	61.7%	44.9%	22.3%	14.3%	-23.7%	12.8%
% of revenue	10.2%	8.6%	10.4%	13.1%	17.3%	21.9%	23.9%	27.0%	22.8%	24.9%
Operating profit	737	965	976	1,018	746	567	939	1,372	763	1,093
YoY	-15.0%	30.9%	1.2%	4.3%	-26.7%	-24.0%	65.6%	46.1%	-44.4%	43.2%
Operating profit margin	7.3%	9.1%	8.1%	7.3%	4.4%	2.9%	4.3%	6.2%	3.8%	5.3%
Recurring profit	634	858	822	804	574	396	790	1,100	649	966
YoY	-22.0%	35.3%	-4.2%	-2.1%	-28.6%	-31.1%	99.5%	39.3%	-40.9%	48.7%
Recurring profit margin	6.3%	8.1%	6.8%	5.8%	3.4%	2.0%	3.6%	5.0%	3.2%	4.7%
Net income attributable to owners of the parent	353	516	553	549	349	92	160	758	275	667
YoY	-26.2%	46.1%	7.2%	-0.8%	-36.3%	-73.8%	74.7%	373.7%	-63.7%	142.0%
Net margin	3.5%	4.9%	4.6%	3.9%	2.1%	0.5%	0.7%	3.4%	1.4%	3.2%

Source: Shared Research based on company materials

Notes: Figures may differ from company materials due to differences in rounding methods.

Segmentation changed in FY03/22; FY03/21 figures have been retroactively adjusted to fit the new segmentation.

XServer Inc. (unlisted)

XServer Inc. was established in January 2004 and operates a hosting service business and web application system development business. Its services include XServer web hosting, Xserver Business web hosting for corporate clients, domain registration service XServer Domain, and e-commerce platform XServer Shop. In FY03/22, the company recorded revenue of JPY6.5bn (+11.1% YoY).

Comparison of rental server pricing plans

Lolipop! Pricing plans(36 months)						
		Economy	**Light**	**Basic**	**Enterprise**	Standard (Stopped accepting new enrollments)
Monthly fee	One month	198	550	1,430	2,640	1,100
	Three months	198	495	1,320	2,640	1,045
	Six months	198	462	1,210	2,420	935
	12 months	198	418	990	2,365	770
	24 months	198	352	935	2,255	605
	36 months	99	220	550	2,200	440
Initial fee		0	0	0	0	1,650
Capacity		100GB	200GB	400GB	1.2TB	300GB
Own domain		50	100	Unlimited	Unlimited	200
WordPress		×	○	○	○	○
Transmission capacity		Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Telephone support		×	×	○	○	○

Source: Shared Research based on company website

SAKURA internet pricing plan (36 months)					
		Light	Standard	Premium	Business
Monthly fee	One month	-	524	1,571	2,619
	12 months	131	437	1,310	2,183
	24 months	129	430	1,000	2,148
	36 months	128	425	900	2,122
Initial fee		0	0	0	0
Capacity		100GB	300GB	400GB	600GB
Own domain		20	200	300	400
WordPress		×	○	○	○
Transmission capacity		Unlimited	Unlimited	Unlimited	Unlimited
Telephone support		○	○	○	○

Source: Shared Research based on company website

Xserver pricing plan(36 months)				
		Standard	Premium	Enterprise
Monthly fee	Three months	1,320	2,640	5,280
	Six months	1,210	2,420	4,840
	12 months	1,100	2,200	4,400
	24 months	1,045	2,090	4,180
	36 months	990	1,980	3,960
Initial fee		JPY0	JPY0	JPY0
Capacity		300GB	400GB	500GB
Own domain		Unlimited	Unlimited	Unlimited
WordPress		○	○	○
Transmission capacity		Unlimited	Unlimited	Unlimited
Telephone support		○	○	○

Source: Shared Research based on company website

Comparison of domain fees

Major domain fee (as of March 6, 2024) (JPY/year)		**.com**	**.net**	**.jp**	**.co.jp**
MuuMuu Domain	Acquisition	1,620	1,628	2,035	1,980
	Renewal	1,728	1,628	3,344	4,378
	Transfer	1,728	1,628	3,344	0
XserverDomain	Acquisition	1	1	350	2,068
	Renewal	1,428	1,670	3,102	4,136
	Transfer	1,428	1,670	3,102	1
Sakura Domain	Acquisition	2,790	3,182	3,982	8,000
	Renewal	2,790	3,182	3,982	7,700
	Transfer	2,790	3,182	3,982	0

Source: Shared Research based on company websites

Competitors in the E-Commerce Support business

The company's main competitors in the Color Me Shop business are BASE, Inc. (TSE Growth: 4477) and STORES, Inc. (unlisted). In the SUZURI business, the company mainly competes with Graphic On Demand Inc. (unlisted), which operates T-Shirt Trinity, an online customizable T-shirt store, and Original Lab Co., Ltd. (unlisted) which operates TMIX, a service for creating and selling original T-shirts.

BASE, Inc. (TSE Growth: 4477)

BASE, Inc. (TSE Growth: 4477), established in December 2012, operates the e-commerce store creation service BASE and the online payment service PAY.JP. It also has other businesses centered around the provision of funding to BASE store owners through its fund procurement service YELL BANK. BASE offers a plan without a monthly fee where it charges usage fees amounting to 3.0% of settlements, in addition to a plan priced at JPY5,980 per month with no usage fees. In FY12/22, the company reported revenue of JPY9.7bn (-1.9% YoY), operating loss of JPY1.5bn (versus an operating loss of JPY977mn in FY12/21), BASE business GMV (based on order amount) of JPY118.9bn (+4.5% YoY), and an average monthly store count of 65,516 in Q4 FY12/22 (including over 4,200 stores on the monthly paid plan).

In FY12/22, revenue was JPY9.7bn (-1.9% YoY), operating loss was JPY1.5bn (JPY977mn in FY12/21), GMV (on a order basis) for the BASE business was JPY118.9bn (+4.5% YoY), and the average monthly number of sales stores in Q4 FY12/22 was 65,516 (of which more than 4,200 were monthly paid plans).

In FY12/23, revenue was JPY11.7bn (+19.9% YoY), operating loss was JPY425mn (JPY1.5bn in FY12/22), GMV (on an order basis) for the BASE business was JPY136.0bn (+14.3% YoY), and the average monthly number of sales stores in Q4 FY12/23 was 68,115.

(JPYmn)	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
Revenue	2,352	3,850	8,288	9,931	9,739	11,680
YoY	- %	63.7%	115.3%	19.8%	-1.9%	19.9%
BASE business	1,983	3,199	7,321	8,420	7,494	7,765
YoY	- %	61.3%	128.9%	15.0%	-11.0%	3.6%
% of revenue	84.3%	83.1%	88.3%	84.8%	76.9%	66.5%
PAY.JP business	370	644	940	1,448	2,103	3,606
YoY	- %	74.2%	45.9%	54.1%	45.2%	71.5%
% of revenue	15.7%	16.7%	11.3%	14.6%	21.6%	30.9%
Other business	-	7	27	62	141	308
YoY	- %	- %	286.5%	126.6%	127.4%	118.4%
% of revenue	0.0%	0.2%	0.3%	0.6%	1.4%	2.6%
Adjustments	-	-	-	-	-	-
Operating profit	-791	-442	803	-977	-1,508	-425
YoY	- %	- %	- %	- %	- %	- %
Operating profit margin	- %	- %	9.7%	- %	- %	- %
BASE business	-496	-118	1,112	-703	-1,150	-60
YoY	- %	- %	- %	- %	- %	- %
Operating profit margin	- %	- %	15.2%	- %	- %	- %
% of operating profit	- %	- %	114.2%	- %	- %	- %
PAY.JP business	-184	-128	-92	-38	-46	-84
YoY	- %	- %	- %	- %	- %	- %
Operating profit margin	- %	- %	- %	- %	- %	- %
% of operating profit	- %	- %	-9.4%	- %	- %	- %
Other business	-	-54	-46	-52	-31	-25
YoY	- %	- %	- %	- %	- %	- %
Operating profit margin	- %	- %	- %	- %	- %	- %
% of operating profit	- %	- %	-4.7%	- %	- %	- %
Adjustments	-110	-142	-171	-182	-280	-254
Recurring profit	-799	-456	748	-960	-1,495	-409
YoY	- %	- %	- %	- %	- %	- %
Recurring profit margin	- %	- %	9.0%	- %	- %	- %
Net income attributable to owners of the parent	-855	-460	585	-1,194	-1,732	-606
YoY	- %	- %	- %	- %	- %	- %
Net margin	- %	- %	7.1%	- %	- %	- %

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

STORES, Inc. (unlisted)

Established in March 2012, STORES, Inc. provides STORES Net Shop, a service for creating online stores, STORES Register, a POS app, STORES Payment, a settlement service for stores, and STORES Reservation, a reservation service. STORES Net Shop offers a free plan with no monthly fees but a 5% transaction fee, and a standard plan with monthly fees starting from JPY2,980 and a 3.6% transaction fee.

Pricing plan comparison of e-commerce store creation services

		Color Me Shop				BASE		STORES	
		Free	Regular	Large	Premium	Standard	Growth	Free	Standard
Initial fee(/month)		0	3,300	3,300	22,000	0	0	0	0
Monthly fee(/month)		0	4,950	9,595	39,600	0	5,980	0	2,980
Commission fee		-	-	-	-	3.0%	0	0	0
Payment processing fee	Credit payment	6.6%+JPY30	4.0% -	4.0% -	3.14% -	3.6%JPY40	2.9%	5.0%	3.6%
	Payment after service	6.6%+JPY30	4.0% -	4.0% -	4.0% -	3.6%JPY40	2.9%		

Source: Shared Research based on company websites.

Graphic On Demand Inc. (unlisted)

Graphic On Demand Inc. (unlisted) operates the T-Shirt Trinity, an original goods sales service that specializes in T-shirts but also includes bags, smartphone cases, and other items. In addition to the creation and sale of original goods, T-Shirt Trinity provides a platform for creators to sell their own merchandise. After registering as a member, creators can open a shop within T-Shirt Trinity for free and upload images of the goods they wish to sell. Once an order is confirmed, the company produces the goods at its own factory and ships them to the buyer. Creators can set the amount of compensation they receive each time a product is sold. The service also offers integration with BASE, Inc.'s e-commerce store creation service, BASE.

Original Lab Co., Ltd. (unlisted)

Established in May 2007, Original Lab Co., Ltd. (unlisted) operates services such as TMIX, an original T-shirt creation service, and ORILAB MARKET, a service for creating and selling original goods. TMIX is a service for creating various original goods, mainly focusing on T-shirts, but also serves as an influencer support service by assisting individuals with over 50,000 followers on social media in creating and selling original goods based on a product concept that they provide. ORILAB MARKET allows users to register their original goods designs for free and handles sales, production at its in-house factory, and shipping. Sellers are free to set the selling price of their goods. The service also offers integration with BASE, Inc.'s e-commerce store creation service, BASE.

Competitors in the Handmade Products business

minne's only competitor is CREEMA LTD. (TSE Growth: 4017), which operates the handmade marketplace Creema.

CREEMA LTD. (TSE Growth: 4017)

Established in March 2009, CREEMA LTD. (TSE Growth: 4017) launched the handmade marketplace Creema in May 2010. Creema is a marketplace service that offers marketing support leveraging the Creema platform. It also conducts sales events and store services for selling handmade products. In FY02/23, the company reported revenue of JPY2.5bn (+8.9% YoY) and an operating loss of JPY386mn (versus an operating profit of JPY323mn in FY02/22).

Creema features categories such as original works, food and beverages, and materials, tools, and kits for creating handmade products. There are no initial fees, monthly fees, store fees, or listing fees, but there is a commission fee of 11.0% (pre-tax) of the total product price (excluding shipping) for works or materials, and 15.4% for food and beverages. As of FY02/23, Creema had 250,000 registered creators (+8.7% YoY), 15,499,000 listed items (+15.0% YoY), 13,911,000 app downloads (+11.0% YoY), gross merchandise value of JPY16.8bn (+4.8% YoY), and an average transaction value in Japan of JPY5,480 (+4.3% YoY). CREEMA launched a Chinese version of its platform in July 2016, which is available in Mainland China, Hong Kong, and Taiwan.

(JPYmn)	FY02/19	FY02/20	FY02/21	FY02/22	FY02/23
Revenue	1,150	1,518	2,062	2,295	2,500
YoY	- %	31.9%	35.9%	11.3%	8.9%
Marketplace service	-	887	1,532	1,578	1,632
YoY		- %	72.7%	3.0%	3.4%
% of revenue		58.4%	74.3%	68.8%	65.3%
Platform service	-	288	431	561	631
YoY		- %	49.4%	30.3%	12.4%
% of revenue		19.0%	20.9%	24.5%	25.2%
Event store service	-	336	86	133	206
YoY		- %	-74.6%	55.2%	54.9%
% of revenue		22.2%	4.1%	5.8%	8.2%
Other	-	6	15	23	32
YoY		- %	139.4%	58.1%	37.9%
% of revenue		0.4%	0.7%	1.0%	1.3%
Operating profit	-	49	226	323	-386
YoY		- %	364.4%	42.7%	- %
Operating profit margin		3.2%	11.0%	14.1%	-15.4%
Recurring profit	-373	46	205	363	-385
YoY	- %	- %	346.0%	77.5%	- %
Recurring profit margin	- %	3.0%	9.9%	15.8%	- %
Net income attributable to owners of the parent	-373	-28	178	231	-408
YoY	- %	- %	- %	29.3%	-277.0%
Net margin	- %	- %	8.6%	10.1%	- %
Creema indicator					
Number of creators('000)	-	-	210	230	250
YoY			- %	9.5%	8.7%
Number of listed items('000 pieces)	6,940	8,660	11,310	13,480	15,499
YoY	- %	24.8%	30.6%	19.2%	15.0%
Number of app downloads('000 downloads)	8,370	9,730	11,200	12,530	13,911
YoY	- %	16.2%	15.1%	11.9%	11.0%
Gross merchandise value(JPYmn)	7,875	8,998	15,419	16,067	16,834
YoY	- %	14.3%	71.4%	4.2%	4.8%
Average transaction value(Japan,)	5,086	5,110	4,410	5,255	5,480
YoY	- %	0.5%	-13.7%	19.2%	4.3%

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

Etsy, Inc. (NASDAQ: ETSY)

Etsy, Inc. (NASDAQ: ETSY) is a US company that primarily operates the handmade product marketplace Etsy.com in seven countries: the US, UK, Germany, Canada, Australia, France, and India. Its gross merchandise sales (GMS) for 2022 reached JPY1.65tn (USD11.8bn) when converted at an exchange rate of JPY140/USD. While minne bolsters its overseas revenue by providing an authorized overseas proxy service, the overseas handmade product market is significantly larger than the Japanese market, as the combined gross merchandise value of the two major players in Japan, minne and Creema, was only JPY30bn.

Competitors in the Financial Support business

FREENANCE faces competition from Paytner Inc. (unlisted), which provides Paytner Factoring, an online factoring service for freelancers, and labol Inc. (unlisted), a wholly-owned subsidiary of CERES INC. (TSE Prime: 3696).

Paytner Inc. (unlisted)

Established in February 2019, Paytner Inc. offers the cloud invoice processing service Paytner Invoice and the online factoring service for freelancers, Paytner Factoring. Paytner Factoring allows freelancers and sole proprietors to cash their invoices in as little as 10 minutes. There are no initial or monthly fees, and the service fee is 10.0%. The service can be used for invoices ranging from JPY10,000 to JPY1mn (JPY250,000 for the first time).

labol Inc. (unlisted)

Established in December 2021, labol Inc. is a wholly-owned subsidiary of CERES INC. (TSE Prime: 3696). It provides labol, an invoice purchasing service (two-party factoring) for freelancers and sole proprietors. Users can sell their invoices as long as their value is at least JPY10,000, and funds are deposited in as little as one hour. The fee is a uniform 10.0% of the invoice amount.

Comparison of online factoring services for freelancers

	FREENANCE (same-day payment)	Paytner Factoring	labol Inc.
Minimum invoice amount	JPY10,000–No upper limit	JPY1–1mn(JPY250,000 for the first time)	JPY10,000–required amount
Fee	3–10%	10%	10%
Time required for screening	At least 30 min.	At least 10 min.	At least 60 min.

Source: Shared Research based on company websites

Strengths and weaknesses

Strengths

The company's structure, which allows it to quickly develop and launch services that meet the latest needs of creators

The company has successfully expanded its services into adjacent areas by capturing the latest needs of individual users. An understanding of the users seems to be baked into the company's makeup, as the founder of its predecessor was himself a creator, and the current president, Kentaro Sato, was a webmaster in his university days. Starting with website hosting (Lolipop!), the company expanded to e-commerce (Color Me Shop). It then launched minne to respond to the demand for handmade products, before developing SUZURI to help creators turn their ideas into businesses without worrying about the manufacturing process. According to the company, it has developed and launched 31 services so far, 11 of which it still operates.

Shared Research understands that the ability to pick up on the needs of individual users and continuously develop services through trial and error has promoted the expansion of the company's current core businesses, such as Lolipop! and Color Me Shop. In the internet-related service industry, competitors are often quick to copy the businesses of earlier movers. However, GMO Pepabo has demonstrated its ability to develop and launch services ahead of its competitors. This has included venturing into one-time revenue businesses with minne and SUZURI, as well as being an early adopter of AI in various services.

A portfolio of recurring revenue businesses comprising Lolipop! (web hosting), MuuMuu Domain (domain registration), and Color Me Shop (e-commerce store creation)

Lolipop! is one of the largest web hosting operators in Japan targeting individuals. As of end-FY12/23, it had roughly 413,000 contracts—the result of low fees and the recognition earned from its many years of operation (it was launched in November 2001). After establishing Lolipop!, the company turned its attention to adjacent areas, launching the domain registration service MuuMuu Domain in January 2004 and the e-commerce ASP service Color Me Shop! pro (now Color Me Shop) in February 2005.

GMO Pepabo states that there is overlap in the user bases of Lolipop! and Color Me Shop, which it believes is a result of the attention the company has given to user needs through the course of expanding its services. The company has also implemented measures to encourage customers to use multiple services that it provides. For example, it provides MuuMuu Domain for free to top-tier users of Lolipop! According to the company, the monthly churn rates for the core services Lolipop! and Color Me Shop are low at less than 2%. This helps to maintain the customer base for MuuMuu Domain. Shared Research understands these recurring revenue services support each other to form the backbone of the company's earnings.

The ability to leverage assets such as data centers of the GMO Internet Group

As web hosting undergoes commodification, maintaining competitive pricing depends on economies of scale. The company uses GMO Internet Group's data centers and procurement capabilities in its major services including Lollipop!, MuuMuu Domain, and Color Me Shop. Shared Research considers GMO Pepabo's relationship with the large GMO Internet Group (15.7mn customers) to be a strength for the company as it provides a variety of internet services including in infrastructure, advertising, media, and finance.

Weaknesses

Limited growth potential in the Hosting business, which the company relies upon heavily to produce earnings

GMO Pepabo's Hosting business focuses on Lolipop! (web hosting) and MuuMuu Domain (domain registration). However, web hosting is undergoing commodification, and market growth has already flattened. MuuMuu Domain's growth potential is meanwhile constrained by the lack of clear differentiation in its business model.

In FY12/23, the Hosting business accounted for 52.8% of overall revenue, with OPM before adjustments of 33.4%, making it a critical earnings pillar. The company is more dependent on its Hosting business on both the revenue and operating profit front compared to competitors like SAKURA internet Inc. (whose rental server business accounted for approximately 19% of revenue in FY03/23). Shared Research understands that any intensification of competition or slowdown in web hosting demand could have a significant impact on the company's performance.

The need to establish a more formidable sales structure to target corporate clients in the e-commerce store creation service

While the customer base of the company's services mainly consists of individuals and creators, the number of corporate clients has been increasing. As such, the company has introduced a premium plan for Color Me Shop and strengthened services targeting corporate clients on the platform. Historically, the company has mainly focused on marketing strategies targeting individual customers with online ads and affiliate marketing. Thus, only 1% of its 475 consolidated employees (including temporary employees) were sales personnel as of end-FY12/22. However, in order to expand its corporate client base, the company acknowledges the need to add more active sales techniques, including direct sales, to its marketing practices in addition to more passive online methods. While establishing a sales system tailored for corporate clients seems an essential task for the company, Shared Research understands that building such infrastructure would take time, both to hire sales personnel and to develop sales expertise.

The GMO Internet Group's structure may present obstacles to the company's growth, as targeting new areas within its core services may infringe on the domains of other group companies.

The company's position within the GMO Internet Group is primarily that of a service provider to individuals. However, the company has been expanding the higher-tier plans of Lolipop! and Color Me Shop, as these services are increasingly used for business. GMO Pepabo states that the GMO Internet Group respects the uniqueness and autonomy of each group company in its operations. However, we understand that if the company expands the areas in which it operates in its core web hosting, domain registration, and e-commerce store creation services, it could potentially lead to competition with other group companies. This group structure may hinder the company's growth.

Financial statements

Income statement

Income statement	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
(JPYmn)	**Cons.**	**Cons.**	**Cons.**	**Non-cons.**	**Non-cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**
Revenue	**4,534**	**5,698**	**6,890**	**7,365**	**8,201**	**8,943**	**11,014**	**11,880**	**10,531**	**10,904**
YoY	8.8%	25.7%	20.9%	6.9%	11.3%	9.0%	23.2%	7.9%	-11.4%	3.5%
Cost of revenue	2,121	2,628	2,979	2,929	3,293	3,692	4,533	5,147	4,455	4,973
Gross profit	**2,412**	**3,070**	**3,912**	**4,436**	**4,908**	**5,251**	**6,482**	**6,733**	**6,076**	**5,931**
YoY	7.1%	27.2%	27.4%	13.4%	10.6%	7.0%	23.4%	3.9%	-9.7%	-2.4%
Gross profit margin	53.2%	53.9%	56.8%	60.2%	59.8%	58.7%	58.8%	56.7%	57.7%	54.4%
SG&A expenses	1,688	3,691	3,803	4,292	4,440	4,467	5,554	5,844	5,344	6,272
SG&A ratio	37.2%	64.8%	55.2%	58.3%	54.1%	50.0%	50.4%	49.2%	50.7%	57.5%
Operating profit	**724**	**-621**	**108**	**144**	**468**	**784**	**927**	**889**	**732**	**-341**
YoY	-0.2%	-	-	32.6%	225.6%	67.6%	18.3%	-4.2%	-17.6%	-
Operating profit margin	16.0%	-10.9%	1.6%	2.0%	5.7%	8.8%	8.4%	7.5%	7.0%	-3.1%
Non-operating income	48	30	32	35	68	77	77	94	55	141
Non-operating expenses	30	7	5	6	12	26	21	14	20	46
Recurring profit	**743**	**-598**	**135**	**173**	**524**	**836**	**984**	**968**	**767**	**-247**
YoY	-0.1%	-	-	27.6%	203.2%	59.5%	17.7%	-1.6%	-20.8%	-
Recurring profit margin	16.4%	-10.5%	2.0%	2.3%	6.4%	9.3%	8.9%	8.2%	7.3%	-2.3%
Extraordinary gains	6	-	89	-	45	12	264	97	10	-
Extraordinary losses	67	156	8	17	115	127	13	-	6	149
Income taxes	272	44	63	36	-13	239	404	350	284	233
Net income attributable to non-controlling interests	-	-	-	-	-	-61	-	-	-23	-
Net income attributable to owners of the parent	**410**	**-798**	**153**	**120**	**467**	**543**	**830**	**715**	**510**	**-629**
YoY	0.5%	-	-	-21.9%	289.8%	16.2%	52.9%	-13.8%	-28.7%	-
Net margin	9.1%	-	2.2%	1.6%	5.7%	6.1%	7.5%	6.0%	4.8%	-5.8%

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

The company grows its business—and achieves upward trending revenue—by investing the cash generated from its recurring revenue businesses such as Lolipop!, MuuMuu Domain, and Color Me Shop into one-time revenue businesses like SUZURI, minne, and FREENANCE. In FY12/22, despite a YoY decrease in revenue of 11.4% due to the application of the Accounting Standard for Revenue Recognition, revenue actually grew by 6.7% in real terms when adjusting for the accounting standard.

The company has a significant gap between GPM and OPM, mainly owing to the high SG&A ratio due to customer service-related expenses and promotion expenses. When examining OPM by segment, it is important to note that customer service-related expenses are not allocated to each segment but are recorded as adjustments under companywide expenses.

The company remained in the black at the operating level through FY12/22, except for in FY12/15. The operating loss in FY12/15 was mainly due to aggressive investment in minne, which incurred advertising and promotion expenses exceeding JPY1.5bn. The decrease in operating profit in FY12/21 was primarily due to increased expenses for strengthening e-commerce-related services (such as increased personnel costs) driven by the increased demand during the COVID-19 pandemic, as well as promotion expenses. The decrease in operating profit in FY12/22 was mainly caused by a decrease in the gross merchandise value of SUZURI and minne due to changes in consumer behavior with the reopening of the economy following the COVID-19 pandemic, as well as increased promotion expenses and bad debt-related expenses.
The operating loss in FY12/23 was due to bad debt-related expenses for overdue receivables recorded before and during Q2 FY12/23 in the Financial Support business, FREENANCE.

Balance sheet

Balance sheet	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
(JPYmn)	**Cons.**	**Cons.**	**Cons.**	**Non-cons.**	**Non-cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**
Assets										
Cash and deposits	2,108	1,157	1,524	1,591	1,802	1,754	2,472	2,371	2,559	2,760
Deposits to affiliates	-	400	600	800	900	700	1,150	1,250	1,050	1,600
Accounts receivable	534	1,140	1,467	1,745	1,886	2,043	2,556	2,685	2,593	2,186
Securities	700	-	-	-	-	-	-	-	-	-
Merchandise	-	-	-	-	4	8	2	7	11	5
Supplies	-	-	-	2	2	1	2	3	4	3
Accounts receivables–other	-	-	-	-	-	-	246	464	1,935	1,620
Prepaid expenses	-	-	-	95	74	-	-	123	1,317	1,404
Other	163	381	209	138	191	428	289	136	120	124
Allowance for doubtful accounts	-4	-4	-16	-13	-7	-18	-70	-95	-279	-1,135
Total current assets	**3,501**	**3,074**	**3,785**	**4,358**	**4,853**	**4,916**	**6,649**	**6,944**	**9,311**	**8,569**
Buildings	12	19	50	47	41	39	39	37	44	56
Tools, furniture, and fixtures	165	309	258	250	224	222	280	233	269	264
Lease assets	-	-	-	-	-	-	-	155	336	521
Other	9	4	1	1	2	2	2	2	3	3
Total tangible fixed assets	**186**	**332**	**309**	**298**	**266**	**264**	**321**	**427**	**652**	**843**
Goodwill	1	-	-	-	51	-	-	-	-	-

Software	191	191	175	216	232	318	399	377	388	610
Software in progress	-	-	-	28	52	-	-	-	-	-
Other	42	9	26	1	1	85	79	176	346	66
Total intangible assets	**235**	**200**	**202**	**245**	**336**	**403**	**477**	**553**	**734**	**675**
Investment securities	345	391	372	366	507	682	673	860	643	631
Shares of subsidiaries and affiliates	-	-	-	9	29	-	-	-	-	-
Deferred tax assets	15	-	-	-	-	20	5	-	9	67
Long-term loans receivable	-	-	16	16	-	-	-	-	-	-
Other	133	66	87	85	87	87	86	86	86	223
Allowance for doubtful accounts	-	-	-	-	-	-	-	-	-	-134
Investments and other assets	**493**	**456**	**475**	**476**	**623**	**789**	**764**	**946**	**738**	**787**
Total fixed assets	**914**	**989**	**985**	**1,019**	**1,225**	**1,455**	**1,563**	**1,926**	**2,124**	**2,306**
Total assets	**4,415**	**4,063**	**4,770**	**5,377**	**6,078**	**6,372**	**8,212**	**8,870**	**11,436**	**10,875**
Liabilities										
Trade accounts payable	110	138	132	122	148	177	255	272	249	258
Accounts payable–other	266	1,002	1,213	1,627	1,569	1,620	2,111	2,142	2,108	1,861
Short-term borrowings	-	-	-	-	-	-	-	-	1,200	-
Current portion of bonds payable	-	-	-	-	-	-	-	-	-	200
Current portion of long-term borrowings	-	-	-	-	-	-	-	-	-	-
Lease obligations	-	-	-	-	-	-	-	38	90	157
Accrued expenses	118	134	139	145	159	-	-	-	-	-
Income taxes payable	158	4	40	30	57	232	276	156	84	200
Advances received	1,346	1,479	1,567	1,678	1,729	1,753	1,993	2,220	-	-
Contract liabilities	-	-	-	-	-	-	-	-	3,847	4,292
Deposits	215	260	325	381	394	383	467	480	513	515
Provision for bonuses	-	-	-	41	88	75	82	23	59	71
Asset retirement obligations	-	12	2	-	-	-	-	0	-	-
Other	79	9	114	75	150	336	455	363	289	360
Total current liabilities	**2,291**	**3,038**	**3,532**	**4,100**	**4,294**	**4,575**	**5,640**	**5,694**	**8,439**	**7,914**
Bonds	-	-	-	-	-	-	-	-	-	700
Long-term borrowings	-	-	-	-	-	-	-	-	-	-
Lease obligations	-	-	-	-	-	-	-	134	281	420
Asset retirement obligations	16	8	26	27	27	27	27	27	27	30
Deferred tax liabilities	-	4	27	27	50	-	-	62	-	-
Total fixed liabilities	**16**	**12**	**53**	**54**	**77**	**27**	**27**	**223**	**308**	**1,150**
Total liabilities	**2,307**	**3,050**	**3,585**	**4,154**	**4,371**	**4,602**	**5,667**	**5,917**	**8,747**	**9,064**
Capital stock	160	160	160	160	160	160	262	262	262	262
Capital surplus	150	150	150	150	156	160	270	254	257	257
Retained earnings	1,841	863	1,017	1,056	1,457	1,723	2,214	2,502	2,501	1,608
Treasury stock	-107	-255	-255	-255	-243	-456	-395	-334	-394	-394
Accumulated other comprehensive income	65	64	50	50	119	133	164	230	63	78
Share subscription rights	-	31	64	62	58	50	29	15	-	-
Non-controlling interests	-	-	-	-	-	-	-	23	-	-
Total net assets	**2,108**	**1,012**	**1,185**	**1,223**	**1,707**	**1,770**	**2,544**	**2,953**	**2,689**	**1,811**
Working capital	424	1,002	1,335	1,626	1,745	1,875	2,306	2,423	2,360	1,936
Total interest-bearing debt	-	-	-	-	-	-	-	172	1,572	1,477
Net debt	-2,108	-1,157	-1,524	-1,591	-1,802	-1,754	-2,472	-2,199	-988	-1,283

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

The company operates on a business model emphasizing recurring revenue, so cash and deposits generally accumulate as revenue continues to grow. As the company uses GMO Internet Group's data centers, capex primarily focuses on servers and software, resulting in a low proportion of fixed assets.

Since the launch of FREENANCE, accounts receivable have been increasing since FY12/20. The company recorded short-term borrowings of JPY1.2bn in FY12/22 to secure the funds to meet the funding requirements of the FREENANCE business model.

In FY12/23, the company recorded bad debt-related expenses for overdue receivables in the Financial Support business FREENANCE, leading to increased allowance for doubtful accounts. In addition, the company issued its first series of unsecured bonds of JPY1.0bn to secure working capital and to address the risk of rising interest rates worldwide.

Cash flow statement

Cash flow statement (JPYmn)	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Non-cons.	FY12/18 Non-cons.	FY12/19 Cons.	FY12/20 Cons.	FY12/21 Cons.	FY12/22 Cons.	FY12/23 Cons.
Cash flows from operating activities (1)	1,033	-503	705	640	675	698	1,253	669	-213	1,779
Pre-tax profit	682	-754	216	156	454	721	1,234	1,065	771	-396
Depreciation	147	186	209	208	212	227	254	297	346	455
Impairment losses	46	43	7	1	59	-	-	-	-	119
Amortization of goodwill	-	94	-	-	9	17	-	-	-	-
Change in allowances for doubtful accounts	-1	-0	12	-3	-6	6	52	25	184	856
Change in provision for bonuses	-	-	-	41	47	-13	8	-59	36	11
Equity in earnings of affiliates	-	-	-	-	-	-11	-4	-1	-1	-4
Interest and dividend income	-4	-2	-5	-2	-2	-4	-3	-11	-6	-7
Interest expenses	-	-	-	-	-	-	-	1	5	13
Loss (gain) on sales of investment securities	-	-	-	-	-	-12	-264	-	-	-
Change in trade receivables	31	-567	-332	-278	-141	-107	-513	-129	92	407
Change in inventories	-	-	-	-1	-4	-3	5	-5	-6	7
Change in prepaid expenses	-	-	-	-	-	-	-	2	-189	-87
Change in accounts receivable–other	-	-	-	-	-	-	-144	-218	-1,471	313
Increase (decrease) in operating accounts payable	12	34	14	-15	17	35	58	40	-32	-0
Change in accounts payable–other	141	733	213	423	-59	-3	471	47	-37	-248
Increase (decrease) in advances received	186	133	88	147	51	23	241	227	-	-
Increase (decrease) in contract liabilities	-	-	-	-	-	-	-	-	405	446
Other	33	-128	154	8	87	-104	165	-198	-18	81
Subtotal	1,274	-229	577	686	724	772	1,559	1,083	78	1,966
Interest and dividends income received	27	12	5	2	2	4	3	11	6	7
Interests paid	-	-0	-	-	-	-	-	-1	-5	-11
Income taxes paid	-267	-286	-6	-47	-37	-77	-309	-424	-292	-182
Other	-	-0	130	-	-15	-	-	-	-	-
Cash flows from investing activities (2)	-202	280	-137	-294	-312	-453	-6	-278	-510	-326
Purchase of tangible fixed assets	-75	-264	-130	-117	-86	-124	-160	-114	-169	-126
Payments for sales of intangible assets	-110	-68	-59	-120	-185	-243	-201	-216	-326	-276
Purchase of investment securities	-21	-80	-10	-25	-15	-176	-8	-149	-65	-40
Proceeds from sales of investment securities	-	-	-	-	3	42	267	-	-	-
Proceeds from redemption of securities	-	700	-	-	-	-	-	-	-	-
Proceeds from distributions from investment partnerships	-	-	-	-	-	-	-	-	-	118
Other	4	-8	61	-33	-29	48	96	201	50	-3
Free cash flow (1+2)	**832**	**-224**	**568**	**346**	**363**	**246**	**1,248**	**391**	**-724**	**1,454**
Cash flows from financing activities	-252	-328	-0	-79	-52	-494	-79	-393	712	-703
Proceeds from short-term borrowings	-	-	-	-	-	-	-	-	1,200	-1,200
Proceeds from issuance of bonds	-	-	-	-	-	-	-	-	-	988
Payments for redemption of bonds	-	-	-	-	-	-	-	-	-	-100
Repayment of finance lease obligations	-	-	-	-	-	-	-	-20	-65	-127
Proceeds from issuance of shares	-	-	-	-	-	-	205	-	-	-
Proceeds from exercise of stock options	-	-	-	-	14	32	55	54	18	-
Acquisition of treasury stock	-106	-148	-	-	-	-250	-0	-0	-80	-
Dividends paid	-181	-180	-0	-79	-66	-277	-339	-427	-361	-264
Other	36	-0	-	-	-0	-	-0	-	-0	-
Depreciation and amortization (A)	147	186	209	208	212	227	254	297	346	455
Capital expenditures (B)	-184	-332	-188	-237	-271	-367	-361	-330	-495	-401
Change in working capital (C)	-68	578	333	291	119	130	430	117	-63	-424
Simple FCF (NI + A + B - C)	**442**	**-1,522**	**-159**	**-200**	**289**	**272**	**293**	**565**	**424**	**-151**

Source: Shared Research based on company materials
Note: Figures may differ from company materials based on differences in rounding methods

In terms of cash flow from operating activities, the impact of accounts receivable has been significant since FY12/20, driven by the introduction of FREENANCE program.

Cash flow from investing activities primarily involves investments in communication equipment, such as servers, and software.

Cash flow from financing activities includes dividend payments as well as short-term borrowings in FY12/22 to secure funds for the increase in accounts receivable due to the expansion of FREENANCE.

In FY12/23, the company recorded a pre-tax net loss, primarily due to the recording of bad debt-related expenses in the Financial Support business. However, it generated positive cash flow from operating activities. In the Financial Support business, the company reduced its receivables by curbing the acquisition of large-scale claims. Cash flow from financing activities turned negative due to repayment of short-term borrowings, despite the issuance of corporate bonds.

Historical earnings

Cumulative Q3 FY12/23 results

- Revenue: JPY8.2bn (+5.3% YoY)
- Operating loss: JPY583mn (versus operating profit of JPY570mn in cumulative Q3 FY12/22)
- Recurring loss: JPY505mn (versus recurring profit of JPY600mn in cumulative Q3 FY12/22)

- Net loss attributable to owners of the parent: JPY724mn (versus net income of JPY419mn in cumulative Q3 FY12/22)

Progress versus the company's revised full-year FY12/23 forecast was 75.5% for revenue (vs. 74.2% of full-year result in Q3 FY12/22). The company recorded an operating loss of JPY583mn (vs. full-year forecast of a loss of JPY642mn, 77.9% of full-year result in Q3 FY12/22), a recurring loss of JPY505mn (loss of JPY576mn, 78.2%), and a net loss attributable to owners of the parent of JPY724mn (loss of JPY867mn, 82.1%).

Revenue

Cumulative revenue for Q3 FY12/23 increased by 5.3% YoY. In the recurring revenue businesses such as the rental server service Lolipop! and the online shop creation service Color Me Shop, the effects of price revisions contributed to a solid performance. Meanwhile, the minne handmade market saw a YoY decline in the gross merchandize value, especially for low-priced items.

Operating loss

On the profit side, the company recorded an operating loss in the financial support business FREENANCE due to a provision for bad debts related to overdue receivables it recognized until end-1H. However, the loss narrowed due to progress in receivables collection and strong performance in recurring revenue businesses.

Several factors affected operating profit. An increase in revenue of JPY415mn and a decrease in promotion expenses of JPY200mn contributed to profit growth, while an increase in costs linked to revenue of JPY311mn, an increase in personnel expenses of JPY78mn, an increase in bad debt-related expenses of JPY1.1bn, and other factors of JPY258mn reduced profit.

Recurring loss

The recurring loss was JPY505mn because the company, in addition to the operating loss, recorded a non-operating income of JPY95mn as a gain on investment in partnership.

Results by segment

Hosting business

- Revenue: JPY4.3bn (+5.0% YoY)
- Operating profit: JPY1.4bn (-2.0% YoY)

Lollipop!

In cumulative Q3 FY12/23, revenue was JPY1.9bn (+8.4% YoY), and operating profit was JPY985mn (+1.2% YoY). Despite efforts to acquire contracts for high-price plans, including a discount campaign for fixed-price website production plans, the number of contracts decreased 2.2% YoY to 415,394 due to cancellations of low-price plans amid sluggish growth in new contracts. Customer spend in Q3 (three months) grew by 11.8% YoY to JPY511 due to price revisions and increased ratio of higher-priced plans.

MuuMuu Domain

In cumulative Q3 FY12/23, revenue was JPY1.7bn (+3.3% YoY), and operating profit was JPY211mn (-11.0% YoY). The number of domain contracts fell by 3.6% to 1,114,075 due to a decline in new contracts as other companies continued to run campaigns. Meanwhile, according to Shared Research estimate, customer spend per domain contract increased by 6.6% to JPY178, as the company introduced service maintenance adjustment fees for new domain registrations and contract renewals in February 2023 in response to the impact of rising electricity costs and increased procurement prices.

E-Commerce Support business

- Revenue: JPY2.3bn (+7.1% YoY)
- Operating profit: JPY586mn (+34.3% YoY)

Color Me Shop

In cumulative Q3 FY12/23, revenue was JPY1.5bn (+14.1% YoY), and operating profit was JPY545mn (-2.0% YoY). While revenue increased YoY due to higher customer spend, profit declined due to increased promotional expenses for the Color

Me Shop Grand Award 2023 and other events. The number of contracts increased for the Free plan, which allows customers to open an online store with no initial and monthly fees. However, the increased contract count was not enough to offset the decline in monthly plans, which declined slightly compared to end-Q3 FY12/22 to 50,264. In Q3 (three months), the customer spend for monthly paid plans rose 23.1% YoY to JPY5,233 due to an increase in the ratio of higher-tier plans, while the effect of the price revision implemented in April 2022 ran its course.

SUZURI

In cumulative Q3 FY12/23, revenue was JPY729mn (-3.3% YoY), and operating profit was JPY76mn (vs. a loss of JPY100mn in FY12/22). While TV commercials boosted the distribution amount in the same period of the previous fiscal year, revenue decreased, and profit increased in Q3 FY12/23 as the company controlled promotional expenses. The number of registered members increased by 20.0% YoY to 1,560,000 due to a T-shirt sale in August 2023, following the one in June 2023. However, the increased member count was not enough to offset the decline in the distribution amount in Q1, which was affected by the change in consumer trends, and the distribution amount for Q3 was JPY1.9bn, down 8.2% YoY. At end-Q3, the number of creators was up 15.4% YoY to 750,000.

Handmade Products business

- Revenue: JPY1.1bn (-8.3% YoY)
- Operating profit: JPY41mn (-41.1% YoY)

minne

In cumulative Q3 FY12/23, revenue was JPY1.1bn (-8.3% YoY), and operating profit was JPY41mn (-41.4% YoY). The company launched digital content related to handicrafts in April 2023. It also held the large-scale offline event minne Handmade Market 2023 in September 2023, the first event of its kind in four years since 2019. Additionally, with the release of minne Ads, a click-based advertising service on its platform, the number of registered creators and brands increased by 5.2% YoY to 890,000, the number of listed products at end-Q3 was up 7.6% YoY to 16,870,000, and the number of app downloads was up 4.5% YoY to 14,540,000. However, in cumulative Q3, the distribution amount decreased by 13.0% to JPY9.8bn, the number of orders fell by 18.1% YoY to 2,591,000, and the average order value increased by 6.2% YoY to JPY3,767, due to the impact of a decrease in the gross merchandize value of low-priced items.

Financial Support business

- Revenue: JPY552mn (+43.0% YoY)
- Operating loss: JPY1.1bn (vs. profit of JPY5mn in cumulative Q3 FY12/22)

FREENANCE

In cumulative Q3 FY12/23, revenue was JPY552mn (+40.3% YoY), while the company recorded an operating loss of JPY1.1bn (vs. a profit of JPY5mn in cumulative Q3 JPY12/22). Due to the restraint on purchasing large-scale receivables from May 2023, the invoice purchasing value in Q3 (three months) decreased by 45.8% YoY to JPY1.4bn. The number of users increased 29.1% YoY to 10,003, the invoice purchasing value increased 24.2% YoY to JPY7.1bn, the number of invoices purchased increased 21.4% YoY to 17,356, and the average invoice purchase value increased 2.3% YoY to JPY408,000. On the profit side, although the company recorded operating loss due to the recognition of provision for bad debt related to overdue receivables until end-Q2, the operating loss in Q3 (JPY1.1bn) narrowed compared to 1H due to progress in receivables collection.

Other

- Revenue: JPY1mn (-49.8% YoY)
- Operating loss: JPY29mn (vs. loss of JPY30mn in cumulative Q3 FY12/22)

In cumulative Q3 FY12/23, revenue was JPY1mn (-49.8% YoY), while the company recorded operating loss of JPY29mn (vs. loss of JPY30mn in cumulative Q3 FY12/22). In addition, there is a service called GMO Renshu that enables centralized management of communication and collection of fees for extracurricular activities and team/classroom operations on the cloud.

Topics

Started offering a new feature, MuuMuu Sites, that allows users to easily create and manage unique websites

On October 4, 2023, the company began offering a new feature, MuuMuu Sites, which allows users to easily create and manage unique websites using Notion. This tool enables users to create and share documents and manage projects all in one place. By offering MuuMuu Sites as an entry point for beginners, the company aims to encourage users to use its server services.

Started offering MuuMuu Servers, which allow users to sign up for and manage servers with their MuuMuu Domain all in one place

On November 15, 2023, the company began offering MuuMuu Servers, which allows MuuMuu Domain users to contract and manage servers simultaneously. When MuuMuu Domain users wanted to use Lolipop! servers, they had to pay for the service and manage accounts separately, which sometimes discouraged them from signing a contract. The company plans to solve this problem by offering MuuMuu Servers. While there is a possibility of reducing the number of referrals to Lolipop!, the company expects to raise server contract rates and ARPU due to the increased convenience, boosting both revenue and profit in the hosting business.

Started operating minne Ads

On August 2, 2023, the company started operating minne Ads, an advertising feature that allows users to promote their works on the minne site. This advertising service is easy to use without any knowledge of advertising operations and allows users to reach consumers interested in their work. The company expects about 10,000 users annually. Since the ads are placed on its own site, the profit margin is high, and the company expects the ads to contribute to profits in FY12/24.

Started selling IP collaboration items and other initiatives to increase SUZURI customers

As the first step of IP collaboration, the company started selling goods of The Idolmaster Shiny Colors (September 15, 2023–September 14, 2024) and held a design contest using IPs of Toei Animation Co., Ltd. (TSE Standard: 4816). According to the company, the sale of sound sources for core fans is strong, and since the sound source incurs almost no cost, it also has a high-profit margin. The company expects the collaboration to contribute to SUZURI's performance in the future.

1H FY12/23 results

- Revenue: JPY5.5bn (+8.2% YoY)
- Operating loss: JPY826mn (versus operating profit of JPY248mn in 1H FY12/22)
- Recurring loss: JPY747mn (versus recurring profit of JPY258mn in 1H FY12/22)
- Net loss attributable to owners of the parent: JPY892mn (versus net income of JPY183mn in FY12/22)

Progress versus the company's revised full-year FY12/23 forecast was 50.7% for revenue. The company recorded an operating loss of JPY826mn (versus full-year forecast of a loss of JPY642mn), a recurring loss of JPY747mn (loss of JPY576mn), and a net loss attributable to owners of the parent of JPY892mn (loss of JPY867mn).

Revenue

In 1H FY12/23, revenue increased by 8.2% YoY to a record high. The web hosting service Lolipop! and the e-commerce store creation service Color Me Shop performed well due to the impact of price revisions. On the other hand, the handmade products market minne saw a YoY decrease in gross merchandise value, mainly in lower-priced works.

Operating loss

The operating loss was mainly caused by the recognition of an allowance for doubtful accounts resulting from large overdue receivables in the Financial Support business. The company recognized bad debt-related expenses of JPY180mn at FREENANCE (Financial Support business) in Q1, leading to a reassessment of the management system and a complete suspension of the purchase of high-value invoices from partner companies since May. However, in Q2, the amount of overdue receivables for several large trading partners, particularly in the transportation and construction industries, grew. This resulted in the recognition of bad debt-related expenses of JPY1.1bn.

The factors contributing to the change in operating profit are as follows. An increase in revenue of JPY417mn and a decrease in promotion expenses of JPY171mn contributed to profit growth, while an increase in costs linked to revenue of JPY239mn, an increase in personnel expenses of JPY46mn, an increase in bad debt-related expenses of JPY1.2bn, and other factors of JPY146mn resulted in a decrease in profit.

Recurring loss

Recurring loss amounted to JPY747mn, primarily due to the recognition of gains on investment in partnerships of JPY89mn (versus JPY8mn in 1H FY12/22) as other non-operating income, in addition to operating loss.

Results by segment

Hosting business

- Revenue: JPY2.8bn (+4.8% YoY)
- Operating profit: JPY902mn (-3.0% YoY)

Lollipop!

For 1H FY12/23, revenue was JPY1.2bn (+7.9% YoY) and operating profit was JPY634mn (-1.2% YoY). The number of contracts fell by 2.1% to 417,710, due to a decrease in new subscriptions resulting from a decline in the acquisition of customers for low-priced plans as the company focused on acquiring new customers for the Basic Plan. Customer spend grew by 10.2% YoY to JPY495, due to the effect of price revisions and increased ratio of higher-priced plans such as the Basic Plan.

MuuMuu Domain

For 1H FY12/23, revenue was JPY1.1bn (+3.5% YoY) and operating profit was JPY122mn (-12.9% YoY). The number of contracted domains fell by 3.2% to 1,125,732 due to a decline in new contracts, while customer spend, as calculated by Shared Research, was up 8.5% to JPY2,041. The introduction in February 2023 of service maintenance adjustment fees for new domain registrations and renewals, implemented in response to the impact of rising electricity costs and increased procurement prices due to the depreciation of the yen, pushed up customer spend.

E-Commerce Support business

- Revenue: JPY1.5bn (+11.6% YoY)
- Operating profit: JPY391mn (+122.1% YoY)

Color Me Shop

For 1H FY12/23, revenue amounted to JPY1.0bn (+18.5% YoY) and operating profit reached JPY394mn (+12.6% YoY). The number of contracts increased by 2.2% to 50,337, due to an increase in the number of contracts for free plans with no initial and monthly fees, while the number of contracts for monthly plans decreased as the company stopped accepting new customers for the lower-end plans and implemented price revisions. Customer spend grew by 35.4% to JPY5,213, reflecting the impact of price revisions implemented in April 2022. Although the impact of the price revisions has nearly run its course a year after they were implemented, the company expects customer spend to continue rising gradually, partly due to a change in the mix of plans as the company stopped accepting new customers for the lower-end plans.

SUZURI

In 1H FY12/23, revenue was JPY465mn (+1.1% YoY) and operating profit was JPY20mn (versus an operating loss of JPY161mn in 1H FY12/22). The business turned a profit since the company decided not to run TV commercials as it did in 1H FY12/22. A T-shirt sale implemented in June 2023 was not enough to offset the impact of changes in consumer behavior in Q1, resulting in a 1.6% decrease in the gross merchandise value to JPY1.3bn. The number of members at the end of the period increased by 21.4% to 1,490,000, and the number of creators at the end of the period increased by 16.1% to 720,000.

Handmade Products business

- Revenue: JPY761mn (-11.4% YoY)
- Operating profit: JPY42mn (-37.6% YoY)

minne

In 1H FY12/23, revenue decreased to JPY761mn (-11.4% YoY) and operating profit fell to JPY42mn (-37.6% YoY). Although minne starting handling digital content related to handicrafts in April 2023, its gross merchandise value amount decreased by 10.5% YoY to JPY7.0bn due to a reduction in the gross merchandise value of low-priced works and cost controls on promotions. The number of orders fell by 16.6% YoY to 1,858,000, while the average order value increased by 7.2% YoY to JPY3,762. The number of registered creators at end-1H FY12/23 was up 6.0% YoY to 880,000, the number of listed products was up 8.2% YoY to 16,560,000, and the number of app downloads was up 5.2% YoY to 14,420,000.

Financial Support business

- Revenue: JPY448mn (+104.4% YoY)
- Operating loss: JPY1.2bn (versus loss of JPY15mn in 1H FY12/22)

FREENANCE

In 1H FY12/23, revenue grew to JPY448mn (+104.4% YoY). However, the company incurred an operating loss of JPY1.2bn (versus a loss of JPY15mn in 1H FY12/22). This was primarily due to the increase in the number of users by 37.9% to 6,757,000, as well as the average invoice purchasing value which rose by 33.2% to JPY464,000, which caused the total invoice purchasing value to expand 82.9% to JPY5.7bn. On the other hand, the operating loss widened as the company recorded expenses related to doubtful accounts of JPY1.1bn in Q2, following the recording of JPY180mn in bad debt-related expenses in Q1, due to large overdue receivables. The company has set aside an allowance for doubtful accounts of JPY1.4bn against a balance of JPY2.0bn in accounts receivable at end-Q2, and it does not expect the allowance for doubtful accounts to increase further.

The company reviewed its management structure in response to the recording of bad debt-related expenses in Q1, and completely suspended the purchasing of high-value invoices from partner companies in May. However, in Q2, the amount of overdue receivables for several large companies, particularly in the transportation and construction industries, grew. In light of the widening loss, the company's directors directly took charge of GMO Creators Network, the consolidated subsidiary that operates FREENANCE, and strengthened the governance structure. Additionally, the company strengthened its management system by stepping up credit surveys of trading partners and implementing limits on the purchasing amount.

Q1 FY12/23 results

- Revenue: JPY2.7bn (+7.9% YoY)
- Operating profit: JPY36mn (-84.0% YoY)
- Recurring profit: JPY105mn (-56.0% YoY)
- Net income attributable to owners of the parent: JPY41mn (-75.7% YoY)

Against the company's full-year FY12/23 forecast, revenue progressed 24.7%, operating profit 4.2%, recurring profit 12.6%, and net income attributable to owners of the parent 7.2%.

Revenue

In Q1 FY12/23, revenue was up 7.9% YoY to a record high. The Hosting business saw higher revenue due to the effect of price revisions. In the E-Commerce Support business, Color Me Shop showed growth, while SUZURI underwent a decrease in revenue. The Handmade Products business posted lower revenue due to a decrease in transaction volume. However, the Financial Support business saw an increase in revenue stemming from a significant expansion in invoice factoring.

Operating profit

Operating profit decreased by 84.0% primarily due to the recognition of bad debt provisions resulting from large overdue receivables in the Financial Support business. Factors contributing to the JPY190mn decrease in operating profit include JPY105mn increase in costs linked to revenue, JPY17mn increase in personnel expenses, JPY18mn promotional expenses, JPY175mn bad debt-related expenses, JPY72mn other cost increases, all of which offset the positive effect from JPY199mn increase in revenue.

Recurring profit

Recurring profit decreased by 56.0%, mainly due to the recognition of gains on investment in partnerships of JPY79mn (JPY9mn in Q1 FY12/22).

Segment performance

Hosting business

- Revenue: JPY1.4bn (+3.8% YoY)
- Operating profit: JPY427mn (-5.6% YoY)

Lolipop!

In Q1 FY12/23, revenue increased by 7.8% YoY to JPY595mn, while operating profit decreased by 0.3% YoY to JPY307mn. The number of contracts decreased by 1.5% YoY to 419,605 due to an increase in cancellations of low-priced plans, and customer spend increased by 9.3% YoY to JPY471, driven by the effect of price revisions and an increase in the proportion of higher-tier plans.

MuuMuu Domain

In Q1 FY12/23, revenue increased by 1.6% YoY to JPY553mn, while operating profit decreased by 36.6% YoY to JPY45mn. The number of domains under contract decreased by 2.3% YoY to 1,139,334 due to a decrease in new contracts. Customer spend increased by 2.1% YoY to JPY1,902 (as estimated by Shared Research), reflecting an increase in the domain renewal rate.

E-Commerce Support business

- Revenue: JPY701mn (+5.5% YoY)
- Operating profit: JPY163mn (-6.8% YoY)

Color Me Shop

In Q1 FY12/23, revenue reached JPY512mn (+15.7% YoY) and operating profit reached JPY202mn (+14.8% YoY). The number of contracts increased by 5.0% YoY to 50,537, driven by the increase in contracts for the free plan, which does not charge initial or monthly fees. Customer spend swelled by 35.3% YoY to JPY5,014 owing to the price revisions implemented in April 2022.

SUZURI

In Q1 FY12/23, revenue fell by 13.2% YoY to JPY185mn and operating loss was JPY29mn (versus operating profit of JPY6mn in Q1 FY12/22). Changes in consumer behavior as the economy recovered from the COVID-19 pandemic led to a decrease in gross merchandise value of 13.3% YoY to JPY520mn. The number of members at the end of the quarter increased by 24.8% YoY to 1,410,000, and the number of creators at the end of the quarter increased by 16.9% YoY to 690,000.

Handmade Products business

- Revenue: JPY413mn (-10.3% YoY)
- Operating profit: JPY27mn (-44.2% YoY)

minne

In Q1 FY12/23, revenue fell 10.3% YoY to JPY413mn, while operating profit was down 44.2% YoY to JPY27mn. Gross merchandise value decreased by 9.8% YoY to JPY3.8bn owing to changes in consumer behavior as normal economic activities resumed following the COVID-19 pandemic. The number of orders decreased by 16.0% YoY to 1,022,000, while the average order value increased by 6.2% YoY to JPY3,823. The number of active sellers at the end of the period increased by 6.1% YoY to 870,000, the number of listed items increased by 9.5% YoY to 16,250,000, and app downloads increased by 5.7% YoY to 14,280,000.

Financial Support business

- Revenue: JPY252mn (+178.5% YoY)
- Operating Loss: JPY94mn (versus JPY4mn in Q1 FY12/22)

FREENANCE

In Q1 FY12/23, revenue was up 178.5% YoY to JPY252mn, while the operating loss grew to JPY94mn (versus JPY4mn in Q1 FY12/22). The number of users of a monthly paid plan that the company launched in October 2022 increased. This factor, along with an increase in the number of individual transaction users and an increase in the unit price, took the invoice factoring value to a record high of JPY3.1bn, an increase of 157.9% YoY. Nonetheless, the operating loss expanded stemming from large overdue receivables, which caused bad debt-related expenses to grow from JPY175mn to JPY180mn. The number of users increased 43.0% to 3,298, the number of invoice purchases increased 47.0% to 6,006, and the average invoice purchasing value increased 75.3% to JPY519,000.

The large overdue receivables occurred as a result of an increase in invoice purchasing value by the same companies in transactions between FREENANCE users, and partner companies. Going forward, the company will monitor the business climate and gather empirical data using resources such as Teikoku Databank, and gather information on business partners such as by conducting regular credit surveys of them. It also plans to review credit limits and fees in invoice factoring for partner company transactions.

Full-Year FY12/22 results

- Revenue: JPY10.5bn (-11.4% YoY)
- Operating profit: JPY732mn (-17.6% YoY)
- Recurring profit: JPY767mn (-20.8% YoY)
- Net income attributable to owners of the parent: JPY510mn (-28.7% YoY)

Due to the application of the Accounting Standard for Revenue Recognition from the beginning of FY12/22, revenue fell by JPY1.7bn, while operating profit, recurring profit, and pre-tax profit rose by JPY101mn each. When applying the same standards to the previous fiscal year, we can see that revenue increased in real terms by 6.7% YoY, and operating profit, recurring profit, and net income attributable to owner of the parent decreased in real terms by 16.5% YoY, 19.8% YoY, and 27.5% YoY, respectively.

Versus the company's full-year forecast for FY12/22 (revised on November 7, 2022), revenue progressed 100.3%, operating profit 100.0%, recurring profit 100.9%, and net income attributable to owners of the parent 97.7%.

Revenue

In FY12/22, revenue reached a record high after the application of the Accounting Standard for Revenue Recognition. When applying the same standards to the previous fiscal year, revenue increased in real terms by 6.7% YoY. The Hosting business experienced growth due to the effects of price revisions and the sale of high-priced domains. The E-Commerce Support business saw a decrease in revenue as Color Me Shop results were flat YoY, while SUZURI underperformed. The Handmade Products business also saw revenue fall owing to a decrease in gross merchandise value. On the other hand, the Financial Support business posted higher revenue due to a sharp increase in invoice factoring value.

Operating profit

Operating profit was down due to an increase in promotional expenses such as TV commercials. When applying the Accounting Standard for Revenue Recognition to the previous fiscal year, operating profit decreased in real terms by 16.5% YoY (-JPY144mn). Factors affecting operating profit included the increase in revenue on the positive side (+JPY657mn effect); and an increase in revenue-linked costs (-JPY220mn), an increase in promotional expenses (-JPY211mn), an increase in bad debt-related expenses (-JPY140mn), and an increase in other costs (-JPY229mn) on the negative side.

Recurring profit

In addition to the decline in operating profit, recurring profit fell mainly due to a decrease in gains on investment in partnerships. Applying the Accounting Standard for Revenue Recognition to the previous fiscal year, recurring profit fell in real terms by 19.8% YoY.

Segment performance

Hosting business

- Revenue: JPY5.2bn (+7.2% YoY)
- Operating profit: JPY1.7bn (+17.3% YoY)

Due to the application of the Accounting Standard for Revenue Recognition, revenue increased by JPY18mn and operating profit increased by JPY103mn. Applying the accounting standard to the previous period, in real terms, revenue was up 8.3% YoY, while operating profit increased by 18.5% YoY.

Lolipop!

Revenue for FY12/22 was JPY2.3bn and operating profit was JPY1.3bn. When applying the Accounting Standard for Revenue Recognition to the previous period, these were up 13.2% YoY and 27.3% YoY, respectively. The number of contracts fell by 0.8% YoY to 422,596, mainly due to an increase in cancellations of low-priced plans as the company focused on acquiring top-tier plans. Customer spend increased by 12.8% YoY to JPY449, driven by the effect of price revisions and an increase in the proportion of top-tier plans.

MuuMuu Domain

Revenue for FY12/22 came to JPY2.2bn and operating profit to JPY315mn. When applying the Accounting Standard for Revenue Recognition to the previous period, these were up 6.8% YoY and 4.1% YoY, respectively. The number of domain contracts grew by 1.3% YoY to 1,186,748, due to new acquisition discounts and various campaigns. Shared Research estimates that customer spend increased by 6.4% YoY to JPY1,928, driven by an increase in the domain renewal rate.

E-Commerce Support business

- Revenue: JPY3.1bn (-35.8% YoY)
- Operating profit: JPY824mn (-26.3% YoY)

Due to the application of the Accounting Standard for Revenue Recognition, revenue decreased by JPY1.4bn and operating profit decreased by JPY2mn. When applying the same accounting standards to the previous fiscal year, revenue decreased by 2.2% YoY and operating profit decreased by 26.5% YoY in real terms.

Color Me Shop

Revenue for FY12/22 was JPY1.9bn and operating profit was JPY786mn. Applying the Accounting Standard for Revenue Recognition to the previous fiscal year, revenue increased by 4.4% YoY in real terms, while operating profit decreased by 1.4% YoY. The number of contracts was up 9.3% YoY to 50,663 due to the increase in the number of free plans with no initial or monthly fees. Customer spend increased by 18.8% YoY to JPY4,146, reflecting the effect of a price revision implemented in April 2022.

SUZURI

Revenue for FY12/22 came to JPY958mn and the operating loss was JPY95mn. Applying the Accounting Standard for Revenue Recognition to the previous fiscal year, revenue fell by 12.4% YoY and operating loss worsened by JPY295mn. Changes in consumer behavior due to the recovery of the economy in the wake of the COVID-19 pandemic led to a 16.3% decrease in gross merchandise value to JPY2.6bn. The number of members at the end of the period increased by 27.4% YoY to 1,350,000, and the number of creators at the end of the period increased by 19.6% YoY to 670,000.

Handmade Products business

- Revenue: JPY1.7bn (-15.5% YoY)
- Operating profit: JPY82mn (-63.5% YoY)

Revenue decreased by JPY245mn due to application of the Accounting Standard for Revenue Recognition, and operating profit was unaffected. Applying the same accounting standard to the previous fiscal year, we can see that revenue decreased by 1.2% YoY and operating profit by 63.5% in real terms.

minne

In FY12/22, revenue was JPY1.7bn and operating profit was JPY82mn. Applying the Accounting Standard for Revenue Recognition to the previous fiscal year, revenue and operating profit fell by 1.2% YoY and 63.5% YoY, respectively. Despite implementing promotional campaigns to bolster sales, changes in consumer behavior as the economy recovered from the COVID-19 pandemic resulted in a 0.5% YoY decrease in gross merchandise value to JPY15.1bn. The number of orders fell by 9.4% to 4,160,000, while the average order value increased by 9.8% to JPY3,620. The number of registered artists at the end of the period increased by 6.3% to 850,000, the number of listed items increased by 9.8% to 15,960,000, and the number of app downloads increased by 6.3% to 14,110,000.

Financial Support business

- Revenue: JPY594mn (+179.1% YoY)
- Operating loss: JPY26mn (versus loss of JPY140mn in FY12/21)

Revenue fell by JPY2mn owing to the application of Accounting Standard for Revenue Recognition. Operating loss was unaffected. Applying the same standard to the previous fiscal year, revenue increased 180.6% YoY and the operating loss narrowed by JPY113mn in real terms.

FREENANCE

In FY12/22, revenue was JPY594mn and operating loss was JPY26mn. Applying the Accounting Standard for Revenue Recognition to the previous fiscal year, revenue increased 180.6% YoY and the operating loss shrank JPY113mn YoY in real terms. The number of partner companies increased, mainly in the transportation sector, leading to an expansion in the use of invoice factoring and a 208.5% YoY increase in total invoice purchasing value to JPY8.7bn. The number of users increased by 43.2% YoY to 3,154, the number of invoice purchases increased by 71.5% YoY to 20,310, and the average invoice purchase value increased by 79.9% YoY to JPY427,000.

Other information

History

The company was established as a limited liability company, paperboy&co., in January 2003, when the web hosting service Lolipop! was transferred from its predecessor company. It was incorporated in March 2004 and became a consolidated subsidiary of Global Media Online, Inc. (now GMO Internet Group, Inc.) through a third-party allotment of shares. After being listed on JASDAQ in December 2008, the company changed its name to GMO Pepabo, Inc. in April 2014. As of the end-FY12/22, GMO Internet Group, Inc. holds 57.5% of the company's voting rights (including indirect ownership of 2.0%).

Date	
November 2001	Launched Lolipop!
January 2003	Established paperboy&co.
March 2004	Became a consolidated subsidiary of Global Media Online, Inc. (now GMO Internet Group Inc.) through a third-party allotment of new shares
February 2005	Launched Color Me Shop, an e-commerce store creation service
December 2008	Listed on JASDAQ
January 2012	Launched minne, a handmade products marketplace
April 2014	Company name changed to GMO Pepabo, Inc.
April 2014	Launched SUZURI, a service for creating and selling original goods
February 2019	GMO Creators Network Inc. becomes a consolidated subsidiary
December 2019	Listing changed to the Second Section of the Tokyo Stock Exchange
December 2020	Listing changed to the First Section of the Tokyo Stock Exchange
April 2022	Listing changed to the Prime Market of the Tokyo Stock Exchange
April 2022	Launched GMO Renshu, a membership management cloud service for teams and classrooms
October 2023	Listing changed to the Standard Market of the Tokyo Stock Exchange

Source: Shared Research based on company materials

Major shareholders

Top 10 shareholders (as of end-December 2023)	Shares held (000 shares)	Shareholding ratio
GMO Internet Group, Inc.	3,031	57.44%
The Master Trust Bank of Japan, Ltd.(Trust account)	259	4.90%
GMO AD Partners Inc.	108	2.04%
Kentaro Sato	48	0.90%
Shiro Matsuo	42	0.78%
Custody Bank of Japan, Ltd.(Trust account)	41	0.78%
GMO Pepabo Employee Stock Ownership Plan	30	0.56%
CREDIT SUISSE AG HONG KONG TRUST A/C CLIENT (Standing proxy: MUFG Bank)	28	0.53%
Teiichi Taniguchi	28	0.52%
Zuiryu Mitsui	27	0.51%
SUM	3,641	68.96%

Source: Shared Research based on company materials
Note: Percentage of shares held excludes treasury stock

Shareholder returns

The company recognizes the importance of strengthening its corporate structure and pursuing proactive business development to navigate the rapidly evolving internet industry. The company acknowledges that profit distribution is also a critical management issue. It aims to enhance long-term stock value based on business growth, while maintaining a minimum consolidated dividend payout ratio of 50% and striving for stable earnings that enable continuous dividend payments linked to performance.

Dividends	FY12/14	FY12/15	FY12/16	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	FY12/23
(JPY)										
Dividend	33.75	-	15.00	12.50	52.50	65.00	81.00	68.00	50.00	-
EPS	75.87	-149.97	29.12	22.75	88.65	104.11	159.07	135.22	96.37	-119.16
Payout ratio	44.5%	0.0%	51.5%	55.0%	59.2%	62.4%	50.9%	50.3%	51.9%	0.0%

Source: Shared Research based on company materials
Note: Results retroactively adjusted to account for the 2-for-1 stock splits implemented in FY12/15 and FY12/19

Corporate governance and top management

Corporate governance

Corporate governance structure (as of March 2023)

Form of organization and capital structure	
Controlling shareholder	None
Foreign shareholding	Less than 10%
Directors	
Form of organization	Company with Audit & Supervisory Committee
Number of directors under Articles of Incorporation	14
Number of directors	11
Directors' term of office under Articles of Incorporation	1 year
Chairperson of the Board of Directors	President
Number of outside directors	4
Number of independent outside directors	4
Advisory bodies equivalent to nomination and compensation committees	Yes
Number of Audit & Supervisory Committee members	4
Number of outside directors serving as Audit & Supervisory Committee members	3
Other	
Implementation of measures regarding director incentives	Yes
Those eligible for stock options	Internal directors, Employees
Disclosure of directors' compensation	No disclosure of individual compensation
Policy to determine amount and calculation method of remuneration	Yes
Corporate takeover defenses	None

Source: Shared Research based on company materials

Basic corporate governance policy

The company is committed to ensuring fair and equitable profits for stakeholders, including shareholders and customers, and strives for the continuous enhancement of corporate value by ensuring compliance and strengthening its corporate governance structure.

Top management

Kentaro Sato, President and Representative Director

Mr. Sato was born in January 1981. In January 2003, while still in university, he joined paperboy&co. He has held various positions including Head of the President's Office, Director, Head of the Management Planning Department, Vice President, and Representative Director. In March 2009, he assumed his current position of President and Representative Director.
During his university days, Mr. Sato created his own website and began disseminating information on the web. This work gave him the opportunity to meet the founder of GMO Pepabo's predecessor company, which eventually led to his joining the company. He continues to disseminate information on his blog, "Kenichiro Sato Official Site" (satokentaro.jp).

Profile

Company Name

GMO Pepabo, Inc.

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Phone

81-3-5456-2622

Listed On

Tokyo Stock Exchange, Standard Market

Established

2003-01-10

Exchange Listing

2008-12-19

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https://pepabo.com/contact/

Fiscal Year-End

Dec

About Shared Research Inc.

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at https://sharedresearch.jp.

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