

Presentation

Moderator: Thank you very much for taking time out of your busy schedule to participate in today's online financial result briefing of GMO Pepabo, Inc. for Q3 of the fiscal year ending December 2023.

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

Sato: Thank you.

Moderator: Yoshito Igashima, Executive Director.

Igashima: Thank you.

Moderator: These 2 people are present. Today, CEO Sato will provide an overview of the financial results.

Sato: I am President Sato. Thank you for taking time out of your busy schedule to attend today's briefing. We will begin the financial results briefing of GMO Pepabo for Q3 of the fiscal year ending December 2023.

This is a summary of the financial results. The loss was recorded due to the continued impact of bad debt-related expenses recorded in Q2.

On the other hand, the recurring revenue business drove performance, and the collection of receivables in the Financial Support business progressed, resulting in a profit in the consolidated Q3. We also continue to promote measures for future business growth and the application of AI technology to our services.

Today's agenda. The second half of the document also includes reference materials, so please have a look at them when you have time. First, here is a summary of the financial results for Q3 of the fiscal year ending December 2023. Cumulative Q3 sales were JPY8.225 billion, up 5.3% YoY. Operating profit was negative JPY582 million. Ordinary profit and below are as shown.

As for quarterly results, sales for Q3 of 2023 were flat YoY due to the control of invoice purchase prices in the Financial Support business, despite growth in sales in the recurring revenue business.

Operating profit, on the other hand, declined due to the absence of the effect of the timing of the recording of high value domain sales and T-shirt sales from Q2 to Q3, which occurred in the previous year.

Changes in operating profit. The Company continued to report an operating loss due to the significant impact of bad debt-related expenses recorded in Q2.

The results by segment are shown here. In the Hosting business, the recurring revenue business remained strong due to the effect of price revisions. In the E-commerce Support business, operating profit improved due to cost reductions at SUZURI. The Handmade Products business was below the previous year's level due to a decrease in gross merchandise value.

The Financial Support business recorded a loss due to the impact of bad debt-related expenses recorded in Q2.

Here is an explanation of each segment. First is the Hosting business. Net sales increased steadily to JPY4,257 million, up 5% YoY. Operating profit was 1.41 billion yen, down 2% YoY.

Rental server service Lolipop! posted sales of JPY1,854 million and operating profit of JPY986 million. Spending per customer continues to increase, benefiting from the price revisions implemented in February 2023. Despite an increase in the number of contracts under high unit price plans, the overall number of contracts decreased due to the impact of a decline in the number of contracts under low unit price plans.

MuuMuu Domain, a domain name acquisition service, posted sales of JPY1,729 million and operating profit of JPY212 million. Unit cost per customer increased due to the effect of the introduction of a service maintenance and adjustment fee beginning in February 2023. In addition, although the contract renewal rate was high, the number of new domain name contracts was sluggish.

Next is the E-commerce Support business. Net sales were JPY2,283 million, up 7% YoY. Operating profit was JPY586 million, up 34.2% YoY. The online store creation service Color Me Shop posted sales of JPY1,542 million and operating profit of JPY546 million.

The effect of the price revision implemented in April 2022 had led to an increase in the spending per customer, but this has now run its course and is settling down. Although the number of cancellations of monthly plans has settled down, the increase in the number of new contracts decreased, resulting in a slight decline in the overall number of contracts.

SUZURI, an original goods creation and sales service, posted sales of JPY729 million and operating profit of JPY76 million. Although net sales were about the same YoY, operating profit was in the black due to cost reductions in TV commercials and other activities implemented last year.

Next is the Handmade Products business. Net sales were JPY1,131 million, down 8.3% YoY. Operating profit was JPY40 million, down 41.4% YoY. Gross merchandise value for the first nine months of 2023 was JPY9.78 billion, down 13% YoY, as sales of low-priced works struggled.

Next, the Financial Support business. Net sales were JPY552 million, up 43% YoY. Operating profit was negative JPY1.14 billion. Operating profit saw a slight reversal of allowance for doubtful accounts in Q3 due to progress in debt collection, but on a cumulative basis, the effect of bad debt-related expenses recorded in Q2 was significant.

In the Financial Support business, the amount of purchases of invoices since June 2023 has decreased significantly due to tighter controls. The amount of purchases for Q3 was JPY1.41 billion.

Next, I will explain the progress of our business performance for the fiscal year ending December 2023. The figures are the total sales excluding one-time revenues of the Hosting business and Color Me Shop, which are recurring revenue businesses. In Q3 of 2023, revenue from recurring revenue businesses totaled JPY1.71 billion, growing steadily, especially in the Hosting business, which has undergone a price revision.

MuuMuu Domain, a Hosting business, began offering the new MuuMuu Sites feature in October 2023. With MuuMuu Sites, you can easily create web pages using Notion, an all-in-one tool, and simply acquire a domain name to intuitively build a website without any specialized knowledge or skills. The hurdles to creating websites will be greatly lowered, and because of the ease of output, we believe that new user groups can be attracted.

Total GMV of EC-related services, the sum of the 3 services Color Me Shop, SUZURI, and minne, declined YoY due to an increase in the number of existing stores leaving Color Me Shop. In addition to working on measures to acquire new contracts and prevent stores from leaving through the development of premium plans for Color Me Shop, we aim to increase GMV through the implementation of measures for minne and SUZURI.

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In August 2023, minne began operating minne ads, which allow creators to advertise their works within minne. Since ads can be easily operated without specialized knowledge, many people are already using this service, and the number of ads users is expected to reach approximately 10,000 per year. We also held the minne Handmade Products Market 2023 at Tokyo Big Sight for the first time in 4 years from September 16 to 18, attracting many creators and users.

SUZURI is promoting measures to increase the number of site visitors by using content and IPs with the ability to attract visitors. As the first phase, we have begun selling goods featuring Bandai Namco Entertainment's IDOLM@STER SHINY COLORS, and we plan to announce the second phase in November 2023. In addition, in collaboration with TOEI ANIMATION, we are holding a fan-fiction contest, and with Calbee, we held a JagaRico package design contest. We will continue to actively use IP to attract more customers to SUZURI.

In addition, a new Business Development Department was established in October 2023. The Company has continued to grow with the support of many creators through our constant provision of new services. In addition to exploring, developing, and operating new businesses, we will create new value for the Company by expanding leadership through the appointment of younger employees and developing services in unique business areas.

On the other hand, for services that are currently being offered, we aim to expand earnings by broadening the target customer base and improving the value provided to current service users. We aim to achieve business growth by securing new recurring revenues, addressing overseas demand, and expanding our business domain.

The Company continues to promote the use of AI technology within our services. Color Me Shop continues to add functionality to the Color Me AI Assistant, allowing for text re-generation from the admin screen. We also introduced a function that automatically generates 3 SEO settings based on the product name.

At the Handmade Products Market 2023, which I mentioned earlier, minne has developed Hanmake AI Concierge, a service in which AI introduces exhibitors and stores that match visitors' requests.

AI also contributes to operational efficiency. minne's customer support department has developed a fraudulent order detection AI to help in the task of monitoring fraudulent orders. This contributes to the reduction of man-hours for monitoring work that is usually performed for nearly 10,000 cases.

In addition, in the administrative department, an AI for taking meeting minutes has been introduced to automate the preparation of minutes, thereby improving operational efficiency. Even outside of the service department, we are actively using AI to improve our daily operations. This is the end of my explanation of the financial summary for Q3. Thank you.

Moderator: This concludes our explanation of the financial summary. Thank you.

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Question & Answer

Moderator [M]: We will now move on to the question and answer session. First, we will explain how to ask questions. If you have questions, please click the raise hand button at the bottom of the Zoom screen. I will call you by the name you registered with Zoom. When you are nominated, please unmute at hand. Then, please ask your question after you have mentioned your company name and your name. Now, please click the raise hand button if you have a question.

Okay, first of all, Mr. Tokunaga of Daiwa Securities, please ask your questions.

Tokunaga [Q]: Thank you for your help. I am Tokunaga of Daiwa Securities. 3 questions, please. First, I would like to discuss the return of allowance for the Financial Support business. How much did this return in this quarter? I think it would be about JPY100 million, but is that right?

Also, what is the status of the allowance receivables at this time? Is it still remaining, and can we expect it to return in future quarters if you proceed to eliminate it? Or are there bad credits coming out that were not yet out before and you don't know what will happen in the future if you net them there? What are the results for Q3 of this reserve and what is the outlook for the future? This is the first point.

Igashima [M]: I will answer the question. Thank you for your question, Mr. Tokunaga. First of all, regarding the return and the status of allowance receivables, we do not disclose the figures. However, there are currently no new receivables in arrears.

On the other hand, although there has been some increase or decrease in allowance, the situation is quite severe from our point of view, and we believe that it will be quite difficult to eliminate it. That is all.

Tokunaga [Q]: Thank you very much. Conversely, was the Financial Support business in the black or in the red, except for allowance? What is your image?

Igashima [M]: I think that the overall situation is about even because there is a return. However, since the return of allowance is a bit difficult to read, we believe that the deficit will probably continue for some time in the future.

Tokunaga [Q]: Thank you very much. Second. I asked this question in the last quarter, but I would like to know if you see any new areas of focus for your company's medium-term growth other than the Financial Support business, such as which areas you will strengthen and focus on. This is the second point.

Sato [A]: Okay, I will answer this question. First of all, our recurring revenue business is one of our strengths, so the premise is that we will continue to strengthen our recurring revenue-type business such as Lolipop!, Color Me, and MuuMuu Domain.

On the other hand, there are a large number of creators using services such as SUZURI and minne, and we are currently working on several new initiatives to provide value to creators, including the development of a recurring revenue business model for them.

As we wrote in the document mentioned earlier, we also need to move forward with business development. Especially in the environment of AI, we would like to take several measures and new services to expand our existing business by using new expressions and AI.

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Until now, we have been focusing on increasing the non-recurring revenue business, but we would like to grow other areas, especially recurring revenue business. In addition, we would like to make new efforts in the area of AI. We are not yet able to show the specific amount of money planned, but each department and the team that will create new businesses are currently working on such a plan.

Tokunaga [Q]: I understand very well. Thank you very much. The third point is regarding BASE's trend. BASE explained at the recent financial results meeting that they are going to make a major price revision, and since your company is also competing with Color Me, you may be able to revise your prices. If you implement a pricing strategy, it could be a chance to get customers back. What is your company's response to the news and what are your company's thoughts at this time and in the future? This is the last question.

Sato [A]: Last year we also revised our prices for Color Me, and as the overall EC traffic increased, so did our costs, and we had no choice but to revise our prices.

BASE is also incurring some operating costs, and I suspect that the freemium model is becoming more and more difficult to implement.

From the customer's point of view, when looking at the services and specifications we provide and BASE's revised price plan, we are superior in terms of functionality. From the user's perspective, some of our prices are actually lower than theirs.

Most recently, we have seen some stores transferred to BASE as a result of our price revisions, and some stores have left due to their growth. In that sense, our competitiveness is far superior in terms of price. In this regard, in the prevention of stores from leaving, we believe that our superiority points will emerge when we are compared with other companies.

So, for the time being, rather than revising prices, we are in a competitive position, so we are taking some measures in those areas. Most recently, for example, we have made the WordPress functionality that was previously offered as an option free of charge, and we have partnered with Amazon to allow Amazon Pay to be introduced at all stores. The competitiveness of Color Me itself is now significantly higher. With that said, for now, we are hoping to take advantage of this situation to increase the number of contracts.

Tokunaga [Q]: Thank you very much. As a follow-up, do you mean prevention of cancellations rather than acquisition? Or, depending on the situation, there may be a way to invest strategic costs and think of this as some sort of acquisition opportunity, but how are you currently organizing this in your mind?

Sato [A]: Most recently, after all, the stay-at-home demand is over, and the number of people creating e-commerce sites seems to be decreasing considerably. On the other hand, as individual stores have gradually slowed their growth after the stay-at-home, many of them are leaving the e-commerce site or shifting to other inexpensive services. We are currently in a situation where a large number of shops are leaving or graduating.

We would like to prevent stores from leaving as much as possible. If there is a cost advantage in exiting to a higher level, or if there is a functional disadvantage in exiting, we have started offering a higher level plan this term, so we are thinking about preventing exit in such a way.

Tokunaga [Q]: Thank you very much. That is all. Thank you.

Moderator [M]: Thank you, Mr. Tokunaga. If you have any other questions, please click raise hand. Do you have any other questions? There is still some time left, but since there seem to be no other questions, we will conclude the question and answer session.

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This concludes the online financial result briefing of GMO Pepabo, Inc. for Q3 of the fiscal year ending December 2023. After the Zoom, a questionnaire will be displayed and we ask you to answer it. Thank you very much for your participation today.

Sato [M]: Thank you.

Igashima [M]: Thank you.

[END]

Document Notes

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