

Presentation

Moderator: Thank you very much for taking time out of your busy schedule today to participate in the GMO Pepabo, Inc. online financial results presentation for the first quarter of the fiscal year ending December 31, 2024.

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

Sato: Thank you for coming today.

Moderator: Yoshito Igashima, Executive Director.

Igashima: Thank you for coming today.

Moderator: These two representatives of the company are present.

Today, CEO Sato will provide an overview of the financial results. Mr. Sato, please go ahead.

Sato: I am President Sato. Thank you for taking time out of your busy schedule to attend today's briefing. I will begin the explanation of GMO Pepabo's Q1 financial results for FY2024, which ends December 31.

This is a summary of the financial results. While net sales decreased in the financial assistance business due to a year-on-year decline in the amount of invoices purchased, operating income increased significantly due to a decrease in bad debt-related expenses in the same business. For future growth, we will introduce AI throughout the company to improve operational efficiency. In addition, as a new business, "GMO Instant Response AI" has been launched. Our AI initiatives will be explained later.

This is today's agenda. I will explain our business performance and future initiatives. Please refer to the reference materials in the second half of the document when you have time.

First is a summary of the financial results. Consolidated net sales decreased 3.2% year on year to JPY2,647 million due to a decline in the purchase of invoices in the financial assistance business as a result of stricter purchase criteria for this business. Operating income was JPY234 million, up 550% from the same period last year, due to strong recurring revenue growth

and lower bad debt-related expenses. The significant increase in profit resulted in positive ordinary income and net income.

The quarterly sales and operating income trends are shown here.

This is the quarterly sales trend of the recurring revenue-type business, which is driving our business performance. Excluding one-time revenues from the hosting business and Color Me Shop, sales grew steadily, benefiting from the effect of price revisions in the hosting business. For the first quarter of 2024, the amount was JPY1.76 billion.

Here is an analysis of changes in operating income. In the first quarter of 2023, bad debt-related expenses were recorded, but since those expenses are no longer recorded, operating income has increased significantly.

A summary of results by segment is shown here. In the hosting business, the effect of price revisions at Lolipop! and MuuMuu Domain and an increase in sales of plans in the higher price range resulted in strong sales.

In the EC support business, SUZURI's gross merchandise value fell below the previous year's level, but operating income was at the same level as the previous year as a result of efficient cost investment.

In the handmade business, gross merchandise volume declined, but profits increased due to the development of advertisements aimed at artists on the site.

In the financial assistance business, revenue declined due to a decrease in the amount of invoices purchased, but the loss margin narrowed significantly due to a decrease in bad debt-related expenses.

From here, I will explain each segment. First, the hosting business. Net sales were JPY1,522 million, up 11.2% from the same period last year, and operating income was JPY539 million, up 26.5% from the same period last year. The server business Lolipop! posted sales of JPY650 million and operating income of JPY344 million.

Spending per customer is continuously increasing. Although the effects of the price revision implemented in February 2023 have largely run their course, the ratio of contracts for higher-

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priced plans is increasing, and unit prices are expected to rise moderately in the future. On the other hand, the cumulative number of contracts decreased.

Regarding the business environment of the hosting business, the left-hand chart shows the environment of the Internet industry that we are concerned with, or rather, the environment of the users whose output we are surrounded by. Until now, they have gathered together through SNS, but the effect or influence of SNS has been gradually dispersing, and the various communities are now dispersing to various websites and SNS.

In such a situation, for example, the needs of servers themselves are changing, and the way in which they are used is gradually changing.

Until now, we have offered services for server needs for people making websites and sharing them. Now, for example, many hosting companies are participating in the market, but the needs of individuals are expanding to include the use of servers for playing games or creating one's own small social networking site.

For this reason, we have established a new service plan called "Lolipop! for Gamers." This service was launched on April 15. We would like to provide more and more services to these diverse communities and server needs.

As for the price plans, we are currently planning to offer two plans for Lolipop! for Gamers, one for JPY4,300 and the other for JPY11,000 per month. Lolipop! itself is in the JPY300 and JPY320 price range. The price range is much higher than the current price range.

Next is MuuMuu Domain, a domain name acquisition agency service, with sales of JPY644 million and operating income of JPY109 million. Although the number of subscriptions itself decreased slightly, the introduction of the service maintenance and adjustment fee increased the unit price of domains, resulting in a significant increase in operating income.

The MuuMuu Servers plan, which was launched last year and integrates the process from domain name acquisition to server contract, also saw 1,346 new contracts in the first quarter. We are off to a good start this fiscal year with the goal of obtaining 5,000 contracts.

Since the monthly fee for MuuMuu Servers is JPY1,430, we believe this will contribute to the expansion of sales of higher-priced plans in the future.

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This graph shows server sales by plan in the hosting business. Overall server sales are steadily increasing due to the effect of price revisions. In particular, sales of high-unit-price plans are expected to grow significantly from 2020 to 2024.

The demographics of server users have shifted from individuals to corporations, and demand for higher spec servers is expanding, resulting in an increase in the number of contracts for high-speed plans and an increase in sales of higher-priced plans. We will continue to aim to expand the base of recurring revenue-type earnings by increasing the sales ratio of high-unit-price plans.

Among them, MuuMuu Servers and Lolipop! for Gamers, which I mentioned earlier, are the higher priced plans, and they continue to drive new growth. By building up the number of new contracts here, we aim to increase recurring revenue-type revenues.

Lolipop! for Gamers is in a situation where sales will be posted from the second quarter of the fiscal year ending December 31, 2024.

Next are the EC support business and the handmade business. First, in the EC support business, net sales were JPY665 million, down 5.1% from the same period last year, and operating income was JPY160 million, down 1.5% from the same period last year.

The e-commerce site-building service Color Me Shop posted sales of JPY504 million and operating income of JPY188 million. Although the unit price per customer increased year-on-year due to the effect of price revisions, both net sales and operating income decreased as a result of a decline in the number of contracts.

Here is a chart of gross merchandise value on the Color Me Shop. The GMV of Color Me Shop stores was up 0.6% from the same period last year due to an increase in distribution by stores that performed well on year.

The figure shows the quarterly GMV per store for stores subscribing to the Color Me Shop paid plan has doubled from JPY810,000 to JPY1,670,000 over the five years from 2019 to 2024.

Many of the stores in Color Me Shop make annual sales of less than JPY10 million. The number of stores with annual sales of JPY10 million or more, which we call the top of the service, increased from 1,292 to 2,848 between 2019 and 2023.

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There is an increasing number of Color Me Shop stores that have low sales and are closing. However, the number of stores that are steadily expanding their distribution is increasing, and we would like to expand our distribution base by continuing to make contracts with these stores and further expanding their distribution.

Last year, we launched a premium plan for top-tier stores with particularly gross merchandise values. Both the number of stores and sales have increased, with a 36.2% increase compared to the previous quarter. We will continue to strengthen our sales efforts to acquire new contracts with top-tier stores.

With regard to the acquisition of stores subscribing to other paid plans, the number of contracts through agencies increased 13.5% QoQ. Therefore, we will continue to aim to expand acquisitions through agencies as well.

In addition, we are reviewing the terms and conditions of contracts with our alliance partners. We expect this measure to increase recurring revenues.

Next is SUZURI, an original goods creation and sales service. Net sales were JPY161 million and operating income was a loss of JPY18 million. Although gross merchandise value was sluggish, efficient cost indexes resulted in a narrowing of losses.

SUZURI has been focusing on promoting the use of apps since the fourth quarter of the previous year, as the conversion rate via apps is about 3 times higher than via browsers. The number of new downloads of the application increased 178% year-on-year. Since the app GMV increased 23.1% year-on-year, we will continue to increase the ratio of app usage and aim to increase the GMV.

In the minne handmade products business, net sales were JPY359 million, down 13% from the same period last year, and operating income was JPY30 million, up 12.6% from the same period last year. Although sales declined year-on-year due to a decrease in gross merchandise value, operating income increased due to steady growth in advertising on the site aimed at creators, which started in August last year.

Minne's GMV itself has been sluggish due to changes in the overall trend of the handmade market, as sales of works, especially those in the low-price range, have struggled. In this context, we are working to increase revenue from advertisements on the site aimed at creators,

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and to increase conversion of artists on the site. We are also planning to offer a paid membership service for creators in September because there is a high need among the creators of handmade goods on minne to continue on the site.

Regarding the content of that, for example, we would like to offer a plan that allows users to reach out to their followers, so we would like to offer functions that allow creators to work as creators and to reach out to buyers.

Next is the financial assistance business. Net sales were JPY99 million, down 60.6% from the previous year, and there was an operating loss of JPY6 million. While net sales were affected by the curbing of invoice purchase amounts from the second quarter, the operating loss narrowed due to a decrease in bad debt-related expenses.

This is the change in bad debt-related expenses. Bad debt-related expenses amounted to JPY180 million in the first quarter of last year and JPY1.09 billion in the second quarter. Since the collection of loans has progressed since the third quarter and a gain on reversal of loans was recorded, the situation remains safe and stable.

The amount of invoices purchased remained flat after the second quarter of 2023, when the review criteria were tightened, and the amount of invoices purchased in the first quarter was JPY1.3 billion.

That covers our business results.

The following are other qualitative topics for the fiscal year ending December 31, 2024.

As we reported in our main earnings report in February, we want to provide services that create the future with AI. In January 2024, our company made our responses to various inquiries via our website and over the phone 100% AI and automated. This has led to three results.

The first is that AI has reduced the work-hours required to communicate with users. Previously, various departments had to respond to inquiries, contact us, and so on, but we were able to cut down on such time.

In addition, the reduction in time required to respond to inquiries has resulted in the transfer of our associates who used to work in customer support into business divisions or other positions, and this optimization of personnel resources has reduced the overall number of new hires.

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Finally, by reducing the time required to respond to customers, we have also been able to dramatically reduce the stress and time required to solve problems. This has not only improved our internal efficiency, but also improved customers' experience.

With these three gains, we have been able to start offering a new business to corporations, which I will explain later.

Here I would like to share a case study of improving productivity through the use of AI in the Color Me Shop.

The use of AI to handle inquiries has reduced the number of staffed responses by 47.1%. This reduction in work-hours has created extra time for the customer support department, allowing them to transfer to business units or change their job type. As a result, the number of staff in charge of customer support is 17% lower than in the same period last year.

We will continue to strengthen our organization by limiting new hires and actively transferring employees from the CS division to business and other divisions, with the aim of capturing profitable opportunities and improving productivity.

As announced on March 15, we have launched a new business, "GMO Instant Response AI," a service based on our expertise in implementing AI responses to inquiries. Pricing plans for the new service range from an initial fee of JPY330,000 to a monthly fee of JPY33,000.

For companies that are having difficulty communicating with their users, we support the introduction of AI for inquiries and also provide the customer service know-how that we have accumulated over the past 20 years to help solve or improve user communication issues, productivity, and customer experience. We are now in the process of introducing the service to small and medium-sized stores that are already using our services.

In addition to inquiry response, the market for AI-based user communication is expected to continue to grow. The domestic DX market is expected to grow to JPY5.1 trillion by 2030, and we are aiming to grow our business with "GMO Instant Response AI" as a first step.

That concludes my explanation of the financial results for the first quarter. Thank you very much.

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Moderator: That concludes the explanation of the financial results summary for the current term. Thank you very much.

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Question & Answer

Moderator [M]: We will now move on to the question and answer session. First, I will explain how to ask questions.

If you have a question, please press the “raise your hand” button at the bottom of the Zoom screen. I will call you by the name you are registered with on Zoom. Please unmute yourself when I call your name. Please state your company name and your own name, and then tell us your question

Now, please press the “raise your hand” button if you have a question.

Thank you very much. First I will call on Tokunaga-san.

Tokunaga [M]: Can you hear me?

Moderator [M]: Yes, I can hear you.

Tokunaga [Q]: Thank you. I am Tokunaga, from Daiwa Securities. I would like to ask three questions.

The first is, please tell us about the outlook for the hosting business. The quarter was quite strong, and I think there were various factors such as the impact of the weak yen and high-unit-price plans, but in the past, once the effect of the price revision ran its course, there would be a slowdown in growth or something like that. However, page 16 of the presentation shows that sales in the hosting business are expected to continue to grow as the sales of high-unit-price plans gradually increase.

Please tell us about the outlook for sales and profits in the hosting business for the current fiscal year, and also the outlook for the hosting business next fiscal year and beyond. This is my first question.

Moderator [M]: Thank you for your question. President Sato, could you please answer it?

Sato [A]: Thank you for your question. Yes, the forecast for this fiscal year has been disclosed by segment on a non-consolidated basis, so the plan is as shown there. The part that has not

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yet been taken into account there is the new business of Lolipop! for Gamers. Since this service has not yet been included, we do not yet have an estimate of how much this service will lead to user acquisition, but if it grows successfully, there will be further gains to the current forecast for the hosting business.

In addition, we are also considering several plans for corporate customers, so we will continue to introduce plans in a higher price range than the existing low-priced plans. This means services such as Lolipop! for Gamers and MuuMuu Servers, which have been growing steadily, but the hosting business as a whole has been in a net downward trend. But if these areas can garner new users and turn into a slight upward trend, we can achieve slightly higher growth than we have had until now. We are working on this now anticipating that growth perhaps next term or beyond. I hope that answer was sufficient.

Tokunaga [Q]: Thank you very much. So, for the first quarter of the current fiscal year, the hosting business is progressing well, even excluding new initiatives such as Lolipop! for Gamers? And if the upside emerges there is room for further gains.

Sato [A]: That is correct.

Tokunaga [Q]: Thank you very much. My second question is about the initial response to the "GMO Instant Response AI". I am looking forward to seeing recurring revenue sales increase further as the number of companies that are willing to purchase your products grows. As of Q1, how far have you come with the 80 companies that have introduced it? Please tell us about this initial response and your performance, etc. at this time. This is my second question.

Sato [A]: Yes, I understand. We announced the start of the service in March, and we are currently in the process of negotiating with a number of clients. As of Q1, we had not reached the contract stage. As of mid-May, we are still in the process of negotiating with some customers who are likely to sign contracts.

We are not yet sure if we will be able to generate sales by Q2, and it will take about a month from the time we receive a contract to the time we start introducing the system, which includes tuning the AI and storing data. We have received a few initial inquiries, but we have not yet reached the point where we can start signing contracts by the end of the second quarter.

Tokunaga [Q]: I understand. This is my final question.

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What is your provision of allowance for doubtful accounts? This quarter has already become much smaller, but the impact here is quite unpredictable, if it ceases to appear. As shown on page 29, is it correct to say that the outlook is that it will become much smaller? That is all.

Sato [M]: Igashima will answer this question.

Igashima [A]: I think that the future trend of the allowance for doubtful accounts will be similar to the first quarter of this fiscal year. We do not currently anticipate any significant additional investments, and we continue to manage our business with great care with regard to the allowance for doubtful accounts, or rather, the rate at which we set up the allowance for doubtful accounts.

Tokunaga [M]: I understand. That is all. Thank you very much.

Sato [M]: Thank you very much.

Igashima [M]: Thank you very much.

Moderator [M]: Thank you very much, Tokunaga-san.

Are there any other questions? If you have any other questions, please press the "raise your hand" button.

There is still some time left, but since there seem to be no other questions, we will conclude the question and answer session.

This concludes the GMO Pepabo, Inc. online financial results presentation for Q1 of FY2024 through December 31. After the Zoom meeting ends, a questionnaire will be displayed, and we kindly request that you answer it.

Thank you very much for your participation today.

[End]

Footnotes

1. Where the audio is unclear, the text is marked *[inaudible]*.
2. Conversation is indicated by *[Q]* for a question, *[A]* for an answer, and *[M]* for neither

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