

Presentation

Moderator: Thank you very much for taking time out of your busy schedule today to participate in the GMO Pepabo, Inc. Fiscal Year 2024 2nd Quarter Results Online Presentation. Let me now introduce today's attendees. Mr. Kentaro Sato, CEO and President.

Sato: Thank you very much.

Moderator: Mr. Yoshito Igashima, Executive Director.

Igashima: Thank you very much.

Moderator: The above two members are present. Today, Mr. Sato, CEO and President, will provide an overview of the financial results. Now, please do so.

Sato: I am President Sato. Thank you for taking time out of your busy schedule to attend today's briefing. We will begin the GMO Pepabo fiscal year 2024 second quarter results presentation.

This is a summary of the financial results. Operating income increased significantly due to a decrease in bad debt-related expenses in the financial assistance business, which were recorded last year. We will continue to invest in new services and aim for business growth in the next fiscal year and beyond.

Here is today's agenda. The structure of the document has changed slightly, but the KPIs are also listed in the "Reference" section in the latter half of the document in the same way as before, so please take a look when you have time.

Here is a summary of the financial results. Consolidated net sales decreased 97.1% YoY to JPY5,365 million due to a decrease in the number of invoices purchased as a result of stricter purchase criteria in the financial assistance business. Operating income was JPY496 million due to a significant decrease in bad debt-related expenses. Ordinary income and net income are as shown.

Quarterly sales and operating income. Net sales decreased from the same period of the previous year, but as shown in the color coding here, there was a JPY90 million impact from the decrease in net sales of the financial support business, so excluding financial services, net sales increased from the same period of the previous year.

These are quarterly sales from stock-type businesses that drive performance. In stock-type earnings, which are the sum of the hosting business and Color Me Shop, sales have been accumulating due to the continued effect of price revisions in the hosting business. The second quarter of 2024 was JPY1.77 billion.

This is an analysis of changes in operating income. In addition to a significant decrease in bad debt-related expenses, which were recorded last year, the company's profits increased significantly due to reduced labor costs through the use of AI and more efficient management of promotional costs.

These are sales and operating income by segment for the first half of the year. In the hosting business, both sales and income increased due to the effect of price revisions and an increase in the ratio of high-unit-price plans. While sales in the EC support business and the handmade business decreased due to the decline in the EC market, operating income remained at the same level as the previous year as a result of efficient cost

management. In the financial assistance business, the amount of invoice purchase decreased due to stricter purchase standards, but the loss narrowed due to lower bad debt-related expenses.

Next are the results by segment. Sales in the hosting business were JPY3,041 million, 108.9% of the same period last year. Operating income was JPY1,054 million, 116.9% of the same period last year. LOLIPOP! and MuuMuu Domain both continued to perform well due to the continued effect of price revisions. MuuMuu Domain's operating income has increased significantly, but some costs has moved to LOLIPOP! as a result of optimizing staffing within the business unit.

KPI trends for the hosting business. As for server sales, the ratio of sales of high unit price plans is on an expanding trend. As the demographics of server users shift from individuals to corporations and demand for higher spec servers increases, we will continue to seek to acquire contracts for higher unit price plans. LOLIPOP! and MuuMuu Domain both continued to benefit from price revisions, resulting in a YoY increase in average customer spend.

This section describes the most recently launched services in the hosting business. First of all, for the conventional plan LOLIPOP!, the average cost per customer in the second quarter was JPY521. In contrast, for LOLIPOP! for Gamers, a newly launched server for games, the average cost per customer is JPY2,310, although the track record is still small. Since we are able to offer services at higher pricing than in the past, we expect to contribute to earnings in the future.

This is followed by a MuuMuu server. New contracts continued to increase steadily in the second quarter, bringing the total number of new contracts to 2,857 in the first half of the year. We have been getting new contracts consistently and would like to continue to increase the number of new contracts.

Sales in the EC support business was JPY1,433 million, 94.2% of the previous year's level. Operating income was JPY392 million, 100.3% of the same period last year.

Sales and profits increased at Color Me Shop due to an increase in production agency projects utilizing IT introduction subsidies. While SUZURI sales fell due to a drop in distribution value, operating income was flat as a result of efficient management of promotional costs. In addition, SUZURI plans to record sales of JPY35 million in the third quarter due to a partial delay in the timing of T-shirt sale shipments.

As for KPI trends in the EC Support Business, store distribution amount for Color Me Shop was JPY50.5 billion, 106.1% of the previous year's level, due to increased distribution from stores with strong performance compared to the previous year. The quarterly distribution value per store and the unit price per customer for Color Me Shop's paid plan contracted stores increased YoY. We will continue to aim to increase stock revenues through the acquisition of top-tier stores and premium plan subscriptions.

For SUZURI, an original goods creation and sales service, distribution value declined YoY due to a drop in the e-commerce market, in addition to the postponement of some shipments of T-shirt sales to the third quarter.

SUZURI offered two new features in July. The first is the commission function "Takurami". This is a function that allows users to request illustrations directly from creators. The program aims to support skill-sharing among creators, broaden the scope of their expressive activities, and create new opportunities for their activities.

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The second is a "3D goods creation tool". This will support expressive activities in virtual spaces such as VR, allowing anyone to easily create 3D items that previously required specialized knowledge. We hope to contribute to the development of the creator economy by continuing to provide support through new features.

The handmade business minne posted sales of JPY684 million, up 89.9% YoY. Operating income was JPY51 million, 123.9% of the previous year's level. Although net sales declined as a result of a drop in distribution value due to the depressed e-commerce market, operating income increased as a result of efficient management of promotional costs.

minne's distribution value has been sluggish due to changing trends in the e-commerce market, with sales of works, especially those in the low-price range, struggling to grow. In this context, we launched minne PLUS, a paid membership service for artists, in order to encourage artists to continue their sales activities on minne. minne PLUS will provide various functions to support artists in selling their works, including a letter function that allows them to approach their followers directly. We aim to revitalize the handmade market as a whole by providing a place for artists to be active and helping to spread their works to the world.

Sales in the financial assistance business increased 45.8% YoY to JPY205 million. Operating income was slightly negative. While net sales declined due to a decrease in the number of invoices purchased as a result of stricter purchase criteria, the operating loss narrowed due to a decrease in bad debt-related expenses recorded last year and progress in the collection of receivables.

This is a KPI for the financial assistance business. Invoices purchased in the second quarter remained low due to stricter purchase standards. The impact of bad debt-related expenses on operating income is positive because of the collection of receivables. This is the end of the segment description.

Next, I would like to report on the current situation for the fiscal year ending December 31, 2024, and explain our future policy. First, let me tell you about the current situation. Since our establishment in 2003, we have been developing services to support creators and lower the hurdles to expressive activities, thereby increasing their output. Specifically, starting with the hosting business that provides servers and domains for creating websites, EC-related services, including building EC sites, creating and selling original goods, and providing handmade markets. We have also created a wide range of services, including a financial support business that provides assistance to freelancers, mainly from a financial perspective. Looking at sales trends, you can see that the scale of sales has gradually expanded in line with the development of services. On the other hand, EC-related services, for example, have been affected by changing trends in the market environment, and sales have recently weakened.

In light of the current situation, we are considering this policy for the future. First, regarding changes in the environment for existing services, the hosting market is maturing, and competition for market share is intensifying, especially in the price range that we offer. It is becoming increasingly difficult to obtain new contracts for conventional servers, and we need to expand into areas with growth potential. It was in this context that LOLIPOP! for Gamers, a server for online games, was launched.

The amount of distribution is declining in EC-related services, and the traditional areas are suffering [unclear audio]. In particular, smaller e-commerce sites are experiencing a downward trend, as are sales of lower-priced products and artwork. In light of this market environment, Color Me Shop offers premium plans that focus on top-tier stores with large annual sales.

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In addition to providing opportunities to earn revenue through advertisements on the minne website for authors, minne is also working on initiatives to improve conversions for authors. In May, we also started a paid membership service, which I explained earlier, so that they can continue your activities.

SUZURI has provided a commission function to increase opportunities for creators, tools for creating 3D goods, and other initiatives to support creators both in real and virtual life. In addition to this, we will continue to develop new areas in EC-related services.

Next, I would like to tell you about a new business area we are considering. One is the approach to streaming culture. This chart shows a classification of companies that serve the creator economy market. Since our establishment, we have been supporting creators and other expressive people. In the figure, the blue frame indicates the area on the far left, which is the business area we have been focusing on.

In recent years, expressive activities have expanded greatly, and in the creator economy market, a wide range of service genres have emerged, including video and live-streaming, skill-sharing, and connection. Among these, live video streaming is an area that is expected to grow in the future, and we would like to develop services to meet the needs of users in this growing area.

Our greatest strength is in removing barriers to expression and supporting the output of our users. Currently, when it comes to live video distribution, there are many challenges that users face before distribution. From preparing the filming equipment, to creating avatars, creating backgrounds, editing videos, and even attracting customers if you are a VTuber, there are many processes that need to be followed to actually start distributing, and these are the major hurdles. We hope to assist users by lowering these hurdles and provide a smoother environment for expressive activities.

Specifically, we aim to provide tools to support distribution activities, as well as services that make it easy for anyone to produce videos for distribution. New services for distribution are currently under development and are scheduled to be launched during the second half of the year.

Second, GMO Sokuresu AI. We begin with a premise about the challenges Japan faces in terms of a declining workforce. Currently, the decline in the workforce is a major issue. By 2030, Japan's labor force is projected to be short by approximately 6.44 million people, and the key issue is how to respond to this shortage of human resources. While the labor force is unlikely to increase as shown in the graph on the right, about 50% of the workforce will need to catch up by increasing productivity. However, many companies are already working to improve productivity and believe they are reaching the limits of traditional methods.

To overcome this situation, new methods and technologies need to be introduced. This is where the use of AI is gaining attention. The use of AI technology is expected to significantly improve operational efficiency and productivity. We hope to use AI to solve this social issue.

This figure shows the status of AI use in companies. Currently, only 34% of companies have adopted AI, indicating that the adoption of AI is still in its infancy. As shown in the bar graph on the right, one of the biggest challenges cited by companies in considering AI implementation is the lack of AI-related human resources. We believe that our GMO Sokuresu AI can solve the issues of increasing productivity and introducing AI in companies to cope with a declining workforce and the resulting human resource shortage.

We are trying to solve this problem by introducing an AI tool for customer service departments, which we actually did at the end of last year, and by introducing our operational know-how to companies. In fact, productivity gains have been achieved in our company. Since this has led to a reduction in the number of

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people in the department as well as a reduction in the response to external inquiries, as of August 1, the Customer Service Department, which had been working across the entire company, was abolished, and the respective associates were transferred into their respective business units. By optimizing human resources to service departments, our aim is to make them more productive and have each of them focus on their business.

I will discuss the market environment for new services. First is the domestic DX market. The DX market is growing rapidly and is expected to be worth JPY4.1 trillion in 2023. It is also projected to expand to JPY8.3 trillion by 2030. We will provide GMO Sokuresu AI in this growing market to achieve further business growth.

Next, let's look at the delivery areas. The domestic live streaming market is expected to grow as well. The market size in 2023 is JPY534.5 billion but is expected to expand to JPY2.5 trillion by 2030. This is a market that is expected to grow nearly five-fold in the future, and we see it as a great opportunity for us. GMO Sokuresu AI will lead to future business growth by providing DX support and new services in the live streaming field.

Finally, I would like to summarize the policies that we have communicated so far. Since the hosting business is a maturing market, we will develop demand for new servers and expand into areas with growth potential.

As the market trend for EC-related services is on a downward trend, we will aim to develop new areas by shifting to high-priced plans for high-end stores with a large scale of transaction.

In the new area, GMO Sokuresu AI will address the declining labor force in Japan to help companies solve their problems and provide new services for distribution culture, which is expected to grow. The above is my explanation. Thank you very much.

Moderator: This concludes my explanation of the financial summary for this fiscal year. If you are watching the YouTube live, we would appreciate it if you could fill out the survey or ask questions using the form in the overview section. Thank you very much.

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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 press the "raise your hand" button at the bottom of the Zoom screen. I will call you by the name you registered to Zoom, so please press unmute on your hand if you have been nominated. Please speak about your question after you have mentioned your company name and name. Now please press "raise your hand" if you have a question.

QUESTIONER [Q]: I will read the questions you have given us in advance here. There are three items. First. I believe that the first half of the year was marked by a significant improvement in profitability, as you recorded a significant increase in profit. Is it correct to say that the results for the first half of the fiscal year are in line with your company's plan? In addition, please tell us the expected amount and areas of strategic investment for the second half of the year.

Second. I think 2Q was a remarkable quarter for sales and profit growth at Color Me Shop. I think there were some transitory factors, but can the strong performance continue without transitory factors? What is the outlook for Color Me Shop in the second half of the fiscal year and beyond?

Third point. We are asked us to summarize the timeline for GMO Sokuresu AI inquiries and monetization, as this is a new area of business.

Moderator [M]: The above three points, first of all, Mr. President, please.

Sato [A]: Thank you for your question. Regarding the first point, operating income for the first half of the fiscal year was higher than originally planned. For the interim period, no changes have yet been made to the earnings forecast. We are also considering promotion costs for businesses in areas in which we would like to invest in the future, such as for LOLIPOP! for Gamers and GMO Sokuresu AI in the second half of the year. We have not yet decided on a specific amount of investment, and in the second half of the year, we will make a decision on the amount of investment while keeping an eye on EC trends, which are still a bit unclear.

Therefore, although we have exceeded the company's plan, we still do not know how future investment and EC trends will change, so we will continue to make progress without making any changes to the plan. That is all.

As for the second point, the increase in profit of Color Me Shop compared to the previous year was largely due to the curbing of promotion costs, and the sales were also affected by a YoY increase in the number of projects for website production using IT introduction subsidies, which were one shot item. At present, we expect the second half of the year to be similar to the first half.

As for the future growth prospects of Color Me Shop, there are still some things that are difficult to predict for the next fiscal year and beyond, but the second half of the year may not be affected yet, but as of August 1, we have started to announce that we will discontinue the lower plans of the Color Me Shop and consolidate them into the Regular Plan. We have been revising prices due to various factors, such as rising costs, and we believe that the price revision will have a slight effect here.

Regarding the third point, the status of GMO Sokuresu AI, we have received inquiries from several e-commerce sites that we would like to focus on, such as stores that use our Color Me Shop, companies that

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provide web services similar to ours, and companies that are in a completely different industry, and we are in the process of negotiating with them. Some of them have already decided to introduce the system.

As for sales, though, it's something that generates initial and running costs, the running costs are accumulated on a stock basis, so we expect to see the revenue in the next fiscal year and beyond.

In addition, since it will take some man-hours to introduce the service, we expect to require 2-3 months more lead time to start providing the service compared to the existing service. These are the three points I would like to answer.

Moderator [M]: Thank you very much. If you have any other questions, please press "raise your hand". If you have any other questions, please press "raise your hand". Since you do not appear to be here at this time, I would like to end this meeting, even though it is early.

This concludes the GMO Pepabo, Inc. Fiscal Year 2024 2nd Quarter Results Online Presentation. A questionnaire will be displayed after Zoom is over. Thank you very much for joining us today.

Igashima [M]: Thank you very much.

Sato [M]: Thank you very much.

[End]

Document Notes

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