

Presentation

Moderator: Thank you very much for taking time out of your busy schedules to participate in today's online financial result meeting of GMO Pepabo, Inc. for the third quarter of the fiscal year ending December 2024. Now, I would like to introduce today's attendees from the Company. Mr. Kentaro Sato, CEO and President.

Sato: Thank you.

Moderator: Mr. Yoshito Igashima, Executive Director.

Igashima: Thank you.

Moderator: These two members are present. Today, CEO Sato will provide an overview of the financial results. Please go ahead.

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 meeting of GMO Pepabo for the third quarter of the fiscal year ending December 2024.

This is a summary of the current financial results. First, due to the upward revision of the full-year earnings forecast, we have revised our full-year earnings forecast in conjunction with today's announcement of financial results. The year-end dividend forecast has also been revised from JPY40 to JPY53. The hosting business continued to benefit from price revisions, and both sales and profits were strong. Sales of Color Me Shop increased as a result of strong sales of production outsourcing projects, and operating profit increased due to lower costs in the customer support division. The flow-type business of SUZURI and minne saw a decline in sales due to the downturn in the e-commerce market. As for the others, the new services we reported at the beginning of the period are now available and will be introduced in the second half of the report.

Here is today's agenda. I will explain our third quarter financial results and then explain our new services. The second half of the materials also contains an overview of our company and an explanation of our services, so please take a look at the reference materials when you have time.

First, this is a summary of the financial results. Consolidated sales were JPY8,105 million, 98.5% YoY, as a result of a decrease in the amount of invoice purchases due to stricter purchase criteria in the Financial Support business. Operating profit was JPY782 million due to a significant decrease in bad debt-related expenses. Ordinary profit and profit attributable to owners of parent are as shown.

First, I would like to explain the revision of our full-year forecast. The figures in blue in the table are the revised full-year forecasts. The Company expects net sales of JPY10,831 million and operating profit of JPY820 million, a decrease in net sales and an increase in operating profit compared to the initial forecast. As a result of prioritizing the suppression of delinquency rates due to stricter purchase standards in the financial support business, the amount of receivables purchased did not increase as expected at the beginning of the period. In addition, flow-type e-commerce related services were weak, resulting in a decrease in sales. On the other hand, operating profit increased due to lower customer service costs resulting from the use of AI, as well as unrealized promotional costs. Ordinary profit and other items are as shown. In line with the earnings forecast revision, we also increased the dividend amount from JPY40 to JPY53 per share.

Trends in quarterly sales and operating profit. Net sales increased YoY because of price revisions in the hosting business. Operating profit has remained stable.

These are the quarterly sales of the recurring-type business that drives our performance. Recurring revenues, which are the combined total of the hosting business and Color Me Shop, are continuing to see the effects of price revisions in the hosting business, and sales are accumulating. For the fiscal year ending December 2024, cumulative third quarter recurring-type revenue increased by JPY290 million YoY.

Here is the analysis of the change in operating profit. In addition to a significant decrease in bad debt-related expenses recorded last year, cost improvements through the use of AI led to a significant increase in profit.

Cumulative third quarter sales and operating profit by segment. The hosting business saw increased revenue and profits due to price revisions and an increase in the ratio of high unit price plans. In the EC support business and the handmade business, revenue was down due to the decline in the EC market, but operating profit was on par with the previous year as a result of effective cost management. In the financial assistance business, the loss narrowed due to a decrease in bad debt-related expenses, although the amount of invoices purchased decreased due to stricter purchase standards.

In addition, due to organizational changes implemented in August 2024, the customer service department, which was included in "Others," has been reclassified into the hosting business, e-commerce support business, and handmade business from the third quarter consolidated accounting period. To make it easier to compare periods, figures for 2023 and beyond are also included for each business.

Next is the detailed results by segment. Sales for the hosting business increased 107.2% YoY to JPY4.563 billion, and operating profit increased 112.0% YoY to JPY1.488 billion. Lollipop! and MuuMuu Domain both continued to perform well due to the continued effect of price revisions. Lollipop! s operating profit was lower than the previous year, but costs have increased due to the consolidation of personnel resources associated with the development of Lollipop! for Gamers.

KPI trends for the hosting business. In the hosting business, in addition to the current recurring-type revenues from Lollipop! and MuuMuu Domain, revenues from new services are being added. We aim to continue accumulating recurring revenue by acquiring more contracts for MuuMuu server and Lollipop! for Gamers. As for average customer spending, the effects of price revisions continued, so Lollipop! saw a decrease in the number of contracts, but spending remained flat, while MuuMuu Domain saw an increase compared to the same period last year.

This is the most recently launched service in the hosting business. Lollipop! for Gamers continues to aim to expand its user base by increasing the number of titles, and has recently announced eight new compatible games, bringing the total to 14. MuuMuu Server had aimed to acquire 5,000 new contracts this fiscal year, but the total number of new contracts in the third quarter was 4,570, and the number is steadily increasing, so we have raised its target for new contracts by the end of the year to 6,000 and aims to continue increasing the number of contracts.

Net sales for the EC support business were JPY2.222 billion, 97.3% YoY. Operating profit was JPY586 million, 115.2% YoY. As for Color Me Shop, the number of production outsourcing sales utilizing IT subsidies increased, and sales increased YoY. SUZURI sales declined due to a drop in merchandise value. Operating profit increased for Color Me Shop due to lower costs in the customer service department resulting from the use of AI, but SUZURI posted a loss due to a decrease in the merchandize value.

As for KPI trends in the EC Support Business, store merchandise value for Color Me Shop was JPY47.8 billion, 106.1% of the same period the previous year, due to the expansion of distribution at stores with favorable performance, in addition to the previous year. The quarterly merchandise value per store and the spending per customer for Color Me Shop paid plan stores have increased compared to the same period last year. We continue to aim to increase recurring revenues through the acquisition of consumption stores and premium plan contracts.

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For SUZURI, an original goods creation and sales service, although the number of site visitors increased, the purchase rate declined and the merchandise value decreased YoY. As the number of creators who conduct video and live streaming on the Internet is on the rise, SUZURI will provide a function to display SUZURI merchandise on video pages to strengthen engagement with fans and support creators' merchandise sales, with the aim of expanding use of the service.

Minne, the handmade business, saw sales revenue of 88.0% YoY to JPY995 million, and operating profit of 414.9% YoY to JPY45 million. Sales declined as a result of a drop in the EC market, which led to a decrease in merchandise value. However, profit margins improved due to the provision of minne advertising, which supports sales promotion activities for creators, resulting in a YoY increase in profit.

Minne's merchandise value has continued to grow at a sluggish pace as sales of works, especially those in the low-price range, have struggled. Minne PLUS, a paid membership service for creators, will continue to expand its various functions to support sales of works, with the aim of increasing the number of users. In addition, minne's Handmade Market 2024 is scheduled to be held on November 30 and December 1 at Saitama Super Arena.

Net sales in the financial assistance business amounted to JPY322 million, 58.3% of the previous year's level, while operating income was slightly. While net sales declined due to a decrease in the amount of invoices purchased as a result of reduced purchase standards, the operating loss narrowed due to a decrease in bad debt-related expenses recorded last year and efforts to collect receivables.

This is a KPI for the financial assistance business. Invoice purchase amounts continue to be low due to stricter standards. Looking at the impact of bad debt-related expenses on operating profit, debt collection is gradually progressing, boosting operating profit. This concludes the segment explanation.

Next, I will explain about Alive Studio, a distribution screen creation service for distributors and VTubers that was launched in October 2024.

Here is a summary of the group of companies offering services in the creator economy market. In recent years, creators have been engaged in a wide range of expressive activities on the Internet, from the old days of text-based expression on blogs and websites to the current increase in expression through content such as videos and live broadcasts. New services such as game distribution, skill sharing, and connections are also emerging. In particular, the live streaming market in Japan is expected to grow rapidly, from JPY500 billion in 2023 to JPY2.5 trillion in 2030, and we hope to provide services that meet the needs of users in this growing market.

Throughout the history of technological evolution, we have lowered the barriers to technology and supported the output of those who express themselves. In the 2000s, when the Internet first became popular, the trend was to express oneself through blogs and websites. During that time, we launched a service called Lollipop!, which allowed anyone to easily create a website, and successfully expanded the base of creators.

With the rapid spread of smartphones in the 2010s, expressive activities have diversified to include images, videos, and music. In response to these changing times, we have developed services that expand the possibilities for creators, such as the minne handmade market and SUZURI, an original goods creation service.

In the 2020s, the evolution of 5G, or social networking services, has led to the rapid spread of video and live streaming. We want to create a world in which anyone can express themselves freely in the streaming field, without the need for specialized knowledge or expensive equipment, so we have launched a new project to lower the technical hurdles for creators in the streaming field and expand the possibilities for their output. We have been lowering the barriers to creative activity and supporting output for the past 20 years, which is why we believe we can provide a service that lowers the barriers to broadcasting in the field of live streaming and other distribution.

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In September 2024, we opened a dedicated website called Alive Project, a web media for distributors and streamer magazine. Here we will provide the latest trends, event information, and practical know-how related to streaming, to promote streaming culture.

In addition, in October, we launched a new service, Alive Studio. We would like to introduce you to this. Generally, there are many hurdles to overcome when streaming videos or live broadcasts, such as setting up streaming software, preparing equipment, and designing the screen layout. In particular, creating a high-quality streaming screen requires specialized design skills and the purchase of expensive materials, making it difficult for beginners. Alive Studio lowers the hurdles for users who want to stream and supports them in producing higher quality output.

First, we are targeting VTubers among our streaming users and will be expanding the functions so that a variety of streamers can use it in the future. We currently plan to offer a paid service that costs JPY3,300 per month, but we are running a free campaign until the end of November. Through Alive Studio, we hope that more people will use our services.

Alive Studio received a great response from Japan and abroad immediately after the service was launched, and the global reputation of Alive Studio is growing, especially on social networking services. We have also begun a collaboration with a major company. Through our partnership with Shochiku, we are collaborating with the animated film "Ganbatte Ikimasshoi" to provide characters, backgrounds, and props from the film as materials for Alive Studio. We will continue to provide new content to create an environment where distributors can create more original content. We will lower the hurdles in the field of streaming and aim for a future where everyone can easily output through video and streaming.

Next, I would like to talk about GMO Sokuresu AI, an AI implementation support service that responds to inquiries. GMO Sokuresu AI was introduced at Amami City Hall on October 1 and has been operating as AI Kokuto-kun. One of the issues Amami City Hall was facing was dealing with inquiries from citizens through multiple channels, both at the counter and over the phone, which required a lot of human resources. There was also the issue of not being able to provide reception services on holidays and at night. In particular, many inquiries are related to garbage/recycling and other general city hall operations. We are helping to solve these issues by introducing GMO Sokuresu AI.

In addition, on October 25, GMO Sokuresu AI was introduced at Jimdu, a website creation service provided by KDDI Web Communications, Inc. KDDI Web Communications had been taking a long time to respond to inquiries from users, and faced the problem of delayed responses on Saturdays, Sundays, and national holidays, as these are off-hours. To address this issue, we are helping resolve the issues in user support operations by adopting GMO Sokuresu AI, which can respond to inquiries 24 hours a day, 365 days a year. GMO Sokuresu AI is increasingly being introduced by major companies, and there are high expectations for its use to improve operational efficiency. We will continue to build on these achievements and contribute to solving social issues in Japan, where labor shortages are becoming increasingly serious.

That is all from me. Thank you very much.

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Question & Answer

Moderator [M]: This concludes the explanation of the financial summary for the quarter. Thank you very much. We will now move on to the question-and-answer session. First, I would like to explain how to ask questions. If you have any questions, please press the raise your hand button at the bottom of the Zoom screen. I will call you by the name you registered with Zoom, so if you are called, please press unmute on your device. Please state your company name and your name before asking your questions. Now, if you have any questions, please press the raise hand button. Thank you. Mr. Tokunaga, please go ahead.

Tokunaga [M]: Can you hear me?

Moderator [M]: Yes, I hear you.

Tokunaga [Q]: This is Tokunaga from Daiwa Securities. Thank you as always. I have three questions. The first is regarding the company's plans for this fiscal year. Thank you for the upward revision and increased dividend. I think the financial results are excellent. In this context, if we calculate the operating profit for the fourth quarter, it will only be several tens of millions of yen. I think you may be conservative, but the revised plan shows a significant decrease in profits compared to the previous quarter and the same period last year. What risk factors or strategic investments have been factored into the revised plan? This is my first question.

Moderator [M]: Thank you. President Sato, please answer.

Sato [A]: In the fourth quarter, this is the current quarter, Lollipop! for Gamers and Instant Response AI, as well as Alive Studio, which we started in the third quarter, will be new initiatives. We are planning to record this cost due to an increase in development costs and advertising investment for the next fiscal year. There are not many risk factors, and we are planning for the fourth quarter with the aim of investing a portion of this fiscal year's sales growth to achieve growth in the next fiscal year. I hope I have answered your question.

Tokunaga [Q]: I would like to follow up on two points: how much will the combined development costs and advertising investment amount to, say, JPY100 million to JPY200 million? Also, given financial support business is still generating gains from the reversal of provisions, do we need to take these into consideration?

Sato [A]: Thank you. First, regarding the return of the provisions for the financial support business, we do not expect to recover that much in the fourth quarter. We expected a slight decrease in the first, second, and third quarters, so we do not expect a large increase in the fourth quarter.

The investment cost is estimated to be in the tens of millions of yen. We are also anticipating a slight increase in the cost of the minne event, which is a different cost factor from other quarters, so if we subtract that, we estimate that the investment in new business will be in the tens of millions of yen.

Tokunaga [Q]: Excuse me. I'm sorry to be so persistent, but even taking into account sales profits, should we view minne's events as a slight temporary loss in cost?

Sato [A]: The event itself won't be profitable, so I imagine it will end up in the red, around JPY10 million.

Tokunaga [Q]: I see. Thank you. My second question is regarding recurring sales. Recurring sales have grown steadily this quarter as well, which I think is very good, but will this continue? As I look at it, I think that Color Me probably saw some contract-based projects, but could you please explain the continuity of the increase in recurring sales seen this quarter? This is my second question.

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Seki [A]: Sure. First, regarding EC, as you mentioned, there is a Shot project, which is a contracted project that utilizes the IT subsidy. However, the scope of application of the IT subsidy itself is basically fixed, and from next fiscal year onwards, the scope of application will no longer apply to EC, so we are planning for sales from this project to decrease some.

On the other hand, regarding the pure recurring portion, we have discontinued the lower-level plan itself and are currently only retaining the higher-level plan, so I think that the overall unit price itself will continue to rise next fiscal year.

In addition, in terms of sales, the number of shot projects will decrease, but the production projects themselves are in the higher price range, and we are currently in talks with several production companies, so those projects will gradually increase again. Of course, the profit margin itself is not that high, but we would like to increase sales in that area as well, so we are currently adopting a strategy to raise the price range overall, and I think that the effect of rising prices will continue in this area.

As for the hosting business, we made some price revisions in August, and I think the upward trend will continue until the price revisions have run their course. We are currently preparing new plans and services with higher prices in that area, such as Lollipop! for Gamers, so we are currently planning to gradually increase prices from August of next fiscal year onwards.

Tokunaga [Q]: Thank you. If that's the case, going forward, EC will continue to receive commissioned projects this fiscal year, but they will disappear next fiscal year and the gap will be filled with new projects. So, EC support looks very bright up until the fourth quarter of this fiscal year, while hosting looks quite bright in the next fourth quarter as price revisions will contribute for three months, but that will drop off from September of next fiscal year onwards. So, from October to December, both EC support and hosting will look very bright, but from January the following year, the IT implementation subsidy will disappear, so is it fair to assume that there will be some bumps in the forecast?

Sato [A]: That is correct.

Tokunaga [Q]: Thank you. The last one is regarding the new business. I think it's a very good thing that distribution support has created a new source of income, but your company has had a history of incurring significant costs when entering new fields. You may be spending development costs in the next fourth quarter, but other than that, are there any other costs you are considering at this point related to the new business? That is all.

Sato [A]: Thank you. Looking back at history, services such as minne and SUZURI have elements of a marketplace, so we had to allocate promotional costs to attract buyers. The new business we are currently promoting has elements of recurring-type business, and basically what we need to attract are creators or artists, so to increase our business, we can use advertising that has a high acquisition cost, so at the moment we do not envision making the same kind of investments as we did in the past.

As we are still in the launch phase, we are unable to gauge the appropriate acquisition cost, ARPU, or LTV for new services, so we are unable to determine how much we can spend on them. As for the portion of the business that will follow next fiscal year onwards, we believe that we will be able to indicate a certain degree of direction when we disclose information for next fiscal year.

Tokunaga [Q]: Thank you. In that case, since we have received dividends this time, it does not seem that there are many services that would have a sudden impact on the P&L at the moment, so is it correct to understand that the basic direction is to aim for stable increases in dividends and profits?

Sato [A]: You are quite right.

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

Sato [M]: Thank you very much.

Moderator [M]: Thank you. If you have any questions, please press the “raise your hand” button. Are there any other questions? If you have any 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 GMO Pepabo, Inc.'s third quarter online financial results meeting for the fiscal year ending December 2024. A questionnaire will be displayed after Zoom is over. Thank you very much for your participation today.

Sato [M]: Thank you very much.

Igashima [M]: Thank you.

[END]

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