

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 briefing for the full year ending December 31, 2024.

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

Sato: Thank you.

Moderator: Executive Director Yoshito Igashima.

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 fiscal year ending December 2024.

First, for the fiscal year ending December 31, 2024, we plan to increase the dividend by 4 yen to 57 yen, since the full-year results exceeded the earnings forecast announced in November. The Company also expects to achieve higher revenues and profits in 2025 than in the previous year.

Today, we also revised our shareholder return policy, raising the dividend payout ratio from 50% or more to 65% or more for the fiscal year ending December 31, 2025. The dividend amount is planned to be 67 yen, an increase of 10 yen.

For the medium-term policy from 2025 to 2027, we aim to achieve net sales of JPY12.6 billion and operating income of JPY1.26 billion for the fiscal year ending December 31, 2027, by strengthening the recurring revenue base and expanding business domains.

The hosting business has been renamed the domain and rental server business to express the nature of the business more clearly. There will be no change in segment classification, only a change in name.

Here is today's agenda.

After explaining our medium-term policy, I will give a summary of this fiscal year's financial results and a forecast for the next fiscal year.

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 it when you have time.

First, our medium-term policy.

So far we have increased the output of humanity by providing multiple services to meet the needs of our users. The number of supporters of the output at the end of December 2024 will be more than 8.54 million.

Along with the evolution of the Internet, the venues for creator activities have changed dramatically. While text and images on websites used to be mainstream, today's expressive activities are changing drastically, with digital content and live streaming fields and other video-centered expressive activities becoming mainstream.

We have supported the development of the creator economy by adapting to these changes in the environment and providing services tailored to the user experience. In 2024, we were quick to catch the trend of an era in which AI utilization will be the norm and converted 100% of our responses to inquiries from outside the company to AI. As a result, 31 partners formerly in the customer service department have been newly assigned to various business and administrative departments. We believe that this promotion of reskilling of partners and the creation of an environment in which they can play an active role in various departments is a result of the use of AI.

The medium-term growth scenario is to adapt to changes in the environment, strengthen the recurring revenue base of our main services, and expand our business domain.

Regarding the current changes in the environment, we have grown our business by providing users with easy and standard specifications in line with the spread of Internet infrastructure. However, the market, which has been in the introduction and growth phases, is now in the maturity phase. What users want also is changing. What they used to demand was general-purpose functionality and affordable prices, but what they want now are services that are highly functional and specialized for specific applications.

Therefore, in terms of our services, we have shifted from relatively low-priced, easy-to-use plans such as the Lollipop! light plan and economyplan, which are relatively low-priced and sell ease of use, to the high-speed plan, which is highly functional and has high added value.

In terms of application-specifics, in response to the growing use of personal servers for multiple players of online games, last year we began offering a server for online games, Lollipop! for Gamers. Thus, service offerings are needed to adapt to the changing environment and expand the target audience to include not only individuals but also corporations.

We also believe that it is necessary to provide individual users with simple products for their use, such as the servers for games mentioned earlier.

In order to adapt to changes in the current environment and achieve business growth, we believe it is necessary to increase the ratio of recurring sales. By strengthening the recurring revenue base and expanding business areas, we hope to raise the recurring sales ratio from 65.5% in 2024 to over 70% by 2027.

In the area of strengthening the recurring revenue base, the Company aims to increase revenues from Lollipop! and Color Me Shop to increase revenues.

Lollipop! has been dominated by users of the economy and light plans, but the number of contracts for the high-speed plan is on the rise, and this is a major factor in strengthening the revenue base. Next, the Company added functions suited to the needs of corporate clients and built up the number of contracts for high unit price plans.

In January 2023, Color Me Shop began offering a premium plan for stores with top distribution value. As of the end of September 2024, we no longer offer the small plan and the economy plan, and we ask that users migrate to the regular plan and above in due course.

Both services are focused on attracting corporate clients in response to changing user needs. By acquiring contracts for high unit-price plans, we aim to increase the unit price per customer in the recurring business as a whole.

In terms of business domain expansion, we will take three major initiatives.

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The first is to expand the recurring business area. The growth of the online gaming market has created a need for high-specification servers and individual server contracts. To meet this need, we offer Lollipop! for Gamers and will continue to increase the number of subscriptions.

In the domain and rental server business, we also plan to offer a new service specializing in a different field in 2025.

The second is the commercialization of AI-enabled know-how. GMO quick-response AI is a commercialization of the implementation and operational know-how cultivated through converting 100% of the handling of external inquiries to AI in 2024. We provide solutions for companies facing challenges in handling inquiries. We will continue to strengthen our sales efforts and promote the introduction of this system to companies, thereby addressing the social issue of a shortage in the workforce.

Third, we are working on new business areas. In 2024, we also started to enter the live streaming field, which is expected to grow in the future, and have begun offering Alive Studio, a streaming screen creation service for VTubers and streamers. We will continue to add services and functions to lower the hurdles for streaming activities and will continue to provide services that meet user needs in the live streaming field.

We are also beginning to take on new challenges in the live streaming field. As part of this effort, we established a metaverse promotion office in January.

The metaverse promotion office is led by a young generation of colleagues in their first three years with the Company. In addition to signing a partnership agreement with VRChat, a social VR platform operator, we recently held a recruitment event in the metaverse space and received 70 applicants.

The metaverse market is expected to continue to grow. We, too, are actively working to offer new services in the metaverse market.

As explained so far, we aim to achieve medium-term business growth by strengthening our recurring revenue base and expanding our business domain. As a result of these efforts, we aim to achieve net sales of 12.6 billion and operating income of 1.26 billion in the fiscal year ending December 31, 2027.

In addition, as announced today, from the viewpoint of fair and equitable shareholder returns, we have reviewed our shareholder benefit program and raised the dividend payout ratio from 50% or more to 65% or more in order to strengthen direct shareholder returns through dividends.

We will enhance corporate value over the medium to long term and execute continuous business growth and shareholder returns.

This is the imagined growth from 2025 to 2027. For the period from 2025 to 2027, we are targeting an average annual growth rate of 5% in sales and 15% in operating income.

These are our medium-term policies.

Next, I will provide an overview of the financial results for the fiscal year ending December 31, 2024.

First, I will explain how this compares with the revised earnings forecast announced on November 6.

The values in the green box in the table are the actual values.

Net sales were JPY10,922 million and operating income was 829 million.

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In addition, one-time non-operating income was recorded, and ordinary income and net income also exceeded the revised forecasts.

As a result, we plan to increase the dividend amount from 53 yen to 57 yen per share.

Trends in quarterly sales and operating profit.

Net sales increased from the previous fiscal year due to the effect of price revisions in the domain and rental server business and an increase in the ratio of high unit price plans.

Operating profit decreased from the previous year due to promotion costs for new services.

These are the quarterly sales of recurring business that drive our performance.

Sales in recurring business, which is the sum of the main services of the domain and rental server business and the Color Me service, have been steadily increasing.

Annual recurring sales for the year ending December 31, 2024, totaled JPY7.15 billion, up JPY350 million from the previous year.

Here is an analysis of the change in operating profit.

In addition to a significant decrease in bad debt-related expenses recorded last year, cost improvements resulting from the use of AI and lower promotional expenses led to a significant increase in profit.

This shows sales and operating profit by segment.

In the domain and rental server business, both sales and income increased due to the effect of price revisions and an increase in the ratio of high unit price plans.

Sales in the e-commerce support business and the handmade business decreased due to the decline in the e-commerce market, but profits increased due to efficient cost management through the use of AI.

In the financial assistance business, the amount of invoices purchased decreased due to stricter purchase standards, but the decrease in bad debt-related expenses resulted in a significant increase in profit.

Next are the detailed results by segment.

Sales in the domain and rental server business were JPY6,096 million, 105.9% of the previous year's level, and operating income was JPY1,918 million, 105.7% of the previous year's level. Lollipop! and MuuMuu Domain both continued to perform well due to the continued effect of price revisions.

As for the rest, there were costs associated with the development of Lollipop! for Gamers.

KPI trends for the domain and rental server business.

In the hosting business, in addition to the current recurring revenues from Lollipop! and MuuMuu Domain, revenues from new services are being added. We will continue to aim to build up recurring revenue by acquiring more contracts for MuuMuu Server and Lollipop! for Gamers.

Lollipop! and MuuMuu Domain both increased YoY due to the continued effect of price revisions.

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Net sales in the e-commerce support business were JPY2,965 million, 98.9% of the previous year's level, and operating income was JPY777 million, 118.5% of the previous year's level. Net sales increased from the previous year due to the effect of price revisions at Color Me Shop. SUZURI sales declined due to a drop in the distribution amount.

Operating profit increased for Color Me Shop due to lower costs in the customer service department resulting from the use of AI, but SUZURI had a decrease in income due to a decline in the distribution amount.

As for the KPI trends of Color Me Shop, the distribution amount reached JPY52.3 billion, 103.3% of the previous year's level, due to the bottoming out trend. The quarterly circulation amount per store and the unit price per customer for stores subscribing to the fee-based plan increased compared to the previous quarter. We continue to aim to increase recurring revenues through the acquisition of top stores and premium plan contracts.

For SUZURI, an original goods creation and sales service, the distribution amount decreased from the previous fiscal year. SUZURI has started offering a commission function and a 3D goods creation tool for video and live-streaming creators.

In the handmade business, minne, net sales were JPY1,401 million, 94.1% of the previous year's level, and operating income was JPY62 million, 285.6% of the previous year's level.

Although net sales declined as a result of a drop in distribution amount due to the depressed EC market, the profit margin improved through the operation of minne advertising, which supports sales promotion activities for authors, resulting in an increase in profit compared to the previous fiscal year.

minne's distribution amount was lower than the previous year.

minne PLUS, a paid membership service for artists, will continue to enhance various functions to support sales of artworks, aiming to expand its use.

We also held minne's handmade market in 2024 on November 30 and December 1, which attracted many visitors.

Net sales in the financial support business were JPY452 million, 69.1% of the previous year's level, and operating income was up JPY1,021 million from the previous year, resulting in a loss of JPY43 million.

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 greatly due to a decrease in bad debt-related expenses recorded last year and efforts to increase debt collection.

These are the KPI trends for the financial assistance business.

Invoice purchase amounts continue to be low due to stricter purchase 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.

Finally, I would like to explain our forecast for the fiscal year ending December 31, 2025.

For the fiscal year ending December 31, 2025, we forecast net sales of JPY11,184 million, 102.4% of the previous year's level, and operating income of JPY888 million, 107.2% of the previous year's level.

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Ordinary income and net income are expected to increase excluding the one-time non-operating income recorded in 2024.

The dividend per share is planned to be 67 yen, an increase of 10 yen, due to an increase in the dividend payout ratio from 50% or more to 65% or more.

As for our forecast by segment for the fiscal year ending December 31, 2025, we expect both net sales and operating income to increase in the domain and rental server business and the e-commerce support business, which have large component ratios.

In the domain and rental server business, in addition to strengthening the acquisition of corporate users by offering a Lollipop! flat-rate website production plan, we aim to gain more contracts for Lollipop! for Gamers by enhancing features for Minecraft.

A new service will be available in the second quarter of the fiscal year ending December 31, 2025.

In the e-commerce support business, Color Me Shop, the goods e-commerce market is bottoming out, and the distribution amount in 2024 was JPY200 billion, 103.3% of the previous year's level. In 2025, we will continue to strengthen sales of premium plans and develop functions for the upper tier, which is expected to grow in terms of distribution amount, to support store sales expansion and increase the distribution amount.

These are our medium-term policies, financial summary, and forecast for this fiscal year.

Although there were some irregular events in 2023, such as bad debt losses in the financial assistance business, these have been settled, and the environment is now in place for us to focus on future business growth. We will achieve medium- to long-term business growth by strengthening our recurring revenue base and entering new business areas, which will lead to shareholder returns.

That is all from me. Thank you.

Moderator: This concludes the explanation of the financial summary for this fiscal year. Thank you.

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Question & Answer

Moderator [M]: 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 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 ask your questions after you have mentioned your company name and your name.

Now, if you have any questions, please press the “Raise Hand” button. Thank you.

Tokunaga, please go ahead.

Tokunaga [M]: I’m sorry, can you hear me?

Moderator [M]: I can hear you.

Tokunaga [Q]: I’m sorry. Thank you. I have three questions.

First of all, on the contrary, let me ask you about the current conditions. Operating income in the fourth quarter fell short of my forecast, and although each segment is showing remarkable growth against the guidance for the present term, there is a plan to increase expenses by about JPY200 million in the other segments. What is the background to this and what kind of investment will support growth in FY2026 or FY2027? Or is it something like a simple increase in labor costs? First of all, I would like to ask you about your assumptions regarding the company's forecast for the present term. This is the first question.

Moderator [M]: Yes, thank you. President Sato, please begin.

Sato [A]: Thank you for your question, Tokunaga. In the fourth quarter, development and promotion costs were incurred for new services such as Lollipop! for Gamers, quick-response AI, and Alive Studio. In addition, excluding the minne handmade market, which is included in the segment, we recorded costs for investments in new businesses and profit sharing with associates, such as bonuses for the fiscal year, so costs were higher than usual in the fourth quarter. I hope I have answered your question.

Tokunaga [Q]: I'm sorry, first of all, outside the fourth quarter segment, does that mean that the promotional costs for Lollipop! and the like are included?

Sato [A]: Yes, that is in the segment, so it is different.

Tokunaga [Q]: I see. So, is it a financial bonus? Thank you. Sorry about my earlier question, I didn't ask it right. You are planning to increase other expenses in the company plan for the fiscal year ending December 31, 2025 by about 200 million outside of the segment. What is the background for this?

Sato [A]: As far as that is concerned, the major part is a small amount of office-related costs. This one is still a bit undecided, but we are planning to increase the floor space of our Tokyo and Fukuoka offices or relocate there, and we have already included a rough estimate of the cost. This is the first major point.

In addition, the cost of new projects is included in the business development portion, which is included in the Other category, so the cost of new projects is higher than in 2024.

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Tokunaga [Q]: Thank you. As for the increase in floor space, would this be from the second half of the year or something like that, as for the timing, I am sorry.

Sato [A]: Yes, some of them will come in from the first half of the year, and the other ones that will have a big impact will be from the second half.

Tokunaga [Q]: I see. Thank you. The second question is regarding the medium-term plan. Although the increase in profit for the current fiscal year is a little weak, the plan is for a jump in profit in the next fiscal year and the year after that, so that you can reach the final year of the mid-term plan. The same is true for sales growth.

Can you also tell us the reasons behind your plan to grow discontinuously from the fiscal year ending December 31, 2026, such as business and expenses? This is my second question.

Sato [A]: I understand. This ties in with your earlier question, but we are planning to book some costs for 2025. Also, we have been working on new businesses since last year, and if we can grow these businesses, we can expect sales growth in 2026 and 2027.

The most important base is to build up the recurring revenue of existing businesses, including the number of recurring revenues, and we also expect to increase our revenue base by shifting to users in higher price ranges. Although sales growth in 2025 will still be weak, we are currently planning for medium-term growth by increasing recurring revenue in 2026 and 2027.

Tokunaga [Q]: If we go by segments, is this still driven by e-commerce support and hosting?

Sato [A]: Yes, that's right. In terms of growth, yes, the overall numbers, and in terms of scale, the assumptions are still based on the servers, domains, Color Me, and e-commerce portions.

Tokunaga [Q]: Okay, thank you. Last is the dividend payout ratio. So, it went from 50 to 65. Yesterday, Financial Holdings and others went to 65, and Tech also went to 65. I have the impression that your company's group is strengthening its dividend. Please answer two questions: the background to this change in dividend policy, and whether this will make M&A or other activities more difficult. That's all from me.

Sato [A]: I understand. Since disclosures have already been issued by each company in the group, This decision was made based on the premise that it aligns with the group-wide policy, following consideration by the Company. In view of the size of our current profits, dividends and retained earnings are quite important. We are considering this dividend payout ratio strategy because we are currently focusing more on increasing our equity capital through future financing possibilities than on increasing our share price to cover internal reserves, considering the current dividend yield.

Tokunaga [M]: I see. That's all from me. Thank you.

Moderator [M]: Thank you. Are there any other questions? If you have any questions, please click "Raise Hand". Are there any other questions?

Thank you. Now, since there seem to be no other questions, we will end a little early. This concludes the GMO Pepabo online financial results presentation for the full year ending December 31, 2024. A questionnaire will be displayed after the Zoom meeting is over. Please answer our questions. Thank you very much for your participation today.

Sato and Igashima [M]: Thank you.

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