

Presentation

Moderator: Thank you very much for taking time out of your busy schedule today to participate in the GMO Pepabo, Inc. Fiscal Year 2025 1st Quarter Results Presentation.

Here are the attendees for today's meeting. Mr. Kentaro Sato, CEO and President.

Sato: Thank you very much.

Moderator: Mr. Yoshito Igashima, Executive Director.

Igashima: Thank you very much.

These two members are present.

Today, Mr. Sato, CEO and President, 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. Now, GMO Pepabo will begin the Fiscal Year 2025 1st Quarter Results Presentation.

This is a summary of the financial results.

In the first quarter, sales and profits increased YoY, with all businesses reporting higher sales than in the same period of the previous year. In terms of profit, we are investing in corporate products for future business growth, and even after accounting for these increased expenses, profits were higher than in the same period of the previous year.

In the domain and rental server business, the number of contracts, mainly for MuuMuu Server, steadily increased. In addition, the consolidation of plans at Color Me Shop has led to a shift to more profitable higher-end plans. In this fiscal year, we are also expanding our new product and service lineup to meet corporate needs, details of which will be explained later.

We are also strengthening direct shareholder returns by increasing our dividend payout ratio from 50% to 65%. In addition, the Company will also repurchase its own shares throughout the year. Free cash flow through our core business has been stable, and we intend to continue to invest in corporate services and return profits to shareholders based on this earnings base.

Today's Agenda.

This section provides an overview of the first quarter financial results and topics.

The second half of the material includes a company profile and explanation of our services, so please take a look when you have a moment.

This is a summary of the financial results for the 1st quarter of the fiscal year ending December 31, 2025.

In the first quarter of FY2025, net sales increased by 3.7% compared to the same period of the previous year to JPY2,745 million and operating profit was JPY335 million, 143.0% YoY. Ordinary profit and below are as shown.

This is the percentage of progress toward the full-year forecast for the fiscal year ending December 31, 2025, which was announced in February.

Operating profit and basic earnings per share are 37.8% and 44.2%, respectively, on track to meet our earnings forecasts.

Quarterly net sales and operating profit.

Net sales increased from the same period of the previous year due to steady growth in recurring business. Operating profit increased from the same period of the previous year due to solid performance in debt collection in the financial assistance business and cost reduction measures.

These are quarterly net sales from recurring business that drive performance.

Sales in recurring business, which is the sum of the main services of the domain and rental server business and Color Me Shop, have been steadily increasing. Net sales of the recurring business in the first quarter totaled JPY1.82 billion, up from the same period last year.

This is an analysis of changes in operating profit.

Operating profit increased due to the impact of higher net sales and a decrease in bad debt costs.

Net sales and operating profit by segment.

In the domain and rental server business, sales increased due to an increase in the number of MuuMuu Server contracts, but profits declined as the Company invested in new services for future growth.

In the EC support business, sales and profits increased due to the migration to higher plans in line with the consolidation of Color Me Shop plans.

In the handmade business, sales remained flat, but profits increased due to an increase in the volume of highly profitable minne advertisements handled.

The financial assistance business posted higher sales and profits due to an increase in the amount of invoices purchased for individual transactions with high commission rates, as well as steady growth in debt collection.

Next, I will explain the performance by segment.

Net sales in the domain and rental server business were JPY1,542 million, 101.3% YoY, and operating profit was JPY476 million, 91.7% YoY. While sales increased due to the accumulation of MuuMuu Server contracts, profits decreased due to ongoing investments in the introduction of new products for corporate customers.

KPI trends for the domain and rental server business.

In addition to the current recurring earnings from Lolipop! and MuuMuu Domain, profits from the new services are being added. Continuing with MuuMuu Server and Lolipop! We aim to build up recurring earnings by acquiring new service subscriptions such as "for Gamers." Both Lolipop! and MuuMuu Domain saw YoY increases in spending per customer.

Sales in the EC support business were JPY701 million, 105.5% YoY, and operating profit was JPY200 million, 145.8% YoY.

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At the end of September last year, Color Me Shop discontinued the low-priced Economy and Small rate plans, and has been gradually consolidating rate plans into the Regular and above plans. As a result, the migration to higher rate plans increased, resulting in a YoY increase in both sales and profits. SUZURI reported an increase in sales due to corporate projects and video streaming-related sales, and in addition, profit increased due to cost containment in promotion and other areas.

KPI transition of Color Me Shop.

Color Me Shop merchandise value amounted to JPY49.8 billion, 100.9% YoY. Quarterly merchandise value per store and per-customer spend per paying store continue to increase. In Color Me Shop, we will continue to acquire new contracts for premium plans and strengthen functions for corporate customers, aiming to increase recurring earnings.

For SUZURI, an original goods creation and sales service, merchandise value declined from the same period of the previous year. On May 21, SUZURI will integrate its photo sharing service, 30days Album, into the SUZURI brand and relaunch it as SUZURI Album. This integration is expected to bring the total number of registered members to 3.55 million, making it the largest among our services in terms of the number of users.

The SUZURI Album will not only store and share photos taken by users, but will also provide a channel for users to easily sell their photos as original goods. Going forward, we will create synergies between services to improve the user experience and expand revenue opportunities.

This is minne, a handmade business.

Net sales were JPY364 million, 101.3% YoY, and operating profit was JPY49 million, 256.1% YoY. The increase in sales compared to the same period of the previous year was due to growth in minne advertising and minnePLUS, as well as an increase in the volume of highly profitable minne advertising handled. Although minne's merchandise value declined YoY, we will continue aiming to build up recurring profits by acquiring more minnePLUS monthly plan members. In the third quarter, we also plan to provide support for minne creators and new features to enhance the user experience.

Net sales in the financial assistance business were JPY135 million, 136.4% YoY, and operating profit was positive at JPY85 million. Sales increased due to a decrease in the percentage of partner transactions with low commission rates and an increase in the amount of invoices purchased for individual transactions with high commission rates. Operating profit returned to the black due to higher sales and steady collection of receivables.

This is a KPI for the financial assistance business. The amount of invoice purchases remained flat, but as we reported earlier, the percentage of individual transactions increased. The impact of bad debt costs on operating profit increased due to the steady collection of receivables.

This is the end of performance by segment.

Next, I will explain first quarter initiatives and future topics.

First is the acquisition of corporate clients that will lead to sales growth.

To date, we have achieved steady business growth through a recurring business model based on support for creators, in which we accumulate a larger number of contracts at low prices. In order to achieve further

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growth, we believe it is necessary to review our business policy so that we can attract more corporate users with higher unit prices. To this end, we are expanding our lineup of highly functional, high-value-added products and services to meet corporate needs. In 2025, we aim to achieve sustainable growth by providing these new services in full scale and developing our business with a focus on increasing the unit price per customer.

As a new product for corporate customers, Lolipop! Fixed IP Access was launched in March 2025. This service provides an environment in which a company's servers can be accessed from outside the company or from multiple locations. Another feature is that access control for each terminal can be centrally managed by fixing the IP of the access source.

With the spread of remote work and the globalization of business, there is a growing need for direct access from registered IP addresses without going through the company LAN. For example, the system is designed for telecommuting and overseas business trips. In addition, companies with nationwide operations are also increasingly using the system as a means for each store to connect to a sales management system, and its adoption is spreading regardless of the industry.

The VPN market in Japan is expected to expand from JPY170.3 billion in 2020 to JPY510 billion in 2027. With a high average annual growth rate of 17%, this is a growth area with great opportunities for future business development.

In addition, MuuMuu Domain began offering Google Workspace in February. Google Workspace is a business tool that provides access to major business tools such as Gmail, Google Docs and Spreadsheets, as well as Google's generated AI, Gemini. Already used by at least 5 million companies worldwide, its convenience and high productivity are expected to continue to expand its use by companies in the future. In addition to the commission income from the introduction of Google Workspace, we aim to acquire corporate clients by providing them with their own domain on MuuMuu Domain, which is required for the introduction of Google Workspace.

GMO Sokuresu AI, which we began offering last year, was initially intended primarily for companies with about 10 employees. However, we have actually received a high level of interest from companies with more than 100 employees, and are also now offering it to larger companies than originally targeted. We will continue to offer high value-added proposals to such companies and strengthen our corporate sales activities in order to win new contracts. On March 31, GMO Pepabo was granted certification as a target tool for the Small and Medium Enterprise Agency's IT Introduction Subsidy 2025, and will focus on promoting introduction and expanding sales through use of the subsidy.

Alive Studio, which launched last year, has been enhancing its functions and collaborating with companies in order to meet the needs for streaming of a wide range of users, including VTubers.

In terms of functionality, at Alive Studio, we released a plugin for Stream Deck to improve convenience for streaming. This plugin enables smooth playback of sound effects and background music, as well as switching between streaming materials.

In addition, we have launched new initiatives in collaboration with companies, such as providing material for Calbee's JagaRico live streaming. We will continue to develop initiatives to enhance the appeal of Alive Studio's content in order to attract new users.

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The Metaverse Promotion Office is promoting various initiatives to develop services for the next generation and strengthen brand value.

Most recently, as part of the new graduate recruitment process, we held a company information session in a VR space, offering a new and unprecedented recruitment experience.

We also support a design contest for original goods, which is a collaboration with VRChat and SUZURI. This will create service synergies in the metaverse area and expand contacts with new users.

We will continue to develop our services and enhance our brand value through aggressive efforts in the metaverse area.

Next is AI utilization.

Last year, we implemented a measure of using AI for our initial response to all external inquiries. This is a specific result for the year 2024. The graph on the left side shows the change in work hours in the customer service department. With the introduction of AI, work hours were reduced by approximately 50%, resulting in a significant improvement in operational efficiency. This also improves the mobility of human resources.

Partners in the customer service department have been reskilling through departmental transfers and job changes, with 31 members working in different jobs and departments than before. With this reskilling, we were able to curtail new hiring that was originally necessary, as well as review and reduce outsourced operations, leading to an annual profit improvement of JPY82 million in 2024.

We have made significant progress in operational efficiency over the last year, and will continue to utilize AI and no-code tools in the current fiscal year. As a result, images and websites can be created without specialized knowledge. Consequently, the number of associates involved in design work has expanded from 35 to 71. This will lead to a significant increase in productivity, including an increase in the speed of measures in each service.

In the future, we intend to expand the system to the administrative departments to further improve efficiency.

Finally, shareholder returns.

For 2025, as announced in the previous financial result presentation, we have increased our dividend payout ratio from 50% or more to 65% or more. With a stable revenue base from our recurring services and a sound financial position, we intend to more proactively enhance shareholder returns.

In addition, the acquisition of treasury stock is proceeding as planned. The cumulative acquisition amount is JPY46 million as of April 30. We plan to continue purchasing through December toward the maximum amount of JPY180 million.

The graph here shows our free cash flow excluding our financial assistance business.

Cash, which is the source of dividends, is generated steadily every fiscal term. We will continue to grow our business so that we can continue to return profits to our shareholders through a stable revenue base centered on recurring services and the steady accumulation of cash.

That is all from me. Thank you very much.

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

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