

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 third quarter of the fiscal year ending December 31, 2025. I would now like to introduce today's attendees. CEO and President Kentaro Sato.

Sato: Thank you very much.

Moderator: Executive Director and CFO Yoshito Igashima.

Igashima: Thank you very much.

Moderator: These are the two members 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. Let's begin the fiscal year 2025 3rd quarter results presentation for GMO Pepabo.

Here is third quarter financial summary.

Today I will explain two points.

The first is a revision of the full-year earnings forecast and an increase in the dividend.

The revision to the forecast was mainly due to the receipt of dividends from investees. Accordingly, the dividend per share was substantially increased from the initial forecast of JPY67 to JPY105.

The second is investment in growth for 2026 and beyond.

To achieve further expansion of the recurring-type business, we will invest in new services and aim to grow the business by expanding the recurring-type business and making allies. Details will be explained later.

Today's Agenda.

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

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

As for consolidated results for the first nine months of the fiscal year, net sales was JPY8,263 million, 101.9% of the same period last year, while operating income was JPY790 million, 101.1% of the same period last year as a result of solid sales in the Domain and Rental Server (Hosting) business and Color Me Shop, an E-commerce Support business. In addition, ordinary profit and below increased significantly, mainly due to the receipt of dividends from investees.

Today, we have revised our full-year earnings forecast.

While net sales are expected to decrease, reflecting the impact of the deconsolidation of GMO Creators Network, Inc. due to a stock transfer, operating profit is expected to increase due to an increase in the ratio of higher-end plans in Color Me Shop and improved cost efficiency at SUZURI. Ordinary profit and the items

below were revised upward significantly, mainly due to the receipt of JPY304 million in dividends from investees.

Based on the revised consolidated earnings forecast, we have also increased the dividend per share to JPY105.

Quarterly net sales and operating profit.

Net sales were generally at the same level as the previous year, despite the impact of the stock transfer.

Operating profit decreased from the same period of the previous year. Although one-time expenses were incurred in connection with the transfer of shares of GMO Creators Network, operating profit for each business segment other than the Financial Support business was at the same level as in the second quarter.

These are quarterly sales from the recurring-type business that drives performance.

Sales in the recurring-type business, which are the sum of the main services of the Domain and Rental Server (Hosting) business and Color Me Shop, have been building steadily.

Sales of the recurring-type business for the third quarter totaled JPY1.85 billion, up from the same period last year.

This is an operating profit change analysis.

Operating profit increased as a result of the YoY increase in net sales.

Net sales and operating profit by segment.

In the Domain and Rental Server (Hosting) business, revenue increased due to an increase in the number of MuuMuu Server contracts, but earnings declined due to investments in new services for corporate clients.

In the E-commerce Support business, sales and profits increased due to the progress of migration to higher plans of Color Me Shop and the improved efficiency of SUZURI's promotion costs and other costs.

In the Handmade Products business, sales decreased due to a decline in gross merchandise value, but profit increased due to cost control.

In the Financial Support business, the amount of invoices purchased for individual transactions with high commission rates increased, and debt collection remained steady, resulting in higher revenues and profits.

Now, I will explain by segment.

Sales in the Domain and Rental Server (Hosting) business were JPY4,675 million, 102.5% of the same period last year, and operating profit was JPY1,478 million, 99.3% of the same period last year.

While revenue increased due to the effect of the price revision of Lolipop! and the accumulation of MuuMuu Server contracts, profit decreased due to investments in new services.

Trends in Domain and Rental Server (Hosting) Business KPIs.

In the Domain and Rental Server (Hosting) business, revenue from new services were added in addition to recurring revenue from Lolipop! and MuuMuu Domain. In addition to the sales from MuuMuu Server and Lolipop! for Gamers, Lolipop! Static IP Access sales have been recorded. We will continue to aim at accumulating recurring revenue.

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Spending per customer increased YoY for both Lolipop! and MuuMuu Domain.

Net sales in the E-commerce Support business were JPY2,244 million, 101.0% of the same period last year, and operating profit was JPY727 million, 124.0% of the same period last year.

Color Me Shop saw YoY increases in both sales and profits as a result of the discontinuation of the low-priced Economy Plan and Small Plan at the end of September last year and the consolidation of plans into the Regular Plan and above, and the shift to higher-priced plans.

SUZURI's profit increased due to improved production systems and an increase in corporate projects, as well as increased efficiency through the use of AI and decreased promotional costs.

Trend in Color Me Shop KPIs.

Third-quarter gross merchandise value for Color Me Shop was JPY50.4 billion, 105.4% of the same period last year. Quarterly gross merchandise value per store and spending per customer for paid stores 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 revenue.

For SUZURI, an original goods creation and sales service, gross merchandise value in the nine months of the fiscal year under review totaled JPY1.51 billion, unchanged from the same period of the previous year.

On October 15, SUZURI began offering a function specifically designed for the creation of personalized goods in order to expand the number of service users by capturing the daily needs of individuals in terms of life events and hobby activities. By creating opportunities to purchase goods for oneself and attracting new users who have never produced or sold items before, we aim to expand the gross merchandise value.

This is minne in the Handmade Products business.

Net sales were JPY974 million, 97.8% of the same period last year, and operating profit was JPY68 million, 152.5% of the same period last year.

Although the gross merchandise value decreased, growth in pay-per-click advertising on the site and monthly plans restrained the decline in revenue. In addition, profit margins improved as a result of the optimization of human resources, resulting in a YoY increase in profits. minne's gross merchandise value declined YoY.

In July, minne began offering a Support Function as a mechanism for users to directly support creators. We also announced a new plan for a minnePLUS monthly plan with new features for creators.

Measures to encourage creators' sales activities and adding functions will contribute to their sales and increase the gross merchandise value.

Net sales in the Financial Support business were JPY355 million, 110.3% of the same period last year, and operating profit was JPY1 million in the black.

Due to the impact of the stock transfer, the results for the Financial Support business will be aggregated through August.

Next, I will explain our medium-term business growth.

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Our corporate philosophy is "Make it more playful." To date, we have consistently provided services that lower the barriers to entry for creative activities and have built up a user base.

As a result, the total number of users that the Company has been supported by in their outputs generated through our platform is over 8.54 million in total. This is a track record of continuous support for the output of a diverse range of users, and we believe this is a customer base that will accelerate our business growth in the future.

When we started our business in the early 2000s, individuals needed expensive servers and technical knowledge including programming code to use the Internet. We saw a market need to lower this barrier to creative activities. In contrast to the expensive and complicated corporate infrastructure, we introduced Lolipop! and succeeded in providing an environment where anyone can express themselves at an affordable price and with easy operability. We received overwhelming support from students in particular.

As was the case with the low-cost, high volume business model of the time, we have been able to establish a user base and grow our business along with the market growth of the Internet.

Since then, we have changed our service offerings on a daily basis to meet the needs of the output culture and the times. With the evolution of AI and digital tools, the market environment for creative activities is constantly changing, and creative activities are diversifying from text-based activities on homepages and other browsers to smartphones, e-commerce stores, and the video streaming field. We have seen this change as an opportunity to grow and provide services.

Initially, the focus was on infrastructure, but during the period of smartphone proliferation, the Company developed various platforms for creative activities, including sales by individuals through social media accounts and e-commerce sites, and is now strategically shifting resources to the field of video streaming, where market demand is growing.

We believe that our strength lies in our ability to accurately grasp these market changes and constantly introduce services that incorporate new services and technologies.

In the changing environment surrounding our company, with the domestic Internet penetration rate remaining at a high level, it is necessary to shift from a model of low prices and acquisition of a large number of customers that was aligned with the market growth up until now to a model of high unit prices and high value-added in line with the changing environment. Users' needs are also changing, shifting from general-purpose functions in the past to advanced functionality and specialization for specific applications.

In order to adapt to this changing environment, we aim to expand our target to corporations in addition to individual users, and to maximize corporate value by providing highly functional and value-added products. In response to such changes in the environment, we are also promoting selection and concentration of our business.

The existing Domain and Rental Server (Hosting) business and E-commerce Support business will provide products for corporate customers and expand recurring revenue. In addition, in response to changes in the environment, we will aggressively promote the provision of new services in the video streaming field, and we will also start making allies, so-called M&As.

The Company withdrew from the Financial Support business by transferring shares on September 1.

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This is our medium-term policy for the period from 2025 to 2027, which we explained in our financial results briefing in February of this year.

The average annual growth rate for the 2025 to 2027 year period is set for each year to exceed 5% in net sales and 15% in operating profit.

As a result, we aim to achieve net sales of JPY12.6 billion, operating profit of JPY1.26 billion, and an operating margin of 10% or more in the fiscal year ending December 31, 2027. To achieve this medium-term policy, we believe that two important points are to expand the business domain of the recurring-type business to strengthen the earnings base of existing services and to enter into new business domains to secure future growth drivers.

In the recurring-type business, in business area expansion, the Company aims to acquire users with high-per-customer spending in order to increase the profitability of the existing business.

For Lolipop!, in addition to Lolipop! for Gamers, which is a high-unit-price server for online games, we offer Lolipop! Static IP Access, where we provide IP addresses for corporate customers to increase spending per customer.

Color Me Shop has already developed a Premium plan for stores with large gross merchandise value. By encouraging a shift in usage to higher plans, we aim to continuously increase spending per customer.

In new business areas, we will deploy resources in new business areas with growth potential and establish new pillars of recurring revenue.

We aim to grow by developing ALIVE Studio, which supports creative activities in the field of video streaming, for the domestic live streaming market, which is projected to be worth JPY2.5 trillion by 2030. In addition, for the domestic digital transformation market, which is projected to grow to JPY9.2 trillion by 2030, the Company aims to expand recurring revenue by providing services to growing markets by developing GMO SOKURESU AI, which provides AI support for inquiries and corporate digital transformation.

Finally, I would like to discuss shareholder returns.

Our dividend policy is a consolidated dividend payout ratio of 65% or more.

As we mentioned at the beginning of my presentation of our performance for the fiscal year ending December 31, 2025, we received dividends from our investees and recorded an extraordinary gain on the transfer of shares, which led to a significant increase in ordinary profit and the following items.

As a result, we substantially increased the dividend per share from the initial forecast of JPY67 to JPY105.

Performance in the first nine months of the year was solid. We will continue to focus our management resources on expanding the recurring revenue business area and new services, which will lead to business growth in the next term and beyond. That is all from me. Thank you very much.

Moderator: This concludes my explanation of the financial summary for this fiscal year. 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 a question, please press the Raise Hand button from the Reactions at the bottom of the Zoom screen. I will call you by the name you registered with Zoom, so please unmute yourself when your name is called. Please tell us your name and company name first before asking your question.

We will begin by answering the questions we have received in advance. This is from Mr. Tokunaga of Daiwa Securities Co. Ltd.

Tokunaga [Q]: First question. What is your view of the operating profit results for the nine-month period? Looking at the progress of operating profit by segment in the first three quarters of the fiscal year compared to the plan at the beginning of the fiscal year, it appears that the Domain business progressed to 70%, the E-commerce Support business to 80%, and the Handmade Product business exceeded the plan at the beginning of the fiscal year. Am I correct in assuming that the E-commerce Support and Handmade Product businesses are expected to absorb the downside of the Domain business? Or is there some strategic cost, etc. in 4Q for difference? Or is there any leeway overall? Please let us know.

Moderator [M]: I will now read the second question we received.

Tokunaga [Q]: What is the concept of the medium-term operating profit target on page 25 of the presentation material? Is the sowing of seeds this season progressing well? Looking at the operating profit figure, it appears that the profit growth rate should accelerate toward 2027. Is the preparation already well underway, such as the penetration of the higher price points services of Lolipop! ? Please tell us information on the progress toward medium-term growth.

Moderator [M]: Then, President, please.

Sato [A]: Yes. Thank you for your questions. First of all, regarding the cumulative operating profit to date, the rate of progress is as you are aware. For the full-year operating profit, the costs of the Domain and Rental Server (Hosting) business are slightly higher than planned, and this is expected to be absorbed by the E-commerce Support business. In the fourth quarter and thereafter, we plan to make investments that will contribute to growth in the next fiscal year and beyond, especially in advertising, so we do not expect the pace to change from the current level.

As for the second question, you pointed out that we need to accelerate the operating profit margin in order to achieve the operating profit target of JPY1.26 billion for the fiscal year ending December 31, 2027, and as you said, we need to speed up. In the current fiscal year, we are making steady progress in acquiring members, particularly in launch of the recurring-type business model and a business model that builds up over time. We will have to wait a few more years to see the impact of these businesses on our business performance, so we expect sales to grow from tens to hundreds of millions of yen by around 2027.

In particular, we have received several inquiries about the high-value-added and high-price-range services for corporate clients, and we expect to be able to report more concrete progress in the next term and beyond. Thank you for your question.

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Moderator [M]: Thank you very much. Now, if you have any other questions, please press the Raise Hand button from the Reactions. Anyone?

Does anyone have any other questions? Thank you.

There is still time, but we will now conclude the GMO Pepabo, Inc. online financial results briefing for the third quarter of the fiscal year ending December 31, 2025. A questionnaire will be displayed after the Zoom streaming ends, please answer it. Thank you very much for your participation today.

Sato [M]: Thank you very much.

Igashima [M]: Thank you very much.

[END]

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