



Fiscal Year 2014 First Quarter Results Presentation: Summary of Q&A Session

Questions were asked by institutional investors and analysts in attendance at the GMO Internet, Fiscal Year 2014, First Quarter Results Presentation on May 1, 2014. Responses were given by Group CEO and Founder, Masatoshi Kumagai, and GMO AD Partners CEO, Shintaro Takahashi.

Q1. In today's presentation you said that you definitely expected Mobile Entertainment to be profitable in Q2. How will you achieve that?

A1. (Masatoshi Kumagai, CEO & Founder) In Mobile Entertainment we are growing the top line and reducing costs. The former is a result of good performance in a number of titles including existing titles that generate stable income, and new title Dream Garden on the LINE platform. The latter is an effort to internalize various functions and control costs. I am confident these measures will enable the segment to achieve a profit contribution.

Q2. In regard to the one billion yen to be invested in promoting new domains, can you give us an idea of schedule and media?

A2. (Masatoshi Kumagai) We plan to spend up to one billion yen promoting new domains this year. In Q1 we already invested 50 million yen in television advertising for .nagoya. In Q2 we will invest 150 million yen in television commercials for .tokyo beginning in May. In Q3 we will spend up to 600 million yen on promotions including television commercials featuring AKB48, and advertising on public transport. In Q4 we expect to spend around 100 million yen on reinforcement advertising.

Q3. Do you expect it will be difficult to achieve your forecast 12.5 billion yen profit for FY2014 after spending 1 billion yen on domain promotion?

A3. (Masatoshi Kumagai) New domain promotion is a temporary cost, and we have already seen high volume in pre-registration of new domains. The investment is not expected to impact year-end profit targets.

Q4. How would you evaluate effectiveness of the television commercials for Smart Soccer?

A4. (Masatoshi Kumagai) The television commercials were effective in terms of user acquisition and we acquired four or five hundred thousand new users. However, where we didn't see improvement was in KPI like continuity and in-game spend. In June this year the app will be re-released and we hope to see a revenue contribution then.

Q5. When will GMO Game Pot make a contribution to profits?

A5. In Q1 GMO Game Pot was at around the breakeven mark, but we expect to see a profit contribution going forward. In April to May we expect earnings to remain flat and beyond that to begin building revenue with the introduction of new titles.

Q6. Can you give us an update on progress in regard to developing cost synergies in FX Prime by GMO?

A6. (Masatoshi Kumagai) Although we have made some progress in improving internal controls, we have not yet tackled cost synergies aggressively due to the business improvement order received by GMO CLICK and other factors. This is certainly something we would like to achieve moving forward.

Q7. It looks like earnings strength is dropping off in the Online Advertising & Media segment. How do you plan to counteract that?

A7. (Shintaro Takahashi) In Q4 of 2013 earnings fell in the SEO business. We have now seen a recovery in our own SEO related products, but what remains to be achieved is to create an earnings structure that is resistant to declining display and feature phone ad sales. We aim to improve earnings by enhancing our own products.

Q8. I'd like to know more about domain registration volume and the number of different TLDs you sell. Also, what kind of demand do you expect to generate from promoting new domains?

A8. (Masatoshi Kumagai) Currently the Group registers around 8,000 domain names every day. Domain registrations represent not only revenue from registration fees but also an opportunity to boost revenue in other infrastructure products such as hosting and SSL. From that perspective, I think that one billion yen in promotion costs can be easily recovered.

Q9. I'm interested in where you see the value in television commercials for domains which are a product for businesses rather than consumers. Also, rather than building awareness, wouldn't it be more effective to focus on expanding sales channels?

A9. (Masatoshi Kumagai) Domains are of course a business product, but increasingly domains are being registered by the self-employed and other individuals. It is now possible for an individual to operate a business online and as a result of media exposure we are receiving more and more inquiries of this nature. In fact the day we announced .tokyo to the media we saw the highest level of new customer acquisition that we had ever seen.