



Fiscal Year 2014 2nd 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, Second Quarter Results Presentation on August 1, 2014. Responses were given by Group CEO and Founder, Masatoshi Kumagai.

Q1. How much do you expect the Mobile Entertainment segment to contribute to profit in Q3?

A1. Profit from this segment really depends on the success of the game titles so I can't offer you any concrete figures. Sustaining the game business for the long term is a priority in this segment, and to do that we plan to focus on leveraging our existing expertise and experience to create successful game titles.

Q2. Can you tell us about the launch of .tokyo?

A2. As you can see by the numbers, I think we are on track to achieve 100,000 registrations a year. It generally takes between two weeks and a month from the time a user first comes into contact with a domain up until they go on to register one. By the next quarterly presentation, we should be able to present more detailed figures.

One area where we are seeing better than expected results is in cross-sales. We are seeing a higher than average uptake of hosting and other products among .tokyo customers. We believe that this trend is one of the effects of our television commercials featuring AKB48.

Q3. In your presentation last quarter you said that you would invest up to ¥1 billion in promoting .tokyo. Is there any change with regard to that projected investment?

A3. In the second quarter we spent JPY170 million and in the third quarter we invested around JPY300 million. Including other promotions we expect to spend a total of around JPY600 million, so at this stage we are spending less than initially projected.

Q4. In the last investor presentation, you said that the gross margin on .tokyo was over 90%. Even if you do reach the targeted 100,000 registrations by the end of the year, it doesn't look like you will recoup promotion costs. What is your view on the recovery of investments in the domain business?

A4. Domains are a strategic product because they are closely linked to cross-sell opportunities. We are not looking only at revenue from the domain business, but from the entire infrastructure segment.

Q5. Are there any costs associated with structural reforms in the media rep business?

A5. No, there will be no increase in costs. The reforms we are talking about are related to a redistribution of resources away from traditional ad placement sales, toward ad distribution networks.

Q6. How did you manage to maintain profits while overall trading volume was down in the Securities segment?

A6. This is a product of our strength in technology. We develop and operate our own technology platform. This means that our breakeven point is low and we can sustain a profit even when market trading volume is low.

Q7. In order to reach the forecast JPY 12.5 billion in profit this year you will need to generate JPY 7.5 billion in the second half. If we take into account JPY 800 million to come from the incubation segment, we will still need to see profit of about JPY 6.8 billion or JPY 3.4 billion a quarter. Q2 profit was JPY 2.7 billion, so that is about JPY 700 million short. If, as you say, the game segment improves JPY100 - 200 million there is still a JPY500 million-gap. How should we think about that?

A7. Where we expect to see an increase is in infrastructure and as you say, an improved games segment. We will start to see a contribution from new domains and related revenue. The Securities segment was able to generate JPY1 billion in profits, even with the market in a lull this quarter. I think we can expect to see at least some increase in market activity in the second half. The only area in which performance has been worse than expected is the media rep business, everything else is under control and I think we will clear the targets set in our guidance for this year.

Q8. What impact has the Yahoo! Ecommerce strategy had on your ecommerce business, and the business climate in the market?

A8. Our ecommerce sub-segment is predominantly comprised of two businesses, one is SaaS based shopping cart services such as MakeShop and ColorMeShop, and the other is support services for stores on Yahoo Shopping, operated in cooperation with Yahoo.

In the shopping cart business we have seen a negative impact on low-priced products, but there has been no impact on higher-priced product. We may have lost some customers who had been using products that cost a few hundred yen a month. The support services for Yahoo Shopping are a growth area, and we are currently working to become profitable here.

But, overall, the impact has been positive.

Q9. In the mobile entertainment segment, creating hit titles to boost revenue is a nice story, but it looks like you don't have many game titles at the moment. Can you tell us about the status of future releases and any challenges you may be facing?

A9. It is important to control the timing of game releases in order to control P/L condition. As soon as we release a game we start incurring amortization expenses and that puts a burden on our profit and loss statement. Our first priority at the moment is to make the segment profitable. We are being a little cautious about releasing new titles, but once we reach a certain level of profitability you can expect to see an acceleration in new releases.

Q10. Looking at July performance in the mobile entertainment segment, what is your outlook for the third quarter?

A10. In July, the segment was focused on the overseas expansion of Line Dream Garden, and we were just about at break even. Costs are under control so what I think is important now, is to continue until we produce a hit title.
