



Fiscal Year 2014 3rd 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, Third Quarter Results Presentation on October 31, 2014. Responses were given by Group CEO and Founder, Masatoshi Kumagai and Group CFO Masashi Yasuda. Supplementary information is provided by the Group IR/PR Department.

Q1. What impact will the GMO Research IPO have on Profit and Loss?

A1. (Yasuda) In terms of scale, sale of shares and change in equity investees will contribute approximately JPY600 million at the extraordinary profit level, and approximately JPY400 million at the net profit level.

*This will be booked in Q4 2014.

Q2. Can you tell us how each segment is performing in Q4?

A2. (Kumagai) Internet infrastructure is still strong, and I think we are seeing some acceleration in domain and hosting after the Q3 investment in promotion. Our recently released cloud hosting service is also off to a positive start.

Results in the Internet Securities segment are of course closely tied to market conditions, however right now there is some movement in FX markets and as long there is no sudden slow-down, I think we can probably expect results to be better than Q3 levels.

In Online Advertising and Media, to recap on Q3 both one-time and ongoing factors impacted performance. One of our major clients temporarily reduced advertising spend in Q3, but if this is reversed we can expect Q4 to be an improvement over Q3. The ongoing factor I mentioned is the condition of the rep business. This business has been impacted by the shift toward automated online ad delivery and ad technology products, and away from the traditional model of sales reps selling advertising space on websites. In response, we are evolving from a sales-based business to an ad tech based business and shifting human resources. Once this starts to produce results, I believe we will see a turnaround here.

Finally, in regard to Mobile Entertainment, I have been talking about profitability in this business for some time now, and for that I apologize to investors. In Q4 I am confident that the segment will continue to improve. The game segment remains an important business for us and I believe that with the expertise we have amassed in this segment we will produce a hit title.

Q3. Revenue should build in the domain sub-segment? What is the reason for the QonQ drop here?

A3. The domain sub-segment is comprised of domain registry and domain registrar business. While registrar sales are booked in one-shot, registry sales are booked over twelve months. While we have seen record growth in registration volume, impact on revenue will not be fully represented for another 12-months from now. .

Q4. In the security segment it looks like revenue is growing independently from certificate issue growth. What is the reason that revenue was down in comparison to Q2?

A4. (Kumagai) Certificate issues and market share are both growing, but factors contributing to the revenue drop are partly structural, partly seasonal and partly one-time. Structurally, while it is certainly accurate to say that revenue growth is closely linked to certificate-issue growth in Japan, sales contracts in the global market are somewhat more diverse and in many cases a rise in revenue will not be indicative of a rise in certificate issues. One example is license sales which allow the buyer to issue unlimited certificates. Global sales (ex. Japan sales) now account for over 60% of revenue in this segment, and as a result this diversification of sales is becoming more evident. Seasonally, summer is a slower season in the global market, and as global sales become more significant this trend is also increasingly evident. Finally, Q2 net sales included one-time revenue.

Q5. It looks like that in Q3, the online advertising segment has somewhat recovered from the downward trend in revenue. What is the reason for that?

A5. (Kumagai) In Online Advertising and Media, ad revenue is increasing as MAU increases in smartphone apps operated by GMO Media and other Group companies. While the rep business is dragging in Online Advertising, I think that agency and ad tech products are performing well.

Q6. In your presentation you used the expression “emerging from the water” to describe the Mobile Entertainment segment. What steps do you think are required to turnaround the downward trend in income?

A6. (Kumagai) In the second and third quarters we looked at all of the game titles that were jointly operated with partners and either took steps to insource the entire operation, or we sold off our stake in the game. This gave us more control over costs and enabled us to improve profit margins. But, because some titles were sold off we did see a slight drop in the top line and that is why operating loss increased. However, if we exclude the titles that were sold off you will see that revenue is flat or growing slightly. In Q4 this internalization will be complete, and we will be able to further improve margins. We also have new titles in the pipeline. Of course, I would like to see these becoming major hit titles, but even if they don't we are hoping to see some small hits or medium-sized hits.