GMO INTERNET

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

Questions were asked by institutional investors and analysts in attendance at the GMO Internet, Fiscal Year 2014, Results Presentation on February 5, 2015. 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. In the Mobile Entertainment segment, you said that December was profitable month. Can you tell us about January? Also, the segment ended FY2014 with a JPY1.1 billion loss – what is your expectation for FY2015?

A1. (Kumagai) We expect to be at around the breakeven point for both January and the first quarter. The second quarter may see a slight loss as costs increase with the release of new titles – although if successful the costs may be covered by increased revenue. At the end of 2015 we expect to be breaking even, or doing better if successful in producing a hit title.

Q2. Profit margins in the Online Advertising & Media segment fell in 2013 and again in 2014. When do you expect to see margins improve?

A2. (Kumagai) First, let me clarify that within the Online Advertising and Media segment, the area that is not performing well is the media rep business. It's a business model in which a sales team is sells ad space. In the online ad market, this function is increasing performed by automated platforms such as DSP and SSP services, and the traditional ad sales model is disappearing. A reorganization is underway in this business in response to the industry shift toward ad tech. This year we will concentrate on bolstering the business and you should start to see profit growth from FY2016.

Q3. How would you evaluate the JPY 600 million strategic investment that was made in new domain .tokyo? Will we be seeing more of this kind of investment in promotion during 2015?

A3. (Kumagai) If you look only at .tokyo we are probably at around half the anticipated registration volume. However, as a result of television advertising and investment in other broad-reaching promotions, growth in the domain business overall is accelerating. In Q3 and Q4 of FY2014, after the television ad campaign, we saw record levels of domain registrations and renewals. At the same time we successfully reinforced our brand. The TLD, .tokyo itself is a great product, the costs are very low and its value is lasting. So I think we really made the right decision to strategically invest in promoting .tokyo in 2014. We don't plan to do the same level of promotion in FY2015, so in comparison to FY2014 you should see an upside.

Q4. Can you talk about profit and loss in your global businesses?

A4. (Kumagai) Our global business includes offshore development and other businesses. We are now looking into the best way to present this information to investors and hope to be able to start reporting in more detail about global business from the next term.

Q5. I have two questions in regard to operating profit guidance. 1) Can you give us a breakdown of the JPY14.3 billion? And 2) does this figure include Incubation segment figures?

A5. (Yasuda) In answer to question 1 – we are not disclosing the OP breakdown this time. The reason being that GMO CLICK HD will be listed on April 1 and so we currently cannot disclose business results in the Securities segment. The figure does take into account investment in growing in the Infrastructure and Online Advertising segments, including boosting human resources in GMO AD Partners and strategic investment in minne, as well as improved revenues in the Mobile Entertainment segment. In answer to your second question, Incubation segment figures are not reflected in the OP guidance.

Q6. In regard to the growth of minne, where do you see potential competition coming from?

A6. (Kumagai) Firstly, to talk about visible direct competitors, there are other services similar to minne. However, we are already number one, and there are initiatives underway both within the Group as a whole and from GMO Pepabo to ensure that we achieve and maintain an overwhelmingly lead in the Japanese market.

Q7. What is it that makes the revenue model of minne competitive?

A7. (Kumagai) The revenue model for minne is pay-as-you-go. Sellers pay 10% of transaction volume. Our competitive edge comes firstly from the technology and design on which minne is based. Secondly, the servers, the payment processing, are all operated by the Group so all operations are internalized. Further we are able to take excess cash from other businesses within the Group and invest it here.

Q8. What do you expect to be the growth drivers in FY2015?

A8. (Kumagai) Firstly, the Infrastructure segment - this is stock-based revenue and will grow steadily. In regard to costs, while there will be some strategic investment in minne, the one-time cost in the provider business and the large-scale promotion won't recur in FY2015 so this segment will be a growth driver. My impression is that every day we are increasing or strength as a number one provider in Japan.

In Online Advertising & Media, while the media rep business is currently weak, the rest of the segment is performing well. I am looking forward to this segment becoming another growth driver, once structural reforms are complete.

In Internet Securities, market share growth is strong. We heard from many investors that there was concern over the impact of the Swiss franc, but there has been almost no impact. In fact, it weakened competition both inside and outside of Japan and I think we are currently doing well.

Finally in Mobile Entertainment, while the segment is at breakeven, impact on overall Group profit is insignificant, and now we have a structure ready to produce a hit title. So in conclusion, my response is that I am expecting all segments to be growth drivers (laughs).

Q9. In the media rep business, what will happen to staff whose jobs may become redundant as a result of the ad tech shift?

A9. (Kumagai) We may shift staff to other parts of the Group. In the GMO AD Partners Group, the challenge is to

strengthen technology so we need to recruit more engineers and creators. Specifically, we have already shifted a team of highly-skilled engineers to GMO AD Partners to help build that foundation that will enable us to acquire the engineers that we need there, and this team is already engaged in product development.

Q10. I would like to ask two questions regarding your global business. 1) You mentioned that global revenue currently accounts for 3% of all revenue – going forward how much do you expect that to grow and over what time period? And 2) Is M&A something that you are considering as part of your global business expansion strategy?

A10. (Kumagai) In regard to your first question, I would personally like to see global revenue account for more than 50% of revenue in the mid-term. In terms of timeframe, in FY2015 we are going to focus on more serious global expansion under the z.com global brand. We will look at how effective marketing our marketing activities are and go from there. And secondly, in regard to M&A we will certainly consider any deals that come to our cone to our attention, but it is not something we will actively pursue.
