

Fiscal Year 2020 First Quarter Consolidated Financial Results (Japanese GAAP)

May 12, 2020

Name of Listed Company: GMO Internet, Inc.

Exchange Listing: Tokyo Stock Exchange Stock Code: 9449 URL: <https://www.gmo.jp/en>

Representative: Masatoshi Kumagai, CEO, Chairman of the Board and President, Founder and Group CEO

Official Contact: Masashi Yasuda, Deputy CEO Contact Number: +81-3-5456-2555

Date of Quarterly Report Release: May 14, 2020 Start Date of Dividend Payout: June 19, 2020

Supplementary documents available pertaining to quarterly financial results: Yes

Quarterly results briefing: Yes (posting of presentation video and Q&A session for institutional investors)

(all amounts rounded down to the nearest million yen)

1. First Quarter Financial Results in the Year Ending December 2020 (01.01.2020- 03.31.2020)

(1) Consolidated Operating Results (percentages shown represent year-on-year % change)

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of the Parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
Three months ended								
March 31, 2020	53,699	14.6	8,283	65.7	8,056	64.9	2,256	11.4
March 31, 2019	46,863	7.2	5,000	-5.1	4,886	-0.9	2,024	-3.0

(Note) Comprehensive Income: March 31, 2020: 2,739 million (-36.0%), March 31, 2019: 4,278 million (60.7%)

	Net Profit per Share	Net Profit per Share (Diluted)
Three months ended	¥	¥
March 31, 2020	19.92	19.63
March 31, 2019	17.59	17.36

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
As of	¥ millions	¥ millions	%
March 31, 2020	902,495	102,196	6.0
December 31, 2019	871,214	102,269	6.2

(Reference) Shareholders' Equity: March 31, 2020: ¥54,309 million; December 31, 2019: ¥53,784 million

2. Dividends

	Annual Dividends				
	End of Q1	End of Q2	End of Q3	End of Term	Total
	¥	¥	¥	¥	¥
Year Ended 12/2019	6.00	6.00	7.20	5.00	24.20
Year Ending 12/2020	6.60				
Year Ending 12/2020 (forecast)		—	—	—	6.60

3. Consolidated Results Forecast for the Year Ending December 31, 2020 (01.01.2020 – 12.31.2020)

As the Group's business "Internet Finance business," "Cryptoassets business" and "Incubation business" are affected by economic conditions, financial markets, cryptoassets and other market conditions, it is difficult to forecast business performance, and therefore we do not disclose consolidated business results and dividend forecast. GMO Financial Holdings Co., Ltd., our subsidiary, discloses sales indicators, such as foreign exchange transaction volume, stock brokerage trading volume, cryptoasset trading volume and the number of customer account, and operating revenue on a monthly basis.

*Notes

(1) Changes to significant subsidiaries in the current term: Yes

(Transfer of a specified subsidiary resulting in change in scope of consolidation)

Excluded: 1 company (Blog Business Fund Investment Limited Partnership)

(2) Special accounting treatments used in preparation of the quarterly consolidated financial statements:

None

(3) Changes in accounting policy, changes in accounting estimates, restatements

1. Changes resulting from revisions to accounting standard, etc.: None

2. Changes other than those specified above: None

3. Changes in accounting estimates: None

4. Restatements: None

(4) Number of Outstanding Shares (Common Shares)

(Unit: shares)

1. Outstanding shares at term end (inc. treasury)

Q1 12/2020	FYE	113,242,987	FYE 12/2019	113,242,987
Q1 12/2020	FYE	1,880	FYE 12/2019	1,880
Q1 12/2020	FYE	113,241,107	Q1 12/2019	FYE 115,093,382

2. Treasury shares at term end

3. Average number of shares during the period

*Quarterly financial results are not subject to quarterly review by independent auditors.

*Note regarding the appropriate use of result forecasts and other items

Although the Company aims to pay dividends quarterly with a payout ratio of 33% to net income attributable to owners of the parent, because it is difficult to forecast business performance, the amount of dividend forecast is yet to be determined at this time. We will promptly disclose dividend forecast when it becomes available.

On May 12, 2020, we plan to post a quarterly results presentation video, explanatory materials and a summary of Q&A session on our company website (<http://ir.gmo.jp/en/>).

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1. Qualitative Information Related to Financial Results

(1) Operating results

◆ Overview of the Financial Results for the Three Months Ended March 31, 2020

(Unit: ¥millions)

	Previous Q1	Current Q1	Change	% Change
Net Sales	46,863	53,699	6,836	14.6%
Operating Profit	5,000	8,283	3,282	65.7%
Ordinary Profit	4,886	8,056	3,169	64.9%
Profit Attributable to Owners of the Parent	2,024	2,256	231	11.4%

Under the corporate slogan “Internet for Everyone” GMO Internet Group focuses resources on high growth Internet markets. Continued high growth in the Internet market is spurred by increased usage and diversification of smartphones and other mobile devices, the usage of social media, the emergence of new technologies including 5G, cloud, artificial intelligence and blockchain, and new movements such as B2B, C2C, O2O and IoT. In addition, the market is expected to further expand as the spread of the novel coronavirus has been driving telework demand, further progress in digital transformation and consumption growth due to the stay-at-home lifestyle. Under such circumstances, GMO Internet management views any growth in the volume of information available on the Internet or in the volume of transactions conducted over the Internet as an opportunity to grow profits as a group that provides Internet and service infrastructure.

Amidst such a healthy business environment, (1) the Internet Infrastructure segment, comprising multiple No. 1 products, reported record high quarterly sales supported by strong performance in all businesses in the segments including Payment and Provider. (2) In the Online Advertising & Media segment, the Online Advertising segment showed solid growth by taking on advertising demand at year-end, but net sales of the Online Media segment decreased due to an absence of a large project recorded in FY2019 Q1 and a decline in advertisement unit price. (3) The Internet Finance segment reported record high quarterly sales due to increases both in transaction volume and net sales against a backdrop of an increase in volatility in foreign exchange market, commodity future market and stock price index. (4) In the Cryptoassets segment, while the Cryptoassets exchange business showed strong performance with an increase in transaction volume due to increased volatility, the Cryptoassets mining business recorded loss as it is currently under business restructuring process.

As a result, for the three months ended March 31, 2020, the Company recorded net sales of ¥53,699 million (up 14.6% year-on-year), operating profit of ¥8,283 million (up 65.7% year-on-year), ordinary profit of ¥8,056 million (up 64.9% year-on-year) and net profit attributable to owners of the parent of ¥2,256 million (up 11.4% year-on-year).

Net Sales and Operating Profit by Segment for the Three Months Ended March 31, 2020

(Unit: ¥millions)

	Previous Q1	Current Q1	Change	% Change
Internet Infrastructure				
Net Sales	27,489	31,313	3,823	13.9%
Operating Profit	3,615	3,871	256	7.1%
Online Advertising & Media				
Net Sales	12,076	12,331	254	2.1%
Operating Profit	246	176	-69	-28.4%
Internet Finance				
Net Sales	6,397	9,156	2,759	43.1%
Operating Profit	1,469	3,395	1,925	131.0%
Cryptoassets				
Net Sales	1,294	1,435	141	10.9%
Operating Profit	-229	426	656	—
Incubation				
Net Sales	328	739	410	124.8%
Operating Profit	114	448	333	290.5%
Other				
Net Sales	414	289	-124	-30.1%
Operating Profit	-193	-85	107	—
Adjustment				
Net Sales	-1,137	-1,566	-429	—
Operating Profit	-23	49	72	—
Total				
Net Sales	46,863	53,699	6,836	14.6%
Operating Profit	5,000	8,283	3,282	65.7%

Segments results for the three months ended March 31, 2020 are as follows. In line with the revision of the term “Cryptocurrency” to “Cryptoasset” in the Revisions to the Payment Services Act which came into force on May 1, 2020 (“Revised Payment Services Act”), the Group changed its segment name to “Cryptoassets.”

1) Internet Infrastructure

The Internet Infrastructure segment provides basic and service infrastructure for customers operating business in an online environment. Domain, hosting & cloud, ecommerce solutions, payment and security - the five major businesses in this segment – are all developed and offered in-house and each holds top share in their respective markets in Japan. In addition, the segment includes consumer Internet provider services. The following is a breakdown of results in each of the businesses comprising this segment.

i. Domain

Gateway to the Group’s infrastructure segment, the domain business has continued to actively grow customer base with a low-pricing strategy. The number of domain registration and renewals during the three months ended March 31, 2020 was 1.41 million (up 0.6% year-on-year), and total number of domains under management as of March 31, 2020 was 7.00 million (up 7.4% year-on-year). Net sales were ¥2,394 million (up 7.2% year-on-year).

ii. Hosting & Cloud

The hosting & cloud business responds to growing diversification of client needs through shared, dedicated, VPS and cloud-based offerings under a multi-brand strategy. The number of web hosting contracts as of March 31, 2020 was 895 thousand (up 3.6% year-on-year) and net sales were ¥3,740 million (up 5.4% year-on-year).

iii. Ecommerce solutions

Ecommerce solutions comprises SaaS based services that provide systems for online stores, and C2C handmade market, *minne*, and O2O support service. In the SaaS based services, the number of paid stores as of March 31, 2020 decreased by 2.5% year-on-year to 69 thousand, but total transaction volume increased by 8.1% year-on-year to ¥80.9 billion through efforts to support sales expansion of EC business operators. *minne* showed a steady growth with total transaction volume of ¥3.4 billion (up 6.4% year-on-year) thanks to consumption growth due to the stay-at-home lifestyle. As a result, net sales were ¥3,250 million (up 7.0% year-on-year).

iv. Security

As the global expansion of security brand GlobalSign progressed, direct sales targeting large corporations and use of sales partners drove market share growth both in Japan and globally with the benefit of the penetration of Always-On SSL. Security reported net sales of ¥1,647 million (up 4.2% year-on-year), with overseas sales ratio of over 60%.

v. Payment

Payment services are mainly operated by GMO Payment Gateway and offer comprehensive payment-related service and finance-related services. The payment-related service showed favorable growth due to solid growth of the Ecommerce market as well as the expansion of our service offering to those other than Ecommerce operators. In finance-related services, a deferred payment service “GMO Payment After Delivery” as well as remittance service showed favorable growth. As a result, the number of transactions and the transaction volume increased, and net sales increased to ¥9,303 million (up 18.7% year-on-year).

vi. Provider

This sub-segment operates Internet provider services for consumers. Due to the expansion of product lineup, increased sales mainly through web marketing, and increased OEM sales, the number of subscriptions at March 31, 2020 was 1.94 million (up 27.5% year-on-year) and net sales amounted to ¥9,248 million (up 19.4% year-on-year).

Overall, the Internet Infrastructure segment recorded net sales of ¥31,313 million (up 13.9% year-on-year) and operating profit of ¥3,871 million (up 7.1% year-on-year), hitting a record high.

2) Online Advertising & Media

The Online Advertising & Media segment provides marketing solutions for online businesses. The following is a breakdown of results in each of the businesses comprising this segment.

i. Online Advertising

This sub-segment provides comprehensive Internet advertising services such as advertising agency and ad platform mainly through GMO AD Partners and GMO TECH. During the three months ended March 31, 2020, although the advertising agency service experienced a year-on-year decline in orders from certain customers, the overall result was solid as it managed to take in demands during the busy season. The traffic volume of in-house ad network products such as *AkaNe*, an ad network for smartphones, and *ReeMo*, an ad distribution platform (DSP) specialized in collecting users most likely to be interested in the contents, increased due to increased internet usage. As a result, net sales amounted to ¥8,587 million (up 2.9% year-on-year).

ii. Internet Media

This sub-segment provides advertising space within our own smartphone and PC content and marketing support services mainly through GMO Media. Net sales were ¥2,840 million (down 3.2% year-on-year) due to an absence of sales from a large project which were recorded in FY2019 Q1 and a decline in advertisement unit price.

Overall, the Online Advertising & Media segment recorded net sales of ¥12,331 million (up 2.1%

year-on-year), and operating profit of ¥176 million (down 28.4% year-on-year). Focus in this segment remains on developing and sales of new proprietary products meeting market needs.

3) Internet Finance

The Internet Finance segment provides online financial services for retail investors mainly through GMO Click Securities, a consolidated subsidiary of GMO Financial Holdings. The customer base continued to expand, with the number of OTC FX accounts increasing to 872 thousand (up 10.4% year-on-year) and the number of securities accounts increasing to 429 thousand (up 11.5% year-on-year). The OTC derivative transactions including OTC FX trading and CFD showed strong growth both in transaction volume and net sales due to increased volatility in the foreign exchange market, commodity future market and stock price index.

Overall, the Internet Finance segment recorded net sales of ¥9,156 million (up 43.1% year-on-year) and operating profit of ¥3,395 million (up 131.0% year-on-year), hitting a record high.

4) Cryptoassets

The Cryptoassets segment operates business pertaining to “mining” and “exchange” of cryptoassets. Performance of each business is as follows.

i. Cryptoassets mining

The Cryptoassets mining business runs mining centers. As the business is currently under restructuring process, the Company’s hash rates have been low, resulting in a decrease in BTC mining volume, and therefore net sales decreased to ¥224 million (down 71.4% year-on-year).

ii. Cryptoassets exchange

In this business, GMO Coin, a consolidated subsidiary of GMO Financial Holdings, is engaged in spot trading and leveraged transactions of cryptoassets. The customer base expanded with the number of customer accounts increasing to 311 thousand (up 26.8% year-on-year). With a growth in the transaction volume due to high volatility in cryptoassets and the positive impact of the efforts to improve cover transactions, net sales increased to ¥1,210 million (up 138.4% year-on-year).

Overall, the Cryptoassets segment recorded net sales of ¥1,435 million (up 10.9% year-on-year) and operating profit of ¥426 million (loss of ¥229 million for the three months ended March 31, 2019) due to strong performance in the Cryptoassets mining business despite loss recorded in the Cryptoassets exchange business which is currently going through business restructuring.

5) Incubation

This segment is engaged in investing in internet related companies aimed at capital gains, supporting business expansion, and supporting corporate value improvement. During the three months ended March 31, 2020, net sales were ¥739 million (up 124.8% year-on-year), and operating profit was ¥448 million (up 290.5% year-on-year) due to sales of shareholdings.

(Reference1) Changes in Operating Results and Financial Condition by Quarter

(Unit: ¥millions)

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Net sales	46,863	49,174	50,975	49,157	53,699
Operating profit	5,000	5,957	8,972	5,348	8,283
Ordinary profit	4,886	5,766	8,638	5,215	8,056
Profit attributable to owners of the parent	2,024	2,010	2,580	1,722	2,256
Total assets	771,614	774,316	813,122	871,214	902,495
Shareholders' equity	53,012	50,577	52,509	53,784	54,309

(Reference2)

Table: Quarterly Results by Segment

I Net Sales by Segment

(Unit: ¥millions)

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Internet Infrastructure					
Provider (ISP)	7,744	8,429	8,603	8,841	9,248
Domain	2,234	2,380	2,204	2,255	2,394
Hosting & Cloud	3,549	3,610	3,606	3,602	3,740
Ecommerce Solutions	3,038	2,816	2,984	2,985	3,250
Security	1,580	1,563	1,543	1,655	1,647
Payment	7,838	8,027	8,418	9,042	9,303
Other	1,504	1,607	1,183	1,223	1,729
Total	27,489	28,434	28,544	29,607	31,313
Online Advertising & Media					
Online Advertising	8,341	8,064	7,779	8,285	8,587
Internet Media	2,934	2,746	2,729	2,666	2,840
Internet Research & Other	800	762	805	895	903
Total	12,076	11,573	11,315	11,847	12,331
Internet Finance					
Total	6,397	7,474	7,958	6,740	9,156
Cryptoassets					
Cryptoassets exchange	507	1,494	1,085	842	1,210
Cryptoassets mining	786	613	487	254	224
Total	1,294	2,108	1,572	1,096	1,435
Incubation					
Total	328	147	2,483	951	739
Sub total	47,586	49,738	51,873	50,242	54,976
Other	414	908	283	328	289
Adjustment	-1,137	-1,471	-1,180	-1,413	-1,566
Net Sales	46,863	49,174	50,975	49,157	53,699

II Operating Profit by Segment

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Internet Infrastructure	3,615	3,583	3,762	3,099	3,871
Online Advertising & Media	246	95	64	142	176
Internet Finance	1,469	2,315	2,919	1,808	3,395
Cryptoassets	-229	678	424	86	426
Incubation	114	11	1,919	485	448
Sub total	5,216	6,683	9,090	5,622	8,319
Other	-193	-788	-135	-301	-85
Adjustment	-23	61	17	27	49
Operating Profit	5,000	5,957	8,972	5,348	8,283

(Reference3)

Description of businesses in each segment

Business Segment		Main Operations
Internet Infrastructure	Domain	<ul style="list-style-type: none"> • Domain registry services including “shop” and “tokyo” • Domain registrations services: Onamae.com, MuuMuu Domain, and VALUE-DOMAIN
	Hosting & Cloud	<ul style="list-style-type: none"> • Provision, operation, management, and maintenance of shared, VPS, dedicated and cloud-based web hosting services including Onamae.com Rental Server, GMO AppsCloud, ConoHa by GMO, Z. com Cloud, GMO Cloud VPS, GMO Cloud Altus, GMO Cloud Private, KaKing, Lolipop!, heteml, and 30days Album
	Ecommerce Solutions	<ul style="list-style-type: none"> • SaaS based services for online store building including Color me shop and MakeShop. • Operation of C2C handmade marketplace, minne • Operation of production/sales service of original merchandise including SUZURI and canvath • Operation of ecommerce/O2O support services, etc. • Web design, operational support and system consulting, etc.
	Security	<ul style="list-style-type: none"> • DomainSSL, OrganizationSSL, and other SSL certificates, code signing certificates, PDF document signing, client certificates and other digital certificate services
	Payment	<ul style="list-style-type: none"> • PG Multi-Payment Service for mail order and ecommerce business, comprehensive payment processing services for public sector, and finance-related service including early payment service, transaction lending, and GMO payment after delivery
	Provider	<ul style="list-style-type: none"> • GMO TokuToku BB and other Internet provider services.
Online Advertising & Media	Online Advertising	<ul style="list-style-type: none"> • Comprehensive online advertising service including listing, mobile and ad networks, reward advertising, affiliate advertising. • Advertising planning and production
	Internet Media	<ul style="list-style-type: none"> • Operation of online media such as community site for teenage girls “prican,” programming educational portal “coeteko,” point site “Point Town,” game platform “gesoten,” joint purchase coupon site “Kumapon” and blog service “JUGEM” and ad distribution to own media • SEM Media: Sales of SEO.
	Internet Research & Other	<ul style="list-style-type: none"> • Provision of Internet research systems, management and operation of online research panel including GMO Research Cloud Panel
Internet Finance	Internet Finance	<ul style="list-style-type: none"> • Operation of online securities trading, FX trading services, etc.
Cryptoassets	Cryptoassets exchange	<ul style="list-style-type: none"> • Spot trading and leveraged transactions of cryptoassets
	Cryptoassets mining	<ul style="list-style-type: none"> • Operation of mining centers
Incubation	Venture Capital	<ul style="list-style-type: none"> • Investment in private Internet startups

(2) Consolidated Financial Condition
Assets, Liabilities and Net Assets

Assets

As of March 31, 2020, total assets increased ¥31,281 million (3.6%) from December 31, 2019 to ¥902,495 million. Major factors included an increase of ¥47,003 million (29.3%) in cash and deposits, a decrease of ¥9,299 million (9.5%) in other current assets due mainly to a decrease in advance payments, and a decrease of ¥6,583 million (1.3%) in various assets due to fluctuations in customer assets in the Securities segment (deposits, margin transaction assets, loan secured by securities, short-term guarantee deposits and variation margin paid).

Liabilities

As of March 31, 2020, liabilities increased ¥31,354 million (4.1%) from December 31, 2019 to ¥800,299 million. Major factors included an increase of ¥40,299 million (30.1%) in debt, a decrease of ¥8,643 million (11.3%) in deposits received, and a decrease of ¥3,015 million (0.7%) in various liabilities due to fluctuations in customer assets in the Securities segment (deposits received, margin transaction liability, guarantees received, variation margin received, and loans payable secured by securities).

Net Assets

As of March 31, 2020, net assets decreased ¥73 million (0.1%) from December 31, 2019 to ¥102,196 million. Major factors included an increase of ¥1,690 million (8.7%) in earned surplus (consisting of an increase from recording profit attributable to owners of the parent totaling ¥2,256 million and a decrease from dividend payments of ¥566 million), a decrease of ¥636 million (63.2%) in foreign currency translation adjustments, a decrease of ¥594 million (1.2%) in non-controlling interests, and a decrease of ¥520 million (53.7%) in other securities valuation differences.

Cash Flow

The disclosure is omitted as quarterly consolidated statement of cash flows for the three months ended March 31, 2020 is not prepared.

(3) Qualitative Information - Consolidated Results Forecast and Other Forward-Looking Information

For the fiscal year ending December 31, 2020, the Group plans to increase both net sales and profits, mainly in Internet Infrastructure segment. Meanwhile, there are certain factors that cannot be reasonably predicted at this point, including: (1) fluctuation of cryptoasset prices and hash rate trends in Cryptoassets business, (2) potential impact of economic situations and market conditions in Internet Finance segment, and (3) when and how much capital gains will be realized in Incubation segment. Accordingly, we do not disclose the consolidated results forecast for the fiscal year ending December 31, 2020.

2. Summary of Information Related to Notes

(1) Changes to significant subsidiaries in the current term

During the three months ended March 31, 2020, our consolidated subsidiary Blog Business Fund Investment Limited Partnership was excluded from the scope of consolidation as its liquidation process was completed on January 31, 2020.

(2) Special accounting treatments used in preparation of the quarterly consolidated financial statements

None

(3) Changes in accounting policies, changes in accounting estimates, restatements

None

3. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly consolidated balance sheet

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2019)	1st Quarter Current Fiscal Year (As of Mar 31, 2020)
Assets		
Current Assets		
Cash and deposits	160,315	207,319
Trade notes and accounts receivable	22,140	24,928
Operational investment securities	7,732	6,645
Cryptoassets received	17,404	18,743
Securities segment deposits	308,037	303,181
Securities segment margin transaction assets	98,246	72,093
Securities segment loan secured by securities	9,531	8,446
Securities segment short term guarantee deposits	55,052	69,497
Securities segment variation margin paid	37,932	48,997
Other	97,719	88,419
Provision for doubtful debts	-3,029	-3,288
Total Current Assets	811,083	844,984
Fixed Assets		
Tangible fixed assets	16,118	16,074
Intangible fixed assets		
Goodwill	2,778	2,605
Software	6,836	7,114
Other	6,975	6,729
Total intangible fixed assets	16,590	16,449
Investments and other assets		
Investment securities	9,881	9,744
Deferred tax asset	6,540	6,511
Other	15,169	9,294
Provision for doubtful debts	-4,169	-564
Total investments and other assets	27,420	24,986
Total Fixed Assets	60,130	57,510
Total Assets	871,214	902,495

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2019)	1st Quarter Current Fiscal Year (As of Mar 31, 2020)
Liabilities		
Current Liabilities		
Trade notes and accounts payable	10,390	10,524
Short term debt	122,211	160,070
Amount payable	36,405	33,174
Cryptoassets received	17,404	18,743
Securities segment deposits received	52,586	47,586
Securities segment margin transaction liability	35,496	35,159
Securities segment guarantees received	338,161	343,850
Securities segment variation margin received	3,506	2,724
Securities segment loans payable secured by securities	14,849	12,265
Accrued corporate tax, etc.	2,141	3,836
Allowance for bonuses	1,733	1,471
Allowance for bonuses to directors	74	521
Advance payment received	9,645	10,409
Deposits received	76,378	67,734
Other	10,730	12,214
Total Current Liabilities	731,716	760,288
Fixed Liabilities		
Convertible bonds with equity warrants	17,348	17,323
Long term debt	11,866	14,306
Deferred tax liability	134	120
Other	6,646	7,037
Total Fixed Liabilities	35,996	38,787
Statutory Reserve		
Financial instruments transaction liability reserve	1,231	1,223
Total Statutory Reserve	1,231	1,223
Total Liabilities	768,944	800,299
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Capital surplus	27,332	27,317
Earned surplus	19,474	21,164
Treasury stock	-3	-3
Total Shareholders' Equity	51,803	53,478
Accumulated Other Comprehensive Income		
Other securities valuation differences	968	448
Deferred hedging profit/loss	6	12
Foreign currency translation adjustments	1,005	369
Total Accumulated Other Comprehensive Income	1,981	830
Equity Warrants	78	75
Non-controlling Interests	48,405	47,811
Total Net Assets	102,269	102,196
Liabilities, Net Assets Total	871,214	902,495

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income
1st Quarter

(Unit: ¥millions)

	1st Quarter Previous Fiscal Year (3 months to March 2019)	1st Quarter Current Fiscal Year (3 months to March 2020)
Net Sales	46,863	53,699
Cost of Sales	24,381	26,321
Gross Profit on Sales	22,482	27,377
Sales, General & Administrative Expenses	17,481	19,094
Operating Profit	5,000	8,283
Non Operating Revenue		
Dividends received	43	50
Foreign exchange gain	12	—
Gain on investments in partnership	—	160
Other	165	168
Total Non Operating Revenue	220	379
Non Operating Expenses		
Interest paid	33	77
Commissions paid	11	5
Equity method investment losses	241	247
Foreign exchange loss	—	206
Other	47	68
Total Non Operating Expenses	334	606
Ordinary Profit	4,886	8,056
Extraordinary Profit		
Gain from reversal of loss on cryptoasset mining business restructuring	766	—
Reversal of provision for doubtful debts	—	37
Reversal of financial instruments transaction liability reserve	88	7
Other	177	4
Total Extraordinary Profit	1,032	49
Extraordinary Loss		
Cancellation penalty	—	321
Loss on evaluation of investment securities	429	—
Impairment loss	284	81
Other	42	18
Total Extraordinary Loss	755	421
Net Profit before Adjustment for Tax, etc.	5,163	7,684
Corporate, Municipal and Enterprise Taxes	1,932	2,882
Corporate Tax etc. Adjustment	-207	102
Total Corporate Taxes, etc.	1,724	2,984
Net Profit	3,439	4,699
Profit attributable to Non-controlling Interests	1,414	2,443
Profit attributable to Owners of the Parent	2,024	2,256

Quarterly consolidated statement of comprehensive income

(Unit: ¥millions)

	1st Quarter Previous Fiscal Year (3 months to March 2019)	1st Quarter Current Fiscal Year (3 months to March 2020)
Net Profit	3,439	4,699
Other Comprehensive Income		
Other securities valuation differences	767	-1,220
Deferred hedging profit/loss	3	5
Foreign currency translation adjustments	94	-989
Share of other comprehensive income (loss) of associates accounted for using equity method	-26	244
Total other comprehensive income	839	-1,960
Comprehensive Income	4,278	2,739
(Breakdown)		
Comprehensive income attributable to owners of the parent	2,197	1,105
Comprehensive income attributable to non-controlling interests	2,081	1,634

(3) Notes regarding the quarterly consolidated financial statements

Notes regarding the going concern assumption

None

Notes regarding changes impacting shareholders' equity

None

Segment Information

I 1st Quarter of Previous Fiscal Year (01.01.2019-03.31.2019)

1. Information relating to net sales, profit or loss by reportable segment.

(Unit: ¥millions)

	Reportable Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Cryptoassets	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	27,297	11,223	6,401	1,290	328	46,542	321	—	46,863
Internal transactions or transfer	192	852	-4	4	—	1,044	92	-1,137	—
Total	27,489	12,076	6,397	1,294	328	47,586	414	-1,137	46,863
Segment Profit/Loss	3,615	246	1,469	-229	114	5,216	-193	-23	5,000

*Notes

- i. "Other" represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- ii. The segment profit or loss adjustment (¥-23 million) is an elimination of inter-segment transactions.
- iii. Segment profit or loss is based on the operating profit (or loss) line item in the quarterly consolidated statement of income.

2. Data relating to impairment loss on fixed assets or goodwill by reportable segment

Material impairment loss on fixed assets

Impairment loss on fixed assets was recognized in "Other" segment. The amount of impairment loss was ¥259 million for the three months ended March 31, 2019.

II 1st Quarter of Current Fiscal Year (01.01.2020-03.31.2020)

1. Information relating to net sales, profit or loss by reportable segment.

(Unit: ¥millions)

	Reportable Segment						Other (*i)	Adjustment (*ii)	Consolidated P/L (*iii)
	Internet Infrastructure	Online Ad & Media	Internet Finance	Cryptoassets	Incubation	Total			
Net Sales									
Sales to unaffiliated customers	31,103	11,023	9,167	1,409	739	53,442	257	—	53,699
Internal transactions or transfer	210	1,308	-10	26	—	1,534	32	-1,566	—
Total	31,313	12,331	9,156	1,435	739	54,976	289	-1,566	53,699
Segment Profit/Loss	3,871	176	3,395	426	448	8,319	-85	49	8,283

*Notes

- i. "Other" represents mobile entertainment and other businesses not included in reportable segments.
- ii. The segment profit or loss adjustment (¥49 million) is an elimination of inter-segment transactions.
- iii. Segment profit or loss is based on the operating profit (or loss) line item in the quarterly consolidated statement of income.

2. Change in reportable segments

Effective January 1, 2020, "Cryptocurrency" segment was renamed to "Cryptoassets" segment. The change in segment name had no impact on the segment information.

The disclosed segment information for the three months ended March 31, 2019 was prepared under new segment names.

Additional information

(Changes in Presentation)

(Quarterly consolidated balance sheet)

"Cryptocurrency received" presented in "Current Assets" and "Cryptocurrency received" presented in "Current Liabilities" for the year ended December 31, 2019 are presented as "Cryptoassets received" in "Current Assets" and "Cryptoassets received" in "Current Liabilities" effective January 1, 2020. This change is due to a revision of the term "cryptocurrency" to "cryptoasset" in the Revised Payment Services Act which came into force on May 1, 2020.

As a result of this change, "Cryptocurrency received" of ¥17,404 million in "Current Assets" and "Cryptocurrency received" of ¥17,404 million in "Current Liabilities" in the consolidated balance sheet as of December 31, 2019 are now presented as "Cryptoassets received" of ¥17,404 million in "Current Assets" and "Cryptoassets received" of ¥17,404 million in "Current Liabilities," respectively.

(Quarterly consolidated statement of income)

"Gain on reversal of loss on cryptocurrency mining business restructuring" presented in "Extraordinary Profit" for the three months ended March 31, 2019 is presented as "Gain on reversal of loss on cryptoasset mining business restructuring" in "Extraordinary Profit" effective January 1, 2020. This change is due to a revision of the term "cryptocurrency" to "cryptoasset" in the Revised Payment Services Act which came into force on May 1, 2020.

As a result of this change, "Gain on reversal of loss on cryptocurrency mining business restructuring" of ¥766 million in "Extraordinary Profit" in the consolidated statement of income for the three months ended March 31, 2019 is now presented as "Gain on reversal of loss on cryptoasset mining business restructuring" of ¥766 million in "Extraordinary Profit."

(Application of tax effect accounting on transition from the consolidated taxation system to the group tax sharing system)

With regard to the transition to the group tax sharing system introduced by the “Act Partially Amending the Income Tax Act, etc.” (Act No. 8 of 2020) and items under the non-consolidated taxation system reviewed in line with the transition to the group tax sharing system, pursuant to Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020), the Company and its certain domestic subsidiaries applied the provisions of the Tax Act before the revisions in determining the amount of deferred tax assets and liabilities instead of applying Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018).

Significant subsequent event
(Acquisition of treasury stock)

With regard to the acquisition of treasury stock in accordance with the Company’s Articles of Incorporation pursuant to Article 459, Paragraph 1 of the Japanese Companies Act resolved at the Board of Directors meeting convened on February 12, 2020, the status of the acquisition at the auction market of the Tokyo Stock Exchange under a discretionary dealing agreement with a securities company is as follows:

(1) Reason for acquisition: To enhance shareholder returns and capital efficiency

(2) Details of the acquisition

(i) Class of shares to be acquired: Common stock of GMO Internet, Inc.

(ii) Acquisition period: From April 1, 2020 through May 12, 2020

(iii) Acquisition method: Purchase at the auction market of the Tokyo Stock Exchange under a discretionary dealing agreement with a securities company for the period specified above

(3) Acquisition status as of April 30, 2020

Total number of shares acquired: 1,277,900 shares

Total acquisition price: 2,484,425,400 yen

(4) Ongoing acquisition of treasury stock

The Company is continuing the acquisition of treasury stock at the auction market of the Tokyo Stock Exchange under a discretionary dealing agreement with a securities company for the period specified in (2) above.