

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

November 11, 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: November 13, 2020

Start Date of Dividend Payout: December 14, 2020

Supplementary documents available pertaining to quarterly financial results: Yes

Quarterly results briefing: Yes (live stream only and Q&A session for institutional investors)

(all amounts rounded down to the nearest million yen)

1. Third Quarter Financial Results in the Year Ending December 2020 (01.01.2020- 09.30.2020)

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

	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of the Parent	
	¥ millions	%	¥ millions	%	¥ millions	%	¥ millions	%
Nine months ended September 30, 2020	157,311	7.0	22,518	13.0	21,903	13.5	6,741	1.9
September 30, 2019	147,013	7.2	19,930	15.1	19,291	16.8	6,615	7.6

(Note) Comprehensive Income: September 30, 2020: 13,898 million (5.7%), September 30, 2019: 13,144 million (-11.6%)

	Net Profit per Share	Net Profit per Share (Diluted)
Nine months ended	¥	¥
September 30, 2020	60.71	59.77
September 30, 2019	57.92	57.16

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Shareholders' Equity Ratio
As of	¥ millions	¥ millions	%
September 30, 2020	978,555	100,632	4.9
December 31, 2019	871,214	102,269	6.2

(Reference) Shareholders' Equity: September 30, 2020: ¥48,185 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	6.20	7.40		
Year Ending 12/2020 (forecast)				—	—

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)

Q3 FYE 12/2020	113,242,987	FYE 12/2019	113,242,987
Q3 FYE 12/2020	3,982,780	FYE 12/2019	1,880
Q3 FYE 12/2020	111,034,552	Q3 FYE 12/2019	114,206,329

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 November 11, 2020, we plan to stream a financial results briefing live. The presentation (audio) and explanatory materials will be posted on our company website (<http://ir.gmo.jp/en/>) promptly after the briefing.

Contents

1. Qualitative Information Related to Financial Results	2
(1) Operating results	2
(2) Financial condition	9
(3) Consolidated results forecast and other forward-looking information	9
2. Summary of Information Related to Notes.....	10
(1) Changes to significant subsidiaries in the current term	10
(2) Special accounting treatments used in preparation of the quarterly consolidated financial statements	10
(3) Changes in accounting policies, changes in accounting estimates, restatements.....	10
3. Quarterly Consolidated Financial Statements and Major Notes	11
(1) Quarterly consolidated balance sheet	11
(2) Quarterly consolidated statements of income and comprehensive income	13
(3) Notes regarding the quarterly consolidated financial statements	15
Notes regarding the going concern assumption	15
Notes regarding changes impacting shareholders' equity	15
Segment information.....	16
Additional information	18
Material subsequent event.....	19

1. Qualitative Information Related to Financial Results

(1) Operating results

◆ Overview of the Financial Results for the Nine Months Ended September 30, 2020

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Net Sales	147,013	157,311	10,297	7.0%
Operating Profit	19,930	22,518	2,588	13.0%
Ordinary Profit	19,291	21,903	2,612	13.5%
Profit Attributable to Owners of the Parent	6,615	6,741	126	1.9%

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 with the growing use of online channel by both business operators and consumers including further promotion of digital transformation driven by the spread of the novel coronavirus. 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 business environment, (1) the Internet Infrastructure segment, comprising multiple No. 1 products, showed favorable growth in Ecommerce solutions, Payment and Provider as expansion of stay-at-home consumption and online consumption continued. (2) The Online Advertising & Media segment focused on obtaining demand for online consumption as the whole online advertising market was on a recovery trend. (3) In the Internet Finance segment, a low spread strategy in OTC FX aimed at expansion of domestic shares contributed to an increase in transaction volume, but net sales decreased. On the other hand, CFD posted an increase in trading profit due to a significant increase in net sales against a backdrop of an increase in volatility in commodity future market and stock price index and a strong growth of customer base. (4) In the Cryptoassets segment, while the Cryptoassets exchange business showed strong performance with an increase in altcoin transactions, profitability of the Cryptoassets mining business decreased due to a Bitcoin halving event despite a progress in the business restructuring process.

As a result, for the nine months ended September 30, 2020, the Group recorded net sales of ¥157,311 million (up 7.0% year-on-year), operating profit of ¥22,518 million (up 13.0% year-on-year), ordinary profit of ¥21,903 million (up 13.5% year-on-year) and net profit attributable to owners of the parent of ¥6,741 million (up 1.9% year-on-year).

Net Sales and Operating Profit by Segment for the Nine Months Ended September 30, 2020

(Unit: ¥millions)

	Previous Q3 (cumulative)	Current Q3 (cumulative)	Change	% Change
Internet Infrastructure				
Net Sales	84,469	97,711	13,242	15.7%
Operating Profit	10,961	12,563	1,602	14.6%
Online Advertising & Media				
Net Sales	34,965	34,458	-506	-1.4%
Operating Profit	406	166	-239	-59.0%
Internet Finance				
Net Sales	21,829	24,764	2,935	13.4%
Operating Profit	6,704	8,985	2,281	34.0%
Cryptoassets				
Net Sales	4,975	3,951	-1,023	-20.6%
Operating Profit	872	550	-322	-37.0%
Incubation				
Net Sales	2,959	1,001	-1,957	-66.2%
Operating Profit	2,045	404	-1,640	-80.2%
Other				
Net Sales	1,605	789	-816	-50.8%
Operating Profit	-1,116	-210	906	—
Adjustment				
Net Sales	-3,789	-5,365	-1,575	—
Operating Profit	56	57	1	—
Total				
Net Sales	147,013	157,311	10,297	7.0%
Operating Profit	19,930	22,518	2,588	13.0%

◆ Overview of Financial Results for the Three Months ended September 30, 2020

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Net Sales	50,975	50,810	-164	-0.3%
Operating Profit	8,972	6,097	-2,875	-32.0%
Ordinary Profit	8,638	5,883	-2,754	-31.9%
Profit attributable to Owners of the Parent	2,580	2,560	-20	-0.8%

For the three months ended September 30, 2020, both net sales and profit increased in the Internet Infrastructure segment due to continued expansion of customer base and shift from offline to online triggered by the spread of COVID-19.

On the other hand, the Internet Finance segment posted a decrease in both net sales and profit affected by a low spread strategy in OTC FX despite strong performance in CFD. The Online Advertising & Media segment posted an increase in net sales but a decrease in profit due mainly to a decline in advertisement unit price although the whole online advertising market was on a recovery trend. The Cryptoassets segment posted an increase in net sales but a decrease in profit due to a Bitcoin halving event despite an increase in net sales in the Cryptoassets exchange business resulting from increased altcoin transactions. In the Incubation segment, both consolidated net sales and profit decreased as gain on sale of shareholdings in relation to investees' IPO was recorded a year ago.

Net Sales and Operating Profit by Segment for the Three Months ended September 30, 2020

(Unit: ¥millions)

	Previous Q3	Current Q3	Change	% Change
Internet Infrastructure				
Net Sales	28,544	32,815	4,270	15.0%
Operating Profit	3,762	4,017	254	6.8%
Online Advertising & Media				
Net Sales	11,315	11,385	69	0.6%
Operating Profit	64	43	-20	-32.3%
Internet Finance				
Net Sales	7,958	6,540	-1,417	-17.8%
Operating Profit	2,919	1,776	-1,143	-39.2%
Cryptoassets				
Net Sales	1,572	1,666	93	6.0%
Operating Profit	424	384	-39	-9.4%
Incubation				
Net Sales	2,483	28	-2,454	-98.9%
Operating Profit	1,919	-59	-1,978	—
Other				
Net Sales	283	244	-39	-13.8%
Operating Profit	-135	-65	70	—
Adjustment				
Net Sales	-1,180	-1,869	-688	—
Operating Profit	17	0	-17	—
Total				
Net Sales	50,975	50,810	-164	-0.3%
Operating Profit	8,972	6,097	-2,875	-32.0%

Segments results for the three months ended September 30, 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 the provider business offering Internet provider services to consumers. 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 September 30, 2020 was 1.22 million (down 9.6% year-on-year), and total number of domains under management as of September 30, 2020 was 6.71 million (down 2.2% year-on-year). Net sales were ¥2,375 million (up 7.7% 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 September 30, 2020 was 936 thousand (up 7.9% year-on-year) and net sales were ¥3,810 million (up 5.7% year-on-year) thanks to cross-selling from the Domain segment.

iii. Ecommerce solutions

Ecommerce solutions comprises SaaS based services that provide platforms for online stores, and C2C handmade market, *minne*, original merchandise production/sales service, *SUZURI*, and O2O support service. All services showed favorable growth as the COVID-19 effects began to subside. In the SaaS based services, the number of paid stores as of September 30, 2020 increased by 0.5% year-on-year to 64 thousand, and total transaction volume increased by 35.4% year-on-year to ¥106.6 billion. *minne* showed a strong growth with total transaction volume of ¥3.73 billion (up 34.2% year-on-year) thanks to sales promotional activities with coupons and campaigns. The transaction volume of *SUZURI* sharply increased as a platform to sell original merchandise of creators (e.g. a successful sale on T-shirts in August). As a result, net sales amounted to ¥3,956 million (up 32.6% year-on-year).

iv. Security

In this segment, GMO GlobalSign, a consolidated subsidiary of GMO GlobalSign Holdings, is offering a security brand “GlobalSign” worldwide, and direct sales targeting large corporations and use of sales partners are driving market share growth both in Japan and globally with the benefit of the penetration of Always-On SSL. Security reported net sales of ¥1,574 million (up 2.0% 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 the 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 ¥8,896 million (up 5.7% year-on-year).

vi. Provider

This sub-segment operates Internet provider services for consumers such as fiber-optic lines and mobile Wi-Fi. Due to an increase in telework demand and successful internet marketing efforts, the number of subscriptions as of September 30, 2020 significantly increased to 2.12 million (up 23.7% year-on-year) and net sales also largely increased to ¥10,892 million (up 26.6% year-on-year).

Overall, the Internet Infrastructure segment recorded net sales of ¥32,815 million (up 15.0% year-on-year) and operating profit of ¥4,017 million (up 6.8% year-on-year).

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. The advertising agency service was successful in obtaining demand for online consumption as the whole online advertising market was on a recovery trend although there was a decrease in orders from certain customers hit by a decline in real demand. 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 ¥8,165 million (up 5.0% year-on-year).

ii. Internet Media

This sub-segment provides advertising space through operation of our own media and the marketing support services mainly through GMO Media. Net sales were ¥2,437 million (down 10.7% year-on-year) due to the continued decline in advertisement unit price despite a solid increase in the number of website visitors.

Overall, the Online Advertising & Media segment recorded net sales of ¥11,385 million (up 0.6% year-on-year) and operating profit of ¥43 million (down 32.3% year-on-year).

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 902 thousand (up 8.0% year-on-year), the number of securities accounts increasing to 451 thousand (up 10.9% year-on-year) and the number of CFD accounts increasing to 144 thousand (up 27.9% year-on-year). CFD showed strong growth both in transaction volume and net sales due to increased volatility in the commodity future market and stock price index and a strong growth of customer base while OTC FX posted a decrease in net sales despite an increase in transaction volume due to a low spread strategy aimed at expansion of domestic share.

Overall, the Internet Finance segment recorded net sales of ¥6,540 million (down 17.8% year-on-year) and operating profit of ¥1,776 million (down 39.2% year-on-year).

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 restructuring process progressed, only new centers are in operation from the current quarter. As a result, the Company's hash rate, a measure of mining capability, increased, but profitability declined due to a Bitcoin halving event, resulting in net sales of ¥263 million (down 45.9% 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 as of September 30, 2020 increasing to 327 thousand (up 13.1% year-on-year). While transaction volume decreased, net sales increased to ¥1,402 million (up 29.3% year-on-year) because of a growth in newly introduced altcoin transactions.

Overall, the Cryptoassets segment recorded net sales of ¥1,666 million (up 6.0% year-on-year) and operating profit of ¥384 million (down 9.4% year-on-year).

5) Incubation

This segment is engaged in investing in internet related companies aimed at capital gains, supporting business expansion, and supporting corporate value improvement. For the three months ended September 30, 2020, net sales were ¥28 million (down 98.9% year-on-year), and operating loss was ¥59 million (profit of ¥1,919 million for the three months ended September 30, 2019) as gain on sale of shareholdings in relation to investees' IPO was recorded for the three months ended September 30, 2019.

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

(Unit: ¥millions)

	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Net sales	50,975	49,157	53,699	52,800	50,810
Operating profit	8,972	5,348	8,283	8,137	6,097
Ordinary profit	8,638	5,215	8,056	7,963	5,883
Profit attributable to owners of the parent	2,580	1,722	2,256	1,925	2,560
Total assets	813,122	871,214	902,495	941,795	978,555
Shareholders' equity	52,509	53,784	54,309	46,516	48,185

(Reference2)

Table: Quarterly Results by Segment

I Net Sales by Segment

(Unit: ¥millions)

	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Internet Infrastructure					
Provider (ISP)	8,603	8,841	9,248	10,524	10,892
Domain	2,204	2,255	2,394	2,427	2,375
Hosting & Cloud	3,606	3,602	3,740	3,726	3,810
Ecommerce Solutions	2,984	2,985	3,250	3,687	3,956
Security	1,543	1,655	1,647	1,651	1,574
Payment	8,418	9,042	9,303	9,471	8,896
Other	1,183	1,223	1,729	2,093	1,308
Total	28,544	29,607	31,313	33,582	32,815
Online Advertising & Media					
Online Advertising	7,779	8,285	8,587	7,799	8,165
Internet Media	2,729	2,666	2,840	2,248	2,437
Internet Research & Other	805	895	903	694	781
Total	11,315	11,847	12,331	10,742	11,385
Internet Finance					
Total	7,958	6,740	9,156	9,067	6,540
Cryptoassets					
Cryptoassets exchange	1,085	842	1,210	629	1,402
Cryptoassets mining	487	254	224	220	263
Total	1,572	1,096	1,435	849	1,666
Incubation					
Total	2,483	951	739	233	28
Sub total	51,873	50,242	54,976	54,475	52,435
Other	283	328	289	255	244
Adjustment	-1,180	-1,413	-1,566	-1,930	-1,869
Net Sales	50,975	49,157	53,699	52,800	50,810

II Operating Profit by Segment

	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
Internet Infrastructure	3,762	3,099	3,871	4,674	4,017
Online Advertising & Media	64	142	176	-53	43
Internet Finance	2,919	1,808	3,395	3,813	1,776
Cryptoassets	424	86	426	-260	384
Incubation	1,919	485	448	15	-59
Sub total	9,090	5,622	8,319	8,189	6,162
Other	-135	-301	-85	-59	-65
Adjustment	17	27	49	8	0
Operating Profit	8,972	5,348	8,283	8,137	6,097

(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 • Electronic contract service “GMO Electronic Seal Agree”
	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, and 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) Financial condition

Assets, liabilities and net assets

Assets

As of September 30, 2020, total assets increased ¥107,341 million (12.3%) from December 31, 2019 to ¥978,555 million. Major factors included an increase of ¥53,453 million (33.3%) in cash and deposits, an increase of ¥56,599 million (11.2%) 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) and a decrease of ¥13,296 million (13.2%) in other current assets due mainly to a decrease in advance payments.

Liabilities

As of September 30, 2020, liabilities increased ¥108,978 million (14.2%) from December 31, 2019 to ¥877,923 million. Major factors included an increase of ¥26,596 million (19.8%) in debt, an increase of ¥52,224 million (11.7%) 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) and an increase of ¥14,723 million (19.3%) in deposits received.

Net assets

As of September 30, 2020, net assets decreased ¥1,636 million (1.6%) from December 31, 2019 to ¥100,632 million. Major factors included an increase of ¥9,341 million in treasury stock (balance as of December 31, 2019 was ¥3 million) due to acquisition of treasury stock, an increase of ¥4,750 million (24.4%) in earned surplus (consisting of an increase from recording profit attributable to owners of the parent totaling ¥6,741 million and a decrease from dividend payments of ¥1,991 million) and an increase of ¥3,962 million (8.2%) in non-controlling interests.

Cash Flow

The disclosure is omitted as the quarterly consolidated statement of cash flows for the nine months ended September 30, 2020 is not prepared.

(3) 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 the Internet Infrastructure segment. Meanwhile, there are certain factors that cannot be reasonably predicted at this point, including: (1) fluctuation of cryptoasset prices and global hash rate trends in the Cryptoassets business, (2) potential impact of economic situations and market conditions in the Internet Finance segment, and (3) when and how much capital gains will be realized in the 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)	3rd Quarter Current Fiscal Year (As of Sep 30, 2020)
Assets		
Current Assets		
Cash and deposits	160,315	213,768
Trade notes and accounts receivable	22,140	21,904
Operational investment securities	7,732	8,506
Customers' cryptoassets	17,404	26,147
Securities segment deposits	308,037	351,742
Securities segment margin transaction assets	98,246	94,451
Securities segment loan secured by securities	9,531	10,907
Securities segment short term guarantee deposits	51,906	56,403
Securities segment variation margin paid	37,932	48,748
Other	100,865	87,569
Provision for doubtful debts	-3,029	-3,376
Total Current Assets	811,083	916,772
Fixed Assets		
Tangible fixed assets	16,118	15,949
Intangible fixed assets		
Goodwill	2,778	2,297
Software	6,836	8,041
Other	6,975	6,350
Total intangible fixed assets	16,590	16,689
Investments and other assets		
Investment securities	9,881	11,430
Deferred tax asset	6,540	6,314
Other	15,169	12,116
Provision for doubtful debts	-4,169	-718
Total investments and other assets	27,420	29,143
Total Fixed Assets	60,130	61,782
Total Assets	871,214	978,555

(Unit: ¥millions)

	Previous Fiscal Year (As of Dec 31, 2019)	3rd Quarter Current Fiscal Year (As of Sep 30, 2020)
Liabilities		
Current Liabilities		
Trade notes and accounts payable	10,390	8,896
Short term debt	122,211	152,079
Amount payable	36,405	33,154
Cryptoassets received	17,404	26,147
Securities segment deposits received	52,586	43,655
Securities segment margin transaction liability	35,496	36,870
Securities segment guarantees received	338,161	386,485
Securities segment variation margin received	3,506	2,577
Securities segment loans payable secured by securities	14,849	27,236
Accrued corporate tax, etc.	2,141	6,371
Allowance for bonuses	1,733	2,693
Allowance for bonuses to directors	74	950
Advance payment received	9,645	11,052
Deposits received	76,378	91,101
Other	10,730	14,312
Total Current Liabilities	731,716	843,585
Fixed Liabilities		
Convertible bonds with equity warrants	17,348	17,272
Long term debt	11,866	8,596
Deferred tax liability	134	426
Other	6,646	6,840
Total Fixed Liabilities	35,996	33,134
Statutory Reserve		
Financial instruments transaction liability reserve	1,231	1,202
Total Statutory Reserve	1,231	1,202
Total Liabilities	768,944	877,923
Net Assets		
Shareholders' Equity		
Capital stock	5,000	5,000
Capital surplus	27,332	26,879
Earned surplus	19,474	24,225
Treasury stock	-3	-9,345
Total Shareholders' Equity	51,803	46,759
Accumulated Other Comprehensive Income		
Other securities valuation differences	968	1,330
Deferred hedging profit/loss	6	0
Foreign currency translation adjustments	1,005	95
Total Accumulated Other Comprehensive Income	1,981	1,425
Equity Warrants	78	78
Non-controlling Interests	48,405	52,368
Total Net Assets	102,269	100,632
Total Liabilities and Net Assets	871,214	978,555

(2) Quarterly consolidated statements of income and comprehensive income

Quarterly consolidated statement of income
3rd Quarter (cumulative)

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to Sep 2019)	3rd Quarter Current Fiscal Year (9 months to Sep 2020)
Net Sales	147,013	157,311
Cost of Sales	74,858	77,665
Gross Profit on Sales	72,155	79,645
Sales, General & Administrative Expenses	52,225	57,127
Operating Profit	19,930	22,518
Non Operating Revenue		
Dividends received	82	51
Gain on investments in partnership	24	255
Other	463	524
Total Non Operating Revenue	570	832
Non Operating Expenses		
Interest paid	118	272
Commissions paid	77	12
Equity method investment losses	667	551
Foreign exchange loss	204	480
Other	141	130
Total Non Operating Expenses	1,209	1,447
Ordinary Profit	19,291	21,903
Extraordinary Profit		
Gain from reversal of loss on cryptoassets mining business restructuring	862	—
Gain on sale of fixed assets	127	110
Reversal of provision for doubtful debts	—	37
Compensation received	—	216
Reversal of financial instruments transaction liability reserve	266	29
Other	93	36
Total Extraordinary Profit	1,350	430
Extraordinary Loss		
Cancellation penalty	5	308
Loss on evaluation of investment securities	507	5
Impairment loss	1,206	226
Loss on sale of stock in subsidiaries and affiliates	—	462
Other	169	87
Total Extraordinary Loss	1,888	1,089
Net Profit before Adjustment for Tax, etc.	18,753	21,244
Corporate, Municipal and Enterprise Taxes	6,059	7,686
Corporate Tax etc. Adjustment	-36	-92
Total Corporate Taxes, etc.	6,022	7,593
Net Profit	12,730	13,651
Profit attributable to Non-controlling Interests	6,115	6,909
Profit attributable to Owners of the Parent	6,615	6,741

Quarterly consolidated statement of comprehensive income
3rd Quarter (cumulative)

(Unit: ¥millions)

	3rd Quarter Previous Fiscal Year (9 months to Sep 2019)	3rd Quarter Current Fiscal Year (9 months to Sep 2020)
Net Profit	12,730	13,651
Other Comprehensive Income		
Other securities valuation differences	887	1,272
Deferred hedging profit/loss	4	-6
Foreign currency translation adjustments	-296	-1,193
Share of other comprehensive (loss) income of associates accounted for using equity method	-181	175
Total other comprehensive income	413	247
Comprehensive Income	13,144	13,898
(Breakdown)		
Comprehensive income attributable to owners of the parent	6,412	6,186
Comprehensive income attributable to non-controlling interests	6,732	7,712

(3) Notes regarding the quarterly consolidated financial statements

Notes regarding the going concern assumption

None

Notes regarding changes impacting shareholders' equity

Pursuant to the resolution at the Board of Directors meeting held on February 12, 2020, the Company acquired 3,980,900 shares of treasury stock during the period from April 1, 2020 to May 31, 2020 for ¥9,341 million. As a result, treasury stock increased by ¥9,341 million to ¥9,345 million as of September 30, 2020.

Segment Information

I 3rd Quarter of Previous Fiscal Year (01.01.2019-09.30.2019)

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	83,922	31,932	21,771	5,030	2,959	145,616	1,397	—	147,013
Internal transactions or transfer	546	3,032	57	-55	—	3,581	208	-3,789	—
Total	84,469	34,965	21,829	4,975	2,959	149,198	1,605	-3,789	147,013
Segment Profit/Loss	10,961	406	6,704	872	2,045	20,990	-1,116	56	19,930

*Notes

- “Other” represents mobile entertainment, culture incubation and other businesses not included in reportable segments.
- The segment profit or loss adjustment (¥56 million) is an elimination of inter-segment transactions.
- 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 “Internet Infrastructure,” “Online Ad & Media” and “Other” segments. The amount of impairment loss was ¥916 million, ¥31 million and ¥259 million in “Internet Infrastructure,” “Online Ad & Media” and “Other” segments, respectively, for the nine months ended September 30, 2019.

II 3rd Quarter of Current Fiscal Year (01.01.2020-09.30.2020)

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	97,111	29,813	24,767	3,946	1,001	156,641	669	—	157,311
Internal transactions or transfer	599	4,645	-3	4	—	5,245	119	-5,365	—
Total	97,711	34,458	24,764	3,951	1,001	161,887	789	-5,365	157,311
Segment Profit/Loss	12,563	166	8,985	550	404	22,670	-210	57	22,518

*Notes

- “Other” represents mobile entertainment and other businesses not included in reportable segments.
- The segment profit or loss adjustment (¥57 million) is an elimination of inter-segment transactions.
- 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 the segment name had no impact on the segment information.

The disclosed segment information for the nine months ended September 30, 2019 was prepared under the new segment names.

3. 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 “Internet Infrastructure” and “Internet Finance” segments. The amount of impairment loss was ¥133 million and ¥92 million in “Internet Infrastructure” and “Internet Finance” segments, respectively, for the nine months ended September 30, 2020.

Additional information

(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 consolidated 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).

Change in presentation

(Quarterly consolidated balance sheet)

Following the adoption of “Examples of major accounting treatments in the cryptoassets exchange business” issued by Japan Virtual and Crypto assets Exchange Association on June 12, 2020, the Company changed presentation regarding the Company’s cryptoassets business during the six months ended June 30, 2020 with an aim to more appropriately present the substance of transactions and also improve comparability with other cryptoassets exchange operators. In order to reflect this change, the consolidated balance sheet as of December 31, 2019 was reclassified. Guarantees received in the Cryptoassets business were presented as “Securities segment deposits received” in “Current Liabilities” in the consolidated balance sheet as of December 31, 2019. Following the enforcement of the Revised Payment Services Act which came into force on May 1, 2020 and the registration of our consolidated subsidiary as Class 1 Financial Instruments Business Operator, the Company started the segregated management, and accordingly those deposits are included in “Securities segment guarantees received” in “Current Liabilities” from the three months ended June 30, 2020.

Details of the change in presentation and the reclassification of the consolidated balance sheet as of December 31, 2019 are as follows:

Quarterly consolidated balance sheet

As of December 31, 2019

(Unit: ¥millions)

Before change			After change		
Current assets	Cryptocurrency received	17,404	Current assets	Customers' cryptoassets (Note1)	17,404
Current assets	Securities segment short term guarantee deposits	55,052	Current assets	Securities segment short term guarantee deposits	51,906
			Current assets	Other (Note 2)	3,145
Current liabilities	Cryptocurrency received	17,404	Current liabilities	Cryptoassets received (Note 1)	17,404

Notes 1. Change of account name

2. Money temporarily deposited with other cryptoassets business operators in relation to the trading of cryptoassets of ¥3,145 million which was included in “Security segment short term guarantee deposits” in “Current assets” as of December 31, 2019 is now included in ¥100,865 million of “Other” in “Current assets.”

(Quarterly consolidated statement of income)

“Gain on reversal of loss on cryptocurrency mining business restructuring” presented in “Extraordinary Profit” for the nine months ended September 30, 2019 is presented as “Gain on reversal of loss on cryptoassets 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 ¥862 million in “Extraordinary Profit” in the consolidated statement of income for the nine months ended September 30, 2019 is now presented as “Gain on reversal of loss on cryptoassets mining business restructuring” of ¥862 million in “Extraordinary Profit.”

Material subsequent event

(Acquisition of and tender offer for treasury stock)

Our consolidated subsidiary GMO Financial Holdings, Inc. (“GMO Financial HD”) resolved at the Board of Directors meeting held on September 15, 2020, to acquire its own stock by way of a tender offer in accordance with the provisions of Paragraph 1 of Article 156 of the Companies Act (Act No. 86 of 2005, as amended) which is applied mutatis mutandis pursuant to Paragraph 3 of Article 165 of the Companies Act and the provisions of the GMO Financial HD’s Articles of Incorporation, and the acquisition was executed as follows.

1. Purpose of the acquisition of and tender offer for treasury stock

In early July 2020, GMO Financial HD was informed by Daiwa Securities Group that it intended to sell about half of its holdings of GMO Financial HD’s common stock as part of a review of its cross-shareholdings.

Following such communication, GMO Financial HD started detailed discussions about the acquisition of its own stock from mid-July 2020 in consideration of the temporary impact of the sale of large number of its shares in the market on the liquidity and market price of its common shares, as well as the company’s financial situation.

As a result, GMO Financial HD determined that the acquisition of its own stock will contribute to improving capital efficiencies including earnings per share (EPS) and return on equity (ROE), which will also lead to profit returns to GMO Financial HD shareholders and also that the share acquisition will not significantly affect its financial condition or dividend policy. As for the acquisition method, GMO Financial HD determined after careful consideration that a tender offer is appropriate in light of the fairness between shareholders and the transaction transparency.

2. Resolution at the Board of Directors meeting regarding the acquisition of treasury stock

- (1) Class of shares to be acquired: Common share
- (2) Total number of shares to be acquired: 4,800,100 shares (maximum)
- (3) Total value of shares to be acquired: ¥2,688,056,000 (maximum)
- (4) Acquisition period: From September 16, 2020 to November 30, 2020

3. Overview of the tender offer for treasury stock

- (1) Number of shares intended to be acquired: 4,800,000 shares
- (2) Tender offer price: ¥560 per common share
- (3) Tender offer period: From September 16, 2020 to October 15, 2020
- (4) Date of public notice of tender offer commencement: September 16, 2020
- (5) Settlement commencement date: November 9, 2020

4. Results of the acquisition of and tender offer for treasury stock

- (1) Class of shares acquired: Common share
- (2) Total number of shares tendered: 4,800,016 shares
- (3) Total number of shares acquired: 4,800,000 shares
- (4) Total value of shares acquired: ¥2,688,000,000
- (5) Acquisition date: November 9, 2020