

GMO INTERNET GROUP

Q2 FYE 12/23 Results Presentation - Q&A

The following is a summary of questions received from participants at the earnings presentation held on August 9, 2023, and answered by GMO Internet Group CFO Yasuda, Vice President Ito, Group Executive Officer Inagaki President and COO of GMO Financial Holdings Ishimura, and GMO Ad Partners Representative Director Hashiguchi. Some of the answers have been supplemented by the IR department.

●Consolidated Financial Results

【Q1】 In the 1Q briefing, you commented that you were determined to achieve 15 consecutive quarters of increased revenue and profit; in the 2Q, there were special factors of approximately 2 billion, which seems to have raised the bar for consecutive quarters of increased revenue and profit, but is there any change in your thinking?

【A1】
(Yasuda) There is no change in our strong determination to achieve 15 consecutive years of profit growth. In the first half of the year, excluding special factors, we believe we steadily built up profits, particularly in infrastructure and finance. With regard to special factors, the challenges are clear and we are working on debt collection as well as measures to prevent recurrence. We will continue to aim for increased revenues and profits, mainly by building up solid recurring revenues and improving the profitability of the financial business.

【Q2】 We would like to confirm the preconditions for a continuous increase in revenues and profits. Has the contribution of the incubation business and the collection of receivables from special factor projects been factored in?

【A2】
(Yasuda) A certain degree of debt collection is expected. On the other hand, we have not factored in the incubation business at the moment, as there are projects to be undertaken in the first place. In addition to growing our existing business, we hope to achieve a continuous increase in profits through other profit-increasing measures, which I cannot discuss in detail.

●Internet Infrastructure

【Q3】 Sales in the security business fell in QoQ, what were the factors?

【A3】
(Yasuda) There are two main factors. First, the cyber security business developed by Yelae suffered a reactionary decline from the 1Q, when demand was high (-0.7 billion). Secondly, in the brand security business, there was a contribution from a large project in 1Q (-0.4 billion).

【Q4】 What are the PL impacts of IERAE?

【A4】
(Inagaki) As for IERAE, PL hits started in the same period of the previous year. Individual company figures for the quarter under review show sales of 700 million and profit of -170 million. In addition to this, there was a 200 million amortisation of goodwill, but the increase in sales and loss has been reduced compared to the same period last year.

【Q5】 There was a response that the decline in IERAE's QoQ revenue was due to seasonality, but the perception is that it is a SaaS-based business model, but has there been churn?

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【A5】
(Yasuda) IERA's current sales are made up of project-based services. This business is seasonal, with a concentration of projects in 1Q every year, and as the number of white-hatters is a limiting factor for PJ-type services alone, a SaaS-type service was just launched in March to scale the business. The service is being offered free of charge during the current financial year, and is not expected to contribute to business performance until the next financial year or later.

【Q6】 With regard to the profit structure of infrastructure on p. 81, other than payments, what is the direction of the domain business and cloud hosting business, for example, from Q3 onwards?

【A6】
(Ito) In the domain business and cloud hosting business, the number of contracts has accumulated to several million, so no major fluctuations are expected on a quarterly basis. Sales and profits are expected to continue to build up as they have in the past.

●Internet Finance

【Q7】 You mentioned that the first half of the year is focused on profitability, are there any measures you are considering that would reduce margins over the second half of the year?

【A7】
(Ishimura) Although profitability has improved in the first half of the year, particularly in FX, we do not believe it is necessary to pursue profits beyond what is necessary. We intend to return the increased profits from the improved profitability to our customers and expand our customer base and share of transactions while building win-win relationships with our customers. We are considering campaigns and reduction measures, which we plan to launch somewhere in the second half of the year at the earliest.

【Q8】 How should the risk of additional losses be considered in the Thai securities business?

【A8】
(Ishimura) For the two stocks for which we have already made provisions, the scope for a fall in the share price is small, so the additional provisions are not large.

For other issues, rather than concerns, we have classified them into risk categories based on market liquidity and other risks, and we have identified issues that we need to keep a close watch on. At present, we have sufficient collateral, but it is rather difficult to say which issues have what kind of risk as it depends on the Thai market.

In the meantime, there are some issues that are too concentrated on large customers, so we are taking measures to prevent the same thing from happening in the future, such as having the person in charge at the Thai subsidiary talk to the customer and ask them to put in a different collateral.

●Online Advertising & Media

【Q9】 There are many different shades of grey in the advertising market, and we have the impression that the future direction of the market is not clear. What is your company's view on this?

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【A9】
(Hashiguchi) In terms of the market response to the Corona dawn, the 2Q saw a mixed picture for the Group's companies. Broadly speaking, divisions that were buoyed by the demand for nest eggs are in the negative as a result of the resumption of economic activity, while divisions with customers who are stepping up their marketing efforts in response to the resumption of economic activity are positive.

For the negative sectors, delays in 2Q will be addressed within 3Q to prepare for the busy advertising season in 4Q. For the strong divisions, we will continue to step on the accelerator to cover the entire segment. With regard to the online advertising market, there are certainly shades of gray, but we do not believe that the overall market sentiment is deteriorating.

【Q10】 Regarding the advertising market as a whole, has there been any change in the media mix since the end of Corona? For example, TV advertising spots are sluggish, while online media in general are doing well. What are the characteristics of the advertising market by sector?

【A10】
(Hashiguchi) By medium, the shift from TV to online advertising continues to be strong. In terms of industry sectors, online services such as games and e-books, which benefited from a nest egg demand, are slowing down, while travel and customer-attraction services are booming in the wake of the economic recovery.

●Other

【Q11】 What are the contents of the extraordinary losses of approximately 1.2 billion?

【A11】
(Inagaki) 890 million was a write-down of securities, the contents of which were due to the acquisition of securities as collateral in the Thai securities business as one of the means of recovery, and the write-down was due to a significant decline in market value. The impairment of 300 million was due to the impairment of software on the occasion of the integration of GMO Coin and FX Prime by GMO.