



Q3 FYE12/2016 Results Presentation – Q&A

The following is a summary of questions asked by attendees at the earnings presentation to investors held on November 7th, 2016. The questions are answered by Group CEO & Founder, Masatoshi Kumagai.

【Q1】 Compared to last year's figures for Online Advertising, how much has the ratio of in-house products increased?

【A1】 As shown on page 33-34, besides GMO AD Partners, every service offered is done in-house. GMO AD Partners has an in-house production ratio of 35%. That's about a 5 point increase from last year, mostly due to in-house products related to the ad technology shift, such as in-feed advertising.

【Q2】 The results of Q3 were good, but is there any chance you'll be doing additional investments?

【A2】 We aren't planning any at the moment, but I would love to invest in more businesses that will help us grow. As I always say, the main requirement is being sure from the beginning that we can succeed.

【Q3】 You explained that .shop is off to a good start, but how do you as the CEO feel about things so far?

【A3】 【.shop】 The figures are looking good, but there are a few things I'm not satisfied with.

First is not being able to start sales in China as planned.

However, we're aiming to start sales there at the beginning of next year, so that problem is almost solved.

I also learned that the reactions to .shop depend on the region. In Europe, we got a greater response than expected.

This is just a theory, but since ccTLDs are more popular than .com, perhaps they're more hesitant to use new gTLDs. There are companies with a lot of history there that have strong tastes in brands. And the response in America was more underwhelming than expected. I think that's because people there are so loyal to the .com brand. How much .shop will be accepted in the future is still a big question. It's something we'll only know by trying, and we plan on beginning full out marketing soon.

【Q4】 【.shop】 What do you think about the results of the Early Access phase?

【A4】 We didn't really do much marketing, but still had this amount of registrations, which

I think shows the potential of .shop.

【Q5】 【.shop】 Will the conditions for purchasing .shop be different in China compared to America and Europe?

【A5】 One regulation for registries is to have the same conditions worldwide.

【Q6】 【.shop】 You talked about getting over 100,000 registrations this quarter, but do you have a goal for next fiscal year?

【A6】 I think our future goals should be set based on three conditions:

- 1) .shop appears at the top of search results on our main registrar's top page
- 2) We have a strategy for registrations and renewals that will maximize profit
- 3) We're able to begin selling in the huge market of China

If we can clear these three goals, I think we could get that many registrations each day.

【Q7】 【.shop】 Would it be correct to think of the 15,000 domain increase between the end of September through the end of October as a baseline for future sales? How is the process of strengthening the registrars going?

【A7】 I can't talk about wholesale, but we've already started the first year campaign of reselling the domain for less than \$10 USD, and at less than 10 registrars total. These figures are able to match those of .com's first year prices, and I think it's possible they could stay at 15,000 registrations a month.

【Q8】 Q3 was eventful for all segments, but did you have to do any cost control?

【A8】 Infrastructure as well as Online Advertising and Media did fine, but we did have to cut some costs in Online Securities.

【Q9】 Because of shifting more towards ad technology, it seems like the Media segment is slowing down, but can we expect a continued increase in profits?

【A9】 An advertising agency (for example, YDN or GDN) trying to do everything in-house would be difficult to run.

We can't get comfortable yet, as we still partially depend on other companies' products, but we're in the process of shifting to develop all of our products in-house, and expect things to continue to improve over time.

【Q10】 Infrastructure saw a large gain in profit this quarter, but what was driving it?

【A10】 The main things were .shop, which has a maximum return rate of 90%, payment services, and the large scale activities in Online Securities.

【Q11】 【.shop】 What was your goal for .shop in Q3, in terms of investing limits and a break even point?

【A11】 The main costs for our registries were the depreciation related expenses for rights acquisition fees, which were 20 million yen/month. Because the profit ratio is more than 90%, when net sales are more than 20 million yen, everything after that can be counted as profit. With this method, just from the sales of premium domains we have 10 million yen/month coming in, and general sales are increasing by the day. So it's safe to think of the rights acquisition fees as paid off already.

In the future, we will also encounter marketing fees related to sales through registries in other countries, but this will also be done in a cost efficient manner, so we expect figures to stay positive.

【Q12】 Do you think minne will be able to contribute to the group's overall earnings next year?

【A12】 If we wanted to use minne in that way, I'm sure we could. But when you think of the current yearly revenue of 1 billion yen compared to the group as a whole, it's still quite small. Instead of trying to squeeze out that small amount, I think it's better to continue investing until minne reaches 100 billion yen (in transaction volume) and 10 billion yen (in revenue).
