

Q4 FYE 12/2017 Results Presentation – Q&A

The following is a summary of questions asked by attendees at the earnings presentation to investors held on February 9, 2018. The questions are answered by Founder & Group CEO Masatoshi Kumagai, CFO Masashi Yasuda, and GMO Pepabo CEO Kentaro Sato.

● The details of the businesses in the consolidated earnings for FY2017

【Q1】 Provider Business: The Provider sub-segment saw increased growth, but did you hold any special campaigns or do you see this trend continuing?

【A1】 In the Provider sub-segment, we're constantly holding campaigns and throughout the industry, but we did nothing out of the ordinary. We think our diversification of marketing methods is to thank and expect to see even more growth this year.

【Q2】 Domain business: The Domain segment saw a QoQ increase in net sales, but is that from renewals of .shop domains or something else?

【A2】 Both our registry and registrar businesses are growing, and the registry business saw temporary sales (of around 220 million yen) this quarter.

【Q3】 .shop: The renewal rate (66.2%) is quite low, but how would you rate it?

【A3】 Only three months have passed since the renewal period began, so we don't know if renewals will continue at this rate. Two factors determine renewal rates. The first is the actual usage rate of the websites, and .shop has the highest usage rate among all the new gTLDs. The second thing to take into consideration is that the bigger the difference between the original and renewal price, the less likely a domain is to be renewed. We offered .shop at a very low price during some campaigns,

so we won't be able to judge things properly until we have observed trends over the midterm.

【Q4】 .shop: You mentioned that in FY2017 you would invest until the profit for .shop would break even. Do you hope that .shop will produce good results in FY2018?

【A4】 The structure of domain registry business is that the more the customer base expands, the higher the profitability. As 2018 is the year in which the customer base will expand, profit will be flat. We hope that .shop will produce good results in FY2019.

【Q5】 minne: What's the outlook on transaction volume for "minne" in 2018?

【A5】 Up through Q3 of 2017, our focus was on improving efficiency, and though we were uncertain about Q4, tv commercials and campaigns near the end of the year gave figures a boost. In 2018, we're aiming for a transaction volume of 12.5 billion yen by focusing on increasing the number of repeat customers as well as through promotional activities.

● Forecasts

【Q6】 Please tell us about the outlook for Infrastructure and Online Advertising businesses for the FY2018.

【A6】 For Internet Infrastructure, the growth rate will remain the same. As for Online Advertising, revenue has been flat but we strongly believe that it will grow in 2018. Although we have been previously selling the competitors' products, today we sell our own products and our profit margin is improving.

● Cryptocurrency mining business

【Q7】 According to one of the slides, you plan on investing 38 billion yen into

your Mining Business in 2018 and are aiming for a rate of 1,500PH/s, but does this investment figure include the cost of running the data center – for example the cost of electricity, etc.?

【A7】 Yes, these costs are also included in the total.

【Q8】 I would appreciate it if you could tell us the assumptions used in deciding the Bitcoin price at which you should turn off your machines.

【A8】 What is important is not the Bitcoin price. We are using ready-made mining machines, so their power consumption is the same as that of the competitors' products, enabling us to recoup the depreciation of machines in months. The problem is the electricity cost. However, the electricity cost in Northern Europe is about a quarter of that in Japan, so we expect that the electricity cost should not be a huge problem. Our own chips will be available in the first half of the FY2018, so the depreciation of chips (mining machines) and electricity cost will be the only problems. However, the machines can be used for the in-house mining after the rental period ends (the machines are fully depreciated), so the electricity cost will be the only remaining problem. In a sense, there are limited risks.

● Cloud mining business

【Q9】 Please explain more about the Cloud Mining Business. The rental fee for one contract is 500 million yen, but could you elaborate on the amount of PH/s available per contract as well as the planned business model?

【A9】 The price accurately correlates with how many PH/s will be sold. We're still considering the options and will announce more details about the service on March 1, so please check back at the website then. We're planning on increasing the amount of available PH/s by 400PH/s a month in the second half of the year. As the amount of hash rate our company

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will use is included in that 400PH/s, up to 8 new contracts can be made each month.

●GMO Aozora Net Bank

【Q10】 How will profit and loss be affected by the opening of the new GMO Aozora Net Bank business?

【A10】 We anticipate there to be a certain amount of startup costs, but since our company uses the equity method and has a 14.9% share in the business, we expect the influence to be limited.

●Security

【Q11】 There was a security-related incident this year. What are the actions you are taking?

【A11】 We are sorry for all inconvenience caused. Measures have been implemented, such as providing education and making mechanisms (I think you'll notice that by reading the Investigation Committee's report), but the result is that the incident has occurred. We are ready to set up Compliance Office (tentative), inviting external professionals with knowledge. GMO Internet will form a unit that specializes in the investigation of our own products, and set up an organization that will discover the vulnerability of our own systems.
