

GMO Pepabo, Inc.

3633

Tokyo Stock Exchange Prime Market

31-Mar.-2023

FISCO Ltd. Analyst

Yuzuru Sato



FISCO Ltd.

<https://www.fisco.co.jp>

■ Index

■ Summary	01
1. Outline of FY12/22 results	01
2. Outlook for FY12/23	01
3. Future growth strategy	02
■ Company profile	03
1. Company profile	03
2. History	03
■ Business overview	05
1. Business segment	05
2. Strengths and competition	09
3. Business risks	09
■ Results trends	10
1. Outline of FY12/22 results	10
2. Trends by business segment	11
3. Financial condition	18
■ Business outlook	20
1. Outlook for FY12/23	20
2. Outlook by main business segment	21
3. Future growth strategy	24
■ Shareholder return policy	26

Summary

Expecting the Financial Support Business to drive a turn to profit increases in FY12/23

GMO Pepabo, Inc. <3633> (hereinafter “the Company”) is a group company of GMO Internet, Inc. <9449>. The Company provides platform services that link Internet users together, in addition to offering infrastructure services that support creative activities over the Internet. Its main services include the rental server service Lolipop!, the online shop creation service Color Me Shop, the SUZURI service for creating and selling original goods, and the handmade products market minne. Moreover, in 2019 the Company started providing FREENANCE, a factoring service for freelancers, through a subsidiary.

1. Outline of FY12/22 results

In the consolidated results for FY12/22, the Company reported net sales of ¥10,531mn, down 11.4% year on year (YoY), and operating profit of ¥732mn, down 17.6% YoY. From FY12/22, the Company is applying the Accounting Standard for Revenue Recognition, etc. (hereinafter, the “new accounting standard”), which resulted in a ¥1,653mn decline in net sales, and a ¥101mn increase in operating profit. If the previous period were converted using this new accounting standard, net sales would have increased 6.7%, while operating profit would have declined 16.5%. (Hereinafter, the YoY growth rate is shown as a comparison with the new accounting standard.) Although net sales declined both in the E-commerce Support business and the Handmade Products business due to the ending of stay-at-home demand, the Hosting business (a recurring-revenue type business) continued to grow, while net sales in the Financial Support business rapidly grew by 2.8 times YoY due to the expansion of users, which effectively resulted in a new record high. Meanwhile, the decline in profit was the result of profit dips in both the E-commerce Support business and the Handmade Products business. In particular, SUZURI posted a loss of ¥95mn (down ¥295mn YoY), partially due to spending on TV commercials (¥180mn).

2. Outlook for FY12/23

As for the consolidated results for FY12/23, the Company is forecasting a profit increase for the first time in three fiscal periods, with net sales of ¥11,064mn (up 5.1% YoY) and operating profit of ¥857mn (up 17.1%). The Company expects the Financial Support business to be the driving factor, forecasting net sales of ¥1,116mn (up 87.9%) and operating profit of ¥251mn (up ¥277mn) against a backdrop of an increase in users. The Hosting business is expected to see an increase in both net sales and profit as the price revisions will absorb the increase in costs, while in the E-commerce Support business, SUZURI will continue to see a decline in net sales but this should turn to an increase in profit due to the non-recurrence of costs for TV commercials. The Company’s forecast for the Handmade Products business is conservative, as it expects a slight decline in both net sales and profit. The Company plans to focus on the non-merchandising business for both SUZURI and minne. SUZURI has already started handling digital content, while minne has begun registering digital content. The Company plans to begin an on-site advertising service before the end of 2023, and this is expected to contribute to earnings going forward.

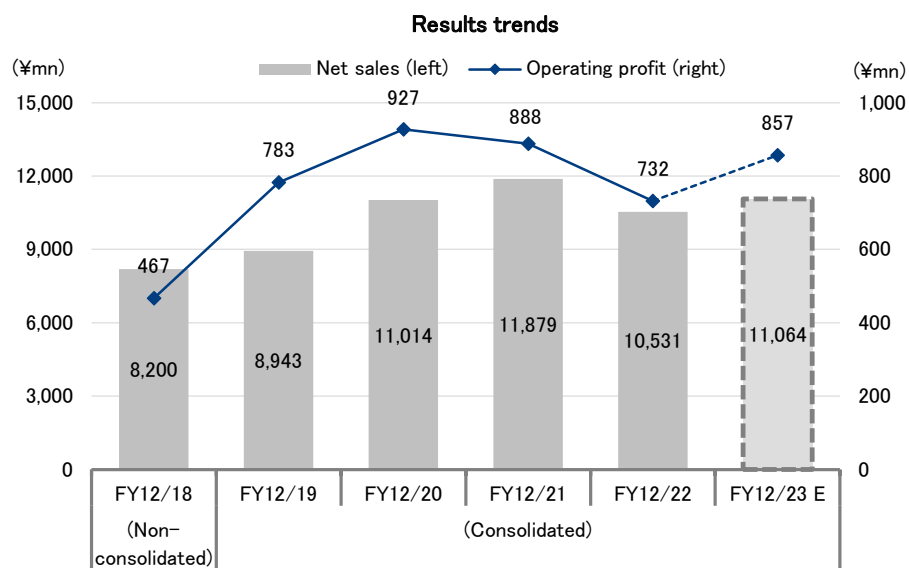
Summary

3. Future growth strategy

As its growth strategy, the Company plans to accelerate growth by striving to achieve stable growth in the Hosting business and Color Me Shop, both of which are recurring-revenue-type services, along with developing FREENANCE and other non-recurring-revenue-type services. In recurring-revenue-type services, the Company will work to acquire top-tier business from excellent customers as well as cultivate corporate customers in order to earn more stable and higher earnings. FREENANCE, which is a non-recurring-revenue-type service, will aim to earn stable earnings by acquiring customers in sectors with high usage rates to further increase the amount of invoices purchased as well as by adding monthly plans. SUZURI and minne will both develop digital content and other non-merchandising businesses. The Company has not cleared one of the requirements (tradable share market capitalization of ¥10bn) for continued listing (¥10bn) on the Tokyo Stock Exchange's Prime Market, so the Company submitted a plan to conform with the standards for continued listing in February 2023. In this plan, the Company announced its medium-term management target of ¥1.57bn in operating profit in FY12/26. Although the Company's earnings have been at a standstill since 2021 partially due to the snapback from COVID-19, the stable earnings base from recurring-revenue-type services is already established, and among non-recurring-revenue type services the Company has developed the Financial Support business as the driving force of growth. There is a lot of room for growth in the E-commerce Support business as well, and going forward we at FISCO will pay attention to the Company as one of the companies that we can expect earnings growth from with the tailwind provided by the expansion of the Internet market.

Key Points

- FY12/22 consolidated profit declined due to sluggish results in E-Commerce Support business, but there was rapid growth in the Financial Support business
- Outlook is for a turn to double-digit growth in operating profit in FY12/23, driven by the Financial Support business
- Aiming for sustainable growth in earnings through stable growth in recurring-revenue-type services as well as by expanding non-recurring-revenue-type services



Note: The Company has applied the Revenue Recognition Standard from FY12/22.
 Source: Prepared by FISCO from the Company's financial results

■ Company profile

Providing a wide range of services to support the creative activities over the Internet

1. Company profile

Based on the Corporate Philosophy of “Make it more playful” and the Mission of “Increase the output of humanity,” which was newly established in 2023, the Company develops and provides tools and services that support the activities of people who seek to use the Internet to start something new. The Company mainly provides such as the rental server service Lolipop! and the online shop creation service Color Me Shop. Also, the Company is focusing on minne, which is domestic largest handmade products market, and SUZURI, which is a service for creating and selling original goods. It is also focusing on FREENANCE, a factoring service for freelancers.

2. History

The Company was founded as paperboy&co. Limited*1 in 2003 to conduct a Web hosting business for individuals. The Company began operations when it assumed control of businesses such as Lolipop! from the limited partnership*2 that was its predecessor. In 2004, the Company began providing MuuMuu Domain, a domain acquisition service, and JUGEM (transferred in 2021), a blog service. The Company was reorganized into a joint stock corporation and at the same time, it became a consolidated subsidiary of Global Media Online Inc. (currently, “GMO Internet Group, Inc.”).

*1 The Company’s name derives from the fact that Kazuma leiri, the founder, used to deliver newspapers. Mr. leiri met many different people as he worked as a paperboy, and these encounters inspired him to start a business. To keep his roots close to heart, Mr. leiri named his company “paperboy,” which refers to a boy who delivers newspapers, and added “&co.” as an abbreviation of “company,” which can mean a group of associates.

*2 The predecessor of the Company is Madame Planning G.G., which was a limited partnership (goshi gaisha) established by Kazuma leiri in October 2001 to provide Web hosting services for individuals. In November 2001, it began providing the “Lolipop! Rental Server” service out of a desire to enable all people, including students and women, to enjoy building websites.

In 2005, the Company entered the E-commerce support business by starting to provide Color Me Shop. Thereafter, the Company grew its business results by developing and providing a wide range of services using the Internet. In December 2008, the Company achieved a listing on the JASDAQ Securities Exchange. (The Company’s listing was changed to the TSE Second Section in December 2019, the TSE First Section in December 2020 and it moved to the TSE Prime Market in April 2022). In 2014, to mark its 10th founding anniversary and to improve synergies, market recognition and reliability as part of the GMO Internet Group’s brand strategy, the Company added “GMO” to its name and was renamed GMO Pepabo, Inc., which includes the Company’s nickname “Pepabo.”

From 2015 onward, the Company has actively invested in the business of minne, for which service began in 2012, with a view to developing it into a third revenue driver. Meanwhile, the Company has also sought to concentrate on core competencies in its business portfolio. The Company has also been focusing on developing new businesses. This effort includes the 2019 acquisition of the shares of GMO Creators Network which operates FREENANCE, and making it a consolidated subsidiary.

GMO Pepabo, Inc. | 31-Mar.-2023
 3633 Tokyo Stock Exchange Prime Market | <https://pepabo.com/en/ir/>

Company profile

History

Date	Major event
January 2003	Founded as paperboy&co. Limited in Chuo-ku, Fukuoka City, Fukuoka Prefecture, with the business purpose of conducting a Web hosting business for individuals. The Lolipop! business was transferred to the Company from its predecessor, Madame Planning G.G., and the Company entered the Web hosting business.
January 2004	Started to provide Color Me Shop! Mini, an online shopping cart function, as part of the Lolipop! rental server
January 2004	Started to provide MuuMuu Domain, a domain name acquisition agency service
February 2004	Started to provide JUGEM, a rental blog service
March 2004	Changed the organization from a limited liability company to a joint stock corporation
March 2004	Conducted a capital increase through a third-party allotment of shares to Global Media Online Inc. (currently GMO Internet, Inc.), the allottee, and became its consolidated subsidiary
February 2005	Started to provide Color Me Shop! pro (currently, "Color Me Shop"), an online shop creation service, and entered the e-commerce support business
November 2005	Started to provide heteml, a rental server for creators
April 2006	Started to provide Caramel, an online shopping mall
April 2008	Started to provide 30days Album, an online photo album service
December 2008	Listed on the JASDAQ Securities Exchange (which later became the TSE JASDAQ Standard) (Stock Code: 3633)
May 2009	Started to provide Goope, an ASP service for building websites
October 2009	Started to manage BookLog, a book review community site
June 2010	Started to provide Puboo, an e-book production and sales platform
January 2012	Started to provide minne, a handmade products market
June 2012	Conducted a company split of the e-book-related business and founded BookLog, Inc.
August 2012	Started to provide Sqale, a cloud hosting service for developers
October 2012	Started to provide Jugem Cart, which is an ASP shopping cart service for English-speaking countries and entered the overseas business
April 2014	The Company changed its trade name from paperboy&co. Inc. to GMO Pepabo, Inc.
April 2014	Started to provide SUZURI, a service for creating and selling original goods
November 2014	Started to provide PEPABO WiMAX, a high-speed mobile Internet service
June 2015	OC Island, Inc. (trade name changed to GMO Pepabo OC, Inc. in January 2016), which operates tetote, a handmade products market, and conducts related activities, became a Group company.
January 2016	Sold the e-book-related business of BookLog, Inc. to BOOKOFF CORPORATION
July 2016	Founded Pepabo R&D Institute, a research and development organization pursuing the creation and implementation of new technologies
January 2017	Merged with GMO Pepabo OC, Inc., with the Company as the surviving company, to further accelerate the growth of the handmade products business
February 2017	Sold the PEPABO WiMAX business, which provides a high-speed mobile Internet service
November 2017	Started to provide Color Me Repeat, a repeat online direct sales service
April 2018	Assumed control of the Carvath business, which provides an on-demand original goods production service managed by Basic Inc.
June 2018	Invested in Newworld, Inc., which provides marketing support for traditional craft artisans.
September 2018	Established GMO Pepabo Guardian, Inc. as a subsidiary, with the business purpose of conducting the information security business
February 2019	The Company made GMO Creators Network, Inc. a consolidated subsidiary by assuming a capital increase through a third-party allotment of shares. GMO Creators Network, Inc. manages FREENANCE, a financial support service for freelancers.
December 2019	Listed market changed to the Second Section of the Tokyo Stock Exchange
December 2020	Designated to the First Section of the Tokyo Stock Exchange
April 2021	Sold the JUGEM blog service
April 2022	Listed market changed to the TSE Prime Market Started offering GMO Renshu, a cloud-based management service for out-of-school learning organizations and teams

Source: Prepared by FISCO from the Company's securities report and web page

We encourage readers to review our complete legal statement on "Disclaimer" page.

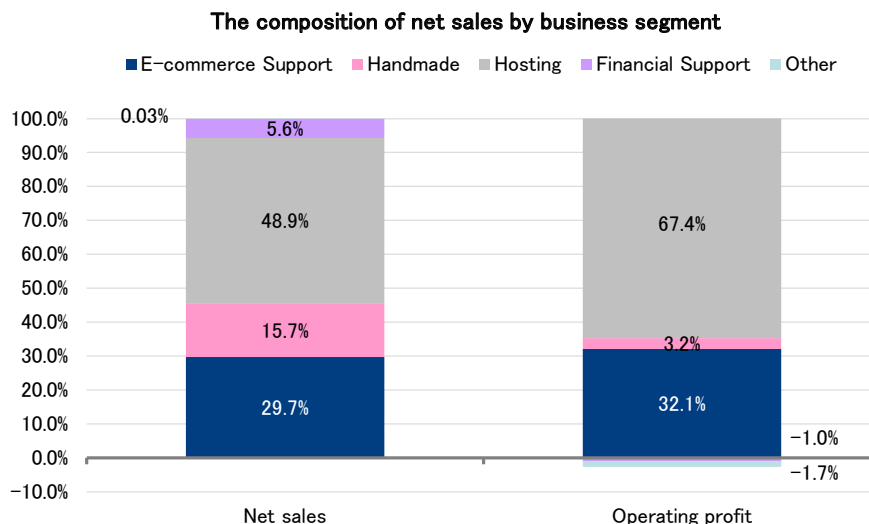
Business overview

Achieved growth through both the Hosting business and the E-commerce Support business, while it is in the process of nurturing the Handmade Products business and the Financial Support business

1. Business segment

The Company's business segments consist of the Hosting business, which includes Lolipop! and MuuMuu Domain; the E-commerce Support business, which includes Color Me Shop and SUZURI; the Handmade Products business, which includes the minne, and the Financial Support business, which includes FREENANCE.

Looking at the composition of net sales by business segment for FY12/22, the Hosting business accounted for 48.9% of net sales, the E-commerce Support business 29.7%, the Handmade Products business 15.7%, and the Financial Support business 5.6%. In terms of operating profit (before corporate expenses), the Hosting business accounted for 67.4% of operating profit, the E-commerce Support business 32.1%, the Handmade Products business 3.2%, while the Financial Support business posted a slight loss. Currently, the Hosting business and Color Me Shop, which are recurring-revenue-type businesses, account for over 90% of operating profit, but going forward the Company's strategy is to aim for growth while diversifying the earnings portfolio by developing the non-recurring-revenue-type businesses of SUZURU, minne and FREENANCE.



Source: Prepared by FISCO from the Company's financial results

(1) Hosting business

In the Hosting business, the Company provides servers, various functions, domains and other infrastructure needed to create websites. The Hosting business is based on a recurring-revenue business model, where usage fees for various services are recognized as net sales. The main services are as follows:

Business overview

a) Lolipop!

Lolipop! is the Hosting business' mainstay service, representing just over 40% of net sales and over 70% of profit. With Lolipop!, the Company provides rental server services targeting a wide range of customers, from Internet beginners to heavy users. Previously, hosting services presented a high hurdle for Internet users and were not easily accessible. By supplying these services at low prices, the Company became a pioneer in developing the rental server market for individuals. The Company provides the software and various ASP services needed to create websites, in addition to offering an extensive manual that allows users to easily create websites and providing customer service with fast response times. By making various fee plans and optional services available, the Company has broadened its targeted customers from sole proprietors to small and medium-sized enterprises.

The Company started to provide Lolipop! Managed Cloud in April 2018. This service realizes high-speed, stable operation even in temporary periods of concentrated access through a container-type virtualization technology developed internally. The targeted customers are those facing the risk of websites becoming inaccessible due to concentrated website access (such as individual creators and small and medium-sized enterprises). The fee plan comprises a monthly basic fee of ¥1,078 (tax included plus a pay-as-you-go system. In other areas, the Company provides services such as heteml (starting from a monthly fee of ¥1,100 (tax included)), which is a high-performance hosting service.

b) MuuMuu Domain

MuuMuu Domain, which represents just over 40% of net sales and just below 20% of profit in this business segment, is a low-cost domain acquisition agency service. It stands out for allowing users to easily complete domain registration online. Since the service commenced in 2004, more and more individuals have acquired domains as the Internet has become widely used, and the number of registered domains reached 1.18 million at the end of December 2022. Because MuuMuu Domain is an agency service, the profit margin is relatively lower than that of other services. Also, part of the procurement cost is subject to the impact of foreign exchange rate fluctuations, so the Company enters into forward exchange contracts depending on the conditions.

(2) E-commerce Support business

In the E-commerce Support business, the Company provides services such as the online shop creation service Color Me Shop and the SUZURI service for creating and selling original goods. The Company has operated Color Me Shop as a recurring-revenue business model in which monthly fixed usage fees account for most of net sales. In May 2021, the Company started to provide services based on a non-recurring revenue business model, in which fees are obtained in line with gross merchandise value, with no initial cost or monthly usage fee charged to users. Meanwhile, the main feature of SUZURI is that it is based on a non-recurring-revenue business model that depends on gross merchandise value.

a) Color Me Shop

Color Me Shop, which represents around 60% of net sales in this business segment, has the main feature of allowing users, even beginners in operating online shops, to open and operate online shops easily and at low cost, just as if they were creating a blog. Since the service was launched in 2005, the number of contracts has reached 50,000 as of the end of December 2022 (of which just over 30% were free plans). Color Me Shop is one of Japan's largest services in terms of the number of stores and which is available with a monthly fee plan, and it has extensive functions that meet a wide spectrum of needs of users, ranging from individual merchants to large-scale retailers. Net sales comprise monthly usage fees and commissions for payments assessed according to gross merchandise value. Along with this, when various apps provided in the app stores are used, an app fee is also charged as an additional fee.

Business overview

b) SUZURI

SUZURI represents roughly 30% of net sales in this business segment. It is a service that allows users to easily create and sell various original goods, such as T-shirts, mugs, and smartphone cases, by simply uploading illustrations or digital photos they have created to the SUZURI website. SUZURI provides comprehensive one-stop support, from the creation to delivery of items (production and delivery are outsourced to external partners), without any risk of initial investment, inventory management and so on. Therefore, the SUZURI service enables users to sell and purchase creative works with peace of mind. The Company is cultivating demand as a service ahead of the industry, and from the launch of the service in 2014 until the end of December 2022, the cumulative number of members has grown to 1.35 million, and the number of creators has increased in 670,000. Creators sell their works on SUZURI by setting their sales price by adding their own profit margin to the procurement price received from the Company (outsourcing cost to production company + the Company's net sales). Because orders are sent to outsourcing companies after buyers placing orders, there is no inventory risk, and it is a non-recurring-revenue business model that is almost completely linked to gross merchandise value.

(3) Handmade Products business

The Handmade Products business consists of the operation of minne, which is Japan's largest handmade products market. minne enables users to easily list and sell handmade products over the Internet. Net sales from minne primarily comprise sales fees (10.56% (tax included) of the transaction amount). The main features of minne include allowing beginners with no website creation experience to easily create gallery pages fitted with sales functions, and allowing creators and buyers to conduct transactions with peace of mind as minne acts as an agent in the payment process. In addition to sales of handmade products such as accessories, fashion goods, handbags, wallets, foods and the materials needed to make such products, minne also sells antique and vintage items.

Moreover, minne revised its Terms of Use in July 2019 and enlarged its business field from a "Consumer to Consumer Handmade Products Market" to a "Comprehensive Manufacturing Platform." Based on the belief that processed products that are not handmade, and products manufactured by subcontracting some processes to third parties, are also part of the creative activity that is manufacturing, minne enabled users to list such products on its site. Minne now also allows companies, including brands and manufacturers that emphasize manufacturing, to list their products on the site. Through these efforts, minne's business field has expanded from the "Consumer to Consumer" field to the "Business to Consumer" field. As of the end of December 2022, the number of creators and brands was 850,000, the number of products was 15.96 million items, and the number of app downloads was 14.11 million.

(4) Financial Support business

The Financial Support business comprises the FREENANCE business, which is a factoring service for freelancers. This service acts as an intermediary between freelancers and their customers, purchasing freelancers' invoices (accounts receivable), and paying freelancers on the same day instead of their customers. In this business model, the Company receives 3-10% of the face value of the invoice (tax included / consumption tax is shown when tax is excluded) from the user as a fee. The invoice (accounts receivable) amount that can be purchased starts from ¥10,000, and the upper limit on this amount was abolished in April 2020.

GMO Pepabo, Inc. | **31-Mar.-2023**
 3633 Tokyo Stock Exchange Prime Market | <https://pepabo.com/en/ir/>

Business overview

In November 2020 the Company rolled out FaaS (FREENANCE/Factoring as a Service), which provides financial support services, including same-day payments, to external companies. There has been an increase in the number of users through the spread of word-of-mouth in the IT industry and the transport industry, as well as in the personnel services industry, including LANCERS, INC. <4484>, all of which have a high affinity with freelancers. Trilateral transactions through FaaS have relatively lower commission rates compared to bilateral transactions, and referral fees arise, so the profit margin is lower than for bilateral transactions. On the other hand, it also holds the advantage of being able to efficiently expand the number of users.

Outline of major services

	Business model		Fees and number of subscribers, etc.	Description of services, etc.
	Monthly billing system	Pay-as-you-go system		
Hosting business				
Lolipop!	○		Usage fee: Starting from ¥99/month Number of contracts: 420,000 (420,000)	One of Japan's largest rental server services, supporting a wide spectrum of needs ranging from beginners to businesses based on the slogan "Immediately and always usable."
MuuMuu Domain	○		Usage fee: Starting from ¥53/year Number of registered domains: 1.18 million (1.17 million)	Comprehensive domain services for acquiring and managing more than 400 types of domain and premium domains with high scarcity value
E-commerce Support business				
Color Me Shop	○	○	Usage fee: Starting from ¥0/month Number of contracts: 50,000 (46,000) Started providing premium plan from January 2023	An online shop management service that caters to expansive needs, from those of fully fledged online shops to people who want to open shops as a hobby
SUZURI		○	Number of creators: 670,000 (560,000) Number of members: 1.35 million people (1.06 million people)	A service that allows users to create and sell original goods, such as T-shirts and smartphone cases, by simply uploading the illustrations they have designed or the photos they have taken to the website.
Handmade Products business				
minne		○	Number of creators and brands: 850,000 (800,000) Number of registered products: 15.96 million (14.53 million) Number of app downloads: 14.11 million (13.28 million)	Japan's largest handmade products market. On this market, users can sell, display and purchase handmade products that reflect the creator's aspirations, such as accessories, handbags, sundry items and furniture.
Financial Support business				
FREENANCE		○	The fee rates are 3-10% of the face value of invoices (tax included / consumption tax is shown when tax is excluded).	A financial support service for freelancers that pays out cash on the same day to freelancers by purchasing invoices

Note: Fees include taxes. The figures for the number of contracts and certain other items are as of end of December 2022. The figures in parentheses are as of end of December 2021.

Source: Prepared by FISCO from the Company's results briefing materials and financial results

The Company's strengths are its development and planning capabilities that enable it to provide services at reasonable prices primarily to many users

2. Strengths and competition

The Company's strengths are that it has so far independently developed and operated more than 30 Internet-related services and has accumulated expertise in this area. Another major feature of the Company is that it has demonstrated originality in the naming of services and the design of websites, apps and other infrastructure. This originality has been one of the Company's strengths since its founding.

The services supplied by the Company have relatively low barriers to entry, so the number of competitor companies have been increasing since the Company started to provide services. Looking at the main competitor companies, in the Hosting business (rental server), SAKURA internet Inc. <3778> and Xserver Inc. count among the Company's main competitors. While new entrant companies abound, the Company provides services at the lowest fee levels in the industry, so the Company's market share has remained at a stable level over the last few years.

In addition, numerous companies, including Estore Corporation <4304> and Shopify Inc. <SHOP> have entered the business of supplying E-commerce-site creation systems such as Color Me Shop, which is part of the E-commerce Support business. Recently, competition has been further intensifying in step with market growth, notably with the emergence of companies that provide services with no monthly usage fees, such as BASE, Inc. <4477>. For these reasons, the Company is working to enhance peripheral apps that lead to improved convenience for users and growth in the sales of shops. Also, the Company has commenced a free plan featuring no initial cost and no monthly usage fees to respond to diverse needs.

Growth in the consumer-to-consumer market has spurred an increase in the number of new entrant companies in original goods creation and sales services such as SUZURI. Examples of competing services in this field include pixivFACTORY, which is offered by pixiv Inc., Up-T, which is offered by Marui Orimono Co., Ltd., and T-SHIRTS TRINITY, which is offered by Graphic on Demand Inc. In terms of scale, we at FISCO believe that the Company is running at the head of the pack as the industry leader.

In the Handmade Products business, CREEMA LTD. <4017> (the operator of Creema, the industry's second largest site by number of items) can be identified as a competitor. As of November 2022, Creema carried around 15.00 million items and had 250,000 registered creators. Although these numbers are slightly lower than minne, the average sales price is 1.4 times higher, and the gross merchandise value is about the same. Also, the Company is actively conducting advertising services (including both internal and external services) on its site and monetizes them, which differentiates the Company from its competitors.

3. Business risks

Looking at business risks, the likelihood of an information leak, such as a leak of personal information, is not negligible, given the character of the Company's services, which are intended primarily for individual customers and therefore handle large amounts of data. In practice, there was an incident in the Color Me Shop service in January 2018, where some credit card information of customers (shop owners) was leaked due to unauthorized access from the outside. The Company responded to the situation immediately. It set up a Recurrence Prevention Committee, investigated the facts and causes of the incident, and put together recommendations on how to prevent a recurrence. In early March 2018, the Company published an Investigation Report. Going forward, the Company plans to continuously strengthen information security measures.

Results trends

FY12/22 consolidated profit declined due to sluggish results in the E-commerce Support business, but there was rapid growth in the Financial Support business

1. Outline of FY12/22 results

In the consolidated results for FY12/22, net sales increased 6.7% YoY to ¥10,531mn, effectively resulting in a new record high. Despite this, the Company experienced a decrease in profit for the second consecutive fiscal period, as ordinary profit declined 19.8% YoY to ¥767mn and profit attributable to owners of parent was down 27.5% YoY to ¥510mn.

FY12/22 consolidated results

	FY12/21			FY12/22				
	Results (previous standard)	Results (new standard)	Vs. net sales	Company forecast*2	Results	Vs. net sales	YoY (new standard)	Vs. forecast
Net sales	11,879	9,874	-	10,499	10,531	-	6.7%	0.3%
Gross profit	6,732	6,145	62.2%	-	6,076	57.7%	-1.1%	-
Selling, general and administrative expenses	5,843	5,268	53.4%	-	5,344	50.7%	1.4%	-
(Promotion cost*1)	1,033	1,109	11.2%	-	1,321	12.5%	19.0%	-
Operating profit	888	876	8.9%	732	732	7.0%	-16.5%	0.0%
Ordinary profit	968	956	9.7%	760	767	7.3%	-19.8%	0.9%
Extraordinary income (losses)	96	96	-	-	4	-	-	-
Profit attributable to owners of parent	715	703	7.1%	522	510	4.8%	-27.5%	-2.3%

*1 Promotion cost (total of advertising expenses, promotion expenses, and provision for point card certificates)

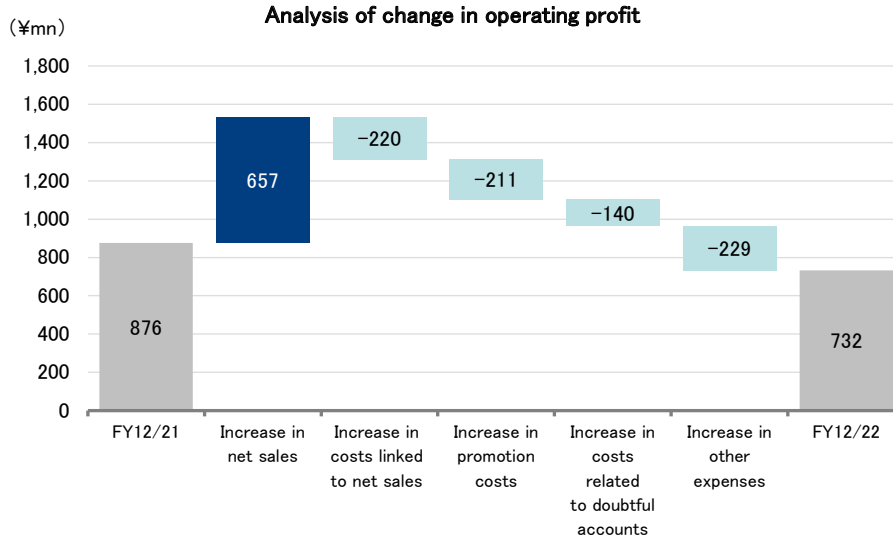
*2 Company forecasts are the amounts announced in November 2022

Source: Prepared by FISCO from the Company's financial results

Looking at each business segment, certain businesses performed well while others did not. Net sales and profit increased in both the Hosting business and the Financial Support business (the loss in the Financial Support business contracted), while net sales and profit declined in both the E-commerce Support business and the Handmade Products business. The change in consumption trends due to the snapback in stay-at-home demand hampered growth in the E-commerce market, and gross merchandise value declined for both SUZURI and minne. It appears that Color Me Shop's gross merchandise value was on par with the previous fiscal year, and the overall Group's EC-related services gross merchandise value was ¥220.6bn, a slight YoY decline.

Looking at the factors behind the change in operating profit, net sales increased by ¥657mn, while there was a ¥220mn increase in costs linked to net sales, a ¥211mn increase in promotion costs, a ¥140mn increase in costs related to doubtful accounts, and a ¥229mn increase in other expenses. The majority of the increase in promotion costs was due the spending of ¥180mn on TV commercials for SUZURI in 2Q. The costs related to doubtful accounts mainly accompanied the increase in the value of invoices purchased, and includes the impact of the collection of some credits being pushed back to January 2023. As of end of December, 2022, the number of partners (number of employees) was 475, an increase of 13 employees YoY.

Results trends



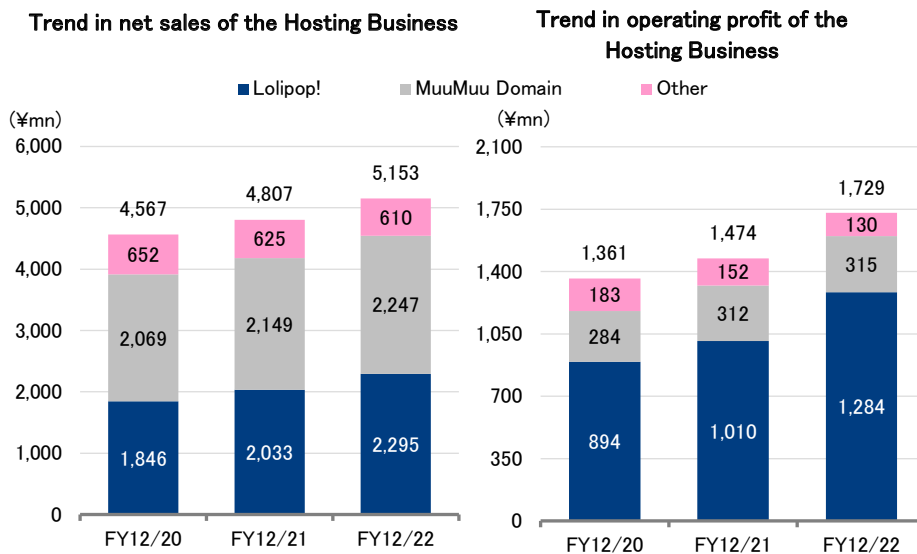
Source: Prepared by FISCO from the Company's financial results briefing materials

The Financial Support business entered the high growth stage as the customer base expanded to transport providers and other customers

2. Trends by business segment

(1) Hosting business

In the Hosting business, net sales increased 8.3% YoY to ¥5,153mn, and operating profit rose 18.5% YoY to ¥1,729mn, continuing the trend for increased sales and profits, which reached all-time highs.



Source: Prepared by FISCO from the Company's financial results briefing materials and financial results

Results trends

For Lolipop!, net sales increased 13.2% YoY to ¥2,295mn and operating profit rose 27.3% YoY to ¥1,284mn, marking a record-high operating profit. Although there was an increase in low-price plan cancellations due to the impact of the price revisions made in November 2021, there were 422,000 contracts at the end of the fiscal year, only 3,000 below the number of contracts at the end of the previous fiscal year, partly due to strengthened coordination with MuuMuu Domain and the launch of services for affiliates (blog monetization and side business starter pack*). The main factor for the increase in revenue and profit was the fact that the average spending per customer rose 12.8% YoY to ¥449 due to the increase in the percentage of subscribers enrolling in the high-speed plan for ¥550 per month. By quarter, the average spending per customer rose from ¥431 in 1Q (up 11.9% YoY) to ¥461 in 4Q (up 11.4% YoY), as the upward trend continued. In conjunction with the application of the new accounting standard from FY12/22, the Company changed the accounting method for net sales from a lump-sum revenue recognition at the time of the conclusion of contracts to recognition based on proportionally divided monthly fees over the contract period.

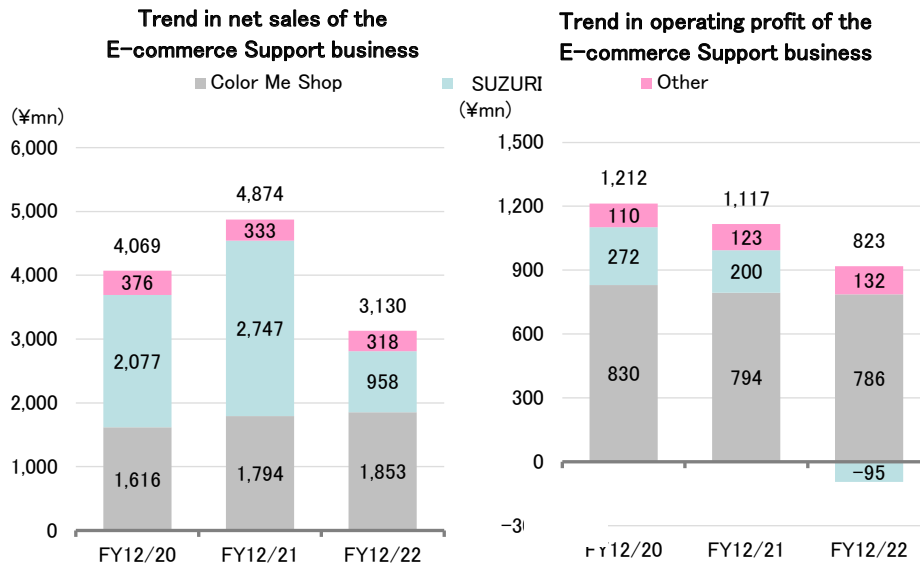
* The blog monetization and side business starter pack (beta version, launched in April 2022, for new subscribers with high-speed plans of 12 months or longer) provides WordPress's automated set-up function, guides to help monetize blogs, a side business study gift (¥500 Amazon gift), and an exclusive affiliate program for users on how to get their first achievement payment by writing an article.

For MuuMuu Domain, net sales increased 6.8% YoY to ¥2,247mn and operating profit increased 4.1% YoY to ¥315mn, as sales and profit continued to increase, setting a new record high. The rise in the domain renewal rate for existing customers led to an increase in spending per customer, and this was the reason for the increases in sales and profit (the price increases in the second year for annual renewals). In addition, the number of registered domains, which had been gradually declining, increased 1.3% YoY to 1,186,000 domains, the first increase in four fiscal periods, due to the implementation of various campaigns. In conjunction with the application of the new accounting standard from FY12/22, the Company changed the accounting method for net sales from a lump-sum revenue recognition at the time of domain acquisition to recognition based on proportionally divided monthly fees over the contract period.

(2) E-commerce Support business

For the E-commerce Support business, net sales decreased 2.2% YoY to ¥3,130mn, while operating profit decreased 26.5% YoY to ¥823mn. The EC market was sluggish due to the change in consumption trends resulting from the ending of stay-at-home demand, and the deterioration in earnings for SUZURI weighed down results. Still, looking at 4Q alone, results were driven by Color Me Shop, resulting in a turn to higher sales and profit, so a recovery seems to be underway.

Results trends

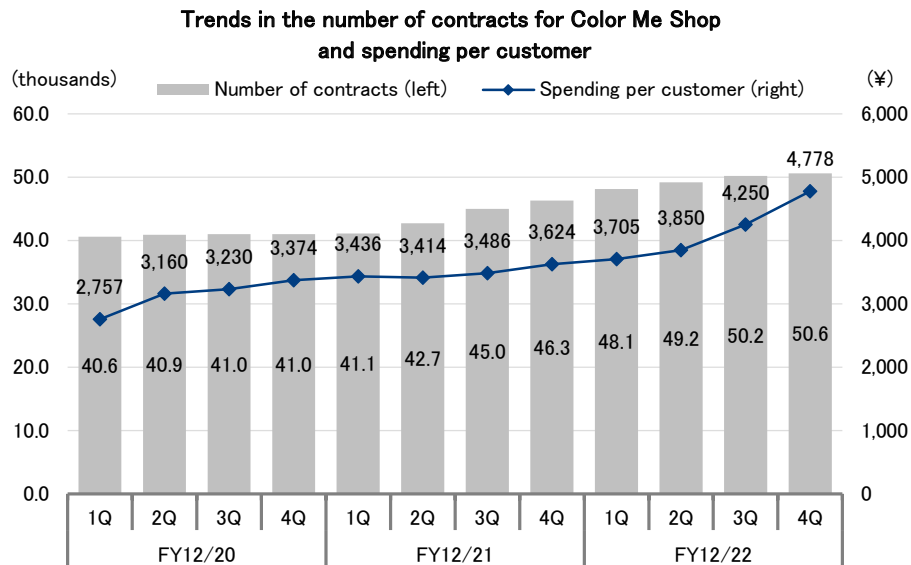


*Values prior to FY12/21 are based on the previous accounting standards
 Source: Prepared by FISCO from the Company's financial results briefing materials and financial results

Net sales of Color Me Shop increased 4.4% YoY to ¥1,853mn, while operating profit declined 1.4% to ¥786mn. In profit, while there was a slight decline due to higher costs resulting from holding an event to recognize excellent online shops nationwide at a real venue for the first time in three years and costs to bolster infrastructure, net sales continued to trend upwards. At the end of FY12/22, the number of contracts increased 9.3% from the end of the previous fiscal year to 50,600 due to the increase in the number of free plan users. However, due to the impact of the price revisions made in April 2022* there was an increase in cancellations from low-price plan contract owners and a switch to the free plan, so the number of paid plan contracts declined by several thousand to just over 30,000 at the end of period. Nevertheless, the increase in net sales was due to the fact that average spending per customer for the paid plan increased by a significant 18.8% YoY to ¥4,146 due to the effect of the price revisions implemented in April 2022. Even looking at the average spending per customer by quarter, in 4Q the rising trend continued as average spending per customer increased 31.8% YoY to ¥4,778, and both net sales and profit turned upwards from 3Q. With respect to the timing of free plan subscribers switching to paid plans, the break-even point for a cost advantage is monthly sales of ¥100,000. With the adoption of the new accounting standard, some net sales related to settlement fees and bank transfer fees were changed to the net amount accounting method, so net sales were lower compared to net sales under the previous accounting standard, but there was no impact on operating profit.

* The economy plan was revised from ¥1,100 (tax included) to ¥2,750 per month, the small plan was changed from ¥1,540 to ¥3,190 per month, the regular plan from ¥3,300 to ¥4,950 per month, while the large plan was increased from ¥7,945 to ¥9,595 per month. The newly priced plans include the main pay-for optional features (unique domain function, full-time SSL function, mail magazine function), while the regular and higher plans have additional and expanded features. Currently, the Company has stopped accepting new applications for the economy plan and the small plan.

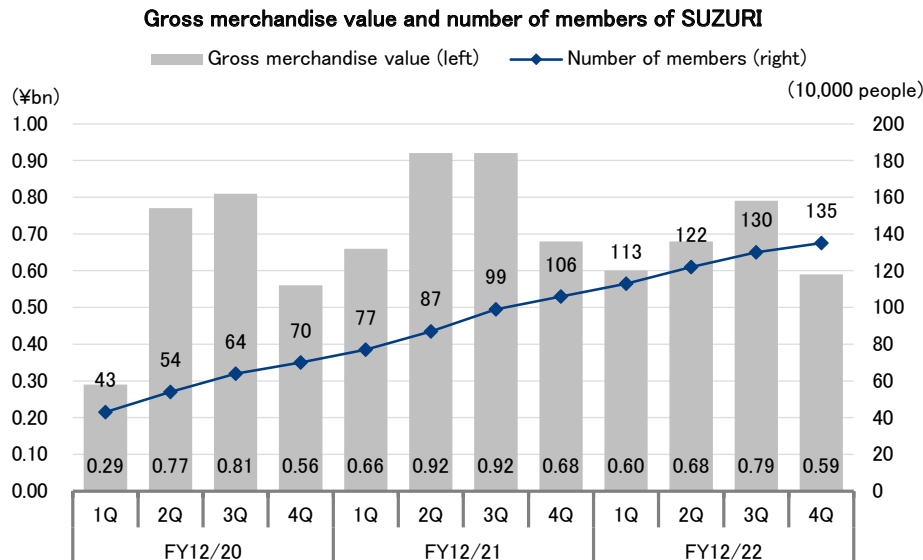
Results trends



Source: Prepared by FISCO from the Company's supplementary financial results briefing materials

Net sales of SUZURI decreased 12.4% YoY to ¥958mn, while operating loss was ¥95mn (¥295mn operating loss in year-earlier period). The Company carried out promotions, including the airing of TV commercials to coincide with SUZURI's summer T-shirt sale period which is the period of highest demand, and the Company focused on increasing exposure through social media, which led to a steady 27.5% YoY increase in members to 1.35 million. Although the Company added six new items, including acrylic keyholders as well as dog T-shirts in order to enter the growing pet industry market, sales declined due to the 16.3% YoY decline in gross merchandise value to ¥2.6bn as a result of the impact of the change in consumption trends. Profit declined due to both the dip in net sales as well as the increase in promotion costs. Accompanying the application of the new accounting standard, cost of merchandise purchased and of outsourced processing, were recognized as net amounts. The accounting treatment of certain net sales related to settlement fees and bank transfer fees, as well as freight costs, were also changed to recognition of net amounts. With these changes, net sales declined, but there was no impact on operating profit.

Results trends



Source: Prepared by FISCO from the Company's supplementary financial results briefing materials

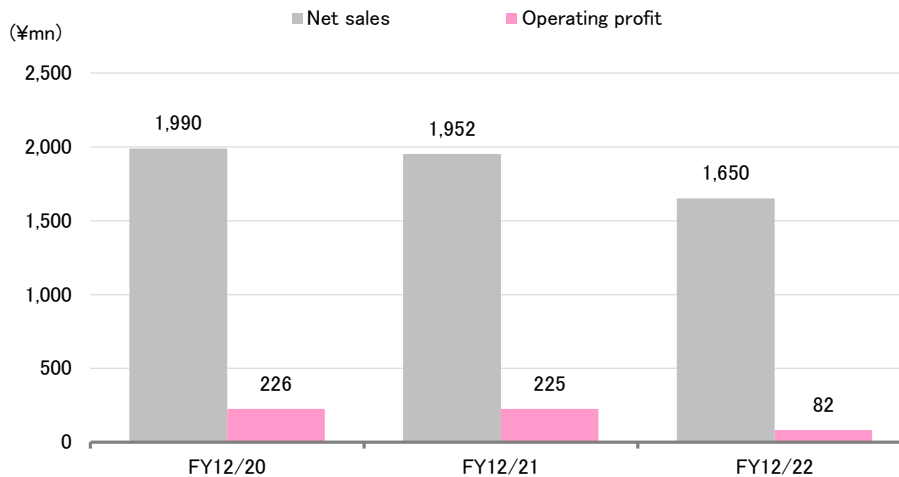
(3) Handmade Products business

In the Handmade Products business, net sales decreased 1.2% YoY to ¥1,650mn and operating profit fell 63.5% YoY to ¥82mn. As measures to increase gross merchandise value, the Company started handling antiques and vintage items as a new category, and also implemented sales promotion campaigns, including holding in-person events and discount price campaigns to encourage purchases by users. However, gross merchandise value declined slightly by 0.5% to ¥1.5bn due to the impact of the change in consumption trends. Profit declined due to the drop in net sales, higher costs of infrastructure due to soaring energy prices and higher sales promotion costs.

As of the end of FY12/22, the number of creators and brands was 850,000 people (up 6.4% YoY) and the number of works was up 9.8% to 15.96 million, while the number of app downloads was up 6.2% to 14.11 million, marking steady increases. Although the average price of orders increased 9.4% to ¥3,721 due to the success of efforts to bolster sales of high-price merchandise such as furniture and interior goods, the number of orders declined 9.4% YoY to 4.16 million. Accompanying the application of the new accounting standard, the accounting treatment of certain net sales related to settlement fees and bank transfer fees, as well as freight costs, were changed to recognition of net amounts. With these changes, net sales declined slightly compared to under the previous accounting standard, but there was no impact on operating profit.

Results trends

Trend in results of the Handmade Products business



Source: Prepared by FISCO from the Company's financial results

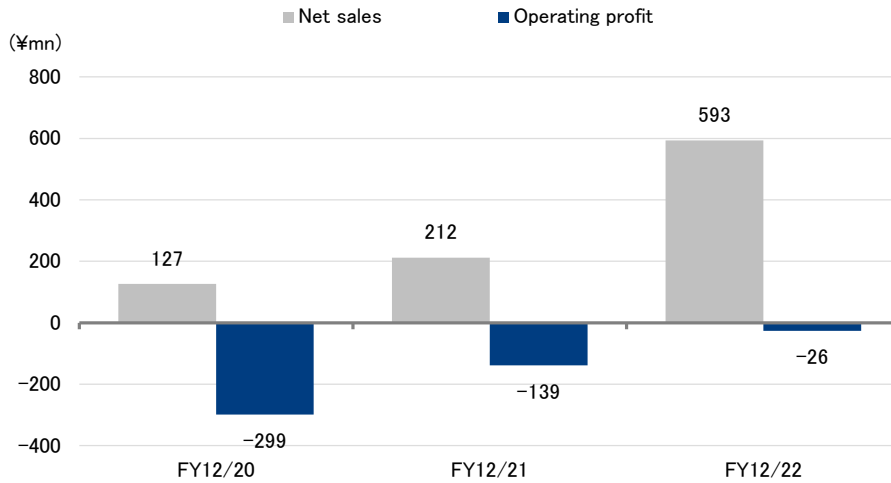
(4) Financial Support business

In the Financial Support business, net sales spiked 180.6% YoY to ¥593mn and operating loss contracted to ¥26mn (¥113mn higher than in the previous fiscal year). With FaaS, which the Company started in November 2020, in addition to the personnel services industry, the range of partnering companies has expanded to the transport industry since the start of 2022, and the increase in the number of users resulted in a rapid increase in the amount of invoices purchased, increasing 207.3% YoY to ¥8.67bn. In terms of profit, in addition to the increase in the amount of invoices purchased, the collection of certain receivables was pushed back to January 2023, resulting in a ¥140mn YoY increase in provisions for doubtful accounts, but these were absorbed by the increase in sales, and the business is on the verge of becoming profitable.

Looking at results on a quarterly basis, in 4Q the number of users increased 43.2% YoY to 3,154 users, while the amount of invoices purchased rose 222.8% to ¥2.97bn, and the average amount of invoice purchases per person rose 109.7% to ¥495,000. The rise in the average amount of invoices purchased was due to the fact that there are cases in the transport industry and other industries in which a responsible person from an organization representing several dozen sole proprietors serves as the point of contact for the service. If this type of use increases, there is a chance that the rise in the average amount of invoices purchased will continue to increase going forward.

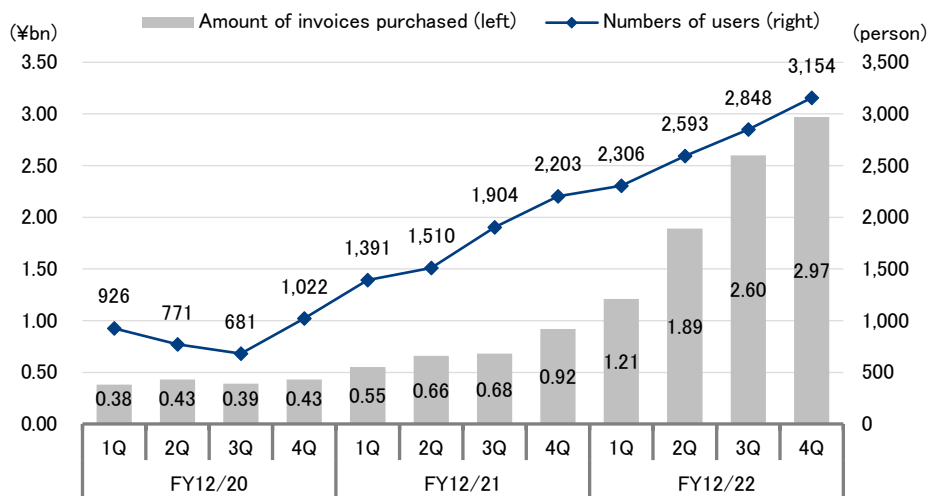
Results trends

Trend in results of the Financial Support business



Source: Prepared by FISCO from the Company's financial results

Trend in amount of invoices purchased and number of users



Source: Prepared by FISCO from the Company's supplementary financial results briefing materials

Results trends

(5) Other

In Other business, net sales decreased 91.7% YoY to ¥2mn and operating loss was ¥42mn (operating loss of ¥12mn in FY12/21). The reason for the decline in net sales was the sale of the Web content production business and the JUGEM blog service in FY12/21. FY12/22 results for the Other business includes new businesses, such as GMO Renshu, the service that enables centralized cloud-based management of contacts and payment collection for out-of-school learning organizations and teams. The Company released GMO Renshu in April 2022, and in October 2022 Kagoshima Rebnise Co., Ltd., which manages the Kashima Rebnise professional basketball team, decided to officially adopt the service, and is using it for the youth team and for schools for students, among other applications. Elsewhere, gradual progress is being made in introducing the service in programming schools and other out-of-school learning organizations, and it is also being used at minne College, the business school launched in December 2022 which helps students learn how to create handmade products.

Financial position is sound even with taking out bank loans in order to respond to the robust demand for funds in the Financial Support business

3. Financial condition

As of the end of FY12/22, total assets were ¥11,435mn, an increase of ¥2,565mn from the end of FY12/21. In terms of the main factors behind this change, under current assets, accounts receivable – other increased by ¥1,470mn, and prepaid expenses increased by ¥1,193mn accompanying the application of the new accounting standard. In addition, under non-current assets, property, plant and equipment rose by ¥224mn, intangible assets increased by ¥181mn, and investment securities decreased by ¥216mn.

Total liabilities were ¥8,746mn, an increase of ¥2,829mn from the end of FY12/21. Under current liabilities, short-term borrowings increased by ¥1,200mn and contract liabilities (advances received at the end of FY12/21) increased by ¥1,626mn due to the application of the new accounting standard. The borrowings were to respond to the increase in demand for funds in the Financial Support business, and the Company is increasing its credit lines from financial institutions in anticipation of further growth going forward. Total net assets were ¥2,689mn, a decline of ¥264mn from the end of FY12/21. While the Company recorded profit attributable to owners of parent of ¥510mn, the decline in total net assets was mainly due to payment of dividends of ¥360mn, the execution of ¥60mn of share buybacks, a ¥167mn decrease in valuation difference on available-for-sale securities, as well as the ¥150mn reduction in retained earnings at the start of the fiscal year in conjunction with the application of the new accounting standard.

Looking at cash flows, net cash used in operating activities was ¥213mn. This was the result of a ¥1,471mn increase in accounts receivable and income taxes paid of ¥292mn, despite the fact that profit before income taxes was ¥771mn and contract liabilities increased by ¥404mn. The growth of the Financial Support business was one reason for the increase in accounts receivable. Net cash flow used in investing activities was ¥510mn, mainly due to purchase of intangible assets of ¥326mn and purchase of property, plant and equipment of ¥169mn. As a result, free cash flow was negative ¥723mn, but net cash provided by financing activities was ¥712mn due to factors including ¥1,200mn in proceeds from borrowings, so cash and cash equivalents at the end of FY12/22 declined ¥11mn YoY to ¥3,609mn.

Results trends

Looking at business indicators, the equity ratio, which indicates business stability, declined from 32.9% at the end of FY12/21 to 23.5%, partly due to the impact of applying the new accounting standard, however cash on hand is ample at over ¥3.0bn, so it can be judged that the Company has maintained financial soundness. With respect to profitability, as discussed above, the deterioration in earnings in the E-commerce Support business resulted in YoY declines in the operating margin, ROA and ROE, but ROE was maintained at a high level of 18.2%. The Company has a hybrid-type earnings structure with a mix of recurring-revenue and non-recurring-revenue-type services, which allows it to have relatively high earnings stability, and going forward it is expected that profitability will increase if its non-recurring-revenue-type services recover. We at FISCO expect that the Company's financial condition will remain sound going forward due to the fact that demand for funds is not particularly high, except for promotion costs and for the Financial Support business.

Simplified balance sheet

	(¥mn)				
	FY12/19	FY12/20	FY12/21	FY12/22	Change
Current assets	4,916	6,648	6,943	9,311	2,367
Cash and deposits*	2,453	3,622	3,620	3,609	-11
Non-current assets	1,455	1,562	1,926	2,124	198
Total asset	6,371	8,211	8,870	11,435	2,565
Current liabilities	4,574	5,640	5,694	8,438	2,744
Non-current liabilities	27	27	222	308	85
Total liabilities	4,601	5,667	5,916	8,746	2,829
(Interest-bearing debt)	-	-	-	1,200	1,200
Total net assets	1,769	2,544	2,953	2,689	-264
(Stability indicators)					
Equity ratio	27.0%	30.6%	32.9%	23.5%	-9.4pt
Current ratio	107.5%	117.9%	121.9%	110.3%	-11.6pt
(Profitability indicators)					
ROE	31.6%	39.2%	26.3%	18.2%	-8.1pt
ROA	13.1%	13.5%	11.3%	7.6%	-3.7pt
Operating margin	8.8%	8.4%	7.5%	7.0%	-0.5pt

* Cash and deposits include deposits paid to subsidiaries and associates

Source: Prepared by FISCO from the Company's financial results

Simplified cash flow statement

	(¥mn)			
	FY12/19	FY12/20	FY12/21	FY12/22
Cash flows from operating activities (a)	698	1,253	669	-213
Cash flows from investing activities (b)	-452	-5	-278	-510
Cash flows from financing activities	-494	-78	-392	712
Free cashflow (a) + (b)	245	1,247	390	-723
Cash and cash equivalents at end of period	2,453	3,622	3,620	3,609

Source: Prepared by FISCO from the Company's financial results

Business outlook

Expecting double-digit growth in operating profit in FY12/23 with the Financial Support business as the driving force

1. Outlook for FY12/23

For the FY12/23 consolidated results, the Company is forecasting net sales of ¥11,064mn (up 5.1% YoY), operating profit of ¥857mn (up 17.1%), ordinary profit of ¥830mn (up 8.3%), and profit attributable to owners of parent of ¥573mn (up 12.4%), as the Company expects profit to increase for the first time in three fiscal years. These forecasts take into consideration the outlook for the market environment, for which the Company expects electricity rate hikes due to soaring energy prices and rising costs such as the cost of manufacturing, as well as an impact on EC sales from the changing consumer trends post-pandemic and the lifting of restrictions on going out. The Company expects the earnings driver to be the Financial Support business in which it expects net sales to increase ¥522mn YoY and operating profit to grow ¥277mn YoY. In the Hosting business, the Company is forecasting an increase in sales and profit as it expects price revisions to absorb the rise in costs, while in the E-commerce Support business the outlook is for a switch to an upturn in profit due to lower promotion costs despite the expected decline in sales. The Handmade Products business is the only business segment for which the Company is expecting a slight decline in both net sales and profit.

In terms of costs, the Company expects overall promotion costs to be on par with the previous fiscal year (forecasting a decline for SUZURI but an increase in other business segments). The Company expects the rate of increase in personnel costs to contract YoY due to its plan to temporarily curb hiring. In terms of the number of new graduate hires in the spring of 2023, the Company greatly reduced the number of hires to four hires, compared to 22 in the previous year, partly due to the introduction of the new graduate annual salary of ¥7.1mn program* for the whole GMO Internet Group. In FY12/22, the Company was forced to revise its earnings downward from the initial forecast, so for FY12/23 it seems that the Company has formulated its forecasts conservatively, especially for the businesses that struggled in the previous fiscal year, and we at FISCO believe that there is a high possibility that the Company will achieve its forecasts as long as the domestic consumption trend does not cool further.

* Under this program, which was introduced starting with the hiring of new graduates in fiscal 2023, the annual salary of new graduates is set at ¥7.1mn, which is the highest level in Japan (guaranteed until their second year within the Group), in order to recruit and hire personnel with advanced and specialized skills, knowledge, and abilities, as well as personnel who can become "future leaders" to lead the growth of the corporate group for a period of 100 years.

Consolidated results outlook for FY12/23

	(¥mn)		
	FY12/22 Results	FY12/23 Forecasts	YoY
Net sales	10,531	11,064	5.1%
Operating profit	732	857	17.1%
Ordinary profit	767	830	8.3%
Profit attributable to owners of parent	510	573	12.4%
Profit per share (¥)	96.37	108.64	

Source: Prepared by FISCO from the Company's financial results

Business outlook

Aiming for earnings growth while implementing price revisions in recurring-revenue-type businesses and developing non-merchandising businesses in the E-commerce Support business

2. Outlook by main business segment

Outlook by business segment

	(¥mn)			
	FY12/22	FY12/23 E	Change	YoY
Net sales				
Hosting	5439	5659	220	4.0%
E-commerce Support	2844	2654	-189	-6.7%
Handmade Products	1650	1630	-19	-1.2%
Financial Support	593	1116	522	87.9%
Operating profit				
Hosting	1891	1933	42	2.2%
E-commerce Support	661	709	47	7.2%
Handmade Products	82	74	-7	-9.0%
Financial Support	-26	251	277	-

Note: From FY12/23 Goope, a website production service, was transferred from the E-commerce Support business to the Hosting business. To make it easier to compare periods, the FY12/22 results for Goope are included in the Hosting business (the estimates are net sales of ¥286mn and operating profit of ¥162mn).

Source: Prepared by FISCO from the Company's financial results briefing materials

(1) Hosting business

In the Hosting business, the Company is expecting net sales of ¥5,659mn (up 4.0% YoY), and operating profit of ¥1,933mn (up 2.2%). With respect to initiatives in each business, Lolipop! made price revisions from February 2023 in response to cost increases accompanying higher electricity rates. Prices were kept unchanged for long-term contracts of 36 months, but prices were revised for all other plans*. The magnitude of the price hikes differs for each plan and by contract period, but on the whole, the magnitude of price increases is larger the shorter the contract term is. The Company is assuming that the price increases will result in more cancellations, mainly for low-cost plans, and that the number of contracts will continue to decline. On the other hand, by focusing on high-speed plans, the Company aims to raise the spending per customer and generate a slight increase in both sales and profits. As sales measures, in addition to continuing to acquire contracts using leading affiliate sites, the Company will strengthen sales promotions targeting corporations and affiliates for website production plans and WordPress paid theme sales.

* In the case of a 12-month contract, the price of the economy plan was revised from ¥132 per month (tax included) to ¥198 per month, the price of the light plan was raised from ¥330 per month to ¥418 per month, the price of the standard plan was raised from ¥660 per month to ¥770 per month, the high-speed plan was increased from ¥825 per month to ¥990 per month, and the price of the enterprise plan was raised from ¥2,200 per month to ¥2,365 per month.

For MuuMuu Domain, the Company will introduce a service maintenance and adjustment expense in order to cover the increase in procurement costs due to the weakness of the yen. Therefore, while there is a possibility of a slight decline in the number of contracts, this should be covered by the increase in spending per customer. In terms of sales initiatives, the Company will focus on acquiring large accounts and corporate demand by selling multiple domains in bundles and expanding domain API provision. Also, the Company plans to continue to strengthen secondary domain distribution through the sale of high-value used domains.

Business outlook

(2) E-commerce Support business

In the E-commerce Support business, the Company forecasts net sales of ¥2,654mn (down 6.7% YoY) and operating profit of ¥709mn (up 7.2%). Within this segment, the Company expects Color Me Shop to have a slight increase in sales and roughly flat profit. With respect to the number of contracts, the Company expects the trend of increasing free plans and declining paid plans to continue, but like the previous fiscal year it expects this to be offset by the increase in spending per customer.

In terms of new initiatives, from January 2023, the Company started providing a premium plan aimed at capturing top-tier customers. This plan is priced at ¥39,600 per month (tax included), approximately four times higher than the large plan (¥9,595) which was previously the highest-level plan. In terms of service features, this plan includes “EC Advisor” which offers analysis and proposals aimed at solving online shop business-related issues, as well as various functions to help maximize sales (member ranking function, advanced sales function, tag management for GTM), and it also has lower credit card payment fees compared to existing plans*. As a result, it allows shops with at least ¥2mn in monthly sales to keep operating costs lower than with their previous plan. Some existing customers have already switched to the premium plan, and the Company expects to be able to attract new large-scale EC shop operators, which is expected to contribute to an increase in spending per customer in FY12/23. Competing services at this price range include MakeShop and Shopify, among others. MakeShop is offered by GMO MakeShop, which is part of the GMO Internet Group, and costs ¥55,000 per month (including tax) under the enterprise plan, and because there are differences in the functions provided, segregation is seen as being possible. In cultivating new customers, the Company will utilize distributors. If the acquisition of new customers proceeds smoothly, there is a possibility that the growth of Color Me Shop will gain momentum, and future trends will be closely watched. In terms of other initiatives, the Company plans to continue to focus on improving shop convenience with Amazon Pay and payment plan changes, as well as on acquiring customers in growth categories such as food e-commerce.

| * The credit card payment fee is from 3.14% for the premium plan, compared to from 4.0% for the standard large plan. |

For SUZURI, the Company expects profit to improve YoY due to the absence of the ¥180mn in TV commercial expenses in the previous fiscal year, despite a continued decline in sales resulting from a decline in gross merchandise value. The Company expects a ¥47mn YoY increase in operating profit in the E-commerce Support business, and with the Company assuming that profit of Color Me Shop will be flat, that means it expects a ¥47mn improvement in profit for SUZURI. The loss was ¥95mn in the previous fiscal year, so the Company is forecasting a small loss to continue. However, considering the fact that the business has turned results around into a small profit from 3Q of the previous fiscal year, this can be seen as a conservative forecast.

As initiatives to engineer a recovery in gross merchandise value, starting from February 2023, the Company is allowing people to use Amazon Pay, the ID payment service provided by Amazon, which will make it easier for Amazon users to purchase SUZURI products, while the Company also began handling digital content. To start off, the Company prepared 11 categories (including illustrations, videos, music, 3-D models, etc.), and will offer a new venue for a wide range of creators (including illustrators, music and video creators, photographers, etc.) to display their talents. For digital content, the Company books 5.6% of the sale amount + ¥22 as commission revenue.

Advantages for creators to sell their digital content on SUZURI include the ability to not only upload their content but also easily sell content, the ability to freely express themselves in a variety of formats (music, videos, photos, etc.), and the ability to create and sell goods along with digital content through one shop. For example, creators can not only sell their own illustrations, but also goods such as T-shirts that use those illustrations. By incorporating digital content, a field which continues to grow, the gross merchandise value of SUZURI can be expected to return to a growth track.

Business outlook

(3) Handmade Products business

In the Handmade Products business, the Company is forecasting net sales of ¥1,630mn (down 1.2% YoY) and operating profit of ¥74mn (down 9.0%). Gross merchandise value is expected to decline by a small amount on a full fiscal year basis, but on a quarterly basis, the Company looks for net sales to turn slightly higher from 2Q onward. In continuation from last year, the outlook is for the average order price to keep trending higher.

In terms of new initiatives, the Company plans to diversify earnings in this business segment. The first initiative is to offer a skill-sharing service. In December 2022, the Company established minne College, a business school where people can learn how to create handmade items either online or offline. The first term began (a two-month session: online instructor course – lesson video) in February 2023*. By enhancing their skills, students can raise the quality of their handmade items and aim to increase sales value. Having creators enhance their skills and bringing in new creators, minne is expected to lead to an increase in gross transaction value.

| * Lesson videos (8 times), in-person lessons (4 times), enrollment fee of ¥11,000 + course tuition of ¥99,000 (tax included). |

The second initiative is for minne to also start handling digital content, and the Company plans to start a service before the end of 2023 that allows registered creators to place advertisements on minne. Partly due to the fact that it is launching these new services, the Company has conservatively set these results forecasts for FY12/23. It seems like it will take a little time for the benefits of these initiatives to emerge, but over the medium term, these will be focused on as efforts that will contribute to growth of minne in gross merchandise value.

(4) Financial Support business

In the Financial Support business, the Company is forecasting net sales of ¥1,116mn, an increase of 87.9% YoY, and operating profit of ¥251mn (compared with operating loss of ¥26mn in FY12/21), as it expects to post a profit for the first time since the service was launched. The Company will aim for a large increase in both net sales and profit by further expanding the scope of partnering companies in industries where demand for FREENANCE can be expected, and by increasing the amount of invoices purchased through trilateral transactions.

In February 2023, the Company formed a business alliance with Emerada Co., Ltd., which provides online financial support services for small and medium-sized enterprises and small-scale business providers. FREENANCE can be used through the platform service provided by Emerada through API linkage. In addition, the Company announced that it is partnering with AIFUL Business Finance Co., Ltd., a subsidiary of AIFUL Corporation <8515> that provides financial services for sole proprietors and small and medium-sized enterprises, and that it had begun providing factoring ASP. AIFUL Business Finance has been providing factoring services for a long time, but it faces the problem of inefficiency in managing invoices from purchase to payment, so in order to solve this problem, it decided to introduce FREENANCE, which boasts an overwhelming share of the factoring market for freelancers and is more complete than its competitors in terms of functionality. Going forward, FREENANCE is expected to continue to see strong growth based on this type of expansion of partnering companies.

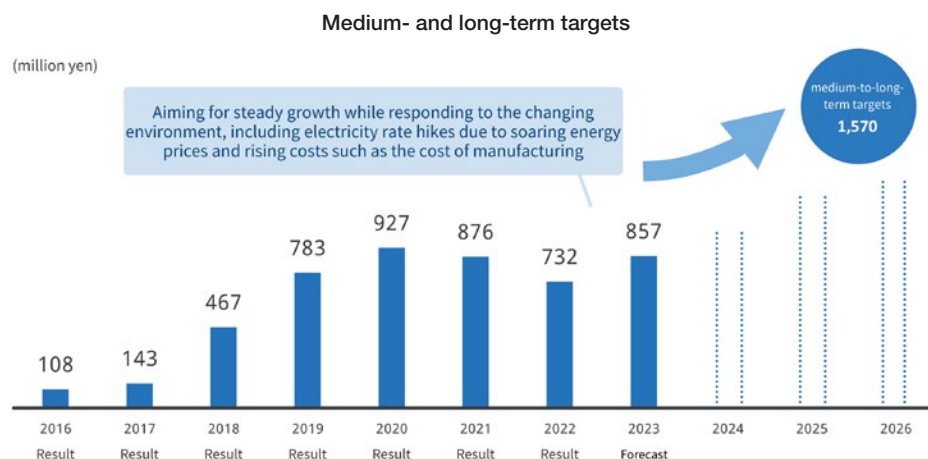
The Company will also focus on acquiring paid membership plan* subscriptions for freelancers. Becoming a paid member offers advantages including a wider coverage of compensation (in addition to a maximum compensation of ¥50mn there is an added business error compensation of up to ¥5mn) as well as lower credit card payment usage fees. By accumulating monthly billing revenue, the Company is aiming to not only grow this business but also to make it a more stable business. The freelance market is expected to continue to expand going forward, and the Financial Support business, which mainly targets this market, is seen as having entered a full-fledged growth stage and is expected to be a driver of consolidated results from FY12/23 onward.

| * The monthly price is ¥590 (tax included) for the regular plan, and ¥1,200 (tax included) for the premium plan. |

Aiming for sustainable increases in earnings with both stable growth in recurring-revenue-type businesses and expansion of non-recurring-revenue-type businesses

3. Future growth strategy

As its future growth strategy, the Company has formulated a strategy that aims to both steadily expand earnings in recurring-revenue-type businesses, as well as develop non-recurring-revenue-type businesses, and thereby build a balanced earnings portfolio and achieve sustainable earnings growth. As a numerical management target, the Company had previously been targeting operating profit of ¥2.5bn by FY12/25, but it has since revised this target in light of the changes in the external environment, including changes in consumption trends due to the ending of stay-at-home demand and rising costs due to soaring energy prices. The Company has not cleared the Tokyo Stock Exchange Prime Market’s listing continuation standard of tradable market capitalization of ¥10bn, so the Company submitted a plan to conform with the listing continuation standards to the Tokyo Stock Exchange in February 2023. As a part of this, the Company has announced its specific initiatives aimed at achieving both its numerical management target as well as its plans.



Source: From Company's plan to conform with listing continuation standards

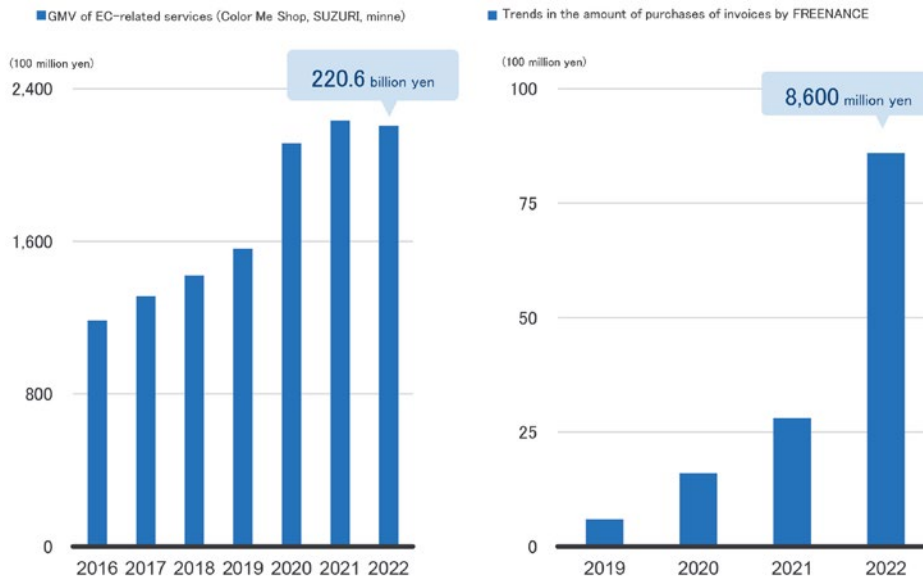
In recurring-revenue-type businesses such as Lolipop!, MuuMuu Domain and Color Me Shop, in order to strive for even more stable and strong earnings, the Company will focus on acquiring top-tier business from excellent customers and acquiring corporate customers, and aim for stable growth by increasing the number of premium plan contracts and raising the average spending per customer. For Lolipop! and MuuMuu Domain, the Company will work to acquire subscriptions utilizing affiliates, provide high-quality services for business use, as well as provide highly versatile services with a low bar to entry. For Color Me Shop, the Company will focus on providing plans to accompany the expansion of existing store sizes and acquiring premium plan customers, targeting stores with at least ¥2mn in monthly sales.

Business outlook

Within the non-recurring-revenue-type businesses, for SUZURI and minne, the Company will work to grow gross merchandise value by strengthening categories with robust demand and promoting cross-border sales, expanding business into business areas such as minne College and digital content, and thereby acquire and develop new authors and creators to further energize the platform. With respect to FREENANCE, the Company's strategy is to build a stable earnings base by working to acquire customers in industries with high usage rates via alliance strategies, as well as by gaining paid membership customers by enhancing and increasing the convenience of ancillary services such as monthly payment plans and insurance plans.

The FY12/22 gross merchandise value for EC-related services (Color Me Shop, SUZURI, minne) declined YoY, but it was 1.4 times that of 2019, so from a medium- to long-term perspective there is no change to the view that growth will continue. Based on the above, the Company's earnings are expected to grow going forward, based on growth in both recurring-revenue-type businesses and non-recurring-revenue-type businesses.

Non-recurring-revenue-type businesses



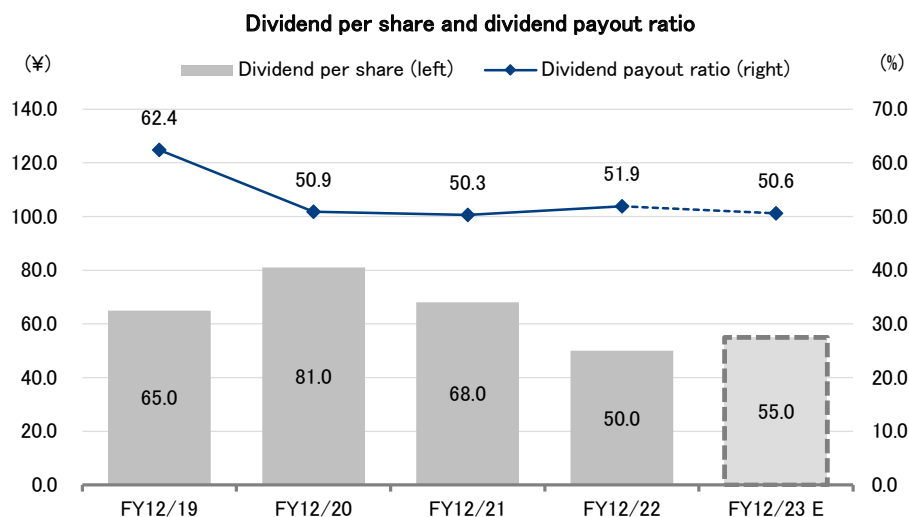
Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

Paid out dividends based on a dividend payout ratio of 50.0% and introduced a shareholder benefits program

The Company has announced a dividend policy of paying performance-linked dividends based on a consolidated dividend payout ratio of 50.0%. Based on the same policy, for FY12/23, the Company plans to pay a dividend per share of ¥55.0, an increase of ¥5.0 YoY (consolidated dividend payout ratio: 50.6%) which will be the first dividend increase in three fiscal periods.

In addition, the Company has introduced a shareholder benefits program. For shareholders holding 100 or more shares (the record dates for dividends fall at the end of June and December), the Company mainly grants points and coupons that can be used for its Internet services (granting of points and coupons worth ¥1,500 or ¥3,000). The annual investment yield per trading unit, including shareholder benefits (points or coupons granted by the Company), was estimated as 4.6% based on the Company's closing share price on February 20, 2023 (¥1,830).



Note: A two-for-one stock split of common shares was conducted on April 1, 2019. Figures have been retrospectively adjusted.

Source: Prepared by FISCO from the Company's financial results

Description of shareholder benefits

- Granting of points or coupons (points or coupons worth ¥1,500 for holding 100 to less than 200 shares; points or coupons worth ¥3,000 for holding 200 or more shares)
Shareholders may select one of the following: Osaipo! Points, GMO Points or minne Coupons
Points or coupons can be used for the Company's Internet services, etc.
- Cashback on buying commission fees for purchases of shares in the Company (100 or more shares)
Buying commission fees at GMO CLICK Securities are eligible for cashback, with no upper limit
- Cashback on trading commission fees (Up to ¥1,500 for shareholders holding 100 to less than 200 shares; Up to ¥3,000 for shareholders holding 200 shares or more)
Trading commission fees at GMO CLICK Securities are eligible for cashback.

Source: Prepared by FISCO from the Company's web page

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

The intellectual property rights, including the copyrights to the main text hereof, the data and the like, belong to FISCO, and any revision, reprocessing, reproduction, transmission, distribution or the like of this report and any duplicate hereof without the permission of FISCO is strictly prohibited.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp