Financial results briefing for the 2Q of FY2017 (January 1, 2017-March 31, 2017)

Incident report and business results for the current fiscal period

May 1, 2017

GMO Payment Gateway, Inc.
(3769: Tokyo Stock Exchange section-1)

The 49th IR Meeting

GMO PAYMENT GATEWAY

https://corp.gmo-pg.com/en/

A Cautionary Note About the Contents of this Document

The contents of this document are based on generally recognized economic and social conditions, as well as premises judged to be reasonable by GMO Payment Gateway as of May 1, 2017.

However, please note that they are subject to change without prior notice in the event of changes in the business environment or other unforeseen occurrences.

Agenda

1. Information leak incident due to unauthorized access
2. Summary of financial results for 2Q FY2017
3. Business environment and segments progress
4. Financial highlights
5. Reference materials

1. Information leak incident due to unauthorized access

1.1 Incident facts

Information Leak Due to Unauthorized Access happened between March 8 and March 9, 2017

■Facts

We detected between March 8,2017 and March 9,2017 that an unauthorized access had exploited the vulnerability of application frame work, Apache Struts2. It became clear that Tokyo Metropolitan Government credit card payment site for metropolitan tax and the credit card payment site for group life insurance rider of the Japan Housing Finance Agency were affected entailing the leak of personal information.

■The number of “units” of information leaked

（Numerical value is a numerical value that corresponds to each “unit”, it does not relate to the total number of “units” affected by the incident.）

・” Tokyo Metropolitan Government credit card payment site for metropolitan tax”

1. Credit card numbers, expiration dates	364,181
2. In addition to 1, Email Address	262,049

・” Credit card payment site for group life insurance rider of the Japan Housing Finance Agency”

1. Credit card numbers, expiration dates	40,872
2. Security code (*)	31,124
3. Email Address (*)	28,552
4. Address	39,085
5. Phone number	37,380
6. Name, dates of birth	36,377

(*) Regarding security code and Email Address, clients who applied for credit card payment on the “credit card payment site for group life insurance rider of the Japan Housing Finance Agency” were affected.
Since information on security codes and emails is not required upon submitting the paper application, the number is less than the number of credit card numbers.

1.2 Recurrence prevention measurements

Establishment of “Recurrence Prevention Committee” on March 14, announcement of Investigation Report on May 1, 2017

■ Objectives of Recurrence Prevention Committee

Inspect the fact situation of the incident.

Inspect the factors of the incident.

Recommend of recurrence prevention measures.

■ Inspection period

Established on March 14, 2017, committee meeting had been conducted for a total of 8 times from the same day until April 30, 2017.

■ Recurrence prevention measures

*Please refer to “Investigation Report on Information Leak Due to Unauthorized Access” Ⅶ for details.

Technical prevention measures (Short term measures and Medium- and long-term measures)

Prevention measures related to information security management

Prevention measures related to overall risk governance system and corporate culture

Implementation of recurrence prevention measures

We implemented the following prevention measures by April 14, 2017

- Short-term technical prevention measures
- Reconsideration of procedures for security incident reporting
- Revision of guidelines regarding system development process

In addition, as efforts to relaunch the Metropolitan Tax Payment Site and to prevent recurrence, the Company conducted PCI DSS assessment by PCF on the Metropolitan Tax Payment Site and the Insurance Rider Payment Site. As a result, it was confirmed that they satisfy the PCI DSS requirements as of April 14, 2017 (Metropolitan Tax Payment site relaunched from April 24).

1.3 Impact on financial results

1H results based on reasonable estimation as of now

■ Extraordinary expense : ▲270 Million Yen

・Information security countermeasure cost

Information security measures cost, as payments required for sending letters of apology to our customers, handling of inquiries and investigations into unauthorized accesses as well as information leakage (18 million yen on expenditures for information security measures and 251 million yen on provision for information security measures) .

■ Extraordinary income : +160 Million Yen

・Insurance reimbursement

■ Total : ▲110 Million Yen

* We will be recognizing occurrence of expenditures relating to reissuance of credit cards and fraudulent uses of credit cards when we receive bills from operating bodies of the above two websites, which they will be doing when various credit card issuers bill the said expenditures to those operating bodies. Therefore while the likelihood of occurrences of those expenditures is considerably high, we cannot directly ascertain the status of such occurrences. We are working closely together with various credit card companies, but occurrence of the said expenditures have not been recognized as at the end of the cumulative second quarter of this consolidated fiscal year, and as we are also unable to reasonably estimate the probability of future occurrence, we have not recognized expenditures relating to credit card reissuance and fraudulent use of credit cards in the cumulative second quarter of this consolidated fiscal year. Since those costs are expected to be eligible for insurance reimbursement to a certain extent, their impact on the profit and loss of the company is believed to be negligible even if those are to take place.

2. Summary of financial results for 1H and Performance Forecast for FY2017

2.1 Summary

Sales up 19.1% over forecast, net income down 23.1% over forecast because of the impact of income taxes

(Million yen)	1H of FY2016	1H of FY2017				2Q of FY2016	2Q of FY2017	
	Actual	Forecast	Actual	A/F%	Change%	Actual	Actual	Change%
Sales	**5,730**	**8,389**	**9,992**	**+19.1**	**+74.4**	2,997	**5,645**	**+88.3**
Gross income	**4,432**		**7,069**		**+59.5**	2,314	**3,832**	**+65.5**
Operating income	**1,879**	**2,499**	**2,536**	**+1.5**	**+35.0**	1,008	**1,335**	**+32.4**
Ordinary income	**1,918**	**2,351**	**2,370**	**+0.8**	**+23.5**	994	**1,260**	**+26.8**
Net income	**1,151**	**1,409**	**1,084**	**- 23.1**	**-5.9**	554	**487**	**-12.2**

	Number of operating stores (end of period)	Amount of processed payments (2Q estimate)	Number of processed payments (2Q estimate)
KPI	**85,123**	**Approx. 620 Billion Yen**	**Approx. 621 Million**

■ Key points

1. Sale : +74.4% (YoY), +19.1% over forecast ・・・see 2.3

   Payment processing business : Proactive business expansion (increase in the number of processed payments and in the amount of processed payments, cultivation of major merchants), and FG consolidation effect

   MSB : Acquisition of large merchants by GMO-PS

   Payment enhancement business: Business expansion by MACROKIOSK

2. Net income : -5.9% (YoY), -23.1% over forecast ・・・see 2.4

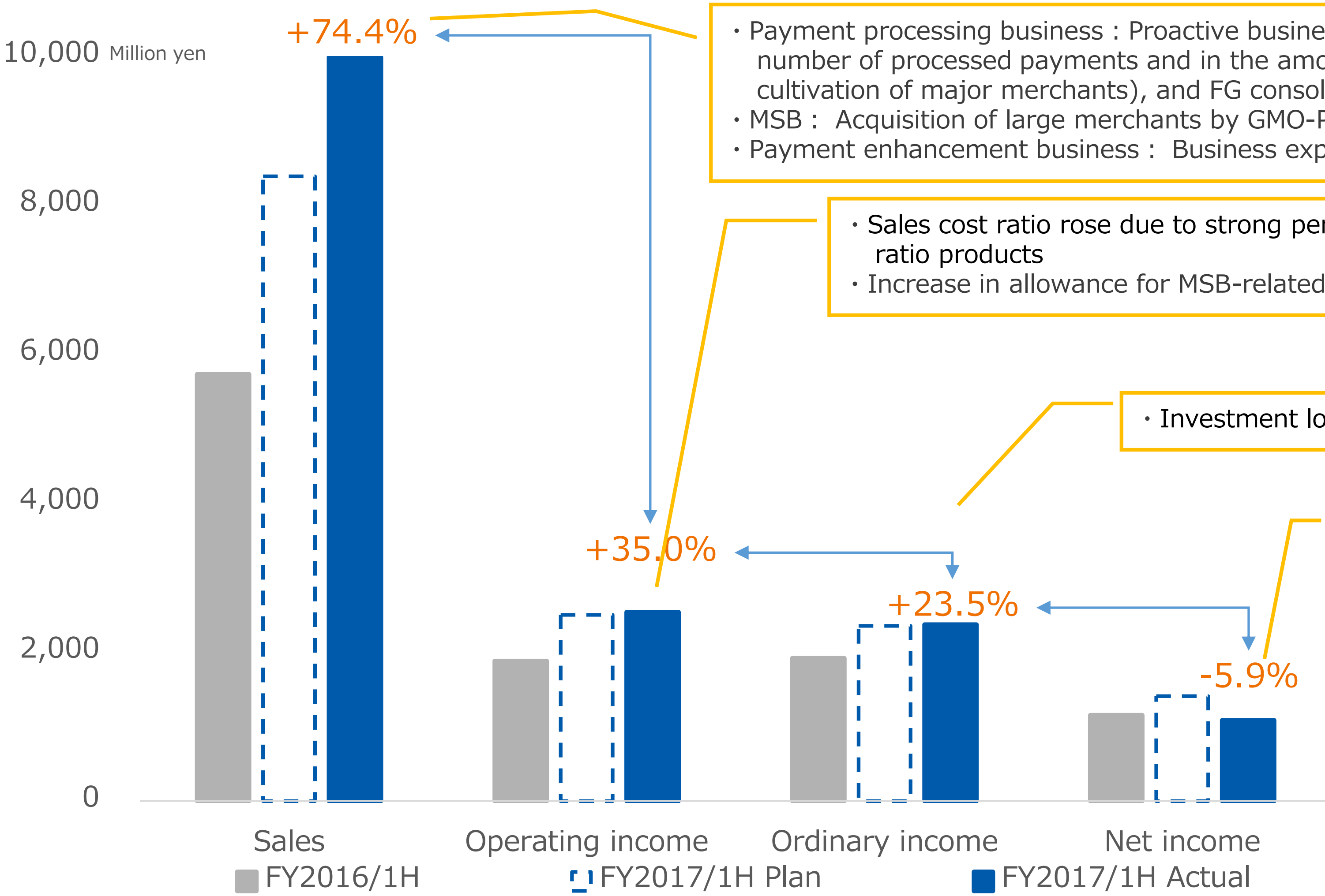
   Extraordinary income and loss affected by the information leak incident

   Not to recognize deferred tax asset on these temporary differences resulted in higher tax burden ratio from income taxes (PS related)

*FG: GMO Financial Gate/GCS
PS: GMO Payment Service

2.2 Summary

Sales up 74.4% , net income down 5.9% because of the impact of income taxes



- Payment processing business : Proactive business expansion (increase in the number of processed payments and in the amount of processed payments, cultivation of major merchants), and FG consolidation effect
- MSB : Acquisition of large merchants by GMO-PS
- Payment enhancement business : Business expansion by MACROKIOSK

- Sales cost ratio rose due to strong performance in high sales cost ratio products
- Increase in allowance for MSB-related credit risk

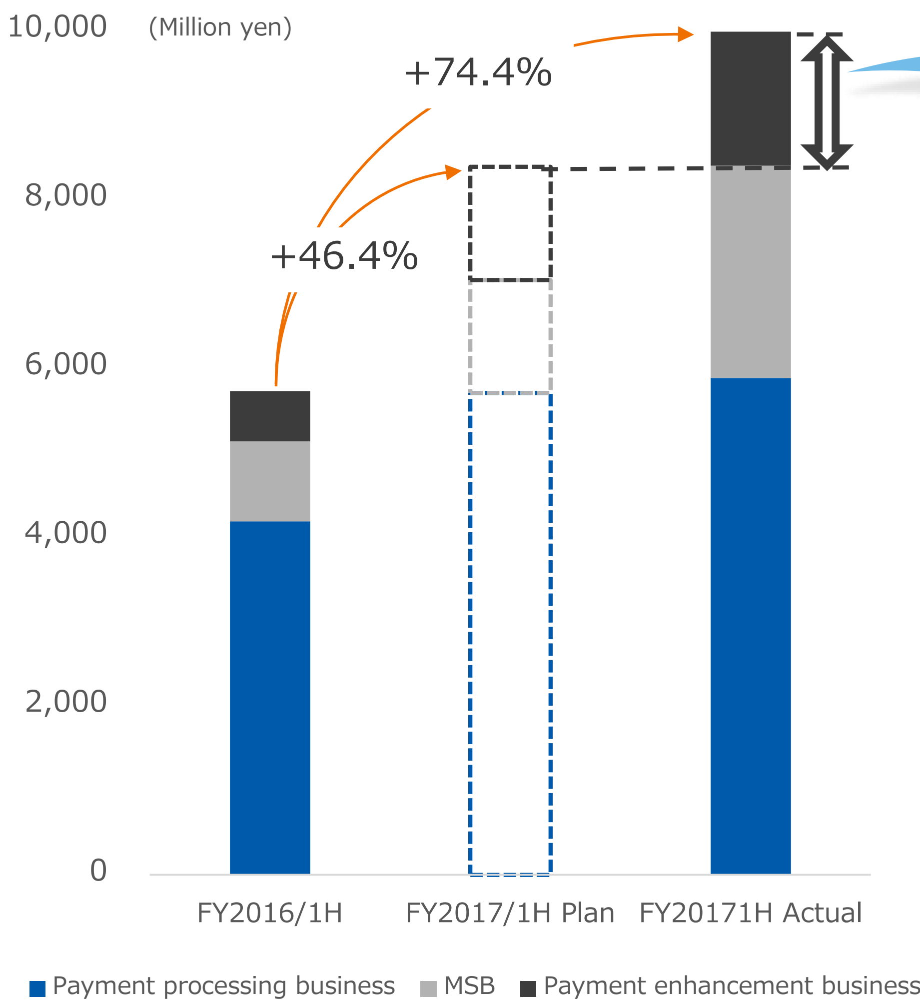
- Investment loss from the equity method

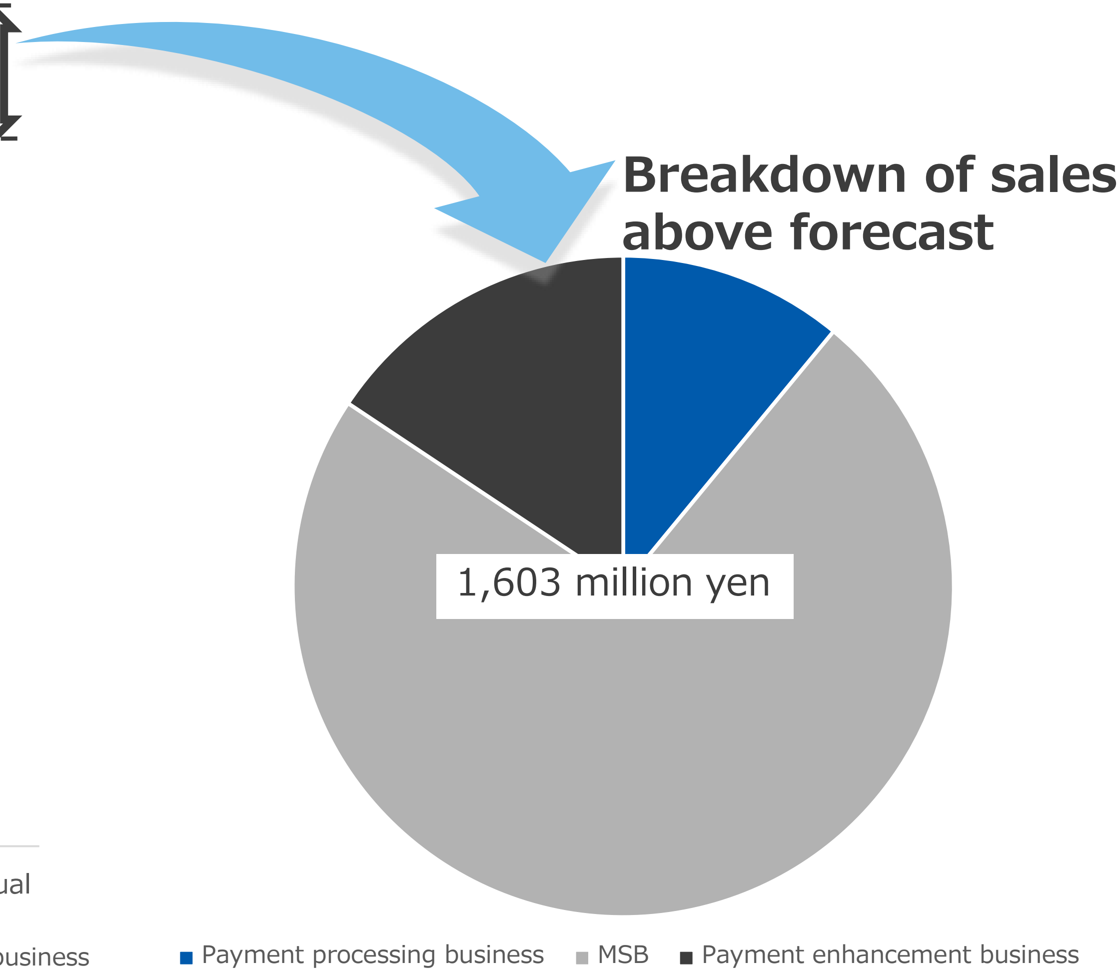
- Extraordinary income and loss affected by the information leak incident
- Not to recognize deferred tax asset on these temporary differences resulted in higher tax burden ratio from income taxes (PS related)

*FG: GMO Financial Gate/GCS
PS: GMO Payment Service

2.3 Summary: Sales

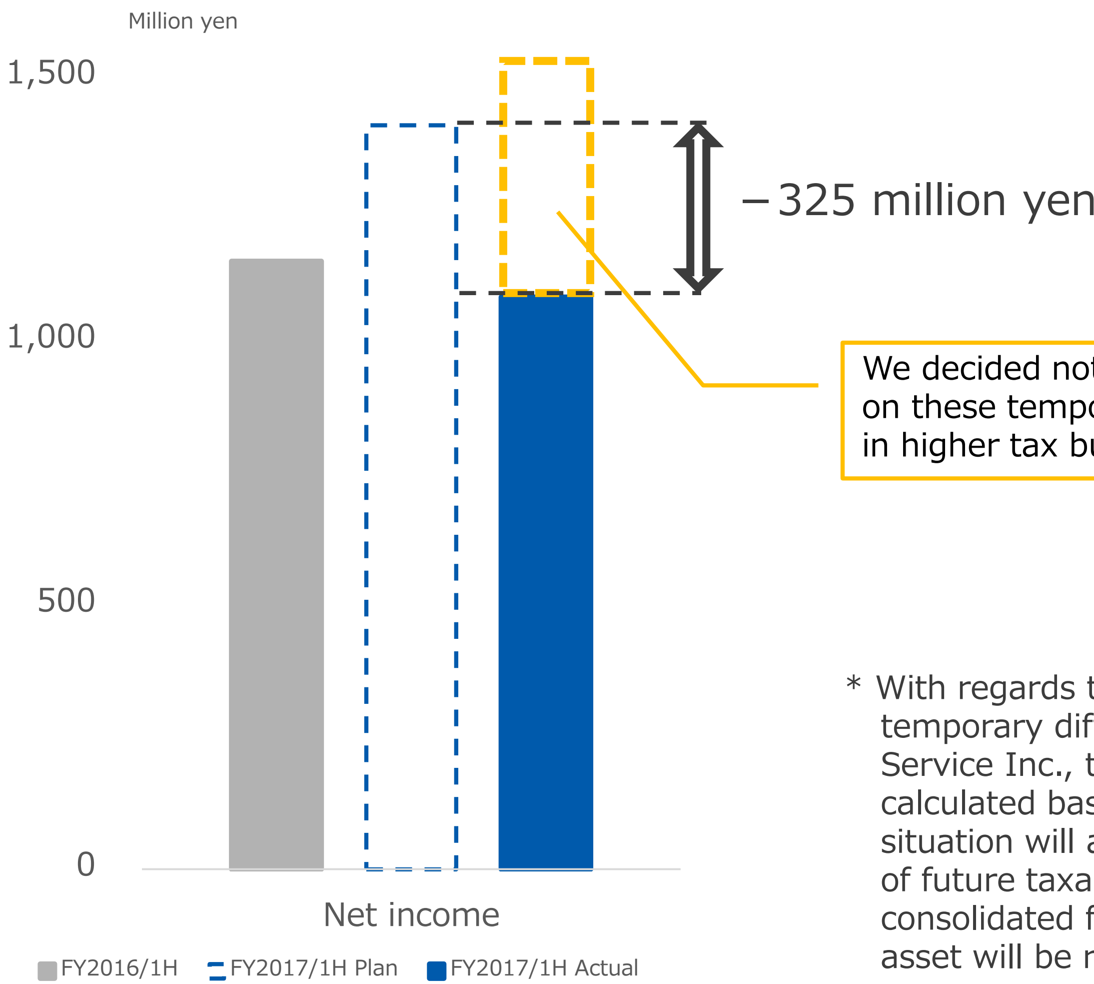
Consolidated sales increased by 1,603 million yen against the initial budget





2.4 Summary: Net income

Higher tax burden ratio from income taxes



We decided not to recognize deferred tax asset on these temporary differences, which resulted in higher tax burden ratio from income taxes

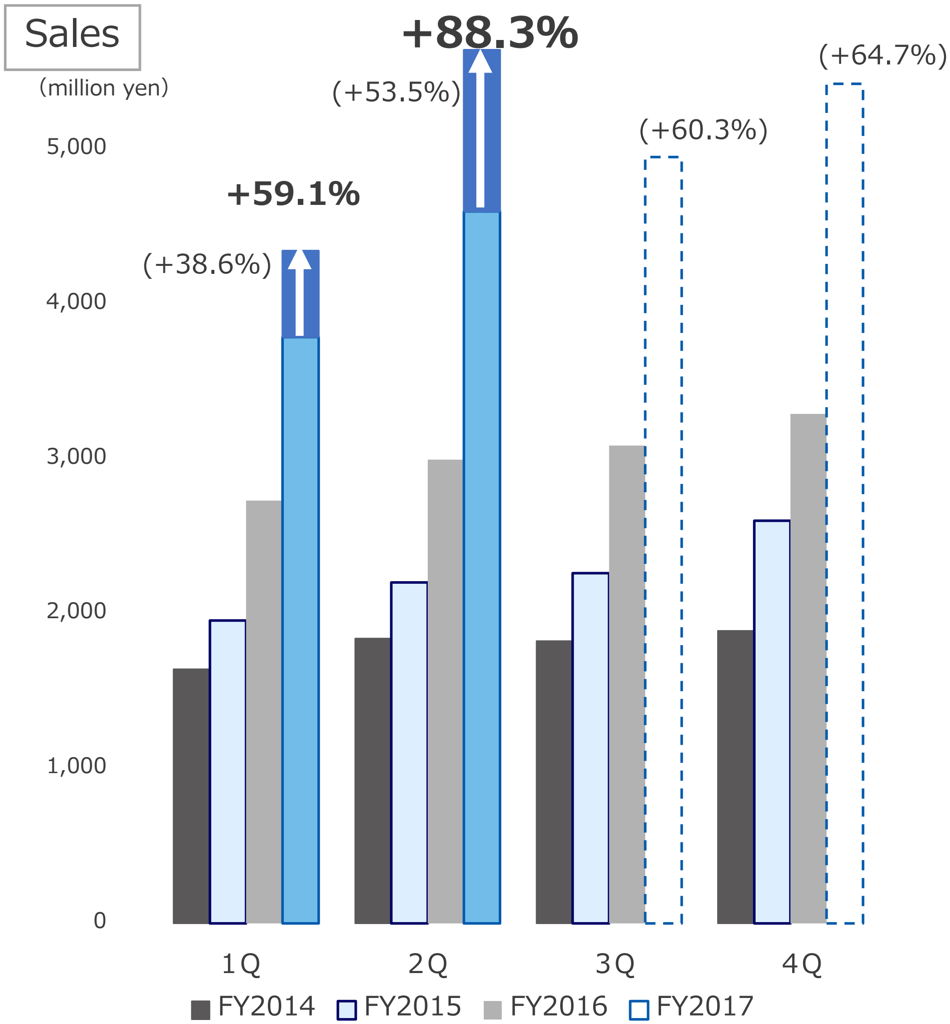
* With regards to deferred tax asset relating to temporary differences at GMO Payment Service Inc., the earnings forecast has been calculated based on an assumption that the situation will allow for reasonable estimation of future taxable income by the end of this consolidated fiscal year, so that deferred tax asset will be recognized then.

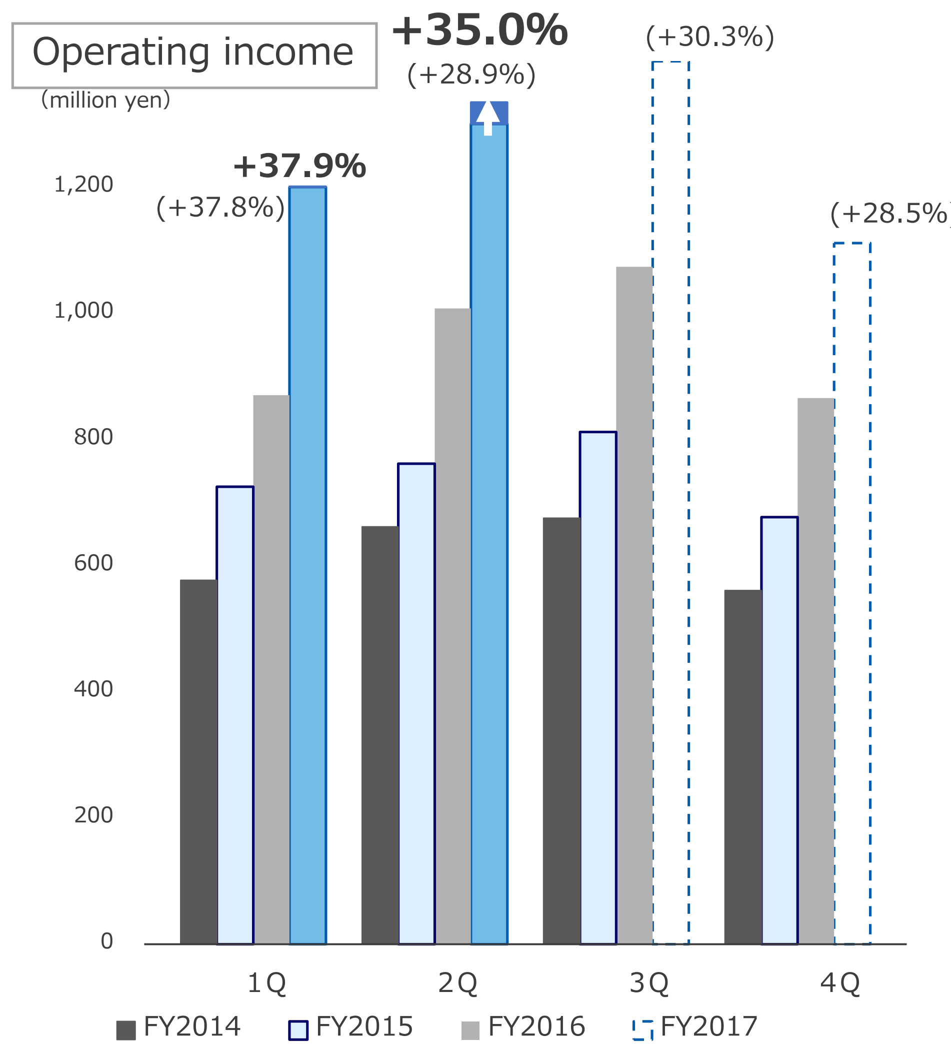
2.5 Quarterly forecasts and actual results

Sales up over the forecast, OP as planned

(%) :percentage change compared to the initial plan for H1 FY2017

■ FY2017 Forecast (consolidated)



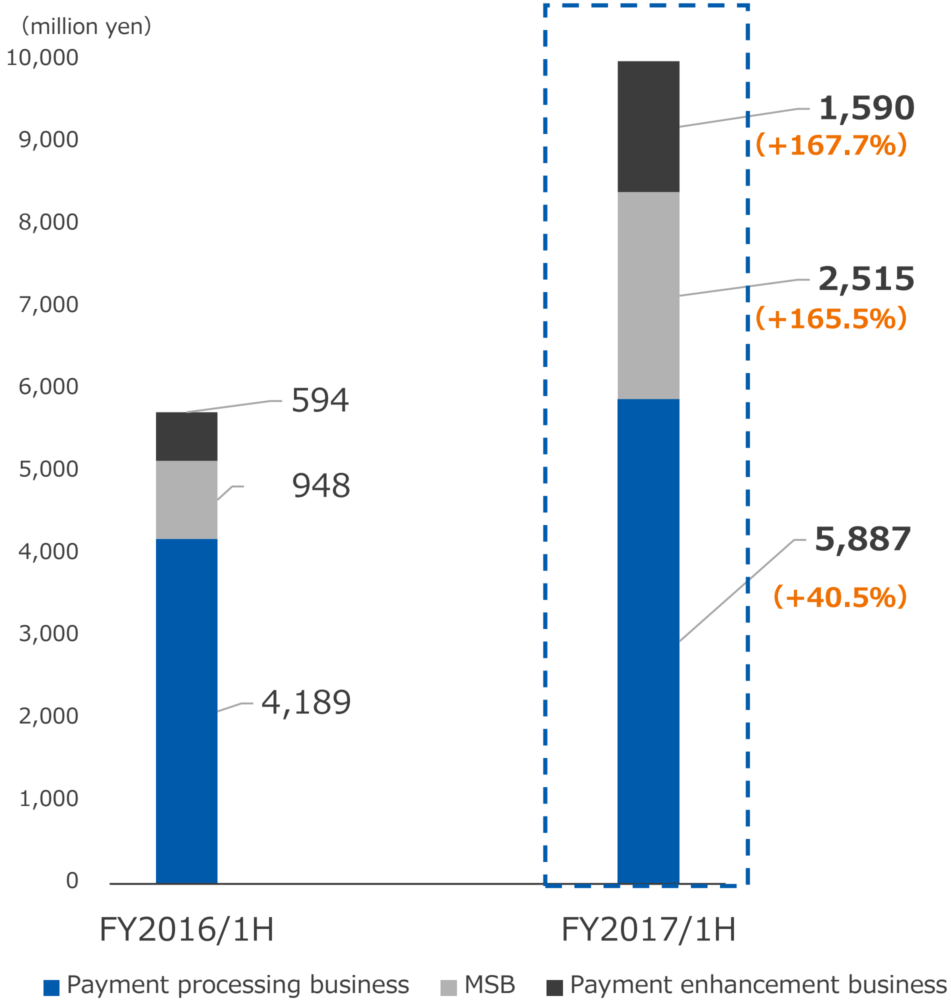


2.6 Sales/Operating Income by segment

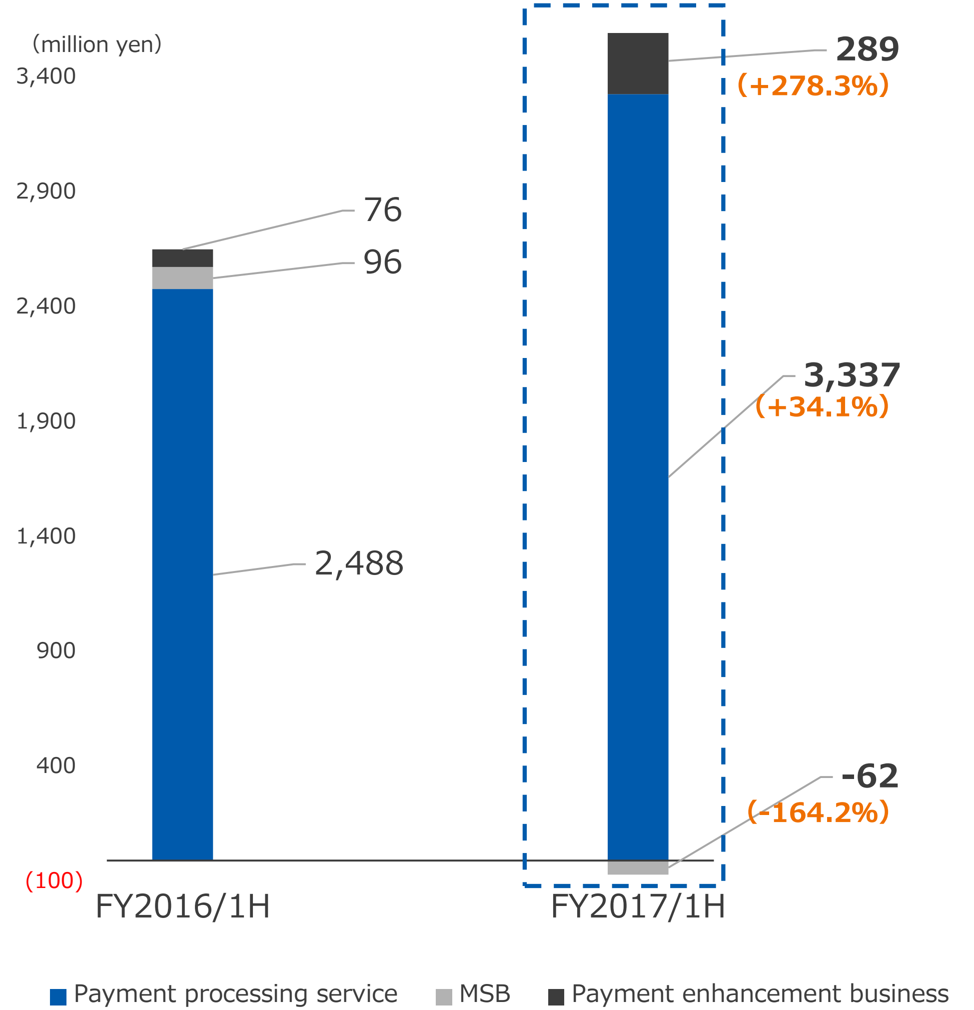
Significant increase in sales in all segments; OP of payment processing business up 34%

＊（%）：YoY

■Sales by segment

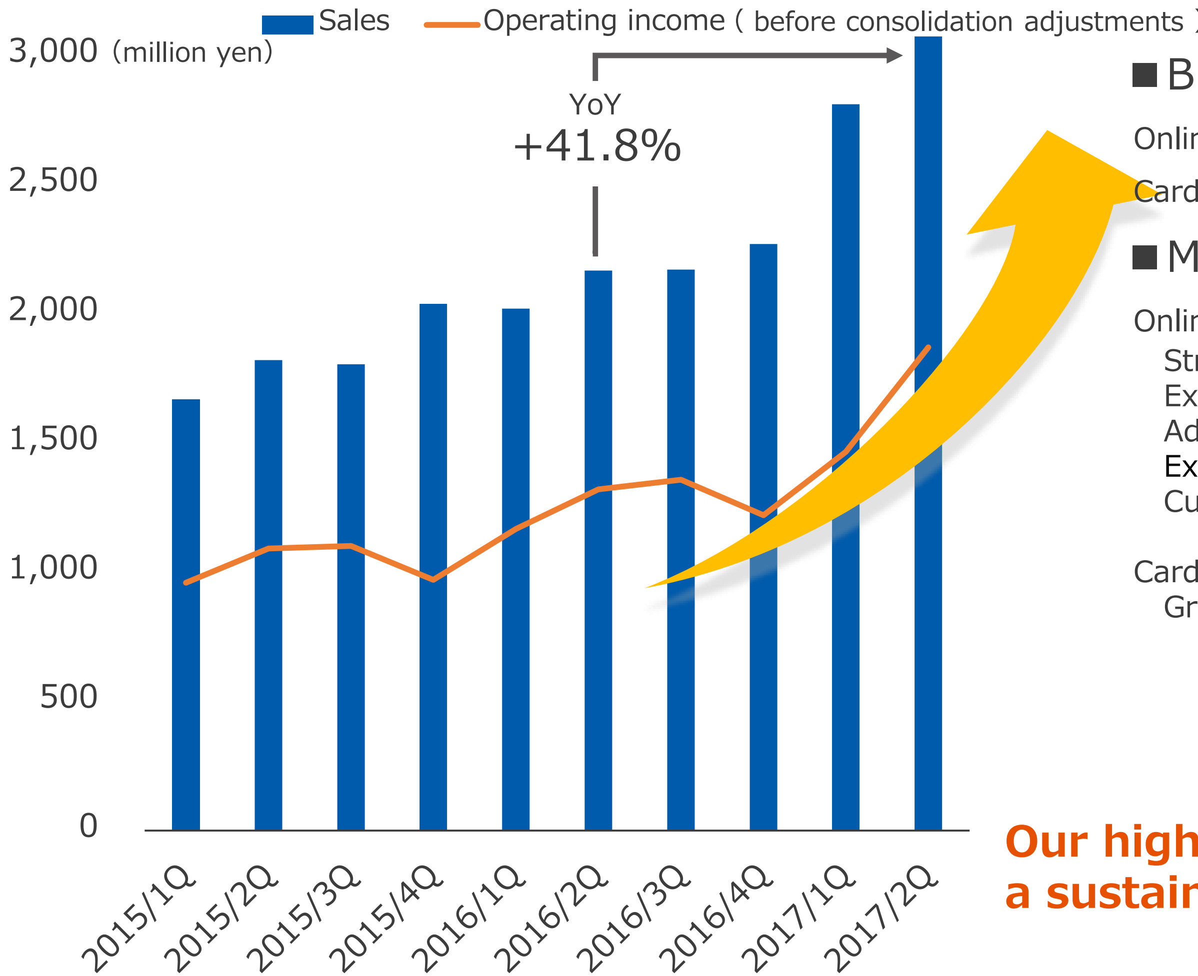


■ OP by segment（before consolidation adjustments）



2.7 Payment processing business

Income growth accelerated by increasing the number/amount of processed payments, and by acquiring large-scale merchants



■ Business environment

Online : Expansion of e-commerce market

Card-present market : Acceleration of cashless payments

■ Measures to accelerate growth

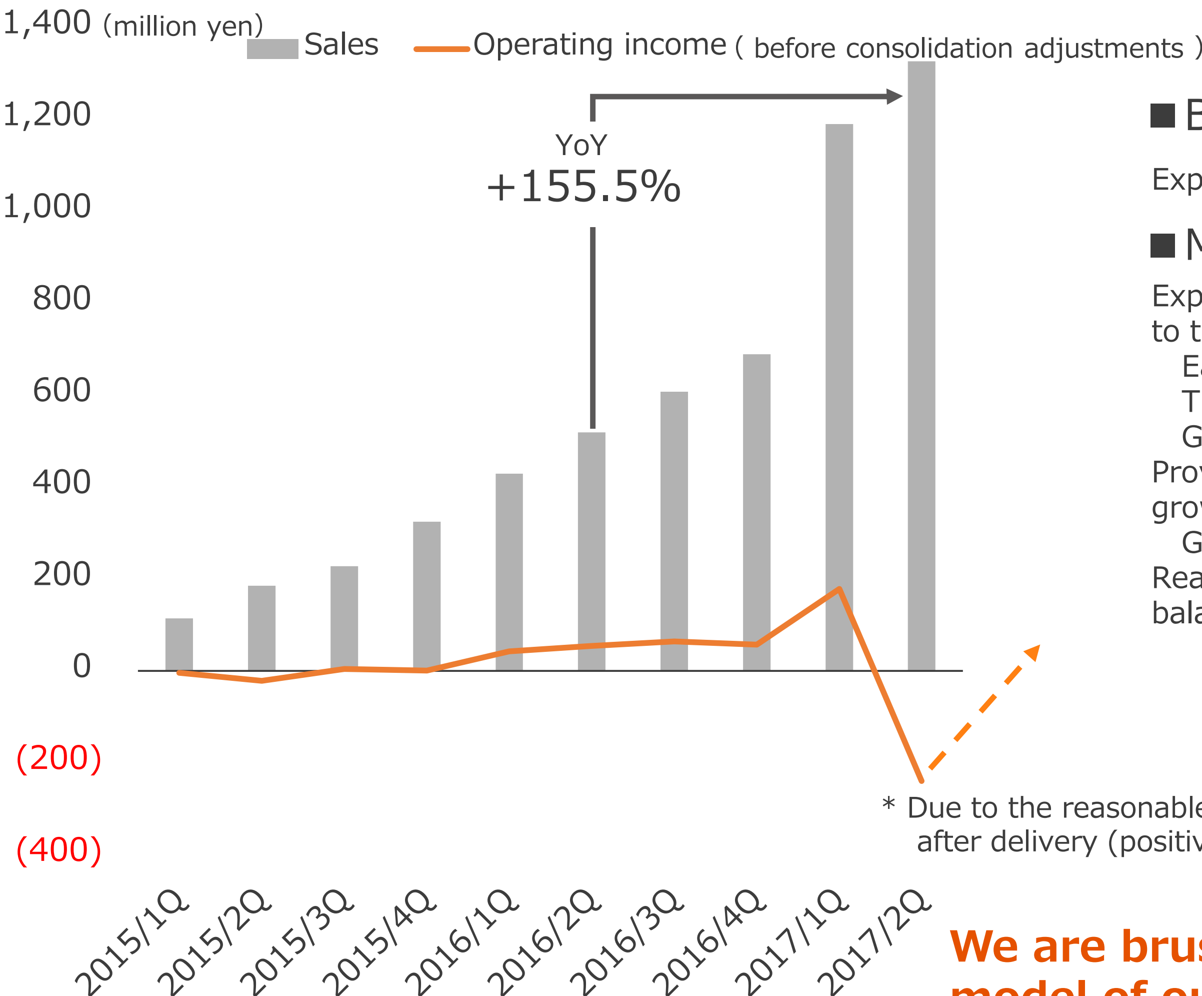
Online
- Strengthen our "ecosystem model"
- Expanding online payment areas other than e-commerce
- Adding various payment solutions
- Expanding businesses for financial institutions
- Cultivating B2B sector

Card-present market
- Growing sector (Smartphone/IoT/Inbound)

Our high profitable core business entered a sustainable growth trend

2.8 MSB

Acceleration toward positive turnaround despite the operating loss in 2Q



■ **Business environment**

Expansion of FinTech services

■ **Measures to accelerate growth**

Expanding value-added services that contribute to the growth of our merchants
- Early payment service
- Transaction lending
- GMO payment after delivery

Providing services to support the business model of growing companies
- GMO-PG Remittance Service

Reasonable risk-taking with consideration of the balance

* Due to the reasonable accounting treatment of GMO payment after delivery (positive turnaround is expected during FY2017)

We are brushing up the credit examination model of our payment after delivery service

2.9 Payment enhancement business

Consolidation of MACROKIOSK started

■ Business environment

Global market :
- Asian e-commerce market moves to the stage of expansion

Online advertising service :
- Expansion of online advertising market

■ Measures to accelerate growth

Global market
- Consolidation of MACROKIOSK
- Expanding online banking in Malaysia
- Cultivating large-scale merchants in Asia

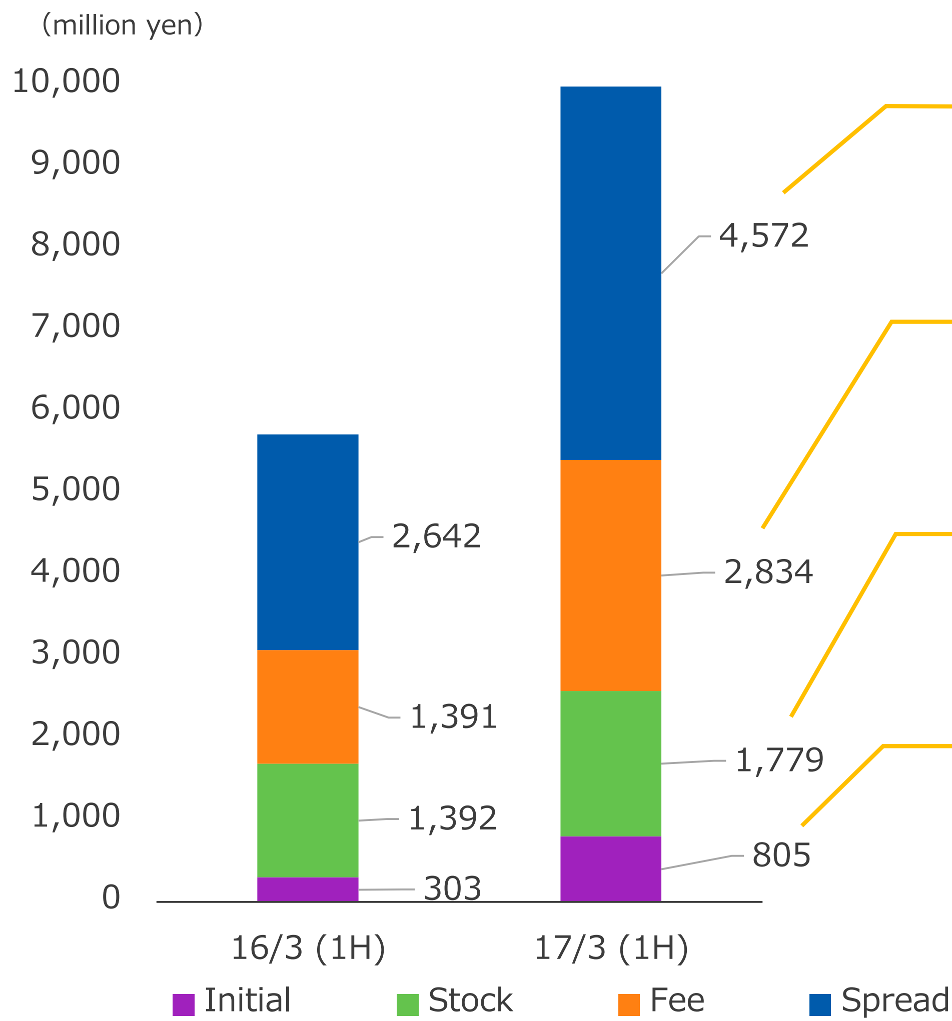
Online advertising service
- Online advertising operations based on the analysis of payments processing data
- Our ecosystem model (increasing the payment amount)

Our payment-related services, including global business, are proactively contributing to expansion of e-commerce and payment market

MK : MACROKIOSK

2.10 Revenue breakdown by business model

Initial revenue +165.6%、Fee revenue +103.6%、Spread revenue +73%



Spread: YoY+73.0%
- MSB (GMO payment after delivery) has expanded*
- The amount of processed payments has increased

Fee: YoY+103.6%
- Consolidation of MK

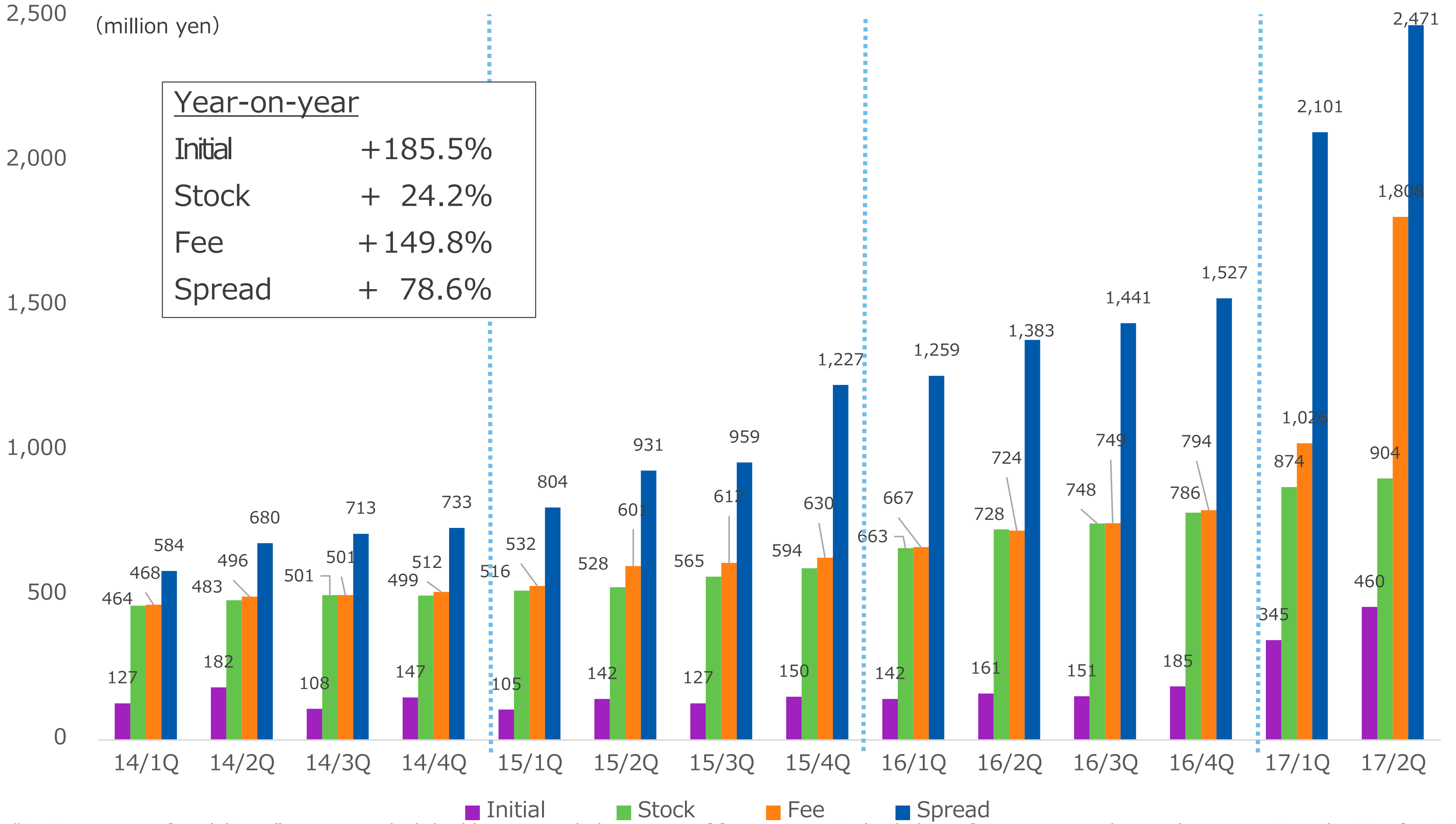
Stock: YoY+27.8%
- Expansion of business with large-scale merchants (banks, etc.)
- Online Advertising Service has been in good shape

Initial: YoY+165.6%
- Orders and sales of system development
- Cultivating major or high growth merchants
- Sales of POS terminals (GMO-FG)

- "GMO payment after delivery" revenue, which had been recorded as a part of fee revenue, is divided into fee revenue and spread revenue since the 2Q of FY2017

2.11 Revenue breakdown（Quarterly）

Significant sales increase in all business model



	Initial	Stock	Fee	Spread
14/1Q	127	464	468	584
14/2Q	182	483	496	680
14/3Q	108	501	501	713
14/4Q	147	499	512	733
15/1Q	105	516	532	804
15/2Q	142	528	601	931
15/3Q	127	565	612	959
15/4Q	150	594	630	1,227
16/1Q	142	663	667	1,259
16/2Q	161	728	724	1,383
16/3Q	151	748	749	1,441
16/4Q	185	786	794	1,527
17/1Q	345	874	1,026	2,101
17/2Q	460	904	1,808	2,471

- “GMO payment after delivery” revenue, which had been recorded as a part of fee revenue, is divided into fee revenue and spread revenue since the 2Q of FY2017

2.12 Full year forecast

Revised the forecast based on 1H financial results

■ FY2017

(Million yen, % YoY)

	Sales	Operating income	Ordinary income	Net income	EBITDA
Full year	**20,370(68.2%)**	**5,013 (31.2%)**	**4,673 (23.6%)**	**2,762 (-5.1%)**	**5,811 (38.7%)**
(before revision)	18,767(54.9%)	deferred	deferred	deferred	deferred
Dividends forecast	**¥37.0 (+10.0)**				

＊ EBITDA＝Operating income ＋ Depreciation ＋ Amortization of goodwill

■ Points

- **Sales**
  - ・Only sales above 1H forecast affects the full year sales forecast (forecast for 3Q and 2Q is deferred)
  - ・Consolidate the income statement of MACROKIOSK from the 2Q FY2017.
  - ・The part of “GMO payment after delivery” launched on 11/1 last year is not included in the forecast.
- **SG&A**
  - ・Goodwill amortization due to the increase in group companies（total of ¥230 million)
- **Non-operating expenses**
  - ・Goodwill amortization from equity-method affiliate is expected (About ¥160 million)
- **Deferred tax assets of GMO-PS related to the temporary difference is assumed to be recorded at the end of FY2017**

3. Business environment and segments progress

3.1 Industry topics

Our position regarding recent issues

■ Domestic B2C e-commerce market in 2016 is 15.1trillion yen（+9.9% compared to 2015）

The EC ratio : 5.43%（+0.68p compared to 2015）

・We are realizing the growth beyond the market by strengthening our ecosystem model.

■ From the ownership to the real use: expansion of the “Subscription model” and support of billing services

・We took the business opportunity as the first Japanese payment partner for Zuora’s subscription business platform.

・We have been supporting the growth of leading-edge companies related to new services.

■ Impact on the e-commerce industry

「Yamato Transport terminated delivery contracts with some mail order companies」「Sales in major e-commerce malls」「Unauthorized access」

・Our revenue has been growing steadily regardless fluctuations in the e-commerce market.

・We have been cultivating B2B market, services for financials institutions, recurring payments, service commerce, and other new services and sectors.

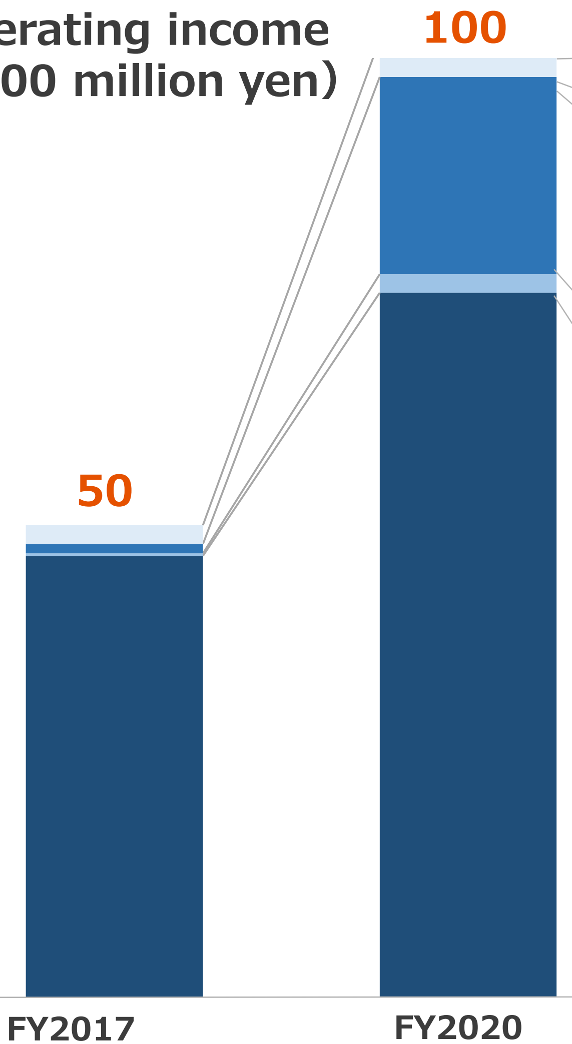
■ The spread of virtual currency

・We are the first in Japan who started bitcoin payment services.

3.2 Mid-term goals

The goal for 2020 can be achieved by the growth of our existing services and products

Operating income (100 million yen)



Now 2020

Payment enhancement business

Global Solutions	MACRO KIOSK, Z.com Payment	Scale of EC market（trillion yen） **2.4 → 4.0** **※Total forecast by developing countries**
Advertising	GMO PAYMENT GATEWAY	Online advertising market（trillion yen） **1 → 1.5**

MSB

Finance Service	GMO PAYMENT GATEWAY, GMO EPSILON, GMO PAYMENT SERVICE	Related assets (100 million yen) **200 → 400** ***Payment after delivery is not included**

Payment processing business

Offline	GMO FINANCIAL GATE	Card-present market (trillion yen) **60 → 82** ***Credit cards, debit cards, prepaid cards in total**
Online	GMO PAYMENT GATEWAY, GMO EPSILON	The EC ratio（%） **5.4 → 8～10**

※Expected numerical values are based on our internal research

3.3 Payment processing business : card-present payment

Challenge to cultivate new payment market in collaboration with retails companies

Penetration of 100 yen coffee from convenience stores

Coffeehouse chains

Convenience store

Saturation status and location requirements are under control

Ultimate point of contact with customers

at Office

Payment × IoT

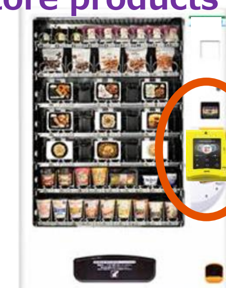
Fresh brewed coffee vending machines

Image photo

(under development)

- ☐ Employee IC card
- ☐ POINT
- ☐ E-money
- ☐ Credit card
- ☐ Prepaid card

Vending machines with convenience store products



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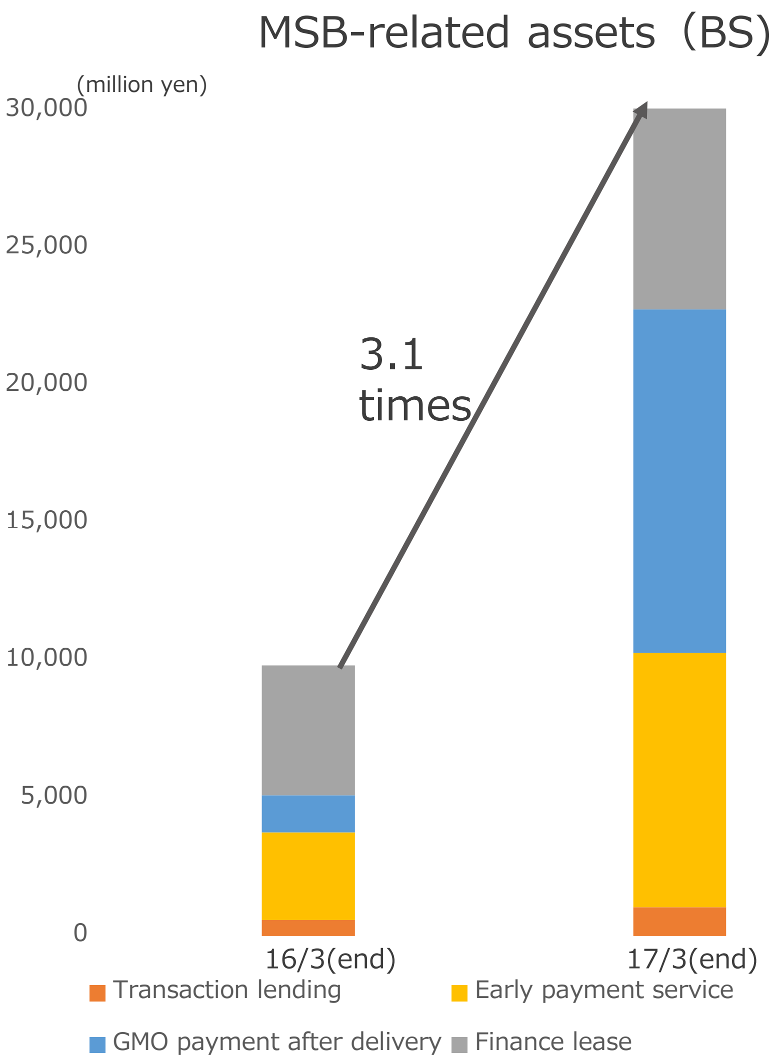
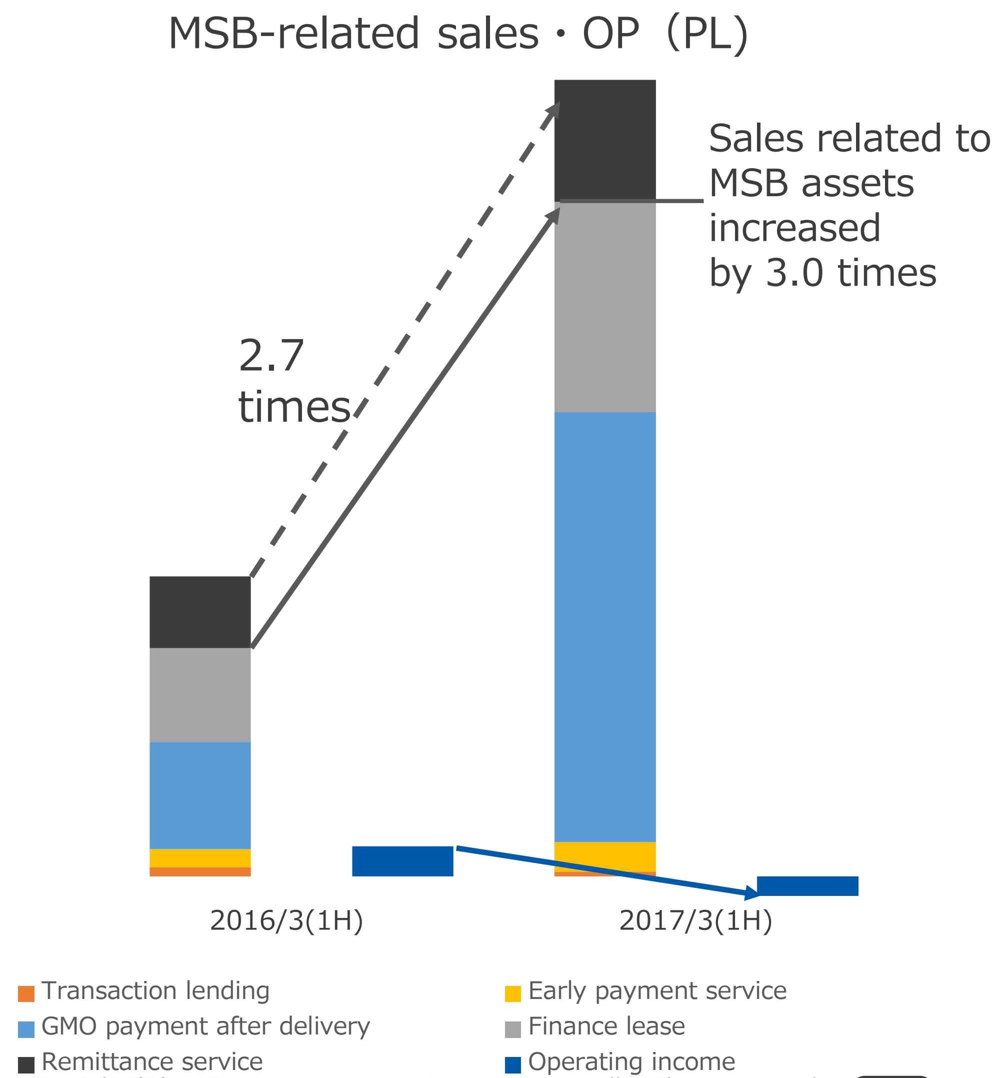
3.4 MSB : MSB assets and performance by segments

Sales tripled as MSB-related assets had increased



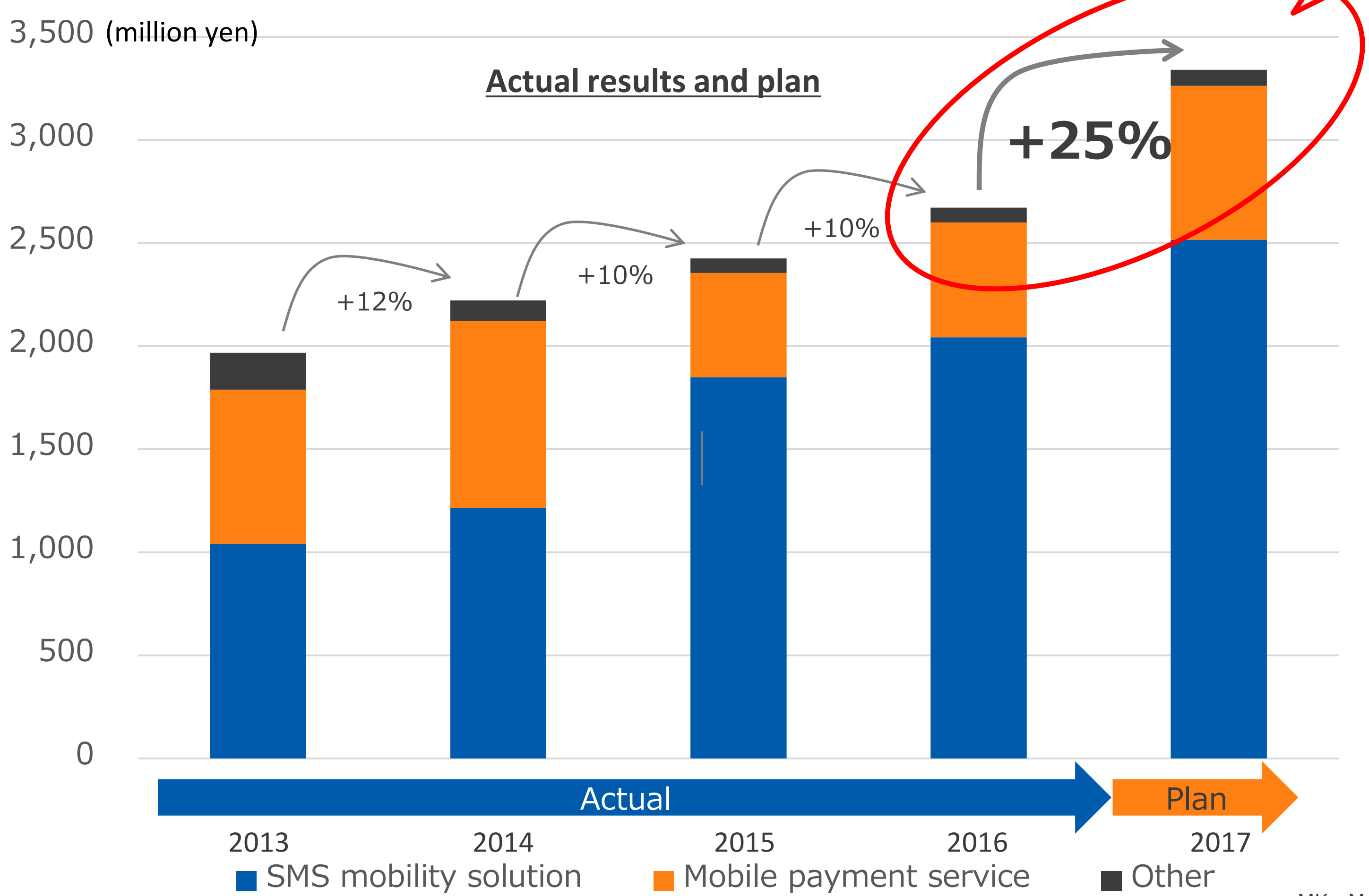


3.5.1 Business in Asia (Payment enhancement business : MK)

Joining GMOPG group accelerated MK's growth

Annual growth rate rose from 10% to over 20%

MK's 1Q financial results exceeding its initial plans.



MK : MACROKIOSK

3.5.2 Business in Asia (Payment enhancement business : MK)

Favorable factors for exceeding the budget after joining GMOPG group

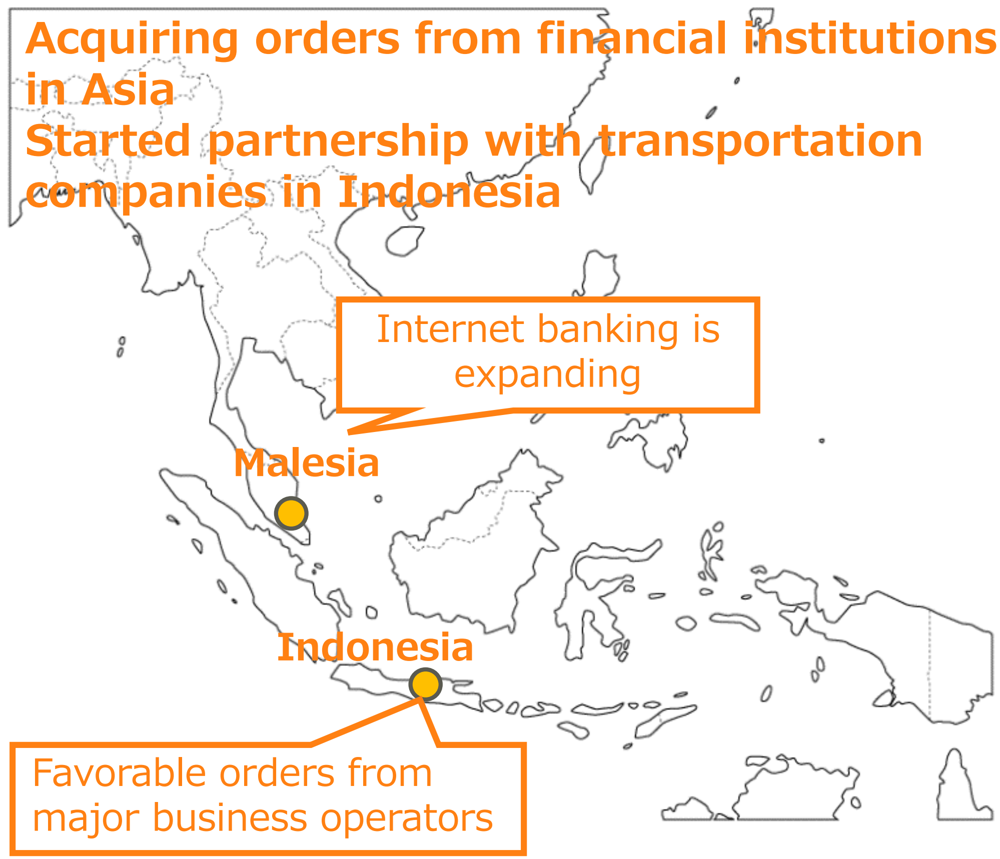
■Market environment : Rapid growth has been continuing

"In 2016, the number of transactions carried out via mobile devices grew by 72%, while transactions via all online channels (including desktops and personal computers) rose by 41%, demonstrating that users are increasingly comfortable with digital platforms," he said in a statement on Monday.
http://www.thestar.com.my/business/business-news/2017/04/03/maybank-expects-mobile-platform-transactions-to-rise-to-rm25bil/#Fe5Qavbx75Dy7mEi.99

■Favorable orders from all over Asia; transactions are over the budget

Major insurance companies	(Thailand)
Major banks	(Philippines)
Major transportation companies	(Indonesia)
Major cosmetics retailers	(Indonesia)

■By region



MK : MACROKIOSK

3.5.3 Business in Asia (Payment processing business)

Introduction by major merchants in progress; the amount of processed payments is positively increasing

■ Examples of local subsidiaries of Japanese firms
Z.com Payment has been introduced by major merchants

Major cosmetics merchant : Mediplus (Taiwan)

Major healthy food operators (Taiwan)

■ Deployment in Greater China / ASEAN

First in Japan Fintech fund investing in Asian ventures which specialize in payments (2 billion yen in total)

4. Financial highlights

4.1 Consolidated Balance Sheet

Increase in assets followed by MSB and companies acquisition

(Million yen)	2Q of FY2017	2Q of FY2016	Change
Current assets	**64,067**	**43,788**	20,279
Cash and deposits	**29,004**	**31,171**	△2,167
Lease receivable	**7,311**	**4,713**	2,598
Advance payments	**9,240**	**3,191**	6,049
Accounts receivable	**12,494**	**1,354**	11,139
Allowance for doubtful accounts	**△1,324**	**△258**	△1,066
Other current assets	**7,341**	**3,614**	3,762
Noncurrent assets	**10,222**	**5,414**	4,807
Tangible assets	**362**	**204**	158
Intangible assets	**3,968**	**1,153**	2,814
Goodwill	**2,286**	**26**	2,260
Software	**1,310**	**810**	499
Investments and other assets	**5,891**	**4,056**	1,834
Investment securities	**2,415**	**2,762**	△347
Shares of subsidiaries and affiliates	**2,611**	**283**	2,327
Total assets	**74,290**	**49,203**	25,086

Related to Finance Lease

Increase in Early Payment Service (BS balance after consolidation (offset))

Short-term loan receivables (=TL-related assets) is included in "Other current assets"

Increase in investment securities of subsidiaries and affiliates

(Million yen)	2Q of FY2017	2Q of FY2016	Change
Current liabilities	**54,283**	**32,355**	21,928
Short-term debt	**4,030**	**0**	4,030
Deposits received	**33,048**	**26,923**	6,125
Accounts payable	**11,234**	**2,574**	8,659
Other current liabilities	**5,970**	**2,857**	3,112
Noncurrent liabilities	**304**	**217**	86
Shareholders' equity	**18,364**	**16,548**	1,816
Capital stock	**4,712**	**4,712**	0
Total cumulative other comprehensive income	**359**	**80**	279
Total net assets	**19,702**	**16,630**	3,071
Total liabilities and net assets	**74,290**	**49,203**	25,086

Deposits by merchants through representative merchant service

*Discrepancy occurs with the pace of merchants' sales growth due to change in merchants' cutoff date and payment cycle

Increase in payment after delivery

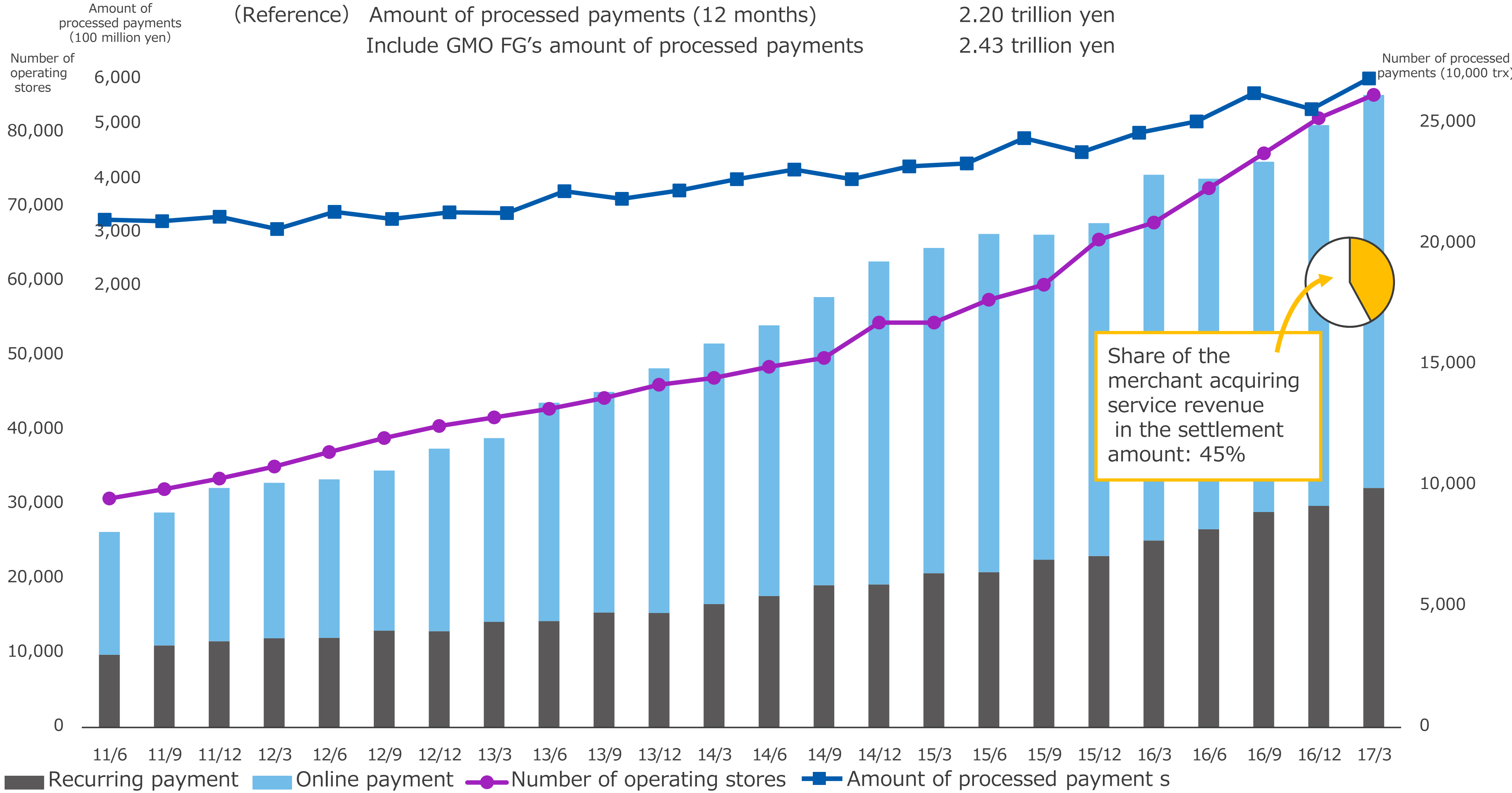
Increase in subsidiaries and affiliates

4.2 Changes to major KPIs（Quarterly）

Annual amount of processed payments exceeded 2 trillion yen

Number of operating stores 85,123/Amount of processed payments ¥620 billion、Number of processed payments 261 million

(Reference) Amount of processed payments (12 months) 2.20 trillion yen
Include GMO FG's amount of processed payments 2.43 trillion yen



(The number of operating stores is calculated at the end of the quarter, the amount/number of processed payments are the results for each quarter)

5. Reference materials

5.1 Summary of the consolidated results

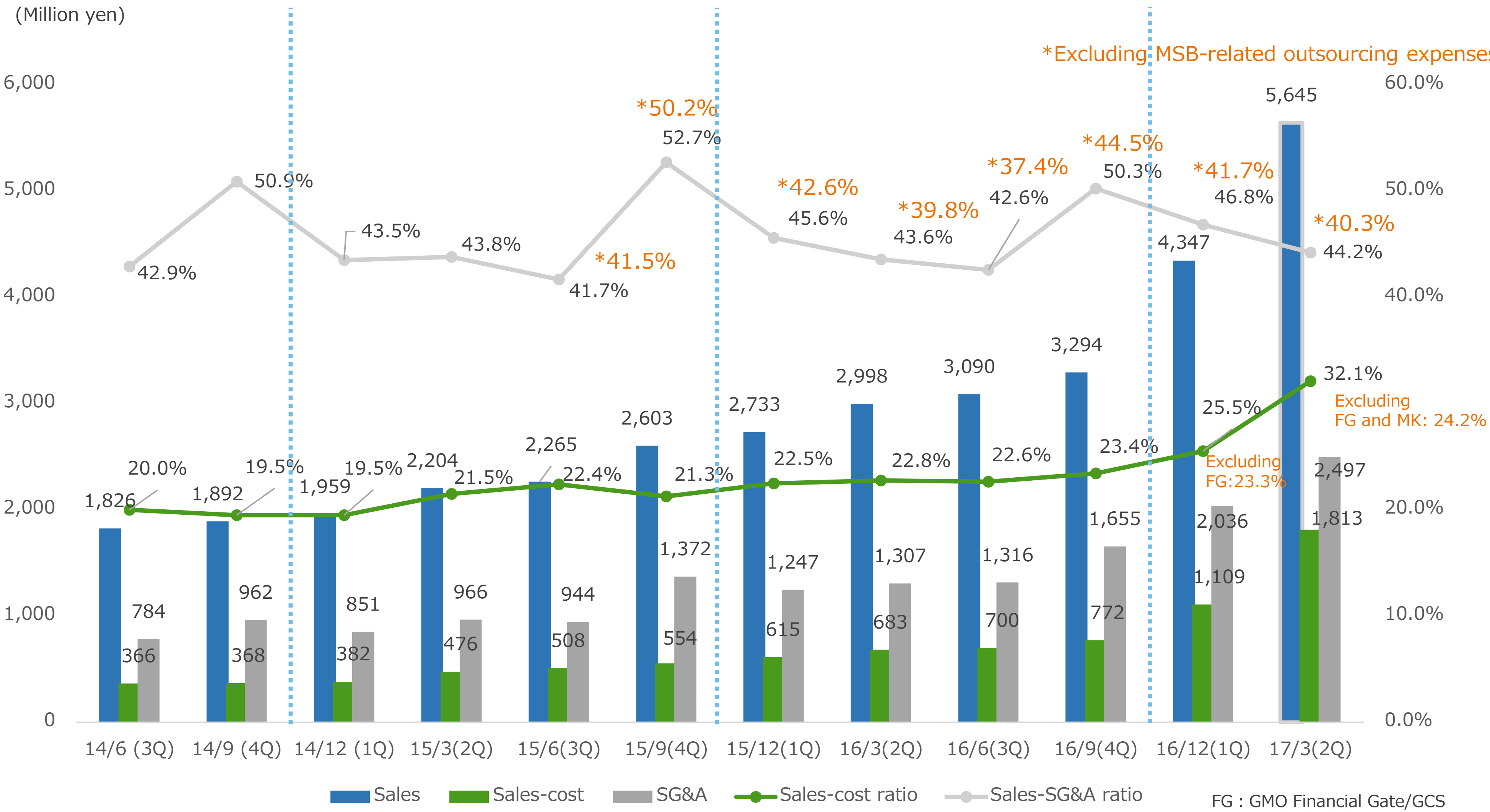
OP up 35%, EBITDA up 41.7%

(Million yen)	1H of FY2017		YoY		1H of FY2016	
	Actual	Sales composition (%)	Growth	Growth rate (%)	Actual	Sales composition(%)
Sales	**9,992**	**100.0%**	4,261	+74.4%	5,730	100%
Cost of sales	**2,922**	**29.2%**	1,624	+125.2%	1,297	22.6%
Gross income	**7,069**	**70.8%**	2,636	+59.5%	4,432	77.4%
SG&A	**4,532**	**45.4%**	1,979	+77.5%	2,553	44.6%
Operating income	**2,536**	**25.4%**	657	+35.0%	1,879	32.8%
Ordinary income	**2,370**	**23.7%**	451	+23.5%	1,918	33.5%
Net income	**1,084**	**10.9%**	△67	−5.9%	1,151	20.1%
Net income per share (Yen)	**29.19**	**-**	-		31.01	-
EBITDA	**2,903**	**-**	855	41.7%	2,048	-

＊ EBITDA＝Operating income + Depreciation + Amortization of goodwill

5.2 Cost of sales ratio/SG&A ratio（Quarterly change)

The sales of cost ratio has changed due to the sales composition



FG : GMO Financial Gate/GCS
MK : MACROKIOSK

5.3 Changes in Segments and Revenue models

GMO payment after delivery is divided into fee and spread, consolidation of MK

Red : Changes from 2Q

3 Segments

Payment processing business
- Payment processing
- System development
- GMO Financial Gate
- etc

Money service business
- GMO payment after delivery
- Remittance service
- Transaction lending
- Early payment service
- Finance lease
- etc

MSB

Payment enhancement business
- Online Ad Service
- SSL
- Delivery service
- MK
- etc

4 Revenue models

Initial (Initial revenue)
- Payment processing (MK)
- SSL
- System development
- etc

Stock (Monthly revenue)
- Payment processing (MK)
- Online Ad Service
- etc

Fee (Transaction processing revenue)
- Payment processing (MK)
- GMO payment after delivery (Fee)
- Remittance service
- Delivery service
- etc

Spread (Merchant acquiring service revenue)
- Payment processing (MK)
- GMO payment after delivery (Spread)
- Transaction lending
- Early payment
- Finance lease
- etc

FG : GMO Financial Gate/GCS, MK : MACROKIOSK

Thank you very much!

GMO Payment Gateway Inc.

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