# Financial results briefing for the 4Q of FY2017

(October 1, 2016 - September 30, 2017)

Status of our business expansion toward achieving mid-term goal

November 6, 2017

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

The 51st IR Meeting

GMO PAYMENT GATEWAY

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

# A cautionary note about the contents of the document

The contents of this document are based on generally recognized economic and social conditions, as well as assumptions judged to be reasonable by GMO Payment Gateway as of November 6, 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. Summary of financial results for FY2017
2. Earnings forecast for FY2018
3. Future actions to implement growth strategies
4. Financial highlights
5. Reference materials

# 1. Summary of financial results for FY2017

# 1.1 Business performance

## OP +31.3%; transaction value at ¥2.5 trillion (+29.3%)

| (Million yen) | FY2016 | Initial forecast | FY2017 | YoY change | vs. Initial forecast |
|---|---|---|---|---|---|
| Revenue | 12,113 | 18,767 | 21,794 | +79.9% | +16.1% |
| Operating profit | 3,819 | 5,013 | 5,015 | +31.3% | +0.0% |
| Ordinary profit | 3,780 | 4,673 | 4,739 | +25.4% | +1.4% |
| Net profit | 2,910 | 2,762 | 2,948 | +1.3% | +6.7% |
| EBITDA | 4,191 | 5,811 | 5,919 | +41.2% | +1.8% |
| DPS (yen) | 27.0 | 37.0 | 40.0 | +13.0 | +3.0 |

*EBITDA＝OP ＋ Depreciation ＋ Amortization of goodwill

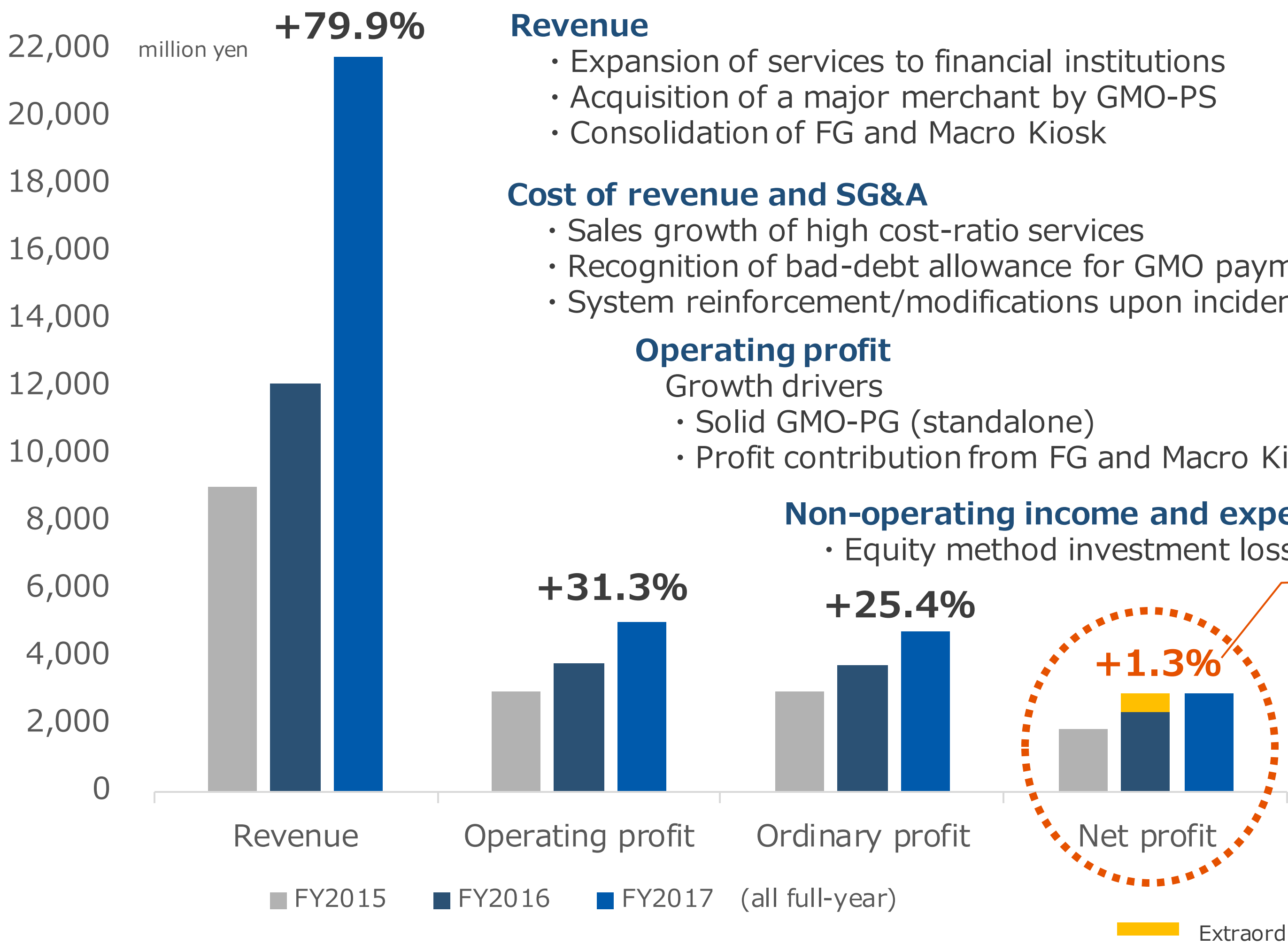
| | Operating stores (end of term) ※ | Transaction value (full year) | Transaction volume (full year) |
|---|---|---|---|
| KPI | 82,349 (+6.6%) | ¥2.5 trillion (+29.3%) | 1.08 billion (+20.2%) |

() = year-on-year change

※Slowdown of yoy growth due to the end of a service of our partner company resulting in churn by a bulk of stores (18.5% up if net of this factor)

# 1.2 Factors that affected the cumulative results

## Net profit over plans & FY16 level with PS tax effect accounting




**Revenue**
- Expansion of services to financial institutions
- Acquisition of a major merchant by GMO-PS
- Consolidation of FG and Macro Kiosk

**Cost of revenue and SG&A**
- Sales growth of high cost-ratio services
- Recognition of bad-debt allowance for GMO payment after delivery
- System reinforcement/modifications upon incident

**Operating profit**

Growth drivers
- Solid GMO-PG (standalone)
- Profit contribution from FG and Macro Kiosk

**Non-operating income and expenses**
- Equity method investment loss

Resolved net profit shortfall vs. plans during 4Q

**Extraordinary profit and loss**
- Extraordinary loss due to data leak
- Loss on changes in equity

**Income taxes**
- Recognition of income tax adjustment associated with subsidiary's tax effect accounting

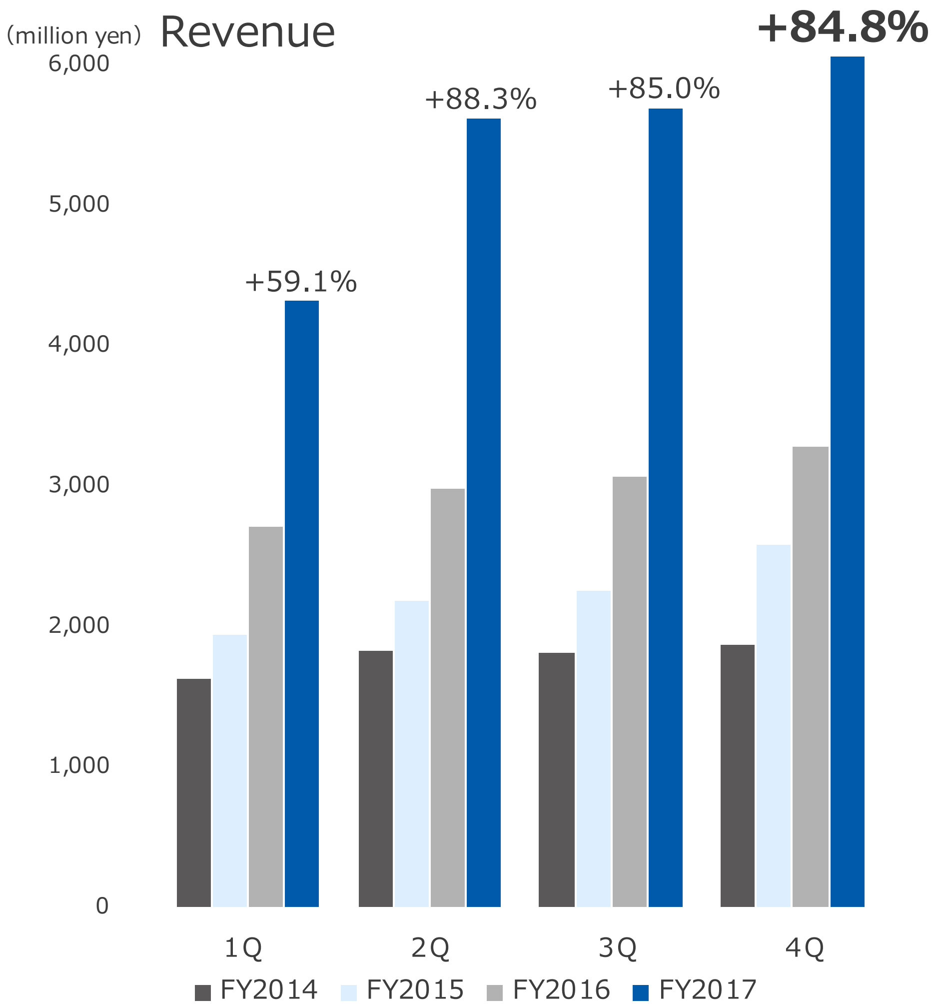
PS : GMO Payment Service FG : GMO Financial Gate/GCS

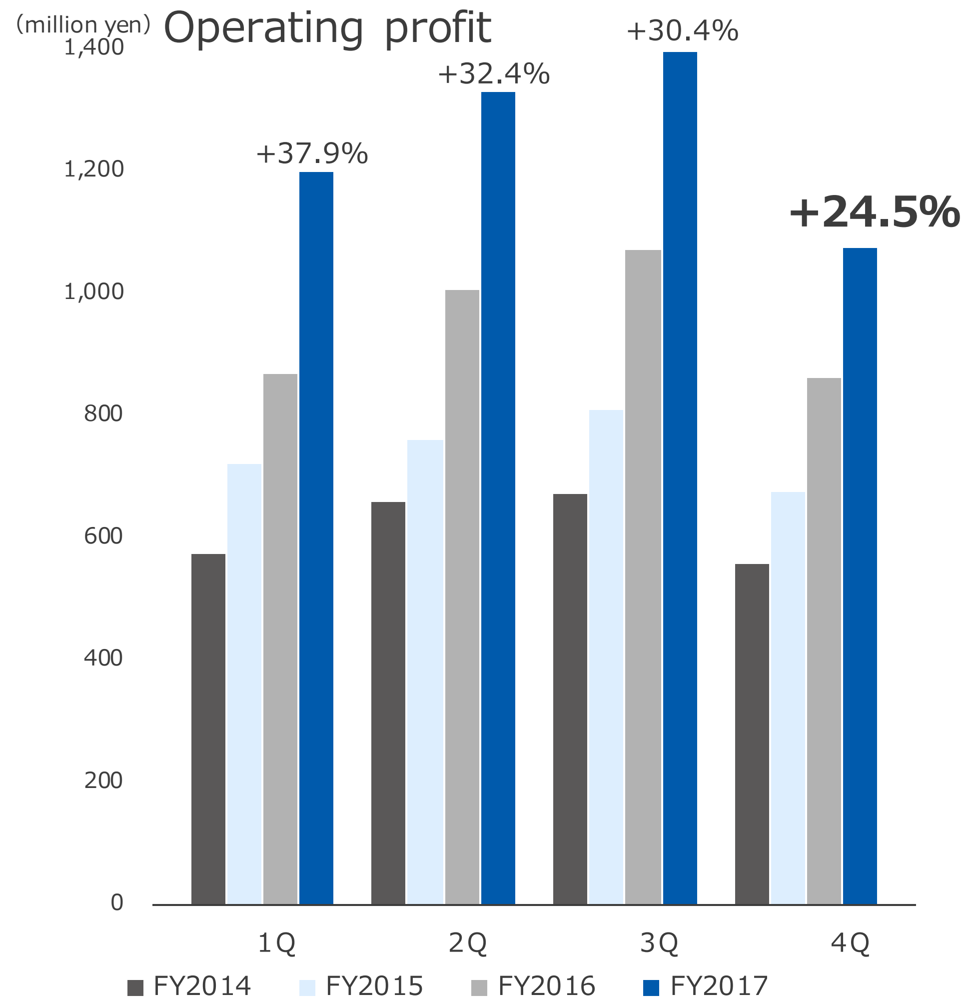
# 1.3 Quarterly results

## 4Q Revenue up by 84.8% YoY, OP up by 24.5% YoY

■ FY2017 Quarterly results (consolidated)

%: YoY changes



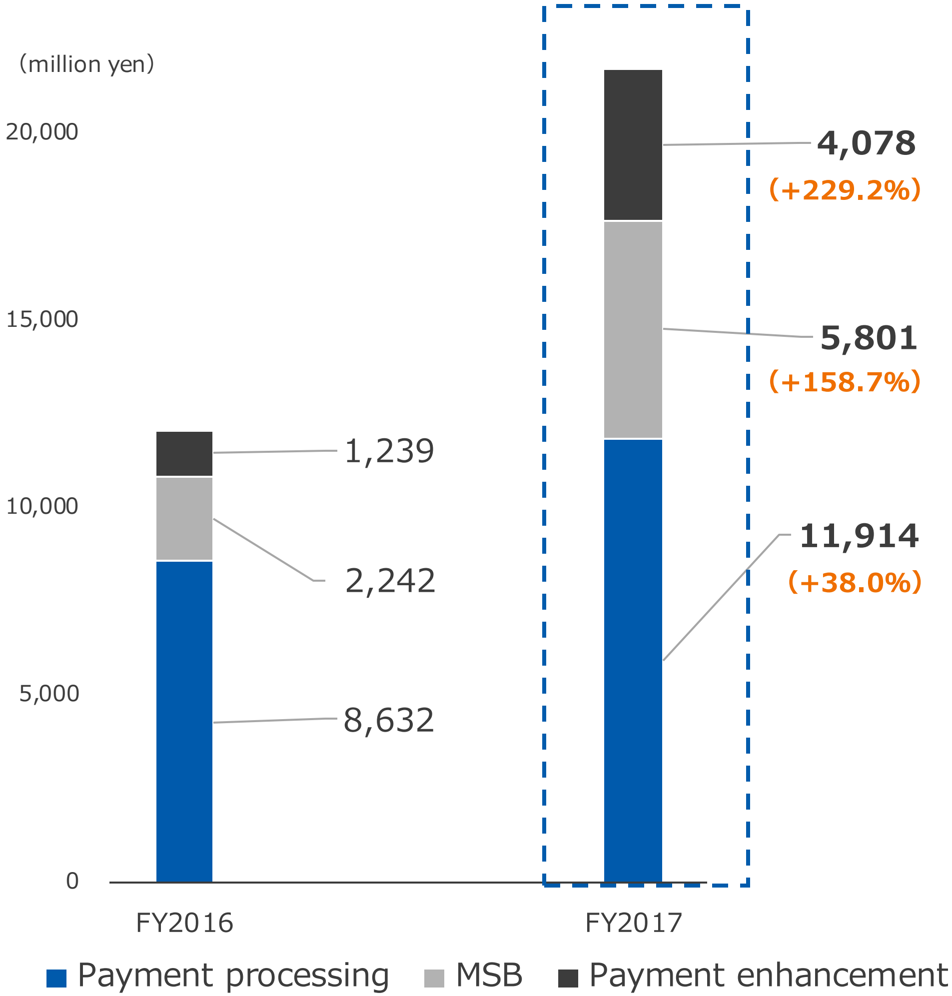



# 1.4 Revenue/OP by segment

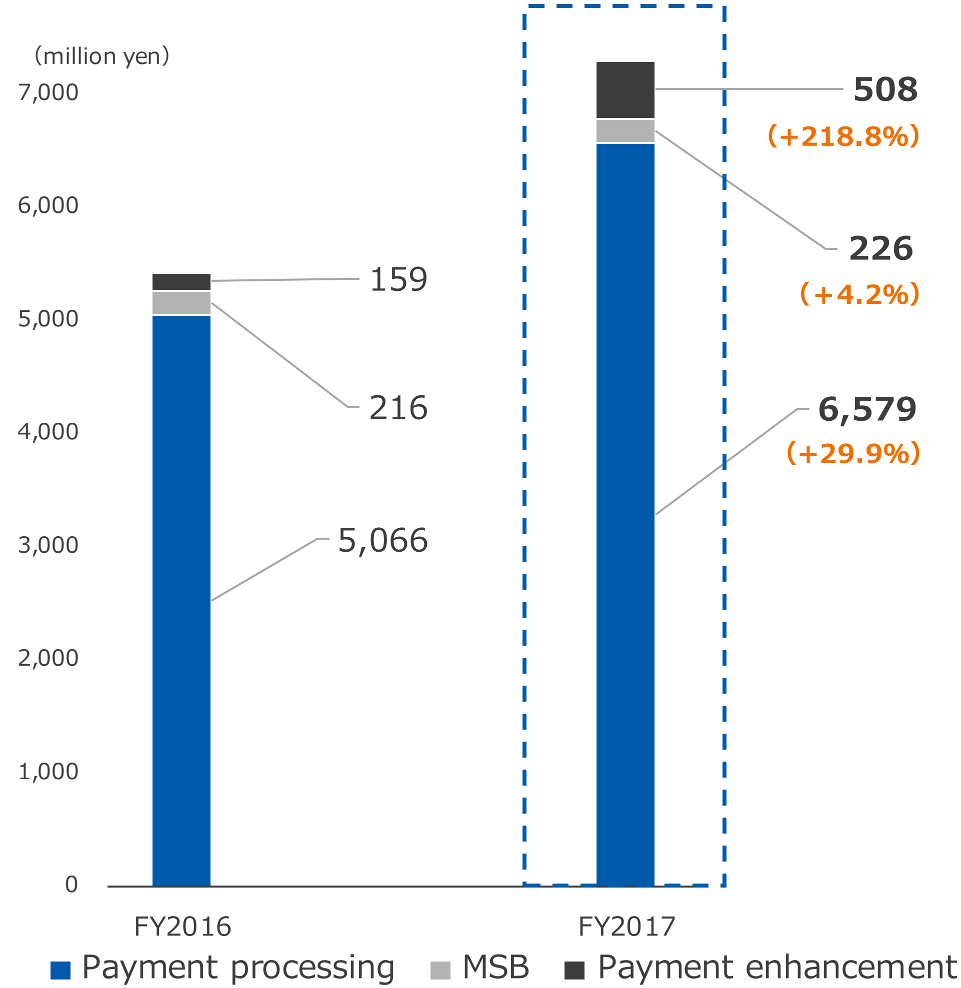
## Strong revenue growth in all segments with profit of payment processing business up by 30%

( ) : YoY change

■ Revenue by segment

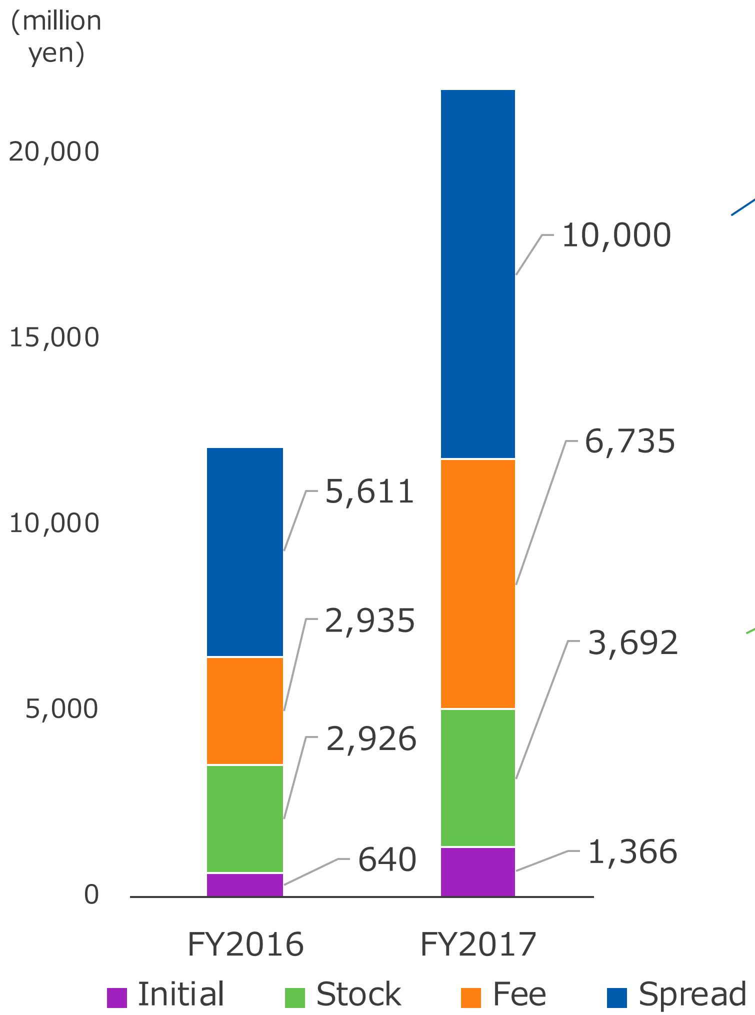



■ OP by segment (before consolidation adjustment)



# 1.5 Revenue breakdown by business model

## All business models grew more than 25%




**Spread** **YoY+78.2%**

- Expansion of MSB (GMO payment after delivery)*
- Transaction value increase

**Fee** **YoY+129.5%**

- MK consolidation effect
- Expansion of MSB (GMO payment after delivery)*

**Stock** **YoY+26.2%**

- Business with large operates (banks, etc.)

**Initial** **YoY+113.4%**

- Recognition of system development orders and sales
- Acquisition of large or growth merchants
- Sales of GMO-FG terminals

*Sales from "GMO payment after delivery" split into fee and spread from FY2017 2Q

# 1.6 Overview of FY2017

## Reinforced business base through challenges from high-growth

### Challenges

- Incident of the March 9th
  - » Implemented prevention measures (done)
    Organization-wise reinforcements
    - Company-wide risk governance structure
    - IT risk management structure

    Technology-wise reinforcements
    - Retired from Struts2
    - Data base split, etc.
    - Fraud detection at SQL level
- Worked to prevent unauthorized usage
  - » Conducted website patrol, etc.
- Bad debt reserves swelled
  - » Profitability improved with credit model adjustment, etc.

**Business results**

### Highlights

- Services for financial institutions
  - » Prepared for "GMO-PG Processing Platform" (announced on Oct. 27)
- Acquired major EC and mail order merchants
  - » "1 trillion yen project"
    B2B, subscription business, connected cars
- Rapid surge of payment after delivery
- Expanded business portfolio
  - » B2B market, card-present payments, overseas business

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- ¥110 million extraordinary loss from the incident

**Earnings results**

Sales and profit grew for 15 years in a row (or 12 consecutive years since listed)
Highest growth rate since listed on TSE 1st section in both sales and profit

# 2. Earnings forecast for FY2018

# 2.1 Full-year forecast（J-GAAP）

## Remain committed to deliver OP CAGR of 25%

■ FY2018

(Unit : million yen)

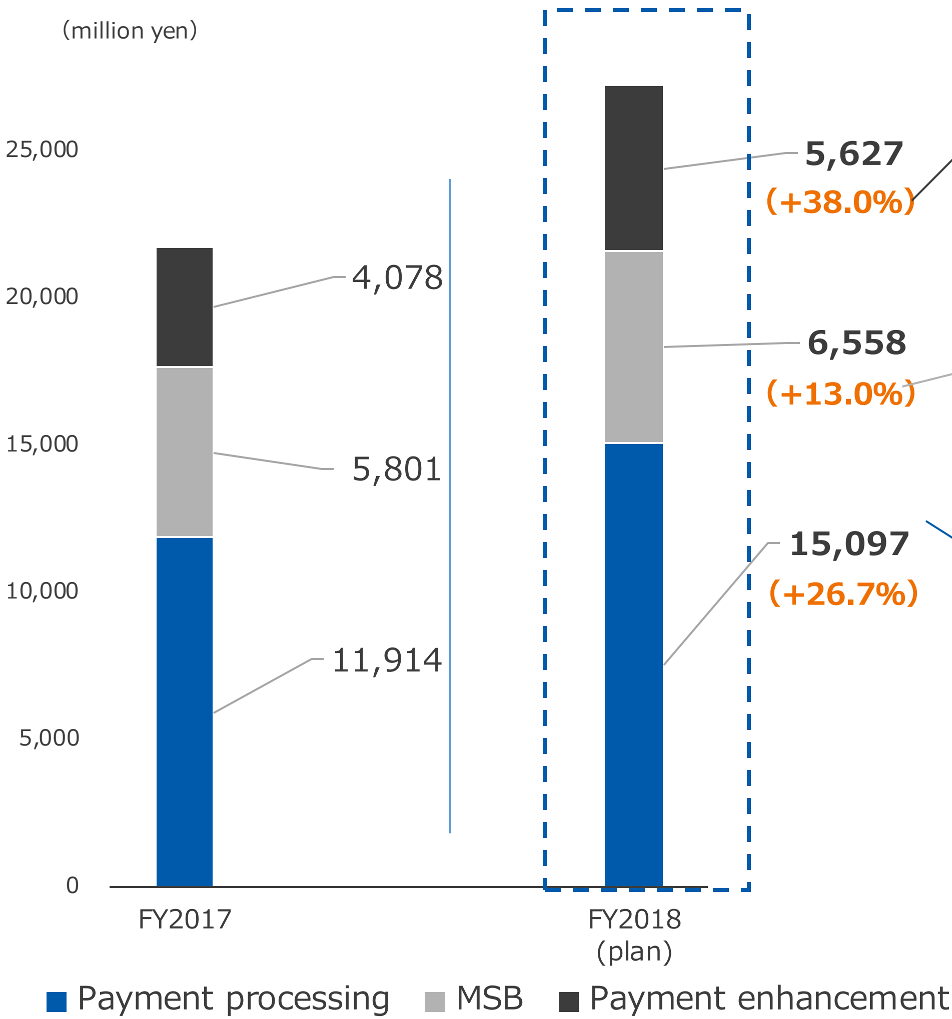
| (million yen) | FY2017 | FY2018 | YoY change |
|---|---|---|---|
| Revenue | 21,794 | 27,283 | +25.2% |
| Operating profit | 5,015 | 6,269 | +25.0% |
| Net profit | 2,948 | 3,635 | +23.3% |
| EBITDA | 5,919 | 7,594 | +28.2% |
| DPS (yen) | 40.0 | 49.0 | +9.0 |

※EBITDA＝Operating profit + depreciation + amortization of goodwill

# 2.2 Earnings forecast by segment (consolidated)

## Measures to achieve our target

■ Revenue by segment




**Payment enhancement business (+38.0% YoY)** 3.6

- Consolidated an entire year of MK
- Strengthened overseas business
- Margin of Online advertising business rose

**Money service business (MSB) (+13.0% YoY)** 3.5

- MSB's margin rose
- Finance-related services expanded to beef up ecosystem model

**Payment processing business (+26.7% YoY)** 3.4

- Continued high growth of payment processing business
- A series of new businesses expansion (processing business, etc.)

# 2.3 Full-year forecast (IFRS)

## Comparison of consolidated forecasts 【J-GAAP and IFRS】

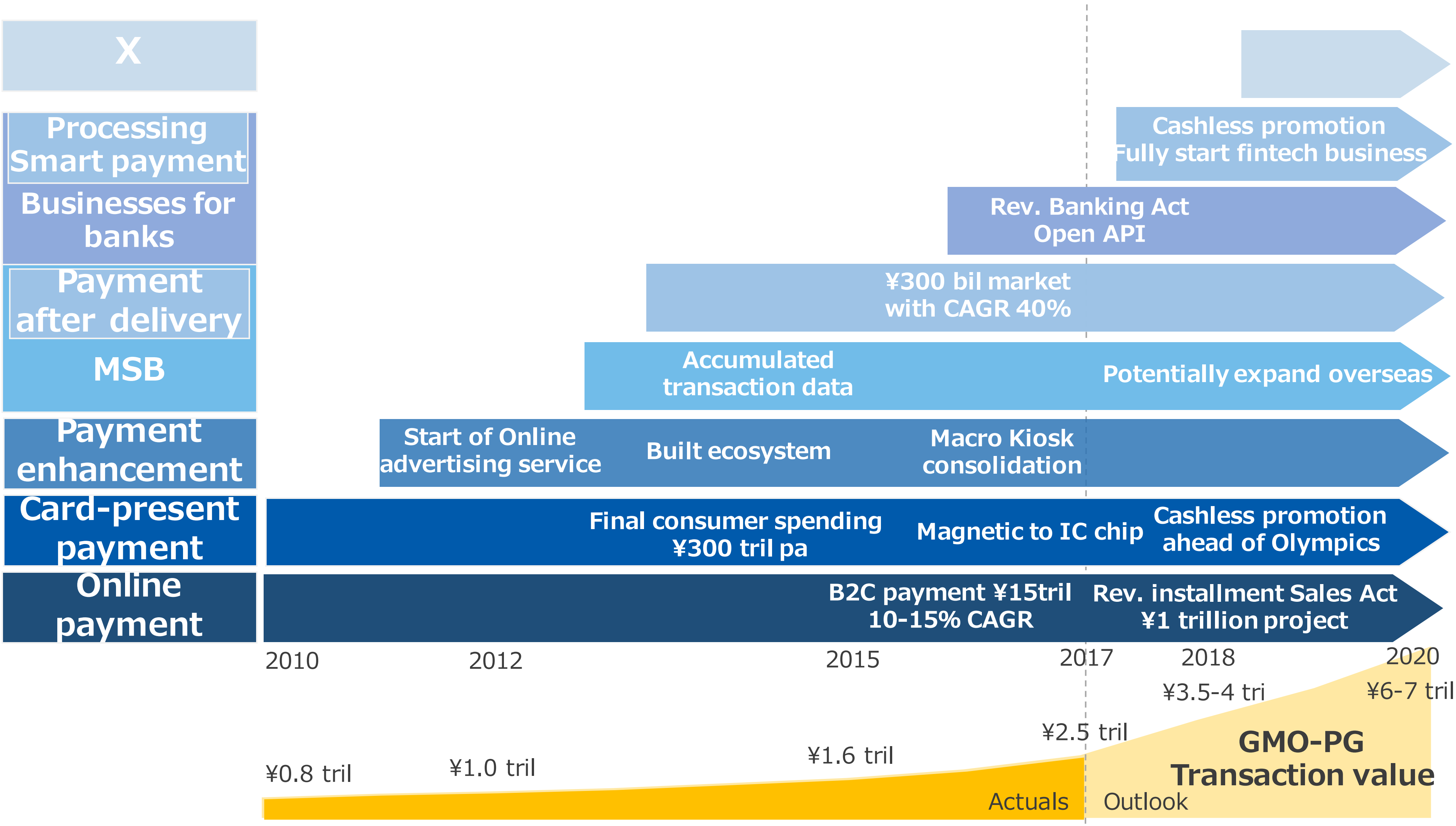
| | Outlook for FY2018 | | | | IFRS figures compared with J-GAAP | |
|---|---|---|---|---|---|---|
| | J-GAAP | | IFRS | | | |
| | (billion yen) | vs. revenue (%) | (billion yen) | vs. revenue (%) | | |
| Revenue | 27.2 | 100 | 26.1 | 100 | -1.1 | -4% |
| Operating profit | 6.2 | 23 | 6.4 | 25 | +0.2 | +3% |

| Factors | | | |
|---|---|---|---|
| | Revenue | Changes of sales recording standard (from gross to net) | -¥1.5 billion |
| | | Online advertising service | -¥0.8 billion |
| | | Finance lease | -¥0.7 billion |
| | | MK sales recognition timing gap | +¥0.3 billion |
| | Operating profit | Goodwill not amortized under IFRS | +¥0.2 billion |

# 3. Future actions to implement growth strategies

# 3.1 Business area expansion

## All businesses enjoyed market expansion & stay on high growth



# 3.2 Short-term outlook : 2017-2020

## Outlook and measures to achieve ¥10 billion OP in 2020

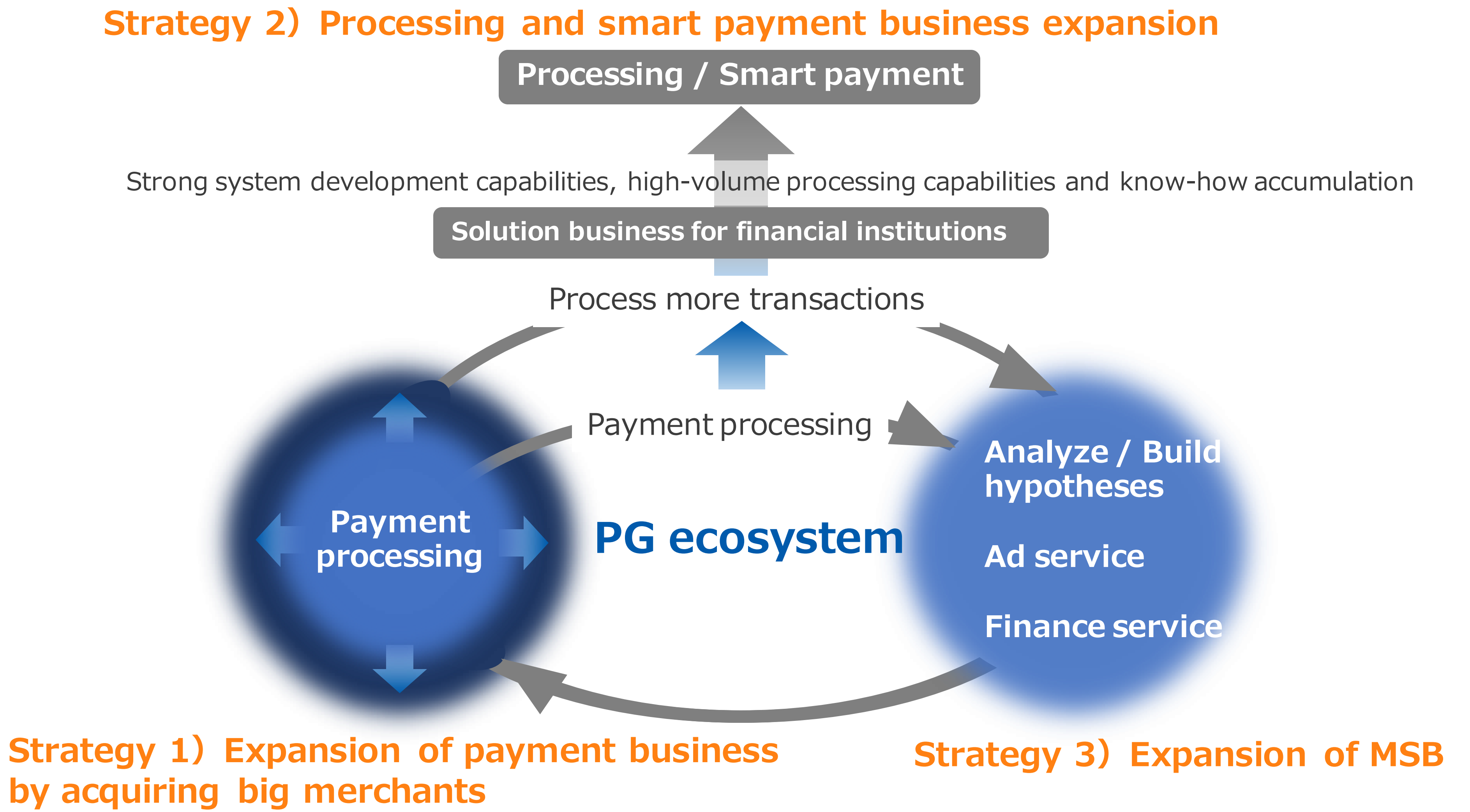
| | Up until 2017<br>Establishment of ecosystem | 2020 and beyond<br>Reinforcement of ecosystem |
|---|---|---|
| **Operating profit** | **¥5 billion** | **¥10 billion** |
| **Transaction value** | **¥2.5 trillion** | **¥6-7 trillion** |

### Business strategies

| | Up until 2017 | 2020 and beyond |
|---|---|---|
| **Payment processing** | ➢ Tapped into growing EC market and merchants<br>➢ Consolidated FG<br>➢ Alliances with banks | ➢ Capture major merchants (Revised Installment Sales Act)<br>➢ Capture inbound needs and IOT trends<br>➢ Expansion of businesses for financial institutions<br>・Processing/smart payment business |
| **MSB** | ➢ Started MSB<br>➢ Started Payment after delivery and Deferred payment service | ➢ MSB asset expansion and margin improvement<br>➢ Accumulation of credit data to utilize for purchase lending |
| **Payment enhancement** | ➢ Online advertising service<br>➢ Consolidation of MK | ➢ Leads to ecosystem enhancement<br>➢ Overseas businesses to deliver meaningful earnings |

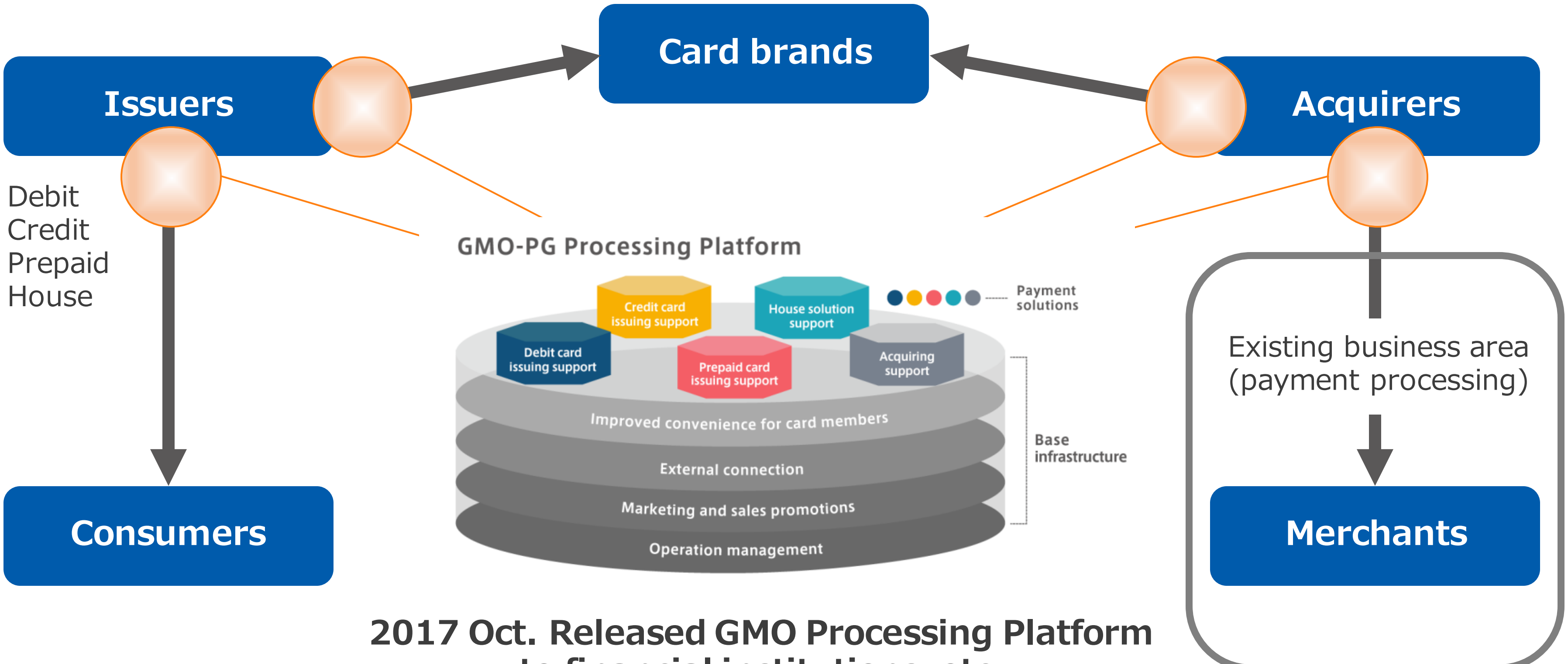
# 3.3 Three strategies to note for FY2018

## Enhance ecosystem and new businesses (processing/smart payment)



# 3.4.1 Payment processing: Processing business / Smart payment

## Client base to expand from merchants to financial institutions



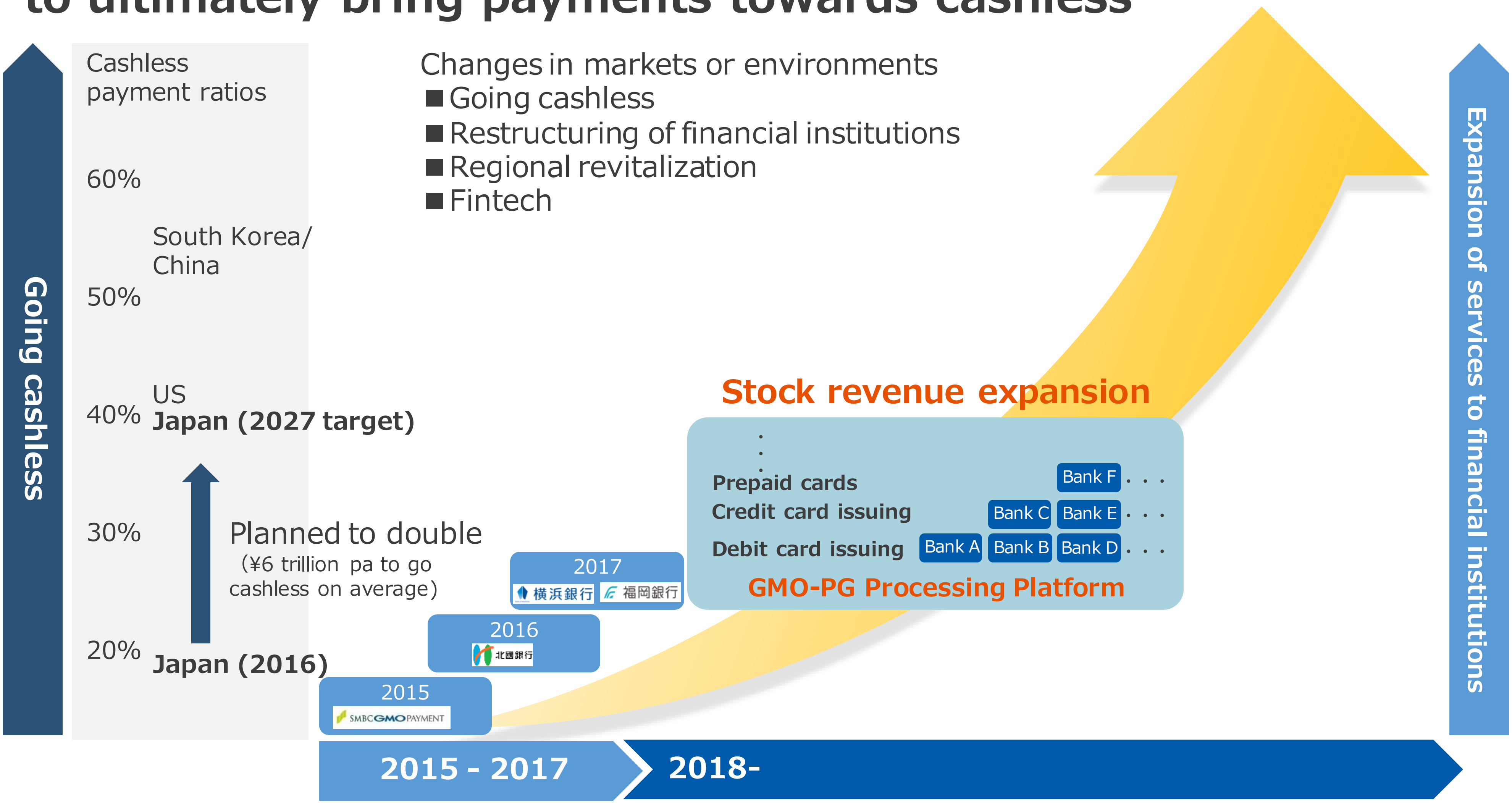

**2017 Oct. Released GMO Processing Platform to financial institutions, etc.**

**Plan to triple revenue from services to financial institutions yoy**

**Stock revenue to expand**

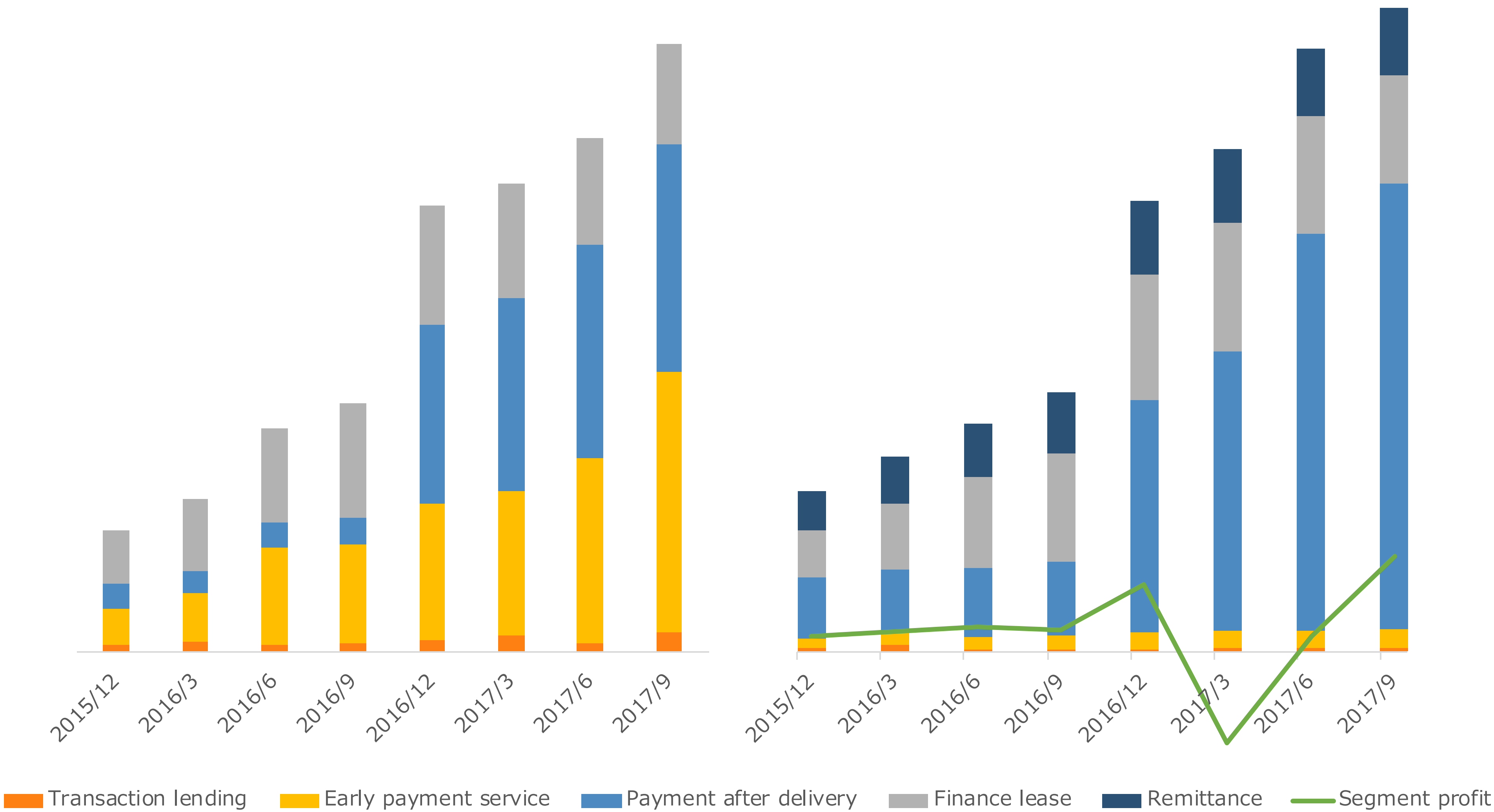
# 3.4.2 Payment processing: Processing business / Smart Payment

## Support FinTech businesses by financial institutions, etc. to ultimately bring payments towards cashless



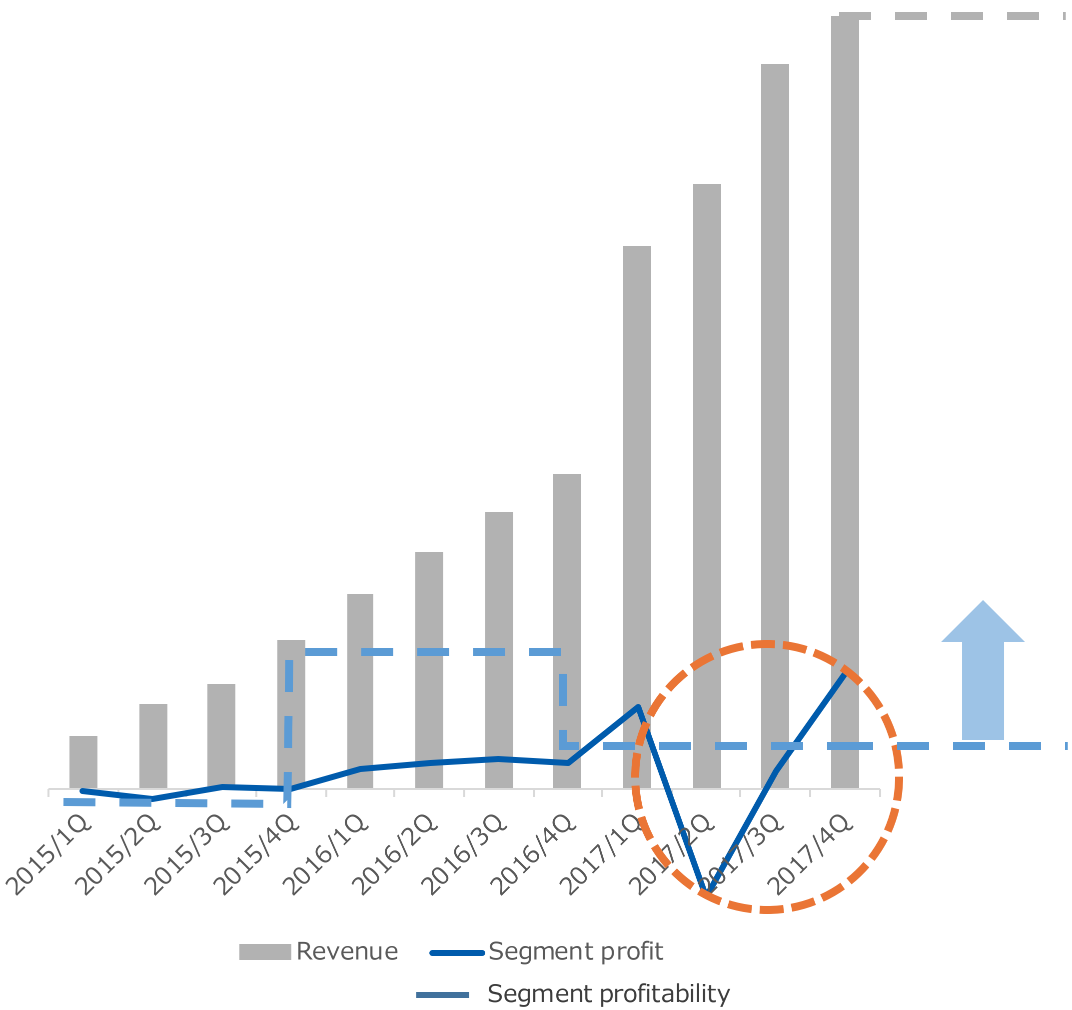
# 3.5.1 Money Service Business (MSB)

## Solid assets and revenue; segment profit highest for a quarter



# 3.5.2 Money Service Business (MSB)

## Work to improve MSB's margin to enlarge segment profit




**Asset increase not factored into forecast**

| 2016/9 | | 2017/9 | 2018/9 |
|---|---|---|---|
| ¥15.9 bil | → | ¥39.1 bil (+145%) | Plan to be on par with FY2017 |
| PS included in the above | | | |
| ¥1.7 bil | → | ¥14.6 bil (+742%) | |

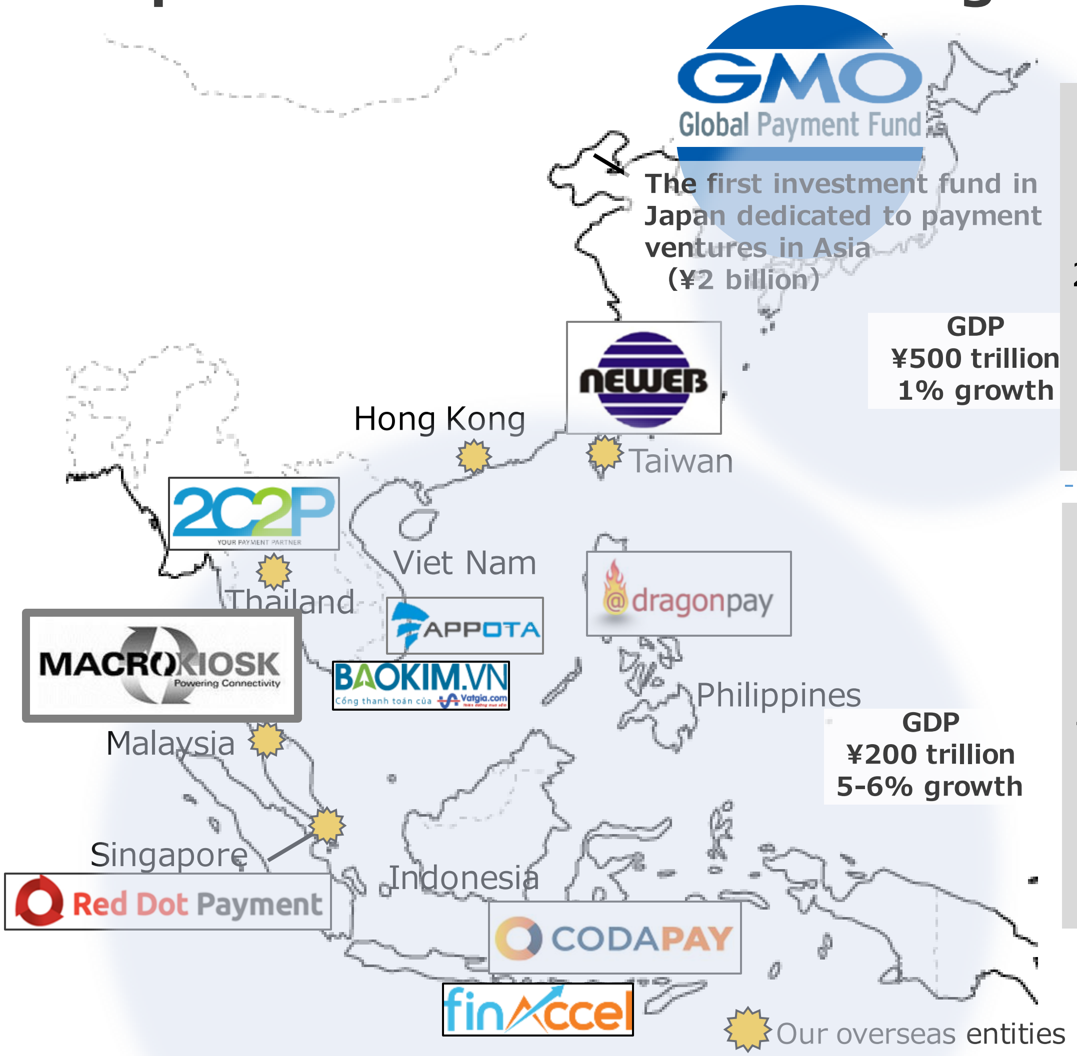
**Margin improvement of each MSB service**
**Expansion of GMO payment after delivery**

Continue to adjust credit check model, etc.

Acquisition of merchants leveraging PG's uniqueness, strength and group synergies
Analysis on growing volume of data, measures to improve collection rate, fraud detection

# 3.6 Overseas business strategies (expansion phase)

## Three strategies of regional expansion, business area expansion and alliance with global giants




**2017**

- ASEAN business and investment portfolio
  Dominant in the competition-free market
  Stayed in the top position
- Revenues of all investments and alliance partners (PSP) growing 50-150% per annum
  An increasing number of companies turning to profitability

**2018**

- (Equity method affiliates) 2C2P to expand client base leveraging alliances with major US and Chinese partners in Thailand
- (Consolidated subsidiaries) Choosing a new, growth country and readying ourselves together with Macro Kiosk
- (Up to 20% stake investments) Form alliance with foreign payment-after-delivery service providers

# 4. Financial highlights

# 4.1 Consolidated balance sheet

## Assets related to Payment after delivery and early payment up by ¥10 billion+ respectively

| (Million yen) | End of 4Q 2017 | End of 4Q 2016 | Change |
|---|---|---|---|
| Current asset | **72,347** | 45,549 | 26,798 |
| Cash and deposits | **27,623** | 25,231 | 2,391 |
| Lease receivable | **6,426** | 7,291 | △864 |
| Short-term loan receivables | **1,218** | 515 | 702 |
| Advance payments | **16,806** | 6,388 | 10,417 |
| Accounts receivable | **14,678** | 1,742 | 12,935 |
| Allowance for doubtful accounts | **△2,393** | △327 | △2,065 |
| Other current assets | **7,987** | 4,706 | 3,280 |
| Noncurrent assets | **10,778** | 9,637 | 1,140 |
| Tangible assets | **399** | 352 | 47 |
| Intangible assets | **4,505** | 4,143 | 361 |
| Goodwill | **1,619** | 1,686 | △66 |
| Software | **1,586** | 1,079 | 507 |
| Investments and other assets | **5,872** | 5,141 | 731 |
| Investment securities | **2,704** | 2,251 | 453 |
| Shares of subsidiaries and affiliates | **2,318** | 2,203 | 115 |
| Total assets | **83,125** | 55,186 | 27,938 |

| (Million yen) | End of 4Q 2017 | End of 4Q 2016 | Change |
|---|---|---|---|
| Current liabilities | **57,820** | 35,330 | 22,489 |
| Short-term borrowings | **0** | 50 | △50 |
| Long-term borrowings due within one year | **827** | 17 | 809 |
| Deposits received | **37,406** | 27,634 | 9,772 |
| Accounts payable | **12,558** | 2,784 | 9,774 |
| Other current liabilities | **7,091** | 4,843 | 2,247 |
| Noncurrent liabilities | **3,618** | 586 | 3,031 |
| Long-term borrowings | **2,999** | 30 | 2,969 |
| Other noncurrent liabilities | **645** | 302 | 342 |
| Shareholders' equity | **20,228** | 18,305 | 1,922 |
| Capital stock | **4,712** | 4,712 | 0 |
| Total cumulative other comprehensive income | **364** | △145 | 509 |
| Total net assets | **21,686** | 19,269 | 2,417 |
| Total liabilities and net assets | **83,125** | 55,186 | 27,938 |

Finance lease, etc.

TL balance increased

Early payment expanded
(BS balance shows after consolidation (offset))

GMO Payment after delivery increased

Deposits by merchants through representative merchant service

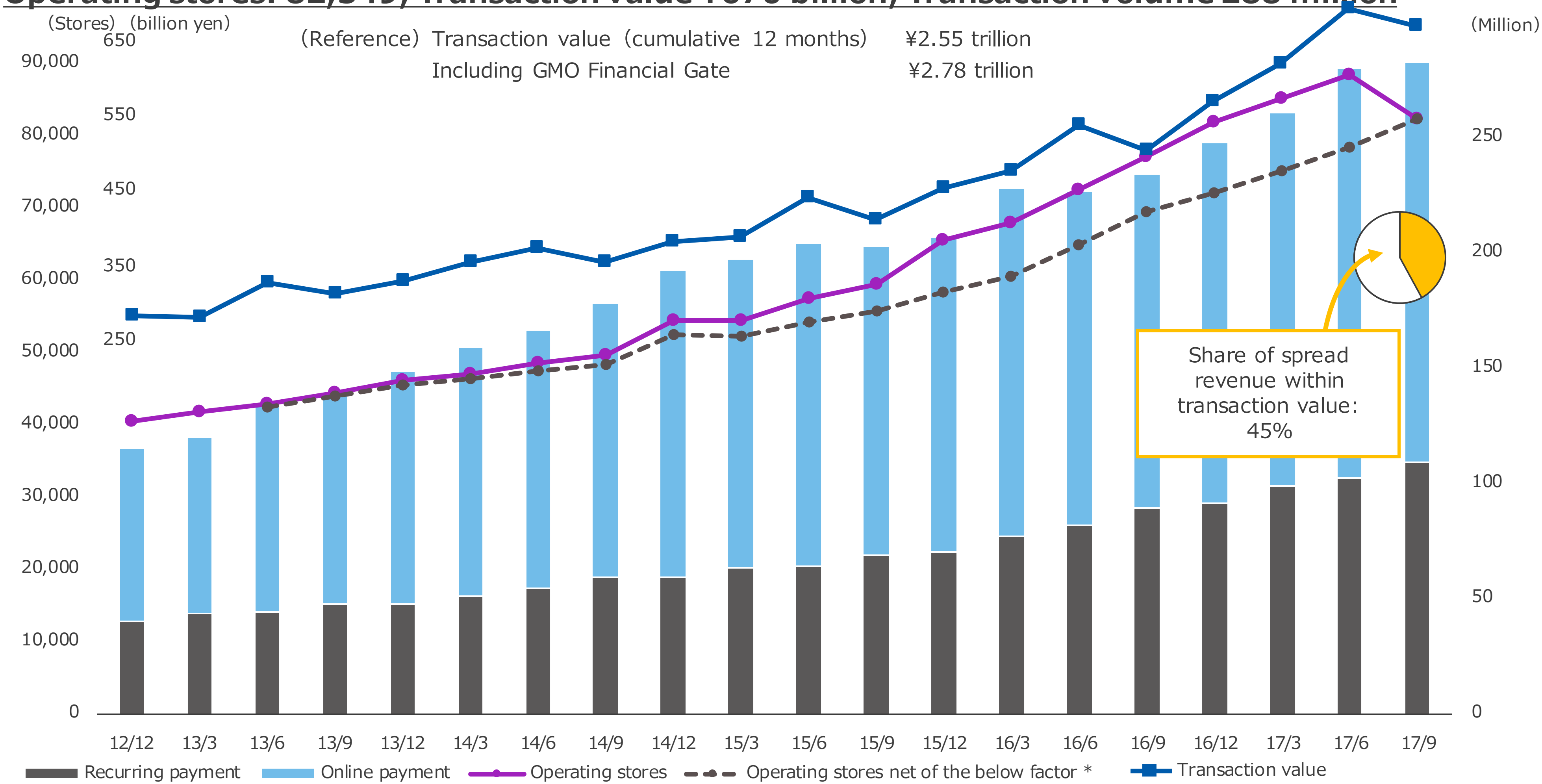
*Discrepancy occurs with the pace of merchant's sales growth due to change in merchants' cutoff date and payment cycles

Increase in investment securities of subsidiaries and affiliates

# 4.2 Major KPIs（Quarterly)

## Annual transaction value reaches ¥2.5 trillion

**Operating stores: 82,349; Transaction value ¥670 billion; Transaction volume 288 million**




(Operating store number dropped QoQ due to not a few merchants going idled in response to the end of a service of our partner)

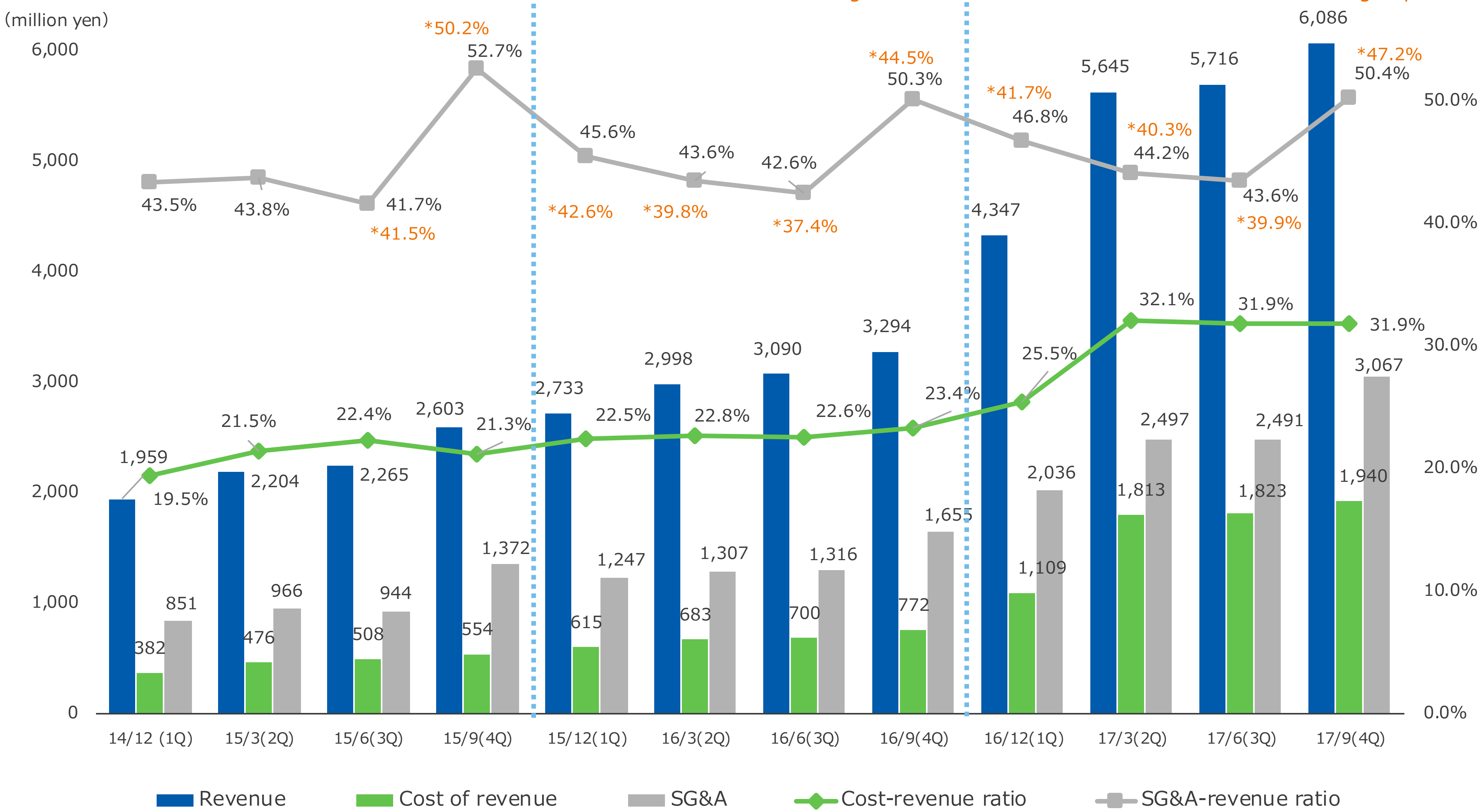
*The number of operating stores is calculated at the end of the quarter, transaction value/volume are the results for each quarter

# 5. Reference materials

# 5.1 Cost of revenue ratio/SG&A ratio (Quarterly)

## Cost of revenue ratio depends on sales composition

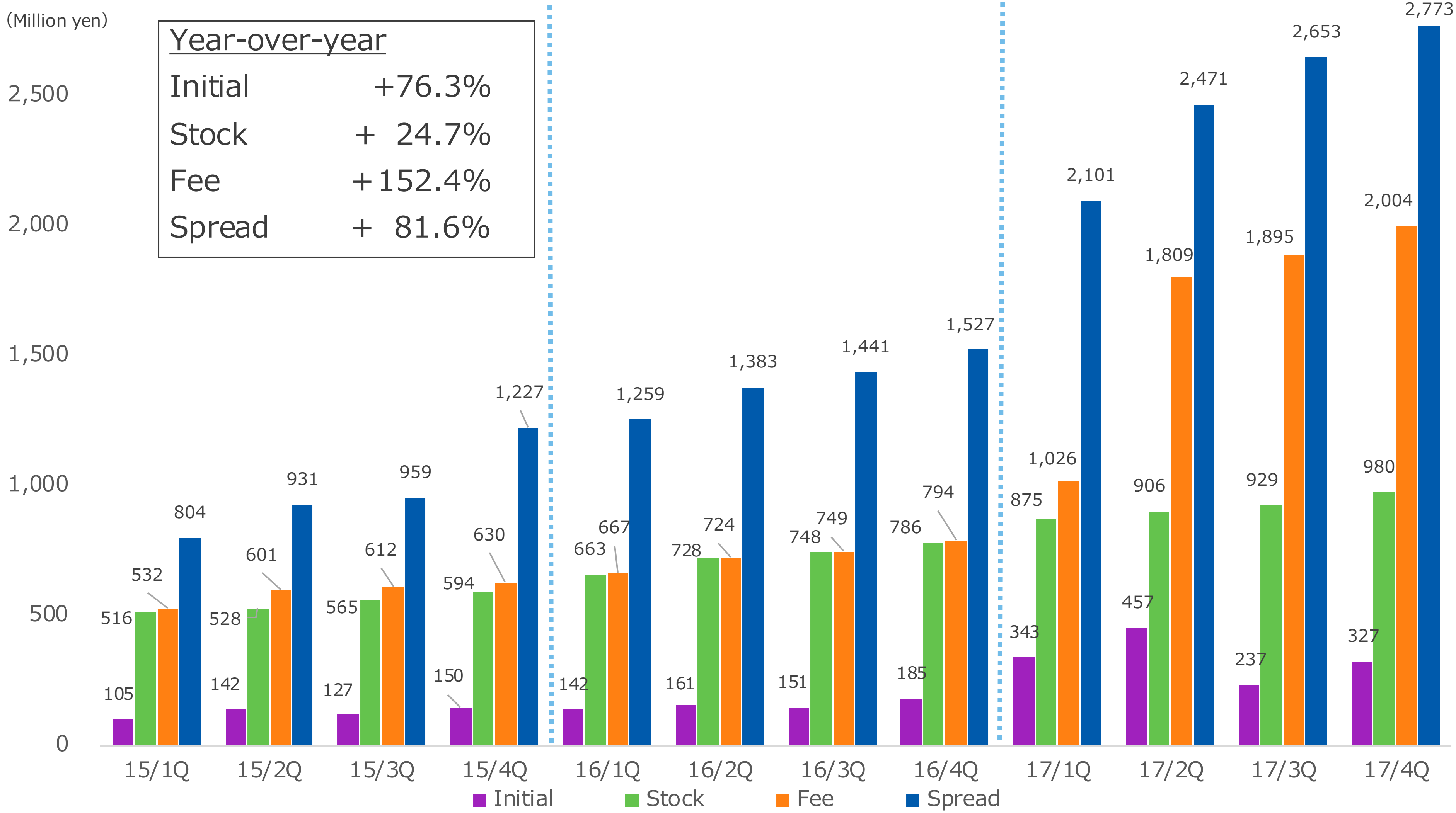
*Figures with asterisk exclude MSB-related outsourcing expenses



# 5.2 Revenue breakdown（Quarterly）

## Revenue growth accelerated in all business models

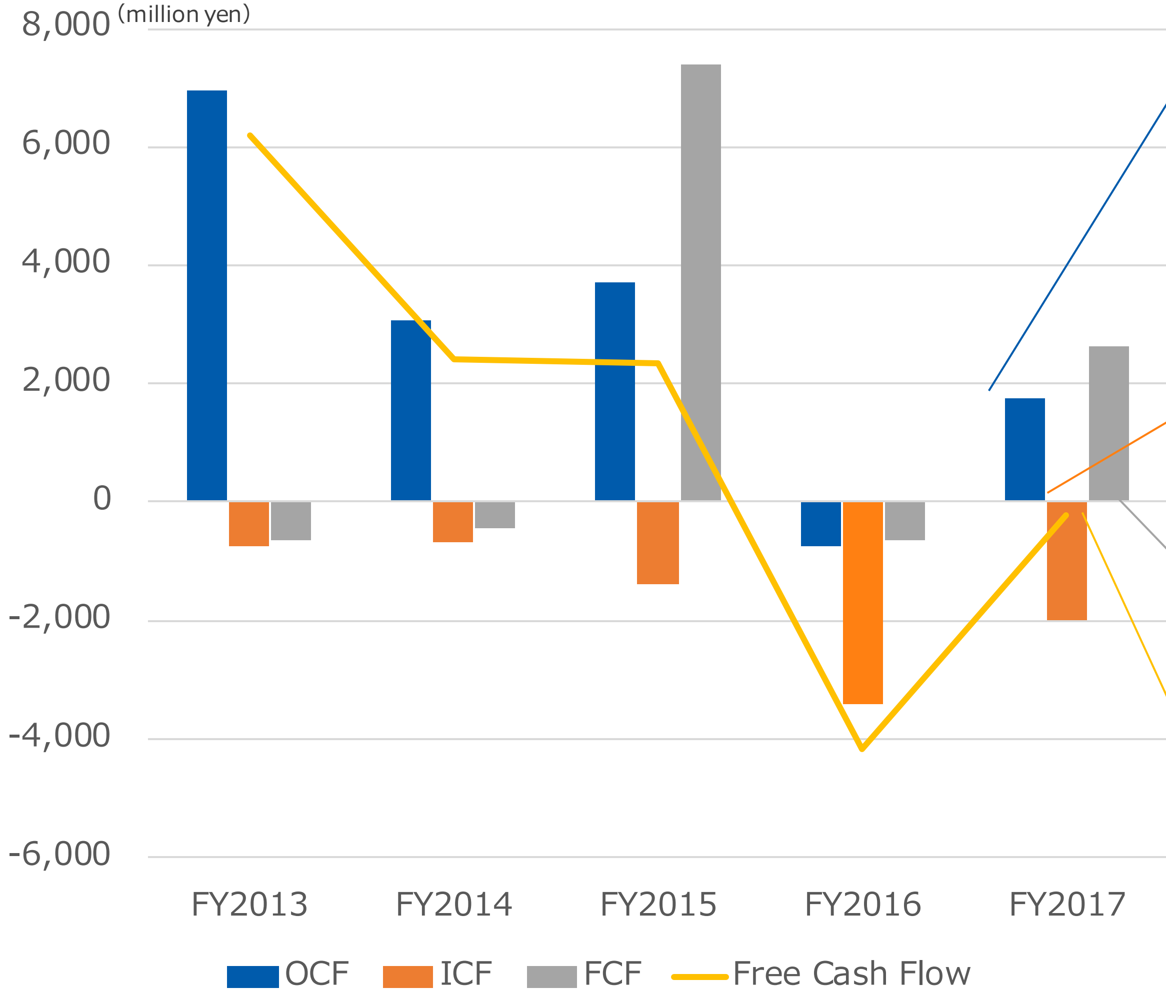
| Year-over-year | |
|---|---|
| Initial | +76.3% |
| Stock | + 24.7% |
| Fee | +152.4% |
| Spread | + 81.6% |




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

# 5.3 Consolidated cash flows

## Positive OCF with earnings growth and deposit growth
## ¥4 billion borrowing to boost MSB




**OCF : +¥1,749 million**

| | |
|---|---|
| Pretax profit | +¥4,470 mil |
| Reserves increase | +¥1,996 mil |
| Advance payments increase | -¥10,417 mil |
| AR increase | -¥12,775 mil |
| AP increase | +¥9,796 mil |
| Deposit increase | +¥9,772 mil |

**ICF : -¥1,984 million**

| | |
|---|---|
| Acquisition of intangible fixed assets | -¥1,065 mil |

**FCF : +¥2,635 million**

| | |
|---|---|
| Long-term borrowing | +¥4,000 mil |
| Dividend payout | -¥1,001 mil |

**Free CF : -¥235 million**

# Thank you very much!

GMO PAYMENT GATEWAY

GMO Payment Gateway Inc.

(TSE:3769)

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