

# Financial results briefing for Q2 of FY2019

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Initiatives to Secure Post-2020 Growth and Tackling Near Term Challenges

May 10, 2019

GMO Payment Gateway, Inc.  
(Code: 3769; TSE-1<sup>st</sup> section)

The 57<sup>th</sup> 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 May 10, 2019.

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

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1. Summary of financial results for Q2 FY2019
2. Future initiatives and growth strategy
3. Financial highlights
4. Reference materials

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# **1. Summary of financial results for Q2 of FY2019**

# 1.0 Industry Topics

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## Our position/stance on recent issues and topics

- ✓ METI “Point Reward Project for Consumers using Cashless Payment” (METI, March 12<sup>th</sup> 2019)
  - 3 Group companies (i.e. GMO-PG, GMO-EP, SGP) have provisionally registered as cashless supporter (Type B)
  - Measures taken to counter adverse impact to merchants with an >3.25% MDS primarily in the card present market
  
- ✓ M&A activity among global major payment gateways
  - FIS (Fidelity National Information Services) acquires UK’s Worldpay (Nikkei, March 19<sup>th</sup>, 2019)
  - SoftBank Group invests in Germany’s Wirecard via CBs (Bloomberg, April 24<sup>th</sup>, 2019)
  - We remain focused on executing timely investments for the imminent global competition
  
- ✓ Japan Post Bank Inc. launches “Yucho Pay,” a QR-code payment service (Nikkei, May 5<sup>th</sup>, 2019)
  - We are positioned to drive cashless-ness as partners to both financial and internet companies
  
- ✓ US FinTech Affirm raises funds from major institutional investors, enters BtoB market (ZDNet, April 23<sup>rd</sup>, 2019)
- ✓ JPMorgan enters into POS financing space (deferred payment) (Forbes, March 4<sup>th</sup>, 2019)
  - The financial leading company hones in on BtoB and deferred payment business

※GMO-PG: GMO Payment Gateway, EP: GMO Epsilon, SGP: SMBC GMO Payment

# 1.1 Financial Results Summary

Revenues up 27.5% YoY, OP up 30.2% YoY, beating guidance

(mil. JPY)	<u>H1 FY2018 Actual</u>	<u>H1 FY2019 Actual</u>	<u>% YoY</u>	<u>FY2019 Full Yr. guidance</u> (H1 Guidance)	<u>% Progress vs. guidance</u> (vs H1 Guidance)
Revenue	12,558	16,015	+ 27.5%	31,850 (15,202)	50.3% (105.3%)
Operating Profit	3,269	4,258	+ 30.2%	8,300 (4,150)	51.3% (102.6%)
Profit attributable to owners of Parent	1,962	2,578	+ 31.4%	5,106 (2,424)	50.5% (106.3%)
EBITDA <sup>*1</sup>	3,702	4,753	+ 28.4%	-	-

	Operating Merchants (end-Q2)	TRX Volume (Q2)	TRX Value (Q2)
KPI <sup>*2</sup>	133,199 stores (+ 50.2%)	≒ 420 mil. (+ 29.6%)	≒ ¥1.0 trillion (+ 24.9%)

\*1 EBITDA = OP + Depreciation \*2 Excludes card present figures, () indicates YoY changes.

# 1.2 Regarding Full year guidance and trend of micropayments

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## On track to achieve Full Year guidance despite various issues

### 1. On track to achieve full year guidance

Even after increasing provisions for bad loans and mainframe upgrade expenses

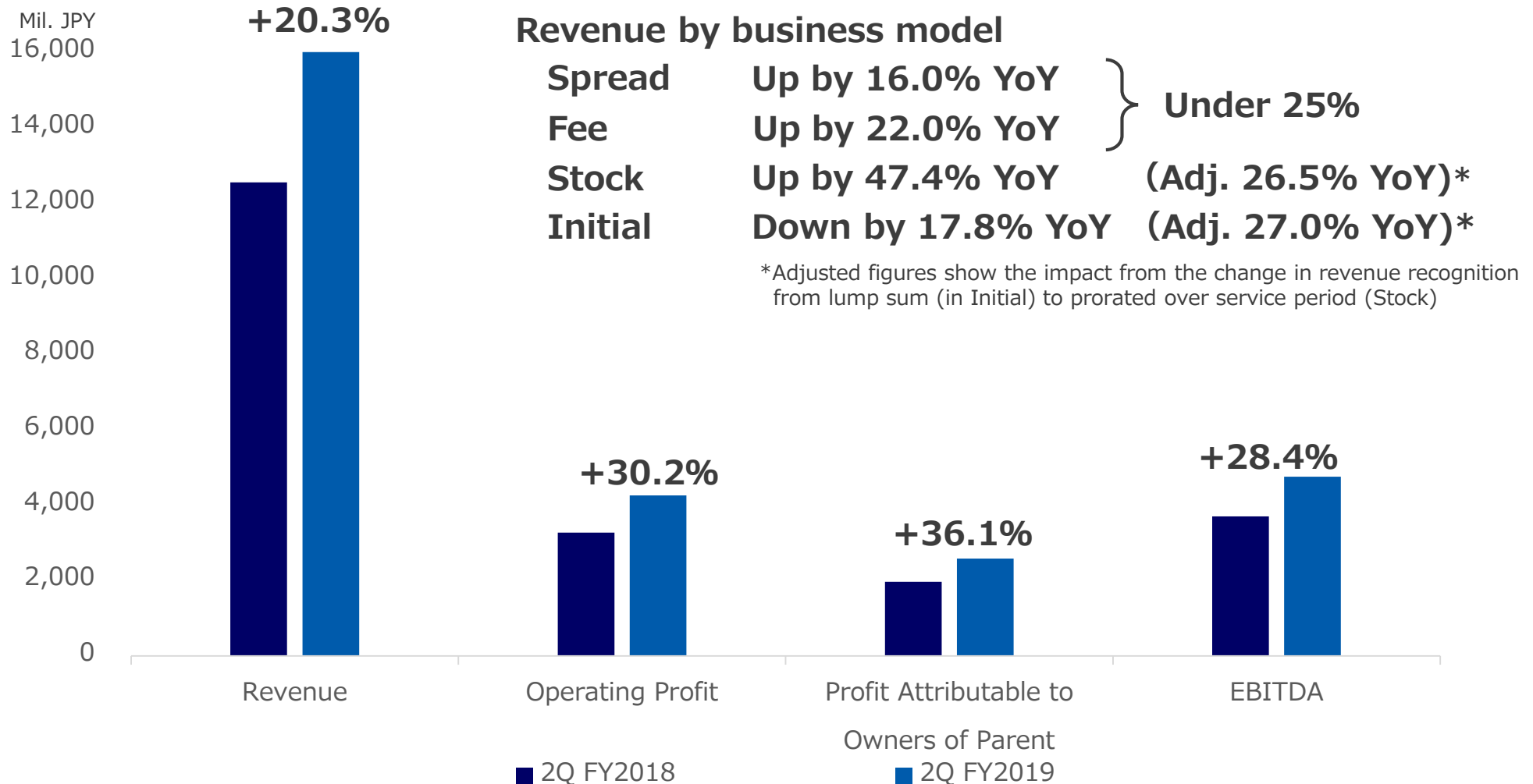
- 2. **TRX Volume (Q2)    ≐ 420 million, up by 29.6% YoY**  
**TRX Value    (Q2)    ≐ ¥1.0 trillion, up by 24.9% YoY**

**Factor 1:** Increase in micropayments  
Smartphone payments and payment for digital contents etc.

**Factor 2:** Unfavorable comps given last term's surge in payment related to cryptocurrency trading

# 1.3 Q2-only earnings

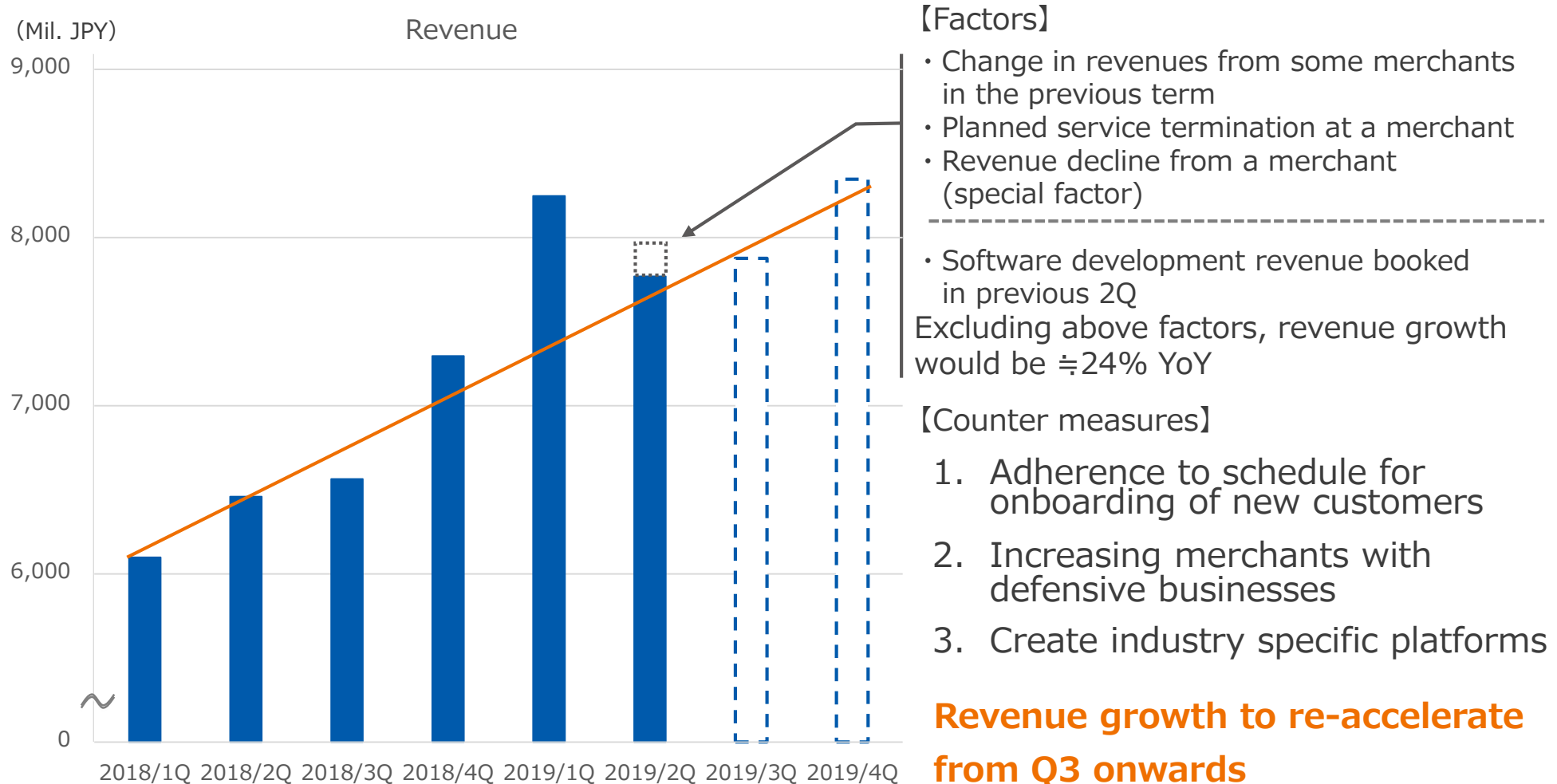
Q2 standalone OP was up 30.2% YoY, while revenue growth was up by 20.3% YoY





# 1.4 Reasons for Q2-only revenue increase of 20.3% YoY

Revenue affected by one-offs and special factors, but topline growth to accelerate from Q3 onwards



※ Forecast for 2019/3Q・4Q is based on estimates as of May 7<sup>th</sup> 2019.

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## 2. Future Initiatives and Growth Strategy

# 2.1 Product portfolio of focus areas and growth strategy

## Concrete measures for the 5 focus areas

### Broader EC

- New customer wins (Large-scale, growth oriented)
- ARPU growth from cross-selling
- **SMCC & VISA**
- Build large scale non-merchandise business

### FinTech

- Expansion and margin increase of GMO PaD\*
- **B2B Factoring (partnership with Informart Corporation)**

### Global

- Expansion of global lending service
- Capture the opportune timing into growth areas
- Diversified portfolio strategy

### Cashless

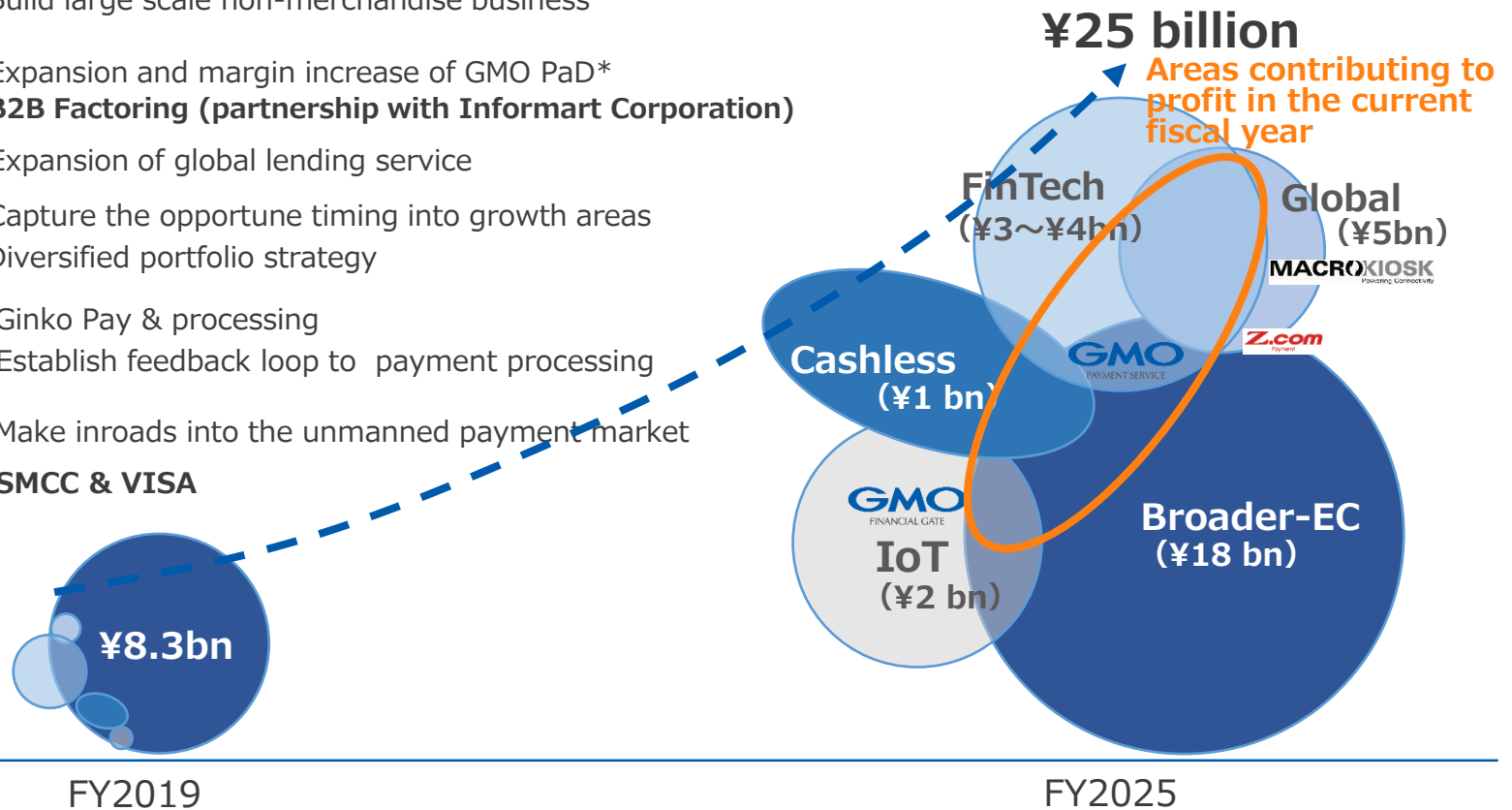
- Ginko Pay & processing
- Establish feedback loop to payment processing

### IoT

- Make inroads into the unmanned payment market
- **SMCC & VISA**

**Secular  
above-25%  
OP growth**

Broader-EC market: 20%  
Other Areas: 5%



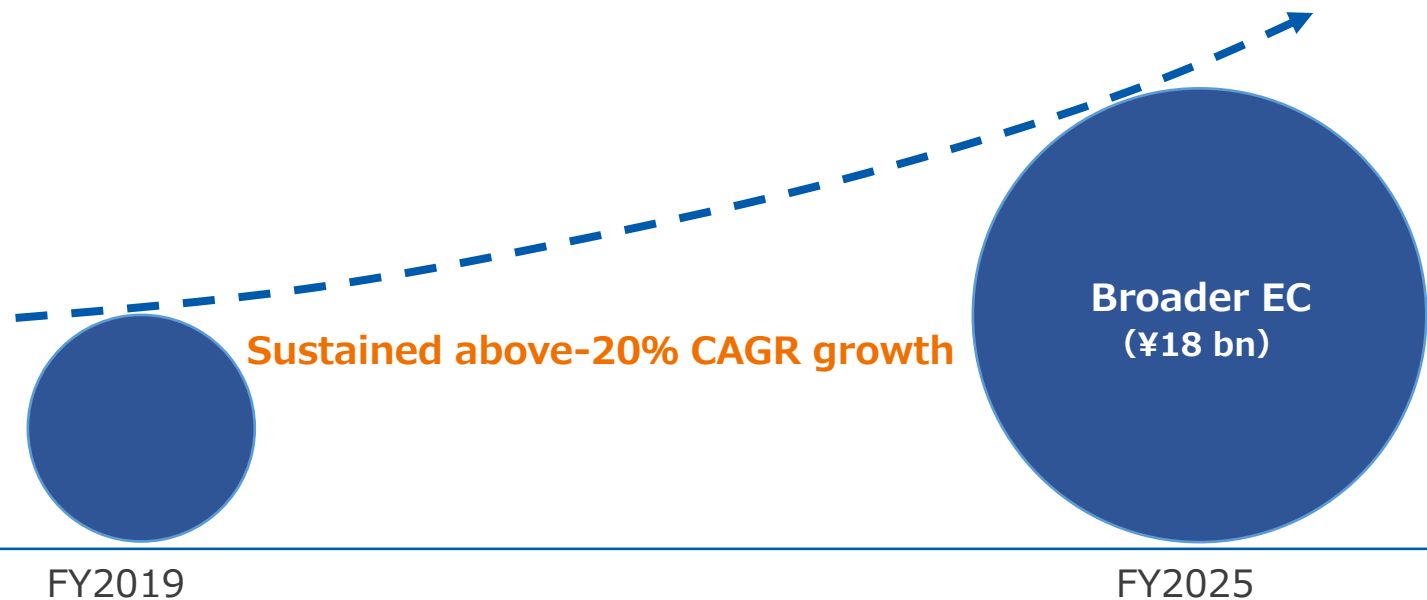
\* PaD stands for Payment after Delivery

※ Figures in parentheses represent the targeted OP image in each of the areas (unit: billion JPY)

## 2.2.1 Broader EC Market

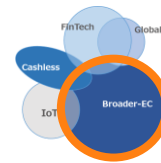
**Executing the 25% growth plan aimed at realizing a 20% CAGR medium/long term growth**

- 25% Growth Plan**
- Reinforcing sales to acquire large-scale & high-growth merchants
  - ARPU uplift from cross-selling
  - Making inroads into the B2B market
  - Focus on growth areas (Shared economy, subscription services, etc.)
  - Acquire large-scale & non-merchandise businesses (e.g. infrastructure, utility)



※ Figures in parentheses show the OP target of each areas.  
Unit: billion JPY

## 2.2.2 Broader EC: Strengthening IT system for enable further business growth



Preparing for a 30% transaction growth in the next 5 years while maintaining OP over-25% CAGR growth

### Upgrade of mainframe system

#### Purpose 1

#### Improving processing capacity (4.3x)

Expanding resource/capacity

- Upgrade/Expansion of database (capacity increase)
- Server capacity increase & improved performance

Expand authorization processing capacity to withstand a 30% increase in TRX volume versus current levels in 5 years

#### Purpose 2

#### Improve operability and performance

Revise system architecture

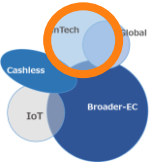
- Application refactoring of major apps, microservices architecture
- Traffic flow control, transaction spike readiness
- Simplification of OEM, etc.

#### Purpose 3

#### Improvement of merchant service

UI/UX renewal

## 2.3.1 FinTech: Assets and profit growth



### Margin improvement of GMO PaD\*; rapid growth of global lending

#### Growth strategy

#### ① Expansion of GMO PaD

- Expand merchant footprint and TRX value

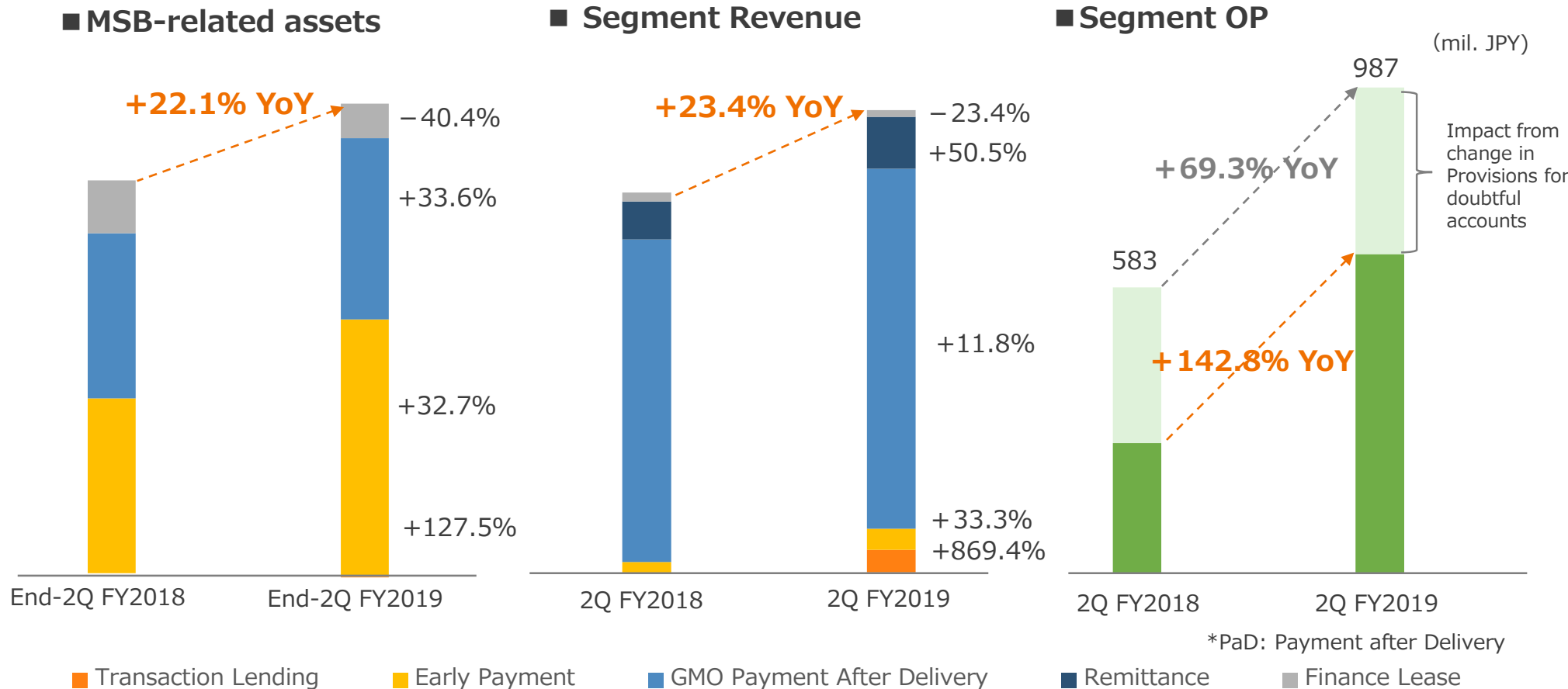
#### ② Margin Improvement

- Accumulate and analyze payment data
- Deploy AI

#### ③ Expand service line-up

- B2B-type MSB services, etc

% indicates YoY change

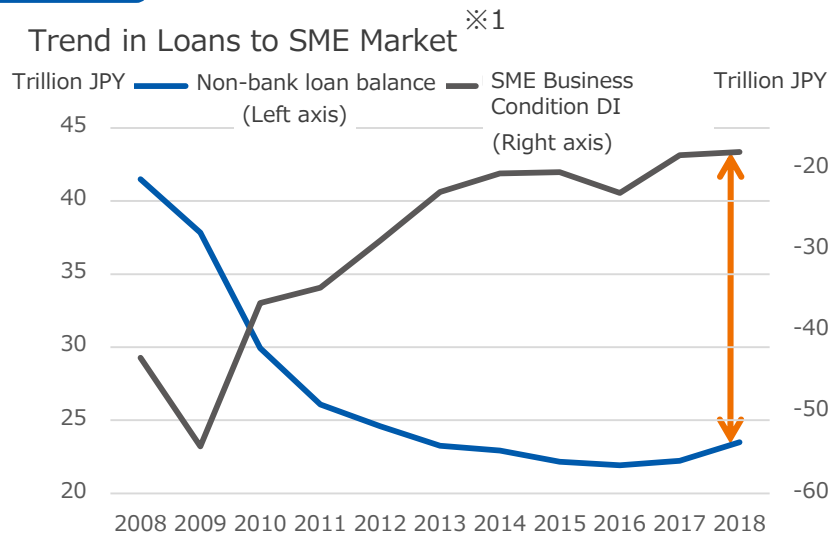


## 2.3.2 FinTech: BtoB Factoring

**Launched Upfront Payment of receivables to address funding crunch at SMEs with high cash needs**

**Provide GMO BtoB Early Payment to Infomart from September 2020 onwards**

**Backdrop** Supply gap widening for SMEs funding



### Initiatives

Provide a financing-and-payment service through receivables factoring to human-resource and time-constrained SMEs

(※1) Source: Small and Medium Enterprise Agency "SME Business Conditions Survey," Financial Services Agency Stats on Money Lending Business

(※2) Source: Ministry of Finance Policy Research Institute Financial Statements Statistics of Corporation by Industry Issue 798 (Oct. 2018), Aggregate of receivables of corporates with capital of less than ¥100 million.

(※3) Figures are based on Informart Corporation's press released dated February 28<sup>th</sup> 2019, "BtoB Platform Invoicing" for customer companies and FY2018 GMV figures.

Addressable Market =  
Receivables at SMEs  
**¥78 trillion** ※2

**Info Mart Corporation**

BtoB Platform Invoicing

**Annual GMV ¥6.3 trillion** ※3

Customer companies 280,000



## 2.4.1 Cashless: Ginko Pay

**Broad coverage of QR-code payment (a.k.a. smartphone payment) including internet companies and financial institutions**

### Internet related

**15 out of 26 companies involved**

- ① provision of payment foundation: 6 companies
- ② provision of charge infrastructure: 4 companies
- ③ mounted on our mainframe system: 7 companies

### Finance related

**Ginko Pay adopted by 11 banks**

Launch of Yucho Pay

Plan to enable mutual-accessing of merchants on the QR-code payment services offered by the 3 megabanks

October 2019 onwards

**Bank Pay**

Mutual access  
of merchants

Connected to 11 banks

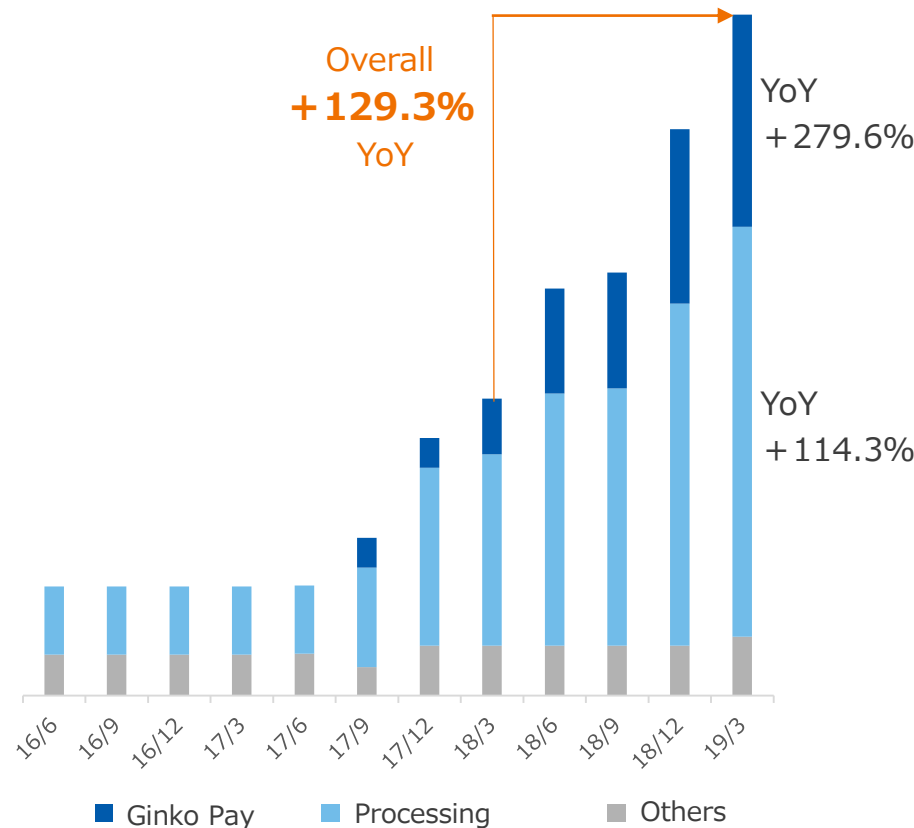
**銀行 Pay**



## 2.4.2 Cashless: Cash withdrawal service

### Strong start of cash withdrawal service: stock revenue momentum robust

#### ■ Stock revenue trend from services to FIs



Started cash withdrawal service at ticket machines\* at all Tokyo Line train stations from May 8<sup>th</sup> 2019

#### Significance

- Acts as a bridge between the imminent cashless society and immediate cash payment needs
- Highly convenient location of cashing

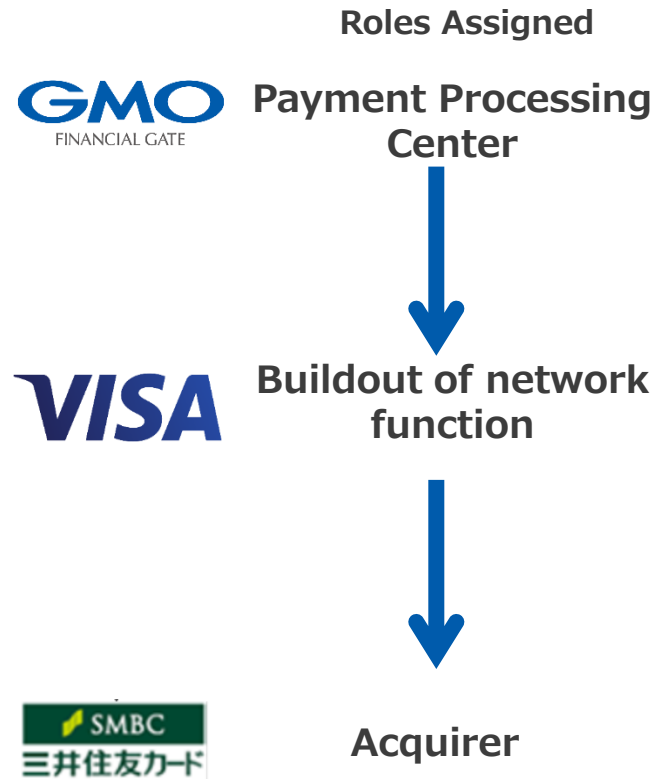


\* Excluding Kodomo-no-Kuni Line and Setagaya Line

## 2.5 IoT/Card Present: Next Gen Payment Platform

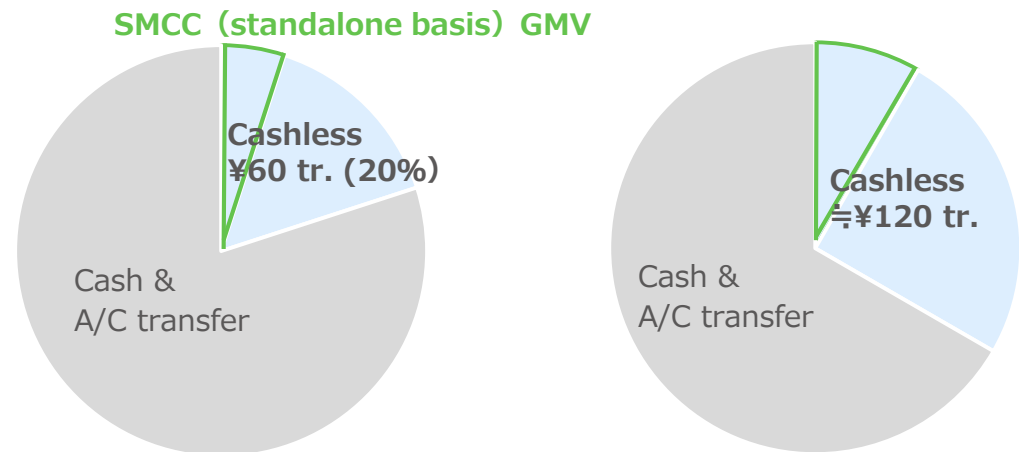
Finalize and sign agreement in May, aim for early service rollout

### Project Overview



### Addressable market and estimated business size for GMO-PG

	2019	2025
Cashless Market	¥65 trillion	≒¥120 trillion
GMO-FG TRX (GMO-PG TRX)	¥0.3 trillion (¥4 trillion)	? trillion ( ? trillion)

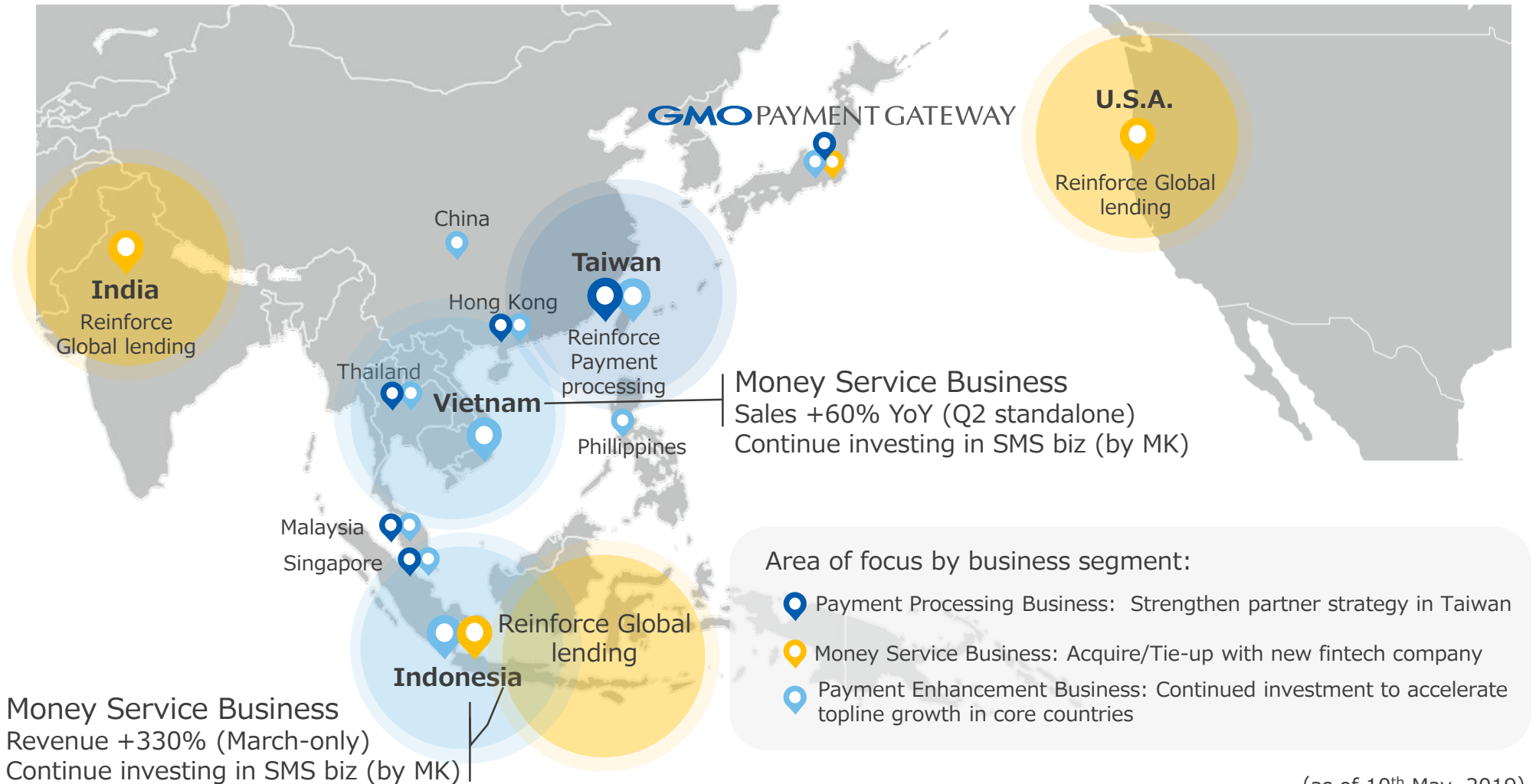


**Accelerated growth of Group's GMV expected with the start of operation of the payment platform**

\*Figures for the year 2025 is based on our estimates

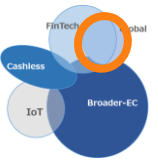
## 2.6.1 Global: Overseas business and focus areas

### Steady progress in each region and region-specific strategies



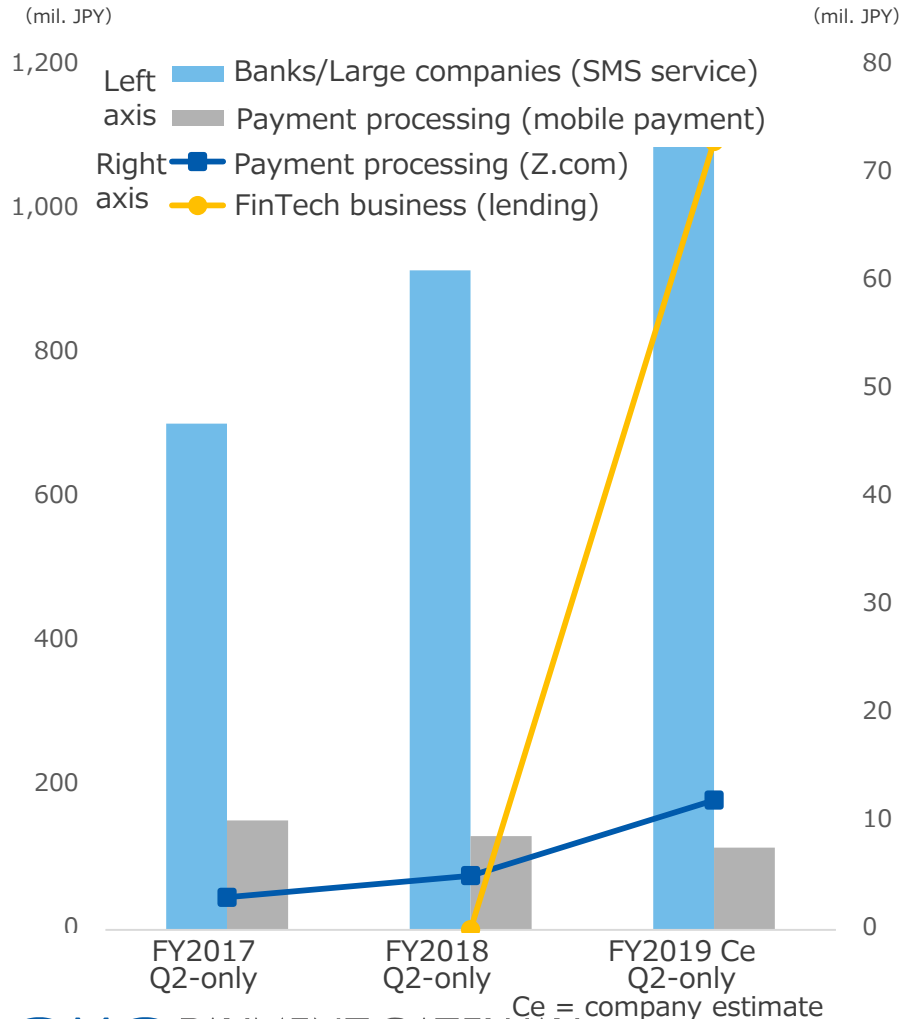
(as of 10<sup>th</sup> May, 2019)

# 2.6.2 Global: Q2 achievements & growth strategy



Focus on diversifying portfolio, laying groundwork for payment processing

## ■ Global: Quarterly revenue by business line



### ■ SMS service (MK) +22.8% YoY \*

Investments yielding results in core strategic countries (Vietnam, Indonesia)

### ■ Carrier billing (MK) –12.0% YoY

Considering overhaul of business & resource reallocation

### ■ Payment processing (Z.com) +109.3% YoY

Strengthen market-entry support to Japanese companies particularly in Taiwan

### ■ FinTech (Lending) Q2-only revenue ¥73 mil.

Pursue highly-selective investment/loan and alliance with promising fintech firms

(The quarterly sequential decline in profit is due to year-end seasonal decrease in the outstanding balance)

\* Comparison with previous year's Q2-only figure.

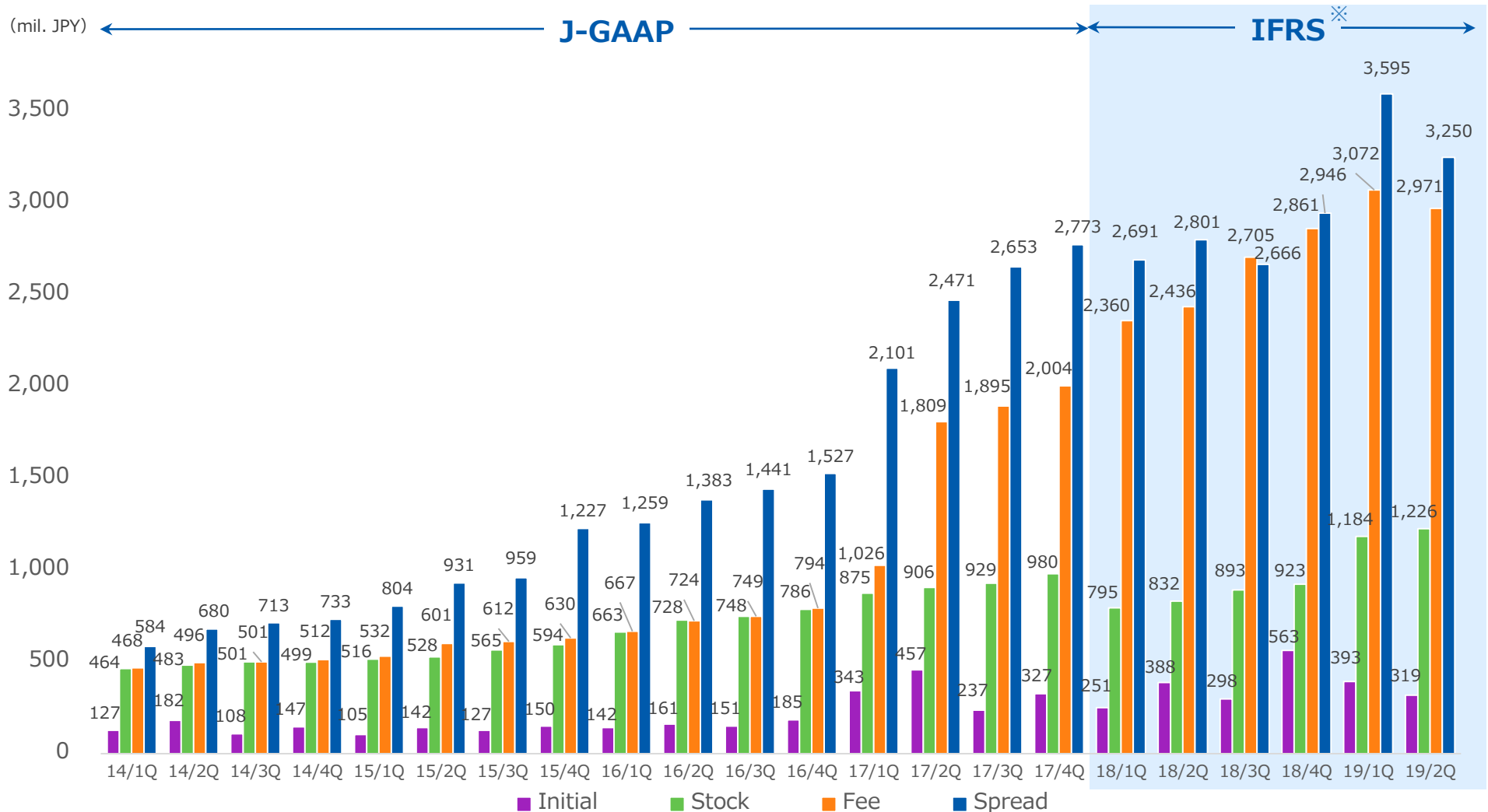
SMS service (MK) gross margins are lower than carrier billing (MK)  
MK: Macro Kiosk Berhad

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## 3. Financial Highlights

# 3.1 Revenue by business model

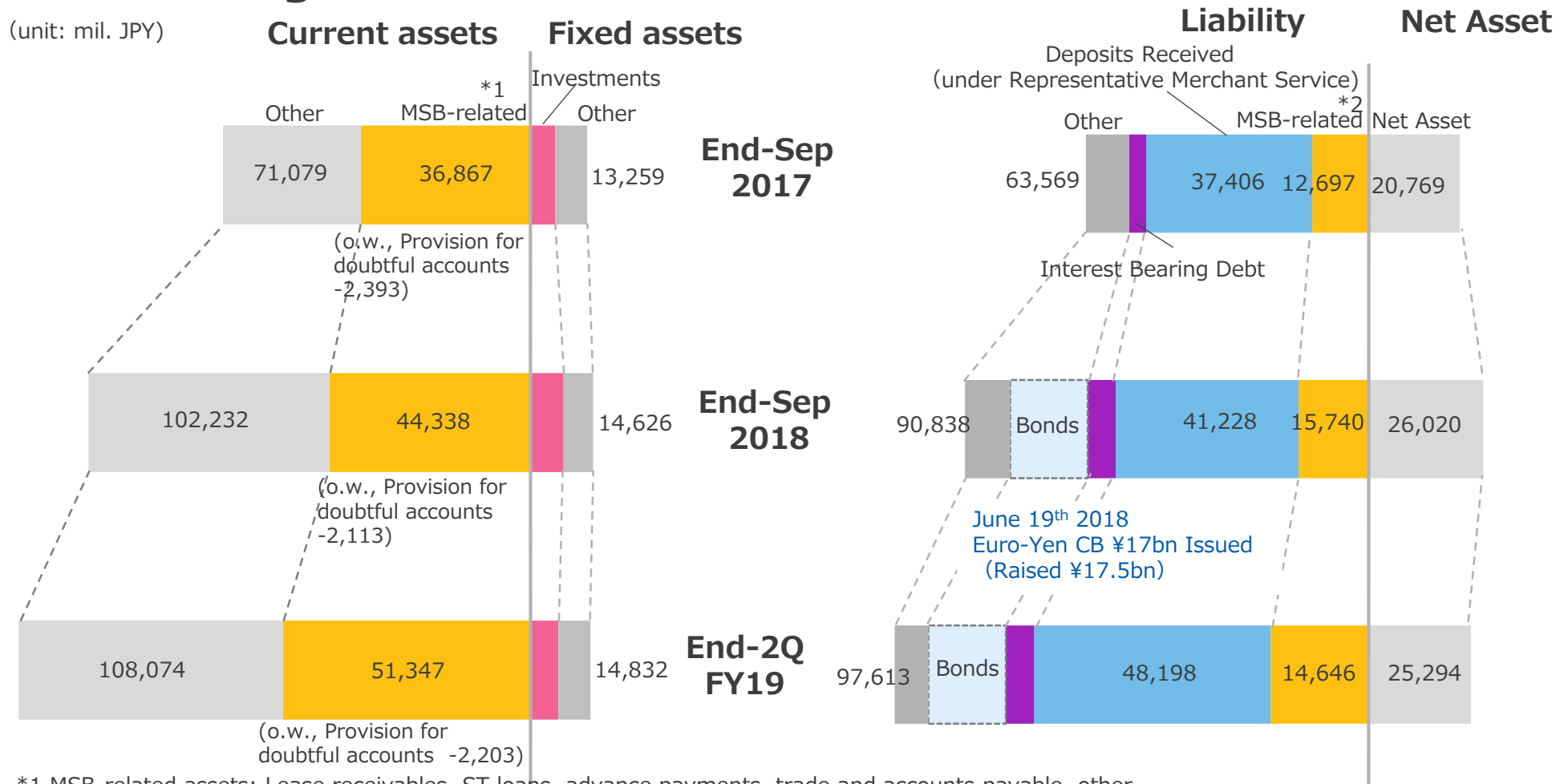
## Quarterly trend of revenue by business model



※Online advertising service (stock) and finance lease (spread) revenues are recognized as a net amount with IFRS adoption rather than gross method.

## 3.2 Balance Sheet changes

### Increase in deposits received and MSB-related assets; capital raised through Euro-Yen CB Issue



\*1 MSB-related assets: Lease receivables, ST loans, advance payments, trade and accounts payable, other.

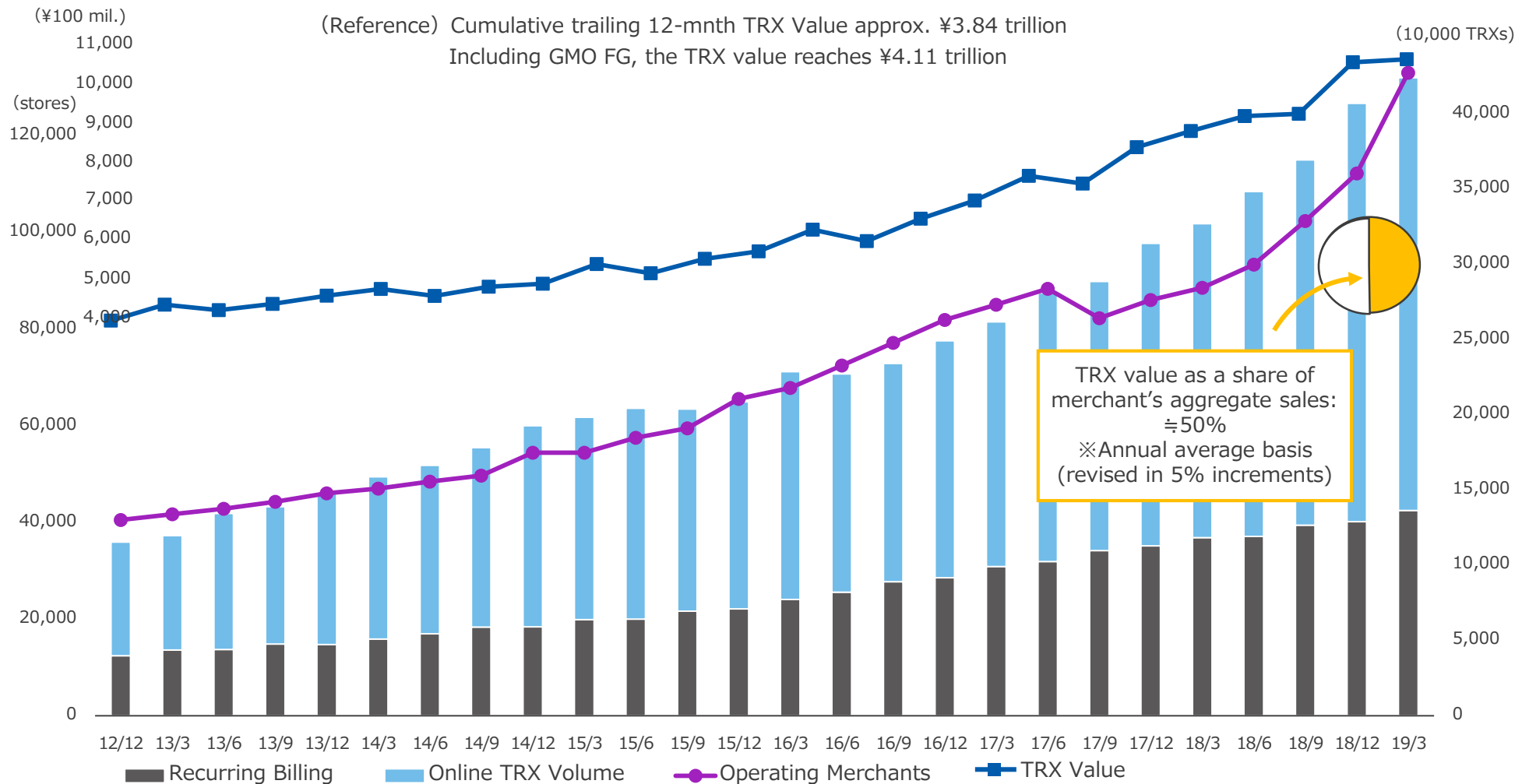
\*2 MSB-related liabilities: accounts payables, expenses accrued

\*3 Some amounts are recognized as the net amount of financial assets and financial liabilities.

# 3.3 Major Quarterly KPIs

## Group-wide annual TRX value reaches ¥4.1 trillion

**Operating merchants: 133,199 stores, TRX volume approx. 420 mil., TRX value approx. 1 trillion.**



\* The number of merchants dropped in end-Sep compared to end-Jun 2017 due to a service termination by a partner, causing the suspension of services.

\* Number of operating merchants are measured on an end-of-quarter basis, while TRX value and volume are the total for the respective quarter.



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## 4. Reference materials

# 4.1 Factors affecting earnings for cumulative 2Q period

Revenue grew 27.5% YoY, OP grew by more than 30%

## Revenue

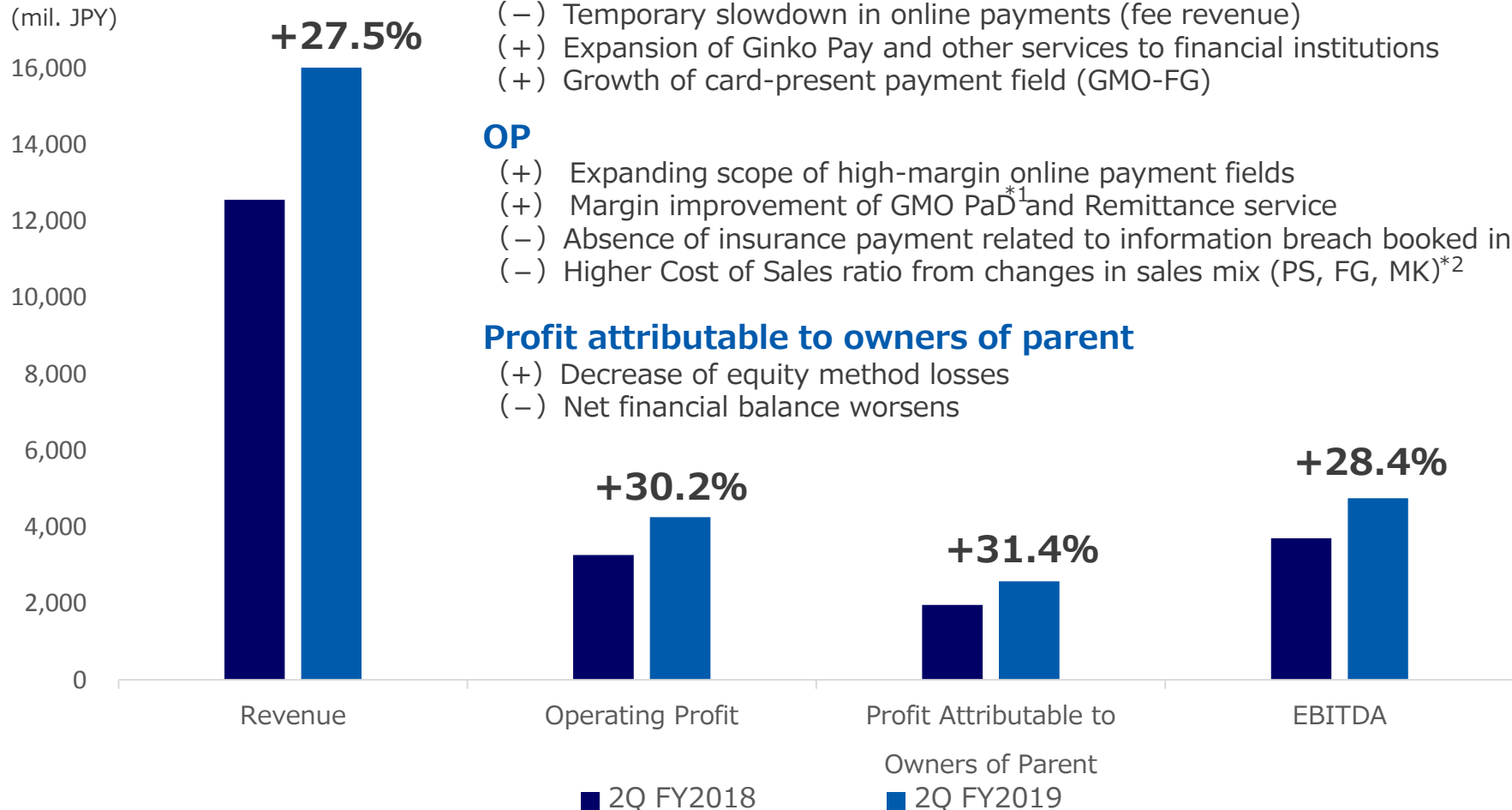
- (+) Continued strong growth of online payment (spread revenue)
- (-) Temporary slowdown in online payments (fee revenue)
- (+) Expansion of Ginko Pay and other services to financial institutions
- (+) Growth of card-present payment field (GMO-FG)

## OP

- (+) Expanding scope of high-margin online payment fields
- (+) Margin improvement of GMO PaD<sup>\*1</sup> and Remittance service
- (-) Absence of insurance payment related to information breach booked in previous 1Q
- (-) Higher Cost of Sales ratio from changes in sales mix (PS, FG, MK)<sup>\*2</sup>

## Profit attributable to owners of parent

- (+) Decrease of equity method losses
- (-) Net financial balance worsens



\*1 PaD : Payment after delivery

\*2 PS : GMO Payment Service

FG : GMO Financial Gate

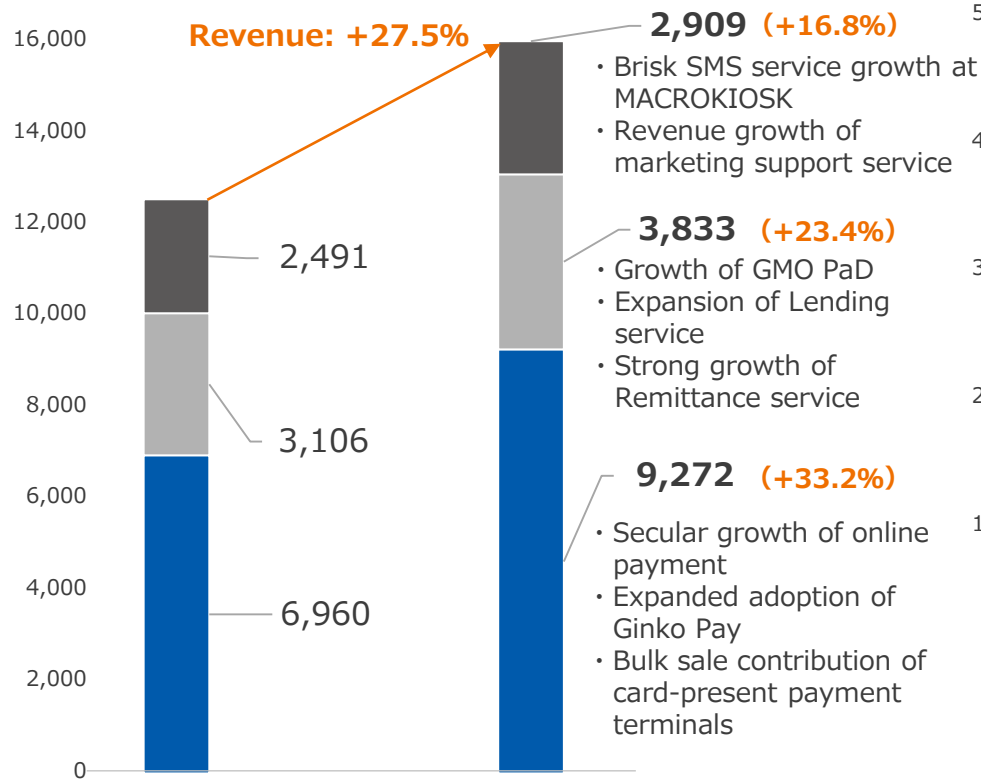
MK : Macro Kiosk Berhad

## 4.2 Cumulative Q2 Segment Revenue and OP

Payment Processing & MSB recorded higher revenue and OP, offsetting the strategic losses in Payment Enhancement Business due to upfront investments

### ■ Segment Revenue

(mil. JPY)  
18,000



- Brisk SMS service growth at MACROKIOSK
- Revenue growth of marketing support service

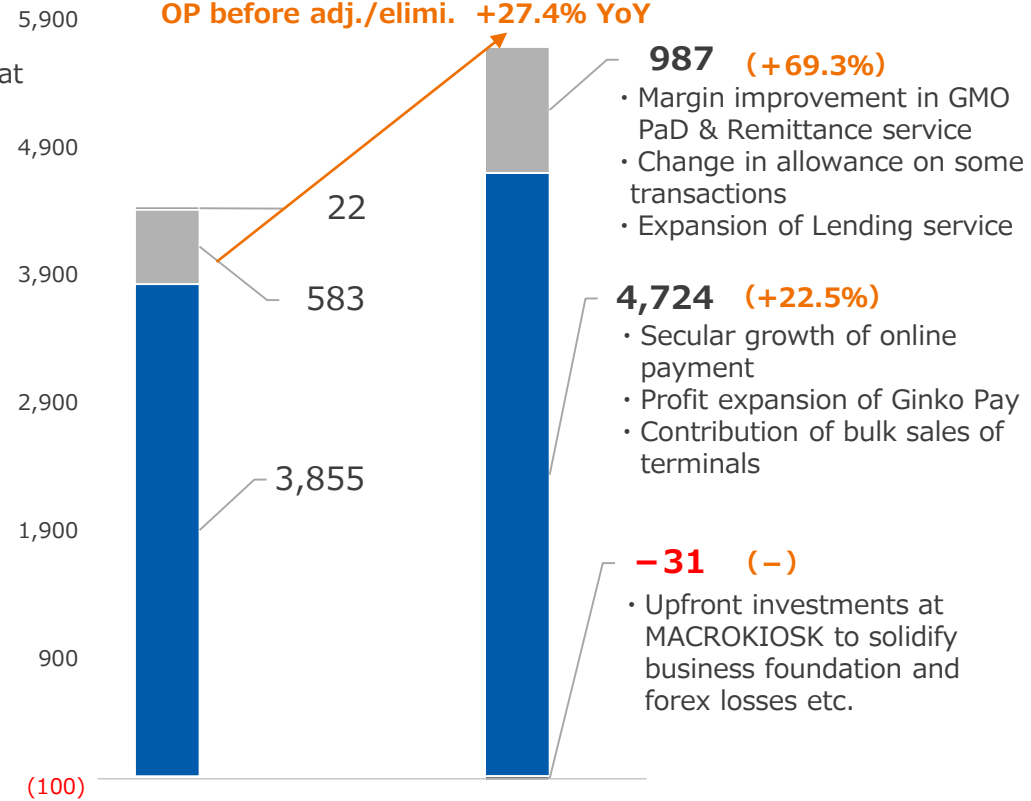
- Growth of GMO PaD
- Expansion of Lending service
- Strong growth of Remittance service

- Secular growth of online payment
- Expanded adoption of Ginko Pay
- Bulk sale contribution of card-present payment terminals

### ■ Segment OP before adjustments & eliminations

(mil. JPY)

**Consoli. OP +30.2% YoY**  
**OP before adj./elimi. +27.4% YoY**



- Margin improvement in GMO PaD & Remittance service
- Change in allowance on some transactions
- Expansion of Lending service

- Secular growth of online payment
- Profit expansion of Ginko Pay
- Contribution of bulk sales of terminals

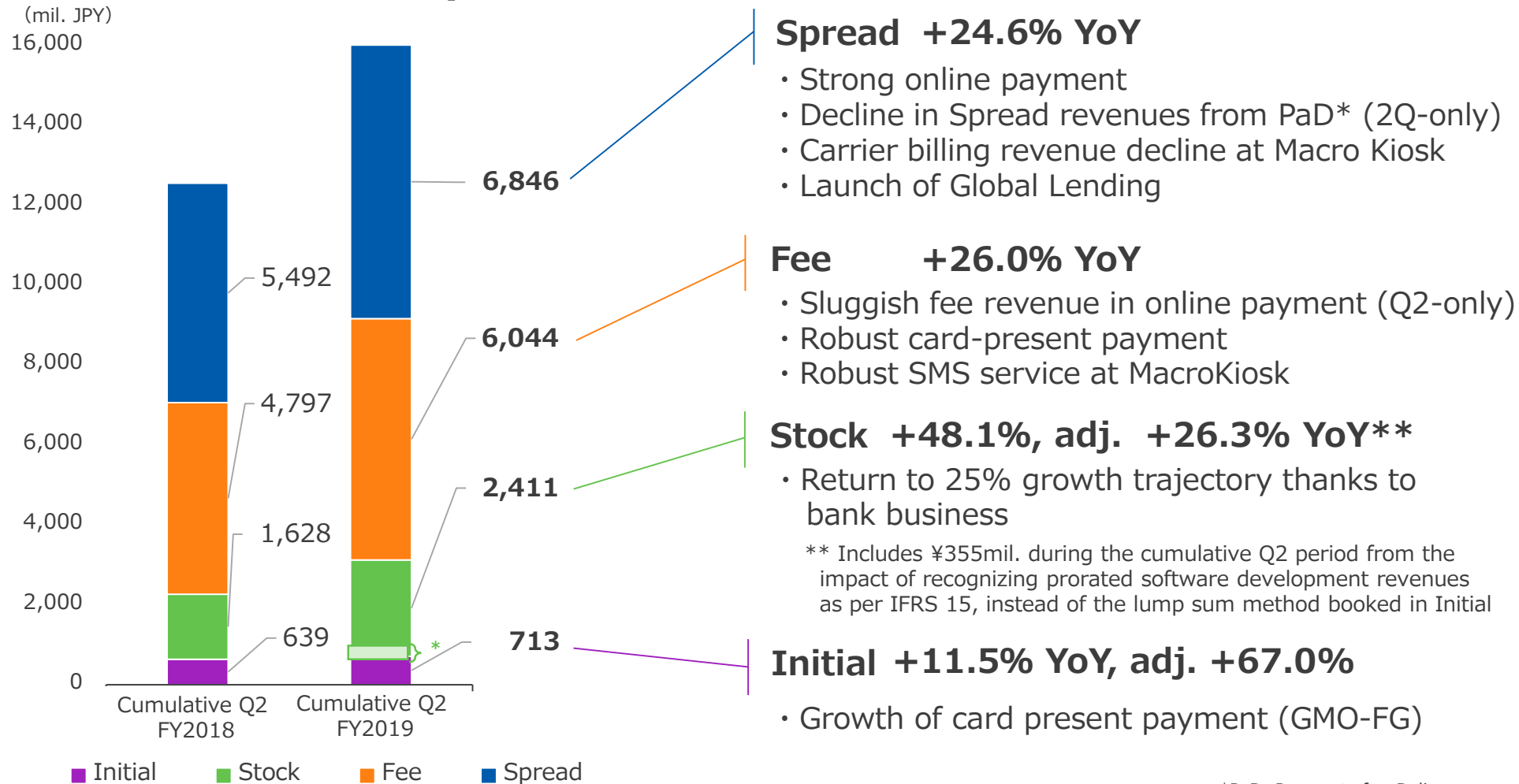
- Upfront investments at MACROKIOSK to solidify business foundation and forex losses etc.

\*PaD: Payment after Delivery  
( ) : % YoY

■ Payment Enhancement Business ■ Money Service Business (MSB)  
■ Payment Processing Business

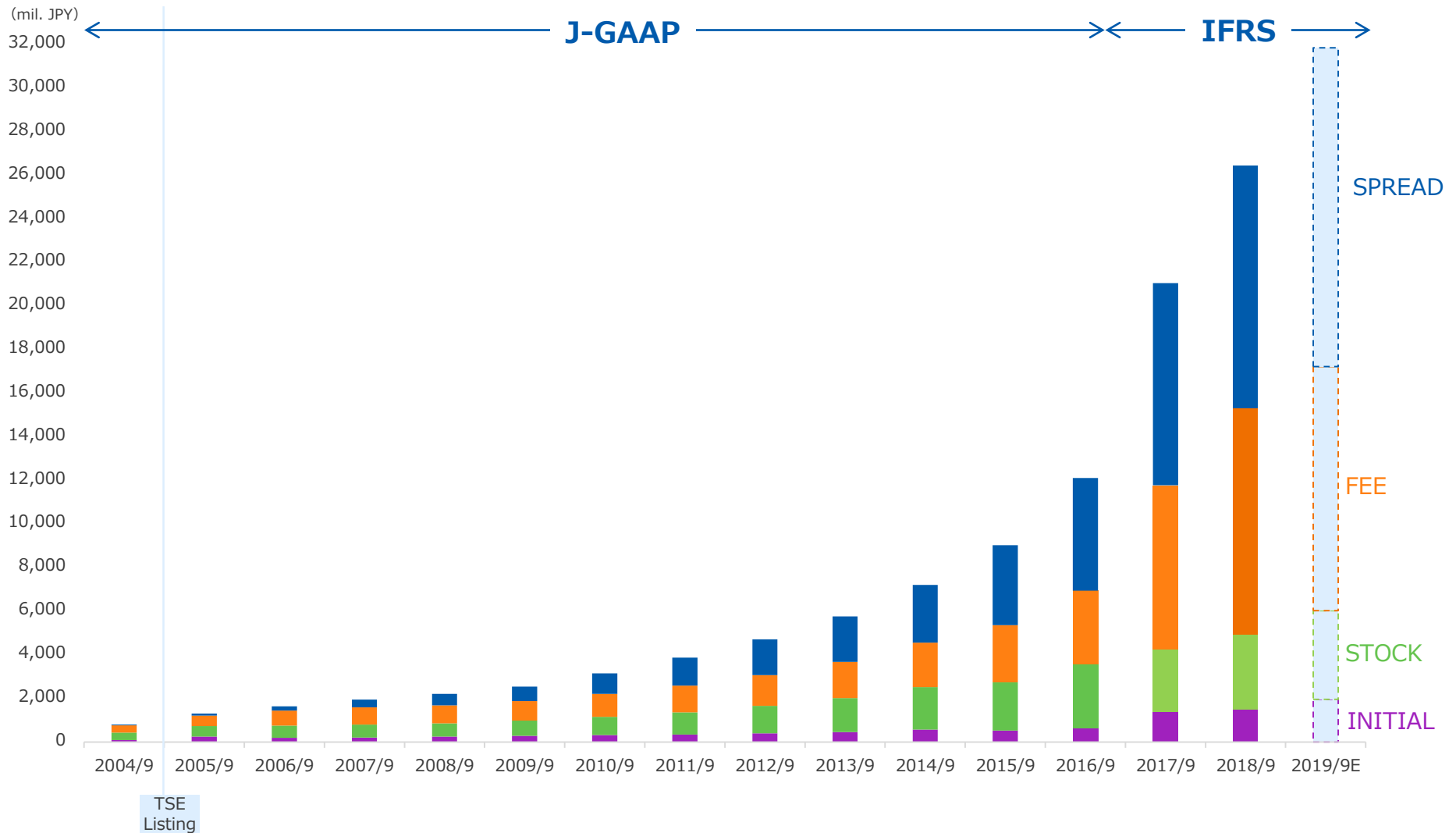
## 4.3 Cumulative Q2 Revenue breakdown by business model

Achieved over-25% YoY growth despite slower-than-1Q growth in Fee and Spread revenues



## 4.4 Revenue trend by business model (annual)

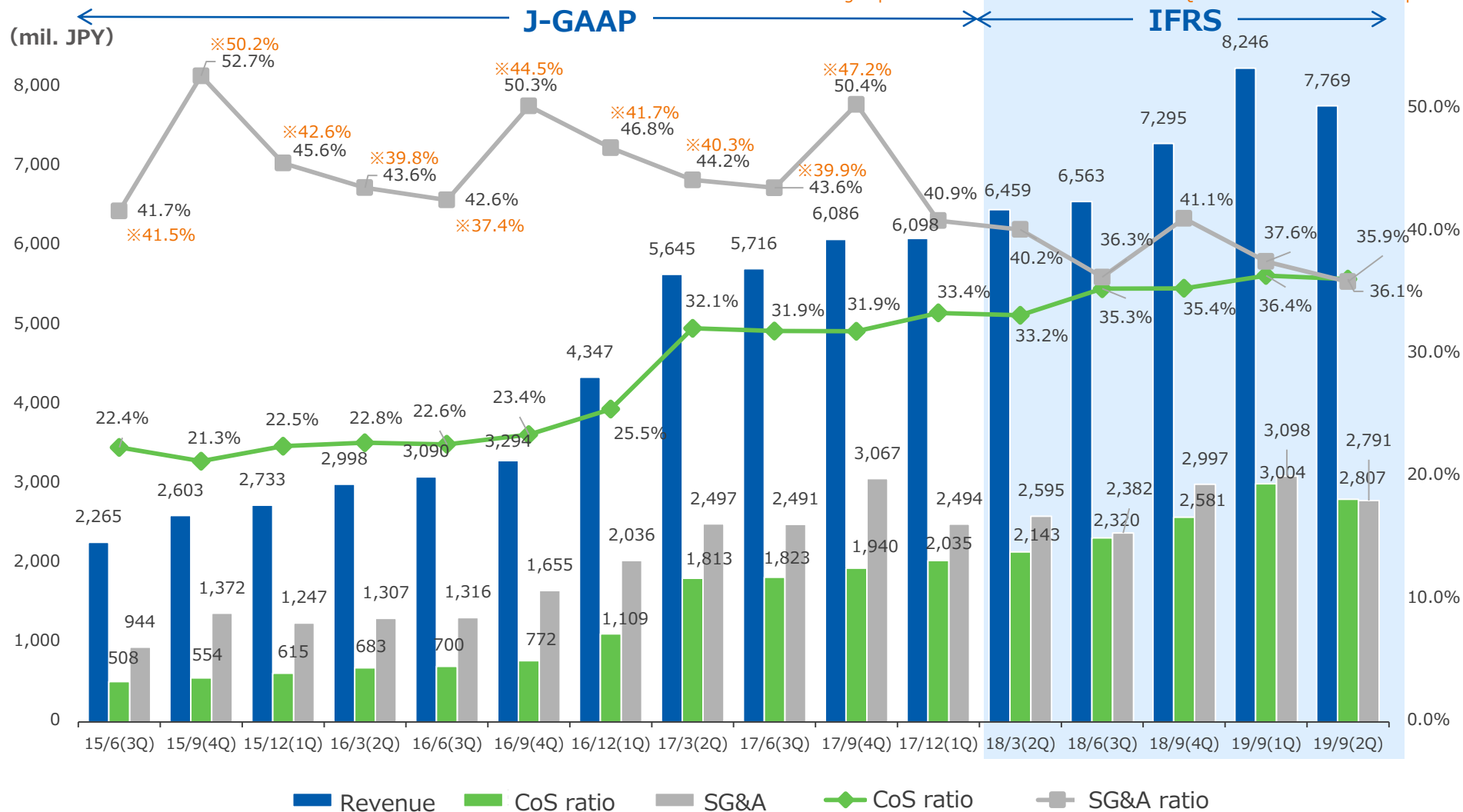
### Pursue balanced growth of each business model



# 4.5.1 Quarterly trend of CoS and SGA ratio

## CoS ratio fluctuates with changes in sales mix

\*Figures with asterisk exclude outsourcing expense related to MSB.  
These outsourcing expenses are not booked in SG&A from Q1 FY2018 due to IFRS adoption.

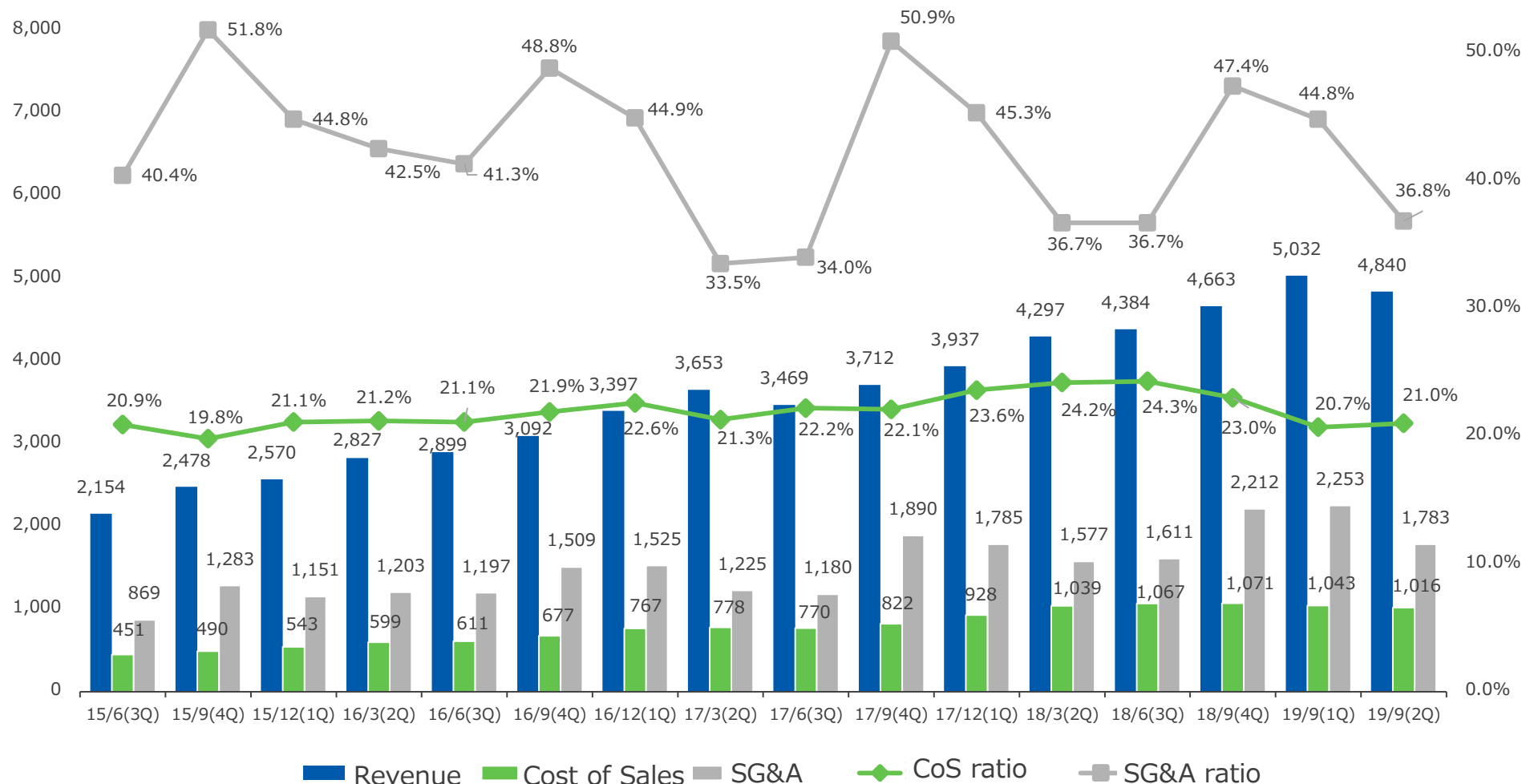


## 4.5.2 Quarterly trend of PG and EP's CoS and SGA ratio

### CoS ratio fluctuates with changes in sales mix

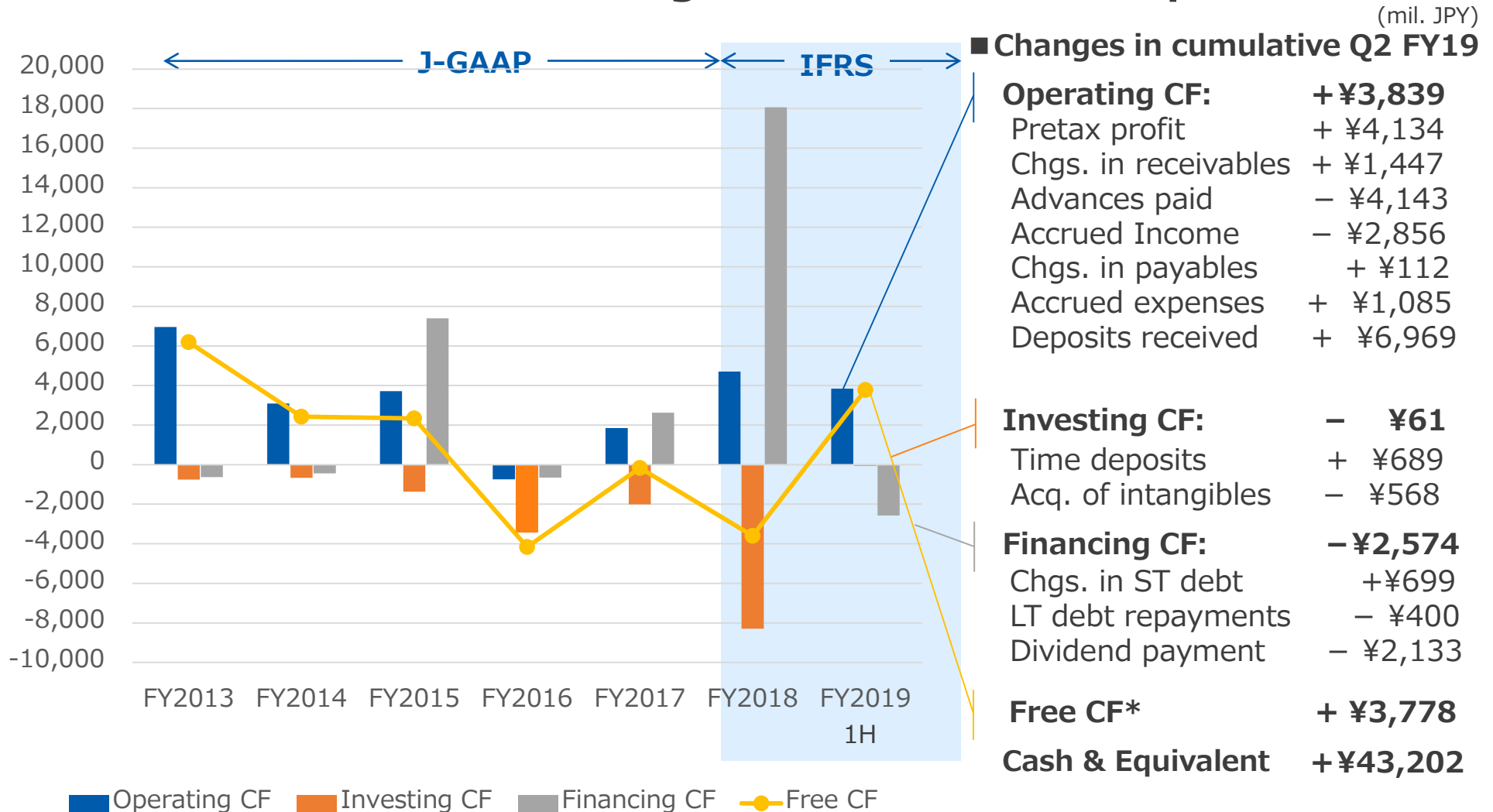
\*All figures are based on J-GAAP  
PG: GMO-PG, EP: GMO Epsilon

(mil. JPY)



## 4.6 Consolidated CF Statement

### Positive FCF thanks to earnings and increase in deposits received





# Thank You Very Much

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## **GMO** PAYMENT GATEWAY

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

URL : <https://corp.gmo-pg.com/en/ir/>

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