

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

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Incident report and business results for the current fiscal period

May 1, 2017

GMO Payment Gateway, Inc.

(3769: Tokyo Stock Exchange section-1)

The 49<sup>th</sup> IR Meeting

**GMO** PAYMENT GATEWAY

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

# **A Cautionary Note About the Contents of this Document**

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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

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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

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# 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

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## 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

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## 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.

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## **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   |

| KPI | Number of operating stores (end of period) | Amount of processed payments (2Q estimate) | Number of processed payments (2Q estimate) |
|-----|--|--|--|
|     | 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

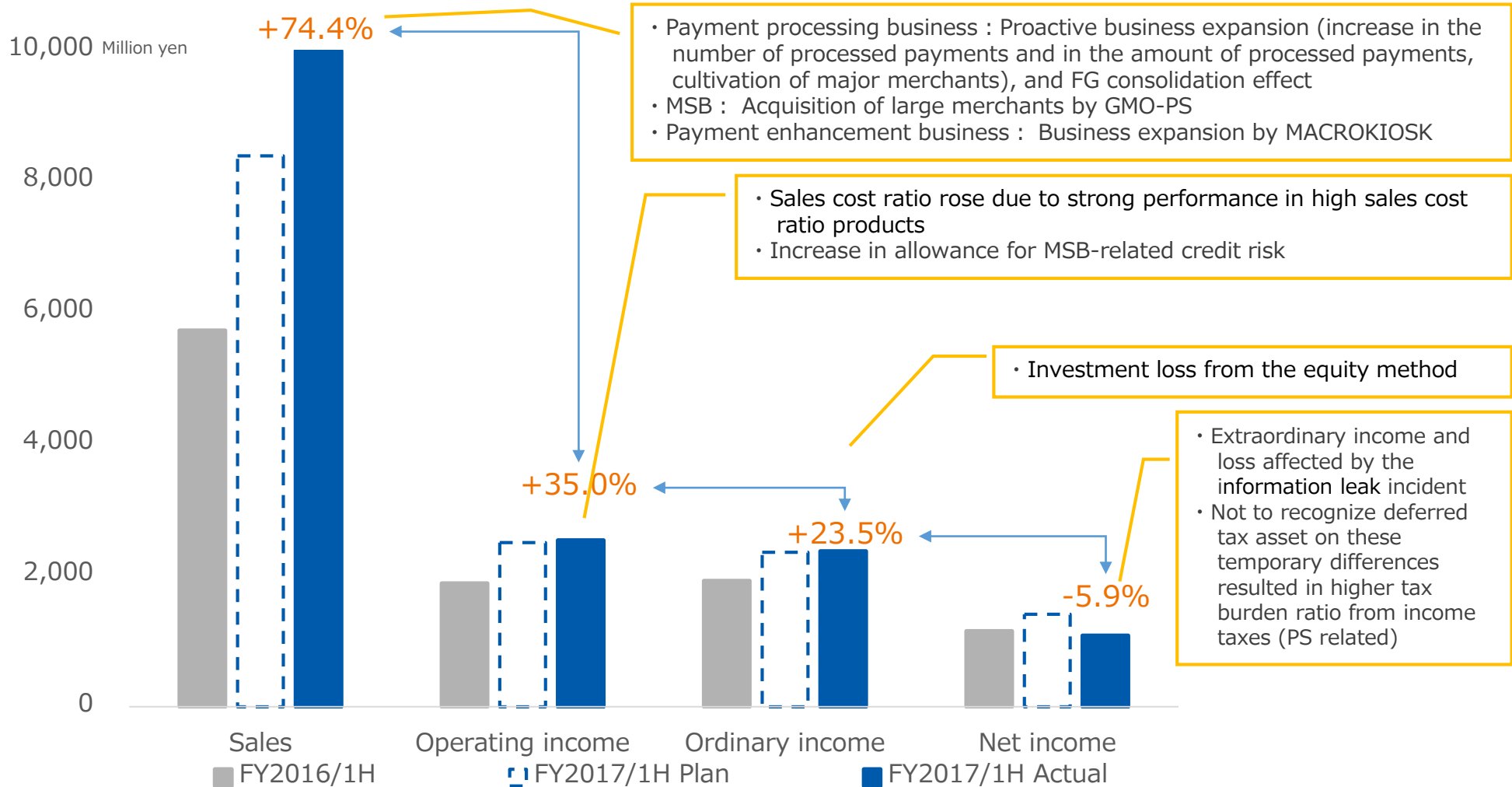
Extraordinary income and loss affected by the information leak incident

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

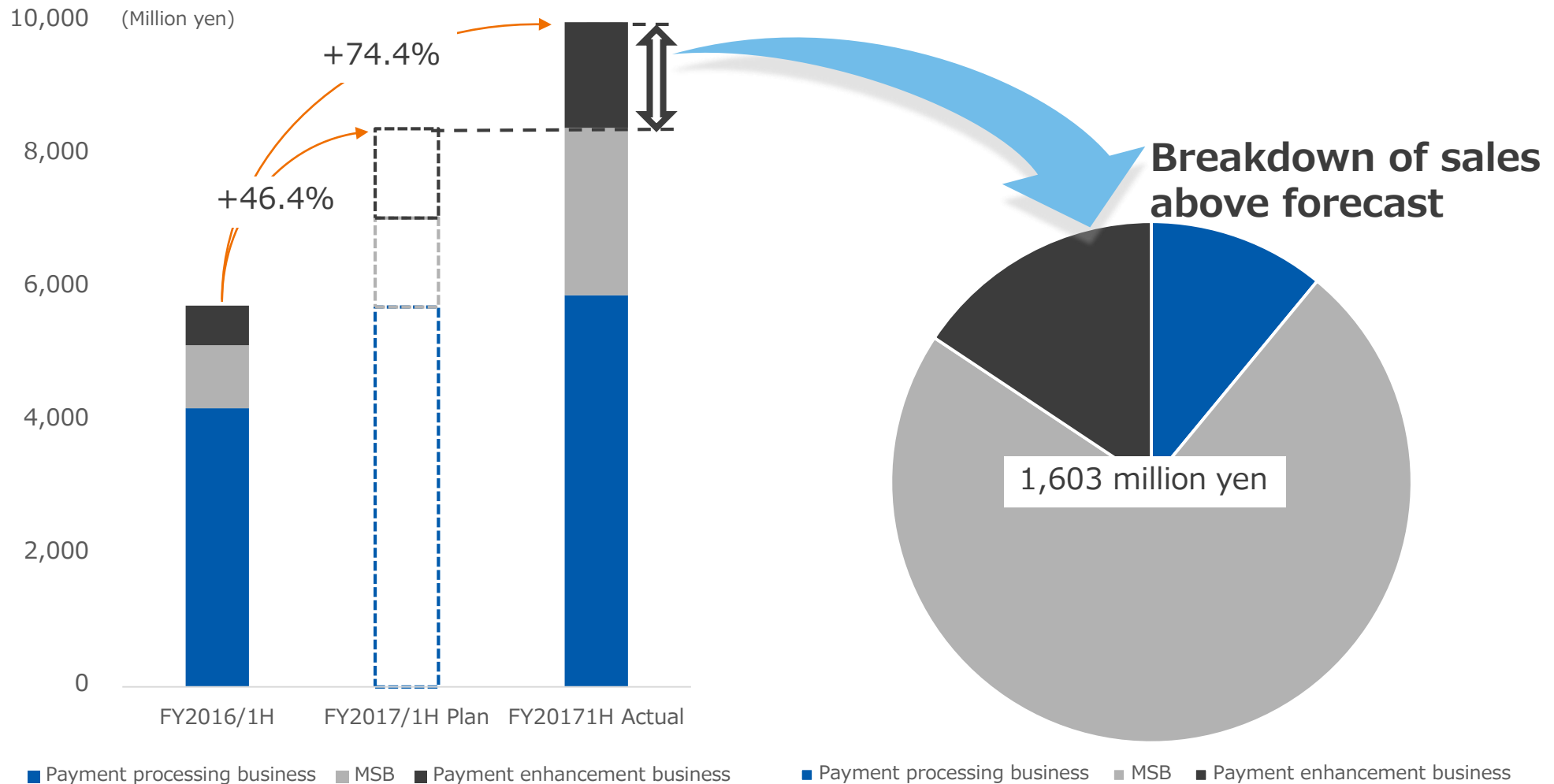
**Sales up 74.4% , net income down 5.9% because of the impact of income taxes**



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

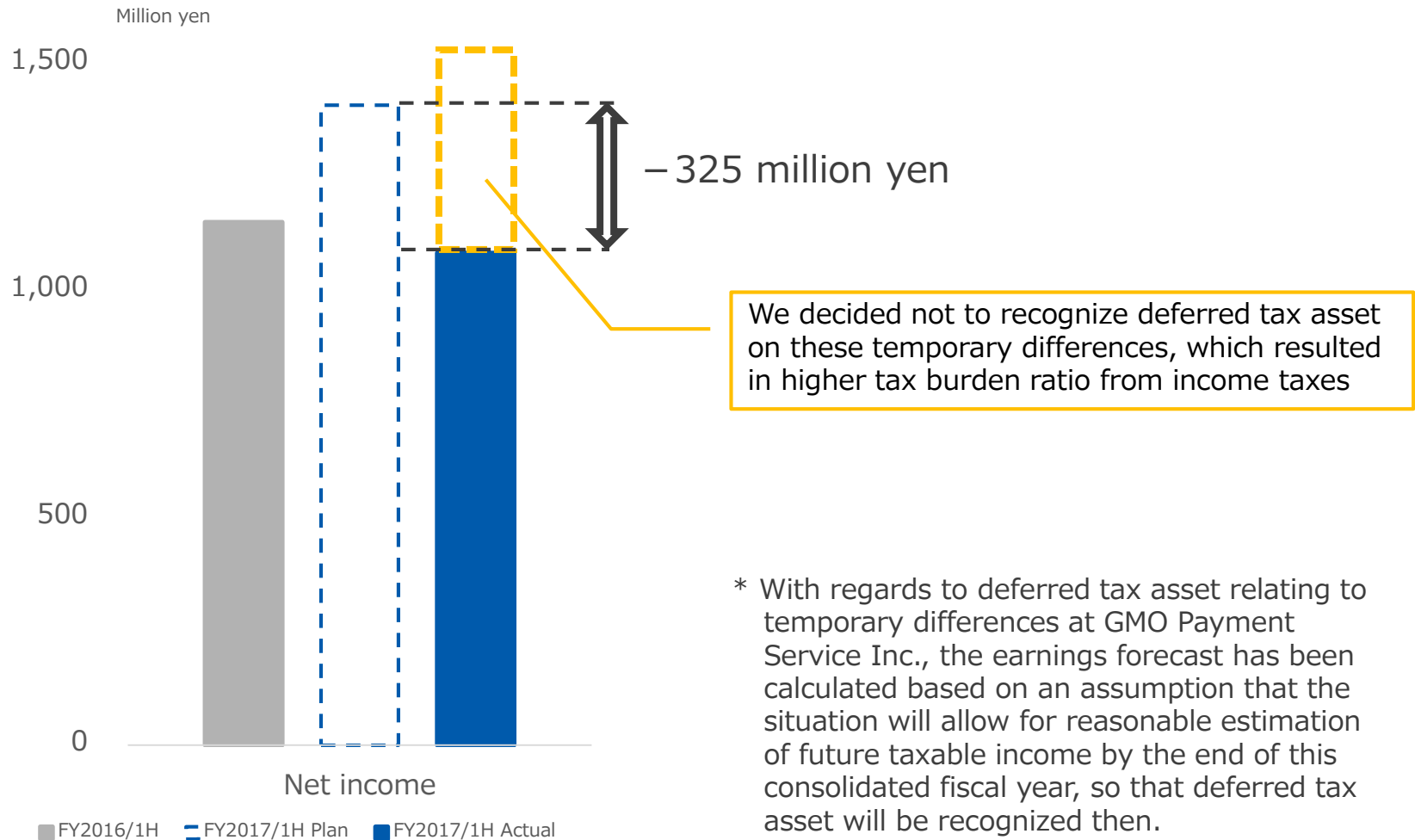
## 2.3 Summary: Sales

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



## 2.4 Summary: Net income

### Higher tax burden ratio from income taxes



# 2.5 Quarterly forecasts and actual results

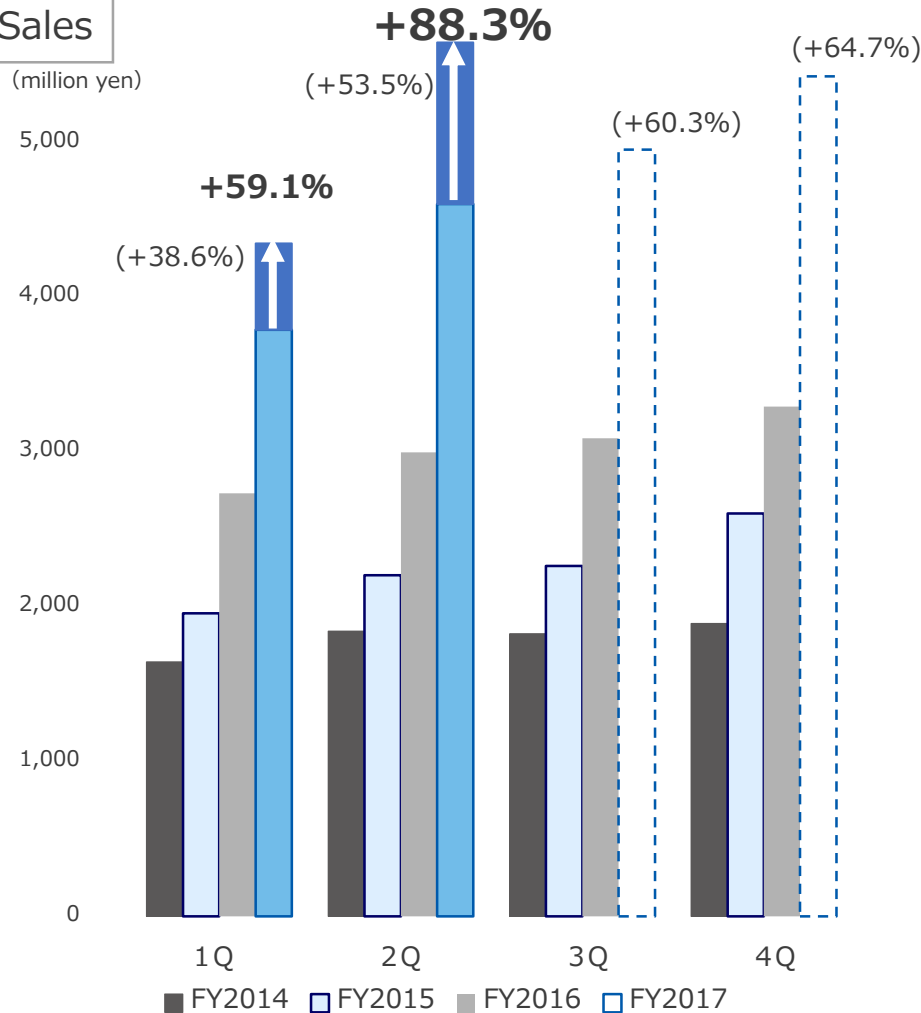
## Sales up over the forecast, OP as planned

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

■ FY2017 Forecast (consolidated)

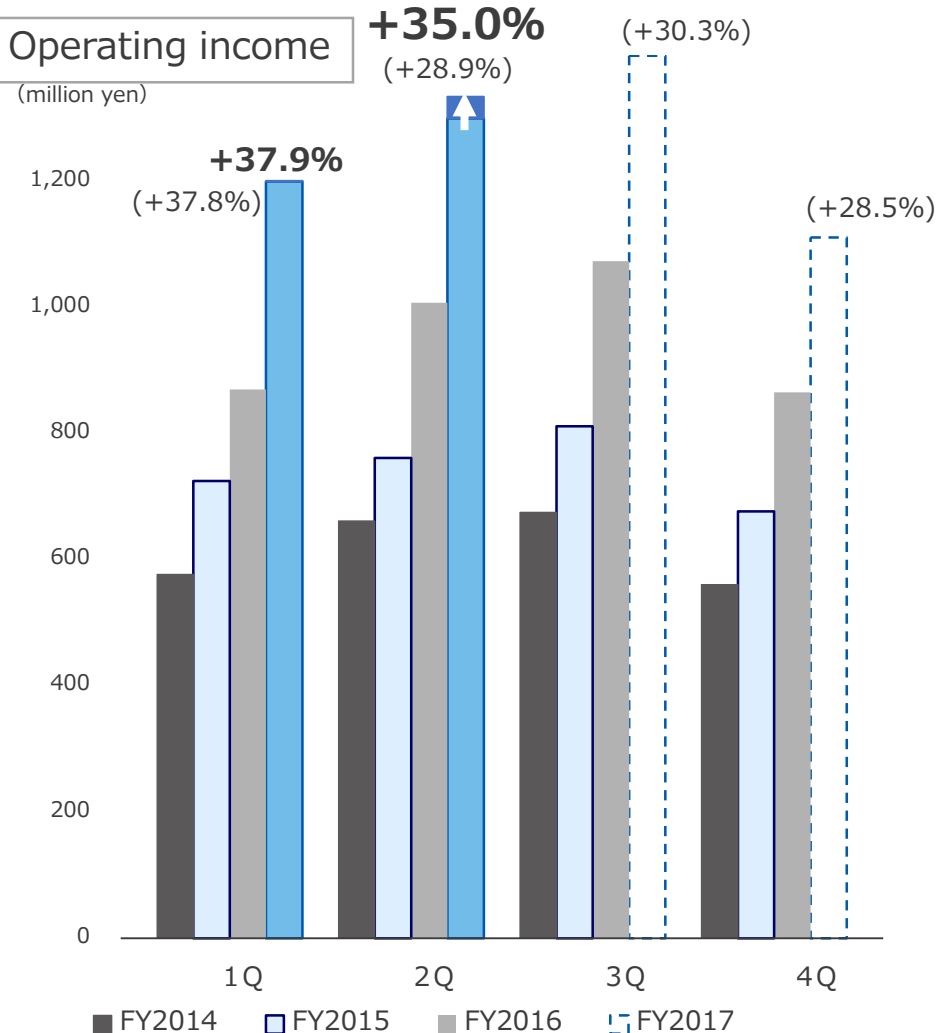
Sales

(million yen)



Operating income

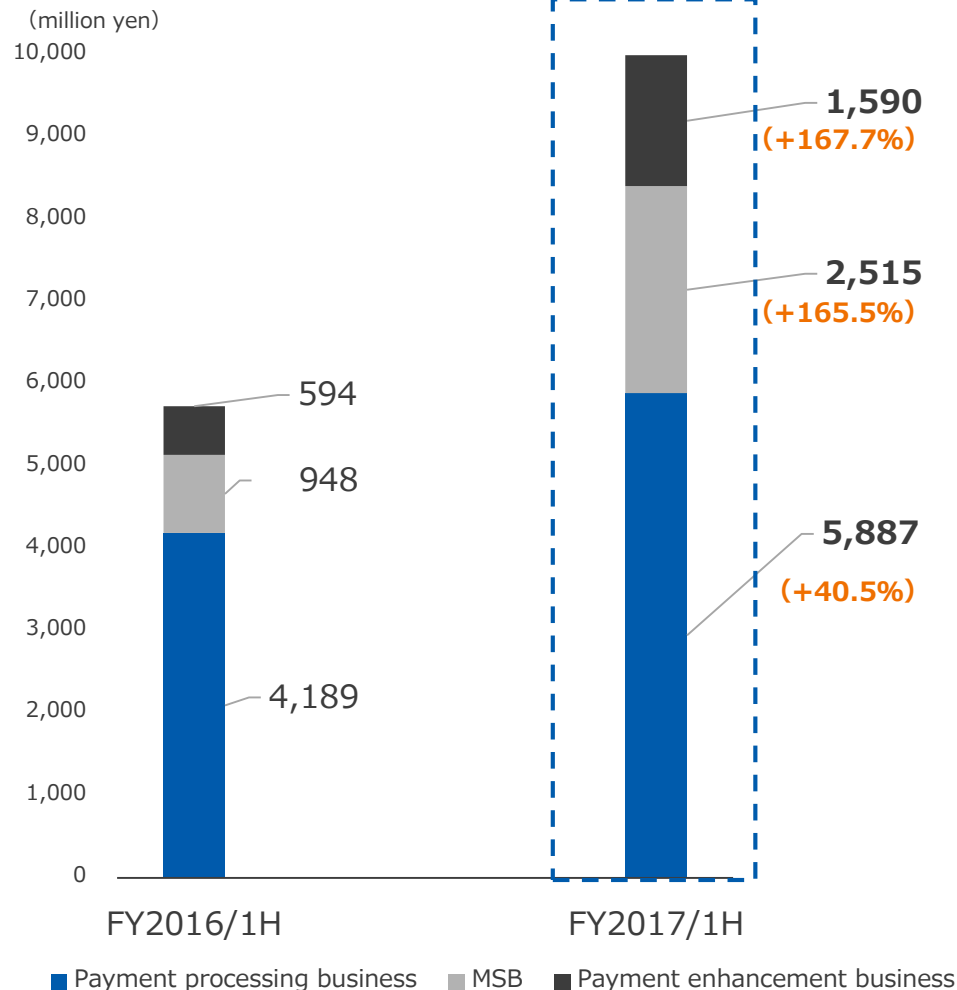
(million yen)



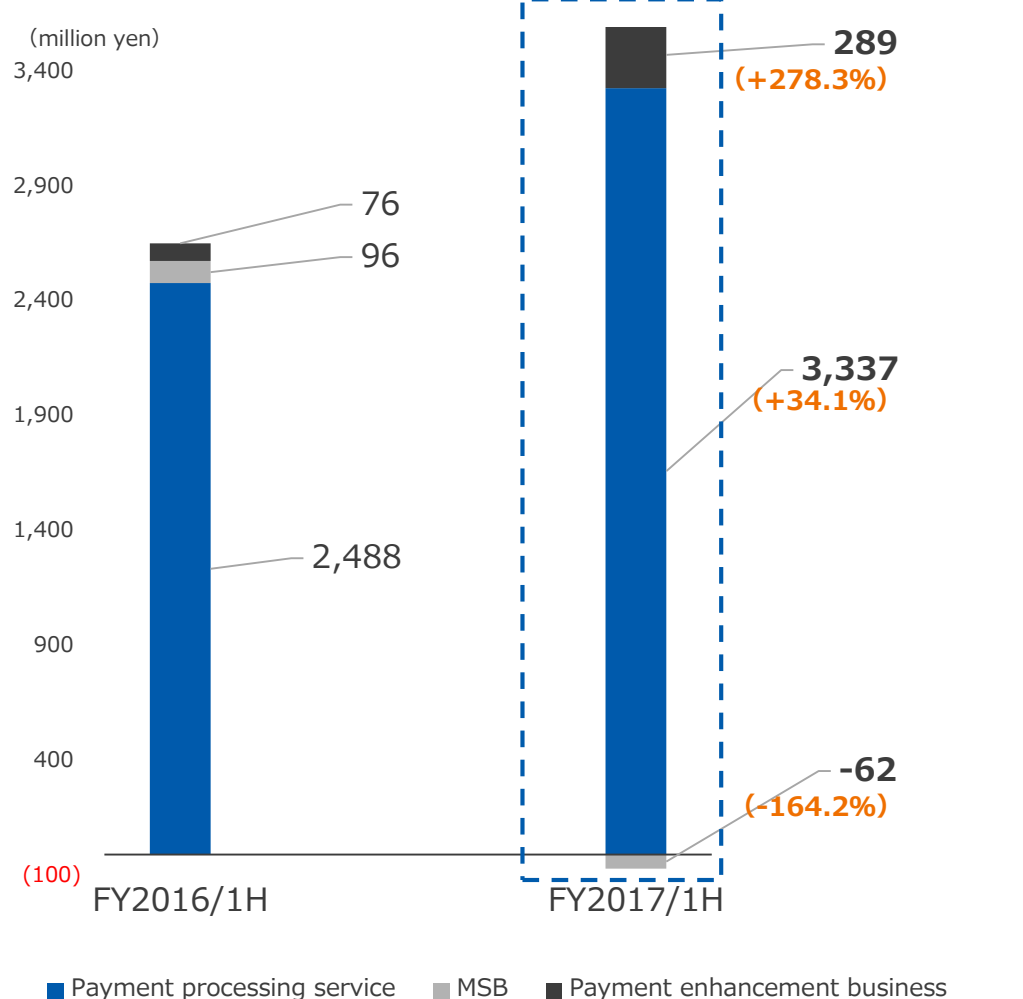
# 2.6 Sales/Operating Income by segment

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

■ Sales by segment

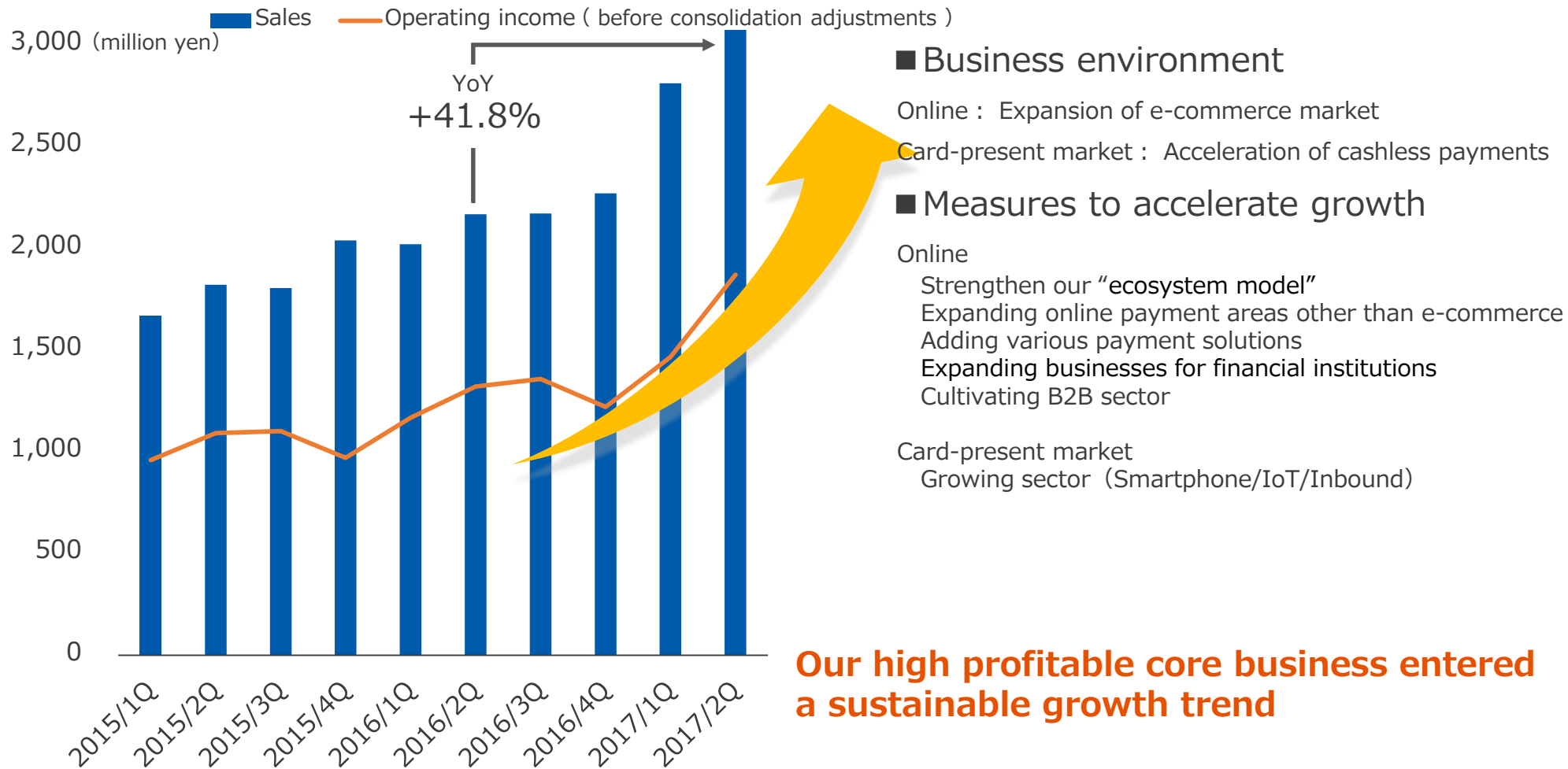


■ OP by segment (before consolidation adjustments)



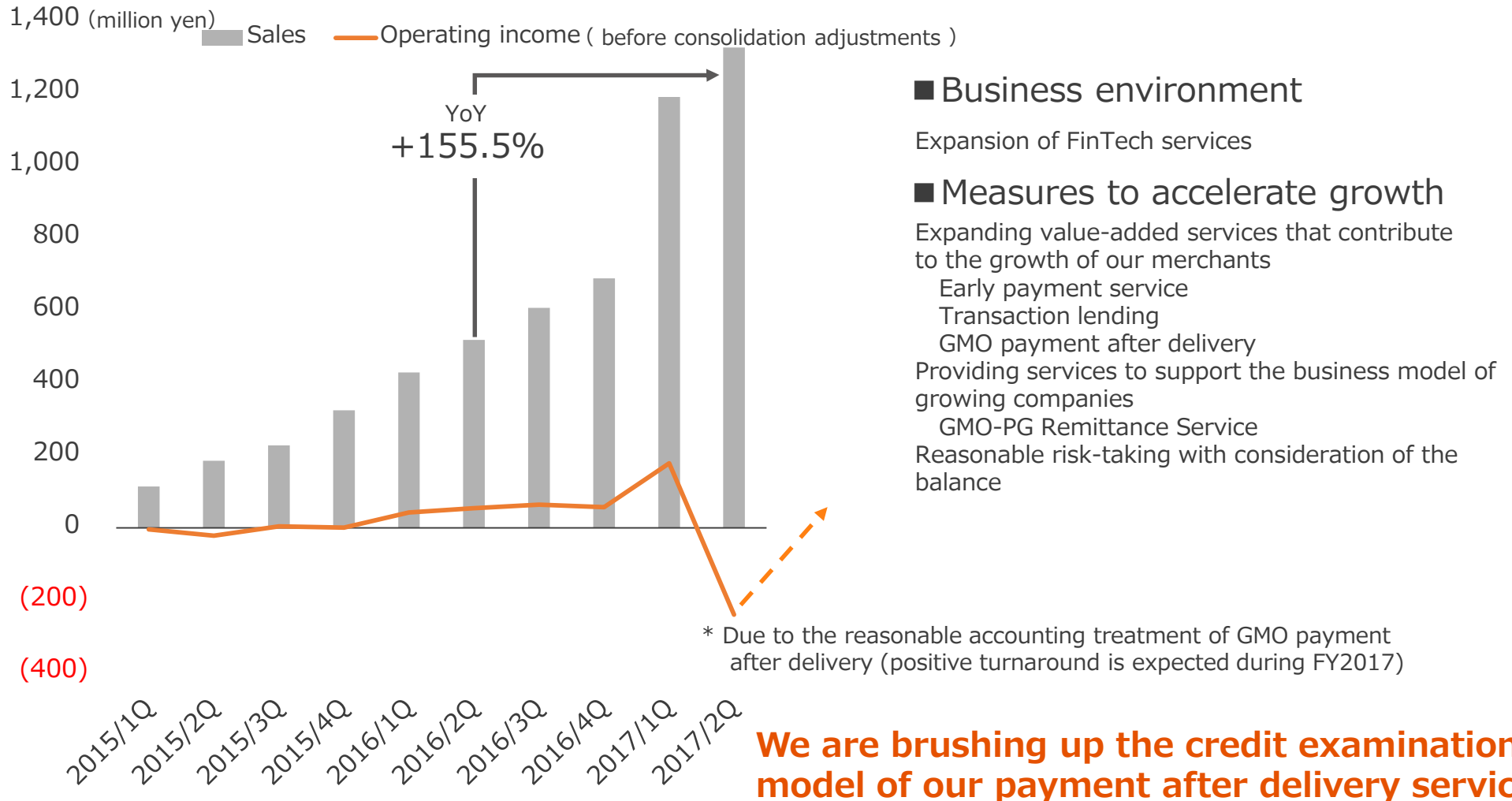
## 2.7 Payment processing business

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



# 2.8 MSB

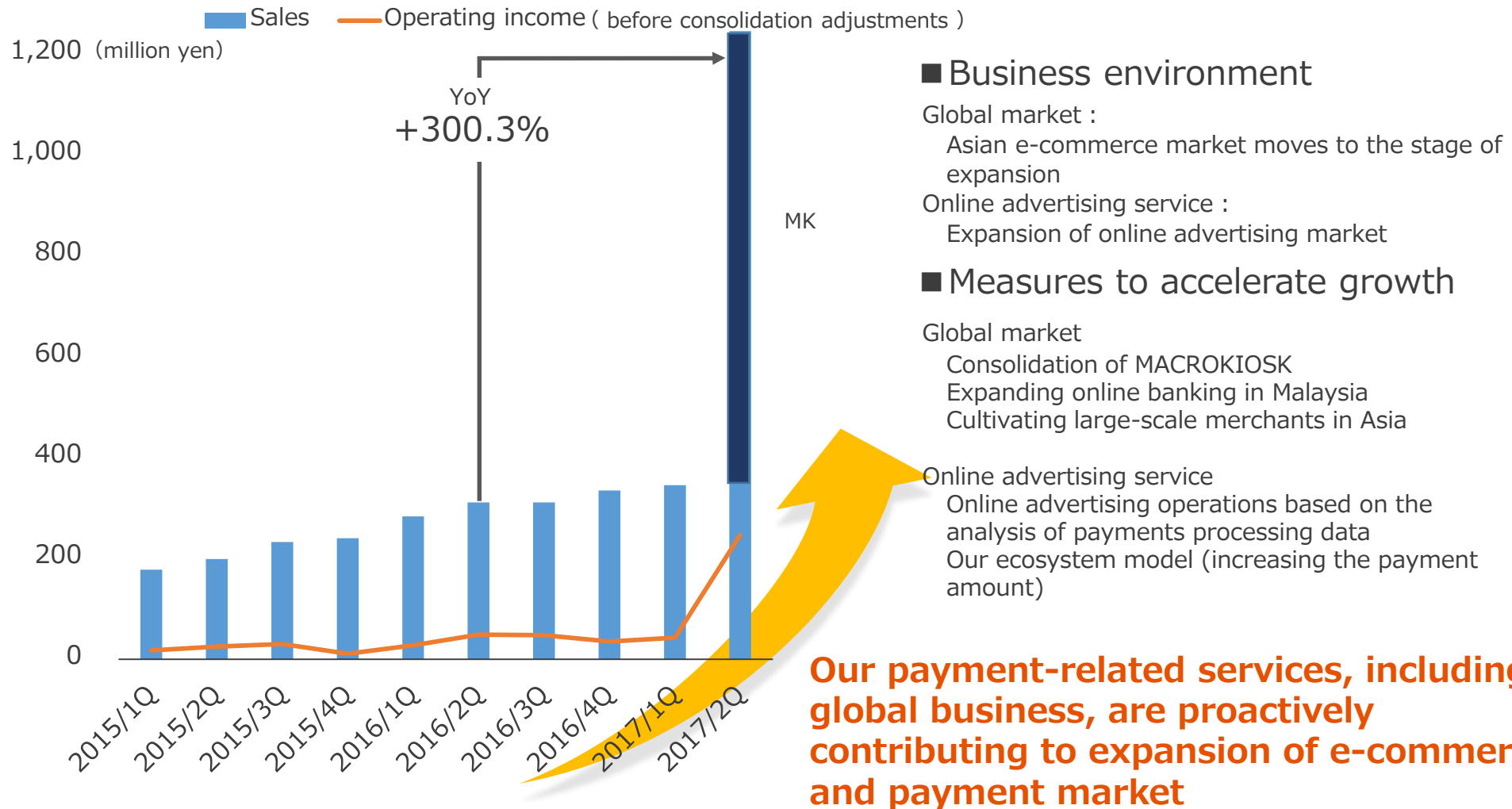
## Acceleration toward positive turnaround despite the operating loss in 2Q





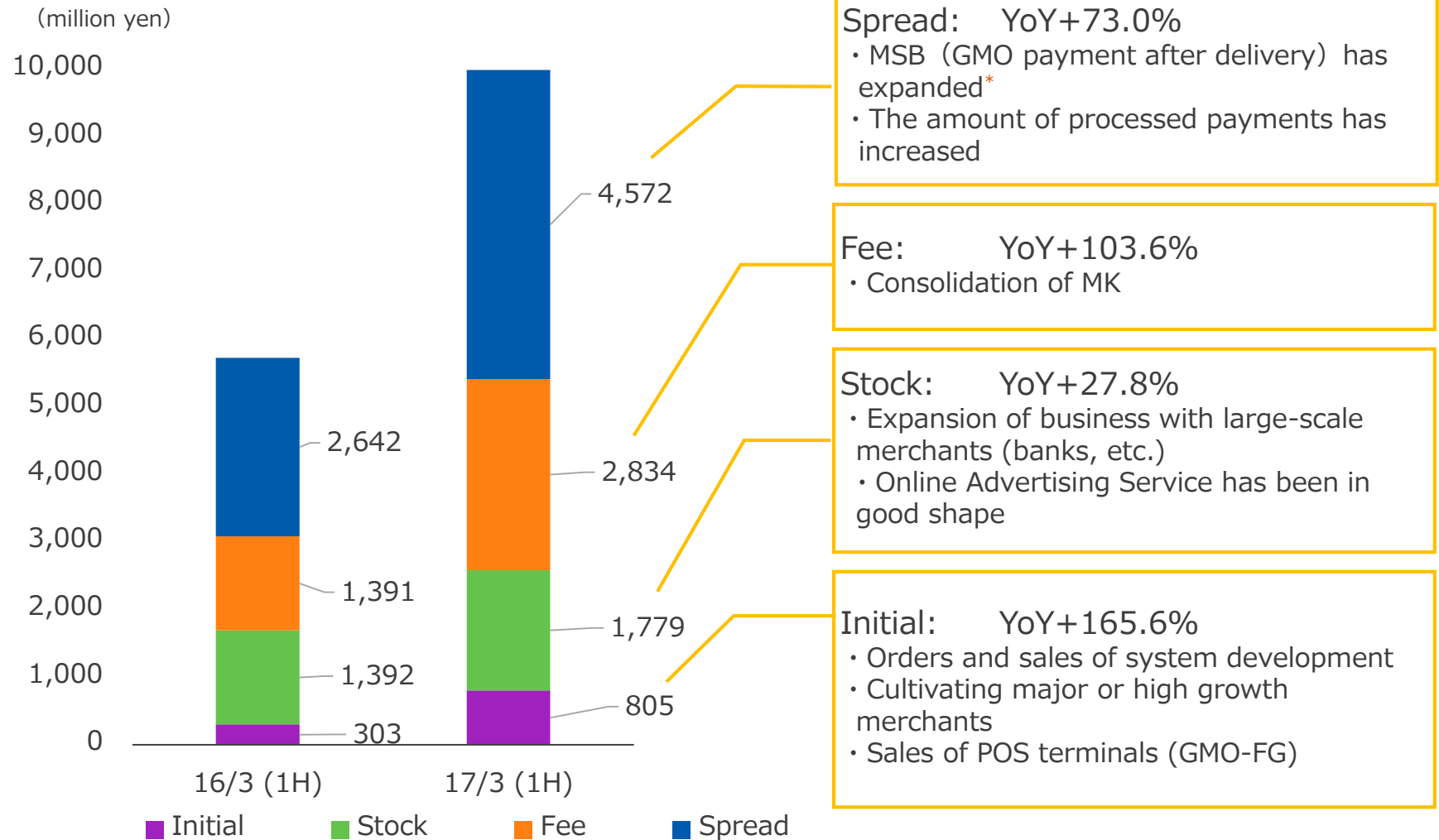
# 2.9 Payment enhancement business

## Consolidation of MACROKIOSK started



# 2.10 Revenue breakdown by business model

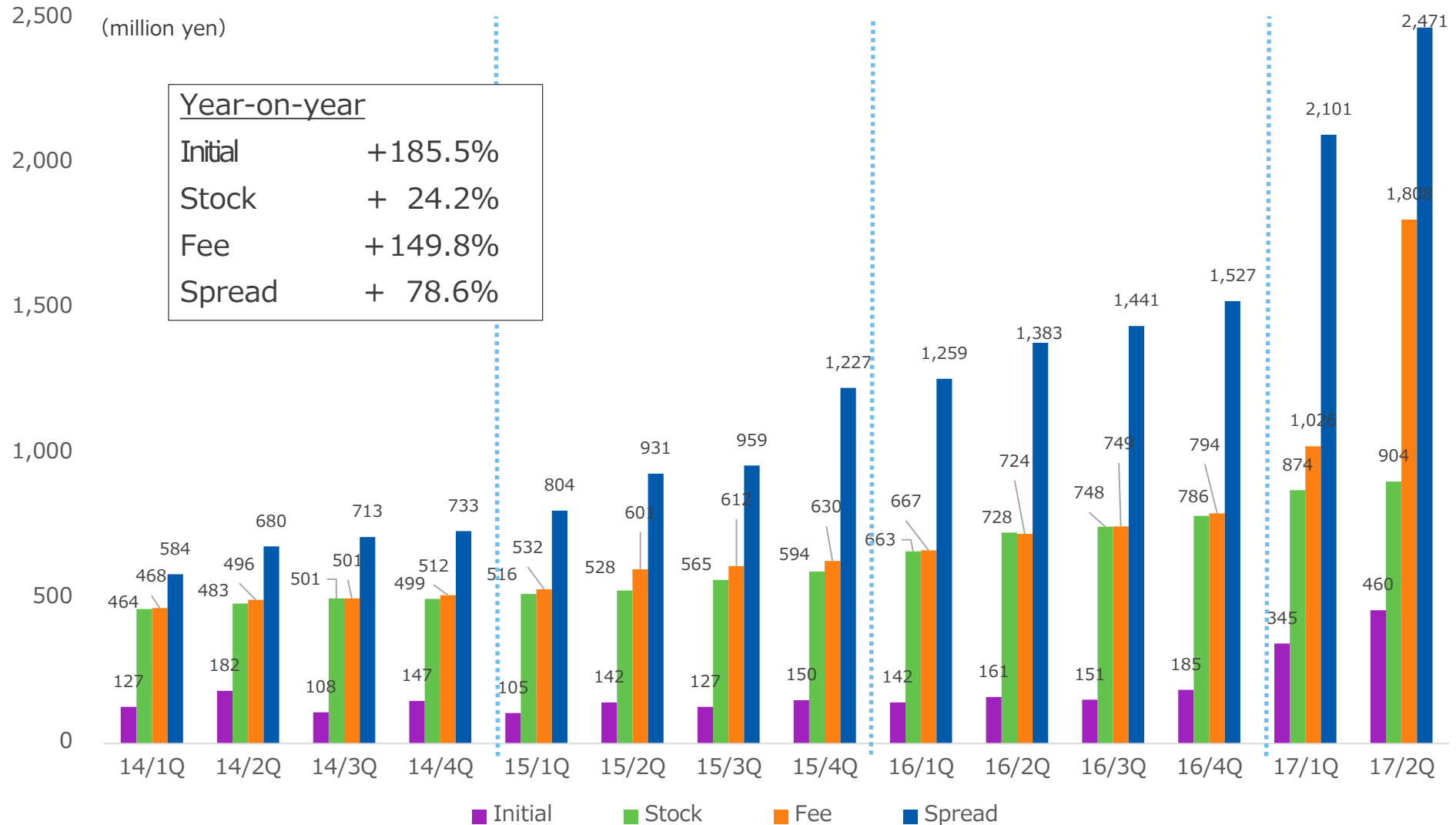
**Initial revenue +165.6%、 Fee revenue +103.6%、 Spread revenue +73%**



\* "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



• "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               |
|---------------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|
| <b>Full year</b>          | <b>20,370</b> (68.2%) | <b>5,013</b> (31.2%) | <b>4,673</b> (23.6%) | <b>2,762</b> (-5.1%) | <b>5,811</b> (38.7%) |
| (before revision)         | 18,767(54.9%)         | deferred             | deferred             | deferred             | deferred             |
| <b>Dividends forecast</b> | <b>¥37.0 (+10.0)</b>  |                      |                      |                      |                      |

#### ■ Points

\* EBITDA=Operating income + Depreciation + Amortization of goodwill

- **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**

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## **3. Business environment and segments progress**

# 3.1 Industry topics

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## 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

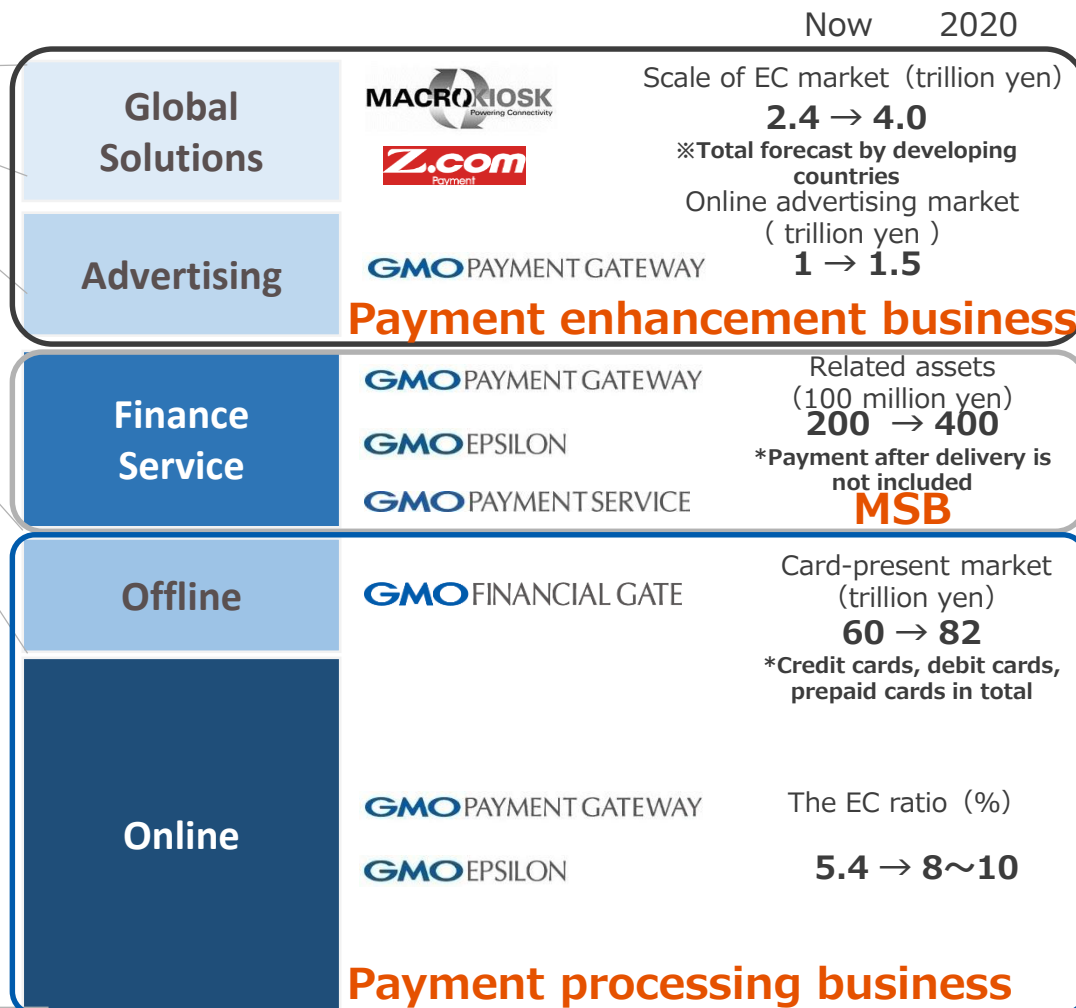
Operating income  
(100 million yen)

100

50

FY2017

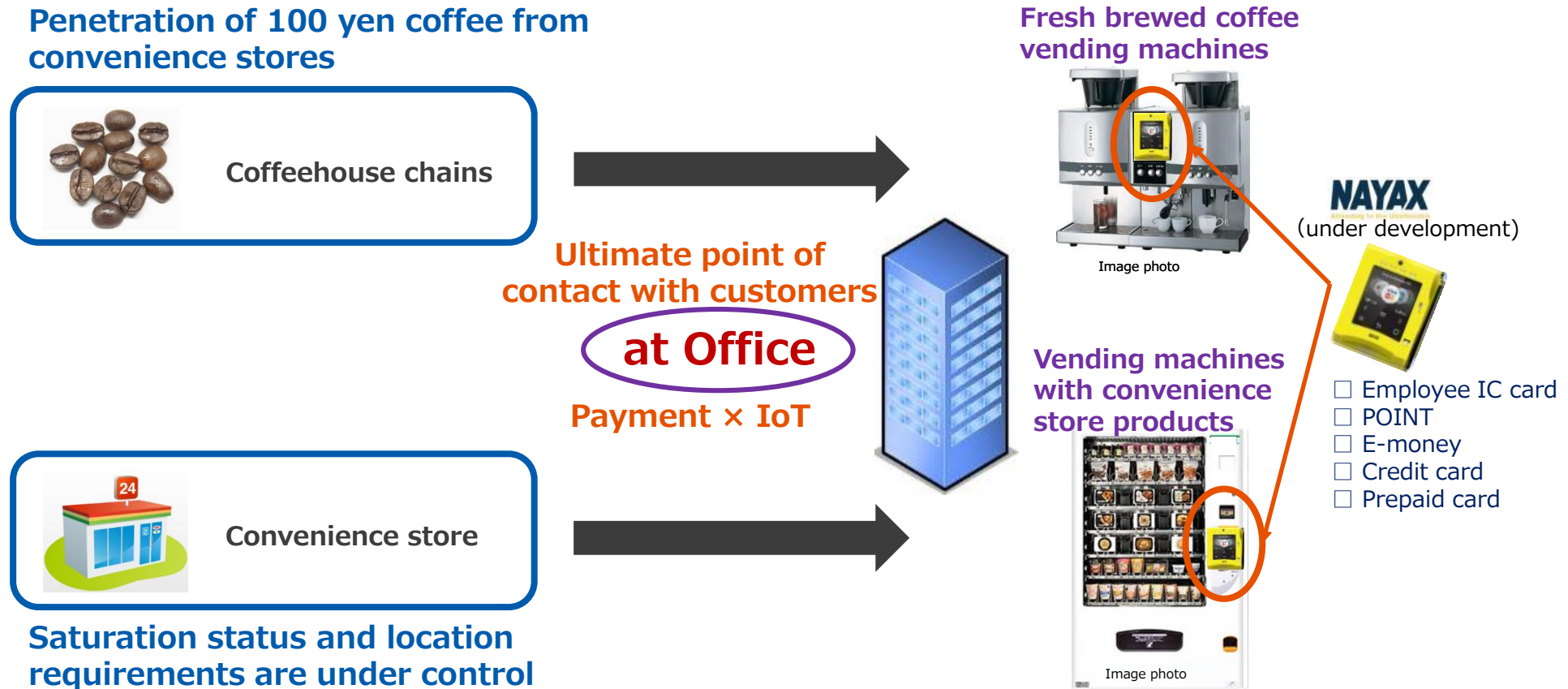
FY2020



※Expected numerical values are based on our internal research

# 3.3 Payment processing business : card-present payment

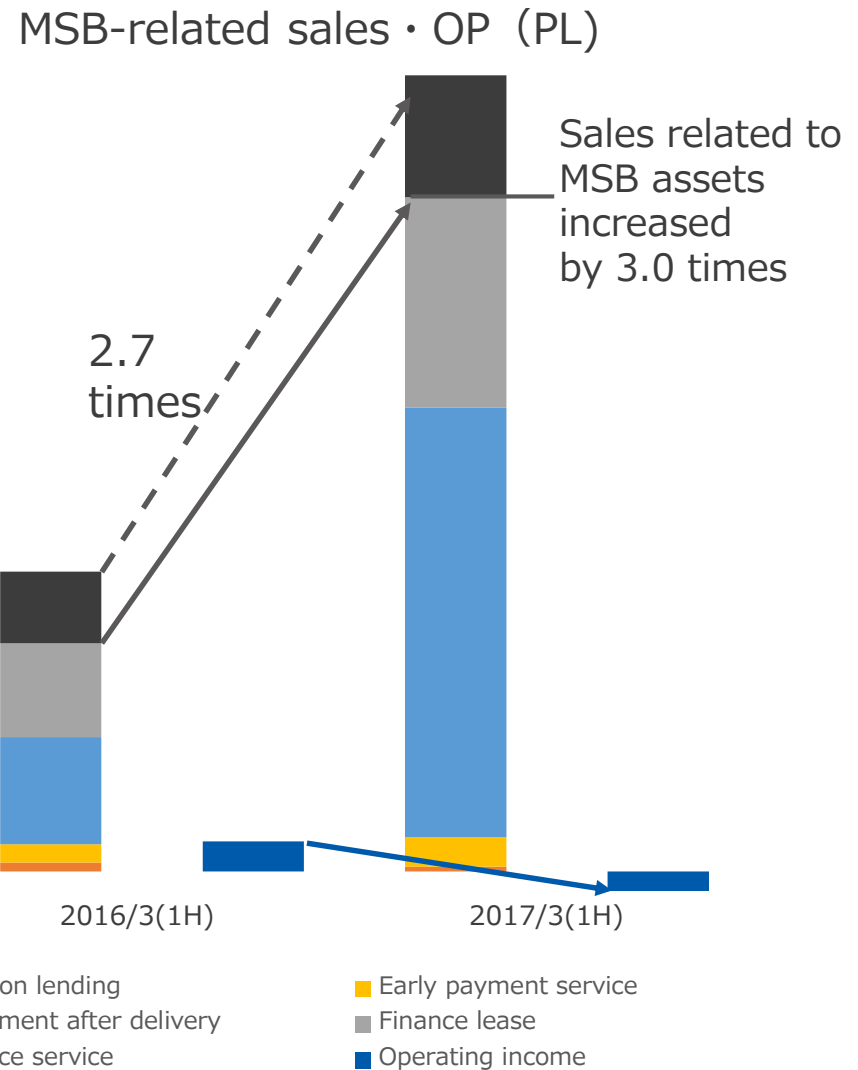
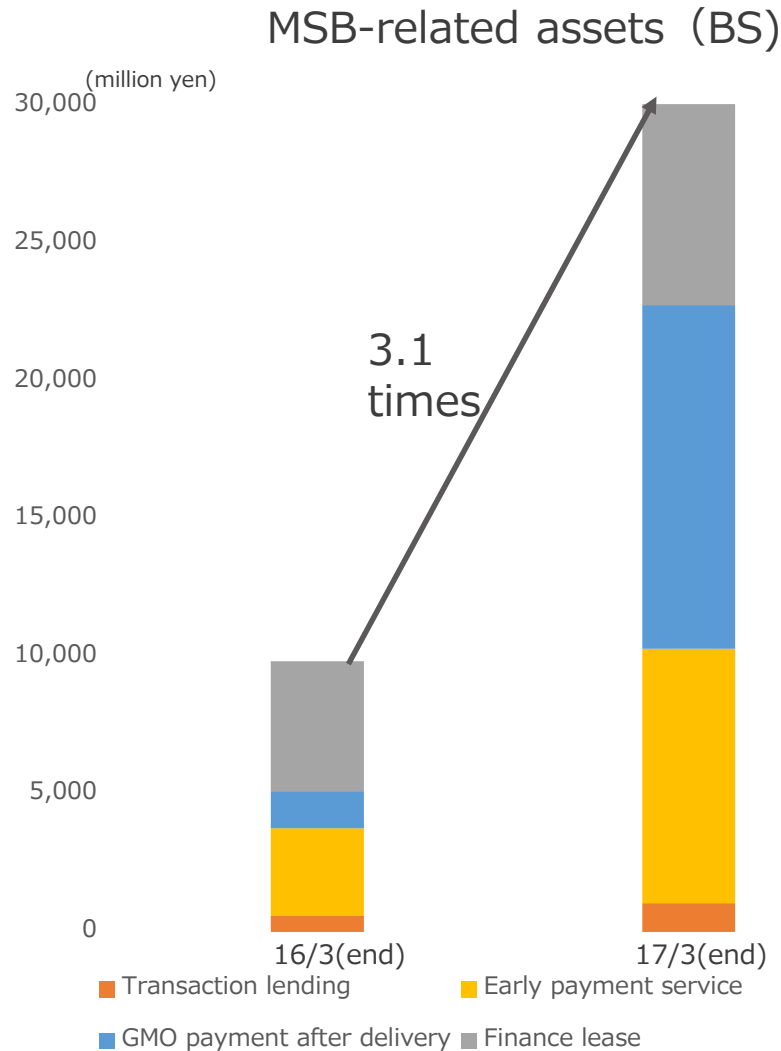
## Challenge to cultivate new payment market in collaboration with retails companies





# 3.4 MSB : MSB assets and performance by segments

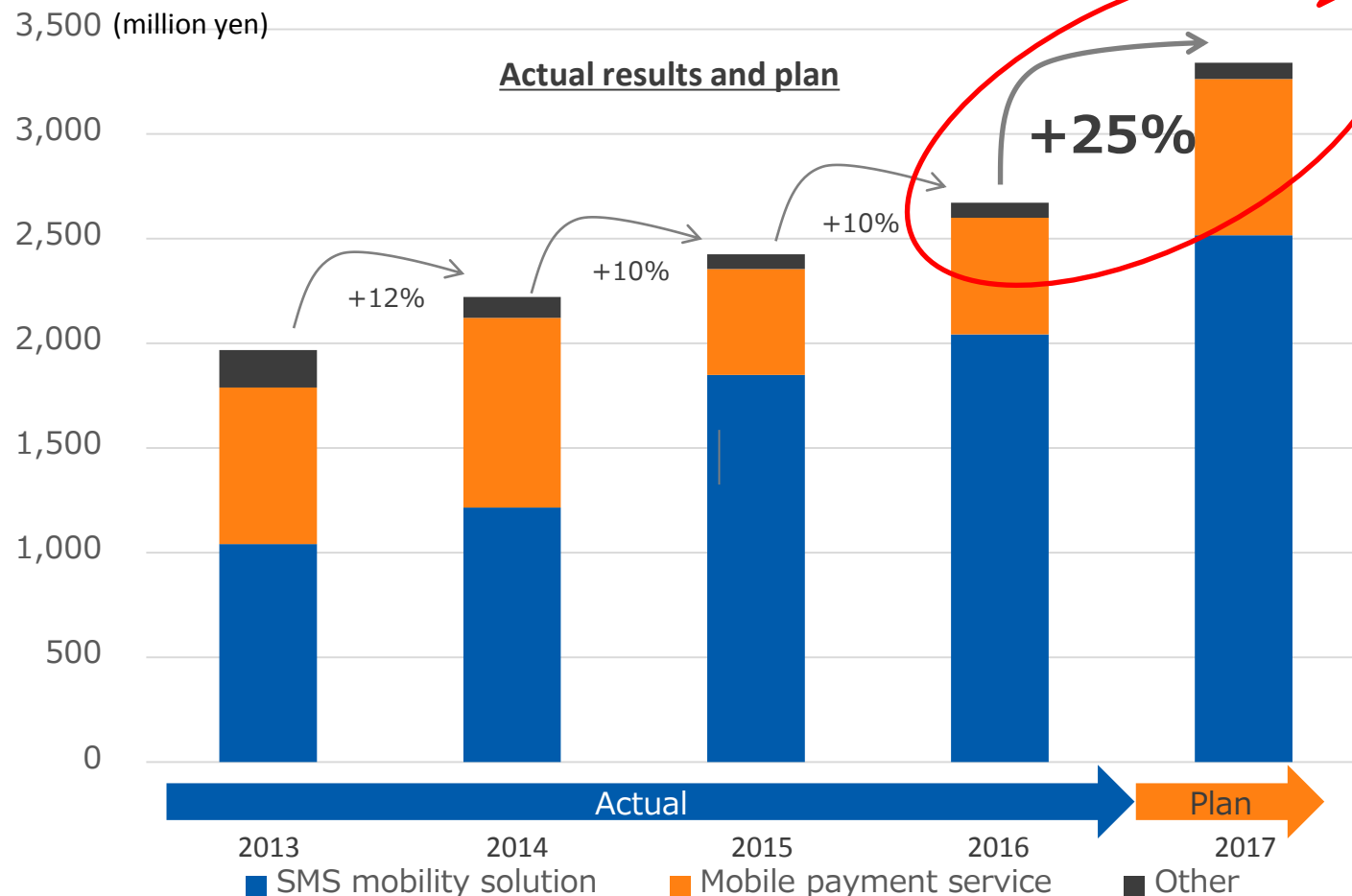
## Sales tripled as MSB-related assets had increased



## 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.

## 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

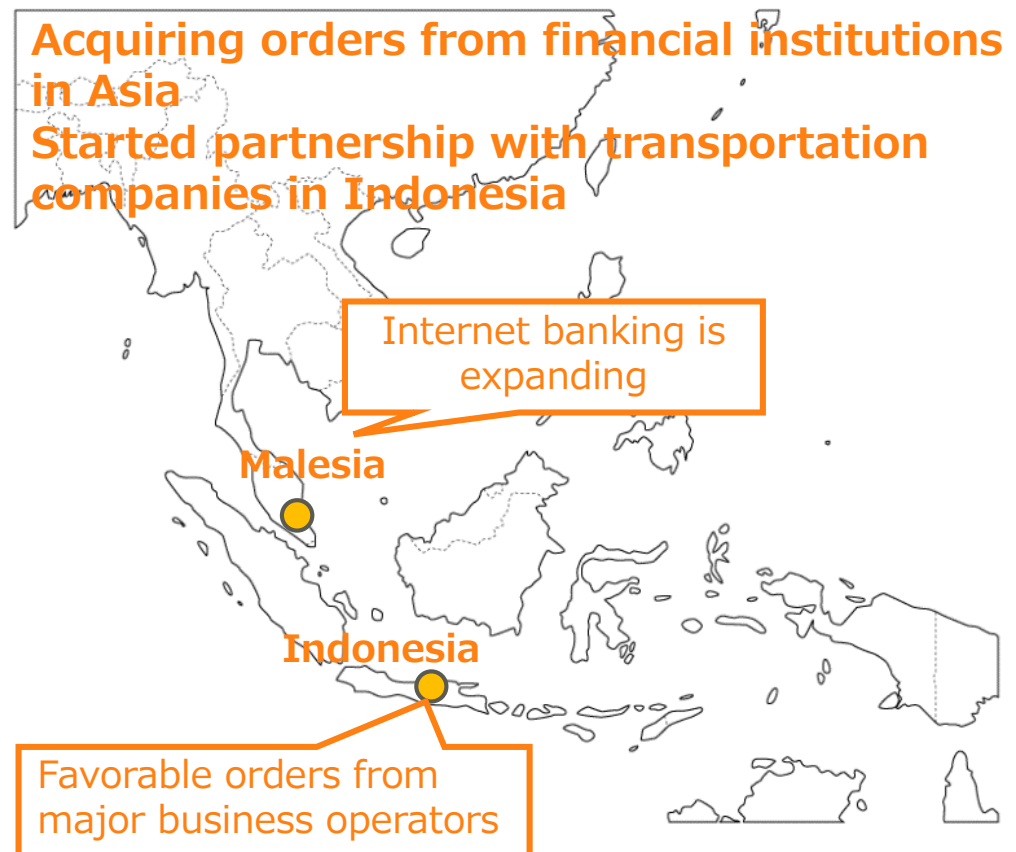
“In 2016, the number of transactions carried out via mobile devices grew by 72%, while transactions via all online channels (including desktops and personal computers) rose by 41%, demonstrating that users are increasingly comfortable with digital platforms,” he said in a statement on Monday.

<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



# 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)

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## 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 | (Million yen)                               | 2Q of FY2017 | 2Q of FY2016 | Change |
|---------------------------------------|--------------|--------------|--------|---|--------------|--------------|--------|
| Current assets                        | 64,067       | 43,788       | 20,279 | Current liabilities                         | 54,283       | 32,355       | 21,928 |
| Cash and deposits                     | 29,004       | 31,171       | △2,167 | Short-term debt                             | 4,030        | 0            | 4,030  |
| Lease receivable                      | 7,311        | 4,713        | 2,598  | Deposits received                           | 33,048       | 26,923       | 6,125  |
| 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        | 3,726  |   |              |              |        |
| Noncurrent assets                     | 10,222       | 5,414        | 4,807  | Accounts payable                            | 11,234       | 2,574        | 8,659  |
| Tangible assets                       | 362          | 204          | 158    | Increase in payment after delivery          |              |              |        |
| Intangible assets                     | 3,968        | 1,153        | 2,814  | Other current liabilities                   | 5,970        | 2,857        | 3,112  |
| 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 | Noncurrent liabilities                      | 304          | 217          | 86     |
|                                       |              |              |        | Shareholders' equity                        | 18,364       | 16,548       | 1,816  |
|                                       |              |              |        | Increase in subsidiaries and affiliates     |              |              |        |
|                                       |              |              |        | 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 |

Related to Finance Lease

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

Accounts payable Increase in payment after delivery

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

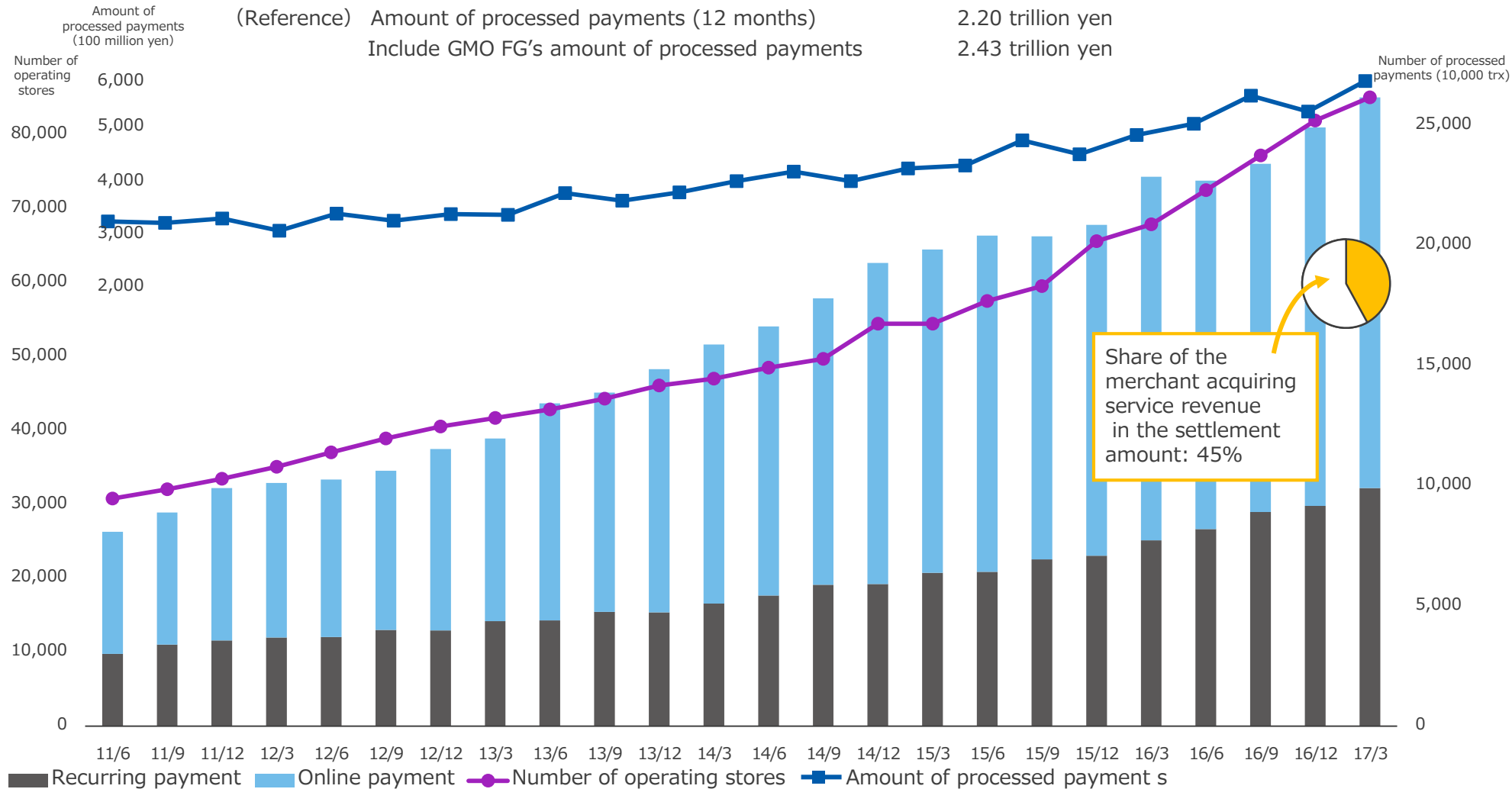
Deposits by merchants through representative merchant service

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

# 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



Share of the merchant acquiring service revenue in the settlement amount: 45%

(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)

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## 5. Reference materials



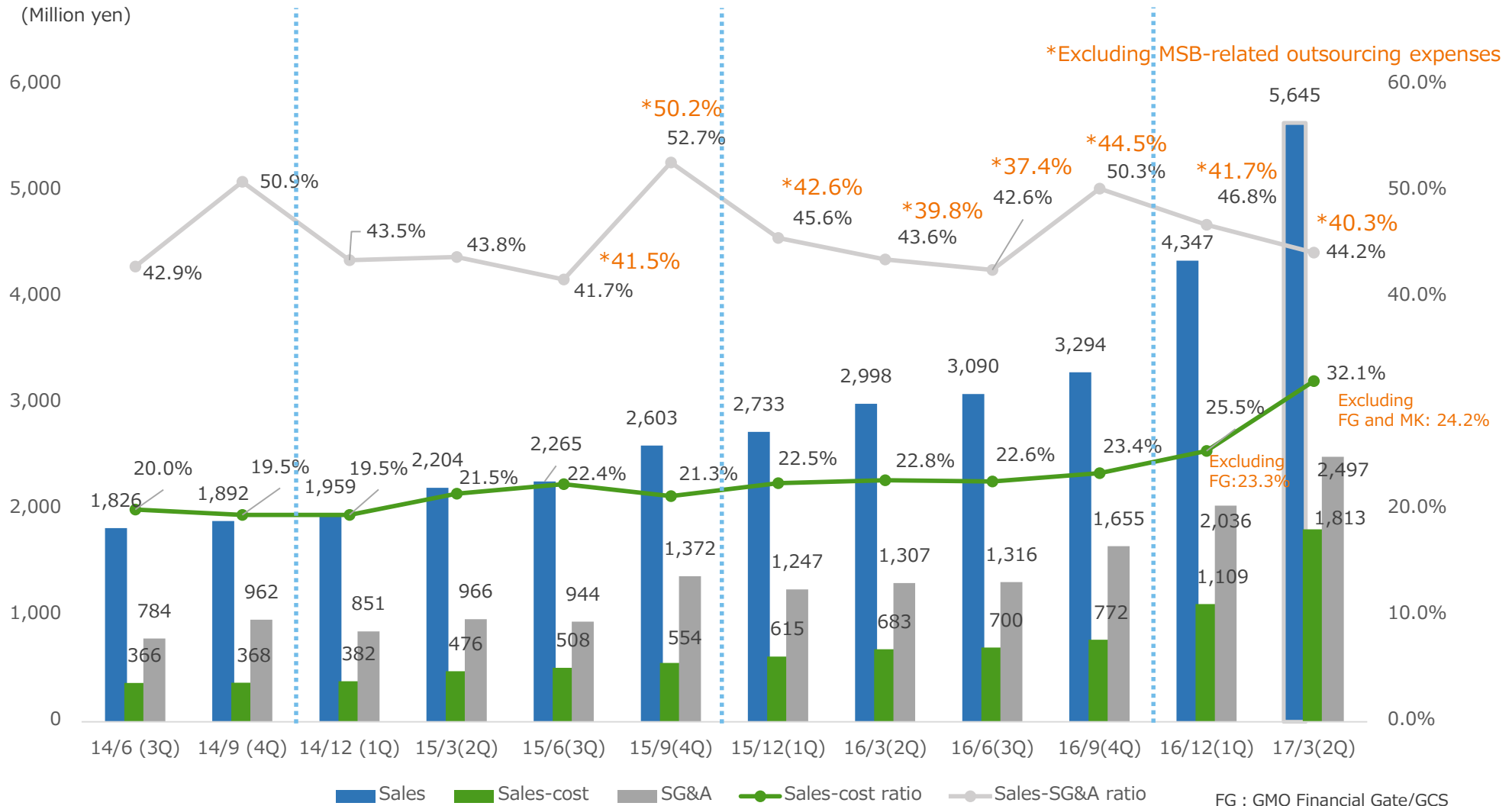
# 5.1 Summary of the consolidated results

## 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        | -                    |

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

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

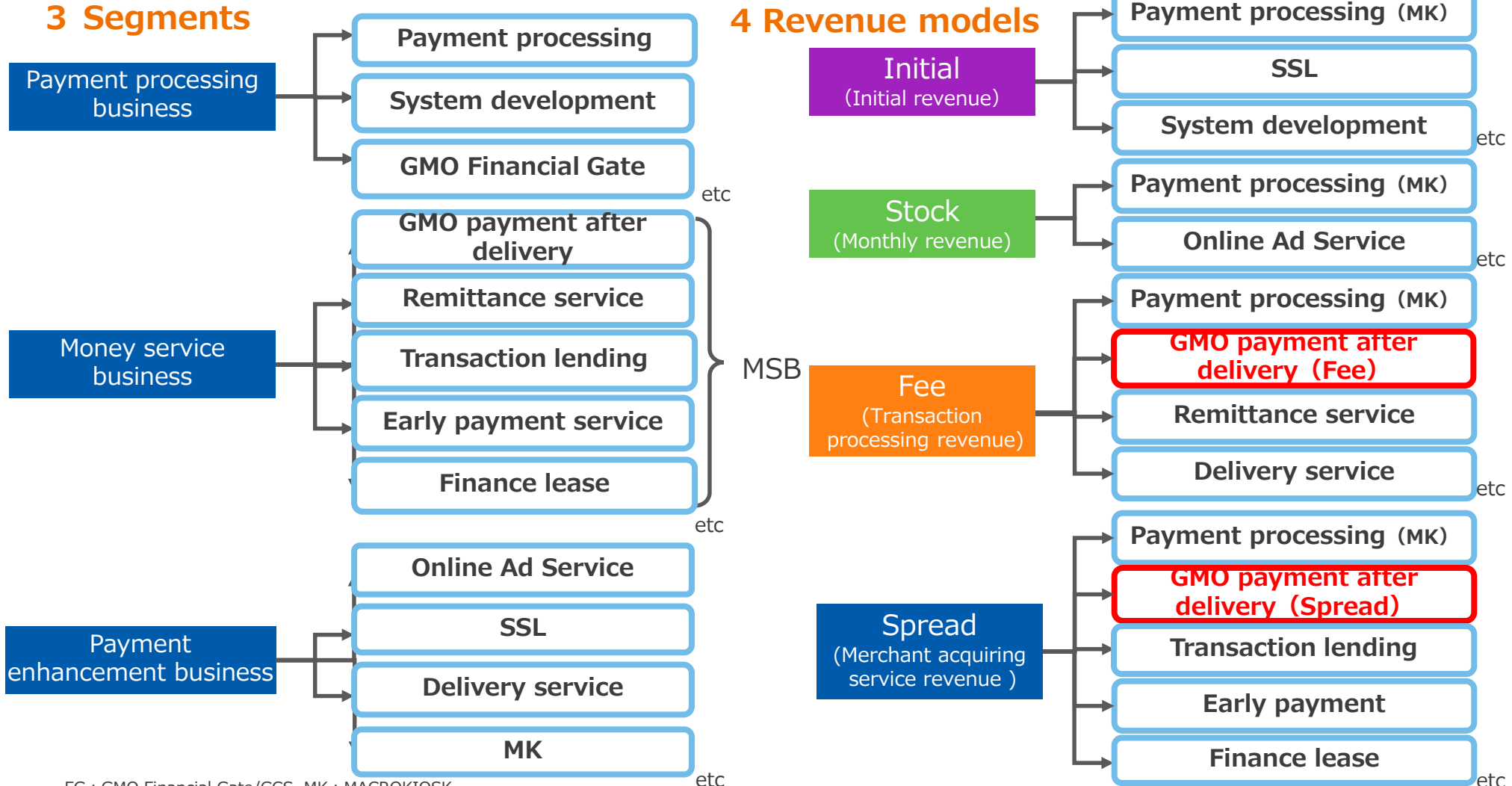


FG : GMO Financial Gate/GCS  
MK : MACROKIOSK

# 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



# Thank you very much!

## **GMO** PAYMENT GATEWAY

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GMO Payment Gateway Inc.  
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URL <https://corp.gmo-pg.com/en>

For more information, please contact the Corporate Value Creation Strategy Division

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