

Financial results briefing for the Q4 of FY2018

(October 1, 2017 - September 30, 2018)

Execution of growth strategy for continuous 25%+ OP growth

November 13, 2018

GMO Payment Gateway, Inc.

(3769: Tokyo Stock Exchange Section-1)

The 55th 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 13, 2018.

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 FY2018
2. Earnings forecast for FY2019 and management systems
3. Future actions to implement growth strategies
4. Financial highlights
5. Reference materials

1. Summary of financial results for FY2018

1.1 Overview of FY2018

Executing growth strategy and capital raise, remaining open issues in terms of human resources

Highlights

- **Accelerated expansion of online payment**
 - » Acquiring of big operators and big projects due to revisions of the Installment Sales Act
 - » 100 thousand merchants and payment processing value of ¥3T
- **Promotion of cashless payment**
 - » Ginko Pay implementation
 - » Expansion of processing business for financial institutions
- **Expanding Money Service Business**
 - » Margin improved in GMO Payment After Delivery and Remittance
 - » Global lending business started
- **GMO Medical Reservation Technology into the GMO-PG Group**
 - » For operational efficiency and enhanced convenience of on-site medical care

Business results

- **Increase in revenue and profit for 16 straight fiscal terms (13 terms since listing)**
- **Capital raise of Euro/Yen CB of ¥17.5B**
- **Dividend increase of 9 yen vs. original plan**

Earnings results

Challenges

- **Intensifying competition in an environment for recruitment**
 - » Measures: Establishment of domestic bases for system development, M&A
- **Revenue declined in online advertising service**
 - » Reviewed portfolio of online ad service
 - » Intensifying competition in online advertising industry
Measures: Already started a review of system and services
- **System renewal delay**
 - » Caused by prioritizing development projects of clients

- **Impairment loss of goodwill of MARCOKIOSK**

- » Strong growth of SMS service a core service, aiming for continuous growth rate of 25% or more in the future

1.2 Summary

OP up 65.9% (33.8% under J-GAAP) 、 **101.2% vs. full-year plan**

■ Earning results

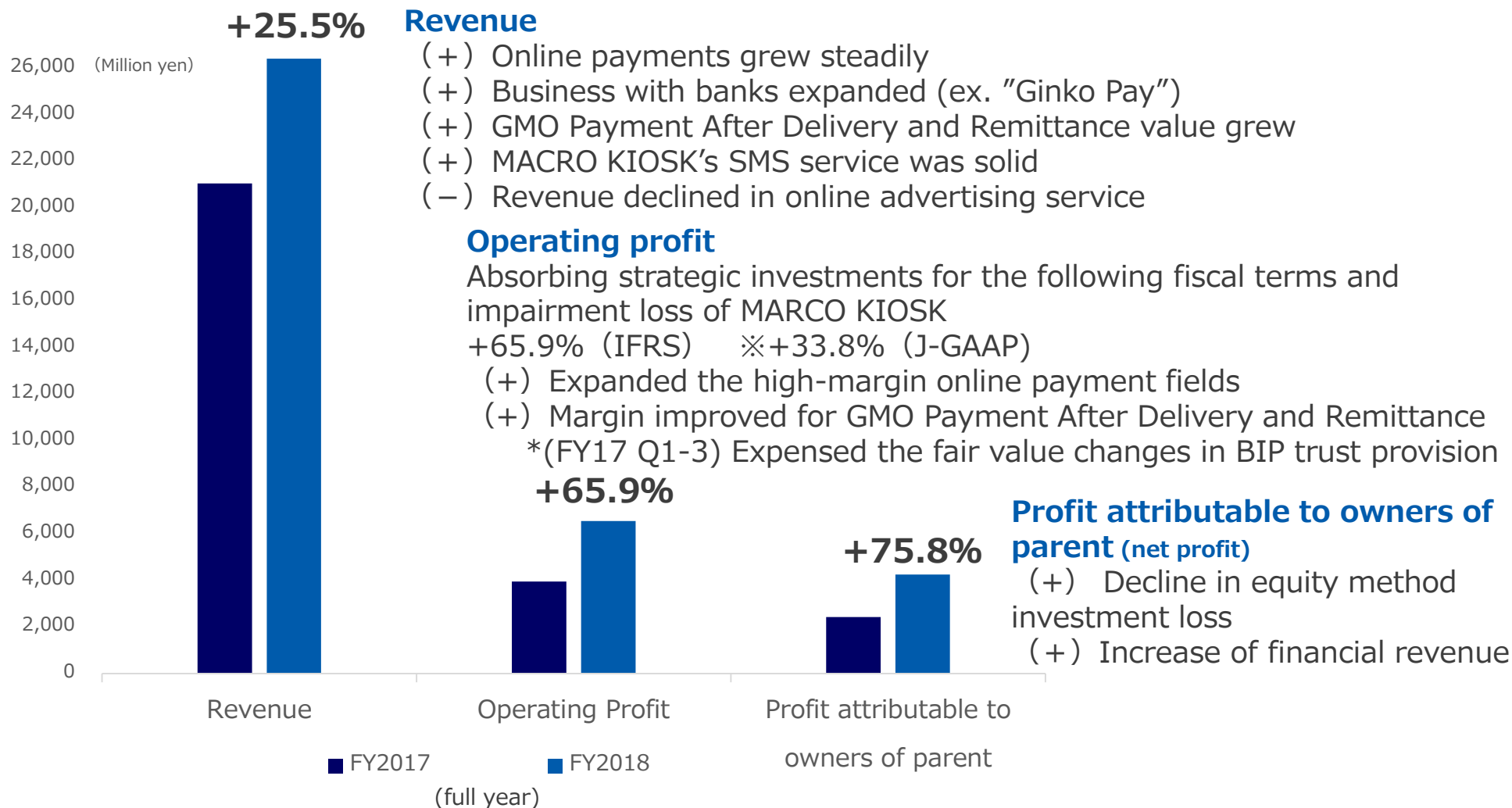
(Million yen)	<u>FY2017</u> <u>Actual</u>	<u>FY2018</u> <u>Actual</u>	<u>YoY change</u>	<u>FY18 full-year</u> <u>plan</u>	<u>FY18 Actual vs.</u> <u>Full year plan</u>
Revenue	21,054	26,417	+ 25.5%	26,107	101.2%
Operating profit (J-GAAP)	3,948 (5,015)	6,550 (6,708)	+ 65.9% (+ 33.8%)	6,475 (6,269)	101.2% (+ 107.0%)
Profit attributable to owners of parent	2,420	4,255	+ 75.8%	3,933	108.2%
EBITDA*1	4,730	7,516	+ 58.9%	-	-
DPS (yen)	40円	58円	+ 45.0%	49円	118.4%

KPI*2	Operating stores (End of Q4)	Transaction value (Q4)	Transaction volume (Q4)
	102,484 stores (+ 24.5%)	870 billion yen (+ 29.7%)	369 million (+ 28.0%)

*1 EBITDA = OP + depreciation *2 Physical payments excluded. () shows year-on-year changes

1.3 Factors that affected the cumulative results

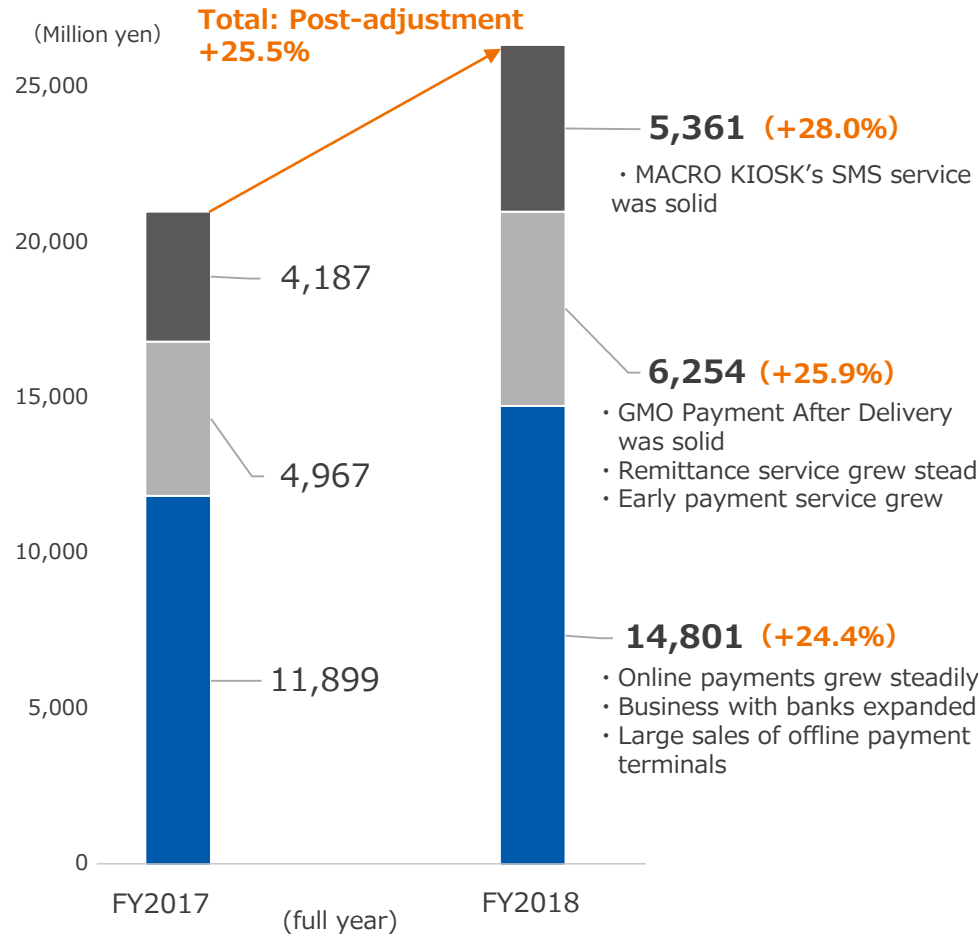
Financial statements disclosed under IFRS from Q1 FY2018



1.4 Revenue/OP by segment

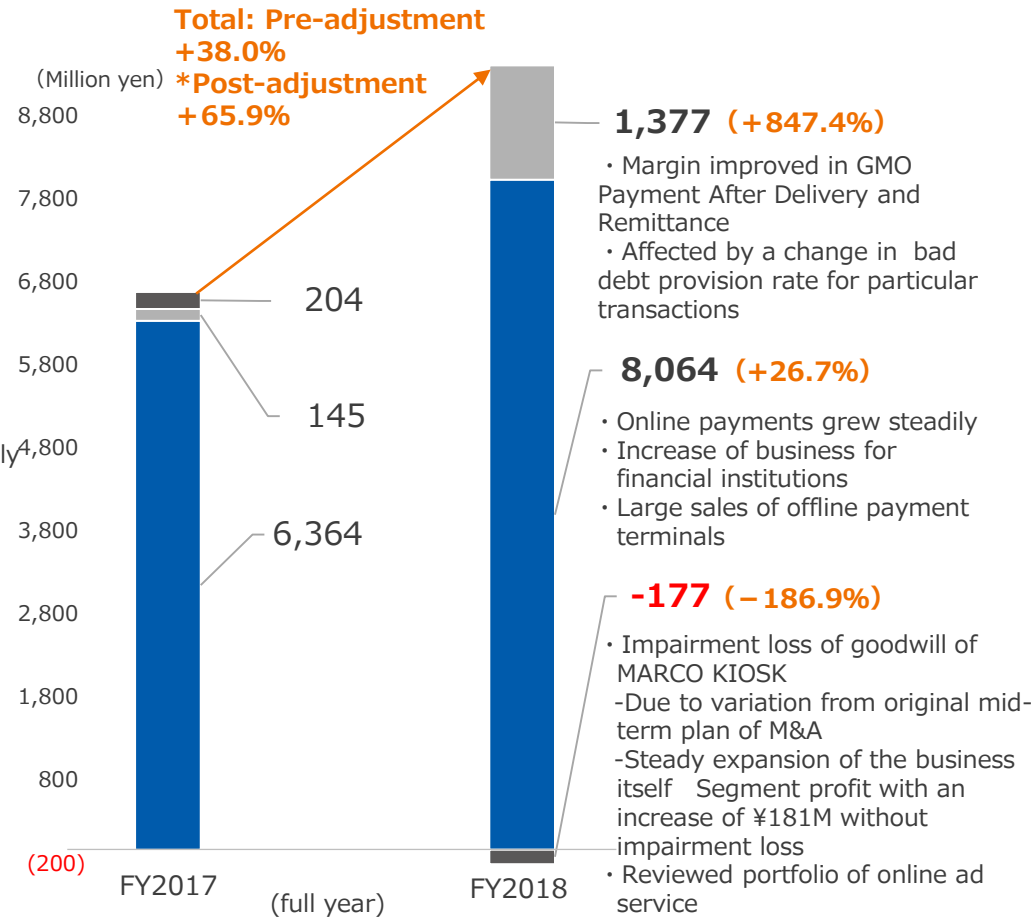
Payment processing profit up 26.7%, MSB turned black

■ Revenue by segment



■ OP by segment (before consolidation adjustment)

* (): year-on-year changes

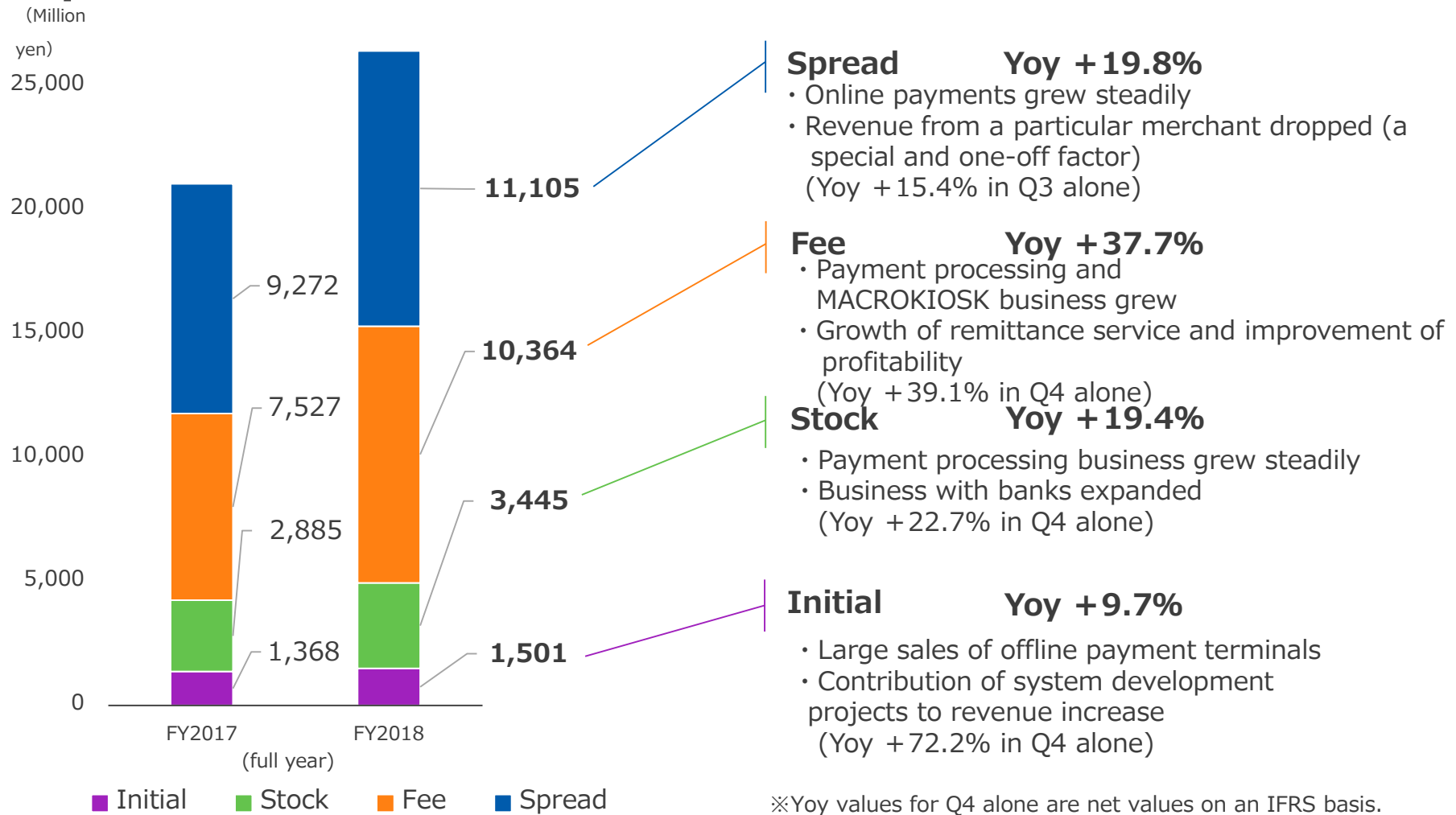


■ Payment processing ■ MSB ■ Payment enhancement

■ Payment processing ■ MSB ■ Payment enhancement

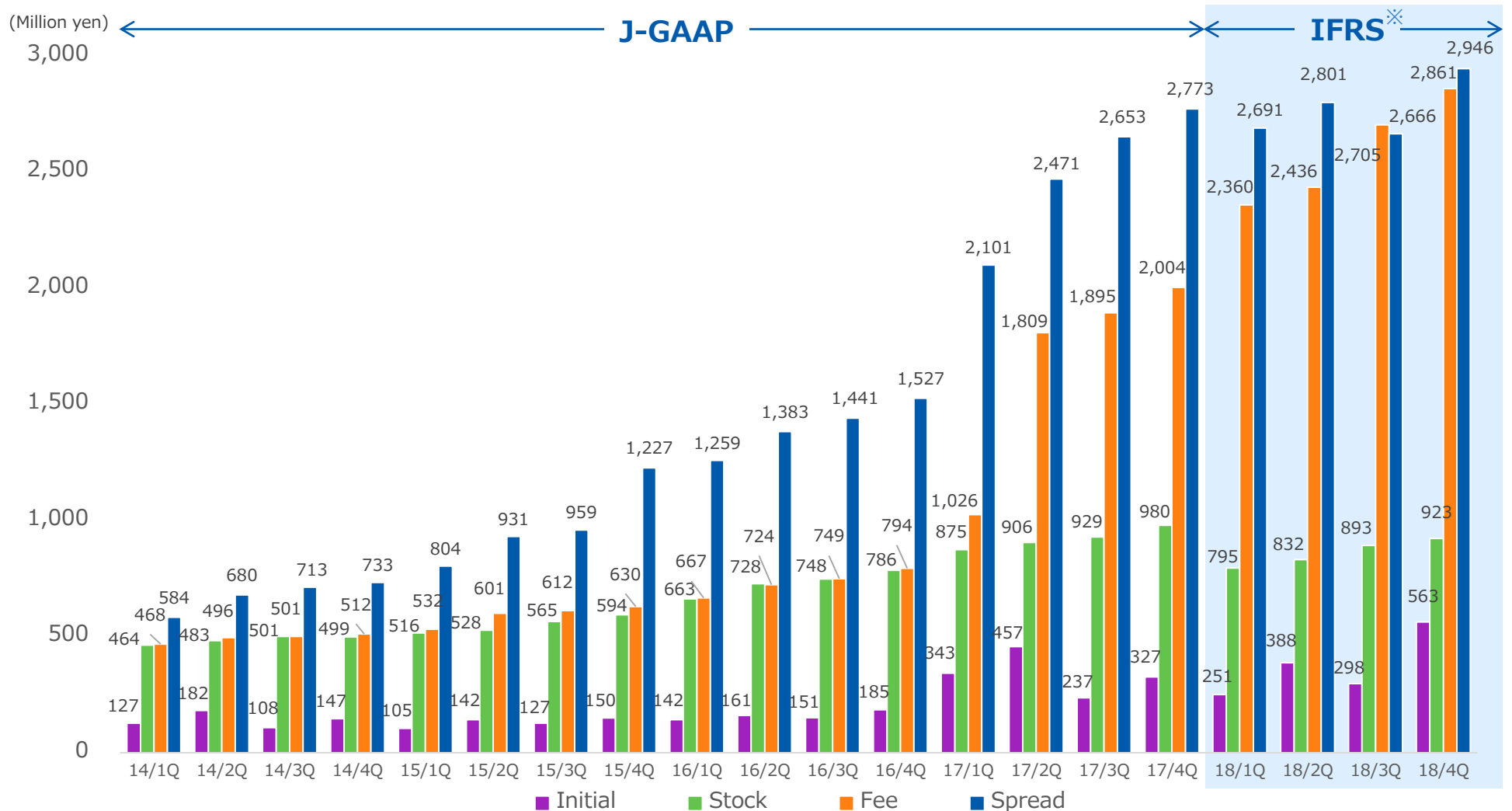
1.5.1 Revenue breakdown by business model

Fee steadily while stock increased as the business with bank expanded



1.5.2 Revenue breakdown (Quarterly)

Quarterly trends of revenue items



*Online Ad Service (stock) and Finance Lease (spread) recorded in net under IFRS while gross under J-GAAP

2. Earnings forecast for FY2019 and management systems

2.1 Earnings forecast for FY2019 and management systems

Our target is to achieve 25% profit growth

■ FY2019

(Unit: Million yen, % : Yoy change)

(Million yen)	<u>FY2018 Actual</u>	<u>FY2019 plan</u>	<u>Yoy change</u>
Revenue	26,417	31,850	+20.6%
Operating Profit	6,550	8,300	+26.7%
Profit attributable to owners of parent	4,255	5,106	+20.0%
DPS (yen)	58.0	35.0 [*]	+12.0 (in real term)

^{*}The Group executed a 2-for-1 stock split of common stock as of October 1, 2018.

■ Management systems

New establishment of a “management meeting” as a decision-making body for execution of important operations (planned)

Purposes:

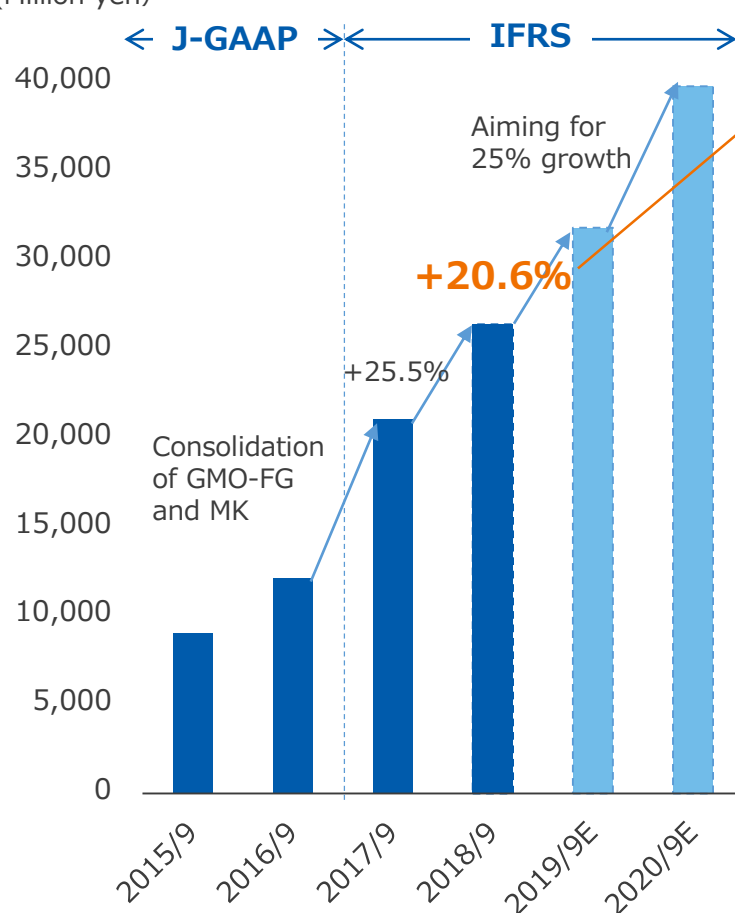
- Enhancement of management supervision function by separation of supervision and execution
- Strengthening of corporate governance by clarifying official responsibilities and enhancing functions for execution of operations

2.2 Revenue plan

20.6%-increase due to accounting factors, etc.

Continuously aiming for the growth rate of 25%⁺

(Million yen)



- Affected by accounting change to cause part of service revenue
- Planned 20.6%-increase by reflecting conservative aggregation of the factors with a high degree of certainty to generate revenues
- Continuously aiming for the growth rate of 25%⁺

Strategy for revenue growth rate of 25%

EC	:	Acquisition of new merchants Increase of ARPU by cross-selling Focused on BtoB fields, subscription Seeking for comprehensive collaboration framework with SMFG (Cashless payment and IoT)
FinTech	:	BtoB factoring Expansion of deferred payment and payment after delivery Reduction of delinquency rate by leveraging AI
Cashless	:	Increase of number of banks accepting "Ginko Pay" Expansion of fee business in collaboration with existing clients
IoT	:	Offline payment terminals and automatic settlement machines, etc. compatible with EMV
Global	:	Expansion of lending services Expansion of service coverage areas of MK

*Financial statements disclosed under IFRS from Q1 FY2018
The revenue for 2017/9 is a value retroactively calculated.

*SMFG : Sumitomo Mitsui Financial Group
GMO-FG : GMO Financial Gate MK : MACROKIOSK

3. Future actions to implement growth strategies

3.1.1 Payment market forecast

We aim for Growth continuation outperforming markets

	2005 (IPO)		2018 (Present)		2019 (Outlook)		2020 (Outlook)
EC rate	1%	≡ x6	5.8%		6-7%		7-8%
BtoC EC market	¥3.5T		¥16.5T		¥20.0T		¥22-24T
Payment after delivery market	-		¥420B		¥580B		¥820B
GMO-PG Gr. TRX value	¥0.1T (FY2004 Actual)		¥3.3T		¥4.5T		¥6-7T
GMO-FG Gr. TRX value	-		¥0.3T		¥1.0T		¥2.0T
Cashless payment ratio	-		20%		22%		25%
GMO-PG Gr. OP	¥190M (FY2004 Actual)	≡ x34	¥6.5B	≡ x1.26	¥8.3B (FY2019 outlook)	≡ x1.25	¥10B

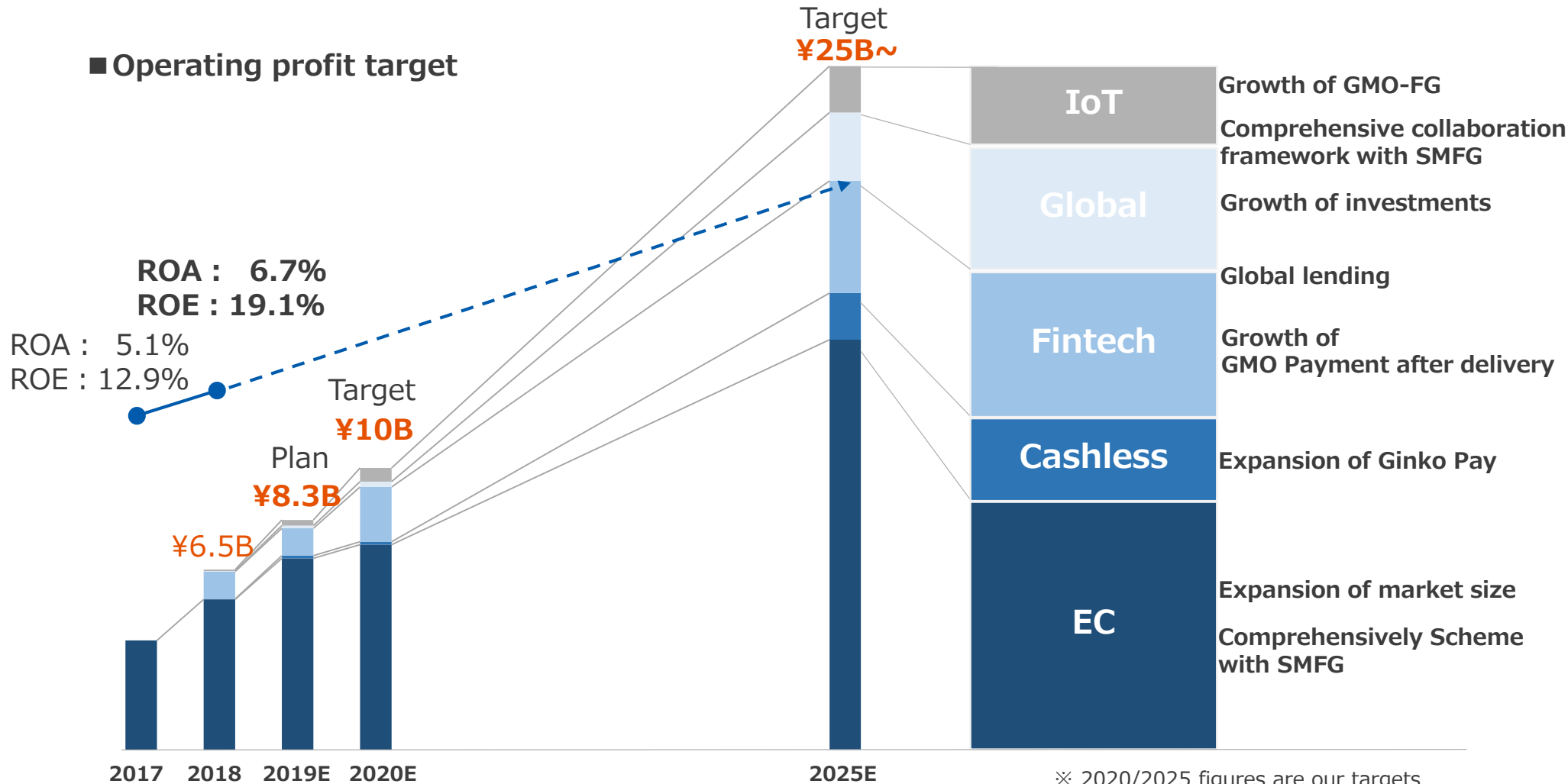
References : METI. "FY2007 & FY2017 Building infrastructure for information- and service-oriented Japanese economy and society (Ecommerce market survey)"

Estimates by GMO-PG

*OP : Above figures are management targets
GMO-FG : GMO Financial Gate

3.1.2 Operating profit target for 2025

Operating profit of 25 billion yen, enhance capital efficiency



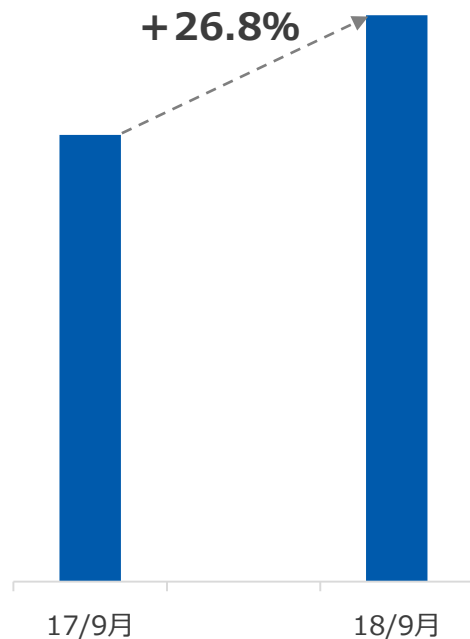
※ 2020/2025 figures are our targets
 SMFG : Sumitomo Mitsui Financial Group
 GMO-FG : GMO Financial Gate

*ROA: Return on assets, ROE: Return on equity

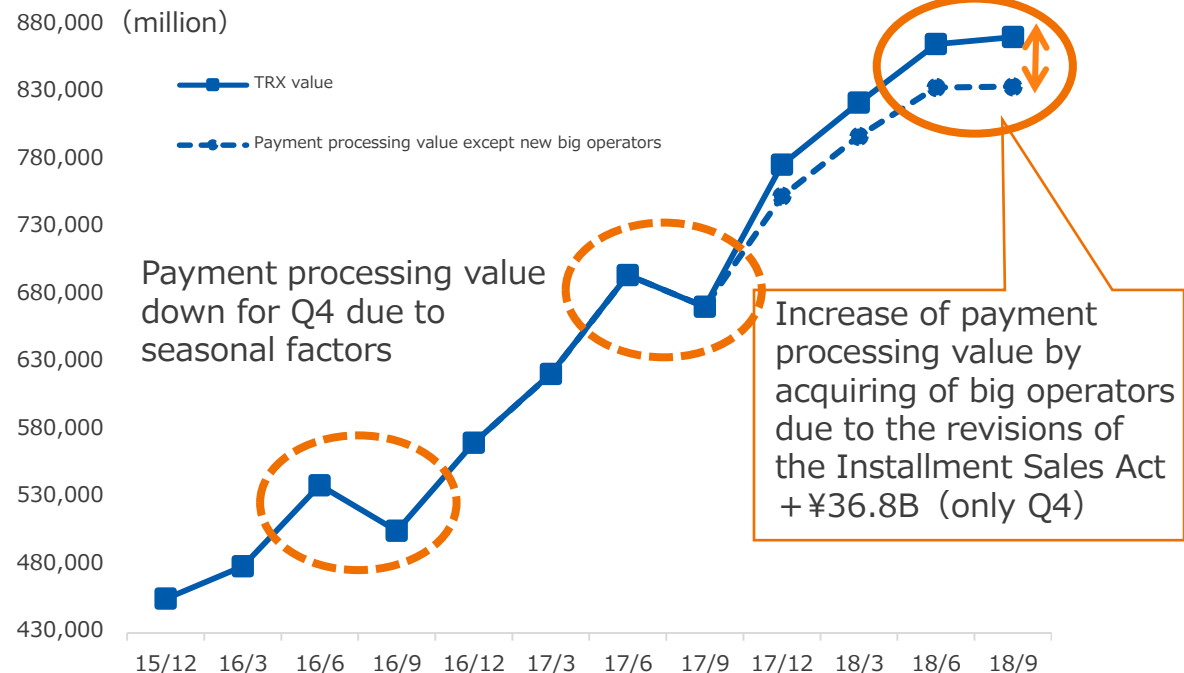
3.2 EC : Growth strategy for the future

Aiming for further high growth by taking opportunities in growing market and focusing on growing business fields

■ Online payment
(excl. system development,
Bank Business and offline payment)



■ TRX value



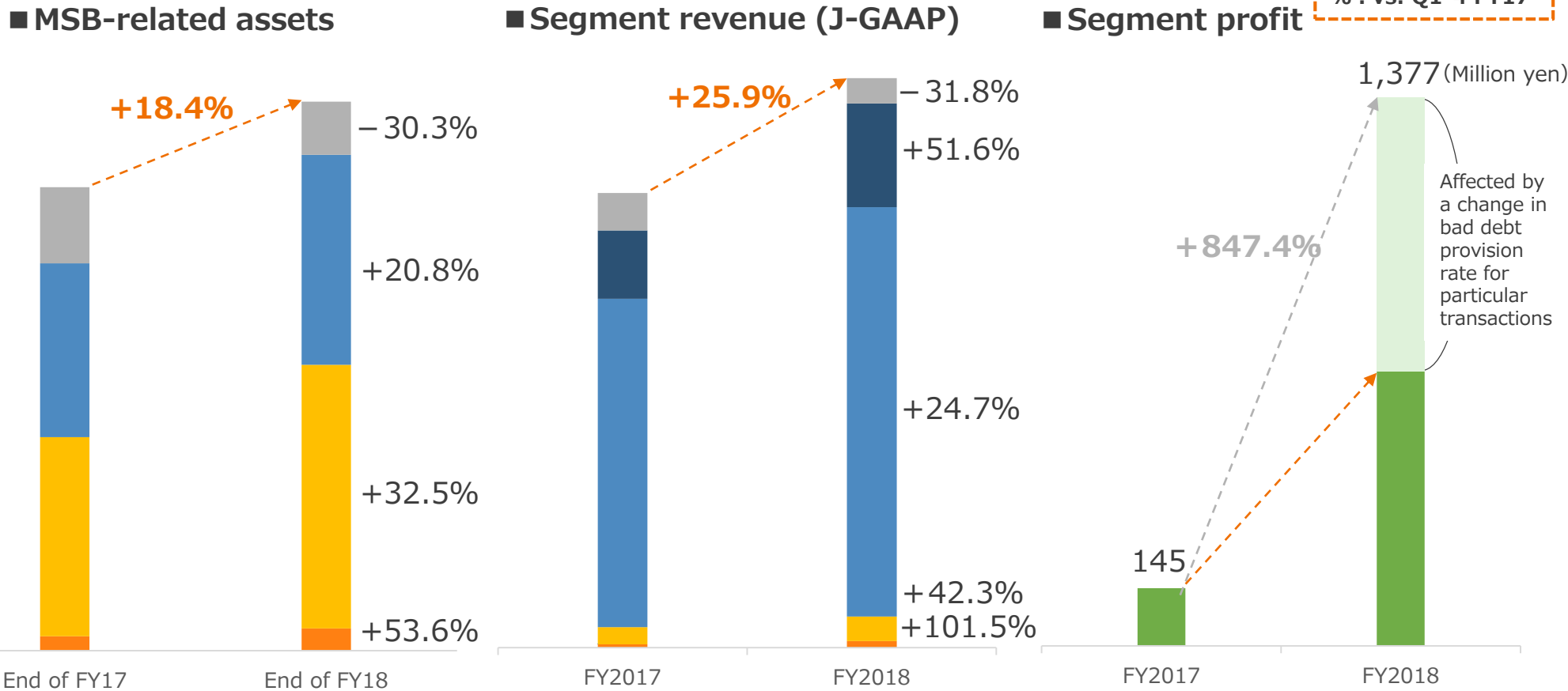
※Yoy comparison in September based on monthly revenue of 500 thousand yen for merchants

■ Growth Strategy

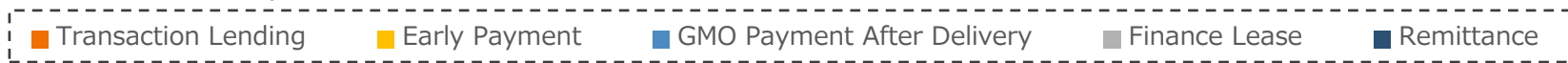
- Increase of number of acquisition of new merchants
- Increase of ARPU (Average Revenue Per User) by cross-selling
- Focused on business fields with growth potential (BtoB、Subscription)
- Seeking for comprehensive collaboration framework with SMFG

3.3.1 FinTech : Assets & revenues related to MSB

Changing portfolio with achievements of 25.3%-increase of revenue vs. 847.4%-increase of profit



Services under Money Service Business



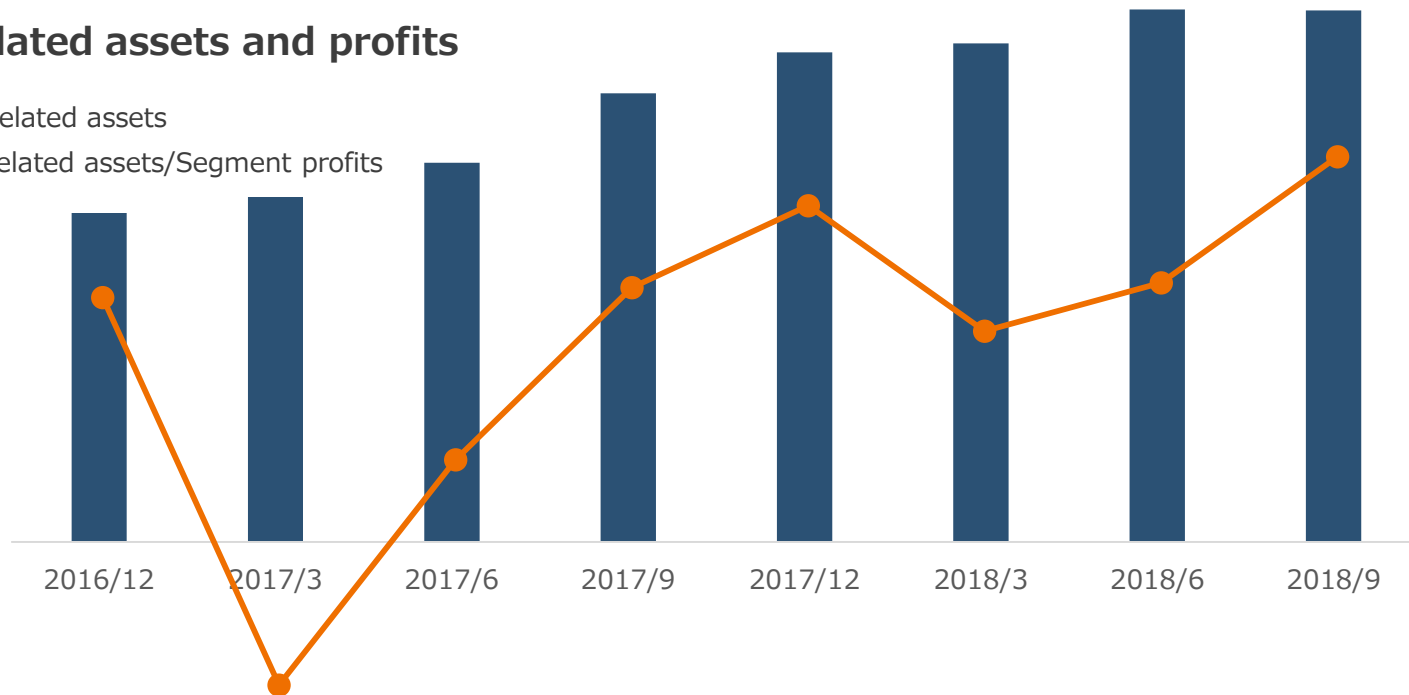
3.3.2 FinTech : Enhancement of profitability

Aiming for further enhancement of profitability by executing growth strategy

■ MSB-related assets and profits

■ MSB-related assets

● MSB-related assets/Segment profits



■ Growth Strategy

BtoB factoring

Expansion of deferred payment and payment after delivery

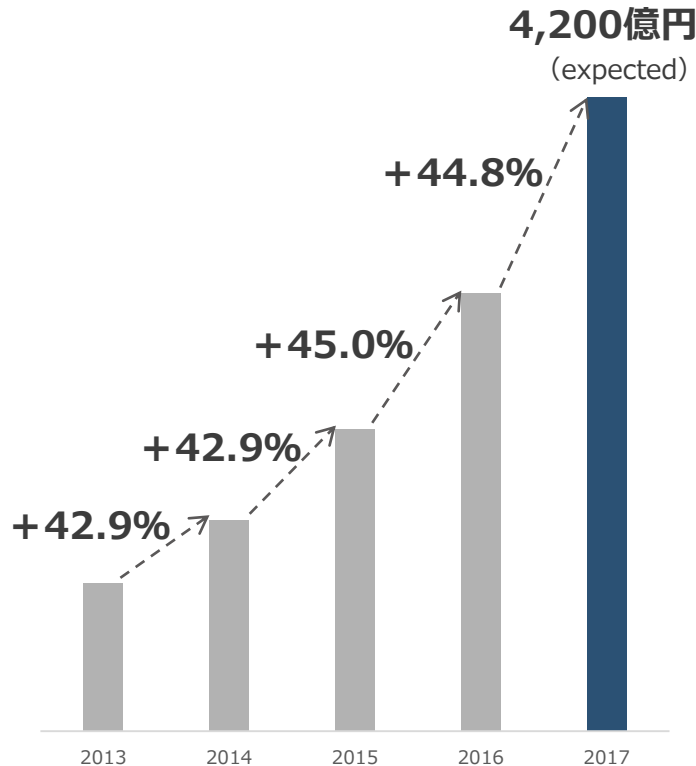
Further reduction of delinquency rate by leveraging AI

3.3.3 FinTech : GMO payment service

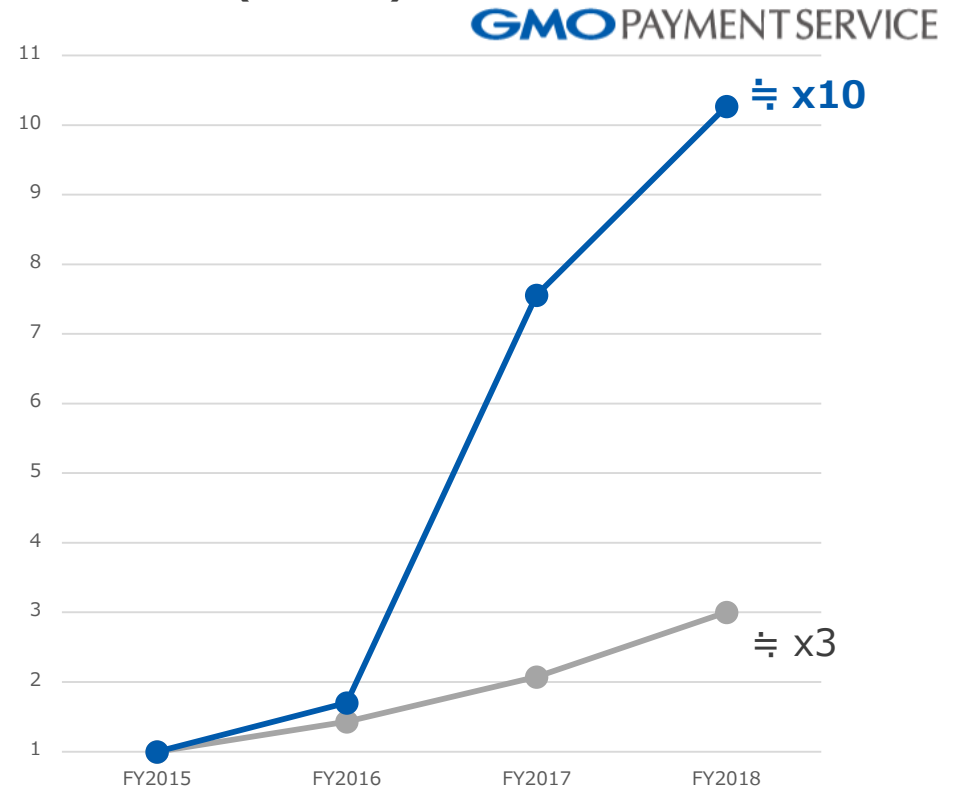
Expansion of market share in deferred payment service market

■ Market size of deferred payment

Annual growth rate of 40% or more
 Market size for 2017: ¥420 billion (expected)



■ Growth rates of deferred payment market and GMO-PS (indices)



※ (source) "Current situation and future forecast of online payment service providers 2018" issued by Yano Research Institute Ltd.

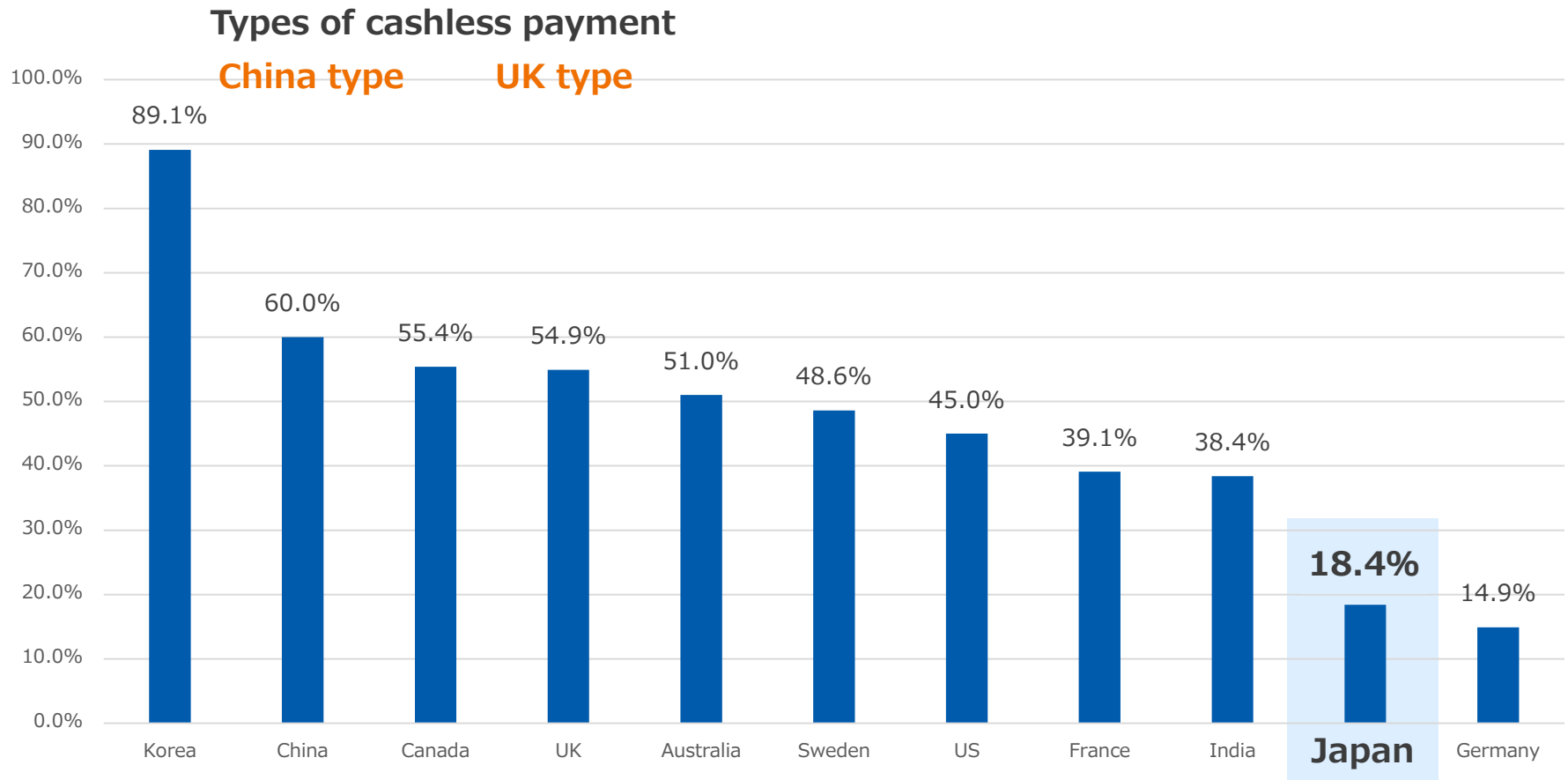
— market size of deferred payment — GMO-PS TRX Value

※GMO-PS : GMO Payment Service

3.4.1 Cashless : International comparison

UK-type cashless payment expected to increase on a full scale even in Japan with “preference for cash”

■ Global cashless rate



(as of 2015)

(source) “Cashless Vision” by METI released in April, 2018

3.4.2 Cashless : Positioning and growth strategy

Generation of revenues by both payment methods to directly or indirectly support cashless payment

■ Positioning of Ginko Pay

<Sales territory>

<Payment methods>

<Involvement with GMO-PG>

X Y Z Pay

Macro:

Credit Card

Generation of revenue
as a partner

Protect online economy

Account Transfer

“Ginko Pay”

Region:

Protect community-based
economy

Account Transfer

Direct promotion

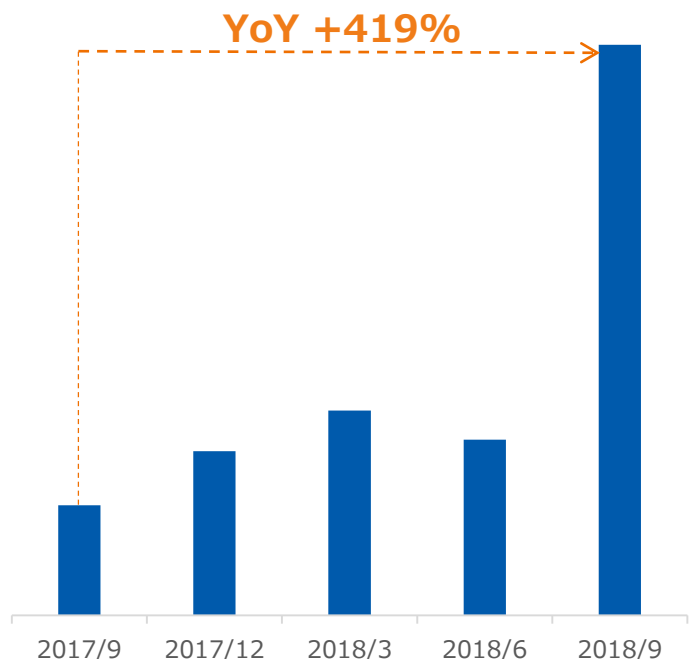
■ Growth Strategy

Increase of number of banks accepting “Ginko Pay”
Expansion of fee business in collaboration with existing clients
Comprehensive collaboration framework with SMFG

3.5.1 IoT : Growth strategy

Accelerated growth by incorporating demand for payment terminals created by the revisions of the Installment Sales Act

■ Initial revenue of GMO Financial Gate



<Current efforts>

Generation of revenue by incorporating demand for replacement of terminals compatible with EMV credit cards created by the revisions of the Installment Sales Act

<Topic>



July 2018~

Start of use of beverage vending machines compatible with multi-functional cards (student/employee ID card) at 4 bases (tentative head office, etc.) of The Hiroshima Bank, Ltd.

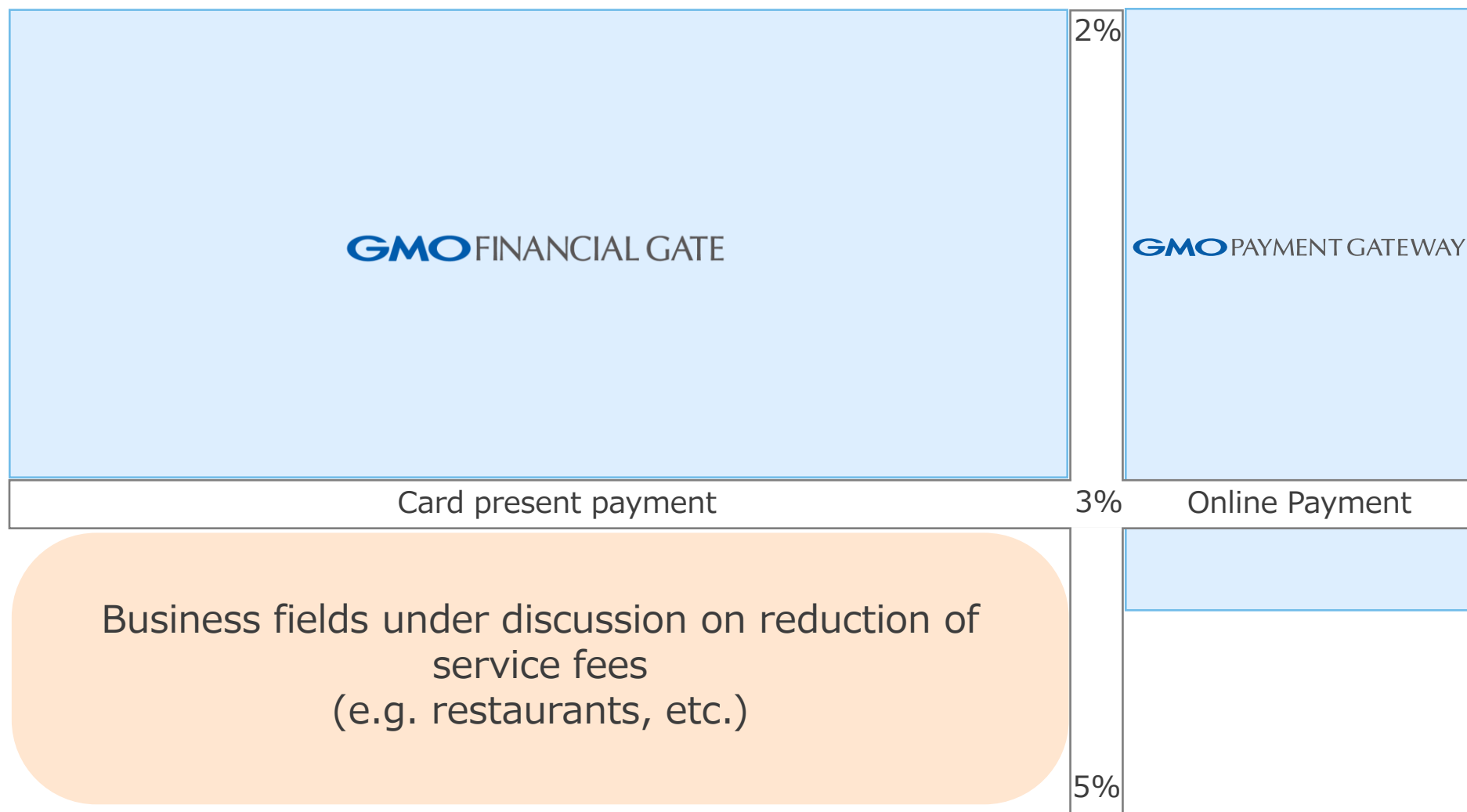
■ **Growth Strategy** Credit card terminals and automatic settlement machines, etc. compatible with EMV Comprehensive collaboration framework with SMFG

※SMFG : Sumitomo Mitsui Financial Group

3.5.2 Our view on reduction in the rates of credit cards

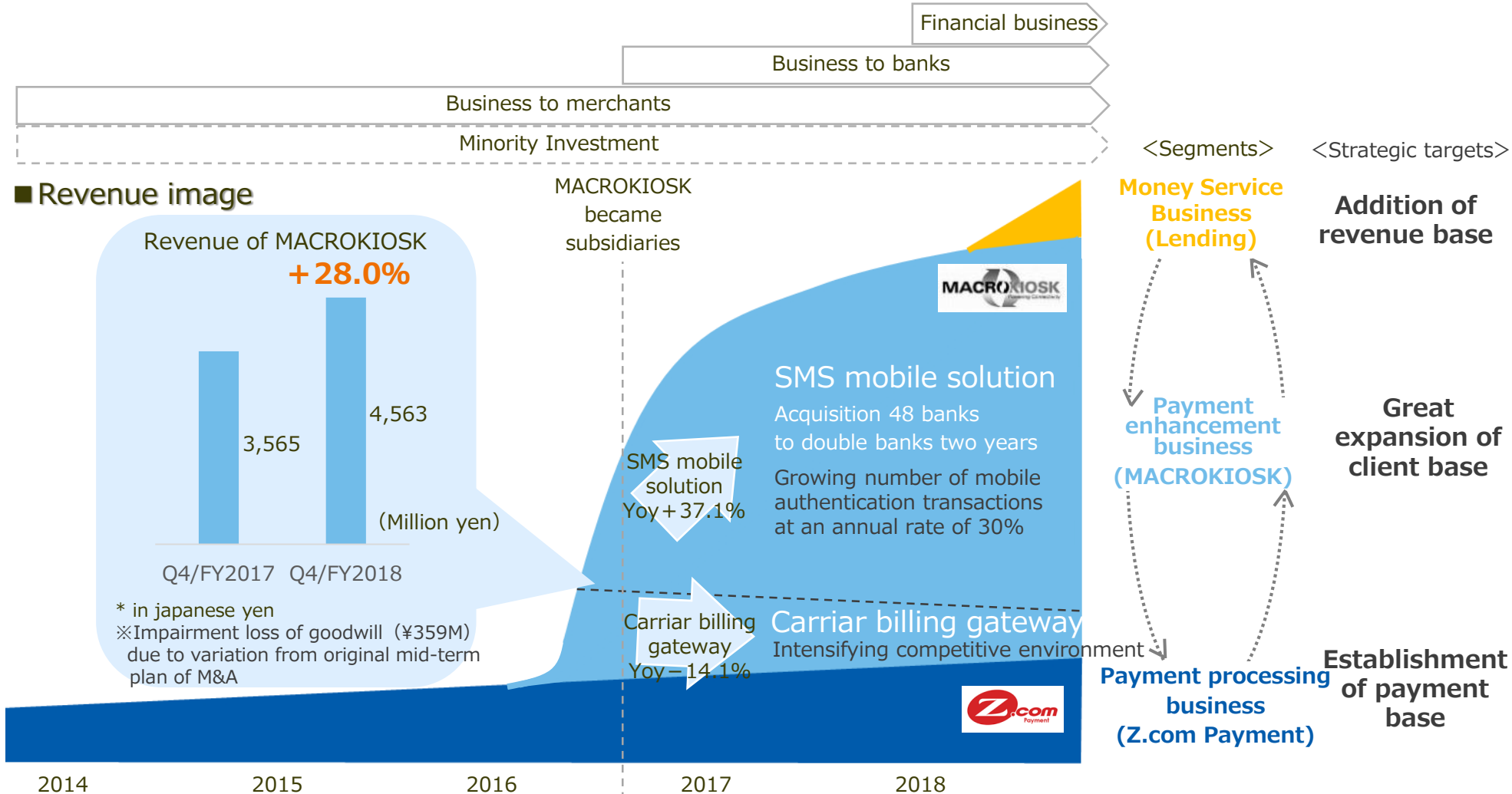
Business fields of offline/high rates are under discussion.

Credit card rates(%)



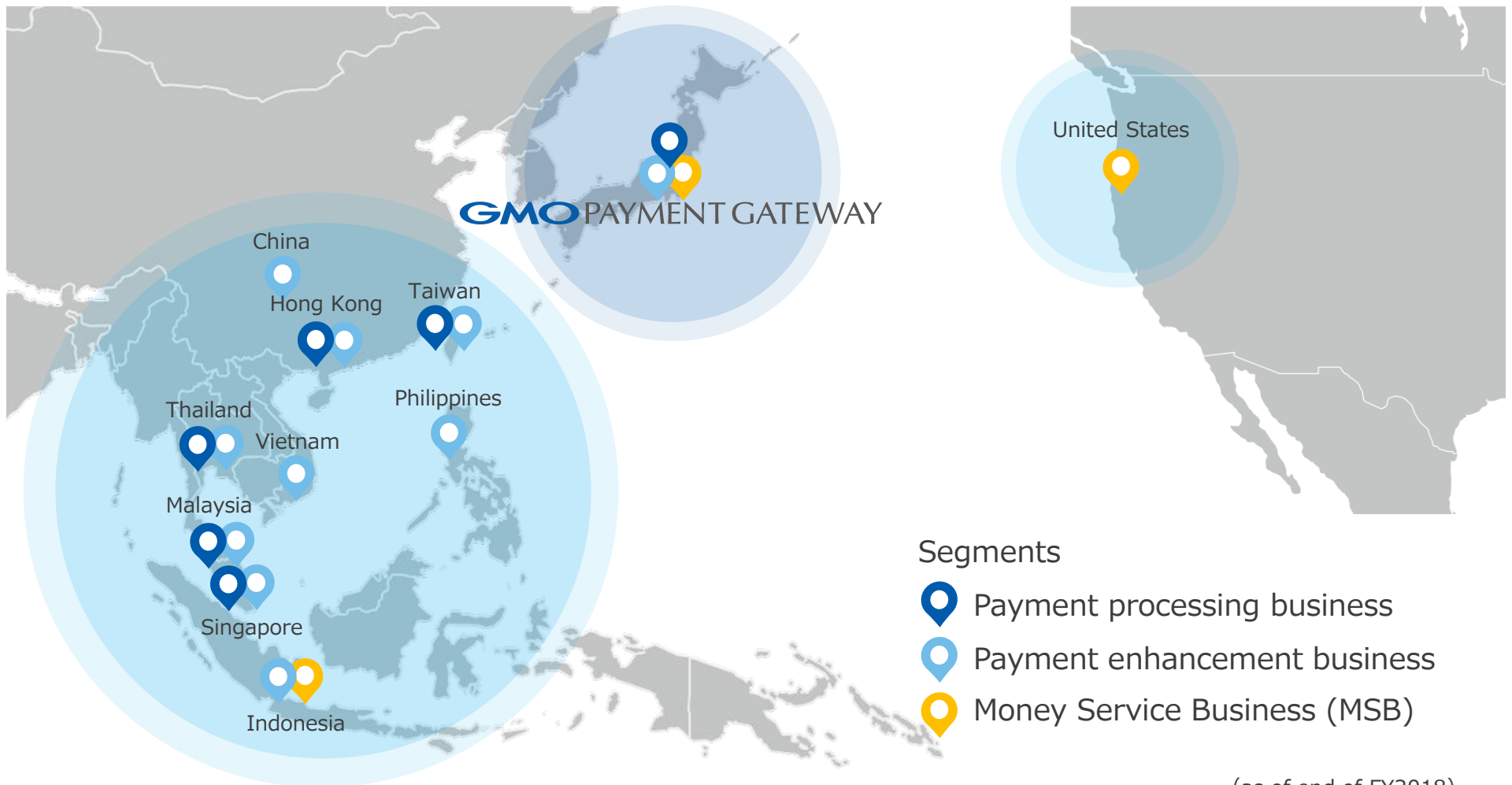
3.6.1 Global : Mid-term Strategy

Expansion of client base, growth of revenue and profit through synergistic effects among 3 business segments



3.6.2 Global : Segments

Expansion of 3 business segments



(as of end of FY2018)

4. Financial highlights

4.1 Changes in our balance sheet

Increase in deposits and MSB-related assets and convertible bonds

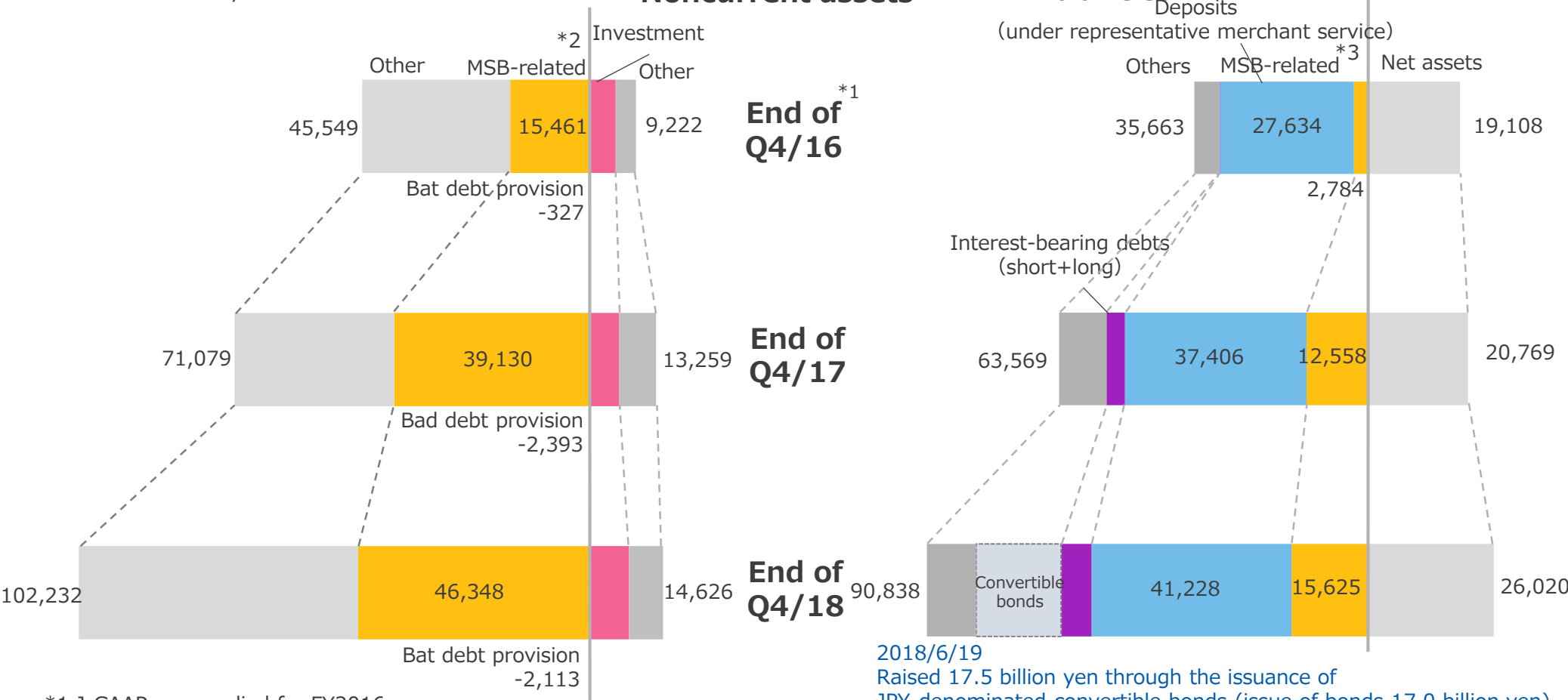
(Unit : Million yen)

Current assets

Noncurrent assets

Liabilities

Net assets



*1 J-GAAP was applied for FY2016

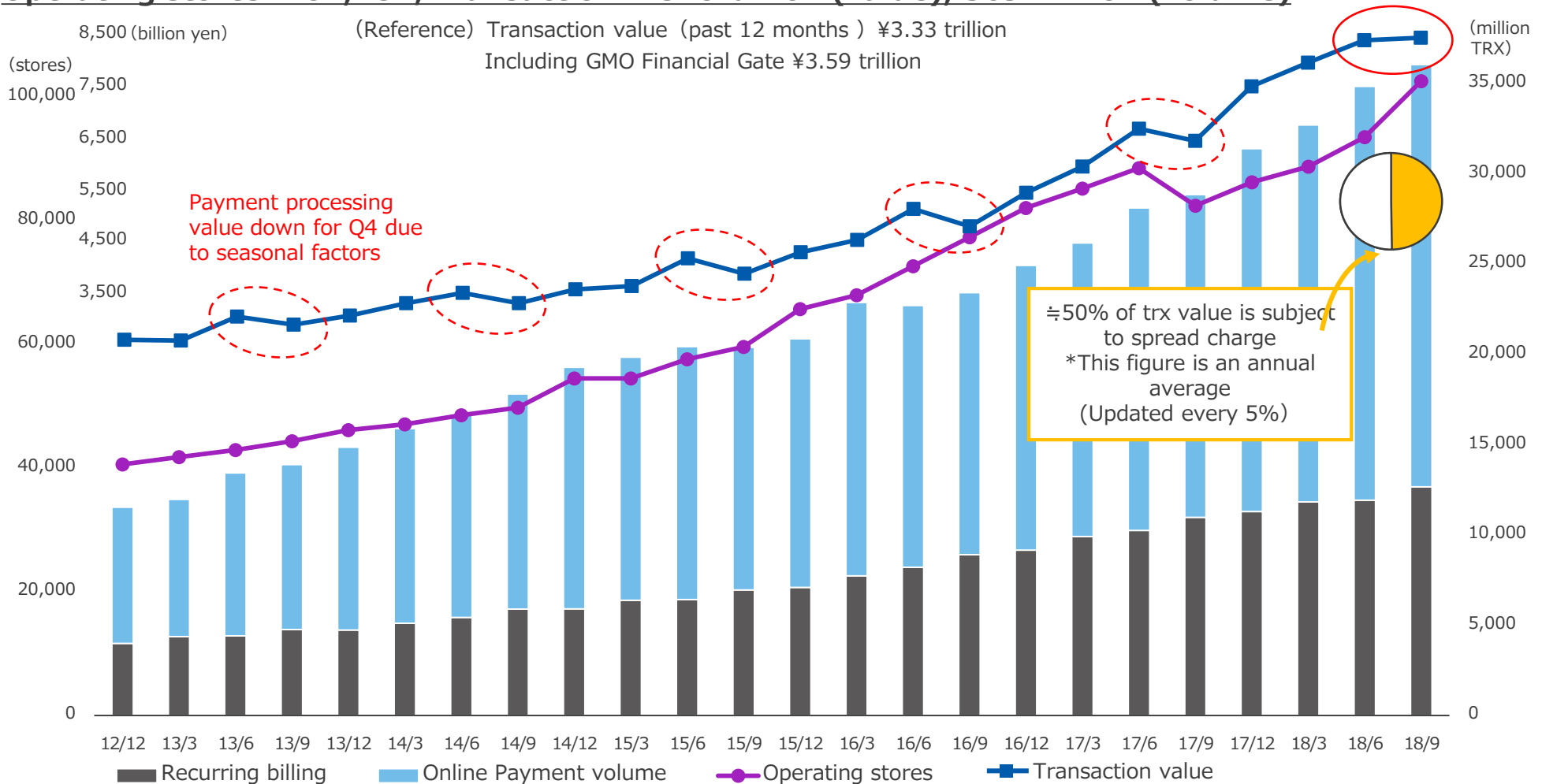
*2 MSB-related assets: lease receivable, short-term loans receivable, advance payments-trade and accounts payable-other

*3 MSB-related liabilities: accounts payable-other

4.2 Major KPIs (Quarterly)

Annual transaction value reaches ¥3.6 trillion

Operating stores: 102,484; Transaction: ¥870 billion (value), 369 million (volume)



*Number of operating stores represents end-of-quarter figure, transaction value/volume represents figure during quarter

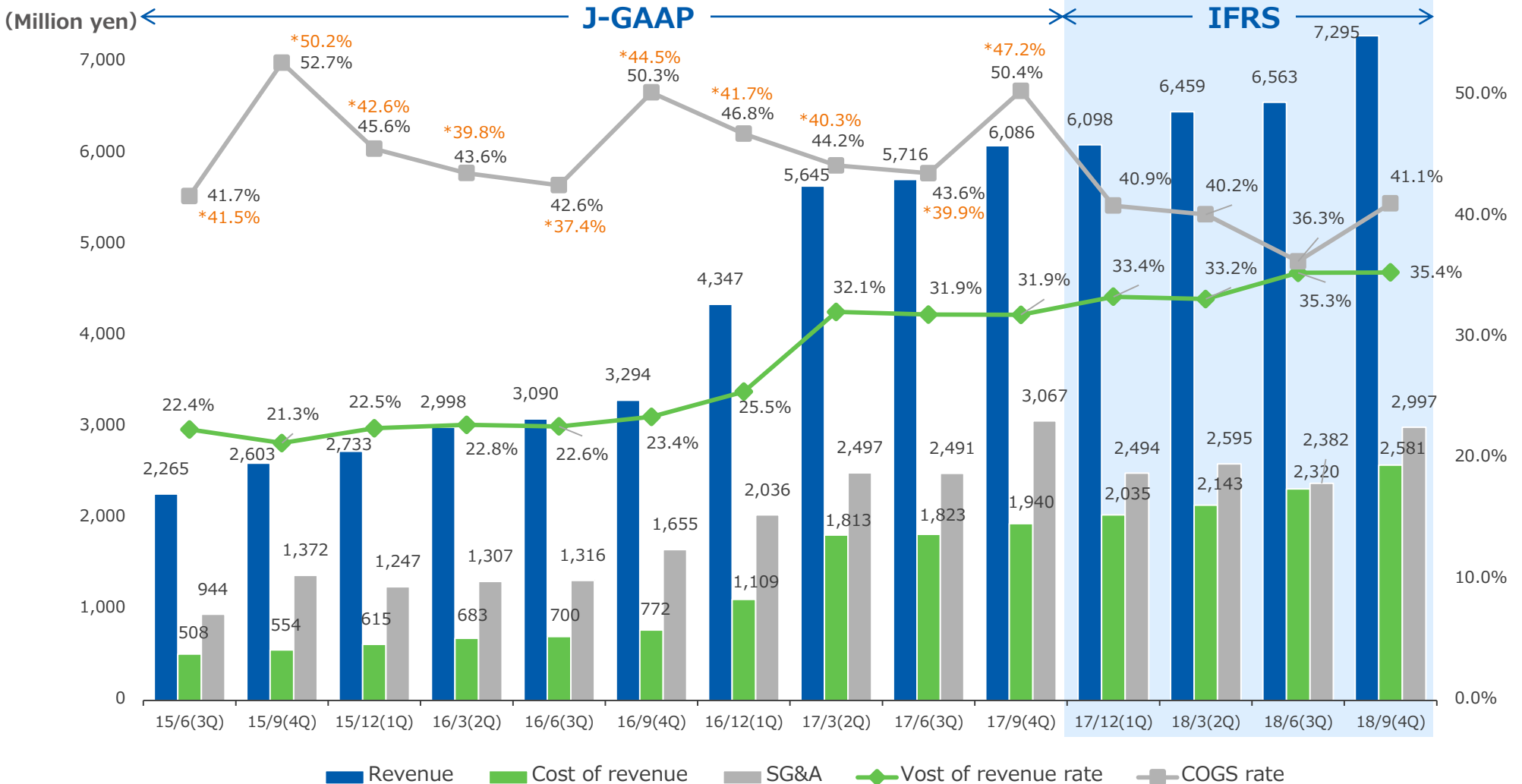
*17/9 operating store number dropped QoQ due to a batch of merchants that went idle after a partner's service termination

5. Reference materials

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

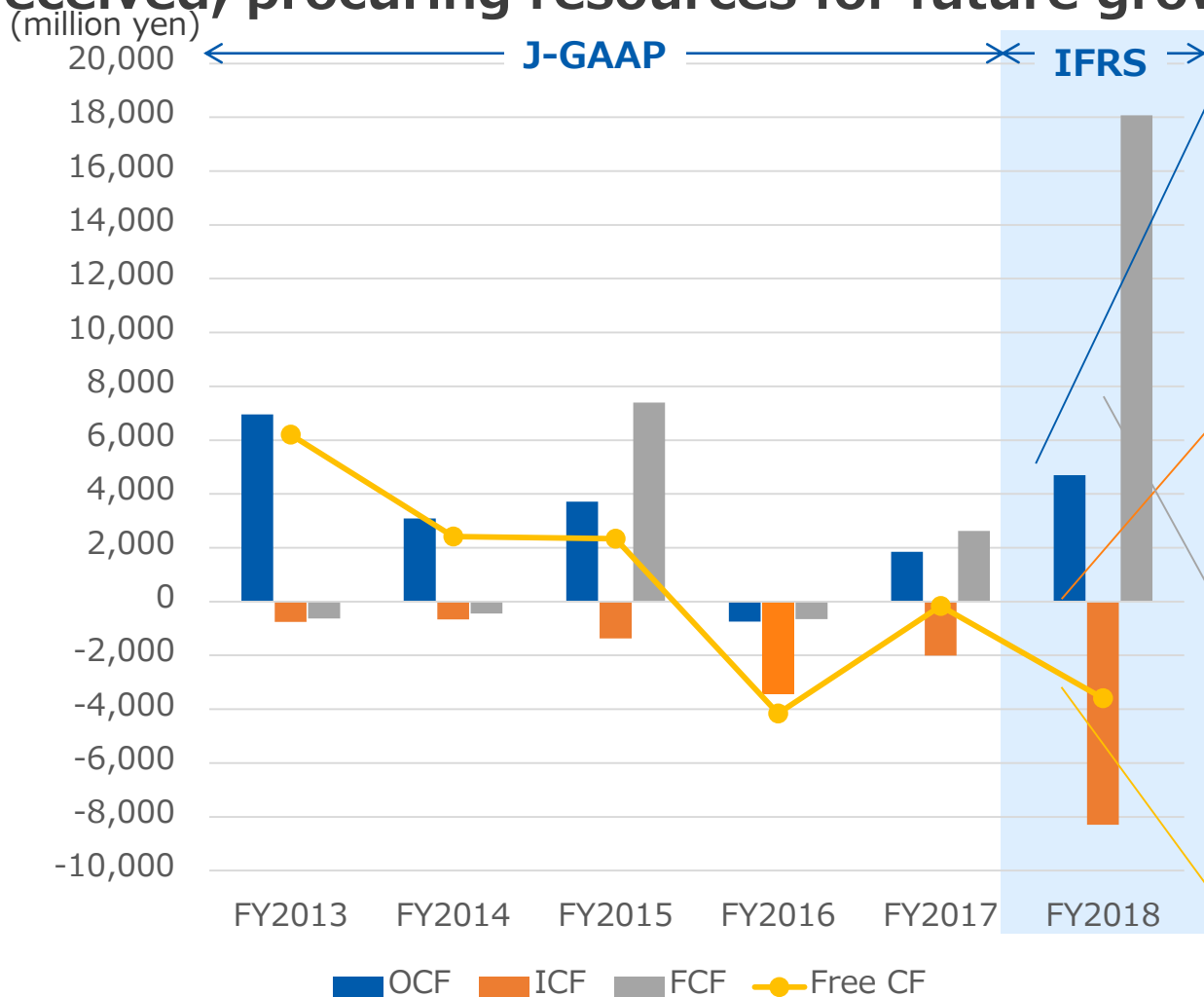
Cost of revenue ratio changed due to sales mix change

*Figures with asterisk do not take into account outsourcing expense
Not included in SG&A under IFRS from Q1/18



5.2.1 Consolidated cash flows

Positive cash flow due to profit growth and increase of deposits received, procuring resources for future growth



■ Cash flow changes in FY2018

OCF :	+4,701 million
Pre-tax profit	+6,700 million
Changes in operating and other receivables	+572 million
Changes in advance payments	-5,461 million
Changes in accounts receivable	-3,317 million
Changes in accounts payable-trade	+1,139 million
Changes in accounts payable-other	+2,995 million
Changes in deposits received	+3,821 million

ICF :	-8,296 million
Purchase of intangible assets	-1,076 million
Payment for deposit of deposit to subsidiaries and affiliates	-7,000 million

FCF :	+18,067 million
Net changes in short-term borrowings	+3,300 million
Proceeds from issuance of corporate bonds	+17,437 million
Repayment of long-term borrowings	-821 million
Dividends paid	-1,483 million

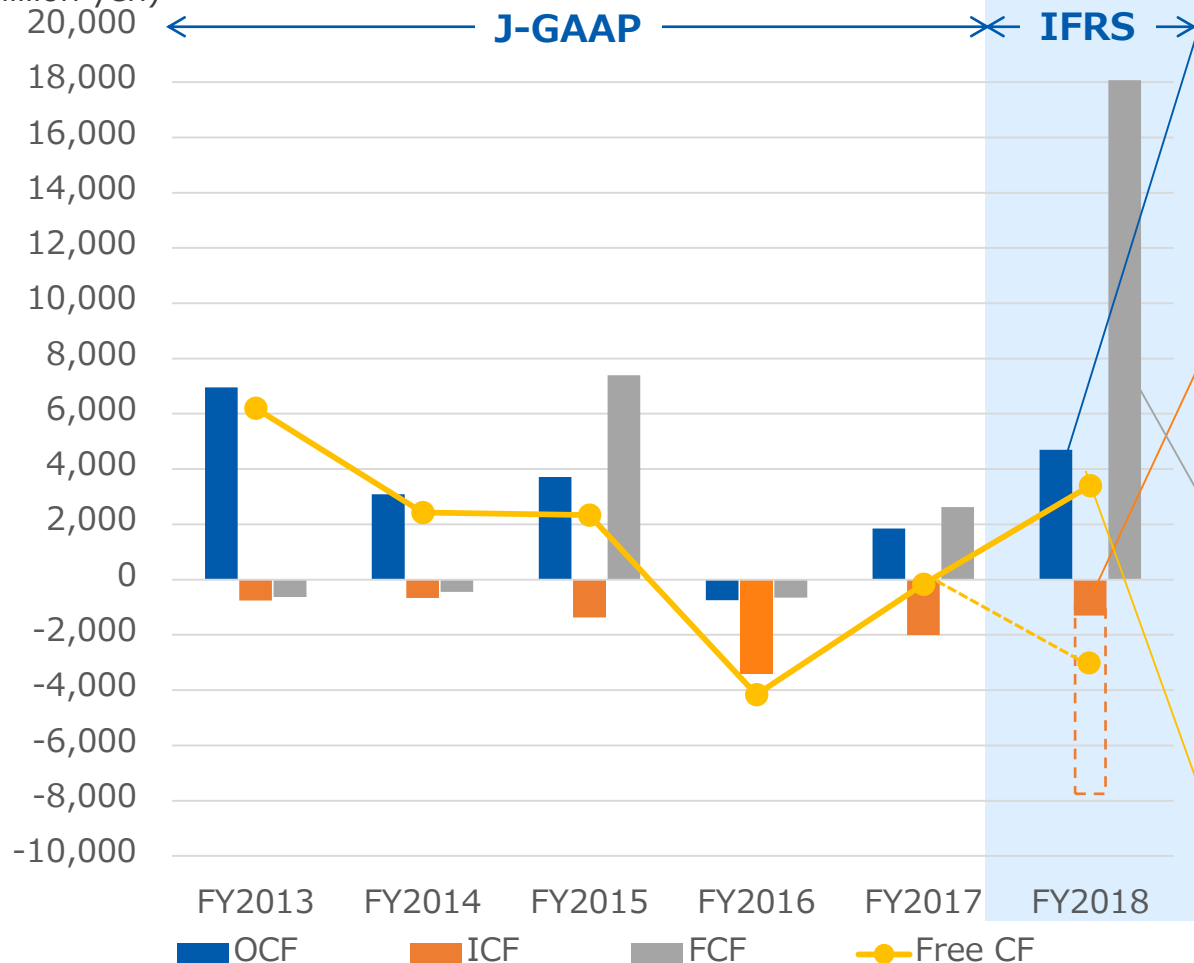
Free cash flow : -3,595 million

Cash and cash equivalents : +42,033 million

5.2.2 Consolidated cash flows (in real term)*

Substantial free cash flow has turned positive, procuring resources for future growth

(million yen)



■ Cash flow changes in FY2018

OCF :	+4,701 million
Pre-tax profit	+6,700 million
Changes in operating and other receivables	+572 million
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Changes in accounts receivable	-3,317 million
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Changes in deposits received	+3,821 million

ICF :	-1,296 million
(in the disclosure -8,296 million)	
Purchase of intangible assets	-1,076 million

FCF :	+18,067 million
Net changes in short-term borrowings	+3,300 million
Proceeds from issuance of corporate bonds	+17,437 million
Repayment of long-term borrowings	-821million
Dividends paid	-1,483million

Free cash flow : +3,405 million
(in the disclosure -3,595 million)

Cash and cash equivalents : +42,033 million

*Substantial cash flow statement after adjustment, since "deposit of deposits received of affiliated companies (-7 billion yen)" in the investment cash flow substantially means cash and cash equivalents.

The cash and cash equivalents as of the end of the current consolidated fiscal term include the deposits of affiliated companies of 5 billion yen.

Thank you very much!

GMO PAYMENT GATEWAY

GMO Payment Gateway Inc.
(T S E : 3 7 6 9)

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

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