

# Financial results briefing for the 4Q of FY2017

(October 1, 2016 - September 30, 2017)

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Status of our business expansion toward achieving mid-term goal

November 6, 2017  
GMO Payment Gateway, Inc.  
(3769: Tokyo Stock Exchange Section-1)

The 51<sup>st</sup> IR Meeting  
**GMO** PAYMENT GATEWAY  
<https://corp.gmo-pg.com/en/>

# A cautionary note about the contents of the document

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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

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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

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# 1. Summary of financial results for FY2017

# 1.1 Business performance

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

(Million yen)	<u>FY2016</u>	Initial forecast	<u>FY2017</u>	<u>YoY change</u>	<u>vs. Initial forecast</u>
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

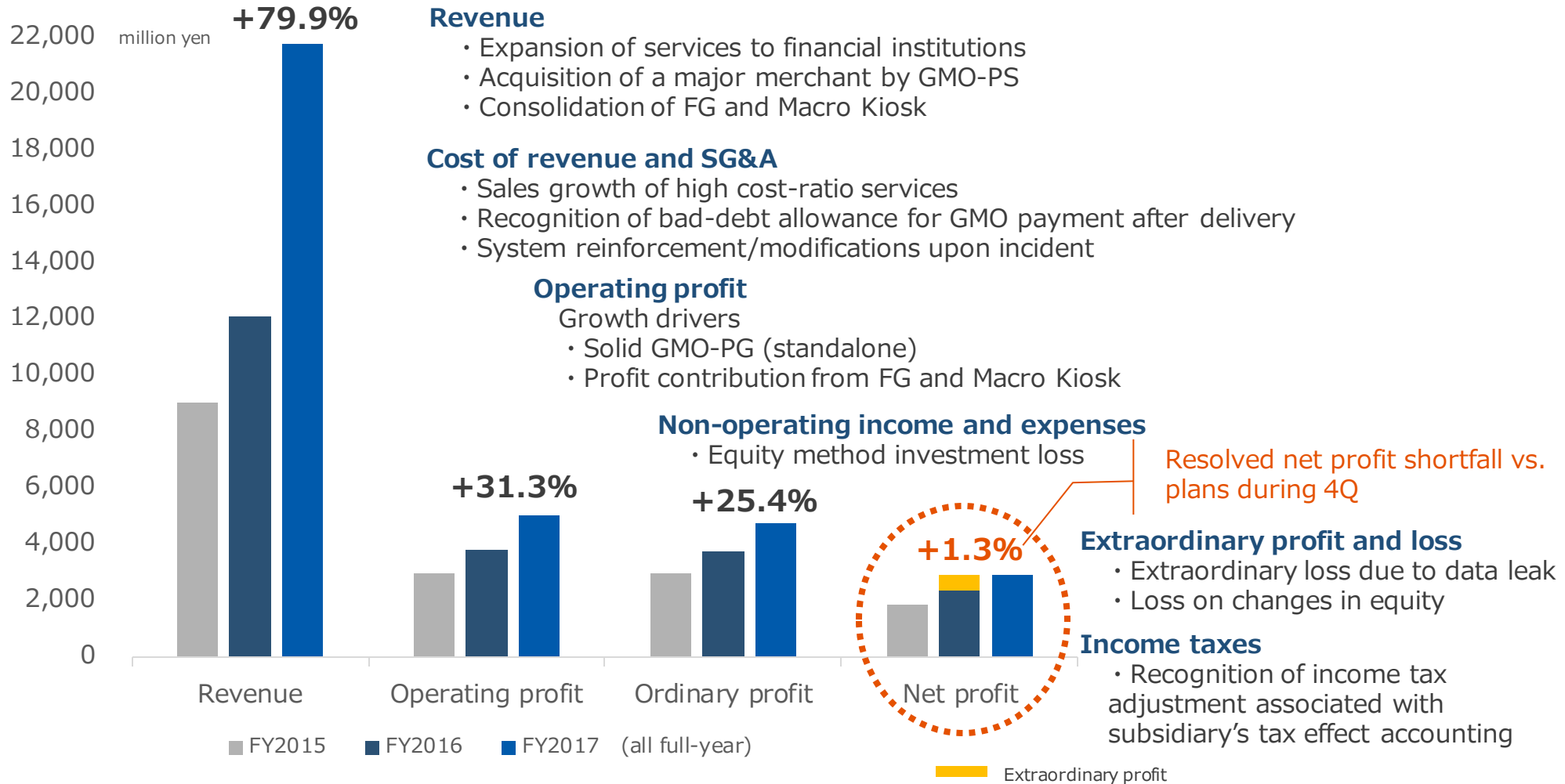
	Operating stores (end of term) ※	Transaction value (full year)	Transaction volume (full year)
<b>KPI</b>	<b>82,349 (+6.6%)</b>	<b>¥2.5 trillion (+29.3%)</b>	<b>1.08 billion (+20.2%)</b>

( ) = 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

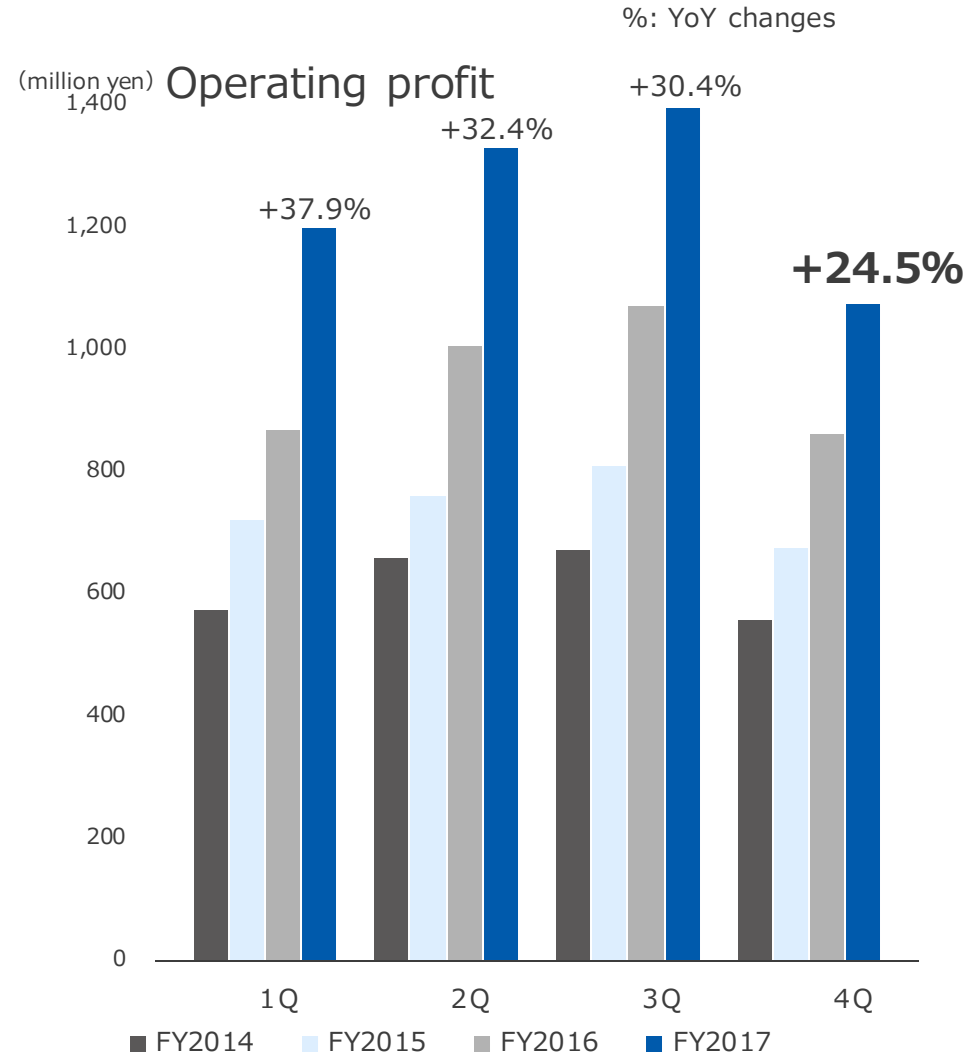
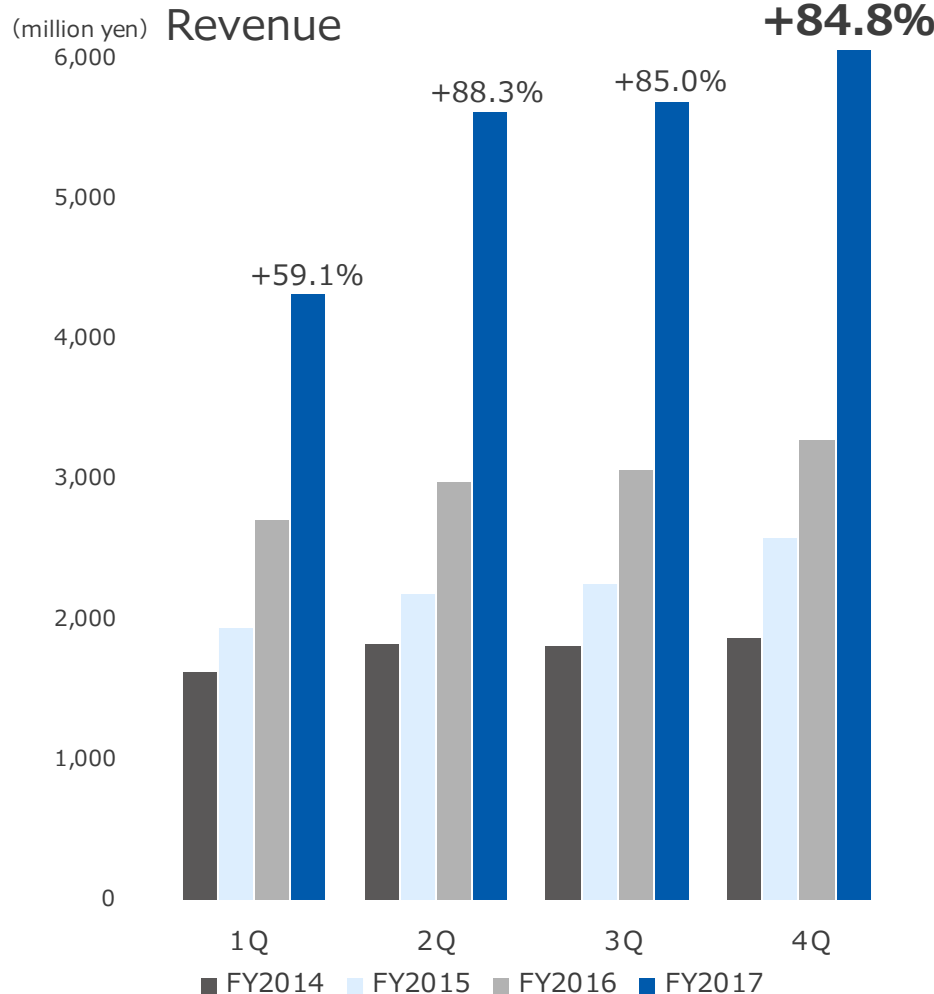
## Net profit over plans & FY16 level with PS tax effect accounting



# 1.3 Quarterly results

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

■ FY2017 Quarterly results (consolidated)

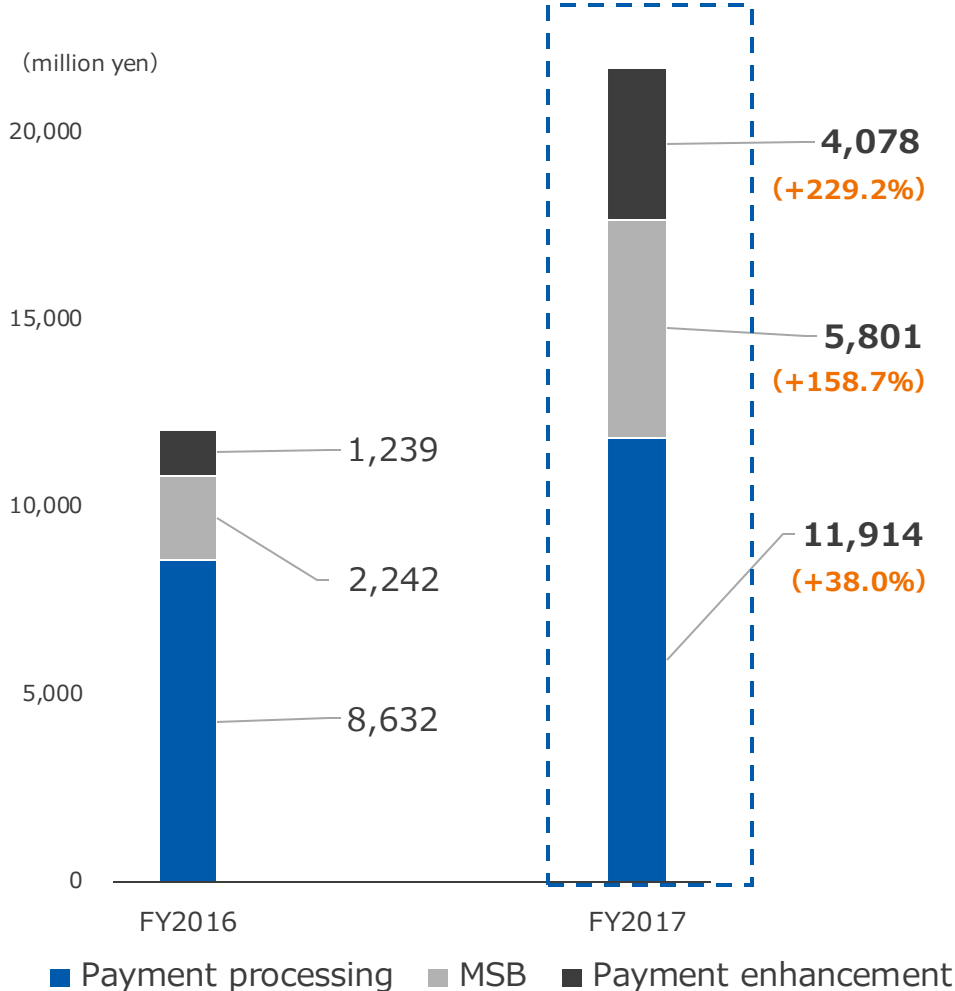


# 1.4 Revenue/OP by segment

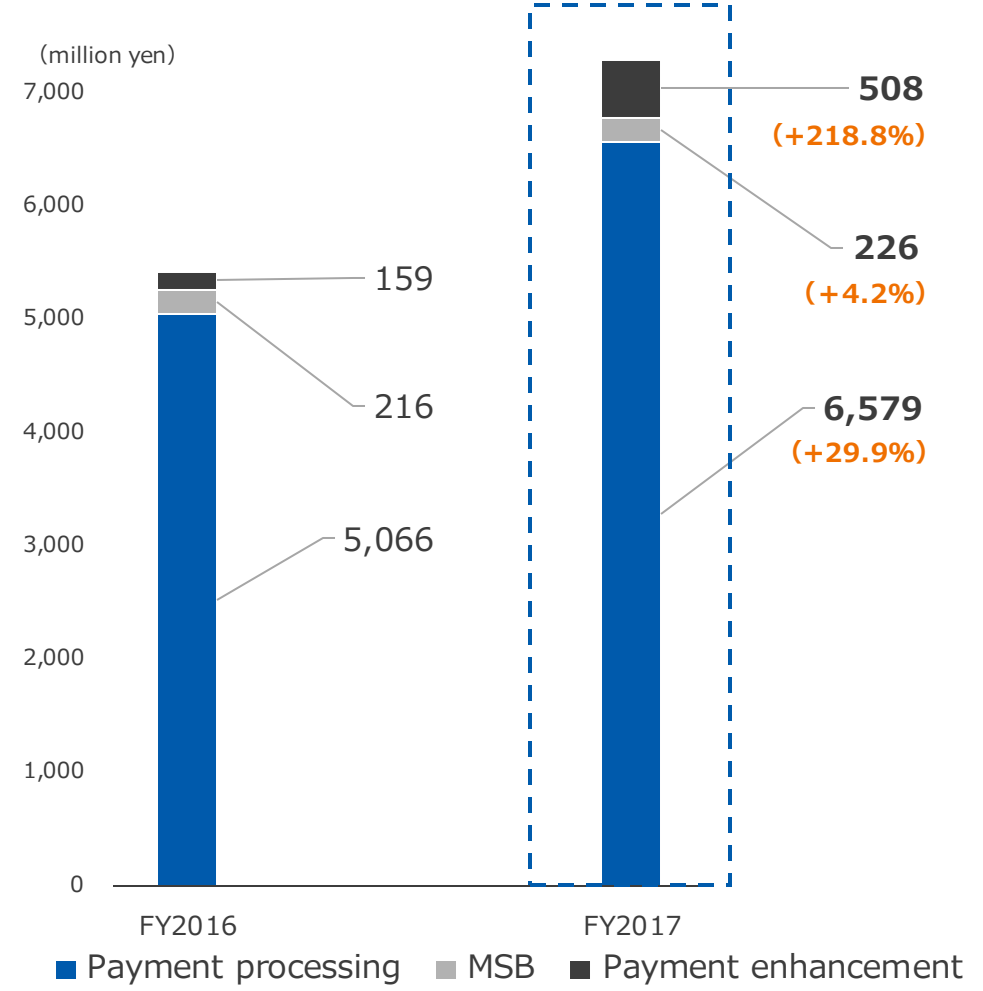
Strong revenue growth in all segments with profit of payment processing business up by 30%

( ): YoY change

■ Revenue by segment



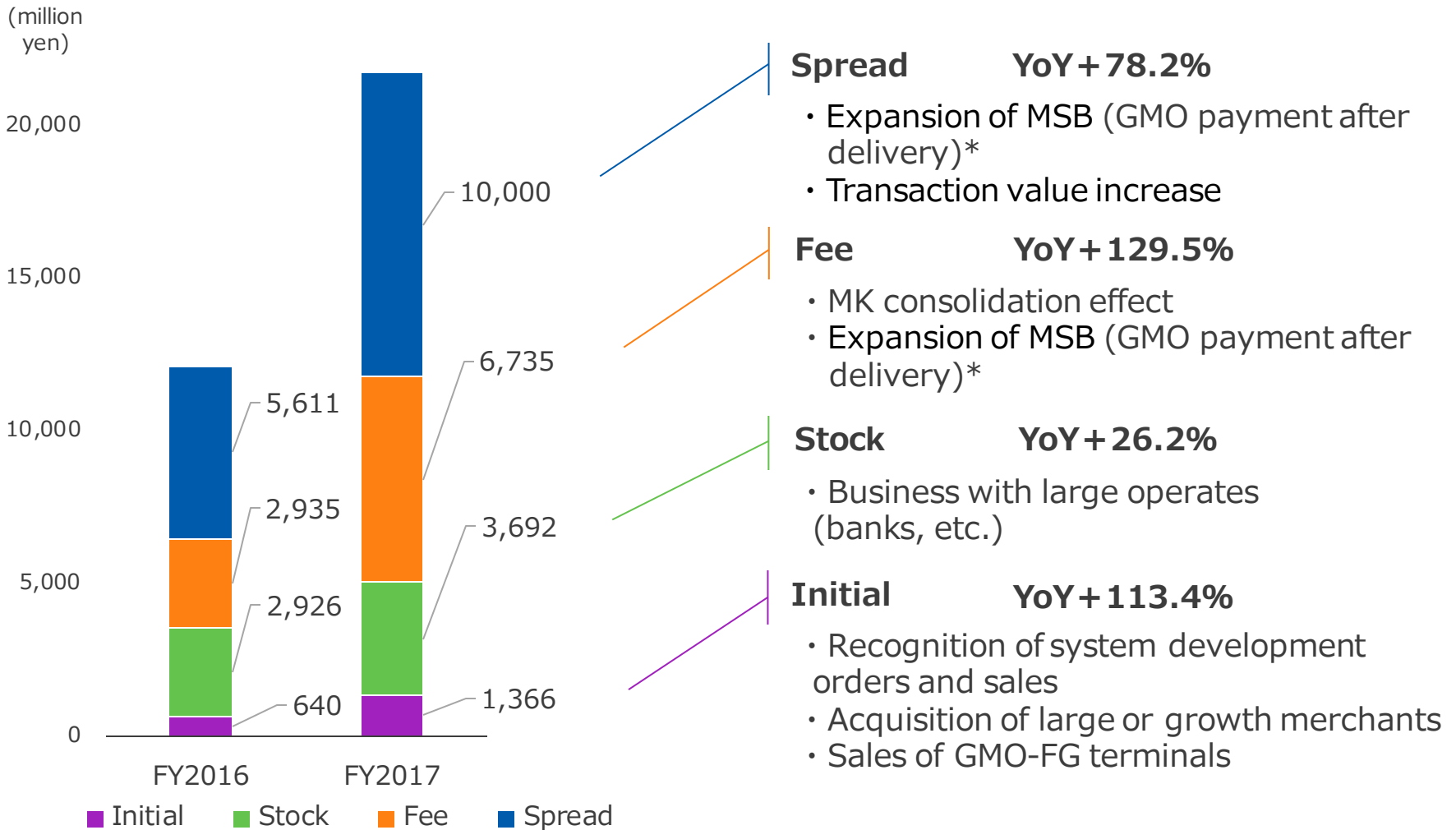
■ OP by segment (before consolidation adjustment)





# 1.5 Revenue breakdown by business model

All business models grew more than 25%



\*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

- ¥110 million extraordinary loss from the incident

### Earnings 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

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

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## 2. Earnings forecast for FY2018

## 2.1 Full-year forecast (J-GAAP)

Remain committed to deliver OP CAGR of 25%

■ FY2018

(Unit : million yen)

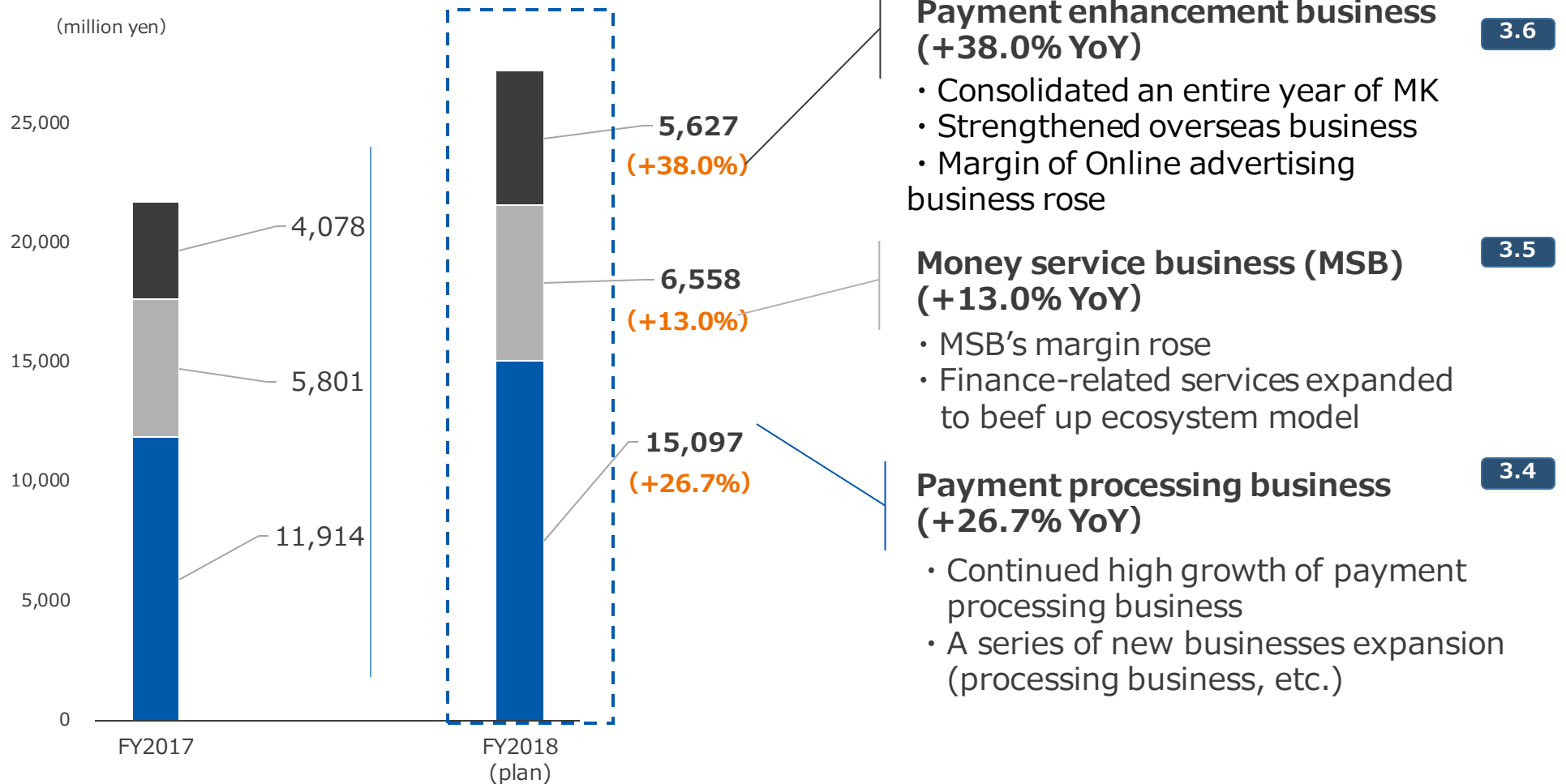
(million yen)	<u>FY2017</u>	<u>FY2018</u>	<u>YoY change</u>
Revenue	21,794	27,283	+25.2%
Operating profit	5,015	6,269	+25.0%
Net profit	2,948	3,635	+23.3%
EBITDA	5,919	7,594	+28.2%
DPS (yen)	40.0	49.0	+9.0

※EBITDA=Operating profit + depreciation + amortization of goodwill

# 2.2 Earnings forecast by segment (consolidated)

## Measures to achieve our target

### ■ Revenue by segment



## 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	<b>27.2</b>	<b>100</b>	<b>26.1</b>	<b>100</b>	<b>-1.1</b>	<b>-4%</b>
Operating profit	<b>6.2</b>	<b>23</b>	<b>6.4</b>	<b>25</b>	<b>+0.2</b>	<b>+3%</b>

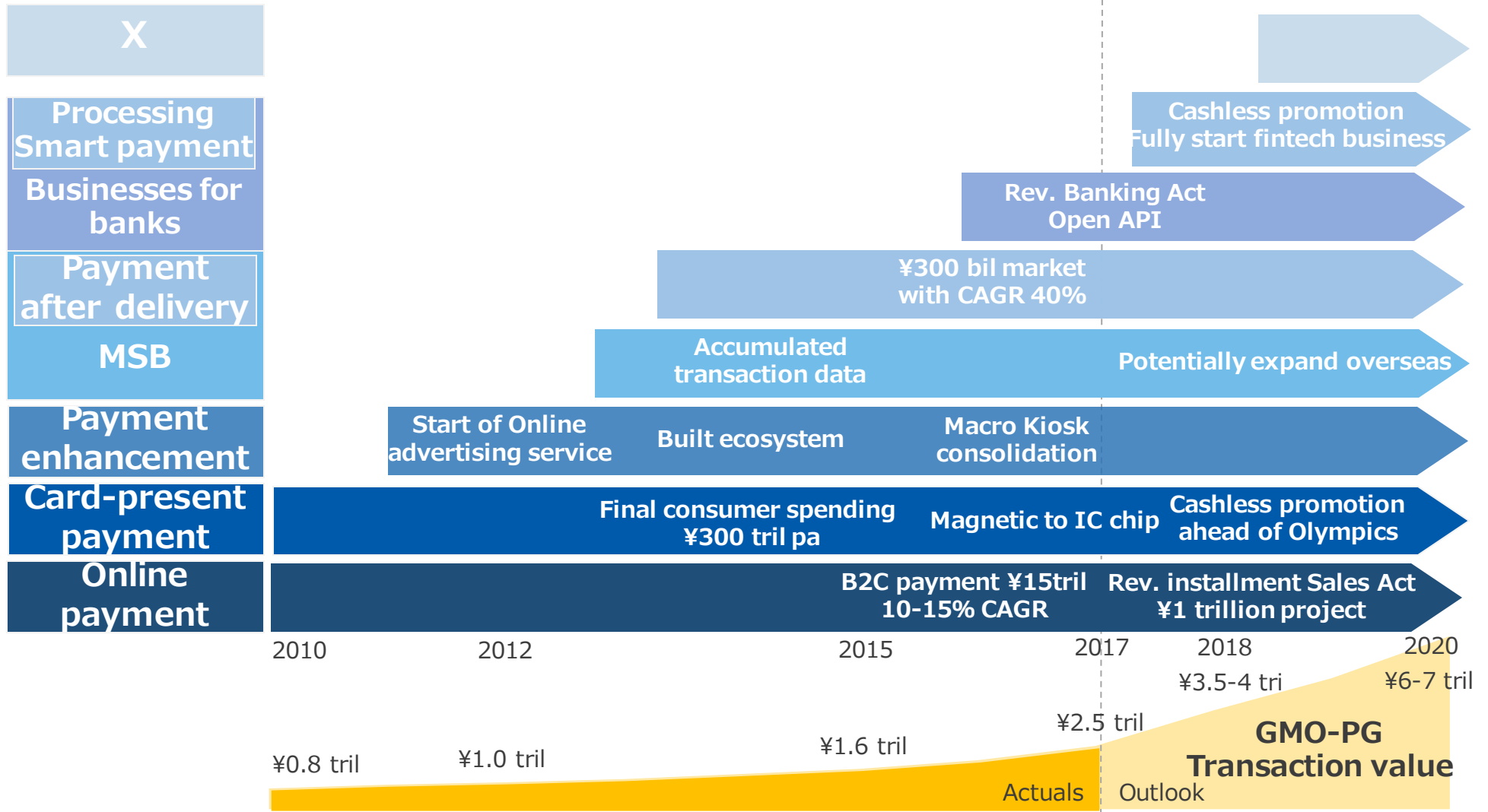
Factors	Revenue		
		Changes of sales recording standard (from gross to net)	-¥1.5 billion
	Online advertising service	-¥0.8 billion	
	Finance lease	-¥0.7 billion	
	MK sales recognition timing gap	+¥0.3 billion	
Operating profit		Goodwill not amortized under IFRS	+¥0.2 billion

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## 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

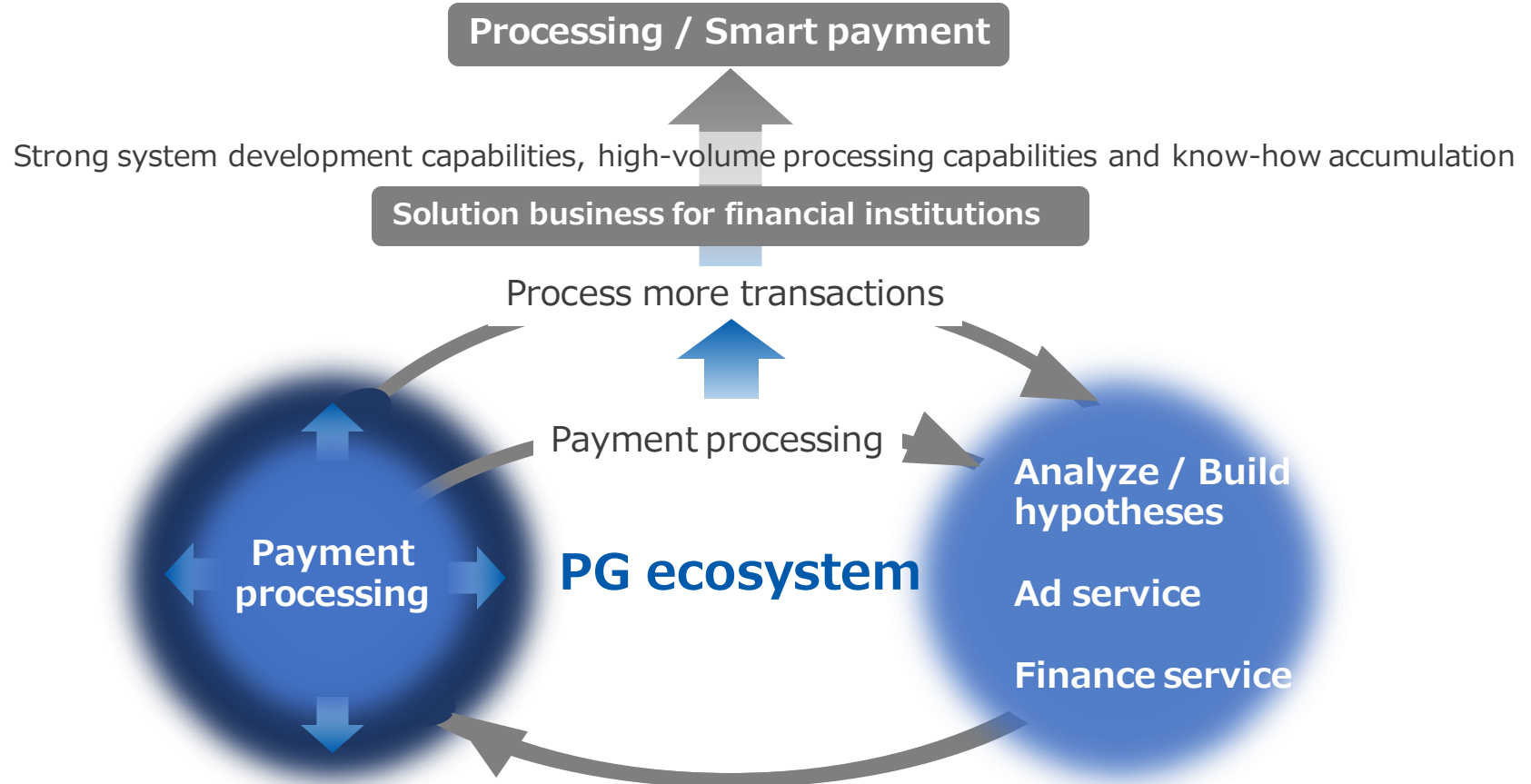
### Outlook and measures to achieve ¥10 billion OP in 2020



# 3.3 Three strategies to note for FY2018

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

### Strategy 2) Processing and smart payment business expansion

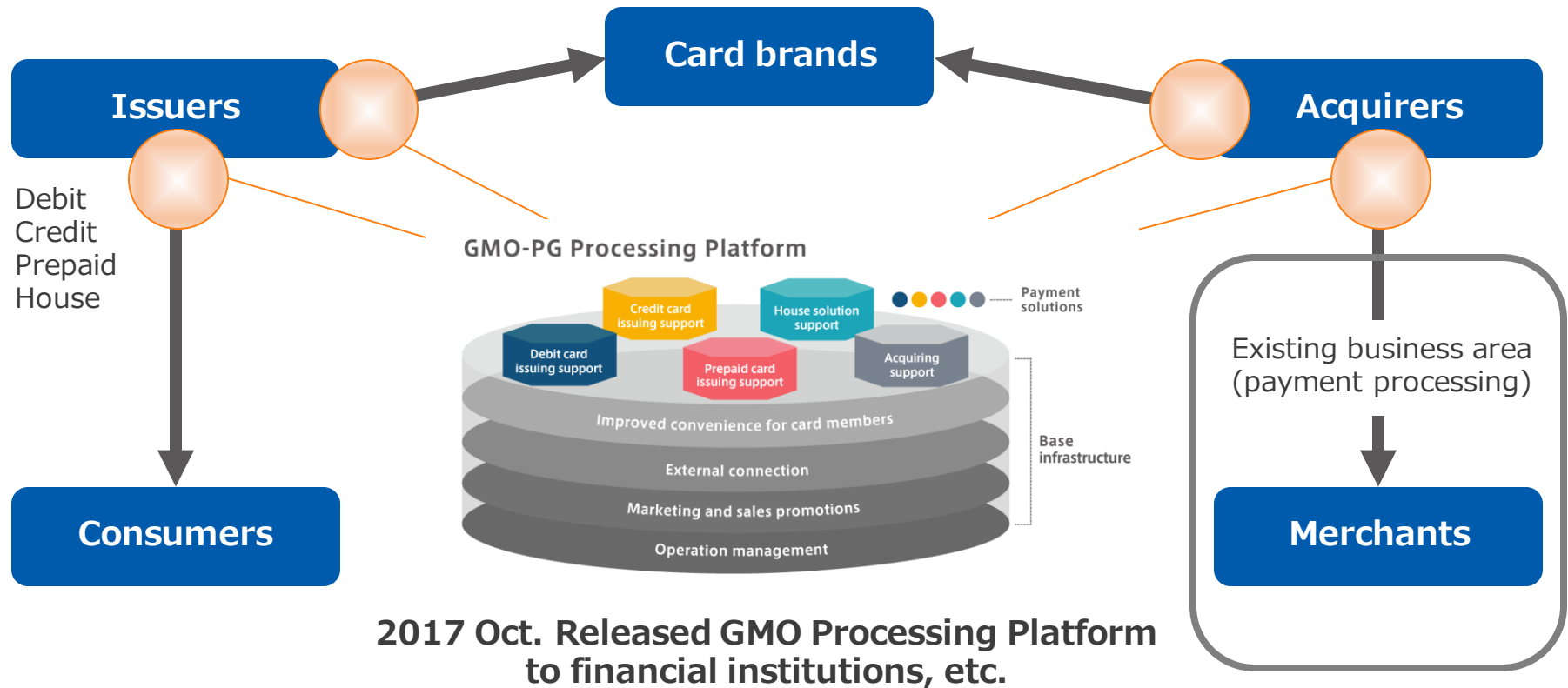


Strategy 1) Expansion of payment business by acquiring big merchants

Strategy 3) Expansion of MSB

# 3.4.1 Payment processing: Processing business / Smart payment

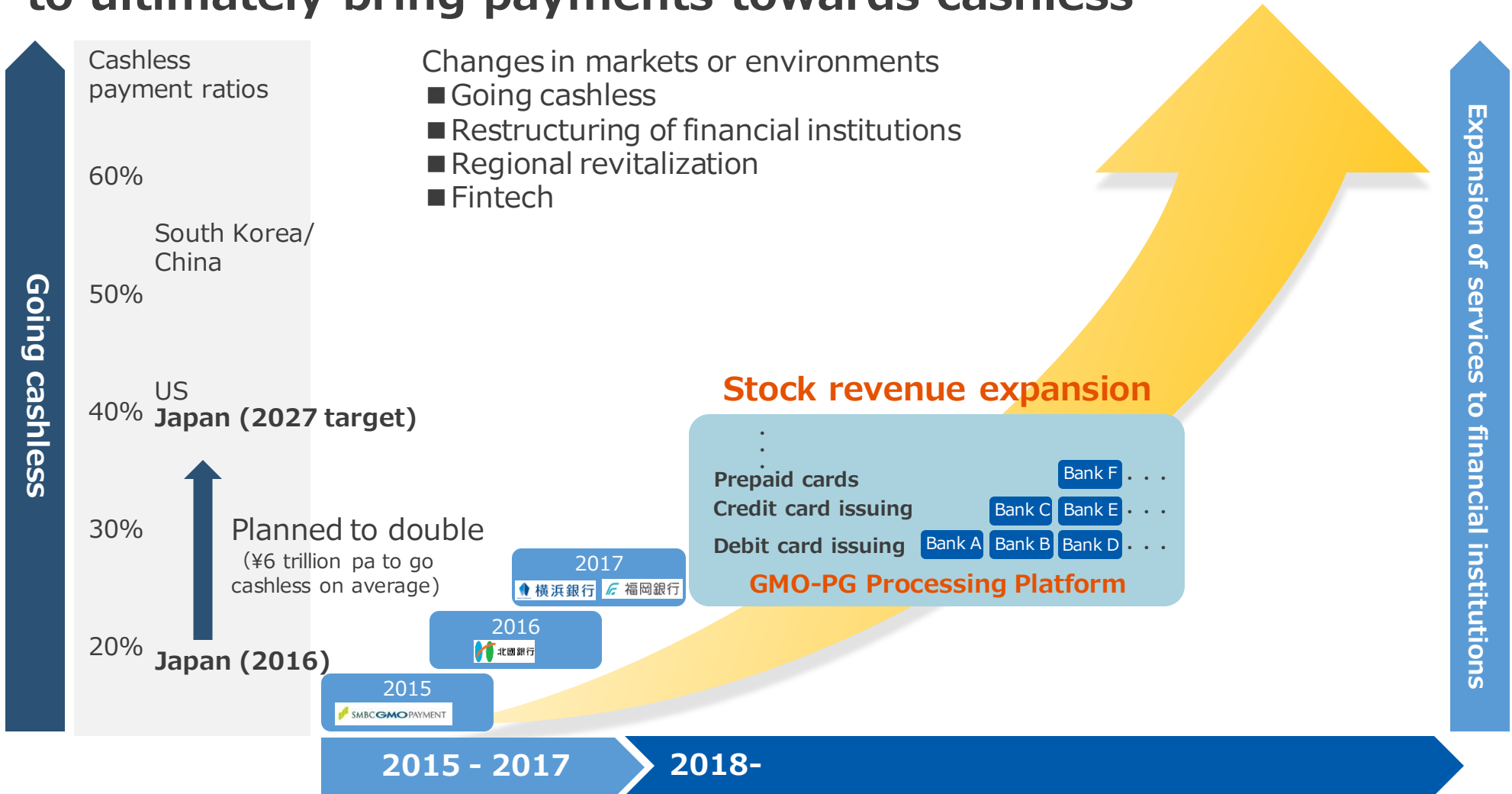
Client base to expand from merchants to financial institutions



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

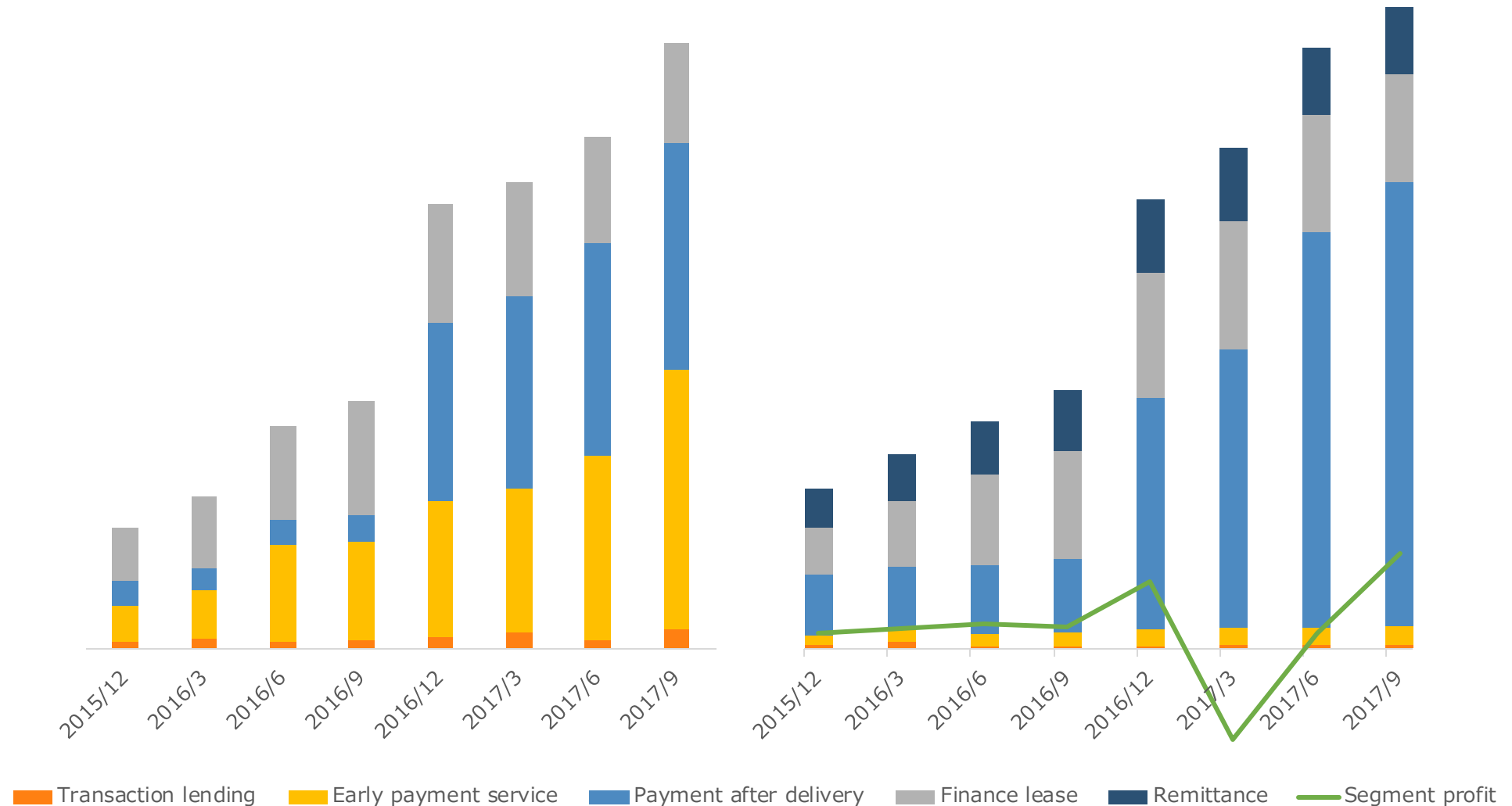
# 3.4.2 Payment processing: Processing business / Smart Payment

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



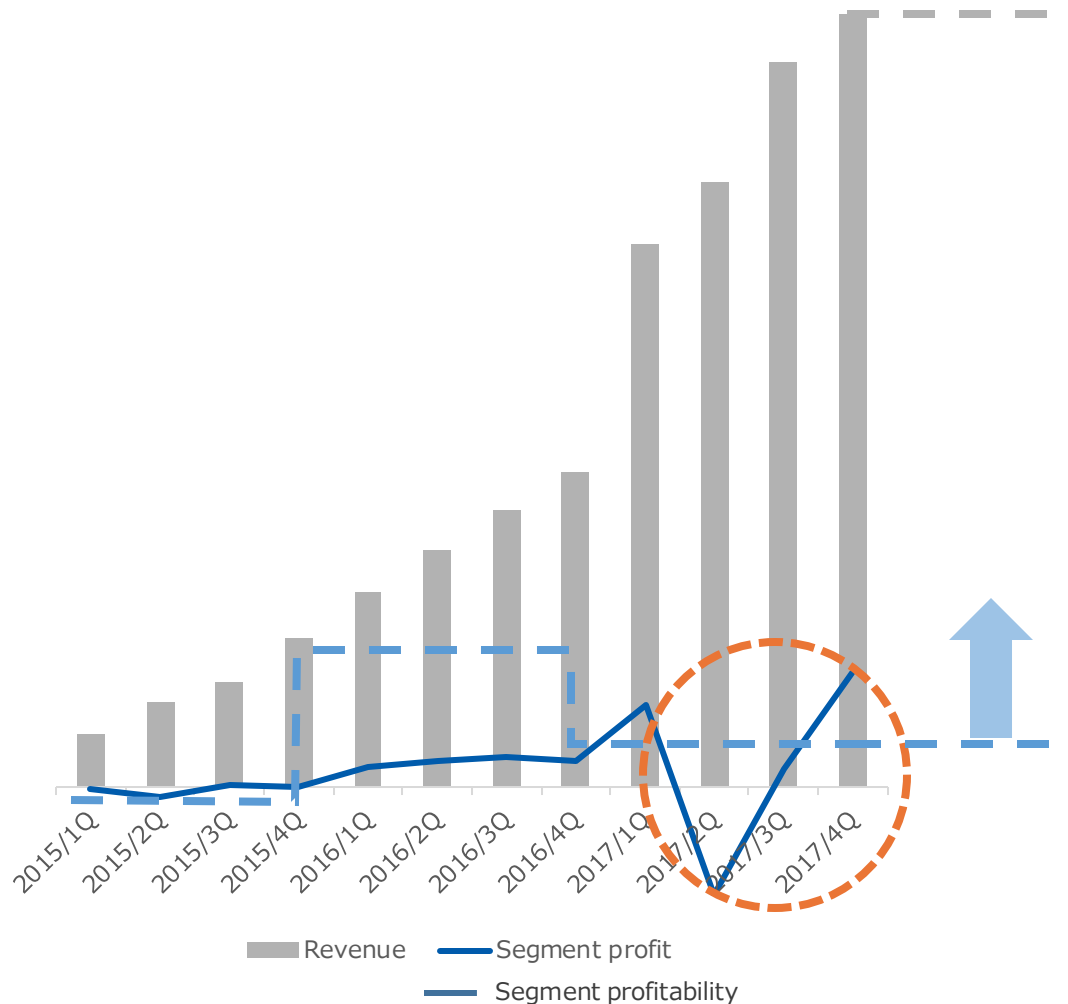
# 3.5.1 Money Service Business (MSB)

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%)	

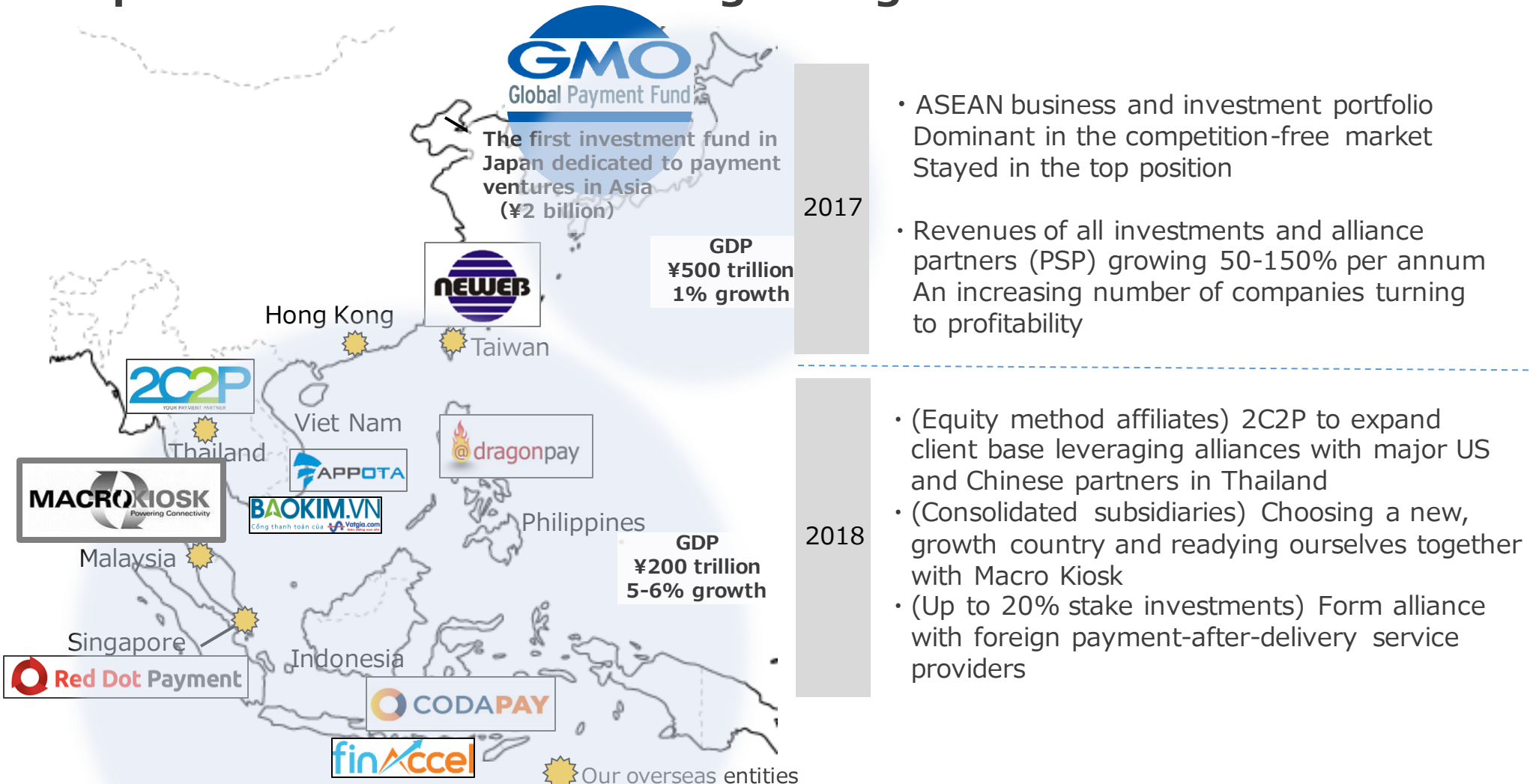
**Margin improvement of each MSB service**  
**Expansion of GMO payment after delivery**

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



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## 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	(Million yen)	End of 4Q 2017	End of 4Q 2016	Change
Current asset	<b>72,347</b>	45,549	26,798	Current liabilities	<b>57,820</b>	35,330	22,489
Cash and deposits	<b>27,623</b>	25,231	2,391	Short-term borrowings	<b>0</b>	50	△50
Lease receivable	<b>6,426</b>	7,291	△864	Finance lease, etc.			
Short-term loan receivables	<b>1,218</b>	515	702	Long-term borrowings due within one year	<b>827</b>	17	809
Advance payments	<b>16,806</b>	6,388	10,417	Deposits received	<b>37,406</b>	27,634	9,772
Accounts receivable	<b>14,678</b>	1,742	12,935	Accounts payable	<b>12,558</b>	2,784	9,774
Allowance for doubtful accounts	△ <b>2,393</b>	△327	△2,065	Other current liabilities	<b>7,091</b>	4,843	2,247
Other current assets	<b>7,987</b>	4,706	3,280	Noncurrent liabilities	<b>3,618</b>	586	3,031
Noncurrent assets	<b>10,778</b>	9,637	1,140	Long-term borrowings	<b>2,999</b>	30	2,969
Tangible assets	<b>399</b>	352	47	Other noncurrent liabilities	<b>645</b>	302	342
Intangible assets	<b>4,505</b>	4,143	361	Shareholders' equity	<b>20,228</b>	18,305	1,922
Goodwill	<b>1,619</b>	1,686	△66	Capital stock	<b>4,712</b>	4,712	0
Software	<b>1,586</b>	1,079	507	Total cumulative other comprehensive income	<b>364</b>	△145	509
Investments and other assets	<b>5,872</b>	5,141	731	Total net assets	<b>21,686</b>	19,269	2,417
Investment securities	<b>2,704</b>	2,251	453	Total liabilities and net assets	<b>83,125</b>	55,186	27,938
Shares of subsidiaries and affiliates	<b>2,318</b>	2,203	115				
Total assets	<b>83,125</b>	55,186	27,938				

TL balance increased  
 Early payment expanded  
 (BS balance shows after consolidation (offset))  
 GMO Payment after delivery increased

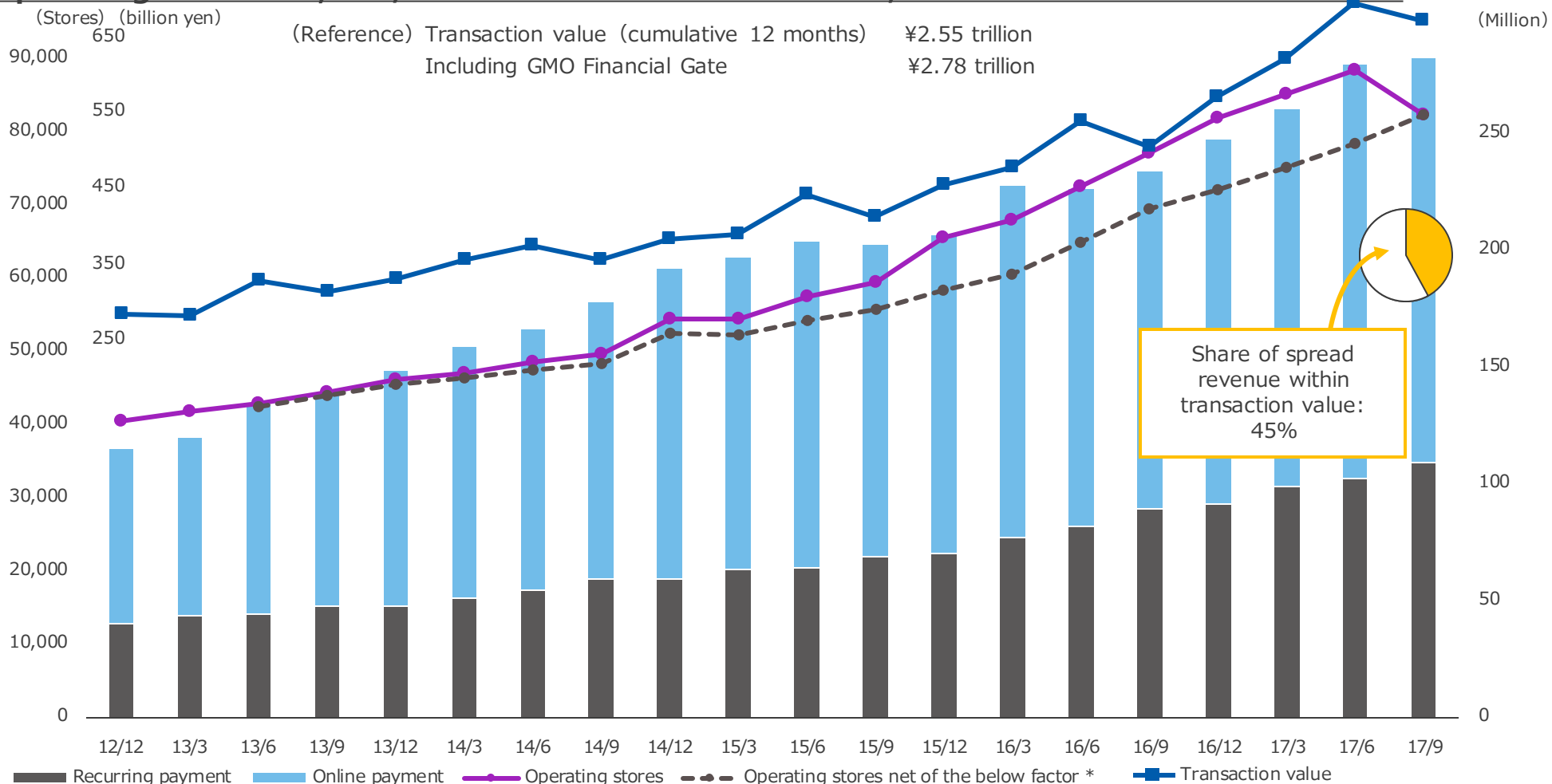
Deposits by merchants through representative merchant service

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

# 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

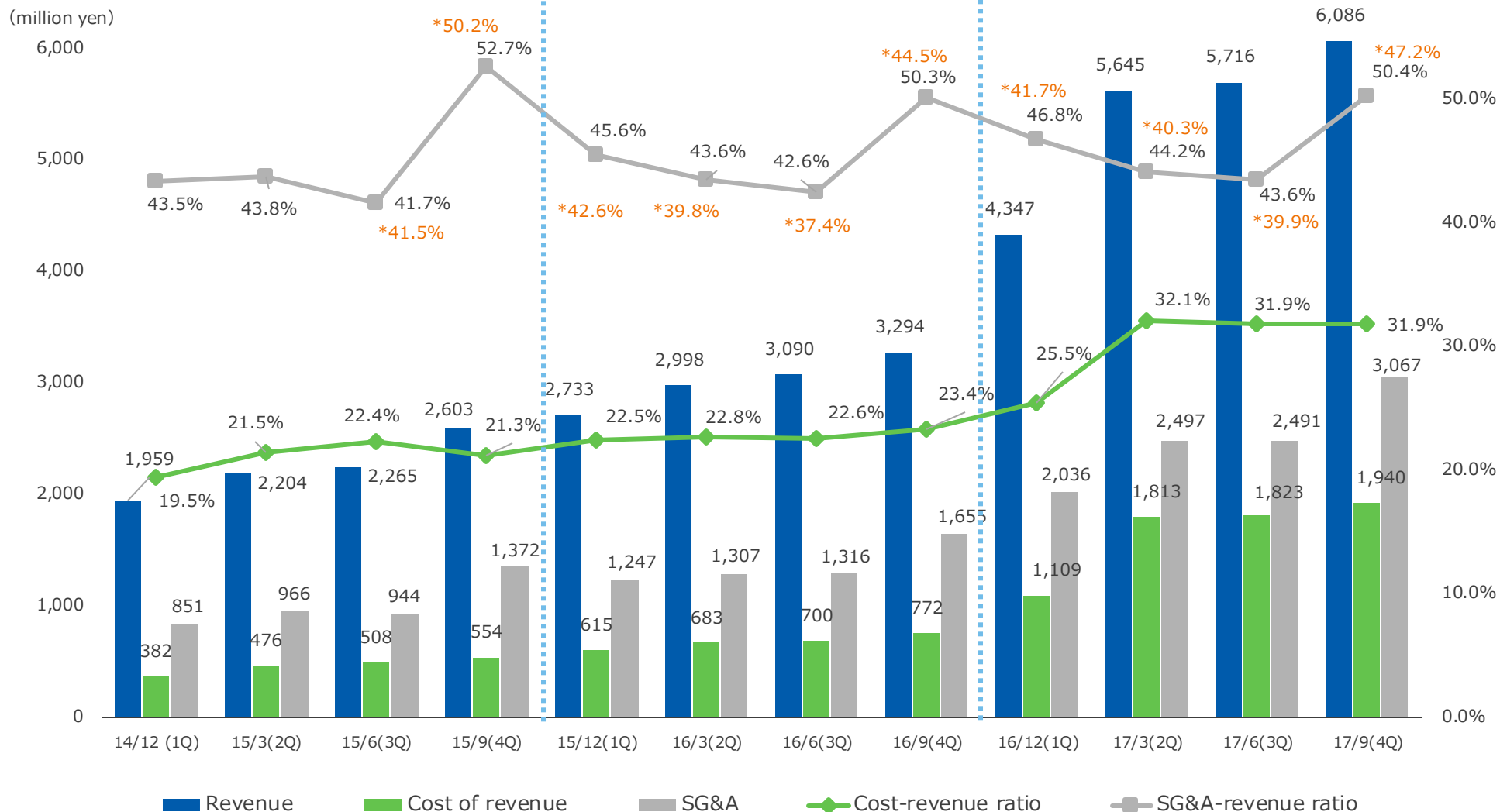
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## 5. Reference materials

# 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

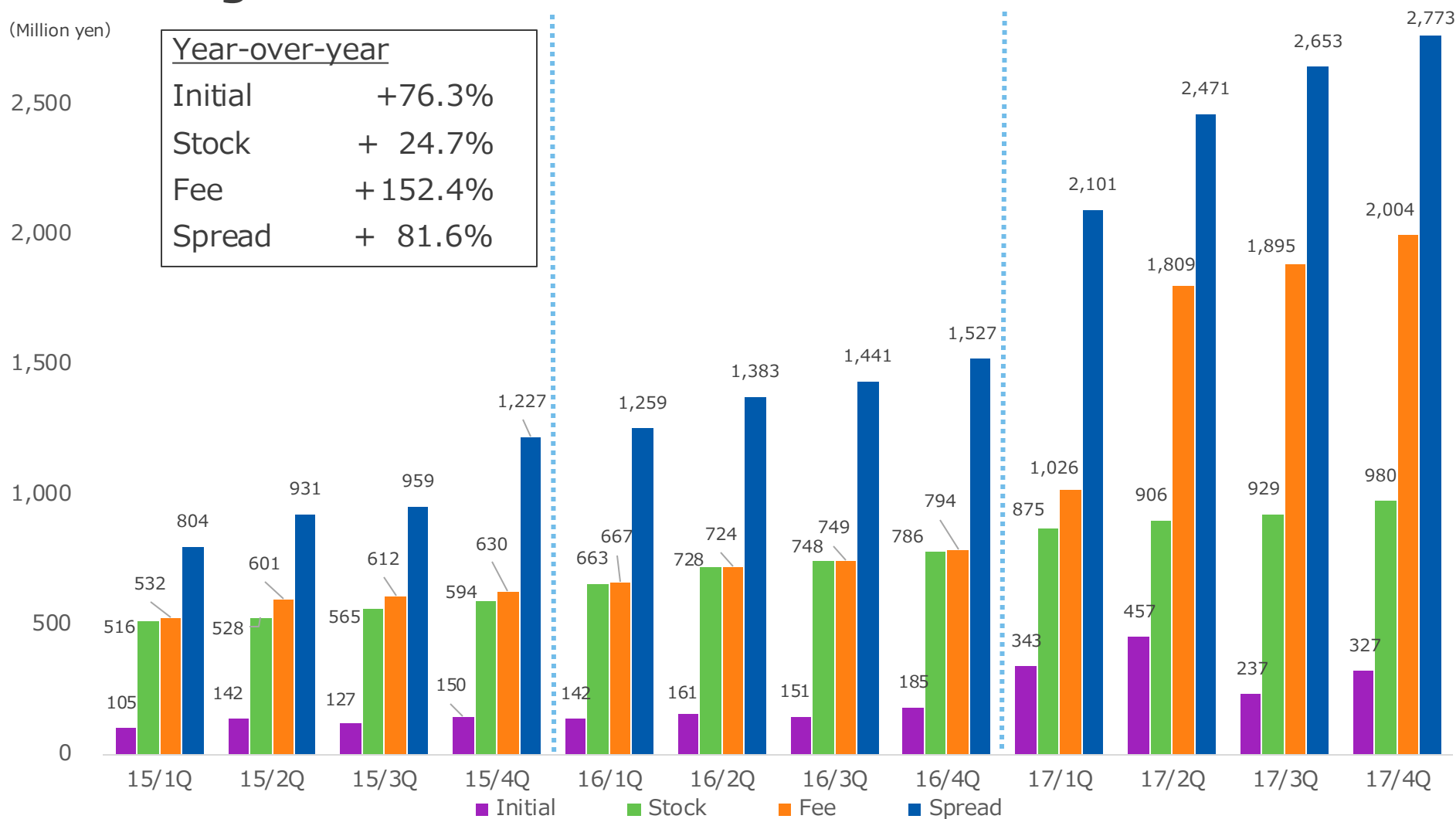


# 5.2 Revenue breakdown (Quarterly)

## Revenue growth accelerated in all business models

(Million yen)

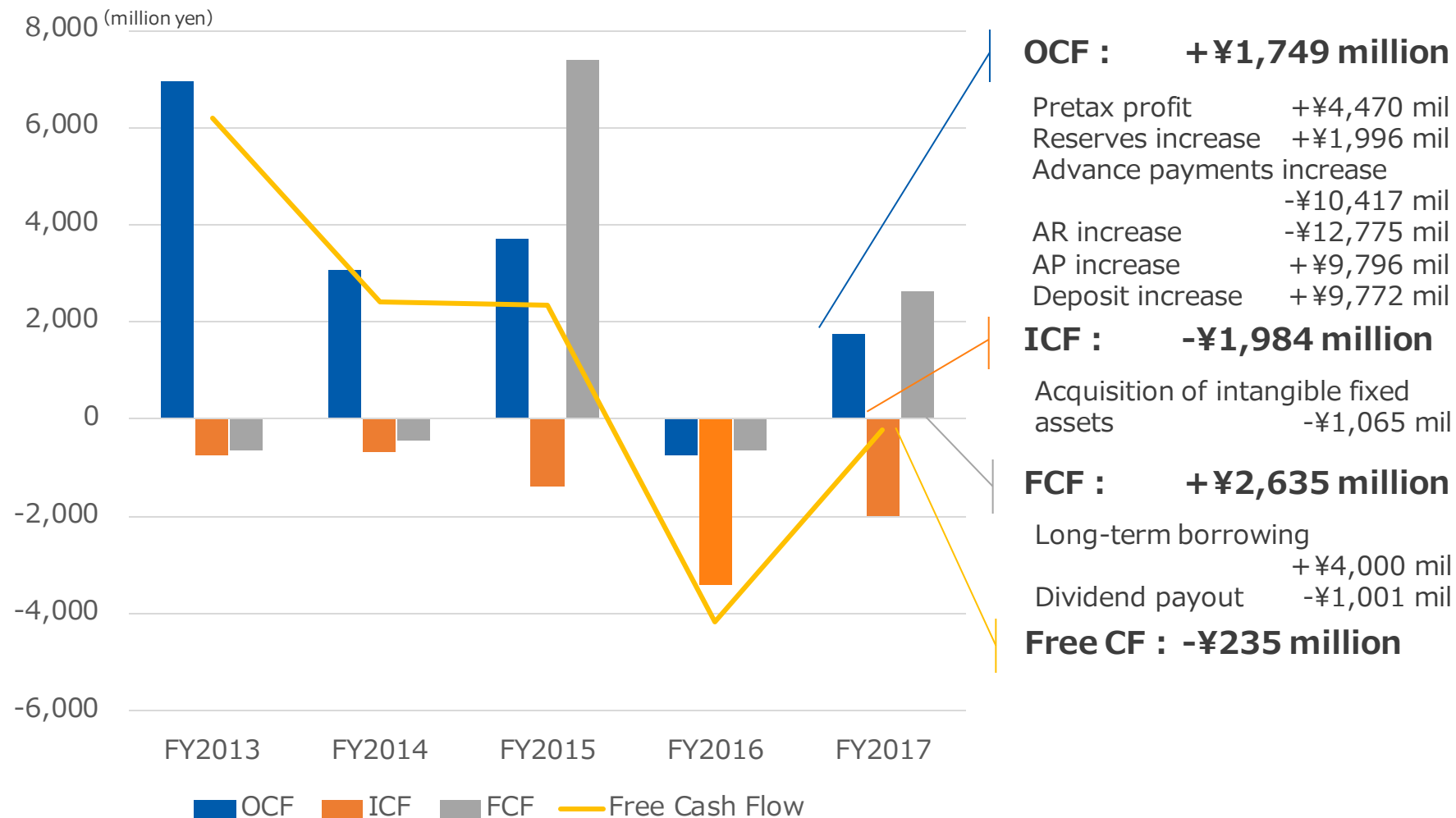
Year-over-year	
Initial	+76.3%
Stock	+ 24.7%
Fee	+152.4%
Spread	+ 81.6%



"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



# Thank you very much!

## **GMO** PAYMENT GATEWAY

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