

# First Quarter Results Presentation, Fiscal Year 2010

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May 10, 2010

**GMO Internet, Inc.**

(TSE First Section: 9449)

Internet for Everyone

<http://www.gmo.jp/en>

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## About the Use of this Document

This document includes projections based on expectations, premises and plans as of May 10, 2010. These projections may differ from actual results due to factors including changes in the global economy, competition, exchange rate fluctuations, natural disasters and other unforeseeable events. Some of the figures given, such as market share are based on our own calculations. These figures may differ from research agency figures. Information contained in this document is provided for information purposes only and does not constitute solicitation of investors. Further, results forecasts and other forward-looking statements are based on premises that include risks and factors that are largely indeterminable. Please understand that actual results may differ significantly as a result of forces including economic conditions and market environment. No responsibility for any reason is accepted for damage sustained as a result of actions taken based on this information.

# Agenda

1. Overview

2. Financial Statements

3. Segment Report

① Web Infrastructure  
& Ecommerce

② Internet Media

4. News

## 1. Overview

## 2. Q1 FY2010 Financial Statements

## 3. Segment Report

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## 4. News

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# Overview

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## First Quarter Financial Statements

- Operating Profit up **16.2%** YoY
- Improved profit quality, earnings model

(Unit: JPY 100 millions)	1-3/2009	1-3/2010	Change
➤ Sales	96.7	99.6	3.1%
➤ Operating Profit	11.0	12.8	16.2%
➤ Ordinary Profit	11.6	13.1	12.6%
➤ Net Profit	6.4	5.7	-10.8%

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# Overview

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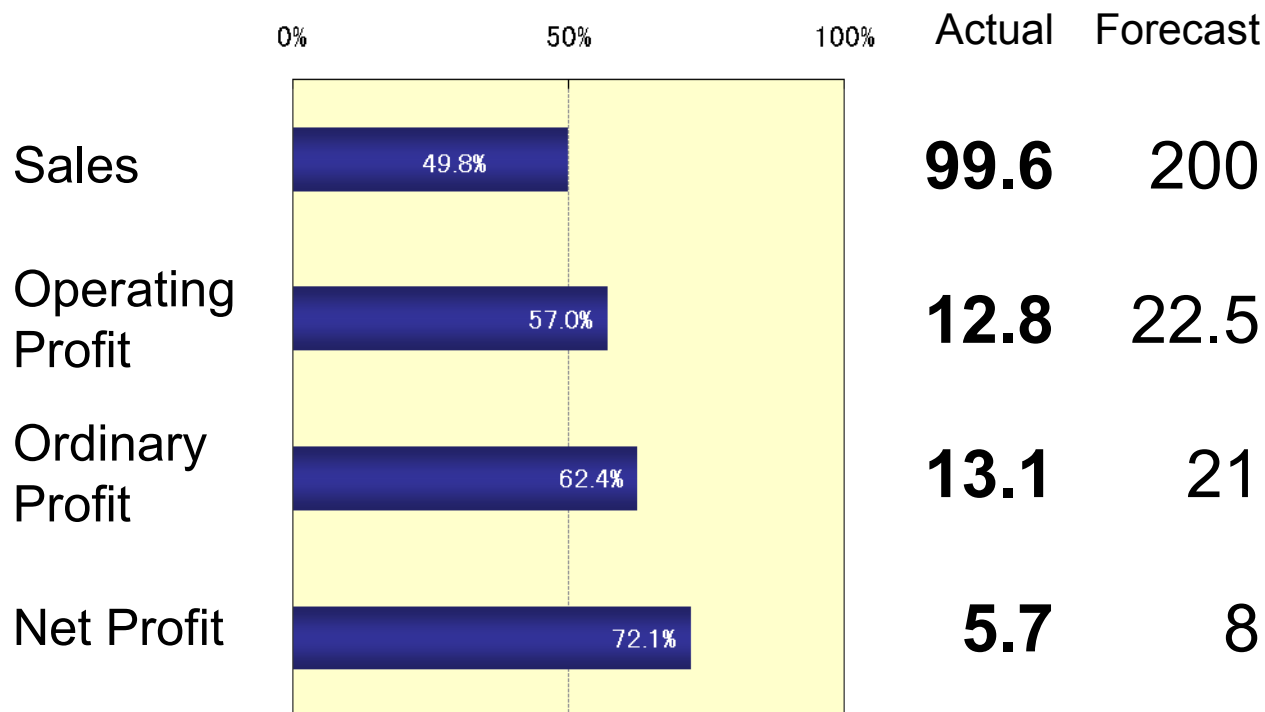
① Web Infrastructure & Ecommerce

② Internet Media

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## Year to March Results as % of Interim Forecasts

(JPY 100 millions)



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## Infrastructure / Media Segments: Strong Base

- Total Infrastructure contracts: **1.8 million**
- Ecommerce stores: **40,000**
- GMO TokuToku Point members: **10 million**

## News

- New gTLD “**.canon**” partnership with Canon, Inc.
- Social App Development Support  
**28 titles** planned for release this year

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# Consolidated P/L

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## Operating profit ratio continues to improve

(Unit: JPY millions)	1-3/2009	1-3/2010	1-6/2010 (Forecast)	YoY Change
Sales	9,671	9,969	20,000	3.10%
Cost of Sales	4,429	4,555	—	—
SGA	4,138	4,131	—	—
Operating Profit	1,103	1,281	2,250	16.20%
<i>Operating Profit Ratio</i>	<i>11.40%</i>	<i>12.90%</i>	—	—
Non-Operating Revenue	165	109	—	—
Non-Operating Expenses	105	81	—	—
Ordinary Profit	1,163	1,310	2,100	12.60%
Extraordinary Profit	31	45	—	—
Extraordinary Loss	30	164	—	—
Corporate Tax etc.	356	403	—	—
Minority Equity	161	210	—	—
Net Profit	647	577	800	-10.80%

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# Sales/OP by Segment (three months to March)

1. Overview

2. Financial Statements

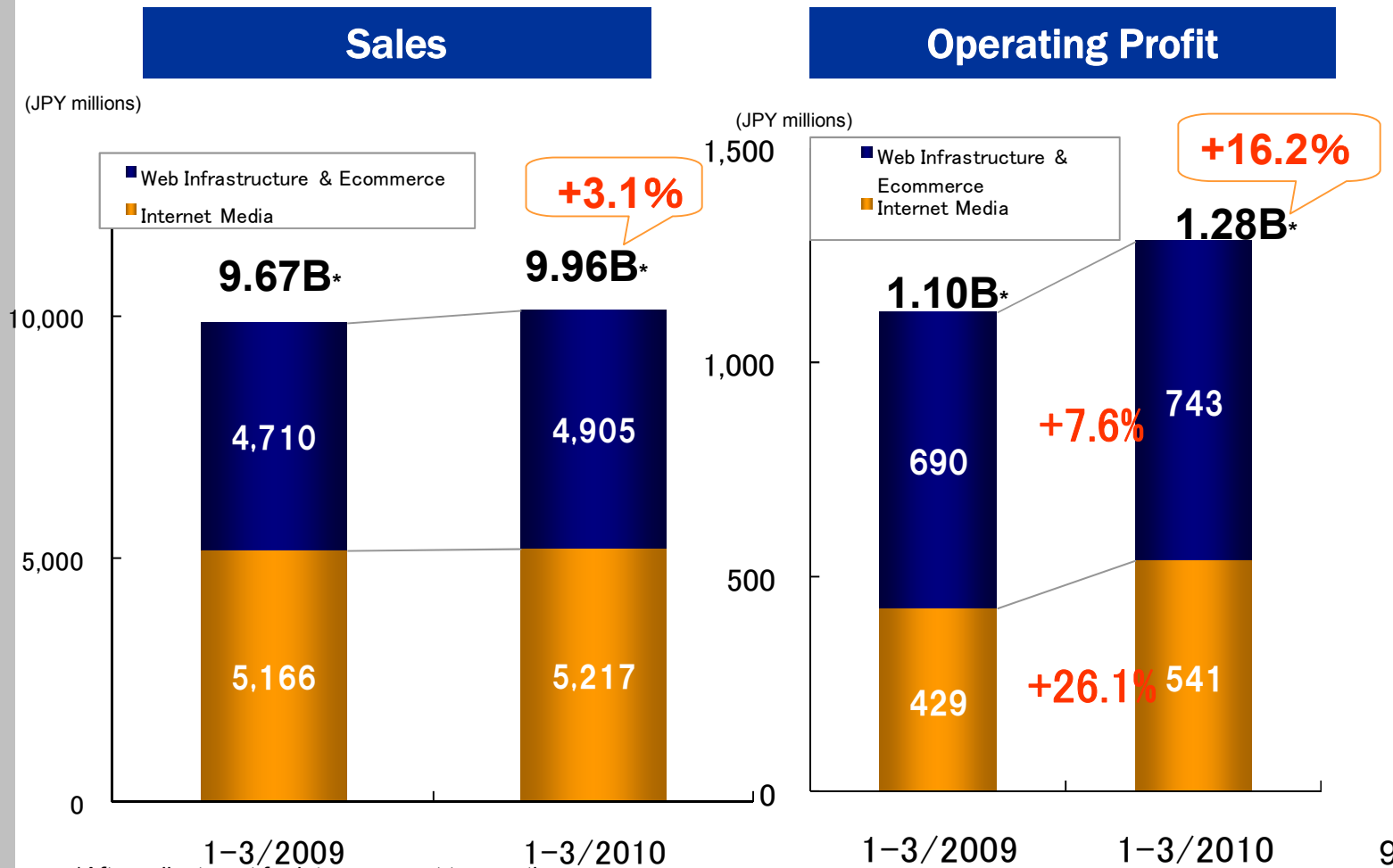
3. Segment Report

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4. News

Operating Profit up 16.2% (Infrastructure +7.6%, Media +26.1%)



\*After adjustment for inter-segment transactions

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# Consolidated Balance Sheet

1. Overview

2. Financial Statements

3. Segment Report

① Web Infrastructure  
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4. News

No major changes, steady growth of shareholder's equity ratio

(JPY millions)	End of Dec. 2009	End of Mar. 2010	QoQ Change
Current Assets	28,739	29,315	575
(Cash & deposits)	20,891	20,935	43
Fixed Assets	12,183	11,583	-600
(Goodwill)	1,188	1,235	47
(Software)	1,884	1,808	-76
(Investment real estate)	2,964	2,963	0
(Investment securities)	683	626	-56
<b>Total Assets</b>	<b>40,922</b>	<b>40,898</b>	<b>-24</b>
Total Liabilities	26,777	26,776	0
(Interest bearing liabilities)	12,107	11,828	-278
Net Assets (minority equity portion)	14,145 (7,093)	14,121 (6,915)	-23 (-177)
Shareholders' Equity (earned surplus portion)	7,047 (5,891)	7,199 (5,980)	151 (88)
(Shareholders' equity ratio)	17.20%	17.60%	0.40%
<b>Total Liabilities / Net Assets</b>	<b>40,922</b>	<b>40,898</b>	<b>-24</b>

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# Consolidated Balance Sheet

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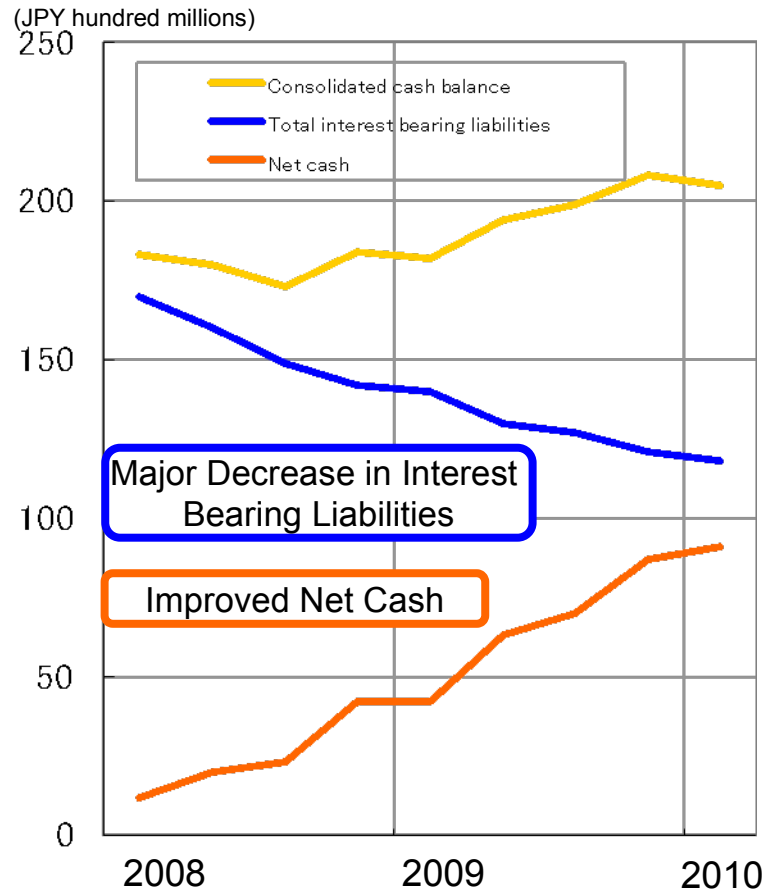
① Web Infrastructure & Ecommerce

② Internet Media

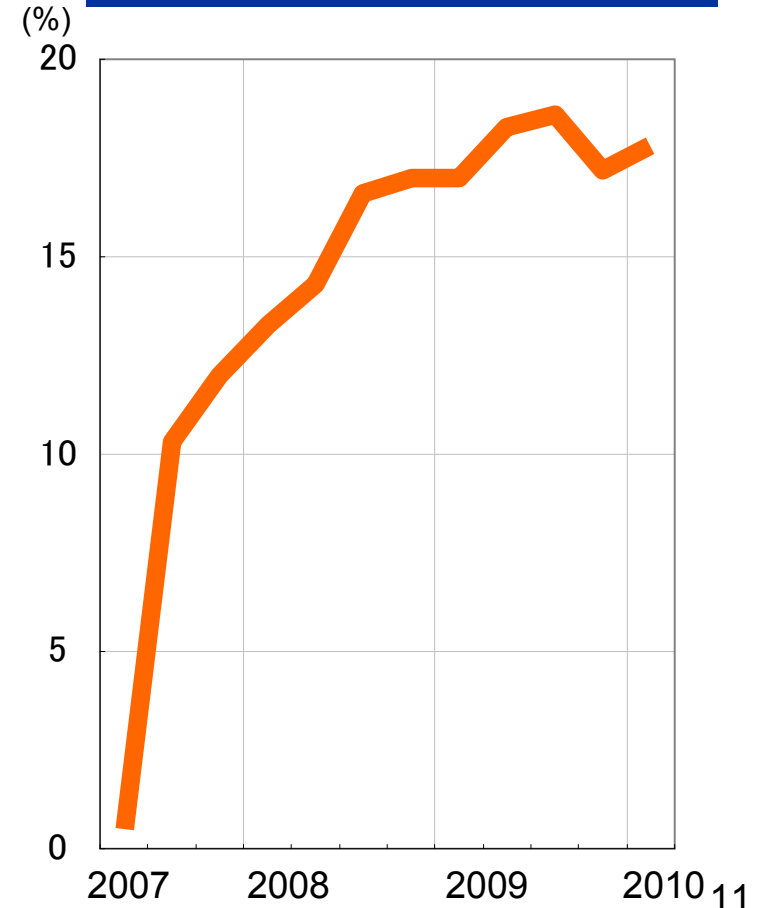
4. News

Continued focus on improved financial stability

## Interest Bearing Liabilities and Net Cash



## Shareholders' Equity Ratio (by Quarter)



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# Consolidated C/F

1. Overview

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① Web Infrastructure  
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4. News

JPY1.4 billion operating cash flow generated

(Unit: JPY millions)	1-3/2009	1-3/2010
Cash Flow from Operating Activities	753	1,432
Cash Flow from Investing Activities	-120	-718
Cash Flow from Financing Activities	-916	-890
Change in Cash and Equivalents	-281	-198
Balance of Cash and Equivalents	18,201	20,575

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# Business Segments

1. Overview

2. Financial Statements

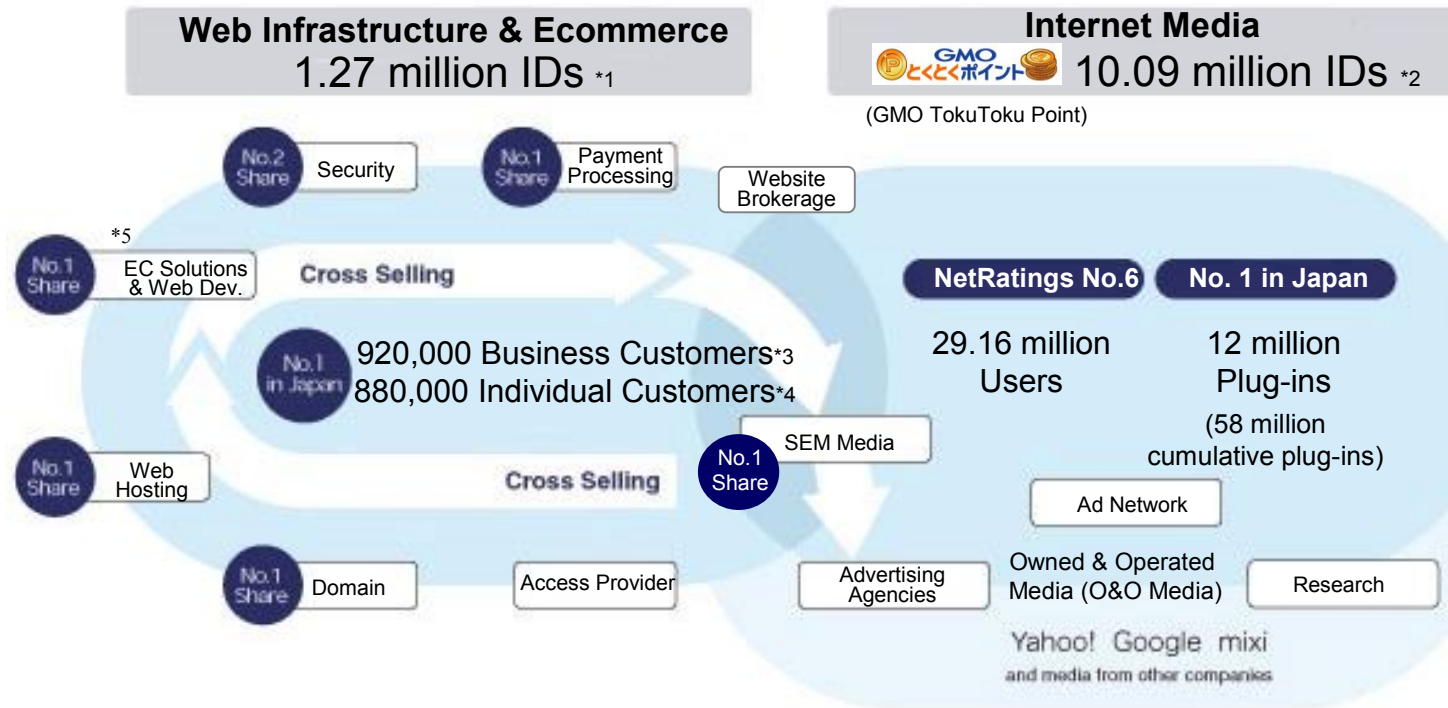
3. Segment Report

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4. News

Management resources concentrated in two business areas. Our operations support the information delivery and net businesses of 1.8 million customers (\*7).



Notes:

- \*1. Business and individual domain registrations = no. of integrated customer database IDs
- \*2. GMO TokuToku ID members
- \*3. Total business members of five major services
- \*4. Total individual members of domain and web hosting services
- \*5. Based on total number of ecommerce solutions (MakeShop + Color Me Shop!) contracts
- \*6. Approximately 71,000 Internet access provider business customers not included in the above figures
- \*7. Paying members only

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# Web Infrastructure & Ecommerce Segment Contracts

1. Overview

2. Financial Statements

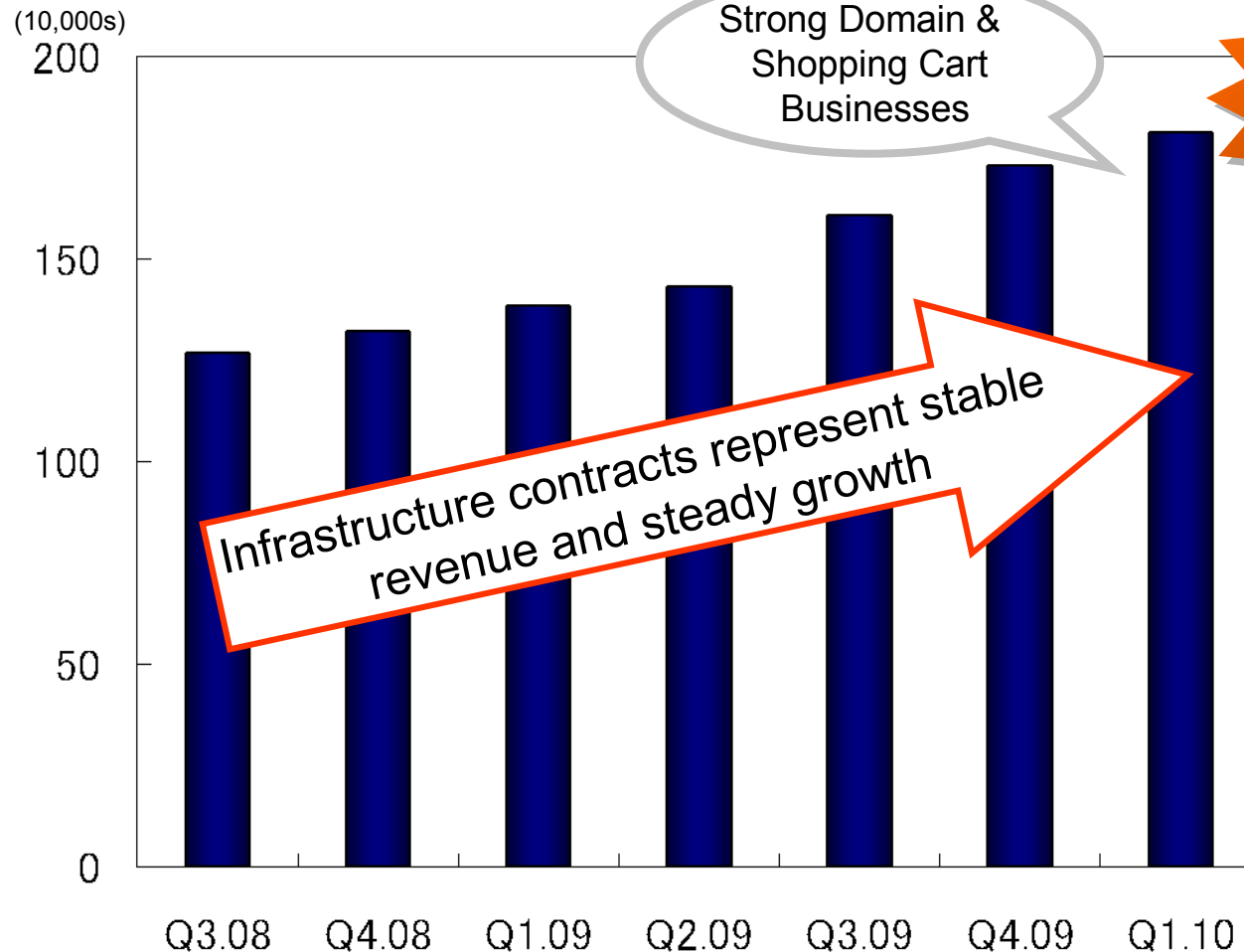
3. Segment Report

① Web Infrastructure & Ecommerce

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4. News

1.8 million contracts: leading Japanese Internet infrastructure services provider



1.8 million Contracts

Strong Domain & Shopping Cart Businesses

Infrastructure contracts represent stable revenue and steady growth

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\*Approximately 71,000 Internet access provider business customers not included in this chart.

# Web Infrastructure & Ecommerce - Segment Composition

1. Overview

2. Financial Statements

3. Segment Report

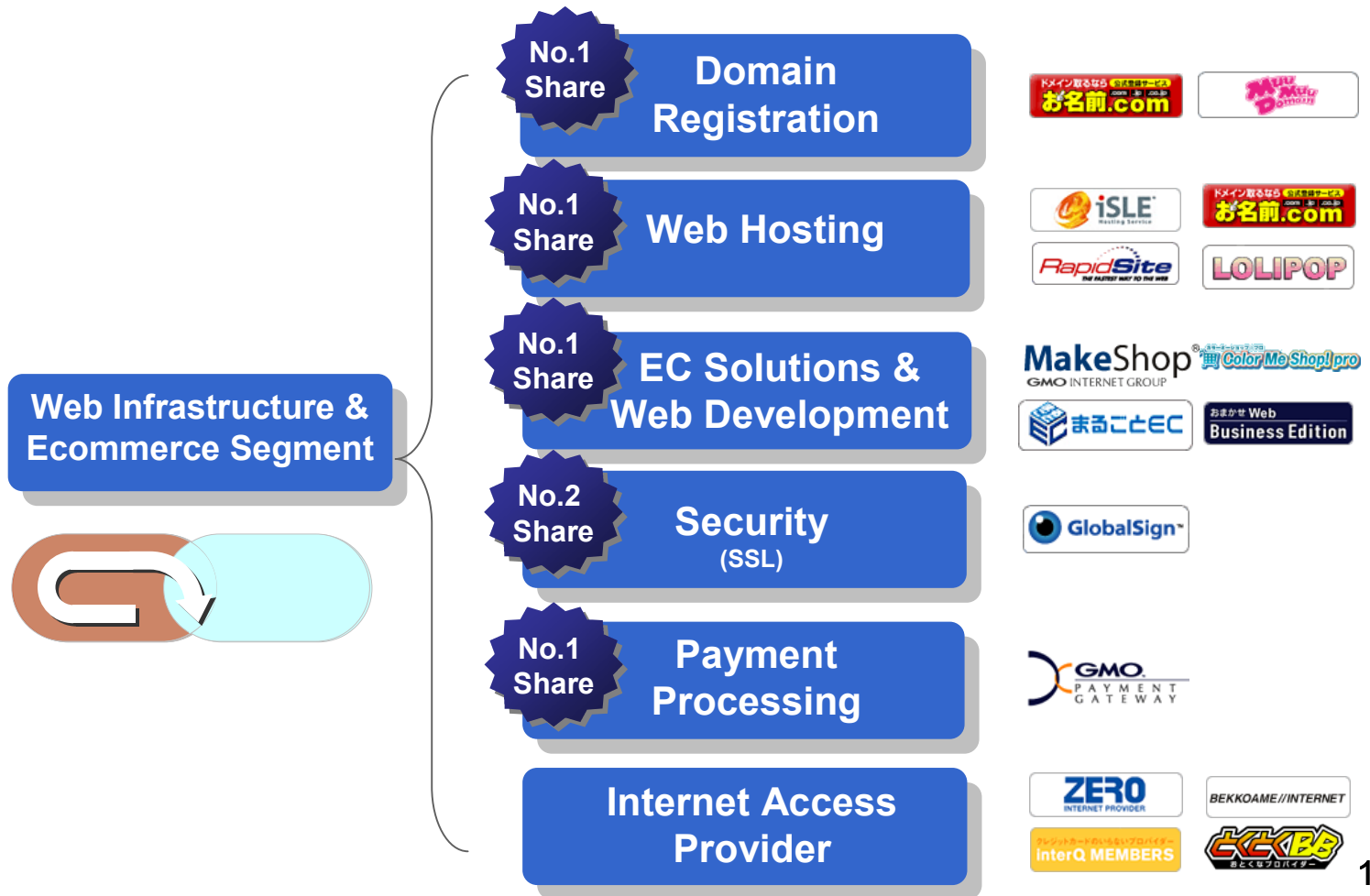
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4. News

## Five major service\* areas driving growth

\*Domain registration, Web hosting, Ecommerce solutions & web development, Security, and Payment processing



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# Web Infrastructure & EC Sales (three months to March)

1. Overview

2. Financial Statements

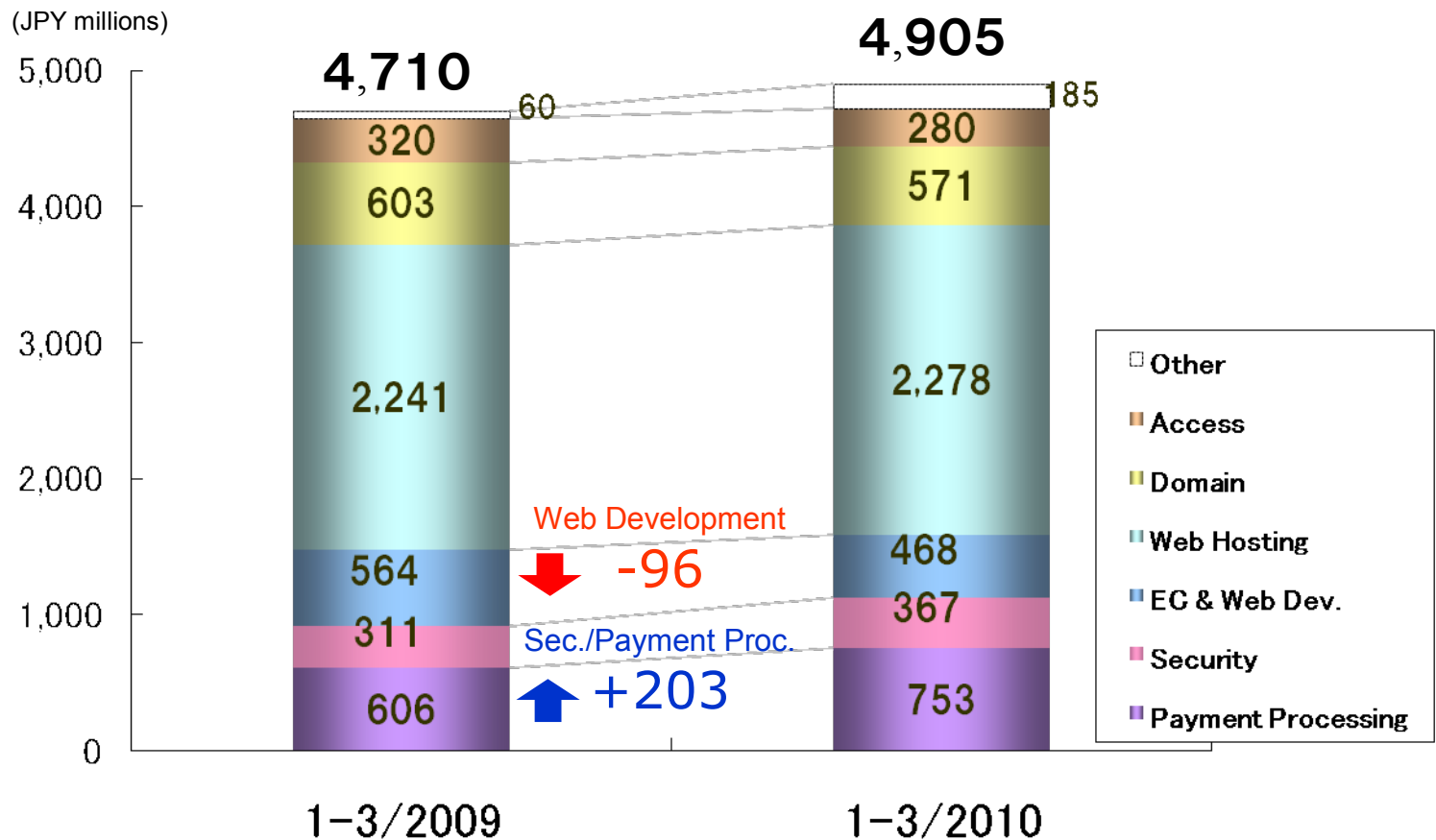
3. Segment Report

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4. News

Revenue continues to trend upward in Hosting, Security, and Payment Processing businesses



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# Web Infrastructure & EC Sales (Quarterly Base)

1. Overview

2. Financial Statements

3. Segment Report

① Web Infrastructure & Ecommerce

② Internet Media

4. News

## Sales growth trend across all services

### Infrastructure Sales Breakdown

(JPY millions)

1,000

500

0

(Server sales/JPY millions)

3,000

0

- Turnaround in Ecommerce Solutions & Web Development
- New Access services halt drop in revenue

	Q1/09	Q2/09	Q3/09	Q4/09	Q1/10
Web hosting	2,241	2,260	2,256	2,251	2,278
Payment Proc.	606	627	662	710	753
Domain	603	615	520	502	571
EC/Web	564	440	418	420	468
Security	311	326	304	349	367
Access	320	307	295	285	280

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# Web Infrastructure & EC OP (three months to March)

1. Overview

2. Financial Statements

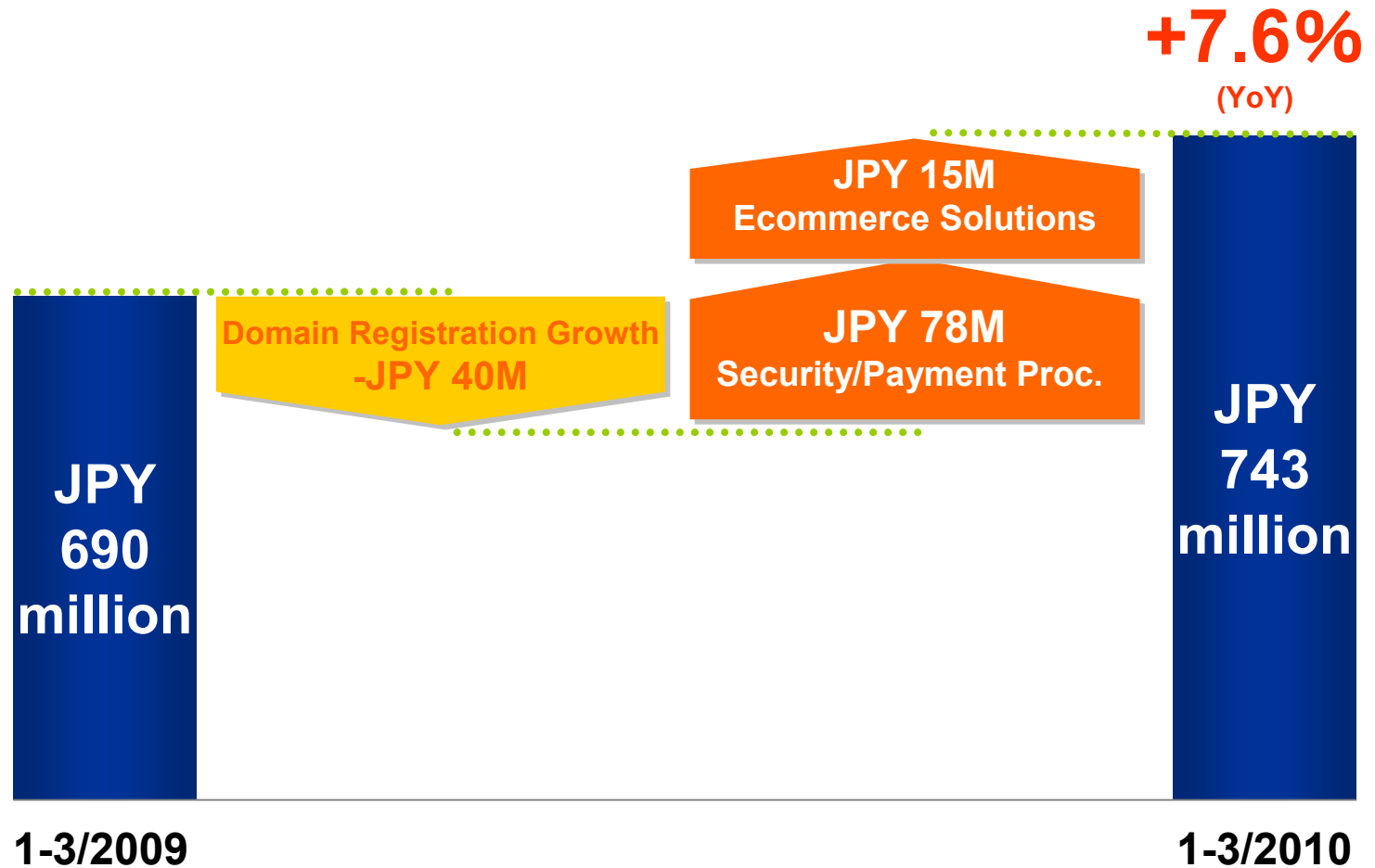
3. Segment Report

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4. News

Service areas where profits were falling see decline bottom out. Low pricing strategy maintained.



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1-3/2009

1-3/2010

# Web Infrastructure & EC - News

1. Overview

2. Financial Statements

3. Segment Report

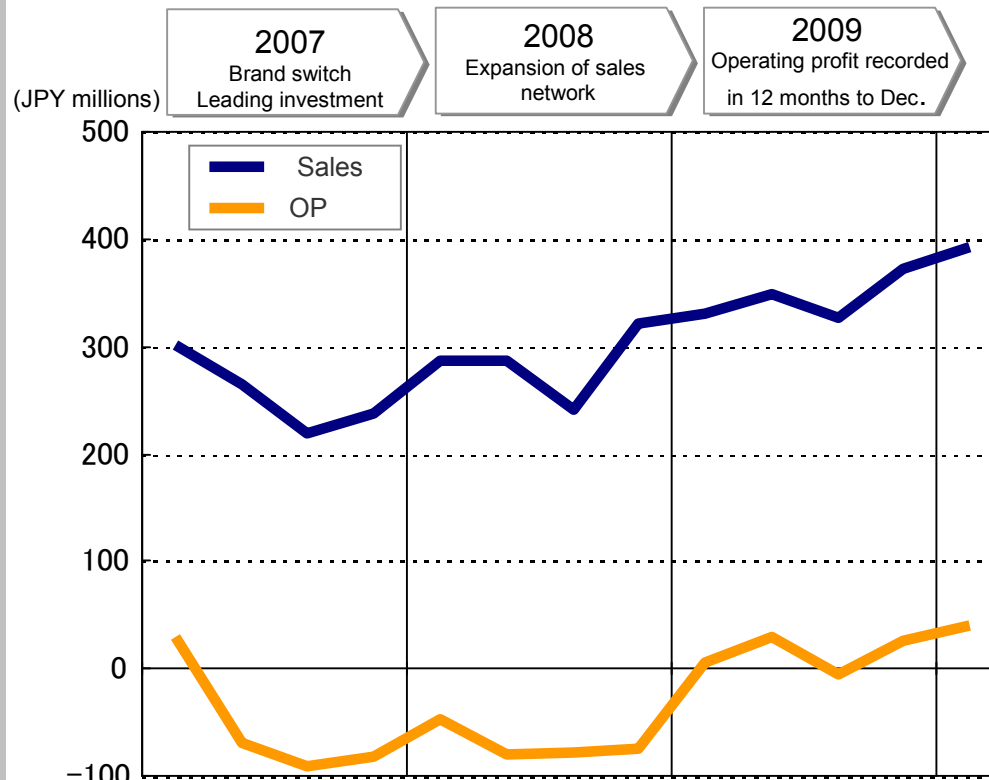
① Web Infrastructure & Ecommerce

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4. News

## Stable profits in security business

### Sales and Operating Profit – Quarterly Change



▪ Active investment in multi-lingual support and other initiatives  
 ▪ Stable revenue model established

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\*Calculated using the average exchange rate in the term from 08 Q4 (previously calculated using the exchange rate on the last day of the term)  
 \*Now includes inter segment transactions  
 \*Calculated in accordance with GMO Hosting & Security accounting standards

# Web Infrastructure & EC - News

1. Overview

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4. News

Consistently ranked in the top ten fastest growing domain registrars worldwide

Fastest Growing ICANN Registrars - Worldwide  
04/12/2010 - 05/03/2010

Rank ^	Registrar Name	Country	Net Gain/Loss	Total Domains
1	<a href="#">GO DADDY</a>		409,923	33,764,806
2	<a href="#">ENOM</a>		105,437	9,323,167
3	<a href="#">HICHINA</a>		53,729	846,695
4	<a href="#">Onamae.com</a>		41,025	920,734
5	<a href="#">SCHLUND+PARTNER</a>		40,965	4,831,763
6	<a href="#">TUCOWS</a>		40,628	7,528,866
7	<a href="#">MONIKER</a>		34,230	2,811,511
8	<a href="#">XINNET.COM</a>		26,886	1,699,256
9	<a href="#">WILD WEST DOMAINS</a>		25,986	3,216,064
10	<a href="#">RESELLERCLUB.COM</a>		22,143	2,457,529
11	<a href="#">FASTDOMAIN.COM</a>		21,424	1,061,952
12	<a href="#">OVH</a>		20,104	961,632
13	<a href="#">NAME.COM</a>		15,797	654,615
14	<a href="#">NETFIRMS.COM</a>		13,609	374,991
15	<a href="#">BASICFUSION.COM</a>		12,844	324,497

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# Internet Media Segment Composition

1. Overview

2. Financial Statements

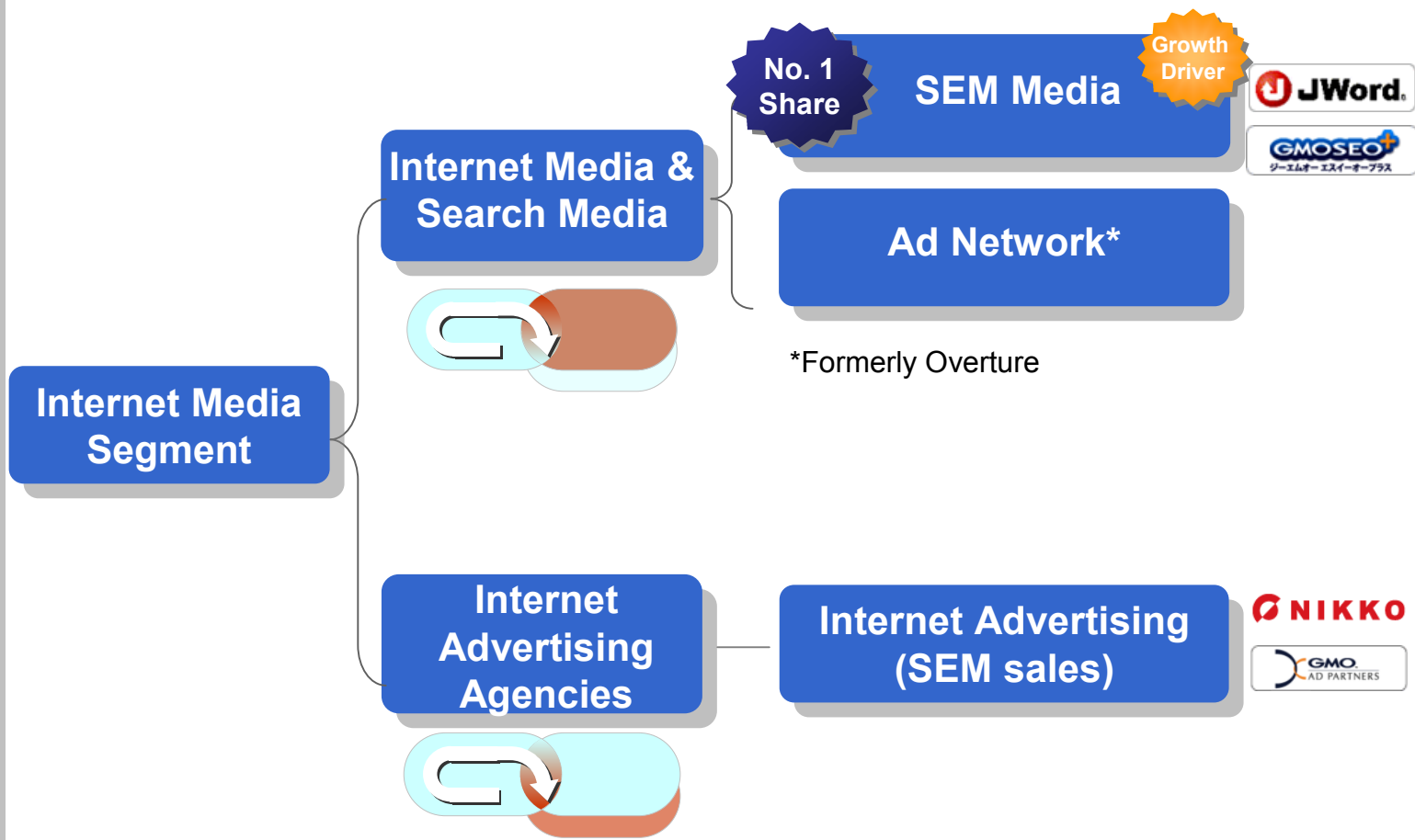
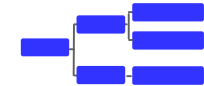
3. Segment Report

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4. Topics

Growth driver: Internet media & search media



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# Internet Media Sales (three months to March)

1. Overview

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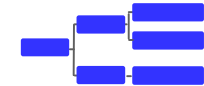
3. Segment Report

① Web Infrastructure & Ecommerce

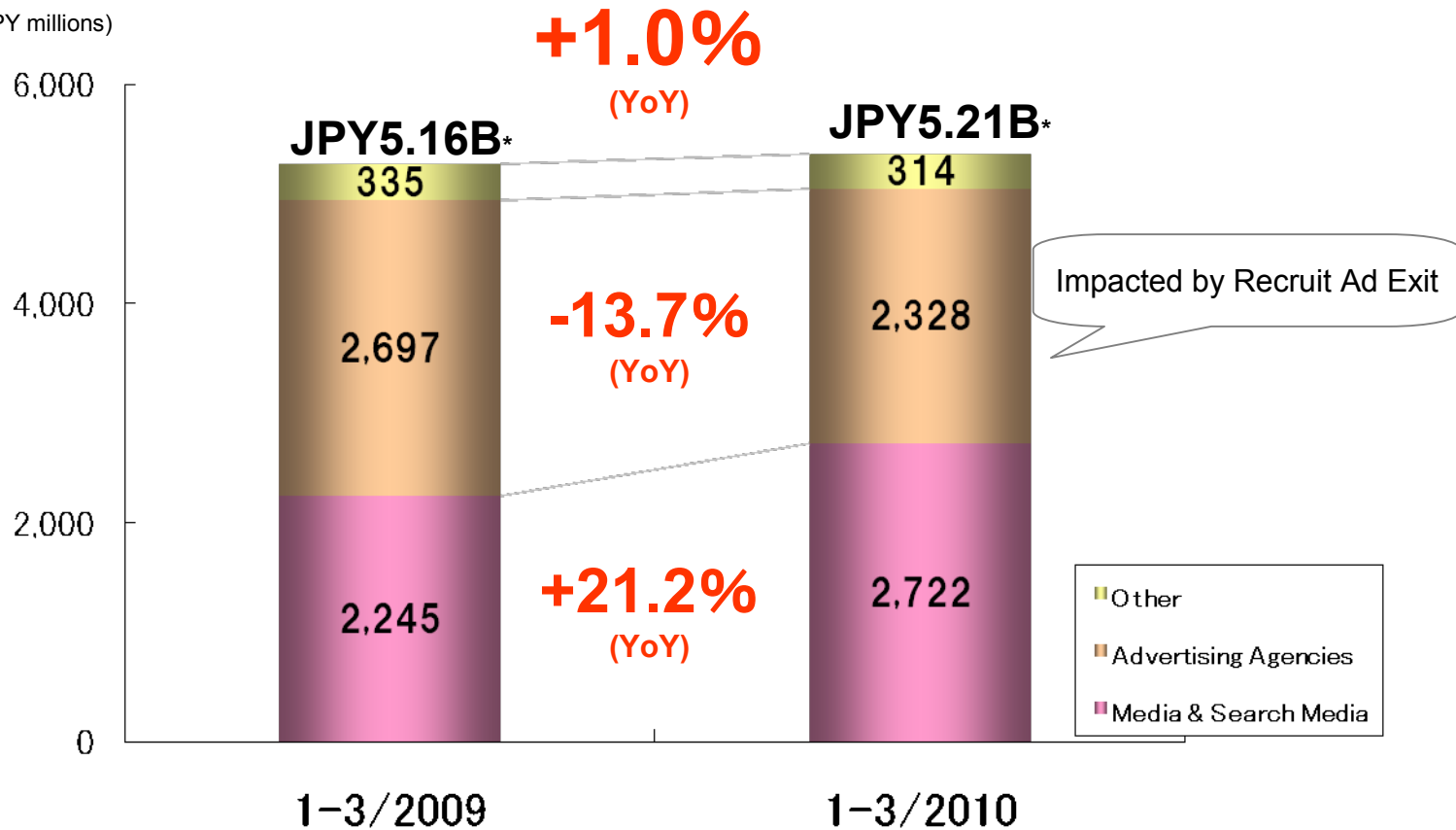
② Internet Media

4. Topics

Internet media & search media driving growth



(JPY millions)



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\*excluding internal transactions 24

# Internet Media OP (three months to March)

1. Overview

2. Financial Statements

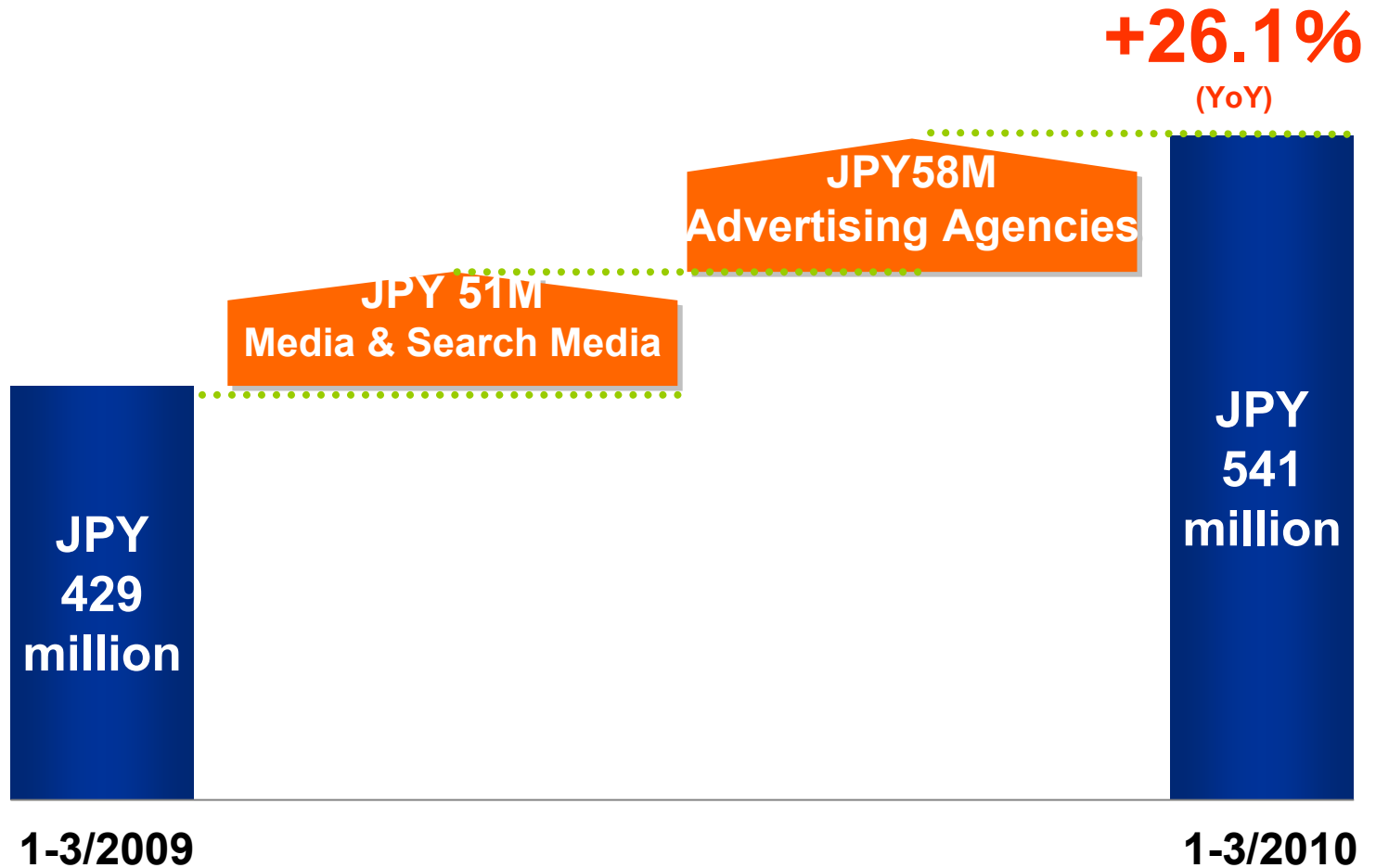
3. Segment Report

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4. Topics

Profits up in both Media & Search Media and Advertising Agencies



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1-3/2009

1-3/2010

# Internet Media – Profit Breakdown by Product

1. Overview

2. Financial Statements

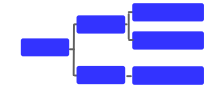
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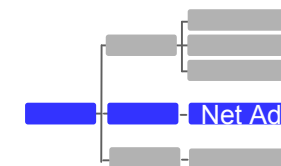
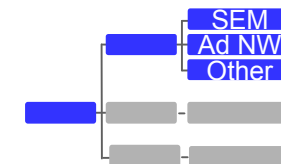
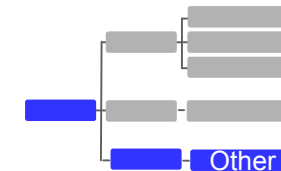
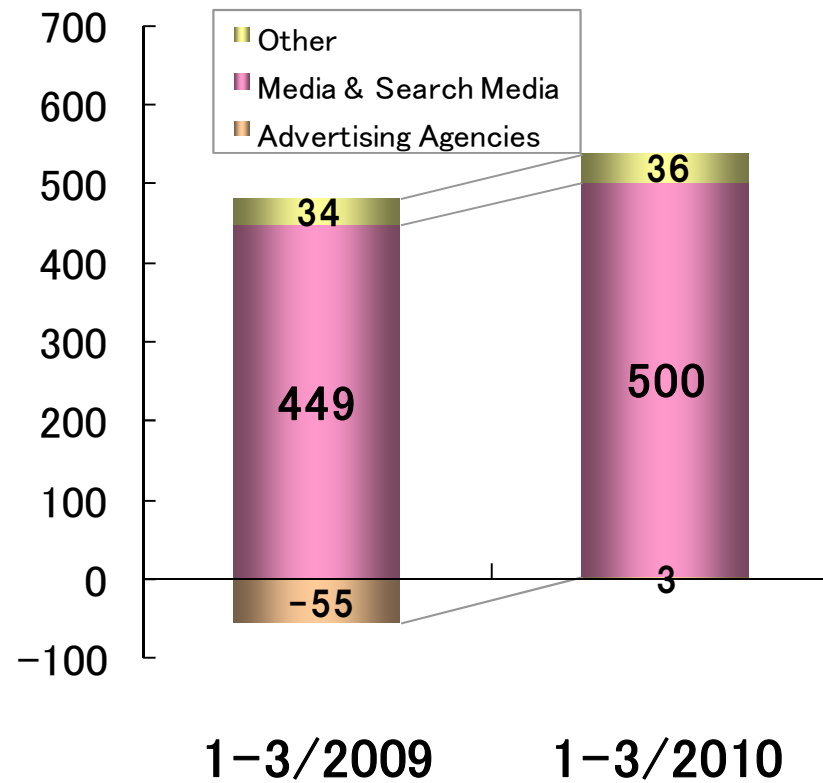
② Internet Media

4. Topics

## Advertising Agencies business turns profit



(JPY millions)



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# Media & Search Media - Business Performance

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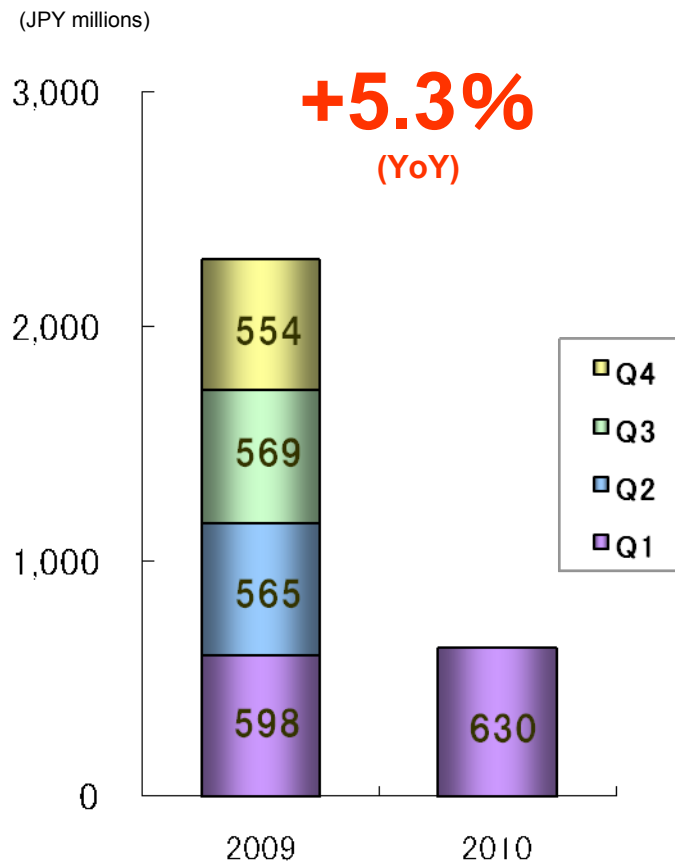
4. Topics

## Ad Network improves, SEM sustains strong growth

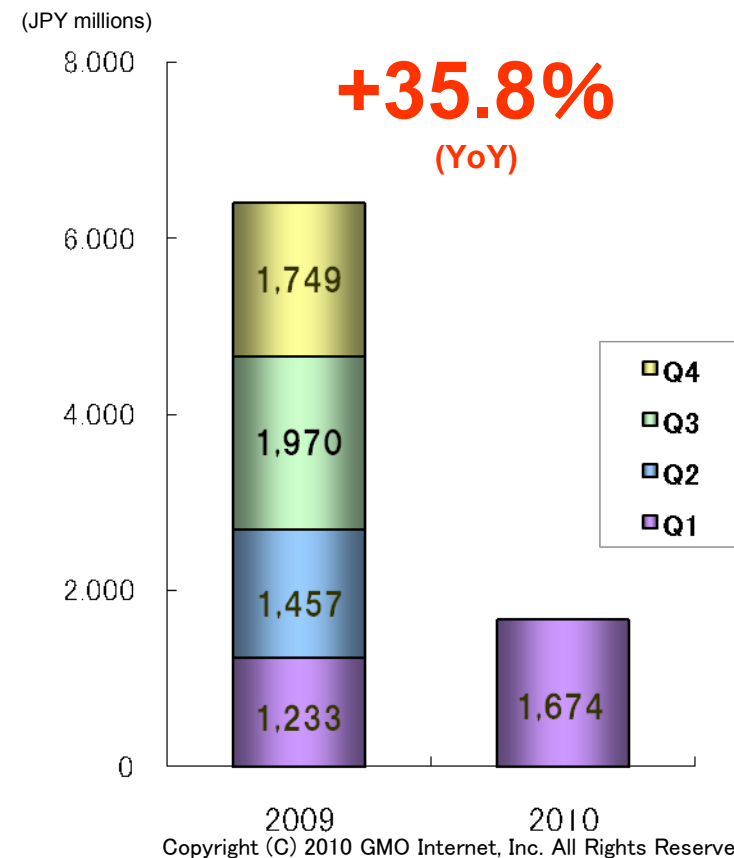


### Ad Network Sales

(formerly Overture)



### SEM Media Sales



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# News: Overview

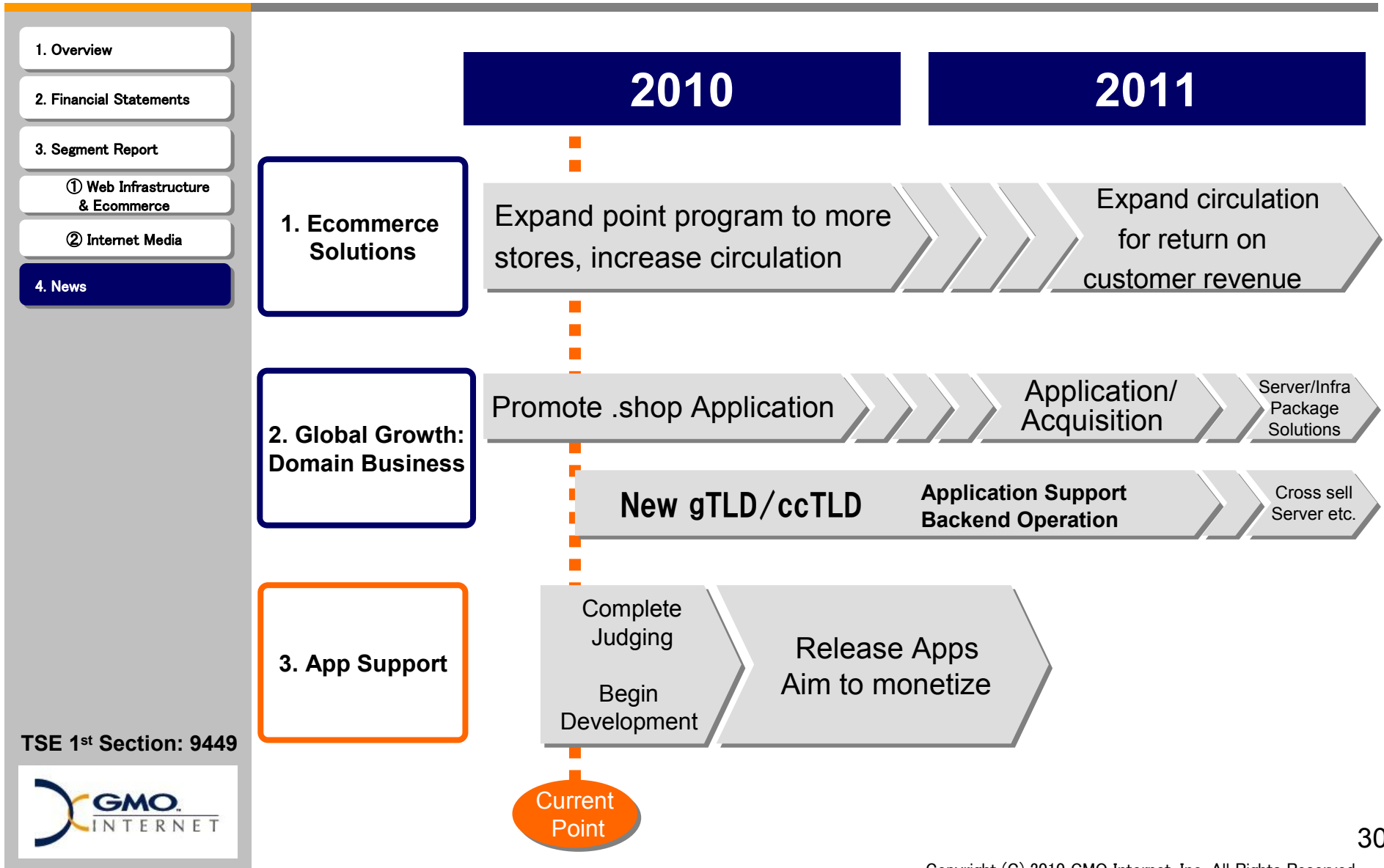
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Topic	Project/Initiative	Outcome/Objectives
1. Ecommerce Solutions	Expand point program (stores/points)	▶ Expand and develop circulation for return on customer revenue
2. Global Growth: Domain Business	.shop acquisition	▶ Boost Ecommerce and Infrastructure service sales
3. Growth Areas	App Support	▶ Infrastructure + Technology + Financial Resources Monetize strengths

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# News: Timeline



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# News Topic 1: Ecommerce Solutions

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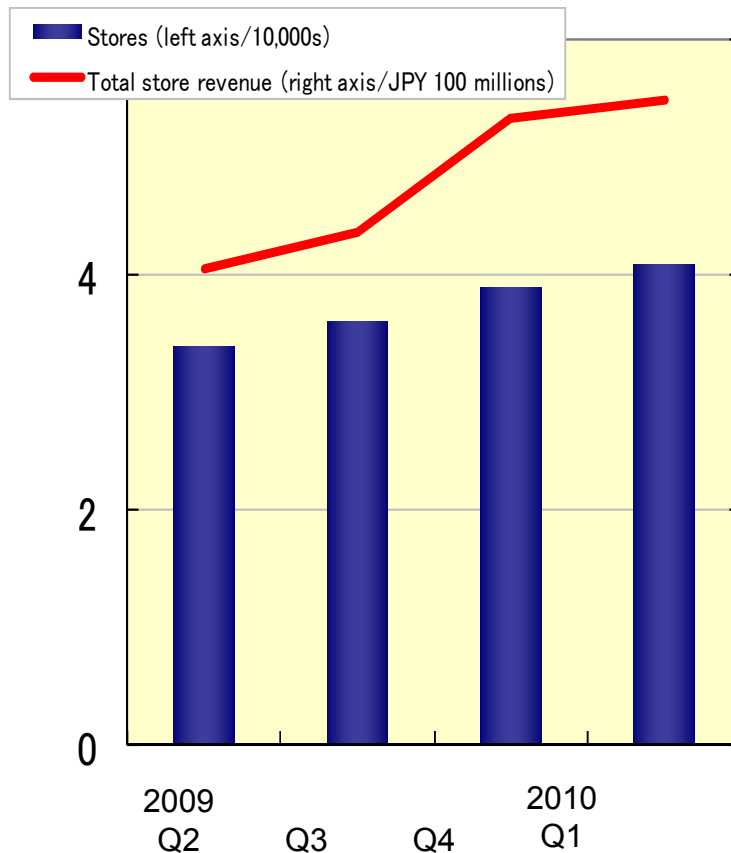
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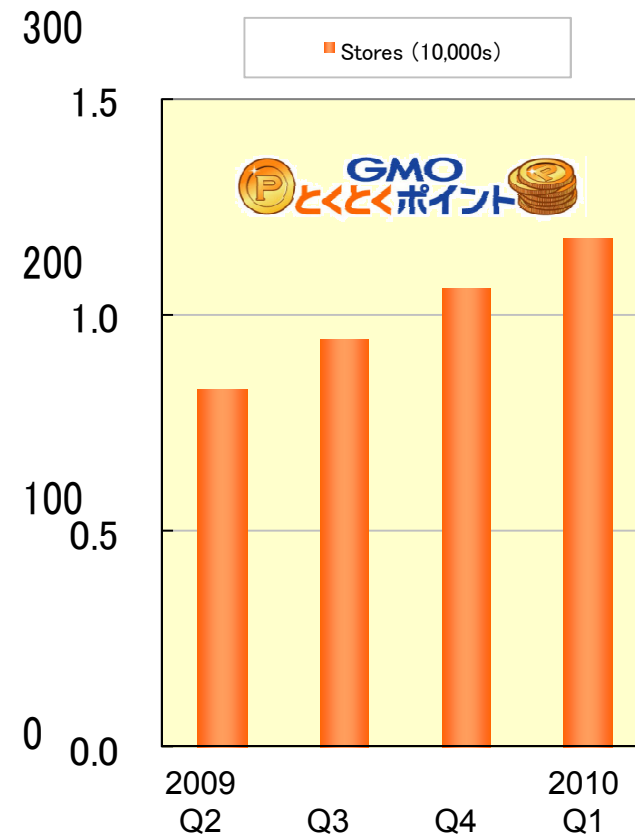
4. News

Focus on expanding point program to more stores

Total No. of Stores/Total Store Revenue



Total No. of GMO TokuToku Point Stores



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# News Topic 2: Global Growth: Domain Business

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② Internet Media

4. News

## Registry Backend Operations



New gTLD	▪ company	Partnership with Canon, Inc. to operate <b>.canon</b> domain (announced 5/10)
	▪ city	In negotiations with city governments
ccTLD	▪ country	In negotiations with 3 different countries

## .shop Operation



- Apply this year, aim to acquire .shop next year
- Promote application at ICANN meetings etc.
- Develop Ecommerce/Infrastructure service packages

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# News Topic 3: Growth Areas – App Support

1. Overview

2. Financial Statements

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② Internet Media

4. News

## Project Outline

### Obstacles for creators and engineers

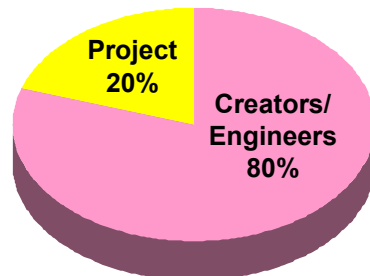
- Lack of time/money
- Too busy with work projects
- Lack of coders
- Insufficient server resources to handle heavy traffic periods

### Five Merits of the Initiative

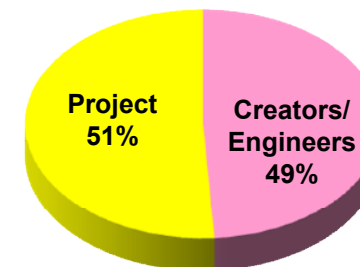
- (1) Development costs paid
- (2) GMO Social App Operation Kit
- (3) Office space, staff, technology exchange
- (4) Marketing support
- (5) Management support, international development

## Profit Share \*After platform fees

1. In cases where we provide Development Support : 20%



2. In cases where developer becomes subsidiary and we provide management support: 51%



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# News Topic 3: Growth Areas – App Support

1. Overview

2. Financial Statements

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① Web Infrastructure & Ecommerce

② Internet Media

4. News

## Kick-off Conference



March 18, 2010  
Cerulean Tower, Shibuya, Tokyo



Masatoshi Kumagai,  
Project Chief



Yuji Akabane, Managing Director,  
Breakthrough Partners



Yoshikazu Tanaka, CEO, GREE, Inc.



Isao Moriyasu, Portal Business Development  
Chief and COO, DeNA Co. Ltd.



Kasahara Kenji, CEO, Mixi, Inc.

### Media Supporting the Social Apps Initiative



(Special Cooperation)



Web Designing



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## News Topic 3: Growth Areas – App Support

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### 2010 Event Schedule

March	Kick-off Conference <b>400</b> attendees selected by lottery from <b>1,000</b> applicants	
April/May	Entry & Judging <b>550</b> entries received, <b>28</b> titles make final selection	
June onward	Development & Release Aiming to release <b>28</b> apps within the year	

### Impact on Earnings Forecast

- Project investment (approx. JPY 300M) **already accounted for** in forecast
- Current forecasts **do not account for** project revenue (after June)

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# Internet for Everyone

- From “Internet Department” to Japan to “Internet Department” to the world! -

