

Gunosy

FY2021/5 Financial Results for Q2



Gunosy Inc.

First Section of The Tokyo Stock Exchange

January 14, 2021

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1

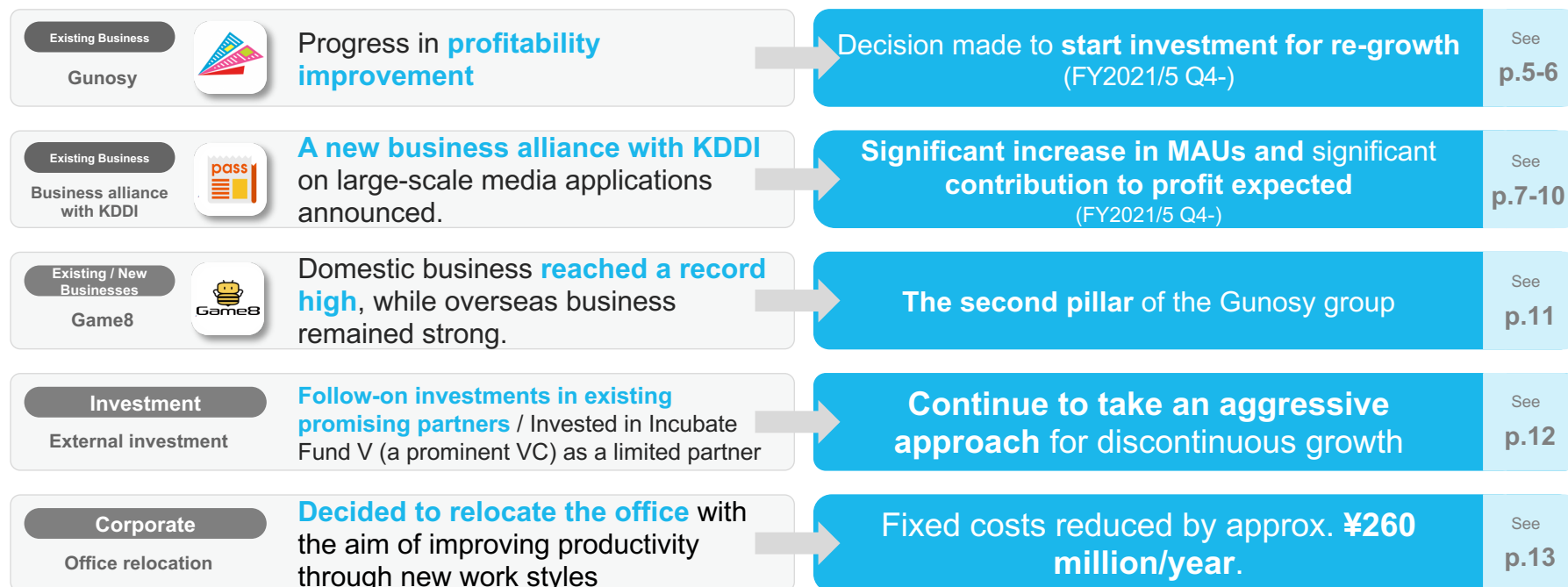
Executive Summary

FY2021/5 Financial Summary

Executive Summary

In the current quarter, significant progress was made in implementing measures to achieve profit growth in the next fiscal year and beyond.

Although sales did not increase QoQ, operating profit marked growth.



01

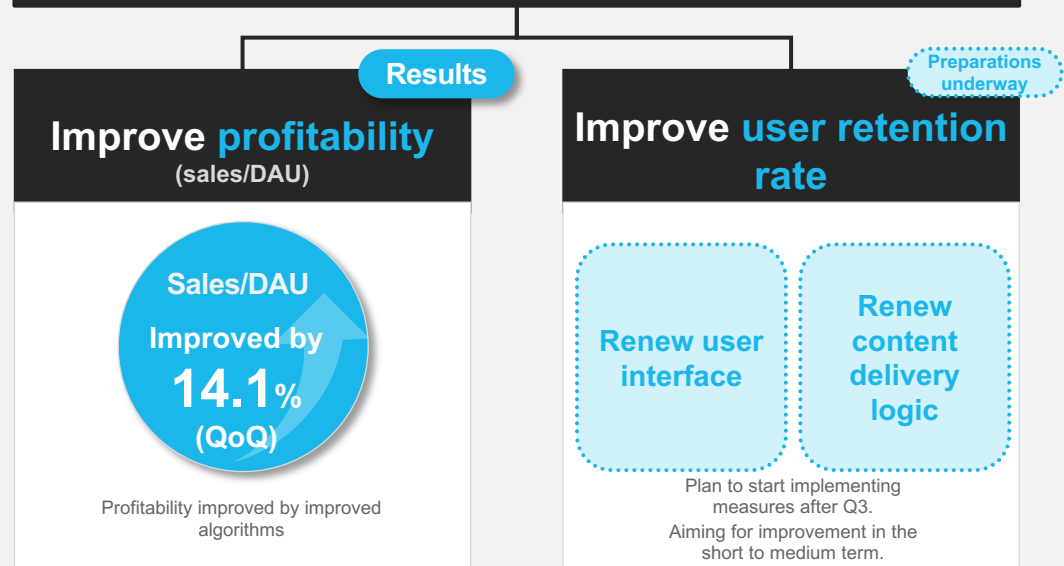
Plan to reinvest in Gunosy as its profitability improves

Due to the deterioration of the advertising market conditions caused by the spread of COVID-19 and other factors, advertising investment in Gunosy was curtailed in the H1.

On the other hand, as a result of the successful completion of measures to start reinvestment in the H1, it was confirmed that profitability had improved. Accordingly, it was decided to resume investment for scale expansion.

Profitability per DAU increased 14.1% QoQ as Gunosy's profitability began to improve.

Important KPIs for return on investment

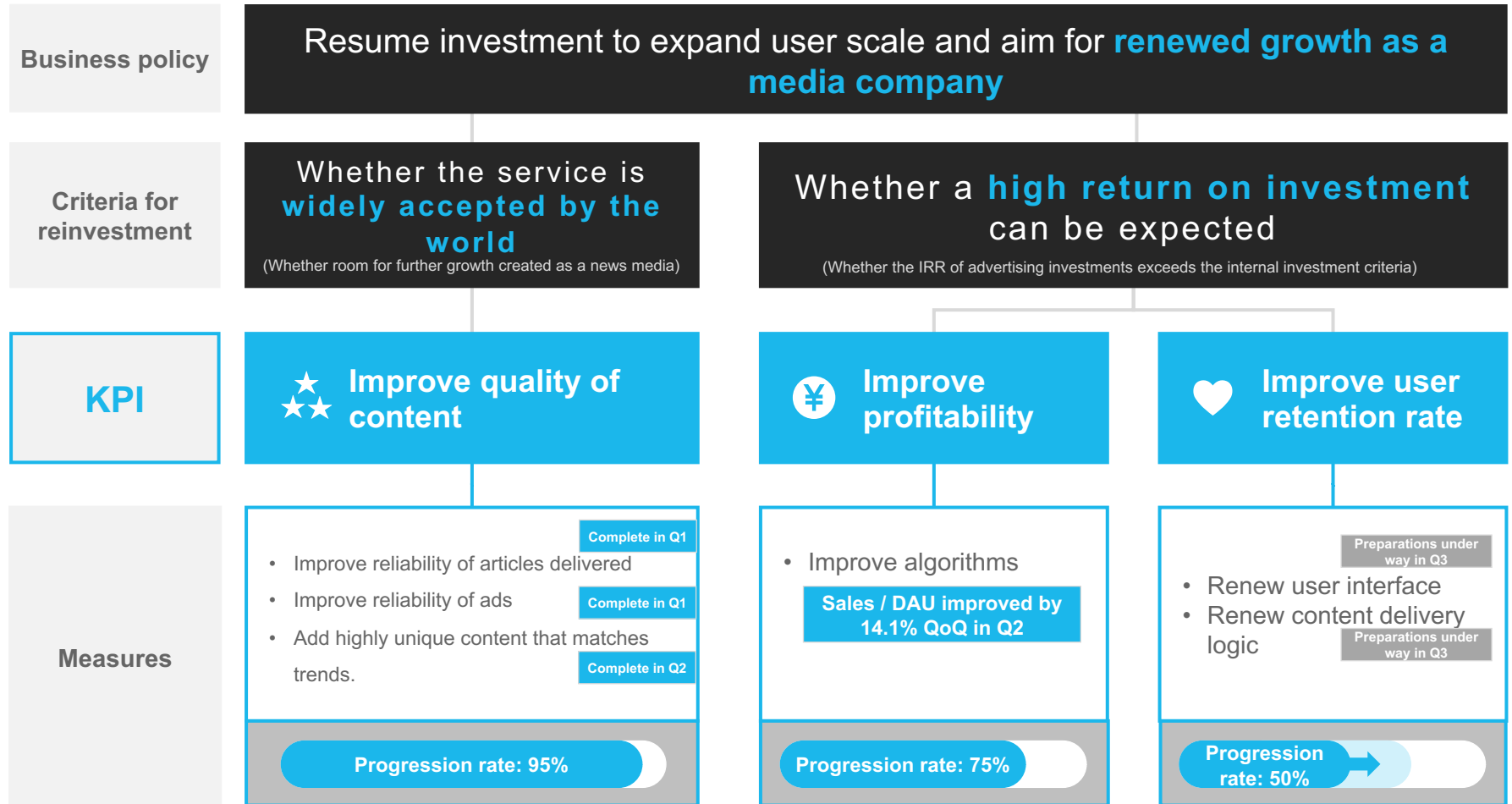


Based on the above, the decision was made to resume investment for advertising.

We plan to increase investment in advertising by approximately ¥170 million in the H2.

01 Background to the Resumption of Advertising Investment in Gunosy

The key measures for successful reinvestment being completed, improvements in profitability were confirmed. We decided to resume investment based on the judgment that sufficient return on investment could be expected even before the improvement in user retention rates was realized.



02

New business alliance agreement signed between Gunosy and KDDI.

Today, Gunosy signed a business alliance agreement with KDDI for the development and operation of an existing large media app operated by KDDI.

New business alliance with KDDI

Selected as a partner for the joint development and operation of a large-scale media application. ※



Gunosy

A significant contribution to business performance expected by capturing KDDI's huge user base

詳細：P10

* Based on KDDI's intentions, the name of the app is not disclosed at this time.

02 Scheme for Business Alliance

Leveraging the strengths of both companies, **we seek to improve the service quality of new collaborative apps**. Improve the satisfaction of app users to achieve sustainable growth.

Business model

Generate profit through revenue sharing.

Contribute to profits through a scheme similar to that of NewsPass, the existing collaborative media.

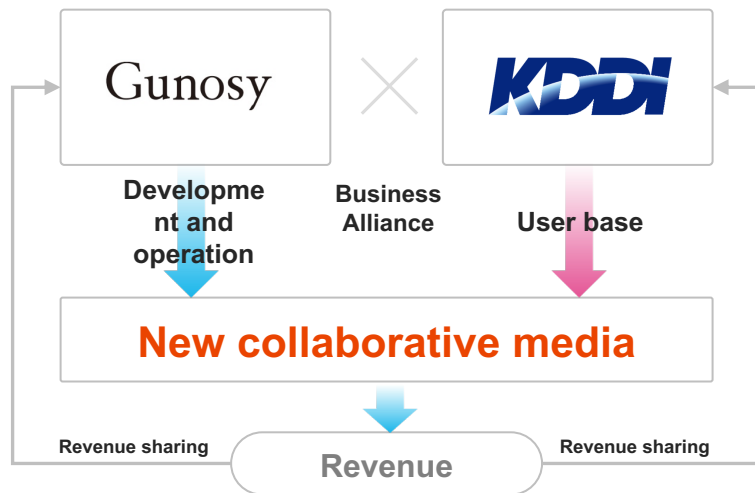


Image of medium- to long-term growth

Achieve better services by leveraging the strengths of both companies

Both companies working together to achieve total business growth for NewsPass and the new collaborative media.

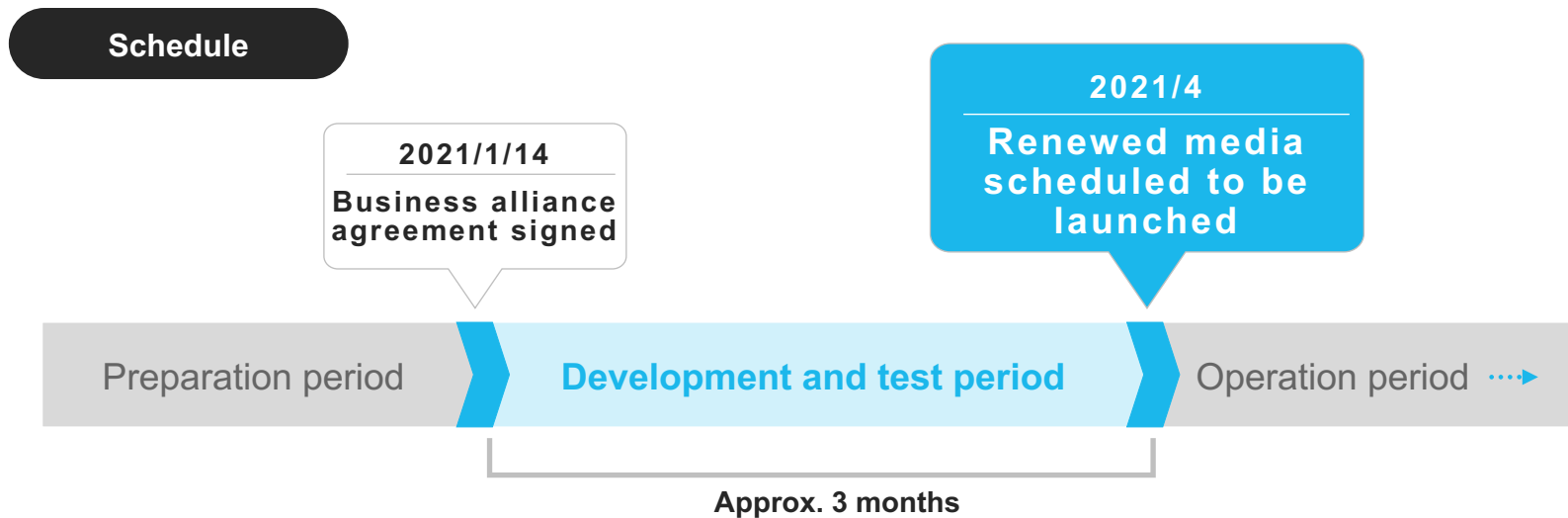


02 Milestones

The renewed version of the new collaborative media is scheduled to be released in April 2021. Gunosy will be in charge of the development of the app for the renewal and the operation of the app after its release.

The renewed new collaborative media is scheduled to be launched in April 2021.

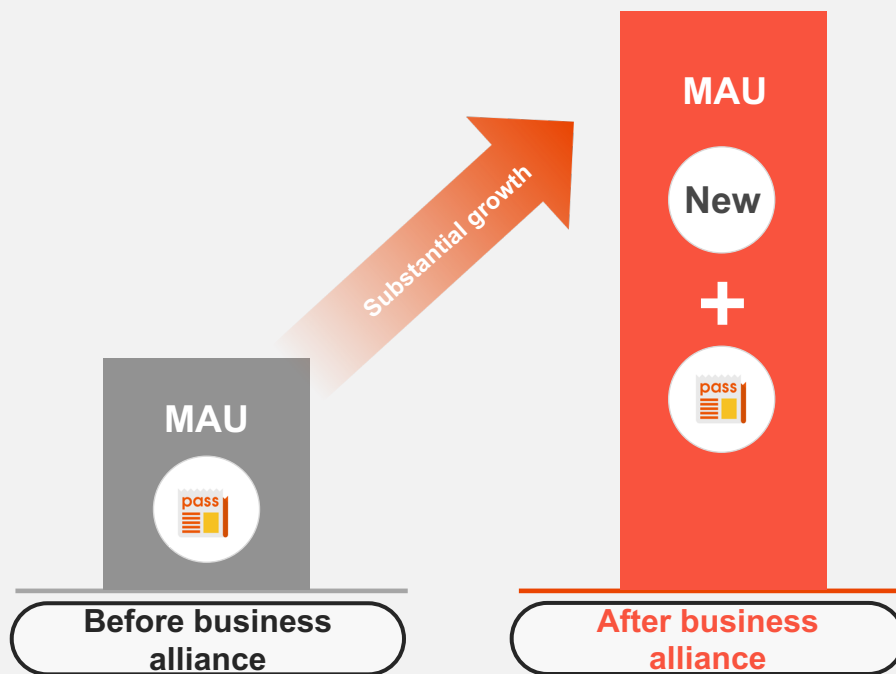
After that, the operation & revenue sharing of the new collaborative media will start.



02 Impact on Business Performance

We will take over the huge user base already established by the new collaborative app. **It is expected to make a significant contribution to Gunosy's business** from April 2021.

Expected MAU before and after the business alliance*



POINT

A huge MAU acquired by the business alliance.

Contribution to business expected after April 2021.

MAU expected to increase sharply after April 2021.

We aim to achieve total growth with the existing media, NewsPass, through initiatives that leverage the strengths of both companies.

* Estimate based on a simple sum of the MAUs (Monthly Active Users) of NewsPass and new collaborative media app in November 2020.

03



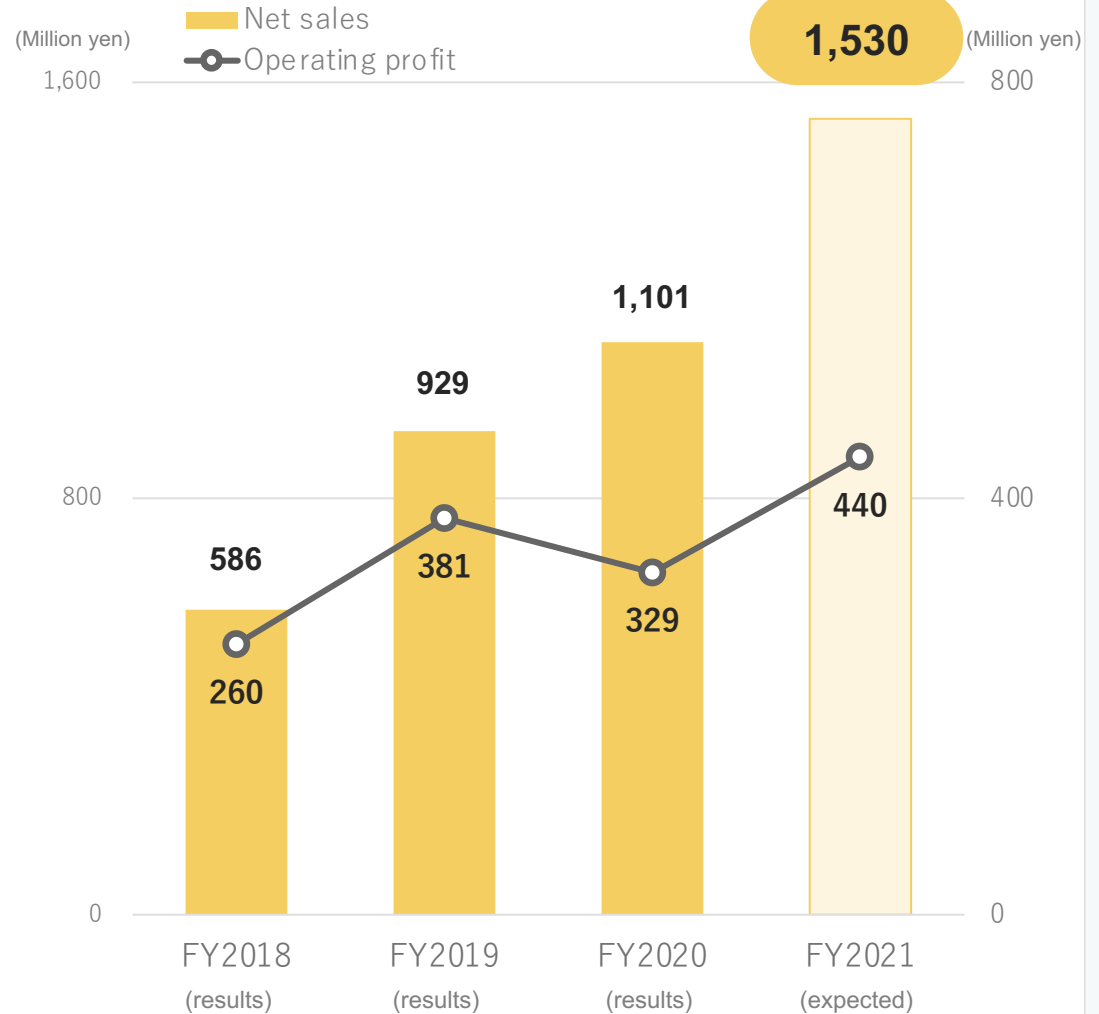
Game-8's significant contribution to profits as a second pillar

Game8 has grown to become the second source of revenue.

While the performance of Gunosy remained weak due to the impact of COVID-19 and other factors, it is expected to achieve record high performance.

Aim to achieve further growth in the medium to long term through overseas expansion and investment in peripheral areas.

Game8: Net sales and operating profit



04

Aggressive external investment to achieve discontinuous growth

Following the re-growth of the media business and capturing the growth of the game market (Game8), we are promoting external investment as the third pillar of growth.

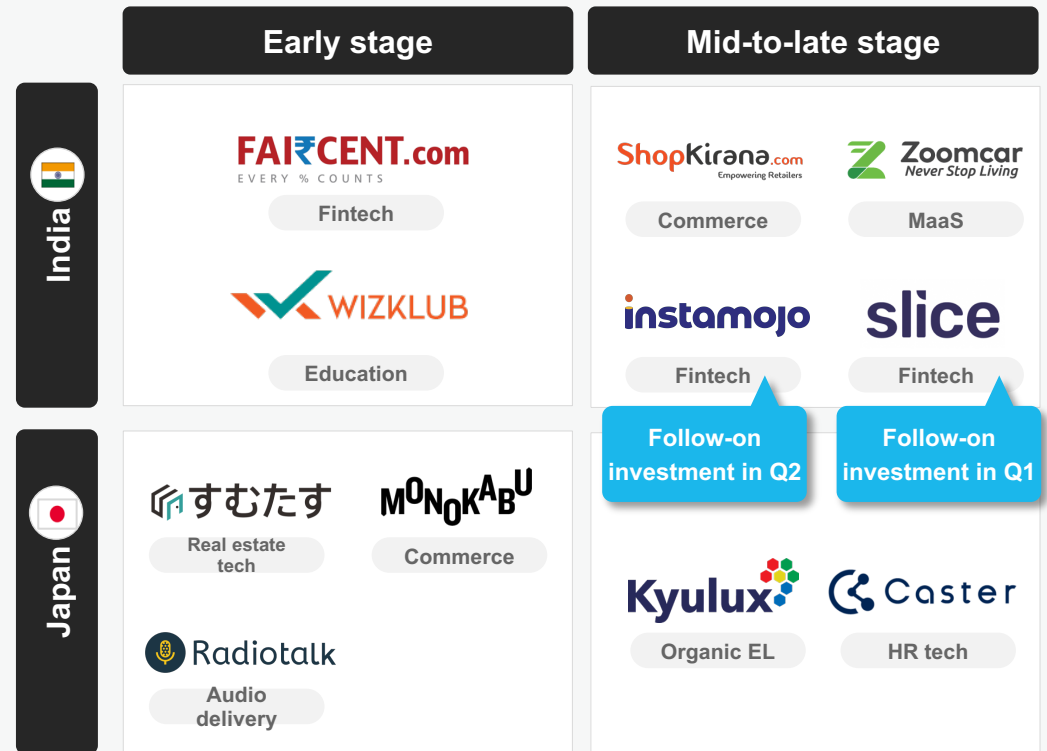
While capturing the high growth rate of the Indian market, we aim to capture high-growth areas in Japan as well.

Investment in domestic and Indian markets

to capture growth areas

Actively explore investment and M&A opportunities

Our portfolio *1



Follow-on investment in Q2

Follow-on investment in Q1



Reinforce sourcing



Reinforce sourcing

Investment in Incubate Fund V *2

We invested approx. ¥500 million as a limited partner

*1. Excerpts from the investment portfolios of Gunosy and Gunosy Capital

*2. Incubate Fund V Limited Partnership

05

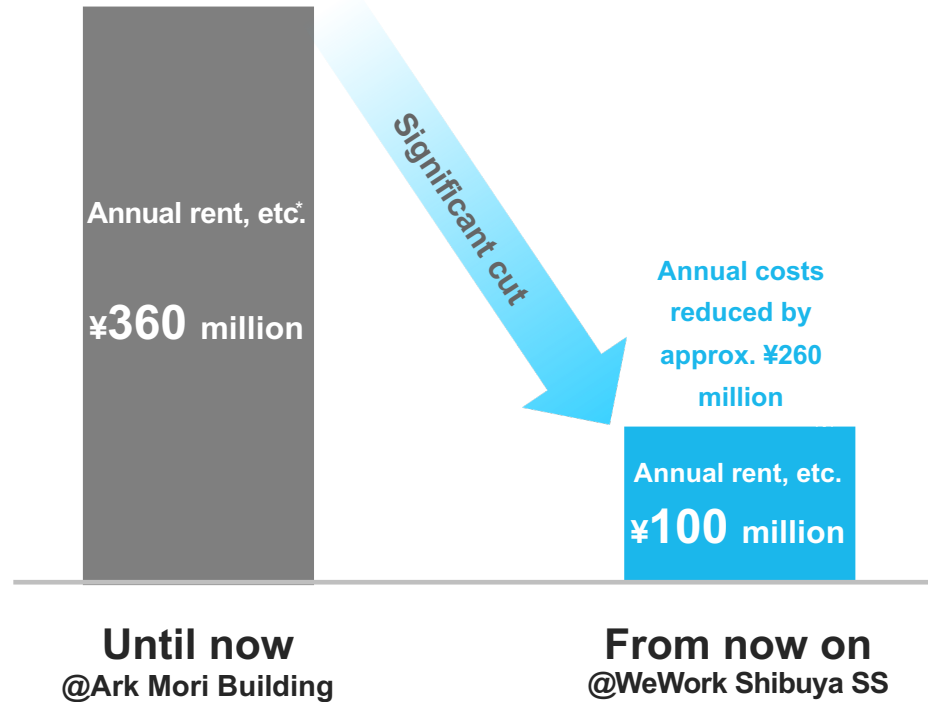
Annual office costs reduced by approx. ¥260 million

Despite the additional costs* incurred in the current and next fiscal years, it will result in overwhelming cost reductions in the medium to long term.

* In FY2021/5, a total of ¥252 million in cost of sales and SGA expenses and ¥35 million in non-operating expenses (idle asset expenses) will be recorded. In FY2022/5, ¥214 million in non-operating expenses (idle asset expenses) will be recorded.

In the event that the timing of the relocation which is currently planned is changed, there may be a change in the amount of expenses recorded for accounting purposes.

Annual office costs that can be reduced



* Total of office rent, operating expenses (utilities etc.) and depreciation expenses related to capital investments, etc.

Schedule for relocation



Capital Allocation

Aim for medium- to long-term growth by promoting internal and external investments for the re-growth of existing businesses and for the establishment of new earnings drivers.

Resources:



Human



Capital

Investment Objectives	Portfolio	Expected results	Key investment items	Q2 highlights
Growth of existing businesses	<ul style="list-style-type: none"> • Gunosy • NewsPass • LUCRA • G8 (domestic) • ADNW 	Generate solid cash as a pillar of business	<ul style="list-style-type: none"> • Investment for the re-growth of Gunosy • New business alliance with KDDI • Capture the growth of the game market 	<ol style="list-style-type: none"> 1. Reinvestment in Gunosy due to improved profitability 2. A new business alliance agreement signed with KDDI 3. Contribution by Game8 as the second pillar of revenue
Develop new businesses internally	<ul style="list-style-type: none"> • G8 (overseas) • D2C • Otokul • GTL 	Establish a new pillar to generate revenue	<ul style="list-style-type: none"> • Game8's business overseas • Challenge growth opportunities that match the current trends especially in the DX area 	<ol style="list-style-type: none"> 1. Steady growth of G8's business overseas 2. D2C business launched for test marketing
External investment* (Investment / M&A)	<ul style="list-style-type: none"> • Startups in India and in Japan • Investment in VC as a limited partner 	Discontinuous growth by capturing high growth areas	<ul style="list-style-type: none"> • Minority investment in tech startups in India and in Japan • Capital alliance and M&A with growing companies 	<ol style="list-style-type: none"> 1. Follow-on investment in promising partners and investment in domestic startups and major VCs
Return to stockholders	Based on the investment status and stock price, etc., we are considering share buybacks as an option at the appropriate time.			

* Plan to invest approx. ¥4.5 billion in cash on hand over two years from the current fiscal year.

2

Financial Results for FY2021/5 Q2

FY2021/5 Consolidated Results for Q2

Gunosy

Although net sales declined QoQ, **operating profit increased QoQ** due to lower personnel expenses at Gunosy and profit growth at Grill and Smarprise.

Although net sales fell sharply YoY, the impact on profits was limited as the main reason for the decline was the poor performance of ADNW, which has a low gross margin. **Operating profit increased also YoY due to restrained investment in advertising.**

(Million yen)

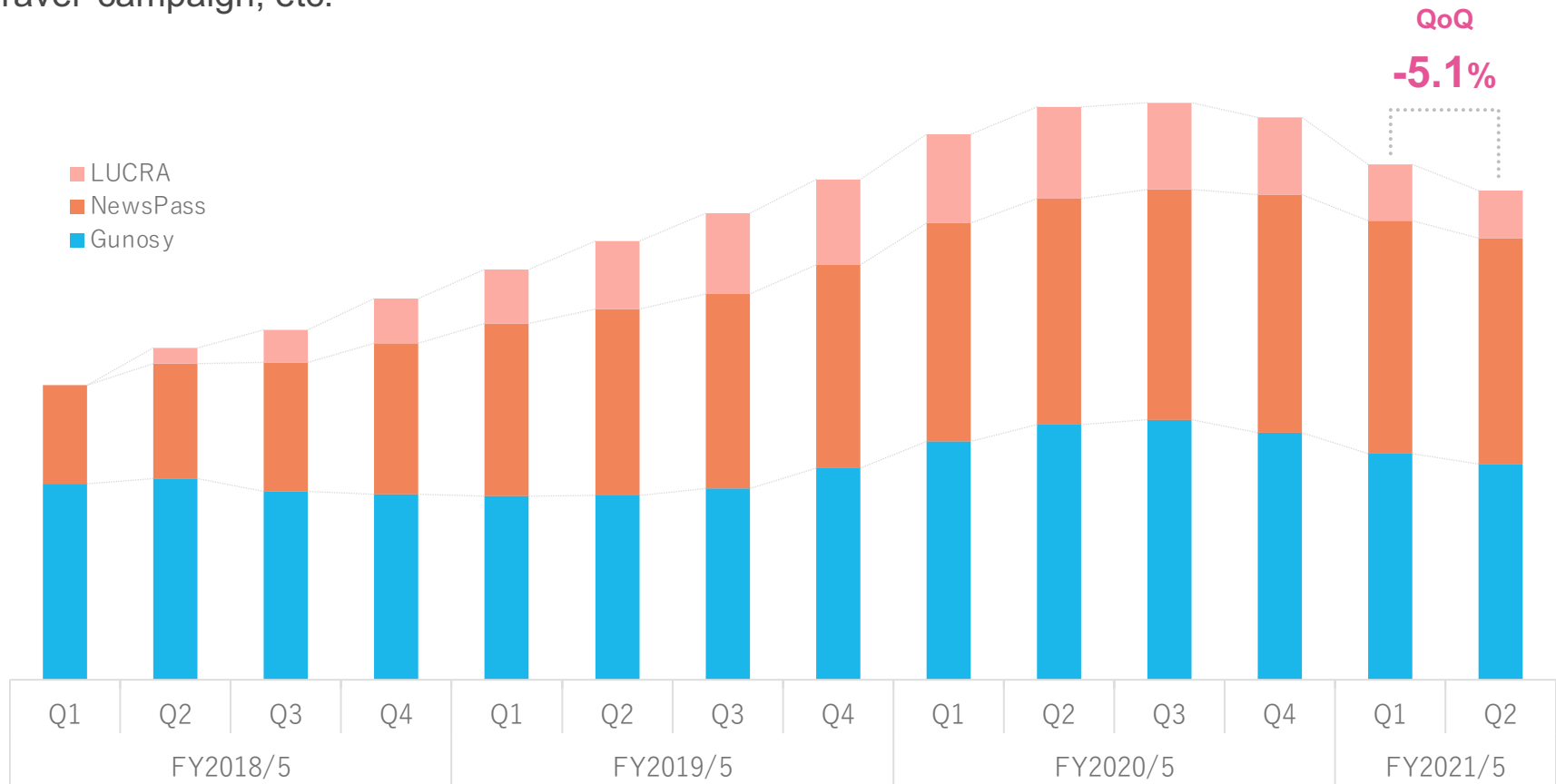
	Quarter			First half		
	FY2021/5 Q2	FY2021/5 Q1	QoQ	FY2021/5 H1	FY2020/5 H1	YoY
Net sales	2,082	2,208	94.3%	4,291	7,585	56.6%
Operating profit	216	160	135.0%	376	156	239.9%
Operating margin	10.4%	7.3%	-	8.8%	2.1%	-
Ordinary profit	213	156	136.2%	369	131	280.1%
Profit attributable to owners of parent	154 [*]	79	193.6%	233	127	182.7%

* In extraordinary income/losses, gain on sales of investment securities of ¥51 million was recorded.

Total Number of Active Users (MAU)*

Gunosy

A 5.1% decrease QoQ was recorded. Although the downward trend of active users due to investment restraint has slowed down, **we assume that the increased activation of users due to "stay home" has been stripped out** as a result of increased opportunities to go out through the 'Go to Travel' campaign, etc.

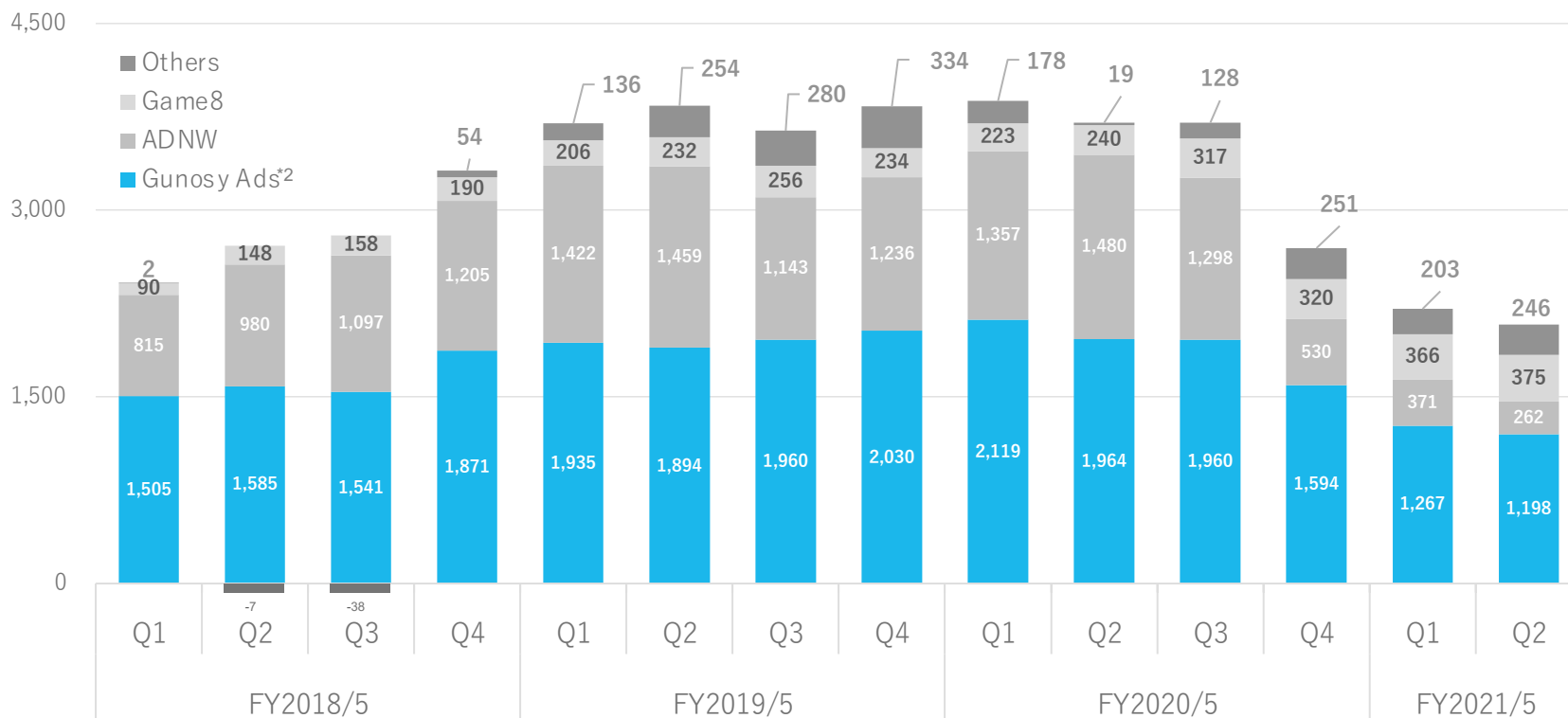


* Average for each quarter of MAU (monthly active users) of "Gunosy", "NewsPass" and "LUCRA"

Breakdown of Net Sales *1

At Gunosy, although profitability per user showed improvement, sales of Gunosy Ads decreased QoQ due to a decline in MAUs. The ADNW business also continued to suffer from difficult situations. Nevertheless, the **Game8 business remained strong and sales increased**. The increase in sales in the "Other" category was mainly due to the strong performance of Smarprise, a subsidiary of Game8.

(Million yen)



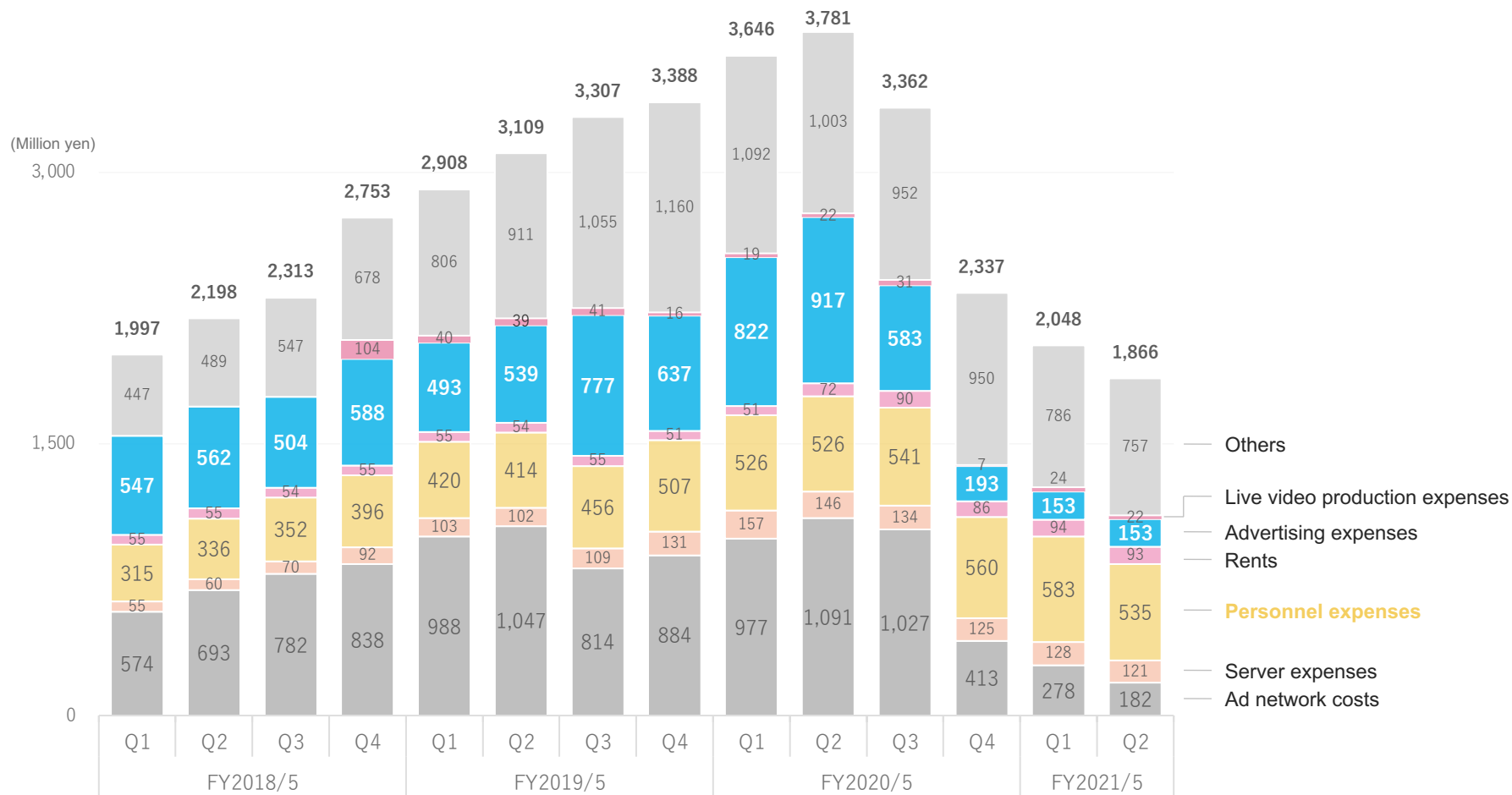
*1. Sales of Gunosy Ads, ADNW and Game8 are presented on a non-consolidated basis. Internal trade adjustments are included in Others.

*2. Sales of Gunosy Ads are the total of "Gunosy", "NewsPass" and "LUCRA"

Cost Structure

Personnel expenses decreased QoQ due to the reduction in the number of hires at Gunosy from the beginning of the current fiscal year.

Other than that, ad network costs also decreased due to the QoQ decline in sales.



3

FY2021/5 Outlook

FY2021/5 Results Forecast (Consolidated)

Gunosy

In the H1, net sales fell below the lower range of the forecast due to the poor performance of the ADNW business. However, because of the strong performance of the Game8 business, **operating profit and all other profit items remained near the upper range of the forecast.**

(Million yen)

	FY2021/5 H1	FY2021/5 H1 forecast (lower range)	Progression rate	FY2021/5 H1 forecast (upper range)	Progression rate
Net sales	4,291	4,652	92.2%	4,937	86.9%
Operating profit	376	242	155.5%	394	95.5%
Operating margin	8.8%	5.2%	-	8.0%	-
Ordinary profit	369	232	158.9%	384	96.1%
Profit attributable to owners of parent	233	123	189.7%	228	102.2%

FY2021/5 Revised Results Forecast (Consolidated)

Gunosy

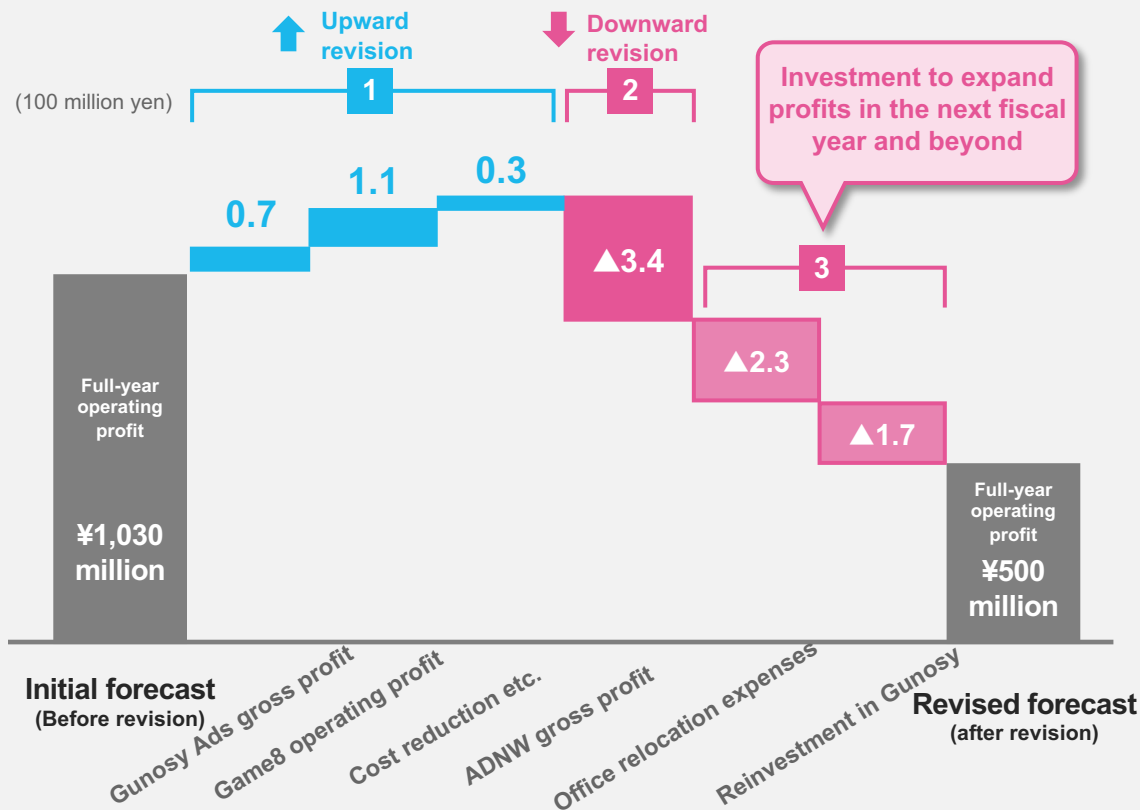
Based on factors including (i) **reinvestment in Gunosy to prepare for growth in the next fiscal year and beyond**, (ii) temporary increase in depreciation and other expenses due to **office relocation for the purpose of improving productivity and reducing fixed costs** and (iii) weakness in the ADNW business, we have revised downward our full-year forecasts.

(Million yen)

	FY2021/5 H1	Initial forecast (full-year)	Revised forecast (full-year)	Increase / decrease	Increase / decrease rate
Net sales	4,291	10,297~11,297	8,897	-1,400 ~-2,399	-13.6% ~-21.2%
Operating profit	376	1,030~1,414	500	-529 ~-913	-51.4% ~-64.6%
Operating margin	8.8%	10.0%~12.5%	5.6%	-	-
Ordinary profit	369	1,011~1,395	482	-528 ~-912	-52.2% ~-65.4%
Profit attributable to owners of parent	233	615~882	253	-362 ~-628	-58.9% ~-71.3%

Breakdown of Revised Business Results

Major factors of increase/decrease affecting operating profit



POINT

1 Upward revision

Strong business at Gunosy Ads and Game8.

Progress made in cost reduction

2 Downward revision

ADNW:

Loss of competitiveness due to the **revision of advertising guidelines.**

3 Investment costs for growth

Office relocation and reinvestment in Gunosy are considered as **investment costs to achieve operating profit growth** in the next fiscal year and beyond.

4

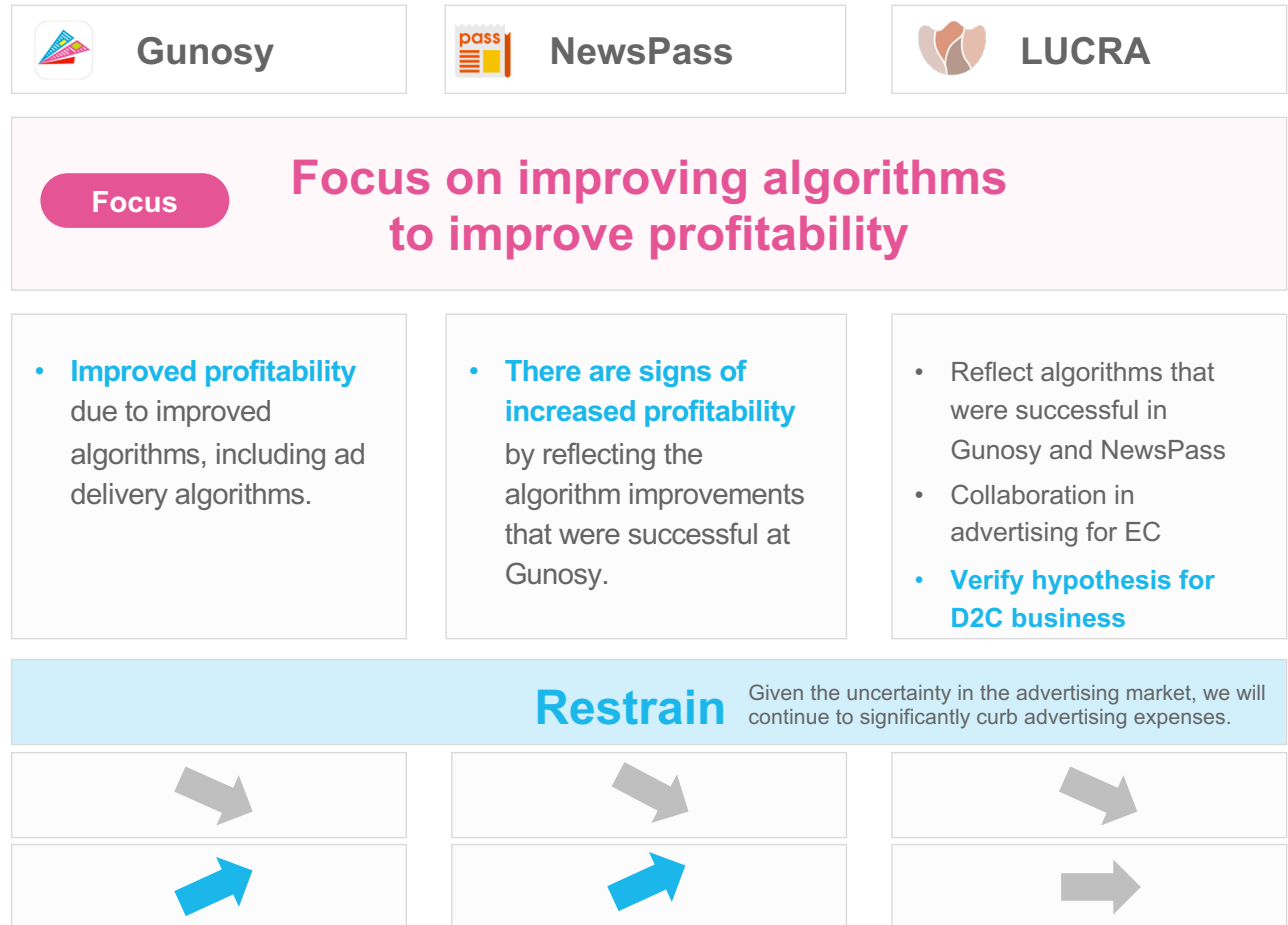
Business Overview by Division

Summary of Media Business in FY2021/5 Q2

Gunosy

At Gunosy and NewsPass, a series of measures were taken to improve profitability, and **a number of improvements were realized.**

At LUCRA, we verified our hypothesis for the D2C business while improving profitability as well.



As a measure to improve the quality of content, **we enhanced radio content in the Q2.**

Gunosy's original content has been developed. We will provide users with a wide variety of content following texts and videos.



Enhance radio content

Unique content was developed to enhance the value of user experience.



- Content from popular podcasts provided by major radio stations will be added as soon as they are ready.
- A total of 120 programs (10,819 episodes) are currently available (as of January 14, 2021).
- We are also developing "Gunosy" original programs (14 programs in total, including the 5 programs in the photo above).

Measures to Improve User Retention Rate (Q3 -) Gunosy

As the first step in the user interface renewal, the specifications of the news top page were changed so that users can grasp important news at a glance. We are also working on reforming the content delivery logic to **deliver articles that match more personalized interests of users on a deeper level.**



Renewal of the user interface (Q3-)

- We are promoting a transformation to an interface that allows users to naturally cover important news and easily open it again and again.
- As the first step for this transformation, the top of the topic tab has been changed to **display a fixed list of articles that have received the most attention.**

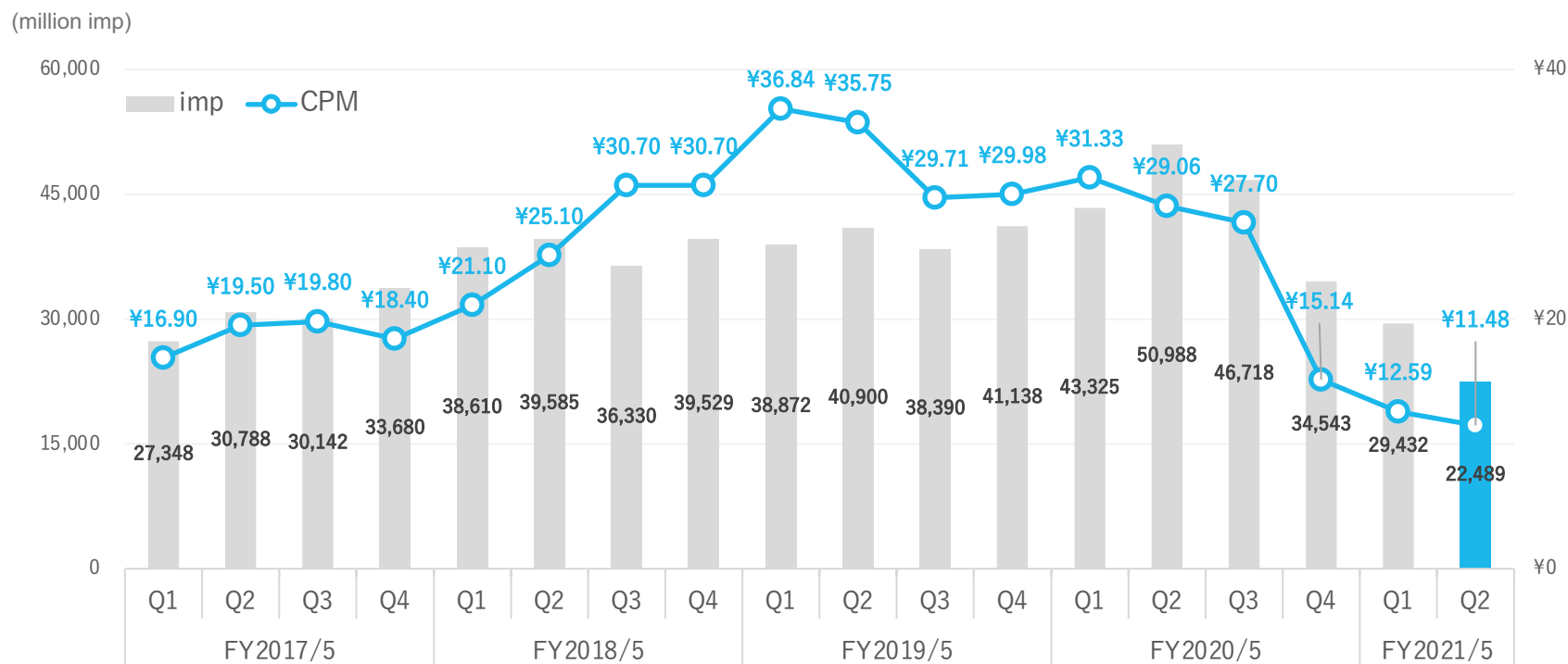
Renewal of content delivery logic (Q3-)

- Rather than the traditional entertainment-centered content, we will shift our focus to the distribution of content that matches more personalized interests of users on a deeper level and makes them want to read.
- The results of the preliminary test for some users were good.
- **We confirmed an increase in the number of clicks while maintaining the retention rate.**

The decline in sales appears to have slowed down, although the impact of the loss of competitiveness due to the renewal of advertising guidelines continues.

In the future, we will focus on advertisers and media that place importance on ad quality to achieve regrowth.

Number of Impressions and CPM



* CPM (cost per mille): Price per 1,000 impressions of advertisement

Game8 Business Overview

Game8, whose main business is to operate game walkthrough wiki (game8.jp), is providing **services that address various issues in the life cycle of games** together with its subsidiary, Smarprise.

Game life cycle

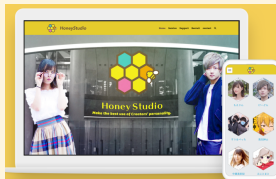
Release period

Growth to maturity phase



1 Honey Studio

Supports promotions by exclusive creators



Moerin, who has over 700,000 subscribers, and other dedicated creators will produce the videos.

2 Intensive display of ads

Supports the spread of information and the expansion of awareness among game users who visit Game8.

3 Pre-registration

Provides support to ensure continued awareness of the game from pre-registration to post-release.

4 game8.jp (Game8) Game walkthrough Wiki



Monthly figures (as of September, 2020)

380 million PV

34 million UU

Produces and operates game walkthrough wiki for smartphone and home video game console, providing users with game walkthrough information through high-quality articles written by more than 100 fully-exclusive writers.

Smarpr!se

(A subsidiary of Game8)

SMART GAME

5 SMART GAME

One of the largest gaming platforms for paying game users in Japan

Rights Organize

6 Rights Organize

Supports total planning for collaboration with IP (game characters)

SURPRISE BOX

7 Surprise Box

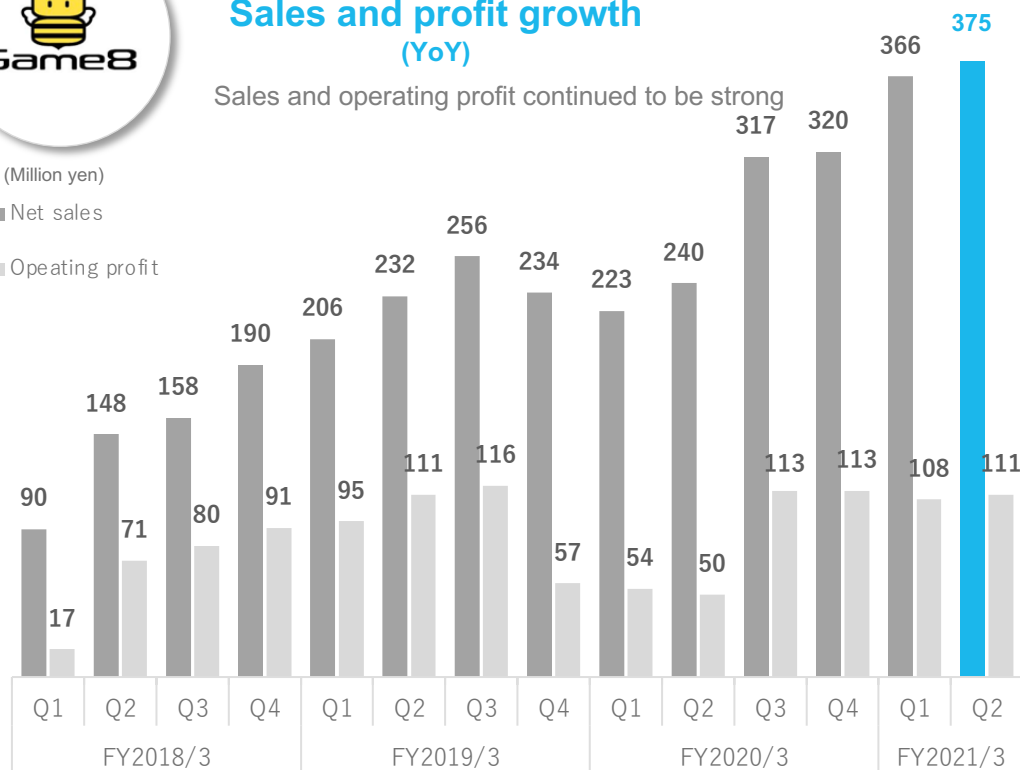
Produces and sells goods available only by subscription

PV remained stable at a high level. CPM showed recovery and **the quarterly sales reached a record high.** (Q2 results are for the period from July to September 2020 due to a gap with the parent company's consolidated accounting period.)

Results ^{*}Sales and profit growth
(YoY)

Sales and operating profit continued to be strong

(Million yen)
■ Net sales
■ Operating profit



Business Overview

- In Q2, net sales and operating profit **reached record levels.**
- CPM **recovered to the pre-COVID-19 levels.**
- Continued investment in overseas business.
 - **Steady increase in PV.**
 - CPM remained at a level higher than in domestic market.

	FY2021/3 Q2	YoY
Net sales	¥375 million	155.7%
Operating profit	¥111 million	220.3%

* Non-consolidated results (before consolidated adjustment). Results of Smarprise, our subsidiary is not included.

In Game8's overseas business, **the number of PVs has been increasing steadily.**

In the D2C business, a product test release is scheduled for early spring.

Game8: Overseas Expansion

The number of PVs has been growing steadily since the commencement of the business.
RPM has been above the domestic level.



An English version of the game walkthrough wiki is provided.

D2C Business

Explore the possibility of entering the market by leveraging strength such as the contacts with customers, marketing capabilities and data analysis capabilities that will differentiate Game8 from its competitors.

The mood pairing tea, a fun way to choose a tea to suit your mood

YOU IN

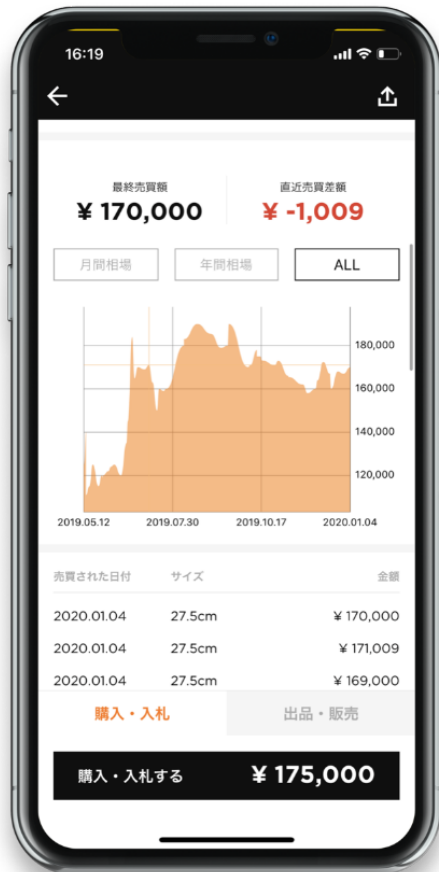
The mood pairing tea "YOU IN" will be released in early spring.

A fun way to choose a tea to suit your mood and the occasion.

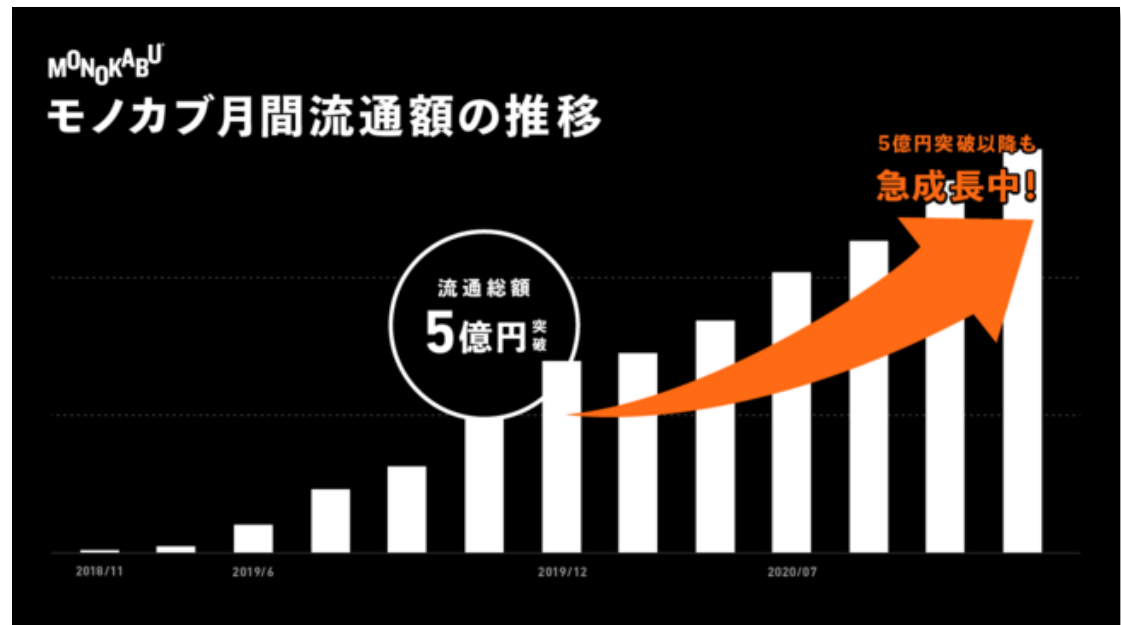
Investment in Monokabu

Gunosy

Gunosy Capital executed an investment as a lead investor in "MONOKABU" which is one of the largest CtoC marketplaces in Japan, specializing in sneakers and street fashion (announced in December 2020).



Lead investment project



(Released on December 15, 2020. <https://prtimes.jp/main/html/rd/p/000000010.000033955.html>)

Follow-On Investment in Instamojo

We made **a follow-on investment in Instamojo**, which has been growing steadily since the initial investment (announced in November 2020).

We are working with BASE to support the company to expand its business.

Follow-on investment announced in
November 2020

 Steady growth since the initial investment



Provide payment gateway services and e-commerce platform for SMBs in India

Fintech

SMBs

E-commerce

Co-investment with BASE



Working with BASE to support
Instamojo's empowerment efforts for
small businesses.

(Released by BASE on November 13, 2020
https://binc.jp/press-room/news/press-release/pr_20201113)

In October 2020, **we invested in Radiotalk**, which provides free voice services.



Radiotalk



Outline of “Radiotalk”

A service that allows anyone to easily deliver audio at any time

- A service that allows users to easily create and distribute audio programs from their smartphones. A variety of people, from ordinary people such as office workers and students to comedians and cartoonists, are delivering their talks.
- Since background playback is available, users can listen while doing other tasks.

We invested in **Incubate Fund V Limited Partnership** as a limited partner in November 2020.

Invested in Incubate Fund V
as a limited partner

INCUBATEFUND

Independent venture capital firm specializing in investment and development of start-up companies.

Total investment so far: Over
¥62 billion

Investment Background

- 1 **Contribute to the start-up industry** by utilizing Gunosy's technology
- 2 **Explore opportunities for investment and business alliances** with venture companies with high growth potential

5

Reference Materials: Overview of Gunosy Inc.

Basic Information

Company name: Gunosy Inc.

Representative: Shinji Kimura
Yuya Taketani

Established: November 14, 2012

Fiscal year end: May

Capital: 4,094 million yen (as of the end of November 2020)

Stock Code: 6047 (First Section of The Tokyo Stock Exchange)

Audit corporation: Ernst & Young ShinNihon LLC

Number of employees: 231
(as of the end of November 2020, on a consolidated basis)

Head office: Ark Mori Building, 1-12-32 Akasaka,
Minato-ku, Tokyo

Business: Development and operation of information curation service and other media

Officers:

Representative Director and Chairman, Group Chief Executive Officer (CEO), Shinji Kimura

Representative Director and President, Yuya Taketani

Director and CFO, Hiroki Maniwa

Director, Kentaro Nishio

Director, Kazuhiro Gonsoho

Director (Outside), Suguru Tomizuka

Director (Outside), Junichi Shiroshita

Director (Outside), Hirokazu Mashita

Corporate Auditor, Masakazu Ishibashi

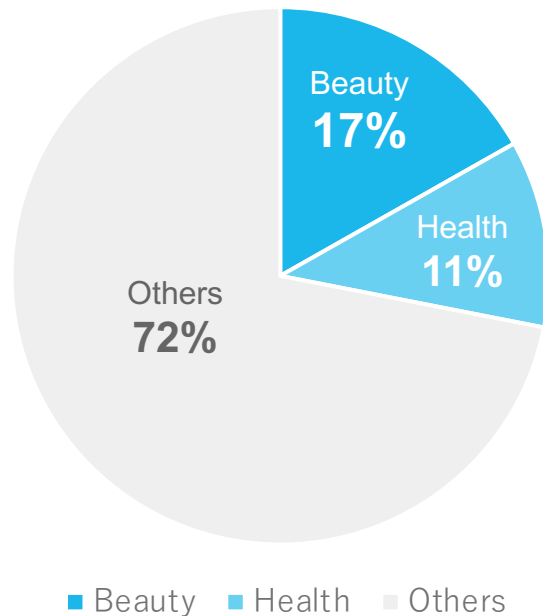
Corporate Auditor (Outside), Kenji Shimizu

Corporate Auditor (Outside), Noboru Kashiwagi

The percentages for "beauty" and "health" categories continue to decline.

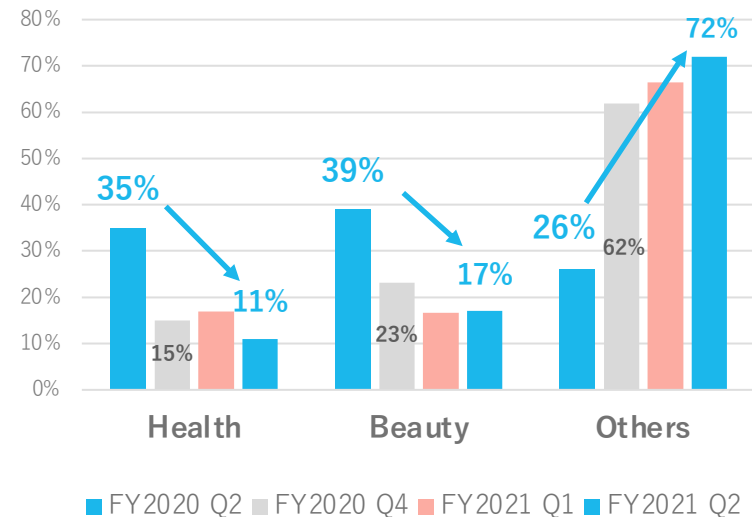
Aiming to serve a wider range of advertisers, we will continue to revamp our algorithms.

FY2021/5 Q2



Percentage change of major categories (YoY)

The percentages for "beauty" and "health" categories marked **substantial decline YoY**.



No.	Questions	Answers
1	What was the impact of the spread of COVID-19 on the business results for the current quarter?	<ul style="list-style-type: none"> • Advertisers' willingness to place ads continued to be at a lower level than in previous years, negatively impacting ad sales. • The increased activation of users due to "stay home" has been stripped out compared to Q1.
2	What is the impact of the state of emergency declared on January 7, 2021 on business performance?	<ul style="list-style-type: none"> • We believe it is necessary to monitor whether there will be further negative effects on advertisers' willingness to place ads, although we do not see such a trend at this time. • Although activation of users may increase under "stay home" to some extent, we assume that the effect will not be as great as the previous time (April to May 2020).
3	Why will the decision to relocate the office result in a sharp decrease in operating profit for the current period?	<ul style="list-style-type: none"> • Upon office relocation, fixed assets recorded in the current office that are expected to be disposed of as a result of the relocation will be depreciated based on their useful life shortened to the day before the move to the new office for accounting purposes. In addition, asset retirement obligations (restoration costs) for the current office will be recognized in accordance with the period up to the termination date of the current office. As a result, cost of sales and SGA expenses will increase, which is the reason for the significant decrease in operating profit.
4	Regarding the temporary increase in costs due to the office relocation, what is the difference between the amount of increase in cost of sales and SGA expenses for the current period (¥252 million), which is stated in the notes to subsequent events in the quarterly report, and office relocation expenses shown on page 23 of this report (¥230 million)?	<ul style="list-style-type: none"> • The increase in cost of sales and SGA expenses for the current period (¥252 million), which is stated in the notes to subsequent events in the quarterly report, only includes the increase in cost of sales and SGA expenses for the current period due to the office relocation. After the relocation to the new office scheduled for the current period, the amount of cost of sales and SGA expenses will be partially lower than originally planned as a result of the difference in rent between the new office and the current office, etc. The office relocation expenses (¥230 million) on page 23 reflects this amount.
5	Why did Gunosy Ads net sales decrease QoQ while Gunosy's profitability per DAU improved QoQ?	<ul style="list-style-type: none"> • While Gunosy's profitability per DAU improved, Gunosy, NewsPass, and LUCRA all experienced significant declines in active users due to the loss of the "stay-home" effect. As a result, overall revenue from Gunosy Ads declined.

Forward-looking statements contained in these materials are prepared from judgments and assumptions based on information available at the time of preparing the materials, and do not guarantee their accuracy. These materials contain financial data that have not been audited by an independent certified public accountant or an auditing firm.

Please note that actual results may differ materially from the forecasts due to various uncertainties included in these judgments and assumptions and changes in risk factors and the economic environment.

Gunosy

Optimally deliver information to people around the world