



IT/MT/FT × OPEN INNOVATION

Digital Garage, Inc.

1Q of FYE June 30, 2016 Financial Report

2015.11.13

 **Digital Garage**

Strong start to 1Q of the first year of the new mid-term plan

~ Driving strategies with the new four segments by adding MI to IT/MT/FT ~

I IT : Promoting global investment ecosystem

- Delivered incubation results as iRidge became the first listed O2O related company in Japan
- Investment balance expanded to about 10 B JPY with enhanced global portfolio in the internet of the next generation

II MT : Smartphone ads grew steadily along with performance-based ads

- YoY sales grew +22% with strong focus on mobile in addition to PC
- Promoting full-fledged DMP business for JACCS, a leading credit card company, as a first step

III FT : Enhancing business collaboration towards the age of FinTech

- Transaction amount grew substantially +28% YoY to about 280 B JPY
- Driving strategic development in non-EC domain. Enhancing alliance with financial institutions

IV MI : Launching incubation business with media as a core

- Investment profit on equity method from Kakaku grew. Premium member for Tabelog increased
- Leverage DG's expertise around media development to create new business

FY16.6 1Q Consolidated P/L Summary

YoY Sales grew +27%, Income before income taxes grew +61% to 1.9 B JPY
 ~ Op income up 3.7x. Ordinary income grew +59% with expansion of investment profit on equity method from Kakaku despite recording foreign exchange loss ~

JPY in Millions	FY15.6	FY16.6	YoY		FY16.6
	1Q (Act)	1Q (Act)	%	Amount	Full Year Forecast
Net sales	8,126	10,336	+27.2	+2,209	41,000
Operating income	390	1,425	3.7 x	+1,035	5,200
Non-operating income	854	669	-21.7	-185	
Investment profit on equity method	431	520	+20.7	+89	
Foreign exchange gain	297	-	-	-297	
Non-operating expenses	79	231	2.9 x	+152	
Foreign exchange loss	-	131	-	+131	
Ordinary income	1,165	1,863	+59.9	+697	
Extraordinary income	39	78	2.0 x	+39	
Gain on change in equity	-	78	-	+78	
Gain on sales of investments in securities	33	-	-	-33	
Income before income taxes	1,204	1,941	+61.2	+737	8,200
Income taxes	306	744	2.4 x	+438	
Net income attributable to owners of parent	772	1,196	+54.9	+424	5,500



FY16.6 1Q Consolidated Segment P/L Summary



context company

All segments grew Sales and Income before income taxes, exceeding the budget

~ Managing performance with Income before income taxes as segment profit from this fiscal year ~

JPY in Millions	FY15.6	FY16.6	YoY		FY16.6
	1Q (Act)	1Q (Act)	%	Amount	Full Year Forecast
Net sales	8,126	10,336	+27.2	+2,209	41,000
IT Incubation Technology	1,035	1,899	+83.4	+864	7,000
MT Marketing Technology	3,669	4,502	+22.7	+832	18,500
FT Financial Technology	3,421	3,934	+15.0	+512	15,500
MI Media Incubation	-	-	-	-	-
Income before income taxes	1,204	1,941	+61.2	+737	8,200
IT Incubation Technology	93	1,064	11.4 x	+971	4,100
MT Marketing Technology	236	247	+4.4	+10	1,390
FT Financial Technology	391	413	+5.7	+22	1,840
MI Media Incubation	443	627	+41.6	+184	2,500

Note: Income before income taxes per segment is based on figures prior to elimination or group deduction, etc

FY16.6 1Q Consolidated B/S Summary

JPY in Million	FY15.6	FY16.6 1Q	Difference	Reason for change / Remarks
Current assets	57,742	52,957	-4,785	
Cash and deposits	30,956	25,198	-5,757	Payout of corporate tax and dividends, repayment of borrowings, new investment, etc
Receivables	11,646	13,084	+1,438	Payment segment related items
Money held in trust	3,120	1,143	-1,976	Payment segment related items
Operational investment securities	8,208	9,668	+1,460	New investment, Mark-to-market for stock related to IPO, etc.
Fixed assets	28,752	28,192	-559	
Investment securities	14,220	13,602	-618	Partial reclassification to operating investment securities, increased investment profit on equity method, Mark-to-market for listed stocks, etc.
Goodwill	6,237	6,119	-117	
Total assets	86,495	81,150	-5,344	
Current liabilities	50,623	36,430	-14,193	
Deposits	20,998	19,621	-1,377	Payment segment related items
Short-term borrowing	23,533	12,006	-11,527	Partial repayment of borrowings of funds for share purchase of econtext ASIA
Fixed liabilities	6,805	16,166	+9,360	
Long-term borrowing	5,546	15,201	+9,655	Stable and long-term refinancing
Total liabilities	57,429	52,597	-4,832	
Net assets	29,065	28,553	-512	
Shareholders' equity	24,640	24,665	+24	
Common stock	7,426	7,435	+8	
Capital surplus	2,854	2,848	-5	
Retained earnings	14,429	14,451	+21	
Accumulated other comprehensive income	4,002	3,473	-528	
Unrealized gains on securities	2,585	2,109	-476	Unrealized gains after tax for securities with market value
Liabilities / Net assets	86,495	81,150	-5,344	



Quarterly Consolidated Sales / Income before income taxes

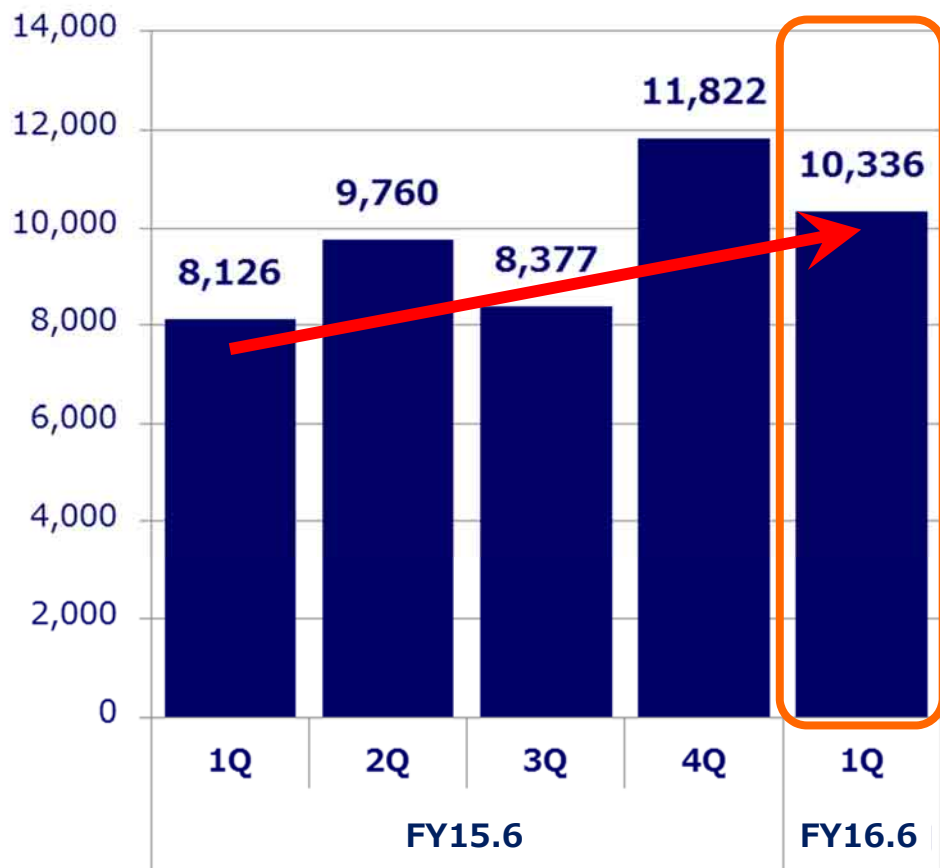


Achieved Sales +27% YoY, Income before income taxes +61% YoY in 1Q FY16.6

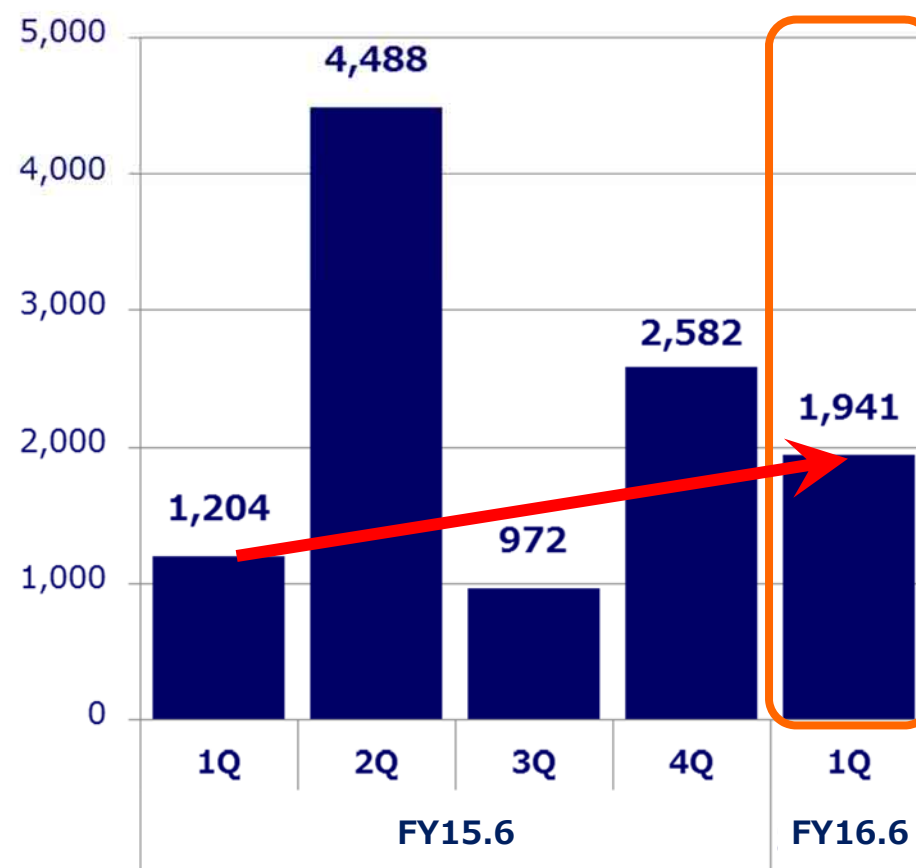
~ Incubation drove the growth. Hit record high for 1Q income before income taxes ~

【Net Sales】

(JPY in Million)

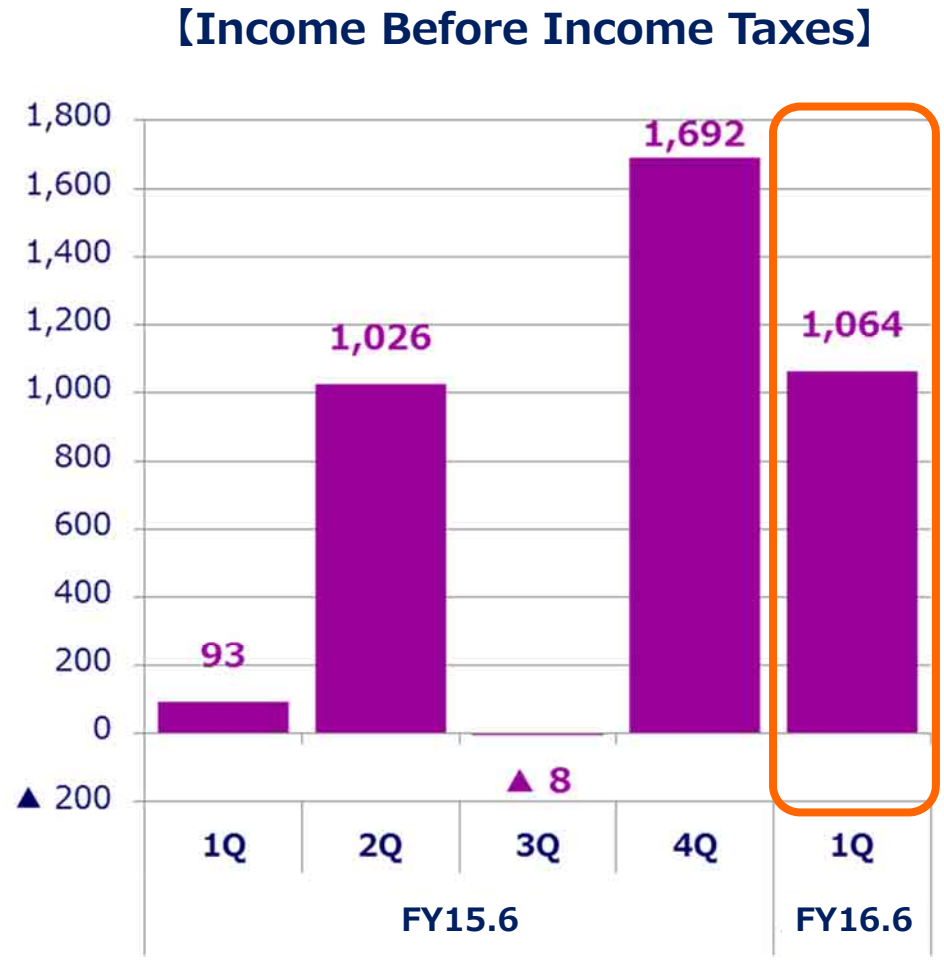
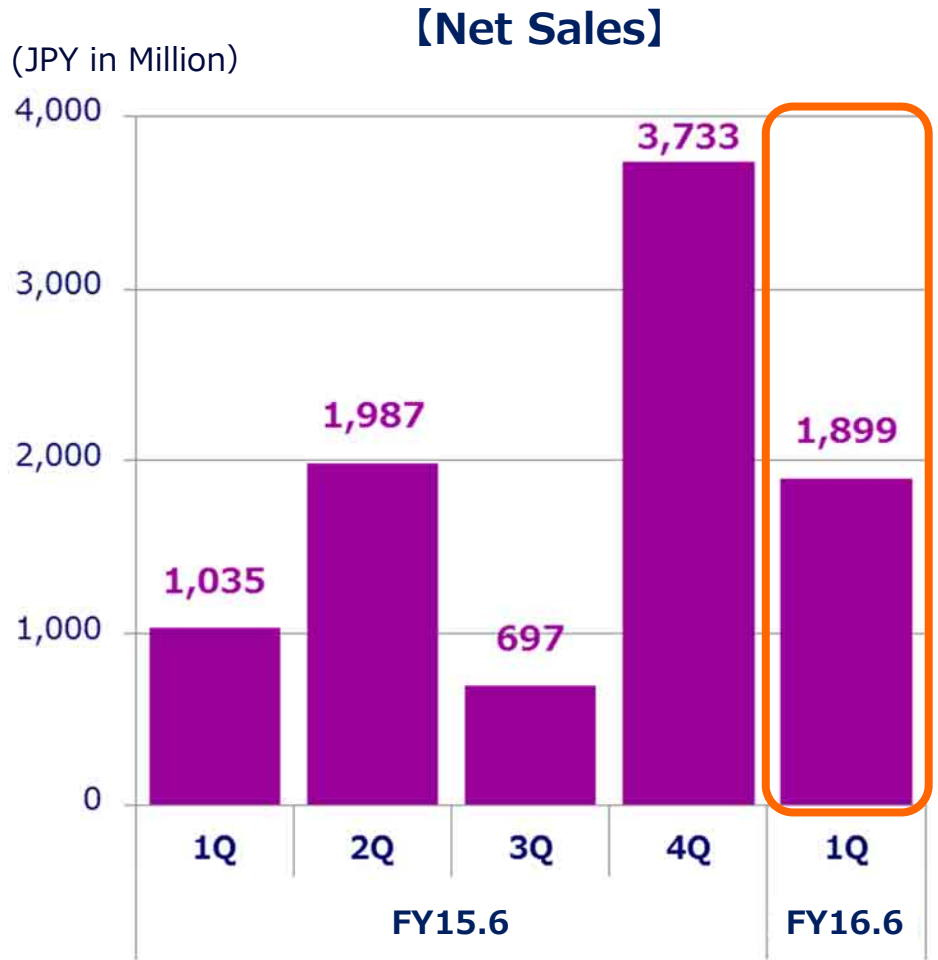


【Income Before Income Taxes】



Partially selling stocks resulted in significant growth in sales and income, delivering Incubation results

~ Enhanced domestic and global portfolio. Investment balance reached about 10 B JPY ~



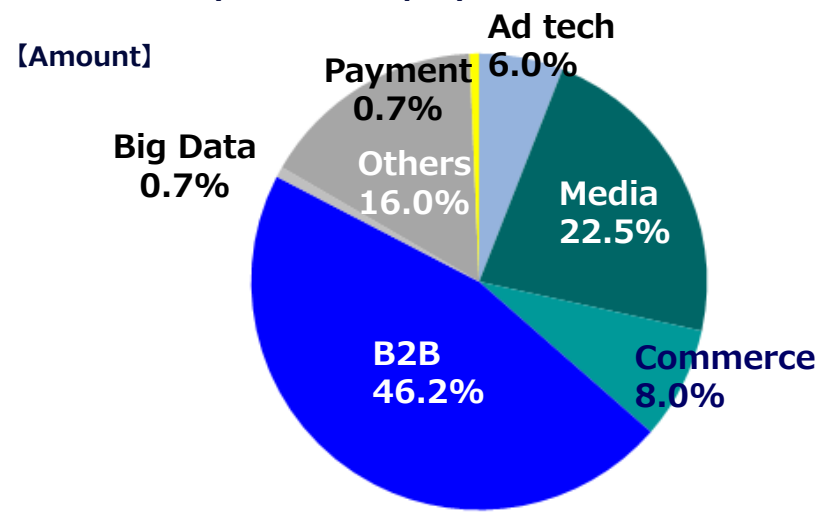
Accelerating global incubation portfolio: investment to a newly-growing business area

Expecting further collaboration with global investing partners to establish a support system to localize in Japan

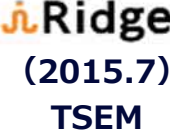
Current Portfolio		
	# of companies	Book Value (M JPY)
Equity (incl.CN)	96	8,820
Domestic	23	2,284
Overseas	73	6,535
Fund	8	790
Total	104	9,610

Note : Mark-to-market as of quarter end for listed stocks


■ Distribution by sector (equity/ incl. CN)




Major Portfolio*

- 


iRidge,Inc. [Domestic / B2B]
An O2O marketing provider including a location-based push notification distribution platform for smartphones

- 


AdStage, Inc. [Overseas / AdTech]
Provides intelligent cross-social-media advertising platform

- 

AnyPerk, Inc. [Overseas / B2B]
Provides employee perk packages to SMB

- 

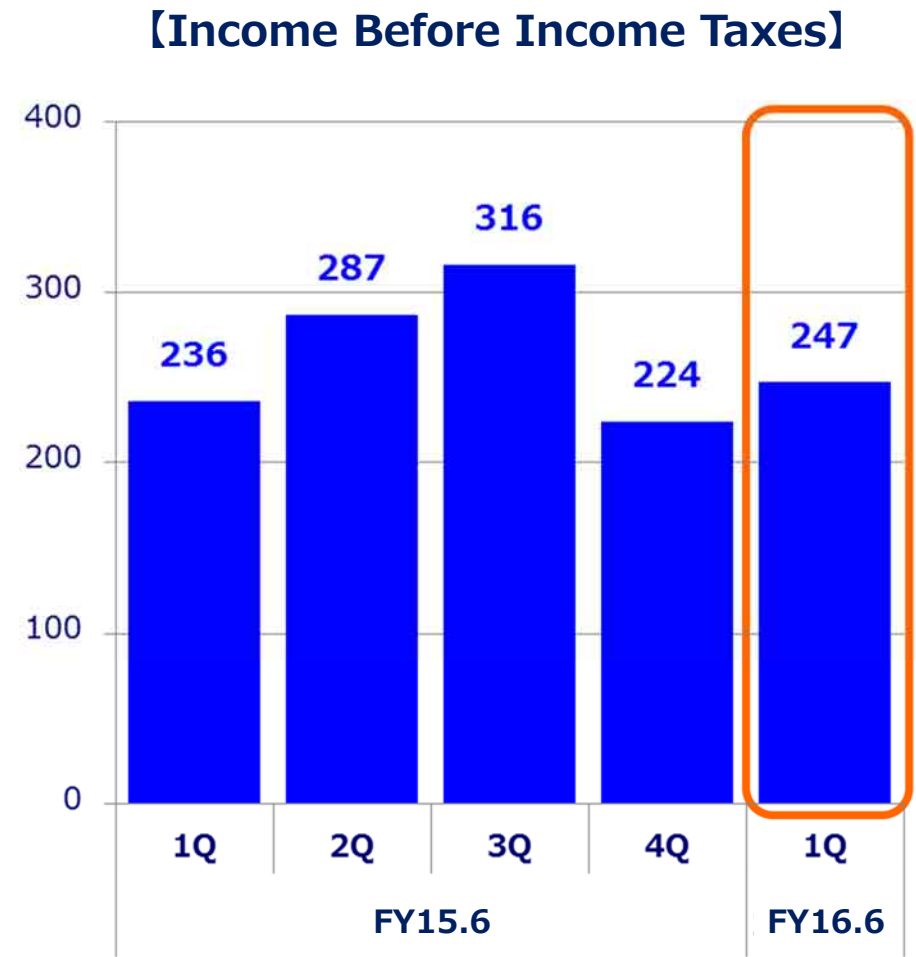
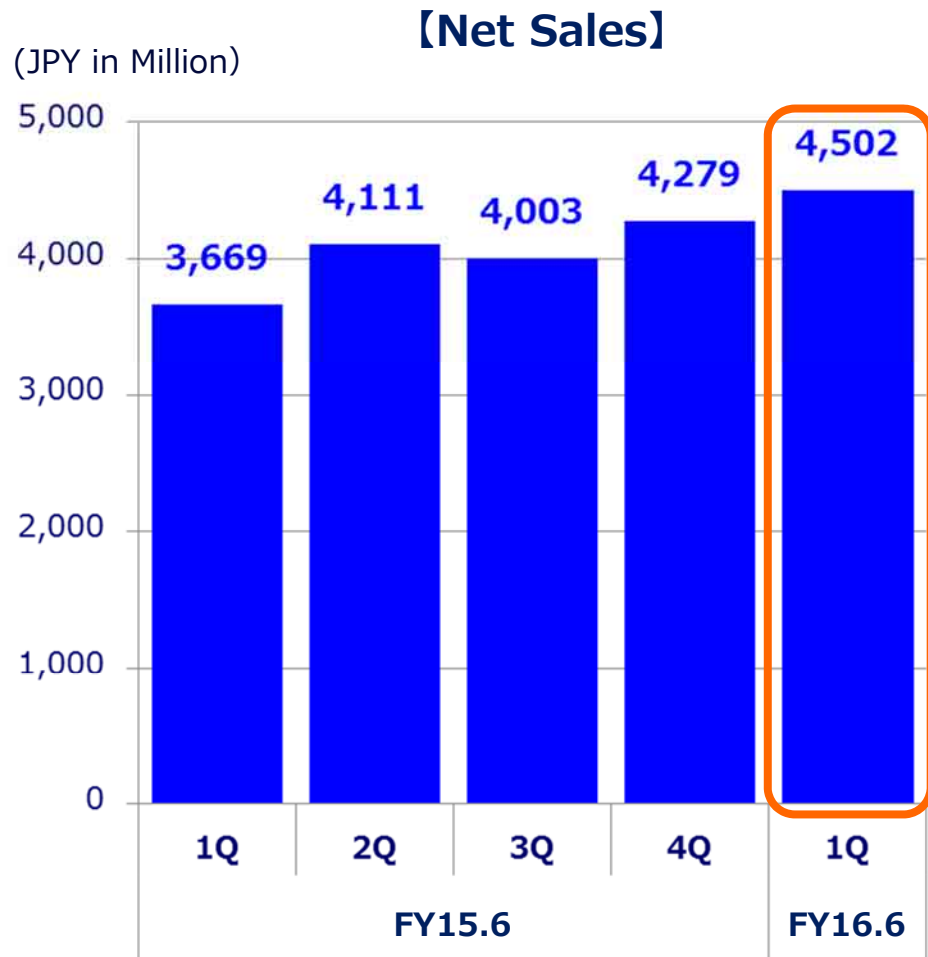
Goodpatch Inc. [Domestic / B2B]
Web development and consulting service firm

- 

Emotion Intelligence [Domestic/B2B]
provides ZenClerk, a consumer behavior and promotion service, using its AI engine that analyzes emotions

* Major portfolio includes privately-held companies that have given DG disclosure permission of which DG's investment exceeds 100 M JPY and owns a minimum 5% share as of Sep 30, 2015. This information is based on the information disclosed from each company, and DG does not guarantee its authenticity, accuracy, rationality, and completeness.

Smartphone ads for apps grew steadily along with performance-based ads
~ Aggressively initiated investment in data related business ~



Growth gaining traction in app domain. Sales in Performance-based ad grew +36% YoY

Diversifying revenue portfolio with strong investment in O2O and DMP

【Growth Drivers】

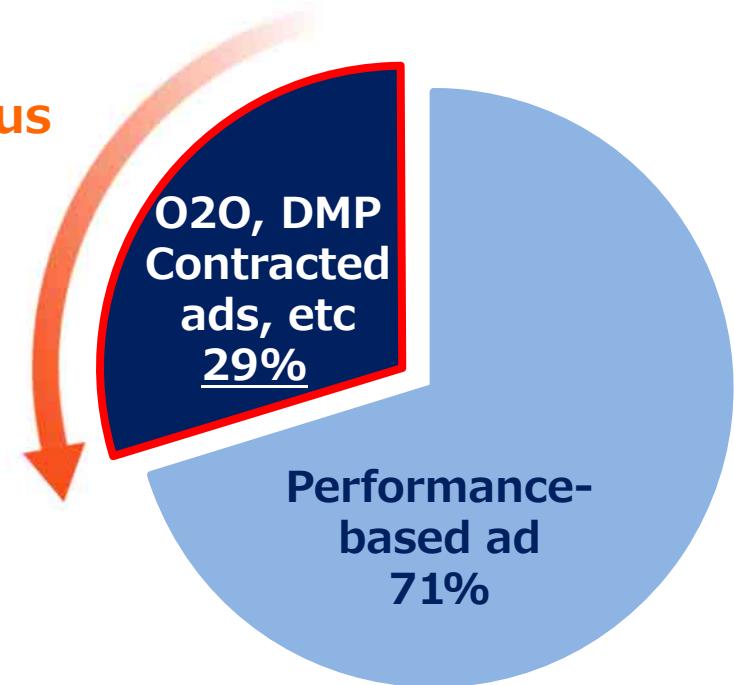
	<u>FY15.6 1Q</u>		<u>FY16.6 1Q</u>	
Segment Sales	3.6	⇒	4.5 (B JPY)	YoY +22.7%
Performance – based ad Sales	2.3	⇒	3.1 (B JPY)	YoY +36.0%
	Of which Apps 0.3	⇒	0.9 (B JPY)	YoY 2.5 x
Market (Performance – based ad)	<u>CY13</u> 412	⇒	<u>CY14</u> 510 (B JPY)	YoY +23.8%

* Dentsu 「Advertisement expense in Japan」

【Initiatives to grow business】

Aggressively initiated investments in growth opportunities such as O2O and DMP

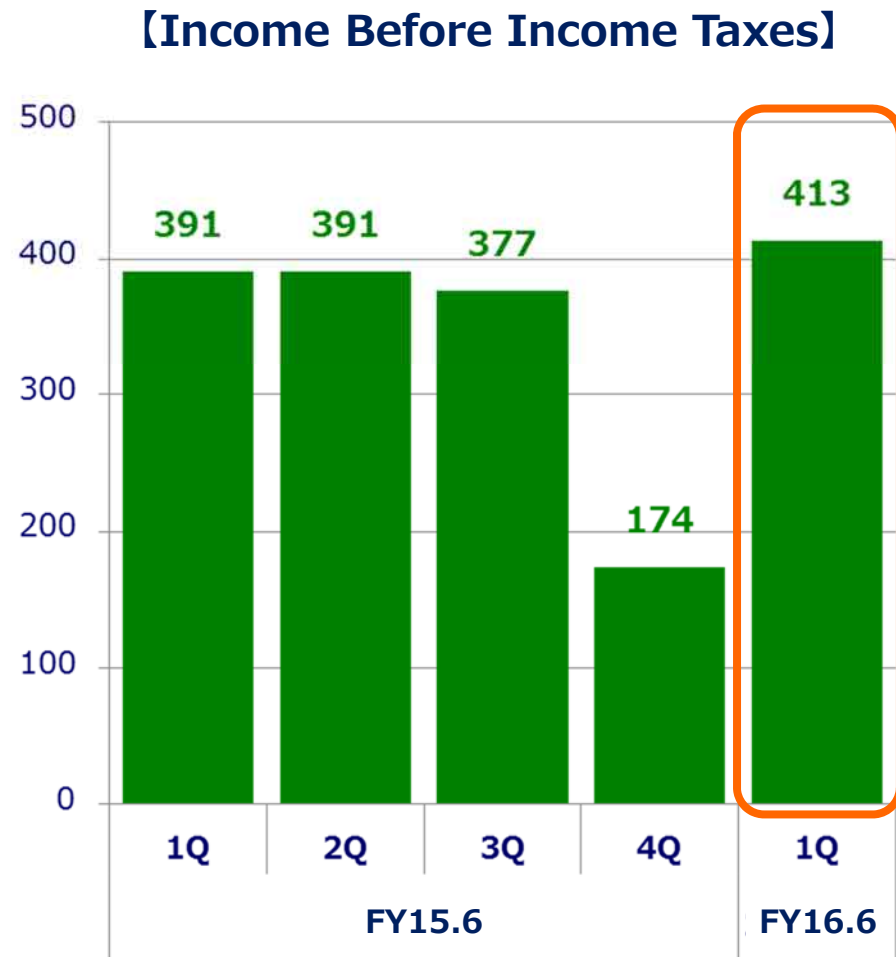
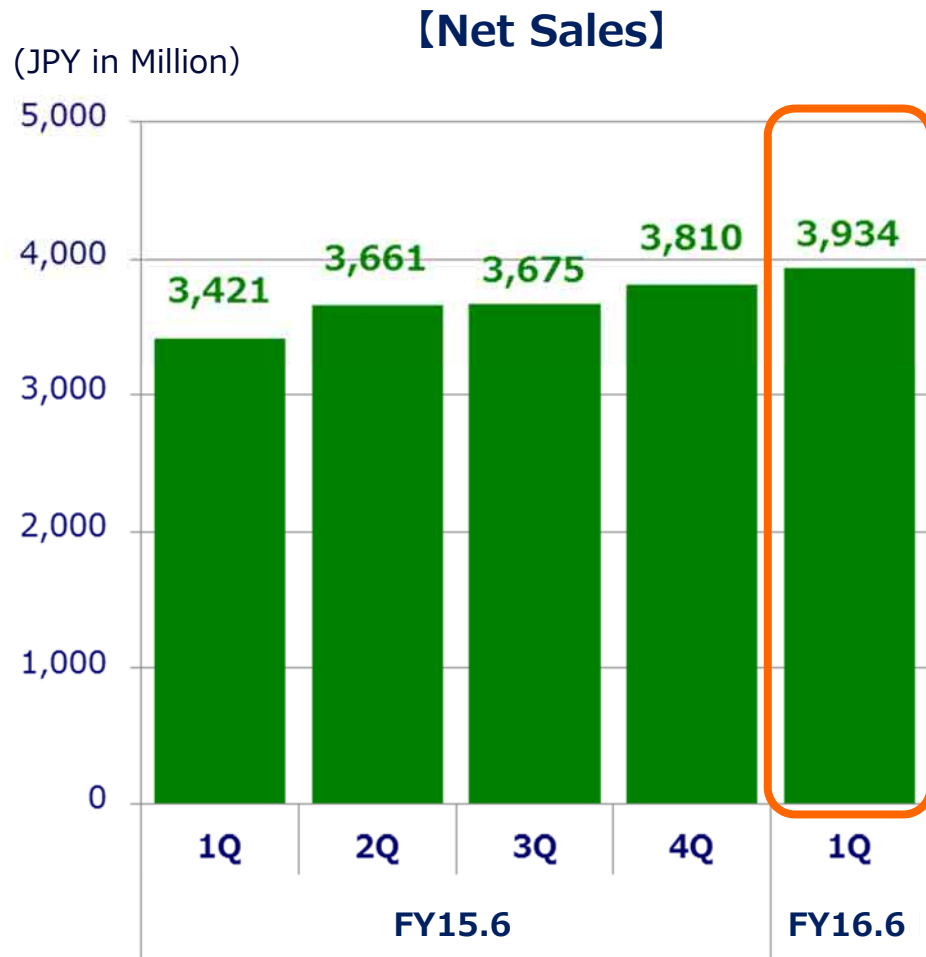
Key Focus



※ Current revenue mix in MT segment

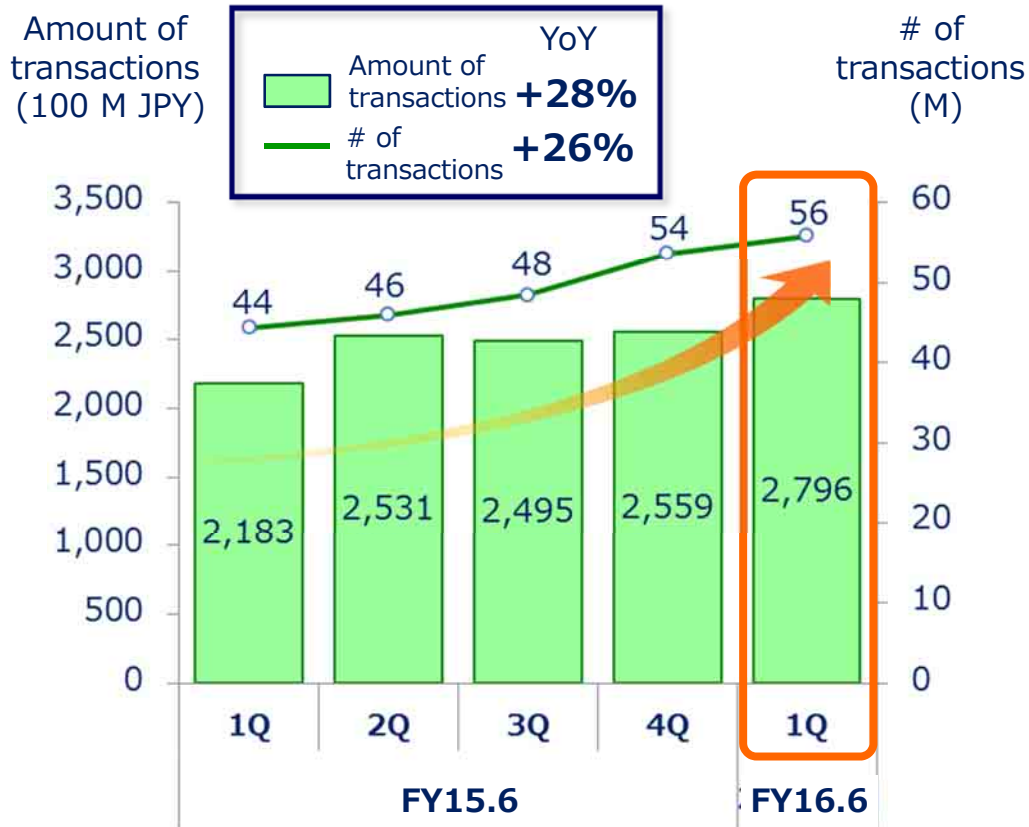
Transaction amount increased significantly with sales up +15 % YoY

~ Driving strategic development in non-EC domain. Enhancing alliance with financial institutions ~



Transaction amount grew significantly +28% YoY to about 280 B JPY
Transaction increased in digital content and services on top of conventional sales of goods

[Amount / # of transactions]



[Key factors of change]

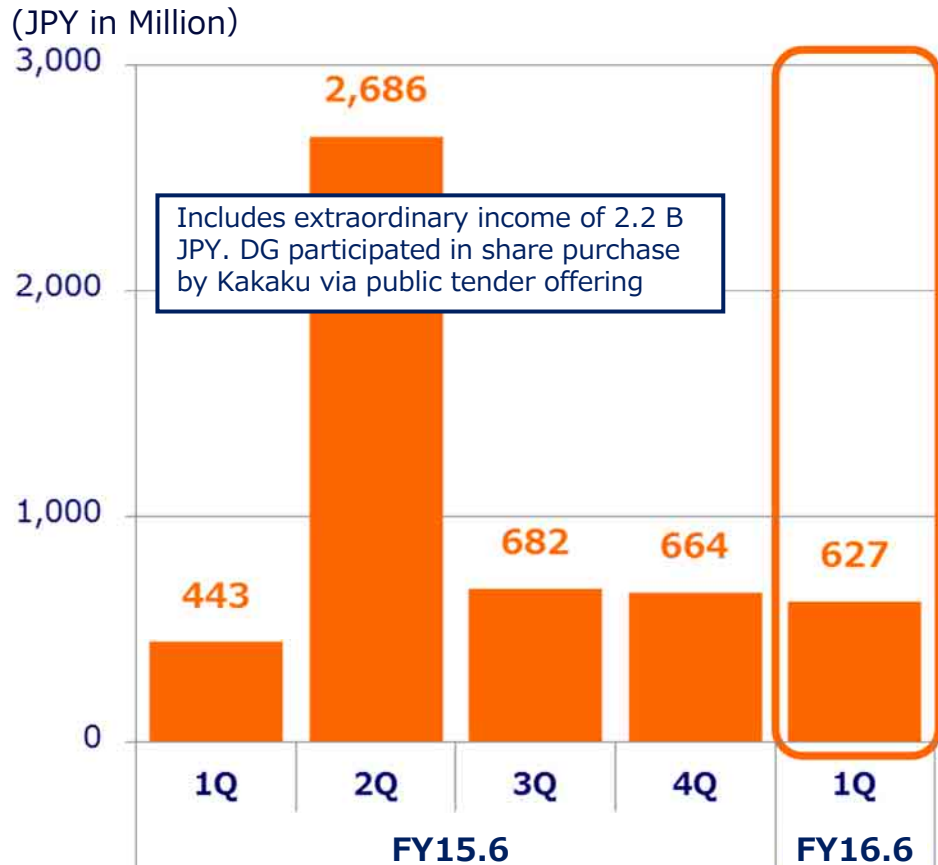
Op income grew +34% YoY excluding foreign exchange gain and extraordinary income recorded in the previous term

(JPY in Million)

	FY15.6 1Q (Act)	FY16.6 1Q (Act)	YoY %
Op Income	316	423	+34.0
Income before income taxes	391	413	+5.7

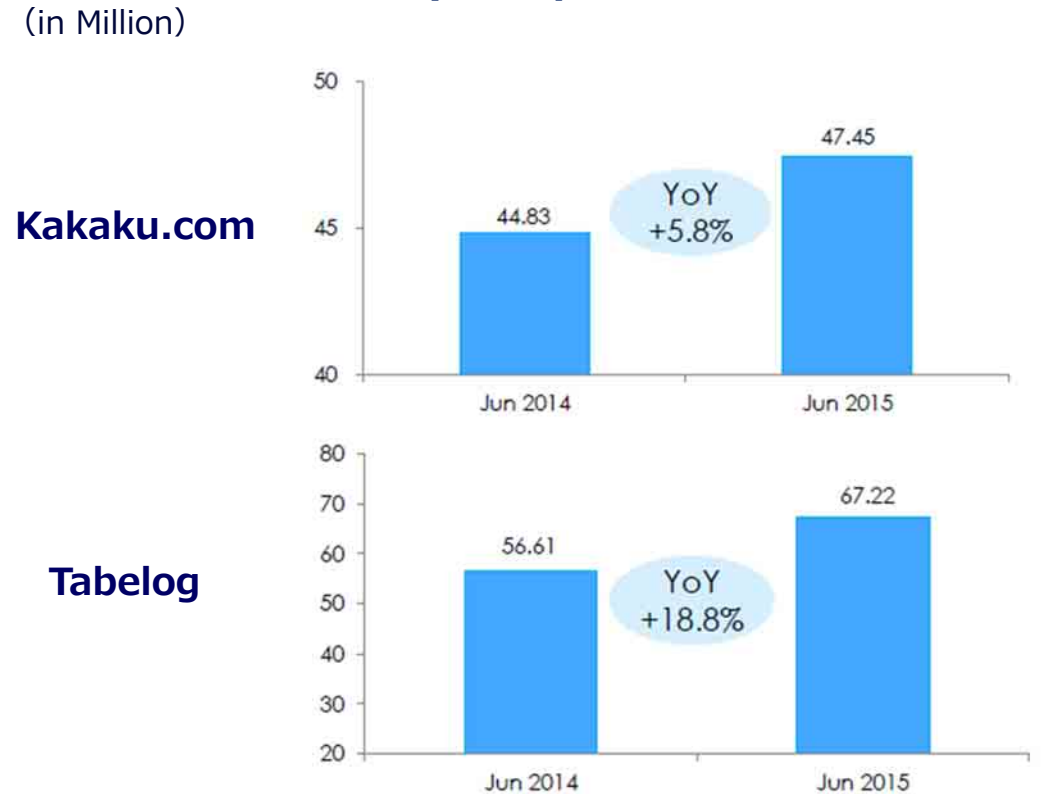
Investment profit on equity method from Kakaku grew steadily
 ~ Launching incubation business with media as a core ~

【Income Before Income Taxes】



Note : The fiscal year for Kakaku.com, Inc ends in March while the one for DG ends in June. DG's 1Q earnings on a consolidated basis incur Kakaku's 1Q earnings (April - June).

【Monthly unique users】



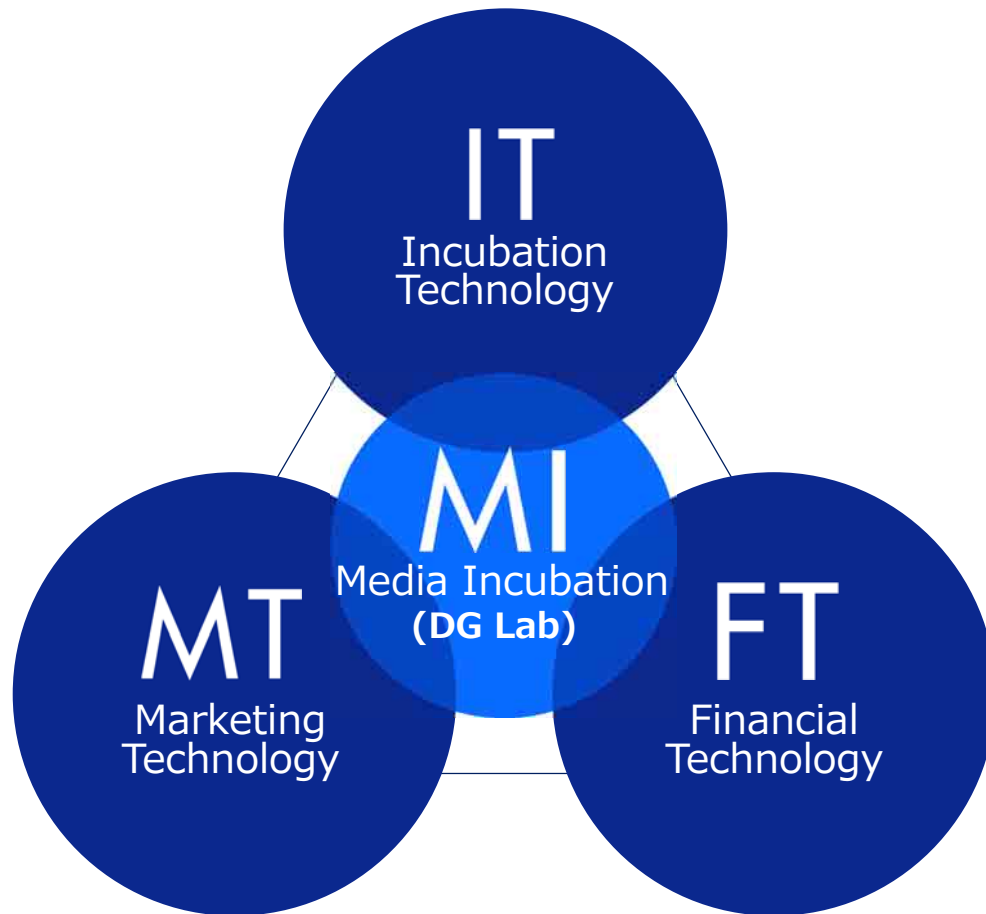
Results Briefing for the First Quarter of the Fiscal Year Ending March 31, 2016, Kakaku.com, Inc.

Appendix



IT/MT/FT × Open Innovation

~ Creating New Contexts for a Better Society ~



I

Organic growth in each IT/MT/FT segment

II

Accelerating incubation through DG's original cross-sectional platforms of each segment

III

Created new segment MI to nurture next generation media in collaboration with each segment and Kakaku

	2015.6	2018.6
Income Before Income Taxes	9.2 B JPY	15 B JPY (CAGR +17%)
Consolidated ROE	17%	> 20%
Consolidated Dividend Payout Ratio	23%	> 20%
	Ordinary 4.6% Commemorative 18.5%	20%

< Background >

- Accelerate global incubation
- Introduce IFRS targeting FY2017.6. Focusing on incubation results, manage performance based on "income before income taxes"
- Set capital efficiency and shareholder return as significant management KPIs

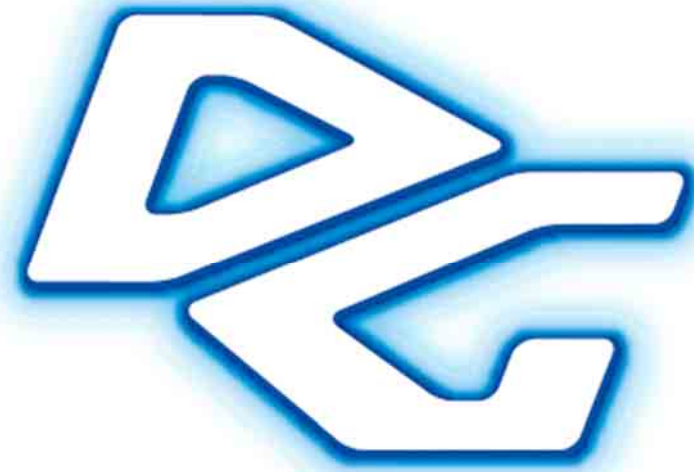
JPY in Million	FY15.6				FY16.6
	1Q	2Q	3Q	4Q	1Q
Net Sales	8,126	9,760	8,377	11,822	10,336
Operating income	390	1,347	461	2,610	1,425
Ordinary income	1,165	2,297	928	3,218	1,863
Income before income taxes	1,204	4,488	972	2,582	1,941
Net income attributable to owners of parent	772	2,733	571	1,004	1,196

JPY in Million	FY15.6				FY16.6
	1Q	2Q	3Q	4Q	1Q
Net sales	8,126	9,760	8,377	11,822	10,336
IT Incubation Technology	1,035	1,987	697	3,733	1,899
MT Marketing Technology	3,669	4,111	4,003	4,279	4,502
FT Financial Technology	3,421	3,661	3,675	3,810	3,934
MI Media Incubation	-	-	-	-	-
Income before income taxes	1,204	4,488	972	2,582	1,941
IT Incubation Technology	93	1,026	△ 8	1,692	1,064
MT Marketing Technology	236	287	316	224	247
FT Financial Technology	391	391	377	174	413
MI Media Incubation	443	2,686	682	664	627

Note: Income before income taxes per segment is based on figures prior to elimination or group deduction, etc



Date		Title
2015.11.5	 Digital Garage	Digital Garage's Open Network Lab to Deploy Full Scale Global Expansion between North America, Europe and Asia to Support Entrepreneurs Seeking to Expand Globally
2015.11.2	 Digital Garage	Digital Garage Invests in Monstar Lab, Inc, a Global Sourcing Business for IT Service Development
2015.10.23	 Digital Garage	Digital Garage hosts "THE NEW CONTEXT CONFERENCE 2015 San Francisco"
2015.10.2	 Open Network Lab	Open Network Lab Begins Accepting Applications for the 12th Batch of its Seed Accelerator Program
2015.9.15	 Digital Garage	In collaboration with Business France of the French Embassy Japan, Digital Garage will host "the 1st French Tech Tokyo" pitch session
2015.9.15	 Digital Garage	Digital Garage enters into exclusive business collaboration with Taiwan's HAPPY GO--the biggest point rewards card in Taiwan--to develop its business in Japan
2015.8.7	 Digital Garage	Kodansha and Digital Garage to Begin Full-Scale Expansion of Content Business in the U.S. Via Joint-Venture Kodansha Advanced Media Through Promoting Titles Including "Attack on Titan"



Digital Garage

Please note that the business forecasts and strategies covered in today's presentation are based on our current evaluation and future results may vary significantly depending on unforeseeable events or circumstances. This announcement is solely for the purpose of the investors relationship and is not for making any solicitation for investment in any securities. This announcement does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Any securities of our consolidated subsidiaries have not been registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the U.S. Securities Act. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the company making the offer and its management and financial statements.