



IT/MT/FT × OPEN INNOVATION

Digital Garage, Inc.

1Q of FYE March 31, 2017 Financial Report

2016.11.10

 **Digital Garage**

Income before income taxes 3.1 B JPY +62% YoY for 1Q FY17.3

~ Annual progress rate 44% despite 9 months irregular settlement due to fiscal term change ~

I

IT: Large profit growth brought by a big exit, driving global incubation ecosystem

- Income before income taxes led by sales of stocks due to the acquisition of the investee(Citrus, a leading payment provider in India) became **+26% YoY 1.3 B JPY**
- Launched **"DG Lab Fund"** to strengthen group's incubation business
- Established **"DG Technologies"** to drive technical development in coordination with DG Lab

II

MT : Smartphone Ads continue a good state, accelerating strategic data science business

- Significant increase : YoY Sales **+46% 6.5 B JPY**, Income before taxes **+49% 0.3 B JPY**
- Smartphone business showing good growth
- Propelling **data science business** coordinating with "DG Lab"

III

FT : Expansion of profit-making foundation for Payment services, driving next-gen FinTech

- Quarterly transaction surpassed record-high 0.3 T JPY, YoY **revenue +15%**, **Income before taxes +13%**
- Started to support **Apple Pay**. Along with **Alipay** and **Line Pay**, cooperating with big platformers at full swing.
- Established a JV **"ANA Digital Gate"** with **ANA Group** to work on **Blockchain** related projects

※ DG takes a management approach to drive performance based on income before income taxes for total and by segment



FY17.3 1Q Consolidated P/L Summary



YoY Sales grew +12%, Income before income taxes grew + 62% to 3.1 B JPY

~ Incurred extraordinary income due to sales of stocks of a portfolio company, 44% progress rate on income before income taxes basis ~

JPY in Millions	FY16.6	FY17.3	YoY		FY17.3	
	1Q (Act)	1Q (Act)	%	Amount	9 month (Forecast)	1Q Progress
Net sales	10,336	11,558	+11.8	+1,222	37,500	31%
Operating income	1,425	412	-71.1	-1,012		
Non-operating income	669	1,566	2.3 x	+896		
Investment profit on equity method	520	1,273	2.4 x	+752		
Non-operating expenses	231	197	-14.9	-34		
Foreign exchange loss	131	67	-48.7	-64		
Ordinary income	1,863	1,781	-4.4	-81		
Extraordinary income	78	1,380	17.6 x	+1,302		
Gain on change in equity	78	12	-83.9	-65		
Gain on sales of investments in securities	-	1,368	-	+1,368		
Income before income taxes	1,941	3,148	+62.2	+1,207	7,100	44%
Income taxes	744	456	-38.7	-288		
Net income attributable to owners of parent	1,196	2,689	2.2 x	+1,492	5,300	51%

Note: Compared FY17.3 1Q with FY16.6 1Q as follows due to change of fiscal term

Companies whose fiscal term was March ending prior to the change : FY16.6 1Q (April - June) vs FY17.3 1Q (April - Sep.)

Companies which changed fiscal term to March ending : FY16.6 1Q (July - Sep.) vs FY17.3 1Q (July - Sep.)

Significant profit increase in all segments; MT sales/profit both over +45% YoY growth

~ MI being mainly influenced by the irregular settlement, investment profit on equity method from Kakaku.com growing steadily on real term basis ~

JPY in Millions	FY16.6	FY17.3	YoY		FY17.3	
	1Q (Act)	1Q (Act)	%	Amount	9 month (Forecast)	1Q Progress
Net sales	10,336	11,558	+11.8	+1,222	37,500	31%
IT Incubation Technology	1,899	496	-73.8	-1,403	6,500	8%
MT Marketing Technology	4,502	6,550	+45.5	+2,048	17,500	37%
FT Financial Technology	3,934	4,511	+14.7	+576	13,500	33%
MI Media Incubation	-	-	-	-	-	-
Income before income taxes	1,941	3,148	+62.2	+1,207	7,100	44%
IT Incubation Technology	1,064	1,340	+26.0	+276	2,500	54%
MT Marketing Technology	247	368	+49.2	+121	1,100	34%
FT Financial Technology	413	468	+13.3	+54	1,500	31%
MI Media Incubation	627	1,292	2.1 x	+664	2,900	45%

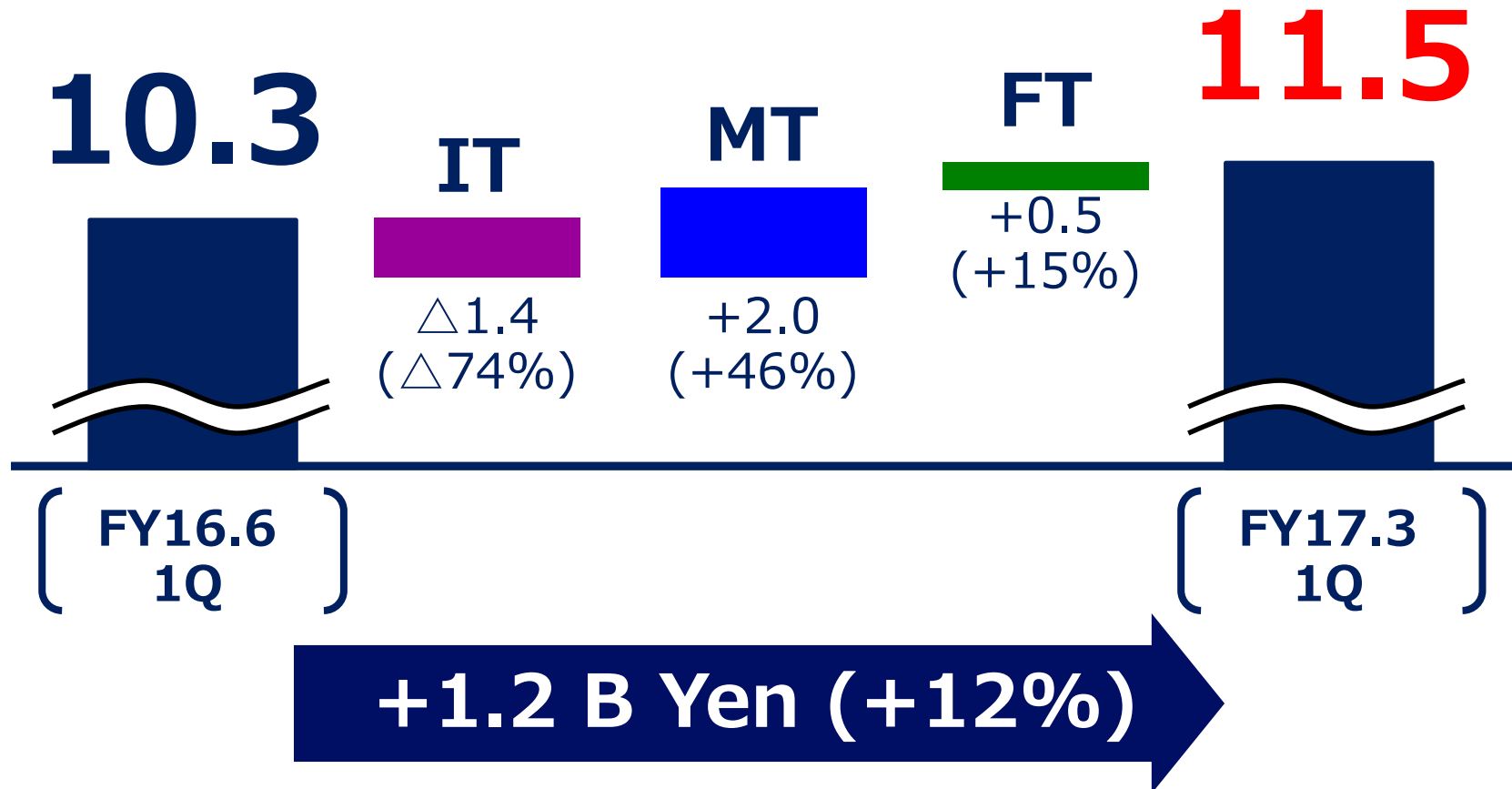
Note: Income before income taxes per segment is based on figures prior to elimination or group deduction, etc

FY17.3 1Q Consolidated B/S Summary

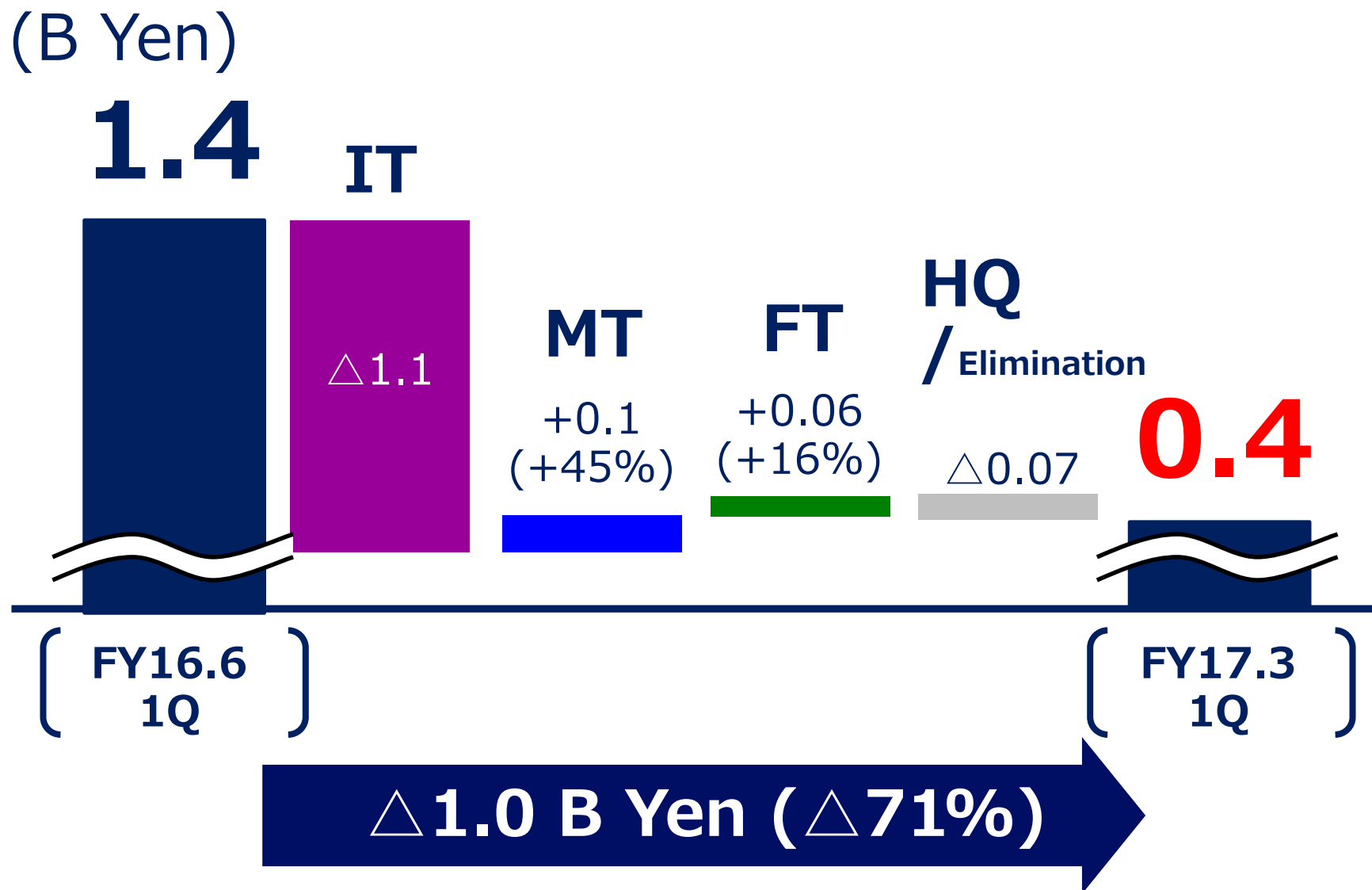
JPY in Million	FY16.6	FY17.3 1Q	Difference	Reason for change / Remarks
Current assets	48,324	53,818	+5,493	
Cash and deposits	15,703	18,137	+2,434	New borrowings, payout of corporate tax and dividends
Receivables	13,946	15,001	+1,054	Payment segment related items, stock-selling
Money held in trust	2,592	4,544	+1,951	Payment segment related items
Operational investment securities	11,164	11,327	+162	New investment
Fixed assets	29,011	28,665	-346	
Investment securities	14,844	15,248	+403	Increased investment profit on equity method, stock-selling, mark-to-market for listed stocks, etc.
Goodwill	5,765	5,647	-117	
Total assets	77,335	82,483	+5,147	
Current liabilities	30,187	36,402	+6,215	
Deposits	21,876	23,882	+2,005	Payment segment related items
Short-term borrowing	3,200	7,126	+3,925	Transfer from Long-term borrowing, demand for working capital
Fixed liabilities	16,484	14,633	-1,850	
Long-term borrowing	15,370	13,671	-1,698	Transfer of Long-term borrowing due within one year to Current liabilities
Total liabilities	46,671	51,036	+4,365	
Net assets	30,664	31,446	+782	
Shareholders' equity	28,610	29,895	+1,284	
Common stock	7,435	7,437	+1	
Capital surplus	2,825	2,828	+2	
Retained earnings	18,419	19,699	+1,280	
Accumulated other comprehensive income	1,502	986	-515	
Unrealized gains on securities	138	▲ 56	-194	
Liabilities / Net assets	77,335	82,483	+5,147	

Driving finance strategy with focus on asset and capital efficiency

(B Yen)

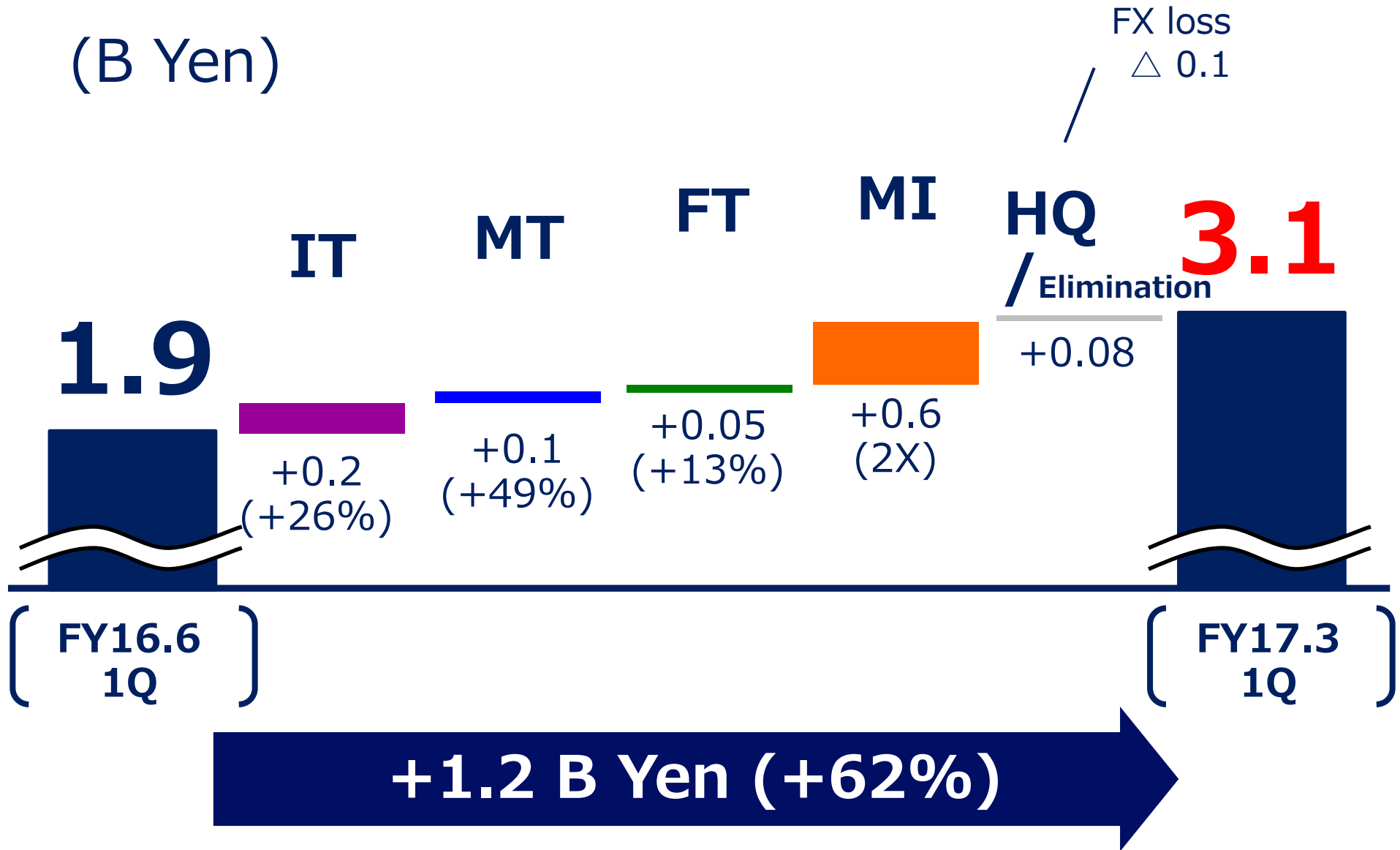


❖ Contribution to Operating income



❖ Contribution to Income before income taxes

(B Yen)

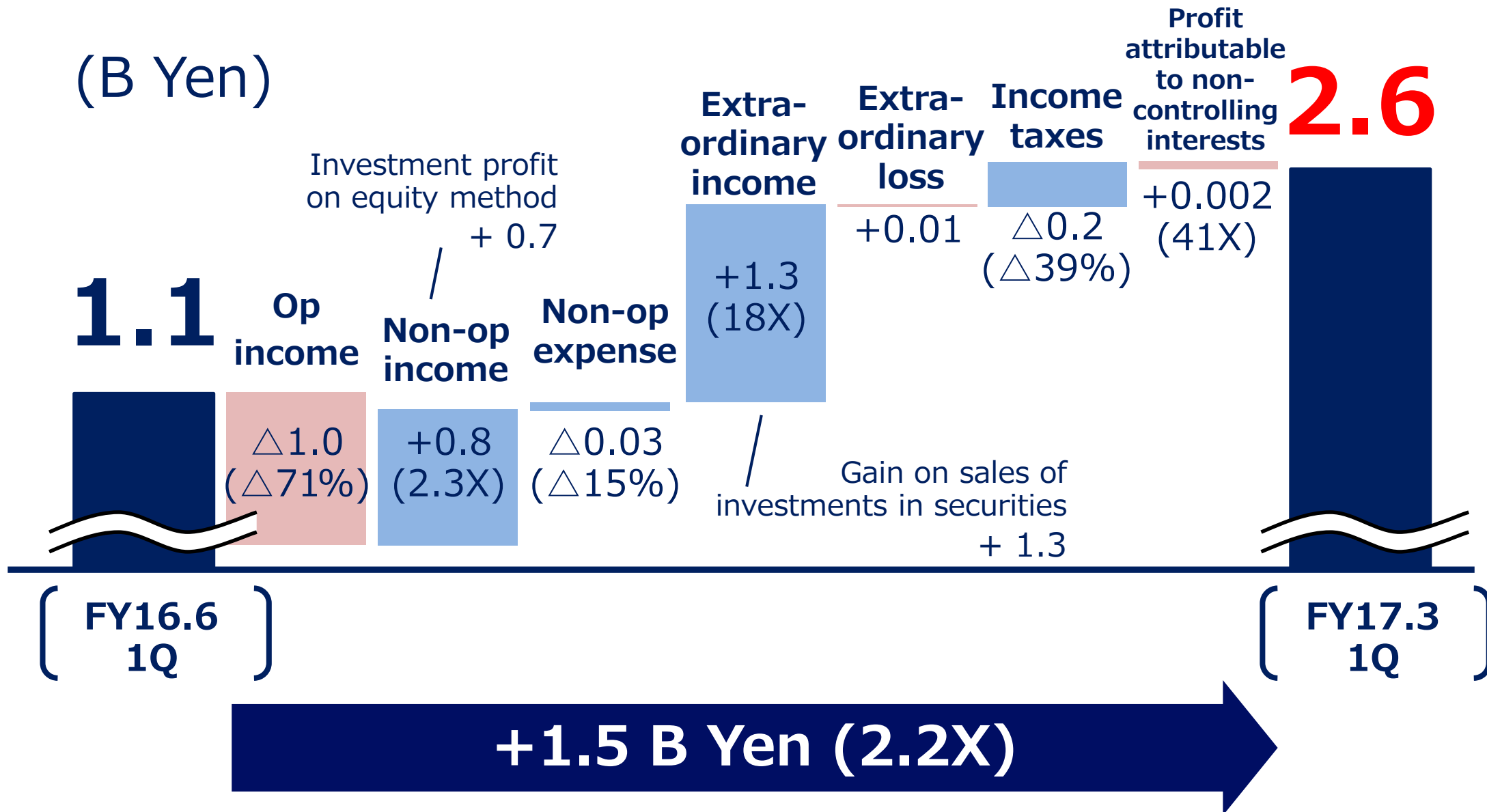




Contribution to Net income attributable to owners of parent



(B Yen)



Segment Performance Review



Segment
Income before
income taxes

1.3 B Yen
YoY **+26 %**

Current Portfolio

	# of companies	Book Value (B Yen)
Equity	118	10.4
Domestic	36	1.8
Overseas	82	8.6
Fund	6	0.7
Total	124	11.2

Note) DG Incubation's investment balance
Mark-to-market as of quarter end for
listed stocks. Equity includes convertible note

Major Portfolio

Blockstream [U.S. /Canada]



Develops sidechain technologies, parallel blockchains that are interoperable

Increments [Japan]



Provide technical knowledge platform called Qiita for engineers

Droom [India]



A leading online marketplace for new and second-hand automobiles in India

Welby [Japan]



Builds apps for patients with chronic malady, diabetes, cancers

Wevr

Wevr [U.S.]

Virtual reality community and VR media player for aspiring and professional creatives

Goodpatch [Japan]



Web development and consulting service firm



estimate

Estimate [U.S.]

Provides small, wireless sensors and location technology to retailers

Monstar Lab [Japan]



Operates Sekai Lab, a global outsourcing platform that provides a network of over 10 k engineers in over 15 countries

Segment sales –

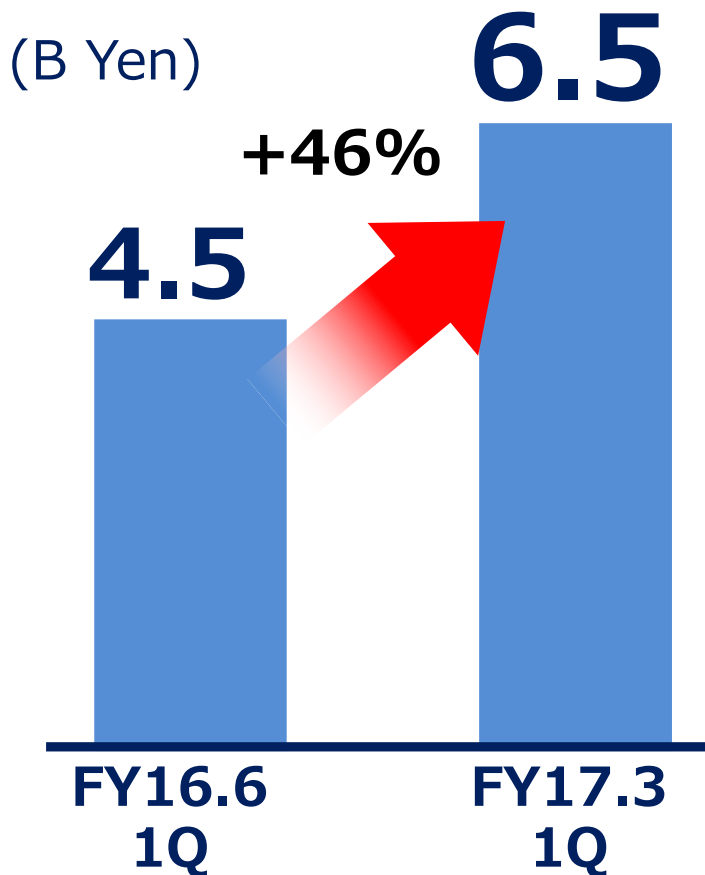
6.5 B Yen
YoY **+46 %**

Segment
Income before
income taxes –

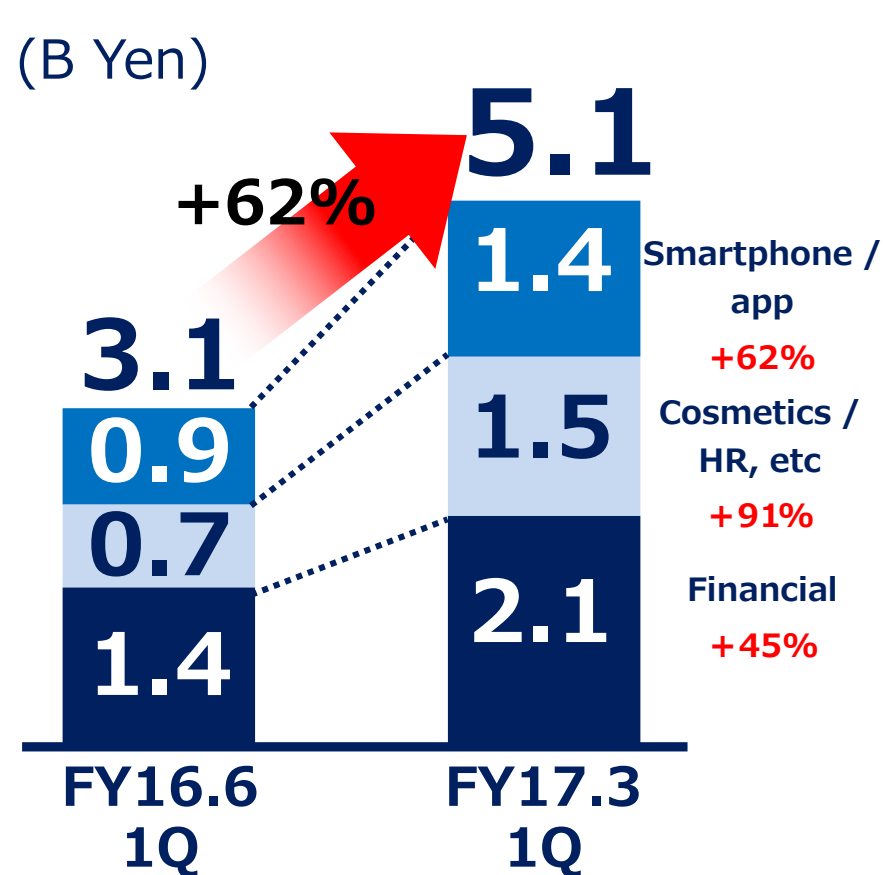
3.6 B Yen
YoY **+49 %**

Achieved + over 45% YoY growth both in sales and profit. Growth continuing to gain traction in performance based ads sales

[Segment sales]



[Sales from Performance-based ads]



FT Segment Highlights

Amount of transactions

0.3 T Yen

YoY +11 %

of transactions

58 M

YoY +5 %

Market growth rate *

7.6 %

* METI "Domestic BtoC E-Commerce 2015"

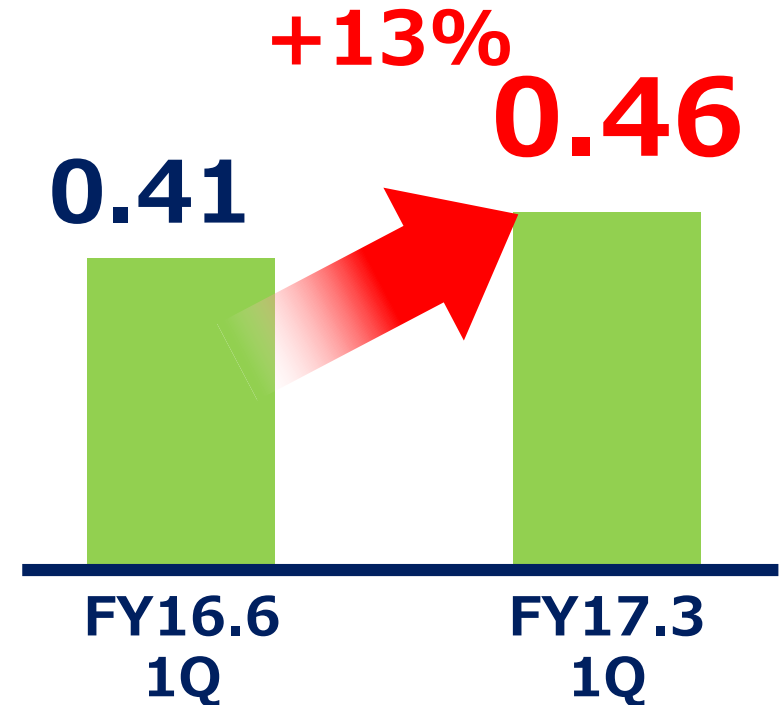
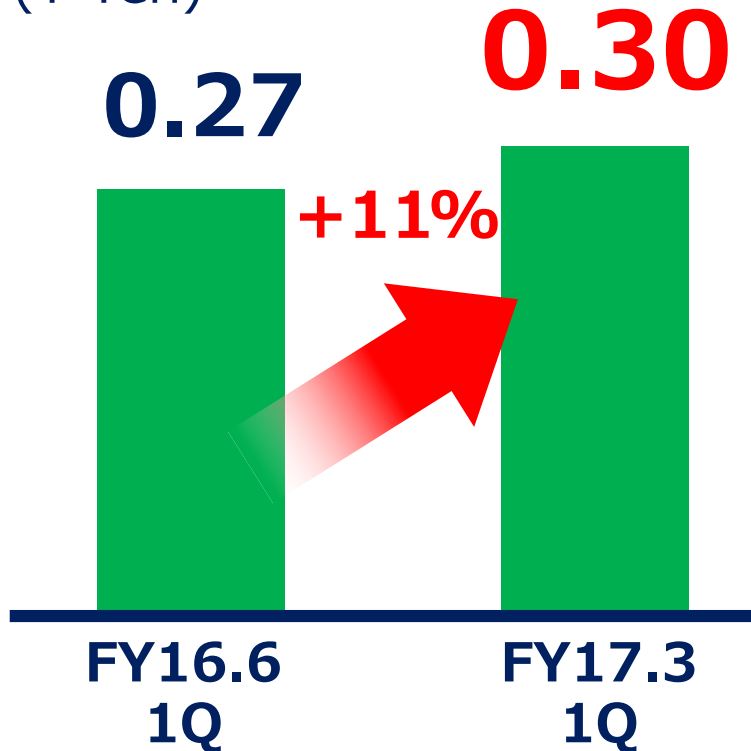
Exceeded 0.3 trillion yen for the first time in quarterly transaction volume.
Income before income taxes grew +13% YoY

[Amount of Transactions]

[Income before income taxes]

(T Yen)

(B Yen)



Income before
income taxes —

1.2 B Yen
YoY **2.1 x**

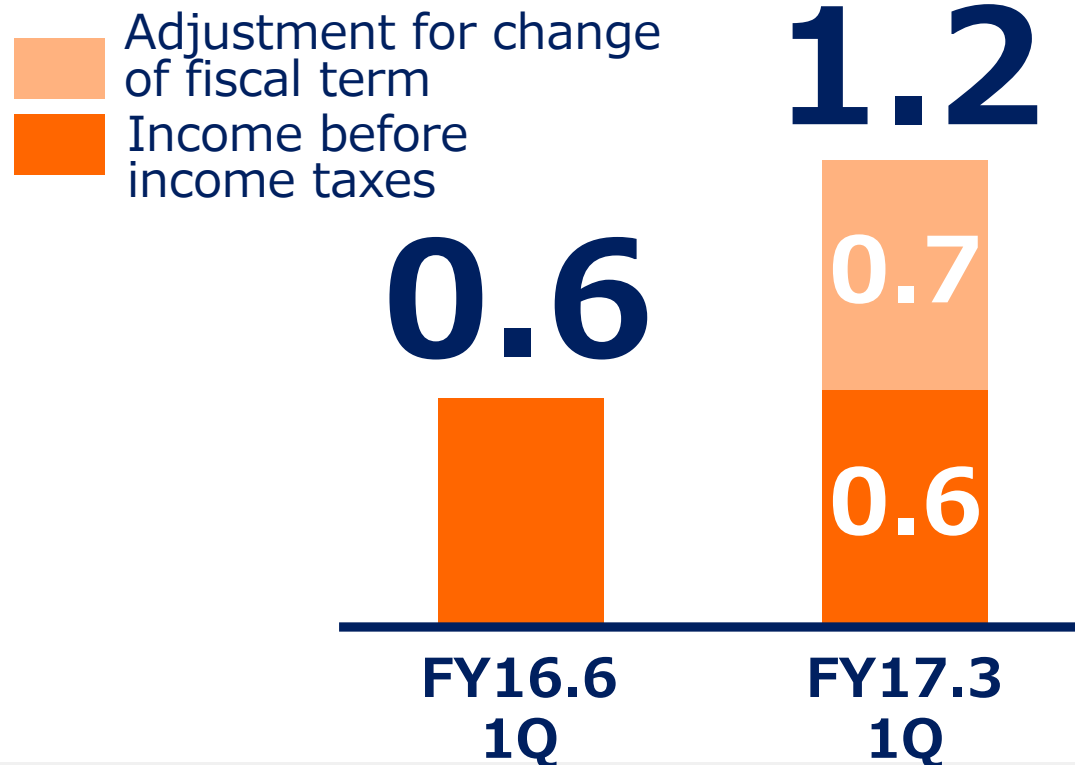
YoY compared FY17.3 1Q with
FY16.6 1Q as follows due to
change of fiscal term

FY17.3 1Q includes invest profit
on equity method from Kakaku
for six months (April through
Sep.)

Investment profit on equity method from Kakaku grew steadily

【Income before income taxes】

(B Yen)



Appendix



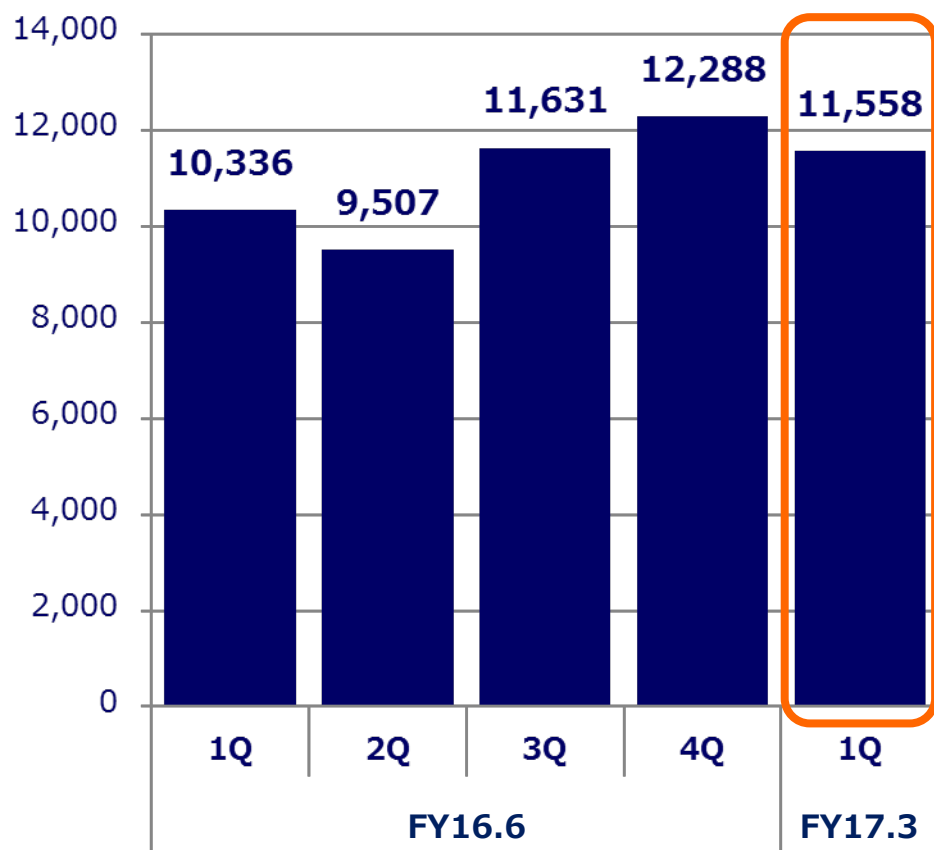


YoY Sales grew +12%, Income before income taxes grew + 62% to 3.1 B JPY

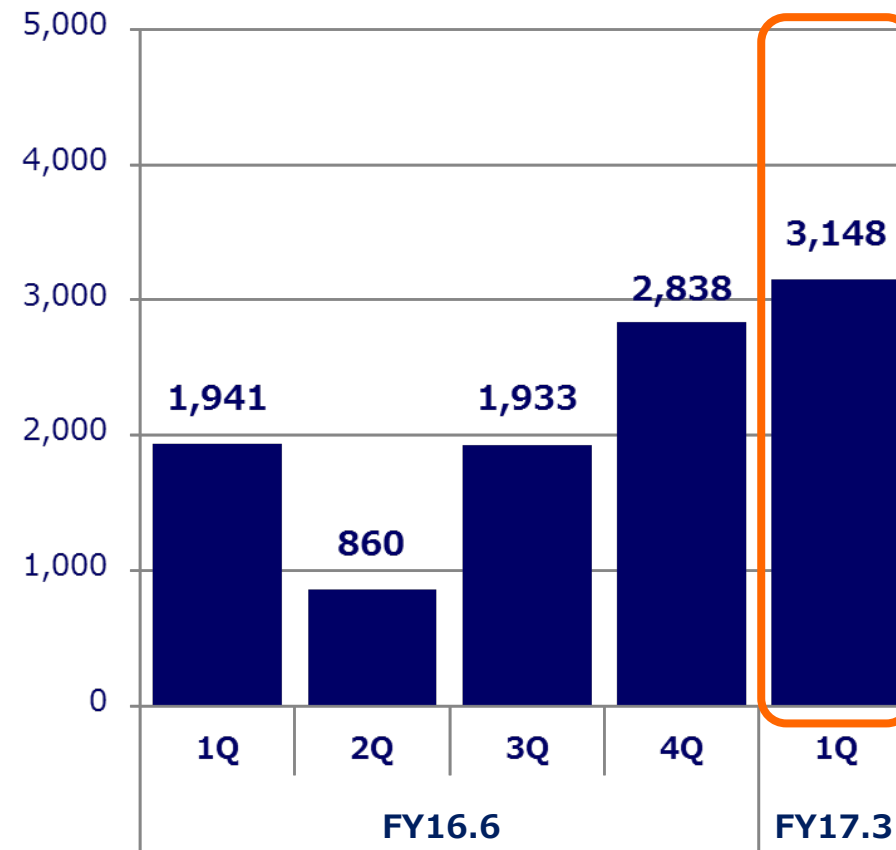
~ IT achieved big exit, MT and FT grew ~

【Net Sales】

(JPY in Million)

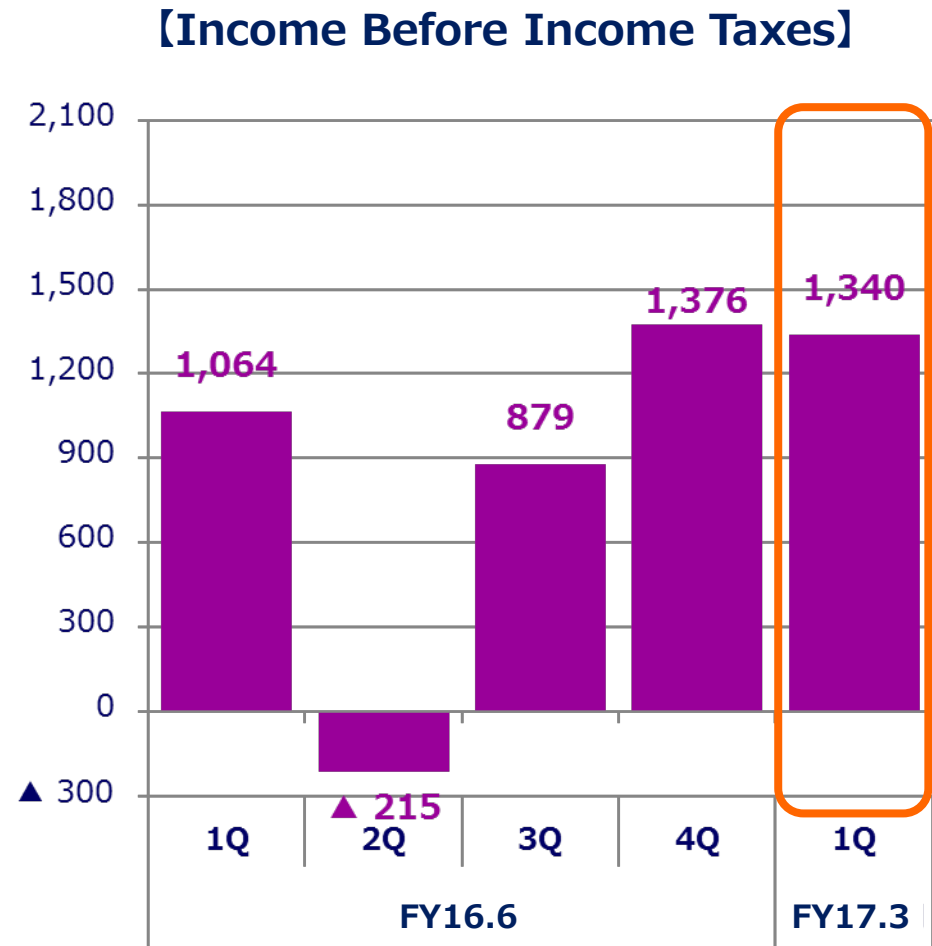
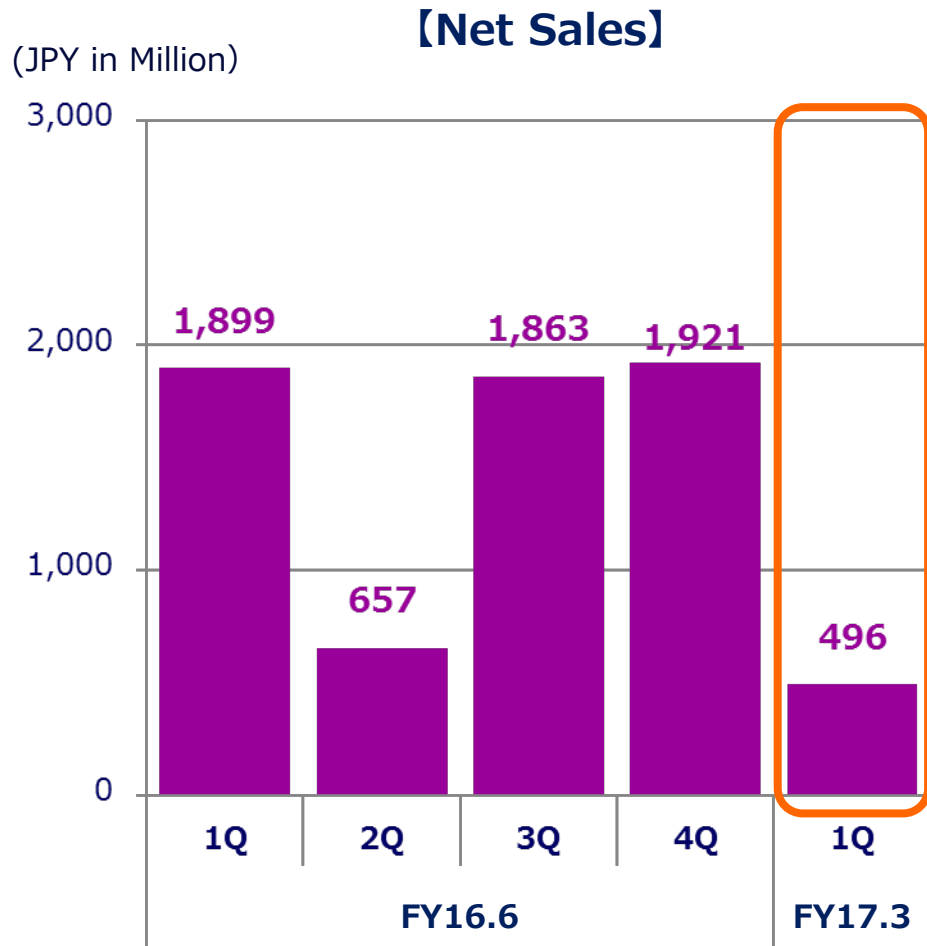


【Income Before Income Taxes】



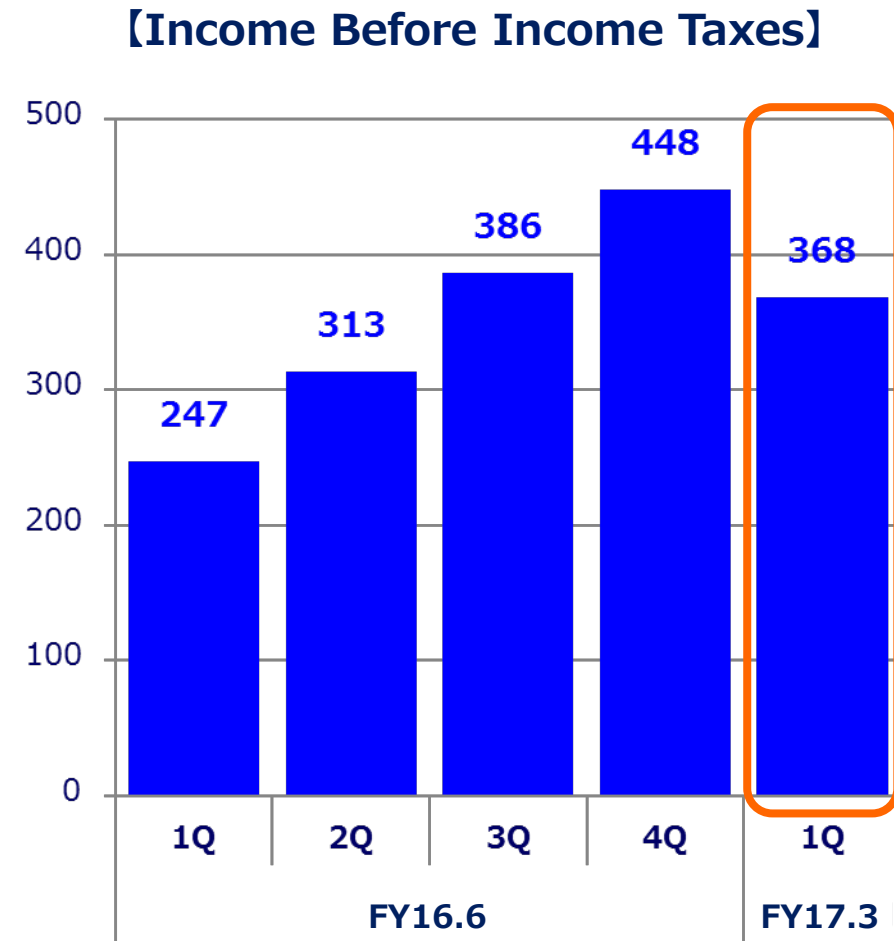
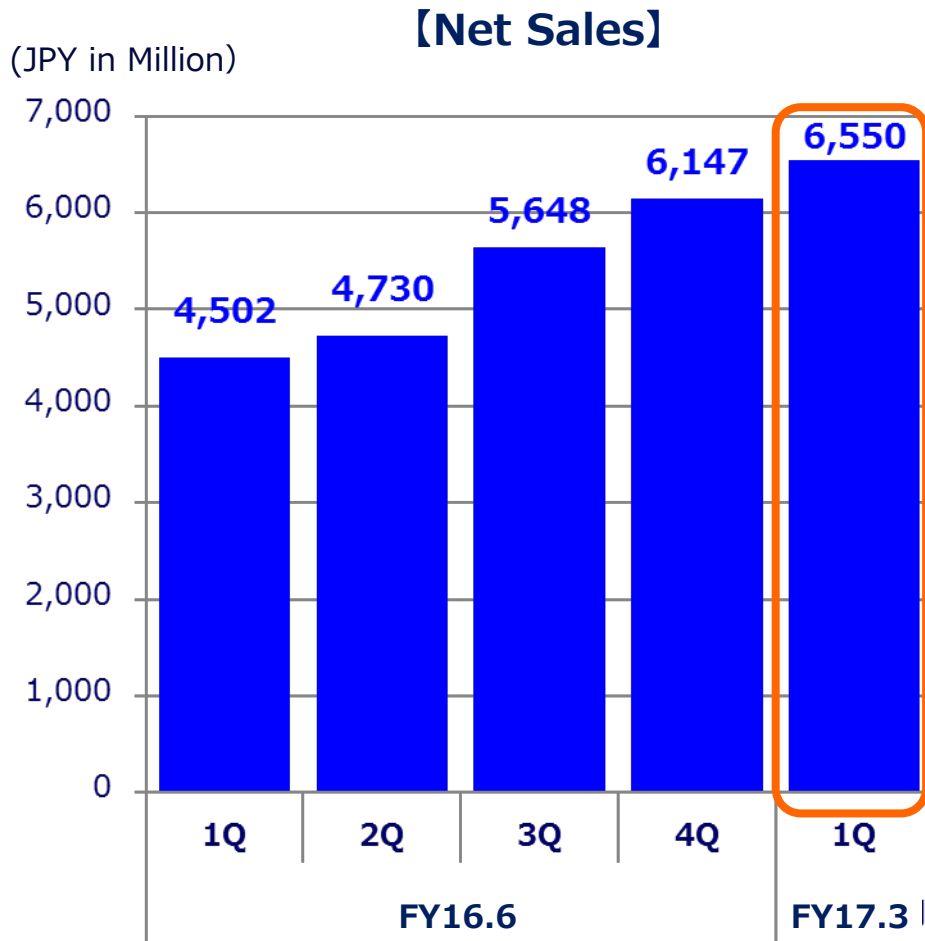
Achieved significant growth in profit by selling stocks of a portfolio company acquired

~ Enhanced domestic and global portfolio. Investment balance reached about 11 B Yen ~



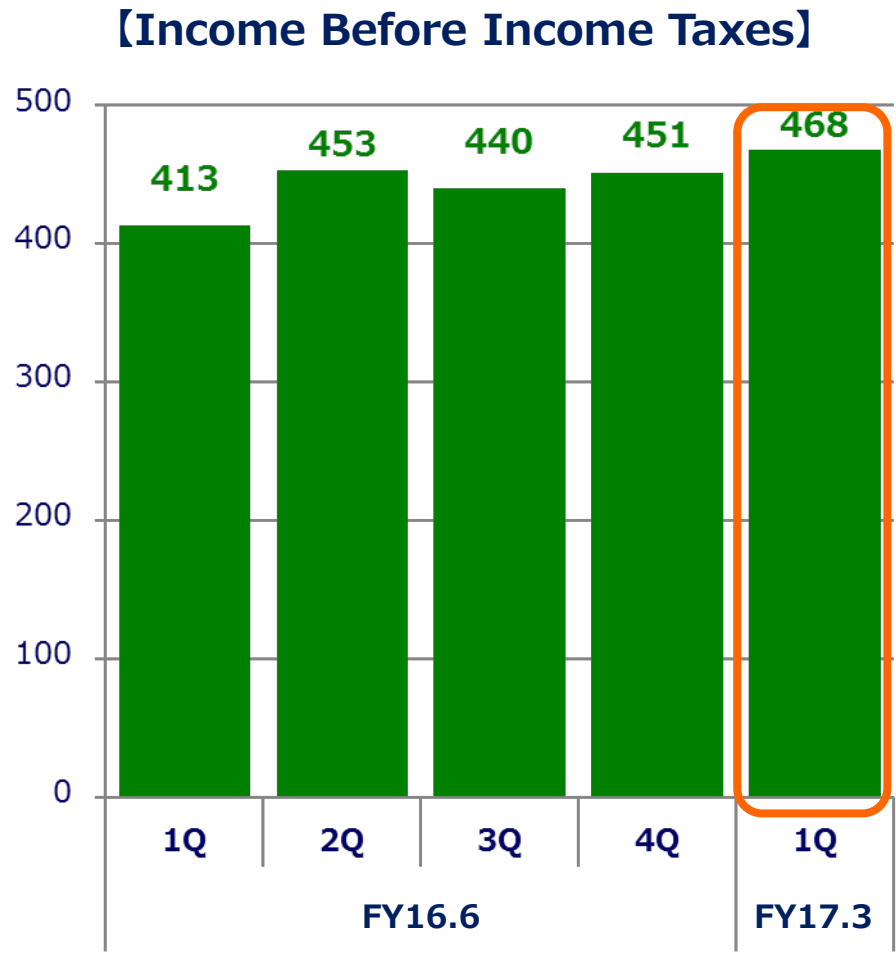
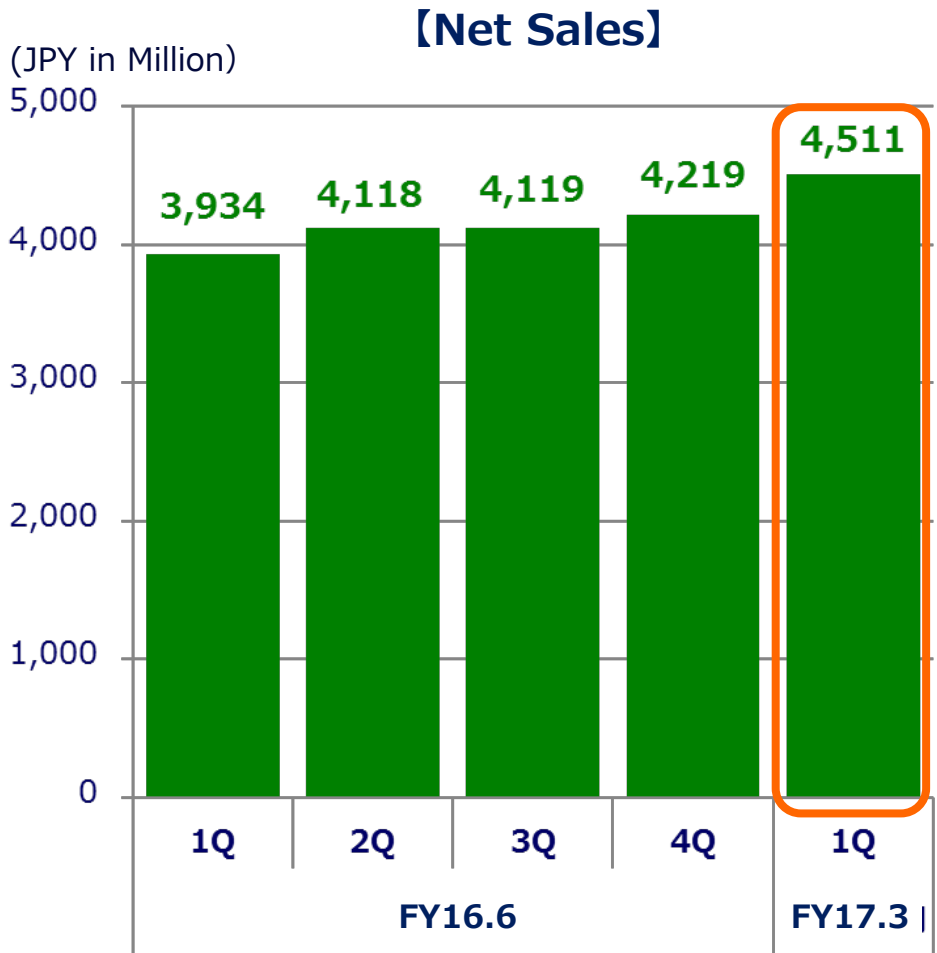
Achieved + over 45% YoY strong growth both in sales and profit

~ Growth gaining traction in performance-based ads. Data science business grew steadily ~



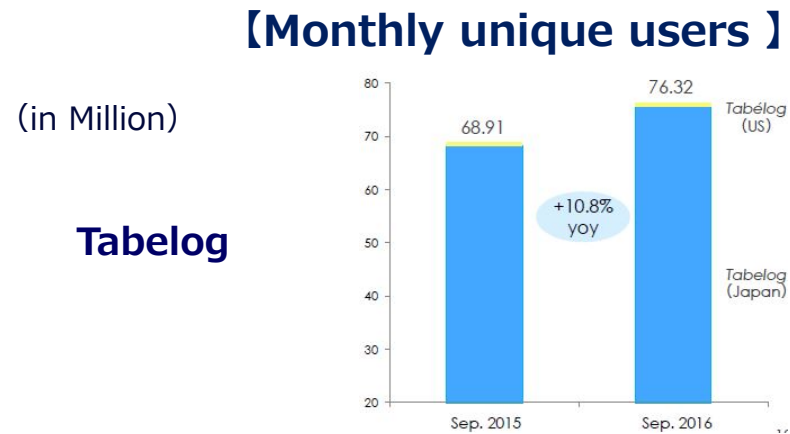
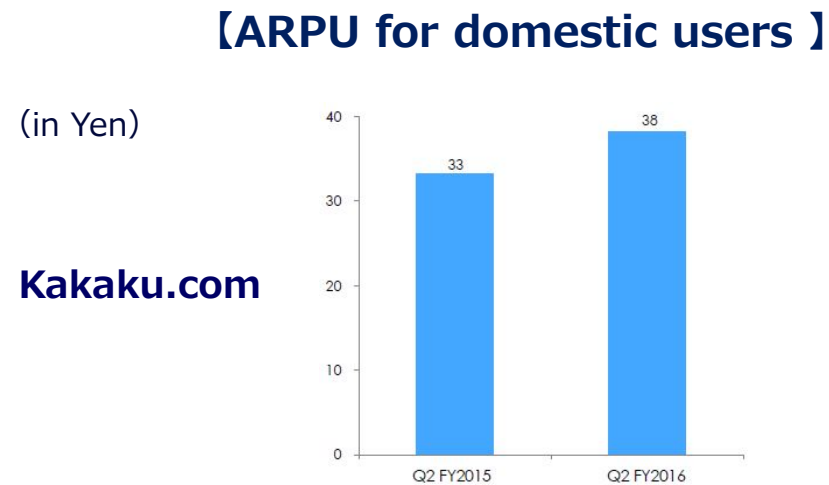
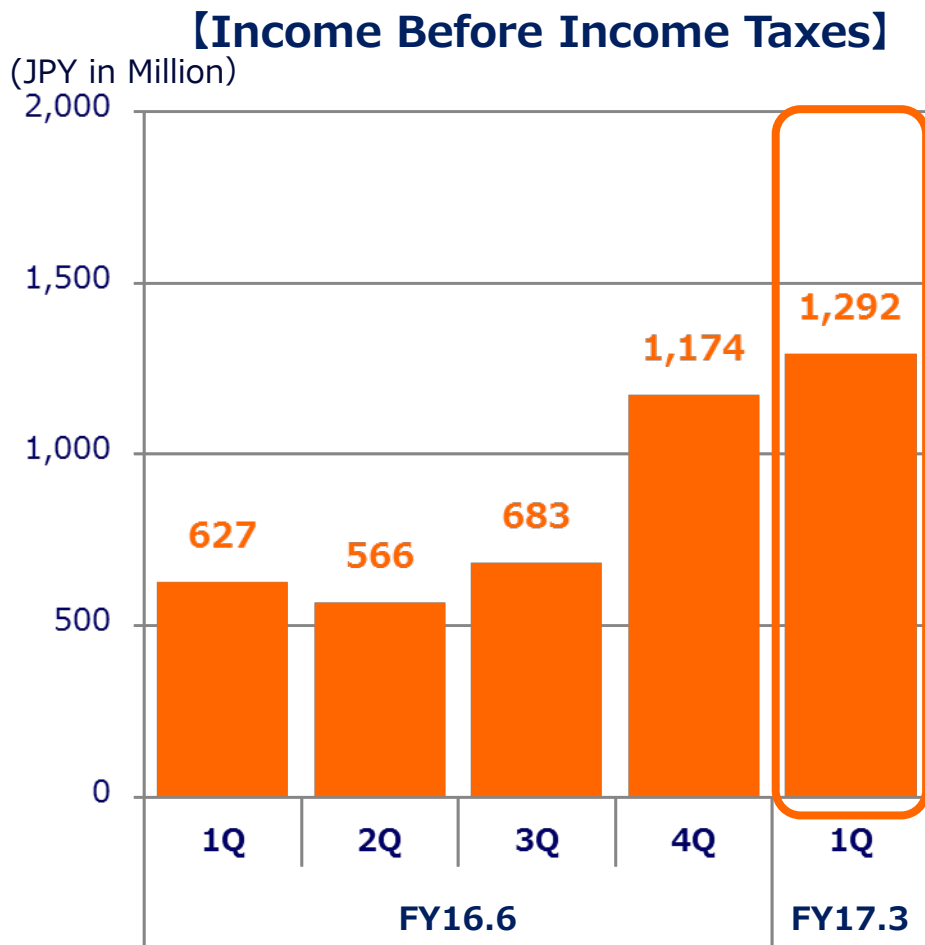
Achieved + over 10% YoY growth both in sales and profit

~ Payment grew in C to C domain relating to event ticket selling in summer ~



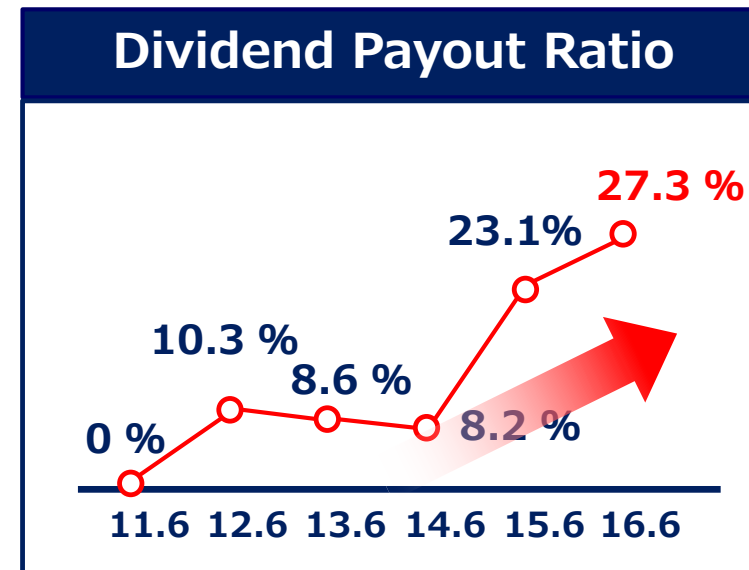
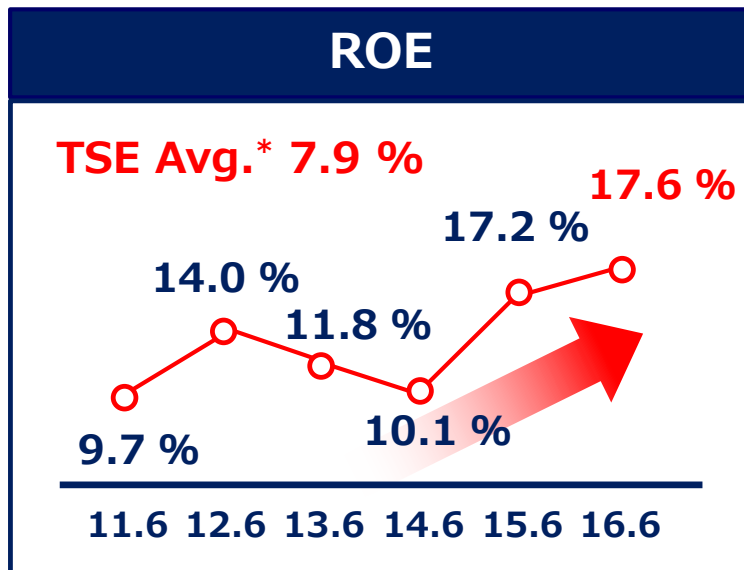
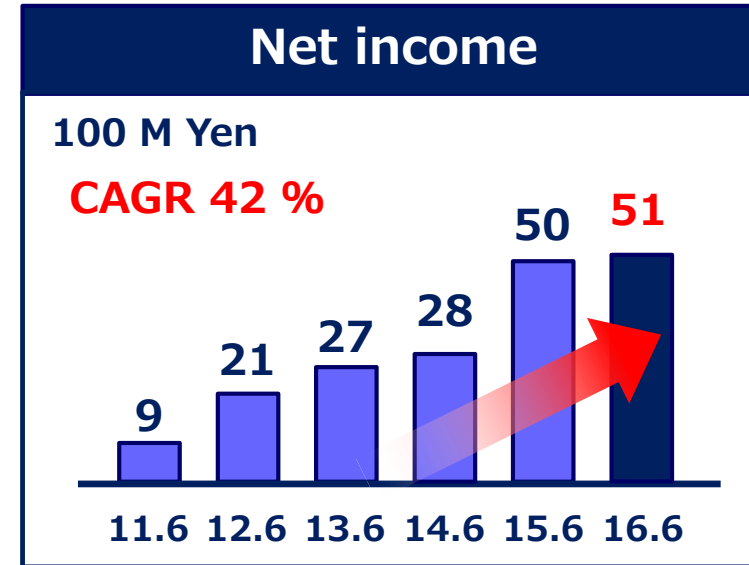
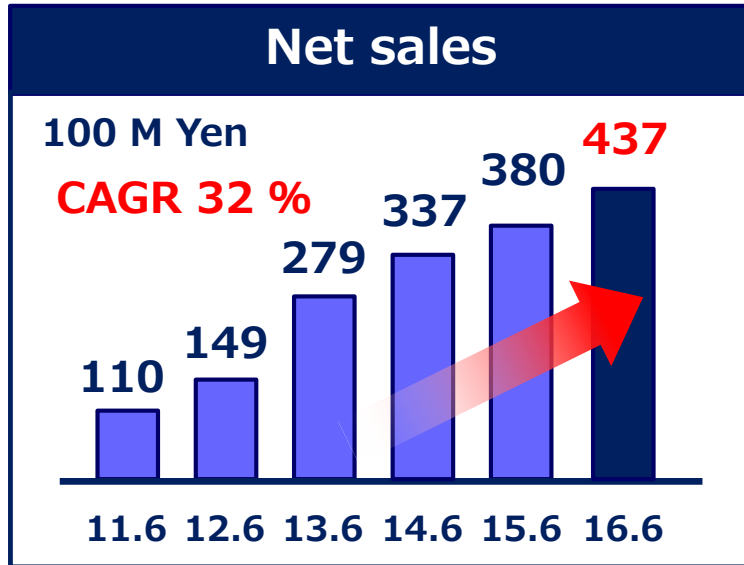
Investment profit on equity method from Kakaku grew steadily

~ Launching incubation business with media as a core ~



Results Briefing for the Second Quarter of the Fiscal Year Ending March 31, 2017, Kakaku.com, Inc.

◆ Last 6 Year Financial Performance, Consolidated



Note) * Tokyo Stock Exchange, Summary of Earnings Digests by Listed Companies, Fiscal year ending Mar. 2015 (TSE 1st, 2nd, Mothers, and JASDAQ)
Used Net income attributable to owners of parent for FY15.6 onwards

JPY in Million	FY16.6				FY17.3
	1Q	2Q	3Q	4Q	1Q
Net sales	10,336	9,507	11,631	12,288	11,558
Operating income	1,425	201	1,477	1,097	412
Ordinary income	1,863	831	1,887	1,610	1,781
Income before income taxes	1,941	860	1,933	2,838	3,148
Net income attributable to owners of parent	1,196	599	1,510	1,857	2,689



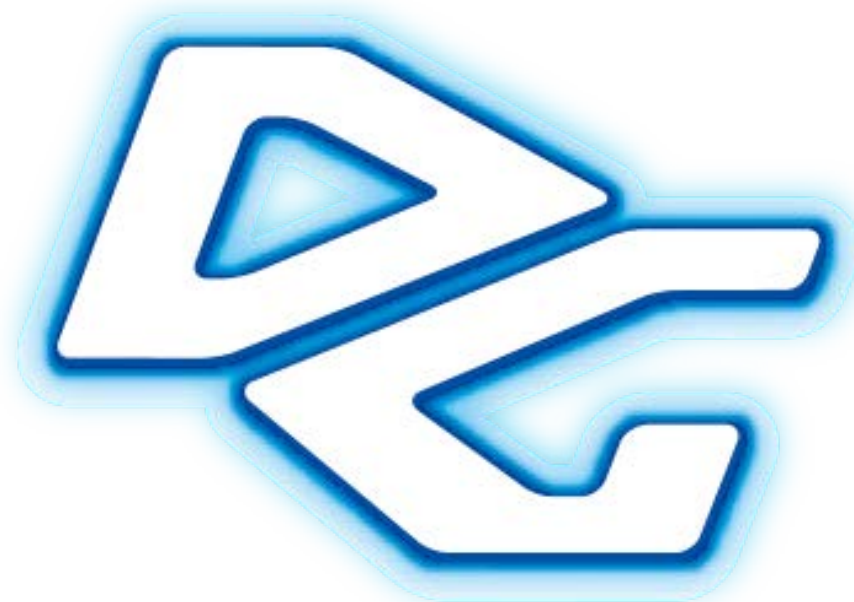
Quarterly Segment Profit and Loss(Consolidated)



JPY in Million	FY16.6				FY17.3
	1Q	2Q	3Q	4Q	1Q
Net sales	10,336	9,507	11,631	12,288	11,558
IT Incubation Technology	1,899	657	1,863	1,921	496
MT Marketing Technology	4,502	4,730	5,648	6,147	6,550
FT Financial Technology	3,934	4,118	4,119	4,219	4,511
MI Media Incubation	-	-	-	-	-
Income before income taxes	1,941	860	1,933	2,838	3,148
IT Incubation Technology	1,064	△ 215	879	1,376	1,340
MT Marketing Technology	247	313	386	448	368
FT Financial Technology	413	453	440	451	468
MI Media Incubation	627	566	683	1,174	1,292

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

Date		Title
2016.10.19	 Digital Garage	Digital Garage and DG Lab will host THE NEW CONTEXT CONFERENCE 2016 SAN FRANCISCO
2016.9.20	 veritrans	Apple Pay Coming to VeriTrans
2016.8.24	 Digital Garage	Digital Garage and TIS to Establish Strategic Technological Development Company DG Technologies to Develop FinTech-related Business
2016.7.22	 Digital Garage	Digital Garage and Daiwa Securities Group establish "DG Lab Fund," a fund directed towards startups that specialize in next generation technology
2016.7.4	 Digital Garage	Digital Garage, Kakaku.com, and Credit Saison establish open innovation-based R&D organization "DG Lab"



Digital Garage

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