



IT/MT/FT × OPEN INNOVATION

Digital Garage, Inc.

2Q of FYE March 31, 2017 Financial Report

2017.2.10

 **Digital Garage**

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Mission & Business Model





As a

Context Company

Digital Garage creates innovative business *context* for the new Internet age and provides unique business solutions for new lifestyles, society, and industries by linking

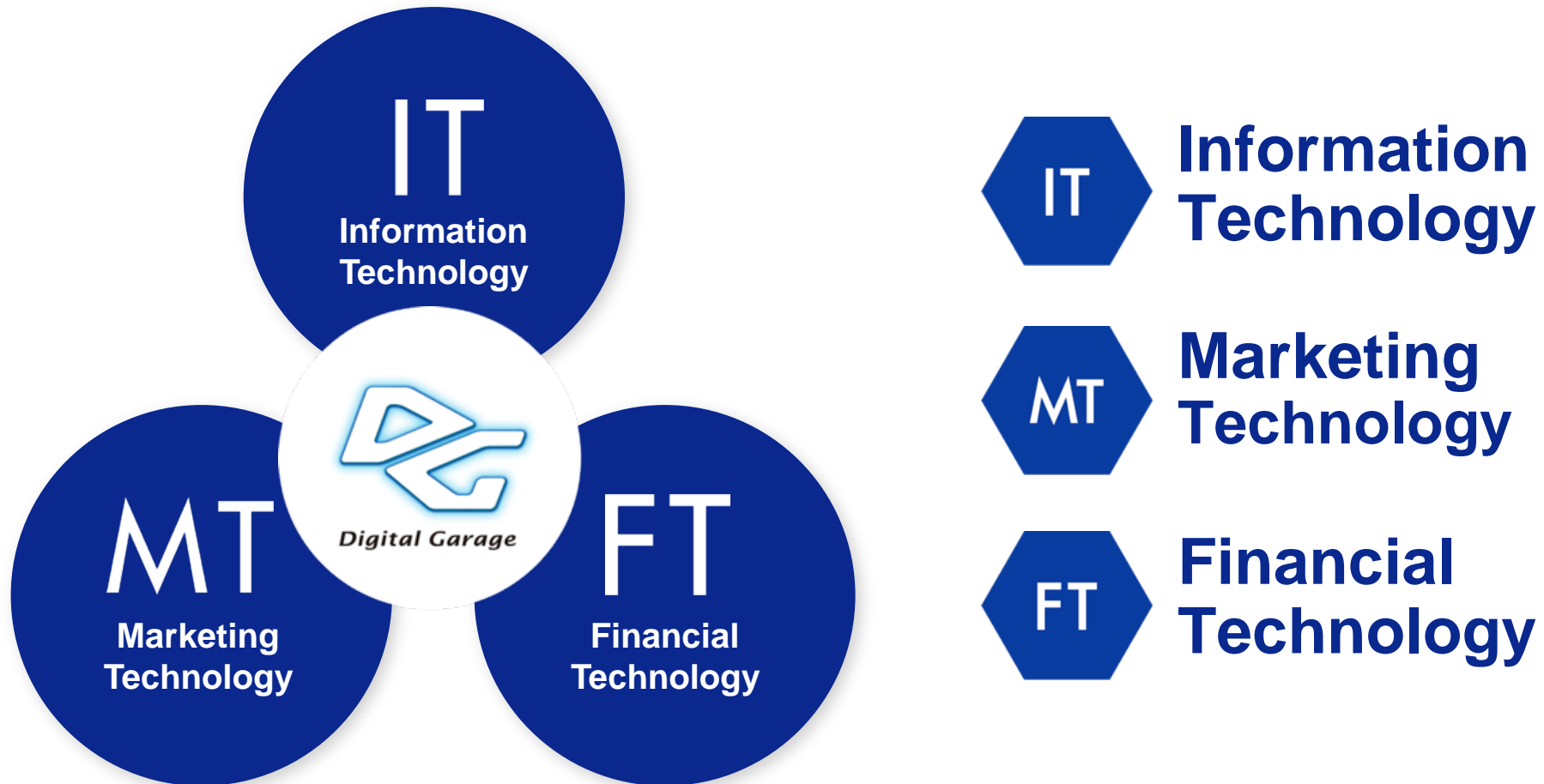
Real & Cyber

Local & International

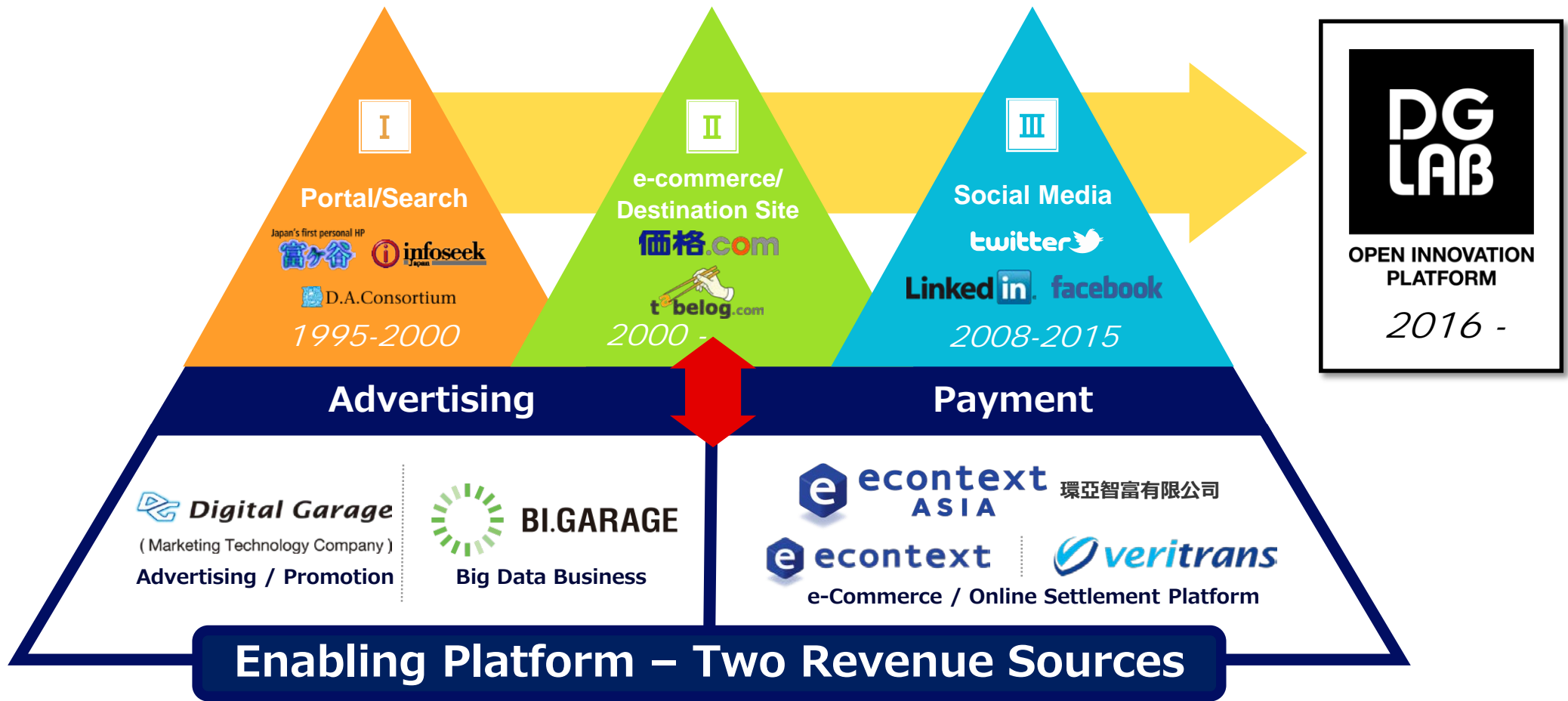
Marketing & Technology

Present & Future

Producing and incubating Internet businesses by optimizing our 3 core strengths: IT, MT, and FT



DG continues to incubate and develop unique Internet services through its Enabling Platform since the early days of the Internet



Investment Highlights



Income before income taxes 4.7 B JPY +68% YoY for 2Q Cumulative FY17.3

~ Annual progress rate 66% in 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 **+72% YoY 1.4 B JPY**
- Launched open innovation program **"TOYOTA NEXT"** in collaboration with TOYOTA
- Launched **"DG Lab Fund"** for investment in next-gen startups to drive open innovation with **"DG Lab"**

II

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

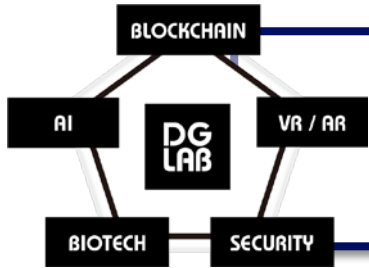
- Significant increase : YoY Sales **+45% 13.3 B JPY**, Income before taxes **+40% 0.7 B JPY**
- Performance-based ads showed significant growth in both PC and smartphone for various verticals including financials and cosmetics
- BIG MINING started to collaborate with Twitter, leveraging big data. Propelling **data science business**

III

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

- Semi-annual transaction surpassed record-high 0.6 T JPY, YoY **revenue +16%**, **Income before taxes +7%**
- 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 payment marketing joint projects

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



Increased numbers of sponsors / participating companies in DG Lab on top of increased investment in fund. Driving R&D projects to create new business with next-gen open innovation platform

BLOCK CHAIN

Hosted Blockchain Core Camp (BC²) for world-class blockchain developers



Mr. Thaddeus Dryja

A leading developer at Lightning Network



Mr. Nicolas Dorier

Developer of NThumbBit and NBitcoin



Mr. Jeremy Rubin

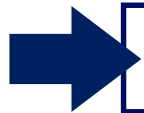
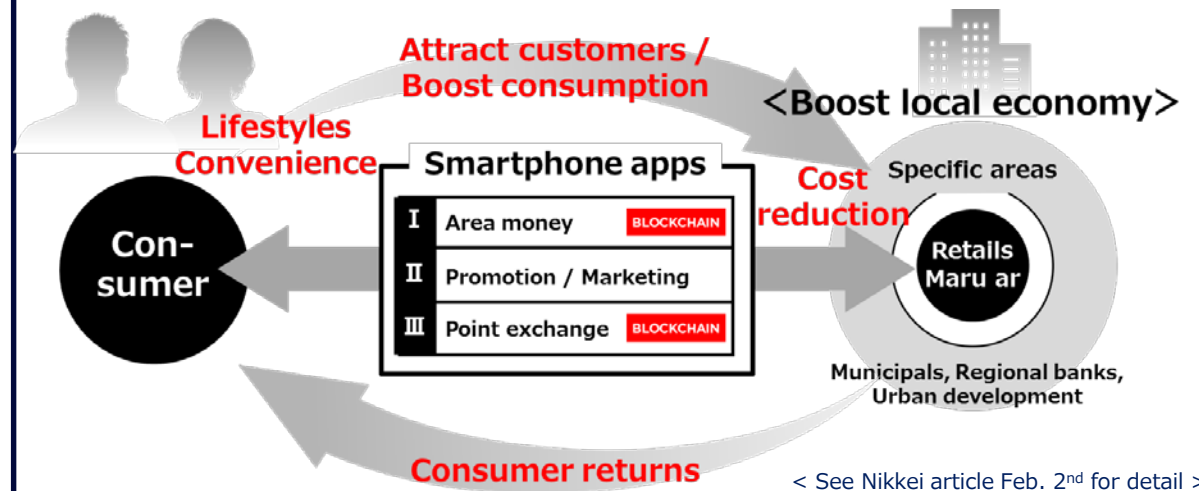
Founder of Tidbit, the MIT Bitcoin Project, the MIT Digital Currency Initiative

BLOCK CHAIN

Driving R&D projects in blockchain

DG to jointly develop next-generation platform technology with leading blockchain technology company, Blockstream

Key projects : Area money, Point exchange, Smart contract



DGLAB FUND

Started making an investment from Fund (AI / BIO related)



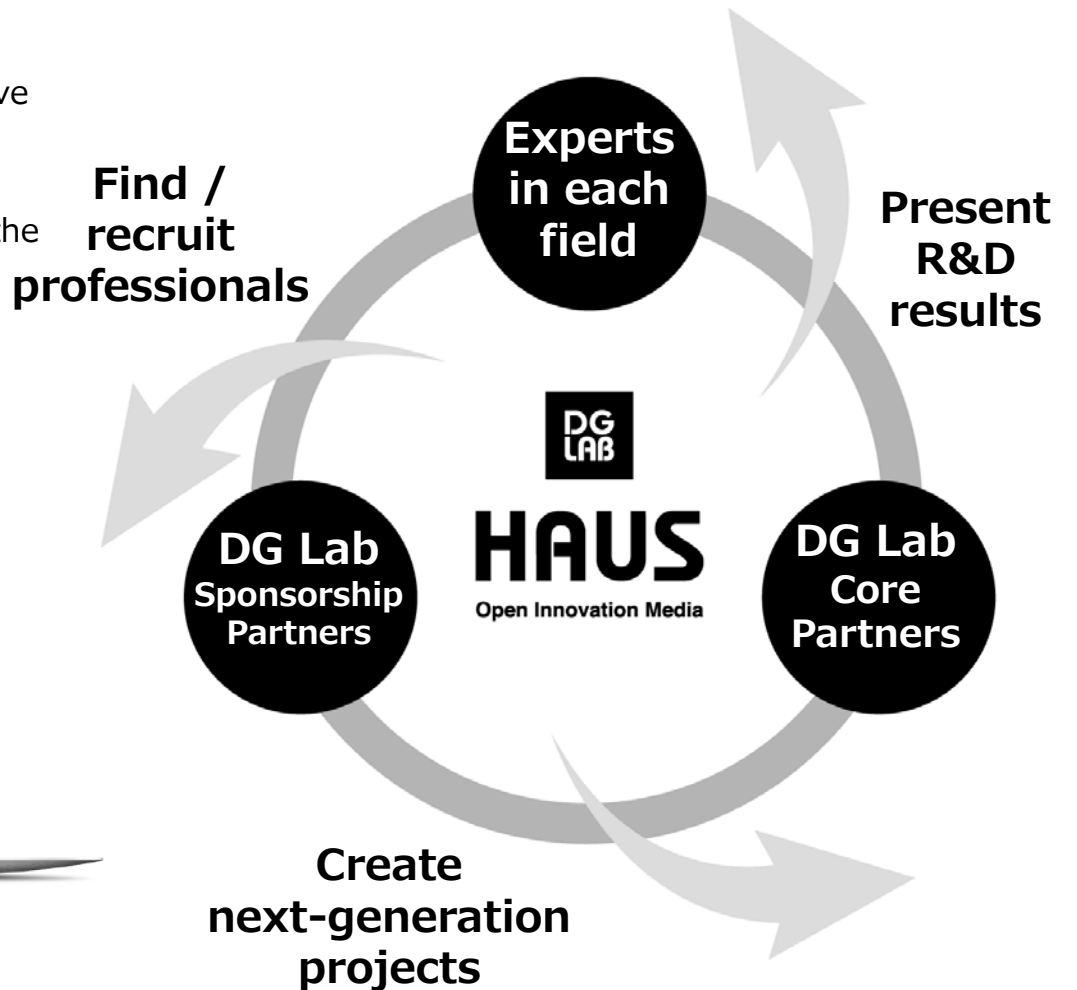
Delivers news on open innovations around the world and future discussed by leaders with focus on DG Lab domains

DG Lab Haus is a web media which delivers latest technology, news, and future industry leaders discuss open innovation from five perspectives of "Blockchain", "VR/AR", "Artificial Intelligence", "Security", "Biotechnology".

DG Lab Haus is named after "Haus" (German for a house) with the desire to develop a hub where we freely share ideas of how technology plays a role in our lives.



<http://media.dglab.com/>



Launched open innovation program “TOYOTA NEXT” in collaboration with TOYOTA

~ Calling for proposals for TOYOTA to build the future’s mobility society ~

TOYOTA ×  **Digital Garage**



 TOYOTA

N E X T

TOYOTA NEXT was created to imagine and design the next generation mobility infrastructure and world through the partnership between Toyota and revolutionary technology and services held by startups and research facilities

「TOYOTA NEXT」 Official HP <https://toyotanext.jp/en/>

 **Digital Garage**

Digital Garage

DG provides know-how related to investment in and development of leading startup companies globally



Inamoto & Co.

Manages creative

Established a JV “ANA Digital Gate” with ANA group to provide payment solutions using FinTech

~ Combine DG’s latest IT technologies with ANA group’s sales network ~

ANA

All Nippon Airways Trading Co., Ltd.



Digital Garage



<Mid-long term>

Create new business and boost local economy with area money using blockchain and customer services with AI in collaboration with DG Lab

<Next Step>

Data marketing business for ANA Mileage Club of 30 million members

<Topics for this term>

Provides mobile settlement for ANA retails, airports, and travel / commercial facilities


ANA DIGITAL GATE ANA Digital Gate, Inc.
 All Nippon Airways Trading Co., Ltd. 51%
 VeriTrans Inc., 49%



OPEN INNOVATION PLATFORM

Group Financial Performance Review





FY17.3 2Q (Cumulative) Consolidated P/L Summary



YoY Sales grew +20%, Income before income taxes grew + 68% to 4.7 B JPY

~ Incurred extraordinary income due to sales of stocks of a portfolio company, 66% progress rate on income before income taxes basis ~

JPY in Millions	FY16.6	FY17.3	YoY		FY17.3	
	2Q (Act)	2Q (Act)	%	Amount	9 month (Forecast)	2Q Progress
Net sales	19,843	23,817	+20.0	+3,973	37,500	64%
Operating income	1,626	906	-44.3	-720		
Non-operating income	1,372	2,628	+91.4	+1,255		
Investment profit on equity method	1,060	1,935	+82.5	+874		
Foreign exchange gain	-	274	-	+274		
Non-operating expenses	304	210	-30.8	-93		
Foreign exchange loss	112	-	-	-112		
Ordinary income	2,694	3,323	+23.3	+628		
Extraordinary income	117	1,400	11.9 x	+1,283		
Gain on sales of investments in securities	-	1,368	-	+1,368		
Income before income taxes	2,802	4,710	+68.1	+1,908	7,100	66%
Income taxes	1,004	1,004	-0.0	-0		
Net income attributable to owners of parent	1,796	3,701	2.1 x	+1,904	5,300	70%

Note: Compared FY17.3 2Q with FY16.6 2Q as follows due to change of fiscal term

Companies whose fiscal term was March ending prior to the change : FY16.6 2Q (Apr. – Sep.) vs FY17.3 2Q (Apr. – Dec.)

Companies which changed fiscal term to March ending : FY16.6 2Q (Jul. – Dec.) vs FY17.3 2Q (Jul. – Dec.)

FY17.3 2Q (Cumulative) Consolidated Segment P/L Summary



Profit increase in all segments; MT sales/profit both about over +40% YoY growth
 ~ MI being mainly influenced by the irregular settlement, investment profit on equity method from Kakaku.com growing on real term basis ~

JPY in Millions	FY16.6	FY17.3	YoY		FY17.3	
	2Q (Act)	2Q (Act)	%	Amount	9 month (Forecast)	2Q Progress
Net sales	19,843	23,817	+20.0	+3,973	37,500	64%
IT Incubation Technology	2,557	1,093	-57.2	-1,464	6,500	17%
MT Marketing Technology	9,232	13,394	+45.1	+4,161	17,500	77%
FT Financial Technology	8,052	9,329	+15.9	+1,276	13,500	69%
MI Media Incubation	-	-	-	-	-	-
Income before income taxes	2,802	4,710	+68.1	+1,908	7,100	66%
IT Incubation Technology	849	1,460	+72.0	+611	2,500	58%
MT Marketing Technology	560	784	+39.9	+223	1,100	71%
FT Financial Technology	867	931	+7.4	+64	1,500	62%
MI Media Incubation	1,194	1,983	+66.0	+788	2,900	68%

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

FY17.3 2Q Consolidated B/S Summary



JPY in Million	FY16.6	FY17.3 2Q	Difference	Reason for change / Remarks
Current assets	48,324	65,146	+16,821	Payment segment related items, New borrowings, Sales of stocks, payout of corporate tax and dividends, etc
Cash and deposits	15,703	25,794	+10,090	
Receivables	13,946	16,173	+2,226	
Money held in trust	2,592	4,898	+2,305	
Operational investment securities	11,164	12,699	+1,534	
Fixed assets	29,011	32,052	+3,040	New investment, Increased investment profit on equity method, stock-selling, etc.
Investment securities	14,844	18,049	+3,205	
Goodwill	5,765	5,529	-235	
Total assets	77,335	97,198	+19,862	
Current liabilities	30,187	47,748	+17,561	Payment segment related items
Deposits	21,876	33,051	+11,174	
Short-term borrowing	3,200	8,404	+5,203	Transfer from Long-term borrowing, demand for working capital
Fixed liabilities	16,484	15,364	-1,120	Transfer of Long-term borrowing due within one year to Current liabilities
Long-term borrowing	15,370	14,330	-1,039	
Total liabilities	46,671	63,112	+16,441	
Net assets	30,664	34,085	+3,421	<div style="border: 2px solid black; padding: 10px; display: inline-block;"> Driving finance strategy with focus on asset and capital efficiency </div>
Shareholders' equity	28,610	31,044	+2,434	
Common stock	7,435	7,437	+1	
Capital surplus	2,825	2,946	+121	
Retained earnings	18,419	20,711	+2,291	
Accumulated other comprehensive income	1,502	2,312	+810	
Unrealized gains on securities	138	896	+757	
Liabilities / Net assets	77,335	97,198	+19,862	

[
Driving finance strategy with focus on asset and capital efficiency
]

Segment Performance Review



I Incubation Technology Segment

		Net Sales	Income Before Income Taxes
FY16.6	2Q(7-12) Actual	2,557 M JPY	849 M JPY
FY17.3	2Q(7-12) Actual	1,093 M JPY	1,460 M JPY
FY17.3	Forecast	6,500 M JPY	2,500 M JPY

▶ **DG Incubation, Inc.**

Invests in and incubates cutting-edge Internet startups



▶ **Open Network Lab, Inc.**

Provides support to Internet-business entrepreneurs with global visions



▶ **Digital Garage US, Inc.**

The US-based global strategy headquarters



▶ **DK Gate, Inc.** (66% stake)

Invests in and incubates next generation content with Kodansha globally



▶ **DG Technologies, Inc.** (80% stake)

Drives strategic technology development with DG Lab



▶ **DG Daiwa Ventures, Inc.** (50% stake/equity method)

Manages DG Lab Fund to invest in startups with next-generation technologies



▶ **Kodansha Advanced Media LLC** (19% stake/investment)

Marketing in digital distribution in US and English-speaking countries, film adaptation, event planning, etc

Achieved ROI 2x in the previous 3 year mid-term

Developed portfolio that generates 2.5 B yen of profit on annual average

Business performance of
DG Incubation
(100 M Yen)

	← Previous mid-term plan →			Current mid-term plan →	
	13.6	14.6	15.6	16.6	4 yr avg
Net sales	16	39	55	46	39
Income before taxes	9	22	42	28	25
Amount invested	10	34	31	50	31
Investment balance	29	86	90	111	

Income before
income tax margin
64%

- Previous mid-term plan : Developed portfolio that generates 2.5 B yen of profit on annual avg
Achieved ROI 2x for the last three terms (13.6 - 15.6)
- Current mid-term plan : Aim for ROI > 2x with new incubation model

Segment
Income before
income taxes

1.4 B Yen
YoY **+72%**

Current Portfolio

	# of companies	Book Value (B Yen)
Equity	121	12.0
Domestic	38	2.1
Overseas	83	9.9
Fund	6	0.7
Total	127	12.8

Note) DG Incubation's investment balance Mark-to-market as of quarter end for listed stocks. Equity includes convertible note Book value totals may not match details because of rounding down fractions

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

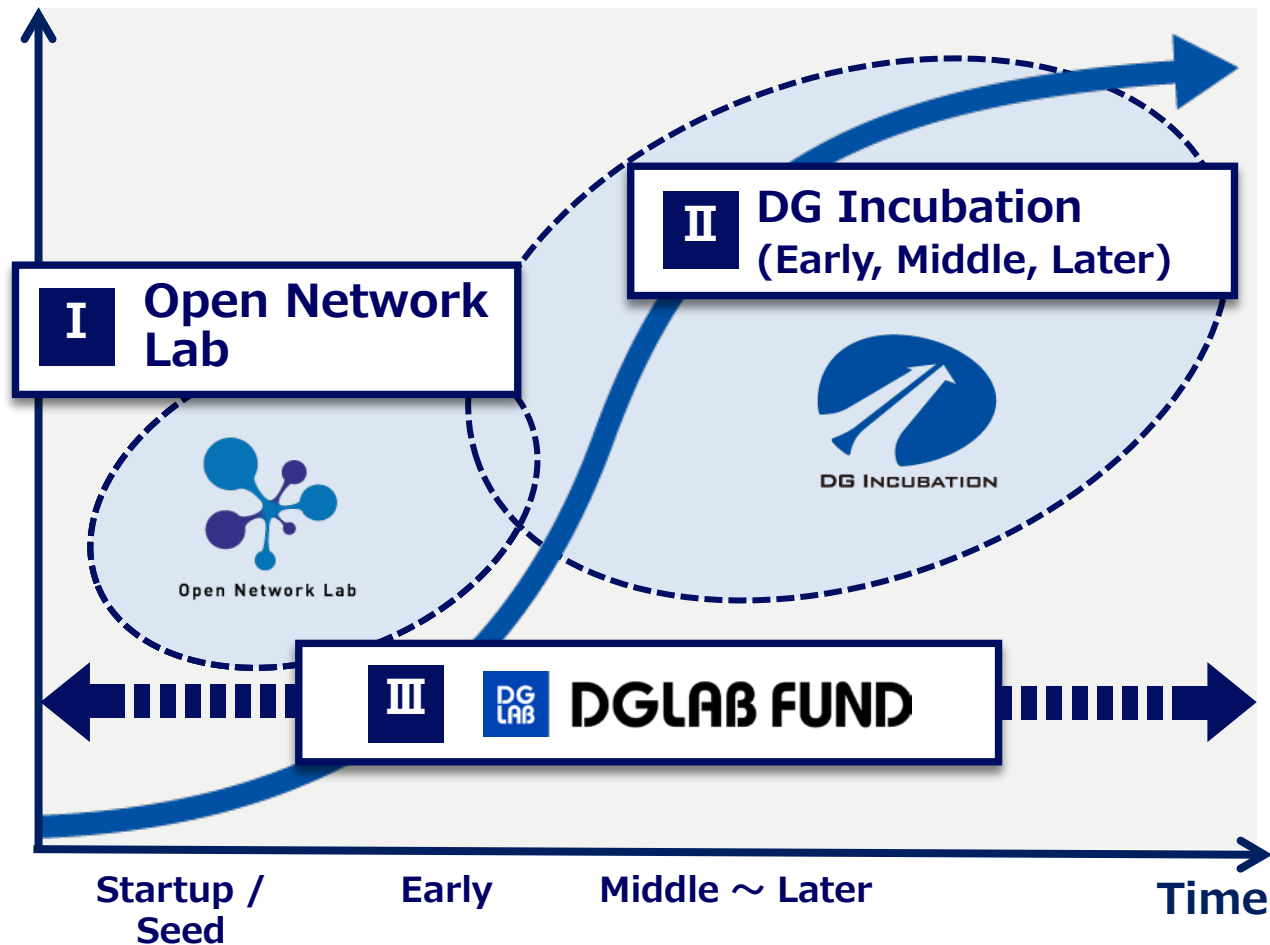
Monstar Lab [Japan]



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

Expanding investment scale and areas with addition of DG Lab Fund to ONL / DGI
Developing new incubation model with dynamic and high coverage

Corporate value



Execute current mid-term plan

- ✓ Stable exit by DGI
- ✓ ROI > 2x

Develop next-generation services in the mid-long term

- ✓ In sync with DG Lab / DG Lab Fund

New incubation model
Pure investment to
Business investment / consolidation

II Marketing Technology Segment

		Net Sales	Income Before Income Taxes
FY16.6	2Q(7-12) Actual	9,232 M JPY	560 M JPY
FY17.3	2Q(7-12) Actual	13,394 M JPY	784 M JPY
FY17.3	Forecast	17,500 M JPY	1,100 M JPY

▶ Marketing Technology Company

Supports client's business through performance-based ads, Online to Offline strategy and web marketing



▶ Business Design Company

Offers consulting-based marketing



▶ BI.Garage, Inc.

Develops and provides ad products incorporating data science, social marketing, and cutting edge ad technology



▶ NaviPlus Co., Ltd.

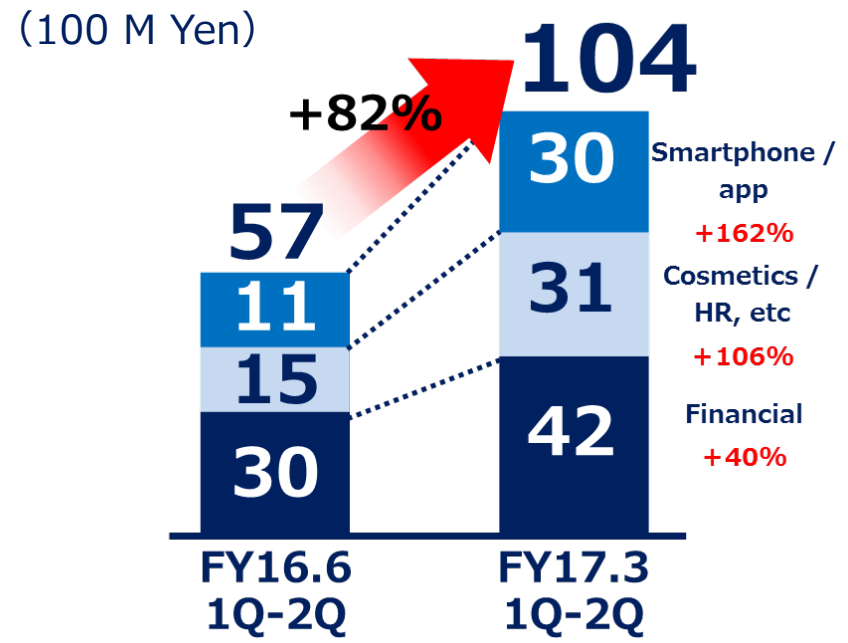
Offers website support tools including personalized recommendation engines



Net sales (advertising volume) grew +45% YoY
Operating margin improved by 4.9 points

	16.6 1Q-2Q	17.3 1Q-2Q
(100 M Yen)		
Net sales (YoY)	92.3 (+19%)	133.9 (+45%)
Gross profit (YoY)	17.7 (+16%)	22.2 (+25%)
Op. income (YoY)	5.6 (+8%)	8.1 (+45%)
Operating Margin ※	31.6%	36.5%

【Sales from Performance-based ads】

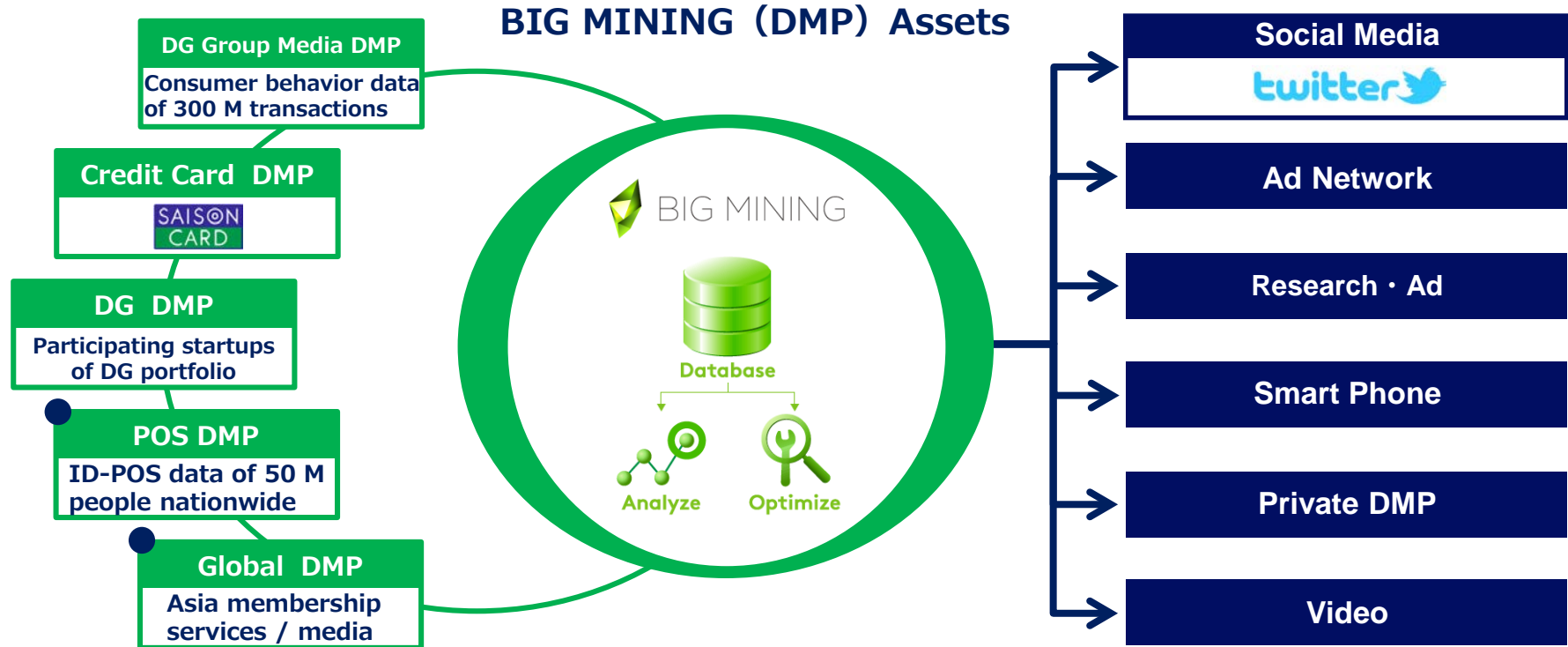


- Ad volume (net sales) ⇒ Growth (YoY +82%) gaining traction in performance-based ads
- Operating Margin ⇒ Improved by 4.9 points despite the increase of headcount in new business

※ Operating margin : Op. income ÷ Gross profit

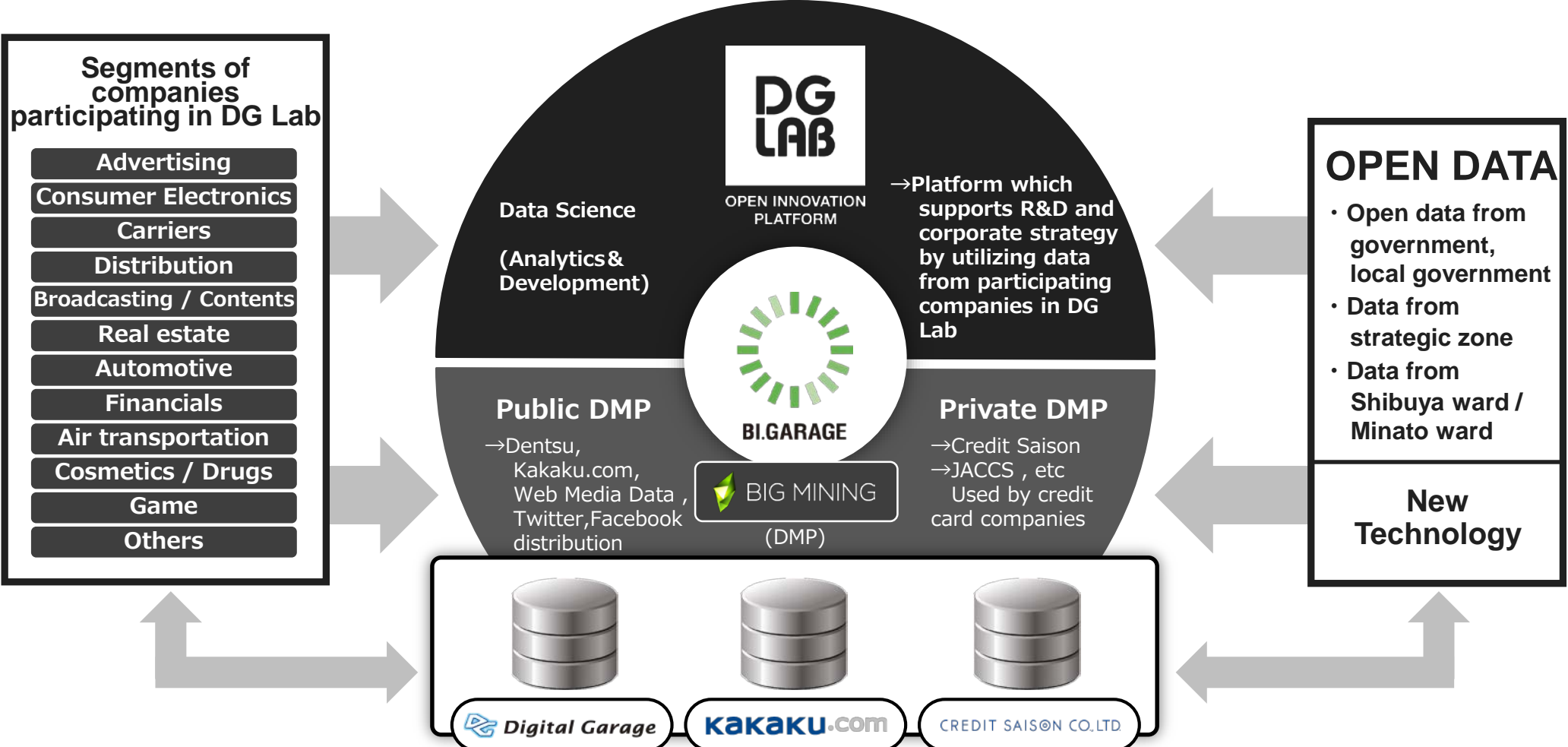
BI. Garage's "BIG MINING" started to collaborate with Twitter, following Credit Saison's DMP

- Providing marketing solutions for companies with audience data of 300 M transactions based on view logs of goods and so on
- Collaboration with Twitter's Targeting API enable DG to send more effective targeting ads using DG Group's data



● Under consideration

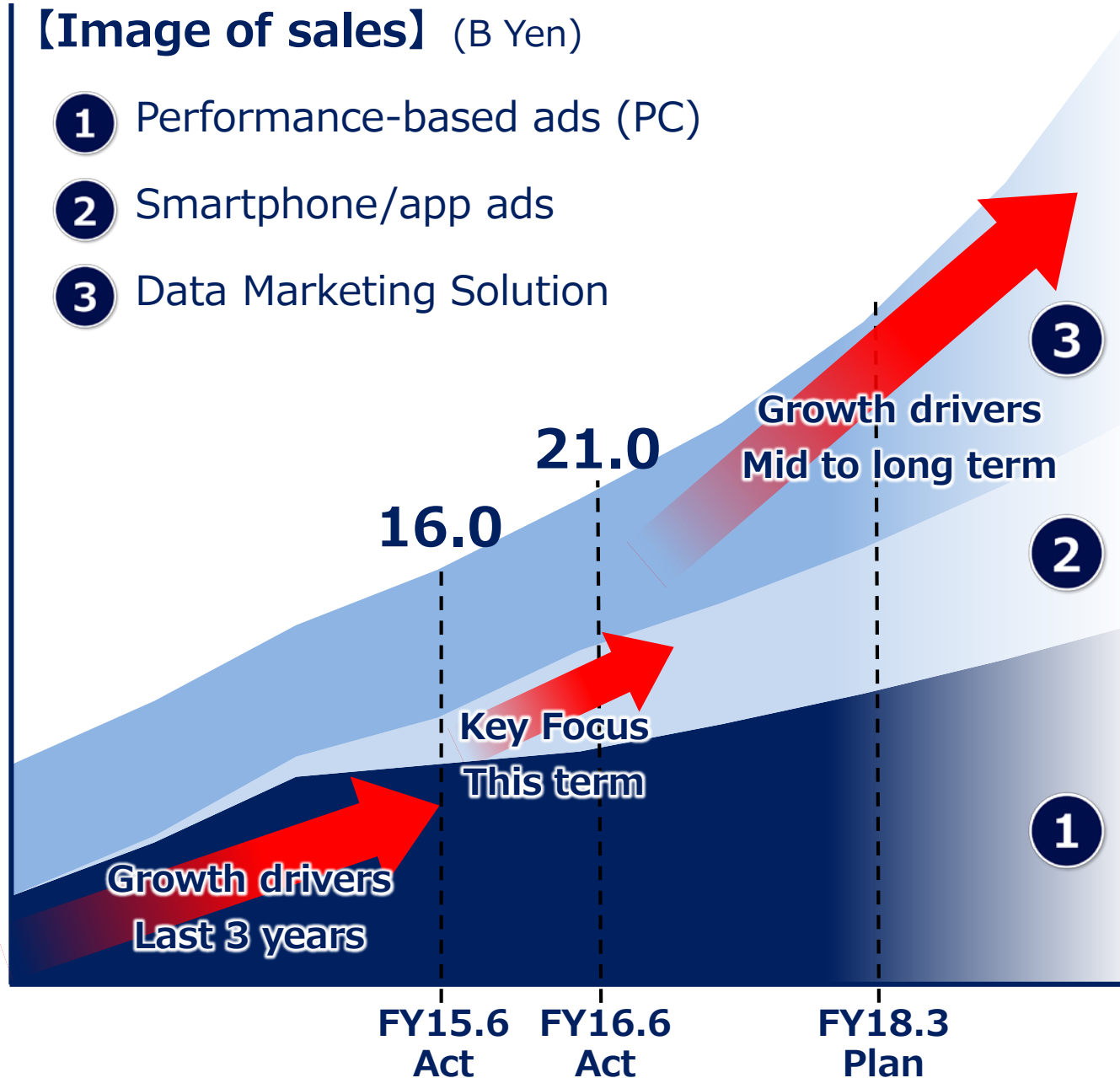
Overview of data science business in collaboration with DG Lab



MT Segment – image of mid to long term growth

【Image of sales】 (B Yen)

- ① Performance-based ads (PC)
- ② Smartphone/app ads
- ③ Data Marketing Solution



Strategy

③ 【Data Marketing Solution】

- ✓ Accelerate growth with next gen solution utilizing big data

② 【Business Design Solution】

- ✓ High quality, communication design with a world class UI/UX in sync with a leading creative lab

CAGR : +30%

② 【Smartphone/app】

- ✓ Drive business globally by leveraging expertise in Japan

CAGR : +20%

① 【Performance-based ads (PC)】

- ✓ Vertical development beyond Finance, Cosmetics, HR
- ✓ Diversify advertising methods with social media ads as a core

CAGR : +15%

III Financial Technology Segment

		Net Sales	Income Before Income Taxes
FY16.6	2Q(7-12) Actual	8,052 M JPY	867 M JPY
FY17.3	2Q(7-12) Actual	9,329 M JPY	931 M JPY
FY17.3	Forecast	13,500 M JPY	1,500 M JPY

▶ **econtext ASIA Ltd.**

Payment corporation to expand e-commerce platforms globally



▶ **econtext, Inc.**

Integrates online and offline business as the convenience store payment pioneer



▶ **Veritrans Inc.**

Provides leading e-commerce payment solutions



- ▶ **PT MIDTRANS** (Veritrans Indonesia) (21.81% owned by econtext ASIA / Non-consolidated)
Indonesian JV

PT. Midtrans

- ▶ **Sendo Technology JSC** (12.89% / Investment)
On-line marketplace for C2C and B2C in Vietnam



Semi-annual transaction (July – Dec 2016) surpassed record-high 0.6 T Yen
Operating income grew + 12% YoY

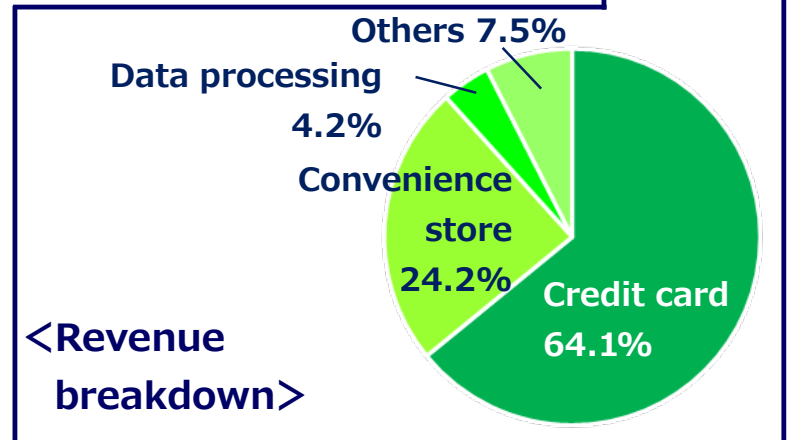
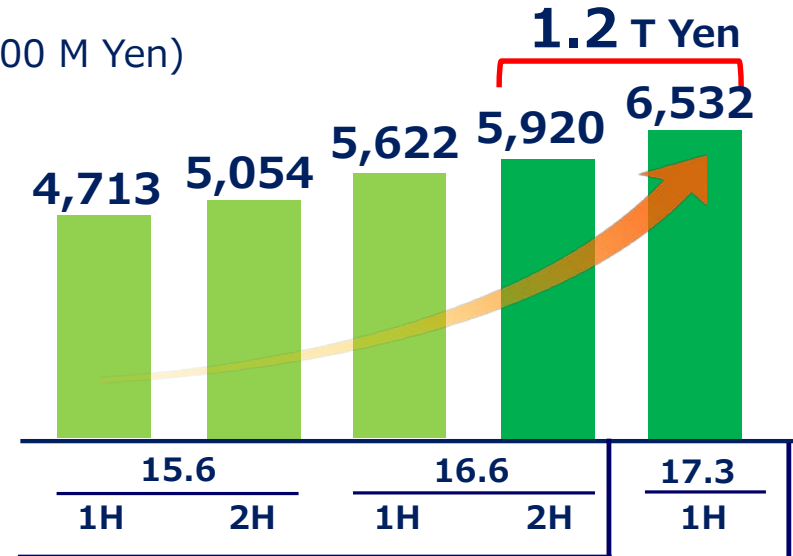
< FT's track record >

(100 M Yen)

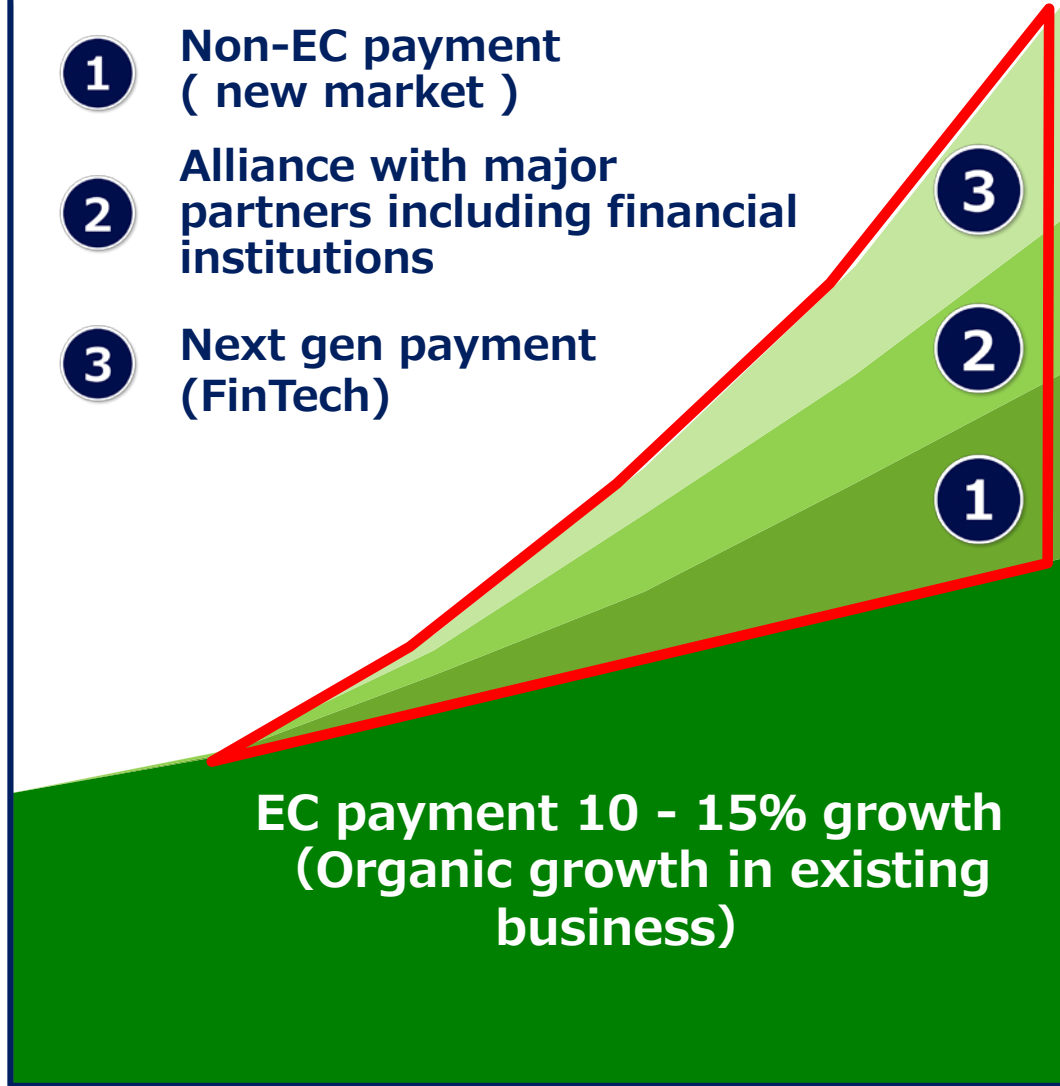
	15.6 1Q-2Q	16.6 1Q-2Q	17.3 1Q-2Q	YoY
Transaction volume	4,713	5,622	6,532	+16.2%
Net sales	70.8	80.5	93.2	+15.8%
Op. income	5.9	8.4	9.4	+11.9%
Dep., Amotization of goodwill	4.1	4.1	4.4	
Op. income before Dep., Amotization of goodwill	10.0	12.6	13.8	+9.5%
% to Net sales	14.1%	15.7%	14.8%	

< CY16 transaction reached 1.2 T Yen YoY 16.6% >

(100 M Yen)



Growth Opportunities



3 【Next gen payment (FinTech)】

- Solution utilizing blockchain
- Financial smart contract
- Verification testing in sync with DG Lab

2 【Alliance w/ major partners including financial institutions】

- Initiated OEM to customers including Resona bank and Orico card. Expand to financial business including lending business
- Collaborate with business partners in payment with large customer base

1 【Non-EC payment (new market)】

- Current service lines w/ mkt size (T Yen)

Food (12)

Real estate (9)

Funeral (1.7)

Driving school (0.4)



Global expansion (Asia)

IV Media Incubation Segment

		Net Sales	Income Before Income Taxes
FY16.6	2Q(7-12) Actual	-	1,194 M JPY
FY17.3	2Q(7-12) Actual	-	1,983 M JPY
FY17.3	Forecast	-	2,900 M JPY

- ▶ **Kakaku.com, Inc.** (20%/Equity method affiliate)
Operates purchase support service, Kakaku.com and restaurant review and restaurant service, tabelog, etc.

kakaku.com

- ▶ **DK Media, Inc.** (50%/Equity method affiliate)
Internet media business utilizing fashion magazines by Kodansha

Income before income taxes —

1.9
YoY B Yen
+ 66%

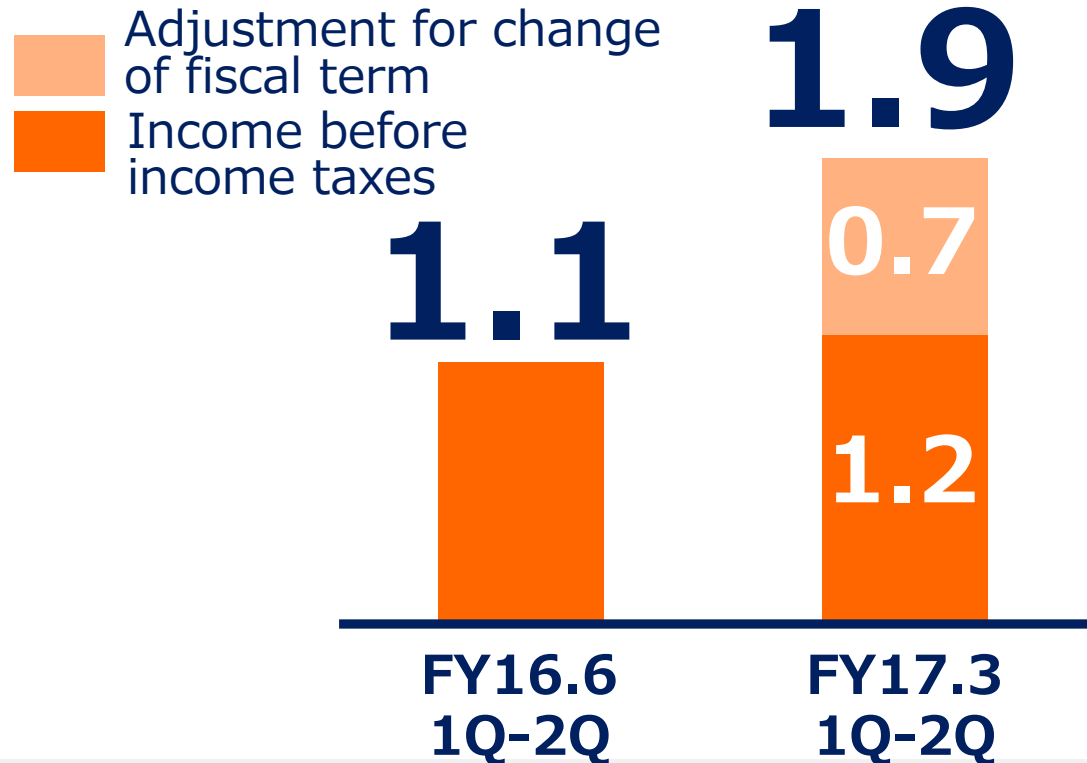
YoY compared FY17.3 2Q with FY16.6 2Q as follows due to change of fiscal term

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)



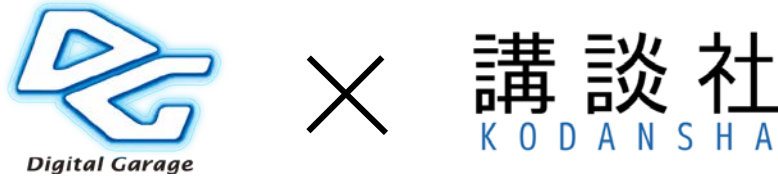
◆ Initiative on development of next generation media

Developing digital media with Kodansha by combining content from women's magazines with AI

~ Leverage high-quality of content held by publishers to create post curation media ~

< DK Media, JV with Kodansha >

< Overview of compilation media >



DK Media, Inc.

Internet media business using women's fashion magazines b Kodansha

Kodansha and DG have driven digital content business for global expansion of Japanese contents and new business incubations since capital and business alliance in 2015.

As a third initiative, we formed a JV, DK Media, Inc., to operate internet media that utilizes women's fashion magazines.

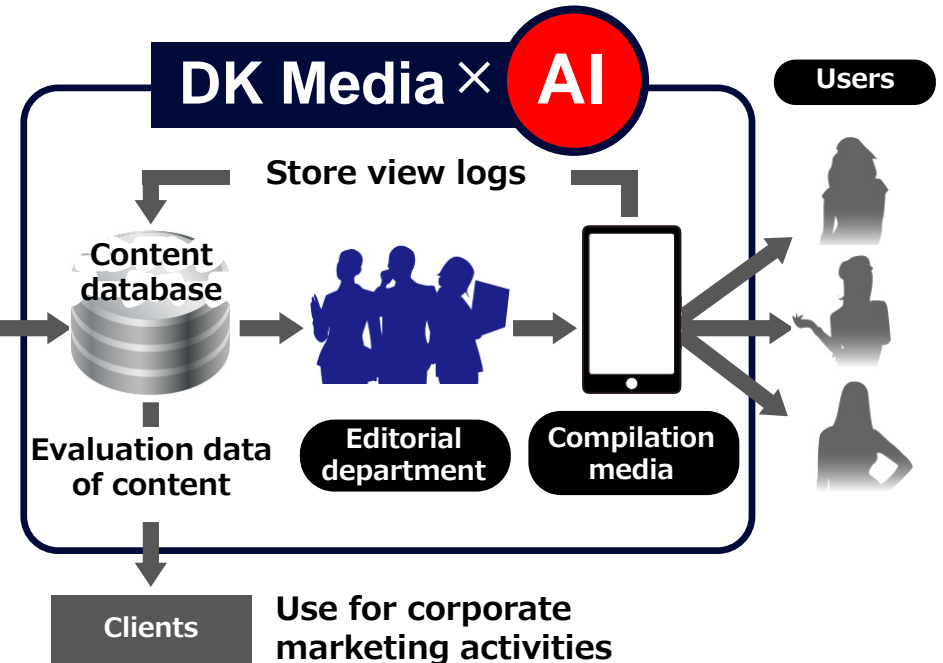
ViVi with **VOCE FRAU** おとなスタイル

Content project (Publishers, etc.)

<Participating magazines >



Provide content



➔ Collaboration is expected to involve major publishing companies in the form of consortium

Appendix



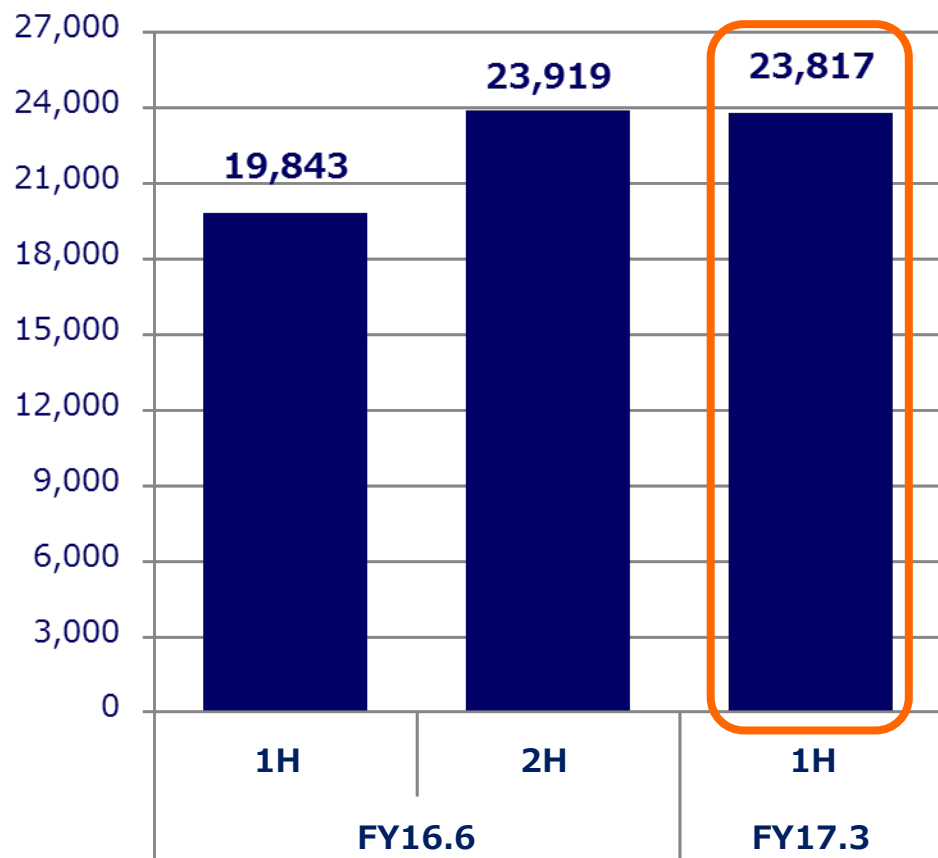


YoY Sales grew +20%, Income before income taxes grew + 68% to 4.7 B JPY

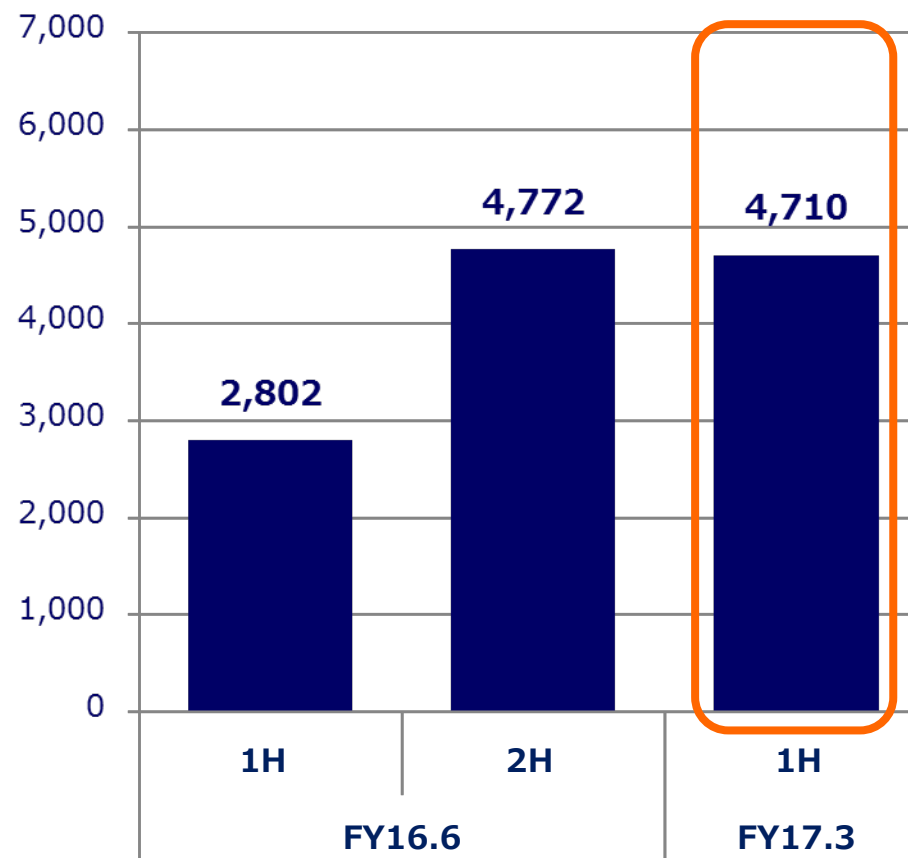
~ IT achieved big exit, MT and FT grew ~

【Net Sales】

(JPY in Million)

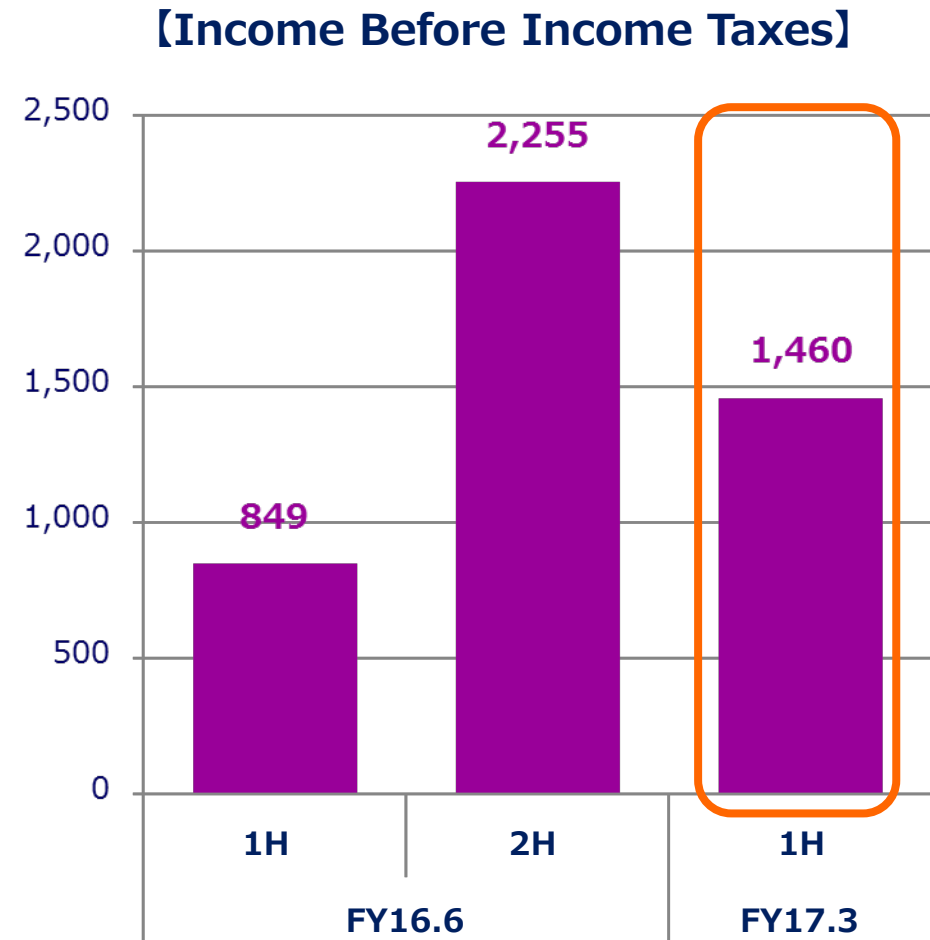
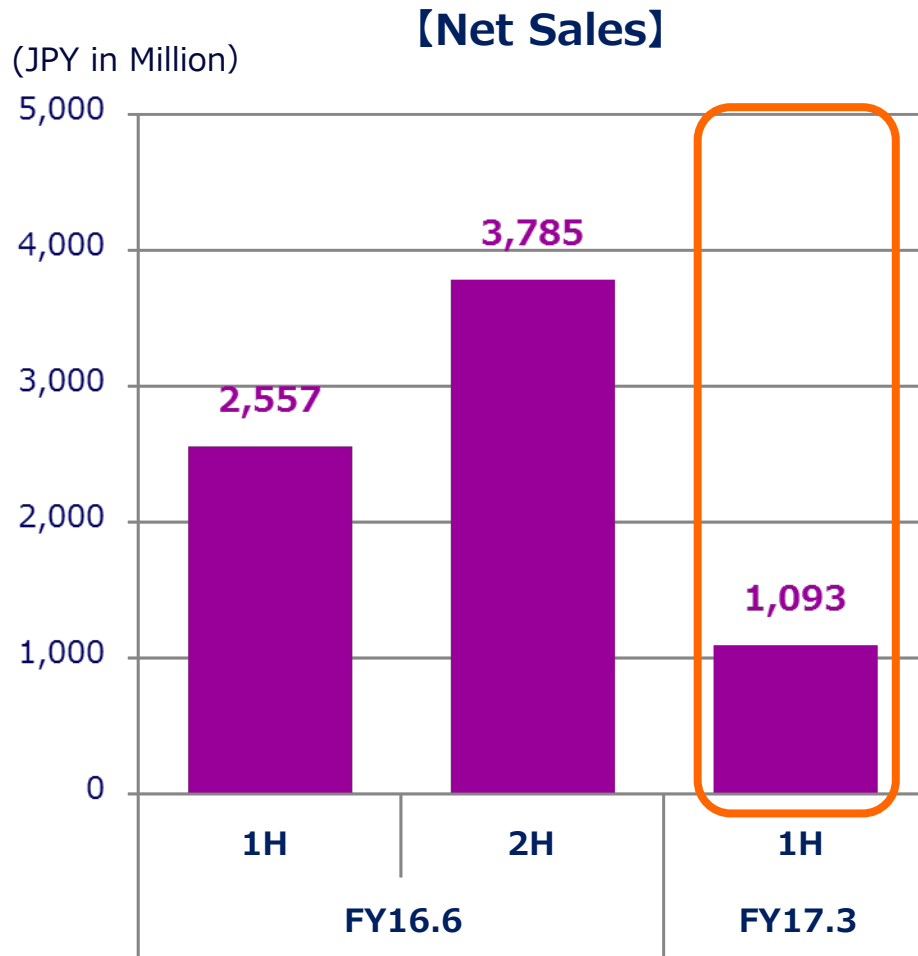


【Income Before Income Taxes】



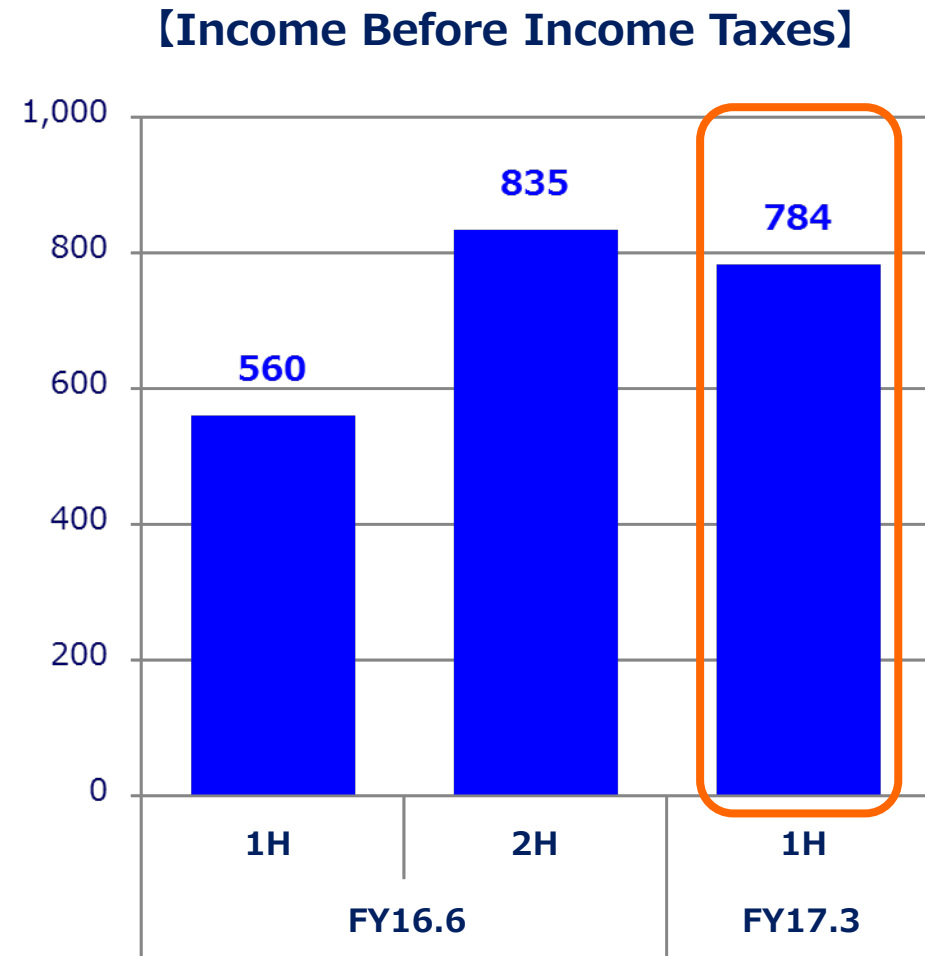
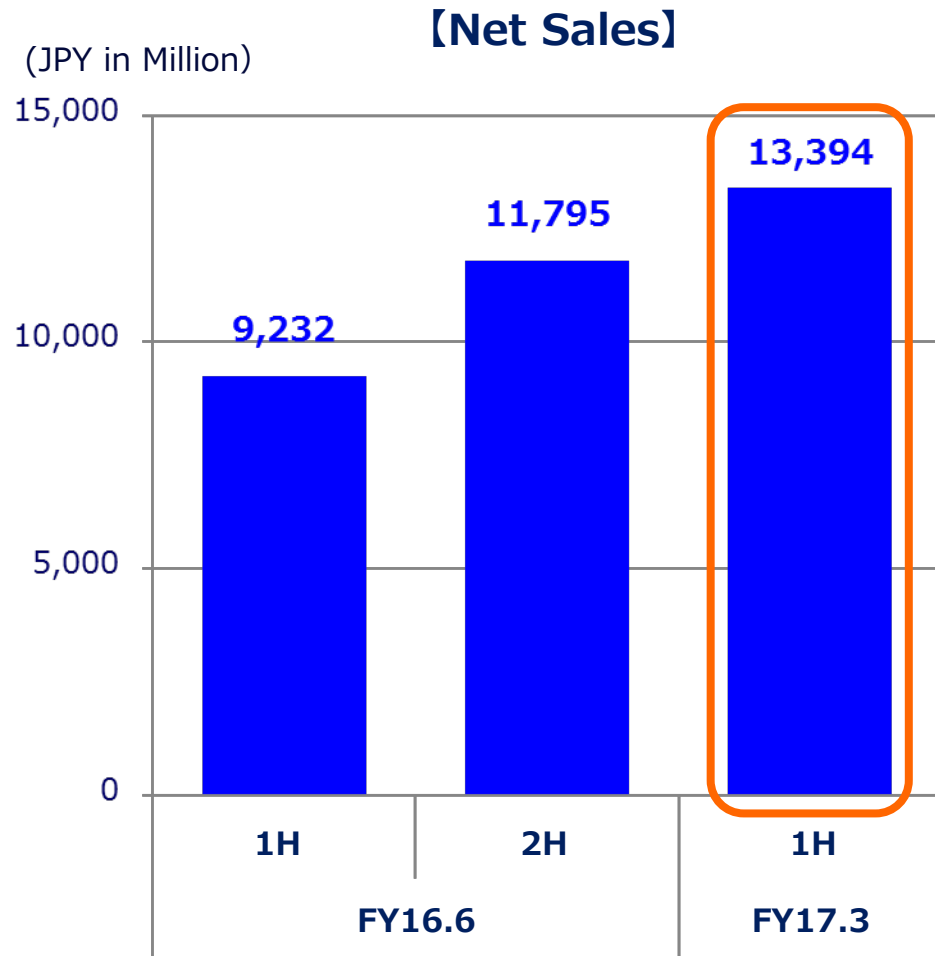
Achieved significant growth in profit by selling stocks of a portfolio company acquired

~ Enhanced domestic and global portfolio. Investment balance reached about 12 B Yen ~

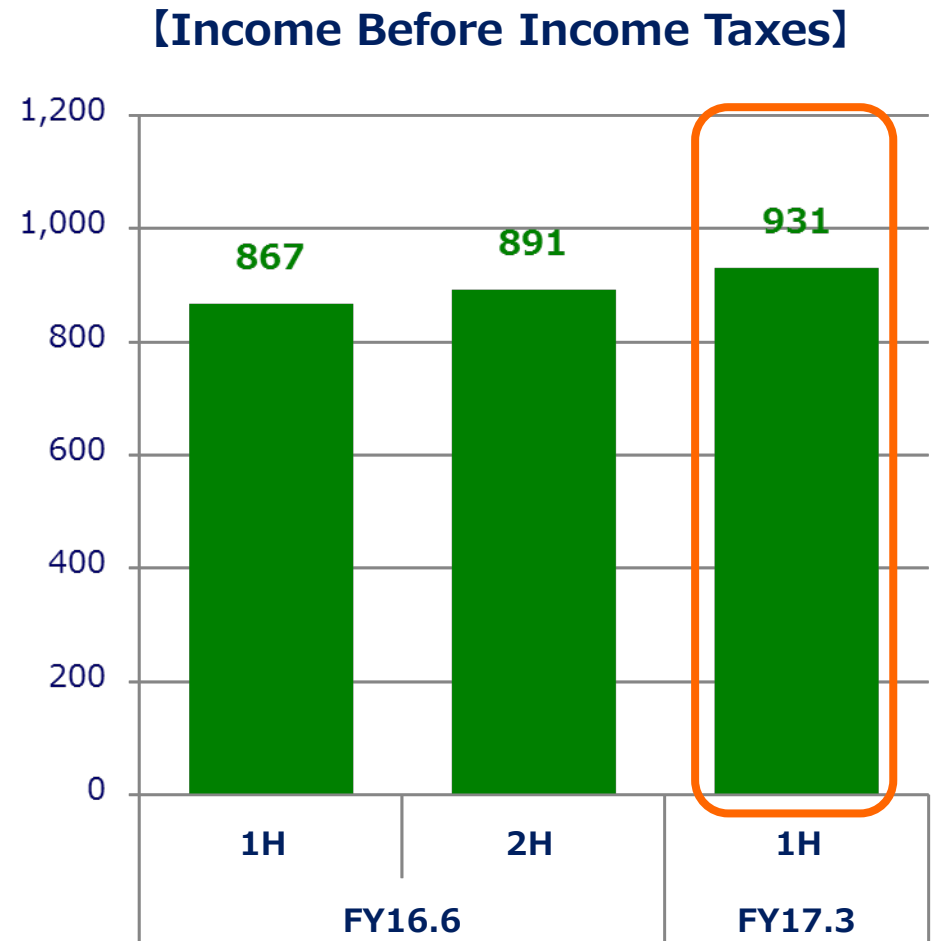
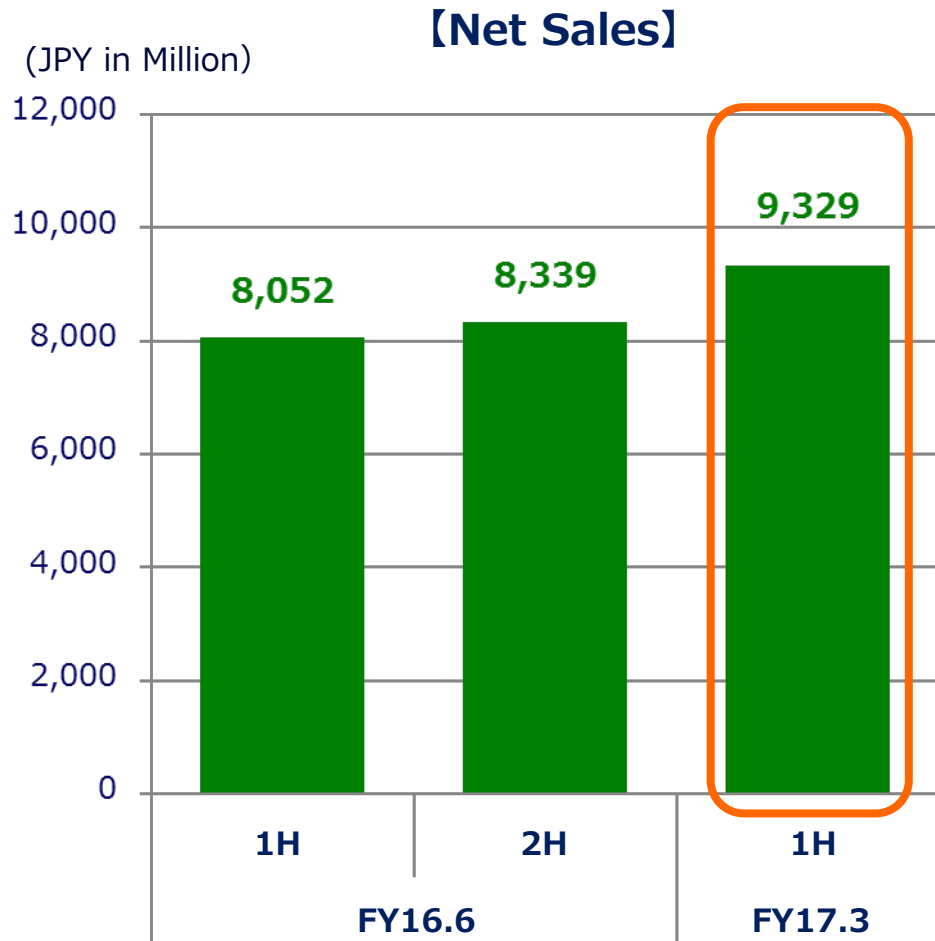


Achieved + over about 40% YoY strong growth both in sales and profit

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



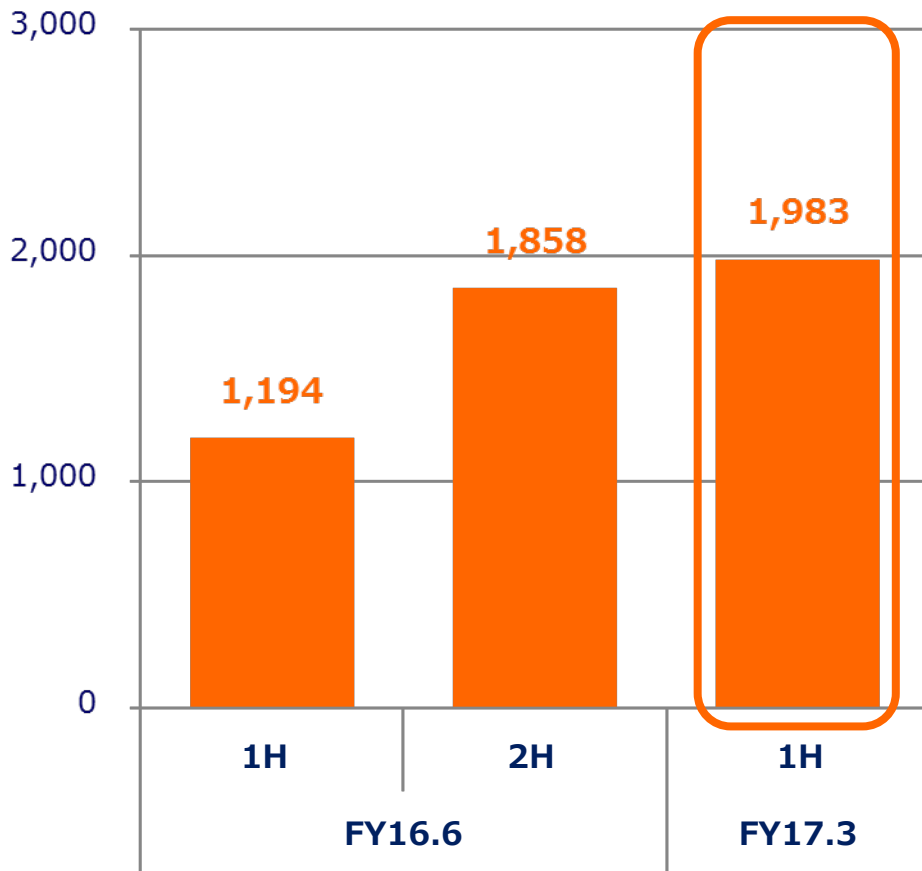
Achieved net sales +16% YoY with significant growth of transaction volume
~ Payment grew in CtoC domain relating to event ticket selling in addition to growth of inbound payment ~



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

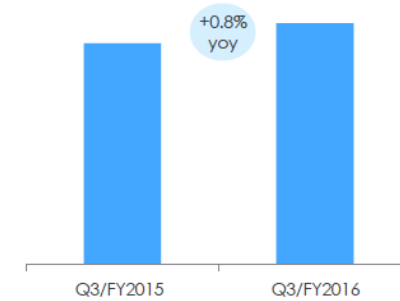
【Income Before Income Taxes】

(JPY in Million)



【GMV growth for consumable goods】

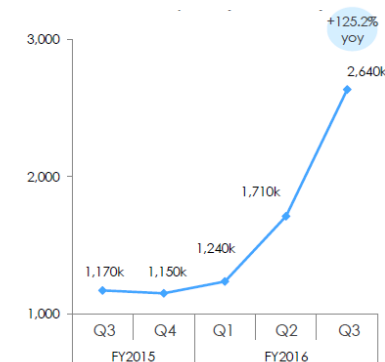
Kakaku.com



【Number of persons seated through Tabelog's online reservation system】

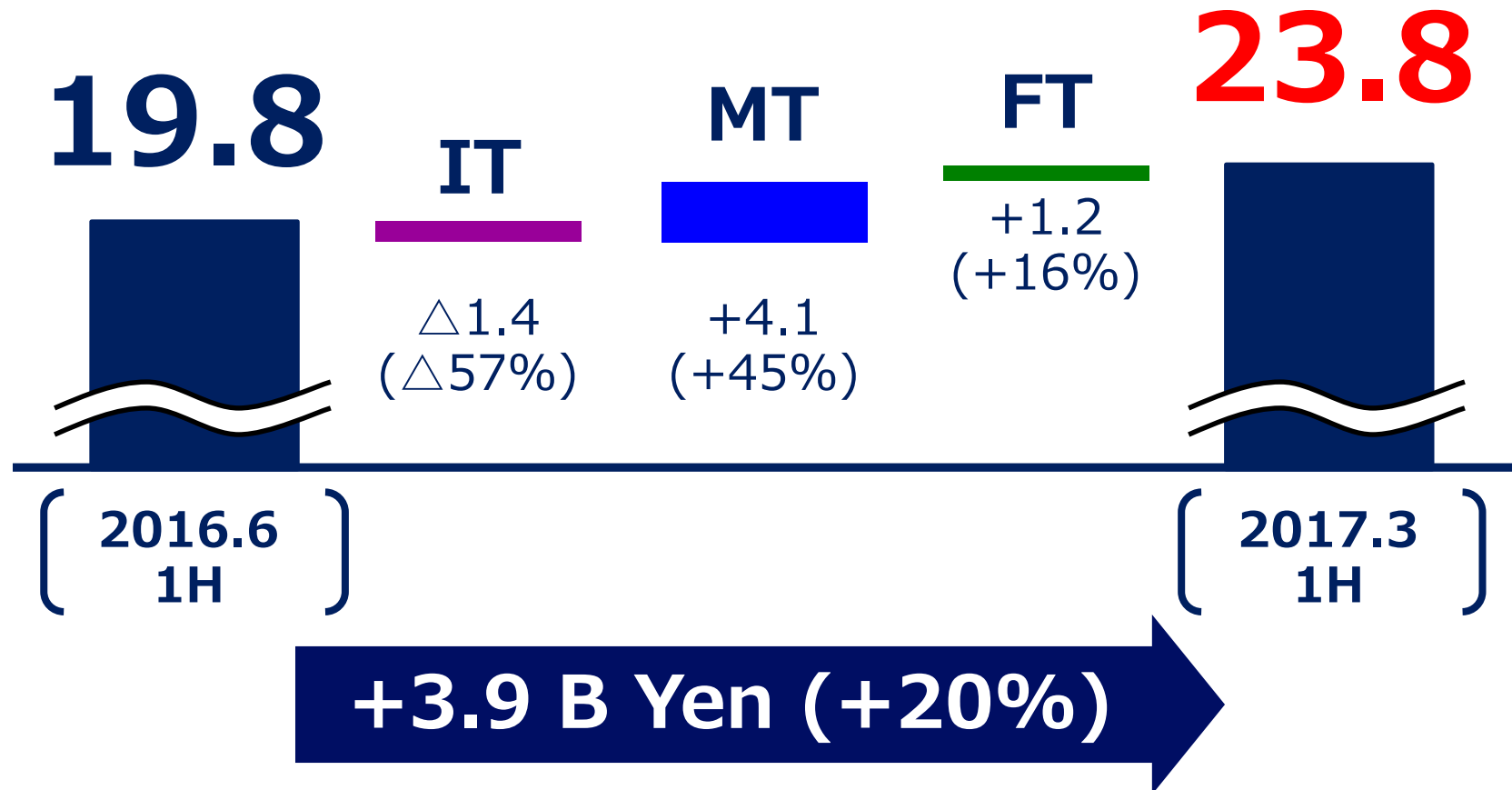
(in thousand)

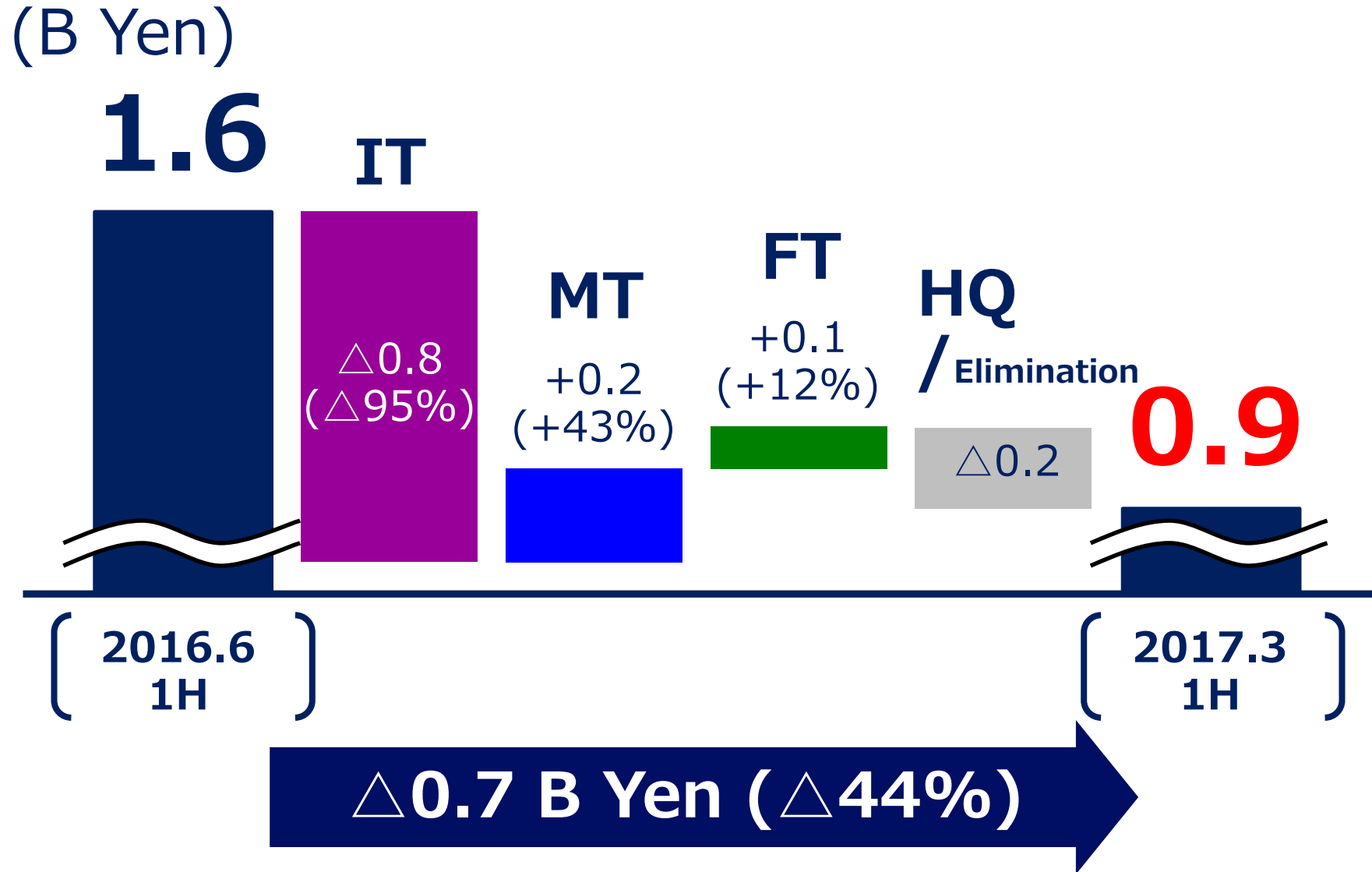
Tabelog

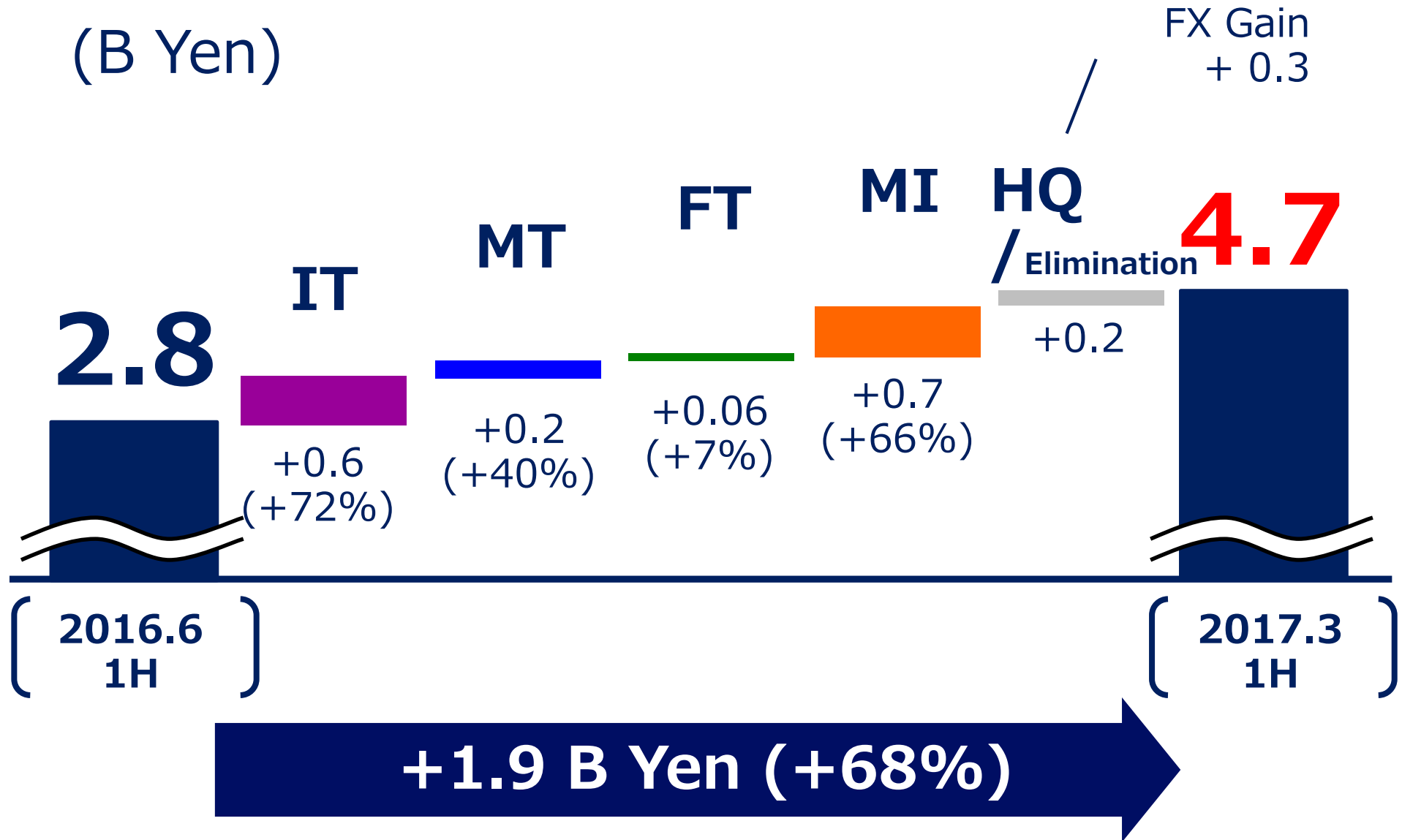


Results Briefing for Q3 FY2016, Kakaku.com, Inc.

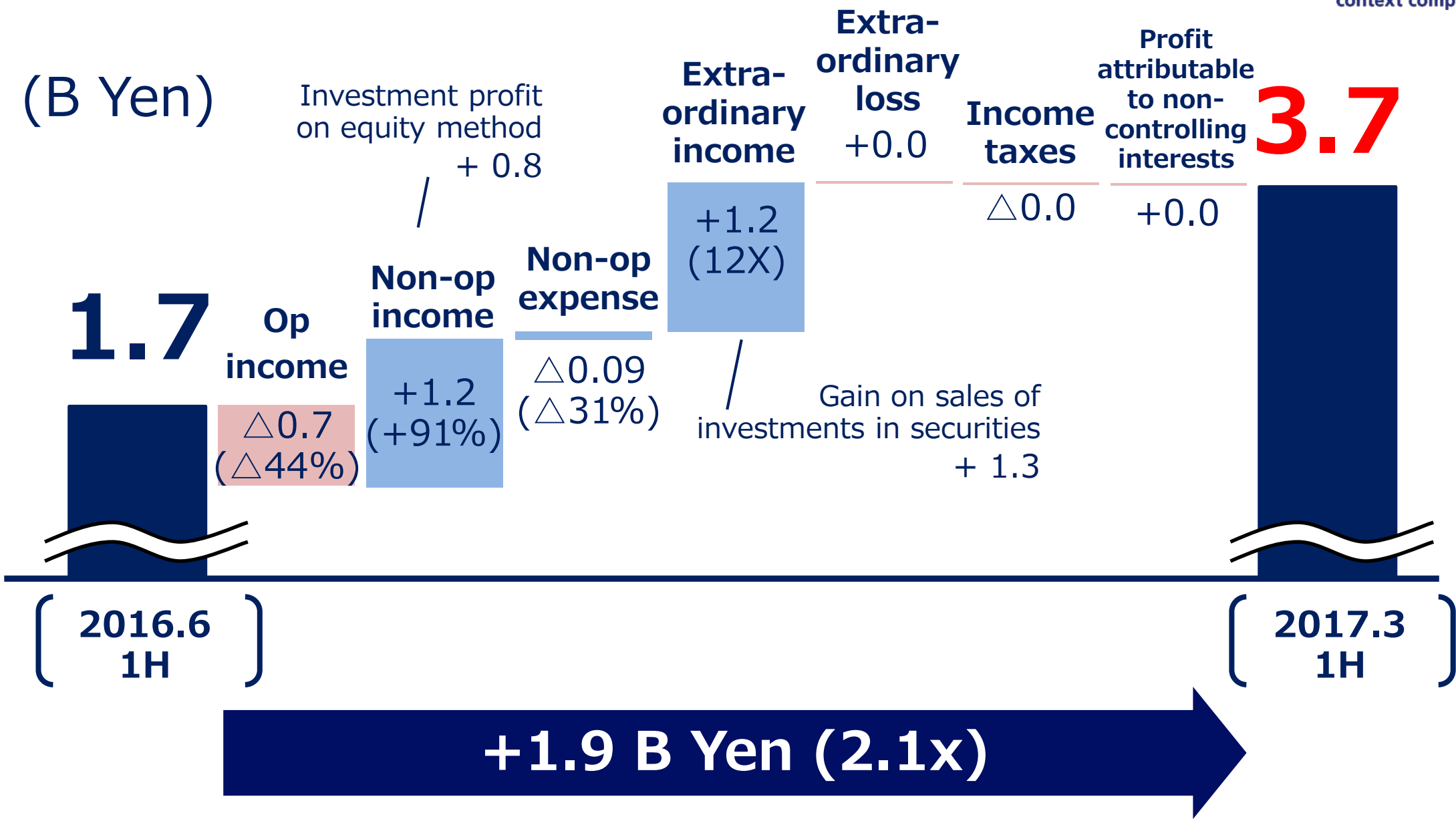
(B Yen)







❖ Contribution to Net income attributable to owners of parent



JPY in Million	FY16.6				FY17.3	
	1Q	2Q	3Q	4Q	1Q	2Q
Net sales	10,336	9,507	11,631	12,288	11,558	12,258
Operating income	1,425	201	1,477	1,097	412	493
Ordinary income	1,863	831	1,887	1,610	1,781	1,541
Income before income taxes	1,941	860	1,933	2,838	3,148	1,561
Net income attributable to owners of parent	1,196	599	1,510	1,857	2,689	1,011



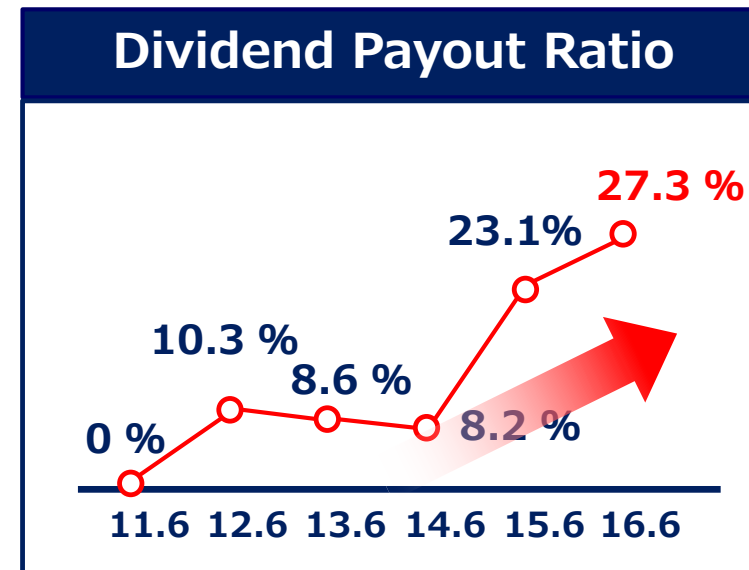
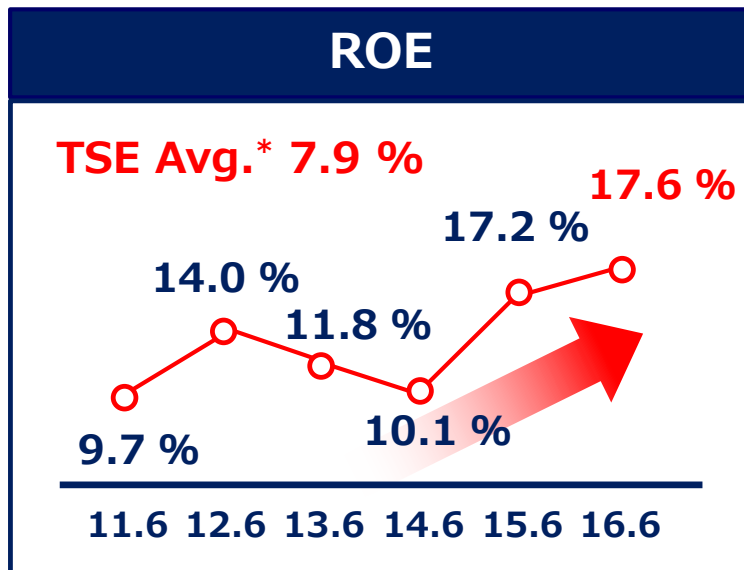
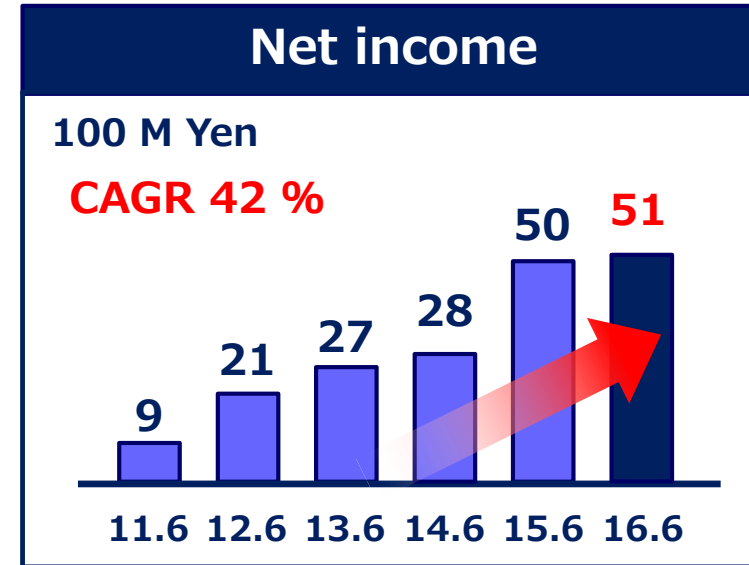
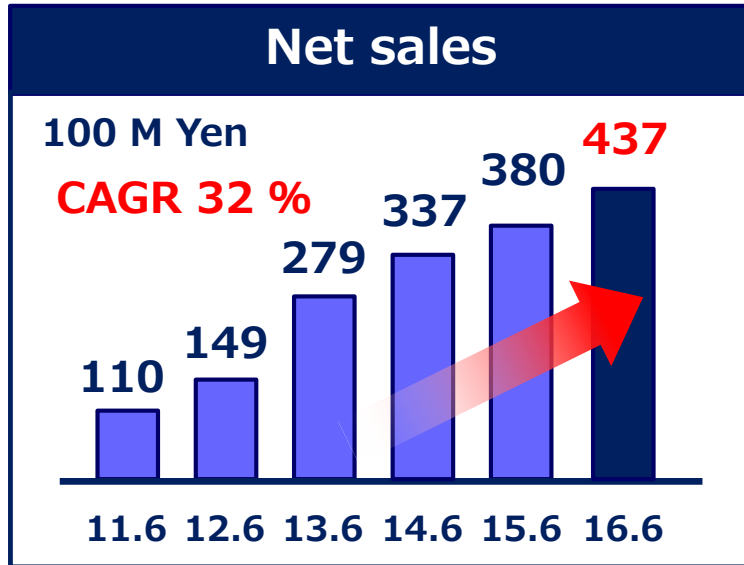
Quarterly Segment Profit and Loss (Consolidated)












JPY in Million	FY16.6				FY17.3	
	1Q	2Q	3Q	4Q	1Q	2Q
Net sales	10,336	9,507	11,631	12,288	11,558	12,258
IT Incubation Technology	1,899	657	1,863	1,921	496	596
MT Marketing Technology	4,502	4,730	5,648	6,147	6,550	6,843
FT Financial Technology	3,934	4,118	4,119	4,219	4,511	4,818
MI Media Incubation	-	-	-	-	-	-
Income before income taxes	1,941	860	1,933	2,838	3,148	1,561
IT Incubation Technology	1,064	△ 215	879	1,376	1,340	119
MT Marketing Technology	247	313	386	448	368	415
FT Financial Technology	413	453	440	451	468	462
MI Media Incubation	627	566	683	1,174	1,292	691

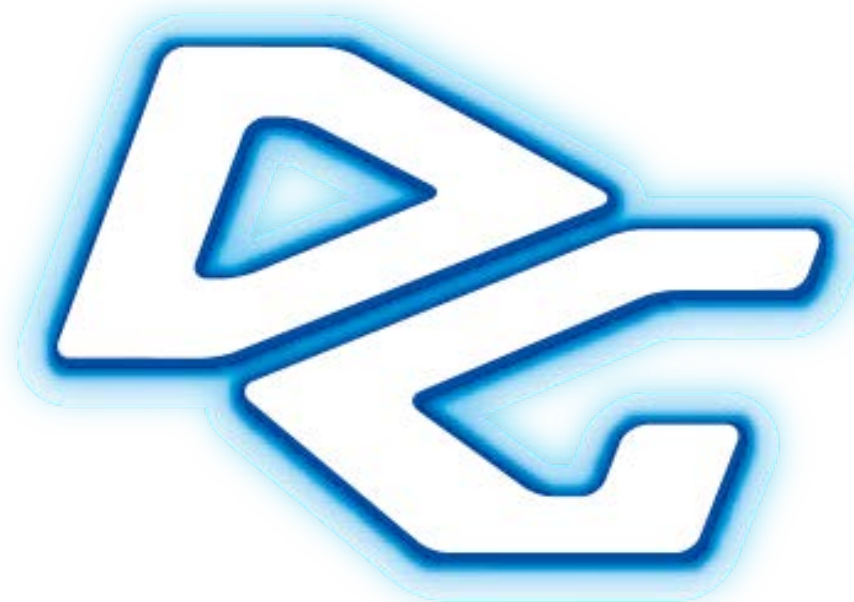
Note: Income before income taxes per segment is based on figures prior to elimination or group deduction, etc

◆ 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

Date		Title
2017.2.3	 Digital Garage	Digital Garage to jointly develop next-generation platform technology with leading blockchain technology company, Blockstream
2017.1.19	 Digital Garage	Japan's first preferred point service for cross-border EC malls aimed at members of "HAPPY GO", Taiwan's largest multi-store loyalty program, is launched
2017.1.12	 DG INCUBATION	Digital Garage Invests in Mind Fund, a Hong Kong Based Startup Studio and Investor
2016.12.7	 Digital Garage	Digital Garage collaborates with Toyota to build the future's mobility society support for operation of the open innovation program TOYOTA NEXT
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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