



# Open Incubation toward 2020

**Digital Garage, Inc.**

**1Q of FYE March 31, 2018 Financial Report**

**2017.8.10**

 **Digital Garage**

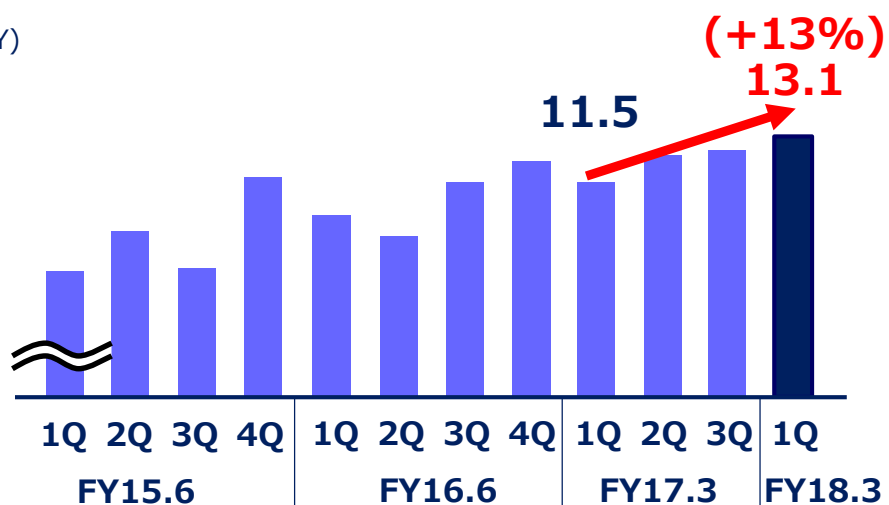


## YoY\* sales grew by 13%, operating income grew by 13%, income before income taxes decreased by 42% in FY18.3 1Q

- Strong MT and FT segments drove both of sales and operating income. Ordinary income decreased by 37% YoY due to change of fiscal term last year
- Income before income taxes decreased by 42% due to investment profit on equity method by change of fiscal term last year and decline of extraordinary income
- Progression rate for forecast: sales 22% / income before income taxes 23% --- Exceeding the budget target

### Consolidated sales

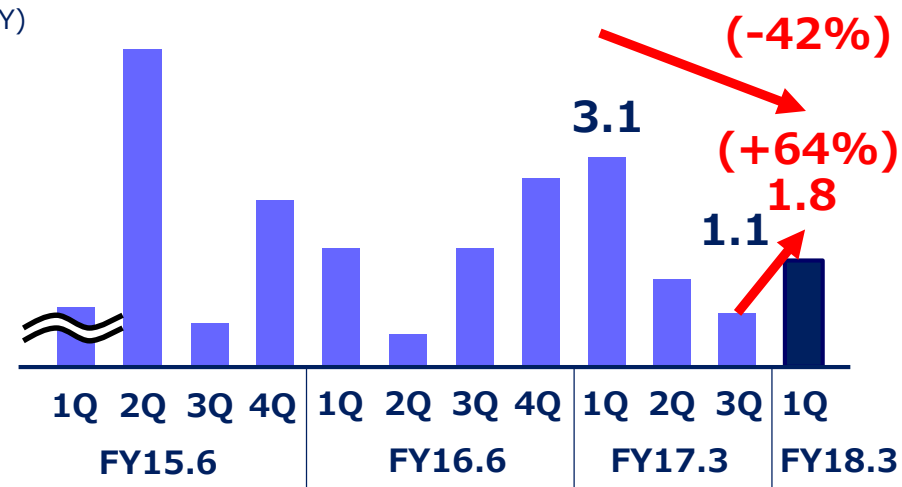
(in B JPY)



- Sales marked 13.1 B JPY (+13% YoY), which is record-high quarterly results
- MT and FT segments secured double digits growth stably, and be the engine of company growth

### Consolidated income before income taxes

(in B JPY)



- Recovered: 1.8 B JPY, increased 64% compared to FY17.3 3Q
- No burden of impairment loss of FY17.3, and contributed to the improvement of income before income taxes
- FY17.3 1Q included investment profit on equity method of Kakaku.com, Inc. for 6 months (FY17.3 1Q 1.2B JPY → FY18.3 1Q 0.6 B JPY)

Note:\* Compared FY17.3 1Q with FY18.3 1Q as follows due to change of fiscal term last year

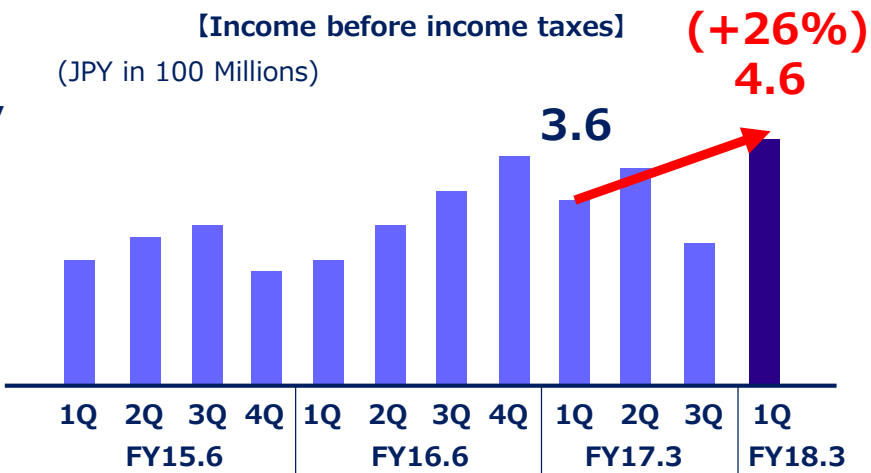
Companies whose fiscal term was March ending prior to the change : FY17.3 1Q (Apr. - Sep.) vs FY18.3 3Q (Apr. - Jun.)

Companies which changed fiscal term to March ending : FY17.3 1Q (Jul. - Sep.) vs FY18.3 3Q (Apr. - Jun.)

## Segment Highlight

New Mid-term Plan Target

### Marketing Technology



■ Strong performance-based ads  
Securing double digits growth in sales and profits

Sales 7.8 B JPY +19%

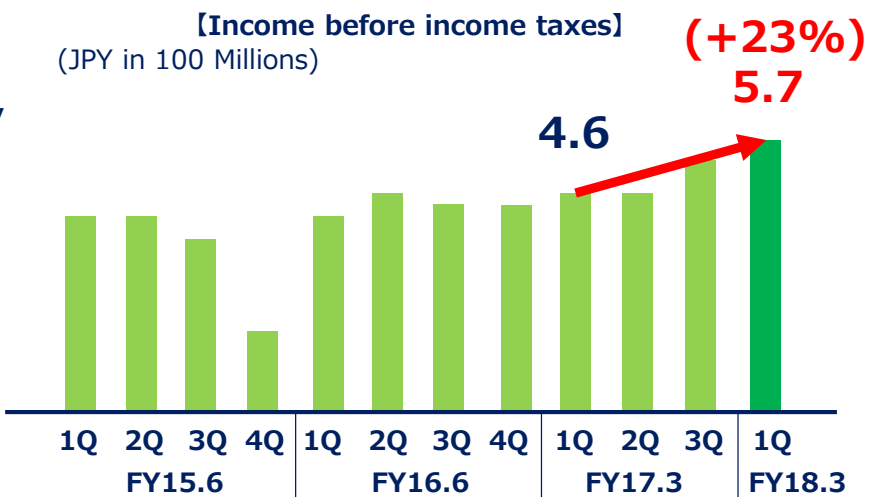
Income before income tax

0.46 B JPY +26%

Income before income tax

CAGR +15%

### Financial Technology



■ Continued growth exceeded the market  
Securing double digits growth in sales and profit

Transaction volume

340.5 B JPY +10%

Income before income tax

0.57 B JPY +23%

Income before income tax

CAGR +15%



## Segment Highlight

New Mid-term Plan Target

Incubation Technology



### Investment and incubation :

- Continuing active growth investment
- Will assign an influential investor in Silicon Valley as a Chief Investment Officer in September, as part of formulating a new structure of investment business
- Strengthen investment structure in Japan, US and Asia. Start the review of portfolio strategically

■ Investment balance 12.5 B JPY

ROI 2.5 x

Long Term Incubation



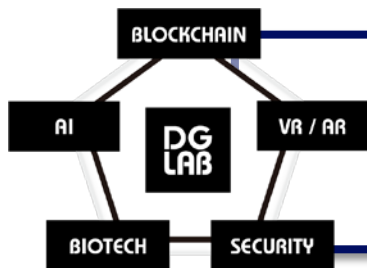
### Long term business profit:

- DK Media, JV with Kodansya, opened compilation media "HOLICS"
- DG Life Design, lifestyle business, started officially
- Formulating mid-long term incubation structure of blue-chip investing companies

■ Investment balance 3.3 B JPY

ROI 2.5 x





Driven by R&D and fund investment focusing on five key fields, fully start development of key technologies that can be the center of next-gen business. Will start proving feasibility test of block chain related project in fall of 2017.

**BLOCK CHAIN**

**Driving R&D projects utilizing blockchain**

Start in full swing of collaboration with Blockstream, a top tier company of blockchain. Co-developing products such as community currency with Kakaku and Credit Saison Co.,Ltd. based on blockchain technology. Will start proving feasibility test of community currency in fall of 2017.



**VR/AR**

**Collaborating with studio works for high quality VR contents**

Collaborating with Wevr, a company creates high quality VR contents. Tried field test of live streaming of music performance in "4K360°" format in conjunction with partner companies.



**BIOTECH**

**Establishing foundation for Bio Incubation Center**

Aiming for establishing ecosystem to incubate biotech related startups. Business alliance with PureTech Health, a company which works on advanced incubation business in biotech.

**AI**

**Developing services collaborating with data science**

Develop services and products based on AI analysis of various data provided by partner companies. Web action data by Kakaku and advertising data by Dentsu group will be utilized. Develop interactive agent prototype which can search on a restaurant review site "Tabelog", and plan to offer it as open platform.

**SECURITY**

**Aiming for novel security technology**

Studying development of novel security technology for protecting data which increase significantly by penetration of smartphone and IoT.



**DGLAB FUND** Starting investment on prospective companies of AI and Biotech

## Industry-leading conference event

~ Conference offered advanced technology trend/ workshop for developers ~

### THE NEW CONTEXT CONFERENCE 2017 TOKYO



Date : July 25-26, 2017

Venue : Tokyo, Japan

URL: <http://ncc.garage.co.jp/>

Hosted by Joi Ito, globally acclaimed leading researchers, entrepreneurs, and experts of the field came together to discuss and debate on these cutting edge trend. Starting from 2005, and this was the fifteenth edition.

**Day1 : Intersections Between IT and Biotechnology and the Future They Foretell**

**Day2 : Real Power and Evolution of Blockchain**

**Digest video : <https://youtu.be/ZpKqUUitPQ4>**

**Approx. 500 participants on each day. Satisfied level: 89%**



Blockchain Core Camp

Date : July 31 - August 2, 2017

Venue : Digital Garage HQ (Tokyo)

URL: <https://bc-2.jp/>

Training fields for engineers where can experience implementation of Blockchain technology by hands-on for 3days.

**Day1 : Elements and Assets**

**Day2 : "Layer2" Technology**

**Day3 : Smart Contract**

**Joined approx. 100 engineers**

**Satisfied level: 80%**



**Will continue the activities which enhance the participants and industry by sharing the moment with leading parsons**

# Group Financial Performance Review



# FY18.3 1Q Consolidated P/L Summary

JPY in Millions	FY17.3	FY18.3	YoY		FY18.3	
	1Q Act (7-9)	1Q Act (4-6)	%	Amount	Full Year Forecast	1Q Progress
<b>Net sales</b>	11,558	13,103	+13.4	+1,544	<b>58,500</b>	<b>22%</b>
<b>Operating income</b>	412	464	+12.6	+51		
Non-operating income	1,555	748	-51.9	-807		
Investment profit on equity method	1,262	615	-51.2	-646		
Non-operating expenses	197	101	-48.5	-95		
Foreign exchange loss	67	9	-86.3	-58		
<b>Ordinary income</b>	1,770	1,111	-37.3	-659		
Extraordinary income	1,380	719	-47.9	-661		
Gain on sales of investments in securities	1,368	717	-47.6	-650		
<b>Income before income taxes</b>	3,137	1,830	-41.7	-1,307	<b>8,000</b>	<b>23%</b>
Income taxes	456	568	+24.5	+112		
<b>Net income attributable to owners of parent</b>	2,678	1,267	-52.7	-1,411	<b>5,500</b>	<b>23%</b>

Note: \* Compared FY17.3 1Q with FY18.3 1Q as follows due to change of fiscal term last year

Companies whose fiscal term was March ending prior to the change : FY17.3 1Q (Apr. – Sep. ) vs FY18.3 3Q (Apr. – Jun.)

Companies which changed fiscal term to March ending : FY17.3 1Q (Jul. – Sep. ) vs FY18.3 3Q (Apr. – Jun.)

Kakaku.com,Inc. is affiliated company for using the equity method, and started to apply IFRS this year. Investment profit on equity method of FY18.3 is based on IFRS treatment, and the figures on FY17.3 has been applied retrospectively.



# FY18.3 1Q Consolidated Segment P/L Summary



JPY in Millions	FY17.3	FY18.3	YoY		FY18.3	
	1Q Act (7-9)	1Q Act (4-6)	%	Amount	Full Year Forecast	1Q Progress
<b>Net sales</b>	11,558	13,103	+13.4	+1,544	<b>58,500</b>	<b>22%</b>
MT Marketing Technology	6,550	7,800	+19.1	+1,249	32,000	24%
FT Financial Technology	4,511	4,951	+9.8	+439	20,500	24%
IT Incubation Technology	486	337	-30.5	-148	6,000	6%
LTI Long Term Incubation	10	14	+30.7	-	-	-
<b>Income before income taxes</b>	3,137	1,830	-41.7	-1,307	<b>8,000</b>	<b>23%</b>
MT Marketing Technology	368	466	+26.3	+97	1,750	27%
FT Financial Technology	468	578	+23.5	+109	2,300	25%
IT Incubation Technology	1,364	-114	-	-1,478	3,800	-
LTI Long Term Incubation	1,258	554	-56.0	-703	2,500	22%

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

MI segment has been changed to LTI segment from FY18.3, by aiming to generate sustainable business profit in mid-long term. Some businesses in IT segment have transferred to LTI, therefore figures on FY17.3 updated with the current category.

# FY18.3 1Q Consolidated B/S Summary

JPY in Million	FY17.3	FY18.3 1Q	Difference	Reason for change / Remarks
<b>Current assets</b>	59,624	59,875	+250	
Cash and deposits	23,029	20,422	-2,607	New investments, Payment of corporate tax and dividends
Receivables	15,422	16,971	+1,548	Sales of investment securities, Expansion of FT business
Money held in trust	2,264	3,883	+1,618	Expansion of FT business
Operational investment securities	11,856	12,411	+554	New investments, Mark-to-market, etc
<b>Fixed assets</b>	32,061	30,316	-1,745	
Investment securities	18,357	16,584	-1,773	Sales of investment securities, Increased investment profit on equity method
Goodwill	5,411	5,293	-117	
<b>Total assets</b>	91,686	90,191	-1,494	
<b>Current liabilities</b>	38,815	34,837	-3,978	
Deposits	25,127	24,985	-141	
Short-term borrowing	6,937	4,137	-2,800	Short-term borrowings shifted to long-term as long-term interest rates get lowered
<b>Fixed liabilities</b>	18,499	20,607	+2,107	
Long-term borrowing	17,207	19,526	+2,319	
<b>Total liabilities</b>	57,315	55,444	-1,870	
<b>Net assets</b>	34,371	34,746	+375	
<b>Shareholders' equity</b>	31,633	31,961	+327	
Common stock	7,437	7,438	+1	
Capital surplus	2,946	2,947	+1	
Retained earnings	21,300	21,626	+325	Increased net profit
Accumulated other comprehensive income	1,956	1,967	+11	
Unrealized gains on securities	644	641	-2	
<b>Liabilities / Net assets</b>	91,686	90,191	-1,494	

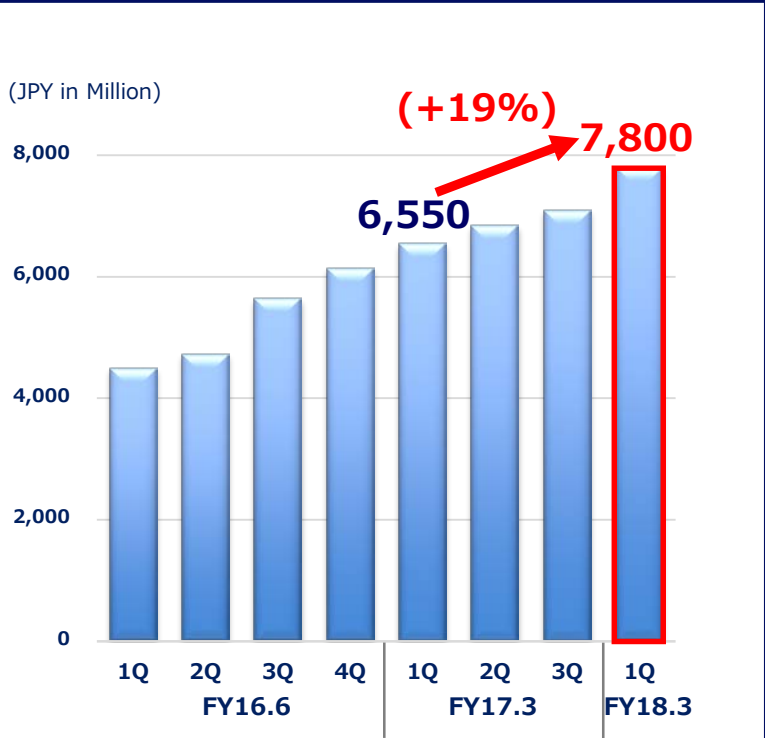
# Segment Performance Review



## Achieved record-high sales

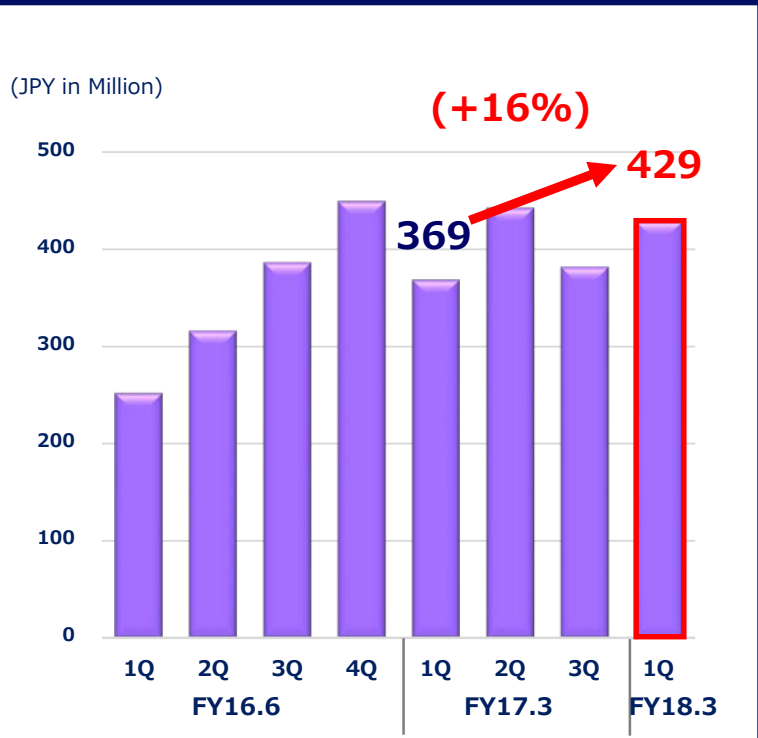
Performance-based ads grew steadily and penetrates in all businesses

### Net Sales



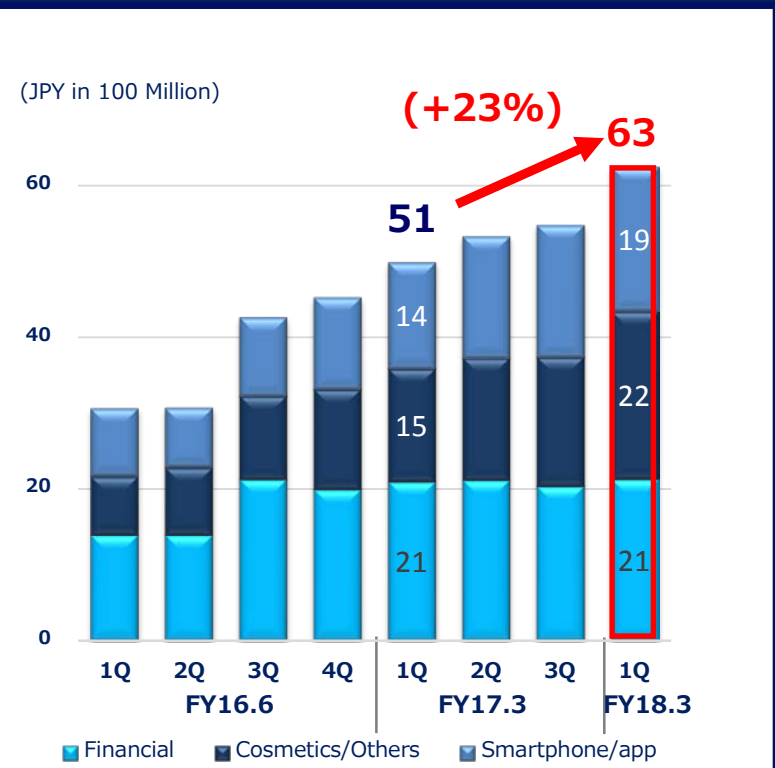
Stable growth gaining traction in performance-based ads. Achieved record high sales.

### Operating Income



Due to increased sales and improvement gross margin mix, increased employment cost and fixed cost were absorbed.

### Sales from Performance-based Ads



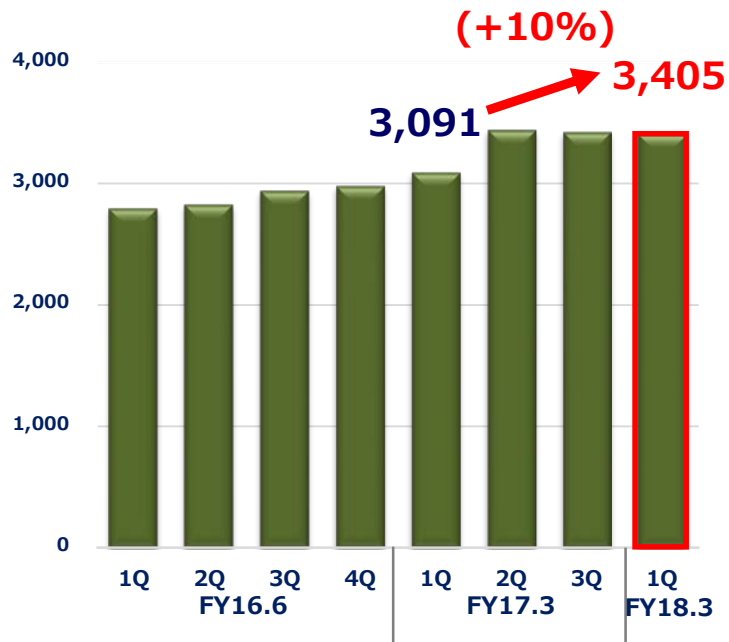
Continued growth not only in financial business but also in all businesses



## Achieved record-high sales and operating income Transaction expanded to more than 340 B JPY

### Transaction Record

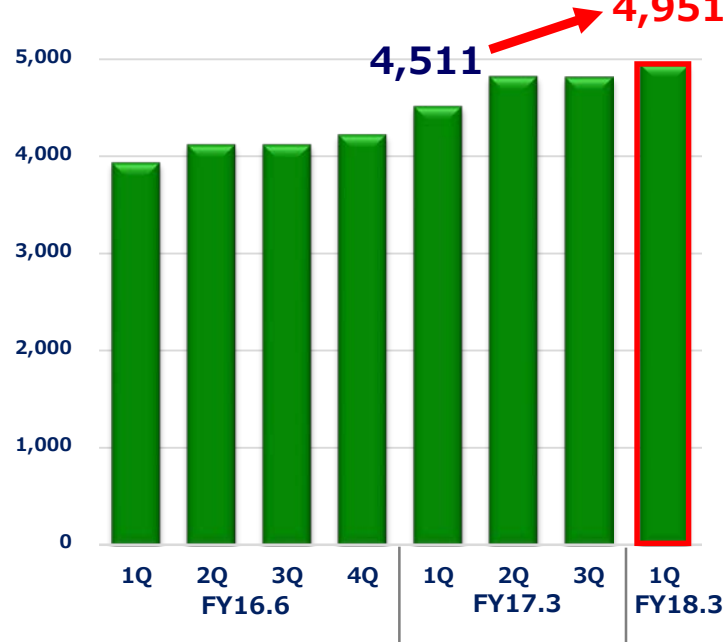
(JPY in 100 Million)



CtoC field has been strong continuously  
Exceed EC market growth 9.9%

### Net Sales

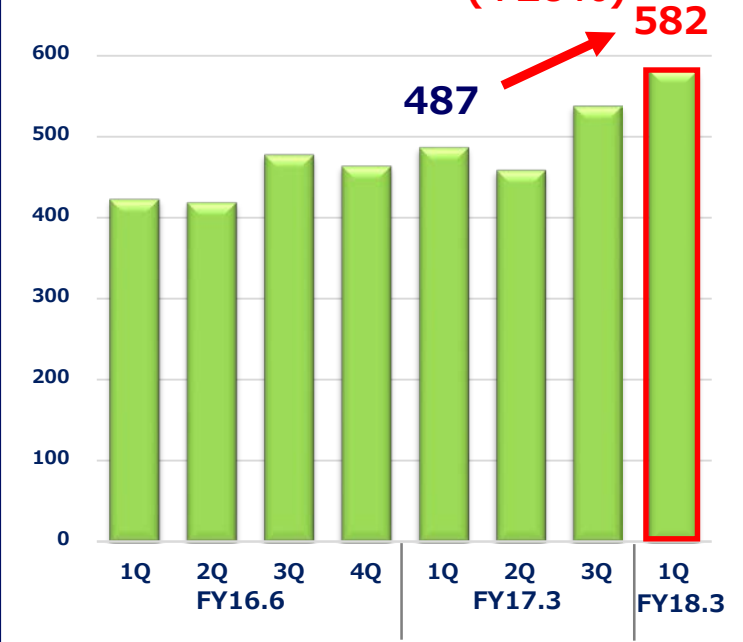
(JPY in Million)



Growth of existing client and  
acquisition of major EC companies are  
contributed

### Operating Income

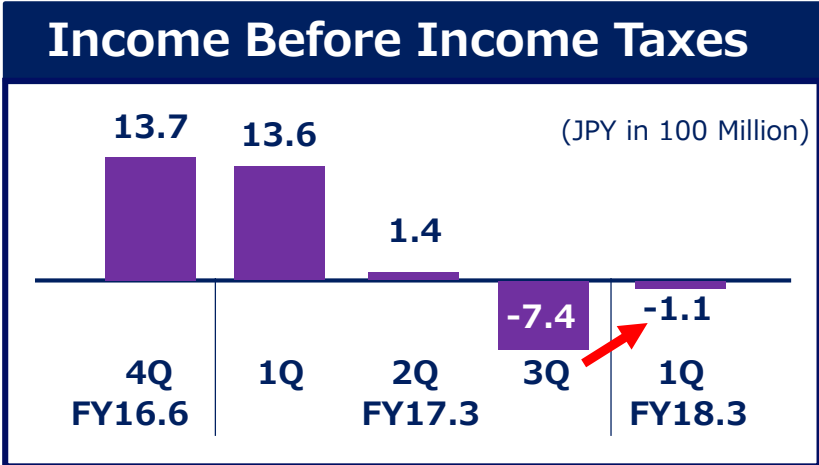
(JPY in Million)



As transaction record increased,  
the marginal profit improved, and  
achieved record high operating income.

**No burden of impairment loss of FY17.3, income before income taxes improved 0.6 B JPY compared to FY17.3 3Q.**

~ Although income before income taxes ended in deficit due to no stock sales in 1Q, active growth investment has continued ~




### Book Value

	# of companies	Book Value
<b>Equity</b>	<b>134</b>	<b>11.9 B JPY</b>
Domestic	43	1.9 B JPY
Overseas	91	9.9 B JPY
<b>Fund</b>	<b>8</b>	<b>0.6 B JPY</b>
<b>Total</b>	<b>142</b>	<b>12.5 B JPY</b>

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

#### Welby [Japan]




Builds apps for patients with chronic malady, diabetes, cancers

#### Droom [India]




India's Most Trusted Motorplace  
A leading online marketplace for new and second-hand automobiles in India

#### Goodpatch [Japan]




Web development and consulting service firm

#### Wevr [U.S.]




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

#### Monstar Lab [Japan]




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

#### PureTech Health [U.S.]



A US based company that focuses on incubation in advanced biotechnology field. Listed on LSE.

#### Panair [Japan]



Provides "Odin", an automated electricity retail platform that uses cloud computing and artificial intelligence.



**Alliance with PureTech Health and launch incubation business of next-gen. biotech startups**  
~ Build Japan's first ecosystem to grow and support biotech companies in the face of integration with computer science ~



**Alliance points**

- I** Support business development of PureTech in Japan

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- II** Provide technical advice and introduction of investing companies by PureTech

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- III** JV establishment in digital/bio/healthcare fields etc

**PureTech Health Plc**

A US based company (HQ: Boston) that focuses on incubation in advanced biotechnology field. Listed on LSE.

**Major startup companies under PureTech**

 Treatment for ADHD by video game	 Treatment for weight loss and improve glycemic control	 Therapies for immune by human microbiome	 Treatment for schizophrenia	 Music therapy by AI
 Treatment for hair loss	 Efficient oral medication	 Treatment for inflammatory disorders	 Microbial therapy for children	 Voice-based health assessment

**Utilizing know-how fostered through incubation of IT startup companies in the biotech field**



# Leading experts in managements and advisers of PureTech

~ From former VP of Major pharmaceutical companies to winners of the Nobel Prize in Physiology or Medicine ~



**Daphne Zohar**  
Co-Founder & CEO

Recognized as a top leader and innovator in biotechnology by various sources



**Marjorie Scardino**  
Senior Independent Director

Served as executives in Economist and Pearson. Currently being the chairman of MacArthur Foundation.



**Robert Langer, ScD**  
Co-Founder, Non-Executive Director  
Scientific Advisory Board Member

Honorable biomedical engineering researcher and Institute Professor at MIT. Known as "one of the most cited individuals in history".



**Atul Pande, MD**  
Chief Medical Officer

Has more than two decades of experience in drug development. Former SVP of GlaxoSmithKline Senior adviser of pharmaceutical R&D



**Ben Shapiro, MD**  
Co-Founder, Non-Executive Director

Previously he was EVP of Merck, and was responsible for all basic and preclinical research activities. He also was professor of University of Washington.



**Robert Horvitz, PhD**  
Board Advisor & Scientific Advisory Board Chair

Received Nobel Prize in Physiology or Medicine in 2002 for discovering programmed cell death



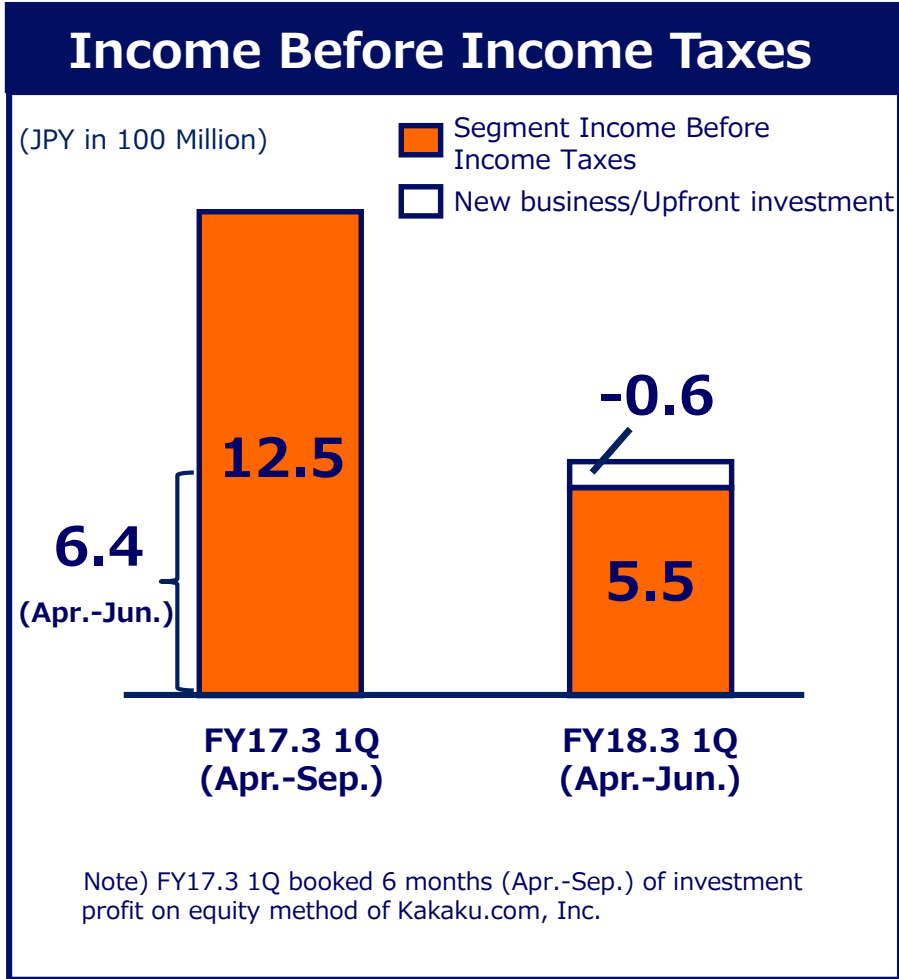
Receiving technical advice on biotech business development and investment



**Due to change of fiscal term last year, investment profit on equity method of Kakaku decreased by YoY**

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**~ Active upfront investment on new business ~**



### Strategy of LTI Segment / Major Progress

- DG grouping of invested companies, JV establishment with alliance companies
- Incubation of new business, business expansion by collaboration with DG group
- Creation of long and sustainable business profit

↓

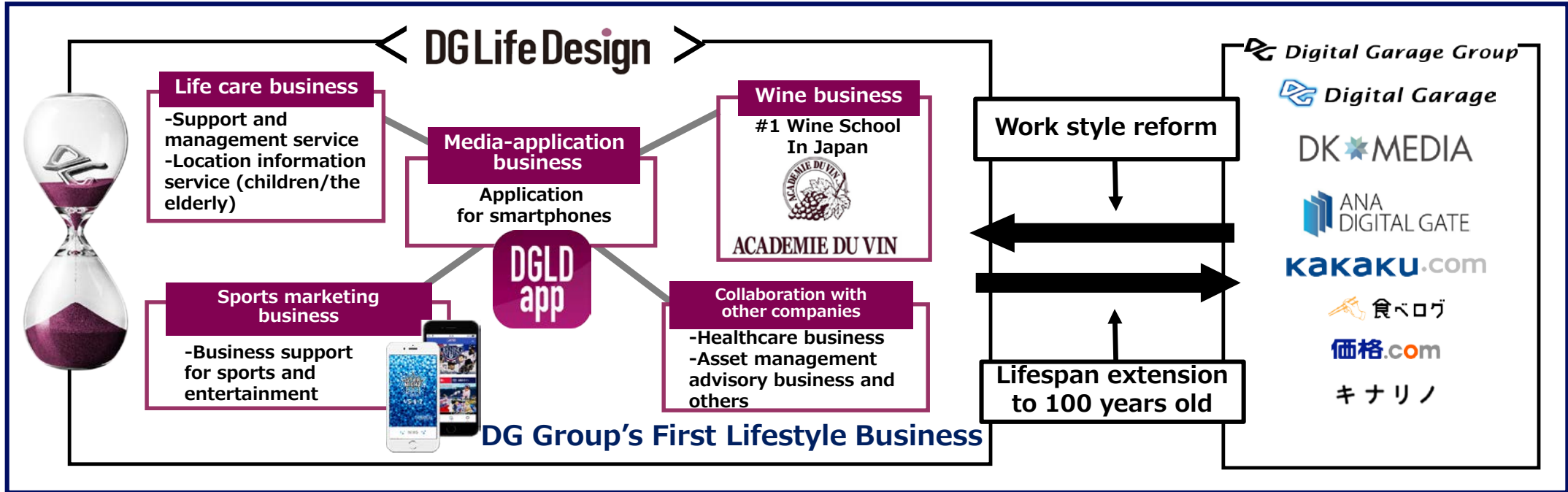
- Contents business (JV with Kodansha)
  - DK★MEDIA
  - ✓ Started compilation media “HOLICS” combining good contents and AI technology

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- Lifestyle support business
  - ⌚ DGLifeDesign
  - ✓ Strengthen collaboration with DG group based on existing profitability model

## Lifestyle support business DG Life Design has started

Started compilation media "HOLICS" in June combining good contents of magazines and AI technology



すべての女性のための偏愛ミュージアム

# HOLICS



<https://holics.jp/>  
**Started June 28, 2017**  
**Full open will be end of year**

# Appendix





# Quarterly Consolidated Sales /Income Before Income Taxes

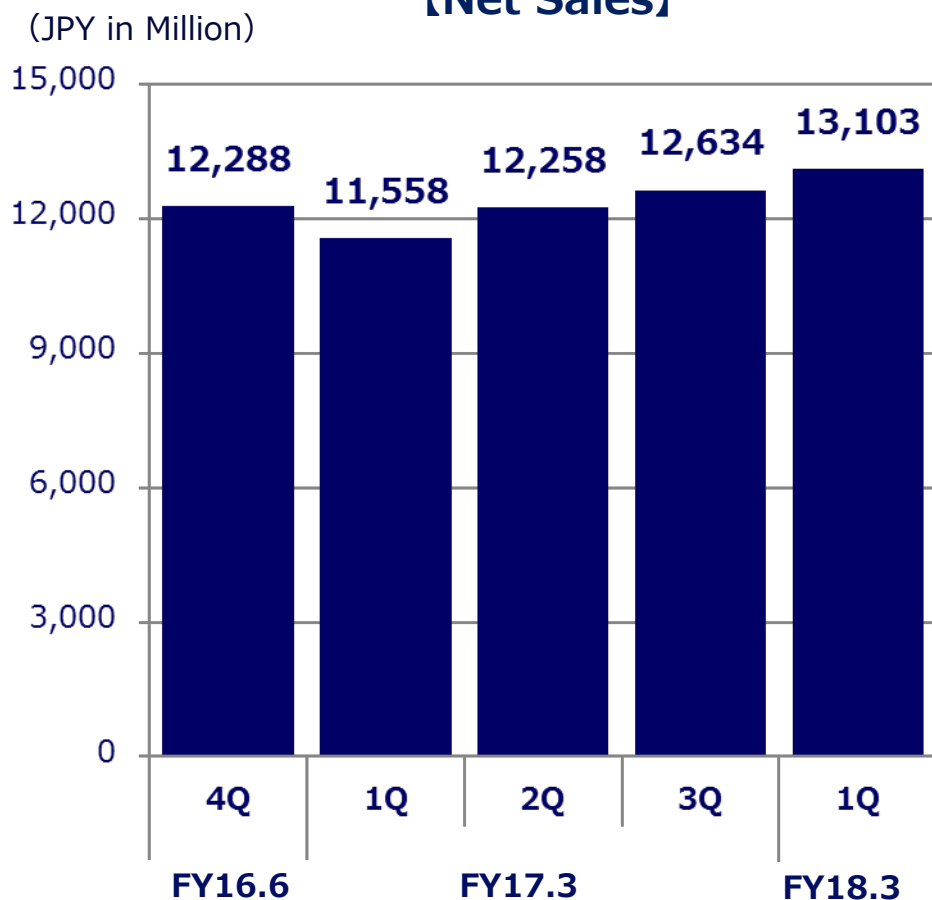


**YoY Sales grew by 13% 13.1 B JPY, income before income taxes decreased by 42% 1.8 B JPY**

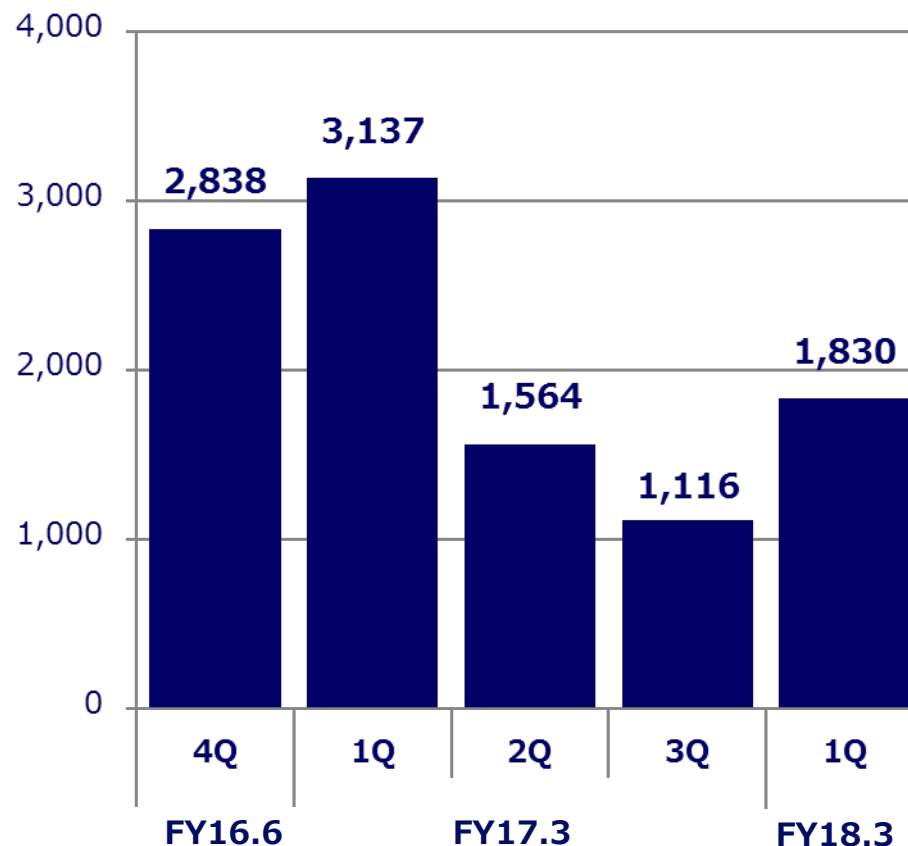
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**~ Growth gaining traction in MT and FT. Income before income taxes increased compared to 3Q in FY17.3 due to no impairment loss booking burden of last fiscal year ~**

### 【Net Sales】



### 【Income Before Income Taxes】

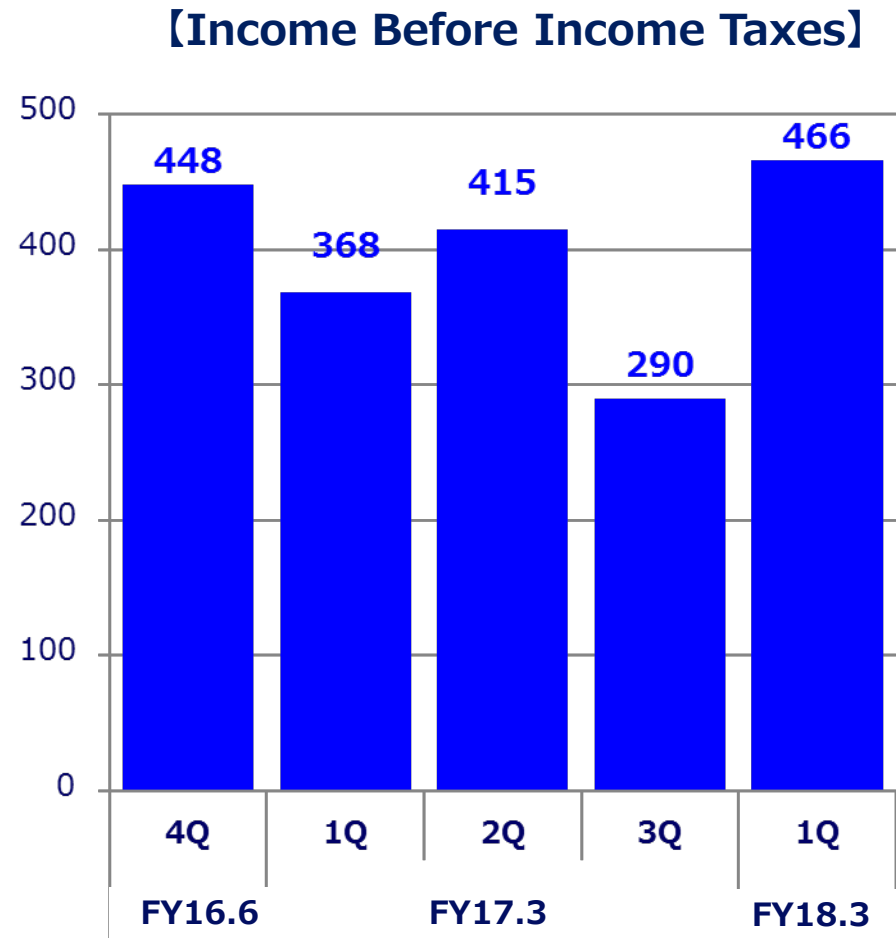
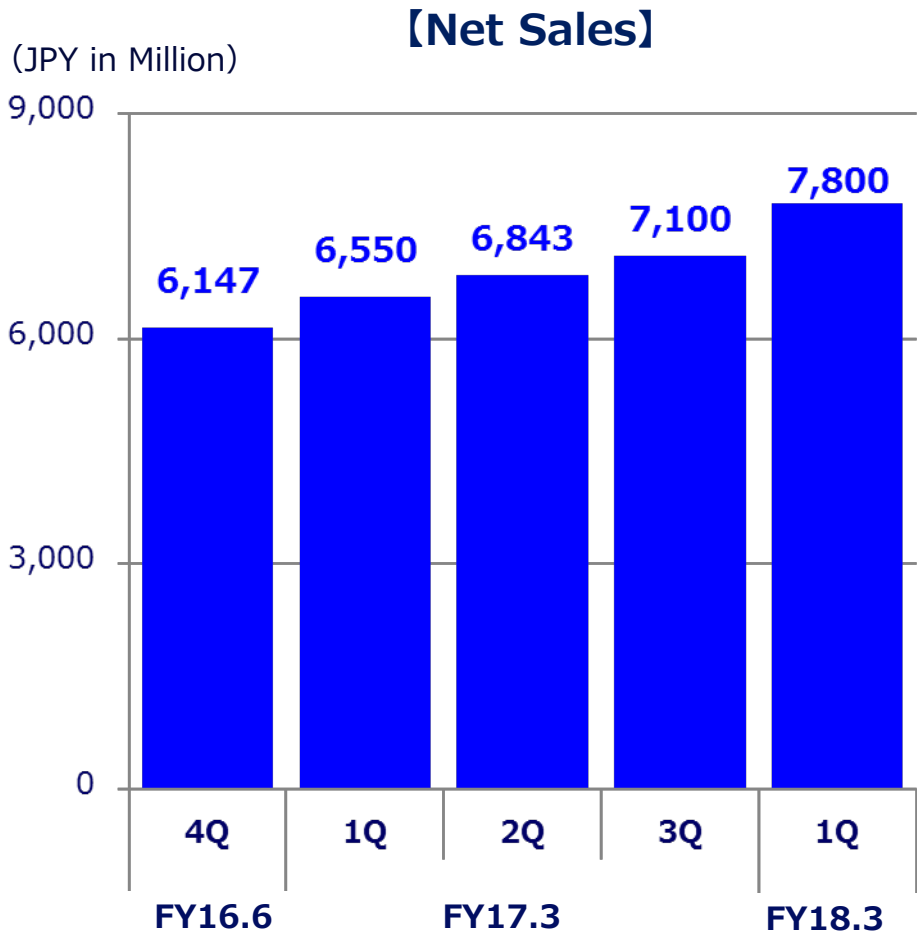




**Both sales and income before income taxes marked double digits big growth**

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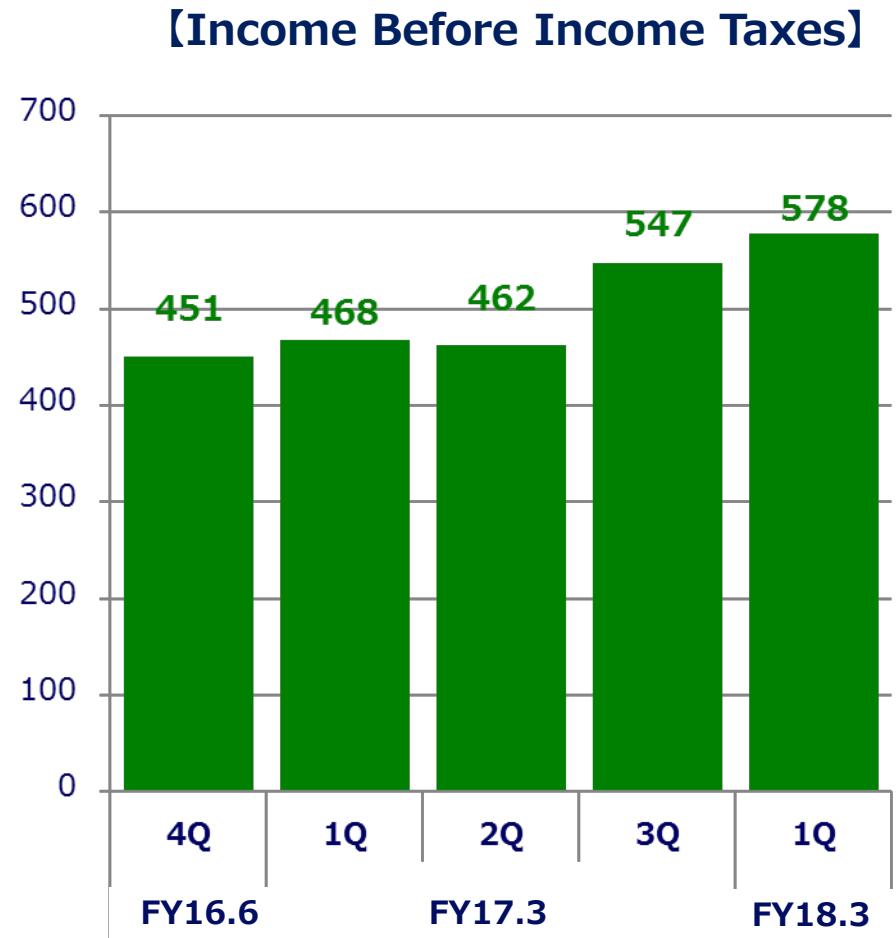
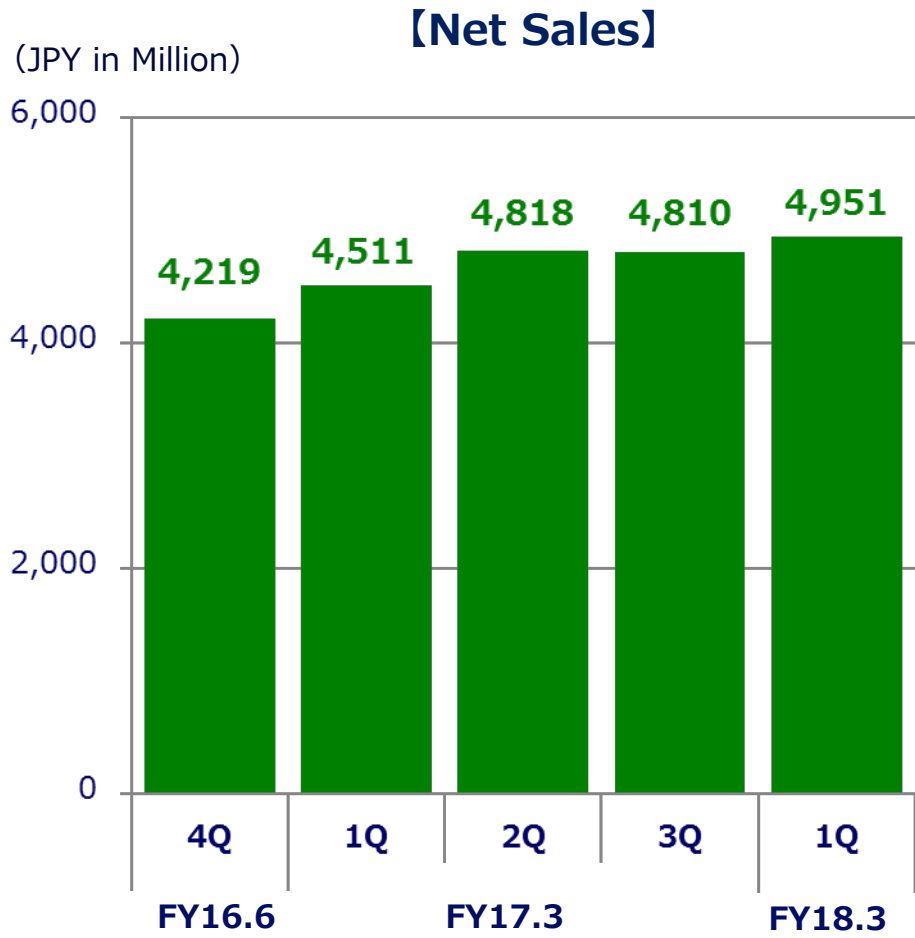
~ Growth gaining traction in performance-based ads. Data science business grew steadily ~



**Achieved income before income taxes +23% YoY with significant growth of transaction volume**

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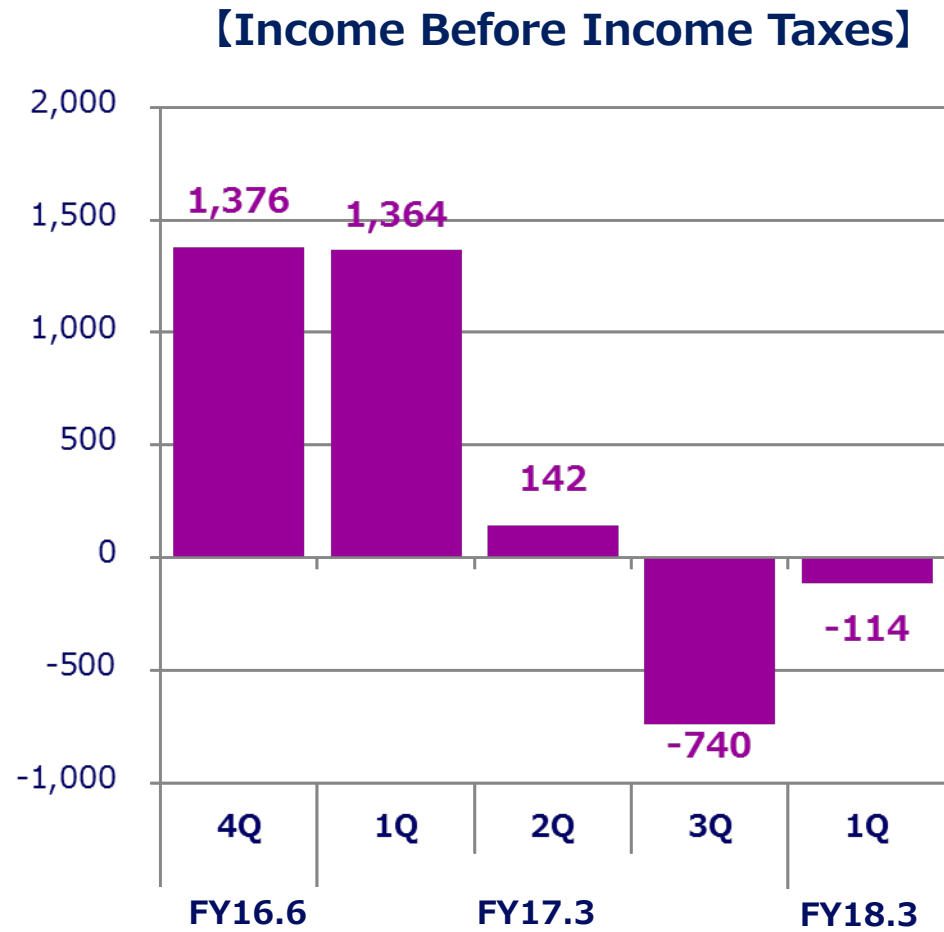
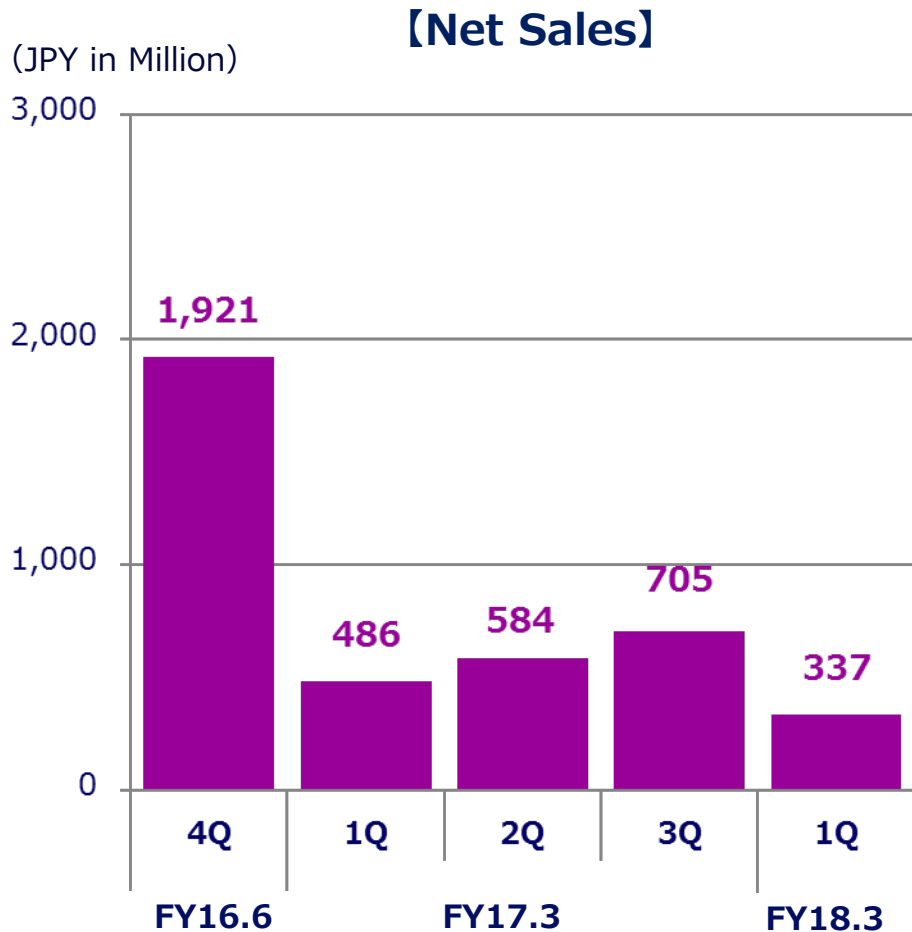
~ Payment grew in CtoC domain relating to event ticket selling, in addition to growth of face-to-face payment and dealer business in overseas ~



**US business sales grew but income before income taxes ended in deficit due to no stock sales in 1Q**

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~ Extend investment portfolio both domestically and abroad  
 Book value expanded to 12.5 B Yen ~

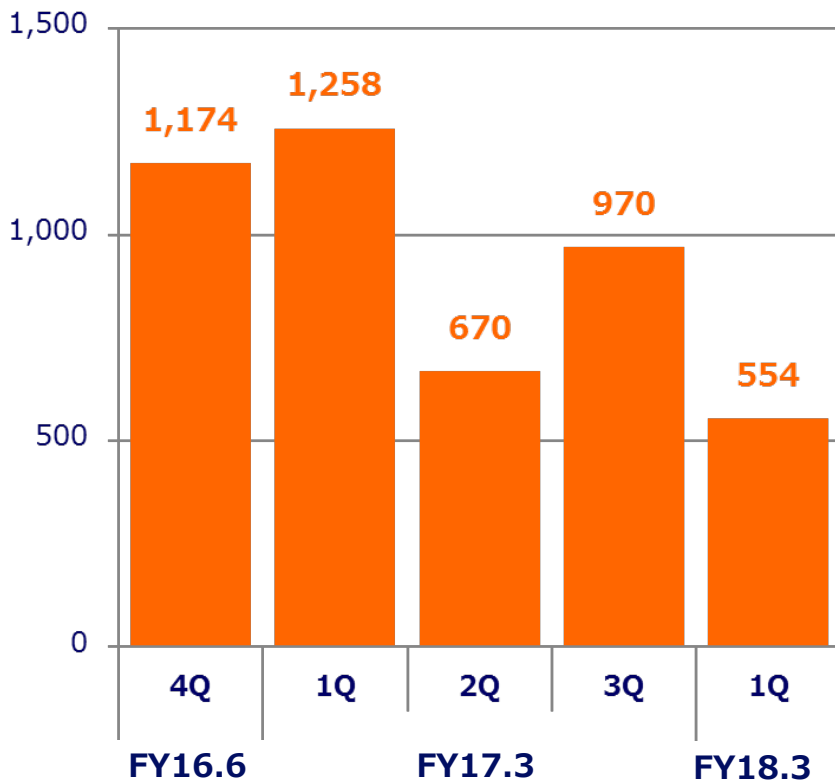


**Due to change of fiscal term, investment profit on equity method of Kakaku decreased by YoY**

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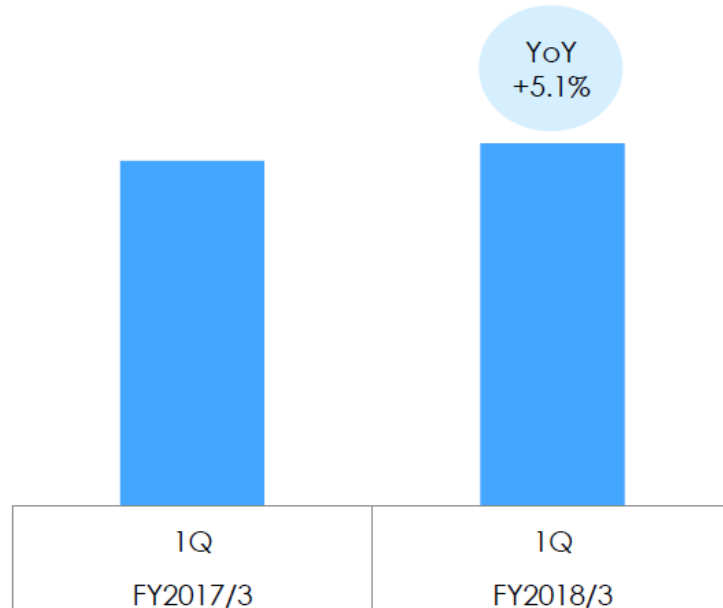
~ Setting up the mid-long term incubation framework of investments ~

(JPY in Million) **【Income Before Income Taxes】**



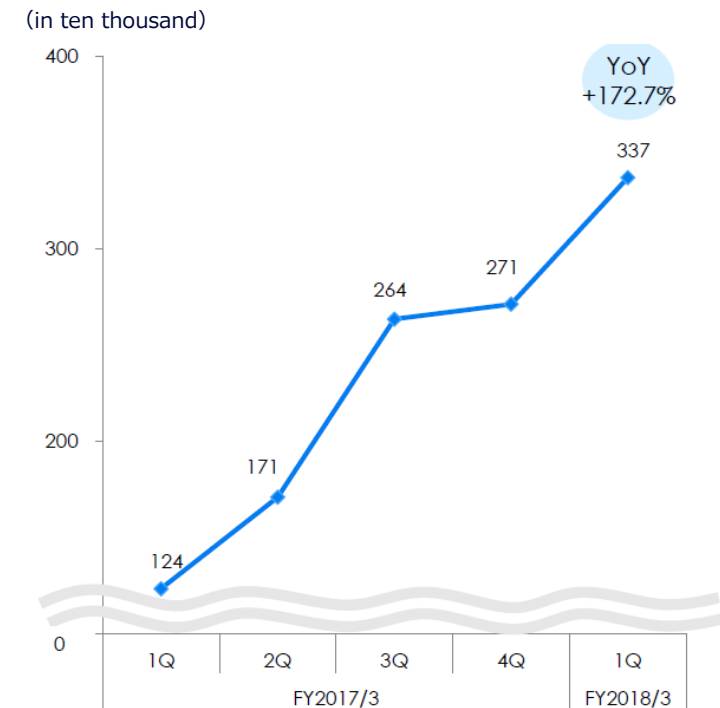
**【GMV growth for consumable goods】**

### Kakaku.com



**【Number of online reservations】**

### Tabelog



Results Briefing for Q1 FY2018, Kakaku.com, Inc.



JPY in Million	FY17.3			FY18.3
	1Q	2Q	3Q	1Q
Net sales	11,558	12,258	12,634	13,103
Operating income	412	493	-182	464
Ordinary income	1,770	1,544	363	1,111
Income before income taxes	3,137	1,564	1,116	1,830
Net income attributable to owners of parent	2,678	1,014	595	1,267

# Quarterly Segment Profit and Loss (Consolidated)



JPY in Million	FY17.3			FY18.3
	1Q	2Q	3Q	1Q
<b>Net sales</b>	<b>11,558</b>	<b>12,258</b>	<b>12,634</b>	<b>13,103</b>
MT Marketing Technology	6,550	6,843	7,100	7,800
FT Financial Technology	4,511	4,818	4,810	4,951
IT Incubation Technology	486	584	705	337
LTI Long Term Incubation	10	12	17	14
<b>Income before income taxes</b>	<b>3,137</b>	<b>1,564</b>	<b>1,116</b>	<b>1,830</b>
MT Marketing Technology	368	415	290	466
FT Financial Technology	468	462	547	578
IT Incubation Technology	1,364	142	-740	-114
LTI Long Term Incubation	1,258	670	970	554

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



Date		Title
2017.6.28	 <b>Digital Garage</b>	Digital Garage and Kodansha Establish HOLICS, a Compilation Media Service Combining Superior Magazine Content with AI Technology
2017.6.20		DG Lab to Unveil Open Platform for Interactive Agent Technology that Uses Artificial Intelligence
2017.6.1	 <b>Digital Garage</b>	Digital Garage to Invest in AI Technology Startup Studio All Turtles and Support their Business Development in Japan.
2017.5.31	 <b>Digital Garage</b>	THE NEW CONTEXT CONFERENCE 2017 TOKYO on July 25-26 The Event will Focus on Biotechnology and Blockchain
2017.5.12	 <b>Digital Garage</b>	Digital Garage officially launches lifestyle service for wealthy consumers Business integration with two subsidiaries leads to development of DG Life Design business
2017.4.5		Blockstream Launches New Confidential Assets Feature for Enterprise Blockchain Customers (Press Release of Blocksteam)



## ***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.