

Open Incubation toward 2020

Digital Garage, Inc.

FYE March 31, 2019 Financial Report

2019.5.10

 **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

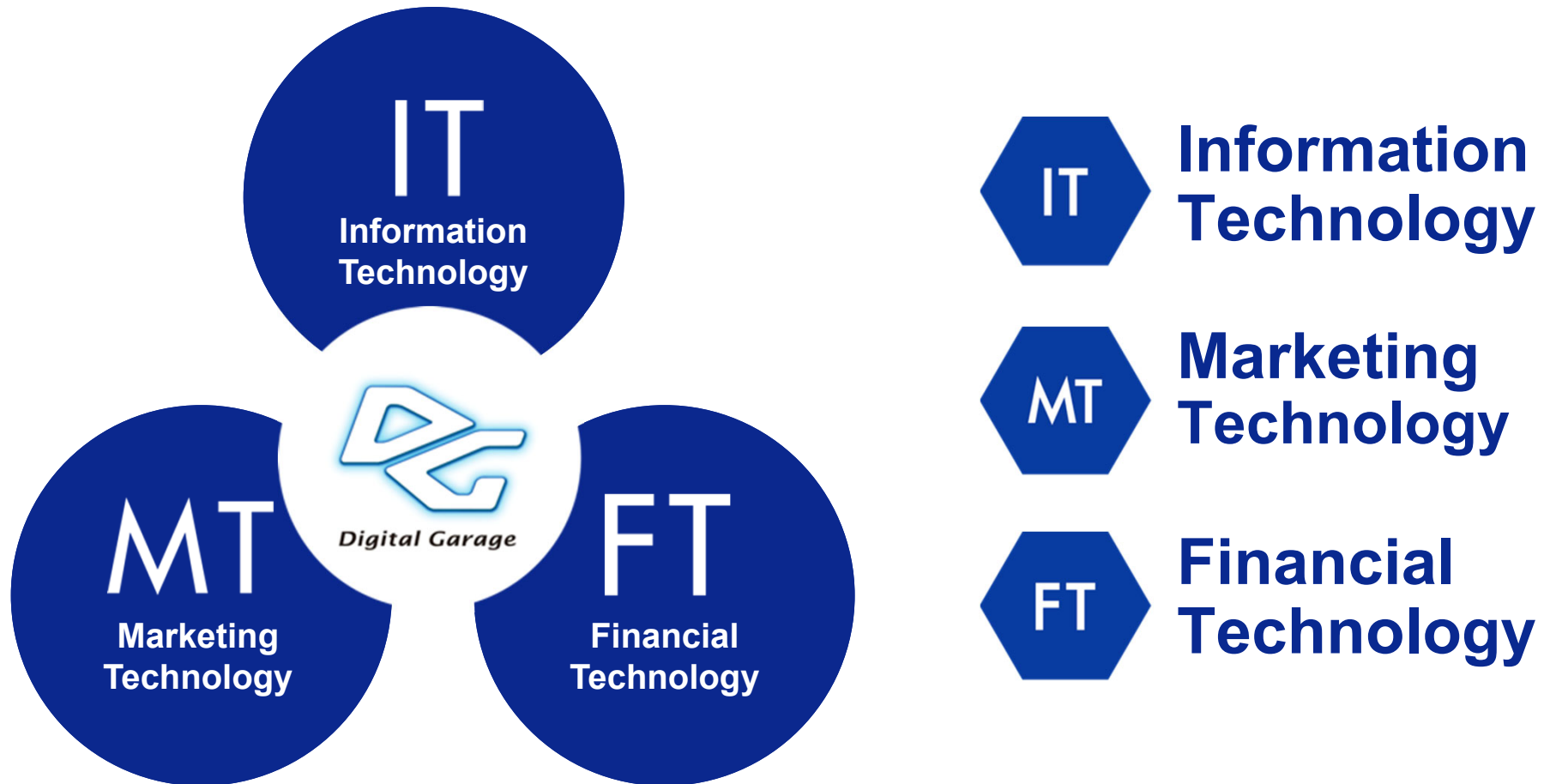
Real & Cyber

Local & International

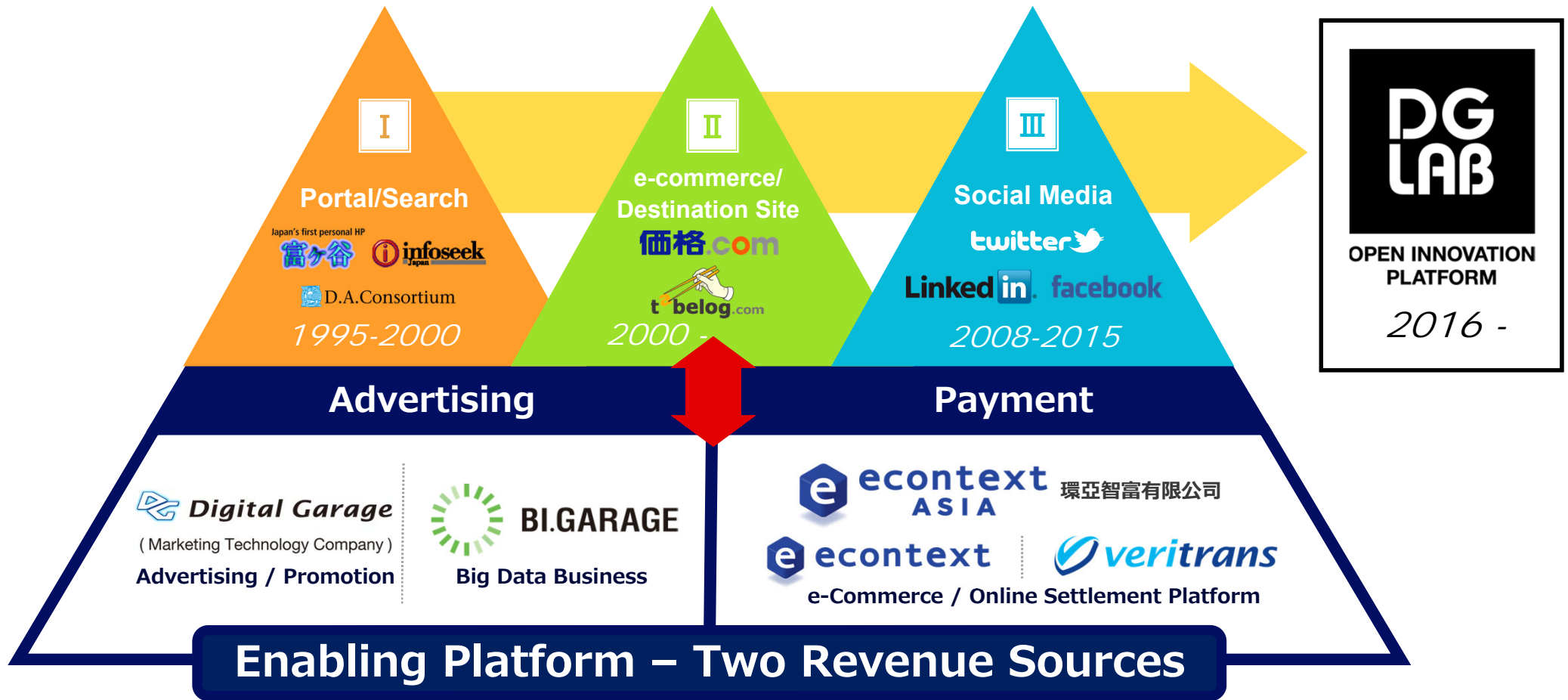
Marketing & Technology

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



Financial Results Highlights



context company

Profit before tax for the first year of application of IFRS increased 60% YoY to 13.4 B JPY, a record high

		FY18.3		FY19.3	
Consolidated	Profit before tax	8.4 (B JPY)	→	13.4 (B JPY) +60 %	
		KPI		By segments	
				Profit before tax	YoY
FT	<ul style="list-style-type: none"> Transaction volume <u>2.1 T JPY (YoY up by 34%)</u> of which, face-to-face settlement <u>111.4 B JPY (YoY 2.7x)</u> 		→	3.2 (B JPY) +13 %	Reached record-high, both EC/non-EC were strong
MT	<ul style="list-style-type: none"> Advertisement volume <u>36.5 B JPY (YoY up by 12%)</u> of which, for financial sector <u>11.5 B JPY (YoY up by 16%)</u> 		→	1.4 (B JPY) -25 %	Profit decreased due to a decrease in large-scale game projects last year and upfront investment
IT	<ul style="list-style-type: none"> Investment / Sold 7.0 B JPY / 3.4 B JPY Fair valuation <u>26.7 B JPY (YoY up by 60%)</u> 		→	6.9 (B JPY) 5 x	Significant increase in fair value valuation of investees and strong exit
LTI	<ul style="list-style-type: none"> Investment profit on equity method of Kakaku.com <u>3.5 B JPY (YoY up by 6%)</u> Monthly traffic for all sites of Kakaku.com 271.18 million 		→	4.4 (B JPY) +21 %	Investment profit on equity method of Kakaku.com, Inc. trended steadily

Voluntary application of IFRS from the consolidated financial statements of
fiscal year ending March 2019

~ Reflect the revenue structure of FT/MT and the fair value assessment of the investment
business more appropriately~

I Reflecting the Group's business more appropriately in the IFRS financial statements

- IT / LTI : Appropriately record appraised value on the balance sheet by evaluating the fair value of investee companies
- FT / MT : Reflect revenue structure more clearly by changing from the traditional presentation of gross amount to the presentation of net revenue

II Improving comparability of financial information in global capital markets

III Strengthening Group management/ Improving capability for M&A and organizational restructuring

FY19.3 Consolidated P/L Summary (IFRS)



context company

Revenue increased 40% YoY to 35.6 B JPY, profit before tax increased 60% to 13.4 B JPY, and profit increased 52% to 9.8 B JPY

~ Revenue in recurring business grew by 25% YoY, revenue in operational investment securities increased 6 times YoY ~

JPY in Millions	FY18.3 (Result)	FY19.3 (Result)	YoY (%)	FY19.3 (Forecast)	vs Forecast (%)
Revenue	25,503	35,687	+39.9	33,500	+6.5
Revenue in recurring business	18,141	22,713	+25.2		
Revenue in operational investment securities	1,007	6,090	6.0 X		
Other income	2,111	1,933	-8.4		
Finance income	764	117	-84.7		
Share of profit of investments accounted for using equity method	3,481	4,835	+38.9		
Expenses	17,127	22,264	+30.0		
Cost of sales	7,187	10,401	+44.7		
Selling, general and administrative expenses	9,095	11,296	+24.2		
Other expenses	542	332	-38.8		
Finance costs	303	235	-22.5		
Profit before tax	8,376	13,424	+60.3	9,000	+49.2
Profit attributable to owners of parent	6,412	9,771	+52.4	6,200	+57.6

NOTE: The above profit before tax refers to the profit before tax of continuing operations excluding discontinued operations

Double-digit revenue growth in all business segments

~ MT's profit fell 25% YoY, but FT and LTI both posted double-digit profit growth and IT's five-fold jump ~

JPY in Millions	FY18.3 (Result)	FY19.3 (Result)	YoY (%)	FY19.3 (Forecast)	vs Forecast (%)
Revenue	25,503	35,687	+39.9	33,500	+6.5
FT Financial Technology	5,929	6,693	+12.9	6,500	+3.0
MT Marketing Technology	9,939	13,676	+37.6	14,500	-5.7
IT Incubation Technology	2,553	8,022	3.1 X	3,100	2.6 X
LTI Long Term Incubation	6,301	7,133	+13.2	6,500	+9.7
Profit before tax	8,376	13,424	+60.3	9,000	+49.2
FT Financial Technology	2,809	3,174	+13.0	3,200	-0.8
MT Marketing Technology	1,856	1,390	-25.1	2,250	-38.2
IT Incubation Technology	1,321	6,889	5.2 X	1,350	5.1 X
LTI Long Term Incubation	3,621	4,378	+20.9	3,450	+26.9

NOTE: Segment revenue and profit before tax are before elimination of intersegment transaction and corporate revenue and expenses.

FY19.3 Consolidated B/S Summary (IFRS)



context company

JPY in Million	FY18.3	FY19.3	Difference	Reason for change / Remarks
Current assets	78,776	99,186	+20,410	
Cash and cash equivalents	39,450	48,154	+8,704	Raising funds by issuing CB, Share buy-back, Loan repayments etc
Trade and other receivables	21,330	23,254	+1,924	Relating to FT business
Operational investment securities	16,745	26,695	+9,950	<u>New investments and increase in fair value of investee companies</u>
Non-current assets	40,769	47,704	+6,935	
Goodwill	7,959	6,575	-1,384	Decrease due to sale of shares and impairment
Investments accounted for using equity method	13,915	19,139	+5,224	Increased investment profit on equity method, Increases in fair value of equity method Fund investees
Other financial assets	5,010	6,662	+1,652	New investments and increase in market value of listed shares
Total assets	119,545	146,890	+27,345	
Current liabilities	48,044	52,420	+4,376	
Borrowings	4,623	2,211	-2,413	Partially appropriated funds procured through the issuance of convertible bonds to repayment of borrowings
Trade and other payables	39,407	45,799	+6,392	Relating to FT business, etc
Non-current liabilities	28,302	47,125	+18,822	
Bonds and borrowings	19,243	35,959	+16,716	CB issuance, partially appropriated funds procured through the issuance of convertible bonds to repayment of borrowings
Deferred tax liabilities	2,754	4,744	+1,990	Estimated taxes related to unrealized gains on securities
Total liabilities	76,346	99,545	+23,199	
Total equity	43,199	47,345	+4,146	
Total equity attributable to owners of parent	42,717	46,609	+3,892	
Share capital	7,465	7,504	+39	
Capital surplus	3,748	4,235	+487	
Treasury shares	-26	-5,026	-5,000	Acquisition of treasury shares
Other components of equity	1,575	1,303	-272	
Retained earnings	29,955	38,593	+8,638	Increased profit
Non-controlling interests	483	736	+254	
Total liabilities and equity	119,545	146,890	+27,345	

**The fair value of investee companies: 26.7 B JPY
ROE reached 22%, exceeding the Mid-term target
of 20%.**

	<u>FY18.3</u>	<u>FY19.3</u>
ROE	16 %	22 %

Recurring business expected to grow 15% YoY, investments and incubations to ROI 2.5x
 ~ Consolidated forecasts are not disclosed due to difficulties in reasonable calculation,
 but the Mid-term Plan targets for each segment are not changed~

	FY19.3		Mid-term Plan	
Recurring business	Profit before tax	YoY	Growth indicators (CAGR)	<div style="border: 2px solid orange; padding: 10px;"> <h3 style="text-align: center;">FY20.3</h3> <ul style="list-style-type: none"> ■ Targeting YoY growth of +15%, expects double-digit Profit before tax growth in recurring business (FT and MT) ■ Promote investments and returns based on a ROI 2.5 ■ Expecting strong performance of Kakaku.com, Inc. </div>
	FT	3.2 (B JPY) +13%	+15%	
	MT	1.4 (B JPY) -25%	+15%	
	Investments and incubations			
	Profit before tax	YoY	Hurdle rate for investment	
IT	6.9 (B JPY)	5x	2.5x	
LTI	4.4 (B JPY)	+21%	2.5x	

Dividend forecast not yet determined due to non-disclosure of financial forecast

~ Based on the target dividend payout ratio of 20% in the Mid-term Plan, striving to achieve an optimal balance among growth investments, financial soundness, and shareholder returns ~

Dividend Policy

Ensuring an optimal balance between “promoting investment for growth” and “ensuring financial soundness”, while enhancing “returns to shareholders”

Dividend	<p><u>Targeting a dividend payout ratio of 20%, taking into account actual cash flows</u>, while securing retained earnings necessary for growth investments and strengthening the financial base</p> <p><small>Adjustments, such as deducting fair value valuation gains and losses from Profit before tax, will be made based on the profit before tax ratio of fair value valuation gains and losses without cash flows.</small></p>
Share buyback	<p>Implementing a shareholder return policy flexibly that contributes to the improvement of capital efficiency in accordance with its share price, taking into account its business performance and financial condition.</p>

		FY18.3	FY19.3	FY20.3
Dividend per share	Interim	0 Yen	0 Yen	—
	Year-end	24 Yen	28 Yen	—
	Total	24 Yen	28 Yen	—
Total dividend		1.1B JPY	1.3B JPY	
Share buyback			5.0B JPY	
Payout ratio	JGAAP	21 %	—	
	IFRS	18 %	13 %	
Total return ratio	JGAAP	21 %	—	
	IFRS	18 %	64 %	

Segment Performance Review



< Major highlights of 4 segments >

FT	EC Payment	<ul style="list-style-type: none"> Continued <u>high growth exceeding EC market</u>. <u>Substantial increase in profits</u>. Transaction volume in public financing sector and data processing payment expanded. ANA Digital Gate's <u>Face-to-Face Payment (mPOS) transaction volume</u> grew steadily. Started <u>post-settlement business</u> through JV with Nissen Co., Ltd <u>Established a JV with TOSHIBA TEC CORPORATION</u>, which has the largest share of the POS market in Japan and overseas, to provide multi-payment services.
	Non-EC / Alliances	
MT	Digital marketing	<ul style="list-style-type: none"> As the Internet advertising industry is entering a turning point, we are promoting growth strategies <u>across all segments</u>, with FT, which are performing soundly. Building the <u>JR Kyushu Group's CRM and Payment Platform</u> as the first step <u>Strengthen data science business</u> utilizing proprietary data across the Group. As the secretariat of <u>the Japan Premium Media Consortium</u>, promoting a variety of demonstration experiments linking <u>national clients with high-quality media</u>.
	Data science	
IT	Investment(DGI)	<ul style="list-style-type: none"> Promoting <u>< Global Incubation Stream ></u> linking the United States, Japan, Asia, and Europe <u>Resi-Tech</u> : Established a cross-industry accelerator originating in Japan that specializes in the housing and lifestyle fields in collaboration with seven major real estate and construction companies in November 2018. Started the program in April 2019. <u>BioHealth</u> : Formed a consortium with 22 companies, including major pharmaceutical and medical-related companies, and launched an accelerator program specializing in the biohealth field. The first Demo Day was held.
	Incubation (ONL)	
LTI	Kakaku.com, Inc.	<ul style="list-style-type: none"> Steady growth in <u>"Tabelog"</u> and <u>"New Media"</u>, in addition to Kakaku.com Crypto Garage, Inc. <u>received official authorization to conduct the first finance project under the "Regulatory Sandbox"</u>* by Cabinet Office in Japan. Launching test the issuance of JPY tokens and the delivery versus payment settlement service between the token and crypto assets.
	New business	

* The Act is to develop an environment in which businesses are able to conduct demonstration tests and pilot projects for new technologies and business models that are not envisaged under existing regulations with a limited number of participants and within the predetermined implementation periods. (ref. METI)

I Financial Technology Segment

		Revenue	Profit before tax
FY18.3	JGAAP	20,956 M JPY	2,539 M JPY
	IFRS	5,929 M JPY	2,809 M JPY
FY19.3	IFRS	6,693 M JPY	3,174 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



▶ **ANA Digital Gate, Inc.** (49% stake/equity method)

Develops and offers the new payment solution by FinTech



▶ **SCORE Co., Ltd** (49% stake/equity method)

Development of post-settlement payment business and various financial businesses utilizing settlement data

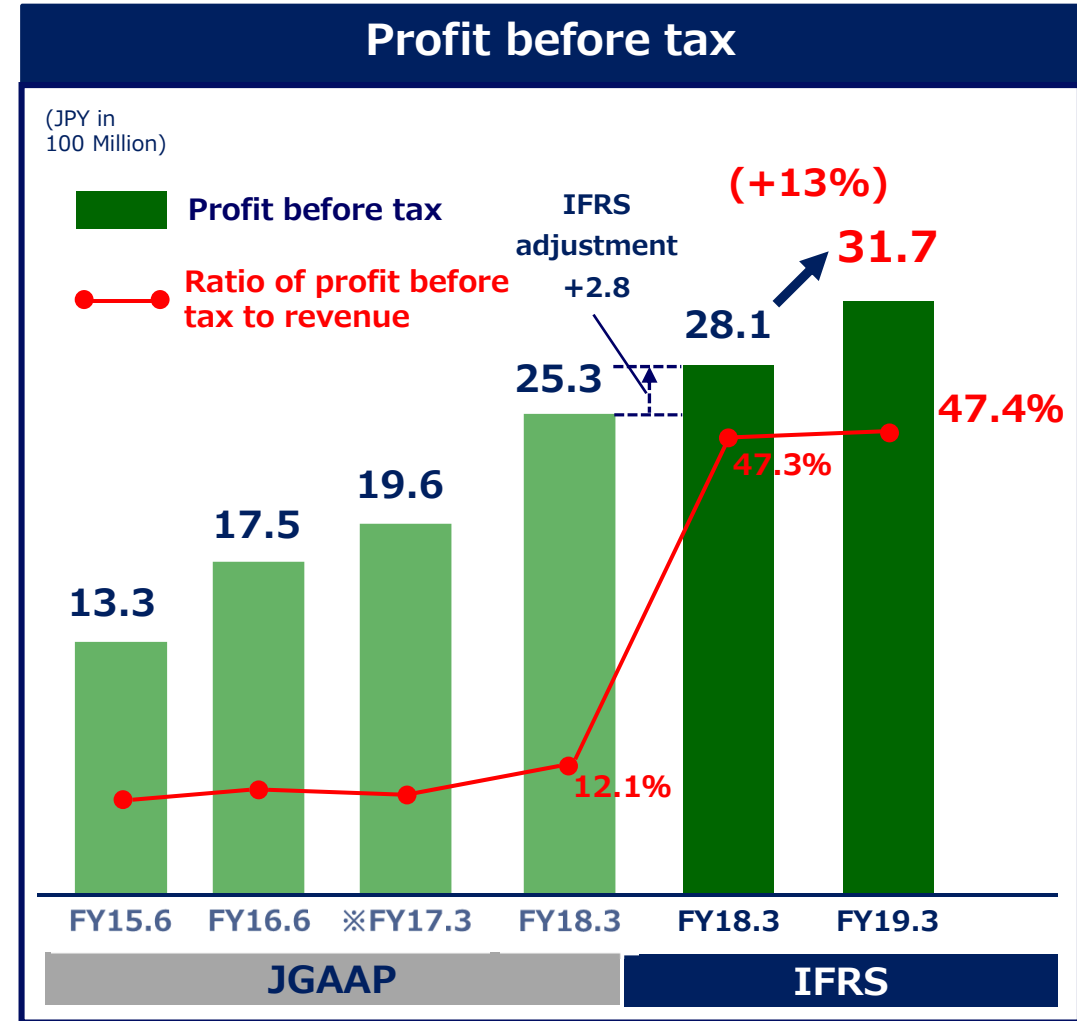
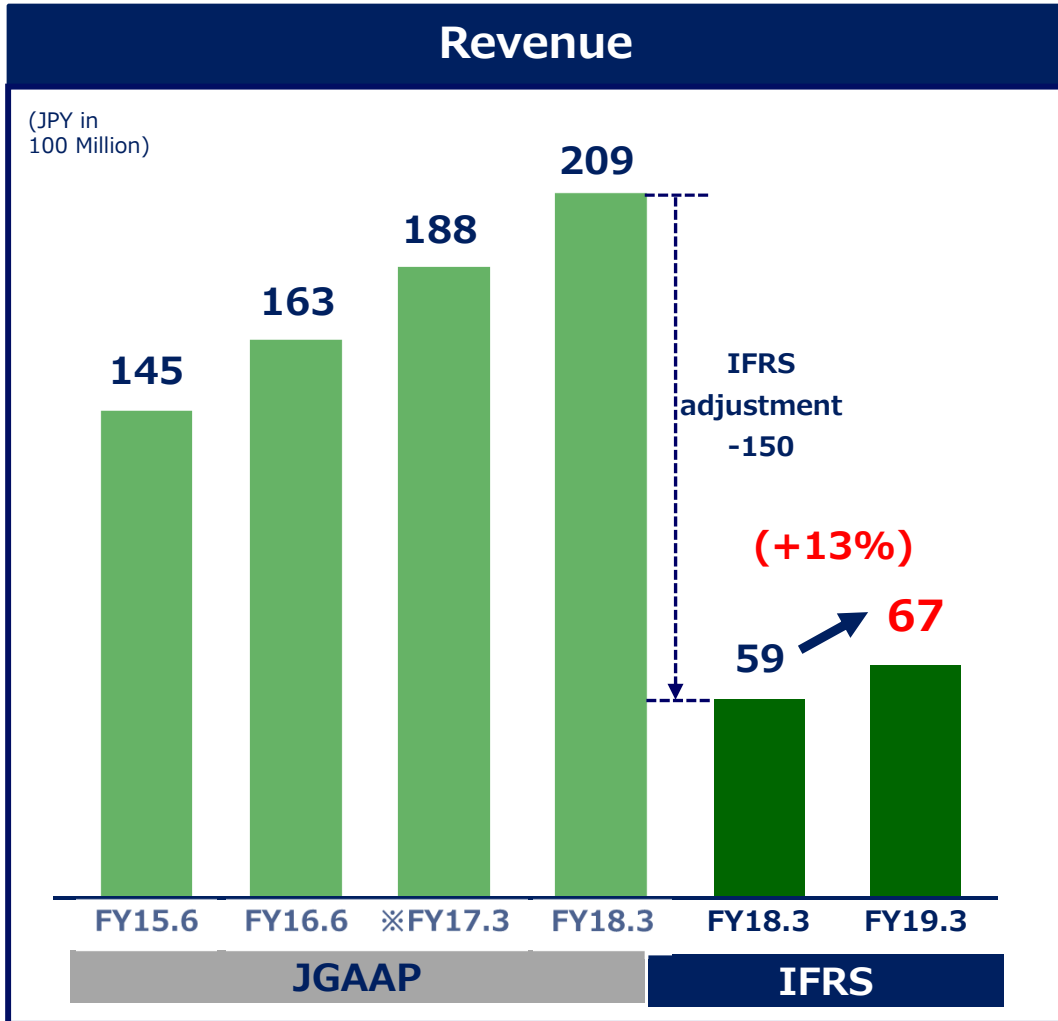


▶ **TD Payment Corporation** (49% stake/equity method)

Offers multiple payment solutions for POS systems



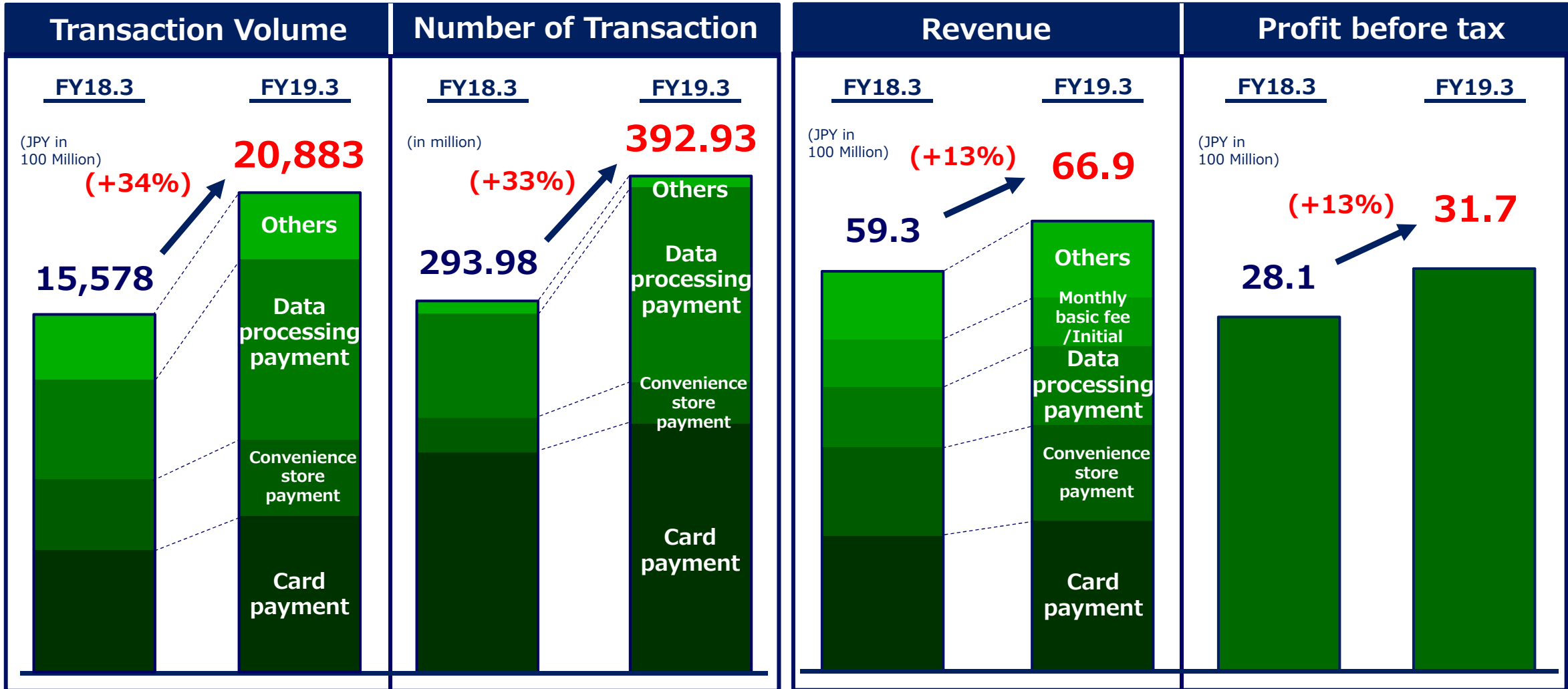
Revenue rose 13% YoY, profit before tax marked 3.17B JPY, +13% YoY
 ~ Revenue is presented on a net basis, and profit before tax marked record-high ~



※Figures for FY17.3 are annualized due to a nine-month irregular accounting period.

Transaction volume marked approx. 2.1T JPY, +34% YoY, number of transaction increased to 390 million, +33% YoY

~ Contributions from data processing, which provides personal authentication and sales processing services related to credit card payments~



Developing the new growth area as a payment platformer in FinTech ~ Following Non-EC payment and face-to-face payment, promoting public fund payment and post-settlement payment ~

Growth Strategy 1

Non-EC payment/ Face to face payment

- QR code payment
- Specific market (Real estate/ Restaurants/ Funeral etc)
- New area (public fund payment/ utility fees payment etc)



- QR code payment : Alipay, WeChatPay



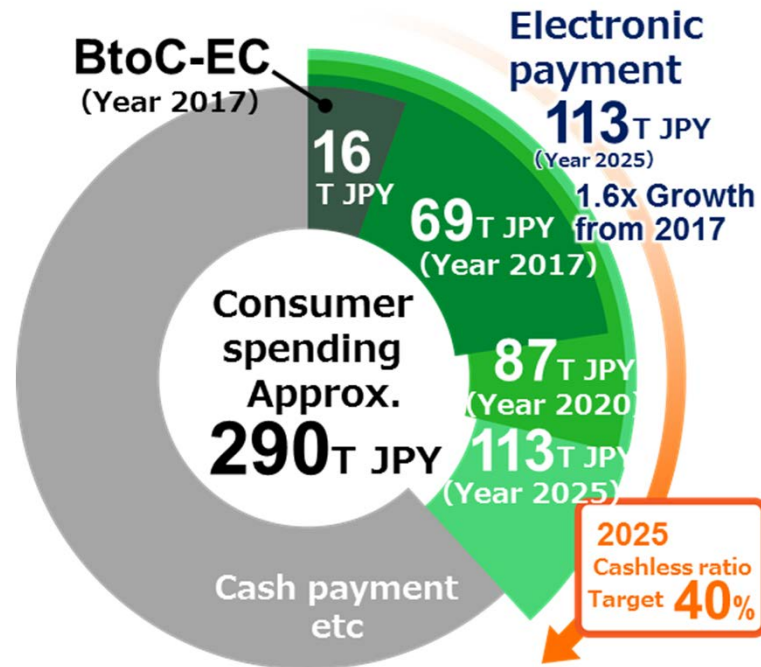
- Payment for Real estate/ Restaurants/ Funeral etc



- Remittance service

- Undertaking the collection business by credit card of the National Pension Insurance, and payment of national taxes at convenience stores (public finance sector)

Market Environment



Theme in FT segment

- ✓ Cashless
- ✓ Vitalizing the local economies
- ✓ Inbound
- ✓ Next generation payment (FinTech)

Growth Strategy 2

Alliance

- Payment cooperation with business partners having large customer base
- Tie-ups with major overseas payment companies



- Expand payment methods through tie-ups with strategic partners ANA Group, Nissen, and TOSHIBA TEC



- Provide local settlement solutions in Japan to overseas payment service providers and support global e-commerce

II Marketing Technology Segment

		Revenue	Profit before tax
FY18.3	JGAAP	34,938 M JPY	1,936 M JPY
	IFRS	9,939 M JPY	1,856 M JPY
FY19.3	IFRS	13,676 M JPY	1,390 M JPY

▶ Marketing Technology Company

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



▶ DG Communications Co., Ltd.

Provides solutions that make people's lives more comfortable, mainly through the real estate advertising business



▶ 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



▶ CyberBuzz, Inc. (25% stake/equity method)

Provides the social media marketing platform structured with influencers as its center part

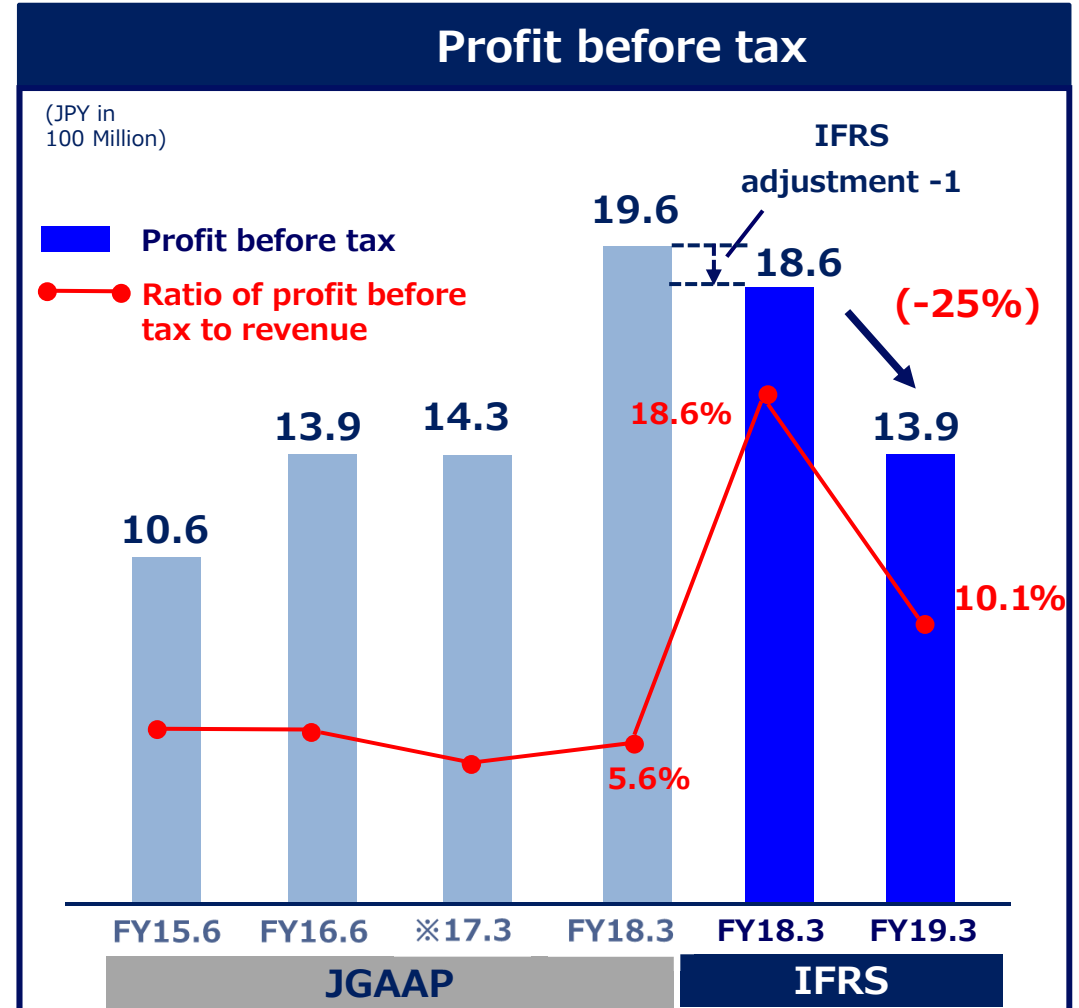
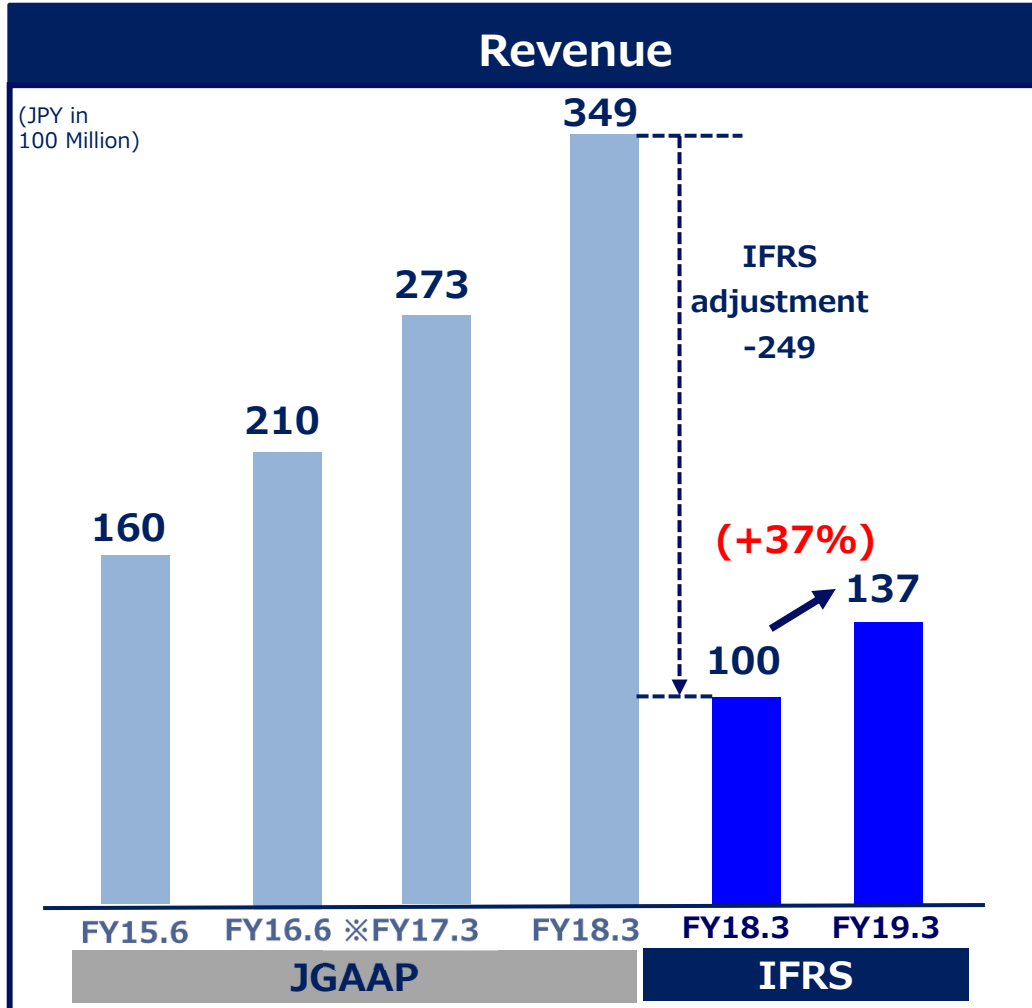


▶ DG MARKETING DESIGN, Inc. (20% stake/equity method)

Established on June 25th, 2018 and its predecessor is Business Design Company



Revenue marked 13.7B JPY, +37% YoY, and profit before tax decreased to 1.39B JPY, -25% YoY
 ~ Advertising for financial and real estate fields was strong. Profit decreased due to upfront investment in new projects and personnel expansion ~

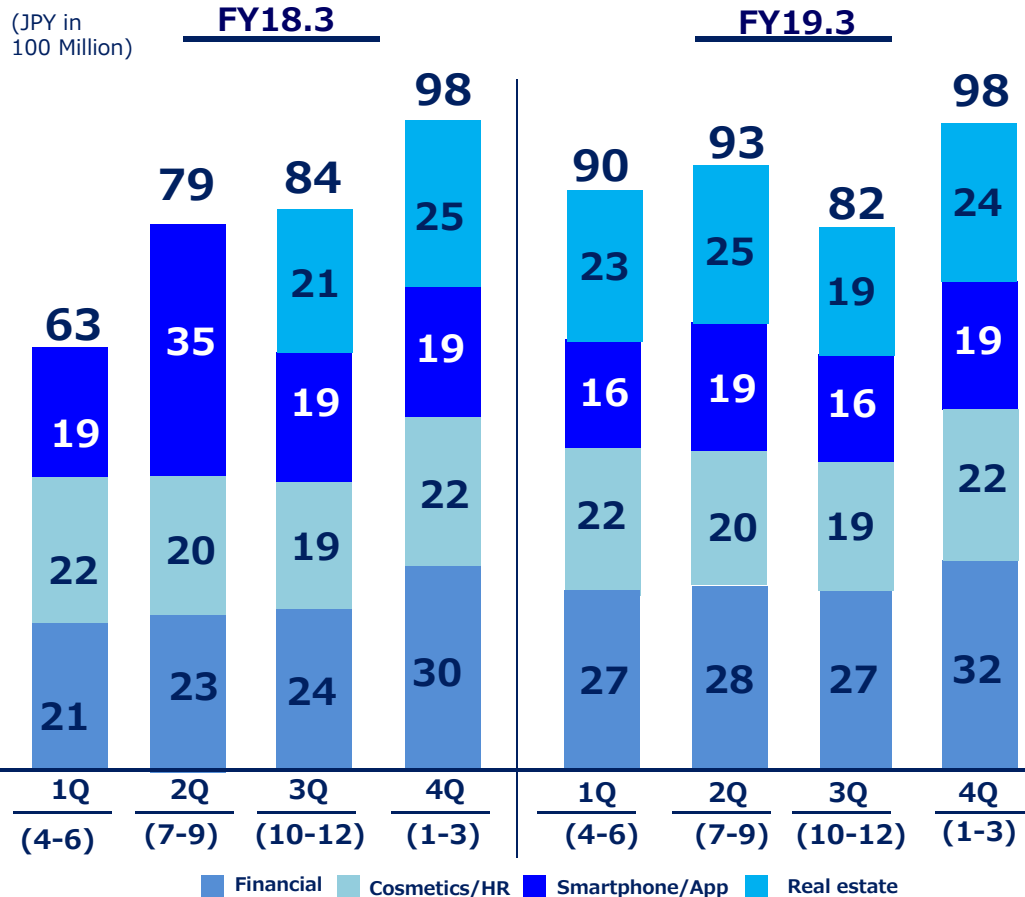


※Figures for FY17.3 are annualized due to a nine-month irregular accounting period.

Advertisement volume rose 4.0 B JPY, +12% YoY, especially for financial fields was strong, up 16%
 ~ Earnings slump bottomed out due to the decrease of large-scale game projects in FY18.3 ~

Advertisement volume

(JPY in 100 Million)



[Volume by industry]	FY18.3	FY19.3	(YoY)	Factors
■ Real estate	4.6BJPY	9.2BJPY	(2.0x)	Strong real estate advertising Entry into Resi-tech
■ Smartphone/App	9.4BJPY	7.1BJPY	(-24%)	Decrease of large-scale game projects in FY18.3
■ Cosmetics/HR	8.4BJPY	8.5BJPY	(+0.3%)	Driven by advertising for cosmetics and health foods
■ Financial	9.9BJPY	11.5BJPY	(+16%)	Promoting cashless operations is a favorable
■ Total	32.5BJPY	36.5BJPY	(+12%)	

* In applying the IFRS, DG Communications Co., Ltd. became a consolidated subsidiary in the second half of FY18.3

Strategy for the Business Environment Changes

I	<Marketing Technology Company> Financial / Collaborate with FT	Promote growth strategies across segments, with FT. Building the JR Kyushu Group's CRM and Payment Platform as the first step
II	<DG Communications Co., Ltd.> Real estate / Collaborate with ONL	Launch of "Open Innovation Program" for the Real Estate Developer Industry 
III	<CyberBuzz, Inc.> Social Media Marketing	Strengthen social media marketing Capital participation in "Cyber Buzz" as largest external shareholder
IV	<Media Consortium Planning Office> National Client	Optimizing Advertising Value in Collaboration with National Clients In charge of the secretariat of "the Japan Premium Media Consortium"





< Strengthen data science business across FT / MT / LTI >

<p>BI. Garage transaction volume</p> <p><u>YoY +62%</u></p>	<p>Increased advertising business from national clients by menu developed mainly by DG and Kakaku.com</p> <div style="display: flex; justify-content: space-around; align-items: center;">  Digital Garage  </div>	<p><u>Number of clients</u></p> <div style="font-size: 2em; font-weight: bold;"> < FY18.3 → FY19.3 > </div> <div style="font-size: 2em; font-weight: bold; margin-top: 5px;"> 45 → <u>123</u> </div>
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V → Assigned C.D.O.(Chief Data Officer) to promote open innovation outside the advertising field

III Incubation Technology Segment

		Revenue	Profit before tax
FY18.3	JGAAP	3,123 M JPY	1,325 M JPY
	IFRS	2,553 M JPY	1,321 M JPY
FY19.3	IFRS	8,022 M JPY	6,889 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



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

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



▶ **Digital Garage US, Inc.**

The US-based global strategy headquarters



▶ **DG Technologies, Inc.**

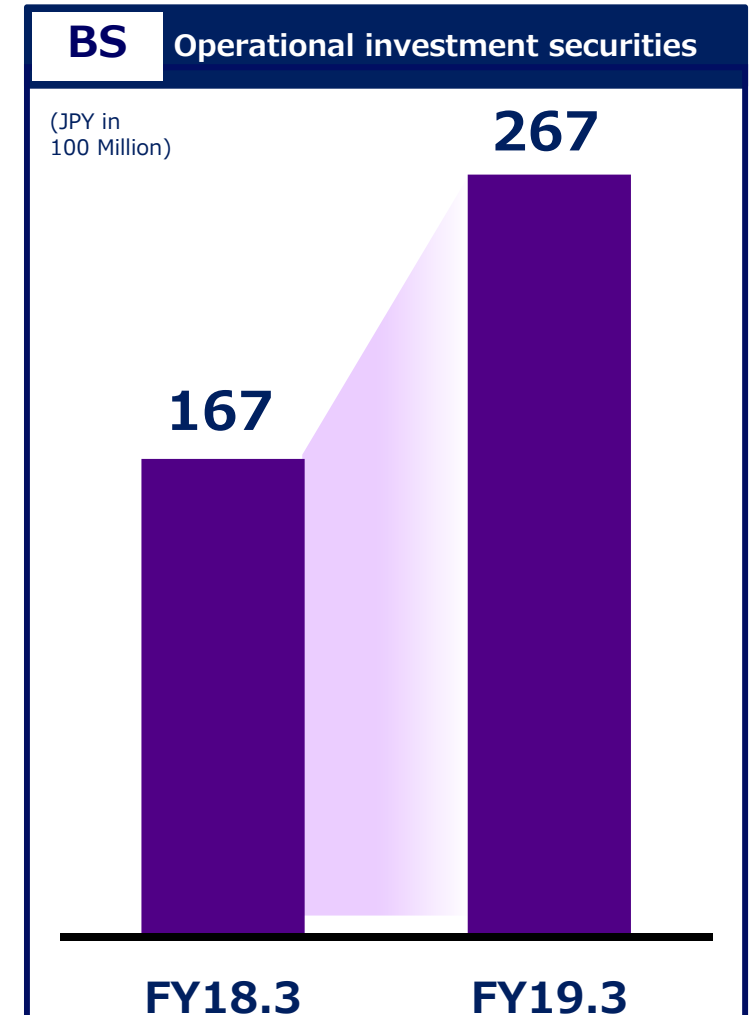
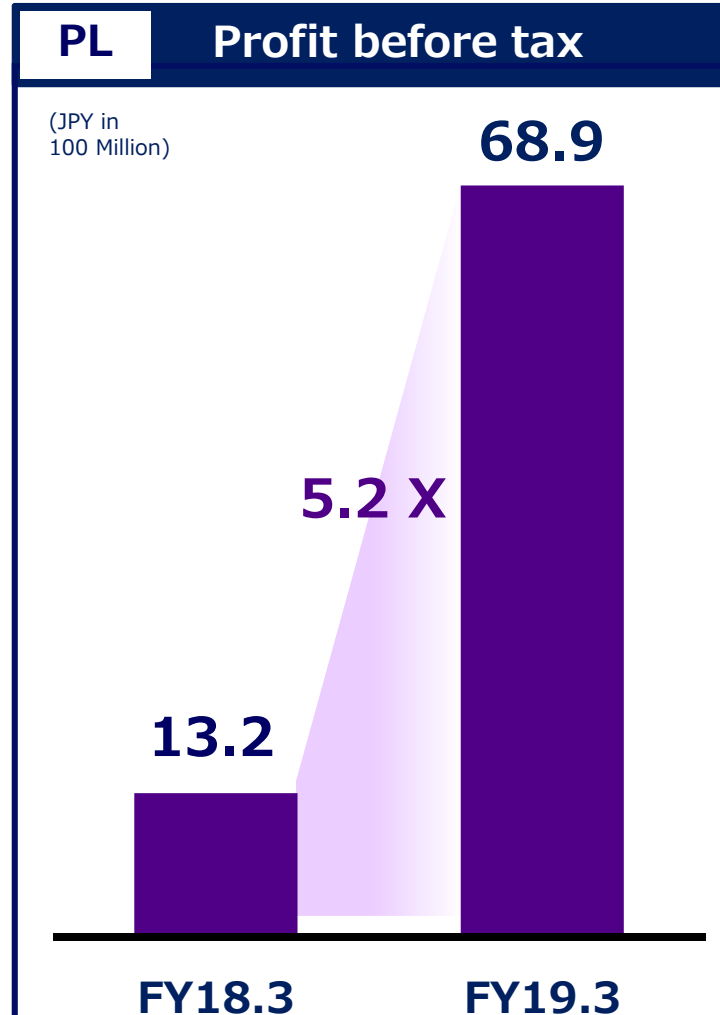
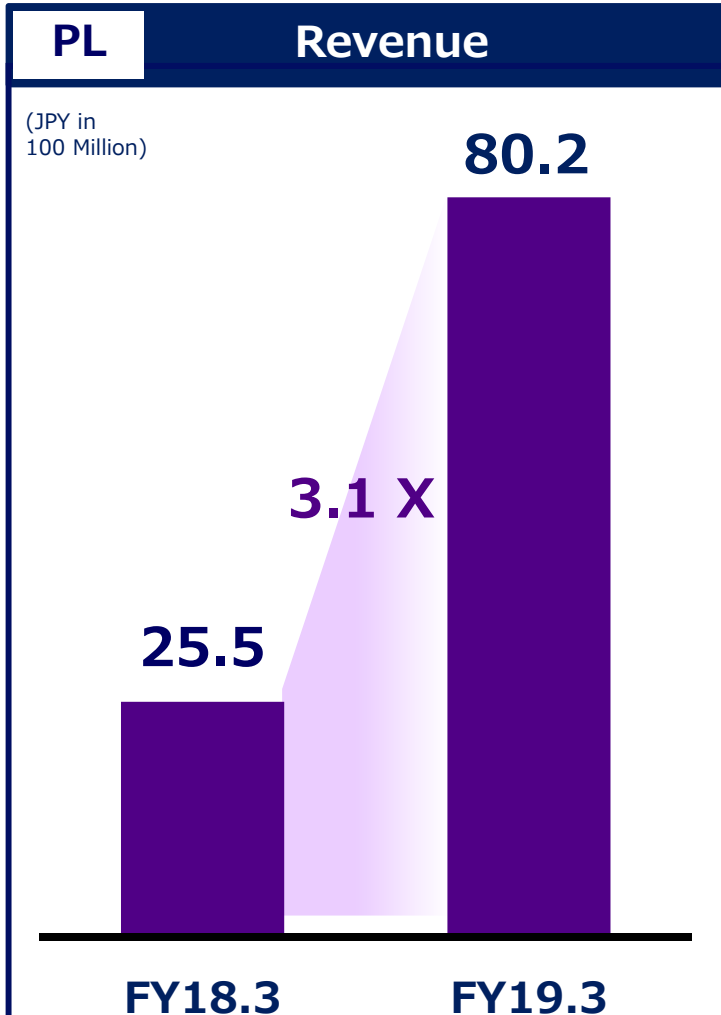
Drives strategic technology development with DG Lab



Some businesses in DGHQ segment have transferred to IT segment, therefore figures on FY18.3 updated with the current category.

Growth in unrealized gains on fair value valuation due to adoption of IFRS, Profit before tax 5x YoY

~ Focus on nurturing start-ups to increase the value of investees ~



Expand investment in North America, mainly Silicon Valley

~ Newly invested 7.0B JPY in FY19.3 ~

– Portfolio by regions (book value at end of year) –

Operational investment securities : 26.7B JPY

✓ = New

✓ Game Closure [US]



Provider of a mobile application intended to offer a HTML5 game development platform.

✓ Grub Market [US]



GrubMarket
Develop a leading marketplace platform specializing in fresh organic foods

WHILL [Japan]

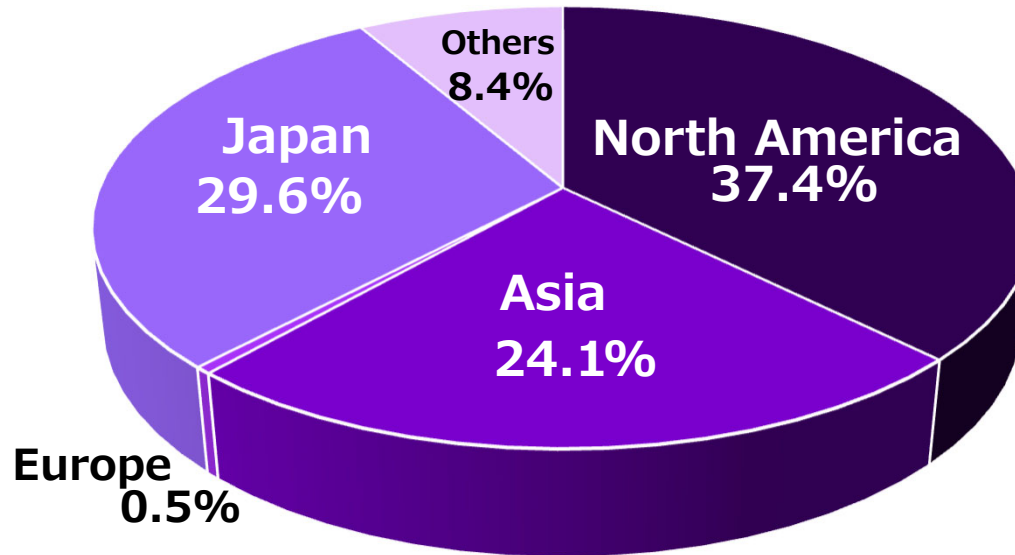


Transform antiquated power wheelchair into an intelligent personal electric vehicle, focusing on an approachable and aesthetically pleasing powered vehicle.

Panair [Japan]



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



Monstar Lab [Japan]



Operates Sekai Lab, a global outsourcing platform that allows engineers from around the world to request development

Sen Do Technology [Vietnam]



Operates Sendo, a marketplace for C2C and B2C in Vietnam, and provides electronic wallet services

Droom [India]



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

MX Technologies [US]

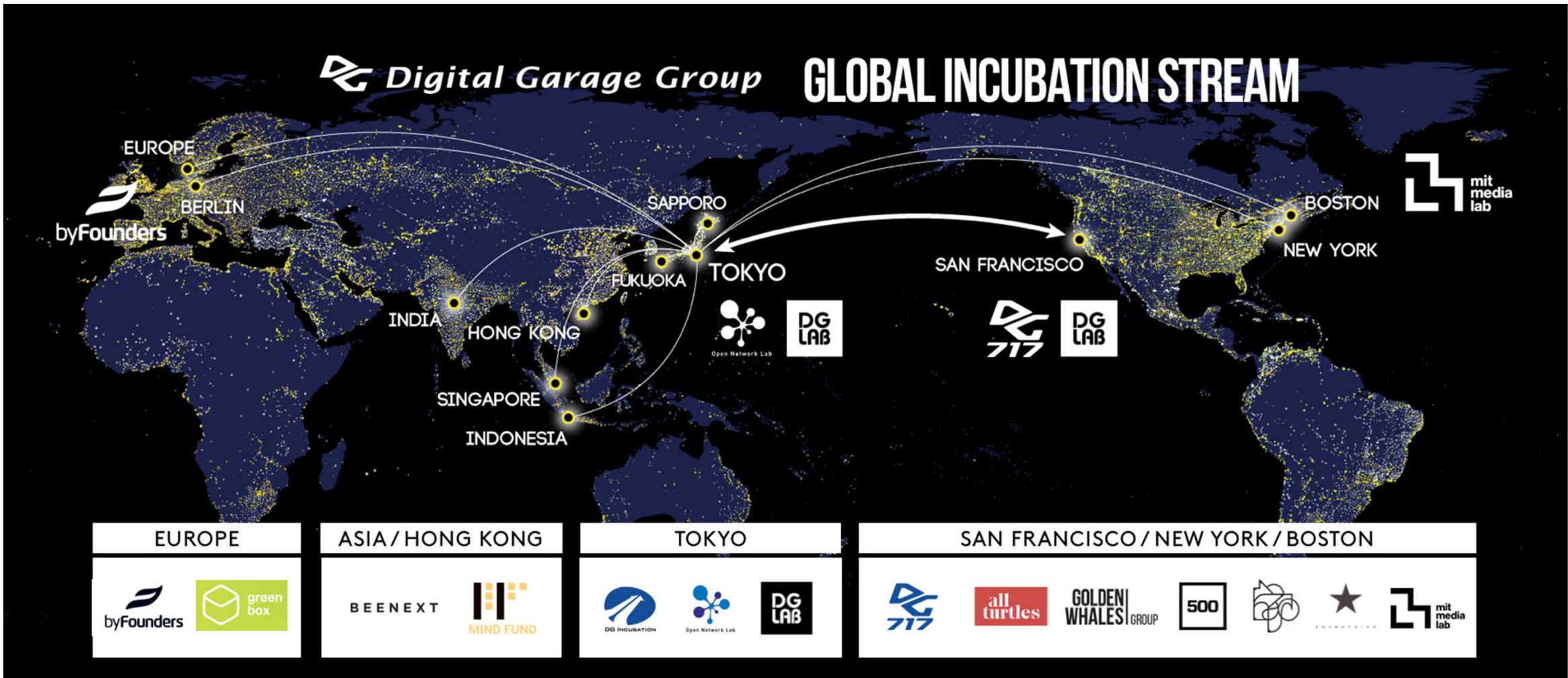


Offers a PFM (personal financial management) tool for financial institutions in the US.

IT Segment Highlights – 1) Global Incubation Stream

Collaboration among the United States, Japan, Europe and Asia "Global Incubation Stream"

~ Identifying leading investment projects and strengthening business development/ incubation systems ~



IT Segment Highlights – 2) Seed Accelerator Program



context company

Expansion into various categories derived from Japan's First Seed Accelerator Program Open Network Lab

~ Started a business development program specializing in specialized fields and areas ~

Open Network Lab

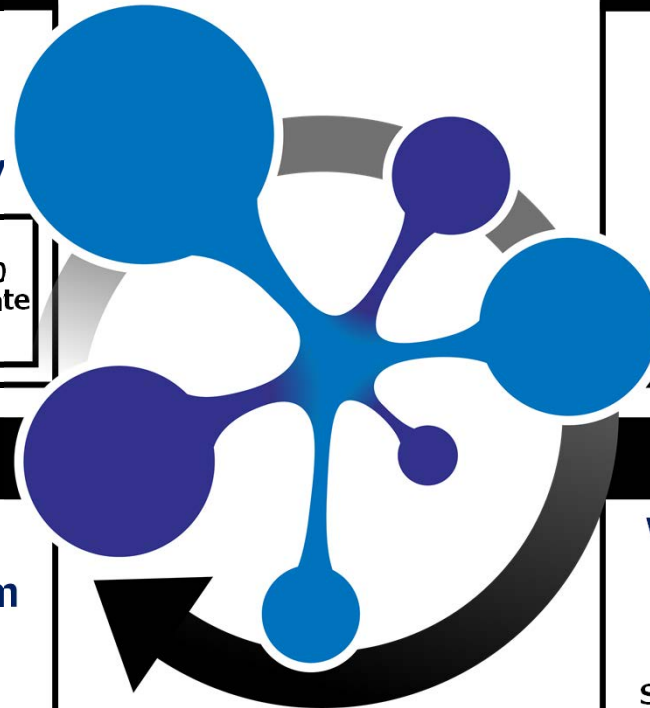
<2010~2019>

Started as Japan's first seed accelerator program and grew steadily

Launched in 2010
10th year of
FY19.3

The 18th period
ended
The 19th offering

More than 100
startups graduate



Open
Network
Lab

Resi-Tech

Industry's first cross-sectional consortium specializing in the residential and lifestyle sectors



Supported by **kakaku.com** **KDDI**

Bio Health

22 sponsoring companies
Japan's first open innovation program



HOKKAIDO

With the D2Garage of a JV with Hokkaido Shimbun, the industry, government, and academia will collaborate to expand throughout the region



Supporters

Universities



And more..

IV Long-term Incubation Segment

		Revenue	Profit before tax
FY18.3	JGAAP	1,150 M JPY	3,176 M JPY
	IFRS	6,301 M JPY	3,621 M JPY
FY19.3	IFRS	7,133 M JPY	4,378 M JPY

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



- ▶ **Crypto Garage, Inc.**
Promoting development of advanced financial services utilizing blockchain technology and cryptography technology with Tokyo Tanshi Co., Ltd.



- ▶ **ACADEMIE DU VIN**
Operates wine schools and wholesaling wine.



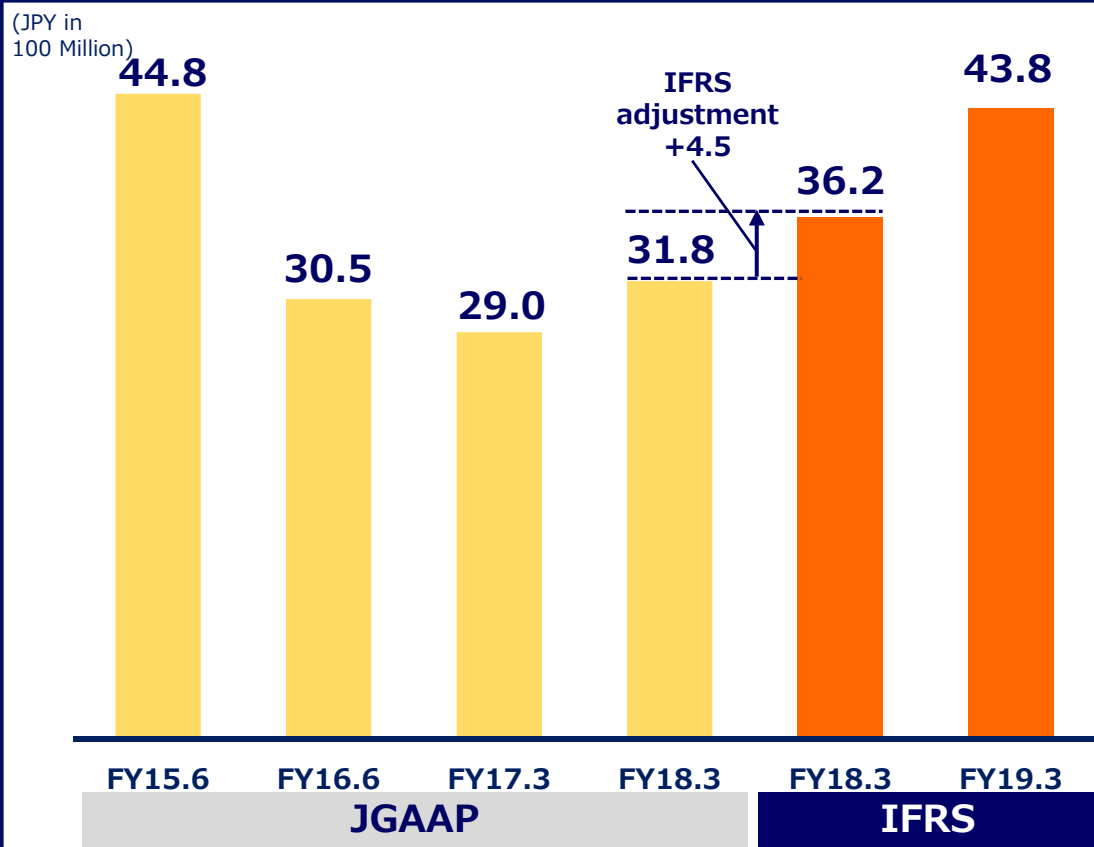
- ▶ **DK Media, Inc.** (50% stake/equity method)
Internet media business utilizing fashion magazines by Kodansha



Profit before income taxes marked 4.4B JPY, +21% YoY. Investment profit on equity method of Kakaku remains robust

~ "Tabelog" and "New Media" performed well ~

Profit before tax

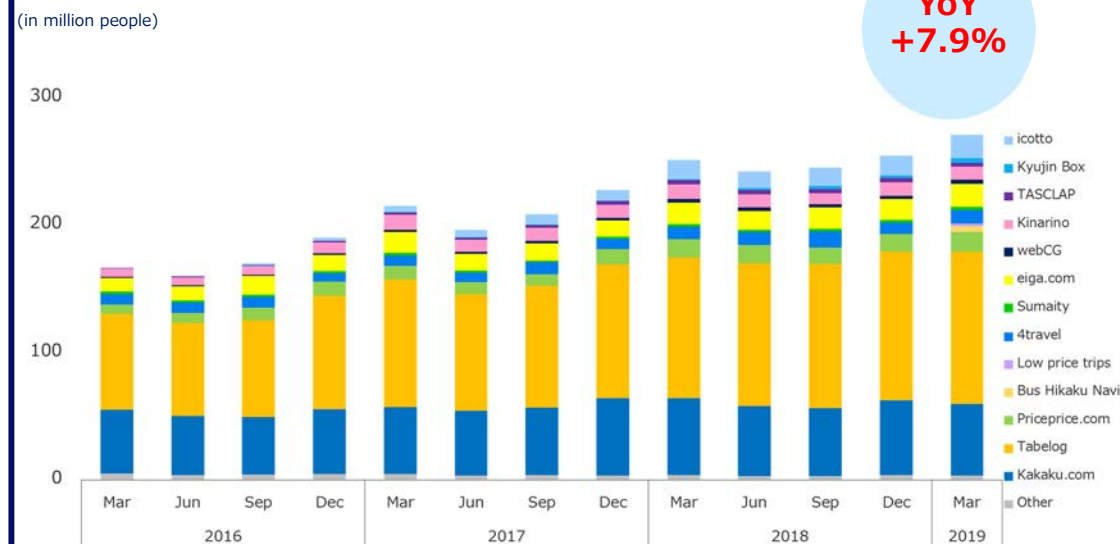


※Figures for FY17.3 are annualized due to a nine-month irregular accounting period
 ※Figures from FY15.6 to FY17.3 are Media Incubation Segment

Business Progress of Kakaku.com, Inc.

(Total Accumulated Traffic for Kakaku.com Group)

Monthly traffic for all sites of Kakaku.com has increased to 271.18 million, up 7.9% yoy (March 2019)



Regarding changes in traffic measurement method
 Due to the mobile webpage speed, Kakaku.com, Inc. has been experiencing some overlap when measuring monthly user numbers but as of September 2018 Kakaku.com, Inc. has switched to a method which allows them to exclude overlapping users. The graph from September 2016 to September 2018 was recreated using the new method.

Ref. Kakaku.com, Inc. Results Briefing for FY2019/3

Accelerating commercialization of blockchain-based financial services

~ Developed P2P protocols, following SETTLENET ~

For video of Crypto Garage/SETTLENET/P2P, click [HERE](#)

September 2018



Established Crypto Garage, Inc., a JV with Tokyo Tanshi Co., Ltd.

December 2018



Capital and business alliance with Blockstream

February 2019



Launched SETTLENET and Authorized by Regulatory Sandbox in Japan

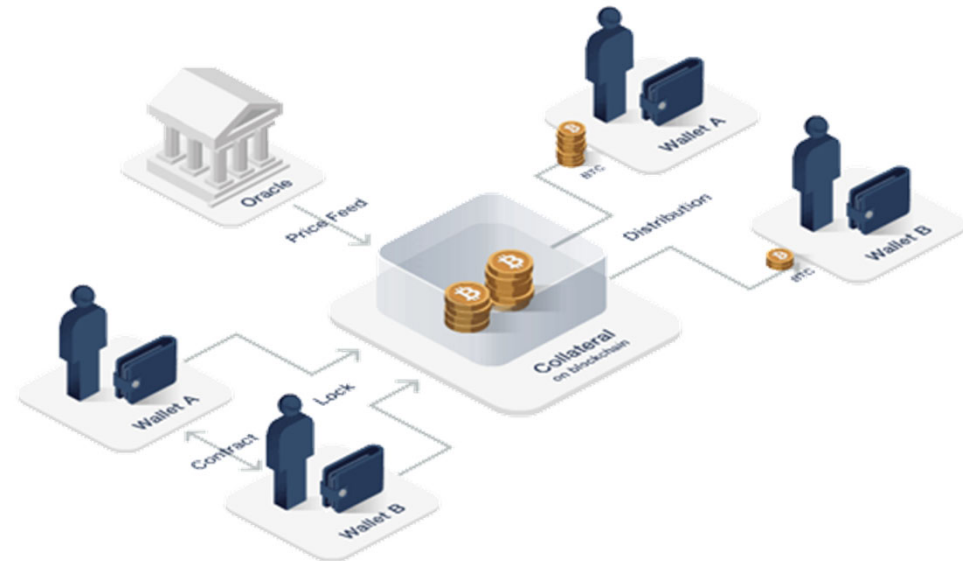
April 2019



Developed P2P protocol based crypto asset derivative

Outline

- ◆ Concluded and implemented a transaction with Blockstream to hedge Bitcoin price fluctuation risk, and completed Proof of Technology.
- ◆ Aim to contribute to the formation of a sound market in which lead more businesses to participate in transaction by eliminating counterparty risk, reducing transaction costs and providing solution to hedge price fluctuation of cryptographic assets.



Progress at DG Lab



Summary

I

Developed P2P protocols to realize virtual currency derivative transactions to support commercialization of Crypto Garage, Inc.

**II**

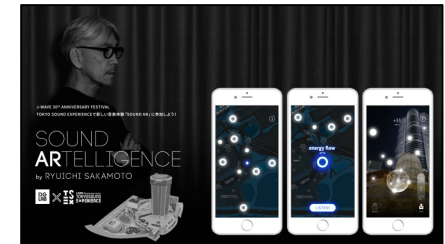
Jointly developed Personal Health Record services in collaboration with Welby Inc., a provider of healthcare and medical information-related services.



Welby was listed on the TSE Mothers market in March 2019.

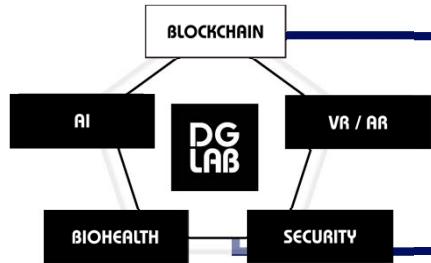
III

Provides AR art experience using the songs of Ryuichi Sakamoto. Implemented promotional measures in Sapporo using "Sound AR."

**IV**

DG Lab Fund formed the second fund following the first fund.



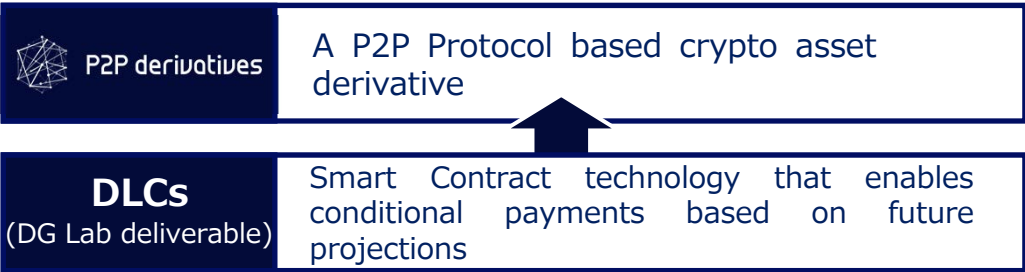


Accelerating R&D, business development, and ecosystem building that centered on the highest level of technological expertise of DG Lab developer team. Continuing technological development to create next-generation businesses.

BLOCK CHAIN

Support for commercialization

Supporting Crypto Garage's service development



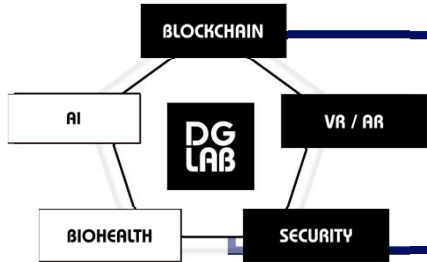
DG Lab supports the development of the P2P protocol "P2P derivatives," which realizes derivative transactions in crypto assets developed by Crypto Garage. This protocol uses the smart contract technology "DLCs (Discreet Log Contracts)," which delivers conditional payments based on future projections developed by DG Lab in collaboration with MIT Media Lab. DG Lab aims to develop businesses in other blockchain fields.

Expansion of ecosystem

Full support for Scaling Bitcoin



On October 6-7, 2018, DG Lab organized Scaling Bitcoin, an international conference held at Keio University, which brings together Bitcoin developers and academics from around the world. DG Lab fully cooperated as a local support organization and DG Lab engineer also appeared as presenters. In general, there is a shortage of blockchain engineers. DG Lab believes that training and enlightenment of engineers are essential to the development of the industry, and will continue to work for expansion of the blockchain ecosystem.

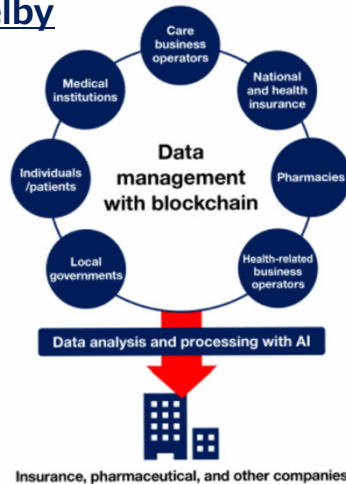


Took steps to create new businesses in collaboration with partners using DG Lab's technological capabilities. Adapted a multi-disciplinary approach to achieve commercialization.

BIO HEALTH x AI

Joint development

Joint development of Personal Health Record business with Welby



- Welby was listed on the TSE Mothers market in March 2019
- DG is the largest external shareholder

In collaboration with Welby, DG Lab is promoting the aggregation business of personal health record and medical information (PHRs). Jointly developing PHR services utilizing advanced technologies such as blockchain and AI, where DG Lab is conducting R&D. In the future, DG Lab and Welby will collaborate with local governments, national health and healthcare institutions, pharmaceutical companies, and health-related businesses to build a platform for personal health record and medical information.

BIO HEALTH

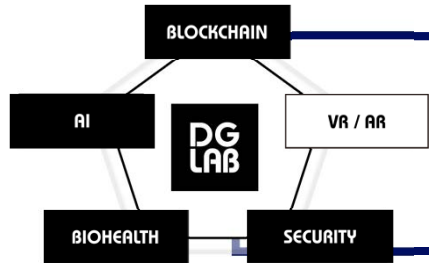
Expansion of ecosystem

“Open Network Lab BioHealth” 1st batch ends



Startups selected	Partner companies
 United Immunity, Co., Ltd.  Mealthy  Domolens  ERISA	 Takeda  MSD  Eisai  SHIONOGI  LINK-J  N  KYOWA KIRIN  SUNSTAR  astellas  Mitsubishi Chemical Holdings  大正製薬  株式会社 ティツブネス  iPark  パイエル  welby

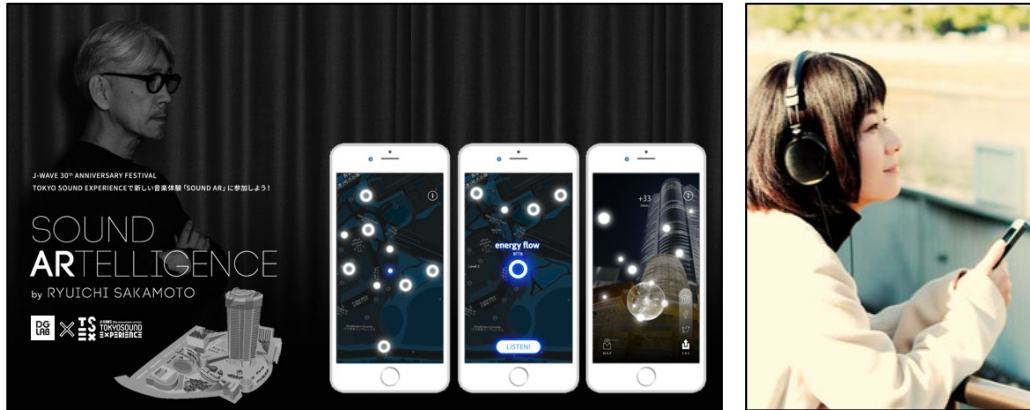
The first batch of “Open Network Lab BioHealth” accelerator program, which specializes in the biotechnology and healthcare fields, was completed. Four companies were selected from 56 applicants of technology-based ventures, and their growth were supported with partners and experts, including major pharmaceutical companies. In the future, the program will expand in cooperation with domestic and overseas partners and experts.



Successfully discovered technology seeds and conducted several PoCs, which will lead to commercialization. Accelerating efforts to create businesses utilizing new technologies.

VR/AR Discovery of technological seeds and demonstration

Providing AR art experiences using Ryuichi Sakamoto's music



On October 1-8, 2018, DG Lab conducted a demonstration experiment of "Sound AR" in collaboration with J-WAVE and Mori Building, combining location information and audio content at Roppongi Hills. Using the "WEB-AR" technology, which allows users to experience AR technology only with the browsers developed by DG Lab, Ryuichi Sakamoto's music, scenery, and AR art were synchronized for installation art in several locations within Roppongi Hills using smartphones.

Demonstration experiments for commercialization

Implemented promotional measures in Sapporo using "Sound AR"



During the Sapporo Snow Festival held on February 4-11, 2019, promotional measures were implemented using "Sound AR." Leveraging its "WEB-AR" technologies, DG Lab provided content that collects SEKAI NO OWARI songs in stamp rally format at multiple locations in the venue, and also implemented sales promotion measures to receive coupons by checking in to neighboring stores. Going forward, DG Lab will promote the utilization in the areas of events and entertainment.


Established the DG Lab 2nd Fund following the 1st Fund

~Accelerating the Global Incubation Ecosystem of large enterprises and startups~

Sponsor companies and fund investors	<p>Sponsor companies: Bank, Securities, System integrator, Telecommunications etc</p> <p>Fund investors: IT, Bank, Securities, Newspaper, Real estate firm, Travel etc</p>
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LP Investment ↓ ↑ Return



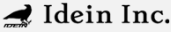

Sponsorship ↓ ↑ Business cooperation / R&D results




DGLAB FUND

Investment fields:
Collaboration with 5 focus areas of DG Lab
Blockchain, AI, VR/AR, Security, BioHealth

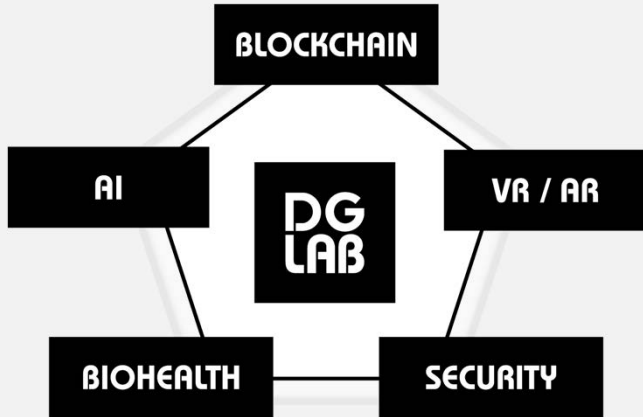
1st Invested in 31 companies

<p>Blockstream  BLOCKCHAIN Develop and provide Sidechain, a platform technology that facilitates multi-purpose applications of blockchain</p>	<p>Panair  BLOCKCHAIN / AI Provides an automated electricity retail platform that uses cloud computing and artificial intelligence.</p>
<p>Idein  AI Develop an optimized compiler for deep learning models. Edge Computing is possible with inexpensive general-purpose hardware.</p>	<p>Akili Interactive  BIOHEALTH Develop digital medicine using digital content as a medicine for nervous system diseases (ADHD, depression, etc.)</p>

2nd Formed in April 2019
Expand investment globally (North America, Asia and Europe)



R&D and experiments in strategical 5 focus areas
(Blockchain, AI, VR/AR, Security, BioHealth)



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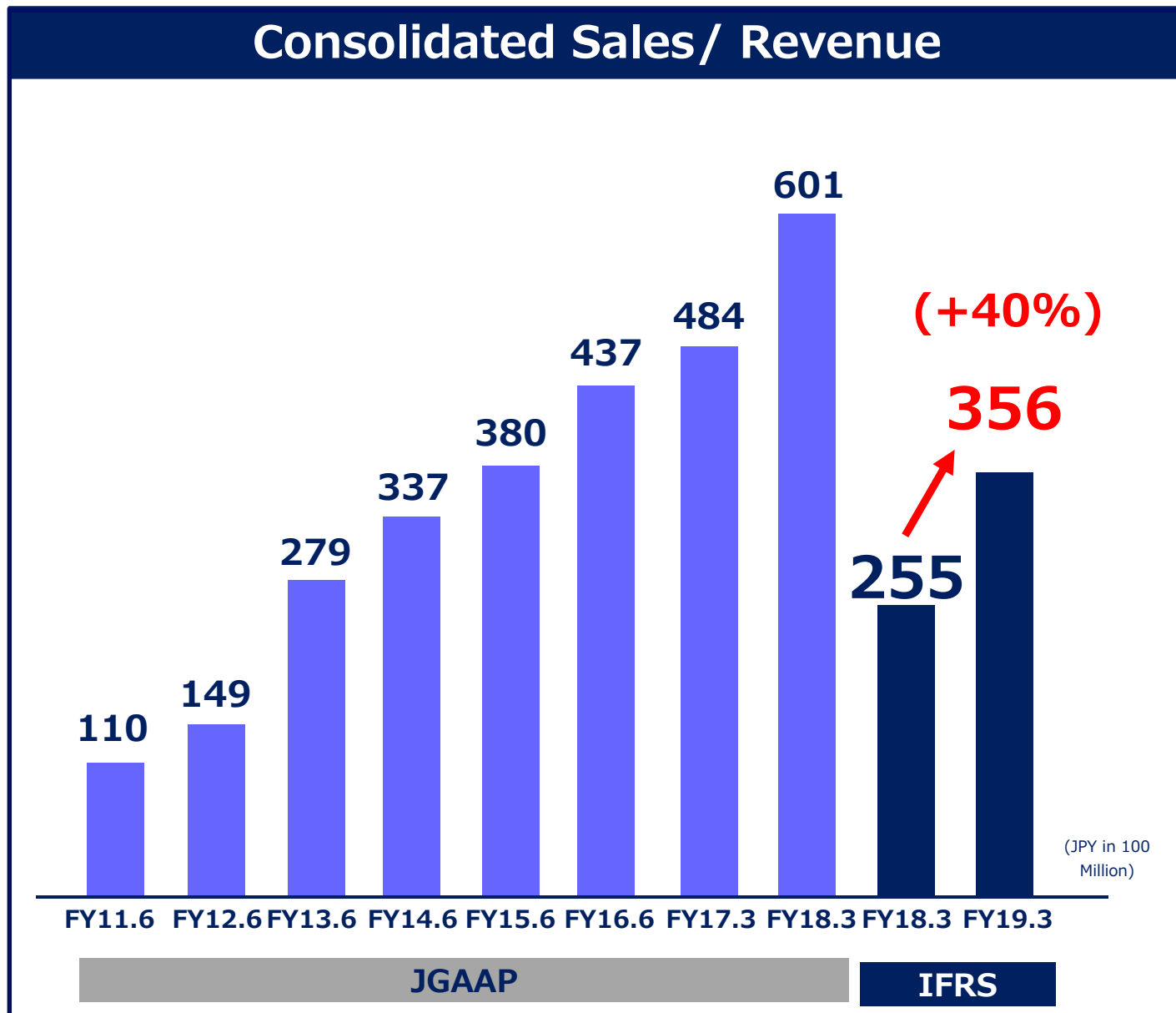
graph TD
    Blockchain[Blockchain] --- AI[AI]
    Blockchain --- VR[VR / AR]
    AI --- BioHealth[BIOHEALTH]
    VR --- Security[SECURITY]
    BioHealth --- Security
    DG[DG LAB]
    
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↔

Collaboration with portfolio companies

Appendix

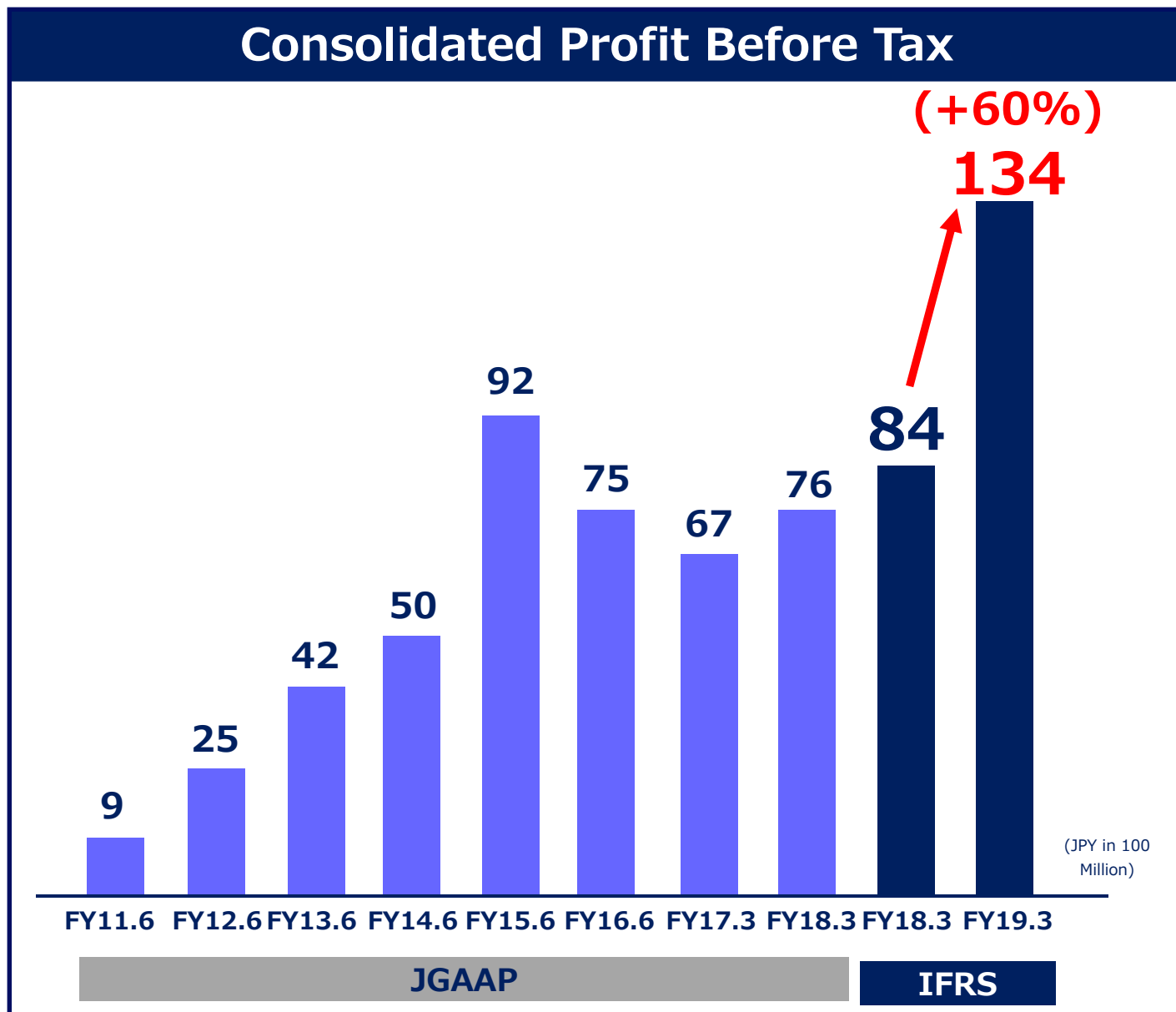




- Revenue increased 40% YoY to 35.6B JPY

- Double-digit revenue growth in all business segments

※Figures for FY17.3 are annualized due to a nine-month irregular accounting period.



- Profit before tax posted record-high income of 13.4B JPY, up 60% YoY
- MT profits declined, but both FT and LTI profits rose by double-digit figures, while IT profits rose significantly, 5X.

※Figures for FY17.3 are annualized due to a nine-month irregular accounting period.

JPY in Millions	FY2018.3 (Result)	FY2019.3 (Result)
Continuing operations		
Revenue	25,503	35,687
Revenue in recurring business	18,141	22,713
Revenue in operational investment	1,007	6,090
Other income	2,111	1,933
Finance income	764	117
Share of profit of investments accounted for using equity method	3,481	4,835
Expenses	17,127	22,264
Cost of sales	7,187	10,401
Selling, general and administrative expenses	9,095	11,296
Other expenses	542	332
Finance costs	303	235
Profit before tax	8,376	13,424
Income tax expense	1,857	4,088
Profit from continuing operations	6,518	9,336
Discontinued operations		
Revenue	3,260	1,261
Expenses	3,403	1,655
Profit (loss) before tax from discontinued operations	-143	-394
Income tax expense	38	-225
Loss (gain) on sales on discontinued operations	-	898
Income tax expense from sale of discontinued operations	-	275
Profit (loss) from discontinued operations	-181	454
Profit	6,337	9,790
Profit attributable to		
Owners of parent	6,412	9,771
Non-controlling interests	-75	19



Financial Results: Consolidated PL (JGAAP)



context company

JPY in Millions	FY14.6 (Full Year Act)	FY15.6 (Full Year Act)	FY16.6 (Full Year Act)	FY17.3 (Full Year Act) 9 month	FY18.3 (Full Year Act)
Net sales	33,751	38,087	43,763	36,451	60,168
Operating profit	2,608	4,809	4,201	723	2,310
Non-operating income	2,307	3,736	3,031	3,246	3,305
Share of profit of entities accounted for using equity method	1,741	2,080	2,406	2,528	2,768
Foreign exchange gain	143	1,090	-	171	-
Non-operating expenses	472	936	1,040	292	597
Foreign exchange loss	-	-	689	-	160
Ordinary profit	4,442	7,610	6,193	3,678	5,017
Extraordinary income	630	2,463	1,392	2,265	2,669
Gain on sales of investments in securities	220	68	-	1,829	1,032
Gain on sales of shares of sub. and associates	-	-	521	386	1,471
Gain on change in equity	374	2,363	157	47	33
Gain on transfer of business	26	23	706	-	-
Extraordinary loss	38	824	10	124	67
Impairment loss	0	657	-	104	25
Profit before income taxes	5,035	9,248	7,574	5,819	7,619
Income taxes	1,887	3,855	2,385	1,525	2,133
Profit attributable to owners of parent	2,847	5,081	5,165	4,289	5,460

Note: Kakaku.com.Inc. is affiliated company for using the equity method, and started to apply IFRS from FY18.3. The figures on FY17.3 has been applied retrospectively.

JPY in Millions		FY18.3 (Result)	FY19.3 (Result)
Revenue		25,503	35,687
FT	Financial Technology	5,929	6,693
MT	Marketing Technology	9,939	13,676
IT	Incubation Technology	2,553	8,022
LTI	Long Term Incubation	6,301	7,133
Profit before tax		8,376	13,424
FT	Financial Technology	2,809	3,174
MT	Marketing Technology	1,856	1,390
IT	Incubation Technology	1,321	6,889
LTI	Long Term Incubation	3,621	4,378

NOTE: Segment revenue and profit before tax are before elimination of intersegment transaction and corporate revenue and expenses.

Financial Results: Consolidated PL by Segments (JGAAP)



JPY in Millions		<u>FY14.6</u> (Full Year Act)	<u>FY15.6</u> (Full Year Act)	<u>FY16.6</u> (Full Year Act)	<u>FY17.3</u> (Full Year Act) 9 month	<u>FY18.3</u> (Full Year Act)
Net sales		33,751	38,087	43,763	36,451	60,168
MT	Marketing Technology	14,822	16,064	21,028	20,494	34,938
FT	Financial Technology	13,454	14,568	16,392	14,140	20,956
IT	Incubation Technology	5,475	7,454	6,343	1,775	3,123
LTI*	Long Term Incubation	-	-	-	41	1,150
Profit before income taxes		5,035	9,248	7,574	5,819	7,619
MT	Marketing Technology	874	1,061	1,396	1,074	1,959
FT	Financial Technology	1,496	1,335	1,758	1,478	2,539
IT	Incubation Technology	1,595	2,804	3,105	766	1,325
LTI*	Long Term Incubation	1,776	4,477	3,052	2,899	3,176

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.

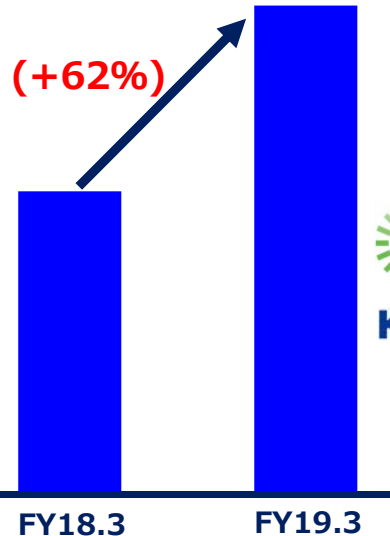
Expansion of initiatives in the strategic data science business

~ Collaboration with Media Consortium on various demonstration experiments ~

Data Science Business Expansion

-Developing a Data Tech Business Using Comparative Behavioral Data-

< BI. Garage Transaction Volume >



- Development of national client businesses (consumer goods company etc)
- Providing group-specific data-accumulating DMPs (Data Management Platform)
- Marketing technology that combines content using media data with advertising distribution

Japan Premium Media Consortium Initiatives

- Demonstrate empirical research to transform advertising attitudes with brand-safe premium media

36 major media companies participate

Admin Office : Digital Garage, Inc.






















Providing optimal advertising indicators and advertising value for both brand advertisers and influential premium media


- Viewability
- Brand safety
- Elimination of ad fraud
- Ensuring reliability in advertising etc





Date		Title
2019.5.9	 Digital Garage	DG Lab to Host THE NEW CONTEXT CONFERENCE 2019 TOKYO on the Theme of "How to Build a Data Ecosystem"
2019.4.19	 CRYPTO GARAGE	Crypto Garage Developed and Executed the Contract of a P2P Protocol Based Crypto Asset Derivative Settled in Bitcoin
2019.4.12	 DG INCUBATION	DG Incubation Co-leads Investment in Food E-Commerce Service GrubMarket
2019.4.1	 veritrans	VeriTrans Launches Credit Card Payment Services for Patent and Other Fee Payments to the Japan Patent Office
2019.3.25	 econtext	ECONTEXT Expands its Convenience Store Payment Service to Support Barcode-based Smartphone Payments at FamilyMart
2019.3.19	 Digital Garage	Digital Garage Group and Kyushu Railway Company to Build a CRM & Payment Platform for JR Kyushu Group and Jointly Develop the JR Kyupo App
2019.2.27	 Digital Garage	Digital Garage's Capital and Business Alliance Partner, Welby is Approved for Listing on the TSE's Mothers Section
2019.1.29	 econtext  veritrans	Digital Garage Group's Face-to-face Payment Business Exceeds Annual Transaction Amount of 100 Billion Yen
2019.1.28	 DG LAB <small>OPEN INNOVATION PLATFORM</small>	DG Lab Provides AR Technology for a SOUND RPG Event Collaborated with an Eminent Musician in Japan
2019.1.21	 CRYPTO GARAGE	Crypto Garage, The First Blockchain and Finance Project Authorized by Regulatory Sandbox in Japan
2019.1.21	 CRYPTO GARAGE	Crypto Garage Launches SETTLENET Product to Boost Application Development for Blockchain Based Financial Institutions
2018.12.19	 econtext	ECONTEXT Launches the QR Code-Based National Tax Collection Service at Convenience Stores to the National Tax Agency
2018.11.16	 veritrans	VeriTrans and Toshiba Tec Establish TD Payment, A JV Offering Multiple Payment Solutions for POS Systems
2018.11.8	 Digital Garage	Digital Garage Launches "Open Network Lab Resi-Tech," a Global Accelerator Program Targeting Real Estate-Related Startups
2018.11.6	 econtext	ECONTEXT Registered as Electronic Payment Service Provider
2018.11.1	 econtext	econtext Provides a Comprehensive Service for New Online Application System of Hiroshima Prefectural Board of Education
2018.10.10	 DG LAB <small>OPEN INNOVATION PLATFORM</small>	DG Lab to Host THE NEW CONTEXT CONFERENCE 2018 SAN FRANCISCO
2018.10.5	 Digital Garage	Digital Garage Exhibits at Japan Healthcare Venture Summit 2018 Hosted by the Ministry of Health, Labour and Welfare



Date		Title
2018.10.2	 econtext	econtext Launches Convenience Store Payment Services for Civil Fee Payments in Osaka Prefecture
2018.9.13	 veritrans	VeriTrans Provides Credit Card Payments for a PoC of Ringo Pass, JR-East's New Public Transportation Smartphone App
2018.9.4	 veritrans	Announcement Regarding Result and Completion of Repurchase of Shares through Off-Auction Own Share Repurchase Transaction (ToSTNeT-3)
2018.8.30	 Digital Garage	Announcement Regarding Determination of Terms of Issue of Zero Coupon Convertible Bonds due 2023
2018.8.29	 Digital Garage	Announcement Regarding the Issuance of Zero Coupon Convertible Bonds due 2023
2018.8.29	 Digital Garage	Announcement Regarding Repurchase of Shares
2018.8.29	 Digital Garage	Announcement Regarding Repurchase of Sharesthrough Off-Auction Own Share Repurchase Transaction (ToSTNeT-3)
2018.8.29	 Digital Garage	VeriTrans and Nissen to Establish a JV in the Postpaid Shopping Business
2018.8.27	 veritrans	Digital Garage & KDDI Entered into a Basic Agreement on Strategic Alliance
2018.8.2	 Digital Garage	Digital Garage and Welby Form a Capital and Business Alliance to Build a Person-Centered Health and Medical Data Platform
2018.8.1	 Digital Garage	Digital Garage and Tokyo Tanshi to Establish a JV for Blockchain Financial Service R&D and Business in the Fintech Field
2018.7.20	 Digital Garage	Digital Garage and iRidge's Fintech Subsidiary Collaborate in the Regional Digital Currency Field
2018.6.15	 Digital Garage	Digital Garage Launches "Open Network Lab BioHealth", an Accelerator Program Specialized in Biotechnology and Healthcare
2018.5.23	 Digital Garage	Digital Garage Launches One-Stop Marketing and Fulfillment Solution for Online Shopping Suppliers Aiming to Expand Overseas in Thailand and Taiwan
2018.5.17	 Digital Garage	DG Lab to Host THE NEW CONTEXT CONFERENCE 2018 TOKYO on the Theme of "Governance of Regulations and Innovations"
2018.4.27	 DG Lab	Digital Garage and The Hokkaido Shimbun Press Launch "Open Network Lab HOKKAIDO", an Accelerator Program
2018.4.20	 Digital Garage	VeriTrans Provides Credit Card Payments for a PoC of Ringo Pass, JR-East's New Public Transportation Smartphone App



Digital Garage

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