

Open Incubation toward 2020

<2020 Group Slogan>

DYNAMIC RESILIENCE

Digital Garage, Inc.

3Q of FYE March 31, 2020 Financial Report

2020.2.10

 **Digital Garage**

Financial Results Highlights



FY20.3 1Q-3Q Profit before tax: 10.4 B JPY, down 2% YoY due to the impact of exchange rate
 ~ Double-digit sales and profit growth in recurring business (FT/MT) ~

	FY19.3 1Q-3Q		FY20.3 1Q-3Q		
	Value	Change	Value	Change	
Consolidated	Profit before tax	10.6 B JPY	10.4 B JPY	-2 %	The impact of exchange rates -0.9B JPY
	Comprehensive income	7.1 B JPY	8.6 B JPY	+22 %	Increasing the fair value of Welby, and achieving incubation results
	KPI		By Segments		
			Profit before tax	YoY	
FT	<ul style="list-style-type: none"> Transaction volume <u>1.8 T JPY (YoY up by 20%)</u> of which, face-to-face settlement <u>0.2 T JPY (YoY up by 80%)</u> 	→	3.3 B JPY	+24 %	Marked record-high profits, expansion of QR code settlement and steady progress in alliances with major players
MT	<ul style="list-style-type: none"> Advertisement volume 25.1 B JPY (YoY down by 6%) Other volume <u>4.5 B JPY (YoY up by 73%)</u> (CRM, application development, Data science etc) 	→	1.5 B JPY	+77 %	Performance-based-ads is recovering, and CRM/app development business is strong
IT	<ul style="list-style-type: none"> Investment/ Sold 4.5 B JPY/ 0.7 B JPY Fair valuation <u>35.1 B JPY (from E of Mar.2019 up by 32%)</u> 	→	4.4 B JPY	-19 %	Fair value increased steadily despite the impact of exchange rates and decrease in reaction to large-scale exits in FY19.3
LTI	<ul style="list-style-type: none"> Investment profit on equity method of Kakaku.com <u>2.9 B JPY (YoY up by 14%)</u> Monthly traffic for all sites of Kakaku.com 267.05 million 	→	3.3 B JPY	-3 %	Investment profit on equity method of Kakaku.com, Inc. trended steadily

FY20.3 1Q-3Q Consolidated P/L, C/I Summary (IFRS)



Revenue increased by 7% YoY to 28.7 B JPY, profit before tax decreased by 2% YoY to 10.4 B JPY
 ~ Revenue in recurring business grew by 19% YoY, revenue in operational investment securities decreased by 18% ~

JPY in Millions	FY19.3				FY20.3				YoY	
	1Q	2Q	3Q	1Q-3Q	1Q	2Q	3Q	1Q-3Q	(%)	(Amount)
Revenue	8,548	9,677	8,465	26,690	8,217	11,379	9,078	28,674	+7.4	+1,984
Revenue in recurring business	5,323	5,722	5,352	16,397	6,138	6,718	6,576	19,431	+18.5	+3,034
Revenue in operational investment securities	1,732	2,677	1,398	5,806	459	3,332	968	4,759	-18.0	-1,048
Other income	664	206	872	1,742	817	422	301	1,540	-11.6	-203
Finance income	104	125	-134	95	1	16	28	45	-52.4	-50
Share of profit of investments accounted for using equity method	725	946	978	2,650	803	891	1,205	2,900	+9.4	+250
Expenses	5,154	5,671	5,286	16,110	5,999	6,271	6,016	18,286	+13.5	+2,176
Cost of sales	2,463	2,629	2,312	7,404	2,740	2,976	2,853	8,569	+15.7	+1,165
Selling, general and administrative expenses	2,582	2,914	2,829	8,326	2,951	3,138	3,121	9,210	+10.6	+884
Other expenses	72	76	70	219	78	86	74	238	+8.7	+19
Finance costs	37	51	74	162	230	71	-32	270	+66.7	+108
Profit before tax	3,394	4,006	3,179	10,580	2,218	5,108	3,062	10,388	-1.8	-191
Profit attributable to owners of parent	3,113	2,612	1,957	7,682	1,624	3,647	2,253	7,525	-2.0	-157
Profit	3,135	2,640	1,920	7,695	1,617	3,623	2,218	7,459	-3.1	-236
Other comprehensive income	549	-109	-1,067	-628	2,972	-1,184	-609	1,178	-	+1,806
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	376	-265	-898	-788	3,107	-1,186	-605	1,316	-	+2,104
Comprehensive income	3,684	2,530	853	7,067	4,589	2,439	1,609	8,637	+22.2	+1,570

NOTE: The above Revenue, Expenses, and Profit before tax refer to the continuing operations excluding discontinued operations

◆ FY20.3 1Q-3Q Consolidated Segment P/L Summary (IFRS)



Strong performance in FT/MT led to double-digit growth in sales and profits
 ~ Fair value of investee companies increased steadily in IT, but profit decreased due to the impact of foreign exchange rates and a decline in valuation profit associated with stock sales ~

JPY in Millions	FY19.3				FY20.3				YoY	
	1Q	2Q	3Q	1Q-3Q	1Q	2Q	3Q	1Q-3Q	(%)	(Amount)
Revenue	8,548	9,677	8,465	26,690	8,217	11,379	9,078	28,674	+7.4	+1,984
FT Financial Technology	1,763	1,812	1,838	5,413	2,083	2,204	2,184	6,471	+19.5	+1,058
MT Marketing Technology	3,053	3,390	2,953	9,396	3,376	3,984	3,705	11,065	+17.8	+1,669
IT Incubation Technology	1,898	2,890	1,485	6,273	507	3,462	1,405	5,374	-14.3	-899
LTI Long-Term Incubation	1,740	1,506	2,245	5,491	2,232	1,696	1,744	5,672	+3.3	+181
Profit before tax	3,394	4,006	3,179	10,580	2,218	5,108	3,062	10,388	-1.8	-191
FT Financial Technology	849	856	950	2,655	1,061	1,112	1,129	3,303	+24.4	+647
MT Marketing Technology	266	402	188	856	327	676	512	1,516	+77.0	+660
IT Incubation Technology	1,634	2,573	1,208	5,414	146	3,138	1,114	4,398	-18.8	-1,016
LTI Long-Term Incubation	1,050	825	1,528	3,403	1,493	932	890	3,316	-2.5	-86

NOTE: Revenue here shows revenue from external customers. Segment profit before tax is before elimination of intersegment transaction and corporate revenue and expenses.



Profit before tax and comprehensive income

JPY in Millions	FY19.3	FY20.3	YoY	
	1Q-3Q	1Q-3Q	(%)	(Amount)
Profit before tax	10,580	10,388	-1.8	-191
Profit attributable to owners of parent	7,682	7,525	-2.0	-157
Comprehensive income	7,067	8,637	+22.2	+1,570

■ FT / MT segment + 1.3 B JPY

■ IT / LTI segment - 1.1 B JPY

→ Impact of exchange rates -0.8 B JPY ✓
 Valuation profit associated with sales of stocks -1.8 B JPY
 Gain on fair value valuation +1.5 B JPY

■ HQ - 0.4 B JPY

→ Increased in SG&A expenses due to business expansion -0.36 B JPY
 Impact of exchange rates -0.13 B JPY ✓

Decrease of profit before tax - 0.2 B JPY

■ Decrease of profit - 0.2 B JPY

→ Continuing operations + 0.2 B JPY
 Discontinues operations - 0.5 B JPY

■ Other comprehensive income + 1.8 B JPY

→ Increased fair value due to Welby listing etc + 2.1 B JPY
 Foreign currency translation adjustments - 0.3 B JPY ✓

Increase of comprehensive income + 1.6 B JPY

FY20.3 3Q Consolidated B/S Summary (IFRS)



JPY in Million	End of FY19.3	End of FY20.3 3Q	Difference	Reason for change / Remarks
Current assets	99,186	105,384	+6,197	
Cash and cash equivalents	48,154	47,664	-491	New investments, Relating to FT business, payment of income taxes and dividends etc
Trade and other receivables	23,254	20,626	-2,628	Relating to FT business etc
Operational investment securities	26,695	35,122	+8,427	<u>New investments and increase in fair value of investee companies</u>
Non-current assets	47,704	63,807	+16,104	
Property, plant and equipment	9,421	19,469	+10,048	Recognition of a right-of-use asset due to lease transactions associated with the expansion of the headquarters floor space
Goodwill	6,575	7,689	+1,114	New acquisition
Investments accounted for using equity method	19,139	20,869	+1,730	Increased investment profit on equity method
Other financial assets	6,662	9,324	+2,662	<u>New investments and increase in market value of listed shares</u>
Total assets	146,890	169,191	+22,301	
Current liabilities	52,420	58,287	+5,867	
Borrowings	2,211	6,600	+4,389	Demand for working capital of FT etc
Trade and other payables	45,799	46,601	+803	Relating to FT business etc
Non-current liabilities	47,125	55,932	+8,808	
Bonds and borrowings	35,959	34,557	-1,402	
Other financial liabilities	5,430	13,721	+8,292	Recognition of lease liabilities for expansion of headquarters floor space, etc
Deferred tax liabilities	4,744	6,581	+1,836	<u>Estimated taxes related to unrealized gains on securities</u>
Total liabilities	99,545	114,220	+14,675	
Total equity	47,345	54,971	+7,626	
Total equity attributable to owners of parent	46,609	54,266	+7,656	
Share capital	7,504	7,576	+72	
Capital surplus	4,235	4,390	+155	
Treasury shares	-5,026	-5,012	+14	
Other components of equity	1,303	2,480	+1,177	<u>Increase in fair value of investee companies (Other comprehensive income)</u>
Retained earnings	38,593	44,832	+6,238	Increased profit
Non-controlling interests	736	706	-30	
Total liabilities and equity	146,890	169,191	+22,301	

Segment Performance Review





I Financial Technology Segment

		Revenue	Profit before tax
FY19.3	1Q-3Q	5,413 M JPY	2,655 M JPY
FY20.3	1Q-3Q	6,471 M JPY	3,303 M JPY

▶ **econtext, Inc.**

Integrates online and offline business as the convenience store payment pioneer



▶ **VeriTrans Inc.**

Provides leading e-commerce payment solutions



▶ **econtext ASIA Ltd.**

Payment corporation to expand e-commerce platforms globally



▶ **NaviPlus Co., Ltd.**

Subsidiary of VeriTrans Inc. Offers website support tools including personalized recommendation engines



▶ **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



SCORE Payment Service

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

Offers multiple payment solutions for POS systems

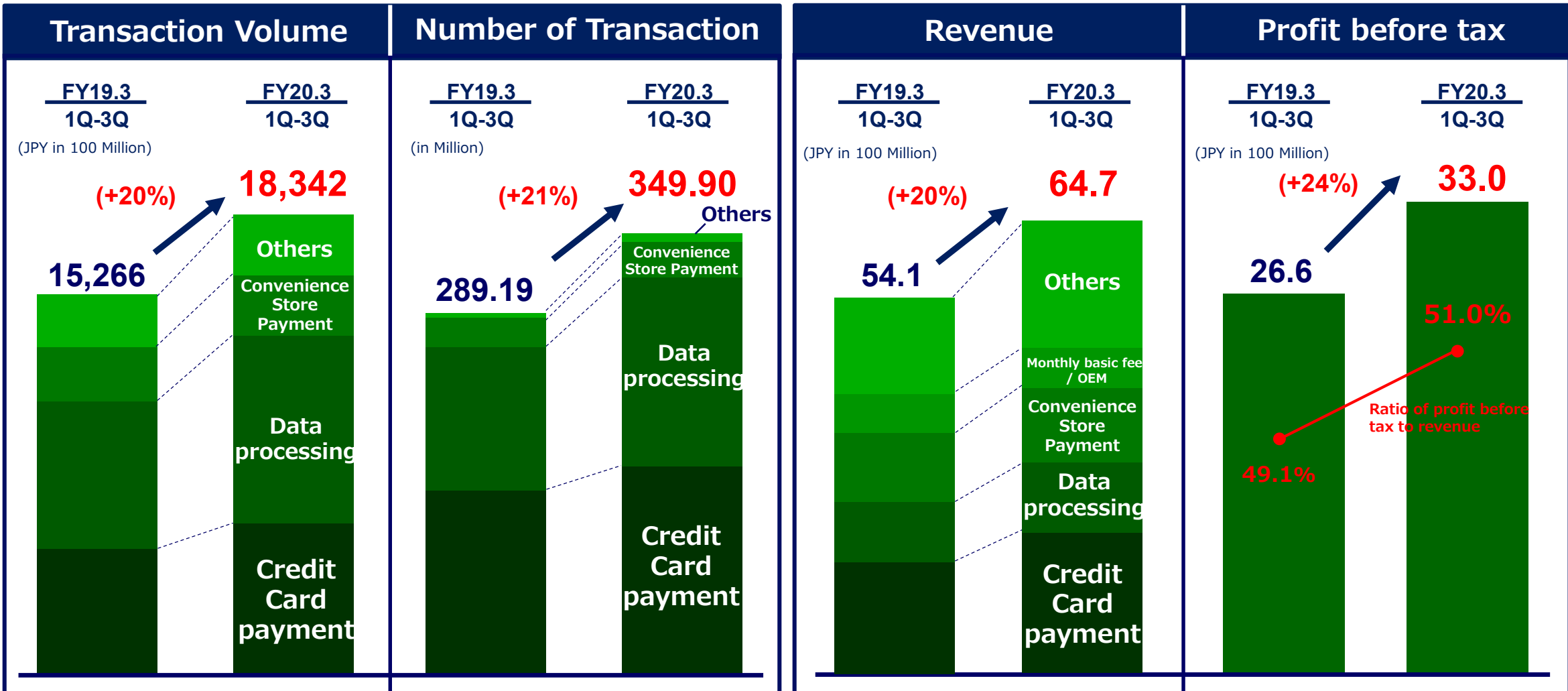


NOTE: Revenue here shows revenue from external customers. Profit before tax is before elimination of intersegment transaction.



Transaction volume marked approx. 1.8 T JPY, +20% YoY,
 number of transaction surpassed 349 million, +21% YoY

~ Revenue rose 20% YoY, Profit before tax marked 3.3 B JPY, +24% YoY, record-high earnings~





Alliances with business partners to cover large businesses and small and medium-sized retail stores

~ Supports au PAY in addition to d Barai® etc in multi-QR code payment solution ~

Alliance strategy



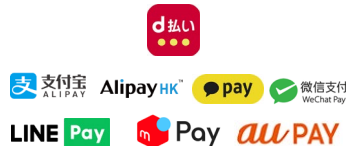
JV with Toshiba TEC, the top share company in Japan
Providing multi-payment solution



JV with ANA group
Providing multi-payment terminals for airports, duty-free shops, face-to-face retailers, etc

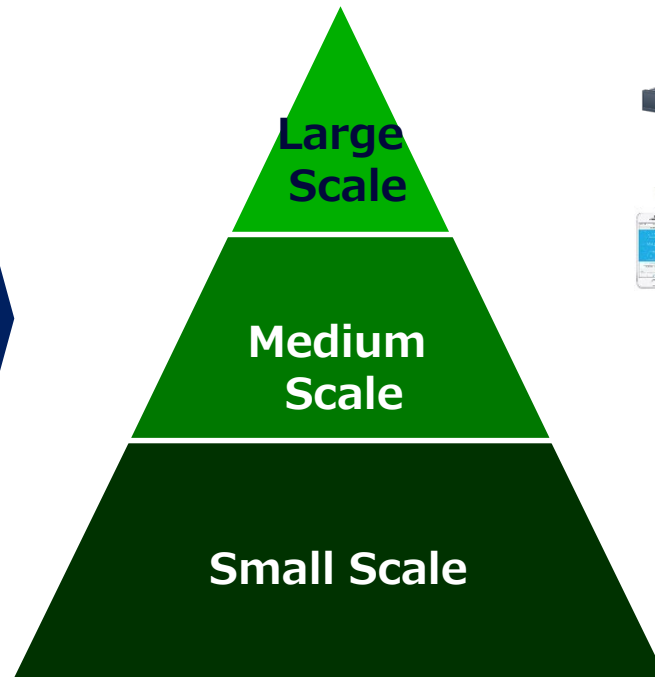


Partnering with NTT DOCOMO, INC. and leading players in Japan and overseas



such as au PAY for MPM settlement of common QR codes

Merchant by Size / Payment Terminal



POS Register



Tablet POS



Multi-Payment Terminal mPOS



QR Code Scanning Panel Cloud Pay

Image of QR Code Stand for shop installation

Transaction volume of Face-to face settlement

[FY20.3 1Q-3Q]
168.7
Billion JPY

[YoY]
x1.8

[FY19.3 1Q-3Q]
94.2 B JPY

Note) MPM (Merchant Presented Mode) : Method in which consumers scan QR codes displayed at stores with their smartphones to make payments



II Marketing Technology Segment

		Revenue	Profit before tax
FY19.3	1Q-3Q	9,396 M JPY	856 M JPY
FY20.3	1Q-3Q	11,065 M JPY	1,516 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



▶ CyberBuzz, Inc. (21.1% 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

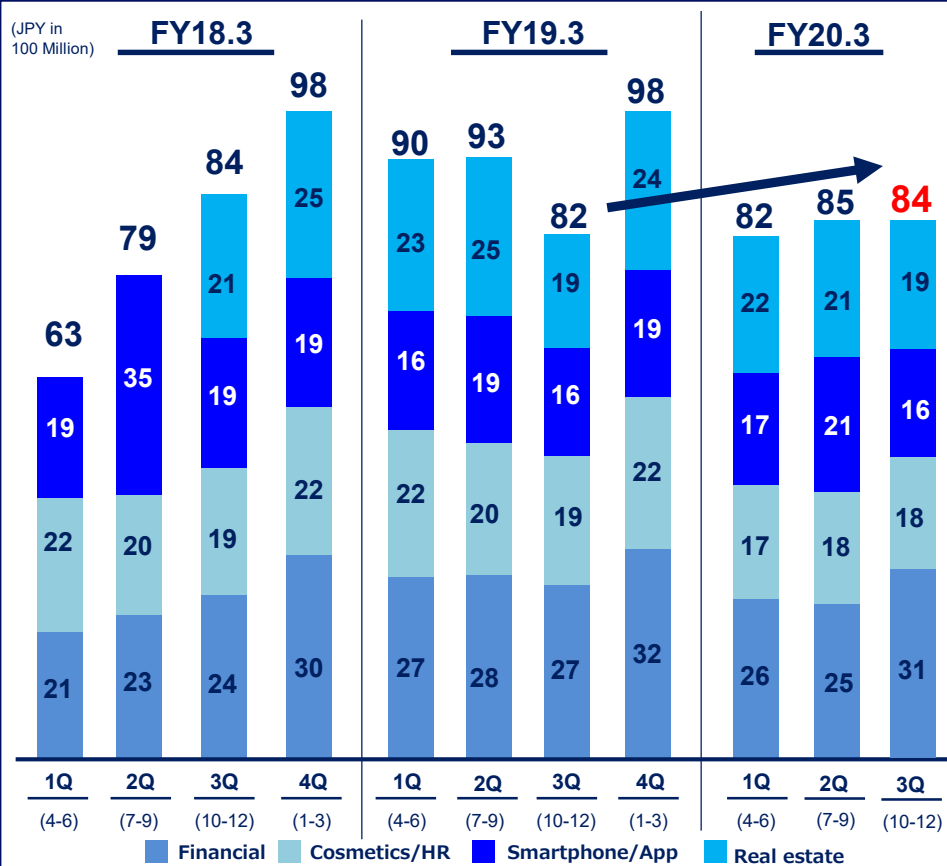


NOTE: Revenue here shows revenue from external customers. Profit before tax is before elimination of intersegment transaction.



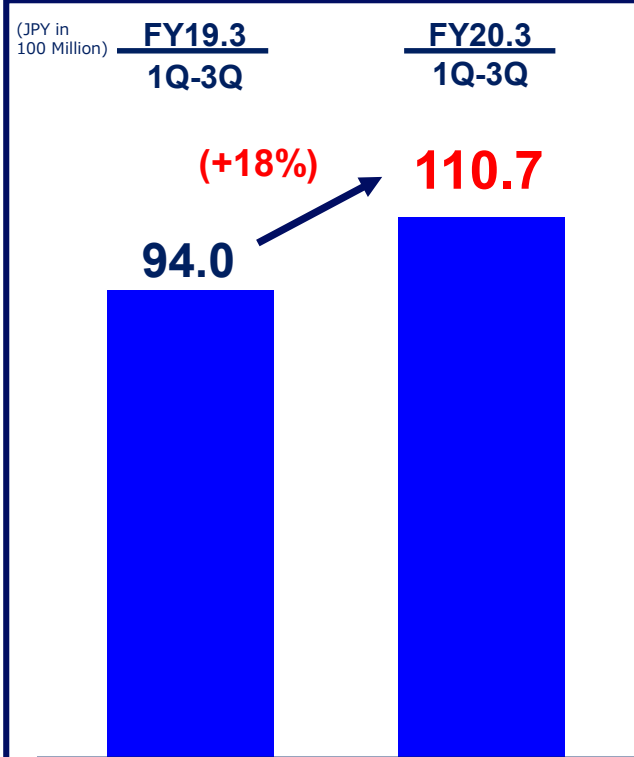
Revenue marked 11.06 B JPY, +18% YoY, and profit before tax increased to 1.52 B JPY, +77% YoY
 ~ Maintain profitability improvement through selection and concentration of highly profitable cases ~

Advertisement volume



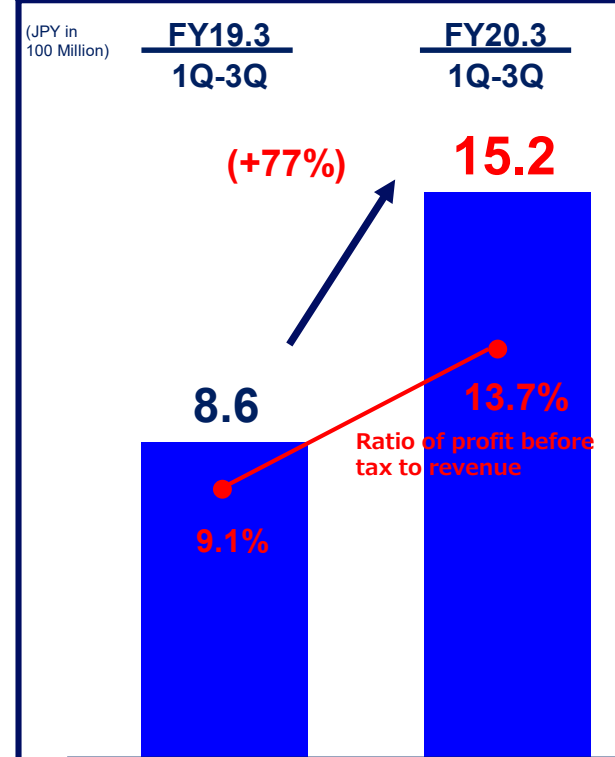
■ Strong performance of finance (credit card-related advertising) due to the government's points-based rebate system

Revenue



■ Other than Internet Advertising Business, CRM Marketing Business and App development business performed well

Profit before tax



■ Selection and concentration of cases with an emphasis on improving profitability
 ■ Successful control of SG&A expenses



Responding to Changes in the Business Environment



<Marketing Technology Company>
MT / FT collaboration

Revenues from CRM and app development, etc. increased 2.4 times YoY

Point marketing business of credit card company performed well. Continue to promote cross-segment growth strategies including FT



<DG Communications Co., Ltd.>
Real estate / Collaborate with ONL

"Open Network Lab Resi-Tech" for the real estate developer industry 1st Batch ended
In 2nd Batch, will collaborate with the government and area partner companies of major cities in Japan to conduct tests in line with urban plans with startups



<CyberBuzz, Inc.>
Social Media Marketing

Develop proprietary platforms for influencer marketing utilizing SNS such as Instagram and Facebook

Generate future marketing group synergies



Leading data scientists in Japan



Next-generation data technology



BI.GARAGE



<Media Consortium Planning Office>
National Client

Formed a Digital Value Study Group with **40 leading Japanese content media companies** and conducted test marketing of high-value digital advertisements to major clients. Promote activities for joint commercialization. Entered Final phase for joint commercialization

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

BI.Garage
transaction volume

YoY +44%

Increased advertising business from national clients
by menu developed mainly by DG and Kakaku.com



Digital Garage

kakaku.com

Number of clients

FY19.3 1Q-3Q

98



FY20.3 1Q-3Q

139





III Incubation Technology Segment

		Revenue	Profit before tax
FY19.3	1Q-3Q	6,273 M JPY	5,414 M JPY
FY20.3	1Q-3Q	5,374 M JPY	4,398 M JPY

▶ **DG Ventures Inc.** (Former DG Incubation, Inc.)*

Invests in and incubates cutting-edge internet startups

*Trade name changed to "DG Ventures Inc." as of January 1st 2020.



▶ **Open Network Lab**

Seed Accelerator Program in progress in the 20th term



▶ **Digital Garage US, Inc.**

The US-based global strategy headquarters



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

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



NOTE: Revenue here shows revenue from external customers. Profit before tax is before elimination of intersegment transaction.

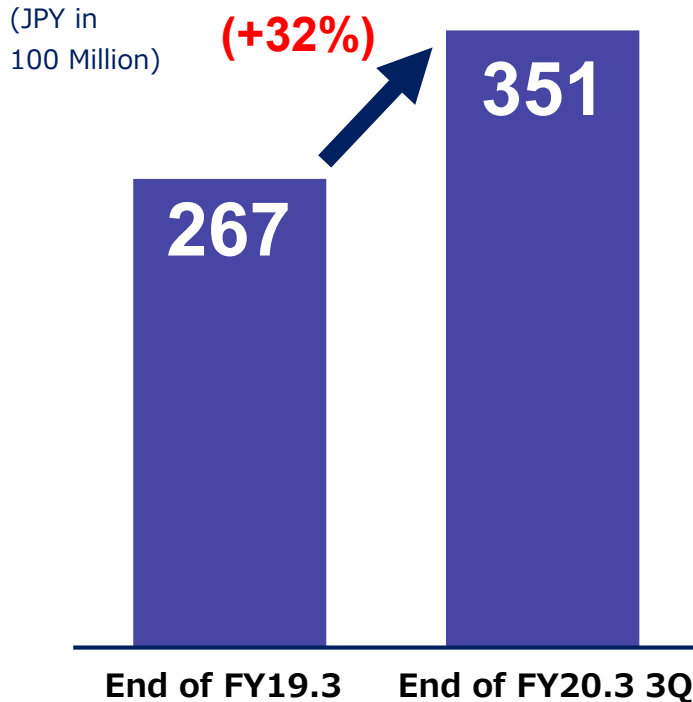


The balance of operational investment securities as of the end of Dec. 2019 was **35.1 B JPY, up 32% from the end of FY19.3**

~ Increase in investment securities due to increase in fair value and steady progress in new investments ~

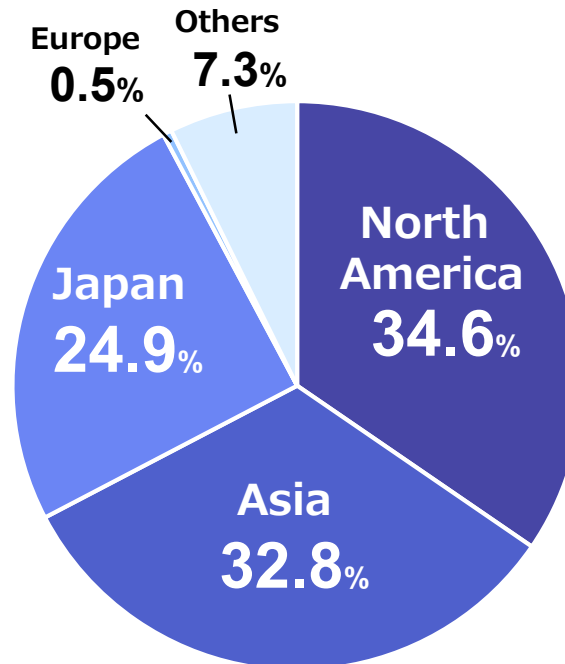
Operational investment securities

The fair value of operational investment securities **increased substantially by 32%** from the end of FY19.3



Portfolio by regions

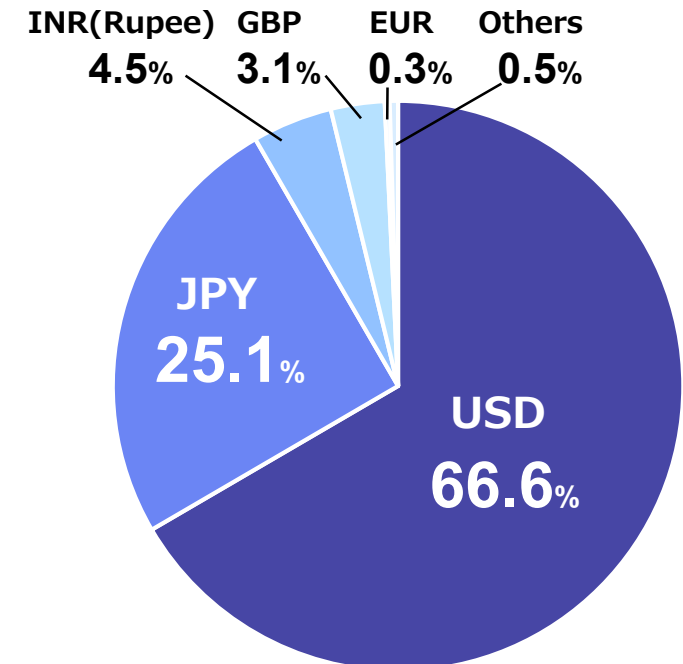
Building a balanced investment portfolio centered on **Global Incubation Stream**



Note) Shows the share of operating investment securities outstanding by region and currency

Portfolio by currencies

Due to aggressive investment overseas, **USD based investment accounts for two-thirds** of total investment






Steady progress in investment in Japan, US and Asia

~ Strengthen the support system to continuously increase investment value ~

Examples of Investment


QD Laser [Japan]  QD LASER
Develop and provide new semiconductor laser solutions in the telecommunications, industrial, medical, and consumer sectors as a pioneer in the commercialization of quantum dot laser technology


Sen Do Technology [Vietnam]  **Sendo**[®]
Operates Sendo, a marketplace for C2C and B2C in Vietnam, and provides electronic wallet services

WHILL [Japan]  **WHILL**
Transform antiquated power wheelchair into an intelligent personal electric vehicle, focusing on an approachable and aesthetically pleasing powered vehicle

Droom [India]  **droom**
India's Most Trusted Motorplace
A leading online marketplace for new and second-hand automobiles in India

Goodpatch [Japan]  **Goodpatch**
Provides one-stop services and product planning, concept making, UX design, prototyping, and implementation

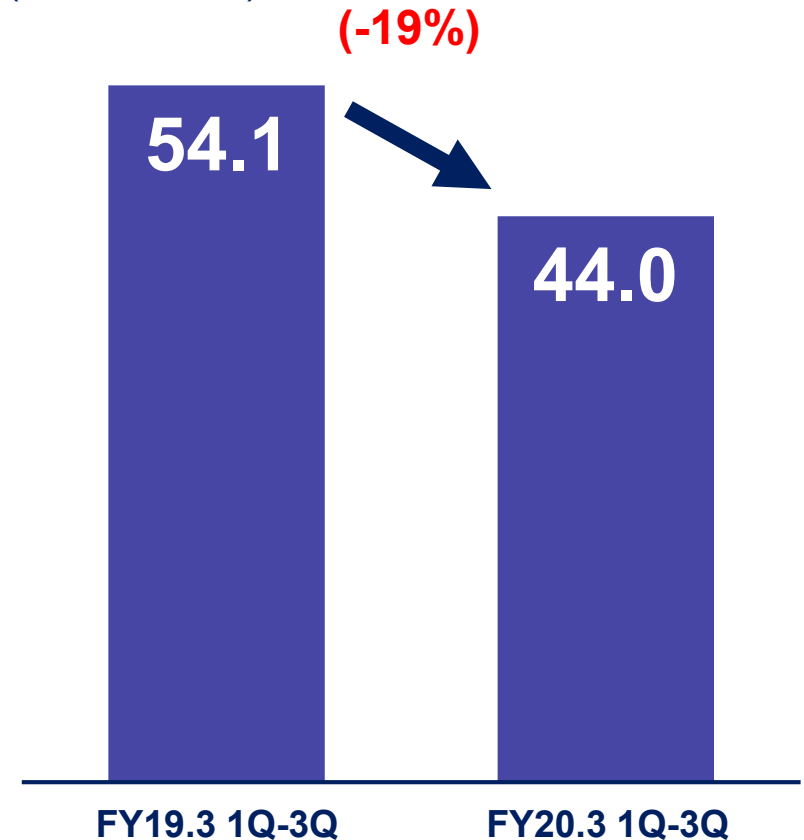
NoBroker Technologies Solutions [India]  **NOBROKER.COM**[™]
Operates India's peer-to-peer property marketplace. Using this service, people can rent/buy houses online without brokers

Moneytree [Japan]  **Moneytree**[™]
Provides personal finance app that aggregates bank, credit card, e-money, and various expenses to the user's smartphone etc to check and track account balances and usage.

GrubMarket [US]  **GrubMarket**
Develop a leading marketplace platform specializing in fresh organic foods

Profit before Tax

(JPY in 100 Million)





IV Long-Term Incubation Segment

		Revenue	Profit before tax
FY19.3	1Q-3Q	5,491 M JPY	3,403 M JPY
FY20.3	1Q-3Q	5,672 M JPY	3,316 M JPY

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

kakaku.com

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

 CRYPTO GARAGE

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



NOTE: Revenue here shows revenue from external customers. Profit before tax is before elimination of intersegment transaction.

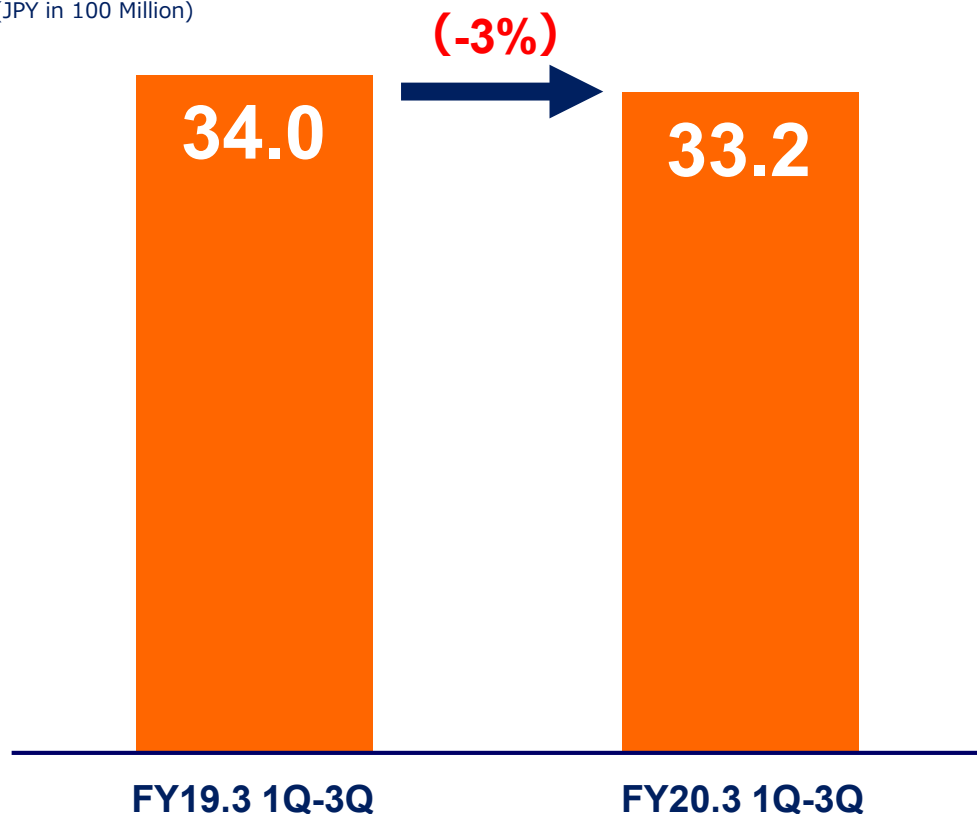


Profit before tax marked 3.32 B JPY, remained flat from FY19.3 1Q-3Q

~ While upfront expenditures for businesses under investment development had an impact, Investment profit on equity method of Kakaku.com, Inc. steadily contributed ~

Profit before tax

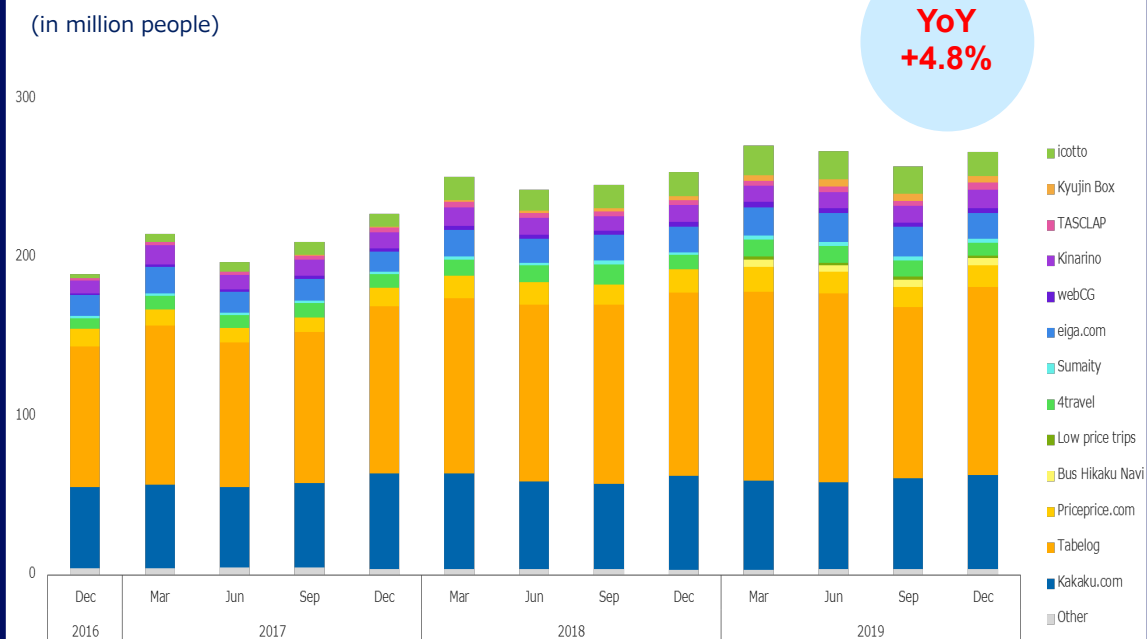
(JPY in 100 Million)



Business Progress of Kakaku.com, Inc.

【Total Accumulated Traffic for Kakaku.com Group】

Monthly traffic for all sites of Kakaku.com has increased to 267.05 million, up 4.8% YoY (December 2019)



Ref. Kakaku.com, Inc. Results Briefing for 3Q FY2020/3

Appendix





Financial Results: Consolidated PL (IFRS)



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 by Segments (IFRS)



JPY in Millions		<u>FY18.3</u> (Result)	<u>FY19.3</u> (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: Revenue here shows revenue from external customers. Segment profit before tax is before elimination of intersegment transaction and corporate revenue and expenses.



Date		Title
2020.2.4		DG Lab to Host THE NEW CONTEXT CONFERENCE 2020 TOKYO on the Theme of "Whole Earth 2020 @Tokyo"
2020.1.22		ECONTEXT Supports "ATM Uketori" for the CASH POST Wire Transfer Service through the Collaboration with Seven Payment Service
2019.12.27		Digital Garage Group's "Cloud Pay", a Multi-QR Code Payment Solution, Supports KDDI's au PAY
2019.12.23		VeriTrans Provides Credit Card Payment Services for GO2GO, IDOM's Car Sharing Service
2019.12.16		VeriTrans - Comprehensive Payment Solution VeriTrans4G Supports "PayPay"
2019.10.24		Digital Garage Group's "Cloud Pay", a Multi-QR Code Payment Solution, Supports Alipay, AlipayHK, and Kakaopay
2019.10.23		7 Companies Established the Japan Digital Therapeutics Consortium and Launch Activities
2019.10.4		DG Lab to Host THE NEW CONTEXT CONFERENCE 2019 SAN FRANCISCO
2019.9.17		VeriTrans Provides Post-Settlement Payment Service "VeriTrans Atobarai" for UNIQUEST's "Small Funeral"
2019.9.12		Digital Garage and KDDI Conduct a Digital Transformation (DX) Proof of Concept Using AR and VPS Technology
2019.8.30		Digital Garage and Daiwa Securities Group Establish DG Lab Fund II for Global Startups with Next-generation Technologies
2019.8.16		Digital Garage's Equity Method Affiliate, CyberBuzz is Approved for Listing on the TSE's Mothers Section
2019.8.2		Digital Garage Supports Joint PoC Projects by 7 Major Companies and 5 Startups through "Open Network Lab Resi-Tech"
2019.7.25		Digital Garage Joins MIT Media Lab's "Space Exploration Initiative"
2019.5.31		Digital Garage, Fukuoka D.C., and Fukuoka Growth Next Launch the Smart City Incubation Program, "Open Network Lab FUKUOKA"
2019.5.16		Digital Garage Group Launches "Cloud Pay", a Merchant-presented mode Multi-QR Code Payment Solution



Date		Title
2019.5.13	 Digital Garage	Digital Garage and Welby Launch a Proof of Concept Project for PHR Lifestyle Disease Prevention Program in Fukuoka City to Build a Personal Health Record Platform
2019.5.9		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



Digital Garage

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