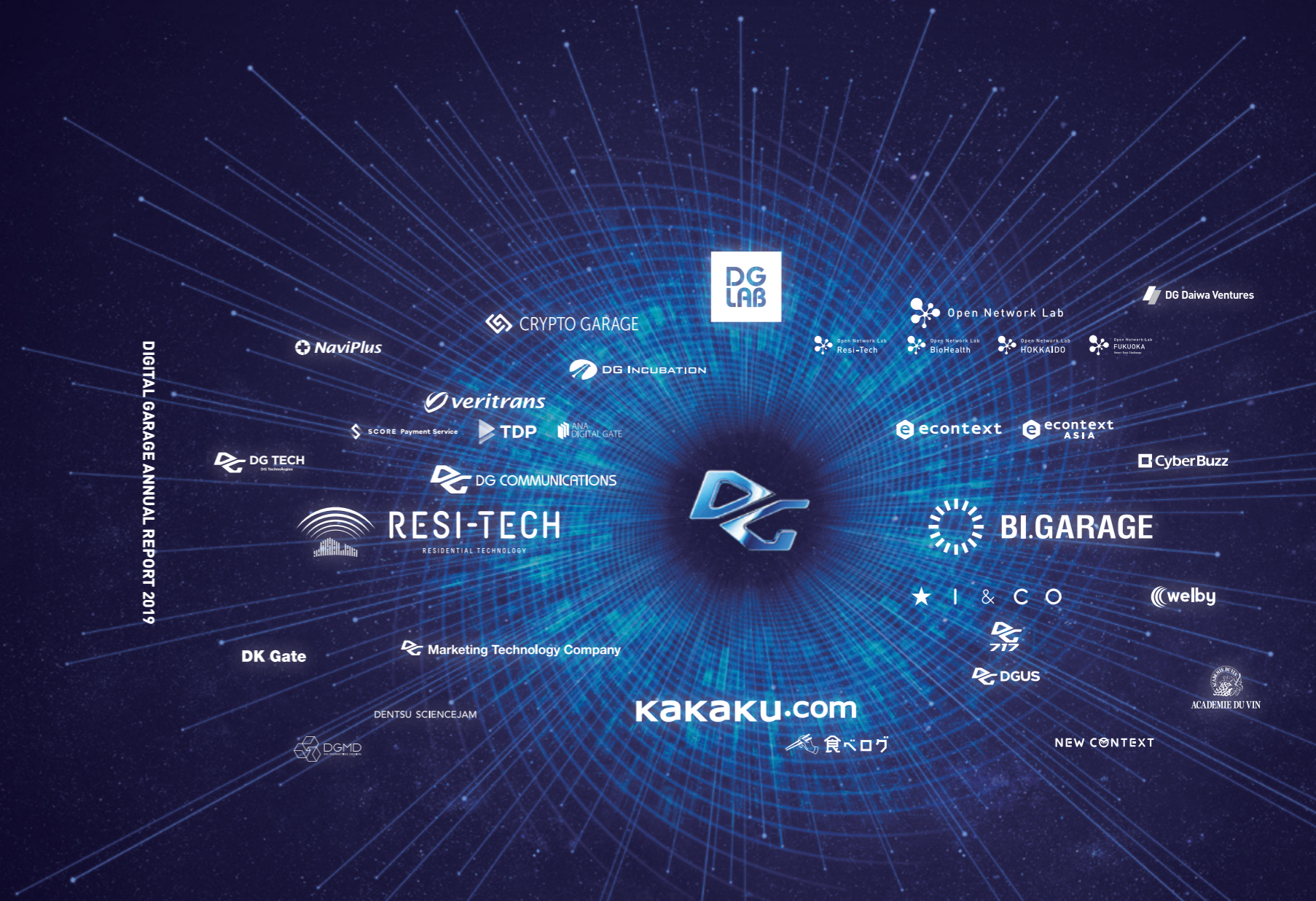


DIGITAL GARAGE ANNUAL REPORT 2019



# DIGITAL GARAGE ANNUAL REPORT 2019

 Digital Garage

This annual report was prepared using information current as of August 29, 2019.

Digital Garage, Inc. has been newly selected as a constituent of the "JPX-Nikkei 400," a stock price index jointly developed by Japan Exchange Group, Inc., Tokyo Stock Exchange, Inc. and Nikkei Inc.

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# CONTEXT COMPANY

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## Cautionary Statement

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Discussions of Digital Garage's current plans and strategies, and outlooks for future performance, included in this annual report are based on information available as of the preparation of this report. Digital Garage believes the views expressed are reasonable as of the time this report was prepared. Nevertheless, risk and uncertainty are inherent in discussions of the future. Users of this report should bear in mind that various factors may cause actual results to differ from expectations or outlooks expressed in this annual report.



## MISSION

# CONTEXT COMPANY

REAL  
LOCAL  
MARKETING  
PRESENT

&

CYBER  
INTERNATIONAL  
TECHNOLOGY  
FUTURE

Since its establishment 24 years ago, Digital Garage has put itself forward as a company that creates contexts for the internet era. In using the word, “context,” we mean shared understanding based on relationships, environments, culture, and ideas. We established DG as a company that would explore ways for creating internet contexts incorporating real space and cyberspace which is set to expand by leaps and bounds and linking Japan with the rest of the world, marketing with technology, and the present with the future. We also established DG to be a company that would create contexts useful for the world. And, indeed, DG has built a solid track record of constantly being at the cutting edge of internet development, and taking on “first-in-Japan” projects.

We are proud that the history of DG is **the history of the internet in Japan**. Looking to the future, we will remain steadfast in our efforts to add a new page to the history of the internet by creating new services that contribute to society. We aim to accomplish much and welcome anticipation of our results.

# HIGHLIGHTS

## FY 2019 Highlights

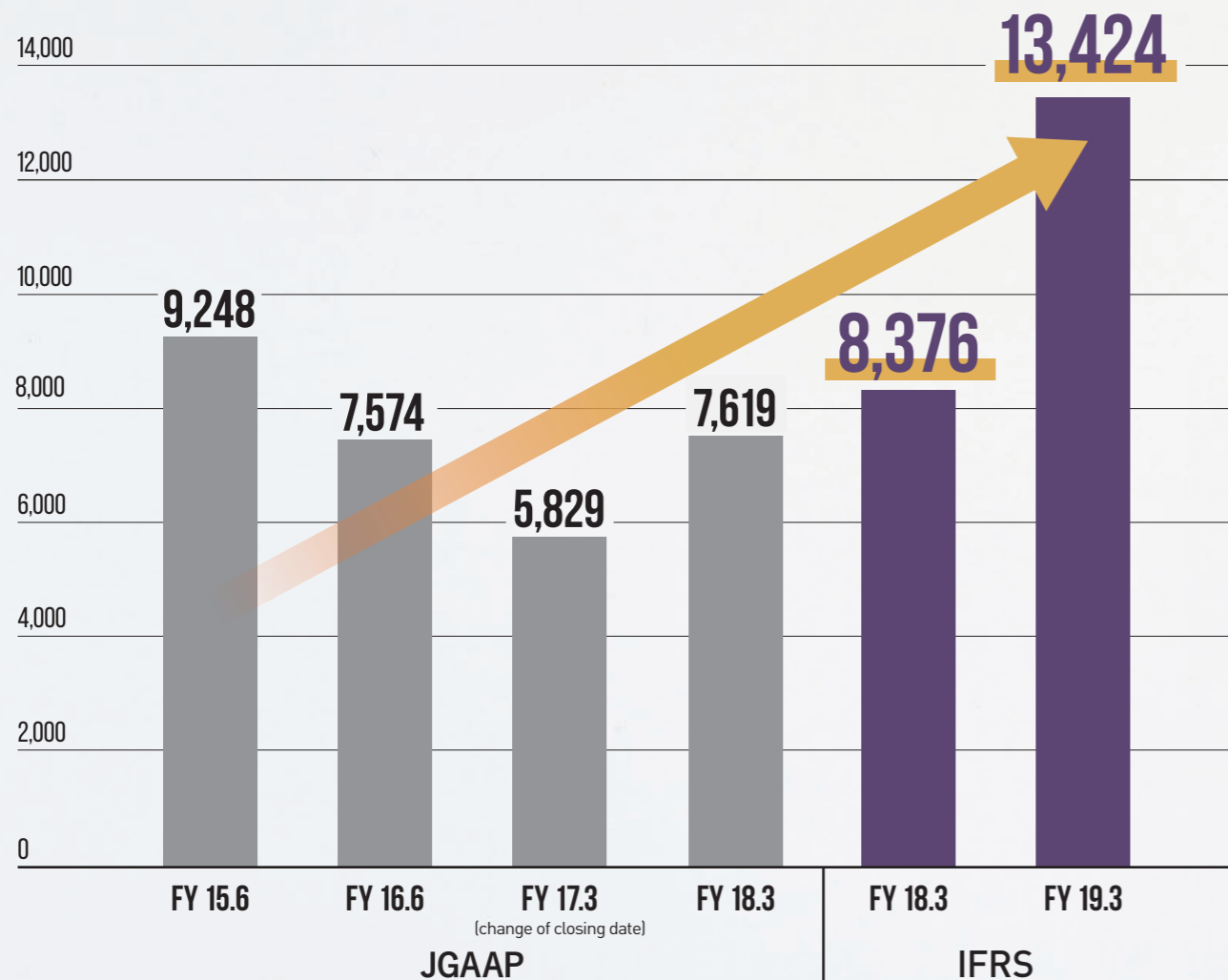
IFRS\* Profit before tax in the first fiscal year of application rose 60% YoY to 13.4 billion JPY, a record high

### Profit before tax

(JPY in Millions)



#### DIGITAL GARAGE GROUP



\* International Financial Reporting Standards (IFRS) have been voluntarily applied since FY 2019.

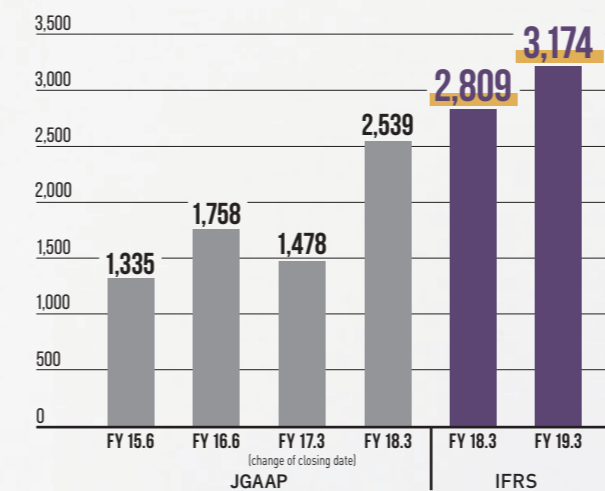
All business segments posted at least double-digit gains YoY

The Financial Technology Segment and Long-term Incubation Segment were both steady, posting double-digit increases in profits YoY, while the Incubation Technology Segment also posted a substantial 5-fold increase in profits YoY

### Consolidated profit before tax by segment

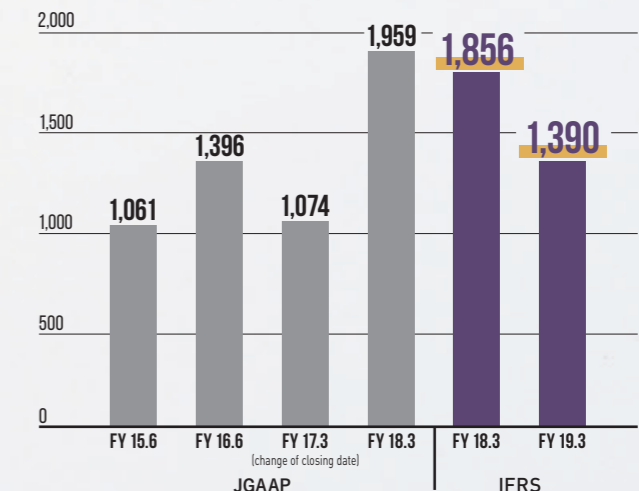
(JPY in Millions)

#### FT FINANCIAL TECHNOLOGY SEGMENT



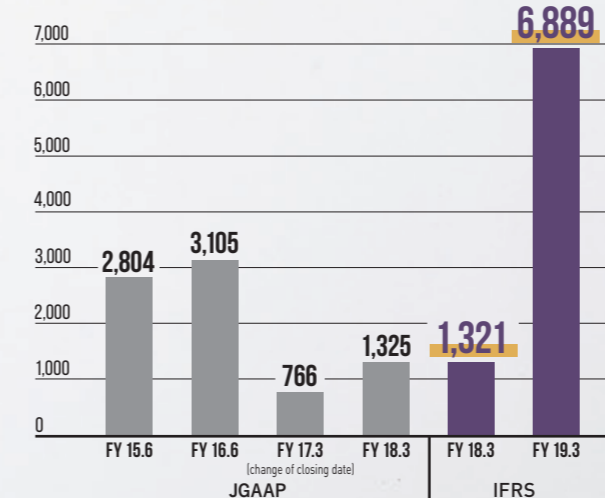
(JPY in Millions)

#### MT MARKETING TECHNOLOGY SEGMENT



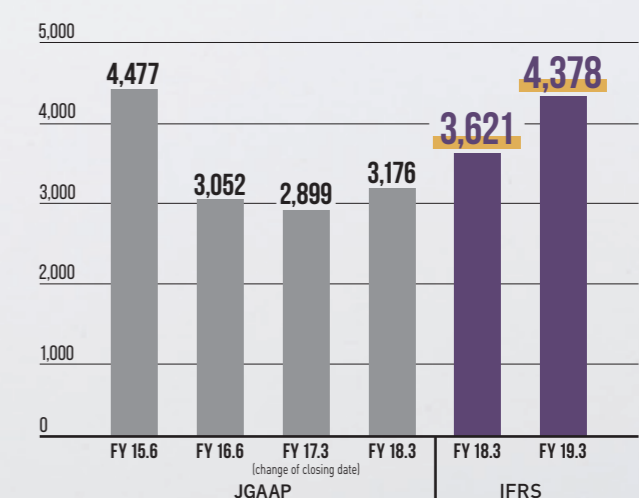
(JPY in Millions)

#### IT INCUBATION TECHNOLOGY SEGMENT



(JPY in Millions)

#### LTI LONG-TERM INCUBATION SEGMENT




## MESSAGE FROM THE CEO

Using the stable growth of recurring businesses as a base, we have accelerated strategic investment and alliances in the realm of next generation technologies.

OPENING  
TOWARD

## Kaoru Hayashi

Representative Director, President  
Executive Officer and Group CEO  
Digital Garage, Inc.  
KAORU HAYASHI 



## FY 2019 Financial Summary

Performance went well in FY 2019, the first fiscal year for adopting IFRS<sup>\*1</sup>, and we were able to achieve a record profit before tax of 13.4 billion JPY. This is also considered to be the result of initiatives that are in line with the concept of "A company that creates 'Contexts' for the internet era" that we have proclaimed since our foundation and with our Mid-term Business Plan that started in FY 2018 under the slogan "Open Incubation Toward 2020"<sup>\*2</sup>.

In addition, DG voluntarily adopted IFRS from its FY 2019 consolidated financial statements. The objective of adopting IFRS was mainly to shift from the previous presentation of total gross sales to presentation of net revenue in the FT (Financial Technology) Segment and MT (Marketing Technology) Segment as the recurring businesses to provide a clearer picture of the state of revenues. In addition, for the IT (Incubation Technology) Segment, by more adequately presenting the fair value of the equity value of investee companies in the financial statements, we indicate this as being an important guidance for the evaluation of DG's corporate value.

Revenues in FY 2019, the first fiscal year in which IFRS applied, rose 39.9% YoY to 35.7 billion JPY, profit before tax rose 60.3% YoY to 13.4 billion JPY, and profit attributable to owners of parent rose 52.4% YoY to 9.8 billion JPY, posting a record profit. Double-digit increases or more in revenues were secured for all businesses and revenues in recurring businesses such as the FT/MT Segments rose 25% YoY. In terms of profit, we achieved a substantial increase in profits with a rise in the fair value of securities held in the IT/LTI (Long-term Incubation) Segments.

In the FT Segment, revenue rose 12.9% YoY and profit before tax rose 13.0% YoY to reach 3.2 billion JPY. Total amount of payments handled continued to rise 34% YoY to 2.1 trillion JPY, and the number of payments handled rose

33% YoY to 390 million transactions. There was a sharp approximate 3-fold increase YoY in the strategic areas of non-EC payments/face-to-face payments, which drove growth of the segment as a whole.

In the MT Segment, revenue rose 37.6% YoY and profit before tax fell 25.1% YoY, resulting in increased revenue and lower profit. In our mainline handling of advertisements, in addition to the real estate sector, revenue increased to the strong financial sector. On the other hand, enhancements to our consulting strength for national clients, which is expected to grow, and upfront investment in branding advertisements and video advertisements lead to lower profits.

Revenues in the IT Segment rose 3.1x YoY to 8.0 billion JPY, and profit before tax rose 5.2x YoY to 6.9 billion JPY, driving overall earnings. The fair value amount for the specific evaluation of financial instruments under IFRS (investee stock evaluation) substantially increased over the previous period. In particular, this was attributed to the large increase in corporate value of investees mainly in Asia. In addition, Welby Inc. (Tokyo Stock Exchange Mothers: 4438), which is a strategic investee in the domestic BioHealth sector, conducted an IPO on March 29 that is forecast to be reflected in DG's corporate value in FY 2020.

In the LTI Segment, revenue rose 13.2% YoY and profit before tax was 4.4 billion JPY, a 20.9% increase in profits. The performance of equity-method affiliate Kakaku.com, Inc. also produced an operating profit that was virtually in line with forecasts and steadily contributed to the segment's performance.

Furthermore, we also believe we were able to steadily implement the various policies forming the first step toward future growth at in the IT Segment, LTI Segment, and DG Lab, our R&D platform.

\*1 IFRS: International Financial Reporting Standards \*2 Cultivating potential businesses in an open eco-system through tie-ups with other companies

UBATION  
2020

## Spur the expansion of a cashless society

Looking broadly at our individual businesses, the FT Segment is being spurred by the sharply expanding cashless society as well as the steady growth of the EC market. The year has been marked by enhancements to the multi-payment service that provides unification of diverse payment methods and certain progress in increasing our share of the non-EC market such as public-funds sector. Symbolic of this was the **establishment of the joint venture multi-payment solutions company "TD Payment Corporation"** announced by VeriTrans Inc. with TOSHIBA TEC, which has No.1 domestic market share of POS, in November 2018. TD Payment provides speedy solutions to the need to implement diverse cashless payments to deal with aspects such as the increase in inbound customers. As the first arrow, targeting businesses currently using TOSHIBA TEC's POS system, the company provides the non-maintenance of credit card information for security enhancements and multi-payment solutions that can easily introduce various payment methods such as domestic QR/barcode payments such as LINE Pay and d Payment<sup>®</sup> and QR/barcode payments for inbound customers and various electronic money payments.

In the public-funds sector, econtext, Inc. was contracted by the National Tax Agency to provide a QR Code-based tax collection service for convenience stores in 2018. Through this, econtext commenced the provision of convenience store payments services for the National Tax Agency at FamilyMart, Lawson and MINISTOP on January 4, 2019. In addition, VeriTrans commenced the provision of credit card payments service for the credit card payment collection system for patent and other fees launched by the Japan Patent Office on April 1, 2019. In the future, as the provider of payment services that have grown with social infrastructure, we will support with the improvement in the efficiency of various government collections and improve the convenience for taxpayers to pay taxes by providing payment

solutions for the public-funds sector,

Regarding the payment business, with a view to commercialization in a few years, DG Lab is leading our development of new payment solutions using blockchain. Crypto Garage, Inc. was established as a joint-venture with Tokyo Tanshi Co., Ltd. and Blockstream for the purpose of developing blockchain financial services and it received official authorization to conduct the first Fintech project under the Cabinet Office's "Regulatory Sandbox" system in January 2019. Based on this sandbox system, Crypto Garage commenced cooperation with multiple business partners in trial experiments for payment service by issuing JPY-Token and simultaneously exchanging crypto assets.

Apart from this, we also commenced the realization of the growth strategy that combines the FT business and MT business. Providing the CRM & payment platform to Kyushu Railway Company (JR Kyushu) announced in March 2019. Starting with the JR Kyushu point service "JR Kyupo," developing a smartphone app aimed at increasing engagement between users and the JR Kyushu Group. In the future, by providing this CRM & payment platform to various businesses, we will continue to develop business spanning the payment business and the marketing business with the aim of this becoming a new pillar of revenues for the DG Group.

In addition, in May 2019 we commenced the provision of **"Cloud Pay," which is a merchant-presented mode (MPM) multi-QR Code payment solution** that makes it possible for consumers to scan QR Codes displayed at stores with their smartphones to make payments. Stores that have introduced the system only have one QR code in the store but are able to conduct multiple QR and barcode payment services such as d Payment<sup>®</sup>, Alipay, WeChat Pay, Merpay, and LINE Pay.

## Investment business is in a harvest period

There has been substantial growth for a number of investees in the Asian region where the IT business, which discovers promising start-up companies around the world and supports business, has been putting its efforts during the past 5 years, and we are heading for a period of reaping the investment returns. In particular, major ride-hailing company in Indonesia, GO-JEK Group, has grown as one of a few unicorn companies in that country. Droom Technology Private Limited, which operates the largest online automobile marketplace in India, and Sen Do Technology, which is developing the management of a C2C and B2C marketplace in Vietnam have both grown substantially from when DG first invested. Overseas, investment activity in Silicon Valley is also lively. Apart from investing in major ride sharing service for electric scooters, Lime (Neutron Holdings, Inc.), in March 2019, we are also a lead investor in GrubMarket, Inc., which is involved in a marketplace to link producers of agricultural products with restaurants, etc.

Japanese investee Welby Inc., which is involved in the business of supporting individual health management through an app that records data such as blood sugar level, blood pressure and diet listed on the Tokyo Stock Exchange Mothers Section in March 2019. DG sees Welby Inc.'s service as the gateway to PHR (personal health records) and we are building a

platform to use Big Data for health and medical information of individuals in particular through alliances with nationwide local governments bodies, national health insurance and insurance schemes, medical institutions, pharmaceutical companies and health-related businesses. Apart from this, within Japanese investees there has been increase in the number of start-ups for future generations such as WHILL, Inc., which develops and provides the world with new personal mobility by a team that has graduated from the Open Network Lab, and Idein Inc. in the AI sector, which has an established reputation for its technological strength in edge computing. In the future, we will further strengthen the global incubation stream connecting North America and Japan, Asia and Europe to invest in promising overseas start-ups, support development in Japan and Asia, as well as support the global expansion of Japanese start-ups.



## Discovering promising start-ups in various sectors through the Open Network Lab

Operating since 2010 for the purpose of cultivating entrepreneurs aiming for the world "Open Network Lab" has become well-known as one of Japan's leading seed accelerator programs and it has accelerated initiatives in specific sectors and targeted at specific regions.

Even the **"Open Network Lab HOKKAIDO,"** which was the first regional specific program and implemented in 2018, is focused on D2 Garage, a joint venture between DG and Hokkaido Shimbun Press, and has recruited for its second year. Taking account of the performance in the first year, the plan is to select team members focused on start-ups involved in businesses that utilize Hokkaido assets such as primary industry, tourism and the abundant nature. In addition, in May 2019 we commenced the **"Open Network Lab FUKUOKA"** to cultivate start-up companies to realize a Smart City using the Fukuoka region as a test place in a tie-up with the Fukuoka Directive Council and Fukuoka Growth Next. In the future, we will establish programs to cultivate local specific start-ups aimed at regional revitalization, while cooperating with other major cities in Japan.

The **"Open Network Lab Resi-Tech"** commenced in November 2018 as an area specific program targeting real estate related start-ups. Following 3 months of cultivation, teams participating in the first period celebrated a Demo Day, which was held in July to present the outcomes to investees and business partners. This program brings together a consortium

of major domestic real estate companies, construction and lifeline companies and is managed together with 9 partner companies. The plan is to turn out successive promising Resi-Tech start-ups involved in housing, real estate services and life-style services as the cumulation of IoT through this program.

In area specific programs, considerable interest has been continued to generate from major pharmaceutical manufacturers and medical companies in **"Open Network Lab BioHealth"** which aims to promote open innovation and cultivation of start-ups in the biotechnology and healthcare sectors. In January 2019, following the Demo Day for the first period, preparations for the program's second period commenced with enhanced details. Apart from this, for start-up support in the bio-sector, we are also enhancing the tie-up with PureTech Health with which we have had a business alliance since 2017. There are many promising start-ups under the PureTech Health umbrella, and in particular DG has provided support to Akili Interactive Labs, Inc., which has been producing results in the so-called Digital Therapeutics (DTx) sector that treats using digital technologies as an alternative to drugs. DG plans to develop new markets together with Akili Interactives Labs, through the establishment of an industry leading consortium and by increasing awareness of DTx in Japan.

## Shareholder Returns

DG views shareholder returns as one of its principal management concerns. We make decisions on shareholder returns based on considerations of factors such as financial condition, business performance outlook, and capital needs for growth investments. The Mid-Term Business Plan calls for us to achieve a dividend payout ratio of 20% as a target for shareholder distribution while ensuring internal reserves necessary for growth investments and enhancing the financial base. Due to the voluntary application of IFRS, gains and losses on fair value valuation not associated with cash flows could account for a higher proportion of profit before tax than in the past, but there may be adjustments through comprehensive consideration of effective cash flows with deduction gains and losses on fair value valuation from profit before tax. Note that the FY 2019 year-end dividend was up 4 JPY per share from the previous period with an ordinary dividend of 28 JPY.

Although the dividend payout ratio was only 13.3%, treasury share was purchased in August 2018, and if this is taken into consideration the total return ratio was 64.3%.

In 2020, Digital Garage will welcome the 25th anniversary of its founding. As a company that would create "contexts" useful for the world, since its establishment, DG has built a solid track record of constantly being at the cutting edge of internet development, and taking on "first-in-Japan" projects. The DG Group will maintain its spirit of the "First Penguin" and use DG Lab as a place for experiments while accurately grasping the trends in cutting-edge technologies and also utilizing the know-how and global network for incubation built to date to generate context for the next 50 years. I would like to take this opportunity to ask all our stakeholders, including our shareholders, for an even greater level of support and encouragement.

	FY 14.6 [JGAAP]	FY 15.6 [JGAAP]	FY 16.6 [JGAAP]	FY 17.3 [JGAAP]	FY 18.3 [JGAAP]	FY 19.3 [IFRS]
Ordinary dividend	5 JPY	5 JPY	15 JPY	20 JPY	24 JPY	28 JPY
Commemorative dividend	—	20 JPY (20th anniversary)	15 JPY (Commemorative dividend on the occasion of the move to the TSE First Section)	—	—	—
Total cash dividends	0.23 billion JPY	1.17 billion JPY	1.41 billion JPY	0.94 billion JPY	1.13 billion JPY	1.28 billion JPY
Purchase of treasury shares	—	—	—	—	—	5.0 billion JPY
Ordinary dividend payout ratio	8.2%	4.5%	13.7%	22.0%	20.7%	13.3%
Total return ratio	8.2%	23.1%	27.3%	22.0%	20.7%	64.3%

## Message from the Executive in Charge of Finance

Commenced applying IFRS, with financial statements that better reflect the business of the DG Group

Promoting growth investment and a financial strategy to maximize shareholder value



Member, Board of Directors, Senior Executive Officer and Senior Executive Vice President  
**MAKOTO SODA**

In FY 2019, the first fiscal year in which IFRS was adopted, profit before tax rose 60% YoY to 13.4 billion JPY, a record high.

In FY 2019, revenues were 35,687 million JPY (+39.9% YoY), profit before tax was 13,424 million JPY (+60.3% YoY), profit attributable to owners of parent was 9,771 million JPY (+52.4% YoY), and comprehensive income was 9,515 million JPY (+49.4% YoY). Profit before tax, profit attributable to owners of parent and comprehensive income all achieved record highs.

A substantial upward revision was achieved when compared to the initial plans, with earnings at 106.5% of the initial forecast of 33,500 million JPY, and profit before tax, and indicator DG places significant weight on, was 149.2% of the initial forecast of 9,000 million JPY, and profit was 157.6% of the initial forecast of 6,200 million JPY.

By business segment, all segments secured more than double-digit

increases in revenue. In the MT Segment, profit fell 25.1% YoY, while there were double-digit increases in profits for both the FT and LTI Segments, and the IT Segment posted a substantial 5-fold increase in profits.

ROE, which is one numerical target in the Mid-Term Business Plan, rose 5.8 percentage points YoY to 22.1%, achieving the 20% target for the final year of the Mid-Term Business Plan (FY 2020) one year in advance. Although the dividend payout ratio was only 13.3% compared to the target of 20%, the total return ratio when treasury share purchases are included was 64%. The year was one in which improved capital efficiencies and enhanced shareholder returns were achieved.

JPY in Millions	FY 18.3 (Full Year Act)	FY 19.3 (Full Year Act)	YoY (%)
<b>Revenue</b>	<b>25,503</b>	<b>35,687</b>	<b>+39.9</b>
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 entities accounted for using equity method	3,481	4,835	+38.9
<b>Expenses</b>	<b>17,127</b>	<b>22,264</b>	<b>+30.0</b>
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
<b>Profit before tax</b>	<b>8,376</b>	<b>13,424</b>	<b>+60.3</b>
<b>Profit attributable to owners of parent</b>	<b>6,412</b>	<b>9,771</b>	<b>+52.4</b>
<b>Comprehensive income</b>	<b>6,368</b>	<b>9,515</b>	<b>+49.4</b>

FY 19.3 (Initial Forecast)	Act vs Fcst (%)
33,500	+6.5

JPY in Millions	FY 18.3 (Full Year Act)	FY 19.3 (Full Year Act)	YoY
<b>Current assets</b>	<b>78,776</b>	<b>99,186</b>	<b>+20,410</b>
Cash and cash equivalents	39,450	48,154	+8,704
Trade and other receivables	21,330	23,254	+1,924
Operational investment securities	16,745	26,695	+9,950
<b>Non-current assets</b>	<b>40,769</b>	<b>47,704</b>	<b>+6,935</b>
Goodwill	7,959	6,575	-1,384
Investments accounted for using equity method	13,915	19,139	+5,224
Other financial assets	5,010	6,662	+1,652
<b>Total assets</b>	<b>119,545</b>	<b>146,890</b>	<b>+27,345</b>
<b>Current liabilities</b>	<b>48,044</b>	<b>52,420</b>	<b>+4,376</b>
Borrowings	4,623	2,211	-2,413
Trade and other payables	39,407	45,799	+6,392
<b>Non-current liabilities</b>	<b>28,302</b>	<b>47,125</b>	<b>+18,822</b>
Bonds and borrowings	19,243	35,959	+16,716
Deferred tax liabilities	2,754	4,744	+1,990
<b>Total liabilities</b>	<b>76,346</b>	<b>99,545</b>	<b>+23,199</b>
<b>Total equity</b>	<b>43,199</b>	<b>47,345</b>	<b>+4,146</b>
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
Other components of equity	1,575	1,303	-272
Retained earnings	29,955	38,593	+8,638
Non-controlling interests	483	736	+254
<b>Total liabilities and equity</b>	<b>119,545</b>	<b>146,890</b>	<b>+27,345</b>

### Main fluctuation factors / Remarks

Funding through the issuance of convertible bonds, purchase of treasury share, repayment of loans, etc.  
FT business-related items  
Increase in new investment and fair value amount of investee companies

Decrease and impairment due to sale of shares  
Investment profit on equity method, increase in the fair value amount of equity-method fund investees  
New investment and market valuation of listed shares

Partial allocation of funds raised through issuance of convertible bonds to repay loans  
FT business-related items

Issuance of convertible bonds, partial allocation of funds raised through issuance of convertible bonds to repay loans  
Estimated tax pertaining to gains on valuation of securities

Acquisition of treasury share  
Included in profit

The fair value amount of investee companies is 26.7 billion JPY  
ROE achieved 22%, exceeding the 20% target in the Mid-Term Business Plan

ROE	FY 18.3	FY 19.3
	16%	22%

JPY in Millions		FY 18.3 (Full Year Act)	FY 19.3 (Full Year Act)	YoY (%)	FY 19.3 (Initial Forecast)	Act vs Fcst (%)
<b>Revenue</b>		<b>25,503</b>	<b>35,687</b>	<b>+39.9</b>	<b>33,500</b>	<b>+6.5</b>
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
<b>Profit before tax</b>		<b>8,376</b>	<b>13,424</b>	<b>+60.3</b>	<b>9,000</b>	<b>+49.2</b>
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

\* Segment revenues and profit before tax are before adjusting for eliminations of intersegment transactions between segments, all company revenues and expenses

## Commencement of voluntarily application of the International Financial Reporting Standards (IFRS)

We have voluntarily applied the International Financial Reporting Standards (IFRS) for the consolidated financial statements from FY 2019, replacing the Japanese Generally Accepted Accounting Principles (JGAAP) previously applied. Consolidated financial results for FY 2018 and FY 2019 are disclosed in accordance with IFRS.

The objective of adopting IFRS was to enable the financial statements to better reflect DG Group's business to enable stakeholders such as shareholders and investors to have more useful information. Specifically, in the FT and MT Segments as the recurring businesses, the shift from the previous presentation of total gross sales to presentation of net revenue was to provide a clear picture of the state of earnings, while in the IT Segment, the equity value of investee companies was posted more appropriately as fair value on the balance sheet. The FY 2018 fair value amount was 1.3-fold the book value of 12.3 billion JPY at 16.7 billion JPY, while the FY 2019 fair value amount rose 60% YoY to 26.7 billion

JPY. In addition, share of profit of entities accounted for using equity method that were previously posted as non-operating income under J-GAAP are posted as revenues under IFRS, which rose 39% YoY in FY 2019 to 4.8 billion JPY. In addition to the strong performance of equity-method affiliate Kakaku.com, Inc., this was attributed to the results of a successful strategy with FT Segment alliance partners.

The generally-used method for evaluation of corporate value of a company such as the DG Group, which has multiple diverse businesses is to calculate the value of each business segment then add them to calculate the total value, in what is the so-called "Sum-of-the-parts." We believe we have provided shareholders and investors with materials to discuss the DG Group's corporate value (business value, asset value) by adopting IFRS.

Engagement with shareholders and investors has been more active through the financial report in accordance with IFRS, and we believe this has led to maximization of corporate value.

**We have voluntarily applied the International Financial Reporting Standards (IFRS) for the consolidated financial statements from FY 2019.**  
- More accurately reflecting the state of revenues for FT/MT and the fair value for the investment business -

	FY 18.3		FY 19.3	
	JGAAP	IFRS	IFRS	IFRS
<b>I More accurately reflecting the Group's business in the IFRS financial statements</b>				
<b>Recurring</b>				
<b>FT</b>	Net sales 21.0 (billion JPY)	Revenue 5.9 (billion JPY)	Revenue 6.7 (billion JPY)	Revenue 6.7 (billion JPY)
	Profit before tax 2.5 (billion JPY)	Profit before tax 2.8 (billion JPY)	Profit before tax 3.2 (billion JPY)	Profit before tax 3.2 (billion JPY)
	Rate of return 12%	Rate of return 47%	Rate of return 47%	Rate of return 47%
<b>MT</b>	Net sales 34.9 (billion JPY)	Revenue 9.9 (billion JPY)	Revenue 13.7 (billion JPY)	Revenue 13.7 (billion JPY)
	Profit before tax 2.0 (billion JPY)	Profit before tax 1.9 (billion JPY)	Profit before tax 1.4 (billion JPY)	Profit before tax 1.4 (billion JPY)
	Rate of return 6%	Rate of return 19%	Rate of return 10%	Rate of return 10%
<b>Investment/Incubation</b>				
<b>IT</b>	Acquisition cost* 12.3 (billion JPY)	Fair value* 16.7 (billion JPY)	Fair value* 26.7 (billion JPY)	Fair value* 26.7 (billion JPY)
<b>LTI</b>	Investee evaluation	Investee evaluation	Investee evaluation	Investee evaluation

\* Refer to the figures for operational investment securities in the Consolidated Balance Sheet (JGAAP)/Consolidated Statement of Financial Position (IFRS).

## 25.0 billion JPY in funding through issuance of euro-yen convertible bond-type bonds with share acquisition rights 5.0 billion JPY treasury share acquisition

DG has a financial strategy that is mindful of an optimal capital structure and is constantly taking note of the balance between capital and liabilities for the Group's medium to long-term strategy and to maximize corporate value.

Based on this type of financial strategy, we are promoting the Mid-Term Business Plan slogan "Open Incubation Toward 2020" and aiming to maximize corporate value through growth investment in DG Group's business segments, investment in the development and commercialization of DG Lab, improving capital efficiency and enhancing the financial base, so in September 2018, we raised 25.0 billion JPY through the issuance of euro-yen convertible bond-type bonds with share acquisition rights. This was the large financing

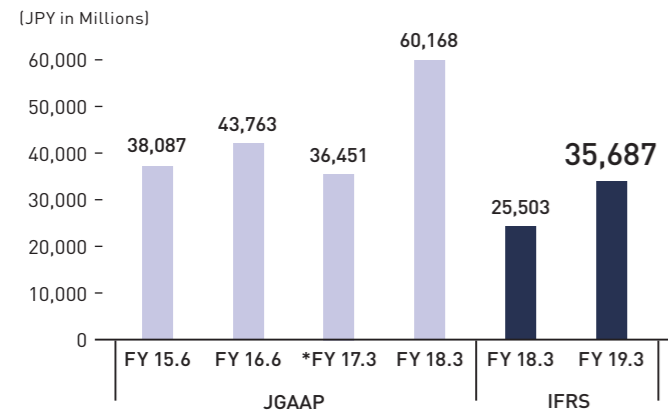
in 7 years since the 8.0 billion JPY capital increases through public offerings in 2011, which promoted the creation of a platform for the second chapter in DG's rapid progress. Note, that this convertible bond was issued with a zero coupon at over par, so we achieved low cost funding.

Furthermore, part of the funds raised were used for DG's first 5.0 billion JPY treasury share acquisition, which was aimed to improve capital efficiency and enhance shareholder returns.

Based on the balance between promoting growth investment, securing financial soundness and enhancing shareholder returns, we will continue to implement a financial strategy that is conscious of an optimal capital structure.

## Key Performance Indicators

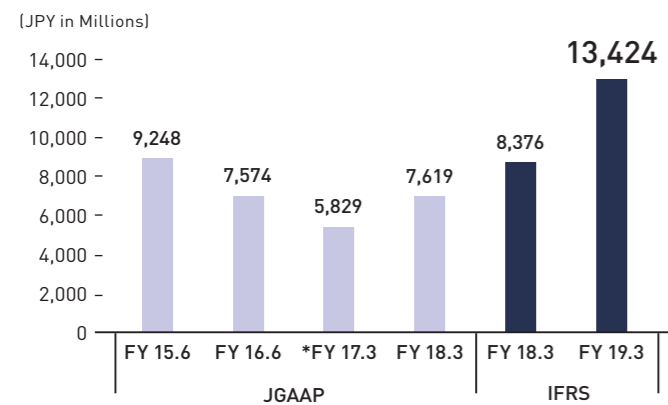
### Revenue



Revenue rose 39.9% YoY, to 35.7 billion JPY in FY 2019. In the FT Segment, apart from the steady trend in the amount of payments handled and the number of payments transacted, there was an increase the volume handled in the MT Segment and revenues from recurring business increased over the previous year. In addition, for the IT Segment, apart from the expansion of revenue in operational investment securities with the increase in equity-method value of investees through fair value calculation, the share of profit of entities accounted for using equity method for Kakaku.com, which belongs to the LTI Segment, was 3.4 billion JPY, and results surpassed the previous year for all segments.

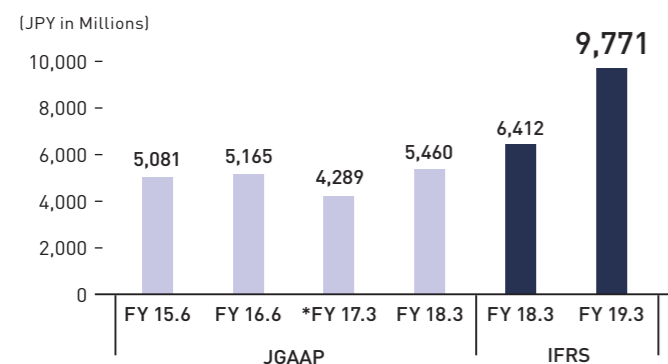
Note the adoption of IFRS from this period meant there was a shift in the FT/MT Segments from presenting total gross sales to presenting net revenue.

### Profit Before Tax



Profit before tax rose 60.3% YoY, to 13.4 billion JPY in FY 2019. Apart from increasing the number of strategic personnel in the MT Segment, selling, general and administrative expenses increased due to upfront investment in DG Lab, etc. However, revenue surpassed expenses, so there was a substantial increase in profits exceeding the initial forecast.

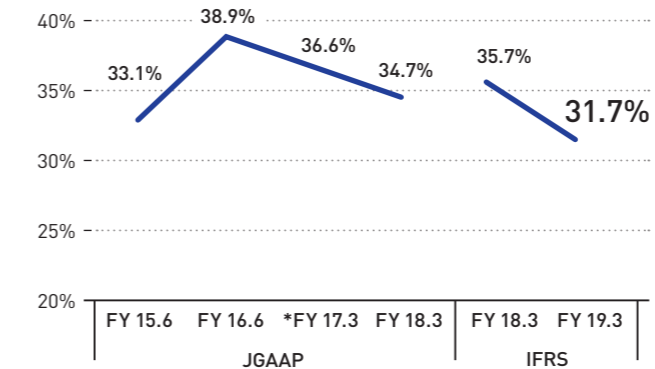
### Profit Attributable to Owners of Parent



FY 2019 profit attributable to owners of parent rose 52.4% YoY to 9.8 billion JPY, posting a record high for the second consecutive period. High growth continues, with a 28.0% CAGR in the most recent five fiscal years. The FT/MT Segments achieved medium to long-term stable growth particularly in recurring earnings. In addition, in the IT Segment, the increase in the fair value amount of operational investment securities contributed to earnings which is thought to have been the outcome of past initiatives to increase investment value.

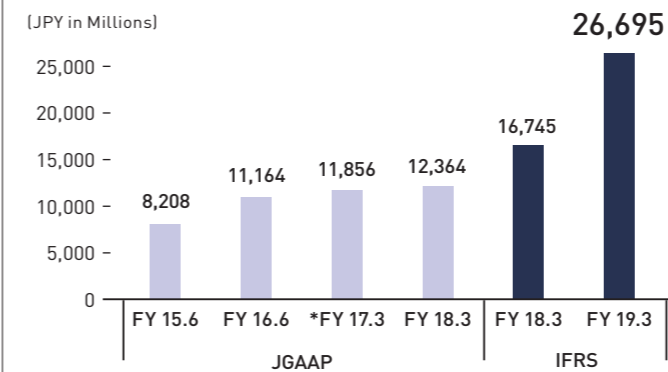
\* FY 17.3 was a nine months accounting period, so the figures shown are annualized.

### Ratio of equity attributable to owners of parent to total assets (equity ratio)



The ratio of equity attributable to owners of parent to total assets fell 4.0 percentage points YoY, to 31.7% in FY 2019. 25.0 billion JPY in convertible bond-type bonds with share acquisition rights was issued in September 2018, and 5.0 billion JPY was strategically used to acquire treasury share. DG has a financial strategy that is mindful of an optimal capital structure and takes note of the balance between capital and liabilities. This convertible bond was issued at favorable timing in the stock market and we were able to raise funds at low cost. Going forward, we will maintain financial health while conducting the financial and IR strategy utilizing some level of asset/equity ratio.

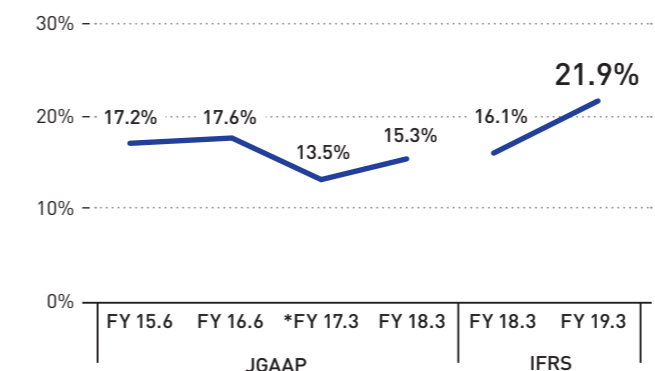
### Operational investment securities



Due to the adoption of IFRS from this period, there was a change in accounting treatment to evaluate operational investment securities at fair value at the end of the period and record them on the balance sheet. Consequently, the equity-method value of investee companies in the IT Segment was reflected more accurately on the balance sheet.

The balance of operational investment securities rose 60% YoY, to 26.7 billion JPY in FY 2019. There was portfolio switching in the IT Segment with some securities sold as part of the incubation results while there was 7.0 billion JPY in new investment. In addition, the fair value amount of operational investment securities that continue to be held grew, the amount of increase from the end the previous year was 4.0 billion JPY.

### ROE



In FY 2019, ROE rose 5.8 percentage points YoY, to 21.9%. This fiscal year, in addition to the decline in equity with the acquisition of 5.0 billion JPY in treasury share, there was considerable increase in the profit attributable to owners of parent. Therefore, the target for ROE of 20% in the Mid-term Business Plan released in May 2017 was achieved one year in advance. Effort will be made to maintain a ROE level of 20% through management that is focused on profitability and capital efficiency.





✓ PHILOSOPHY

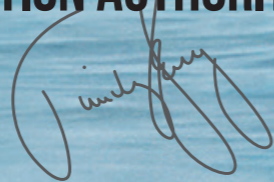
# FIRST PENGUIN SPIRIT



For a colony of penguins to survive, they require their staple food: fish. However, the deep ocean where fish thrive is also home to dangerous predators such as killer whales and leopard seals that prey on penguins. The penguin that courageously decides to be the first to take the plunge, despite the possibility of encountering such predators, is referred to as the “First Penguin.” The Digital Garage Group was founded on the creed of being the “First Penguin” -having the courage and unshakeable will to be the first to step forward and take up a challenge.

With all of our employees guided by the spirit of leading and being the “First Penguin,” we will move forward to provide services that are useful to the world.

**THINK FOR YOURSELF AND QUESTION AUTHORITY**  
- TIMOTHY LEARY



## Entering the 4th Stage of Incubation toward our 25th Anniversary in 2020

In the one year leading up to the 2020 Tokyo Olympic and Paralympic Games, the business environment is expected to experience the end of some existing businesses and the creation of new businesses, brought about by unprecedented rapid technological innovation. To respond to these major shifts, DG launched a new Mid-term Business Plan with the slogan “Open Incubation,” which is the next step for “Open Innovation.”

With DG Lab, an open innovation platform for R&D established in July 2016, at the core, DG will support the creation of a new Japan and further expand business. We will accomplish this by using context to connect new businesses created by technological innovation while collaborating with various corporations, from startups to major corporations, engaged in progressive initiatives.

# DG HISTORY

## Digital Garage's history 1995-2019

The track record of business incubation is formed by the main part of Japan's internet history. Crawler-based search services/blog search/price comparison with e-commerce (Kakaku.com)/restaurant search site (tabelog.com)/localization support and advertisements for social media (Twitter, Facebook, LinkedIn)/total handled by two companies in the convenience store payment platform (econtext, Inc.) and credit card payment platform (VeriTrans Inc.) is 2.1 trillion JPY/total OMO\* handled in the digital marketing sector is 36.5 billion

JPY/acquired the first authorization for "Regulatory Sandbox in Japan" in the FinTech field (Crypto Garage, Inc.).

Then now, "Open Innovation" has been jointly created by group companies and partner companies and is fully operational with DG Lab as the platform. In addition, Japan and overseas investment is accelerating in the DG Lab Fund (anticipate a total of 30.0 billion JPY for DG Lab Funds I and II) in the areas of blockchain, AI, VR/AR, BioHealth and security.

While forming the incubation stream, the experience and track record accumulated while constantly being involved in cutting-edge Japan and overseas internet businesses has become a strength of Digital Garage Group, which has been the source for generating high value-added context.

**1995**

**Digital Garage**

Created Japan's first personal homepage "Tomigaya," and established Digital Garage to plan and create internet-based advertising.

**2000**

**Digital Garage**

Digital Garage was listed on the OTC (now the Tokyo Stock Exchange JASDAQ).

**2000**

**econtext**

Established econtext, Inc. to provide payment and other e-commerce solutions.

**2003**

**kakaku.com**

Kakaku.com was listed on the Tokyo Stock Exchange Mothers Index.

**2004**

**DG&lbex**

Made DG&lbex, a company providing advertising and promotion services by fusing real space and cyberspace, into a consolidated subsidiary.

**2005**

**DG INCUBATION**

Established DG Incubation to invest in and provide business support to venture companies.

**2008**

**twitter**

Entered into a business alliance with Twitter, Inc. and provided localization support.

**2011**

**Open Network Lab**

Established the Open Network Lab to support next-generation startups.

**2011**

**DGUS**

Established DGUS, the DG Group's US base of operations, to accelerate US incubation activities.

**2012**

**veritrans**

Made VeriTrans Inc. into a consolidated subsidiary to become one of Japan's largest payment platforms.

**2013**

**717**

Established the incubation center, DG717, in the heart of San Francisco.

**2013**

**BI.GARAGE**

BI. Garage, a joint venture with the Dentsu Group, embarked on a big data operations mission.

**1995** 95-00 PORTAL SEARCH

Established an internet advertising business with a high-traffic portal site and crawler-based search engine at its core.

**2000** 00 E-COMMERCE DESTINATION SITE

Established an operational base through by developing a settlement service targeting e-commerce sites, and by investing in Kakaku.com, a company developing a price-comparison site.

**2008** 08 SOCIAL MEDIA

Expanded advertising/marketing businesses for a new era of users utilizing blogs, Twitter, and other forms of social media.

**Hybrid Solution**

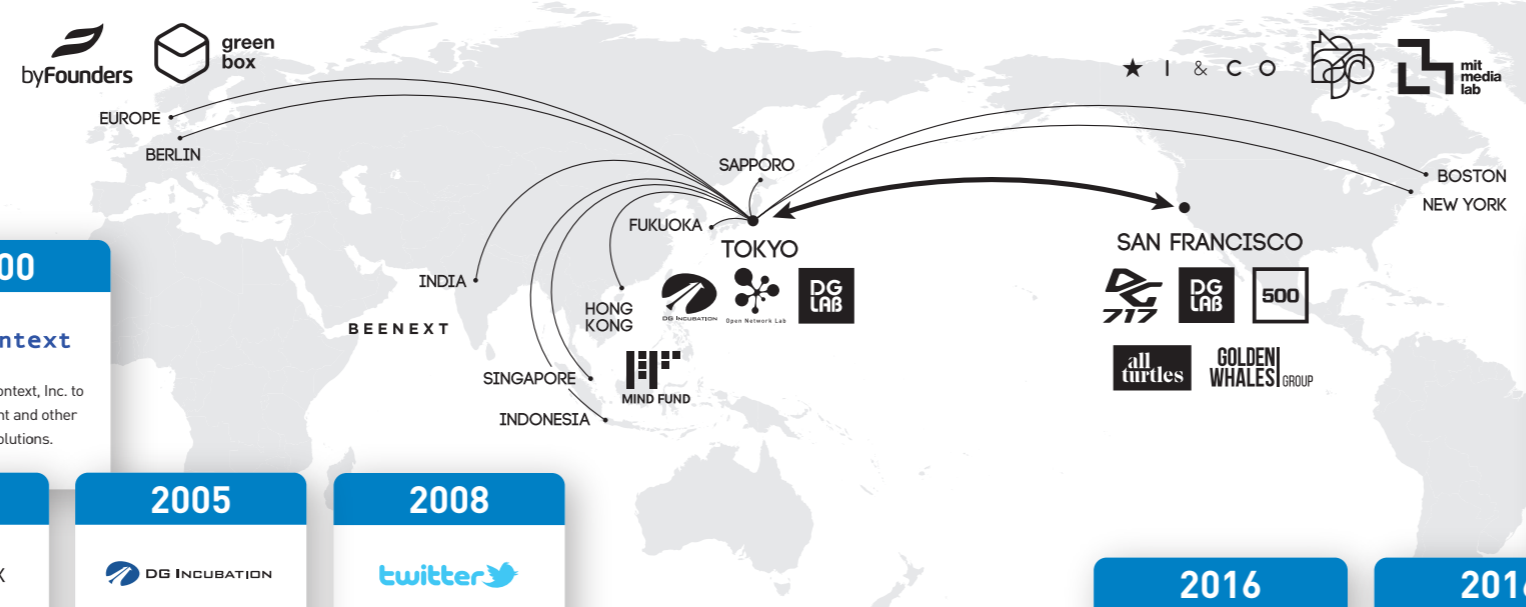
**Social Media Incubator**

**Lean Global**

**IT/MT/FT × Open Innovation**

<b>Key Web Milestones</b>	<b>1995</b> Microsoft introduces Windows 95	<b>1998</b> Number of Internet users in Japan surpasses 10 million	<b>2000</b> Google introduces a Japanese-language search service	<b>2007</b> Apple introduces the iPhone	<b>2008</b> Number of fiber-optic service users exceeds number of ADSL users in Japan	<b>2014</b> Number of smartphone subscribers exceeds number of feature phone subscribers	<b>2017</b> AI program called "AlphaGo" beats the best professional Go player in the world	<b>2018</b> GDPR is enacted	<b>2019</b> 5G network launches	<b>2020</b> Tokyo Olympic and Paralympic Games
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\* Online Merges with Offline. A marketing philosophy that merges online and offline to remove the border between the two and have the starting point for everything begin online.



**2019**

**TDP**

Established the joint-venture company TD Payment Corporation with VeriTrans Inc. and TOSHIBA TEC CORPORATION to develop multi-payment solutions for POS systems

**2019**

**Cloud Pay**

Commenced provision of read-only multi-QR code payment solution "Cloud Pay"

Logos: d払い, LINE Pay, 支付宝 ALIPAY, Pay, 微信支付 WeChat Pay

**2018**

**Open Network Lab Resi-Tech**

Launched the first transverse consortium program in the industry dedicated to the area of residences and living

Logos: コスモスイニシア, TAKENAKA, 東急グループ, 東京建物, 野村不動産ホールディングス, 阪急阪神不動産, 三井不動産

協力パートナー: kakaku.com, KDDI

**2019**

**CRYPTO GARAGE**

Acquired the first authorization for the blockchain sector by the Regulatory Sandbox in Japan in the FinTech field.

**2017**

**DG LAB DVEP™**

DG Lab developed DG Lab DVEP™, an all-purpose framework to issue unique virtual currencies on the Bitcoin's blockchain.

**2018**

**Open Network Lab BioHealth**

Launched the open innovation type accelerator program in the biotechnology and healthcare sectors

Logos: Takeda, MSD, 住友製薬, TEIJIN, 田辺三菱製薬, 武田薬品工業, 第一三共株式会社, 大塚製薬, 協和発酵バイオ, 住友化学, SHIONOGI, LINK-J, IPARK, 株式会社チロックス, 大塚製薬, 中外製薬, 中外製薬, weby, バイエル, JT, KYOWA KIRIN, SUNSTAR

**2016**

**DG LAB**

Launched an R&D platform by DG, Kakaku.com, and Credit Saison to create new businesses, DG Lab.

**2016**

**ANA DIGITAL GATE**

Established ANA Digital Gate, Inc., a joint venture between VeriTrans Inc. and ALL NIPPON AIRWAYS TRADING CO., LTD. developing new payment solutions.

**2016**

**Blockstream**

Invested in Blockstream, Inc., which develops blockchain technology.

**2016**

Established "DG Lab," an R&D platform, with the aim of developing technology that supports next generation businesses.

**2017**

In anticipation of the business environment in the year 2020 and beyond, starting preparations to develop new businesses through open incubation.

**2018**

Recorded an all-time high for profit for the first time in nine periods, and DG Lab began full-scale initiatives aimed at commercialization.

**2019**

**19 FUTURE...**

Profit before tax for the first year under IFRS rose 60% YoY to 13.4 billion JPY, a record high.

Open Incubation toward 2020

# FOUR SEGMENTS

FOUR SEGMENTS and BUSINESS CONCEPTS



Connecting diverse business areas with contexts, discerning the evolution of technology, and building a system capable of ongoing business growth

DG applies three fundamental technologies – IT (Information Technology), MT (Marketing Technology) and FT (Financial Technology) – to create new contexts for the internet era. These new contexts, projected onto business areas, have given rise to our Incubation Technology Segment, Marketing Technology Segment, Financial Technology Segment, and Long-term Incubation Segment.

### Business Model

We create innovative internet services with open innovation in four segments. Adding to sustainable growth in marketing (MT) and payment services (FT), which are indispensable for the profitability of internet-related businesses, we will discern the future of technology evolution and create new businesses through DG Lab, an open innovation platform.

#### POINT 01

Organic growth in the IT, MT, and FT Segments.

#### POINT 02

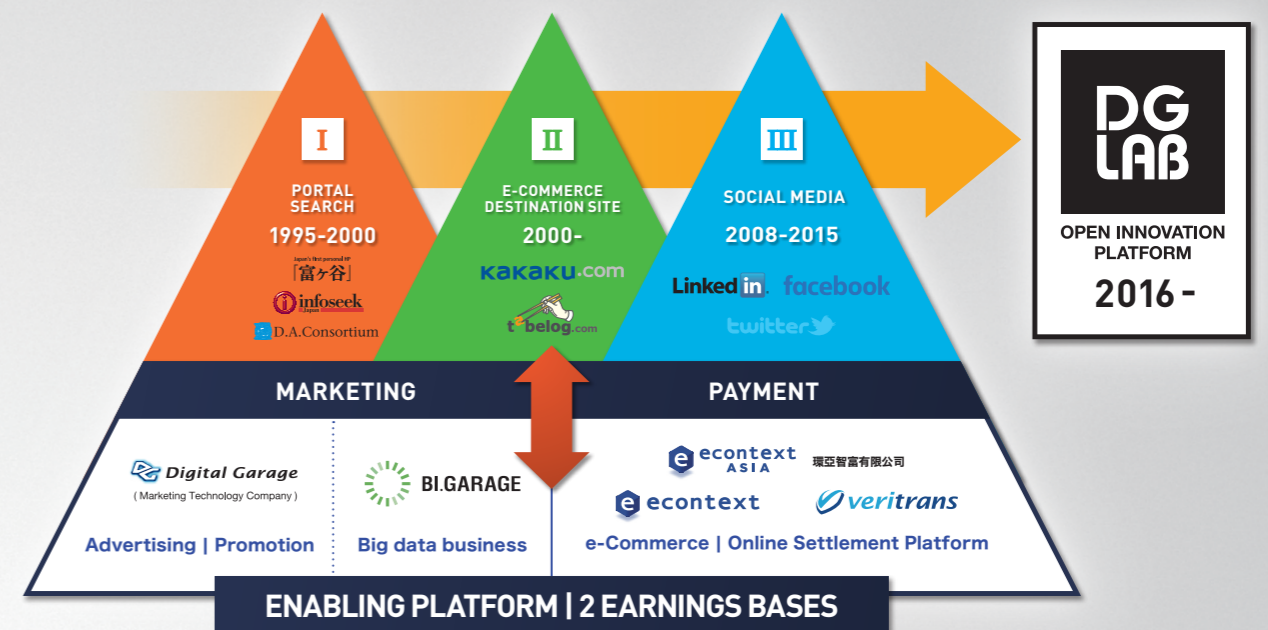
Acceleration of incubation with DG's unique cross-segment platform.

#### POINT 03

Continuously bringing incubation results into the DG Group.

# BUSINESS MODEL

THE DIGITAL GARAGE GROUP'S THREE EARNINGS BASES







Incubation model applying the enabling platform

The Marketing Technology Segment and Financial Technology Segment are generating stable earnings as two earnings bases (enabling platform). Digital Garage's incubation model uses this enabling platform to invest in and nurture companies in Japan and abroad. Adding DG Lab to this incubation model, we are striving to continue contributing to society by further accelerating incubation, and developing and providing useful services.

# BUSINESS OVERVIEW

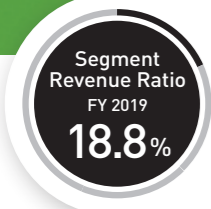
Principal Companies

FY 2019 Highlights

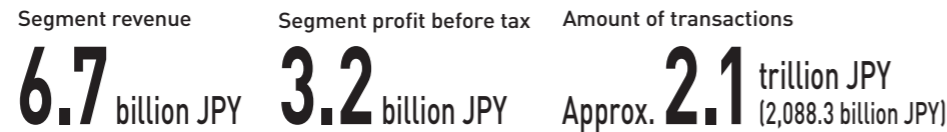
 <p><b>FT</b> FINANCIAL TECHNOLOGY SEGMENT</p>	<p><b>In addition to e-commerce, face-to-face and public sector payments have increased, and we grew our position in social infrastructure</b></p> <p>In addition to e-commerce (EC) market, development into the non-EC market, including face-to-face payments in response to inbound consumption by foreign visitors to Japan, is expanding, and we are continuing to realize growth exceeding the market. Furthermore, our provision of public sector payment services, such as card payment clearing for national pension premiums and convenience store payments of national taxes and administrative processing fees to Osaka Prefecture meant the role of DG's payment business as a form of social infrastructure has grown in importance each year.</p>		<ul style="list-style-type: none"> <li>■ As one of Japan's largest payment system providers, we provide a diversity of comprehensive payment platforms including credit card payment, convenience store payment, and QR code payment (Cloud Pay) systems, etc.</li> <li>■ Growth continues to top the EC market, total amount of payments handled grew 34% YoY to 2.1 trillion JPY</li> </ul>
 <p><b>MT</b> MARKETING TECHNOLOGY SEGMENT</p>	<p><b>Providing clients with marketing that is rapidly transitioning from mass marketing to digital marketing, and in addition to all kinds of internet advertising, we provide a broad range of marketing solutions including improved engagement such as CRM, data analysis, AI use, and payment coordination</b></p> <p>Although strong performance in the core sectors of financial and real estate was accompanied by revenue increasing 38% from the previous fiscal year, factors such as the enhancement of human resources and upfront investment in new projects resulted in a 25% decrease in profit before taxes. As digital marketing methods rapidly advance and diversify, the segment is collaborating with DG Lab to apply the most advanced technologies and collaborating with the FT segment to create next-generation marketing solutions that provide FinTech in package form.</p>		<ul style="list-style-type: none"> <li>■ Providing clients in a variety of industries with end-to-end marketing solutions that integrate the digital and real</li> <li>■ Strong performance in the financial and real estate sectors raised revenue by 38% YoY, but factors such as the enhancement of human resources and upfront investment in new projects resulted in a 25% decrease in profit before taxes</li> </ul>
 <p><b>IT</b> INCUBATION TECHNOLOGY SEGMENT</p>	<p><b>The fair value of investment securities grew, and we aim to continuously improve the value of investments through a strategic support system centered on the global incubation stream</b></p> <p>The fair value of investment securities grew resulting in profit before taxes increasing to five times the value of the previous fiscal year at 6.9 billion JPY and the value of investment securities held rose by approximately 60% to 26.7 billion JPY. We aim to continuously improve the value of investments through a strategic support system centered on the global incubation stream for an investment destination. Also, the Open Network Lab, Japan's first seed accelerator program, has launched over 100 new startup companies to present. We are continuing to collaborate globally and develop new sector and area-specific programs.</p>		<ul style="list-style-type: none"> <li>■ Revenue grew by about three times, profit before taxes by about five times, and the value of investment securities held grew significantly</li> <li>■ Launching sector and area-specific business development programs</li> </ul>
 <p><b>LTI</b> LONG-TERM INCUBATION SEGMENT</p>	<p><b>We aim to create long-term, continuous cash inflow by collaborating with companies receiving DG and DG Group investment, as well as further initiatives such as establishing joint ventures with other collaboration partners</b></p> <p>The Long-term Incubation Segment is comprised of companies such as equity-method affiliate Kakaku.com, Inc., and Crypto Garage, Inc. (a blockchain service business in the FinTech field established through a joint venture with Tokyo Tanshi Co., Ltd., and Blockstream Corporation). Going forward we aim to create long-term, continuous cash inflow by collaborating with companies receiving DG and DG Group investment, as well as further initiatives such as establishing joint ventures with other local collaboration partners.</p>		<ul style="list-style-type: none"> <li>■ Kakaku.com's share of profit of entities accounted for using equity method remains steady, profit before taxes of 4.4 billion JPY</li> <li>■ Crypto Garage, Inc. received first approval through the Regulatory Sandbox in Japan in the FinTech field</li> </ul>

**In addition to e-commerce, face-to-face and public sector payments have increased, and we grew our position in social infrastructure**

In addition to e-commerce (EC) markets, development is expanding in areas such as face-to-face payments in response to inbound consumption by foreign visitors to Japan and various markets other than EC where digitalization is not progressing, and we are continuing to realize growth exceeding the market. Furthermore, the importance of DG's payment business as a form of social infrastructure has grown each year, including card payment clearing for national pension premiums, convenience store payments of national taxes and administrative processing fees to Osaka Prefecture, and registration business for the "Point Reward Project for Consumers using Cashless Payment" being implemented by the Japanese government to accompany the rise in consumption tax.



**KEY FIGURES FY 2019**



**Business Model**

As one of Japan's largest payment system providers handling the settlement of approximately 2.1 trillion JPY, we provide a diversity of comprehensive payment platforms including credit card payment, convenience store payment, and QR code payment systems

The Financial Technology Segment is responsible for "payment," one of Digital Garage's earnings bases (enabling platform). As a payment service provider (PSP), in addition to credit card payments and convenience store payments, we collectively provide EC businesses and face-to-face retail stores with an ever-increasing number of diverse payment methods including QR code payment services such as Apple Pay, Google Pay, d Payment®, LINE Pay, PayPay, Alipay, and WeChat Pay, as well as digital money services that are also available to foreign visitors to Japan, starting with Suica.

With cashless payments also being promoted as national policy, for EC businesses and face-to-face retail stores, while introducing the wide variety of payment methods demanded by consumers is important, individually carrying out system development, managing personal information including payment data, and conducting payment receiving operations

is a large challenge due to the complexity of these processes. Furthermore, recently it has become commonplace to conduct sales promotions based on payment and purchasing data analysis. The Financial Technology Segment's business is to collectively provide comprehensive payment platforms to those types of retail businesses.

The basic business model for payments is to subtract the commissions paid to the credit card companies and convenience store chains from the payment commissions resulting from multiplying the amount of payments handled by retail businesses by the commission rate and record it as revenue. Additionally, transaction types are diversifying, as commissions are being collected by the number of payments handled through the provision of capabilities such as fraud detection systems and QR code issuing systems.

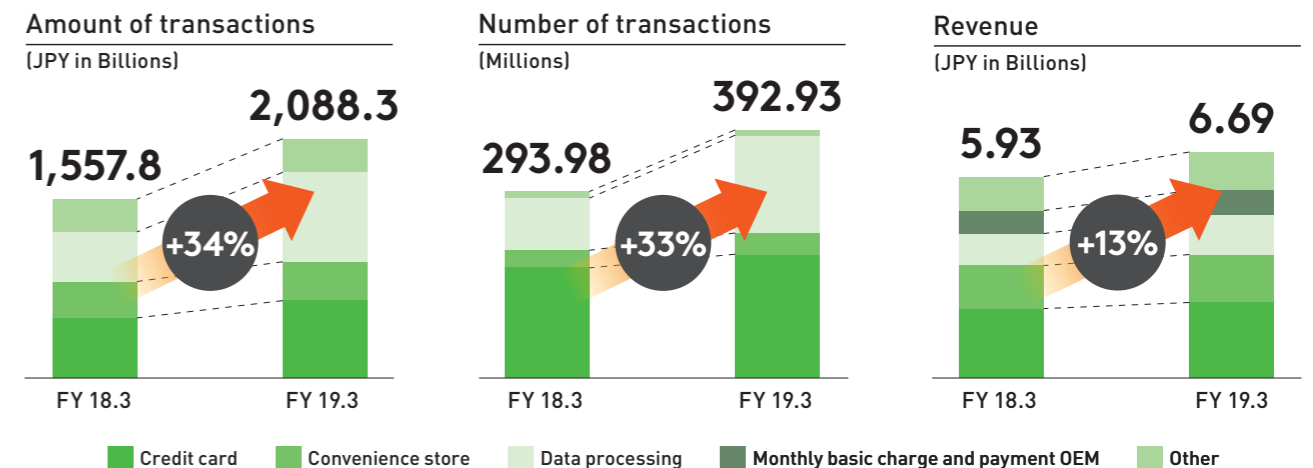
**Market Environment and Business Overview**

Growth continues to top the EC market, total amount of payments handled grew 34% YoY to more than approximately 2.1 trillion JPY and the number of payments handled grew to 390 million

In calendar year 2018, EC market of Japan's BtoC grew by a solid 9.0%, to 17.9845 trillion JPY, according to "Results of FY2018 E-Commerce Market Survey" of the Ministry of Economy, Trade and Industry (METI). Also, Japan's ratio of cashless payments is low compared to foreign countries, at 19.8% in 2016, and in order to respond to inbound demand ahead of the 2020 Tokyo Olympics and Paralympic, and EXPO 2025 Osaka, METI released its "Cashless Vision" in April 2018, which aims to achieve a cashless payment ratio of 40% by June 2025. We predict that progression toward a cashless society will rapidly expand the market. Furthermore, with the amendments to the Installment Sales Act in June 2018, face-to-face retail stores are required to prepare a transaction environment that includes not maintaining credit card information and accepting IC cards by March 2020. Additionally, verification testing has begun for unstaffed stores and unstaffed registers due to the issue of spiking personnel costs from personnel shortages.

In FY 2019, the first fiscal year in which IFRS was applied, the Financial Technology Segment reported revenue of 6.693 billion JPY (+12.9%YoY) and profit before tax of 3.174 billion JPY (+13.0% YoY). Operating subsidiaries in the segment VeriTrans Inc. and econtext Inc. grew their total amount of payments handled by 34% YoY to 2.0883 trillion JPY, achieving growth that largely exceeded the growth rate of the overall market. In addition to growth in the EC market, increased transactions in the non-EC market including face-to-face payments, contributing to this growth.

Regarding compound annual growth rate (CAGR), one of the growth indicators in our Mid-term Business Plan, we set a target of 15% growth for profit before taxes, and while the current fiscal year alone saw year-on-year of 12.9%, CAGR for the period up to the current fiscal year, which is the second year of the Mid-term Business Plan, continues to exceed the growth indicator at 17%.



**Growth Strategy**

As a payment platformer, use the tailwind provided by the government's cashless promotion policies to expand various payment methods in diverse fields, and create a FinTech business to handle social infrastructure

Progressing shift to a cashless society is a tailwind for DG's payment business. Since the economies of scale from increased transaction volume and transaction numbers will lead to increased profitability, we will focus on the following initiatives.

**1 Developing the non-EC market**

In addition to expanding our share in the EC market, one of our main sectors, we will work to further develop the non-EC market which still has ample room for growth. Regarding face-to-face payments, we are providing multi-payment solutions packaged with TOSHIBA TEC CORPORATION's POS registers, primarily for large-scale retail stores. Also, in collaboration with Recruit Group and ANA Group, we have started to provide "Cloud Pay", a payment solution using mobile POS and mPOS terminals that enables multiple QR code payments to be introduced at the same time in a simple manner by just setting up a single QR code in a store. By providing this and other payment services we are covering the retail store market comprehensively.

We started providing "Cloud Pay" in May 2019 and while it initially supports QR code payments from d Payment®, Alipay, WEChat Pay, Merpay, and LINE Pay, we add various other payment services going forward.

Furthermore, in addition to engaging cashless promotion in specific markets where digitalization is not progressing, such as real estate, restaurants, and funerals services, we are also working to handle payment services that are becoming popular overseas, including responding to the QR code payment services that are becoming used in various countries and contactless payment, in which a payment is completed by just holding a card up to a terminal.

**2 Growth in public sector use**

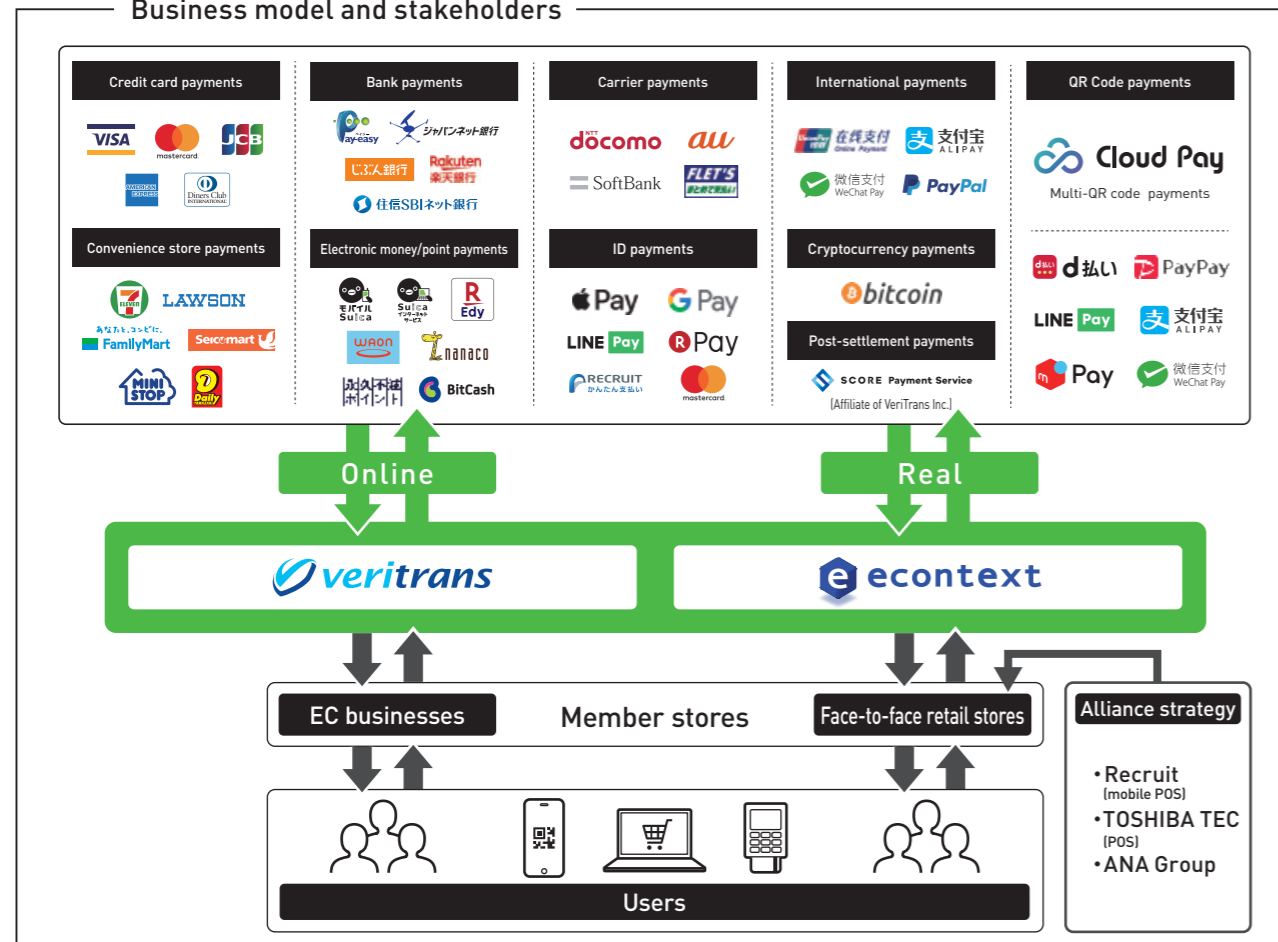
We are continuing to promote growth in public sector use. By providing public sector payment services, such as card payments of national pension premiums for the Ministry of Health, Labour and Welfare and fees including patent fees for the Japan Patent Office, and convenience store payments of national taxes for the National Tax Agency and various administrative processing fees for Osaka Prefecture, we will focus on expanding the use of electronic payments in the public sector for the relevant government agencies in accordance with cashless promotion by the Japanese government.

**3 Promoting alliances**

As our alliance strategy, we will continue to promote business expansion through system collaboration or business alliances with business partners with large-scale customers or core systems. Following the establishment of a joint venture company with the ANA Group, we have started our entry into the market for multi-payment solutions for face-to-face retail stores through TD Payment Corporation, a joint venture company established with TOSHIBA TEC CORPORATION, which holds the top share of the Japanese market in POS systems. Furthermore, at SCORE, a post-settlement payment joint venture business with major mail-order retailer Nissen Co., Ltd., we are increasing the number of participating member stores.

Based on longstanding knowledge and technological capabilities, we will accelerate the growth of payment systems which have become an extremely important part of social infrastructure, as a new FinTech platform.

**Business model and stakeholders**



MT

MARKETING TECHNOLOGY SEGMENT

We provide clients with marketing that is rapidly transitioning from mass marketing to digital marketing, and in addition to all kinds of internet advertising, we provide a broad range of marketing solutions including improved engagement such as CRM, data analysis, AI use, and payment coordination

Although strong performance in the core sectors of financial and real estate was accompanied by revenue increasing 38% from the previous fiscal year, factors such as the enhancement of human resources and upfront investment in new projects resulted in a 25% decrease in profit before tax. As digital marketing methods rapidly advance and diversify, the segment is collaborating with DG Lab to apply the most advanced technologies and collaborating with the FT segment to create next-generation marketing solutions that provide FinTech in package form.



KEY FIGURES FY 2019



Business Model

Providing clients in a variety of industries with end-to-end marketing solutions that integrate the digital and real

The Marketing Technology Segment is responsible for “marketing”, one of Digital Garage’s enabling platforms. Specifically, by providing optimal solutions for our clients’ needs and challenges in a range of industries including financial, payment business provision, app development (games, etc.), EC site operation, real estate developer, and manufacturing, we maximize our clients’ marketing ROI (cost-effectiveness).

We are providing a one-stop service ranging from streamlining advertising using agency functions, affiliate and targeted

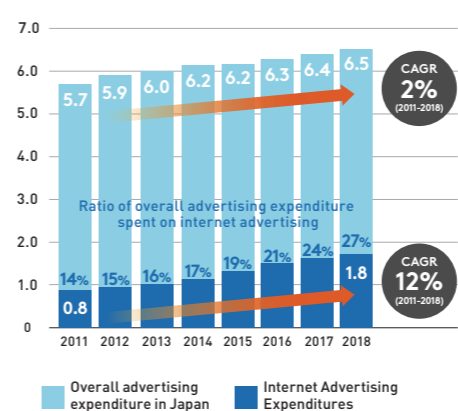
marketing, analysis and the like, and providing creative output to app development and planning consultation. At BI. Garage, Inc., a joint venture with the Dentsu Group and the ADK Group, we are providing a large number of national clients with solutions based on data analytics utilizing the various big data owned by the DG Group and data provided by collaboration partners.

By providing this kind of variety of marketing solutions, we are monetizing a wide range of business models, including pay-performance, profit sharing, and development on a contract basis.

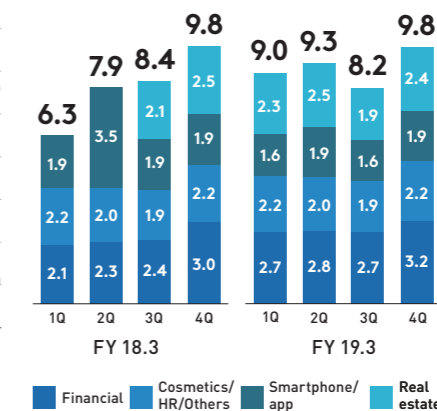
advertising expenditures continued its expansion, rising 3.3 percentage points YoY, to 26.9%. Furthermore, given that internet advertising’s share of total advertising expenditures in the U.S. is around 50%, the Japanese internet advertising market still has room for growth. In terms of trends in recent years, the growth

of actively managed ads and video ads has accelerated, but we think factors such as concern among clients regarding brand safety and efforts to tackle the ad fraud problem are leading the entire internet advertising industry into a period of transition.

Internet Advertising Expenditures in Japan (JPY in Trillions)



Balance of advertising handled (JPY in Billions)



Amount of transactions by industries	FY 18.3	FY 19.3	YoY
Real estate	4.4 billion JPY	9.2 billion JPY	2.0x
Smartphone/app	9.4 billion JPY	7.1 billion JPY	-24%
Cosmetics/HR/Others	8.4 billion JPY	8.5 billion JPY	+0.3%
Financial	9.9 billion JPY	11.5 billion JPY	+16%
<b>Total</b>	<b>32.5 billion JPY</b>	<b>36.5 billion JPY</b>	<b>+12%</b>

\* Due to the application of IFRS, DG Communications Co., Ltd. has been consolidated as a subsidiary since the second half of FY 18.3

Growth Strategy

Development of new digital marketing that solves issues regarding things like brand safety and ad fraud, differentiate and strengthen our competitive edge through an integrated strategy with the FinTech business (FT), and use the momentum created by personal information protection, information banks, and the like to advance the full-scale development of data marketing.

Although we expect the internet advertising market to continue expanding, in the increasingly complex area of digital marketing we will realize the advantages offered by the combination of DG’s strengths in payment business, investment business, and R&D.

1 Collaboration with FT Segment

As with major QR code payment service providers, payments and marketing are becoming to be our two core businesses. DG is advancing strategy integration with the financial technology (FT) segment, one of the major payment platforms in the FinTech industry, to realize a rare business model that realizes monetization in both the payment and marketing businesses. We collaborated with the JR Kyushu Group to build a CRM and payment platform and jointly develop the “JR Kyupo app”. By using DG’s wallet platform, which incorporates CRM, point management and payment, various marketing functions such as coupons, and a QR code payment function, we will develop cashless payment and digital marketing in the OMO sector.

Also, for “Cloud Pay” which enables various QR payments to be processed by reading a single QR code that has been set up in a store, the MT segment is responsible for providing a payment management app for stores and managing member stores, while the FT segment is responsible for payment gateways.

2 DG Communications Co., Ltd. and Open Network Lab

DG Communications Co., Ltd., a subsidiary that operates our marketing business in the real estate field, and Open Network Lab collaborated to develop “Open Network Lab Resi-Tech”, a global education program for real estate-related startups. It is collaborating with DG Lab and will jointly advance a new real estate service that utilizes 5G (fifth-generation telecommunications) and IoT, a lifestyle-related service, and urban development business with each of its existing clients, a major developer and a major construction company.

3 Establishment of Japan Premium Media Consortium

38 of Japan’s major media companies (newspapers, magazines, TV, radio, online media) have jointly established “the Japan Premium Media Consortium” with the aim of improving advertising effectiveness and media value. This media content that pursues quality has been well received by users and joint research and verification testing is being conducted regarding the synergies between advertising and content. By using the results of research to further improve the quality of internet advertising and spreading new indicators for advertising value that reflect premier media values, we will ultimately arrive at new digital marketing that solves pressing issues such as brand safety and ad fraud.

4 Integrating CyberBuzz, Inc. into the Group

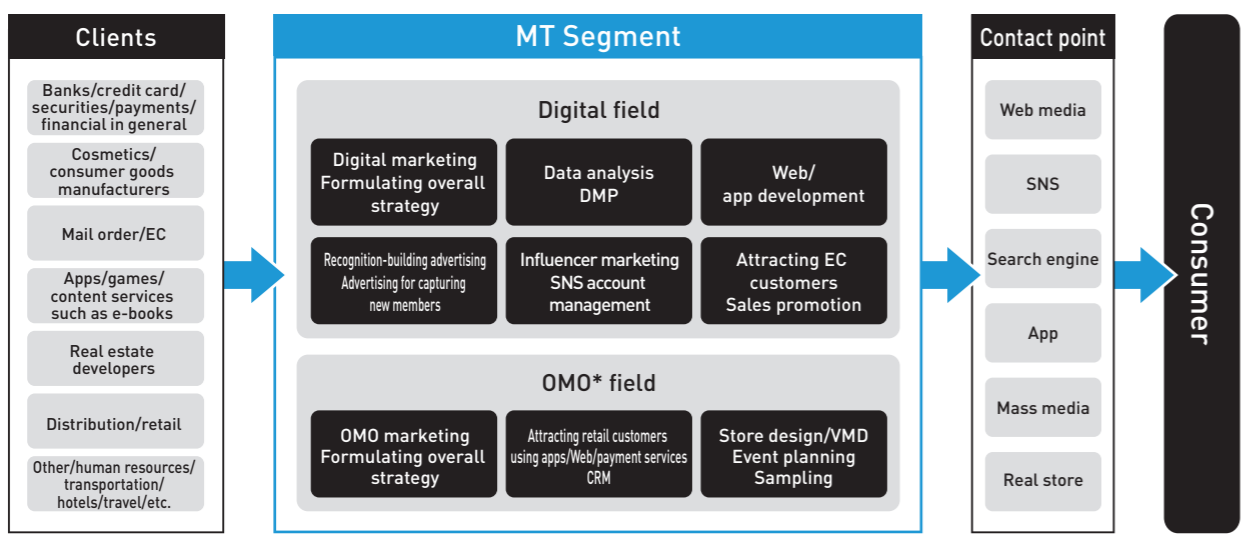
In order to strengthen on the social media marketing sector, CyberBuzz, Inc. has been made an equity-method affiliate company. It has been added as a function of the MT segment, providing the planning and operation of brand content advertising distribution that uses social media. It will leverage its network of over 16,000 influencers to provide services such as influencer marketing and SNS account operation to a large number of national brands as a package of products that show the appeal of DG’s marketing solutions.

5 Data Science Business

The DG Group has fully launched a data science business that utilizes the unique data possessed by collaborator companies. To present, management of the Group media’s big data is represented by businesses such as Group company Kakaku.com, Inc.’s “Kakaku.com” and “Tabelog”, and we will continue to develop marketing solutions using the vast and varied data that DG has access to, including payment data and location information. In addition to advanced technologies such as blockchain, BioHealth, AI, and security, which are primary focus areas of “DG lab”, our R&D platform, we will engage in creating new business based on data science for marketing and a wide range of other areas.

Structure of the MT Segment

We provided businesses in a variety of industries with end-to-end marketing scenarios and solutions that integrate the digital and the real world.



\* “Online Merges with Offline”. A marketing philosophy that merges online and offline to remove the border between the two and have the starting point for everything begin online.

Market Environment and Business Overview

Strong performance in the financial and real estate sectors raised revenue by 38% YoY, but factors such as the enhancement of human resources and upfront investment in new projects resulted in a 25% decrease in profit before tax

The Marketing Technology Segment posted FY 2019 revenue of 13.676 billion JPY (+37.6% YoY) and profit before tax of 1.39 billion JPY (-25.1% YoY). Due to the strong performance of performance-based ads by Marketing Technology Company in the financial sector and DG Communications Co., Ltd. in the real estate sector, the balance of advertising handled grew smoothly to 36.5 billion JPY (+12% YoY). However, the

enhancement of human resources and an increase in upfront investment costs related to projects such as the development of a digital advertising business resulted in profit before tax decreasing.

In terms of the market environment, internet advertising expenditures in Japan grew by 16.5% to 1.7589 trillion JPY in calendar year 2018, and internet advertising’s share of total

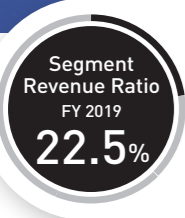
\* Dentsu Inc., 2018 Advertising Expenditures in Japan

# IT

## INCUBATION TECHNOLOGY SEGMENT

The fair value of investment securities grew, and we aim to continuously improve the value of investments through a strategic support system centered on the global incubation stream

The fair value of investment securities grew resulting in profit before tax increasing to five times the value of the previous fiscal year at 6.9 billion JPY and the value of investment securities held rose by approximately 60% to 26.7 billion JPY. We will aim to continuously improve the value of investments through a strategic support system centered on the global incubation stream as an investment destination. Also, the Open Network Lab, Japan's first seed accelerator program, has produced over 100 new startup companies to present. We are continuing to collaborate globally and develop new sector and area-specific programs.



### KEY FIGURES FY 2019

Segment revenue	Segment profit before taxes	Investment amount
<b>8.0</b> billion JPY	<b>6.9</b> billion JPY	<b>7.0</b> billion JPY

## Business Model

Providing investment companies with support by a wide range of growth stages, from seed to later-stage

In the Incubation Technology segment we are proceeding to invest in next-generation technologies in global areas including Japan, the US, and Asia, targeting venture companies at a wide range of growth stages, from seed and early-stage startups through to later-stage businesses. By supporting the acceleration of business expansion through collaborations in payment and marketing, fields in which

the DG Group operates, and collaborations in new fields of technological development being worked on by DG Lab, we will aim to increase the value of the companies we invest in. Also, by advancing a cycle in which the funds raised through exits are invested in new startups, we are aiming to enhance the value of DG's investments.

### Prolific investment results and track record

Japan	Overseas
<b>Main exited investments (IPO, M&amp;A, sale)</b> Bengo4.com (TSE Mothers: 6027)   iRidge (TSE Mothers: 3917) 井後士ドットコム   iRidge MEDIA DO HOLDINGS (TSE First Section: 3678)   CrowdWorks (TSE Mothers: 3900) Media Do   Crowd Works Aucfan (TSE Mothers: 3674)   Fablic aucfan   FRIL	<b>Main exited investments (IPO, M&amp;A, sale)</b> Twitter (NYSE: TWTR)   Facebook (NASDAQ: FB) Twitter   facebook LinkedIn (NYSE: LNKD)   Gojek LinkedIn   gojek Twilio (NYSE: TWLO)   Context Logic twilio   ContextLogic
<b>Main current investments</b> Monstar Lab   Pocket Change MONSTARLAB   pocketchange Welby (TSE Mothers: 4438)   Goodpatch welby   Goodpatch QD Laser   WHILL QD LASER   WHILL Moneytree   Repro Moneytree   Repro	<b>Main current investments</b> Tokopedia   Sen Do Technology tokopedia   Sendo Droom   Expedient Healthcare Marketing (Healthians) droom   Healthians NoBroker Technologies Solutions (NoBroker)   Neutron Holdings (Lime) NOBROKER.COM   Lime Grub Market   Game Closure GrubMarket   GAME CLOSURE

Include some stocks of non-IT Segment.

## Market Environment and Business Overview

Revenue grew by about three times, profit before taxes by about five times, and the value of investment securities held grew significantly

In the IT segment, although until now we have been recording the sale of investment securities as sales, in accordance with the adoption of IFRS, we have changed our accounting method so that investment securities are valued at fair value and any increase or decrease in values from the end of the previous fiscal year have been recorded as gains or losses.

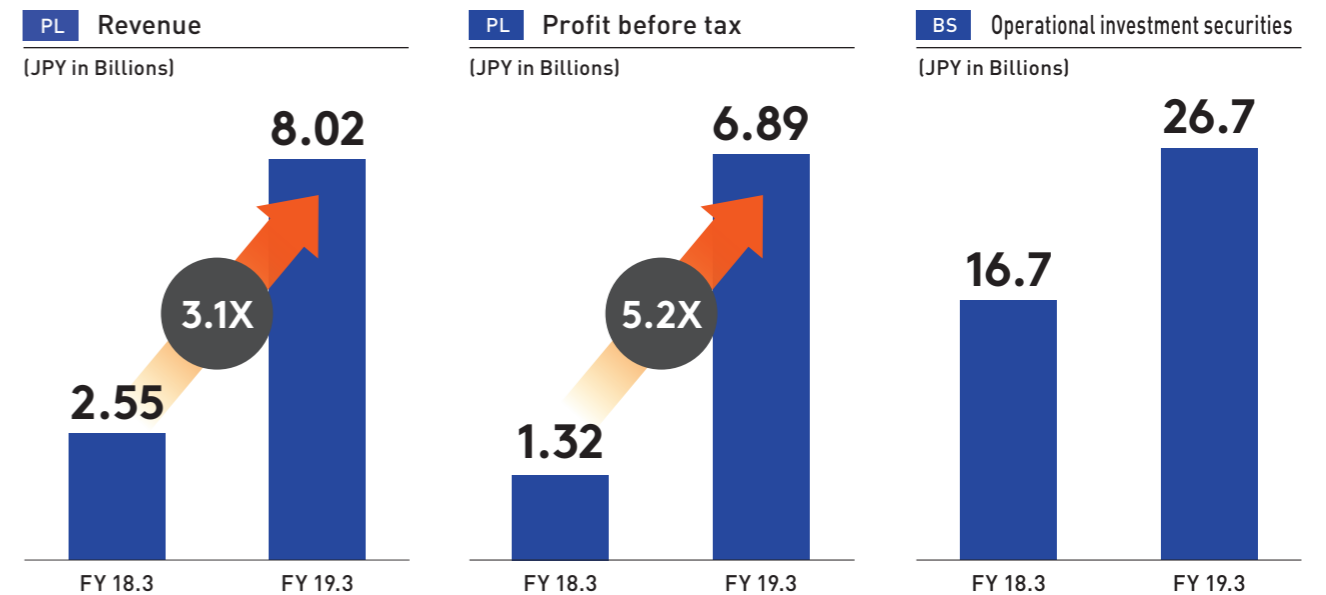
For FY2019, revenue and profit before taxes both grew significantly. Revenue was 8.022 billion JPY (+214.2% YoY) and profit before taxes was 6.889 billion JPY (+421.6% YoY). Also, at the end of the fiscal year, the value of investment securities held was 26.7 billion JPY, a 59.4% increase on the previous fiscal year.

Annual investment for Japanese VCs and CVCs in FY2018 grew significantly to total 249.8 billion JPY (+40% YoY)\*, as healthy

investment appetites for VCs and CVCs continued.

In this kind of market environment, this fiscal year we were able to implement large-scale up-round financing, particularly of companies we have invested in Asia, which resulted in a massive increase in the fair value of our investment securities.

DG is supporting the business growth of our investments in both Japan and overseas through a strategic support system centered on the global incubation stream, which supports overseas companies developing into Japan and Japanese companies developing overseas. Going forward we will advance our investment in the growing markets of Asia and strive to increase the value of investments by strengthening strategic support systems in Japan and overseas in order to support business growth.



\*Source: Venture Enterprise Center "Quarterly Trend"

## FY 2019 Key Initiatives

Starting sector and area-specific business development programs

This fiscal year has been the 10th year since Open Network Lab was launched in 2010 as Japan's first seed accelerator program. To present it has developed and launched over 100 new startup companies.

Open Network Lab has been collaborating with partners including leading companies, research institutes, and local governments to advance new sector and area-specific business development programs. Among others, it launched

"Open Network Lab HOKKAIDO" in April 2018 with the aim of developing startup companies and realizing open innovation in Hokkaido, "Open Network Lab BioHealth" in May 2018 which targets the biotechnology and healthcare sectors, "Open Network Lab Resi-Tech" in November 2018 which targets the real estate sector, and "Open Network Lab FUKUOKA" in Fukuoka in May 2019 with the aim of supporting startup companies that possess technologies for realizing smart cities.

## Growth Strategy

Aim to strengthen structure for promoting the continuous improvement of the value of investments

In our Mid-term Business Plan announced in May 2017, we established new investment criteria and clarified investment standards, and we are engaged in building the groundwork for generating stable revenue. The plan included a numerical target of 2.5x ROI\* but as of the end of the second year of the Mid-term Business Plan, we are recording levels that exceed this target, which we think is the result of the success of our investments so far.

On the other hand, as we are applying IFRS from this fiscal year, the assessment of investment securities held using fair value has had a big impact on revenue so when selling investments going forward, it will be important to consider not only ROI, but also the continuous improvement of the value of investments. We will strengthen support for improving the value of companies we invest in more than ever before.

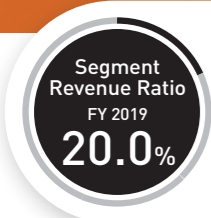
\*ROI: Return On Investment. An indicator for measuring the effectiveness of an investment, calculated as "total received through sale divided by total invested."



LONG-TERM INCUBATION SEGMENT

We aim to create long-term, continuous cash inflow by collaborating with companies receiving DG and DG Group investment, as well as further initiatives such as establishing joint ventures with other collaboration partners.

The Long-term Incubation Segment is comprised of companies including our equity-method affiliates Kakaku.com, Inc., and Crypto Garage, Inc. (a blockchain service business in the Fintech field established through a joint venture with Tokyo Tanshi Co., Ltd., and Blockstream Corporation) and it is aiming for a business model in which the results of continuous incubation are retained in the value of the DG Group's investments, causing the value of these investments to rise in the long term. Going forward, we will aim to create long-term, continuous cash inflow by collaborating with companies receiving DG and DG Group' investment, as well as further initiatives such as establishing joint ventures with other local collaboration partners.



KEY FIGURES FY 2019

Segment revenue	Segment profit before tax	Number of monthly users of Kakaku.com
<b>7.1</b> billion JPY	<b>4.4</b> billion JPY	<b>271.18</b> million

Market Environment and Business Overview

Kakaku.com, Inc.'s share of profit of entities accounted for using equity method remains steady, profit before tax of 4.4 billion JPY

For FY2019, revenue was 7.133 billion JPY (+13.2% YoY) and profit before tax was 4.378 billion JPY (+20.9% YoY). This was primarily due to the good performance of Kakaku.com, Inc. in areas such as new media, and share of profit of entities accounted for using equity method remaining

strong. Additionally, regarding share of profit of entities accounted for using equity method, under the previous Japanese standards this was recorded as non-operating income but under IFRS it is recorded as revenue.

Kakaku.com, Inc.'s main business progress

[Kakaku.com, Inc. Group Accumulated Traffic]  
Monthly users for the overall group are increasing year by year, totaling 271.18 million users, a 7.9% YoY increase

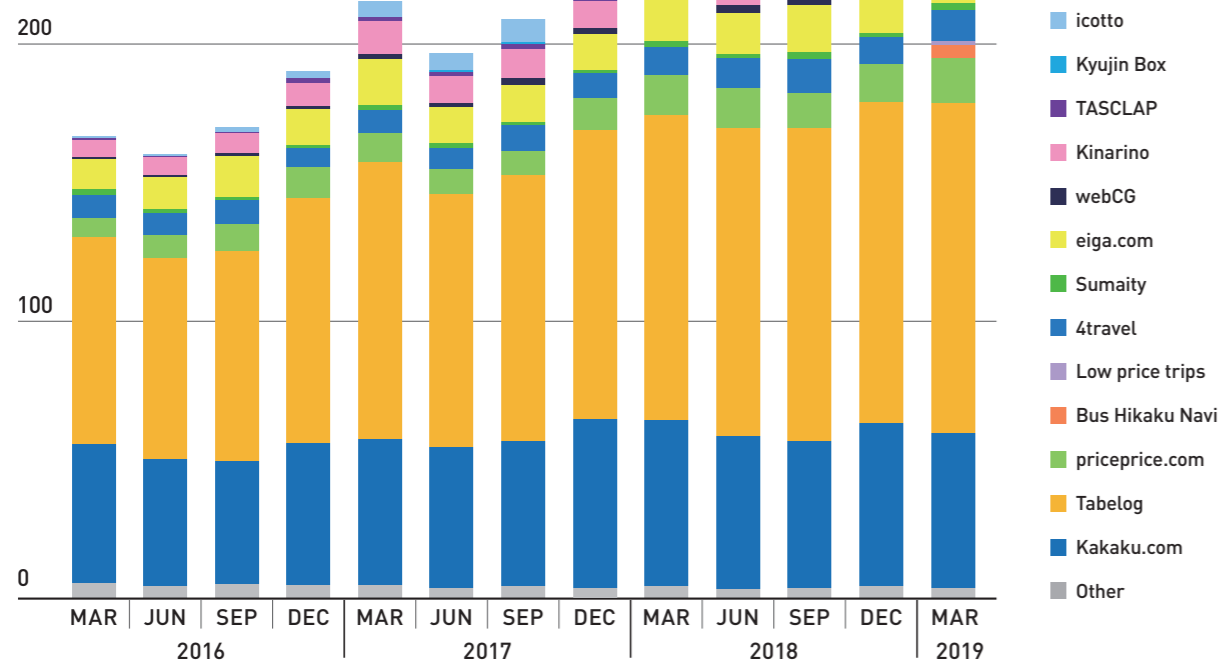
(Millions of people)

300

kakaku.com



YoY +7.9%



\*Extracted from Kakaku.com, Inc.'s Results Briefing for FY2019/3

Growth Strategy

For the creation of medium- to long-term, continuous cash inflow

DG is known as an internet incubator, and to realize one of its missions of creating new businesses, we believe it is important to create not only short-term incubation results (gains on sales of shares), but also long-term, continuous cash inflow as represented by our investment and business development at Kakaku.com, Inc.

DG has been investing as an incubator from the seed or early stage, but for investments that are expected to realize synergies with the DG Group or further business growth, we are executing additional investments, and aiming of raising the value of the consolidated business in this segment.

Also, the activities of DG Lab, an open innovation platform for R&D jointly operated by DG and DG's collaboration partners, are transitioning from the R&D phase to the commercialization phase and we are aiming to utilize its alliance structure in ways such as establishing joint ventures with collaboration partners, and to commercialize the seeds generated by this structure.

Through these initiatives we will realize the creation of Long-term, continuous cash inflow and expand a recurring earnings model in the incubation field as well.



Topics of the Group companies



In FY2019, we jointly established Crypto Garage, Inc. in September 2018, with the aim of implementing R&D and commercializing blockchain financial services in the Fintech field. The company is leveraging blockchain technology to accelerate efforts to commercialize financial services. Crypto Garage, Inc. developed "SETTLENET", a project that provides members that deliver financial services, including cryptocurrency exchanges, with the functionality they require. In January

2019, it received first approval in the blockchain Fintech field through the regulatory sandbox system. Also, in April 2019, Crypto Garage, Inc. used a peer-to-peer crypto asset derivative contract protocol it has developed in-house, entered into and implemented a contract with Blockstream Corporation in order to hedge against Bitcoin price fluctuation risk, thereby completed the verification of the technology. Going forward, centering on Crypto Garage, we will advance the development of blockchain-related applications and aim to realize the implementation of a blockchain society.







Joi Ito

Director and Co-Founder /  
Director, MIT Media Lab

Kaoru Hayashi

Representative Director,  
President Executive Officer  
and Group CEO

# The Two Co-Founders Present Near-Future Business Policies

Here, DG's co-founders, Kaoru Hayashi (Representative Director, President Executive Officer and Group CEO) and Joi Ito (Director and Co-founder, Digital Garage, Inc.; Director, MIT Media Lab) discuss the environment surrounding DG's business and future focus businesses.

biotechnologies. It is said that there are even examples where having patients concentrate on a specially developed video game demonstrates an even greater therapeutic effect than a dose of medication.

**Ito**  
DTx is able to simultaneously provide a diagnosis and treatment and can personalize the treatment to each individual patient. Expectations are high for its ability to enable treatments which were not possible with previous medicines. However, as it is a newly created field, there are a few experts, and it will be important to develop talented people who can lead the industry.

the major pharmaceutical companies will remain as a foundation going forward, but I think that what will be important instead are the ecosystems which create new biohealth businesses that use digital technologies. DG should lead such new initiatives. When the Internet started to take hold, there were many companies who thought, "IT technologies have nothing to do with our company," and they were left behind by the changing times. I think that the same thing will happen in biohealth, too.

**Hayashi**  
"Digital Therapeutics (DTx)"<sup>3</sup>, for example, which uses digital contents instead of medicines to treat disease will attract attention in the future as a business that uses both digital and

likely to be the key points in this area going forward?

**Ito**  
I have a habit of comparing everything to the Internet, but the current environment surrounding the major pharmaceutical companies resembles the situation of the telephone companies when the Internet started to become popular. The telephone companies are still around and play an important role. However, as a result of various communication-related ecosystems being created on the Internet, the value of the telephone companies as an infrastructure has decreased in relative terms. With respect to bio as well, I think that the existing structures centered around

**Hayashi**  
Biohealth has rapidly picked up steam in DG's business areas as well, with the IPO of Welby Inc., DG's strategic investee that handles healthcare data, and the high marks received from many major pharmaceutical companies by "Open Network Lab BioHealth"<sup>1</sup>, which nurtures startups in the biohealth field.

**Ito**  
When we started saying, "Bio is the new Digital"<sup>2</sup> at the MIT Media Lab, I think that people had their doubts. It was similar to the skeptical reaction that I got from many people when I said, "The Internet era is coming." in the early 1990s.

**Hayashi**  
Yes, that's right. At first, people thought that bio was still a bit further away, but recently many people now believe that the era of biohealth is coming. What are

<sup>1</sup> Open Network Lab BioHealth: A program for nurturing startup companies specializing in the biohealth field, which is operated by DG in cooperation with 20 or more partners including major pharmaceutical companies.

<sup>2</sup> Bio is the new Digital: Statement by MIT Media Lab founder Nicholas Negroponte regarding the significant impact that biotechnology will have on society.

<sup>3</sup> Digital Therapeutics (DTx): Systems to conduct evidence-based interventions, using high-quality software in preventive care, health care and treatment. DTx refers to those approved by regulators that are used independently or in combination with existing medical instruments and medicines.

**Hayashi**

In Japan, DG has taken the lead in trying to launch a DTx industry consortium. It also seems to be attracting attention from the pharmaceutical companies as well. First, we will coordinate with companies that are interested and start by strengthening the foundation to popularize DTx.

**Ito**

DTx is different from conventional IT technologies in that it is directly involved with human life, so scientific testing will become extremely important. In that sense, popularizing DTx will require not just marketing and technology but also knowledge of medical science. As for DG, too, I think that cultivating know-how about core bio areas at DG Lab will become important.

**Blockchain becoming mainstream**

**Hayashi**

Facebook's announcement of its own Libra<sup>4</sup> cryptocurrency is making headlines, but how much of an impact do you think it will have on the world?

**Ito**

Started by Facebook, which has a large number of users, it will, as might be expected, have an impact, but the effects will likely be felt by personal money transfer services such as PayPal and Venmo. Bitcoin does not seem to be directly related. I think that the question of whether Libra will become popular depends on how well Facebook can protect user privacy.

**Hayashi**

For that reason, they are locating the

consortium headquarters in Switzerland and using the fact that it will not directly manage Libra to show off its neutrality to users. However, when you think about it, Facebook controls a significant portion of social media traffic from WhatsApp to Instagram. With such a strong influence, they could accelerate the acceptance of a service like Libra if they do things right. However, if they fail, the effects will spread to other personal money transfer services.

**Ito**

Among my friends, opinions are divided between those who are of the opinion that Facebook should be dismantled into separate services to reduce its influence and those who believe that concentrating power in one company makes it easy for the authorities to manage, so it should be left as it is.

**Hayashi**

On the subject of FinTech, at the "G20 Finance Ministers and Central Bank Governors Meeting" hosted in Fukuoka, Japan in June, it was stated that governance provided through the cooperation of financial authorities, developers, universities and other academic institutions was important for the stable spread of new financial systems based on Distributed Ledger Technology<sup>5</sup> such as blockchain. It felt like a real paradigm shift in the sense that some authority previously held by the financial authorities would be transferred to other parties. Through its subsidiary Crypto Garage<sup>6</sup> receiving the first authorization in the FinTech field from the Cabinet Office under the "Regulatory Sandbox in Japan," DG will also field-test real-time payments using Bitcoin and Yen-denominated tokens. Such cooperation between the authorities

**Collaboration between regulatory authorities and brilliant engineers will create Japanese FinTech in the blockchain era**

and developers is likely to become more and more important in the future.

**Ito**

If many brilliant engineers join the regulatory authorities and become part of the process to hammer out the financial policies of the blockchain era, I think that things will become interesting as they did during the dawn of the Internet.

**Hayashi**

Can cryptography engineers descended from the cypherpunks<sup>7</sup> who faced off against government agencies successfully cooperate with authorities going forward?

**Ito**

I think that the situation has significantly changed from the era established by the cypherpunks back in the 1980s. The core cypherpunks from that time have gotten older and more mellow. Unlike that time period, we are now at the point where businesses are finally launching.



**Hayashi**

After all, Bitcoin will play a key role in the new financial system. The fluctuations in value have largely subsided, and it finally seems to be shifting from the speculative phase to the practical use phase as a cryptocurrency.

**Ito**

It is not clear how long it will take until the price stabilizes, but as of right now, I think that Bitcoin is the likely winner. The depth of engineers involved in Bitcoin development is overwhelming compared to other cryptocurrencies.

**Hayashi**

Recently in DG's payment business, the "Cloud Pay" service announced in May has been attracting attention as a way to combine multiple QR code payment services into one QR code. It also supports NTT DOCOMO's "d Payment<sup>®</sup>," so NTT DOCOMO is helping to introduce Cloud Pay to retail stores across the country. AliPay and WeChat Pay are also supported, so use by inbound customers can be expected. Is QR code-based payment used in the US?

**Ito**

Such payment systems are rarely seen, but they might be convenient with a system like Cloud Pay. It might be interesting to disseminate Cloud Pay in the US as well.

**Hayashi**

In retail store payments, we established

a joint venture with TOSHIBA TEC CORPORATION, the industry leader in POS systems, for the purpose of deploying multiple payment solutions across the country. Combining QR code payments through Cloud Pay with POS terminal payments will allow us to cover the "surface" of the customer facing payments market at physical stores. I would also like to put some effort into the development of new businesses using the big data obtained from those operations. I think that the key point is not to "wall off" all of the



information within one company but to cooperate with various business partners to provide attentive and considerate services to customers in an open platform approach. As for big data analysis, a prominent data scientist in Japan joined us in April as the Chief Data Officer.

**Previous marketing methods should be fundamentally changed**

**Hayashi**

A view toward protecting personal information is essential in big data analysis. How can we balance the regulations to protect privacy with the use of personal information by companies?

**Ito**

Companies that provide services using personal information without properly considering privacy are like factories that produce environmental pollution. It is simply irresponsible. In the meantime, one cannot help but say that from the perspective of protecting personal information, current regulations are full of flaws. It is like building a house on sand. I do not think that you can build a good service under the current regulations. In order to do so, we must first understand technology properly and then create flexible and robust regulations which are meaningful for both companies and individuals over the medium to long term. Viewed from

<sup>4</sup> Libra: A virtual currency announced by Facebook that is intended to be used by people around the world.

<sup>5</sup> Distributed Ledger Technology: Technology enabling network participants to share the same value records. This approach stands in contrast to centralized architectures which are dependent on one ledger.

<sup>6</sup> Crypto Garage: A company founded in September 2018 by DG and Tokyo Tanshi Co., Ltd. for the purpose of researching, developing, and commercializing blockchain financial services.

<sup>7</sup> Cypherpunks: Activists who aimed to transform society and politics through the use of cryptography. The cypherpunk movement started in the late 1980s.

that perspective, the GDPR<sup>8</sup> enforced in Europe is a good idea, but the technical foundations are poor, and the costs fell mostly on small to medium companies, while there was very little impact on large companies.

**Hayashi**

Recently, there are even discussions that you should properly obtain the consent of users when using the Cookies<sup>9</sup> which are essential to Internet advertising.

**Ito**

I think that issue should also be examined. When the current situation surrounding privacy is considered, it is clearly time to reconsider the marketing approach used so far of simply presenting items that consumers may want. The problem is when to make the switch. For example, a platform business such as the current Amazon is like a monopoly economy that appeared before we realized it. That's not really good for competitors or individual consumers. As the name would indicate, "surveillance capitalism" which uses private information to conduct marketing is not necessarily for the benefit of individuals. It would be ideal if people were only presented with the information that they truly require. For example, advertisers should really stop showing ads for alcohol to those who are trying to stop drinking or ads for cookies in the middle of the night to people who have decided to abstain for health reasons. I would rather buy advertisements for myself. For example, a system that displays gym

advertisements when it gets dark to motivate myself to exercise. I would pay money for a system like that.

**Hayashi**

It would be well suited to a service such as an information bank where each individual consumer can opt in to decide how their own personal information is used.

**Ito**

That is certainly true. In the US, personal information is starting to circulate not only through web sites and Cookies but also location information and satellite photos, etc. There are various proposals for ways to manage privacy including ideas such as entrusting personal information to intermediaries. I think that we are approaching the time when all of society needs to imagine a near future in which personal information leaks onto the net and discuss the ideal ways to manage such information.

**Hayashi**

In 1984, Apple, which was then a startup, released a Super Bowl commercial that called IBM "Big Brother" and created a stir in the PC market monopoly. However, 35 years later Apple has become a platform as a part of GAFA<sup>10</sup>. It feels as if we are in a truly different age.

**Innovation in space-related technologies**

**Hayashi**

It is now 50 years since the Apollo

Program moon landings, and DG has also participated in the MIT Media Lab's "Space Exploration Initiative"<sup>11</sup> space project, but why did you become interested in space, Joi?

**Ito**

Similar to the way that the rise of biotechnology resembles the dawn of the Internet, space projects are also undergoing a paradigm shift. Space and the Internet resemble each other very much in that the infrastructure was originally created through military and national R&D expenses. In the case of the Internet, it transitioned from being a military network to the commercial Internet, and the supporting service providers appeared like mushrooms after a rainstorm. Everyone in Japan also created service providers. Various services were created on top of this popular, commercial Internet, which has created a platform that is far more efficient and has a higher degree of freedom than telephones.

The same thing is now happening in the space industry. The original Internet started by spending enormous cost on connecting large research labs with supercomputers, and the space industry is also based on the development race costing the US and the Soviet Union at that time a massive budget. Now, private companies such as SpaceX<sup>12</sup> and Blue Origin<sup>13</sup> have entered the market, and the cost of launching payloads into space by rocket has dramatically fallen to roughly one percent of the historical costs. You can even launch small satellites for a few hundred thousand yen.

**From crypto to biohealth and space-related technologies  
Moving to the stage of designing a sustainable context through technological innovation**

Using the Internet as an example, this is similar to the period of excessive competition when many service providers were created. In other words, if you are entering the space business right now, I think that you should use the inexpensive launch costs as infrastructure to consider what you

will do in space instead of joining the competition to develop rockets.

**Hayashi**

How do you think that the MIT Media Lab and DG can collaborate with each other in this environment?

**Ito**

Similar to the Internet, space projects also have a well-designed protocol for different teams to collaborate with each other. For that reason, projects such as the space station have been achieved with participation from various countries. With many different companies entering the space business due to the decrease in rocket launch costs, the question of how to overlay businesses on top of that infrastructure while maintaining previously cultivated collaboration protocols will become an issue. The MIT Media Lab plans to shoulder the responsibility for that coordination. A researcher by the name of Maria Zuber is in charge of all research at MIT, and she was involved with space missions at NASA for many years. She and I are guiding MIT's space initiative as leaders. In May 2019, Blue Origin and MIT announced that they are working together on a lunar surface exploration project.

They are also starting to work on a platform which will enable various zero-gravity experiments to take place on a free-falling aircraft. I would like to advance projects suited to the MIT Media Lab, such as music, bio, and art, on top of that platform. Projects such as how to grow plants or create new materials in a zero-gravity space. I think that we will see space factories for mass-producing materials that are difficult to create on earth. In the US, they started a class-level project to let high school students design an artificial satellite, actually launch it, and have the students analyze the data obtained from that artificial satellite on their own PCs. There is even an idea to make the satellite specifications open and let junior and high school students hack the satellite.

If DG hosted satellite data hackathons through the Open Network Lab, some interesting startups might be created.

**Hayashi**

We founded DG as a company which professes to be a "context company," and it will soon celebrate its 25th anniversary in 2020. Having focused wholeheartedly on creating a business that contributes to society for the past 25 years, how do you think the next 25 years will turn out?

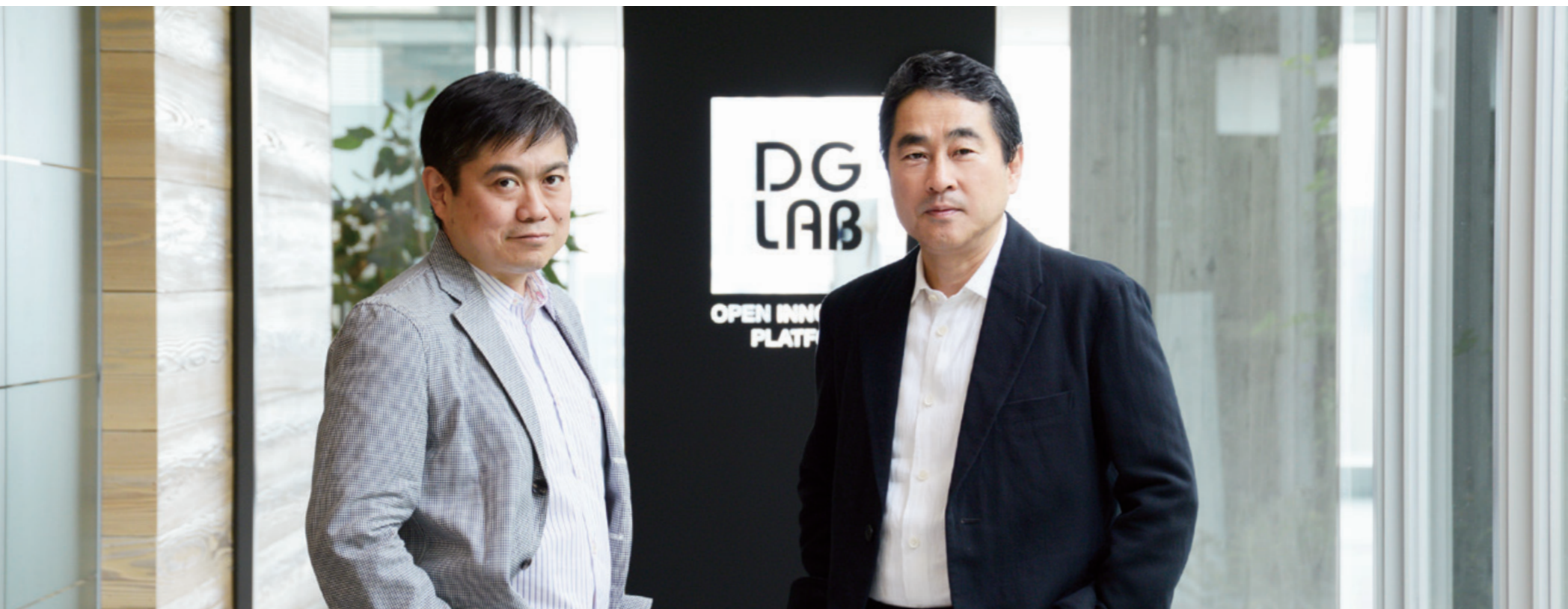
**Ito**

From the time that we first founded the company, we have conducted business with an awareness of contributing to society and culture. However, that way of thinking is now finally being incorporated in part of compliance by society in the form of SDGs<sup>14</sup>. Instead of incorporating the SDG way of thinking as a checklist item, however, I think that the attitude of contributing to society through various means of expression as DG has done from way back is important. For example, the MIT Media Lab has recently been researching Impact Investment<sup>15</sup>. Instead of investing simply to make money, you need properly to measure the pluses and minuses to society as a whole including the IR and marketing aspects for an investment in a certain business to make the optimal decision for society.

**Hayashi**

Certainly, in the sense that the importance of social contribution is increasing, I feel that philosophy is undergoing a significant change within society. In contrast to the material civilization of the West, I have a hunch that a culture similar to Shinto, which considers the entire planet including nature is growing in importance. I feel that there is significant potential for the entire Internet industry to grow to the next stage if DG creates a role model for Impact Investing and put it into practice in cooperation with our business partners and portfolio companies.

<sup>8</sup> GDPR: General Data Protection Regulation, which was enforced by the EU in May 2018 for the purpose of restoring the rights concerning the control of personal information to consumers.  
<sup>9</sup> Cookies: Data concerning a user's behavior on a web site which is stored for a select time period. Cookies are used in targeted advertisements, etc.  
<sup>10</sup> GAFA: Acronym which refers to the four companies: Google, Amazon, Facebook, and Apple.  
<sup>11</sup> Space Exploration Initiative: A project announced by the MIT Media Lab in July 2019 for the purpose of democratizing access to space, which promotes research and development through zero gravity flight experiments, etc.  
<sup>12</sup> SpaceX: A company established by Elon Musk which aims to create a space transportation business through rockets and spacecraft.  
<sup>13</sup> Blue Origin: A company established by Amazon founder Jeff Bezos which aims to create a space tourism business, etc.  
<sup>14</sup> SDGs: Sustainable Development Goals. SDGs were adopted by the United Nations Summit in September 2015.  
<sup>15</sup> Impact Investing: Investing which considers not only the economic return but also the social return.

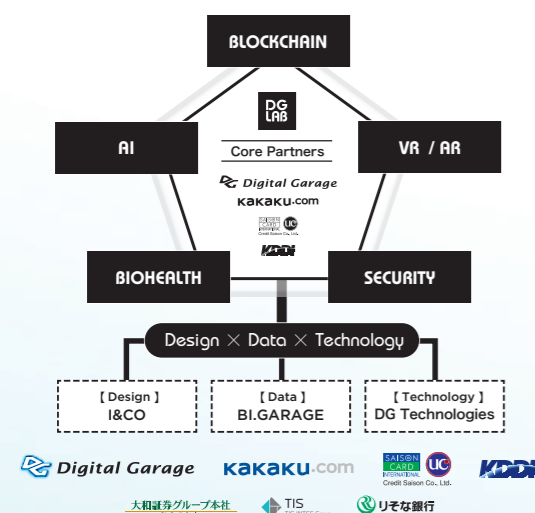


# DG LAB OPEN INNOVATION PLATFORM

An open innovation platform for business into the next generation

## Business Development through Co-creation with our Partners and Portfolio Companies Starts in Full Swing

"DG Lab," an R&D platform operated by DG, together with Kakaku.com, Credit Saison and KDDI with the aim of creating products and services that will serve as new business pillars using cutting-edge technologies is accelerating activity toward business development in the five top priority research areas. Through collaborating with DG Lab partners, DG Lab Fund portfolio companies and others, DG Lab will create a series of businesses that play roles in society from a global perspective.

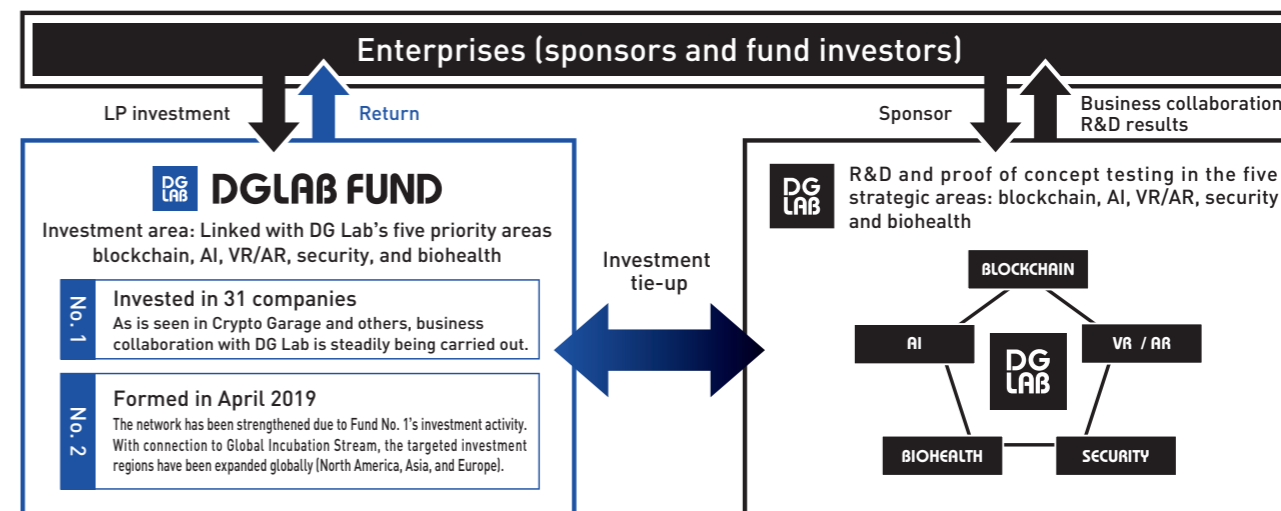


### Initiatives involving DG Lab

- DG Daiwa Ventures**: Together with the headquarters of Daiwa Securities Group, DG formed joint funds to invest in startup companies that have next-generation technologies relevant to DG Lab's five focus areas, and to support their efforts to increase corporate value through collaboration with DG Lab.
- DGLAB FUND**: Together with TIS Inc., DG established an independent R&D platform to engage in rapid development in each of DG Lab's research areas.
- HAUS**: The HAUS website provides information regarding innovation happening around the world through introductions to various events related to DG Lab's five priority research areas, interviews with famous individuals, and more. <https://media.dglab.com>

# DG LAB FUND

DG Lab Fund's investments in promising startups in DG Lab's five focus areas are on track. The second fund was established in April 2019 to enhance investment in promising startups in Japan and abroad and further deepen collaboration with DG Lab.



### Major portfolio companies

<b>BLOCKCHAIN</b> Blockstream [Canada] Development and provision of "Sidechain" platform technology enabling versatile application of blockchain with ease	<b>AI</b> Skydisc [Japan] Development of sensor devices for manufacturing industry and provision of AI x IoT solutions such as data analysis using AI
<b>AI</b> Idein [Japan] Development of an optimization compiler for deep learning models Enabling edge computing with inexpensive general purpose hardware	<b>BIOHEALTH</b> Akili Interactive Labs [US] Development of digital medicine using digital contents as a medicine. Targeting neurological diseases (ADHD and depression) etc.

## Projects being pursued by DG Lab toward commercialization (partial excerpt)

BLOCKCHAIN	
<h3>DVEP</h3> <p>Technology for "digital asset issuance" and "digital asset exchange," etc.</p> <p>Using the DG Lab-developed "DVEP" framework that allows original asset issuance on blockchain, various businesses can quickly, inexpensively, and securely build applications on the same blockchain. DG Lab is collaborating with DG Lab partners, point providers, and local governments using DG Lab DVEP technology to enable "digital asset issuance" and "digital asset exchange" for e-money and points, etc.</p>	<h3>SMART CONTRACT</h3> <p>Supporting Crypto Garage in service development</p> <p>DG Lab is supporting the development of "P2P derivatives", a P2P protocol developed by Crypto Garage that enables crypto asset derivatives transactions. This protocol uses "DLCs" ("Discreet Log Contracts") smart contract technology that enables conditional payments based on future forecasts which was jointly developed by DG Lab and MIT Media Lab.</p>

BIOHEALTH x AI	VR / AR
<h3>PERSONAL HEALTH RECORD</h3> <p>Launching a proof of concept project to build a PHR platform</p> <p>DG Lab launched a proof of concept project in Fukuoka City, Japan from May 2019 to build a platform for health and medical information held by individuals (Personal Health Record: PHR). DG Lab along with Welby Inc. (TSE Mothers-listed from March 2019) is providing PHR services for patients with lifestyle-related diseases. In addition, the food image analysis technology developed by DG Lab's AI team is used to automatically compute information such as the nutritional balance from images of participants' meals, and promote individual health consciousness and behavior modification. In the future, PHR will be linked with local governments, national and health insurance, medical institutions, pharmaceutical companies, and health-related business operators to build a person-centered health and medical data platform.</p>	<h3>SOUND AR PLATFORM</h3> <p>Planning applications in various industries</p> <p>DG Lab built a sound AR platform that links location information and sound contents by using its "Web AR" technology. It performed proof of concept testing in Roppongi, Tokyo in October 2018 and in Sapporo in February 2019. Web AR has lower hurdles to cross before it is adopted than application development and is easy to embed in existing services and applications. In the future, DG Lab will use the technology in areas such as events and entertainment and collaborate with local governments and the services of O2O businesses, etc. that DG Lab partner enterprises have, aiming to provide a new user experience using "Web AR" technology.</p>

Relationship between DG and society

Conference discussing the future brought by cutting-edge internet technology

# THE NEW CONTEXT CONFERENCE

DG has been transmitting information to society via "THE NEW CONTEXT CONFERENCE" themed around cutting-edge internet technology and the businesses which emerge from it, which has been held continuously since 2005 in Tokyo and San Francisco.

Vol. 19

## THE NEW CONTEXT CONFERENCE 2019 TOKYO

June 24, 2019 @ Roppongi Academyhills

On the theme of "How to Build a Data Ecosystem," we discussed protection and utilization of personal information whose data volume is expected to increase explosively with the wide use of web services, mobile apps and IoT devices. The conference explored how to build a data ecosystem enabling beneficial use of personal information for both ordinary citizens and corporates, from diverse perspectives covering regulation, consortium, technologies, marketing and business development in two conference rooms.



Vol. 18







## THE NEW CONTEXT CONFERENCE 2018 SAN FRANCISCO

November 14, 2018 @ San Francisco DG717

Focusing on "Design Intelligence," a new concept that represents the convergence of AI (artificial intelligence) and Design, we deepened discussions on questions such as "Is AI going to make Design worthless? How can Design be used to infuse more humanity into AI? What are the positive influences that Design and AI can have on each other?"



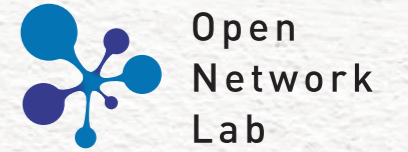
### THE NEW CONTEXT CONFERENCE HIGHLIGHT

Vol. 03	Vol. 06	Vol. 09	Vol. 11	Vol. 18	Vol. 19
<b>2007 TOKYO</b>	<b>2011 TOKYO</b>	<b>2013 SF</b>	<b>2015 TOKYO</b>	<b>2018 SF</b>	<b>2019 TOKYO</b>
On the theme of "The Users' Web" and "Web Visionaries," we gave addresses on infrastructure and services for next generation internet.	On the theme of "The Future of Social Media as a Livelihood," we deepened discussions on the future of social media which has become an indispensable part of people's lives.	Biz Stone, Co-founder of Twitter, Inc., gave a keynote address and leading researchers took the stage.	We discussed "Digital Currency" and "Virtual Reality" and how these technologies would create business opportunities in the next five to ten years and whether they would change our lives.	The theme was "Convergence of AI and design leads the beginning of the 'design intelligence' era"	On the theme of "How to Build a Data Ecosystem," we discussed protection and utilization of personal data.
					
Jimmy Wales Wikipedia Founder	Abdur Chowdhury Twitter, Inc. Chief Scientist	Biz Stone Twitter, Inc. Co-founder	Daito Manabe Rhizomatics co.,Ltd. Director	John Maeda Automatic Inc. Head of Computational Design & Inclusion	Lawrence Lessig Harvard Law School Professor

※Participants' titles are as at time of the conference.

Incubating startups looking to succeed on a global stage

# OPEN NETWORK LAB



DG has been operating "Open Network Lab (Onlab)" since April 2010 with the purpose of "incubating startups that can compete on a global stage." As a pioneer of seed accelerator programs in Japan, Onlab has supported and cultivated over 100 startups through its program. Since 2018 we have been accelerating efforts to develop Onlab by specializing in specific fields and regions. Through Onlab programs, we are supporting the startups of people with promising business ideas.

Japan's first seed accelerator program is evolving in various segments

**Open Network Lab**

**[2010~2019]**

DG started Onlab as Japan's first seed accelerator program and it has grown steadily.


Launched in 2010  
FY19 marks Onlab's tenth year

The 18th program has completed.  
Applications are open for the 19th program.

Over 100 startups have graduated from the program

**Resi-Tech**


An industry-first, cross-functional consortium dedicated to housing/real estate and daily life services.



Corporation Partners: **kakaku.com**, **KDDI**


**BioHealth**


22 participating companies  
Japan's first open incubation program



**HOKKAIDO**


Running in collaboration between industry, government and academia with D2 Garage, a joint venture of DG and The Hokkaido Shimbun Press playing an anchor role, Onlab Hokkaido is developing its activities throughout the area.




Supporters (universities): 

**FUKUOKA**

Startups are planning and conducting proof of concept projects with partner companies in Fukuoka.




Partners: 

(As of June 11, 2019)

**TOPICS** In 2019, DG appointed a Corporate Officer in charge of SDGs in the United States, an advanced country in ESG

DG believes that SDGs are one of the objectives that should be examined not only to realize a sustainable society but also to determine how future corporations should behave. Such as by establishing a preparatory committee, we are going ahead with consideration of how to incorporate SDGs into business from multiple perspectives.



Corporate Officer  
Debbie Altomonte

# Directors



**KAORU HAYASHI**

Representative Director  
**KAORU HAYASHI**

- Apr 1983 Representative Director, From Garage, Inc.
- Aug 1995 Founded Digital Garage, Inc. Representative Director, Digital Garage, Inc.
- Jun 2003 Chairman and Director, Kakaku.com, Inc. (current)
- Nov 2004 Representative Director, President and Group CEO, Digital Garage, Inc.
- Jun 2016 Director, Credit Saison Co., Ltd. (current)
- Jul 2016 Director Chairman and CEO, Digital Garage US, Inc. (current)
- Sep 2016 Representative Director, President Executive Officer and Group CEO, Digital Garage, Inc. (current)
- May 2017 Representative Director, Chairman and President, DG Incubation, Inc. (current)



**JOI ITO**

Member, Board of Directors and Co-Founder  
**JOICHI ITO**

- Aug 1995 Founded Digital Garage, Inc. Representative Director, Digital Garage, Inc.
- Sep 2006 Director, Digital Garage, Inc. (current)
- Apr 2011 Director, MIT Media Lab (current)
- Jun 2012 Board Member, The New York Times Company (current)
- Jun 2013 Director, Sony Corporation
- May 2015 Board Member, Chairman, PureTech Health plc (current)



**MAKOTO SODA**

Member, Board of Directors  
**MAKOTO SODA**

- Jun 1994 Joined Dresdner Kleinwort Benson Securities, Ltd.
- Jun 1997 Joined Daiwa Institute of Research Ltd.
- Apr 2000 Joined Monex Securities Inc.
- Mar 2007 Joined Digital Garage, Inc. Executive Officer in charge of the Corporate Strategy Division
- Sep 2009 Director, Head of the Group CEO Office, Digital Garage, Inc.
- Jan 2012 Director, in charge of the Corporate Strategy Division, Digital Garage, Inc.
- Sep 2016 Director, Senior Executive Officer, in charge of the Corporate Strategy Division and the Media Incubation Technology Segment, Digital Garage, Inc.
- Jun 2017 Director, econtext Asia Limited (current)
- Apr 2019 Director, Senior Executive Officer, in charge of the Corporate Strategy Division and the Long-term Incubation Segment, Digital Garage, Inc.
- Jun 2019 Director, Senior Executive Officer, in charge of the Corporate Strategy Division, Digital Garage, Inc. (current)



**KEIZO ODORI**

Member, Board of Directors  
**KEIZO ODORI**

- Apr 2000 Joined Faith, Inc.
- Jun 2005 Director, Faith, Inc.
- Sep 2010 Director, Digital Garage, Inc.
- Sep 2012 Director, in charge of the Payment Segment (now the Financial Technology Segment), Digital Garage, Inc.
- Oct 2013 Representative Director and President, Econtext, Inc. (current)
- Aug 2016 Representative Director and President, DK Media, Inc. (current)
- Sep 2016 Director, Senior Executive Officer, in charge of the Financial Technology Segment, Digital Garage, Inc.
- Jun 2017 Representative Director and President, DK Gate, Inc. (current)
- Jun 2018 Director, DG MARKETING DESIGN, Inc. (current)
- Oct 2018 Director, Senior Executive Officer, in charge of the Financial Technology Segment, and the Marketing Technology Segment, Digital Garage, Inc. (current)
- Jan 2019 Director, TD Payment Corporation (current)
- Feb 2019 Director, CyberBuzz, Inc. (current)



**MASASHI TANAKA**

Member, Board of Directors  
**MASASHI TANAKA**

- Aug 2001 Joined Digital Garage, Inc.
- Jul 2006 Director, DG&lbex Company (now Marketing Technology Company)
- Jan 2011 Senior Operating Officer, Digital Garage, Inc. Executive Vice President, DG&lbex Company (now Marketing Technology Company)
- Sep 2012 Director, Head of Corporate Strategy Division, Digital Garage, Inc. Executive Vice President of DG&lbex Company (now Marketing Technology Company)
- Jul 2016 Director President, Digital Garage US, Inc. (current)
- Sep 2016 Representative Director, DG Technologies, Inc. (current)
- May 2017 Director, Vice President and COO, DG Incubation, Inc. (current)
- Jun 2017 Director, DK Gate, Inc. (current)
- Jun 2017 Director, Senior Executive Officer, in charge of DG Lab and the Incubation Technology Segment, Digital Garage, Inc.
- May 2018 Director, Senior Executive Officer, in charge of DG Lab, the Incubation Technology Segment and Group CEO Division, Digital Garage, Inc.
- Sep 2018 Director, Crypto Garage, Inc. (current)
- Jun 2019 Director, Senior Executive Officer, in charge of DG Lab, in charge of the Incubation Technology Segment, and in charge of the Group CEO Division Executive Director, Digital Garage, Inc. (current)



**MASAHITO OKUMA**

Member, Board of Directors  
**MASAHITO OKUMA**

- Apr 1999 Joined Mitsubishi Corporation
- Mar 2011 Joined FAST RETAILING CO., LTD.
- Dec 2015 Vice President, UNIQLO USA LLC
- Nov 2016 Joined Digital Garage, Inc.
- Apr 2017 Executive Officer and COO of DG Lab, Digital Garage, Inc.
- May 2017 Director, DG Incubation, Inc. (current)
- Dec 2017 Director COO, Digital Garage US, Inc. (current)
- Apr 2018 Executive Officer and COO of DG Lab, Digital Garage, Inc.
- Jun 2018 Director, Senior Executive Officer, COO of DG Lab, Head of Group CEO Division, Digital Garage, Inc.
- Sep 2018 President, Crypto Garage, Inc.
- Dec 2018 Director, Senior Executive Officer, COO of DG Lab, Head of Group CEO Division, Digital Garage, Inc.
- Apr 2019 President and CEO, Crypto Garage, Inc. (current)
- Jun 2019 Representative Director, DG Daiwa Ventures, Inc. (current)
- Jun 2019 Director, Senior Executive Officer, Head of Group CEO Division, in charge of the Long-term Incubation Segment, and COO of DG Lab, Digital Garage, Inc. (current)



**KENJI FUJIWARA**

Outside Director  
**KENJI FUJIWARA**

- Apr 1969 Joined Shufu-no-mise Daiei, Inc. (now The Daiei, Inc.)
- Jun 1994 Representative Director & President, Daiei Convenience Systems, Co. Ltd. (now Lawson, Inc.)
- Jun 2003 President, Representative Director, FANCL CORPORATION
- Sep 2008 Outside Director, Digital Garage, Inc. (current)
- Jun 2009 Director, Kakaku.com, Inc. (current)



**EMI OMURA**

Outside Director  
**EMI OMURA**

- Oct 2002 Admitted to practice law in Japan (Tokyo Bar Association)
- Jul 2008 Partner, Athena Law Office
- Sep 2010 Associate Expert, International Labour Office in Geneva, the International Labour Organization (ILO)
- Jan 2014 Director, the Office of International Affairs, Japan Federation of Bar Associations
- Sep 2014 Outside Director, Digital Garage, Inc. (current)
- Jun 2019 Kamiyacho International Law Office (current)



**YASUYUKI ROKUYATA**

Director (Audit and Supervisory Committee Chairperson)  
**YASUYUKI ROKUYATA**

- Dec 1995 Director, Digital Garage, Inc.
- Mar 2011 Representative Director and President, DG Incubation, Inc.
- Jul 2011 Director and COO, Digital Garage, Inc.
- Sep 2012 Director and Vice President, in charge of the Incubation Segment (now the Incubation Technology Segment), Digital Garage, Inc.
- Jul 2013 Director, Digital Garage US, Inc.
- Sep 2016 Director, Vice President Executive Officer, in charge of the Incubation Technology Segment, Digital Garage, Inc.
- Apr 2017 Director, Vice President Executive Officer, Digital Garage, Inc.
- Jun 2018 Director, Audit and Supervisory Committee Chairperson, Digital Garage, Inc. (current)
- Sep 2018 Corporate Auditor, Crypto Garage, Inc. (current)



**MAKOTO SAKAI**

Outside Director, Audit and Supervisory Committee Member  
**MAKOTO SAKAI**

- Apr 1986 Admitted to practice law in Japan (Nagoya Bar Association)
- Apr 1988 Registered to the Tokyo Bar Association
- Aug 2000 Established the Sakai Makoto Law Office
- Mar 2005 Established the Sirius Law Office
- Sep 2010 Outside Auditor, Digital Garage, Inc.
- Sep 2016 Outside Director, Audit and Supervisory Committee Member, Digital Garage, Inc. (current)
- Mar 2019 Attorney at law, the Sakai Makoto Law Office (current)



**JUNJI INOUE**

Outside Director, Audit and Supervisory Committee Member  
**JUNJI INOUE**

- Apr 1974 Joined Mitsubishi Corporation
- Apr 2003 Executive Officer, Mitsubishi Corporation
- Jun 2003 Director, Executive Officer & President, IT Frontier Corp.
- Jun 2007 Director, e-Access Ltd.
- Sep 2012 Outside Auditor, Digital Garage, Inc.
- Sep 2016 Outside Director, Audit and Supervisory Committee Member, Digital Garage, Inc. (current)



**KOJI MAKINO**

Outside Director, Audit and Supervisory Committee Member  
**KOJI MAKINO**

- Oct 1988 Joined KPMG Minato Audit Firm (now KPMG AZSA LLC) Tokyo Office
- Aug 1992 Became a Certified Public Accountant
- Jan 2006 Established and Representative, Makino Koji Certified Public Accountant Office (current)
- Feb 2009 Director, BE1 Accounting Office (current)
- Sep 2012 Outside Auditor, Digital Garage, Inc.
- Sep 2016 Outside Director, Audit and Supervisory Committee Member, Digital Garage, Inc. (current)

(as of July 1, 2019)

# Corporate Governance

## Basic Concepts

Consistent with our philosophy and credo, as described below, Digital Garage, Inc. (DG) is committed to living up to the faith of our shareholders and all other stakeholders, and to achieving ongoing growth and

medium- to long-term increases in corporate value, by enhancing and strengthening corporate governance that emphasizes transparency, fairness, and speedy, resolute decision-making.

### <Philosophy>

We contribute new value to society by using the internet and other resources to link developments across different fields and create contexts that are useful for the world.

### <Credo>

- TENACITY
- OPENNESS
- INTEGRITY
- AGILITY
- COURAGE



## Corporate Governance

DG has always viewed corporate governance as a critical management concern and striven to take the steps necessary to ensure strong governance. However, given the adoption of Japan's Corporate Governance Code, we switched to the "company with audit and supervisory committee" form of organization to achieve the "growth-oriented governance" called for by the code. This organizational change was formalize following the approval of a resolution to that effect at

the 21st Shareholders' General Meeting, convened on September 29, 2016. Under the "company with audit and supervisory committee" form of organization, directors who are Audit and Supervisory Committee members perform oversight for management decision making and the performance of duties by directors in meetings of the Board of Directors. The Audit and Supervisory Committee, meanwhile, oversees the performance of duties by directors more broadly.

While realizing a greater strengthening of corporate governance through ensuring no less than a 1-to-3 ratio of outside directors in the Board of Directors, DG has introduced an executive officer system to clearly separate the business execution function from the decision making and supervisory functions with the aim of bringing greater speed and efficiency to the execution of business.

than one third of all members, and these five outside directors are independent directors in accordance with the regulations of the Tokyo Stock Exchange. In this way, we believe a system is in place at the Board of Directors to conduct highly effective oversight.

### Board of Directors

The Board of Directors of Digital Garage, Inc. consists of 12 members. Four of the 12 members are also Audit and Supervisory Committee members, and three of these four members are outside directors. Of the eight members who are not Audit and Supervisory Committee members, two are outside directors. In addition to its regular monthly meetings, the Board of Directors meets at other times, as necessary. In FY 2019, meetings of the Board of Directors were held a total of 16 times. The Board of Directors makes decisions on important matters set forth in laws and regulations, the Articles of Incorporation, and Board of Directors Provisions. It also oversees the activities of board members as they perform their duties. Outside directors perform governance functions by drawing on their individual expertise, management experience and insight, to oversee board activities and contribute advice, from an independent perspective. Five of the 12 members of the Board of Directors are outside directors, making up more

### Audit and Supervisory Committee

DG's Audit and Supervisory Committee consists of four members - one director and three outside directors. Audit and Supervisory Committee members attend Audit and Supervisory Committee meetings held after regular monthly meetings of the Board of Directors. They attend other important meetings, including those of the Board of Directors, as well, and are free to express their opinions and contribute in other ways to enhance the effectiveness of corporate governance.

### Internal Control System

To provide an environment that supports appropriate risk taking by directors and others, the Board of Directors has acted to build and maintain proper internal control and risk management systems. The Board of Directors supervises these systems to ensure their effective operation. It has also approved resolutions for the formulation of the Basic Policies on the Construction of an Internal Control System, in accordance with Japan's Companies Act, Ordinance for Enforcement of the Companies Act, and Financial Instruments and Exchange Act.

## Stronger Governance from Compliance with the Corporate Governance Code

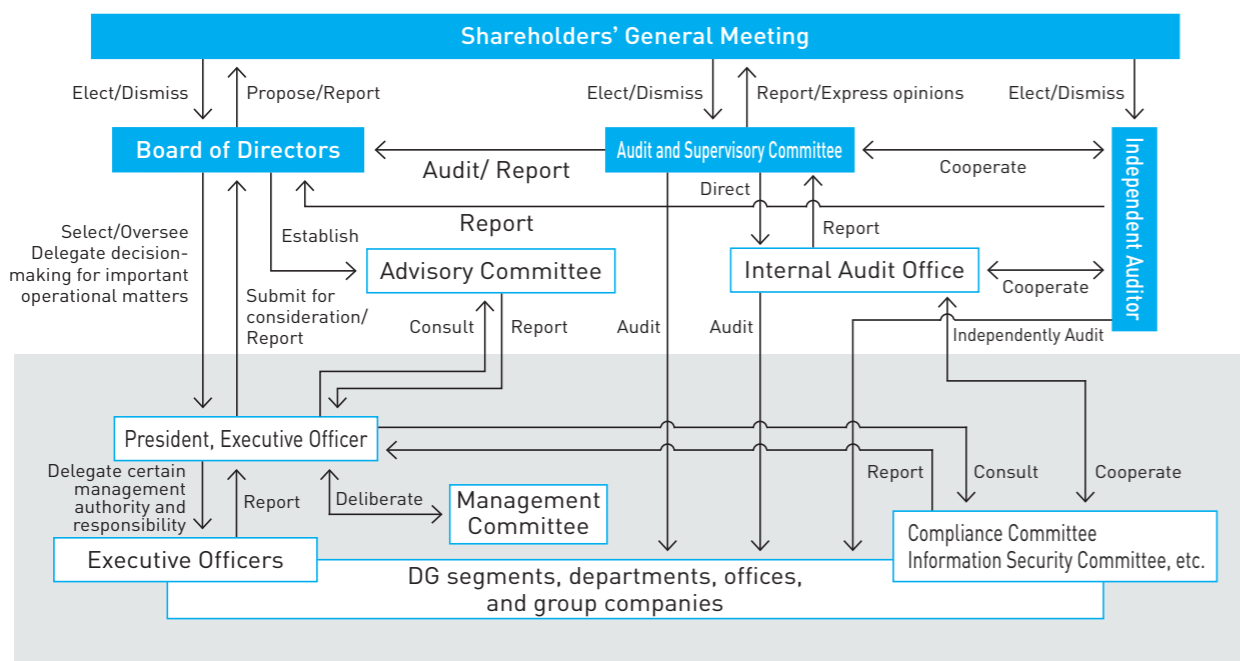
During the fiscal year ended March 2019, we addressed the following points by taking steps to strengthen our governance in accordance with the fundamental principles of the Corporate Governance Code established by the Tokyo Stock Exchange.

### Outline of initiatives based on the fundamental principles of the Corporate Governance Code

Exercise Shareholder Rights at General Shareholder Meetings	To provide shareholders enough time to consider the general meeting agenda, the following decisions were made at the 24th Ordinary Shareholders' General Meeting. [Supplementary principle 1-2 (2)] <ul style="list-style-type: none"> <li>• Convening notices will be sent promptly by postal mail 18 days prior to the general meeting date.</li> <li>• Convening notices will be posted on the web 22 days prior to the general meeting date.</li> </ul> Scheduling the general meeting to avoid the peak day [Supplementary principle 1-2 (3)] <ul style="list-style-type: none"> <li>• The 24th Ordinary Shareholders' General Meeting was scheduled to be held on June 21, 2019 to avoid the so-called general meeting peak day.</li> </ul> Promoting disclosure and provision of information in English in consideration of the share of overseas investors, etc. [Supplementary principle 3-1 (2)] <ul style="list-style-type: none"> <li>• Operation of an English language version of the Company's website.</li> <li>• Creation of English language versions of convocation notices, financial results and important press releases.</li> </ul>
Director Remuneration	Establishment of optional advisory committees [Supplementary principle 4-10 (1)] To enhance the transparency of the remuneration determination process, the following actions were taken. <ul style="list-style-type: none"> <li>• Evaluating directors on the performance of their duties and contributions to the company based on a director grading system.</li> <li>• Implementation of reporting by an advisory committee consisting of the representative director(s) and at least one outside director on proposed remuneration for the representative director(s).</li> </ul> The following steps were taken as measures related to provision of incentives to Directors. <ul style="list-style-type: none"> <li>• Performance-based remuneration plan</li> <li>• Stock option plan</li> </ul>
Evaluation, Analysis, and Disclosure of Board Effectiveness	Implemented the evaluation and analysis of overall board effectiveness. Evaluations and analyses are based on self-evaluations by individual directors and cover matters such as the composition of the board, operation of the board, matters concerning board deliberations, and the role and duties of the board. The evaluation results for FY 2019 confirmed that the overall board effectiveness has been sufficiently ensured, promote dialogue with shareholders. In particular, the evaluation indicated DG maintains a framework that facilitates swift decision-making related to important operational matters, lively discussions on medium-to-long term strategy and planning, and proactive information disclosure to promote dialogue with shareholders. At the same time, the evaluation recognized succession planning and human resource development, the establishment of independent voluntary committees, etc., as issues to consider to further enhance overall board effectiveness.

### Corporate Governance Organization Chart

(as of July 16, 2019)



## Compliance and Risk Management

### Compliance Statement

The corporate philosophy of Digital Garage is to create new business opportunities and contribute to the betterment of society through providing digital contexts that connect multiple elements from various domains via internet business.

In order to achieve this and ensure our sustainable growth, each and every employee is called upon to understand changes in society and ensure that our actions resonate with our environment, in the spirit of the "first penguin." We recognize the irreplaceable roles that our employees play in our efforts and the importance of providing them with a rewarding

working environment that they are proud to be a part of. In addition, individuals must also commit to regulatory compliance.

DG has established a compliance program outlining standards for individual business conduct with integrity and efficiency based on our shared ethical values.

In order to exercise the aforementioned corporate philosophy, every staff member at DG is committed to adhering to the compliance program guidelines as detailed in the following seven articles in our code of conduct.

#### <Code of Conduct>

1. Hold high ethical standards and conduct business in compliance with laws
2. Respect fundamental individual rights and diversity and maintain a healthy work environment free from discrimination and harassment
3. Promote harmonious co-existence with society and conduct environmentally-responsible business activities
4. Foster transparency of business and fair and free competition
5. Maintain fair and healthy relationships with government and other public offices
6. Disclose necessary corporate information to stakeholders fairly and openly
7. Manage and utilize corporate assets and information appropriately and effectively

DG's Compliance Statement can be viewed on the following webpage.  
<https://www.garage.co.jp/en/compliance/>

### Personal Information Protection Policy

In operating its businesses, DG receives and/or collects personal information from customers, business partners, employees, etc. DG recognizes

the importance of personal information and pays utmost care in protecting it.

For information on the Personal Information Protection Policy, please refer to the webpage below.  
<https://www.garage.co.jp/en/policy/>

### Disclosure Policy

Emphasizing transparency, fairness, and continuity, DG endeavors to provide information in a timely manner to all of its shareholders, investors and other stakeholders. Our basic policy is to disclose information in compliance with the regulations on timely disclosure established

under the Financial Instruments and Exchange Act and by Tokyo Stock Exchange, Inc. DG also strives to disclose as proactively and quickly as possible even information to which the timely disclosure regulations do not apply, if we consider it useful in promoting understanding of DG.

For information on the Disclosure Policy, please refer to the webpage below.  
<https://www.garage.co.jp/en/ir/disclosurepolicy/>

### Basic Information Security Policy

DG regards the information we possess and our information systems (computers, networks, etc.) for executing business by DG and our subsidiaries

("DG Group") as "information assets." We make best efforts for information security to safely handle these assets.

#### Operational structure for information security

CEO and directors in charge of information security appoint a chief information security officer (CISO), who serves as a central information hub in security management throughout the overall DG Group. Because the DG Group implements different business formats in each segment and different security risks must be dealt with in each company, the group is taking required security

measures and acquires external certifications. CISO also conducts reviews for multifaceted confirmation of the security structure. A structure is set up in which, if a serious security incident occurs in the DG Group, CISO serves a central role to promptly work with DG's management and respond appropriately to the problem.

#### Certifications

The DG Group is qualified to obtain third-party certifications according to the special characteristics of our businesses.

DG has received PrivacyMark certification for our personal information protection management system complying to JIS Q 15001. DG and our subsidiaries have received certification as a group for ISO/IEC 27001:2013, an international standard for information security

management systems (ISMS), and JIS Q 27001:2014, a Japanese standard. Our subsidiaries that handle credit card information have also received Payment Card Industry Data Security Standard (PCI DSS) certification, the international security standard of credit card industry for the safe handling of credit card information.

#### Measures against cyber attacks

The DG Group recognizes the threat of increasingly diverse, sophisticated cyber attacks, and is taking continual measures against such attacks. These include incorporating multilayer

defense and the latest defense technologies into our systems. We also educate officers and employees about threats to guard against attacks involving internal parties (targeted attacks, etc.).

#### Business continuity

DG believes our social mission is to provide a range of online services. In the event of a disaster, cyber terrorism, system failure, or other serious danger, we will first ensure securely and accurately

safekeeping customer information and continuing our services to the maximum level possible, at the same time the safety of our officers and employees and their family members.

#### Setting and promoting understanding of information security rules

DG establishes information security rules and continually promotes thorough understanding of them among officers and employees by conducting security training for new hires, as well as annual security training.

An employee who breaches laws, ordinances, this Basic Information Security Policy, information security-related rules, or internal regulations will be subject to penalties in compliance with the company regulation manual, etc.

#### Code of Conduct

- DG employees strictly adhere to all information security provisions and practice stringent compliance management in accordance with the protocols of applicable regulations, industry business norms and our code of conduct, as well as contractual security obligations.
- We set information security objectives to maintain an appropriate level of information security and work to reliably achieve them.
- We conduct ongoing activities related to the Basic Information Security Policy and have established a risk management cycle to counter new threats. We work to constantly review and continuously improve this policy.

#### List of certifications obtained by DG and our subsidiaries

	PrivacyMark	ISMS	PCIDSS
Digital Garage, Inc.	○	○	
econtext Inc.	○	○	○
VeriTrans Inc.	○	○	○
DG Communications Co., Ltd.	○		
Bl.Garage, Inc.		○	
NaviPlus Co., Ltd.	○		
DG Incubation, Inc.		○	
Academie du Vin Co., Ltd.	○		

For information on the Basic Information Security Policy, please refer to the webpage below.  
<https://www.garage.co.jp/en/compliance/security/>



## DG's Corporate Governance System as Seen by the Audit and Supervisory Committee Chairperson



Director (Audit and Supervisory Committee Chairperson) Yasuyuki Rokuyata

DG is advancing business development in Japan and overseas under the slogan of "Open Incubation" and, from a global perspective, we recognize that it is important to have Audit and Supervisory Committee Members familiar with various specialist fields working closely together and implementing appropriate auditing. To this end, DG aims to constantly stay one step ahead in this ever-changing world and to realize an auditing system that is able to respond to such changes with agility in order to meet the expectations of our shareholders.

## Functions and Roles of Outside Directors

The five outside directors actively express opinions from a position independent of management.



Outside Director  
Kenji Fujiwara

Throughout the last 11 years I have watched over DG with an outside perspective. DG is still "a company that initiates change." DG is a company that incorporates a sense of scale in its outlook on global changes. The balance between "earning power and appropriate distributions to shareholders" is important. From this perspective, I am determined to carry out my great responsibilities for the year.



Outside Director Emi Omura

Innovative ideas are born from an unshakeable tenacity and they thrive in an open environment. I feel that active information exchange and an approach that also respects the role of Outside Directors are strengths of the DG Group. I expect the DC Group will realize diverse value and achieve further development.



Outside Director (Audit and Supervisory Committee Member)  
Makoto Sakai

As we stand at threshold of a transformative age, I realize that DG is a corporate group that is creating new contexts making the best use of IT (Information Technology), MT (Marketing Technology), and FT (Financial Technology). From the standpoint of an Audit and Supervisory Committee Member, I want to provide our full support to where new business is born and growing.



Outside Director (Audit and Supervisory Committee Member)  
Junji Inoue

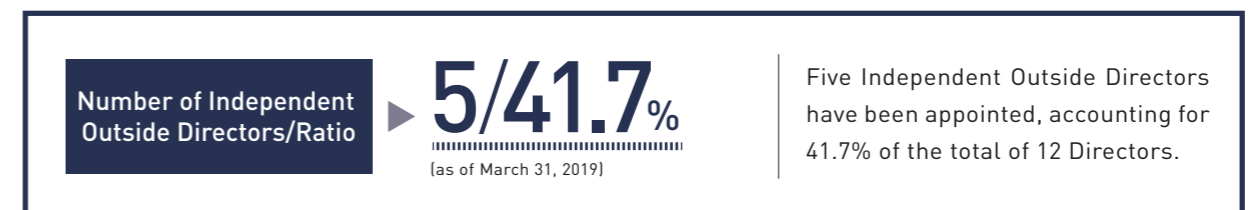
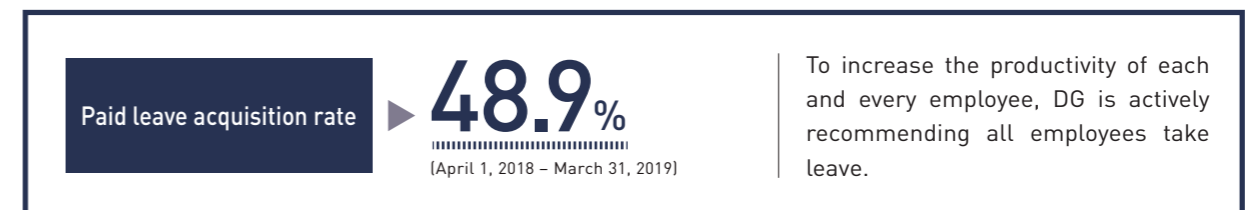
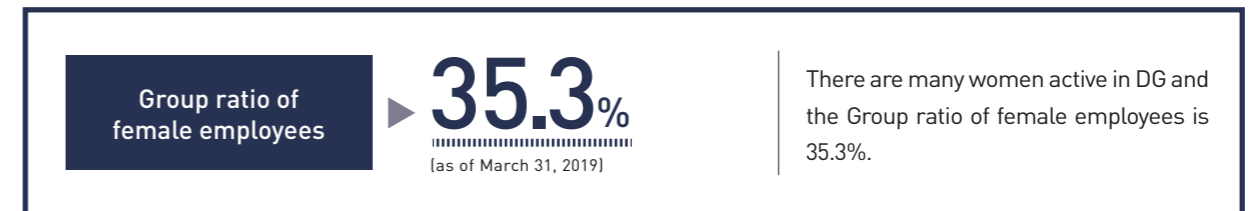
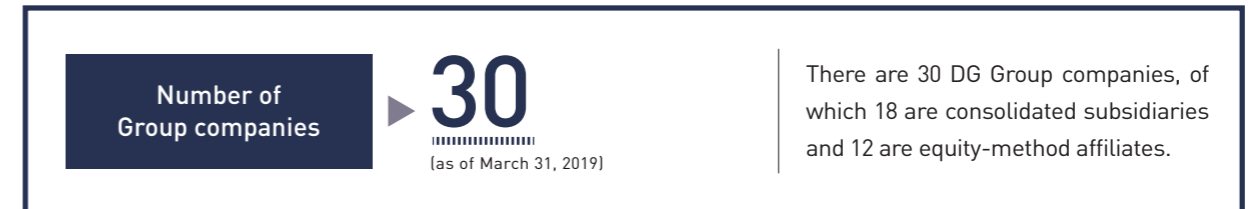
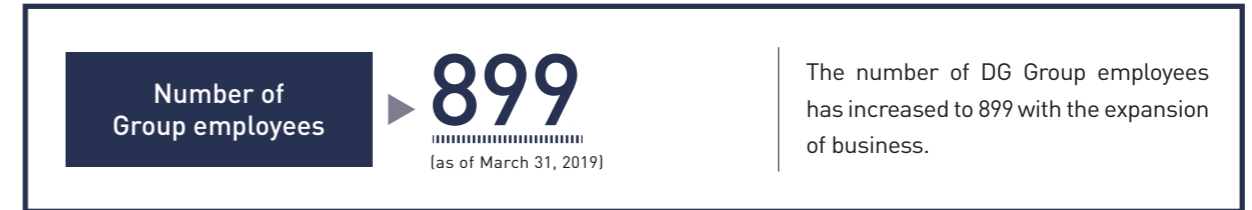
Technological innovation and diversification of society are increasingly accelerating. Standing at the crest of that wave, in order for DG to continue as a company that creates new value, I will support enhancement and strengthening of an effective corporate governance system that sustains speedy and highly accurate management decision making.



Outside Director (Audit and Supervisory Committee Member)  
Koji Makino

The only certainty in the future is that today's common knowledge, at some future date, will inevitably be reworked by someone. In that age, DG Group questions common knowledge and continues to stay ahead of the times. As governance leaders supporting growth, I think we also want to respond with agility.

## Non-financial Highlights



## Summary of Consolidated Business Performance Indicators

### Key Performance Indicators (JPY in Millions)

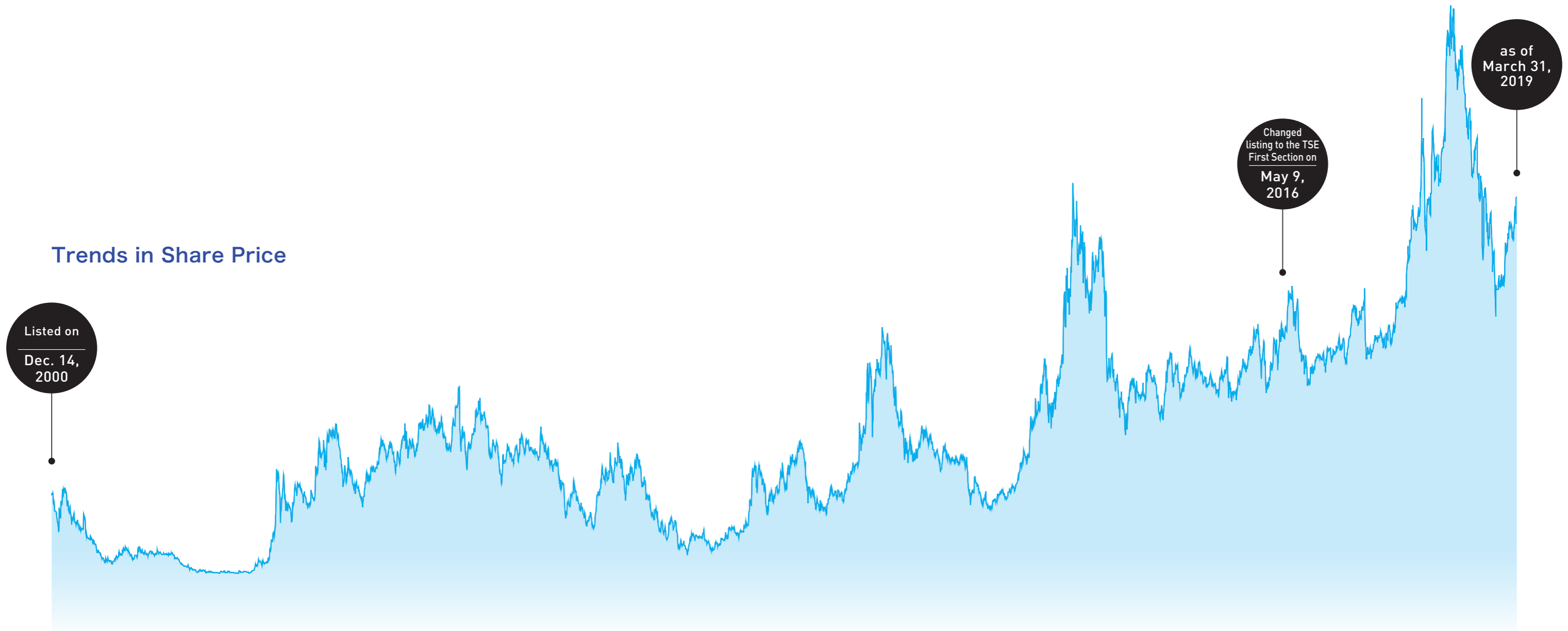
#### JGAAP

	FY 14	FY 15	FY 16	FY 17 (9 months)	FY 18
Net sales	33,751	38,087	43,763	36,452	60,168
Operating profit	2,608	4,810	4,201	723	2,310
Profit before income taxes	5,035	9,248	7,574	5,819	7,619
Profit attributable to owners of parent	2,847	5,081	5,165	4,289	5,460
<b>Total assets</b>	<b>71,009</b>	<b>86,504</b>	<b>77,335</b>	<b>91,695</b>	<b>108,791</b>
<b>Net assets</b>	<b>36,489</b>	<b>29,074</b>	<b>30,664</b>	<b>34,380</b>	<b>39,017</b>
Cash flows from operating activities	-34	5,040	-2,618	4,148	14,293
Cash flows from investing activities	-5,155	508	-1,071	-1,452	1,008
Cash flows from financial activities	11,260	1,390	-11,637	4,176	-2,307
Cash and cash equivalents at end of year	25,183	34,077	18,321	25,335	38,248

#### IFRS

	FY 18	FY 19
Revenue	25,503	35,687
Profit before tax	8,376	13,424
Profit	6,337	9,790
Profit attributable to owners of parent	6,412	9,771
<b>Total assets</b>	<b>119,545</b>	<b>146,890</b>
<b>Total equity</b>	<b>43,199</b>	<b>47,345</b>
Cash flows from operating activities	12,316	2,580
Cash flows from investing activities	2,883	-2,397
Cash flows from financing activities	174	8,509
Cash and cash equivalents at end of period	39,450	48,154

### Trends in Share Price



## Consolidated Balance Sheet and Consolidated Statement of Financial Position (JPY in Millions)

### JGAAP

	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17 (9 months)	FY 18
<b>Current assets</b>	<b>14,208</b>	<b>14,345</b>	<b>28,005</b>	<b>33,837</b>	<b>45,455</b>	<b>57,752</b>	<b>48,324</b>	<b>59,624</b>	<b>75,496</b>
Cash and deposits	4,799	4,784	12,308	15,329	24,294	30,956	15,703	23,029	32,922
Notes and accounts receivable	2,238	1,466	2,479	2,688	3,658	3,824	5,441	7,056	7,741
Money held in trust	3,155	2,501	3,404	3,768	889	3,120	2,592	2,264	5,307
Operational investment securities	323	912	1,904	2,641	8,063	8,208	11,164	11,856	12,364
Receivables	3,413	4,351	7,577	9,037	8,596	11,646	13,946	15,422	16,889
Other	277	329	329	372	-48	-2	-524	-5	270
<b>Non-current assets</b>	<b>5,497</b>	<b>6,075</b>	<b>21,333</b>	<b>22,173</b>	<b>25,554</b>	<b>28,752</b>	<b>29,011</b>	<b>32,061</b>	<b>33,295</b>
Tangible fixed assets	429	377	912	2,038	2,158	2,250	2,279	2,245	2,338
Intangible assets	2,248	2,102	13,080	11,093	8,587	7,574	7,455	7,224	9,869
Software	283	316	959	1,106	1,210	1,314	1,664	1,784	2,019
Goodwill	1,945	1,768	12,104	9,968	7,354	6,237	5,765	5,411	7,822
Other	19	17	16	18	23	22	25	27	28
Investments and other assets	2,818	3,595	7,340	9,041	14,808	18,927	19,276	22,592	21,087
Investment securities	2,504	3,305	4,299	5,521	10,644	14,220	14,844	18,357	16,552
Other	314	290	3,040	3,519	4,163	4,706	4,432	4,235	4,535
<b>Total assets</b>	<b>19,706</b>	<b>20,421</b>	<b>49,338</b>	<b>56,010</b>	<b>71,009</b>	<b>86,504</b>	<b>77,335</b>	<b>91,695</b>	<b>108,791</b>
<b>Current liabilities</b>	<b>9,941</b>	<b>9,933</b>	<b>28,505</b>	<b>21,801</b>	<b>25,461</b>	<b>50,623</b>	<b>30,187</b>	<b>38,815</b>	<b>49,540</b>
Notes and accounts payable	1,021	540	1,154	1,232	1,629	2,039	2,728	3,713	5,018
Short-term borrowing	2,809	2,519	10,740	305	3,690	23,533	3,200	6,937	4,137
Income taxes payable	4	46	740	810	1,241	2,147	720	435	1,008
Deposits	5,743	6,168	14,956	18,229	16,434	20,998	21,876	25,127	36,499
Other	362	658	914	1,224	2,464	1,904	1,660	2,601	2,876
<b>Non-current liabilities</b>	<b>935</b>	<b>592</b>	<b>355</b>	<b>6,950</b>	<b>9,058</b>	<b>6,805</b>	<b>16,484</b>	<b>18,499</b>	<b>20,233</b>
Bonds payable	-	-	-	-	-	-	-	-	-
Long-term borrowing	670	351	183	6,799	8,841	5,546	15,370	17,207	18,890
Deferred tax liabilities	5	30	-	20	43	938	596	488	551
Other	259	210	172	129	174	321	517	803	792
<b>Total liabilities</b>	<b>10,876</b>	<b>10,525</b>	<b>28,861</b>	<b>28,752</b>	<b>34,519</b>	<b>57,429</b>	<b>46,671</b>	<b>57,315</b>	<b>69,774</b>
<b>Shareholders' equity</b>	<b>8,785</b>	<b>9,759</b>	<b>20,155</b>	<b>25,279</b>	<b>27,762</b>	<b>24,650</b>	<b>28,610</b>	<b>31,633</b>	<b>36,363</b>
Common stock	1,835	1,872	6,017	7,330	7,399	7,426	7,435	7,437	7,464
Capital surplus	5,521	5,558	9,703	11,016	10,817	2,854	2,825	2,946	3,104
Retained earnings	1,497	2,398	4,505	7,003	9,615	14,439	18,419	21,300	25,819
Treasury stock	-69	-69	-69	-69	-69	-69	-69	-50	-26
<b>Accumulated other comprehensive income</b>	<b>-17</b>	<b>64</b>	<b>115</b>	<b>426</b>	<b>2,679</b>	<b>4,002</b>	<b>1,502</b>	<b>1,956</b>	<b>1,440</b>
Valuation difference on available-for-sale securities	-17	64	-76	31	2,193	2,585	138	644	339
Foreign currency translation adjustment	-	-	191	394	485	1,416	1,363	1,312	1,100
<b>Minority interests</b>	<b>61</b>	<b>71</b>	<b>174</b>	<b>1,468</b>	<b>5,906</b>	<b>126</b>	<b>119</b>	<b>132</b>	<b>369</b>
<b>Share acquisition rights</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>84</b>	<b>141</b>	<b>295</b>	<b>431</b>	<b>648</b>	<b>844</b>
<b>Total net assets</b>	<b>8,829</b>	<b>9,895</b>	<b>20,476</b>	<b>27,258</b>	<b>36,489</b>	<b>29,074</b>	<b>30,664</b>	<b>34,380</b>	<b>39,017</b>
<b>Total liabilities/net assets</b>	<b>19,706</b>	<b>20,421</b>	<b>49,338</b>	<b>56,010</b>	<b>71,009</b>	<b>86,504</b>	<b>77,335</b>	<b>91,695</b>	<b>108,791</b>

### IFRS

	FY 18	FY 19
<b>Current assets</b>	<b>78,776</b>	<b>99,186</b>
Cash and cash equivalents	39,450	48,154
Trade and other receivables	21,330	23,254
Inventories	283	232
Operational investment securities	16,745	26,695
Other financial assets	442	451
Income taxes receivable	44	6
Other current assets	482	394
<b>Non-current assets</b>	<b>40,769</b>	<b>47,704</b>
Property, plant and equipment	8,495	9,421
Goodwill	7,959	6,575
Intangible assets	2,104	2,575
Investment property	2,966	3,046
Investments accounted for using equity method	13,915	19,139
Other financial assets	5,010	6,662
Deferred tax assets	195	137
Other non-current assets	124	148
<b>Total assets</b>	<b>119,545</b>	<b>146,890</b>
<b>Current liabilities</b>	<b>48,044</b>	<b>52,420</b>
Borrowings	4,623	2,211
Trade and other payables	39,407	45,799
Other financial liabilities	760	853
Income taxes payable	1,010	1,076
Other current liabilities	2,244	2,482
<b>Non-current liabilities</b>	<b>28,302</b>	<b>47,125</b>
Bonds and borrowings	19,243	35,959
Other financial liabilities	5,244	5,430
Retirement benefit liability	544	565
Provisions	326	321
Deferred tax liabilities	2,754	4,744
Other non-current liabilities	191	106
<b>Total liabilities</b>	<b>76,346</b>	<b>99,545</b>
Share capital	7,465	7,504
Capital surplus	3,748	4,235
Retained earnings	29,955	38,593
Treasury shares	-26	-5,026
Other components of equity	1,575	1,303
<b>Total equity attributable to owners of parent</b>	<b>42,717</b>	<b>46,609</b>
<b>Non-controlling interests</b>	<b>483</b>	<b>736</b>
<b>Total equity</b>	<b>43,199</b>	<b>47,345</b>
<b>Total liabilities and equity</b>	<b>119,545</b>	<b>146,890</b>

## Consolidated Statements of Income (JPY in Millions)

### JGAAP







	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17 (9 months)	FY 18
<b>Net sales</b>	<b>8,346</b>	<b>11,067</b>	<b>14,903</b>	<b>27,964</b>	<b>33,751</b>	<b>38,087</b>	<b>43,763</b>	<b>36,451</b>	<b>60,168</b>
Cost of sales	6,630	8,282	10,644	21,533	25,534	27,301	32,273	29,838	48,524
<b>Gross profit</b>	<b>1,716</b>	<b>2,784</b>	<b>4,258</b>	<b>6,431</b>	<b>8,216</b>	<b>10,785</b>	<b>11,490</b>	<b>6,613</b>	<b>11,644</b>
<b>Selling, general and administrative expenses</b>	<b>2,676</b>	<b>2,649</b>	<b>2,637</b>	<b>5,109</b>	<b>5,608</b>	<b>5,975</b>	<b>7,288</b>	<b>5,889</b>	<b>9,333</b>
Directors' compensation	247	286	287	403	458	523	466	330	481
Salaries	911	851	825	1,319	1,428	1,509	2,599	1,998	3,178
Bonuses	11	40	77	65	85	90	171	181	276
Legal welfare expenses	113	128	128	162	199	211	381	306	496
Welfare expenses	23	21	25	48	82	101	99	74	105
Retirement benefit expenses	7	6	9	33	34	52	66	49	72
Advertising expenses	20	31	39	95	190	100	194	127	180
Travel and transportation expenses	55	52	84	157	200	188	167	125	212
Taxes and dues	30	34	58	111	91	128	143	131	217
Commission fees	132	137	124	203	277	285	317	228	478
Business consignment expenses	95	75	76	291	241	288	306	258	416
Research and development expenses	39	29	52	38	59	79	56	114	252
Rent expenses	219	269	274	404	430	433	644	447	658
Depreciation	59	66	39	99	107	122	140	120	153
Amortization of goodwill	249	177	188	940	756	754	471	353	570
Other	461	439	343	731	962	1,105	1,062	1,039	1,581
<b>Operating profit</b>	<b>-960</b>	<b>135</b>	<b>1,621</b>	<b>1,322</b>	<b>2,608</b>	<b>4,810</b>	<b>4,201</b>	<b>723</b>	<b>2,310</b>
Operating profit rate	-11.5%	1.2%	10.9%	4.7%	7.7%	12.6%	9.6%	2.0%	3.8%
Non-operating income	616	925	1,215	2,179	2,307	3,736	3,031	3,246	3,305
Interest income	24	17	8	14	7	18	18	5	9
Dividends income	11	11	42	43	30	0	0	29	0
Investment profit on equity method	547	866	1,004	1,361	1,741	2,080	2,406	2,528	2,768
Foreign exchange gains	-	-	112	499	143	1,090	-	-	-
Rent expenses on real estates	-	-	32	222	278	337	371	331	359
Other	33	30	15	38	105	209	236	352	167
Non-operating expenses	113	88	128	423	472	936	1,040	292	597
Interest expenses	84	43	49	102	88	97	85	56	79
Commission fees	6	6	1	50	0	554	-	0	66
Foreign exchange losses	-	30	-	-	-	-	689	-	160
Rent cost of real estate	-	-	13	127	189	275	248	223	259
Listed expenses	-	-	-	94	191	-	-	-	-
Investment loss on equity method	-	-	-	-	-	-	-	-	-
Other	22	0	62	48	3	8	16	10	31
<b>Ordinary profit</b>	<b>-457</b>	<b>972</b>	<b>2,708</b>	<b>3,078</b>	<b>4,442</b>	<b>7,610</b>	<b>6,193</b>	<b>3,678</b>	<b>5,017</b>
Ordinary profit rate	-5.5%	8.8%	18.2%	11.0%	13.2%	20.0%	14.2%	10.1%	8.3%
Extraordinary income	49	58	63	1,304	630	2,463	1,392	2,265	2,669
Gain on change in equity	30	46	20	18	374	2,363	157	47	33
Gain on sales of investment securities	-	0	42	153	220	-	-	1,829	1,032
Gain on sales of shares of subsidiaries and associates	15	-	-	1,131	-	-	521	386	1,471
Other	3	0	0	1	35	99	713	2	131
Extraordinary losses	1,775	71	236	168	38	824	10	124	67
Loss on retirement of non-current assets	4	9	3	22	7	27	8	16	31
Loss on liquidation of subsidiaries and associates	-	-	-	-	-	77	-	-	-
Impairment loss	1,435	22	222	88	0	657	-	104	25
Loss on valuation of investment securities	332	-	8	33	-	-	-	-	10
Other	1	0	2	23	30	62	1	3	0
<b>Profit before income taxes</b>	<b>-2,183</b>	<b>958</b>	<b>2,535</b>	<b>4,215</b>	<b>5,035</b>	<b>9,248</b>	<b>7,574</b>	<b>5,819</b>	<b>7,619</b>
Profit before income taxes rate	-26.2%	8.7%	17.0%	15.1%	14.9%	24.3%	17.3%	16.0%	12.7%
Income taxes—current	3	47	409	1,520	1,919	3,699	2,241	1,647	2,028
Income taxes—deferred	-	-	-	-9	-32	155	143	-121	104
Profit attributable to non-controlling interests	3	9	19	-11	300	312	24	4	25
<b>Profit attributable to owners of parent</b>	<b>-2,207</b>	<b>901</b>	<b>2,106</b>	<b>2,715</b>	<b>2,847</b>	<b>5,081</b>	<b>5,165</b>	<b>4,289</b>	<b>5,460</b>
Profit rate	-26.5%	8.1%	14.1%	9.7%	8.4%	13.3%	11.8%	11.8%	9.1%

### IFRS








	FY 18	FY 19
<b>Continuing operations</b>		
Revenue in recurring business	18,141	22,713
Revenue in operational investment securities	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
<b>Total</b>	<b>25,503</b>	<b>35,687</b>
Cost of sales	7,187	10,401
Selling, general and administrative expenses	9,095	11,296
Other expenses	542	332
Finance costs	303	235
<b>Total</b>	<b>17,127</b>	<b>22,264</b>
Profit before tax	8,376	13,424
Income tax expense	1,857	4,088
<b>Profit from continuing operations</b>	<b>6,518</b>	<b>9,336</b>
<b>Discontinued operations</b>		
Revenue	3,260	1,261
Expenses	3,403	1,655
Profit (loss) before tax from discontinued operations	-143	-394
Income tax expense	38	-225
Profit (loss) after tax from discontinued operations	-181	-169
Loss (gain) on sales on discontinued operations	-	898
Income tax expense from sale of discontinued operations	-	275
Profit (loss) from discontinued operations	-181	454
<b>Profit</b>	<b>6,337</b>	<b>9,790</b>
<b>Profit (loss) attributable to</b>		
Owners of parent	6,412	9,771
Non-controlling interests	-75	19
<b>Earnings (loss) per share (Yen)</b>		
Basic earnings (loss) per share		
Continuing operations	139.66	199.93
Discontinued operations	-3.68	10.35
<b>Total</b>	<b>135.99</b>	<b>210.28</b>
<b>Diluted earnings (loss) per share</b>		
Continuing operations	138.63	189.51
Discontinued operations	-3.65	9.75
<b>Total</b>	<b>134.98</b>	<b>199.26</b>

# GROUP BUSINESS ACTIVITIES








## FINANCIAL TECHNOLOGY SEGMENT

	<b>econtext Asia Limited</b> Consolidated subsidiary	econtext Asia is a holding company for payment businesses for the global use of EC platforms of all types.
	<b>econtext Inc.</b> Consolidated subsidiary	econtext Inc. pioneered cash payments using kiosk terminals at convenience stores and has promoted the provision of online payment services to EC businesses centered on convenience store payments. As a money transfer business, it also operates a money sending service.
	<b>VeriTrans Inc.</b> Consolidated subsidiary	Since its establishment in 1997, VeriTrans Inc. has provided a credit card payment system incorporating the latest security technology in the US, and been a leader in the payment aspect of e-commerce in Japan. Going forward, VeriTrans Inc. will focus on developing, and introducing cashless payment systems, in major markets where electronic payment has yet to be adopted.
	<b>ANA Digital Gate, Inc.</b> Affiliate	ANA Digital Gate is a joint venture between VeriTrans Inc. and the ANA Group's ALL NIPPON AIRWAYS TRADING CO., LTD., that is developing a corporation-oriented payment solution business that uses FinTech.
	<b>SCORE Co., Ltd</b> Affiliate	SCORE is a joint venture between VeriTrans Inc. and Nissen Co., Ltd. providing post-settlement payment services. The two companies combine their payment business knowledge, technologies, and other strengths with the aim of developing Fintech services incorporating new marketing elements, such as credit monitoring, scoring, and purchasing promotion.
	<b>TD Payment Corporation</b> Affiliate	TD Payment is a joint venture between VeriTrans Inc. and TOSHIBA TEC CORPORATION offering multiple payment solutions for POS systems to meet diversifying cashless payment needs.






## MARKETING TECHNOLOGY SEGMENT

	<b>Digital Garage Marketing Technology Company</b> Company	In addition to advertising awareness and acquisition advertising, Digital Garage Marketing Technology Company provides a wide range of marketing solutions from CRM and other solutions to improve engagement, through to data analysis, AI applications, and settlement systems. It leverages the cutting-edge technology and assets of the DG Group to develop and offer unique solutions, and provide support to clients, the market, and the world as a business strategy partner with continuous assistance and business creation akin to social infrastructure.
	<b>DG Communications Co., Ltd.</b> Consolidated subsidiary	Utilizing the real-estate-advertisement-related knowhow cultivated and accumulated over many years including knowledge, experience, and data, as well as the DG Group's advanced technology and sophisticated strategy management, DG Communications' business does not stop at property sales in the real estate field, but uses real estate as a gateway to provide solutions to help people live more comfortable lives.
	<b>BI.Garage, Inc.</b> Consolidated subsidiary	Based on the philosophy that data creates new marketing context — combines, processes, and analyzes payment data accumulated by the Digital Garage Group, purchase behavior data owned by Kakaku.com, Inc., and advertising-related data of the Dentsu Group — a major DG shareholder — to optimize customer communications for company marketing activities.
	<b>NaviPlus Co., Ltd.</b> Consolidated subsidiary	Based on its proprietary technology, provides marketing solutions, such as search engines and recommendation engines that optimize the content and navigation of EC sites using collected and analyzed data.
	<b>CyberBuzz, Inc.</b> (TSE Mothers 7069) Affiliate	CyberBuzz is developing a social media marketing business centered on influencers under the vision of "changing communication into value and changing the world." CyberBuzz is providing services such as promotion support using the influencer network, social media account management service, and "to buy," the influencer commerce media.
	<b>DG Marketing Design, Inc.</b> Affiliate	Provides integrated marketing solutions from planning, to creative, to data analysis that surpass the barriers of real and digital in promotions, conversions, and relations in the marketing field.
	<b>I&amp;CO</b> Capital alliance	I&CO was established by internationally renowned digital creator Rei Inamoto. I&CO creates hybrid businesses for global incubation by combining its world-class creative ability with the data science business, etc. that Digital Garage operates.

## INCUBATION TECHNOLOGY SEGMENT

	<b>DG Incubation, Inc.</b> Consolidated subsidiary	As the investment arm of the Digital Garage Group, DG Incubation supports Internet entrepreneurs throughout the world. Targeting startup companies that can be expected to give rise to synergies with the DG Group's various businesses, DG Incubation, going beyond simple investment, focuses on being an incubator that engages in collaborative business creation.
	<b>Open Network Lab, Inc.</b> Consolidated subsidiary	Open Network Lab was established in April 2010 for the purpose of cultivating startups that build world-class products. Through its Seed Accelerator Program, Open Network Lab has already nurtured and supported several dozen startups.
	<b>Digital Garage US, Inc.</b> Consolidated subsidiary	Digital Garage US is the DG Group's US-based global strategy headquarters. It operates the DG717 incubation center established in the heart of San Francisco in 2013, supporting entrepreneurs and engineers from around the world.
	<b>DK Gate, Inc.</b> Consolidated subsidiary	A joint venture of Digital Garage and Kodansha Ltd., the purpose of DK Gate is to make strategic investments in content businesses. DK Gate focuses on identifying and nurturing companies pursuing next-generation content businesses throughout the world.
	<b>DG Technologies, Inc.</b> Consolidated subsidiary	As a strategic company that supports the technological aspects of DG Lab, DG Technologies engages in research and development with an eye toward business application and promotes the development of cutting-edge technology by combining the technological capabilities, etc. of Digital Garage and TIS Inc.
	<b>D2Garage, Inc.</b> Consolidated subsidiary	The "Open Network Lab HOKKAIDO" business is creating a start-up support program that aims to build a start-up ecosystem in Hokkaido and investing in developing start-ups that leverage Hokkaido's resources and issues such as primary industry, tourism, and rich natural world.
	<b>DG Daiwa Ventures, Inc.</b> Affiliate	DG Daiwa Ventures operates DG Lab First Investment Limited Partnership (DG Lab Fund), which was established with the merger between Digital Garage, Inc. and Daiwa Securities Group Inc. The purpose of this fund is to promote investment in promising Japanese and overseas startups with advanced technologies in the research areas DG Lab has designated as high priorities.

## LONG-TERM INCUBATION SEGMENT

	<b>Kakaku.com, Inc.</b> (TSE First Section 2371) Affiliate	Kakaku.com operates a price comparison site (kakaku.com) and a restaurant review and advertising site (tabelog.com).
	<b>Crypto Garage, Inc.</b> Consolidated subsidiary	Crypto Garage is a joint-venture between Digital Garage, Tokyo Tanshi Co., Ltd. and Blockstream, Inc. that is accelerating R&D and commercialization of advanced financial services leveraging blockchain in the Fintech field.
	<b>Dentsu ScienceJam Inc.</b> Affiliate	Dentsu ScienceJam commercializes scientific research results.
	<b>New Context Services, Inc.</b> Consolidated subsidiary	New Context Services provides security systems for all manner of services, including infrastructure, for daily life.
	<b>Academie du Vin Co. Ltd.</b> Consolidated subsidiary	Academie du Vin manages the wine school business started in Paris by globally renowned wine critic Mr. Steven Spurrier and is expanding a wine wholesale business.

[as of August 29, 2019]

# COMPANY INFORMATION

(as of March 31, 2019)

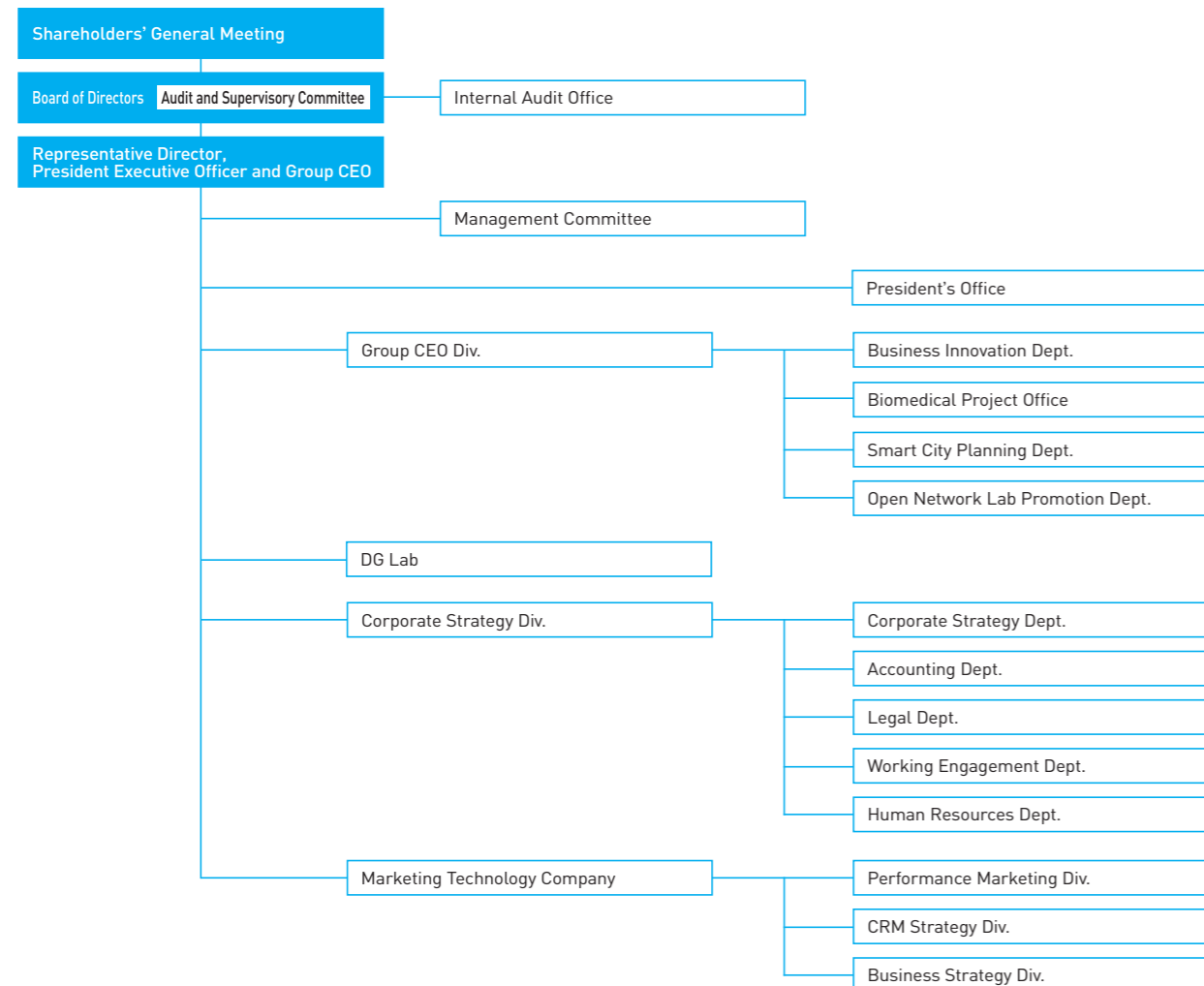
## Basic Information

Company Name	Digital Garage, Inc.
Head Office	DG Bldg., 3-5-7 Ebisu Minami, Shibuya-ku, Tokyo 150-0022, Japan
Established	August 17th, 1995
Phone	03-6367-1111 (Main)
Fax	03-6367-1119
Stock listings	Tokyo Stock Exchange 1st section (4819)
Fiscal year end	March 31
Stock Capitalization	7,504 million yen
Total number of shares issued	47,341,600
Number of employees	899 [consolidated] / 448 [non-consolidated]

# DIGITAL GARAGE GROUP CHART

(as of April 1, 2019)

## Organization Chart



# STOCK INFORMATION

## Stock Information

(as of March 31, 2019)

Authorized shares	120,000,000
Total number of shares issued	47,341,600
Voting rights	459,436
Shareholders	7,406

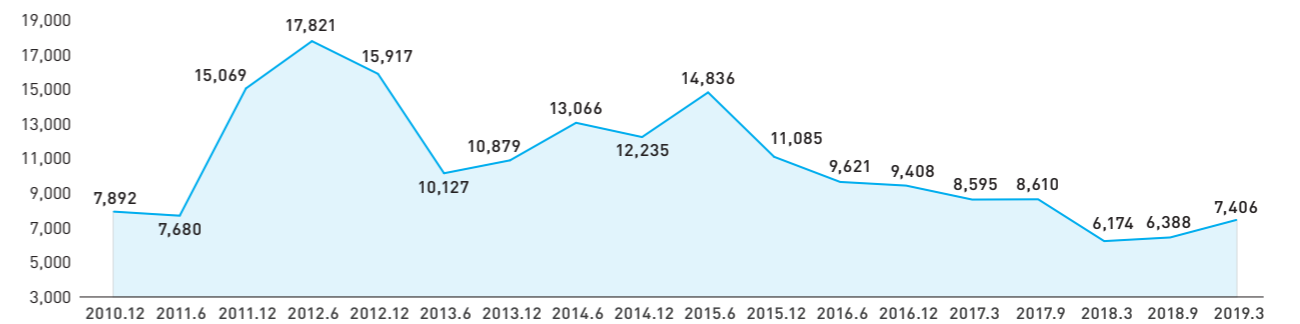
## Major Shareholders

(as of March 31, 2019)

	Shares Owned	Ownership Percentage
Kaoru Hayashi	6,815,400	14.83
Dentsu Inc.	3,300,000	7.18
The Master Trust Bank of Japan, Ltd. (Trust accounts)	3,163,700	6.89
TIS Inc.	2,364,500	5.15
J.P. Morgan Bank Luxembourg S.A. 385576	1,548,016	3.37
The Bank of New York Mellon 140051	1,242,800	2.70
Japan Trustee Services Bank, Ltd. (Trust accounts)	1,216,300	2.65
Japan Trustee Services Bank, Ltd. (Trust accounts 9)	1,039,100	2.26
State Street Bank and Trust Company 505025	890,700	1.94
Japan Trustee Services Bank, Ltd. (Trust accounts 5)	749,200	1.63

\* Share ownership percentages were calculated based on issued shares net of treasury shares (1,391,452 shares).

## Number of Shareholders



## Share Ownership Distribution

(as of March 31, 2019)

