



Open Incubation toward 2020

Digital Garage, Inc.

1Q of FYE March 31, 2019 Financial Report

2018.8.10

 **Digital Garage**

1Q FY19.3 Profit before income taxes marked 3.0B JPY YoY grew by 66%

~ Well above target, 34% ahead of full-year pre-tax profit forecast ~

I

Consolidated result: YoY sales grew by 17%, operating profit grew by 84%, profit before income tax grew by 66%

- Sales marked 15.3B JPY YoY grew by 17%. Sales increased in all segments, especially IT grew 3.5 times YoY
- **Operating profit was 0.8B JPY YoY grew by 84%**, due to the contribution from the sale of shares in IT and the increase in gross profit in FT. **Profit before income taxes achieved 3.0B JPY YoY grew by 66%**, extraordinary gains of 1.5B JPY were recorded from the partial sale of shares held etc.

II

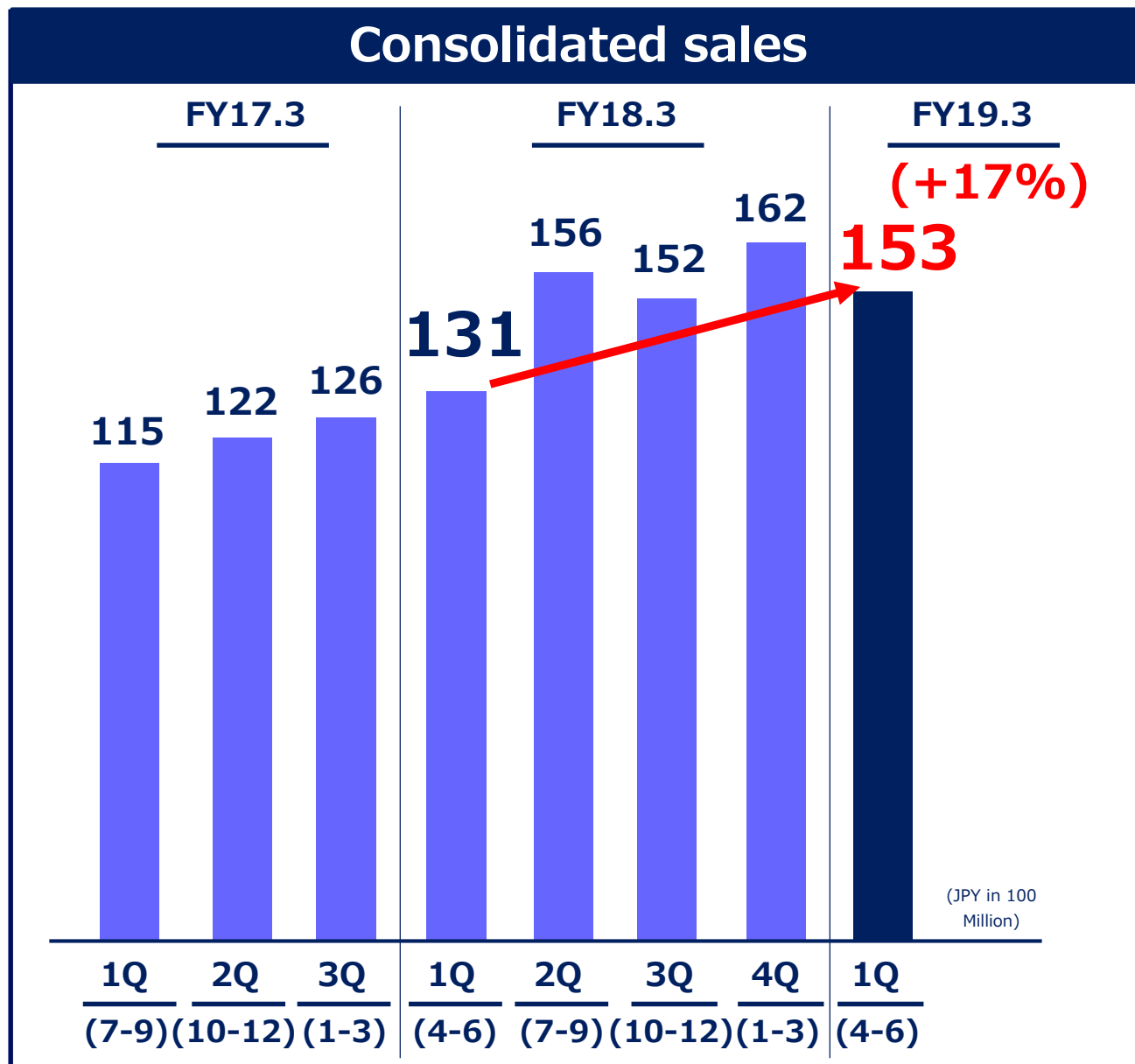
FT/MT : Profit grew in internet payment, sales grew and profit decreased in internet ads

- FT: Sales marked **5.3B JPY YoY grew by 9%**, profit before income taxes achieved **0.7B JPY YoY grew by 22%**. **Transaction volume rose sharply to 480B JPY** due to the expansion of face-to-face settlement of Alipay, etc. in response to inbound demand and the handling of public money, **recording a record high for the quarter.**
- MT: Sales marked **8.2B JPY YoY grew by 5%**, profit before income taxes decreased due to strategic personnel reinforcement and investment in development with a view to medium-to long-term growth. In performance-based ads, **sales for financial market remains strong and grew by 28% YoY.**

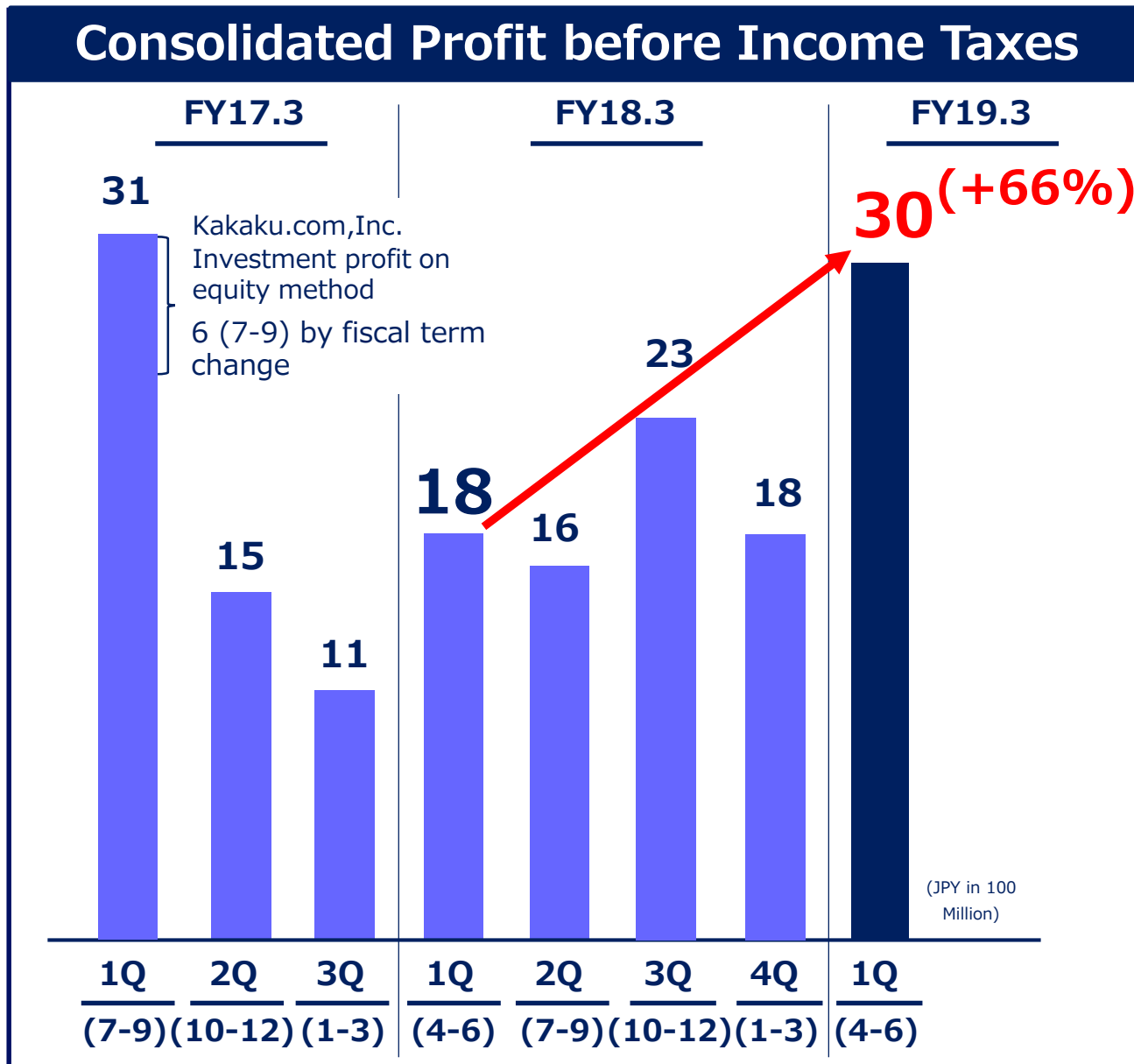
III

IT/LTI : Exit of Asian investment-related stocks progressed, accelerated commercialization in DG Lab

- IT: Profit before income taxes marked **0.6B JPY grew largely from 1QFY18.3.** Launched an accelerator program specialized in biotechnology and healthcare "Open Network Lab BioHealth". Investment profit on equity method of Kakaku.com trended steadily in LTI.
- After demonstration tests at **DG Lab**, **established a JV for blockchain financial service "Crypto Garage, Inc." with the Tokyo Tanshi Co., Ltd.**
- **KDDI CORPORATION participate in the DG Lab as core partner and entered into a basic agreement on a strategic alliance.** Aiming to create new businesses in anticipation of the 5G era.



- 1Q sales marked 15.3 B JPY, up 17% compared to 1Q FY18.3
- All segments increased in sales, especially IT drove the consolidated sales growth



- 1Q profit before income taxes marked 3.0 B JPY, up 66% compared to 1Q FY18.3
- FT, IT and LTI contributed to significant increase in profit before income taxes

Group Financial Performance Review





FY19.3 1Q Consolidated P/L Summary



context company

Sales grew by 17% YoY, profit before income taxes marked 3.0B JPY YoY grew by 66%
 ~ Operating profit grew by 84% YoY to 0.8B JPY. Booked 1.5B JPY in extraordinary income by the sale of some shares etc ~

JPY in Millions	FY18.3	FY19.3	YoY		FY19.3 Full Year Forecast IFRS
	1Q	1Q	%	Amount	
	J-GAAP	J-GAAP			
Net sales	13,103	15,335	+17.0	+2,232	Revenue 33,500
Operating profit	464	852	+83.5	+387	
Non-operating income	748	836	+11.7	+87	
Share of profit of entities accounted for using equity method	615	587	-4.6	-28	
Non-operating expenses	101	115	+14.1	+14	
Ordinary profit	1,111	1,572	+41.5	+461	
Extraordinary income	719	1,503	2.1 X	+784	
Profit before income taxes	1,830	3,039	+66.1	+1,209	Profit before tax 9,000
Income taxes	568	1,173	2.1 X	+604	
Profit attributable to owners of parent	1,267	1,887	+49.0	+620	Profit attributable to owners of parent 6,200

FY19.3 1Q Consolidated Segment P/L Summary



All segments increased in sales. IT drove the consolidated growth and achieved substantial increase in sales and profits. Profit before income taxes grew by 22% in FT.

~ MT increased in sales, however profit decreased by increasing human resources for strategic development ~

JPY in Millions	FY18.3	FY19.3	YoY		FY19.3 Full Year Forecast IFRS
	1Q J-GAAP	1Q J-GAAP	%	Amount	
Net sales	13,103	15,335	+17.0	+2,232	Revenue 33,500
MT Marketing Technology	7,800	8,202	+5.2	+401	14,500
FT Financial Technology	4,951	5,393	+8.9	+442	6,500
IT Incubation Technology	337	1,171	3.5 X	+833	3,100
LTI Long Term Incubation	14	569	40.6 X	+554	6,500
Profit before income taxes	1,830	3,039	+66.1	+1,209	Profit before tax 9,000
MT Marketing Technology	466	255	-45.2	-210	2,250
FT Financial Technology	578	704	+21.8	+126	3,200
IT Incubation Technology	-108	656	-	+764	1,350
LTI Long Term Incubation	554	917	+65.6	+363	3,450

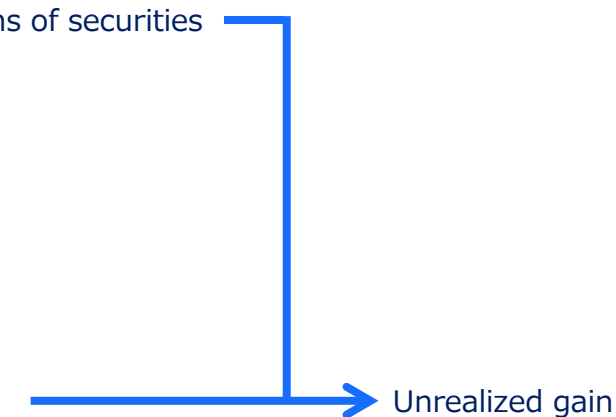


FY19.3 1Q Consolidated B/S Summary



context company

JPY in Million	FY18.3	FY19.3 1Q	Difference	Reason for change / Remarks
Current assets	75,176	75,205	+29	
Cash and deposits	32,922	29,113	-3,808	Decreased deposits received in FT business, Payment of corporation tax and dividends
Money held in trust	5,307	4,054	-1,253	Relating to FT business
Notes and accounts receivable	7,741	9,295	+1,553	Consolidation of DG Communications, Co., Ltd.
Operational investment securities	12,364	13,622	+1,257	New investment, Mark-to-market, etc
Accounts receivable-other	16,889	19,150	+2,261	Relating to FT business, Sales of shares
Fixed assets	33,419	36,069	+2,649	
Investment securities	16,552	18,812	+2,260	Underwriting of capital increase of iRidge, Inc., Increased investment profit on equity method
Goodwill	7,822	7,656	-165	
Total assets	108,596	111,275	+2,679	
Current liabilities	49,294	49,683	+389	
Notes and accounts payable	5,018	6,286	+1,268	Consolidation of DG Communications, Co., Ltd.
Short-term loans payable	4,137	9,730	+5,593	Demand for operating capital (FT)
Deposits received	36,499	29,663	-6,835	Relating to FT business (due to business operation days factor)
Fixed liabilities	20,284	21,014	+730	
Long-term loans payable	18,890	18,891	+1	
Deferred tax liabilities	601	812	+210	Expecting tax relating to unrealized gains of securities
Total liabilities	69,578	70,698	+1,119	
Net assets	39,017	40,577	+1,560	
Shareholders' equity	36,363	37,133	+770	
Capital stock	7,464	7,478	+13	
Capital surplus	3,104	3,106	+1	
Retained earnings	25,819	26,574	+755	Increased net profit
Accumulated other comprehensive income	1,440	2,194	+754	
Valuation difference on available-for-sale securities	339	971	+631	After-tax unrealized gains of securities
Total liabilities and net assets	108,596	111,275	+2,679	



Effective from the beginning of FY19.3, the Company applied the "Partial Revision of the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and other accounting standards. Deferred tax assets are presented as investments and other assets, while deferred tax liabilities are presented as non-current liabilities. Figures for FY18.3 are retrospectively reported.

Segment Performance Review



I Marketing Technology Segment

		Net Sales	Income Before Income Taxes
FY18.3	1Q	7,800 M JPY	466 M JPY
FY19.3	1Q	8,202 M JPY	255 M JPY
FY19.3	Plan (IFRS)	14,500 M JPY	2,250 M JPY

▶ Marketing Technology Company

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



▶ Business Design Company

Offers consulting-based marketing



▶ BI.Garage, Inc.

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



▶ NaviPlus Co., Ltd.

Offers website support tools including personalized recommendation engines



▶ DG Communications, Co., Ltd.

An advertisement agency in real estate market



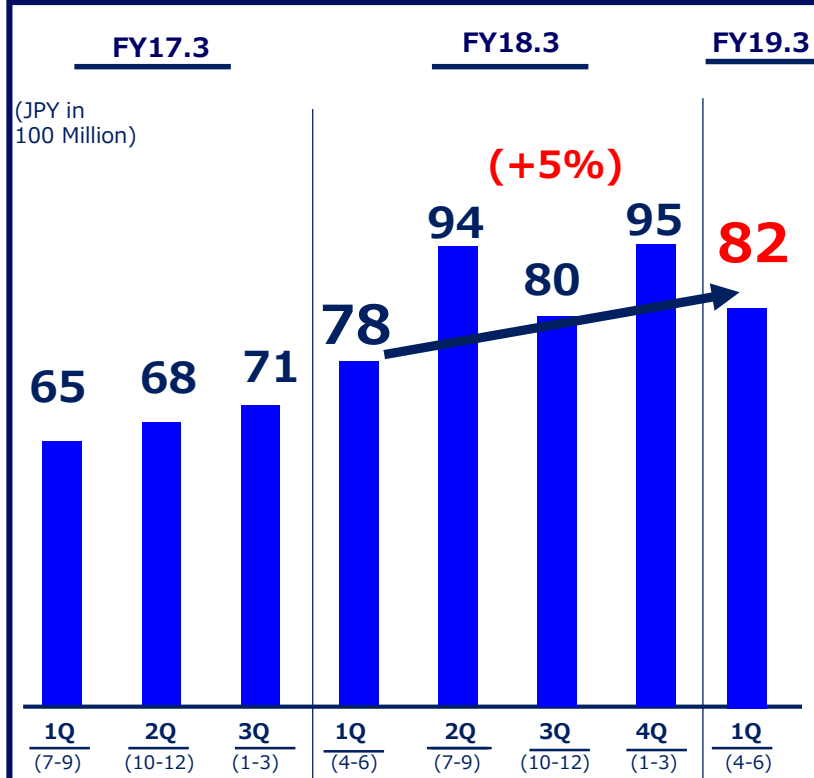
▶ DG MARKETING DESIGN, Inc. (20% stake/equity method)

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



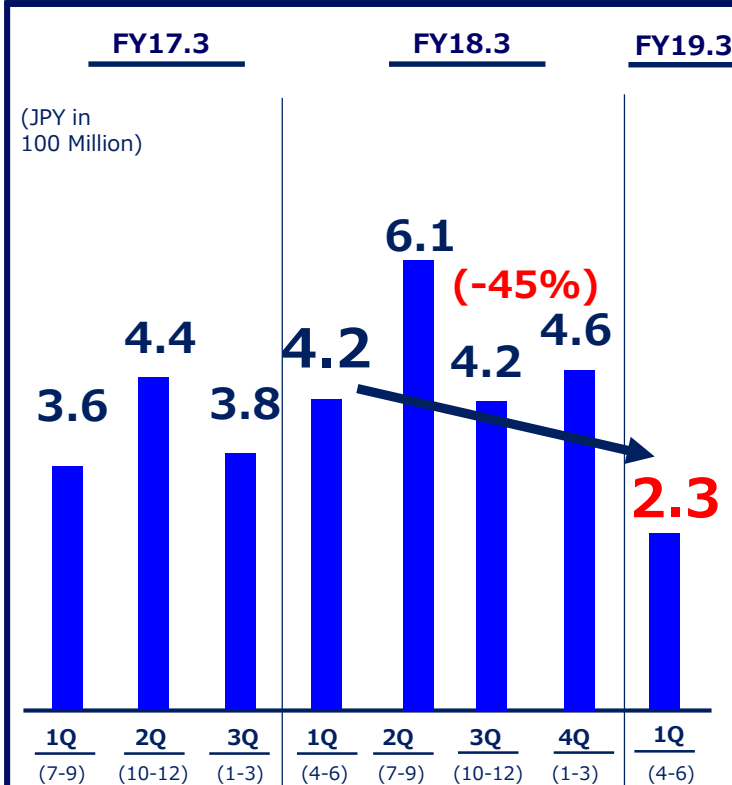
Net sales marked 8.2B JPY, +5% YoY, operating profit marked 0.2B JPY, -45% YoY
 ~ Sales of financial business increased by 28%, cosmetics/HR sales remain robust ~

Net Sales



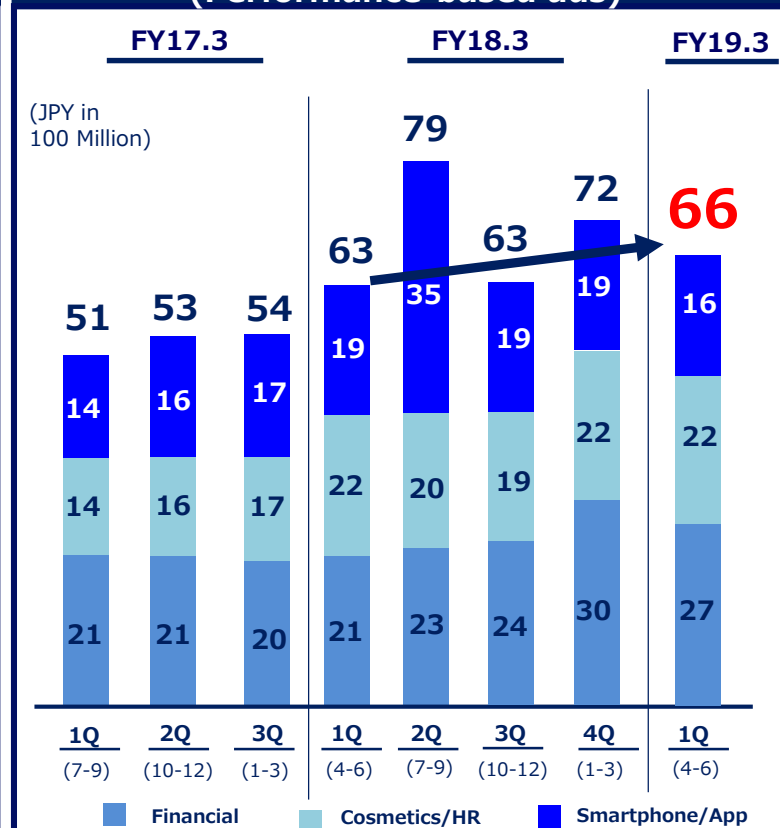
■ Strengthen marketing consulting and strategically respond to customer needs

Operating Profit



■ Increase in personnel expenses due to strategic investment in human resources
 Building ad tech platform
 Product development etc

Net Sales by Industries (Performance-based ads)



■ Good sales for financial business, and cosmetics/HR sales remain robust

II Financial Technology Segment

		Net Sales	Income Before Income Taxes
FY18.3	1Q	4,951 M JPY	578 M JPY
FY19.3	1Q	5,393 M JPY	704 M JPY
FY19.3	Plan (IFRS)	6,500 M JPY	3,200 M JPY

▶ **econtext ASIA Ltd.**

Payment corporation to expand e-commerce platforms globally



▶ **econtext, Inc.**

Integrates online and offline business as the convenience store payment pioneer



▶ **VeriTrans Inc.**

Provides leading e-commerce payment solutions



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

Develops and offers the new payment solution by FinTech



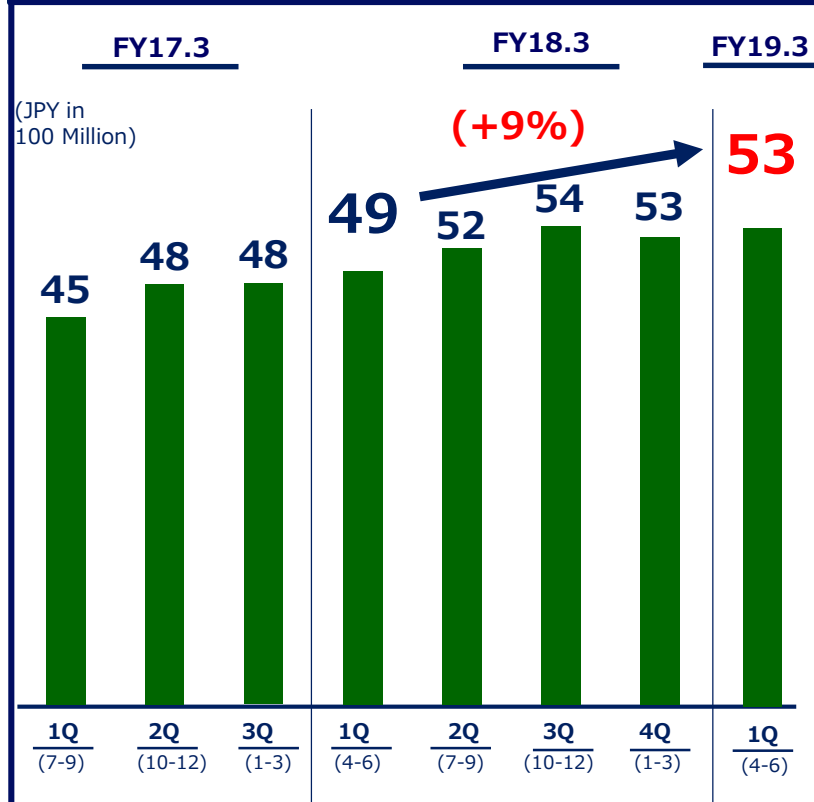
▶ **Sendo Technology JSC** (12.75% stake/Investment)

On-line marketplace for C2C and B2C in Vietnam



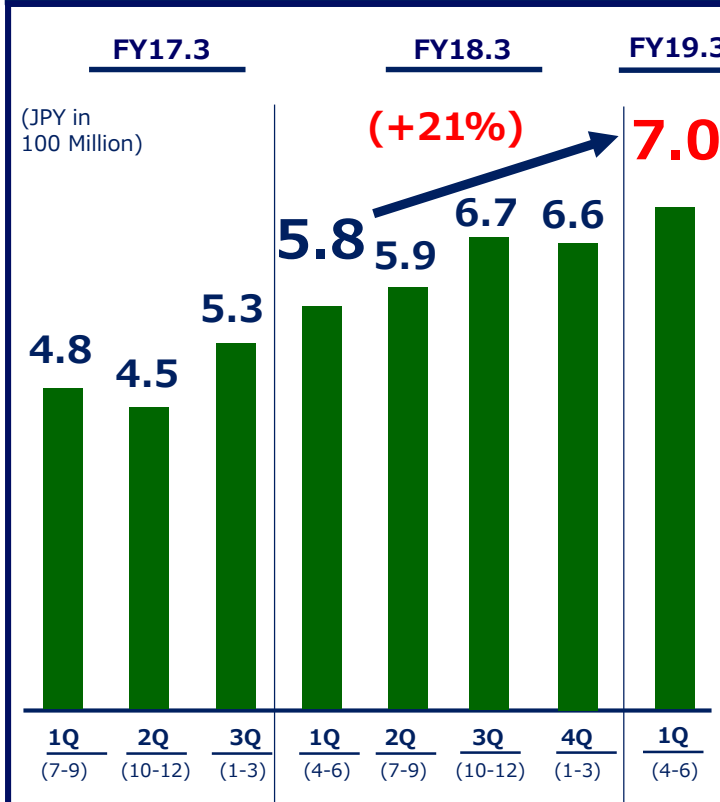
Net sales marked 5.3B JPY, +9% YoY, operating profit marked 0.7B JPY, +21% YoY
 ~ Operating margin which shows profitability increased to 44.7% ~

Net Sales



■ In addition to the payment collection service, data processing payment with high profitability has increased

Operating Profit



■ Achieved record high by cost reduction by off-shoring system operation

Operating Margin

	FY18.3 1Q	FY19.3 1Q	YoY
Net sales	49.5	53.9	+ 9%
Gross profit (A)	13.6	15.7	+ 16%
Op. profit (B)	5.8	7.0	+ 21%
Operating margin (B) / (A)	42.6%	44.7%	+2.1 points

■ Operating margin improved as increased marginal profit

III Incubation Technology Segment

	Net Sales	Income Before Income Taxes
FY18.3 1Q	337 M JPY	-108 M JPY
FY19.3 1Q	1,171 M JPY	656 M JPY
FY19.3 Plan (IFRS)	3,100 M JPY	1,350 M JPY

▶ **DG Incubation, Inc.**

Invests in and incubates cutting-edge Internet startups



▶ **Open Network Lab, Inc.**

Provides support to Internet-business entrepreneurs with global visions



▶ **Digital Garage US, Inc.**

The US-based global strategy headquarters



▶ **DK Gate, Inc.** (66% stake)

Invests in and incubates next generation content with Kodansha globally



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

Drives strategic technology development with DG Lab



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

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



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

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

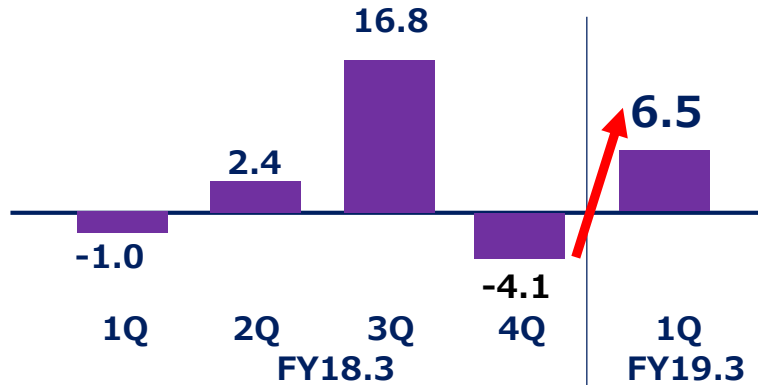
Some businesses in IT segment have transferred to LTI, therefore figures on FY17.3 updated with the current category.

Profit before income taxes grew substantially from FY18.3 4Q by accelerating the sale of Asian investment-related stocks

~ Expand investment in leading start-ups in Japan and overseas ~

Profit Before Income Taxes

(JPY in 100 Million)



Book Value

	# of companies	Book Value
Equity	153	12.5 B JPY
Domestic	53	2.4 B JPY
Overseas	100	10.1 B JPY
Fund	11	1.1 B JPY
Total	164	13.6 B JPY

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

Major Portfolio

Blockstream [U.S. /Canada]



Develops sidechain technologies, parallel blockchains that are interoperable



WHILL [Japan]

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

droom [India]

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

Goodpatch [Japan]

Provides one-stop services and product planning, concept making, UX design, prototyping, and implementation

PureTech Health [U.S.]

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

Monstar Lab [Japan]

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

Repro [Japan]

Operates mobile app analytics and marketing SDK "Repro."

Panair [Japan]

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

IV Long-term Incubation Segment

	Net Sales	Income Before Income Taxes
FY18.3 1Q	14 M JPY	554 M JPY
FY19.3 1Q	569 M JPY	917 M JPY
FY19.3 Plan (IFRS)	6,500 M JPY	3,450 M JPY

▶ **Kakaku.com, Inc.** (20% stake/Equity method affiliate)

Operates purchase support service, Kakaku.com and restaurant review and restaurant service, tabelog, etc.

kakaku.com

▶ **DG Life Design, Inc.** (70% stake)

With its mission of providing “Valuable Life,” expanding life care business, sports marketing business and wine school business.

 **DG Life Design**

▶ **DK Media, Inc.** (50% stake/Equity method affiliate)

Internet media business utilizing fashion magazines by Kodansha

DK  **MEDIA**

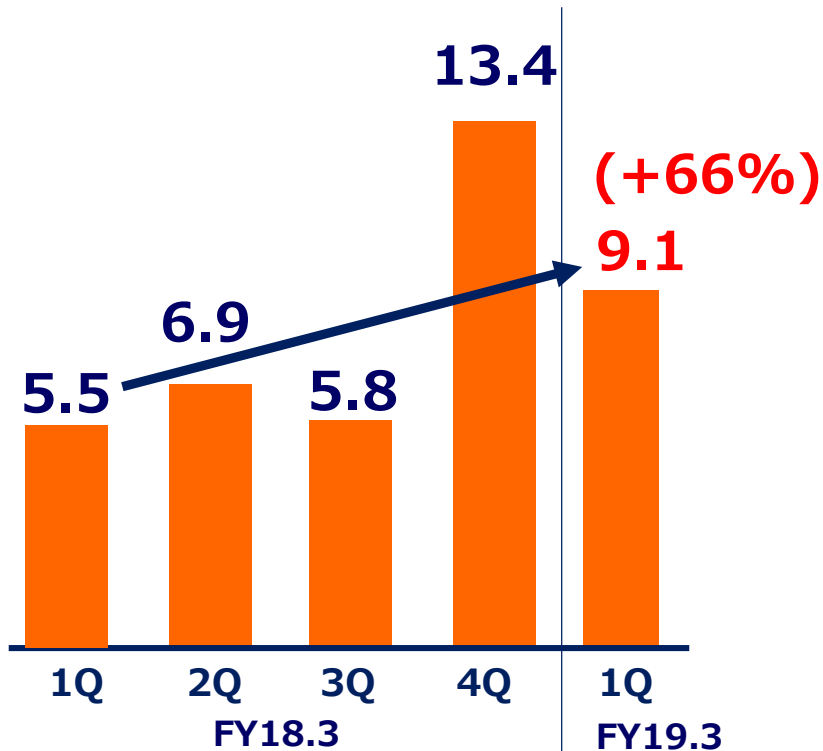
MI segment has been changed to LTI segment from FY18.3, by aiming to generate sustainable business profit in mid-long term.

Profit before income taxes marked 0.91B JPY. Investment profit on equity method of Kakaku remains robust

~ Good progress in profit before income taxes compared to 1Q FY18.3 ~

Profit Before Income Taxes

(JPY in 100 Million)

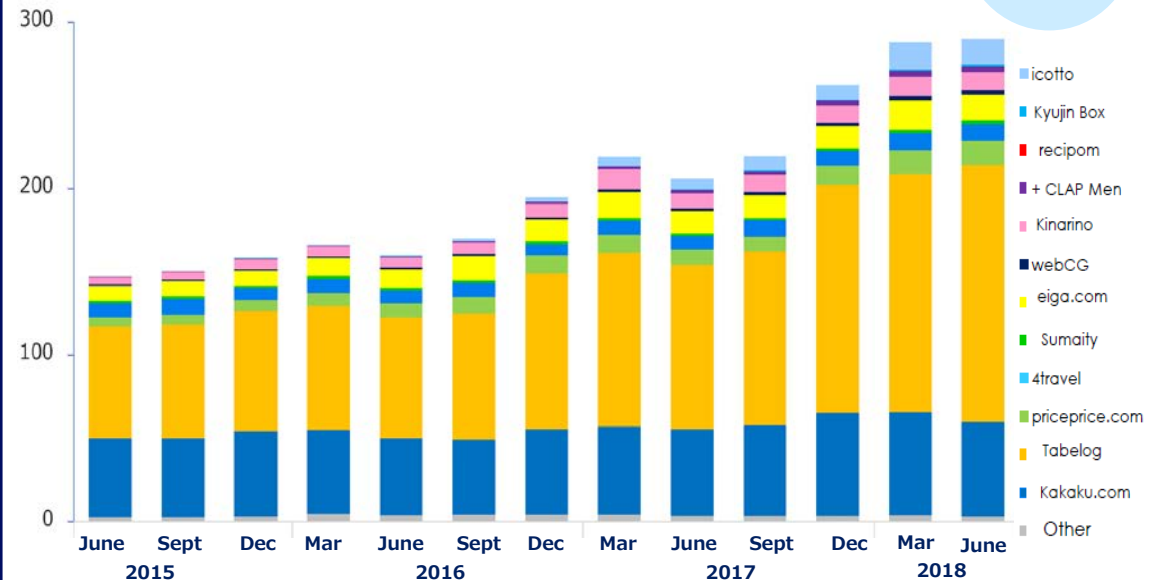


Business Progress of Kakaku.com, Inc.

【Total Accumulated Traffic for Kakaku.com Group】

Monthly traffic for all sites of Kakaku.com has increased to 289.72 million, up 40.6% yoy (June 2018)

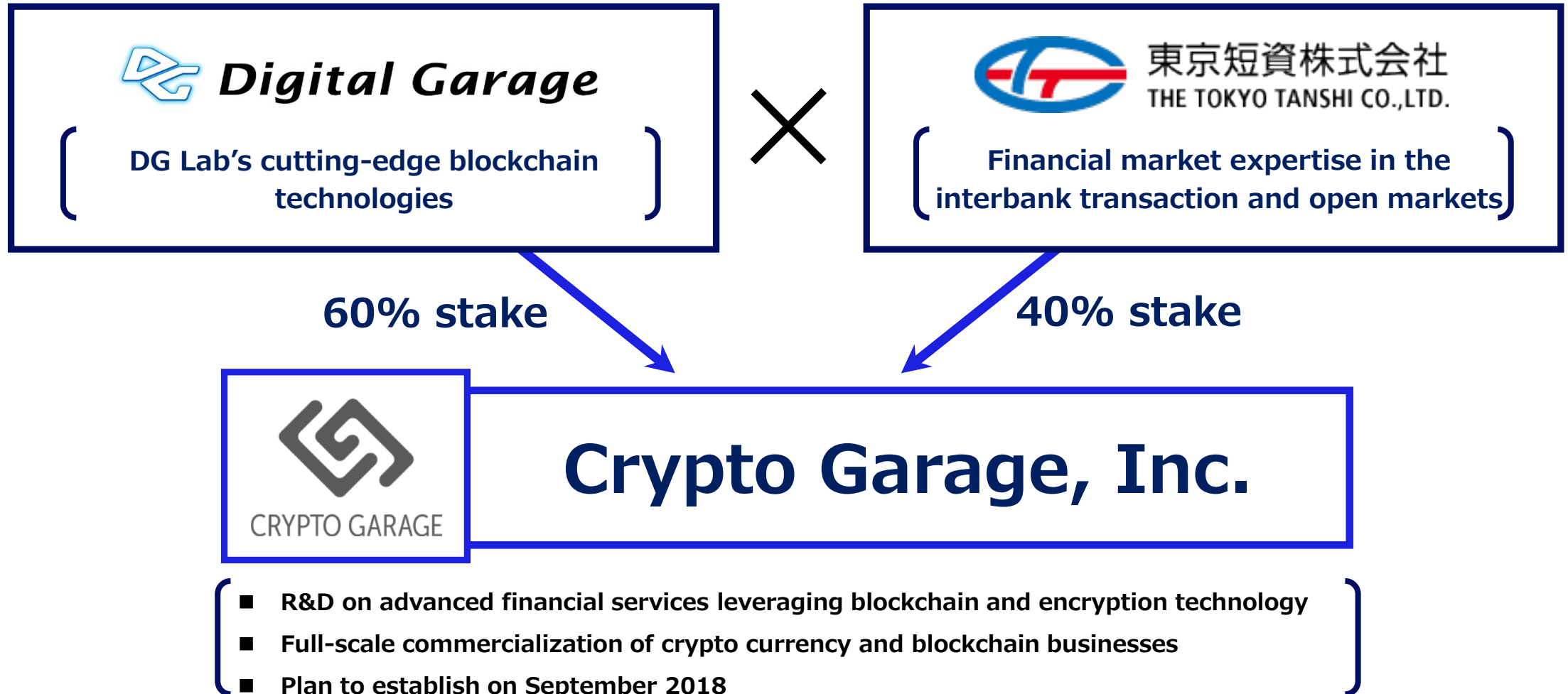
(in million people)



Ref. Kakaku.com, Inc. Results Briefing for 1Q FY2019/3

Establish JV “Crypto Garage” with the Tokyo Tanshi

~ R&D and commercialization of financial services using blockchain ~





Open Network Lab
BioHealth

Launches "Open Network Lab BioHealth"

~Forming a consortium with 21 major companies in the biohealth start-up development business~

Partners



and 8 others, 21 companies in total as of August 10, 2018



Open Network Lab
BioHealth

Powered by



OPEN INNOVATION
PLATFORM

TOKYO

SAN FRANCISCO



Excellent Japanese and international companies that lead the biotechnology and healthcare fields will participate as partners

- Providing mentoring to start-ups and lectures on businesses expertise

Develop start-ups in biotechnology and healthcare fields

- Building an ecosystem to support new businesses launch

Future initiatives :

- Utilizing the know-how cultivated in the Open Network Lab
- Collaboration with DG's global network linking Japan, North America, Asia, and Europe
- Support Japanese start-ups for overseas expansion
- Support overseas start-ups to initiate business in the Japanese market

Building personal health and medical care information platform

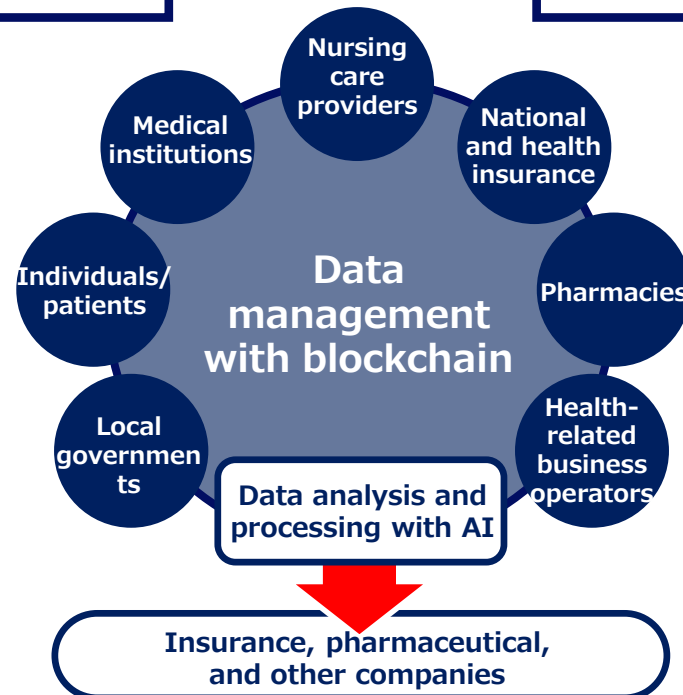
~ Jointly develop PHR (Personal Health Record) service utilizing blockchain and AI ~

Capital and business alliance
(external largest shareholder)

 **Digital Garage**



 **welby**

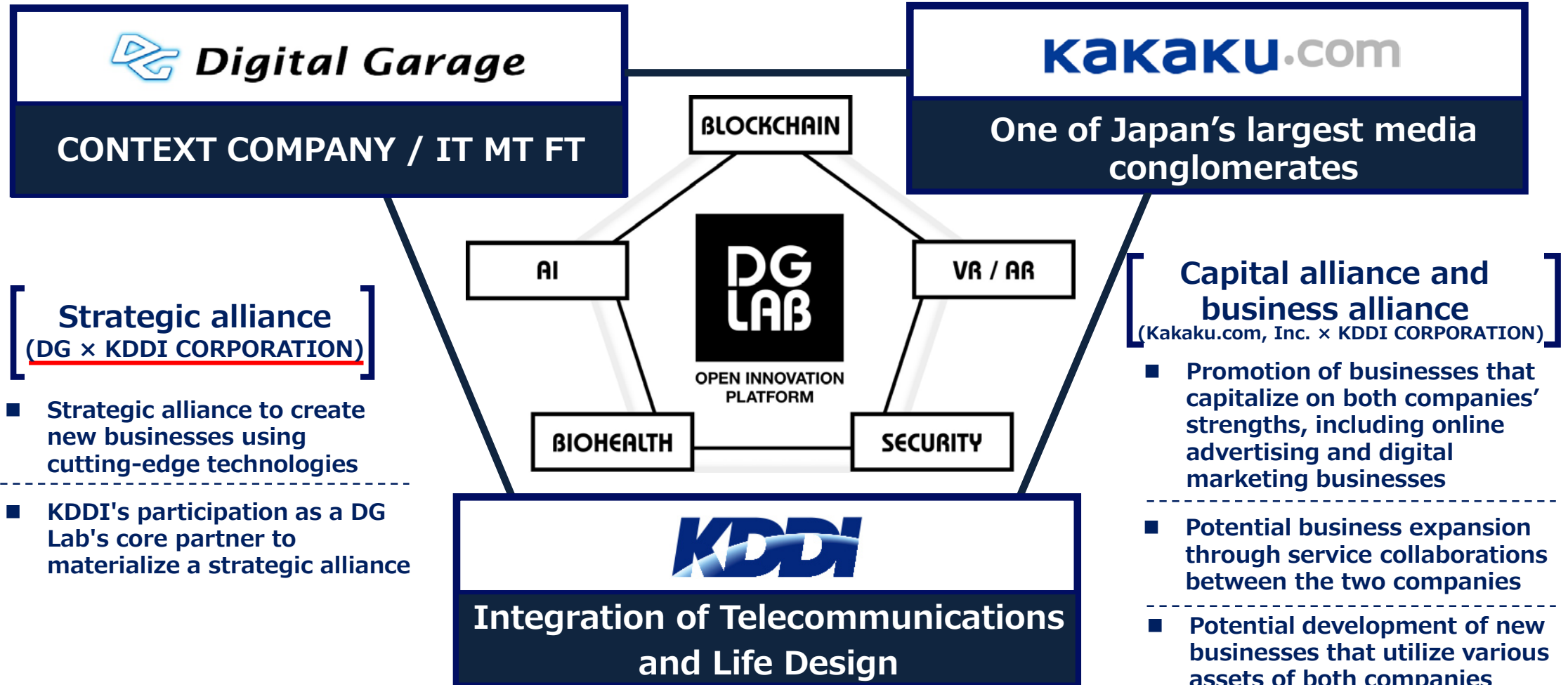


Welby, Inc.	
Location	Tokyo
Representative	CEO Takeru Hiki
Business	Planning, development and operation of digital services to support medical treatments for patients (PHR)

A leading company launched its personal health record (PHR) services that collect and manage the digital individual health/medical information

Strategic Alliance with KDDI

~ Leverage the assets of both groups to create new businesses in a wide range of fields in anticipation of the 5G era ~



Appendix





Financial Results: Consolidated profit and loss



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

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

Financial Results: Consolidated profit and loss by segments

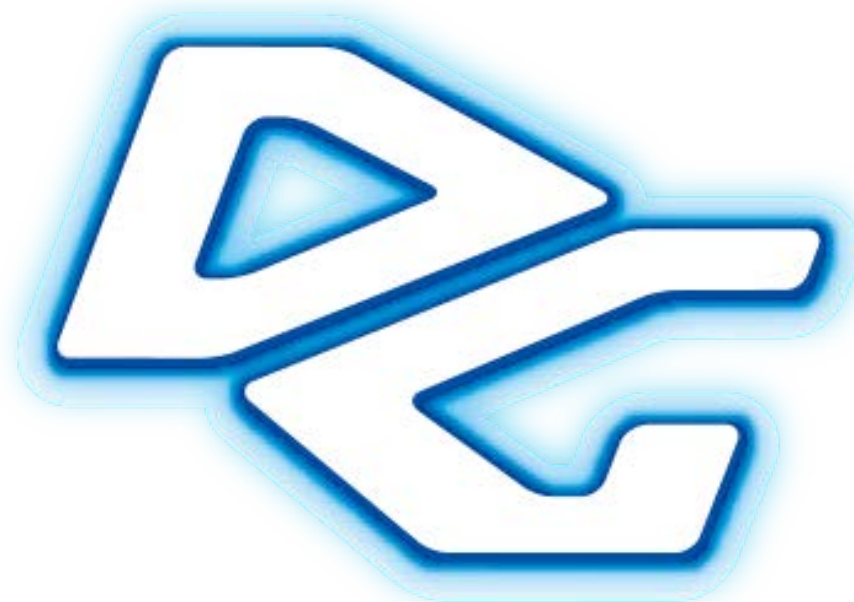


JPY in Millions		<u>FY14.6</u> (Full Year Act)	<u>FY15.6</u> (Full Year Act)	<u>FY16.6</u> (Full Year Act)	<u>FY17.3</u> (Full Year Act) 9 month	<u>FY18.3</u> (Full Year Act)
Net sales		33,751	38,087	43,763	36,451	60,168
MT	Marketing Technology	14,822	16,064	21,028	20,494	34,938
FT	Financial Technology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

Note: Income before income taxes per segment is based on figures prior to elimination or group deduction, etc
MI segment has been changed to LTI segment from FY18.3, by aiming to generate sustainable business profit in mid-long term.
Some businesses in IT segment have transferred to LTI, therefore figures on FY17.3 updated with the current category.
Figures in IT segment for the fiscal year ended March 31, 2018 are simple reference values calculated as a result of transferring certain businesses, etc. included in the Company-wide segment to the IT segment. These figures may differ from those disclosed in the future.



Date		Title
2018.8.2	 Digital Garage	Digital Garage & KDDI Entered into a Basic Agreement on Strategic Alliance
2018.8.1	 Digital Garage	Digital Garage and Welby Form a Capital and Business Alliance to Build a Person-Centered Health and Medical Data Platform
2018.7.20	 Digital Garage	Digital Garage and Tokyo Tanshi to Establish a JV for Blockchain Financial Service R&D and Business in the Fintech Field
2018.6.15	 Digital Garage	Digital Garage and iRidge's Fintech Subsidiary Collaborate in the Regional Digital Currency Field
2018.5.23	 Digital Garage	Digital Garage Launches "Open Network Lab BioHealth", an Accelerator Program Specialized in Biotechnology and Healthcare
2018.5.17	 Digital Garage	Digital Garage Launches One-Stop Marketing and Fulfillment Solution for Online Shopping Suppliers Aiming to Expand Overseas in Thailand and Taiwan
2018.4.27		DG Lab to Host THE NEW CONTEXT CONFERENCE 2018 TOKYO on the Theme of "Governance of Regulations and Innovations"
2018.4.20	 Digital Garage	Digital Garage and The Hokkaido Shimbun Press Launch "Open Network Lab HOKKAIDO", an Accelerator Program



Digital Garage

Please note that the business forecasts and strategies covered in today's presentation are based on our current evaluation and future results may vary significantly depending on unforeseeable events or circumstances. This announcement is solely for the purpose of the investors relationship and is not for making any solicitation for investment in any securities. This announcement does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States or any other jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. Any securities of our consolidated subsidiaries have not been registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the U.S. Securities Act. Any public offering of securities to be made in the United States will be made by means of a prospectus. Such prospectus will contain detailed information about the company making the offer and its management and financial statements.