



Digital Garage, Inc.

- 2Q of FYE June 30, 2013 –
Financial Report

February 13, 2013



Digital Garage

Providing New Contexts



Contents

- **Mission and Business Model 3**
- **Group Financial Performance Review 9**
- **2Q FYE 2012 Segment Performance Review 19**



Mission and Business Model

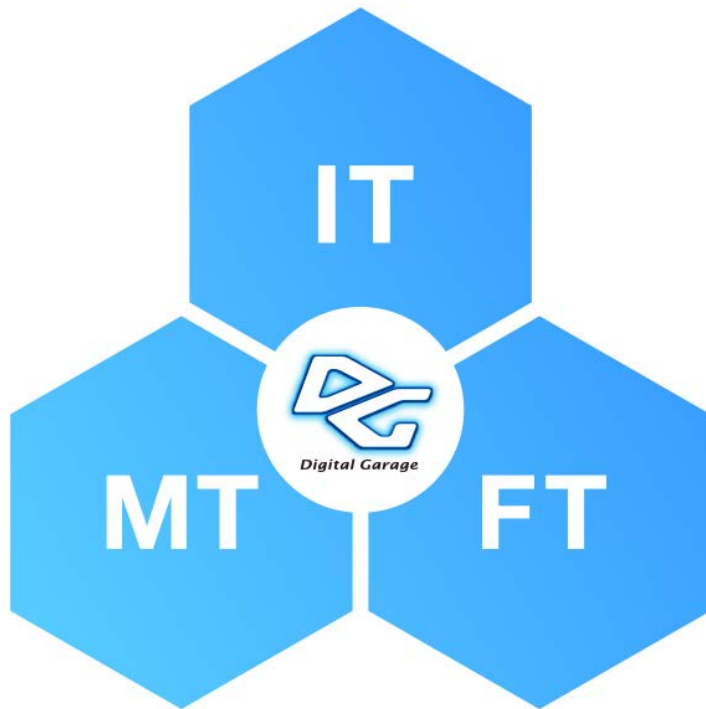


Context Company

Digital Garage creates innovative business “context” for the new internet age and provides unique business solutions for new lifestyles, society and industries by linking:

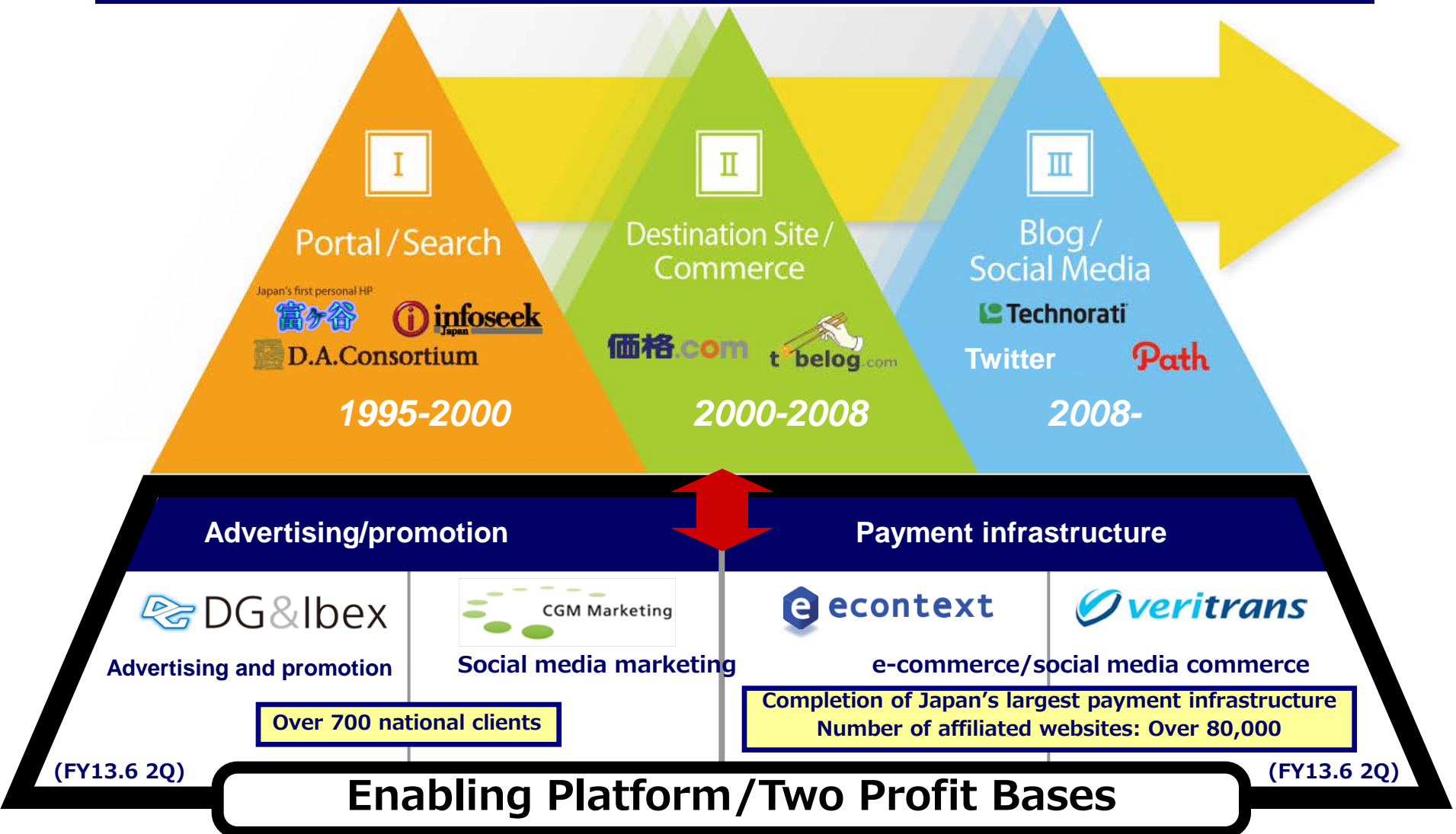
- Real & Cyber
- Local & International
- Marketing & Technology
- Present & Future

Produce and incubate Internet businesses
with optimal use of our three core strengths: IT, MT and FT



- ★ Information Technology
- ★ Marketing Technology
- ★ Financial Technology

DG continues to incubate and offer original internet services using unique enabling platform since earliest days of Internet



Projections Outperformed in First Year of New Mid-term Plan Global Development of “Incubation” and “Payment” Segment Accelerated, Capital/Business Alliance Formed with DENTSU

I Q2 FYE 2013 forecasts revised up

- Business driven by “Payment” which consolidated VeriTrans while “Marketing” remains solid
- Despite cut-off error of share disposal, results greatly surpass initial consolidated budget for “Incubation”

II Capital/business alliance formed with DENTSU, mid-term marketing strategy commenced centering on all types of data

- Alliance to explore and internationally commercialize cutting-edge marketing technologies
- Digital marketing and business intelligence services promoted

III Mid-term strategy for Incubation and Payment segments pursued

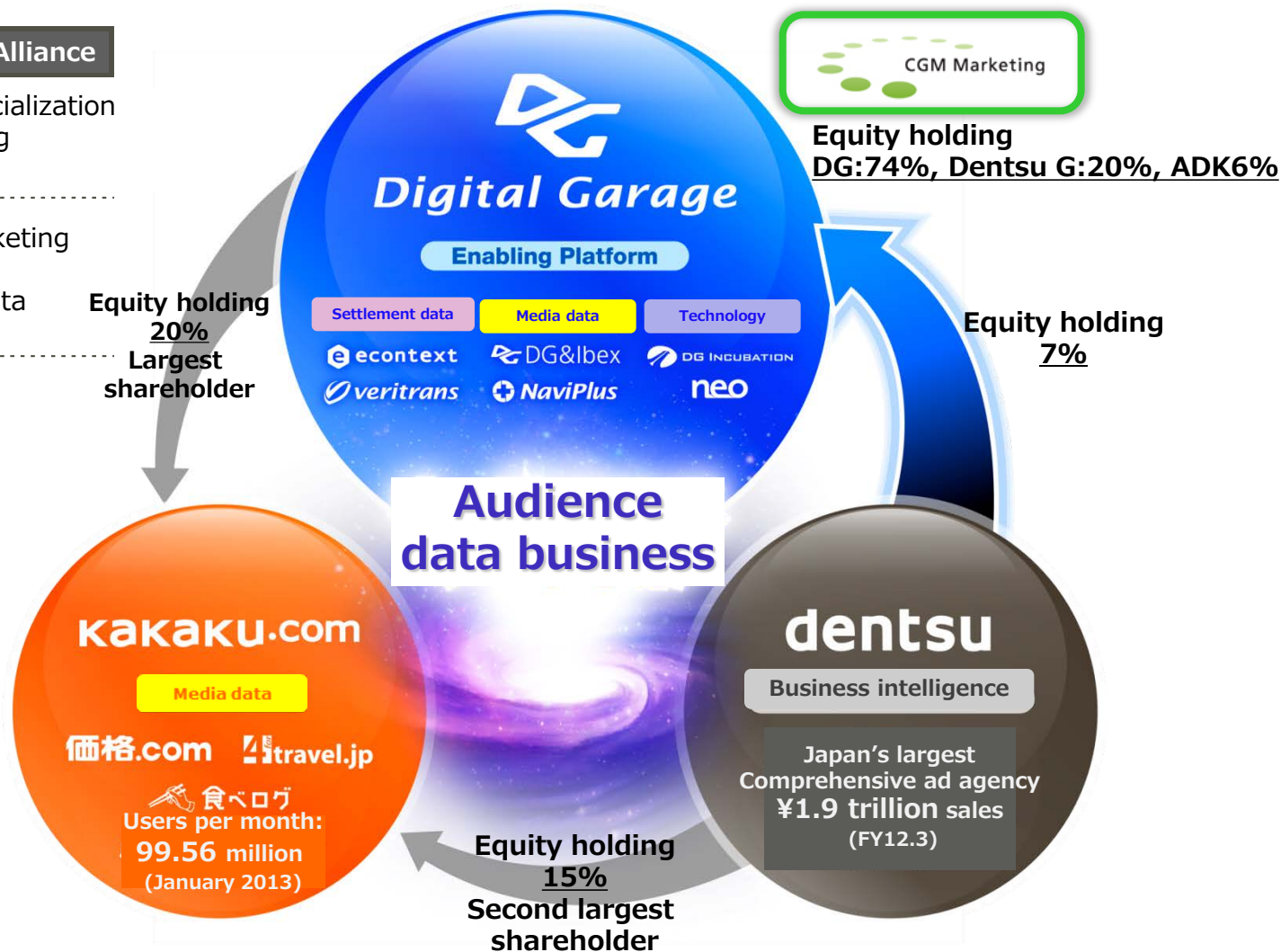
- M&A of agile development company Neo completed toward acceleration of global incubation
- Payment HQ established in Hong Kong, business in fast-growing emerging Asian market initiated

Capital and Business Alliance with DENTSU

One of the new pillar for mid-term strategy is Audience data business, expanding Incubation and Advertisement-to-Commerce into Marketing business space.

Content of Capital/Business Alliance

- I Exploration and commercialization of cutting-edge marketing technologies
- II Promotion of digital marketing and business intelligence services using diverse data
- III Fund raising through third-party allotment



*1 Source: Kakaku.com IR material



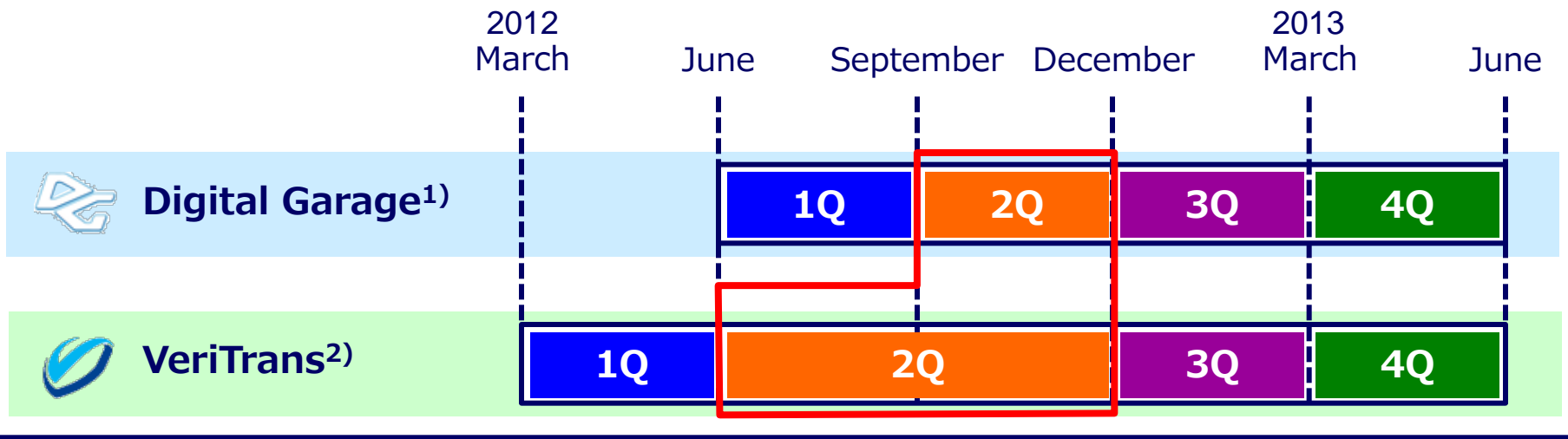
Group Financial Performance Review

International Financial Reporting Standards (IFRS) implemented at econtext ASIA (Hong Kong HQ)

Fiscal year made uniform across consolidated subsidiaries/
Asian business accelerated by strengthening group management

Irregular accounting for Q2 FYE2013

End of fiscal year shifted from March to June at VeriTrans and its 4 consolidated subsidiaries.
Six-month results anomalously combined in Q2 due to the company changing fiscal year.



Note 1: Digital Garage, Inc., ECONTEXT, Inc., econtext ASIA Ltd., DG Incubation Inc., Open Network Lab, Inc. and CGM Marketing, Inc.

Note 2: VeriTrans Inc., NaviPlus Co., Ltd., eCURE Co., Ltd., iResearch Japan Co., Ltd. and shereee-china, Inc. Fiscal year remained through March at US subsidiary DGUS, Inc., its subsidiaries DG Development LLC, Neo Innovation, Inc. and its consolidated subsidiaries.

Sales and EBITDA more than doubled YoY

In despite of 533-million-yen amortization, operating income +56% YoY

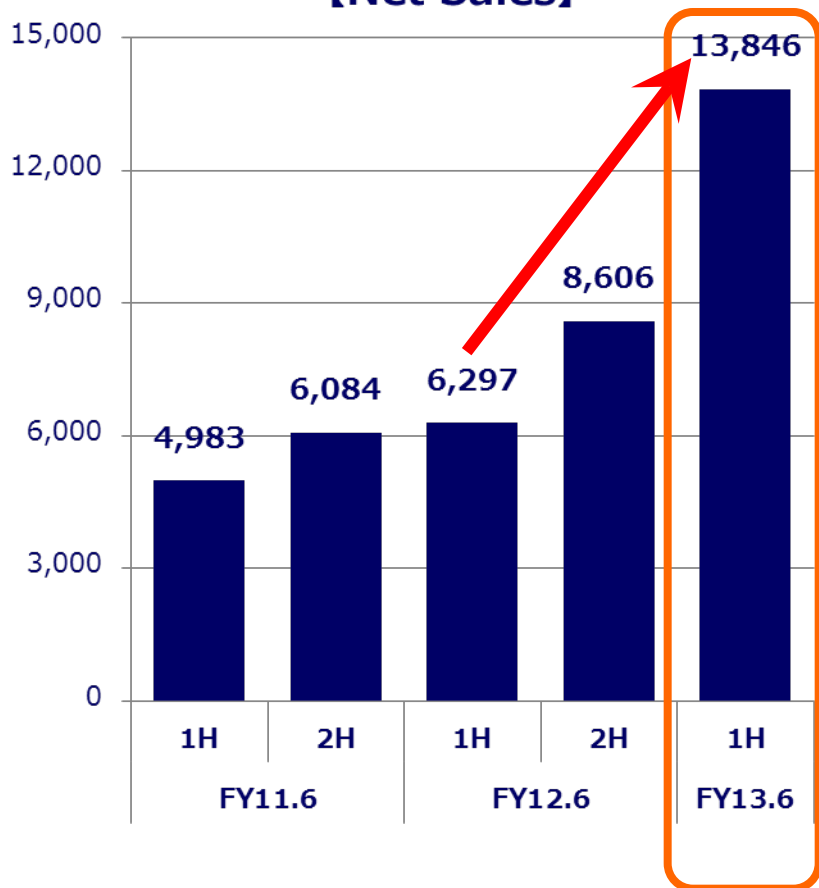
(¥ million)	FY12.6 2Q (Cumulative Actual)	FY13.6 2Q		Ratio	
		(Initial Forecast)	(Cumulative Actual)	(Year-on-Year)	(Actual vs Forecast)
Net sales	6,297	11,000	13,846	×2.2	+26%
Incubation	600	1,000	748	+25%	-25%
Marketing	3,845	4,300	5,113	+33%	+19%
Payment	1,851	5,700	7,984	×4.3	+40%
Operating income	302	150	472	+56%	×3.1
Incubation	250	50	▲ 202	<i>n.a</i>	<i>n.a</i>
Marketing	282	200	249	-11%	+25%
Payment	282	450	789	×2.8	+75%
Ordinary income	665	700	1,167	+75%	+67%
Net income	610	350	913	+50%	×2.6
EBITDA	869	1,400	2,269	×2.6	+62%
Amortization	88	400	533	×6.1	+33%

Note: Operating income per segment is based on figures prior to elimination or Group deduction. EBITDA is based on preliminary calculation.

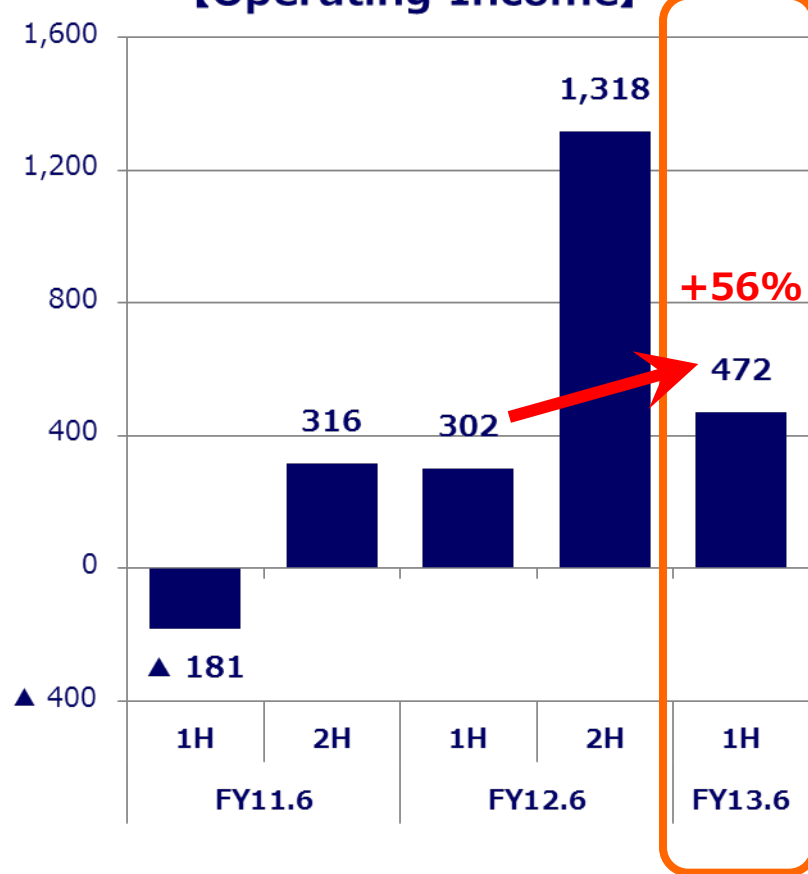
~ Sales grew 2.2 times, operating income rose +56% YoY ~

(¥ million)

[Net Sales] ×2.2



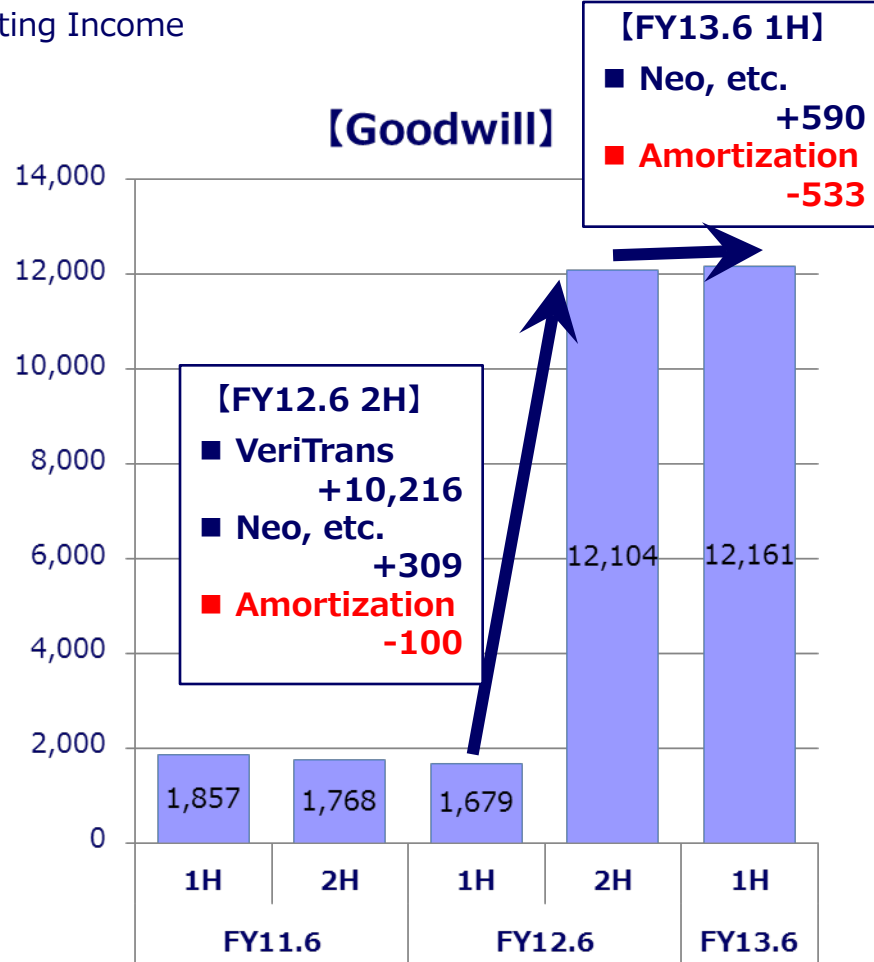
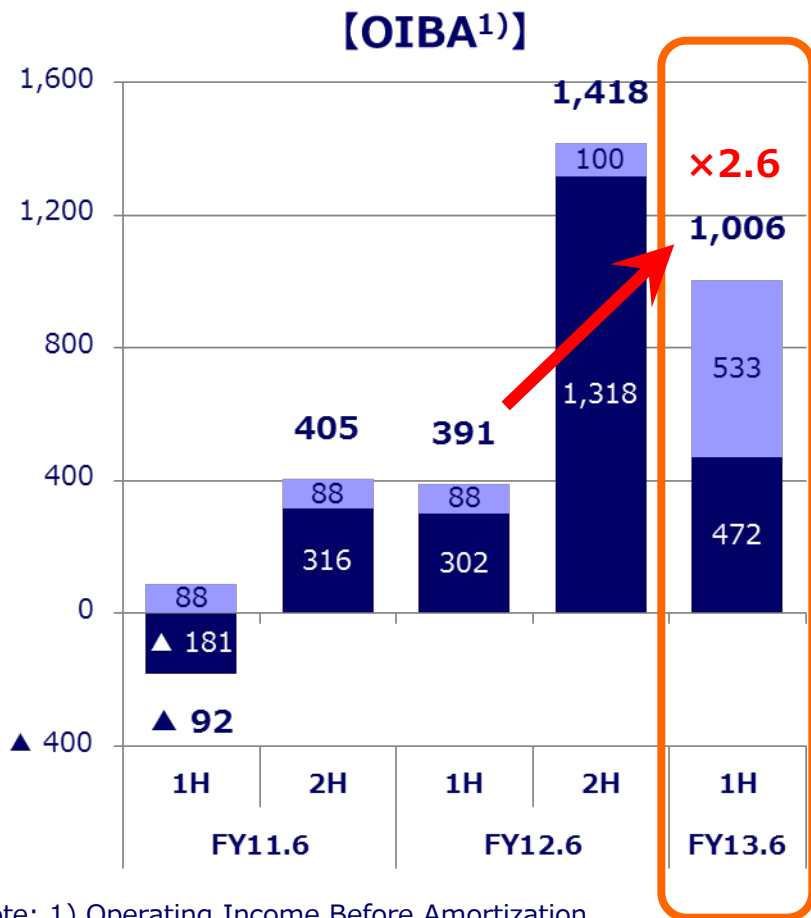
[Operating Income]



~ Operating income before amortization grew 2.6 times YoY ~

(¥ million)

■ Consolidated Operating Income
■ Amortization

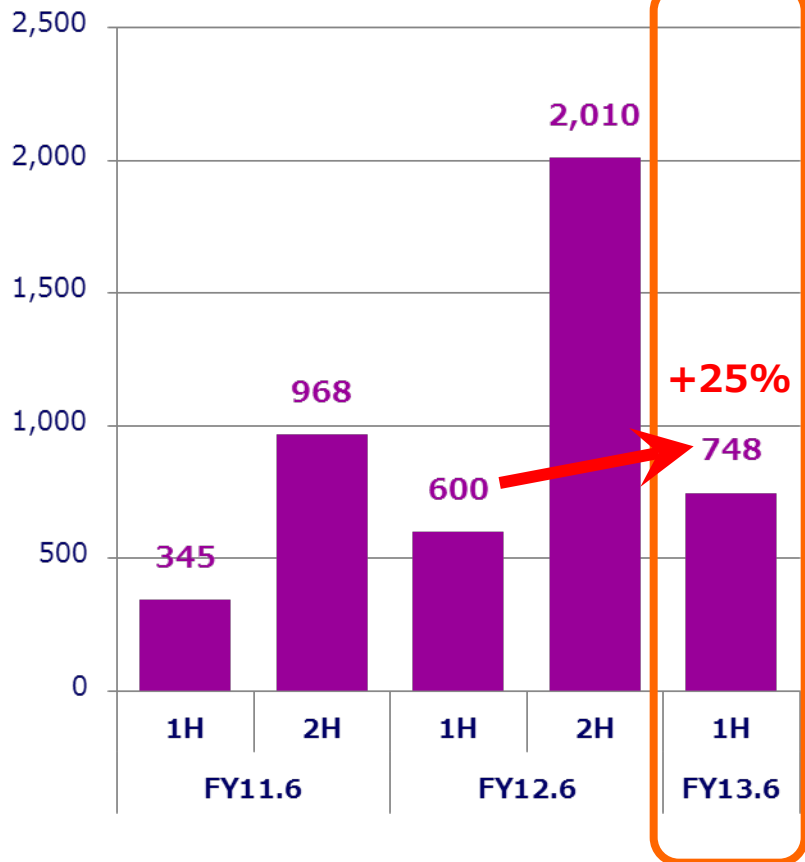


Note: 1) Operating Income Before Amortization

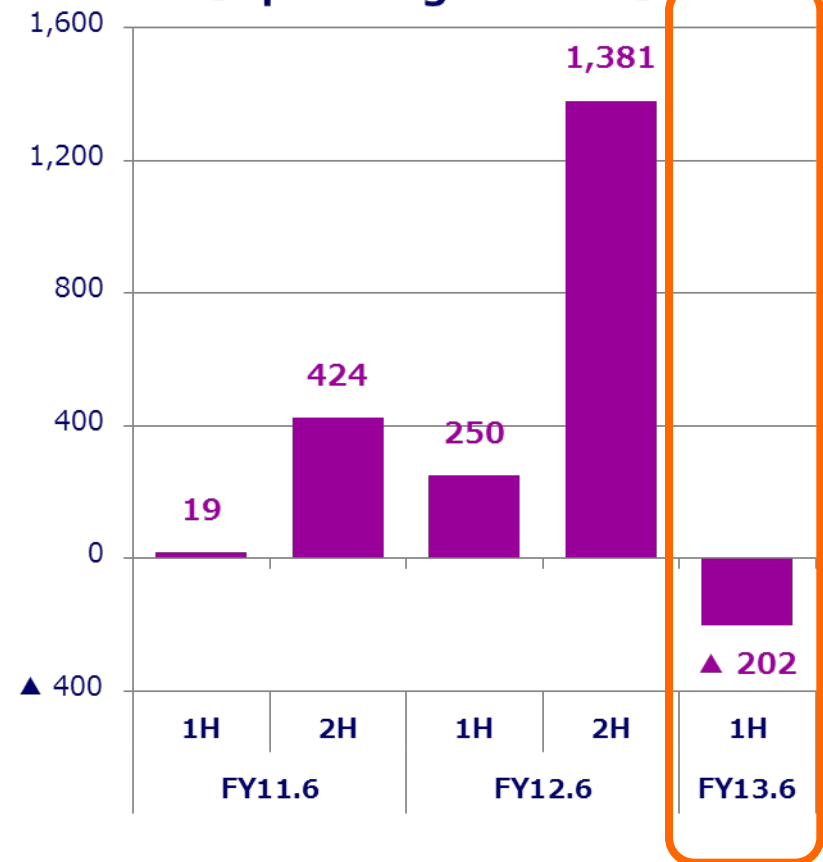
~ Recognition of equity sales was carried over to FY13.6 2H;
recorded initial loss of Neo Innovation, Inc. ~

(¥ million)

[Net Sales]



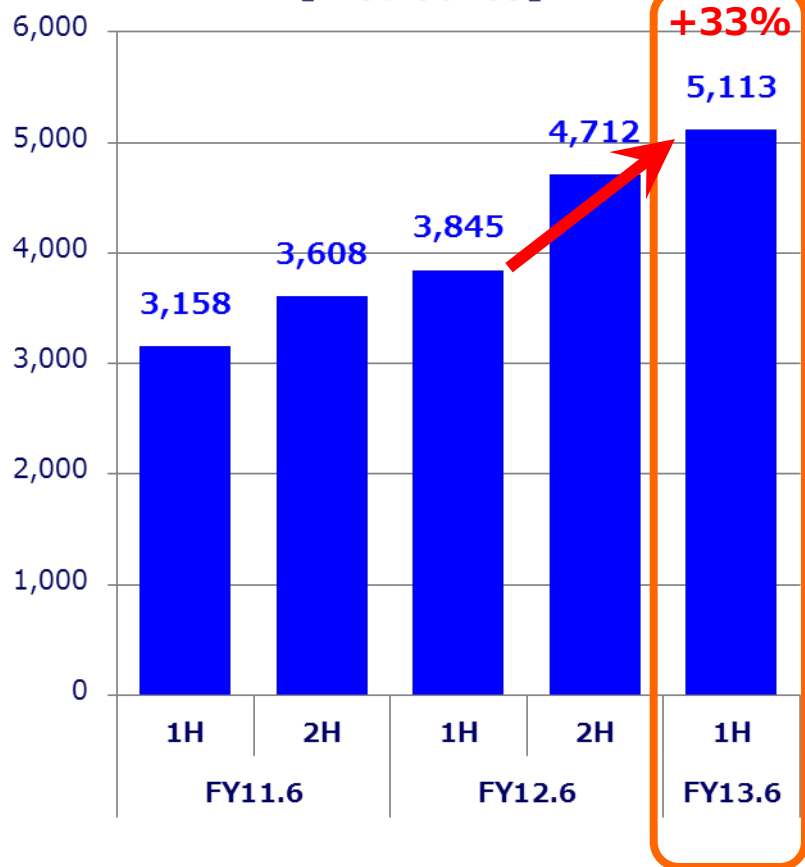
[Operating Income]



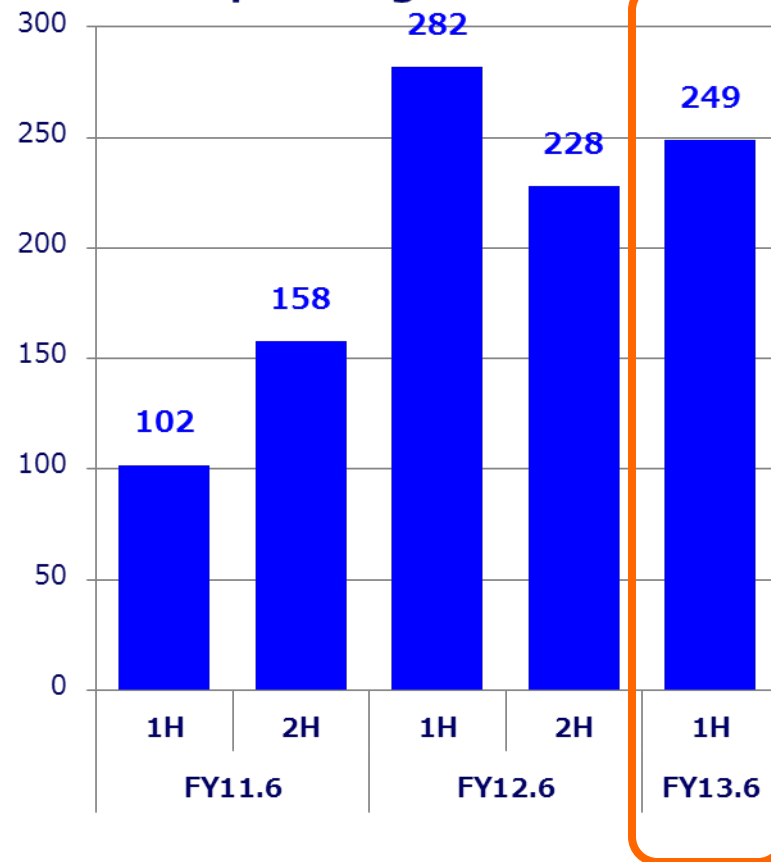
~ Being driven by strong performance of Internet Advertising, at the same time, initiated R&D on next-generation marketing business ~

(¥ million)

【Net Sales】



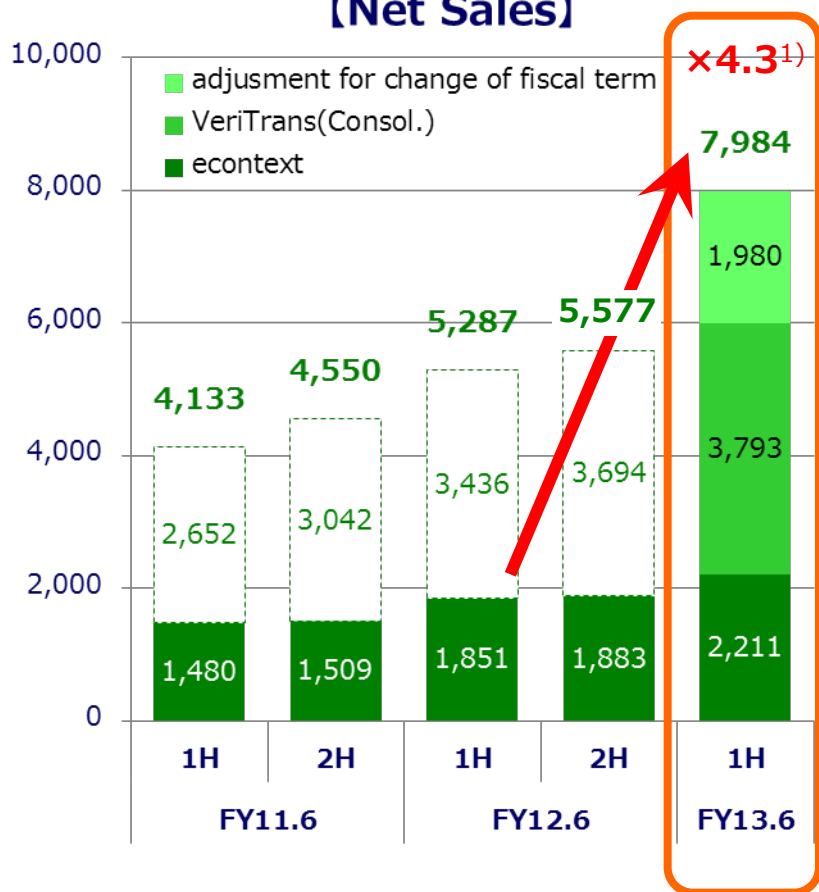
【Operating Income】



~ Strong performance of econtext and VeriTrans ~

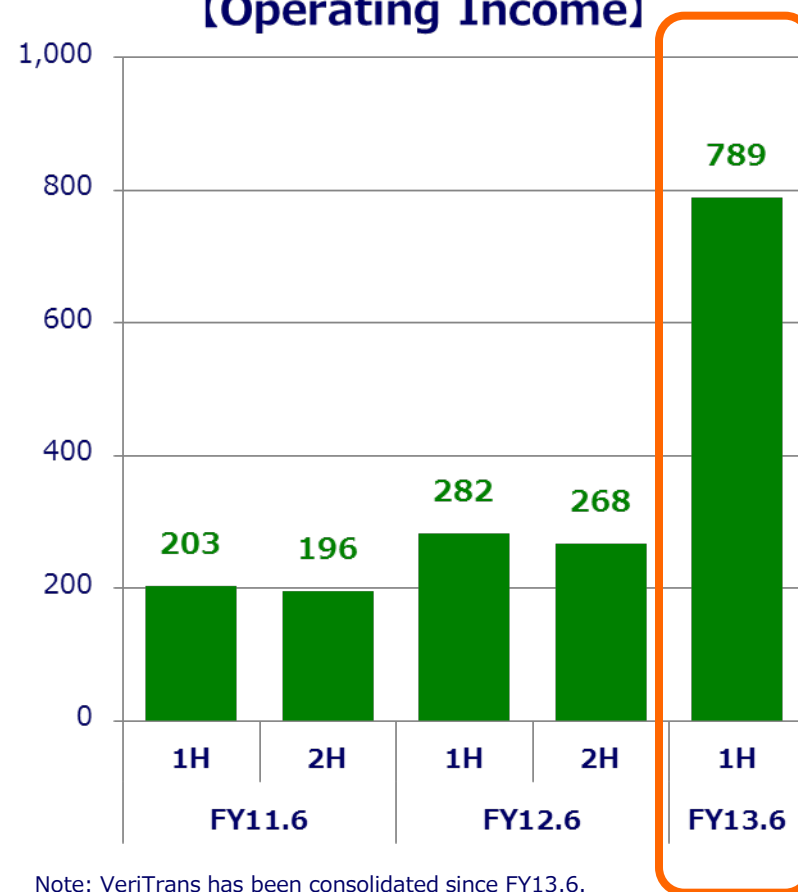
(¥ million)

【Net Sales】



Note: 1) VeriTrans has been consolidated since FY13.6.
 If it had been consolidated before FY12.6, sales would have grow 1.5 times YoY.

【Operating Income】



Note: VeriTrans has been consolidated since FY13.6.
 Because of consolidation adjustments such as amortization,
 it is impossible to express each entity's operating income separately.

Upward revision of FY13.6 full-year forecast

(¥ million)	FY12.6	FY13.6		FY13.6 2Q	
	(Actual)	(Initial Forecast)	(Revised Forecast)	(Accumulated Actual)	(Actual vs Revised Forecast)
Net sales	14,903	25,000	27,000	13,846	51%
Operating income	1,621	1,650	1,650	472	29%
Ordinary income	2,708	2,800	2,800	1,167	42%
Net income	2,106	1,700	1,700	913	54%
EBITDA	2,967	4,000	4,000	2,269	57%

< The reasons for upward revision of FY13.6 full-year forecast >

- Upward revision of net sales
 - Because of VeriTrans's financial term change, its 15-month results are consolidated for DG's FY13.6 full-year profit and loss
- Leaving Profits unchanged
 - The initial running expenses for Payment HQ in Hong Kong, which was not taken into account in the initial forecast, is accrued in FY13.6.

Note: EBITDA is based on preliminary calculation.

FY13.6 Financial Summary for B/S (Consolidated)



context company

(¥ million)	FY12.6	FY13.6 2Q	Year-on-Year	Reason for change/Remarks
Current assets	28,005	31,124	+3,119	
Cash and deposits	12,308	11,814	-494	corporate tax for FY12.6 and dividends
Receivables	7,577	10,295	+2,718	payment-business-related items
Money held in trust	3,404	3,662	+258	payment-business-related items
Operational investment securities	1,904	2,327	+423	
Fixed assets	21,333	22,482	+1,149	
Investment real estate	2,677	2,543	-134	real estate in San Francisco
Goodwill	12,104	12,161	+57	
Total assets	49,338	53,606	+4,268	<div style="border: 1px solid black; padding: 5px;"> <p>■ Current ratio</p> <p>98%(12/6) → 132%(12/12)</p> </div>
Current liabilities	28,505	23,593	-4,912	
Deposits	14,956	18,758	+3,802	payment-business-related items
Short-term borrowing	10,740	2,562	-8,178	<div style="border-left: 1px solid black; border-right: 1px solid black; padding: 5px;"> <p>Debt conversion from short-term to long-term in order to improve financial soundness</p> </div>
Fixed liabilities	355	9,211	+8,856	
Long-term borrowing	183	9,047	+8,864	
Net assets	20,476	20,802	+326	
Retained earnings	4,505	5,201	+696	<div style="border: 1px solid black; padding: 5px;"> <p>■ Capital-to-asset ratio</p> <p>41%(12/6) → 38%(12/12)</p> </div>
Liabilities/Net assets	49,338	53,606	+4,268	





Second Quarter FYE 2012 Segment Performance Review

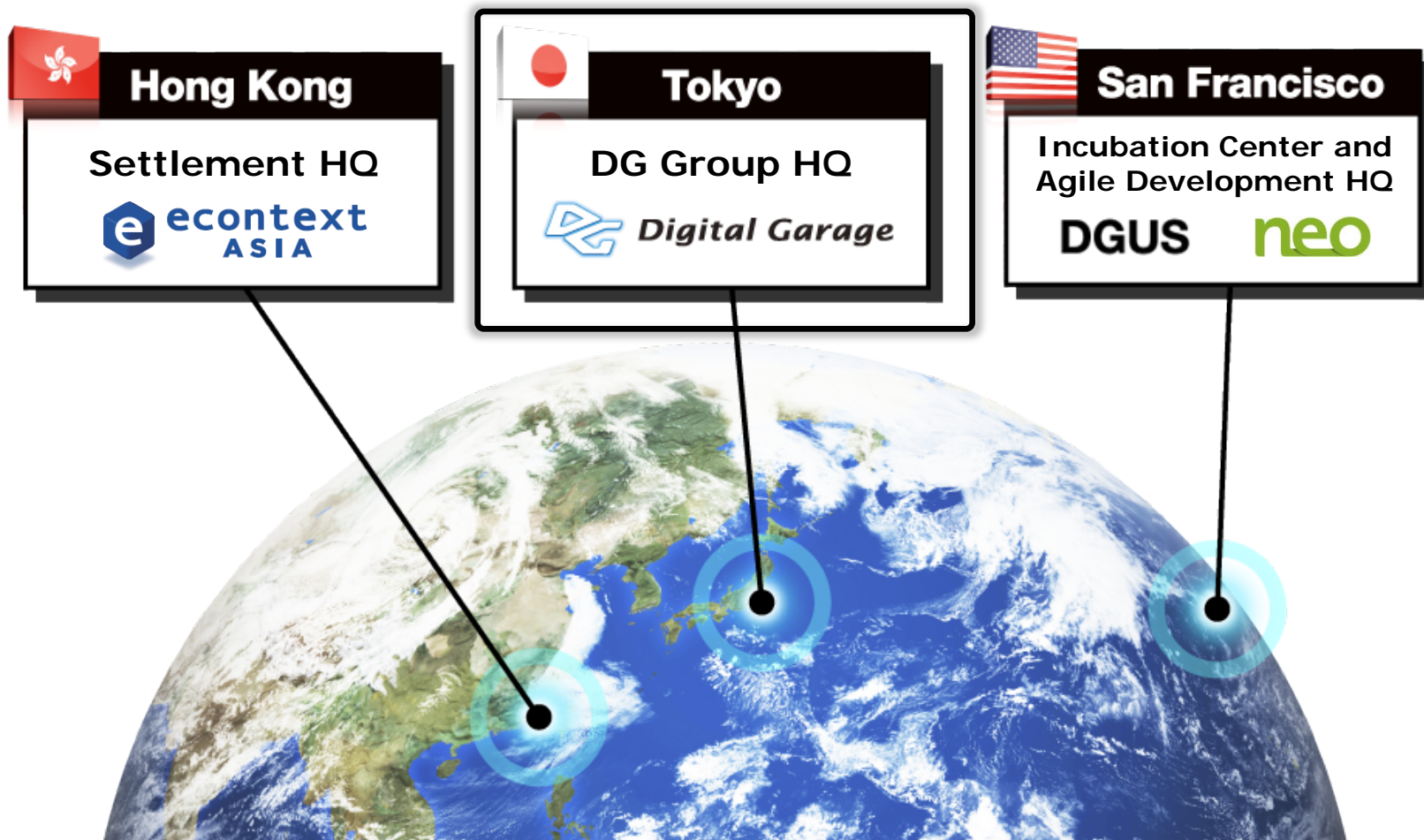


Lean Global

Providing New Contexts



Lean Global Three HQs



New business segments of Lean Global DG

I Incubation Segment

Integration of incubation-related businesses
(Integration of Media Incubation and Venture Incubation)

- ▶ Investment to cultivate promising ventures inside and outside Japan
- ▶ Development of media inside and outside Japan
- ▶ Technology/business development using Lean Startup Method

INCUBATION



II Marketing Segment

Establishment of new marketing business
(DG&Ibex Company and CGM Marketing run as one unit)

- ▶ DSP business utilizing advertisement and promotion as well as Group media's audience data

MARKETING



III Payment Segment

Centralization of settlement businesses
resulting from consolidation of VeriTrans
(Settlement business focus on Japan/Asia Market)

- ▶ Asia payment platform
- ▶ One of the largest online settlement infrastructures in Japan

PAYMENT



I

Incubation

		Net Sales	Operating Income
FY12.6	2Q(7-12)Actual	600 million yen	250 million yen
FY13.6	2Q(7-12)Actual	748 million yen	▲ 202 million yen
FY13.6	Full Year Forecast	2,800 million yen	500 million yen

▶ **DG Incubation, Inc.**



Invests and incubates cutting-edge Internet startups

▶ **Open Network Lab, Inc.**



Provides support for Internet business entrepreneurs with global visions

▶ **Neo Innovation, Inc.**



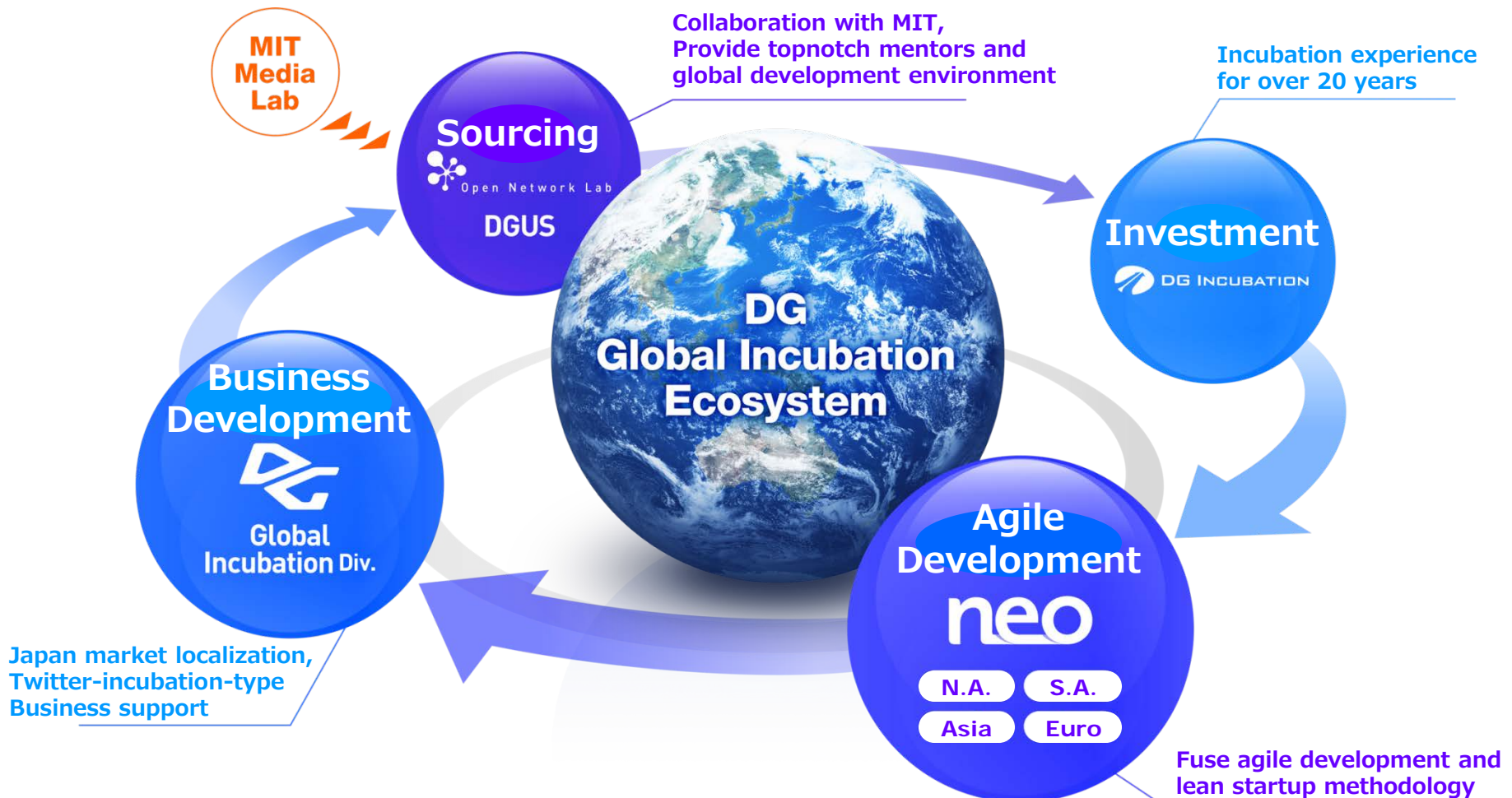
Offers software development solutions and entrepreneurship support through Lean Startup methodology

▶ **Global Incubation Div.,**

Supports and develops new media services from a global perspective

Establishment of incubation ecosystem within DG Group network

Maximize investment results with global incubation ecosystem, which covers comprehensively from discovery/investment to agile/business development and support



Overseas investment focused on Silicon Valley
Investment and development for prospective venture companies originated from Japan

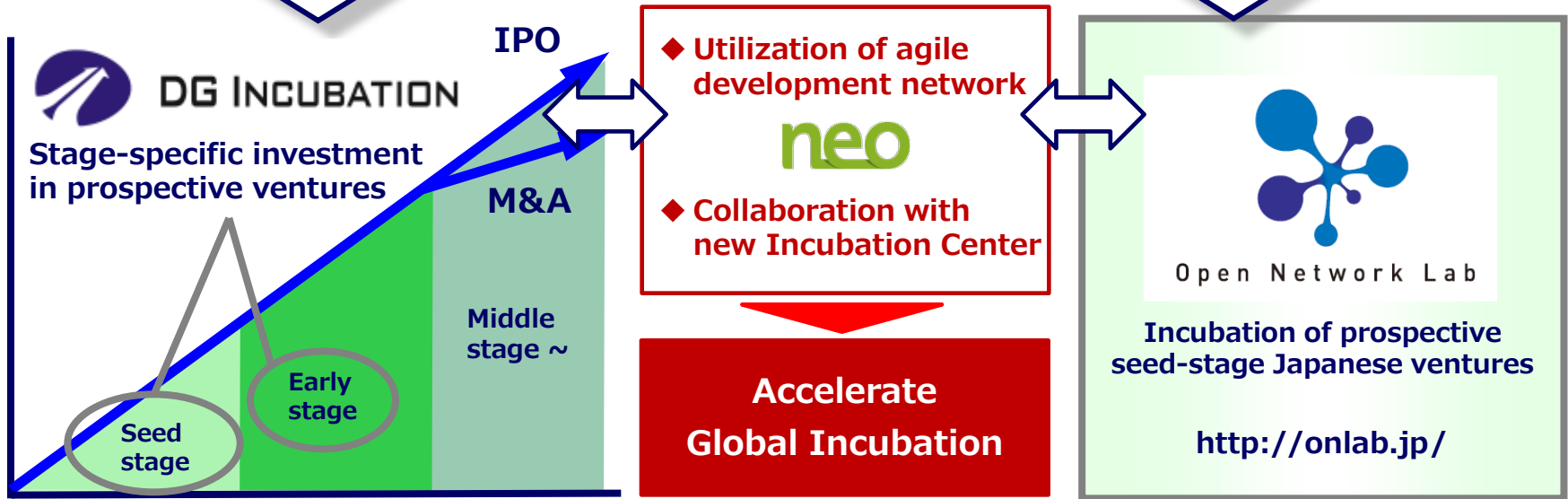
In conjunction with global agile development network/San Francisco Incubation Center
 Establishment of multi-directional investment/development including "import/export" and "global" models

Import model

- **Prospective venture** investment/development
- Global development support with **Japanese market localization** for overseas businesses

Export model

- **Prospective Japanese venture** investment
- **Global development support "Lean Global"** ventures originated from Japan



**Actively investing in international and domestic startups.
Supporting growth by integrating DG's payment and marketing solutions.**

Current portfolio as of December 2012

Category	Number	Book Value (million yen)
Equity	55	2,218
Domestic company	16	961
Overseas company	39	1,257
Fund	4	416
Total	59	2,634

Current major new investments



Tokyo Otaku Mode Inc. [Overseas/media]
Develops and operates media which provides information about the Japanese Otaku culture. Over 10M Likes on Facebook.



Kiip, Inc. [Overseas/ad tech]
Develops and operates a smartphone app based ad platform. Integrated in over 600 apps in the US. Selected as one of the World's 50 Most Innovative Companies 2013 (Fast Company)

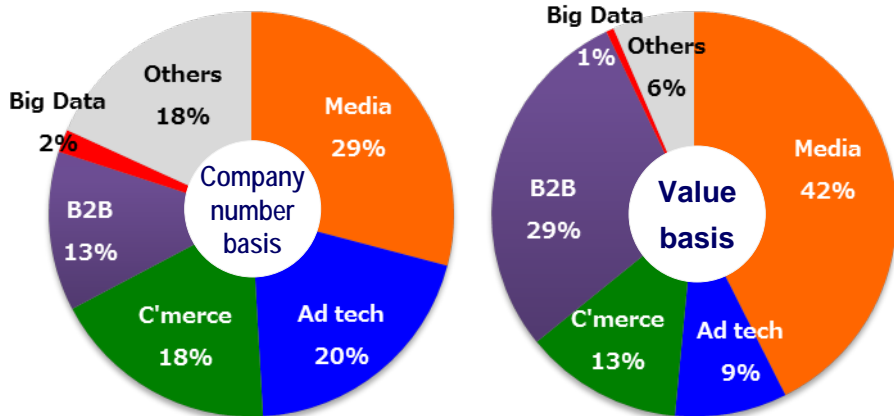


Authense Group, Inc. [Domestic/media]
Develops and operates Japan's largest legal advice portal site. Number of registered lawyers exceeds 5,000.



Vuzz Inc. [Domestic/media]
Develops and operates a smartphone service for posting food photos. More than 600,000 downloads in 81 countries including US and Asia

■ Distribution by sector (equity)



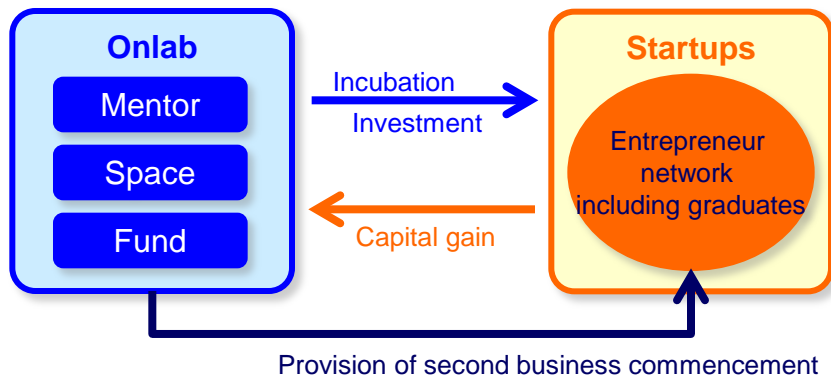
Driving Global Incubation with maximum utilization of the DG group's Enabling Platform

Onlab brand smoothly established as seed accelerator representing Japan

- A total of more than 100 entrepreneurs/engineers raised in two and a half years since start
- Business development in San Francisco, Asia and related program/events being prepared

Onlab business model

- ① Seed accelerator (incubation program)
- ② Events related to starting new business
- ③ Investment



Sixth program being carried out

Entrepreneur support example

- Events inviting top entrepreneurs across world hosted regularly

GitHub founders



Former IDEO director



- Sets up Open Network Space in Daikanyama and Kamakura as co-working space for entrepreneurs



Daikanyama



Kamakura

The M&A phase to group agile development companies have completed and have established a global business structure
 Changed company brand from New Context to Neo and now into the phase of expanding its business

Management



Kaoru Hayashi Co-Chairman
 Digital Garage Group CEO



Joi Ito Co-Chairman
 MIT Media Lab Director



Ian McFarland President
 ex-Pivotal Labs Principal, etc.



Eric Ries General Partner
 Lean Startup advocate



Mikihiro Yasuda CEO
 ex- Kakaku.com CTO and COO, etc.



Kent Lindstrom COO
 ex-Friendster CEO, etc.



Evan Henshaw-Plath CTO
 ex-Lead developer of Twitter's predecessor Odeo, etc.

Global Coverage



【North America】
 San Francisco(HQ)
 New York
 Columbus
 Cincinnati
 Durham

【Europe】
 Edinburgh
 Dublin
 (coming soon) London

【South America】
 Montevideo/Uruguay

【Asia】
 Singapore

Conference

The Lean Startup Conference 2012

Held in December 2012, hosted by Neo Innovation, Inc.
 Attracted many prospective clients from large companies, startups and the government.



Eric Ries



CTO of the United States



Founder of Dropbox



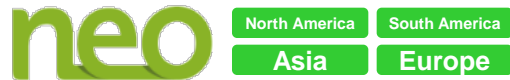
Marc Andreessen

- Participants **more than 10,000** (including live stream)
- US Gove CTO as one of the speaker **more than 50**

Shifting to new structure focusing on completion of development structure overseas and collaboration with MIT Media Lab

Driving global incubation as core to strengthen group alliance inside and outside Japan

Completion of global development structure

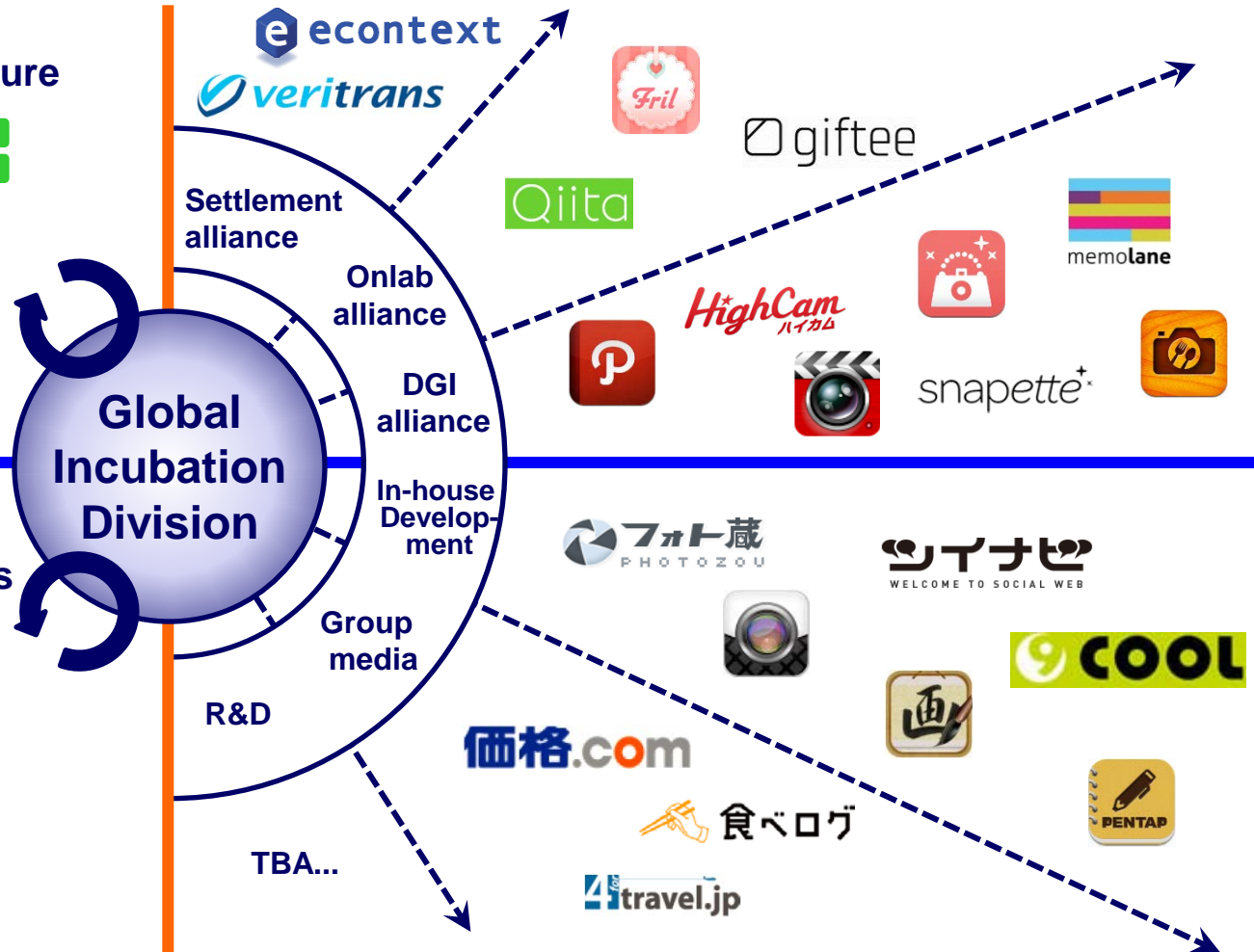


Practical development structure established globally by fusing agile development and Lean Startup, most advanced methods of all.

Exploration of world's most advanced R&D seeds

MIT Media Lab

Researchers dispatched from DG to MIT Media Lab primarily to determine which seeds to monetize. Constantly explores world's cutting-edge R&D seeds.



II

Marketing

		Net Sales	Operating Income
FY12.6	2Q(7-12)Actual	3,845 million yen	282 million yen
FY13.6	2Q(7-12)Actual	5,113 million yen	249 million yen
FY13.6	Full Year Forecast	9,200 million yen	600 million yen

▶ **DG&Ibex company**



Supports Client's business through O2O strategy and web marketing

▶ **CGM Marketing, Inc.**



Develops and provides ad products incorporating social media audience data, and cutting-edge ad technology

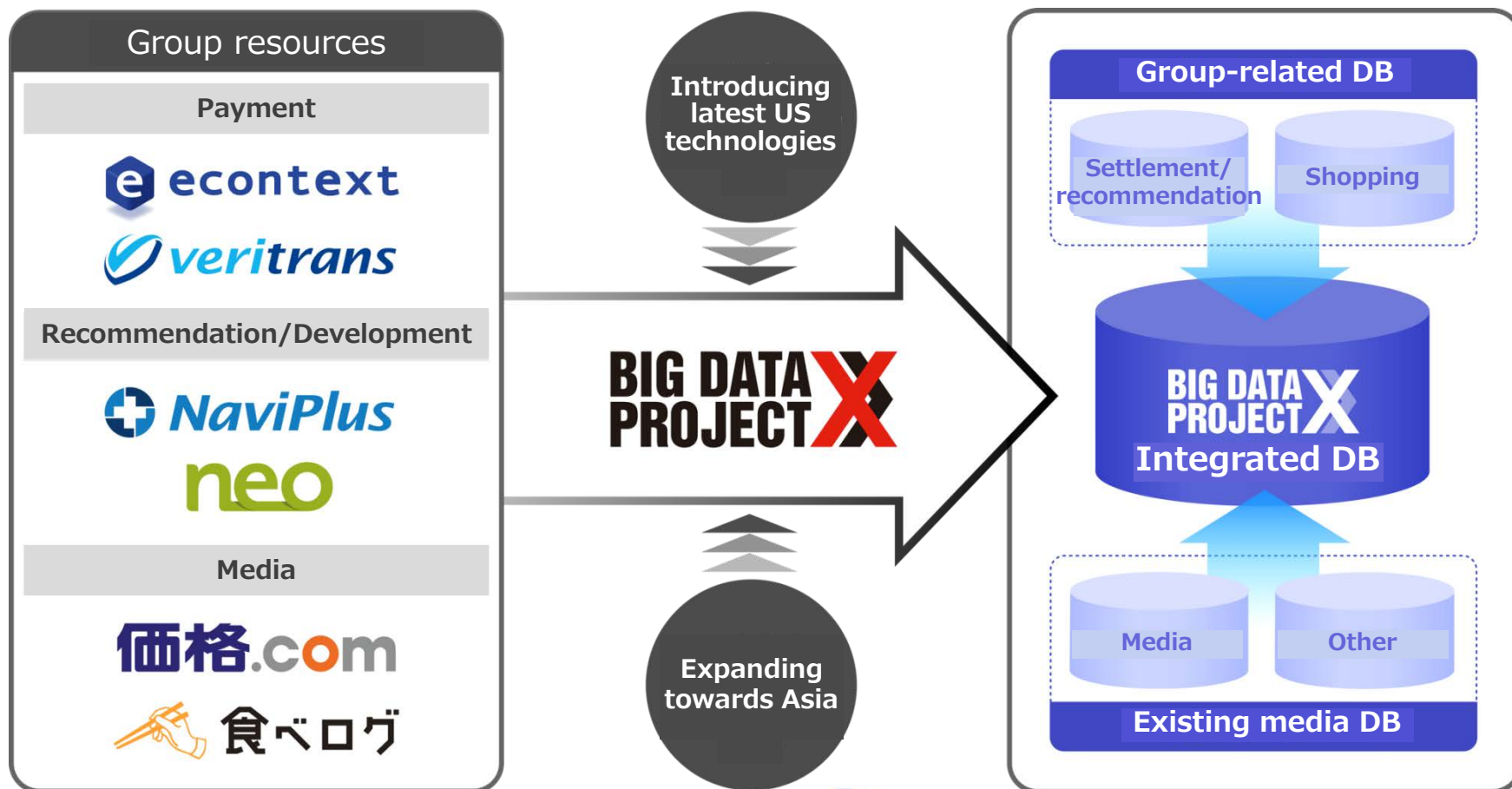
▶ **NaviPlus Co., Ltd.**



Offers website support tools including personalized recommendation engines

Digging deeper into existing business and establishing next generation strategic business rapidly

- ◆ Growth of solid Marketing Solution Business accelerated
⇒ Further branding of “No.1 social business company = DG” and practice of O2O strategy
- ◆ Group-wide efforts to develop “Audience Data Business” into next-generation mainstay through capital/business alliance with Dentsu
⇒ Establishing “Business Intelligence Service” by introducing U.S. cutting-edge technology ahead of others



Cumulative Results in FY13.6 Q2 (July to December)

Total sales

4.56 billion yen
 (Year-on-year) +29%

Number of clients

236 companies
 (Year-on-year) +0%

Sales per client

19.3 million yen
 (Year-on-year) +29%

Strong performance continued from FYE 2012 with new six-month sales record



Growth factors

Continued growth of market-specific solutions based on DG's knowledge about social media apps

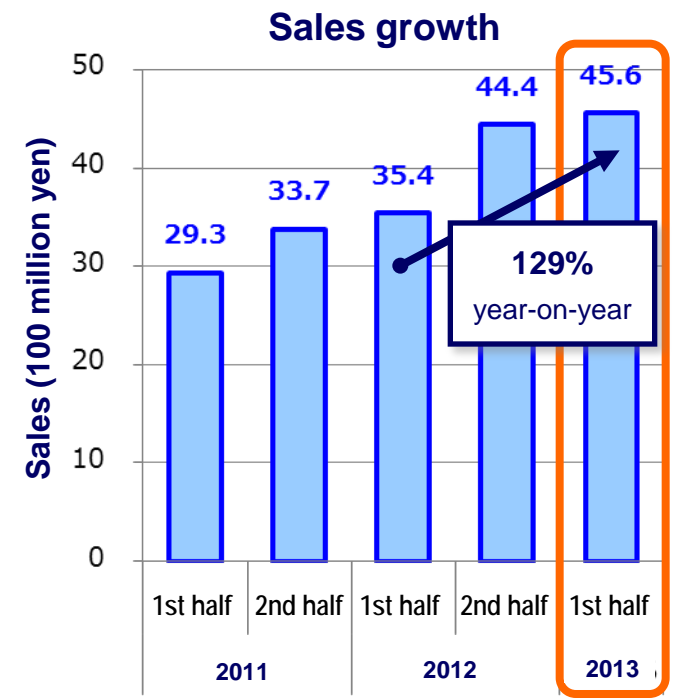
◆ Digital solution area

- Sales increased 29% YoY with cosmetic, financial and other market-specific strategies and unique digital planning ability highly valued.
- Mall distribution value (for six months) rose 37% YoY to 19.7 billion yen at Point Mall, meeting consumer needs.

◆ New marketing solution area

- Launch of the Audience Data Business
- Initiation of the O2O Solution Business fusing cyber and real technologies

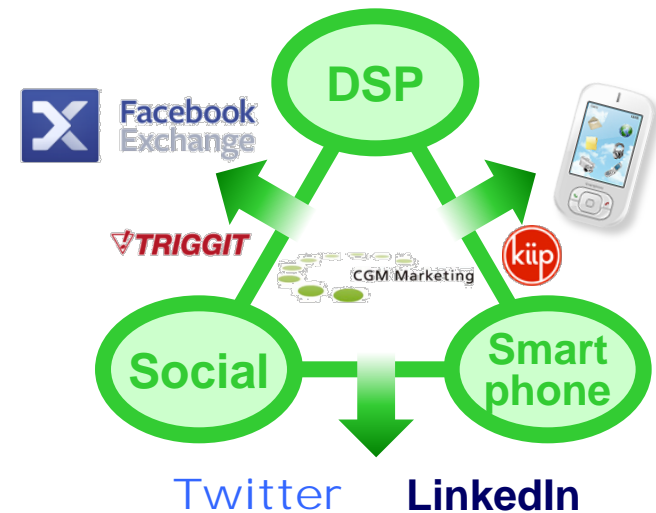
(Ad-conjunction marketing between  食ベログ and  Snap Dish, for example)



- ◆ Advertising commenced on Facebook and LinkedIn following Twitter
- ◆ Began smartphone advertising business with application ad-network provider: Kiip from the US

Driving new businesses leveraging cutting-edge ad technologies

- Began Facebook retargeting advertising business through DSP provider **TRIGGIT**. LinkedIn has followed.
- Deliver smartphone advertising through our application ad-network provider **kiip**
- Combined with **Twitter**, we cover a wide area in SNS and smart phone application.
- By taking advantage of our ad-technology, we deliver next-generation advertisement distribution network.



Favorable performance of existing businesses (official banner advertising, Tweetmanager)

- **Twitter's** official banner advertising business grew steadily.
- Expanding number of **Tweetmanager** installation to infrastructure and CRM-focused companies through partnerships with DENTSU and ADK.

Provide tools as ASP for in-site search and recommendations in order to increase the EC user's conversion rate, thereby increasing overall sales for the EC sites

Business model

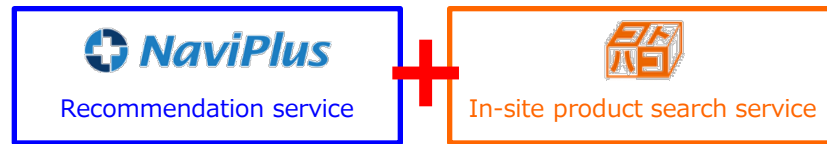
Acquisition of top in-site search company KotoHako

User purchase process on EC site

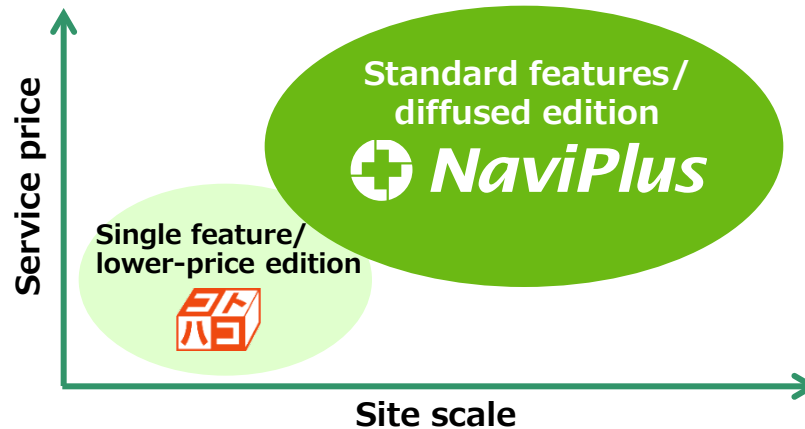


Users are led to purchasing without dropping-off from EC-site

Japan's largest in-site search & recommendation



Recommendation market positioning



Low cost, easy to install, implemented in EC sites big and small, utilize our recommendation engine



examples of recommendation

What other customers are looking at right now

What kind of products are bought together

etc.



Installed at more than 600 dominant sites in Japan



Payment

		Net Sales	Operating Income
FY12.6	2Q(7-12)Actual	1,851 million	282 million
FY13.6	2Q(7-12)Actual	7,984 million	789 million
FY13.6	Full Year Forecast	13,000 million	1,400 million

▶ **econtext Asia Limited**



Payment Segment headquarter established in order to expand e-commerce platforms into Asia market

▶ **ECONTEXT, Inc.**



Pioneer in integrating online and offline payment businesses for convenience stores

▶ **VeriTrans Inc.**



The leading e-commerce payment solution provider

• **eCURE Inc.**



(Provides security services for e-commerce sites)

• **iResearch Japan Inc.**



(Provides China IT industry market research)

• **Sharee-china Inc.**



(Provides inbound business for Chinese tourists)

To scale Japan's payment platform into Asia's No.1 payment platform

- Success of econtext Japan and VeriTrans is based on building customer centric products and solution
- For each region that econtext ASIA does business, we plan to curate into local culture



Japan

One of the largest payment platform

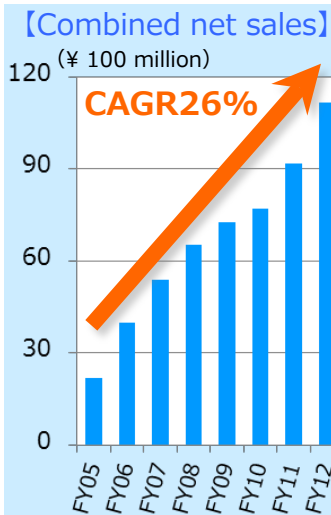
econtext

veritrans

Market reorganization

Cross selling

Scale merit



Asia

Asia's No.1 payment platform

Local culture/customer oriented developments

Hong Kong

Indonesia

Alliance/JV

Major Asian companies

iResearch

midPlaza
PT. MIDPLAZA PRIMA

•
•
•

Fy13.6 1H (July to December) Results

Number of affiliated websites

83,333

(Year-on-year) +69.3%

Number of transactions

73.8 million

(Year-on-year) +16.7%

Total amount of transactions

344.8 billion yen

(Year-on-year) +21.1%

Both econext and VeriTrans hit record highs on number and value of transactions



【Growth factors】

Expansion of existing business utilizing econext and VeriTrans competence and contribution of proactive exploitation of new fields

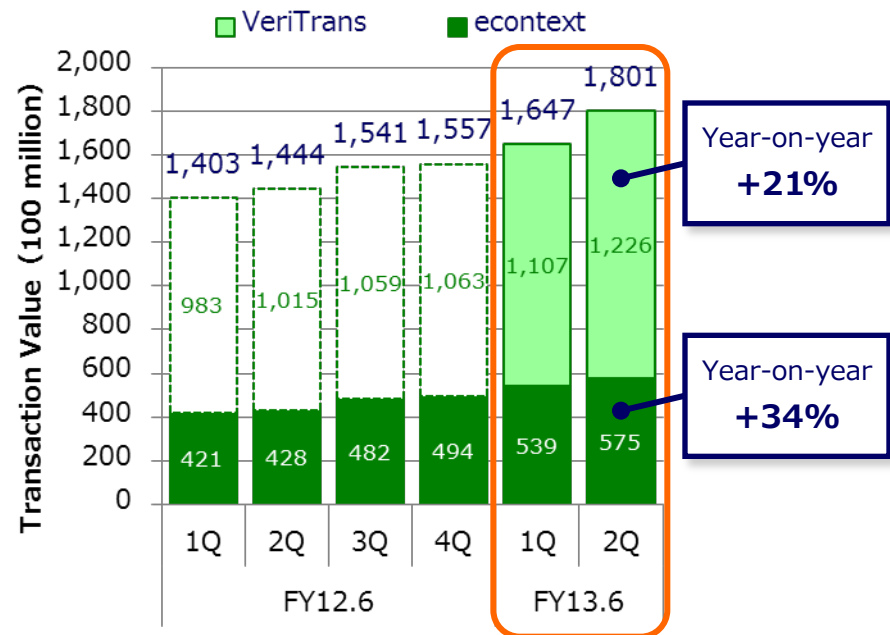
◆ econtext

- Mainstay fields (games and travel) remain health
- Hit record-high transaction value by +34% YoY

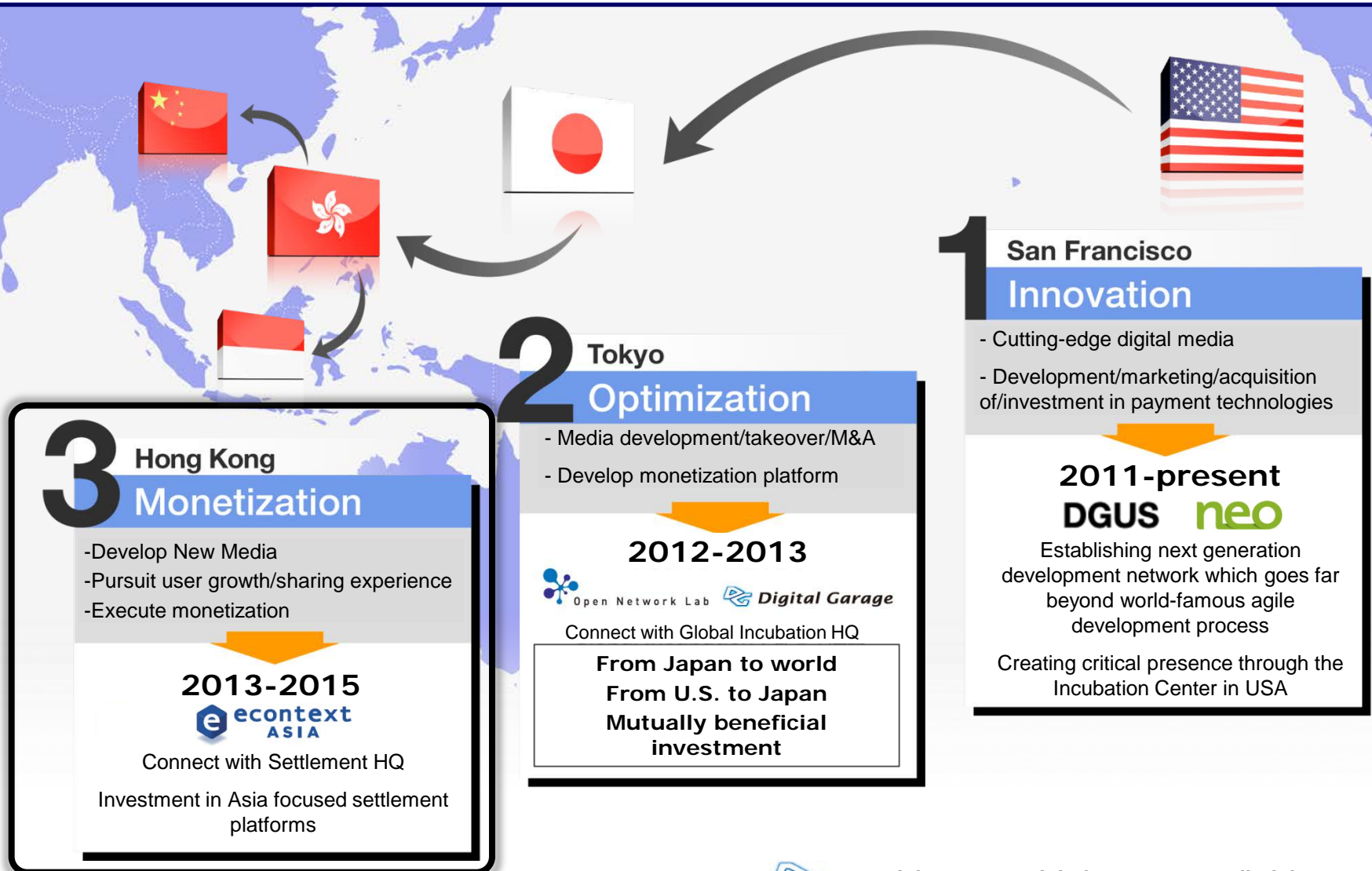
◆ VeriTrans

- Improved price competitiveness against competitors through fusion of payment and advertising services
- Hit record-high transaction value by +21% YoY

【Transaction Value】

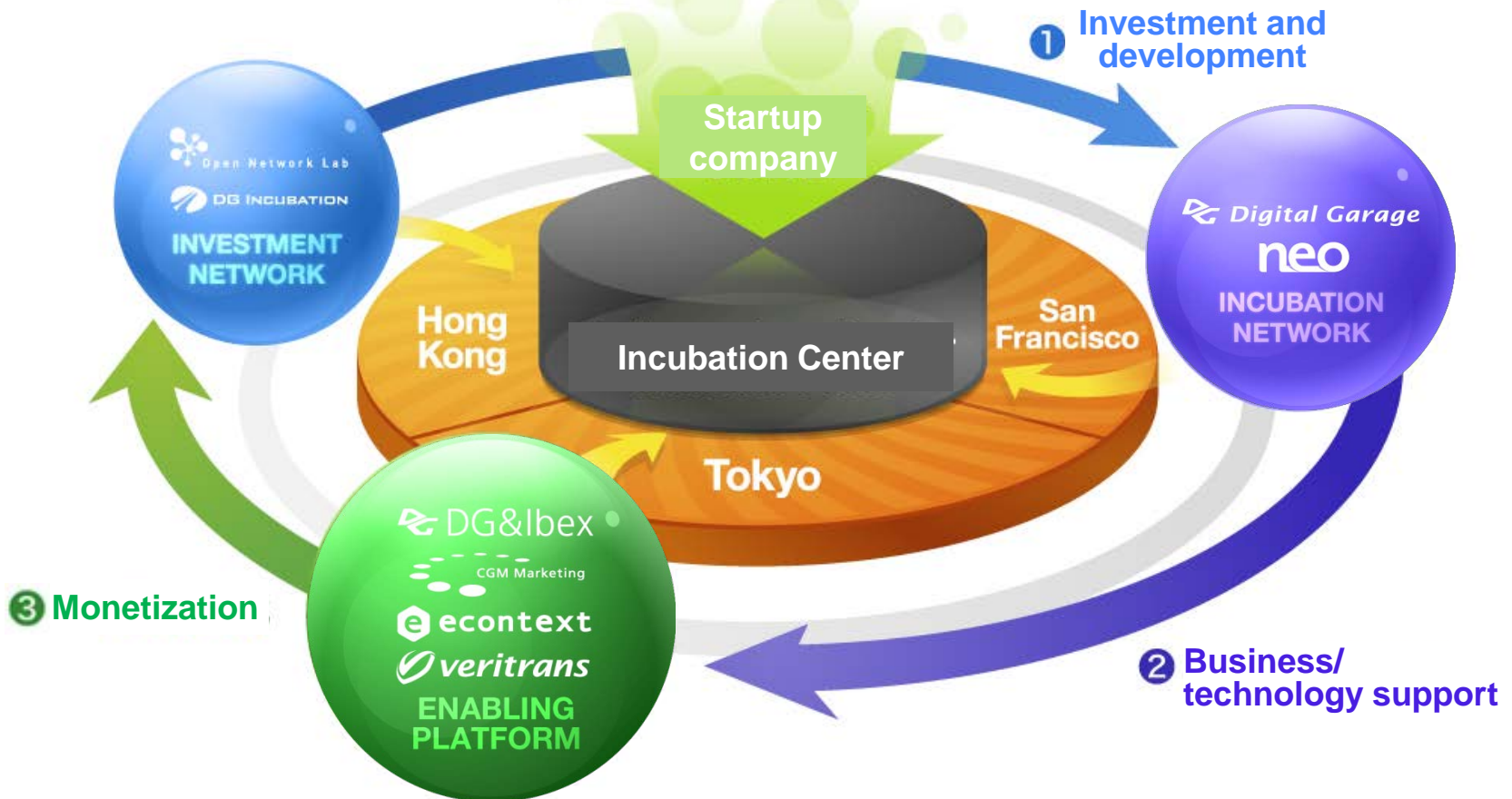


Combining the cutting-edge technologies and expanding into growth of emerging markets.



To establish high-performance global incubation ecosystem

Global Internet world





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.