



# Open Incubation toward 2020

Digital Garage, Inc.

2Q of FYE March 31, 2019 Financial Report

2018.11.9

 **Digital Garage**

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# Mission & Business Model





As a

# Context Company

Digital Garage creates innovative business *context* for the new Internet age and provides unique business solutions for new lifestyles, society, and industries by linking

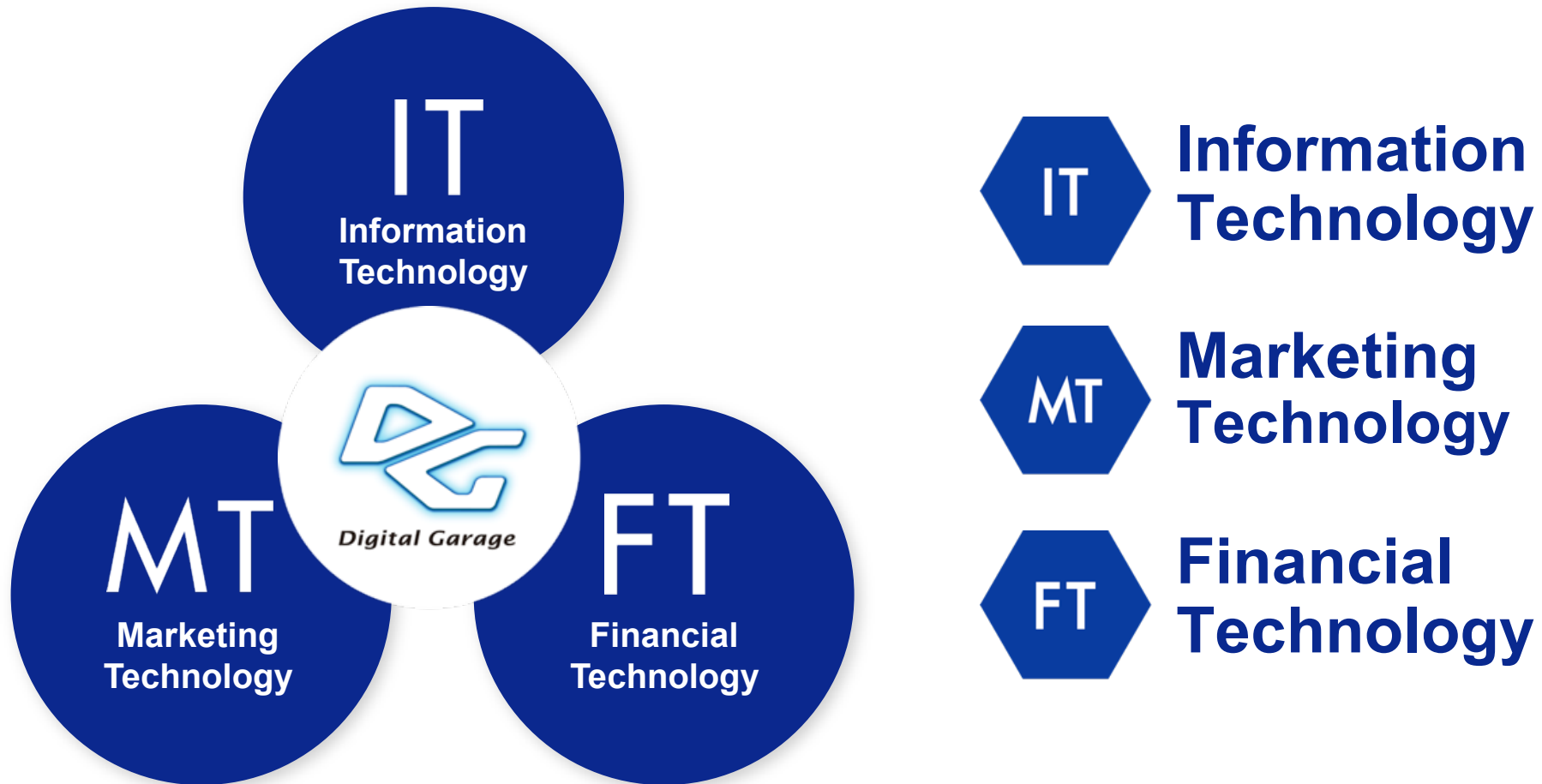
**Real & Cyber**

**Local & International**

**Marketing & Technology**

**Present & Future**

Producing and incubating Internet businesses by optimizing our 3 core strengths: IT, MT, and FT



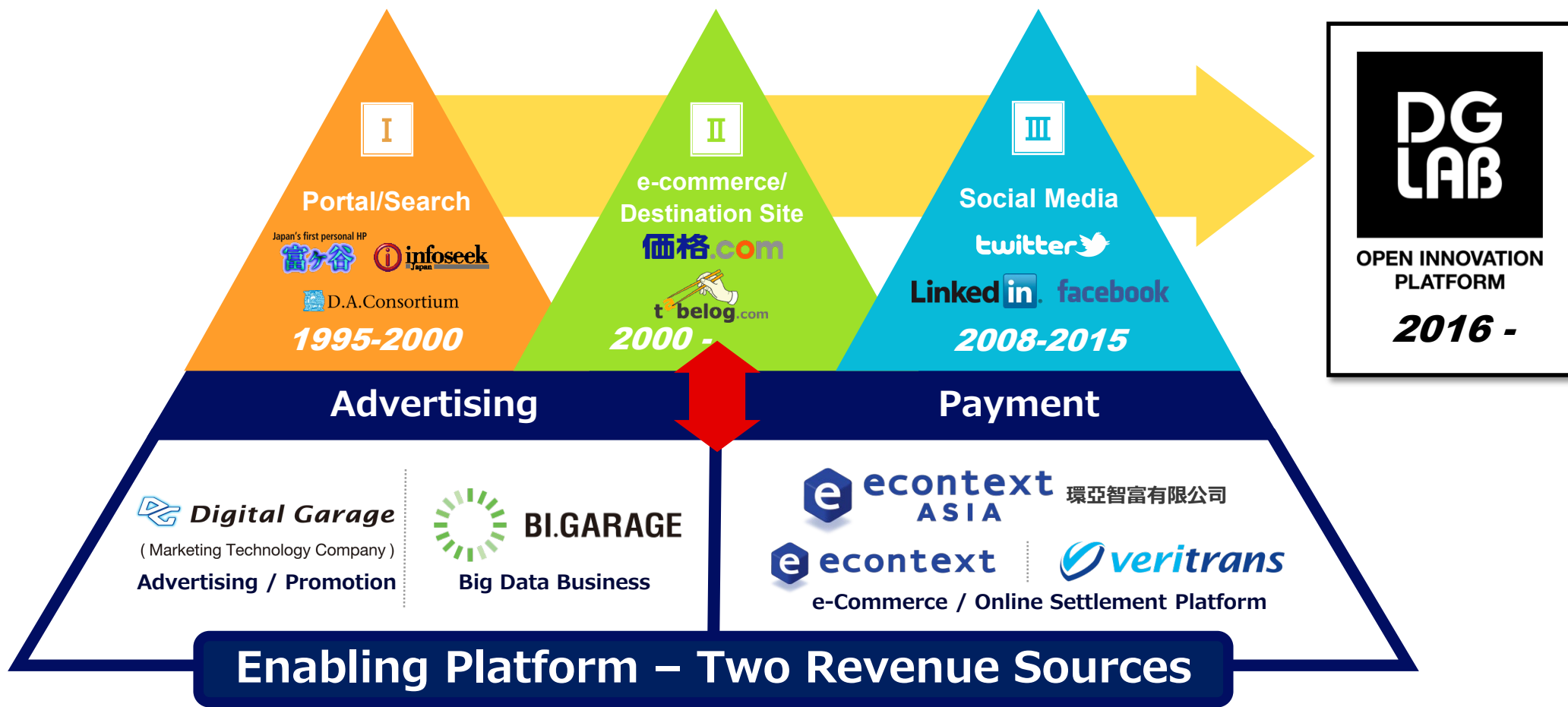


# Enabling Platform for DG's Incubation Model



context company

DG continues to incubate and develop unique Internet services through its Enabling Platform since the early days of the Internet



# Investment Highlights



## FY19.3 1Q-2Q profit before income taxes marked 4.9B JPY YoY grew by 41%, achievement rate 55%

- Sales marked 33.3B JPY YoY grew by 16%, operating profit marked 1.7B JPY YoY grew by 24%, and profit before income taxes achieved 4.9B JPY YoY grew by 41%.
- FT: Profit before income taxes increased 22% YoY, continuing high growth. MT: Profit before income taxes fell 40% YoY. IT: Profit before income taxes increased 11 times YoY to 1.4B JPY.
- A total of 25.0 B JPY in convertible bonds was issued. Aim to further increase corporate value by investing for growth, improving capital efficiency, and strengthening the financial base.

### Profit before income taxes by segments

	FY18.3 1Q-2Q		FY19.3 1Q-2Q	YoY
<b>FT</b>	1.1 (B JPY)	→	1.4 (B JPY)	+22%
<b>MT</b>	1.0 (B JPY)	→	0.6 (B JPY)	-40%
<b>IT</b>	0.13 (B JPY)	→	1.4 (B JPY)	11x
<b>LTI</b>	1.2 (B JPY)	→	1.5 (B JPY)	+22%

### Key points

- Sales YoY grew by 9%, profit before income taxes YoY grew by 22%
- Maintained high growth exceeding EC market growth. Transaction volume expanded to 970 B JPY. Transaction volume in non-EC area made rapid expansion and grew by 73% YoY
- Sales YoY grew by 8%, profit before income taxes YoY fell by 40%
- Profit before income taxes decreased due to no special demand in game market which occurred in 2Q FY18.3, increased office space, nearshoring, increased employee, and upfront investment for new project
- In mainline performance-based ads, sales for financial market grew strongly by 24% YoY
- Exit of Asian investment-related stocks progressed
- Profit before income taxes grew 11 times YoY to 1.4 B JPY
- Investment profit on equity method of Kakaku.com trended steadily
- Promote new business development utilizing blockchain



## < Major highlights of 4 segments and strategic R&D >



EC payment
Non-EC/ Face to face payments etc
Alliance

- Continued high growth exceeding EC market. Substantial increase in profits. Transaction volume in public financing sector expanded.
- Transaction volume in non-EC area such as Alipay YoY increased by 73%
- Established a JV for post-settlement payment business with major mail order company Nissen.



Internet ads/ Promotion
Data science

- DG Communications Co., Ltd. which focusing on real estate ads turned to a consolidated subsidiary, and launched Resi-Tech project
- Implemented strategic reallocation of offices and human resources by reorganizing business segments
- Launched "Japan Premium Media Consortium" of more than 30 major media companies
- Strengthened cooperation with Kakaku.com., and expanded data science business



Investment Incubation
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- Exited of Asian investment-related stocks progressed, and profit before income taxes grew strongly compared to 4Q in FY18.3
- Strengthened cooperation with US, Japan, Europe and Asia < Global Incubation Stream >
- Expanded investment in leading startups in Japan and overseas. 2.3 B JPY was invested in the first half of FY19.3. Investment ratio: Japan 43%, Asia 34%, US 23%, EU 1%

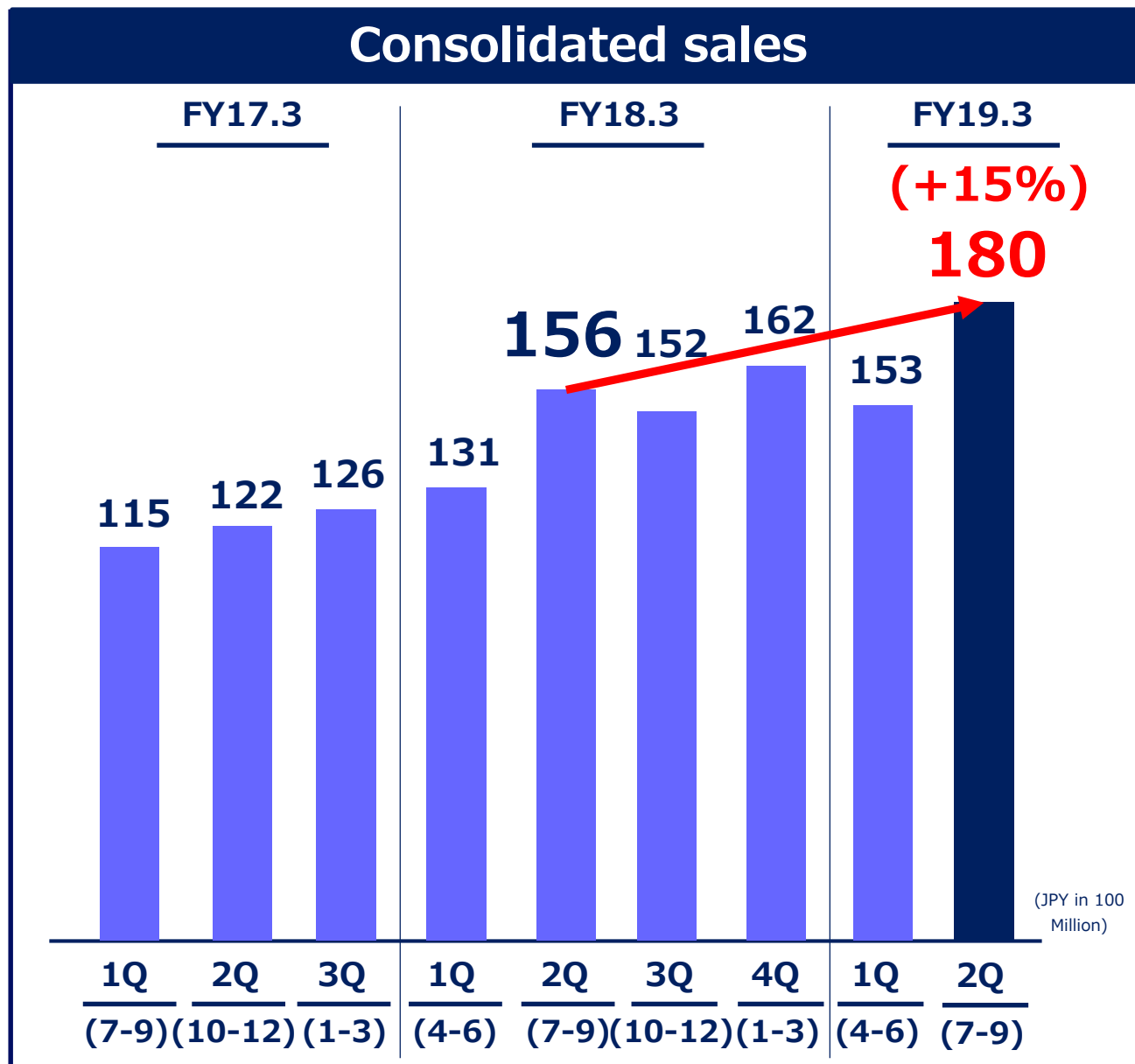


Kakaku.com
New business

- The number of monthly users of the group as a whole marked 240 million YoY grew by 17%. Steady growth in Tabelog, and strong growth in New Media.
- Established Crypto Garage, Inc. a JV with Tokyo Tanshi Co., Ltd. of blockchain based financial services in fintech field after a demonstration experiments at DG Lab.



- Driven by strategy investment and alliance focusing on five key fields and accelerated commercialization
- KDDI's participation as a DG Lab's core partner and agreed on a strategic alliance. Aiming to create business in the 5G era.
- Launched "Open Network Lab BioHealth", a biotechnology and healthcare specialized accelerator program

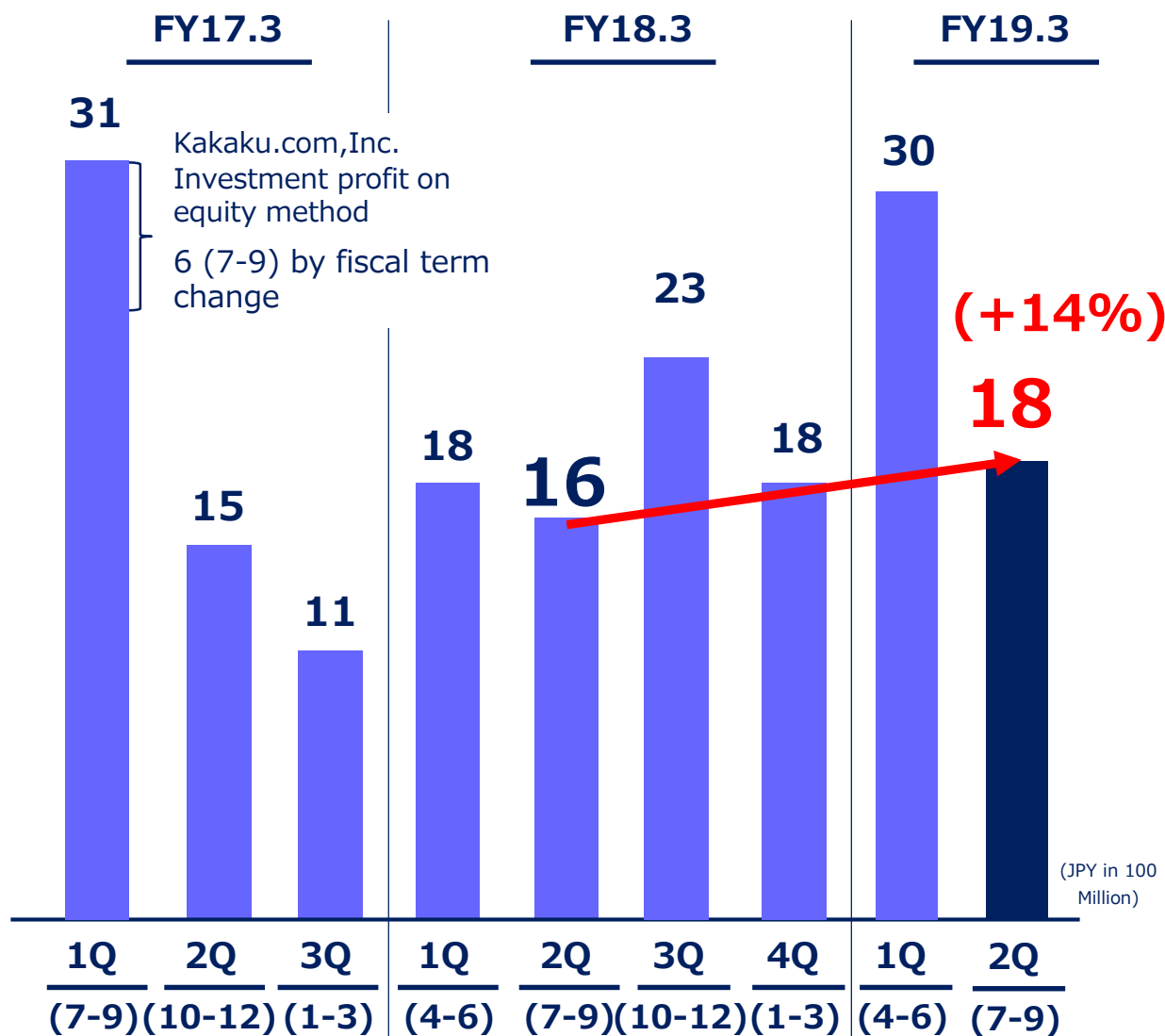


- 2Q sales marked 18.0 B JPY, up 15% compared to 2Q FY18.3
- All segments increased in sales, especially MT and IT drove the consolidated sales growth

(FY17.3 was nine-month period due to change in fiscal year-end)



## Consolidated Profit before Income Taxes



■ 2Q profit before income taxes marked 1.8 B JPY, up 14% compared to 2Q FY18.3

■ IT and FT contributed to significant increase in profit before income taxes

(FY17.3 was nine-month period due to change in fiscal year-end)

# Group Financial Performance Review



# FY19.3 1Q-2Q Consolidated P/L Summary

**Sales grew by 16% YoY, profit before income taxes marked 4.9B JPY YoY grew by 41%**  
 ~ Operating profit grew by 24% YoY to 1.7B 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-2Q J-GAAP	1Q-2Q J-GAAP	%	Amount	
<b>Net sales</b>	<b>28,719</b>	<b>33,356</b>	<b>+16.1</b>	<b>+4,637</b>	<b>Revenue</b> <b>33,500</b>
<b>Operating profit</b>	<b>1,416</b>	<b>1,758</b>	<b>+24.1</b>	<b>+341</b>	
Non-operating income	1,499	1,892	+26.2	+393	
Share of profit of entities accounted for using equity method	1,233	1,359	+10.2	+126	
Foreign exchange gain	9	194	20 x	+184	
Non-operating expenses	237	226	-4.8	-11	
<b>Ordinary profit</b>	<b>2,678</b>	<b>3,424</b>	<b>+27.9</b>	<b>+746</b>	
Extraordinary income	852	1,541	+80.8	+688	
<b>Profit before income taxes</b>	<b>3,494</b>	<b>4,929</b>	<b>+41.1</b>	<b>+1,434</b>	<b>Profit before tax</b> <b>9,000</b>
Income taxes	995	1,808	+81.8	+813	
<b>Profit attributable to owners of parent</b>	<b>2,490</b>	<b>3,140</b>	<b>+26.1</b>	<b>+649</b>	<b>Profit attributable to owners of parent</b> <b>6,200</b>

# FY19.3 1Q-2Q 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 due to special demand for games in FY18.3, strategic personnel reinforcement, and development investment.~

JPY in Millions	FY18.3	FY19.3	YoY		FY19.3 Full Year Forecast
	1Q-2Q	1Q-2Q	%	Amount	
	J-GAAP	J-GAAP			IFRS
<b>Net sales</b>	<b>28,719</b>	<b>33,356</b>	<b>+16.1</b>	<b>+4,637</b>	<b>Revenue</b> <b>33,500</b>
FT Financial Technology	10,159	11,063	+8.9	+903	6,500
MT Marketing Technology	17,299	18,702	+8.1	+1,402	14,500
IT Incubation Technology	1,239	2,426	2 x	+1,187	3,100
LTI Long Term Incubation	20	1,164	57 x	+1,143	6,500
<b>Profit before income taxes</b>	<b>3,494</b>	<b>4,929</b>	<b>+41.1</b>	<b>+1,434</b>	<b>Profit before tax</b> <b>9,000</b>
FT Financial Technology	1,157	1,411	+21.9	+254	3,200
MT Marketing Technology	1,098	653	-40.5	-445	2,250
IT Incubation Technology	139	1,483	11 x	+1,343	1,350
LTI Long Term Incubation	1,247	1,519	+21.8	+272	3,450

# FY19.3 2Q Consolidated B/S Summary



Context company

JPY in Million	FY18.3	FY19.3 2Q	Difference	Reason for change / Remarks
<b>Current assets</b>	75,176	97,387	+22,211	
Cash and deposits	32,922	49,415	+16,493	Raising funds by issuing CB, Share buy-back, Payment of corporation tax and dividends
Money held in trust	5,307	4,858	-449	Relating to FT business
Notes and accounts receivable	7,741	8,707	+965	Consolidation of DG Communications, Co., Ltd.
Operational investment securities	12,364	15,052	+2,688	New investment, Mark-to-market, etc
Accounts receivable-other	16,889	19,442	+2,553	Relating to FT business
<b>Fixed assets</b>	33,419	36,689	+3,269	
Investment securities	16,552	19,106	+2,554	Underwriting of capital increase of iRidge, Inc., Increased investment profit on equity method
<b>Total assets</b>	108,596	134,128	+25,532	
<b>Current liabilities</b>	49,294	51,159	+1,865	
Notes and accounts payable	5,018	6,960	+1,942	Consolidation of DG Communications, Co., Ltd.
Short-term loans payable	4,137	8,510	+4,373	Demand for operating capital (FT)
Deposits received	36,499	31,185	-5,313	Relating to FT business
<b>Fixed liabilities</b>	20,284	45,821	+25,536	
Long-term loans payable	18,890	18,524	-366	
Convertible bond-type bonds with share acquisition rights	-	25,245	+25,245	CB issuance
Deferred tax liabilities	601	700	+98	Expecting tax relating to unrealized gains of securities
<b>Total liabilities</b>	69,578	96,980	+27,402	
<b>Net assets</b>	39,017	37,148	-1,869	
Shareholders' equity	36,363	33,392	-2,970	
Capital stock	7,464	7,482	+17	
Capital surplus	3,104	3,109	+4	
Retained earnings	25,819	27,826	+2,007	Increased net profit
Treasury shares	-26	-5,026	-4,999	Share buy-back
Accumulated other comprehensive income	1,440	2,296	+856	
Valuation difference on available-for-sale securities	339	980	+641	After-tax unrealized gains of securities
<b>Total liabilities and net assets</b>	108,596	134,128	+25,532	

## Enhancing Financial Leverage and Capital Efficiency

	Before Recap CB	After Recap CB
<b>Financial Leverage</b>	x2.76	x3.07
<b>Expected ROE</b>	15.4 %	16.4 %
<b>Expected EPS</b>	¥131.49	¥133.44

※Repurchase of 1.26 million shares due to share buybacks, decrease of ¥5.0 billion in shareholders' equity



Unrealized gain

# Segment Performance Review





## I Financial Technology Segment

		Net Sales	Income Before Income Taxes
FY18.3	1Q-2Q	10,159 M JPY	1,157 M JPY
FY19.3	1Q-2Q	11,063 M JPY	1,411 M JPY
<b>FY19.3</b>	<b>Plan (IFRS)</b>	<b>6,500 M JPY</b>	<b>3,200 M JPY</b>

▶ **econtext ASIA Ltd.**

Payment corporation to expand e-commerce platforms globally



▶ **econtext, Inc.**

Integrates online and offline business as the convenience store payment pioneer



▶ **VeriTrans Inc.**

Provides leading e-commerce payment solutions



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

Develops and offers the new payment solution by FinTech



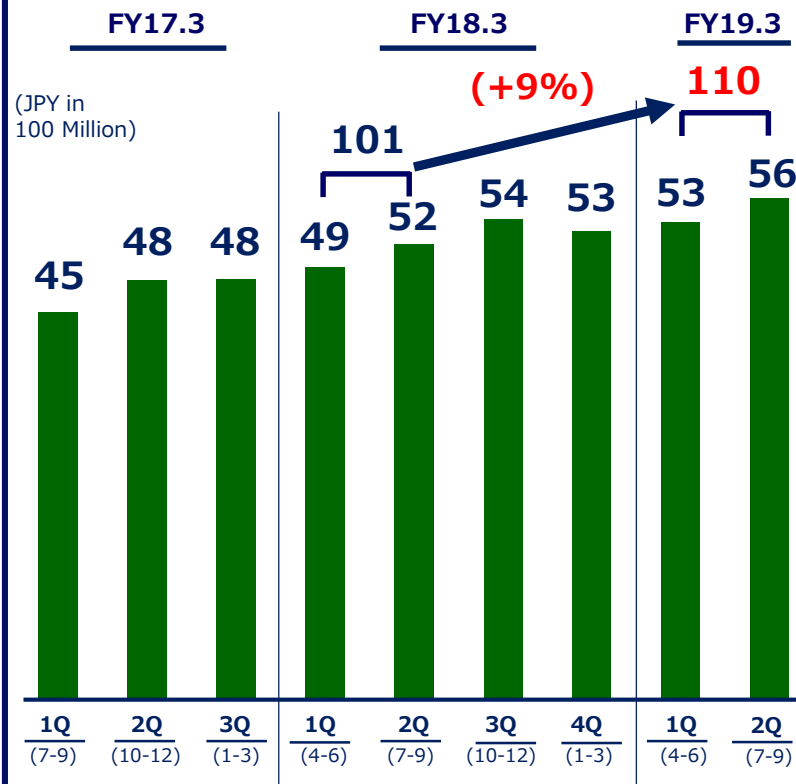
▶ **SCORE Co., Ltd** (49% stake/equity method)

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



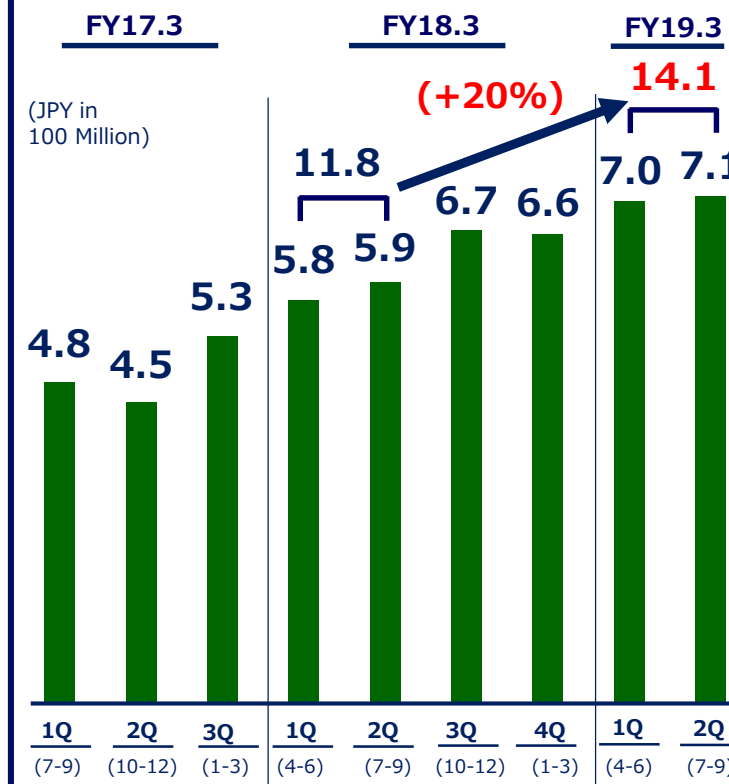
**Net sales in 1-2Q marked 11.0B JPY, +9% YoY, operating profit marked 1.4B JPY, +20% YoY**  
 ~ Operating margin which shows profitability increased to 44.3%, improved by 2 points ~

## Net Sales



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

## Operating Profit



■ Higher gross profit due to improved profitability contributed to record-high profits

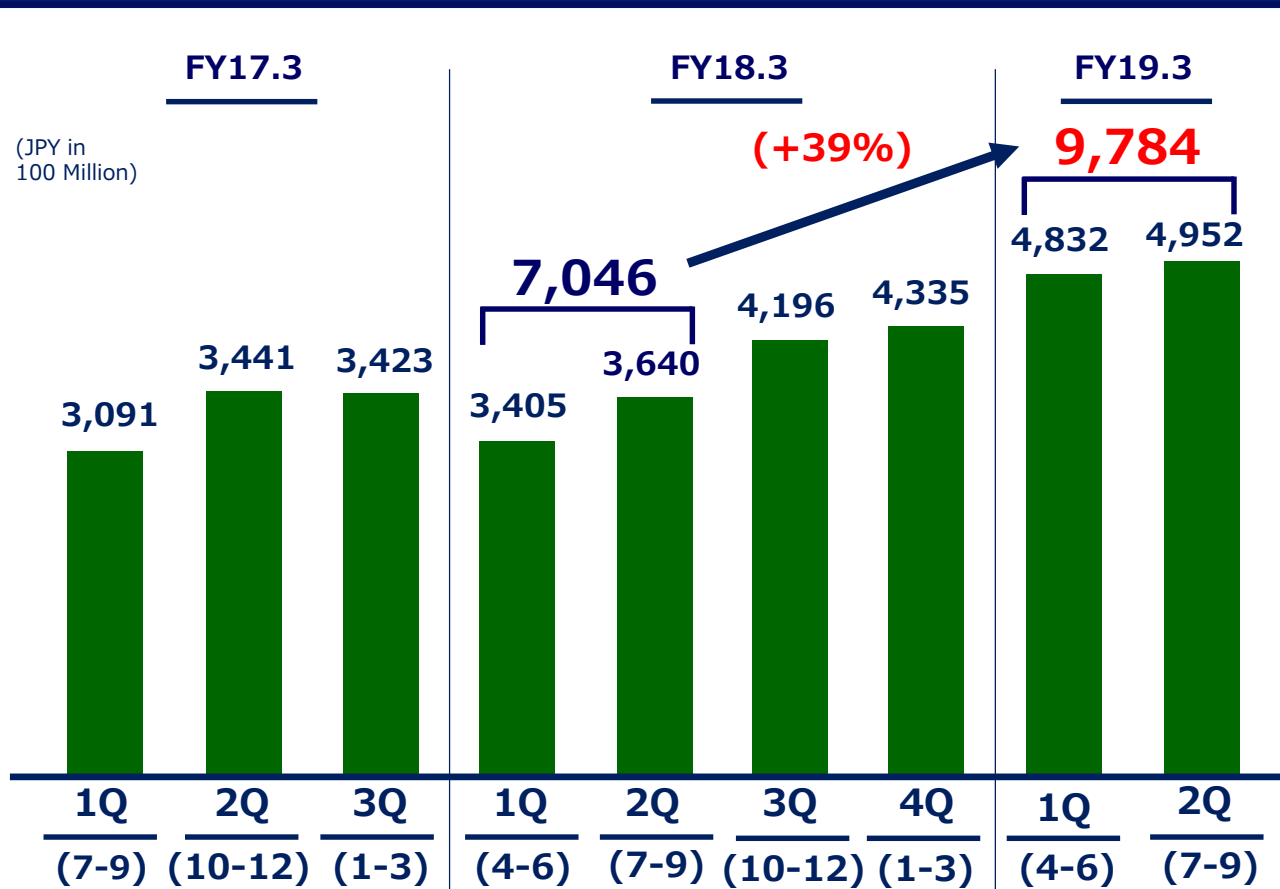
## Operating Margin

	FY18.3 1-2Q	FY19.3 1-2Q	YoY
Net sales	101.5	110.6	+ 9%
Gross profit (A)	27.8	31.9	+ 14%
Op. profit (B)	11.8	14.1	+ 20%
Operating margin (B) (A)	42.3%	44.3%	+2.0 points

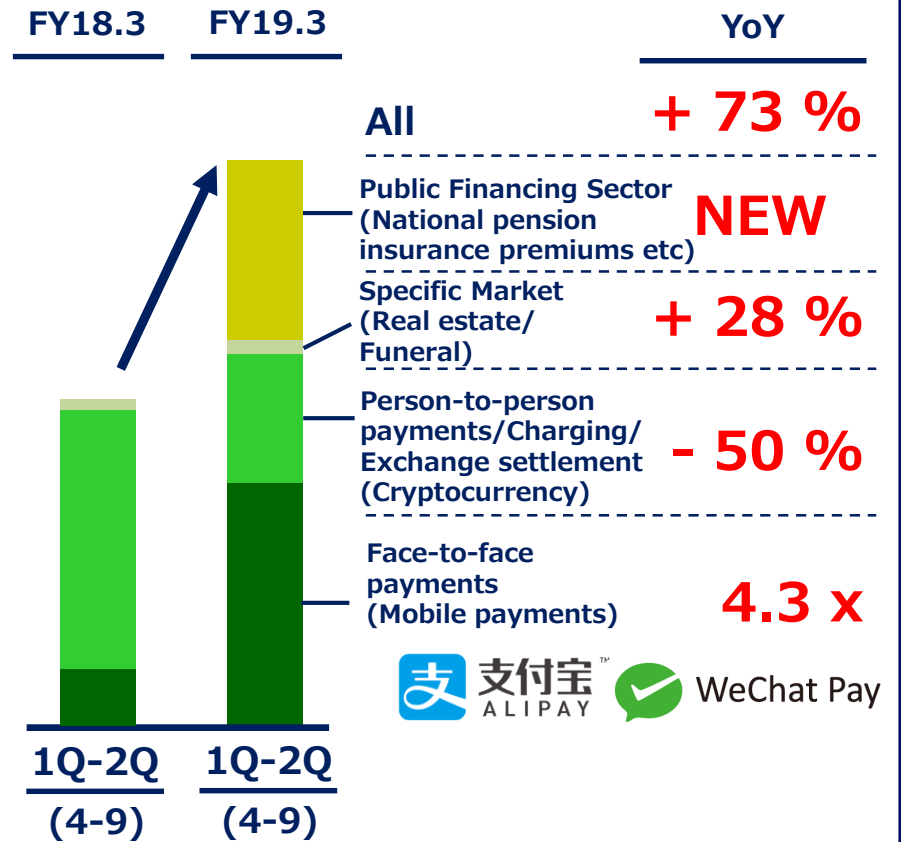
■ Operating margin improved as increased marginal profit

**Transaction in 1-2Q marked more than 970 B JPY, +39% YoY, exceeded EC market growth**  
 ~ Expansion of face-to-face Alipay payments in response to inbound demand and payments in the public financing sector contributed ~

## Transaction Record



## Transaction volume in focusing area (Non-EC payment, public financing sector etc)

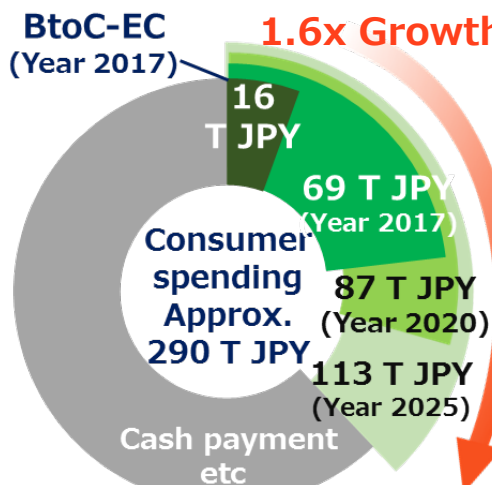


## Developing the new growth area as a payment platformer in FinTech

~ Following Non-EC payment and face-to-face payment, promoting public fund payment and post-settlement payment ~

### Market Environment

**Electronic payment**  
113 T JPY in 2025  
1.6x Growth from 2017



**2025 Cashless ratio Target 40%**

(Ref. METI, Card Wave, Inc.)

### Theme in FT segment

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

### Growth Strategy






EC payment: Organic growth (10-15%)

- I Non-EC payment/ Face-to-face payment**
- Specific market (Real estate/ Restaurants/ Funeral etc)
  - Barcode payment
  - New area (public fund payment/ utility fees payment etc)

- II Alliance**
- Payment cooperation with business partners having large customer base
  - New business with alliance

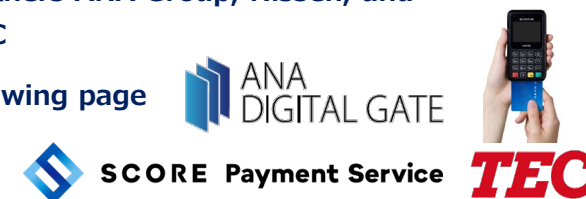
### Main approaches

✓ = New Approaches

- Payment for Real estate/ Restaurants/ Funeral etc 
- ✓ ■ Barcode payment Following Alipay, WeChatPay started   

- Remittance service 
- Cryptocurrency exchange settlement 
- ✓ ■ Undertaking the collection business by credit card of the National Pension Insurance, and payment of national taxes at convenience stores (public finance sector)

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

➔ see the following page for details



## Promoting Business Expansion through Business Alliances and Systems Alliances with Strategic Partners

~ Expand diverse payment methods in various areas, from post-settlement payment to face-to-face payments at real stores ~

### Alliance

**I** ✓ Post-settlement payments



SCORE Payment Service

Nissen Co., Ltd.

- Established a JV for post-settlement payment business with major mail order company Nissen. Transferred the post-settlement payment business to JV, which boasts a track record of about 1,500 installations since Nissen began operations in 2012
- Promote development of FinTech services that incorporate marketing elements such as new credit scoring and purchasing promotion

**II** ✓ Face-to-face payments (POS register)



TOSHIBA TEC CORPORATION

- Expand face-to-face settlement services in conjunction with TOSHIBA TEC's strength in POS system infrastructure
- By linking payments and services in the field of stores and e-commerce, which are the strengths of both companies, also supporting the omni-channel development of businesses

**III** ✓ Face-to-face payments (mPOS, various payments)



ANA Group

- In cooperation with ANA Group, we provide face-to-face payments to airports, duty-free shops, hotels, and other locations throughout Japan
- In terms of future initiatives, we will promote service development in cooperation with ANA Group companies and development of marketing solutions for affiliated stores

## II Marketing Technology Segment

		Net Sales	Income Before Income Taxes
FY18.3	1Q-2Q	17,299 M JPY	1,098 M JPY
FY19.3	1Q-2Q	18,702 M JPY	653 M JPY
<b>FY19.3</b>	<b>Plan (IFRS)</b>	<b>14,500 M JPY</b>	<b>2,250 M JPY</b>

### ▶ Marketing Technology Company

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



### ▶ DG Communications Co., Ltd.

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



### ▶ BI.Garage, Inc.

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



### ▶ NaviPlus Co., Ltd.

Offers website support tools including personalized recommendation engines



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

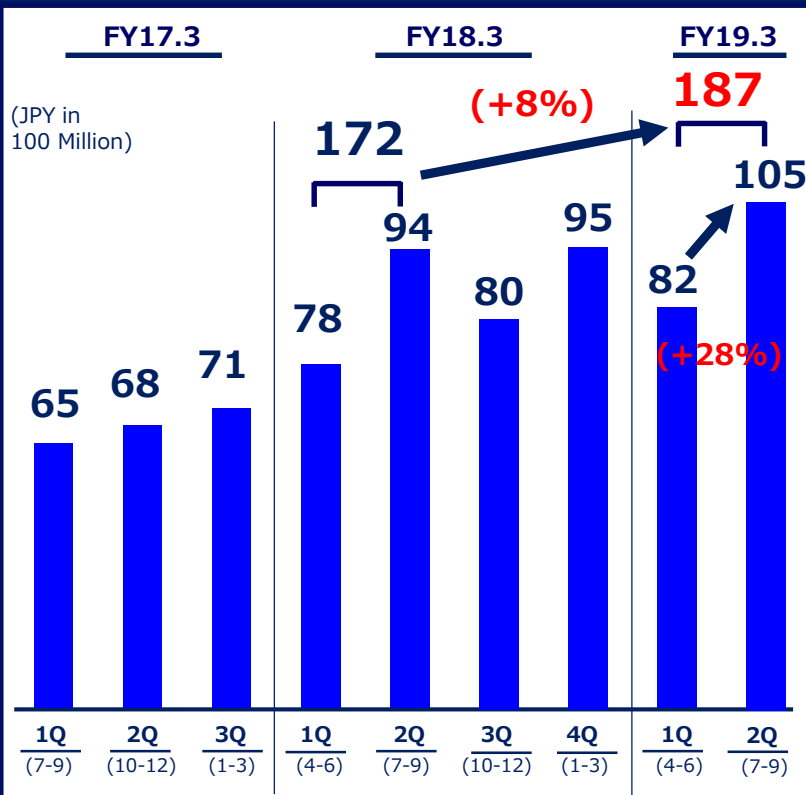
Established on June 25<sup>th</sup>, 2018 and its predecessor is Business Design Company



## Operating profit in 1-2Q marked -46% YoY, 2Q was 0.32 B JPY, +39% QoQ

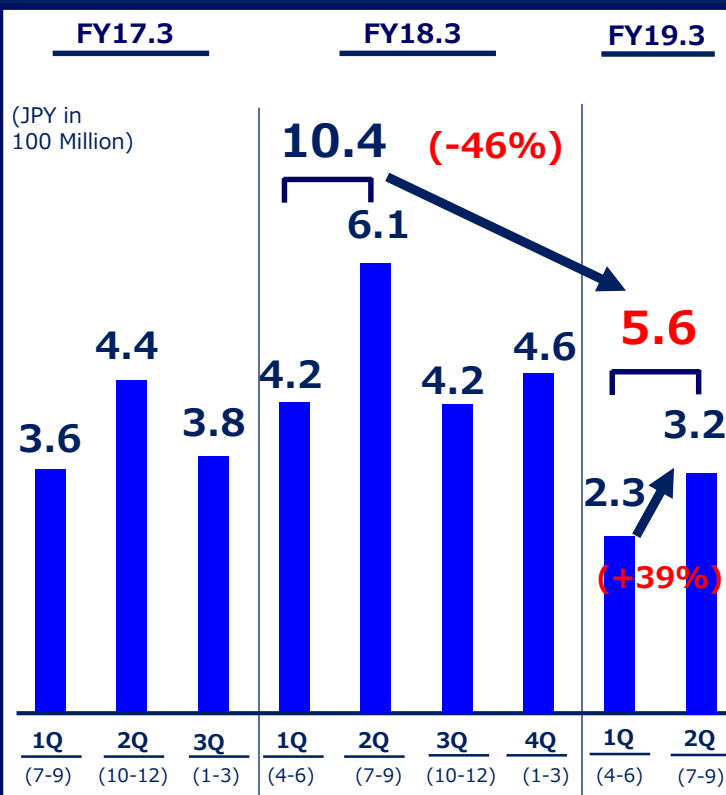
~ DG Communications Co., Ltd. became a consolidated subsidiary. In addition to conventional performance ads, strengthen the real estate business ~

### Net Sales



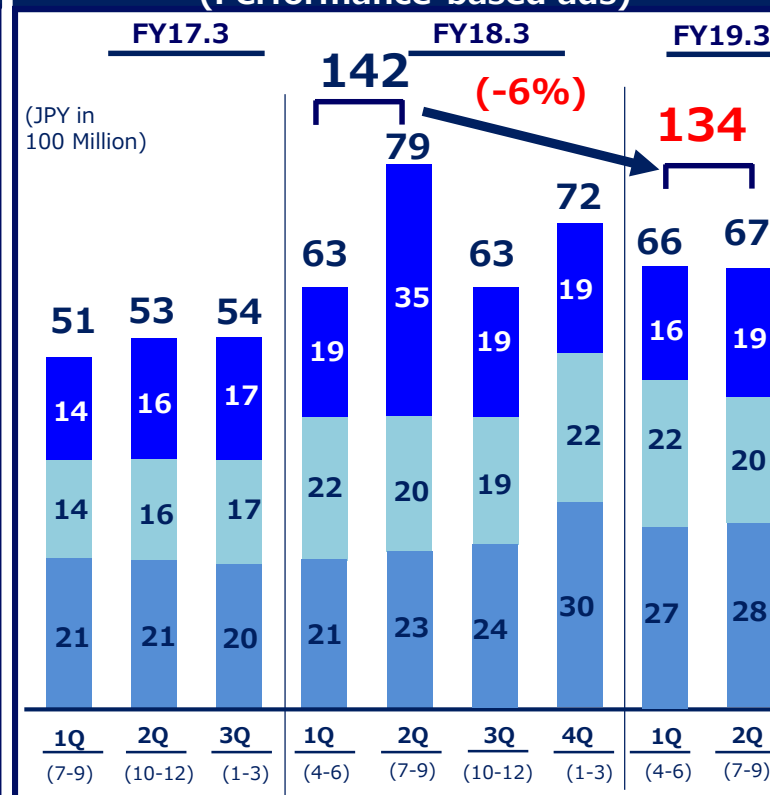
- Special demand for games in 2Q FY18.3 (in smartphone/App business)
- 2Q sales up 28% QoQ to 10.5B JPY, boosted by consolidation of DGC

### Operating Profit



- Profit decreased 46% YoY mainly due to special demand for games in FY18.3 and upfront investment in personnel expansion, floor space expansion, and new projects.

### Net Sales by Industries (Performance-based ads)



- Significant decline in sales for Game. Sales to the financial market increased 24% YoY.
- Strengthen the real estate business, following the finance, cosmetics/HR, and smartphone/App market.



## ■ Profit before income taxes

(JPY in 1 Million)

FY18.3	FY19.3	YoY	
1Q-2Q	1Q-2Q	%	Amount
1,098	653	-40.5	-445

- Decrease in gross profit in the game application field** - 150 M JPY
    - ➔ Impact of the absence of special demand for games in FY18.3
  - Personnel expenses increase/ Floor space expansion** - 200 M JPY
    - ➔ 1. Expansion of the Tokyo office floor space to optimize operations
    - 2. Establishment of a Sapporo Nearshoring Base
    - 3. Personnel reinforcement related to the above-mentioned matters
  - Upfront investment for new project** - 150 M JPY
    - ➔ 1. Operation of Japan Premium Media Consortium
    - 2. Development of next-generation payment application linked to FT
    - 3. Resi-Tech Project
  - Gross profit increase due to sales increase etc** + 60 M JPY
- 
- Total of decrease in MT segment income** - 440 M JPY

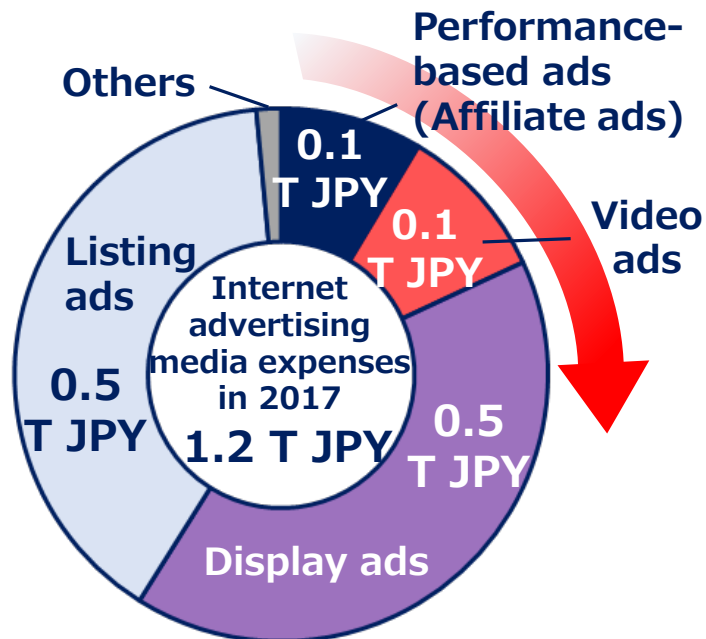


Expand business through deeper penetration of our strength of performance-based ads, and expanding brand advertising for content media

~ Promote data science business utilizing DG Group's unique data and MT/FT collaboration ~

## Market Environment (Internet Advertising Media Expenses\*)

- ✓ Internet advertising media expenses in 2018 grew 15% YoY to over 1.4T JPY
- ✓ Video advertising market in 2018 grew 39% YoY to approx. 160B JPY



## Business Strategy

### DG Digital Garage Group

I

#### Performance-based ads

- Deepen our strengths in areas such as finance and real estate
- Cooperation with promotion business
- Optimization of operations

 **Digital Garage**

(Marketing Technology Company)

 DG COMMUNICATIONS

II

#### Brand advertising

- Operation of Japan Premium Media Consortium
- Providing optimal advertising indicators and advertising value for both brand advertisers and influential premium media

III

#### Data science/ Total solution

- Providing DMP for storing DG Group's own data
- To provide integrated solutions ranging from consulting to development, marketing, and payment

 BI.GARAGE

 **kakaku.com**

 econtext  veritrans

**Launched “Japan Premium Media Consortium” of more than 30 major media companies**  
 ~ Promoting the development of optimal advertising indicators and advertising value for content media on the Internet~

<b>Newspaper company</b>	<b>Magazine/ Internet Media</b>
The Asahi Shimbun Company The Mainichi Newspapers Co., Ltd. The Yomiuri Shimbun Nikkei Inc. SANKEI DIGITAL Inc. The Hokkaido Shimbun Press The Chunichi Shimbun NISHINIPPON SHIMBUN MEDIA LAB, Inc.	Impress Corporation Kodansha Ltd. Kobunsha Co., Ltd. Condé Nast Japan The Huffington Post Japan, Ltd. CCC Media House Co., Ltd. DIAMOND, Inc. TOYO KEIZAI INC. Japan Business Press Co., Ltd. HEARST FUJINGAHO Bungeishunju Ltd. MAGAZINE HOUSE, Ltd. mediagene Inc.
<b>TV station</b>	<b>Radio station</b>
Nippon Television Network Corporation Tokyo Broadcasting System Television, Inc. Fuji Television Network, Inc. TV Asahi Corporation TV TOKYO Corporation YOMIURI TELECASTING CORPORATION Mainichi Broadcasting System, Inc. Kansai Television Co. Ltd. Asahi Television Broadcasting Corporation Television Osaka, Inc.	J-WAVE, Inc.
32 companies in total, in no particular order	

**Japan Premium Media Consortium**

**32 major media companies participate**

Admin Office : Digital Garage, Inc. **Digital Garage**

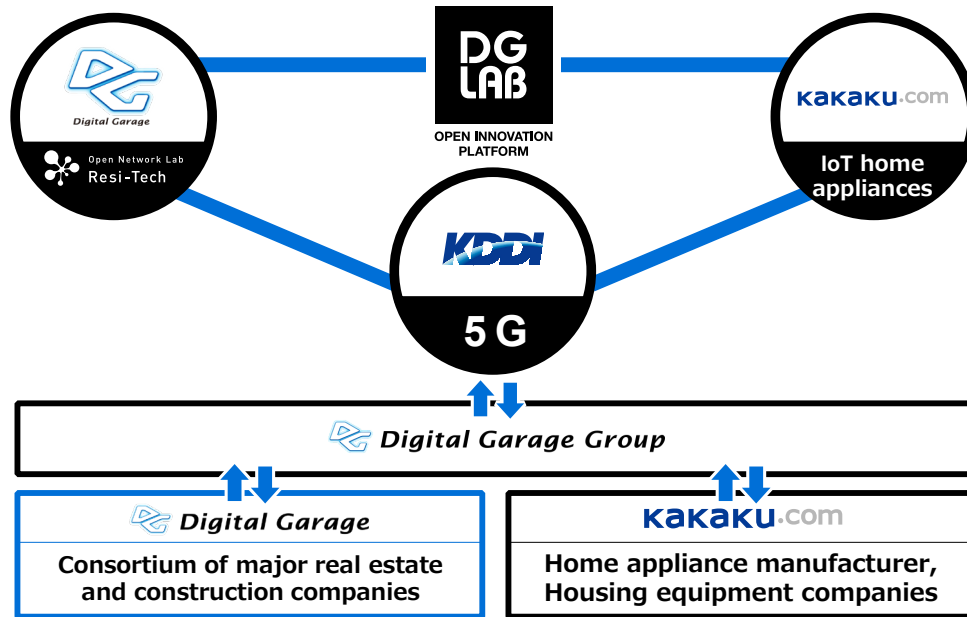
Newspaper company	Magazine publisher	TV station	Radio station	Internet Media
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## Launches “Open Network Lab Resi-Tech”, an accelerator program

~ Supporting startups and global expansion in collaboration with major domestic real estate, construction, and lifeline companies~



Looking toward the fifth-generation communication technology (5G) era, fostering and supporting promising startups in the fields of housing and urban space

- Collaboration with DG Communications Co., Ltd., a subsidiary that possesses real estate advertising-related know-how and develops marketing and solution services
- Build an ecosystem to support the creation of new businesses

Major companies from Japan and abroad that are leaders in the real estate, construction, and lifeline industries will participate as partners

- Mentoring startups and give lectures on business know-how



- Utilization of know-how cultivated in Open Network Lab
- Cooperation with Global Incubation Stream
- Overseas expansion of Japan's first startup
- Supporting overseas startup program participation and Japanese expansion

## III Incubation Technology Segment

		Net Sales	Income Before Income Taxes
FY18.3	1Q-2Q	1,239 M JPY	139 M JPY
FY19.3	1Q-2Q	2,426 M JPY	1,483 M JPY
<b>FY19.3</b>	<b>Plan (IFRS)</b>	<b>3,100 M JPY</b>	<b>1,350 M JPY</b>

▶ **DG Incubation, Inc.**

Invests in and incubates cutting-edge Internet startups



▶ **Open Network Lab, Inc.**

Provides support to Internet-business entrepreneurs with global visions



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

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



▶ **Digital Garage US, Inc.**

The US-based global strategy headquarters



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

Drives strategic technology development with DG Lab



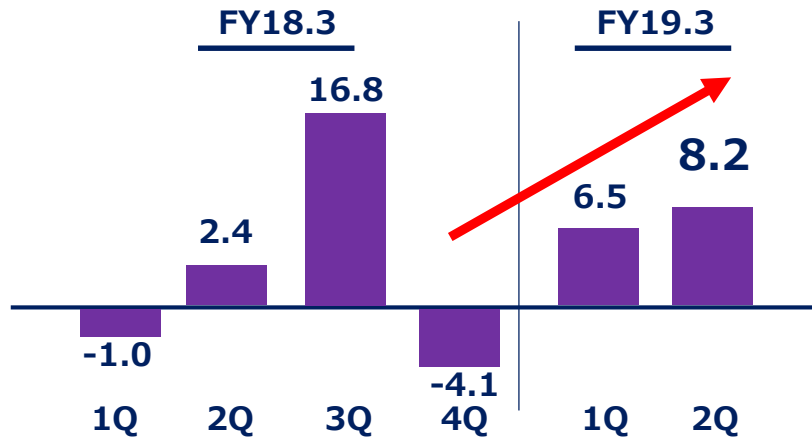
Some businesses in IT segment have transferred to LTI, therefore figures on FY17.3 updated with the current category.

**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
<b>Equity</b>	<b>162</b>	<b>13.9 B JPY</b>
Domestic	56	2.7 B JPY
Overseas	106	11.1 B JPY
<b>Fund</b>	<b>12</b>	<b>1.1 B JPY</b>
<b>Total</b>	<b>174</b>	<b>15.0 B JPY</b>

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



### Repro [Japan]

Operates mobile app analytics and marketing SDK "Repro."

### 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 allows engineers from around the world to request development



### Cloudian [U.S.]

Build and operate a cloud storage system that stores large volumes of data used in IoT, AI, big data analysis, etc. economically and safely.



### 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-2Q	20 M JPY	1,247 M JPY
FY19.3	1Q-2Q	1,164 M JPY	1,519 M JPY
<b>FY19.3</b>	<b>Plan (IFRS)</b>	<b>6,500 M JPY</b>	<b>3,450 M JPY</b>

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

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

**kakaku.com**

▶ **Crypto Garage, Inc.** (60% Stake)

Promoting research and development of advanced financial services utilizing blockchain technology and cryptography technology with Tokyo Tanshi Co., Ltd.

 CRYPTO GARAGE

▶ **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)

Internet media business utilizing fashion magazines by Kodansha

**DK**  **MEDIA**

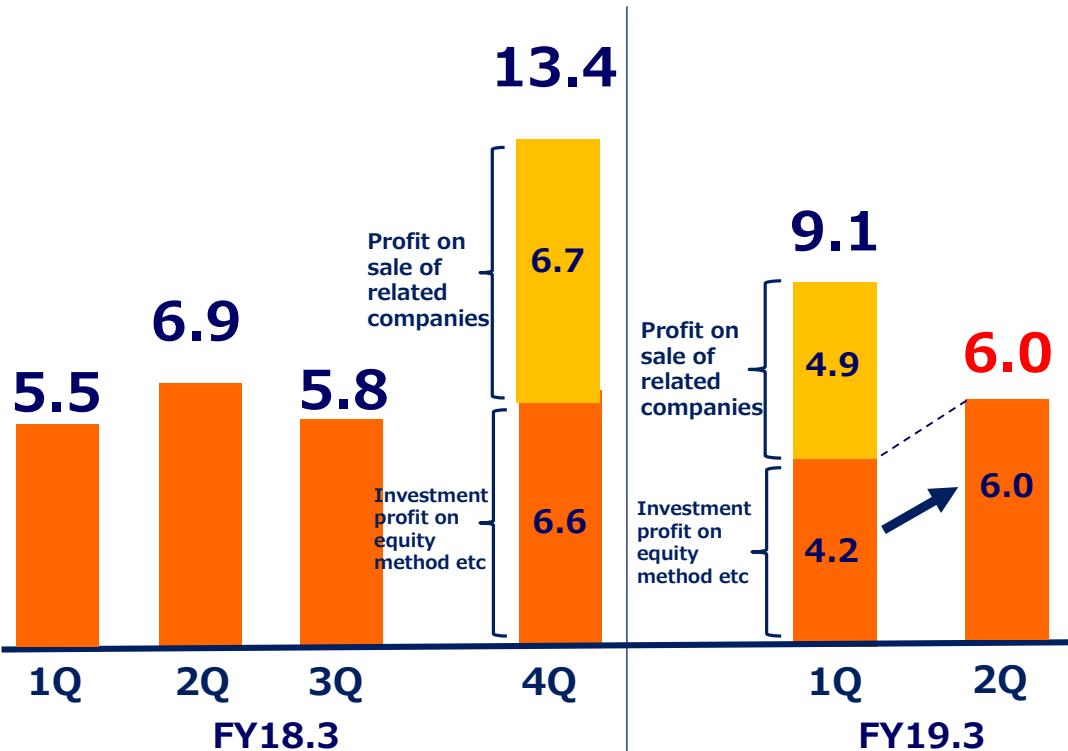
MI segment has been changed to LTI segment from FY18.3, by aiming to generate sustainable business profit in mid-long term.

**Profit before income taxes marked 0.6B JPY. Investment profit on equity method of Kakaku remains robust**

~ Segment profit was favorable, excluding profit on sale of related companies which occurred temporarily ~

## Profit Before Income Taxes

(JPY in 100 Million)

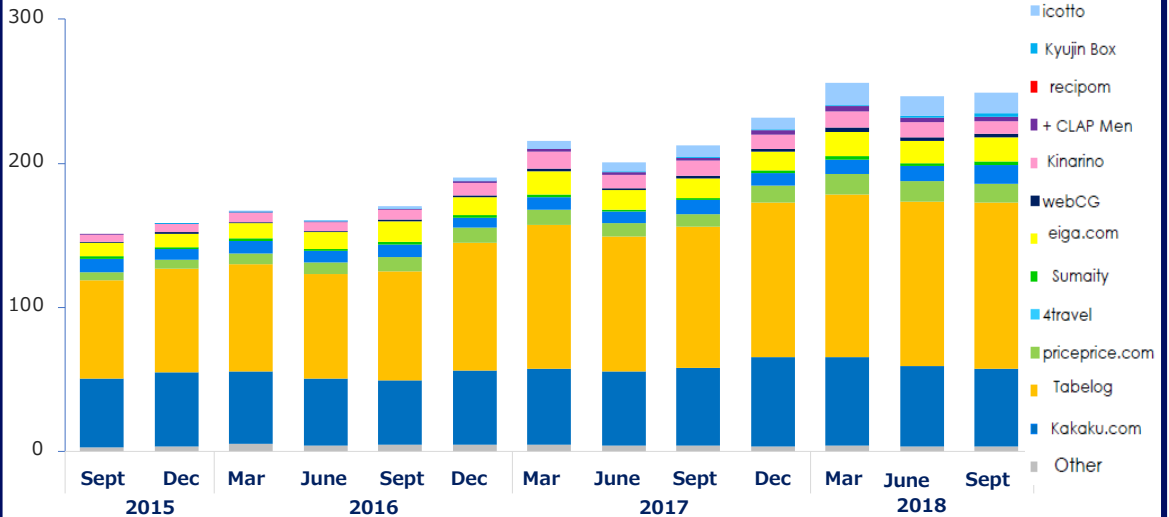


## Business Progress of Kakaku.com, Inc.

**[Total Accumulated Traffic for Kakaku.com Group]**

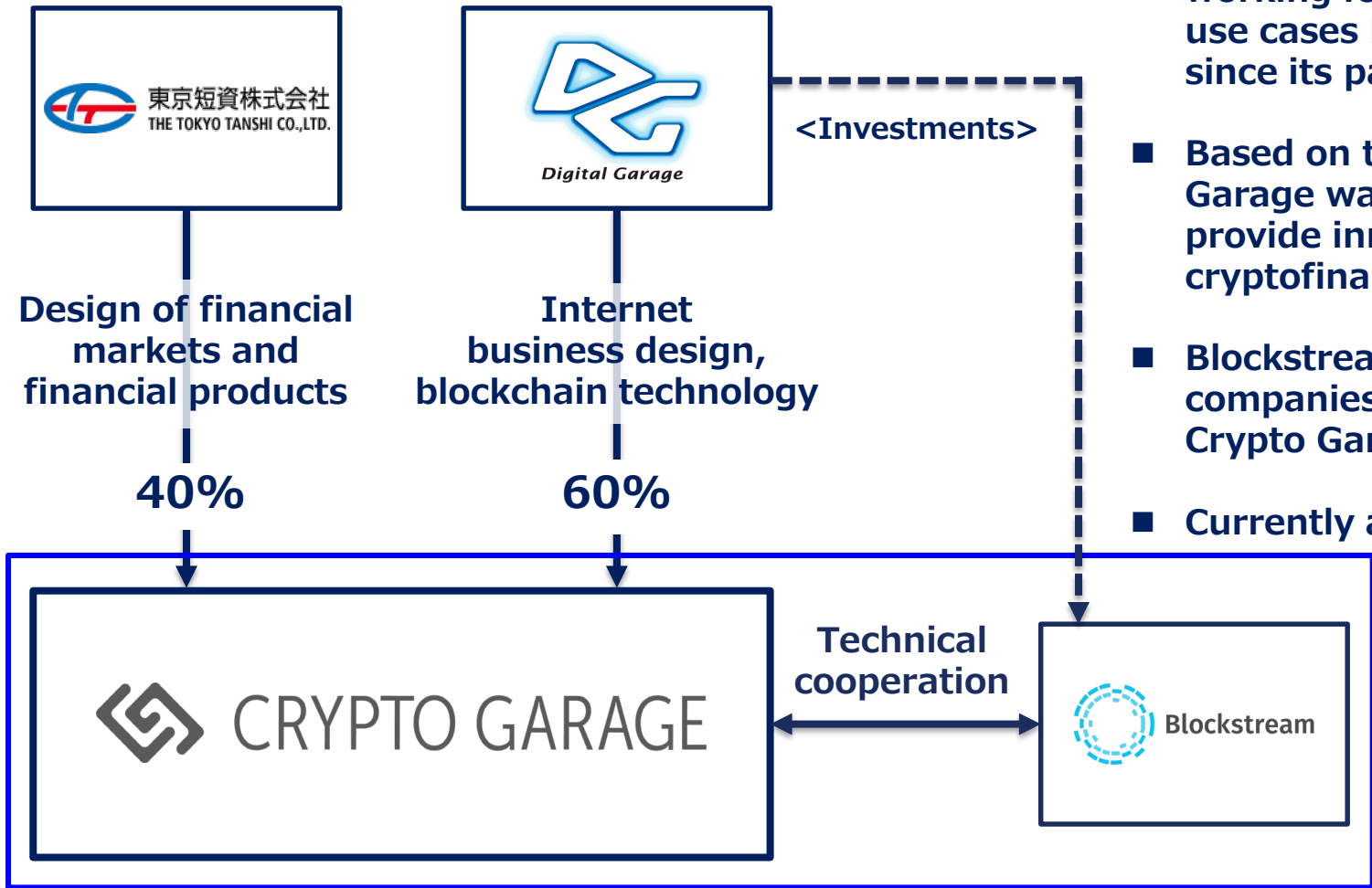
Monthly traffic for all sites of Kakaku.com has increased to 249.19 million, up 17.2% yoy (September 2018)

(in million people)



Ref. Kakaku.com, Inc. Results Briefing for 2Q FY2019/3

Established Crypto Garage, Inc. in Sept. 2018 which is JV with Tokyo Tanshi Co., Ltd. in order to accelerate R&D and commercialization of blockchain based financial services in fintech field.

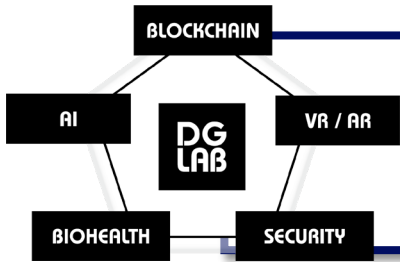


- Digital Garage and Tokyo Tanshi have been closely working for research and development of financial use cases by using bitcoin blockchain technology since its partnership agreement in November 2017
- Based on the results of above R&D initiative, Crypto Garage was established in order to develop and provide innovative services in the emerging cryptofinancial industry
- Blockstream, one of DG Lab Fund’s portfolio companies, provides technical support towards Crypto Garage’s product development
- Currently aiming to launch first product in FY2019



**DG Lab**





R&D focused on five key fields is now in its third year of operation, and the commercialization phase is now fully underway through business tie-ups, demonstration experiments etc

**BLOCK CHAIN**

**Full Support for the World's Largest Bitcoin Conference in Tokyo**



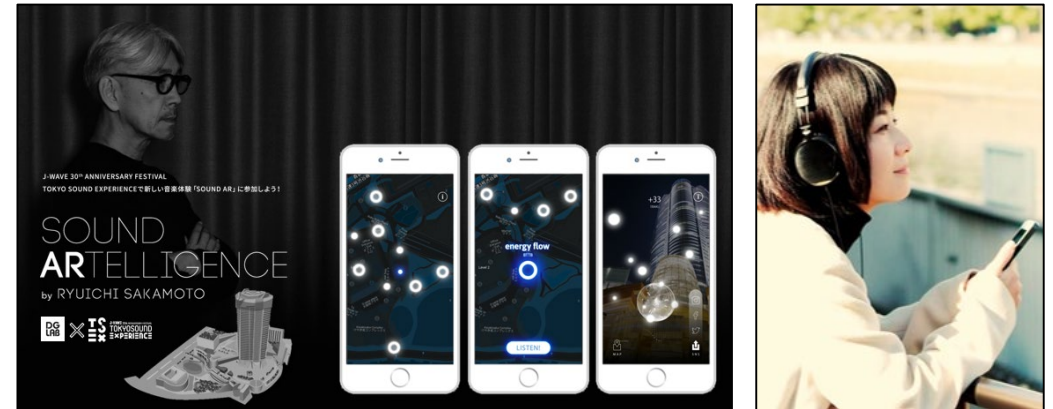
Scalingbitcoin



On October 6-7, 2018, DG Lab managed the Scaling Bitcoin, an international conference held at Keio University, which brings together developers and academics of Bitcoin from around the world, and DG Lab cooperated fully as a local support organization at the venue. DG Lab engineers also appeared as presenters, and the content of the presentations received high praise.

**AR/VR**

**Demonstration Experiments on Sound AR**



On October 1-8, 2018, in collaboration with J-WAVE and Mori Building, the company conducted demonstration experiments of "Sound AR," which combines position data and audio content at Roppongi Hills in Tokyo. At multiple locations within the venue, we installed AR art that synchronizes with Mr. Ryuichi Sakamoto's music and scenery on smartphones. WEB-AR technology, which can be experienced only by browsers, is adopted. In the future, we plan to consider business use and business development based on the acquired data and the content of development.



Open Network Lab  
BioHealth

## “Open Network Lab BioHealth” Selected by five startups

~ Providing Mentoring through Selection with 22 Partner Companies/Organizations ~

### Selected startups

Immunotherapy  
for Refractory  
Cancer

Prediction of  
Alzheimer's disease  
progression by MRI  
imaging

Heart Rate  
Measurement  
Sleep IoT for  
Detecting  
Disease

Diabetes  
Preventive Meal  
Guidance App

Training VR  
for stuttering  
symptom

### Selected five startups

Wide range of businesses from digital integration to drug discovery

- An unexpectedly large number of applicants from Japan and overseas
- Universities, local businesses, and entrepreneurs involved in the project

Carry out selection with partners and provide direct mentoring support

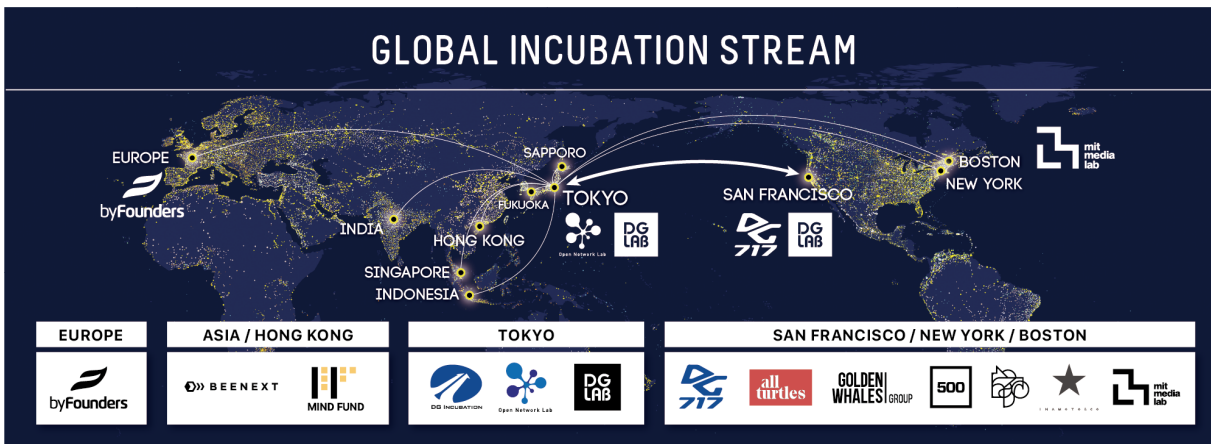
- Advise by partner company experts and DG Lab and network mentors according to startup challenges
- Advice for startups is provided in a wide range of fields, including specific R&D methods, market needs, business plans, capital policies, and pitch methods

Directly mentoring business plans, research methods, etc.

### 22 Partner Companies/Organizations



### GLOBAL INCUBATION STREAM



### Future initiatives :

- Demo Day will be held in mid-January 2019  
(To raise funds for the next startup and to promote the development of collaborators)

# Appendix





# Financial Results: Consolidated profit and loss



context company

JPY in Millions	FY14.6 (Full Year Act)	FY15.6 (Full Year Act)	FY16.6 (Full Year Act)	FY17.3 (Full Year Act) 9 month	FY18.3 (Full Year Act)
<b>Net sales</b>	<b>33,751</b>	<b>38,087</b>	<b>43,763</b>	<b>36,451</b>	<b>60,168</b>
<b>Operating profit</b>	<b>2,608</b>	<b>4,809</b>	<b>4,201</b>	<b>723</b>	<b>2,310</b>
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
<b>Ordinary profit</b>	<b>4,442</b>	<b>7,610</b>	<b>6,193</b>	<b>3,678</b>	<b>5,017</b>
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
<b>Profit before income taxes</b>	<b>5,035</b>	<b>9,248</b>	<b>7,574</b>	<b>5,819</b>	<b>7,619</b>
Income taxes	1,887	3,855	2,385	1,525	2,133
<b>Profit attributable to owners of parent</b>	<b>2,847</b>	<b>5,081</b>	<b>5,165</b>	<b>4,289</b>	<b>5,460</b>

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)
<b>Net sales</b>		<b>33,751</b>	<b>38,087</b>	<b>43,763</b>	<b>36,451</b>	<b>60,168</b>
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
<b>Profit before income taxes</b>		<b>5,035</b>	<b>9,248</b>	<b>7,574</b>	<b>5,819</b>	<b>7,619</b>
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.

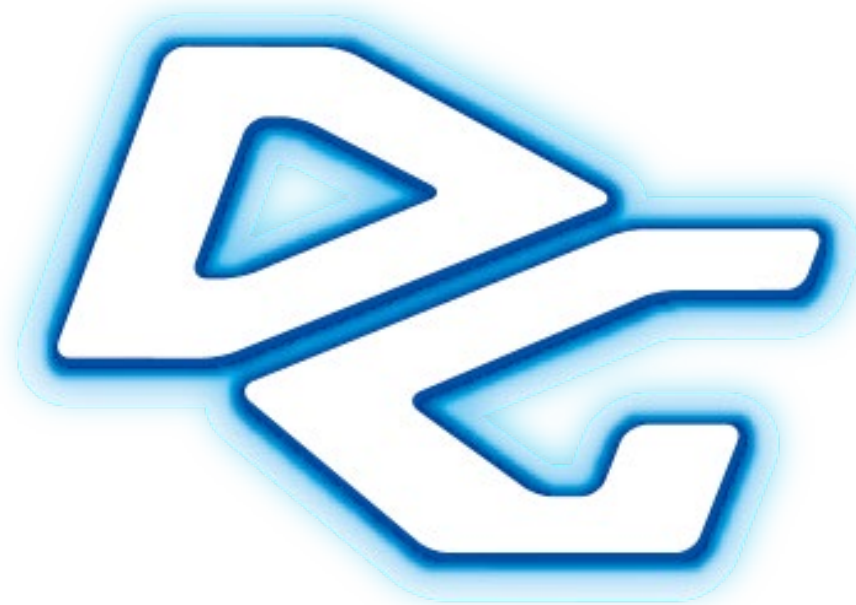


Date		Title
2018.11.8	Digital Garage	Digital Garage Launches "Open Network Lab Resi-Tech," a Global Accelerator Program Targeting Real Estate-Related Startups
2018.11.6	econtext	ECONTEXT Registered as Electronic Payment Service Provider
2018.11.1	econtext	econtext Provides a Comprehensive Service for New Online Application System of Hiroshima Prefectural Board of Education
2018.10.10	DG LAB	DG Lab to Host THE NEW CONTEXT CONFERENCE 2018 SAN FRANCISCO
2018.10.5	Digital Garage	Digital Garage Exhibits at Japan Healthcare Venture Summit 2018 Hosted by the Ministry of Health, Labour and Welfare
2018.10.2	econtext	econtext Launches Convenience Store Payment Services for Civil Fee Payments in Osaka Prefecture
2018.9.13	VeriTrans	VeriTrans Collaborates on a PCI P2PE Solution that lets Phone and Mail-order Businesses Retain no Credit Card Information
2018.9.4	VeriTrans	VeriTrans Provides Credit Card Payments for a PoC of Ringo Pass, JR-East's New Public Transportation Smartphone App
2018.8.30	Digital Garage	Announcement Regarding Result and Completion of Repurchase of Shares through Off-Auction Own Share Repurchase Transaction (ToSTNeT-3)
2018.8.29	Digital Garage	Announcement Regarding Determination of Terms of Issue of Zero Coupon Convertible Bonds due 2023
2018.8.29	Digital Garage	Announcement Regarding the Issuance of Zero Coupon Convertible Bonds due 2023
2018.8.29	Digital Garage	Announcement Regarding Repurchase of Shares
2018.8.29	Digital Garage	Announcement Regarding Repurchase of Sharesthrough Off-Auction Own Share Repurchase Transaction (ToSTNeT-3)
2018.8.27	VeriTrans	VeriTrans and Nissen to Establish a JV in the Postpaid Shopping Business
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



Date		Title
2018.5.23	 <i>Digital Garage</i>	Digital Garage Launches "Open Network Lab BioHealth", an Accelerator Program Specialized in Biotechnology and Healthcare
2018.5.17	 <i>Digital Garage</i>	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	 <i>Digital Garage</i>	Digital Garage and The Hokkaido Shimibun 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.