

Digital Garage, Inc.

- FYE 2012 -

Financial Report

August 14, 2012



Digital Garage

Contents

■	Mission & Business Model	2
■	Group Financial Performance Review	7
■	FYE 2012 Segment Performance Review	14
■	New Mid-term Three-year Plan Summary	30

Mission & Business Model

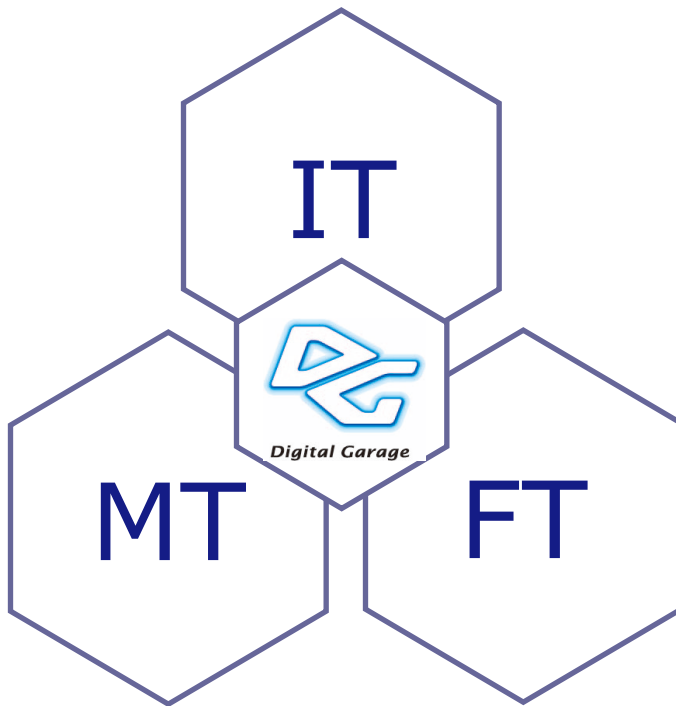
Context Company

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**

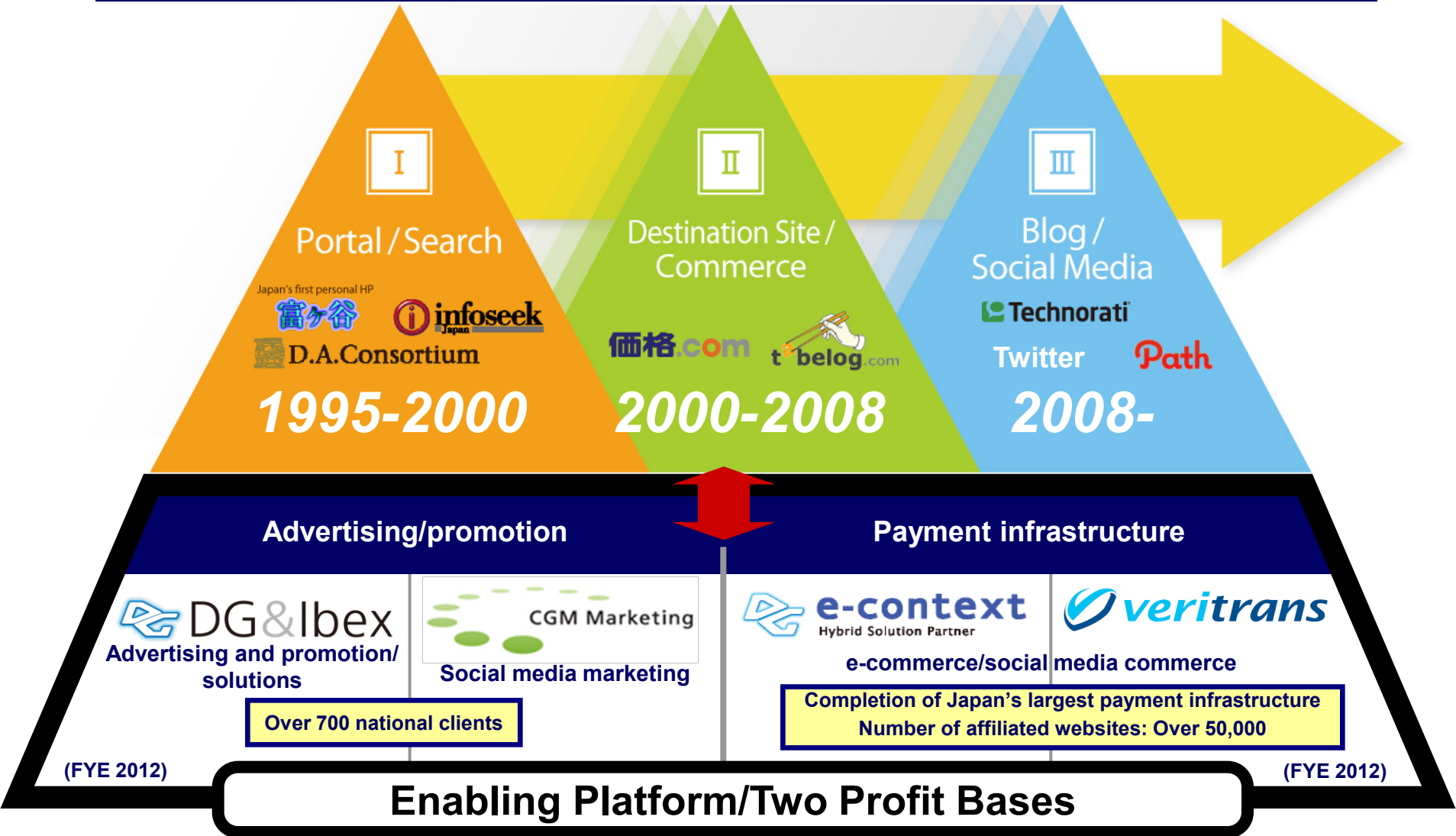


Produce and incubate Internet businesses
with optimal use of our three core strengths: IT, MT and FT



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

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



New Income Record Hit in FYE 2012

Global Shift by Establishing U.S. Company and Acquiring VeriTrans

I FYE 2012 goals met, new ordinary income record marked

- Brisk IT investment primarily in Silicon Valley, despite financial insecurity all over globe
- Healthy growth of Settlement/Advertisement businesses and favorable business performance led by Hybrid Solution

II Establishment of global technology (agile) development structure

- Global agile development network established by full launch of DG's U.S. company New Context
- Technology Development HQ shifted to San Francisco, Media Incubation Division reorganized as Global Incubation Division

III Reinforcement of Enabling Platform, Asian operation initiated

- One of Japan's largest settlement platforms built up through M&A of VeriTrans
- Settlement segment HQ shifted to Hong Kong in view of settlement business development in Asia

Group Financial Performance Review

Sales Rise 35% YoY, Operating Income Grows 12 Times to 1.6 Billion Yen

Ordinary income hits record high of 2.7 billion yen,
with 1 billion yen equity in earnings of Kakaku.com and other affiliates

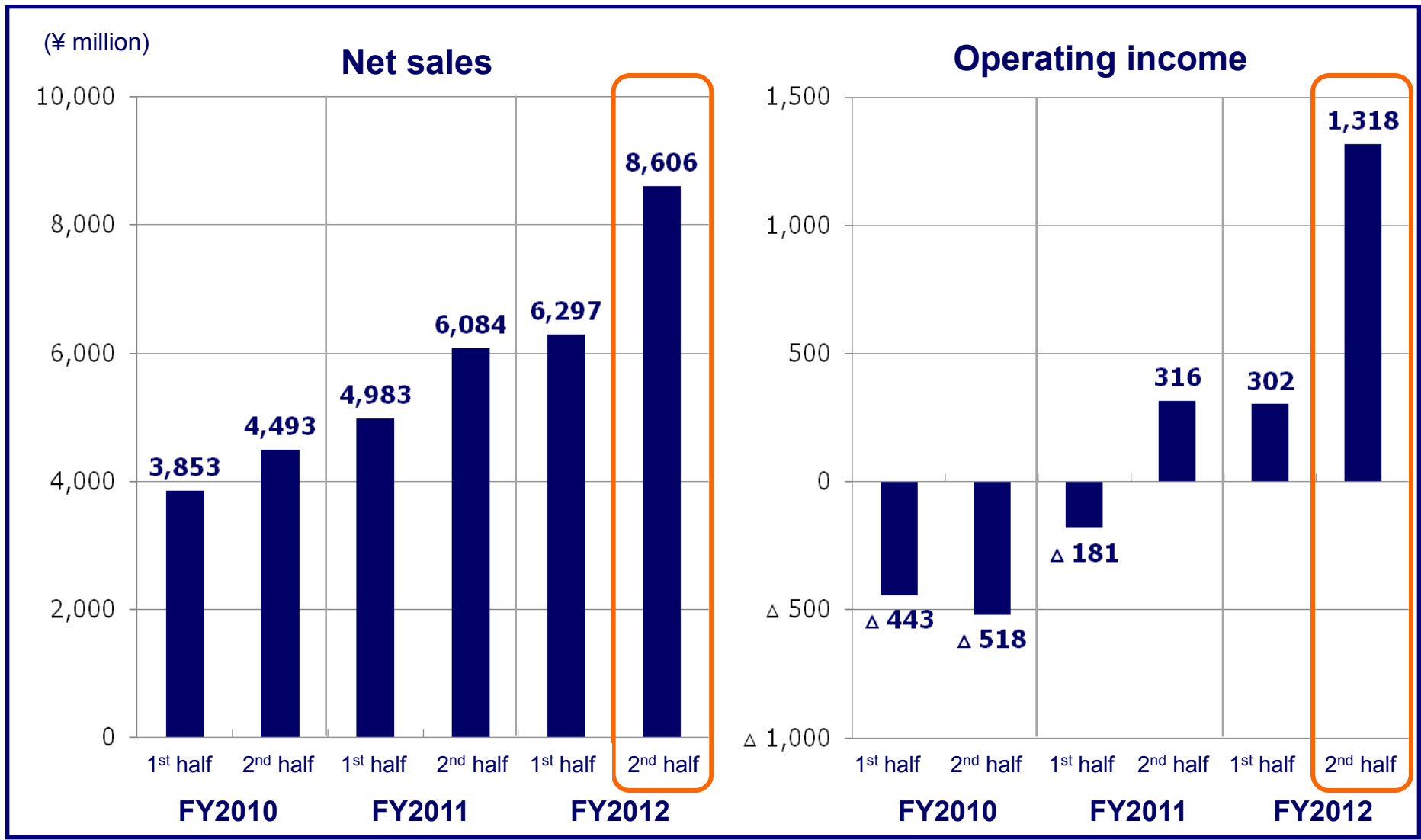
(¥ million)

	FYE 2011 Total	FYE 2012 Total		Year-on-Year	
	(Actual)	(Original forecast)	(Actual)	(Ratio)	(Amount)
Net sales	11,067	13,800	14,903	+34.7 %	+3,836
Venture Incubation	1,180	2,200	2,530	+110 %	+1,350
Media Incubation	634	2,000	1,310	+110 %	+676
Hybrid Solution	9,252	9,600	11,063	+19.6 %	+1,811
Operating income	135	1,350	1,621	+1100 %	+1,486
Venture Incubation	688	1,500	1,856	+170 %	+1,168
Media Incubation	-218	260	-158	n.a.	+60
Hybrid Solution	634	650	1,024	+61.5 %	+390
Ordinary income	972	2,500	2,708	+180 %	+1,736
Net income	901	2,100	2,106	+130 %	+1,205

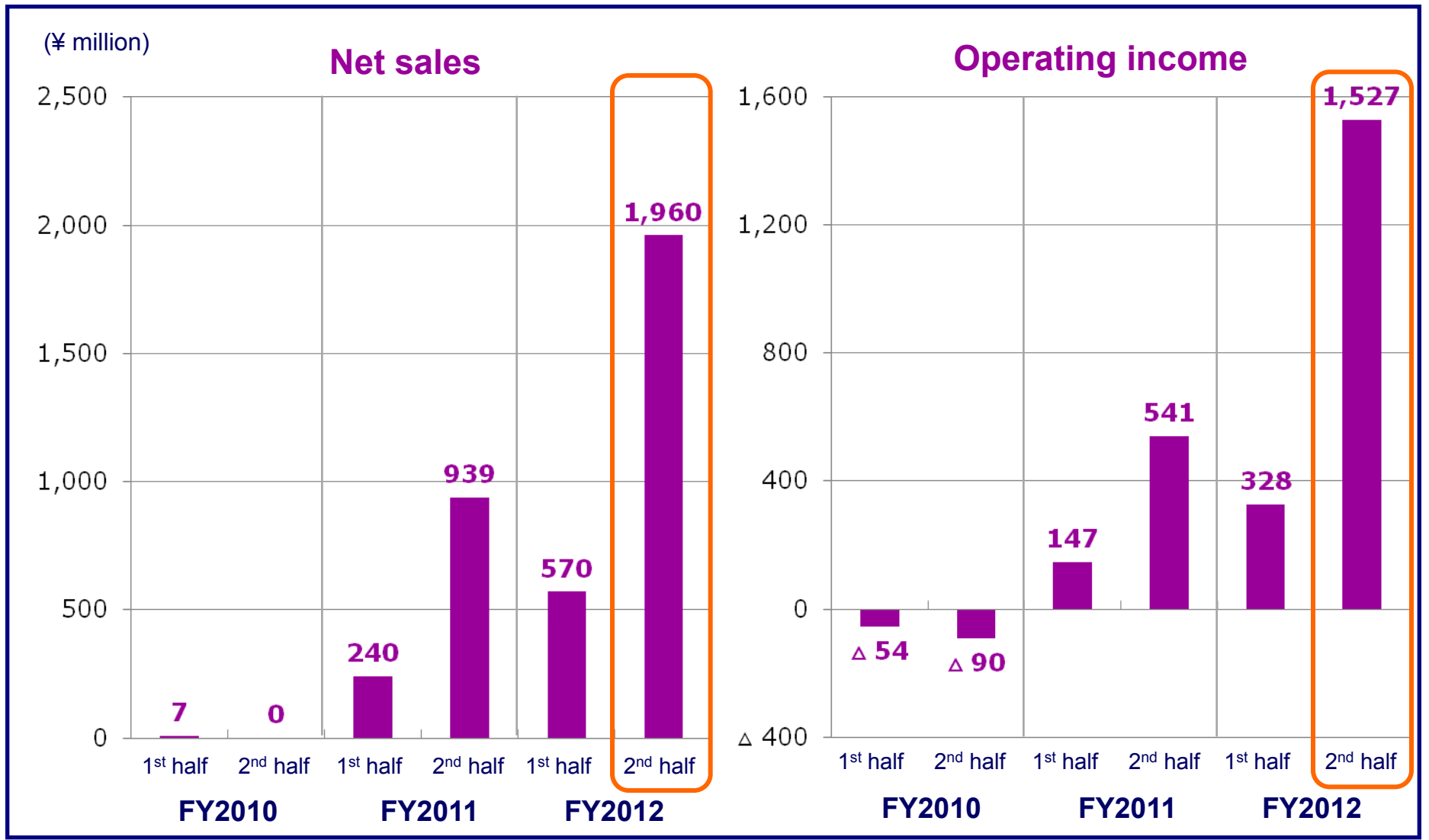
* Operating income per segment is based on figures prior to elimination or Group deduction

* No alteration in segments reflected (see P32-33 in FYE 2012 Financial Report Summary)

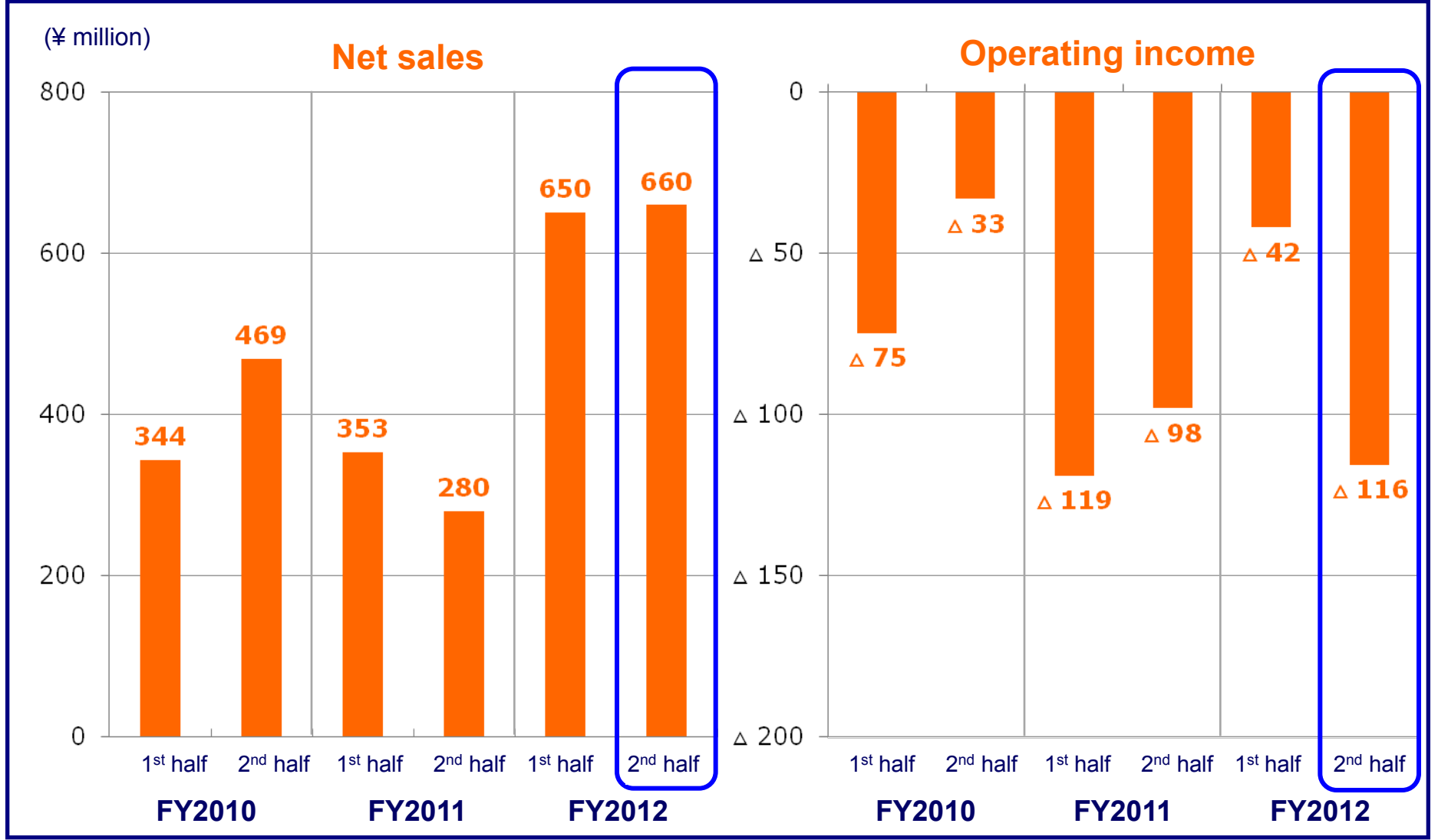
Continuous income growth and new half-year operating income record



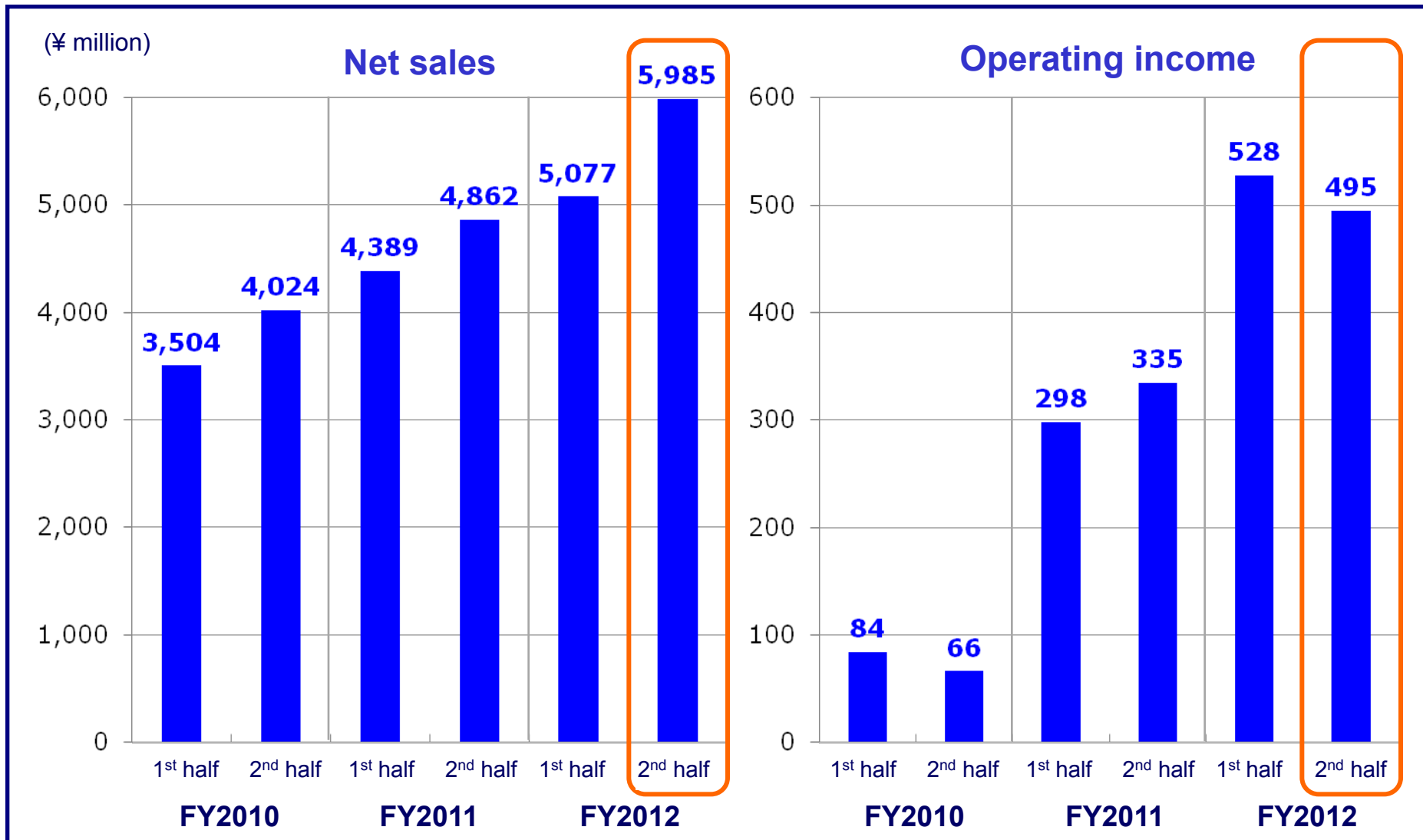
IT investment remains high mainly in Silicon Valley despite financial insecurity across globe



Impact from investment made prior to establishing global agile development network focused on U.S.



Both Settlement and Advertisement/Promotion maintain favorable performance, continuous growth achieved



FYE 2012 Financial Summary: Brief Balance Sheet (Consolidated)



(¥ million)	End of FYE 2011	End of FYE 2012	Year-on-year (Amount)	Major factor for fluctuation/Remarks
Current assets	14,345	28,005	+13,660	
Cash and deposits	4,784	12,308	+7,524	Public offering, consolidation of VeriTrans
Receivables	4,351	7,577	+3,226	Settlement business growth
Money held in trust	2,501	3,404	+903	Settlement business growth
Operational investment securities	912	1,904	+992	Proactive investment continued
Fixed assets	6,075	21,333	+15,258	
Investment real estate	0	2,677	+2,677	Acquisition in San Francisco
Goodwill	1,768	12,104	+10,336	Due to consolidation of VeriTrans
Total assets	20,421	49,338	+28,917	
Current debt	9,933	28,505	+18,572	
Deposits	6,168	14,956	+8,788	Settlement business growth
Interest-bearing debt	2,519	10,740	+8,221	Acquisition capital partly financed by loan
Fixed debt	592	355	-237	
Interest-bearing debt	351	183	-168	
Net assets	9,895	20,476	+10,581	Public offering
Retained earnings	2,398	4,505	+2,107	
Total debt/net assets	20,421	49,338	+28,917	

■ Capital-to-asset ratio
48% (FYE 2011) → 41% (FYE 2012)



FYE 2012

Segment Performance Review



Venture Incubation

- Silicon Valley-type hands-on incubation; support of Japanese startups targeting overseas market; promotion of domestic investment



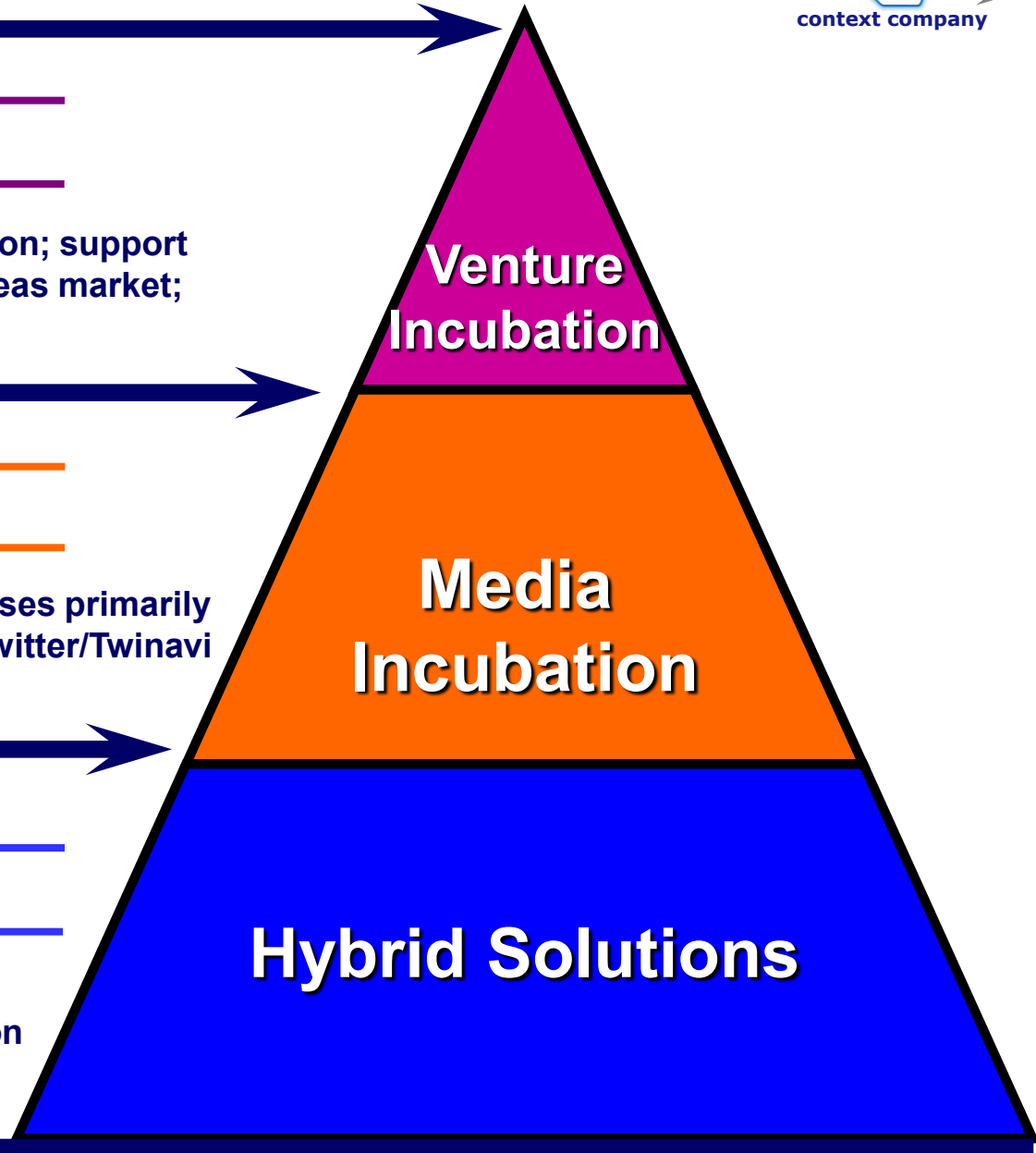
Media Incubation

- Incubation of media and app businesses primarily for social media platforms such as Twitter/Twinavi



Hybrid Solutions

- Hybrid integration of settlement services and advertisement/promotion solutions



I Venture Incubation

(¥ million)

		Net sales	Operating income
FYE 2010	Actual	7	-143
FYE 2011	Actual	1,180	688
FYE 2012	Actual	2,530	1,856

➤ **DG Incubation, Inc.**

Venture business incubation through investment and development



➤ **Open Network Lab**

Internet-based business accelerator program for aspiring engineers



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

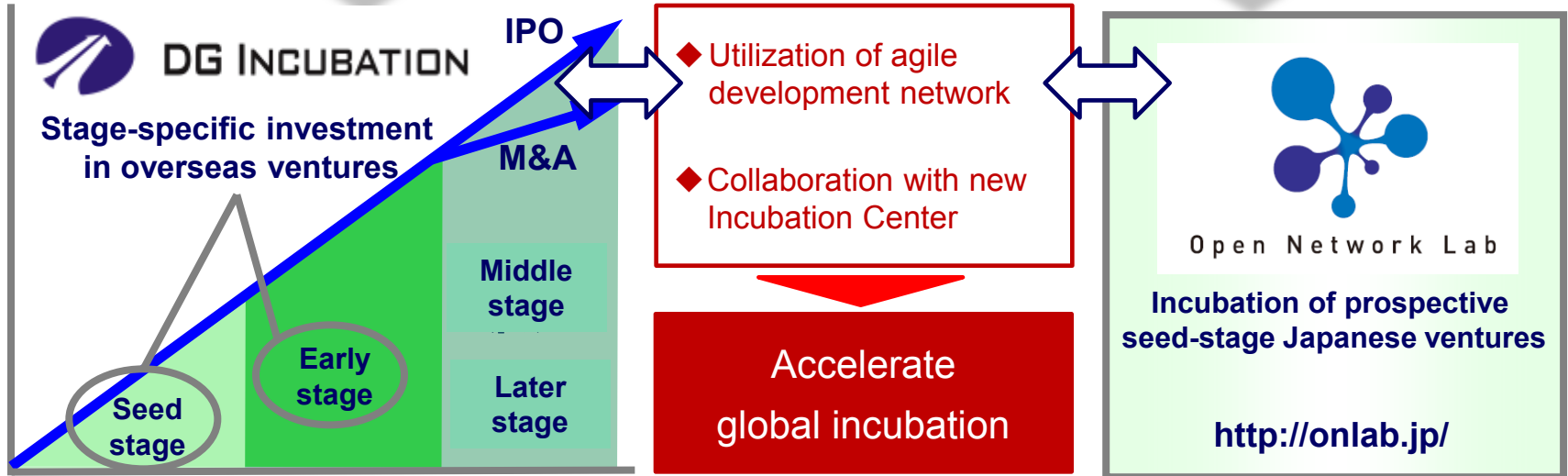
In conjunction with global agile development network/San Francisco Incubation Center
 Establishment of omni-directional investment/development including “import/export” and “global” models

Import model

Overseas prospective venture investment/development
Japanese market localization/global development support
 for businesses developed outside Japan

Export model

Prospective Japanese venture investment/development
Global development support
 for businesses developed in Japan



Establish unique investor community in addition to Silicon Valley investor network

Along with Silicon Valley investor network started from dominant angel funds, DG's unique multilayer investor communities include investment founders established inside and outside Japan

Investment in FYE 2012

<Total number of investments>

34

<Overseas>

21

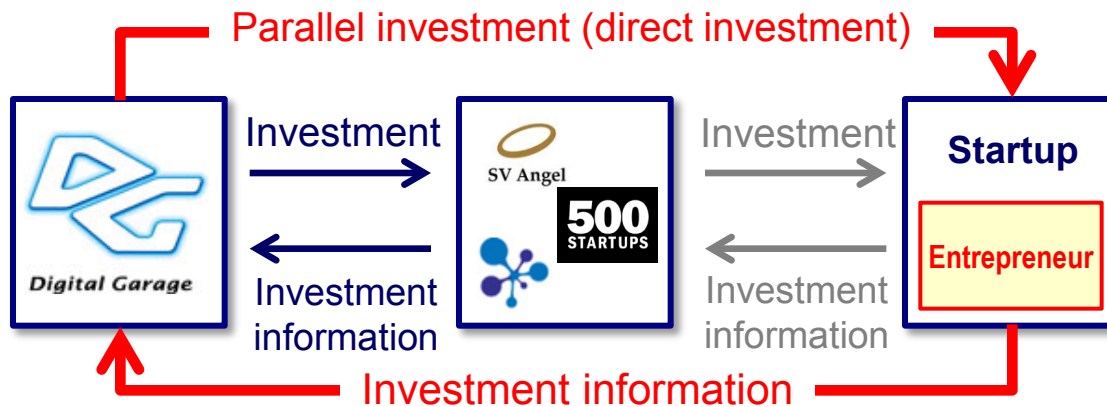
<Japan>

13

* Investment made proactively both inside and outside Japan using funds raised by public offering

Establishment of synergy starting from Japan-U.S. investor network

- ➔ Increased presence overseas helps to explore investment opportunities in Japan
- ➔ Moreover, increased presence in Japan helps to explore investment opportunities overseas

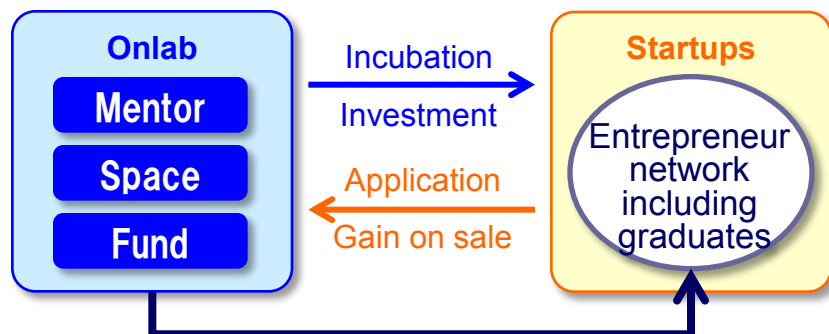


Onlab brand smoothly established as the seed accelerator to represent Japan

- Graduate team selected as member of Silicon Valley's dominant accelerator program Y Combinator
- Business development in San Francisco/Asia and related program/events being prepared

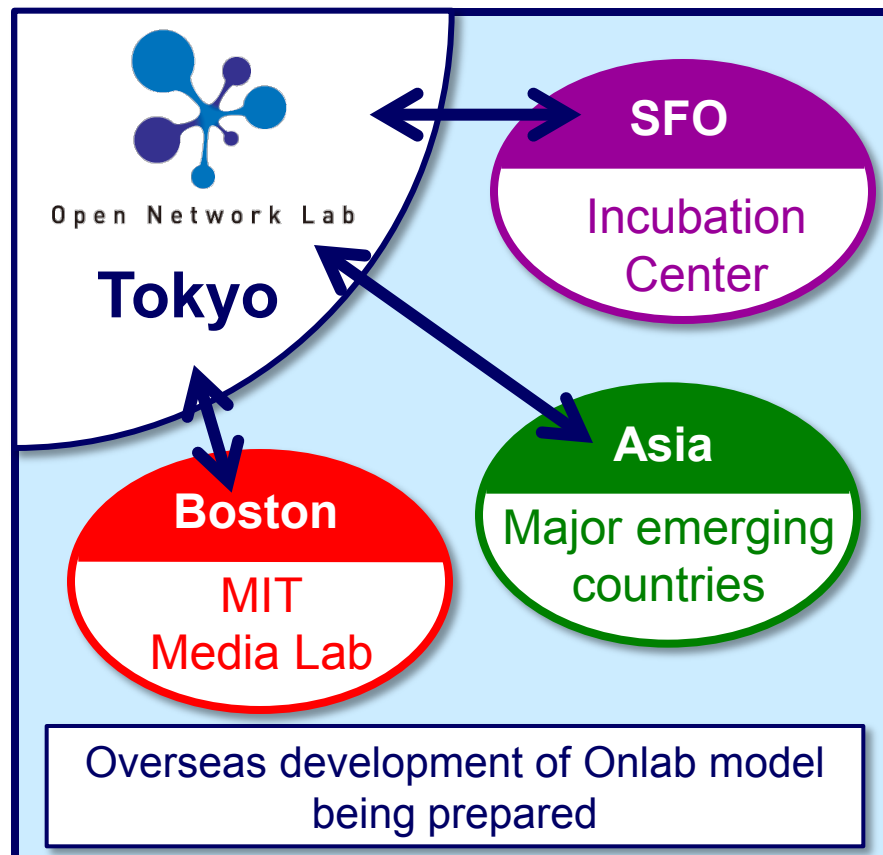
【Onlab business model】

1. Seed accelerator (incubation program)
2. Events related to starting new business
3. Investment (up to 5%)



Fifth program
being carried out

【Global development from now】



II Media Incubation

(¥ million)

		Net sales	Operating income
FYE 2010	Actual	812	-107
FYE 2011	Actual	634	-218
FYE 2012	Actual	1,310	-158

➤ Media Incubation Division

Localization of overseas media and promotion of DG's original media development

➤ CGM Marketing, Inc.



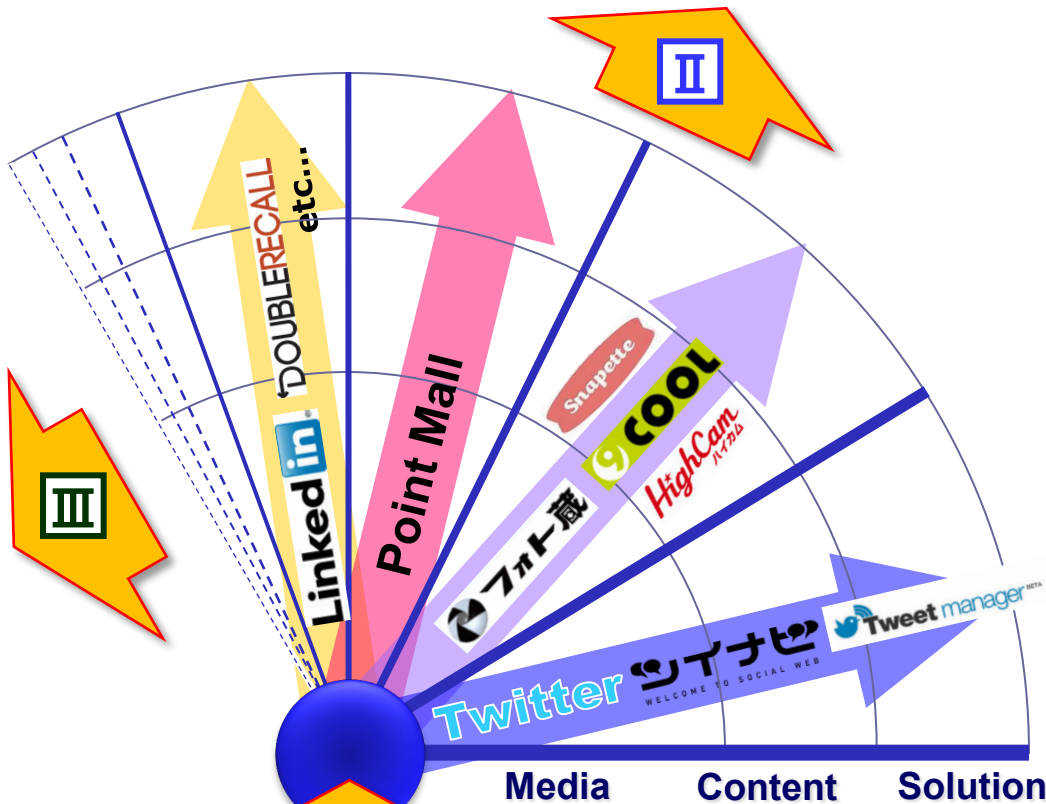
Twitter- and CGM-based ad product development, twinavi operation and Twitter business support

➤ New Context, Inc.



San Francisco-based company, global agile consulting and entrusted development

Direction of media cultivation and development



I

Continual exploration of next-generation seed media in collaboration with Venture Incubation

II

Acceleration of media cultivation by Lean Startup using agile development network

III

Global media cultivation in line with global incubation strategy

Venture Incubation Segment

- Director Yasuda assumes position responsible for overseas business to establish seamless Japan-U.S. technology support structure with San Francisco-based **{ new context }**
- Broadly pivot new services (selection and integration), while strengthening ties between Japan, U.S. and Singapore

Business highlights

◆ Japan's largest photo storage service


- Ad marketing fully launched in tandem with CGM Marketing



- Smartphone application released in a bid to further increase UU/post counts



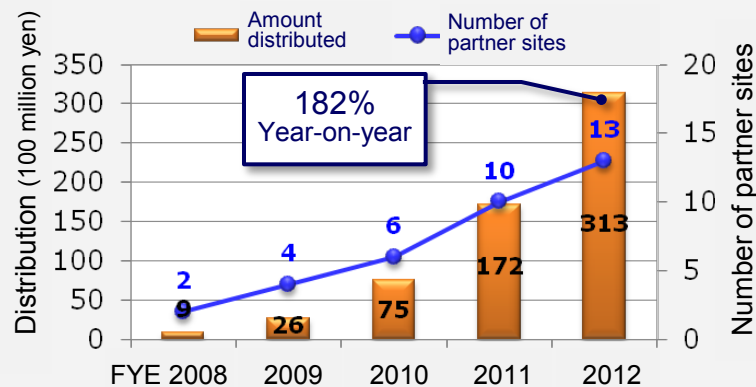
◆ Other new services

- *HighCam* ハイカム, a joint business with NTT DoCoMo, introduced to Japan. The beta version of e-commerce curation service  released.

Point Mall

- ◆ Grown to over 93 million-member network reflecting partnerships with credit card and other companies holding customer information.
- ◆ Mall distribution expanded 1.8 times the value in FYE 2011 to 31.3 billion yen.

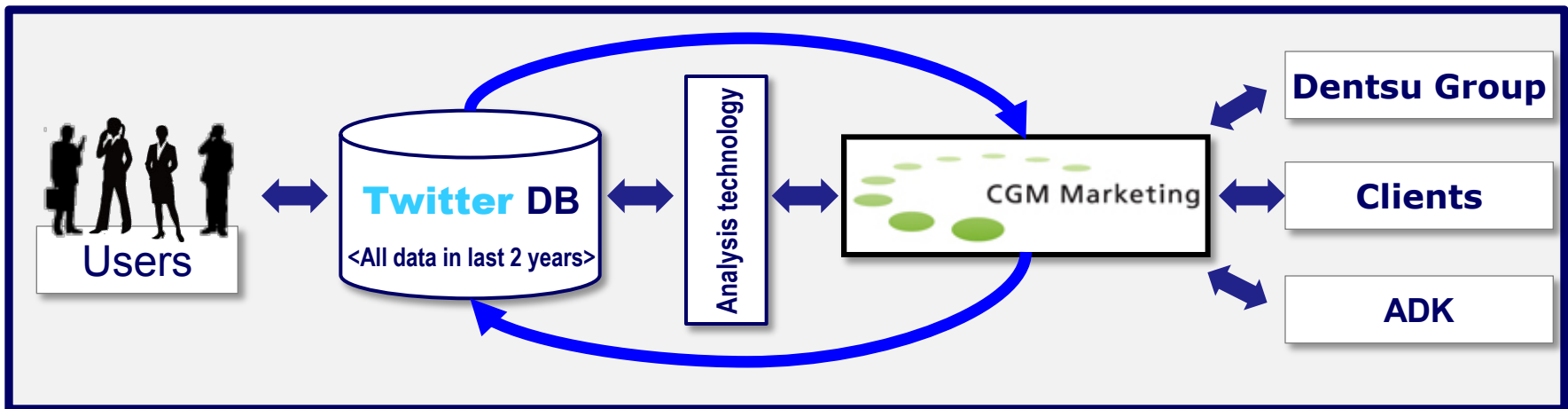
【Mall distribution and partner sites】



I Expanded area of partnership with Twitter

◆ New big data business launched through partnership with **Twitter**

- Acquisition of Japan's first Site Streams API and all tweet data for last two years accumulated in **Twitter**
- Promotion of big data business, fusing high-quality U.S. and Japanese technologies featuring feeling analysis capability



◆ Sales agent agreement with **Twitter** for promotional products

- Sale of promotional products commenced along with existing official banner ads

II Favorable performance of existing businesses (official banner ads, Tweet manager)

- ◆ Smooth growth of official banner ad business following inventory adjustments due to UI change in December 2011
- ◆ Healthy increase in number of companies introducing  **Tweet manager** reflecting stronger demand from CRM-focused firms in addition to lifeline companies

The Team (Top runners gather from agile networks around world)

Lean Startup-advocator Eric Ries invited as general partner.
Based on agile development/UX design assignment and consulting, accelerated business growth targeted through original products and investment/development.

<Management>



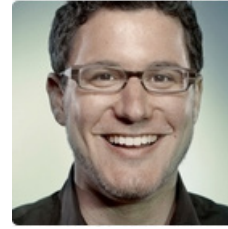
Joi Ito
Co-Chairman



Kaoru Hayashi
Co-Chairman



Ian McFarland
President & CSO



Eric Ries
General Partner



Mikihiro Yasuda
CEO

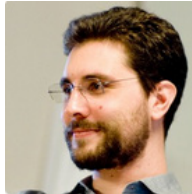


Kent Lindstrom
COO

<Regional Leadership>



US



Asia



Europe



Global coverage of New Context



Conference with Eric Ries

The Lean Startup Conference

DECEMBER 3 - 4, 2012 ★ INTERCONTINENTAL SF

Slated for December 3 to 4, 2012 in San Francisco



III Hybrid Solution

(¥ million)

		Net sales	Operating income
FYE 2010	Actual	7,527	150
FYE 2011	Actual	9,252	634
FYE 2012	Actual	11,063	1,024

➤ DG&Ibex Company

Marketing promotion support, media development and web solution



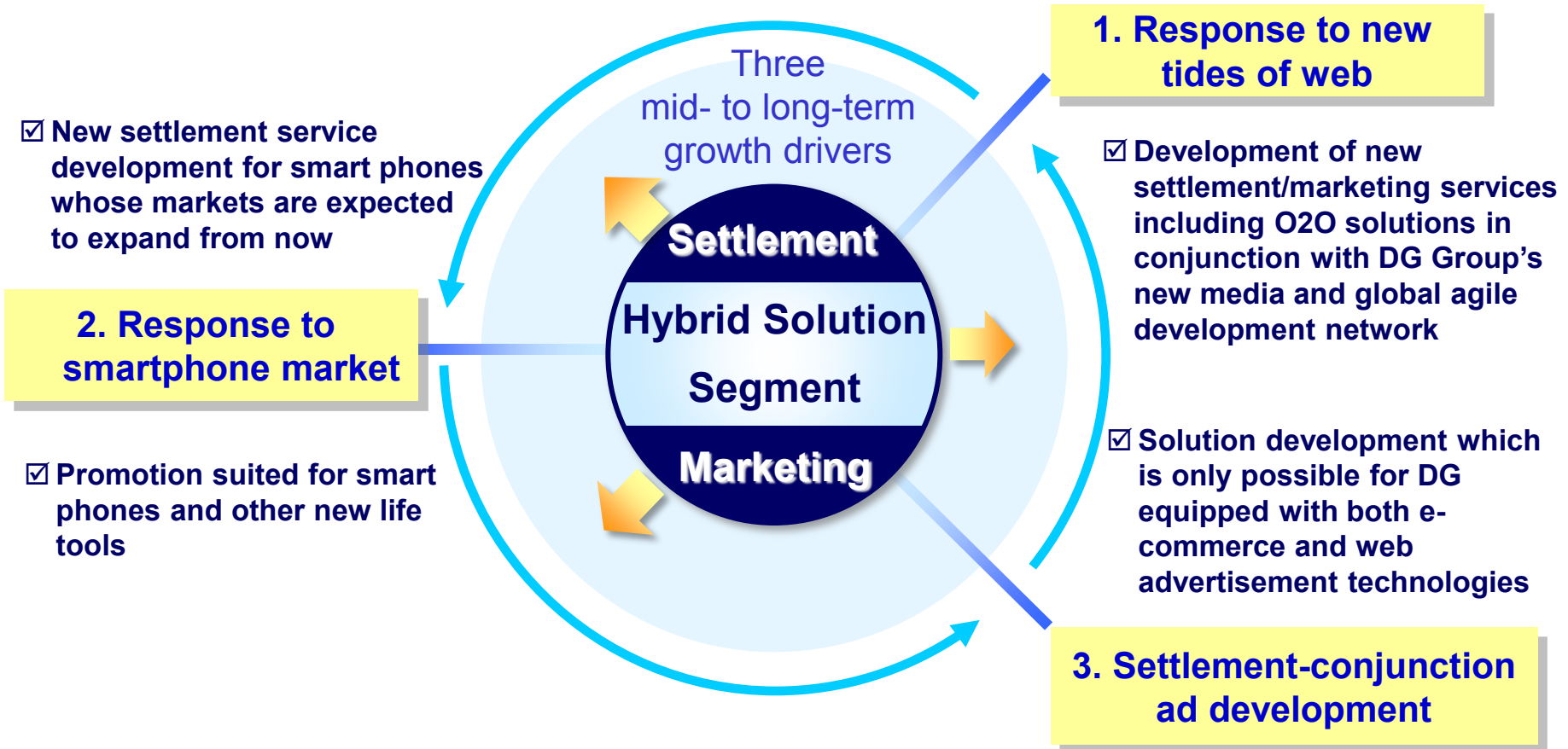
➤ e-context Company

E-commerce settlement platforms



Three growth drivers to further accelerate Hybrid Solution areas (settlement/advertisement)

1. Response to new tides of web utilizing DG's new media and agile development network
2. Quick response to new market created by smart phones
3. Settlement-linked ad development



Results in FYE 2012

Total sales

7.98 billion yen
(Year-on-year) **127%**

Average sales per client

26.9 million yen
(Year-on-year) **120%**

Number of clients

297
(Year-on-year) **106%**



Strong performance continued from FYE 2010 with new sales record

【Growth factors】

Market-specific solution development based on DG's knowledge about social media


◆ Web marketing field

- Thanks to successful strategy tailored for cosmetics, finance and other markets, sales **grew 45%** YoY.

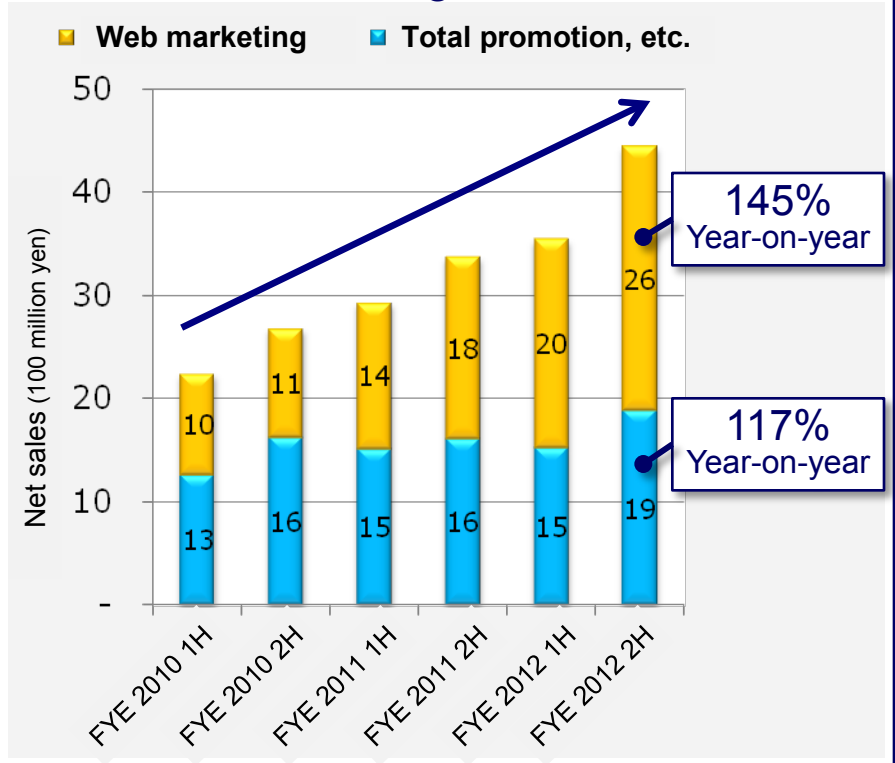
◆ Total promotion field

- Number of new clients focused on increased.
- Sales **rose 17%** YoY with DG's proprietary digital planning capability well received and average sales per client climbing

◆ New marketing solution development and promotion

- Promotion of market-specific solution development fusing cyber and real (O2O) technologies (collaboration with tabelog  食べログ for example)
- Promotion of DSP business using group media data

【Sales growth】



Results in FYE 2012

Number of partner sites

49,519
(Year-on-year) **119%**

Number of settlements

22.1 million
(Year-on-year) **145%**

Value of settlements

150 billion yen
(Year-on-year) **129%**



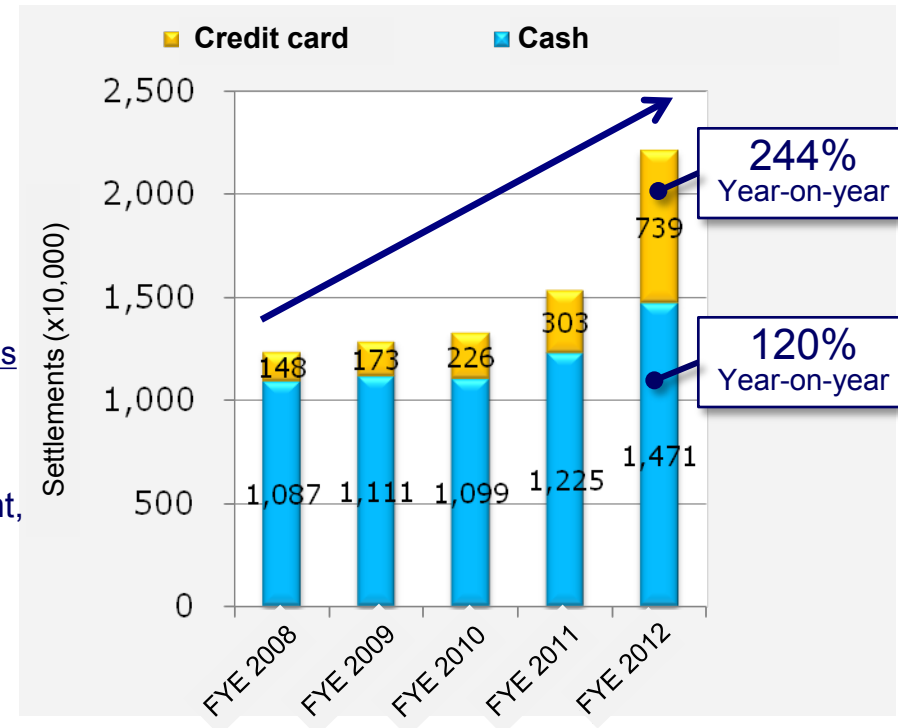
Both number and value of settlements hit record highs

【Growth factors】

Good performance of mainstay service/entertainment fields and contribution of proactive exploitation of new fields and businesses

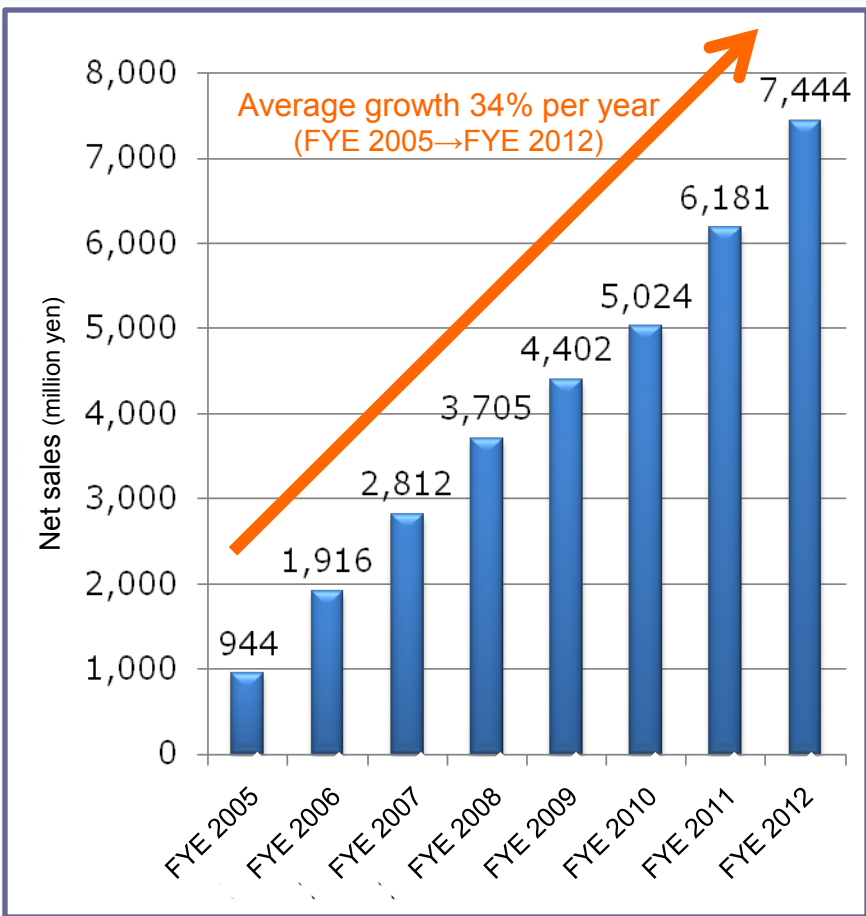
- ◆ Mainstay fields (games and travel) remain healthy
 - Mainstay fields (games and travel) remain healthy
 - Credit card settlements increased by **2.4 times** YoY
- ◆ Horizontal development of business fields hooked to specialties
 - In travel business, **horizontal development** of business fields being promoted from usual settlement of transportation (LCC, etc.) to settlement of entertainment, food/drink during journey and accommodation
- ◆ New business: BtoC money transfer service 
 - Business development beyond frame of agency payment service prompted

【Settlement growth】

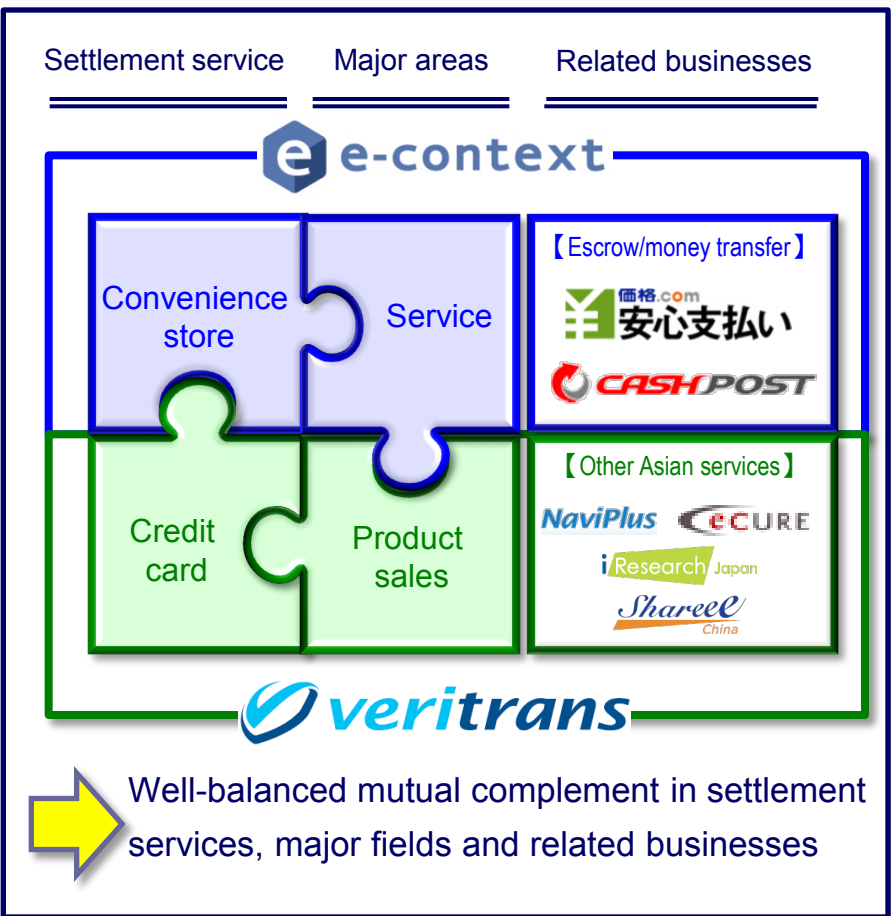


DG forms one of Japan's largest settlement platforms by including VeriTrans, which has grown faster than Japanese EC market at more than 30% per year. Moreover, DG realized highly-balanced complementary relationship with e-context.

Over 30% annual growth maintained



High affinity in business fields



New Mid-term Three-year Plan Summary (FYE 2013 to FYE 2015)

August 14, 2012



Toward DG Global Management's 1st Stage Centering on Global Incubation

Expansion from 2 bases in Japan/U.S. to 3 bases in Japan/U.S./Asia

I Incubation strategy: Global shift of ecosystem

- Finding & incubation of “next-generation Internet business seeds” brought about by open innovation

II Marketing strategy: To turn increasing-return models into 2nd pillar

- Initiate data management business utilizing group media data

III Payment strategy: Expand settlement platform to Asia

- Horizontally develop DG model focused on settlement to Asia, establishing settlement HQ in Hong Kong



Lean Global

We provide new context

Lean Global

We provide new context 

Delivering new context to next generation

The world is becoming even smaller due to the penetration of the Internet and the advancement of Moore's law.

Now is a time where even start-ups can realize services and technologies that before could only be created by leading companies or in Silicon Valley.

As a result, agility - or the ability to adapt to drastic changes in the environment - is becoming more important for companies than strategy or power.

This trend, which could be described as "lean (efficient) reform," is expected to involve every industry on a global basis.

The Digital Garage Group will create Lean Global incubation streams from its three HQs in Tokyo, San Francisco and Hong Kong, and deliver new context originating in Japan to the next generation.


Co-founders of Digital Garage, Kaoru Hayashi/Joi Ito

Visual concept of New Mid-term Business Plan





Lean Global Three HQs



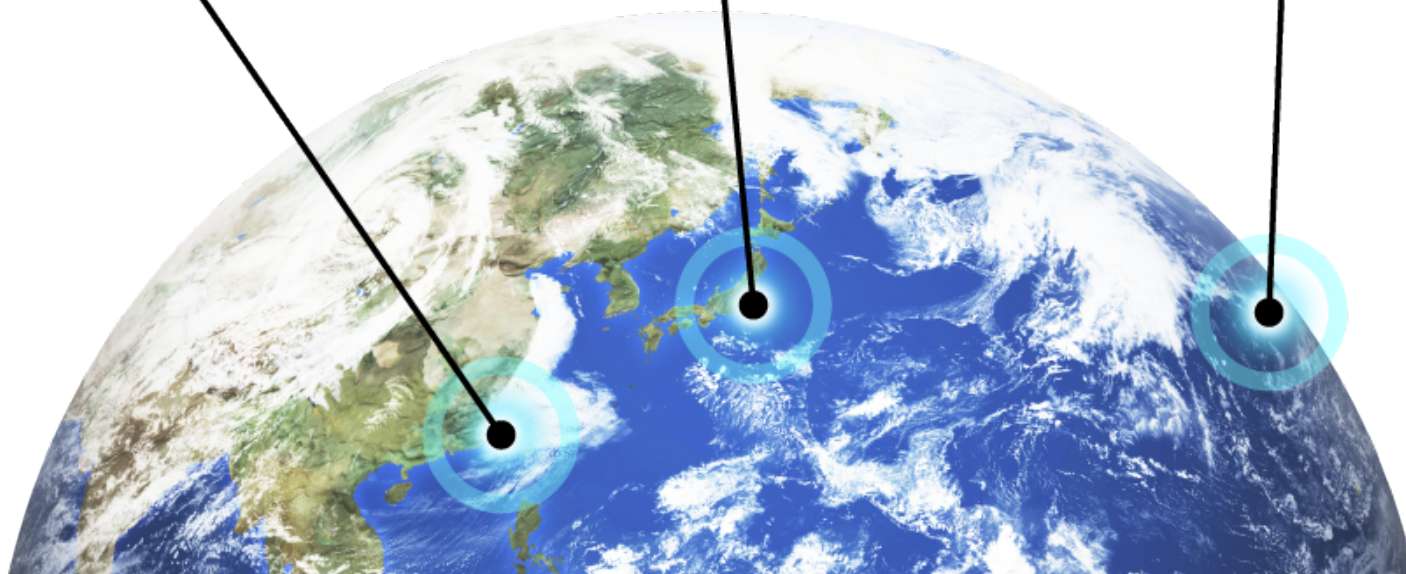
Hong Kong
Settlement HQ
Development in Asia



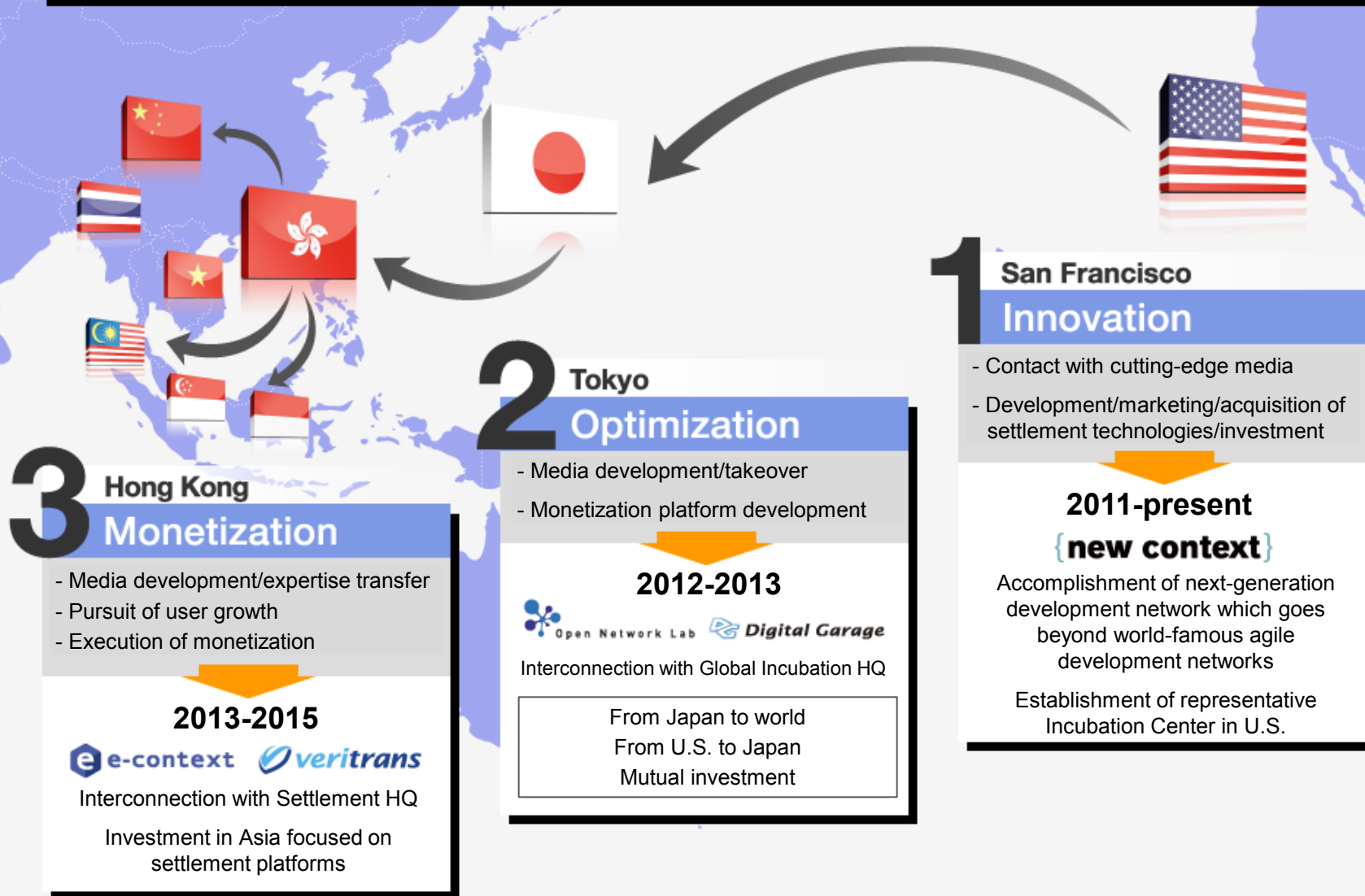
Tokyo
DG Group HQ
 *Digital Garage*



San Francisco
Incubation Center and
Agile Development HQ
DGUS {new context}



Strategy/role of each HQ



New Business Segments of new context provider 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

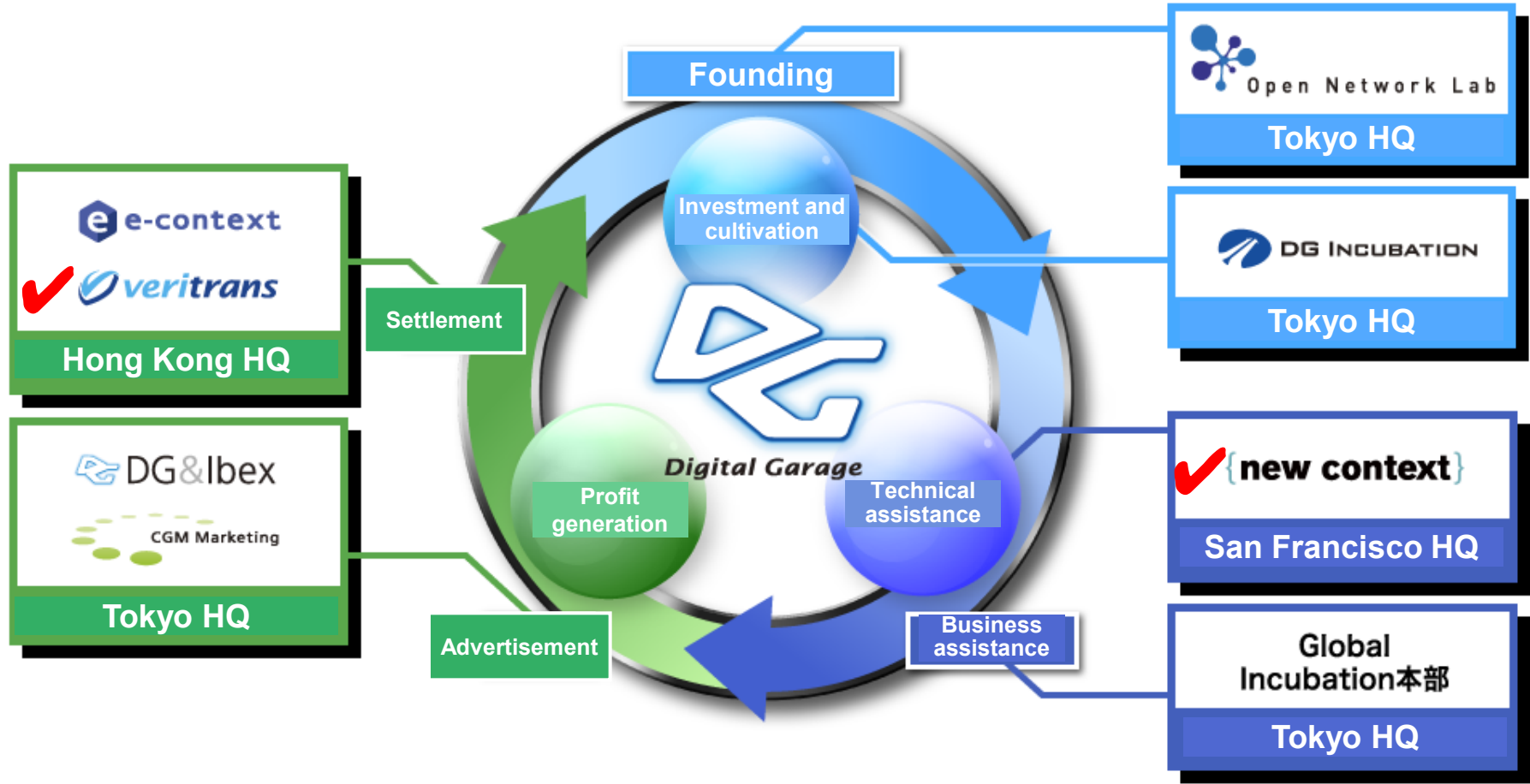
Centralization of settlement businesses
resulting from consolidation of VeriTrans
(Settlement business spun off from Hybrid
Solution business as Payment)

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

PAYMENT



Settlement functions in Japan and *veritrans*'s entrance to the Group bring the expansion of DG's Asian network, while the establishment of new context adds a technical assistance function on a global basis



Establishment of incubation stream to connect 3 HQs

- Establishment of tripolar investment structure
- Implementation of media acquisition
- Creation of investment opportunities in wake of Enabling Platform expansion

Japan

<Segment's growth drivers>

- Global Incubation Division
- Open Network Lab, Inc.



- a) To the world from Japan
 - ・Global development of Open Network Lab
 - ・Global development of Japanese businesses
 ⇒ Photo- and food-related businesses, etc.
- b) Japanese market localization of U.S. investment businesses
 - ⇒ Continuation of Twitter-type investment

U.S.

<Segment's growth drivers>

- New Context, Inc.
 - { **new context** }
- SF Incubation Center
- Collaboration with investment funds

- a) Expansion of agile development
 - ⇒ Capability of global development network which could be 3rd pillar
- b) Startup investment based on Incubation Center
- c) Accompanied by direct or fund investment

Asia

<Segment's growth drivers>

- Investment linked with settlement platform business
- Collaboration with investment funds

- a) Strategic investment/recovery in emerging countries
 - ⇒ Collaboration with business partner in each area
 - ⇒ Strategic financing utilizing DG's settlement platform
 - ⇒ Area development of Onlab
- b) Accompanied by direct or fund investment

Group-wide effort to develop audience data business into 2nd pillar

Promoting expansion of high-return media business and ad technology business utilizing group resources as mid-term growth drivers based on marketing business

【Group resources】



Payment Segment

Group media

Incubation Segment

Asian countries

San Francisco

Aim for **more than 50% ratio (operating income)** in FYE 2015 with media business + technology business

Mid-term growth drivers

Development of settlement-conjunction ads

Ad technology business

Media business

+

Web promotion

Total promotion

Key factors

- Promotion of next-generation big data business making most of group resources
- Smartphone application development
- Point Mall expansion due to additional O2O services
- Reinforcement of proprietary solution development
- Growth resulting from market-specific strategy

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

Payment segment HQ opened in Hong Kong, while fortifying foundation of Japan's position as No. 1. Make contribution to e-commerce market's growth by horizontally expanding successful model in Japan to fast-growing emerging countries in Asia.

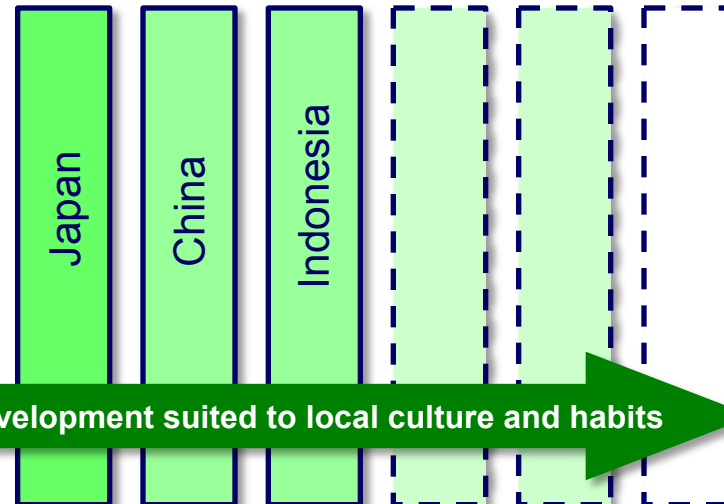
Japan

Asia

Japan's No. 1 settlement platform



Asia's No. 1 settlement platform



Major Asian companies



Alliance/JV

↕ Joint development of settlement-conjunction ads ↕

↕ Development of joint investment in EC-related companies ↕

Marketing Segment

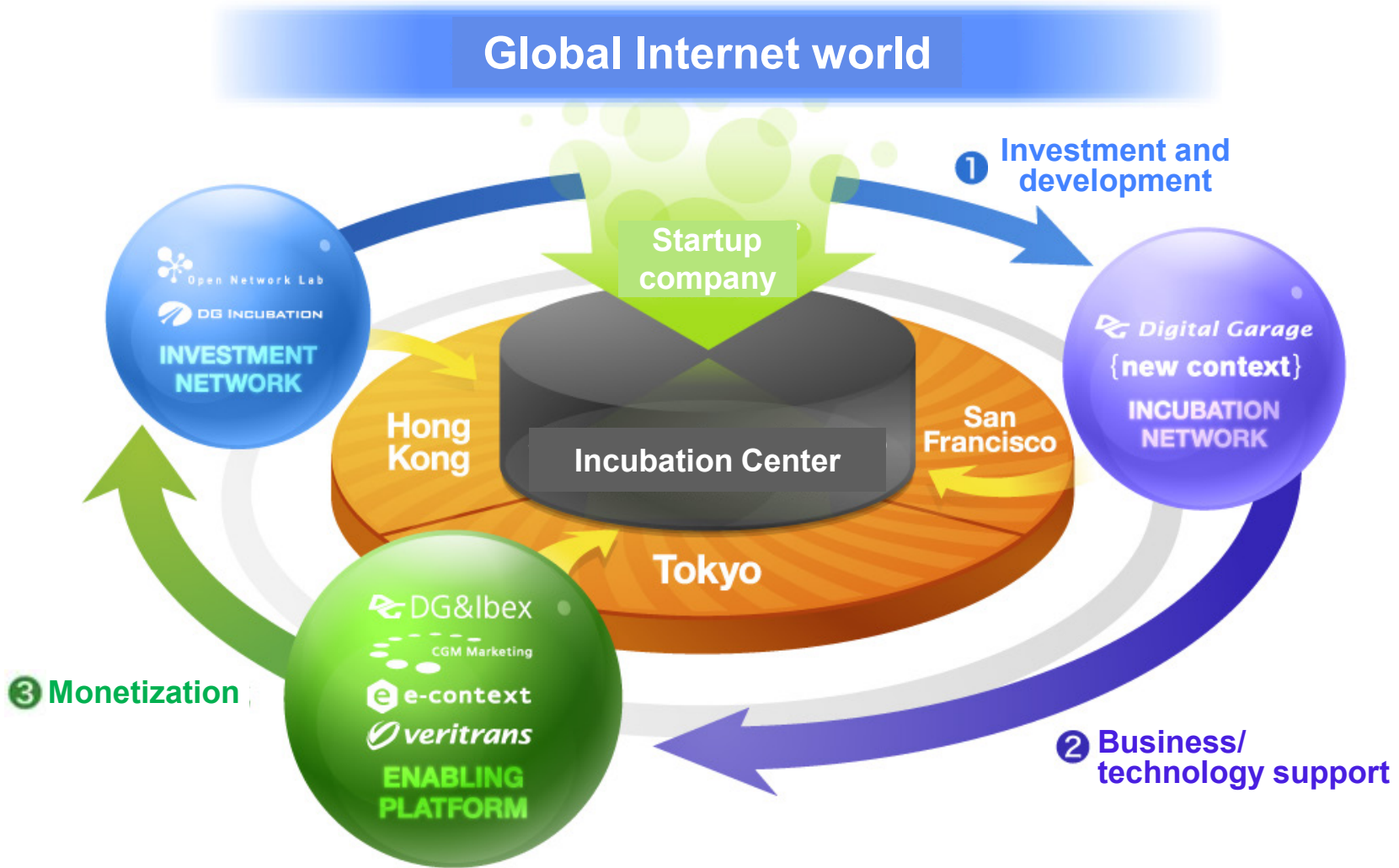
Incubation Segment

Management goal: EBITDA of 10 billion yen in FYE 2015
(average more than 50% growth per year)

(¥ million)	FYE 2012 (Actual)	FYE 2013 (Plan)	FYE 2015 (Mid-term target)	CAGR (FYE 2012-15)
Net sales	14,903	25,000	40,000	39 %
Incubation	2,620	2,800	7,500	42 %
Marketing	8,593	9,200	12,500	13 %
Payment	3,738	13,000	20,000	75 %
Operating income	1,621	1,650	6,500	59 %
Incubation	1,465	500	3,500	34 %
Marketing	511	600	1,500	43 %
Payment	546	1,400	3,000	76 %
Ordinary income	2,708	2,800	9,000	49 %
Net income	2,106	1,700	6,200	43 %
EBITDA	2,967	4,000	10,000	50 %

Note: Net sales and operating income in FYE 2012 are simple estimates

To establish a global incubation ecosystem that will function continuously





Digital Garage

Please note that the business forecasts and strategies covered in this material are based on our current evaluation and future results may vary significantly depending on unforeseeable events or circumstances.