

Digital Garage, Inc.

- 2Q of FYE June 30, 2012 -
Financial Report

February 10, 2012



Digital Garage

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Mission & Business Model



Context Company

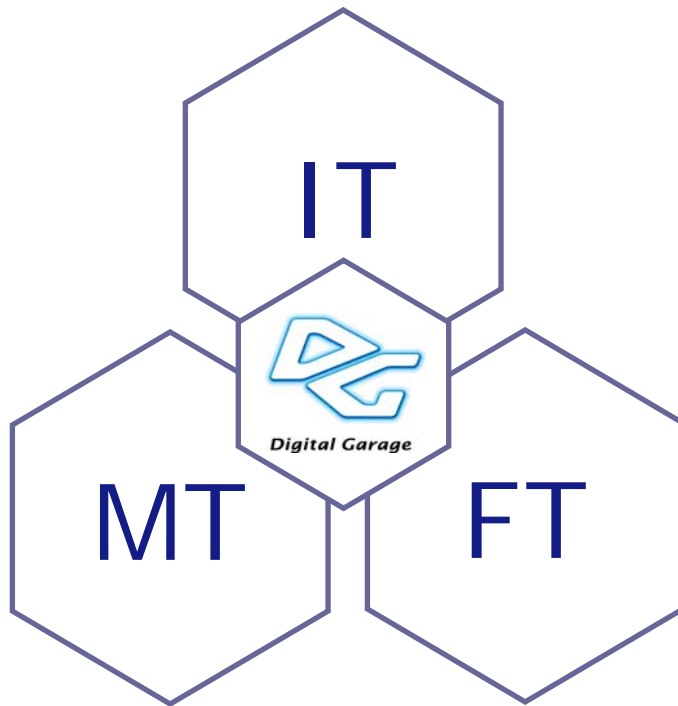
Digital Garage creates innovative business "context" for the new internet age and provides unique business solutions for new lifestyles, society and industries by linking:

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



C o n t e x t C o m p a n y

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



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

Group Financial Performance Review



Initiation of Global Incubation Strategy

Formation of U.S. Strategic Base and Creation of Agile Development Network

I Group performance on par with expectations

- Steady growth posted in Hybrid Solutions
- Q1-Q2 cumulative forecast achieved despite scheduled stock sale in Q2 being delayed to Q3 or later

II Formation of U.S. strategic base and creation of agile development network

- New Context, Inc. founded in San Francisco, U.S. as DG's incubation strategy base (fully funded by DGUS; in operation under local management)
- Acquisition of two Agile Development companies in U.S./Singapore

III Launch of incubation center in San Francisco, U.S.

- Global incubation base opened in central San Francisco area
- Global incubation network connecting MIT (Boston), Singapore and Tokyo established

(¥ million)	Cumulative Q2 FY 2011 Actual	Cumulative Q2 FY 2012		Actual vs. Forecast (Amount)	Year-on-Year (Amount)
		Initial Forecast	Actual		
Net sales	4,983	6,000	6,297	+297	+1,314
Operating income	-181	300	302	+2	+483
Ordinary income	213	700	665	-35	+452
Net income	158	550	610	+60	+452

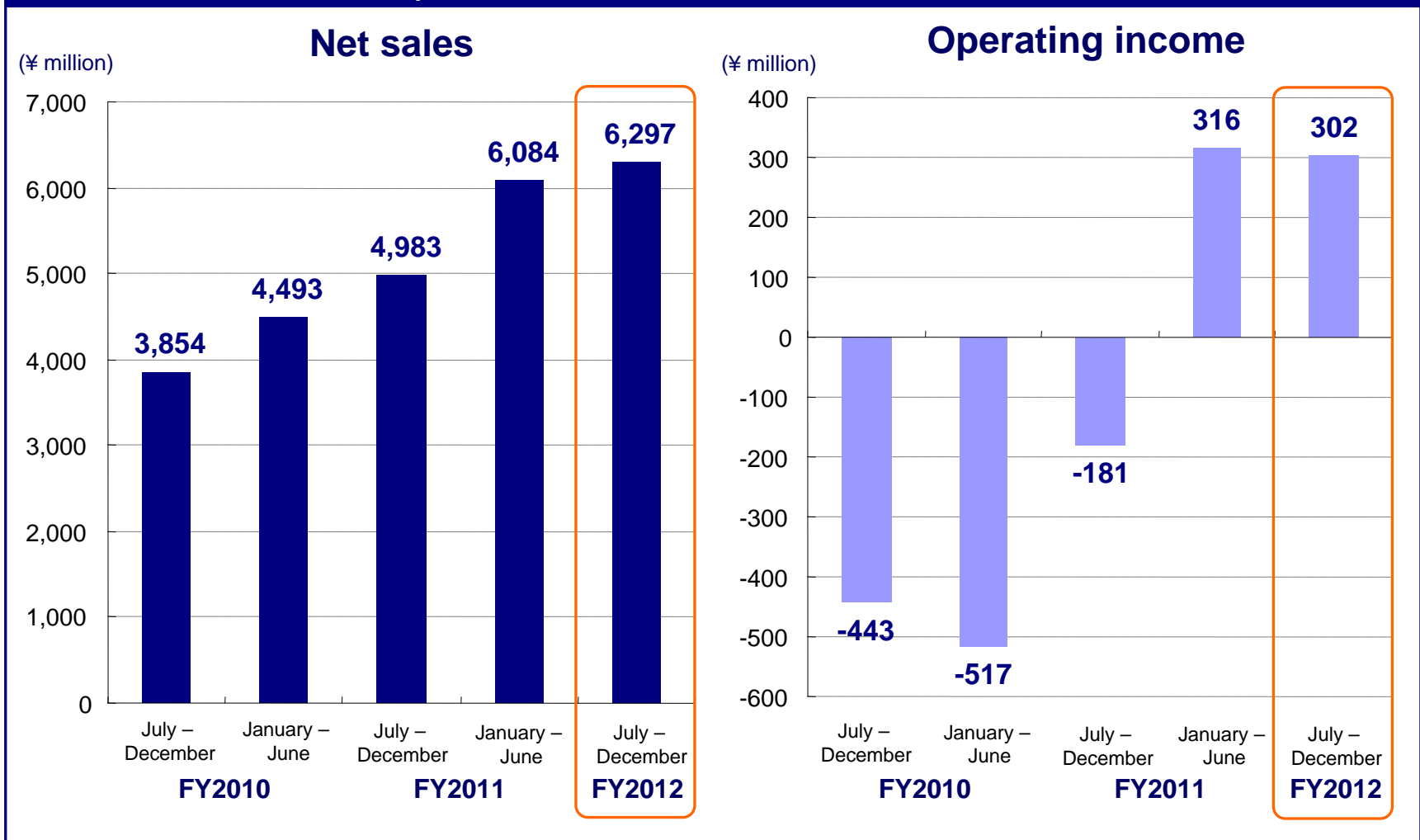
Cumulative Q2 FYE 2012 Performance

Net profit for Q2 exceeded initial forecast

- Net sales up 26.4% year-on-year; operating income profit turnaround up 483 million yen year-on-year
- Ordinary income included equity in earnings of affiliates (Kakaku.com and others) of 451 million yen as non-operating income, loss on foreign exchange of 39 million yen, and stock issuance cost of 45 million yen, posting 665 million yen (up 310% year-to-year; increase of 452 million yen)
- Q2 net income 610 million yen (up 452 million yen year-on-year); exceeding initial forecast by 60 million yen) due in part to introduction of consolidated taxation system
- Year-end dividend payment of 1,000 yen/share expected



Comparisons of Consolidated Performance



- Upward trend maintained due to steady growth posted in Hybrid Solutions
- Significant year-on-year improvement in operating income despite scheduled stock sale in Venture Incubation being partially delayed



Segment Data for Second Quarter FYE 2012 (Consolidated)

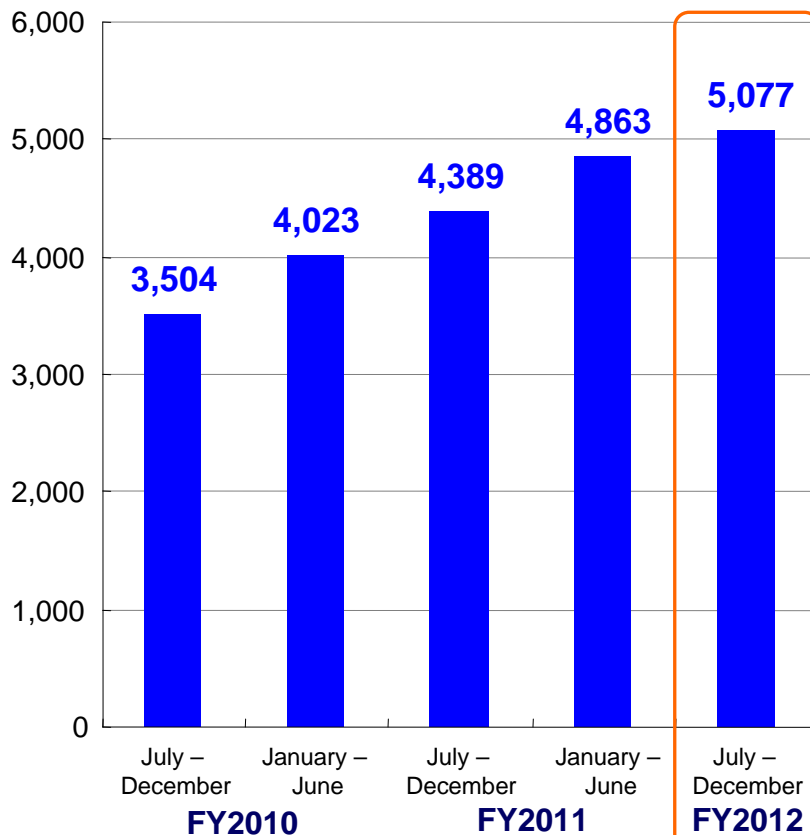
(¥ million)	FYE 2011 Cumulative Q2	FYE 2012 Cumulative Q2	Year-on-Year (Amount)
Hybrid Solutions			
Net sales	4,389	5,077	+687
Operating income	298	528	+230
Media Incubation			
Net sales	353	650	+297
Operating income	-120	- 42	+78
Venture Incubation			
Net sales	240	570	+330
Operating income	146	328	+182

- Operating income per segment is based on figures prior to elimination or Group deduction
- Changes in business segments are not reflected (refer to Pages 10-11 in Q2 FY 2012 financial results briefing)

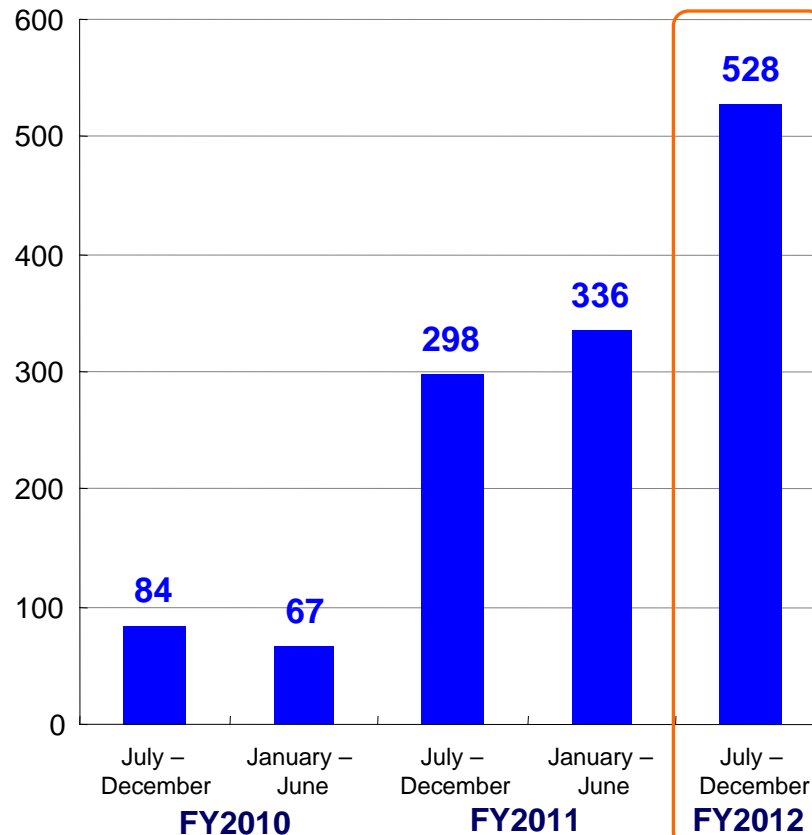
Hybrid Solutions

(¥ million)

Net sales



Operating income



Segment Performance Highlights: DG&Ibex Company/e-context Company

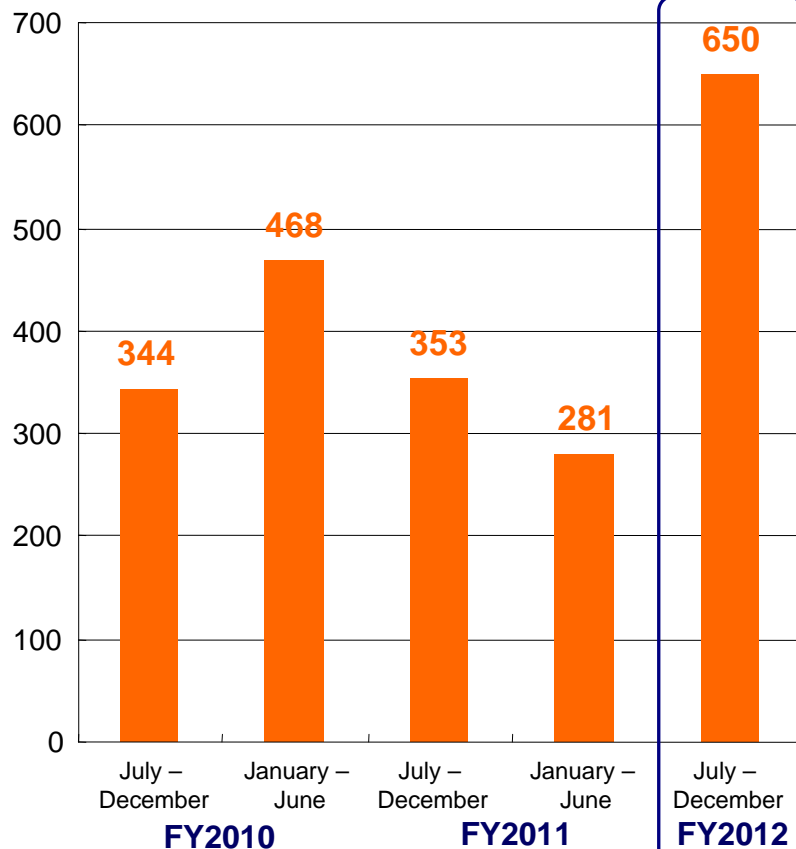
- Growth driven by Web marketing businesses (Internet advertising); social media-based promotions expanded
- Increase in settlement transactions in gaming/travel sectors



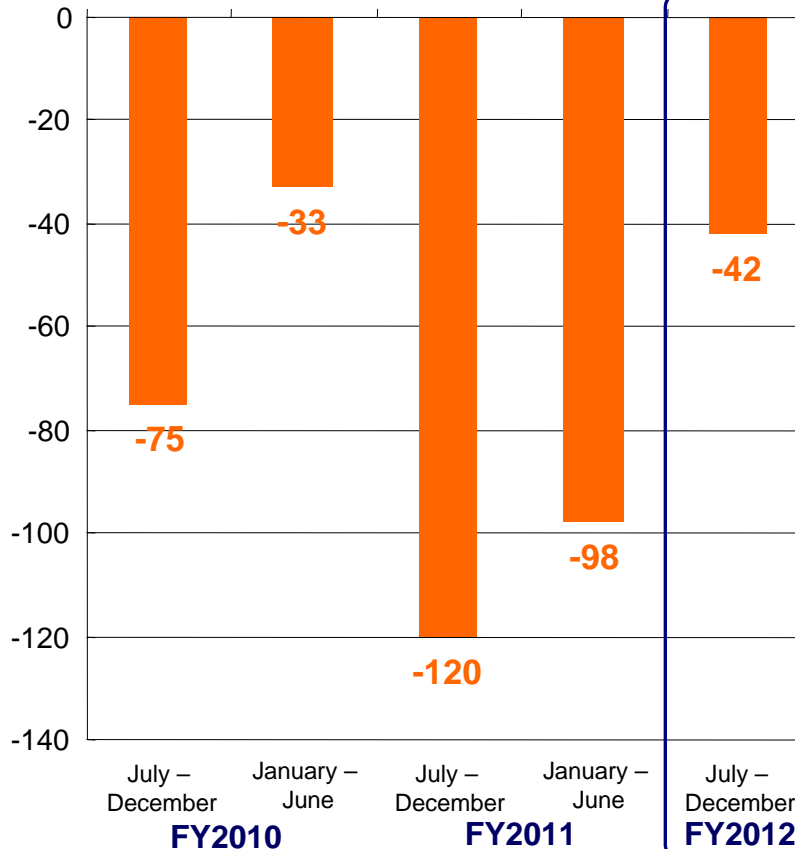
Media Incubation

(¥ million)

Net sales



Operating income

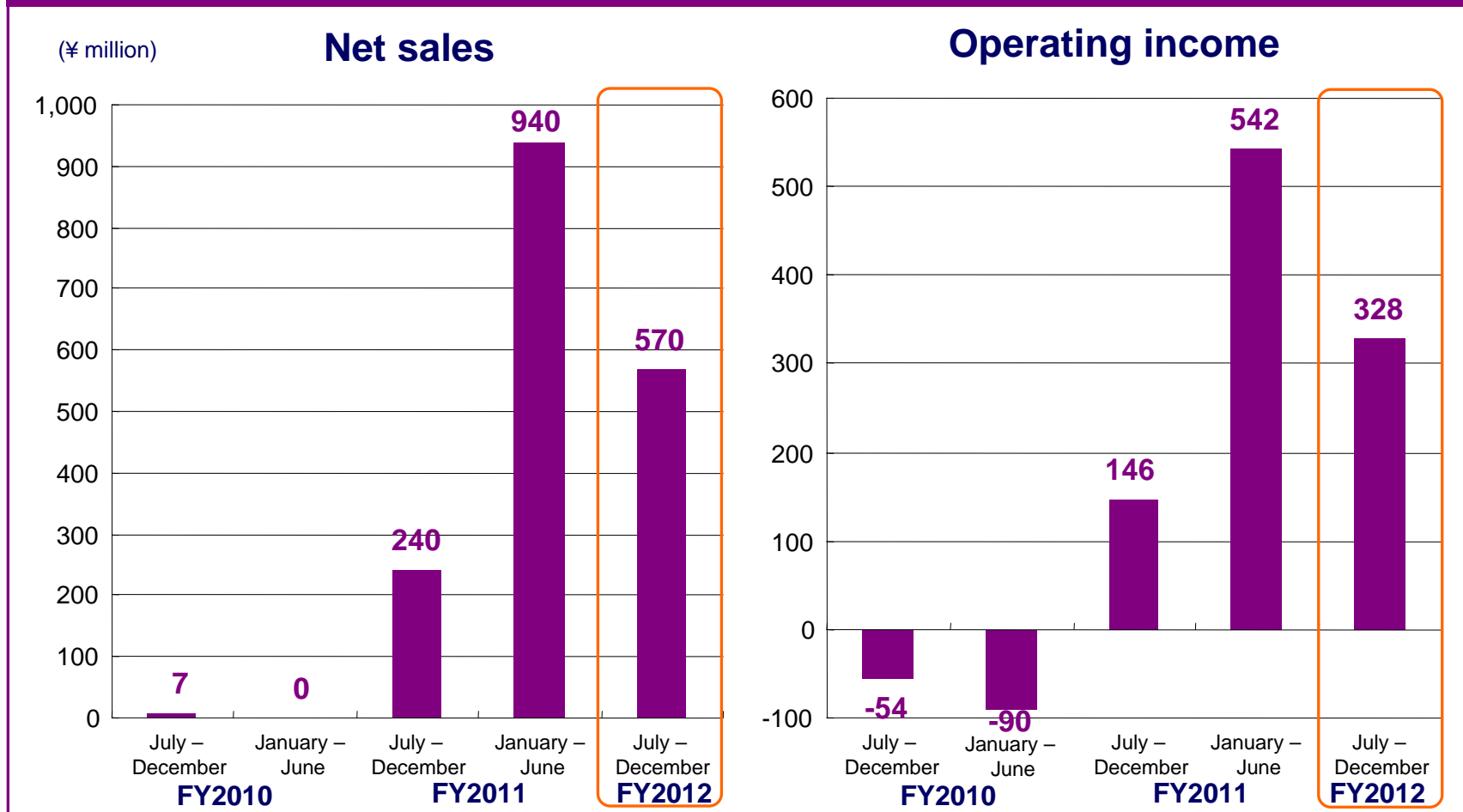


Segment Performance Highlights: Media Incubation Headquarters/CGM Marketing, Inc.

- Steady growth in official Twitter advertising and point mall services
- Earnings loss reduced despite staff expansion for cultivating new localized media



Venture Incubation



Segment Performance Highlights: DG Incubation, Inc./Open Network Lab (Onlab)

- Investments in overseas ventures actively pursued; global incubation accelerated (promotion of overseas business launch by Onlab graduates)
- Annual forecast remains unchanged despite scheduled stock sale in Q2 being delayed to Q3 or later



Financial Summary for Second Quarter FYE 2012: Balance Sheet (Consolidated)

context company

(¥ million)	FYE 2011 Actual	Q2 FYE 2012 Actual	Year-on-Year (Amount)
Current assets	14,345	23,133	+8,788
Incl. cash and deposits	4,784	10,662	+5,878
Incl. receivables	4,351	5,196	+845
Incl. money held in trust	2,501	3,689	+1,188
Fixed assets	6,075	6,585	+510
Total assets	20,421	29,719	+9,298
Current debt	9,933	10,515	+582
Incl. deposits	6,168	8,632	+2,464
Incl. interest-bearing debt	2,519	725	-1,794
Fixed debt	592	435	-157
Incl. interest-bearing debt	351	233	-118
Net assets	9,895	18,767	+8,872
Debt/net asset total	20,421	29,719	+9,298

Receivables:
Payments owed by convenience stores/credit card companies (average payment period: approx. two weeks)

Money held in trust:
Payments protected by trust

Deposits:
Payments temporarily held until paid to e-commerce clients

Short-term loan repayment

Capital increase through public offering (July 2011) and Q2 cumulative net income posted

Capital-to-asset ratio
FYE 2011 **Q2 FYE 2012**
 48.1% → 62.8%



(¥ million)

	FYE 2011 Actual	FYE 2012 Plan	Year-on-Year (Amount)
Net sales	11,067	13,800	+2,733
Operating income	135	1,350	+1,215
Ordinary income	972	2,500	+1,528
Net income	901	2,100	+1,199
Net sales by segment			
Hybrid Solutions	9,252	9,600	+348
Media Incubation	634	2,000	+1,366
Venture Incubation	1,180	2,200	+1,020
Operating income by segment			
Hybrid Solutions	634	650	+16
Media Incubation	-218	260	+478
Venture Incubation	688	1,500	+812

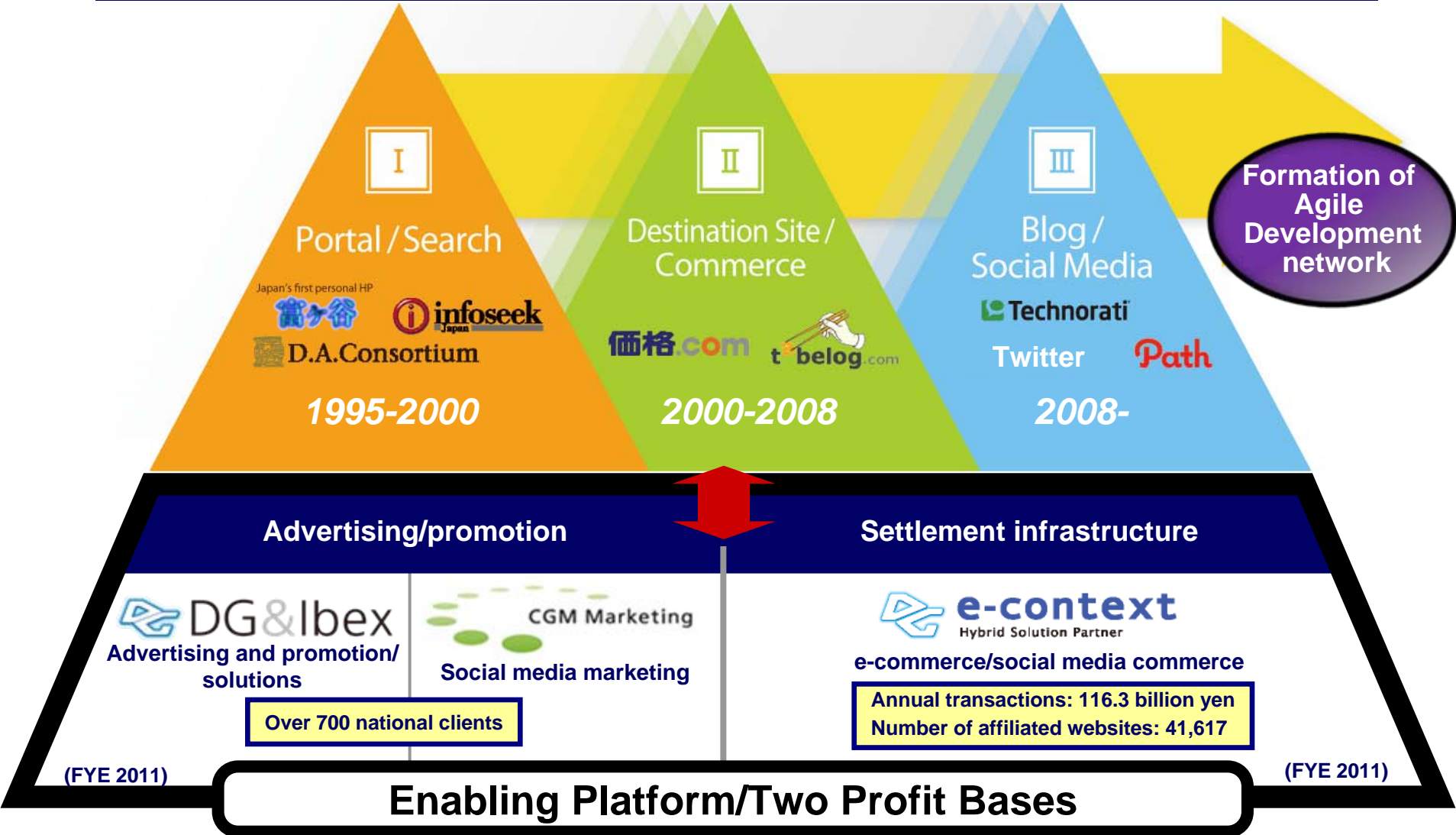
No adjustment made to FYE 2012 initial forecast announced in August 2011

Second Quarter FYE 2012 Segment Performance Review

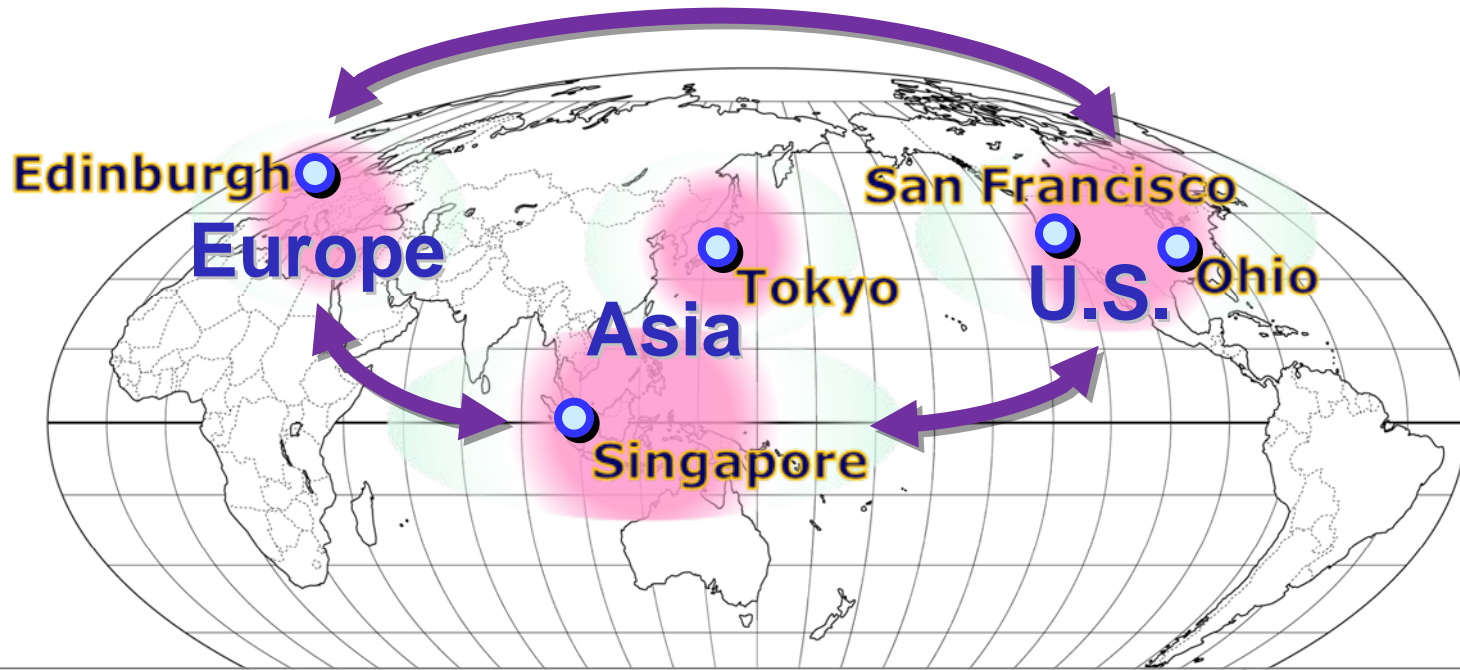


DG's Unique Incubation Model with Enabling Platform

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



New strategic base in U.S. and global software development network formed to counter bottleneck in global incubation

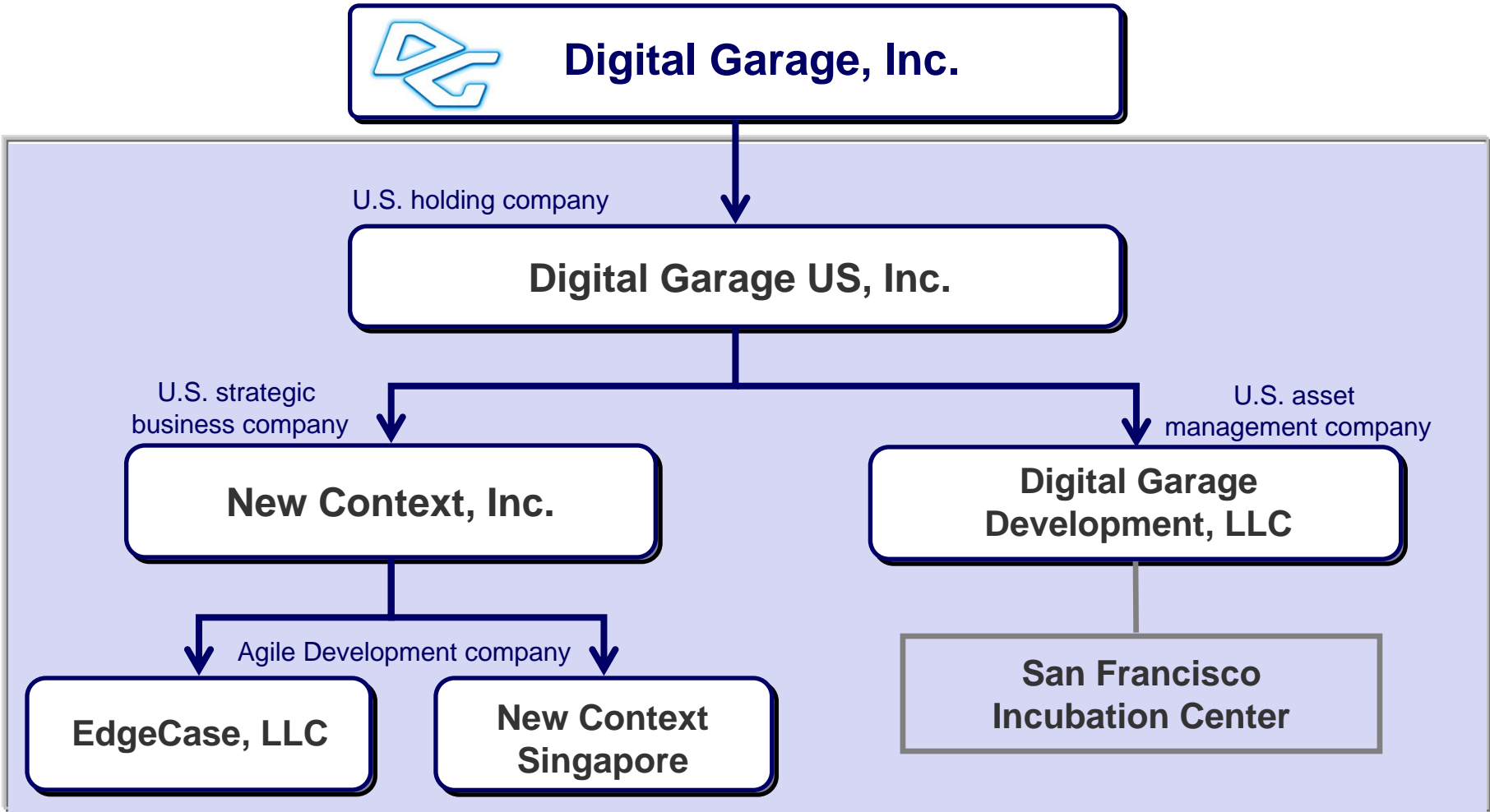


San Francisco: Strategic base for global incubation **New Context**

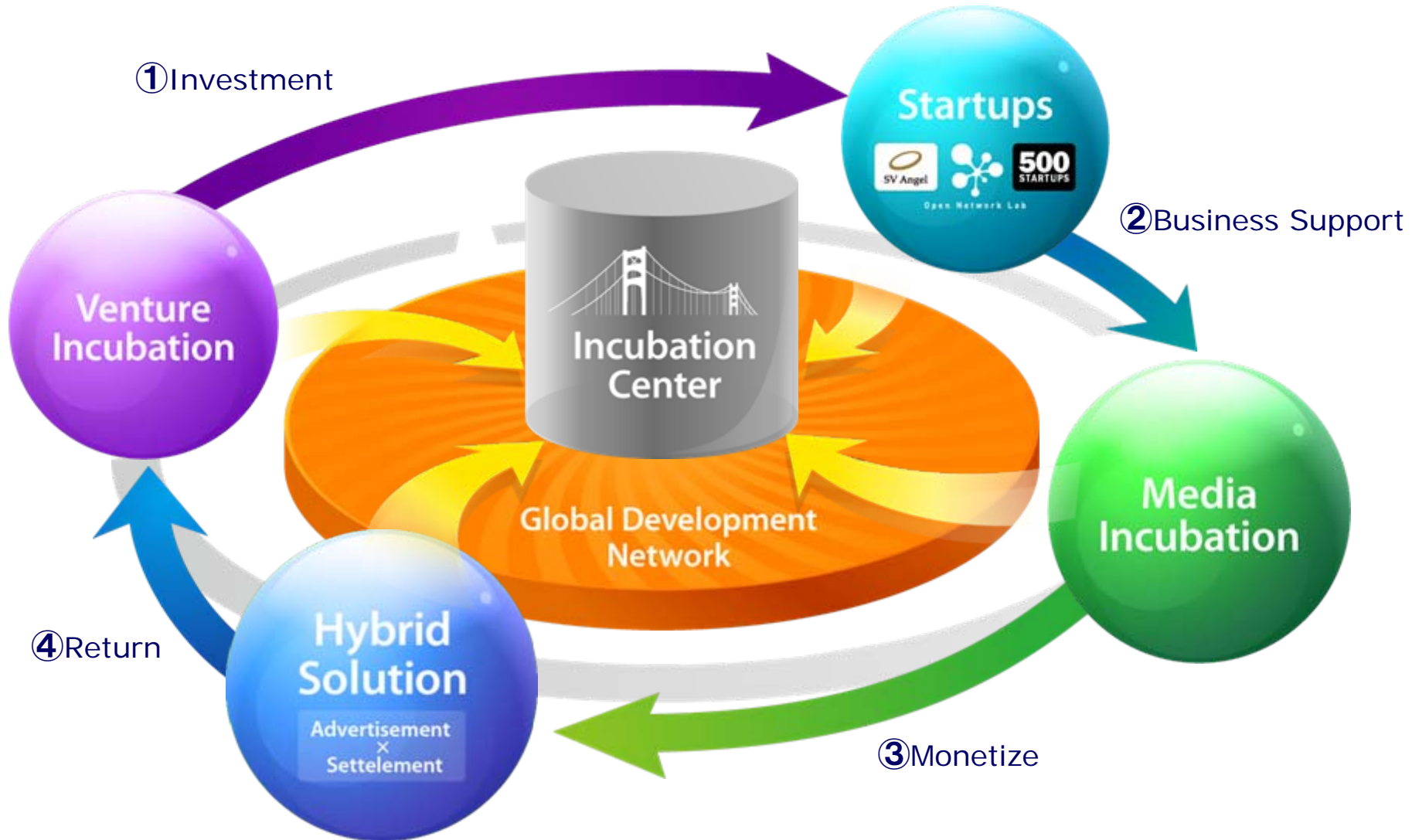
Ohio/Edinburgh: Agile Development with advanced multi-language support 

Singapore: DG's acquisition of Asia operation base of world's leading agile development company **New Context Singapore**

**Acquisition of property for San Francisco Incubation Center
Global incubation in coordination with Agile Development network launched**



Development of global incubation ecosystem
that continuously drives acceleration





Venture Incubation

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



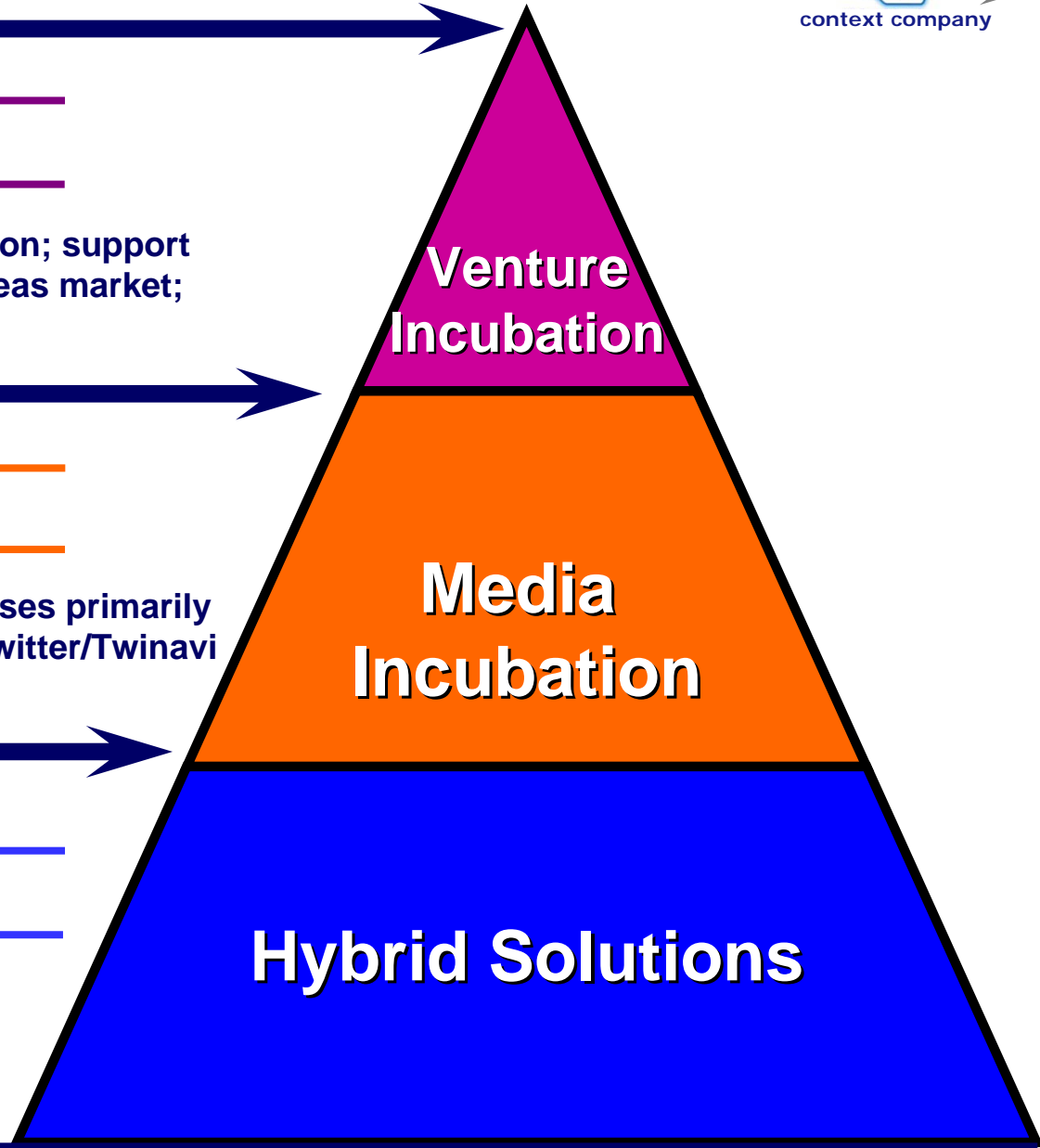
Media Incubation

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



Hybrid Solutions

- Hybrid integration of settlement services and media solutions





I

Venture Incubation

	Net sales	Operating income
First Half FYE 2011 Actual	240 million yen	146 million yen
First Half FYE 2012 Actual	570 million yen	328 million yen
Full-Year FYE 2012 Forecast	2,200 million yen	1,500 million yen

➤ DG Incubation, Inc.

Venture business incubation through investment and development



DG INCUBATION

➤ Open Network Lab, Inc.

Internet-based business accelerator program for entrepreneurial engineers



Open Network Lab

～日本のスタートアップを世界へ～

Open Network Lab



Active investment in overseas ventures based primarily in Silicon Valley and Incubation of high-quality Japanese ventures

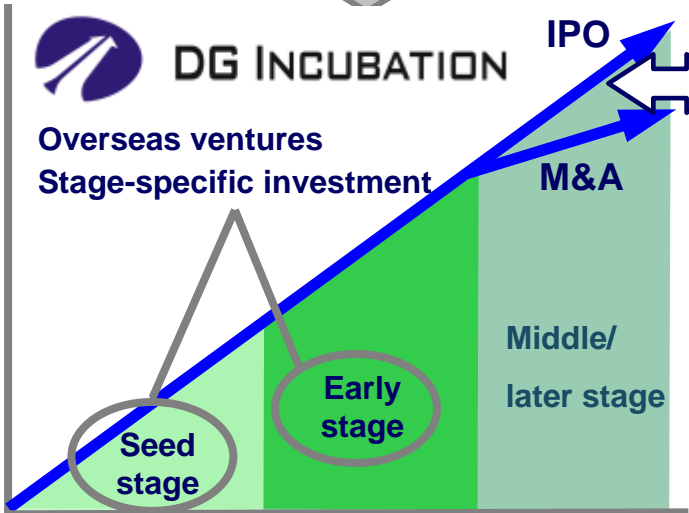
Incubation activities in coordination with global development network/San Francisco Incubation Center
 Establishment of investment and incubation models for venture import/export and globalization

Import model

Investment/incubation of prospective overseas ventures **Japanese market localization** and overseas-based **globalization support**


Export model

Investment/incubation of prospective domestic ventures and Japan-based **globalization support**



- ◆ Use of Agile Development network
- ◆ Coordinated activities with new Incubation Center

Acceleration of global incubation



Open Network Lab

Incubation of prospective domestic ventures at seed stage
<http://onlab.jp/>

Completion of dream team of Silicon Valley angel investors

Investments made in two prominent Silicon Valley angel funds

Active investments pursued for ventures related to recent trends such as Online to Offline social media and big data



SV Angel

- ◆ Technology-oriented fund
- ◆ Investments tend to focus on startups with existing products and sales
- ◆ Active investments in Silicon Valley-area businesses



500 Startups

- ◆ Design-oriented fund
- ◆ Most startups participate upon completion of product design
- ◆ Extended network in Asia and South America

⇒ Capacity to offer investment and incubation with **global perspective** to **both technology/design-oriented ventures** beyond Silicon Valley

Direct Investment



- Online development/retail service provider for educational contents
- Turkish company with headquarters in San Francisco



Intercom

- CRM system provider for Web and app services
- Irish company with headquarters in San Francisco

Open Network Lab

Seed acceleration program for engineers and entrepreneurs who create global businesses originating from Japan, offering support for worldwide expansion in collaboration with global development network and San Francisco Incubation Center

Functions of Open Network Lab

Existing functions

1. Seed accelerator (startup support program)
2. Startups event organizer
3. Investor



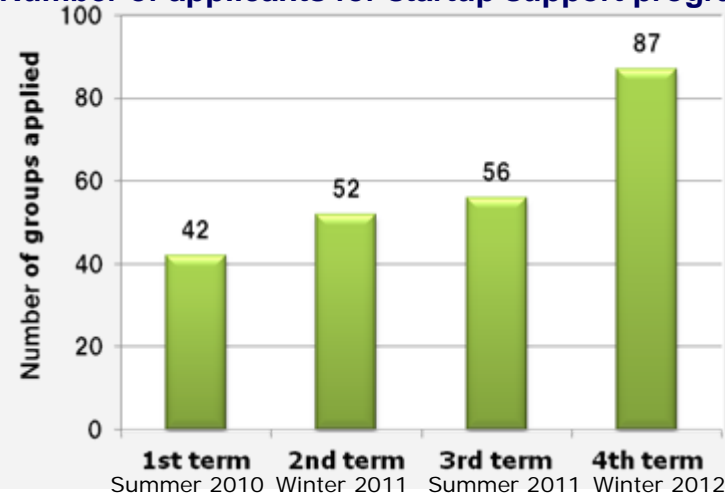
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Additional functions

4. Global development supporter in collaboration with New Context, Inc.
5. Provider of U.S. operation base at incubation center.



Number of applicants for startup support program





Media Incubation

	Net sales	Operating income
First Half FYE 2011 Actual	353 million yen	-120 million yen
First Half FYE 2012 Actual	650 million yen	-42 million yen
Full-Year FYE 2012 Forecast	2,000 million yen	260 million yen

➤ Media Incubation Division

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

➤ CGM Marketing, Inc.

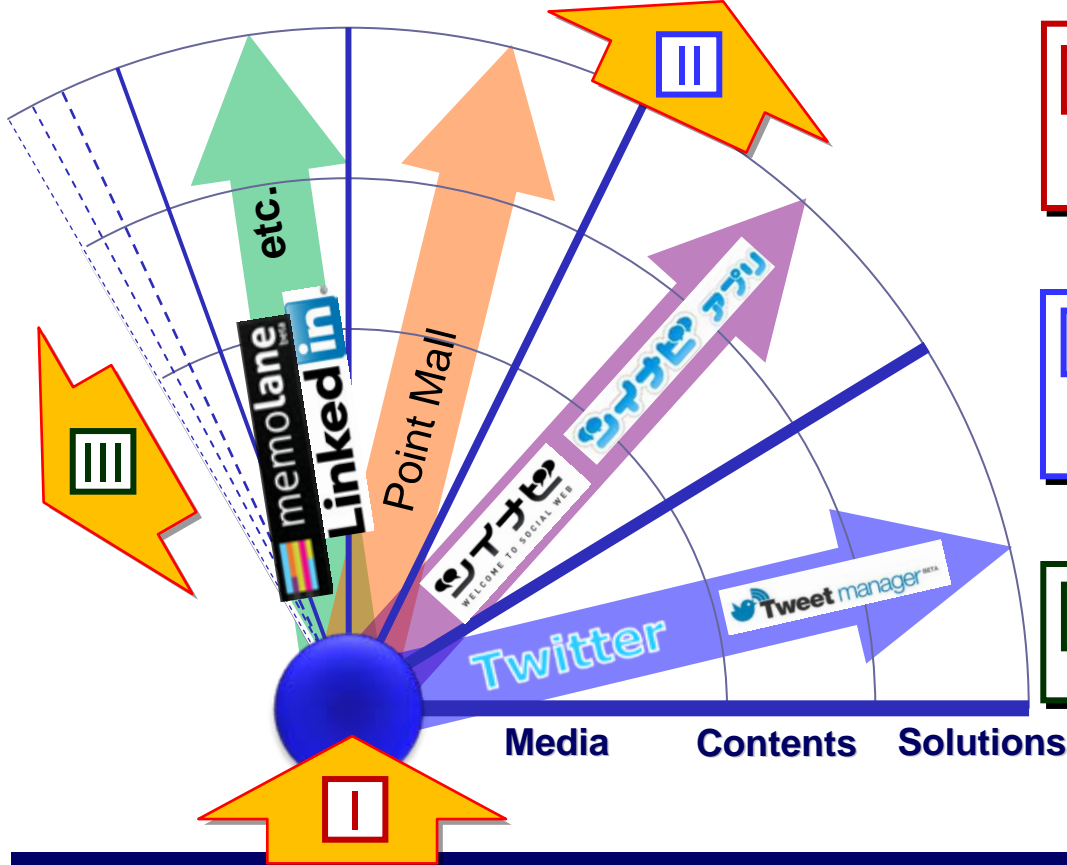


Twitter- and CGM-based ad product development, twinavi operation and Twitter business support



**New media development in tandem with DG global incubation strategy;
Acceleration of media incubation using global development network**

Multidirectional media incubation



I Ongoing cultivation of next-generation seed media in coordination with venture incubation

II Acceleration of media ventures using lean startup approach and agile development network

III Global media acceleration in tandem with global incubation strategy

Venture Incubation

Media Incubation Division

- ◆ Development resources gained through acquisition of two leading agile development companies overseas
 - Acceleration of media incubation achieved with addition of software development capability that counters bottleneck in localization process

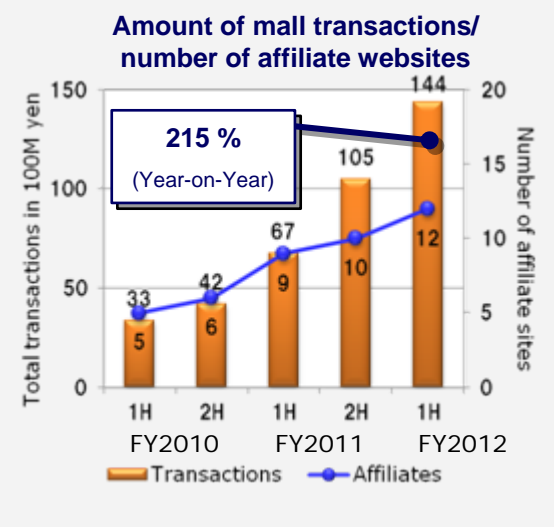
- ◆ Release of social app development platform Twinavi Apps 

- Fee-based businesses expanded with social/real-time apps linked with **Twitter**



- ◆ Steady growth of point mall services (i.e., development/operation of affiliate malls linked with point programs)

- Mall media network with **over 90 million members** established through partnerships with businesses with customer information databases such as credit card companies
- Amount of mall transactions increased by **220%** year-on-year



Further promotion of media export in addition to imported media development



- ◆ Marketing/operational support for imported media ventures that follow success of **Twitter**
- ◆ Implementation and global application of DG's original media and Onlab businesses



CGM Marketing, Inc.

◆ Official PC/mobile advertising businesses for **Twitter** maintained steady growth

- Record-high growth in sales posted despite decrease in sell-through due to inventory adjustments for UI renewal in December
- Cross-sell with new ad products under development with Dentsu Group

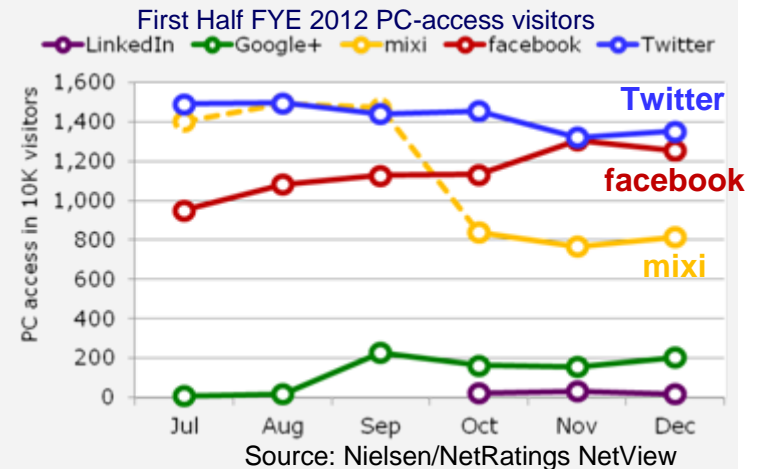
◆ Further expansion of with utility companies

- System wide implementation by utility providers such as Tokyo Electric Power Co.; stable profitability also achieved due to increase of long-term contracts

◆ Renewal of Twinavi as social website

- Functionality renewed upon launch of social app businesses, evolving from navigation website to social website

No. 1 social media status maintained



Development of new media services together with continuous expansion of **Twitter** monetization

- Diversify **Twitter** -related ad products/profit-earning opportunities
- Develop next-generation ad products that match consumers' multi-social media use

Mid- and long-term strategy



Hybrid Solutions

	Net sales	Operating income
First Half FYE 2011 Actual	4,389 million yen	298 million yen
First Half FYE 2012 Actual	5,077 million yen	528 million yen
Full-Year FYE 2012 Forecast	9,600 million yen	650 million yen

➤ DG&Ibex Company

Marketing promotion support, media development and web solutions



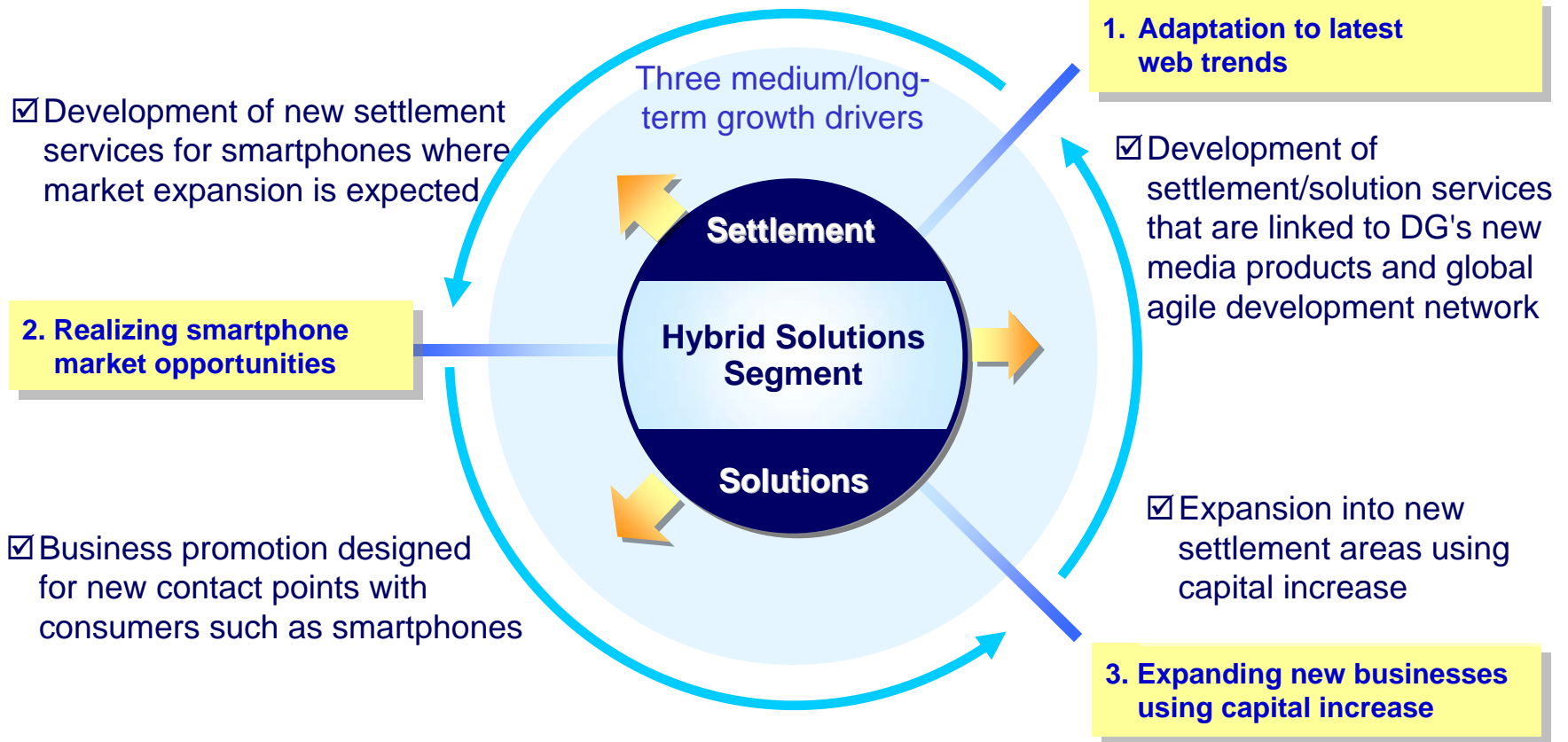
➤ e-context Company

E-commerce settlement platforms



Further acceleration of Hybrid Solution areas (advertising/settlement) based on three growth drivers

1. Efficient adaptation to latest web trends via DG's new media products/global development network
2. Swift realization of new opportunities created by smartphone market
3. Expansion of new businesses using capital increase



First Half FYE 2012 Actual

Total sales
3.54 billion yen
121% (year-on-year)

Profit per client
14.9 billion yen
114% (year-on-year)

Number of clients
238
106% (year-on-year)



Upward trend in previous year maintained; record-high sales posted

Growth factors

Healthy performance in industry-specific solution development based on DG's expertise in social media

◆ Web marketing area

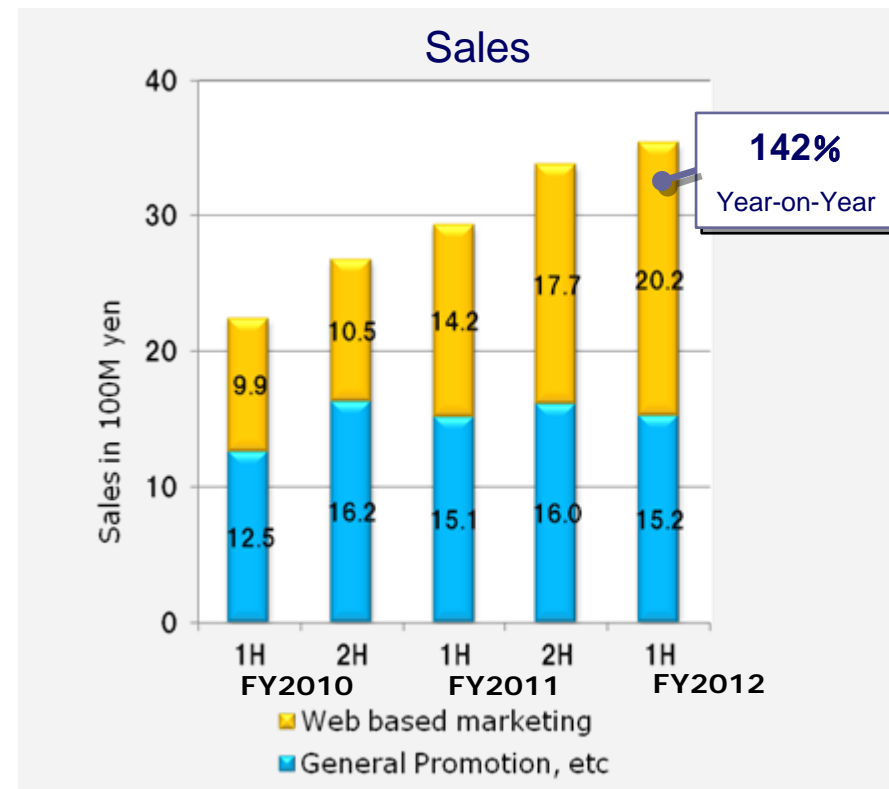
- Success in market specialization strategy (e.g., cosmetics, financing) resulted in **42% growth** year-on-year

◆ General promotion area

- Efforts focused on securing new clients successful
- Unit profit and margin per client improved due to higher recognition of DG's digital planning capability

◆ Development and promotion of new strategic products

- Development of industry-specific products that integrate cyber and real media (O2O) pursued (partnership with Tabelog  launched)
- Business planning for new opportunities created by smartphone market



First Half FYE 2012 Actual

Number of affiliated websites

45,155

117% (year-on-year)

Number of transactions

10,71 million

142% (year-on-year)

Total amount of transactions

71.4 billion yen

129% (year-on-year)



Number and amount of transactions both set new record high


Growth factors

Steady growth in both ongoing focus areas and new businesses

◆ Success in specialization for focused areas resulted in improved performance in existing businesses

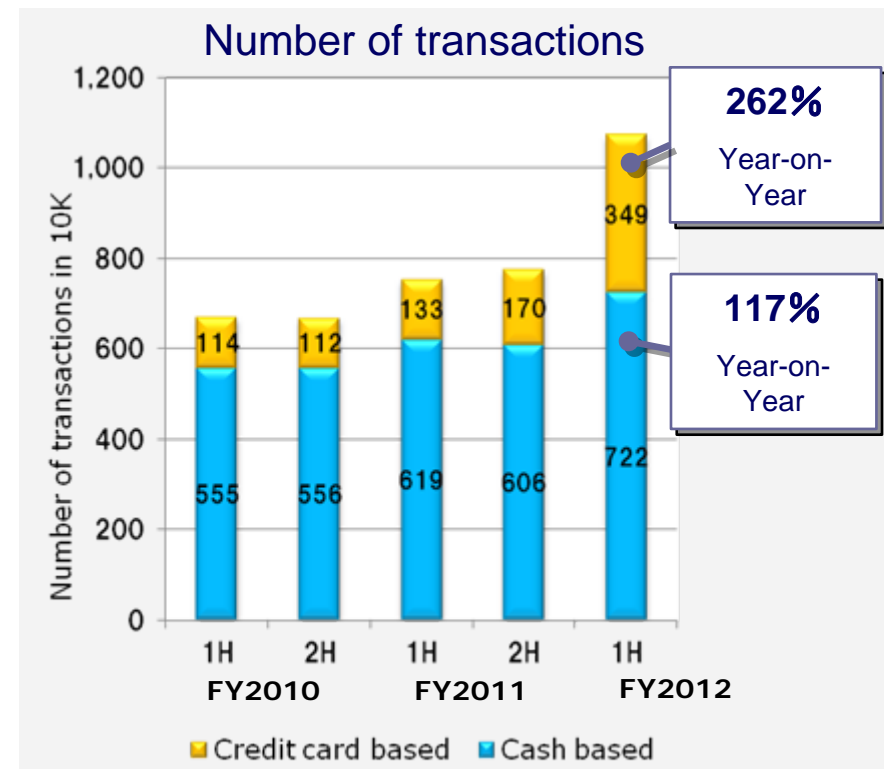
- Credit card settlement posted **260%** growth (year-on-year)
- Upward trends in main areas (gaming/travel) maintained

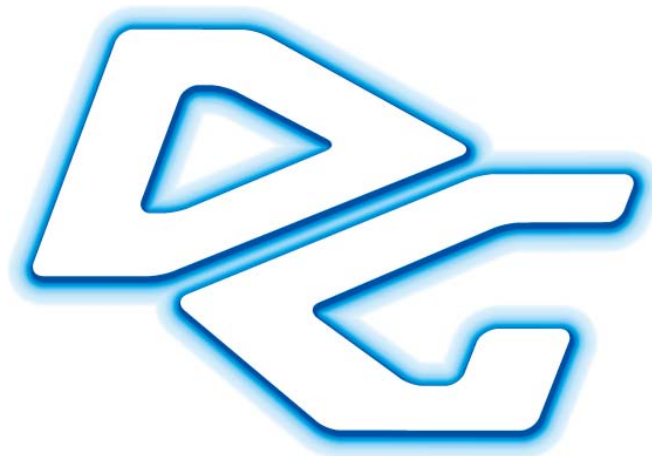
◆ Joint businesses with Kakaku.com remain successful

- Settlement business with escrow services Anshin Shiharai  further expanded by securing two companies with highest transactions

◆ New business opportunities explored through launch of new business

- Enhanced settlement capabilities offered with BtoC money transfer services  expanded business opportunities





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.