



Open Incubation toward 2020

Digital Garage, Inc.

3Q of FYE March 31, 2018 Financial Report

2018.2.9

 **Digital Garage**

FY18.3 3Q (cumulative):

Sales 43.9 B JPY, operating income 2.1 B JPY, and income before income taxes 5.8 B JPY
~ High growth in MT/FT, especially in FT in 3Q(Oct.-Dec.). Progress in income before income taxes was 73% ~

I

Consolidated result: YoY* Sales grew by 20%, operating income grew 3 times YoY, unchanged income before income taxes

- Achieved record-high sales in 3Q (Apr.-Dec.). MT/FT posted record-high segment profit.
- Extraordinary factors such as investment profit on equity method etc due to the previous fiscal year's irregular settlement results absorbed a total of 1.3 B JPY, and income before income taxes maintained at JPY 5.8 B JPY.

II

MT/FT: Continued expansion of internet ad and payment business. Substantial increase in sales and profits

- MT marked substantial increase in sales and profits. Sales achieved 25.3 B JPY, YoY +24%, and income before income taxes achieved 1.5 B JPY, YoY +40%. Mainline performance-based ads drive strongly and grew exceeding the market.
- FT marked substantial increase in sales and profits. Sales achieved 15.6 B JPY, YoY +10%, and income before income taxes achieved 1.8 B JPY, YoY +26%. Transaction volume expanded to 1,100 B JPY, and grew exceeding EC market. Non-EC payment, a key business area, has increased especially face-to-face settlement and cryptocurrency exchange settlement.

III

IT/LTI: Made progress in exit in Japan and overseas. Establish mid-long term incubation structure of promising investments

- IT income before income taxes jumped 2.3 times YoY to 1.7 B JPY. Sold domestic and overseas investment portfolios sequentially. Income before income taxes decreased YoY due to irregular results in the previous fiscal year and the recording of extraordinary income in LTI, but investment profit on equity method of Kakaku.com trended steadily.
- DG Lab promotes strategic projects that utilize "DG Lab DVEP"™ for unique cryptocurrency. Blockstream, a strategic business alliance partner, made a strategic agreements with Intercontinental Exchange (NYSE:ICE), which owns the New York Stock Exchange, for starting to offer transaction prices of primary cryptocurrencies.

Note:* Due to the change of fiscal term last year, the YoY comparisons here are between FY17.3 (nine months accounting) and FY18.3 3Q (cumulative).

Group Financial Performance Review



FY18.3 3Q (Cumulative) Consolidated P/L Summary



YoY* sales grew by 20% record high of 43.9 B JPY and operating income tripled to 2.1B JPY

**~ Good progress rate towards full year forecast:
sales 75%, income before income taxes 73%, net income 74% ~**

JPY in Millions	A	B	ref. C (=B/A)	D	E	ref. F (=E/D)		FY18.3	
	FY17.3 2Q Act (10-12)	FY18.3 3Q Act (10-12)	YoY %	FY17.3 1Q-3Q Act (7-3)	FY18.3 1Q-3Q Act (4-12)	%	Amount	Full Year Forecast	1Q-3Q Progress
Gross sales	12,258	15,201	+24.0	36,451	43,921	+20.5	+7,469	58,500	75%
Operating income	493	775	+57.2	723	2,192	3.0 x	+1,468		
Non-operating income	1,064	819	-23.0	3,246	2,318	-28.6	-928		
Investment profit on equity method	665	681	+2.4	2,528	1,914	-24.3	-614		
Foreign exchange gain	274	3	-98.8	171	12	-92.6	-158		
Non-operating expenses	13	85	6.3 x	292	323	+10.6	+31		
Foreign exchange loss	-67	-	-	-	-	-	-		
Ordinary income	1,544	1,509	-2.3	3,678	4,187	+13.8	+509		
Extraordinary income	20	822	41.1 x	2,265	1,675	-26.0	-589		
Gain on sales of investments in securities	-	-	-	1,829	717	-60.8	-1,112		
Gain on sales of shares of sub. and associates	-	798	-	386	798	2.1 x	+412		
Income before income taxes	1,564	2,324	+48.6	5,819	5,818	-0.0	-0	8,000	73%
Income taxes	547	745	+36.1	1,525	1,740	+14.1	+215		
Net income attributable to owners of parent	1,014	1,562	+54.0	4,289	4,052	-5.5	-236	5,500	74%

Note: Due to the change of fiscal term last year, the YoY comparisons here are between FY17.3 (nine months accounting) and FY18.3 3Q (cumulative).
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.

FY18.3 3Q (Cumulative) Consolidated Segment P/L Summary



Income before income taxes in MT up 40% YoY and FT up 26% YoY as recurring businesses
 ~ FT drove 3Q(Oct.-Dec.) Sales grew by 13% of 5.4 B JPY compared to 2Q FY17.3, and income before income taxes grew by 51% of 0.69 B JPY ~

JPY in Millions	A	B	ref. C (=B/A)	D	E	ref. F (=E/D)		FY18.3	
	FY17.3	FY18.3	YoY	FY17.3	FY18.3	YoY		Full Year Forecast	1Q-3Q Progress
	2Q Act (10-12)	3Q Act (10-12)	%	1Q-3Q Act (7-3)	1Q-3Q Act (4-12)	%	Amount		
Gross sales	12,258	15,201	+24.0	36,451	43,921	+20.5	+7,469	58,500	75%
MT Marketing Technology	6,843	8,079	+18.1	20,494	25,379	+23.8	+4,884	32,000	79%
FT Financial Technology	4,818	5,459	+13.3	14,140	15,619	+10.5	+1,479	20,500	76%
IT Incubation Technology	584	1,115	+91.0	1,775	2,355	+32.6	+579	6,000	39%
LTI Long Term Incubation	12	546	42.9 x	41	567	13.8 x	+525	-	-
Income before income taxes	1,564	2,324	+48.6	5,819	5,818	-0.0	-0	8,000	73%
MT Marketing Technology	415	403	-3.0	1,074	1,501	+39.7	+427	1,750	86%
FT Financial Technology	462	699	+51.1	1,478	1,857	+25.6	+378	2,300	81%
IT Incubation Technology	142	1,656	11.6 x	766	1,778	2.3 x	+1,011	3,800	47%
LTI Long Term Incubation	670	588	-12.3	2,899	1,835	-36.7	-1,063	2,500	73%

Note: Due to the change of fiscal term last year, the YoY comparisons here are between FY17.3 (nine months accounting) and FY18.3 3Q (cumulative).
 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.

FY18.3 3Q Consolidated B/S Summary



JPY in Million	FY17.3	FY18.3 3Q	Difference	Reason for change / Remarks
Current assets	59,624	84,448	+24,823	
Cash and deposits	23,029	31,151	+8,121	Income by the sales of investment securities, new borrowings etc
Receivables	15,422	24,456	+9,033	Expansion of FT business
Money held in trust	2,264	8,537	+6,272	Expansion of FT business
Operational investment securities	11,856	12,922	+1,065	New investment, Mark-to-market, etc
Fixed assets	32,061	33,721	+1,660	
Investment securities	18,357	16,661	-1,696	Sales of investment securities, Transfer of investment securities of DG Life Design that has become a consolidated subsidiary to goodwill, New investment, Increased investment profit on equity method
Goodwill	5,411	7,989	+2,577	Consolidation of DG Life Design, Inc.
Total assets	91,686	118,170	+26,483	
Current liabilities	38,815	58,211	+19,395	
Deposits	25,127	45,931	+20,803	Expansion of FT
Short-term borrowing	6,937	5,065	-1,872	
Fixed liabilities	18,499	21,200	+2,700	
Long-term borrowing	17,207	19,819	+2,611	Shift to long-term fixed rate
Total liabilities	57,315	79,411	+22,096	
Net assets	34,371	38,759	+4,387	
Shareholders' equity	31,633	34,990	+3,356	
Common stock	7,437	7,445	+7	
Capital surplus	2,946	3,158	+211	
Retained earnings	21,300	24,413	+3,112	Increased net profit
Accumulated other comprehensive income	1,956	2,575	+619	
Unrealized gains on securities	644	1,255	+611	
Liabilities / Net assets	91,686	118,170	+26,483	

Shift to long-term fixed rate

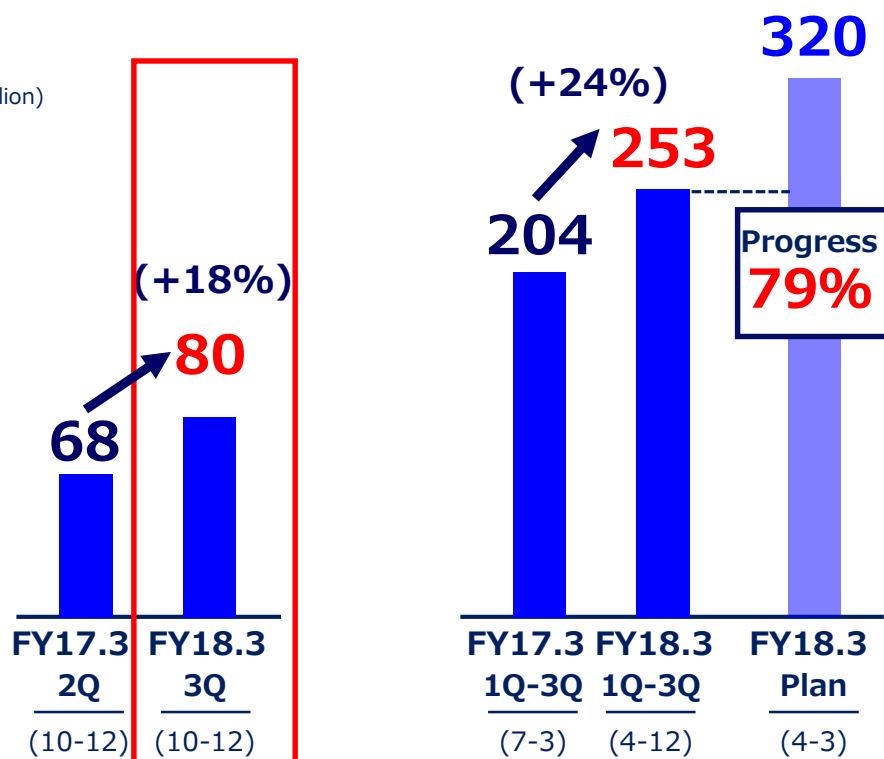
Segment Performance Review



Sales in 3Q marked 8.0 B JPY, +18% compared to 2Q FY17. Driven by performance-based ads
 ~ Good progress in sales 79% and in income before income taxes 86% ~

Sales

(JPY in 100 Million)

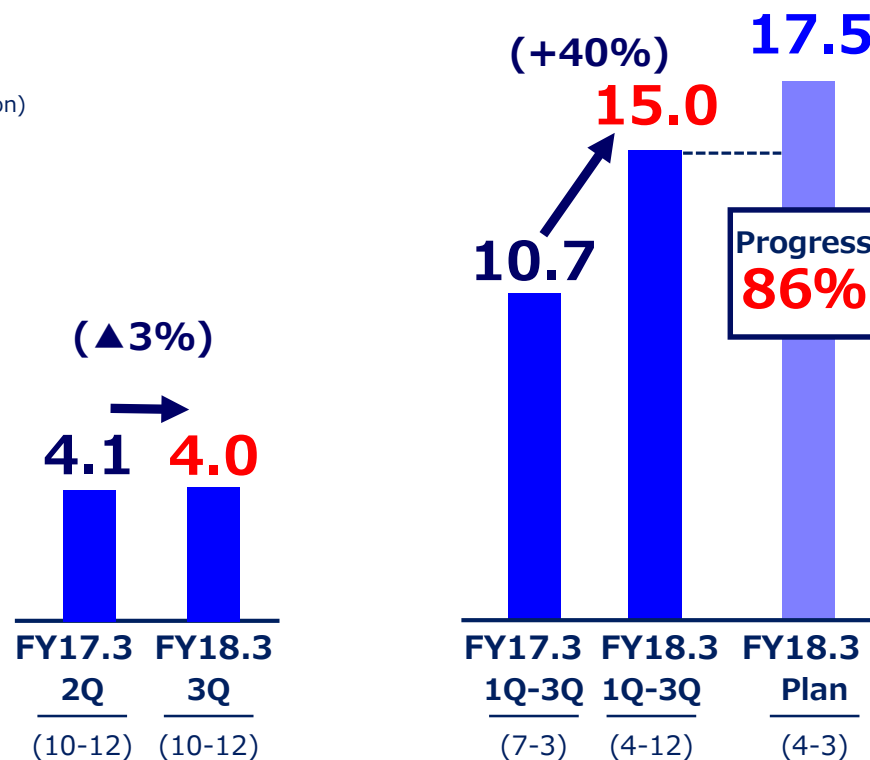


Grew by 18% compared to 2Q FY17, driven by performance-based ads

Good progress rate of 79% despite special factors in 2Q FY18

Income before income taxes

(JPY in 100 Million)



Gross margin increased steadily, but income before income tax declined slightly due to an increase in SG&A expenses for upfront investment such as on Ad Technology, global business expansion etc.

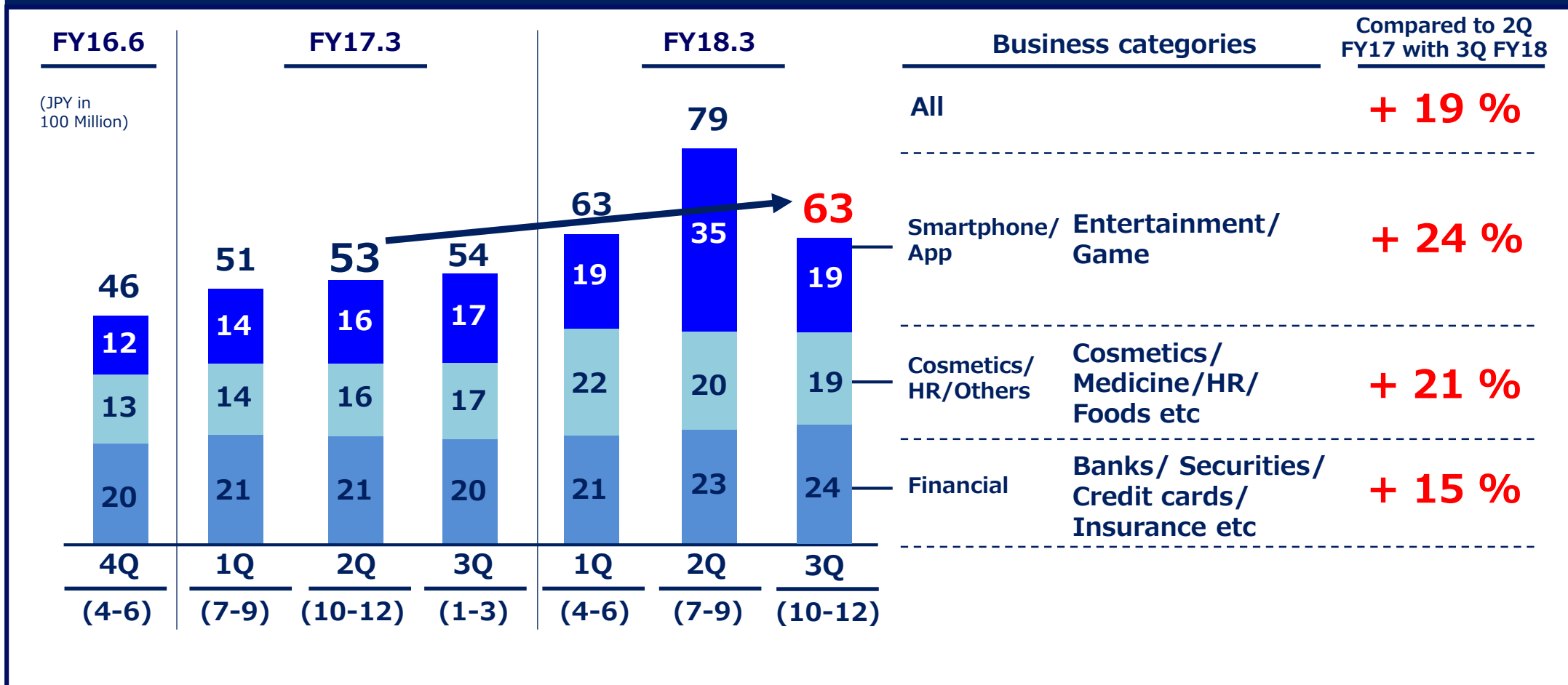
Good progress rate: 86%

3Q sales of performance-based ads marked 6.3 B JPY, +19% compared to 2Q FY17.

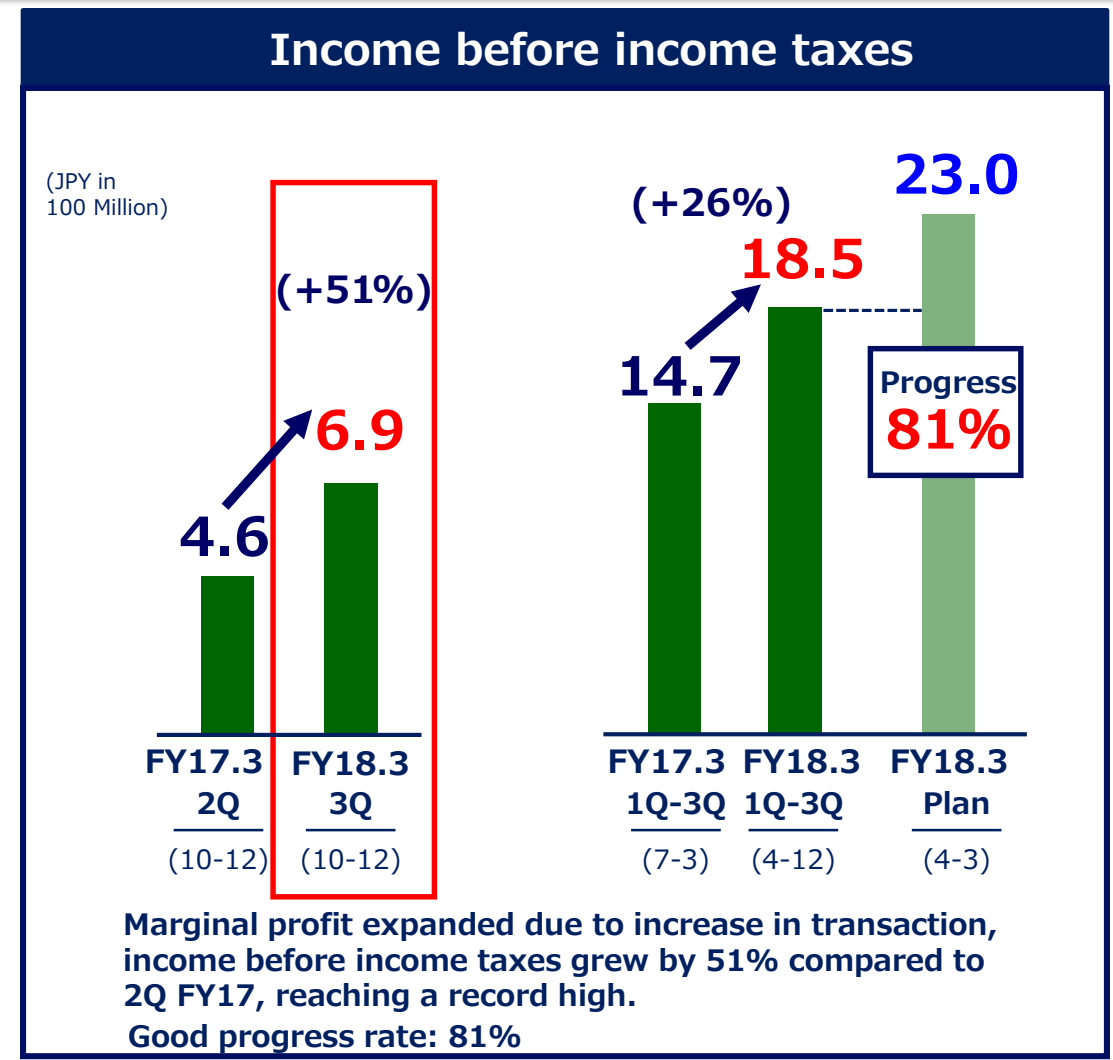
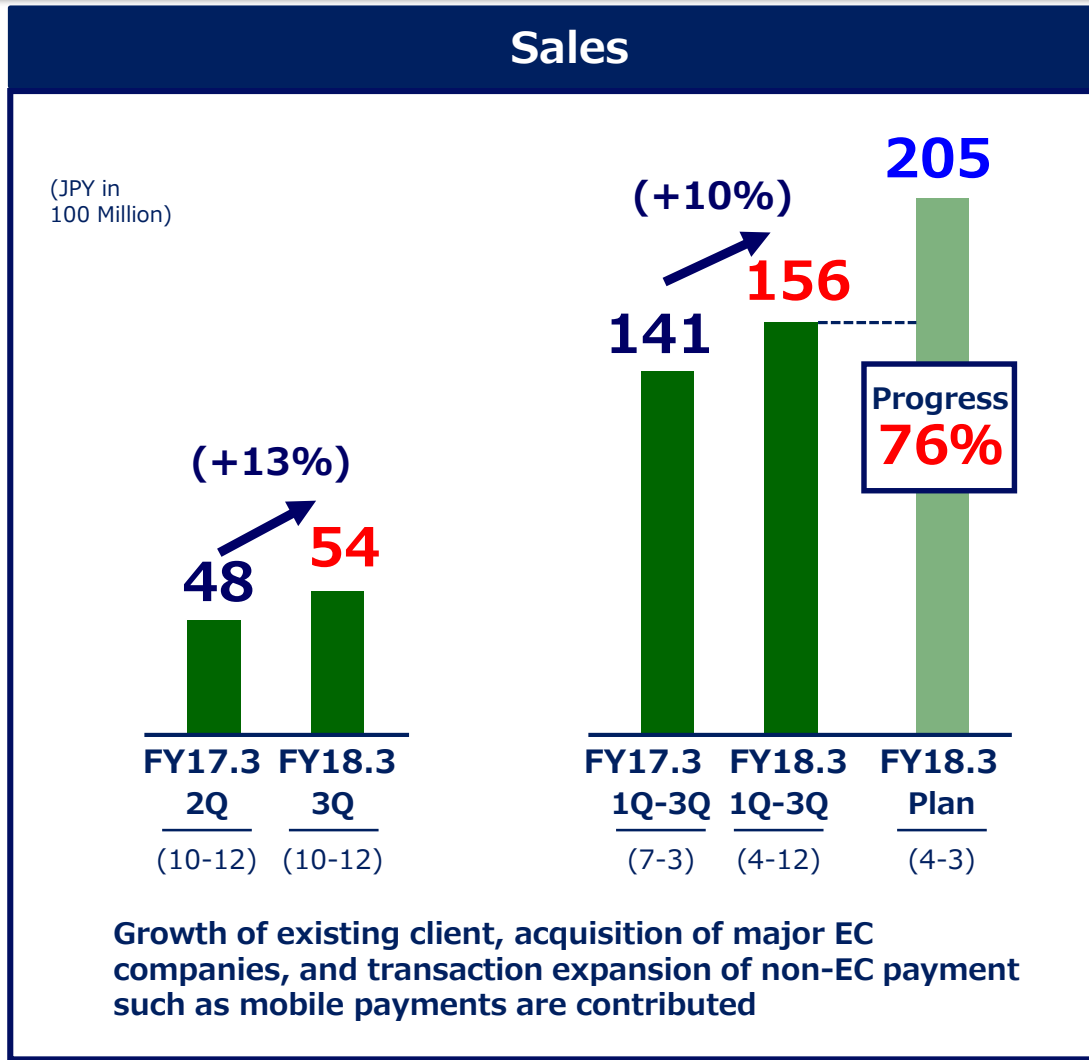
Sales increased in all business categories

~ Sales of smartphone/app business increased by 24%, cosmetics/HR by 21%, financial by 15% compared to 2Q FY17 ~

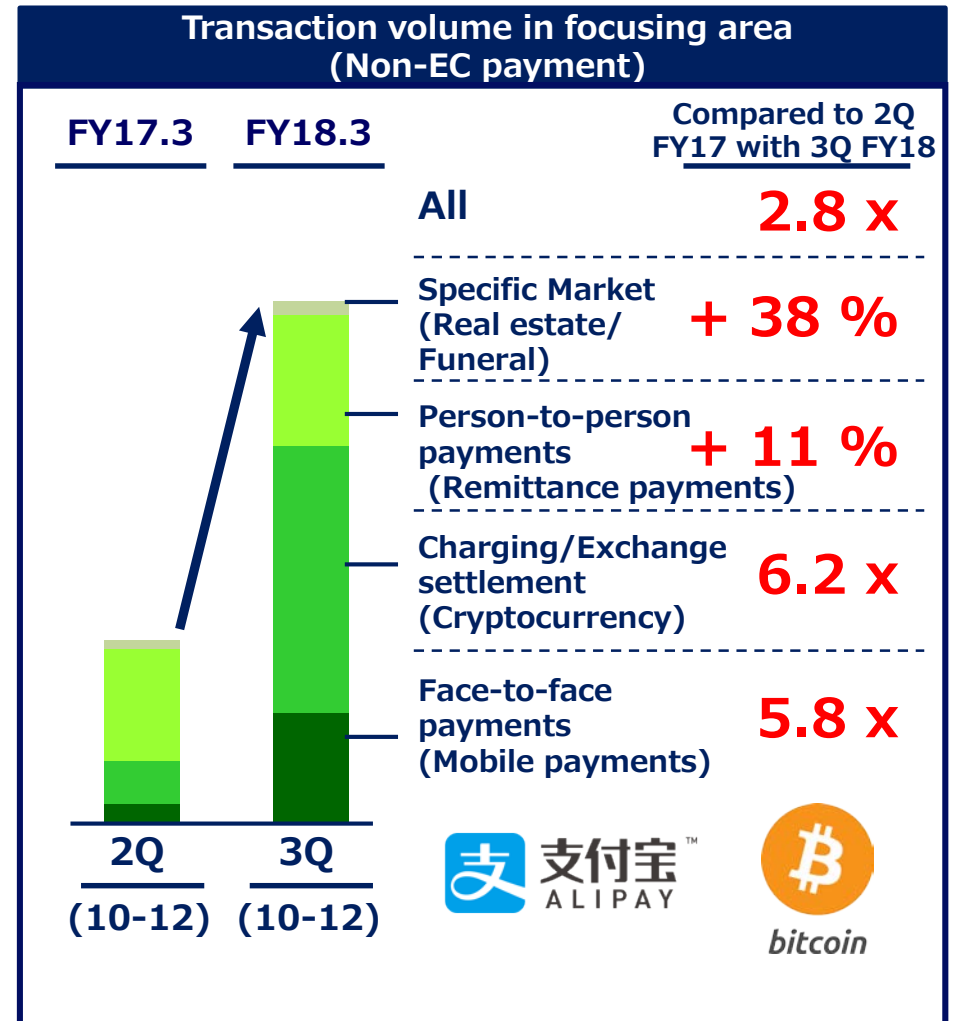
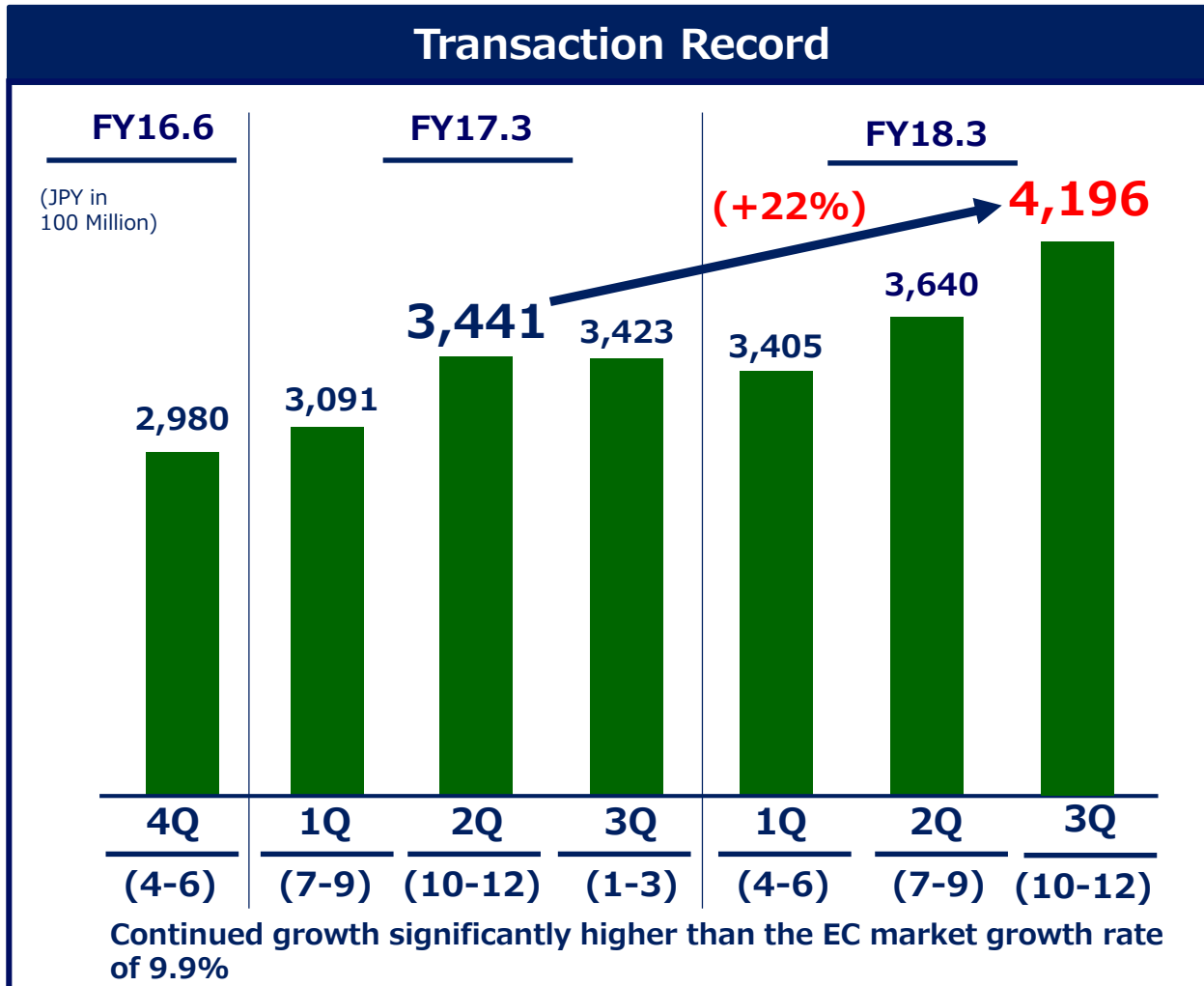
Sales by business categories (Performance-based ads)



Substantial increase in net sales and profit: Sales in 3Q marked 5.4 B JPY, +13% compared to 2Q FY17, income before income taxes marked 0.69 B JPY, +51%
 ~ Good progress in sales 76% and in income before income taxes 81% ~



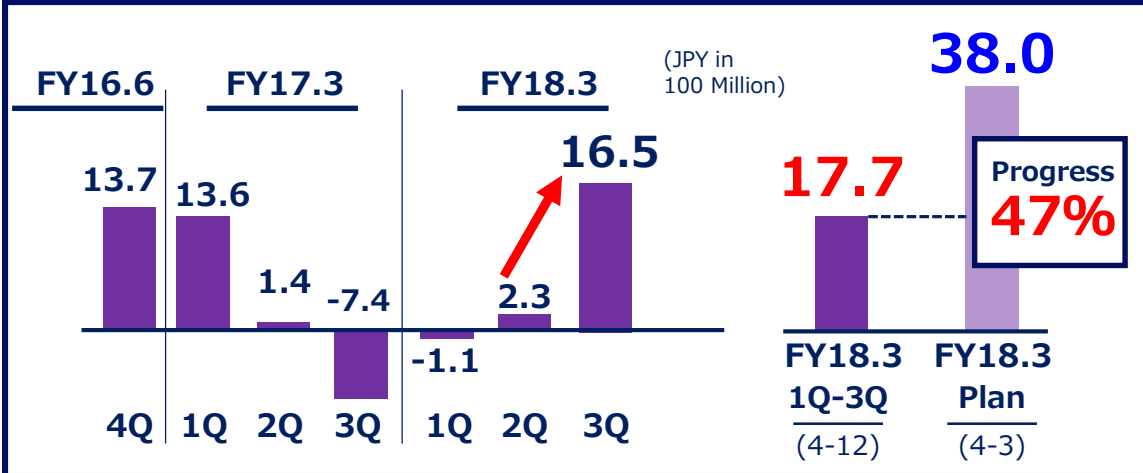
Transaction marked approx. 420 B JPY, +22% compared to 2Q FY17, exceeded EC market growth
 ~ Rapid expansion of face-to-face payments and cryptocurrency exchange settlement in Non-EC payment, a focusing area ~



Sold domestic and overseas investment portfolios sequentially
Income before income taxes grew strongly from 2Q FY18

~ New CIO has been appointed and continues to strengthen investment activity in US/Asia ~

Income before income taxes



Book Value

	# of companies	Book Value
Equity	136	12.1 B JPY
Domestic	45	1.8 B JPY
Overseas	91	10.2 B JPY
Fund	11	0.8 B JPY
Total	147	12.9 B JPY

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

Major Portfolio

Blockstream [U.S. /Canada]



Develops sidechain technologies, parallel blockchains that are interoperable

PR Table [Japan]

PR Table

A public relations service provider. Utilizing the concept of "storytelling@," it expands its service to an all-in-one public relations.



Droom [India]

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



Goodpatch [Japan]

Web development and consulting service firm

Wevr

Wevr [U.S.]

Virtual reality community and VR media player for aspiring and professional creatives



Monstar Lab [Japan]

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

PureTech Health [U.S.]

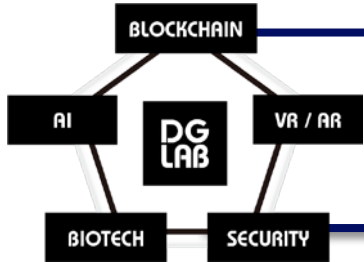


A US based company that focuses on incubation in advanced biotechnology field. Listed on LSE.

Panair [Japan]



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



Driven by R&D and fund investment focusing on five key fields, fully start development of key technologies that can be the center of next-gen business. Accelerated commercialization such as implementing feasibility tests and business alliances.

BLOCK CHAIN

A strategic business alliance partner Blockstream, partners with NYSE-parent ICE for cryptocurrency data feed

- Blockstream, DG’s strategic business alliance partner, made a strategic agreement with the Intercontinental Exchange (ICE), which owns the New York Stock Exchange etc, for Cryptocurrency Data Feed.
- Blockstream collects a wide range of information from more than 15 cryptocurrency exchanges including prices and order book data for bitcoin and other cryptocurrencies, and offers it to ICE in real time.



ICE

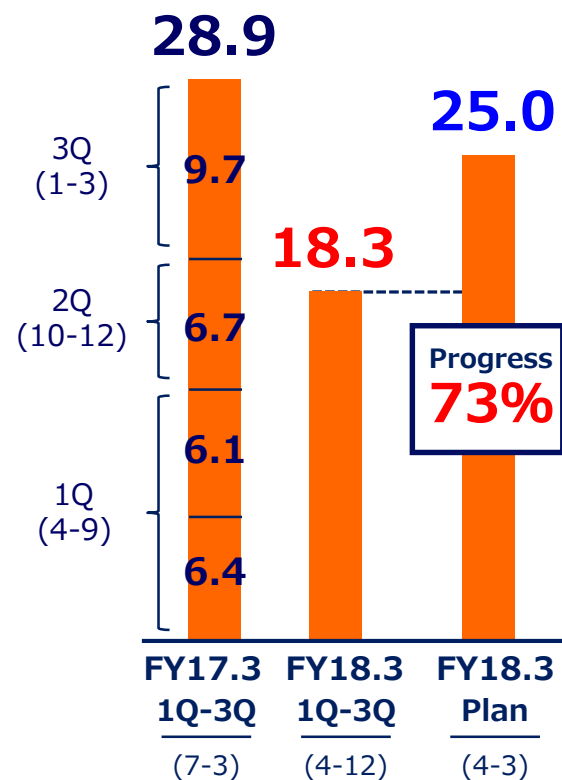
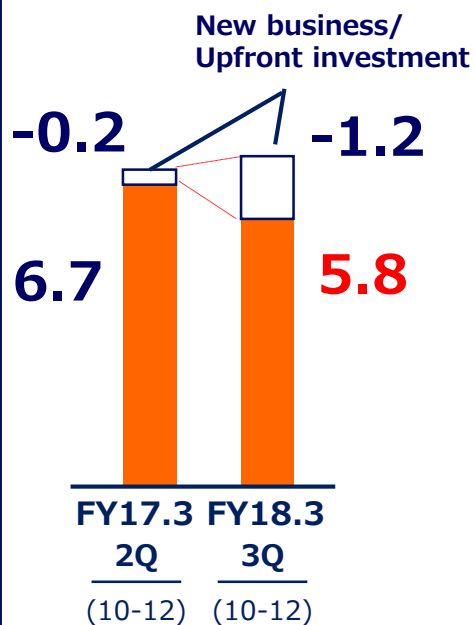
About Intercontinental Exchange: Operates electronic trading exchange that handles stock index, foreign exchange, energy, precious metals and agricultural products. Listed on the New York Stock Exchange. (NYSE: ICE)

Income before income taxes in 3Q marked 0.58 B JPY. Although income decreased compared to 2Q FY17 due to upfront investments in new businesses, investment profit on equity method of Kakaku remains robust

~ Good progress in income before income taxes: 73% ~

Income before income taxes

(JPY in 100 Million)



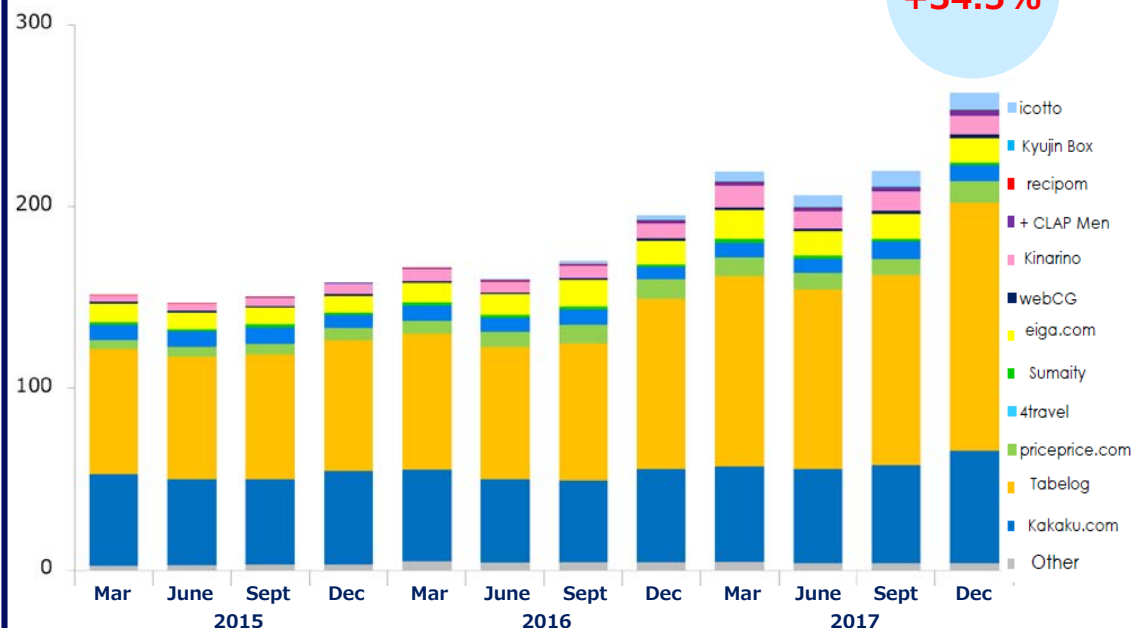
Note) FY17.3 1Q booked 6 months (Apr.-Sep.) of investment profit on equity method of Kakaku.com, Inc.

Business progress of Kakaku.com, Inc.

[Total Accumulated Traffic for Kakaku.com Group]

Monthly traffic for all sites of Kakaku.com has increased to 262.69 million, up 34.5% yoy (December 2017)

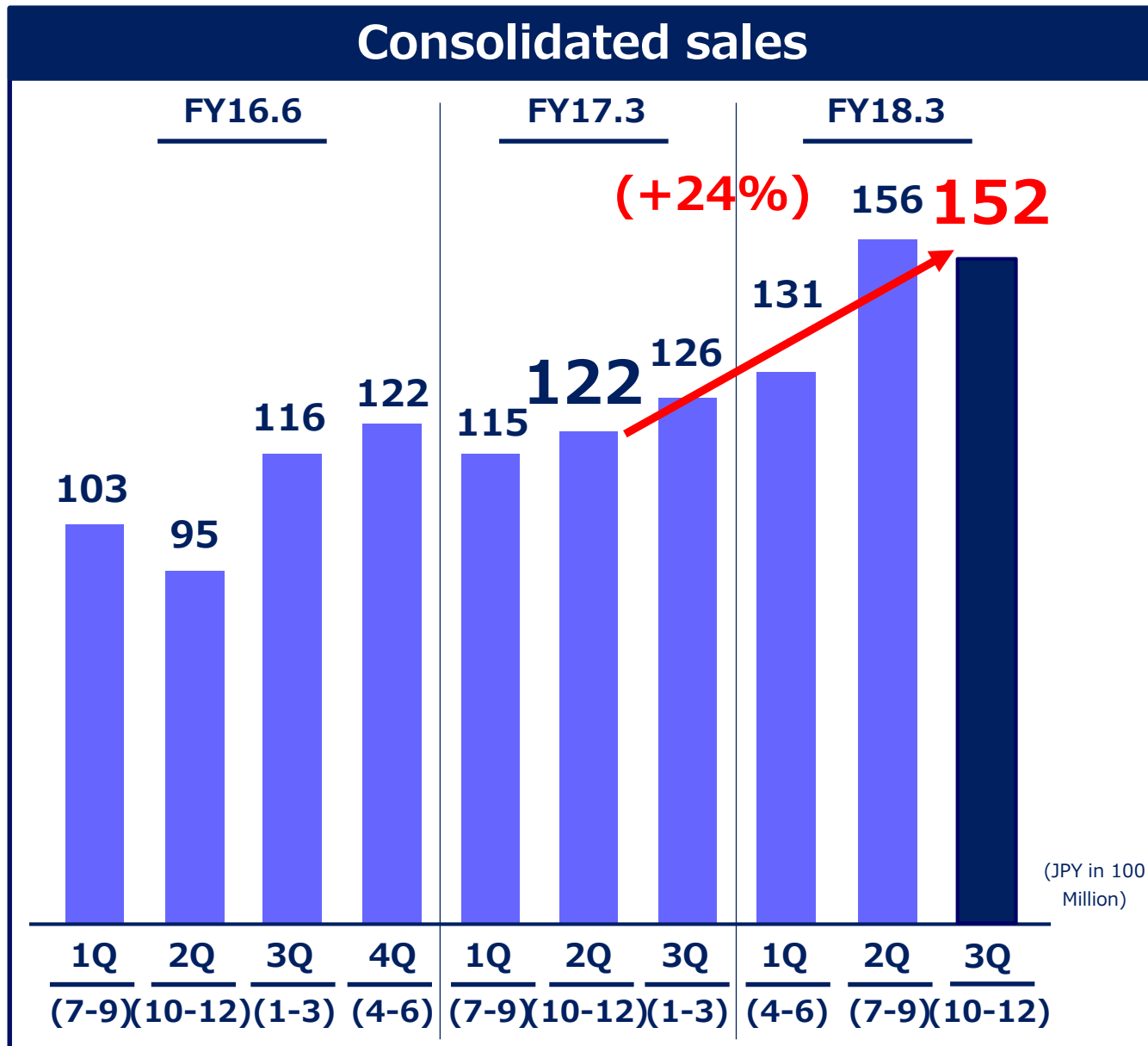
(in million people)



Ref. Kakaku.com, Inc. Results Briefing for 3Q FY2018/3

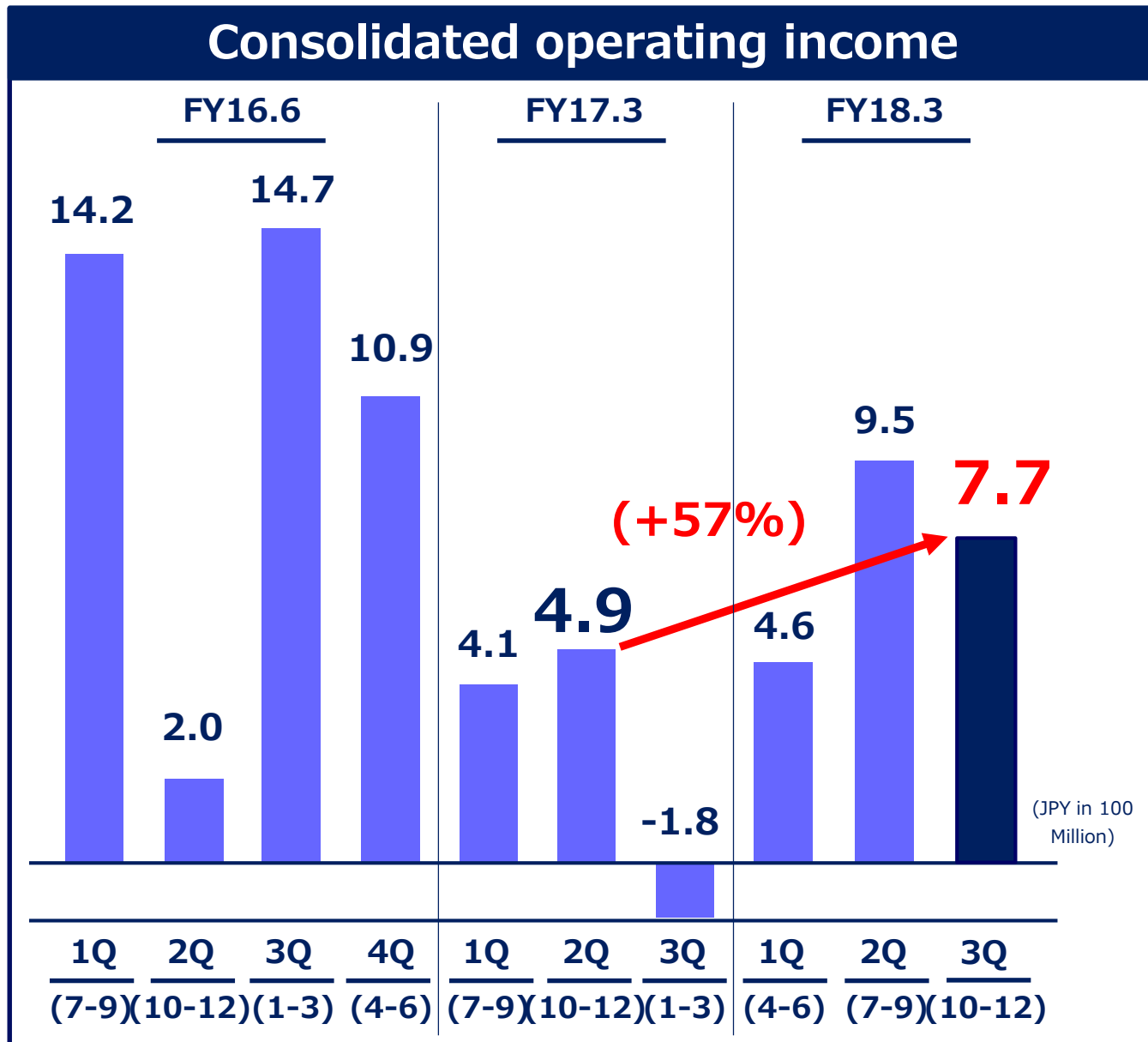
Appendix





As reference, comparisons showed here are between 3Q (10-12) FY18.3 and 2Q (10-12) FY17.3 in real terms which is the same quarterly of last year

- 3Q sales marked 15.2 B JPY, up 24% compared to 2Q FY17
- Both MT and FT segments sustained high growth and it drove the consolidated sales growth



■ 3Q operating income marked 0.77 B JPY, up 57% compared to 2Q FY17

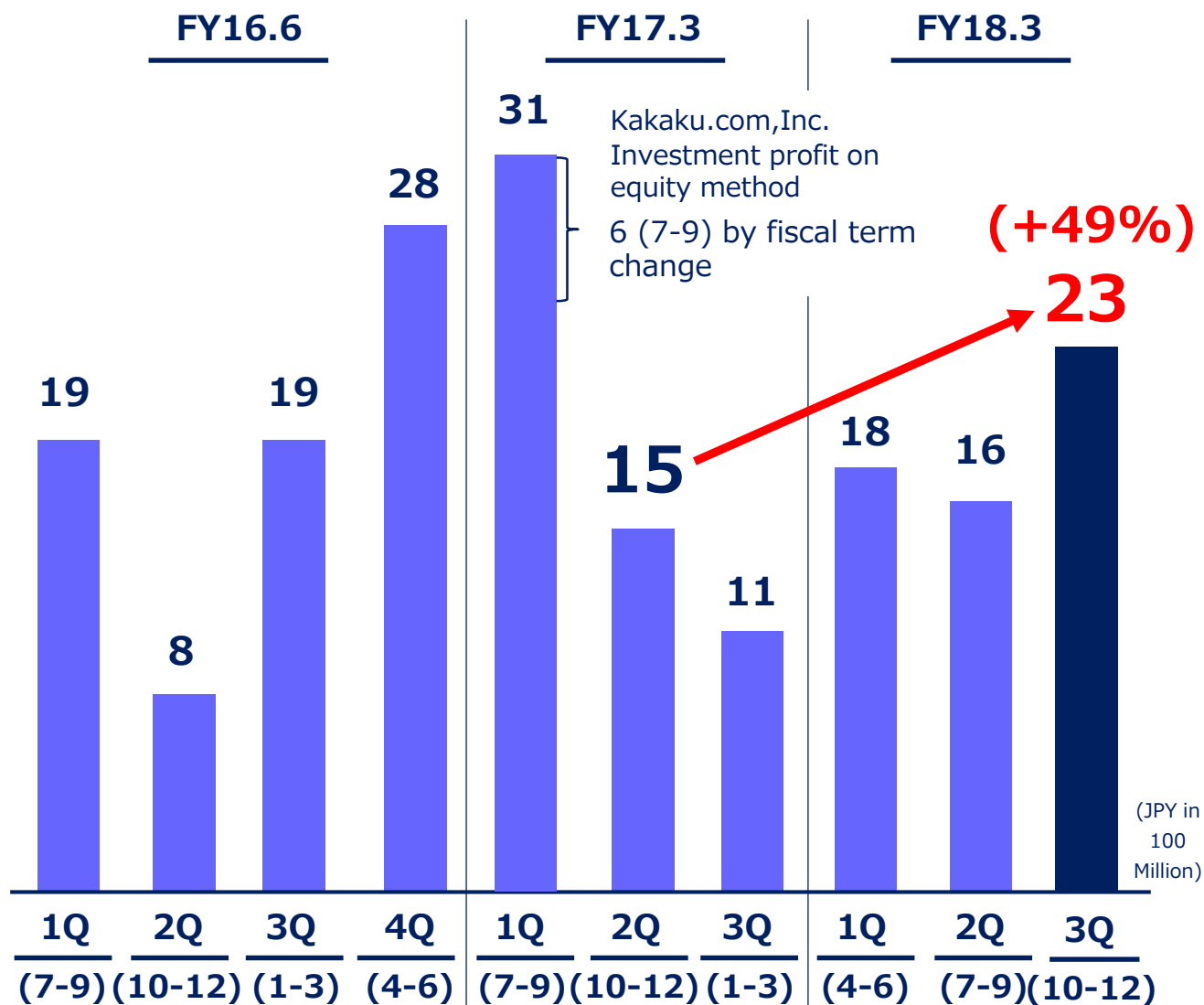
■ Growth in gross margin in FT and sales of shares in IT contributed to operating income growth

■ 3Q operating income ratio marked 5.1%, up 1.1 points compared to 2Q FY17 of 4.0%, then improved profitability

⇒ Achieve the good balance of high growth potential and improvement of profitability



Consolidated income before income taxes



- 3Q income before income taxes marked 2.3 B JPY, up 49% compared to 2Q FY17
- FT and IT contributed to significant increase in income before income taxes



Financial results: Consolidated profit and loss



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 FCST)
Gross sales	33,751	38,087	43,763	36,451	58,500
Operating income	2,608	4,809	4,201	723	
Non-operating income	2,307	3,736	3,031	3,246	
Investment profit on equity method	1,741	2,080	2,406	2,528	
Foreign exchange gain	143	1,090	-	171	
Non-operating expenses	472	936	1,040	292	
Foreign exchange loss	-	-	689	-	
Ordinary income	4,442	7,610	6,193	3,678	
Extraordinary income	630	2,463	1,392	2,265	
Gain on sales of investments in securities	220	68	-	1,829	
Gain on sales of shares of sub. and associates	-	-	521	386	
Gain on change in equity	374	2,363	157	47	
Gain on transfer of business	26	23	706	-	
Extraordinary loss	38	824	10	124	
Impairment loss	0	657	-	104	
Income before income taxes	5,035	9,248	7,574	5,819	8,000
Income taxes	1,887	3,855	2,385	1,525	
Net income attributable to owners of parent	2,847	5,081	5,165	4,289	5,500

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 FCST)
Net sales		33,751	38,087	43,763	36,451	58,500
MT	Marketing Technology	14,822	16,064	21,028	20,494	32,000
FT	Financial Technology	13,454	14,568	16,392	14,140	20,500
IT	Incubation Technology	5,475	7,454	6,343	1,775	6,000
LTI*	Long Term Incubation	-	-	-	41	-
Income before income taxes		5,035	9,248	7,574	5,819	8,000
MT	Marketing Technology	874	1,061	1,396	1,074	1,750
FT	Financial Technology	1,496	1,335	1,758	1,478	2,300
IT	Incubation Technology	1,595	2,804	3,105	766	3,800
LTI*	Long Term Incubation	1,776	4,477	3,052	2,899	2,500

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.

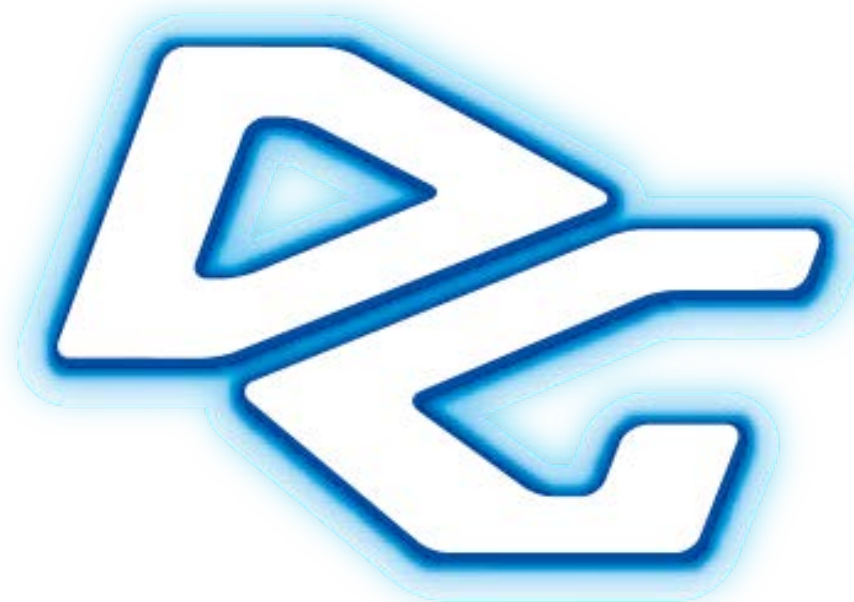
Some businesses in IT segment have transferred to LTI, therefore figures on FY17.3 updated with the current category.



Date		Title
2018.1.22		Intercontinental Exchange and Blockstream (Digital Garage's Strategic Business Alliance Partner) Launch Consolidated Data Feed for Cryptocurrencies (Blockstream's press release)
2018.1.17		VeriTrans and econtext Offer Support for DOCOMO's "d PAY" Barcode Payments from Spring 2018
2018.1.15		Digital Garage and ANA Trading to Support Inbound Marketing for Domestic Companies and Local Governments
2018.1.15		VeriTrans - Comprehensive Payment Solution VeriTrans4G Supports Google Pay
2017.12.27		Digital Garage Has been Selected as an LSO for Scaling Bitcoin to be Held in Tokyo in 2018
2017.12.12		Digital Garage Group to Cooperate in the 7th Digital Innovation Grand Prix Organized by the Keio Research Institute at SFC
2017.11.21		Digital Garage Forms a Strategic Business Alliance with Blockstream, Entering the Second Phase of Developing Blockchain Technology for Bitcoin
2017.11.21		Digital Garage and Tokyo Tanshi to Partner in FinTech, Development of New Financial Business with Blockchains and AI
2017.11.20		econtext to Manage New System for Civil Fee Payments Made at Convenience Stores within Osaka Prefecture
2017.11.13		Digital Garage to Build Shibuya into a Smart City that Employs Advanced Technology by Joining Future Design Shibuya
2017.10.30		Digital Garage Appoints Brian Yeh as Chief Investment Officer of DG Incubation to Strengthen North American and Asian Investment Businesses
2017.10.26		VeriTrans to Provide Ministry of Health, Labour and Welfare with Credit Card Payment Service to the National Pension Fund
2017.10.10		DG Lab Developed All-Purpose Framework "DG Lab DVEP" TM for Unique Cryptocurrency through Blockchain's Bitcoin
2017.10.3		DG Lab Fund Invested in Skydisc, a Cloud Service Using AI/IoT as the Fukuoka City's Startup Support Program's First Project
2017.10.2		Digital Garage and Tencent to Co-develop "QQ Odekake Japan", Mobile QQ's Contents for Japan-bound Chinese Tourists
2017.9.29		DG Lab to Host THE NEW CONTEXT CONFERENCE 2017 SAN FRANCISCO
2017.9.21		Digital Garage Begins Support for Startups in Fukuoka Region in Cooperation with the Fukuoka Directive Council
2017.9.8		DG Lab Fund Invested in 12 Start-ups with Next-Generation Technology in Fields such as Blockchain, AI, and Biotech



Date	Image	Title
2017.8.31	 Digital Garage	Collaboration Partners Selected for TOYOTA NEXT, the Open Innovation Program Supported by Digital Garage
2017.8.29	 Digital Garage	Digital Garage Hosted "Digital Garage First Penguin Award 2017", which Honors Leaders who Creatively Challenge The World
2017.6.20		DG Lab to Unveil Open Platform for Interactive Agent Technology that Uses Artificial Intelligence
2017.6.1		Digital Garage to Invest in AI Technology Startup Studio All Turtles and Support their Business Development in Japan.
2017.5.31	 Digital Garage	THE NEW CONTEXT CONFERENCE 2017 TOKYO on July 25-26 The Event will Focus on Biotechnology and Blockchain
2017.5.12	 Digital Garage	Digital Garage officially launches lifestyle service for wealthy consumers Business integration with two subsidiaries leads to development of DG Life Design business
2017.4.5		Blockstream Launches New Confidential Assets Feature for Enterprise Blockchain Customers (Press Release of Blockstream)



Digital Garage

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