

Open Incubation toward 2020

Digital Garage, Inc.

1Q of FYE March 31, 2020 Financial Report

2019.8.9

 **Digital Garage**



Financial Results Highlights



FY20.3 1Q Profit before tax: 2.2 B JPY, down 35% YoY
Comprehensive income: 4.6 B JPY, up 25% YoY

		<u>FY19.3 1Q</u>		<u>FY20.3 1Q</u>	
Consolidated	Profit before tax	3.4 (B JPY)	→	2.2 (B JPY) -35 %	The impact of exchange rates -1.2B JPY ≡ Decrease in profit before tax
	Comprehensive income	3.7 (B JPY)	→	4.6 (B JPY) +25 %	Increasing the fair value of Welby, and achieving incubation results

				<u>Profit before tax</u>	<u>YoY</u>	
FT	Transaction volume	<u>0.6 T JPY (YoY up by 20%)</u>	→	1.0 (B JPY)	+24 %	Record-high profits and both EC/non-EC settlements were strong
	of which, face-to-face settlement	<u>39.6 B JPY (YoY up by 88%)</u>				
MT	Advertisement volume	8.2 B JPY (YoY down by 9%)	→	0.4 (B JPY)	+26 %	Strong CRM and payment application development business, strengthening collaboration with FT
	Other volume	<u>1.4 B JPY (YoY up by 30%)</u> (CRM, Data science, application development etc)				
IT	Investment/ Sold	1.2 B JPY/ 0.4 B JPY	→	0.1 (B JPY)	-91 %	Fair value of investees increased steadily despite the impact of exchange rates
LTI	Fair valuation	<u>27.8 B JPY (from E of Mar. 2019 up by 4%)</u>	→	1.5 (B JPY)	+42 %	Investment profit on equity method of Kakaku.com, Inc. trended steadily
	Investment profit on equity method of Kakaku.com	<u>0.9 B JPY (YoY up by 21%)</u>				
	Monthly traffic for all sites of Kakaku.com	267.1 million				

FY20.3 1Q Consolidated P/L, C/I Summary (IFRS)



Revenue decreased by 4% YoY to 8.2 B JPY, profit before tax decreased by 35% YoY to 2.2 B JPY, and comprehensive income increased by 25% to 4.6 B JPY

~ Revenue in recurring business grew by 15% YoY, revenue in operational investment securities decreased by 74%, and the fair value of other comprehensive income is 8 times YoY ~

JPY in Millions	FY19.3	FY20.3	YoY	
	1Q	1Q	(%)	(Amount)
Revenue	8,548	8,217	-3.9	-331
Revenue in recurring business	5,323	6,138	+15.3	+815
Revenue in operational investment securities	1,732	459	-73.5	-1,273
Other income	664	817	+22.9	+152
Finance income	104	1	-98.8	-103
Share of profit of investments accounted for using equity method	725	803	+10.8	+78
Expenses	5,154	5,999	+16.4	+845
Cost of sales	2,463	2,740	+11.2	+277
Selling, general and administrative expenses	2,582	2,951	+14.3	+369
Other expenses	72	78	+8.5	+6
Finance costs	37	230	6.3 X	+193
Profit before tax	3,394	2,218	-34.6	-1,176
Profit attributable to owners of parent	3,113	1,624	-47.8	-1,488
Profit	3,135	1,617	-48.4	-1,518
Other comprehensive income	549	2,972	5.4 X	+2,423
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	376	3,107	8.3 X	+2,732
Comprehensive income	3,684	4,589	+24.5	+904

NOTE: The above Revenue, Expenses, and Profit before tax refers to the continuing operations excluding discontinued operations



Double-digit growth in revenue and profit in FT, MT and LTI

~ Fair value of investee companies increased steadily in IT, but profit decreased due to the impact of foreign exchange rates etc ~

JPY in Millions	FY19.3	FY20.3	YoY	
	1Q	1Q	(%)	(Amount)
Revenue	8,548	8,217	-3.9	-331
FT Financial Technology	1,577	1,889	+19.8	+312
MT Marketing Technology	3,239	3,570	+10.2	+330
IT Incubation Technology	1,898	507	-73.3	-1,391
LTI Long Term Incubation	1,740	2,232	+28.3	+492
Profit before tax	3,394	2,218	-34.6	-1,176
FT Financial Technology	809	1,003	+24.0	+194
MT Marketing Technology	307	386	+25.8	+79
IT Incubation Technology	1,634	146	-91.0	-1,487
LTI Long Term Incubation	1,050	1,493	+42.2	+443

NOTE: Segment revenue and profit before tax are before elimination of intersegment transaction and corporate revenue and expenses.



Profit before tax and comprehensive income

JPY in Millions	FY19.3	FY20.3	YoY	
	1Q	1Q	(%)	(Amount)
Profit before tax	3,394	2,218	-34.6	-1,176
Profit attributable to owners of parent	3,113	1,624	-47.8	-1,488
Comprehensive income	3,684	4,589	+24.5	+904

■ FT / MT / LTI segment + 0.7 B JPY

■ IT segment - 1.5 B JPY

➔ Impact of exchange rates - 1.1 B JPY ✓
 Profit from sales of stocks - 0.5 B JPY
 Gain on fair value valuation + 0.2 B JPY

■ HQ - 0.4 B JPY

➔ Increased in SG&A expenses due to business expansion - 0.20 B JPY
 Impact of exchange rates - 0.17 B JPY ✓

Decrease of profit before tax - 1.2 B JPY

■ Decrease of profit - 1.5 B JPY

➔ Continuing operations - 0.70 B JPY
 Discontinues operations - 0.82 B JPY

■ Other comprehensive income + 2.4 B JPY

➔ Increased fair value due to Welby listing etc + 2.73 B JPY
 Foreign currency translation adjustments - 0.25 B JPY ✓

Increase of comprehensive income + 0.9 B JPY



FY20.3 1Q Consolidated B/S Summary (IFRS)



JPY in Million	End of FY19.3	End of FY20.3 1Q	Difference	Reason for change / Remarks
Current assets	99,186	93,562	-5,624	
Cash and cash equivalents	48,154	41,549	-6,605	New investment, Relating to FT business, payment of income taxes and dividends etc
Trade and other receivables	23,254	22,990	-264	Relating to FT business etc
Operational investment securities	26,695	27,812	+1,117	<u>New investments and increase in fair value of investee companies</u>
Non-current assets	47,704	53,691	+5,987	
Goodwill	6,575	6,966	+391	New acquisition
Investments accounted for using equity method	19,139	19,530	+391	Increased investment profit on equity method
Other financial assets	6,662	11,884	+5,222	<u>New investments and increase in market value of listed shares</u>
Total assets	146,890	147,253	+363	
Current liabilities	52,420	47,758	-4,662	
Borrowings	2,211	5,657	+3,446	Funding requirements for working capital in FT
Trade and other payables	45,799	38,794	-7,005	Relating to FT business etc
Non-current liabilities	47,125	48,819	+1,694	
Bonds and borrowings	35,959	35,837	-122	
Deferred tax liabilities	4,744	6,286	+1,541	<u>Estimated taxes related to unrealized gains on securities</u>
Total liabilities	99,545	96,576	-2,968	
Total equity	47,345	50,677	+3,331	
Total equity attributable to owners of parent	46,609	49,948	+3,338	
Share capital	7,504	7,531	+27	
Capital surplus	4,235	4,237	+2	
Treasury shares	-5,026	-5,026	-0	
Other components of equity	1,303	4,275	+2,971	<u>Increase in fair value of investee companies (Other comprehensive income)</u>
Retained earnings	38,593	38,931	+338	Increased profit
Non-controlling interests	736	729	-7	
Total liabilities and equity	146,890	147,253	+363	

Segment Performance Review





I Financial Technology Segment

	Revenue	Profit before tax
FY19.3 1Q	1,577 M JPY	809 M JPY
FY20.3 1Q	1,889 M JPY	1,003 M JPY

▶ **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



▶ **TD Payment Corporation** (49% stake/equity method)

Offers multiple payment solutions for POS systems

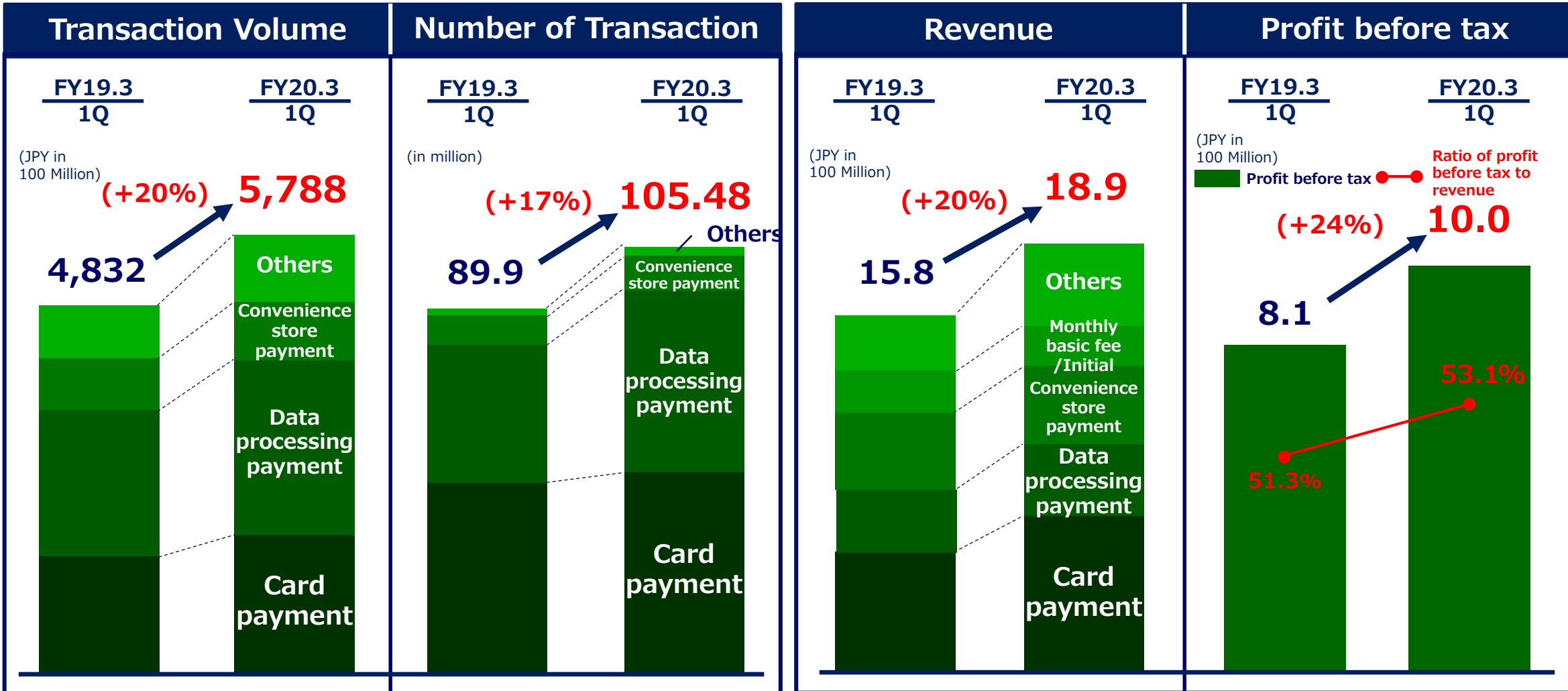


FT Segment Highlights



Revenue rose 20% YoY, profit before tax marked 1B JPY, +24% YoY, record-high quarterly earnings

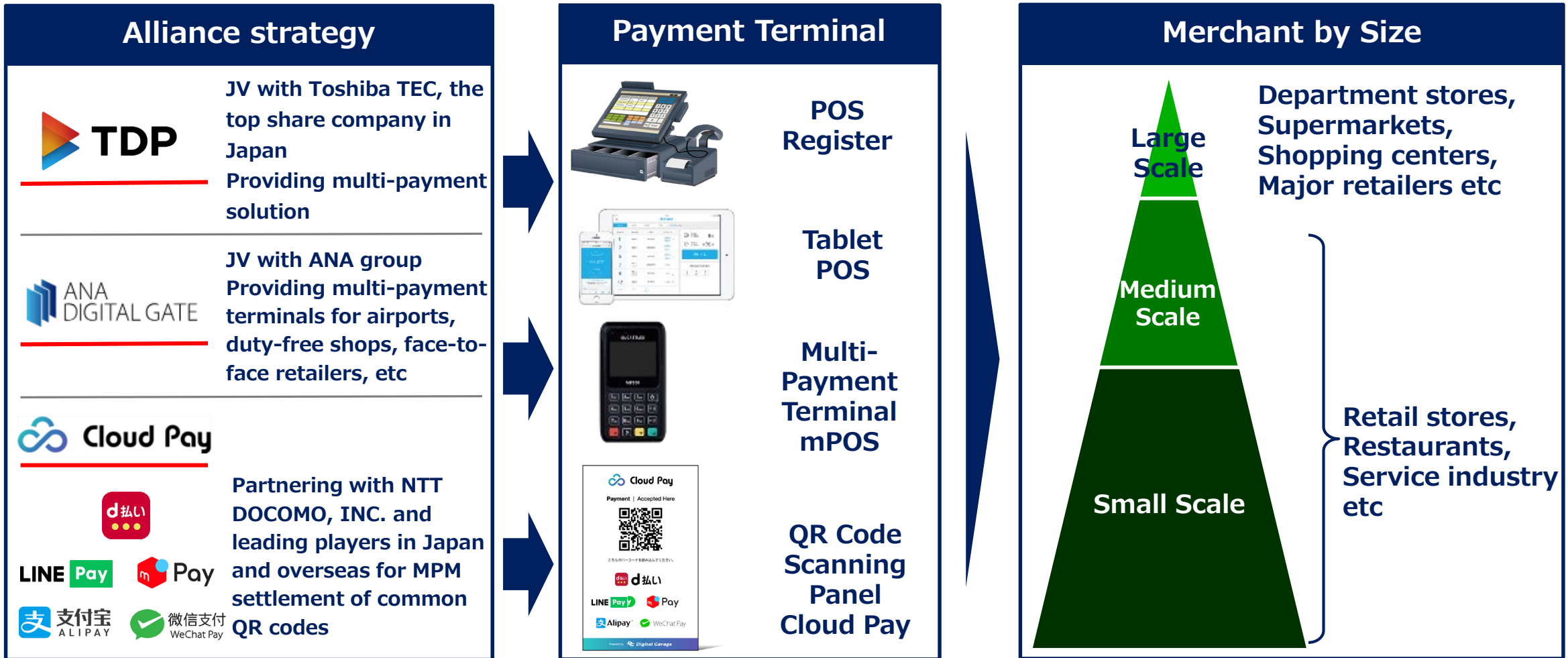
~ Transaction volume marked approx. 578.8B JPY, +20% YoY, number of transaction surpassed 100 million, +17% YoY ~





Alliances with business partners to cover large businesses and small and medium-sized retail stores

~ Providing payment solutions for face-to-face retailers in response to a cashless society ~



Note) MPM (Merchant Presented Mode) : Method in which consumers scan QR codes displayed at stores with their smartphones to make payments



II Marketing Technology Segment

	Revenue	Profit before tax
FY19.3 1Q	3,239 M JPY	307 M JPY
FY20.3 1Q	3,570 M JPY	386 M JPY

▶ Marketing Technology Company

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



▶ DG Communications Co., Ltd.

Provides 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



▶ CyberBuzz, Inc. (25% stake/equity method)

Provides the social media marketing platform structured with influencers as its center part



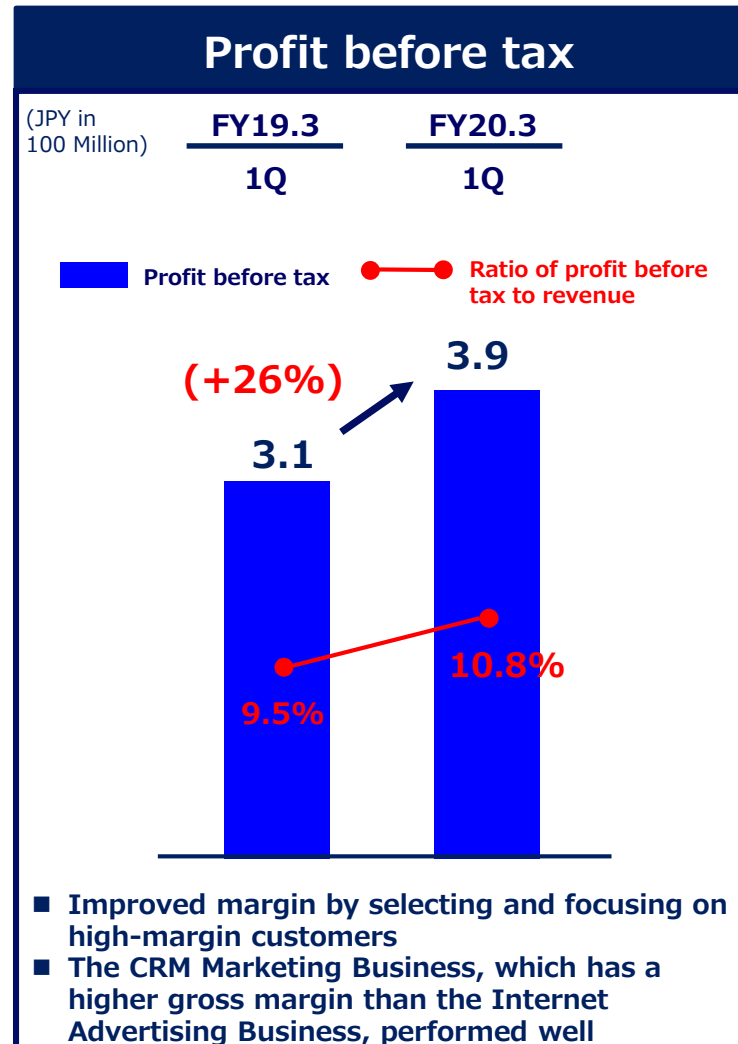
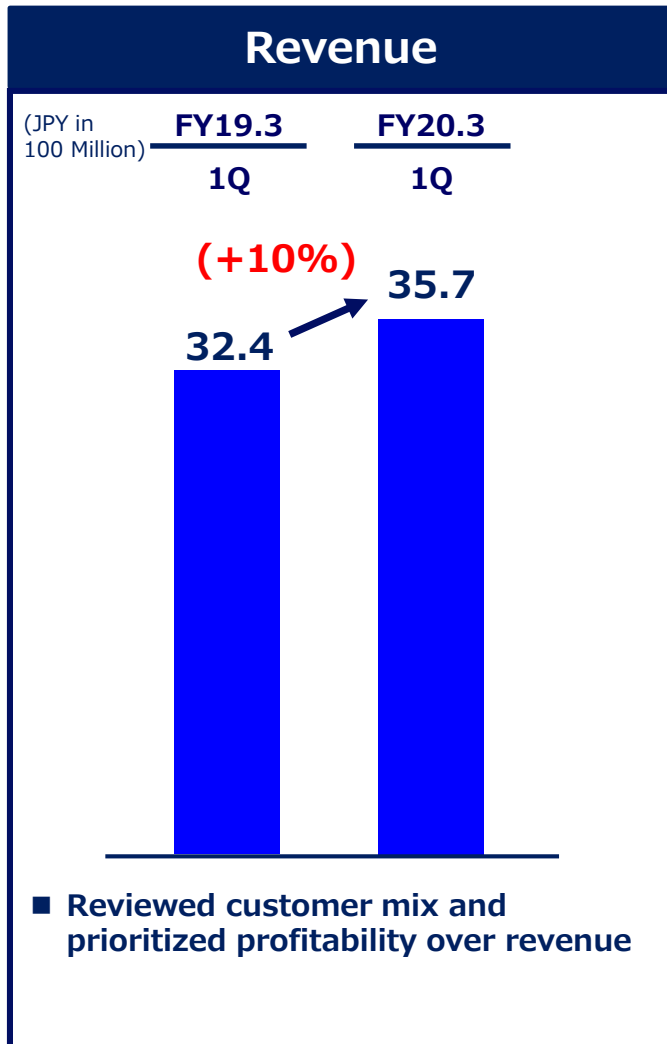
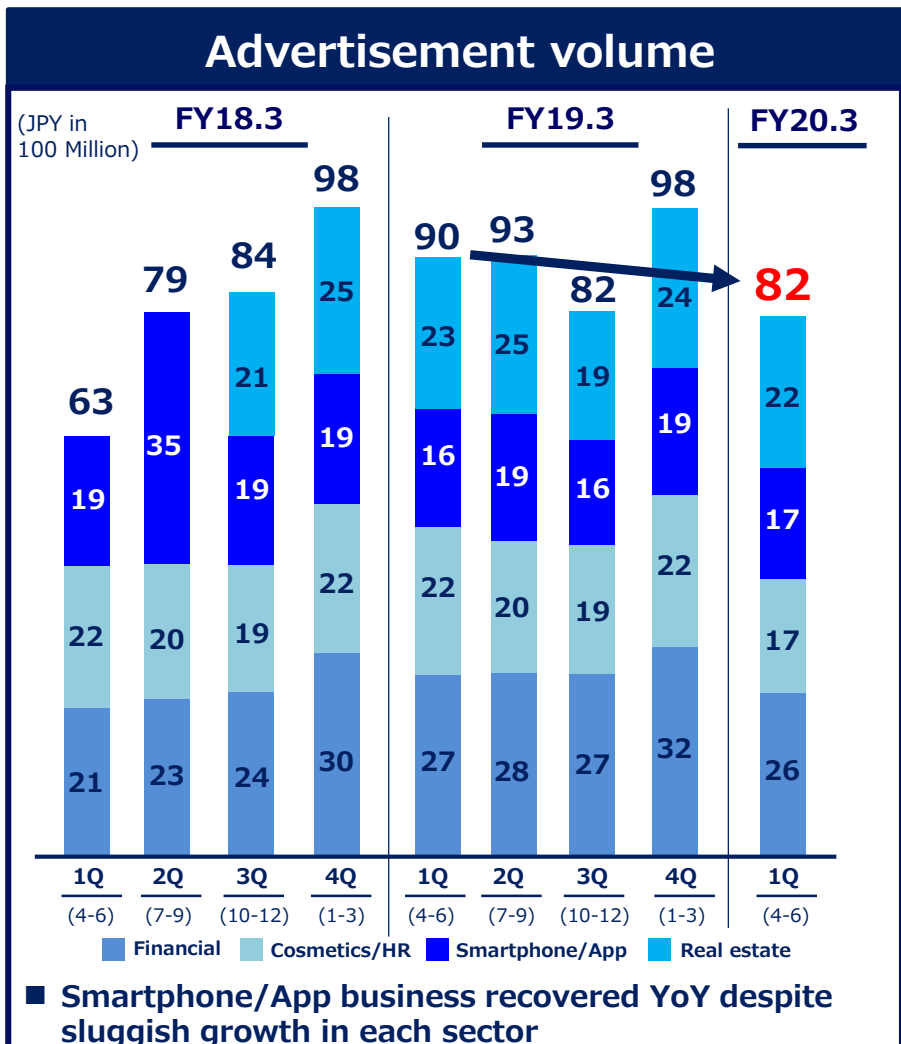
▶ DG MARKETING DESIGN, Inc. (20% stake/equity method)

Established on June 25th, 2018 and its predecessor is Business Design Company





Revenue marked 3.6B JPY, +10% YoY, and profit before tax increased to 0.4B JPY, +26% YoY
 ~ Reviewed customer mix to improve profitability. Aim to secure high profitability through selection and concentration ~





Responding to Changes in the Business Environment

I <Marketing Technology Company>
MT / FT collaboration

Promoting growth strategies across segments, including FT

- Establishment of the JR Kyushu Group's CRM and payment platform
- Promote marketing measures for franchisees in collaboration with the multi-QR code settlement application **Cloud Pay**

Gross profit composition of non-advertising CRM and app development, etc. increased by 4 points YoY to 24%

II <DG Communications Co., Ltd.>
Real estate / Collaborate with ONL

"Open Network Lab Resi-Tech" for the real estate developer industry

The first Demo Day was held in August. Launched support for demonstration projects implemented by seven major domestic companies and five startups to resolve industry issues



III <CyberBuzz, Inc.>
Social Media Marketing

Develop proprietary platforms for influencer marketing utilizing SNS

such as Instagram and Facebook. Operates SNS accounts of brand advertisers and provides proprietary analysis tools.



IV <Media Consortium Planning Office>
National Client

Formed a Digital Value Study Group with 38 leading Japanese content media companies, and conducted test marketing of high-value digital advertisements to major clients using participating media in July. Promote activities for joint commercialization.

Leading data scientists in Japan

Next-generation data technology

< Strengthen data science business across FT / MT / LTI >



BI.GARAGE

BI. Garage transaction volume

YoY +29%

Increased advertising business from national clients by menu developed mainly by DG and Kakaku.com

Digital Garage **kakaku.com**

Number of clients

FY19.3 1Q FY20.3 1Q

35



68



III Incubation Technology Segment

	Revenue	Profit before tax
FY19.3 1Q	1,898 M JPY	1,634 M JPY
FY20.3 1Q	507 M JPY	146 M JPY

▶ **DG Incubation, Inc.**

Invests in and incubates cutting-edge internet startups



▶ **Open Network Lab, Inc.**

Seed Accelerator Program in progress in the 19th term



▶ **D2 Garage, Inc.**

Manages “Open Network Lab HOKKAIDO” for the startups in Hokkaido



▶ **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.**

Drives strategic technology development with DG Lab



▶ **DK Gate, Inc.**

Researches and develops of next-generation content business companies in a global scale with Kodansha Ltd.



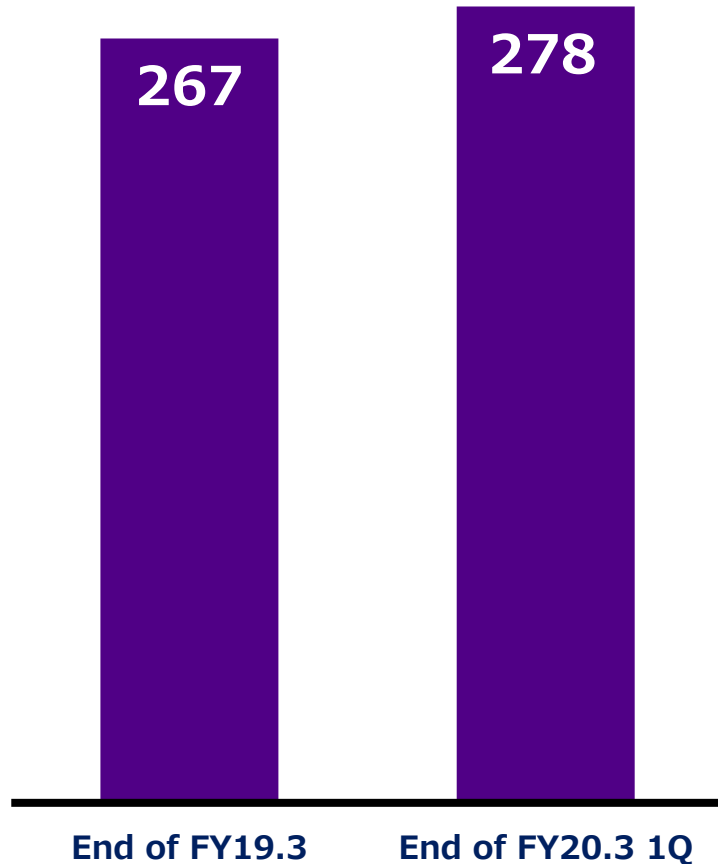


Profit before tax decreased YoY due to the impact of foreign exchange rates and a decline in valuation profit associated with stock sales

~ On the other hand, fair value excluding foreign currency fluctuations steadily increased ~

BS Operational investment securities

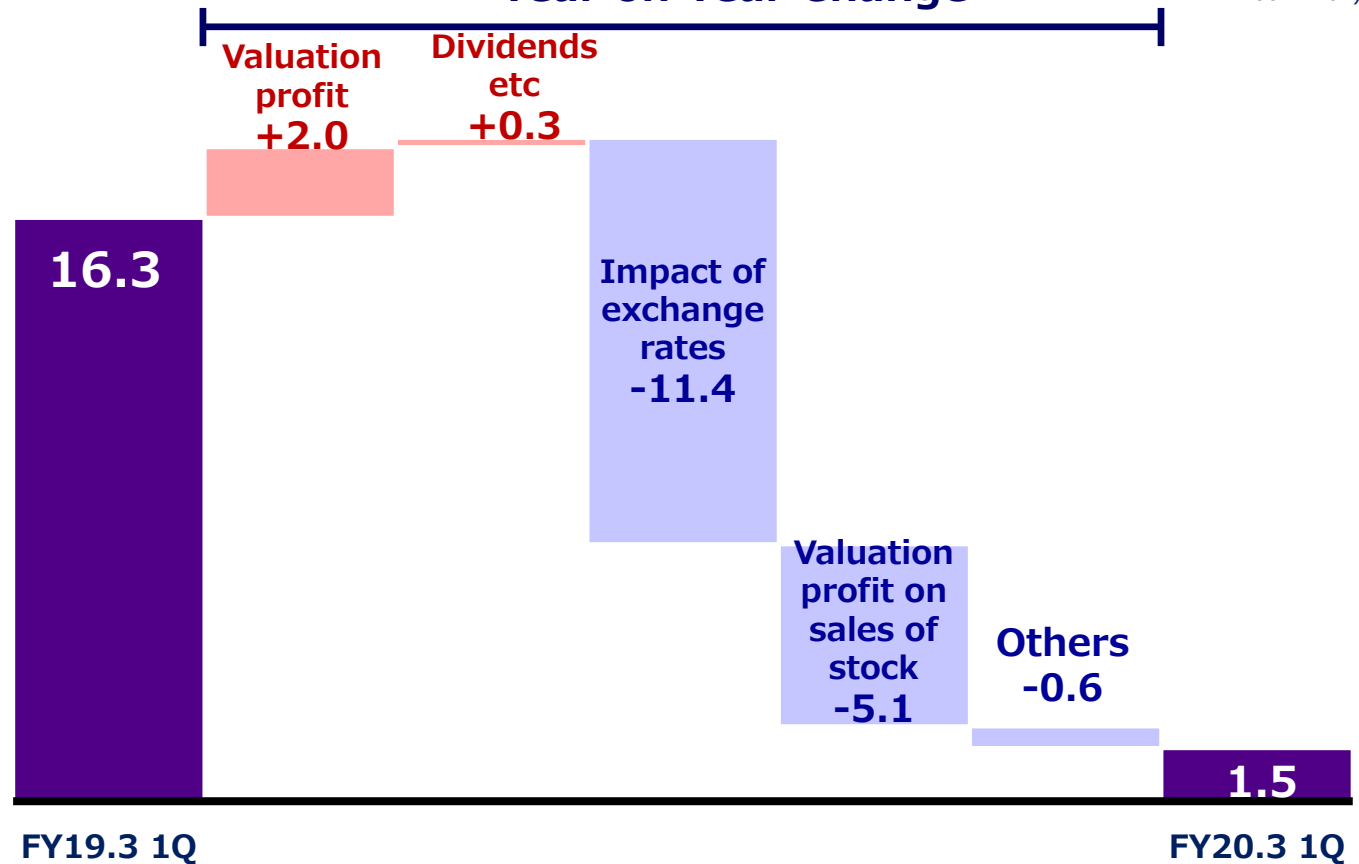
(JPY in 100 Million)



PL Profit before tax

Year on Year Change

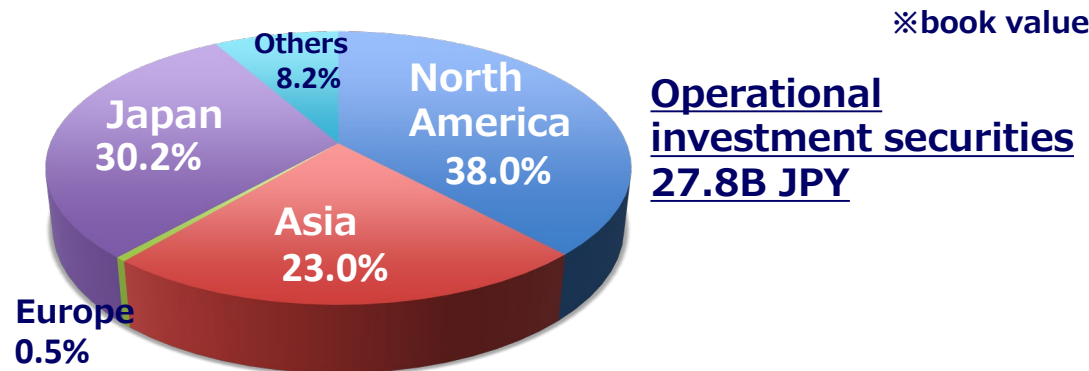
(JPY in 100 Million)





The fair value of the investee at the end of June 2019 was 27.8B JPY
 ~ Strengthen the support system and aim to increase investment value ~

Portfolio by regions※



TOPICS

NoBroker Technologies Solutions [India]

Operates India's peer-to-peer property marketplace. Using this service, people can rent/buy houses online without brokers.

Raised \$51 million in Series C in June

Helium Systems [US]

Operates an IoT smart sensor device for enterprises and industries, used in monitoring facilities or for quality control

Raised \$15 million in June

Examples of investment

QD Laser [Japan]

Develop and provide new semiconductor laser solutions in the telecommunications, industrial, medical, and consumer sectors as a pioneer in the commercialization of quantum dot laser technology

Grub Market [US]

Develop a leading marketplace platform specializing in fresh organic foods

WHILL [Japan]

Transform antiquated power wheelchair into an intelligent personal electric vehicle, focusing on an approachable and aesthetically pleasing powered vehicle.

Neutron Holdings [US]

Ride-sharing service for electric scooters focusing on last mile solutions

Sen Do Technology [Vietnam]

Operates Sendo, a marketplace for C2C and B2C in Vietnam, and provides electronic wallet services

Game Closure [US]

Provider of a mobile application intended to offer a HTML5 game development platform.

Expedient Healthcare Marketing [India]

Operates "Healthians.com", a healthcare web-based service that provides reservations for examinations at clinics and related information from doctors and specialists

Droom [India]

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



IV Long-term Incubation Segment

		Revenue	Profit before tax
FY19.3	1Q	1,740 M JPY	1,050 M JPY
FY20.3	1Q	2,232 M JPY	1,493 M JPY

- ▶ **Kakaku.com, Inc.** (20% stake/equity method)
Operates purchase support service Kakaku.com, restaurant review and restaurant service tabelog, and New Media and Solutions

kakaku.com

- ▶ **Crypto Garage, Inc.**
Promoting development of advanced financial services utilizing blockchain technology and cryptography technology with Tokyo Tanshi Co., Ltd.

 CRYPTO GARAGE

- ▶ **ACADEMIE DU VIN**
Operates wine schools and wholesaling wine.





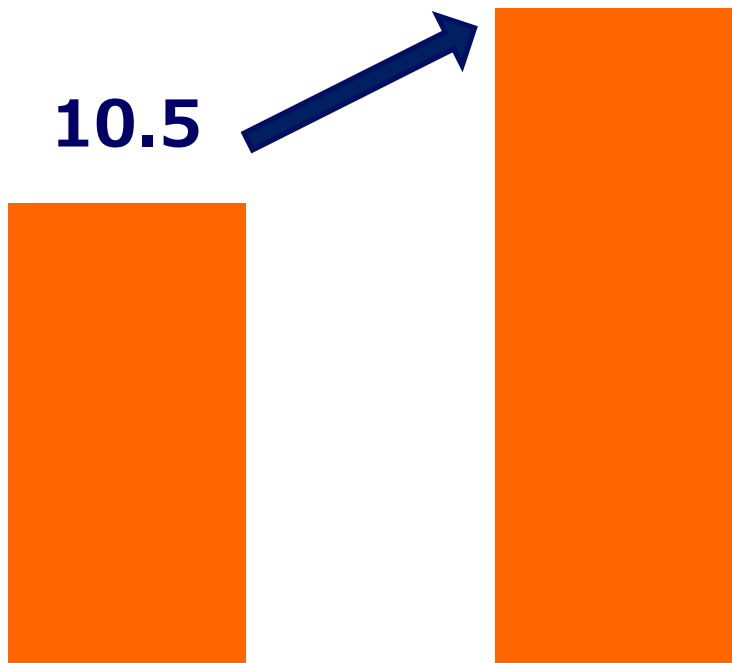
Profit before tax marked 1.5B JPY, +42% YoY. Investment profit on equity method of Kakaku remains robust

~ “Tabelog” and “New Media” performed well ~

Profit before tax

(JPY in 100 Million)

10.5 → **14.9 (+42%)**



FY19.3 1Q

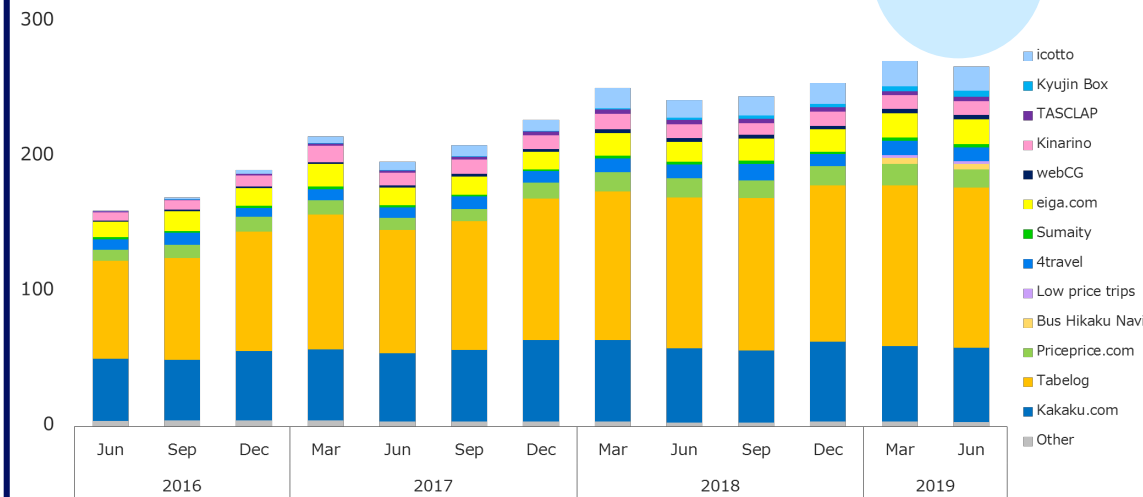
FY20.3 1Q

Business Progress of Kakaku.com, Inc.

(Total Accumulated Traffic for Kakaku.com Group)

Monthly traffic for all sites of Kakaku.com has increased to 267.1 million, up 10.2% yoy (June 2019)

(in million people)



Regarding changes in traffic measurement method

Due to the mobile webpage speed, Kakaku.com, Inc. has been experiencing some overlap when measuring monthly user numbers but as of September 2018 Kakaku.com, Inc. has switched to a method which allows them to exclude overlapping users. The graph from September 2016 to September 2018 was recreated using the new method.

Ref. Kakaku.com, Inc. Results Briefing for 1Q FY2020/3

Appendix





Financial Results: Consolidated PL (IFRS)












JPY in Millions	FY2018.3 (Result)	FY2019.3 (Result)
Continuing operations		
Revenue	25,503	35,687
Revenue in recurring business	18,141	22,713
Revenue in operational investment	1,007	6,090
Other income	2,111	1,933
Finance income	764	117
Share of profit of investments accounted for using equity method	3,481	4,835
Expenses	17,127	22,264
Cost of sales	7,187	10,401
Selling, general and administrative expenses	9,095	11,296
Other expenses	542	332
Finance costs	303	235
Profit before tax	8,376	13,424
Income tax expense	1,857	4,088
Profit from continuing operations	6,518	9,336
Discontinued operations		
Revenue	3,260	1,261
Expenses	3,403	1,655
Profit (loss) before tax from discontinued operations	-143	-394
Income tax expense	38	-225
Loss (gain) on sales on discontinued operations	-	898
Income tax expense from sale of discontinued operations	-	275
Profit (loss) from discontinued operations	-181	454
Profit	6,337	9,790
Profit attributable to		
Owners of parent	6,412	9,771
Non-controlling interests	-75	19

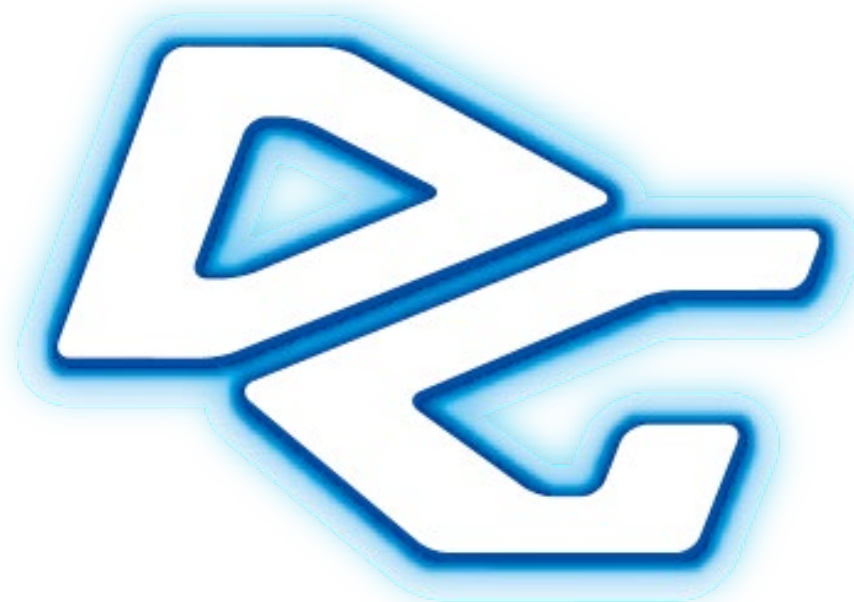


JPY in Millions		<u>FY18.3</u>	<u>FY19.3</u>
		(Result)	(Result)
Revenue		25,503	35,687
FT	Financial Technology	5,929	6,693
MT	Marketing Technology	9,939	13,676
IT	Incubation Technology	2,553	8,022
LTI	Long Term Incubation	6,301	7,133
Profit before tax		8,376	13,424
FT	Financial Technology	2,809	3,174
MT	Marketing Technology	1,856	1,390
IT	Incubation Technology	1,321	6,889
LTI	Long Term Incubation	3,621	4,378

NOTE: Segment revenue and profit before tax are before elimination of intersegment transaction and corporate revenue and expenses.



Date		Title
2019.8.2	 Digital Garage	Digital Garage Supports Joint PoC Projects by 7 Major Companies and 5 Startups through "Open Network Lab Resi-Tech"
2019.7.25	 Digital Garage	Digital Garage Joins MIT Media Lab's "Space Exploration Initiative"
2019.5.31	 Digital Garage	Digital Garage, Fukuoka D.C., and Fukuoka Growth Next Launch the Smart City Incubation Program, "Open Network Lab FUKUOKA"
2019.5.16	 Digital Garage	Digital Garage Group Launches "Cloud Pay", a Merchant-presented mode Multi-QR Code Payment Solution
2019.5.13	 Digital Garage	Digital Garage and Welby Launch a Proof of Concept Project for PHR Lifestyle Disease Prevention Program in Fukuoka City to Build a Personal Health Record Platform
2019.5.9		DG Lab to Host THE NEW CONTEXT CONFERENCE 2019 TOKYO on the Theme of "How to Build a Data Ecosystem"
2019.4.19	 CRYPTO GARAGE	Crypto Garage Developed and Executed the Contract of a P2P Protocol Based Crypto Asset Derivative Settled in Bitcoin
2019.4.12	 DG INCUBATION	DG Incubation Co-leads Investment in Food E-Commerce Service GrubMarket
2019.4.1	 veritrans	VeriTrans Launches Credit Card Payment Services for Patent and Other Fee Payments to the Japan Patent Office



Digital Garage

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