# Dream Incubator / 4310

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Shared Research

Research Coverage Report by Shared Research Inc.

# INDEX

**How to read a Shared Research report:** This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

# Executive summary

## Consulting firm differentiating itself with "business producing"

- Dream Incubator is a consulting firm founded in April 2000 by former Boston Consulting Group (BCG) president Koichi Hori. The company said its core values lie in "business producing," referring to tackling social challenges, planning businesses with visions and ideas beyond industry barriers, formulating strategies, gathering reliable partners, and creating added value. It has produced new businesses crossing various sectors, major companies, venture businesses, and borders since its founding.
- Mainstay businesses are Strategic Consulting Services and Incubation Services. In Strategic Consulting Services, the company provides strategic consulting, business producing support, M&A advisory, and core management development assistance to major corporations (domestically and overseas) and government agencies. In Incubation Services, the company provides venture capital services and buy-and-hold business investment services, and leverages its principal investments to develop venture companies deemed integral for new industries. Overseas, the company aims to support innovation around the world by forming partnerships with promising venture capital companies in the US, China, and India for joint investment and consultation. In terms of accounting, the company books venture capital service profits when shares in the invested company are sold, whereas for buy-and-hold business investment services, it books consolidated profits or losses in proportion to the ownership ratio in the invested company.
- DI has two operations: Strategic Consulting Services and Incubation Services. Even so, the company has four consolidated reporting segments: Strategic Consulting, Venture Capital, Insurance, and Others. (Segmentation adopted in FY03/17).

## Trends and outlook

- For full-year FY03/17, sales were JPY14.5 (+14.5 YoY), operating profit was JPY517mn (-3.9%), recurring profit was JPY527 (+0.3%) and net income attributable to parent company shareholders was JPY101mn (-75.9%). Sales were up in each segment. However, while operating profit in the Strategic Consulting Services rose 29.4% YoY and recorded a new record high for the third year in a row, Incubation Services fell from an operating profit in FY03/16 to an operating loss in FY03/17. As a result, overall operating profit declined 3.9%. In Incubation Services, while two companies in its investment portfolio conducted an IPO, the company had to book a provision for investment loss as certain investment securities suffered impairment losses when the value of one portfolio company fell.
- Given the volatility of the stock market and amounts of initial public offerings, the Venture Capital segment tends to see large fluctuations in business performance and DI has not released its earnings forecast for FY03/18. However, the company forecasts consolidated sales of JPY15.0bn vs. JPY13.3bn in the previous year, excluding the Venture Capital segment. Regarding the Venture Capital segment, the company noted that although multiple venture businesses in which it has invested are preparing for IPO, it is difficult to forecast earnings as sales depend on gains from the sale of shares, and as such are sensitive to volatility in the stock market and IPO trends.

## Strengths and weaknesses

Shared Research believes that DI's strengths are its clearly formulated management strategy and philosophy, owning growing and cash-flow generating businesses, and the high retention rate of consultants and management quality. Weaknesses are short history of success and a lack of proven track records, and ability to source venture capital deals, and limited experiences in global consulting business.

# Key financial data

| Income statement (JPYmn) | FY03/08 Cons. | FY03/09 Cons. | FY03/10 Cons. | FY03/11 Cons. | FY03/12 Cons. | FY03/13 Cons. | FY03/14 Cons. | FY03/15 Cons. | FY03/16 Cons. | FY03/17 Cons. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total sales** | **1,946** | **2,625** | **2,620** | **2,690** | **6,526** | **7,693** | **9,092** | **13,343** | **12,691** | **14,526** |
| YoY | - | 34.9% | -0.2% | 2.7% | 142.6% | 17.9% | 18.2% | 46.8% | -4.9% | 14.5% |
| **Gross profit** | **-657** | **-1,672** | **378** | **1,385** | **2,918** | **3,711** | **4,811** | **7,914** | **6,384** | **7,018** |
| YoY | - | - | - | 266.4% | 110.7% | 27.2% | 29.6% | 64.5% | -19.3% | 9.9% |
| GPM | - | - | 14.4% | 51.5% | 44.7% | 48.2% | 52.9% | 59.3% | 50.3% | 48.3% |
| **Operating profit** | **-1,381** | **-2,386** | **-223** | **702** | **1,100** | **768** | **1,141** | **1,348** | **538** | **517** |
| YoY | - | - | - | - | 56.7% | -30.2% | 48.6% | 18.1% | -60.1% | -3.9% |
| OPM | - | - | - | 26.1% | 16.9% | 10.0% | 12.5% | 10.1% | 4.2% | 3.6% |
| **Recurring profit** | **-1,331** | **-2,336** | **-193** | **698** | **1,104** | **759** | **1,101** | **1,373** | **525** | **527** |
| YoY | - | - | - | - | 58.2% | -31.3% | 45.1% | 24.7% | -61.8% | 0.3% |
| RPM | - | - | - | 25.9% | 16.9% | 9.9% | 12.1% | 10.3% | 4.1% | 3.6% |
| **Net income** | **-1,477** | **-2,996** | **249** | **422** | **833** | **671** | **854** | **993** | **420** | **101** |
| YoY | - | - | - | 69.5% | 97.4% | -19.4% | 27.3% | 16.3% | -57.7% | -75.9% |
| Net margin | - | - | 9.5% | 15.7% | 12.8% | 8.7% | 9.4% | 7.4% | 3.3% | 0.7% |
| **Per share data** | | | | | | | | | | |
| Shares issued ('000, year end) | 95 | 95 | 95 | 96 | 96 | 96 | 9,783 | 10,054 | 10,181 | 10,244 |
| EPS | -15,318 | -31,421 | 2,616 | 4,414 | 8,698 | 7,002 | 88 | 103 | 43 | 10 |
| EPS (fully diluted) | - | - | 2,605 | 4,412 | 8,696 | 6,767 | 84 | 99 | 42 | 10 |
| Dividend per share | - | - | - | - | - | 2,100 | 2,600 | 29 | 12 | 3 |
| Book value per share | 94,848 | 63,264 | 68,229 | 72,274 | 81,895 | 89,573 | 1,365 | 1,086 | 1,034 | 1,015 |
| **Balance sheet (JPYmn)** | | | | | | | | | | |
| Cash and cash equivalents | 2,116 | 1,625 | 2,818 | 3,145 | 4,032 | 4,889 | 5,555 | 6,497 | 7,307 | 7,409 |
| **Total current assets** | **9,252** | **5,647** | **5,962** | **6,853** | **7,570** | **9,012** | **16,322** | **14,029** | **14,858** | **14,990** |
| Tangible fixed assets | 48 | 38 | 32 | 29 | 162 | 198 | 180 | 152 | 130 | 159 |
| Other fixed assets | 788 | 509 | 624 | 423 | 410 | 309 | 385 | 375 | 470 | 1,288 |
| Intangible fixed assets | 4 | 3 | 2 | 1,052 | 1,620 | 1,438 | 1,286 | 1,176 | 674 | 909 |
| **Total assets** | **10,092** | **6,198** | **6,620** | **8,358** | **10,551** | **12,056** | **19,539** | **15,734** | **16,134** | **17,348** |
| Accounts payable | - | - | - | - | 9 | 39 | 29 | 23 | - | - |
| Short-term debt | 900 | - | - | - | - | - | - | - | - | 100 |
| **Total current liabilities** | **1,043** | **105** | **102** | **1,244** | **1,833** | **2,420** | **5,026** | **4,266** | **4,817** | **5,912** |
| Long-term debt | - | - | - | - | - | - | 164 | - | - | 325 |
| **Total fixed liabilities** | **-** | **-** | **-** | **-** | **10** | **13** | **168** | **21** | **71** | **467** |
| **Total liabilities** | **1,043** | **105** | **102** | **1,244** | **1,844** | **2,434** | **5,195** | **4,287** | **4,889** | **6,380** |
| **Net assets** | **9,049** | **6,092** | **6,518** | **7,114** | **8,707** | **9,622** | **14,344** | **11,446** | **11,245** | **10,967** |
| Total interest-bearing debt | 900 | - | - | - | - | - | 164 | - | - | 425 |
| **Cash flow statement (JPYmn)** | | | | | | | | | | |
| Cash flows from operating activities | -2,547 | 583 | 1,090 | 902 | 2,322 | 1,504 | 1,622 | 2,421 | 907 | 1,509 |
| Cash flows from investing activities | 943 | 307 | 421 | -551 | -4,058 | 610 | -1,463 | -1,026 | 74 | -873 |
| Cash flows from financing activities | -369 | -901 | 0 | 1 | -2 | -1 | -141 | -618 | -33 | -126 |
| **Financial ratios** | | | | | | | | | | |
| ROA (RP-based) | - | - | - | 9.3% | 11.7% | 6.7% | 7.0% | 7.8% | 3.3% | 3.1% |
| ROE | - | - | 4.0% | 6.3% | 11.3% | 8.2% | 7.8% | 8.3% | 4.0% | 1.0% |
| Equity ratio | 89.6% | 97.3% | 98.3% | 82.8% | 74.4% | 71.6% | 68.3% | 67.2% | 63.2% | 56.8% |

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: The company conducted a 1-for-100 stock split, effective April 1, 2014.

# Recent updates

## Highlights

On **June 30, 2017,** Shared Research updated the report following interviews with Dream Incubator Inc.

On **May 11, 2017**, the company announced earnings results for full-year FY03/17; see the results section for details.

**For previous corporate releases and developments, please refer to the News and topics section.**

# Trends and outlook

## Quarterly trends and results

| Quarterly earnings | FY03/16 | | | | FY03/17 | | | |
|---|---|---|---|---|---|---|---|---|
| (JPYmn) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Sales | 3,184 | 2,715 | 3,773 | 3,019 | 3,498 | 3,355 | 3,961 | 3,712 |
| YoY | 22.7% | -3.9% | 29.7% | -39.8% | 9.9% | 23.6% | 5.0% | 23.0% |
| Gross profit | 1,573 | 691 | 2,223 | 1,897 | 1,957 | 1,863 | 1,633 | 1,565 |
| YoY | 9.9% | -59.8% | 35.4% | -39.2% | 24.4% | 169.6% | -26.5% | -17.5% |
| GPM | 49.4% | 25.5% | 58.9% | 62.8% | 55.9% | 55.5% | 41.2% | 42.2% |
| SG&A expenses | 1,387 | 1,357 | 1,383 | 1,719 | 1,519 | 1,614 | 1,632 | 1,735 |
| YoY | 21.5% | 23.6% | 20.4% | -45.9% | 9.5% | 18.9% | 18.0% | 0.9% |
| SG&A-to-sales ratio | 43.6% | 50.0% | 36.7% | 56.9% | 43.4% | 48.1% | 41.2% | 46.7% |
| Operating profit | 185 | -664 | 839 | 178 | 438 | 249 | 1 | -171 |
| YoY | -35.7% | - | 70.2% | - | 136.8% | - | -99.9% | - |
| OPM | 5.8% | - | 22.2% | 5.9% | 12.5% | 7.4% | 0.0% | - |
| Recurring profit | 195 | -655 | 843 | 142 | 444 | 259 | 18 | -194 |
| YoY | -31.6% | - | 62.4% | - | 127.7% | - | -97.9% | - |
| RPM | 6.1% | - | 22.3% | 4.7% | 12.7% | 7.7% | 0.5% | - |
| Net income | 18 | -584 | 699 | 287 | 297 | 151 | -195 | -152 |
| YoY | -91.4% | - | 93.1% | - | - | - | - | - |
| Net margin | 0.6% | - | 18.5% | 9.5% | 8.5% | 4.5% | - | - |
| Cumulative | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Sales | 3,184 | 5,899 | 9,672 | 12,691 | 3,498 | 6,853 | 10,814 | 14,526 |
| YoY | 22.7% | 8.8% | 16.1% | -4.9% | 9.9% | 16.2% | 11.8% | 14.5% |
| Gross profit | 1,573 | 2,264 | 4,487 | 6,384 | 1,957 | 3,820 | 5,453 | 7,018 |
| YoY | 9.9% | -28.1% | -6.4% | -19.3% | 24.4% | 68.7% | 21.5% | 9.9% |
| GPM | 49.4% | 38.4% | 46.4% | 50.3% | 55.9% | 55.7% | 50.4% | 48.3% |
| SG&A expenses | 1,387 | 2,744 | 4,127 | 5,846 | 1,519 | 3,133 | 4,765 | 6,500 |
| YoY | 21.5% | 22.5% | 21.8% | -11.0% | 9.5% | 14.2% | 15.5% | 11.2% |
| SG&A-to-sales ratio | 43.6% | 46.5% | 42.7% | 46.1% | 43.4% | 45.7% | 44.1% | 44.7% |
| Operating profit | 185 | -479 | 360 | 538 | 438 | 687 | 688 | 517 |
| YoY | -35.7% | - | -74.4% | -60.1% | 136.8% | - | 91.2% | -3.9% |
| OPM | 5.8% | - | 3.7% | 4.2% | 12.5% | 10.0% | 6.4% | 3.6% |
| Recurring profit | 195 | -460 | 383 | 525 | 444 | 703 | 721 | 527 |
| YoY | -31.6% | - | -73.4% | -61.8% | 127.7% | - | 88.2% | 0.3% |
| RPM | 6.1% | - | 4.0% | 4.1% | 12.7% | 10.3% | 6.7% | 3.6% |
| Net income | 18 | -566 | 133 | 420 | 297 | 448 | 253 | 101 |
| YoY | -91.4% | - | -87.6% | -57.7% | - | - | 89.8% | -75.9% |
| Net margin | 0.6% | - | 1.4% | 3.3% | 8.5% | 6.5% | 2.3% | 0.7% |

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods

### Earnings by segment

| Segment quarterly earnings | FY03/16 | | | | FY03/17 | | | |
|---|---|---|---|---|---|---|---|---|
| (JPYmn) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| **Sales** | | | | | | | | |
| Strategic Consulting | 418 | 595 | 885 | 769 | 687 | 891 | 855 | 769 |
| YoY | -31.0% | -2.5% | 48.2% | 11.3% | 64.4% | 49.7% | -3.4% | 0.0% |
| Venture Capital | 24 | 24 | 640 | 15 | 472 | 7 | 477 | 223 |
| YoY | -93.1% | -95.5% | 43.5% | -99.4% | 1866.7% | -70.8% | -25.5% | 1386.7% |
| Insurance | 1,843 | 1,950 | 2,112 | 2,221 | 2,332 | 2,430 | 2,604 | 2,701 |
| YoY | 27.0% | 28.0% | 28.3% | 27.4% | 26.5% | 24.6% | 23.3% | 21.6% |
| Asset Liquidation | 141 | 143 | 124 | 0 | - | - | - | - |
| YoY | -16.6% | 0.0% | -37.7% | - | - | - | - | - |
| Intellectual Rights Investment | 751 | 0 | 0 | 0 | - | - | - | - |
| YoY | 4317.6% | - | - | - | - | - | - | - |
| Others | 4 | 4 | 12 | 14 | 6 | 26 | 26 | 20 |
| **Operating profit** | | | | | | | | |
| Strategic Consulting | 127 | 285 | 580 | 447 | 357 | 566 | 491 | 447 |
| YoY | -61.9% | -14.4% | 92.7% | 39.3% | 181.1% | 98.6% | -15.3% | 0.0% |
| Venture Capital | -29 | -567 | 486 | -38 | 280 | -37 | -433 | -154 |
| YoY | - | - | 65.9% | - | - | - | - | - |
| Insurance | 31 | -11 | 88 | 49 | 83 | 57 | 214 | -177 |
| YoY | -75.2% | - | -64.8% | - | 167.7% | - | 143.2% | - |
| Asset Liquidation | -28 | -36 | -16 | -5 | - | - | - | - |
| YoY | - | - | - | - | - | - | - | - |
| Intellectual Rights Investment | 399 | -14 | 0 | 0 | - | - | - | - |
| YoY | 19850.0% | - | - | - | - | - | - | - |
| Others | -22 | -34 | -33 | -10 | -15 | -16 | -5 | -29 |
| **Cumulative (JPYmn)** | **Q1** | **Q2** | **Q3** | **Q4** | **Q1** | **Q2** | **Q3** | **Q4** |
| **Sales** | | | | | | | | |
| Strategic Consulting | 418 | 1,013 | 1,898 | 2,667 | 687 | 1,578 | 2,433 | 3,202 |
| YoY | -31.0% | -16.7% | 4.7% | 6.5% | 64.4% | 55.8% | 28.2% | 20.1% |
| Venture Capital | 24 | 48 | 688 | 703 | 472 | 479 | 956 | 1,179 |
| YoY | -93.1% | -94.5% | -48.1% | -80.8% | 1866.7% | 897.9% | 39.0% | 67.6% |
| Insurance | 1,843 | 3,793 | 5,905 | 8,126 | 2,332 | 4,762 | 7,366 | 10,067 |
| YoY | 27.0% | 27.5% | 27.8% | 27.7% | 26.5% | 25.5% | 24.7% | 23.9% |
| Asset Liquidation | 141 | 284 | 408 | 408 | - | - | - | - |
| YoY | -16.6% | -9.0% | -20.2% | -42.8% | - | - | - | - |
| Intellectual Rights Investment | 751 | 751 | 751 | 751 | - | - | - | - |
| YoY | 4317.6% | 2322.6% | 1402.0% | 1037.9% | - | - | - | - |
| Others | 4 | 8 | 20 | 34 | 6 | 32 | 58 | 78 |
| **Operating profit** | | | | | | | | |
| Strategic Consulting | 127 | 412 | 992 | 1,439 | 357 | 923 | 1,414 | 1,861 |
| YoY | -61.9% | -38.1% | 2.6% | 11.7% | 181.1% | 124.0% | 42.5% | 29.3% |
| Venture Capital | -29 | -596 | -110 | -148 | 280 | 243 | -190 | -344 |
| YoY | - | - | - | - | - | - | - | - |
| Insurance | 31 | 20 | 108 | 157 | 83 | 140 | 354 | 177 |
| YoY | -75.2% | -94.9% | -83.2% | - | 167.7% | 600.0% | 227.8% | 12.7% |
| Asset Liquidation | -28 | -64 | -80 | -85 | - | - | - | - |
| YoY | - | - | - | - | - | - | - | - |
| Intellectual Rights Investment | 399 | 385 | 385 | 385 | - | - | - | - |
| YoY | 19850.0% | 19150.0% | 5400.0% | 3750.0% | - | - | - | - |
| Others | -22 | -56 | -89 | -99 | -15 | -31 | -36 | -65 |

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

## FY03/17 results

- ▷ Sales: JPY14.5bn (+14.5% YoY)
- ▷ Operating profit: JPY517mn (-3.9%)
- ▷ Recurring profit: JPY527mn (+0.3%)
- ▷ Net income attributable to parent company shareholders: JPY101mn (-75.9%)

Sales were up in each segment. However, while operating profit in the Strategic Consulting Services rose 29.4% YoY and recorded a new record high for the third year in a row, Incubation Services fell from an operating profit in FY03/16 to an operating loss in FY03/17. As a result, overall operating profit declined 3.9%. In Incubation Services, while two companies in its investment portfolio conducted an IPO, the company had to book a provision for investment loss as certain investment securities suffered impairment losses when the value of one portfolio company fell.

The company does not announce its full-year company forecast given the volatility in the Venture Capital segment due to conditions in the stock market and initial public offerings. At the Venture Capital segment, RENOVA was granted approval to list on the Mothers board on January 20, 2017 and conducted its IPO on February 23, 2017. This means that two companies in Dream Incubator's investment portfolio listed during this period.

Starting in FY03/16, the company changed its service names to "consulting services" and "incubation service." The latter business consists of Venture Capital segment, Insurance segment, and Others. At the announcement of FY03/17 financial results, the company changed the name of "consulting services" to "strategic consulting services." The company's decision to rename these businesses does not affect the segment itself.

In the previous term, ReVALUE Inc., which made up the asset liquidation segment, was sold and the liquidation of Japan Intellectual Property Fund 1, Investment Limited Partnership was completed. Given these events, the two segments were discontinued in Q1 FY03/17. The changes in the segments reflect these events.

## Strategic Consulting Services

Sales for FY03/17 were JPY3.2bn (up from JPY2.7bn in the previous year) and operating profit was JPY1.9bn (up from JPY1.4bn in the previous year), marking the third year in a row to set a new record high.

In Strategic Consulting Services, the company provides hands-on support (participation in the management of companies in which it invests) in business producing (including guidance on recruiting reliable partners, policy making, driving both internal and external stakeholders), financial advisory for M&A, and assistance in developing core management—this in addition to the strategic consulting to major corporations and government agencies. Combined with continuing services to major companies, an increase in long-term, hands-on support projects and new orders from overseas companies boosted sales. As a result, DI enjoyed a rise in sales and profits compared to FY03/16.

According to DI, the number of support projects has been on the rise, leading to larger, more long-term assignments. Major projects include supporting the commercialization of robotic and artificial intelligence technologies, the creation of a Chief Technology Officer (CTO) post, the establishments of overseas research facilities, and the developing brand strategy, as well as M&A advisory and helping to train executive candidates. About half of DI's clients are major industry players, with the company generating 87.6% of its overall sales from such customers. These clients are in various sectors, such as manufacturing, consumer goods/distribution, trading/financial, construction/real estate, government/government-affiliated organizations, services, telecom, and media content. The ratios are particularly high for manufacturing and consumer goods/distribution. These sectors together comprise more than half of DI's customers.

## Incubation Services

Incubation Services consist of the Venture Capital segment, Insurance segment, and the Other segment.

### Venture Capital segment

Sales for FY03/17 were JPY1.2bn (JPY703mn in the previous year), but the company posted an operating loss of JPY344mn (operating loss of JPY148mn the previous year). While DI posted capital gains, it nevertheless had a wider operating loss because of impairment losses related to impairment loss of operating investment securities and a provision for investment losses. The result was a second consecutive operating loss since FY03/16. The company in FY03/16 suffered an impairment loss of a stock listed in Vietnam, and in FY03/17 an impairment loss from a US company. DI has taken measures to prevent a recurrence of such losses by strengthening its investment oversight and imposing clear limits on the amount of investment for each project.

In the Venture Capital segment, the company worked with venture capital companies and made investments in not only Japan, but also the US and Asia. With regard to its existing roster of venture companies, Dream Incubator funnels funds and human resources at the stage where deeper involvement promises accelerated growth, and then the companies are sold. During the period, two companies in the investment portfolio (ReNet Japan Group, Inc. and RENOVA, Inc.) conducted an IPO, and it sold and additionally invested in stocks of listed companies. However, due to a decline in the stock price of one company (Wrap Media LLC) it had invested in, Dream Incubator booked losses on operating investment securities and a provision of allowance for investment loss. The business saw sales rise but profits fall YoY as a result.

The value of investments made during FY03/17 was JPY921mn (14 companies), including stock warrants from one company. The total investment balance was JPY5.2bn (44 companies) as of end FY03/17, including warrants from 14 companies. DI invested in, or provided support to, companies such as these: RightHand Robotics, Inc. a US robotics venture, and Zepp, a Chinese sports IoT device company (AI/robotics); Layer, a US messenger service, Plexchat, a US fan management service for mobile games, 99Games, the biggest mobile game company in India, KonMari Media, Inc., a mobile site operated in the US by organizing consultant Marie Kondo, and whomore, Inc., a Japanese cloud service for illustration and manga creation. In the services area, the company invested in/supported Tryon Co., Ltd., operator of "Nounai College," Japan's biggest portal service for online lectures, SUNVIP Network Technology (Hong Kong) Co., Ltd., which provides cross-border e-commerce services, and Jiraffe Inc., operator of Hikakaku, a website that compares prices of secondhand items. As a result, as of end FY03/17, the venture capital portfolio held 10 companies in digital media valued at JPY1.2bn, 12 services-related companies valued at JPY1.4bn, one robotics company valued at JPY64mn, and three other companies valued at JPY900mn (book value; only principal investments with a book value of over JPY2mn are noted).

#### FY03/17 IPOs

- ReNet Japan Group, Inc.: Provides recycling business over the internet (established in July 2000). Listed on the Tokyo Stock Exchange's Mother's market on December 20, 2016 (TSE Mothers: 3556). Owned 1.2% by DI (based on the number of shares at the time of listing approval).
- RENOVA, Inc.: Develops, operates, and manages renewable energy power generation facilities (established in May 2000). Listed on the Tokyo Stock Exchange's Mothers market on February 23, 2017 (TSE Mothers: 9519). Owned 0.5% by DI (based on the number of shares at the time of listing approval).

### Insurance segment

Sales for FY03/17 were JPY10.1bn (up from JPY8.1bn the previous year) and operating profit was JPY177mn (JPY157mn the previous year).

The Insurance segment is a medical insurance service for pets run by DI's consolidated subsidiary Ipet Insurance Co., Ltd. During the period, there was a steady growth in membership. As a result, the company booked an increase in sales and profits YoY.

**Other segment**

Sales for FY03/17 were JPY78mn (up from JPY34mn the previous year) and the operating loss was JPY65mn (from a loss of JPY99mn the previous year).

This segment lists multiple businesses in the incubation stage (investment phase), including marketing in various Asian countries.

**For details on previous quarterly and annual results, please refer to the Historical performance section.**

## Full-year company forecasts

Given the volatility in Venture Capital segment due to conditions in the stock market and initial public offerings, the company does not release earnings forecasts on the consolidated basis. FY03/18 outlook by segment is as follows:

In Strategic Consulting Services, the company will continue to focus on providing strategy consulting and business producing support to existing major corporate clients. It expects to achieve about 15% sales growth compared to the previous year.

In Incubation Services, the company expects the Insurance segment to keep growing. It is preparing for the listing of its consolidated subsidiary, Ipet Insurance Co., Ltd.

For the Other segment, because DI has secured a certain level of users, the company expects to reach profitability in the marketing businesses in various Asian countries as it plans to launch an online research hub using a database.

The company expects consolidated sales (excluding Venture Capital segment sales) to reach JPY15.0bn (JPY13.3bn in the previous year).

The company noted that although multiple venture businesses in which it has invested are preparing for IPO, it is difficult to forecast earnings at the Venture Capital segment as sales depend on gains from the sale of shares, and as such are sensitive to volatility in the stock market and IPO trends.

## Future initiatives

DI lists the following measures to implement in the coming years:

In Strategic Consulting Services, DI's core operations, the company plans to further strengthen its business-producing capabilities and enhance its brand appeal. The company plans to increase its annual sales from the current JPY3.2bn to JPY4.5bn in three years.

In Incubation Services (Venture Capital), DI plans to increase its investment balance from the current JPY5bn (for the most recent exit the value of investment double; impairment losses booked as loss on sales) to JPY8bn in three years (by more than doubling the investment value). The company will work with overseas partners (The Raine Group LLC in the US, Legend Capital in China, and Blume Ventures in India) to accelerate investments in Japan, the US, and other parts of Asia. The focus will be on artificial intelligence, digital media, and networks. In so doing, DI will establish clear limits to the amount of investments per project, restricting the company's stake to a certain level. Primary operations will be to provide the risk capital.

In Incubation Services (Private Equity), the company will seek to enhance the corporate value of companies by drawing on its strategic consulting experience, using its expertise in business creation and development and leveraging its relationship with major corporations and government agencies. DI will acquire a high stake in these companies and provide management strategy support. Staff members trained in strategic consulting will be assigned to such projects and provide knowledge to promote these companies' growth.

As for Ipet Insurance Co., Ltd. (annual sales of JPY10bn, No. 2 in the industry), DI will start preparing for an IPO during FY03/18 at the earliest. DI will utilize its strategic consulting experience to ensure continuous growth for the insurer. Sales were only JPY3bn when DI made its initial investment, but Ipet expanded to post sales of JPY10.1bn in FY03/17. DI wants to replicate this success in its other investments.

With respect to DI Marketing, which operates social-media marketing businesses in Southeast Asia, DI will use its strategic consulting expertise to make the company the top research provider in Asia in the next three years (DI Marketing currently has 700,000 members, making it one of the leading companies in this field in Southeast Asia). DI will prepare for an IPO for this company.

Boardwalk Inc., whose shareholders include Information Services International-Dentsu, Ltd., NTT Docomo Inc., and DI (DI has 22.14% of the company based on the number of present shares), is Japan's biggest digital ticketing company with 4.5mn members. DI has been helping Boardwalk since its inception (September 2015) in establishing a business foundation, improving its earnings structure, building an internal IT system, and creating new businesses. DI will use the company's strategic management expertise as it seeks to become the leading fund management company.

DI will also explore investment opportunities other than those mentioned above.

# Business

## Business description

### Consulting firm differentiating itself with “business producing”

Dream Incubator (DI) is a consulting firm founded by the former Boston Consulting Group (BCG) president Koichi Hori in April 2000. Its businesses are venture capital and business incubation, and strategy consulting. The company calls itself a “business producer.”

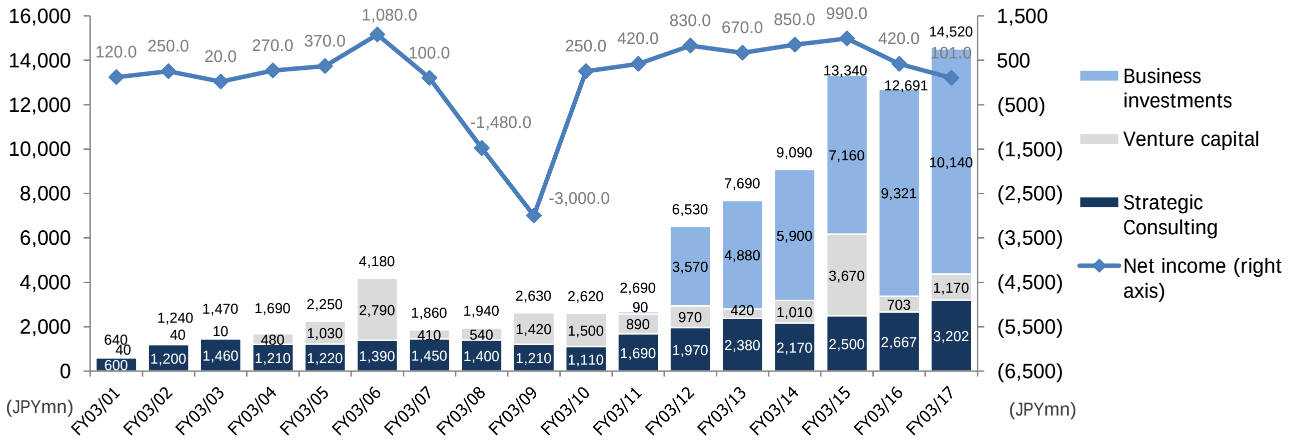
The company said its core value is “business producing,” referring to tackling social challenges, planning businesses with visions and ideas beyond industry barriers, formulating strategies, gathering reliable partners, and creating (or producing) added values. The company said that it has produced new businesses beyond the barriers of countries, sectors, major companies, venture businesses, and borders since its founding. Other major consulting firms typically have strengths in regulated industries, such as banking, insurance, telecom, and medical services. Most of these firms also have teams of consultants specializing in particular sectors. However, many of DI’s clients are outside these regulated sectors. The company’s consultants (business producers) do not work in industry-specific teams, and the company’s clients are seeking to create new businesses and establish new pillars of operations by considering medium- to long-term changes in their business environment. Since DI’s business producers do not work as part of industry-specific teams, they could, for example, handle two separate projects that cut across different sectors in a given month. As a result, the company can create new businesses that span multiple industries.

The company’s objective is to produce and develop businesses. It has two mainstay businesses: Strategic Consulting Services and Incubation Services. In Strategic Consulting Services, the company provides strategic consulting, hands-on help in business producing, M&A advisory, and assistance in developing core management, to major corporations (domestically and overseas) and government agencies. In its Incubation business, the company provides venture capital services and buy-and-hold business investment services, leveraging its principal investments to develop venture companies deemed to be integral to new industries. In its overseas operations, the company aims to support innovation around the world by forming strategic partnerships with promising venture capital companies in the US, China, and India so as to jointly engage in investment and growth. In terms of accounting, venture capital services books profits at the time shares in the invested company are sold whereas the buy-and-hold business investment services periodically books consolidated profits or losses in proportion to the ownership ratio in the invested company.

| Strategic Consulting Services | × | Incubation Services |
|---|---|---|
| - Strategic consulting<br>- Hands-on help in business producing<br>- M&A support (financial advisory)<br>- Assistance in developing core management | | - Venture capital<br>- Insurance<br>- Others |

Source: Shared research based on company data

**Sales and net income by segment**



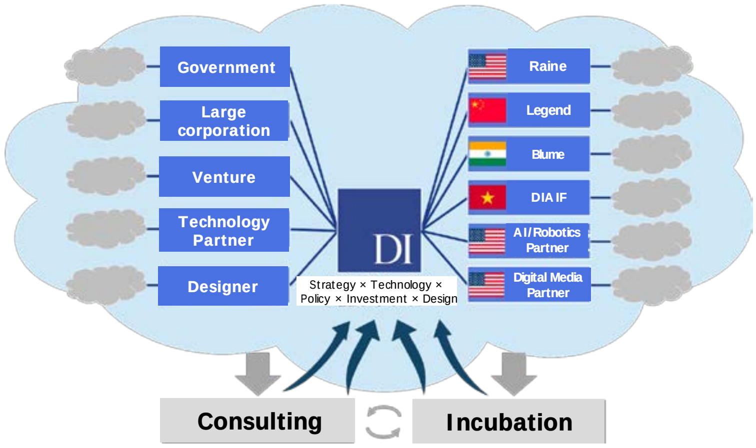

Source: Shared research based on company data

## DI's ecosystem

In its overseas operations, the company aims to support innovation around the word by forming strategic partnerships with promising venture capital companies in the US (The Raine Group LLC), China (Legend Capital), and India (Blume Ventures), so as to jointly engage in investment and growth.

DI says that the alliances it enjoys with domestic and overseas partners serve as a source of added value for its Strategic Consulting and Incubation Services. Moreover, businesses produced by these services become a catalyst for new and wider networks. The company hopes to cultivate such mutually beneficial relationships by increasing partner companies as it looks to further strengthen its business producing ecosystem.

### DI's ecosystem




Source: Company data

### Strategic partners by country

| Country | The US | China | India |
|---|---|---|---|
| Company | The Raine Group LLC | LEGEND CAPITAL | BLUME VENTURES |
| Profile | VC focusing on digital media; founder is an investment banker specializing in media; advisory group comprised of founders of major media firms. | Subsidiary of major private enterprise; founder of this VC has 30-year experience in the IT sector; of the over 300 companies invested, more than 50 were IPOs and about 40 M&As (as of 2016). | Largest early-stage VC in India; founder has over 15 years' experience in the TMT sector; biggest number of investments in India, surpassing major European and US VCs. |

Source: Shared Research based on company data and websites from partner companies

# Segment breakdown

DI consists of two businesses: Strategic Consulting Services and Incubation Services. Still, the company has four consolidated reporting segments: Strategic Consulting, Venture Capital, Insurance, and Others (business names and segmentation as of FY03/17; Renaming of Consulting Services to "Strategic Consulting Services" announced at FY03/17 earnings briefing). Previously, DI had six segments: Asset Liquidation and Intellectual Rights Investment, in addition to the above four segments. However, in January 2016, the company sold its entire stake in consolidated subsidiary ReVALUE Inc., which operated its Asset Liquidation segment. In addition, the company in June 2015 sold the trademark rights to Tokyo Girls Collection, which was a core asset of the Intellectual Rights Investment segment.

**Sales by segment and composition ratio (old segmentation)**

| (JPY mn) | FY03/15 | | FY03/16 | | FY03/17 | |
|---|---|---|---|---|---|---|
| | Sales | % of total | Sales | % of total | Sales | % of total |
| Strategic Consulting Services (segment) | 2,504 | 18.8% | 2,667 | 21.0% | 3,202 | 22.0% |
| Incubation Services | 10,839 | 81.2% | 10,024 | 79.0% | 11,324 | 78.0% |
| Venture capital | 3,671 | 27.5% | 703 | 5.5% | 1,179 | 8.1% |
| Insurance | 6,363 | 47.7% | 8,126 | 64.0% | 10,067 | 69.3% |
| Asset liquidation | 713 | 5.3% | 408 | 3.2% | - | - |
| Intellectual rights investment | 66 | 0.5% | 751 | 5.9% | - | - |
| Others | 23 | 0.2% | 34 | 0.3% | 78 | 0.5% |
| Consolidated sales | 13,343 | 100.0% | 12,691 | 100.0% | 14,526 | 100.0% |

Source: Shared Research based on company data

## Strategic Consulting segment (22.0% of total sales in FY03/17)

This segment is the core business for the company since its establishment by former employees of Boston Consulting Group (BCG). It provides various services, in addition to strategic consulting for major corporations or government entities. The segment, for example, offers companies hands-on support for recruiting partners, creating policies, and driving both internal and external stakeholders. (DI provides hands-on support by participating in the management of companies in which it invests.) The segment also provides M&A financial advisory services and assistance in training management candidates.

The company calls its consulting practice "business producing," saying that while conventional management consultants help to solve management and strategy issues, its approach is focused on putting together projects and ensuring execution for projects where the client may know what needs to be done but not how and with whom to do it. DI sees its role as that of a producer and uses the analogy with movie production—bringing together the script, the director, the funds, and other components necessary to make it happen. The company not only proposes a project to the client but ensures it does so with all necessary execution components already in place. DI then receives a consulting fee for helping to manage the project.

### Fee structure

The total fee of a consulting project is calculated as a sum of monthly fees, based on the number of consultants (called "business producers") engaged on the project. On average, there are three consultants and one officer (executive officer) involved in the management of the project. The consultant's fee is based on each consultant's monthly salary plus the appropriate gross profit margin. On average DI's consulting projects tend to last four to five months, with longer ones taking up to a year.

Strategy consulting firms usually do not have a sales department. Global consulting firms are often partnerships, where partners pitch for projects. DI employs a similar system, whereby a consultant joining the firm as a business producer, can be promoted to manager, and to executive officer. The promoted executive officer will mainly be responsible for bringing new projects, taking advantage of the network and trust built with clients throughout the years.
The business producer and manager level employees are generalists but many will specialize in a particular expertise when promoted to a senior level position.

### Expertise and project structure

DI provides clients from wide-ranging sectors strategic consulting and hands-on help in business producing on a diversity of themes.

A standard business production project is structured as follows:

▷ Create a concept;

▷ Develop a strategy;

▷ Find people and organization interested in getting involved

▷ Develop structure, define rules and responsibilities

▷ Champion the project both inside and outside the firm;

▷ Execute for results.

Further, the area of expertise is not categorized by industry but is based on themes (for example, environment, energy, and technology). Consulting projects are carried out by teams formed under the leadership of executive officers based on areas of expertise.

Thus far, DI has undertaken the following roster of projects, working with not only private enterprises but also government and national organizations.

**Themes of major projects**

| Theme | Outline |
|---|---|
| Assistance for business production | Creation of major projects for the next generation |
| New business and growth strategy | To design core business in a new field; to draw up a strategy to create a market with a new product |
| Mapping out marketing and sales strategy | To work out a brand strategy; to advise on strengthening sales capability |
| R&D and technology strategy | To commercialize next-generation technology; to evaluate business feasibility of technological seeds and to audit strategy |
| Overseas expansion advisory | To support establishment of R&D centers overseas; to map out strategy for entering the global market |
| Business vision and medium-term management plan | To set business vision; to advise on drawing up medium-term management plan |

Source: Shared Research based on company data

### DI's clients

DI's strategy consulting business tends to focus on leading firms. As of end FY03/17, 12 out of 24 of its clients were among the biggest players in their respective industries. Seventeen of these companies were among the top three in their sectors. DI generated 87.6% of its overall sales from such clients.

**Client ranking by recurring profit**

| | Client' ranking in each industry (no. of companies) | | | |
|---|---|---|---|---|
| Recurring profit | 1st | 2nd | 3rd | 4th and below |
| Over JPY500bn | 5 | | | |
| JPY100-500bn | 3 | 2 | | 2 |
| JPY50-100bn | 2 | | | |
| JPY10-50bn | 2 | 2 | 1 | 1 |
| Below JPY10bn | | | | 4 |
| Total | 12 | 4 | 1 | 7 |
| % of sales | 87.6% | 4.5% | 0.5% | 7.3% |

Source: Shared Research based on company data

### M&A advisory

DI's M&A advisory business has been witnessing an active deal flow of cross-border projects in India and other parts of Asia. In addition to identifying local needs for selling companies and businesses, the company, upon request from Japanese corporations, actively trolls for potential candidates for acquisition. In FY03/16, it advised Tosoh Corporation on the acquisition of an Indian company, Lilac Medicare Private Limited; it also advised Takasago Thermal Engineering Co., Ltd. on share purchase of another Indian company, Integrated Cleanroom Technologies Private Limited.

**Main cross-border projects in the past three years (FY03/14–FY03/17)**

| Client | Target company | Country | Field |
|---|---|---|---|
| Takasago Thermal Engineering Co., Ltd. | Integrated Cleanroom Technologies Private Limited | India | Industrial goods (Engineering) |
| Tosoh Corporation | Lilac Medicare Private Limited | India | Industrial goods (Healthcare) |
| AIR WATER INC | Ellenbarie Industrial Gases Limited | India | Industrial goods (Chemicals) |
| JAPAN MATERIAL Co., Ltd. | Aldon Technologies Services Pte. Ltd<br>ADCT Technologies Pte. Ltd. | Singapore | Industrial goods (B2B services) |
| Nippon Paint Co., Ltd. | BOLLIG & KEMPER GmbH & CO.KG | Germany & France | Industrial goods (Chemicals) |

Source: Shared Research based on company data

### Recruiting and retaining talent

Employing and retaining talented staff is an essential characteristic of the consulting business. According to management, DI generally ranks as one of top firms that students graduating from top universities in Japan would want to work for, along with the likes of Goldman Sachs, Boston Consulting Group (BCG), and McKinsey & Company. Consequently, the company says it has no trouble hiring promising graduates. DI only makes offers to a small number of what it sees as exceptionally talented students. The company hired only 48 graduates over the past 14 years.

In addition, DI maintains that one of its core strengths is the high staff retention. The company says that since establishment it put a particular emphasis on respecting and nurturing every staff member, and eschewed the “up or out” (advance or leave) type of evaluation system adopted at many global consulting firms.

In order to grow sales in the consulting business, it is necessary to either develop a track record of large-scale consulting projects and raise sales per consultant, or increase the number of consultants. The company is doing both. Thanks to high retention, the number of consultants working DI has been rising steadily. The company maintains that against the backdrop of many international consulting firms finding Japan a difficult market and shrinking or withdrawing, DI’s presence and mind share among clients has been growing.

| Number of Consultants | FY03/11 | FY03/12 | FY03/13 | FY03/14 | FY03/15 |
|---|---|---|---|---|---|
| Consultants (Business Producers) | 50 | 57 | 65 | 71 | 69 |

Source: Shared Research based on company data

## Incubation Services (78.0% of total sales in FY03/17)

### Venture Capital segment (8.1% of sales in FY03/17)

The Venture Capital business invests in promising businesses in Japan and overseas. The company generally invests in companies where, as a principle, it can take a controlling interest to have a say in how the business is run. On the other hand, the general discipline is to exit the venture if profitability is not imminent. Given that the company commits its own capital, DI had JPY5.1bn of investment securities on its balance sheet as of end FY03/17. For those investments where the company maintains it has sustainable growth prospects, it would consider making additional investment and sending professional, moving the investee to its “buy-and-hold-indefinitely” business investment segment.

As of end FY03/17, the venture capital portfolio held 10 companies in digital media valued at JPY1.2bn, 12 services-related companies valued at JPY1.4bn, one robotics company valued at JPY64mn, and three other companies valued at JPY900mn (the amount is the book value; only principal investments with a book value of over JPY2mn are noted).

The company commented that in Japan, support of venture firms by venture capitalists tends to be very limited as the latter invested in broad, thinly spread portfolios to reduce their own risk. DI maintains this to be one reason why so few globally recognized ventures were born in Japan. The company prides itself on not simply allocating risk capital but helping the investees develop business strategies and sending personnel to assist in realizing them. The company aims to nurture promising ventures into leaders of emerging industries through this intensive commitment. As a result, DI says it tends to own a higher percentage of each investee compared to the standard Japanese venture capital convention. In select cases, the company may increase the stake to a majority or outright ownership. In the digital media field, the company plans to utilize its network and conduct venture investments in the form of club deals.

| | Date of exit | % owned | Main business description |
|---|---|---|---|
| Renova, Inc. | February 2017 | 0.5% | Development and operation of renewable energy power facilities |
| Renet Japan Group, Inc. | December 2016 | 1.2% | Online recycle business |
| Mynet Inc. | December 2015 | 2% | Game services targeting smartphones |
| Rosetta Corp. | November 2015 | 7% | Next generation translation using artificial intelligence |
| Union Community Inc. | July, 2014 | 11% | Fingerprint identification equipment development and sales |
| DLE Inc. | March, 2014 | 12% | New character development and marketing services |
| Allied Architects, Inc. | November 2013 | 17% | Digital marketing using SNS |
| Sanwa Company Ltd. | September 2013 | 21% | Online imported construction materials |
| Photocreate Co., Ltd. | July 2013 | 12% | Online photo shop |
| Star Flyer Inc. | December 2011 | 1.7% | Airlines |
| eBook Initiative Japan Co., Ltd. | October 2011 | 5% | Sales of e-books |

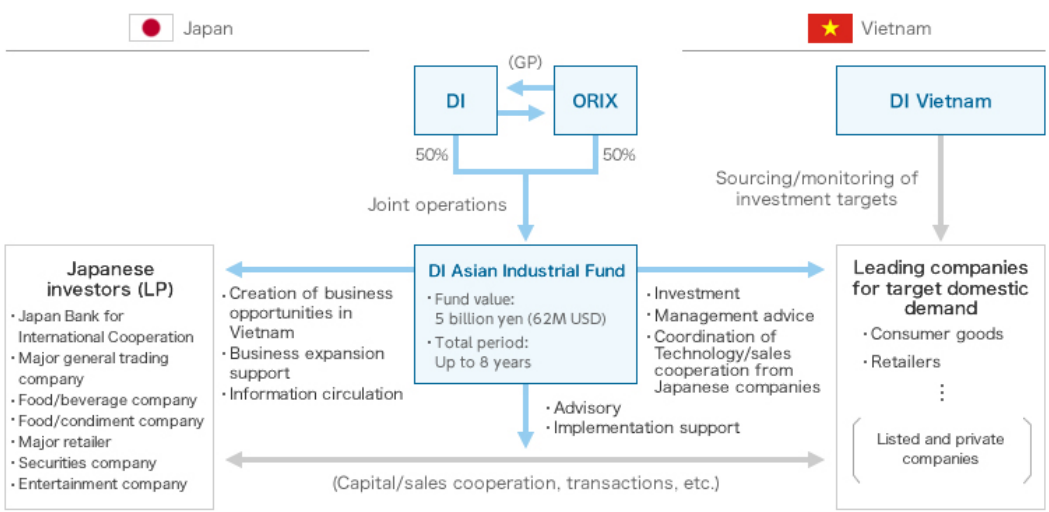
Source: Shared Research based on company data
Note: Percentage owned includes diluted shares

### Overseas venture capital initiatives

DI, together with ORIX Corporation plans to invest in growing domestic demand sectors in Vietnam, such as consumer goods, foods, healthcare, and retail. The investment vehicle is the DI Asia Industrial Fund (DIAIF), launched in June 2010 with JPY5.0bn in assets under management. The company and ORIX invested JPY1bn each into the fund. The fund's first investment was in a dairy beverage manufacturer (37.1% stake), and the fund's second investment was in a medical equipment sales company (31.1%. stake). Consequently, the company exited out of one of its investments during the FY03/13 term, and achieved an internal rate of return (IRR) of approximately 50%.

In FY03/14, DIAIF acquired around 25% in Santedo Corporation as the third investment. Santedo is a holding company that owns a drug wholesaler and a chain of pharmacies in Vietnam. Duy Tan Pharmaceutical Joint Stock Company, the wholesaler of generic pharmaceuticals under Santedo, has exclusive rights to sell products of TEVA Pharmaceutical Industries, Ltd., the world's biggest maker of generics, in Vietnam. Duy Tan has built a wide distribution network into domestic hospitals and pharmacies. Meanwhile, Pha No Pharmaceutical Joint Stock Company is Vietnam's largest private-sector pharmacy chain, which operates 22 pharmacies in Ho Chi Minh City. Santedo plans to use the investment funds from DIAIF to establish and acquire additional pharmacies. DIAIF made its fourth investment in Q2 FY03/15 in Me Sa Asia Pacific Trading Services Company Ltd. (MESA), a major Vietnamese wholesaler of daily necessities and consumer products. With this, the fund's investment phase ended and, at the time of writing, the fund is generating returns.

#### DI Asian Industrial Fund




Source: Shared Research based on company data
*GP: General Partner
**LP: Limited Partner

**Insurance segment (69.3% of total sales in FY03/17)**

The business is centered on Ipet Insurance Co., Ltd., a subsidiary established in May 2004. The company determined that the demand for "medical insurance for pets" will increase significantly going forward, and acquired roughly 82% of the shares of the company (valued at JPY1.2bn) from Goldman Sachs. It made Ipet into a subsidiary in February 2011 (its stake in the company stood at 64.6% as of July 1, 2016).

The company registered as a small-sum, short-term insurance provider in March 2008, and received a property and casualty insurance business license from the Financial Services Agency in March 2012. Consequently, the company changed the name of Ipet Co., Ltd. to Ipet Insurance Co., Ltd.

According to Anicom Holdings, Inc. (Mothers: 8715), the market for pet insurance in 2015 was about JPY41.7bn. Pet insurance compensates for medical expense for injured or ill pets when receiving treatment at animal hospitals.

There are 10 companies, including Ipet Insurance, operating in the pet insurance industry. The market leader is Anicom, with 61% market share (62% in FY03/15), followed by Ipet Insurance. Ipet Insurance had 300,000 policy holders as of FY03/17, with sales of JPY10.1bn in FY03/17 (+24% YoY), for an approximately 20% market share. As of FY03/16, the number of animal hospitals that accepted pet insurance was about 8,000 hospitals nationwide, of which 3,770 hospitals, or a little less than 50%, accepted the company's pet insurance.

Pet insurance was available at more than 1,600 shops in Japan as of March 2016. The main sales channel is pet shops, and out of the 4,000 pet shops nationwide, 690 shops have become a sales agent of Ipet's pet insurance (FY03/14). Anicom sells its pet insurance not only at pet shops but also via conventional insurance agents, handling other forms of non-life insurance such as financial and auto insurance.

The length of a pet insurance policy is one year, with about 89% of the policyholders renewing their policies (as of FY03/13). Revenues are insurance premiums (99.9% of total) and investment income. Expenses consist of insurance underwriting costs (insurance claims paid, claims inspection costs, collection expenses on insurance premiums and fees) and SG&A expenses. Insurance claims paid and claims inspection costs are included in cost of goods sold, while the remainder are can be divided into other variable costs (agency fees) and fixed costs. The net claims ratio for FY03/14 was 34.1% (equivalent to the cost of sales ratio, and refers to the percentage obtained by dividing the insurance premium income with that of the total loss expenses and insurance claims paid). The claim inspection costs are actual expenses related to the inspection of damage claims.

The Insurance business saw a healthy stream of new policies and the persistency rate for pet insurance for medical expenses in FY03/16, resulting in sales of JPY8.1bn (+27.7% YoY). But expenses increased in FY03/15 owing to the bullet depreciation of assets under Article 113 of the Insurance Business Law. These expenses were wiped out in FY03/16, resulting in operating profit of JPY157mn. The company said that it has started preparation for the IPO of the business.

In FY03/17, sales reached JPY10.1bn (+23.9% YoY) because of a steady increase in the number of policies holders for pet insurance.

### Ipet Insurance performance

| Income statement (JPYmn) | FY03/13 | FY03/14 | FY03/15 | FY03/16 | FY03/17 | YoY |
|---|---|---|---|---|---|---|
| **Sales** | **4,284** | **5,100** | **6,363** | **8,126** | **10,067** | **23.9%** |
| Insurance premiums | 1,360 | 1,601 | 2,053 | 2,816 | 3,628 | |
| Provision for outsanding losses and claims | 40 | 77 | 97 | 105 | 161 | |
| Provision for underwriting reserves | 334 | 263 | 127 | na | na | |
| Catastrophe reserve | 138 | 163 | 192 | na | na | |
| **Cost of sales** | **1,874** | **2,105** | **2,471** | **na** | **na** | |
| **Gross profit** | **2,410** | **2,995** | **3,891** | **na** | **na** | |
| SG&A (ex.special payment under the Insruance Business Law) | 2,128 | 2,625 | 3,392 | na | na | |
| **OP excl. effects of Article 113 of Insurance Business Law** | **281** | **370** | **499** | **na** | **na** | |
| Deferred expenses under Article 113 of Insurance Business Law | -516 | -538 | -654 | na | na | |
| Amortization of deferred assets under Article 112 of Insurance Business Law | 407 | 467 | 2,614 | na | na | |
| **Special amortization under Insurance Business Law** | **-109** | **-71** | **1,960** | **600** | **na** | |
| **Parent operating profit** | **390** | **441** | **-1,461** | **157** | **177** | **12.7%** |
| Net loss ratio | 34.3% | 34.1% | 34.6% | 36.7% | na | |
| Net expense ratio | 46.8% | 48.7% | 51.0% | 49.5% | na | |

Note: Figures may differ from company materials due to differences in rounding methods
Source: Shared Research based on company data

The fee structure depends on the age of the pet. For example, the premium for a kitten is JPY780 yen per month, while the premium for a cat that is three years old is JPY1,020 per month. For small dogs, such as Chihuahua puppy, the premium is JPY1,030 per month, while the premium for a 3 year old dog is JPY1,480 per month. Ipet Insurance offers a 10% discount for online applications.

According to a 2015 survey by The Institute of Pet Food Association (http://www.petfood.or.jp/data/chart2016/2.pdf), pet demand in Japan peaked in 2008, when there were 24.0mn house pets. The number declined to 19.7mn in 2016 (9.9mn dogs and 9.8mn cats). According to Fuji Economic Research Institute, pet insurance rates have been making double-digit growth, with the number of policy holders in 2015 jumping 13% YoY to 1.1mn. As a result, the pet insurance subscription rate (the ratio of insurance-covered pets among all pets) in 2015 rose 0.8ppt YoY to 5.4%. Fuji Economic Research Institute attributes the increase to a stronger awareness among pet owners as they keep the pets indoors and spend more time in the same living space. Another factor behind the increase is wider public awareness as is increased media coverage of pet insurance. Since the penetration of pet insurance in Japan is still low compared to Europe and North America, we see ample room for further growth going forward.

In comparing business conditions at Ipet Insurance with Anicom, the loss ratio for Ipet Insurance is lower than Anicom, while the operating expense ratio for Anicom is lower than for Ipet Insurance. Shared Research understands that the loss ratio is due to the negative impact of Anicom's aggressive expansion plans implement in the past. In addition, the difference in operating expense ratio may be attributed to a difference in sales volume, and percent of insurance premium collection cost and fees (10.6% for Ipet; 5.6% for Anicom [FY03/14]). The amount of new policies (compared to existing policies) is higher for Ipet Insurance (over three years through FY03/14, new policies grew by 1.98x at Ipet Insurance, and 1.48x at Anicom).

| Performance comparison | FY03/13 | FY03/14 | | FY03/15 | | FY03/16 | | FY03/17 | |
|---|---|---|---|---|---|---|---|---|---|
| (JPYmn) | Anicom | Ipet | Anicom | Ipet | Anicom | Ipet | Anicom | Ipet | Anicom |
| Premium revenue | 15,781 | 5,100 | 18,366 | 6,363 | 22,638 | 8,126 | 26,506 | 10,067 | 28,978 |
| Loss ratio | 67.5% | 34.1% | 66.7% | 34.6% | 64.4% | 36.7% | 60.1% | - | 58.9% |
| Operating expense ratio | 29.3% | 49.7% | 28.6% | 50.9% | 28.3% | 49.5% | 31.1% | - | 32.1% |
| RPM | 5.2% | 8.7% | 4.0% | -22.9% | 5.5% | 3.8% | 8.0% | - | 11.4% |
| Renewal rate | 88.1% | 89.0% | 89.3% | - | 88.7% | - | 88.2% | - | 88.2% |
| Number of pet shop agencies (stores) | 1,390 | 690 | 1,450 | - | - | - | - | - | - |
| Number of policies | 446,414 | 158,146 | 504,969 | 196,964 | 544,815 | 249,330 | 585,962 | 300,203 | 635,670 |
| Number of networked hospitals | 5,349 | 3,191 | 5,599 | 3,427 | 5,773 | 3,770 | 5,969 | na | 6,083 |

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: Operating Expense Ratio = (commissions and fees + underwriting and SG&A expenses)/insurance premiums

**Other segments (0.5% of sales in FY03/17)**

The segment includes the company's marketing segment in Asian countries, such as marketing operations in Vietnam. These businesses are classified by the company as business investments to be held indefinitely.

**Overseas expansion**

DI has operations in Vietnam (Ho Chi Minh), China (Shanghai), Singapore, Thailand (Bangkok), and India (Mumbai).

Its Vietnam office, which was established in 2007, is the company's first and primary overseas base. This office provides consulting services to the Vietnamese government, and Vietnamese companies, as well as providing investment/incubation, implementation support, and consulting services to Japanese companies operating in Vietnam. In 2014, the company established a new subsidiary in order to focus on marketing, while taking advantage of the relationships it has built between operations in different locales.

The company's China office, which was established in December 2010, provides strategy consulting to Japanese firms in the area. The Singapore office, which was established in August 2011, provides strategy consulting to Japanese companies in ASEAN, India, and Oceania. However, DI turned the Singapore operations into a dormant company in April 2015.

## Main group companies (as of end-FY03/17; equity ratio in parentheses)

**Consolidated subsidiaries**

- ▷ Ipet Insurance Co., Ltd. (64.6%): pet insurance;
- ▷ Dream Incubator (Shanghai) Inc. (100%): consulting services and investment;
- ▷ Dream Incubator (Vietnam) Joint Stock Company (100%): consulting services and investment;
- ▷ DI Marketing Co., Ltd. (100%): marketing operations in Vietnam;
- ▷ DI Marketing (Thailand) Co., Ltd.(100%): marketing operations in Thailand;
- ▷ DI Pan Pacific Inc. (100%): venture capital.

**Affiliated companies**

- ▷ DI Investment Partners Limited (50.0%): fund management of investment partnership;
- ▷ DI Asian Industrial Fund, L.P. (20.1%): investment in Vietnam;
- ▷ Fenollosa Co. (20.0%): content management services.

# Profitability snapshot and financial ratios

| Profit margins (JPYmn) | FY03/10 Cons. | FY03/11 Cons. | FY03/12 Cons. | FY03/13 Cons. | FY03/14 Cons. | FY03/15 Cons. | FY03/16 Cons. | FY03/17 Cons. |
|---|---|---|---|---|---|---|---|---|
| Gross profit | 378 | 1,385 | 2,918 | 3,711 | 4,811 | 7,914 | 6,384 | 7,018 |
| GPM | 14.4% | 51.5% | 44.7% | 48.2% | 52.9% | 59.3% | 50.3% | 48.3% |
| Operating profit | -223 | 702 | 1,100 | 768 | 1,141 | 1,348 | 538 | 517 |
| OPM | - | 26.1% | 16.9% | 10.0% | 12.5% | 10.1% | 4.2% | 3.6% |
| EBITDA | -214 | 720 | 1,279 | 1,011 | 1,391 | 1,608 | 766 | 710 |
| EBITDA margin | - | 26.8% | 19.6% | 13.1% | 15.3% | 12.1% | 6.0% | 4.9% |
| Net margin | 9.5% | 15.7% | 12.8% | 8.7% | 9.4% | 7.4% | 3.3% | 0.7% |
| **Financial ratios** | | | | | | | | |
| ROA (RP-based) | - | 9.3% | 11.7% | 6.7% | 7.0% | 7.8% | 3.3% | 3.1% |
| ROE | 4.0% | 6.3% | 11.3% | 8.2% | 7.8% | 8.3% | 4.0% | 1.0% |
| Total asset turnover | 40.9% | 35.9% | 69.0% | 68.1% | 57.6% | 75.7% | 79.6% | 86.8% |
| Inventory turnover | - | 73 | 74 | 70 | 59 | 90 | 300 | 601 |
| Days of inventory | - | 5 | 5 | 5 | 6 | 4 | 1 | 1 |
| Working capital requirement (JPYmn) | 263 | 771 | 694 | 941 | 1,328 | 1,568 | 1,998 | 2,086 |
| Current ratio | 5845.1% | 550.9% | 413.0% | 372.4% | 324.8% | 328.9% | 308.4% | 253.6% |
| Quick ratio | 5817.6% | 543.4% | 398.7% | 353.7% | 314.6% | 297.5% | 297.8% | 246.8% |
| OCF / Current liabilities | 10.53 | 1.34 | 1.51 | 0.71 | 0.44 | 0.52 | 0.20 | 0.28 |
| Net debt / Equity | -43.2% | -44.2% | -34.6% | -50.6% | -37.4% | -56.6% | -64.8% | -63.7% |
| OCF / Total liabilities | 10.7 | 0.7 | 1.3 | 0.6 | 0.3 | 0.6 | 0.2 | 0.2 |
| Cash cycle (days) | 30.9 | 72.7 | 43.0 | 40.2 | 47.3 | 41.0 | 51.6 | 51.6 |
| Changes in working capital | 83 | 508 | -77 | 247 | 387 | 240 | 430 | 88 |

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

On a consolidated basis, the main SG&A expenses for the company are as follows: salaries and allowances are labor costs of non-consultants, and have been increasing since FY03/12 mainly attributable to Ipet Insurance becoming a subsidiary. Though the company booked expenses for the amortization of deferred assets under Article 113 of the Insurance Business Law, in FY03/15 it amortized all of its assets as per Article 113 of the Insurance Business Law.

| Breakdown of SG&A expenses (JPYmn) | FY03/09 Cons. | FY03/10 Cons. | FY03/11 Cons. | FY03/12 Cons. | FY03/13 Cons. | FY03/14 Cons. | FY03/15 Cons. | FY03/16 Cons. | FY03/17 Cons. |
|---|---|---|---|---|---|---|---|---|---|
| Directors' bonuses | 82 | 83 | 101 | 187 | 182 | 184 | 201 | 195 | 195 |
| Salaries and allowances | 201 | 142 | 132 | 530 | 746 | 851 | 1,068 | 1,386 | 1,386 |
| Rents | 72 | 55 | 47 | 111 | 146 | 197 | 274 | 299 | 299 |
| Outsourcing expenses | 67 | 93 | 82 | 214 | 347 | 473 | 583 | 615 | 615 |
| Sales commission | - | - | - | 419 | 516 | 538 | 654 | 829 | 829 |
| Provision for bonuses | - | - | - | 33 | 27 | 95 | 97 | 141 | 141 |
| Provision for directors' bonuses | - | - | - | 6 | 8 | 15 | 50 | -1 | -1 |
| Provision of allowance for doubtful accounts | - | - | - | 0 | 1 | 2 | 3 | -10 | -10 |
| Deferred assets under article 113 of Insurance Business Law | - | - | - | -946 | -516 | -538 | -654 | - | - |
| Amortization of deferred assets under article 113 of the Insurance Business Law | - | - | - | 157 | 209 | 269 | 2,019 | - | - |
| Other | | | | 1,106 | 1,276 | 1,583 | 2,270 | 2,392 | 3,046 |
| Total | | | | 1,817 | 2,942 | 3,669 | 6,565 | 5,846 | 6,500 |

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

| Profitability of Strategic Consulting and Venture Capital (JPYmn) | FY03/09 Cons. | FY03/10 Cons. | FY03/11 Cons. | FY03/12 Cons. | FY03/13 Cons. | FY03/14 Cons. | FY03/15 Cons. | FY03/16 Cons. | FY03/17 Cons. |
|---|---|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | | | |
| Strategic Consulting | 1,209 | 1,112 | 1,696 | 1,972 | 2,379 | 2,171 | 2,504 | 2,667 | 3,202 |
| Venture Capital | 1,383 | 1,508 | 853 | 978 | 426 | 1,011 | 3,671 | 703 | 1,179 |
| **Cost of sales** | | | | | | | | | |
| Strategic Consulting | 799 | 979 | 1,024 | 1,230 | 1,600 | 1,681 | 1,216 | 1,228 | 1,341 |
| Venture Capital | 3,484 | 1,470 | 352 | 885 | 337 | 176 | 1,094 | 851 | 1,523 |
| **GPM** | | | | | | | | | |
| Strategic Consulting | 33.9% | 12.0% | 39.6% | 37.6% | 32.7% | 22.6% | 51.4% | 54.0% | 58.1% |
| Venture Capital | - | 2.5% | 58.7% | 9.5% | 20.9% | 82.6% | 70.2% | -21.1% | -29.2% |

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Cost of revenues for a strategy consulting company, is mainly labor costs. In addition, remuneration of consultants is on an annual salary basis, and consequently, the company's fixed costs have a strong labor cost component.

| Strategic Consulting Services<br>Cost of sales breakdown (JPYmn) | FY03/09<br>Parent | FY03/10<br>Parent | FY03/11<br>Parent | FY03/12<br>Parent | FY03/13<br>Parent | FY03/14<br>Parent | FY03/15<br>Parent | FY03/16<br>Parent |
|---|---|---|---|---|---|---|---|---|
| Personnel expenses | 544 | 517 | 570 | 704 | 773 | 796 | 737 | 682 |
| Sundry expenses | 256 | 255 | 293 | 336 | 396 | 380 | 430 | 539 |
| Rents | 108 | 116 | 104 | 100 | 137 | 142 | 143 | 137 |
| Transportation | 38 | 31 | 68 | 52 | 65 | 72 | 85 | 103 |
| Supplies | 16 | 16 | 18 | 16 | 25 | 10 | 13 | 11 |
| Depreciation | 6 | 6 | 6 | 19 | 22 | 15 | 12 | 15 |
| Outsourcing | 16 | 10 | 23 | 55 | 57 | 45 | 83 | 174 |
| Books & materials | 29 | 38 | 31 | 35 | 40 | 40 | 33 | 31 |
| Others | 42 | 39 | 44 | 59 | 50 | 56 | 61 | 68 |
| Total | 800 | 772 | 863 | 1,040 | 1,169 | 1,176 | 1,167 | 1,221 |

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

Fixed costs such as depreciation and amortization, and rent accounted for roughly 30% to 40% the cost of revenues of non-personnel expenses. These costs are usually included in SG&A expenses, but the corresponding proportion of consultants costs are accounted for in cost of revenues in the Strategy Consulting Services.

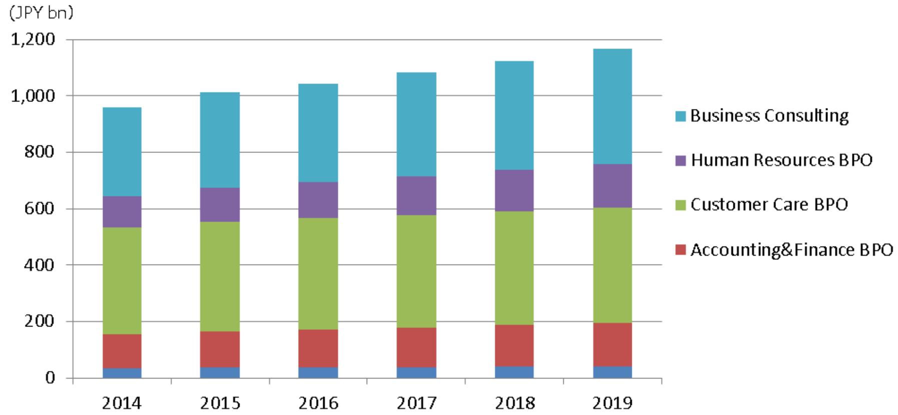
Outsourcing expenses include such items such as a visiting lecturer in executive education programs for strategy consulting.

# Market and value chain

## Market overview

According to the Domestic Business Services Market Forecast published by IDC Japan in October 2015, the combined business process outsourcing (BPO) and business consulting market was forecast to grow 5.5% YoY during 2015, to JPY1.5tn, topping the one trillion yen benchmark for the first time and marking five consecutive years of growth. From 2014 to 2019, the same study expected the market to grow on average 4.2% p.a. Riding on robust demand, the market is expected to continue its growth momentum, reaching JPY1.2tn in 2019.

### Domestic Business Services Market




Source: IDC, SR Inc.
Note: BPO = business process outsourcing; figures from 2013 are forecasts

The consulting market includes support in such areas as management and business strategy formulation, operational improvement, and human resources and organizational reform. Spending in this market was estimated to grow 8.1% YoY, to 337.3 billion yen in 2015. IDC Japan believes growth will find support from an active increase in human resources (consultants) to respond to the needs of major businesses in an environment of rising demand for business consulting services geared for the digital revolution—the digital revolution is expected to develop new businesses and generate innovations premised on the third platform (big data/analytics and cloud, mobility, and social technologies).

IDC estimates that the all four areas of the domestic BPO service market—human resources, customer care (contact center), finance & accounting, and procurement & purchasing)—saw greater cash outlay in 2015, with spending rising 4.3% YoY to JPY667.4bn. Factors which drove the growth momentum through 2014 are still in force: Major corporations, on the strength of robust earnings, have sustained demand for efficiency in indirect operations for medium-term organizational improvement; an increasing number of medium-size companies are using BPO services. That said, a survey of users conducted by IDC in April 2015 revealed that, in the domestic market, BPO services for indirect operations, with the exception of customer care, are still hovering in the low user rate of 10-15%, despite their steady rise. In IDC's view, only a handful of progressive corporations opt for transformative BPO intended to review and reform existing business processes.

## Strategy

DI's consulting business strategy is based on themes, and provides strategic planning based on technology combined with policies, mainly focused on technology companies. It views itself as a business producer, which is a distinct characteristic of the company from its competitors.

The company's investment in a venture business is much higher than the conventional venture capital investment, and will continue to increase its support if it assesses that the entity can achieve sustainable growth. It also may increase its investment and involvement (i.e. "hands-on") in management if it deems that the venture business is attractive and can achieve high growth. Furthermore, the company may choose to exit venture capital investments (i.e. selling the shares in companies acquired during the incubation process) if it is unable to achieve the desired growth.

DI expands into new markets (i.e., overseas) utilizing its business model and expertise gained in the domestic market. The company has established overseas bases in Vietnam, China, Singapore, and is developing new markets in other Asian countries such as India and Indonesia for FY03/16.

# Strengths and weaknesses

## Strengths

- **Clearly formulated management strategy and philosophy**: The management understands where it wants to take the company, after the early period of trials and tribulations, before and after the financial crisis. Initial approach of aggressive investing, without proper control and execution, under a grand strategy of “creating 100 companies like Honda and Sony” backfired following the collapse of the IPO market in 2006-2009. DI suffered substantial losses—its net assets, at approximately JPY13bn in FY03/07, plunged to JPY6bn in FY03/09. Shared Research has a strong impression that the current management has learned important lessons and appears focused and disciplined, with the strategy of carefully picking investments targets, influencing their management decisions or gaining control, and for truly promising businesses—ensure continuity of returns by owning outright.
- **Owns growing and cash-flow generating businesses**: The current business portfolio did not come into being by design. DI was to some extent lucky to encounter the pet insurance and asset liquidation businesses. The strategy, as the management explains it, makes a lot of sense: consult, learn, invest, and keep the best. However, in Shared Research’s view, it is those core operating holdings that make the strategy sound credible.
- **High staff retention rate and management quality:** Commenting on people as strength of the organization is hard for outside observers, such as Shared Research. However, the company maintains that the quality and high retention rates for its consultants are one of the positives affecting the ability of the organization to survive and grow over time. It is sophisticated in the sense of its ability to come up with managerial frameworks and its experience with various industries because of the consulting expertise. However, it is also seasoned because it has overcome painful failures to come up with what seems to be a very robust philosophy of running the business.

## Weaknesses

- **Short history of success and checkered execution track record**: The company has only come up with what appears to be its winning formula a few years ago, with both Ipet Insurance and ReVALUE asset liquidation taking off recently. The lack of proven track record of the new strategy means investors will need to take on faith the company’s ability to develop its current newly found success into a sustained long-term one.
- **Ability to source venture capital deals**: While the company prides itself on being different from the majority of local venture capital outfits, Shared Research notes that the conventional Japanese VCs are an easy partner for the start-ups—they don’t interfere much and they tend not to be too aggressive in replacing management and assuming control. However, this could mean that the company may need to invest in very early-stage opportunities which is risky. It is not clear to Shared Research what would make DI win over conventional local VCs when it comes to popular later stage deals. DI needs not only to identify winners but to also convince those that its approach is better.
- **Lack of global consulting experience**: Despite the foray into Vietnam, DI is still a very local Japanese firm. For a consulting firm not to have expertise and experience outside its own country must be increasingly a liability, given the global nature of today’s businesses and the fact that many best worldwide business practices are born in places other than Japan. On the investment side, a possible lack of understanding of emerging trends in other markets (lack of exposure) may lead to myopia, poor judgment of growth and survival prospects, and missed opportunities.

# Historical performance and income statement

## Historical performance

### Q3 FY03/17 results

| | |
|---|---|
| ▷ Sales: | JPY10.8bn (+11.8% YoY) |
| ▷ Operating profit: | JPY688mn (+91.2%) |
| ▷ Recurring profit: | JPY721mn (+88.2%) |
| ▷ Net income attributable to parent company shareholders: | JPY253mn (+89.8%) |

Sales were up in each segment. Operating profit declined at the Venture Capital segment as the company booked losses on operating investment securities and a provision of allowance for investment losses owing to a decline in the value of a company in its investment portfolio. Overall, however, DI booked higher operating profit as profits from other segments offset lower profit at the Venture Capital segment.

The company does not announce its full-year company forecast given the volatility in the Venture Capital segment due to conditions in the stock market and initial public offerings. However, as of end Q3 FY03/17, segments other than Venture Capital appear to be proceeding as planned. ReNet Japan Group, Inc., one of the companies DI has invested in, was listed on the Mothers board on December 20, 2016. At the Venture Capital segment, RENOVA was granted approval to list on the Mothers board on January 20, 2017 and planned to conduct its IPO on February 23, 2017. This means that two companies (including RENOVA) in DI's investment portfolio will be listed this period.

Starting in FY03/16, the company changed its service names to "consulting services" and "incubation service." The latter business consists of Venture Capital segment, Insurance segment, and Others. The company's decision to rename these businesses does not affect the segment itself.

In the previous term, ReVALUE Inc., which made up the asset liquidation segment, was sold and the liquidation of Japan Intellectual Property Fund 1, Investment Limited Partnership was completed. Given these events, the two segments were discontinued in Q1 FY03/17. The changes in the segments reflect these events.

### Consulting Services

Cumulative Q3 sales for FY03/17 were JPY2.4bn (up from JPY1.9bn in the previous year) and operating profit was JPY1.4bn (up from JPY992mn in the previous year), which was a record high.

In Consulting Services, the company provides hands-on help in business producing (including guidance on recruiting reliable partners, policy making, driving both internal and external stakeholders), financial advisory for M&A, and assistance in developing core management—this in addition to the strategic consulting to major corporations and government agencies. Combined with continuing services to major companies, an increase in long-term, hands-on support projects and new orders from overseas companies boosted sales. As a result, DI enjoyed a rise in sales and profits.

In the three months of Q3 DI saw both sales and profit decline YoY. This reflected a difficult comparison with Q3 FY03/16, which saw higher earnings from projects originally slated for 1H. According to DI, though earnings fluctuated significantly in the past, Consulting Services is showing a tendency to get large and long-term projects with a recent increase in support-type projects. As a result, the company expects 2H FY03/17 sales to be as firm as in 1H.

### Incubation Services

Incubation Services consist of the Venture Capital segment, Insurance segment, and Other segments.

#### Venture Capital segment

Sales for cumulative Q3 FY03/17 were JPY956mn (JPY688mn in the previous year), but the company posted an operating loss of JPY190mn (operating loss of JPY110mn the previous year).

In the Venture Capital segment, the company conducted joint investment projects with venture capital in the Silicon Valley. With regard to its existing roster of venture companies, Dream Incubator funnels funds and human resources at the stage where deeper involvement promises accelerated growth, and then the companies are sold. During the period, one company (ReNet Japan Group, Inc.) in the investment portfolio conducted an IPO, and the company sold and additionally invested in stocks of listed companies. However, due to a decline in the stock price of one company it had invested in, DI booked losses on operating investment securities and a provision of allowance for investment loss. The business saw sales rise but profits fall YoY as a result.

**Insurance segment**

Sales for cumulative Q3 FY03/17 were JPY7.4bn (up from JPY5.9bn the previous year) and operating profit was JPY354mn (JPY108mn the previous year).

The Insurance segment is a medical insurance service for pets run by DI's consolidated subsidiary Ipet Insurance Co., Ltd. During the period, there was a steady growth in membership. As a result, the company booked a YoY increase in sales. DI accelerated investments aimed at generating further growth (strengthening recruitment of specialists and systems development). As such, in 1H FY03/17, while expenses related to these investments increased, operating profit rose YoY, due to lower profit levels in 1H FY03/16 as the company booked underwriting reserves in accordance with the Insurance Business Law. DI plans to make similar investments in Q4 FY03/17 in preparation for expanding its businesses and IPOs in FY03/18. However, the company expects a double-digit increase in full-year profits YoY owing to an increase in sales.

**Other segment**

Sales for cumulative Q3 FY03/17 were JPY58mn (up from JPY20mn the previous year) and the operating loss was JPY36mn (from a loss of JPY89mn the previous year).

This segment lists multiple businesses in the incubation stage (investment phase), including marketing and contents management businesses in various Asian countries.

The digital marketing service is a mainstay in the Others segment. DI is focusing on improving its membership base to monetize its services in the future. In Q3 FY03/17, memberships in the digital marketing service numbered over 600,000 in Southeast Asia overall, and this segment is transitioning to a monetization phase. As such, overall sales for the digital marketing service continued to increase, while operating losses have been shrinking.

## Main initiatives in FY03/17

| Date | Details |
|---|---|
| January 27, 2017 | Partnered with a prominent Indian investment fund, Kalaari and Ascent, to invest in 99Games Online Private Limited (99Games), India's leading mobile gaming company |
| January 20, 2017 | RENOVA, one of the companies DI has invested in, was granted approval to list on the Mothers board |
| November 17, 2016 | ReNet Japan Group, Inc., one of the companies DI has invested in, was granted approval to list on the Mothers board |
| November 11, 2016 | Invested in SUNVIP Network Technology, a company that conducts cross-border e-commerce in China |
| May 26, 2016 | Invested in Layer, Inc., which offers easy installation of messaging functions to mobile and web products, and formed a strategic partnership |
| April 15, 2016 | Acquired a stake in Zepp International, Ltd., which boasts the largest global share of the consumer sports IoT market |

Source: Shared Research based on company data

## 1H FY03/17 results

- ▷ Sales: JPY6.9bn (+16.2% YoY)
- ▷ Operating profit: JPY687mn (operating loss of JPY479mn in 1H FY03/16)
- ▷ Recurring profit: JPY703mn (recurring loss of JPY460mn in 1H FY03/16)

▷ Net income*: JPY448mn (net loss of JPY566mn in 1H FY03/16)

*Net income refers to net income attributable to parent company shareholders

Sales and profits were up in each segment, with sales and profits in Consulting Services posting record 1H highs.

The company does not announce its full-year company forecast given the volatility in the Venture Capital segment due to conditions in the stock market and initial public offerings. However, as of end 1H FY03/17, segments other than Venture Capital are proceeding in line with plan. DI expects IPOs from multiple venture businesses in 2H FY03/17.

Starting in FY03/16, the company changed its service names to "consulting services" and "incubation service." The latter business consists of Venture Capital segment, Insurance segment, and Others. The company's decision to rename these businesses does not affect the segment itself.

In the previous term, ReVALUE Inc., which made up the asset liquidation segment, was sold and the liquidation of Japan Intellectual Property Fund 1, Investment Limited Partnership was completed. Given these events, the two segments were discontinued in Q1 FY03/17. The changes in the segments reflect these events.

## Consulting Services

Sales for 1H FY03/17 were JPY1.6bn (up from JPY1.0bn in the previous year) and operating profit was JPY923mn (up from JPY412mn the previous year).

In Consulting Services, the company provides hands-on help in business producing (including guidance on recruiting reliable partners, policy making, driving both internal and external stakeholders), financial advisory for M&A, and assistance in developing core management—this in addition to the strategic consulting to major corporations and government agencies. Combined with continuing services to major companies, an increase in long-term, hands-on support projects and new orders from overseas companies boosted sales. As a result, DI enjoyed a rise in sales and profits.

The company booked an increase in earnings in 2H FY03/16 due to projects slated for 1H that were pushed back to 2H. However, in 1H FY03/17, while earnings were slightly lower than in 2H FY03/16, they greatly exceeded 1H FY03/16 levels as DI continued to receive orders. According to DI, though earnings fluctuated significantly in the past, Consulting Services is showing a tendency to get large and long term projects due to a recent increase in support-type projects. As a result, the company expects 2H FY03/17 sales to be as firm as in 1H FY03/17.

## Incubation Services

Incubation Services consist of the Venture Capital segment, Insurance segment, and Other segments.

### Venture Capital segment

Sales for 1H FY03/17 were JPY479mn (JPY48mn in the previous year), whereas operating profit was JPY243mn (operating loss of JPY596mn the previous year).

In the Venture Capital segment, the company conducted joint investment projects with venture capital in the Silicon Valley. With regard to its existing roster of venture companies, Dream Incubator funnels funds and human resources at the stage where deeper involvement promises accelerated growth, and then the companies are sold. During the period, there were no new IPOs for companies it invested in, but it sold and additionally invested in stocks of listed companies. The business saw sales and profits rise YoY as a result.

DI is focusing on AI, robotics, IoT, and digital media as its main strategic investment fields. In particular, in digital media, the company is collaborating with advisory groups and strategic partners (prominent overseas venture capital firms) that specialize in content creation, and is preparing to expand investment and support measures in three fields: content creation, distribution, and platform (mobile browsers, chat, and e-tickets). DI aims to create an ecosystem that will enable it to further enhance its enterprise value by collaborating with companies operating in those three fields. In 1H FY03/17, the company expanded new investments and support measures to the contents and platform (chat) fields to begin creating its ecosystem.

**Main companies DI invests in, supports, and partners with in the digital media field**

| Field | Partners invested and/or supported | Description |
|---|---|---|
| Contents | | |
| | Office Crescendo Inc. | Production of dramas and movies |
| | BREAKER Inc. | Planning and production of audio/visual software |
| | KONMARI MEDIA INC.* | Business applying content by Marie Kondo |
| | whomor Inc.* | Production of illustration, manga, and 3DCD (Spine) |
| Broadcast | | |
| | Yooya (former Entertainment Direct Asia) | Management of digital content in China |
| Platform | | |
| Mobile browser | Wrap Media, LLC | Mobile browser service |
| Chat | Layer, inc.* | Chat massager service |
| | Plex Chat* | Mobile game communication tool |
| E-ticket | Boardwalk Inc. | Mobile e-ticket services for music/concert and others |

| Partner | |
|---|---|
| Advisory group | |
| | Shigeo Maruyama (formerly president of SME and chairman of SCE) |
| | Shigeaki Saegusa (music composer) |
| | Yasushi Akimoto (songwriter, broadcast writer) |
| Strategic partners | |
| | The Raine Group LLC (US) |
| | LEGEND CAPITAL (China) |
| | Blume Ventures (India) |

Source: Shared Research based on company data
Note: * are new companies DI invests in and supports in FY03/17

DI held a Japan-China industrial networking event focused on movies and dramas on October 11, 2016 as a new initiative to penetrate the Chinese market, which is expected to be a major market. Going forward, the company will continue to collaborate with advisory groups and strategic partners to build out its ecosystem in the digital media field.

**Major digital media initiatives in 1H FY03/17**

| Announcement | Country | Description |
|---|---|---|
| Apr. 2016 | US | Invests in Plex Chat |
| May. 2016 | US | Invests in Layer, inc. and form a strategic partnership |
| Aug. 2016 | US | Starts incubation support for KONMARI MEDIA INC. |
| Sep. 2016 | Japan | Invests in whomor Inc. |
| Oct. 2016 | China | Holds a gathering for movie and drama content industries in Japan and China |

Source: Shared Research based on company data

### Insurance segment

Sales for 1H FY03/17 were JPY4.8bn (up from JPY3.8bn the previous year) and operating profit was JPY140mn (JPY20mn the previous year).

The Insurance segment is a medical insurance service for pets run by DI's consolidated subsidiary Ipet Insurance Co., Ltd. During the period, thanks to the expansion of the pet insurance market, there was a steady growth in membership. As a result, the company booked an increase in sales YoY. DI accelerated investments aimed at generating further growth (strengthening recruitment of specialists and systems development). As such, in 1H FY03/17, while expenses related to these forward-looking investments increased, operating profit rose YoY, due to lower profit levels in 1H FY03/16 as the company booked underwriting reserves in accordance with the Insurance Business Law. DI plans to make similar investments in 2H FY03/17 in preparation for expanding its businesses and IPOs in FY03/18. However, the company expects a double-digit increase in full-year profits YoY owing to an increase in sales.

### Other segment

Sales for 1H FY03/17 were JPY32mn (up from JPY8mn the previous year) and the operating loss was JPY31mn (from a loss of JPY56mn the previous year).

This segment lists multiple businesses in the incubation stage (investment phase), including marketing and contents management businesses in various Asian countries.

The digital marketing service is a mainstay in the Others segment. DI is focusing on improving its membership base to monetize its services in the future. In 1H FY03/17, memberships in the digital marketing service numbered over 600,000 in Southeast Asia overall, and this segment is transitioning to a monetization phase. As such, in 1H FY03/17 sales and profits rose YoY and the company expects further sales growth heading into 2H FY03/17.

## Q1 FY03/17 results

- ▷ Sales: JPY3.5bn (+9.9% YoY)
- ▷ Operating profit: JPY438mn (+136.8%)
- ▷ Recurring profit: JPY444mn (+127.7%)
- ▷ Net income: JPY297mn (16.5x YoY)

(Net income refers to net income attributable to parent company shareholders.)

The Asset Liquidation and Intellectual Rights Investment segments were removed from the company's consolidated earnings as of FY03/17 because they were sold and liquidated during FY03/16. That means that earnings generated by these two segments in FY03/16— sales of JPY892mn and operating profit of JPY371mn —were absent in FY03/17. However, the company still managed to increase overall sales and profit because earnings in other segments surged. Sales and profits rose in every segment.

The company does not announce its full-year forecast given the volatility in the Venture Capital segment due to conditions in the stock market and initial public offerings. However, as of end Q1 FY03/17, segments other than Venture Capital appear to be proceeding as planned.

Starting in FY03/16, the company changed its service names to "Consulting Services" and "Incubation Services." The latter business consists of Venture Capital segment, Insurance segment, and Others. The company's decision to rename the two major services does not affect segment earnings.

In the previous year, ReVALUE Inc., which made up the asset liquidation segment, was sold and the liquidation of Japan Intellectual Property Fund 1, Investment Limited Partnership was completed. Given these events, the two segments were discontinued in Q1 FY03/17. The changes in the segments reflect these events.

## Consulting Services

Sales for Q1 FY03/17 were JPY687mn (up from JPY418mn in the previous year), and operating profit was JPY357mn (up from JPY127mn the previous year).

In Consulting Services, the company provides hands-on help in business producing (including guidance on recruiting reliable partners, policy making, driving both internal and external stakeholders), financial advisory for M&A, and assistance in developing core management—in addition to the strategic consulting to major corporations and government agencies. Combined with continuing services to major companies, an increase in long-term, hands-on support projects and new orders from overseas companies boosted sales. As a result, DI enjoyed a year-on-year rise in sales and profits in Q1 FY03/17, and OPM rising to 52.0% (from 30.4% a year earlier). Sales fell quarter-on-quarter but due to seasonal factors. According to the company, orders began to rise toward Q2.

## Incubation Services

Incubation Services consist of the Venture Capital segment, Insurance segment, and Other segments.

### Venture Capital segment

Sales for Q1 FY03/17 were JPY472mn (down from JPY24mn in the previous year), whereas operating profit was JPY280mn (against an operating loss of JPY29mn the previous year).

In the Venture Capital segment, the company conducted joint investment projects with venture capital in the Silicon Valley. With regard to its existing roster of venture companies, DI funnels funds and human resources at the stage where deeper involvement promises accelerated growth, and then the companies are sold. In Q1 FY03/17, there were no new IPOs for companies it invested in, but it sold and additionally invested in stocks of listed companies. The business saw sales and profits rise from a year earlier because of gains from the sale of these shares even as segment expenses increased after providing more support to some companies.

**Insurance segment**

Sales for Q1 FY03/17 were JPY2.3bn (up from JPY1.8bn the previous year), and operating profit was JPY280mn (operating loss of JPY29mn the previous year).

The Insurance segment provides medical insurance service for pets, and is run by DI's consolidated subsidiary Ipet Insurance Co., Ltd. In Q1 FY03/17, there was steady growth in membership. As a result, the company booked an increase in sales and profits YoY. OPM rose to 3.6%, compared with 1.7% a year earlier.

**Others segment**

Sales for Q1 FY03/17 were JPY6mn (up from JPY4mn the previous year), and the operating loss was JPY15mn (from a loss of JPY22mn the previous year).

This segment lists multiple businesses in the incubation stage (investment phase), including marketing and contents management businesses in various Asian countries. According to DI, the digital marketing service, in which the company has been making investments, saw a steady increase in membership. The company said it would prepare a plan to monetize this business during 2H FY03/17.

## FY03/16 results

- ▷ Sales: JPY12.7bn (-4.9% YoY)
- ▷ Operating profit: JPY538mn (-60.1%)
- ▷ Recurring profit: JPY525mn (-61.8%)
- ▷ Net income: JPY420mn (-57.7%)

(Net income refers to net income attributable to parent company shareholders.)

By segment, sales and profits were up in the Consulting and Insurance segments. However, the company saw sales and profit declined in the Venture Capital segment. There were two new IPOs but one was pushed out to FY03/17. Also it booked losses on operating investment securities in 1H due to the decrease in value of one of its investment companies in Vietnam. Hit by those factors, DI saw declines in sales and profits on an overall consolidated basis.

The Incubation Services reviewed its subsidiaries with a focus on optimizing resource allocation, future growth prospects, and synergies with other companies. As a result, the company sold its trademark rights to Tokyo Girls Collection (TGC) to DLE Inc., earning a capital gain on the sale. In addition, the company transferred all shares in ReVALUE (which operated its Asset Liquidation segment) to Aucfan Co., Ltd. Elsewhere, it invested a total of JPY1.8bn, including additional investments, in ten companies centering on Boardwalk Inc. and Wrap Media, LLC. The amount of investment is on the increase, jumping from JPY400mn in FY03/14 to JPY1.3bn in FY03/15. The company is set to accelerate its incubation drive, going forward.

Through Q3 FY03/16, the company's business was classified into Professional Service, Venture Capital, Insurance, and Others. However, starting in Q4, it simplified its service names to "Consulting Services" (formerly Professional Service) and "Incubation Services," so as to facilitate an understanding of its increasingly complex organization. Incubation Services are comprised of the Venture Capital segment, the Insurance segment, the Asset Liquidation segment, the Intellectual Rights Investment segment, and Others segment. The company's decision to rename these businesses does not affect segment earnings.

## Consulting Services

Sales for full-year FY03/16 were JPY2.7bn (up from JPY2.5bn in the previous year), and operating profit was JPY1.4mn (up from JPY1.3bn the previous year).

In Consulting Services, the company provides hands-on help in business producing (including guidance on recruiting reliable partners, policy making, driving both internal and external stakeholders), financial advisory for M&A, and assistance in developing core management—this in addition to the strategic consulting to major corporations and government agencies. Combined with continuing services to major companies, an increase in long-term, hands-on support projects and new orders from overseas companies and governments boosted sales. As a result, DI enjoyed a rise in sales and profits in FY03/16.

Consulting Services in 2H more than made up for the slow start in 1H, with sales reaching a record high. According to DI, the slow start was due to increasingly large and long term projects. Favorable factors include the globalization of projects, such as projects in Silicon Valley and in Asia, and an increase in cross-border M&A projects. Moreover, DI entered into a business partnership with established advertising design company Light Publicity Co., Ltd. in FY03/16, giving it the ability to provide a comprehensive support system with services that range from mapping out strategies to creating advertising designs.

## Incubation Services

DI reports that in FY03/16 it made significant progress building a global investment system. By forming alliances with major VC companies in the US, China, and India, the company will explore new investments. It has been able to participate in early venture investments in the form of club deals by utilizing these networks. On the strength of this framework, DI is set to extend its support services to VC projects in Japan and Asia that originate abroad, in addition to those originating from Japan.

### Venture Capital segment

Sales for FY03/16 were JPY703mn (down from JPY3.7bn in the previous year), whereas operating loss was JPY148mn (against an operating profit of JPY2.6bn the previous year).

In the Venture Capital segment, the company created investment pipelines for domestic and overseas venture companies centering on digital media marketing and invested in them. Particularly in the US, China and India, joint investment and consultation projects with major venture capitals are on the rise. With regard to its existing roster of venture companies, DI funnels funds and human resources at the stage where deeper involvement promises accelerated growth, and then the companies are sold.

In FY03/16, there were two new IPOs for companies it invested in (Rosetta Inc. and Mynet Inc), but listing of an additional company it had accounted for was pushed to the next fiscal year. The business saw its sales and profits decline YoY in full-year FY03/16 as DI booked losses on operating investment securities in 1H due to the decrease in value of one of its investment companies in Vietnam.

### Insurance segment

Sales for FY03/16 were JPY8.1bn (up from JPY6.4bn the previous year), and operating profit was JPY157mn (down from JPY1.0bn the previous year).

The Insurance segment is a medical insurance service for pets run by DI's consolidated subsidiary Ipet Insurance Co., Ltd. In FY03/16, there was a steady growth in membership. As a result, the company booked an increase in sales. In FY03/15, the company reported an operating loss partly due to amortization of deferred assets under Article 113 of the Insurance Business Act. As there was no such loss in FY03/16, however, it recorded an operating profit.

### Asset Liquidation segment

Sales for FY03/16 were JPY408mn (down from JPY713mn the previous year), and operating loss was JPY85mn (from a loss of JPY341mn in the previous year).

Asset Liquidation segment is operated by the company's consolidated subsidiary ReVALUE Inc., which puts returned goods and excess inventory into a new value chain, and provides comprehensive logistics services for product returns and collections. On January 25, 2016, the company transferred all of its shares in ReVALUE to Aucfan Co., Ltd. DI plans to invest its management resources in new business candidates.

**Intellectual Rights Investment segment**

Sales for FY03/16 were JPY751mn (up from JPY66mn the previous year), and operating profit was JPY385mn (up from JPY10mn the previous year).

This segment is an intellectual rights investment business run by Japan Intellectual Property Fund 1, Investment Limited Partnership (consolidated subsidiary). It reported an increase in sales and profits after selling the trademark rights to Tokyo Girls Collection.

**Others segment**

Sales for FY03/16 were JPY34mn (up from JPY23mn the previous year), and the operating loss was JPY99mn (from a loss of JPY47mn the previous year).

This segment lists multiple businesses in the incubation stage (forward investment phase), including DI Marketing Co., Ltd., a digital marketing service which offers market research support in Southeast Asia, and Fenollosa Co., which provides content management services.

Its digital marketing service (DI Marketing) is working on expanding the database, which is central to its business model. This effort has resulted in a steady increase in end users, with the number reaching about half a million in FY03/16 (about 370,000 in Vietnam and 100,000 in Thailand). DI made inroads into the Indonesian market in January 2016, further driving its Asian expansion. The company is aiming to have 100 million users in FY03/17.

## FY03/15 Results

- ▷ Sales: JPY13.3bn (+46.8% YoY)
- ▷ Operating profit: JPY1.4bn (+18.1%)
- ▷ Recurring profit: JPY1.4bn (+24.7%)
- ▷ Net income: JPY993mn (+16.3%)

Despite lower sales in the Asset Liquidation segment, DI booked its highest consolidated sales to date as other mainstay segments performed well. Expenses increased by JPY1.7bn owing to the bullet depreciation of deferred assets under Article 113 of the Insurance Business Law. But operating profit increased significantly as capital gains on venture capital hit JPY2.7bn—the highest level to date. Excluding the effect of the bullet amortization, the company also achieved its highest ever operating profit.

The number of employees on a consolidated basis was 361 at end FY03/15, up 57 YoY. Employees engaging in the business producing functions increased by 6 to 111 and those at consolidated subsidiaries rose by 51 to 250 on expansion of business areas.

Of its segments, sales in the Consulting business mainly come from strategic consulting for major companies and government bodies. However, the business also includes support for producing businesses across several industrial sectors (creation and start-up of businesses, commercialization of technological seeds, and support for creation of new businesses), as well as financial advisory and educational services, and the number of those projects has been on an uptrend. Accordingly, DI changed the name of the Consulting business for clients to the Professional service business from FY03/16.

**Professional services (formerly Consulting)**

This segment comprises strategic consulting services, support for producing businesses, and professional services, including financial advisory and educational services.

- ▷ Sales: JPY2.5bn (+15.3% YoY)
- ▷ Operating profit: JPY830mn (+69.4% YoY)

Higher demand for strategic consulting to existing major corporate clients and at overseas branches led to higher sales and profits.

Main themes of projects in the business were R&D and tech. strategies, new business and growth strategies, support for overseas operations, support for creating new industries, visions and medium-term plans, fostering core human resources, and M&A advisory. The manufacturing sector accounted for nearly half of total sales in this segment, followed by consumer goods and distribution, trading and financial companies, media and content, service, and government/quasi-government organizations. In addition, sales from the top three companies in each sector account for about 70% of total sales.

While it is difficult to disclose the names of client companies in the business, DI also engages in projects involving government and national organizations. It cited the following cases as government-related projects that can be disclosed.

| Project (Client) | Outline |
|---|---|
| Operation of employment and labor consultation centers （Ministry of Health, Labour and Welfare） | Receives an order for operating employment and labor consultation centers in Tokyo and Fukuoka, which provide legal support for venture companies |
| Industrial development strategy for the Ba Ria-Vung Tau Province of Vietnam (Ba Ria-Vung Tau Province) | Receives an order from the local government for consulting and reviews the industrial strategy at the Ba Ria-Vung Tau Province. Considers inviting industrial park operators, including Japanese companies, and plants of major companies |
| Agricultural development strategy at the Lam Dong Province of Vietnam （JICA） | Japan's support for Vietnam's agricultural development was determined at Japan-Vietnam Agricultural Cooperation Dialogue. DI joins the project and receives an order from Japan International Cooperation Agency (JICA) to gather information on and conduct research into the integration of agriculture, forestry and related industries in the Lam Dong Province |

Source: Shared Research based on company data

### Venture Capital

Venture Capital sales were JPY3.7bn (+263.1% YoY); operating profit was JPY2.6bn (+206.5% YoY).
At end FY03/15, the company had latent gain on holdings of listed shares worth around JPY3mn. DI also held shares in 15 unlisted companies each with a book value of JPY2mn or more for a total of JPY1.5bn. Of these, there were eight IT media companies (accounting for 57% in value), four service firms (30%), two environmental and energy companies (1%), and one other (12%).

The company concentrated labor and capital on promising investment targets, and liquidated its other positions. As a new investment initiative, the company created investment pipelines and invested in domestic and overseas venture firms, primarily in the digital media marketing industry. By end FY03/15, the company had made new investments in five companies and additional investments in three companies, exercised a stock option for one company, and achieved an IPO of one company (Union Community Co., Ltd. of South Korea, a developer and seller of fingerprint identification systems). In the current period, DI mainly invests in the following.

| Company name | Country/Main business |
|---|---|
| Office Crescendo Inc. | Japan/Production of video content like dramas and movies |
| Entertainment Direct Asia | China/Management and distribution of digital content in China |
| BREAKER Inc | Japan/Provides multiple platforms for video distribution |
| The Raine Group | US/Investment bank/VC focusing on technologies, media and telecommunications (TMT) |
| Shanghai-based Seikan Total Engineering Consultation and Operation（STECO） | China/Environment and energy saving-related consulting |

Source: Shared Research based on company data

DI expects the Vietnamese consumer market to grow in line with population growth. In response, the company has been operating the DI Asian Investment Fund (DIAIF) together with ORIX Corporation since 2010. The DIAIF has a total of JPY5.0bn in assets under management. Investment was completed according to plan, and the fund is now creating returns.

#### Insurance
The Insurance business saw a healthy stream of new policies and the persistency rate for pet insurance for medical expenses, resulting in sales of JPY6.4bn (+24.8% YoY). But expenses increased owing to the bullet depreciation of assets under Article 113 of the Insurance Business Law, resulting in an operating loss of JPY1.0bn (operating profit of JPY451mn in FY03/14). Without the amortization of the deferred assets, the business would have recorded an operating profit of JPY499mn (+34.8% YoY). The company said that it has started preparation for the IPO of the business.

#### Asset Liquidation
Asset Liquidation sales were JPY713mn (-4.2% YoY); operating loss was JPY331mn (operating loss of JPY151mn in FY03/14). DI conducted forward investment in areas such as personnel and computer systems with the intent of building the foundations for growth. The company also built its own marketplace. On July 8, 2014, DI joined hands with Yahoo Japan Corporation (TSE1: 4689) to start ReVALUE Biz Mall, a business-to-business (B2B) procurement marketplace service, tailored to the Yahuoku! store (Yahuoku! is an auction website operated by Yahoo Japan) On October 21, 2014, it entered into a business partnership with Sagawa Express Co., Ltd. (unlisted) and prepared to launch a comprehensive logistics service for product returns and collections—the first of its kind in the industry.

#### Other
Sales in other related businesses—including intellectual rights investment and the company's marketing business in Vietnam—were JPY90mn (+39.9% YoY); operating loss was JPY43mn (operating profit of JPY8mn in FY03/14).

The company established DI Marketing Inc. in Vietnam in January 2014 to offer marketing services on Facebook to local companies. As of end May 2015, about 250,000 people were users of this subsidiary's services. The company has smoothly expanded the social network service marketing, advancing into Thailand in April 2015.

### FY03/14 Results
Sales were JPY9.0bn (+18.2% YoY), operating profit was JPY1.1bn (+48.5%), recurring profit was JPY1.1bn (+45.1%), and net income was JPY854mn (+27.2%). Application of International Financial Reporting Standards (IFRS) accounting principles to items specific to the insurance business resulted in consolidated operating profit of JPY1.4bn,an increase from JPY938ml (+39.2%) in the previous year.

Order receipts totaled JPY7.9bn (+11.0% YoY), broken down as follows: consulting, JPY2.0bn (-11.1%); insurance, JPY5.1bn (+19.0%); and others, JPY809mn (+35.2%).

#### Consulting
Sales were JPY2.2bn (-8.7% YoY); operating profit was JPY490mn (-37.1%).

In addition to focusing on strategy consulting to existing major corporate clients, as well as "producing" industries, the company continued to receive orders for management training, M&A advisory and closing of cross-border projects. Its overseas branches received orders from local governments and companies. However, sales were lower as a result of expending resources for venture capital incubation and allocating human resources overseas. New orders have been received for Q4 (January-March), and order receipts in the period apparently surpassed the year-before level.

#### Venture capital incubation
This segment comprises the insurance, venture capital, and other related businesses.

The insurance business saw a healthy stream of new policies for pet insurance for medical expenses. Sales were JPY5.1bn (+19.1% YoY); operating profit was JPY451mn (-2.0%). Income was down due to a year-on-year increase in transfers to ordinary underwriting reserves, but application of IFRS accounting principles to items specific to the insurance business resulted in operating profits of JPY678mn (+0.4%).

**Underwriting reserves** are reserves held by insurers for payment to beneficiaries under the terms of insurance policies in the future, and are a type of insurance contract reserve. For contracts (exclusive of earthquake and vehicle insurance) that have not expired as of the closing date, insurers are required to set aside underwriting reserves, which are equivalent to either: the insurance income, minus any benefit payments, refunds, contract-specific reserves, and business expenses, or, the unearned premium on the contract, whichever is greater. Japanese accounting standards use the former method. But for IFRS accounting used in this report, the unearned premium method is used.

In the venture capital business, of its existing portfolio of target firms, the company focused on investing labor and capital in those with potential for accelerating growth. As a result, a record high of four companies made initial public offerings and this business marked substantial growth of profit, with sales of JPY1.0bn (+137.3% YoY) and an operating profit of JPY835mn (operating profit of JPY89mn the previous year). At the end of the year, the company had made an unrealized gain of JPY5.9bn on the value of its portfolio of listed marketable securities (this figure includes dilutive shares).

The balance of investment securities was JPY8.8bn at end FY03/14 (up from JPY2.7bn at end FY03/13), attributable to the effects of completed IPOs yielding increases in stock prices of venture capital investments. The value of investments made during the year was JPY4134mn (six companies), and the total investment balance at end FY03/14 was JPY2.4bn (36 companies). During the year, investments were made in Office Crescendo Inc., which produces TV dramas and movies, and Breaker, Inc., a creator of music and visual software.

### Others

This segment is comprised of the reverse supply chain, intellectual rights investment, and visual content management businesses.

Sales were JPY809mn (+4.2% YoY). The operating loss was larger than the previous year at JPY143mn (against JPY116mn the previous year). In the reverse supply chain business, purchases from mail order and e-commerce sites increased, leading to overall sales of JPY740mn (+54.4% YoY). Meanwhile, the company made a radical organizational change, increasing personnel substantially and making system investments both in logistics and sales, resulting in a rise in advance costs. By improving the business structure, the company is aiming to restore profitability in FY03/16.

# Balance sheet

| Balance sheet (JPYmn) | FY03/08 Cons. | FY03/09 Cons. | FY03/10 Cons. | FY03/11 Cons. | FY03/12 Cons. | FY03/13 Cons. | FY03/14 Cons. | FY03/15 Cons. | FY03/16 Cons. | FY03/17 Cons. |
|---|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | | |
| Cash and deposits | 1,335 | 1,402 | 2,818 | 3,145 | 3,012 | 4,869 | 5,535 | 6,477 | 7,286 | 7,409 |
| Marketable securities | 781 | 223 | - | - | 1,020 | 20 | 20 | 20 | 21 | 0 |
| Accounts receivable | 189 | 180 | 263 | 735 | 642 | 927 | 1,265 | 1,562 | 1,985 | 2,074 |
| Operating investment securities | 6,958 | 3,855 | 2,946 | 2,855 | 2,841 | 2,653 | 8,788 | 4,330 | 4,588 | 5,131 |
| Allowance for investment loss | -100 | - | -104 | -202 | -440 | -221 | -118 | -118 | -20 | -490 |
| Allowance for doubtful accounts | - | -205 | - | -15 | -17 | -33 | -35 | -43 | -5 | -32 |
| Inventories | - | - | - | 36 | 61 | 53 | 92 | 29 | 13 | 12 |
| Deferred tax assets | - | - | - | 237 | 249 | 341 | 357 | 463 | 490 | 501 |
| Corporate tax receivable | 59 | 27 | 11 | 5 | 2 | 3 | 0 | 0 | 0 | 0 |
| Other current assets | 29 | 165 | 28 | 57 | 200 | 400 | 418 | 1,309 | 500 | 385 |
| **Total current assets** | **9,252** | **5,647** | **5,962** | **6,853** | **7,570** | **9,012** | **16,322** | **14,029** | **14,858** | **14,990** |
| **Total tangible fixed assets** | **48** | **38** | **32** | **29** | **162** | **198** | **180** | **152** | **130** | **159** |
| Investment securities | 650 | 628 | 531 | 55 | 42 | 19 | 10 | 2 | 113 | 785 |
| Long-term debt | 74 | 3 | 61 | 61 | 80 | 79 | 128 | 127 | 133 | 136 |
| Other | 100 | 108 | 92 | 367 | 347 | 270 | 304 | 303 | 306 | 447 |
| Allowance for doubtful accounts | -35 | -230 | -61 | -61 | -60 | -59 | -58 | -57 | -83 | -82 |
| **Total other fixed assets** | **788** | **509** | **624** | **423** | **410** | **309** | **385** | **375** | **470** | **1,288** |
| Software | | | | | | | | | | |
| Goodwill | - | - | - | 995 | 1,089 | 966 | 847 | 707 | 574 | 462 |
| Other | 4 | 3 | 2 | 57 | 531 | 472 | 438 | 468 | 99 | 447 |
| **Total intangible fixed assets** | **4** | **3** | **2** | **1,052** | **1,620** | **1,438** | **1,286** | **1,176** | **674** | **909** |
| **Total fixed assets** | **840** | **551** | **658** | **1,505** | **2,193** | **1,947** | **1,851** | **1,704** | **1,275** | **2,357** |
| **Total assets** | **10,092** | **6,198** | **6,620** | **8,358** | **10,551** | **12,056** | **19,539** | **15,734** | **16,134** | **17,348** |
| **LIABILITIES** | | | | | | | | | | |
| Accounts payable | - | - | - | - | 9 | 39 | 29 | 23 | - | - |
| Lease obligations | - | - | - | - | 3 | 4 | 1 | 1 | 1 | 2 |
| Accounts payable−other | 55 | 46 | 48 | 94 | 152 | 92 | 199 | 306 | 429 | 326 |
| Short-term debt | 900 | - | - | - | - | - | - | - | - | 100 |
| Reserve for contract of insurance | - | - | - | 927 | 1,381 | 1,895 | 2,399 | 2,816 | 3,640 | 4,601 |
| Income taxes payable | - | 19 | 15 | 32 | 45 | 89 | 139 | 523 | 22 | 432 |
| Advances received | 57 | 1 | - | 34 | - | - | - | - | - | - |
| Deferred tax liabilities | - | - | - | - | 22 | - | 1,969 | 174 | - | 3 |
| Reserve for bonuses | - | - | - | - | 33 | 30 | 95 | 100 | 144 | 174 |
| Reserve for directors' bonuses | - | - | - | - | 6 | 13 | 20 | 50 | 10 | 16 |
| Other current liabilities | 32 | 39 | 39 | 157 | 182 | 258 | 175 | 273 | 571 | 358 |
| **Total current liabilities** | **1,043** | **105** | **102** | **1,244** | **1,833** | **2,420** | **5,026** | **4,266** | **4,817** | **5,912** |
| Lease obligations | | - | - | - | 10 | 13 | 4 | 2 | - | 4 |
| Long-term debt | | - | - | - | - | - | 164 | - | - | 325 |
| Other fixed liabilities | | - | - | - | - | - | - | 19 | 71 | 138 |
| **Total fixed liabilities** | | **-** | **-** | **-** | **10** | **13** | **168** | **21** | **71** | **467** |
| **Total liabilities** | **1,043** | **105** | **102** | **1,244** | **1,844** | **2,434** | **5,195** | **4,287** | **4,889** | **6,380** |
| **Net assets** | | | | | | | | | | |
| Capital stock | 4,613 | 4,613 | 4,613 | 4,615 | 4,615 | 4,638 | 4,704 | 4,823 | 4,884 | 4,915 |
| Capital surplus | 4,796 | 4,796 | 4,796 | 4,796 | 4,796 | 4,819 | 3,520 | 3,640 | 3,743 | 3,774 |
| Retained earnings | 234 | -2,762 | -2,513 | -2,090 | -1,257 | -585 | 1,430 | 2,169 | 2,310 | 2,289 |
| Treasury stock | | | | | | | | -499 | -495 | -951 |
| Valuation difference on marketable securities | -557 | -551 | -294 | -276 | -192 | -146 | 3,773 | 458 | -174 | -90 |
| Foreign currency translation adjustments | -40 | -60 | -94 | -119 | -116 | -98 | -75 | -24 | -74 | -76 |
| Share subscription rights | | 56 | 8 | 56 | 125 | 167 | 186 | 130 | 99 | 81 |
| Minority interests | 2 | 2 | 1 | 132 | 736 | 827 | 804 | 747 | 951 | 1,026 |
| **Total net assets** | **9,049** | **6,092** | **6,518** | **7,114** | **8,707** | **9,622** | **14,344** | **11,446** | **11,245** | **10,967** |
| Working capital | 189 | 180 | 263 | 771 | 694 | 941 | 1,328 | 1,568 | 1,998 | 2,086 |
| Total interest-bearing debt | 900 | - | - | - | - | - | 164 | - | - | 425 |
| Net debt (net cash) | -435 | -1,402 | -2,818 | -3,145 | -3,012 | -4,869 | -5,371 | -6,477 | -7,286 | -6,984 |

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

## Income statement

| Income statement (JPYmn) | FY03/08 Cons. | FY03/09 Cons. | FY03/10 Cons. | FY03/11 Cons. | FY03/12 Cons. | FY03/13 Cons. | FY03/14 Cons. | FY03/15 Cons. | FY03/16 Cons. | FY03/17 Cons. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | | | | |
| Strategic Consulting | 1,403 | 1,209 | 1,112 | 1,696 | 1,972 | 2,379 | 2,171 | 2,504 | 2,667 | 3,202 |
| YoY | - | -13.8% | -8.0% | 52.5% | 16.3% | 20.6% | -8.7% | 15.3% | 6.5% | 20.1% |
| Insurance | - | - | - | - | 3,325 | 4,284 | 5,100 | 6,363 | 8,126 | 10,067 |
| YoY | - | - | - | - | - | 28.8% | 19.0% | 24.8% | 27.7% | 23.9% |
| Venture Capital | 544 | 1,416 | 1,508 | 899 | 979 | 426 | 1,011 | 3,671 | 703 | 1,179 |
| YoY | - | 160.3% | 6.5% | -40.4% | 8.9% | -56.5% | 137.3% | 263.1% | -80.8% | 67.6% |
| Software | - | - | - | - | - | 8 | - | - | - | - |
| YoY | - | - | - | - | - | - | - | - | - | - |
| Others | - | - | - | - | - | 594 | 809 | 803 | 1,193 | 78 |
| YoY | - | - | - | - | - | - | 36.2% | -0.7% | 48.6% | -93.5% |
| **Total sales** | **1,946** | **2,625** | **2,620** | **2,690** | **6,526** | **7,693** | **9,092** | **13,343** | **12,691** | **14,526** |
| YoY | - | 34.9% | -0.2% | 2.7% | 142.6% | 17.9% | 18.2% | 46.8% | -4.9% | 14.5% |
| Cost of sales | 2,604 | 4,297 | 2,242 | 1,305 | 3,609 | 3,981 | 4,280 | 5,429 | 6,306 | 7,508 |
| **Gross profit** | **-657** | **-1,672** | **378** | **1,385** | **2,918** | **3,711** | **4,811** | **7,914** | **6,384** | **7,018** |
| YoY | - | - | - | 266.4% | 110.7% | 27.2% | 29.6% | 64.5% | -19.3% | 9.9% |
| GPM | - | - | 14.4% | 51.5% | 44.7% | 48.2% | 52.9% | 59.3% | 50.3% | 48.3% |
| SG&A expenses | 724 | 714 | 601 | 683 | 1,817 | 2,942 | 3,669 | 6,565 | 5,846 | 6,500 |
| SG&A-to-sales ratio | 37.2% | 27.2% | 22.9% | 25.4% | 27.8% | 38.2% | 40.4% | 49.2% | 46.1% | 44.7% |
| **Operating profit** | **-1,381** | **-2,386** | **-223** | **702** | **1,100** | **768** | **1,141** | **1,348** | **538** | **517** |
| YoY | - | - | - | - | 56.7% | -30.2% | 48.6% | 18.1% | -60.1% | -3.9% |
| OPM | - | - | - | 26.1% | 16.9% | 10.0% | 12.5% | 10.1% | 4.2% | 3.6% |
| Non-operating income | 120 | 72 | 56 | 19 | 15 | 33 | 32 | 52 | 20 | 38 |
| Non-operating expenses | 71 | 23 | 26 | 22 | 10 | 42 | 72 | 26 | 33 | 28 |
| **Recurring profit** | **-1,331** | **-2,336** | **-193** | **698** | **1,104** | **759** | **1,101** | **1,373** | **525** | **527** |
| YoY | - | - | - | - | 58.2% | -31.3% | 45.1% | 24.7% | -61.8% | 0.3% |
| RPM | - | - | - | 25.9% | 16.9% | 9.9% | 12.1% | 10.3% | 4.1% | 3.6% |
| Extraordinary gains | 0 | 3 | 461 | - | - | 3 | - | 1 | 26 | - |
| Extraordinary losses | 137 | 652 | 19 | 271 | 7 | - | - | - | - | - |
| Tax charges | 9 | 10 | -1 | 4 | 7 | -39 | 152 | 415 | 86 | 355 |
| Implied tax rate | - | - | - | 0.9% | 0.6% | -5.1% | 13.8% | 30.2% | 15.6% | 67.4% |
| **Net income** | **-1,477** | **-2,996** | **249** | **422** | **833** | **671** | **854** | **993** | **420** | **101** |
| YoY | - | - | - | 69.5% | 97.4% | -19.4% | 27.3% | 16.3% | -57.7% | -75.9% |
| Net margin | - | - | 9.5% | 15.7% | 12.8% | 8.7% | 9.4% | 7.4% | 3.3% | 0.7% |

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

## Cash flow statement

| Cash flow statement (JPYmn) | FY03/08 Cons. | FY03/09 Cons. | FY03/10 Cons. | FY03/11 Cons. | FY03/12 Cons. | FY03/13 Cons. | FY03/14 Cons. | FY03/15 Cons. | FY03/16 Cons. | FY03/17 Cons. |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash flows from operating activities (1) | -2,547 | 583 | 1,090 | 902 | 2,322 | 1,504 | 1,622 | 2,421 | 907 | 1,509 |
| Cash flows from investing activities (2) | 943 | 307 | 421 | -551 | -4,058 | 610 | -1,463 | -1,026 | 74 | -873 |
| **Free cash flow (1+2)** | **-1,604** | **890** | **1,511** | **351** | **-1,736** | **2,114** | **159** | **1,395** | **981** | **636** |
| Cash flows from financing activities | -369 | -901 | 0 | 1 | -2 | -1 | -141 | -618 | -33 | -126 |
| Depreciation and amortization (A) | 12 | 11 | 9 | 18 | 179 | 243 | 250 | 260 | 228 | 193 |
| Capital expenditures (B) | -29 | 0 | -16 | -5 | -155 | -133 | -65 | -128 | -81 | -442 |
| Working capital changes (C) | 189 | -9 | 83 | 508 | -77 | 247 | 387 | 240 | 430 | -1,998 |
| **Simple FCF (NI + A + B - C)** | **-1,683** | **-2,976** | **159** | **-73** | **934** | **534** | **652** | **885** | **137** | **1,850** |

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.

# News and topics

## January 2017

On **January 27, 2017,** the company announced that it had partnered with a prominent Indian investment fund, Kalaari and Ascent, to invest in 99Games Online Private Limited (99Games), India's leading mobile gaming company.

99Games is the company behind the in-house title, Star Chef, which achieved 10mn downloads, mainly on demand from the US and Europe. Based on an alliance with Yash Raj Films Private Limited, a major Indian movie company, 99Games develops and distributes games and is at the forefront of the mobile game market in India. Starting with this investment, DI plans to accelerate investments in the digital media sector, including mobile games.

On **January 20, 2017,** the company announced that one of the companies in its investment portfolio, RENOVA, Inc., (RENOVA) had been granted approval to list on the Tokyo Stock Exchange's Mothers (Market of high-growth and emerging stocks) board.

RENOVA was established on May 30, 2000. It develops, operates, and manages renewable energy power generation facilities that produce solar, biomass, wind, and geothermal energy. DI owns 80,000 RENOVA shares (0.5% of shares, based on the number of present shares).

## January 2016

On **January 20, 2016,** the company announced that it would transfer all of its shares in wholly owned subsidiary ReVALUE Inc. to Aucfan Co., Ltd.

## November 2015

On **November 16, 2015**, the company announced that Mynet Inc., one of the companies it has invested in, had been approved for listing on the Tokyo Stock Exchange's Mothers (Market of the high-growth and emerging stocks) board.

## October 2015

On **October 29, 2015,** the company announced that it would be participating in a promotional project in collaboration with Allied Architects Inc. in a bid to enter the business of attracting more inbound customers.

On **October 15, 2015**, the company announced that Rosetta Inc., one of the companies it has invested in, had been approved for listing on the Tokyo Stock Exchange's Mothers (Market of the high-growth and emerging stocks) board.

## September 2015

On **September 7, 2015,** the company announced that it invested in Boardwalk Inc., a company that provides mobile digital ticketing services, such as for concerts.

On **September 4, 2015,** the company announced that it invested in Wrap Media, LLC, together with top global players such as the Raine Group, to accelerate business producing in the area of digital media.

## July 2015

On **July 14, 2015,** the company announced that it was certified by the New Energy and Industrial Technology Development Organization (NEDO) as a Venture Capital (VC) Firm Partner for NEDO's Technology-based Startup Support Program.

On **July 13, 2015,** the company announced that it advised Tosoh Corporation on acquisition of an Indian company, involved in the manufacture and sale of in vitro diagnostic products.

# Other information

## History

**2000**

Incorporated in Minato-ku, Tokyo, with JPY45mn in capital.
Began operations in incubation business, focusing on business strategy formulation and implementation assistance.

**2002**

Listed shares on the Mothers market of the Tokyo Stock Exchange.

**2005**

Listed on the 1st Section of the Tokyo Stock Exchange.

**2007**

Established Dream Incubator Joint Stock Company (consolidated subsidiary) located in Ho Chi Minh City, Vietnam.

**2010**

Formed DI Asian Industrial Fund, L.P., (equity method) to make investments in promising Vietnamese companies.
ReVALUE (consolidated subsidiary) acquired the reverse logistics business owned by Linkstaff Co., Ltd. and began a reverse supply chain business.
Established Dream Incubator (Shanghai) Inc. (consolidated subsidiary) in Shanghai, China.

**2011**

Acquired 82.11% of voting rights of Ipet Co., Ltd. and made the company a consolidated subsidiary.
Established Dream Incubator Singapore Pte. Ltd. in Singapore.

**2012**

Established Japan Intellectual Property Fund 1, Investment Limited Partnership (consolidated subsidiary), and acquired 60% of the trademark rights to Tokyo Girls Collection (TGC).
Ipet Co., Ltd acquired a property and casualty insurance business license and changed the company name to Ipet Insurance Co., Ltd.

**2014**

DI Marketing Co., Ltd. launched SNS marketing services in Vietnam.

**2015**

DI Marketing Co., Ltd. launched SNS marketing services in Thailand.
Sold the trademark rights to Tokyo Girls Collection (TGC), held by Japan Intellectual Property Fund 1, Investment Limited Partnership

**2016**

Sold ReVALUE Inc. (consolidated subsidiary).
Established DI Marketing (Thailand) Co., Ltd (consolidated subsidiary).
Established a representative office in India.

## Major shareholders

| Top shareholders | Amount held |
|---|---|
| Koichi Hori | 14.04% |
| Japan Trustee Services Bank, Ltd. (Trust account) | 7.06% |
| Noboru Kotani | 6.08% |
| ORIX Corporation | 4.67% |
| WISEMAN K.K. | 3.98% |
| Hideharu Ueshima | 3.74% |
| Takayoshi Yamakawa | 2.96% |
| MSIP CLIENT SECURIIES | 2.01% |
| Yoshihiko Miyauchi | 1.80% |
| THE BANK OF NEW YORK 133524 | 1.65% |

Source: Shared Research based on company data
As of end-March 2017

## Top management

Koichi Hori is Chairman of the company. Mr. Hori joined the Yomiuri Shimbun Co., Ltd. in 1969, and later joined Mitsubishi Corporation (TSE1: 8058) in 1972. He then attended Harvard Business School and graduated as a Baker Scholar (High Distinction), the first Japanese student to achieve this honor, in 1980. Mr. Hori joined Boston Consulting Group (BCG) in 1981, and after becoming President of BCG in Japan, he left and founded Dream Incubator in 2000. President and CEO till 2006, he assumed the position of Chairman that year.

Takayoshi Yamakawa is President and CEO of the company. Mr. Yamakawa joined Yokogawa Hewlett-Packard Co. (currently, Hewlett-Packard) in 1991, and joined the Boston Consulting Group in 1995. After rising to project manager at the Boston Consulting Group, he became one of the founding members of Dream Incubator in 2000. Mr. Yamakawa was appointed president in 2006. In 2013, he also became Chairman of ReVALUE, Inc.

## IR activities

The company holds earnings results meetings twice a year following announcement of interim and full-year business results.

## Company profile

| Company Name | Head Office |
|---|---|
| Dream Incubator Inc. | Tokyo Club Building 4F<br>3-2-6 Kasumigaseki, Chiyoda-ku<br>Tokyo, Japan 100-0013 |
| **Phone** | **Listed On** |
| +81-3-5532-3200 | Tokyo Stock Exchange 1st Section |
| **Established** | **Exchange Listing** |
| April 20, 2000 | May 10, 2002 |
| **Website** | **Fiscal Year-End** |
| http://www.dreamincubator.co.jp/en/ | March |

# About Shared Research Inc.



We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at http://www.sharedresearch.jp.

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| Adastria Co., Ltd. | FreeBit Co., Ltd. | NTT URBAN DEVELOPMENT CORPORATION |
| ADJUVANT COSME JAPAN CO., LTD. | Fujita Kanko Inc. | Oki Electric Industry Co., Ltd |
| Aeon Delight Co., Ltd. | FURYU CORPORATION | ONO SOKKI Co., Ltd. |
| Ai Holdings Corporation | Gamecard-Joyco Holdings, Inc. | ONWARD HOLDINGS CO.,LTD. |
| Aiming Inc. | GCA Corporation | PARIS MIKI HOLDINGS Inc. |
| AnGes MG Inc. | Grandy House Corporation | PIGEON CORPORATION |
| Anicom Holdings, Inc. | Hakuto Co., Ltd. | RACCOON CO., LTD. |
| Anritsu Corporation | Happinet Corporation | RESORTTRUST, INC. |
| Apamanshop Holdings Co., Ltd. | Harmonic Drive Systems Inc. | ROUND ONE Corporation |
| Artspark Holdings Inc. | Hearts United Group Co., Ltd. | RYOHIN KEIKAKU CO., LTD. |
| AS ONE CORPORATION | Heiwa Real Estate Co., Ltd. | SanBio Company Limited |
| Ateam Inc. | IDOM Inc. | SANIX INCORPORATED |
| Aucfan Co., Ltd. | IGNIS LTD. | Sanrio Company, Ltd. |
| Axell Corporation | IID, Inc. | SATO HOLDINGS CORPORATION |
| Azbil Corporation | Infomart Corporation | SBS Holdings, Inc. |
| Bell-Park Co., Ltd. | Intelligent Wave, Inc. | Seria Co.,Ltd. |
| Benefit One Inc. | istyle Inc. | SHIP HEALTHCARE HOLDINGS, INC. |
| Canon Marketing Japan Inc. | Itochu Enex Co., Ltd. | SMS Co., Ltd. |
| Carna Biosciences, Inc. | J Trust Co., Ltd | Snow Peak, Inc. |
| CERES INC. | Japan Best Rescue System Co., Ltd. | SOURCENEXT Corporation |
| Chiyoda Co., Ltd. | JINS Inc. | Star Mica Co., Ltd. |
| Chugoku Marine Paints, Ltd. | KAMEDA SEIKA CO., LTD. | SymBio Pharmaceuticals Limited |
| cocokara fine Inc. | Kenedix, Inc. | Takashimaya Company, Limited |
| COMSYS Holdings Corporation | KFC Holdings Japan, Ltd. | Takihyo Co., Ltd. |
| CRE, Inc. | LAC Co., Ltd. | TAMAGAWA HOLDINGS CO., LTD. |
| CREEK & RIVER Co., Ltd. | Lasertec Corporation | TEAR Corporation |
| Daiseki Co., Ltd. | MATSUI SECURITIES CO., LTD. | 3-D Matrix, Ltd. |
| DIC Corporation | MEDINET Co., Ltd. | TKC Corporation |
| Digital Arts Inc. | MEGANESUPER CO., LTD. | TOKAI Holdings Corporation |
| Digital Garage Inc. | Milbon Co., Ltd. | Tri-Stage Inc. |
| Don Quijote Holdings Co., Ltd. | MIRAIT Holdings Corporation | VISION INC. |
| Dream Incubator Inc. | MONEY SQUARE HOLDINGS, INC. | VOYAGE GROUP, INC. |
| EARTH CHEMICAL CO., LTD. | NAGASE & CO., LTD | WirelessGate, Inc. |
| Elecom Co., Ltd. | NAIGAI TRANS LINE LTD. | YELLOW HAT LTD. |
| Emergency Assistance Japan Co., Ltd. | NanoCarrier Co., Ltd. | YUMESHIN HOLDINGS CO., LTD. |
| en-Japan Inc. | Net One Systems Co.,Ltd. | Yushiro Chemical Industry Co., Ltd. |
| euglena Co., Ltd. | Nichi-Iko Pharmaceutical Co., Ltd. | ZAPPALLAS, INC. |
| Ferrotec Holdings Corporation | NIPPON PARKING DEVELOPMENT Co., Ltd. | |

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