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On **November 1, 2019**, Dream Incubator Inc. announced earnings results for 1H FY03/20.

Quarterly earnings (JPYmn)	FY03/18				FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	3,503	3,901	5,420	5,594	5,431	4,343	4,891	6,040	5,215	5,399		
YoY	0.1%	16.3%	36.8%	50.7%	55.0%	11.3%	-9.8%	8.0%	-4.0%	24.3%		
Gross profit	1,916	2,070	3,095	2,470	2,388	2,079	2,334	2,502	2,393	2,446		
YoY	-2.1%	11.1%	89.5%	57.8%	24.6%	0.4%	-24.6%	1.3%	0.2%	17.7%		
GPM	54.7%	53.1%	57.1%	44.2%	44.0%	47.9%	47.7%	41.4%	45.9%	45.3%		
SG&A expenses	1,758	1,854	1,899	2,185	2,186	2,219	2,385	2,388	2,499	2,440		
YoY	15.7%	14.9%	16.4%	25.9%	24.3%	19.7%	25.6%	9.3%	14.3%	10.0%		
SG&A ratio	50.2%	47.5%	35.0%	39.1%	40.3%	51.1%	48.8%	39.5%	47.9%	45.2%		
Operating profit	158	216	1,195	285	201	-139	-51	113	-105	6		
YoY	-63.9%	-13.3%	-	-	27.2%	-	-	-60.4%	-	-		
OPM	4.5%	5.5%	22.0%	5.1%	3.7%	-	-	1.9%	-	0.1%		
Recurring profit	150	264	1,200	301	274	-51	-136	190	-106	-41		
YoY	-66.2%	1.9%	6566.7%	-	82.7%	-	-	-36.9%	-	-		
RPM	4.3%	6.8%	22.1%	5.4%	5.0%	-	-	3.1%	-	-		
Net income	45	51	774	29	435	-24	-261	228	-18	-126		
YoY	-84.8%	-66.2%	-	-	866.7%	-	-	686.2%	-	-		
Net margin	1.3%	1.3%	14.3%	0.5%	8.0%	-	-	3.8%	-	-		
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	3,503	7,404	12,824	18,418	5,431	9,774	14,665	20,705	5,215	10,614		
YoY	0.1%	8.0%	18.6%	26.8%	55.0%	32.0%	14.4%	12.4%	-4.0%	8.6%		
Gross profit	1,916	3,986	7,081	9,551	2,388	4,467	6,801	9,303	2,393	4,839		
YoY	-2.1%	4.3%	29.9%	36.1%	24.6%	12.1%	-4.0%	-2.6%	0.2%	8.3%		
GPM	54.7%	53.8%	55.2%	51.9%	44.0%	45.7%	46.4%	44.9%	45.9%	45.6%		
SG&A expenses	1,758	3,612	5,511	7,696	2,186	4,405	6,790	9,178	2,499	4,939		
YoY	15.7%	15.3%	15.7%	18.4%	24.3%	22.0%	23.2%	19.3%	14.3%	12.1%		
SG&A ratio	50.2%	48.8%	43.0%	41.8%	40.3%	45.1%	46.3%	44.3%	47.9%	46.5%		
Operating profit	158	374	1,569	1,854	201	62	11	124	-105	-99		
YoY	-63.9%	-45.6%	128.1%	258.2%	27.2%	-83.4%	-99.3%	-93.3%	-	-		
OPM	4.5%	5.1%	12.2%	10.1%	3.7%	0.6%	0.1%	0.6%	-	-		
Recurring profit	150	414	1,614	1,915	274	223	87	277	-106	-147		
YoY	-66.2%	-41.1%	123.9%	263.2%	82.7%	-46.1%	-94.6%	-85.5%	-	-		
RPM	4.3%	5.6%	12.6%	10.4%	5.0%	2.3%	0.6%	1.3%	-	-		
Net income	45	96	870	899	435	411	150	378	-18	-144		
YoY	-84.8%	-78.6%	243.9%	787.4%	866.7%	328.1%	-82.8%	-58.0%	-	-		
Net margin	1.3%	1.3%	6.8%	4.9%	8.0%	4.2%	1.0%	1.8%	-	-		

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 (JPYmn)	FY03/18				FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales												
Professional Services	613	919	870	1,052	511	558	599	888	573	708		
YoY	-	-	-	-	-16.6%	-39.3%	-31.1%	-15.6%	12.1%	26.9%		
Incubation	2,890	2,981	4,551	4,542	4,920	3,784	4,296	5,191	4,647	4,696		
YoY	-	-	-	-	70.2%	26.9%	-5.6%	14.3%	-5.5%	24.1%		
Venture Capital segment	49	18	1,401	1,284	1,478	189	227	973	253	151		
YoY	-	-	-	-	2916.3%	950.0%	-83.8%	-24.2%	-82.9%	-20.1%		
Insurance segment	2,840	2,964	3,149	3,259	3,442	3,594	3,840	4,000	4,197	4,358		
YoY	-	-	-	-	21.2%	21.3%	21.9%	22.7%	21.9%	21.3%		
Other segment	-	-	-	-	-	-	228	220	197	-		
YoY	-	-	-	-	-	-	-	-	-	-		
Old segments												
Strategic Consulting Services	587	893	826	969								
YoY	-14.6%	0.2%	-3.4%	26.0%								
Incubation												
Venture Capital segment	49	18	1,401	1,284								
YoY	-89.6%	157.1%	193.7%	475.8%								
Insurance segment	2,840	2,964	3,149	3,259								
YoY	21.8%	22.0%	20.9%	20.7%								
Other segment	25	35	62	86								
Operating profit												
Professional Services	254	549	343	539	49	96	132	375	67	245		
YoY	-	-	-	-	-80.7%	-82.5%	-61.5%	-30.4%	36.7%	155.2%		
Incubation	114	-128	1,071	-23	366	-35	57	7	79	36		
YoY	-	-	-	-	221.1%	-	-94.7%	-	-78.4%	-		
Venture Capital segment	-71	-82	1,014	-229	282	-40	-192	211	96	-82		
YoY	-	-	-	-	-	-	-	-	-66.0%	-		
Insurance segment	185	-46	57	206	84	5	249	-204	-17	118		
YoY	-	-	-	-	-54.6%	-	72.4%	-	-	-		
Other segment	-	-	-	-	-	-10	-2	-11	-30	-36		
YoY	-	-	-	-	-	-	-	-	-	-		
Old segments												
Strategic Consulting Services	276	559	410	566								
YoY	-22.7%	-1.2%	-16.5%	26.6%								
Incubation												
Venture Capital segment	-71	-82	1,014	-229								
YoY	-	-	-	-								
Insurance segment	185	-46	57	206								
YoY	122.9%	-	-73.4%	-								
Other segment	-21	-11	-67	-26								
Cumulative												
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales												
Professional Services	613	1,532	2,402	3,454	511	1,069	1,668	2,556	573	1,281		
YoY	-	-	-	-	-16.6%	-30.2%	-30.6%	-26.0%	12.1%	19.8%		
Incubation	2,890	5,871	10,422	14,964	4,920	8,704	13,000	18,191	4,647	9,343		
YoY	-	-	-	-	70.2%	48.3%	24.7%	21.6%	-5.5%	7.3%		
Venture Capital segment	49	67	1,468	2,752	1,478	1,667	1,894	2,867	253	404		
YoY	-	-	-	-	2916.3%	2388.1%	29.0%	4.2%	-82.9%	-75.8%		
Insurance segment	2,840	5,804	8,953	12,212	3,442	7,036	10,876	14,876	4,197	8,555		
YoY	-	-	-	-	21.2%	21.2%	21.5%	21.8%	21.9%	21.6%		
Other segment	-	-	-	-	-	-	228	448	197	382		
YoY	-	-	-	-	-	-	-	-	-	-		
Operating profit												
Professional Services	254	803	1,146	1,685	49	145	277	652	67	312		
YoY	-	-	-	-	-80.7%	-81.9%	-75.8%	-61.3%	36.7%	115.2%		
Incubation	114	-14	1,057	1,034	366	331	388	395	79	115		
YoY	-	-	-	-	221.1%	-246.3%	-63.3%	-61.8%	-78.4%	-65.3%		
Venture Capital segment	-71	-153	861	632	282	242	50	261	96	14		
YoY	-	-	-	-	-	-	-94.2%	-58.7%	-66.0%	-94.2%		
Insurance segment	185	139	196	402	84	89	338	134	-17	101		
YoY	-	-	-	-	-54.6%	-36.0%	72.4%	-66.7%	-	13.5%		
Other segment	-	-	-	-	-	-10	-12	-23	-30	-66		
YoY	-	-	-	-	-	-	-	-	-	-		
Old segments												
Strategic Consulting Services	276	835	1,245	1,811								
YoY	-22.7%	-9.5%	-12.0%	-2.7%								
Incubation												
Venture Capital segment	-71	-153	861	632								
YoY	-	-	-	-								
Insurance segment	185	139	196	402								
YoY	122.9%	-0.7%	-44.6%	127.1%								
Other segment	-21	-32	-99	-125								

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: The company revised how it divided its business into categories following the consolidation of subsidiaries; from Q1 FY03/19 the company has changed its reporting segments from Strategic Consulting Services, Venture Capital, Insurance, and Other to Professional Services, Venture Capital, Insurance, and Other. Segment information for Q1 FY03/18 has been drawn up and presented on the basis of the new segmentation.

1H FY03/20 results (out November 1, 2019)

- ▷ Sales: JPY10.6bn (+8.6% YoY)
- ▷ Operating loss: JPY99mn (versus profit of JPY62mn in 1H FY03/19)
- ▷ Recurring loss: JPY147mn (versus profit of JPY223mn)
- ▷ Net loss*: JPY144mn (versus profit of JPY411mn)

*Net loss attributable to owners of the parent

- ▷ Sales up 8.6% YoY: The Insurance segment saw strong growth, with sales up 21.6%. At the Professional Services segment, after the sharp decline in sales due to changes in the order policies of several large client companies in FY03/19, sales improved in Q1 (+12.1% YoY) and then again in Q2 (+26.9% YoY), pushing up 1H sales by 19.8% YoY. However, this did not amount to a complete recovery from the drop in sales in 1H FY03/19, so the company will be working to further improve performance from Q3. Sales in the Venture Capital segment were down 75.8% YoY.
- ▷ Operating loss of JPY99mn: Despite an increase in sales, the company booked a loss due to an increase in various expenses accompanying growth in the number of insurance policies and higher companywide expenses (mainly marketing and SG&A expenses). Operating profit was up 111.5% YoY at the Professional Services segment, down 94.2% YoY at the Venture Capital segment, and up 13.5% YoY at the Insurance segment.
- ▷ Versus plan: The company does not release earnings forecasts owing to the volatility of results at the Venture Capital segment, where earnings can vary greatly depending on conditions in the stock market and trends in initial public offerings.

The company believes that profit calculated on the basis of the unearned premium method for regular policy reserves, and not taking into account provision of the catastrophe reserve, is a useful indicator of the profitability of Insurance Co., Ltd. (TSE Mothers: 7323), one of its key subsidiaries. On that basis, Dream Incubator reported an adjusted gross profit of JPY5.2bn (+10.3% YoY) and adjusted operating profit of JPY249mn (-16.7% YoY).

Professional Services

1H FY03/20 sales of JPY1.3bn were up 19.8% YoY and operating profit of JPY312mn was up 115.2% YoY.

In the Professional Services segment, the company provides strategic consulting services to major corporations and government agencies (in particular, support for creating businesses that drive future growth, and support for planning growth strategies). The company also offers financial advisory for M&A, helps companies foster their senior management, and provides strategic consulting and market research focusing on Asia.

Sales at the segment were down sharply in FY03/19 as a result of changes in the order policies of several large clients that led to a large decline in strategic consulting contracts for the company. The segment saw improvement in sales in Q1 (+12.1% YoY) and then again in Q2 (+26.9% YoY), pushing up 1H sales by 19.8% YoY. However, this did not amount to a complete recovery from the drop in sales in 1H FY03/19, so the company will be working to further improve performance from Q3.

Consolidated subsidiary DI Asia (which conducts strategic consulting and market research in Asian regions) was unable to move into the black for full-year FY03/19, so it revised its business portfolio. It transferred its market research business and consumer panel to Macromill, Inc. and one other company, and will concentrate its resources on coordinating with Strategic Consulting Services and Incubation Services. In relation to the business transfer, a portion of the loss (gain) on transfer of business will occur from Q3, but Dream Incubator believes there will be little impact on its full-year FY03/20 results.

Incubation Services

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

Venture Capital segment

1H FY03/20 sales of JPY404mn were down 75.8% YoY and operating profit of JPY14mn was down 94.2% YoY.

At the Venture Capital segment, the company works together with partner venture capital companies to invest in startup companies, most of which are located in Japan and India. In addition, it established and began operating the domestic venture investment fund Dimension Investment Partners Limited with the aim of expanding the scale of investment in Japan. Dream Incubator funnels capital and human resources to the start-ups in which it invests when they are at the stage where its deeper involvement will help accelerate growth, and afterwards starts looking for an exit strategy. Dream Incubator did a number of trade sales during Q2, but when the price of two companies in which it had invested fell, it booked provision of allowance for investment loss.

Insurance segment

1H FY03/20 sales of JPY8.6bn were up 21.6% YoY and operating profit of JPY101mn was up 13.5% YoY. As mentioned previously, the company uses adjusted earnings as a handy measure for showing the true profitability of the Insurance segment. Adjusted earnings at the Insurance segment in 1H FY03/20 were JPY451mn (+37.9% YoY). The difference reflects an adjustment of JPY75mn relating to regular policy reserves (calculation of this figure changed from the first-year income-expenditure balance method to the unearned premium method), and catastrophe reserves of JPY273mn (the impact of provision eliminated).

The Insurance segment is a medical insurance service for pets run by DI's consolidated subsidiary ipet Insurance Co., Ltd. ipet Insurance Co., Ltd. was listed on the Tokyo Stock Exchange Mothers section on April 25, 2018. Sales at ipet Insurance continued to grow along with the increase in the number of pet insurance policies outstanding. As of the end of 1H FY03/20, ipet Insurance had a total of 459,000 policies in force; representing an increase of 36,000 policies versus the end of FY03/19. The (pre-adjustment) operating loss reported by the segment reflects increases in commissions in various commissions and collection costs associated with increasing the number of insurance contracts in force, processing expenses related to the new contracts, increases in net insurance payouts resulting from a growing number of insurance claims, and rising loss adjustment expenses.

Other segment

The Other segment reported 1H FY03/20 sales of JPY382mn and an operating loss of JPY66mn. The segment includes Work Style Lab, Inc. (WSL), which operates a matching platform for freelance consultants. The company noted that the businesses in the Other segment are still in the growth stage and the operating loss was a result of all the investments that went along with growing the businesses.

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