Dream Incubator / 4310

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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 (DI) is a consulting firm founded in April 2000 by former Boston Consulting Group (BCG) president Koichi Hori (currently a director at the company). The company says 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 the Business Production and Incubation businesses. In Business Production, 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, the company provides venture investment and buy-and-hold business investment services, and leverages its principal investments to develop venture companies deemed integral to 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 main businesses, Business Production (formerly Professional Services) and Incubation, which includes the Venture Capital segment (the name was changed in Japanese only), the Pet Lifestyle segment (formerly the Insurance segment), and the HR Innovation segment (formerly the Other segment). As of FY03/21, the company has four consolidated reporting segments: Business Production, Venture Capital, Pet Lifestyle, and HR Innovation.

Trends and outlook

- For FY03/20, the company reported full-year consolidated sales of JPY22.6bn (+9.1% YoY), operating profit of JPY12mn (-90.1% YoY), a recurring loss of JPY25mn (versus profit of JPY277mn in FY03/19), and a net loss of JPY198mn (versus profit of JPY378mn in FY03/19). The Professional Services segment saw a 4.8% increase in sales over FY03/19; while this was not enough to bring sales at the segment back to where they were in FY03/18, it was an improvement over FY03/19 thanks to successful measures to develop new customers and reduce the company's dependence on existing customers. Sales were down 72.1% YoY at the Venture Capital segment and up 22.1% at the Insurance segment. At the segment profit level, Professional Services reported a 48.3% YoY increase in operating profit, Venture Capital a JPY166mn operating loss (versus profit of JPY261mn in FY03/19), Insurance a 64.9% YoY increase in operating profit, and Other an operating loss of JPY105mn (versus loss of JPY23mn in FY03/19). The Professional Services and Insurance segments reported higher operating profit while the Venture Capital and Other segments reported lower operating profit. In the case of the Venture Capital segment, earnings were weighed down by additions to provisions of allowance for investment loss, while at the Other segment the culprit was upfront spending. The company finished FY03/20 with a total net asset value (NAV) of JPY28,400, well short of its initial target of JPY35,000. The NAV of the Professional Services and Venture Capital segments did not finish far from the company's initial targets; it was the NAV of the company's buy-and-hold investments that disappointed, finishing the year at only JPY11.5bn versus the initial target of JPY18.0bn. In particular, the company pointed to its holdings in ipet Insurance Co., where it had been expecting the stock price to rise as ipet's earnings grew but ended up seeing its share price come down as stock market conditions deteriorated. The company said that it had also been expecting to realize some of its gains on other investment holdings by coming to the market for new capital, but these plans were also delayed by the downturn in the stock market.
- The company issued a forecast for FY03/21 because the profitability of the Venture Capital segment can vary greatly depending on conditions in the stock market and IPO market, but has said that it was looking to increase its NAV from JPY28.4bn at the end of FY03/20 to JPY32.0bn at the end of FY03/21 (+12.7% YoY).

- The COVID-19 pandemic is having a near-term impact on the company's ability to acquire new customers in the Business Production business. However, the business itself specializes in planning and creating new strategic businesses and the company expects to see expansion in demand over the medium term as the pandemic spurs changes in Japan's social and industrial structures. At its Incubation Services business, the company sees sales and earnings continuing to grow at the Pet Lifestyle segment as the number of pet insurance policyholders continues to grow following the IPO of ipet Insurance Co., Ltd. in April 2018; in the Venture Capital segment, the outlook for the event ticket sales and related e-commerce business operated by Boardwalk Inc. is also good, with sales and earnings expected to continue to grow along with the increase in member counts, putting Boardwalk a step closer to its own IPO. Regarding DI Asia, which conducts strategic market research in Asia, the company sold the market research business after a review of its business portfolio.

Strengths and weaknesses

Shared Research believes that DI's strengths are its clearly formulated management strategy and philosophy, 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.

Key financial data

Income statement	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18		FY03/19		FY03/20		FY03/21
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.: Insurance adjusted	Cons.	Cons.: Insurance adjusted	Cons.	Cons.: Insurance adjusted	Est.
Sales	**2,620**	**2,690**	**6,526**	**7,693**	**9,092**	**13,343**	**12,691**	**14,526**	**18,418**	**18,418**	**20,705**	**20,705**	**22,595**	**22,595**	**na**
YoY	-0.2%	2.7%	142.6%	17.9%	18.2%	46.8%	-4.9%	14.5%	26.8%	26.8%	12.4%	12.4%	9.1%	9.1%	-
Gross profit	**378**	**1,385**	**2,918**	**3,711**	**4,811**	**7,914**	**6,384**	**7,018**	**9,551**	**9,825**	**9,303**	**9,933**	**10,328**	**10,972**	
YoY	-	266.4%	110.7%	27.2%	29.6%	64.5%	-19.3%	9.9%	36.1%	33.0%	-2.6%	1.1%	11.0%	10.5%	
GPM	14.4%	51.5%	44.7%	48.2%	52.9%	59.3%	50.3%	48.3%	51.9%	53.3%	44.9%	48.0%	45.7%	48.6%	
Operating profit	**-223**	**702**	**1,100**	**768**	**1,141**	**1,348**	**538**	**517**	**1,854**	**2,128**	**124**	**754**	**12**	**656**	**na**
YoY	-	-	56.7%	-30.2%	48.6%	18.1%	-60.1%	-3.9%	258.2%	139.7%	-93.3%	-64.6%	-90.1%	-13.0%	-
OPM	-	26.1%	16.9%	10.0%	12.5%	10.1%	4.2%	3.6%	10.1%	11.6%	0.6%	3.6%	0.1%	2.9%	
Recurring profit	**-193**	**698**	**1,104**	**759**	**1,101**	**1,373**	**525**	**527**	**1,915**	**2,189**	**277**	**908**	**-25**	**619**	**na**
YoY	-	-	58.2%	-31.3%	45.1%	24.7%	-61.8%	0.3%	263.2%	143.9%	-85.5%	-58.5%	-	-31.9%	-
RPM	-	25.9%	16.9%	9.9%	12.1%	10.3%	4.1%	3.6%	10.4%	11.9%	1.3%	4.4%	-0.1%	2.7%	
Net income attributable to owners of the parent	**249**	**422**	**833**	**671**	**854**	**993**	**420**	**101**	**899**	**1,071**	**378**	**358**	**-198**	**63**	**na**
YoY	-	69.5%	97.4%	-19.4%	27.3%	16.3%	-57.7%	-75.9%	787.4%	199.0%	-57.9%	-66.5%	-	-82.3%	-
Net margin	9.5%	15.7%	12.8%	8.7%	9.4%	7.4%	3.3%	0.7%	4.9%	5.8%	1.8%	1.7%	-0.9%	0.3%	
Per share data															
Shares issued (year-end; '000)	95	96	96	96	9,783	10,054	10,181	10,244	10,301		10,301		10,381		
EPS	2,616	4,414	8,698	7,002	88	103	43	10	92		39		-20		
EPS (fully diluted)	2,605	4,412	8,696	6,767	84	99	42	10	91		37		-		
Dividend per share	-	-	-	2,100	2,600	29	12	3	26		-		-		
Book value per share	68,229	72,274	81,895	89,573	1,365	1,086	1,034	1,015	1,079		1,141		1,091		
Balance sheet (JPYmn)															
Cash and cash equivalents	2,818	3,145	4,032	4,889	5,555	6,497	7,307	7,409	6,299		6,559		4,745		
Total current assets	**5,962**	**6,853**	**7,570**	**9,012**	**16,322**	**14,029**	**14,858**	**14,990**	**15,235**		**15,926**		**15,528**		
Tangible fixed assets	32	29	162	198	180	152	130	159	197		341		491		
Investments and other assets	624	423	410	309	385	375	470	1,288	3,217		6,396		7,815		
Intangible fixed assets	2	1,052	1,620	1,438	1,286	1,176	674	909	718		2,041		2,588		
Total assets	**6,620**	**8,358**	**10,551**	**12,056**	**19,539**	**15,734**	**16,134**	**17,348**	**19,368**		**24,705**		**26,424**		
Accounts payable	-	-	9	39	29	23	-	-	-		131		194		
Short-term debt	-	-	3	4	1	1	1	102	108		697		1,133		
Total current liabilities	**102**	**1,244**	**1,833**	**2,420**	**5,026**	**4,266**	**4,817**	**5,912**	**7,247**		**9,502**		**11,521**		
Long-term debt	-	-	10	13	168	2	-	329	251		1,018		940		
Total fixed liabilities	**0**	**0**	**10**	**13**	**168**	**21**	**71**	**467**	**474**		**1,347**		**1,265**		
Total liabilities	**102**	**1,244**	**1,844**	**2,434**	**5,195**	**4,287**	**4,889**	**6,380**	**7,722**		**10,850**		**12,786**		
Net assets	**6,518**	**7,114**	**8,707**	**9,622**	**14,344**	**11,446**	**11,245**	**10,967**	**11,646**		**13,855**		**13,638**		
Total interest-bearing debt	-	-	13	17	169	3	1	431	359		1,715		2,073		
Cash flow statement (JPYmn)															
Cash flows from operating activities	1,090	902	2,322	1,504	1,622	2,421	907	1,509	864		1,292		1,424		
Cash flows from investing activities	421	-551	-4,058	610	-1,463	-1,026	74	-873	-1,865		-3,285		-2,664		
Cash flows from financing activities	0	1	-2	-1	-141	-618	-33	-126	-100		2,891		401		
Financial ratios															
ROA (RP-based)	-	9.3%	11.7%	6.7%	7.0%	7.8%	3.3%	3.1%	10.4%		1.3%		-0.1%		
ROE	4.0%	6.3%	11.3%	8.2%	7.8%	8.3%	4.0%	1.0%	8.8%		3.5%		-1.8%		
Equity ratio	98.3%	82.8%	74.4%	71.6%	68.3%	67.2%	63.2%	56.8%	54.4%		45.5%		40.2%		

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 100-for-1 stock split, effective April 1, 2014.

By segment (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.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Total sales	**2,620**	**2,690**	**6,526**	**7,693**	**9,092**	**13,343**	**12,691**	**14,526**	**18,418**	**20,705**	**22,595**
YoY	-0.2%	2.7%	142.6%	17.9%	18.2%	46.8%	-4.9%	14.5%	26.8%	12.4%	9.1%
Professional Services	1,112	1,696	1,972	2,379	2,171	2,504	2,667	3,202	3,454	2,556	2,679
YoY	-8.0%	52.5%	16.3%	20.6%	-8.7%	15.3%	6.5%	20.1%	7.9%	-26.0%	4.8%
% of total sales	42.4%	63.0%	30.2%	30.9%	23.9%	18.8%	21.0%	22.0%	18.8%	12.3%	11.9%
Incubation											
Venture Capital segment	1,508	899	978	426	1,011	3,671	703	1,179	2,752	2,867	801
YoY	6.5%	-40.4%	8.9%	-56.5%	137.3%	263.1%	-80.8%	67.7%	133.4%	4.2%	-72.1%
% of total sales	57.6%	33.4%	15.0%	5.5%	11.1%	27.5%	5.5%	8.1%	14.9%	13.8%	3.5%
Insurance segment	-	-	3,325	4,284	5,100	6,363	8,126	10,067	12,212	14,876	18,157
YoY	-	-	-	28.8%	19.0%	24.8%	27.7%	23.9%	21.3%	21.8%	22.1%
% of total sales	-	-	51.0%	55.7%	56.1%	47.7%	64.0%	69.3%	66.3%	71.7%	80.4%
Other segment	-	96	251	602	809	803	1,193	78	-	448	969
YoY	-	-	162.7%	139.8%	34.4%	-0.7%	48.6%	-93.5%	-	-	116.3%
% of total sales	-	3.6%	3.8%	7.8%	8.9%	6.0%	9.4%	0.5%	-	2.2%	4.3%
Adjustments	-	-	-	-	-	-	-	-	-	-43	
Operating profit	**-223**	**702**	**1,100**	**768**	**1,141**	**1,348**	**538**	**517**	**1,854**	**124**	**12**
YoY	-	-	56.7%	-30.2%	48.6%	18.1%	-60.1%	-3.9%	258.6%	-93.3%	-90.1%
OPM	-	26.1%	16.9%	10.0%	12.5%	10.1%	4.2%	3.6%	10.1%	0.6%	0.1%
Professional Services (1)	133	672	407	779	490	1,288	1,439	1,861	1,685	652	967
YoY	12.2%	405.3%	-39.5%	91.4%	-37.1%	162.9%	11.7%	29.3%	-9.5%	-61.3%	48.3%
OPM	12.0%	39.6%	20.6%	32.7%	22.6%	51.4%	54.0%	58.1%	48.8%	25.5%	36.1%
% of total operating profit	-70.5%	86.7%	37.0%	64.3%	30.0%	52.8%	87.4%	114.3%	62.0%	63.7%	105.6%
Incubation											
Venture Capital segment (2)	-	104	50	89	835	2,577	-148	-344	632	261	-166
YoY	-	-	-51.7%	78.0%	838.2%	208.6%	-	-	-	-58.7%	-
OPM	-	11.5%	5.1%	20.9%	82.6%	70.2%	-21.1%	-29.2%	23.0%	9.1%	-20.7%
% of total operating profit	-	13.3%	4.5%	7.3%	51.2%	105.6%	-9.0%	-21.1%	23.2%	25.5%	-
Insurance segment (3)	-	-	743	460	451	-1,046	157	177	402	134	221
YoY	-	-	-	-38.1%	-2.0%	-331.9%	-115.0%	12.7%	126.4%	-66.7%	64.9%
OPM	-	-	22.3%	10.7%	8.8%	-16.4%	1.9%	1.8%	3.3%	0.9%	1.2%
% of total operating profit	-	-	67.5%	38.0%	27.6%	-42.9%	9.5%	10.9%	14.8%	13.1%	24.1%
Other segment (4)	-	-	-99	-116	-143	-378	201	-65	-	-23	-105
YoY	-	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-39.4%	-19.3%	-17.7%	-47.1%	16.8%	-83.3%	-	-5.1%	-
% of total operating profit	-	-	-9.0%	-9.6%	-8.8%	-15.5%	12.2%	-4.0%	-	-2.2%	-
Adjustments (5)	-34	-74	-	-443	-491	-1,093	-1,109	-1,111	-865	-899	-904
Adjustments related to ordinary underwriting reserve	-	-	-	-	-	-	-	47	-117	155	64
Adjustments related to catastrophe reserve	-	-	-	-	-	-	-	322	391	475	580
Insurance segment OP (adjusted; 3')	-	-	-	-	-	-	-	547	676	765	866
YoY	-	-	-	-	-	-	-	-	23.4%	13.2%	13.3%
OPM	-	-	-	-	-	-	-	5.4%	5.5%	5.1%	4.8%
% of total operating profit	-	-	-	-	-	-	-	27.4%	22.6%	46.3%	55.5%
Operating profit (adjusted; 1+2+3'+4+5)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**886**	**2,128**	**754**	**656**
YoY	-	-	-	-	-	-	-	-	139.7%	-64.6%	-13.0%
OPM	-	-	-	-	-	-	-	6.1%	11.6%	3.6%	2.9%
Recurring profit (adjusted)	-	-	-	-	-	-	-	897	2,189	908	619
YoY	-	-	-	-	-	-	-	-	143.9%	-58.5%	-31.9%
RPM	-	-	-	-	-	-	-	6.2%	11.9%	4.4%	2.7%
Net income attrib. to owners of the parent (adjusted)	-	-	-	-	-	-	-	358	1,071	358	63
YoY	-	-	-	-	-	-	-	-	199.0%	-66.5%	-82.3%
Net margin	-	-	-	-	-	-	-	2.5%	5.8%	1.7%	0.3%

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

Recent updates

Highlights

On October 29, 2020, Dream Incubator Inc. announced earnings results for 1H FY03/21; see the results section for details.

On October 21, 2020, the company announced the business acquisition and launch of a new business by its subsidiary.

At a meeting of its board of directors on October 21, 2020, Dream Incubator made the resolution for its subsidiary, Pet's All Right (established for the sake of the business transfer), to acquire the Pet's All Right business from Recruit Holdings Co., Ltd. and launch a new business. The contract was concluded on October 21, 2020, and the business is scheduled to be transferred on December 1, 2020.

Reason for business acquisition

- ▷ In the Pet Lifestyle segment, Dream Incubator has been investing in ipet Holdings (TSE Mothers: 7339), whose business centers on pet insurance. Through sales via pet shops and direct sales over the internet, the number of pet insurance policies in force had increased to over 550,000 in August 2020, and ipet Holdings' market share in terms of the number of policies in force had exceeded 25% and was still growing.
- ▷ The Pet's All Right business of Recruit Holdings operates an online pet health consultation and training consultation platform. Not only is the business projected to achieve strong growth independently due to its services catering to the COVID-19 pandemic and post-pandemic, it is also expected to have synergy with investee company, ipet Holdings. As such, Dream Incubator expects the business to contribute to profit growth in the medium-term.
- ▷ Dream Incubator thinks the above move will have a negligible impact on FY03/21 earnings, but it says it will promptly announce any matters requiring disclosure should these arise.

Overview of business to be acquired

- ▷ Outline: Design, planning, and operation of a pet health consultation and pet-related information platform
- ▷ Earnings results: Sales of JPY368mn in FY03/20 (sales for just the business subject to transfer)
- ▷ Assets/liabilities: Negligible amount
- ▷ Transfer price and payment method: Both parties agreed not to disclose the price, but a reasonable price was agreed through negotiations. The payment is to be made in cash.
- ▷ Conditions: In order to make Pet's All Right a subsidiary of ipet Holdings, the company must obtain approval from the Prime Minister as stipulated in Article 271-22-1 of the Insurance Business Law and carry out relevant procedures.

On October 1, 2020, the company announced the transition of its consolidated subsidiary, ipet Insurance Co., Ltd., to a pure holding company system through a sole-share transfer.

Dream Incubator's consolidated subsidiary, ipet Insurance Co., Ltd. (TSE Mothers: 7323 before the transfer), established ipet Holdings, Inc. as a pure holdings company (wholly owning parent company) of ipet Insurance Co., Ltd. through a sole-share transfer on October 1, 2020, and listed the company on the Tokyo Stock Exchange's Mothers market (TSE Mothers: 7339).

On August 26, 2020, Shared Research updated the report following interviews with the company.

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

Trends and outlook

Quarterly trends and results

Quarterly earnings (JPYmn)	FY03/19 Q1	FY03/19 Q2	FY03/19 Q3	FY03/19 Q4	FY03/20 Q1	FY03/20 Q2	FY03/20 Q3	FY03/20 Q4	FY03/21 Q1	FY03/21 Q2	FY03/21 Q3	FY03/21 Q4	FY03/21 % of Est.	FY03/21 1H Est.
Sales	5,431	4,343	4,891	6,040	5,231	5,383	5,980	6,001	6,074	7,269				TBD
YoY	55.0%	11.3%	-9.8%	8.0%	-3.7%	23.9%	22.3%	-0.6%	16.1%	35.0%				
Gross profit	2,388	2,079	2,334	2,502	2,404	2,435	2,890	2,599	2,503	2,891				
YoY	24.6%	0.4%	-24.6%	1.3%	0.7%	17.1%	23.8%	3.9%	4.1%	18.7%				
GPM	44.0%	47.9%	47.7%	41.4%	46.0%	45.2%	48.3%	43.3%	41.2%	39.8%				
SG&A expenses	2,186	2,219	2,385	2,388	2,499	2,440	2,590	2,787	2,679	2,861				
YoY	24.3%	19.7%	25.6%	9.3%	14.3%	10.0%	8.6%	16.7%	7.2%	17.3%				
SG&A ratio	40.3%	51.1%	48.8%	39.5%	47.8%	45.3%	43.3%	46.4%	44.1%	39.4%				
Operating profit	201	-139	-51	113	-94	-5	299	-188	-175	30				
YoY	27.2%	-	-	-60.4%	-	-	-	-	-	-				
OPM	3.7%	-	-	1.9%	-	-	5.0%	-	-	0.4%				
Recurring profit	274	-51	-136	190	-106	-41	325	-203	-161	93				
YoY	82.7%	-	-	-36.9%	-	-	-	-	-	-				
RPM	5.0%	-	-	3.1%	-	-	5.4%	-	-	1.3%				
Net income	435	-24	-261	228	-18	-126	163	-217	-143	-100				
YoY	866.7%	-	-	686.2%	-	-	-	-	-	-				
Net margin	8.0%	-	-	3.8%	-	-	2.7%	-	-	-				
Cumulative	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**% of Est.**	**FY Est.**
Sales	5,431	9,774	14,665	20,705	5,231	10,614	16,594	22,595	6,074	13,343				TBD
YoY	55.0%	32.0%	14.4%	12.4%	-3.7%	8.6%	13.2%	9.1%	16.1%	25.7%				
Gross profit	2,388	4,467	6,801	9,303	2,404	4,839	7,729	10,328	2,503	5,394				
YoY	24.6%	12.1%	-4.0%	-2.6%	0.7%	8.3%	13.6%	11.0%	4.1%	11.5%				
GPM	44.0%	45.7%	46.4%	44.9%	46.0%	45.6%	46.6%	45.7%	41.2%	40.4%				
SG&A expenses	2,186	4,405	6,790	9,178	2,499	4,939	7,529	10,316	2,679	5,540				
YoY	24.3%	22.0%	23.2%	19.3%	14.3%	12.1%	10.9%	12.4%	7.2%	12.2%				
SG&A ratio	40.3%	45.1%	46.3%	44.3%	47.8%	46.5%	45.4%	45.7%	44.1%	41.5%				
Operating profit	201	62	11	124	-94	-99	200	12	-175	-145				
YoY	27.2%	-83.4%	-99.3%	-93.3%	-	-	1718.2%	-90.1%	-	-				
OPM	3.7%	0.6%	0.1%	0.6%	-	-	1.2%	0.1%	-	-				
Recurring profit	274	223	87	277	-106	-147	178	-25	-161	-68				
YoY	82.7%	-46.1%	-94.6%	-85.5%	-	-	104.6%	-	-	-				
RPM	5.0%	2.3%	0.6%	1.3%	-	-	1.1%	-0.1%	-	-				
Net income	435	411	150	378	-18	-144	19	-198	-143	-243				
YoY	866.7%	328.1%	-82.8%	-58.0%	-	-	-87.3%	-	-	-				
Net margin	8.0%	4.2%	1.0%	1.8%	-	-	0.1%	-0.9%	-	-				

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

Earnings by segment: quarterly

By segment	FY03/19				FY03/20				FY03/21			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SALES												
Business Production	-	-	-	-	573	708			508	664		
YoY	-	-	-	-	-	-			-11.3%	-6.2%		
Incubation	-	-	-	-	4,662	4,763			5,573	6,611		
YoY	-	-	-	-	-	-			19.5%	38.8%		
Venture Capital	-	-	-	-	253	151			141	808		
YoY	-	-	-	-	-	-			-44.3%	435.1%		
Pet Lifestyle	-	-	-	-	4,212	4,425			5,192	5,545		
YoY	-	-	-	-	-	-			23.3%	25.3%		
HR Innovation	-	-	-	-	197	185			240	257		
YoY	-	-	-	-	-	-			21.8%	38.9%		
Internal sales or transfer	-	-	-	-	-4	-6			-8	-5		
Old segments												
Professional Services	511	558	599	888	573	708	739	659	-	-		
YoY	-16.6%	-39.3%	-31.1%	-15.6%	12.1%	26.9%	23.4%	-25.8%	-	-		
Incubation	4,920	3,784	4,296	5,191	4,647	4,696	5,241	5,344	-	-		
YoY	70.2%	26.9%	-5.6%	14.3%	-5.5%	24.1%	22.0%	2.9%	-	-		
Venture Capital	1,478	189	227	973	253	151	311	86	-	-		
YoY	2916.3%	950.0%	-83.8%	-24.2%	-82.9%	-20.1%	37.0%	-91.2%	-	-		
HR Innovation	3,442	3,594	3,840	4,000	4,197	4,358	4,680	4,922	-	-		
YoY	21.2%	21.3%	21.9%	22.7%	21.9%	21.3%	21.9%	23.1%	-	-		
Other	-	-	228	220	197	-	-	-	-	-		
YoY	-	-	-	-	-	-	-	-	-	-		
OPERATING PROFIT												
Business Production	-	-	-	-	67	245			215	379		
YoY	-	-	-	-	-	-			220.9%	54.7%		
Incubation	-	-	-	-	60	68			-155	-131		
YoY	-	-	-	-	-	-			-	-		
Venture Capital	-	-	-	-	96	-82			-108	-276		
YoY	-	-	-	-	-	-			-	-		
Pet Lifestyle	-	-	-	-	-6	186			-13	156		
YoY	-	-	-	-	-	-			-	-16.1%		
HR Innovation	-	-	-	-	-30	-36			-34	-11		
YoY	-	-	-	-	-	-			-	-		
Company-wide expenses	-	-	-	-	-221	-			-235	-		
Old segments												
Professional Services	49	96	132	375	67	245	342	313	-	-		
YoY	-80.7%	-82.5%	-61.5%	-30.4%	36.7%	155.2%	159.1%	-16.5%	-	-		
Incubation	366	-35	57	7	79	36	194	-254	-	-		
YoY	221.1%	-	-94.7%	-	-78.4%	-	240.4%	-	-	-		
Venture Capital	282	-40	-192	211	96	-82	116	-296	-	-		
YoY	-	-	-	-	-66.0%	-	-	-	-	-		
HR Innovation	84	5	249	-204	-17	118	78	42	-	-		
YoY	-54.6%	-	72.4%	-	-	-	-68.7%	-	-	-		
Other	-	-10	-2	-11	-30	-36	-21	-18	-	-		
YoY	-	-	-	-	-	-	-	-	-	-		

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: Effective Q1 FY03/21, the company changed the name of its reporting segments. The former Professional Services segment became the Business Production segment, the Venture Capital segment retained its name, the Insurance segment became the Pet Lifestyle segment. The Other business segment was replaced by the new HR Innovation segment, which consists of subsidiary Work Style Lab (WSL), formerly included under the Other segment. For purposes of comparison, segment results for Q1 last year were recalculated to match the new reporting segment scheme.

Earnings by segment: cumulative

By segment	FY03/19				FY03/20				FY03/21			
Cumulative (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SALES												
Business Production	-	-	-	-	573	1,281			508	1,172		
YoY	-	-	-	-	-	-			-11.3%	-8.5%		
Incubation	-	-	-	-	4,662	9,425			5,573	12,184		
YoY	-	-	-	-	-	-			19.5%	29.3%		
Venture Capital	-	-	-	-	253	404			141	949		
YoY	-	-	-	-	-	-			-44.3%	134.9%		
Pet Lifestyle	-	-	-	-	4,212	8,637			5,192	10,737		
YoY	-	-	-	-	-	-			23.3%	24.3%		
HR Innovation	-	-	-	-	197	382			240	497		
YoY	-	-	-	-	-	-			21.8%	30.1%		
Internal sales or transfer	-	-	-	-	-4	-10			-8	-13		
Old segments												
Professional Services	511	1,069	1,668	2,556	573	1,281	2,020	2,679	-	-		
YoY	-16.6%	-30.2%	-30.6%	-26.0%	12.1%	19.8%	21.1%	4.8%	-	-		
Incubation	4,920	8,704	13,000	18,191	4,647	9,343	14,584	19,928	-	-		
YoY	70.2%	48.3%	24.7%	21.6%	-5.5%	7.3%	12.2%	9.5%	-	-		
Venture Capital	1,478	1,667	1,894	2,867	253	404	715	801	-	-		
YoY	2916.3%	2388.1%	29.0%	4.2%	-82.9%	-75.8%	-62.2%	-72.1%	-	-		
HR Innovation	3,442	7,036	10,876	14,876	4,197	8,555	13,235	18,157	-	-		
YoY	21.2%	21.2%	21.5%	21.8%	21.9%	21.6%	21.7%	22.1%	-	-		
Other	-	-	228	448	197	382	633	969	-	-		
YoY	-	-	-	-	-	-	177.6%	116.3%	-	-		
OPERATING PROFIT												
Business Production	-	-	-	-	67	312			215	594		
YoY	-	-	-	-	-	-			220.9%	90.4%		
Incubation	-	-	-	-	60	128			-155	-286		
YoY	-	-	-	-	-	-			-	-		
Venture Capital	-	-	-	-	96	14			-108	-384		
YoY	-	-	-	-	-	-			-	-		
Pet Lifestyle	-	-	-	-	-6	180			-13	143		
YoY	-	-	-	-	-	-			-	-20.6%		
HR Innovation	-	-	-	-	-30	-66			-34	-45		
YoY	-	-	-	-	-	-			-	-		
Company-wide expenses	-	-	-	-	-221	-			-235	-		
Old segments												
Professional Services	49	145	277	652	67	312	654	967	-	-		
YoY	-80.7%	-81.9%	-75.8%	-61.3%	36.7%	115.2%	136.1%	48.3%	-	-		
Incubation	366	331	388	395	79	115	309	55	-	-		
YoY	221.1%	-	-63.3%	-61.8%	-78.4%	-65.3%	-20.4%	-86.1%	-	-		
Venture Capital	282	242	50	261	96	14	130	-166	-	-		
YoY	-	-	-94.2%	-58.7%	-66.0%	-94.2%	160.0%	-	-	-		
HR Innovation	84	89	338	134	-17	101	179	221	-	-		
YoY	-54.6%	-36.0%	72.4%	-66.7%	-	13.5%	-47.0%	64.9%	-	-		
Other		-10	-12	-23	-30	-66	-87	-105	-	-		
YoY	-	-	-	-	-	-	-	-	-	-		

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: Effective Q1 FY03/21, the company changed the name of its reporting segments. The former Professional Services segment became the Business Production segment, the Venture Capital segment retained its name, the Insurance segment became the Pet Lifestyle segment. The Other business segment was replaced by the new HR Innovation segment, which consists of subsidiary Work Style Lab (WSL), formerly included under the Other segment. For purposes of comparison, segment results for Q1 last year were recalculated to match the new reporting segment scheme.

1H FY03/21 results (out October 29, 2020)

Summary

- Sales: JPY13.3bn (+25.7% YoY)
- Operating loss: JPY145mn (versus loss of JPY99mn in 1H FY03/20)
- Recurring loss: JPY68mn (versus loss of JPY147mn in 1H FY03/20)
- Net loss*: JPY243mn (versus loss of JPY144mn in 1H FY03/20)

*Net income/loss attributable to owners of the parent

- Performance versus plan: The company does not make earnings forecasts due 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.
- Consolidated sales of JPY13.3bn were up 25.7% YoY. By segment, sales at the Business Production segment were down 8.5% YoY, due in large part to the loss of sales from its market research business that it exited in Q2 FY03/20 (sales were more or less flat YoY adjusted for this factor). The slowdown in the economy in the wake of the novel coronavirus pandemic had some impact, as some projects were delayed and the company was forced to curb marketing activities, but the impact on 1H results at the segment was not very large. At the Venture Capital segment, the company completed a number of trade sales and 1H sales were up 134.9% YoY. At the Pet Lifestyle segment, the company posted record sales, up 24.3% YoY, the strong growth driven by increases in new policy sales by its pet insurance subsidiary, which benefited from strong growth in the pet insurance market. At the HR Innovation segment, 1H sales were up 29.9% YoY, the growth driven by the expansion of its sales force last year (including digital transformation measures), which offset the drag from the pandemic.
- The 1H operating loss of JPY145mn reflected a mixed bag of results at the individual segment level, with the Business Production segment reporting 90.4% growth in operating profit, the Venture Capital segment reporting an operating loss of JPY384mn (versus profit of JPY14mn in 1H FY03/20), the Pet Lifestyle segment reporting a 20.6% YoY profit decline, and the HR Innovation segment reporting an operating loss of JPY45mn (versus loss of JPY66mn). The sharp jump in earnings at the Business Production segment reflected the company's efforts to recoup the losses from the exit from its money-losing market research business last year and the result of management cost reviews. The losses at the Venture Capital segment stemmed from valuation losses booked on three of the company's investees whose value had declined during the period. The losses at the Pet Lifestyle segment resulted from the increases in expenses (such as commissions and collection fees) that accompanied the increase in pet insurance policies sales, and the rise in net claims paid and loss adjustment expenses accompanying the increase in the number of policies in force. The losses at the Pet Lifestyle segment did not paint a true picture, though, as a better gauge of the profitability of this insurance business is adjusted earnings, and on this measure the Pet Lifestyle segment reported a 1H operating profit of JPY422mn (versus profit of JPY530mn in 1H FY03/20).
- At the recurring profit level, the company reported a loss of JPY68mn. The company recorded a JPY109mn loss on the sale of investment securities in 1H FY03/20. The recurring loss contracted YoY in 1H FY03/21 due to the company recording a JPY104mn loss on the sale of investment securities and other factors.
- The company recorded a net loss attributable to owners of the parent of JPY243mn. The loss increased YoY because of a drop in income taxes deferred.
- Net asset value (NAV) as calculated by the company came to JPY38.7bn (JPY3,818 per share) as of the end of 1H FY03/21, up from JPY28.4bn (JPY2,811 per share) at the end of FY03/20, the increase driven in large part by a recovery in the Business Production segment's industry PER, which had been depressed due to the COVID-19 impact, from 25x to 40x, and the rebound in the stock price of subsidiary ipet Insurance.
- The expected impact of COVID-19 on 2H FY03/21 earnings

- Business Production: The company expects orders to decline due to a temporary slowdown of new startups.
- Venture Capital: A number of companies planning IPOs are likely to postpone until FY03/22 or later.
- Pet Lifestyle: The company expects a continued increase in new policies amid robust pet-related demand.
- HR Innovation: The company expects the trend of a slight drop in inquiries to continue from 1H.

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 ipet Insurance Co., Ltd., one of its key subsidiaries. On that basis, Dream Incubator reported adjusted recurring profit of JPY210mn (+4.5% YoY).

Effective Q1 FY03/21, the company changed the name of its reporting segments. The former Professional Services segment will now be the Business Production segment, the Venture Capital segment will retain its name, the Insurance segment will now be the Pet Lifestyle segment. The Other business segment was replaced by the new HR Innovation segment, which consists of subsidiary Work Style Lab (WSL), formerly included under the Other segment. For purposes of comparison, segment results for Q1 last year were recalculated to match the new reporting segment scheme.

Business Production business

Business Production segment

For 1H FY03/21, the Business Production segment reported sales of JPY1.2bn (-8.5% YoY) and operating profit of JPY594mn (+90.4% YoY).

- Under the Business Production segment, the company operates a consulting business with the concept of creating leading businesses of next generation ("business producing"). In addition to providing strategic consulting services for major corporations and government agencies, the company also offers M&A financial advisory services, senior management training services, and strategic consulting and market research focusing on Asia.
- With the company having exited its money-losing market research business in Q2 FY03/20, the segment reported lower sales YoY in 1H, but sales were flat YoY adjusted for this factor. Segment profit improved YoY as the company worked to recoup losses from exiting from the market research business and reviewed its management costs.
- Consolidated subsidiary DI Asia (which conducts strategic consulting and market research in Asia) sold off its market research business following a review of its business portfolio.
- The slowdown in the economy in the wake of the novel coronavirus pandemic had some impact, as some projects were delayed and the company was forced to curb marketing activities, but the impact on 1H results at the segment was not very large.

Incubation business

Under its Incubation business, the company counts the Venture Capital segment, Pet Lifestyle segment, and HR Innovation segment.

Venture Capital segment

For 1H FY03/21, the Venture Capital segment reported sales of JPY949mn (+134.9% YoY) and an operating loss of JPY384mn (versus profit of JPY14mn in 1H FY03/20).

- 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. The segment also includes the domestic venture capital fund *Dimension Investment Partners Limited*, which it established and operates with the aim of expanding the scale of its investment in Japan.

- Dream Incubator funnels both capital and human resources into the start-ups in which it invests when they are at the stage where the company's deeper involvement is expected to help accelerate growth.
- In 1H FY03/21, the company completed a number of trade sales but the Venture Capital segment still finished in the red, hurt by valuation losses booked on three of its investees whose value had declined during the period.

Pet Lifestyle segment

For 1H FY03/21, the Pet Lifestyle segment reported sales of JPY10.7bn (+24.3% YoY) and operating profit of JPY143mn (-20.6% YoY).

- The Pet Lifestyle segment consists of the pet medical insurance business run by consolidated subsidiary ipet Insurance, which has been listed on the Tokyo Stock Exchange's Mothers market since April 25, 2018. On October 1, 2020, ipet holdings Inc. was founded as a pure holding company of ipet Insurance (previously TSE Mothers: 7323) by sole share transfer and listed as ipet holdings (TSE Mothers: 7339).
- As mentioned previously, the company uses adjusted earnings to gauge the true profitability of its pet insurance business. For 1H FY03/21, the segment reported adjusted earnings of JPY422mn, down 20.4% versus 1H FY03/20. The difference reflects adjustments to compensate for a change in its reserve calculation method (from the first-year income-expenditure balance method to the unearned premium method), which in the case of regular policy reserves meant an adjustment of -JPY60mn and in the case of catastrophe reserves meant an adjustment of JPY339mn (excluding regular provisioning).
- Sales growth at the Pet Lifestyle segment reflected continued strong growth in the number of policies in force, driven by an increase in new insurance customers amid robust pet-related demand. At the end of 1H FY03/21, the segment reported a total of 562,993 policies in force versus 54,768 at the end of FY03/20. On the cost side, the segment saw increases in expenses (such as commissions and collection fees) stemming from the growth in insurance policies sales and the increases in the number of policies in force, which in turn led to increases in net claims paid and loss adjustment expenses.
- The novel coronavirus pandemic did not have a significant impact on 1H results at the Pet Lifestyle segment.

HR Innovation segment

For 1H FY03/21, the HR Innovation segment reported sales of JPY497mn (+29.9% YoY) and an operating loss of JPY45mn (versus loss of JPY66mn in 1H FY03/20).

- Formerly known as the Other segment, the HR Innovation segment consists of subsidiary Work Style Lab, Inc. (WSL), which operates a matching platform for freelance consultants and became a wholly owned subsidiary in August 2018.
- The strong sales growth was driven by the expansion of its sales force last year (including digital transformation measures), which offset the drag from the pandemic.

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

Full-year company forecast for FY03/21

Summary

The company has not made earnings forecasts for FY03/21 because the profitability of the Venture Capital segment can vary greatly depending on conditions in the stock market and IPO market, but has said that it was looking to increase its NAV from JPY28.4bn at end-FY03/20 to JPY32.0bn at end-FY03/21 (+12.7% YoY).

The company's assumptions for individual businesses and segments are as follows:
When announcing Q1 FY03/21 results, the company changed the name of its reporting segments. The former Professional Services segment became the Business Production segment, the Venture Capital segment retained its name, the Insurance segment became the Pet Lifestyle segment. The Other business segment was replaced by the new HR Innovation segment, which consists of subsidiary Work Style Lab (WSL), formerly included under the Other segment. For purposes of comparison, segment results for Q1 FY03/20 were retroactively adjusted to match the new reporting segment scheme.

While the effects from the postponement of some projects and the company refraining from sales activities due to the COVID-19 pandemic are now becoming apparent in the Business Production segment, the effects on Q1 earnings were rather limited. The company does not expect a substantial deterioration in sales versus FY03/20, but also notes the risk of a downturn in orders should the effects of pandemic last for an extended period of time.

In the Pet Lifestyle segment (under Incubation Services), the company sees sales continuing to grow amid the ongoing expansion of the pet insurance market. The company also sees costs rising as the costs related to new policy signups continue to increase, but noted that the revenues from these new policies will continue adding to segment sales after FY03/21 because the revenues from insurances policies are booked over the course of several years. When announcing Q1 FY03/21 results, the company indicated that it expected the effects from the pandemic to be only minor, and accordingly did not lower earnings forecast for ipet Insurance the subsidiary had released. However, the company could revise the forecast should the pandemic go on for an extended period of time and have long-term effects.

As in the Business Production segment, the effects from the COVID-19 pandemic on the HR Innovation segment were relatively limited in Q1, though the company noted the risk of a decline in orders should the pandemic persist for an extended period of time.

The company expects that it will remain difficult to make an accurate forecast for the Venture Capital segment, as earnings are likely to fluctuate in line with stock market and IPO trends. When announcing Q1 FY03/21 results, the company noted that it expected to see several IPOs and trade sales in FY03/21, though it also pointed out the potential for delayed IPOs and unsuccessful transactions should market conditions deteriorate. The company also noted the potential for reduced capital gains and an expansion in provision of allowance for investment loss should the stock market fall into a slump for the year.

ipet Insurance: forecast for FY03/21

For FY03/21, ipet Insurance forecasts full-year recurring revenue of JPY21.9bn (+19.4% YoY), recurring profit of JPY400mn (-16.3% YoY), and net income of JPY250mn (-18.9% YoY). This assumes total policies in force of 581,000 (+14.3% YoY).

Impact of novel coronavirus pandemic (estimates as of the beginning of the fiscal year)

Near-term outlook (assuming the pandemic subsides by Q3)

Venture capital

A temporary slump in IPOs and markets due to the novel coronavirus pandemic may erode capital gains, while a prolonged IPO or market slump may result in impairment losses for investee companies. However, DI has improved its selection of investee companies and post-investment monitoring capabilities compared to before, and it does not expect any impact that would precipitate losses of the magnitude it incurred in FY03/08–09.

Business producing (consulting)

Assuming the novel coronavirus pandemic fades in Q1, DI believes it will be able to complete ordered projects without issues (negligible impact). However, if the pandemic only abates in Q3, the company believes orders for new projects may decline (major impact). DI intends to continue to deliver high-quality projects to existing clients and strengthen relationships with them, while hoping that the pandemic will soon be contained. However, if the pandemic drags on for a while, the company believes it will be affected by related impact.

Business investment

In the pet lifestyle field (ipet Insurance Co., Ltd.), DI anticipates only a small drop in the number of new policies, and therefore expects the impact to be negligible. In the fan marketing field (Boardwalk Inc.), the company looks for major impact as live events are cancelled. In the HR innovation field (Work Style Lab, Inc.), DI anticipates only minor impact from weaker inquiries if the pandemic comes under control in Q1, and major impact from lower orders if the pandemic only wanes in Q3.

Medium-term outlook

DI believes the novel coronavirus pandemic will likely prompt a fundamental change in the structure of industry. It anticipates a reversal in the relative positioning of industries, with core industries becoming secondary industries and vice versa. The company also expects telework to rapidly gain traction as the pandemic accelerates a process that would under normal conditions have unfolded at a gradual pace over a period of about 20 years. A growing number of people are keeping pets in pursuit of emotional wellbeing. The company believes the creation of businesses that tackle social problems and government policy on industry will assume growing importance going forward. Against this backdrop, DI will leverage its networks with major companies, startups, and government organizations to increase consulting and other business opportunities in fields it excels in—particularly, strategy, technology, policy, investment, and restructuring.

DI mainly engages in business investment and incubation in fields that cater to changing societal trends and needs. At present, it has three major investee companies, all of which address needs related to emotional wellbeing and career satisfaction against the backdrop of a society that is saturated with products.

▷ ipet Insurance Co., Ltd.: NAV of JPY10.3bn at end-FY03/20 (DI estimate). ipet Insurance is the second-ranked pet health insurance company in Japan. Partly due to the impact of the novel coronavirus pandemic, a growing number of people are keeping pets to support their emotional wellbeing, and DI says there has also been an increase in pet owners who adopt a second pet. The company thinks these trends should provide a tailwind for pet insurance. It also thinks the value and need to work in an office environment may decrease going forward, removing the need for workers to live near their workplace. Under such a scenario, office rents would decline while land prices in residential suburbs would increase. This trend would also mean that workers relocate to larger houses, which are more suitable for keeping pets.

▷ Boardwalk Inc.: NAV of JPY300mn at end-FY12/19 (DI estimate). Boardwalk operates an event ticket sales business, a fan club business, and an e-commerce business. DI believes Boardwalk will inevitably be affected by the novel coronavirus pandemic in FY12/20 (current fiscal year for the company). However, Boardwalk is preparing and plans to implement initiatives that involve online streaming of live events. It also continues to prepare for an IPO.

▷ Work Style Lab, Inc. (WSL): NAV of JPY500mn at end-FY03/20 (DI estimate). WSL operates a matching platform business for freelance consultants. As of May 2020, the extent of the impact of the novel coronavirus pandemic on WSL's business remained unclear. However, DI believes that the social challenges surrounding work styles (avoidance of closed spaces, crowded places, and close-contact settings; promotion of teleworking) may present a growth opportunity for WSL. DI plans to further invest in the company to allow it to expand in scale and tap into the changing needs of society.

As an initiative that aims to create businesses that address social problems, the company started exploring the introduction of social impact bonds (SIBs: a new form of public-private partnerships), with Toyota City and Maebashi City. In addition, it has been commissioned by the Japan International Cooperation Agency (JICA) to gather basic information and conduct confirmation research about public-private fund partnerships to cultivate entrepreneurs and small- and medium-sized enterprises (SMEs) worldwide.

- ▷ Toyota City, Aichi Prefecture: On February 25, 2020, DI and Toyota City concluded a memorandum regarding SIBs, which are a form of public-private partnership that aims to resolve social problems. The two parties will study and research how to leverage SIBs primarily in fields that face social problems in Japan, including medicine and healthcare, infrastructure maintenance and repair, disaster prevention, recycling, child education, and urban development.
- ▷ Maebashi City, Gunma Prefecture: On May 8, 2020, DI and Maebashi City started exploring the introduction of SIBs. The two parties will study and research applications for SIB schemes.
- ▷ JICA: As a consultant to JICA, DI plans to track trends in impact investment in developing countries, screen promising business sectors and companies to invest in, and make recommendations to establish an investment framework, including a new public-private sector fund.

* Social impact bonds (SIBs): SIBs are a type of cooperation between local governments and private-sector investors that combines performance-based contracts with private funding. They are positioned as a form of pay-for-success private-sector consignment contracts under which the performance of a business is assessed and visualized by the local government, and compensation to investors is paid in function of the assessment results. The business uses capital provided by the investors to cover service costs, and the investors are compensated by the local government once performance meets the predetermined targets agreed to by both parties.

Shareholder return measures

The company sees long-term returns to shareholders as an important management priority, and its policy is to distribute profit to shareholders using adequate methods at the appropriate time based on a comprehensive consideration of factors such as yearly operating performance, financial position, and future investment resources. In light of its current share price level, the company has determined the best way to maximize shareholder value in FY03/21 is by fully allocating profit toward share buybacks (rather than dividend payments). In FY03/21, DI plans to repurchase up to 250,000 shares (up to JPY30.0bn; 2.57% of shares outstanding excluding treasury shares). It will repurchase the shares from April 8, 2020 to March 31, 2021.

Company's thinking on its own enterprise value

NAV

DI has calculated a theoretical shareholder value as of end-June 2020 of approximately JPY32.8bn (or JPY3,242 per share) based on the sum of the estimated value of all its individual businesses and Q1 FY03/21 results. It expects the theoretical shareholder value to rise to about JPY50.0bn by FY03/23 (assuming CAGR of 20% from FY03/20 to FY03/23). However, as of August 11, 2020, there was a large gap between this theoretical value based on a sum-of-the-parts calculation and the actual market value of JPY14.4bn (JPY1,385 per share).

In Incubation Services, the company invests in other companies and using knowledge, expertise, and other strengths it has cultivated in strategic consulting, raises their corporate value; as a final exit strategy, it then sells the shares it owns, thereby securing profit. However, when it determines that listed companies in which it has invested have corporate values with the potential to rise even higher than current market appraisals, it does not normally sell their shares at that time.

The company believes that it is not possible to appropriately express its corporate value through just the income statements and balance sheets it prepares, which are based on the Japanese GAAP standard (securities other than trading securities are not marked to market). For this reason, and also based on demand from several institutional investors in Japan and overseas, the company looks to disclose its net asset value (NAV; a figure calculated based on mark-to-market valuations of assets) more actively in the future. The company acknowledges that there is room for improvement in terms of its evaluation range and methods, and it plans to refine these elements moving forward.

NAV calculation method used by the company

DI calculates its enterprise value using a sum-of-the-parts valuation model as follows.

- Venture Capital and Business Investment: (1) Listed companies: market capitalization at fiscal year-end x DI's holdings; (2) Unlisted companies (valuation method to be reviewed as necessary going forward): book value of investment stake at end of fiscal year ± mark-to-market valuation difference (recent financing prices or third-party transaction prices); (3) Holdings that cannot be valued using the methodologies in (1) and (2): book value without revaluation.
- Business Production: five-year average after-tax profit x P/E of sector peer.

Theoretical shareholder value based on Q1 FY03/21 results

Approximately JPY32.8bn in total (JPY3,242 per share; value calculated by subtracting net debt from the total value of stocks in the Business Production business, Business Investment, and Venture Capital): Up JPY4.4bn from end-FY03/20* (+JPY431 per share)

*Breakdown of the JPY4.4bn improvement since end-FY03/20: (1) +JPY2.5bn in Business Production, (2) +JPY1.4bn in Business Investment, (3) +JPY100mn in Venture Capital, (4) -JPY400mn in net cash

Dream Incubator: Calculation of Net Asset Value (NAV)

(as of end of period) (JPYmn)	FY03/20 (a)	Q1 FY03/21 (b)	FY03/21 Est. (c)	Note (Changes from (a) to (b), and other comments)
Total NAV	28,400	32,800	32,000	
YoY	-5.6%	15.5% (b/a -1)	-2.4% (c/b -2)	
Per share (JPY)	2,811	3,242	-	
Professional Services	9,900	12,400	-	- Improved profitability (slight increase over five years) - PER assumption: 30x (up from 25x previously)
YoY	-2.0%	25.3%	-	
% of total NAV	34.1%	37.6%	-	
Business Investment	11,500	12,900	-	- Share price recovered for ipet Insurance Co., Ltd. (consolidated subsidiary)
YoY	-14.8%	12.2%	-	
% of total NAV	39.7%	39.1%	-	
Venture Capital	7,600	7,700	-	- No significant moves with all of investments, recoveries, and impairment losses showing limited impact
YoY	11.8%	1.3%	-	
% of total NAV	26.2%	23.3%	-	
SUM	29,000	33,000	-	
YoY	-4.6%	13.8%	-	
% of total NAV	100.0%	100.0%	-	
Net debt	-600	-200	-	

Source: Shared Research, based on company data
*Note: The proceeds from the sale of venture capital investments are used to fund new venture capital investments

Theoretical shareholder value based on FY03/21 forecasts

The company estimates the theoretical shareholder value to be JPY32.0bn based on FY03/21 forecasts, JPY37.0bn based on FY03/22 forecasts, and JPY50.0bn based on FY03/23 forecasts.

Business

Business description

Consulting firm differentiating itself with “business producing”

Business overview

Dream Incubator (DI) is a consulting firm founded by the former Boston Consulting Group (BCG) president Koichi Hori in April 2000. The company’s objective is to produce and develop businesses. It has two mainstay businesses: Business Production and Incubation Services.

- In Business Production, the company provides business producing support aimed at creating leading businesses of next generation, growth and business strategy support, M&A advisory, and assistance in developing core management, to major corporations (domestically and overseas) and government agencies. Particularly characteristic of the company are its business producing support (more below), which drives future growth, and its growth strategy design support.
- In its Incubation Services business, the company conducts venture capital investment (Venture Capital) and offers 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 addition, DI also operates the DI India Digital Investment Fund, which invests in Indian technology startups, and the Dimension Investment Partners Limited fund, which invests in domestic startups. It has engaged in investment and incubation services for startups since its inception in 2000, and has invested in 179 companies to date (and closed out investments for 92 companies*). It has supported IPOs for 29 companies (as of end-March 2020). Its return on investment (ROI: total return/total investment) multiple is 2.2x and its internal rate of return (IRR: $[\text{total return/total investment}]^{1/\text{average investment period}}$) is 14% (as of end-March 2020). 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.
    - Venture capital investment (Venture Capital): Limited-stake investment (about 20% or less) focused on providing support with risk money. As of March 31, 2020, the company had a principal investment balance of JPY6.2bn (book value), including investment in 50 companies and LP (limited liability) investment in other companies’ funds. DI India Digital Investment Fund had AUM of JPY1.5bn and the Dimension No. 1 fund had AUM of JPY5.0bn.
    - Business investment: Investment with deeper commitment secured by obtaining near-majority stakes (or higher). As of March 31, 2020, the company held the following three business investments:
        - ipet Insurance Co., Ltd. (56.9% stake): Second-ranked pet health insurance business in the industry
        - Boardwalk Inc. (22.14% stake at time of investment in September 2015; 30% as of March 31, 2019 [46% including dilutive shares]; non-consolidated): Operates event ticket sales business; preparing for an IPO (in addition to the company, NTT Docomo, Inc. [TSE1: 9437] and Information Services International-Dentsu, Ltd. [TSE1: 4812] are primary shareholders)
        - Work Style Lab, Ltd. (100.0% stake): Matching platform business for freelance consultants

*Of the 92 companies for which DI has closed out investments (i.e., companies that have either generated a return or effectively gone bankrupt), 39 companies (42% of total) generated a positive return (income of JPY29.8bn on investment of JPY7.0bn). Investment in another six companies (6% of total) broke even (income of JPY500mn on investment of JPY500mn). Finally, 47 companies (51%) produced a negative return (income of JPY2.0bn on investment of JPY7.0bn). These investment results pertain to companies that have either generated a return or effectively gone bankrupt. Investment returns for listed companies are calculated based on the hypothetical sale of the company’s entire stake at the initial listing price.

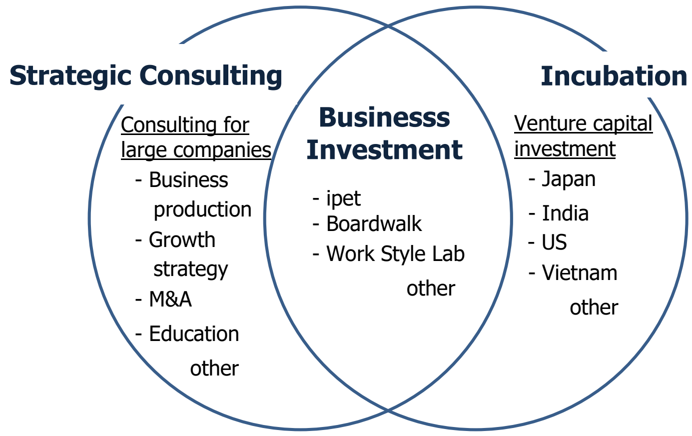
DI's vision for the future

- To mark the 20th anniversary of its founding in 2020, DI redefined its mission, vision, and value as follows.
  - Mission: Create businesses and change societies
  - Vision: Become the first choice of challengers
  - Value: ：Advance beyond boundaries
    - Envision beyond boundaries of areas
    - Formulate beyond boundaries of customaries
    - Partner beyond boundaries of organizations
    - Challenge beyond boundaries of ourselves
- DI provides business investment and incubation services and regards itself as the "The Business Producing Company." It is committed to continue "creating businesses and changing societies" as its mission in the future. Its vision is to "become the first choice of companies and managers in search of a challenge." In other words, the company aspires to "be a partner in the pursuit of new challenges." To produce new businesses, DI needs to envision new challenges, formulate strategies, and assemble partners to tackle such challenges. In each of these processes, the company believes the most important value to a business producer is to "transcend boundaries."

Business producing support

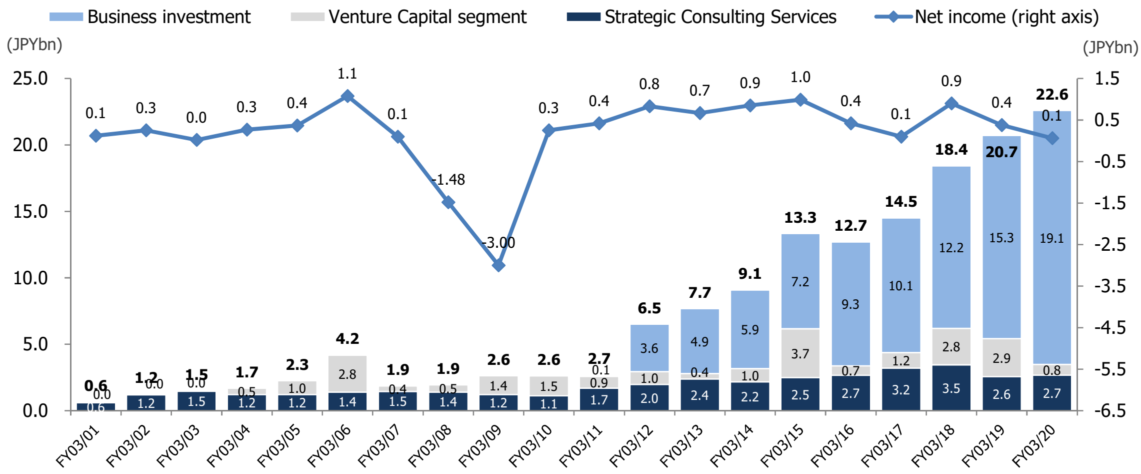
- The company said its core value is "business producing," referring to tackling social challenges, planning businesses with visions and ideas beyond industry barriers, formulating strategies, gathering reliable partners, and creating (or producing) added values. The company said that it has produced 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.
- 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 corporate value comprises its assets (venture capital companies and businesses) and its business creation and development mechanism (a combination between its business producing support, which it cultivated in strategic consulting, and its investment and business development). The company is working to ensure continued growth of its own corporate value.

Business producing



Source: Shared research based on company data

Sales and net income by segment

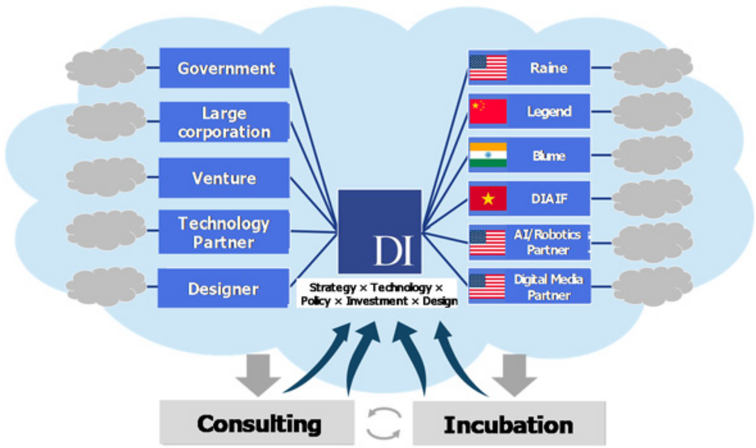


Source: Shared research based on company data

DI's ecosystem

- Through its Business Production segment (strategic consulting), the company has gained society- and industry-level perspectives that extend beyond the boundaries of management and its own businesses. The company is utilizing these perspectives in Incubation Services. On the other hand, in Incubation Services, the company has also cultivated substantive management abilities through working with investees from the perspective of an interested party, as well as networks of global and perceptive entrepreneurs and capitalists. These advantages enable the company to make effective and implementable consulting strategy proposals.
- 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 (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 Services 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

Global investment framework

- DI is focusing its energy on Japan, Asia (particularly India), and the US, and is putting together investment strategies for each of these regions. The company aims to establish a network that can keep excellent investment opportunities from slipping away and to systematically expand that network once it is in place.
- In Japan, which it considers its home base for global expansion, DI is focusing on uncovering the next generation of promising young entrepreneurs. The company uses its own media (Venture Navi at http://venturenavi.dreamincubator.co.jp/) and SNS to publish interviews with entrepreneurs with proven track records. It also holds closed study meetings for entrepreneurs.
- In Asia (particularly India), which it considers the next frontier, DI is focusing on fields that have been displaying extraordinary growth (especially B2C), making investments jointly with influential local venture capital investors. In India, it has invested in 19 companies involved in fields including mobile entertainment, fintech, consumer tech, healthcare tech, sharing economy, and HR tech. Furthermore, it established the DI India Digital Investment Fund in April 2018 (details follow).
- In the US, which it considers the epicenter of innovation, DI is focusing on the most advanced businesses and technical fields, making investments jointly with influential local venture capital investors. It has invested in the latest technology, including digital tools, hardware tech (university-originated technology startups), and digital media, and aims to use this technology in business producing.

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

DI India Digital Investment Fund

In April 2018, DI established the DI India Digital Investment Fund as a subsidiary enterprise to invest in technology startups in India (see the Recent updates section). DI completed the first round of fundraising, securing a total of JPY1.5bn in committed capital, and investment activities commenced in April 2018. This is the first venture capital fund specializing in India to be operated by a Japanese company alone. Via this fund, DI plans to further accelerate its investment activities* in India, which it expects to grow into a major focal point on the global startup ecosystem. In order to promote the creation of business opportunities between Japanese and Indian companies, DI aims to nurture the fund into a platform for joint Japan-India digital business initiatives. In the mobile entertainment field, the company will conduct investment activities in partnership with one of the fund's investors Akatsuki Inc. (also refer to Segment breakdown, Incubation section, fund diagram).

*DI began venture capital activities in India in 2015 and as of April 2018 had invested in 10 startups (including non-public companies) chiefly in the area of B2C.

Venture capital in India:
In India, the last and fastest growing frontier, the startup ecosystem has developed rapidly.

- Total 2012–2016 venture capital investment exceeded USD20.0bn. (Source: KPMG, "Venture Pulse Q4 2016 Report")
- The number of tech startups has exceeded 5,000. (Source: NASCOM: "Indian Startup Ecosystem – Traversing the maturity cycle")
- India has 10 unicorn companies. (Source: CB Insight, "The Global Unicorn Club (as of March 2018)")
- Major US and Chinese IT companies (US: Google, Apple, Facebook, Microsoft, and Amazon; China: Baidu, Alibaba, Tencent, and others) are expanding investment. In particular, in light of the rapid increase in smartphone use, leapfrog-type development (in which technology or business develops rapidly, skipping over typical developmental phases) is occurring in the areas of retail and distribution, finance, media and entertainment, medicine, and mobile computing. This has brought significant change to India's economy and produced numerous globally active companies and entrepreneurs.

Dimension Investment Partners Limited

Dimension Investment Partners Limited invests in Japanese startups. DI has established the Dimension No. 1 fund (maximum size of JPY5.0bn; investment period of nine years) with investment from Mizuho Bank, Ltd., Akatsuki Securities, and individual investors. The fund is managed by Dimension Investment Partners Limited (51.3% of voting rights held by DI as of end-March 2020). It will invest in roughly 20 investee companies, and work closely together with these companies to support them. Initial investees will be startups in the nascent, early, or later (but pre-IPO) stages of development. The fund will aim to support a large number of companies operating in advanced technology fields ranging from Internet services to deep tech.

Segment breakdown

- DI consists of two businesses: Business Production (formerly Professional Services) and Incubation Services.
- The company's consolidated reporting segments are Business Production (primarily comprising the former Strategic Consulting segment) and Incubation Services, which breaks down into the Venture Capital segment, the Pet Lifestyle segment (formerly the Insurance segment), and the HR Innovation segment (formerly the Other segment)[*1*2].

*1 When announcing Q1 FY03/21 results, the company changed the name of its reporting segments. The former Professional Services segment became the Business Production segment, the Venture Capital segment retained its name, the Insurance segment became the Pet Lifestyle segment. The Other business segment was replaced by the new HR Innovation segment, which consists of subsidiary Work Style Lab (WSL), formerly included under the Other segment.

*2Before FY03/17, the company had four consolidated reporting segments: Strategic Consulting Services, Venture Capital, Insurance, and Other. Before FY03/16, DI had six segments: Asset Liquidation and Intellectual Rights Investment in addition to the above four segments (the former Consulting segment was renamed Strategic Consulting Services when FY03/17 results were announced). 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.

*3When accounting for investees to which its commitments meet or exceed predetermined levels (stakes of 15% or more, executive dispatch, etc.), the company may apply the equity method or include the investee as a consolidated subsidiary in accordance with accounting standards. Similarly, in accordance with segment disclosure standards, the company is sometimes required to list segment information separately for an investee whose earnings results exceed pre-determined scales. In light of these standards, the Insurance segment was listed separately as of March 31, 2019.

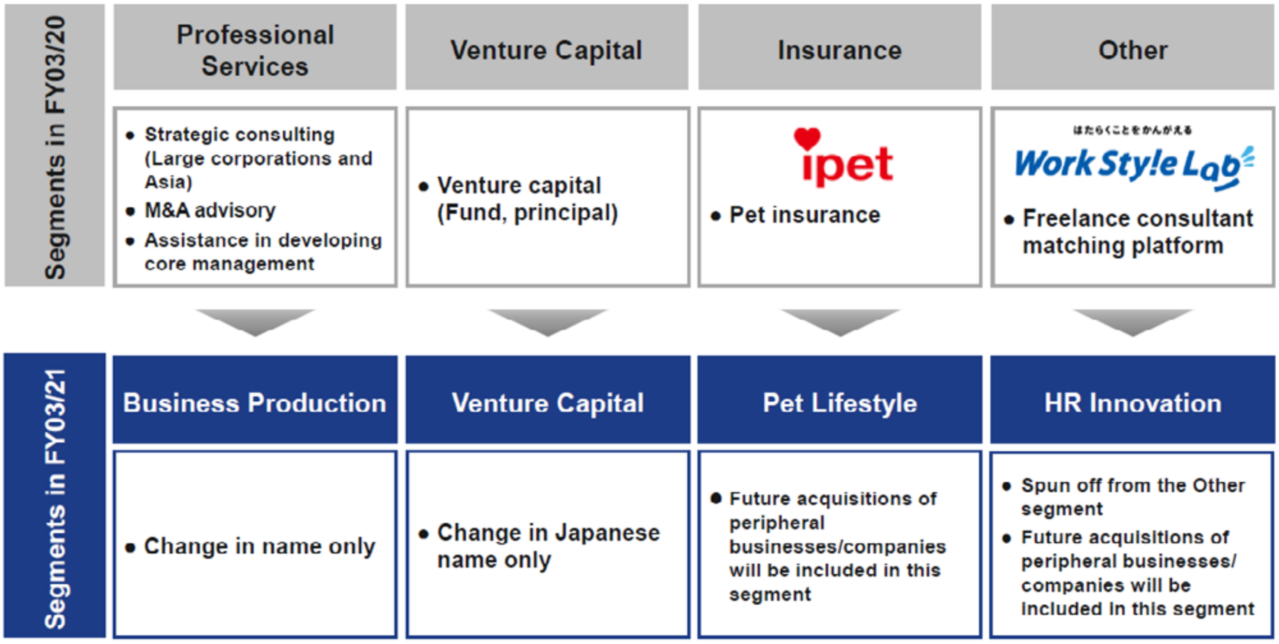
- In terms of its business investments (three companies as of March 31, 2020) the company makes investments with the goal of developing investees and not merely to control or consolidate them. The company may, in some cases, book periodic gains or losses from its investees, but even in these cases, it plans to ultimately sell its shares in these companies, as it does for all companies targeted for investment and development. However, at the time of sale, the company comprehensively considers factors including stock market conditions, earnings trends and growth potential of the companies for which it provides support, and the progress of that support. It then makes final decisions with the goal of securing profit from the sale of shares in the investees. As a result of this careful consideration, the company may sell shares relatively shortly after acquiring them, or it may sell them after retaining them for long periods of time.

Sales by segment and composition ratio

(JPY mn)	FY03/17		FY03/18		FY03/19		FY03/20	
	Sales	% of total	Sales	% of total	Sales	% of total	Sales	% of total
Professional Services (segment)	3,202	22.0%	3,454	18.8%	2,556	12.3%	2,679	11.9%
Incubation Services	11,324	78.0%	14,964	81.2%	18,192	87.9%	19,928	88.2%
Venture Capital segment	1,179	8.1%	2,752	14.9%	2,867	13.8%	801	3.5%
Insurance segment	10,067	69.3%	12,212	66.3%	14,876	71.8%	18,157	80.4%
Asset Liquidation segment	-	-	-	-	-	-	-	-
Intellectual Rights Investment segment	-	-	-	-	-	-	-	-
Others segment	78	0.5%	0	0.0%	448	2.2%	969	4.3%
Intersegment transaction	-	-	0	0.0%	-43	-0.2%	-12	-0.1%
Consolidated sales	14,526	100.0%	18,418	100.0%	20,705	100.0%	22,595	100.0%

Source: Shared Research based on company data
Note: Professional Services figures for FY03/16 and FY03/17 only include results from the Strategic Consulting segment.

Business segments



Source: Shared Research based on company data

Business Production (formerly Professional Services; 11.9% of total sales in FY03/20)

▷ This segment comprises the strategic consulting business, the core business for the company since its establishment by former employees of Boston Consulting Group (BCG), and DI Asia (merger between the former DI Vietnam and DI Marketing). (Shared Research note: DI Asia 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 in October 2019, and will concentrate its resources on coordinating with Business Production and Incubation Services.)

- In Business Production, the company provides various services in addition to strategic consulting services for major corporations and 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.
    - About 70% of projects have themes focused on creating pillars of client companies' businesses in five to ten years (business creation and growth strategies): 36% are in business producing (business creation), 37% are in business strategy/growth strategy, and 26% are other project types (all figures are based on respective shares of results from FY03/15–FY03/19).
- As mentioned above, DI Asia had been a part of the Professional segment but its market research business and consumer panel were transferred in October 2019. It had been a consolidated subsidiary formed as the result of a merger between Dream Incubator Vietnam Joint Stock Company (DI Vietnam)—a consolidated subsidiary that accounted for a portion of the Strategic Consulting Services segment—and DI Asia Inc. (formerly DI Marketing Co., Ltd.), which was previously included in the Other segment. In an effort to expand its services in Asian regions, the company had merged the two companies and made a subsequent revision to its classification of business categories, including the newly formed DI Asia in its Strategic Consulting Services segment, which was newly classified under the Professional Services segment.
- As the group's first overseas base, the former DI Vietnam has been providing strategic consulting for markets in all ASEAN regions, conducting investment in local companies, and performing incubation services since 2007.

- The former DI Marketing was established in Vietnam in 2014 and performed online and strategic research, primarily for Asian markets. DI Asia had about 1.65mn panel members in Southeast Asia as of March 31, 2019. As mentioned above, its market research business and consumer panel were transferred in October 2019.

- The company calls consulting practices in Business Production "business producing," (more in the Business overview section) 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 Business Production 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.
- Strategic 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 strategic consulting business tends to focus on leading firms. In FY03/19, 14 of its 27 clients (about half) were among the biggest players in their respective industries. Eighteen of these companies—including the aforementioned 14—were among the top three in their sectors. DI generated 70.4% of its overall sales from such clients in FY03/19.

Client ranking by recurring profit

Recurring profit	Client' ranking in each industry (no. of companies)			
	1st	2nd	3rd	4th and below
JPY500bn and more	5			
JPY100–500bn	6	1		
JPY50–100bn	2			
JPY10–50bn	1	2	1	4
Less than JPY10bn				5
Total	14	3	1	9
% of sales	70.4%	13.0%	1.2%	15.4%

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. Among its notable achievements are its advising of Tosoh Corporation on the acquisition of an Indian company, Lilac Medicare Private Limited, and advising of Takasago Thermal Engineering Co., Ltd. on share purchase of another Indian company, Integrated Cleanroom Technologies Private Limited.

Main cross-border projects

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 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 62 graduates over the past 17 years leading up to 2019 (33 from the University of Tokyo, seven from Kyoto

University, three from the Tokyo Institute of Technology, five from Waseda University, four from Hitotsubashi University, and three from other institutions).

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 (88.2% of total sales in FY03/20)

- In Incubation Services, DI invests its own principal and principal from a fund to develop venture companies deemed integral to new industries.
- When investing, the company determines an investment amount based on the developmental stage, capitalization, and support requirements of the target company, resulting in anywhere from small holdings of less than 5% to large holdings of over 50% (venture capital investment: limited share, mostly supplying risk money; private equity investment: high share, mostly business strategy support).
- When DI deems it can accelerate the growth of an investment target by providing not just capital injections, but also business support, it acquires a share suited to its management commitment and conducts management support (private equity investment).

Venture Capital segment (3.5% of sales in FY03/20)

- 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 JPY6.4bn (+10.4% YoY) of investment securities on its balance sheet as of end-FY03/20.
- 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.
- Domestically, DI has invested JPY2.0bn (book value) in 24 companies (as of end-FY03/20, excluding post-IPO; only principal target companies with book value of JPY2.0mn or more). 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.

- Overseas, DI has invested JPY1.2bn (book value) in 19 companies in India, JPY200mn (book value) in four companies in the US, and JPY560mn (book value) in three companies in other regions (as of end-FY03/20).

Track record of primary venture capital investments/support (FY03/20)

▷ Slogan (Japan) Human resources support service for new industrial fields	▷ MESH Well (Japan) Daywork matching service specializing in apparel sector	▷ SHOWROOM (Japan) Live streaming platform	▷ Goji & Company (Japan) Microfinance provider for emerging countries	▷ Brandit (Japan) Develops direct-to-consumer (D2C) brands by recruiting influencers
▷ SingulaNet (Japan) Blockchain for companies	▷ Cover* Virtual YouTuber company	▷ Gracia (Japan) E-commerce website for gifts	▷ LegalForce (Japan) Contract review support using AI	▷ Div (Japan) Programming course services
▷ Bulk MRO (India) E-commerce sales of indirect materials	▷ Aegis Care Advisors (India) Elderly caregiver and nurse matching service	▷ Netdox Health (India) Cancer treatment and hospital referral service	▷ Tricog Health (India) AI-powered electro-cardiograms Support for telehealth	▷ Catbus Infolabs (India) Urban logistics platform
▷ SUPER GAMING (India) Game apps	▷ Healthify Me (India) Health management app	▷ Rizort (India) Online travel agent catering to affluent customers	▷ Qyuki Digita Media (India) Digital video ads	▷ WhizDM Innovations (India) Marketplace for consumer loans

Source: Shared Research based on company data
*Investments were made in April 2020 (FY03/21), but announced in FY03/20. Underlined company names indicate additional investments.

Recent track record

	IPO	Stake	Business description
Alue Co., Ltd.	April 2018	n.a.	Training service for working people utilizing HR development data and machine learning technology
ipet Insurance Co., Ltd.	December 2018	56.9%	Medical insurance business for pets
LTS, Inc.	December 2017	16.5%	Development and operation of renewable energy power facilities
Renova, Inc.	December 2017	0.5%	Work style reform support leveraging robotics, AI and BPM
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 sales of imported construction materials
Photocreate Co., Ltd.	July 2013	12%	Online photo shop
Star Flyer Inc.	December 2011	1.7%	Airline company
eBook Initiative Japan Co., Ltd.	October 2011	5%	Sales of e-books

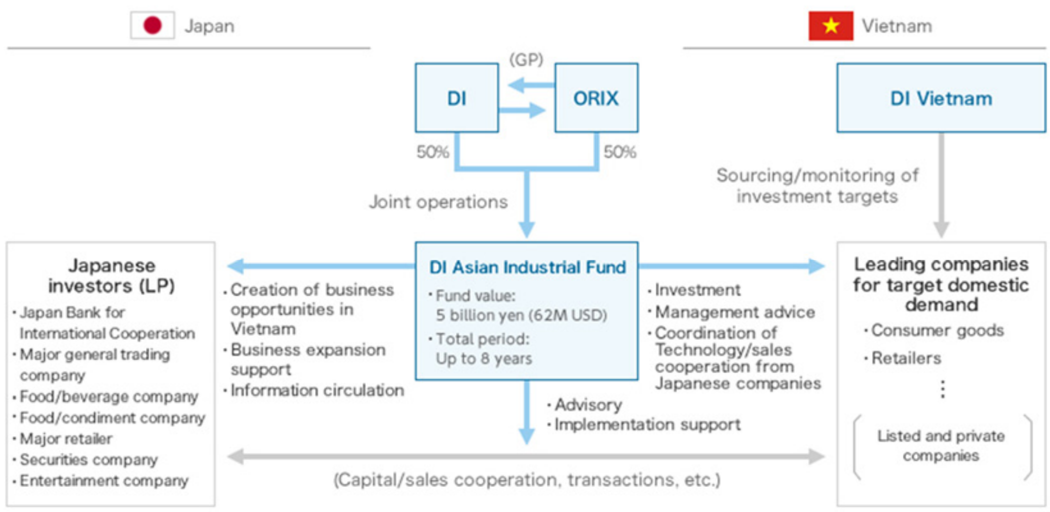
Source: Shared Research based on company data
Note: Percentage owned at the time of IPO; includes diluted shares

Asia

- 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%.

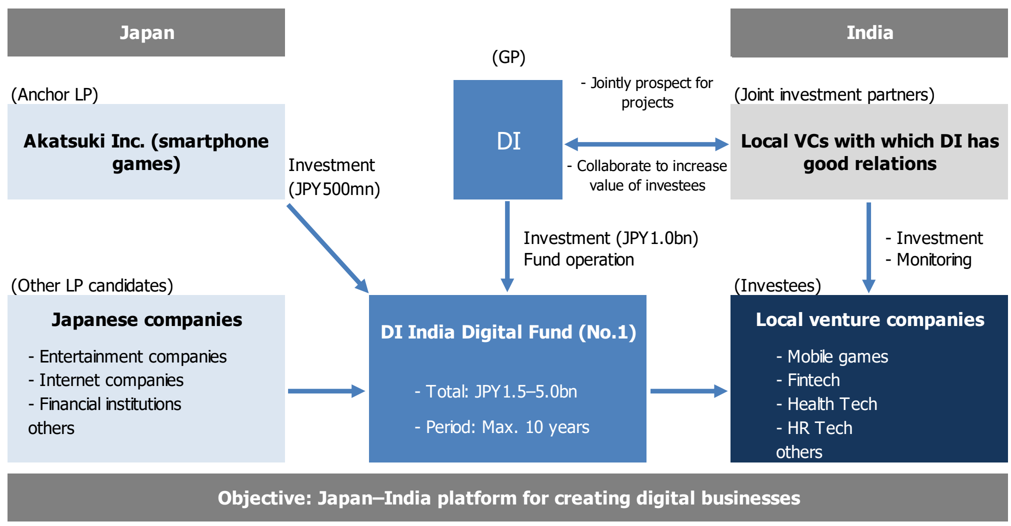
- In FY03/14, DIAIF acquired around 25% in Santedo Corporation as the third investment. Santedo is a holding company that owns a drug wholesaler and a chain of pharmacies in Vietnam. Duy Tan Pharmaceutical Joint Stock Company, the wholesaler of generic pharmaceuticals under Santedo, has exclusive rights 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 in April 2018 established DI India Digital Investment Fund as a subsidiary enterprise to invest in technology startups in India. The company completed the first round of fundraising, securing a total of JPY1.5bn in committed capital. Investment activities commenced in April 2018.

DI Asian Industrial Fund



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

DI India Digital Investment Fund

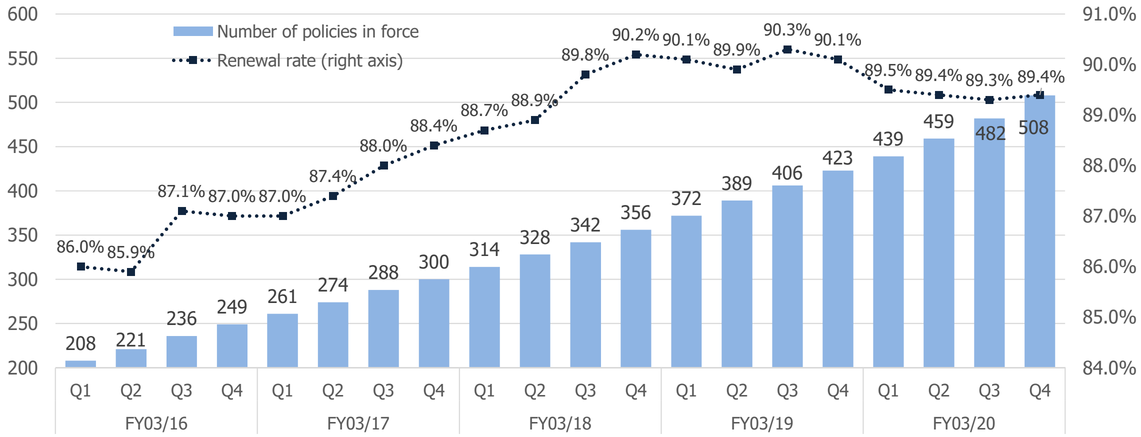


Source: Shared Research based on company data

Pet Lifestyle segment (formerly the Insurance segment; 80.4% of total sales in FY03/20)

▷ The Pet Lifestyle business is centered on ipet Insurance Co., Ltd., a subsidiary established in May 2004.

Number of ipet's insurance policies and renewal rates



Source: Shared Research based on company data

▷ 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. Ipet completed an IPO on the Tokyo Stock Exchange Mothers section on April 25, 2018 (at the time of listing, DI's stake in ipet stood at 58.94%, excluding treasury stock).

▷ 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.

▷ The market for pet insurance in FY2019 was JPY82.4bn (based on Yano Research Institute estimates included in the medium-term plan of ipet Insurance). Pet insurance compensates for medical expense for injured or ill pets when receiving treatment at animal hospitals.

▷ There are 15 companies, including ipet Insurance, operating in the pet insurance industry (four non-life insurance companies and 11 small amount and short-term insurance companies; as of May 2019). The market leader is Anicom, with a 55% market share (58% in FY03/18), followed by ipet Insurance (25.1% share as of end-December 2019 according to DI research). ipet Insurance handled 508,225 policies as of end-FY03/20 (+20.0% YoY), with sales (underwriting revenue) of JPY18.1bn in FY03/20 (+22.1% YoY), for an approximate 20% market share. As of June 1, 2020, the number of animal hospitals that accepted pet insurance was about 8,900 nationwide, of which 5,088 hospitals, or about 50%, accepted ipet's pet insurance. The company is aiming to increase this figure to 6,000 at an early stage.

▷ Sales are mostly handled via pet shop agencies and ordinary agencies (911 agencies nationwide: all figures in this paragraph are as of March 2019). The main sales channel is pet shops. Of about 4,000 pet shops nationwide, ipet sells pet insurance through 1,766 of them (and has concluded agency contracts with 717). Competitor Anicom sells its pet insurance not only at pet shops but also via conventional insurance agents that also handle other forms of nonlife insurance such as financial and auto insurance.

▷ 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 (https://petfood.or.jp/data/index.html), pet demand in Japan peaked in 2008, when there were 24.0mn house pets. The number declined to 18.6mn in October 2019 (8.8mn dogs and 9.8mn cats).
- According to Fuji Economic Research Institute, pet insurance rates have been making double-digit growth, with the number of policyholders 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 claims 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 claims ratio is due to the negative impact of Anicom's aggressive expansion plans implemented 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 (12.7% for ipet; 9.3% for Anicom in FY03/20). The amount of new policies (compared to existing policies) is higher for ipet Insurance (over three years through FY03/20, new policies grew by 1.69x at ipet Insurance, versus 1.28x at Anicom).

Performance comparison	FY03/15		FY03/16		FY03/17		FY03/18		FY03/19		FY03/20	
(JPYmn)	ipet	Anicom	ipet	Anicom	ipet	Anicom	ipet	Anicom	ipet	Anicom	ipet	Anicom
Underwriting revenue	6,363	21,733	8,126	26,506	10,067	28,068	12,212	31,290	14,831	34,535	18,115	39,105
Loss ratio	34.6%	64.4%	36.7%	60.1%	38.8%	58.9%	39.9%	59.2%	42.4%	59.0%	44.5%	57.8%
Operating expense ratio	50.9%	28.3%	49.5%	31.1%	48.7%	32.1%	48.0%	35.2%	46.4%	34.5%	43.6%	37.1%
Recurring profit margin	-22.9%	5.5%	3.8%	8.0%	2.9%	11.4%	4.6%	5.7%	2.0%	6.4%	2.6%	5.3%
Renewal rate	na	88.7%	86.5%	88.2%	87.7%	88.2%	89.4%	88.2%	90.1%	87.7%	89.3%	87.2%
Number of pet shop agencies (stores)	-	1,490	-	-	-	-	1,640	-	-	-	-	-
Number of policies	196,964	544,815	249,330	585,962	300,203	635,670	355,513	698,566	423,352	753,332	508,225	816,254
Number of networked hospitals	3,427	5,773	3,770	5,969	4,085	6,083	4,421	6,265	4,701	6,417	5,054	6,466

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

- The length of a pet insurance policy is one year, with policyholders renewing their policies about 89.3% of the time (as of Q4 FY03/20). Revenues are insurance premiums (98.8% 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 can be divided into other variable costs (agency fees) and fixed costs. The net claims ratio for FY03/20 was 44.5% (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 segment saw a healthy stream of new policies and the persistency rate for pet insurance for medical expenses in FY03/20, resulting in sales of JPY18.2bn (+22.1% 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 segment operating profit of JPY157mn in FY03/16. Segment operating profit increased to JPY402mn in FY03/18. Segment operating profit was JPY134mn (-66.7% YoY) in FY03/19, but rose to JPY221mn in FY03/20. DI also discloses operating profit after

adjustment related to the regular policy reserve and the catastrophe reserve, a figure it believes is a useful indicator of profit/loss status. Post-adjustment FY03/20 Insurance segment profit was JPY866mn (+13.2% YoY).

Insurance segment performance

Income statement (JPYmn)	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
No. of policies in force	**249,330**	**300,203**	**355,513**	**423,385**	**508,225**
YoY	26.6%	20.4%	18.4%	19.1%	20.0%
Revenue	**8,126**	**10,067**	**12,212**	**14,876**	**18,157**
YoY	27.7%	23.9%	21.3%	21.8%	22.1%
Segment profit	**157**	**177**	**402**	**134**	**221**
YoY	-	12.7%	127.1%	-66.7%	64.9%
Adjustments to ordinary underwriting reserve*	**na**	**47**	**-117**	**155**	**64**
Adjustments to catastrophe reserve**	**na**	**322**	**391**	**475**	**580**
Insurance segment profit (adjusted)	**na**	**547**	**676**	**765**	**866**
Net loss ratio	36.7%	38.8%	39.9%	42.4%	44.5%
Net operating expense ratio	49.5%	48.7%	48.0%	46.4%	43.6%

Source: Shared Research based on company data
*Adjustment related to underwriting reserve: Calculation changed from first-year income-expenditure balance method to unearned premium method
**Adjustment related to catastrophe reserve: Impact of provision is eliminated

ipet Insurance performance

(JPYmn)	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Recurring revenue	**8,128**	**10,071**	**12,268**	**14,941**	**18,334**
Underwriting revenue	8,127	10,067	12,212	14,831	18,115
Net premiums written	8,127	10,067	12,212	14,831	18,115
Investment revenue	2	4	50	60	173
Interest and dividend income	1	3	30	60	125
Gain on sale of securities	-	-	19	-	40
Other recurring revenue	0	0	6	49	45
Recurring expenses	**7,820**	**9,773**	**11,706**	**14,643**	**17,920**
Underwriting expenses	4,639	5,851	6,983	9,398	12,237
Net claims paid	2,816	3,628	4,523	5,788	7,443
Loss adjustment expenses	169	277	354	493	623
Commission and collection fees	829	984	1,146	1,658	2,320
Provision for outstanding losses and claims	105	161	162	168	326
Provision for underwriting reserves	719	799	796	1,289	1,522
Operating and administrative expenses	3,190	3,921	4,713	5,224	5,579
Other recurring expenses	-9	0	9	19	104
Investment expenses					
Interest	-	-	-	-	-
Allowance for doubtful accounts	-9	-	-3	-	-
Amortization of deferred assets under Article 113	-	-	-	-	-
Other Recurring Expenses	-	-	12	4	49
Deferred assets under Article 113 of the Insurance Business Law	0	0	0	0	0
Recurring profit	**308**	**297**	**561**	**297**	**413**

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

Reference: Insurance accounting

Based on Ordinance for Enforcement of the Insurance Business Law, Article 70-1-1, non-life insurance companies book the larger of either the unearned premium[1] balance or the first-year income-expenditure balance[2] as an underwriting reserve, and book the difference between the current financial year's balance and the previous financial year's balance as an expense in the current financial year. ipet Insurance is currently booking the first-year income-expenditure balance as an expense based on financial accounting. In the event that the first-year income-expenditure balance is set aside as the regular policy reserve[3], any profit/loss related to policies in that financial year is not recognized in the initial year (refer to note in box), so even if sales increase around 20% YoY with an increase in policyholders, profit may appear stagnant.

[1] **Unearned premium**: amount equivalent to liabilities for the unexpired period on an insurance policy calculated based on insurance premiums received
[2] **First-year income-expenditure balance**: premium income for a particular business year less insurance proceeds, refunds, payment reserves disbursed in relation to the insurance policy under which the insurance premiums were received in the relevant business year and business expenses incurred in the year
[3] **Underwriting reserves for non-life insurance companies**: at every settlement date, non-life insurance companies are required to set aside policy reserves (Ordinance for Enforcement of the Insurance Business Law, Article 70). Policy reserves are funds set aside by insurance companies to pay for insurance policy obligations such as future claims payouts. A typical example is the regular policy reserve, which entails setting aside insurance premiums pertaining to insured periods covering the next financial year and beyond. The sum of insurance premium reserve[4] and unearned premiums[1] and the first-year income-expenditure balance[2] are calculated. The greater of the two is set aside as the regular underwriting reserve.
[4] **Insurance premium reserve**: an actuarially calculated amount to cover future obligations under insurance policies (excluding the amount set aside as refund reserves)

Note: How to view first-year income-expenditure balance: The following formula shows how to view this item.
Insurance premium income - (insurance claims and business expenses disbursed by settlement date) = portion of insurance claims and business profits pertaining to insurance premiums and business expenses after settlement date. Accordingly, when the larger amount is set aside as the first-year income-expenditure balance, profits relating to contracts for that year are not recognized in the first year. According to the company, for its consolidated subsidiary ipet Insurance, the first-year income-expenditure balance is greater than the sum of insurance premium reserve and unearned premiums.

DI considers profit/loss, calculated using the unearned premium method, to be an important indicator for tracking the profit/loss status of ipet Insurance. This is because profit calculated using the unearned premium method is equal to profit on an accrual basis, so it is possible to compare periods and appropriately reflect management status. On the other hand, the first-year income-expenditure balance method is based on the principle of premiums equaling paid claims and expenses. The balance of premiums for the current financial year minus claims and expenses becomes the funds for paying claims in the next financial year or later. For this reason, profit calculated by the first-year income-expenditure balance method is not the same as profit on an accrual basis, and therefore the company believes comparison between periods is not possible. Furthermore, there are no listed non-life insurance companies that use the first-year income-expenditure balance method, so also from the perspective of making comparisons with competitors in the non-life insurance business, DI believes it makes more sense to use profit calculated by the unearned premium method, which is more useful for investors who want to evaluate the company's performance.

DI also believes it unlikely the claims ratio will grow and cause the catastrophe reserve*[5] to be used up.

[5] Catastrophe reserve: a type of reserve in which a certain ratio of insurance premiums received is set aside each financial year to prepare for payment of compensation against catastrophe. In the event the reserve exceeds the claims ratio shown in the table attached to Article 2 of Ministry of Finance Notice No. 232, the portion exceeding the claims ratio is reclaimed. Since the claims ratio for ipet Insurance is lower than the standard ratio, ipet multiplies the amount of insurance premiums received by 3.2% and provides that amount as a reserve.

For this reason, DI believes profit calculated by the unearned premium method, with the catastrophe reserve taken into account, is a useful indicator for tracking ipet Insurance's management status. The company also believes that consolidated results based on that calculation (post-adjustment profit) are useful for investors wanting to evaluate the company's performance.

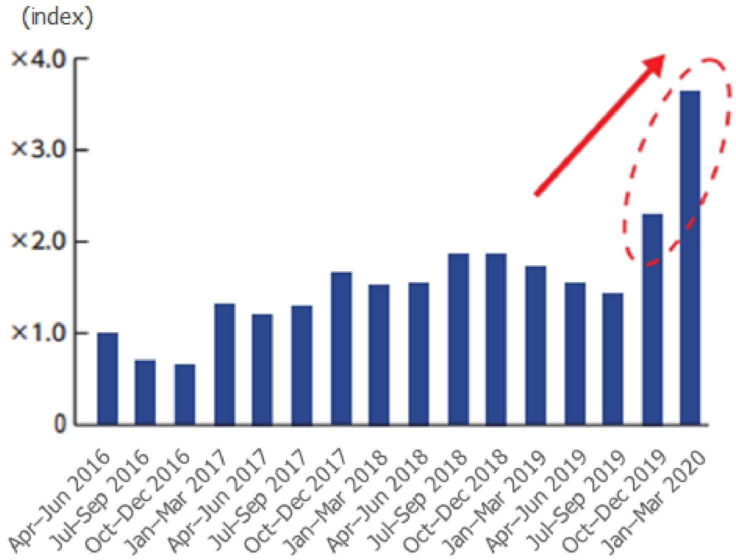
HR Innovation segment (formerly the Other segment; 4.3% of sales in FY03/20)

▷ Includes Work Style Lab, Ltd. (WSL; acquired in August 2018 and made a subsidiary), which operates a matching platform business for freelance consultants. In FY03/20, WSL reported sales of JPY960mn (JPY440mn in 2H FY03/19) and a recurring loss of JPY120mn (loss of JPY20mn in FY03/19). Sales were strong, but WSL also incurred upfront expenses associated with business expansion (investments in technology and personnel) and amortization of goodwill. WSL is restructuring its sales organization and systems, and optimizing its infrastructure foundations. Gross profit, one of the company's KPIs, expanded in 2H FY03/20 in part due to efforts to strengthen the company's sales force (see figure below).

▷ WSL's business model: WSL has established a platform that outsources operations to freelance consultants. Through this platform, WSL receives fees for the outsourced operations from client companies, pays the freelance consultants for their services, and takes the difference as profit. WSL acts as a mediator between freelance consultants who seek independent and flexible working styles and companies that either do not want to incur fixed personnel expenses or wish to hire personnel on an ad-hoc basis. About 2,000 consultants were registered on this platform as of March 31, 2019.

▷ It is unclear how the novel coronavirus pandemic will affect WSL in the future (as of May 2020). However, DI believes social challenges surrounding work styles (avoidance of closed spaces, crowded places, and close-contact settings; promotion of teleworking) may present a growth opportunity for WSL. It plans to further invest in WSL to allow it to expand in scale and tap into the changing needs of society.

WSL's quarterly gross profit



Source: Company data
Note: Total gross profit for April–June 2016 indexed at 1.

Overseas expansion

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

DI Asia Inc. (sold market research business and consumer panel in FY03/20)

▷ The company has been restructuring the business portfolio of consolidated subsidiary DI Asia Inc.[*6] (Professional Services segment), which did not post a full-year profit in FY03/19. In October 2019, the company announced that it would transfer some of DI Asia's assets and businesses, specifically the market research business and consumer panel.

- ➢ Consumer panel: Consumer panels in three Southeast Asian countries (Vietnam, Thailand, and Indonesia) to be transferred to Macromill, Inc.
- ➢ Market research business: To be transferred to N&S Partners Inc., founded by DI Asia's former president Hideyuki Kato

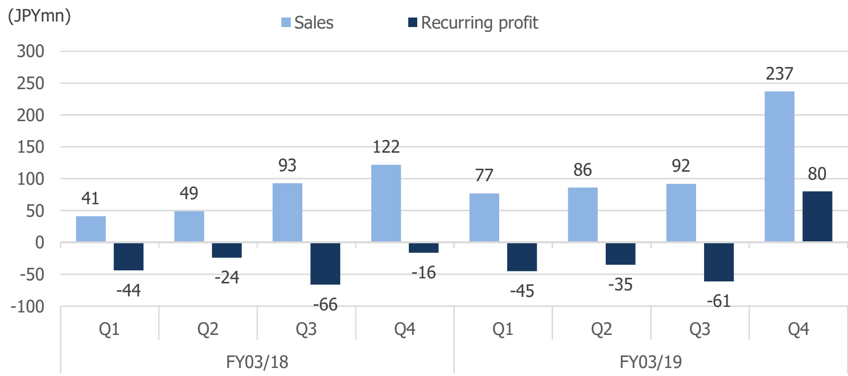
*6 DI Asia Inc.: In July 2018, the company merged DIM[*7] with DI Vietnam[*8], a subsidiary established in 2007 to serve as the company's consulting base for Vietnam, and named the resulting company DI Asia Inc. Through the merger, the company was able to integrate the upstream process of consulting, which DIM lacked, with the downstream process of research, which DI Vietnam did not have. In doing so, it sought to offer strategic consulting and online strategy research services with high value-added, leveraging a direct network of over 1.2mn consumers (B2C) and intellectuals in various fields (B2B) in Southeast Asia. It also began collaborating with Work Style Lab, Ltd., a consolidated subsidiary of the company, in FY03/19. Through this collaboration, the two companies mutually introduce services to each other's customer bases and cross-sell research and freelance consultants.

*7 DI Marketing Co., Ltd. (DIM): In 2014, the company established new subsidiary DI Marketing Co., Ltd. (DIM) to focus on marketing (Facebook-based online marketing for local Vietnamese companies), while taking advantage of the relationships it has built between operations in different locales.

*8 Dream Incubator (Vietnam) Joint Stock Company (DI Vietnam): The company's Vietnam office established in 2007 was its first and primary overseas base. This office provides strategic 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. As the group's first overseas base, DI Vietnam has built a vast network of experts through its strategic consulting, which targets all ASEAN regions, and its investment and incubation services for local companies.

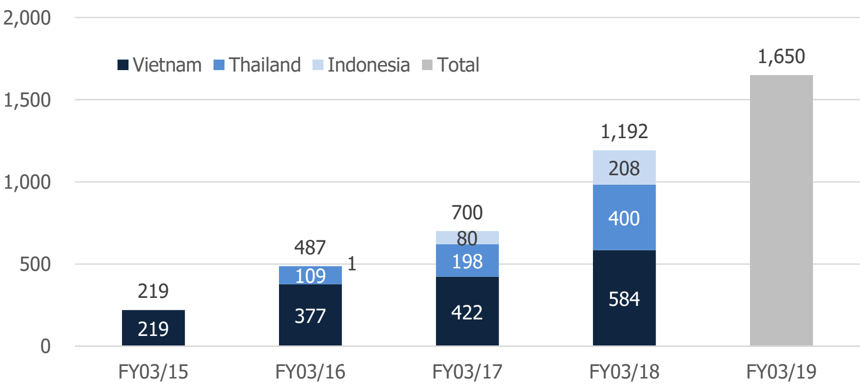
▷ Outlook: For DI Asia, the company will concentrate its management resources on collaboration with Strategic Consulting Services and Incubation Services. It plans to consider partnering with the two companies to which it has transferred DI Asia business, while aiming to deepen each company's business in Southeast Asia and further expand and strengthen its services. The company will record a cash inflow from the sale of businesses in 2H FY03/20. DI Asia recorded an impairment loss of JPY150mn in FY03/19, and the company estimated its NAV at end FY03/20 (after impairment) at JPY300mn. We expect the company to post an extraordinary gain/loss in 2H FY03/20.

DI Asia's quarterly performance (in millions of yen)



Source: Shared Research based on company data

Number of DI Asia's panel members



Source: Shared Research based on company data

Boardwalk Inc.

Boardwalk Inc. operates a mobile electronic ticket business for events such as music concerts, a fan club business of musical artists, sports teams, and other entertainers, and an e-commerce business that provides products such as digital content and goods. The company is Boardwalk Inc.'s top shareholder (22.14% stake at the time of investment in September 2015; 30% stake as of March 31, 2019 [46% including dilutive shares]; non-consolidated). Boardwalk's other two primary shareholders are NTT Docomo, Inc. (TSE1: 9437) and Information Services International-Dentsu, Ltd. (TSE1: 4812). IPO preparations at Boardwalk are currently underway.

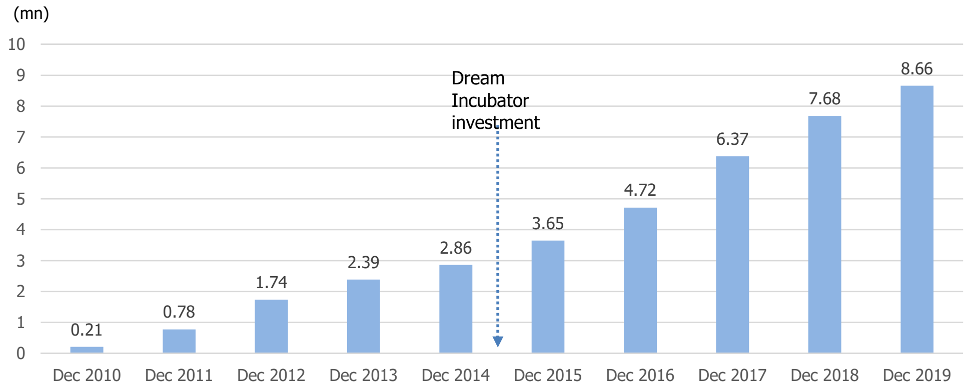
Boardwalk holds the top share of electronic ticket sales in Japan (source: research conducted by Boardwalk). It operates "ticket board," the largest electronic ticket service in Japan with a member count of 8.8mn (as of March 2020; see the table below). In addition to selling live concert tickets for major Japanese musicians*, Boardwalk gathers and stores data from more than 8.7mn fans, which it then uses to conduct direct marketing, including management of fan clubs and online sales of goods, DVDs, and CDs. Boardwalk's profit yields from proceeds of live ticket sales are low, but its direct marketing yields are high.

* Prominent artists conducting business with Boardwalk: Namie Amuro, E-girls, EXILE, SMTOWN LIVE, J SOUL BROTHERS III from EXILE TRIBE, SHINee, GENERATIONS from EXILE TRIBE, Girls' Generation, Tokyo Girls Collection, TWICE, Naoto Inti Raymi, Kyosuke Himuro, Mr. Children, Eikichi Yazawa, and L'Arc～en～Ciel

Boardwalk's net income in FY12/19 was JPY52mn (according to Official Gazette data). Its sales for the same period are undisclosed, but are 1.9 times the sales recorded in FY03/14 (the accounting period was changed in FY12/15). FY12/19 results finished above forecasts despite a reactionary decline in sales as special demand seen in FY12/19 dropped out of the picture.

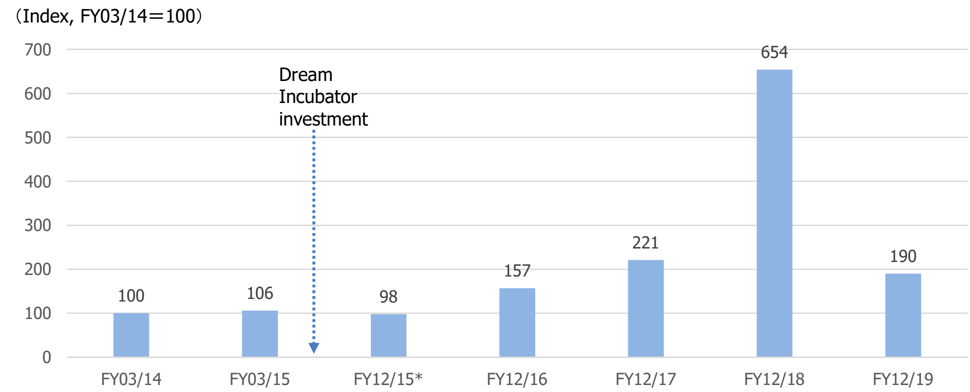
DI believes Boardwalk will inevitably be affected by the novel coronavirus pandemic in FY12/20. However, Boardwalk is preparing and plans to implement initiatives that involve online streaming of live events. It also continues to prepare for an IPO.

Boardwalk members



Source: Shared Research based on company data

Boardwalk's sales indexes (assuming FY03/14 sales are equal to 100)



Source: Shared Research based on company data
*FY12/15 covers a nine-month period due to fiscal year-end change

Main group companies (as of end-FY03/20; equity ratio in parentheses)

Consolidated subsidiaries

- ipet Insurance Co., Ltd. (56.2%, excluding treasury shares): pet insurance
- Dream Incubator (Vietnam) Joint Stock Company (100%): consulting services and investment in Vietnam
- DI India Digital Investment Fund (66.7%): investment business in India
- Dimension Investment Partners Limited (51.3%): investment business in Japan
- DI Pan Pacific Inc. (100%): venture capital
- Work Style Lab, Ltd. (100%): consulting matching business

Affiliated companies

- DI Investment Partners Limited (50.0%): fund management of investment partnership
- DI Asian Industrial Fund, L.P. (20.1%): investment in Vietnam

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.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Gross profit	378	1,385	2,918	3,711	4,811	7,914	6,384	7,018	9,551	9,303	10,328
GPM	14.4%	51.5%	44.7%	48.2%	52.9%	59.3%	50.3%	48.3%	51.9%	44.9%	45.7%
Operating profit	-223	702	1,100	768	1,141	1,348	538	517	1,854	124	12
OPM	-	26.1%	16.9%	10.0%	12.5%	10.1%	4.2%	3.6%	10.1%	0.6%	0.1%
EBITDA	-214	720	1,279	1,011	1,391	1,608	766	710	2,055	386	335
EBITDA margin	-	26.8%	19.6%	13.1%	15.3%	12.1%	6.0%	4.9%	11.2%	1.9%	1.5%
Net margin	9.5%	15.7%	12.8%	8.7%	9.4%	7.4%	3.3%	0.7%	4.9%	1.8%	-0.9%
Financial ratios											
ROA (RP-based)	-	9.3%	11.7%	6.7%	7.0%	7.8%	3.3%	3.1%	10.4%	1.3%	-0.1%
ROE	4.0%	6.3%	11.3%	8.2%	7.8%	8.3%	4.0%	1.0%	8.8%	3.5%	-1.8%
Total asset turnover	40.9%	35.9%	69.0%	68.1%	57.6%	75.7%	79.6%	86.8%	100.3%	94.0%	88.4%
Inventory turnover	-	73	74	70	59	90	300	601	611	496	389
Days of inventory	-	5	5	5	6	4	1	1	1	1	1
Working capital (JPYmn)	263	771	694	941	1,328	1,568	1,998	2,086	2,477	2,593	2,757
Current ratio	5845.1%	550.9%	413.0%	372.4%	324.8%	328.9%	308.4%	253.6%	210.2%	167.6%	134.8%
Quick ratio	5817.6%	543.4%	398.7%	353.7%	314.6%	297.5%	297.8%	246.8%	205.6%	160.2%	120.8%
OCF / Current liabilities	10.53	1.34	1.51	0.71	0.44	0.52	0.20	0.28	0.13	0.15	0.14
Net debt / Equity	-43.2%	-44.2%	-34.4%	-50.4%	-37.4%	-56.6%	-64.8%	-63.6%	-51.0%	-35.0%	-19.6%
OCF / Total liabilities	10.7	0.7	1.3	0.6	0.3	0.6	0.2	0.2	0.1	0.1	0.1
Cash conversion cycle (days)	30.9	72.7	43.0	40.2	47.3	41.0	51.6	51.6	45.5	44.1	41.4
Change in working capital	83	508	-77	247	387	240	430	88	391	116	164

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.	FY03/18 Cons.	FY03/19 Cons.
Directors' compensations	82	83	101	187	182	184	201	195	223	230	368
Salaries and allowances	201	142	132	530	746	851	1,068	1,386	1,432	1,712	1,844
Rents	72	55	47	111	146	197	274	299	320	373	471
Outsourcing expenses	67	93	82	214	347	473	583	615	747	957	1,116
Sales commission	-	-	-	419	516	538	654	829	984	1,146	1,658
Provision for bonuses	-	-	-	33	27	95	97	141	152	86	233
Provision for directors' bonuses	-	-	-	6	8	15	50	-1	16	-5	30
Provision for doubtful accounts	-	-	-	0	1	2	3	-10	0	0	-
Deferred assets under Article 113 of Insurance Business Law	-	-	-	-946	-516	-538	-654	-	-	-	-
Amortization of deferred assets under Article 113	-	-	-	157	209	269	2,019	-	-	-	-
Other				1,106	1,276	1,583	2,270	2,392	2,626	3,197	3,458
Total				1,817	2,942	3,669	6,565	5,846	6,500	7,696	9,178

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.	FY03/18 Cons.	FY03/19 Cons.
Sales											
Strategic Consulting Services	1,209	1,112	1,696	1,972	2,379	2,171	2,504	2,667	3,202	3,454	2,556
Venture Capital segment	1,383	1,508	853	978	426	1,011	3,671	703	1,179	2,752	2,867
Cost of sales											
Strategic Consulting Services	799	979	1,024	1,230	1,600	1,681	1,216	1,228	1,341	1,643	1,904
Venture Capital segment	3,484	1,470	352	885	337	176	1,094	851	1,523	2,120	2,606
GPM											
Strategic Consulting Services	33.9%	12.0%	39.6%	37.6%	32.7%	22.6%	51.4%	54.0%	58.1%	52.4%	25.5%
Venture Capital segment	-	2.5%	58.7%	9.5%	20.9%	82.6%	70.2%	-21.1%	-29.2%	23.0%	9.1%

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 strategic 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 Cost of sales breakdown (JPYmn)	FY03/09 Parent	FY03/10 Parent	FY03/11 Parent	FY03/12 Parent	FY03/13 Parent	FY03/14 Parent	FY03/15 Parent	FY03/16 Parent	FY03/17 Parent	FY03/18 Parent	FY03/19 Parent
Personnel expenses	544	517	570	704	773	796	737	682	715	774	833
Various expenses	256	255	293	336	396	380	430	539	692	594	493
Rents	108	116	104	100	137	142	143	137	157	163	176
Transportation	38	31	68	52	65	72	85	103	149	91	60
Supplies	16	16	18	16	25	10	13	11	11	17	14
Depreciation	6	6	6	19	22	15	12	15	17	13	19
Outsourcing	16	10	23	55	57	45	83	174	246	176	145
Books and materials	29	38	31	35	40	40	33	31	45	68	42
Others	42	39	44	59	50	56	61	68	67	66	37
Total	800	772	863	1,040	1,169	1,176	1,167	1,221	1,407	1,368	1,326

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 Strategic Consulting Services. Outsourcing expenses include such items such as a visiting lecturer in executive education programs for Strategic Consulting.

Market and value chain

Market overview

According to IDC Japan, a research company specializing in the area of IT services, the value of the domestic business consulting market crossed the JPY400bn mark for the first time, growing to JPY422.7bn in 2018 (+7.8% YoY; see following chart). Demand related to digital transformation (DX) support continued to be extremely high and there was an increase in the number of companies in Japan engaged in initiatives toward operational excellence through the further adoption of digital technology. This high demand continues to drive rapid growth in the market.

According to the same survey, looking at the business consulting market by service segment in 2018 showed that strategy, finance/accounting, operations, organizational reform, governance, risk and compliance (GRC), and five other areas achieved over 6% YoY growth. Operations consulting was especially strong with 8.9% growth, the highest of the service segments.

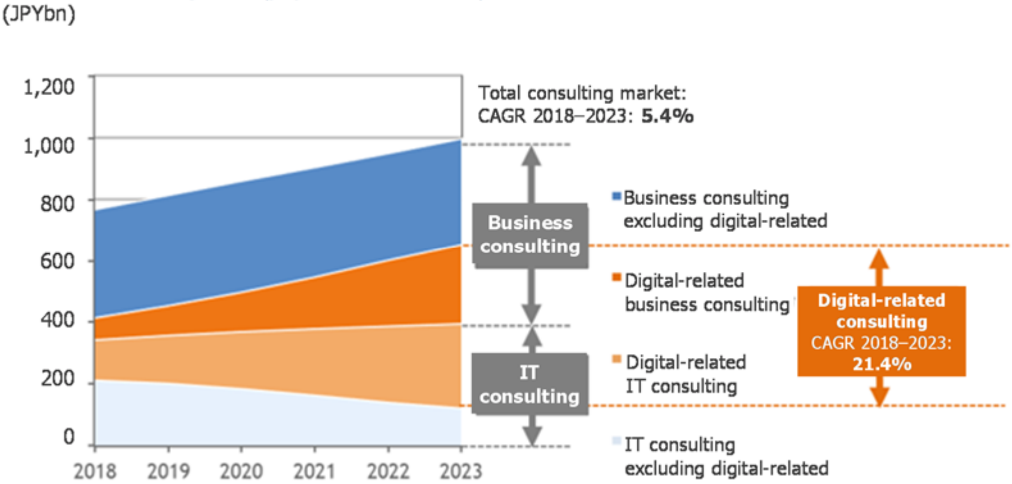
IDC Japan's estimates for the market for business consulting related to DX support are based on the digital-related business consulting market. Specifically, this includes business consulting related to the adoption and use of the so-called third platform, which includes digital strategies, cloud computing, analytics, mobility, and social media, or to the adoption and use of IoT, cognitive and AI systems, robotics, cybersecurity measures, and other services provided via this platform.

The size of the market for DX business consulting grew 40.5% YoY in 2018 to JPY70.9bn, continuing on a high growth trend from 2017, in which it grew 47.7% YoY. Orders for DX consulting are driving the business consulting market in both the services and manufacturing sectors, with particularly conspicuous growth in orders related to digital operations.

On the demand side, further employment of digital technology has become indispensable for raising productivity and instituting new business models in divisions that operate close to the product or point of sale, such as providing customer service or production and distribution. Business consulting providers are gradually expanding their capabilities in digital-related projects, with the main firms aggressively pursuing personnel development.

IDC predicts the digital-related business consulting market will maintain a high CAGR of 29.3% YoY in the five years from 2018 to 2023, and forecasts the 2023 market value will reach JPY256.8bn. It expects the overall market for consulting services in Japan to grow at a CAGR of 5.4% over the same five years, reaching JPY996.9bn in 2023.

Domestic business consulting market (projections for 2018–2023)



Source: Data from IDC Japan (April 2019)
Note: Figures from 2019 onward are forecasts.

*Digital transformation (DX): This term refers to the method for creating value and establishing superior competitiveness by working to transform customer experiences in both the internet and the real world through new products, services and business models. DI accomplishes this by driving transformation in internal ecosystems (organizational, cultural, and employee-related) while responding to destructive changes in external ecosystems (customer-related and markets). Additionally, the company makes use of its third platform (cloud computing, mobility, big data/analytics, and social media). (Source: excerpt from an IDC Japan press release taken from the Ministry of Economy's *DX Report: IT Systems–The Precipice in 2025*)

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 startups—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

Q1 FY03/21 results (out July 31, 2020)

Summary

▷ Sales:	JPY6.1bn (+16.1% YoY)
▷ Operating loss:	JPY175mn (versus loss of JPY94mn in Q1 FY03/20)
▷ Recurring loss:	JPY161mn (versus loss of JPY106mn in Q1 FY03/20)
▷ Net loss*:	JPY143mn (versus loss of JPY18mn in Q1 FY03/20)
▷ Recurring profit after insurance item adjustments:	JPY46mn
▷ Net loss* after insurance item adjustments:	JPY58mn

*Net income/loss attributable to owners of the parent

▷ Performance versus plan: The company does not make earnings forecasts due 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. While the company does not appear particularly satisfied with Q1 results, earnings were within the range of its expectations, with the exception of the Venture Capital segment, where volatility makes forecasts rather difficult. The Business Production business, one of the two main businesses, specializes in planning and creating new strategic businesses and the company expects to see expansion in demand over the medium term as the COVID-19 pandemic spurs changes in Japan's social and industrial structures. That being said, companies also appear to be taking a defensive stance in response to the pandemic, as seen in such measures as increasing their cash holding rates. As such, DI expects that the launch of new projects will take some time. In the Venture Capital segment, the company notes a firm influx of capital into the Dimension No. 1 fund. The fund is largely focused on IT and fintech companies, especially on companies with relatively small impairment risk and those that are expected to benefit from the impact of COVID-19.

▷ Consolidated sales of JPY6.1bn were up 16.1% YoY. By segment, sales at the Business Production segment were down 11.3% YoY, due in large part to the loss of sales from its market research business (DI Asia) that it exited in Q2 FY03/20; the slowdown in the economy in the wake of the coronavirus pandemic had some impact, as some projects were delayed and it was forced to curb marketing activities, but the impact on Q1 results at the segment was not very large. At the Venture Capital segment, the company completed a number of trade sales but Q1 sales still finished down 44.3% YoY. At the Pet Lifestyle segment, sales were up 23.3% YoY, the strong growth driven by increases in new policy sales by its pet insurance subsidiary, which benefited from strong growth in the pet insurance market. At the HR Innovation segment, Q1 sales were up 21.8% YoY, the growth driven by the expansion of its sales force last year, which offset the drag from the coronavirus pandemic.

▷ The Q1 operating loss of JPY175mn reflected a mixed bag of results at the individual segment level, with the Business Production segment reporting an operating profit of JPY215mn (+220.9% YoY), the Venture Capital segment reporting an operating loss of JPY108mn (versus profit of JPY96mn in Q1 FY03/20), the Pet Lifestyle segment reporting an operating loss of JPY13mn (versus loss of JPY6mn), and the HR Innovation segment reporting an operating loss of JPY34mn (versus loss of JPY30mn). The sharp jump in earnings at the Business Production segment reflected the company's exit from its money-losing market research business last year. The losses at the Venture Capital segment stemmed from valuation losses booked on one of its operational investment holdings whose value had declined during the period. The losses at the Pet Lifestyle segment resulted from the increases in expenses (such as commissions and collection fees) that accompanied the increase in pet insurance policies sales, increases in the number of policies in force, and the accompanying rise in net claims paid and loss adjustment expenses. The losses at the Pet Lifestyle segment did not paint a true picture, though, as a better gauge of the profitability of this insurance business is adjusted earnings, and on this measure the Pet Lifestyle segment reported a Q1 operating profit of JPY195mn.

- ▷ At the recurring profit level the company reported a loss of JPY161mn, the difference between this and the losses at the operating profit level reflecting a mix of pluses and minuses, including gains on the sale of investment securities, additions to loan loss reserves, and forex losses.
- ▷ Net asset value (NAV) as calculated by the company came to JPY32.8bn (JPY3,242 per share) as of the end of Q1 FY03/21, up from JPY28.4bn (JPY2,811 per share) at the end of FY03/20, the increase driven in large part by the jump in earnings at its Business Production business and the rebound in the stock price of subsidiary ipet Insurance.

The company thinks 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 ipet Insurance Co., Ltd. (TSE Mothers: 7323), one of its key subsidiaries. On that basis, Dream Incubator reported adjusted operating profit of JPY33mn (-70.5% YoY).

New Executive Management Structure

Dream Incubator established a new executive management structure (see below) after receiving approval at the general shareholders meeting on June 29, 2020. The company aims to increase enterprise value by transitioning to a new generation of leaders in response to the accelerating changes in society and industries.

New executive management structure

Name	New position
Tetsuro Harada	Representative Director and CEO (Chairman of the Board)
Takayuki Miyake	Representative Director and COO (Business Production Representative)
Kyohei Hosono	Representative Director and COO (Incubation Representative)

CEO Tetsuro Harada previously served as a corporate officer and was responsible for facilitating smooth operations in the company's Business Production and Incubation businesses. Mr. Harada was also enlisted in the Japan Maritime Self-Defense Force. As CEO, he will oversee the companywide operations with a firm focus on both key businesses.

COO Takayuki Miyake has worked as a leader in advancing the Business Production business while COO Kyohei Hosono has focused on the Incubation business. Both will continue as leaders of the respective businesses while working with CEO Tetsuro Harada in managing the company. Mr. Miyake previously served at the Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry), while Mr. Hosono previously worked for the Overseas Economic Cooperation Fund (now the Japan Bank for International Cooperation).

As the company focuses its businesses on resolving social issues, the three members of the new management team bring with them a wealth of experience in both the private and public sector, with each fitting in well with the forward direction of the company.

After (former) company director and board member founder Koichi Hori and (former) president and representative director Takayoshi Yamakawa, who both recently stepped down, CEO Tetsuro Harada has a long history with the company and knows its past well, including its missteps. Mr. Harada is responsible for laying the foundation for the company's current management system, which is centered around the Business Production and Incubation businesses.

Segment reclassification

Effective Q1 FY03/21, the company changed the name of its reporting segments. The former Professional Services segment became the Business Production segment, the Venture Capital segment retained its name, the Insurance segment became the

Pet Lifestyle segment. The Other business segment was replaced by the new HR Innovation segment, which consists of subsidiary Work Style Lab (WSL), formerly included under the Other segment. The company changed the segment names to make them easier to understand and to better reflect actual business operations.

For the Business Production segment and the Venture Capital Segment, only the names have changed. Moving forward, the company intends to fold any acquired businesses or companies related to the Pet Lifestyle segment and the HR Innovation segment into the respective segments. For purposes of comparison, segment results for Q1 FY03/20 were retroactively adjusted to match the new reporting segment scheme.

Business Production business

Business Production segment

For the three-month period of Q1 FY03/21, the Business Production segment reported sales of JPY508mn (-11.3% YoY) and an operating profit of JPY215mn (+220.9% YoY).

- Under the Business Production segment, the company operates a consulting business. In addition to providing strategic consulting services for 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 M&A financial advisory services, senior management training services, and strategic consulting and market research focusing on Asia.
- With the company having exited its money-losing market research business in Q2 FY03/20, as detailed below, the segment reported a YoY decline in sales as the revenues from this source were entirely gone. But gone too were the losses at the market research business, and the dropout of these losses left operating profit at the segment up sharply this year.
  - Consolidated subsidiary DI Asia (which conducts strategic consulting and market research in Asia) sold off its market research business following a review of its business portfolio.
- The slowdown in the economy in the wake of the coronavirus pandemic had some impact, as some projects were delayed and the company was forced to curb marketing activities, but the impact on Q1 results at the Business Production segment was not very large. On the other hand, the government's declaration of a state of emergency (lasting from April 7, 2020 through May 25, 2020 in Tokyo) due to the spread of COVID-19 limited the company's sales activities aimed at developing new customers, with the company expecting the resultant effects to manifest from Q2. That said, the company suffered few cancelled or postponed projects due to COVID-19 as of end-July 2020, leading the company to expect that the YoY decline in sales will not be especially large.

Incubation business

Under its Incubation business, the company counts the Venture Capital segment, Pet Lifestyle segment, and HR Innovation segment.

Venture Capital segment

For the three-month period of Q1 FY03/21, the Venture Capital segment reported sales of JPY141mn (-44.3% YoY) and an operating loss of JPY108mn (versus profit of JPY96mn in Q1 FY03/20).

- 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. The segment also includes the domestic venture capital fund *Dimension Investment Partners Limited*, which it established and operates with the aim of expanding the scale of its investment in Japan.
- Dream Incubator funnels both capital and human resources into 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.

- The company completed a number of trade sales during the quarter but the Venture Capital segment still finished in the red, hurt by valuation losses booked on one of its operational investment holdings whose value had declined during the period. However, with investment activity focused mainly on funds, operational investment securities stood at JPY6.7bn (+JPY344mn from end-FY03/20).

Pet Lifestyle segment

For the three-month period of Q1 FY03/21, the Pet Lifestyle segment reported sales of JPY5.2bn (+23.3% YoY) and an operating loss of JPY13mn (versus loss of JPY6mn in Q1 FY03/20).

- The Pet Lifestyle segment consists of the pet medical insurance business run by consolidated subsidiary ipet Insurance (7323), which has been listed on the Tokyo Stock Exchange’s Mothers market since April 25, 2018.
- As mentioned previously, the company uses adjusted earnings to gauge the true profitability of its pet insurance business. For Q1 FY03/21, the segment reported adjusted earnings of JPY195mn, down 3.0% versus the same quarter last year. The difference reflects adjustments to compensate for a change in its reserve calculation method (from the first-year income-expenditure balance method to the unearned premium method), which in the case of regular policy reserves meant an adjustment of JPY43mn and in the case of catastrophe reserves meant an adjustment of JPY165mn (excluding regular provisioning).
- The top-line growth at the Pet Lifestyle segment reflected continued strong growth in the number of policies in force, driven by new insurance customers and a top-class renewal rate of nearly 90%. At the end of Q1 FY03/21, the segment reported a total of 533,364 policies in force, an increase of 25,139 over the end of FY03/20. On the cost side, the segment saw increases in expenses (such as commissions and collection fees) stemming from the growth in insurance policies sales and the increases in the number of policies in force, which in turn led to increases in net claims paid and loss adjustment expenses.
- The coronavirus pandemic did not have a significant impact on Q1 results at the Pet Lifestyle segment.

HR Innovation segment

For the three-month period of Q1 FY03/21, the HR Innovation segment reported sales of JPY240mn (+21.8% YoY) and an operating loss of JPY34mn (versus loss of JPY30mn in Q1 FY03/20).

- Formerly known as the Other segment, the HR Innovation segment includes subsidiary Work Style Lab, Inc. (WSL), which operates a matching platform for freelance consultants and became a wholly owned subsidiary in August 2018.
- The strong top-line growth was driven by the expansion of its sales force last year, which offset the drag from the coronavirus pandemic.

Full-year FY03/20 results (out May 11, 2020)

Summary

- Sales: JPY22.6bn (+9.1% YoY)
- Operating profit: JPY12mn (-90.1% YoY)
- Recurring loss: JPY25mn (versus profit of JPY277mn in FY03/19)
- Net loss*: JPY109mn (versus profit of JPY378mn in FY03/19)

*Net income/loss attributable to owners of the parent

- 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.

- ▷ Sales up 9.1% YoY: The Professional Services segment saw a 4.8% increase in sales over FY03/19; while this was not enough to bring sales at the segment back to where they were in FY03/18, it was an improvement over FY03/19 thanks to successful measures to develop new customers and reduce the company's dependence on existing customers. In contrast, sales were down 72.1% YoY at the Venture Capital segment and up 22.1% at the Insurance segment.
- ▷ Operating profit down 90.1% YoY: At the segment profit level, the Professional Services segment reported a 48.3% increase in operating profit, the Venture Capital segment a JPY166mn operating loss (versus profit of JPY261mn in FY03/19), the Insurance segment a 64.9% increase in operating profit, and the Other segment an operating loss of JPY105mn (versus loss of JPY23mn in FY03/19). The Professional Services and Insurance segments reported increases in operating profit, while the Venture Capital and Other segments reported lower operating profit, with both finishing the year in the red. In the case of the Venture Capital segment, earnings were weighed down by additions to provisions of allowance for investment loss, while at the Other segment the culprit was upfront spending.
- ▷ Recurring loss of JPY25mn: Loss at the recurring profit level reflected losses on sales of investment securities, losses on sales of fixed assets, and losses on currency translation.
- ▷ Net loss of JPY198mn: The loss reflected a decline in adjustments to taxes versus FY03/19.
- ▷ Net Asset Value (NAV): The company finished FY03/20 with a total NAV of JPY28,400, short of its initial target of JPY35,000. The NAV of the Professional Services and Venture Capital segments did not finish far from the company's initial targets, it was the NAV of the company's buy-and-hold investments that disappointed, finishing the year at only JPY11.5bn versus the initial target of JPY18.0bn. In particular, the company had expected share price gains driven by growth at ipet Insurance Co., Ltd., but worsening market conditions kept the share price below its expectations. It said that it had also been expecting to realize some of its gains on other investment holdings by coming to the market for new capital, but these plans were also delayed by the downturn in the market.
- ▷ Dividend: The company indicated that it would not be paying a dividend in FY03/20, saying that, in view of the current level of its share price, it felt that the best way to make returns to shareholders and maximize shareholder value was through share buybacks rather than through a dividend payment. (The company also did not pay a dividend in FY03/19.)

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 ipet Insurance Co., Ltd. (TSE Mothers: 7323), one of its key subsidiaries. On that basis, Dream Incubator reported adjusted operating profit of JPY656mn (-13.0% YoY).

Professional Services

In FY03/20, the Professional Services segment reported full-year sales of JPY2.7bn (+4.8% YoY) and operating profit of JPY967mn (+48.3% YoY). In strategic consulting, sales were JPY2.4bn (+17.6% YoY) and recurring profit was JPY380mn (JPY20mn loss in FY03/19). DI Asia posted sales of JPY250mn (-48.5% YoY) and recurring loss of JPY170mn (JPY60mn loss in FY03/19). DI Asia (which conducts strategic consulting and market research in Asia) sold off its market research business following a review of its business portfolio. The company said the novel coronavirus pandemic did not have a significant impact on segment results in FY03/20.

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 staged a turnaround in FY03/20 on successful efforts to develop new clients and become less dependent on existing customers, after falling 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 share of sales from new clients (including at group companies) has declined from roughly 15% in FY03/18 to about 2% in FY03/19, but turned up to roughly 20% in FY03/20. In addition, the share of sales from the top 5 clients has fallen steadily from roughly 75% in FY03/18 to a little under 70% in FY03/19, and roughly 60% in FY03/20.

In October 2019, the company formed a strategic partnership with astamuse company, Ltd.*

* astamuse gathers and visualizes a comprehensive range of data from around the world in fields such as new businesses, new products and services, and new technologies and research. The company has defined 176 growth fields and 105 social issues. It analyzes these to objectively identify future trends or methods to realize a particular future vision. In this way, the company supports corporate innovation from the standpoint of technology, R&D, and investment in businesses, personnel, and management.

Incubation Services

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

Venture Capital segment

In FY03/20, the Venture Capital segment reported full-year sales of JPY801mn (-72.1% YoY) and an operating loss of JPY166mn (versus profit of JPY261mn in FY03/19). At the Venture Capital segment, DI works together with partner venture capital companies to invest in startup companies, most of which are located in Japan and India. It has invested in 22 companies (including additional investments), and generated returns from eight. At end-FY03/20, its total investment balance stood at JPY6.2bn (+JPY300mn YoY). In addition, the company established and began operating the domestic venture investment fund Dimension Investment Partners Limited with the aim of expanding the scale of investment in Japan.

The company established its first startup fund Dimension Investment Partners Limited in October 2019 to accelerate its business of investing in and supporting startup companies in Japan, with investors including noted music producer Yasushi Akimoto, Mizuho Bank, Ltd., and Akatsuki Securities, Inc. It also set up a specialist subsidiary to manage the fund (Dimension, Inc., partner with unlimited liability). DI targets a fund size of around JPY5.0bn, and investment has already begun. The company's investment in the fund's limited partnership (LP) is JPY1.0bn.

The company will make future operational investments through the fund (excludes business investments), although the parent's operational investments will likely decline as it exits from investments. In terms of expanded operational investments to increase impact on investees and to generate principal for use in business investments, the company plans to expand the scope of investment funds so that management fees will cover expenses while increasing earnings through upside (capital gains and success fees). The parent will continue to make business investments.

DI 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 the year, and one of its investee companies (Technoflex Corporation) went public in an IPO. On the minus side, the segment added to reserves for losses on investments as a result of a decline in the share price of five of the companies in which it had invested and the downturn in the stock market in the wake of the novel coronavirus pandemic.

Insurance segment

In FY03/20, the Insurance segment reported full-year sales of JPY18.2bn (+22.1% YoY) and operating profit of JPY221mn (+64.9% 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 segment of JPY866mn in FY03/20 were up 13.2% YoY. The difference reflects an adjustment of JPY64mn 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 JPY580mn (excluding the impact of provisioning).

The Insurance segment is a medical insurance service for pets run by consolidated subsidiary ipet Insurance Co., Ltd. ipet Insurance was listed on the Tokyo Stock Exchange Mothers section on April 25, 2018. In FY03/20, ipet Insurance reported strong growth in sales as the number of new policies written continued to rise, bringing the total number of policies in force at end-FY03/20 to 508,225 (+85,000 over end-FY03/19) while maintaining a top-class policy renewal rate of 90%. On the cost side, the Insurance segment brought back-office costs down with the help of robotic process automation and other digitalization measures but saw costs grow in other areas, including commissions and collection costs stemming from the increase in the number of policies in force, processing expenses related to new policies, increases in net insurance payouts resulting from a growing number of claims, rising loss adjustment expenses, and increases in asset management-related costs as a result of the downturn in the stock market sparked by the novel coronavirus pandemic.

Other segment

In FY03/20, the Other segment reported full-year sales of JPY969mn (+116.3% YoY) and an operating loss of JPY105mn (versus loss of JPY23mn in FY03/19). The segment includes Work Style Lab, Inc. (WSL), which operates a matching platform for freelance consultants and became a wholly owned subsidiary in August 2018. The company noted that WSL is still in the growth stage and the larger operating loss YoY at the segment was a result of upfront spending that went along with growing the businesses (see Business description section). The company said the novel coronavirus pandemic did not have a significant impact on segment results in FY03/20.

Net Asset Value (NAV)

One of the two key business areas for the company is its Incubation Services. The company calculates NAV in response to institutional investors' criticism that they had difficulty interpreting shareholder value based on income statements alone, considering the nature of the Incubation Services business (See "Company's thinking on its own enterprise value" for information on how the company calculates NAV for each business).

Using mark-to-market valuations, the company calculated a NAV of JPY28.4bn (JPY2,811 per share) at end-FY03/20, down 5.6% from JPY30.1bn (JPY2,926 per share) at end-FY03/19. It looks for a theoretical shareholder value of JPY32.0bn based on FY03/21 forecasts and JPY50.0bn based on FY03/23 forecasts. As of June 8, 2020, there was a large gap between this theoretical value based on a sum-of-the-parts calculation and the actual market value of JPY15.6bn (JPY1,519 per share).

Q3 FY03/20 cumulative results (out January 31, 2020)

- ▷ Sales: JPY16.6bn (+13.2% YoY)
- ▷ Operating profit: JPY200mn (versus cumulative profit of JPY11mn in Q3 FY03/19)
- ▷ Recurring profit: JPY178mn (versus cumulative profit of JPY87mn in Q3 FY03/19)
- ▷ Net income*: JPY19mn (versus net income of JPY150mn in Q3 FY03/19)

*Net income attributable to owners of the parent

- ▷ 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. However, it says that, excluding the hard-to-forecast Venture Capital segment, performance is essentially in line with plan. The Strategic Consulting Services business is recovering, and in the Insurance segment both the policyholder count and sales have been expanding steadily. The company also sold DI Asia's market research business, which had proven unprofitable.
- ▷ Sales up 13.2% YoY: 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, built on the sales improvement seen in the 1H (+19.8% YoY) and then again in Q3 (+23.4% YoY) to push up Q3 cumulative sales by 21.1% YoY. This did not amount to a complete recovery to the FY03/18 level. Nevertheless, the company is on a recovery track. Regarding consolidated subsidiary DI Asia, the company 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. Sales in the Venture Capital segment were down

62.2% YoY (only Technoflex Corporation conducted an IPO during Q3), although the Insurance segment fared well, up 21.7% YoY.

- Operating profit of JPY200mn (up roughly 18x YoY): Earnings rose thanks to recovery for strategic consulting services within the Professional Services segment, as well as the contribution of the Venture Capital segment. For the Insurance segment, the company booked lower profit 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 136.1% YoY at the Professional Services segment, up 160.0% YoY at the Venture Capital segment, but down 47.0% YoY at the Insurance segment.
- Net income attributable to owners of parent was down 87.3% YoY: Profit declined due to a drop in deferred income tax.
- 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 ipet Insurance Co., Ltd. (TSE Mothers: 7323), one of its key subsidiaries. On that basis, Dream Incubator reported an adjusted gross profit of JPY8.2bn (+16.1% YoY) and adjusted recurring profit of JPY661mn (+82.1% YoY).
- Net asset value: Dream Incubator has calculated a theoretical shareholder value of approximately JPY34.2bn (or JPY3,380 per share) based on the sum of the estimated value of all its individual businesses and cumulative Q3 FY03/20 results. The theoretical shareholder value based on FY03/20 forecasts is JPY35.0bn. As of February 14, 2020, there was a large gap between this theoretical value based on a sum-of-the-parts calculation and the actual market value of JPY17.3bn (JPY1,670 per share).
- Topics: In October 2019, the company set up its first fund, Dimension Investment Partners Limited (maximum fund size of JPY5.0bn), to invest in domestic startups. The fund is managed by specialist subsidiary Dimension, Inc. In addition, the company invited former Vice-Minister of Economy, Trade and Industry Takashi Shimada and former Vice-Minister of the Environment Hideka Morimoto to serve as special counsel. In 2020, DI is celebrating 20 years since its founding, and it hopes that Mr. Shimada and Mr. Morimoto will provide management advice to help it maintain its position as a genuine “business producing company” and further accelerate its business creation.

Professional Services

- Cumulative Q3 FY03/20 sales of JPY2.0bn were up 21.1% YoY and operating profit of JPY654mn was up 136.1% YoY.
  - Strategic consulting: Sales were JPY1.8bn (+26.5% YoY), and recurring profit was JPY220mn (JPY90mn recurring loss in cumulative Q3 FY03/19).
  - DI Asia: Sales were JPY230mn (-6.0% YoY), and recurring loss was JPY130mn (JPY140mn recurring loss in cumulative Q3 FY03/19).
- 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. However, building on good 1H FY03/20 sales (+19.8% YoY), the segment continued to enjoy sales growth in Q3, up 23.4% YoY. As a result, cumulative Q3 sales were up 21.1% YoY. Although this did not amount to a complete recovery from the drop in FY03/19 sales, the company is on a recovery track. Strategic Consulting Services receives project orders every year and these projects have been growing longer.
- Consolidated subsidiary DI Asia (which conducts strategic consulting and market research in Asian regions) exited the market research business following a review of its business portfolio. It transferred its market research business and consumer panel to

Macromill, Inc. and one other company, and will now 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

- Cumulative Q3 FY03/20 sales of JPY715mn were down 62.2% YoY but operating profit of JPY130mn was up 160.0% YoY.
- Dream Incubator conducted a number of trade sales during Q3. In addition, one of its investee companies (Technoflex Corporation) went public in an IPO. On the other hand, because the value of two investee companies fell, the company booked provision of allowance for investment loss. DI invested in 17 companies, recovered its investment in eight cases, and established a new fund, Dimension Investment Partners Limited.
- 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 afterward starts looking for an exit strategy.
  - Domestic venture capital fund Dimension Investment Partners Limited: The company established its first startup fund (Dimension Investment Partners Limited) in October 2019 to accelerate its business of investing in and supporting startup companies, with investors including noted music producer Yasushi Akimoto, Mizuho Bank, Ltd., and Akatsuki Securities, Inc. It also set up a specialist subsidiary to manage the fund (Dimension, Inc., partner with unlimited liability). The fund has nearly reached its maximum size of JPY5.0bn, and investment has already begun. The company's investment in the fund's limited partnership (LP) is JPY1.0bn.
  - The company will make future operational investments through the fund (excludes business investments), although the parent's operational investments will likely decline as it exits from investments. In terms of expanded operational investments to increase impact on investees and to generate principal for use in business investments, the company plans to expand the scope of investment funds so that management fees will cover expenses while increasing earnings through upside (capital gains and success fees). The parent will continue to make business investments.

Insurance segment

- Cumulative Q3 FY03/20 sales of JPY13.2bn were up 21.7% YoY, but operating profit of JPY179mn was down 47.0% YoY.
- As mentioned previously, the company uses adjusted earnings as a handy measure for showing the true profitability of the Insurance segment. Cumulative adjusted earnings at the Insurance segment in Q3 FY03/20 were JPY662mn (+8.0% YoY). The difference reflects an adjustment of JPY59mn 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 JPY423mn (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 Q3 FY03/20, ipet Insurance had a total of 482,000 policies in force; representing an increase of 59,000 policies versus the end of FY03/19. The (pre-adjustment) operating profit reported by the segment declined 47.0% YoY (post-adjustment was +8.0% YoY),

reflecting increases 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. Post-adjustment recurring profit rose 16.2% YoY.

Other segment

- The Other segment reported cumulative Q3 FY03/20 sales of JPY633mn (up 177.6% YoY) and an operating loss of JPY87mn (compared to an operating loss of JPY12mn for the same period a year before).
- 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 higher operating loss YoY was a result of all the investments that went along with growing the businesses.

Net Asset Value (NAV)

- One of the two key business areas for the company is its Incubation Services. The company calculates NAV in response to institutional investors' criticism that they had difficulty interpreting shareholder value based on income statements alone, considering the nature of the Incubation Services business (See "Company's thinking on its own enterprise value" for information on how the company calculates NAV for each business).
- Using mark-to-market valuations, the company calculated a NAV of JPY34.2bn (JPY3,380 per share) at the end of Q3 FY03/20, up 13.6% from JPY30.1bn (JPY2,926 per share) at the end of FY03/19. It considers the theoretical shareholder value based on FY03/20 forecasts to be JPY35.0bn.
- As of February 14, 2020, there was a large gap between this theoretical value based on a sum-of-the-parts calculation and the actual market value of JPY17.3bn (JPY1,670 per share).

Seminar by DI and Nikkei BP Intelligence Group

At a seminar by DI and Nikkei BP Intelligence Group (held November 28, 2019), Takayoshi Yamakawa, president of Dream Incubator, gave a presentation entitled "Organizational OS and Human Resource Management for Business Creation." In this presentation, Mr. Yamakawa suggested that for a company to achieve sustained innovation, it was more important to have an organization suited to the establishment of new businesses than one optimized for existing businesses. That was to say, the organizational OS needed to be updated. Mr. Yamakawa pointed out that it was common for a company's organization to be optimized for existing businesses, so when the company tries to start a new business, the effort may give rise to conflict with the existing organization. To illustrate his point, he used the example of needing to update a computer's operating system (OS) in order to use a new, advanced application, saying that companies also need to update their organizational OS to promote new businesses. He suggested the following four methods of achieving this:

- Entrust the new business to a subsidiary with a different OS
- Gain a different OS from outside the company through acquisition
- Build a new OS within the company to foster new businesses
- Make the new business an independent entity outside the company

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 FY03/20 (+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 Insurance segment (Incubation Services business) rose 21.6% YoY, driven by the increase in insurance contracts (+18.0% from end FY03/19). Sales of the Venture Capital segment were down 75.8% YoY in the absence of major sale of investments as in 1H FY03/19.
- Operating loss of JPY99mn: Despite an increase in sales, the company booked a provision of allowance for investment loss to reflect the decline in value of two investments (companies) and 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.
- Regarding consolidated subsidiary DI Asia, the company 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.
- Net asset value: Dream Incubator has calculated a theoretical shareholder value of approximately JPY30.8bn (or JPY3,043 per share) based on the sum of the estimated value of all its individual businesses and 1H FY03/20 results. The theoretical shareholder value based on FY03/20 forecasts is JPY35.0bn. As of November 12, 2019, there was a large gap between this theoretical value based on a sum-of-the-parts calculation and the actual market value of JPY16.7bn (JPY1,608 per share).
- 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 ipet 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.
    - Strategic consulting: Sales were JPY1.1bn (+20.5% YoY), and recurring profit was JPY2.0bn (JPY90mn recurring loss in 1H FY03/19).
    - DI Asia: Sales were JPY190mn (+19.5% YoY), and recurring loss was JPY100mn (JPY70mn recurring loss in 1H FY03/19).
- 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.
- In FY03/19, sales at the segment were down 26.0% YoY and operating profit fell 61.3% 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. Orders began to increase in FY03/20, and as a result 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, and performance has been weaker than in FY03/18, when the company posted record earnings. Thus, the company will be working on improving its performance further from Q3 onward. According to the company, monthly sales have been picking up since September 2019 and are trending firm in October and November.

▷ 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, cash inflow from the proceeds of the sale and a portion of the loss (gain) on transfer of business will occur from Q3, but Dream Incubator believes the loss (gain) on transfer of business will have little impact on its full-year FY03/20 results.

* The company booked a JPY150mn impairment loss on DI Asia in FY03/19, valuing NAV at JPY300mn at end-FY03/19.

▷ The company commented that its strategy for the consulting services is to take actions that address market needs to strengthen its business base. Specifically, the company plans the following:

- Form consortiums: The company is involved in business creation projects whose purpose is to solve social problems. There is still a need for these projects at government and societal levels. Problems with a broad scope such as how to encourage social engagement of senior citizens and how to build technical or financial data platforms require solutions on a large scale that cannot be provided by a single company. Dream Incubator therefore plans to tackle these projects by forming consortiums.
- Alliance with astamuse company, Ltd. (further strengthen commercialization of early stage technologies, which is the company's strength): In October 2019, the company formed a strategic partnership with astamuse, which builds databases from data on technologies and patents gathered from around the world. astamuse has created its own definitions of 176 growth businesses and 105 social problems by gathering and visualizing data on new businesses, new products and services, new technologies and research across the globe. Dream Incubator provides support for business creation and promoting innovation to major companies seeking to initiate new industries, excelling in the commercialization of fledgling technologies. As a partnership, the two companies plan to develop a range of business creation support services that organically combine data, which are the source of new technologies and innovation, as well as grow and improve business creation and promotion of new businesses. They also plan joint development of business creation tools and logic.
- Strengthen execution support services often requested by customers (revise pricing structure and strengthen resident type projects): The company responds in an adaptable way to customer needs for a flexible pricing structure for execution support as well as strategy formulation by varying the composition of teams and providing execution support by young elite personnel. Expanding its customer base to mid-tier companies from its previous focus on major corporations is also under consideration. The company is diversifying its consulting service offerings by working with M&A advisory and education teams.

▷ Orders have steadily increased since September 2019, due in part to the above initiatives. The company commented that in the longer term it would consider joint investments with balance sheet consolidation.

▷ Net asset value (NAV) of the Professional Services business estimated by the company grew from JPY10.1bn (equivalent to PER of 25x) at end FY03/19 to JPY11.6bn (32x) at end 1H FY03/20. The company calculates NAV by multiplying average results of the last 20 quarters by PER.

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. Sales and operating profit declined YoY in the absence of sale of large investments as in 1H FY03/19.
- 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. With the aim of expanding investments in Japan, the company established and began operation of a domestic venture capital fund Dimension Investment Partners Limited in 1H FY03/20. Dream Incubator funnels capital and human resources to the start-ups in which it invests when they are at the stage where the company's deeper involvement will help accelerate growth, and afterward starts looking for an exit strategy.
  - Domestic venture capital fund Dimension Investment Partners Limited: The company established its first startup fund (Dimension Investment Partners Limited) to accelerate its business of investing in and supporting startup companies, with investors including noted music producer Yasushi Akimoto, Mizuho Bank, Ltd., and Akatsuki Securities, Inc. It also set up a specialist subsidiary to manage the fund (Dimension, Inc., partner with unlimited liability) in October 2019. It aims for a fund size of around JPY5. 0bn. The company's investment in the fund's limited partnership (LP) is JPY1.0bn.
  - The company will make future operational investments through the fund (excludes business investments), although the parent's operational investments will likely decline as it exits from investments. The company plans to expand the scope of investment funds so that management fees will cover expenses while increasing earnings through upside (capital gains and success fees). The parent will continue to make business investments.
- 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. In 1H FY03/20, the company invested in eight companies (including additional investments), sold six, and booked an impairment loss on two.
- The book value of operational investment securities at end 1H FY03/20 was JPY6.1bn (+JPY266mn from end FY03/19). The status of its portfolios is as follows.
  - Main venture capital portfolio: Approximately JPY4.0bn (44 companies; +1 company from end FY03/19), breaking down into Japan JPY1.6bn (19 companies, +1 company from end FY03/19), India JPY1.1bn (16, +2), US JPY200mn (4, -3), and other regions JPY920mn (4, no change).
  - Other investments: Approximately JPY2.0bn
- NAV of the Venture Capital segment (company estimate) increased from JPY6.8bn at end FY03/19 to JPY7.1bn at end 1H FY03/20.

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 70,000 policies YoY and 36,000 polices 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.

- NAV of the Insurance segment (company estimate) contracted from JPY13.5bn at end FY03/19 to JPY12.5bn at end 1H FY03/20, due mainly to a drop in the stock price of ipet Insurance. The company left unchanged its valuation of the Others segment (including Work Style Lab, Inc. (WSL) and non-consolidated company Boardwalk Inc.).

Others 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 in accordance with the initial plan.

Net Asset Value (NAV)

- One of the two key business areas for the company is its Incubation Services. The company calculates NAV in response to institutional investors' criticism that they had difficulty interpreting shareholder value based on income statements alone, considering the nature of the Incubation Services business (See "Company's thinking on its own enterprise value" for information on how the company calculates NAV for each business).
- Using mark-to-market valuations, the company calculated NAV of JPY30.8bn (JPY3,043 per share) at end 1H FY03/20. This is up only slightly from JPY30.1bn (JPY2,926 per share) at the end of FY03/19. The small increase in NAV reflects a JPY1.0bn decline in the value of business investments* resulting from a drop in the stock price of ipet Insurance (the valuation of other business investments was unchanged), offset by increases in the value of its Professional Services and Venture Capital businesses, which were up JPY1.5bn and JPY300mn, respectively.
- Excluding the decline in NAV stemming from the drop in the stock price of ipet Insurance, the company says NAV is not far from its initial forecast of JPY35.0bn at the end of FY03/20 (+16.3% YoY).

* The company's three main business investments (notable for the company's large shareholdings and provision of management support) are ipet Insurance Co., Ltd. (Insurance segment of Incubation Services), Boardwalk Inc. (non-consolidated), and Work Style Lab, Inc. (Others segment of Incubation Services). As noted in the report, ipet Insurance's 1H FY03/20 results show that the business is on a growth trajectory and NAV at end 1H FY03/20 was estimated at JPY11.3bn. Boardwalk's NAV is estimated at JPY300mn (no revaluation), because the reactionary downturn to the demand boost following the retirement of Namie Amuro in 1H FY03/19 was smaller than expected. Boardwalk is preparing for an IPO. As noted in the report, Work Style Lab booked an operating loss because of upfront investment to grow the business. NAV at end 1H FY03/20 was estimated at JPY500mn (no revaluation). The company aims to add more major business investments at a pace of around one per year.

Balance sheet

Balance sheet (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.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
ASSETS											
Cash and deposits	2,818	3,145	3,012	4,869	5,535	6,477	7,286	7,409	6,299	6,559	4,745
Marketable securities	-	-	1,020	20	20	20	21	-	-	-	-
Accounts receivable	263	735	642	927	1,265	1,562	1,985	2,074	2,460	2,695	2,917
Operating investment securities	2,946	2,855	2,841	2,653	8,788	4,330	4,588	5,131	6,661	5,789	6,392
Allowance for investment loss	-104	-202	-440	-221	-118	-118	-20	-490	-490	-93	-150
Allowance for doubtful accounts	-	-15	-17	-33	-35	-43	-5	-32	-28	-3	-7
Inventories	-	36	61	53	92	29	13	12	17	29	34
Deferred tax assets	-	237	249	341	357	463	490	501	-	-	-
Corporate tax receivable	11	5	2	3	-	-	-	-	-	276	16
Other	28	57	200	400	418	1,309	500	385	316	674	1,581
Total current assets	**5,962**	**6,853**	**7,570**	**9,012**	**16,322**	**14,029**	**14,858**	**14,990**	**15,235**	**15,926**	**15,528**
Total tangible fixed assets	**32**	**29**	**162**	**198**	**180**	**152**	**130**	**159**	**197**	**341**	**491**
Investment securities	531	55	42	19	10	2	113	785	2,262	4,473	5,961
Long-term debt	61	61	80	79	128	127	133	136	78	144	147
Other	92	367	347	270	304	303	306	447	911	1,815	1,921
Allowance for doubtful accounts	-61	-61	-60	-59	-58	-57	-83	-82	-36	-36	-67
Total other fixed assets	**624**	**423**	**410**	**309**	**385**	**375**	**470**	**1,288**	**3,217**	**6,396**	**7,815**
Software											
Goodwill	-	995	1,089	966	847	707	574	462	349	566	403
Other	2	57	531	472	438	468	99	447	368	1,475	2,184
Total intangible fixed assets	**2**	**1,052**	**1,620**	**1,438**	**1,286**	**1,176**	**674**	**909**	**718**	**2,041**	**2,588**
Total fixed assets	**658**	**1,505**	**2,193**	**1,947**	**1,851**	**1,704**	**1,275**	**2,357**	**4,133**	**8,779**	**10,895**
Total assets	**6,620**	**8,358**	**10,551**	**12,056**	**19,539**	**15,734**	**16,134**	**17,348**	**19,368**	**24,705**	**26,424**
LIABILITIES											
Accounts payable	-	-	9	39	29	23	-	-	-	131	194
Lease obligations	-	-	3	4	1	1	1	2	8	8	11
Accounts payable–other	48	94	152	92	199	306	429	326	531	599	346
Short-term debt	-	-	-	-	-	-	-	100	100	689	1,122
Reserve for insurance contract	-	927	1,381	1,895	2,399	2,816	3,640	4,601	5,560	7,019	8,869
Income taxes payable	15	32	45	89	139	523	22	432	556	398	249
Advances received	-	34	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	22	-	1,969	174	-	3	-	-	-
Provision for bonuses	-	-	33	30	95	100	144	174	100	126	144
Provision for directors' bonuses	-	-	6	13	20	50	10	16	-	30	0
Other current liabilities	39	157	182	258	175	273	571	258	392	502	586
Total current liabilities	**102**	**1,244**	**1,833**	**2,420**	**5,026**	**4,266**	**4,817**	**5,912**	**7,247**	**9,502**	**11,521**
Lease obligations	-	-	10	13	4	2	-	4	26	20	28
Long-term debt	-	-	-	-	164	-	-	325	225	998	912
Other fixed liabilities	-	-	-	-	-	19	71	138	223	329	325
Total fixed liabilities	**-**	**-**	**10**	**13**	**168**	**21**	**71**	**467**	**474**	**1,347**	**1,265**
Total liabilities	**102**	**1,244**	**1,844**	**2,434**	**5,195**	**4,287**	**4,889**	**6,380**	**7,722**	**10,850**	**12,786**
NET ASSETS											
Capital stock	4,613	4,615	4,615	4,638	4,704	4,823	4,884	4,915	4,940	4,964	4,978
Capital surplus	4,796	4,796	4,796	4,819	3,520	3,640	3,743	3,774	3,801	4,411	4,412
Retained earnings	-2,513	-2,090	-1,257	-585	1,430	2,169	2,310	2,289	3,158	3,275	3,078
Treasury stock	-	-	-	-	-	-499	-495	-951	-942	-882	-1,073
Valuation difference on marketable securities	-294	-276	-192	-146	3,773	458	-174	-90	-308	-422	-644
Foreign currency translation adjustments	-94	-119	-116	-98	-75	-24	-74	-76	-106	-105	-125
Share subscription rights	8	56	125	167	186	130	99	81	64	49	40
Non-controlling interests	1	132	736	827	804	747	951	1,026	1,038	2,564	2,970
Total net assets	**6,518**	**7,114**	**8,707**	**9,622**	**14,344**	**11,446**	**11,245**	**10,967**	**11,646**	**13,855**	**13,638**
Working capital	263	771	694	941	1,328	1,568	1,998	2,086	2,477	2,593	2,757
Total interest-bearing debt	-	-	13	17	169	3	1	431	359	1,715	2,073
Net debt	-2,818	-3,145	-2,999	-4,852	-5,366	-6,474	-7,285	-6,978	-5,940	-4,844	-2,672

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)	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
SALES											
Professional Services	1,112	1,696	1,972	2,379	2,171	2,504	2,667	3,202	3,454	2,556	2,679
YoY	-8.0%	52.5%	16.3%	20.6%	-8.7%	15.3%	6.5%	20.1%	7.9%	-26.0%	4.8%
Insurance segment	-	-	3,325	4,284	5,100	6,363	8,126	10,067	12,212	14,876	18,157
YoY	-	-	-	28.8%	19.0%	24.8%	27.7%	23.9%	21.3%	21.8%	22.1%
Venture Capital segment	1,508	899	979	426	1,011	3,671	703	1,179	2,752	2,867	801
YoY	6.5%	-40.4%	8.9%	-56.5%	137.3%	263.1%	-80.8%	67.7%	133.4%	4.2%	-72.1%
Software business	-	-	-	8	-	-	-	-	-	-	-
YoY	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	594	809	803	1,193	78	-	448	969
YoY	-	-	-	-	36.2%	-0.7%	48.6%	-93.5%	-	-	116.3%
Total sales	**2,620**	**2,690**	**6,526**	**7,693**	**9,092**	**13,343**	**12,691**	**14,526**	**18,418**	**20,705**	**22,595**
YoY	-0.2%	2.7%	142.6%	17.9%	18.2%	46.8%	-4.9%	14.5%	26.8%	12.4%	9.1%
Cost of sales	2,242	1,305	3,609	3,981	4,280	5,429	6,306	7,508	8,866	11,401	12,266
Gross profit	**378**	**1,385**	**2,918**	**3,711**	**4,811**	**7,914**	**6,384**	**7,018**	**9,551**	**9,303**	**10,328**
YoY	-	266.4%	110.7%	27.2%	29.6%	64.5%	-19.3%	9.9%	36.1%	-2.6%	11.0%
GPM	14.4%	51.5%	44.7%	48.2%	52.9%	59.3%	50.3%	48.3%	51.9%	44.9%	45.7%
SG&A expenses	601	683	1,817	2,942	3,669	6,565	5,846	6,500	7,696	9,178	10,316
SG&A-to-sales ratio	22.9%	25.4%	27.8%	38.2%	40.4%	49.2%	46.1%	44.7%	41.8%	44.3%	45.7%
Operating profit	**-223**	**702**	**1,100**	**768**	**1,141**	**1,348**	**538**	**517**	**1,854**	**124**	**12**
YoY	-	-	56.7%	-30.2%	48.6%	18.1%	-60.1%	-3.9%	258.6%	-93.3%	-90.3%
OPM	-	26.1%	16.9%	10.0%	12.5%	10.1%	4.2%	3.6%	10.1%	0.6%	0.1%
Non-operating income	56	19	15	33	32	52	20	38	81	181	162
Non-operating expenses	26	22	10	42	72	26	33	28	20	28	200
Recurring profit	**-193**	**698**	**1,104**	**759**	**1,101**	**1,373**	**525**	**527**	**1,915**	**277**	**-25**
YoY	-	-	58.2%	-31.3%	45.1%	24.7%	-61.8%	0.4%	263.4%	-85.5%	-
RPM	-	25.9%	16.9%	9.9%	12.1%	10.3%	4.1%	3.6%	10.4%	1.3%	-0.1%
Extraordinary gains	461	-	-	3	-	1	26	-	-	170	13
Extraordinary losses	19	271	7	-	-	-	-	-	256	2	-
Tax charges	-1	4	7	-39	152	415	86	355	748	-239	99
Implied tax rate	-	0.9%	0.6%	-5.1%	13.8%	30.2%	15.6%	67.4%	45.1%	-53.7%	-
Net income attrib. to non-controlling interests			256	130	95	-33	45	70	11	305	86
Net income	**249**	**422**	**833**	**671**	**854**	**993**	**420**	**101**	**899**	**378**	**-198**
YoY	-	69.5%	97.4%	-19.4%	27.3%	16.3%	-57.7%	-76.0%	790.1%	-58.0%	-
Net margin	9.5%	15.7%	12.8%	8.7%	9.4%	7.4%	3.3%	0.7%	4.9%	1.8%	-0.9%

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)	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Cons.	FY03/14 Cons.	FY03/15 Cons.	FY03/16 Cons.	FY03/17 Cons.	FY03/18 Cons.	FY03/19 Cons.	FY03/20 Cons.
Cash flows from operating activities (1)	1,090	902	2,322	1,504	1,622	2,421	907	1,509	864	1,292	1,424
Cash flows from investing activities (2)	421	-551	-4,058	610	-1,463	-1,026	74	-873	-1,865	-3,285	-2,664
Free cash flow (1+2)	**1,511**	**351**	**-1,736**	**2,114**	**159**	**1,395**	**981**	**636**	**-1,001**	**-1,993**	**-1,240**
Cash flows from financing activities	0	1	-2	-1	-141	-618	-33	-126	-100	2,891	401
Depreciation and amortization (A)	9	18	179	243	250	260	228	193	201	262	323
Capital expenditures (B)	-16	-5	-155	-133	-65	-128	-81	-442	-271	-1,154	-1,085
Working capital changes (C)	83	508	-77	247	387	240	430	88	391	116	164
Simple FCF (NI + A + B - C)	**159**	**-73**	**934**	**534**	**652**	**885**	**137**	**-236**	**438**	**-630**	**-1,124**

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

News and topics

June 2020

On June 24, 2020, the company announced a market research business in collaboration with public, private, and academic sectors aimed at realizing a tolerant society that accepts diversity.

Business summary

- Dream Incubator has been engaged in researching methods for visualizing the opinions of a host of people with the aim of realizing a tolerant society that accepts diversity. As a field test, it plans to utilize the Yokolabo public–private partnership platform of Yokoze (Chichibu, Saitama Prefecture), which is striving to become a town that respects diversity, to conduct an opinion survey of the town's residents in collaboration with the town at the end of July 2020.
- The project will be jointly promoted with the public, private, and academic sectors, with leading expert in social research, Professor Masao Matsumoto of the Social Survey Research Center of Saitama University, supervising the design of the survey, and Associate Professor Shinichi Yamaguchi of International University of Japan—an econometrics specialist who also studies intolerant societies—cooperating in the analysis of the results.

Business background

- In recent years, the intolerance of society has come to be criticized. Increasingly, people are noticing intolerance in their immediate surroundings, whether it be parks where play is extremely limited, the excessive abuse of unrelated people online, or the emergence of lockdown "snitches" during the COVID-19 pandemic.
- There are various factors giving rise to this intolerance, but Dream Incubator is focusing on the process whereby certain strong opinions grow and come into conflict with each other. The issue with this is that majority opinion gets drowned out by these extreme views. With only certain opinions in focus, strong opinions appear more prevalent than they are, and those with opinions differing to these shy away and find it difficult to express their views. Some people may even sharpen their opinion due to the pressure to conform, serving to accelerate social intolerance. Dream Incubator, therefore, thinks that visualizing the opinions of a host of people, and not just strong opinions, is the clue to solving the issue of intolerant societies.
- Dream Incubator believes that an intolerant society is not only difficult to live in, but also impedes diversity that is essential for innovation. Under its mission of "create businesses and change society," Dream Incubator aims to realize a tolerant society that accepts diversity by leveraging its expertise in business producing to addresses this issue.

On June 11, 2020, the company announced changes in its executive management.

At a Board of Directors meeting held on June 11, 2020, the company informally decided on changes in its representative directors. The Board will finalize the decision after receiving approval at the general shareholders meeting scheduled for June 29, 2020 and it will take effect the same day.

Reason for the changes

The company aims to increase corporate value by shifting leadership to a new generation of managers to respond to the accelerating changes in society and industry.

Changes

Name	New position	Current position
Tetsuro Harada	Representative Director and CEO (Chairman of the Board)	Director
Takayuki Miyake	Representative Director and COO (Business Production Representative)	Director

Kyohei Hosono	Representative Director and COO (Incubation Representative)	Director

On June 10, 2020, the company announced the conclusion of a comprehensive partnership agreement with the Development Bank of Japan.

- Dream Incubator (DI) and the Development Bank of Japan (DBJ) concluded a comprehensive partnership agreement relating to social impact bonds (SIBs). Going forward, the two entities will cooperate to fully leverage SIBs to address social issues.
- SIBs are a new mechanism of cooperation between private and public entities to solve social problems. They target issues prioritized by national and local government bodies, aiming to solve them by implementing new solutions backed by expertise and investment from private companies. The introduction of SIBs is progressing overseas, mainly in the UK. In Japan, SIBs are mainly being formed in the medical and healthcare fields underpinned by the increasing social security burden borne by national and local governments as a result of the aging of the population.
- DI and DBJ plan to work with government bodies to develop concrete plans for tackling issues using the SIB framework in the various areas of infrastructure maintenance and repair, disaster mitigation, recycling, child education, and town revitalization.
- In addition to strategic consulting for major corporations and venture capital investing, DI operates a "business produce" business in which it combines strategy, technology, and policy to address various social issues. The company has worked with government ministries, local government bodies, and numerous private companies to carry out innovative projects. DI has already been exploring the formation of SIBs: it signed memoranda with two cities, Toyota in February 2020, and Maebashi in May of the same year (see releases below). The company is simultaneously moving forward with talks with several other forward-looking local government bodies and aims to widen its network.
- DBJ engages in market research in Japan and overseas. It has accumulated expertise relevant to establishing SIBs fit to the Japanese market with its experience investing in a fund targeting an SIB formed by Bridges Fund Management Limited (UK; Bridges) in November 2019 and its role as a strategic partner to Bridges (DBJ concluded a business alliance agreement with Bridges). DBJ plans to continue pursuing this kind of initiative while exploring the formation of SIBs in Japan. It aims to lend its support on the financial front to the resolution of social issues prioritized by regional governments.
- DI and DBJ will share their knowledge and networks to form SIBs involving a range of players including national and local governments, service providers, and financial institutions. The partners aim to achieve an investment scale of JPY100bn through which they plan to realize initiatives that will have a significant effect on resolving social issues.

Social Impact Bond (SIB)
A mechanism in which investors provide funding to businesses implementing preventative programs and are in turn paid performance fees by local governments based on the success of those initiatives. Under this form of public business contract, governments do not make payments when commissioning services, but at the point when businesses deliver successful outcomes. The amount of commissions paid by local governments is also linked to outcomes in these performance-based contracts. SIBs are one means of public-private cooperation that combine performance-based contracts with private funding.

On June 1, 2020, the company announced changes in the representative director, board of directors, and the scheduled date for the 20th annual general shareholders meeting.

Change in Representative Director
Current President and Representative Director, Takayoshi Yamakawa is slated to step down from his position following the conclusion of the 20th annual general meeting of shareholders scheduled for June 29, 2020.

Change in directors
Company Director and Board Member Founder, Koichi Hori and President and Representative Director, Takayoshi Yamakawa are both slated to step down from their current positions on the board of directors following the conclusion of the 20th annual

general meeting of shareholders scheduled for June 29, 2020, and the new representative director will be selected among the director candidates.

Reasons for the changes

Coming at a time when the industrial structure is changing rapidly in the wake of the novel coronavirus pandemic, the changes in top management at the company is aimed at facilitating the immediate transfer of the reigns of leadership to the next generation of managers to assure future growth and the further increase of the group's enterprise value.

Change in scheduled date for annual general shareholders meeting

To facilitate the changes in the agenda for the meeting necessitated by the planned changes mentioned above, the scheduled date for the general shareholders meeting has been changed from June 15, 2020, to June 29, 2020.

May 2020

On May 11, 2020, the company announced that it would not be paying a dividend in FY03/20.

Explaining its decision, the company said that, in view of the current level of its share price, it felt that the best way to make returns to shareholders and maximize shareholder value at this time was through share buybacks rather than through a dividend payment. (The company also did not pay a dividend in FY03/19.) The company had previously announced share buyback plans on April 6, 2020, authorizing the purchase of up to 250,000 shares at a maximum total cost of JPY300mn.

April 2020

On April 28, 2020, the company announced consolidated subsidiary ipet Insurance Co., Ltd.'s transition to a pure holding company structure through sole share transfer.

Consolidated subsidiary ipet Insurance Co., Ltd. (TSE Mothers: 7323) resolved at a meeting of its board of directors on April 28, 2020, to incorporate pure holding company (wholly owning parent company) ipet Holdings through a sole share transfer on October 1, 2020 (scheduled date), subject to completing the prescribed procedures, such as obtaining a resolution granting approval at an ordinary meeting of shareholders on June 27, 2020, and obtaining the approval of the Financial Services Agency.

On April 6, 2020, the company announced its decision to conduct a share buyback.

Reason for share buyback

- ▷ The goal of this buyback is to enhance shareholder return.
- ▷ Dream Incubator has been using Net Asset Value (NAV) as an indicator of its fair value since it announced its financial results for FY03/19. The company believes that the current price of its shares is notably low when compared to its NAV per share. Consequently, it determined that conducting a share buyback will be an effective way to raise the shareholder value per share.
- ▷ The company also plans to swiftly conduct share buybacks in the future, whenever the price of its shares falls markedly lower than its NAV per share.

Details of buyback

- ▷ Type of shares to be reacquired: Common shares of the company
- ▷ Total number of shares to be repurchased: 250,000 (maximum; 2.57% of shares outstanding [excluding treasury shares])
- ▷ Total repurchase amount: JPY300mn (maximum)
- ▷ Repurchase period: April 8, 2020–March 31, 2021

January 2020

On January 31, 2020, the company announced earnings results for Q3 FY03/20; see the results section for details.

On the same day, the company announced that it had invited Hideka Morimoto, a former vice-minister at the Ministry of the Environment, to serve as special counsel.

- DI invited former Vice-Minister of the Environment Hideka Morimoto to serve as special counsel as of January 1, 2020. After joining the Environment Agency, Mr. Morimoto played an important role in enacting environmental laws and establishing the Ministry of the Environment. After the 2011 Tohoku earthquake and tsunami, as deputy director-general of the Cabinet Secretariat, he helped oversee the inauguration of Japan's Nuclear Regulation Authority (NRA). He also went on to serve as deputy secretary-general of the NRA and secretary-general of the minister, and until July 2019 as vice-minister of the environment.
- In addition, Mr. Morimoto has actively worked with private organizations and played a role in the establishment of the Japan Fund for Global Environment, which supports activities by non-governmental organizations.
- DI promotes the creation of businesses that can work toward resolving social issues and achieving the United Nations' sustainable development goals (SDGs). Mr. Morimoto has been promoting environmental policy to resolve social issues on a global scale, and the company therefore believes that his abundant insight, experience, and personal connections will help it further accelerate its business creation.

December 2019

On December 3, 2019, the company announced the launch of its financial producing business targeting the next wave of entrepreneurs aiming to build unicorn companies.

- The company stepped up hiring for its Private Capital Group, which offers advisory services covering M&A and fundraising for entrepreneurs, and launched the financial producing business to help entrepreneurs aiming to create unicorn companies (pre-IPO startups valued at JPY100.0bn or more) implement their financial strategies in practice.
- The financial producing business provides optimized solutions for "future unicorn" entrepreneurs (defined below) despite the current headwind against unicorn companies.

Entrepreneur-focused financial producing business

- Provide a total solutions service to resolve issues relating to financial strategy faced by entrepreneurs aiming to create the next wave of unicorn companies.
- In particular, the business focuses on advising startups and entrepreneurs (mainly those in Series B financing or later, or large companies undertaking carve-outs) on issues such as capital policy, fundraising, and M&A.
- The company will apply the expertise it has gained through providing business producing and strategic consulting services and leverage a domestic and overseas network consisting of major companies, venture capital and private equity funds, and entrepreneurs.

Definition of "future unicorn" as used in the financial producing business

- Narrow definition: Entrepreneurs aiming to accelerate business growth through large-scale fundraising to become unicorns (pre-IPO startups valued at JPY100.0bn or more).

- Broad definition: Entrepreneurs aiming to create companies valued at JPY100.0bn or more who, seeking greater management resources, choose to enter large group companies through M&A over going public with a lower valuation.
- Broad definition: Entrepreneurs aiming to create companies valued at JPY100.0bn or more who run new businesses that are part of larger companies and who choose to undergo a carve-out to heighten their chances of success by making full use of outside management resources.

November 2019

On November 21, 2019, the company announced its investment in SHOWROOM, which manages virtual live concert space.

- SHOWROOM Inc. (consolidated subsidiary of DeNA Co., Ltd. [TSE1: 2432]) operates an eponymous live video streaming platform with the mission, “creating a world in which disparities in opportunities are eliminated and effort is fairly rewarded.” The company delivers live performances from artists in a range of genres through a new kind of audiovisual experience. As of October 2019, it had over 3.28mn registered members. The company also is developing a number of products and services that use cutting-edge technologies such as VR and AR.
- Through its investment, DI aims to support SHOWROOM’s goal of combining entertainment and technology to deliver mesmerizing content throughout the world as content becomes more video-based with the widespread adoption of 5G. The company did not disclose the amount of the investment.
- The company says it will continue to invest in and support promising startups, including those in nascent stages.
- Venture capital investments made by DI in Japanese startups will be provided through Dimension, a DI-managed fund that aims to accelerate the growth of startups through all-encompassing management support.

On November 7, 2019, the company announced approval for the listing of investee Technoflex Corporation.

- Technoflex Corporation was approved on November 7, 2019 for listing on the Second Section of the Tokyo Stock Exchange.
- Technoflex (established in 1977) is a supplier of pipe fittings used for various pipes.
- The company holds 400,000 shares in Technoflex (2.2% of shares, based on the number of present shares).

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.

2017

Established DI Marketing Co., Ltd. (DI Asia Inc.).

Established PT Dream Incubator Marketing Indonesia (consolidated subsidiary) in Indonesia.

2018

Established DI India Digital Fund 1 in India (consolidated subsidiary)

ipet Insurance Co., Ltd. was listed on the Tokyo Stock Exchange Mothers section

Made Work Style Lab, Inc. a wholly owned subsidiary

2019

Transferred DI Asia's consumer panel and market survey business.

Formed Dimension Investment Partners Limited (consolidated subsidiary).

Major shareholders

Top shareholders	Shares held	Shareholding ratio
Koichi Hori	1,407,600	13.89%
Japan Trustee Services Bank, Ltd. (Trust account)	744,200	7.34%
Noboru Kotani	609,700	6.01%
MSCO CUSTOMER SECURITIES	485,000	4.78%
ORIX Corporation	468,200	4.62%
Morgan Stanley MUFG Securities Co., Ltd.	438,163	4.32%
WISEMAN K.K.	400,000	3.94%
THE BANK OF NEW YORK MELLON 140051	361,500	3.56%
Takayoshi Yamakawa	297,200	2.93%
The Master Trust Bank of Japan, Ltd. (Trust account)	232,700	2.29%
Shares outstanding (excluding 358,378 shares of treasury stock)	10,134,022	100.00%

Source: Shared Research based on company data
As of end-March 2020 (shareholding ratio based on shares outstanding, excluding treasury shares)

Top management

Tetsuro Harada is Representative Director and CEO (Chairman of the Board of Directors) of the company. Mr. Harada enlisted in the Japan Maritime Self-Defense Force in 1981, and later joined Nippon Life Insurance in 1990. In 1996, he earned an MBA from the University of California, Berkley, and in 2000, joined the company. He was appointed Executive Officer of the company in 2006 and Director of ipet Insurance in 2017. After taking on the role of Director of the company in 2018, he was appointed Representative Director and CEO in 2020.

Takayuki Miyake is Representative Director and COO (Business Production Representative) of the company. Mr. Miyake joined Japan's Ministry of International Trade and Industry (now the Ministry of Economy, Trade and Industry) in 1995 and later joined A.T. Kearney in 2001. He joined the company in 2004. He was appointed Executive Officer of the company in 2009 and Director in 2019, before assuming the position of Representative Director and COO in 2020.

Kyohei Hosono is Representative Director and COO (Incubation Representative) of the company. Mr. Hosono joined the Overseas Economic Cooperation Fund (now Japan Bank for International Cooperation) in 1996. He earned a master's degree in Public Administration from the University of Michigan in 2000 before joining the company in 2005. He took on the role of Managing Director in charge of the Asian business in 2009 and became Executive Officer in 2012. He was appointed Representative Director in 2019 and Representative Director and COO in 2020.

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 3-2-6 Kasumigaseki, Chiyoda-ku 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	**Financial Year-End**
http://www.dreamincubator.co.jp/entop	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 https://sharedresearch.jp.

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Daiseki Co., Ltd.
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Digital Arts Inc.
Digital Garage Inc.
DIP Corporation
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Dream Incubator Inc.
Earth Corporation
Edion Corporation
Elecom Co., Ltd.
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Estore Corporation.
euglena Co., Ltd.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
First Brothers Col, Ltd.
FreeBit Co., Ltd.
Fujita Kanko Inc.
Gamecard-Joyco Holdings, Inc.
GameWith, Inc.
GCA Corporation
Good Com Asset Co., Ltd.
Grandy House Corporation
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HENNGE K.K.
Hope, Inc.
HOUSEDO Co., Ltd.
H2O Retailing Corporation
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
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Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
Itochu Enex Co., Ltd.
JAFCO Co.,Ltd.
JMDC Inc.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kanamic Network Co.,LTD
Kawanishi Holdings, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
KLab Inc.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
Locondo, Inc.
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Media Do Co., Ltd.
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MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
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Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
OHIZUMI MFG. CO., LTD.
Oisix ra daichi Inc.
Oki Electric Industry Co., Ltd
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
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QB Net Holdings Co., Ltd.
RACCOON HOLDINGS, Inc.
Raysum Co., Ltd.
RESORTTRUST, INC.
ROUND ONE Corporation
RYOHIN KEIKAKU CO., LTD.
SanBio Company Limited
SANIX INCORPORATED
Sanrio Company, Ltd.
SATO HOLDINGS CORPORATION
SBS Holdings, Inc.
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SOURCENEXT Corporation
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Strike Co., Ltd.
SymBio Pharmaceuticals Limited
Synchro Food Co., Ltd.
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Take and Give Needs Co., Ltd.
Takihyo Co., Ltd.
TEAR Corporation
Tenpo Innovation Inc.
3-D Matrix, Ltd.
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TKC Corporation
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Toyo Tanso Co., Ltd.
Tri-Stage Inc.
TSURUHA Holdings
VISION INC.
VISIONARY HOLDINGS CO., LTD.
World Holdings Co., Ltd.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
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