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On August 6, 2021, Dream Incubator Inc. announced earnings results for Q1 FY03/22.

Quarterly earnings (JPYmn)	FY03/20				FY03/21				FY03/22				FY03/22	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	5,231	5,383	6,101	6,040	6,074	7,269	6,592	7,841	7,974					
YoY	-3.7%	23.9%	24.7%	0.0%	16.1%	35.0%	8.0%	29.8%	31.3%					
Gross profit	2,404	2,435	3,003	2,598	2,503	2,891	2,786	2,807	3,427					
YoY	0.7%	17.1%	28.7%	3.8%	4.1%	18.7%	-7.2%	8.0%	36.9%					
Gross profit margin	46.0%	45.2%	49.2%	43.0%	41.2%	39.8%	42.3%	35.8%	43.0%					
SG&A expenses	2,499	2,440	2,592	2,785	2,679	2,861	2,939	3,465	3,565					
YoY	14.3%	10.0%	8.7%	16.6%	7.2%	17.3%	13.4%	24.4%	33.1%					
SG&A ratio	47.8%	45.3%	42.5%	46.1%	44.1%	39.4%	44.6%	44.2%	44.7%					
Operating profit	-94	-5	409	-186	-175	30	-154	-658	-138					
YoY	-	-	-	-	-	-	-	-	-					
Operating profit margin	-	-	6.7%	-	-	0.4%	-	-	-					
Recurring profit	-106	-41	325	-203	-161	93	-200	-703	59					
YoY	-	-	-	-	-	-	-	-	-					
Recurring profit margin	-	-	5.3%	-	-	1.3%	-	-	0.7%					
Net income	-18	-126	163	-217	-143	-100	-192	-1,670	-21					
YoY	-	-	-	-	-	-	-	-	-					
Net margin	-	-	2.7%	-	-	-	-	-	-					
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	5,231	10,614	16,715	22,755	6,074	13,343	19,935	27,776	7,974					Undisclosed
YoY	-3.7%	8.6%	14.0%	9.9%	16.1%	25.7%	19.3%	22.1%	31.3%					
Gross profit	2,404	4,839	7,842	10,440	2,503	5,394	8,180	10,987	3,427					
YoY	0.7%	8.3%	15.3%	12.2%	4.1%	11.5%	4.3%	5.2%	36.9%					
Gross profit margin	46.0%	45.6%	46.9%	45.9%	41.2%	40.4%	41.0%	39.6%	43.0%					
SG&A expenses	2,499	4,939	7,531	10,316	2,679	5,540	8,479	11,944	3,565					
YoY	14.3%	12.1%	10.9%	12.4%	7.2%	12.2%	12.6%	15.8%	33.1%					
SG&A ratio	47.8%	46.5%	45.1%	45.3%	44.1%	41.5%	42.5%	43.0%	44.7%					
Operating profit	-94	-99	310	124	-175	-145	-299	-957	-138					
YoY	-	-	2718.2%	-90.1%	-	-	-	-	-					
Operating profit margin	-	-	1.9%	0.5%	-	-	-	-	-					
Recurring profit	-106	-147	178	-25	-161	-68	-268	-971	59					
YoY	-	-	104.6%	-	-	-	-	-	-					
Recurring profit margin	-	-	1.1%	-0.1%	-	-	-	-	0.7%					
Net income	-18	-144	19	-198	-143	-243	-435	-2,105	-21					
YoY	-	-	-87.3%	-	-	-	-	-	-					
Net margin	-	-	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	FY03/20				FY03/21				FY03/22				
	Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SALES													
Business Production	573	708	739	659	508	664	467	680	614				
YoY	-	-	-	-	-0	-0	-0	0	20.9%				
Incubation	4,662	4,763	5,281	5,382	5,573	6,611	6,134	7,176	7,364				
YoY	-	-	-	-	0	0	0	0	32.1%				
Venture Capital segment	253	151	311	85	141	811	21	92	33				
YoY	-	-	-	-	-44.3%	437.1%	-93.2%	8.2%	-76.6%				
Pet Lifestyle segment	4,212	4,425	4,719	4,961	5,192	5,545	5,836	6,286	6,639				
YoY	-	-	-	-	23.3%	25.3%	23.7%	26.7%	27.9%				
HR Innovation segment	197	185	251	324	240	257	278	317	288				
YoY	-	-	-	-	21.8%	38.9%	10.8%	-2.2%	20.0%				
Fan Marketing segment	-	-	-	-	-	-	-	-	401				
YoY	-	-	-	-	-	-	-	-	-				
Other segment	-	-	-	-	-	-	-	442	-				
YoY	-	-	-	-	-	-	-	-	-				
Internal transactions or transfer	-4	-6	0	-2	-8	-5	-9	-16	-5				
Former categories													
Professional Services	573	708	739	659	-	-	-	-	-				
YoY	12.1%	26.9%	23.4%	-25.8%	-	-	-	-	-				
Incubation	4,647	4,696	5,241	5,344	-	-	-	-	-				
YoY	-5.5%	24.1%	22.0%	2.9%	-	-	-	-	-				
Venture Capital	253	151	311	86	-	-	-	-	-				
YoY	-82.9%	-20.1%	37.0%	-91.2%	-	-	-	-	-				
Insurance	4,197	4,358	4,680	4,922	-	-	-	-	-				
YoY	21.9%	21.3%	21.9%	23.1%	-	-	-	-	-				
Other	197	-	-	-	-	-	-	-	-				
YoY	-	-	-	-	-	-	-	-	-				
OPERATING PROFIT													
Business Production	67	245	342	313	215	379	147	313	241				
YoY	-	-	-	-	2	1	-1	0	12.1%				
Incubation	60	68	204	-270	-155	-131	-106	-768	-177				
YoY	-	-	-	-	-	-	-	-	-				
Venture Capital segment	96	-82	116	-296	-108	-276	-198	-800	-115				
YoY	-	-	-	-	-	-	-	-	-				
Pet Lifestyle segment	-6	186	109	44	-13	156	103	30	74				
YoY	-	-	-	-	-	-16.1%	-5.5%	-31.8%	-				
HR Innovation segment	-30	-36	-21	-18	-34	-11	-11	2	-27				
YoY	-	-	-	-	-	-	-	-	-				
Fan Marketing segment	-	-	-	-	-	-	-	-	-109				
YoY	-	-	-	-	-	-	-	-	-				
Other segment	-	-	-	-	-	-	-	442	-				
YoY	-	-	-	-	-	-	-	-	-				
Company-wide expenses	-221	-241	-213	-229	-235	-219	-194	-257	-202				
Former categories													
Professional Services	67	245	342	313	-	-	-	-	-				
YoY	36.7%	155.2%	159.1%	-16.5%	-	-	-	-	-				
Incubation	79	36	194	-254	-	-	-	-	-				
YoY	-78.4%	-	240.4%	-	-	-	-	-	-				
Venture Capital	96	-82	116	-296	-	-	-	-	-				
YoY	-66.0%	-	-	-	-	-	-	-	-				
HR Innovation	-17	118	78	42	-	-	-	-	-				
YoY	-	-	-68.7%	-	-	-	-	-	-				
Other	-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 newly established HR Innovation segment consists of subsidiary Work Style Lab (WSL), formerly included under the Other segment. For purposes of comparison, segment results for Q1 FY03/20 were recalculated to match the new reporting segment scheme.

Earnings by segment: cumulative

By segment Cumulative (JPYmn)	FY03/20				FY03/21				FY03/22			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SALES												
Business Production	573	1,281	2,020	2,679	508	1,172	1,639	2,319	614			
YoY	-	-	-	-	-0	-0	-0	-0	20.9%			
Incubation	4,662	9,425	14,706	20,088	5,573	12,184	18,318	25,494	7,364			
YoY	-	-	-	-	0	0	0	0	32.1%			
Venture Capital segment	253	404	715	800	138	949	970	1,062	33			
YoY	-	-	-	-	-45.5%	134.9%	35.7%	32.8%	-76.1%			
Pet Lifestyle segment	4,212	8,637	13,356	18,317	5,192	10,737	16,573	22,859	6,639			
YoY	-	-	-	-	23.3%	24.3%	24.1%	24.8%	27.9%			
HR Innovation segment	197	382	633	957	240	497	775	1,092	288			
YoY	-	-	-	-	21.8%	30.1%	22.4%	14.1%	20.0%			
Fan Marketing segment	-	-	-	-	-	-	-	-	401			
YoY	-	-	-	-	-	-	-	-	-			
Other segment	-	-	-	-	-	-	-	442	-			
YoY	-	-	-	-	-	-	-	-	-			
Internal transactions or transfer	-4	-10	-10	-12	-8	-13	-22	-38	-5			
Former categories												
Professional Services	573	1,281	2,020	2,679	-	-	-	-	-			
YoY	12.1%	19.8%	21.1%	4.8%	-	-	-	-	-			
Incubation	4,647	9,343	14,584	19,928	-	-	-	-	-			
YoY	-5.5%	7.3%	12.2%	9.5%	-	-	-	-	-			
Venture Capital	253	404	715	801	-	-	-	-	-			
YoY	-82.9%	-75.8%	-62.2%	-72.1%	-	-	-	-	-			
HR Innovation	4,197	8,555	13,235	18,157	-	-	-	-	-			
YoY	21.9%	21.6%	21.7%	22.1%	-	-	-	-	-			
Other	197	382	633	969	-	-	-	-	-			
YoY	-	-	177.6%	116.3%	-	-	-	-	-			
OPERATING PROFIT												
Business Production	67	312	654	967	215	594	741	1,054	241			
YoY	-	-	-	-	2	1	0	0	12.1%			
Incubation	60	128	332	62	-155	-286	-392	-1,160	-177			
YoY	-	-	-	-	-	-	-	-	-			
Venture Capital segment	96	14	130	-166	-108	-384	-582	-1,382	-115			
YoY	-	-	-	-	-	-	-	-	-			
Pet Lifestyle segment	-6	180	289	333	-13	143	246	276	74			
YoY	-	-	-	-	-	-20.6%	-14.9%	-17.1%	-			
HR Innovation segment	-30	-66	-87	-105	-34	-45	-56	-54	-27			
YoY	-	-	-	-	-	-	-	-	-			
Fan Marketing segment	-	-	-	-	-	-	-	-	-109			
YoY	-	-	-	-	-	-	-	-	-			
Other segment	-	-	-	-	-	-	-	54	-			
YoY	-	-	-	-	-	-	-	-	-			
Adjustments	-221	-462	-675	-904	-235	-454	-648	-905	-202			
Former categories												
Professional Services	67	312	654	967	-	-	-	-	-			
YoY	36.7%	115.2%	136.1%	48.3%	-	-	-	-	-			
Incubation	79	115	309	55	-	-	-	-	-			
YoY	-78.4%	-65.3%	-20.4%	-86.1%	-	-	-	-	-			
Venture Capital	96	14	130	-166	-	-	-	-	-			
YoY	-66.0%	-94.2%	160.0%	-	-	-	-	-	-			
Insurance	-17	101	179	221	-	-	-	-	-			
YoY	-	13.5%	-47.0%	64.9%	-	-	-	-	-			
Other	-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 newly established HR Innovation segment consists of subsidiary Work Style Lab (WSL), formerly included under the Other segment. For purposes of comparison, segment results for Q1 FY03/20 were recalculated to match the new reporting segment scheme.

Q1 FY03/22 results (out August 6, 2021)

Summary

- ▷ Sales: JPY8.0bn (+31.3% YoY)
- ▷ Operating loss: JPY138mn (versus loss of JPY175mn in Q1 FY03/21)
- ▷ Recurring profit: JPY59mn (versus loss of JPY161mn in Q1 FY03/21)
- ▷ Net loss*: JPY21mn (versus loss of JPY143mn in Q1 FY03/21)

*Net 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.

Q1 FY03/22 sales were JPY8.0bn (+31.3% YoY).

- ▷ Sales at the Business Production segment were up 20.9% YoY. New project orders continued to show the strength exhibited in Q4 FY03/21, bolstered by an increase in social and environmental projects as companies moved to take advantage of the accelerating changes in industry structures as a result of the COVID-19 pandemic.
- ▷ At the Venture Capital segment, sales were down 76.6% YoY. The company expects the bulk of the capital gains booked in FY03/22 to come in the second half of the year. In Q1, the segment had no significant proceeds from the sale of venture capital investments, though neither did it book impairment losses.
- ▷ At the Pet Lifestyle segment, sales were up 27.9% YoY, the strong growth driven by the record number of new policies in force, which benefited from strong growth in the pet insurance market.
- ▷ At the HR Innovation segment, sales were up 20.0% YoY, the growth driven by the expansion of its sales force (including those added to handle digital transformation projects), which easily offset the drag from the pandemic.
- ▷ Sales in the Fan Marketing segment (launched in February 2021) came in at JPY401mn (the segment did not exist in Q1 FY03/21).

Operating losses

The company booked Q1 FY03/22 operating losses of JPY138mn (versus a loss of JPY175m in Q1 FY03/21).

- ▷ Operating profit in the Business Production segment improved 12.1% YoY as the increase in projects led to an increase in sales.
- ▷ The company booked operating losses in the Venture Capital segment of JPY115mn (versus losses of JPY108mn in Q1 FY03/21). Earnings at the operating line were impacted by the same factors affecting sales. The segment booked no impairment losses in the quarter.
- ▷ The Pet Lifestyle segment moved from operating losses of JPY13mn in Q1 FY03/21 to an operating profit of JPY74mn in Q1 FY03/22. Losses in the Pet Lifestyle segment were the result of increases in expenses (such as commissions and collection fees) that accompanied the increase in pet insurance policy sales, and the rise in net claims paid and loss adjustment expenses accompanying the increase in the number of insurance claims filed. The company uses adjusted earnings to gauge the true profitability of its pet insurance business. For Q1 FY03/22, the segment reported adjusted operating profit of JPY294mnn (versus JPY195mn in Q1 FY03/21).
- ▷ The HR Innovation segment booked operating losses of JPY27mn (versus operating losses of JPY34mn in Q1 FY03/21). The segment continued to grow in scale, but booked losses (albeit fewer losses than in Q1 FY03/21) as it continued to invest to ensure future growth.
- ▷ The Fan Marketing segment booked operating losses of JPY109mn (the segment did not exist in Q1 FY03/21).

Unrealized gains on investments

- ▷ With an eye toward improving clarity in performance indicators in line with the individual characteristics of each business, the company revised its disclosure of NAV, which previously reflected the sum value of all its businesses, to exclude the Business Production segment. NAV excluding the Business Production segment was JPY21.9bn as of the end of Q1 FY03/22 (end-June, 2021). In the Incubation business, only held investment assets were subject to mark-to-market valuations. As of the same date, associated book value was JPY8.1bn, which yields estimated unrealized gains of JPY13.8bn.

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 loss of JPY233mn (adjusted recurring profit of JPY619mn in FY03/21).

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 FY03/20 were recalculated to match the new reporting segment scheme.

Business Production business

Business Production segment

For Q1 FY03/22, the Business Production segment reported sales of JPY614mn (+20.9% YoY) and operating profit of JPY241mn (+12.1% YoY).

- ▷ Under the Business Production segment, the company operates a consulting business with the concept of creating leading businesses of the next generation (“business producing”). In addition to providing strategic consulting services for major corporations to support new business creation and strategic long-term growth initiatives, the company also offers M&A financial advisory services.
- ▷ Sales were up 20.9% YoY. New project orders continued to show the strength exhibited in Q4 FY03/21, bolstered by an increase in social and environmental projects as companies moved to take advantage of the accelerating changes in industry structures as a result of the COVID-19 pandemic. The increase in sales drove the 12.1% YoY improvement in segment profit.
- ▷ The company aims to accelerate human resources investment from Q2 as part of its effort to strengthen its revenue base.

Incubation business

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

Venture Capital segment

For Q1 FY03/22, the Venture Capital segment reported sales of JPY33mn (-76,6% YoY) and an operating loss of JPY115mn (versus a loss of JPY108mn in Q1 FY03/21).

- ▷ 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. 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.

- ▷ The company expects the bulk of the capital gains booked in FY03/22 to come in the second half of the year. The company had no significant proceeds from the sale of venture capital investments in Q1, though neither did it book impairment losses in the quarter. Management expects gains on numerous trade sales and IPOs from Q2.

Pet Lifestyle segment

For Q1 FY03/22, the Pet Lifestyle segment reported sales of JPY6.6bn (+27.9% YoY) and earnings at the operating line moving from losses of JPY13mn in Q1 FY03/21 to profit of JPY74mn.

- ▷ The Pet Lifestyle segment consists of the pet medical insurance business operated by ipet Insurance, the largest company under the umbrella of consolidated subsidiary ipet Holdings. During FY03/21 ipet Holdings acquired Pet's All Right, an online pet health consultation/pet-related information platform operator, making Pet's All Right a subsidiary.
- ▷ As mentioned previously, the company uses adjusted earnings to gauge the true profitability of its pet insurance business. For Q1 FY03/22, the segment reported adjusted earnings of JPY294mn (versus JPY195mn in Q1 FY03/21). 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 JPY20mn and in the case of catastrophe reserves meant an adjustment of JPY717mn (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 Q1 FY03/22, the segment reported a total of 648,045 policies in force, up 25,976 YoY. 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, and increases in net claims paid and loss adjustment expenses due to an increase in the number of insurance claims filed.

HR Innovation segment

For Q1 FY03/22, the HR Innovation segment reported sales of JPY288mn (+20.0% YoY) and an operating loss of JPY27mn (versus loss of JPY34mn in Q1 FY03/21).

- ▷ 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.
- ▷ While somewhat offset by the effects from the pandemic, sales improved as the company expanded its sales force (including those added to handle digital transformation projects), allowing losses to narrow despite digital transformation and human resources-related investment aimed at securing future growth.

Fan Marketing Segment

The Fan Marketing segment in Q1 FY03/22 booked sales of JPY401mn (no YoY comparison possible as the segment did not exist until Q1 FY03/22) and segment losses of JPY109mn.

- ▷ The Fan Marketing segment centers on consolidated subsidiary PEACS (launched in February 2021), which handles the hobby and lifestyle media intellectual properties (IPs) business and the planning and production of digital marketing and digital services.
- ▷ Advertising-related orders tend to be concentrated at the end of the accounting periods (end of September, end of March, etc.), and Q1 results were in line with this pattern. The company expects losses to narrow from Q2.

This note is the most recent addition to the [full report](#).

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