

1H FY03/2021 Financial Results Briefing Presentation

October 29, 2020

Dream Incubator Inc.

(Stock Code: 4310)

The logo consists of a dark blue square containing the white letters "DI" in a serif font.

DI

Today's Agenda

Q2 Performance Review

- **Venture Capital and Business Production hit by COVID-19**
 - Several IPOs postponed, write-downs on some investees
 - Orders down due to temporary stifling of new business sentiment at large corporate customers
- **Pet Lifestyle sales outperformed thanks to increased demand for pets**
 - Record-high number of new policies
- **Financial base in sound shape**
 - Ample working capital
 - Combined unrealized gains of over JPY10bn in Business Investment and Venture Capital

The path ahead

- **Evolution of a business model for taking the lead in creating social impact solution businesses**
 - Combining our strengths in Business Production and Venture Capital

1. 1H FY03/2021 Financial Results Summary

2. Business Conditions

- 1) Business Investment**
- 2) Business Production**
- 3) Venture Capital Investment**

3. The Path Forward

1H FY03/2021 Consolidated P&L (After Insurance Item Adjustments)

(JPYbn)	1H FY03/ 2020	1H FY03/ 2021	YoY change	
			Amount	%
Sales	10.69	13.34	2.64	24.7%
Gross profit	5.27	5.67	0.4	7.6%
Operating profit	0.32	0.13	-0.19	-59.6%
Recurring profit	0.2	0.21	0.0	4.4%
Net income (attributable to parent company shareholders)	-0.0	-0.13	-0.12	—

Note: In Q1 FY03/2021, DI booked an extraordinary loss of JPY0.06bn in bonuses paid to company founders.

1H FY03/2021 Consolidated P&L (Before Insurance Item Adjustments)

(JPYbn)	1H FY03/ 2020	1H FY03/ 2021	YoY change	
			Amount	%
Sales	10.69	13.34	2.64	24.7%
Gross profit	4.92	5.39	0.47	9.6%
Operating profit	-0.01	-0.14	-0.12	—
Recurring profit	-0.14	-0.06	-0.07	—
Net income	-0.14	-0.24	-0.09	—

(attributable to parent company shareholders)

Note: Figures affected by insurance item adjustments are shown in blue.

Adjusted Insurance Accounting Items and Amounts

(JPYbn)	1H FY03/ 2020	1H FY03/ 2021
Unadjusted gross profit (consolidated)	4.92	5.39
<ul style="list-style-type: none"> • Adjustment related to ordinary underwriting reserves* • Catastrophe reserve provision** 	+0.07 +0.27	▲0.6 +3.3
Total adjustments	+0.34	+2.7
Adjusted gross profit (consolidated)	5.27	5.67

* Adjustment to revise the ordinary underwriting reserve calculation from the initial year balance method to the unearned premium method

** Excludes the impact of transferred provision amount (negative if reversed)

1H FY03/2021 P&L by Segment

(JPYbn)			1H FY03/2020	1H FY03/2021	YoY Change
Venture Capital	• Sales		0.4	0.94	134.6%
	• Recurring profit		-0.16	-0.35	—
Business Production	• Sales		1.28	1.17	▲8.5%
	• Recurring profit		-0.08	0.21	—
Business Investment	Pet Lifestyle (iPet Holdings)	• Sales	8.63	10.73	24.3%
		• Recurring profit*	0.52	0.4	▲22.6%
	HR Innovation (Work Style Lab)	• Sales	0.38	0.49	29.9%
		• Recurring profit	-0.07	-0.05	—

* After insurance item adjustment

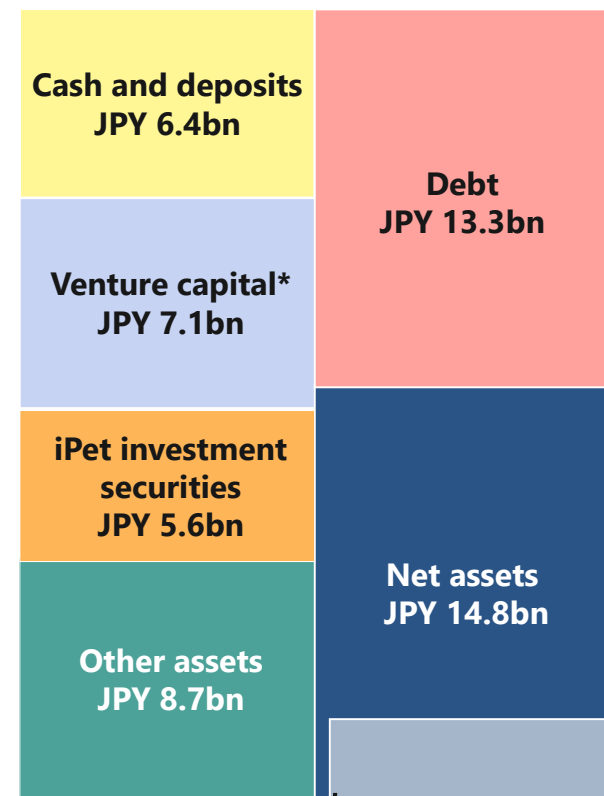
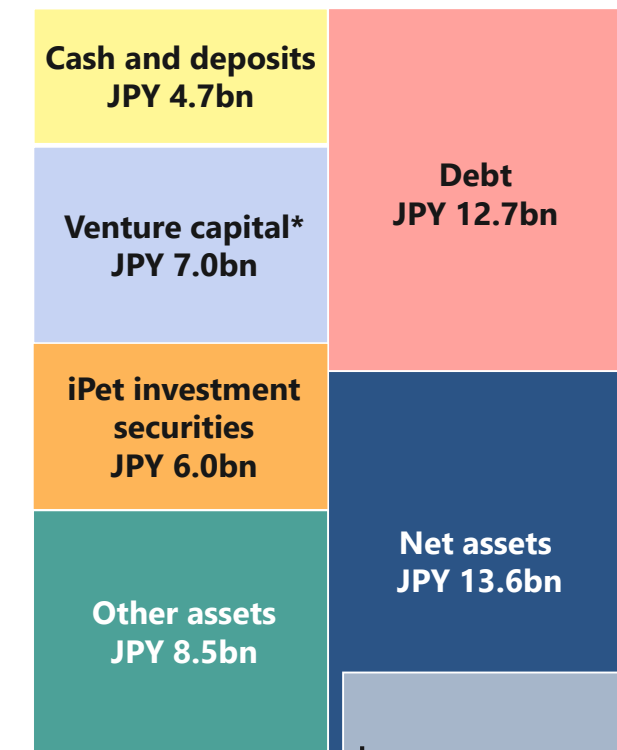
Note: Recurring profit was calculated as segment profit – companywide expenses ± non-operating profit or loss

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1H FY03/2021 Consolidated Balance Sheet

March 31, 2020
(Total assets: JPY26.4bn)

September 30, 2020
(Total assets: JPY28.1bn)



Breakdown of change in net assets	
• Net income	-JPY0.24bn
• Non-controlling interests	+JPY0.7bn
• Valuation differences on available-for-sale securities	+JPY0.62bn
• Other comprehensive income	+JPY0.07bn
• Total	+JPY1.1bn

Includes non-controlling interests of JPY2.9bn

Includes non-controlling interests of JPY3.6bn

Off-balance-sheet assets: JPY9.7bn (iPet unrealized gains)

* Includes post-IPO

FY03/2021 Net Asset Value (NAV)

(JPYbn)

March 31, 2020

Total: **28.4**
(JPY2,811/share)



- Capital recovered on previous major investments
- Three investments written off

- Sector P/Es* bounce back from COVID-induced slump (25x → 40x)
- Modest increase in DI's 5-yr avg. profit

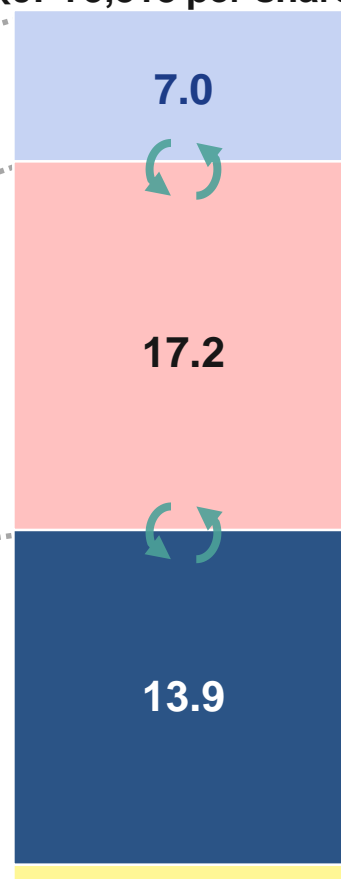
- iPet's share price moves higher

Net Cash -0.6

FY03/2021

September 30, 2020

Total: **38.7**
(JPY3,818 per share)



End-FY03/2021 est.

Total: **32.0**



0.5

* The median P/E of other companies listed in the same category on Uzabase, Inc.'s SPEEDA market info service










Assessing corporate value with the incremental approach

- **Venture capital investment and business investment:**
 - **Listed companies**
 - **Market capitalization at fiscal year-end x DI's holdings**
 - **Unlisted companies**
 - **Book value of investment at fiscal year-end ± mark-to-market valuation difference**
(Recent financing prices and third-party transaction prices)
 - **When these prices are unavailable, book value is used without revaluation**
 - **Going forward, we plan to improve the level of precision in valuation.**

- **Business Production:**
 - **Five-year average of profit after taxes x Peer company PER***

* The median PER value of peer companies in similar industries as listed on the SPEEDA platform of UZABASE, Inc.

COVID-19's Impact on Our Business Segments

		Impact on FY03/2021 Earnings		Longer-term Impact
		1H Results	2H Outlook	
Business Investment	Venture Capital	<p>Impact : </p> <ul style="list-style-type: none"> Increase in write-offs due to poor earnings at some investees 	<p>Impact : </p> <ul style="list-style-type: none"> Several IPOs postponed to FY03/2022 or later 	<p>Big potential for fundamental change in the structure of industry</p> <ul style="list-style-type: none"> Industry likely to see rapid generational shift Higher priority on creating social impact solution businesses, as well as on national industrial policies. <p></p> <p>Greater opportunities for DI</p> <ul style="list-style-type: none"> Mission: Create businesses and change societies Strengths: Strategy, technology, policy, investment, reorganization Network: Major corporations, ventures, government
	Business Production	<p>Impact: </p> <ul style="list-style-type: none"> No impediment to execution of projects currently ordered 	<p>Impact : </p> <ul style="list-style-type: none"> Drop in orders due to temporary stifling of new business sentiment 	
	Pet Lifestyle (iPet Holdings)	<p>Impact: </p> <ul style="list-style-type: none"> Increase in new orders on rising pet demand 	<p>Impact: </p> <ul style="list-style-type: none"> Increase in new orders on rising pet demand 	
	HR Innovation (Work Style Lab)	<p>Impact: </p> <ul style="list-style-type: none"> Slight drop in inquiries 	<p>Impact: </p> <ul style="list-style-type: none"> Slight drop in inquiries 	

1. 1H FY03/2021 Financial Results Summary




2. Business Conditions

- 1) Business Investment**
- 2) Business Production**
- 3) Venture Capital Investment**

3. The Path Forward

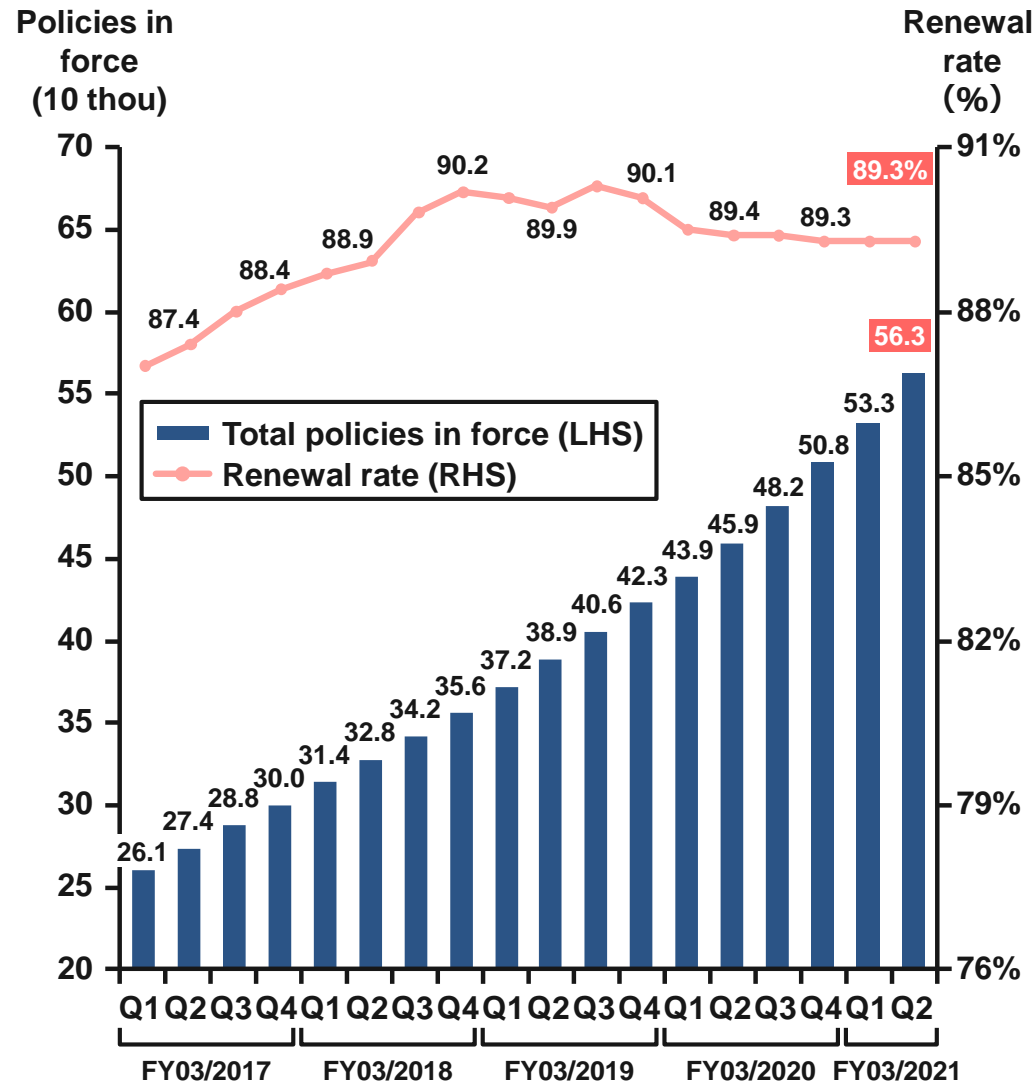
1) Business Investment: Companies Targeted for Investment and Development

We focus on investment stake and management support, and are deeply committed to the growth of our investees.

		Business	Stake	Most recent NAV (JPYbn)	Digital transformation (DX) undertakings
Pet Lifestyle	iPet Holdings, Inc. 	Pet health insurance (No. 2 in sector)	56%	10.3	Marketing DX
	Pets All right Co., Ltd (To be acquired in December)	Runs online pet health consulting platform	DI : 90%* iPet Insurance : 10%	—	DX for communications with specialists
Fan Marketing	Boardwalk Inc. 	Event ticket sales, fan club operation business, e-commerce	30% (underlying share basis: 46%)	0.3 (Not revalued)	Ticketing DX Marketing DX
HR Innovation	Work Style Lab, Inc. 	Platform business that outsources services to freelance consultants	100%	0.5 (Not revalued)	DX for acquiring professional human resources

* As of the present time. The business will be sold to iPet Holdings conditional on FSA approval.

iPet Insurance Policies



Status of initiatives

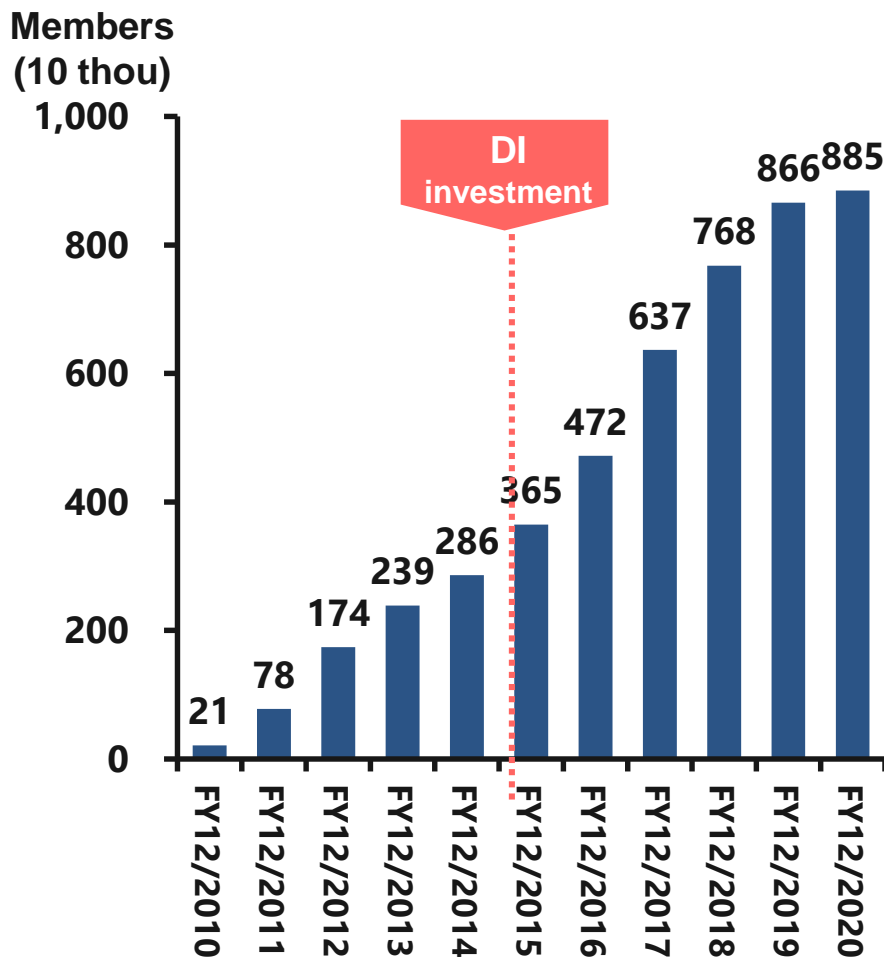
Current Status

- Policies in force grow at record pace: +50,000 in approx. 5 months
- Profit down YoY due to higher costs accompanying brisk growth in new policies, but essentially progressing on target

New Initiatives

- Switch to holding company format in October
 - Expand business domains to solve social issues pertaining to people and pets
- Specific action: Plan to acquire pet health consultation platform business from Recruit.
 - Anticipated results: Generation of synergies and enhancement of earning potential

Membership



Status of Initiatives

Overview

- **Stymied** by cancellations of concerts and other events due to COVID-19
 - Temporary lull in membership growth
- The Agency for Cultural Affairs has announced the loosening of concert attendance and capacity limitations*, **but concerts not expected to fully resume until 2021**

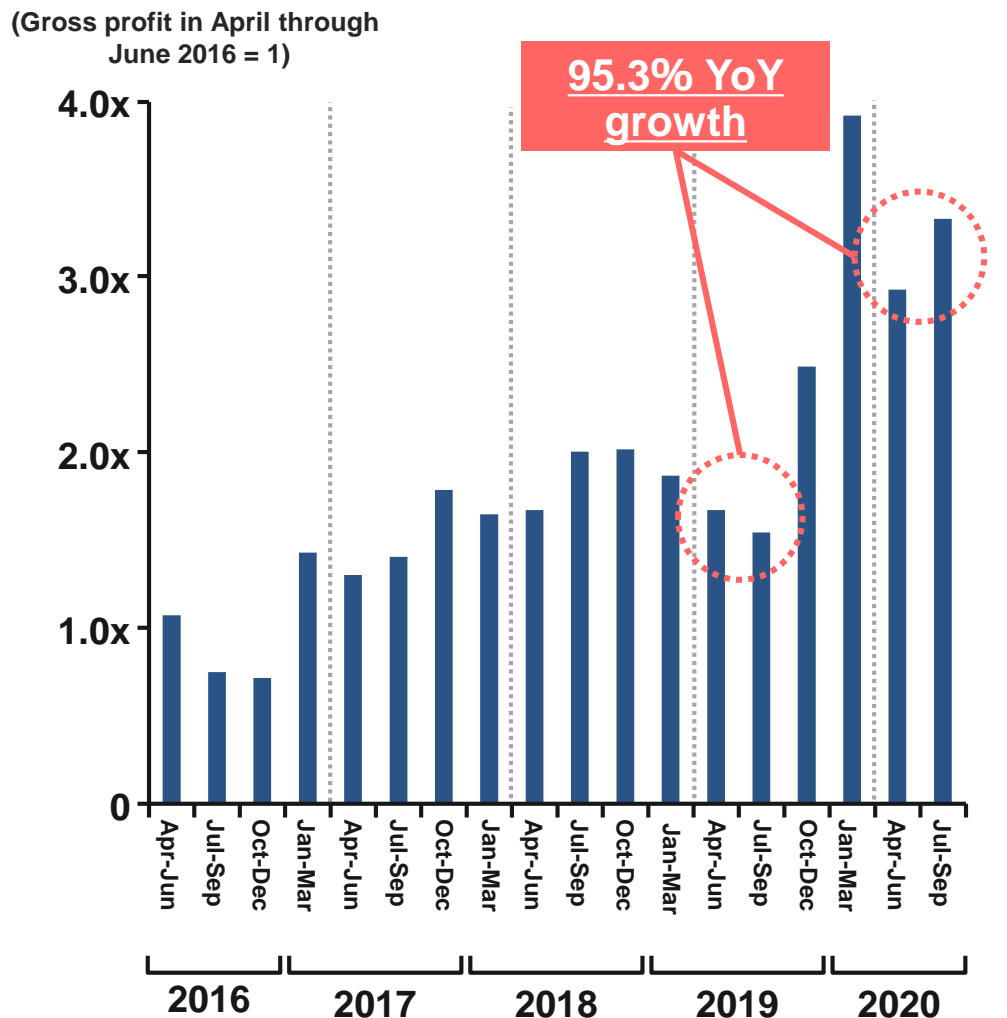
Our response

- Sound financial condition backed by emergency COVID financing.
- Launch of **neo bridge** video streaming service
- Launch of health monitoring app that detects possible infection when entering event venues



* Source: Agency for Cultural Affairs official website

Quarterly gross profit*



Status of Initiatives

Overview

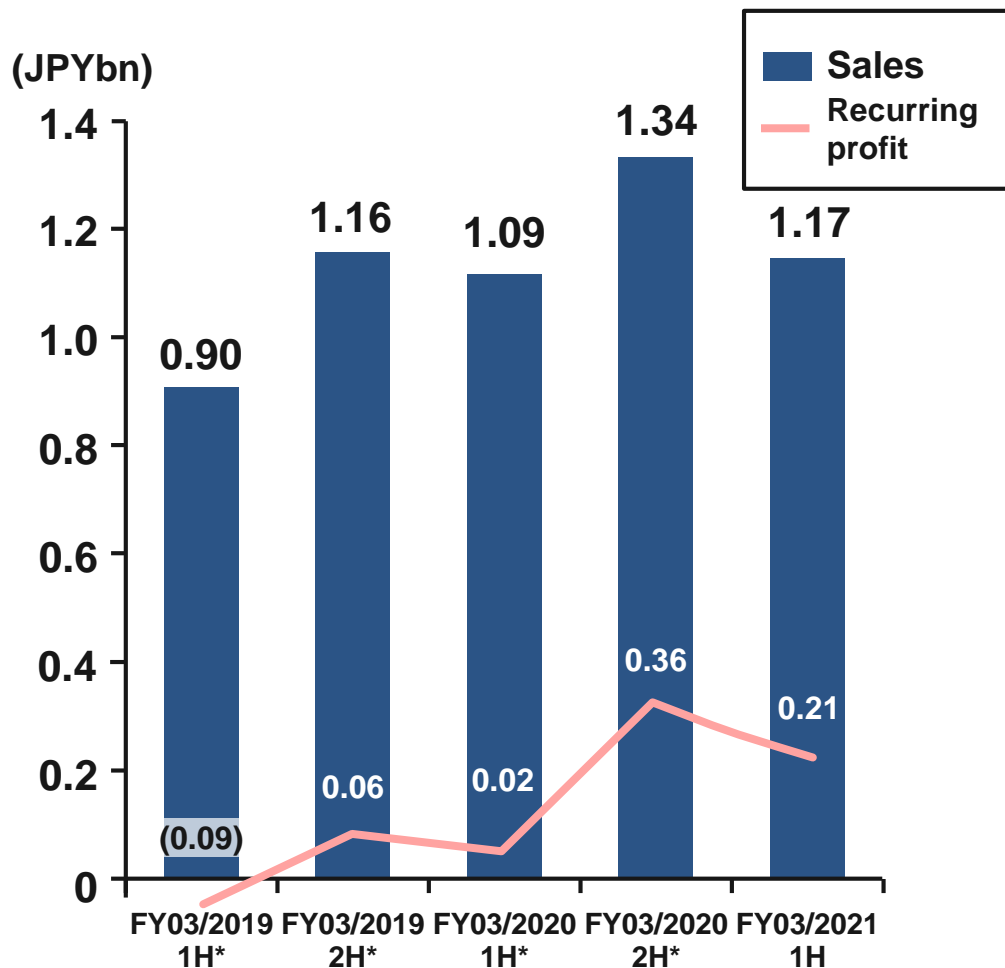
- YoY growth trend driven by framework upgrades, including DX compatibility
 - Quarterly gross profit up 95.3%
- Slight dip in inquiries due to impact of COVID-19

Future Initiatives

- Gain greater industry presence with ongoing investments for expansion such as technology and hiring

2) Business Production Overview

Earnings performance



Status of Initiatives

Overview

- Sales basically flat, recurring profit up YoY
 - Reviewing administrative costs
- Decline in new project orders due to temporary stifling of new business sentiment at large corporate customers

Future Initiatives

- Ongoing marketing action, including release of post-COVID report
- Deeper commitments to business creation, including joint ventures with major corporations

* Excludes figures for the market research business (which was terminated in the previous fiscal year)

Stage One

Going wide with our report “Growth and Business Creation after COVID-19” (May 20, 2020)

The image shows the cover of a report titled "Growth and Business Creation after COVID-19" and a slide from the same report. The cover features the title and subtitle "アフターコロナにおける成長・事業創造について". The slide, titled "COVID-19のインパクト 1/2", illustrates a societal shift. On the left, labeled "before", it shows a "密結合社会" (Tight-knit society) with "リアル" (Real) and "バーチャル" (Virtual) components. On the right, labeled "after", it shows a "疎結合社会" (Loose-knit society) with "疎結合社会" (Loose-knit society) and "密結合社会" (Tight-knit society) components. A central arrow labeled "COVID-19" points from left to right. A footer note states: "本来10～20年かけて起る産業構造の転換が今後2～3年で起る".

<https://www.dreamincubator.co.jp/en/news/topics/2020/6754/>

Stage Two

DI Executive Officer Yoshihiro Nobe gave a presentation at Stockmark Inc.'s Webinar (Oct. 2, 2020)

The image shows a slide from a webinar presentation. The title is "アフターコロナの変化の読み解き方と新規事業の創出". The subtitle is "ストックマーク社主催セミナー向けスライド (2020年9月29日開催)". The slide content is titled "A. 生活者の行動や価値観の変化" and includes the text "コロナの影響で進行が加速" and "コロナ禍により、元々起こっていた生活者の行動と価値観の変容が加速". The diagram shows four societal states: "VUCA社会" (Uncertain, Volatile, Complex, Ambiguous society) with "先が見えない" (Unclear future), "寒冷化社会" (Cold society) with "この先、生活が悪化する" (Life will worsen from now on), "格差社会" (Inequality society) with "貧富の差が激しく" (Large gap in wealth), and "低満足社会" (Low satisfaction society) with "選択肢は多いが満たされない" (Many choices but not satisfied). Below these are two boxes: "生活者の行動" (Consumer Behavior) with "分断化" (Fragmentation), "内向化" (Introversion), and "不寛容化" (Intolerance); and "生活者の価値観" (Consumer Values) with "個人主義・自己責任論" (Individualism/Self-responsibility), "つながりを求めた共感性" (Empathy seeking connection), "強者への嫉妬" (Envy towards the strong), "安定志向" (Stability orientation), and "中高年の'今'志向 若者の'将来'志向" (Middle-aged 'now' orientation, Youth 'future' orientation).

<https://www.dreamincubator.co.jp/news/topics/2020/8204/>

3) Venture Capital: Portfolio and Unrealized Gains

		End-March 2020	➔	End-September 2020	
(JPYbn)		Book Value (No. of companies)		Book Value (No. of companies)	NAV
Main venture portfolio*	Japan	2.0 (24)	+ Investment (10 companies ^{***}) - Sold (7 companies) - Write-offs (3 companies)	1.7 (24)	2.4
	India	1.2 (19)		1.3 (20)	1.5
	USA	0.2 (4)		0.2 (4)	0.2
	Others	0.5 (3)		0.1 (1)	0.1
	Total	4.0 (50)		3.4 (49)	4.4
Other investments**		2.1		2.5	2.5
Total investments		6.2		5.9	7.0

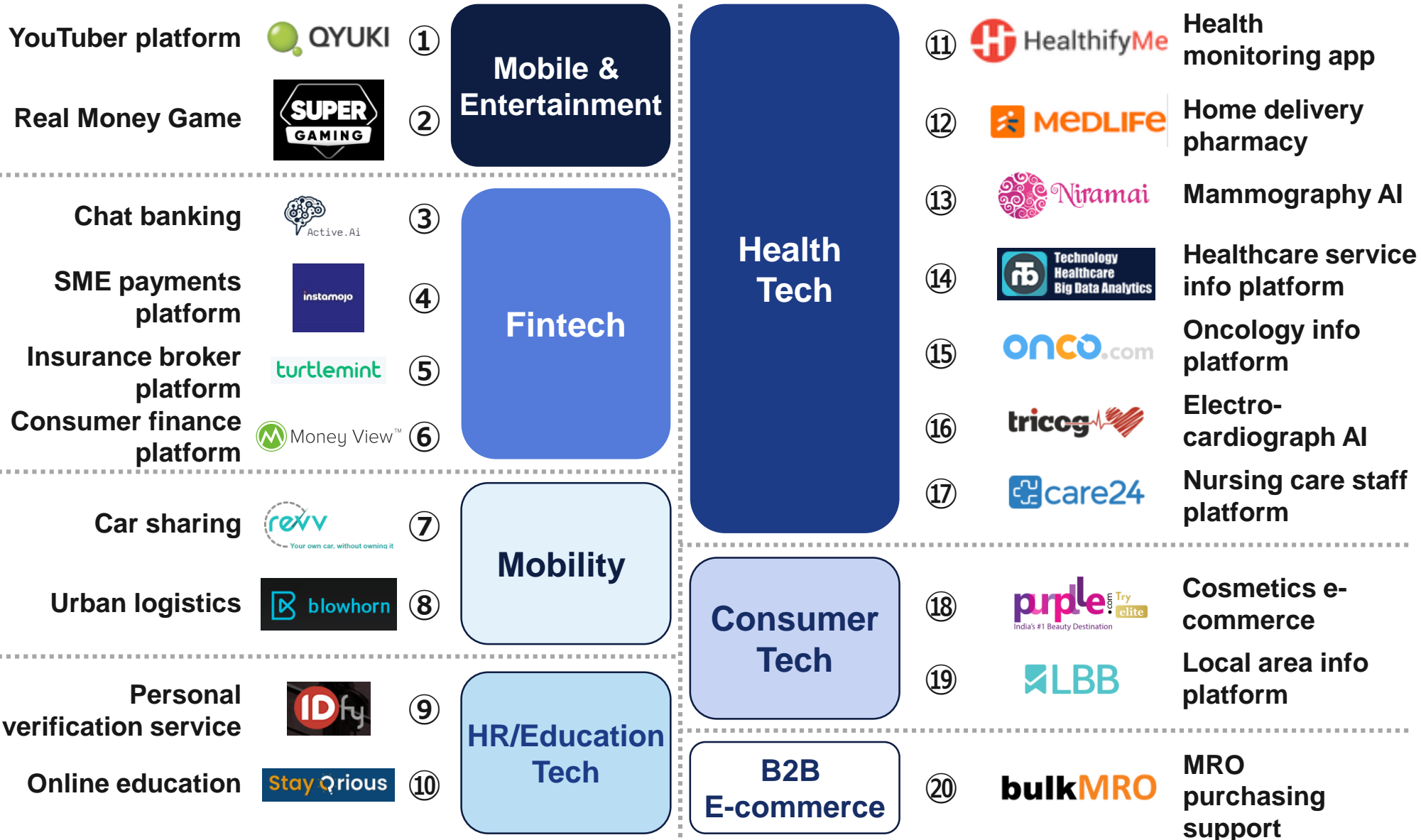
Unrealized gains: JPY1.0bn

* Amounts reflect book value; book value of JPY2mn and above; excludes post-IPO and stock options





















** LP investment in third-party funds and other investment

*** Includes additional investment

Selection of Portfolio Investments in India



Selection of Portfolio Investments in Japan

	Company	Business content		Company	Business content
Entertainment	 <small>すべての人生に、夢中を</small>	 Live video streaming	Work style reform		 Programmer training and career design
		 VTuber office			 Alumni SaaS
Fintech	Gojo & Company, Inc.	 Overseas × micro-finance	AI		 Apparel sector recruitment service
E-commerce	BULK HOMME	 Overseas × men's cosmetics			 Influencer marketing
	GRACIA	 Gifts e-commerce		 Cloud-based contract review SaaS	
D2C	Brand/t	 Systems for influencers	Blockchain		 Systems for entertainment and local governments

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3. The Path Forward

DI = The Business Producing Company

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

What we aspire to be

Life in the years ahead will see a growing need for the creation of world-changing businesses to overcome the social impact challenges we face, and building those kind of businesses will require big, ambitious undertakings.

However, most entities are ill-equipped to take a lead role in such endeavor, whether they be major corporations or venture startups, or central or local governments.

- Major corporations tend to be constrained by their existing lines of business, and venture companies find it hard to assemble large-scale operations.

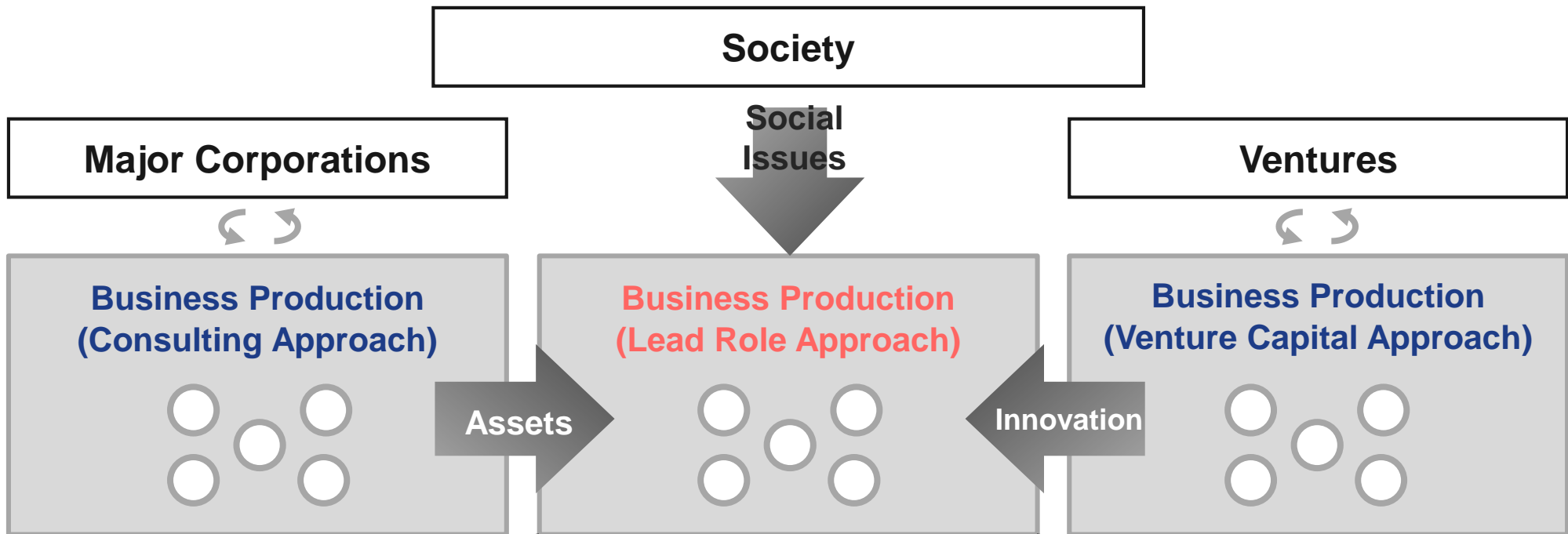
That is where Dream Incubator comes in. By providing business building support to major corporations, we have accumulated expertise in business production, and having providing our services to numerous venture startups, we are able to provide effective support for new business investment and management. We have also earned the trust of players in various aspects of the business creation process.

- In sum, we have all the elements required to take the lead role in ambitious new businesses.

With that in mind, by combining our skills in business production and venture capital incubation, we aim to spreadhead groundbreaking collaborations and empower the creation of social impact solution businesses.

- “Lead role in launching new business” × “Ambitious business creation” × “Growth and reimplementation”

Business Structure Goal (Rough Concept)



- **Lead role in launching businesses from the ground up**
 - Spearhead business creation through collaboration with major corporations and venture companies
 - Commitment with investment of both people and money
- **Produce ambitious business creation**
 - Create large-scale businesses by using major corporate assets and venture innovation, and getting government, other large companies, and ventures involved
- **Growth and reimplementaion**
 - Grow, exit, and re-invest

Featured Initiative (1) : Social Impact Bonds (SIB)

What are SIBs?

A Social Impact Bond is a public-private partnership mechanism whereby corporations provide funding and consulting for public projects implemented by governments and commissioners. If the projects are successful, the investors are repaid the principle plus return.

- Noteworthy for involving multiple parties
 - Government or commissioner, funding provider (investor), service provider, evaluator, intermediary

DI's Role

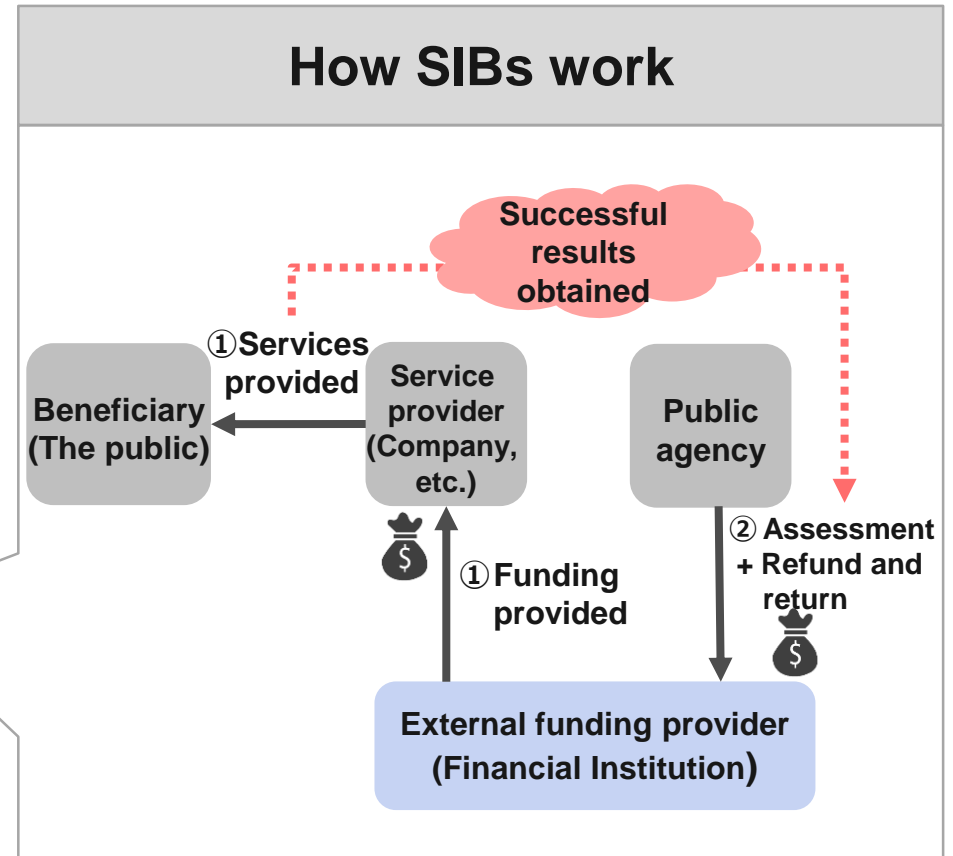
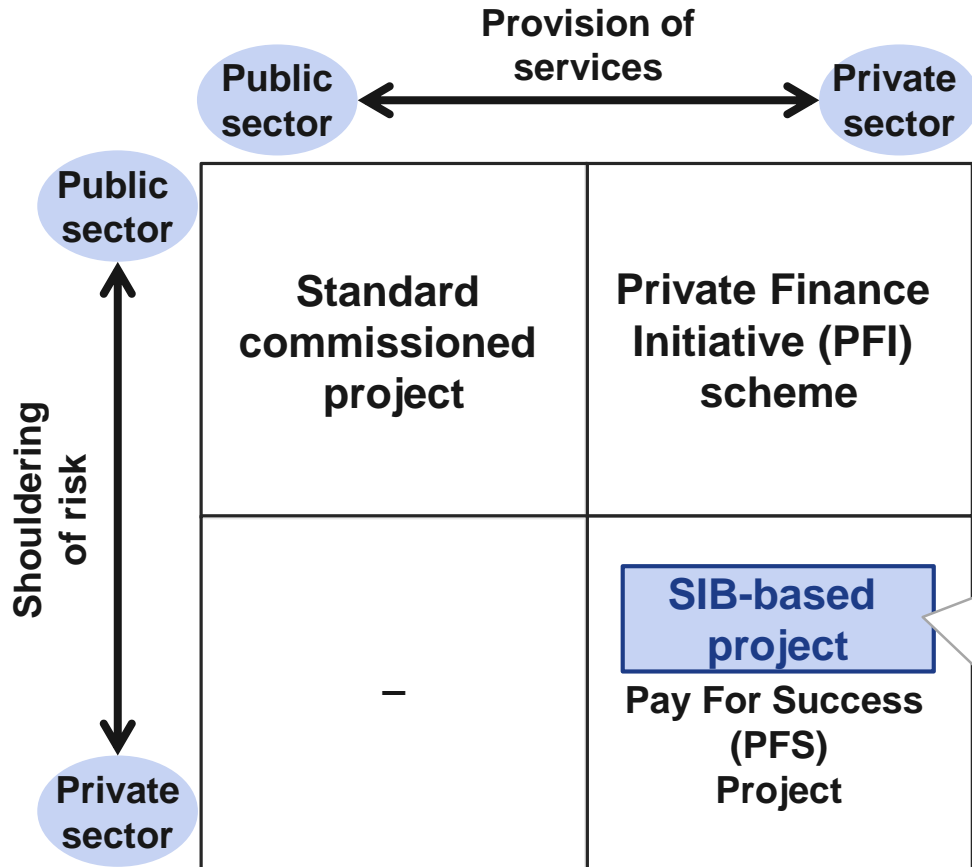
- Program design and modelling for social impact solutions
- Liaison with central or local governments, drafting specific projects, execution, and coordination
- Network with investors to raise and manage funding
 - Invest own funds as a provider

Progress

- Currently underway in partnership with Development Bank of Japan (DBJ), the City of Toyohashi, and the City of Maebashi
 - Also working to expand to other local governments

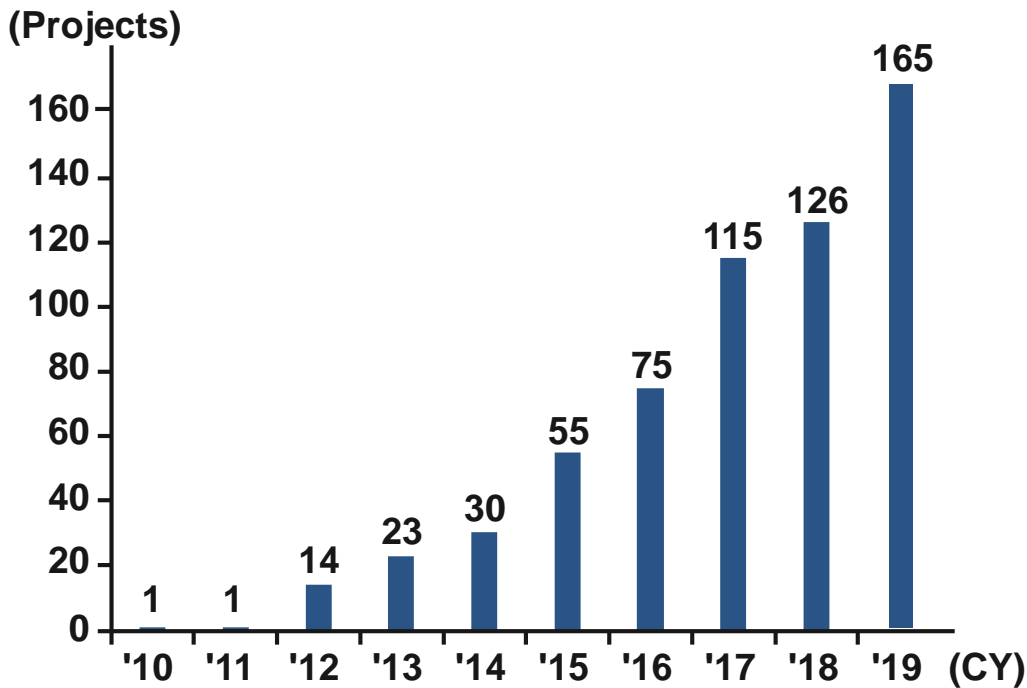
DI's capabilities are highly compatible with SIBs. DI takes the lead on SIB projects.

Where do SIBs fit in?



SIBs gaining popularity overseas to solve social issues

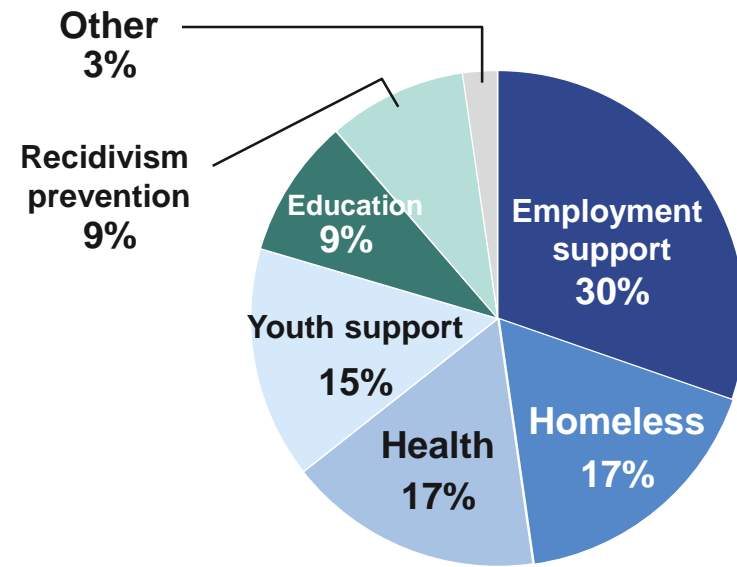
Number of SIB projects



Originated in the UK

- The UK accounts for nearly 50% of projects

Types of Projects



Largely used in easily applicable fields

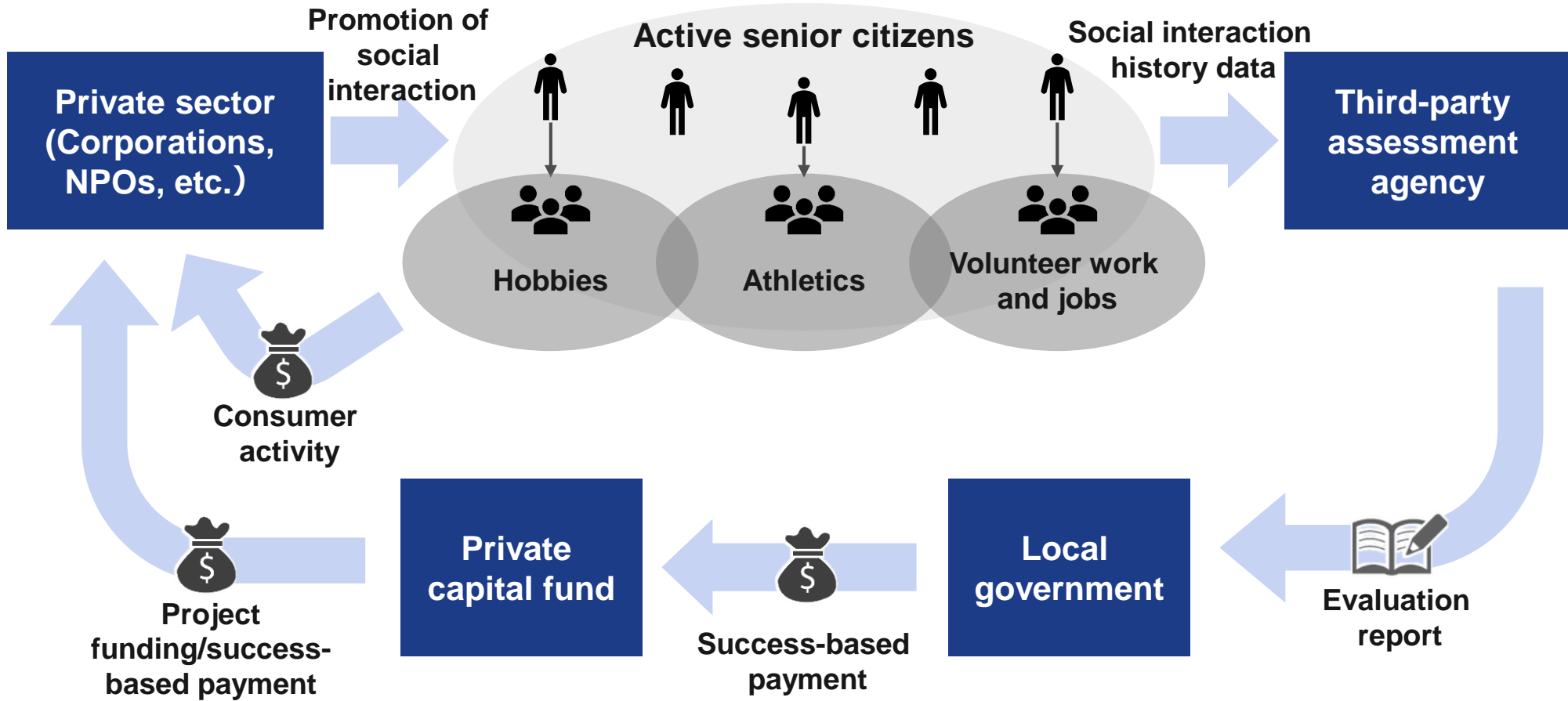
- Ease of evaluation
- Minimal risk

12 projects implemented in Japan, primarily in healthcare

Japan: Good potential for SIBs on larger, longer-term social issues

	<u>Point of strategic investment</u>	<u>Timeframe</u>
Preventing nursing care dependency	Social interaction	3 to 10 years
Infrastructure upgrades (bridges, etc.)	Preventative maintenance	5 to 20 years
Promoting employment	Children's education	5 to 10 years
Attractive towns and cities	Effective town and city upgrade work	3 to 5 years
Disaster prevention	Upgrade work on disaster prevention facilities and equipment	NA

SIB Proposal: Bring corporate ingenuity and social contribution activities together to prevent nursing-care dependency



Reasoning behind DI's involvement

Need to bring together many different types of players

- **Business, finance, local and national governments,...**

Need to pre-establish criteria for gauging project “success”

Complex jurisdictional and scheduling issues for local governments

- **Departments who execute a project may differ from those who reap the benefits**
- **Projects take several years to produce results**

Need to design a business model for transitioning to a sustainable framework



Taking the above into account, DI is currently conducting feasibility studies with Development Bank of Japan and several local governments

Featured Initiative (2) : Studying formation of Asia impact investment fund

Background

- Rising tide of impact investing and ESG investing
- Asian countries such as India, Vietnam, and Indonesia have a strong need to build frameworks for providing capital and technological support to startups working on Sustainable Development Goals (SDGs).

DI's role

Spearhead support for social impact solutions in Asia leveraging our strengths in:

- Knowledge of social impact solution-type business production in Southeast Asia
- Knowledge and local networks for investing in Vietnam and India (including fund management)
- Contracted by the Japan International Cooperation Agency (JICA) to gather basic information and conduct research for setting up a public-private sector fund to foster entrepreneurs and SMEs worldwide. (April 17, 2020)
 - Currently discussing formation of an impact fund for Asian developing nations in conjunction with JICA

Progress

Combination of business production × investment to pursue both social benefits and financial return

Shigeaki Okamoto*



**Formerly Vice Minister of
Finance**

Tsutomu Fujita



**Formerly Vice Chairman of Citigroup Global
Markets Japan (CGMJ)
Advisor at CGMJ (current position)**

**Adjunct Professor at Hitotsubashi
University's Graduate School of Business
Administration (current position)**

**Top rated analyst for five straight years by
Nikkei Veritas Analyst Ranking of Japanese
equity research****

* Announced today (October 29)
** Japan Equity Strategists category, 2006 to 2010

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