

FY03/2022 Financial Results Briefing Presentation

May 13, 2022

Dream Incubator Inc.

(Stock Code: 4310)



DI



1. FY03/2022 Financial Results Summary

2. Medium-Term Management Plan (FY03/2023~FY03/2025)

Performance Details

Performance overview

(Overall)

- Adjusted recurring profit stood at JPY1.65bn (above full-year target of JPY0.5–1.0bn) and net income came to JPY0.65bn.
 - Unadjusted recurring profit was JPY40mn and net income was JPY7mn

(Individual businesses)

- **Business Production:** New orders remained robust, propelling YoY sales growth. Profit rose on firm sales, which more than absorbed the cost increase from personnel enhancement and other efforts.
- **Venture Capital:** Had expected significant gains from an IPO by an investee, but the entity withdrew its listing application in Q4. The segment missed initial targets and recorded a loss.
- **Business Investment:** Overall results finished largely in line with initial targets.
 - **ipet (Pet Lifestyle):** Profit increased on low loss ratio
 - **Work Style Lab (HR Innovation):** Continued investment toward growth and recorded a loss
 - **PEACS (Fan Marketing):** Accelerated business revitalization efforts. Had success in enhancing corporate value but recorded a loss from incurring additional expenses

Accelerating structural reforms

- Allocation of resources to Business Production, and reexamination of Incubation (Venture Capital and Business Investment), etc.
 - Planning to sell PEACS* and Work Style Lab during Q1 FY03/2023

FY03/2022 Consolidated P&L (After Insurance Item Adjustments)

(JPYbn)	FY03/ 2021	FY03/ 2022	YoY change	
			Amount	Percentage
Sales	27.77	35.56	7.79	28.0%
Gross profit	11.72	16.33	4.61	39.3%
Operating profit	▲0.21	1.44	1.66	—
Recurring profit	▲0.23	1.65	1.88	—
Net Income	▲1.80	0.65	2.46	—

FY03/2022 Consolidated P&L (Before Insurance Item Adjustments)

(JPYbn)	FY03/ 2021	FY03/ 2022	YoY change	
			Amount	Percentage
Sales	27.77	35.56	7.79	28.0%
Gross profit	10.98	14.72	3.73	34.0%
Operating profit	▲0.95	▲0.16	0.78	—
Recurring profit	▲0.97	0.04	1.01	—
Net Income	▲2.10	0.007	2.11	—

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

Adjusted Insurance Accounting Items and Amounts

(JPYbn)		FY03/ 2021	FY03/ 2022
Unadjusted gross profit (consolidated)		10.98	14.72
<ul style="list-style-type: none"> • Adjustment related to ordinary underwriting reserves* • Catastrophe reserve provision** 		+0.02	+0.72
		+0.71	+0.88
	Total adjustments	+0.73	+1.61
Adjusted gross profit (consolidated)		11.72	16.33

*
**

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)

Supplemental Information on Insurance Item Adjustments

1. Adjustment related to ordinary underwriting reserves

- Non-life insurance companies are required under the Insurance Business Act to calculate ordinary underwriting reserves using two methods (unearned premium balance and first year balance) and record the larger of the two as a liability.
- Based on this, ipet Insurance uses the first year balance method for institutional accounting, but emphasizes profit and loss under the unearned premium method, which is equivalent to profit under accrual accounting.
- In addition, since there are no listed non-life insurance companies that use the first year balance method, we believe that the disclosure of profits and losses calculated using the unearned premium method is useful for investors in making investment decisions as it helps with making competitor comparisons.

2. Adjustment related to catastrophe reserves

- A catastrophe reserve is a type of underwriting reserve required by law to be set aside to cover losses from catastrophic events.
- If the loss ratio exceeds the standard loss ratio specified by law, the amount equivalent to the excess of the loss ratio must be reversed (lowers expenses); if the loss ratio is lower, the amount equivalent to the shortage must be reserved.
 - The loss ratio at ipet Insurance is lower than the standard, so the amount of 3.2% multiplied by underwriting revenue must be reserved each fiscal year.
- We focus on the profit and loss excluding the effect of reversals and reserves as a measure of actual profit and loss.

FY03/2022 P&L by Segment

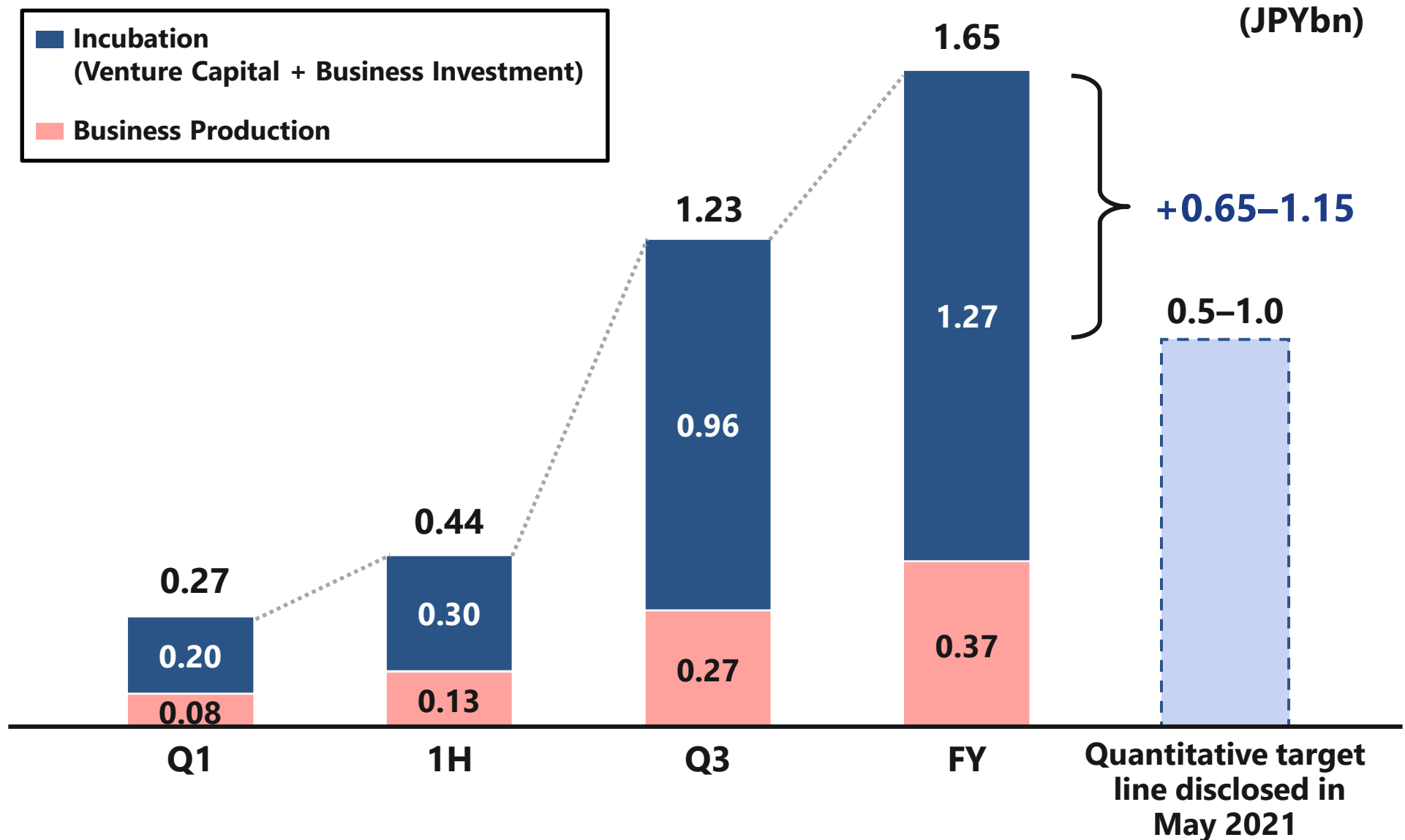
(JPYbn)		FY03/ 2021	FY03/ 2022	YoY change	Notes	
Business Production	● Sales	2.31	2.83	22.3%	● Sales grew as orders remained robust. Absorbed cost increases from personnel enhancement, etc. and logged profit growth	
	● Recurring profit	0.29	0.37	28.4%		
Venture Capital	● Sales	1.09	0.83	-23.4%	● Gains undershot expectations since an investee scheduled to go public withdrew its listing application	
	● Recurring profit	-1.48	-0.02	—		
Business Investment	Pet Lifestyle	● Sales	22.85	28.65	25.3%	● Substantial profit increase due to continued growth in new order and lower-than-expected loss ratio
		● Recurring profit*	0.97 (0.23)	1.71 (0.09)	75.4%	
	HR Innovation	● Sales	1.10	1.32	20.4%	● Sales expanded; also continued investment toward growth
		● Recurring profit	-0.07	-0.15	—	
	Fan Marketing	● Sales	0.44**	2.00	354.4%	● Made progress in structural reform of PEACS with its Q4 earnings finishing in the black
		● Recurring profit	0.04**	-0.25	—	
* After insurance item adjustments (Figures in parentheses are before adjustment)						

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** Included in scope of consolidation from Q4 FY03/2021

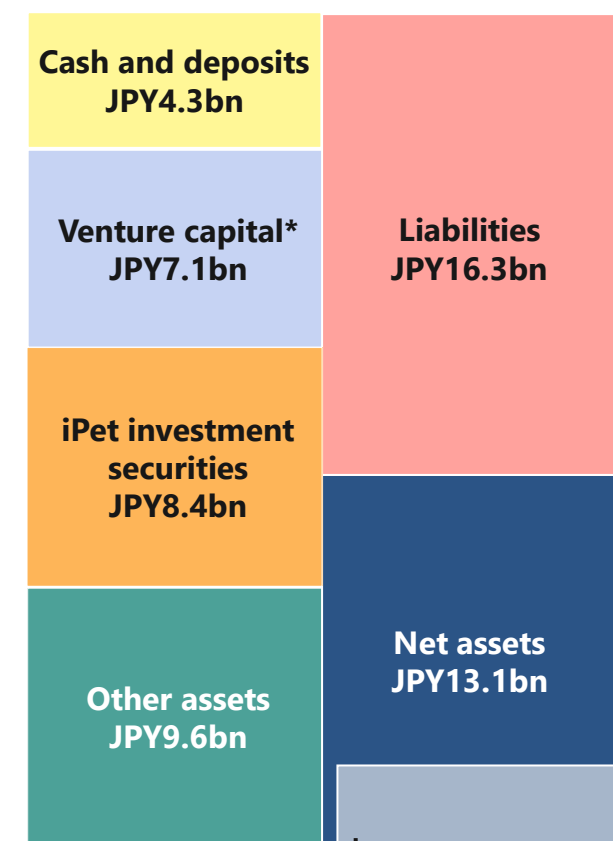
Note: Recurring profit was calculated as segment profit - companywide expenses ± non-operating profit/loss

FY03/2022 Cumulative Quarterly Results (adjusted recurring profit)



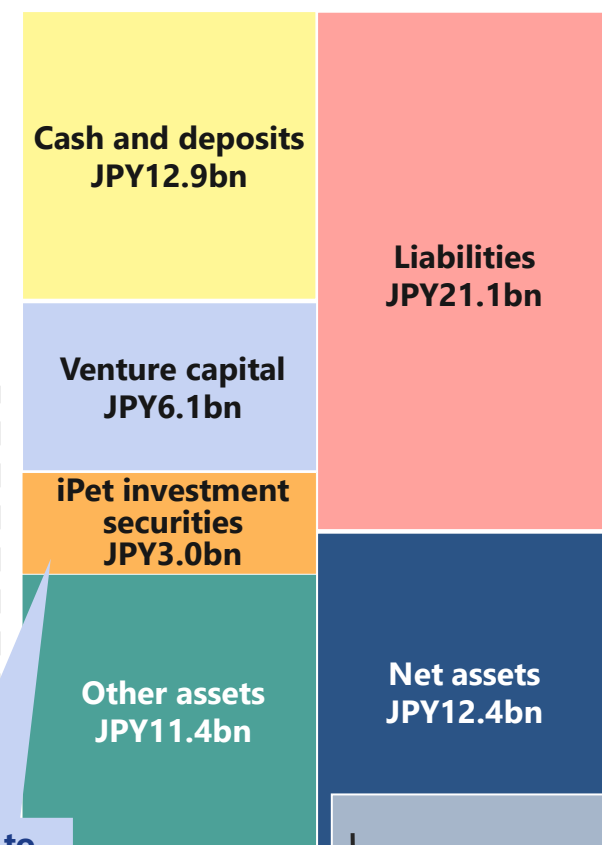
FY03/2022 Consolidated Balance Sheet

March 31, 2021
(Total assets: JPY29.5bn)



Includes non-controlling interests of JPY3.9bn

March 31, 2022
(Total assets: JPY33.5bn)



Includes non-controlling interests of JPY2.6bn

Decrease due to
unconsolidation of
Japan venture fund
DIMENSION

Breakdown of change in net assets	
• Net income	+JPY7mn
• Non-controlling interests	-JPY1.27bn
• Valuation differences on available-for-sale securities	+JPY0.42bn
• Other comprehensive income	+JPY0.10bn
• Total	-JPY0.74bn

Decrease due to
policy of reducing
risk assets

* Includes post-IPO



1. FY03/2022 Financial Results Summary

2. Medium-Term Management Plan (FY03/2023~FY03/2025)

Summary

Under the new management team taking up the baton from our founding members, we determined the challenges that need to be met in order to simultaneously fulfill our mission and grow profits, while expanding our impact and controlling volatility. And based on this undertaking, we steadfastly initiated structural reforms.

Going forward, we will seek to further achieve concrete results in these structural reforms, focusing on the following three priority themes, which we believe are essential for enhancing our corporate value in the medium to long term.

- (1) Build a foundation for sustainable growth by expanding Business Production**
- (2) Reap appropriate harvest from Incubation (Venture Capital and Business Investment)**
- (3) Maintain balance between growth investment toward enhancing corporate value, and shareholder returns**

By doing so, we will propel transition to a business structure enabling sustainable earnings growth. Further, by carrying out our mission—“create businesses and change societies,” we will contribute to resolving the major social challenge of creating new industries and businesses, and thereby seek to enhance our corporate value.

From structural reforms to the medium-term management plan

Initiated structural reforms		As of the end of FY03/2022	Medium-Term Management Plan
	Issue identification	Scope of reforms	
Business Production	Skewed resource allocation due to heavy weighting of risk assets and stagnation of investment into Business Production, our biggest differentiating feature	Strengthen our ability to produce business, which is our core competency	
	Lack of mechanisms to leverage and expand the differentiating feature	Upscale Business Production by applying financial functions	
Incubation	Mismatch between risk and time horizon due to investment volatility	Limit principal investment; expand fund scale	
Governance	Governance system that supports and reviews business efforts and makes corrections as necessary	Strengthen the governance structure, which drives our reforms	
		<p>Plan to double the staffing was on track</p> <p>Achieved YoY sales and profit growth thanks to steady flow of new orders</p> <p>Promoted collaboration with financial and government institutions such as by launching SIB*, etc.</p> <p>On top of limiting principal investment, revised our expansion policy</p> <p>Established Board with majority outside directors and made modal shift to a Board that monitors</p>	

(1) Build a foundation for sustainable growth by expanding Business Production

The market for business creation at major corporations will expand progressively in the future.

- **With Japanese industries being entrenched in a third “lost decade,” business creation has become the top agenda for major corporations.**
- **Apparent slowdown of existing businesses under the pandemic has accelerated the momentum for business creation.**
- **Although competitors are emerging, the DI brand substantially stands out in large company-wide business creation projects.**

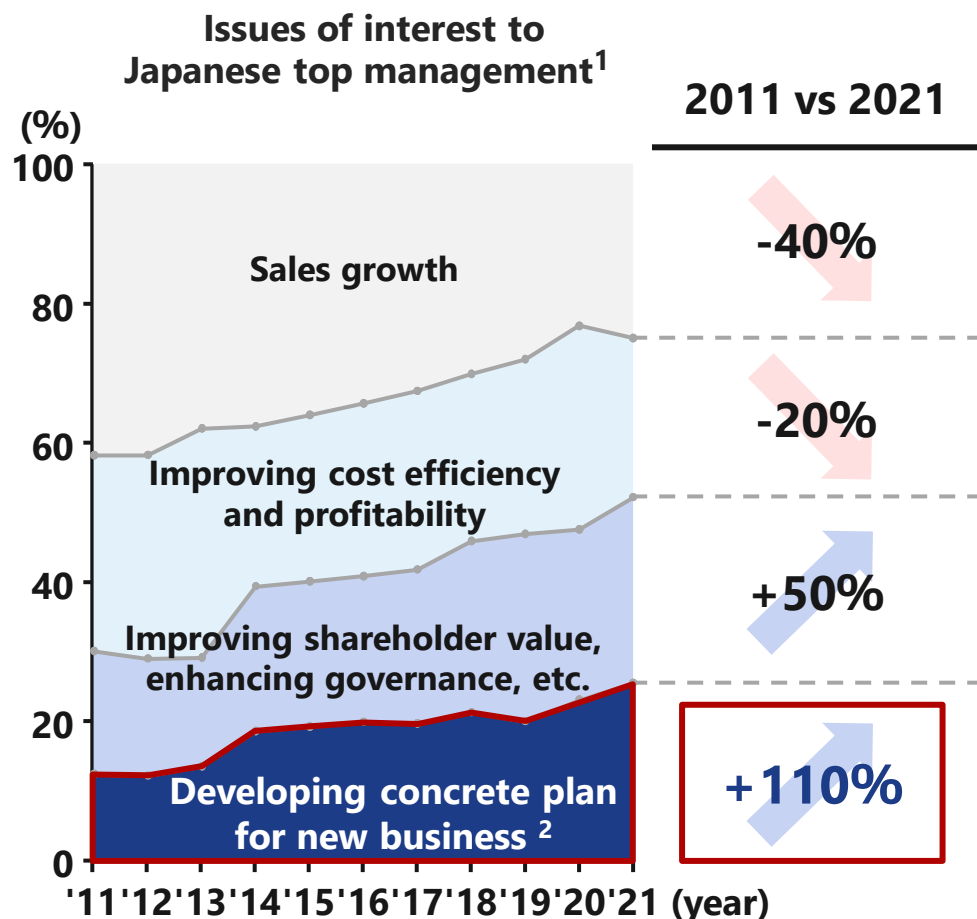
We will build a firm revenue base by focusing on our Business Production operations (business creation support) where we will seek to:

- **Expand service lineup: Cultivate value chain centered on value added**
- **Expand our team: Step up recruitment and development of business producers**
- **Expand collaborations: Enhance revenue opportunities through partnerships with service providers, financial institutions, etc.**
- **Expand functions: Upscale by reorganizing and applying the capabilities honed in Venture Capital**

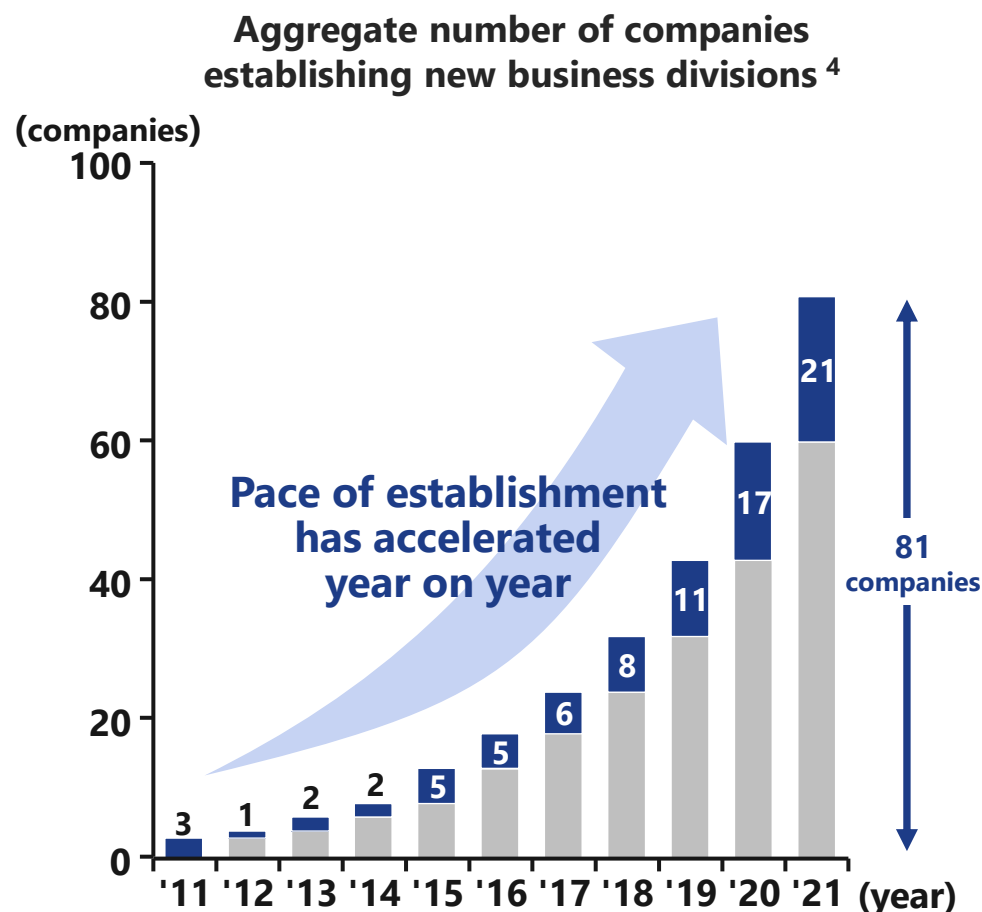
Through these efforts, we plan to double Business Production sales to JPY 6.0bn (versus FY03/2022) and triple net income to JPY1.0bn by FY03/2025 with a view to achieving sustainable growth thereafter.

Business creation becoming the top agenda at an accelerated pace

Interest in new business creation increased the most in past 10 years



80% of top 100 companies³ by sales have put in place a framework for new businesses



Notes: 1 Compiled based on the "Survey on Current Corporate Management Issues" published annually by Japan Management Association.

Each year, top leaders of approximately 500 large companies and SMEs choose the three issues they perceive as most significant.

2 Includes development of new products, services, and businesses, strategic investment in digital technology, etc.

3 Top 100 TSE Prime-listed companies in FY03/2021, ranked by sales

4 Number of independent divisions dedicated to the planning and promotion of new business. Limited to those dedicated to business creation; R&D and other divisions engaged in technological innovation/nascent business before commercialization are excluded.

Source: "Survey on Current Corporate Management Issues" by Japan Management Association; press releases/organizational charts of the companies

DI's value added: Business Production (business creation support)

Support menu

Industry Production

- Positioning social issues as our starting point, we work together with government bodies to create new business concepts.

Business Production

- We formulate strategies to commercialize business concepts and upscale operations.

Global Sustainability Transformation (SX)

- We engage in business production overseas.

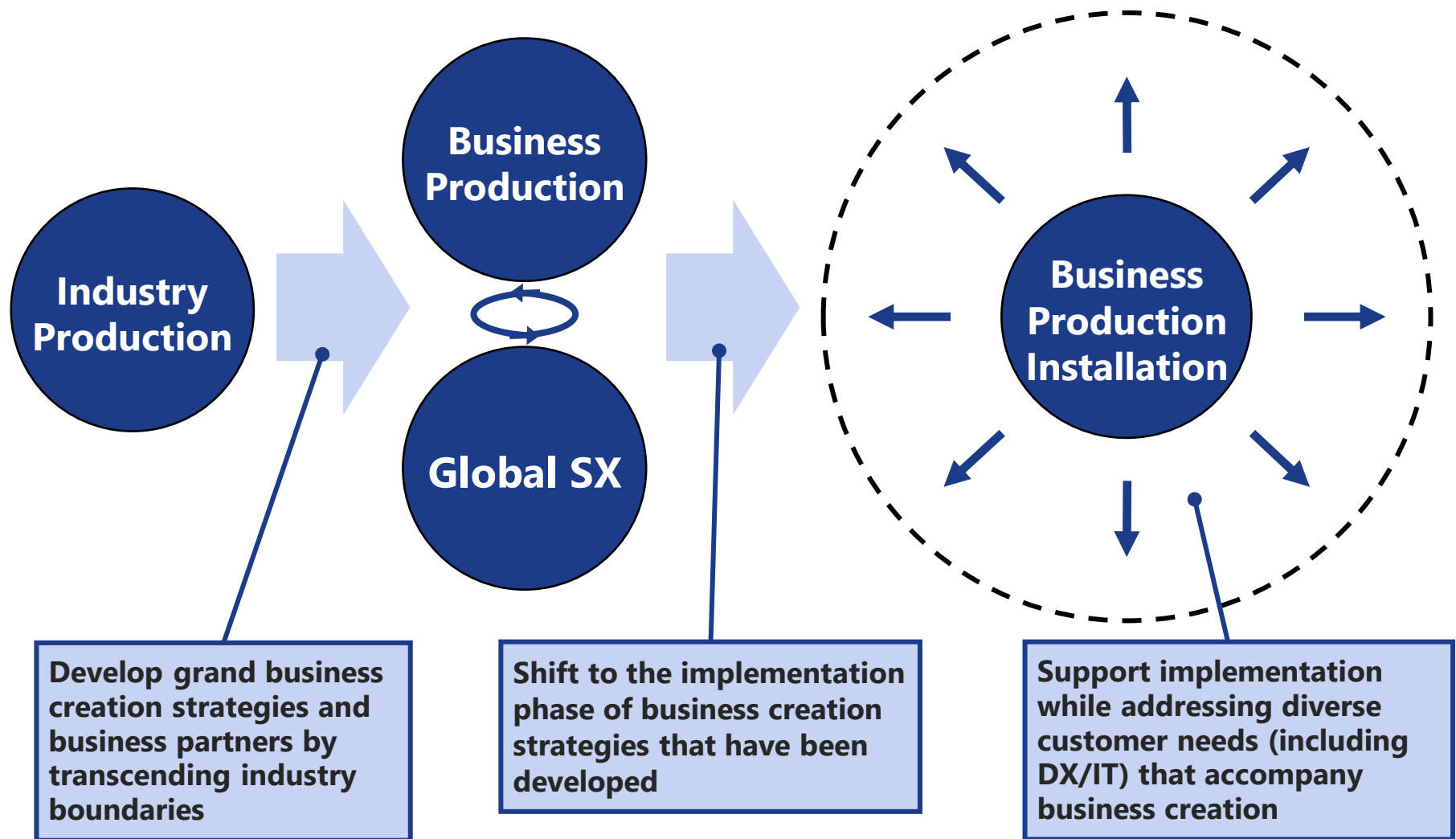
Business Production Installation

- We support our customers in executing business creation strategies and tackling accompanying issues (DX, etc.).

Examples of projects

- Carbon neutral × New business concept
- Declining birthrate and aging population × New business concept
- Infrastructure maintenance/disaster prevention × New business concept
- Healthcare/medical × Commercialization
- Energy management × Commercialization
- Mobility service × Commercialization
- Investment strategy centered on public-private partnerships in Asia
- Support local and Japanese startups that contribute to decarbonization in developing countries
- Promote realization of new business; handhold during the process
 - Introduce/implement technology
- Implement reforms that enable new business creation; establish new organizations
 - Install management methods

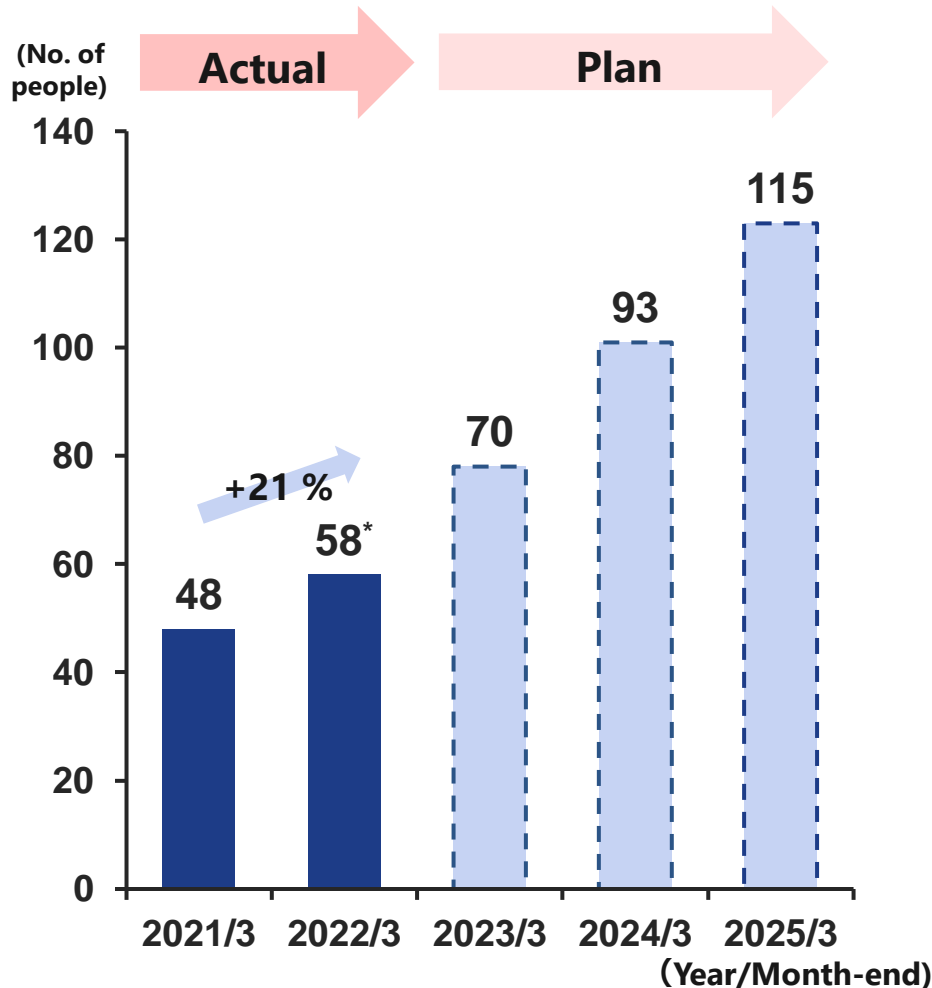
Expand the service lineup: Cultivate value chain centered on value added



We will acquire brand power and customers with Industry Production and Business Production, and expand our operations with Business Production Installation.

Expand our team: Step up recruitment and development of business producers

Personnel plan concerning business producers



DI's ability to attract talent

"Business Production" itself

- Mission: "Create businesses and change societies"
 - Drive creation of large businesses and industries by transcending industry boundaries and getting our government involved



Career path for highly motivated and talented individuals

Some voices of employees who chose DI:

"I want to become someone who can create industries so that there won't be a fourth lost decade in Japan."

"I want to join a team of professionals who work head-on on significant business creation strategies for leading Japanese corporations."

"DI's capabilities and network will allow me to create businesses on a scale not possible elsewhere."

* Largely in line with the plan of 56 at end-March 2022

Expand collaborations: Enhance revenue opportunities through partnerships

Sample collaborations with other types of businesses

	Comprehensive solution provider	Financial institution	Government-affiliated institution
Partners	<ul style="list-style-type: none">• Dentsu	<ul style="list-style-type: none">• Nippon Life Insurance• Development Bank of Japan• Yamaguchi Financial Group	<ul style="list-style-type: none">• Japan International Cooperation Agency
Project examples	<ul style="list-style-type: none">• “Real” Platformer Project<ul style="list-style-type: none">– Provide integrated support to brick-and-mortar stores in the areas of next-generation business strategy formulation, PMO, service and marketing, and store development	<ul style="list-style-type: none">• Social Impact Bond<ul style="list-style-type: none">– Adopts system where the private sector reduces the costs of long-term care, infrastructure maintenance, etc. on behalf of local governments and receives performance-based fees in return	<ul style="list-style-type: none">• Providing support to local and Japanese startups that contribute to solving social issues in developing countries<ul style="list-style-type: none">– Developing countries × Technology to lower carbon emission × Startup support– Formulate impact investment strategies under public-private partnerships, etc.

(2) Reap appropriate harvest from Incubation

It is by nature difficult for the Incubation businesses (Venture Capital and Business Investment) to be favorably evaluated by the stock market.

- **The process from investment to recovery requires many years, with losses preceding in the first several years.**
- **Even during the recovery phase, factors such as the timing of IPO, stock price after listing, sale price, and timing of sale are uncontrollable, so earnings become unstable.**
- **Indicating unrealized gains using NAV* does not bear results without being reflected in the P&L statement.**

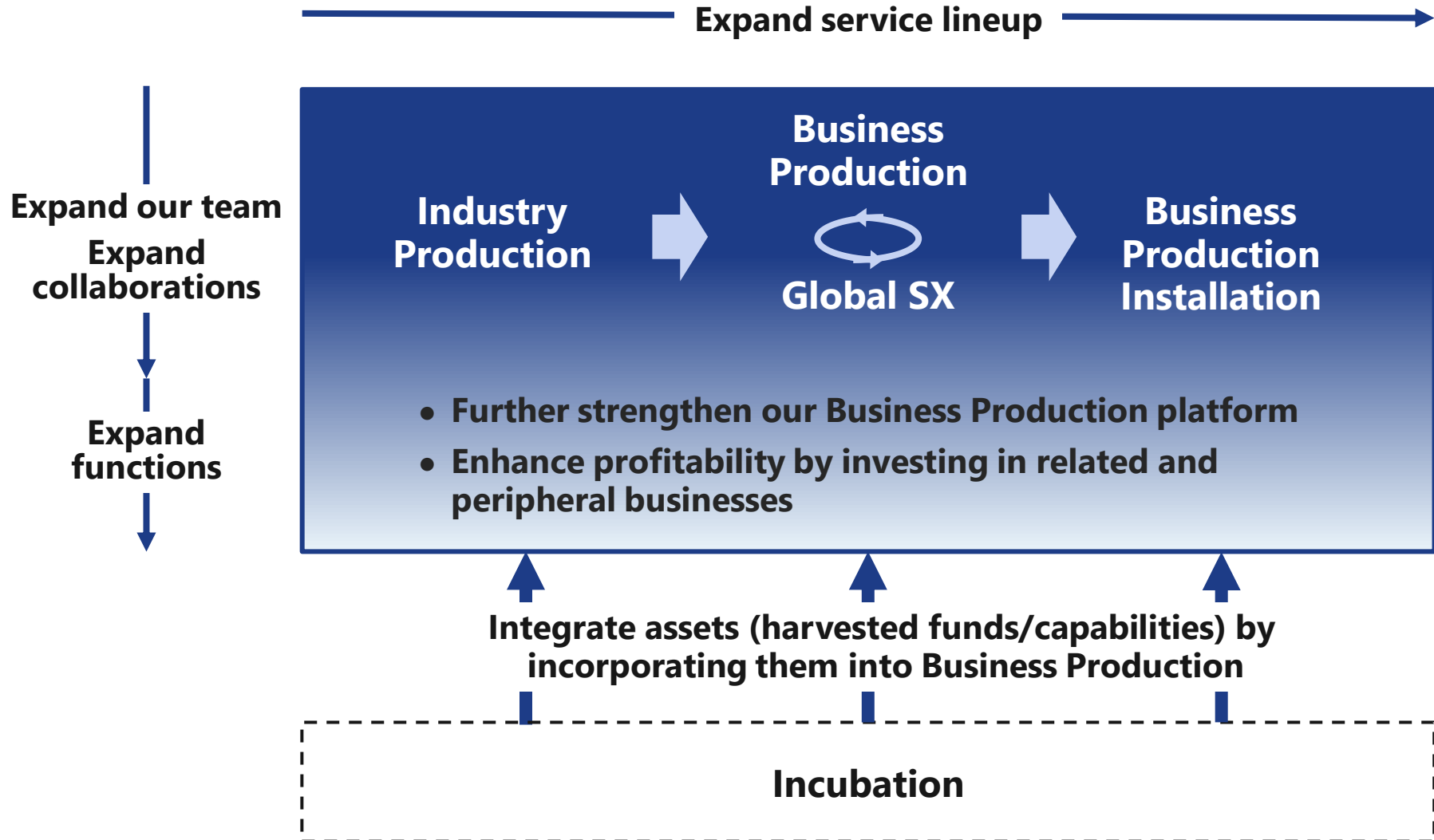
Meanwhile, our incubation capabilities bear the potential of serving to expand Business Production functions and enhance our profitability.

- **Utilization of investment structuring skills honed in our Incubation businesses, business management skills developed through PMI**, etc.**

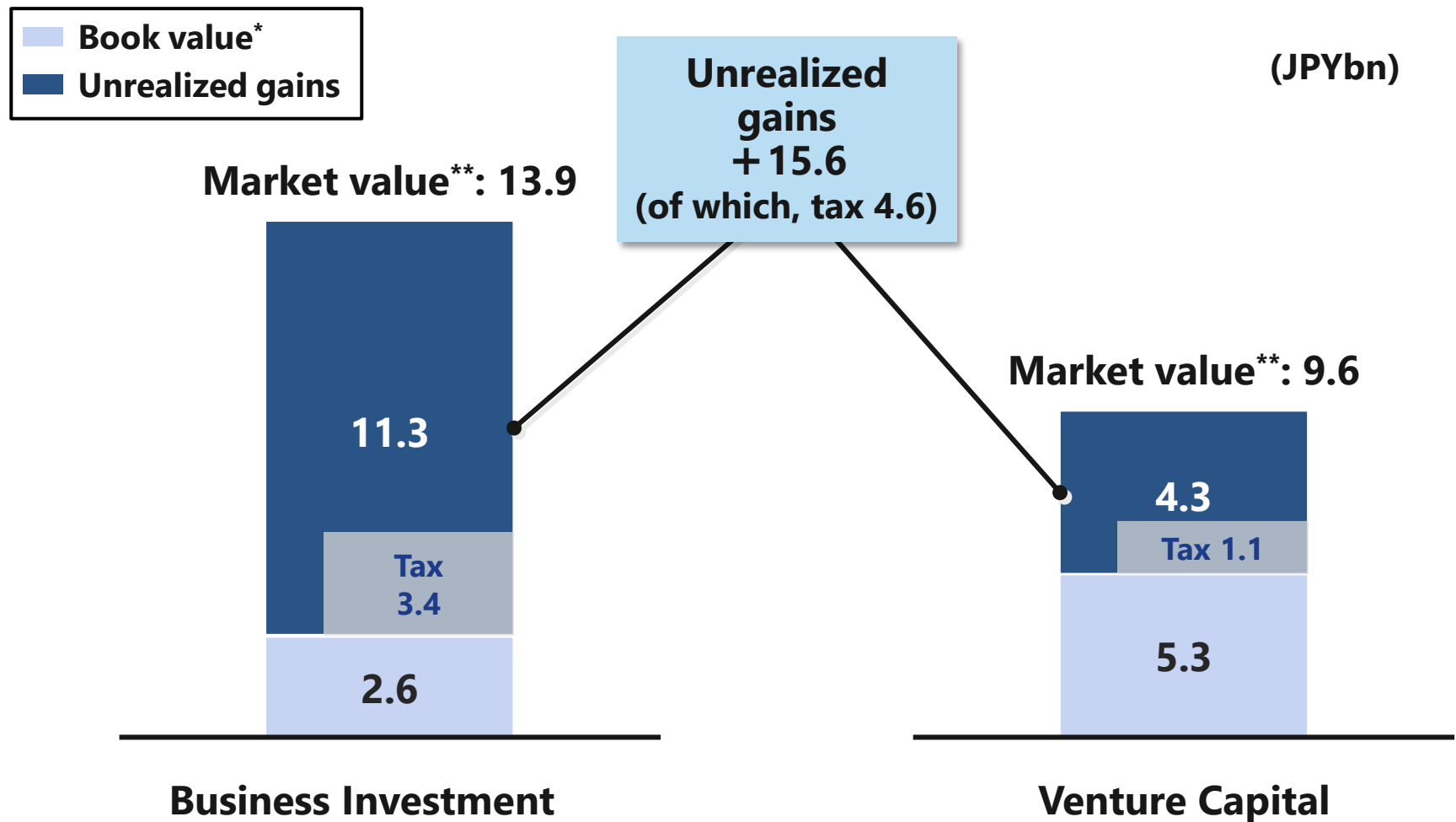
Based on the above, going forward, we plan to appropriately harvest from invested capital once the recovery phase arrives, and integrate the resulting assets (capabilities and harvested funds) into Business Production.

- **Use funds to expand Business Production functions, etc., assuming a certain amount of ROIC can be secured**

Incorporate investment assets to further strengthen Business Production



Status of investment as of end-FY03/2022



*
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Fund investments include DI's interests only.

Listed companies: Market capitalization at period-end × DI's interests

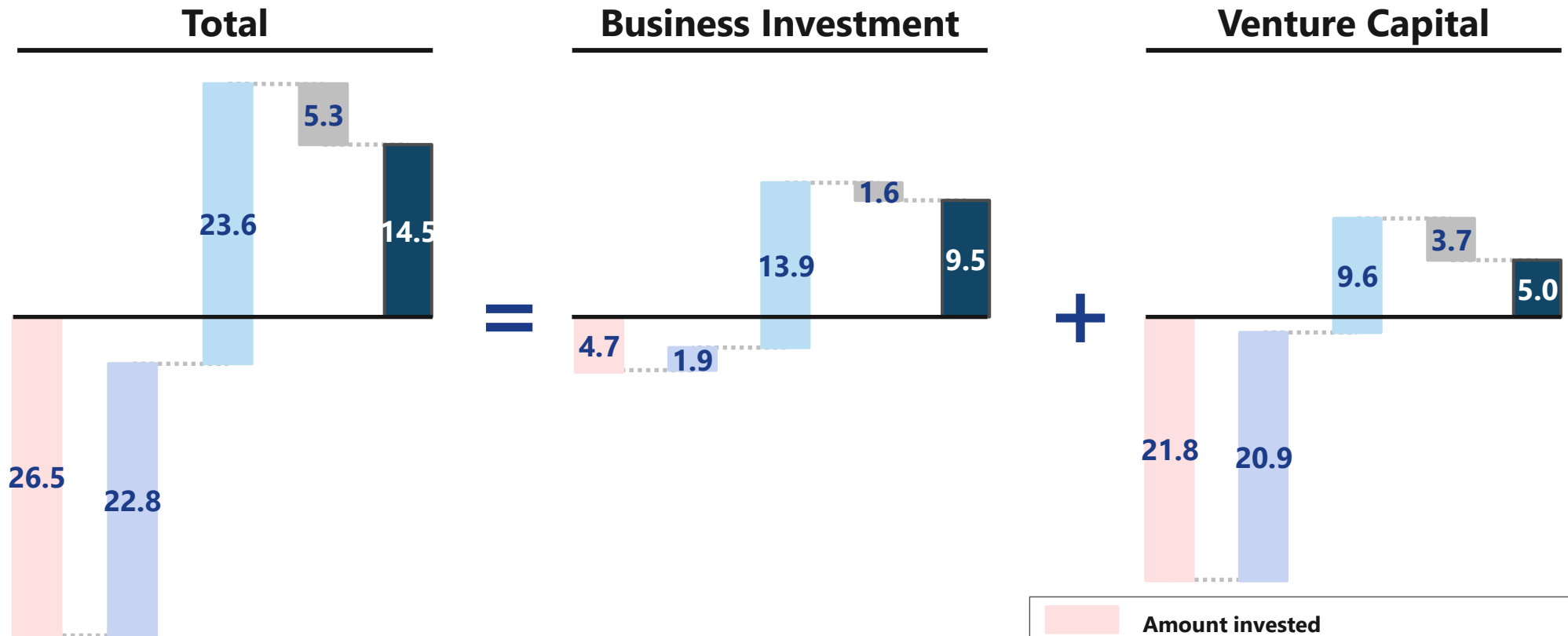
Unlisted companies: Book value of investment at period-end ± mark-to-market valuation difference (recent financing prices and third party transaction prices)

When these prices are unavailable, book value is used without revaluation.

Incubation business performance

Cumulative cash flows* from FY03/2000 to FY03/2022
(including amount of estimated recovery)

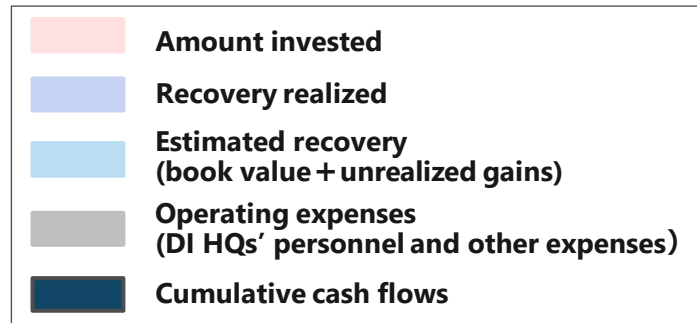
(JPYbn)



*
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Before tax

Listed companies: Market capitalization at period-end × DI's interests
Unlisted companies: Book value of investment at period-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.



Incubation business performance (cont'd)

Business Investment		Business	Investment (Mo/Yr)	Sale (Mo/Yr)	Unrealized/ realized gain or loss ¹ (JPYbn)
Investment in progress	ipet Holdings	Health insurance for pets	Sep 2011	—	+11.0 ²
	Boardwalk	Events E-tickets	Sep 2015	—	Undisclosed ³
Sale in progress	Work Style Lab	Matching platform for freelance consultants	Aug 2018	Jun 2022	-0.22
Sale completed	PEACS	IPs related to hobbies (magazines/ digital media)	Feb 2021	Apr 2022	+0.34
	DI Asia	Market research in Asia	Jul 2014	Oct 2019	-0.26
	ReValue	Asset liquidation	Jul 2010	Jan 2016	-0.70
	TGC (Japan IP Fund 1 ⁴)	Trademark rights to Tokyo Girls Collection	Feb 2012	Jul 2015	+0.24

- ¹ Lists unrealized gain/loss for “Investment in progress” and realized gain/loss for “Sale in progress” and “Sale completed.”
² Figures are based on pre-tax cash flows, excluding amounts reflected in consolidated P&L.
³ Based on closing price on March 31, 2022
⁴ In principle, unrealized gains from investments in progress are not disclosed (excluding cases where the investee is listed)
 Takes form of a fund but effectively evaluated as business investment

Incubation business performance (cont'd)

Performance of funds for which DI serves as the GP (DI's interests only)

		Established (Mo/Yr)	Termination/ maturity (Mo/Yr)	Fund size (JPYbn)	DI's interests		
					Commitment (JPYbn)	Paid-in capital (JPYbn)	Realized/ unrealized gain or loss* (JPYbn)
Under manage- ment	India Digital Fund	Apr 2018	Mar 2029	1.50	1.00	0.86	+0.66
Liquidated	Asia Industrial Fund	Jun 2010	Jan 2022	5.01	1.01	1.01	-0.34
Sold	DIMENSION	Sep 2019	Sold in Sep 2021 (We continue investment as LP)				

Notes: Excludes Social Impact Bonds (SIBs), which fall under Business Production
 Excludes DI1 Fund (established 2004) since it is effectively principal investment
 * Excludes management and performance fees

(3) Maintain balance between growth investment toward enhancing corporate value, and shareholder returns

As we transition from NAV-based to P&L-based management, we will be resuming shareholder returns.

Growth investment: Improve profitability
(Expand functions)

Disciplined investment
(cost effectiveness)

(1) Further strengthen our Business Production platform

- Invest in recruitment and HR development
- Invest in infrastructure to raise productivity

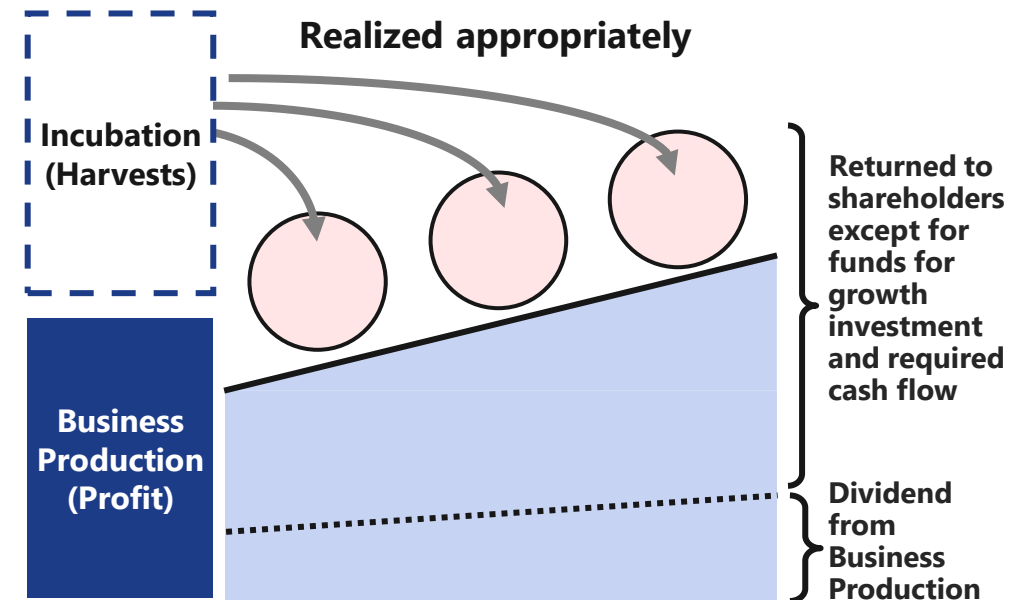
(2) Enhance profitability by investing in related and peripheral businesses of Business Production

- Invest to bolster capabilities, expand revenue opportunities, etc.
- Estimated ROIC* > 12%



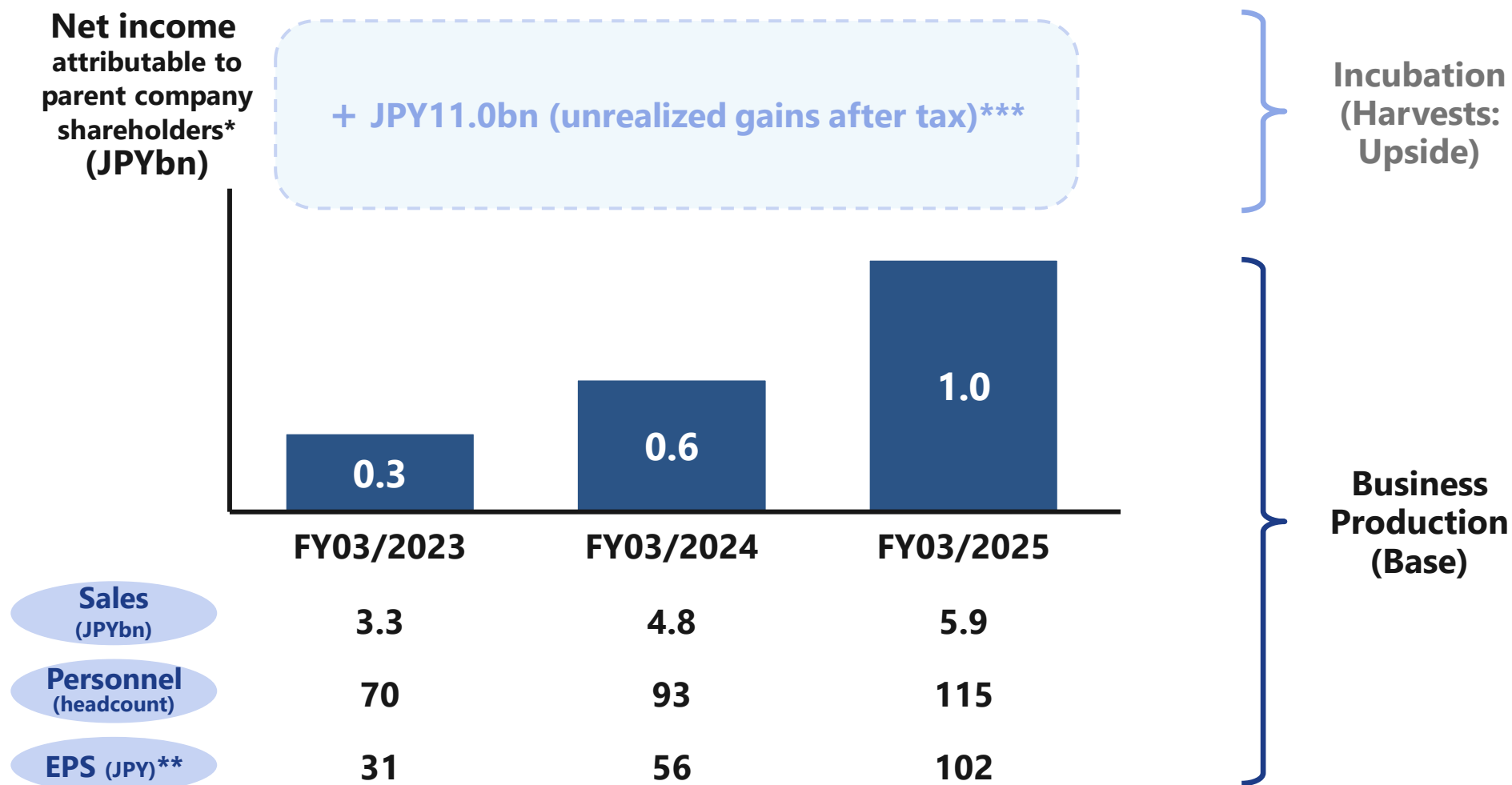
Shareholder returns: Improve EPS and PER

Based on profits from stable growth in P&L and harvested funds



Medium-term profit plan (FY03/2023–FY03/2025)

Net income from Business Production + Potential upside of harvests from Incubation



* Simplified calculation of recurring profit × tax rate of 30%
 ** Calculation assumes number of shares outstanding as of end-March 2022
 *** As of end-March 2022

Our approach to corporate governance

Board of Directors

Board composition

- Majority of outside directors
 - 4 outside directors / 3 inside directors
- Enhanced diversity
 - Seek to achieve composition in line with strategic themes and ensure diversity in terms of experience, expertise, gender, etc.

Transition to a monitoring model

- The Board mainly focuses on deliberating on management strategies, etc. by delegating matters concerning business execution to the inside directors' meeting

Strengthen effectiveness of the nomination and compensation committee

- Committee chaired by an outside director, with deliberations mainly conducted by outside directors
 - Achieve highly objective management of executive remuneration; establish selection/dismissal criteria and succession plans

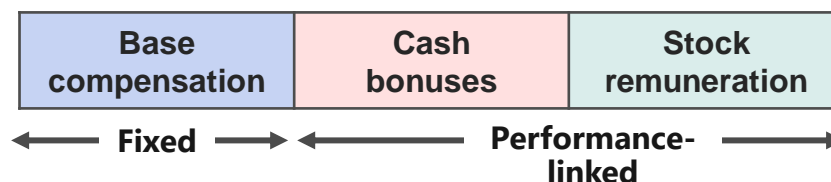
Executive remuneration

We seek to establish a remuneration system aligned with the simultaneous realization of our mission ("create businesses and change societies") and corporate value enhancement.

- Competitive remuneration levels to attract and retain top talent as directors
- Remuneration system that motivates sustainable growth in corporate value

To further raise awareness of the need to contribute to corporate value enhancement, cash bonuses are linked to single-year earnings, and stock remuneration is linked to the results of initiatives for improving our stock price over the medium to long term.

For remuneration of representative directors, we aim to ensure that the base compensation, cash bonuses, and stock remuneration are approximately equal, in a ratio of 1:1:1*



* Executive officers receive 20% and senior managers 10% of their total remuneration in stock (ESOP trust [BIP trust for directors]). Since stock remuneration is managed by a point system until the recipient retires, the number of underlying shares is not disclosed as individual shareholding.

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

Dream Incubator Inc.

The Business Producing Company