

Digital Garage, Inc.
Revision to FYE 2010 Financial Forecasts
and
Outline of New Mid-Term Business Plan

May 14, 2010



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Financial Summary for Third Quarter FYE 2010



(¥ million)	Cumulative Q3 FYE 2009 (Actual)	Cumulative Q3 FYE 2010 (Actual)	Year-on-Year
Net sales	26,724	5,921	-20,803
Operating income	426	-702	-1,128
Ordinary income	107	-374	-481
Net income	-3,563	-2,122	+1,441

Key factors for third quarter net sales performance

Cumulative Q3 FYE 2009 26,724 million	→	Cumulative Q3 FYE 2010 5,921 million	Difference -20,803 million	
				Kakaku.com excluded -6,752 million
				DGC excluded -13,279 million
				Other businesses -772 million
				<u>-20,803 million</u>

Key factors for third quarter operating income performance

Cumulative Q3 FYE 2009 426 million	→	Cumulative Q3 FYE 2010 -702 million	Difference -1,128 million	
				Kakaku.com excluded -2,497 million
				Improved business profit +1,225 million
				Cost improvement, etc. +144 million
				<u>-1,128 million</u>

Actual improvement 1,369 million yen

Revision to FYE 2010 Financial Forecasts





(¥ million)	<u>Forecast for FYE 2010</u> (Initial)	<u>Forecast for FYE 2010</u> (Revised)	<u>Compared to</u> <u>initial plan</u>
Net sales	11,000	8,180	-2,820
Operating income	300	-970	-1,270
Ordinary income	800	-470	-1,270
Net income	500	-2,210	-2,710

■ Key factors for financial forecast revision

- Shift from commissioned system development business (Hybrid Solution business) to Twitter business
 - Sales fell about 2.8 billion yen short of target and operating income target was not met reflecting DG&Ibex Company's strategic personnel shift to Twitter business and large project cancellations (at DG&Ibex, CGMM) by customers
 - Roughly 50% (1.4 billion yen) of DG&Ibex Company's goodwill (2.9 billion yen) impaired by converting its business structure (extraordinary loss)
- **Establishment of Twitter Company (November 2009: 12 engineers)**
 - Increased management and support cost due to rapid growth in user numbers and traffic
- **Prior investment in Twitter-related businesses**
 - iPhone client (Tappit), Twitter-linked video delivery service (TwitVideo), etc.



Outline of New Mid-Term Business Plan



Third Stage of DG Group Operation Focusing on Social Media

Shift from Hybrid Solution to Media Incubator DG

I

Media Incubation Strategy

- Efforts to make “Twitter,” a media beyond critical mass, exceed profitability

II

Hybrid Solution Strategy

- Establishment of Hybrid-type new businesses in addition to settlement and solution businesses

III

Venture Incubation Strategy

- Import & export of Internet businesses

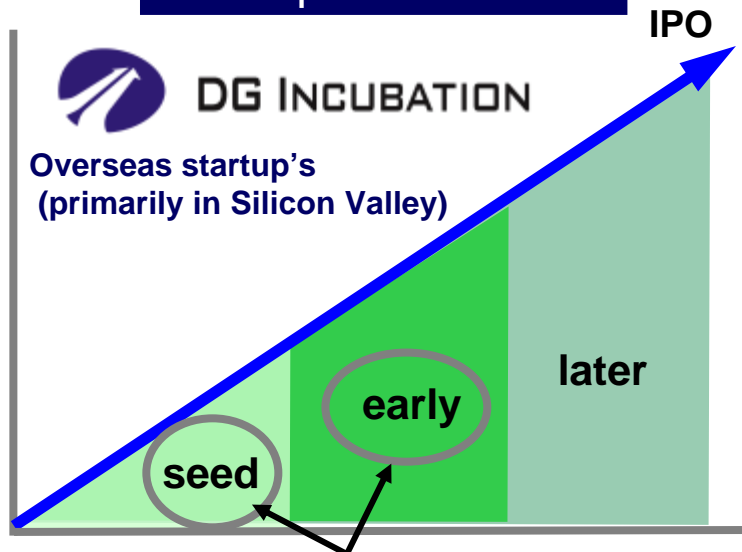
Create Japan origin global standard while investing in overseas VCs primarily based in Silicon Valley

Import & export of Internet businesses
New venture incubation in the era of real time WEB

U.S. origin WEB 2.0 - real time WEB - From Silicon Valley -

- ◆ Enhance business-type investment primarily in Silicon Valley companies
- ◆ Investment in overseas companies and localization in Japan

Import model

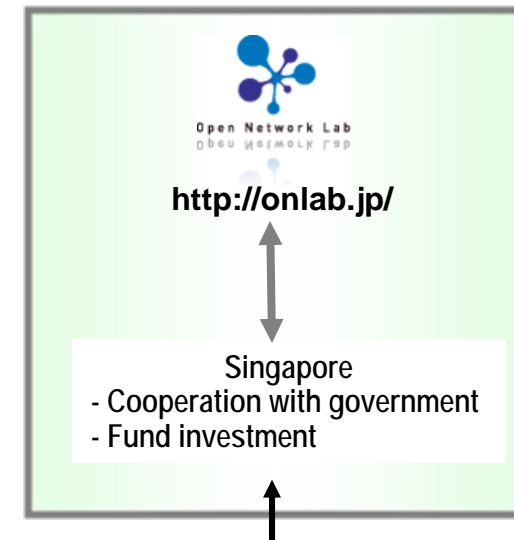


Invest mainly in U.S.-based VCs and support their entry to Japan

Japan origin global standard - From Tokyo, JAPAN -

- ◆ Support domestic venture creation by opening Open Network Lab site
- ◆ Collaborate with Singaporean government and funds

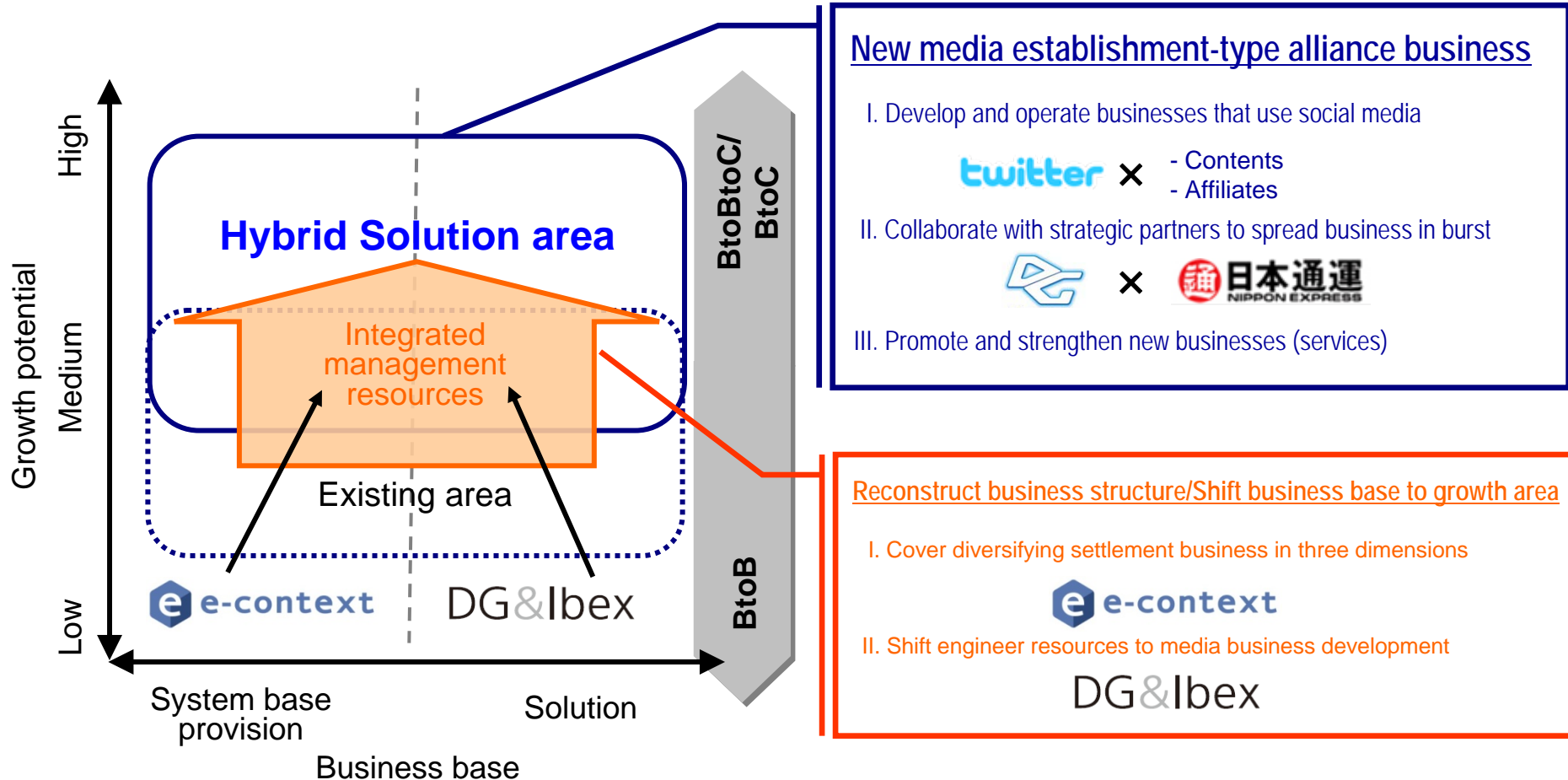
Export model



Support new domestic ventures and their entry to other countries

Promote new media development solution leveraging expertise in BtoB business
 - Reconstruct business structure/Shift business base to growth area -

Profit source shifted from BtoB to BtoBtoC business



Target figures (Target year: FYE 2013)

- ◆ Consolidated ordinary income: over 5 billion yen
- ◆ Consolidated ROE: over 25 %
- ◆ Operating income provided by Media Incubation business: over 50 %

Hands-on Internet businesses to follow Twitter

- Silicon Valley-type hands-on incubation (import)
- Japan's first startup support and overseas operation support (export)

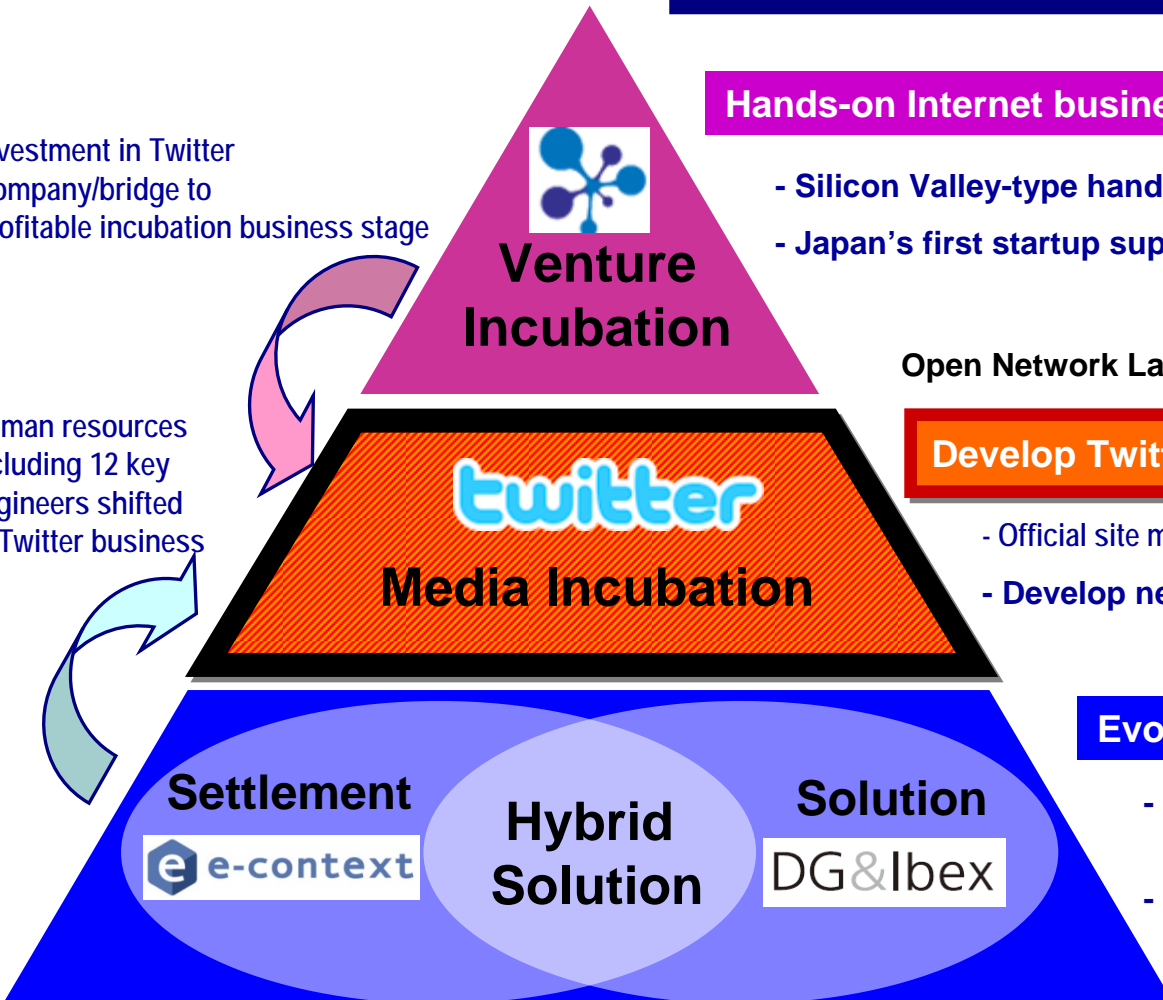
Open Network Lab <http://onlab.jp/>

Develop Twitter and next-generation social media

- Official site management and proprietary third-party strategy
- Develop new next-generation social media

Evolution of Hybrid Solution

- Departure from existing commissioned-type system development
- BtoBtoC-type media development alliance



Current state recognition

Recognition/diffusion phase completed

- Compared to mixi's UU count of 10 million, Twitter marked **7.5 million UUs** (March 2010, NetRatings)
- Featured in media and TV series, Twitter is now recognized by **70.2%** (March 2010, Fujitsu Research Institute)
- Corporate use of Twitter accounts is increasing (As of May 12, 2010, number of companies registered in twinavi exceeded **2,400**)

Users different from those of other social media

- Used by people in **30s and 40s** as well as teens and 20s
- **60-65%** of users in 30s or older access Twitter more than once per day (March 2010, Fujitsu Research Institute)

Usage as social "infrastructure"

- Used by many **politicians** such as Prime Minister Hatoyama and LDP President Tanigaki
- Targeting mid May, the Fire and Disaster Management Agency of the Ministry of Internal Affairs and Communications will start transmitting **disaster information** using Twitter
- Twitter broadly recognized as a generic term like website and blog

Future orientation

To C

Capabilities enhanced to develop Twitter from simple **communication tool** to **real time media** (Twitter+twinavi)

To B

Support and offer **marketing tool** capabilities based on Twitter

Mobile

Fortify **mobile-based services** in line with growth in mobile user count

First Stage

◆ Branding promotion

Establish position as advertising media

Twitter-based advertising method established in Japan. Advertising served by **total of 82** national clients. (By April 2010)

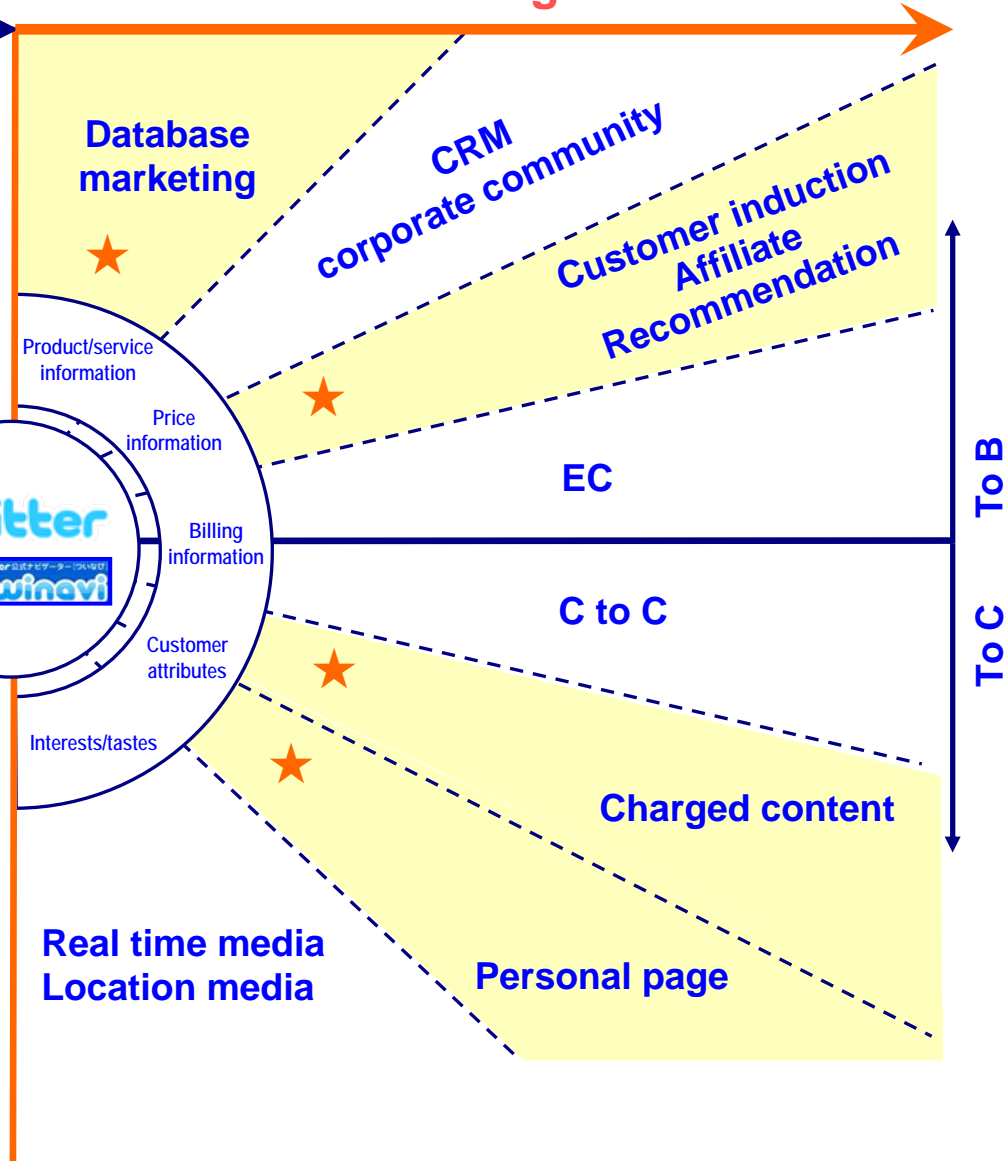
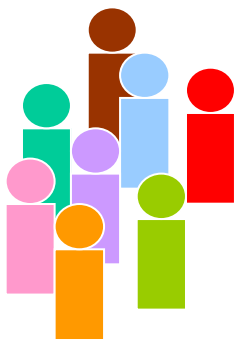


Second Stage

◆ Communication media

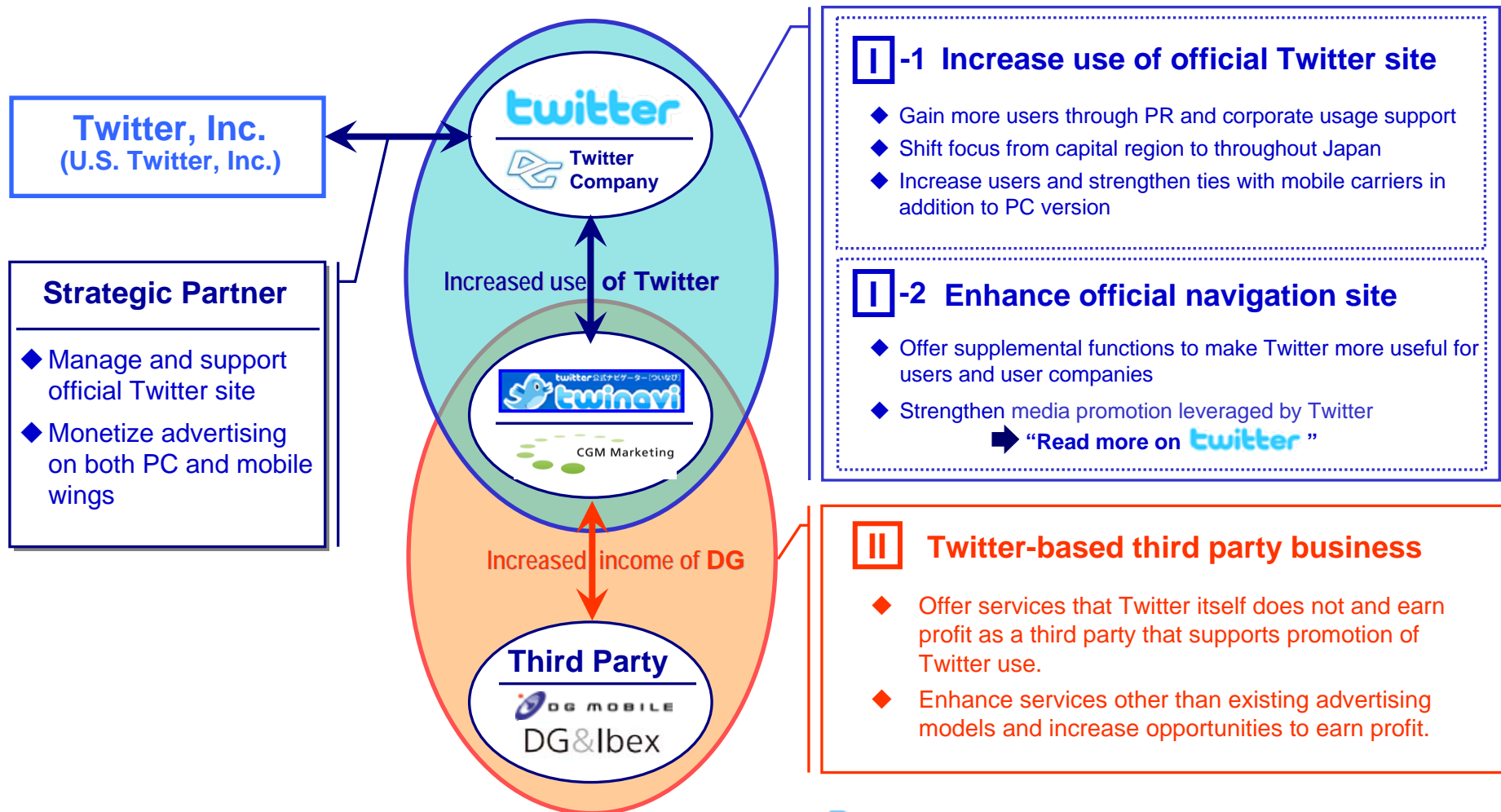
Establish position as global communication media

Global tweet count exceeds **55 million** per day, among which **15% or slightly over 8 million** tweets are from Japan. (As of April 2010)

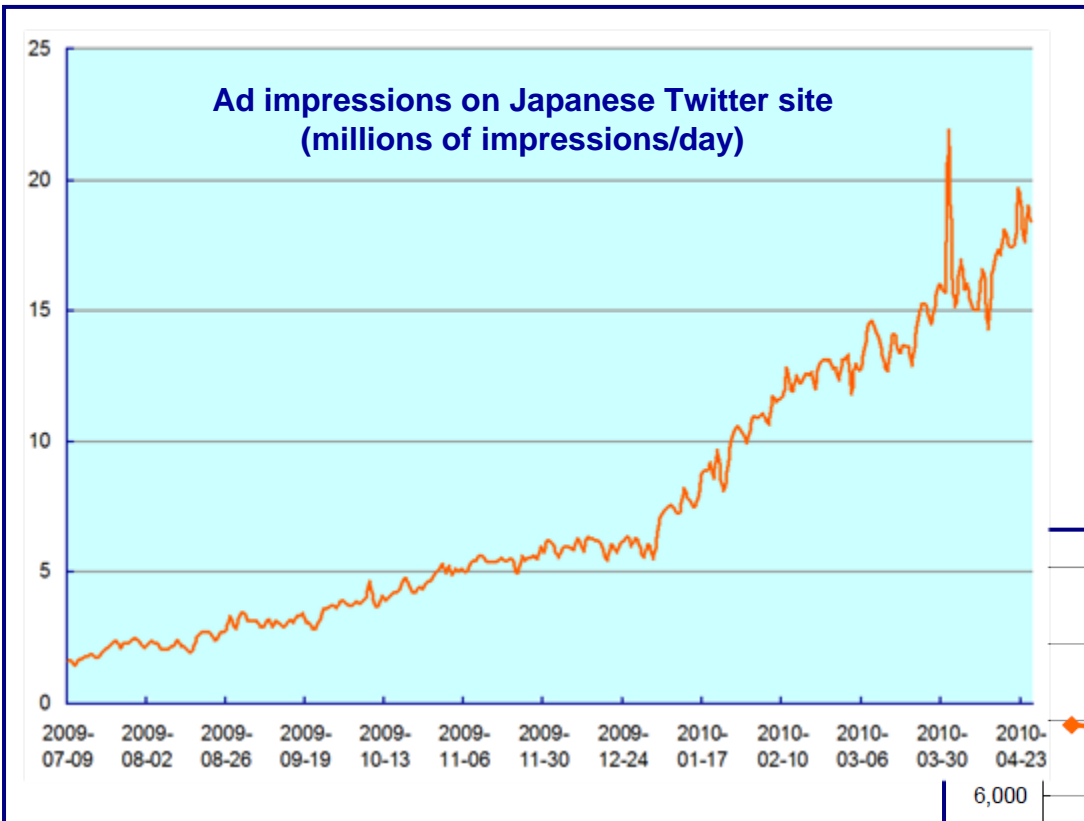


Managed by 2 wings: official Twitter site/official navigation site and third party
 - Execute “Establishment of ECO SYSTEM for Twitter Business in Japan” -

Adding on mobile carrier traffic to smoothly grow PC gateway



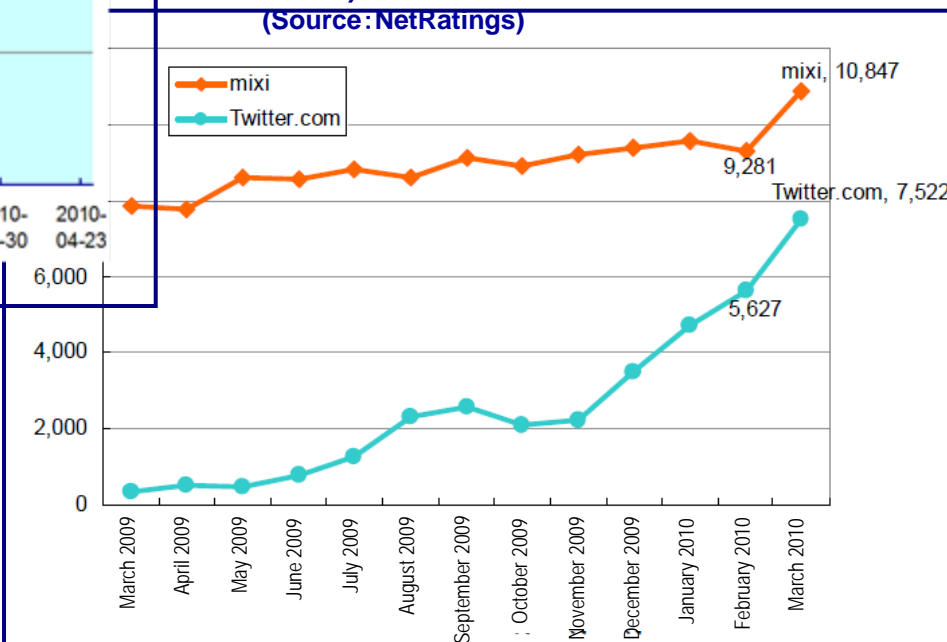
Monthly ad impressions on Japanese Twitter site (PC) increased to about 500 million in April



(Source: CGM Marketing)

Visitors to mixi and Twitter (Access from PC at home or office)

(Source: NetRatings)

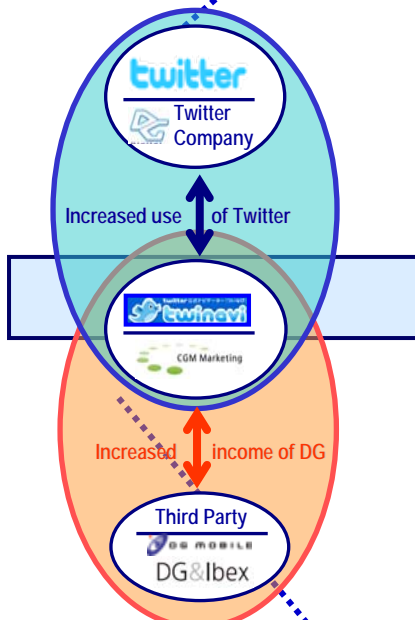
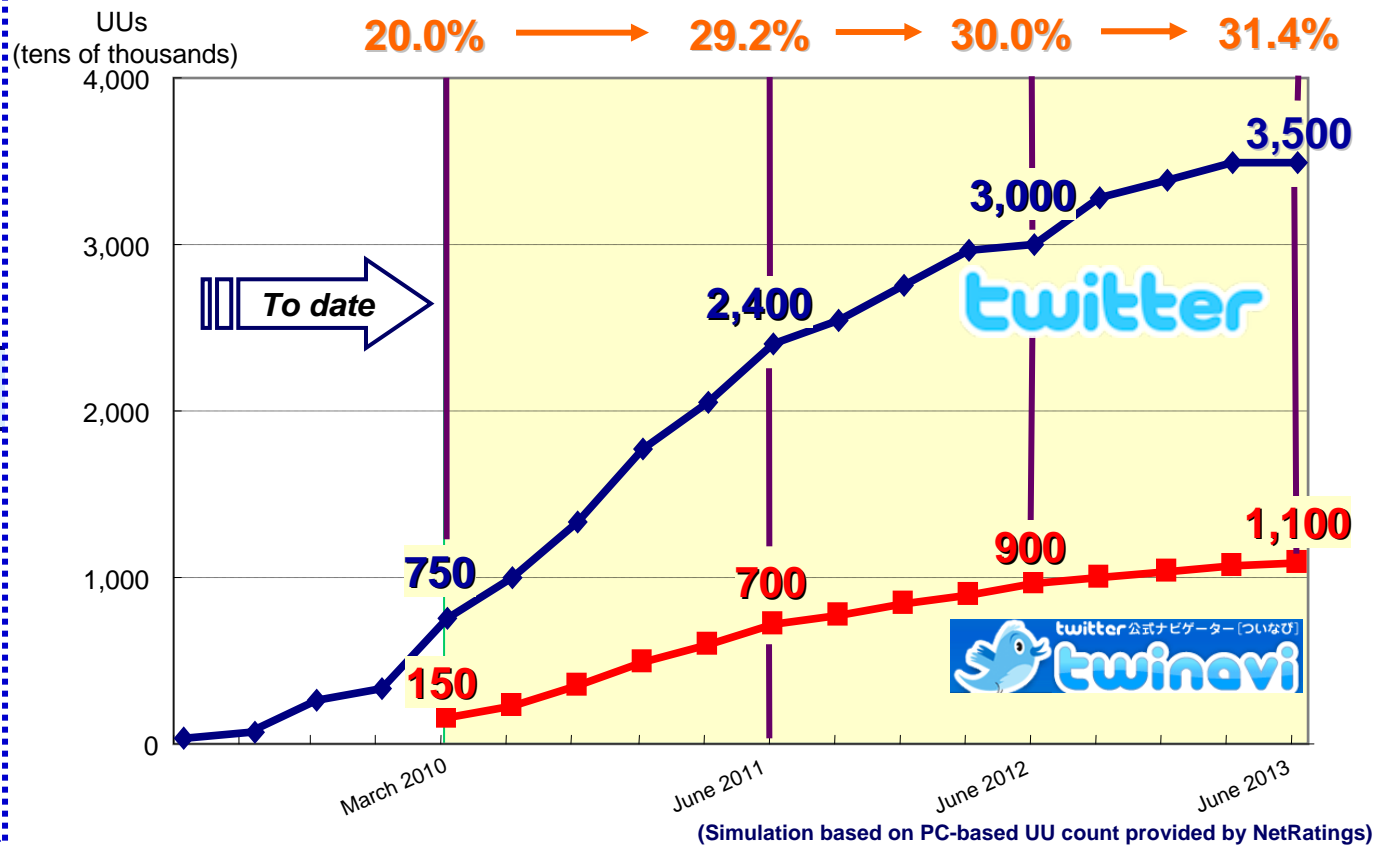




Aim to gain 1/3 of all Twitter UUs through twinavi in line with Twitter's expansion

- Expected growth simulation of PC-based Twitter use, in which monetization has already started.
- Value and use of twinavi expected to grow as Twitter use by users with low IT literacy accelerates in line with Twitter's UU count growth.

Rate of using both Twitter and twinavi



Target Figures in Mid-Term 3-Year Plan

	Estimate		New plan			Previous plan (2 nd and 3 rd years)	
	FYE 2009	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2011	FYE 2012
Net sales	34,499	8,180	10,600	14,500	20,000	18,500	22,000
Operating income	981	-970	-350	1,350	4,300	1,600	3,200
Ordinary income	537	-470	400	2,500	5,800	2,300	4,200
Net income	5,450	-2,210	220	1,800	3,700	1,300	2,700
Net sales by segment							
	Estimate		FYE 2011	FYE 2012	FYE 2013	FYE 2011	FYE 2012
◆ Hybrid Solution	24,348	7,360	9,000	10,800	13,000	13,500	15,000
◆ Media Incubation	9,969	813	1,550	3,200	5,500	5,000	5,700
◆ Venture Incubation	180	7	50	500	1,500	0	1,300
Total	34,499	8,180	10,600	14,500	20,000	18,500	22,000
Operating income by segment							
	Estimate		FYE 2011	FYE 2012	FYE 2013	FYE 2011	FYE 2012
◆ Hybrid Solution	-526	103	350	750	1,200	1,800	2,250
◆ Media Incubation	3,542	-120	350	1,400	2,800	1,200	1,400
◆ Venture Incubation	-883	-103	-100	200	1,200	-150	850
Total	2,131	-120	600	2,350	5,200	2,850	4,500

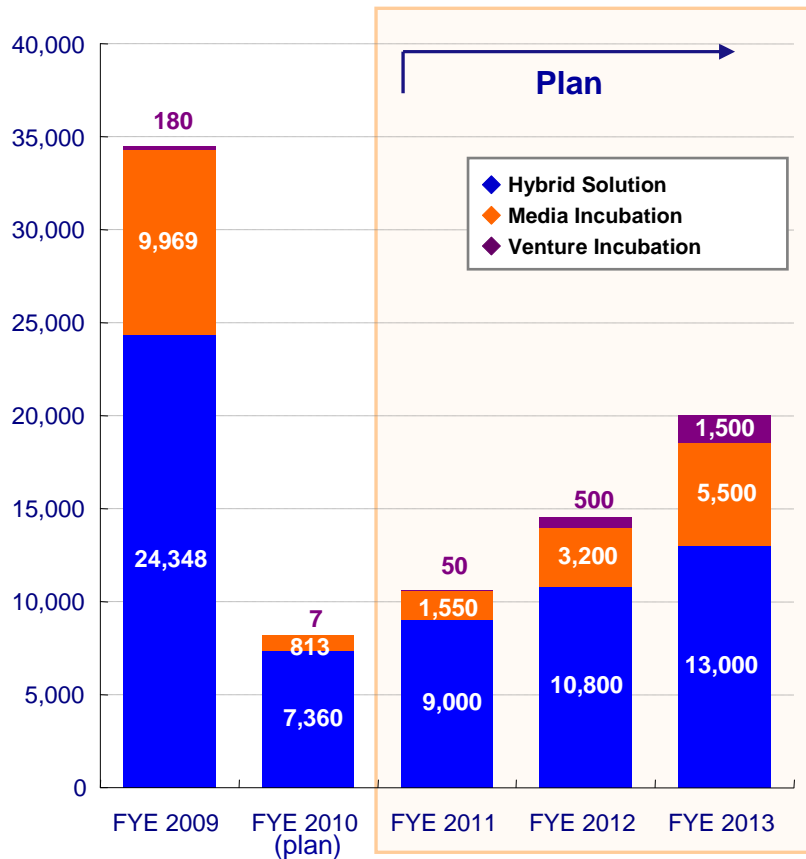


Consolidated Net Sales/Operating Income by Segment

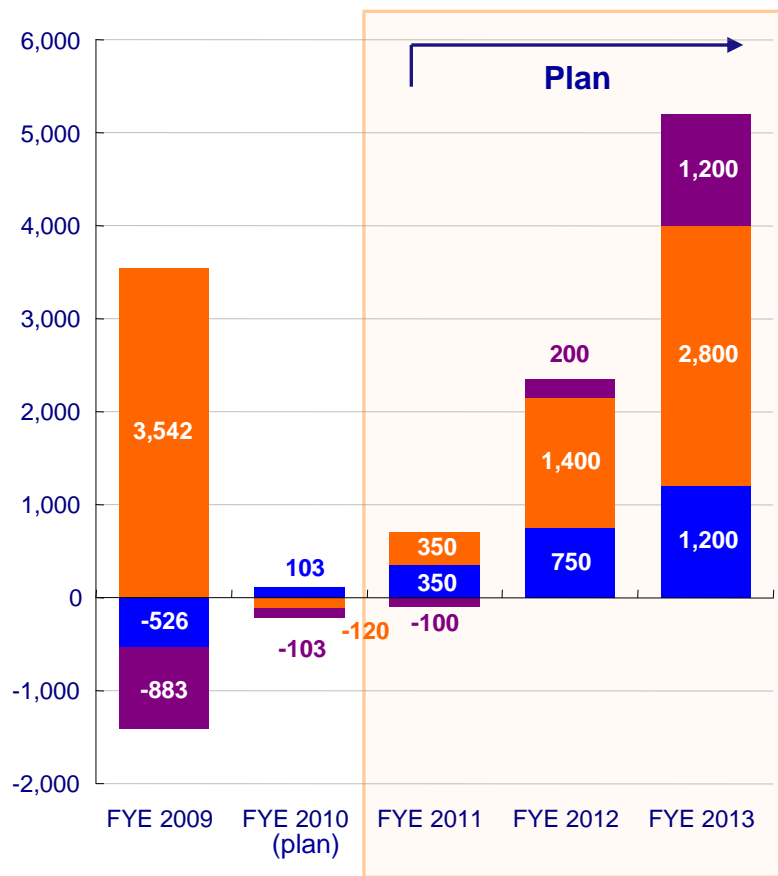


context company

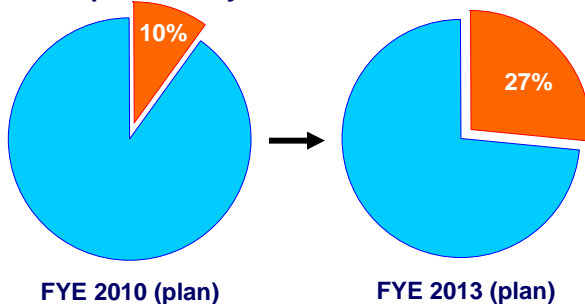
Consolidated net sales



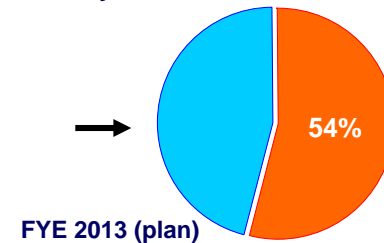
Consolidated operating income (Prior to Group tax deduction)

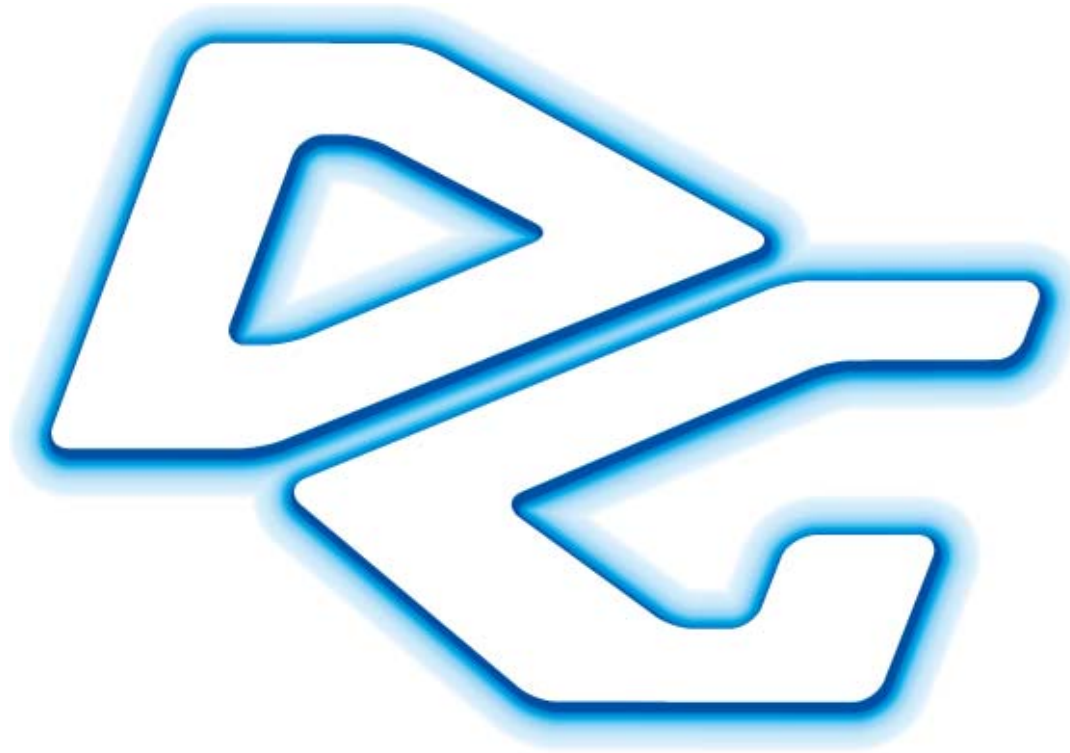


Sales provided by Media Incubation business



Operating income provided by Media Incubation business





Digital Garage

Please note that the business forecasts and strategies covered in this material are based on our current evaluation and future results may vary significantly depending on unforeseeable events or circumstances.