

## **Announcement Regarding the Issuance of Zero Coupon Convertible Bonds due 2023**

Digital Garage, Inc. (hereinafter the "Company") hereby announces that it has resolved, at its Board of Directors meeting as of August 29, 2018, to issue Zero Coupon Convertible Bonds due 2023 (bonds with stock acquisition rights (*tenkanshasaigata shinkabu yoyakuken-tsuki shasai*)) (the "Bonds with Stock Acquisition Rights"):

### **Background and Purpose of the Issuance of the Bonds with Stock Acquisition Rights**

Since its foundation in 1995, the Company has been creating numerous first-ever Japanese internet businesses, under its corporate philosophy of "Contribute to make a better society by connecting internet business to various fields, shaping contexts that benefit society, and creating new businesses with the First Penguin Spirit". The Group is currently composed of four business segments, namely, "Marketing Technology (MT) Segment" which offers internet advertising and promotion solutions, "Financial Technology (FT) Segment" which provides payment solutions, "Incubation Technology (IT) Segment" which mainly incubates promising startups and develops new businesses and "Long-Term Incubation (LTI) Segment" which aims to generate stable mid-to-long-term profits through Kakaku.com, Inc. and other joint ventures established in collaboration with our business partners.

From the year ended March 2018, in order to keep pace with the drastic technological innovation expected to take place in view of 2020, the year of Tokyo Olympics, and onward and the change in business environment brought about by such innovation, the Company started a new medium-term management plan under the slogan of "Open Incubation toward 2020" which takes the concept of "Open Innovation" a step farther. By employing DG Lab, established in July 2016, as the core organization for the plan, the Company plans to provide services that benefit society by collaborating with various companies engaged in cutting-edge efforts, from startups to major companies, and connecting new businesses resulting from technological innovation in context.

Under the new medium-term management plan, the MT Segment is focusing on data marketing business that utilizes big data as a new source of revenue next to performance based-ads which have, up to now, been the growth drivers. In the FT Segment, in addition to developing e-Commerce payment services which is its core business field, the Company is promoting next-generation FinTech business utilizing blockchain and AI as well as expanding business into the field of non e-Commerce market which has a substantial potential for growth as the society shifts to a cashless society. In the IT Segment, the Company will support startups looking to succeed on the global stage by promoting global cooperation of "Open Network Lab", the seed accelerator program, and strengthen its global incubation system. Furthermore, by employing the platform of current businesses, which is the revenue base for such system, and next-generation technologies and business seed developed from "DG Lab", the open innovation-based R&D

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organization, the Company is accelerating global and seamless incubation and, utilizing the fruit of such incubation, working to cultivate the next source of revenue for the Company.

The Company believes that, while this financing will contribute to expanding future revenue by using the procured fund for investment to accelerate growth of current businesses in the IT Segment, MT Segment and FT Segment, etc. and for the commercialization of new services developed from "DG Lab", it will also contribute to maximizing the corporate value with due consideration for the growth potential of business, profitability and optimal capital structure of the Group by establishing a structure that will strengthen financial base through capital infusion as needed.

### **Use of Proceeds**

The net proceeds of the issue of the Bonds with Stock Acquisition Rights are estimated to be approximately ¥ 25 billion, and are expected to be applied as follows:

- (a) approximately ¥6.5 billion towards investments for growth in MT and FT Segments. Specifically, the Company intends to apply approximately ¥5 billion by the end of March 2020 as working capital in relation to the introduction of new settlement services such as post-settlement payment services, approximately ¥1 billion towards capital expenditures for renovating and strengthening the security of existing settlement systems operated by VeriTrans Inc. and ECONTEXT, INC., the Company's consolidated subsidiaries, and approximately ¥0.5 billion by the end of March 2020 as funding for developing a smartphone application which offers "wallet services" which combine settlement and customer relationship management (CRM) functions;
- (b) approximately ¥2 billion by the end of March 2020, towards investments in IT Segment. The Company (through its consolidated subsidiaries) invests around ¥2 billion to ¥3 billion each year principally in start-up businesses, and intends to apply the above-mentioned amount as part of the funding required for such investments;
- (c) approximately ¥1.5 billion by the end of March 2021, towards funding for development and commercialisation of a settlement system utilising blockchains and cryptocurrencies, the research in respect of which is currently being undertaken by DG Lab, an open innovation-type research and development organisation founded with the Company as one of the founding members;
- (d) approximately ¥10 billion by the end of March 2019, towards repayment of debt; and
- (e) approximately ¥5 billion by the end of December 2018, towards the repurchase of shares of common stock of the Company (the "Shares") by the Company.

To the extent any repurchase of Shares as described above takes place prior to September 14, 2018 using cash reserves, the Company intends to apply the amount referred to above in respect of the proceeds of the offering of the Bonds with Stock Acquisition Rights to, among others, the replenishment of such cash reserves. As the amount for which the Company is able to repurchase its Shares is dependent on, among other things, market conditions, to the extent that any such proceeds remain after the implementation of such repurchase, such proceeds may be used for working capital.

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## **Aims of Scheme (Combination of the Issuance of the Bonds with Stock Acquisition Rights and the Repurchase of Own Shares)**

The Group has determined that the financing method of raising funds for growth that will contribute to future business expansion through issuance of bonds with stock acquisition rights is the optimal method in light of financial strategy.

Because the Bonds with Stock Acquisition Rights will be issued with zero coupons and require a payment by the purchaser of the amount greater than the face value of the bonds, financing can be achieved at a low cost. Furthermore, as the conversion price will be set at a higher level than the prevailing share price, the effect of preventing the dilution of earnings per share after issuance can be expected. On the other hand, in order to be able to select financial strategies flexibly in the event of a need for capital infusion in the future, the Bonds with Stock Acquisition Rights may be redeemed early pursuant to the provision of the call option as described in Item 7 of "Key Terms of Bonds" below.

In addition, the Company has resolved today to set a repurchase plan of its own shares with the total repurchase price of up to 5 billion yen and an repurchase period of August 30, 2018 to December 31, 2018 at the same time as the resolution to issue the Bonds with Stock Acquisition Rights. As the Company has set the return on capital as a KPI under its new medium-term management plan and considers capital efficiency to be an important financial strategy, it has decided to repurchase its own shares with the aim of improving its capital efficiency. The Company believes that such repurchase will also have the benefit of facilitating financing by alleviating the short-term impact of the issuance of the Bonds with Stock Acquisition Rights on the supply and demand for Shares. Pursuant to such resolution, the Company is scheduled to repurchase its own shares through an off-auction own share repurchase transaction (ToSTNeT-3) on August 30, 2018. If the number of shares the Company has repurchased through the repurchase of its own shares is short of the number of shares that the Company plans to repurchase, the Company plans to continue repurchasing its own shares promptly, taking into account the market conditions and various rules, following August 30, 2018.

### **Key Terms of Bonds with Stock Acquisition Rights**

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1. Aggregate Principal Amount	¥25 billion
2. Closing Date	September 14, 2018
3. Maturity Date	September 14, 2023
4. Coupon	0%
5. Issue Price	101.0%
6. Redemption at Maturity	100.0%
7. Call Option	Redemption at 100.0% if the closing price of the Shares for each of the 20 consecutive trading days, the last of which occurs not more than 30 days prior to the date upon which the notice of such redemption is first given, is at least 130.0% of the Conversion Price (on or after September 14, 2021)
8. Conversion Price	Undetermined

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