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On **May 9, 2019**, Dream Incubator Inc. announced earnings results for full-year FY03/19.

Quarterly earnings (JPYmm)	FY03/17				FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	3,498	3,355	3,961	3,712	3,503	3,901	5,420	5,594	5,431	4,343	4,891	6,040
YoY	9.9%	23.6%	5.0%	23.0%	0.1%	16.3%	36.8%	50.7%	55.0%	11.3%	-9.8%	8.0%
Gross profit	1,957	1,863	1,633	1,565	1,916	2,070	3,095	2,470	2,388	2,079	2,334	2,502
YoY	24.4%	169.6%	-26.5%	-17.5%	-2.1%	11.1%	89.5%	57.8%	24.6%	0.4%	-24.6%	1.3%
GPM	55.9%	55.5%	41.2%	42.2%	54.7%	53.1%	57.1%	44.2%	44.0%	47.9%	47.7%	41.4%
SG&A expenses	1,519	1,614	1,632	1,735	1,758	1,854	1,899	2,185	2,186	2,219	2,385	2,388
YoY	9.5%	18.9%	18.0%	0.9%	15.7%	14.9%	16.4%	25.9%	24.3%	19.7%	25.6%	9.3%
SG&A ratio	43.4%	48.1%	41.2%	46.7%	50.2%	47.5%	35.0%	39.1%	40.3%	51.1%	48.8%	39.5%
Operating profit	438	249	1	-171	158	216	1,195	285	201	-139	-51	113
YoY	136.8%	-	-99.9%	-	-63.9%	-13.3%	-	-	27.2%	-	-	-60.4%
OPM	12.5%	7.4%	0.0%	-	4.5%	5.5%	22.0%	5.1%	3.7%	-	-	1.9%
Recurring profit	444	259	18	-194	150	264	1,200	301	274	-51	-136	190
YoY	127.7%	-	-97.9%	-	-66.2%	1.9%	6566.7%	-	82.7%	-	-	-36.9%
RPM	12.7%	7.7%	0.5%	-	4.3%	6.8%	22.1%	5.4%	5.0%	-	-	3.1%
Net income	297	151	-195	-152	45	51	774	29	435	-24	-261	228
YoY	-	-	-	-	-84.8%	-66.2%	-	-	866.7%	-	-	686.2%
Net margin	8.5%	4.5%	-	-	1.3%	1.3%	14.3%	0.5%	8.0%	-	-	3.8%
Cumulative	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	3,498	6,853	10,814	14,526	3,503	7,404	12,824	18,418	5,431	9,774	14,665	20,705
YoY	9.9%	16.2%	11.8%	14.5%	0.1%	8.0%	18.6%	26.8%	55.0%	32.0%	14.4%	12.4%
Gross profit	1,957	3,820	5,453	7,018	1,916	3,986	7,081	9,551	2,388	4,467	6,801	9,303
YoY	24.4%	68.7%	21.5%	9.9%	-2.1%	4.3%	29.9%	36.1%	24.6%	12.1%	-4.0%	-2.6%
GPM	55.9%	55.7%	50.4%	48.3%	54.7%	53.8%	55.2%	51.9%	44.0%	45.7%	46.4%	44.9%
SG&A expenses	1,519	3,133	4,765	6,500	1,758	3,612	5,511	7,696	2,186	4,405	6,790	9,178
YoY	9.5%	14.2%	15.5%	11.2%	15.7%	15.3%	15.7%	18.4%	24.3%	22.0%	23.2%	19.3%
SG&A ratio	43.4%	45.7%	44.1%	44.7%	50.2%	48.8%	43.0%	41.8%	40.3%	45.1%	46.3%	44.3%
Operating profit	438	687	688	517	158	374	1,569	1,854	201	62	11	124
YoY	136.8%	-	91.2%	-3.9%	-63.9%	-45.6%	128.1%	258.2%	27.2%	-83.4%	-99.3%	-93.3%
OPM	12.5%	10.0%	6.4%	3.6%	4.5%	5.1%	12.2%	10.1%	3.7%	0.6%	0.1%	0.6%
Recurring profit	444	703	721	527	150	414	1,614	1,915	274	223	87	277
YoY	127.7%	-	88.2%	0.3%	-66.2%	-41.1%	123.9%	263.2%	82.7%	-46.1%	-94.6%	-85.5%
RPM	12.7%	10.3%	6.7%	3.6%	4.3%	5.6%	12.6%	10.4%	5.0%	2.3%	0.6%	1.3%
Net income	297	448	253	101	45	96	870	899	435	411	150	378
YoY	-	-	89.8%	-75.9%	-84.8%	-78.6%	243.9%	787.4%	866.7%	328.1%	-82.8%	-58.0%
Net margin	8.5%	6.5%	2.3%	0.7%	1.3%	1.3%	6.8%	4.9%	8.0%	4.2%	1.0%	1.8%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Earnings by segment

Segment quarterly earnings (JPYmn)	FY03/17				FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales												
Professional Services					613	919	870	1,052	511	558	599	888
YoY					-	-	-	-	-16.6%	-39.3%	-31.1%	-15.6%
Incubation					2,890	2,981	4,551	4,542	4,920	3,784	4,296	5,191
YoY					-	-	-	-	70.2%	26.9%	-5.6%	14.3%
Venture Capital segment					49	18	1,401	1,284	1,478	189	227	973
YoY					-	-	-	-	2916.3%	950.0%	-83.8%	-24.2%
Insurance segment					2,840	2,964	3,149	3,259	3,442	3,594	3,840	4,000
YoY					-	-	-	-	21.2%	21.3%	21.9%	22.7%
Old segments												
Strategic Consulting Services	687	891	855	769	587	893	826	969				
YoY	64.4%	49.7%	-3.4%	0.0%	-14.6%	0.2%	-3.4%	26.0%				
Incubation												
Venture Capital segment	472	7	477	223	49	18	1,401	1,284				
YoY	1866.7%	-70.8%	-25.5%	1386.7%	-89.6%	157.1%	193.7%	475.8%				
Insurance segment	2,332	2,430	2,604	2,701	2,840	2,964	3,149	3,259				
YoY	26.5%	24.6%	23.3%	21.6%	21.8%	22.0%	20.9%	20.7%				
Other segment	6	26	26	20	25	35	62	86				
Operating profit												
Professional Services					254	549	343	539	49	96	132	375
YoY					-	-	-	-	-80.7%	-82.5%	-61.5%	-30.4%
Incubation					114	-128	1,071	-23	366	-35	57	7
YoY					-	-	-	-	221.1%	-	-	-
Venture Capital segment					-71	-82	1,014	-229	282	-40	-192	211
YoY					-	-	-	-	-	-	-	-
Insurance segment					185	-46	57	206	84	5	249	-204
YoY					-	-	-	-	-54.6%	-	-	-
Old segments												
Strategic Consulting Services	357	566	491	447	276	559	410	566				
YoY	181.1%	98.6%	-15.3%	0.0%	-22.7%	-1.2%	-16.5%	26.6%				
Incubation												
Venture Capital segment	280	-37	-433	-154	-71	-82	1,014	-229				
YoY	-	-	-	-	-	-	-	-				
Insurance segment	83	57	214	-177	185	-46	57	206				
YoY	167.7%	-	143.2%	-	122.9%	-	-73.4%	-				
Other segment	-15	-16	-5	-29	-21	-11	-67	-26				
Cumulative												
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales												
Professional Services					613	1,532	2,402	3,454	511	1,069	1,668	2,556
YoY					-	-	-	-	-16.6%	-30.2%	-30.6%	-26.0%
Incubation					2,890	5,871	10,422	14,964	4,920	8,704	13,000	18,191
YoY					-	-	-	-	70.2%	48.3%	24.7%	21.6%
Venture Capital segment					49	67	1,468	2,752	1,478	1,667	1,894	2,867
YoY					-	-	-	-	2916.3%	2388.1%	29.0%	4.2%
Insurance segment					2,840	5,804	8,953	12,212	3,442	7,036	10,876	14,876
YoY					-	-	-	-	21.2%	21.2%	21.5%	21.8%
Old segments												
Strategic Consulting Services	687	1,578	2,433	3,202	587	1,480	2,306	3,275				
YoY	64.4%	55.8%	28.2%	20.1%	-14.6%	-6.2%	-5.2%	2.3%				
Incubation												
Venture Capital segment	472	479	956	1,179	49	67	1,468	2,752				
YoY	1866.7%	897.9%	39.0%	67.6%	-89.6%	-86.0%	53.6%	133.4%				
Insurance segment	2,332	4,762	7,366	10,067	2,840	5,804	8,953	12,212				
YoY	26.5%	25.5%	24.7%	23.9%	21.8%	21.9%	21.5%	21.3%				
Other segment	6	32	58	78	25	60	122	208				
Operating profit												
Professional Services					254	803	1,146	1,685	49	145	277	652
YoY					-	-	-	-	-80.7%	-81.9%	-75.8%	-61.3%
Incubation					114	-14	1,057	1,034	366	331	388	395
YoY					-	-	-	-	221.1%	-	-	-
Venture Capital segment					-71	-153	861	632	282	242	50	261
YoY					-	-	-	-	-	-	-94.2%	-58.7%
Insurance segment					185	139	196	402	84	89	338	134
YoY					-	-	-	-	-54.6%	-36.0%	72.4%	-66.7%
Old segments												
Strategic Consulting Services	357	923	1,414	1,861	276	835	1,245	1,811				
YoY	181.1%	124.0%	42.5%	29.3%	-22.7%	-9.5%	-12.0%	-2.7%				
Incubation												
Venture Capital segment	280	243	-190	-344	-71	-153	861	632				
YoY	-	-	-	-	-	-	-	-				
Insurance segment	83	140	354	177	185	139	196	402				
YoY	167.7%	600.0%	227.8%	12.7%	122.9%	-0.7%	-44.6%	127.1%				
Other segment	-15	-31	-36	-65	-21	-32	-99	-125				

Source: Shared Research based on company data

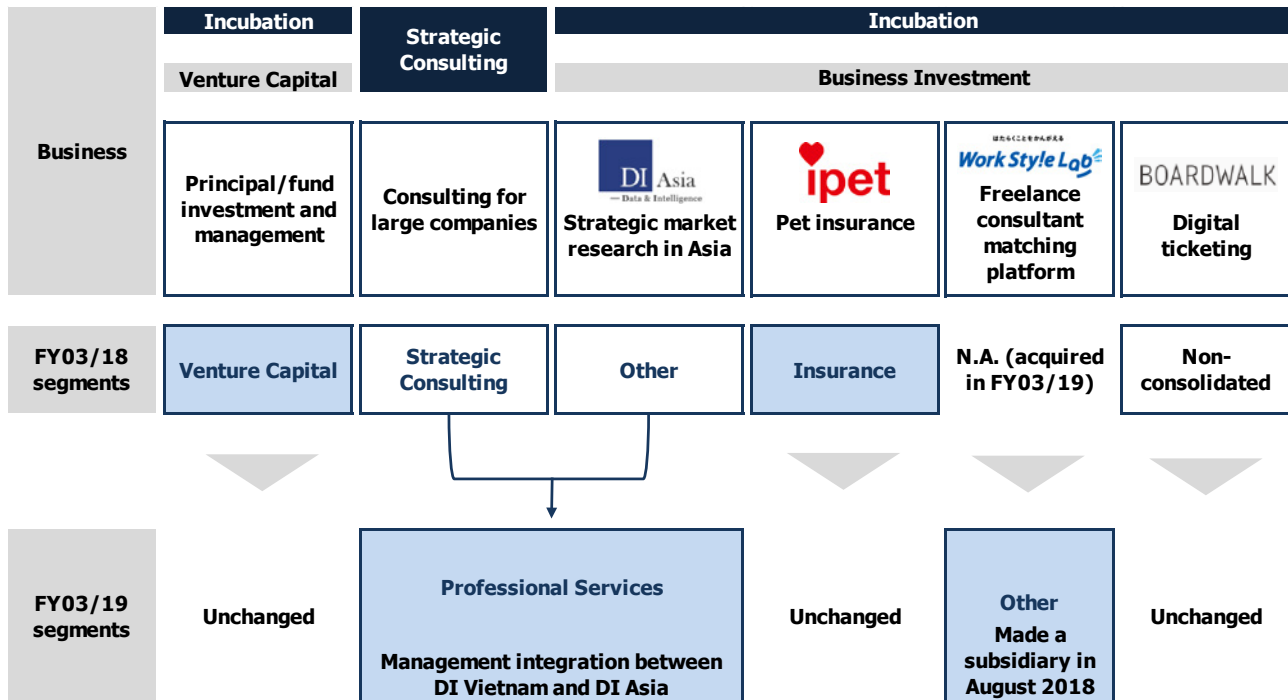
Note: Figures may differ from company materials due to differences in rounding methods.

Note: The company undertook a review of how it divided its business into categories following the consolidation of subsidiaries; from Q1 FY03/19 the company has moved from four segments (Strategic Consulting Services, Venture Capital, Insurance, and Others) to three segments (Professional Services, Venture Capital, and Insurance). Segment information for Q1 FY03/18 has been drawn up and presented on the basis of the new segmentation.

Changes in segment structure

In Q1 FY03/19 the company merged the businesses of consolidated subsidiaries Dream Incubator Vietnam Joint Stock Company (part of the former Strategic Consulting Services segment) and DI Asia (formerly DI Marketing Co., Ltd. in the Others segment; name changed Q1 FY03/19) with the objective of expanding services in Asia. In conjunction with the merger, the company conducted a review of how it classified its business categories, and decided to include DI Asia in the Strategic Consulting segment, creating the Professional Services segment. As a result of this change, the company has moved from changing its business segments from Strategic Consulting, Venture Capital, Insurance, and Others to Professional Services, Venture Capital, Insurance, and Others. Work Style Lab, Inc., which the company acquired in August 2018 (see the “News and topics” section for details), has been included in consolidated results under the Other segment since Q2 FY03/19.

Overview of changes in segment structure



Source: Shared Research, based on company data

Full-year results for FY03/19

▷ Sales:	JPY20.7bn (+12.4% YoY)
▷ Operating profit:	JPY124mn (-93.3% YoY)
▷ Recurring profit:	JPY277mn (-85.5% YoY)
▷ Net income*:	JPY378mn (-57.9% YoY)

*Net income is net income attributable to parent company shareholders.

- ▷ Sales up 12.4% YoY: Strong sales at the Insurance segment offset lower sales at the Professional Services business, where sales were down sharply as a result of a drop in strategic consulting work following changes in order policies at several large clients.
- ▷ Earnings down sharply: The sharp drop in earnings reflects the large decline in sales at the Professional Services and the booking of provision of allowance for investment losses and valuation losses on holdings of operational investment securities as a result of a decline in the value of four companies in which the company had invested in the Incubation Services.
- ▷ Outlook for FY03/20: The company does not release earnings forecasts owing 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.

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 for grasping the profit/loss status of important subsidiary ipet Insurance Co., Ltd. (TSE Mothers: 7323). On that basis, it reported an adjusted recurring profit of JPY908mn (versus JPY2.2bn in FY03/18), and adjusted net income of JPY358mn (versus JPY1.1bn in FY03/18).

The company merged the businesses of consolidated subsidiaries Dream Incubator Vietnam Joint Stock Company (part of the former Strategic Consulting Services segment) and DI Asia (formerly DI Marketing Co., Ltd. in the Others segment; name changed Q1 FY03/19) with the objective of expanding services in Asia. In line with the integration, the company conducted a review of how it classified its business categories, and decided to merge the Strategic Consulting segment and Others segment, creating the Professional Services segment. As a result of this change, the company has moved from dividing its businesses into four segments (Strategic Consulting, Venture Capital, Insurance, and Others) to three segments (Professional Services, Venture Capital, and Insurance). Segment information for Q3 FY03/18 has been drawn up and presented on the basis of the new segmentation.

Professional Services

Sales of JPY2.6bn were down 26.0% YoY and operating profit of JPY652mn was down 61.3% YoY.

In the Professional Services segment, the company provides strategic consulting services to major corporations and government agencies (in particular, support for creating businesses that drive future growth, and support for planning growth strategies). The company also offers financial advisory for M&A, helps companies foster their senior management, and provides strategic consulting and market research focusing on Asia.

The sharp decline in sales and earnings was caused by changes in the order policies of several large clients that resulted in a large decline in strategic consulting contracts.

Incubation Services

Incubation Services consist of the Venture Capital segment, Insurance segment, and Other segment.

Venture Capital segment

Sales of JPY2.9bn were up 4.2% YoY and operating profit of JPY261mn was down 58.7% YoY.

At the Venture Capital segment, the company collaborated with partner venture capital companies and made new investments not only in Japan but also overseas—namely in the US and Asia (particularly India). Additionally, in order to further accelerate investment activity in India, the company established subsidiary DI India Digital Investment Fund and began operation. In regard to start-ups the company already invests in, Dream Incubator funnels funds and human resources to these companies at the stage where deeper involvement would result in accelerated growth. The company then proceeds to sell them thereafter. In FY03/19, it carried out multiple trade sales and completed the IPO of one invested company, but the declining value of four invested companies resulted in the booking of loss on valuation of operational investment securities and provision of allowance for investment loss.

Insurance segment

Sales of JPY14.8bn were up 21.8% YoY and operating profit of JPY134mn was down 66.7% YoY. As stated previously, the company uses adjusted earnings as a useful index for grasping the profit/loss status of the Insurance segment. Adjusted earnings for the Insurance segment was JPY765mn (+23.4% YoY). The difference reflects an adjustment of JPY155mn relating to regular policy reserves (calculation of this figure changed from the first-year income-expenditure balance method to the unearned premium method), and catastrophe reserves of JPY475mn (the impact of provision eliminated).

The Insurance segment is a medical insurance service for pets run by DI's consolidated subsidiary ipet Insurance Co., Ltd. ipet Insurance Co., Ltd. was listed on the Tokyo Stock Exchange Mothers section on April 25, 2018. Sales at ipet Insurance continued to grow along with the increase in the number of pet insurance policies outstanding. As of the end of March 2019, ipet Insurance

had a total of 423,352 policies outstanding; representing an increase of 67,839 policies versus the end of March 2018, this makes ipet Insurance the top underwriter of pet insurance in Japan.

Other segment

Sales of JPY448mn were up 115.4% YoY; an operating loss of 23mn compares with breakeven in FY03/18. The segment includes Work Style Lab, Inc. (WSL), which operates a matching platform for freelance consultants.

In FY03/19, although sales were up sharply, upfront spending for business expansion was the main cause of a segment loss.

Full-year company forecast for FY03/20

The company does not release earnings forecasts on a consolidated basis owing 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.

The company's assumptions for individual businesses and segments are as follows:

- ▷ Professional Services business: The company is looking for higher sales and earnings at its Professional Services business in FY03/20, expecting its efforts to strengthen its client base to generate enough sales to offset the drop in consulting work from several of its large clients following changes in their order practices.
- ▷ Insurance segment in Incubation Services: The company sees ongoing growth in the pet insurance market underpinning stable growth at the Insurance segment going forward.
- ▷ Work Style Lab in the Other segment—: Contributions to consolidated earnings from Work Style Lab, which operates a platform business aimed at meeting the needs of freelance consultants, are not expected for some time yet as upfront costs to grow the business together with goodwill amortization are expected to continue outweighing earnings.
- ▷ Venture Capital segment: During the year ahead the company is expecting to complete several IPOs and/or trade sales from among the companies in which it has invested. However, it is not able to make a reasonable forecast for sales or earnings from the sale of stock in these companies due to potential changes in stock market and IPO market conditions.

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