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On **July 30, 2019**, Dream Incubator Inc. announced earnings results for Q1 FY03/20.

Quarterly earnings (JPYmn)	FY03/18				FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	3,503	3,901	5,420	5,594	5,431	4,343	4,891	6,040	5,215			
YoY	0.1%	16.3%	36.8%	50.7%	55.0%	11.3%	-9.8%	8.0%	-4.0%			
Gross profit	1,916	2,070	3,095	2,470	2,388	2,079	2,334	2,502	2,393			
YoY	-2.1%	11.1%	89.5%	57.8%	24.6%	0.4%	-24.6%	1.3%	0.2%			
GPM	54.7%	53.1%	57.1%	44.2%	44.0%	47.9%	47.7%	41.4%	45.9%			
SG&A expenses	1,758	1,854	1,899	2,185	2,186	2,219	2,385	2,388	2,499			
YoY	15.7%	14.9%	16.4%	25.9%	24.3%	19.7%	25.6%	9.3%	14.3%			
SG&A ratio	50.2%	47.5%	35.0%	39.1%	40.3%	51.1%	48.8%	39.5%	47.9%			
Operating profit	158	216	1,195	285	201	-139	-51	113	-105			
YoY	-63.9%	-13.3%	-	-	27.2%	-	-	-60.4%	-			
OPM	4.5%	5.5%	22.0%	5.1%	3.7%	-	-	1.9%	-			
Recurring profit	150	264	1,200	301	274	-51	-136	190	-106			
YoY	-66.2%	1.9%	6566.7%	-	82.7%	-	-	-36.9%	-			
RPM	4.3%	6.8%	22.1%	5.4%	5.0%	-	-	3.1%	-			
Net income	45	51	774	29	435	-24	-261	228	-18			
YoY	-84.8%	-66.2%	-	-	866.7%	-	-	686.2%	-			
Net margin	1.3%	1.3%	14.3%	0.5%	8.0%	-	-	3.8%	-			
<b>Cumulative</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
Sales	3,503	7,404	12,824	18,418	5,431	9,774	14,665	20,705	5,215			
YoY	0.1%	8.0%	18.6%	26.8%	55.0%	32.0%	14.4%	12.4%	-4.0%			
Gross profit	1,916	3,986	7,081	9,551	2,388	4,467	6,801	9,303	2,393			
YoY	-2.1%	4.3%	29.9%	36.1%	24.6%	12.1%	-4.0%	-2.6%	0.2%			
GPM	54.7%	53.8%	55.2%	51.9%	44.0%	45.7%	46.4%	44.9%	45.9%			
SG&A expenses	1,758	3,612	5,511	7,696	2,186	4,405	6,790	9,178	2,499			
YoY	15.7%	15.3%	15.7%	18.4%	24.3%	22.0%	23.2%	19.3%	14.3%			
SG&A ratio	50.2%	48.8%	43.0%	41.8%	40.3%	45.1%	46.3%	44.3%	47.9%			
Operating profit	158	374	1,569	1,854	201	62	11	124	-105			
YoY	-63.9%	-45.6%	128.1%	258.2%	27.2%	-83.4%	-99.3%	-93.3%	-			
OPM	4.5%	5.1%	12.2%	10.1%	3.7%	0.6%	0.1%	0.6%	-			
Recurring profit	150	414	1,614	1,915	274	223	87	277	-106			
YoY	-66.2%	-41.1%	123.9%	263.2%	82.7%	-46.1%	-94.6%	-85.5%	-			
RPM	4.3%	5.6%	12.6%	10.4%	5.0%	2.3%	0.6%	1.3%	-			
Net income	45	96	870	899	435	411	150	378	-18			
YoY	-84.8%	-78.6%	243.9%	787.4%	866.7%	328.1%	-82.8%	-58.0%	-			
Net margin	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 (JPYmm)	FY03/18				FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Sales</b>												
Professional Services	613	919	870	1,052	511	558	599	888	573			
YoY	-	-	-	-	-16.6%	-39.3%	-31.1%	-15.6%	12.1%			
Incubation	2,890	2,981	4,551	4,542	4,920	3,784	4,296	5,191	4,647			
YoY	-	-	-	-	70.2%	26.9%	-5.6%	14.3%	-5.5%			
Venture Capital segment	49	18	1,401	1,284	1,478	189	227	973	253			
YoY	-	-	-	-	2916.3%	950.0%	-83.8%	-24.2%	-82.9%			
Insurance segment	2,840	2,964	3,149	3,259	3,442	3,594	3,840	4,000	4,197			
YoY	-	-	-	-	21.2%	21.3%	21.9%	22.7%	21.9%			
Other segment	-	-	-	-	-	-	228	220	197			
YoY	-	-	-	-	-	-	-	-	-			
<b>Old segments</b>												
Strategic Consulting Services	587	893	826	969								
YoY	-14.6%	0.2%	-3.4%	26.0%								
Incubation												
Venture Capital segment	49	18	1,401	1,284								
YoY	-89.6%	157.1%	193.7%	475.8%								
Insurance segment	2,840	2,964	3,149	3,259								
YoY	21.8%	22.0%	20.9%	20.7%								
Other segment	25	35	62	86								
<b>Operating profit</b>												
Professional Services	254	549	343	539	49	96	132	375	67			
YoY	-	-	-	-	-80.7%	-82.5%	-61.5%	-30.4%	36.7%			
Incubation	114	-128	1,071	-23	366	-35	57	7	79			
YoY	-	-	-	-	221.1%	-	-94.7%	-	-78.4%			
Venture Capital segment	-71	-82	1,014	-229	282	-40	-192	211	96			
YoY	-	-	-	-	-	-	-	-	-66.0%			
Insurance segment	185	-46	57	206	84	5	249	-204	-17			
YoY	-	-	-	-	-54.6%	-	72.4%	-	-			
Other segment	-	-	-	-	-	-10	-2	-11	-30			
YoY	-	-	-	-	-	-	-	-	-			
<b>Old segments</b>												
Strategic Consulting Services	276	559	410	566								
YoY	-22.7%	-1.2%	-16.5%	26.6%								
Incubation												
Venture Capital segment	-71	-82	1,014	-229								
YoY	-	-	-	-								
Insurance segment	185	-46	57	206								
YoY	122.9%	-	-73.4%	-								
Other segment	-21	-11	-67	-26								
<b>Cumulative</b>												
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Sales</b>												
Professional Services	613	1,532	2,402	3,454	511	1,069	1,668	2,556	573			
YoY	-	-	-	-	-16.6%	-30.2%	-30.6%	-26.0%	12.1%			
Incubation	2,890	5,871	10,422	14,964	4,920	8,704	13,000	18,191	4,647			
YoY	-	-	-	-	70.2%	48.3%	24.7%	21.6%	-5.5%			
Venture Capital segment	49	67	1,468	2,752	1,478	1,667	1,894	2,867	253			
YoY	-	-	-	-	2916.3%	2388.1%	29.0%	4.2%	-82.9%			
Insurance segment	2,840	5,804	8,953	12,212	3,442	7,036	10,876	14,876	4,197			
YoY	-	-	-	-	21.2%	21.2%	21.5%	21.8%	21.9%			
Other segment	-	-	-	-	-	-	228	448	197			
YoY	-	-	-	-	-	-	-	-	-			
<b>Old segments</b>												
Strategic Consulting Services	587	1,480	2,306	3,275								
YoY	-14.6%	-6.2%	-5.2%	2.3%								
Incubation												
Venture Capital segment	49	67	1,468	2,752								
YoY	-89.6%	-86.0%	53.6%	133.4%								
Insurance segment	2,840	5,804	8,953	12,212								
YoY	21.8%	21.9%	21.5%	21.3%								
Other segment	25	60	122	208								
<b>Operating profit</b>												
Professional Services	254	803	1,146	1,685	49	145	277	652	67			
YoY	-	-	-	-	-80.7%	-81.9%	-75.8%	-61.3%	36.7%			
Incubation	114	-14	1,057	1,034	366	331	388	395	79			
YoY	-	-	-	-	221.1%	-2464.3%	-63.3%	-61.8%	-78.4%			
Venture Capital segment	-71	-153	861	632	282	242	50	261	96			
YoY	-	-	-	-	-	-	-94.2%	-58.7%	-66.0%			
Insurance segment	185	139	196	402	84	89	338	134	-17			
YoY	-	-	-	-	-54.6%	-36.0%	72.4%	-66.7%	-			
Other segment	-	-	-	-	-	-10	-12	-23	-30			
YoY	-	-	-	-	-	-	-	-	-			
<b>Old segments</b>												
Strategic Consulting Services	276	835	1,245	1,811								
YoY	-22.7%	-9.5%	-12.0%	-2.7%								
Incubation												
Venture Capital segment	-71	-153	861	632								
YoY	-	-	-	-								
Insurance segment	185	139	196	402								
YoY	122.9%	-0.7%	-44.6%	127.1%								
Other segment	-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 revised how it divided its business into categories following the consolidation of subsidiaries; from Q1 FY03/19 the company has changed its reporting segments from Strategic Consulting Services, Venture Capital, Insurance, and Other to Professional Services, Venture Capital, Insurance, and Other. Segment information for Q1 FY03/18 has been drawn up and presented on the basis of the new segmentation.

## Q1 FY03/20 results

- ▷ Sales: JPY5.2bn (-4.0% YoY)
- ▷ Operating loss: JPY105mn (versus profit of JPY201mn in FY03/19)
- ▷ Recurring loss: JPY106mn (versus profit of JPY274mn)
- ▷ Net loss\*: JPY18mn (versus profit of JPY435mn)

\*Net income/loss is net income/loss attributable to parent company shareholders.

- ▷ Sales down 4.0% YoY: The Insurance segment saw strong growth; the Professional Services segment saw some improvement but sales were still well below the level prior to the loss of large contracts with several large client companies in FY03/18. Sales in the Venture Capital segment were down.
- ▷ Operating loss of JPY105mn: Operating profit was up 36.7% YoY at the Professional Services segment and down 66.0% YoY at the Venture Capital segment. The Insurance segment reported an operating loss of JPY17mn (before adjustments) as the various expenses connected with increases in policies in force rose at a faster rate than sales from insurance premiums.
- ▷ Versus plan: 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 of the profitability ipet Insurance Co., Ltd. (TSE Mothers: 7323), one of its key subsidiaries. On that basis, Dream Incubator reported an adjusted recurring profit of JPY101mn (versus JPY364mn in Q1 FY03/19), and adjusted net income of JPY66mn (versus JPY161mn in Q1 FY03/19).

### Professional Services

Q1 FY03/20 sales of JPY573mn were up 12.1% YoY and operating profit of JPY67mn was up 36.7% 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.

Sales at the segment were down sharply in FY03/19 as a result of changes in the order policies of several large clients that led to a large decline in strategic consulting contracts for the company. Sales showed some improvement in Q1 FY03/20 but are still well below the level prior to the dropout in orders from the large client companies.

### Incubation Services

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

### Venture Capital segment

Q1 FY03/20 sales of JPY253mn were down 82.9% YoY and operating profit of JPY96mn was down 66.0% YoY.

At the Venture Capital segment, the company works together with partner venture capital companies to invest in startup companies, most of which are located in Japan and India. The company is in the process of establishing a new fund that will allow it to make more new investments. Dream Incubator funnels capital and human resources to the start-ups in which it invests when they are at the stage where its deeper involvement will help accelerate growth, and afterwards starts looking for an exit strategy. Dream Incubator did a number of trade sales during the period but sales and earnings were down YoY because the size of those transactions was small compared with the trade sales of Plexchat, Inc. and Moshimo Co., Ltd. booked in Q1 FY03/19.

**Insurance segment**

Q1 FY03/20 sales of JPY4.2bn were up 21.9% YoY; an operating loss of JPY17mn compared with profit of JPY84mn in Q1 FY03/19. As mentioned previously, the company uses adjusted earnings as a handy measure for showing the true profitability of the Insurance segment. Adjusted earnings at the Insurance segment in Q1 FY03/20 was JPY189mn (+8.0% YoY). The difference reflects an adjustment of JPY72mn 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 JPY134mn (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 Q1 FY03/20, ipet Insurance had a total of 439,000 policies in force; representing an increase of 16,000 polices versus the end-FY03/19. The (pre-adjustment) operating loss reported by the segment reflects increases in commissions in various commissions and collection costs associated with increasing the number of insurance contracts in force, processing expenses related to the new contracts, increases in net insurance payouts resulting from a growing number of insurance claims, and rising loss adjustment expenses.

**Other segment**

The Other segment reported Q1 FY03/20 sales of JPY197mn and an operating loss of 30mn. The segment includes Work Style Lab, Inc. (WSL), which operates a matching platform for freelance consultants. The company noted that the businesses in the Other segment are still in the growth stage and the operating loss was a result of all the upfront investments that went along with growing the businesses.

This note is the most recent addition to the [full report](#).

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