

Asset Value Investors voices concerns over Digital Garage's corporate governance and directors' credibility intending to vote against their re-election at the June 2024 AGM

London, Nov 8, 2023 - Asset Value Investors (hereafter "AVI") has expressed strong concerns about Digital Garage (securities Code 4819, hereafter 'Digital Garage'), whose actions have been far removed from the corporate governance reforms underway in Japan, and is announcing that it intends to vote against the election of directors at next year's annual general meeting of shareholders. AVI is making this announcement before Digital Garage's FY24.3 Q2 earnings release, intending to get support from other long-term institutional investors and minority shareholders who have similar concerns.

AVI, on behalf of its client's funds, has been a shareholder of Digital Garage since 2018 and currently holds 3% of the company's issued shares (as at end-October 2023) and has sent two presentations and five letters to the company's board to encourage corporate governance reforms and a clearer strategy, with all engagement so far carried out in private.

Despite AVI's expectations that the medium-term management plan published in May 2023 would lead to improved medium- and long-term corporate earnings, it was announced with no new measures, except for the integration of the FT and MT businesses into the Platform Solutions business and a shift in focus away from incubation investments. The new plan was a continuation of the suboptimal status quo. Containing plenty of buzzwords and hard to decipher phrases like "Designing 'New Context' for a sustainable society with technology", a phrase so generic as to render it meaningless, it did little to help investors understand Digital Garage's strategy, failing to make a convincing case of its growth strategy.

Over the five months since the announcement shareholders resoundingly expressed their disappointment by sending Digital Garage's share price down by -39%, resulting in a loss of JPY 90 billion in shareholder value in terms of market capitalisation, contrary to the 8% rise in the TOPIX over this period.

Key issues such as 1) measures to overcome poor performance and share price weakness, 2) reducing the capital invested in Kakaku.com (securities code 2371), which has consistently failed to generate synergies (it holds 20% of the company's outstanding shares), and 3) resolving concerns over the composition of the board of directors have been ignored.

In comparison with its peer GMO Payment Gateway (securities code 3769) over the past five years, the company has underperformed in terms of transaction volume and profit.

Comparison of average annual growth rates
of Digital Garage's payments business over the past five years

(CAGR)	Digital Garage	GMO Payment Gateway
Transaction Volume	+27%	+38%
Profit	+15%	+27%

In addition, Digital Garage's share price has significantly underperformed that of its peer GMO Payment Gateway and TOPIX as shown below.

5 Year Share Prices

Digital Garage (A)	1.6%
GMO Payment Gateway (B)	9.2%
TOPIX (C)	54.7%
Relative share price (A – B)	-7.6%
Relative share price (A – C)	-53.1%

Contributing to this underperformance is Kakaku.com, whose share price over 5 years has fallen by -25%.

AVI believes that Digital Garage's poor performance, unconvincing growth strategy and inefficient holding structure have resulted in the company trading around 40% below its intrinsic value.

In addition, the most significant issue relates to the composition of the Board of Directors, where AVI has repeatedly expressed strong concerns during its engagements, including the lack of payment business experience, the lack of independence and the average tenure. Specifically, three of the six outside directors have been with the company for more than 10 years and two outside directors Hiromi Ozaki and Makoto Sakai have conflicts of interest and are not in a position to impartially monitor and supervise Digital Garage. Hiromi Ozaki has had a business relationship with Digital Garage co-founder Joichi Ito at MIT Media Labs for over 10 years while Makoto Sakai is the head of the Makoto Sakai Law Firm, which provides legal services to Digital Garage with the fees accounting for 5% of his law firm's annual turnover.

Meanwhile, the seven in-house directors have been in office for an average of 16 years, with only two of them having experience in the payment business. The blame for Digital Garage's ongoing poor performance lies firmly at the feet of the dysfunctional board of directors who have failed to monitor the Company strategy and deliver value for shareholders.

Joe Bauernfreund, CEO of AVI, commented: "After years of continued underperformance and a persistent valuation discount, we think that the current Board of Directors lack the necessary experience and independence to rectify the situation. Without meaningful strategic action, including the release of a more comprehensive medium-term plan and a review of the 20% stake in Kakaku.com, Digital Garage's performance is unlikely to change. The inaction of the Board to address Digital Garage's issues flies in the face of the efforts by the TSE, the Government and the FSA to enhance corporate governance and to pave way for an asset management-oriented country as manifested by Prime Minister Kishida."

"As a long-standing shareholder, we have had many constructive discussions with Digital Garage representatives over the past five years. While we are pleased that the Company has emphasised the importance of the payments business through the "DG FinTech Shift" strategy, we cannot stand idly by at the inaction of Digital Garage's board after years of underperformance and failure to address the valuation discount. With great reluctance we intend to vote against the board directors at next year's AGM and encourage other shareholders who share our concerns to do the same."

About Asset Value Investors (AVI)

AVI is an investment management company established in London, United Kingdom, in 1985, and AVI has invested in Japanese equities for more than 30 years. AVI manages AVI Global Trust (Total Gross Assets: approximately JPY190bn (£1.2bn)), AVI Japan Opportunities Trust (Total Gross Assets:

approximately JPY31bn (£0.19bn)). AGT and AJOT are public companies whose shares are listed and traded on the main market of the London Stock Exchange.

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