

# 1. Analysis of Results of Operations and Financial Position

## (1) Analysis of Results of Operations

In the fiscal year under review, the Japanese economy continued to see improvement in the employment and income situations. Given the impact of a number of policies, the economy is expected to stage a modest recovery. However, risks remain that may potentially cause the Japanese economy to slow, such as weakness in overseas economies, with uncertainty looming over the impact of the change of administration in the United States on the global economy, a downturn in economies in China and other emerging countries in Asia and in resource-rich countries, increasing uncertainty in overseas economies caused partly by the UK leaving the EU, and concern over the effects of changes in financial and capital markets.

According to the Cabinet Office's 2016 Declining Birthrate White Paper, in the early 1970s, the annual number of marriages in Japan exceeded one million couples and the marriage rate (number of marriages per 1,000 of the total population) hovered over 10.0. However, the number of marriages and the marriage rate both subsequently trended downward. In 2014, the number of marriages dropped to a new record low of 643,749 couples (down 16,864 couples from the previous year), beating the previous record low set in 2013, and the marriage rate also slumped to an all-time low of 5.1, half the level of the early 1970s. It can be inferred that the trend of people not marrying and remaining single is a major factor behind Japan's falling birth rate. As the government stated in the "Town, people and job creation basic policy (2015)," if the present situation continues, Japan will be unable to avert a crisis in which every five-year delay in improving the birth rate will decrease the static population by 3 million.

Under these conditions, the Company offers original services that represent the first of their kind in Japan or indeed anywhere else in the world, providing integrated online and offline marriage-hunting services, in line with its management philosophy "Bringing happiness to all people who share a connection." The Company has developed a complex marriage-hunting business model by combining its Media Division, which provides online services over the Internet, and its Service Division, which provides offline real services mainly through matching servicers. By striking a balance between high-quality customer-oriented services, which reflect the originality and brand statement that "people connect people," and the exploitation of information technology, the Company aims to achieve sustainable growth through the expansion of the marriage-hunting market and the development of related businesses such as wedding and travel.

The word "Kon-Katsu (marriage-hunting)" has become a fully recognized and well-established phrase in Japanese society, and together with lower psychological barriers to the use of marriage-hunting services, it is increasing consumer motivation to participate in "Kon-Katsu." Amid rising expectations for further vitalization and the improved visibility of the marriage-hunting market as major companies enter the marriage-hunting market, a number of initiatives to increase the credibility and soundness of the industry have also been implemented. Considering the expanding growth potential of the "Kon-Katsu" market and the ever-rising percentage of unmarried people, the Company understands that the social demand for its services is growing significantly. Moreover, taking into account the fact that the Company has been recording steady increases in the number of its members registered in marriage-hunting services and the number of marriages, the Company believes that its services are contributing as a measure for addressing issues of the tendency for people not to marry, late marriages, and the falling birth rate in Japan.

Looking to realize its medium-term management plan in which "IBJ will generate 1% of the total number of marriages in Japan," the Company took steps to support marriage-hunting by lobbying the national government and local governments in the fiscal year under review. The Company also established Kon-Katsu Labo Co., Ltd. for the purpose of scientifically analyzing the behavioral data of the 550,000 members of its marriage-hunting services, providing marriage-hunting data and marriage-hunting support. Moreover, with the receipt of technological cooperation from the University of Tokyo, it began developing an algorithm that enhances the accuracy of matching through artificial intelligence (AI) and image recognition. While actively working to make its unique social contribution, the Company has made proposals and recommendations with these initiatives concerning possible solutions to the social problems facing Japan, such as the tendency for people not to marry and the declining birth rate. At the same time, the Company has also sought to steadily strengthen its business base by increasing operations with partner companies operating on the consumption side in the life design sector and actively focusing on other business areas outside the marriage-hunting sector. In addition to opening a hall in Hakata as a complex venue with directly-managed matching servicers and halls in Kyoto, Ikebukuro, Chiba and Shibuya as directly-managed event venues, the Company opened Wedding-Navi in Shinjuku, which provides wedding consultations, a new service, and a wedding salon in Umeda and Yurakucho in collaboration with Wind

and Sun, Inc., which publishes wedding magazines and provides wedding consultation services. The Company will also take on a challenge to become an integrated life design company leveraging its base of one of Japan's largest number of members registered in marriage-hunting services as a result of the participation of Kamome Corporation that provides foreign travel plans for individuals in the Group in December.

As a result, consolidated sales in the fiscal year under review came to 5,268,714 thousand yen, consolidated operating income was 1,111,748 thousand yen, consolidated ordinary income amounted to xxx1,106,624 thousand yen, and profit attributable to owners of parent was 725,916 thousand yen. IBJ's non-consolidated results in the fiscal year under review grew year on year, with sales increasing 23.5% year on year, to 5,090,620 thousand yen, operating income climbing 32.3% year on year, to 1,115,717 thousand yen, ordinary income rising 32.8% year on year, to 1,110,491 thousand yen, and net income up 28.7% year on year, to 730,483 thousand yen.

The Company began preparing quarterly consolidated financial statements starting from the first half of the current fiscal year. Accordingly, comparisons with the same quarter of the previous year are omitted.

The business results for each segment are outlined below. Sales figures include intersegment sales and transfers.

#### Media Division

The Media Division consists of the Marriage Consulting Federation Business, the franchise business, the community business, the event business and the wedding business.

In the fiscal year under review, we targeted the following activities.

- (i) Marriage Consulting Federation Business  
We improved profitability by increasing the number of marriage servicers participating in the federation and our registered members, including supporting the launch of matching servicers, adding the "IBJ Matching" function to the IBJ System (marriage meeting coordination system), and strengthening the administrative functions of the head office. We also gained further earnings strength by expanding sales of "the marriage hunting ad network" that consists of our members and establishing a customer referral scheme as a life design support area.
- (ii) Franchise Business  
We improved profitability by increasing the number of franchisees. We strengthened our marriage-hunting infrastructure in areas where we do not have directly-managed facilities by gaining franchisees.
- (iii) Community Business  
We sought to increase profitability by gaining more new members and increasing the number of registered members through the enhancement of the functions of the marriage-hunting site.
- (iv) Event Business  
We increased the number of events held in our own halls, including opening halls in Kyoto, Ikebukuro, Hakata, Chiba and Shibuya and expanding halls in Tokyo, and focused on planned events held at outside venues to increase the number of people attending. We also worked to increase the hosting rate by enhancing the matching systems of matchmaking parties and developed appealing new venues (restaurants and bars).
- (v) Life Design Business  
We improved profitability by opening a wedding salon in Umeda and Yurakucho, in addition to Wedding-Navi in Shinjuku, and by steadily increasing the number of customers sent to wedding halls.

Consequently, segment sales amounted to 3,865,983 thousand yen and segment operating income was 1,544,493 thousand yen.

#### Service Division

The Service Division consists solely of the marriage consulting agencies business.

In the fiscal year under review, we focused on the following activities.

##### Marriage Consulting Agencies Business

We increased the numbers of new members and marriages by strengthening "soft" aspects, including increasing the number of advisors and counselors and systematically providing training to improve their skills (in nurturing marriages), and we also expanded the service line-up of the occupation-specific marriage-hunting site.

Consequently, segment sales amounted to 1,502,012 thousand yen and segment operating income was 605,975 thousand yen.

In the coming fiscal year, we will further bolster our credit standing through our listing on the First Section of the Tokyo Stock Exchange and will also strengthen our brand power to fulfill our responsibility as the leading company in the marriage-hunting industry. Given that marriage-hunting styles are becoming increasingly diverse and demand for marriage-hunting services is growing; that increasing competition is having an invigorating effect on the market; that, encouraged by central government funding and local government initiatives, the private sector is taking the initiative and strengthening cooperation with national and local governments; and that a high percentage of single people would like to get married, demand for marriage-hunting services is expected to remain strong and the market is predicted to expand further. Based on this outlook, we intend to continue expanding our existing marriage-hunting business, while at the same time leveraging our strength, which lies in having the one of the largest memberships for marriage-hunting services in Japan, to achieve a high marriage rate through our customer cycle and high profitability. We also plan to actively cooperate with businesses in related areas and pursue M&A with life design support companies to branch out into other business areas. Overseas, we will continue aggressively investing in both hard and soft aspects in Taiwan and further enhance synergies by continuing to deliver integrated services, which is our strength. For the fiscal year ending December 31, 2017, we forecast sales of 9,259,445 thousand yen, up 75.7% year on year, operating income of 1,281,924 thousand yen, up 15.3%, ordinary income of 1,276,474 thousand yen, up 15.3%, and profit attributable to owners of parent of 862,232 thousand yen, up 18.8%.

## (2) Analysis of Financial Position

Forward-looking statements contained in this report are based on judgments made by the Company as of the end of the fiscal year under review.

### (i) Status of assets, liabilities and net assets in the fiscal year under review

#### (Assets)

Current assets at the end of the fiscal year under review amounted to 3,283,255 thousand yen, non-current assets were 1,607,280 thousand yen, and total assets came to 4,890,536 thousand yen.

#### (Liabilities)

Current liabilities at the end of the fiscal year under review amounted to 1,795,194 thousand yen, non-current liabilities were 1,088,445 thousand yen, and total liabilities came to 2,883,640 thousand yen.

#### (Net assets)

Net assets at the end of the fiscal year under review stood at 2,006,895 thousand yen, and the equity ratio was 40.9%.

### (ii) Cash flows in the fiscal year under review

Cash and cash equivalents ("Cash") at the end of the fiscal year under review totaled 2,462,516 thousand yen, reflecting net cash provided by operating activities of 993,254 thousand yen, net cash used in investing activities of 599,848 thousand yen, and net cash provided by financing activities of 640,129 thousand yen. The following is a summary of cash flows in the fiscal year under review.

#### (Cash flows from operating activities)

Net cash provided by operating activities during the fiscal year under review was 993,254 thousand yen. Major factors included income before income taxes (1,081,134 thousand yen), an increase in accounts receivable-trade (120,668 thousand yen), and an increase in accounts payable-other and accrued expenses (85,872 thousand yen).

#### (Cash flows from investing activities)

Net cash used in investing activities during the fiscal year under review was 599,848 thousand yen. Major factors included purchases of property, plant and equipment (127,230 thousand yen), purchases of intangible fixed assets (103,218 thousand yen), and payments for lease and guarantee deposits (61,401 thousand yen).

#### (Cash flows from financing activities)

Net cash provided by financing activities during the fiscal year under review amounted to 640,129 thousand yen. Major factors included payment of dividends (209,182 thousand yen) and proceeds from long-term loans (1,176,800 thousand yen).

Changes in the Group's cash flow indicators are as follows.

	Fiscal year ended Dec. 2015	Fiscal year ended Dec. 2016
Equity ratio (%)	56.8	40.9

Equity ratio on market value basis (%)	672.9	479.3
Interest-bearing debt/cash flow ratio (years)	0.5	1.4
Interest coverage ratio (times)	202.2	131.4

Equity ratio: equity/total assets

Equity ratio on market value basis: market capitalization/total assets

Interest-bearing debt/cash flow ratio: interest-bearing debt/cash flows

Interest coverage ratio: cash flows/paid interest

(Notes)

(i) For the fiscal year ended December 2015, all figures are calculated based on the non-consolidated financial data.

(ii) Market capitalization is calculated as the closing share price at the end of the period x number of shares outstanding at the end of the period (excluding treasury stock).

(iii) Cash flows are cash flows from operating activities according to the statements of cash flows for the fiscal year ended December 2015 and the fiscal year ended December 2016 respectively.

Interest-bearing debt is the sum of all liabilities, including loans payable, on the balance sheet on which the Company is obligated to pay interest.

(iv) Paid interest is the amount of interest paid according to the statements of cash flow.

### (3) Basic Policy on Profit Distribution & Dividends for the Fiscal Year under Review and the Next Fiscal Year

We recognize the return of profits to shareholders as an important management task. Our basic policy is to pay appropriate dividends from surplus according to our business performance, while also considering the need for internal reserves to strengthen our financial position and achieve further business expansion.

In accordance with this basic policy, we plan to pay a year-end dividend for the fiscal year ended December 2016 of 6.00 yen per share of common stock. The annual dividend per share for the fiscal year under review is therefore predicted to be 6.00 yen, resulting in a dividend payout ratio of 30.1%.

The dividend for the next fiscal year has yet to be determined.

### (4) Business Risks

Disclosure is omitted as there have been no important changes from the most recently submitted Securities Report (submitted on March 29, 2016).