Management's Discussion and Analysis

Scope of Consolidation

The INTAGE Group (the "Group") consists of INTAGE HOLDINGS Inc. (the "Company"), 26 consolidated subsidiaries and 3 affiliated companies.

The Group's activities are classified according to client industry and services provided. The three reportable segments are "Marketing Support (Consumer Goods & Services)," "Marketing Support (Healthcare)" and "Business Intelligence."

In Marketing Support (Consumer Goods & Services), the Group provides data services, custom research, analytical models, communication services and other services based on various types of independently collected data, research techniques and data analysis.

In Marketing Support (Healthcare), the Group conducts marketing research for over-the-counter and prescription pharmaceuticals, performs data management and analysis on consignment from pharmaceutical manufacturers, and provides contract research organization (CRO) services to support pharmaceutical development.

In Business Intelligence, the Group's services include software development and sales, system operation, maintenance and management, and data center operation.

The Group also helps clients to solve issues in their businesses by blending its research techniques, system technologies, industry and operations knowledge, consulting capabilities and other professional skills, backed by a comprehensive understanding of marketing, to provide intelligence that aids in decision-making. In addition, the Group proposes new business models.

Summary of Results

In fiscal 2018 (the fiscal year ended March 31, 2018), the Japanese economy saw both corporate earnings and consumer spending continue to follow a moderate recovery path backed largely by the Bank of Japan's easy monetary policy and government spending under large-scale economic policies. On the other hand, although continuing to pick up on the whole, overseas economies remained unstable owing chiefly to a cloudy outlook for economic growth and uncertainty over policy direction in China and other emerging markets in Asia, as well as the volatility of financial and capital markets.

Against this backdrop, establishing "Take the Initiative—in the field of data-activation" as its basic policy in the 12th Medium-Term Management Plan, which began in fiscal 2018, the INTAGE Group has implemented proactive business investments and R&D activities with the aim of accelerating the development of next-generation services toward further enhancement of its corporate value.

As a result, the INTAGE Group's consolidated net sales for fiscal 2018 amounted to ¥50,499 million (up 5.2% year on year), with operating income of ¥4,023 million (down 5.7%), ordinary income of ¥4,311 million (down 1.9%) and net income attributable to owners of parent of ¥3,050 million (up 6.2%).

Results by Business Segment

• Marketing Support (Consumer Goods & Services)

In the Marketing Support (Consumer Goods & Services) segment, sales increased, bolstered mainly by the strong performance of custom research, namely existing research studies and Internet surveys, as well as public-sector projects. On the other hand, operating income decreased owing to investments in the renewal of SRI, which is a key panel survey product, R&D activities and other areas, to achieve the goals of improvement in data value and expansion of service areas set in the 12th Medium-Term Management Plan.

As a result, consolidated net sales of the Marketing Support (Consumer Goods & Services) segment amounted to ¥33,186 million (up 5.6% year on year), with operating income of ¥2,165 million (down 9.3%).

• Marketing Support (Healthcare)

In the Marketing Support (Healthcare) segment, sales increased thanks chiefly to the brisk performance of post-marketing surveillance of medical products at ASKLEP Inc. and promotion activity evaluation services at ANTERIO Inc. Operating income decreased, due largely to investments made by ANTERIO Inc. to improve the value of products for existing services and the absence of large project orders that were present in the previous fiscal year.

As a result, consolidated net sales of the Marketing Support (Healthcare) segment amounted to ¥11,070 million (up 3.5% year on year), with operating income of ¥1,412 million (down 4.8%).

• Business Intelligence

In the Business Intelligence segment, both sales and operating income increased owing to strong orders from the travel, publishing and healthcare industries.

As a result, consolidated net sales of the Business Intelligence segment amounted to ¥6,243 million (up 6.5% year on year), with operating income of ¥446 million (up 12.0%).

• Production, Orders and Sales

1) Production

Production by segment for fiscal 2018 was as follows.

Segment	Amount (Thousands of yen)	Year-on-Year Change (%)
Marketing Support (Consumer Goods & Services)	22,753,760	–0.6
Marketing Support (Healthcare)	7,920,988	+10.4
Business Intelligence	5,057,558	+11.6
Total	35,732,307	+3.3

Note: Total indicates cost of sales.

2) Orders

Orders by segment for fiscal 2018 were as follows.

Segment	Orders Received (Thousands of yen)	Year-on-Year Change (%)	Orders in Hand (Thousands of yen)	Year-on-Year Change (%)
Marketing Support (Consumer Goods & Services)	33,538,582	+0.5	12,249,557	+3.0
Marketing Support (Healthcare)	9,692,247	–10.2	6,267,200	–18.0
Business Intelligence	7,362,215	+35.5	3,879,640	+40.5
Total	50,593,046	+2.0	22,396,398	+0.4

Note: Total does not include consumption taxes.

3) Sales

Sales by segment for fiscal 2018 were as follows.

Segment	Amount (Thousands of yen)	Year-on-Year Change (%)
Marketing Support (Consumer Goods & Services)	33,186,088	+5.6
Marketing Support (Healthcare)	11,070,060	+3.5
Business Intelligence	6,243,658	+6.5
Total	50,499,807	+5.2

Note: Total does not include consumption taxes.

Cash Flows

Cash and cash equivalents ("cash") as of March 31, 2018 totaled ¥11,622 million, an increase of ¥1,203 million from the end of the previous fiscal year, owing primarily to ¥3,188 million and ¥399 million in cash provided by operating and financing activities, respectively, versus ¥2,414 million in cash used in investing activities.

• Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥3,188 million, representing a decrease of ¥883 million in cash inflows from the previous fiscal year. This was mainly because the increase in notes and accounts receivable–trade was greater than in the previous fiscal year.

• Cash Flows from Investing Activities

Net cash used in investing activities amounted to minus ¥2,414 million, representing an increase of ¥304 million in cash outflows from the previous fiscal year. This was mainly due to an increase in payments for purchases of investment securities.

• Cash Flows from Financing Activities

Net cash provided by financing activities amounted to ¥399 million, compared with net cash used in financing actitivies of ¥1,300 in the precious fiscal year. This was chiefly due to an increase in proceeds from issuance of shares resulting from exercise of share acquisition rights.

Analysis of Financial Position

• Assets

Current assets increased ¥2,161 million from the end of the previous fiscal year (March 31, 2017) to ¥27,856 million. This increase was mostly because cash and deposits increased ¥1,165 million and notes and accounts receivable–trade increased ¥1,246 million.

Non-current assets increased ¥257 million from the end of the previous fiscal year to ¥13,630 million. Although net defined benefit retirement assets decreased ¥1,329 million, the increase was mainly due to a ¥1,984 million increase in investment securities.

As a result, total assets increased ¥2,418 million to ¥41,486 million.

• Liabilities

Current liabilities decreased ¥397 million from the end of the previous fiscal year to ¥11,601 million. This decrease was mostly because income taxes payable and accounts payable–trade decreased ¥309 million and ¥201 million, respectively.

Non-current liabilities decreased ¥839 million from the end of the previous fiscal year to ¥2,456 million, largely owing to the ¥1,146 million decrease in net defined benefit liability.

As a result, total liabilities decreased ¥1,237 million to ¥14,057 million.

• Net Assets

Total net assets grew ¥3,656 million from the end of the previous fiscal year to ¥27,428 million. This growth was mostly because capital stock, capital surplus and retained earnings gained ¥697 million, ¥512 million and ¥2,346 million, respectively.

Dividend Policy

The Company's basic policy is to distribute earnings while considering the balance between dividends and retained earnings, based on consolidated results that reflect the performance of the Group's management. The Company considers the return of earnings to shareholders to be a top management priority, and targets a consolidated payout ratio of 35%. Retained earnings are used for investment to continually enhance the Group's growth and profitability. Our aim is to ensure returns to shareholders through efforts to enhance performance.

For fiscal 2018, the Company plans to pay a year-end dividend of ¥20.00 per share* (for a consolidated payout ratio of 26.3%). For fiscal 2019, the Company is planning to pay a year-end dividend of ¥22.00 per share.

* The Company implemented a stock split at a ratio of two shares for each share of common stock on October 1, 2017.

Performance Outlook for the Fiscal Year Ending March 31, 2019 (Fiscal 2019)

In fiscal 2019, although we need to take heed of the negative effects of uncertainty over the future of overseas economies and the volatility of financial and capital markets, the Japanese economy is likely to remain on a moderate recovery trend underpinned mainly by a range of measures of the government amid continuous improvement in the employment and income environment.

The Group has set "Take the Initiative—in the field of data-activation" as its basic policy in the 12th Medium-Term Management Plan. In fiscal 2019, the second year of the plan, the Group will continue to implement proactive investments and develop new services and solutions with a view to achieving sustainable growth.

As a result, the Group forecasts consolidated net sales of ¥53,000 million (up 5.0% year on year) in fiscal 2019, with operating income of ¥4,200 million (up 4.4%), ordinary income of ¥4,250 million (down 1.4%) and net income attributable to owners of parent of ¥2,900 million (down 4.9%).