

UNOFFICIAL TRANSLATION
The formal official document is in Japanese



Summary of Consolidated Financial Results for the First Quarter of
Fiscal Year Ending September 30, 2019 (Japanese Accounting Standards)

January 30, 2019

Listed Company Name: MTI Ltd. Listing Exchanges: Tokyo Stock Exchange
 Securities Code: 9438 URL: <https://www.mti.co.jp/eng>
 Representative: Toshihiro Maeta, President and Chief Executive Officer
 Contact: Hiroshi Matsumoto, Senior Managing Director Phone: +81-3-5333-6323
 Scheduled date to submit the Quarterly Securities Report (Shihanki Houkokusho): February 8, 2019
 Scheduled date of dividend payment: –
 Supplementary documents for quarterly results: Yes
 Quarterly results briefing: Yes (for securities analysts and institutional investors)

(Figures less than one millions of yen are omitted)

1. Consolidated business results for the three months ended December 31, 2018
(October 1, 2018 – December 31, 2018)

(1) Consolidated operating results (cumulative total) (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First quarter of fiscal year ending September 30, 2019	6,862	(8.7)	829	25.3	868	40.1	543	(32.2)
First quarter of fiscal year ended September 30, 2018	7,517	(1.6)	661	(42.4)	619	(45.0)	801	18.4

(Note) Comprehensive income: Three months ended December 31, 2018: (90) millions of yen - %
 Three months ended December 31, 2017: 955 millions of yen 28.6%

	Net income per share	Net income per share/diluted
	Yen	Yen
First quarter of fiscal year ending September 30, 2019	9.94	9.93
First quarter of fiscal year ended September 30, 2018	14.70	14.64

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2018	25,720	20,411	72.1
As of September 30, 2018	23,896	18,808	75.2

(Reference) Shareholders' equity: As of December 31, 2018: 18,543 millions of yen
 As of September 30, 2018: 17,978 millions of yen

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended September 30, 2018	–	8.00	–	8.00	16.00
Fiscal year ending September 30, 2019	–				
Fiscal year ending September 30, 2019 (forecast)		8.00	–	8.00	16.00

(Note) Revision of dividend forecast for during this period : No

3. Forecast for consolidated business results for the fiscal year ending September 30, 2019
(October 1, 2018 – September 30, 2019)

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen	Yen
For the first half	14,000	(7.7)	1,000	(27.1)	950	(28.3)	600	(48.0)		10.97
Full year	28,000	(3.7)	2,400	(25.4)	2,300	(26.2)	1,400	(14.1)		25.60

(Note) Revisions to forecasts for consolidated business results published most recently: No

* Notes

(1) Important changes of subsidiaries during the term (changes in specified subsidiaries resulting in change in scope of consolidation): Not applicable

New: –

Exception: –

(2) Application of specific accounting treatment to the preparation of quarterly consolidated financial statements: Not applicable

(3) Changes in accounting policies and changes or restatement of accounting estimates

(i) Changes in accounting policies due to the modification in accounting methods: Not applicable

(ii) Changes in accounting policies other than (i): Not applicable

(iii) Changes in accounting estimates: Not applicable

(iv) Restatement: Not applicable

(4) Number of outstanding shares (common shares)

(i) Number of shares outstanding at the end of period (including treasury shares):

12/2018: 61,017,200 shares 9/2018: 61,016,400 shares

(ii) Number of treasury shares at the end of period

12/2018: 6,333,134 shares 9/2018: 6,333,128 shares

(iii) Average number of shares during the period (quarterly consolidated cumulative period)

Three months ended 12/2018: 54,683,553 shares Three months ended 12/2018: 54,521,880 shares

* This Summary of Consolidated Financial Results for the First Quarter is not included in the scope of quarterly review by certified public accountants or audit corporations.

* Cautionary statement with respect to forward-looking statements

The forward-looking statements included in this material are based on the Company's judgments, assumptions, and convictions based on information available to the Company at the time of publication of this document and may differ materially from actual results for a range of factors, including conditions of Japanese and overseas economies, changes in the situation of operations in Japan and overseas, and uncertainties and potential risks inherent in forward-looking statements. The risks and uncertainties include unforeseeable effects of future events. The information on consolidated earnings forecasts and other future forecasts on page 3 of the Accompanying Materials describes notes on the assumptions of the earnings forecasts and the use of the earnings forecasts.

The Company will hold a briefing on earnings in the first three quarters chiefly for securities analysts and institutional investors on Thursday, January 31, 2019. A Japanese video of the briefing and a document to be used at the briefing will be posted on the Company's website as soon as the briefing ends. English version will be posted on it within about one (1) week.

Accompanying materials – Contents

1. Qualitative information on financial results for the current quarterly settlement	2
(1) Explanation on operating results	2
(2) Explanation on financial position	3
(3) Explanation of future forecast information including consolidated forecast	3
2. Quarterly consolidated financial statements and important notes	4
(1) Quarterly consolidated balance sheet	4
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income	6
(3) Notes concerning quarterly consolidated financial statements	8
(Notes concerning going concern assumption)	8
(Notes on significant changes in shareholders' equity)	8
(Additional Information)	8
(Significant subsequent events)	8

1. Qualitative information on financial results for the current quarterly settlement

(1) Explanation on operating results

Overview of the first quarter of fiscal year ending September 30, 2019 (Period from October 1, 2018 to December 31, 2018)

The number of paying subscribers to smartphones was 4.41 million at the end of December 2018 (down 0.16 million from the end of September 2018) due to difficulty acquiring paying subscribers to smartphones at cellphone shops, and the total number of paying subscribers decreased to 5.40 million (down 0.20 million from the end of September 2018).

Net sales amounted to ¥6,862 million (down 8.7% year on year) due to a fall in the total number of paying subscribers from the first quarter of the previous fiscal year, even though average revenue per user (ARPU) continued to rise. Gross profit also declined to ¥5,229 million (down 11.8% year on year), reflecting the net sales drop.

In spite of the gross profit decrease, operating income and ordinary income came to ¥829 million (up 25.3% year on year) and ¥868 million (up 40.1% year on year), respectively, as a result of the control of selling, general and administrative expenses mainly through a reduction in advertising expenses, achieved with priority attached to the efficiency of the acquisition of paying subscribers on smartphones at cellphone shops.

Profit attributable to owners of parent sank to ¥543 million (down 32.2% year on year), due to the disappearance of the effects a fall in tax expenses associated with the absorption-type merger of a subsidiary had produced in the first half of the previous fiscal year.

Consolidated business results

(Period from October 1, 2018 to December 31, 2018)

	First quarter of the fiscal year ending September 30, 2019	First quarter of the fiscal year ended September 30, 2018	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	6,862	7,517	(655)	(8.7)
Cost of sales	1,632	1,590	+41	+2.6
Gross profit	5,229	5,926	(696)	(11.8)
SG&A	4,400	5,265	(864)	(16.4)
Operating income	829	661	+167	+25.3
Ordinary income	868	619	+248	+40.1
Profit attributable to owners of parent	543	801	(258)	(32.2)

Breakdown of SG&A

(Period from October 1, 2018 to December 31, 2018)

	First quarter of the fiscal year ending September 30, 2019	First quarter of the fiscal year ended September 30, 2018	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Total	4,400	5,265	(864)	(16.4)
Advertising expenses	722	1,369	(647)	(47.3)
Personnel expenses	1,550	1,534	+16	+1.1
Commission fee	880	886	(6)	(0.7)
Subcontract expenses	216	282	(65)	(23.3)
Depreciation	343	430	(86)	(20.1)
Other	687	761	(74)	(9.8)

(2) Explanation on financial position

Assets, liabilities and net assets

At the end of the first quarter under review, total assets increased ¥1,823 million from the end of September 2018, to ¥25,720 million.

Current assets increased ¥2,171 million, mainly reflecting a rise in cash and deposits. Non-current assets decreased ¥347 million, due chiefly to a fall in investment securities, in spite of an increase in deferred tax assets.

Current liabilities increased ¥193 million, primarily reflecting an increase in income taxes payable. Non-current liabilities increased ¥27 million, chiefly due to a rise in net defined benefit liability.

Net assets increased ¥1,602 million attributable to a rise in capital surplus, a growth in non-controlling interests and ¥543 million posted as profit attributable to owners of parent, which offset cash dividends paid.

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2018	25,720	20,411	72.1
As of September 30, 2018	23,896	18,808	75.2

(3) Explanation of future forecast information including consolidated forecast

In the second quarter and thereafter, the Company will continue to attach importance to the efficiency of the acquisition of paying subscribers on smartphones and working on increasing average revenue per user (ARPU) in the content distribution business where the overall number of paying subscribers is expected to continue to fall, in addition to continuing to focus its efforts on expanding sales in the healthcare-related service business.

The healthcare-related service business, which the Company is engaged in with a medium-term perspective, has strong growth potential over the longer term and may move toward a stock type business with the provision of long-term support according to customers' life stages. Accordingly, the Company is committed to implementing various measures in order to achieve sales growth.

Our forecasts for consolidated business results for the first half and the full year of the fiscal year ending September 30, 2019 remain unchanged from the values announced on October 30, 2018.

Earnings forecast for the six months of the fiscal year ending September 30, 2019

(Period from October 1, 2018 to March 31, 2019)

Consolidated profit and loss		
Net sales	14,000 millions of yen	(an decrease of 7.7% y-o-y)
Operating income	1,000 millions of yen	(an decrease of 27.1% y-o-y)
Ordinary income	950 millions of yen	(an decrease of 28.3% y-o-y)
Profit attributable to owners of parent	600 millions of yen	(an decrease of 48.0% y-o-y)

Earnings forecast for the fiscal year ending September 30, 2019

(Period from October 1, 2018 to September 30, 2019)

Consolidated profit and loss		
Net sales	28,000 millions of yen	(an decrease of 3.7% y-o-y)
Operating income	2,400 millions of yen	(an decrease of 25.4% y-o-y)
Ordinary income	2,300 millions of yen	(an decrease of 26.2% y-o-y)
Profit attributable to owners of parent	1,400 millions of yen	(an decrease of 14.1% y-o-y)

2. Quarterly consolidated financial statements and important notes
(1) Quarterly consolidated balance sheet

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2018)	Current fiscal year (As of December 31, 2018)
Assets		
Current assets		
Cash and deposits	10,504,223	12,468,681
Notes and accounts receivable-trade	5,203,810	5,118,761
Other	897,205	1,198,030
Allowance for doubtful accounts	(45,477)	(54,304)
Total current assets	16,559,761	18,731,169
Non-current assets		
Property, plant and equipment	263,321	262,729
Intangible assets		
Software	1,757,366	1,797,114
Goodwill	179,624	248,616
Other	39,524	36,557
Total intangible assets	1,976,515	2,082,289
Investments and other assets		
Investment securities	3,309,236	2,574,100
Lease and guarantee deposits	498,282	506,356
Deferred tax assets	1,262,469	1,514,807
Other	52,808	74,758
Allowance for doubtful accounts	(25,829)	(25,828)
Total investment and other assets	5,096,967	4,644,194
Total non-current assets	7,336,804	6,989,212
Total assets	23,896,566	25,720,382

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2018)	Current fiscal year (As of December 31, 2018)
Liabilities		
Current liabilities		
Account payable-trade	1,284,742	1,241,875
Accounts payable-other	1,462,258	1,444,462
Income taxes payable	133,223	355,985
Provision for bonuses	—	189,635
Provision for point usage	141,777	147,571
Other	932,163	768,134
Total current liabilities	3,954,165	4,147,663
Non-current liabilities		
Net defined benefit liability	1,108,745	1,138,499
Negative goodwill	13,187	10,908
Other	12,043	12,141
Total non-current liabilities	1,133,977	1,161,548
Total liabilities	5,088,142	5,309,212
Net assets		
Shareholders' equity		
Capital stock	5,100,464	5,100,690
Capital surplus	5,820,687	6,885,174
Retained earning	10,080,581	10,186,480
Treasury shares	(3,148,848)	(3,148,852)
Total shareholders' equity	17,852,885	19,023,493
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	88,583	(514,590)
Foreign currency translation adjustment	(24,956)	(27,669)
Remeasurements of defined benefit plans	62,312	62,301
Total accumulated other comprehensive income	125,939	(479,958)
Subscription rights to shares	332,830	348,520
Non-controlling interests	496,768	1,519,113
Total net assets	18,808,423	20,411,170
Total liabilities and net assets	23,896,566	25,720,382

(2) Quarterly consolidated statements of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income
For the first quarter

	(Unit: thousands of yen)	
	For the first quarter of the previous fiscal year (from October 1, 2017 to December 31, 2017)	For the first quarter of the current fiscal year (from October 1, 2018 to December 31, 2018)
Net sales	7,517,108	6,862,019
Cost of sales	1,590,156	1,632,023
Gross profit	5,926,951	5,229,995
Selling, general and administrative expenses	5,265,147	4,400,811
Operating income	661,803	829,184
Non-operating income		
Interest income	25	26
Dividend income	7,517	55,264
Amortization of negative goodwill	2,279	2,279
Other	6,918	7,655
Total non-operating income	16,741	65,225
Non-operating expenses		
Interest expenses	—	12
Share of loss of entities accounted for using equity method	14,413	20,911
Foreign exchange losses	1,556	3,738
Other	43,072	1,567
Total non-operating expenses	59,042	26,229
Ordinary income	619,502	868,181
Extraordinary income		
Gain on sales of non-current assets	169	—
Gain on change in equity	32,968	—
Total extraordinary income	33,138	—
Extraordinary losses		
Impairment loss	—	56,275
Loss on retirement of non-current assets	19,917	6,966
Loss on valuation of investment securities	—	2,934
Loss on sales of shares of subsidiaries and associates	1,870	—
Settlement package	42,990	—
Total extraordinary losses	64,778	66,175
Income before income taxes	587,862	802,005
Income taxes-current	130,942	348,019
Income taxes-deferred	(298,276)	(59,873)
Total income taxes	(167,334)	288,145
Profit	755,196	513,860
Profit (loss) attributable to non-controlling interests	(46,317)	(29,504)
Profit attributable to owners of parent	801,513	543,365

Quarterly consolidated statement of comprehensive income

(Unit: thousands of yen)

	For the first quarter of the previous fiscal year (from October 1, 2017 to December 31, 2017)	For the first quarter of the current fiscal year (from October 1, 2018 to December 31, 2018)
Profit	755,196	513,860
Other comprehensive income		
Valuation difference on available-for-sale securities	196,212	(603,174)
Foreign currency translation adjustment	3,879	(1,673)
Remeasurements of defined benefit plans, net of tax	512	(10)
Share of other comprehensive income of entities accounted for using equity method	133	72
Total other comprehensive income	200,738	(604,786)
Comprehensive income	955,934	(90,925)
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	1,000,962	(62,532)
Comprehensive income attributable to non-controlling interests	(45,027)	(28,393)

(3) Notes concerning quarterly consolidated financial statements

(Notes concerning going concern assumption)

Not applicable.

(Notes on significant changes in shareholders' equity)

KARADAmérica, Inc., a consolidated subsidiary of the Company, issued new shares by way of third-party allotment to Medipal Holdings Corporation. As a result, during the first quarter of the fiscal year under review, the amount of capital surplus increased ¥1,064,261 thousand, to ¥6,885,174 thousand at the end of the first quarter of the consolidated fiscal year under review, which included an increase of ¥226 thousand attributable to the issuance of the new shares.

(Additional Information)

The Company began applying Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28 issued on February 16, 2018) and the like from the beginning of the first quarter under review. This Summary of Consolidated Financial Results states deferred tax assets and deferred tax liabilities under the category of investments and other assets and under the category of non-current liabilities, respectively.

Consequently, this Summary includes ¥204,307,000, which was stated under the category of deferred tax assets (current assets) in the consolidated balance sheets for the previous fiscal year, in the amount of deferred tax assets (investments and other assets).

(Significant subsequent events)

At a meeting of the Board of Directors held on January 30, 2019, the Company resolved to issue subscription rights to shares to the directors (excluding outside directors) and employees of the Company as well as the directors of its subsidiaries pursuant to the provisions of Articles 236, 238 and 240 of the Companies Act as stock options. Details are as follows.

1. Persons to whom subscription rights to shares are allotted and their numbers

Directors of the Company	4
Employees of the Company	158
Directors of the Company's subsidiaries	2
2. Class and the number of shares underlying subscription rights to shares

Common stock of the Company	477,700 shares
-----------------------------	----------------
3. Total number of subscription rights to shares
4,774 (The number of shares underlying one subscription right to shares is 100.)
4. Amount to be paid in for subscription rights to shares
Monetary payment is not required.
5. Date of allotment of subscription rights to shares
February 15, 2019
6. Value of property to be invested upon the exercise of subscription rights to shares
The value of property to be invested upon the exercise of one subscription right to shares will be an amount obtained by multiplying the amount to be paid in per share of shares delivery of which can be received by exercising subscription rights to shares by the number of shares to be granted.
7. Exercise period of subscription rights to shares
From March 1, 2021 to September 30, 2024
8. Amounts of stated capital stock and capital reserves to increase if shares are issued by the exercise of subscription rights to shares
 - (i) The amount of stated capital to increase if shares are issued by the exercise of subscription rights to shares will be a half of the maximum amount of increase in stated capital that is calculated in accordance with Article 17, Paragraph 1 of the Rules of Corporate Accounting, and fractions less than one yen arising from the calculation result will be rounded up.
 - (ii) The amount of capital reserves to increase if shares are issued by the exercise of subscription rights to shares will be an amount obtained by subtracting the amount of stated capital to increase stipulated in (i) above from the maximum amount of increase in stated capital written in (i) above.