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

April 26, 2019

Listed Company Name: MTI Ltd. Listing Exchanges: Tokyo Stock Exchange  
 Securities Code: 9438 URL: <https://www.mti.co.jp/eng>  
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 Scheduled date to submit the Quarterly Securities Report (Shihanki Houkokusho): May 13, 2019  
 Scheduled date of dividend payment: June 10, 2019  
 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 six months ended March 31, 2019  
(October 1, 2018 – March 31, 2019)

(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 half of fiscal year ending September 30, 2019	13,932	(8.1)	1,635	19.2	1,577	19.0	860	(25.4)
First half of fiscal year ended September 30, 2018	15,162	(0.8)	1,372	(33.8)	1,325	(34.8)	1,154	161.5

(Note) Comprehensive income: Six months ended March 31, 2019: 536 millions of yen (59.2%)  
 Six months ended March 31, 2018: 1,316 millions of yen 247.8%

	Net income per share	Net income per share/diluted
	Yen	Yen
First half of fiscal year ending September 30, 2019	15.74	15.73
First half of fiscal year ended September 30, 2018	21.17	21.08

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of March 31, 2019	26,722	21,059	71.6
As of September 30, 2018	23,896	18,808	75.2

(Reference) Shareholders' equity: As of March 31, 2019: 19,141 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	—	8.00			
Fiscal year ending September 30, 2019 (forecast)			—	8.00	16.00

(Note) Revisions to dividend forecasts published most recently: No

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
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

\* Note:

(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):

3/19: 61,025,600 shares

9/18: 61,016,400 shares

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

3/19: 6,333,134 shares

9/18: 6,333,128 shares

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

Six months ended 3/19: 54,686,347 shares

Six months ended 3/18: 54,534,452 shares

\* Status of a quarterly review

This earnings release is not subject to an audit.

\* 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 half chiefly for securities analysts and institutional investors on Friday, April 26, 2019. A 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.

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

### (1) Explanation on operating results

#### Overview of the first half ended March 31, 2019 (From October 1, 2018 to March 31, 2019)

The number of paying subscribers to smartphones was 4.27 million at the end of March 2019 (down 0.3 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 5.22 million (down 0.38 million from the end of September 2018).

Net sales amounted to ¥13,932 million (down 8.1% year on year) due to a fall in the total number of paying subscribers from the first half of the previous fiscal year, even though average revenue per user (ARPU) continued to rise. Gross profit also declined to ¥10,416 million (down 12.0% year on year), reflecting the net sales drop.

In spite of the gross profit decrease, operating income and ordinary income came to ¥1,635 million (up 19.2% year on year) and ¥1,577 million (up 19.0% 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 ¥860 million (down 25.4% 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 March 31, 2019)

	First half of the fiscal year ending September 30, 2019	First half of the fiscal year ending September 30, 2018	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	13,932	15,162	(1,230)	(8.1)
Cost of sales	3,515	3,325	+190	+5.7
Gross profit	10,416	11,837	(1,421)	(12.0)
SG&A	8,781	10,465	(1,684)	(16.1)
Operating income	1,635	1,372	+263	+19.2
Ordinary income	1,577	1,325	+251	+19.0
Profit attributable to owners of parent	860	1,154	(293)	(25.4)

#### Breakdown of SG&A

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

	First half of the fiscal year ending September 30, 2019	First half of the fiscal year ending September 30, 2018	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Total	8,781	10,465	(1,684)	(16.1)
Advertising expenses	1,486	2,857	(1,371)	(48.0)
Personnel expenses	3,067	2,990	+76	+2.6
Commission fee	1,725	1,824	(99)	(5.4)
Subcontract expenses	464	523	(58)	(11.2)
Depreciation	676	852	(176)	(20.7)
Other	1,361	1,416	(55)	(3.9)

## (2) Explanation on financial position

### 1) Assets, liabilities and net assets

At the end of the first half under review, total assets increased ¥2,826 million from the end of September 2018, to ¥26,722 million.

Current assets increased ¥3,016 million, mainly reflecting a rise in cash and deposits. Non-current assets decreased ¥190 million, due chiefly to a fall in investment securities.

Current liabilities increased ¥520 million, primarily reflecting an increase in income taxes payable. Non-current liabilities increased ¥54 million, chiefly due to a rise in net defined benefit liability.

Net assets increased ¥2,251 million attributable to a rise in capital surplus, growth in non-controlling interests and ¥860 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 March 31, 2019	26,722	21,059	71.6
As of September 30, 2018	23,896	18,808	75.2

### 2) Consolidated cash flows

At the end of the first half under review, cash and cash equivalents were ¥13,557 million, up ¥3,052 million from the end of September 2018. The cash flows by activities and principal factors in the first half under review are as follows:

Net cash provided by operating activities was ¥2,517 million (inflow of ¥2,022 million for the first half of the previous fiscal year). Principal factors included income before income taxes and depreciation and amortization.

Net cash used in investing activities stood at ¥1,143 million (outflow of ¥2,304 million for the first half of the previous fiscal year). Major factors included expenditure for the purchase of intangible assets (consisting mainly of software) and the purchase of investment securities.

Net cash provided by financing activities came to ¥1,681 million (outflow of ¥426 million for the first half of the previous fiscal year). The main factors included payments from non-controlling shareholders.

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
First half of the fiscal year ending September 30, 2019	2,517	(1,143)	1,681	13,557
First half of the fiscal year ending September 30, 2018	2,022	(2,304)	(426)	9,413
For the fiscal year ended September 30, 2018	4,549	(3,322)	(855)	10,504

### 3) Explanation of future forecast information including consolidated forecast

In the third 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, 2017 to September 31, 2019)

Consolidated profit and loss		
Net sales	28,000 millions of yen	(a decrease of 3.7% y-o-y)
Operating income	2,400 millions of yen	(a decrease of 25.4% y-o-y)
Ordinary income	2,300 millions of yen	(a decrease of 26.2% y-o-y)
Profit attributable to owners of parent	1,400 millions of yen	(an increase 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 March 31, 2019)
<b>Assets</b>		
Current assets		
Cash and deposits	10,504,223	13,557,050
Notes and accounts receivable-trade	5,203,810	5,000,159
Other	897,205	1,064,044
Allowance for doubtful accounts	(45,477)	(44,770)
Total current assets	16,559,761	19,576,483
Non-current assets		
Property plant and equipment	263,321	264,207
Intangible assets		
Software	1,757,366	1,853,639
Goodwill	179,624	149,240
Other	39,524	37,249
Total intangible assets	1,976,515	2,040,129
Investments and other assets		
Investment securities	3,309,236	3,008,647
Lease and guarantee deposits	498,282	505,001
Deferred tax assets	1,262,469	1,281,076
Other	52,808	73,062
Allowance for doubtful accounts	(25,829)	(25,827)
Total investment and other assets	5,096,967	4,841,959
Total non-current assets	7,336,804	7,146,296
Total assets	23,896,566	26,722,780

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2018)	Current fiscal year (As of March 31, 2019)
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	1,284,742	1,259,967
Current portion of long-term loans payable	1,462,258	1,510,789
Accounts payable-other	133,223	611,087
Income taxes payable	141,777	163,419
Provision for bonus	932,163	929,445
Provision for point usage	3,954,165	4,474,710
Non-current liabilities		
Net defined benefit liability	1,108,745	1,167,844
Negative goodwill	13,187	8,628
Other	12,043	12,141
Total non-current liabilities	1,133,977	1,188,614
Total liabilities	5,088,142	5,663,324
<b>Net assets</b>		
Shareholders' equity		
Capital stock	5,100,464	5,103,065
Capital surplus	5,820,687	6,887,550
Retained earning	10,080,581	10,503,990
Treasury shares	(3,148,848)	(3,148,852)
Total shareholders' equity	17,852,885	19,345,754
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	88,583	(237,497)
Foreign currency translation adjustment	(24,956)	(29,426)
Remeasurements of defined benefit plans	62,312	62,290
Total accumulated other comprehensive income	125,939	(204,633)
Subscription rights to shares	332,830	364,563
Non-controlling interest	496,768	1,553,770
Total net assets	18,808,423	21,059,455
Total liabilities and net assets	23,896,566	26,722,780



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

### Quarterly consolidated statement of income

For the first half

	(Unit: thousands of yen)	
	For the first half of the current fiscal year (from October 1, 2017 to March 31, 2018)	For the first half of the current fiscal year (from October 1, 2018 to March 31, 2019)
Net sales	15,162,759	13,932,620
Cost of sales	3,325,014	3,515,976
Gross profit	11,837,744	10,416,643
Selling, general and administrative expenses	10,465,510	8,781,257
Operating income	1,372,233	1,635,386
Non-operating income		
Interest income	75	86
Dividend income	8,737	58,948
Amortization of negative goodwill	4,558	4,558
Other	21,277	15,701
Total non-operating income	34,650	79,295
Non-operating expenses		
Interest expenses	158	12
Share of loss of entities accounted for using equity method	28,304	123,631
Foreign exchange losses	4,838	390
Other	47,897	13,071
Total non-operating expenses	81,198	137,105
Extraordinary income	1,325,685	1,577,575
Extraordinary income		
Gain on step acquisitions	96,636	—
Gain on sales of non-current assets	169	—
Gain on sales of investment securities	2	75,859
Gain on change in equity	32,968	—
Total extraordinary income	129,778	75,859
Extraordinary losses		
Amortization of goodwill	—	74,569
Impairment loss	52,435	60,827
Loss on retirement of non-current assets	88,368	9,808
Loss on valuation of investment securities	156,636	59,019
Loss on sales of shares of subsidiaries and associates	1,870	—
Settlement package	42,990	—
Total extraordinary losses	342,302	204,225
Profit before income taxes	1,113,161	1,449,210
Income taxes - current	257,005	532,781
Income taxes - deferred	(219,789)	49,222
Total income taxes	37,216	582,003
Profit	1,075,944	867,207
Profit (loss) attributable to non-controlling interests	(78,307)	6,332
Profit (loss) attributable to owners of parent	1,154,251	860,875

**Quarterly consolidated statement of comprehensive income****For the first half**

(Unit: thousands of yen)

	For the first half of the current fiscal year (from October 1, 2017 to March 31, 2018)	For the first half of the current fiscal year (from October 1, 2018 to March 31, 2019)
Profit	1,075,944	867,207
Other comprehensive income		
Valuation difference on available-for-sale securities	252,553	(326,081)
Remeasurements of defined benefit plans, net of tax	(13,461)	(3,737)
Remeasurements of defined benefit plans, before tax	1,025	(21)
Share of other comprehensive income of entities accounted for using equity method	160	(800)
Total other comprehensive income	240,277	(330,641)
Comprehensive income	1,316,221	536,566
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,396,906	530,302
Comprehensive income attributable to non-controlling interests	(80,684)	6,263

### (3) Quarterly consolidated statements of cash flows

(Unit: thousands of yen)

	For the first half of the current fiscal year (from October 1, 2017 to March 31, 2018)	For the first half of the current fiscal year (from October 1, 2018 to March 31, 2019)
Cash flows from operating activities		
Income before income taxes	1,113,161	1,449,210
Depreciation	885,777	715,613
Impairment loss	52,435	60,827
Amortization of goodwill	16,991	129,705
Increase (decrease) in allowance for point usage	(47)	21,642
Increase (decrease) in net defined benefit liability	64,428	59,098
Interest and dividends income	(8,813)	(59,035)
Interest expenses	158	12
Loss (gain) on step acquisitions	(96,636)	—
Settlement package	42,990	—
Loss (gain) on change in equity	(32,968)	—
Loss on retirement of noncurrent assets	88,368	9,808
Loss (gain) on sales of property, plant and equipment	(169)	—
Loss (gain) on valuation of investment securities	156,636	59,019
Loss (gain) on sales of investment securities	(2)	(75,859)
Loss (gain) on sales of shares of subsidiaries and associates	1,870	—
Decrease (increase) in notes and accounts receivable-trade	153,771	202,501
Increase (decrease) in notes and accounts payable-trade	148,124	(24,340)
Increase (decrease) in accounts payable-other	(152,600)	34,717
Other, net	190,436	(61,291)
Subtotal	2,623,911	2,521,631
Interest and dividends income received	8,813	59,035
Interest expenses paid	(158)	(12)
Income taxes (paid) refund	(542,942)	(62,854)
Settlement package paid	(66,990)	—
Net cash provided by (used in) operating activities	2,022,634	2,517,799
Cash flows from investing activities		
Purchase of property, plant and equipment	(62,458)	(40,983)
Proceeds from sales of property, plant and equipment	1,130	202
Purchase of intangible assets	(683,241)	(757,435)
Purchase of investment securities	(872,183)	(276,702)
Proceeds from sales of investment securities	3	80,000
Proceeds from redemption of investment securities	(40,000)	(25,000)
Payments for transfer of business	—	(112,596)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(612,653)	—
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(26,373)	—
Other, net	(8,742)	(11,477)
Net cash provided by (used in) investing activities	(2,304,519)	(1,143,993)
Cash flows from financing activities		
Proceeds from issuance of common shares	12,886	4,186
Proceeds from share issuance to non-controlling shareholders	—	2,115,000
Cash dividends paid	(436,170)	(437,466)
Other, net	(2,737)	(3)
Net cash provided by (used in) financing activities	(426,021)	1,681,716

Effect of exchange rate change on cash and cash equivalents	(12,420)	(2,694)
Net increase (decrease) in cash and cash equivalents	(720,326)	3,052,826
Cash and cash equivalents at beginning of period	10,133,961	10,504,223
Cash and cash equivalents at end of period	9,413,634	13,557,050

#### **(4) 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 thirdparty allotment to Medipal Holdings Corporation and received amount of ¥2,115,000 thousand as of November 9, 2018. As a result, during the first half of the fiscal year under review, the amount of capital surplus increased ¥1,064,261 thousand, to ¥6,887,550 thousand at the end of the first quarter of the consolidated fiscal year under review, which included an increase of ¥2,601 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 thousand, 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)**

Not applicable.