

UNOFFICIAL TRANSLATION
The formal official document is in Japanese



Summary of Consolidated Financial Results for the First Quarter of
Fiscal Year Ending September 30, 2020 (Japanese Accounting Standards)

February 3, 2020

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 12, 2020
 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, 2019
(October 1, 2019 – December 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 quarter of fiscal year ending September 30, 2020	6,104	(11.0)	586	(29.3)	404	(53.4)	231	(57.4)
First quarter of fiscal year ended September 30, 2019	6,862	(8.7)	829	25.3	868	40.1	543	(32.2)

(Note) Comprehensive income: Three months ended December 31, 2019: 236 millions of yen - %
 Three months ended December 31, 2018: (90) millions of yen - %

	Net income per share	Net income per share/diluted
	Yen	Yen
First quarter of fiscal year ending September 30, 2020	4.23	-
First quarter of fiscal year ended September 30, 2019	9.94	9.93

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2019	30,469	22,039	65.2
As of September 30, 2019	27,479	21,794	72.3

(Reference) Shareholders' equity: As of December 31, 2019: 19,871 millions of yen
 As of September 30, 2019: 19,866 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, 2019	-	8.00	-	8.00	16.00
Fiscal year ending September 30, 2020	-				
Fiscal year ending September 30, 2020 (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, 2020
(October 1, 2019 – September 30, 2020)

(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	13,000	(6.7)	1,200	(26.6)	1,000	(36.6)	700	(18.7)		12.81
Full year	26,000	(4.1)	2,000	(32.4)	1,920	(38.7)	1,200	(20.4)		21.96

(Note) Revisions to forecasts for consolidated business results published most recently: Yes

* 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):

12/2019: 61,139,000 shares 09/2019: 61,139,000 shares

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

12/2019: 6,439,540 shares 09/2019: 6,489,239 shares

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

Three months ended 12/2019: 54,649,714 shares Three months ended 12/2019: 54,683,553 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 4 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 Tuesday, February 4, 2020. 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	4
(3) Explanation of future forecast information including consolidated forecast	4
2. Quarterly consolidated financial statements and important notes	6
(1) Quarterly consolidated balance sheet	7
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income	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, 2020

(Period from October 1, 2019 to December 31, 2019)

Looking at the Group's business environment for the first quarter under review, subscriptions by smartphone-based paying subscribers remained sluggish mainly because smartphone penetration rates remained high and there is a requirement for large mobile phone carriers to separate communication charges and handset prices.

Given this background, the Group worked continuously to raise the average revenue per user (APRU) by improving the video lineup of "music.jp," a one-stop online store offering music, videos, and books and comics, and further control advertising expenses by enhancing promotion strategies for subscriptions through mobile phone stores with a high ratio of acquiring efficiency of paying subscribers.

Net sales stood at ¥6,104 million (down 11.0% year on year) as a result of a fall in the number of paying subscribers from the same period in the previous year, although the number of paying subscribers to smartphones increased 0.13 million from September 30, 2019, to 4.05 million as of December 31, 2019, due to the effect of accepting the transfer of businesses such as the "musicco" music streaming website, thereby raising the number of paying subscribers to 5.0 million (up 0.21 million year on year).

Gross profit decreased 14.4% year on year, to ¥4,477 million mainly due to a fall in net sales.

Operating income came to ¥586 million (down 29.3% quarter on quarter), chiefly due to the decrease in gross profit, although selling, general, and administrative expenses were successfully controlled against the backdrop of a decline in advertising expenses from the year-ago level as a result of subscriptions by smartphone-based paying subscribers through mobile phone shops remaining sluggish due to the effect of the separation of communications and terminal devices, and other factors.

Ordinary income decreased 53.4% year on year, to 404 million yen, reflecting the posting of a share of the loss of entities accounted for using equity method mainly associated with one-time amortization of goodwill due to the book value depreciation of Pocket Queries Co., Ltd. after it became an equity method company, in addition to a decline in operating income.

Profit attributable to owners of parent stood at ¥231 million (down 57.4% year on year), chiefly due to a decrease in ordinary income.

Consolidated business results

(Period from October 1, 2019 to December 31, 2019)

	First quarter of the fiscal year ending September 30, 2020	First quarter of the fiscal year ended September 30, 2019	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	6,104	6,862	(757)	(11.0)
Cost of sales	1,627	1,632	(4)	(0.3)
Gross profit	4,477	5,229	(752)	(14.4)
SG&A	3,891	4,400	(509)	(11.6)
Operating income	586	829	(243)	(29.3)
Ordinary income	404	868	(463)	(53.4)
Profit attributable to owners of parent	231	543	(312)	(57.4)

Breakdown of SG&A

(Period from October 1, 2019 to December 31, 2019)

	First quarter of the fiscal year ending September 30, 2020	First quarter of the fiscal year ended September 30, 2019	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Total	3,891	4,400	(509)	(11.6)
Advertising expenses	248	722	(473)	(65.5)
Personnel expenses	1,550	1,550	+0	+0.0
Commission fee	829	880	(50)	(5.7)
Subcontract expenses	278	216	+62	+28.8
Depreciation	307	343	(36)	(10.6)
Other	675	687	(12)	(1.7)

(Reference)

Business unit performance

(Period from October 1, 2019 to December 31, 2019)

	First quarter of the fiscal year ending September 30, 2020	First quarter of the fiscal year ended September 30, 2019	Change	
			Amount	Change ratio
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	6,104	6,862	(757)	(11.0)
Content business	4,878	5,508	(629)	(11.4)
Healthcare business	809	886	(77)	(8.7)
Other business	416	467	(50)	(10.8)
Elimination of consolidation	-	-	-	-

(Period from October 1, 2019 to December 31, 2019)

	First quarter of the fiscal year ending September 30, 2020	First quarter of the fiscal year ended September 30, 2019	Change	
			Amount	Amount
	Millions of yen	Millions of yen	Millions of yen	%
Operating income	586	829	(243)	(29.3)
Content business	1,672	1,765	(93)	(5.3)
Healthcare business	(453)	(412)	(41)	-
Other business	(164)	(127)	(36)	-
Cost department	(459)	(411)	(47)	-
Elimination of consolidation	(9)	15	(24)	-

(Note) The Group's quarterly results under review have been compiled as those of a single segment of the content distribution business. However, it plans to indicate them as those of multiple segments in the future. In doing so, for reference, the Group has decided to disclose operating results by business unit to ensure that realities are understood more clearly with respect to the Group's net sales and profit, starting from this quarter. Specifically, net sales and profit are shown for the three business units (content business, healthcare business and other businesses) classified according to the difference in the services provided.

(2) Explanation on financial position

Assets, liabilities and net assets

At the end of the first quarter under review, total assets increased ¥2,989 million from the end of September 2019, to ¥30,469 million.

Current assets decreased ¥235 million, mainly reflecting a decrease in cash and deposits in spite of an increase in other asset including mainly accrued consumption tax, accrued corporate tax, and advance payment.

Non-current assets increased ¥3,225 million, due chiefly to a rise in goodwill.

Current liabilities increased ¥2,718 million, primarily reflecting an increase in accounts payable other in spite of a decrease in income taxes payable.

Non-current liabilities increased ¥25 million, chiefly due to a rise in net defined benefit liability.

Net assets increased ¥245 million attributable to a rise in capital surplus, a growth in non-controlling interests and ¥231 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, 2019	30,469	22,039	65.2
As of September 30, 2019	27,479	21,794	72.3

(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 of the fiscal year ending September 30, 2020 are stated in the 'Notice of Revision of Consolidated Results Forecast for Fiscal Year Ending September 2020' announced on February 3, 2020.

Earnings forecast for the six months of the fiscal year ending September 30, 2020

(Period from October 1, 2019 to March 31, 2020)

Consolidated profit and loss		
Net sales	13,000 millions of yen	(a decrease of 6.7% y-o-y)
Operating income	1,200 millions of yen	(a decrease of 26.6% y-o-y)
Ordinary income	1,000 millions of yen	(a decrease of 36.6% y-o-y)
Profit attributable to owners of parent	700 millions of yen	(a decrease of 18.7% y-o-y)

Earnings forecast for the fiscal year ending September 30, 2020
(Period from October 1, 2019 to September 30, 2020)

Consolidated profit and loss		
Net sales	26,000 millions of yen	(a decrease of 4.1% y-o-y)
Operating income	2,000 millions of yen	(a decrease of 32.4% y-o-y)
Ordinary income	1,920 millions of yen	(a decrease of 38.7% y-o-y)
Profit attributable to owners of parent	1,200 millions of yen	(a decrease of 20.4% y-o-y)

2. Quarterly consolidated financial statements and important notes

(1) Quarterly consolidated balance sheet

t

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2019)	Current fiscal year (As of December 31, 2019)
Assets		
Current assets		
Cash and deposits	12,421,560	12,743,383
Notes and accounts receivable-trade	4,667,149	3,677,598
Other	1,427,990	1,867,142
Allowance for doubtful accounts	(47,613)	(54,313)
Total current assets	18,469,087	18,233,811
Non-current assets		
Property, plant and equipment	258,250	257,261
Intangible assets		
Software	1,870,772	1,880,866
Goodwill	153,609	3,284,458
Other	37,736	40,019
Total intangible assets	2,062,119	5,205,344
Investments and other assets		
Investment securities	4,977,219	5,145,282
Lease and guarantee deposits	511,987	509,533
Deferred tax assets	1,133,820	1,054,639
Other	92,734	89,115
Allowance for doubtful accounts	(25,824)	(25,824)
Total investment and other assets	6,689,936	6,772,745
Total non-current assets	9,010,306	12,235,351
Total assets	27,479,393	30,469,162

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2019)	Current fiscal year (As of December 31, 2019)
Liabilities		
Current liabilities		
Account payable-trade	1,308,159	1,230,605
Short-term loans payable	2,000	2,000
Current portion of long-term loans payable	14,280	14,280
Accounts payable-other	1,150,276	4,680,720
Income taxes payable	730,600	174,146
Provision for bonuses	—	193,000
Provision for point usage	143,377	129,414
Other	966,371	609,553
Total current liabilities	4,315,064	7,033,721
Non-current liabilities		
Long-term loans payable	52,100	49,370
Net defined benefit liability	1,306,642	1,337,335
Negative goodwill	4,069	1,790
Other	7,188	7,184
Total non-current liabilities	1,370,000	1,395,680
Total liabilities	5,685,065	8,429,402
Net assets		
Shareholders' equity		
Capital stock	5,135,680	5,135,680
Capital surplus	6,706,846	6,802,179
Retained earnings	10,989,009	10,868,539
Treasury shares	(3,233,136)	(3,235,470)
Total shareholders' equity	19,598,399	19,570,928
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	271,565	299,900
Foreign currency translation adjustment	(8,332)	(6,454)
Remeasurements of defined benefit plans	5,335	6,906
Total accumulated other comprehensive income	268,568	300,352
Subscription rights to shares	343,187	354,909
Non-controlling interests	1,584,173	1,813,570
Total net assets	21,794,328	22,039,760
Total liabilities and net assets	27,479,393	30,469,162

(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, 2018 to December 31, 2018)	For the first quarter of the current fiscal year (from October 1, 2019 to December 31, 2019)
Net sales	6,862,019	6,104,627
Cost of sales	1,632,023	1,627,492
Gross profit	5,229,995	4,477,135
Selling, general and administrative expenses	4,400,811	3,891,128
Operating income	829,184	586,006
Non-operating income		
Interest income	26	22
Dividend income	55,264	7,067
Amortization of negative goodwill	2,279	2,279
Other	7,655	9,484
Total non-operating income	65,225	18,853
Non-operating expenses		
Interest expenses	12	99
Share of loss of entities accounted for using equity method	20,911	194,231
Foreign exchange losses	3,738	2,017
Other	1,567	3,967
Total non-operating expenses	26,229	200,315
Ordinary income	868,181	404,544
Extraordinary income		
Gain on sales of investment securities	—	83,624
Total extraordinary income	—	83,624
Extraordinary losses		
Impairment loss	56,275	—
Loss on retirement of non-current assets	6,966	48,659
Loss on valuation of investment securities	2,934	—
Total extraordinary losses	66,175	48,659
Income before income taxes	802,005	439,509
Income taxes-current	348,019	153,928
Income taxes-deferred	(59,873)	80,874
Total income taxes	288,145	234,803
Profit	513,860	204,706
Loss attributable to non-controlling interests	(29,504)	(26,648)
Profit attributable to owners of parent	543,365	231,354

Quarterly consolidated statement of comprehensive income
For the first quarter

(Unit: thousands of yen)

	For the first quarter of the previous fiscal year (from October 1, 2018 to December 31, 2018)	For the first quarter of the current fiscal year (from October 1, 2019 to December 31, 2019)
Profit	513,860	204,706
Other comprehensive income		
Valuation difference on available-for-sale securities	(603,174)	(4,566)
Foreign currency translation adjustment	(1,673)	1,573
Remeasurements of defined benefit plans, net of tax	(10)	1,570
Share of other comprehensive income of entities accounted for using equity method	72	33,206
Total other comprehensive income	(604,786)	31,784
Comprehensive income	(90,925)	236,490
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(62,532)	263,138
Comprehensive income attributable to non-controlling interests	(28,393)	(26,648)