

## UNOFFICIAL TRANSLATION

The formal official document is in Japanese



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

July 30, 2019

Listed Company Name: MTI Ltd. Listing Exchanges: Tokyo Stock Exchange  
 Securities Code: 9438 URL: <https://www.mti.co.jp>  
 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): August 9, 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 nine months ended June 30, 2019

(October 1, 2018 – June 30, 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 three quarters of fiscal year ending September 30, 2019 | 20,427          | (8.0) | 2,265            | (8.1)  | 2,951           | 22.4   | 2,146                                   | 13.2 |
| First three quarters of fiscal year ended September 30, 2018  | 22,199          | (3.9) | 2,464            | (23.3) | 2,411           | (24.1) | 1,895                                   | 65.6 |

(Note) Comprehensive income  
 Nine months ended June 30, 2019: 2,342 millions of yen (18.4%)  
 Nine months ended June 30, 2018: 1,977 millions of yen (84.2%)

|   | Net income per share | Net income per share/diluted |
|---|----------------------|------------------------------|
|   | Yen                  | Yen                          |
| First three quarters of fiscal year ending September 30, 2019 | 39.24                | 39.20                        |
| First three quarters of fiscal year ended September 30, 2018  | 34.74                | 34.61                        |

(2) Consolidated financial position

|                          | Total assets    | Net assets      | Equity ratio |
|--------------------------|-----------------|-----------------|--------------|
|                          | Millions of yen | Millions of yen | %            |
| As of June 30, 2019      | 28,003          | 22,661          | 74.2         |
| As of September 30, 2018 | 23,896          | 18,808          | 75.2         |

(Reference) Shareholders' equity: As of June 30, 2019: 20,771 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     | 8.00   |

(Note) Revisions to dividend forecasts published most recently: 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)

| Full year | 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                  |
|           | 27,000          | (7.1) | 2,900            | (9.9) | 3,500           | 12.3 | 2,000                                   | 22.8 | 36.56                |

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

\* 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):

6/19: 61,025,600 shares

9/18: 61,016,400 shares

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

6/19: 6,333,134 shares

9/18: 6,333,128 shares

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

Nine months ended 6/19: 54,691,311 shares

Nine months ended 6/18: 54,549,509 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 Wednesday, July 31, 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.

## Accompanying materials – Contents

|   |   |
|---|---|
| 1. Qualitative information on financial results for the current 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.....   | 5 |
| (1) Quarterly consolidated balance sheet.....   | 5 |
| (2) Quarterly consolidated statement of income and quarterly consolidated statement of<br>comprehensive income..... | 7 |
| (3) Notes on concerning quarterly consolidated financial statement .....  | 9 |
| (Notes on concerning going concern assumption) .....  | 9 |
| (Notes on significant changes in shareholders' equity) .....  | 9 |
| (Notes on significant changes in amount of shareholders ' equity) .....   | 9 |
| (Additional information).....   | 9 |
| (Significant subsequent events).....  | 9 |

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

### (1) Explanation on operating results overview of the first three quarters of fiscal year ending September 30, 2019

#### (Period from October 1, 2018 to June 30, 2019)

The number of paying subscribers to smartphones was 4.08 million at the end of June 2019 (down 0.49 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 4.99 million (down 0.61 million from the end of September 2018).

Net sales amounted to ¥20,427 million (down 8.0% year on year) due to a fall in the total number of paying subscribers from the same period of the previous fiscal year, even though average revenue per user (ARPU) continued to rise. Gross profit also declined to ¥15,259 million (down 12.2% year on year), reflecting the net sales drop.

In spite of the control of selling, general and administrative expenses through a reduction in advertising expenses, achieved with priority attached to the efficiency of the acquisition of paying subscribers on smartphones at cellphone shops, operating income came to ¥2,265 million (down 8.1% year on year) chiefly due to the decrease in gross profit.

Although operating income fell, ordinary income rose to ¥2,951 million (up 22.4% year on year), attributable to a share of profit of entities accounted for using equity method of ¥632 million chiefly due to a gain on bargain purchase associated with the acquisition of shares in Shobunsha Publications, Inc., which has become an equity method affiliate.

In the same period of the previous fiscal year, tax expenses fell due to the absorption-type merger of a subsidiary. Although there were no factors like that this fiscal year, profit attributable to owners of parent climbed to ¥2,146 million (up 13.2% year on year), reflecting the increase in ordinary income and a gain on sales of investment securities.

#### Consolidated business results

##### (Period from October 1, 2018 to June 30, 2019)

|   | First three quarters<br>of the fiscal year ending<br>September 30, 2019 | First three quarters<br>of the fiscal year ended<br>September 30, 2018 | Change          |            |
|---|---|--|-----------------|------------|
|   |   |  | Amount          | Percentage |
|   | Millions of yen   | Millions of yen  | Millions of yen | %          |
| Net sales                               | 20,427  | 22,199   | (1,771)         | (8.0)      |
| Cost of sales                           | 5,168   | 4,824  | +343            | +7.1       |
| Gross profit                            | 15,259  | 17,374   | (2,114)         | (12.2)     |
| SG&A                                    | 12,994  | 14,910   | (1,915)         | (12.8)     |
| Operating income                        | 2,265   | 2,464  | (199)           | (8.1)      |
| Ordinary income                         | 2,951   | 2,411  | +539            | +22.4      |
| Profit attribute to owners<br>of parent | 2,146   | 1,895  | +251            | +13.2      |

## Breakdown of SG&A

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

|                      | First three quarters<br>of the fiscal year ending<br>September 30, 2019 | First three quarters<br>of the fiscal year ended<br>September 30, 2018 | Change          |            |
|----------------------|---|--|-----------------|------------|
|                      |   |  | Amount          | Percentage |
|                      | Millions of yen   | Millions of yen  | Millions of yen | %          |
| Total                | 12,994  | 14,910   | (1,915)         | (12.8)     |
| Advertising expense  | 1,990   | 3,578  | (1,588)         | (44.4)     |
| Personnel expenses   | 4,651   | 4,490  | +160            | +3.6       |
| Commission fee       | 2,594   | 2,708  | (114)           | (4.2)      |
| Subcontract expenses | 739   | 764  | (24)            | (3.2)      |
| Depreciation         | 1,003   | 1,265  | (261)           | (20.7)     |
| Other                | 2,015   | 2,102  | (86)            | (4.1)      |

## (2) Explanation on financial position

### Assets, liabilities and net assets

At the end of the first three quarters under review, total assets increased ¥4,106 million from the end of September 2018, to ¥28,003 million.

Current assets increased ¥2,200 million, mainly reflecting a rise in cash and deposits. Non-current assets rose ¥1,905 million, due chiefly to an increase in investment securities.

Current liabilities increased ¥152 million, primarily reflecting an increase in income taxes payable. Non-current liabilities climbed ¥101 million, chiefly due to a rise in net defined benefit liability.

Net assets increased ¥3,852 million attributable to a rise in capital surplus, retained earnings and a growth in non-controlling interests and ¥2,146 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 June 30, 2019      | 28,003          | 22,661          | 74.2         |
| As of September 30, 2018 | 23,896          | 18,808          | 75.2         |

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

In the fourth quarter, the Company will continue to attach importance to the efficiency of the acquisition of paying subscribers on smartphones and work 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 fiscal year ending September 30, 2019 are as stated in the Notice of Revision of Consolidated Results Forecast announced on July 30, 2019.

**Earnings forecast for the fiscal year ending September 30, 2019**  
**(Period from October 1, 2018 to September 30, 2019)**

| <b>Consolidated profit and loss</b>     |                        |                              |
|---|------------------------|------------------------------|
| Net sales                               | 27,000 millions of yen | (a decrease of 7.1% y-o-y)   |
| Operating income                        | 2,900 millions of yen  | (a decrease of 9.9% y-o-y)   |
| Ordinary income                         | 3,500 millions of yen  | (an increase of 12.3% y-o-y) |
| Profit attributable to owners of parent | 2,000 millions of yen  | (an increase of 22.8% y-o-y) |

## 2. Quarterly consolidated financial statements and important notes

### (1) Quarterly consolidated balance sheet

(Unit: thousands of yen)

|  | Previous fiscal year<br>(As of September 30, 2018) | Current fiscal year<br>(As of June 30, 2019) |
|--|--|--|
| <b>Assets</b>                            |  |  |
| Current assets                           |  |  |
| Cash and deposits                        | 10,504,223   | 12,937,616                                   |
| Notes and accounts receivable-trade      | 5,203,810  | 4,657,141                                    |
| Other                                    | 897,205  | 1,216,628                                    |
| Allowance for doubtful accounts          | (45,477)   | (50,747)                                     |
| <b>Total current assets</b>              | <b>16,559,761</b>                                  | <b>18,760,637</b>                            |
| Non-current assets                       |  |  |
| Property plant and equipment             | 263,321  | 271,206                                      |
| Intangible assets                        |  |  |
| Software                                 | 1,757,366  | 1,849,637                                    |
| Goodwill                                 | 179,624  | 173,973                                      |
| Other                                    | 39,524   | 38,100                                       |
| <b>Total intangible assets</b>           | <b>1,976,515</b>                                   | <b>2,061,711</b>                             |
| Investments and other assets             |  |  |
| Investment securities                    | 3,309,236  | 5,293,881                                    |
| Lease and guarantee deposits             | 498,282  | 507,582                                      |
| Deferred tax assets                      | 1,262,469  | 1,042,702                                    |
| Other                                    | 52,808   | 91,470                                       |
| Allowance for doubtful accounts          | (25,829)   | (25,826)                                     |
| <b>Total investment and other assets</b> | <b>5,096,967</b>                                   | <b>6,909,809</b>                             |
| <b>Total non-current assets</b>          | <b>7,336,804</b>                                   | <b>9,242,727</b>                             |
| <b>Total assets</b>                      | <b>23,896,566</b>                                  | <b>28,003,364</b>                            |

(Unit: thousands of yen)

|   | Previous fiscal year<br>(As of September 30, 2018) | Current fiscal year<br>(As of June 30, 2019) |
|---|--|--|
| <b>Liabilities</b>                                    |  |  |
| Current liabilities                                   |  |  |
| Accounts payable-trade                                | 1,284,742  | 1,198,376                                    |
| Current portion of long-term loans payable            | —  | 4,200  |
| Accounts payable-other                                | 1,462,258  | 1,352,958                                    |
| Income taxes payable                                  | 133,223  | 438,701                                      |
| Provision for bonus                                   | —  | 192,629                                      |
| Provision for point usage                             | 141,777  | 160,831                                      |
| Other   | 932,163  | 758,827                                      |
| Total current liabilities                             | 3,954,165  | 4,106,525                                    |
| Non-current liabilities                               |  |  |
| Long-term loans payable                               | —  | 15,750                                       |
| Net defined benefit liability                         | 1,108,745  | 1,200,154                                    |
| Negative goodwill                                     | 13,187   | 6,349  |
| Other   | 12,043   | 13,206                                       |
| Total non-current liabilities                         | 1,133,977  | 1,235,461                                    |
| Total liabilities                                     | 5,088,142  | 5,341,986                                    |
| Net assets  |  |  |
| Shareholders' equity                                  |  |  |
| Capital stock   | 5,100,464  | 5,107,250                                    |
| Capital surplus                                       | 5,820,687  | 6,895,303                                    |
| Retained earning                                      | 10,080,581   | 11,627,029                                   |
| Treasury shares                                       | (3,148,848)  | (3,231,998)                                  |
| Total shareholders' equity                            | 17,852,885   | 20,397,585                                   |
| Accumulated other comprehensive income                |  |  |
| Valuation difference on available-for-sale securities | 88,583   | 351,107                                      |
| Foreign currency translation adjustment               | (24,956)   | (39,384)                                     |
| Remeasurements of defined benefit plans               | 62,312   | 62,280                                       |
| Total accumulated other comprehensive income          | 125,939  | 374,003                                      |
| Subscription rights to shares                         | 332,830  | 377,761                                      |
| Non-controlling interest                              | 496,768  | 1,512,027                                    |
| Total net assets                                      | 18,808,423   | 22,661,378                                   |
| Total liabilities and net assets                      | 23,896,566   | 28,003,364                                   |



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

**Quarterly consolidated statement of income**

**For the first three quarters**

|   | (Unit: thousands of yen)  |  |
|---|---|--|
|   | For the first three quarters of the<br>previous fiscal year<br>(from October 1, 2017<br>to June 30, 2018) | For the first three quarters of the<br>current fiscal year<br>(from October 1, 2018<br>to June 30, 2019) |
| Net sales   | 22,199,332  | 20,427,889   |
| Cost of sales   | 4,824,566   | 5,168,020  |
| Gross profit  | 17,374,765  | 15,259,869   |
| Selling, general and administrative expenses                  | 14,910,129  | 12,994,840   |
| Operating income  | 2,464,636   | 2,265,028  |
| Non-operating income  |   |  |
| Interest income   | 112   | 121  |
| Dividend income   | 9,465   | 59,673   |
| Amortization of negative goodwill                             | 6,838   | 6,838  |
| Share of profit of entities accounted for using equity method | —   | 632,449  |
| Other   | 30,690  | 22,228   |
| Total non-operating income                                    | 47,107  | 721,310  |
| Non-operating expenses  |   |  |
| Interest expenses   | 119   | 146  |
| Share of loss of entities accounted for using equity method   | 46,137  | —  |
| Foreign exchange losses                                       | 5,250   | 18,624   |
| Other   | 49,117  | 16,456   |
| Total non-operating expenses                                  | 100,625   | 35,227   |
| Ordinary income   | 2,411,117   | 2,951,111  |
| Extraordinary income  |   |  |
| Gain on step acquisitions                                     | 96,636  | —  |
| Gain on sales of non-current assets                           | 734   | —  |
| Gain on sales of investment securities                        | 2   | 267,143  |
| Gain on change in equity                                      | 32,968  | 10,495   |
| Extraordinary income  | 130,343   | 277,638  |
| Extraordinary losses  |   |  |
| Amortization of goodwill                                      | —   | 74,569   |
| Impairment loss   | 52,607  | 96,993   |
| Loss on retirement of non-current assets                      | 138,593   | 13,473   |
| Loss on valuation of investment securities                    | 156,636   | 59,019   |
| Loss on sales of shares of subsidiaries and associates        | 1,870   | —  |
| Settlement package  | 55,824  | —  |
| Total extraordinary losses                                    | 405,533   | 244,055  |
| Profit before income taxes                                    | 2,135,927   | 2,984,693  |
| Income taxes - current  | 409,173   | 789,596  |
| Income taxes - deferred                                       | (4,502)   | 100,161  |
| Total income taxes  | 404,670   | 889,757  |
| Profit  | 1,731,256   | 2,094,935  |
| Profit (loss) attributable to non-controlling interests       | (163,876)   | (51,297)   |
| Profit (loss) attributable to owners of parent                | 1,895,132   | 2,146,232  |

**Quarterly consolidated statement of comprehensive income**  
**For the first three quarters**

(Unit: thousands of yen)

|  | For the first three quarters of the<br>previous fiscal year<br>(from October 1, 2017<br>to June 30, 2018) | For the first three quarters of the<br>current fiscal year<br>(from October 1, 2018<br>to June 30, 2019) |
|--|---|--|
| Profit   | 1,731,256   | 2,094,935  |
| Other comprehensive income   |   |  |
| Valuation difference on available-for-sale securities                                | 254,224   | 262,523  |
| Remeasurements of defined benefit plans, net of tax                                  | (9,263)   | (13,271)   |
| Remeasurements of defined benefit plans, before tax                                  | 1,538   | (31)   |
| Share of other comprehensive income of entities<br>accounted for using equity method | 166   | (1,929)  |
| Total other comprehensive income   | 246,666   | 247,291  |
| Comprehensive income   | 1,977,922   | 2,342,227  |
| Comprehensive income attributable to   |   |  |
| Comprehensive income attributable to owners of parent                                | 2,143,136   | 2,394,297  |
| Comprehensive income attributable to non-controlling<br>interests                    | (165,213)   | (52,070)   |

### **(3) Notes concerning quarterly consolidated financial statements**

#### **(Notes concerning going concern assumption)**

**Not applicable.**

#### **(Significant changes in the scope of application of the equity method)**

From the third quarter under review, Shobunsha Publications, Inc. is included in the scope of application of the equity method following the Company's acquisition of additional shares in it.

#### **(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 on November 9, 2018 and received ¥2,115,000 thousand. As a result, during the first three quarters of the fiscal year under review, the amount of capital surplus increased ¥1,064,261 thousand, to ¥6,895,303 thousand at the end of the third quarter of the consolidated fiscal year under review, which included an increase of ¥10,354 thousand attributable to other factors.

#### **(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 at the beginning of the first quarter of the fiscal year 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)**

##### **Sale of shares in a consolidated subsidiary**

At a meeting of the Board of Directors held on May 24, 2019, the Company resolved to transfer all the shares of MShift, Inc., a consolidated subsidiary, and transferred the shares on July 24, 2019.

After the transfer of shares, MShift, Inc. is not a consolidated subsidiary of the Company.

##### **(1) Purpose of the share transfer**

The Company expected synergy between the businesses of the Company and MShift. However, the businesses have changed significantly, and the Company has come to not expect the synergy that it expected. The Company has thus decided that the share transfer is appropriate.

##### **(2) Entity to which the shares were transferred**

MShift, Inc.

##### **(3) Date of the transfer**

July 24, 2019

##### **(4) Name of the subsidiary, its business**

(i) Name: MShift, Inc.

(ii) Business: Mobile Banking Solution Business

##### **(5) Number of shares transferred, transfer price, shareholding after the transfer, effect of the sale**

(i) Number of shares transferred: 4,629,843 (number of voting rights: 4,629,843; percentage of voting rights: 65.56%)

(ii) Transfer price: 4,000 US dollars

(iii) Number of shares held after the transfer: - (number of voting rights: - ; percentage of voting rights: - )

(iv) Loss from the transfer: ¥102,986,000