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Summary of Consolidated Financial Results for the First Three Quarters of Fiscal Year ending September 30, 2016 (Japanese Accounting Standards)

July 29, 2016

Listed Company Name: MTI Ltd. Listing Exchanges: Tokyo Stock Exchange
Securities Code: 9438 URL: http://www.mti.co.jp
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Scheduled date to submit the Quarterly Securities Report (Shihanki Houkokusho): August 10, 2016
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 million yen are omitted)

1. Consolidated business results for the nine months ended June 30, 2016 (October 1, 2015 – June 30, 2016)

(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, 2016	24,919	0.2	4,385	24.3	4,329	25.9	2,621	34.8
First three quarters of fiscal year ended September 30, 2015	24,881	8.1	3,528	82.7	3,439	78.7	1,944	92.6

(Note) Comprehensive income: Nine months ended June 30, 2016: 2,504 millions of yen (16.8%)
Nine months ended June 30, 2015: 2,145 million of yen (122.4%)

	Net income per share	Net income per share/diluted
	Yen	Yen
First three quarters of fiscal year ending September 30, 2016	46.99	46.48
First three quarters of fiscal year ended September 30, 2015	36.90	36.21

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2016	23,277	17,242	71.6
As of September 30, 2015	24,738	16,591	64.8

(Reference) Shareholders' equity: As of June 30, 2016: 16,674 millions of yen
As of September 30, 2015: 16,034 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, 2015	–	12.00	–	8.00	20.00
Fiscal year ending September 30, 2016	–	8.00	–		
Fiscal year ending September 30, 2016 (forecast)				8.00	16.00

(Note) Revisions to dividend forecasts published most recently: No
The Company conducted a 2-for-1 common stock split that became effective on April 1, 2015. The dividend per share at the end of the second period of the fiscal year ended September 30, 2015 is calculated based on the number of shares before the stock split, but the year-end dividend per share is calculated based on the number of shares after the stock split.

Forecast for consolidated business results for the fiscal year ending September 30, 2016
(October 1, 2015 – September 30, 2016)

(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	32,500	(2.9)	5,000	17.8	4,940	19.2	3,000	15.1	54.01

(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: Yes
(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):
6/16: 60,470,800 shares 9/15: 60,226,800 shares
(ii) Number of treasury shares at the end of period
6/16: 4,925,228 shares 9/15: 3,260,928 shares
(iii) Average number of shares during the period (quarterly consolidated cumulative period)
Nine months ended 6/16: 55,776,592 shares Nine months ended 6/15: 52,690,540 shares

The Company conducted a 2-for-1 common stock split that became effective on April 1, 2015. The average number of shares during the period is calculated on the assumption that this share split was carried out at the beginning of the previous fiscal year after these stock splits.

* Status of a quarterly review

A quarterly review under the Financial Instruments and Exchange Act was being conducted at the publication of this summary of consolidated financial results.

* 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 3~4 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 Monday, August 1, 2016. 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

(1) Explanation on operating results

Overview of the first three quarters ended June 30, 2016 (From October 1, 2015 to June 30, 2016)

During the first three quarters under review, smartphone unit sales grew temporarily due to a cash refund campaign launched by cellphone carriers before the abolition of the practice of offering cellphones virtually free of charge in February 2016. However, since the abolition of this practice, smartphone unit sales remained low in the period that included March, the month which the biggest sales battle usually takes place annually. Consequently, smartphone unit sales also remained sluggish in the third quarter.

In this environment, the Company focused on efforts to acquire paying subscribers on smartphones to its content offering high average revenue per user (ARPU) at cellphone shops across Japan and other business locations. However, the number of paying subscribers on smartphones came to 5.74 million at the end of June 2016 (down 0.26 million from the end of September 2015), reflecting the low pace of their acquisition in the second and third quarters under review. As a result, the total number of paying subscribers decreased 0.59 million, to 7.35 million at the end of June 2016.

Although the total number of paying subscribers declined year on year, in the mainstay services, the ARPU of paying subscribers on smartphones maintained an upward trend. As a result, net sales remained largely unchanged at ¥24,919 million (up 0.2% year on year), while gross profit came to ¥20,990 million (up 0.3% year on year).

Operating income, ordinary income and profit attributable to owners of parent amounted to ¥4,385 million (up 24.3% year on year), ¥4,329 million (up 25.9% year on year) and ¥2,621 million (up 34.8% year on year), respectively. These results reflected a decline in selling, general and administrative expenses (SG&A) mainly attributable to a year on year drop in advertising expenses.

Consolidated business results
(From October 1, 2015 to June 30, 2016)

	First three quarters of the fiscal year ending September 30, 2016	First three quarters of the fiscal year ended September 30, 2015	Change	
			Amount	Percentage change
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	24,919	24,881	+37	+0.2
Cost of sales	3,929	3,947	(18)	(0.5)
Gross profit	20,990	20,933	+56	+0.3
SG&A	16,604	17,405	(800)	(4.6)
Operating income	4,385	3,528	+857	+24.3
Ordinary income	4,329	3,439	+889	+25.9
Profit attributable to owners of parent	2,621	1,944	+677	+34.8

Breakdown of SG&A
(From October 1, 2015 to June 30, 2016)

	First three quarters of the fiscal year ending September 30, 2016	First three quarters of the fiscal year ended September 30, 2015	Change	
			Amount	Percentage change
	Millions of yen	Millions of yen	Millions of yen	%
Total	16,604	17,405	(800)	(4.6)
Advertising expenses	5,959	6,497	(537)	(8.3)
Personnel expenses	4,112	4,211	(99)	(2.4)
Commission fee	2,832	2,758	+73	+2.7
Subcontract expenses	1,073	1,027	+45	+4.4
Depreciation	918	1,009	(91)	(9.1)
Other	1,708	1,900	(192)	(10.1)

(2) Explanation on financial position
1) Assets, Liabilities and Net assets

At the end of the first three quarters under review, total assets fell ¥1,460 million from the end of September 2015, to ¥23,277 million.

Current assets decreased ¥1,666 million, mainly due to falls in notes and accounts receivable-trade and accounts receivable-other. Non-current assets increased ¥205 million, chiefly reflecting rises in software and investment securities.

Current liabilities shrank ¥2,130 million as a result of factors such as falls in the current portion of long-term loans payable and accounts payable-other. Non-current liabilities grew ¥18 million, primarily owing to an increase in net defined benefit liability.

Net assets increased ¥651 million, mainly attributable to ¥2,621 million posted as profit attributable to owners of parent and the disposal of treasury stock, offsetting the purchase of treasury stock and cash dividends paid.

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2016	23,277	17,242	71.6
As of September 30, 2015	24,738	16,591	64.8

(3) Explanation of future forecast information including consolidated forecast

In the fourth quarter, smartphone unit sales are expected to remain low, reflecting the adverse effects of the abolition of the practice of offering cellphones virtually free of charge. In this situation, the Company aims to achieve its targets for consolidated operating results by maintaining its focus on expanding the number of paying subscribers on smartphones and working to increase average revenue per user (ARPU).

Faced with the ongoing stagnation in the sales of smartphones, the Company will continue promoting the sales of its content offering high ARPU by making the most of its strong sales channels, which consist of cellphone shops throughout Japan that promote the sales of content to customers. By promoting cooperation with MVNOs (*), the Company will also work to acquire paying subscribers on smartphones.

In the healthcare-related service business, which the Company is approaching with a medium- to long-term perspective, the Company will pursue a number of strategies to increase sales. This business has tremendous potential for future growth and is expected to shift to a stock-type business with long-term support stages in the lives of customers.

Specifically, the Company will aggressively promote the sales of CARADA package services to corporate customers through companies operating cellphone shops nationwide (dealers). At the same time, the Company will increase the number of contracts for training management services provided by a group company with fitness clubs, incorporated schools and the like.

Forecasts for consolidated business results for the fiscal year ending September 30, 2016 are as stated in the "Notice related to the Amendment of Forecasts for Consolidated Business Results" that was announced today.

* MVNO is an abbreviation for mobile virtual network operator. An MVNO provides mobile network services, such as cellphones and PHS, through its own brands. It does not develop or manage wireless communication link facilities.

Forecasts for consolidated business results for the fiscal year ending September 30, 2016
(From October 1, 2015 to September 30, 2016)

Consolidated		
Net sales	32,500 millions of yen	(Down 2.9% year on year)
Operating income	5,000 millions of yen	(Up 17.8% year on year)
Ordinary income	4,940 millions of yen	(Up 19.2% year on year)
Profit attributable to owners of parent	3,000 millions of yen	(Up 15.1% year on year)

2. Matters relating to summary information (Notes)

(1) Changes in important subsidiaries during the period

Not applicable.

(2) Adoption of specific accounting methods for producing quarterly consolidated financial statement

Not applicable.

(3) Changes in accounting policies, changes in accounting estimates, restatements

Changes in accounting policies

(Application of the Accounting Standard for Business Combinations, etc.)

From the first quarter of the fiscal year under review, the Company applied the "Accounting Standard for Business Combinations" (ASBJ statement No. 21, September 13, 2013; hereinafter the "Accounting Standard for Business Combinations"), the "Accounting Standard for Consolidated Financial Statements" (ASBJ statement No. 22, September 13, 2013; hereinafter the "Accounting Standard for Consolidated Financial Statements") and the "Accounting Standard for Business Divestures" (ASBJ statement No. 7, September 13, 2013; hereinafter the "Accounting Standard for Business Divestures"). The purpose of applying these standards was to change the method for recording the difference from changes in the Company's equity in its subsidiaries that remain controlled by the Company as capital surplus and the expenses related to acquisition as an expense in the consolidated fiscal year in which the expenses are incurred. For business combinations implemented after the beginning of the first quarter of the fiscal year under review, the method will be changed to one that reflects the revision of the distributed amounts of acquisition costs by determining provisional accounting treatment in the quarterly consolidated financial statements for the quarterly consolidated accounting period to which the date of the relevant business combination belongs. In addition, the Company has changed the presentation of net income and other items and the presentation of minority interests to non-controlling interests. To reflect these changes, the Company rearranged the interim consolidated financial statements for the first three quarters of the previous fiscal year and the consolidated financial statements for the previous fiscal year.

The Accounting Standard for Business Combinations and other standards are applied in accordance with the transitional treatment prescribed in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures. These standards have been applied since the beginning of the first quarter of the fiscal year under review. Their application will continue going forward.

As a result, capital surplus at the end of the third quarter under review declined ¥73,381 thousand.

(Depreciation method of property, plant and equipment)

Following the revision to the Corporation Tax Act, the Company adopted the "Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016" (ASBJ PITF No. 32, June 17, 2016) effective from the third quarter under review. In adopting this solution, it changed the depreciation method used for facilities attached to buildings and structures acquired on or after April 1, 2016, switching from the declining balance method to the straight line method.

As in the first three quarters under review, this change did not have any impact on the Company's quarterly financial statements.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheets

Fiscal year ended September 30, 2015 and first three quarters of ending September 30, 2016

(Thousands of yen)

	As of September 30, 2015	As of June 30, 2016
Assets		
Current assets		
Cash and deposits	11,608,562	11,342,410
Notes and accounts receivable-trade	6,885,765	6,266,248
Deferred tax assets	358,149	207,532
Other	1,430,037	804,127
Allowance for doubtful accounts	(71,095)	(75,349)
Total current assets	20,211,420	18,544,969
Noncurrent assets		
Property, plant and equipment	146,488	147,743
Intangible assets		
Software	2,254,746	2,333,774
Goodwill	336	—
Other	22,168	26,608
Total intangible assets	2,277,251	2,360,383
Investments and other assets		
Investment securities	796,241	874,591
Lease and guarantee deposits	501,636	494,631
Deferred tax assets	792,649	843,586
Other	30,145	29,031
Allowance for doubtful accounts	(17,589)	(17,601)
Total investment and other assets	2,103,083	2,224,239
Total noncurrent assets	4,526,824	4,732,365
Total assets	24,738,244	23,277,334

(Thousands of yen)

	As of September 30, 2015	As of June 30, 2016
Liabilities		
Current liabilities		
Account payable-trade	1,179,484	1,097,346
Current portion of long-term loans payable	518,679	—
Accounts payable-other	2,571,997	1,855,255
Income taxes payable	1,354,619	953,067
Provision for bonuses	—	163,944
Allowance for coin usage	234,836	204,994
Other	1,334,097	788,233
Total current liabilities	7,193,715	5,062,842
Noncurrent liabilities		
Long-term loans payable	79,925	—
Net defined benefit liability	832,740	937,805
Negative goodwill	40,541	33,702
Other	141	141
Total noncurrent liabilities	953,349	971,649
Total liabilities	8,147,064	6,034,491
Net assets		
Shareholders' equity		
Capital stock	4,947,984	4,995,544
Capital surplus	5,469,051	5,817,782
Retained earning	6,300,484	8,031,134
Treasury stock	(695,491)	(2,148,888)
Total shareholders' equity	16,022,029	16,695,572
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	83,691	64,807
Foreign currency translation adjustment	(7,837)	(29,579)
Remeasurements of defined benefit plans	(62,969)	(56,214)
Total accumulated other comprehensive income	12,884	(20,986)
Subscription rights to shares	127,100	145,055
Non-controlling interests	429,165	423,201
Total net assets	16,591,180	17,242,842
Total liabilities and assets	24,738,244	23,277,334

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

Quarterly consolidated statements of income

For the first three quarters of the fiscal year ended September 30, 2015 and fiscal year ending September 30, 2016

（Thousands of yen）

	First three quarters of the fiscal year ended September 30, 2015	First three quarters of the fiscal year ending September 30, 2016
Net sales	24,881,485	24,919,315
Cost of sales	3,947,714	3,929,215
Gross profit	20,933,771	20,990,099
Selling, general and administrative expenses	17,405,260	16,604,288
Operating income	3,528,511	4,385,810
Non-operating income		
Interest income	138	168
Dividend income	6,059	6,206
Amortization of negative goodwill	6,838	6,838
Gain on reversal of subscription rights to shares	4,558	―
Compensation income	12,375	―
Other	36,707	7,658
Total non-operating income	66,676	20,871
Non-operating expenses		
Interest expenses	3,617	2,178
Share of loss of entities accounted for using equity method	97,268	53,834
Share issuance cost	24,815	2,240
Other	29,548	19,054
Total non-operating expenses	155,249	77,307
Ordinary income	3,439,938	4,329,374
Extraordinary income		
Gain on step acquisitions	33,509	―
Gain on sales of non-current assets	―	4,592
Total extraordinary income	33,509	4,592
Extraordinary loss		
Loss on sales of non-current assets	5,183	―
Impairment loss	20,820	―
Loss on retirement of non-current assets	64,153	16,218
Loss on valuation of investment securities	―	100,000
Settlement package	15,468	―
Total extraordinary loss	105,626	116,218
Income before income taxes and minority interests	3,367,821	4,217,749
Income taxes-current	1,113,322	1,564,291
Income taxes-deferred	206,638	104,127
Total income taxes	1,319,960	1,668,419
Net income	2,047,860	2,549,330
Profit (loss) attributable to non-controlling interests	103,710	(71,859)
Profit attributable to owners of parent	1,944,150	2,621,189

Quarterly consolidated statements of comprehensive income

For the first three quarters of the fiscal year ended September 30, 2015 and fiscal year ending September 30, 2016

(Thousands of yen)

	First three quarters of the fiscal year ended September 30, 2015	First three quarters of the fiscal year ending September 30, 2016
Net income	2,047,860	2,549,330
Other comprehensive income		
Valuation difference on available-for-sale securities	70,080	(20,805)
Foreign currency translation adjustment	17,799	(28,875)
Remeasurements of defined benefit plans, net of tax	6,258	6,755
Share of other comprehensive income of entities accounted for using equity method	3,155	(1,811)
Total other comprehensive income	97,293	(44,737)
Comprehensive income	2,145,154	2,504,592
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	2,047,160	2,587,318
Comprehensive income attributable to non-controlling interests	97,993	(82,725)

（3） Notes concerning quarterly consolidated financial statements

(Notes concerning going concern assumption)

Not applicable.

(Notes on significant changes in shareholders' equity)

(Purchase of treasury stock)

The Company purchased treasury stock totaling 2,814,300 shares in the period between February 2, 2016 and March 31, 2016 in accordance with the resolutions of the meetings of the Board of Directors held on January 29, 2016 and February 18, 2016. As a result, treasury stock increased ¥1,955,144 thousand in the first three quarters under review.

(Disposal of treasury stock)

The Company disposed of treasury stock totaling 1,150,000 shares through private placement with MEDIPAL HOLDINGS CORPORATION as an underwriter on June 23, 2016 in accordance with the resolution of the meeting of the Board of Directors held on June 7, 2016. As a result, capital surplus increased ¥374,552 thousand and treasury stock decreased ¥501,747 thousand in the first three quarters under review.

(Additional purchase of shares of subsidiaries)

The Company made an additional purchase of shares of CLIMB Factory Co., Ltd. through a capital increase through private placement that was carried out by CLIMB Factory Co., Ltd., the Company's consolidated subsidiary, on April 25, 2016 in accordance with the resolution of the meeting of the Board of Directors held on April 21, 2016. As a result, capital surplus decreased ¥73,381 thousand in the first three quarters under review.

As a result of the above, capital surplus stood at ¥5,817,782 thousand and treasury stock came to ¥2,148,888 thousand at the end of the first three quarters under review.