

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, 2017 (Japanese Accounting Standards)

July 28, 2017

Listed Company Name: MTI Ltd. Listing Exchanges: Tokyo Stock Exchange
 Securities Code: 9438 URL: <http://www.mti.co.jp>
 Representative: Toshihiro Maeta, President and Chief Executive Officer
 Contact: Hiroshi Matsumoto, Managing Director Phone: +81-3-5333-6323
 Scheduled date to submit the Quarterly Securities Report (Shihanki Houkokusho): August 10, 2017
 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, 2017

(October 1, 2016 – June 30, 2017)

(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, 2017	23,096	(7.3)	3,214	(26.7)	3,176	(26.6)	1,144	(56.3)
First three quarters of fiscal year ended September 30, 2016	24,919	0.2	4,385	24.3	4,329	25.9	2,621	34.8

(Note) Comprehensive income: Nine months ended June 30, 2017: 1,074 millions of yen (57.1%)
 Nine months ended June 30, 2016: 2,504 millions of yen 16.8%

	Net income per share	Net income per share/diluted
	Yen	Yen
First three quarters of fiscal year ending September 30, 2017	20.95	20.82
First three quarters of fiscal year ended September 30, 2016	46.99	46.48

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2017	23,228	17,650	71.8
As of September 30, 2016	25,154	17,852	68.8

(Reference) Shareholders' equity: As of June 30, 2017: 16,676 millions of yen
 As of September 30, 2016: 17,306 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, 2016	–	8.00	–	8.00	16.00
Fiscal year ending September 30, 2017	–	8.00	–		
Fiscal year ending September 30, 2017 (forecast)			–	8.00	16.00

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

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. Matters relating to summary information (Notes).....	4
(1) Changes in important subsidiaries during the period	4
(2) Adoption of specific accounting methods for producing quarterly consolidated financial statements	4
(3) Changes in accounting policies, changes in accounting estimates, restatements	4
(4) Additional information	4
3. Quarterly consolidated financial statements	5
(1) Quarterly consolidated balance sheet	5
(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income ..	7
(3) Notes concerning quarterly consolidated financial statements	9
(Notes concerning going concern assumption)	9
(Notes on significant changes in shareholders' equity)	9
(Significant subsequent events)	9

1. Qualitative information on financial results for the current settlement

(1) Explanation on operating results

Overview of the first half ended June 30, 2017 (From October 1, 2016 to June 30, 2017)

During the first three quarters under review, smartphone unit sales remained sluggish, and the Company had a hard time acquiring paying subscribers on smartphones at cellphone shops across Japan. Despite an increase in the number of new paying subscribers associated with Video Market Corporation being added to the consolidated accounts, the number of paying subscribers on smartphones came to 5.43 million at the end of June 2017 (down 0.26 million from the end of September 2016). As a result, the total number of paying subscribers has decreased by 0.48 million, to 6.74 million.

While average revenue per user (ARPU) on smartphones remained on an upward trend along with the added revenue associated with Video Market Corporation being newly reflected in the consolidated accounts, the Company suffered declines in both net sales and gross profit, to ¥23,096 million (down 7.3% year on year) and ¥19,057 million (down 9.2% year on year), respectively, as a result of the year-on-year reduction in the overall number of paying subscribers.

Selling, general and administrative expenses fell due to a decrease in advertising expenses associated with the lower acquisition of paying subscribers on smartphones, which eventually failed to make up for the decrease in gross profit. As a result, operating income declined to ¥3,214 million (down 26.7% year on year) and ordinary income fell to ¥3,176 million (down 26.6% year on year).

Profit attributable to owners of parent declined to ¥1,144 million (down 56.3% year on year), primarily due to the posting of the amortization of goodwill as an extraordinary loss associated with the conversion of Video Market Corporation to a consolidated subsidiary in the second quarter.

Consolidated business results

(From October 1, 2016 to June 30, 2017)

	First three quarters of the fiscal year ending September 30, 2017	First three quarters of the fiscal year ended September 30, 2016	Change	
			Amount	Percentage change
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	23,096	24,919	(1,822)	(7.3)
Cost of sales	4,039	3,929	+110	+2.8
Gross profit	19,057	20,990	(1,932)	(9.2)
SG&A	15,843	16,604	(760)	(4.6)
Operating income	3,214	4,385	(1,171)	(26.7)
Ordinary income	3,176	4,329	(1,153)	(26.6)
Profit attributable to owners of parent	1,144	2,621	(1,476)	(56.3)

Breakdown of SG&A

(From October 1, 2016 to June 30, 2017)

	First three quarters of the fiscal year ending September 30, 2017	First three quarters of the fiscal year ended September 30, 2016	Change	
			Amount	Percentage change
	Millions of yen	Millions of yen	Millions of yen	%
Total	15,843	16,604	(760)	(4.6)
Advertising expenses	4,438	5,959	(1,520)	(25.5)
Personnel expenses	4,355	4,112	+243	+5.9
Commission fee	2,766	2,832	(66)	(2.3)
Subcontract expenses	1,178	1,073	+105	+9.8
Depreciation	1,234	918	+315	+34.4
Other	1,869	1,708	+161	+9.4

(2) Explanation on financial position

1) Assets, Liabilities and Net assets

At the end of the third quarter under review, total assets fell ¥1,926 million from the end of September 2016, to ¥23,228 million.

Current assets decreased ¥3,657 million, mainly due to a fall in cash and deposits. Non-current grew ¥1,731 million, Owing mostly to increases in investment securities.

Current liabilities declined by ¥1,875 million, primarily reflecting a fall in income taxes payable. Meanwhile, non-current liabilities increased by ¥151 million, largely due to an increase in net defined benefit liability.

Net assets dropped ¥202 million, due to the acquisition of treasury stock and cash dividends paid, in spite of ¥1,144 Million posted as profit attributable to owners of parent.

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2017	23,228	17,650	71.8
As of September 30, 2016	25,154	17,852	68.8

(3) Explanation of future forecast information including consolidated forecast

Smartphone unit sales are expected to grow at a sluggish pace in the fourth quarter. Given this situation, the Company will focus on promoting sales of its content offering high ARPU at cellphone shops throughout Japan to maintain the improved APPU.

In the healthcare-related service business, the Company aims to increase the number of contracts for training management services offered by a group company and will work to disseminate the electronic maternal and child health handbook service to local governments nationwide.

Our forecasts for consolidated business results for the full fiscal year ending September 30, 2017 remain unchanged from the previously announced forecasts dated April 27, 2017.

Forecasts for consolidated business results for the fiscal year ending September 30, 2017 (From October 1, 2016 to September 30, 2017)

Consolidated		
Net sales	32,000 millions of yen	(Down 2.6% year on year)
Operating income	4,060 millions of yen	(Down 24.2% year on year)
Ordinary income	4,000 millions of yen	(Down 24.7% year on year)
Profit attributable to owners of parent	1,600 millions of yen	(Down 51.8% 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

Not applicable.

(4) Additional information

(Adoption of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016) is applied from the first quarter of the current fiscal year.

3. Quarterly consolidated financial statements

(1) Quarterly consolidated balance sheet

Fiscal year ended September 30, 2016 and first three quarters of ending September 30, 2017

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2016)	Current fiscal year (As of June 30, 2017)
Assets		
Current assets		
Cash and deposits	12,613,012	9,292,503
Notes and accounts receivable-trade	6,163,789	6,118,038
Deferred tax assets	316,742	154,355
Other	1,023,195	888,321
Allowance for doubtful accounts	(65,095)	(58,659)
Total current assets	20,051,644	16,394,559
Non-current assets		
Property, plant and equipment	179,023	252,556
Intangible assets		
Software	2,462,449	2,461,051
Goodwill	14,898	53,102
Other	26,837	35,863
Total intangible assets	2,504,185	2,550,017
Investments and other assets		
Investment securities	1,054,687	2,483,721
Lease and guarantee deposits	494,963	520,701
Deferred tax assets	853,155	1,007,134
Other	34,048	30,126
Allowance for doubtful accounts	(17,519)	(10,704)
Total investment and other assets	2,419,334	4,030,978
Total non-current assets	5,102,543	6,833,552
Total assets	25,154,188	23,228,112

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2016)	Current fiscal year (As of June 30, 2017)
Liabilities		
Current liabilities		
Account payable-trade	1,177,351	1,249,431
Current portion of long-term loans payable	—	36,528
Accounts payable-other	2,290,594	1,800,139
Income taxes payable	1,343,684	181,182
Provision for bonuses	—	173,407
Allowance for coin usage	188,361	159,129
Other	1,148,832	673,825
Total current liabilities	6,148,824	4,273,645
Non-current liabilities		
Long-term loans payable	—	46,694
Net defined benefit liability	1,099,402	1,215,112
Negative goodwill	31,423	24,584
Other	21,587	17,480
Total non-current liabilities	1,152,413	1,303,872
Total liabilities	7,301,237	5,577,517
Net assets		
Shareholders' equity		
Capital stock	5,012,181	5,057,633
Capital surplus	5,834,419	5,879,456
Retained earning	8,727,679	9,029,310
Treasury shares	(2,148,888)	(3,148,848)
Total shareholders' equity	17,425,392	16,817,552
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	65,027	13,338
Foreign currency translation adjustment	(42,706)	(26,499)
Remeasurements of defined benefit plans	(141,548)	(127,853)
Total accumulated other comprehensive income	(119,227)	(141,014)
Subscription rights to shares	132,236	289,460
Non-controlling interests	414,550	684,595
Total net assets	17,852,951	17,650,594
Total liabilities and assets	25,154,188	23,228,112

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

Quarterly consolidated statement of income

For the first three quarters of the fiscal year ended September 30, 2016 and fiscal year ending September 30, 2017

(Unit: thousands of yen)

	First three quarters of the previous fiscal year (from October 1, 2015 to June 30, 2016)	First three quarters of the current fiscal year (from October 1, 2016 to June 30, 2017)
Net sales	24,919,315	23,096,853
Cost of sales	3,929,215	4,039,308
Gross profit	20,990,099	19,057,544
Selling, general and administrative expenses	16,604,288	15,843,475
Operating income	4,385,810	3,214,069
Non-operating income		
Interest income	168	451
Dividend income	6,206	43,860
Amortization of negative goodwill	6,838	6,838
Other	7,658	28,931
Total non-operating income	20,871	80,082
Non-operating expenses		
Interest expenses	2,178	390
Share of loss of entities accounted for using equity method	53,834	99,983
Share issuance cost	2,240	—
Foreign exchange losses	10,400	6,836
Commission for purchase of treasury shares	4,736	2,764
Other	3,916	7,863
Total non-operating expenses	77,307	117,837
Ordinary income	4,329,374	3,176,313
Extraordinary income		
Gain on step acquisitions	—	693,816
Gain on sales of non-current assets	4,592	—
Gain on sales of investment securities	—	154,911
Total extraordinary income	4,592	848,727
Extraordinary losses		
Amortization of goodwill	—	1,399,033
Loss on retirement of non-current assets	16,218	83,739
Loss on valuation of investment securities	100,000	190,650
Settlement package	—	108,817
Total extraordinary losses	116,218	1,782,241
Income before income taxes	4,217,749	2,242,799
Income taxes-current	1,564,291	1,129,217
Income taxes-deferred	104,127	26,138
Total income taxes	1,668,419	1,155,356
Profit	2,549,330	1,087,443
Profit (loss) attributable to non-controlling interests	(71,859)	(57,234)
Profit attributable to owners of parent	2,621,189	1,144,677

Quarterly consolidated statement of comprehensive income**For the first three quarters of the fiscal year ended September 30, 2016 and fiscal year ending September 30, 2017**

(Unit: thousands of yen)

	First three quarters of the previous fiscal year (from October 1, 2015 to June 30, 2016)	First three quarters of the current fiscal year (from October 1, 2016 to June 30, 2017)
Net income	2,549,330	1,087,443
Other comprehensive income		
Valuation difference on available-for-sale securities	(20,805)	(50,474)
Foreign currency translation adjustment	(28,875)	22,734
Remeasurements of defined benefit plans, net of tax	6,755	13,695
Share of other comprehensive income of entities accounted for using equity method	(1,811)	650
Total other comprehensive income	(44,737)	(13,392)
Comprehensive income	2,504,592	1,074,050
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	2,587,318	1,122,891
Comprehensive income attributable to non-controlling interests	(82,725)	(48,840)

(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)

By resolution made at a meeting of the Board of Directors held on October 31, 2016, the Company purchased 1,407,900 shares of treasury stock from November 2, 2016 to December 22, 2016. As a result, the value of treasury stock increased by 999,959 thousand yen during the first three quarters under review to 3,148,848 thousand yen at the end of the third quarter.

(Significant subsequent events)

(Merger of consolidated subsidiary)

A meeting of the Board of Directors of MTI Ltd. was held on July 28, 2017 and approved the merger of Climb Factory Co., Ltd., a consolidated subsidiary of the Company, effective October 1, 2017. The Company concluded the merger agreement as of the same date.

1. Transaction outline

- (1) Name of party to the business combination and line of business at the time of the merger
Company name: Climb Factory Co., Ltd.
Line of business: Delivering IT solutions specializing in sport
- (2) Date of the business combination
October 1, 2017 (planned)
- (3) Legal form of the business combination
MTI Ltd. will remain as a going concern following the merger. As a result, Climb Factory Co., Ltd. will be liquidated.
- (4) Names of parties after the business combination
There will be no change.
- (5) Other matters related to the business combination
Climb Factory Co., Ltd. is engaged in system development, delivering services related to information analysis and offering solutions for sport settings. Climb Factory has been merged in pursuit of greater business operation efficiency.

2. Outline of accounting policy to be adopted

The merger will be treated as a common control transaction pursuant to the Accounting Standard for Business Combinations (ASBJ Statement No.21 issued on September 13, 2013), as well as the Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10 issued on September 13, 2013).