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Summary of Consolidated Financial Results for the First Three Quarters of
Fiscal Year ending September 30, 2018 (Japanese Accounting Standards)

July 30, 2018

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): August 10, 2018

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, 2018

(October 1, 2017 – June 30, 2018)

(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, 2018	22,199	(3.9)	2,464	(23.3)	2,411	(24.1)	1,895	65.6
First three quarters of fiscal year ended September 30, 2017	23,096	(7.3)	3,214	(26.7)	3,176	(26.6)	1,144	(56.3)

(Note) Comprehensive income: Nine months ended June 30, 2018: 1,977 millions of yen 84.2%
Nine months ended June 30, 2017: 1,074 millions of yen (57.1%)

	Net income per share	Net income per share/diluted
	Yen	Yen
First three quarters of fiscal year ending September 30, 2018	34.74	34.61
First three quarters of fiscal year ended September 30, 2017	20.95	20.82

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2018	24,309	19,290	75.5
As of September 30, 2017	23,897	17,937	71.2

(Reference) Shareholders' equity: As of June 30, 2018: 18,341 millions of yen
As of September 30, 2017: 17,026 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, 2017	—	8.00	—	8.00	16.00
Fiscal year ending September 30, 2018	—	8.00	—		
Fiscal year ending September 30, 2018 (forecast)			—	8.00	16.00

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

3. Forecast for consolidated business results for the fiscal year ending September 30, 2018

(October 1, 2017 – September 30, 2018)

(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
Full year	30,000	(3.0)	2,800	(30.9)	2,800	(29.5)	2,000	39.4		36.64

(Note) Revisions to forecasts for consolidated business results published most recently: No

* Note:

(1) Changes in important subsidiaries during the period

(changes in specified subsidiaries resulting in change in scope of consolidation): Not applicable

New: –

Exception: –

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

Not applicable

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

(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):

6/18: 60,922,000 shares

9/17: 60,854,400 shares

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

6/18: 6,333,128 shares

9/17: 6,333,128 shares

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

Nine months ended 6/18: 54,549,509 shares

Nine months ended 6/17: 54,636,138 shares

* This Summary of Consolidated Financial Results 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 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 Tuesday, July 31, 2018. 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 three quarters ended June 30, 2018 (From October 1, 2017 to June 30, 2018)

During the first three quarters under review, partly because of the Company's emphasis on the cost-efficiency in acquiring paying subscribers on smartphones at cellphone shops as a measure for sluggish smartphone unit sales, among other factors, the number of paying subscribers on smartphones came to 4.7 million at the end of June 2018 (down 0.62 million from the end of September 2017). As a result, the total number of paying subscribers has decreased by 0.79 million, to 5.77 million.

While the total number of paying subscribers has decreased compared to the same period of the preceding fiscal year, average revenue per user (ARPU) remained on an upward trend along with the added revenue associated with the inclusion of Video Market Corporation in the consolidated accounts (implemented in March 2017). As a result, net sales came at ¥22,199 million (down 3.9% year on year).

On the other hand, gross profit declined to ¥17,374 million (down 8.8% year on year), reflecting an increase in cost of sales as a result of boosting our lineup in video distribution.

Operating income and ordinary income also declined, to ¥2,464 million (down 23.3% year on year) and ¥2,411 million (down 24.1% year on year), respectively, mainly due the decrease in gross profit, although selling, general and administrative expenses decreased primarily because of a fall in advertising expenses.

Profit attributable to owners of parent increased to ¥1,895 million (up 65.6% year on year), primarily attributable to a decrease in tax expenses as a result of having taken over the loss carried forward of Climb Factory Co., Ltd., a wholly owned subsidiary, concurrently with its absorption-type merger (October 1, 2017), and the posting of an extraordinary loss in the same period of the previous fiscal year associated with the conversion of Video Market Corporation into a consolidated subsidiary.

Consolidated business results

(Period from October 1, 2017 to June 30, 2018)

	First three quarters of the fiscal year ending September 30, 2018	First three quarters of the fiscal year ended September 30, 2017	Change	
			Amount	Percentage change
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	22,199	23,096	(897)	(3.9)
Cost of sales	4,824	4,039	+785	+19.4
Gross profit	17,374	19,057	(1,682)	(8.8)
SG&A	14,910	15,843	(933)	(5.9)
Operating income	2,464	3,214	(749)	(23.3)
Ordinary income	2,411	3,176	(765)	(24.1)
Profit attributable to owners of parent	1,895	1,144	+750	+65.6

Breakdown of SG&A

(Period from October 1, 2017 to June 30, 2018)

	First three quarters of the fiscal year ending September 30, 2018	First three quarters of the fiscal year ended September 30, 2017	Change	
			Amount	Percentage change
	Millions of yen	Millions of yen	Millions of yen	%
Total	14,910	15,843	(933)	(5.9)
Advertising expenses	3,578	4,438	(860)	(19.4)
Personnel expenses	4,490	4,355	+134	+3.1
Commission fee	2,708	2,766	(57)	(2.1)
Subcontract expenses	764	1,178	(414)	(35.2)
Depreciation	1,265	1,234	+31	+2.5
Other	2,102	1,869	+232	+12.4

(2) Explanation on financial position

1) Assets, liabilities and net assets

At the end of the third quarter under review, total assets increased ¥411 million from the end of September 2017, to ¥24,309 million.

Current assets decreased ¥1,240 million, mainly due to a fall in notes and accounts receivable - trade and cash and deposits. Non-current assets increased ¥1,651 million, largely as a result of an increase in investment securities and goodwill, offsetting a decrease in software.

Current liabilities dropped ¥1,048 million, primarily reflecting a decline in income taxes payable and accounts payable - other. Noncurrent liabilities increased ¥105 million, chiefly due to a rise in net defined benefit liability.

Net assets increased ¥1,353 million, mainly due to the posting of profit attributable to owners of parent of ¥1,895 million, which offset the payment of cash dividends.

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2018	24,309	19,290	75.5
As of September 30, 2017	23,897	17,937	71.2

(3) Explanation of future forecast information including consolidated forecast

In the fourth quarter the Company will continue to focus its efforts on expanding sales in the healthcare-related service business and seek to boost average revenue per user (ARPU) from paying subscribers on smartphones in the content distribution business, in spite of a further reduction predicted in the overall number of paying subscribers.

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.

Earnings forecast for the fiscal year ending September 30, 2018

(Period from October 1, 2017 to September 30, 2018)

Consolidated profit and loss		
Net sales	30,000 millions of yen	(an decrease of 3.0% y-o-y)
Operating income	2,800 millions of yen	(an decrease of 30.9% y-o-y)
Ordinary income	2,800 millions of yen	(an decrease of 29.5% y-o-y)
Profit attributable to owners of parent	2,000 millions of yen	(an increase of 39.4% y-o-y)

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 statements

Not applicable.

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

Not applicable.

3. Quarterly consolidated financial statements and important notes
(1) Quarterly consolidated balance sheet

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2017)	Current fiscal year (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	10,133,961	9,441,489
Notes and accounts receivable-trade	6,187,768	5,324,824
Deferred tax assets	237,802	136,489
Other	871,609	1,295,697
Allowance for doubtful accounts	(64,541)	(72,080)
Total current assets	17,366,600	16,126,419
Non-current assets		
Property, plant and equipment	276,891	311,544
Intangible assets		
Software	2,078,726	1,750,850
Goodwill	46,401	917,290
Other	73,803	39,967
Total intangible assets	2,198,932	2,708,108
Investments and other assets		
Investment securities	2,437,544	3,607,970
Lease and guarantee deposits	526,887	504,560
Deferred tax assets	1,018,159	1,024,457
Other	136,387	137,493
Allowance for doubtful accounts	(63,532)	(111,526)
Total investment and other assets	4,055,446	5,162,954
Total non-current assets	6,531,270	8,182,607
Total assets	23,897,871	24,309,027

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2017)	Current fiscal year (As of June 30, 2018)
Liabilities		
Current liabilities		
Account payable-trade	1,276,051	1,208,066
Current portion of long-term loans payable	—	3,120
Accounts payable-other	1,974,346	1,555,534
Income taxes payable	668,727	26,425
Provision for bonuses	—	191,209
Allowance for coin usage	148,536	147,200
Other	816,069	703,946
Total current liabilities	4,883,730	3,835,502
Non-current liabilities		
Long-term loans payable	—	5,980
Net defined benefit liability	1,020,346	1,111,402
Negative goodwill	22,305	15,467
Deferred tax liabilities	—	19,767
Other	34,111	30,005
Total non-current liabilities	1,076,764	1,182,622
Total liabilities	5,960,494	5,018,124
Net assets		
Shareholders' equity		
Capital stock	5,069,848	5,083,670
Capital surplus	5,790,072	5,803,893
Retained earning	9,311,231	10,351,191
Treasury shares	(3,148,848)	(3,148,848)
Total shareholders' equity	17,022,303	18,089,907
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(12,646)	241,578
Foreign currency translation adjustment	(22,912)	(30,671)
Remeasurements of defined benefit plans	39,256	40,794
Total accumulated other comprehensive income	3,697	251,700
Subscription rights to shares	297,991	331,743
Non-controlling interests	613,383	617,550
Total net assets	17,937,376	19,290,902
Total liabilities and assets	23,897,871	24,309,027

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income
Quarterly consolidated statement of income
For the first three quarters

(Unit: thousands of yen)

	First three quarters of the previous fiscal year (from October 1, 2016 to June 30, 2017)	First three quarters of the current fiscal year (from October 1, 2017 to June 30, 2018)
Net sales	23,096,853	22,199,332
Cost of sales	4,039,308	4,824,566
Gross profit	19,057,544	17,374,765
Selling, general and administrative expenses	15,843,475	14,910,129
Operating income	3,214,069	2,464,636
Non-operating income		
Interest income	451	112
Dividend income	43,860	9,465
Amortization of negative goodwill	6,838	6,838
Other	28,931	30,690
Total non-operating income	80,082	47,107
Non-operating expenses		
Interest expenses	390	119
Share of loss of entities accounted for using equity method	99,983	46,137
Foreign exchange losses	6,836	5,250
Other	10,627	49,117
Total non-operating expenses	117,837	100,625
Ordinary income	3,176,313	2,411,117
Extraordinary income		
Gain on step acquisitions	693,816	96,636
Gain on sales of non-current assets	—	734
Gain on sales of investment securities	154,911	2
Gain on change in equity	—	32,968
Total extraordinary income	848,727	130,343
Extraordinary losses		
Amortization of goodwill	1,399,033	—
Impairment loss	—	52,607
Loss on retirement of non-current assets	83,739	138,593
Loss on valuation of investment securities	190,650	156,636
Loss on sales of shares of subsidiaries and associates	—	1,870
Settlement package	108,817	55,824
Total extraordinary losses	1,782,241	405,533
Income before income taxes	2,242,799	2,135,927
Income taxes-current	1,129,217	409,173
Income taxes-deferred	26,138	(4,502)
Total income taxes	1,155,356	404,670
Profit	1,087,443	1,731,256
Profit (loss) attributable to non-controlling interests)	(57,234)	(163,876)
Profit attributable to owners of parent	1,144,677	1,895,132

Quarterly consolidated statement of comprehensive income
For the first three quarters

(Unit: thousands of yen)

	First three quarters of the previous fiscal year (from October 1, 2016 to June 30, 2017)	First three quarters of the current fiscal year (from October 1, 2017 to June 30, 2018)
Net income	1,087,443	1,731,256
Other comprehensive income		
Valuation difference on available-for-sale securities	(50,474)	254,224
Foreign currency translation adjustment	22,734	(9,263)
Remeasurements of defined benefit plans, net of tax	13,695	1,538
Share of other comprehensive income of entities accounted for using equity method	650	166
Total other comprehensive income	(13,392)	246,666
Comprehensive income	1,074,050	1,977,922
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	1,122,891	2,143,136
Comprehensive income attributable to non-controlling interests	(48,840)	(165,213)

(3) Notes concerning quarterly consolidated financial statements

(Notes concerning going concern assumption)

Not applicable.

(Notes on significant changes in shareholders' equity)

Not applicable.