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

April 30, 2020

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): May 13, 2020
 Scheduled date of dividend payment: June 10, 2020
 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 six months ended March 31, 2020
(October 1, 2019 – March 31, 2020)

(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 half of fiscal year ending September 30, 2020	12,946	(7.1)	1,446	(11.5)	1,310	(17.0)	1,246	44.7
First half of fiscal year ended September 30, 2019	13,932	(8.1)	1,635	19.2	1,577	19.0	860	(25.4)

(Note) Comprehensive income: Six months ended March 31, 2020: 934 millions of yen 74.1%
 Six months ended March 31, 2019: 536 millions of yen (59.2%)

	Net income per share	Net income per share/diluted
	Yen	Yen
First half of fiscal year ending September 30, 2020	22.80	22.80
First half of fiscal year ended September 30, 2019	15.74	15.73

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of March 31, 2020	31,845	22,857	64.0
As of September 30, 2019	27,479	21,794	72.3

(Reference) Shareholders' equity: As of March 31, 2020: 20,382 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	—	8.00			
Fiscal year ending September 30, 2020 (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, 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
Full year	26,000	(4.1)	2,500	(15.5)	2,400	(23.4)	1,700	(12.7)	31.11

(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):

3/20: 61,139,000 shares

9/19: 61,139,000 shares

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

3/20: 6,501,604 shares

9/19: 6,489,239 shares

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

Six months ended 3/2020: 54,647,554 shares

Six months ended 3/2019: 54,686,347 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 4 of the Accompanying Materials describes notes on the assumptions of the earnings forecasts and the use of the earnings forecasts. While the Company planned to hold a briefing on earnings in the first half chiefly for securities analysts and institutional investors on Friday, May 1, 2020, to prevent the spread of infections by the COVID-19 coronavirus, the Company will cancel the venue event and will post the on-demand delivery of the briefing and related materials on its website.

Accompanying materials – Contents

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1. Qualitative information on financial results for the current settlement

(1) Explanation on operating results

Overview of the first half ended March 31, 2020 (From October 1, 2019 to March 31, 2020)

Looking at the Group's business environment for the first half under review, subscriptions by smartphone-based paying subscribers remained sluggish, mainly reflecting the requirement for large mobile phone carriers to separate communication charges and mobile device prices. Against this background, the Group worked continuously to raise the average revenue per user (ARPU) by improving the video lineup of music.jp, a one-stop online store offering music, videos, books and comics.

Net sales stood at ¥12,946 million (down 7.1% 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 stood at 3.91 million (down 0.01 million from September 30, 2019) as of March 31, 2020 due to the effect of accepting the transfer of businesses such as the musico music streaming website, and the number of paying subscribers came to the same level as the previous year, 4.81 million (up 0.02 million year on year).

Gross profit decreased 9.6% year on year, to ¥9,414 million mainly due to a fall in net sales.

Operating income came to ¥1,446 million (down 11.5% year on year), 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 previous year 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 mobile devices, and other factors.

Ordinary income decreased 17.0% year on year, to ¥1,310 million, 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 increased 44.7% year on year, to ¥1,246 million, chiefly due to the posting of an extraordinary income of ¥602 million resulting from gain on the step acquisition of Crowd Cast, Ltd. as a consolidated subsidiary and gain on sales of investment securities.

Consolidated business results

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

	First half of the fiscal year ending September 30, 2020	First half of the fiscal year ending September 30, 2019	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	12,946	13,932	(985)	(7.1)
Cost of sales	3,531	3,515	+15	+0.5
Gross profit	9,414	10,416	(1,001)	(9.6)
SG&A	7,968	8,781	(813)	(9.3)
Operating income	1,446	1,635	(188)	(11.5)
Ordinary income	1,310	1,577	(267)	(17.0)
Profit attributable to owners of parent	1,246	860	+385	+44.7

Breakdown of SG&A

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

	First half of the fiscal year ending September 30, 2020	First half of the fiscal year ending September 30, 2019	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Total	7,968	8,781	(813)	(9.3)
Advertising expenses	490	1,486	(995)	(67.0)
Personnel expenses	3,112	3,067	+45	+1.5
Commission fee	1,674	1,725	(50)	(3.0)
Subcontract expenses	624	464	+159	+34.3
Depreciation	757	676	+80	+12.0
Other	1,308	1,361	(53)	(3.9)

(2) Explanation on financial position

1) Assets, liabilities and net assets

At the end of the first half under review, total assets increased ¥4,365 million from the end of September 2019, to ¥31,845 million.

Current assets increased ¥908 million, mainly reflecting an increase in notes and accounts receivable-trade. Non-current assets increased ¥3,457 million, due to rises in goodwill and customer-related assets resulting from the accepted transfer of businesses such as the musico music streaming website.

Current liabilities increased ¥161 million, primarily reflecting an increase in current portion of long-term borrowings in spite of a decrease in income taxes payable. Non-current liabilities increased ¥3,140 million, chiefly due to a rise in long-term loans payable.

Net assets increased ¥1,063 million attributable to the growth in non-controlling interests and ¥1,246 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 March 31, 2020	31,845	22,857	64.0
As of September 30, 2019	27,479	21,794	72.3

2) Consolidated cash flows

At the end of the first half under review, cash and cash equivalents were ¥12,677 million, up ¥256 million from the end of September 2019. The cash flows by activities and principal factors in the first half under review are as follows:

Net cash provided by operating activities was ¥966 million (inflow of ¥2,517 million for the first half of the previous fiscal year). Principal factors included income before income taxes and depreciation and amortization.

Net cash used in investing activities stood at ¥3,886 million (outflow of ¥1,143 million for the first half of the previous fiscal year). Major factors included payment for acquisition of business and expenditure for the purchase of intangible assets.

Net cash provided by financing activities came to ¥3,179 million (outflow of ¥1,681 million for the first half of the previous fiscal year). The main factors included payments from non-controlling shareholders.

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
First half of the fiscal year ending September 30, 2020	966	(3,886)	(3,179)	12,677
First half of the fiscal year ending September 30, 2019	2,517	(1,143)	1,681	13,557
For the fiscal year ended September 30, 2019	4,007	(3,613)	1,532	12,421

3) Explanation of future forecast information including consolidated forecast

In the third 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.

The Company believes that the spread of the COVID-19 novel coronavirus has a minor impact on forecasts for full-year consolidated financial results at the present time, despite negative effects such as a further decline of subscriptions by smartphone-based paying subscribers through mobile phone shops due to reduced hours of operation, among other factors.

On the other hand, there is growing demand for online medical examinations and online medication instructions due to people voluntarily refraining from going out and to prevent nosocomial COVID-19 infections. Given this background, it has been decided to conduct online sales actively to promote the introduction of these services.

Our forecasts for consolidated business results for the first half of the fiscal year ending September 30, 2020 are stated in the "Notice Concerning Posting of Extraordinary Income and Extraordinary Losses, Differences between Forecasts and Actual Results for the First Half of the Fiscal Year, and Revisions to Full-Year Results Forecasts" announced on April 30, 2020.

Earnings forecast for the fiscal year ending September 30, 2020

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

Consolidated profit and loss		
Net sales	26,000 millions of yen	(a decrease of 4.1% y-o-y)
Operating income	2,500 millions of yen	(a decrease of 15.5% y-o-y)
Ordinary income	2,400 millions of yen	(a decrease of 23.4% y-o-y)
Profit attributable to owners of parent	1,700 millions of yen	(an increase of 12.7% y-o-y)

2. Quarterly consolidated financial statement and important notes

(1) Quarterly consolidated balance sheet

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2019)	Current fiscal year (As of March 31, 2020)
Assets		
Current assets		
Cash and deposits	12,421,560	12,677,611
Notes and accounts receivable-trade	4,667,149	5,328,207
Other	1,427,990	1,418,649
Allowance for doubtful accounts	(47,613)	(47,062)
Total current assets	18,469,087	19,377,405
Non-current assets		
Property, plant and equipment	258,250	222,012
Intangible assets		
Software	1,870,772	2,040,936
Goodwill	153,609	1,439,583
Customer-related assets	-	1,967,100
Other	37,736	51,454
Total intangible assets	2,062,119	5,499,074
Investments and other assets		
Investment securities	4,977,219	4,639,793
Lease and guarantee deposits	511,987	513,041
Deferred tax assets	1,133,820	1,528,759
Other	92,734	90,843
Allowance for doubtful accounts	(25,824)	(25,824)
Total investment and other assets	6,689,936	6,746,612
Total non-current assets	9,010,306	12,467,700
Total assets	27,479,393	31,845,105

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2019)	Current fiscal year (As of March 31, 2020)
Liabilities		
Current liabilities		
Account payable-trade	1,308,159	1,290,495
Short-term loans payable	2,000	-
Current portion of long-term loans payable	14,280	451,780
Accounts payable-other	1,150,276	1,105,781
Income taxes payable	730,600	615,435
Provision for point usage	143,377	132,013
Other	966,371	881,138
Total current liabilities	4,315,064	4,476,644
Non-current liabilities		
Long-term loans payable	52,100	3,137,460
Net defined benefit liability	1,306,642	1,366,071
Negative goodwill	4,069	-
Other	7,188	7,258
Total non-current liabilities	1,370,000	4,510,790
Total liabilities	5,685,065	8,987,434
Net assets		
Shareholders' equity		
Capital stock	5,135,680	5,135,680
Capital surplus	6,706,846	6,620,973
Retained earning	10,989,009	11,880,751
Treasury shares	(3,233,136)	(3,239,827)
Total shareholders' equity	19,598,399	20,397,577
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	271,565	(11,591)
Foreign currency translation adjustment	(8,332)	(12,049)
Remeasurements of defined benefit plans	5,335	8,476
Total accumulated other comprehensive income	268,568	(15,163)
Subscription rights to shares	343,187	364,975
Non-controlling interests	1,584,173	2,110,281
Total net assets	21,794,328	22,857,670
Total liabilities and net assets	27,479,393	31,845,105

(2) Quarterly consolidated statement 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 March 31, 2019)	For the first quarter of the current fiscal year (from October 1, 2019 to March 31, 2020)
Net sales	13,932,620	12,946,703
Cost of sales	3,515,976	3,531,919
Gross profit	10,416,643	9,414,784
Selling, general and administrative expenses	8,781,257	7,968,122
Operating income	1,635,386	1,446,661
Non-operating income		
Interest income	86	82
Dividend income	58,948	10,130
Amortization of negative goodwill	4,558	4,069
Other	15,701	18,721
Total non-operating income	79,295	33,004
Non-operating expenses		
Interest expenses	12	298
Share of loss of entities accounted for using equity method	123,631	154,275
Foreign exchange losses	390	9,363
Other	13,071	5,604
Total non-operating expenses	137,105	169,542
Ordinary income	1,577,575	1,310,123
Extraordinary income		
Gain on step acquisitions	—	272,326
Gain on sales of investment securities	75,859	330,464
Total extraordinary income	75,859	602,791
Extraordinary losses		
Amortization of goodwill	74,569	—
Impairment loss	60,827	25,302
Loss on retirement of non-current assets	9,808	55,942
Loss on valuation of investment securities	59,019	—
Total extraordinary losses	204,225	81,244
Income before income taxes	1,449,210	1,831,670
Income taxes-current	532,781	566,219
Income taxes-deferred	49,222	47,545
Total income taxes	582,003	613,764
Profit	867,207	1,217,906
Profit (loss) attributable to non-controlling interests	6,332	(28,160)
Profit attributable to owners of parent	860,875	1,246,066

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 March 31, 2019)	For the first quarter of the current fiscal year (from October 1, 2019 to March 31, 2020)
Profit	867,207	1,217,906
Other comprehensive income		
Valuation difference on available-for-sale securities	(326,081)	(257,966)
Foreign currency translation adjustment	(3,737)	(4,042)
Remeasurements of defined benefit plans, net of tax	(21)	3,141
Share of other comprehensive income of entities accounted for using equity method	(800)	(24,864)
Total other comprehensive income	(330,641)	(283,731)
Comprehensive income	536,566	934,174
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	530,302	962,334
Comprehensive income attributable to non-controlling interests	6,263	(28,160)

(3) Quarterly consolidated statement of cash flows

(Unit: thousands of yen)

	For the first half of the current fiscal year (from October 1, 2018 to March 31, 2019)	For the first half of the current fiscal year (from October 1, 2019 to March 31, 2020)
Cash flows from operating activities		
Income before income taxes	1,449,210	1,831,670
Depreciation	715,613	795,962
Impairment loss	60,827	25,302
Amortization of goodwill	129,705	89,148
Increase (decrease) in allowance for point usage	21,642	(11,363)
Increase (decrease) in net defined benefit liability	59,098	59,429
Interest and dividends income	(59,035)	(10,213)
Interest expenses	12	298
Loss (gain) on step acquisitions	—	(272, 326)
Increase (decrease) in provision for bonuses	—	2,139
Loss on retirement of noncurrent assets	9,808	55,942
Loss (gain) on valuation of investment securities	59,019	—
Loss (gain) on sales of investment securities	(75,859)	(330,464)
Decrease (increase) in notes and accounts receivable-trade	202,501	(661,052)
Increase (decrease) in notes and accounts payable-trade	(24,340)	(17,462)
Increase (decrease) in accounts payable-other	34,717	(46,252)
Other, net	(61,291)	(60,962)
Subtotal	2,521,631	1,449,794
Interest and dividends income received	59,035	10,213
Interest expenses paid	(12)	(298)
Income taxes (paid) refund	(62,854)	(493,622)
Net cash provided by (used in) operating activities	2,517,799	966,087
Cash flows from investing activities		
Purchase of property, plant and equipment	(40,983)	(39,375)
Proceeds from sales of property, plant and equipment	202	—
Purchase of intangible assets	(757,435)	(765,162)
Purchase of investment securities	(276,702)	(52,879)
Proceeds from sales of investment securities	80,000	626,346
Purchase of shares of subsidiaries and associates	(25,000)	(370,507)
Payments for acquisition of businesses	(112,596)	(3,242,593)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(39,382)
Other, net	(11,477)	(3,420)
Cash flows from investing activities	(1,143,993)	(3,886,975)
Cash flows from financing activities		
Repayments of short-term borrowings	—	(2,000)
Repayments of long-term borrowings	—	(7,140)
Proceeds from long-term borrowings	—	3,500,000
Proceeds from issuance of common shares	4,186	—
Proceeds from share issuance to non-controlling shareholders	2,115,000	350,000
Dividends paid	(437,466)	(438,446)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(222,600)
Other, net	(3)	—
Net cash provided by (used in) financing activities	1,681,716	3,179,813
Effect of exchange rate change on cash and cash equivalents	(2,694)	(2,873)
Net increase (decrease) in cash and cash equivalents	3,052,826	256,051
Cash and cash equivalents at beginning of period	10,504,223	12,421,560
Cash and cash equivalents at end of period	13,557,050	12,677,611