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

November 4, 2020

Listed Company Name: MTI Ltd. Listing Exchanges: Tokyo Stock Exchange
 Securities Code: 9438 URL: <https://www.mti.co.jp>
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 Scheduled date of annual meeting of shareholders: December 19, 2020
 Scheduled date to submit the Securities Report (Yuka Shoken Houkokusho): December 21, 2020
 Scheduled date of dividend payment: December 21, 2020
 Supplementary documents for financial results: Yes
 Financial results briefing: Yes (for securities analysts and institutional investors)

(Figures less than one millions of yen are omitted)

1. Consolidated financial results for the year ended September 30, 2020
(October 1, 2019 – September 30, 2020)

(1) Consolidated operating results (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 | % |
| For the year ended September 30, 2020 | 26,082 | (3.8) | 2,507 | (15.3) | 2,082 | (33.5) | 506 | (66.4) |
| For the year ended September 30, 2019 | 27,112 | (6.8) | 2,959 | (8.0) | 3,134 | 0.6 | 1,508 | (7.4) |

(Note) Comprehensive income: Year ended September 30, 2020: 121 million yen, (92.5%)
 Year months ended September 30, 2019: 1,611 million yen, 10.0%

| | Net income per share | Net income per share/diluted | Return on Equity | Return on Assets | Net income |
|---------------------------------------|----------------------|------------------------------|------------------|------------------|------------|
| | Yen | Yen | % | % | % |
| For the year ended September 30, 2020 | 9.28 | 9.27 | 2.6 | 7.2 | 9.6 |
| For the year ended September 30, 2019 | 27.59 | 27.56 | 8.0 | 12.2 | 10.9 |

(Reference) Equity in earnings (losses) of affiliates: Year ended September 30 2020: (431) millions of yen
 Year ended September 30 2019: 112 millions of yen

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|-------------------------------|-----------------|-----------------|--------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| Year ended September 30, 2020 | 30,547 | 21,510 | 62.7 | 350.83 |
| Year ended September 30, 2019 | 27,479 | 21,794 | 72.3 | 363.53 |

(Reference) Shareholders' equity: Year ended September 30, 2020: 19,166 millions of yen
 Year ended September 30, 2019: 19,866 millions of yen

(3) Consolidated cash flows

| | 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 equivalent |
|---------------------------------------|---|---|---|--------------------------|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| For the year ended September 30, 2020 | 3,292 | (4,807) | 2,449 | 13,354 |
| For the year ended September 30, 2019 | 4,007 | (3,613) | 1,532 | 12,421 |

2. Dividends

| | Dividend per share | | | | | Amount of dividends paid (Total) | Dividend ratio (Consolidated) | Dividends on equity (Consolidated) |
|---|----------------------|----------------------|----------------------|----------|--------|----------------------------------|-------------------------------|------------------------------------|
| | End of first quarter | End of second period | End of third quarter | Year end | Annual | | | |
| | Yen | Yen | Yen | Yen | Yen | | % | % |
| For the year ended September 30, 2019 | — | 8.00 | — | 8.00 | 16.00 | 875 | 58.0 | 4.6 |
| For the year ended September 30, 2020 | — | 8.00 | — | 8.00 | 16.00 | 876 | 172.5 | 4.5 |
| For the year ending September 30, 2021 (forecast) | — | 8.00 | — | 8.00 | 16.00 | | 51.4 ~67.2 | |

3. Forecast for consolidated financial results for the fiscal year ending September 30, 2021
(October 1, 2020 – September 30, 2021)

(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 |
| For the first half | 12,750 ~13,250 | (1.5) ~2.3 | 1,000 ~1,200 | (30.9) ~(17.1) | 1,000 ~1,200 | (23.7) ~(8.4) | 650 ~850 | (47.8) ~(31.8) | 11.90 ~15.56 |
| Full year | 25,500 ~26,500 | (2.2) ~1.6 | 2,100 ~2,500 | (16.2) ~(0.3) | 2,100 ~2,500 | 0.8 ~20.0 | 1,300 ~1,700 | 156.4 ~235.3 | 23.80 ~31.12 |

* 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) 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 |

(3) Number of outstanding shares (common shares)

- | | |
|--|-------------------------|
| (i) Number of outstanding shares at the end of period (including treasury shares): | |
| 9/20: 61,144,600 shares | 9/19: 61,139,000 shares |
| (ii) Number of treasury shares at the end of period | |
| 9/20: 6,511,616 shares | 9/19: 6,489,239 shares |
| (iii) Average number of shares during the period | |
| 9/20: 54,641,936 shares | 9/19: 54,668,861 shares |

(Reference) Summary of financial results

1. Nonconsolidated financial results for the year ended September 30, 2020
(From October 1, 2019 - September 30, 2020)

(1) Nonconsolidated operating results

(Percentages are shown as year-on-year changes)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---------------------------------------|-----------------|--------|------------------|--------|-----------------|--------|-----------------|--------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| For the year ended September 30, 2020 | 20,858 | (4.4) | 3,057 | 0.6 | 3,461 | 24.4 | 1,010 | - |
| For the year ended September 30, 2019 | 21,810 | (12.3) | 3,039 | (11.7) | 2,782 | (20.6) | 11 | (99.1) |

| | Net income per share | Fully diluted net income per share |
|---------------------------------------|----------------------|------------------------------------|
| | Yen | Yen |
| For the year ended September 30, 2020 | 18.43 | 18.42 |
| For the year ended September 30, 2019 | 0.21 | 0.21 |

(2) Nonconsolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---------------------------------------|-----------------|-----------------|--------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| For the year ended September 30, 2020 | 24,810 | 16,615 | 66.1 | 299.23 |
| For the year ended September 30, 2019 | 21,541 | 16,751 | 76.8 | 301.78 |

(Reference) Shareholders' equity

As of September 30, 2020: 16,401 millions of yen As of September 30, 2019: 16,539 millions of yen

* Status of review

Financial results is out of 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. For the assumptions underlying the forecasts and other notice on the use of earnings forecasts, please refer to "(4) Future outlook" on page 4 in the accompanying material.

The Company will hold a briefing on earnings chiefly for securities analysts and institutional investors on Thursday, November 5, 2020. 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

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1. Overview of operating results

(1) Overview of operating results for the current fiscal year

In the Group's business environment during the current fiscal year, subscriptions from smartphone-based paying subscribers remained sluggish, mainly reflecting the requirement for large mobile phone carriers to separate communication charges and mobile device prices and the reduced business hours of mobile phone retailers across Japan in an effort to prevent the spread of the novel coronavirus (COVID-19). Meanwhile, demand for digital content increased as part of the stay-at-home order issued to prevent the spread of COVID-19 infection. Sales in the business of providing original comics to digital comic distributors steadily increased thanks to the stay-at-home order.

Net sales stood at ¥26,082 million (down 3.8% year on year) as a result of a fall in the total number of paying subscribers from the same period in the previous year to 4.59 million (down 0.20 million from September 30, 2019), including the number of paying subscribers to smartphones of 3.76 million (down 0.16 million from September 30, 2019), as of September 30, 2020, despite the effect of receiving the transfer of businesses such as the musico music streaming website and sales growth in the distribution of original comics.

Gross profit decreased 5.0% year on year, to ¥18,951 million, mainly due to a fall in net sales.

Operating income came to ¥2,507 million (down 15.3% year on year) chiefly due to the decrease in gross profit, which more than offset the effect of receiving the transfer of businesses such as the musico music streaming website, and substantial reduction of advertising expenses from the same period of the previous fiscal year in particular thanks to the sluggish subscription by smartphone-based paying subscribers.

Ordinary income decreased significantly by 33.5% year on year, to ¥2,082 million, reflecting a fall in operating income and ¥431 million as a share of loss of entities accounted for using the equity method (as a result primarily of one-time amortization of goodwill due to impairment of Authlete, Inc., an equity-method affiliate), compared to ¥112 million as a share of profit of entities accounted for using the equity method in the previous fiscal year.

Profit attributable to owners of parent decreased sharply by 66.4% year on year, to ¥506 million, chiefly due to a fall in ordinary income and an extraordinary loss of ¥1,678 million largely owing to an impairment loss, despite the posting of an extraordinary income of ¥809 million mainly resulting from gain on sales of investment securities and gain on step acquisitions of Crowd Cast, Ltd. as a consolidated subsidiary.

The impact of the COVID-19 pandemic on the consolidated financial results for the period under review was negligible.

Consolidated operating results

(Period from October 1, 2019 to September 30, 2020)

| | Fiscal year ended September 30, 2020 | Fiscal year ended September 30, 2019 | Change | |
|--|---|---|-----------------|------------|
| | | | Amount | Percentage |
| | Millions of yen | Millions of yen | Millions of yen | % |
| Net sales | 26,082 | 27,112 | (1,030) | (3.8) |
| Cost of sales | 7,130 | 7,157 | (26) | (0.4) |
| Gross profit | 18,951 | 19,955 | (1,003) | (5.0) |
| SG&A | 16,444 | 16,996 | (551) | (3.2) |
| Operating income | 2,507 | 2,959 | (451) | (15.3) |
| Ordinary income | 2,082 | 3,134 | (1,051) | (33.5) |
| Profit attributable to Owners of parent | 506 | 1,508 | (1,001) | (66.4) |

Breakdown of SG&A

(Period from October 1, 2019 to September 30, 2020)

| | Fiscal year ended September 30, 2020 | Fiscal year ended September 30, 2019 | Change | |
|----------------------|---|---|-----------------|------------|
| | | | Amount | Percentage |
| | Millions of yen | Millions of yen | Millions of yen | % |
| Total | 16,444 | 16,996 | (551) | (3.2) |
| Advertising expenses | 1,174 | 2,404 | (1,230) | (51.2) |
| Personnel expenses | 6,395 | 6,147 | +248 | +4.0 |
| Commission fee | 3,343 | 3,400 | (57) | (1.7) |
| Subcontract expenses | 1,426 | 1,067 | +358 | +33.6 |
| Depreciation | 1,620 | 1,326 | +293 | +22.1 |
| Other | 2,483 | 2,648 | (165) | (6.2) |

(Reference)

Business unit performance

(Period from October 1, 2019 to September 30, 2020)

| | First year ended September 30, 2020 | Fiscal year ended September 30, 2019 | Change | |
|------------------------------|--|---|-----------------|--------------|
| | | | Amount | Change ratio |
| | Millions of yen | Millions of yen | Millions of yen | % |
| Net sales | 26,082 | 27,112 | (1,030) | (3.8) |
| Content business | 20,191 | 21,102 | (910) | (4.3) |
| Healthcare business | 3,500 | 3,576 | (76) | (2.1) |
| Other business | 2,390 | 2,433 | (42) | (1.8) |
| Elimination of consolidation | - | - | - | - |

(Period from October 1, 2019 to September 30, 2020)

| | First year ended September 30, 2020 | Fiscal year ended September 30, 2019 | Change | |
|------------------------------|--|---|-----------------|--------|
| | | | Amount | Amount |
| | Millions of yen | Millions of yen | Millions of yen | % |
| Operating income | 2,507 | 2,959 | (451) | (15.3) |
| Content business | 6,964 | 6,620 | +343 | +5.2 |
| Healthcare business | (1,864) | (1,516) | (347) | - |
| Other business | (595) | (480) | (114) | - |
| Cost department | (1,813) | (1,623) | (190) | - |
| Elimination of consolidation | (184) | (41) | (143) | - |

(Note) The Group's quarterly results under review have been compiled as those of a single segment of the content distribution business.

For reference, the Group has decided to disclose operating results by business unit to ensure that realities are understood more clearly with respect to the Group's net sales and profit, starting for the current fiscal year. Specifically, net sales and profit are shown for the three business units (content business, healthcare business and other businesses) classified according to the difference in the services provided. Furthermore the group will change to three segment divisions consisted of content business, healthcare business and other business.

(2) Overview of financial position for the current fiscal year

As of the end of the fiscal year under review, total assets increased ¥3,067 million from September 30, 2019, to ¥30,547 million.

Current assets increased ¥1,274 million, mainly reflecting an increase in cash and deposits. Non-current assets increased ¥1,793 million, chiefly due to rises in goodwill and customer-related assets resulting from the accepted transfer of businesses, such as the musico music streaming website, which more than offset a decrease in software.

Current liabilities increased ¥451 million, primarily reflecting an increase in current portion of long-term borrowings and accounts payable-other a decrease in accounts payable-trade. Non-current liabilities climbed ¥2,900 million, chiefly due to a rise in long-term borrowings.

Net assets decreased ¥283 million, attributable to a rise in non-controlling interests and ¥506 million posted as profit attributable to owners of parent, which offset cash dividends paid and a decrease in valuation difference on available-for-sale securities.

(3) Overview of cash flow position for the current fiscal year

As of the end of the fiscal year under review, cash and cash equivalents amounted to ¥13,354 million, an increase of ¥932 million from September 30, 2019. Cash flow by activity and principal factors in the fiscal year under review were as follows.

Net cash provided by operating activities was ¥3,292 million (inflow of ¥4,007 million in the previous fiscal year). This is mainly a reflection of profit before income taxes and depreciation, which more than offset income taxes paid.

Net cash used in investing activities stood at ¥4,807 million (outflow of ¥3,613 million in the previous fiscal year). Principal factors included payments for acquisition of businesses and the acquisition of intangible assets (mainly purchase of software).

Net cash provided by financing activities came to ¥2,449 million (inflow of ¥1,532 million in the previous fiscal year). Principal factors included proceeds from long-term borrowings, which more than offset dividends paid.

(Reference) Cash flows indicators

| | Fiscal year ended September 30, 2016 | Fiscal year ended September 30, 2017 | Fiscal year ended September 30, 2018 | Fiscal year ended September 30, 2019 | Fiscal year ended September 30, 2020 |
|---|--|--|--|--|--|
| Equity ratio (%) | 68.8 | 71.2 | 75.2 | 72.3 | 62.7 |
| Equity ratio based on market value (%) | 137.3 | 154.0 | 143.9 | 140.4 | 158.2 |
| Ratio of cash flows to interest- bearing liabilities (%) | - | - | - | 1.7 | 101.2 |
| Interest coverage ratio (times) | 2,223.9 | 5,646.4 | 25,971.6 | 8,912.8 | 804.9 |

Equity ratio: Shareholders' equity / Total assets
Equity ratio based on market value: Market capitalization / Total assets

Ratio of cash flows to interest-bearing liabilities: Interest-bearing liabilities / Net cash provided by operating activities.

Interest coverage ratio: Net cash provided by operating activities / Interest payments.

Notes: 1. These indicators are calculated based on consolidated financial results.

2. Cash flows refers to net cash provided by operating activities in the consolidated statements of cash flows.

3. Interest-bearing liabilities refer to all liabilities in the consolidated balance sheet for which interest is paid. Interest payment refers to the interest payment amount in the consolidated cash flows statement.

(4) Future outlook

The Company will focus on raising sales in the (new) healthcare business. In the content business, it will work to maintain the total number of paying subscribers as much as possible by promoting paid subscription to the ad

blocker, AdGuard, and grow the original comic distribution business along with the outlook that the total number of paying subscribers will continue to decrease.

The (new) healthcare business, in which the Company is engaged with a medium-term perspective, has strong growth potential in the long 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 a variety of measures to achieve sales growth.

In particular, the appetite for introducing a cloud drug record service has been growing for some time due to the Revision of the Medical Fee System. Because these factors contribute to continued sales growth of the (new) healthcare business, the Company plans to actively promote sales in cooperation with its partner, Medipal Holdings Corporation.

The Company is providing online medical examinations and online medication advice, for which demand has been rising amid the COVID-19 pandemic, currently free of charge. By shifting these to paid services and encouraging their use, the Company will make the services contribute to medium-term profit growth.

Based on the above, the Company has prepared full-year forecasts for the fiscal year ending September 30, 2021, which include net sales of ¥25,500 ~ ¥26,500 million (down 2.2% ~ up 2.1% year on year), operating income of ¥2,100 ~ ¥2,500 million (down 16.2% ~ down 0.3%), ordinary income of ¥2,100 ~ ¥2,500 million (up 0.8% ~ up 20.0%), and profit attributable to owners of parent of ¥1,300 ~ ¥1,700 million (up 156.4% ~ up 235.3%).

Trends in the COVID-19 pandemic may affect the sales expansion of the cloud drug record service currently expected, for instance, by causing changes in the business environment of the Group's customers. Changes in the business environment of the Group may affect the growth in the number of paying subscribers to the ad blocker, AdGuard, and the expansion of the original comic distribution business. The financial forecasts for the first half and full-year financial forecasts for the next fiscal year are indicated in a range, taking into account fluctuations caused by the external environment. The forecasts in this release are based on information available to the Company at the time of preparing this report, which may vary significantly from the actual results due to a number of uncertain factors.

While the impact of the COVID-19 pandemic on the Company's consolidated performance is expected to be negligible, the Company will promptly release any information requiring disclosure.

**Earnings forecast for the six months of the fiscal year ending September 30, 2021
(Period from October 1, 2020 to March 30, 2021)**

| Consolidated | (Millions of yen) | YoY(%) |
|---|-------------------|-----------------|
| Net sales | 12,750 ~ 13,250 | (1.5) ~ 2.3 |
| Operating income | 1,000 ~ 1,200 | (30.9) ~ (17.1) |
| Ordinary income | 1,000 ~ 1,200 | (23.7) ~ (8.4) |
| Profit attributable to owners of parent | 650 ~ 850 | (47.8) ~ (31.8) |

**Earnings forecast for the fiscal year ending September 30, 2021
(Period from October 1, 2020 to September 30, 2021)**

| Consolidated | (Millions of yen) | YoY(%) |
|---|-------------------|----------------|
| Net sales | 25,500 ~ 26,500 | (2.2) ~ 1.6 |
| Operating income | 2,100 ~ 2,500 | (16.2) ~ (0.3) |
| Ordinary income | 2,100 ~ 2,500 | 0.8 ~ 20.0 |
| Profit attributable to owners of parent | 1,300 ~ 1,700 | 156.4 ~ 235.3 |

2. Basic policy for the selection of accounting standards

The Group intends to compile its consolidated financial statements based on the Japanese accounting standard for the time being, considering the possibility of comparing the terms of financial statements and performances between companies.

It will adopt the International Financial Reporting Standards (IFRS), factoring in the situations in Japan and abroad.

3. Consolidated financial statements and important notes

(1) Consolidated balance sheet

(Unit: thousands of yen)

| | Previous fiscal year (As of September 30, 2019) | Current fiscal year (As of September 30, 2020) |
|---------------------------------------|--|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 12,421,560 | 13,354,028 |
| Notes and accounts receivable-trade | 4,667,149 | 4,840,902 |
| Advance payments-trade | 274,835 | 466,495 |
| Prepaid expenses | 367,654 | 453,713 |
| Accounts receivable-other | 109,900 | 271,568 |
| Income taxes receivable | 17,326 | 51,914 |
| Other | 658,274 | 341,334 |
| Allowance for doubtful accounts | (47,613) | (36,222) |
| Total current assets | 18,469,087 | 19,743,732 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Facilities attached to buildings | 403,989 | 397,543 |
| Accumulated depreciation | (296,938) | (308,891) |
| Facilities attached to buildings, net | 107,051 | 88,652 |
| Vehicles | 416 | 1,201 |
| Accumulated depreciation | (215) | (451) |
| Vehicles, net | 200 | 750 |
| Tools, furniture and fixtures | 511,776 | 507,795 |
| Accumulated depreciation | (360,777) | (403,441) |
| Tools, furniture and fixtures, net | 150,998 | 104,354 |
| Total property, plant and equipment | 258,250 | 193,757 |
| Intangible assets | | |
| Software | 1,870,772 | 1,281,608 |
| Goodwill | 153,609 | 692,054 |
| Customer-related assets | — | 1,755,000 |
| Other | 37,736 | 35,437 |
| Total intangible assets | 2,062,119 | 3,764,099 |
| Investments and other assets | | |
| Investment securities | 4,977,219 | 4,536,380 |
| Lease and guarantee deposits | 511,987 | 493,882 |
| Deferred tax assets | 1,133,820 | 1,766,869 |
| Other | 92,734 | 74,487 |
| Allowance for doubtful accounts | (25,824) | (25,824) |
| Total investments and other assets | 6,689,936 | 6,845,793 |
| Total non-current assets | 9,010,306 | 10,803,650 |
| Total assets | 27,479,393 | 30,547,383 |

(Unit: thousands of yen)

| | Previous fiscal year (As of September 30, 2019) | Current fiscal year (As of September 30, 2020) |
|---|--|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 1,308,159 | 1,101,925 |
| Short-term loans payable | 2,000 | — |
| Current portion of long-term loans payable | 14,280 | 451,780 |
| Accounts payable-other | 1,150,276 | 1,333,898 |
| Accrued expenses | 459,581 | 492,594 |
| Income taxes payable | 730,600 | 701,022 |
| Accrued consumption taxes | 160,913 | 109,550 |
| Provision for point usage | 143,377 | 110,690 |
| Provision for directors' bonuses | 16,110 | 23,302 |
| Other | 329,766 | 441,940 |
| Total current liabilities | 4,315,064 | 4,766,705 |
| Non-current liabilities | | |
| Long-term loans payable | 52,100 | 2,881,570 |
| Net defined benefit liability | 1,306,642 | 1,381,767 |
| Negative goodwill | 4,069 | - |
| Other | 7,188 | 6,756 |
| Total non-current liabilities | 1,370,000 | 4,270,094 |
| Total liabilities | 5,685,065 | 9,036,799 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 5,135,680 | 5,138,116 |
| Capital surplus | 6,706,846 | 6,551,222 |
| Retained earnings | 10,989,009 | 10,707,058 |
| Treasury shares | (3,233,136) | (3,283,663) |
| Total shareholders' equity | 19,598,399 | 19,112,733 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 271,565 | 19,897 |
| Foreign currency translation adjustment | (8,332) | (11,666) |
| Remeasurements of defined benefit plans | 5,335 | 46,010 |
| Total accumulated other comprehensive income | 268,568 | 54,241 |
| Subscription rights to shares | 343,187 | 345,299 |
| Non-controlling interests | 1,584,173 | 1,998,309 |
| Total net assets | 21,794,328 | 21,510,583 |
| Total liabilities and net assets | 27,479,393 | 30,547,383 |

(2) Consolidated statement of income and consolidated comprehensive income

Consolidated statement of income

(Unit: thousands of yen)

| | Previous fiscal year (from October 1, 2018 to September 30, 2019) | Current fiscal year (from October 1, 2019 to September 30, 2020) |
|---|---|--|
| Net sales | 27,112,593 | 26,082,051 |
| Cost of sales | 7,157,326 | 7,130,326 |
| Gross profits | 19,955,267 | 18,951,725 |
| Selling, general and administrative expenses | 16,996,073 | 16,444,519 |
| Operating income | 2,959,193 | 2,507,205 |
| Non-operating income | | |
| Interest income | 204 | 215 |
| Dividend income | 59,673 | 10,130 |
| Amortization of negative goodwill | 9,117 | 4,069 |
| Share of profit of entities accounted for using equity method | 112,509 | — |
| Reversal of allowance for doubtful accounts | — | 138 |
| Other | 22,911 | 27,014 |
| Total non-operating income | 204,416 | 41,569 |
| Non-operating expenses | | |
| Interest expenses | 449 | 4,094 |
| Share of loss of entities accounted for using equity method | — | 431,156 |
| Foreign exchange losses | 8,763 | 14,660 |
| Other | 20,119 | 16,004 |
| Total non-operating expenses | 29,332 | 465,915 |
| Ordinary income | 3,134,277 | 2,082,859 |
| Extraordinary income | | |
| Gain on step acquisitions | — | 272,326 |
| Gain on sales of investment securities | 267,143 | 428,437 |
| Gain on change in equity | 18,690 | 67,032 |
| Gain on reversal of share acquisition rights | 35,422 | 41,665 |
| Total extraordinary income | 321,256 | 809,461 |
| Extraordinary losses | | |
| Loss on sales of non-current assets | — | 664 |
| Impairment loss | 157,912 | 1,416,842 |
| Loss on retirement of non-current assets | 28,564 | 166,935 |
| Loss on valuation of investment securities | 517,083 | 93,956 |
| Loss on valuation of shares of subsidiaries and associates | 11,108 | — |
| Loss on sales of shares of subsidiaries and associates | 102,986 | — |
| Amortization of goodwill | 74,569 | — |
| Loss on sale of businesses | 2,388 | — |
| Total extraordinary losses | 894,613 | 1,678,399 |
| Income before income taxes | 2,560,921 | 1,213,921 |
| Income taxes-current | 1,042,909 | 1,074,548 |
| Income taxes-deferred | 64,801 | (196,627) |
| Total income taxes | 1,107,711 | 877,921 |
| Profit | 1,453,209 | 336,000 |
| Loss attributable to non-controlling interests | (55,003) | (170,942) |
| Profit attributable to owners of parent | 1,508,212 | 506,943 |

Consolidated statement of comprehensive income

(Unit: thousands of yen)

| | Previous fiscal year (from October 1, 2018 to September 30, 2019) | Current fiscal year (from October 1, 2019 to September 30, 2020) |
|--|---|--|
| Profit | 1,453,209 | 336,000 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 195,222 | (291,833) |
| Foreign currency translation adjustment | 36,153 | (3,636) |
| Remeasurements of defined benefit plans, net of tax | (56,977) | 40,674 |
| Share of other comprehensive income of entities accounted for using equity method | (15,864) | 40,468 |
| Total other comprehensive income | 158,534 | (214,327) |
| Comprehensive income | 1,611,743 | 121,673 |
| (Comprehensive income attributable to) | | |
| Comprehensive income attributable to owners of parent | 1,650,841 | 292,616 |
| Comprehensive income attributable to non-controlling interests | (39,097) | (170,942) |

(3) Consolidated statement of changes in equity

Previous fiscal year (from October 1, 2018 to September 30, 2019)

(Unit: thousands of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at beginning of current period | 5,100,464 | 5,820,687 | 10,080,581 | (3,148,848) | 17,852,885 |
| Changes of items during period | | | | | |
| Issuance of new shares exercise of subscription rights to shares | 35,215 | 35,215 | | | 70,431 |
| Dividends of surplus | | | (875,005) | | (875,005) |
| Profit attributable to owners of parent | | | 1,508,212 | | 1,508,212 |
| Purchase of treasury shares | | | | (3) | (3) |
| Increase (decrease) consolidated subsidiaries | | 850,943 | | | 850,943 |
| Net changes of items other than shareholders' equity | | | 275,220 | (84,283) | 190,936 |
| Change in equity in affiliates accounted for by equity method treasury stock | | | | | |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | 35,215 | 886,158 | 908,427 | (84,287) | 1,745,514 |
| Balance at end of current period | 5,135,680 | 6,706,846 | 10,989,009 | (3,233,136) | 19,598,399 |

| | Accumulated other comprehensive income | | | | Subscription rights to shares | Non-controlling interests | Total net assets |
|--|---|---|---|--|-------------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total other accumulated comprehensive income | | | |
| Balance at beginning of current period | 88,583 | (24,956) | 62,312 | 125,939 | 332,830 | 496,768 | 18,808,423 |
| Changes of items during period | | | | | | | |
| Issuance of new shares exercise of subscription rights to shares | | | | | | | 70,431 |
| Dividends of surplus | | | | | | | (875,005) |
| Profit attributable to owners of parent | | | | | | | 1,508,212 |
| Purchase of treasury shares | | | | | | | (3) |
| Increase (decrease) consolidated subsidiaries | | | | | | | 850,943 |
| Net changes of items other than shareholders' equity | | | | | | | 190,936 |
| Change in equity in affiliates accounted for by equity method treasury stock | | | | | | | — |
| Net changes of items other than shareholders' equity | 182,981 | 16,623 | (56,977) | 142,628 | 10,356 | 1,087,405 | 1,240,390 |
| Total changes of items during period | 182,981 | 16,623 | (56,977) | 142,628 | 10,356 | 1,087,405 | 2,985,905 |
| Balance at end of current period | 271,565 | (8,332) | 5,335 | 268,568 | 343,187 | 1,584,173 | 21,794,328 |

Current fiscal year (from October 1, 2019 to September 30, 2020)

(Unit: thousands of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at beginning of current period | 5,135,680 | 6,706,846 | 10,989,009 | (3,233,136) | 19,598,399 |
| Changes of items during period | | | | | |
| Issuance of new shares exercise of subscription rights to shares | 2,436 | 2,436 | | | 4,872 |
| Dividends of surplus | | | (876,893) | | (876,893) |
| Profit attributable to owners of parent | | | 506,943 | | 506,943 |
| Purchase of treasury shares | | | | | — |
| Increase (decrease) consolidated subsidiaries | | (158,059) | | | (158,059) |
| Net changes of items other than shareholders' equity | | | 87,999 | | 87,999 |
| Net changes of items other than shareholders' equity | | | | | |
| Change in equity in affiliates accounted for by equity method treasury stock | | | | (50,527) | (50,527) |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during period | 2,436 | (155,623) | (281,950) | (50,527) | (485,665) |
| Balance at end of current period | 5,138,116 | 6,551,222 | 10,707,058 | (3,283,663) | 19,112,733 |

| | Accumulated other comprehensive income | | | | Subscription rights to shares | Non-controlling interests | Total net assets |
|--|---|---|---|--|-------------------------------|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total other accumulated comprehensive income | | | |
| Balance at beginning of current period | 271,565 | (8,332) | 5,335 | 268,568 | 343,187 | 1,584,173 | 21,794,328 |
| Changes of items during period | | | | | | | |
| Issuance of new shares exercise of subscription rights to shares | | | | | | | 4,872 |
| Dividends of surplus | | | | | | | (876,893) |
| Profit attributable to owners of parent | | | | | | | 506,943 |
| Purchase of treasury shares | | | | | | | — |
| Increase (decrease) consolidated subsidiaries | | | | | | | (158,059) |
| Net changes of items other than shareholders' equity | | | | | | | 87,999 |
| Change in equity in affiliates accounted for by equity method treasury stock | | | | | | | (50,527) |
| Net changes of items other than shareholders' equity | (251,668) | (3,333) | 40,674 | (214,327) | 2,112 | 414,135 | 201,920 |
| Total changes of items during period | (251,668) | (3,333) | 40,674 | (214,327) | 2,112 | 414,135 | (283,745) |
| Balance at end of current period | 19,897 | (11,666) | 46,010 | 54,241 | 345,299 | 1,998,309 | 21,510,583 |

(4) Consolidated statement of cash flows

(Unit: thousands of yen)

| | Previous fiscal year (from October 1, 2018 to September 30, 2019) | Current fiscal year (from October 1, 2019 to September 30, 2020) |
|--|---|--|
| Cash flows from operating activities | | |
| Income before income taxes | 2,560,921 | 1,213,921 |
| Depreciation | 1,406,827 | 1,703,477 |
| Impairment loss | 157,912 | 1,416,842 |
| Loss (gain) on transfer of business | 2,388 | — |
| Amortization of goodwill | 170,066 | 302,346 |
| Amortization of negative goodwill | (9,117) | (4,069) |
| Increase (decrease) in allowance for doubtful accounts | 4,351 | (11,391) |
| Increase (decrease) in provision for point usage | 1,600 | (32,686) |
| Increase (decrease) in net defined benefit liability | 115,835 | 124,694 |
| Interest and dividend income | (59,877) | (10,346) |
| Interest expenses | 449 | 4,094 |
| Commission fee | 8,121 | — |
| Loss (gain) on step acquisitions | — | (272,326) |
| Share of (profit) loss of entities accounted for using equity method | (112,509) | 431,156 |
| Loss (gain) on change in equity | (18,690) | (67,032) |
| Loss on retirement of non-current assets | 28,564 | 166,935 |
| Loss (gain) on sales of non-current assets | — | 664 |
| Loss (gain) on valuation of investment securities | 517,083 | 93,956 |
| Loss (gain) on sales of investment securities | (267,143) | (428,437) |
| Loss on valuation of shares of subsidiaries and associates | 11,108 | — |
| Loss (gain) on sales of shares of subsidiaries and associates | 102,986 | — |
| Gain on reversal of subscription rights to shares | (35,422) | (41,665) |
| Decrease (increase) in notes and accounts receivable-trade | 574,898 | (173,686) |
| Decrease (increase) in advance payments | (12,416) | (179,547) |
| Decrease (increase) in prepaid expenses | (27,993) | (85,894) |
| Decrease (increase) in accounts receivable-other | 1,305 | (161,665) |
| Increase (decrease) in notes and accounts payable-trade | 13,994 | (206,142) |
| Increase (decrease) in accounts payable-other | (288,592) | 183,759 |
| Increase (decrease) in accrued expenses | 29 | 33,563 |
| Increase (decrease) in accrued consumption taxes | (16,897) | (51,555) |
| Other, net | (406,759) | 491,325 |
| Subtotal | 4,423,024 | 4,440,291 |
| Interest and dividend income received | 59,877 | 10,346 |
| Interest expenses paid | (449) | (4,094) |
| Income taxes (paid) refund | (475,145) | (1,153,905) |
| Net cash provided by (used in) operating activities | 4,007,306 | 3,292,637 |

(Unit: thousands of yen)

| | Previous fiscal year (from October 1, 2018 to September 30, 2019) | Current fiscal year (from October 1, 2019 to September 30, 2020) |
|---|---|--|
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (101,437) | (66,854) |
| Proceeds from sales of property, plant and equipment | 202 | 2,450 |
| Purchase of intangible assets | (1,454,126) | (1,618,390) |
| Purchase of investment securities | (950,638) | (54,379) |
| Proceeds from sales of investment securities | 384,023 | 918,824 |
| Purchase of shares of subsidiaries and associates | (1,082,409) | (725,092) |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | (96,957) | (36,882) |
| Payments for sales of shares of subsidiaries resulting in change in scope of consolidation | (118,541) | — |
| Payments for transfer of business | (172,596) | (3,242,593) |
| Proceeds from collection of lease and guarantee deposits | 4,199 | 17,770 |
| Other, net | (24,940) | (1,870) |
| Net cash provided by (used in) investing activities | (3,613,220) | (4,807,018) |
| Cash flows from financing activities | | |
| Repayments of short-term borrowings | — | (2,000) |
| Increase in short-term loans payable | 2,000 | — |
| Repayments of long-term loans payable | (3,620) | (263,030) |
| Proceeds from long-term loans payable | 70,000 | 3,500,000 |
| Proceeds from issuance of common shares | 56,564 | 3,796 |
| Purchase of treasury shares | (3) | — |
| Proceeds from share issuance to non-controlling shareholders | 2,283,000 | 410,000 |
| Cash dividends paid | (875,005) | (876,893) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | — | (222,600) |
| Purchase of treasury shares of subsidiaries | — | (100,000) |
| Net cash provided by (used in) financing activities | 1,532,934 | 2,449,272 |
| Effect of exchange rate change on cash and cash equivalents | (9,683) | (2,423) |
| Net increase (decrease) in cash and cash equivalents | 1,917,336 | 932,467 |
| Cash and cash equivalents at beginning of period | 10,504,223 | 12,421,560 |
| Cash and cash equivalents at end of period | 12,421,560 | 13,354,028 |