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Summary of Consolidated Financial Results for the First Quarter of
Fiscal Year Ending September 30, 2021 (Japanese Accounting Standards)

February 9, 2021

Listed Company Name: MTI Ltd. Listing Exchanges: Tokyo Stock Exchange
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 Scheduled date to submit the Quarterly Securities Report (Shihanki Houkokusho): February 15, 2021
 Scheduled date of dividend payment: –
 Supplementary documents for quarterly results: Yes
 Quarterly results briefing: Yes (for securities analysts and institutional investors(on demand))

(Figures less than one millions of yen are omitted)

1. Consolidated business results for the three months ended December 31, 2020
(October 1, 2020 – December 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 quarter of fiscal year ending September 30, 2021	6,304	3.0	553	(5.5)	495	22.4	220	(4.7)
First quarter of fiscal year ended September 30, 2020	6,118	(10.8)	586	(29.3)	404	(53.4)	231	(57.4)

(Note) Comprehensive income: Three months ended December 31, 2020: 145 millions of yen (38.4)%
 Three months ended December 31, 2019: 236 millions of yen –%

	Net income per share	
	Yen	Yen
First quarter of fiscal year ending September 30, 2021	4.04	4.01
First quarter of fiscal year ended September 30, 2020	4.23	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2020	29,450	21,032	64.3
As of September 30, 2020	30,547	21,510	62.7

(Reference) Shareholders' equity: As of December 31, 2020: 18,937 millions of yen
 As of September 30, 2020: 19,166 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, 2020	–	8.00	–	8.00	16.00
Fiscal year ending September 30, 2021	–				
Fiscal year ending September 30, 2021 (forecast)		8.00	–	8.00	16.00

(Note) Revision of dividend forecast for during this period : No

3. Forecast for consolidated business 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	(1.5)	1,000	(30.9)	1,000	(23.7)	650	(47.8)	11.89
	~13,250	~2.3	~1,200	~(17.1)	~1,200	~(8.4)	~850	~(31.8)	~15.55
Full year	25,500	(2.2)	2,100	(16.2)	2,100	0.8	1,300	156.4	23.79
	~26,500	~1.6	~2,500	~(0.3)	~2,500	~20.0	~1,700	~235.3	~31.10

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

* Notes

- (1) Important changes of subsidiaries during the term (changes in specified subsidiaries resulting in change in scope of consolidation): Not applicable
New: – Exception: –
- (2) Application of specific accounting treatment to the preparation of quarterly consolidated financial statements: Not applicable
- (3) Changes in accounting policies and changes or restatement of accounting estimates
- | | |
|---|----------------|
| (i) Changes in accounting policies due to the modification in accounting methods: | 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): | |
| 12/2020: 61,170,900 shares | 09/2020: 61,144,600 shares |
| (ii) Number of treasury shares at the end of period | |
| 12/2020: 6,516,403 shares | 09/2020: 6,511,616 shares |
| (iii) Average number of shares during the period (quarterly consolidated cumulative period) | |
| Three months ended 12/2020: 54,645,883 shares | Three months ended 12/2019: 54,649,714 shares |

* This Summary of Consolidated Financial Results for the First Quarter 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 3~4 of the Accompanying Materials describes notes on the assumptions of the earnings forecasts and the use of the earnings forecasts. A video of the briefing on earnings for the first quarter for securities analysts and institutional investors will be made available on demand on the Company's website.

The documents for the briefing and the video(Japanese) will be posted on Wednesday, February 10, 2021 and on Friday, February 12, 2021 respectively.

Accompanying materials – Contents

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1. Qualitative information on financial results for the current quarterly settlement

(1) Explanation on operating results

Overview of the first quarter of fiscal year ending September 30, 2021 (Period from October 1, 2020 to December 31, 2020)

Looking at the Group's business environment for the first quarter under review, the Japanese economy is severely affected by the prolonged COVID-19 pandemic. Amid this, its impact on the Group was limited and it worked on various initiatives in the content business and in the healthcare business with a view towards continued growth in the future.

In the content business, the Group increased the number of new subscribers to the AdGuard security-related app, which was in high demand, although the acquisition of new subscribers through mobile phone stores remained weak. It also increased monthly distribution of original comics to digital comic distributors.

In the healthcare business, the Group actively organized online seminars in collaboration with its partner, Medipal Holdings Corporation, in a bid to spur more pharmacies to introduce the cloud drug record service, given that the appetite for the introduction of this service was growing due to the revision of the Medical Fee System.

As a result, net sales stood at ¥6,304 million yen (up 3.0% year on year) and gross profit at ¥4,711 million yen (up 4.9% year on year).

Meanwhile, operating income was down 5.5% year on year to ¥553 million as a result of soaring selling, general and administrative (SG&A) expenses due chiefly to a rise in personnel expenses and subcontract expenses despite the growth of gross profit.

Ordinary income came to ¥495 million (up 22.4 year on year), due chiefly to a drop in non-operating expenses following shrinkage in share of loss of entities accounted for using equity method despite a fall in operating income.

Profit attributable to owners of parent almost stayed flat at ¥220 million (down 4.7% year on year). This is explained chiefly by a slide in extraordinary income while ordinary income surged.

Consolidated business results

(Period from October 1, 2020 to December 31, 2020)

	First quarter of the fiscal year ending September 30, 2021	First quarter of the fiscal year ended September 30, 2020	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	6,304	6,118	+186	+3.0
Cost of sales	1,593	1,627	(34)	(2.1)
Gross profit	4,711	4,490	+220	+4.9
SG&A	4,157	3,904	+253	+6.5
Operating income	553	586	(32)	(5.5)
Ordinary income	495	404	+90	+22.4
Profit attributable to owners of parent	220	231	(10)	(4.7)

Breakdown of SG&A

(Period from October 1, 2020 to December 31, 2020)

	First quarter of the fiscal year ending September 30, 2021	First quarter of the fiscal year ended September 30, 2020	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Total	4,157	3,904	+253	+6.5
Advertising expenses	337	248	+88	+35.5
Personnel expenses	1,743	1,537	+205	+13.4
Commission fee	789	829	(40)	(4.9)
Subcontract expenses	441	305	+135	+44.4
Depreciation	272	307	(34)	(11.3)
Other	573	675	(101)	(15.0)

Operating results by segment are as follows.

① Content business

The content business includes B2C monthly billing services excluding the Luna-Luna healthcare service for women and the KARADAMEDICA health Q&A service in cooperation with healthcare professionals, as well as the B2B original comic distribution business that offers original comic content to comic distributors.

This segment served 3.78 million paying subscribers. The figure was down by 100,000 from the end of September 2020. The net decrease in paying subscribers continued, but the pace of decrease was gradually reduced by strong acquisition of new subscriptions to the AdGuard security-related app via mobile phone stores.

Net sales stood at ¥4,848 million (down 1.3% year on year). While the number of paying subscribers fell year on year, a takeover of the *music* music distribution website and other operations had a positive effect. Operating income also dropped 5.0% year on year to ¥1,709 million, due chiefly to soaring expenses for advertising the AdGuard security-related app.

② Healthcare business

The healthcare business includes B2C monthly billing services under the Luna-Luna and KARADAMEDICA brands and B2B and B2B2C healthcare services for medical institutions and local governments, such as the cloud drug record service, online medical examinations, online medication advice and the maternal health record book app.

This segment served 700,000 paying subscribers. The figure was 10,000 smaller than at the end of September 2020. It made the most intensive efforts to increase the number of pharmacies introducing the cloud drug record service. The desire to introduce the service has been increasing due to the revision of the Medical Fee System. As of the end of December 2020, it had been adopted by 451 pharmacies, up 94 from the end of September 2020.

Net sales came to ¥922 million (up 7.8% year on year), after growth in initial introduction sales based on an increase in the number of pharmacies introducing the cloud drug record service over the same period the previous year. Operating income was negative at -¥351 million (compared to the -¥396 million recorded for the same period the previous year) due to the heavy burden of upfront investment spending.

③ Other business

Other business includes the B2B fintech business, the AI business operated by consolidated subsidiary Automagi Inc., and the B2B solutions business, which engages in the contracted development of systems and applications.

In this segment, net sales stood at ¥820 million (up 41.6% year on year), and operating income at -¥101 million (compared with -¥134 million in the same period a year earlier), following a rise in the sales of the B2B solutions business.

(2) Explanation on financial position

① Assets, liabilities and net assets

At the end of the first quarter under review, total assets decreased ¥1,096 million from the end of September 2020, to ¥29,450 million.

Current assets decreased ¥902 million, mainly reflecting a decrease in cash and deposits, notes and accounts receivable-trade. Non-current assets decreased ¥194 million, chiefly due to a decrease in customer-related assets and deferred tax assets.

Current liabilities decreased ¥541 million, primarily reflecting a decrease in accounts payable-other and income taxes payable. Non-current liabilities decreased ¥77 million, chiefly due to a decrease in long-term loans payable.

Net assets decreased ¥477 million attributable to a decrease in subscription rights to shares, non-controlling interests and ¥220 million posted as profit attributable to owners of parent, which offset cash dividends paid.

(3) Explanation of future forecast information including consolidated forecast

The Company will work hard to expand sales of its healthcare business and to cut losses. In the content business, it will make every effort to maintain the number of paying subscribers by expanding sales of the AdGuard security-related app and striving to bolster the original comic distribution business.

The Company takes medium-term and long-term perspectives in its engagement in the healthcare business, which has a strong potential for future growth and may move toward a stock-type business with the provision of long-term support according to the life stage of the individual customer. Therefore, the Company is

committed to implementing a variety of measures to achieve sales growth.

Among others, the cloud drug record service will aid the healthcare business in its attainment of continuous sales growth, since the appetite for introducing the service has been growing for some time due to the revision of the Medical Fee System. The Company will proactively work to accelerate the expansion of the service's sales in collaboration with its partner, Medipal Holdings Corporation.

The Company will take actions to increase the number of paying subscriptions to its online medical examination and online medication advice services, and also increase their use so they play greater roles in segment earnings in the medium-term future.

The Company continues to hold its consolidated earnings forecasts for the first half of the fiscal year ending September 30, 2021 and for the entirety of the fiscal year as announced on November 4, 2020.

**Earnings forecast for the six months of the fiscal year ending September 30, 2021
(Period from October 1, 2020 to March 31, 2021)**

	(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)**

	(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. Quarterly consolidated financial statements and important notes

(1) Quarterly consolidated balance sheet

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2020)	Current fiscal year (As of December 31, 2020)
Assets		
Current assets		
Cash and deposits	13,354,028	12,948,850
Notes and accounts receivable-trade	4,840,902	4,441,232
Other	1,585,024	1,488,359
Allowance for doubtful accounts	(36,222)	(36,744)
Total current assets	19,743,732	18,841,697
Non-current assets		
Property, plant and equipment	193,757	176,240
Intangible assets		
Software	1,281,608	1,329,341
Goodwill	692,054	641,256
Customer-related assets	1,755,000	1,649,700
Other	35,437	38,128
Total intangible assets	3,764,099	3,658,426
Investments and other assets		
Investment securities	4,536,380	4,552,358
Lease and guarantee deposits	493,882	504,989
Deferred tax assets	1,766,869	1,664,926
Other	74,487	78,077
Allowance for doubtful accounts	(25,824)	(26,024)
Total investment and other assets	6,845,793	6,774,326
Total non-current assets	10,803,650	10,608,993
Total assets	30,547,383	29,450,691

	(Unit: thousands of yen)	
	Previous fiscal year (As of September 30, 2020)	Current fiscal year (As of December 31, 2020)
Liabilities		
Current liabilities		
Account payable-trade	1,101,925	1,030,593
Current portion of long-term loans payable	451,780	451,780
Accounts payable-other	1,333,898	1,202,750
Income taxes payable	701,022	236,328
Provision for bonuses	—	195,972
Provision for point usage	110,690	111,585
Other	1,067,387	996,569
Total current liabilities	4,766,705	4,225,579
Non-current liabilities		
Long-term loans payable	2,881,570	2,769,465
Net defined benefit liability	1,381,767	1,415,949
Other	6,756	6,824
Total non-current liabilities	4,270,094	4,192,239
Total liabilities	9,036,799	8,417,818
Net assets		
Shareholders' equity		
Capital stock	5,138,116	5,149,899
Capital surplus	6,551,222	6,503,213
Retained earning	10,707,058	10,489,096
Treasury shares	(3,283,663)	(3,287,585)
Total shareholders' equity	19,112,733	18,854,624
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,897	53,969
Foreign currency translation adjustment	(11,666)	(15,927)
Remeasurements of defined benefit plans	46,010	44,560
Total accumulated other comprehensive income	54,241	82,603
Subscription rights to shares	345,299	215,958
Non-controlling interests	1,998,309	1,879,685
Total net assets	21,510,583	21,032,872
Total liabilities and net assets	30,547,383	29,450,691

(2) Quarterly consolidated statements 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, 2019 to December 31, 2019)	For the first quarter of the current fiscal year (from October 1, 2020 to December 31, 2020)
Net sales	6,118,127	6,304,514
Cost of sales	1,627,492	1,593,032
Gross profit	4,490,635	4,711,482
Selling, general and administrative expenses	3,904,628	4,157,761
Operating income	586,006	553,720
Non-operating income		
Interest income	22	16
Dividend income	7,067	—
Amortization of negative goodwill	2,279	—
Subsidy income	999	20,070
Other	8,485	10,522
Total non-operating income	18,853	30,609
Non-operating expenses		
Interest expenses	99	1,737
Share of loss of entities accounted for using equity method	194,231	83,336
Foreign exchange losses	2,017	—
Provision of allowance for doubtful accounts	—	205
Other	3,967	3,788
Total non-operating expenses	200,315	89,067
Ordinary income	404,544	495,262
Extraordinary income		
Gain on sales of investment securities	83,624	2,934
Total extraordinary income	83,624	2,934
Extraordinary losses		
Impairment loss	—	76,949
Loss on retirement of non-current assets	48,659	5,586
Loss on valuation of investment securities	—	11
Total extraordinary losses	48,659	82,547
Income before income taxes	439,509	415,649
Income taxes-current	153,928	203,187
Income taxes-deferred	80,874	95,221
Total income taxes	234,803	298,408
Profit	204,706	117,240
Loss attributable to non-controlling interests	(26,648)	(103,289)
Profit attributable to owners of parent	231,354	220,530

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, 2019 to December 31, 2019)	For the first quarter of the current fiscal year (from October 1, 2020 to December 31, 2020)
Profit	204,706	117,240
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,566)	17,444
Foreign currency translation adjustment	1,573	(4,538)
Remeasurements of defined benefit plans, net of tax	1,570	(1,499)
Share of other comprehensive income of entities accounted for using equity method	33,206	16,905
Total other comprehensive income	31,784	28,362
Comprehensive income	236,490	145,603
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	263,138	248,892
Comprehensive income attributable to non-controlling interests	(26,648)	(103,289)