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Summary of Consolidated Financial Results for the First Quarter of Fiscal Year Ending September 30, 2022 (Japanese Accounting Standards)

February 9, 2022

Listed Company Name: MTI Ltd.

Listing Exchanges: Tokyo Stock Exchange

Securities Code: 9438

URL: <https://www.mti.co.jp/eng>

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): February 14, 2022

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, 2021

(October 1, 2021– December 31, 2021)

(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, 2022	6,551	3.9	451	(18.5)	395	(20.2)	252	14.7
First quarter of fiscal year ended September 30, 2021	6,304	3.0	553	(5.5)	495	22.4	220	(4.7)

(Note) Comprehensive income: Three months ended December 31, 2021: 175 millions of yen 20.9%
Three months ended December 31, 2020: 145 millions of yen (38.4)%

	Net income per share		Net income per share/diluted	
	Yen	Yen	Yen	Yen
First quarter of fiscal year ending September 30, 2022	4.62		4.62	
First quarter of fiscal year ended September 30, 2021	4.04		4.01	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2021	29,612	19,373	52.3
As of September 30, 2021	31,908	21,243	54.6

(Reference) Shareholders' equity: As of December 31, 2021: 15,485 millions of yen
As of September 30, 2021: 17,426 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, 2021	–	8.00	–	8.00	16.00
Fiscal year ending September 30, 2022	–				
Fiscal year ending September 30, 2022 (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, 2022

(October 1, 2021 – September 30, 2022)

(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	(2.3)	900	(27.0)	700	(16.7)	300	–	5.48
	~13,250	~1.6	~1,100	~(10.7)	~900	~7.1	~500	–	~9.13
Full year	25,500	(0.9)	1,800	(6.7)	1,400	2.1	600	–	10.96
	~26,500	~2.9	~2,200	~14.0	~1,800	~31.3	~1,000	–	~18.26

(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: | 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): | |
| 12/2021: 61,248,200 shares | 09/2021: 61,248,200 shares |
| (ii) Number of treasury shares at the end of period | |
| 12/2021: 6,497,173 shares | 09/2021: 6,496,273 shares |
| (iii) Average number of shares during the period (quarterly consolidated cumulative period) | |
| Three months ended 12/2021: 54,751,252 shares | Three months ended 12/2020: 54,645,883 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 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.

While the Company planned to hold a briefing on earnings chiefly for securities analysts and institutional investors on Thursday, February 10, 2022, to prevent the spread of infections by the COVID-19 coronavirus the Company will forgo holding at the venue event and will post the on-demand delivery of the briefing and related materials on its website.

Accompanying materials – Contents

1. Qualitative information on financial results for the current quarterly settlement	2
(1) Explanation on operating results	2
(2) Explanation on financial position	3
(3) Explanation of future forecast information including consolidated forecast	3
2. Quarterly consolidated financial statements and important notes	5
(1) Quarterly consolidated balance sheet	5
(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income	7

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, 2022

(Period from October 1, 2021 to December 31, 2021)

Looking at the Group's first quarter under review, the Japanese economy was severely affected by the prolonged COVID-19 pandemic, although the impact on the Group's consolidated financial results was minor.

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 facilitated 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, and to promote sales of child bearing-related solutions, such as the maternal health record book app, to local governments.

As a result, net sales stood at ¥6,551 million yen (up 3.9% year on year).

Gross profit stood at ¥4,656 million (down 1.2% year on year), reflecting a rise in the cost of sales mainly associated with increased sales in the Other business, where the rate of cost of sales was high, as well as the occurrence of a loss-making project in this business.

Operating income and ordinary income came to ¥451 million (down 18.5% year on year) and ¥395 million (down 20.2% year on year), respectively. This reflected an increase in selling, general and administration (SG&A) expenses due to higher personnel expenses as a result of efforts to increase the number of personnel in charge of development made to strengthen the Group's product development capability, which offset a reduction in rents, etc., linked to a shift to the teleworking system.

Profit attributable to owners of parent came to ¥252 million (up 14.7% year on year) due to decreases in an extraordinary loss and corporate taxes, which more than offset a decline in ordinary income.

Consolidated business results

(Period from October 1, 2021 to December 31, 2021)

	First quarter of the fiscal year ending September 30, 2022	First quarter of the fiscal year ended September 30, 2021	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	6,551	6,304	+246	+3.9
Cost of sales	1,895	1,593	+301	+19.0
Gross profit	4,656	4,711	(55)	(1.2)
SG&A	4,204	4,157	+47	+1.1
Operating income	451	553	(102)	(18.5)
Ordinary income	395	495	(99)	(20.2)
Profit attributable to owners of parent	252	220	+32	+14.7

Breakdown of SG&A

(Period from October 1, 2021 to December 31, 2021)

	First quarter of the fiscal year ending September 30, 2022	First quarter of the fiscal year ended September 30, 2021	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Total	4,204	4,157	+47	+1.1
Advertising expenses	360	337	+23	+6.9
Personnel expenses	1,912	1,743	+169	+9.7
Commission fee	753	789	(36)	(4.6)
Subcontract expenses	440	441	(1)	(0.4)
Depreciation	303	272	+30	+11.3
Other	435	573	(137)	(24.0)

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 “CARADA medica” 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 3.33 million paying subscribers. The figure was down by 190,000 from the end of September 2021. Following mobile carriers' termination of the feature phone service, the number of paying subscribers decreased significantly in the first quarter under review. Excluding this factor, however, a net decline in the number of paying subscribers was becoming moderate owing to the solid number of new subscribers to the “AdGuard” security app acquired through mobile phone stores.

Net sales stood at ¥4,639 million (down 4.3% year on year), reflecting a year-on-year decrease in the number of paying subscribers, which more than offset an increase in sales in the original comics business. Operating income was ¥1,534 million (down 10.2% year on year) mainly due to a year-on-year decrease in the number of paying subscribers.

② Healthcare business

The healthcare business includes B2C monthly billing services under the “Luna-Luna” and “CARADA medica” brands and B2B and B2B2C healthcare services for medical institutions and local governments, such as the cloud drug record service and the maternal health record book app.

This segment served 620,000 paying subscribers. The figure was 20,000 smaller than at the end of September 2021. On the other hand, the number of pharmacies that offer the cloud drug record service came to 864 at the end of December 2021 (up 99 from the end of September 2021) as the result of great efforts focused on increasing the number of pharmacies whose motivation to introduce such service is growing.

Net sales came to ¥908 million (up 1.6% year on year). Although a rise in the sales of the cloud drug record service, it was not enough to offset a year-on-year decrease in the number of paying subscribers. Operating loss was stood at ¥336 million (compared to a loss of ¥351 million recorded for the same period of the previous year) due to the continued burden of upfront investment spending.

③ Other business

Other business includes the B2B-type AI business operated by Automagi Inc., a consolidated subsidiary, and the Company's DX support business for large companies and solution business.

In this segment, net sales stood at ¥1,316 million (up 60.6% year on year), reflecting a rise in sales in the AI business and digital transformation support business for major companies. The operating loss came to ¥157 million, compared to an operating loss of ¥101 million recorded for the same period of the previous year, mainly reflecting an increase in the cost of sales attributable to the occurrence of a loss-making project and a rise in personnel expenses due to an increase in the number of personnel in charge of development.

(2) Explanation on financial position

① Assets, liabilities and net assets

At the end of the first quarter under review, total assets decreased ¥2,296 million from September 30, 2021, to ¥29,612 million.

Current assets decreased ¥2,781 million mainly due to a fall in cash and deposits. Non-current assets rose ¥484 million due to an increase in software.

Current liabilities decreased ¥382 million, primarily reflecting a decline in income taxes payable, more than offsetting an increase in contract liabilities linked to the application of the *Accounting Standard for Revenue Recognition*, etc. Non-current liabilities fell ¥43 million mainly due to a declined in long-term loans payable.

Net assets decreased ¥1,869 million due to the payment of dividends and the effects of the application of the *Accounting Standard for Revenue Recognition*, etc., despite the posting of ¥252million as profit attributable to owners of parent.

(3) Explanation of future forecast information including consolidated forecast

The Company will work hard to expand sales and cut losses of its healthcare business, which is expected to play a key role in increasing revenue and earnings in the future. In the content business, it will make every effort to increase 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- and long-term perspectives in its engagement in the healthcare business, which has strong potential for future growth and compared with B2C transactions, may move toward a more stable stock-type business through the establishment of long-term business relationships with customers. Therefore, the Company is committed to implementing a variety of measures to achieve sales growth.

Among others, the cloud drug record service will help the healthcare business attain continuous sales growth, since the appetite for introducing the service has been growing among pharmacies. The Company will accelerate sales tie-ups with companies that provide IT solutions to pharmacies to make sure that more stores will introduce the service, while simultaneously strengthening collaboration with its partner, Medipal Holdings Corporation.

It will also enhance childcare-related services with a focus on local governments that have introduced the “Boshimo”, a maternal health record book app, and will advance digital cooperation among local governments, hospitals, and residents, thereby advancing its “Boshimo” childcare digital transformation platform strategy to enable the healthcare business to make a contribution to profit in the medium term.

The Company continues to hold its consolidated earnings forecasts for the first half of the fiscal year ending September 30, 2022 and for the entirety of the fiscal year as announced on November 9, 2021.

**Earnings forecast for the six months of the fiscal year ending September 30, 2022
(Period from October 1, 2021 to March 30, 2022)**

Consolidated	(Millions of yen)	YoY(%)
Net sales	12,750 ~ 13,250	(2.3) ~ +1.6
Operating income	900 ~ 1,100	(27.0) ~ (10.7)
Ordinary income	700 ~ 900	(16.7) ~ +7.1
Profit attributable to owners of parent	300 ~ 500	-

**Earnings forecast for the fiscal year ending September 30, 2022
(Period from October 1, 2021 to September 30, 2022)**

Consolidated	(Millions of yen)	YoY(%)
Net sales	25,500 ~ 26,500	(0.9) ~ +2.9
Operating income	1,800 ~ 2,200	(6.7) ~ +14.0
Ordinary income	1,400 ~ 1,800	+2.1 ~ +31.3
Profit attributable to owners of parent	600 ~ 1,000	-

2. Quarterly consolidated financial statements and important notes

(1) Quarterly consolidated balance sheet

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2021)	Current fiscal year (As of December 31, 2021)
Assets		
Current assets		
Cash and deposits	15,540,084	12,722,093
Notes and accounts receivable-trade	4,501,674	—
Notes and accounts receivable, and contract assets	—	4,545,524
Other	1,254,252	1,252,794
Allowance for doubtful accounts	(33,173)	(38,733)
Total current assets	21,262,838	18,481,679
Non-current assets		
Property, plant and equipment	203,001	212,681
Intangible assets		
Software	1,791,596	2,267,680
Goodwill	556,421	673,534
Customer-related assets	1,333,800	1,228,500
Other	30,009	69,748
Total intangible assets	3,711,827	4,239,463
Investments and other assets		
Investment securities	4,511,728	4,076,787
Lease and guarantee deposits	318,761	313,959
Deferred tax assets	1,803,442	2,195,684
Other	108,143	103,232
Allowance for doubtful accounts	(10,904)	(10,904)
Total investment and other assets	6,731,170	6,678,760
Total non-current assets	10,646,000	11,130,905
Total assets	31,908,839	29,612,584

	(Unit: thousands of yen)	
	Previous fiscal year (As of September 30, 2021)	Current fiscal year (As of December 31, 2021)
Liabilities		
Current liabilities		
Account payable-trade	1,147,543	1,093,825
Current portion of long-term borrowings	451,780	452,608
Accounts payable-other	1,230,095	1,405,965
Income taxes payable	2,156,218	24,306
Contract liabilities	—	2,214,406
Provision for bonuses	—	198,949
Provision for point usage	115,396	—
Other	1,554,849	882,935
Total current liabilities	6,655,884	6,272,997
Non-current liabilities		
Long-term borrowings	2,429,790	2,341,512
Retirement benefit liability	1,572,854	1,617,333
Other	6,935	6,838
Total non-current liabilities	4,009,579	3,965,684
Total liabilities	10,665,464	10,238,681
Net assets		
Shareholders' equity		
Share capital	5,197,909	5,197,909
Capital surplus	6,660,831	6,557,793
Retained earnings	8,665,046	6,847,591
Treasury shares	(3,281,839)	(3,281,839)
Total shareholders' equity	17,241,947	15,321,454
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	165,205	137,406
Foreign currency translation adjustment	5,908	13,717
Remeasurements of defined benefit plans	13,879	13,162
Total accumulated other comprehensive income	184,993	164,287
Subscription rights to shares	161,887	165,035
Non-controlling interests	3,654,545	3,723,125
Total net assets	21,243,375	19,373,903
Total liabilities and net assets	31,908,839	29,612,584

(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, 2020 to December 31, 2020)	For the first quarter of the current fiscal year (from October 1, 2021 to December 31, 2021)
Net sales	6,304,514	6,551,430
Cost of sales	1,593,032	1,895,025
Gross profit	4,711,482	4,656,405
Selling, general and administrative expenses	4,157,761	4,204,930
Operating income	553,720	6,551,430
Non-operating income		
Interest income	16	19
Subsidy income	20,070	1,434
Other	10,522	8,105
Total non-operating income	30,609	9,559
Non-operating expenses		
Interest expenses	1,737	1,421
Share of loss of entities accounted for using equity method	83,336	45,118
Consumption tax difference	1,612	17,003
Other	2,381	2,055
Total non-operating expenses	89,067	65,598
Ordinary income	495,262	395,435
Extraordinary income		
Gain on sales of investment securities	2,934	—
Total extraordinary income	2,934	—
Extraordinary losses		
Loss on retirement of non-current assets	5,586	1,348
Impairment losses	76,949	—
Loss on sale of investment securities	—	3,240
Loss on valuation of investment securities	11	—
Loss on step acquisitions	—	4,700
Total extraordinary losses	82,547	9,289
Income before income taxes	415,649	386,146
Income taxes-current	203,187	(21,396)
Income taxes-deferred	95,221	211,446
Total income taxes	298,408	190,049
Profit	117,240	196,096
Loss attributable to non-controlling interests	(103,289)	(56,742)
Profit attributable to owners of parent	220,530	252,838

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, 2020 to December 31, 2020)	For the first quarter of the current fiscal year (from October 1, 2021 to December 31, 2021)
Profit	117,240	196,096
Other comprehensive income		
Valuation difference on available-for-sale securities	17,444	(43,018)
Foreign currency translation adjustment	(4,538)	7,465
Remeasurements of defined benefit plans, net of tax	(1,499)	(717)
Share of other comprehensive income of entities accounted for using equity method	16,905	16,173
Total other comprehensive income	28,362	(20,097)
Comprehensive income	145,603	175,998
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	248,892	232,131
Comprehensive income attributable to non-controlling interests	(103,289)	(56,133)