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

May 12, 2022

Listed Company Name: MTI Ltd.

Listing Exchanges: Tokyo Stock Exchange

Securities Code: 9438

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

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Scheduled date to submit the Quarterly Securities Report (Shihanki Houkokusho): May 16, 2022

Scheduled date of dividend payment: June 17, 2022

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 six months ended March 31, 2022

(October 1, 2021 – March 31, 2022)

(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, 2022	12,975	(0.5)	599	(51.4)	292	(65.2)	123	–
First half of fiscal year ended September 30, 2021	13,046	0.6	1,232	(14.8)	840	(35.8)	(1,416)	–

(Note) Comprehensive income: Six months ended March 31, 2022: 47 millions of yen –%
Six months ended March 31, 2021: (1,131) millions of yen –%

	Net income per share	Net income per share/diluted
	Yen	Yen
First half of fiscal year ending September 30, 2022	2.25	2.25
First half of fiscal year ended September 30, 2021	(25.92)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of March 31, 2022	29,207	19,241	52.9
As of September 30, 2021	31,908	21,243	54.6

(Reference) Shareholders' equity: As of March 31, 2022: 15,438 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	–	8.00			
Fiscal year ending September 30, 2022(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, 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
Full year	25,500	(0.9)	1,000	(48.2)	500	(63.5)	100	–	1.82
	~26,500	~2.9	~1,400	~(27.5)	~900	~(34.3)	~500	–	~9.12

(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: | 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):

3/22: 61,248,200 shares

9/21: 61,248,200 shares

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

3/22: 6,448,673 shares

9/21: 6,496,273 shares

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

Six months ended 3/2022: 54,762,393 shares

Six months ended 3/2021: 54,664,318 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.

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 Friday, May 13, 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

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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, 2022 (Period from October 1, 2021 to March 31, 2022)

Looking at the Group's first half 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 ¥12,975 million yen (down 0.5% year on year).

Gross profit declined to ¥9,160 million (down 4.9% year on year) although net sales remained almost at the same level. This is because the other business, where the rate of cost of sales was high, accounted for a larger percentage of total net sales due to a rise in sales in the business and low-profit projects increased in this business.

Operating income and ordinary income came to ¥599 million (down 51.4% year on year) and ¥292 million (down 65.2% 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, particularly in the school digital transformation (DX) business that Motivation Works Inc., a subsidiary, is actively working to develop, although there were reductions in rents linked to a shift to the teleworking system and taxes and dues.

Profit attributable to owners of parent came to ¥123 million (compared to a loss of ¥1,416 million recorded for the same period of the previous 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 March 31, 2022)

	First half of the fiscal year ending September 30, 2022	First half of the fiscal year ending September 30, 2021	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	12,975	13,046	(71)	(0.5)
Cost of sales	3,814	3,419	+395	+11.6
Gross profit	9,160	9,627	(466)	(4.9)
SG&A	8,561	8,395	+166	+2.0
Operating income	599	1,232	(633)	(51.4)
Ordinary income	292	840	(547)	(65.2)
Profit attributable to owners of parent	123	(1,416)	+1,540	-

Breakdown of SG&A

(Period from October 1, 2021 to March 31, 2022)

	First half of the fiscal year ending September 30, 2022	First half of the fiscal year ending September 30, 2021	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Total	8,561	8,395	+166	+2.0
Advertising expenses	758	711	+46	+6.6
Personnel expenses	3,835	3,443	+392	+11.4
Commission fee	1,538	1,574	(36)	(2.3)
Subcontract expenses	885	887	(1)	(0.2)
Depreciation	633	584	+48	+8.3
Other	909	1,193	(284)	(23.8)

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) and the B2B original comic distribution business that offers original comic content to comic distributors.

This segment served 3.27 million of paying subscribers. The figure was 250 thousand smaller than at the end of September 2021. Following mobile carriers’ termination of the feature phone service, the net decrease in the number of paying subscribers expanded. 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-related app acquired through mobile phone stores.

Net sales stood at ¥9,076 million (down 5.8% 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 ¥2,857 million (down 12.6% 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 thousand of paying subscribers. The figure was 20 thousand 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 978 at the end of March 2022 (up 213 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 ¥1,885 million (down 2.5% 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 ¥648 million (compared to a loss of ¥660 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, the Company’s DX support business for large companies and solution business, and the school DX business operated by Motivation Works Inc., a consolidated subsidiary.

In this segment, net sales stood at ¥2,659 million (up 28.9% year on year), reflecting steady sales in the AI business and a rise in sales in the DX support business for major companies and the school DX business. The operating loss came to ¥409 million (compared to a loss of ¥18 million recorded for the same period of the previous fiscal year) chiefly due to a rise in the cost of sales, which resulted from an increase in low-profit projects in the DX support business for major companies, higher personnel expenses due to an increase in the number of personnel for strengthening the school DX business structure, and increases in subcontract expenses for strengthening development capability and depreciation.

(2) **Explanation on financial position**

① **Assets, liabilities and net assets**

At the end of the first half under review, total assets increased ¥2,701 million from the end of September 2021, to ¥29,207 million.

Current assets decreased ¥3,126 million mainly due to a fall in cash and deposits. Non-current assets rose ¥425 million chiefly due to an increase in software, which more than offset a decrease in investment securities.

Current liabilities decreased ¥551 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 ¥148 million mainly due to a declined in long-term loans payable.

Net assets decreased ¥2,001 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 ¥123 million as profit attributable to owners of parent.

② Consolidated cash flows

At the end of the first half of the fiscal year under review, cash and deposits were ¥12,590 million, down ¥2,949 million from the end of September 2021. Cash flow by activity and principal factors in the first half under review are as follows:

Net cash used in operating activities was ¥788 million (inflow of ¥2,037 million for the first half of the previous fiscal year). Principal factors included the payment of income taxes, which more than offset income before income taxes and depreciation and amortization.

Net cash used in investing activities stood at ¥1,413 million (outflow of ¥879 million for the first half of the previous fiscal year). Major factors included expenditure for the purchase of intangible assets (mainly software).

Net cash used in financing activities came to ¥776 million (inflow of ¥1,287 million for the first half of the previous fiscal year). The main factors included payments of dividends and repayments of long-term borrowings.

	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, 2022	(788)	(1,413)	(776)	12,590
First half of the fiscal year ending September 30, 2021	2,037	(879)	1,287	15,811
For the fiscal year ended September 30, 2021	3,516	(1,996)	649	15,540

(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.

In the other business, the Group will focus on expanding the school DX business that Motivation Works Inc., a subsidiary of the Company, is actively working to develop. In response to a large number of business inquiries about “BLEND”, the cloud-based school affairs support system provided by Motivation Works Inc., the Group is making an investment, which is upfront investment from a short-term perspective, to achieve business expansion from the next fiscal year. The investments are made to increase the number of personnel to strengthen the business structure, using subcontractors to deal with increasing implementations of the system, and developing the system to improve its scalability.

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 DX platform strategy to enable the healthcare business to make a contribution to profit in the medium term.

With regards to forecasts for consolidated business results for the fiscal year ending September 30, 2022, operating income, ordinary income and profit attributable to owners of parent were revised as stated in the “Notice Concerning Posting of Extraordinary Losses, Differences between Forecasts and Actual Results for the First Half of the Fiscal Year, and Revisions to Full-Year Results Forecasts” announced today.

Earnings forecast for the fiscal year ending September 30, 2022

(Period from October 1, 2021 to September 31, 2022)

	(Millions of yen)	YoY(%)
Net sales	25,500 ~ 26,500	(0.9) ~ +2.9
Operating income	1,000 ~ 1,400	(48.2) ~ (27.5)
Ordinary income	500 ~ 900	(63.5) ~ (34.3)
Profit attributable to owners of parent	100 ~ 500	—

2. Quarterly consolidated financial statement 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 March 31, 2022)
Assets		
Current assets		
Cash and deposits	15,540,084	12,590,702
Notes and accounts receivable-trade	4,501,674	—
Notes and accounts receivable - trade, and contract assets	—	4,455,744
Other	1,254,252	1,125,446
Allowance for doubtful accounts	(33,173)	(35,737)
Total current assets	21,262,838	18,136,156
Non-current assets		
Property, plant and equipment	203,001	208,166
Intangible assets		
Software	1,791,596	2,603,305
Goodwill	556,421	658,934
Customer-related assets	1,333,800	1,123,200
Other	30,009	102,644
Total intangible assets	3,711,827	4,488,083
Investments and other assets		
Investment securities	4,511,728	3,901,076
Lease and guarantee deposits	318,761	311,405
Deferred tax assets	1,803,442	2,055,042
Other	108,143	118,209
Allowance for doubtful accounts	(10,904)	(10,904)
Total investment and other assets	6,731,170	6,374,829
Total non-current assets	10,646,000	11,071,079
Total assets	31,908,839	29,207,235

	Previous fiscal year (As of September 30, 2021)	Current fiscal year (As of March 31, 2022)
(Unit: thousands of yen)		
Liabilities		
Current liabilities		
Account payable-trade	1,147,543	1,090,619
Short-term borrowings	—	204
Current portion of long-term borrowings	451,780	451,780
Accounts payable-other	1,230,095	1,221,665
Income taxes payable	2,156,218	91,988
Contract liabilities	—	2,148,661
Provision for point card certificates	115,396	—
Other	1,554,849	1,099,203
Total current liabilities	6,655,884	6,104,123
Non-current liabilities		
Long-term borrowings	2,429,790	2,203,900
Retirement benefit liability	1,572,854	1,649,061
Other	6,935	8,226
Total non-current liabilities	4,009,579	3,861,188
Total liabilities	10,665,464	9,965,311
Net assets		
Shareholders' equity		
Share capital	5,197,909	5,212,239
Capital surplus	6,660,831	6,536,932
Retained earnings	8,665,046	6,718,082
Treasury shares	(3,281,839)	(3,257,237)
Total shareholders' equity	17,241,947	15,210,016
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	165,205	173,946
Foreign currency translation adjustment	5,908	41,783
Remeasurements of defined benefit plans	13,879	12,444
Total accumulated other comprehensive income	184,993	228,175
Subscription rights to shares	161,887	162,652
Non-controlling interests	3,654,545	3,641,080
Total net assets	21,243,375	19,241,924
Total liabilities and net assets	31,908,839	29,207,235

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

(Unit: thousands of yen)

	For the first half of the previous fiscal year (from October 1, 2020 to March 31, 2021)	For the first half of the current fiscal year (from October 1, 2021 to March 31, 2022)
Net sales	13,046,903	12,975,547
Cost of sales	3,419,303	3,814,933
Gross profit	9,627,600	9,160,614
Selling, general and administrative expenses	8,395,170	8,561,400
Operating income	1,232,430	599,214
Non-operating income		
Interest income	66	65
Foreign exchange gains	15,617	23,867
Subsidy income	28,438	12,042
Cancellation of treasury share acquisition rights gains	21,424	—
Other	26,445	17,035
Total non-operating income	91,992	53,011
Non-operating expenses		
Interest expenses	3,619	2,892
Share of loss of entities accounted for using equity method	404,676	329,690
Other	75,549	26,842
Total non-operating expenses	483,845	359,425
Ordinary income	840,576	292,800
Extraordinary income		
Gain on sale of non-current assets	3,030	—
Gain on sales of investment securities	2,934	—
Gain on sale of shares of subsidiaries and associates	—	12,417
Gain on change in equity	—	76,481
Total extraordinary income	5,964	88,898
Extraordinary losses		
Loss on sale of non-current assets	8,003	—
Loss on retirement of non-current assets	24,293	10,240
Impairment loss	76,949	909
Loss on sale of investment securities	—	3,240
Loss on valuation of investment securities	11	—
Loss on step acquisitions	—	4,700
Total extraordinary losses	109,257	109,089
Income before income taxes	737,283	362,608
Income taxes-current	2,313,122	7,705
Income taxes-deferred	(29,355)	351,151
Total income taxes	2,283,767	358,856
Profit (loss)	(1,546,484)	3,752
Profit (loss) attributable to non-controlling interests	(129,540)	(119,577)
Profit (loss) attributable to owners of parent	(1,416,943)	123,329

Quarterly consolidated statement of comprehensive income
For the first half

(Unit: thousands of yen)

	For the first half of the previous fiscal year (from October 1, 2020 to March 31, 2021)	For the first half of the current fiscal year (from October 1, 2021 to March 31, 2022)
Profit (loss)	(1,546,484)	3,752
Other comprehensive income		
Valuation difference on available-for-sale securities	361,393	(20,628)
Foreign currency translation adjustment	12,036	35,342
Remeasurements of defined benefit plans, net of tax	(2,898)	(1,435)
Share of other comprehensive income of entities accounted for using equity method	44,360	30,512
Total other comprehensive income	414,891	43,791
Comprehensive income	(1,131,592)	47,543
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	(1,002,073)	166,511
Comprehensive income attributable to non-controlling interests	(129,518)	(118,968)

(3) Quarterly consolidated statement of cash flows

(Unit: thousands of yen)

	For the first half of the current fiscal year (from October 1, 2020 to March 31, 2021)	For the first half of the current fiscal year (from October 1, 2021 to March 31, 2022)
Cash flows from operating activities		
Income before income taxes	737,283	362,608
Depreciation	627,388	694,660
Impairment loss	76,949	909
Amortization of goodwill	101,595	109,425
Increase (decrease) in allowance for doubtful accounts	—	2,564
Increase (decrease) in provision for point card certificates	5,579	—
Increase (decrease) in retirement benefit liability	61,478	65,785
Interest and dividend income	(66)	(65)
Interest expenses	3,619	2,892
Share of loss (profit) of entities accounted for using equity method	404,676	329,690
Loss (gain) on step acquisitions	—	4,700
Loss (gain) on change in equity	—	(76,481)
Loss (gain) on sale of non-current assets	4,973	—
Loss on retirement of non-current assets	24,293	10,240
Loss (gain) on sale of investment securities	(2,934)	(9,176)
Decrease (increase) in trade receivables	224,429	191,422
Increase (decrease) in trade payables	(20,233)	(91,303)
Increase (decrease) in accounts payable-other	(229,681)	(15,307)
Increase (decrease) in accrued consumption taxes	245,793	(428,642)
Other, net	268,826	(26,628)
Subtotal	2,533,972	1,127,293
Interest and dividends income received	63	62
Interest expenses paid	(3,619)	(2,892)
Income taxes refund (paid)	(492,471)	(1,912,569)
Net cash provided by (used in) operating activities	2,037,944	(788,106)
Cash flows from investing activities		
Purchase of property, plant and equipment	(93,737)	(39,979)
Purchase of intangible assets	(652,924)	(1,336,048)
Proceeds from sale of intangible assets	3,030	—
Purchase of investment securities	(8,503)	—
Proceeds from sales of investment securities	17,102	16,196
Purchase of shares of subsidiaries and associates	(131,803)	—
Payments for acquisition of businesses	—	(44,500)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(29,000)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	14,014
Other, net	(12,813)	5,417
Net cash provided by (used in) investing activities	(879,649)	(1,413,899)

(Unit: thousands of yen)

	For the first half of the current fiscal year (from October 1, 2020 to March 31, 2021)	For the first half of the current fiscal year (from October 1, 2021 to March 31, 2022)
Cash flows from financing activities		
Proceeds from short-term borrowings	4,000,000	204
Repayments of short-term borrowings	(4,000,000)	—
Repayments of long-term borrowings	(225,890)	(250,545)
Proceeds from issuance of shares	43,665	28,660
Proceeds from share issuance to non-controlling shareholders	2,115,000	—
Dividends paid	(438,491)	(439,609)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	(85,400)
Purchase of treasury share acquisition rights	(181,550)	—
Purchase of treasury shares of subsidiaries	(25,000)	(29,800)
Net cash provided by (used in) financing activities	1,287,733	(776,489)
Effect of exchange rate change on cash and cash equivalents	11,796	29,113
Net increase (decrease) in cash and cash equivalents	2,457,824	(2,949,381)
Cash and cash equivalents at beginning of period	13,354,028	15,540,084
Cash and cash equivalents at end of period	15,811,852	12,590,702