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Summary of Consolidated Financial Results for the First Three Quarters of
Fiscal Year ending September 30, 2023 (Japanese Accounting Standards)

August 8, 2023

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): August 14, 2023
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 nine months ended June 30, 2023

(October 1, 2022– June 30, 2023)

(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 three quarters of fiscal year ending September 30, 2023	20,138	4.1	(17)	—	151	72.4	495	—
First three quarters of fiscal year ended September 30, 2022	19,354	(0.8)	422	(76.5)	87	(93.1)	(88)	—

(Note) Comprehensive income Nine months ended June 30, 2023: 469 millions of yen (—%)
Nine months ended June 30, 2022: (273) millions of yen (—%)

	Net income per share	Net income per share/diluted
	Yen	Yen
First three quarters of fiscal year ending September 30, 2023	9.03	—
First three quarters of fiscal year ended September 30, 2022	(1.62)	—

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2023	29,480	17,515	46.9
As of September 30, 2022	29,265	17,877	48.1

(Reference) Shareholders' equity: As of June 30, 2023: 13,837 millions of yen
As of September 30, 2022: 14,065 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, 2022	—	8.00	—	8.00	16.00
Fiscal year ending September 30, 2023	—	8.00	—		
Fiscal year ending September 30, 2023(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, 2023
(October 1, 2022 – September 30, 2023)

(Percentages represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	26,800	1.2	200	(77.0)	400	(17.7)	460	—	8.39

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

* Note:

(1) Important changes of subsidiaries during the term

(changes in specified subsidiaries resulting in change in scope of consolidation): Not applicable

New: —

Exception: —

(2) Application of specific accounting treatment to the preparation of quarterly consolidated financial statements: Not applicable

(3) Changes in accounting policies and changes or restatement of accounting estimates

(i) Changes in accounting policies due to the modification in accounting methods: Not applicable

(ii) Changes in accounting policies other than (i): Not applicable

(iii) Changes in accounting estimates: Not applicable

(iv) Restatement: Not applicable

(4) Number of outstanding shares (common shares)

(i) Number of shares outstanding at the end of period (including treasury shares):

6/23: 61,263,000 shares

9/22: 61,263,000 shares

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

6/23: 6,405,973 shares

9/22: 6,450,273 shares

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

Nine months ended 6/23: 54,833,564 shares

Nine months ended 6/22 54,774,419 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 (Japanese) of the briefing on earnings for the first three quarters for securities analysts and institutional investors will be made available on demand on the Company's website.

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 three quarters of fiscal year ending September 30, 2023 (Period from October 1, 2022 to June 30, 2023)

The Group is actively engaged in the healthcare business and the school DX business, both of which are expected to expand in the future, in order to enhance its corporate value over the medium to long term.

During the first three quarters under review, consolidated net sales stood at ¥20,138 million (up 4.1% year on year) and gross profit at ¥13,643 million (up 0.3 % year on year), attributable to an increase in cost of sales.

The operating loss was ¥17 million (compared to operating income of ¥422 million in the same period of the previous year) due to an increase in selling, general and administrative expenses due chiefly to a rise in advertising expenses.

Ordinary income stood at ¥151 million (up 72.4% year on year) chiefly due to non-operating income of ¥194 million, including a share of profit of entities accounted for using equity method of ¥78 million (compared to a share of loss of entities accounted for using equity method of ¥406 million in the same period of the previous year).

Although there were impacts from the postponement of the recording of deferred tax assets and income taxes-deferred in the consolidated financial statements in accordance with the current accounting standards for the income tax-related treatment of a gain on the transfer of shares, associated with the transfer of some of the shares in Boshimo Ltd., a consolidated subsidiary, to MTI Healthcare Holdings Inc., a consolidated subsidiary, in October 2022, profit attributable to owners of parent came to ¥495 million (compared to a loss of ¥88 million in the same period of the previous year), reflecting a consumption taxes refund of ¥873 million and a gain on change in equity of ¥237 million in extraordinary income.

Consolidated business results

(Period from October 1, 2022 to June 30, 2023)

	First three quarters of the fiscal year ending September 30, 2023	First three quarters of the fiscal year ended September 30, 2022	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	20,138	19,354	+784	+4.1
Cost of sales	6,495	5,756	+739	+12.8
Gross profit	13,643	13,597	+45	+0.3
SG&A	13,661	13,175	+485	+3.7
Operating income	(17)	422	(440)	—
Ordinary income	151	87	+63	+72.4
Loss attribute to owners of parent	495	(88)	+583	—

Breakdown of SG&A

(Period from October 1, 2022 to June 30, 2023)

	First three quarters of the fiscal year ending September 30, 2023	First three quarters of the fiscal year ended September 30, 2022	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Total	13,661	13,175	+485	+3.7
Advertising expense	1,569	1,137	+432	+38.0
Personnel expenses	5,904	5,786	+117	+2.0
Commission fee	2,223	2,315	(92)	(4.0)
Subcontract expenses	1,513	1,542	(29)	(1.9)
Depreciation	924	991	(67)	(6.8)
Other	1,526	1,400	+125	+9.0

Operating results by segment are as follows.

Effective from the first quarter of the consolidated fiscal year under review, the classification of reportable segments has been revised. Comparison and analysis for the first three quarters under review are based on the new segments.

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 3.14 million of paying subscribers. The figure was 60 thousand smaller than at the end of September 2022. The number of paying subscribers was nearly level, reflecting an increase in the number of paying subscribers to the “AdGuard” security-related app.

Net sales came to ¥13,819 million (up 3.0% year on year) mainly due to video sales at the consolidated subsidiary Video Market Corporation, despite a decrease in the number of paying subscribers compared to the same period last year.

Operating income was ¥4,005 million (down 4.3% year-on-year) due to an increase in SG&A expenses resulting from a rise in advertising expenses to promote “AdGuard” membership.

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 550 thousand of paying subscribers. The figure was 40 thousand smaller than at the end of September 2022. On the other hand, the number of pharmacies that offer the cloud drug record service came to 1,639 at the end of June 2023 (up 375 from the end of September 2022), 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 ¥3,351 million (up 14.9% year on year), given expanded sales of Cloud drug record service and Childcare DX service, etc. Operating loss stood at ¥233 million (compared to a loss of ¥899 million in the same period of the previous year), attributable to the effect of increased sales and cost containment measures.

③ School DX business

The school DX business includes school DX business developed for educational institutions by the consolidated subsidiary Motivation Works Inc.

Net sales amounted to ¥581 million (up 114.4% year on year) due to an increase in monthly usage fees from educational institutions that have introduced the “BLEND” cloud-based school business support system. “BLEND” has been used by 566 educational institutions since April 2023 (226 institutions more than a year ago). Despite the significant increase in net sales, the operating loss amounted to ¥569 million (compared to a loss of ¥535 million in the same period of the previous year) due to an increase in subcontracting expenses resulting from stricter recording of software assets from the second half of the previous fiscal year.

④ Other business

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

Net sales amounted to ¥3,600 million (down 3.8% year on year) due to a decrease in orders for the AI business. Operating loss was ¥1,220 million (compared to an operating loss of 428 million yen in the same period of the previous year), primarily reflecting an increase in the cost of sales as a result of the ongoing response to low-margin projects in the DX support business for major corporate customers in addition to decreased sales in the AI business.

(2) Explanation on financial position

At the end of the first three quarters under review, total assets increased ¥214 million from the end of September 2022, to ¥29,480 million.

Current assets increased ¥298 million mainly due to an increase in cash and deposits despite a decrease in consumption taxes refund receivable. Non-current assets declined ¥83 million chiefly due to a decrease in goodwill and customer-related assets, which more than offset an increase in investment securities.

Current liabilities increased ¥1,039 million, mainly reflecting rises in income taxes payable and contract liabilities. Non-current liabilities fell ¥462 million chiefly due to a decline in long-term borrowings.

Net assets decreased ¥362 million chiefly due dividend payments, despite a profit attributable to owners of parent of ¥495 million.

(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.

Also, the Group will focus on expanding the school DX business that Motivation Works Inc., a subsidiary of the Company, is actively working to develop. Given the large number of business inquiries related to “BLEND”, the cloud-based school affairs support system provided by Motivation Works, the Group is earnestly working to increase the number of schools that will introduce this system beginning in April 2024.

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.

The cloud drug record service is particularly in high demand in dispensing pharmacies and we will increase the number of introducing stores through enhancing cooperation with Medipal Holdings, our business partner. This is because it can contribute to the sustained growth of sales in the healthcare business.

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.

The Company continues to hold its consolidated earnings forecasts for the fiscal year ending September 30, 2023 as announced on May 24, 2023.

Earnings forecast for the fiscal year ending September 30, 2023

(Period from October 1, 2022 to September 30, 2023)

	(Millions of yen)	YoY(%)
Net sales	26,800	+1.2
Operating income	200	(77.0)
Ordinary income	400	(17.7)
Profit attributable to owners of parent	460	—

2. Quarterly consolidated financial statements and important notes

(1) Quarterly consolidated balance sheet

	(Unit: thousands of yen)	
	Previous fiscal year (As of September 30, 2022)	The current first half of the fiscal year (As of June 30, 2023)
Assets		
Current assets		
Cash and deposits	12,097,658	13,800,949
Notes and accounts receivable-trade, and contract assets	4,294,825	4,138,890
Other	2,420,195	1,170,592
Allowance for doubtful accounts	(34,097)	(33,655)
Total current assets	18,778,582	19,076,776
Non-current assets		
Property, plant and equipment	193,060	215,296
Intangible assets		
Software	2,058,982	2,145,251
Goodwill	655,709	442,348
Customer-related assets	912,600	596,700
Other	163,473	211,762
Total intangible assets	3,790,765	3,396,062
Investments and other assets		
Investment securities	3,675,499	4,071,724
Leasehold and guarantee deposits	337,475	305,745
Deferred tax assets	2,394,793	2,310,901
Other	106,411	114,980
Allowance for doubtful accounts	(10,904)	(10,904)
Total investment and other assets	6,503,275	6,792,446
Total non-current assets	10,487,102	10,403,805
Total assets	29,265,684	29,480,581

	(Unit: thousands of yen)	
	Previous fiscal year (As of September 30, 2022)	The current first half of the fiscal year (As of June 30, 2023)
Liabilities		
Current liabilities		
Account payable-trade	1,068,638	1,079,547
Short-term borrowings	—	37,737
Current portion of long-term borrowings	751,780	750,330
Accounts payable - other,	1,221,218	1,213,152
Income taxes payable	19,236	415,555
Contract liabilities	2,356,643	2,731,391
Provision for bonuses	—	207,362
Other	968,835	990,878
Total current liabilities	6,386,353	7,425,955
Non-current liabilities		
Long-term borrowings	3,178,010	2,615,625
Retirement benefit liability	1,816,159	1,914,814
Other	7,432	8,877
Total non-current liabilities	5,001,601	4,539,316
Total liabilities	11,387,955	11,826,949
Net assets		
Shareholders' equity		
Share capital	5,218,512	5,232,078
Capital surplus	6,768,841	6,769,335
Retained earnings	5,224,287	4,458,031
Treasury shares	(3,257,237)	(3,230,813)
Total shareholders' equity	13,954,404	13,228,632
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	75,554	131,599
Foreign currency translation adjustment	89,490	101,312
Remeasurements of defined benefit plans	(53,931)	(51,907)
Total accumulated other comprehensive income	111,114	181,004
Subscription rights to shares	110,774	101,747
Non-controlling interests	3,701,436	3,576,426
Total net assets	17,877,729	17,515,309
Total liabilities and net assets	29,265,684	29,480,581

(2) Quarterly consolidated statements of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income

For the first three quarters

	(Unit: thousands of yen)	
	For the first three quarters of the previous fiscal year (from Oct 1, 2021 to Jun 30, 2022)	For the first three quarters of the current fiscal year (from Oct 1, 2022 to Jun 30, 2023)
Net sales	19,354,186	20,138,623
Cost of sales	5,756,213	6,495,291
Gross profit	13,597,973	13,643,332
Selling, general and administrative expenses	13,175,305	13,661,078
Operating income	422,668	(17,746)
Non-operating income		
Interest income	89	72
Dividend income	7,012	3,961
Foreign exchange gains	71,966	43,826
Share of profit of entities accounted for using equity method	—	78,045
Other	37,959	68,519
Total non-operating income	117,027	194,426
Non-operating expenses		
Interest expenses	4,239	8,945
Share of loss of entities accounted for using equity method	406,668	—
Commission expenses	9,231	7,903
Other	31,595	8,154
Total non-operating expenses	451,735	25,003
Ordinary income	87,960	151,676
Extraordinary income		
Gain on sale of non-current assets	—	454
Gain on sale of shares of subsidiaries and associates	12,417	—
Gain on change in equity	76,481	237,588
Consumption taxes refund	—	873,339
Total extraordinary income	88,898	1,111,382
Extraordinary losses		
Loss on retirement of non-current assets	14,926	11,695
Impairment loss	909	10,546
Loss on sale of investment securities	3,240	13,450
Loss on valuation of investment securities	—	7,148
Loss on step acquisitions	4,700	—
Total extraordinary losses	23,776	42,841
Income before income taxes	153,082	1,220,217
Income taxes-current	26,437	740,064
Income taxes-deferred	394,349	80,969
Total income taxes	420,786	821,033
Profit (loss)	(267,704)	399,184
Loss attributable to non-controlling interests	(179,095)	(96,108)
Profit (loss) attributable to owners of parent	(88,609)	495,293

Quarterly consolidated statement of comprehensive income
For the first three quarters

	(Unit: thousands of yen)	
	For the first three quarters of the previous fiscal year (from Oct 1, 2021 to Jun 30, 2022)	For the first three quarters of the current fiscal year (from Oct 1, 2022 to Jun 30, 2023)
Loss	(267,704)	399,184
Other comprehensive income		
Valuation difference on available-for-sale securities	(68,238)	4,222
Foreign currency translation adjustment, before tax	69,856	11,025
Remeasurements of defined benefit plans, before tax	(2,152)	2,023
Share of other comprehensive income of entities accounted for using equity method	(5,114)	52,619
Total other comprehensive income	(5,649)	69,890
Comprehensive income	(273,353)	469,074
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(94,867)	565,183
Comprehensive income attributable to non-controlling interests	(178,485)	(96,108)

3) Notes concerning quarterly consolidated financial statements

(Notes concerning going concern assumption)

Not applicable.

(Notes in the event of significant changes in shareholders' equity)

Not applicable.

(Segment information, etc.)

【Segment information】

I First half of previous fiscal year (period from October 1, 2021 to June 30, 2022)

1. Information on net sales, profit or loss for each reporting segment and revenue breakdown information

(Unit: thousands of yen)

	Reporting segment					Adjustment amount (Note)1	Amount reported on the quarterly consolidated statement of income (Note)2
	Content business	Healthcare business	School DX business	Other business	Total		
Net sales							
Goods or services transferred at a point in time	13,238,085	2,856,635	271,426	2,300,358	18,666,506	—	18,666,506
Goods or services transferred over time	11,039	46,374	—	630,266	687,680	—	687,680
Revenue from contracts with customers	13,249,124	2,903,009	271,426	2,930,625	19,354,186	—	19,354,186
Sales to outside customers	13,249,124	2,903,009	271,426	2,930,625	19,354,186	—	19,354,186
Internal sales between segments or transfers	169,344	13,602	—	813,943	996,890	(996,890)	—
Total	13,418,469	2,916,612	271,426	3,744,569	20,351,077	(996,890)	19,354,186
Segment income (loss)	4,186,165	(899,663)	(535,652)	(428,311)	2,322,537	(1,899,869)	422,668

(Note) 1. The segment income (loss) adjustment of ¥(1,899,869) thousand includes the elimination of inter-segment transactions of ¥(57,411) thousand and corporate expenses not allocated to each reporting segment of ¥(1,842,457) thousand.

Corporate expenses are composed largely of general and administrative expenses not attributed to any reporting segment.

2. The segment income (loss) represents the result of adjustment to operating income reported on the quarterly consolidated statement of income.

2. Information on impairment loss on non-current assets or goodwill and others for each reporting segment

(Important impairment losses related to fixed assets)

(Unit: thousands of yen)

	Reporting segment					Adjustment amount (Note)1	Amount reported on the quarterly consolidated statement of income (Note)2
	Content business	Healthcare business	School DX business	Other business	Total		
Impairment loss	—	—	—	909	909	—	909

(Material change in goodwill)

In addition, in other business, goodwill of ¥149,142 thousand was recorded for the first nine months of the fiscal year under review as a result of the acquisition of additional shares of AI Infinity Co., Ltd., which made the company a consolidated subsidiary.

II First half of previous fiscal year (period from October 1, 2022 to June 30, 2022)

1. Information on net sales, profit or loss for each reporting segment and revenue breakdown information

(Unit: thousands of yen)

	Reporting segment					Adjustment amount (Note)1	Amount reported on the quarterly consolidated statement of income (Note)2
	Content business	Healthcare business	School DX business	Other business	Total		
Net sales							
Goods or services transferred at a point in time	13,650,932	3,340,826	549,583	2,075,311	19,616,654	—	19,616,654
Goods or services transferred over time	42,424	28,712	32,239	418,593	521,969	—	521,969
Revenue from contracts with customers	13,693,356	3,369,539	581,822	2,493,904	20,138,623	—	20,138,623
Sales to outside customers	13,693,356	3,369,539	581,822	2,493,904	20,138,623	—	20,138,623
Internal sales between segments or transfers	126,522	7,692	—	1,106,850	1,241,066	(1,241,066)	—
Total	13,819,879	3,377,232	581,822	3,600,755	21,379,690	(1,241,066)	20,138,623
Segment income (loss)	4,005,241	(233,708)	(569,022)	(1,220,395)	1,982,114	(1,999,861)	(17,746)

(Note) 1. The segment income (loss) adjustment of ¥(1,999,861) thousand includes the elimination of inter-segment transactions of ¥(33,234) thousand and corporate expenses not allocated to each reporting segment of ¥(1,966,627) thousand.

Corporate expenses are composed largely of general and administrative expenses not attributed to any reporting segment.

2. The segment income (loss) represents the result of adjustment to operating income reported on the quarterly consolidated statement of income.

2. Information on impairment loss on non-current assets or goodwill and others for each reporting segment

(Important impairment losses related to fixed assets)

(Unit: thousands of yen)

	Reporting segment					Adjustment amount (Note)1	Amount reported on the quarterly consolidated statement of income (Note)2
	Content business	Healthcare business	School DX business	Other business	Total		
Impairment loss	—	1,992	—	8,554	10,546	—	10,546

3. Matters regarding change in reporting segments and others

Due to the increased importance of the school DX business operated by its consolidated subsidiary, Motivation Works Inc., the internal management classification was reviewed, and as a result, the reporting segments were changed from the previous three segments of "Content business," "Healthcare business," and "Other business" to four segments of "Content business," "Healthcare business," "School DX business," and "Other business" from the first quarter of the current fiscal year.

The segment information for the first three quarters of the previous fiscal year is based on the new segments after the change.