

Financial Results Briefing for Q1/2020

February 4, 2020



This report contains forward-looking statements on business performance based on the judgments, assumptions, and beliefs of management using the information available at the time. Actual results may differ materially due to changes in domestic or overseas economic conditions or changes in internal or external business environments or aspects of uncertainty contained in the forecasts, latent risks or various other factors. In addition, risk and uncertainty factors include unpredictable elements that could arise from future events.

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Financial Results Overview for Q1 FY2020

Financial Highlights:

1 Q1 Results

Net sales **¥6,104** million (Down **¥757**million, Down **11.0%**, YoY)

Operating income **¥586** million (Down **¥243**million, Down **29.3%**, YoY)

2 Revised earnings forecast for H1

- Acceptance of the transfer of music streaming service
- Successfully controlled advertising expenses

3 Increase in the number of stores that introduce the cloud-based drug administration record service

Consolidated PL :

Decreased sales and profit

(Unit : Mil yen)

	FY2020 Q1	FY2019 Q1	YoY		
			Amount	Percentage	
Net sales	6,104	6,862	(757)	(11.0%)	Effect of the separation of communication charges and handset prices(regulation implication)
Cost of sales (ratio)	1,627 26.7%	1,632 23.8%	(4)	(0.3%)	
Gross profit (ratio)	4,477 73.3%	5,229 73.4%	(752)	(14.4%)	
SG&A (ratio)	3,891 63.7%	4,400 64.1%	(509)	(11.6%)	Decreased in advertising expenses
Operating income (ratio)	586 9.6%	829 12.1%	(243)	(29.3%)	
Ordinary income (ratio)	404 6.6%	868 12.7%	(463)	(53.4%)	Non-operating expenses Equity method investment loss
Profit attributable to owners of parent (ratio)	231 3.8%	543 5.6%	(312)	(57.4%)	

Consolidated SG&A :

Decreased in Advertising expenses

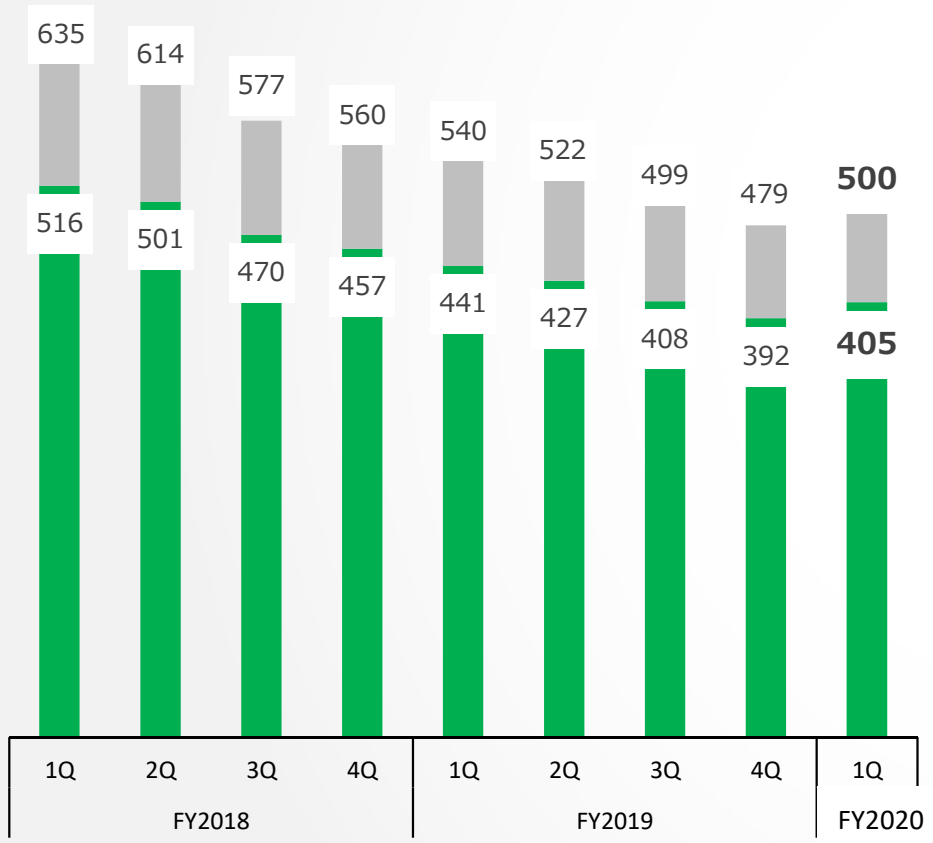
(Unit : Mil yen)

	FY2020 Q1	FY2019 Q1	YoY	
			Amount	Percentage
SG&A	3,891	4,400	(509)	(11.6%)
Advertising expenses	248	722	(473)	(65.5%)
Personnel expenses	1,550	1,550	+0	+0.0%
Commission fee	829	880	(50)	(5.7%)
Subcontract expenses	278	216	+62	+28.8%
Depreciation	307	343	(36)	(10.6%)
Other	675	687	(12)	(1.7%)

Effect of the separation of communication charges and handset prices(regulation implication)

Contents Business :

The number of Paying subscribers



Increased by 210,000 subscribers.
M&A strategy about business transfer was effective.

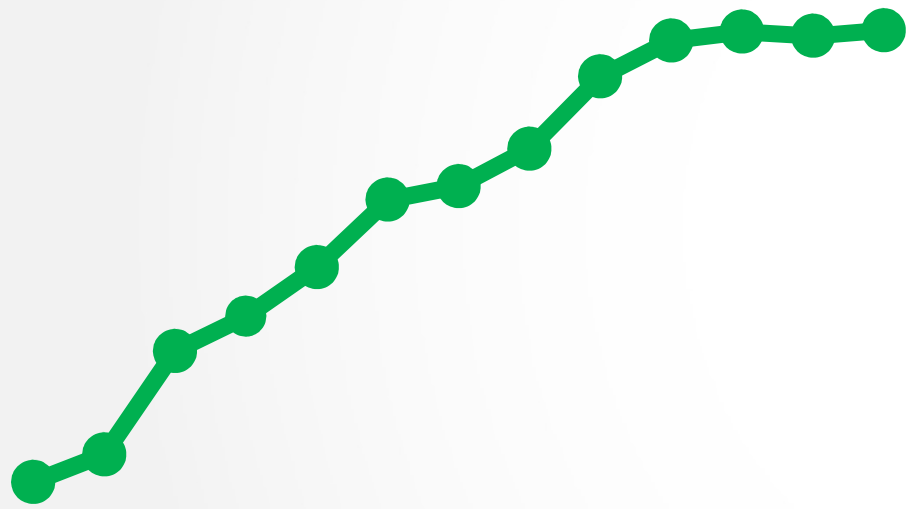
Music service 'musico' +460 thousand

Total paying subscribers

5 million subscribers

Smartphone Feature phone

* The number of paying subscribers are including healthcare business 'Luna-luna' and 'Caradamedica' whose business model are monthly paid business above.



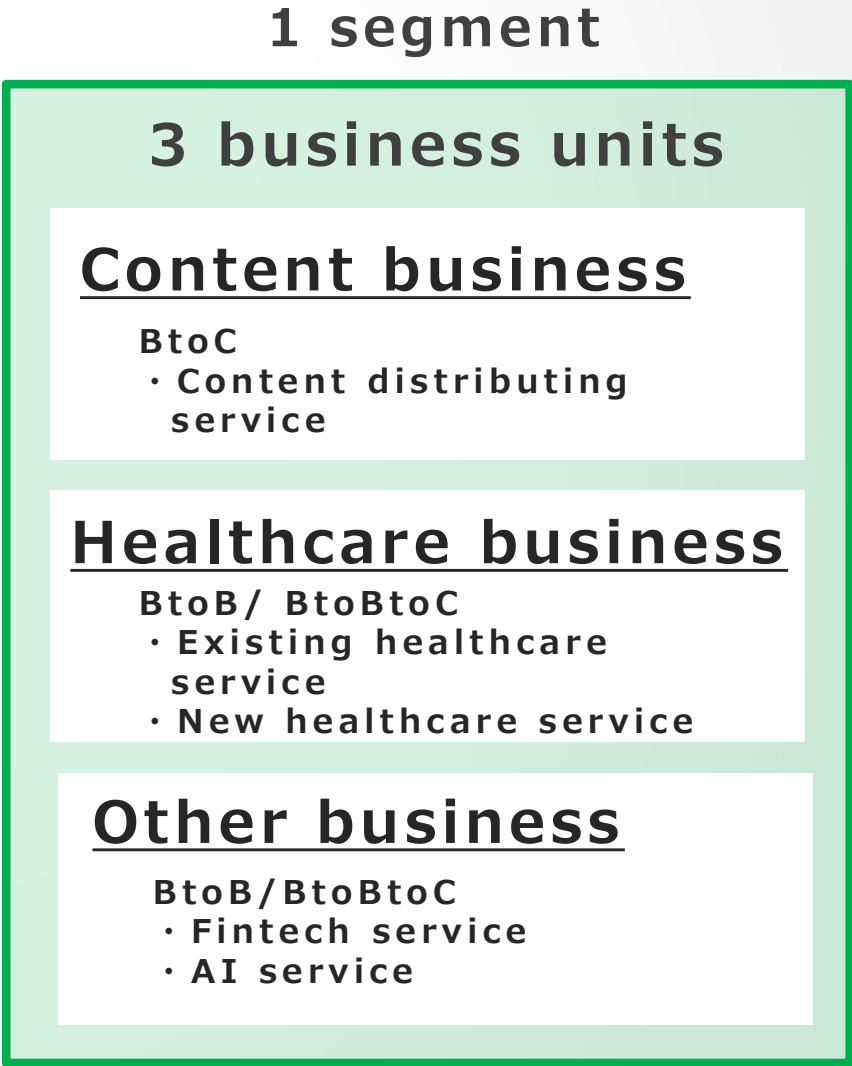
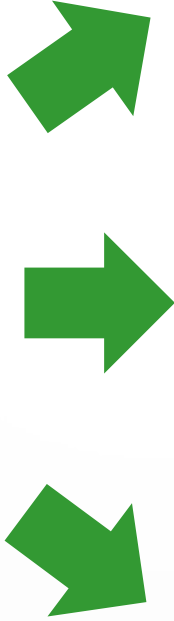
ARPU remains flat due to the separation of communication charges and handset prices

ARPU of paying subscribers of smartphones contents

YoY + **¥6.2**

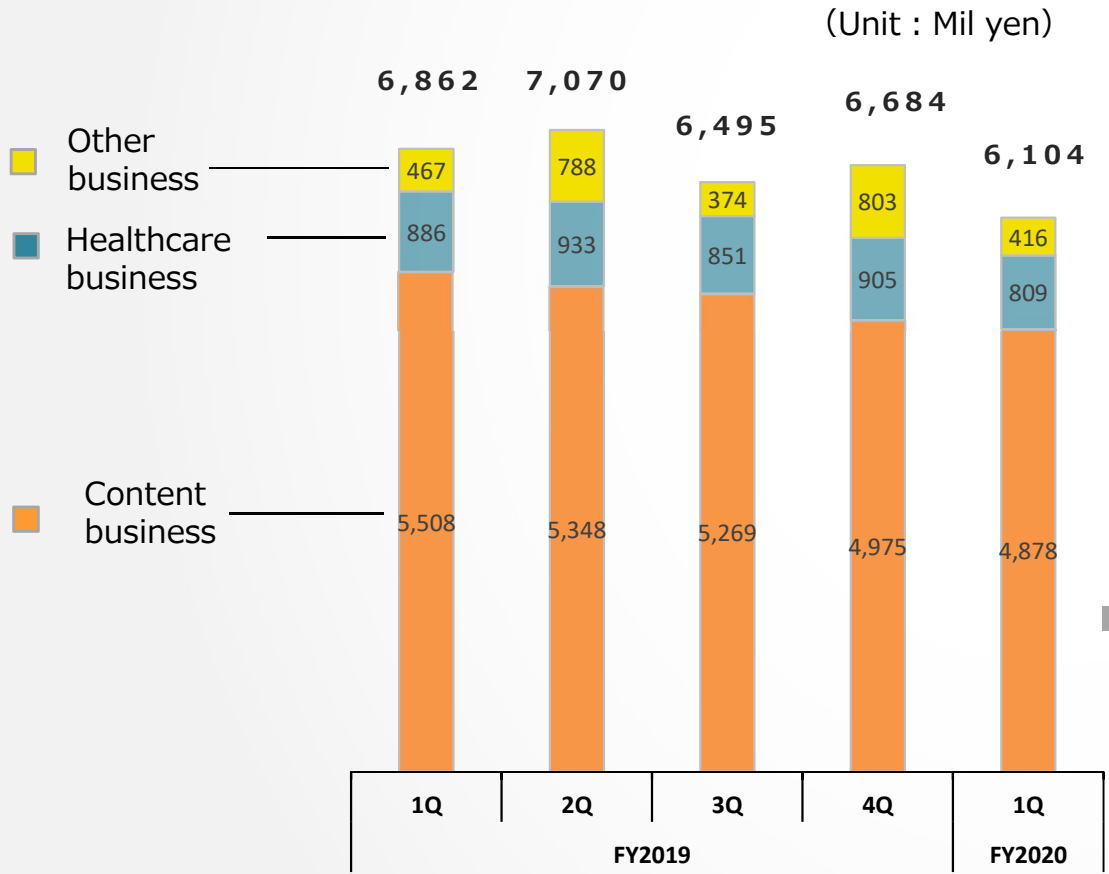
1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q
FY2017				FY2018				FY2019				FY2020

Performance by business unit:

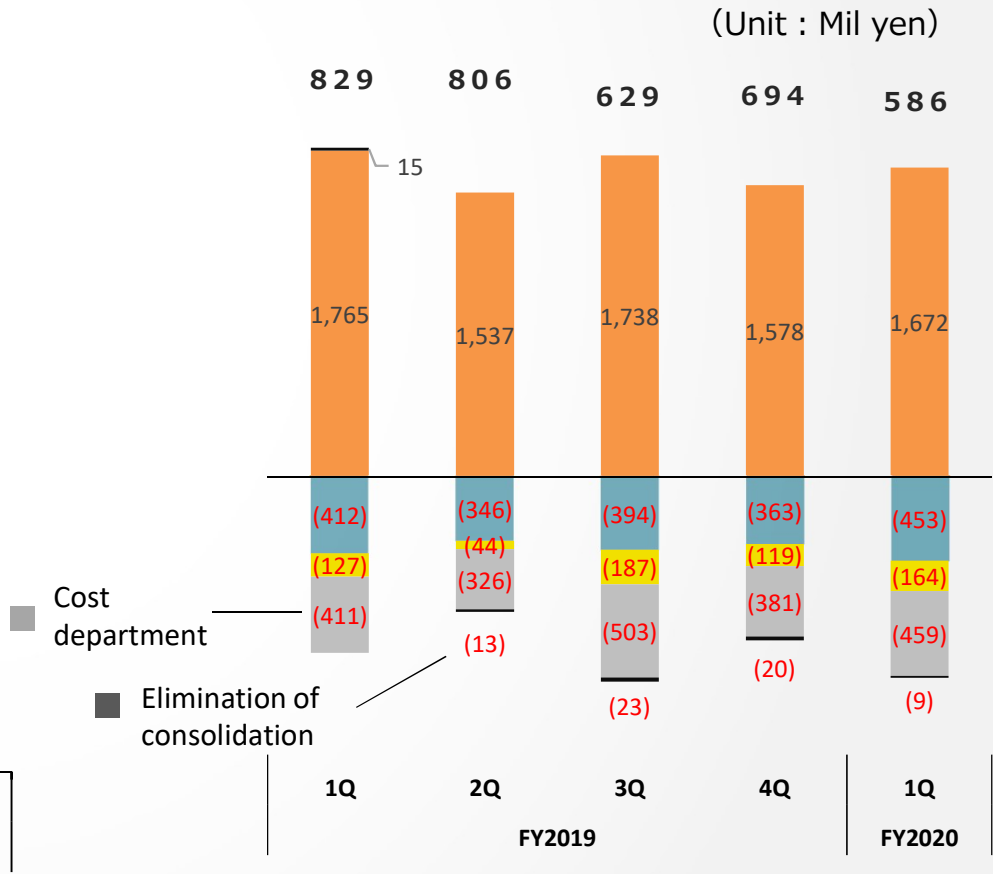


Performance by business unit:

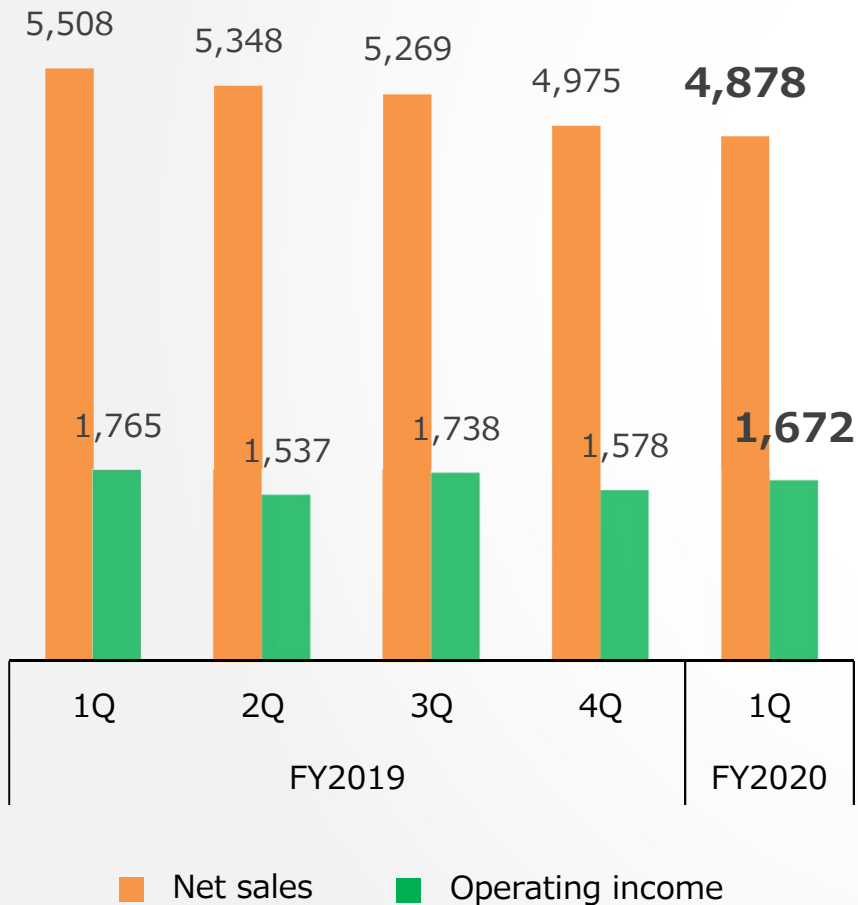
Net sales



Operating income



(Unit : Mil yen)



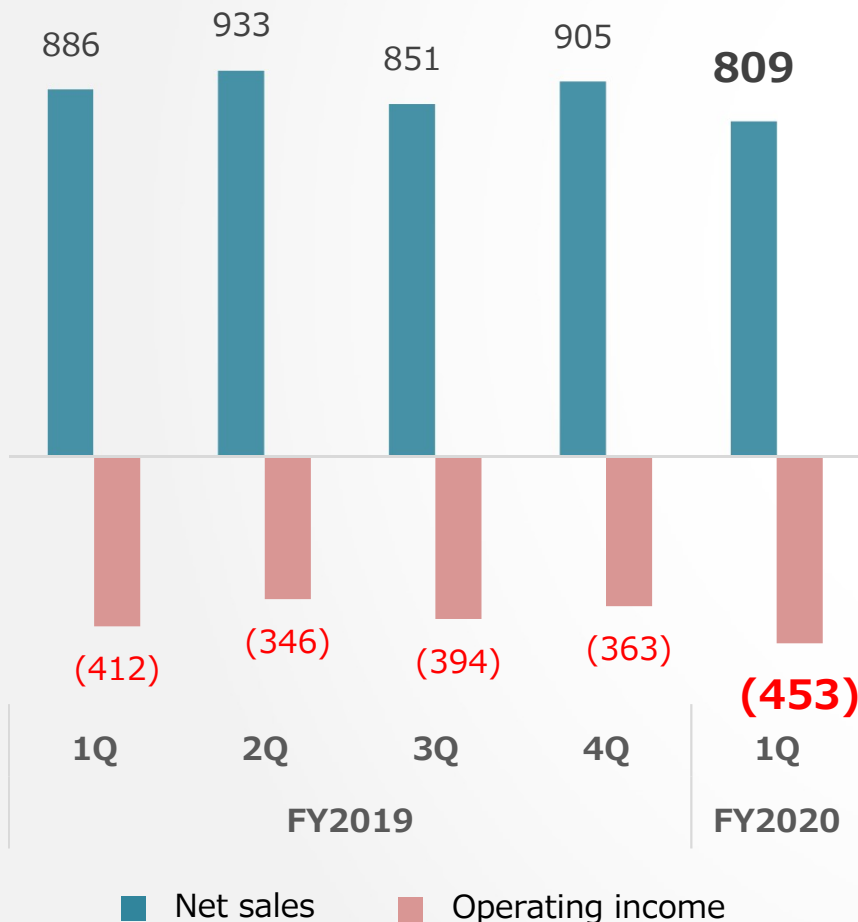
Profit decreased YoY

- Net sales
Net sales decreased because number of paid members decreased compared to the same period of the previous fiscal year.
- Operating income
operating income decreased YoY despite lower advertising expenses.

Healthcare service :

Net sales and Operating income

(Unit : Mil yen)



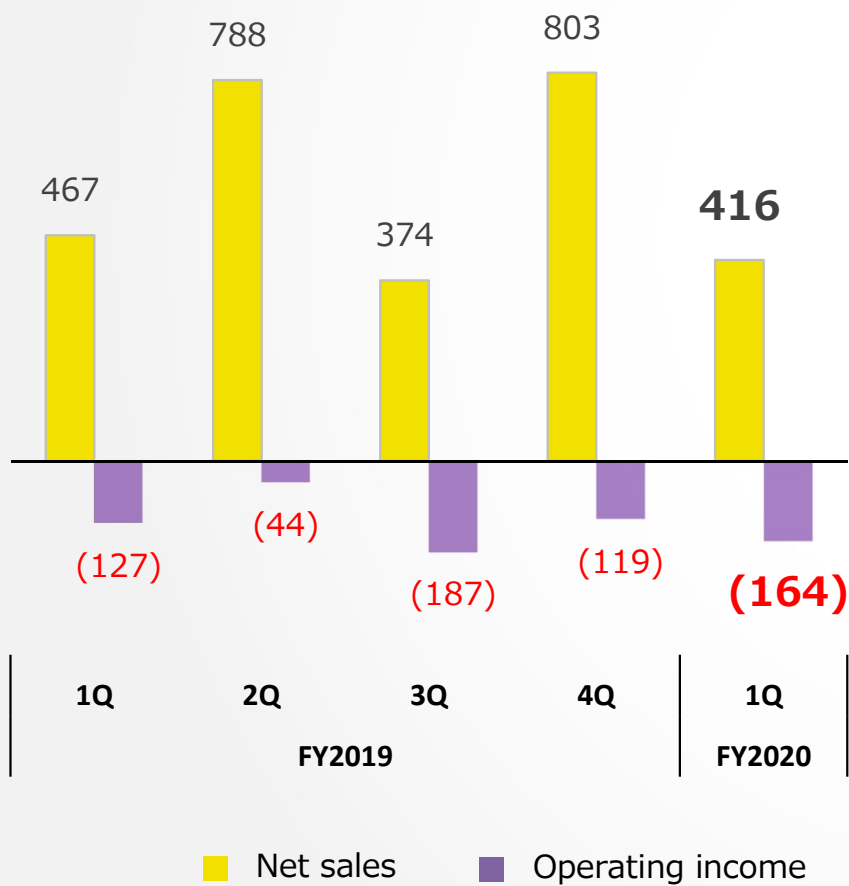
Profit decreased YoY

- Net sales
 - Net sales decreased because number of paid members decreased compared to the same period of the previous fiscal year.
- Operating loss
 - Aggressive business development in each healthcare service
 - Operating loss was on par YoY.

Other business :

Net sales and Operating income

(Unit : Mil yen)



- Net sales
Decreased YoY.
- Operating loss
Operating loss was on par YoY.

Revision of earnings forecast for H1 of FY2020

Progress for earnings forecast of H1

(Unit : Mil yen)

	FY2020 Q1 Actual	FY2020 H1 Initial forecast	Progress
Net sales	6,104	13,000	47.0%
Operating income	586	800	73.3%
Ordinary income	404	760	53.2%
Profit attributable to owners of parent	231	500	46.3%

Revision of earnings forecast of H1

(Unit : Mil yen)

	FY2020 H1		Difference
	Initial forecast	Forecast this time	
Net sales	13,000	13,000	±0
Operating income	800	1,200	+400
Ordinary income	760	1,000	+240
Profit attributable to owners of parent	500	700	+200

For H1

- Acceptance of the transfer of music streaming service
- Unused advertising expenses

	FY2020 Full Year		Difference
	Initial forecast	Forecast this time	
Net sales	26,000	26,000	±0
Operating income	2,000	2,000	±0
Ordinary income	1,920	1,920	±0
Profit attributable to owners of parent	1,200	1,200	±0

For Full year

- Remain unchanged

Approaches in Q2 and beyond

Basic policy in FY2020 : Continue the previous term policy

1. Expand sales for healthcare services

2. Maintenance of the total number of paying subscribers

3. Improvement in ARPU

Content business :

Service overview

- The “music.jp” store offering music, videos, books and comics is the core content
- Weather information, geographic information, wave information, security, fortune-telling content and more



Content business :

“Maintenance of the total number of paying subscribers”

“Improvement in ARPU”

Maintenance of the total number of paying subscribers

- Continue to implement M&A strategies

Improvement in ARPU

- Facilitate sales of ARPU enhancement-oriented services by improving the video lineup.

Healthcare service :

Service overview

- Monthly billed LunaLuna and CARADAmédica services
- *Solamichi, Pharmo, CARADA, BoshiMo, Luna Luna medico, etc.*



CARADA medica



母子手帳アプリ
母子モ



CARADA



Solamichi

PHARUMO

ルナルナメディコ

CLIPLA

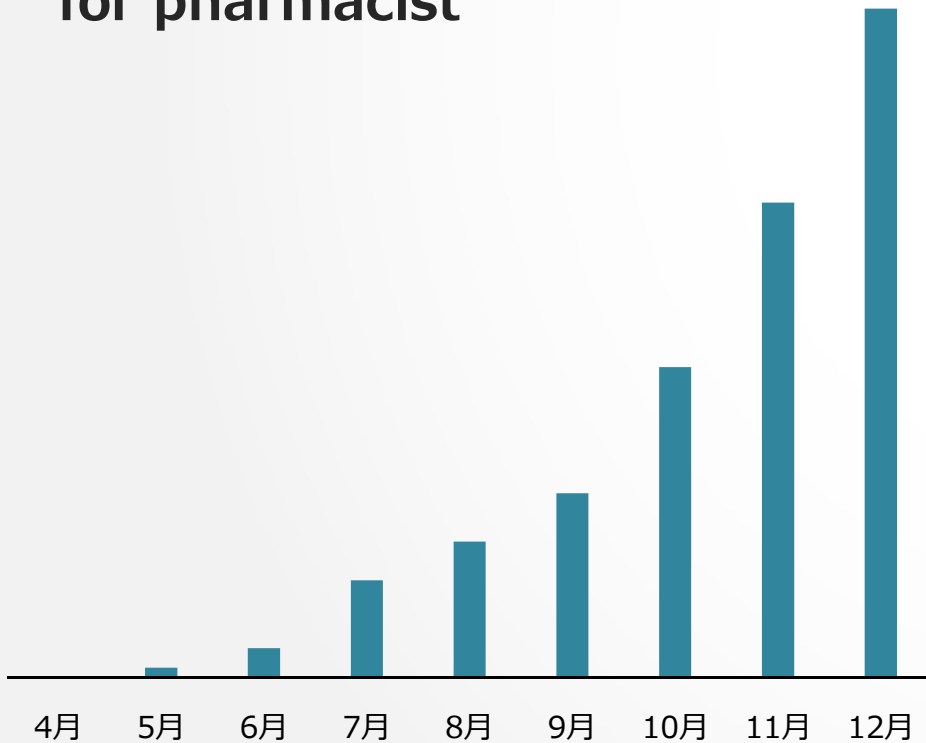
MNES

Healthcare service :

Expand sales for healthcare services

Number of installation of cloud drug history system service for pharmacist

69 stores introduced



Further increase the number of stores that introduce the service.

- Collaborate with Medipal HD in sale.
- The revised medical fee system works favorable.

• • •



Data linkage with Drug record app

CARADA

Other business :

Service overview

- AI business (Subsidiary-Automagi)
- Solution business



Chattbots and video/image analysis adopted by more than 100 companies



Adopted by more than 200 companies



Other business :

- **Existing contract development business including mobile convert remain firm.**
- **The solutions business is in the process of expanding services for financial institutions.**
- **The AI business is working to increase orders for image and video analyzing services.**

Appendix

Consolidated earnings forecast

(Unit : Mil yen)

	FY2020 (Forecast)			FY2019 (Actual)			YoY	
	Full year	H1	H2	Full year	H1	H2	Amount Full year	Ratio Full year
Net sales	26,000	13,000	13,000	27,112	13,932	13,179	(1,112)	(4.1%)
Cost of sales	7,200	3,600	3,600	7,517	3,515	3,641	+42	+0.6%
Gross profit	18,800	9,400	9,400	19,955	10,416	9,538	(1,155)	(5.8%)
SG&A	16,800	8,200	8,600	16,996	8,781	8,214	(196)	(1.2%)
Operating income	2,000	1,200	800	2,959	1,635	1,323	(959)	(32.4%)
(Ratio)	7.7%	9.2%	6.2%	10.9%	11.7%	10.0%		
Ordinary income	1,920	1,000	920	3,134	1,577	1,556	(1,214)	(38.7%)
(Ratio)	7.4%	7.7%	7.1%	11.6%	11.3%	11.8%		
Profit attributable to owners of parent	1,200	700	500	1,508	860	647	(308)	(20.4%)
(Ratio)	4.6%	5.4%	3.8%	5.6%	6.2%	4.9%		

Consolidated B/S

MTI Ltd.

(Unit : Mil yen)

	FY2020-Q1	FY2019	Change		FY2020-Q1	FY2019	Change
Current assets	18,233	18,469	(235)	Current liabilities	7,033	4,315	+2,718
Cash and deposit	12,743	12,421	+321	Accounts payable-trade	1,230	1,308	(77)
Notes and accounts receivable-trade	3,677	4,667	(989)	Account payable-other	4,680	1,150	+3,530
Other	1,867	1,427	+439	Income taxes payable	174	730	(556)
Allowance for doubtful accounts	(54)	(47)	(6)	Allowance for coin usage	129	143	(13)
				Other	818	982	(163)
Non-current assets	12,235	9,010	+3,225	Non-current liabilities	1,395	1,370	+25
Property, plant and equipment	257	258	(0)	Net defined benefit liability	49	52	(2)
Intangible fixed assets	5,205	2,062	+3,143	Negative goodwill	1,337	1,306	+30
(Include) Software	1,880	1,870	+10	Other	8	11	(2)
Goodwill	3,284	153	+3,130	Total liabilities	8,429	5,685	+2,744
Investments and other assets	6,772	6,689	+82	Shareholders' equity	19,570	19,598	(27)
(Include) Investment securities	5,145	4,977	+168	Capital stock	5,135	5,135	-
Deferred tax assets	1,054	1,133	(79)	Capital surplus	6,802	6,706	+95
				Retained earning	10,868	10,989	(120)
				Treasury shares	(3,235)	(3,233)	(2)
				Accumulated other comprehensive income	300	268	+3
				Subscription rights to shares	354	343	+11
				Non-controlling interests	1,813	1,584	+229
				Total net assets	22,039	21,794	+245
Total assets	30,469	27,479	+2,989	Total liabilities and net assets	30,469	27,479	+2,989

Trends in Consolidated P/L

(Unit : Mil yen)

	FY2018				FY2019				FY2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net sales	7,517	7,645	7,036	6,876	6,862	7,070	6,495	6,684	6,104
Cost of sales	1,590	1,734	1,499	1,580	1,632	1,883	1,652	1,989	1,627
Gross profit	5,926	5,910	5,537	5,295	5,229	5,186	4,843	4,695	4,477
(Ratio)	78.8%	77.3%	78.7%	77.0%	76.2%	73.4%	74.6%	70.2%	73.3%
SG&A	5,265	5,200	4,444	4,542	4,400	4,380	4,213	4,001	3,891
Operating income	661	710	1,092	753	829	806	629	694	586
(ratio)	8.8%	9.3%	15.5%	11.0%	12.1%	11.4%	9.7%	10.4%	9.6%
Ordinary income	619	706	1,085	705	868	709	1,373	183	404
(Ratio)	8.2%	9.2%	15.4%	10.3%	12.7%	10.0%	21.1%	2.7%	6.6%
Profit attributable to owners of parent	801	352	740	(266)	543	317	1,285	(638)	231
(Ratio)	10.7%	4.6%	10.5%	-	7.9%	4.5%	19.8%	-	3.8%

Trends in Consolidated SG&A

(Unit : Mil yen)

	FY2018				FY2019				FY2020
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
SG&A	5,265	5,200	4,444	4,542	4,400	4,380	4,213	4,001	3,891
Advertising expense	1,369	1,487	721	822	722	763	504	414	248
Personnel expenses	1,534	1,456	1,500	1,324	1,550	1,516	1,584	1,496	1,550
Commission fee	886	938	884	913	880	844	869	805	829
Subcontract expenses	282	240	240	361	216	248	274	328	278
Depreciation	430	422	412	373	343	332	326	323	307
Other	761	654	685	746	687	673	654	632	675

Trends in performance by business units (Net sales)

(Unit : Mil yen)

	FY2019				FY2020
	Q1	Q2	Q3	Q4	Q1
Net sales	6,862	7,070	6,495	6,684	6,104
Content business	5,508	5,348	5,269	4,975	4,878
Healthcare business	886	933	851	905	809
Otere business	467	788	374	803	416
Cost Department	-	-	-	-	-
Elimination of consolidation	-	-	-	-	-



Trends in performance by business units (Operating income)

(Unit : Mil yen)

	FY2019				FY2020
	Q1	Q2	Q3	Q4	Q1
Operating income	829	806	629	694	586
Content business	1,765	1,537	1,738	1,578	1,672
Healthcare business	(412)	(346)	(394)	(363)	(453)
Otere business	(127)	(44)	(187)	(119)	(164)
Cost department	(411)	(326)	(503)	(381)	(459)
Elimination of consolidation	15	(13)	(23)	(20)	(9)

The list of main healthcare services

The figures in the table are actual as of end of Dec 2019.

	Name of service	Service function	Business model
BtoC	 (Luna luna)	Healthcare info service for women. Forecasting menstrual day & ovulation day.	Free app (Over 14 million DL cumulative) Three hundred yen fee or higher for fertility mode and other modes
	ĊARADA medica	Q&A service for doctors and people engaged in medical services. Helps eliminate daily health concerns.	¥400/month
BtoB	Solamichi	Cloud drug administration record service for pharmacies The drug administration record navigation function is highly rated. Links with the CARADA medical history notebook app.	Initial cost for introduction + monthly usage fee Sixty-nine orders have been received. Full-scale deliveries started in December.
BtoBtoC	ĊARADA	Service for medical examination institutions. Results of health checkups, including previous records, are sent to relevant smartphones as graphics. The service, which enhances users' convenience, contributes to increasing the rate of checkups at health examination institutions.	Collects monthly usage fees from health examination institutions. Number of contracts with health examination institutions: 106 Coverage in terms of the number of people who have checkups: 3.3 million.
		Maternal and Child Health Handbook service app. Vaccine scheduling function and information provided by local governments.	The app is provided at no additional charge for those of childbearing age including mothers. Collects monthly usage fees from contracted local governments nationwide. The service has been adopted by 215 of 1,740 local governments nationwide.
	'Luna luna medico'	LunaLuna linkage function for gynecologists. Daily health information for female patients is shown on hospital computers. The service is for fertility treatment.	The service is currently provided at no additional charge. Efforts will be made to increase the number of users among gynecologists. (Patients are LunaLuna users [free/additional charge])

Healthcare business :

Cloud drug records system 'Solamichi'

A system facilitating efficient operations for pharmacists in preparing medication histories

Solamichi

With medication instructions

The screenshot displays the Solamichi web interface for a pharmacist. At the top, it shows patient information: 男性 昭和55年3月31日生 38歳2ヶ月, 身長: 170cm 体重: 70kg BMI: 24.2, and the pharmacist's name: 薬剤師 太郎. The main area is divided into three columns representing different medication records. Each record includes a list of drugs with their dosages and frequencies, such as 'メバロチン錠5 1錠', 'バイアスピリン錠100mg 1錠', and 'ディオバン錠80mg 1錠'. A '基礎情報メモ' (Basic Information Memo) section on the right provides detailed medication instructions, including '指導内容' (Guidance Content) and '副作用症状確認' (Side Effect Symptom Confirmation) with checkboxes for '有' (Present) and '無' (Absent). A '併用薬' (Concomitant Medication) section lists other drugs like 'ルナルナ病院' and 'アダラートCR錠10mg'. A '申送り' (Submission) section at the bottom right contains a '保存' (Save) button. A blue callout circle highlights the medication instructions section.

A user-friendly operation screen

Accessible even outside pharmacies

Healthcare business :

Cloud drug records system 'Solamichi'

Declining revenues for dispensing pharmacies

Remuneration (revenue) of dispensing pharmacies

On a declining trend reflecting government revisions in drug prices and drug compounding fees

1) Drug fee 2) Drug compounding fee 3)* Medication history management fee

*Evaluation of drug management service, medication advice, drug information and home medication services provided by pharmacists.

Challenges for pharmacies

Increasing workload for dispensing pharmacies and pharmacists

Given the large number of input items for medication histories, the burden for pharmacists after business hours is heavy. If the input of medication histories is omitted, there have been cases fees had to be refunded since those were regarded as fraudulent billings for drug dispensing fees. Going forward, it will be necessary to establish a system capable of facilitating efficient operations for pharmacists who will face further increases in their workload.

Familiar pharmacy Home medication services 24-hour support Online-medication

What is 'medication'

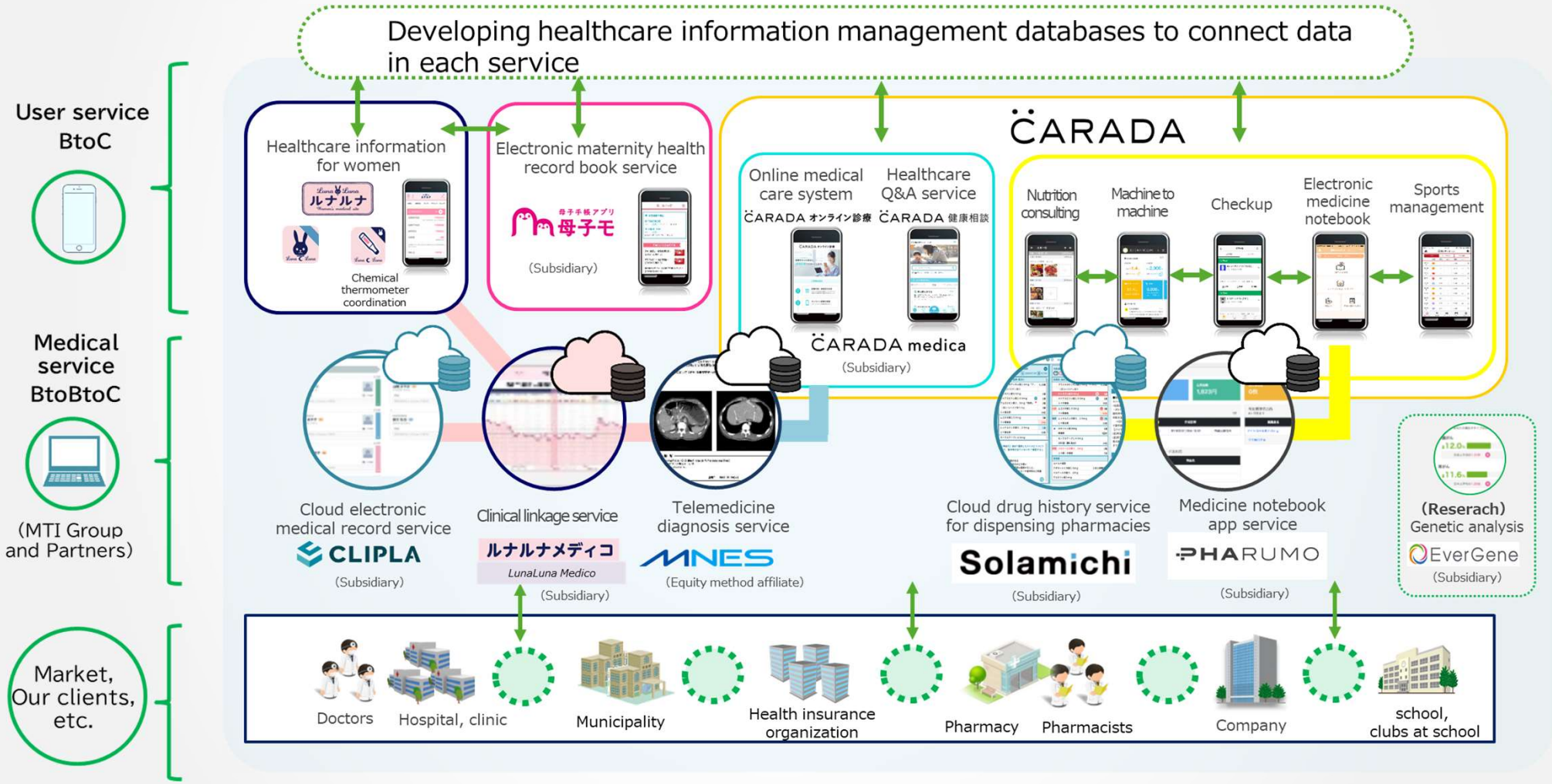
Patient's drug prescription records
 Pharmacists at pharmacies dispense drugs based on doctor's prescriptions. After the drugs are administered, they monitor the effects and possible adverse effects through direct interaction with patients to prepare a drug administration history for each patient.

A system facilitating efficient operations for pharmacists in preparing medication histories

Solamichi solves the problem!

Healthcare business :

Overview of Healthcare services



*Some images are under development and may differ from the actual ones.
 *The services provided by the Group include some services that provide support for medical sites, but do not perform medical activities.



〈Contact us〉

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This report contains forward-looking statements on business performance based on the judgments, assumptions, and beliefs of management using the information available at the time. Actual results may differ materially due to changes in domestic or overseas economic conditions or changes in internal or external business environments or aspects of uncertainty contained in the forecasts, latent risks or various other factors. In addition, risk and uncertainty factors include unpredictable elements that could arise from future events.