

**MTI Ltd.**



For the First Three Quarters of  
Fiscal year ending September 30, 2014

# Financial Results Presentation

August 8, 2014 Securities Code:9438

# CONTENTS



2

## Overview of Consolidated Financial Results for the First Quarters of Fiscal Year ending September 30, 2014

- 3 Financial Highlights for the first three quarters of Fiscal Year ending September 30, 2014
- 4 Consolidated Statements of Income
- 5 Consolidated Selling, General and Administrative Expenses
- 6 Consolidated Balance Sheets Statements
- 7 Business Overview

## 11 Revision for the Earnings Forecast for the Full-year Term

- 12 Revision for the Earnings Forecast for the Full-year Term

## 13 New Approach in the 4th Quarter

- 14 Basic Policy in the 2<sup>nd</sup> Half of the Fiscal Year
- 15 Enlargement of Service
- 19 Development of New Channels for Reaching New Subscribers
- 25 Earnings Forecast for the Full-year Term
- 26 Medium-term Vision of Operating Income

## 27 Appendix



# Overview of Consolidated Financial Results For the First Quarters of Fiscal Year ending September 30, 2014



# Financial Highlights for the First Three Quarters



The number  
of paying subscribers

Smartphone: **5.28M**  
paying subscribers

-0.05M  
compared to March 31, 2014

Total: **7.90M**  
paying subscribers

-0.27M  
compared to March 31, 2014

Expected resulted for the  
Apr-Jun quarter, which is  
a changeover period.



Financial results

Net sales: **¥23,010M**  
+¥425M, +1.9% year –on-year

Operating income: **¥1,931M**  
+¥1,203 M

Net income: **¥1,009M**  
+¥686M

Both sales and income  
increased year on year.

# Consolidated Statements of Income



(First Three Quarters of FY2014)

(Millions of yen)	First three quarters of FY2014	First three quarters of FY2013	Change	
			Amount	Ratio(%)
Net sales	23,010	22,585	+425	+1.9%
Cost of sales	3,714	3,945	-230	-5.8%
Gross profit ( Gross profit ratio )	19,295 83.9%	18,640 82.5%	+655	+3.5%
Selling, general and administrative expenses	17,364 <small>※Breakdown in the next page</small>	17,912	-548	-3.1%
Operating income ( Operating income ratio )	1,931 8.4%	727 3.2%	+1,203	+165.6%
Ordinary income ( Ordinary income ratio )	1,925 8.4%	735 3.3%	+1,189	161.7%
Net income ( Net income ratio )	1,009 4.4%	322 1.4%	+686	212.9%

Sales increased through expansion of non-virtual affiliate business

Income increased through expansion of non-virtual affiliate business, whose cost rate low

- Advertising expenses decreased
- Income increased through expansion of non-virtual affiliate business

# Consolidated Selling, General and Administrative Expenses



(First Three Quarters of FY2014)

(Millions of yen)	First three quarters of FY2014	First three quarters of FY2013	Change	
			Amount	Ratio(%)
Total	17,364	17,912	-548	-3.1%
Advertising expenses	6,042	6,682	-639	-9.6%
Personal expenses	4,250	4,256	-6	-0.1%
Commission fee	2,525	2,420	+104	+4.3%
Subcontract expenses	1,382	1,330	+52	+3.9%
Depreciation	1,341	1,328	+12	+1.0%
Other	1,822	1,894	-72	-3.8%



# Consolidated Balance Sheets



Net cash was **3.26** billions of yen as of June 30, 2014  
(2.83 billions of yen as of September 30, 2013)

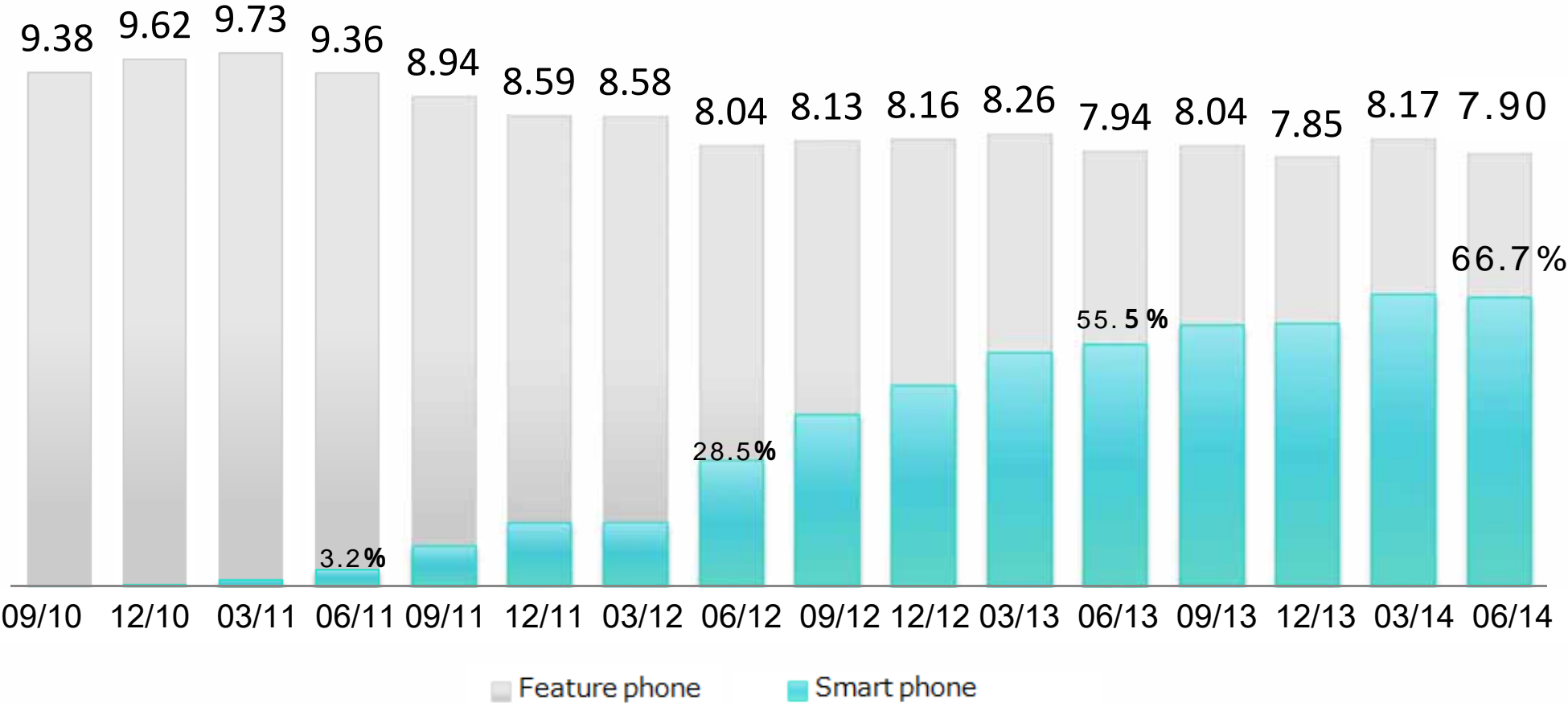
(Millions of yen)	As of June 310 2014	As of September 30, 2013	Change
Current assets	11,260	10,768	+492
Cash and deposit	3,766	3,416	+350
Notes and accounts receivable-trade	6,499	6,376	+122
Other	1,123	1,141	-18
Allowance for doubtful accounts	-128	-166	+38
Noncurrent assets	4,480	4,878	-398
Property, plant and equipment	155	175	-20
Intangible fixed assets	2,159	2,590	-430
Include software	2,059	2,346	-286
Include goodwill	74	133	-58
Investments and other assets	2,165	2,112	+52
Include investment securities	741	714	+26
Total assets	15,741	15,646	+94

(Millions of yen)	As of June 30, 2014	As of September 30, 2013	Change
Liabilities	5,114	5,687	-572
Accounts payable-trade	924	942	-18
Current portion of bonds	-	78	-78
Account payable-other	2,324	2,334	-9
Income taxes payable	322	637	-314
Allowance for coin usage	290	382	-92
Other	1,253	1,311	-58
Noncurrent liabilities	1,176	1,090	+86
Long-term loans payable	500	500	-
Provision for retirement benefits	624	509	+114
Other	52	80	-28
Total liabilities	6,291	6,777	-486
Capital stock	2,568	2,562	+5
Capital surplus	3,083	3,078	+5
Retained earning	3,977	3,393	+583
Treasury stock	-695	-695	-0
Other comprehensive income	32	62	-29
Subscription rights to shares	249	227	+22
Minority interest	233	239	-6
Net assets	9,450	8,869	+581
Total liabilities and net assets	15,741	15,646	+94



**7.90M** paying subscribers  
-0.27M, compared to March 31, 2014

Smartphone ratio  
**Expanded to 66.7%**



Quarterly change in the number of paying subscribers



# Business Overview: The Number of Paying Subscribers (Smartphone)

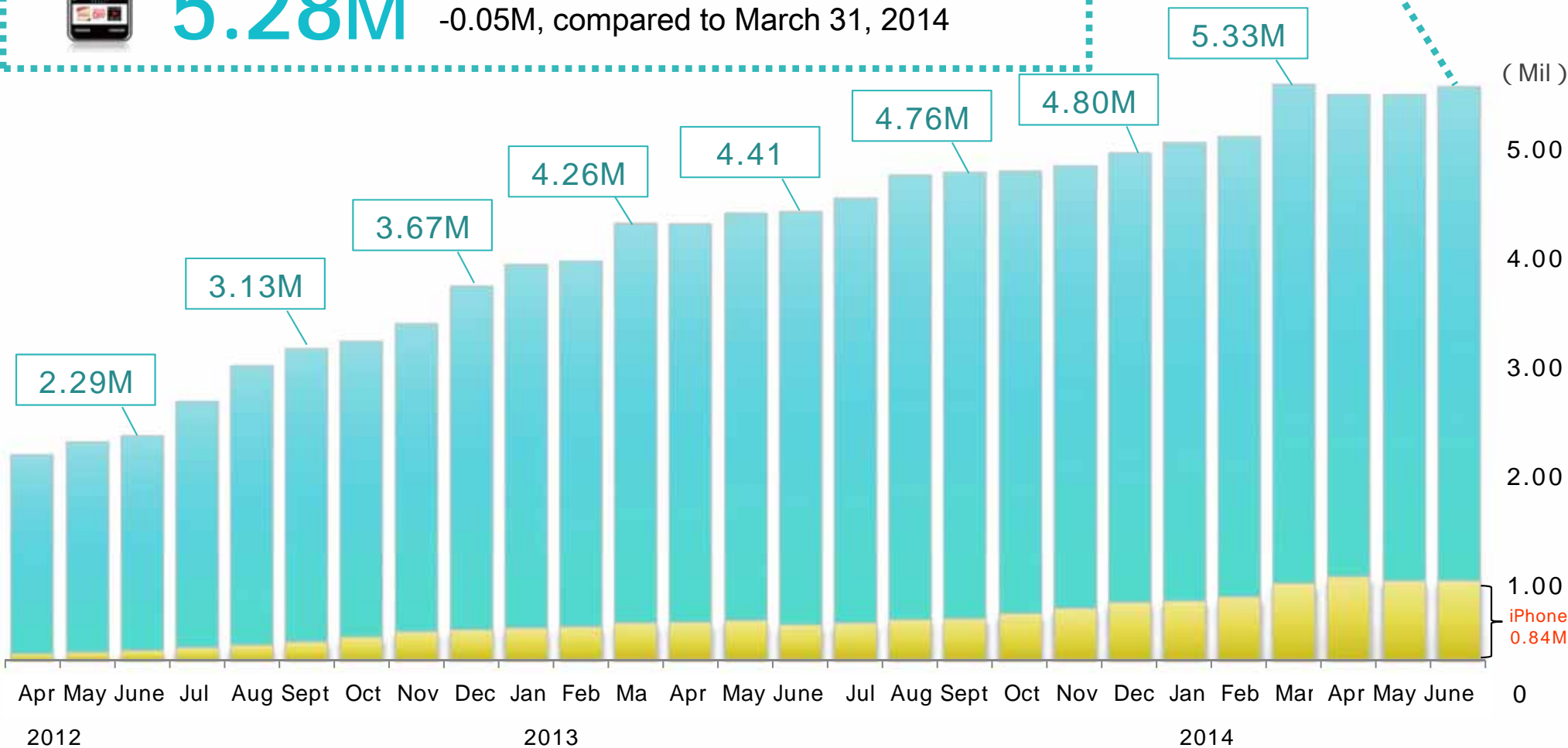


The number of paying subscribers of the smartphone



5.28M

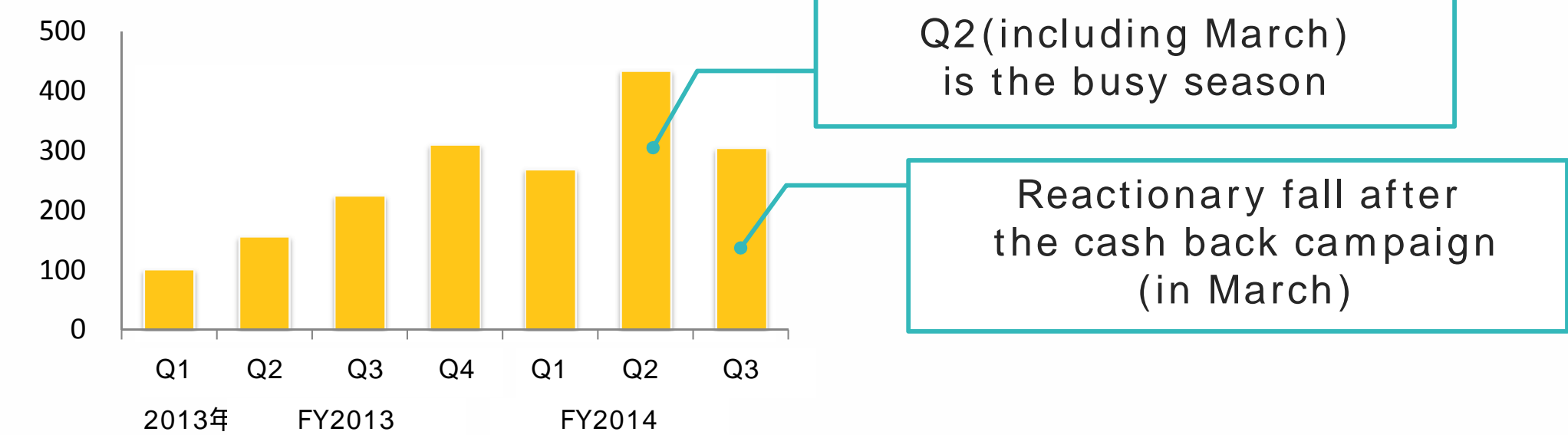
-0.05M, compared to March 31, 2014



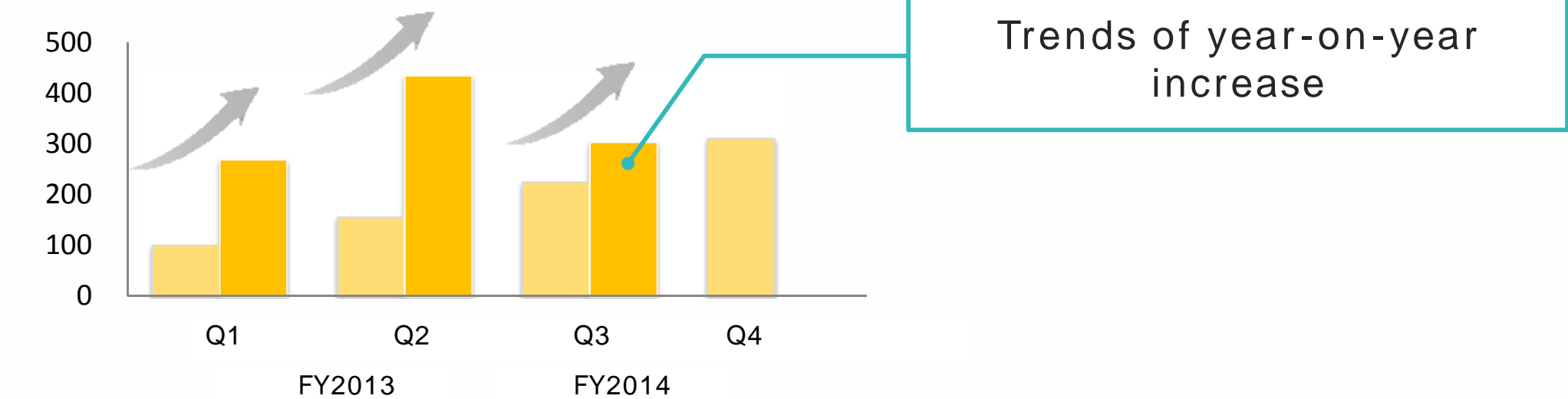
Monthly change in the number of paying subscribers for smartphone



## Quarterly change



## Year-on-year comparison





## 11 contents No.1 ~ won a sweeping victory ~



\* Source: Ranking data from "d-menu", a portal site for smartphone services, by NTT docomo Co., Ltd. as of July 22, 2014



## Revision for the Earnings Forecast for the Full-year Term



# Revision for the Earnings Forecast for the Full-year Term



## ■ Sales

- Q3 : The net number of paying subscribers attributable to the reaction to the cash back campaign.
- Q4 : The number of new members is expected to be limited because consumers will hold off buying smartphones in anticipation of the launch of the iPhone in September.

## ■ Operating income / Ordinary income / Net income

- Advertising expenses are also expected to be limited because the number of new members is expected to be limited.
- The non-virtual affiliate business will be steady.

(Millions of yen)	Full-year Forecast		Difference	
	( Before the revision )	( After the revision )	Amount	Change(%)
Net sales	30,800	31,500	-700	-2.2%
Operating income ( Operating income ratio )	2,400 7.8%	1,800 5.7%	+600	+33.3%
Ordinary income ( Ordinary income ratio )	2,370 7.7%	1,750 5.6%	+620	+35.4%
Net income ( Net income ratio )	1,200 3.9%	990 3.1%	+210	+21.2%



## New Approach in the 4th Quarter





## Further expansion in the number of paying subscribers for smartphone services

Enlargement of services

Improvement of functions for existing services

New approach

Development of new channels for reaching new subscribers

Enhancement in the non-virtual affiliate business

Shifting between free service and pay service

Extension of life time

Seeking to satisfy customers





# Integration of main download services

More convenient!      More useful!      More fantastic!

**1<sup>st</sup> Stage** Integrates Music and e-Book

 **Music**

 **Books  
Comics**

In preparation

**Video,  
DVD**



(Simulate mage )

Usability ..... **UP!** ↑  
Customer satisfaction ..... **UP!** ↑  
The total numbers of the Downloading **UP!** ↑

To be launched in **Sept.!**

**Sales** = Subscribers × **Unit price** ↑

A Q&A site where answers from doctors are available 24 hours a day



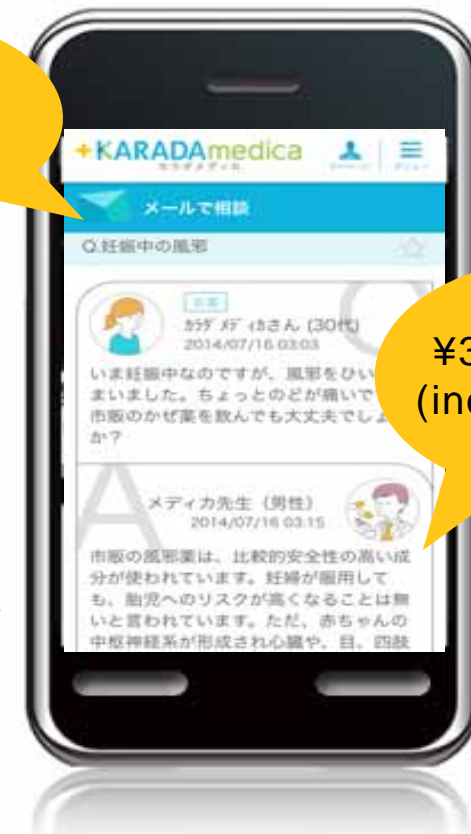
## Additional function a "Pharmacist Consultation"

To be  
launched  
in  
**July!**

By e-mail  
or  
telephone

A user can  
Ask  
up to three  
questions

¥324/month  
(including tax)



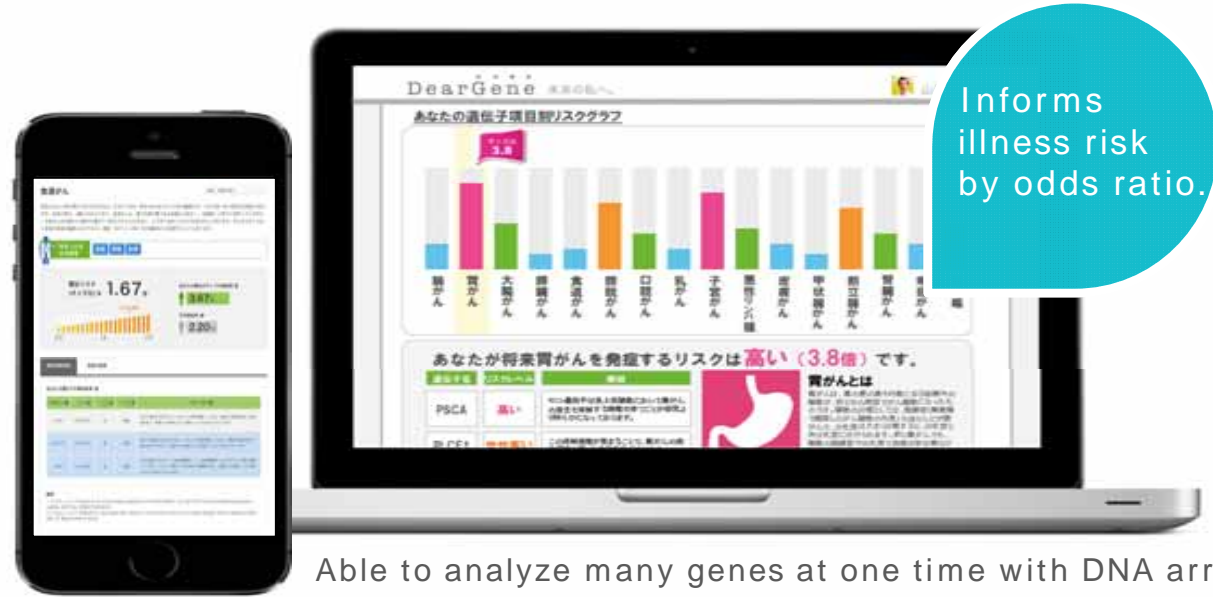


遺伝子で知る、未来の自分

# DearGene

遺伝子解析サービス

Released on April !



©EverGene Ltd.

Able to analyze many genes at one time with DNA arrays  
stomach cancer, lung cancer, colorectal cancer (including rectum and colon), thyroid cancer,  
bladder cancer, prostate cancer, nasopharyngeal cancer

Cancer gene testing kit  
¥9,800 (Tax included)

Cancer  
+  
Lifestyle diseases  
gene testing kit  
¥29,800 (Tax included)

Available  
e-commerce sites

Amazon

yodobashi  
.com

Rakuten

Yahoo!



## API Service “LunaLuna Link”



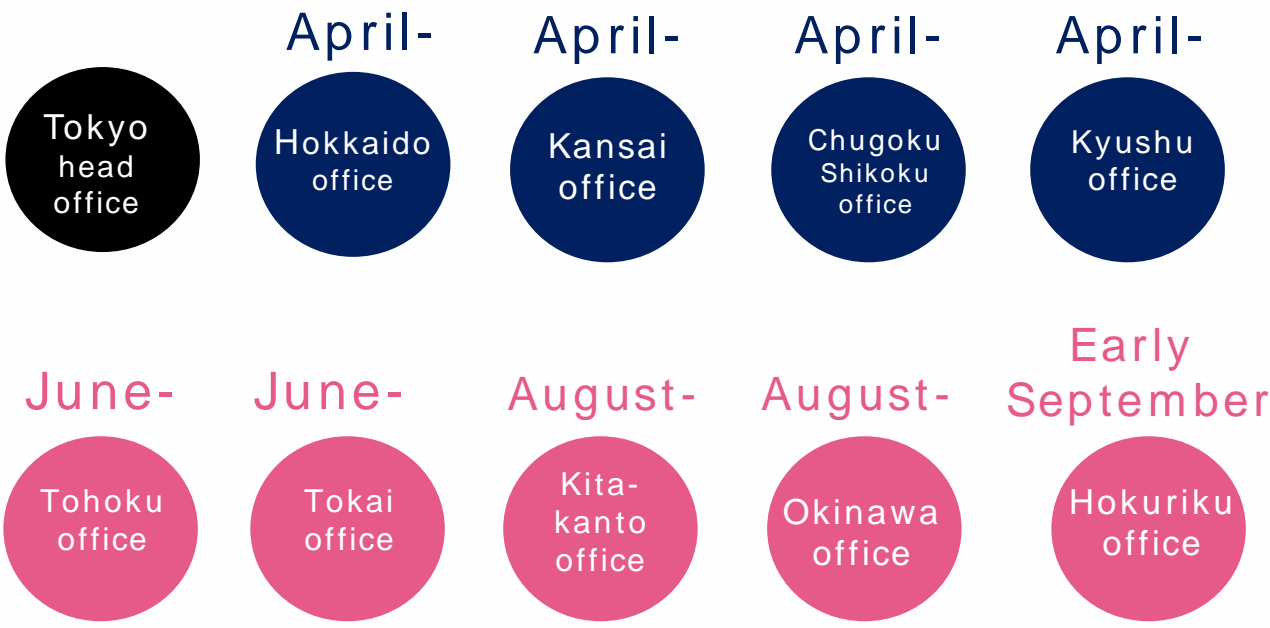
launched  
in  
May

## Indian version of LunaLuna “Lunacycle”



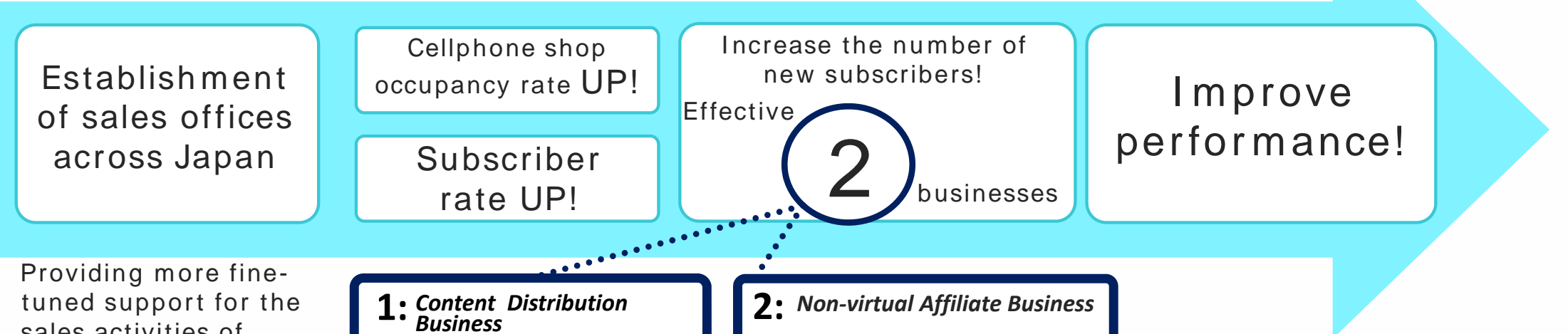
The num of  
downloading  
favorably  
since  
The launch

# Development of New Channels for Reaching New Subscribers: Enhancement in the Non-virtual Affiliate Business

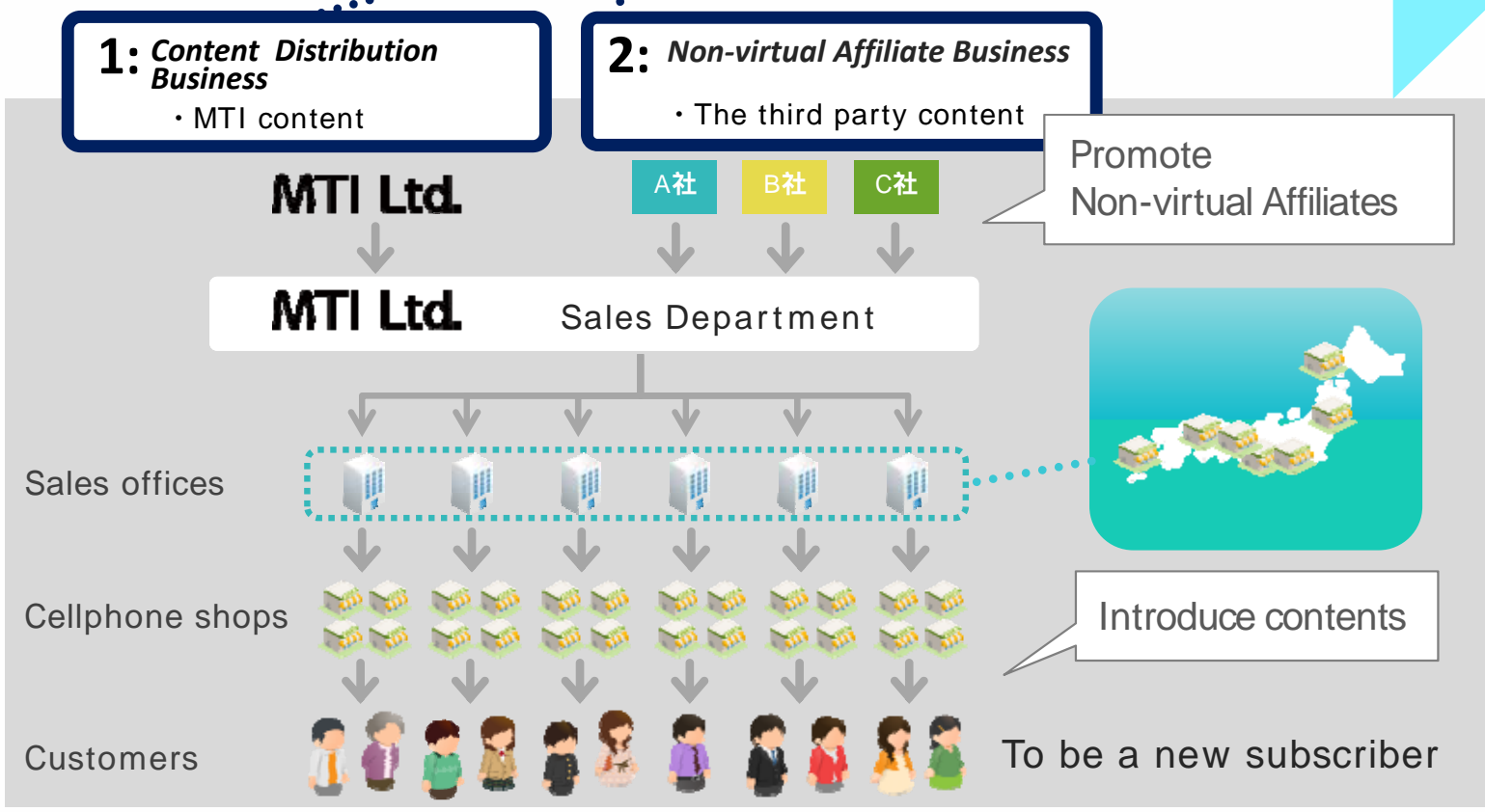


Consecutive  
Establishment of  
Sales of offices

# Development of New Channels for Reaching New Subscribers: Enhancement in the Non-virtual Affiliate Business



Providing more fine-tuned support for the sales activities of cellphone shops

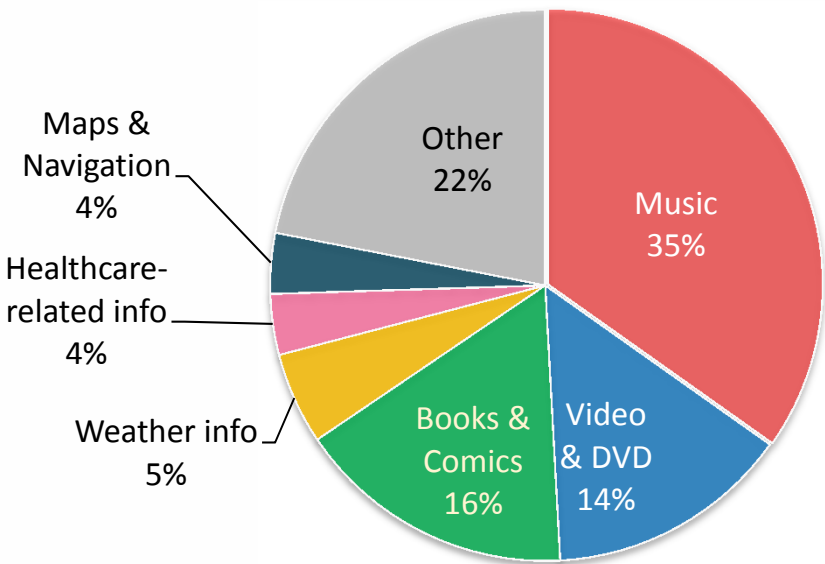







# Contents Categories


We are able to provide contents  
In diverse categories,  
Including music, video, books and comics,  
And weather information.  
We handle not only content we provide ourselves  
(including music.jp for music distribution)  
But also contents from the third parties.




Music




Vide & DVD




Books & Comics




Weather information



Healthcare-related information



Maps & Navigation





# 【Indicators of Contents Distribution Business】

The num of new subscribers

= Contract num of cellphone shops

×

Cellphone shop occupancy rate

×

The num of visitors per cellphone shop

×

<sup>1</sup>  
Subscriber ratio

×

<sup>2</sup>  
Content subscribed

The num of increase to member

=

The num of new subscribers

×

(1 - Withdrawal rate)

»

Establishment of sales offices across Japan (p.19)

Sales

=

The num of subscribers

×

Customer Unit price

»

Integration of main DL services (p.15)



Introduction of contents at cell phone shop



Subscriber ratio

Withdrawal rate

~ After the sign-up to subscribe ~  
Provide better usability and improve customer satisfaction



Establishment of sales offices across Japan

ビッスル



\* 1 Subscriber ratio: the number of content subscribers per cellphone shop visitors (Unique)

\* 2 Content subscribed: the number of subscribed contents per

# Development of New Channels for Reaching New Subscribers: Shifting between Free Service and Pay Service



Sales channels from category specific portal sites to pay service

Healthcare-related info

カラキュレ



Monthly unique users  
as of July

4+ Million!

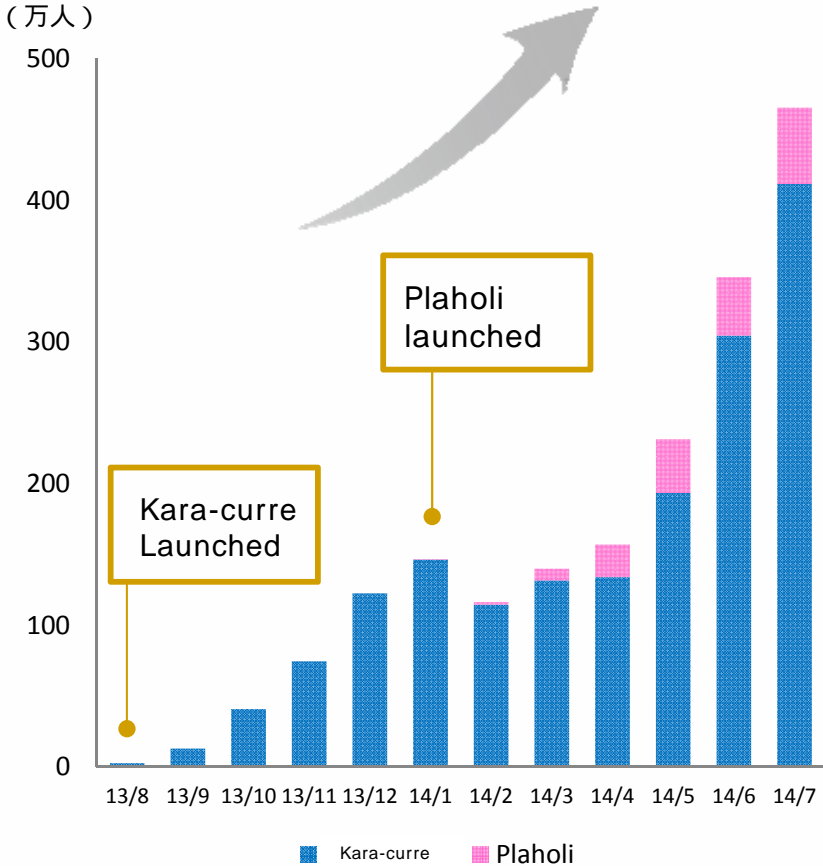
Travel info

Plaholi



Monthly unique users  
as of July

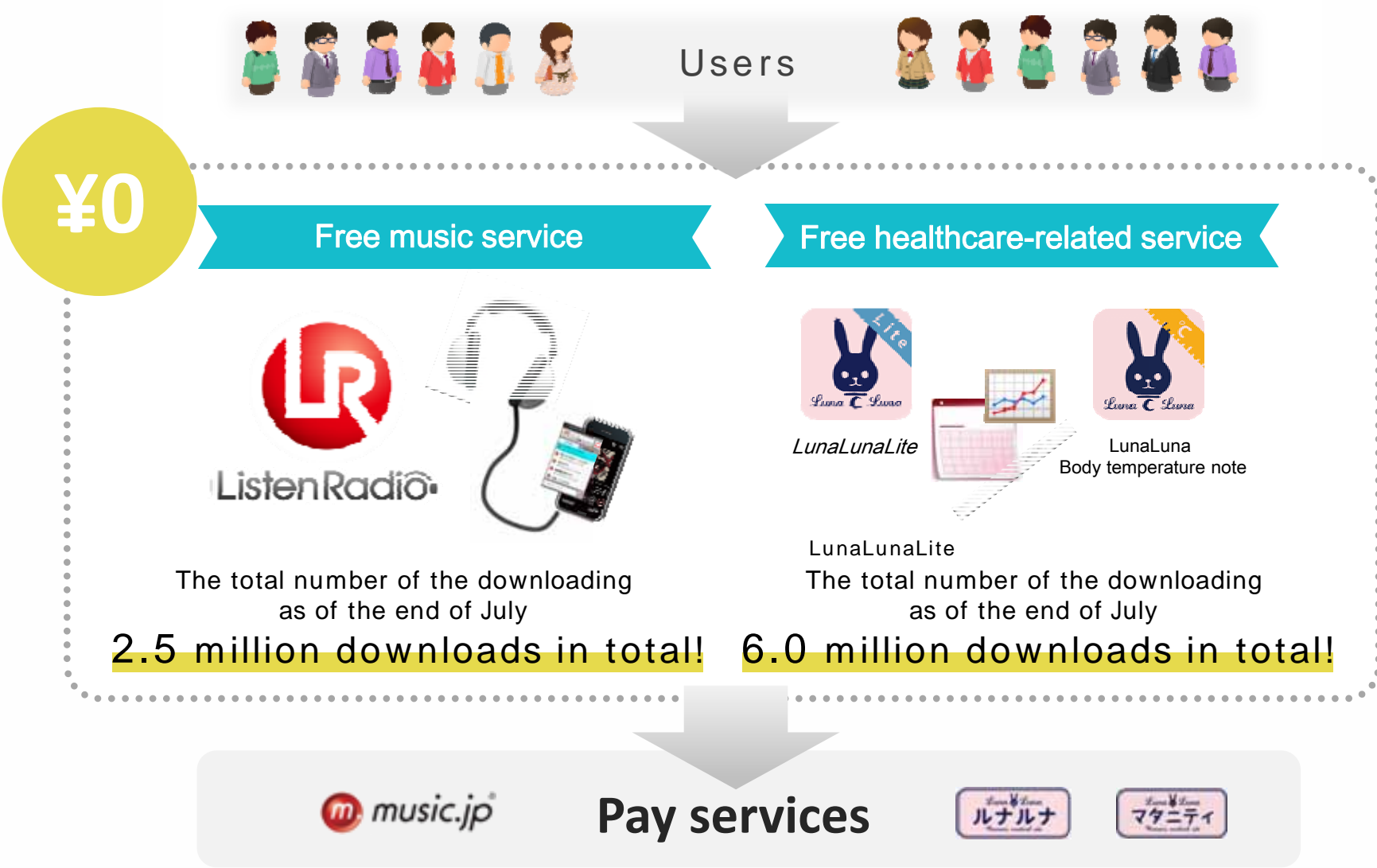
0.5+ Million!



# Development of New Channels for Reaching New Subscribers: Shifting between Free Service and Pay Service



Shifting between free application service and pay service

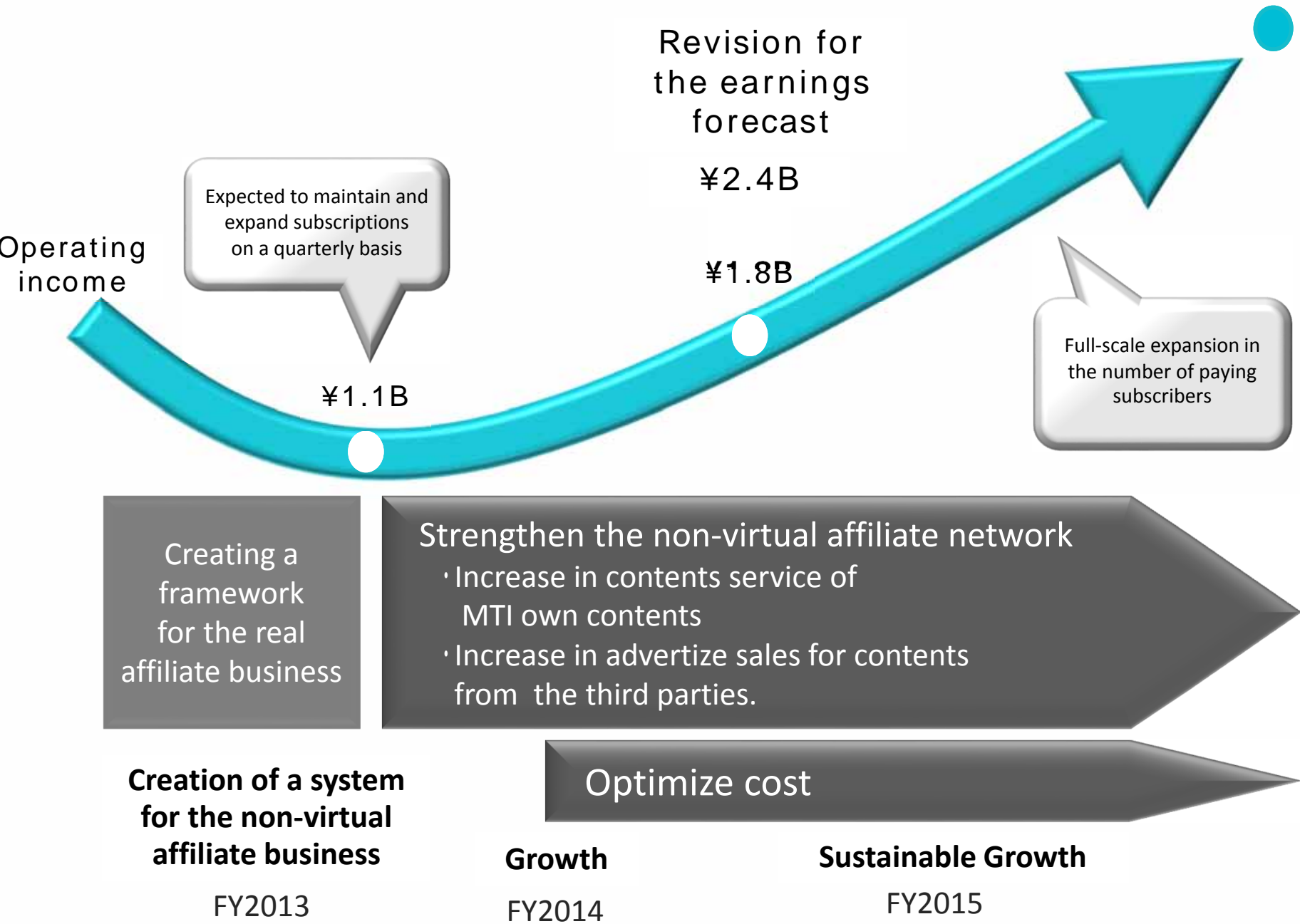


# Earnings Forecast for the Full-year Term



(Millions of yen )	Fiscal year ending September 30, 2014			Fiscal year ended September 30, 2013			Change	
	Full-year	1 <sup>st</sup> half	2 <sup>nd</sup> half	Full-year	1 <sup>st</sup> half	2 <sup>nd</sup> half	Amount ( Full- year )	Ratio(%) ( Full- year )
Net sales	30,800	15,279	15,520	30,160	14,822	15,338	+639	+2.1%
Cost of sales	4,970	2,476	2,493	5,336	2,517	2,818	-366	-6.9%
Selling, general and administrative expenses	23,430	11,498	11,931	23,675	12,412	11,262	-245	-1.0%
Operating income	2,400	1,304	1,095	1,149	-107	1,256	+1,250	+108.8%
( Operating income ratio )	7.8%	8.5%	7.1%	3.8%	-0.7%	8.2%		
Ordinary income	2,370	1,310	1,059	1,119	-96	1,216	+1,250	+111.6%
( Ordinary income ratio )	7.7%	8.6%	6.8%	3.7%	-0.7%	7.9%		
Net income	1,200	790	409	516	-121	637	+683	+132.3%
( Net income ratio )	3.9%	5.2%	2.6%	1.7%	-0.8%	4.2%		

# Intermediate Prospect of Operating Income





# Appendix



# Consolidated Statements of Income(Q3)



(Millions of yen)	Third quarter of FY2014	Third quarter of FY2013	Change	
			Amount	Ratio(%)
Net sales	7,730	7,762	-31	-0.4%
Cost of sales	1,238	1,427	-188	-13.2%
Gross profit	6,492	6,334	+157	+2.5%
( Gross profit ratio )	84.0%	81.6%		
Selling, general and administrative expenses	5,866 <small>※Breakdown in the P29</small>	5,500	+365	+6.6%
Operating income	626	834	-208	-25.0%
( Operating income ratio )	8.1%	10.7%		
Ordinary income	614	832	-217	-26.2%
( Ordinary income ratio )	8.0%	10.7%		
Net income	218	443	-225	-50.7%
( Net income ratio )	2.8%	5.7%		



# Consolidated Selling, General and Administrative Expenses(Q3)



(Millions of yen)	Third quarter of FY2014	Third quarter of FY2013	Change	
			Amount	Ratio(%)
Total	5,866	5,500	+365	+6.6%
Advertising expenses	1,963	1,780	+182	+10.3%
Personal expenses	1,424	1,422	+1	+0.1%
Commission fee	884	785	+98	+12.5%
Subcontract expenses	484	413	+70	+17.1%
Depreciation	454	462	-8	-.7%
Other	655	635	+20	+3.2%

# Trends in Consolidated Statements of Income



(Millions of yen)	Fiscal year ended September 30, 2013				Fiscal year ending September 30, 2014		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Net sales	7,331	7,491	7,762	7,575	7,498	7,780	7,730
Cost of sales	1,231	1,286	1,427	1,391	1,219	1,256	1,238
Gross profit	6,099	6,205	6,334	6,184	6,279	6,523	6,492
( Gross profit ratio )	83.2%	82.8%	81.6%	81.6%	83.7%	83.8%	84.0%
Selling, general and administrative expenses	5,885	6,527	5,500	5,762	5,370	6,127	5,866
Operating income	214	-321	834	422	909	395	626
( Operating income ratio )	2.9%	-4.3%	10.7%	5.6%	12.1%	5.1%	8.1%
Ordinary income	216	-312	832	384	870	439	614
( Ordinary income ratio )	2.9%	-4.2%	10.7%	5.1%	11.6%	5.7%	8.0%
Net income	185	-306	443	194	425	364	218
( Net income ratio )	2.5%	-4.1%	5.7%	2.6%	5.7%	4.7%	2.8%

# Trends in Consolidated Selling, General and Administrative Expenses

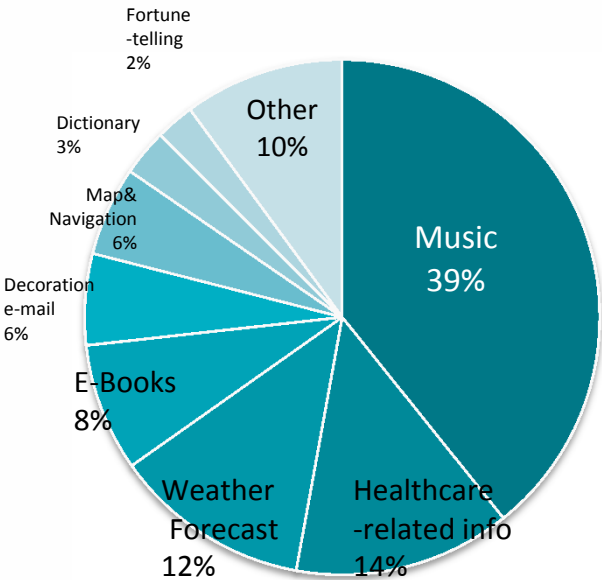


(Millions of yen)	Fiscal year ended September 30, 2013				Fiscal year ending September 30, 2014		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total	5,885	6,527	5,500	5,762	5,370	6,127	5,866
Advertising expenses	2,176	2,724	1,780	2,019	1,685	2,392	1,963
Personal expenses	1,421	1,412	1,422	1,465	1,403	1,422	1,424
Commission fee	812	823	785	807	806	835	884
Subcontract expenses	440	476	413	410	438	459	484
Depreciation	424	440	462	474	444	442	454
Other	609	649	635	584	592	575	655



Line-up our own contents services provided mainly moth-paid

(MTI monthly paying subscribers)



Music distribution

Healthcare-related info

E-Books

Weather info

Fortune-telling

Others

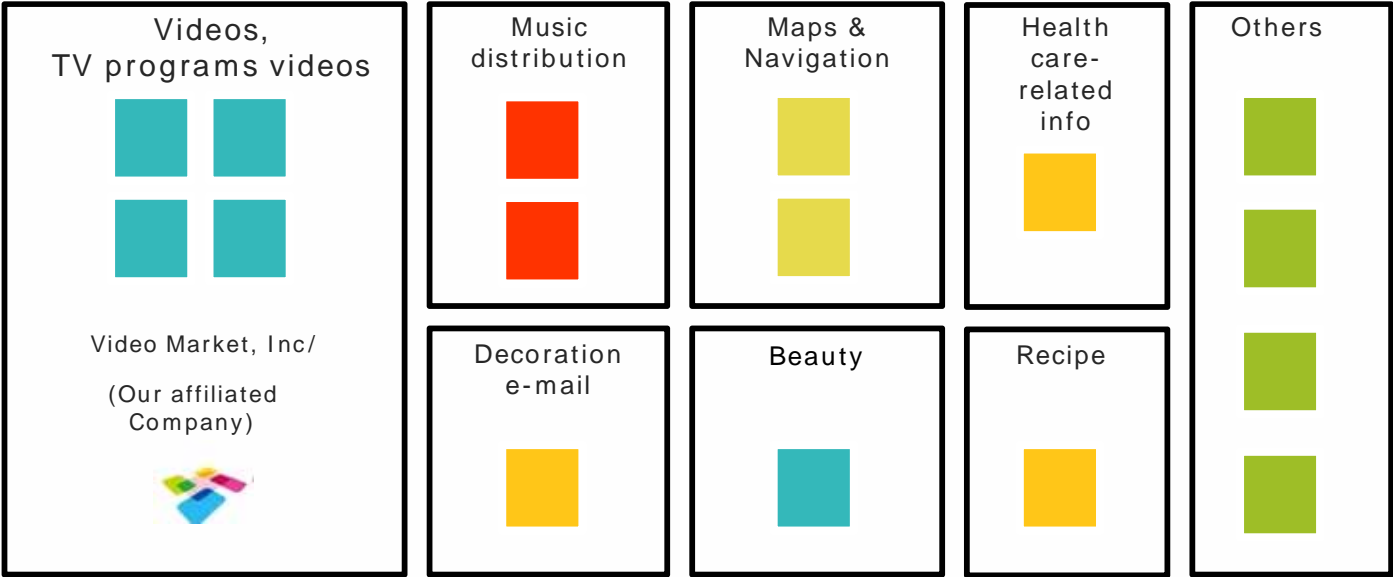
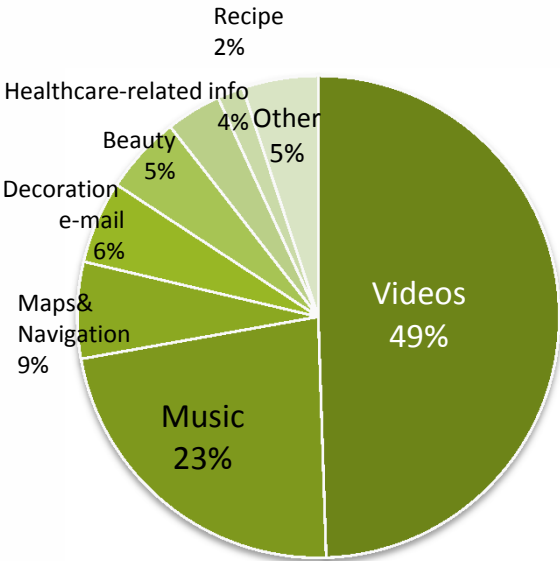
Decorations e-mail

Map & Navigation



# Other companies' content services proposed at mobile phone shops

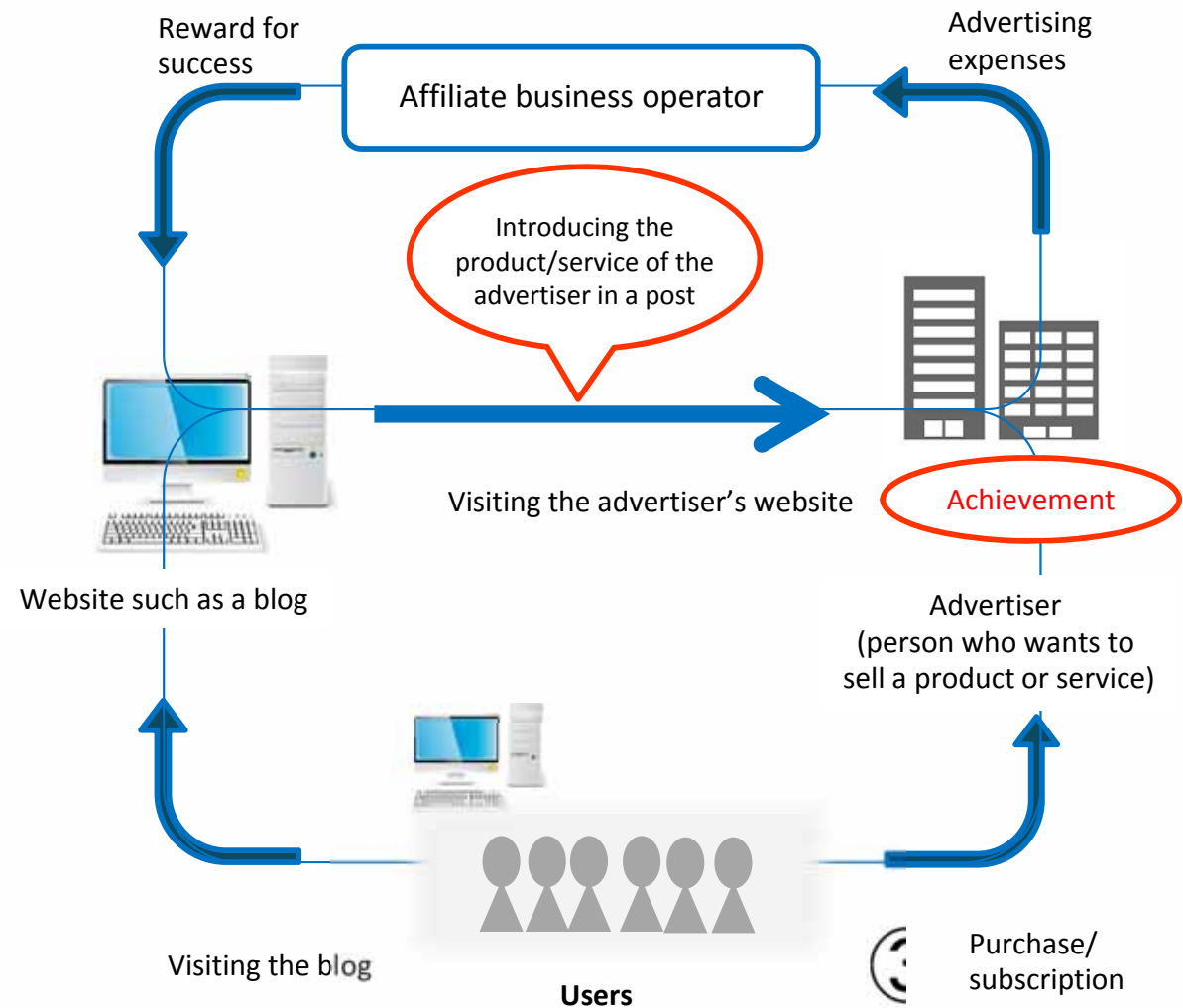
(Main line-up of new paying subscribers)





# What's "Affiliate"?

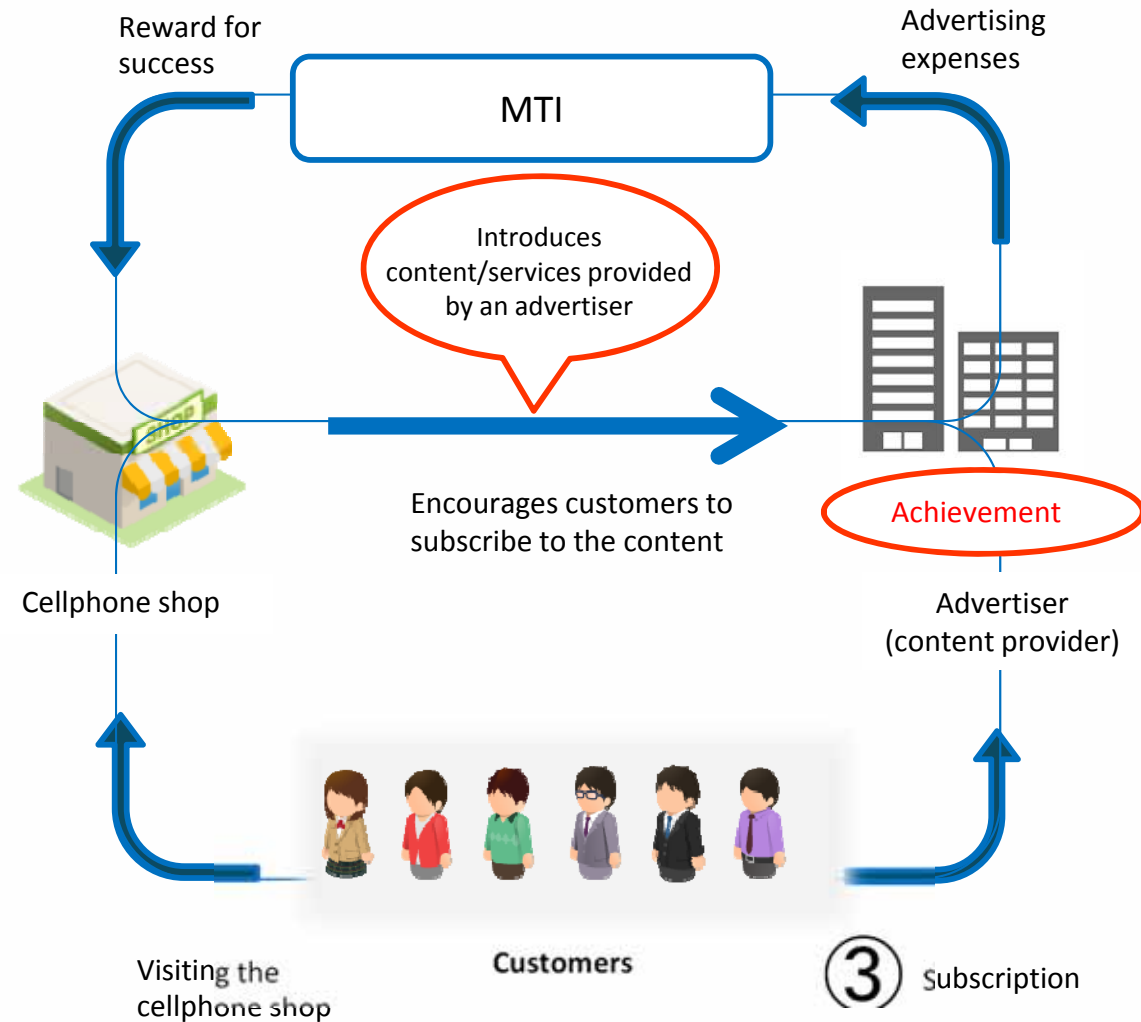
The term "affiliate" is a frequently used term in internet advertising. It is a system whereby if the introduction of a product or service on a website, such as a blog, is successful (e.g. a user purchases the product), the operator of the website receives a reward.



# What's "Non-virtual affiliate"?



Non-virtual affiliate is an internet advertising system as applied to cellphone shops as physical locations. Under this system, cellphone shops encourage customers visiting them to subscribe to particular content, and if a customer actually subscribes to the content, the cellphone shop receives a reward.

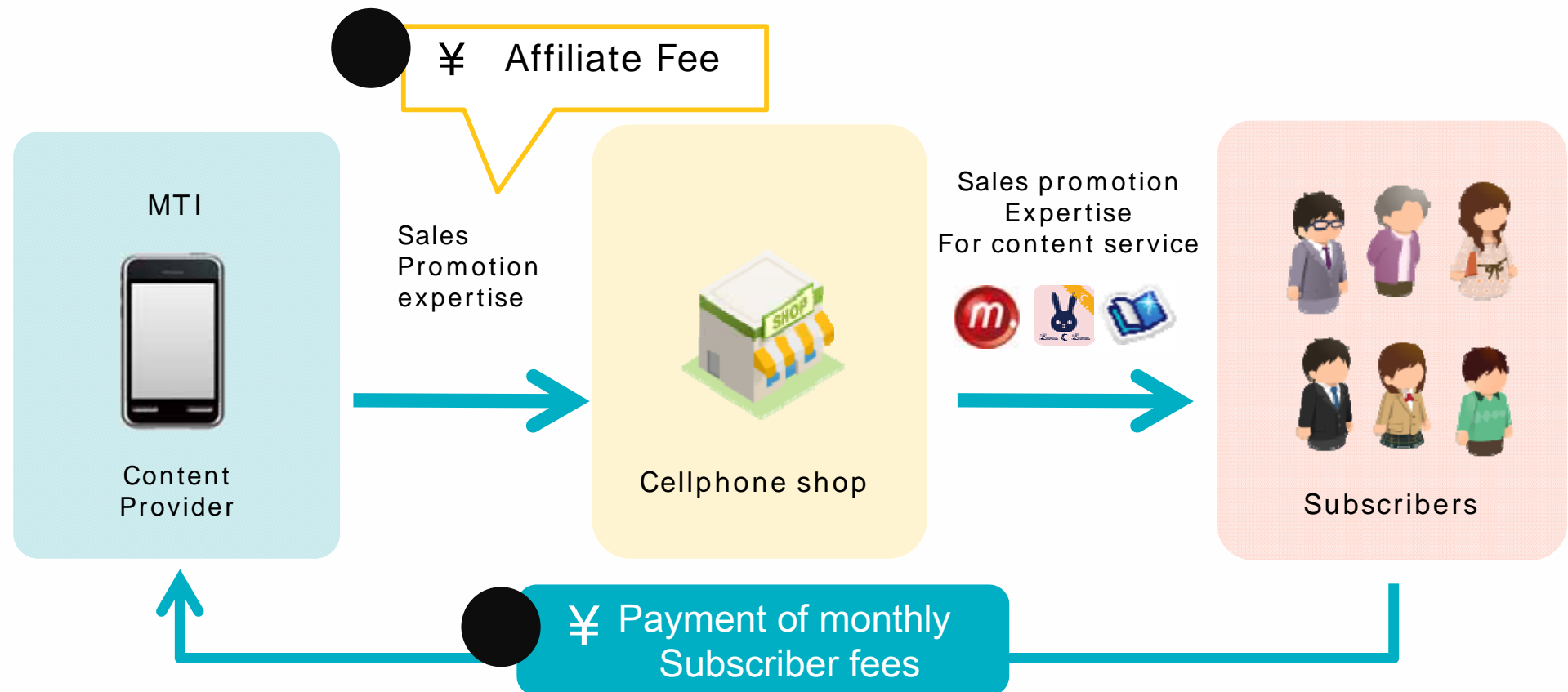






# Business model -Content Distribution Business-

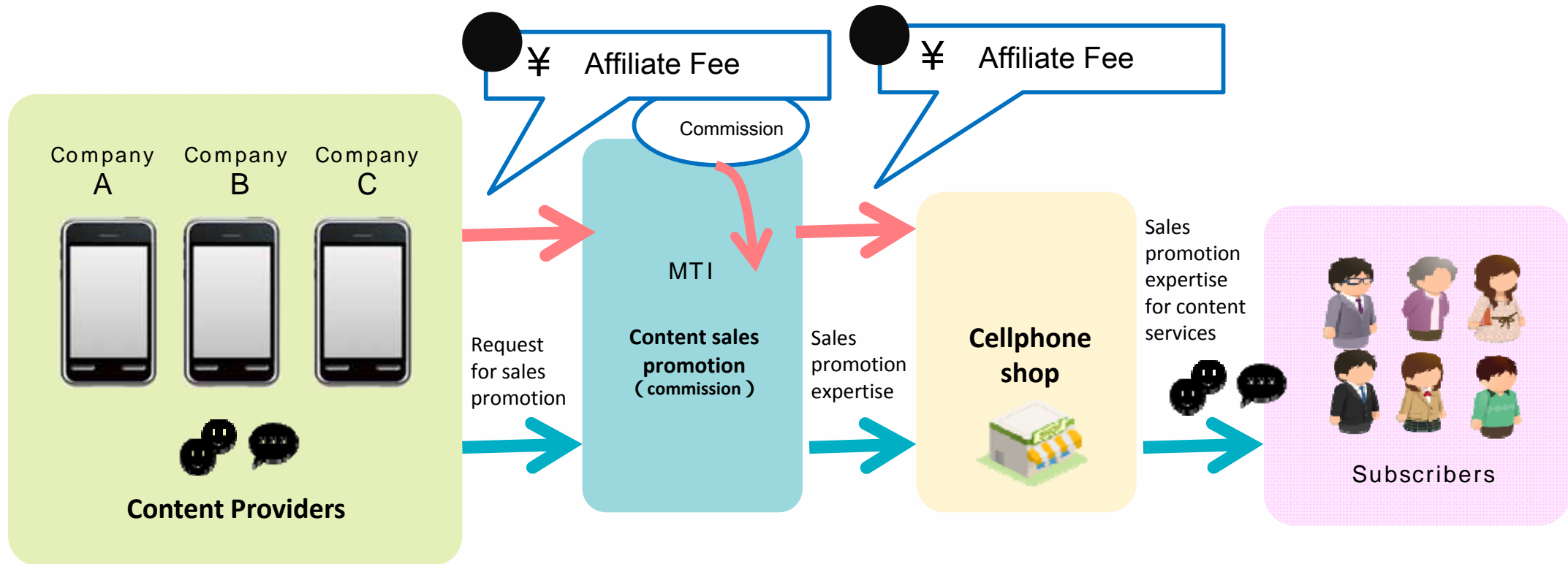
- ▶ B to C
- ▶ Stock-type business
- ▶ Num of monthly paying subscribers × ARPU = Sales





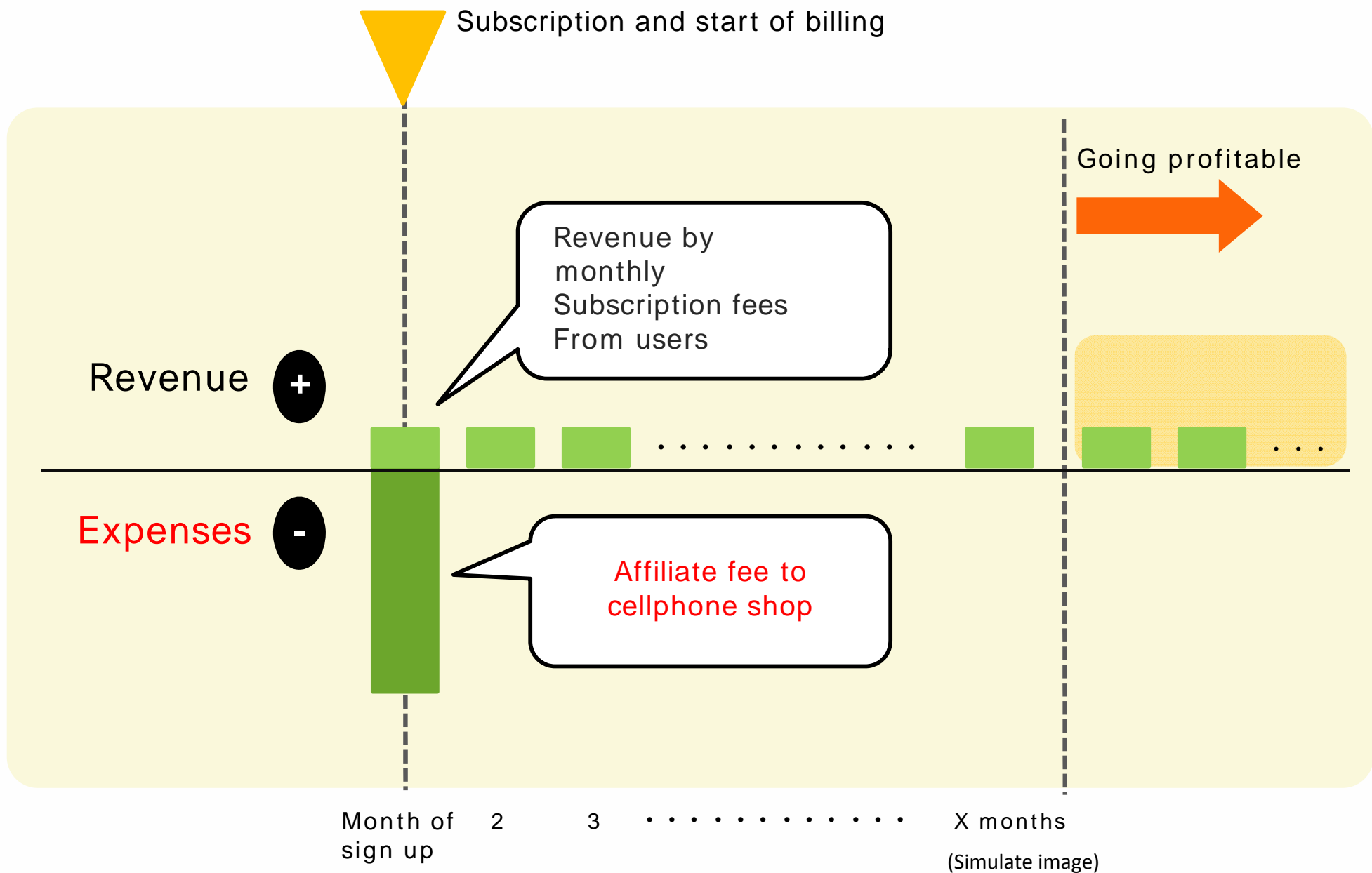
# Business model -Non-virtual Affiliate Business-

- ▶ B to B
- ▶ Flow-type business
- ▶ Num of new subscribers × Revenue by commission = Sales  
( Other companies' content )



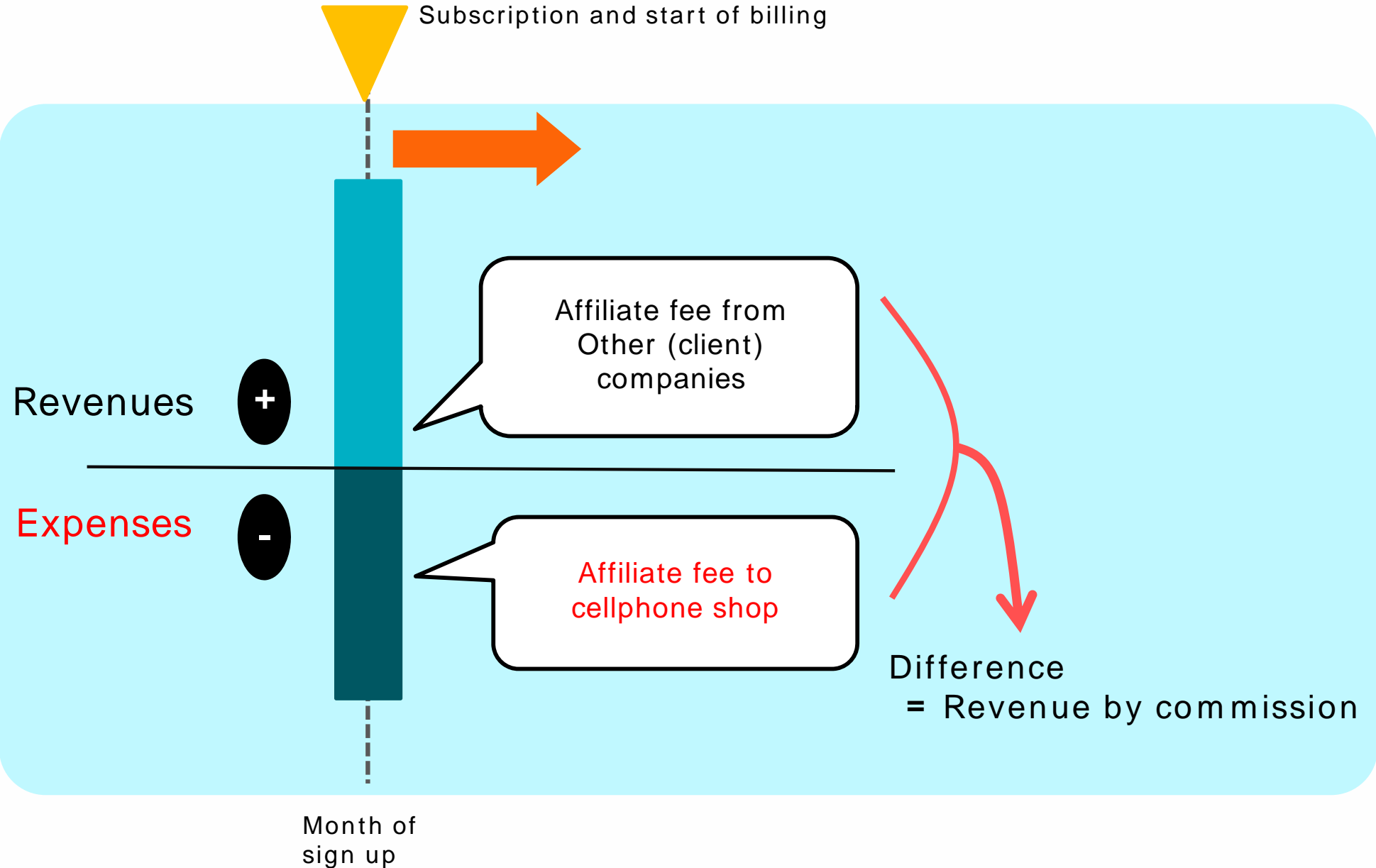


# Profit and Loss model -Content Distribution Business-





# Profit and Loss model -Non-virtual Affiliate Business-



# KPI -Content Distribution Business-



The num of new subscribers

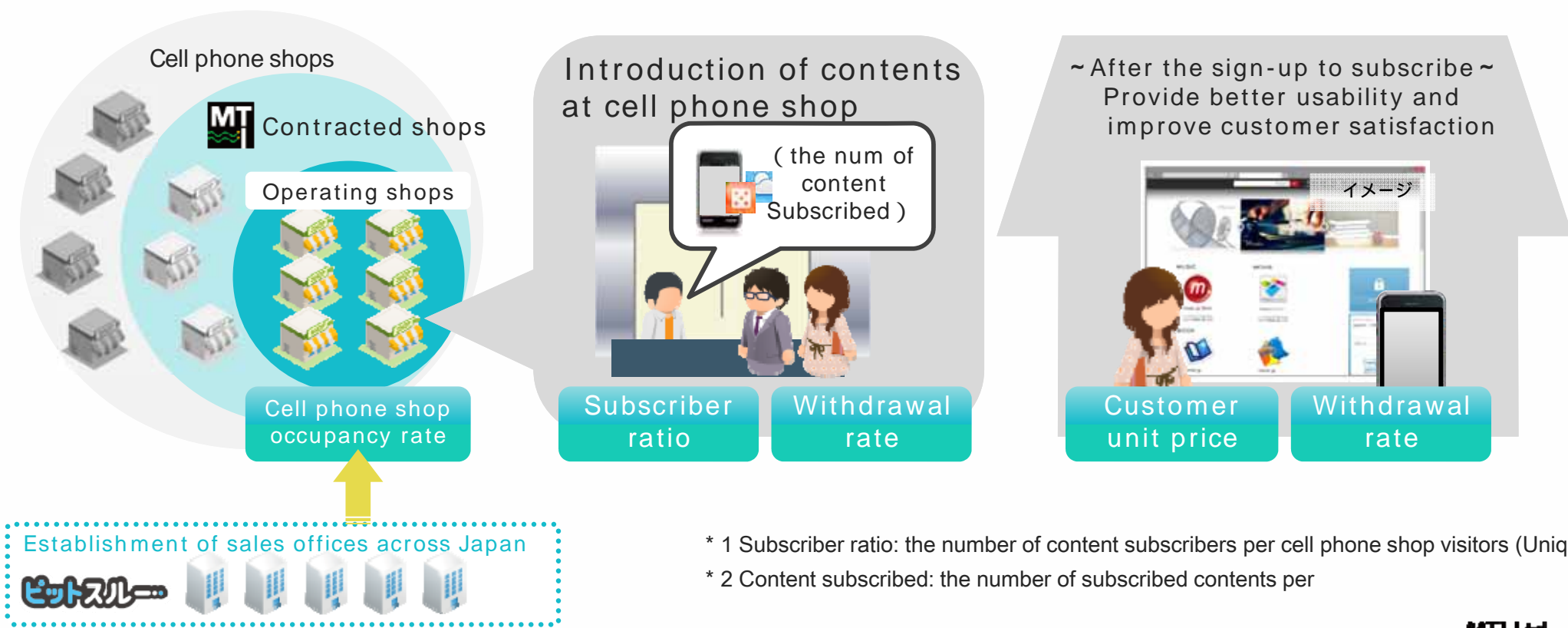
$$= \text{Contract num of cell phone shops} \times \text{Cellphone shop occupancy rate} \times \text{The num of visitors per cell phone shop} \times \text{Subscriber ratio}^1 \times \text{Content subscribed}^2$$

The num of increase to member

$$= \text{The num of new subscribers} \times (1 - \text{Withdrawal rate}) \gg \text{Establishment of sales offices across Japan}$$

Sales

$$= \text{The num of subscribers} \times \text{Customer Unit price} \gg \text{Integration of main DL services}$$



\* 1 Subscriber ratio: the number of content subscribers per cell phone shop visitors (Unique)  
\* 2 Content subscribed: the number of subscribed contents per

# KPI -Non-virtual Affiliate Business-



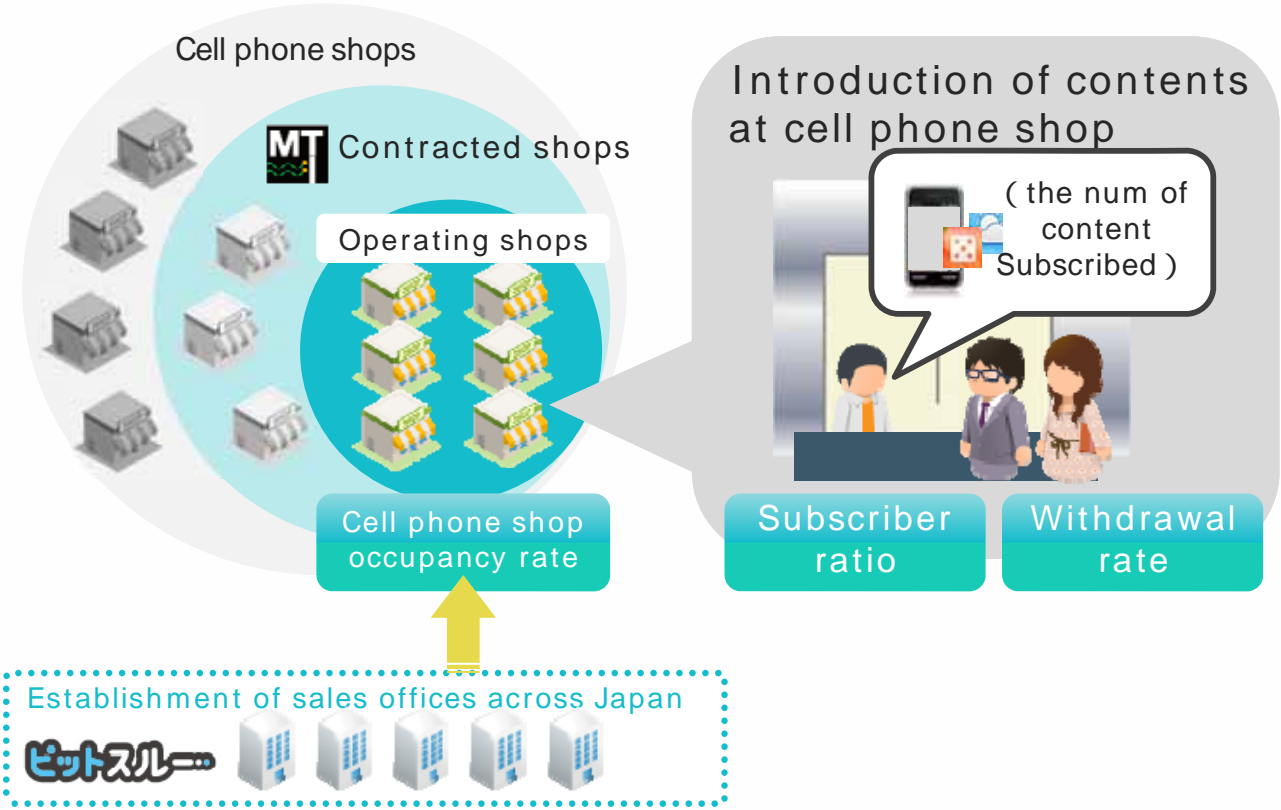
The num of new subscribers

$$= \text{Contract num of cell phone shops} \times \text{Cellphone shop occupancy rate} \times \text{The num of visitors per cell phone shop} \times \text{Subscriber ratio}^1 \times \text{Content subscribed}^2$$

Sales

$$= \text{The num of subscribers} \times \text{Customer Unit price}$$

Establishment of sales offices across Japan



\* 1 Subscriber ratio: the number of content subscribers per cell phone shop visitors (Unique)  
\* 2 Content subscribed: the number of subscribed contents per

Thank you very much.

**MTI Ltd.**



〈Contact us〉

Public Relations & Investor Relations Department

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[www.mti.co.jp](http://www.mti.co.jp)

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