Announcement of FY2019 Revised Forecast

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Stock exchange listing:	Tokyo
Stock code:	7806 URL https://www.mtg.gr.jp/
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At the company board meeting held on March 29, 2019, the company decided to revise the FY2019 forecast (from October 1st, 2018 to September 30, 2019) from the original forecast that was announced at the time of FY2018 results announcement on November 13, 2018.

(Amounts less than one million yen are rounded down)

1. Revised forecast of consolidated financial results for the year (from October 1, 2018 to September 30, 2019)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Previous forecast (A)	70,000	15.8	9,800	10.3	10,000	12.6	6,300	14.3	158.77
Revised forecast (B)	51,000	△15.7	1,000	△88.7	1,200	△86.5	620	△88.8	15.60
Change (B-A)	△19,000	—	△8,800	—	△8,800	—	△5,680	—	—
Change (%)	△27.1	—	△89.8	—	△88.0	—	△90.2	—	—
Reference FY2018 results	60,465	33.4	8,887	53.5	8,882	45.1	5,513	28.0	161.03

2. Reasons of Revision
<< Difference with the original forecast for FY2019 >>
Net sales
MTG has revised its consolidated net sales from ¥70 billion to ¥51.0 billion due to the following changes in the business environment since the announcement of the original forecast for FY2019.

1)   ReFa's sales decline from Chinese in-bound: △¥15.5 billion
- ReFa's sales from Chinese in-bound customers (represents about 40% of the brand sales) in Korea, Japan and Hong Kong is forecasted to largely decline due to new E-Commerce Law. In particular, the sales from social buyers (daigou) was significantly down even before the new law's implementation and we do not see signs of recovery. Therefore, we estimate zero sales from social buyer through this fiscal year and forecast that in-bound sales in both Japan and oversea would be down by △¥15.5 billion from the original forecast. Specifically, we forecast ReFa's sales would be down by △¥7.0 billion from plan in Korea duty free, △¥0.5 billion in Hong Kong, and total △¥7.5B in oversea. In Japan, we forecast △¥5.0 billion decline in electronical shops and △¥3.0 billion in department store and duty free, total ¥8.0 billion from plan.

- ReFa's sales in high-Chinese-inbound channels (department store, duty free, electronical shop) in Japan is forecasted to be down by △50% from last fiscal year. ReFa's Chinese inbound sales in all channels in Japan is estimated at 40% in FY2018. However, due to new E-Commerce Law, in-bound purchasers in department stores, duty free and electronic shop was and continue to be down from 60% in last fiscal year to 20% in this fiscal year. We assume that inbound sales continue to decline in 2nd half of this fiscal year. As results, the sales forecast is ¥5.7 billion (△50% from last FY).

- We forecast that ReFa's strong growth in China (+¥4.6 billion YoY) would not offset the sales decline in Korea (△ ¥7.1 billion) by end of FY2019. In Korea, ReFa's sales in duty free store, which generates majority of the brand sales, significantly decline mainly from Chinese social buyers. Assuming the sales decline continues, our forecast is ¥0.8B (△7.1 billion from last year). In China, ReFa maintains strong growth driven by E-Commerce channels. Our forecasted is ¥11.8B (+¥4.6 billion YoY.) It is considered that Chinese inbound sales loss in Korea and Japan would be shifted to official store's sales increase in China. However, we have not seen the sign of the shift yet and thus do not include it in the forecast.

2)   Other revisions

- We change ReFa's contract with Japan beauty salon from wholesale to commission. The sales influence is more than expected and we assume △¥1.5B from plan.
- In 1Q, the sales of SIXPAD's entry EMS item "Abs Fit 2" declined. We expect the item sales will be recovered after marketing support from 3Q, but the brand forecast is down by △¥1.0B from plan.
- Among growth brands, the sales forecast of PAO and CAXA UP in Korea is down. Also, Chinese in-bound decrease would affect MDNA SKIN sales in department and duty-free stores in Japan. As results, we forecast the sales of growth brand would be down by △¥1.0B.

Based on the above, "ReFa" is expected to grow as original plan in China, but will not compensate for the decline in in-bound sales in Korea and Japan due to the new E-Commerce Law. The sales of buyers (daigou) in Korea and Japan will not be expected to recovered, and that will shift to the sales in Chinese official stores. But conversion to the sales in China will be expected from the next term, we forecast net sales of ¥ 24.8 billion (△27% from last year).
SIXPAD are driven by strong sales in "Foot Fit" and acquire new customers by marketing investment in spring and summer (3Q and 4Q) and release of new products. Overseas, we will increase sales in Asia by strengthening sales in China and Korea from 3Q and expanding "Foot Fit" overseas, and sales for FY2019 will be ¥ 14.1 billion (+5% YoY), 5 consecutive years of growth.

Operating Profit

We revise consolidated operating profit from ¥9.8 billion to ¥1.0 billion. From the original forecast, while gross profit is estimated to be down by ¥13.1 billion due to the decrease in sales, we reduce SG & A expenses ¥4.3 billion, which is 12% of the original forecast of SG & A expenses. In detail, we save Marketing (¥1.3B), R&D (¥0.7B), Personnel (¥0.6B) and other expenses (¥1.7B).

1)   Marketing Expense
Marketing expense is forecasted to be ¥8.6 billion (△¥1.3 billion from plan) and 16.9% of net sales (+2.3 pts from last FY). We reduce marketing expense in △¥1.3 billion from plan, but to maintain our growth of key growth driver brands, we keep marketing investment in China ReFa and Japan SIXPAD.

2)   R&D Expense
We managed R&D expense lower without affecting to new product and new brand development. The expense will be ¥2.5billion, △¥0.7 billion from plan and 4.9% of net sales (+1.6 pts YoY). As for quarterly spending, we shifted a part of expenses from 1Q and 2Q to later. However, we maintain the expense in 3Q and 4Q to invest for development of new products and new brands to be released in end of FY2019 and FY2020.

3)   Personnel Expense
Personnel expenses will be ¥7.47 billion, △¥0.6 billion from the original plan and 14.6% of net sales (+3.3 pts vs. last FY).

We reduce mid-hire recruitment by primarily re-allocating our people to fill the vacancies in the company. Number of employee by end of FY2019 will be 1,650, △170 from original. Net increase is 167 people, but majority of the increase (72 people) is new graduates who would contribute to the medium- and long-term growth of the company.

We continue our effort to find saving opportunities every quarter and minimize expenses, while maintaining necessary investment for our sustainable growth.

Ordinary Profit
We revise consolidated operating profit from ¥10 billion to ¥1.2 billion. The decrease of ¥8.8 billion is due to decrease in operating profit as mentioned above. As for the non-operating income and loss, as with the original forecast, we are forecasting a rental fee of ¥200 million due to the lending of real estate owned. As a result, consolidated ordinary profit is expected to be ¥1.2 billion.

Net Profit
We revise the net profit attributable to owners of the parent company from ¥6.3 billion to ¥620 million. Income taxes, etc. would be ¥580 million.

3. Key strategy for growth

MTG plans to implement the following "key strategy for growth" to achieve the business recovery and regain growth momentum of both sales and profit at the earliest possible timing.

1) Focus on ReFa, SIXPAD and NEWPEACE as "Three Pillars for Growth"

＜ReFa＞
ReFa is the company's flagship brand which accounts for nearly half of the company sales. It is our top priority to recover the brand sales. Key strategy for the brand's recovery and growth are 1) Evolve and expand the brand portfolio, 2) Strategic alliance and channel expansion in China and 3) Global expansion.

1) Evolve and expand the brand portfolio
ReFa plans series of new product launches more frequently than the previous year. We aim to fulfill and enhance existing product category as well as proactively extend the brand into new category in order to establish ReFa as "Omni-Beauty" brand.

- From "Beauty Roller" and "Beauty CAXA", core category of the brand, we plan to launch new products in both 3Q and 4Q and enhance versioning of the brand.
- Moreover, we aim to shift the brand from "one-time purchase" to "repeat/recurrent" focusing on subscription model and increase sales ratio of stock business. As our first attempt, we plan to apply subscription model to "ReFa MIST" which utilizes "carbonated beauty technology" that MTG has developed for beauty salon products for 10 years. The original product was proven to generate high repeat ratio so that we expect stable sales and profit growth.
- We create new "Beauty Tech" category within ReFa brand and will launch several new products utilizing advanced technology in Japan in Fall 2019 and after. In particular, we aim quicker expansion to China as we anticipate larger growth of the beauty device category. Additionally, we plan to release new beauty roller product applying IoT technology which builds ReFa user data with mobile apps and helps MTG to use the data for new product and new service development.
- ReFa will be extended into new category such as Hair Dryer and Hair Iron categories from Fall 2019. We differentiate these products with ReFa's branding, design and MTG's proprietary technology. Initial focus will be Japan market and China E-commerce markets as market size of the category is substantially large. We expect repeat purchase of these products as Hair Dryer's average purchase cycle is 3 to 4 years.

2) Strategic alliance and channel expansion in China
China will be second largest market after Japan by end of this FY. Also, Chinese consumers represent about 60% of the brand users so that it is highly important to support the brand by marketing in China as well as broaden sales channel.
In E-commerce, which is most important in China, in addition to TMALL (Alibaba), we plan to start strategic alliance with other E-commerce platforms including JD, KAOLA, VIP and RED and introduce ReFa official stores from Spring 2019. Also, MTG made strategic alliance with EA, the leading distributor in China and main dealer of Apple and Dyson, and largely expand ReFa's distribution from current top department stores in 1st class cities to department stores and retailers in cities in Inland China. Furthermore, by having strategic alliance with CDFG, the leading duty free company in China, we expand ReFa counter in fast-growing airport and downtown duty free stores in China.
   At the same time, MTG strengthens strategic alliance with Alibaba group. ReFa received "TMALL Beauty Device Award of the Year 2018" based on strong business results in TMALL. Most recently, MTG was selected as "TMALL Beauty JBP(Joint Business Plan Partner)" and was recognized as strategic partner of TMALL.

3) Global expansion
We continue to expand ReFa brand globally and communicate born-in-Japan "Beauty Roller Culture". In USA, in addition

to E-commerce retailers, we plan to introduce the brand into prestige department stores such as Nieman Marcus, Speciality retails including Sephora and air-port duty free stores in San Francisco and Hawaii. Also, in South East region, ReFa will be introduced in top retailer in Dubai by making alliance with "Chalhoub group" in this summer.

＜SIXPAD＞
　SIXPAD is another flagship brand in MTG which represents more than quarter of the company sales. Key strategies for growth are 1) Strong marketing support in Japan, 2) User expansion by new products, 3) Domestic and global expansion of SIXPAD STATION, 4) Projects in medical field and 5) Global expansion.

1)　Strong marketing support in Japan
Japan still accounts for more than 90% of the brand sales and it is the most important market. During the high-usage seasons of EMS products in spring and summer (3Q and 4Q), we strengthen marketing support in Japan. Specifically, we plan to on-air TVCM featuring the brand ambassador, Christiano Ronald, to increase demand of EMS products among the brand core users of male aged 35-45.
2)　User expansion by new products
Foot Fit which was released in October 2018 became one of the most successful new products and achieved user expansion among seniors aged 60+(from 5% to 15%). After doubling the production capacity in April, we further enhance sales activity of Foot Fit by increasing distribution of department stores, frequently visited channel among seniors, from 30 stores to 200 stores in 3Q and 4Q. We also expand the product to China and other countries. Additionally, we will introduce new upscale version of Foot Fit in Summer 2019(4Q) to cement the positioning of EMS device training foot muscle and get more trial from seniors.
To expand users to female, following "Bottom Belt", we will launch "Chest Fit", new EMS product training chest muscle in July 2019. We expect strong demand of the product from male consumers and aim to increase average purchase price by encouraging joint usage with other products.
3)　Domestic and global expansion of SIXPAD STATION
First store of SIXPAD STATION in Tokyo Daikanyama, opened in July 2018 as futuristic EMS gym, made good progress, earning by-month profitability within 6 months. We will open the second store in Tokyo Roppongi in April 2019 and then plan to open 4 stores in China and one store in Hong Kong in Summer 2019 from our franchise partner. SIXPAD STATION is making positive progress against our vision of 5,000 stores globally.
4)　Project in progress in medical field
MTG collaborate with universities, hospitals and government agencies to generate medical evidences of utilizing SIXPAD's EMS technology into rehabilitation, elderly care, post-surgery sarcopenia prevention, DVT prevention and back-pain relief. We also develop new products for medical usage based on knowledge and evidences from these joint researches.
5)　Global expansion
There is an opportunity to further increase oversea sales of SIXPAD as international sales was only 6% in the previous fiscal year. To expand globally, in addition to TMALL in China, SIXPAD will introduce the official store in JD, KAOLA, VIP and RED behind strategic alliance between MTG and these E-commerce platformers. Also, together with EA, a leading distributor in China, we expand the brand into retailers in Inland China. In Korea, by utilizing local Korean consumers' usage data as effective evidences, we will start the sales of the brand in TV home shopping channel. In USA, as EMS products is categorized as medical device, we target to get FDA approval by end of 2020.
For further global expansion, we will set right strategy by assessing business potential of at home EMS products and EMS gym based on research of local consumer needs, culture and habits.

＜New Brand - NEWPEACE＞
MTG plans to launch new brand "NEWPEACE" which will be third growth pillar following ReFa and SIXPAD in Fall 2019. The brand is positioned as "AI motion mattress" applying MTG's Wellness Tech. It is "Sleep Tech" product which targets consumers suffered by "sleeping deficit". MTG fully utilize our own channel network to become a leading brand in mattress market with value of ¥260 billion in Japan. We expect global potential as mattress market is large in China and western countries.

＜Other new brands＞
MTG is developing total four new brands including skin care brand utilizing ingredient deprived from Camellia in Goto islands. To increase our company's sales ratio from stock business, we plan to apply subscription model into these brands.

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