

# FY2019 Revised Forecast Explanatory Material

# Revised Forecast (FY2019)

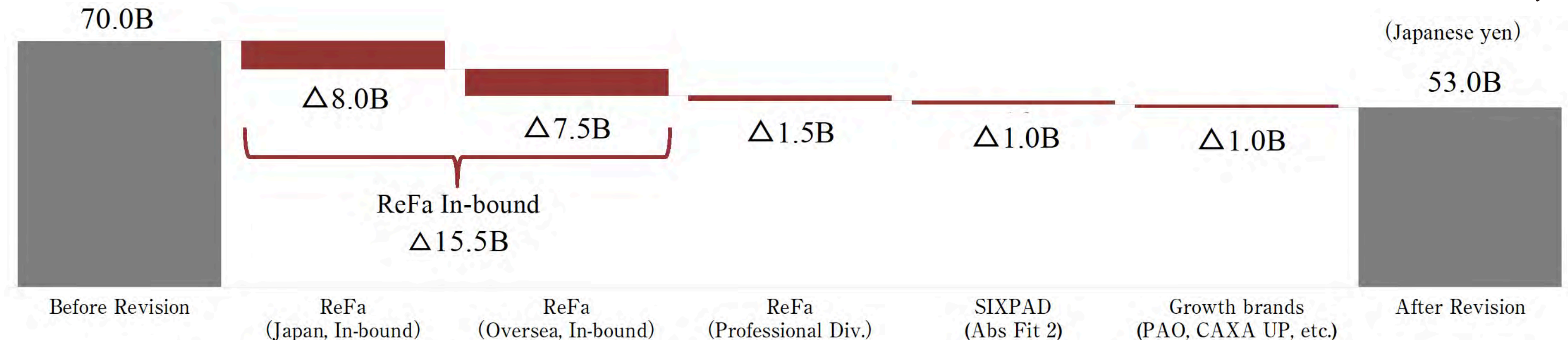
Unit : Japanese yen	FY2019 (Original)	FY2019 (Revised)	YoY	FY2019 1Q Results
Net Sales	70.0B	51.0B	△16%	14.0B
Operating Profit	9.8B	1.0B	△89%	1.27B
Ordinary Profit	10.0B	1.2B	△87%	1.32B
Net Profit	6.3B	0.62B	△89%	0.71B

- The main factor behind the revision is the decline in in-bound sales in ReFa.
- Among the ¥19.0 billion revised sales forecast, ¥15.5 billion is the decrease in in-bound sales.
- Full-year sales of ReFa are expected to be ¥24.8 billion, -27% YoY.



# Details of Revised Forecast

# Net Sales Analysis – before and after forecast revision



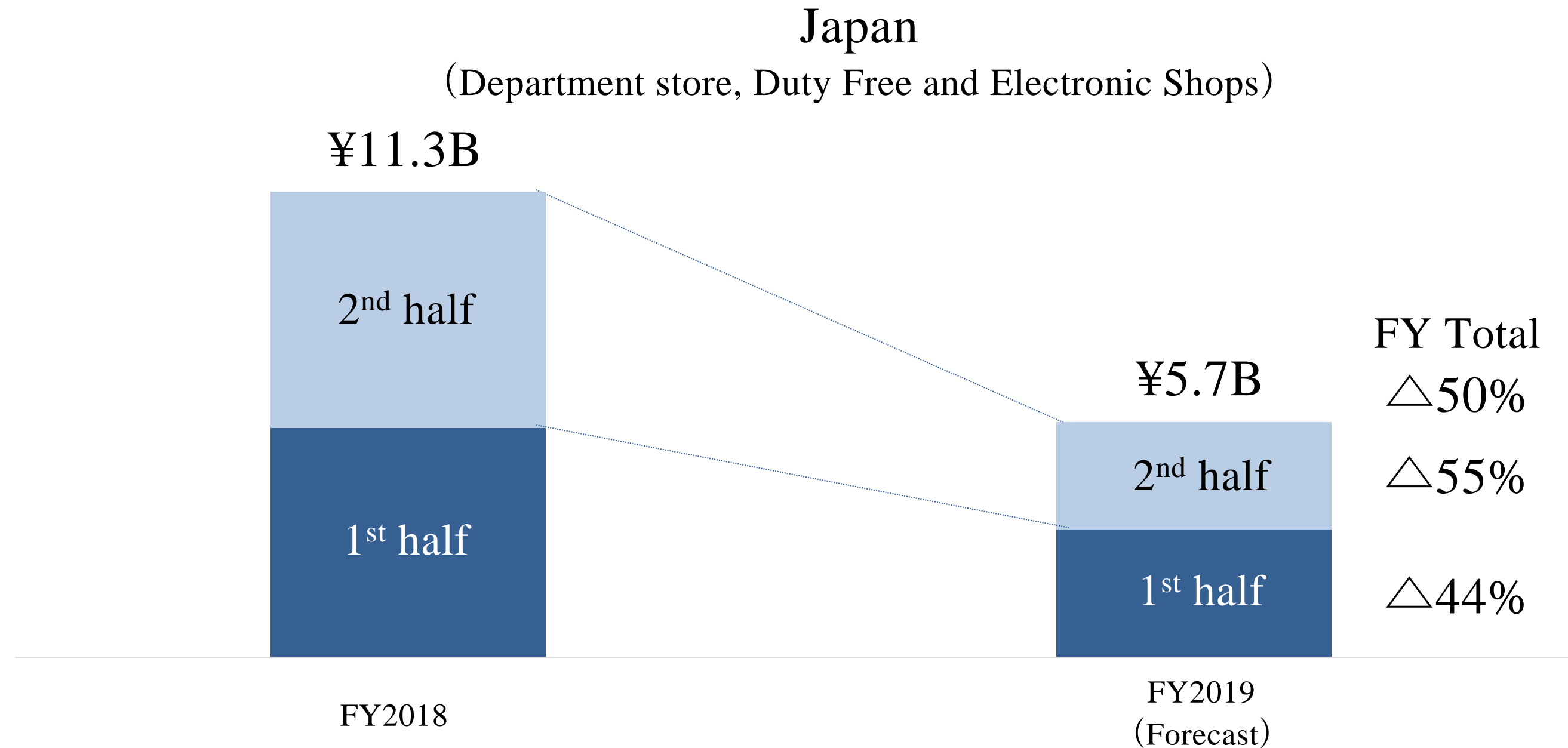
## ReFa's sales decline from Chinese in-bound

- 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  $\triangle ¥15.5B$  from the original forecast.
- Specifically, we forecast ReFa's sales would be down by  $\triangle ¥7.0B$  from plan in Korea duty free,  $\triangle ¥0.5B$  in Hong Kong, and total  $\triangle ¥7.5B$  in oversea. In Japan, we forecast  $\triangle ¥5.0B$  decline in electrical retails and  $\triangle ¥3.0B$  in department store and duty free, total  $\triangle ¥8.0B$  from plan.

## Other revisions

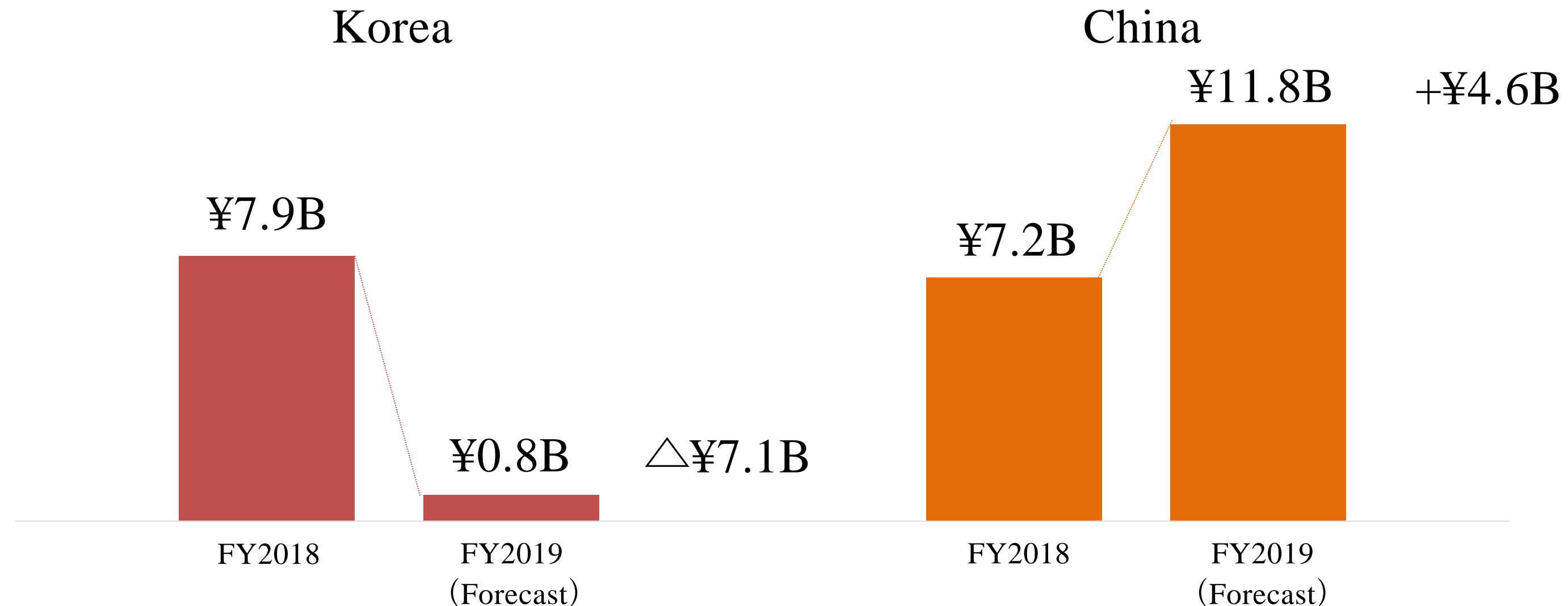
- We change ReFa's contract with Japan beauty salon from wholesale to commission. The sales influence is more than expected and we assume  $\triangle ¥1.5B$  from plan.
- In 1Q, the sales of SIXPAD's entry EMS item "Abs Fit 2" declined. We expect the item sales will be recovered after marketing support from 3Q, but the brand forecast is down by  $\triangle ¥1.0B$  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  $\triangle ¥1.0B$ .

# ReFa Sales Forecast in Japan - YoY (Channels affected by in-bound decline)



- ReFa's sales in high-Chinese-inbound channels (department store, duty free, electronic 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 2<sup>nd</sup> half of this fiscal year. However, we aim to manage ReFa's sales decline in these channels within △55% YoY in 2<sup>nd</sup> half by increasing Japanese consumers sales behind new products launches and average spending increase activities. As results, the sales forecast is ¥5.7B (△50% YoY).

# ReFa Sales Forecast in Korea and China - YoY

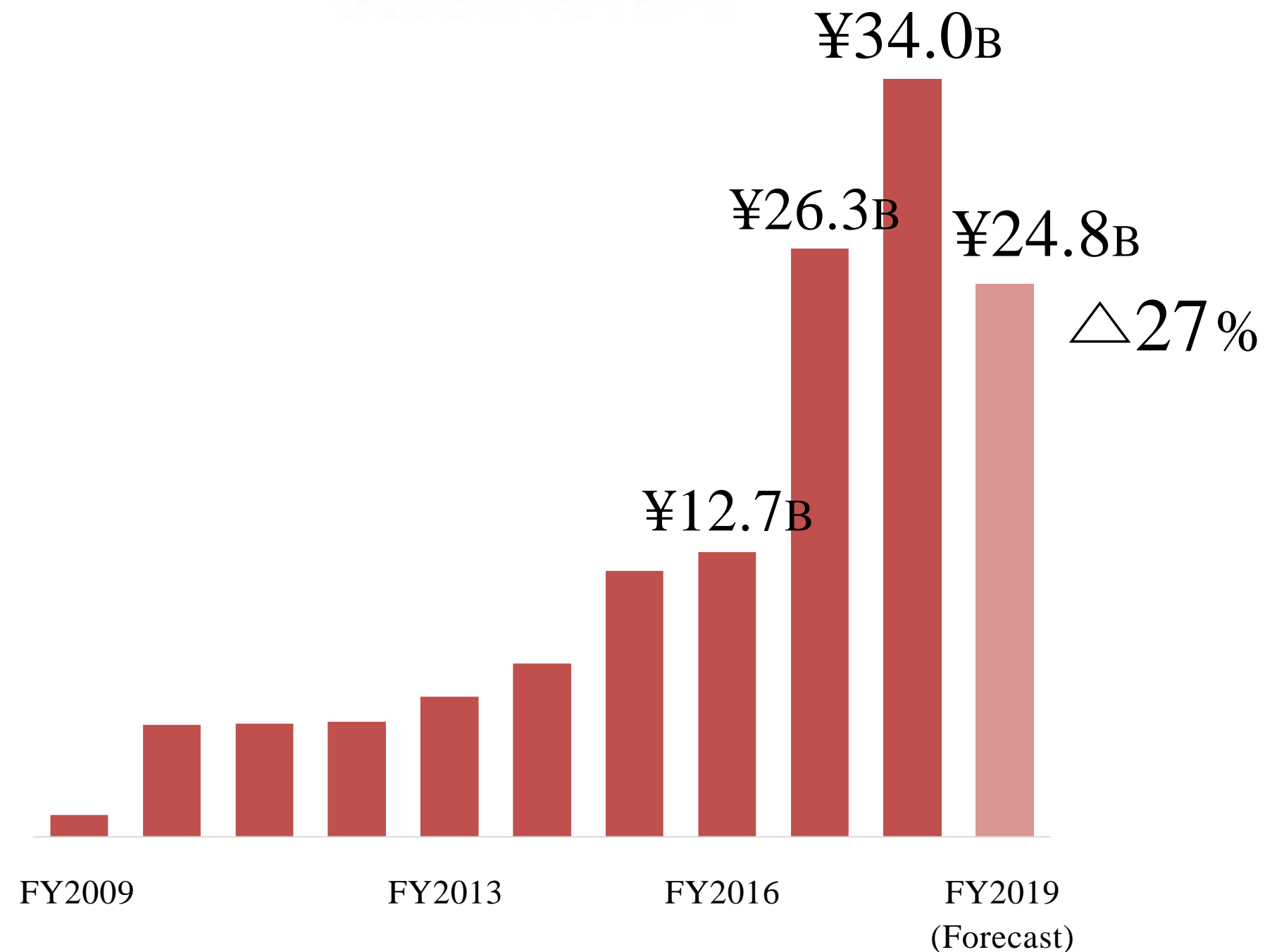


- We forecast that ReFa's strong growth in China (+¥4.6B YoY) would not offset the sales decline in Korea (△¥7.1B) by end of FY2019.
- In Korea, ReFa's sales in duty free store, which generates majority of the brand sales, significantly decline mainly from Chinese social buyers. Assuming the sales decline continues, our forecast is ¥0.8B (△7.1B from last year).
- In China, ReFa maintains strong growth driven by E-Commerce channels. Our forecasted is ¥11.8B (+¥4.6B 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.



# ReFa Sales Forecast in FY2019

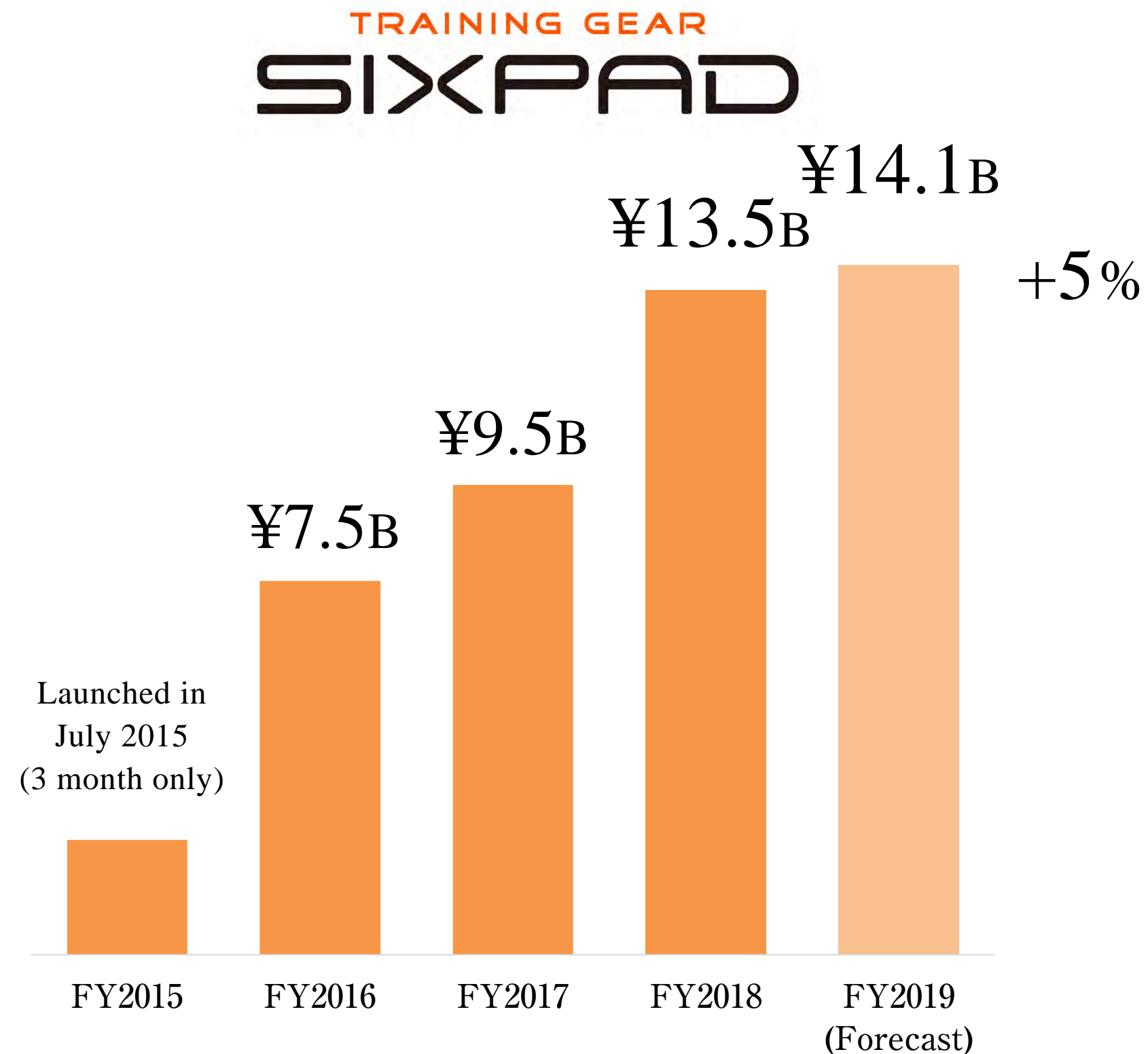
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- ReFa's sales is forecasted at ¥2.48B ( $\triangle 27\%$  YoY).
- ReFa in China is expected to grow by +63% as we planned, but the growth would not offset the sales decline from Chinese social buyer and in-bound sales Korea and Japan due to new EC law.
- We conservatively assume the sales from social buyer will not be recovered and ReFa's sales in China will not be completely shifted from unofficial stores (in CtoC platform) to our official stores (such as TMALL) within this fiscal year.

※ Unit: Japanese yen    ※ Consolidated sales after FY2018  
※ Including sales of ReFa ACTIVE

# SIXPAD Sales Forecast in FY2019

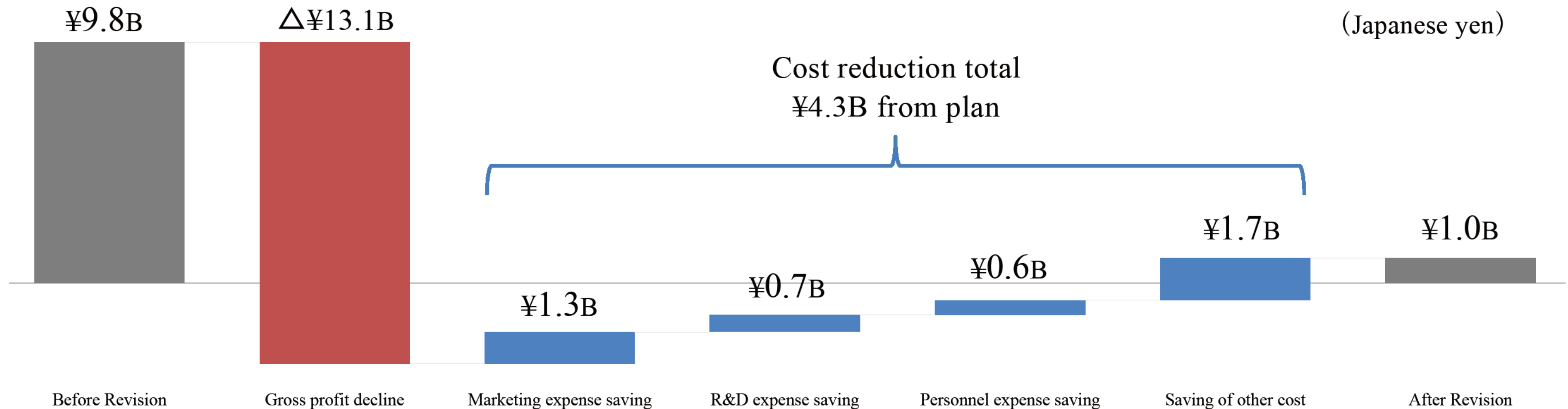


- SIXPAD sales is forecasted at ¥14.1B (+5% YoY), 5 consecutive years of growth.
- The brand sales is driven by new product “Foot Fit” which is ahead of original sales goal.
- Aim to acquire new users behind marketing investment and expand user base by introducing new products in spring and summer seasons (3Q and 4Q), high-usage season of EMS products.
- Plan to increase overseas sales by expanding the brand into new channels in China and Korea, and starting global expansion of “Foot Fit”.

※ Unit: Japanese yen ※ Consolidated sales from FY2018



# Operating Profit Changes (from original plan)

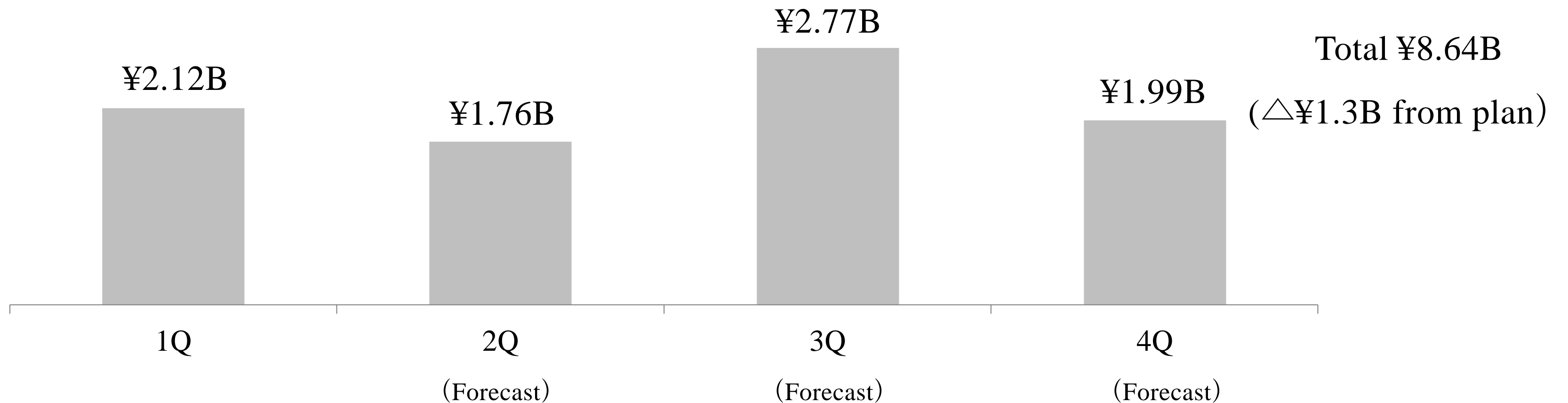


- We reduce ¥4.3 billion, which is 12% of the original forecast of SG & A expenses.
- Savings include Marketing (¥1.3B), R&D (¥0.7B), Personnel (¥0.6B) and other expenses (¥1.7B).
- As results, operating profit is estimated at ¥1.0B.
- We continue our effort to find saving opportunities every quarters and minimize expenses, while maintaining necessary investment for our sustainable growth.

# Marketing Expense

※ Marketing expense = Advertising and Sales & Promotion expense

<FY2019>



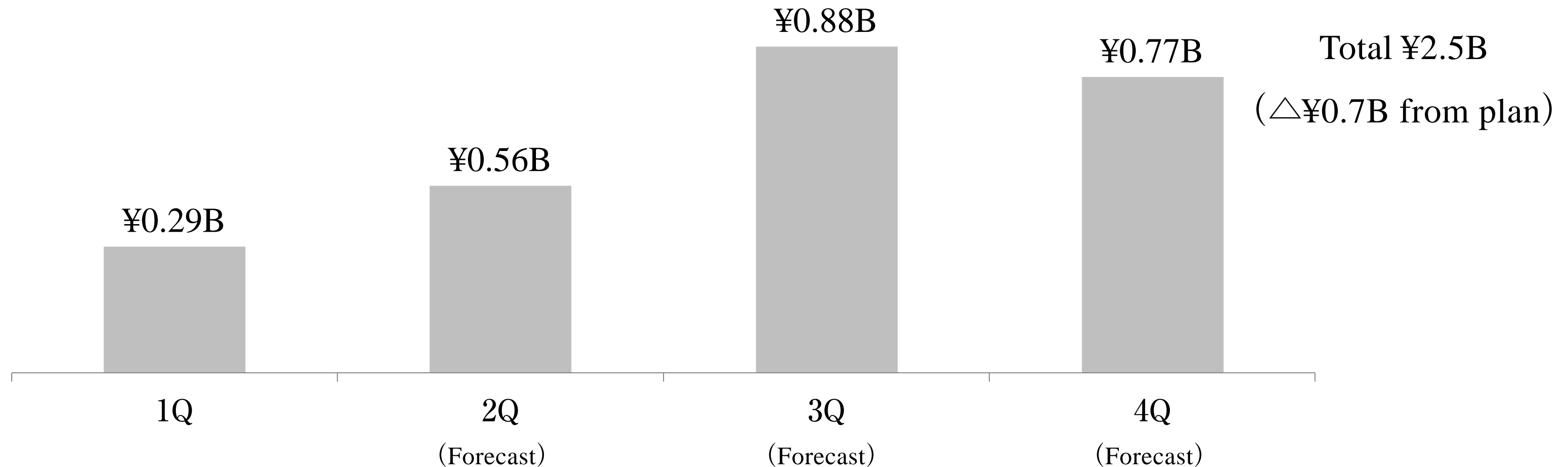
Major investment	ReFa (China) Digital Adv. SIXPAD (Japan) TVCM • Digital Adv.	ReFa (China) Digital Adv.	ReFa (China) Digital Adv. SIXPAD (Japan) TVCM, Digial Adv.	ReFa (China) Digital Adv. SIXPAD (Japan) TVCM, Digial Adv.
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- Marketing expense is forecasted to be ¥8.64B (△¥1.3B from plan) and 16.9% of net sales (+2.3 pts from last FY).
- We keep marketing investment in China ReFa and Japan SIXPAD.

# R&D Expense

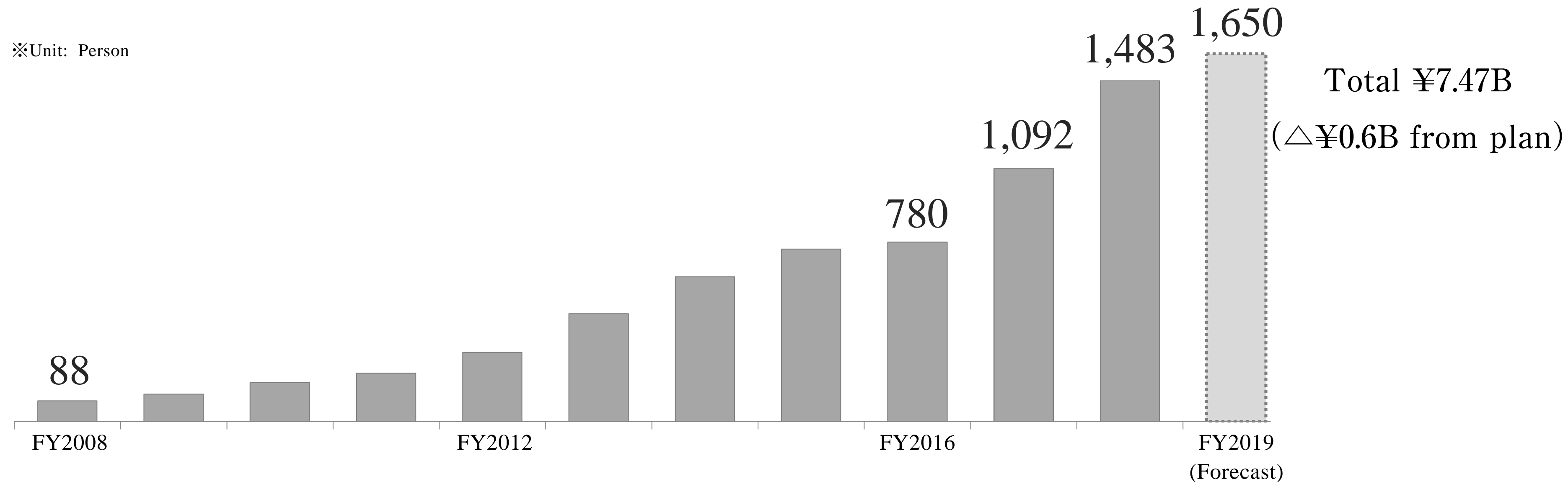
Unit: Japanese yen

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- We managed R&D expense lower without affecting to new product and new brand development.
- The expense will be ¥2.5B, △¥0.7B 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.

# Personnel Expenses (Number of Employee)



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

# Consolidated Income Statement Forecast (vs. previous FY)

Unit: Japanese yen (Millions)	FY2019 (Forecast)		FY2018 (Actual Results)	
	JPY	Ratio	JPY	Ratio
Net Sales	51,000	100.0%	60,465	100.0%
Cost of Sales	17,550	34.4%	21,768	36.0%
Gross Profit	33,450	65.6%	38,566	63.8%
Selling, General & Admin. Expenses	32,450	63.6%	29,678	49.1%
Marketing Expense	8,644	16.9%	8,814	14.6%
Personal Expense	7,469	14.6%	6,807	11.3%
R&D Expense	2,500	4.9%	1,977	3.3%
Packing and Transportation Expense	1,686	3.3%	1,672	2.8%
Other Expense	12,151	23.8%	10,408	17.2%
Operating Profit	1,000	2.0%	8,887	14.7%
Ordinary Profit	1,200	2.4%	8,882	14.7%
Profit before Income Taxes	1,200	2.4%	8,827	14.6%
Net Profit (after taxes)	620	1.2%	5,513	9.1%

## Additional Explanation

- Sales ratio of “transportation expense” will be up behind delivery cost increase in Japan.
- “Other expense” will be increased from last FY. The increase includes office rental fee due to employee growth and store rental and depreciation cost due to new store opened in last FY.



# Key Strategy for Growth



# Key Direction to Solve Current Challenges

- ① ReFa's dependence on Chinese in-bound customers  
→ Expand sales channels within China and Create new category
- ② SIXPAD's dependence on domestic sales  
→ Accelerate global expansion, especially in Asia
- ③ MTG's dependence on sell-out type of products  
→ Build Subscription business

Evolve business model of  
building sales and profit

Three Pillars of Growth

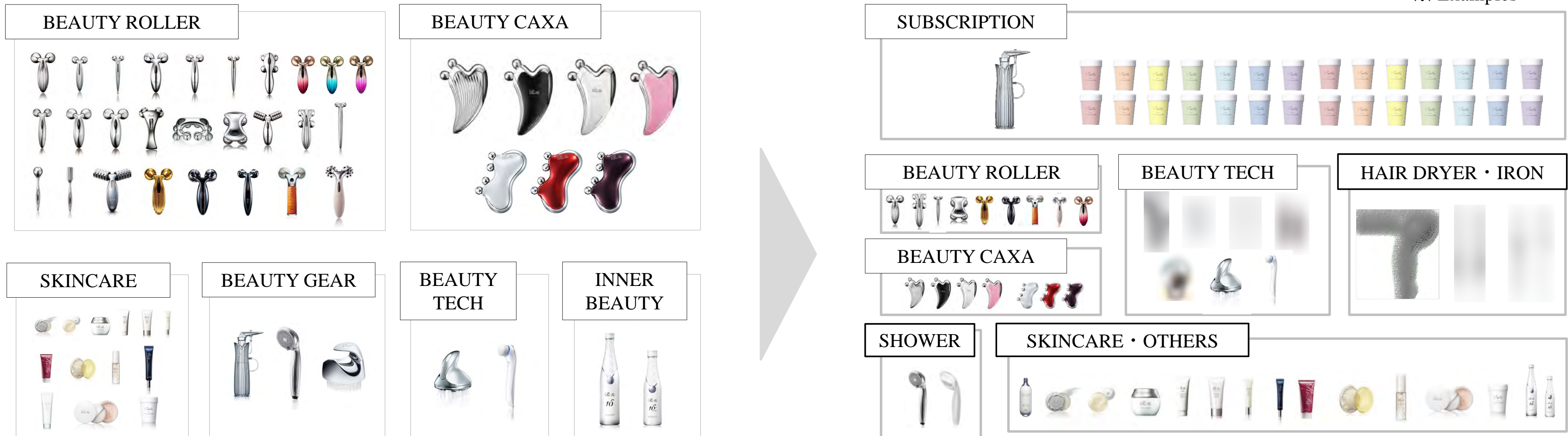
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SIXPAD

ReFa



*Re.Fa*

※ Examples



- Strengthen the brand's core (Beauty Roller & Beauty Caxa) by introducing new products.
- Increase sales ratio of "Stock / Recurring business" by applying Subscription Model.
- Extend ReFa brand into new categories of "Beauty Tech" and "Hair Dryer & Iron".





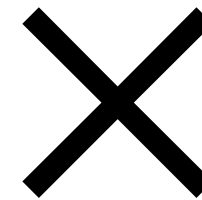
- Plan to apply Subscription Model into “ReFa MIST”.
- MTG has developed “Carbonated Beauty Technology” for 10 years. With the technology, the product is fully differentiated and promises high retention rate.
- It will help ReFa brand’s sales and profit growth more sustainable.





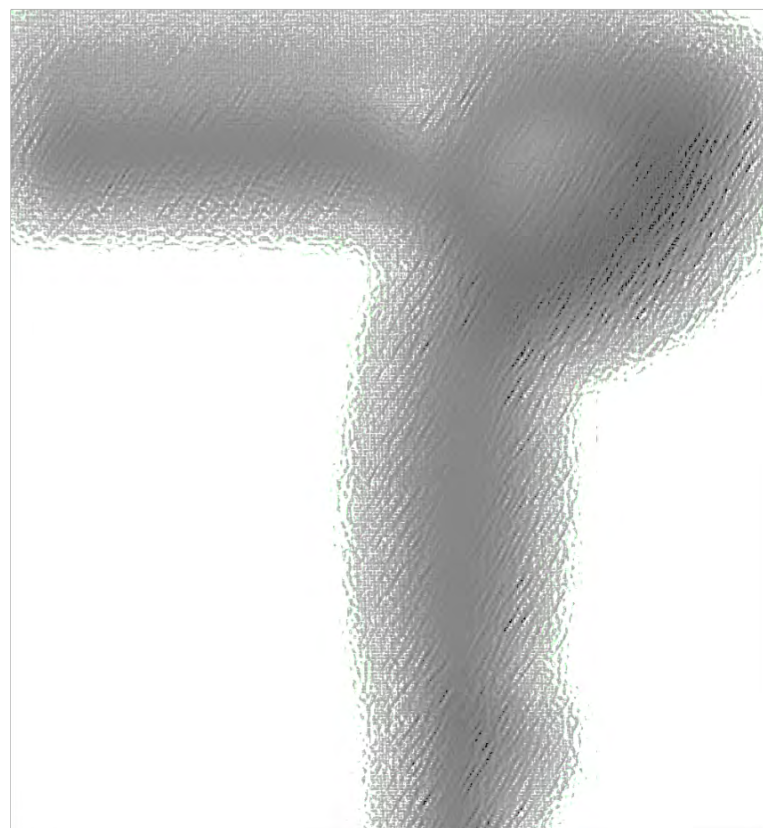
※ Image

- Plan to introduce series of “Beauty Tech” products in Japan from Fall 2019.
- Aim to quickly expand these products globally – especially into China as beauty device category has grown rapidly.



※ Image

- Introduce new “Beauty Tech” product utilizing IoT technology.
- Attain ReFa users’ personal skin data via mobile apps.
- Accumulated data will be utilized for new products and new service development.



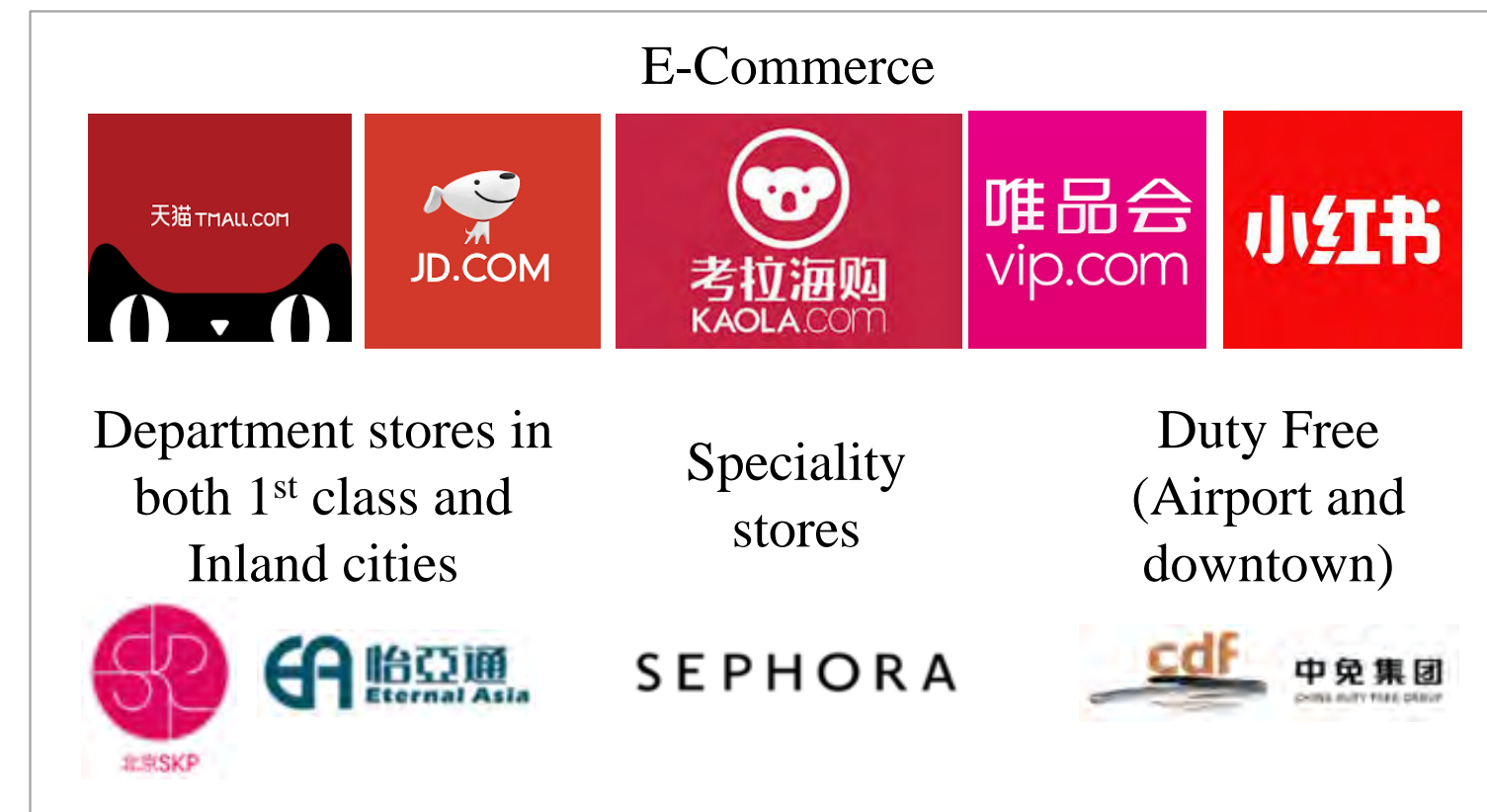
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- Plan to introduce innovative Hair Dryer & Iron products in Fall 2019.
- MTG differentiates these products with ReFa's branding, quality design and ownable technology.
- Focus on Japan domestic market and China E-commerce channel.
- We expect re-purchase within a few years based on average purchase cycle of hair dryer.





- ReFa received “TMALL Beauty Device Award of the Year 2018” due to strong business results in China TMALL.
- Most recently, ReFa is selected as “TMALL Beauty JBP (Joint Business Plan Partner)”, being recognized as strategic partner of TMALL. It helps strengthen partnership with Alibaba in China.



- In China E-commerce channel, which is most important for ReFa, in addition to TMALL, MTG will make strategic alliance with JD, KAOLA, VIP and RED and open the official ReFa store in Spring 2019.
- Largely expand distribution of ReFa into department stores and top retailers in China Inland cities behind alliance with EA, one of top distributors in China.
- In rapidly growing travel retails, MTG made strategic alliance with CDFG, the top duty free company in China. Expand ReFa counters in airport and downtown duty free stores.



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- In USA, distribution expansion to prestige department stores, speciality retails (Sephora) and airport duty free stores is in progress.
- In the Middle East, ReFa will be started to sell in Dubai behind strategic alliance with "Shalve Group" in this summer.
- MTG continues to export born-from-Japan beauty culture of "Beauty Roller" globally.



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- Japan is core market - accounting for 90%+ of SIXPAD sales.
- Strengthen brand marketing during EMS's high-usage season in Spring/Summer (3Q/4Q).
- Plan to on-air new TVCM and visuals of Cristiano Ronaldo to increase brand awareness.
- Aim to generate EMS usage demand from males in 30-40's, core user of the brand.

### Foot Fit



- New product “Foot Fit” sales have been very strong. It successfully increases senior users above 60-age from 5% to 15%.
- After doubling production capacity in April, we will increase “Foot Fit” distribution, especially in department store (from current 30 to 200) and global (China) from 3Q.
- Moreover, new version of “Foot Fit” will be launched in Summer 2019 to build more trial.





### Bottom Belt

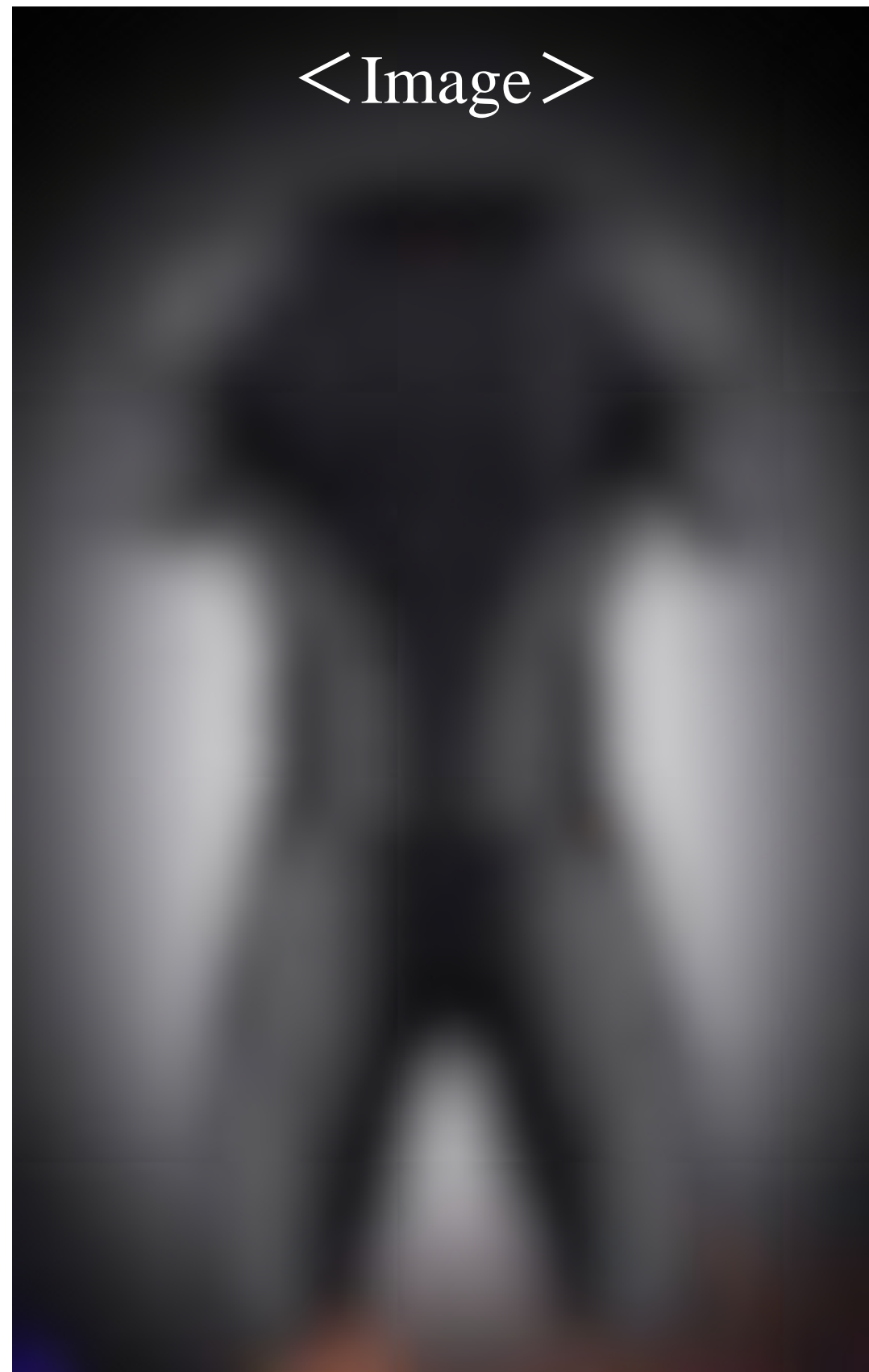


- The brand will introduce “Chest Fit”, new EMS device training chest muscle in July 2019.
- “Chest Fit” and “Bottom Belt” will accelerate the brand’s user acquisition from females.
- Also, the product helps increase averaged purchase price by recommending joint usage of other EMS products in SIXPAD.



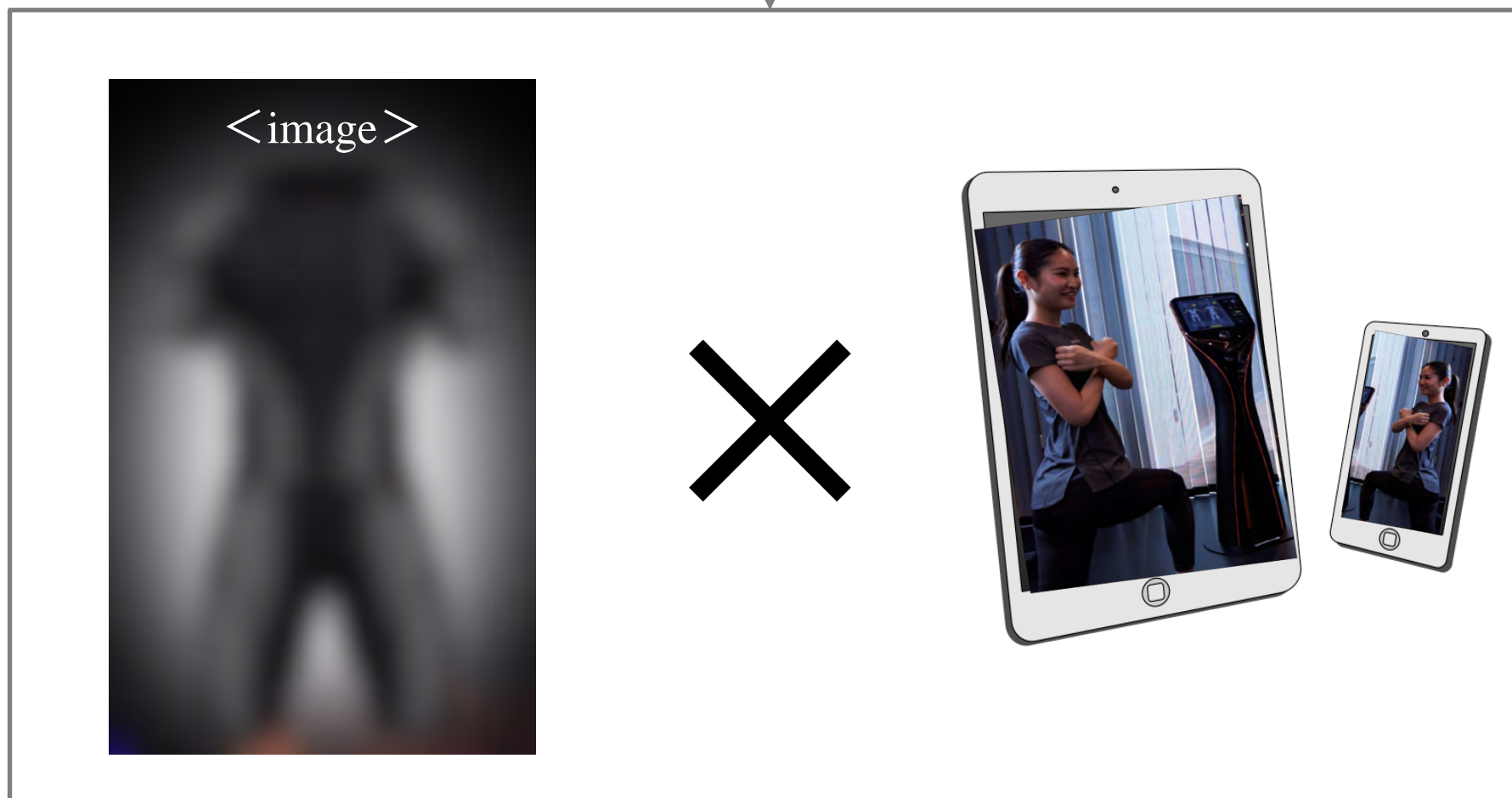


- First SIXPAD STATION in Daikanyama became profitable within 6 months in Dec 2018.
- 2<sup>nd</sup> SIXPAD STATION will be opened in Roppongi in April 2019.
- The gym will be expanded globally via franchise – in Summer 2019, 4 gyms will be opened in China and 1 gym in Hong Kong.
- Our vision is to build 5,000 SIXPAD STATION globally.

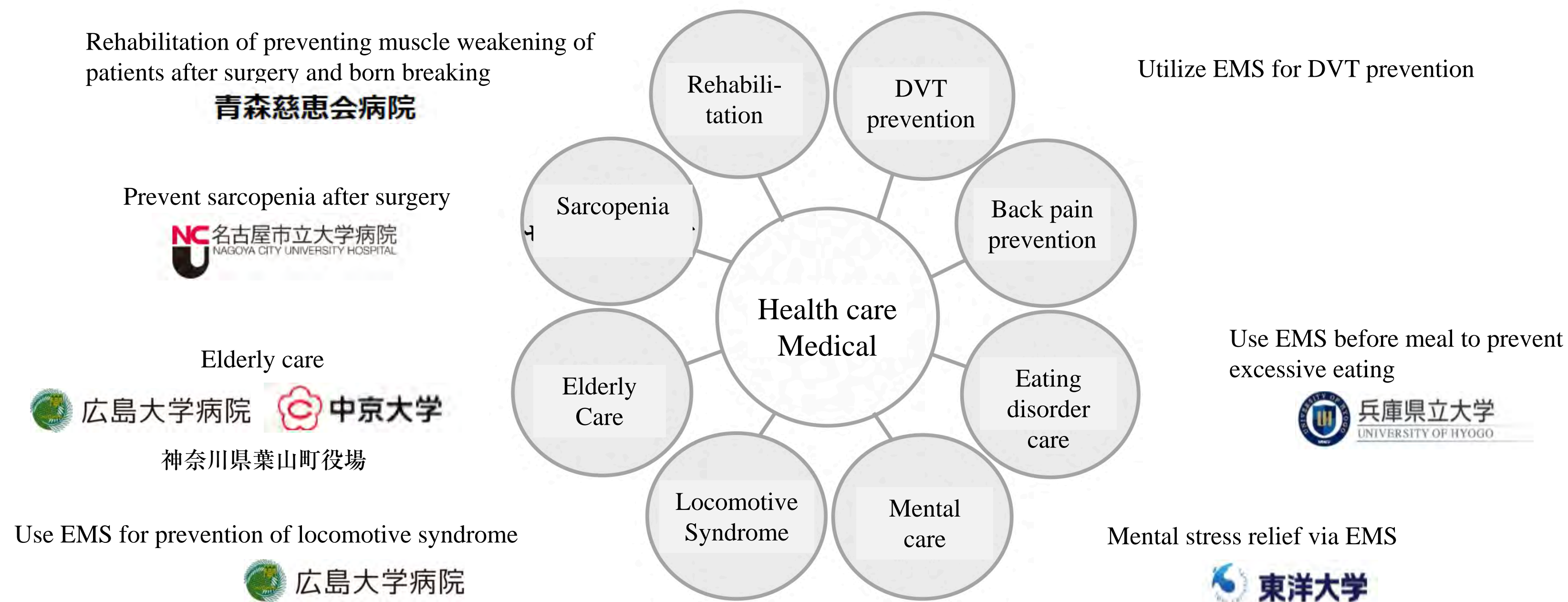


- Innovative home-use “wearable EMS” is under development for introduction in Summer 2020.
- It is wearable EMS suits which effectively trains body and leg muscle. It is washable and repeatable.
- MTG will offer “Home Gym” proposal by combining the usage of this wearable EMS and sports gear training products.





- Trainers of SIXPAD STATION provide live training through a website or apps.
- Users can participate in the training with “EMS wear”.
- More efficient training is achieved by using the products of the SIXPAD fitness series with “EMS Wear” simultaneously.
- Plan to apply Subscription Model into “HOME GYM”.



- Continues joint research of EMS with universities, hospitals and government.
- New EMS products for medical usage are under development.





- In China E-commerce, in addition to TMALL (Alibaba), SIXPAD will be expanded into other EC platforms such as JD, KAOLA, VIP and RED from Spring 2019.
- The brand will increase distribution into retailers in Inland cities behind alliance with EA.
- In Korea, SIXPAD will be sold in TV shopping channel from June 2019.



We develop global expansion strategy by considering business potential of SIXPAD's home-use EMS devices and SIXPAD STATION Gym based on local consumer needs, culture and habits.  
(FDA approval is in progress to be obtained by end of 2020)



NEW PEACE



New Brand ~NEWPEACE~



NEWPEACE

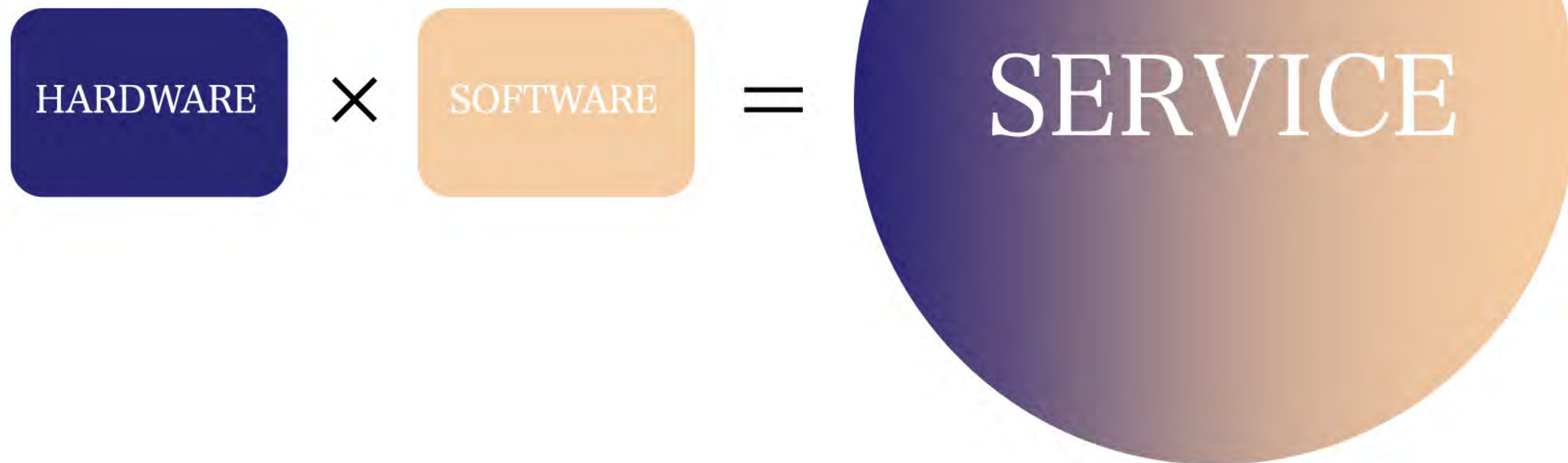
- MTG plans to launch new brand of innovative AI Motion Mattress in Fall 2019.
- Plan to apply Subscription model.



NEWPEACE

Features

MTG  
We have many dreams



Plan to develop new services combining product features with AI functions and data utilization.





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# High Potential of Mattress Category



1\$=110JPY	Market Size of Mattress Category
Japan	\$2.4B (¥260B)
China	\$10.5B (¥1.15T)
Korea	\$1.1B (¥120B)
USA	\$14.3T (¥1.57T)
UK	\$3.8B (¥420B)
Germany	\$2.5B (¥270B)
France	\$2.2B (¥240B)

Mattress category is substantially large in Japan as well as Asia and Western countries.

\$1=¥110  
Reference : Market size (①<https://www.statista.com/outlook/17020200/102/mattresses/europe> ②<http://news.kotra.or.kr/user/globalAllBbs/kotranews/album/2/globalBbsDataAllView.do?dataIdx=165625&searchNationCd=101046>)  
Country population (<http://worldpopulationreview.com/>)

## New Brands



NEW BRAND

NEW BRAND

NEW BRAND

4 new brands applying subscription model are under development.

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MDNA  
SKIN

 Kirala  
WATER + SERVER

Style

  
五島の椿

NEW BRAND

NEW BRAND

NEW BRAND

Mid-term Objective

Hard



System



Subscription

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SIXPAD

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Global

一人ひかる 皆ひかる 何もかもひかる

One shines, We shine, All shines

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