

[Translation for reference only]

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Translation

**Consolidated Financial Results for the Three Months
of the Fiscal Year Ending September 30, 2023 <under Japanese GAAP>**

February 6, 2023

Company name: **Mitsubishi Research Institute, Inc.**
 Listing: Prime Market of the Tokyo Stock Exchange
 Stock code: 3636 URL: <https://www.mri.co.jp/>
 Representative: Kenji Yabuta, President
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 Scheduled date to submit Quarterly Securities Report : February 7, 2023
 Scheduled date to commence dividend payments : –
 Preparation of supplementary material on quarterly financial results : Yes
 Holding of quarterly financial results presentation meeting : None

(Rounded down to the nearest million yen)

**1. Consolidated performance for the three months of the fiscal year ending September 30, 2023
(from October 1, 2022 to December 31, 2022)**

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended December 31, 2022	27,459	8.3	2,358	28.6	2,677	19.4	1,261	(37.8)
December 31, 2021	25,358	—	1,834	—	2,243	—	2,026	—

Note: Comprehensive income

For the three months ended December 31, 2022: 1,625 million yen [-13.6%]

For the three months ended December 31, 2021: 1,880 million yen [-%]

	Basic earnings per share	Diluted earnings per share
Three months ended December 31, 2022	Yen 77.60	Yen —
December 31, 2021	125.01	—

Note: From the beginning of the first three months of the fiscal year ending September 30, 2022, the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29. March 31, 2020), etc. began to be adopted. The figures for the first three months of the fiscal year ending September 30, 2022 are the figures after the application of the said accounting standard, etc., and percentages for year-on-year changes are not indicated.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of	Million yen	Million yen	%
December 31, 2022	109,618	71,355	57.7
September 30, 2022	114,652	71,151	55.0

Reference: Equity (Net assets – Non-controlling interests)

As of December 31, 2022: 63,273 million yen

As of September 30, 2022: 63,052 million yen

2. Cash dividends

	Annual cash dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ending September 30, 2022	Yen —	Yen 60.00	Yen —	Yen 80.00	Yen 140.00
Fiscal year ending September 30, 2023	—	—	—	—	—
Fiscal year ending September 30, 2023 (Forecast)	—	75.00	—	75.00	150.00

Note: Revisions to the forecasts of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending September 30, 2023 (from October 1, 2022 to September 30, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Fiscal year ending September 30, 2023	118,000	1.2	9,300	1.5	10,600	1.0	6,500	(15.7)	399.99

Note: Revisions to the earnings forecasts most recently announced: None

*Notes

(1) Changes in significant subsidiaries during the three months under review (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Application of special accounting in preparing consolidated quarterly financial statements: Yes

Note: For details, please refer to “2. Consolidated financial statements and significant notes thereto (3) Notes to consolidated financial statements (Application of special accounting in preparing consolidated quarterly financial statements)” on page 8 of the attached materials.

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

- a. Changes in accounting policies due to revisions to accounting standards and other regulations : Yes
- b. Changes in accounting policies due to other reasons : None
- c. Changes in accounting estimates : None
- d. Restatement of prior period financial statements after error corrections : None

(4) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2022	16,424,080 shares
As of September 30, 2022	16,424,080 shares

b. Number of treasury shares at the end of the period

As of December 31, 2022	163,794 shares
As of September 30, 2022	173,507 shares

c. Average number of outstanding shares during the period (cumulative from the beginning of the fiscal year)

Three months ended December 31, 2022	16,251,876 shares
Three months ended December 31, 2021	16,213,586 shares

* Quarterly results are not subject to quarterly review by a certified public accountant or the auditing firm.

* Appropriate use of business forecasts; other special items

(Caution regarding forward-looking statements, etc.)

The earnings forecast is made based on information available at the time of publication of this document. The Company does not guarantee that it will achieve the forecast results. Actual sales and profits may differ from the forecast results due to uncertainties inherent in the forecast and changes in business conditions, among other factors.

(Availability of supplementary material on financial results)

The supplementary material for quarterly results is posted on the Company’s website.

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1. Qualitative information regarding settlement of accounts for the three months

(1) Explanation regarding operating results

In the first three months of the fiscal year under review (October 1, 2022 to December 31, 2022), there was an overall slowdown in global economic growth. The economies of Europe and the United States slowed down because of high inflation and monetary policy tightening. As the inflation rate remained high at around 10% in Europe and the United States, the US Federal Reserve Board (FRB) and European Central Bank (ECB) continued to raise interest rates to restrain inflation. In China, despite COVID-19 restrictions (zero-COVID policy) having been loosened since December 2022, economic activity slackened as a result of the rapid spread of COVID-19 infections.

Japan's economic activity continued to recover even as prices rose and COVID-19 infections spread. Consumer prices rose slightly less than 4% year on year, the largest increase in almost 41 years, because of rising resource prices and the weak yen. Despite being weighed down by high prices, consumption continued to trend upward in response to the resilient employment and income environment and the reopening of economic activity. Exports rose in overall as export of goods, particularly those to Europe and the United States, remained firm, and a recovery in the number of foreign visitors to Japan boosted export of services. In addition to making investments that they had put off because of the COVID-19 pandemic, companies aggressively made capital investments as investments related to digital transformation (DX) and GX(*1) increased. We expect that this investment stance of companies will positively contribute to our businesses, mainly in the energy and ICT fields.

Given this social situation and business environment, the Company is operating its businesses under its management philosophy: "We, the Mitsubishi Research Institute, will continually envision a desirable future, resolve societal issues, and lead change in society to co-create a prosperous, sustainable future."

The fiscal year under review is the last year (third year) of the Medium-term Management Plan 2023 ("MP2023"). Although we achieved the financial targets of MP2023 ahead of the plan in the previous fiscal year, we are working toward further growth based on the results and challenges that we had over the past two years. Specifically, efforts are being made to improve the value provision capability of the research and consulting business and the financial solutions business, which are positioned as the Group's core businesses. At the same time, upfront investment is being made in enhancing the policy recommendation function exercised as a think tank, as well as in the DX business, subscription-based business, and global business as growth businesses, among others. The Company also conducts value creation process (VCP*2) management, with which it works on value chain ranging from Research & Recommendations to Societal Implementation consistently in fields including human resources, urban life and mobility, energy, healthcare, ICT, circular society, food and agriculture, and resilience, thus committing itself to acquiring new core businesses and new revenue sources.

Although Japan is facing the eighth wave of COVID-19 infections, Japanese companies are actively making investments, as discussed above, at a time when society is moving toward the new normal of co-existing with COVID and the post-pandemic era, and this provides business opportunities for the Group. In the previous fiscal year, the Company generally completed such measures as productivity improvement and cost control through office reforms with an eye toward the new normal. Because of the above, the eighth wave of COVID-19 infections did not have any significant impact on the Group's results in the first three months of the fiscal year under review.

In the DX business, which is positioned as a driving force for the growth businesses, the Group has set three priority themes for further expansion: private sector, public sector, and financial industry. Efforts are also being made to further strengthen collaboration between MRI and Mitsubishi Research Institute DCS Co., Ltd., a core subsidiary within the MRI group, with both organizations linked and integrated in their sales and consulting activities as well. The Group has been proactively working to provide support that combines DX consulting and cloud transition and encourage digital marketing that uses big data analysis for the private sector, promote national government DX for the public sector, and expand the business domain and customer base for the financial industry.

These factors resulted in net sales of 27,459 million yen (up 8.3% year on year), operating profit of 2,358 million yen (up 28.6% year on year), and ordinary profit of 2,677 million yen (up 19.4% year on year) for the MRI Group in the first three months of the fiscal year under review. The Group posted profit attributable to owners of parent of 1,261 million yen (down 37.8% year on year) as a result of a decline in gain on sales of investment securities recorded in the same period of the previous fiscal year.

(*1) GX: Green Transformation. Transition of fossil-fuel centered economy, society, and industrial structure to ones centered on renewable energy, resulting in a transformation of the overall socioeconomic systems.

(*2) VCP: Value Creation Process. VCP refers to the process of developing the Group's value chain, in other words, aiming to improve the value provided to customers and society and generate sustainable growth by using societal issues as a starting point and setting their resolution and the realization of a desirable future world as goals.

The results in each segment are as follows.

<Think Tank & Consulting Services>

In the first three months under review, net sales (sales to outside clients) stood at 8,846 million yen (down 2.1% year on year), mainly contributed by demonstration testing projects in government and public offices and system- and IT-related operations targeting private-sector companies. Although costs rose in the first three months under review on account of aggressive upfront investment (human resources) for future growth, profitability improved as unprofitable projects in the same period of the previous fiscal year were dissolved, resulting in ordinary profit of 938 million yen (up 4.4% year on year), about the same level for the same period of the previous fiscal year.

<IT Services>

In the first three months under review, net sales (sales to outside clients) amounted to 18,613 million yen (up 14.0% year on year) and ordinary profit reached 1,734 million yen (up 29.8% year on year), due to an increase in sales primarily associated with growth in the finance and credit card services.

(2) Explanation regarding financial position

Total assets at the end of the first three months under review decreased 5,034 million yen (down 4.4%) from the end of the previous fiscal year to 109,618 million yen. Of which, current assets stood at 67,940 million yen (down 8.1% year on year) and non-current assets were 41,678 million yen (up 2.3% year on year). The main factor behind the decline in current assets was a seasonal decrease in cash and deposits of 10,309 million yen despite an increase in notes and accounts receivable - trade, and contract assets of 4,175 million yen. The increase in non-current assets was primarily the result of recording construction in progress.

Liabilities declined 5,237 million yen (down 12.0%) from the end of the previous fiscal year to 38,262 million yen, primarily because of the decline in income taxes payable and provision for bonuses.

Net assets rose 203 million yen (up 0.3%) from the end of the previous fiscal year to 71,355 million yen, mainly due to an increase in capital surplus and valuation difference on available-for-sale securities.

(3) Explanation regarding consolidated earnings forecasts and other forward-looking statements

There were no revisions to the consolidated earnings forecasts announced on November 4, 2022.

2. Consolidated financial statements and significant notes thereto

(1) Consolidated quarterly balance sheets

(Million yen)

	As of September 30, 2022	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	28,157	17,848
Notes and accounts receivable - trade, and contract assets	38,076	42,252
Securities	5,000	5,000
Inventories	336	243
Other	2,353	2,596
Allowance for doubtful accounts	(2)	(0)
Total current assets	73,921	67,940
Non-current assets		
Property and equipment		
Buildings and structures, net	6,748	6,591
Machinery, equipment and vehicles, net	15	13
Tools, furniture and fixtures, net	1,332	1,335
Land	720	720
Leased assets, net	1,568	1,526
Construction in progress	273	1,008
Total property and equipment	10,659	11,197
Intangible assets		
Software	3,664	3,610
Leased assets	782	617
Other	1,041	1,115
Total intangible assets	5,488	5,343
Investments and other assets		
Investment securities	16,317	16,547
Deferred tax assets	4,727	4,575
Other	3,538	4,016
Allowance for doubtful accounts	(0)	(2)
Total investments and other assets	24,582	25,137
Total non-current assets	40,730	41,678
Total assets	114,652	109,618

(Million yen)

	As of September 30, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	5,871	4,639
Current portion of long-term borrowings	400	400
Accounts payable - other	1,317	2,083
Accrued expenses	8,120	9,055
Income taxes payable	3,516	883
Provision for bonuses	6,679	2,540
Provision for bonuses for directors, etc.	—	53
Provision for loss on order received	85	167
Other	4,247	4,811
Total current liabilities	30,239	24,634
Non-current liabilities		
Long-term borrowings	500	400
Lease obligations	1,531	1,437
Provision for share-based compensation	418	439
Net defined benefit liability	9,321	9,811
Asset retirement obligations	1,489	1,490
Other	0	48
Total non-current liabilities	13,261	13,628
Total liabilities	43,500	38,262
Net assets		
Shareholders' equity		
Capital stock	6,336	6,336
Capital surplus	4,785	4,908
Retained earnings	50,721	50,668
Treasury shares	(622)	(587)
Total shareholders' equity	61,220	61,324
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,624	1,740
Deferred gains or losses on hedges	(3)	(3)
Foreign currency translation adjustment	10	—
Remeasurements of defined benefit plans	201	211
Total accumulated other comprehensive income	1,832	1,949
Non-controlling interests	8,099	8,081
Total net assets	71,151	71,355
Total liabilities and net assets	114,652	109,618

(2) Consolidated quarterly statements of income and consolidated quarterly statements of comprehensive income**Consolidated quarterly statements of income**

(Million yen)

	Three months ended December 31, 2021	Three months ended December 31, 2022
Net sales	25,358	27,459
Cost of sales	19,360	20,873
Gross profit	5,997	6,586
Selling, general and administrative expenses	4,162	4,227
Operating profit	1,834	2,358
Non-operating income		
Interest income	3	0
Dividend income	46	53
Share of profit of entities accounted for using equity method	347	238
Other	32	50
Total non-operating income	429	341
Non-operating expenses		
Interest expenses	9	7
Overseas withholding taxes	11	15
Other	0	0
Total non-operating expenses	21	22
Ordinary profit	2,243	2,677
Extraordinary income		
Gain on sales of investment securities	1,411	—
Total extraordinary income	1,411	—
Extraordinary losses		
Loss on sales of non-current assets	1	—
Loss on retirement of non-current assets	3	3
Impairment losses	—	53
Other	0	3
Total extraordinary losses	4	60
Profit before income taxes	3,650	2,617
Income taxes	1,241	1,130
Profit	2,408	1,486
Profit attributable to non-controlling interests	381	225
Profit attributable to owners of parent	2,026	1,261

Consolidated quarterly statements of comprehensive income

(Million yen)

	Three months ended December 31, 2021	Three months ended December 31, 2022
Profit	2,408	1,486
Other comprehensive income		
Valuation difference on available-for-sale securities	(549)	163
Deferred gains or losses on hedges	4	(0)
Foreign currency translation adjustment	0	(13)
Remeasurements of defined benefit plans	4	3
Share of other comprehensive income of entities accounted for using equity method	11	(15)
Total other comprehensive income	(528)	138
Comprehensive income	1,880	1,625
Comprehensive income attributable to		
Owners of parent	1,614	1,378
Non-controlling interests	266	247

(3) Notes to consolidated financial statements**(Notes on going concern assumption)**

Not applicable

(Changes in accounting policies)

(Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Group decided to apply the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021, hereinafter the “Fair Value Measurement Accounting Standard Guidance”) from the beginning of the first three months of the fiscal year under review. Accordingly, it decided to continue to apply the new accounting policies specified in the Fair Value Measurement Accounting Standard Guidance in line with the transitional measures prescribed in Paragraph 27-2 of said Guidance. This has no effect on the consolidated quarterly financial statements.

(Notes in the case of material changes in shareholders’ equity)

Not applicable

(Application of special accounting in preparing consolidated quarterly financial statements)

(Calculation of tax expenses)

Tax expenses are calculated by multiplying profit before income taxes in the first three months under review by a reasonably estimated effective tax rate after the application of tax effect accounting for profit before income taxes in the consolidated fiscal year including the first three months under review.

(Additional information)

(Share-based compensation system linked to operating performance for directors, executives and research fellows)

At the 47th annual shareholders’ meeting held on December 19, 2016, MRI resolved to introduce a performance-based stock compensation plan (“the Plan”) for its directors (excluding outside directors, non-executive directors, and directors living outside Japan), executive officers and research fellows who have signed an engagement agreement (excluding those living outside Japan) (collectively referred to as the “Directors, Etc.”). The Plan has been introduced to raise awareness of contributions to improving operating results at the MRI Group and enhancing the corporate value in the medium to long term. The Plan is an officers’ compensation system that is closely connected to the MRI Group’s results, transparent and objective. The accounting for the Plan is in line with the Practical Solution on Transactions of Delivering MRI’s Own Stock to Employees Through Trusts (ASBJ PITF No. 30, March 26, 2015).

1) Overview of transaction

The Plan has a mechanism called a Board Incentive Plan trust (“BIP Trust”). After the resignation of the Directors, Etc. (or the death of the Directors, Etc.), MRI grants shares of MRI held by the BIP Trust or provides money equivalent to the shares to the Directors, Etc. according to the performance target achievement level.

2) MRI’s shares remaining in the trust

The book value of the shares held by the BIP Trust (excluding the incidental expense) is posted in net assets as treasury shares. The book value of the treasury shares and the number of treasury shares were 621 million yen and 173,000 shares, respectively, at the end of the previous fiscal year and 586 million yen and 163,000 shares, respectively, at the end of the first three months under review.

(Segment information, etc.)**[Segment information]**

I. Three months ended December 31, 2021

1. Information regarding amounts of net sales and profit/loss by reportable segment

(Million yen)

	Reportable segments		Total	Adjustment (Note 1)	Amount recorded in the consolidated quarterly statements of income (Note 2)
	Think Tank & Consulting Services	IT Services			
Net sales					
Outside customers	9,035	16,323	25,358	—	25,358
Inter-segment sales and transfers	10	293	304	(304)	—
Total	9,045	16,616	25,662	(304)	25,358
Segment profit	899	1,336	2,235	8	2,243

Notes: 1. The adjustment to segment profit represents the elimination of inter-segment transactions.

2. Segment profit is adjusted in accordance with ordinary profit in the consolidated quarterly statements of income.

2. Information regarding impairment loss of non-current assets or regarding goodwill by reportable segment

There are no significant items in the first three months under review.

II. Three months ended December 31, 2022

1. Information regarding amounts of net sales and profit/loss by reportable segment

(Million yen)

	Reportable segments		Total	Adjustment (Note 1)	Amount recorded in the consolidated quarterly statements of income (Note 2)
	Think Tank & Consulting Services	IT Services			
Net sales					
Outside customers	8,846	18,613	27,459	—	27,459
Inter-segment sales and transfers	14	228	243	(243)	—
Total	8,860	18,842	27,702	(243)	27,459
Segment profit	938	1,734	2,672	4	2,677

Notes: 1. The adjustment to segment profit represents the elimination of inter-segment transactions.

2. Segment profit is adjusted in accordance with ordinary profit in the consolidated quarterly statements of income.

2. Information regarding impairment loss of non-current assets or regarding goodwill by reportable segment

For the three months ended December 31, 2022, MRI recorded impairment losses of 44 million yen for Think Tank & Consulting Services and 9 million yen for IT Services.

3. Supplementary information

Status of orders received and sales

(1) Status of orders received

The table below shows orders by segment.

(Million yen)

Segment name	Three months ended December 31, 2022			
	Orders received	Year-on-year change (%)	Order backlog	Year-on-year change (%)
Think Tank & Consulting Services	3,891	(30.9)	29,914	(0.9)
IT Services	16,708	(12.2)	45,240	(3.5)
System development	9,672	(18.1)	20,241	1.0
Outsourcing services	7,035	(2.4)	24,999	(6.8)
Total	20,600	(16.4)	75,154	(2.5)

Notes: 1. Inter-segment transactions are offset against each other.

2. For services that are provided continually and paid for based on performance, expected sales for a year after the end of the first three months under review are stated in the order backlog column.

(2) Sales performance

The table below shows sales by segment.

(Million yen)

Segment name	Three months ended December 31, 2022	Year-on-year change (%)
Think Tank & Consulting Services	8,846	(2.1)
IT Services	18,613	14.0
System development	11,713	24.3
Outsourcing services	6,899	(0.0)
Total	27,459	8.3

Notes: Inter-segment transactions are offset against each other.