

[Translation for reference only]

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Translation



February 5, 2020

**Consolidated Financial Results for the Three Months
of the Fiscal Year Ending September 30, 2020 <under Japanese GAAP>**

Company name: **Mitsubishi Research Institute, Inc.**
 Listing: First Section of the Tokyo Stock Exchange
 Stock code: 3636 URL: <https://www.mri.co.jp/>
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 Scheduled date to submit Quarterly Securities Report: February 14, 2020
 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, 2020
(from October 1, 2019 to December 31, 2019)**

(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, 2019	14,862	(2.4)	(492)	–	1,106	–	2,319	–
December 31, 2018	15,232	2.5	(1,365)	–	(1,155)	–	(1,016)	–

Note: Comprehensive income

For the three months ended December 31, 2019: 3,261 million yen [–%]
 For the three months ended December 31, 2018: (2,049) million yen [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
December 31, 2019	142.79	–
December 31, 2018	(62.55)	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of			
December 31, 2019	86,611	57,193	57.5
September 30, 2019	84,568	54,843	56.7

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

As of December 31, 2019: 49,762 million yen
 As of September 30, 2019: 47,940 million yen

2. Cash dividends

	Annual cash dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended September 30, 2019	–	45.00	–	50.00	95.00
Fiscal year ending September 30, 2020	–				
Fiscal year ending September 30, 2020 (Forecast)		50.00	–	50.00	100.00

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

3. Consolidated earnings forecasts for the fiscal year ending September 30, 2020 (from October 1, 2019 to September 30, 2020)

(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, 2020	94,000	4.4	4,900	(4.5)	7,000	22.4	6,300	75.0	387.65

Note: Revisions to the earnings forecasts most recently announced: Yes

***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 9 of the attached materials.
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections
- Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - Changes in accounting policies due to other reasons: None
 - Changes in accounting estimates: None
 - 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, 2019	16,424,080 shares
As of September 30, 2019	16,424,080 shares

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

As of December 31, 2019	175,495 shares
As of September 30, 2019	178,196 shares

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

Three months ended December 31, 2019	16,246,324 shares
Three months ended December 31, 2018	16,245,888 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 results 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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(Attached materials)**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, 2019 to December 31, 2019), the Japanese economy continued on a moderate recovery trend, despite a negative reaction to a spike in demand before the consumption tax hike and the effects of typhoons. Consumption dropped immediately after the consumption tax hike but was supported by an improvement in employment, income conditions and measures to reduce the burden on the tax hike on households. Regarding capital expenditure, needs for investment in automation, labor saving and IT were firm in non-manufacturing industries where there are labor shortages. There are signs of recovery in exports to China, but exports to Europe and the United States were weak.

Overseas economies slowed moderately. In the U.S.-China trade talks, both sides reached a first stage agreement, and uncertainty in the U.S. trade policy was reduced. However, the U.S. economy is slowing, particularly in exports and capital expenditure. The European economy, particularly the German economy, saw sluggish growth due to declining external demand. Growth in the Chinese economy slowed due to a downturn in external demand and a slowdown in growth in domestic demand. Other emerging economies generally continued to slow.

In this environment, Mitsubishi Research Institute, Inc. and its consolidated subsidiaries (the MRI Group) provide comprehensive solutions, prioritizing quality and customer satisfaction and using the knowledge of the scientific methods and advanced technologies that it has developed as a comprehensive think tank. The fiscal year under review is the final year of Medium-term Management Plan 2020 (MP2020), and the MRI Group is taking steps to complete the execution of the plan.

In business using new technologies, the growth business in MP2020, the MRI Group is continuing to advance innovation and sophistication in corporate management and government services through consulting and ICT services using AI, the IoT and the cloud.

In the business in the public and public interest sectors and the social infrastructure sector, which is the core business in MP2020, the MRI Group promoted business development to meet needs in the economy and society, where massive structural changes are taking place. The MRI Group is conducting research studies in energy, healthcare and wellness, and transport and traffic, taking into consideration policy reforms, including power system reform, medical care and long-term care insurance reform and regional revitalization. The MRI Group is also providing consulting services and IT solutions across the public and private sectors based on institutions and policies in the public sector.

The MRI Group continued to address the quality issue that occurred in the IT services segment in the fiscal year ended September 30, 2018, and discussed it with the customers. Meanwhile, as phased development progressed, the MRI Group posted partial sales.

The MRI Group made INES Corporation its equity method affiliate and accepted a tender offer by SCSK Corporation for shares in Minori Solutions Co., Ltd. In relation to those transactions, the MRI Group posted non-operating income and extraordinary income.

These factors resulted in net sales of 14,862 million yen (down 2.4% year on year), operating loss of 492 million yen (an operating loss of 1,365 million yen in the same period of the previous fiscal year) and ordinary profit of 1,106 million yen (an ordinary loss of 1,155 million yen in the same period of the previous fiscal year) in the MRI Group in the first three months of the fiscal year under review. The MRI Group posted profit attributable to owners of parent of 2,319 million yen (a loss attributable to owners of parent of 1,016 million yen in the same period of the previous fiscal year).

In the MRI Group, particularly in the think tank and consulting services, sales are concentrated in March and April due to the fiscal year-end of major clients, public offices and companies, and results in the first three months are usually much lower than in other quarters.

The results in each segment are as follows.

<Think tank and consulting services>

In the first three months under review, net sales (sales to outside clients) stood at 2,098 million yen (down 20.0% year on year) chiefly due to a small number of projects completed because of seasonal factors and a reactionary decline in system consulting and development process management projects. Ordinary profit came to 493 million yen (an ordinary loss of 747 million yen in the same period of the previous fiscal year), reflecting the posting of an amount equivalent to negative goodwill in non-operating income in relation to INES Corporation becoming an equity method affiliate.

<IT services>

In the first three months under review, net sales (sales to outside clients) amounted to 12,764 million yen (up 1.2% year on year) chiefly due to sales from system development projects for financial institutions. Ordinary profit was 623 million yen (an ordinary loss of 392 million yen in the same period of the previous fiscal year), a significant improvement from the same period of the previous fiscal year, when an additional loss was posted due to the project with the quality issue.

(2) Explanation regarding financial position

Total assets at the end of the first three months under review increased 2,043 million yen (up 2.4%) from the end of the previous fiscal year, to 86,611 million yen. Current assets stood at 48,347 million yen (up 1.5%) and non-current assets were 38,264 million yen (up 3.6%). The main factor for an increase in current assets was a rise of 5,059 million yen in inventories, which was partially offset by seasonal changes in notes and accounts receivable-trade (decreasing 4,279 million yen from the end of the previous fiscal year) and cash and deposits (falling 487 million yen). The major factor for an increase in non-current assets was an upturn of 1,233 million yen in investments and other assets chiefly due to a rise in investment securities.

Liabilities fell 29,417 million yen (down 1.0%), reflecting a decrease of 2,116 million yen in current liabilities chiefly due to a fall in the provision of bonuses and an increase of 1,809 million yen in non-current liabilities mainly due to a climb in long-term borrowings.

Net assets rose 2,350 million yen (up 4.3%) from the end of the previous fiscal year, to 57,193 million yen chiefly due to an increase in retained earnings.

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

In the first three months under review, INES Corporation became an equity method affiliate and an amount equivalent to negative goodwill was posted in non-operating income. As a result, ordinary profit and profit attributable to owners of parent are expected to exceed the forecast. In the think tank and consulting services segment, the MRI Group is making upfront investments for sustainable growth, including investments in developing a subscription-based service model, in line with MP2020. From the second quarter, upfront investments are expected to expand and expenses, including performance-linked bonuses, are anticipated to increase, reflecting steady growth in results.

Considering these factors, the Company revises the consolidated earnings forecast and forecast for earnings by segment for the fiscal year ending September 30, 2020, which were published on December 16, 2019.

Revision to the consolidated earnings forecast for the fiscal year ending September 30, 2020 (October 1, 2019 to September 30, 2020)

	Consolidated net sales	Consolidated operating profit	Consolidated ordinary profit	Profit attributable to owners of parent	Consolidated basic earnings per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecast (A)	94,000	5,200	6,000	5,200	320.08
Revised forecast (B)	94,000	4,900	7,000	6,300	387.65
Change (B – A)	–	(300)	1,000	1,100	–
Percentage change (%)	–	(5.8)	16.7	21.2	–
(For reference) Results in previous fiscal year (ended September 30, 2019)	90,029	5,130	5,718	3,599	221.58

Revision to the forecast for earnings by segment for the fiscal year ending September 30, 2020 (October 1, 2019 to September 30, 2020)

	Think tank and consulting services		IT services	
	Net sales	Ordinary profit	Net sales	Ordinary profit
	Million yen	Million yen	Million yen	Million yen
Previous forecast (A)	36,000	3,600	58,000	2,400
Revised forecast (B)	36,000	4,600	58,000	2,400
Change (B – A)	–	1,000	–	–
Percentage change (%)	–	27.8	–	–
(For reference) Results by segment in previous fiscal year (ended September 30, 2019)	34,099	3,351	55,930	2,325

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.

2. Consolidated financial statements and significant notes thereto

(1) Consolidated quarterly balance sheets

(Million yen)

	As of September 30, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	25,957	25,469
Notes and accounts receivable - trade	13,134	8,854
Inventories	6,914	11,973
Other	1,641	2,056
Allowance for doubtful accounts	(12)	(7)
Total current assets	47,635	48,347
Non-current assets		
Property and equipment		
Buildings and structures, net	6,010	5,882
Machinery, equipment and vehicles, net	11	10
Tools, furniture and fixtures, net	1,330	1,322
Land	720	720
Leased assets, net	582	971
Construction in progress	191	288
Total property and equipment	8,846	9,196
Intangible assets		
Software	3,270	3,046
Leased assets	2,632	2,471
Other	134	266
Total intangible assets	6,036	5,784
Investments and other assets		
Investment securities	14,398	15,425
Deferred tax assets	4,164	4,250
Other	3,491	3,611
Allowance for doubtful accounts	(6)	(4)
Total investments and other assets	22,049	23,283
Total non-current assets	36,932	38,264
Total assets	84,568	86,611

(Million yen)

	As of September 30, 2019	As of December 31, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	3,344	3,486
Current portion of long-term borrowings	–	100
Accounts payable - other	2,880	2,270
Accrued expenses	1,079	1,618
Income taxes payable	1,257	1,319
Provision for bonuses	3,782	1,179
Provision for loss on order received	1,226	776
Other	3,155	3,857
Total current liabilities	16,726	14,609
Non-current liabilities		
Long-term borrowings	–	1,600
Lease obligations	2,553	2,777
Provision for share-based compensation	301	328
Net defined benefit liability	10,068	10,038
Asset retirement obligations	51	51
Other	23	12
Total non-current liabilities	12,998	14,808
Total liabilities	29,724	29,417
Net assets		
Shareholders' equity		
Capital stock	6,336	6,336
Capital surplus	4,765	4,765
Retained earnings	35,585	37,084
Treasury shares	(579)	(570)
Total shareholders' equity	46,107	47,614
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,906	2,232
Deferred gains or losses on hedges	(153)	(173)
Foreign currency translation adjustment	11	10
Remeasurements of defined benefit plans	69	78
Total accumulated other comprehensive income	1,833	2,147
Non-controlling interests	6,902	7,431
Total net assets	54,843	57,193
Total liabilities and net assets	84,568	86,611

(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, 2018	Three months ended December 31, 2019
Net sales	15,232	14,862
Cost of sales	13,134	11,808
Gross profit	2,097	3,054
Selling, general and administrative expenses	3,463	3,546
Operating loss	(1,365)	(492)
Non-operating income		
Interest income	0	0
Dividend income	62	66
Share of profit of entities accounted for using equity method	163	1,542
Other	4	27
Total non-operating income	230	1,637
Non-operating expenses		
Interest expenses	1	10
Foreign exchange losses	5	–
Loss on investments in silent partnership	12	20
Overseas withholding taxes	–	7
Other	0	0
Total non-operating expenses	20	38
Ordinary profit (loss)	(1,155)	1,106
Extraordinary income		
Gain on sales of investment securities	–	2,731
Total extraordinary income	–	2,731
Extraordinary losses		
Loss on retirement of non-current assets	1	17
Loss on revaluation of investment securities	30	–
Loss on cancellation of leases	1	0
Total extraordinary losses	32	18
Profit (loss) before income taxes	(1,188)	3,820
Income taxes	(89)	950
Profit (loss)	(1,099)	2,870
Profit (loss) attributable to non-controlling interests	(83)	550
Profit (loss) attributable to owners of parent	(1,016)	2,319

Consolidated quarterly statements of comprehensive income

(Million yen)

	Three months ended December 31, 2018	Three months ended December 31, 2019
Profit (loss)	(1,099)	2,870
Other comprehensive income		
Valuation difference on available-for-sale securities	(970)	422
Deferred gains or losses on hedges	(0)	(19)
Foreign currency translation adjustment	1	(1)
Remeasurements of defined benefit plans	16	5
Share of other comprehensive income of entities accounted for using equity method	2	(15)
Total other comprehensive income	(949)	391
Comprehensive income	(2,049)	3,261
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(1,861)	2,633
Comprehensive income attributable to non- controlling interests	(187)	627

(3) Notes to Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable

(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, the Company 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 the Company'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.), the Company grants shares of the Company 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 578 million yen and 177,000, respectively, in the previous fiscal year and 569 million yen and 175,000, respectively in the first three months under review.

(Provision for loss on order received)

In the fiscal year ended September 30, 2018, failure occurred in the testing stage of a contract large-scale system development project at a consolidated subsidiary, and additional repair work was required for quality assurance. The client wished to discontinue the main part of the development and a cancellation agreement was concluded for the main part in January 2019. We have been taking steps under the cancellation agreement and have been reviewing the remaining part of the agreement in consultation with the client in stages.

In the first three months under review, we posted net sales and cost of sales for part the development project after acceptance inspection by the client and reduced the corresponding amount from provision for loss on order received of 1,188 million yen posted at the end of the previous fiscal year. We are continuing to discuss the schedule and work with the client, and at the end of the first three months under review, we estimated expenses and posted an estimated loss of 669 million yen as provision for loss on order received. The inventories related to the order received where losses are expected and provision for loss on order received are not offset and both are presented as is. Inventories related to the development project at the end of the first three months stood at 214 million yen.

We estimate expenses as reasonably as possible. However, we are still discussing the schedule and work, and the estimated expenses may change depending on the progress of the discussion and its results.

(Segment information, etc.)

I. Three months ended December 31, 2018

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 statement of income (Note 2)
	Think tank and consulting services	IT services			
Net sales					
Outside customers	2,621	12,611	15,232	–	15,232
Inter-segment sales and transfers	18	401	419	(419)	–
Total	2,639	13,012	15,651	(419)	15,232
Segment profit (loss)	(747)	(392)	(1,139)	(16)	(1,155)

Notes: 1. The adjustment in segment loss of negative 16 million yen includes an adjustment of inventories of negative 10 million yen and an adjustment of non-current assets of negative 5 million yen.

2. Segment loss is adjusted in accordance with ordinary loss in the consolidated 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, 2019

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 statement of income (Note 2)
	Think tank and consulting services	IT services			
Net sales					
Outside customers	2,098	12,764	14,862	–	14,862
Inter-segment sales and transfers	8	278	287	(287)	–
Total	2,106	13,043	15,149	(287)	14,862
Segment profit	493	623	1,116	(9)	1,106

Notes: 1. The adjustment in segment loss of negative 9 million yen includes an adjustment of inventories of negative 12 million yen and an adjustment of non-current assets of 2 million yen.

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

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

(Significant gain on bargain purchase)

In the think tank and consulting services segment, an amount equivalent to negative goodwill of 1,333 million yen, which occurred in relation to an additional acquisition of shares in INES Corporation and the application of the equity method, is posted as the share of profit of entities accounted for using the equity method.

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, 2019			
	Orders received	Year-on-year change (%)	Order backlog	Year-on-year change (%)
Think tank and consulting services	5,044	1.9	29,253	7.0
IT services	14,147	14.4	41,756	15.2
System development	8,608	26.3	21,751	29.4
Outsourcing services	5,539	(0.3)	20,005	3.0
Total	19,192	10.8	71,010	11.7

- Notes: 1. Inter-segment transactions are offset against each other.
 2. The numbers exclude consumption tax.
 3. 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, 2019	Year-on-year change (%)
Think tank and consulting services	2,098	(20.0)
IT services	12,764	1.2
System development	7,080	(0.0)
Outsourcing services	5,683	2.8
Total	14,862	(2.4)

- Notes: 1. Inter-segment transactions are offset against each other.
 2. In the MRI Group, particularly in the think tank and consulting services, only a small number of projects are completed in the first three months due to the fiscal year-end of the major clients, public offices and companies, and results in the first three months are usually remarkably lower than in the other quarters.
 3. The numbers exclude consumption tax.