

[Translation for reference only]

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Translation



February 3, 2021

Consolidated Financial Results for the Three Months of the Fiscal Year Ending September 30, 2021 <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 5, 2021
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, 2021 (from October 1, 2020 to December 31, 2020)

(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, 2020	15,929	7.2	(639)	–	(394)	–	(722)	–
December 31, 2019	14,862	(2.4)	(492)	–	1,106	–	2,319	–

Note: Comprehensive income

For the three months ended December 31, 2020: (579) million yen [–%]

For the three months ended December 31, 2019: 3,261 million yen [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended December 31, 2020	(44.46)	–
December 31, 2019	142.79	–

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2020	88,993	59,227	58.3
September 30, 2020	96,253	61,541	56.0

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

As of December 31, 2020: 51,864 million yen

As of September 30, 2020: 53,857 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 ended September 30, 2020	Yen –	Yen 50.00	Yen –	Yen 85.00	Yen 135.00
Fiscal year ending September 30, 2021	–	–	–	–	–
Fiscal year ending September 30, 2021 (Forecast)	–	55.00	–	55.00	110.00

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

Breakdown of the year-end cash dividend of the fiscal year ended September 30, 2020:

Ordinary dividend 55.00 yen and commemorative dividend 30.00 yen

3. Consolidated earnings forecasts for the fiscal year ending September 30, 2021 (from October 1, 2020 to September 30, 2021)

(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, 2021	97,000	5.4	6,600	5.9	7,500	(10.6)	4,800	(32.4)	295.30

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, 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
- 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, 2020	16,424,080 shares
As of September 30, 2020	16,424,080 shares

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

As of December 31, 2020	157,926 shares
As of September 30, 2020	169,376 shares

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

Three months ended December 31, 2020	16,256,350 shares
Three months ended December 31, 2019	16,246,324 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 forecasts are made based on information available at the time of publication of this document and MRI Group does not guarantee that it will achieve the forecast results. Actual sales and profits may differ from the forecast results due to factors such as uncertainties inherent in the forecasts and changes in business conditions.

(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, 2020 to December 31, 2020), the global economy saw the resurgence of stronger restraint on activities as the spread of the novel coronavirus infection disease (COVID-19) accelerated and variants were discovered in many places. Steps to prevent infections were strengthened in the United States, and the employment environment recovered. However, consumption, which accounts for 70% of GDP, declined again, albeit slightly, chiefly due to the scaling down of financial support. European countries were forced to impose lockdowns again as the number of infections surged, and economic activity declined. While the U.S. and European economies were stagnant, the Chinese economy remained firm. Domestic demand continued to increase, backed by government policy support. Exports of electronics that support remote work, which is expanding worldwide, increased significantly.

The Japanese economy, particularly domestic demand, was sluggish due to the accelerated spread of the COVID-19 pandemic. Downward pressure was put on consumption by voluntary restraint and the discontinuation of measures to boost consumption due to the resurgence of COVID-19 infections as well as the worsening of the job market and income prospects. Capital spending appears to have been propped up by investment in response to the COVID-19 pandemic, including the move to online and contactless meetings, but investors remained cautious about investing due to strong uncertainty about the future, a heightened sense of overcapacity, and strong cashflow concerns. Exports to Europe and the United States slowed, but exports to China and other countries in Asia were firm.

In this social situation and business environment, Mitsubishi Research Institute, Inc. and its consolidated subsidiaries (the "MRI Group"), which celebrated Mitsubishi Research Institute's 50th anniversary, have adopted a new management philosophy: "We will continually envision a desirable future, resolve societal issues, and lead change in society to co-create a sustainable and abundant future." Under this philosophy, the Group, as a corporate group that provides solutions to social issues, leverages its knowledge of scientific methods, advanced scientific technologies, policies and systems that it has developed as a comprehensive think tank as well as its ability to provide comprehensive solutions to expand business while prioritizing quality and customer satisfaction.

The fiscal year under review is the first year of the Medium-Term Management Plan 2023 ("MP2023"). In MP2023, the research and consulting business and the financial solutions business are positioned as core businesses, and the digital transformation (DX) business, the stock-type business (provision of general services using intellectual assets), and the international business are positioned as growth businesses. The Group is taking steps to achieve steady growth in the period of MP2023. There are signs of investment expenditure control in industries and companies whose business and performance were significantly affected by the spread of COVID-19, but they did not have any significant impact on the Group's results in the first three months of the fiscal year under review. The trend toward the post-coronavirus era provides business opportunities for the Group. The Group actively takes steps for management in the new normal, positioning it as a basic policy.

In the DX business, which is positioned as a driving force for the growth businesses, the Group has set three priority themes: private sector, public sector, and financial industry. The Group is promoting support that combines DX consulting and the cloud and digital marketing that uses the analysis of big data for the private sector, digital transformation in government for the public sector, and the expansion of the business domain and the customer base.

These factors resulted in net sales of 15,929 million yen (up 7.2% year on year) and an operating loss of 639 million yen (an operating loss of 492 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. Due to the absence of temporary profits (a share of profit of entities accounted for using equity method and a gain on sales of investment securities) posted in the previous fiscal year, operating profit/loss and profit/loss attributable to owners of parent declined from the year-ago level. The operating loss stood at 394 million yen (an operating profit of 1,106 million yen in the same period of the previous fiscal year), and the loss attributable to owners of parent was 722 million yen (a profit of 2,319 million yen).

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 2,378 million yen (up 13.4% year on year), reflecting strong orders from public offices in the previous fiscal year. The ordinary loss came to 829 million yen (ordinary profit of 493 million yen in the same period of the previous fiscal year) due to the absence of an amount equivalent to negative goodwill in relation to INES Corporation becoming an equity method affiliate posted in the first three months of the previous fiscal year.

<IT services>

In the first three months under review, net sales (sales to outside clients) rose to 13,550 million yen (up 6.2% year on year) chiefly due to the expansion of the finance/credit cards business. Ordinary profit, however, fell to 438 million yen (down 29.6% year on year), reflecting an increase in expenses.

(2) Explanation regarding financial position

Total assets at the end of the first three months under review decreased 7,260 million yen (down 7.5%) from the end of the previous fiscal year, to 88,993 million yen. Of which, current assets stood at 48,727 million yen (down 13.0%) and non-current assets were 40,266 million yen (up 0.1%). The main factors for the decrease in current assets were a decrease of 4,654 million yen in notes and accounts receivable - trade and a fall of 7,937 million yen in cash and deposits, which were partially offset by a seasonable increase of 4,978 million yen in inventories. Liabilities declined 4,945 million yen (down 14.2%) from the end of the previous fiscal year, to 29,766 million yen. This decrease chiefly reflected decreases in income taxes payable and provision for bonuses.

Net assets fell 2,314 million yen (down 3.8%) from the end of the previous fiscal year, to 59,227 million yen mainly due to a decrease in retained earnings.

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

The consolidated earnings forecasts published on November 4, 2020 remain unchanged.

2. Consolidated financial statements and significant notes thereto

(1) Consolidated quarterly balance sheets

(Million yen)

	As of September 30, 2020	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	32,738	24,800
Notes and accounts receivable - trade	13,596	8,941
Inventories	7,620	12,599
Other	2,074	2,386
Allowance for doubtful accounts	(0)	(0)
Total current assets	56,028	48,727
Non-current assets		
Property and equipment		
Buildings and structures, net	7,461	7,376
Machinery, equipment and vehicles, net	7	7
Tools, furniture and fixtures, net	1,539	1,451
Land	720	720
Leased assets, net	843	777
Construction in progress	52	70
Total property and equipment	10,625	10,403
Intangible assets		
Software	2,983	2,822
Leased assets	2,066	1,899
Other	960	1,215
Total intangible assets	6,010	5,937
Investments and other assets		
Investment securities	15,880	16,240
Deferred tax assets	4,156	4,130
Other	3,556	3,558
Allowance for doubtful accounts	(4)	(4)
Total investments and other assets	23,589	23,924
Total non-current assets	40,224	40,266
Total assets	96,253	88,993

(Million yen)

	As of September 30, 2020	As of December 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	3,934	4,009
Current portion of long-term borrowings	400	400
Accounts payable - other	1,765	1,600
Accrued expenses	1,411	1,907
Income taxes payable	2,484	299
Provision for bonuses	4,556	1,201
Provision for loss on order received	124	90
Other	4,551	5,105
Total current liabilities	19,228	14,615
Non-current liabilities		
Long-term borrowings	1,300	1,200
Lease obligations	2,202	1,973
Provision for share-based compensation	435	461
Net defined benefit liability	10,019	9,990
Asset retirement obligations	1,516	1,517
Other	9	8
Total non-current liabilities	15,483	15,151
Total liabilities	34,712	29,766
Net assets		
Shareholders' equity		
Capital stock	6,336	6,336
Capital surplus	4,765	4,765
Retained earnings	41,039	38,920
Treasury shares	(550)	(513)
Total shareholders' equity	51,589	49,508
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,239	2,325
Deferred gains or losses on hedges	(74)	(82)
Foreign currency translation adjustment	1	1
Remeasurements of defined benefit plans	100	112
Total accumulated other comprehensive income	2,267	2,355
Non-controlling interests	7,683	7,362
Total net assets	61,541	59,227
Total liabilities and net assets	96,253	88,993

(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, 2019	Three months ended December 31, 2020
Net sales	14,862	15,929
Cost of sales	11,808	12,658
Gross profit	3,054	3,271
Selling, general and administrative expenses	3,546	3,910
Operating loss	(492)	(639)
Non-operating income		
Interest income	0	0
Dividend income	66	36
Share of profit of entities accounted for using equity method	1,542	224
Other	27	7
Total non-operating income	1,637	268
Non-operating expenses		
Interest expenses	10	9
Loss on investments in silent partnership	20	10
Overseas withholding taxes	7	3
Other	0	0
Total non-operating expenses	38	23
Ordinary profit (loss)	1,106	(394)
Extraordinary income		
Gain on sales of investment securities	2,731	0
Total extraordinary income	2,731	0
Extraordinary losses		
Loss on retirement of non-current assets	17	0
Loss on revaluation of investment securities	-	18
Loss on cancellation of leases	0	0
Total extraordinary losses	18	19
Profit (loss) before income taxes	3,820	(412)
Income taxes	950	254
Profit (loss)	2,870	(666)
Profit attributable to non-controlling interests	550	56
Profit (loss) attributable to owners of parent	2,319	(722)

Consolidated quarterly statements of comprehensive income

(Million yen)

	Three months ended December 31, 2019	Three months ended December 31, 2020
Profit (loss)	2,870	(666)
Other comprehensive income		
Valuation difference on available-for-sale securities	422	85
Deferred gains or losses on hedges	(19)	(8)
Foreign currency translation adjustment	(1)	(0)
Remeasurements of defined benefit plans	5	4
Share of other comprehensive income of entities accounted for using equity method	(15)	6
Total other comprehensive income	391	86
Comprehensive income	3,261	(579)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,633	(634)
Comprehensive income attributable to non- controlling interests	627	54

(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 549 million yen and 168,000, respectively, in the previous fiscal year and 512 million yen and 157,000, respectively in the first three months under review.

(Accounting estimates related to the impact of COVID-19)

There are no significant changes in the note (additional information) (accounting estimate of the impact of the spread of the COVID-19 pandemic) of 5. Status of Accounting in the annual security report for the previous fiscal year.

The impact of the COVID-19 pandemic, however, is highly unpredictable and may affect the financial position and operating results of the MRI Group depending on future developments.

(Segment information, etc.)

[Segment information]

I. 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 to segment profit all represents the elimination of inter-segment transactions.

2. Segment profit is adjusted in accordance with ordinary profit 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.

II. Three months ended December 31, 2020

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	2,378	13,550	15,929	–	15,929
Inter-segment sales and transfers	3	216	220	(220)	–
Total	2,382	13,767	16,149	(220)	15,929
Segment profit (loss)	(829)	438	(390)	(3)	(394)

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

2. Segment profit (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.

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, 2020			
	Orders received	Year-on-year change (%)	Order backlog	Year-on-year change (%)
Think tank and consulting services	5,747	13.9	34,463	17.8
IT services	15,591	10.2	44,477	6.5
System development	9,874	14.7	24,119	10.9
Outsourcing services	5,717	3.2	20,358	1.8
Total	21,339	11.2	78,941	11.2

- 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, 2020	Year-on-year change (%)
Think tank and consulting services	2,378	13.4
IT services	13,550	6.2
System development	7,535	6.4
Outsourcing services	6,015	5.8
Total	15,929	7.2

- Notes: 1. Inter-segment transactions are offset against each other.
 2. In the MRI Group, particularly in the think tank and consulting services, a small number of projects are completed in the first three months due to the fiscal year-end of 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.