

Mitsubishi Research Institute, Inc.

FY2020/9 1H Financial Results

May 11, 2020

Presentation

Morisaki, President and Representative Director:

First, I would like to extend my condolences to those who have died of the disease caused by the novel coronavirus, as well as those affected, their families, and related persons. I would also like to express my deepest respect and appreciation to healthcare professionals involved in medical treatment on the front lines and to those who are responsible for maintaining the functions of the social infrastructure.

Now, I'd like to walk you through our consolidated results of the second quarter and full year forecast for the fiscal year ending September 2020.



Summary

- Both sales and profit rose thanks to strategies and reforms in line with the Medium-term Management Plan 2020 (MP2020).
- Profit was a record high, including the share of profit of entities accounted for using the equity method (INES) and extraordinary income (Minori).
- The future challenge will be addressing the impact of the COVID-19 coronavirus.

Net sales: 48,200 mil. Yen

YoY change +2,340 mil. yen (+5.1%)

- Sales in think tank and consulting services (TTC) rose, reflecting strategic orders.
- Sales in IT services (ITS) increased significantly due to growth in finance and credit card services (up 2,100 mil. yen).

Ordinary profit: 7,230 mil. Yen

YoY change +3,230 mil. yen (+81.1%)

- Ordinary profit climbed due to a rise in sales and profit margin both in TTC and ITS.
- A share of profit of entities accounted for using the equity method in TTC (1,500 mil. yen) and the elimination of the impact by the project with quality issues in ITS (700 mil. yen) contributed.

Profit: 6,460 mil. yen YoY change +3,640 mil. yen (+129.0%)

- Extraordinary income of 2,700 mil. yen was posted.

First is the overview of consolidated results for the second quarter of the fiscal year ending September 2020. In the first half of the fiscal year, as a result of strategies and reforms implemented in line with our Medium-Term Management Plan 2020 (MP2020) over the last two and a half years, both sales and profits increased. In addition, we posted non-operating income from making INES Corporation an equity-method affiliate and extraordinary profit from the sale of shares in Minori Solutions Co., Ltd. As a result, half-yearly earnings reached a record high.

Meanwhile, the impact of the novel coronavirus has spread throughout society, and the outlook is becoming increasingly uncertain. As a result, responding to the coronavirus has become the most important management issue.

I will now explain the specifics of the consolidated results.

Consolidated net sales increased by JPY2.34 billion YoY to JPY48.2 billion. The think tank and consulting services, which we call TTC, increased net sales through robust performance for both the public and private sectors. Net sales from IT services, or ITS, increased significantly by JPY2.14 billion due to strong growth in the finance and credit card services.

Ordinary profit increased JPY3.23 billion YoY to JPY7.23 billion. Both the TTC and ITS segments saw higher sales and improved profit margins. In addition, profit increased by JPY1.5 billion at TTC due to equity in earnings of affiliates, and by JPY700 million at ITS in reaction to the elimination of the impact of the project with quality issues.

Profit attributable to owners of parent increased JPY3.64 billion YoY to JPY6.46 billion, mainly due to the recording of JPY2.7 billion in extraordinary income associated with the sale of shares in Minori Solutions.

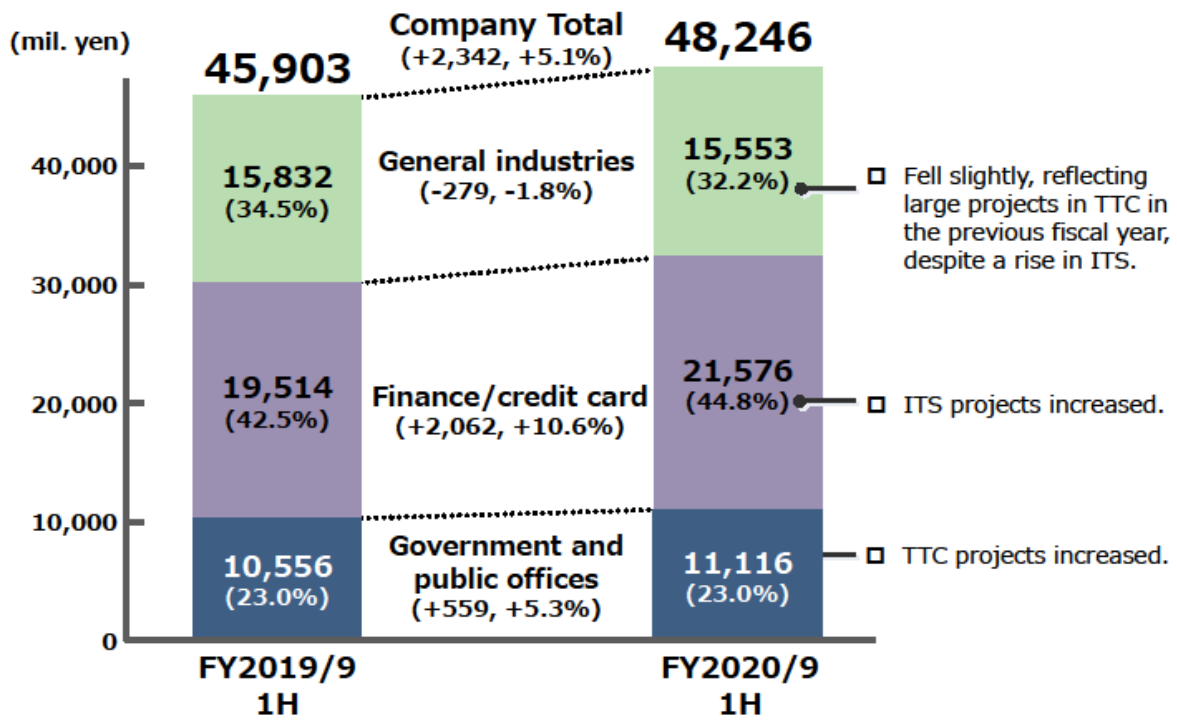


1H Consolidated results <YoY>

(mil. yen)

	FY2019/9 1H (Oct.-Mar.)	FY2020/9 1H (Oct.-Mar.)	Year-on-year	
			Amount	Rate
Net sales	45,903	48,246	+2,342	+5.1%
Gross profit	10,778	12,647	+1,868	+17.3%
Gross profit margin	23.5%	26.2%	+2.7 P	
SG&A expenses	7,045	7,145	+99	+1.4%
Operating profit	3,733	5,502	+1,769	+47.4%
Operating profit margin	8.1%	11.4%	+3.3 P	
Ordinary profit	3,993	7,232	+3,238	+81.1%
Profit attributable to owners of parent	2,823	6,466	+3,643	+129.0%
Basic earnings per share (yen)	173.79	397.97	+224.18	

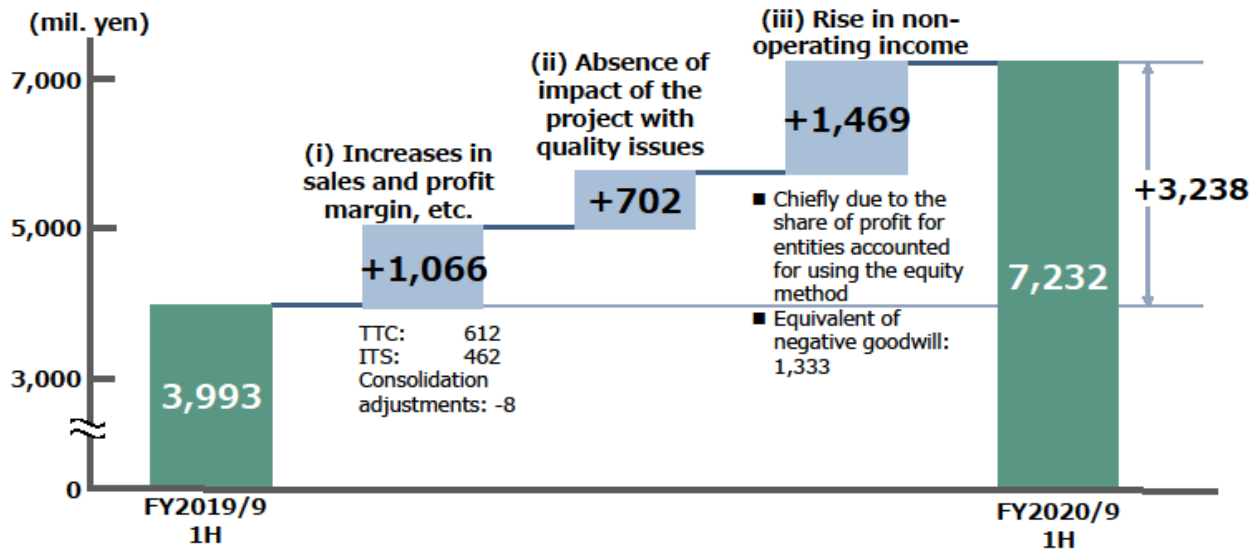
Net sales by industry of customer <YoY>



Page 4 shows the breakdown of sales by customer and industry. In the Finance and Credit Card field, sales increased by JPY2.06 billion YoY, which is the driving force behind overall growth.

Factors behind fluctuation of ordinary profit /loss <YoY>

- Implemented strategies and reforms in line with MP2020 (strategic orders, larger projects, and new business).
- Profit rose due to;
 - (i) increases in sales and profit margin, (ii) the absence of impact from the project with quality issues and (iii) INES becoming an equity method affiliate.



See page 5. The factors causing changes in ordinary profit are shown on a YoY basis.

Ordinary profit increased sharply by JPY3.23 billion to JPY7.23 billion in the first half of the fiscal year, compared with JPY3.99 billion in the first half of the previous fiscal year. This was attributable to strategically expanding the scale of orders and projects based on MP2020, sales growth driven by subscription-based new businesses, an improvement in the profit margin contributing JPY1.06 billion, a rebound of JPY700 million due to the elimination of the impact of the project with quality issues, and an increase of JPY1.46 billion in non-operating income, including equity in earnings of affiliates.

Think Tank and Consulting Services (TTC)

(mil. yen)

	FY2019/9 1H (Oct.-Mar.)	FY2020/9 1H (Oct.-Mar.)	Year-on-year	
			Amount	Rate
Net sales	17,768	17,963	+195	+1.1%
Operating profit	2,849	3,462	+612	+21.5%
Operating profit margin	16.0%	19.3%	+3.3P	
Ordinary profit	2,969	5,058	+2,088	+70.3%
Orders received	16,258	20,256	+3,998	+24.6%
Order backlog	23,490	28,600	+5,109	+21.8%

Key points

- Sales rose in consultation for government and public offices and financial institutions thanks to strategic orders.
- Profit increased significantly due to rises in profit margin and sales as well as a share of profit for entities accounted for using the equity method (INES).
- Orders received and order backlog rose as a result of strong orders for projects for the government and public offices.

Next, I will explain the results by segment.

First is the think tank and consulting service, TTC. This is largely equivalent to the stand-alone performance of Mitsubishi Research Institute, Inc.

Net sales increased by JPY190 million YoY to JPY17.96 billion, and ordinary profit increased by JPY2.08 billion YoY to JPY5.05 billion. Strategic orders resulted in higher revenues from consulting projects for government agencies and financial institutions. In addition to improved profit margins and higher revenues, a share of profit for entities accounted for using the equity method (INES) also contributed to a significant increase in profit.

On the other hand, current orders received are up 24.6% YoY, and the order backlog is up 21.8% YoY, marking a robust performance. This was mainly due to steady orders from government entities.

IT Services (ITS)

(mil. yen)

	FY2019/9 1H (Oct.-Mar.)	FY2020/9 1H (Oct.-Mar.)	Year-on-year	
			Amount	Rate
Net sales	28,135	30,282	+2,146	+7.6%
Operating profit	871	2,036	+1,165	+133.7%
Operating profit margin	3.1%	6.7%	+3.6P	
Ordinary profit	1,013	2,171	+1,158	+114.3%
Orders received	28,332	31,205	+2,873	+10.1%
Order backlog	36,674	41,296	+4,622	+12.6%

Key points

- Resolved quality issues in the project. Both sales and profit rose primarily in the finance and credit card business.
- Profit increased due to the absence of the impact of losses from the project with quality issues in the previous fiscal year (up 700 mil. yen).
- Orders received and order backlog climbed due to strong orders in the finance and credit card business.

Next is the IT service. This is mostly the results of the Mitsubishi Research Institute DCS Group.

Net sales increased by JPY2.14 billion YoY to JPY30.28 billion, and ordinary profit increased by JPY1.15 billion YoY to JPY2.17 billion. Both sales and profits increased, reflecting significant growth in the finance and credit card fields, while addressing the project with quality issues. In addition, the elimination of the need for additional reserves for the project contributed JPY700 million to profit as a reaction to the impact of the previous fiscal year.

On the order front, the finance and credit cards business is performing well. Orders received increased 10.1% YoY and the order backlog rose 12.6%.

The full-year forecasts remain unchanged.

- Both net sales and profit exceeded the plan in the first half.
- Effects from the spread of the coronavirus are unavoidable. It is difficult to visualize the entire picture at present.
- It is uncertain when economic activity will resume. Adjustment with each client is necessary.

Effects of coronavirus on results (risk)

- Falls in sales and profit due to the suspension of ongoing operations or changes in specifications
- Declines in sales and profit due to cancellations, changes and postponements of new projects or projects in progress

Examine the effects and disclose changes promptly if they are required.

Next is our earnings forecast for the fiscal year ending September 2020.

As I have explained, although sales and profits increased significantly in the first half of the fiscal year, it is difficult to fully grasp the impact of the new coronavirus. Therefore, the full-year forecast remains unchanged.

There are two main risks that may affect our business performance.

First, there is a risk that sales and profits will decrease due to ongoing business operations being suspended or specifications being changed as a result of the emergency declaration or other events. Second, there is a risk that sales and profits will decline due to the cancellation, change, or postponement of new projects and work in process.

We will closely examine these effects and promptly disclose changes if they are required.

FY2020 Full Year Forecasts

No change from previous forecast (02/05/2020)
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(mil. yen)

	FY2019/9 (Results)	FY2020/9 Forecasts	Year-on-year	
			Amount	Rate
Net sales	90,029	94,000	+3,970	+4.4%
TTC	34,099	36,000	+1,900	+5.6%
ITS	55,930	58,000	+2,069	+3.7%
Operating profit	5,130	4,900	-230	-4.5%
Operating profit margin	5.7%	5.2%	-0.5P	
Ordinary profit	5,718	7,000	+1,281	+22.4%
TTC	3,351	4,600	+1,248	+37.2%
ITS	2,325	2,400	+74	+3.2%
Profit attributable to owners of parent	3,599	6,300	+2,700	+75.0%
Basic earnings per share (yen)	221.58	387.65		

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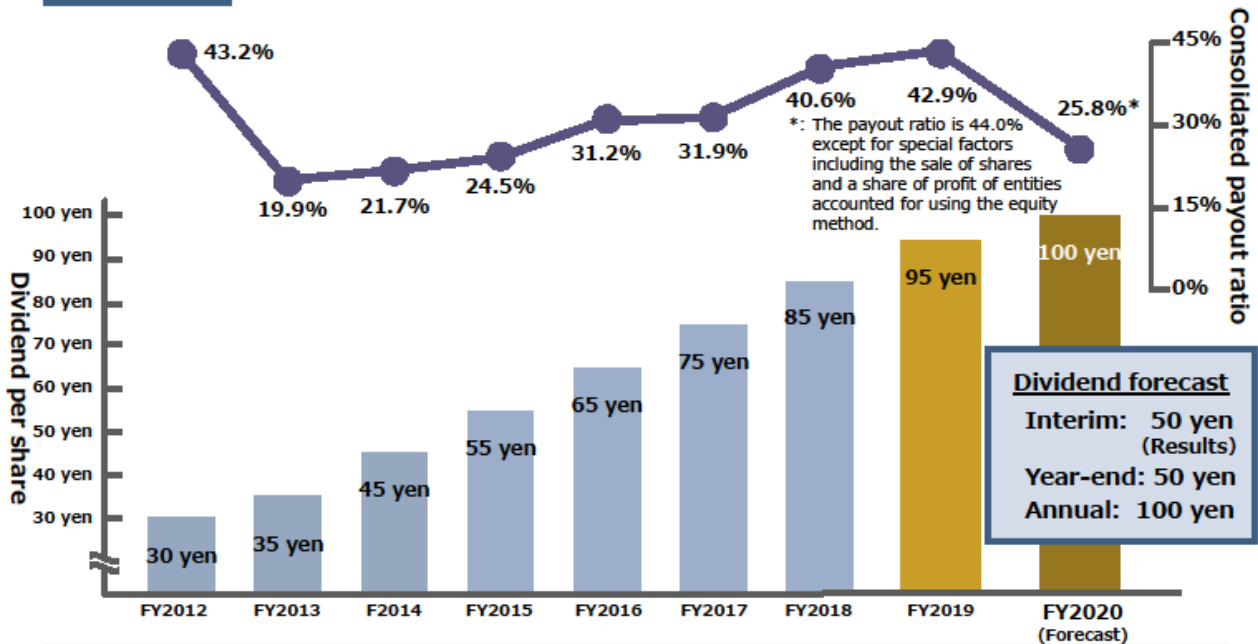
These materials are prepared for the purpose of providing reference information for making investment decisions and not for the purpose of soliciting investment.

I will skip the explanation for page 10.

Dividends

Dividend Policy

The basic policy is to continue to pay stable dividends. We will strive to raise the dividend level, taking into comprehensive consideration results and financial soundness.



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This is the dividend forecast. Our basic policy is to pay stable dividends, and we will strive to raise the dividend level while comprehensively considering results and financial soundness.

Although the outlook is uncertain due to the impact of the coronavirus, the full year forecast remains unchanged. In accordance with the policy of maintaining stable dividends, the interim dividend will be JPY50 per share as announced.

There is no change in the forecast for the year-end dividend of JPY50 and annual dividend of JPY100. The dividend payout ratio is stated at 25.8%, but excluding such special factors as the sale of shares and a share of profit of entities accounted for using the equity method, net income per share is JPY227.9 for a payout ratio of 44%.

Initiatives Related to Coronavirus

The Group's response

- ❑ In February, a crisis task force was established to prioritize the safety of clients, employees and their families.
- ❑ In principle, employees have worked from home since March: 95% working from home at MRI, 60% at DCS.
- ❑ Pay work-from-home allowances and work-at-the-office allowances; donated face masks to medical institutions.

Research and recommendations

- ❑ Established a special page ([coronavirus crisis response: analysis and recommendations](#)).
- ❑ Published "Outlook for the Japanese economy following the declaration of emergency and emergency economic measures."
- ❑ Started research on "Infection status analysis and recommendations on a process for returning to normal" and "Post-coronavirus society, industry, work practices, and regional planning" to be posted on the special page.

Lastly, I would like to explain some recent topics for our group.

I'll start from our initiatives in response to the novel coronavirus.

The first is our group's response. We launched our Crisis Task Force in February and decided our policy to give top priority to the safety of our clients, employees, and their families. As early as March, we basically shifted to work-from-home ahead of the general trend. At present, 95% of Mitsubishi Research Institute, Inc. employees and 60% of Mitsubishi Research Institute DCS employees are working from home.

In addition to providing employees with work-from-home allowances and work-at-office allowances for employees who must commute, an online medical room has been established. We also donated face masks to medical institutions through the Keidanren.

The second topic is the research and advocacy activities related to the novel coronavirus that we conduct as a comprehensive think tank group. On April 16, we established a special page on our official website, called the Coronavirus Crisis Response: Analysis and Recommendations, and began disseminating information. The special section also contains the report "Outlook for the Japanese Economy Following the Declaration of Emergency and Emergency Economic Measures," which we issued on April 13.

In addition, we plan to launch Companywide study on "Infection status analysis and recommendations on a process for returning to normal" and "Post-corona society, industry, work practices, and regional planning", which will lead to future recommendations. The contents of these studies are published on the special page.

Topics

MRI started an experiment to demonstrate digital tickets using blockchain technology (announced on January 29).

- ❑ Issued digital tickets at Kintetsu Nihonbashi Station and Kintetsu Yao Station in cooperation with Kintetsu Group Holdings, Kintetsu Railway, Omron Social Solutions, and Chaintope.

www.mri.co.jp/news/press/20200129.html

MRI started to provide HACCP Navigation (announced on January 28).

- ❑ Started a service to help food businesses respond to the institutionalization of the HACCP*; a food hygiene control system.

*Hazard Analysis and Critical Control Point

www.mri.co.jp/news/press/20200128.html

DCS launched “Dibertas”, a pay-per-use multiple cloud storage service (announced on February 12).

- ❑ Data are available through multiple cloud services and from on-premise environments.
- ❑ Adequate performance and reliability and low cost

www.dcs.co.jp/history/news/2020/200212.html

Finally, I would like to introduce recent developments in our Group.

Our Group is actively developing services utilizing blockchain technology and other new technologies in cooperation with external partners.

Page 14 shows some cases released earlier this year. I would appreciate it if you could look at it later.

I'd like to conclude my presentation. Thank you for your attention.

Question & Answer

A: For the DCS reform, the plan included upfront investment, including an investment of JPY500 million, while the full-year plan was restrained. What is the current progress in executing these upfront investments?

Answer: At the beginning of the fiscal year, we set a structural reform budget of JPY1 billion and we are currently implementing the initiatives, such as improving governance regarding the project with quality issues and strengthening business strategies.

At present, it is quite difficult to determine exactly which parts of the amount have been consumed, but around 20 to 30% of it has already been consumed in the first half. Despite the impact of the coronavirus, the structural reform is steadily developing into actual measures. We have been restructuring some organizations and strengthening some previously weak points, such as security aspects and risk management.

We will summarize the results for the year at the end of September.

A: Operating profit exceeded the full year target in the first half of the fiscal year, but I would like to see a breakdown of the factors behind the decline in profits in the second half, such as upfront investment and the impact of COVID-19.

Answer: Looking at the two past fiscal years, we tend to generate the majority of sales in the first half of our fiscal year. Last year, ordinary profit was roughly 1.5 billion in the second half of the year. Two years ago, we generated around 500 million in ordinary profit. Therefore, the basic approach would be to add on a little to this, if there wasn't the issue of the coronavirus.

However, regarding the coronavirus, which I mentioned earlier as downside risk, we are currently examining the impact on existing and future transactions.

For example, one major example is the onsite business, which is common for SI business, where engineers are stationed at the customer's premises to complete the system. Approximately 1,000 of our employees including business partners are engaged in such projects, but in April these operations completely stopped in response to the declaration of emergency.

Naturally, this impact is enormous, and the costs associated with this will be significant. In addition, we will face major challenges in terms of the progress of projects, as well as how to share the impact with our customers and business partners going forward. We need to coordinate these issues with various customers as we watch the impact.

A: For onsite services, it seems that some SI companies have payments during the contract period, but will your Company have an impact in the short term?

Answer: Regarding the onsite services we deliver at the customer's premises, one major point is how long this situation will continue. I think the second point is how to allocate the costs and other factors incurred in the meantime.

Therefore, I assume that we will share these costs with our customers and various business partners that we outsource work to.

Naturally, we have a long-standing relationship with these customers and business partners, and as such, we will be negotiating with them from a long-term perspective about the current costs or the changes to plans, and ultimately seek the way of settling them.

B: It seems that the consulting services are showing robust performance, but is this related to the coronavirus?

Answer: There are really a lot of people who are facing trouble with the coronavirus as a major social issue. We are looking to provide advice on this issue in various ways.

We have received various inquiries about coronavirus-related issues, especially since last month or the month before, both from the government and private-sector customers. However, few coronavirus-related items are included in the consolidated results up to March.

We are currently disseminating various information, and we are expecting to receive inquiries from customers regarding these matters.

[END]