Mitsubishi Research Institute, Inc.

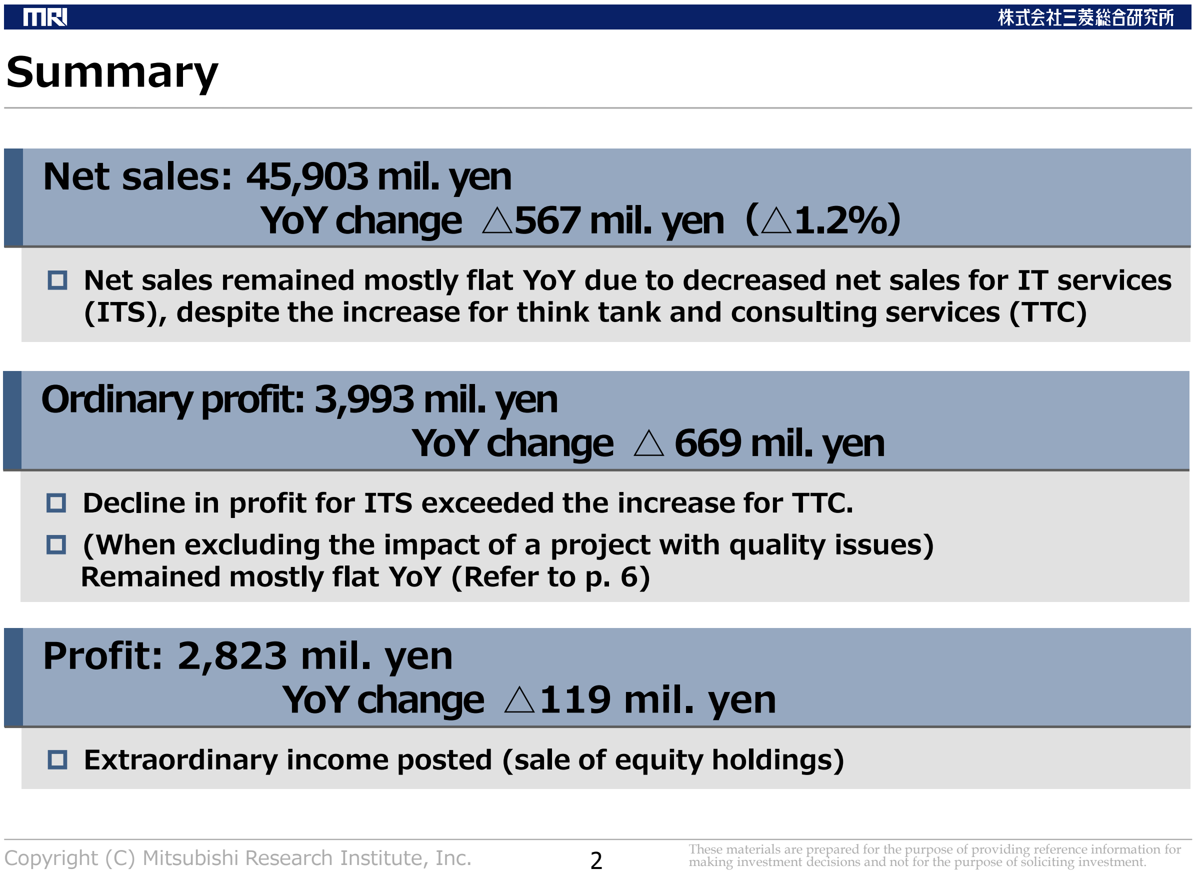
FY2019/9 1H Financial Results

May 8, 2019

Presentation

Morisaki, President and Representative Director:

I would like to explain the financial results for the first half of the fiscal year ending September 30, 2019; the financial results forecast for the fiscal year ending September 30, 2019; and the progress of the Mid-Term Management Plan.



First, I will provide an overview of the financial results for the first half of the fiscal year ending September 30, 2019. Consolidated net sales declined by 560 million yen year-on-year to 45.9 billion yen. Sales remained mostly flat from the same period of the previous fiscal year, due to decreased net sales for IT Services segment (ITS), despite the increase for Think Tank and Consulting Services segment (TTC).

Ordinary profit decreased by 669 million yen to 3.99 billion yen. Despite growth in TTC and improved margins, operating income declined 14.4% due to the impact of the project with quality issues recorded by ITS in the first quarter. Profit decreased by 119 million yen to 2.82 billion yen, mainly due to the recording of extraordinary income from the sale of equity holdings.

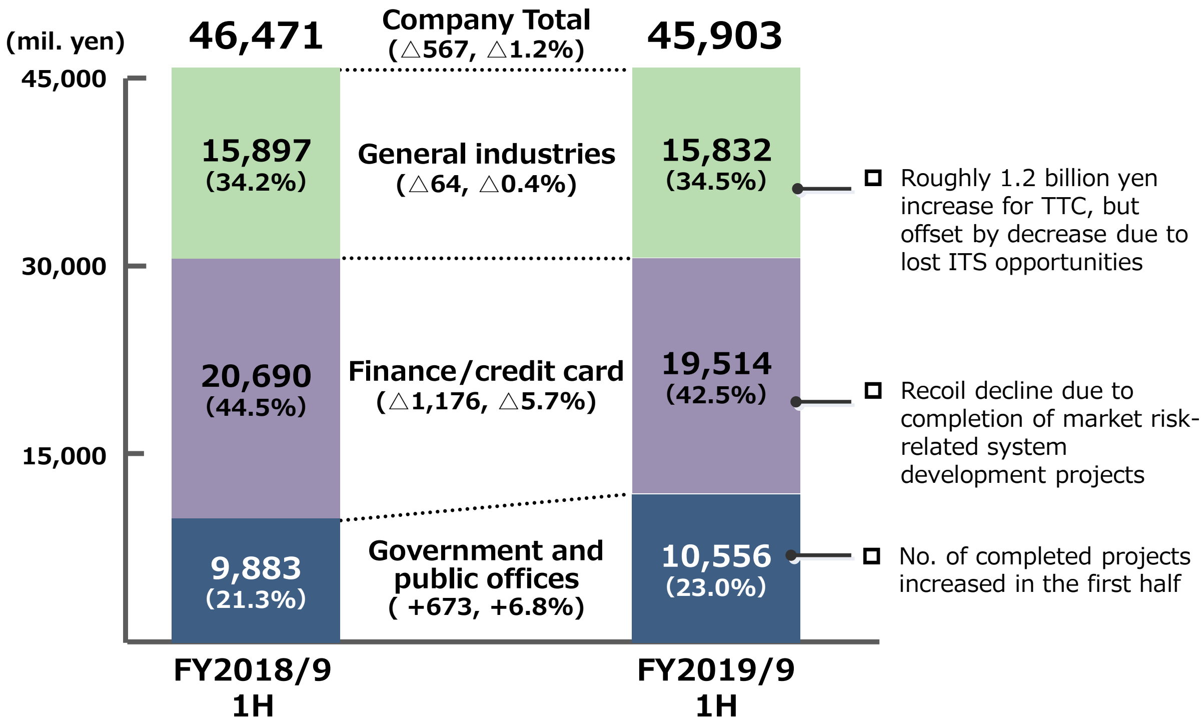
1H Consolidated results <YoY>

(mil. yen)

	FY 2018/9 1H	FY 2019/9 1H	Year-on-year	
			Amount	Rate
Net sales	46,471	45,903	△567	△1.2%
Gross profit	11,687	10,778	△908	△7.8%
Gross profit margin	25.1%	23.5%	△1.6P	
Selling, general and administrative expenses	7,107	7,045	△61	△0.9%
Operating profit	4,580	3,733	△847	△18.5%
Operating profit margin	9.9%	8.1%	△1.8P	
Ordinary profit	4,663	3,993	△669	△14.4%
Profit attributable to owners of parent	2,942	2,823	△119	△4.0%
Basic earnings per share(yen)	181.12	173.79	△7.33	

Page 3 shows current results in consolidated statements of income.

Net sales by industry of customer <YoY>



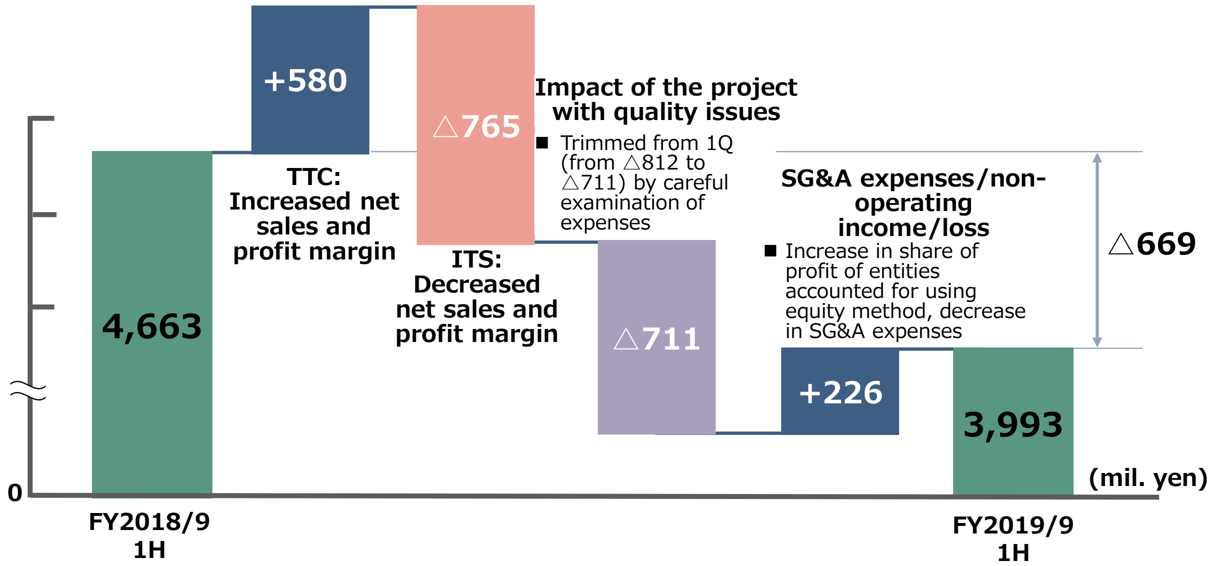
Next, let's jump to page 5. Page 5 shows the breakdown of sales by industry of customer. Overall, sales were roughly on par with the previous fiscal year. Looking at the chart from the bottom up, for Government and public offices, there was an increase of approximately 670 million yen, or 6.8%, from the previous year. This was mainly due to an increase in completed projects in the first half of the fiscal year.

For the Finance and credit card portion, which has the largest volume, sales declined 5.7% year-on-year due to the completion of large-scale development projects, such as market risk-related systems.

On the other hand, sales in the General industries (private sector) remained almost unchanged from the previous fiscal year. For TTC, sales increased by 1.2 billion yen year-on-year, due to the expansion of consulting services, such as new business development, and contributions by new businesses. However, that was offset out because ITS continued to respond to the project with quality issues in the previous fiscal year, resulting in a loss of opportunities and other negative developments.

Factors behind fluctuation of ordinary profit /loss

■ YoY decrease (△699) attributed mostly to the project with quality issues (△711: trimmed loss of 100 million yen from 1Q)



Next, let's look at factors causing year-on-year changes in ordinary profit, which are shown on page 6. In the first half of the fiscal year under review, ordinary profit declined 660 million yen to 3.99 billion yen from 4.66 billion yen in the first half of the previous fiscal year.

As for positive factors, there was an increase of 580 million yen due to higher revenue and improved profit margin at TTC, and there was an increase of 226 million yen due to an increase in return of investment through the equity method and lower SG & A expenses. On the other hand, negative factors included a decrease of 765 million yen due to a decrease in ITS revenues and lower profit margins, and a decrease of 711 million yen due to the recording of allowances for the project with quality issues. The extent of the decline in profits is roughly commensurate with the amount of the impact of the project. Therefore, I believe that ordinary profit for the current fiscal year, excluding the project , is at around the same level as in the previous fiscal year.

Think Tank and Consulting Services (TTC)

(mil. yen)

	FY 2018/9 1H	FY 2019/9 1H	Year-on-year	
			Amount	Rate
Net sales	16,400	17,768	+1,367	+8.3%
Operating profit	2,353	2,849	+496	+21.1%
Operating profit margin	14.3%	16.0%	+1.7P	
Ordinary profit	2,328	2,969	+641	+27.5%
Orders received (2Q)	18,049	16,258	△1,790	△9.9%
Order Backlog*	24,682	23,490	△1,191	△4.8%

Key points

- **Increases in private-sector projects and new business (subscription-based model) projects; increase in net sales owing to rise in public-sector projects that completed in the first half**
- **Increase in profit for public and private sectors**
- **Increase in completed projects in the first half brought Order Backlog down, but selective order receipt bearing fruit (improved profit margin)**

* "**Order Backlog**" refers to the figure obtained by subtracting 2Q net sales from cumulative orders received (orders carried forward from the previous period + 2Q orders received) and includes "expected sales during the period" and "expected sales for the next period and thereafter"

I will now provide an explanation of results for each segment. First, let's look at Think Tank Consulting Service, TTC. This generally corresponds with Mitsubishi Research Institute, Inc. itself. Net sales rose 1.36 billion yen to 17.76 billion yen, and ordinary profit rose 641 million yen to 2.96 billion yen.

In addition to an increase in projects completed in the first half of the fiscal year, revenues increased due to the success of new businesses, such as private-sector projects and subscription-based projects, and profit margins improved for both government and private-sector projects.

Orders received were down 9.9%, and the order backlog was down 4.8% year-on-year. As to the medium-term-management-plan's strategy and the business portfolio reform, which I will explain in a moment, in accordance with this strategy, we are currently proceeding with selective acceptance of orders, in order to increase the size of projects and improve profitability. The recent decline in the order backlog was due to a strategic selection of orders, in addition to a decline due to an increase in completed projects in the first half of the fiscal year, and there are no uncertain factors on the performance front.

IT Services (ITS)

(mil. yen)

	FY 2018/9 1H	FY 2019/9 1H	Year-on-year	
			Amount	Rate
Net sales	30,070	28,135	△1,934	△6.4%
Operating profit	2,181	871	△1,309	△60.0%
Operating profit margin	7.3%	3.1%	△4.2P	
Ordinary profit	2,289	1,013	△1,276	△55.8%
Orders received (2Q)	28,120	28,332	+211	+0.8%
Order Backlog	34,316	36,674	+2,357	+6.9%

Key points

- **Lost opportunities on the project with quality issues (large system development) in the previous fiscal year brought net sales down**
- **Profit decreased due to impact of the project with quality issues (provision in 1Q*) and decreased sales**
- **Order Backlog is steady mainly for new services/sectors and outsourcing (1.5 billion yen out of YoY increase of 2.3 billion yen account for sales for next fiscal year)**

* Balance of provision for the project with quality issues is 1,164 million yen

Next, let's look at IT Services, ITS. This is a general summary of the Mitsubishi Research Institute DCS Group. Net sales decreased by 1.93 billion yen to 28.13 billion yen, and ordinary profit decreased by 1.27 billion yen to 1.01 billion yen. We are responding to customer needs regarding the project with quality issues risen in the previous fiscal year in a careful manner. However, due to the loss of opportunities and the recording of allowances for the project, both revenues and profits declined significantly.

On the other hand, recent orders rose 0.8% year-on-year and the order backlog increased 6.9% year-on-year. Orders for new fields and services in the private sector and finance increased, and the outstanding balance of orders increased 2.35 billion yen from the previous year. Sales in the next fiscal year are expected to be 1.5 billion yen.

FY2019 Full Year Forecasts

Revised from last forecast （10/30/2018）

Downward revision of full-year earnings forecasts (Narrowed increases in net sales and profits)

Net sales : 91,000 mil. yen Change △3,000 mil. yen

- ITS △3,000 mil. yen: Decrease in sales due to current status of orders

Ordinary profit : 5,400 mil. yen Change △1,000 mil. yen

- TTC +200 mil. yen: Maintain strong performance in the first half
- ITS △1,200 mil. yen: Decrease in profit due to impact of loss resulting from the project with quality issues and declined sales

Profit attributable to owners of parent : 3,500 mil.Yen Change △ 400 mil. yen

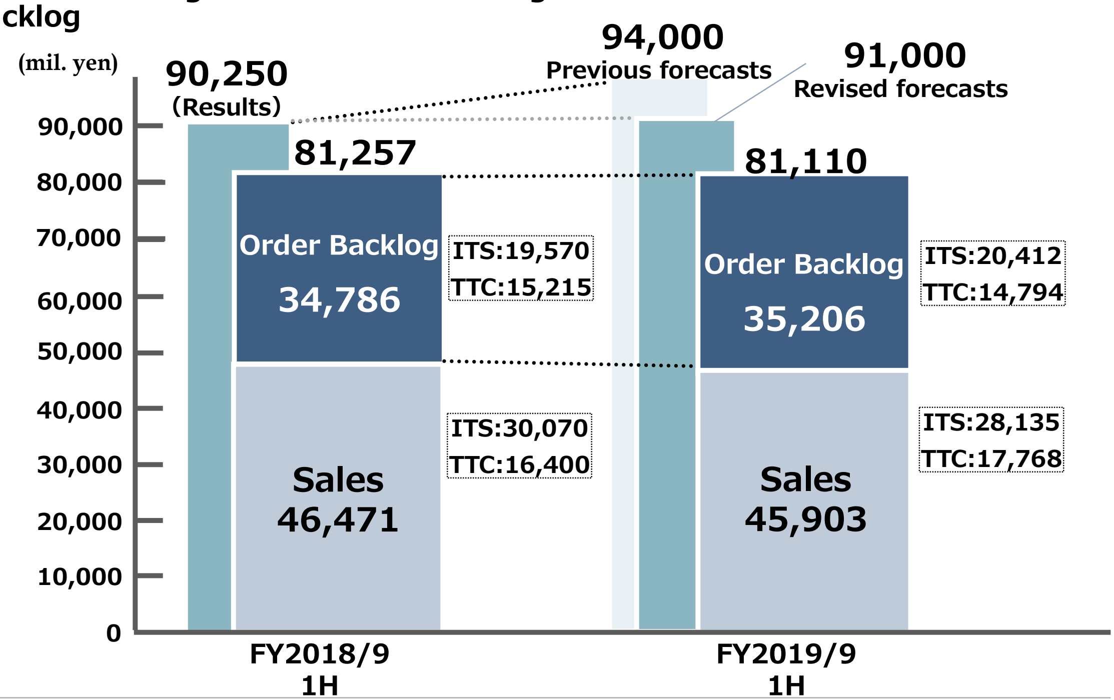
This section shows the Company's forecasts for the fiscal year ending September 30, 2019. Let's look at page 10. In light of the first-half results and the current status of orders, the forecast for the fiscal year ending September 30, 2019, has been downwardly revised from the initial forecast, as shown. The plan is to revise down consolidated net sales by 3 billion yen, ordinary profit down by 1 billion yen, and profit attributable to owners of parent down by 0.4 billion yen. However, we expect to maintain increases in both sales and profits.

I will explain the details of the revisions by segment. For TTC, sales are almost in line with the plan. Ordinary profit for the full year was expected to exceed the initial forecast, so ordinary profit was raised by 200 million yen.

On the other hand, for ITS, we decided to reduce net sales by 3 billion yen and ordinary profit by 1.2 billion yen, taking into account the significant decline in sales and profits in the first half of the fiscal year and the revision of plans for large-scale customers.

Sales + Consolidated Order Backlog

- **Revised earnings forecasts considering status of cumulative sales and Order Backlog**



Page 11 shows a review of sales forecasts for the current fiscal year, judging from cumulative sales and the current order backlog.

Forecasts for FY 2019

Revised from last forecast （10/30/2018）

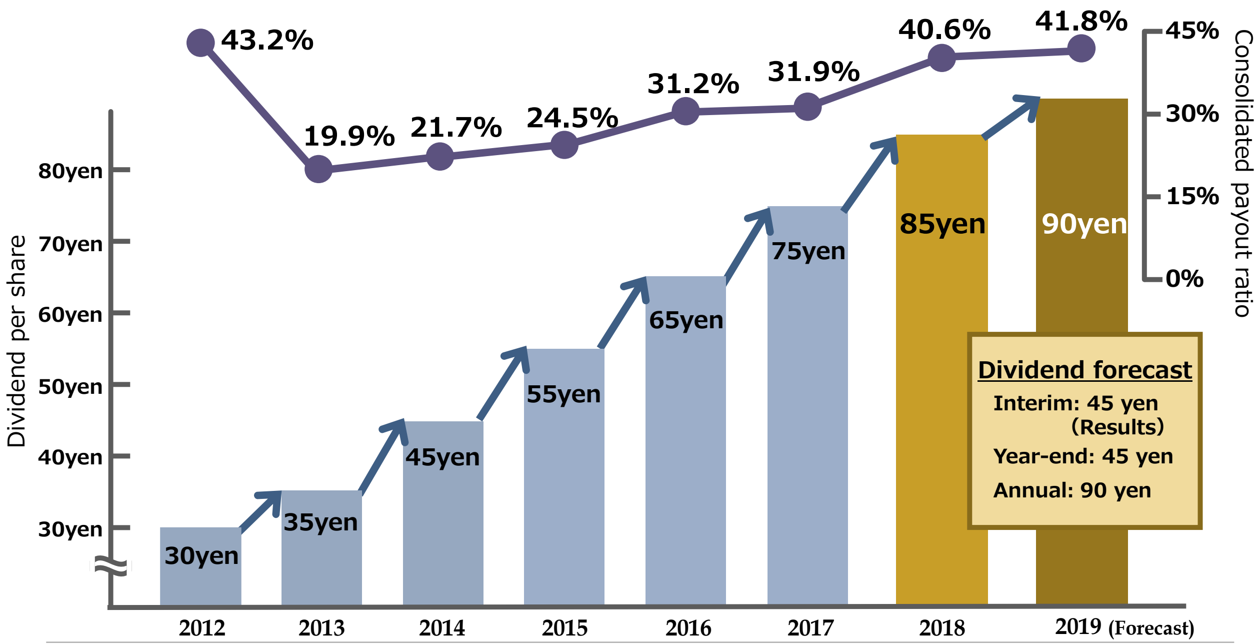
(mil. yen)

	FY2018/9 (Results)	FY 2019/9				
		Revised forecasts	Year-on-year Amount	Year-on-year Rate	Previous forecasts 10/30/2018	Change
Net sales	90,250	91,000	+749	+0.8%	94,000	△3,000
TTC	33,489	35,000	+1,510	+4.5%	35,000	–
ITS	56,760	56,000	△760	△1.3%	59,000	△3,000
Operating profit	4,963	5,000	+36	+0.7%	6,000	△1,000
Operating profit margin	5.5%	5.5%	△0.0P		6.4%	△0.9P
Ordinary profit	5,364	5,400	+35	+0.7%	6,400	△1,000
TTC	3,233	3,300	+66	+2.1%	3,100	+200
ITS	2,050	2,100	+49	+2.4%	3,300	△1,200
Profit attributable to owners of parent	3,402	3,500	+97	+2.9%	3,900	△400
Basic earnings per share (yen)	209.46	215.44	+5.98	+2.9%	240.06	△24.62

Page 12 shows results forecast revisions to the income statement. We have lowered our forecasts, but we expect increases in both revenues and profits compared with the same period of the previous fiscal year.

Dividends

Dividend Policy We aim to increase our dividend level while taking a holistic view balancing such factors as performance and fiscal soundness, while continuing to pay stable dividends



Let's look at the dividend forecast. While continuing to pay stable dividends, our policy is to raise the dividend level while taking into consideration the balance between earnings and financial soundness. As I explained earlier, except for the project with quality issues, our financial results are expected to be favorable, and our post-results-adjustment net income is expected to increase. Therefore, we will pay an interim dividend of 45 yen per share, which is 5 yen higher than the previous fiscal year's announced dividend. As announced, the year-end and annual dividends are expected to be 45 yen and 90 yen, respectively.

Progress of three major reforms

(1) Business portfolio reforms

- O TTC government-private co-creation solution business bearing fruit, progress in conducting larger-scale projects
- △ New challenge: Expand human resources in growth businesses.

(2) Business model reforms

- O Launched new businesses (subscription-based model) monetized, progress made in collaboration with INES
- O Launch a dedicated organization to accelerate new businesses
- △ New challenge: Review ICT growth strategy.

(3) Work style reforms

- O Started new personnel system (multiple-track careers, seniors' active participation, second job)
- O Reduced/equalized working hours due to business portfolio reforms effects
- △ New Challenges: Adopt diverse work styles utilizing new system and ICT tools; enhance motivation and productivity

Lastly, I would like to explain the progress of the Mid-Term Management Plan 2020(MP2020). The MP2020, which was launched in the fiscal year ended September 30, 2018, entered its second half in April. I will explain the progress and challenges, following the three major reforms listed in the medium-term plan.

The first reform is the business portfolio reform. The Government-Private Co-Creation Solutions Business, which is positioned as a driving force for growth under the MP2020, will leverage the knowledge and expertise we have cultivated over many years in the public sector to help private companies solve their problems. As in the first year of the plan, the TTC results were good. We have also seen results such as large-scale projects, improved profit margins, and reduced burdens during the busy season. At the same time, the labor market is tightening, and new challenges are emerging, such as securing talented personnel, which are indispensable for achieving sustainable growth.

The second reform is business model reform. Both sales and revenue have grown subscription-based business. I'll present an example in a moment. To further accelerate this trend, in April, we established an organization to lead new businesses. We plan to further accelerate our growth strategy through ICT collaboration among our four partner companies, which include DCS, JBS(Japan Business Systems, Inc.) and INES(INES Corporation), which we invested in last year.

The third reform is work style reform. In the current fiscal year, we introduced a new personnel system that was strongly requested by employees. The business portfolio reform has been successful, and working hours have been reduced and levelled out. However, based on our recognition that the reforms are still midway, we will strive to create a comfortable and rewarding company, including making business casual throughout the year.

Coping with the project with quality issues and preventing recurrence

Coping with the project with quality issues individually

- **Ongoing customer discussions, starting staged development**
- **Provision of 1.16 billion yen recorded**

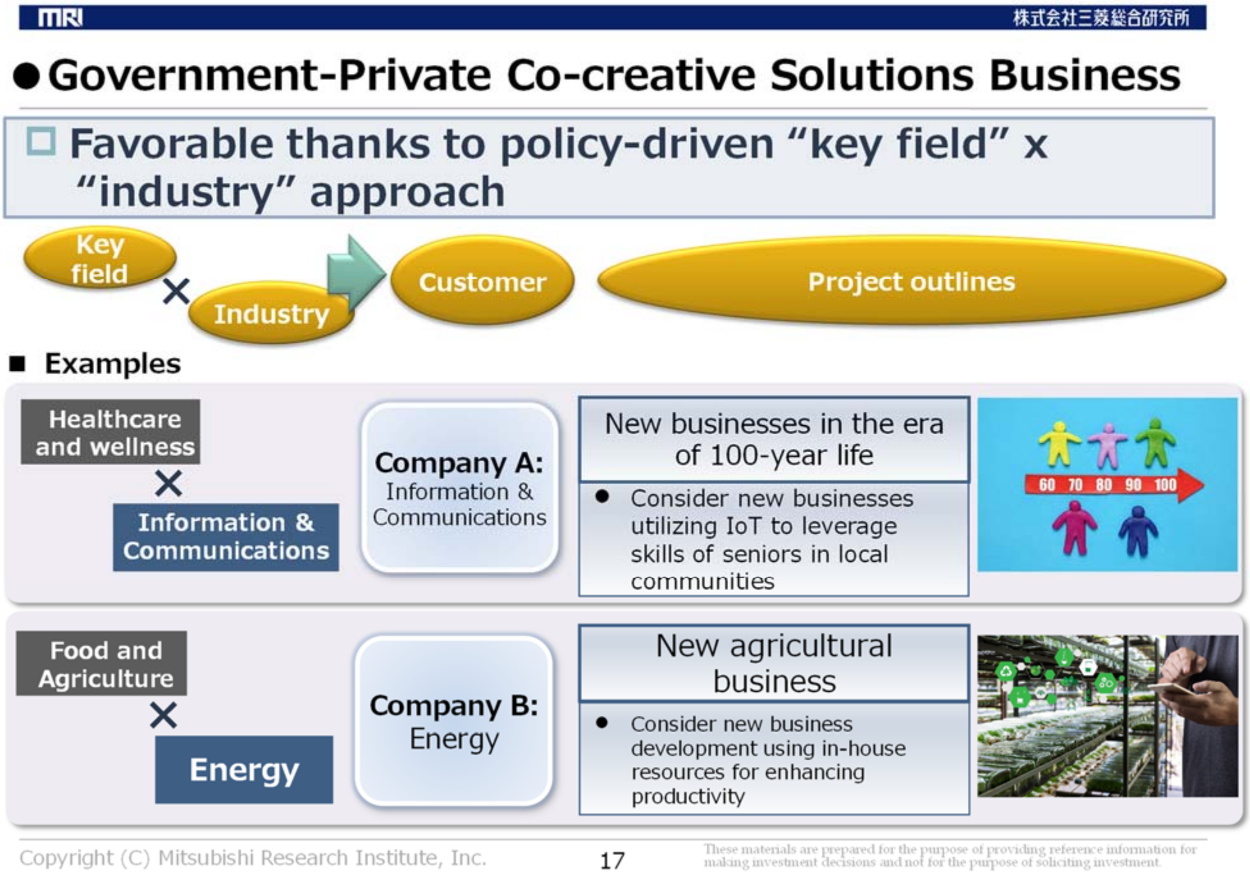
Formulation and implementation of measures to prevent recurrence

- **Review by internal committee (with an external lawyer and an IT specialist)**
- **Partially implemented, and further implement measures to prevent recurrence based on committee report**
  - **Steadily implement project management and group management/ governance, and other emergency/short- and medium-term measures.**

I will provide an explanation on handling the project with quality issues that have had a significant impact on the group's business performance since the previous fiscal year, as well as how to prevent recurrence thereof.

We sincerely apologize to our shareholders and other related persons for serious concerns they might have and inconveniences they might have experienced. The status of the project is as follows: Consultations with our customers are ongoing. In response to customers' opinions, we had agreed to discontinue the development of main functions, and we will proceed with the development of other functions in a phased manner. Last month, we launched the first phase. As for allowances, we have estimated all expected expenses at the present time and have recorded 1.16 billion yen in reserves.

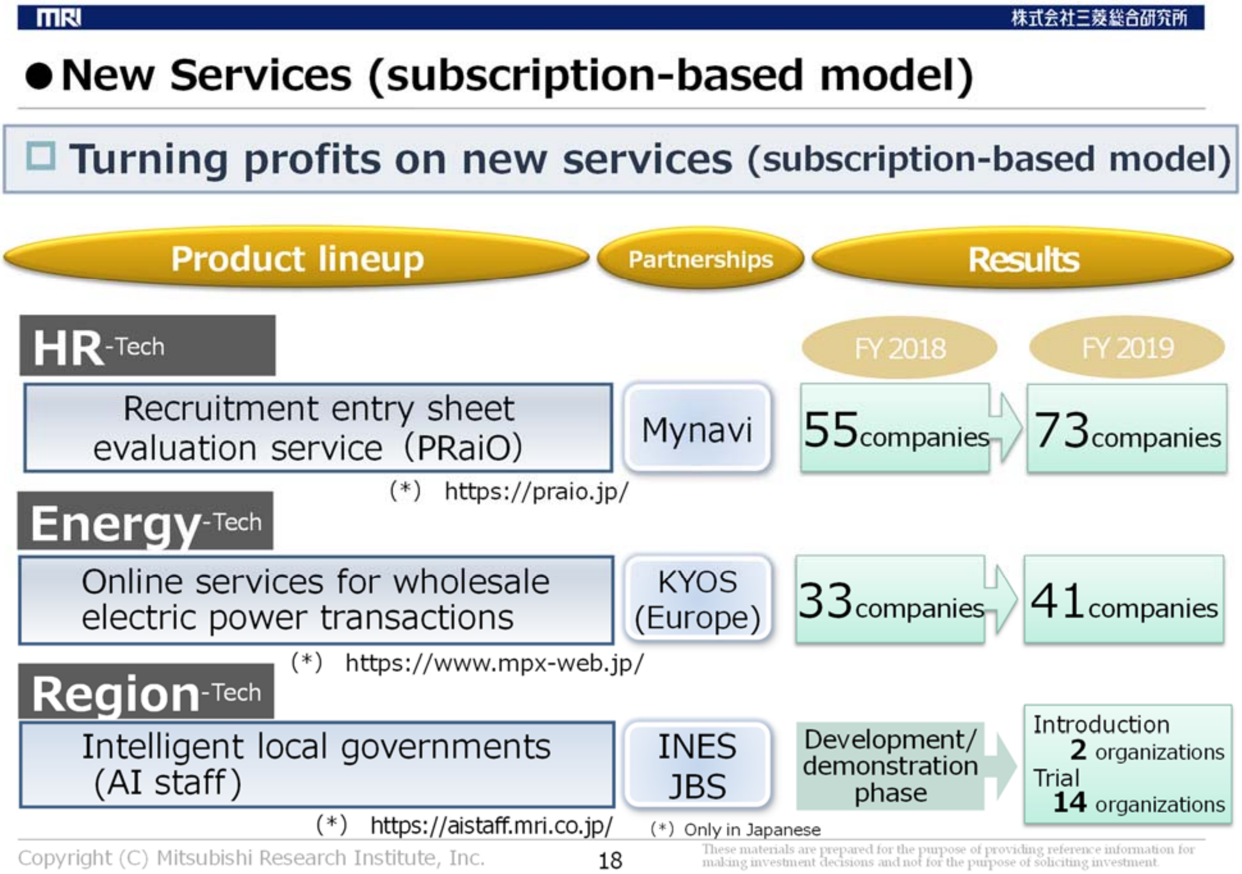
In addition, we perceived that there are a number of issues related to this matter. Therefore, external lawyer and IT specialist are participating, we have established an in-house committee, and we have received a summary. Based on the committee's report at the end of last month, we have formulated measures to prevent recurrence and have already implemented some measures. In addition to project management, we will focus on group management and corporate governance. We will set time horizons for short-term and mid-term management plan responses and implement PDCA.



Next, I will introduce some examples of the Government-Private Co-Creation Solutions Business. We have strengthened our sales system, and there are specialists, and domain managers, who are called DMs, in key areas. There are also industry managers, which are called IMs. The expertise of DMs and IMs has been combined, and a track record has been built.

When we were asked for an advice by an information and telecommunications company about whether seniors' skills can be used in local communities and societies in light of The 100-Year Life and about whether we can develop new businesses using IoT, experts in the healthcare and wellness fields and staff in the information and telecommunications industry jointly offered high-quality proposals and succeeded in winning orders.

In the food and agricultural fields, which we added to our priority fields this fiscal year, we are rapidly achieving results. We have received an order from a customer in the energy industry for work related to new businesses aimed at improving productivity in the agricultural field, which isn't the customer’s main business.



New businesses with recurring revenues are also making progress. This is a recruitment support service that uses AI(artificial intelligence) developed jointly with Mynavi Corporation, which we refer to as “PRaiO”. The number of customers using this service has increased by 30%, and 73 companies currently use it.

With power system reform and liberalization, we are also providing online services for wholesale electric power trading, which is expected to generate demand, to 41 companies, an increase of 30%.

The AI inquiry service, which was launched in collaboration with INES and JBS last year, is now being tested by two local governments, including Toda City, and 14 local governments, including Otsu City, Mishima City, and Sagamihara City.

Topics

Agreement on considering development of "platform/ services utilizing blockchain technology" with Chaintope (2/8 release)

- Aiming to establishing blockchain technology as social infrastructure, and to realize a data-driven society utilizing accumulated data
- Establish concrete details of the content of the technological platform/services by September and seek a business alliance. (*) www.mri.co.jp/news/press/public_office/028498.html

Agreement on considering development of data analysis service with SImount (3/18 release)

- A service combining data utilization strategy formulation with development of data utilization environment
- Establish concrete details of the contents of the service by June and seek a business alliance (*) www.mri.co.jp/news/press/public_office/028549.html

Mitsubishi Research Institute DCS to provide business matching support utilizing AI (3/29 release)

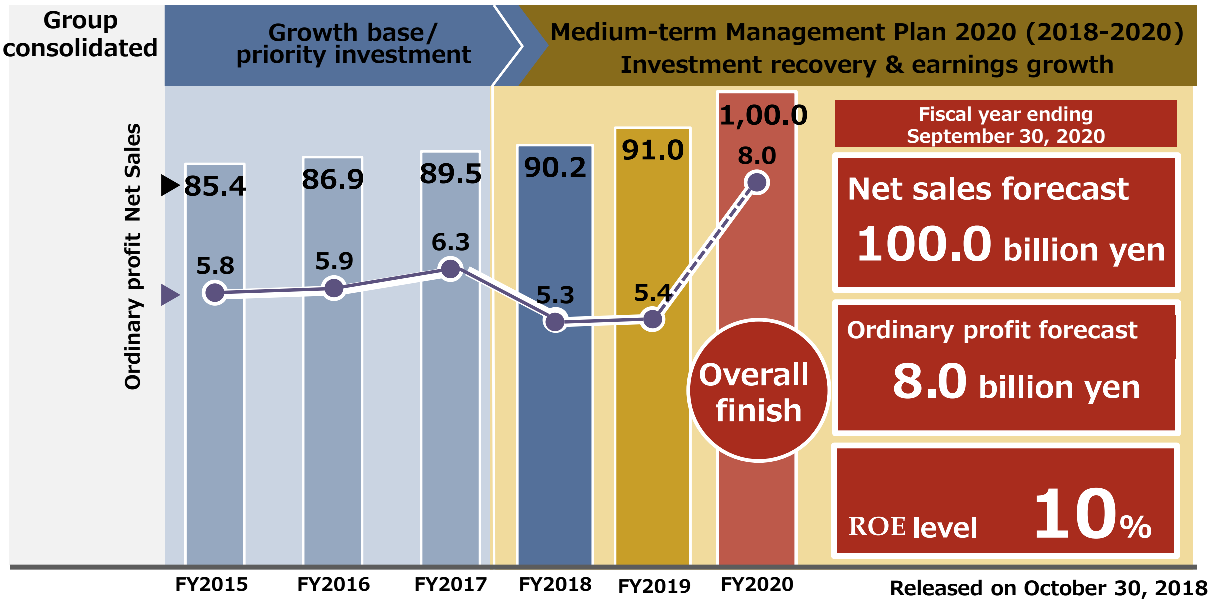
- Swiftly and accurately select partners in "business matching" service of MUFG Bank utilizing AI
- Utilize "Hitomean," DCS's unique cloud-based interactive AI engine

(*) www.dcs.co.jp/history/news/2019/190329.html (*) Only in Japanese

The Group is also actively developing services that utilize new technologies, such as blockchain technology, big-data analysis, and AI, in cooperation with external partners. Page 19 introduces some releases announced earlier this year.

Financial targets for 2020

Strengthen initiatives for 2020 targets



Finally, I would like to explain our 2020 financial targets. The financial targets for 2020 are shown in the table here. Looking to the second half of the MP2020, we will further strengthen the three major reforms I mentioned earlier: business portfolio reform, business model reform, and work style reform. I humbly ask you all for your continued support. That concludes my explanation.

Question & Answer

A: I'd like to ask three questions. My first question is about the project with quality issues that arose in the first quarter. Your explanation is that the main part has been discontinued and discussions about surrounding matters are ongoing. What are your thoughts on the current situation with regard to the schedule for areas other than the main areas? In addition, some measures to prevent recurrence were announced this time. Can you give us an idea of the schedule? That's my first question.

My second question is about a card company. I think there was an article in the newspaper the other day that the card-company project would be suspended. Could you tell us how much of a revision was made for the card market in this fiscal year?

My third and final question is also about credit cards. Is there, for example, a risk of some kind of expense or take-out in the event that the card project is discontinued?

Morisaki: Thank you very much for always attending. And thank you for your three questions. As I explained earlier, with regard to the main matter, we reached an agreement with our customer to suspend it. However, due to discontinuing the main part, we have been discussing with the other side about having to provide an allowance for other parts, supplementary functions, and we will develop it in stages. At the moment, the first step has started. I think that the schedule is to finish the first round in six months.

On the other hand, measures to prevent recurrence are being implemented. I said that we have already begun to implement this plan, and I believe that it will be divided into three or so levels: what should be done soon, things done after some consideration, and things to be done more slowly around the time of the next year's plan. Under these circumstances, what can be done has already begun. We will consider the establishment of the system this month and next month, and we will incorporate more fundamental measures into the next fiscal year's plan, which will begin in October. We will also implement these measures in a step-by-step manner.

The second and third questions were about a particular card company. I don't know whether we have the correct information at this moment, and I'd like to wait for an official announcement.

A: For the first question, it was stated that about six months would be aimed for with respect to periphery matters. Do you believe that the second and third phases will take place in the next fiscal year? In addition, as measures to prevent recurrence will be implemented in the next fiscal year as well, is it correct to think that everything will be settled by around the end of the next fiscal year?

Morisaki: We are currently discussing development, including the development schedule.

As to recurrence prevention, we will do what we should do. Rather than merely preventing recurrence, we will include the Group making efforts to further improve its level and to take the opportunity to make a leap forward. And as I mentioned at the beginning, PDCA will always be used and we will work such that similar things do not occur again. Therefore, I think these efforts will not stop.

B: This year's earnings forecast, IT Services, and sales are down 30 billion yen from 590 billion yen to 560 billion yen. If the card company's story is in line with the media, is it correct for us to understand that there might be further reductions?

Morisaki: Thank you. Our new forecast is a conservative estimate, and we have incorporated it into the 560 billion yen as our own assumption.

C: Have you judged that the impact will not be delayed in the next fiscal year? And do you intend to maintain what is stated in the Mid-Term Management Plan?

Morisaki: Thank you. We have already set aside reserves in the previous fiscal year, and we are also accumulating reserves for peripheral fields. Therefore, we do not expect the impact of this issue to emerge from next year onwards. Regarding the card issue, at the very least, we do not have any information on what will happen in the next fiscal year or beyond, so we have decided to leave it flat or based on the figures we originally envisaged.

D: As to card-related matters, if the original forecast is included in the next fiscal year and, for example, a situation such as those in the newspaper reports occurs, is there a risk of a drop of a scale of around 3 billion yen lower than the forecasts for the next fiscal year?

Morisaki: As I mentioned earlier, we have not received any announcements by our customer for the next fiscal year and beyond, so it is difficult to incorporate them into our figures. However, if circumstances change, in line with that, there will be a downside, as mentioned, and new needs will naturally emerge. Therefore, at present, we have judged that the positive and negative factors will offset each other to become neutral.

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