Mitsubishi Research Institute, Inc.

FY2019/9 Financial Results

November 14, 2019

Presentation

Morisaki:

I would like to explain The Company's financial results for the fiscal year ended September 30, 2019 (FY2019), earnings forecasts for the fiscal year ending September 30, 2020 (FY2020), and the progress made in the Medium-Term Management Plan 2020.

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Summary

Net sales: 90,029 mil. Yen
YoY change -220 mil. Yen (-0.2%)

- Net sales remained almost flat YoY, despite the impact of the project with quality issues (IT services (ITS))

Ordinary profit: 5,718 mil. Yen
YoY change +354 mil. Yen (+6.6%)

- Ordinary profit for think tank and consulting services (TTC) remained firm

Profit: 3,599 mil. Yen
YoY change +196 mil. Yen (+5.8%)

Increased year-end dividend by 5 Yen (to 50 Yen), for annual dividend of 95 Yen

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First, I would like to provide an overview of the consolidated financial results for FY2019.

Consolidated net sales decreased by 220 million yen year-on-year to 9.020 billion yen. Despite the impact of a project with quality issues in the IT Services segment (ITS), sales were basically unchanged from the previous fiscal year.

Ordinary income increased by 350 million yen, or 6.6%, to 5.710 billion yen. Both Think Tank and Consulting Services (TTC) and ITS recorded higher earnings. Segment information will be explained later.

Net income totaled 3.59 billion yen, an increase of 190 million yen, or 5.8%.

The year-end dividend forecast was raised by 5 yen to 50 yen. As a result, the annual dividend is expected to be 95 yen.

FY2019 Consolidated results <YoY>

(mil. yen)

	FY2018	FY2019	Year-on-year Amount	Year-on-year Rate	Forecasts 4/26/2019	Change
Net sales	90,250	90,029	-220	-0.2%	91,000	-970
Gross profit	19,274	19,895	+620	+3.2%	–	–
Gross profit margin	21.4%	22.1%	+0.7P		–	–
SG&A expenses	14,311	14,764	+453	+3.2%	–	–
Operating profit	4,963	5,130	+167	+3.4%	5,000	+130
Operating profit margin	5.5%	5.7%	+0.2P		5.5%	+0.2P
Ordinary profit	5,364	5,718	+354	+6.6%	5,400	+318
Profit attributable to owners of parent	3,402	3,599	+196	+5.8%	3,500	+99
Basic earnings per share(yen)	209.46	221.58	+12.12	+5.8%	215.44	+6.14
ROE（Return On Equity）	7.5%	7.6%	+0.1P		–	–

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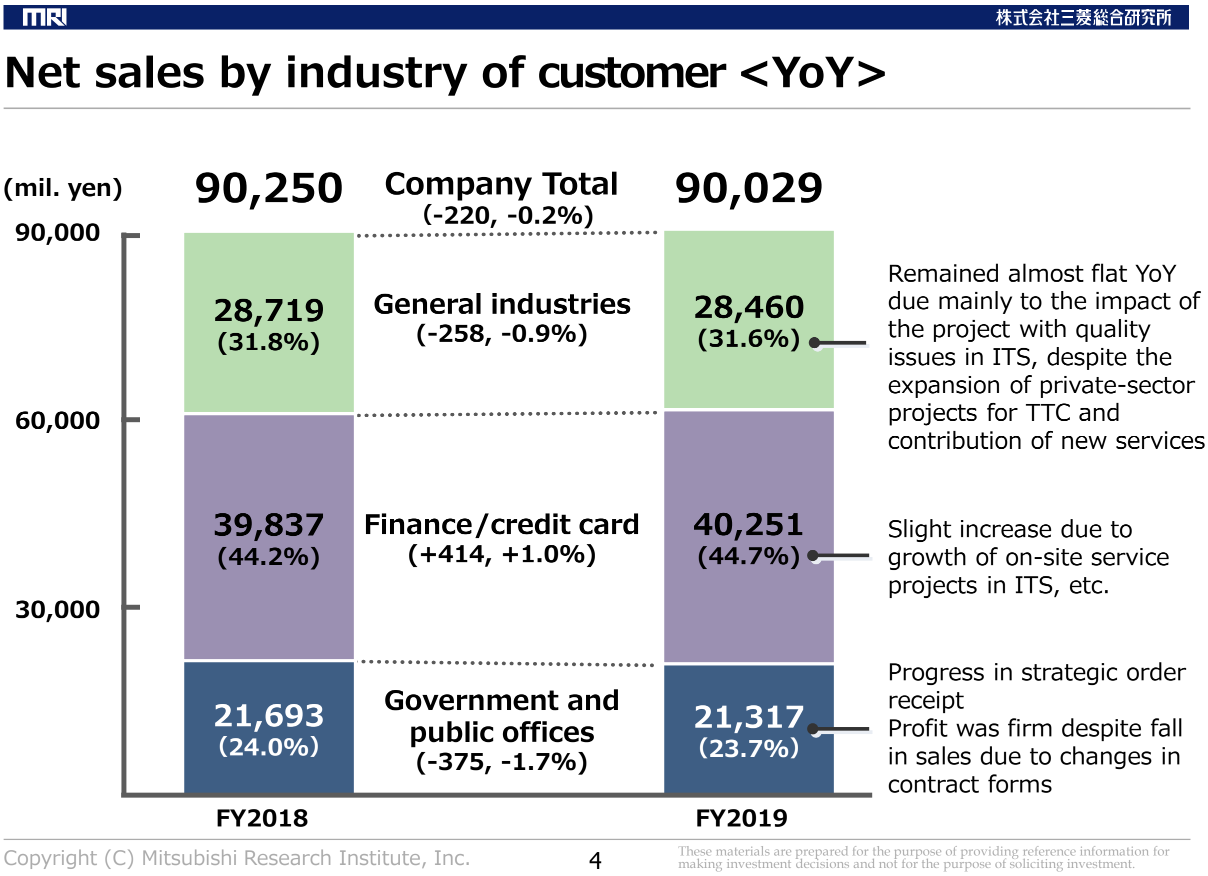
Page 3 shows the overview of what I just mentioned and the explanation in the Consolidated Statement of Income.

Gross profit rose 620 million yen year-on-year, and operating profit rose 167 million yen to 5.130 billion yen. ROE was 7.6%, up 0.1 percentage point from the previous fiscal year.



Page 4 shows the breakdown of net sales by customer industry.

As I explained at the beginning, net sales were on par with the previous fiscal year. For every industry, changes were an increase or a decrease of around 1%.

One reason for the decline in sales in the public sector is that The Company is strategically and selectively accepting orders and is reallocating its business portfolio. The second reason has to do with changes in contracts for projects with a large proportion of outsourcing. Profit remains steady.

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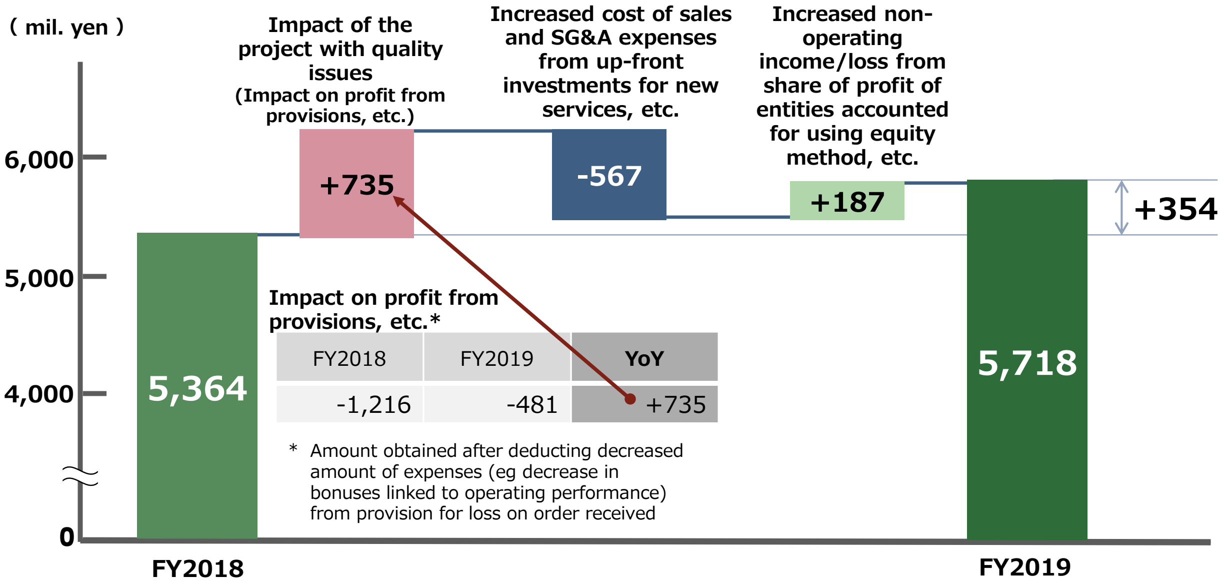
Factors behind fluctuation of ordinary profit /loss

- Profit increased as the increase in expenses mainly from up-front investments for new services were offset by a decrease in loss on the project with quality issues, and an increase in share of profit of entities accounted for using equity method, etc.



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

Page 5 shows a breakdown of factors contributing to changes in ordinary income from the previous fiscal year.

The impact of provisions on the profitability of the project with quality issues was approximately 1.2 billion yen in FY2018, and approximately 500 million yen in FY2019. As a result, there was a 735-million-yen increase in contribution to operating income.

Adding the increase in costs and selling, general and administrative expenses associated with upfront investments in new businesses, as well as the increase in non-operating income attributable to the equity in earnings of affiliates, net income increased 354 million yen from the previous fiscal year.

Think Tank and Consulting Services (TTC)

(mil. yen)

	FY2018	FY2019	Year-on-year	
			Amount	Rate
Net sales	33,489	34,099	+610	+1.8%
Operating profit	3,113	3,065	-48	-1.6%
Operating profit margin	9.3%	9.0%	-0.3P	
Ordinary profit	3,233	3,351	+118	+3.7%
Orders received	35,455	35,405	-49	-0.1%
Order Backlog	25,000	26,306	+1,306	+5.2%

Key points

- Net sales and profit increased as Medium-term Management Plan 2020 ("Plan 2020") strategies continued to yield results (in line with initial forecast for the second year of Plan 2020)
- Private-sector projects and new services (subscription-based model) grew
- Order backlog remained strong

Next, I will explain the results by segment.

First, let's look at Think Tank and Consulting Service. This is roughly equivalent to the results of the parent company, Mitsubishi Research Institute, Inc. Net sales increased by 610 million yen to 34.099 billion yen, while ordinary income increased by 118 million yen to 3.351 billion yen, an increase of 3.7%.

The strategies of the Medium-Term Management Plan 2020 have succeeded, and private-sector projects and subscription-based model have continued to be the driving force as in the previous fiscal year. The decline in profitability was due to forward-looking investments for the future. The amount of orders received remained almost unchanged from the previous fiscal year, while the order backlog rose 5.2% from the previous fiscal year. Both orders received and order backlog were firm, and the order backlog was at a record high level.

IT Services (ITS)

(mil. yen)

	FY2018	FY2019	Year-on-year	
			Amount	Rate
Net sales	56,760	55,930	-830	-1.5%
Operating profit	1,769	2,023	+254	+14.4%
Operating profit margin	3.1%	3.6%	+0.5P	
Ordinary profit	2,050	2,325	+275	+13.4%
Orders received	56,972	59,826	+2,854	+5.0%
Order Backlog	36,477	40,373	+3,895	+10.7%

Key points

- **Net sales decreased due to recoil decline associated with completion of large-scale projects (in general industries) and revision of large-scale development plans by major customers, etc.**
- **Profit increased due to decrease in loss on the project with quality issues**
- **Orders received and order backlog increased significantly YoY, mainly in finance/credit card sector**

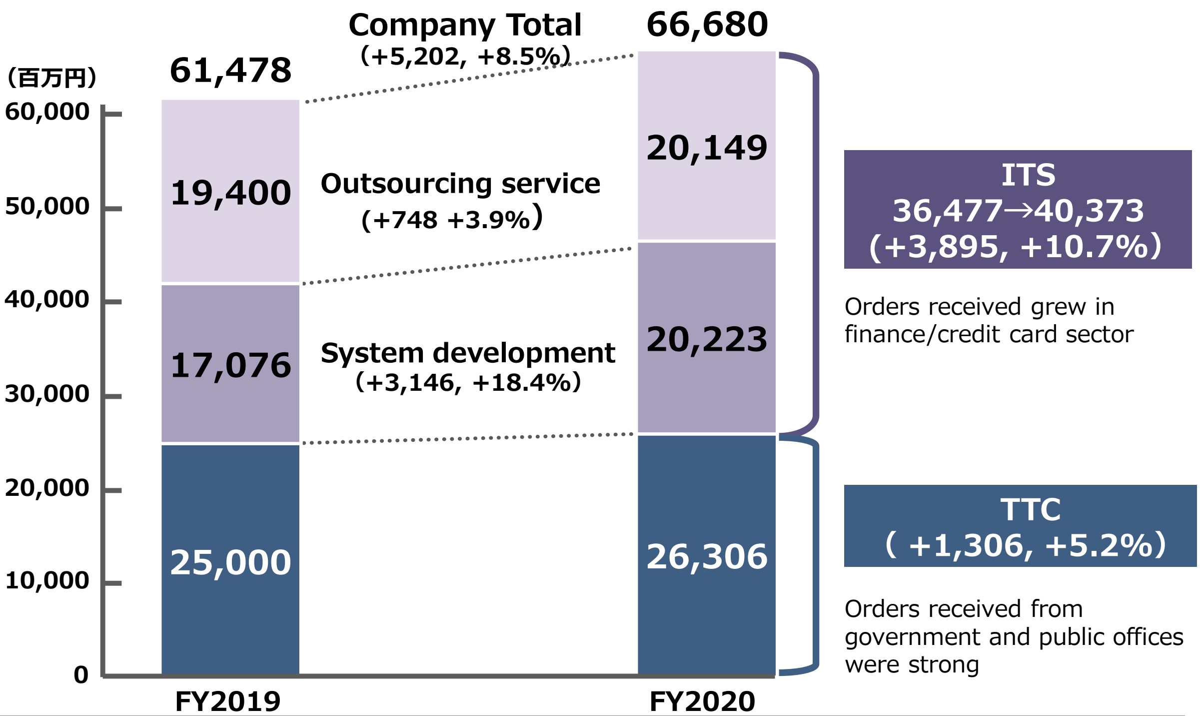
Page 7 shows IT Services. These basically are the results of the Mitsubishi Research Institute DCS Group.

Net sales decreased 830 million yen from the previous fiscal year to 55.930 billion yen. Ordinary profit increased 275 million yen from the previous fiscal year to 2.325 billion yen. Sales declined due to a reaction to the completion of large-scale projects in the general industry sector and the revision of a large-scale development plan by major customers.

As explained earlier, The Company increased its operating profit by 13.4%, offsetting an increase in SG&A expenses, such as upfront expenditures for new businesses, by a project with quality issues, and revising the allowance for losses on orders received in response to the problem project.

Orders received and order backlog rose 5.0% and 10.7% year-on-year, respectively, as a result of growth in orders received in the financial and card fields.

Consolidated Order Backlog <YoY>



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I would like to explain our earnings forecasts for FY2020.

First, I would like to explain the current status of orders. The order backlog at the beginning of the fiscal year was 66.68 billion yen, marking a start with positive 5.2 billion yen compared to the previous fiscal year.

As for breakdown, orders for Think Tank and Consulting Services increased 1.3 billion yen due to orders from government agencies. Orders for IT Services also increased 3.8 billion yen, mainly in the financial and card fields.

Forecasts for FY2020

- **Complete Plan 2020 and lay foundation for the next Medium-term Management Plan**

Net sales: 94,000 mil. Yen
YoY change +3,970 mil. Yen（+4.4%）

- **TTC : YoY change +1,900 mil. Yen　In line with Plan 2020 targets**
- **ITS : YoY change +2,069 mil. Yen　Net sales grew mainly in finance/credit card**

Ordinary profit: 6,000 mil. Yen
YoY change +281 mil. Yen（+4.9%）

- **TTC : YoY change +248 mil. Yen（+7.4%）　In line with Plan 2020 targets (including up-front investments)**
- **ITS : YoY change　+74 mil. Yen（+3.2%）　Strengthen business foundation and invest into the future**

Profit: ： 3,900 mil. Yen
YoY change +300 mil. Yen（+8.3%）

- **The impact of the sale of shares of Minori Solutions (tender in a TOB) and conversion of INES into an entity accounted for using equity method <u>is not included in the results forecasts</u> (but will be disclosed without delay upon finalization)**

Page 10 shows our forecasts for the fiscal year ending September 30, 2020.

The final year of the Mid-Term Management Plan 2020 (Plan2020) will be a year where we will lay the groundwork for the next Mid-Term Management Plan.

Consolidated net sales rose 4.4%, to 94.0 billion yen, and ordinary profit rose 4.9%, to 6.0 billion yen. Net income is expected to increase 8.3% to 3.9 billion yen.

Amid steady orders received, we plan to expand the scope of our Think Tank and Consulting Services in line with Plan2020, while continuing to make upfront investments for sustainable growth. In IT Services, we will work to expand sales, primarily in the finance and card fields, which are our specialty areas, while at the same time completing the project with quality issues, reinforcing our management base, and aggressively investing in the future.

In these forecasts, SCSK's takeover bid for Minori Solutions, which was announced on November 1, a gain on the sale of shares or a decline in The Company's equity interest associated with the takeover bid, and the effect of the conversion of INES into an equity-method affiliate, which was announced on September 27, have not been factored in.

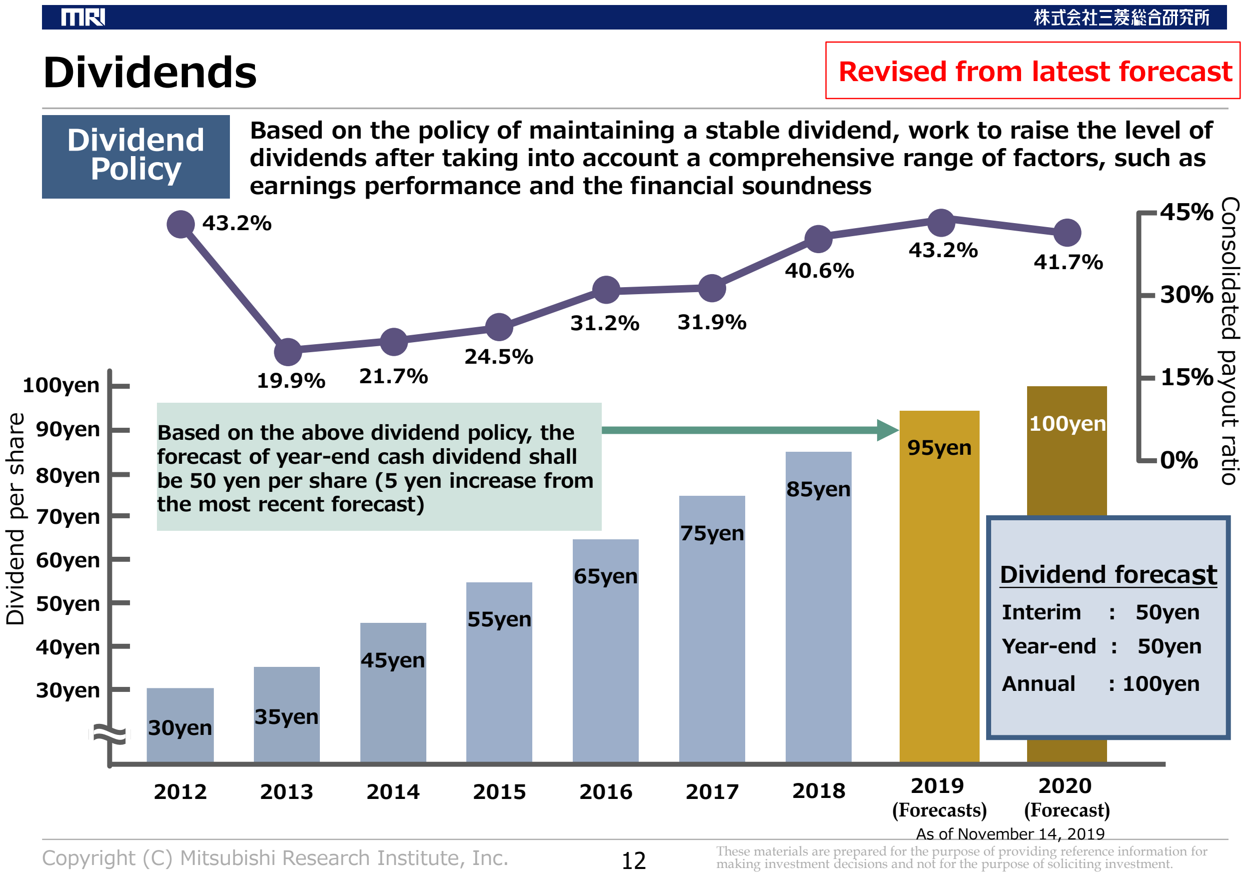
We intend to promptly disclose the impact of them, such as by revising our earnings forecasts, as soon as it is finalized.

Forecasts for FY2020

(mil. yen)

	FY2019 (Results)	FY2020 (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	5,200	+69	+1.3%
Operating profit margin	5.7%	5.5%	-0.2P	
Ordinary profit	5,718	6,000	+281	+4.9%
TTC	3,351	3,600	+248	+7.4%
ITS	2,325	2,400	+74	+3.2%
Profit attributable to owners of parent	3,599	3,900	+300	+8.3%
Basic earnings per share (yen)	221.58	240.06	+18.48	+8.3%

The next page shows the current explanation in the form of Income Statement.



Dividends forecast. For FY2019, we maintain our existing policy of striving to raise the level of dividends while comprehensively taking into account factors such as the balance of business performance and financial soundness, based on a policy of continuously paying stable dividends.

Although there were impacts from the project with quality issues, profits increased in the fiscal year under review. Accordingly, based on the existing policy, the year-end dividend forecast has been increased by 5 yen to 50 yen per share, bringing the interim dividend to 45 yen and the year-end dividend to 95 yen. The dividend payout ratio is 42.9%.

For FY2020, we forecast the interim dividend and the year-end dividend to be 50 yen, respectively, bringing a total of 100 yen. The dividend payout ratio is expected to be 41.7%.

Progress status of three major reforms

(1) Business portfolio reforms

- O Progress in government-private co-creation solution business
- O Expansion of scale and profit margin through selective order receipt
- △ Development and expansion of human resources in DX-related sector

(2) Business model reforms

- O Progress in subscription-based business model
- O Further cooperation with partners (capital and business alliances)/accelerate DX support for customers
- △ Reinforcement of the MRI Group’s ICT strategy

(3) Work style reforms

- O Progress in reducing total working hours and increasing diversity of work styles
- △ Reinforcement of Group governance and risk management (project with quality issues)

O: Achieved △: Issues to be addressed

Finally, I would like to explain the progress of the Medium-Term Management Plan 2020 (Plan2020).

I will explain our progress and challenges in line with the three major reforms set forth in Plan2020 that began in FY2018.

The first is business portfolio reform. One of the growth drivers of Plan2020 is the Public-Private Co-Creation Solutions Business. In this business model, we are going to acquire more private companies, based on the policy support that The Group has cultivated over many years for government agencies. The results have been steadily apparent in the TTC segment. In addition, projects are becoming increasingly large through receiving orders selectively or strategically, resulting in improved profitability.

At the same time, due to the tightening of the labor market, development and expansion of human resources in the digital transformation field, the so-called DX-related field, have become an issue.

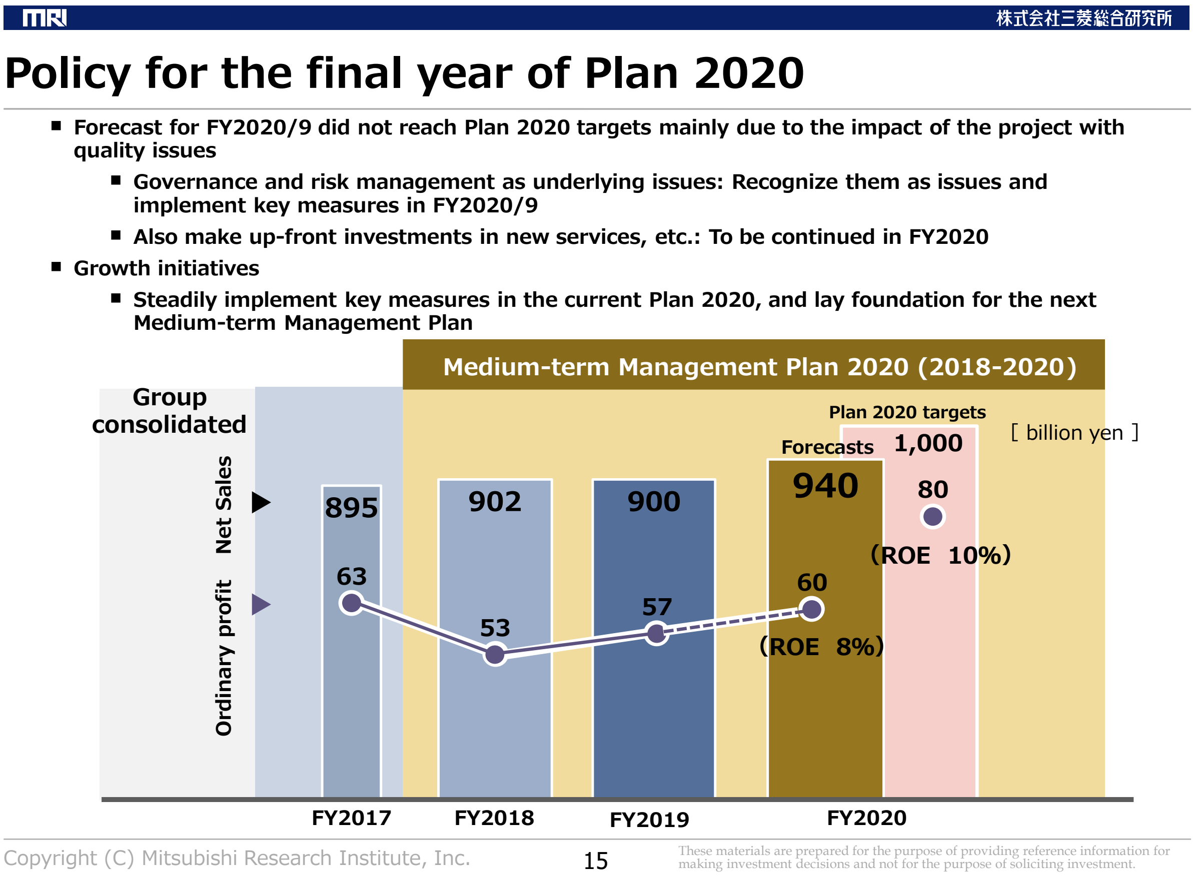
The second is business model reform. In the subscription-based model, which we are focusing on as a new business, sales and profitability are growing. In addition, I believe that we have deepened our broad-ranging partnerships with our partners.

As an example, in May 2018, we entered into a business and capital alliance with INES Corporation, which progressed more than our initial expectation. As a result, in October we made INES Corporation an equity-method affiliate, in order to further expand our alliance.

By deepening our ties with JBS, DCS in The Group, and other partners, we will further strengthen our DX support for customers and The Group ICT strategy.

The third is working-style reforms. A variety of work styles have been developed, including shortening of total working hours, side jobs, and teleworking.

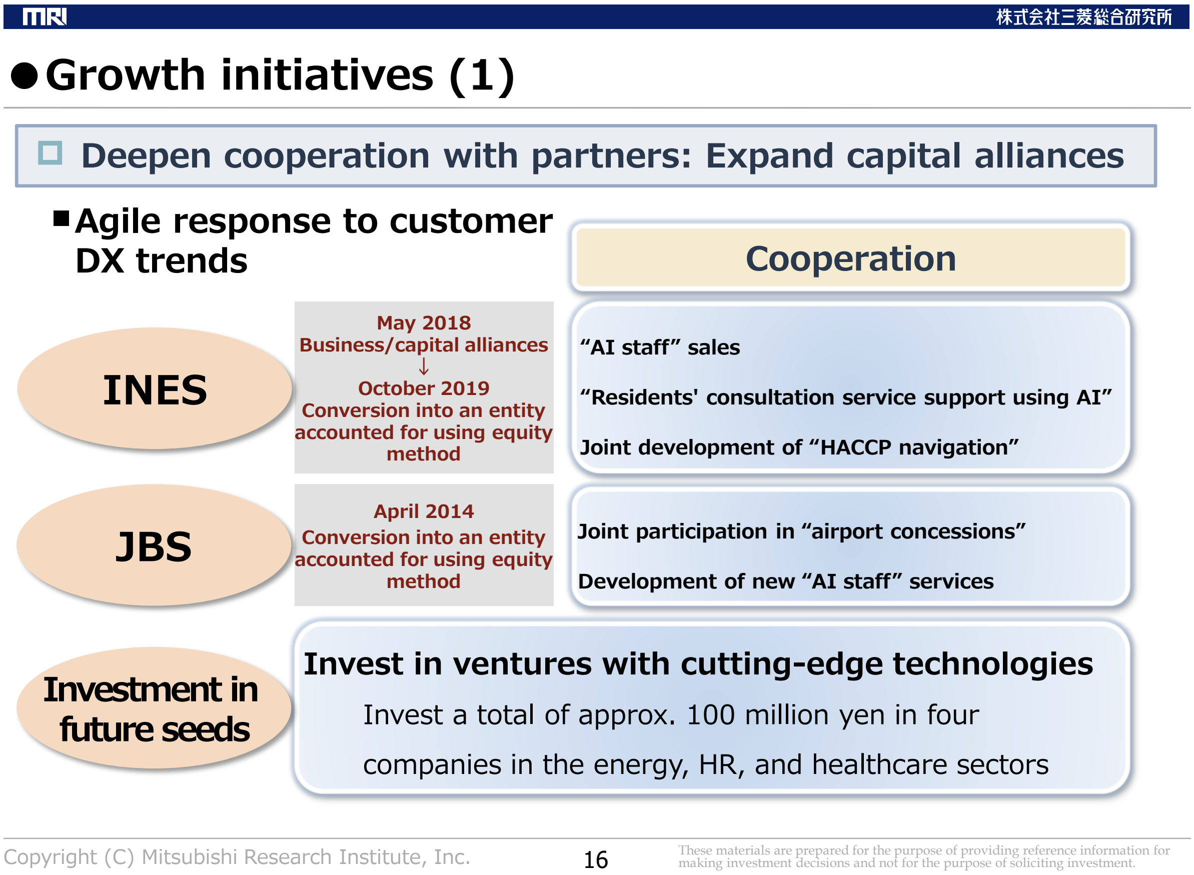
At the same time, we recognize the challenges of strengthening corporate governance and risk management on a group-wide basis, which have become apparent in the project with quality issues.



Under Plan2020, which ends in FY2020, we have set targets for net sales of 100 billion yen, ordinary profit of 8 billion yen and an ROE of 10%. However, as I explained earlier, our forecasts for the current fiscal year are net sales of 94.0 billion yen and ordinary profit of 6.0 billion yen, an ROE of 8%, roughly in line with the initial targets for the previous fiscal year.

The main reason for this is that there was the project with quality issues that occurred in FY2018, but we recognize that there were also issues related to The Group's governance and risk management.

In this fiscal year, in addition to the three major reforms under Plan2020, we will strive to strengthen growth strategies on a Group basis and governance on a Group basis, and from both the offensive and defensive perspectives, we intend to link these efforts to the next Mid-Term Management Plan.

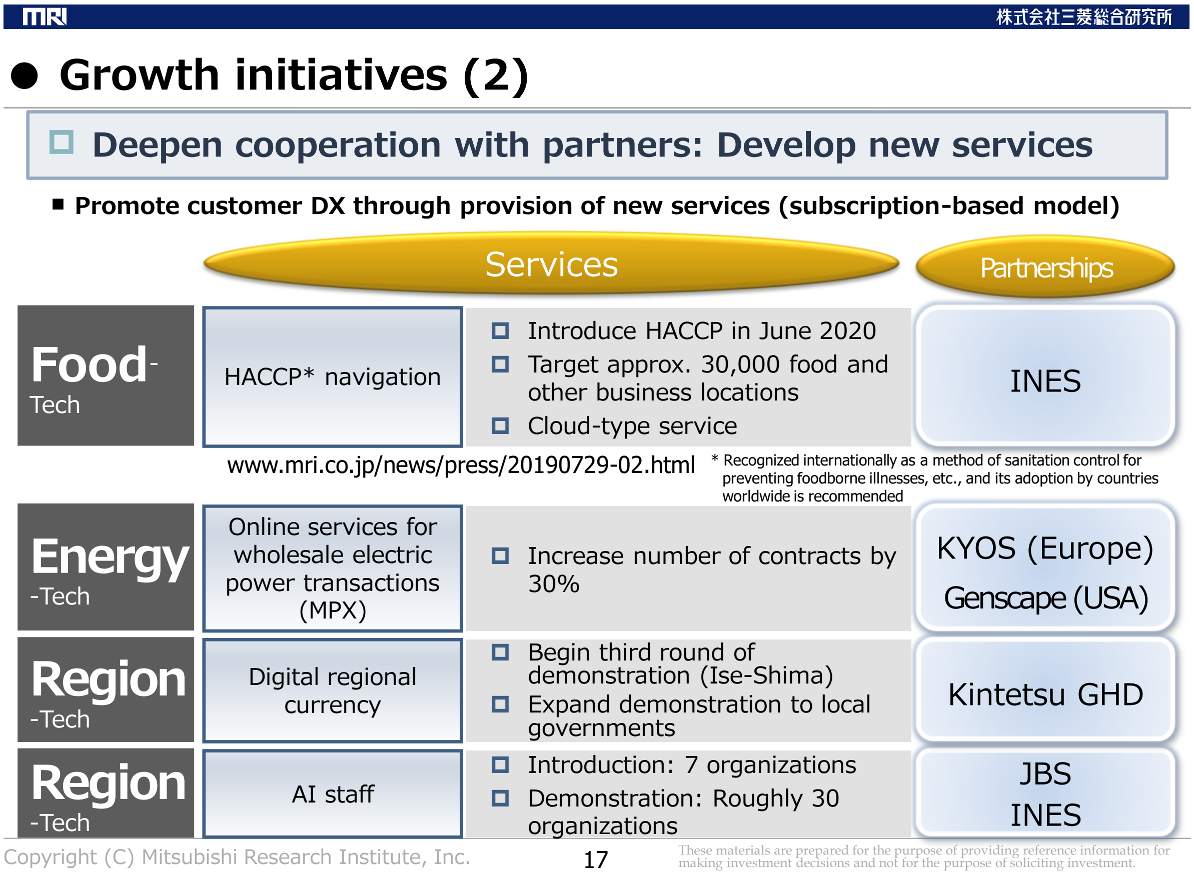


Please move on to page 16. Partnership and partner strategies are extremely important in promoting the ICT strategy, The Group's growth strategy. For this reason, we are working to expand our network not only by forming business alliances but also forming capital alliances. Through these collaborations, we will respond swiftly to customer's DX trends.

As mentioned earlier, INES Corporation became an equity-method affiliate in October. We are continuing to maintain and strengthen our relationship with JBS, which became an equity-method affiliate five years ago, and are also collaborating in new services.

In the previous fiscal year, we began investing in seeds for the future to support venture companies that possess cutting-edge technologies. We have invested in four promising ventures in areas such as energy, human resources, and healthcare, although the amount is still only about 100 million yen.

We intend to continue these initiatives this fiscal year.



We are also stepping up our efforts to develop new DX-related businesses, which are strongly demanded by our customers. One example is the HACCP Navi service. HACCP is an internationally recognized hygiene-control method to prevent food poisoning, and is recommended in various countries.

Japanese companies are also required to introduce a system that complies with the HACCP in June 2020, and approximately 30,000 food and other business entities will be subject to this.

We plan to provide functions that will enable us to create HACCP compliant documents and charts, and support monitoring records through cloud-based services.

We will continue to take on the challenge of developing new businesses, such as digital regional currencies, by deepening our partnerships.

With that, I will complete my explanation. Thanks for your attention.

Question & Answer

A: I have three questions.

First, regarding the plan for FY2020, sales are expected to increase by approximately 4 billion yen to 94 billion yen. Please tell us the breakdown of government and public offices, financial and cards, and other private industries.

Second, please tell us if there are any reasons for the 300-million-yen increase of ordinary profit.

Third, please tell us if you have any ideas on how to use the income of 2.7 billion yen provided from the sales of shares of Minori Solutions.

Answer: First, we expect sales to increase by 4 billion yen to 94 billion yen in FY2020. We expect sales of Think Tanks and Consulting Services (TTC) and IT Services (ITS) to increase by about 2 billion yen each.

Regarding TTC segment, we are focusing on the private sector as the Public-Private Co-Creation Solutions business, and I believe that sales will increase mainly in the private sector.

On the other hand, in the ITS, we currently have a project with quality issues, so the basis is to build a solid foundation. On top of that, the area of strength, such as finance and cards, will drive growth, followed by new businesses.

Next, this fiscal year's goal is to solidify our foundation. We will spend money on establishing a foundation that includes corporate function, risk management function, and infrastructure. Also, we are going to make an upfront investment in new businesses. This means we need a cost of about 500 million yen on the foundation and about 500 million yen on upfront investments related to the new business.

Third, partner strategies will be extremely important in expanding our business in the future. In some cases, this is a business alliance, while in others it is a capital alliance.

In some cases, such investments are made in a relatively lump sum, as was done at INES, and in others, we will invest in a venture with advanced technology, or we support a venture. We will use the extraordinary income as funds to support the expansion of its business.

At present, however, there is no specific idea. We intend to make investments based on appropriate judgments.

B: Firstly, as far as sales are concerned, I think the order backlog has increased by about 5 billion yen, but sales are projected to increase by about 4 billion yen, so it seems somewhat conservative.

Looking at the amount of orders received by other companies from July to September, I think that demand is not so strong. Please comment on how your company considers the external environment in the current fiscal year, and what your assumptions for sales are.

Answer: At the beginning of the fiscal year, orders have been increasing more than in the past. I think it's a good start.

Especially in ITS, there was a project with quality issues last year, and at that time, the matter was of upmost importance to settle. I don’t think we inconvenienced our customers, but we could not aggressively catch projects.

Now, we are able to devote more resources to new projects or customers. Also, we are seeing an increase in orders from customers who have been doing business with us for a long time.

However, the surrounding environment is not so favorable, due to the problem between the US and China and the sense of uncertainty about the future. Therefore, we set a relatively conservative forecast.

Regarding the orders received at the beginning of the fiscal year, we will complete them and reach the figure of 94 billion yen.

B: Second, there is a description about a revision to the large-scale development plans of a major customer on page seven. I have heard that the customer will plan a large-scale project in the second half of the fiscal year. Please comment if there are any changes in the situation.

Answer: The integration project has been delayed slightly, as you guess.

As a result, when EOS (End of Services) comes, it will be necessary to maintain the conventional system while also undertaking new integration. There is a doubled demand there.

In the previous fiscal year, they had stopped development for a while. This has been a factor behind the decline in profits.

In the current fiscal year, we will see an increase in profits. As the current order backlog is strong, we expect to see stronger figures in this field in the future than in the previous fiscal year. Just to make sure, the customer has not made any official announcement regarding this matter. The answer is our own assumption.

B: Finally, please comment on the scale of sales or profitability of this subscription-based model. Also, please introduce some of the large-scale services.

Answer: The subscription-based model includes AI staff and HACCP navigation system, which are still being developed, virtual currencies, and PRaiO, which uses AI for human resource recruitment.

The scale of each service is about 200 million yen at large, and I think the total is still less than 1 billion yen. It is expected that this will gradually grow from less-than-1-billion-yen to above-billion-yen range, and the variety of such products will also increase.

The number of inquiries from customers is extremely high, and we have received a variety of requests, especially for AI-related projects. We expect that next year we will be able to speak more energetically and with greater momentum.

[END]