Mitsubishi Research Institute

Envisioning the future, leading change

Mitsubishi Research Institute, Inc.

Financial Results Briefing for the Fiscal year ended September 2021

November 4, 2021

Morisaki: I'm Morisaki, the president.

I would now like to explain our financial results for FY2021 and our forecast for FY2022.

Mitsubishi Research Institute

Summary

- Sales and profit (excluding temporary factors in the previous FY) both increased due to core business (government and public office, finance and credit card projects) growth
- Large government and public office projects in line with Medium-term Management Plan 2023 (MP2023) such as COVID-19 and cutting-edge ICT projects contributed to growth

Net sales: 103,000 mil. yen YoY change +11,000 mil. yen

- Think tank and consulting services (TTC): Large sales growth (up 5,700 mil. yen) was led by the government and public office projects.
- IT services (ITS): Increased significantly due to growth in finance and credit card services (up 5,200 mil. yen).

Ordinary profit: 7,560 mil. yen YoY change -810 mil. yen, +500 mil. yen when excluding special factors in the previous FY

- Ordinary profit increased 500 mil. yen (excluding temporary factors (equity in earnings of affiliates) of approx. 1,300 mil. yen in the previous FY).
- Ordinary profit was 200 mil. yen less than announced forecast, reflecting the occurrence of temporary expenses (-300 mil. yen) in 4Q.

Profit: 5,000 mil. yen YoY change -2,080 mil. yen, profit +500 mil. yen when excluding special factors in the previous FY

- Profit increased 500 mil. yen (excluding temporary factor (extraordinary income) of approx. 2,700 mil. yen in the previous FY).

First, let's look at the big picture.

FY2021 was the first year of the Medium-term Management Plan 2023(MP2023). The financial results marked increase in sales and decrease in profit, since it includes the impact of the temporary factor in the Think Tank and Consulting services (TTC) Segment, which is so-called negative goodwill of JPY1.3 billion in FY2020. However, when excluding the impact, we were able to make a good start by increasing both sales and profits due to growth in our core businesses in the government agency sector as well as in the finance and credit card sectors.

Consolidated sales were JPY103 billion, which is an increase of JPY11 billion from the previous quarter and in line with the forecast revised upward in the third quarter. TTC increased by JPY5.7 billion from the previous fiscal year, driven by government agencies. In IT Services (ITS), sales increased by JPY5.2 billion from the previous fiscal year due to growth in the finance and credit card sectors.

Ordinary income is JPY7.56 billion. Compared to the previous fiscal year, it was a decrease of JPY810 million. However, if we exclude the temporary factor as mentioned above, the increase was JPY500 million.

On the other hand, we fell short of the revised forecast by JPY200 million. This was due to transient expenses that came along with the pandemic. I will explain this point later.

Net income was JPY5 billion, a decrease of JPY2.08 billion from the previous fiscal year, but an increase of JPY500 million when we exclude the one-time factor in the previous fiscal year of JPY2.7 billion in extraordinary gains from the sale of shares.

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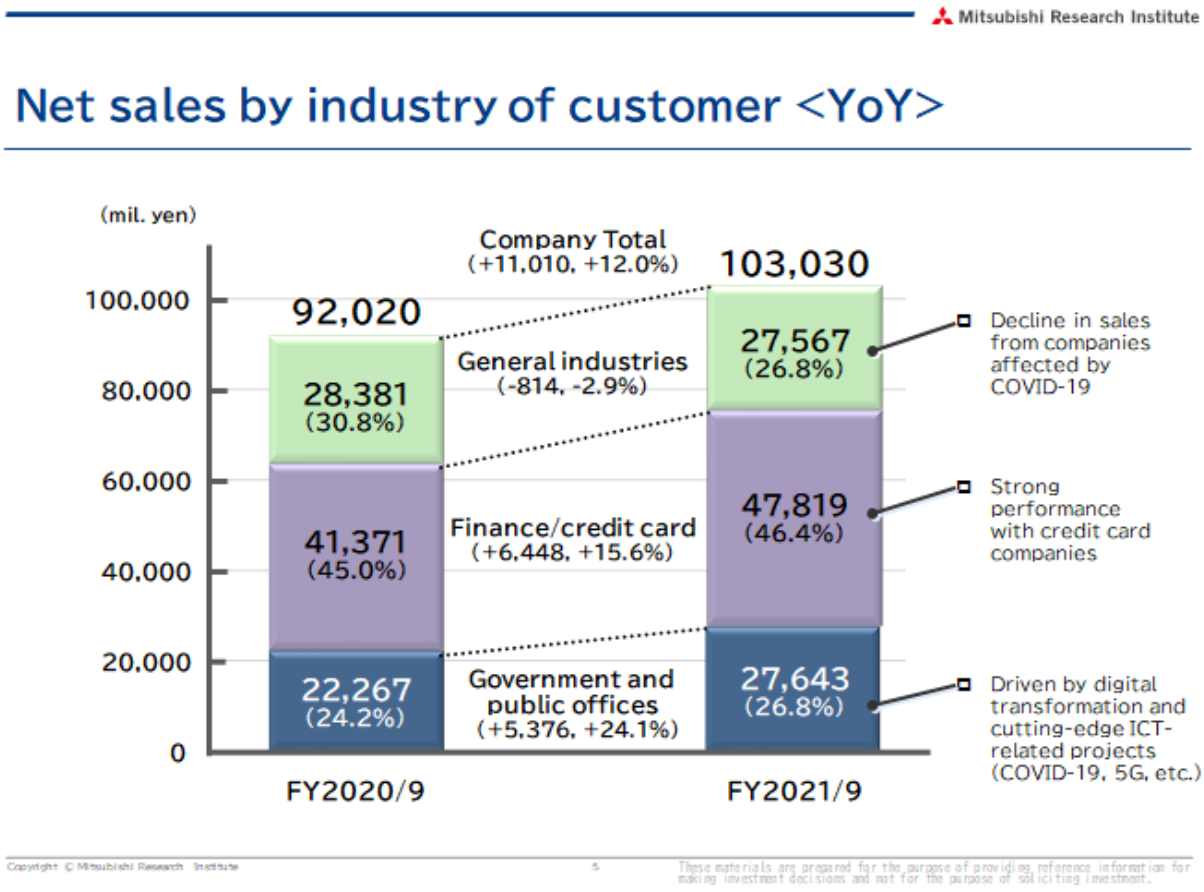
FY2021 Consolidated results <YoY>

(mil. yen)

	FY2020/9	FY2021/9	YoY		Forecast announced Aug. 2, 2021	V.s. forecast
			Amount	Rate		
Net sales	92,020	103,030	+11,010	+12.0%	103,000	+30
Gross profit	21,240	23,447	+2,207	+10.4%	–	–
Gross profit margin	23.1%	22.8%	-0.3P		–	–
SG&A expenses	15,008	16,593	+1,585	+10.6%	–	–
Operating profit	6,231	6,853	+622	+10.0%	7,000	-146
Operating profit margin	6.8%	6.7%	-0.1P		6.8%	-0.1P
Ordinary profit	8,387	7,568	-818	-9.8%	7,800	-231
Profit attributable to owners of parent	7,096	5,009	-2,087	-29.4%	5,000	+9
Basic earnings per share (yen)	436.64	308.60	-128.04	-29.3%	308.04	+0.56
ROE (Return on Equity)	13.9%	9.1%	-4.8P		–	–

Page 4 shows the consolidated income statement of what we have just discussed.

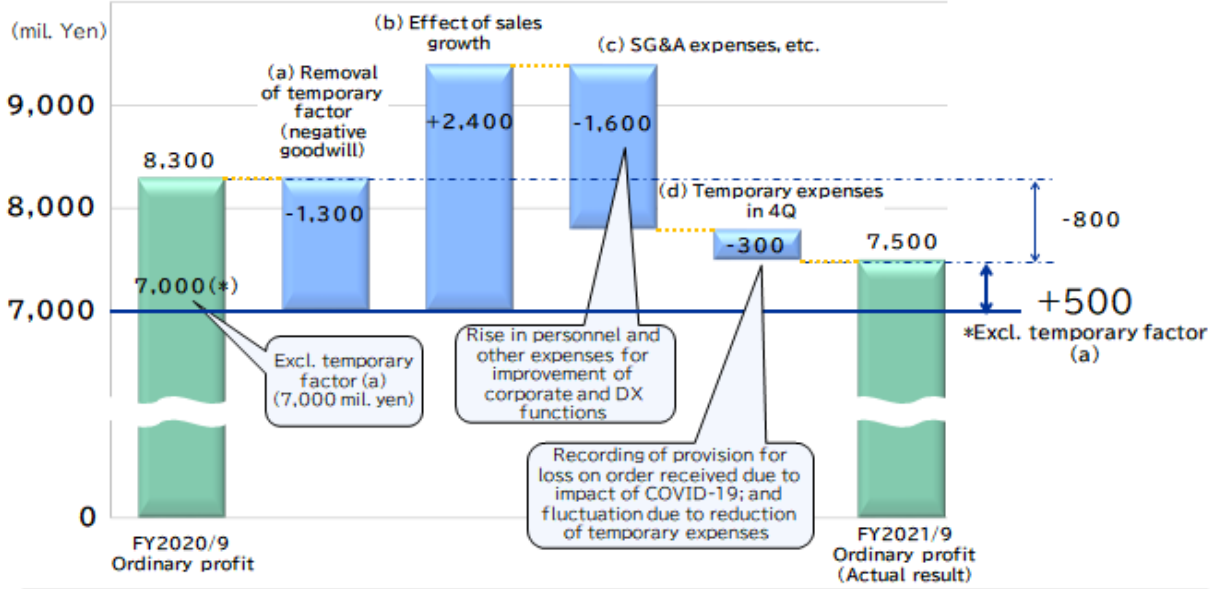


Page 5 shows the sales figures that I have just explained, by customer industry.

As you can see, government agencies as well as the finance and credit card sectors are leading the overall market.

Factors behind fluctuation of ordinary profit /loss <YoY>

- FY2020/9 ordinary profit (when excluding special factors in the previous FY) was 7,000 mil. yen (*) i.e. ordinary profit of 8,300 mil. yen minus temporary factor (a)
- FY2021/9 ordinary profit (when excluding special factors in the previous FY) rose 500 mil. yen*, with sales growth (b) more than offsetting SGA expenses, etc. (c) and temporary expenses (d)



Page 6 shows the factors behind the change in ordinary income compared to the previous fiscal year.

For FY2020, ordinary income was JPY8.3 billion. As I explained earlier, this ordinary income includes a temporary factor, the negative goodwill, which was recorded inFY2020. Thus, the figure would actually be JPY7 billion on a merit basis.

Regarding variable factors, the effect of increased revenue from TTC projects for government agencies as well as ITS-related finance and credit card projects led to an increase of JPY2.4 billion, as you can see in (b).

Due to the increase in expenses due to the strengthening of corporate functions and DX functions based on the MP2023, the portion (c) decreased by JPY1.6 billion.

In addition, due to 1-time expenses incurred in the fourth quarter, the portion (d) decreased by JPY300 million.

This 1-time expense of JPY300 million was due to a large, pandemic-induced delay in the progress of a large-scale research project, and the Company recorded a provision for loss on order received for expenses that may be incurred in the future, as well as strengthened the system toward project completion.

As a result of the above, on the surface, ordinary income is (a) + (b) + (c) + (d), which indicates a decrease of JPY800 million YoY. However, on a merit basis it will be (b) + (c) + (d), which is the core business portion after subtracting the elimination of negative goodwill in (a). Under this perspective, we experience an increase of JPY500 million YoY.

Think Tank and Consulting Services (TTC)

(mil. yen)

	FY2020/9	FY2021/9	YoY	
			Amount	Rate
Net sales	34,581	40,376	+5,795	+16.8%
Operating profit	3,341	3,652	+311	+9.3%
Operating profit margin	9.7%	9.0%	-0.7P	
Ordinary profit (excl. temporary factors in previous fiscal year)	5,283 (3,950)	4,197	-1,086 (+247)*	-20.6% (+6.3%)
Orders received	36,369	50,943	+11,573	+29.4%
Order backlog	31,095	41,661	+10,566	+34.0%

Key points

- Sales from large projects for government and public offices and consulting services for financial institutions increased
- Profit increased (+240 mil. yen*) when excluding special factors in the previous FY, with sales growth more than offsetting temporary expenses ((d) on previous page)
- Orders received and order backlog both reached record levels, driven by projects for government and public offices (DX, cutting-edge ICT projects, COVID-19, 5G, etc.)

I will now explain the results by segment.

First, there is the Think Tank and Consulting service (TTC). This is roughly equivalent to the results of MRI itself.

Sales were JPY40.3 billion, an increase of JPY5.7 billion YoY. Ordinary income was JPY4.1 billion, a decrease of JPY1 billion YoY.

Orders increased for social issue–driven and DX-related products, mainly for projects from government agencies and financial institutions. On a merit basis, excluding the temporary factors of the previous fiscal year, there was an increase of JPY240 million over the previous fiscal year.

Orders received and order backlogs both increased significantly to over JPY10 billion over the previous fiscal year, reaching record highs.

IT Services (ITS)

(mil. yen)

	FY2020/9	FY2021/9	YoY	
			Amount	Rate
Net sales	57,438	62,653	+5,214	+9.1%
Operating profit	2,878	3,191	+312	+10.9%
Operating profit margin	5.0%	5.1%	+0.1P	
Ordinary profit	3,092	3,361	+269	+8.7%
Orders received	59,501	67,536	+8,034	+13.5%
Order backlog	42,436	47,319	+4,883	+11.5%

Key points

- Both sales and profit increased thanks to sales growth in the finance and credit card business.
- Operating profit was at a record high level. A high profit margin was maintained alongside continued upfront investment in DX, etc.
- Orders received and the order backlog rose considerably YoY, driven by finance and credit card business

This is roughly the performance of Mitsubishi Research Institute DCS Group.

Net sales were JPY62.6 billion, an increase of JPY5.2 billion YoY. Ordinary income was JPY3.3 billion, an increase of JPY260 million YoY.

Sales and profits increased due to growth in the finance and credit card sectors. Operating income is at nearly record high level.

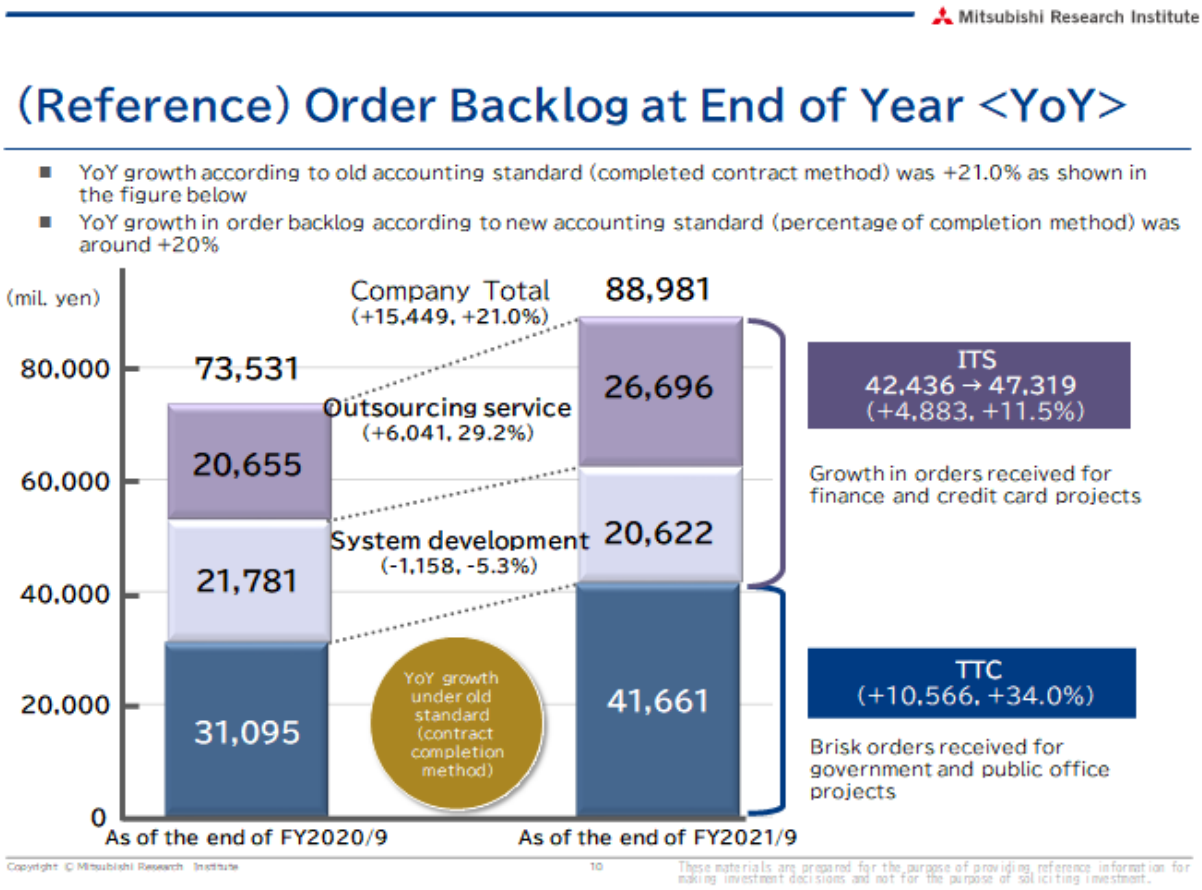
While making up-front investments to expand DX and the general private sector in line with theMP2023, profit margins are steadily increasing on the order side, especially for finance and credit card projects. Orders received were JPY67.5 billion, an increase of JPY8 billion YoY. The order backlog was JPY47.3 billion, an increase of JPY4.8 billion YoY, both of which are significant increases.

Net sales by segment and industry of customer <YoY>

(mil. yen)

		FY2020/9	FY2021/9	YoY	
				Amount	Rate
TTC	Government and public offices	21,746	27,065	+5,319	+24.5%
	Finance/credit card	3,384	4,110	+725	+21.4%
	General industries	9,450	9,200	-249	-2.6%
	TTC total	34,581	40,376	+5,795	+16.8%
ITS	Government and public offices	521	578	+57	+11.0%
	Finance/credit card	37,986	43,708	+5,722	+15.1%
	General industries	18,931	18,366	-564	-3.0%
	ITS total	57,438	62,653	+5,214	+9.1%

Page 9 shows sales by customer industry and segment.



On page 10, we show the order backlog as of the end of September.

The order backlog was JPY88.9 billion, up JPY15.4 billion from the previous fiscal year. In terms of percentages, the increase is 21%, which is a significant increase.

The MP2023 measures are progressing smoothly. This was due to the accumulation of large-scale projects, including system projects in the finance and credit card sector and AI simulation work with an eye on post-coronavirus.

In addition, the accounting standards will be changed from FY2022, and sales will be required to be recorded according to the progress of a project. We have calculated the difference between the old and new accounting standards, and have confirmed that the order backlog has increased by approximately 20% YoY under the new accounting standards, and that there is no significant change from the old accounting standards as indicated in the presentation. I think we can say that we were able to start this fiscal year from a solid basis.

FY2022 Full Year Forecasts

- Sales and profit growth will be maintained through a positive cycle of upfront investment and investment return, for achievement of MP2023 targets
- In TTC, the sales and profit growth trend will be maintained (excl. office integration expenses), with the effect of growth emerging from FY2023
- In ITS, the profit margin will improve, and sales and profits will rise mainly due to large SI projects and general private-sector DX.

Net sales forecast: 113,000 mil. yen YoY change +9,960 mil. yen (+9.7%)

- TTC: 44,000 mil. yen YoY change +3,600 mil. yen
  Higher sales due to firm orders received for government and public office projects
- ITS: 69,000 mil. yen YoY change +6,300 mil. yen
  Higher sales due to finance and credit card business and general private-sector DX

Ordinary profit forecast: 8,200 mil. yen YoY change +630 mil. yen (+8.3%)

- TTC: 4,000 mil. yen YoY change -200 mil. Yen
  (+200 mil. yen when office integration expenses (400 mil. yen) are excluded)
- ITS: 4,200 mil. yen YoY change +800 mil. yen

Profit forecast: 5,500 mil. yen YoY change +490 mil. yen (+9.8%)

(Note) Current forecast does not factor in impact of COVID-19

We will continue with our forecast for FY2022.

In FY2022, we will aim to achieve the goal of JPY10 billion in ordinary income, which is the target of the MP2023. We will maintain the trend of increased sales and profits by realizing a virtuous cycle of making up-front investments and reaping the benefits of projects that will enter the payback period.

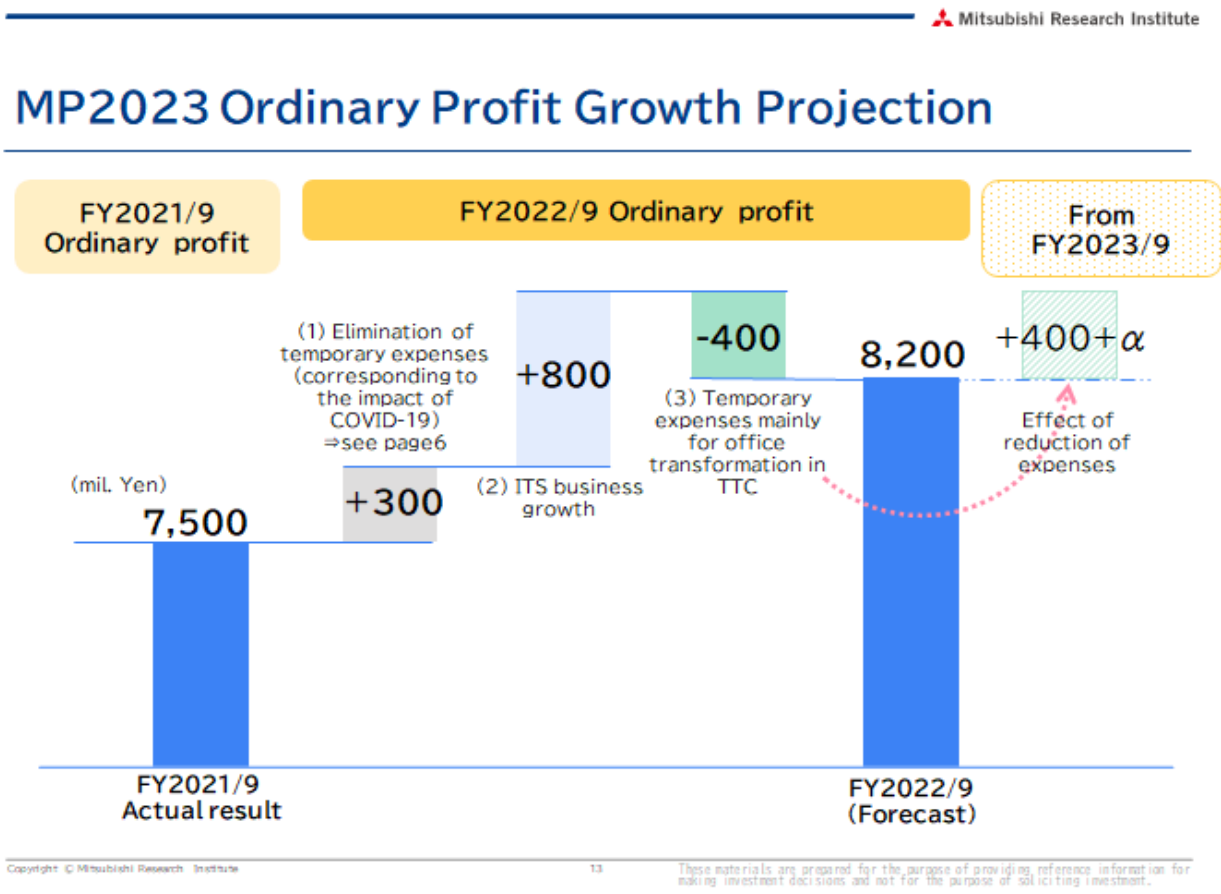
TTC will implement qualitative reforms to its existing portfolio, as well as office reforms and office integration, with the aim of creating a new way of working under the new normal management. We received a lot of questions in advance about this office reform and office integration. Let me explain a little.

In light of the widespread use of telework, this office reform will integrate nearby subsidiaries into Tokyu Capitol Tower (where MRI's headquarter is located at) and, at the same time, renovate the office into a comfortable and rewarding place to work, with the aim of eliminating the lack of communication pointed out in the pandemic.

We aim to realize the concept of smart and exciting work that we have mentioned in the past. Financially, there will be a one-time increase in expenses of about JPY400 million in FY2022, but from FY2023 onward, rent is expected to be reduced at the subsidiaries.

On the other hand, in the ITS business, in addition to the large-scale SI projects that have been driving the business, we are aiming for a third consecutive year of increased sales and profits through growth in the general private-sector DX and service businesses through MDJI collaboration including MRI, DCS, JBS, and Ines.

Based on the above, our forecast for FY2022 is sales of JPY113 billion, an increase of JPY9.96 billion, or 9.7% YoY. Ordinary income was JPY8.2 billion, up JPY630 million, or 8.3%, YoY. Current net income is projected to be JPY5.5 billion, an increase of JPY490 million or 9.8% YoY.



Page 13 shows the forecast of ordinary income for FY2021, FY2022, and beyond, which I have just explained.

Ordinary income for FY2021 was a solid base of JPY7.5 billion.

Variable factors include JPY300 million in temporary expenses incurred in the fourth quarter, JPY800 million in business growth centered on ITS, and JPY400 million in expenses associated with office reforms to be implemented at TTC.

As a result of adding up the above positive and negative factors, we are forecasting ordinary income of JPY8.2 billion for FY2022.

As explained earlier, the office-reform expenses expected in FY2022 will have a cost-reduction effect in the following years, so the level is expected to be that much higher in FY2023 and beyond.

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MP2023 Progress and Growth Strategies

(1) Core business (government and public office/finance and credit card business)

Summary

- ✓ Grew substantially due to large SI projects in areas such as DX, cutting-edge ICT, COVID-19 and 5G

Policies this FY

- ➢ TTC: Restructure research and consulting project portfolio and expand projects linked to DX Push ahead with office transformation and internal infrastructure development for the post-COVID era (→ reduction of expenses will be expected in FY2023 and after)
- ➢ ITS: Improve profit margin by improving gross margin and reducing SG&A expenses, with credit card projects and large SI projects as the growth driver

(2) Growth business (DX/Subscription-based/Global business)

Summary

- ✓ Strengthened foundations for collaboration between Group companies, achieving synergy in terms of products and services and progress on cross-selling

Policies this FY

- ➢ TTC/ITS: Expand DX and subscription-based business for government and private sectors and continue to make upfront investments (research and development, partnerships)
- ➢ ITS: Expand manufacturing and finance DX (utilization of big data analysis) and service business (educational institutions)

[Investment] Pursue office transformation and development of internal DX infrastructure
[Personnel] Plan to hire an additional 120 personnel to strengthen DX human resources (TTC: 45, ITS: 75)

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On page 14, we describe our policies for achieving the FY2022 plan. In this section, we summarize the results of FY2021 and organize our policies for FY2022 by dividing them into core businesses and growth businesses.

First, the Core business.

In FY2021, we achieved significant growth driven by our core businesses, but this does not mean that we have went back to old structures. Looking at the contents of the large-scale projects that were the driving force, there was an increase in the number of projects that were in line with the policies of the MP2023, which entail solutions to social and corporate issues. These include DX, advanced ICT, AI simulations related to the pandemic, as well as projects related to the next-generation communication system - 5G and to the development of new financial institution systems.

In FY2022, we will promote a portfolio change in the research and consulting businesses within TTC, and increase the weight of projects that lead to DX. In addition, we will promote office reforms and other measures for the post-coronavirus era, which will lead to cost savings in FY2023 and beyond.

On the other hand, in the ITS business, we will continue to be driven by large-scale SI projects, while striving to improve profit margins through sophisticated management of SG&A expenses.

Next, the Growth businesses.

In the Growth business, the reinforcement of MRI group collaboration was successful in FY2021, and mutual complementation and cross-selling of services and products among Group companies progressed.

In FY2022, we will put our growth drivers, especially DX for public and private sectors, and subscription-type businesses, on a full-fledged growth track. In ITS, we will aim to grow our service-oriented businesses, such as

the payroll calculation and outsourcing services “PROSRV” and the examination support system “miraicompass” for students, in addition to DX for manufacturing and financial institutions using big data.

In order to support this development, we will improve our internal DX infrastructure, including our accounting system, and plan to increase the number of employees by 120 to strengthen our DX personnel.

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FY2022/9 Full Year Forecasts

(mil. yen)

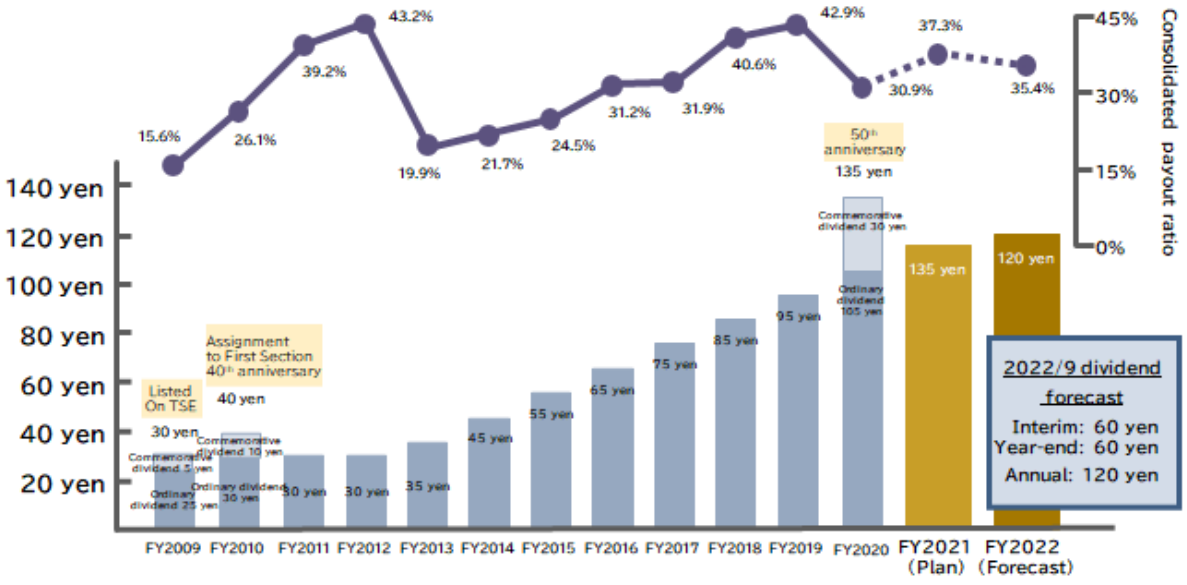
	FY2021/9 (Results)	FY2021/9 (Forecast)	YoY	
			Amount	Rate
Net sales	103,030	113,000	+9,969	+9.7%
TTC	40,376	44,000	+3,623	+9.0%
ITS	62,653	69,000	+6,346	+10.1%
Operating profit	6,853	7,200	+346	+5.1%
Operating profit margin	6.7%	6.4%	-0.3P	
Ordinary profit	7,568	8,200	+631	+8.3%
TTC	4,197	4,000	-197	-4.7%
ITS	3,361	4,200	+838	+24.9%
Profit attributable to owners of parent	5,009	5,500	+490	+9.8%
Basic earnings per share (yen)	308.60	339.26	+30.66	

Page 15 is a tabular representation of the business forecast that I have just explained.

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.



The next item is the dividend forecast.

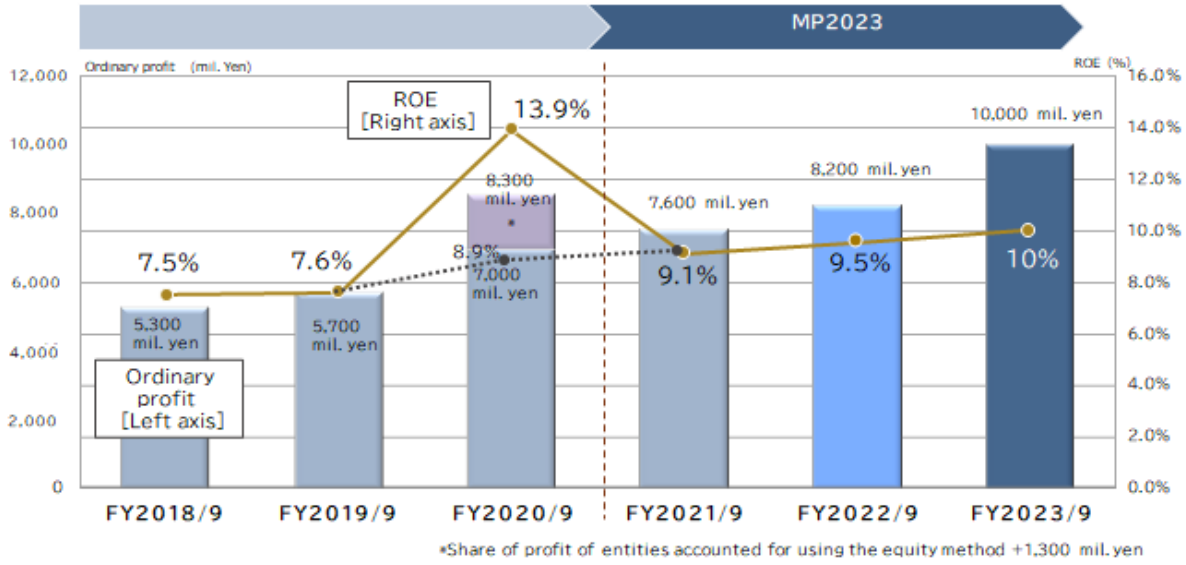
It has been our policy to strive to raise the level of dividends while comprehensively taking into account the balance of business performance and financial soundness, based on the principle of continuous stable dividends.

Based on this policy, as announced earlier, we will pay a year-end dividend of JPY60 per share, an increase of JPY5 over the previously announced amount. The interim dividend will be JPY55, the year-end dividend forecast is JPY60, and the annual dividend forecast is JPY115.

This is the ninth consecutive year of ordinary dividend increases, excluding the commemorative dividend of JPY30 for FY2020. The dividend payout ratio is 37.3%. The dividend forecast for FY2022 is JPY120, and we continue to forecast an increase in the dividend.

MP2023 Financial Targets

- FY2023/9 targets: Ordinary profit 10,000 mil. yen
  ROE 10%
  CAGR 12% (ordinary profit: excluding special factors in FY2020)



Page 17 shows the roadmap for achieving ordinary income of JPY10 billion and ROE of 10%, which are the targets of the MP2023.

To reach this target of JPY10 billion, we will need to increase profits by JPY1.8 billion from FY2022, but we believe that we can achieve this goal by steadily implementing the measures I have explained.

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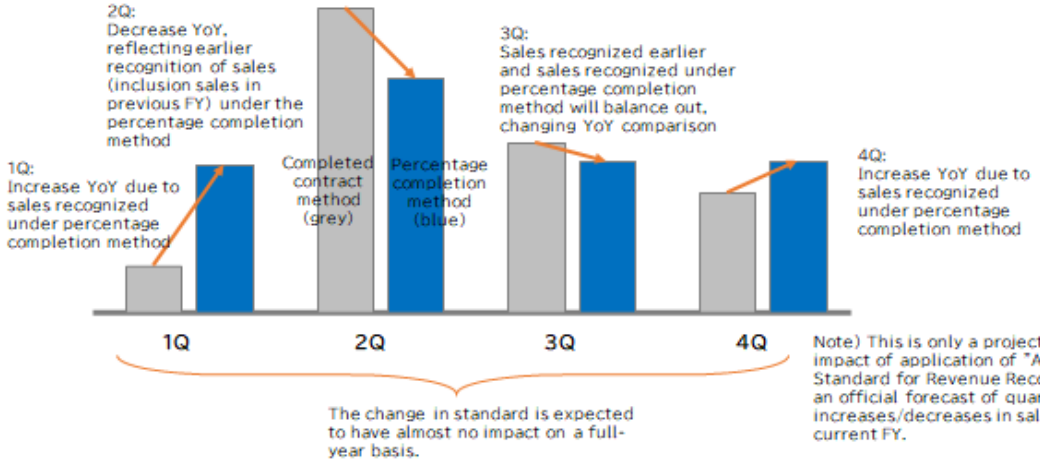
(Reference) Projected Impact of Application of Accounting Standard by Quarter

- **Full-year business results will not be affected; seasonal fluctuation on a quarterly basis is expected to be reduced**
- "Accounting Standard for Revenue Recognition" will be applied from the beginning of FY2022/9
- Sales from projects will be recognized under the "percentage completion method" instead of the currently used "completed contract method."

[FY2022/9 Quarterly Sales Projections]

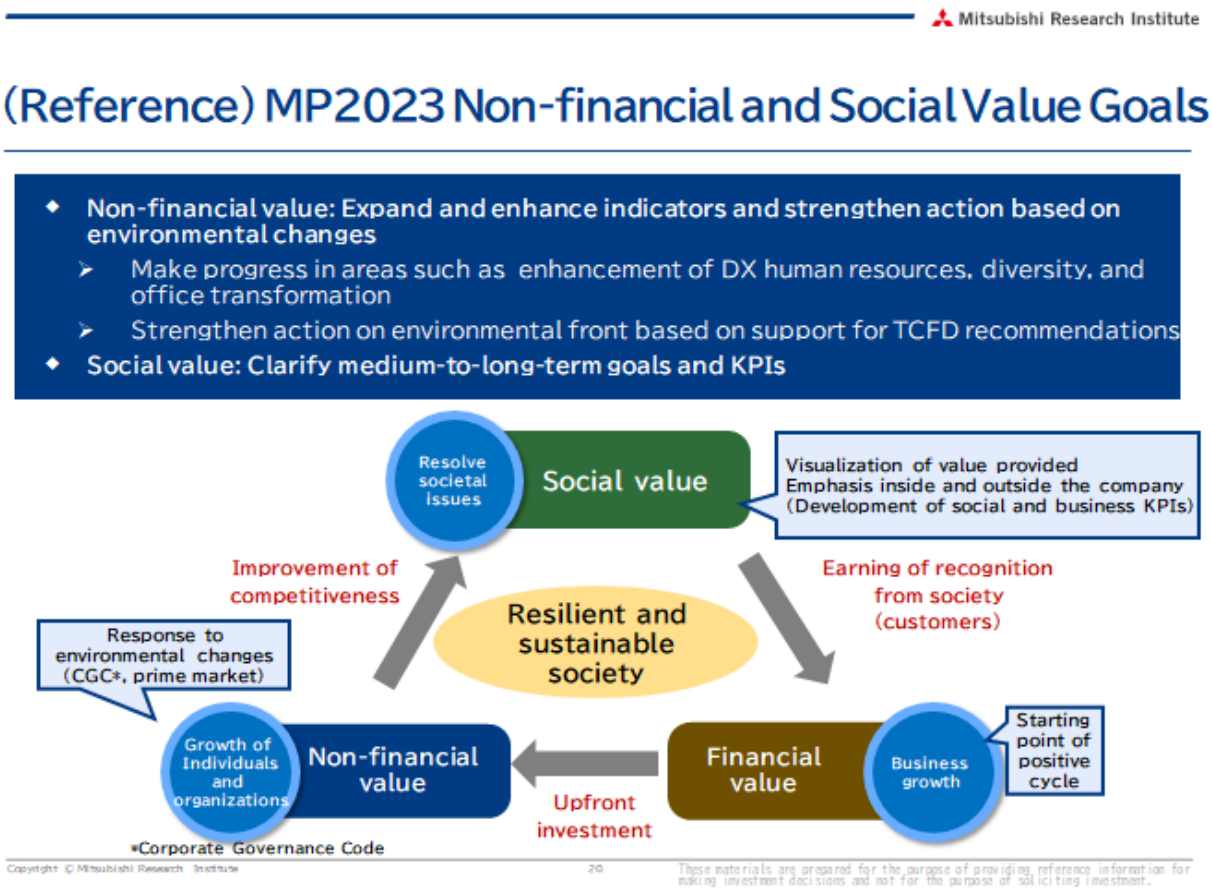


Note) This is only a projection of the impact of application of "Accounting Standard for Revenue Recognition," not an official forecast of quarterly increases/decreases in sales in the current FY.

Page 18 shows the quarterly impact of the change in accounting standards that I mentioned earlier.

The point is that the impact on full-year results will be minimal. In addition, quarterly seasonal fluctuations shall be reduced. These are the 2 points.

As you can see in the figure, there will be a difference between the old and new standards every quarter, and we will continue to provide detailed explanations, including technical aspects.



Finally, I would like to introduce a few topics.

In the MP2023, as shown in the figure, we have stated that we aim to create a resilient and sustainable society by maximizing the 3 values of financial value, non-financial value, and social value through the realization of a virtuous cycle of value creation.

We will continue to enhance our corporate value, which is the sum of the 3 values, by expanding and revising our targets and clarifying KPIs in light of changes in the environment such as TCFD.

(Reference) Implementation of VCP Management

◆ Value Chain Process in Environment and Energy field

Social issues
Global warming
Climate change
Promotion of renewable energy

→ Research & Recom-mendations → Analysis & Conceptu-alization → Design & Testing → Societal Implemen-tation →

Transformation of society
Realization of a decarbonized society

We researched, published and proposed a 2050 Energy Vision

We continuously disseminate information related to the environment and energy on our website. (only in Japanese)

Examples of projects undertaken

- Offshore windfarm related research
- Resource business strategies for the carbon-free era (major private-sector corporation)
- Development of international energy conservation standards
- Research related to the calculation of greenhouse gas emissions

(Government and public offices)

MRI Group activities

- Participated in the establishment of Z Energy
- Expressed support for the TCFD recommendations
- Strengthened collaboration with UK-based BVG Associates
- Made additional investment in Exergy Power Systems
- Provided wholesale power transaction forecasting service (MPX)

...and others

(Reference) Implementation of VCP Management

◆ Value Chain Process in Healthcare field

Social issues
Decline in QOL due to long COVID

→ Research & Recom-mendations → Analysis & Conceptu-alization → Design & Testing → Societal Implemen-tation →

Transformation of society
Prolongation of healthy life span
Safety and peace of mind post COVID-19

Published the findings of research to commemorate the 50th anniversary of our founding and proposed solving issues facing society in the "10 Billion Population & 100-Year Life Era" through the transformation of society in three domains: digital, bio and communication.

Published a column and recommendations about COVID-19 covering a wide range of aspects on our website (only in Japanese)

Examples of projects undertaken

- Demonstration of AI/IoT-based nursing care quality assessment
- Investigation and research to demonstrate and introduce key technologies for the world following the COVID-19 pandemic.

and others

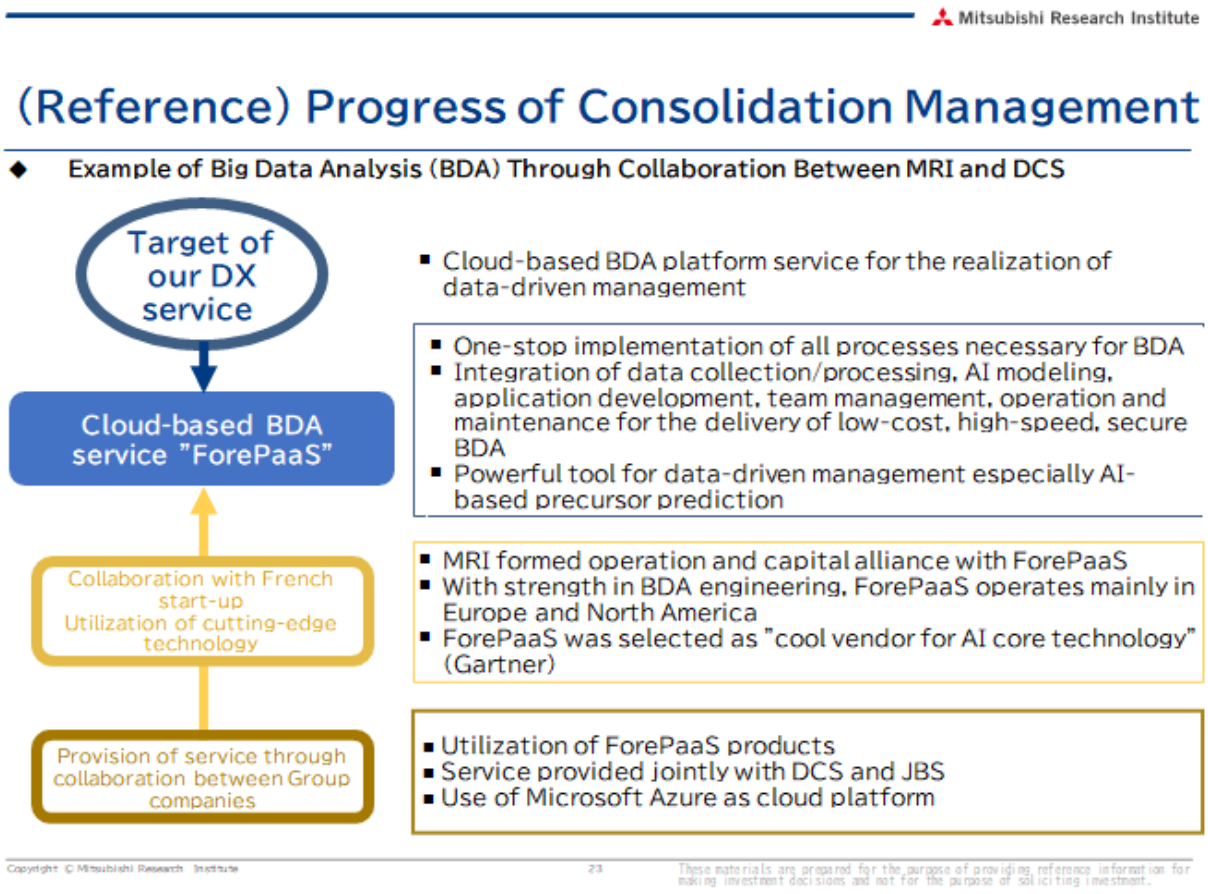
MRI Group activities

- Involved in a JV offering welfare equipment such as wheelchairs and electric beds for hire nationwide

- (Long-term care insurance service)
- Provided communication robot services for nursing care
- Added COVID-19 response to the "AI-Based Municipal Chatbot Service," which uses AI Chatbots to respond to inquiries from residents

The first basic policy of the MP2023 is VCP management, or Value Creation Process. It aims to solve social issues and bring about social change by connecting the value chain from research, proposal, to social implementation.

On pages 21 and 22, we introduce specific examples in the environment, energy, and health care fields of our VCP management.



Page 23 introduces the second basic policy of the MP2023, the progress of consolidated management, and the collaboration between MRI and DCS.

Topics: Recent News Releases

All releases below are only in Japanese

Date		Title
[MRI]		
Oct. 29, 2021	DX	Mitsubishi Research Institute Publishes Research Findings on CX (Communication Transformation) in the 2030s
Sep. 30, 2021	ESG	Publication of the International Standard for Geospatial Information for Drones, a Proposal Originated in Japan
Sep. 27, 2021	ESG	Mitsubishi Research Institute Expresses Support for the Task Force on Climate-related Financial Disclosures (TCFD) Recommendations
Sep. 1, 2021	ESG	Mitsubishi Research Institute Participates in the Establishment of A New Company Z Energy, for the Creation of a Renewable Energy Fund
Aug. 31, 2021	ICT	Mitsubishi Research Institute Publishes Security Reference for Cloud Computing Services for Medical Institutions
Aug. 30, 2021	ESG	Mitsubishi Research Institute Signs Collaborative Agreement on Joint Research for the Realization of Smooth Management Succession in Agriculture
Aug. 26, 2021	DX	Mitsubishi Research Institute and INES Start Joint Research with Toyota City for DX of Resident Consultation Operations through "AI Consultation Partner" Service
Aug. 26, 2021	DX	Mitsubishi Research Institute Adds "Recipe Inference Function" to Brewing Takumi AI system and Commences Trials of New Function For Faster Product Development and Passing on Technical Skills

Topics: Recent News Releases

All releases below are only in Japanese

Date		Title
[DCS]		
Sep. 27, 2021	DX	"PROSRV on Cloud," the Cloud-based Payroll System from Mitsubishi Research Institute DCS Now Compatible with Digital Agency's Mynaportal API
Sep. 13, 2021	DX	Mitsubishi Research Institute Signs Partner Agreement with OutSystems Japan - Start of Support for Adoption of Agile Development and Low-Code -
Sep. 6, 2021	ESG	Mitsubishi Research Institute Starts Providing "Link&Robo for Wellness," a Communication Robot Service for Nursing Care
Aug. 17, 2021	ESG	Mitsubishi Research Institute Launches "Introduction to Robot Programming" field trip classes for Elementary and Junior High Schools

The last 2 pages, pages 24 and 25, are a summary of DX and ESG-related news released since the 4th quarter. I hope you can read through it later.

With that, I would like to conclude my presentation.

Thank you very much for your attention.

Question & Answer

A: As for orders, I think you received relatively large orders in FY2021, including pandemic-induced orders, 5G, as well as finance and credit card projects. I think you are expecting high levels of orders in FY2022 as well, so please tell us what kind of projects you are expecting for each of TTC and ITS.

Answer: I think you are asking about the project inventory.

In this context, our basic strategy is to solidify our base through our core businesses, while increasing the number of projects in the growth businesses area. On the TTC side, there are many social issues and the government agencies are also dealing with many social issues. Thus, I think this trend will increase now that the government has been replaced by new prime minister.

There are a variety of major issues that need to be addressed, and we are actively proposing ways to help solve these issues through the use of DX.

As for ITS, the integration project of credit card system will be expanding this or next fiscal year. In addition to this, MRI and DCS are collaborating much closer to provide DX to the general public. In FY2021, we collaborated with a French venture company, ForePaaS, and added services to make progress in so-called BDA, big data analysis.

Thus, in the private sector, our customers' needs are increasing, especially in the area of DX, so we must not only reduce costs, but also proactively propose the creation of new businesses and develop them together with our customers. I think this is a big point.

In addition, DCS offers "PROSRV", a payroll calculation and outsourcing service, to a wide range of customers. There is also "miraicompass", which is an online exam application and payment support system.

For example, we have more than 500,000 customers for "PROSRV", and nearly 1,000 customers (schools) at "miraicompass". We would like to improve our services for these customers and expand the number of companies and schools, being something like a mass retailer.

B: In FY2021, I think the Company recorded JPY1.4 billion to JPY1.5 billion in expenses as prior investments. Regarding FY2022, how do you factor in the effects of prior investments made in the previous fiscal year? Furthermore, I think that in this fiscal year there will be upfront investment in areas such as DX. How much will it amount to?

Answer: In the previous fiscal year, we had mentioned that our upfront investment would be around JPY1.4 billion to JPY1.5 billion. After the project with quality issues at DCS, we have been building its internal structure and have been able to solidify the governance and human resource aspects of DCS. However, these efforts have not yet directly led to sales or profits on a large scale.

At this moment, we are very much hoping that we can maintain our profit margin for the time being while making such upfront investments, and that it will break through significantly in the next fiscal year and beyond.

Regarding prior investments in DX for this fiscal year, we plan to invest JPY1 billion each in R&D for DCS and MRI. This is an unprecedented level, and I believe the amount has nearly doubled for DCS.

In the past, our product and development capabilities were a little weak in some sense. However, some new products have started already or begun to emerge previous years, and we expect more products to make a big breakthrough next fiscal year.

C: With regard to your target of JPY10 billion in ordinary income for FY2023, you say that a YoY increase of JPY1.8 billion is fully achievable. Please explain this in a little more detail in term of sales outlook and expense outlook.

Answer: Our initial roadmap to the target JPY10 billion in ordinary income is as follows. The first year, FY2021, would be JPY7.5 billion; the second year JPY8.5 billion; the third year JPY9.5 billion; and by adding JPY500 million for organic growth, it would be about JPY10 billion. In that sense, some might think that the figure of JPY8.2 billion in FY2022 that we have given is rather low.

However, there will be a consolidation of offices. In the first instance, we will incur an initial investment of JPY400 million as an expense, but this will of course not be incurred in FY2023 and beyond. In addition, the reduction of the rent that we are currently paying at the subsidiaries will have a positive effect.

In that sense, the start base for FY2023 will be around JPY8.6 billion, and from there we aim for the JPY9.5 billion and beyond. I believe that it is fully achievable.

On the other hand, in terms of sales, we have recently received a number of large-scale projects. However, large-scale projects do not necessarily mean good profitability. As I have said in the past, we will focus on ordinary income and profit margins rather than sales to achieve our targets for the MP2023.

D: You've given examples of progress in VCP management and the MRI/DCS collaboration. However, it is difficult to see the degree of impact on earnings, so if possible, please add any quantitative explanations such as the scale of orders received for each.

Answer: As for the VCP (Value Chain Process) management, we originally had 5 intensive fields, but last year we decided to strengthen it a little more and expanded it to 8 fields. Our strategy is to solve social issues and at the same time increase our own financial value by carrying out a comprehensive approach in each field, from research and study to implementation and realization (please refer to page 21 and 22).

We have actually assigned a VCP manager to manage the cross-matrix between the existing specialized departments of the government agencies as well as the private sectors. Although we do not currently have quantitative targets in numbers for each field, we are planning to expand them within the matrix between existing business fields and each of the VCP fields.

In this context, especially in the area of energy, which is shown in the chart on page 21, actual projects are expanding considerably. As you can see in the small box on the bottom right, the wholesale electricity trading forecasting service, which we call MPX, is gradually growing from hundreds of millions of yen to billions of yen in sales.

At this point, I do not have much to say about the concrete figures, but I would like to disclose more examples of growth in the next year or so.

E: How many subsidiaries are you planning to integrate into the Capitol Tokyu Tower? How much cost reduction do you expect from the office integration? When is the integration scheduled to be completed?

Answer: There are 2 subsidiary companies, MRI Research Associates (MRA) and MRI Business (MBS), are in neighboring building. These companies will be integrated into the Capitol Tokyu Tower without expanding our current rent area at the building.

Telework has become quite popular during the pandemic in our company as well. At the lowest level, it was about 10%, and at the time of the emergency declaration, it was about 30%. At present, I think it is about 50%. Based on this telework situation, we decided to integrate the offices.

Financially, an approximately JPY400 million will be needed as a 1-time expense for FY2022. Of course, this expense will not be incurred in the next fiscal year. In addition, the rent paid by the 2 companies just mentioned is close to JPY200 million, and the reduction of it will have a positive effect on the project from FY2023 onward.

We are planning to start renovation work in November and complete it by next spring.

[END]