Mitsubishi Research Institute

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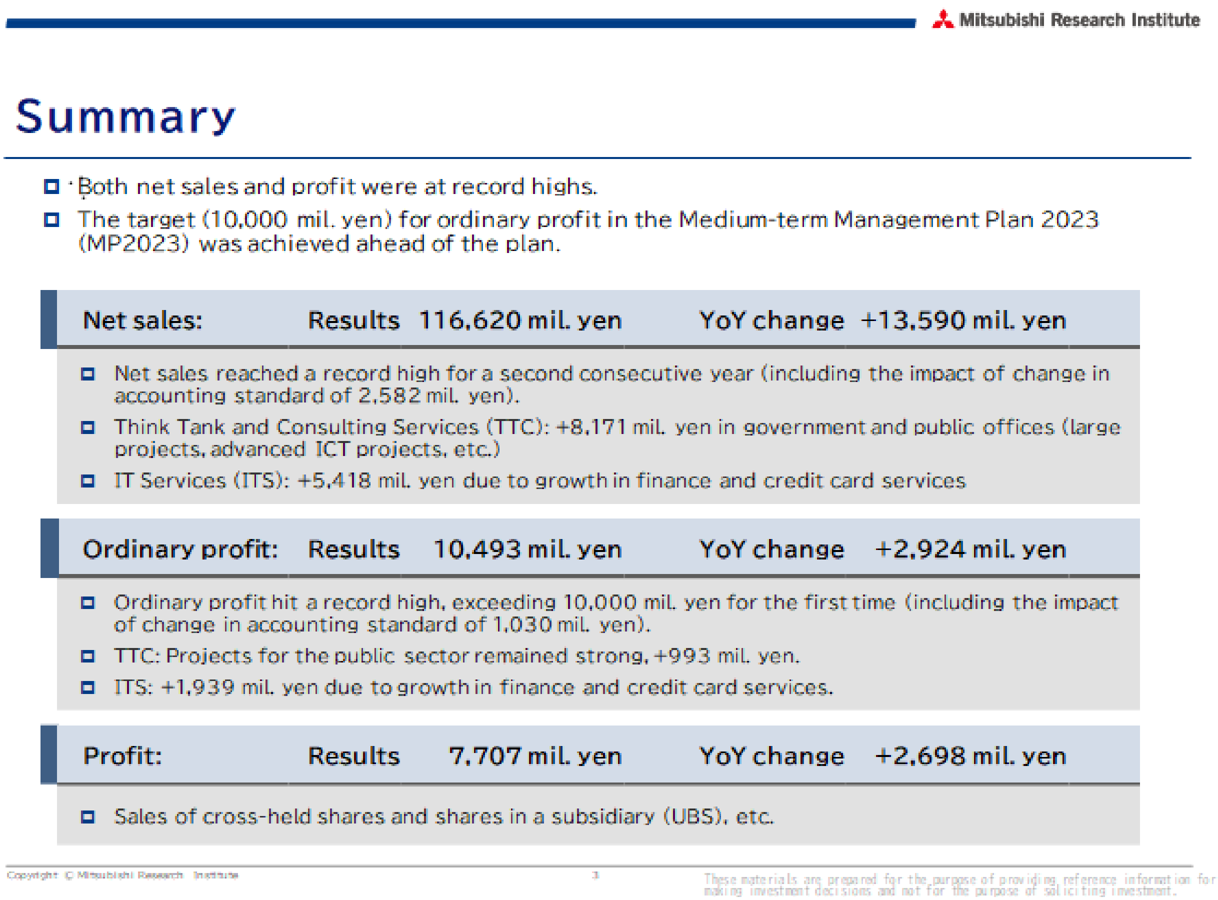
Mitsubishi Research Institute, Inc.

Financial Results Briefing for the Fiscal Year Ended September 2022

November 7, 2022

Presentation

Yabuta: My name is Yabuta, and I am the President. Thank you very much for taking time out of your busy schedules to attend our financial presentation today.



I would like to explain our financial results for the fiscal year ended September 30, 2022 and our earnings forecast for the fiscal year ending September 30, 2023.

The fiscal year ended September 2022 was the second year of the turnaround of the medium-term management plan 2023 (the MP2023). Sales, operating profit, and ordinary profit all reached record highs. Especially for the ordinary profit, which exceeded the JPY10 billion mark for the first time, one year ahead of the mid-term plan target. Although there was a change in the revenue recognition standard at the beginning of FY2022/09, the impact on these financial results is limited, so I will explain the new accounting standard in principle today.

First, consolidated net sales were JPY116.6 billion, up JPY13.5 billion from the previous year. Think tank consulting services were driven by several large projects including the COVID-19 AI simulation for government agencies and advanced ICT projects, while IT services were driven by finance and cards. Both segments are reporting higher revenues.

Ordinary profit was JPY10.4 billion. TTC reported an increase of JPY0.9 billion, driven by government, while ITS reported an increase of JPY1.9 billion due to strong sales of financial institutions and credit card companies. Net profit is JPY7.7 billion, up JPY2.6 billion from the previous year. This includes extraordinary gains from the sale of shares held by policyholders and shares of subsidiaries.

FY2022 Consolidated Results <YoY>

[Including the effect of accounting standard change]

(mil. yen)

	FY2021/9	FY2022/9	YoY change		Forecast announced Aug.1,2022	V.s. forecast
			Amount	Rate		
Net sales	103,030	116,620	+13,590	+13.2%	117,000	-379
Gross profit	23,447	26,580	+3,132	+13.4%	–	–
Gross profit margin	22.8%	22.8%	+0.0P		–	–
SG&A expenses	16,593	17,415	+821	+5.0%	–	–
Operating profit	6,853	9,165	+2,311	+33.7%	9,200	-34
Operating profit margin	6.7%	7.9%	+1.2P		7.9%	-0.0P
Ordinary profit	7,568	10,493	+2,924	+38.6%	10,400	+93
Profit attributable to owners of parent	5,009	7,707	+2,698	+53.9%	7,500	+207
Basic earnings per share (yen)	308.60	474.67	+166.07		461.88	+12.79
ROE(Return on Equity)	9.1%	12.8%	+3.7P		–	–

Page four is a consolidated profit statement of what I just said.

Mitsubishi Research Institute

FY2022 Consolidated Results <YoY>

[Comparison with those under the previous accounting standard]

(mil. yen)

	FY2021/9	FY2022/9		
		Results (new standard)	Effect of the standard change	Reference value (previous standard)
Net sales	103,030	116,620	+2,582	114,038
Gross profit	23,447	26,580	+1,030	25,550
Gross profit margin	22.8%	22.8%	–	22.4%
SG&A expenses	16,593	17,415	–	17,415
Operating profit	6,853	9,165	+1,030	8,135
Operating profit margin	6.7%	7.9%	–	7.1%
Ordinary profit	7,568	10,493	+1,030	9,463
Profit attributable to owners of parent	5,009	7,707	+567	7,139
Basic earnings per share (yen)	308.60	474.67	34.98	439.69
ROE(Return on Equity)	9.1%	12.8%	–	–

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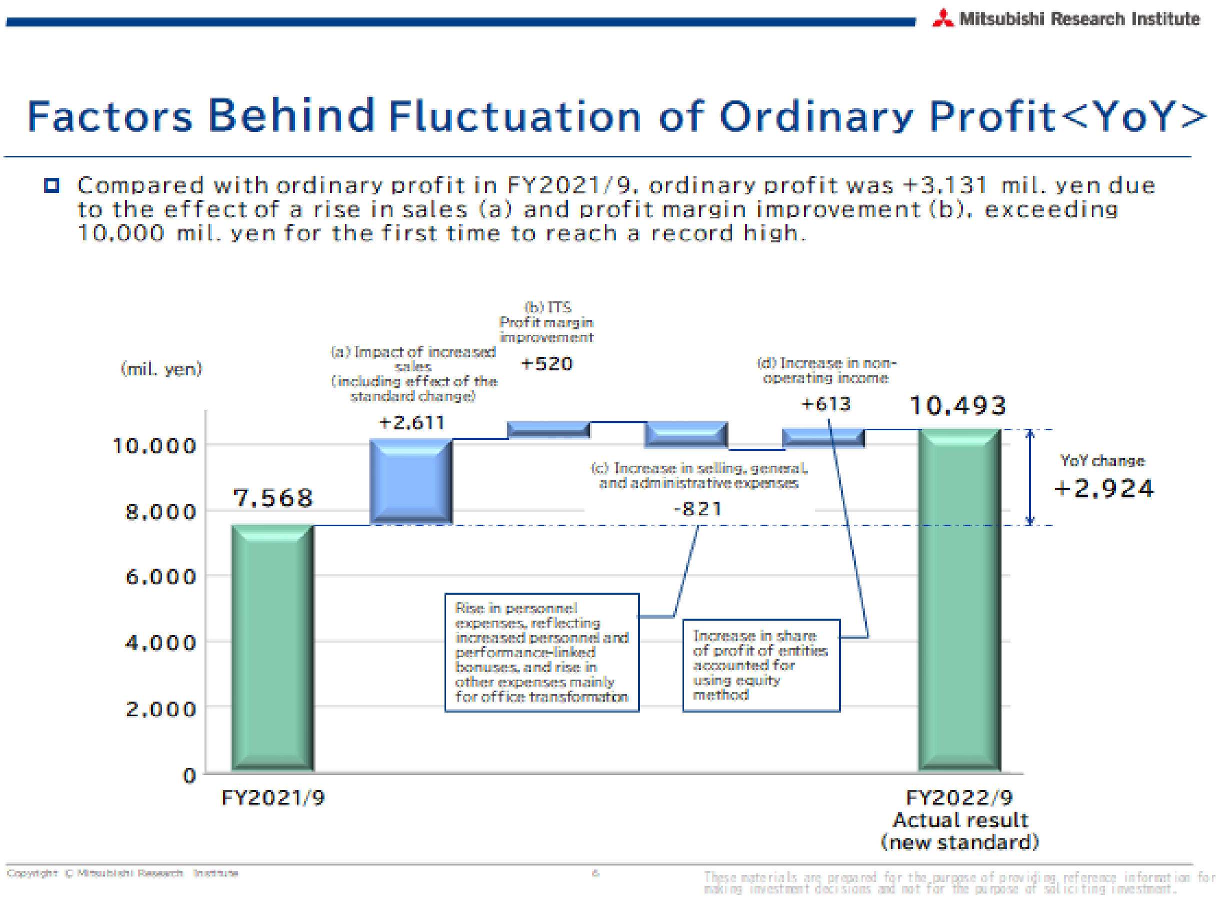
Page five shows the impact of accounting standard changes for reference.



See page six. The following chart shows the factors behind the YoY change in ordinary profit.

Ordinary profit for FY2021/09 was JPY7.5 billion. This was supplemented by an increase in revenue of JPY2.6 billion from item (a) and an improvement in profit margin of JPY0.5 billion from item (b), for a total effect of JPY3.1 billion in profit increase.

On the other hand, JPY800 million increase in SG&A and other expenses in (c) is due to an increase in personnel expenses to strengthen human resources and one-time expenses associated with office reform, and is viewed as a positive cost increase. Non-operating profit in (d) is mainly equity in earnings of affiliates, which contributed JPY0.6 billion to the increase.

As a result, ordinary profit increased by JPY2.9 billion to JPY10.49 billion.

Think Tank and Consulting Services (TTC)

(mil. yen)

	FY2021/9	FY2022/9 (Actual result)	YoY change		<Reference> Effect of the standard change
			Amount	Rate	
Net sales	40,376	48,548	+8,171	+20.2%	-285
Operating profit	3,652	4,115	+462	+12.7%	-7
Operating profit margin	9.0%	8.5%	-0.5P	–	–
Ordinary profit	4,197	5,190	+993	+23.7%	-7
Orders received	50,943	49,833	-1,109	-2.2%	–

Key points

- Net sales rose significantly (up 8,171 mil. yen), reaching a record high, driven by AI simulation, local 5G (5th generation mobile network) projects and other large projects as well as advanced ICT, energy saving-related projects, and other projects for the public sector.
- Ordinary profit reached a record high of 5,190 mil. yen (up 993 mil. yen), reflecting increased operating profit (up 462 mil. yen) plus an increase in share of profit of entities accounted for using equity method, among other factors.
- Orders declined 1,109 mil. yen due to orders for large projects in the previous fiscal year but were still at a high level (49,833 mil. yen).

I would like to explain our business performance by segment.

First is think tank consulting services, or TTC. This generally corresponds to the performance of MRI itself.

Net sales were JPY48.5 billion, an increase of JPY8.1 billion from the previous year. Ordinary profit was JPY5.1 billion, an increase of JPY0.9 billion from the previous year.

As mentioned above, DX-related contributions from government projects, especially social issue-driven projects and advanced ICT, have been significant, with both sales and profits reaching record highs.

Orders received are at a high level of JPY49.8 billion, although they are down JPY1.1 billion due to the absence of large projects such as we had in the previous fiscal year. I will explain about the order backlog.

IT Services (ITS)

(mil. yen)

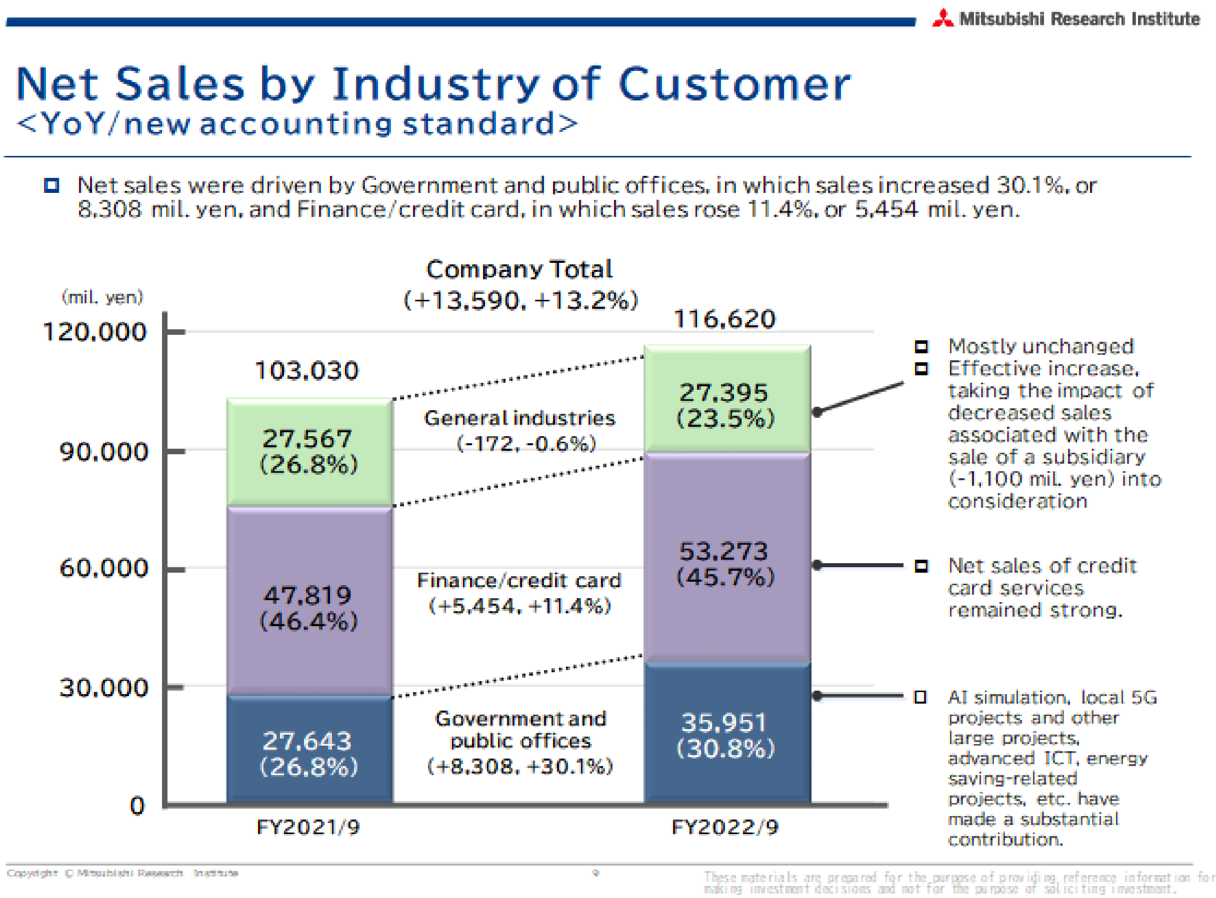
	FY2021/9	FY2022/9 (Actual result)	YoY change		<Reference> Effect of the standard change
			Amount	Rate	
Net sales	62,653	68,072	+5,418	+8.6%	+2, 867
Operating profit	3,191	5,048	+1,856	+58.2%	+1,037
Operating profit margin	5.1%	7.4%	+2.3P	–	–
Ordinary profit	3,361	5,301	+1,939	+57.7%	+1,037
Orders received	67,536	71,050	+3,513	+5.2%	–

Key points

- Growth in the finance and credit card business resulted in a rise in both sales (+5,418 mil. yen) and profit (operating profit: +1,856 mil. yen, ordinary profit: +1,939 mil. yen), reaching new record highs.
- Net sales increased and the operating profit margin improved (5.1%⇒7.4%), reflecting an improved product mix that had highly profitable projects.
- Orders received was driven by finance and credit card services, resulting in effective YoY growth.

Next is IT services and ITS. Generally, this is the performance of the Mitsubishi Research Institute DCS Group. Net sales increased JPY5.4 billion to JPY68 billion and ordinary profit increased JPY1.9 billion to JPY5.3 billion.

The contribution from the finance and credit card sectors continues to be significant, with both sales and profits at record highs. The profit margin, one of the challenges in this segment, has also improved to a level reaching 8%. Orders have also been steadily increasing, mainly in the financial and credit card fields.



Page nine shows sales by segment and industry of customer.

In addition to large increases in the government and finance/credit card sectors, general industry, which on the surface showed a slight decline, also posted an increase of approximately JPY1 billion in real terms, excluding the impact of the sale of the subsidiary.

(Reference) Net Sales by Segment and Industry of Customer <YoY>

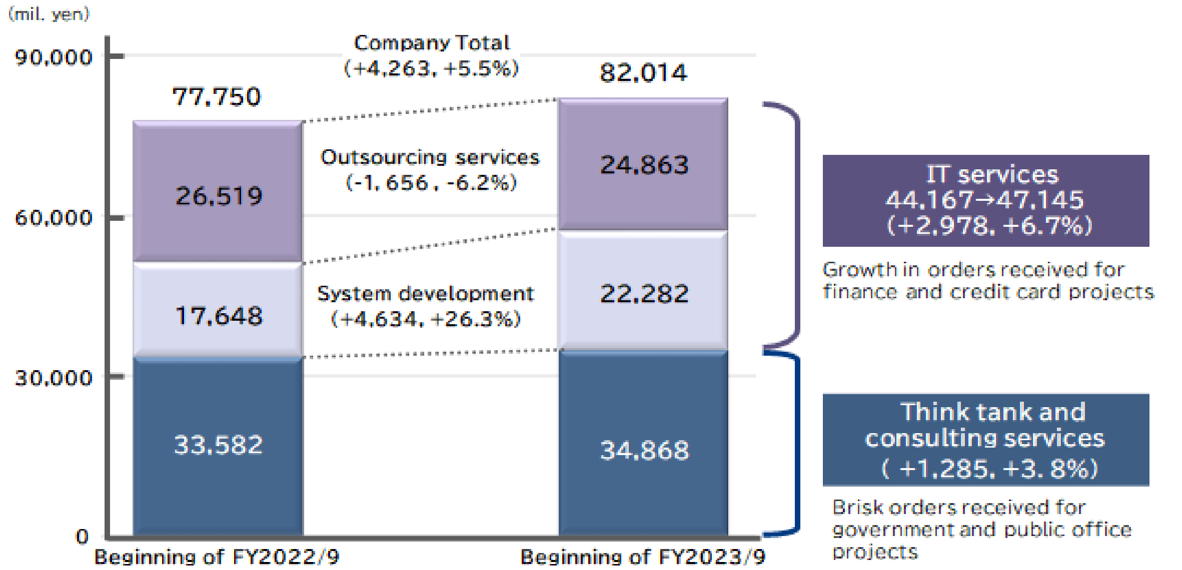
(mil. yen)

		FY2021/9	FY2022/9 (Actual result)	YoY change		<Reference>
				Amount	Rate	Effect of the standard change
TTC	Government and public offices	27,065	35,185	+8,119	+30.0%	-1,318
TTC	Finance/credit card	4,110	3,862	-248	-6.0%	+223
TTC	General industries	9,200	9,500	+300	+3.3%	+809
TTC	TTC total	40,376	48,548	+8,171	+20.2%	-285
ITS	Government and public offices	578	766	+188	+32.6%	–
ITS	Finance/credit card	43,708	49,411	+5,702	+13.0%	+2,556
ITS	General industries	18,366	17,894	-472	-2.6%	+311
ITS	ITS total	62,653	68,072	+5,418	+8.6%	+2,867
Total		103,030	116,620	+13,590	+13.2%	+2,582

Page 10 shows the impact of the change in standard for reference, based on the breakdown of sales by segment and industry of customer.

(Reference) Order Backlog at Beginning of Year<YoY>

- The YoY change in Order Backlog at the beginning of the year is based on the new accounting standard.
- Order Backlog increased steadily, +5.5% or +4,263 mil. yen YoY.



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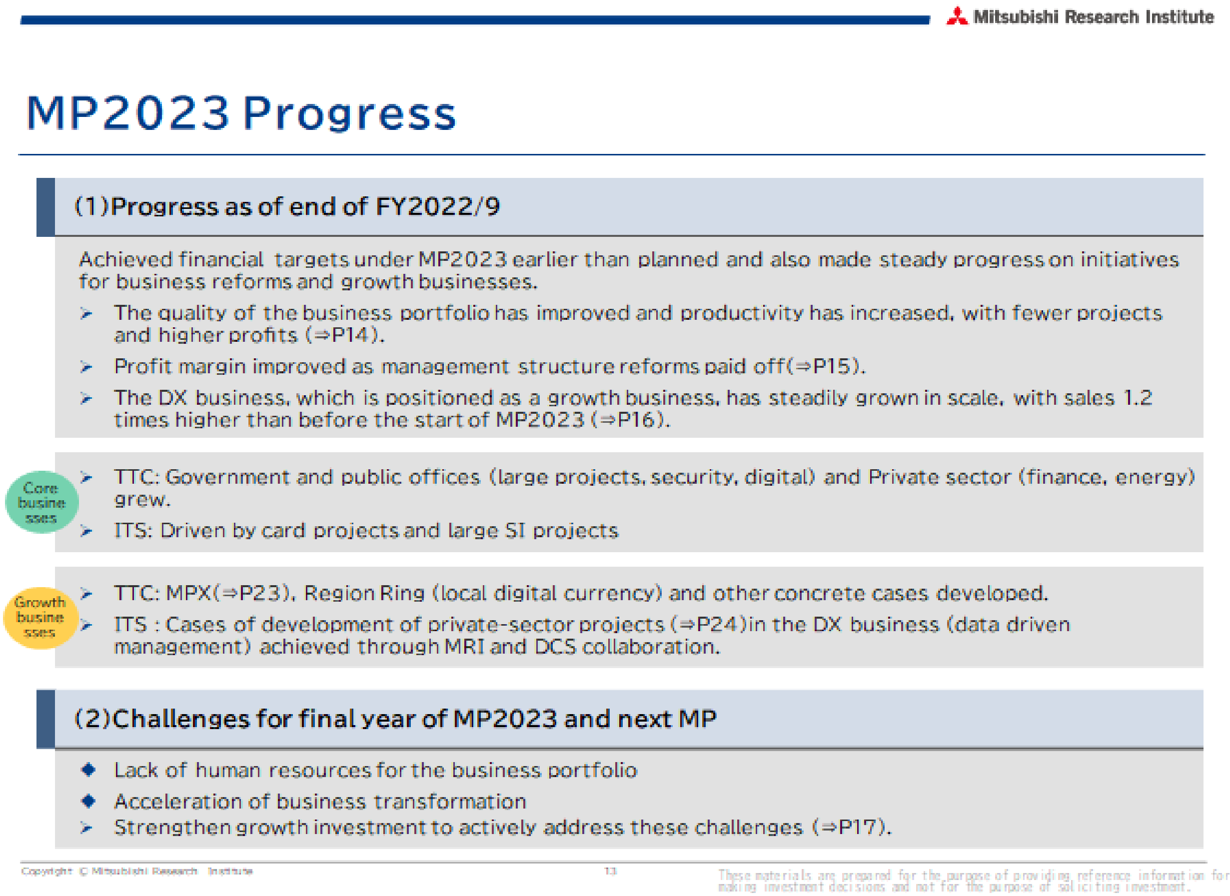
See page 11. It shows the balance of backlog carried forward at the beginning of the period.

Overall, JPY82 billion was accumulated, an increase of JPY4.2 billion or 5.5% over the previous year. Both segments are doing well, with TTC adding JPY1.2 billion and ITS JPY2.9billion.



Next, the performance outlook of the MP2023.

First, let me explain the progress of the medium-term management plan 2023. As explained in the financial results for FY2022/09, we achieved the financial target of JPY10 billion in ordinary profit for the MP2023 one year ahead of schedule.

In addition, we are making steady progress in implementing the measures in the MP2023. First, TTC has made progress in qualitative reform of its business structure, leading to larger projects, higher profits, and improved productivity. In ITS, the results of management structure reforms have become apparent in the form of improved profit margins. The DX business, positioned as a growth business in the MP2023, has expanded approximately 1.2 times in scale compared to 2020. I will show this with the specific data.

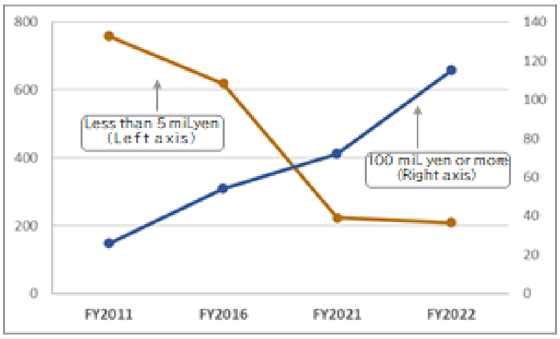
By business segment, in addition to the core businesses driving the strong performance, several growth businesses are also taking shape, some of which are introduced at the end of today's presentation.

At the same time, however, challenges for the current fiscal year, the final year of the MP2023, as well as for the next medium-term management plan, have also become clear. These include addressing the shortage of human resources and accelerating business transformation. We will lead to sustainable growth by strengthening our investment in growth, which we will talk about later.

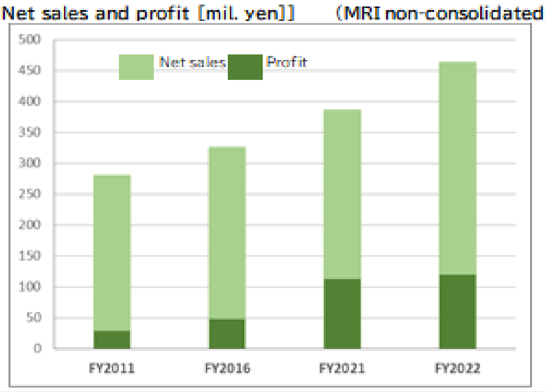
MP2023 Progress: Implementation of qualitative reforms in TTC services

- **While large projects (exceeding 100 mil.) increased significantly, small projects (less than 5 mil.) decreased considerably.**
  - Shift to large projects is underway: Over a period of approximately 10 years, large projects have more than quadrupled while small projects are down by around 70%.
- **Both net sales and profit have increased.**
  - Despite a decrease in the number of projects, both sales and profit have increased (a 1.7 fold and 4.1 fold increase respectively).
- **The shift to large projects and creation of high added value has resulted in a higher quality business structure, increased productivity, and an improved profit margin.**

Number of projects [projects] (MRI non-consolidated)



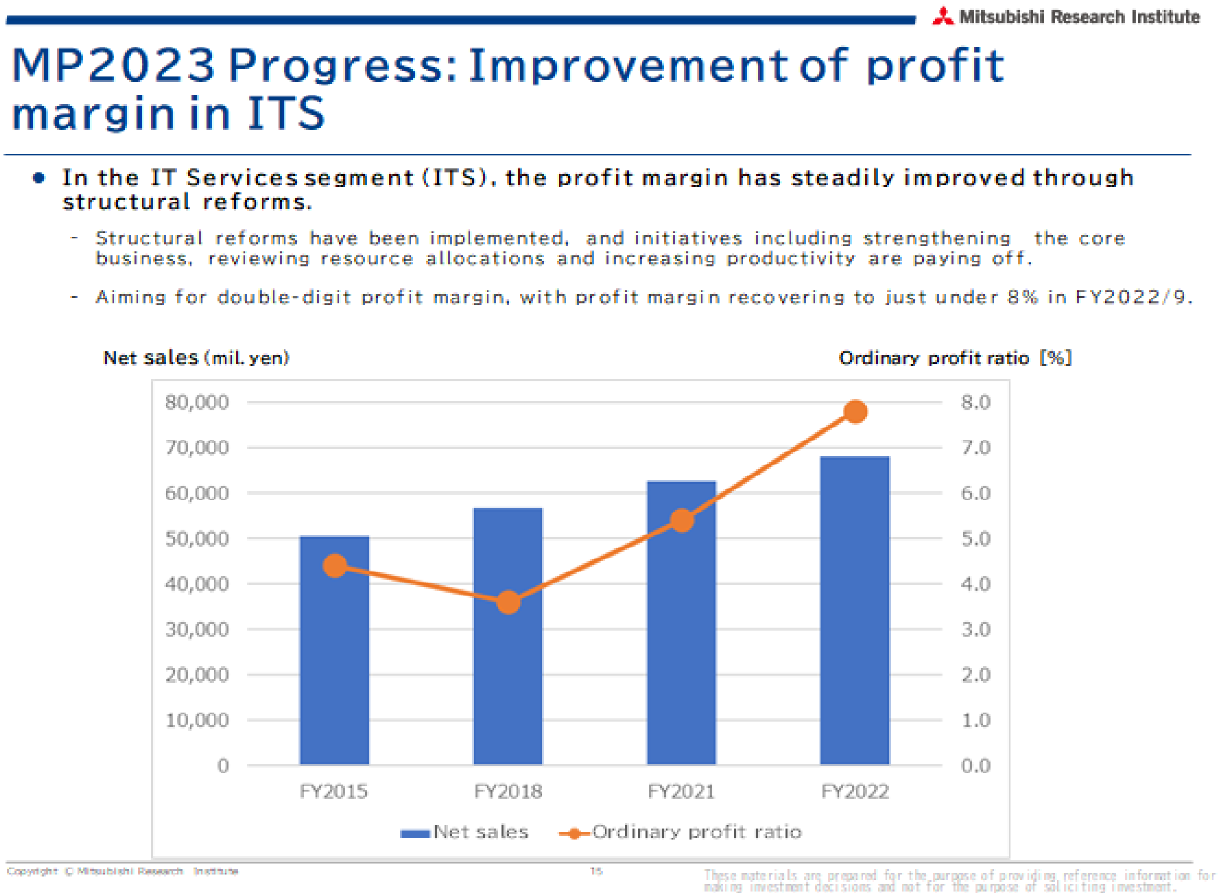
Net sales and profit [mil. yen]] (MRI non-consolidated)



I am going to briefly introduce the progress of the MP2023 along with the data that I explained earlier.

First is the progress of qualitative reform at the TTC. See the line graph on the lower left. Over the past 10 years, the number of projects over JPY100 million has increased four times, while the number of projects under JPY5 million has decreased by 70%, indicating a steady increase in the size of projects.

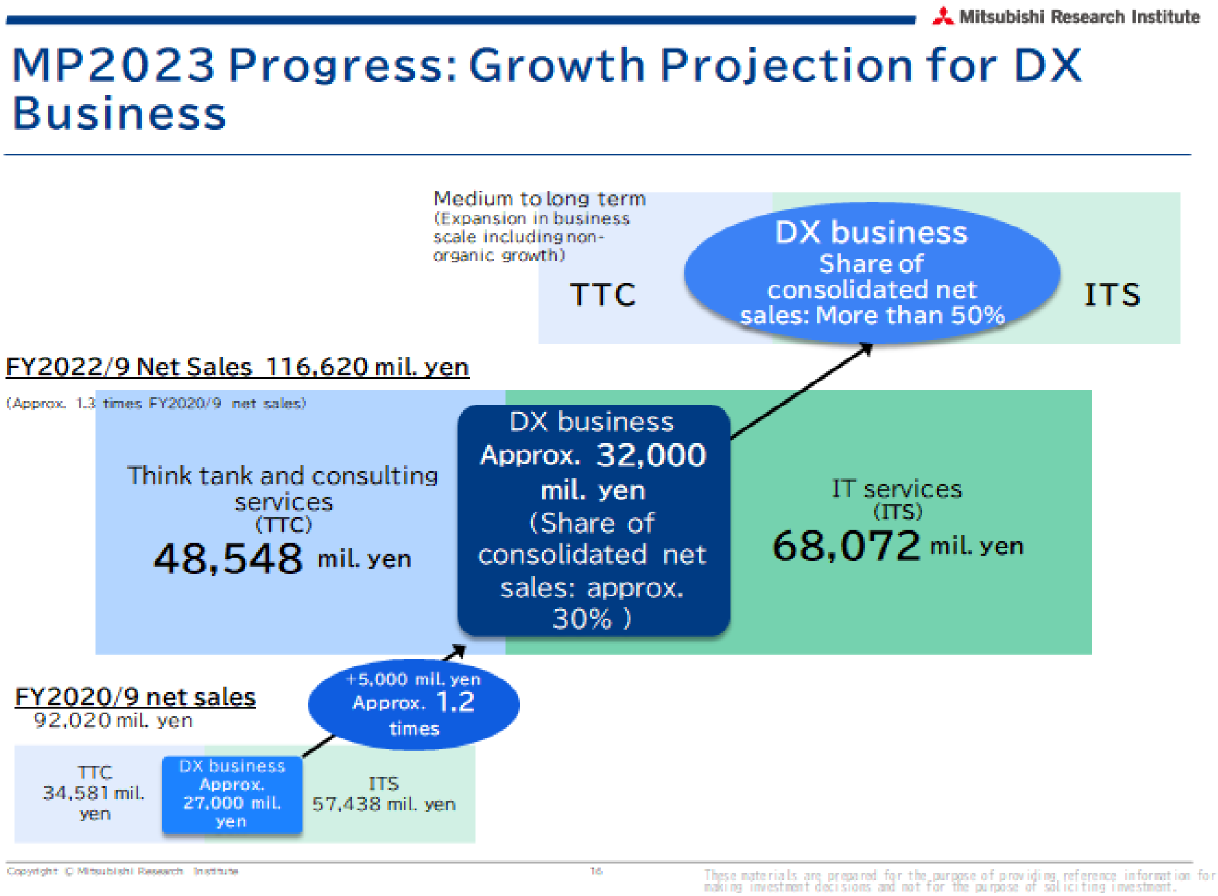
See the bar graph on the lower right. During this period, while the total number of projects has decreased, sales have increased steadily, up 1.7 times and profits have increased 4.1 times. You can see that MRI, the core of TTC, has made significant progress in qualitative reform of its business, productivity improvement, and profit margin improvement through larger projects and higher added value.



The next step is to improve the profit margin of ITS.

Based on reflections on past problem projects, the core of ITS, the MRC DCS Group, has been promoting structural reforms to strengthen its management base, as well as reviewing resource allocation and improving productivity.

As a result, the ordinary profit margin bottomed out in FY2018 and began to rise, recovering to the 8% mark in FY2022/09.



The DX business, the core of our growth business, has expanded 1.2 times before the medium-term plan, from the scale of approximately JPY27 billion. It currently accounts for about 30% of consolidated sales.

We intend to accelerate both organic and non-organic growth and raise our consolidated weighting to over 50% in the medium to long term.

Growth Investment Policy

- Actively use cash on hand accumulated or generated through business for investment in human resources and investment in equipment necessary for future business expansion and for strategic investment such as M&A

Investment in growth	Specific measures	Example initiatives
(1) Human Resources	• Hiring more people (increasing 210 people by FY2023) • Doubling opportunities for career development, optimal placement • Work style reforms • Transferring more human resources to partners for cultivating them	• Diversification of recruitment methods • Establishing the Company's own human resources development model • Dispatching to venture capital
(2) Research and Recommendations	• Joint research and recommendations with research institutions in Japan and overseas (Macroeconomics, next-generation communications after 5G, etc.) • Personnel exchange, visiting members	• Partners (including expected ones) - Chatham House (UK) - CEPS (Belgium) - Georgetown university (USA) - University of Tokyo, Osaka University
(3) R&D	• Development and demonstration of applications • Development and demonstration of AI engines • Medium, large capital expenditures	• local digital currency • AI and big data analysis • Renovations of data centers
(4) Business Foundations	• Expanding foundations and partners in digital transformation and societal implementation • Strategic investment in focus areas (investment, JV, M&A, etc.) • Expanding venture business and venture capital investment (establishing a dedicated organization)	• Establishing an operation and capital alliance with French ForePaaS SAS ➡For collaboration with France-based OVHcloud • Spinning off the wholesale electricity price forecasting service MPX to establish joint venture with Dutch company KYOS

Page 17 shows our approach to growth investment.

Many market participants have asked us about the use of cash reserves in this regard. We, the Group, intend to actively use the cash reserves accumulated and generated from operations for strategic investments in human resources, capital expenditures, and M&A which are necessary for future business development in order to realize sustainable growth, while placing emphasis on shareholder returns.

As shown in the table, human capital, research and proposals, R&D, and business infrastructure are the four priority areas for growth investment. Of these, items ① through ③ are expected to be expensed in FY2023/09 as upfront investments for future growth.

Item ④ is a non-organic strategic investment that leverages capital. Cash on hand will be used for investments, JV establishment, M&A, venture business, and venture capital investments in priority areas such as DX and social implementation.

FY2023 Full Year Forecasts

- Still aiming for gains in sales and profit, with the target for ordinary profit in the MP2023 expected to be achieved earlier than planned.
- Making upfront investment to deal with emerging issues and to achieve further growth (⇒P17).

Net sales forecast : 118,000 mil. yen YoY change +1,379 mil. yen (+1.2%)

- TTC :46,000 mil. yen YoY change -2,548 mil. yen Firm orders received will be offset by the implementation of measures to strengthen research recommendation function and carry out workstyle reform
- ITS :72,000 mil. yen YoY change +3,927 mil. yen higher sales due to financial and card services and DX in the private sector in general

Ordinary profit forecast : 10,600 mil. yen YoY change +106 mil. yen(+1.0%)

- TTC : 4,900 mil. yen YoY change - 290 mil. yen
- ITS : 5,700 mil. yen YoY change +398 mil. yen

Profit forecast : 6,500 mil. yen YoY change -1,207 mil. yen(-15.7%)

- Absence of extraordinary income (gain on sales of investment securities, etc.) recorded in FY2022/9

(Note) Current forecast does not factor in impact of COVID-19 and Ukraine crisis.

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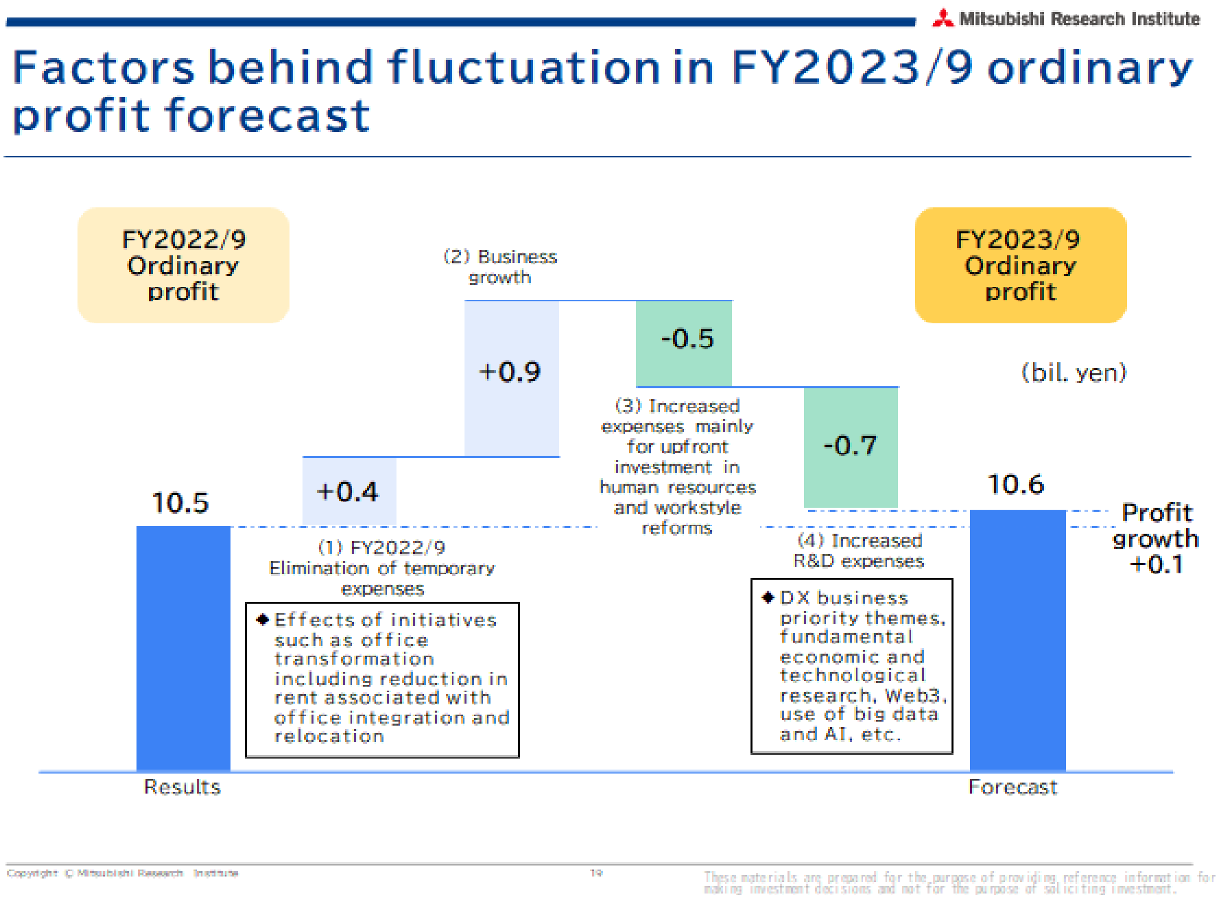
Based on the above, I would like to explain our financial forecast for the current fiscal year.

The ordinary profit target of the medium-term plan was achieved ahead of schedule, and we will continue to aim for small increases in both sales and profit in the current fiscal year. On that basis, we will address the issues that have emerged and make the upfront investments described on the previous page for further growth, while also looking ahead to the next mid-term plan.

We forecast net sales of JPY118 billion, up JPY1.3 billion from the previous year; ordinary profit of JPY10.6 billion, up JPY100 million; and net profit of JPY6.5 billion, down JPY1.2 billion. The decrease in net profit is due to the fact that extraordinary gains, such as gains on sales of investment securities, which were recorded in FY2022/09, are not expected in the current fiscal year.



Page 19 shows a graph of the factors that may cause ordinary profit to fluctuate from the forecasted results just explained.

The total amount of factors contributing to profit growth, such as business growth(①,②) is JPY1.3 billion. On the other hand, we expect a total increase in expenses of JPY1.2 billion, including an increase of approximately JPY500 million in expenses(③) for upfront investment in human resources and reforms in work styles, and an increase of approximately JPY700 million in expenses(④) related to research and development. These are the upfront investments for growth explained on pages 17 and 18.

Based on the above, we forecast ordinary profit of JPY10.6 billion for the current fiscal year, up JPY100 million from the previous year.

FY2023/9 Full Year Forecasts

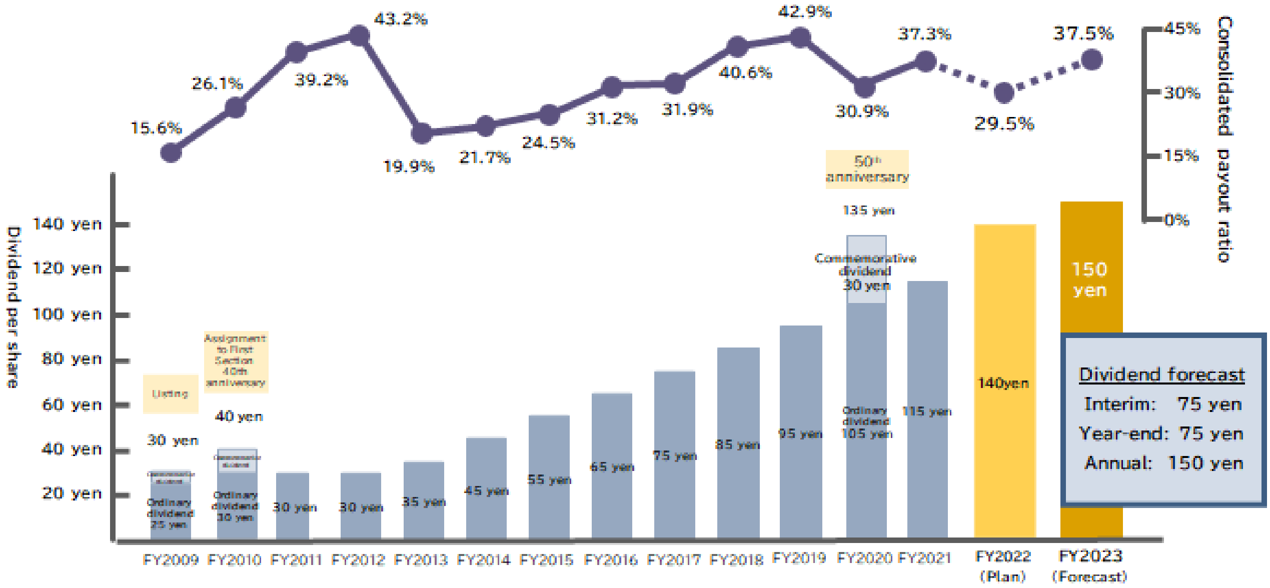
(mil. yen)

	FY2022/9 (Results)	FY2023/9 (Forecast)	YoY change	
			Amount	Rate
Net sales	116,620	118,000	+1,379	+1.2%
Think tank and consulting services	48,548	46,000	-2,548	-5.3%
IT services	68,072	72,000	+3,927	+5.8%
Operating profit	9,165	9,300	+134	+1.5%
Operating profit margin	7.9%	7.9%	+0.0P	
Ordinary profit	10,493	10,600	+106	+1.0%
Think tank and consulting services	5,190	4,900	-290	-5.6%
IT services	5,301	5,700	+398	+7.5%
Profit attributable to owners of parent	7,707	6,500	-1,207	-15.7%
Basic earnings per share (yen)	474.67	399.99	-74.68	

Page 20 presents the above explanation in a table.

FY2023/9 dividend forecast

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, future demand for funds, and financial soundness.



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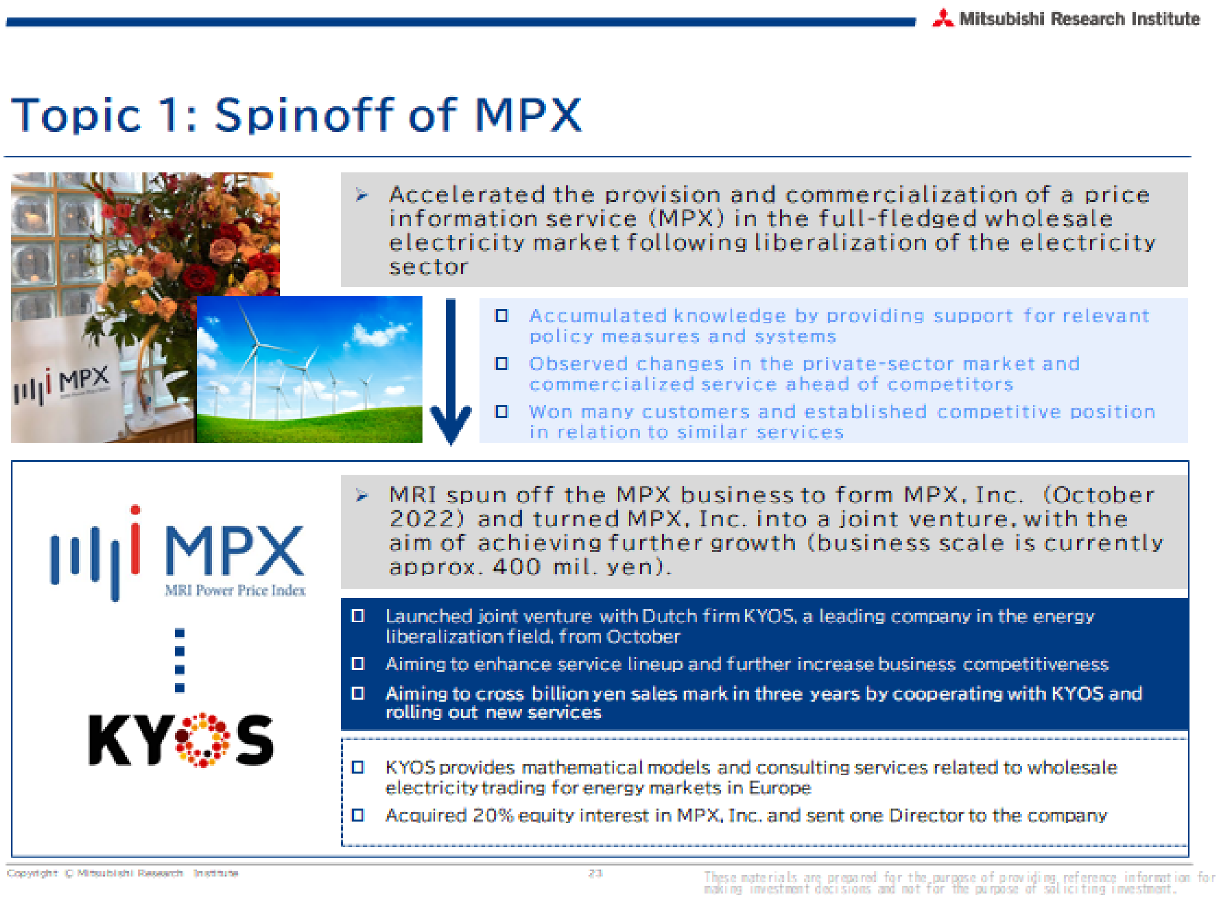
Next, dividend forecast.

Our policy is to raise the level of dividends based on continuous stable dividends, while also comprehensively taking into account the balance between business performance, future capital needs, and financial soundness.

In order to present our thinking more concretely on dividends, we have included a statement of future capital needs in our dividend policy from this time forward. In our financial statements, we have clearly stated that we intend to use the funds for strategic investments such as human capital investment, research and proposal investment, business and capital investment necessary for future business development, and M&A in order to realize sustainable growth. This is a clarification of the growth investment concept on page 17.

Based on the above, the year-end dividend for FY2022 will be JPY80, an increase of JPY15 from the announced forecast. Together with the interim dividend of JPY60, the annual dividend will be JPY140, an increase of JPY25 from the previous year. This will be the 10th consecutive term of ordinary dividend increase. The dividend payout ratio is expected to be 29.5%.

For FY2023/09, we forecast interim and year-end dividends of JPY75 each, for an annual dividend of JPY150, an increase of JPY10 from the previous fiscal year. The dividend payout ratio is expected to be 37.5%.



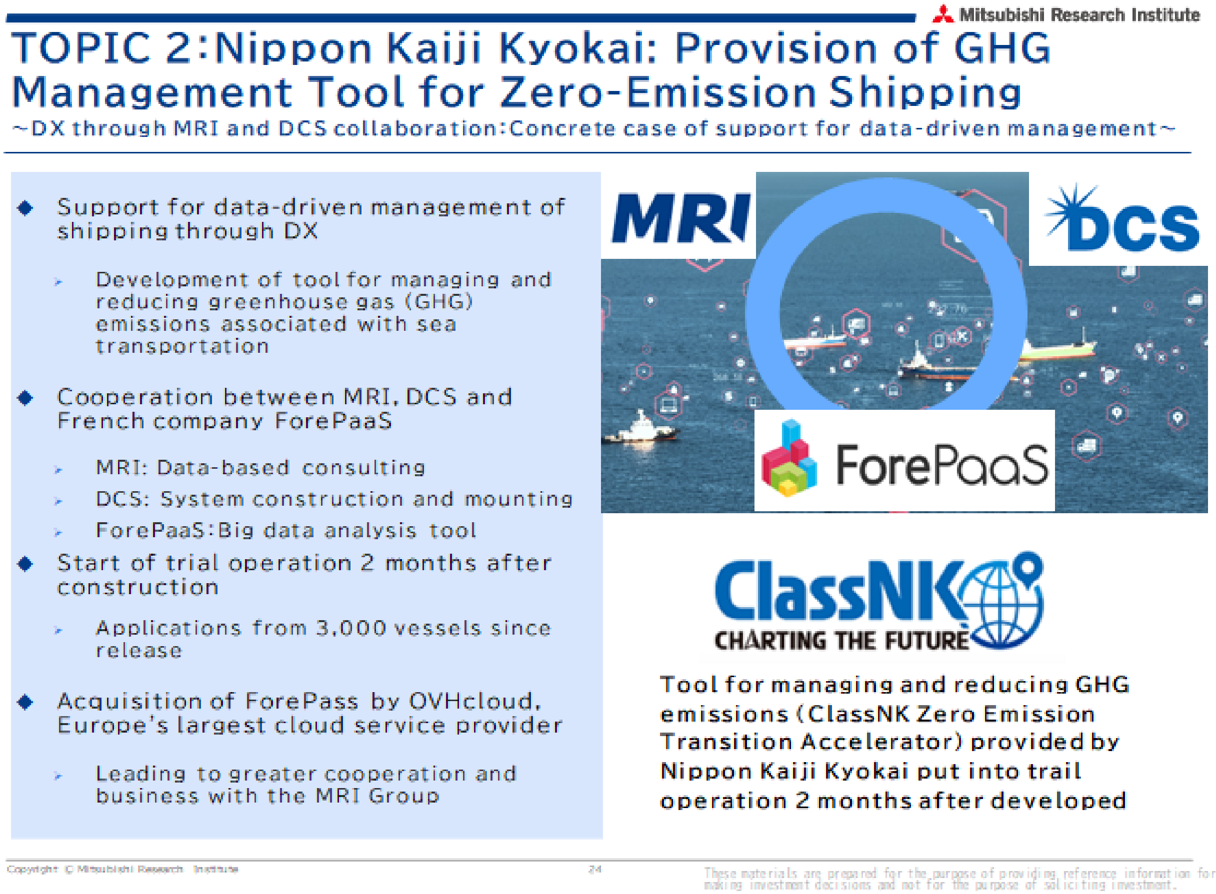
Finally, here are some topics that serve as specific examples of growth business progress in the MP2023.

Page 23 is a case study of MPX, which was spun off in October.

With the liberalization of the electricity market, the wholesale electricity trading market is now in full swing. MPX is a service that provides fair price and forecast information for this transaction. The service has grown steadily since its launch in 2016 and has been spun off for further growth.

Having accumulated knowledge in the energy field through our work with government agencies, we developed and commercialized this service as a service that will become necessary in the future as we assist in the design of systems for the liberalization of the electricity market.

In terms of collaboration with partners, we have formed an alliance with KYOS in Netherlands, which has a proven track record in Europe as one of the first countries to liberalize its markets, and spun off the company as a joint venture. Currently, the scale of our business is approximately JPY400 million, which is equivalent to sales, and we aim to achieve a billion-yen or more business by the end of the next three years.



Page 24 is a good example of the DX project that supported a private client through MRI and DCS collaboration.

The project supported data-driven management in the shipping industry, which, as described, was made possible through the use of big data analysis tools from ForePaaS, a French company in which MRI has invested, in addition to MRI and DCS collaboration.

The Nippon Kaiji Kyokai or ClassNK, one of our customers, started a trial GHG emissions management and reduction tool for shipping companies within two months of laying concept. We received applications from 3,000 vessels after its release.

ForePaaS was acquired by OVHcloud, Europe's largest cloud services provider, in April, and we recorded a reasonable gain on the sale and will seek to expand its cloud business through broad collaboration with OVHcloud.

In the business infrastructure investment described on page 17, we will build on these good examples of capital utilization.

Topics: Recent News Releases

【MRI】

Note) All releases below are available only in Japanese on our website.

Date		Title
Oct 17, 2022	ESG	Osaka/Kansai Expo "TEAM EXPO 2025" Program / Registered "New Utilization of Unused Fish!" for co-creation challenge
Oct 7, 2022	ESG	Proposal Long-term use of nuclear power in the carbon-neutral era
Oct 7, 2022	ESG	[CUIMOTTE x Murakawa Gakuen x Kasumi High School x Kami Town] holding of "Hyogo Prefecture Kami Town Fair" as part of the "Comprehensive Partnership Agreement" Initiative for regional revitalization and the co-creation challenge "New Utilization of Unused Fish!"
Oct 5, 2022	DX	Mitsubishi Research Institute launches "Smart Benefit Demonstration Project" in Kobe City
Sep 30, 2022	DX	Joint research on securing new trust in a digital society
Sep 30, 2022	DX	Joint research on testbeds to help fast-track innovation in the "Beyond 5G" era
Sep 21, 2022	Over seas	New partnership signed to promote the rights of older persons and address population matters in Viet Nam
Sep 7, 2022	Over seas	Mitsubishi Research Institute proposes the creation of business opportunities to solve societal Issues in Vietnam. Seminar for Japanese companies on addressing social issues held in Hanoi.
Aug 8, 2022	DX	Security reference for cloud services for medical institutions
Aug 4, 2022	DX	Providing a scientific nursing care prevention solution package for local governments
Aug 4, 2022	Other	Notice concerning spinoff of online information service business for wholesale electricity trading to MPX (simplified absorption-type company split) and conclusion of joint venture agreement and business alliance agreement with KYOS

Topics: Recent News Releases

【DCS】

Note) All releases below are available only in Japanese on our website.

Date		Title
Oct 4, 2022	DX	Launch of "Managed Service Consulting" to support DX promotion by optimizing IT system operation
Sep 28, 2022	DX	Launch of "Link&Robo for Growing," a communications robot service for special support schools and classes
Sep 15, 2022	DX	Launch of ransomware countermeasure solution

On pages 25 and 26, we introduce our group's initiatives, including those mentioned above, mainly related to DX, that we have released during this period.

I would like to end the presentation. Thank you for your attention.

Question & Answer

A: You mentioned that your performance for FY2022/09 was strong, and I would like to ask you again about the factors contributing to this performance. On the other hand, despite the continued strong performance of the Company including orders, the forecast for this fiscal year seems modest. Could you tell me the reason of this?

Answer: One of the major factors behind our strong performance in FY2022/09 is that we have the MRI business and the Mitsubishi Research Institute DCS (DCS) business, the wings of our businesses, and both of them received a great deal of inquiries from customers which led to an increase in sales. Could you please open the bar chart on page 6? The increase in revenue I just mentioned is JPY2.6 billion for the Group as a whole. This was a very large factor here.

On the other hand, we are focusing on improving profitability, and one of the major goals of the MP2023 is to promote qualitative reforms at MRI and MRI DCS, respectively. We believe that this area also had a significant effect in FY2022.

This bar chart states that there was a profit increase of JPY500 million by the profit margin improvement, mainly in ITS. This is one factor. In addition, MRI did not necessarily see an improvement in terms of superficial sales and profit margins, but there were relatively large projects in FY2022 that required a large portion of sales to be outsourced, or in other words, a large portion of sales was outsourced. Therefore, when we look at the actual profit margin excluding these items, we continued to see improvement in FY2022. I mentioned this area as a qualitative reform.

The chart on page 14 shows the number of projects in the consulting business, which is the main business within MRI. As you can see, the number of small projects has decreased significantly, while the number of large projects over JPY100 million has increased. This shows the trend of expansion in both profit and sales. As you can see, MRI is also improving its profit margin by shifting to value-added projects.

The demand was strong that contributed our sales. In addition, both MRI and DCS shifted their sales to higher value-added and higher-margin products, and the synergistic effects of these sales and improved profit margins enabled us to post very strong results in FY2022.

In FY2023, both MRI and DCS order backlogs increased considerably compared to the previous fiscal year. As you can see here on page 11, the order backlog has increased by 5.5% overall. Therefore, we believe that the current demand remains strong.

However, one point should be noted here. We are an order-based industry, so at the end of the fiscal year, about 80% of our sales had already been booked as orders for the following fiscal year. As you know, due to the adoption of the Accounting Standard for Revenue Recognition (ASBJ Statement No29. March 31,2020) from the beginning of last year, the order backlog for FY2023/09 is about 70% of the target. Therefore, the remaining 30% of the total amount orders need to be built up over the next year, which is a slightly different factor than in the previous fiscal year.

On page 19, The bar chart for the current fiscal year shows a current demand and the effect of increased revenues, etc., from projected sales. We expect about JPY900 million in profit growth from business growth in two. Also, there is a positive effect on earnings of about JPY400 million from the elimination of one-time expenses in FY2022/09, for a total of JPY1.3 billion.

On the other hand, expenses will increase by about JPY500 million due to the extremely high utilization level, or research and proposal activities for future growth, and an increase in personnel for the upfront investment as a part of the social implementation business, which is not directly linked to sales and earnings. In addition, R&D expenses have been aggressively estimated for the current fiscal year, and there is an increase of about JPY700 million in R&D expenses compared to the previous year. So to speak, it has the effect of lowering earnings by about JPY1.2 billion.

As a result, there was a slight increase of JPY100 million. This is the reason behind the slight divergence, so to speak, between the current strong order backlog and the increase in sales and earnings in the next fiscal year. We continue to see strong business conditions and inquiries from customers.

B: The increase in dividends is perceived positively. On the other hand, regarding shareholder returns, you said that you will consider future capital needs and M&A, etc. Could you tell us about the outlook for future capital needs, such as M&A?

Answer: Growth investment, in the table in page 17, is divided into four overall categories. Of these, ① through ③ are recorded as expenses in the period in which they are incurred. For the next fiscal year and the current fiscal year, as I explained earlier, we expect expenses to increase in the three areas by about JPY1.2 billion compared to the previous fiscal year. This means that spending will increase overall.

On the other hand, as you mentioned in your question, the investment in M&A and other business infrastructure investments and the investment in ④ is the part that leads to growth in a non-organic manner by investing capital. We are currently looking for alliances in various forms in the DX and social implementation businesses, and we are considering investing capital to participate in these businesses, but nothing has been decided at this point.

We do not have a specific amount that we plan to estimate for the current fiscal year, but in terms of cash on hand, we can say that over the past 10 years, our liquid assets, including cash, deposits, and short-term securities on hand, have increased by about JPY10 billion. In terms of monthly sales, it would be about four months' worth of sales per foot. This means that there is a slightly larger level of accumulation compared to the general cash on hand. We are not in an industry where we have a continuous monthly cash flow, so we have to keep a little more cash on hand than usual since there is considerable difference in busyness, but we believe we still have a lot of available funds.

If earnings continue to be recorded steadily, we believe that we will be able to accumulate about JPY3 billion in cash each year, even if we make allowances for dividends, and we will have JPY15 billion to JPY20 billion available for capital investment in total. Therefore, if we have a good opportunity in such a range, we would like to actively invest in it.

C: Please tell us about the room for improvement in ITS profit margins. Many of your competitors have achieved double-digit profit margins. Do you think your company will be able to achieve double-digit profit margins in the next mid-term plan? Please tell us how you intend to raise the profit margin of the ITS business by one more step in the future.

Answer: As I explained, the actual rate for the last fiscal year was 7.4%, which might be better to say that the rate has finally reached that level. So, to say, the improvement has been sustained in the last fiscal year and the year before. This indicates that the measures to improve the management structure that the DCS Group has been working on are finally bearing fruit. Specifically, we are shifting staff from station-based businesses to higher value-added businesses, and we are also seeing the effects of various efforts to improve profitability in the commercial business by adding more value and reducing costs.

For the current fiscal year, we plan to raise the rate to around 8%, which was our target in the MP2023, and then aim for 10% in the next mid-term plan. The main direction of measures is to increase added value and profitability in the financial and IT service areas, which account for the majority of the Company's business. The bank stationed business is relatively unprofitable, but we intend to improve the profit margin by shifting to more upstream areas.

In addition, we believe that banks will increase the weight of system investment in order to advance into DX and higher value-added businesses, including fintech. We will actively participate in these areas to increase our profit margin.

The second pillar of our growth will be to provide a full range of services, from MRI consulting to IT implementation at DCS, to meet the demand for DX in the public sector and general industry. We are planning to expand our business in this area to achieve double-digit growth in the next mid-term business plan. We are currently seeing a satisfactory response, and we are determined to achieve 10% profit margin in the next mid-term business plan, which is the goal we must achieve.

D: Although you plan to invest more aggressively in human resources this fiscal year, the staff shortage is already a major problem in both the consulting and SI industries. I think it is necessary to strengthen human resources in anticipation of the next mid-term plan, but from the perspective of the industry as a whole, this seems to be forestalled. How did you view the industry environment to reach this decision?

Answer: As you mentioned in your question, human resources are the greatest management resource for both MRI and DCS, and are the key to sustainable growth in the future. We are in a situation where we need to expand dramatically in terms of both quality and quantity, but we do not expect to be able to do so easily, given the extremely tight labor shortage situation in the industry. We are thinking on making all the moves we can while working together with MRI and DCS.

We are planning to increase the number of personnel by more than 200 throughout the MP2023, and we have increased about 100 in the past two years. However, as you mentioned, we are undeniably a little behind the industry. Therefore, for the current fiscal year, we are aiming to achieve our overall increase target by hiring a total of more than 300 new graduates and mid-career hires.

MRI and DCS are both facing challenges in the area of IT and DX-related human resources, which are under particular pressure. As we need capable persons who can connect these areas, we are working together with MRI and DCS to strengthen recruitment by holding joint recruiting sessions, sharing know-how, and opening regional branches to increase recruitment in the regions.

It is also very important to improve the skills of those already working for the Company so that they feel a strong sense of job satisfaction, stay with the Company, and make full use of their abilities. We have established various measures to reform the way people work, including remote work environments and a system that allows people to work while living in rural areas, and a significant number of people have applied for this system and are actually taking advantage of it. We are also trying to cope with the shortage of labor and human resources by taking various measures and spending money in changing offices to more user-friendly, increasing investment in human resources, and improving the retention rate of current employees and such.

Answer 2: As you may already know, the turnover rate of human resources at MRI and DCS has been about half that of the industry. It is not simply a matter of staying with the Company forever is better, but we have aimed to create a company where people can work with motivation and care. In this situation, we want to hire not only the right number of people, but also those who can work well with us.

As we have just discussed, now our staff can work in a variety of places. As I think I have mentioned in the past at MRI, we have quickly set the systems up for working away in rural areas, and the number of people using this system has been increasing. So, we would like to continue our efforts to increase the number of employments using this system.

E: First, please explain why TTC is forecasting lower sales for FY2023/09 despite firm orders? Second, what will be the total amount of growth investment for FY2023/09? Third, the profit margin improved significantly at ITS in FY2022/09. What specific measures did you take? Please answer.

Answer: The first one was about the background behind TTC's forecasted decrease in profits for the current fiscal year. As I explained in the overall section, we expect a commensurate increase in profit from ITS and TTC, respectively, from the recent strong performance of both companies. On the other hand, the profit side has been affected by the increase in upfront investments, investment in human resources and R&D, which will be resulted in a decrease in profit. The net effect of this was an increase of JPY100 million, but the increase in revenue was greater for ITS, while the increase in future upfront investment costs was greater for TTC, resulting in the forecasted decrease in profit for TTC.

We continue to receive inquiries and orders from our customers, and we hope to somehow counteract the factors behind the decline in profits by allocating overall resources to projects with higher profit margins and added value, given the limited human resources. However, in terms of current estimates and forecasts, the factors contributing to lower profits are larger, and we hope you will understand that the forecast for lower profits is due to larger upfront investments for the future.

Answer 2: The second question was about the size of the growth investment. As planned in the previous fiscal year, we have spent approximately JPY1.5 billion. In this context, we, the MRI Group, expect to invest about JPY2.2 billion in this fiscal year. There is naturally talk of future business growth, but given the nature of MRI, we would also like to provide value in various ways to address various social issues in the world.

Naturally, we need to grow as a business and make profits, but we have also been engaged in research and proposal activities in the past to provide a certain direction to the world, and we would like to invest to a certain extent in areas where there is a growing demand for such activities. In that sense, the figures for increase/decrease I mentioned earlier are the plus JPY700 million as shown in the bar chart graph, and we would like to do this along with business growth while keeping these points firmly in mind.

The third question is about the ITS profit margin. I think there are two major things, one is about resource shifting. We have been negotiating with our clients since the mid-term business plan started, and have been working steadily to shift the station-type work that has been completed in the term to a new type of work with the understanding that the demand for manpower has been increasing. We are just beginning to see the effects of this quite well.

The other thing I have been talking about for some time is the integration of MRI and DCS. In the past, if there was a good project, we would introduce it to them. However, since the start of the MP2023, we work together from the project structuring stage, and will continue to strengthen our efforts. We have just been able to include some private sector development, including such things. One is that we have gradually built up not only MRI and DCS but also service-type businesses that we have been continuing for a long time, and I hope you understand that the profit margin has improved compared to the previous period.

F: What is the outlook for upfront investment costs in the next fiscal year and beyond, and will they remain at the level of the current fiscal year? Will there be an increasing trend? Can you talk about personnel and R&D?

Answer: As for the next medium-term management plan, we will begin to study it in earnest from about Q2 of the new year, but basically, we would like to aim for sustainable growth. We also hope to accelerate the pace of growth by combining not only organic but also non-organic growth in this process.

Therefore, the main direction of the growth investment mentioned here is to basically follow an increasing trend in line with the expansion of business scale on a sustained basis. In particular, among these four items, we would like to basically increase investment in human resources, item ①, and in business infrastructure, item ④. We hope to share more concrete details with you again when we create the next medium-term plan.

G: Please let us know when you think it will be time to recover the upfront investment and when it will make a positive contribution to sales and profit.

Answer: Depending on each investment, there are a variety of results in time frames, some that will show results in a relatively short period of time, and others that will show in a medium- to long-term efforts. The expansion of sales and earnings from last fiscal year to this fiscal year is partly due to the fact that prior investments made to date have resulted in the current business performance.

In this sense, we believe that the effects will be cumulative, and we hope to firmly implement a cycle in which investments made in the MP2023 will have effects in the next mid-term plan, and investments made in the next mid-term plan will have effects in the future mid-term plan, and so on. I hope that we can continue this cycle of cumulative effects and the creation of funds for the next investment.

[END]