



# Mitsubishi Research Institute

Q2 Financial Results Briefing for the Fiscal Year Ending September 2021

April 30, 2021

**Morisaki:** I am Morisaki, the President. Please let me to explain our financial results for the second quarter of the fiscal year ending September 2021.

## Summary

- **Medium-Term Management Plan 2023 (“MP2023”) started with strong results. Both net sales and operating profit (p.4) were record-high for the first half of a fiscal year.**
- **Negative impact of COVID-19 on private-sector segment was offset by government/public office and finance/credit card segments.**

**Net sales: 52,300 mil. yen YoY change +4,080 mil. yen**

- **Think tank and consulting services (TTC): Large sales growth (up 2,800 mil. yen) was led by the government/public office segment.**
- **IT services (ITS): sales growth was led by the finance/credit card segment (up 1,200 mil. yen).**

**Ordinary profit: 6,460 mil. yen YoY change -760 mil. yen, +560 mil. yen when excluding special factors in the previous fiscal year**

- **Ordinary profit increased 560 mil. yen (excluding temporary factors (equity in earnings of affiliates) of approx. 1,300 mil. yen in the previous fiscal year).**

**Profit: 4,140 mil. yen YoY change -2,320 mil. yen, +270 mil. yen when excluding special factors in previous fiscal year**

- **Profit increased 270 mil. yen (excluding temporary factor (extraordinary income) of approx. 2,700 mil. yen in the previous fiscal year).**

First, I would like to give you a bird’s eye view of the overall results for the second quarter.

The fiscal year ending September 2021 is the first year of the medium-term management plan 2023(MP2023), and we have made a good start with record high sales and operating income.

Consolidated net sales increased JPY4 billion YoY to JPY52.3 billion. Sales of both Think Tank and Consulting Services (TTC) and IT Services (ITS) increased, driven by government agencies and finance and credit cards, respectively.

Ordinary income is JPY6.46 billion. Compared to the same period of the previous fiscal year, net sales were down JPY760 million, but on a merit basis, excluding the 1-time factor of the previous fiscal year, equity in earnings of affiliates, or so-called negative goodwill of JPY1.3 billion, net sales increased by JPY560 million.

Net income is JPY4.14 billion. Likewise, compared to the same period of the previous fiscal year, net sales were down JPY2.32 billion, but on a merit basis, excluding the 1-time factor of the previous fiscal year, the extraordinary gain of JPY2.7 billion from the sale of shares, net sales increased by JPY270 million.

## 1H Consolidated results <YoY>

(mil. yen)

	FY2020/9 1H (Oct.-Mar.)	FY2021/9 1H (Oct.-Mar.)	Year-on-year	
			Amount	Rate
Net sales	48,246	52,328	+4,082	+8.5%
Gross profit	12,647	14,100	+1,453	+11.5%
Gross profit margin	26.2%	26.9%	+0.7P	
SG&A expenses	7,145	7,974	+829	+11.6%
Operating profit	5,502	6,126	+623	+11.3%
Operating profit margin	11.4%	11.7%	+0.3P	
Ordinary profit	7,232	6,464	-767*	-10.6%
Profit attributable to owners of parent	6,466	4,141	-2,325*	-36.0%
Basic earnings per share (yen)	397.97	254.81	-143.16	

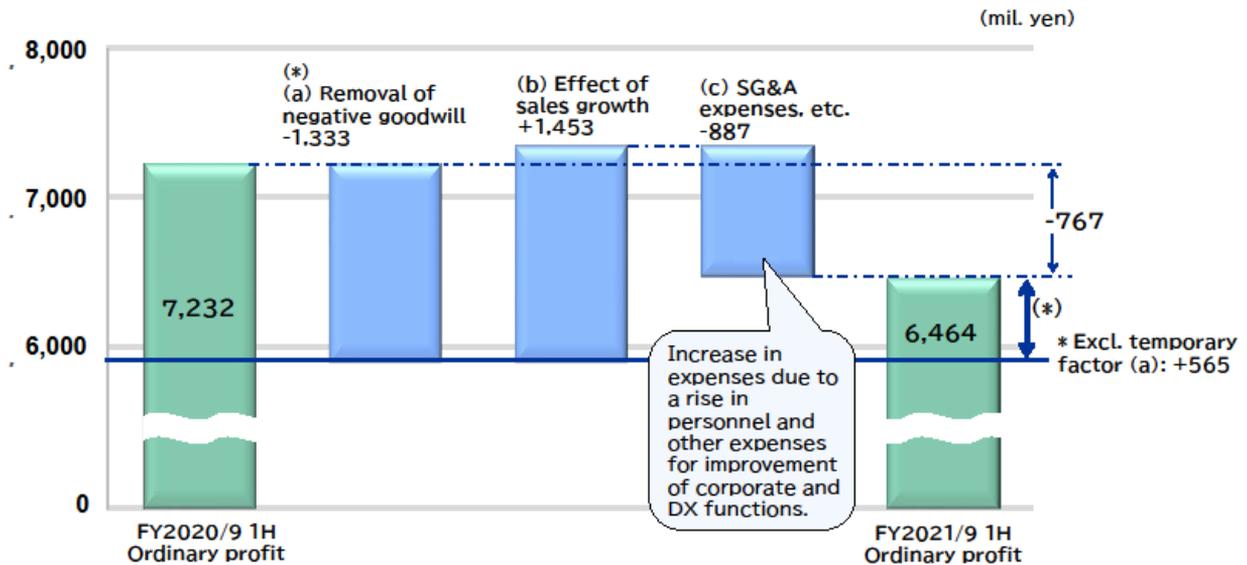
\* Ordinary profit and profit increased 565 mil. yen and 275 mil. yen, respectively, when excluding temporary factors that existed in the previous fiscal year.

Page 4 is a profit and loss statement of what you just saw.

In order to give a better understanding of the actual situation, the figures on the surface are shown together with the figures on an actual performance basis, which excludes the temporary factors of the previous fiscal year.

# Factors behind fluctuation of ordinary profit /loss <YoY>

- Sales growth (b) more than offset increased expenses (c) and ordinary profit rose 500 mil. Yen when excluding special factors in the previous fiscal year.\*



Please see page 5. The graph shows the factors behind the change in ordinary income compared to the previous fiscal year.

Ordinary income for the second quarter of the fiscal year ending September 2020 was JPY7.2 billion. This ordinary income includes a 1-time factor recorded in the previous fiscal year, namely, negative goodwill of JPY1.3 billion from an equity-method affiliate, which is part of (a).

In the current fiscal year, this temporary factor has been removed, but as I explained earlier, in addition to projects for government agencies in TTC, the increase in projects in the financial and card fields in ITS has led to the effect of increased sales due to business growth, (b), which is an additional JPY1.4 billion.

On the other hand, in accordance with the policy of MP2023, the increase in expenses due to the strengthening of corporate functions and the enhancement of DX functions, (c), is a negative JPY800 million.

Based on the above, ordinary income on the surface is the sum of (a), (b), and (c), which is a negative JPY700 million, but the core business portion, that is, the sum of (b) and (c) on a merit basis, after subtracting temporary factors, is a positive JPY500 million compared to the previous fiscal year.

## Think Tank and Consulting Services (TTC)

	(mil. yen)			
	FY2020/9 1H (Oct.-Mar.)	FY2021/9 1H (Oct.-Mar.)	Year-on-year	
			Amount	Rate
Net sales	17,963	20,803	+2,839	+15.8%
Operating profit	3,462	4,009	+546	+15.8%
Operating profit margin	19.3%	19.3%	-0.0P	
Ordinary profit (excl. temporary factors in previous fiscal year)	5,058 (3,725)	4,265	-792 (+540)*	-15.7% (+14.5%)
Orders received	20,256	28,072	+7,815	+38.6%
Order backlog (of which amount carried forward to next fiscal year)	28,600 (12,498)	38,364 (20,120)	+9,764 (+7,621)	+34.1% (+61.0%)

### Key points

- Sales to government and public offices increased significantly. Sales from consulting services for financial institutions increased.
- Operating profit was at a record high. \* Ordinary profit increased 500 mil. yen (excl. temporary factor of 1,300 mil. yen existed in the previous fiscal year).
- Orders received and order backlog were at a record high thanks to large orders for government and public office projects.
- Order backlog includes 20,100 mil. yen (up 7,600 mil. yen YoY) to be carried forward to sales in and after the next fiscal year.

I will now explain the results by segment.

First, there is Think Tank and Consulting Services (TTC). This is roughly equivalent to the results of Mitsubishi Research Institute, Inc.

Net sales increased by JPY2.83 billion to JPY20.8 billion, and ordinary income decreased by JPY790 million to JPY4.26 billion. Ordinary income, on a merit basis, increased by JPY540 million from the previous year.

Operating income, orders received, and order backlog reached record highs in the first half of the fiscal year due to an increase in orders and sales for social issue-driven and DX-related projects, mainly for government and financial institutions. The order backlog is positive for both the current and next fiscal year, and in particular, the backlog to be brought forward to the next fiscal year is significantly positive at JPY7.6 billion, up from the previous fiscal year, due to the receipt of large orders.

## IT Services (ITS)

	(mil. yen)			
	FY2020/9 1H (Oct.-Mar.)	FY2021/9 1H (Oct.-Mar.)	Year-on-year	
			Amount	Rate
Net sales	30,282	31,524	+1,242	+4.1%
Operating profit	2,036	2,114	+77	+3.8%
Operating profit margin	6.7%	6.7%	-0.0P	
Ordinary profit	2,171	2,197	+26	+1.2%
Orders received	31,205	36,276	+5,071	+16.3%
Order backlog (of which amount carried forward to next fiscal year)	41,296 (18,579)	47,188 (21,962)	+5,891 (3,383)	+14.3% (+18.2%)

### Key points

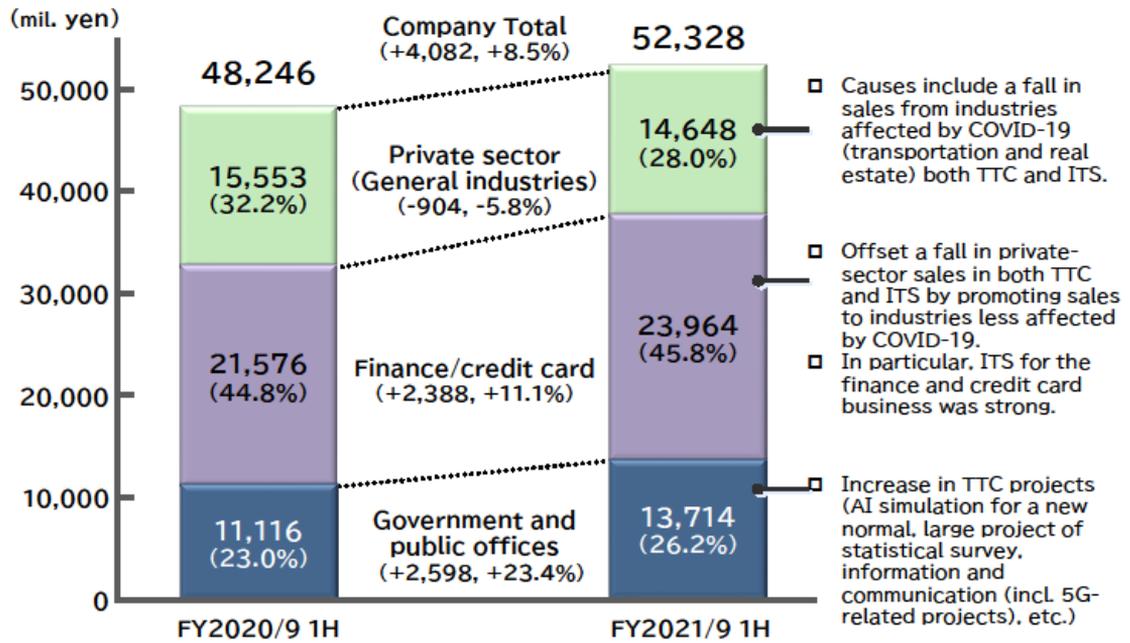
- Both sales and profit increased thanks to sales growth in the finance and credit card business.
- Operating profit was at a record high. A high profit margin was maintained despite prior investment in DX, etc.
- Orders received and order backlog climbed due to large orders in the finance and credit card business.
- The order backlog includes 21,900 mil. yen (up 3,300 mil. yen YoY) to be carried forward to sales from the next fiscal year.

Next is IT services (ITS). This is generally the performance of Mitsubishi Research Institute DCS Group.

Net sales increased by JPY1.2 billion to JPY31.5 billion, and operating income increased by JPY70 million to JPY2.11 billion. Both sales and profits increased due to growth in the financial and credit card fields, and operating income is at a record high level together with TTC.

In accordance with MP2023, we are making upfront investments for the expansion of DX and other businesses, but we are maintaining our profit margin. On the order front, orders in the financial and credit card fields have been steadily accumulating. The order backlog is JPY47.1 billion, a significant increase over the previous year for both the current fiscal year and next fiscal year.

## Net sales by industry of customer <YoY>

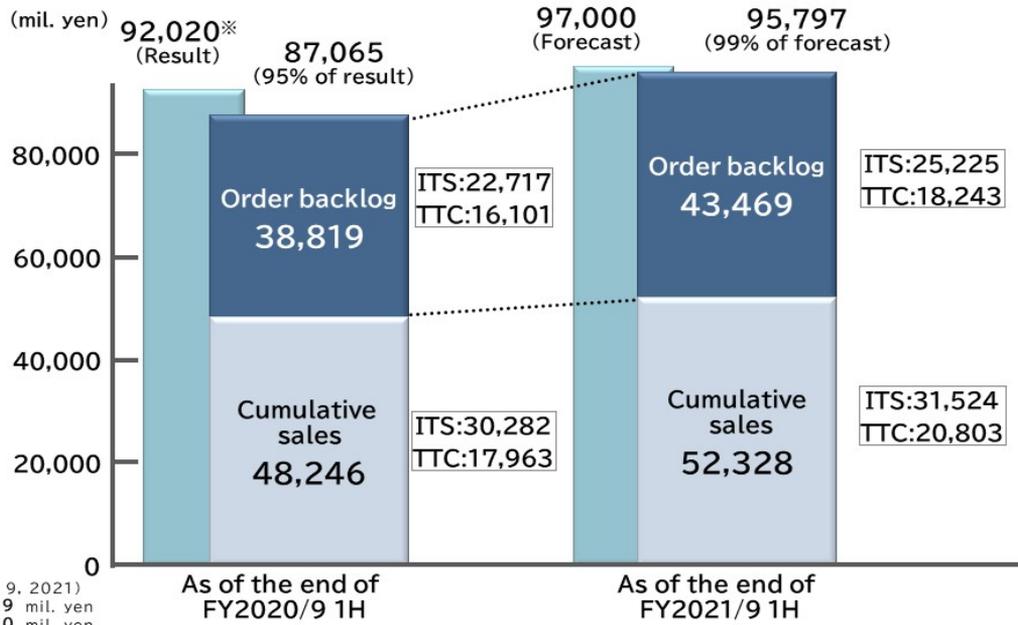


Page 8 shows sales by customer industry category.

Growth in the government and public offices and the finance and credit card sectors more than offset the decline in the private sector, including such as transportation and real estate, which were affected by coronavirus.

## Order Backlog (net sales for FY2021)

- Secured 99% of FY2021 forecast (order backlog for cumulative sales and FY2021 sales)



※Correction:(July 9, 2021)  
 Incorrect: 90,029 mil. yen  
 Correct: 92,020 mil. yen

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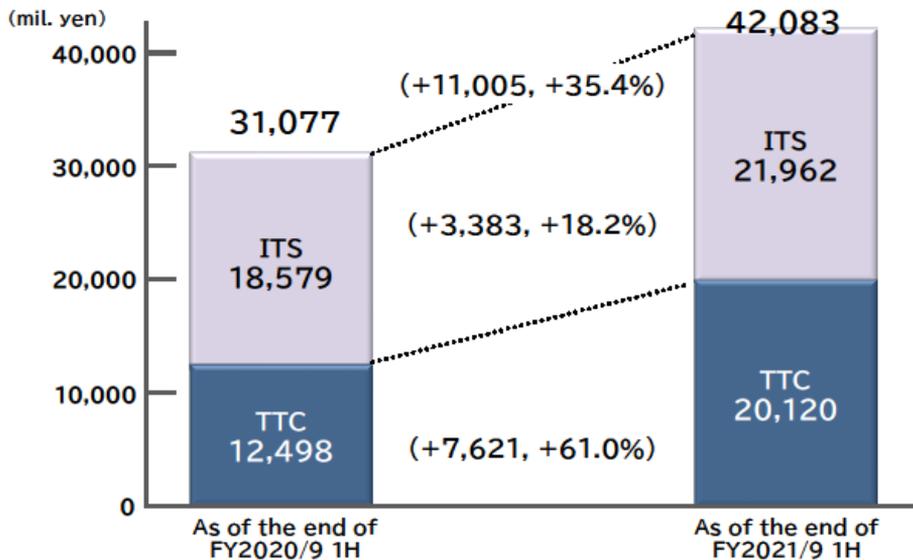
These materials are prepared for the purpose of providing reference information for making investment decisions and not for the purpose of soliciting investment.

Please see page 9. This is the sum of sales in the first half of the fiscal year and the backlog of orders expected to be sold during the current fiscal year.

At present, we have made 99% progress toward our consolidated sales forecast of JPY97 billion for the current fiscal year.

## Order Backlog (carried forward to next fiscal year)

- Strong results were achieved in projects such as solution of social issues and DX in line with MP2023. Steady progress in expected the next fiscal year.
- Order backlog carried forward increased 11,000 mil. yen thanks to accumulated large orders expected to be added to sales in the next fiscal year, such as system projects in the finance and credit card business and AI simulation in view of post-COVID-19 business.



Page 10 shows the backlog of orders that are expected to be sold in the next fiscal year and beyond.

As I explained earlier, the order backlog to be carried forward to the next fiscal year is JPY42 billion, an increase of JPY11 billion from the previous fiscal year and a record high level. Steady progress in the measures of MP2023. Large-scale projects are piling up, including system projects in the financial and credit card fields and AI simulation work with an eye on post-coronavirus.

## FY2021 Full Year Forecasts

No change from the initial forecast

### The full-year forecasts remain unchanged.

- Both net sales and profit were strong in the first half.
- Orders were steadily accumulated.
- The forecast for full-year results is unchanged considering the following, despite some potential for higher results.
  - Focus is shifted to operations carried forward to the next fiscal year.
  - Prior investment in sustainable growth is made under MP2023, etc.

### Impact of COVID-19 on financial results

- Impact of COVID-19 pandemic, state of emergency, etc. on financial results is limited.
- A number of inquiries and orders are received for COVID-19 prevention and post-COVID-19 businesses from both public and private sectors, although there is a risk of underperformance for some private-sector companies (transportation and real estate).

Next is the forecast for the fiscal year ending September 2021.

As I have just explained, results for the first half of the fiscal year were favorable in terms of sales and profit. The order backlog is steadily increasing, and sales for the current fiscal year are JPY4.6 billion higher than the previous fiscal year, with a progress rate of 99%. Regarding portions brought forward to the next fiscal year, we were able to make a good start with an increase of JPY11 billion or up 35.4% compared to the previous fiscal year.

In view of the current progress, there is a possibility of an upward revision in the full-year results. On the other hand, in order to achieve sustainable growth in the next fiscal year and beyond, we will shift our focus from sales in the current fiscal year to sales in the next fiscal year, or the so-called carryover to the next fiscal year.

In addition, we plan to make up-front investments in DX and other growth areas aggressively as planned at the beginning of the fiscal year, and in some cases ahead of schedule, so we have left our full-year forecasts unchanged at this time.

On the other hand, we believe that the impact of the new coronavirus, for which a state of emergency has been declared, will be limited as explained in the results for the first half of the fiscal year. In terms of customer industries, although there is a downside risk in some private sector companies such as transportation and real estate, inquiries and orders for infection prevention and post-corona care remain strong in both the public and private sectors.

## FY2021 Full Year Forecasts

No change from the initial forecast
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(mil. yen)

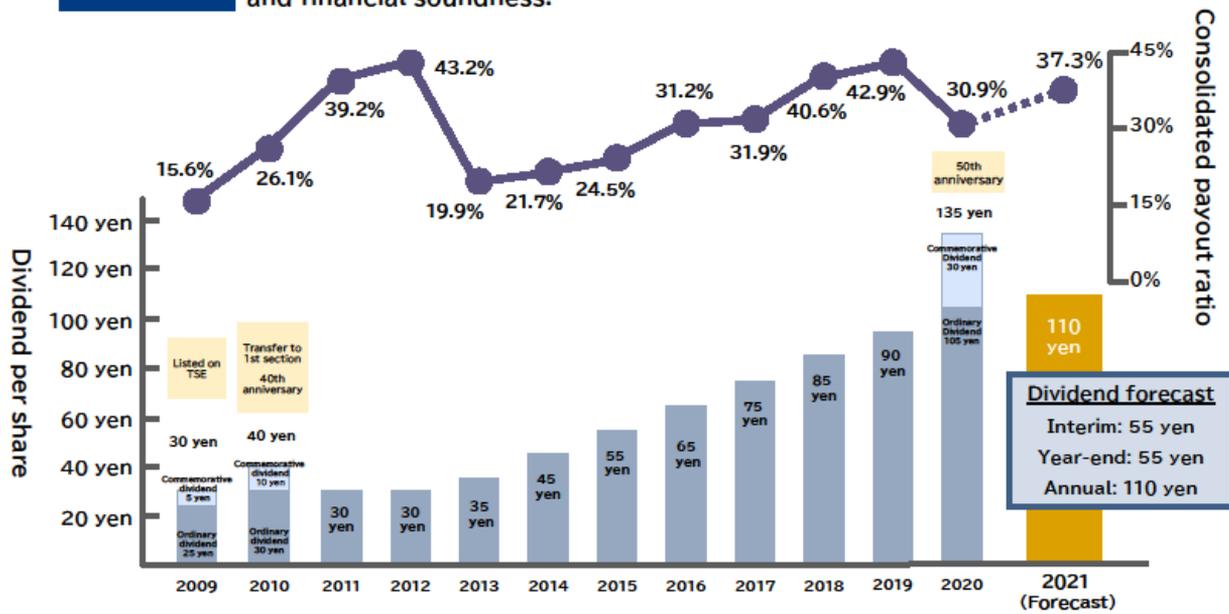
	FY2020 (Result)	FY2021 (Forecast)	Year-on-year	
			Amount	Rate
Net sales	92,020	97,000	+4,980	+5.4%
TTC	34,581	36,000	+1,419	+4.1%
ITS	57,438	61,000	+3,562	+6.2%
Operating profit	6,231	6,600	+369	+5.9%
Operating profit margin	6.8%	6.8%	+0.0P	
Ordinary profit (excl. temporary factors in previous fiscal year)	8,387 (7,000)	7,500	-887 (+500)	-10.6% (+7.1%)
TTC	5,283	4,100	-1,183	-22.4%
ITS	3,092	3,400	+308	+10.0%
Profit attributable to owners of parent	7,096	4,800	-2,296	-32.4%
Basic earnings per share (yen)	436.64	295.30	-141.34	

I will skip Page 13.

# Dividends

## Dividend Policy

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



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The next item is the dividend forecast.

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

Based on this policy, as previously announced, we will pay an interim dividend of JPY55, a year-end dividend forecast of JPY55, and an annual dividend forecast of JPY110.

## Topics

### [MRI]: Progress in projects for solution of social issues

Received a gov't order for investigation and research to demonstrate and introduce key technologies for a post-COVID-19 society.

R&D to maintain both COVID-19 prevention and economic activities in cooperation with researchers and organizations

- Data collection, analysis, and simulation for early detection of an epidemic using AI, etc.
- Development of new technologies useful for prevention control



### [DCS]: Progress in subscription-based services

**miraicompass**



- Online application for junior-high and high school entrance exams
- Online application and online payment for exam fees using credit cards, etc. (PCs, smartphones, and tablet PCs) during an application period
- Used by approx. 40% private schools (more than 900 schools and approx. 700,000 users). Expanding to public schools.
- Continuously adding services such as tuition payment

Lastly, I would like to introduce some topics in the first half of the fiscal year.

I would like to introduce our initiatives as a company that solves social issues as set forth in MP2023.

The first is research work for the demonstration and introduction of key technologies for the realization of the post-corona era. This work relates to the prevention of corona infection, which is the biggest social issue in Japan, and its compatibility with the economy.

In collaboration with a number of researchers and research organizations, and using simulations using AI, we have made a number of proposals for the development of new technologies that will help prevent infection. We will continue to strengthen these surveys, research, and advocacy activities toward the early containment of the new coronavirus.

The second point is the Subscription-Based Service that Mitsubishi Research Institute DCS is currently focusing on.

This service, called “miraicompass”, provides online application for junior high and high school entrance examinations and payment of examination fees by credit card, and is currently very popular.

About 40% of the total number of private schools in Japan, or 940 schools, and 700,000 users are using the service. In the future, we will strive to further improve our services and expand the number of schools, including universities, that use our services.

## Topics: Recent News Releases Related to DX

All releases below are only in Japanese

Date	Title
<b>[MRI]</b>	
2021.4.28	<u><a href="#">MRI Joins Demonstration of SDG Actions in the Otemachi, Marunouchi, and Yurakucho Area and Provides Regional Currency Services</a></u>
2021.4.8	<u><a href="#">MRI Establishes an Operation and Capital Alliance with French ForePaaS SAS</a></u>
2021.3.10	<u><a href="#">MRI Conducts Empirical Experiment of Urban MaaS for Residents of Areas Along Railway Lines in Nishinomiya-City (Kansai area in Japan)</a></u>
2021.3.10	<u><a href="#">MRI Begins Providing Digital Regional Currency Service for Solution of Local Issues</a></u>
2021.2.24	<u><a href="#">MRI Supports Regional Revitalization Using Video Assets Jointly with Exest and Local TV Stations</a></u>
<b>[DCS]</b>	
2021.2.25	<u><a href="#">In March 2021, MRI Begins Providing Remote-work Solution, "Privileges Access Gate," Jointly with Encourage Technologies</a></u>
2021.2.24	<u><a href="#">Multi-factor Authentication Service, "FQ-MA," Linked with Electronic Contract Service, "Electronic Seal GMO Sign"</a></u>
2021.1.13	<u><a href="#">MRI Starts Providing Service for Introducing the ERP Package, "Biz J® (Biz Integral)"</a></u>

Page 17 is a summary of DX-related news released since the beginning of this year.

Let me finish my explanation. Thank you very much for your attention.

## Question & Answer

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**A:** How much of the planned upfront investment of JPY1.4 billion was used in the first half of this fiscal year, and what were the details?

Also, can you provide us with as many details as possible about the orders that are expected to be strong next fiscal year?

**Answer:** Currently, less than 40% of the JPY1.4 billion has been used in the first half of the fiscal year. Therefore, in the second half of the fiscal year, we are planning to invest the remaining JPY1 billion or less.

Some of these investments are related to DX, and we are making various investments on the front side. We have been saying since the beginning of the fiscal year that the key point is to secure personnel for DX, so I would like you to think that the main point is DX, including the hiring of such high-level personnel.

Secondly, you asked about orders that are expected to be strong next fiscal year, and the detailed information.

One of the major projects is a large-scale project funded by the Japanese government, which is an MRI. Various projects are underway for the early control of the new coronavirus infection.

On the other hand, with regard to DCS, MUFG recently explained various aspects of the future card integration. As a result, the role of DCS is becoming more important than ever. This is true in terms of quantity as well as in terms of quality. We have received several large orders or inquiries in this area, and this is the point where we expect orders to grow significantly in the next fiscal year, and orders for the following fiscal year are currently growing.

**B:** Why did you leave your performance forecasts unchanged despite the fact that your first-half results were favorable and orders were strong?

**Answer:** We have achieved 99% of our sales for the current fiscal year, and we would like to build on that as much as possible. However, since this is the first year of our MP2023, in order to achieve sustainable growth for the second year and the third year, we would rather focus on the carry-over for the next fiscal year or 2 in the next 5 months rather than the sales for this fiscal year.

In addition, we will of course make prior investments in the current fiscal year, but we will not hesitate to make prior investments if we find projects that we believe will grow further. In this sense, we have decided to leave our performance forecasts unchanged.

**C:** What is the growth rate of orders received only by financial and credit card companies in the ITS order book? Also, please tell us, to the extent possible, the details of the orders received, such as whether they are temporary orders received due to the acquisition of large projects, etc., or whether the number of orders received has increased as a result of an increase in the number of projects?

**Answer:** In the ITS, finance and credit cards are the main contributors to the growth in orders. However, in the private sectors, we have been focusing on "PROSRV", which is a payroll service, and "miraicompass", and orders for these services have been steadily increasing. In terms of the degree of contribution, there are many financial institutions and credit cards, but in this sense, I am aware that the bottom line has expanded considerably.

Regarding the project in finance and credit card field, the integration of these cards will begin with a view to major milestones in the future. Therefore, we do not think that there will be a temporary order for the next fiscal year.

**D:** I understand that TIS is also involved in the large-scale card integration project. What is the difference between your company and TIS in terms of the division of roles?

**Answer:** In this integration process, we are working with the company for the integration. In this context, we are cooperating on the project by sharing roles and consulting with each other on this matter.

**E:** Regarding the ITS orders and order backlog, why is it that outsourcing services are growing rather than system development?

**Answer:** In the process of integrating the various systems, one of the major points is the development of the so-called infrastructure. This is the reason why we have been able to receive orders of outsourcing services by properly carrying out such infrastructure development.

**F:** How is the competitive environment?

**Answer:**

The competitive environment is very severe. As you all know, human resources, especially in the area of AI, are in short supply at many companies. However, each of them has their own strengths and weaknesses, and in this sense, we are expanding our partnerships with external sources of knowledge, not only by recruiting people, but also by investing in external companies.

As you can see in the last document today, this month we are also partnering with a French venture called ForePaaS. This is a venture that provides a platform for BDA (Big Data Analysis), data-driven management, but it is a venture that provides such a platform that realizes all of these things in one go.

In France, they are working very hard with Total and the French Ministry of Railways. By making full use of these new tools, new know-how, and new technologies, we will be able to overcome such tough competition.

We also consider investments in such companies and business alliances to be part of the upfront investment that you mentioned earlier in your question. Thank you very much.

[END]