



Mitsubishi Research Institute (3636)

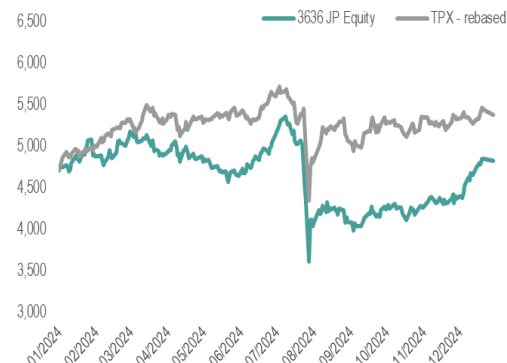
Profits set to expand through improving value creation

6 January 2025

Initiating coverage

- Shifting its focus to profitability** – Mitsubishi Research Institute (MRI) provides consulting services, as well as research and analysis, for the financial sector, government agencies, and the private sector. Profitability is poised to expand through acquiring new clients, growing recurring business, and focusing on profitable projects by moving up the value chain towards upstream consulting within the current medium-term plan (FY9/24-FY9/26). MRI aims to achieve 12% ROE by FY9/26 with such initiatives (7.5% FY9/24). Having a strong balance sheet with a net cash position, MRI plans to increase capital allocation to M&A, driving non-organic growth. Key strengths lie in extensive experience in a wide range of government agency projects, a strong relationship with a mega-bank, and its highly qualified employees with a science background.

Share price: ¥4,825 Market cap: ¥77.4bn



Source: Bloomberg

Profitability improvement

- Positive changes in the business model** – We expect double-digit OP growth in FY9/25 through unit price hikes, a focus on profitable projects such as digital transformation services, and reassignment of underutilized staff to more value-creative projects. We believe a sales mix shift to the private sector for Think Tank & Consulting Services (TTC) and penetration into upstream consulting for IT service (ITS) will be the touchstone for meeting the medium-term plans because it will drive profitability improvement. Whilst we have conservative expectations for ROE, we believe if the company can improve total shareholder returns more proactively and accomplish the acquisitions of new clients who have higher returns than legacy customers, ROE can be higher.
- ESG** – we score the company as ‘Amber’ under our Astris-Sustainability model scorecard, scoring relatively highly in the ‘Social’ category.
- Valuations** – on our earnings estimates, the shares are trading on FY9/25 PER 12.4x, FCF yield of 6.6%, and a total shareholder yield of 3.3%. The PBR of 1.0x is at a discount to peers, which we believe will expand through profitability enhancement and a shift toward upstream consulting.

Price Performance				
	YTD	1M	3M	12M
Abs (%)	-0.5	+10.4	+14.1	+3.9
Rel (%)	+0.5	+9.2	+11.5	-9.8

Company sector	
Computer Services	
IT Services (GICS)	

Stock data	
Price (¥)	4,825
Mkt cap (¥bn)	77.4
Mkt cap (\$m)	490.9
52-week range (¥)	3,615-5,370
Shares O/S (m)	16.0
Average daily value (\$m)	0.9
Free float (%)	58.1
Foreign shareholding (%)	13.6
Ticker	3636
Exchange	Tokyo Prime
Net Debt/Equity (x)	Net cash
FFO leverage (x)	N/A
BBG BUY HOLD SELL	1 0 0

Source: Bloomberg

Year-end	FY9/23	FY9/24	FY9/25E	FY9/26E	FY9/27E
Sales (¥bn)	122.13	115.36	129.20	135.66	142.45
OP (¥bn)	8.69	7.06	8.39	11.88	12.76
NI (¥bn)	6.29	5.00	6.14	8.53	9.13
EPS (¥)	392.23	316.42	388.31	539.27	577.65
DPS (¥)	150.00	160.00	160.00	220.00	235.00
Sales growth YoY (%)	+4.7	-5.5	+12.0	+5.0	+5.0
OP growth YoY (%)	-5.2	-18.7	+18.9	+41.5	+7.4
NP growth YoY (%)	-18.4	-20.4	+22.7	+38.9	+7.1
EPS growth YoY (%)	-17.4	-19.3	+22.7	+38.9	+7.1
PER (x)	12.3	15.2	12.4	8.9	8.4
EV/EBITDA (x)	4.5	5.2	4.5	3.5	3.2
EV/Sales (x)	0.5	0.5	0.4	0.4	0.4
PBR (x)	1.2	1.1	1.0	0.9	0.8
ROE (%)	9.8	7.5	8.6	10.6	10.1
ROCE (%)	10.0	8.0	8.6	11.0	10.8
FCF yield (%)	0.3	12.2	6.6	13.2	12.2
Dividend yield (%)	3.1	3.3	3.3	4.6	4.9
Total shareholder yield (%)	5.5	4.7	3.3	4.6	4.9

Source: Company data, Astris Advisory (estimates)

Business Overview
MRI provides consulting services, and comprehensive research and analysis based on a scientific approach, participating in numerous high-profile domestic and international projects.

Astris-Sustainability ESG rating		Reference Ratings	
	Amber	MSCI	A
		Sustainalytics	19.3
		Refinitiv	N/A
		S&P Global	48.0
		Bloomberg	2.27
	CDP	C	

Next events
Q1 FY9/25 results February 2025

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Summary

MRI has two segments—TTC (Think Tank & Consulting Services) (TTC) and ITS (IT service) (ITS)— which provide consulting services and comprehensive research and analysis with a scientific approach. By revenue, the largest client sector is the financial sector, but historically, government agencies have also been key clients. It participates in numerous high-profile domestic and international projects.

Competitive advantages include a long and successful track record, a strong relationship with MUFG, and highly qualified consultants

The company's competitive advantages include **its long and successful track record**, which helps win new and recurring mandates from government agencies for TTC; **a strong relationship with MUFG (8306; Mitsubishi UFJ Financial Group)**, one of the leading mega banks, facilitating steady order intake for ITS; and **highly qualified consultants** of which more than 75% of researchers (approximately 1,000 on an unconsolidated basis) have master's degrees or PhD in sciences including various fields such as energy, physics, chemicals, and, information and systems.

The company has embarked on a medium-term strategy for FY9/24- FY9/26 based on the following (all changes are compared to FY9/23):

- **Sales: ¥135.0bn (vs. ¥122.1bn, CAGR +3.4%)**
- **OP: ¥12.0bn (vs. ¥8.7bn, CAGR +11.4%)**
- **OP margin: 8.9% (vs. 7.1%)**
- **ROE: 12% (vs. 9.8%)**

The current medium-term plan is characterized as a Step Phase that leaps to a Jump Phase. The company aims to achieve ¥200bn in sales by 2030, which will be crucial to improving market positioning and strengthening its business and strategies.

Astris Advisory estimates that MRI will drive medium-term growth via the following factors:

- **Acquisition of new clients** – Expand untapped businesses, including regional banks, corporations, and non-bank financial institutions for ITS
- **Profitability improvement** – Price hikes and a focus on profitable projects
- **Expansion of recurring business** – Through non-organic growth, including M&A and partnerships

MRI is trading at a discount due to its low returns and poor capital allocation. However, we believe that, by FY9/30, there will be a transformation that will result in improved returns, and thus, the shares are undervalued. To unlock better valuation, MRI needs to:

- **Optimise the balance sheet, i.e. unwind cross-shareholdings**
- **Expand profitable businesses through M&A and partnerships**
- **Improve shareholder returns**



Company description

Overview

MRI provides comprehensive research and analysis with a scientific approach

The largest client sector is the financial sector by revenue

Founded in 1970 as a pioneering private comprehensive think tank in Japan during private think tank's formative years, MRI provides consulting services, and comprehensive research and analysis with a scientific approach, participating in numerous high-profile domestic and international projects. In the 1990s, it established a solid position in the field of policy support for government agencies. In 2005, MRI consolidated Mitsubishi Research Institute DCS to fully launch the IT solutions business, enabling more holistic problem-solving for clients. **The largest client sector is the financial sector by revenue, followed by government agencies and other general industries (FY9/24).**

DCS was originally established as a subsidiary responsible for the systems of the former Mitsubishi Bank and is now part of the Mitsubishi Research Institute Group. Even as Mitsubishi Research Institute DCS today, it remains a member of the Mitsubishi UFJ Financial Group (MUFG) and continues to steadily receive system-related projects from MUFG. **What sets MRI apart is its pool of highly qualified consultants.** More than three-quarters of researchers (approximately 1,000 researchers in total on a non-consolidated basis) have a science background including various fields such as energy, physics, chemicals, and information and systems, of which 75% have master's degrees or PhD. Meanwhile, DCS (on a standalone basis) has more than 1,000 certified IT professionals.

During the previous medium-term plan (FY9/21-FY9/23), the company achieved the following (all changes are compared to FY9/20):

- **Improved DPS to ¥150 (vs. ¥135 including a commemorative dividend of ¥30 for the 50th anniversary of the company's founding), indicating commitment to shareholder returns**
- **OPM expansion to 7.1% (v.s. 6.8%) through margin improvement of DCS's ITS**
- **OP growth to ¥8.7bn (v.s. ¥6.2bn; 11.7% CAGR)**

In the current medium-term plan (FY9/24-FY9/26), the company aims to achieve **1) profitability improvement for TTC by expanding the digital transformation business within the private sector in particular, 2) acquisition of new clients for ITS to make up for shrinking large projects, 3) expansion of recurring business, and 4) non-organic growth.** With these initiatives, the company plans to achieve **sales of ¥135.0bn (vs. ¥122.1bn*, CAGR +3.4%), OP of ¥12.0bn (vs. ¥8.7bn*, CAGR +11.4%), OP margin of 8.9% (vs. 7.1%*), and ROE of 12% (vs. 9.8%)** (*all changes are compared to FY9/23).



Timeline summary

Key dates	Details
1970	Mitsubishi Research Institute, Inc. was established in Yurakucho, Chiyoda-ku, Tokyo, offering research and analysis services, commissioned surveys, consulting services, and information processing services.
1984	Expanded into software development and related research and analysis services.
2004	Acquired shares of Diamond Computer Service, Inc. (now Mitsubishi Research Institute DCS, Inc.), with a voting rights ratio of 25%.
2005	Acquired additional shares of Diamond Computer Service, Inc., making it a subsidiary (with a 60% voting rights ratio). Established the Consulting Business Division, and strengthened the business structure and sales system for private companies through a business alliance with The Bank of Tokyo-Mitsubishi (now MUFG Bank, Ltd.).
2007	Diamond Computer Service, Inc. was renamed Mitsubishi Research Institute DCS, Inc.
2008	Acquired additional shares of Mitsubishi Research Institute DCS Co., Ltd. (increasing voting rights ratio to 80%).
2009	Listed on the Second Section of the Tokyo Stock Exchange.
2010	Designated as a First Section stock on the Tokyo Stock Exchange.
2014	Acquired shares of JBS Corporation (now Japan Business Systems, Inc.) to form an equity-method affiliate, with the aim of collaboration in the collaboration platform business.
2018	To expand advanced technology services and system solutions, particularly in the public and financial sectors, a business and capital alliance was formed with Ines Corporation.
2019	To accelerate further cooperation and joint efforts in new business areas, Ines Corporation became an equity-method affiliated company.
2022	The company transitioned from The First Section to The Prime Marke due to the market segment reclassification of the Tokyo Stock Exchange

Source: Company data

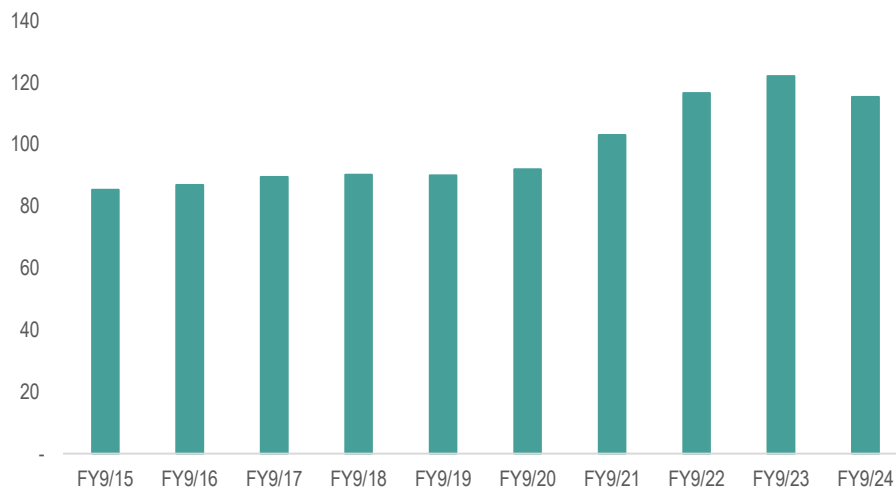


Sales trends

Sales expanded during the previous medium-term plan (FY9/21-FY9/23) on the back of large government projects related to COVID-19 AI simulations, advanced ICT, cloud, and 5G for TTC. For ITS, large projects for financial systems and bank cards drove the growth. Such positive momentum led to record sales in FY9/23. In FY9/24, revenue declined as the positive impact from large projects receded.

Although sales declined in FY9/24, generally trending upwards

Annual sales (¥bn)



Source: Company data



Segment data

MRI has two reporting segments as follows:

Segment details

Segment	Description	Core services	Main clients
Think Tank & Consulting Services	<ul style="list-style-type: none"> Provide research and consulting services related to policies and general business 	<ul style="list-style-type: none"> Research, analysis, and validation Consulting Digital transformation-related consulting and services 	<ul style="list-style-type: none"> Public sector (central government ministries, special corporations, local governments, etc.) Private sector (energy, transportation industries, etc.)
IT Service	<ul style="list-style-type: none"> Carry out software development, operation, maintenance, information processing, and outsourcing services 	<ul style="list-style-type: none"> System development and maintenance Outsourcing Digital transformation-related Services 	<ul style="list-style-type: none"> Financial sector (banks, card companies, non-bank financial institutions, etc.) Private sector (media, education, etc.)

Source: Company data

In addition to the above, in the current medium-term plan, MRI discloses business segments as follows:

Additional segment details

Segment	Description	Core business
Think Tank Function	<ul style="list-style-type: none"> Provide independent research pioneering major societal trends and offer advisory services 	<ul style="list-style-type: none"> Research, analysis Policy proposal
Societal and Public Innovation	<ul style="list-style-type: none"> Offer policy-related services to both public and private sectors 	<ul style="list-style-type: none"> Research and consulting Digital transformation for public sector Social problem-solving
Digital Innovation	<ul style="list-style-type: none"> Management consulting about digital transformation 	<ul style="list-style-type: none"> Consulting ERP · SI (Enterprise Resources Planning · System Integration) Data analytics & AI Services including HR and payroll outsourcing and school online application Digital transformation for public sector
Financial System Innovation	<ul style="list-style-type: none"> Carry out the development and operation of financial systems and provide solutions to business challenges as the main vendor 	<ul style="list-style-type: none"> Financial and payment services Financial consulting and financial digital transformation Card business

Source: Company data

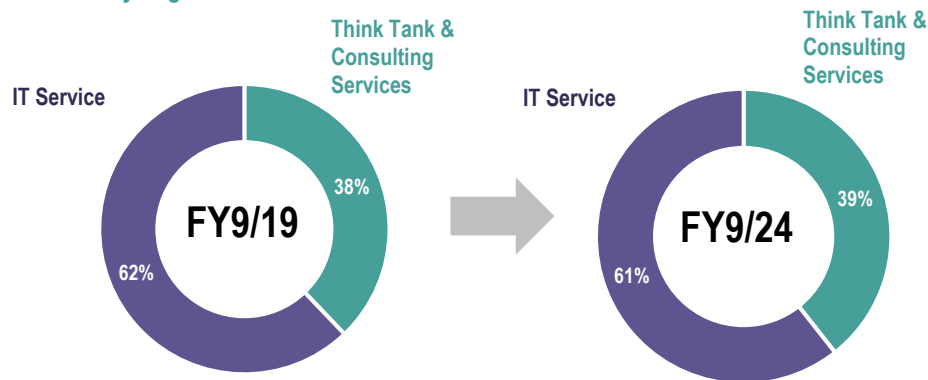


Sales mix and orders

MRI's revenue composition consists of approximately 40% from Think Tank & Consulting Services and 60% from IT Service. In both segments, most orders have a short lead time, averaging less than one year. The backlog of Think Tank & Consulting Services has decreased in recent years due to the completion of large-scale projects and an increase in private sector projects, which generally have shorter execution periods compared to government agency projects.

Sales composition has remained consistent

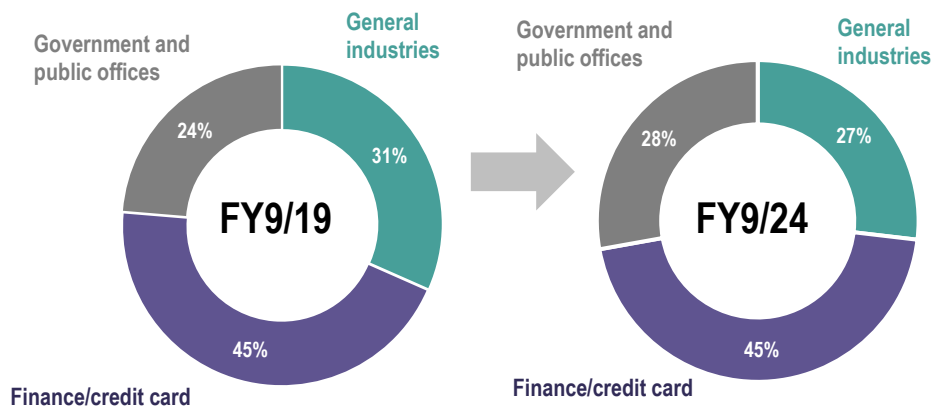
Sales mix by Segment – FY9/19 vs FY9/24



Source: Company data

Sales mix has shifted to government and public offices

Sales mix by client – FY9/19 vs FY9/24

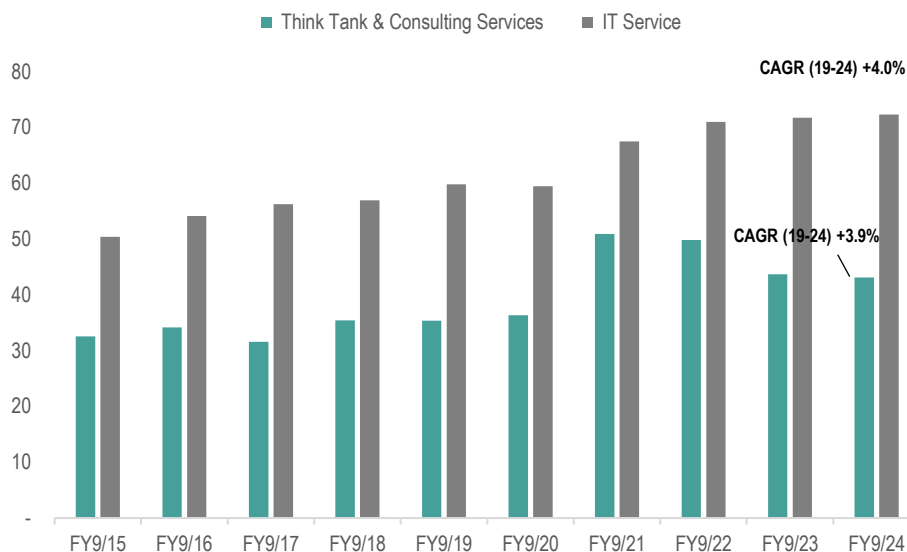


Source: Company data



IT Service continued to expand order intake but Think Tank & Consulting Services declined due to normalisation in recent years

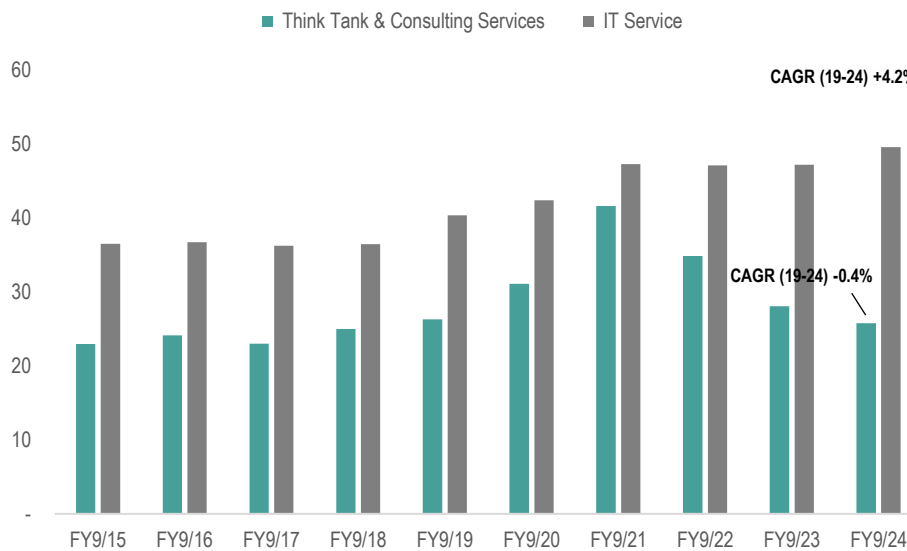
Order intake (¥bn)



Source: Company data

Order backlogs show similar trends as order intake because lead time is shorter than one year on average

Order backlogs (¥bn)



Source: Company data

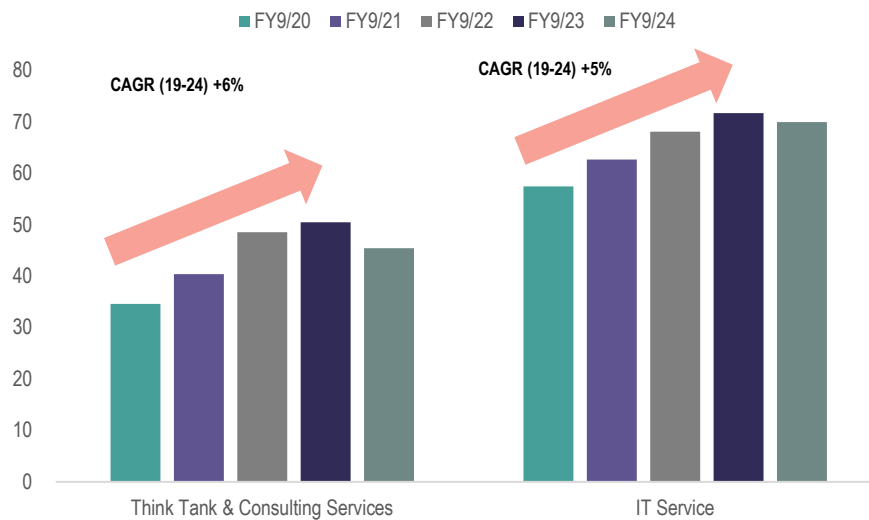


Growth rates and segment OP

Both Think Tank & Consulting Services (TTC) and IT Service (ITS) achieved mid-single-digit growth (6% and 5% 5-year CAGR respectively between FY9/19 and FY9/24). However, the growth rate for TTC slowed down in FY9/24 due to a reversal impact from the past large orders. In terms of OP, ITS grew its contribution on the back of large card-related projects.

Both Think Tank & Consulting Services (TTC) and IT Service (ITS) achieved mid-single-digit growth.

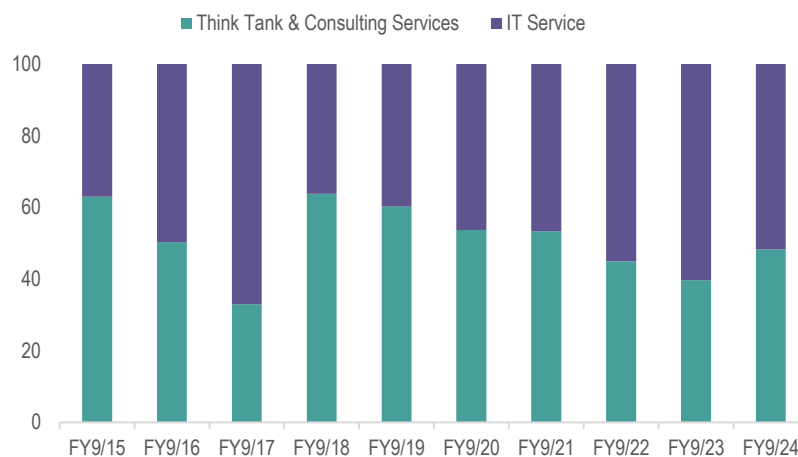
Annual sales by Segment (¥bn)



Source: Company data

IT Service (ITS) has become a key profit driver since FY9/18 and its contribution has exceeded Think Tank & Consulting Services (TTC) in recent years

Segment OP (% of total)



Source: Company data

Notes: Eliminations were ignored because they were negligible.

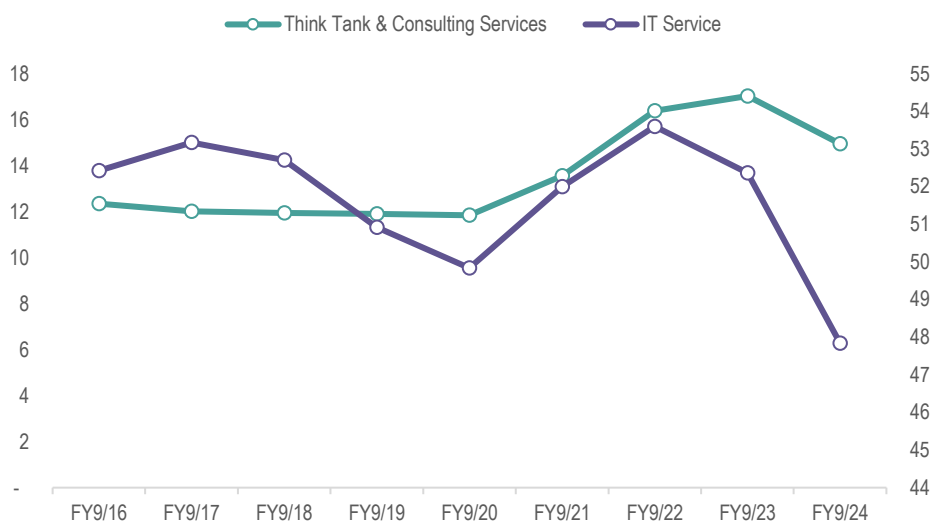


Productivity and capex ratio

Productivity by revenue per employee for Think Tank & Consulting Services (TTC) improved with large orders from government agencies. On the other hand, that of IT Service (ITS) was more volatile because of a large unprofitable order which involved partial cancellation of the order due to a product quality issue in FY9/18, lowering productivity thereafter. Productivity improved from FY9/21 as card-related large projects were mandated by Mitsubishi UFJ Financial Group (MUFG). However, as large orders started fading away, productivity peaked out in recent years. The capex ratio increased mainly because of investment in ITS.

Productivity for TTC (LHS, ¥mn) improved whereas that of ITS (RHS, ¥mn) was more volatile

Productivity by sales per employee for TTC (LHS) and ITS (RHS)

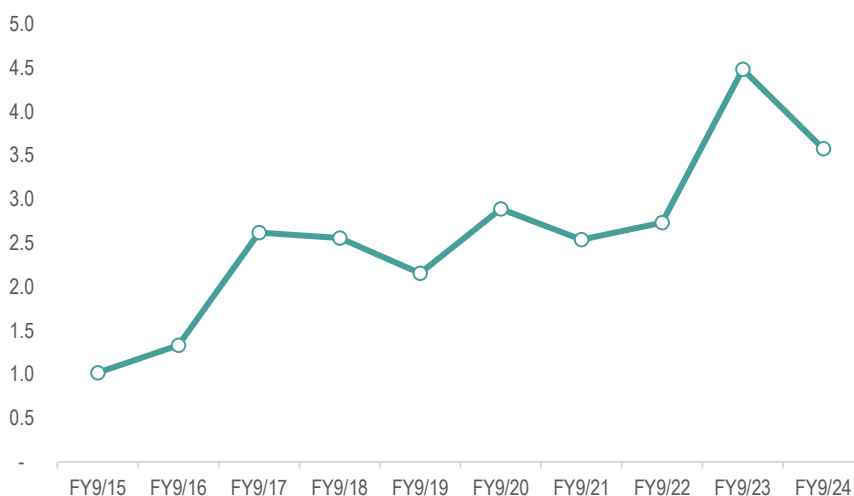


Source: Company data

Note: The sales-per-employee ratio is computed by revenue divided by the average number of employees throughout the year for each segment.

The capex ratio sharply increased primarily because of increased investment in IT Service (ITS)

Capex ratio (% of sales)



Source: Company data

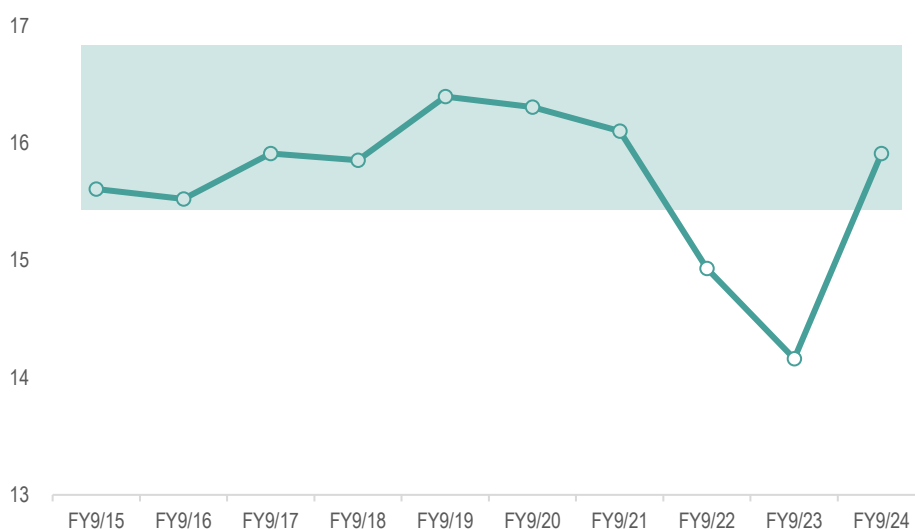


SG&A to sales

The SG&A ratio sharply increased to 15.9% in FY9/24 (14.2%, FY9/23) due to a decrease in large government agency projects (extraordinary factors) that were outsourced over the past two fiscal years. Revenue expanded in FY9/22-FY9/23 because of the expansion of large-scale government agency projects primarily focused on demonstration initiatives for new governmental projects which involve significant external outsourcing (ref. [Profitability of Think Tank & Consulting Services \(TTC\)](#)), pushing down the SG&A ratio. Once this external outsourcing declined, the SG&A ratio increased in FY9/24.

SG&A ratio has reverted to historical levels as extraordinary factors seen in the last two years have faded away

SG&A ratio (% of sales)



Source: Company data

Profitability

Profitability of IT Service (ITS)

MRI successfully improved the consolidated OP margin 5.5% in FY9/18 to 7.9% in FY9/22, which was primarily driven by segment OP margin expansion for ITS (3.1% FY9/18, 7.4% FY9/22). IT Service (ITS) falls in the realm of DCS. That said, the segment OP margin was driven by the following:

- Recovery from the impact of a large unprofitable project that occurred in FY9/18
- Progress on large-scale system projects in the financial and card areas
- Withdrawal from certain low-margin projects

MRI continues to focus on expanding recurring revenue to increase the proportion of its business that does not overly rely on workforce utilization. Based on our estimate, we believe the ratio of recurring revenue is somewhere between 5-10% (FY9/24). Recurring businesses (recurring businesses refer to businesses that are not labor-intensive and do not

require a large amount of time as input) for DCS mainly consist of PROSRV; an HR outsourcing business (including Payroll processing services), and miracompass; a payment solution for junior high and high school entrance exams. TTC also offers recurring services such as wholesale price projections for the futures market of electricity.

Regarding the segment OP margin of ITS, however, one of the large-scale projects that significantly contributed to profits has peaked, resulting in a decline in both volume and profit margin, which negatively impacted profitability. (It should be noted that this large-scale project is expected to be completed during the fiscal year ending September 2026.)

Profitability of Think Tank & Consulting Services (TTC)

TTC used to have an OP margin of 9% or higher before the pandemic. However, its profitability has decreased in recent years due to large orders placed by the public sector. These projects originated in a way that some of the work was to be outsourced externally (i.e. consignment business) and led to lower margins subsequently. In some Japanese government agency operations, certain projects, such as demonstration initiatives (projects or activities aimed at testing and validating the feasibility, effectiveness, or practicality of new technologies, policies, services, or business models), are outsourced entirely to consultants. This includes the public solicitation of operators, progress management of demonstration projects, and other related tasks. The costs associated with the implementation of the demonstration projects (external outsourcing expenses) are also included in the consulting fees under this arrangement. MRI has extensive experience in handling large-scale projects of this type in particular. Since profit margins are calculated as profit divided by revenue, an increase in revenue from those projects that incur outsourcing costs (the larger the sale of demonstration projects, the higher outsourcing costs) can superficially reduce the profit margin. The public sector represents about 70% of TTC's revenue. In FY9/22 and FY9/23, the number of such outsourcing projects (consignment business) was higher in particular. As a result, TTC's outsourcing costs expanded along with an increase in revenue, leading to a superficial decline in the profit margin, particularly during these two fiscal periods. In future, we believe the profitability of TTC can be enhanced, as 1) the consignment ratio reverts down to historical levels, and 2) business for the private sector expands, which is more profitable.

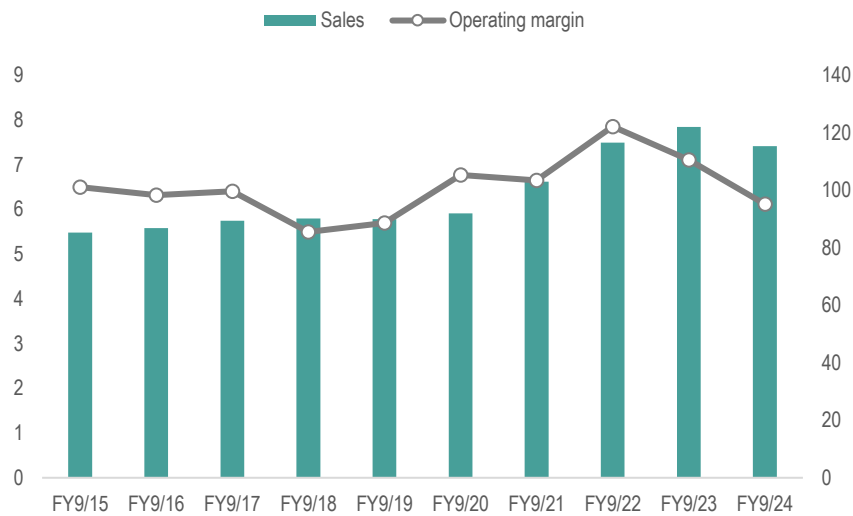
However, since the volume of such projects depends on the circumstances of the ordering party, which are government agencies, TTC is likely to be significantly affected by increases in outsourcing costs as long as the proportion of government-related work remains high. This implies a potential risk of a superficial decline in profit margins in the future. (Even in such cases, it should be noted that this does not necessarily mean a decline in profitability for MRI in real terms.)

Non-operating income

MRI recorded non-operating income of approximately ¥2bn and ¥1.7bn in FY9/23 and FY9/24 respectively. The majority of the non-operating income was generated from two of three affiliates — JBS (5036; Japan Business Systems; cloud solution provider) and INES Corporation (9742; IT service provider). Assuming demand for digital transformation will remain robust, we believe JBS and INES will continue to grow, leading to the generation of non-operating income through equity-method affiliates.

OP margins declined in recent years due to an increase of less-profitable orders that incurred higher outsourcing cost

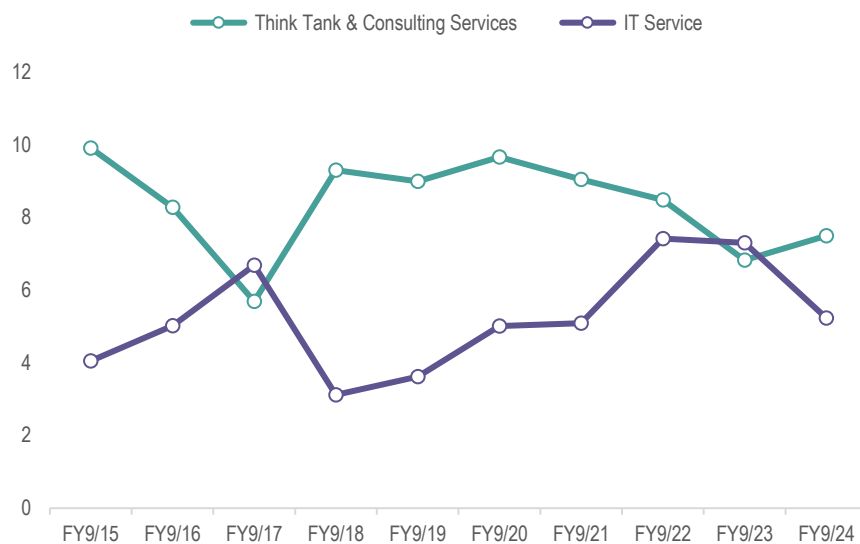
Sales (¥bn, LHS) and segment GP and OP margin (% , RHS)



Source: Company data

Margins for Think Tank & Consulting Services (TTC) declined due to higher outsourcing cost but those of IT Service (ITS) improved over time

Segment operating margins (%)



Source: Company



Group companies

The core consolidated subsidiaries are below, highlighting the company's focus on IT Service (ITS) and Think Tank & Consulting Services (TTC).

Consolidated group companies

Subsidiary	Stake (%)	Business
Consolidated Subsidiaries		
Mitsubishi Research Institute DCS Co., Ltd.	80.0	ITS
MRI Business, Inc.	100.0	TTC
MRI Research Associates, Inc.	100.0	TTC
MPX Co., Ltd.	80.0	TTC
MRIA International Inc.	100.0	TTC
MRIV International LLC	100.0	TTC
MRI Value Consulting & Solutions Co., Ltd.	88.9	ITS
MD Business Partner Co., Ltd.	100.0	ITS
IT One Co., Ltd.	99.5	ITS
Equity-Method Affiliates		
Nihon Care Communications Co., Ltd.	33.3	TTC
Japan Business Systems, Inc.	19.7	TTC
INES Corporation	19.5	TTC

Source: Company data



Management philosophy

Addressing social challenges for a sustainable society

MRI is founded on the ethos of creating a sustainable and rich future through resolving social problems as a pioneer in leading changes.

The company proclaims five concepts as part of its commitments to stakeholders:

- Devotion to growth – Continually honing value to society and its customers
- Collective knowledge – Acting as a hub between diverse branches of knowledge
- A clear stance – Using scientific insights to discern the proper path toward the ideal future.
- Taking on challenges – Transforming the world in new ways
- Reality – Devotion to feasible recommendations and their implementation.



Business model

Key concepts and unique selling points

Typically, consulting services drive revenue and earnings as follows:

- Providing specialized expertise and strategic insights to organizations
- Offering intensive research, data analysis, and solution development, with deliverables like reports, action plans, or direct implementation support, aimed at creating measurable value for clients

MRI's business model is characterized by the following:

- **Think thank** – Provision of research based on a scientific approach with a focus on the fields of human resources, healthcare, digital transformation (DX), and energy & circular economy.
- **Societal and public innovation** – It involves public digital transformation projects and supports policy writing in the fields of healthcare, elder care, disaster prevention, and social infrastructure in particular.
- **Digital innovation** – Combined with data analytics and system integration (SI) services, it provides support to clients from strategic planning and business model consideration to IT initiatives alongside ERP implementation, AI system development, and digital transformation.
- **Financial system innovation** – It involves the execution of system implementation, development, and maintenance projects such as bank cards and settlements.

Workflow

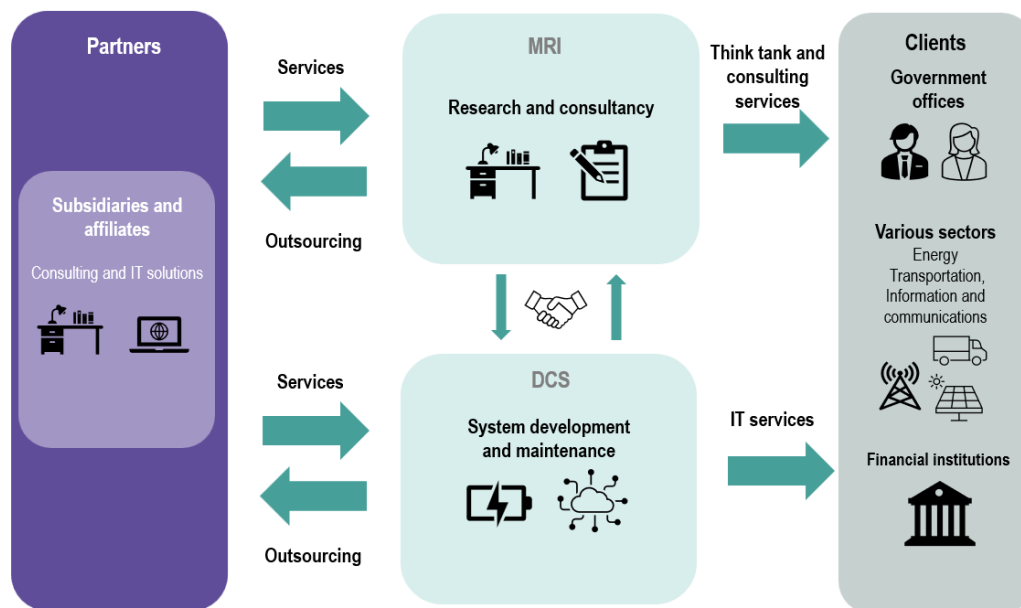
MRI handles think tank and consulting services. DCS, a subsidiary of MRI, executes system implementation work.

Synergies between MRI and DCS are exerted as follows:

- MRI passes through some system-related works to DCS
- MRI shares with DCS knowhow on how to propose to clients when necessary



High-level workflow overview



Source: Company data, Astris Advisory

Competitive advantages

We believe MRI has the following competitive advantages:

- **A long and successful track record** – Provides an advantage in bidding for government agency projects where technical expertise and the past track record are weighed in particular. This leads to a top three market share in Think Tank & Consulting Services within the public sector.
- **A relationship with a mega bank** – DCS, an IT service arm of MRI is part of MUFG (Mitsubishi UFJ Financial Group), one of the leading mega banks. This supports steady order intake from MUFG for IT services.
- **Highly qualified consultants** – More than three-quarters of researchers (approximately 1,000 researchers in total on a non-consolidated basis) have science backgrounds including various fields such as energy, physics, chemicals, and information and systems, of which 75% have master's degrees or PhD. Meanwhile, DCS (on a standalone basis) has more than 1,000 certified IT professionals.

ROE

The company aimed at ROE of 10% in the previous medium-term plan which ended in FY9/23, and achieved 9.8%. ROE fluctuated in the past years because of extraordinary gains from the sale of shares in Minori Solutions (a software company) in FY9/20 and sales of cross-shareholdings and a stake of its subsidiary in FY9/22.

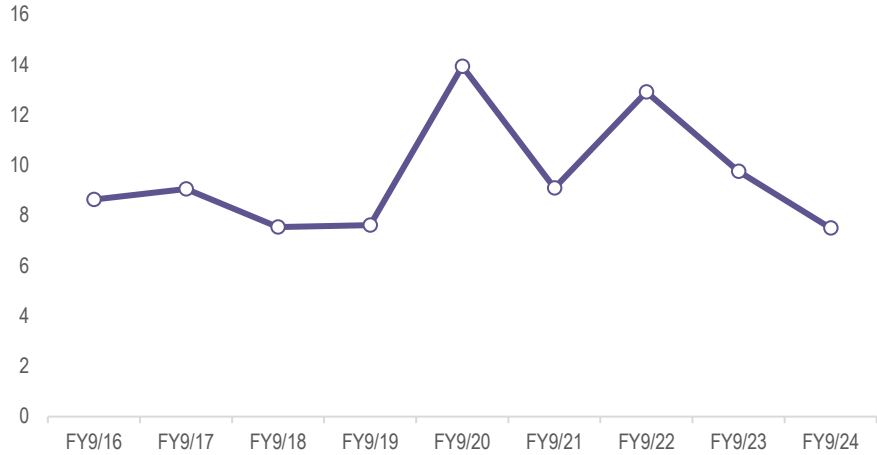
In the new FY9/24-FY26 medium-term plan, MRI targets an ROE of 12%. However, our expectations for ROE are conservative. To achieve its target, we believe the company needs to improve total shareholder payout, which we have not fully reflected in our estimates.



Similarly, whilst not incorporated in our forecast, a reduction of cross-shareholdings, which was reiterated by the company in FY9/24, will potentially increase ROE.

ROE declined in recent years as profits moderated

ROE (%)



Source: Astris Advisory based on company data



Peer group analysis

We have selected the following peers in the domestic and global IT service to assess MRI's returns and valuations (based on data obtained as of September 2024):

Domestic IT services

Company	Description
Fujitsu Limited	Provides comprehensive information technology development, network and telecommunication solutions, system platform adjustment, and other services.
NTT DATA GROUP CORPORATION	Provides large-scale system integration and networking system services. System integration involves data transmission system design, sales, leasing, and services.
NEC Corp.	Provides public solutions development, public infrastructures development, enterprise solutions development, system platforms development, network control platform systems management, cloud computing, and other services.
Otsuka Corporation	Designs, constructs, and develops computer information systems and software. The Company also sells computer peripherals, facsimiles, copy machines, and telecommunication equipment.
Nomura Research Institute, Ltd.	Provides information technology, research, consulting, and analysis for business strategy decision-making. The Company also provides application software for system operation services.
BIPROGY Inc.	Provides cloud computing and outsourcing, computer and network system sales, software development and sales, system-related services, and other services.
Internet Initiative Japan Inc.	Offers a variety of services, including network consulting, security, and Web hosting.
Oracle Corporation Japan	Sells a variety of software, including database management system software, application development tools, decision-making support tools, and business-related applications.
DENTSU SOKEN INC.	Designs, develops, and provides enterprise system integration, think tanks, social transformation support, and other solutions.
NS Solutions Corp	The Company provides system consulting, business solutions proposal, platform solutions development, engineering systems maintenance, software management, and other services.

Source: Companies, Bloomberg



Global IT services

Company	Description
International Business Machines Corporation	Provides computer solutions and offers application, technology consulting and support, process design and operations, cloud, digital workplace, and network services, as well as business resiliency, strategy, and design solutions.
Accenture Plc	Provides management and technology consulting services and solutions and delivers a range of specialized capabilities and solutions to clients across all industries on a worldwide basis.
Capgemini SE	Offers information technology services. The Company provides mobile software solutions, business process management, outsourcing, cloud computing, finance, consulting, supply chain management, engineering, and other services.
Leidos Holdings, Inc.	Provides scientific, engineering, systems integration, and technical services and solutions.
Science Applications International Corp.	Offers scientific, engineering, and technology applications and solutions to solve problems, serving security, energy, environmental, health, and infrastructure markets worldwide.
CACI International Inc	Delivers client solutions for systems integration, information assurance and security, reengineering, logistics and engineering support, electronic commerce, and other solutions.
EPAM Systems, Inc.	Provides software development, outsourcing services, e-business, enterprise relationship management, and content management solutions. EPAM Systems serves customers in the United States.
FTI Consulting, Inc.	Offers restructuring, bankruptcy and performance improvement, antitrust, business valuation and intellectual property, forensic accounting, corporate communications, and computer forensics services.
Globant SA	Provides engineering, design, and innovation services for clients throughout North America and Europe.
CGI Inc.	Offers business consulting, system integration, IT outsourcing, application, business process, and infrastructure services.

Source: Companies, Bloomberg

We believe there are three core findings:

The domestic peer group experienced profitability improvement.

MRI at a significant discount to peers

- **Profitability** – Overall, IT services generate high profitability; domestic firms have an average LTM OP margin of 12.0%, and global peers of 10.6%. Compared to this, MRI has a poorer track record with an LTM OP margin of 6.4%.
 - Domestic IT services companies experienced margin improvements whereas overseas peers suffered margin declines over the past five years. The 5-year historical change in gross margin is 1.8% for domestic and -0.3% for overseas peers respectively.
- **Valuations** – Our key finding is that MRI is trading at a material discount to its peers:
 - EV/EBITDA multiple of 4.5x versus domestic IT services companies on 11.6x – this suggests MRI is undervalued.
 - PBR of 1.0x versus domestic peers on 4.1x – this indicates room for multiple expansion.
- **Sustainability of earnings (5-year track record)** – The sector has seen a similar level of single-digit sales growth among domestic and overseas peers. Both domestic and overseas peers experienced high double-digit EBIT growth. Notably, domestic peers achieved higher EBIT and EPS growth than overseas peers. For MRI, we highlight:
 - Sales and EBIT growth were 6.2% and 11.9% CAGR respectively, broadly in line with the domestic peers.



We conclude MRI is trading at a discount due to its low returns and poor capital allocation. However, we believe that heading into FY9/30, there will be a transformation that will result in improving returns, and thus, the shares are undervalued. To unlock better valuation, MRI needs to:

- **Optimise the balance sheet, i.e. unwind equity investments (including but not limited to cross-shareholdings)**
- **Expand profitable businesses through M&A and partnerships**
- **Improve shareholder returns**



High ROE indicates the sector's high profitability and capital efficiency

Peer analysis of key profitability and valuation metrics

Ticker	Company	Mkt Cap US\$ (m)	Profitability				Valuation					
			OPM LTM	OPM 10-yr average	ROE LTM	ROIC 10-yr average	EV/EBITDA 12M Fwd (x)	EV/Sales 12M Fwd (x)	Div yield 12M Fwd (%)	FCF yield 12M Fwd (%)	PER 12M Fwd (x)	PBR (x)
3636 JP	MRI	450	6.4	6.6	7.8	11.7	4.5	0.4	3.3	6.6	12.4	0.8
<i>Domestic IT services</i>												
6702 JP	Fujitsu Limited	36,961	4.8	5.7	15.6	13.7	10.7	1.4	1.0	3.2	19.7	3.0
9613 JP	NTT DATA	23,476	6.9	6.7	7.6	8.7	7.7	1.2	1.1	-7.0	21.3	1.9
6701 JP	NEC Corp.	25,283	5.8	3.9	8.4	6.9	8.4	1.1	1.1	7.7	21.3	1.9
4768 JP	Otsuka Corporation	9,181	6.3	6.4	14.7	20.0	12.6	0.9	2.2	4.0	24.0	3.9
4307 JP	Nomura Research Institute, Ltd.	20,536	16.7	14.9	21.2	15.2	16.1	3.9	1.2	2.6	31.1	7.3
8056 JP	BIPROGY Inc.	3,103	8.9	6.9	16.7	14.1	7.7	1.0	2.2	4.1	17.8	3.0
4716 JP	Oracle Corporation Japan	12,100	32.6	31.6	32.0	40.9	18.9	6.3	1.4	4.7	29.0	9.1
4812 JP	DENTSU SOKEN INC.	2,487	14.1	9.8	17.5	17.3	10.5	1.8	2.2	3.4	20.1	4.1
2327 JP	NS Solutions Corp	4,586	11.7	10.0	11.4	15.7	11.6	1.7	2.1	3.9	24.0	2.7
Average			12.0	10.7	16.1	16.9	11.6	2.1	1.6	2.9	23.1	4.1
<i>Global IT services</i>												
IBM US	IBM	203,113	14.0	15.9	36.5	18.8	15.3	3.8	3.1	6.1	21.0	8.5
ACN US	Accenture Plc Class A	212,476	14.2	14.4	26.2	61.3	15.8	3.1	1.6	4.5	26.3	7.7
CAP FP	Capgemini SE	35,962	10.5	10.8	16.2	14.6	9.6	1.6	2.0	6.1	15.3	3.0
LDOS US	Leidos Holdings, Inc.	21,511	5.7	7.7	9.6	12.0	13.1	1.5	1.0	5.8	16.9	4.8
SAIC US	Science Applications International Corp.	6,823	6.7	6.4	16.7	16.0	12.8	1.2	1.1	7.4	15.9	4.2
CACI US	CACI International Inc	10,961	8.5	7.9	12.5	10.1	14.5	1.6	0.0	4.3	20.7	3.1
EPAM US	EPAM Systems, Inc.	11,309	10.1	13.0	12.3	20.3	11.5	2.0	0.0	5.9	18.4	3.3
FCN US	FTI Consulting, Inc.	8,168	11.5	10.3	16.7	12.4	17.5	2.1	0.0	3.9	24.8	3.8
GLOB US	Globant SA	8,354	9.2	12.3	9.9	16.1	16.4	3.1	0.0	3.0	27.0	4.7
GIB/A CN	CGI Inc. Class A	25,311	15.8	15.0	19.5	18.7	11.6	2.4	0.2	5.9	18.5	3.9
Average			10.6	11.4	17.6	20.0	13.8	2.2	0.9	5.3	20.5	4.7

Source: FactSet, Bloomberg, Astris Advisory

Note: LTM is the last 12 months



The IT services sector experienced double-digit CAGR for profit growth

Peer analysis of track record – growth (5-year CAGR) and change (2019-2024)

Stock	Name	Growth 5-year CAGR (%)						Change over the last 5 years (%)			
		Sales	EBIT	Net Income	EPS	BPS	Total assets growth	Chg. in GPM	Chg. in FCF margin	Chg. in ROE	Chg. in ROA
3636 JP	MRI	6.2	11.8	13.1	13.4	7.7	8.5	-0.1	-4.3	2.2	1.0
<i>Domestic IT services</i>											
6702 JP	Fujitsu Limited	-1.0	4.2	19.5	21.5	11.3	2.5	3.9	3.6	11.4	6.9
9613 JP	NTT DATA GROUP CORPORATION	15.1	15.9	7.4	7.4	13.2	23.9	2.2	-6.4	-2.1	-1.9
6701 JP	NEC Corp.	3.6	26.6	30.4	29.7	16.8	7.4	0.4	5.1	4.1	2.3
4768 JP	Otsuka Corporation	5.2	5.6	7.1	7.1	8.4	6.7	0.1	2.2	-0.9	0.2
4307 JP	Nomura Research Institute, Ltd.	8.0	10.9	9.4	13.7	3.3	8.6	2.6	8.2	7.8	1.0
8056 JP	BIPROGY Inc.	4.4	10.0	12.1	12.1	7.6	8.2	1.8	2.5	4.1	1.9
7518 JP	Net One Systems Co., Ltd.	9.4	20.6	23.1	23.1	10.3	10.7	3.2	-0.5	8.2	4.7
4812 JP	DENTSU SOKEN INC.	4.0	6.6	7.7	8.2	11.0	10.0	2.6	0.7	-0.9	-0.3
2327 JP	NS Solutions Corp	8.0	10.9	9.4	13.7	3.3	8.6	2.6	8.2	7.8	1.0
Average		5.8	11.7	13.5	14.2	9.5	9.2	1.8	3.0	3.8	1.7
<i>Global IT services</i>											
IBM US	IBM	-4.9	-3.9	-2.9	-3.1	5.5	1.9	8.9	5.6	-16.9	-1.3
ACN US	Accenture Plc Class A	9.4	10.4	11.1	11.2	20.3	16.0	1.6	0.8	-13.3	-3.3
CAP FP	Capgemini SE	11.3	11.2	17.9	17.3	6.4	8.4	-1.4	1.3	6.4	2.1
LDOS US	Leidos Holdings, Inc.	8.7	10.9	-19.3	-17.6	6.4	7.1	-0.2	-0.5	-12.7	-4.8
SAIC US	Science Applications International Corp.	9.8	11.0	28.3	23.4	6.8	3.7	0.2	1.6	12.3	4.3
CACI US	CACI International Inc	9.0	10.6	9.6	12.2	10.6	6.0	-1.1	-4.5	0.6	0.4
EPAM US	EPAM Systems, Inc.	20.5	15.1	11.7	10.7	20.8	22.0	-5.7	-2.4	-8.6	-6.8
FCN US	FTI Consulting, Inc.	11.5	10.8	12.8	14.4	9.5	6.9	-1.8	-4.8	3.2	1.9
GLOB US	Globant SA	32.0	26.5	25.1	21.4	33.7	44.3	-5.1	3.7	-7.4	-6.6
GIB/A CN	CGI Inc. Class A	4.4	7.5	7.4	11.6	8.5	5.8	2.0	1.9	3.2	0.7
Average		11.2	11.0	10.2	10.2	12.9	12.2	-0.3	0.3	-3.3	-1.3

Source: FactSet, Bloomberg, Astris Advisory



Balance sheet

IT services companies show relatively similar balance sheet characteristics in both domestic and overseas markets with high liquidity and low leverage.

Regarding MRI, we make the following observations:

- Leverage – Current ratio is higher than the peer average. High interest coverage ratio and net cash position indicate a healthier balance sheet.
- Efficiency – Asset turnover is in line with peers. High inventory turnover and low inventory days reflect its outstanding inventory management ability. However, there is room to improve the cash conversion cycle, which is on the higher end.

We conclude that the company has a sound balance sheet but room to improve the cash conversion cycle.

Cross shareholdings

MRI holds approximately ¥2.3bn of cross-shareholdings, consisting of eight individual listed securities as well as 22 unlisted securities, of which about ¥1.5bn is represented by the listed securities (FY9/24). Until recently, there had been limited communication on unwinding the cross-shareholdings. However, in the Q4 FY9/24 presentation materials, the company stated it would continue to reduce cross-shareholdings, which represent 8% of net assets (FY9/24). We view this as a sign of a more proactive cross-shareholdings reduction.



Balance sheets are resilient with high liquidity and low leverage

Liquidity, leverage, and capital efficiency

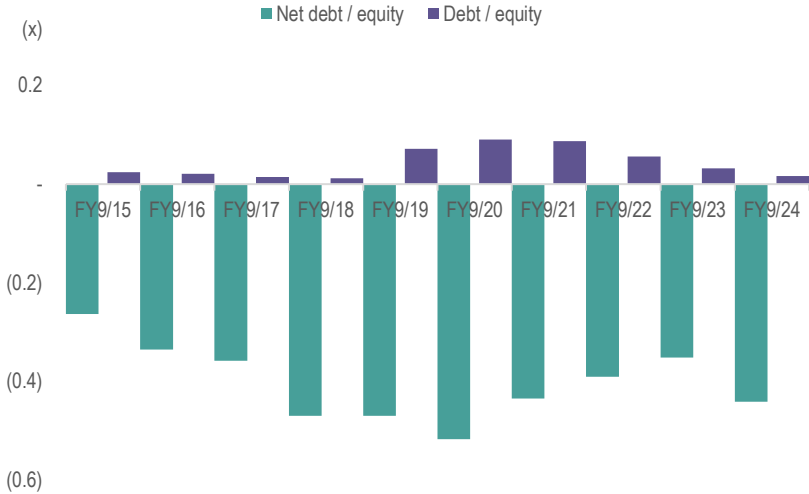
Company	Liquidity		Leverage				Efficiency				
	Current ratio (x)	Quick ratio (x)	Net debt to equity (x)	Net debt to EBITDA (x)	Interest cover (x)	Total debt to capital (%)	Equity ratio (%)	Asset turnover (x)	Inventory turnover (x)	Inventory days	Cash cycle (days)
MRI	2.4	2.4	-0.5	-3.1	507.8	1.7	56.4	1.0	278.5	1.3	102.5
<i>Domestic IT services</i>											
Fujitsu Limited	1.5	1.2	-0.1	-0.4	51.2	13.8	51.3	1.1	8.2	44.8	91.3
NTT DATA GROUP CORPORATION	0.9	0.9	1.2	3.4	6.9	60.2	23.7	0.7	49.8	7.3	79.2
NEC Corp.	1.5	1.3	0.0	0.2	24.7	23.1	47.0	0.8	9.7	37.7	99.3
Otsuka Corporation	2.0	1.8	-0.7	-3.3	1790.3	1.7	55.2	1.8	18.8	19.4	19.2
Nomura Research Institute, Ltd.	2.0	2.0	0.3	0.8	24.0	41.6	45.5	0.8	-	-	-
BIPROGY Inc.	1.7	1.6	-0.2	-0.5	68.3	17.0	56.1	1.2	23.6	15.5	72.9
Oracle Corporation Japan	0.8	0.8	-0.5	-1.1	-	0.0	56.4	0.8	-	-	-
DENTSU SOKEN INC.	2.2	2.2	-0.7	-2.5	747.5	2.0	60.5	1.1	800.2	0.5	27.3
NS Solutions Corp	2.7	2.3	-0.3	-1.7	135.2	12.0	63.3	0.9	10.2	35.7	105.1
Average	1.7	1.6	-0.1	-0.6	356.0	19.0	51.0	1.0	131.5	23.0	70.6
<i>Global IT services</i>											
International Business Machines Corporation	1.1	1.0	1.8	2.8	10.5	71.4	18.0	0.5	20.9	17.5	54.5
Accenture Plc Class A	1.2	1.2	0.0	-0.1	219.5	14.2	51.2	1.3	-	-	-
Capgemini SE	1.2	1.2	0.3	0.9	17.8	37.8	43.6	0.9	-	-	-
Leidos Holdings, Inc.	1.2	1.1	0.9	2.2	10.0	53.7	34.5	1.2	44.2	8.3	44.5
Science Applications International Corp.	0.9	0.9	1.4	3.6	4.3	58.9	31.0	1.3	180.7	2.0	14.5
CACI International Inc Class A	1.3	1.2	0.5	2.3	10.2	35.3	51.8	1.1	42.5	8.6	38.0
EPAM Systems, Inc.	4.8	4.8	-0.5	-2.8	-	4.7	80.4	1.1	-	-	-
FTI Consulting, Inc.	2.2	2.2	0.0	0.2	35.3	12.7	64.0	1.1	-	-	-
Globant SA	1.5	1.5	0.0	0.2	13.5	12.0	67.9	0.9	-	-	-
CGI Inc. Class A	1.2	1.2	0.2	0.6	41.5	25.5	56.3	0.9	-	-	-
Average	1.7	1.6	0.5	1.0	40.3	32.6	49.9	1.0	72.1	9.1	37.9

Source: FactSet, Bloomberg, Astris Advisory



A robust balance sheet with a net cash position

Net debt to equity ratio (x)



Source: Company data



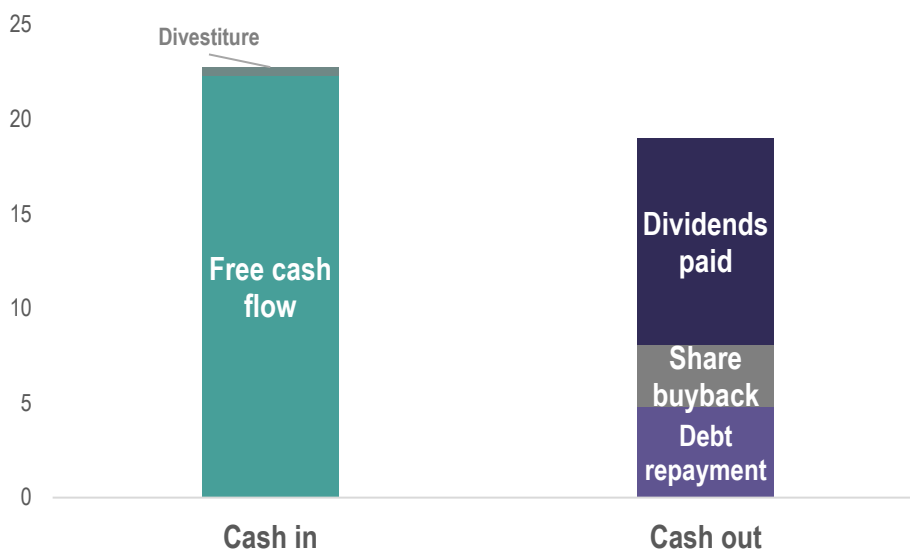
Capital allocation

Free cashflow allocation likely to change going forward

During FY9/19-FY9/24, the company allocated free cash flow mostly to shareholder returns in the form of dividends and share buybacks. In addition, it used cash to repay debt. Previously, the company was not proactive in M&A because of the high valuations of target companies. As such, no free cashflow was allocated to M&A activities during the previous medium-term plan. On the other hand, the company indicates 35% of free cashflow will be spent on the acquisition of stakes and M&A in the FY9/24-26 medium-term plan. MRI is looking to seek partnerships as well if the valuations of target companies remain high. In terms of ROI, it aims at returns above 9% (i.e. the cost of capital). Additionally, 20% of free cash flow is expected to be allocated to capex, 30% to investments for growth, and more than 15% on dividends. In other words, we should expect more investments including hiring and R&D spending as a use of cash in proportion compared to past years.

Most free cashflow was used for shareholder returns

5-year cumulative capital generation and allocation (FY9/19 – FY9/24)



Source: Company data

Shareholder returns

The company's shareholder return policy sets a 40% dividend payout ratio as a benchmark. Although the company does not set a specific target, it has exercised share buybacks in recent years. (1.3% of the shares outstanding FY9/23, 1.4% FY9/24). In its FY9/26 mid-term plan, the company indicated its willingness to improve PBR even further although it is already trading above 1x (FY9/24). Given its strong net cash position, we believe there is scope to improve total shareholder returns.



M&A

MRI's financial system development business focuses on building systems, which is the downstream portion of the value chain. Going forward, it intends to incorporate a strategic planning function to design systems, enabling it to tap into the upstream portion of the value chain to enhance value creation. MRI is conscious of valuations and likely to be selective in acquiring such a business. Within the FY9/24-FY9/26 medium-term plan, MRI aims to spend up to ¥17.5bn on M&A and partnerships.



Recent results

Q4 FY9/24 results

OP margin declined due to higher SG&A associated with wage increase

Key financials

(¥bn)	Q4 FY9/23	Q4 FY9/24	YoY (%)	FY9/25 Guidance	YoY (%) Guidance
Sales	25.25	25.11	-0.6	128.00	+11.0
COGS	20.74	20.36	-1.8	-	-
Gross profit/(loss)	4.51	4.75	+5.3	-	-
SG&A costs	4.20	4.75	+12.9	-	-
Operating profit/(loss)	3.0	1.0		8.30	+17.6
Operating margins (%)	1.20	0.00		-	
Profit before tax	0.00	0.00	-	-	-
Net income attributable to the parent	0.00	0.00	-	5.60	+11.9

Source: Company data

Both Think Tank & Consulting Service (TTC) and IT Service (ITS) suffered lower OP margins because of ongoing investments

Per segment

(¥bn)	Q4 FY9/23	Q4 FY9/24	YoY (%)
Sales			
Think Tank & Consulting Services	7.80	8.30	+6.5
IT Service	17.45	16.80	-3.7
Segment profit/(loss)			
Think Tank & Consulting Services	(0.39)	(0.51)	-
IT Service	0.87	0.52	-39.7
Segment profit margins (%)			
Think Tank & Consulting Services	-	-	
IT Service	5.0	3.1	

Source: Company data

Key highlights

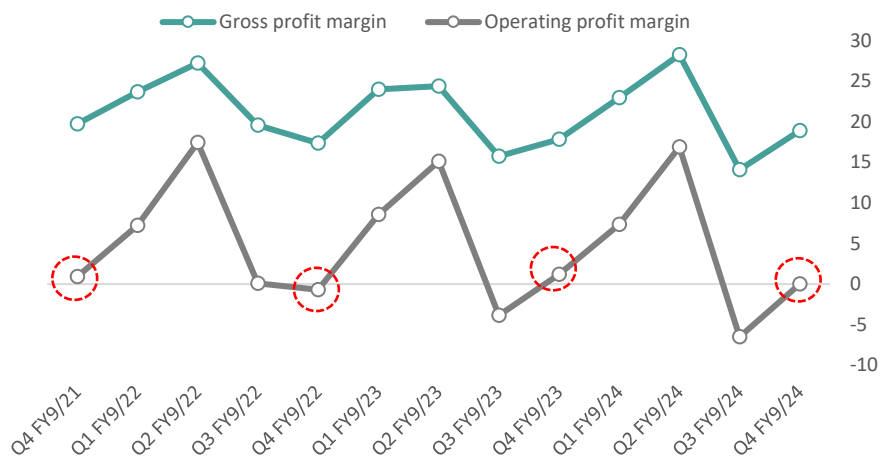
Q4 FY9/24 results showed an increase in gross profit but a decline in OP due to higher SG&A associated with investments in both TTC and ITS. In addition, the negative impact of large orders fading away for ITS hurt OP.

In the new FY9/25 guidance, the company expects 17.6% OP growth YoY driven by the positive impact from the reallocation of human resources to growth areas, the expansion of ERP solutions in the industrial and public sectors, and new client acquisition for financial system development service including credit cards. In addition, TTC is expected to benefit from pricing strategies including price hikes and productivity enhancement through the expansion of the digital transformation business similar to ITS.

It is worth noting that the company stated it would continue to reduce cross-shareholdings, which represents 8% of net assets as of FY9/24.

Low margins in Q4 FY9/24 due to seasonality

Quarterly consolidated margins (%)



Source: Company data



Medium-term management policy

Targets

The company has just completed the first year of its three-year medium-term plan covering FY9/24 to FY9/26. It sets digital innovation, green transformation, and digital transformation in staffing and healthcare as primary focus areas. Key initiatives include 1) margin improvement through efficient asset allocation, 2) expansion of recurring business, and 3) inorganic growth through selective M&A. The following are its numerical targets:

Numerical targets for medium-term plan FY9/24-FY9/26

(¥bn)	FY9/23 actual	FY9/26 target	FY9/30 target	CAGR (FY9/23-FY9/26) (%)
Sales	122.1	135.0	200.0	3.4
Societal and Public Innovation	44.0	52.0		
Digital Innovation	26.0	35.0		
Financial System Innovation	51.0	46.0		
OP	8.6	12.0		11.4
OP margin (%)	7.1	8.9		
Current profit	10.0	14.0		11.9
Current profit margin (%)	8.2	10.4		
ROE (%)	9.8	12.0		

Source: Company data

We think the medium-term revenue target is achievable with unit price hikes for TTC and non-organic growth including M&A and partnerships for which the company aims to spend up to a total of ¥17.5bn. However, we view the mid-term OP target as a high hurdle to clear considering the challenges stemming from shrinking large orders for ITS and the requirement of new customer acquisition to make up for it. Therefore, we are estimating mid-term OP growth somewhat conservatively.

The key considerations for achieving the medium-term plans include:

- Securing qualified technicians with the right skills through external recruitment and retraining existing employees
- Profitability improvement through pricing strategies (including price hikes) and a focus on profitable projects
- Expansion of recurring business through non-organic growth including M&A and partnership

The current medium-term plan is characterized as a Step Phase, which leaps to a Jump Phase. The company aims to achieve ¥200bn in sales by 2030, which will be crucial to improving market positioning to strengthen its business and strategies.



Astris earnings estimates and key assumptions

Astris' key earnings forecasts are as follows:

Astris Advisory earnings estimates

Year-end	FY9/25 guidance	FY9/25E	FY9/26E	FY9/27E
Sales				
Think Tank & Consulting				
Services	50.00	50.87	53.41	56.08
YoY (%)	+10.1	+12.0	+5.0	+5.0
IT Service	78.00	78.34	82.25	86.36
YoY (%)	+11.5	+12.0	+5.0	+5.0
Total sales (¥bn)	128.00	129.20	135.66	142.45
YoY (%)	+11.0	+12.0	+5.0	+5.0
OP (¥bn)	8.30	8.39	11.88	12.76
YoY (%)	+17.6	+18.9	+41.5	+7.4
OPM (%)	6.5	6.5	8.8	9.0
EBITDA (¥bn)		12.53	16.22	17.32
YoY (%)		+15.9	+29.5	+6.8
EBITDA margin (%)		9.7	12.0	12.2
FCF (¥bn)		5.10	10.25	9.42
FCF margin (%)		3.9	7.6	6.6
FCF conversion (%)		53.2	78.7	67.6
FCF yield (%)		6.6	13.2	12.2
DPS (¥)	160.00	160.00	220.00	235.00
Dividend yield (%)	—	3.3	4.6	4.9
Payout ratio (%)	45.0	41.2	40.8	40.7

Source: Company data

Note: FCF conversion is FCF/Pre-tax Profit

The core assumptions of our estimates are as follows:

- **Sales growth**— Strong sales growth is expected in FY3/25, with ITS being the primary growth driver, on the back of growth in ERP-related ancillary services, and the expansion of financial services in both existing and new areas. We believe TTC will also contribute to sales growth through growing the digital transformation business, and improved productivity as a result of hiring additional staff.
- **Profitability** – We expect an OP margin expansion toward FY9/26 through optimized staff reallocation from less profitable to more profitable projects for ITS, and pricing strategies including unit price hikes as well as a sales mix shift from the public sector to the private sector for TTC. The staff reallocation will be aimed at underutilized staff. Therefore, we believe the staff reassignment will have a positive impact on the employee utilization rate overall instead of lowering it.



Company information

Management (14 board members, 21.4% female ratio, 57.1% outside members)

Chairman of the Board	Takashi Morisaki
Number of shares held	16,500
Career history	
April 1978:	Joined Mitsubishi Bank, Ltd.
April 2008:	Executive Managing Officer, Mitsubishi UFJ Financial Group, Inc. Executive Managing Officer, Bank of Tokyo-Mitsubishi UFJ, Ltd.
May 2010:	Executive Managing Officer, Head of Asia Division, Bank of Tokyo-Mitsubishi UFJ, Ltd.
May 2012:	Senior Executive Managing Officer, Head of Markets Division, Bank of Tokyo-Mitsubishi UFJ, Ltd.
June 2012:	Senior Managing Director, Head of Markets Division, Bank of Tokyo-Mitsubishi UFJ, Ltd.
July 2012:	Executive Managing Officer, Head of Integrated Global Markets Division, Mitsubishi UFJ Financial Group, Inc.
May 2014:	Deputy President, Bank of Tokyo-Mitsubishi UFJ, Ltd.
June 2016:	Advisor, Bank of Tokyo-Mitsubishi UFJ, Ltd.
September 2016:	Full-time Advisor, Bank of Tokyo-Mitsubishi UFJ, Ltd.
October 2016:	Executive Vice President, Bank of Tokyo-Mitsubishi UFJ, Ltd.
December 2016:	President and Representative Director, Bank of Tokyo-Mitsubishi UFJ, Ltd.
December 2021:	Chairman of the Board, Bank of Tokyo-Mitsubishi UFJ, Ltd. (current position)

President and Representative Director, Officer in Charge of Internal Audit Office	Kenji Yabuta
Number of shares held	7,400
Career history	
April 1983	Joined Mitsubishi Bank, Ltd.
April 2007	General Manager of the Public Relations Department, Bank of Tokyo-Mitsubishi UFJ, Ltd.
June 2009	Executive Officer, General Manager of Public Relations Department, Bank of Tokyo-Mitsubishi UFJ, Ltd.
May 2010	Executive Officer, Branch Manager of Kyoto Branch, Bank of Tokyo-Mitsubishi UFJ, Ltd.
May 2012	Executive Officer, General Manager of Corporate Planning Department, Bank of Tokyo-Mitsubishi UFJ, Ltd.
May 2013	Senior Executive Officer, General Manager of Nagoya Sales Headquarters, Bank of Tokyo-Mitsubishi UFJ, Ltd.
May 2016	Senior Executive Officer, General Manager of Sales Division 1, Bank of Tokyo-Mitsubishi UFJ, Ltd.
June 2017	Executive Vice President, General Manager of Sales Division 1, Bank of Tokyo-Mitsubishi UFJ, Ltd.
June 2018	Director, Deputy President, and Executive Officer responsible for overall business operations and Corporate Division, Bank of Tokyo-Mitsubishi UFJ, Ltd.
July 2019	Director, Deputy President, and Executive Officer responsible for overall business operations, concurrently serving as General Manager of the Corporate Banking Division and General Manager of the Research & Advisory Division, Bank of Tokyo-Mitsubishi UFJ, Ltd.
June 2021	Advisor, Bank of Tokyo-Mitsubishi UFJ, Ltd.
September 2021	Full-time Advisor, MRI
October 2021	Executive Vice President, MRI
December 2021	President and Representative Director, MRI (current position)

Executive Vice President and Representative Director, General Manager, Corporate Administration Unit	Yasuteru Hirai
Number of shares held	1,400
Career history	
April 1984	Joined Mitsubishi Corporation
April 2014	Executive Officer, Assistant General Manager for East Asia, President of Mitsubishi Corporation (Shanghai) Ltd., Head of the Shanghai Office
April 2017	Executive Officer, General Manager for East Asia, President of Mitsubishi Corporation (China) Ltd., Head of Beijing Branch
October 2018	Executive Officer, General Manager for East Asia, President of Mitsubishi Corporation (China) Ltd., Head of Beijing Branch, President of Mitsubishi Corporation (Guangzhou) Ltd.
April 2019	Executive Officer, President of Mitsubishi Corporation (China) Ltd., Head of Beijing Branch
April 2020	Senior Executive Officer, President of Mitsubishi Corporation (China) Ltd., Head of Beijing Branch
April 2021	Senior Executive Officer in charge of Corporate (Regional Strategy), Chief Compliance Officer, Head of Emergency Crisis Management Office, Mitsubishi Corporation
June 2021	Director, Senior Executive Officer in charge of Corporate (Regional Strategy), Chief Compliance Officer, Head of Emergency Crisis Management Office, Mitsubishi Corporation
April 2023	Director, Mitsubishi Corporation
June 2023	Advisor, Mitsubishi Corporation
September 2023	Full-time Advisor, MRI
October 2023	Executive Vice President and Corporate Division Manager, MRI
December 2023	Vice President and Representative Director, Corporate Division Manager, MRI (current position)
Senior Managing Director, General Manager, Digital Innovation Unit Head of VCP	Yoshihiko Ito
Number of shares held	2,800
Career history	
April 1992	Joined MRI
October 2013	Head of Social ICT Solutions Division, MRI
April 2016	Head of Social ICT Business Division, MRI
April 2018	Head of Social ICT Innovation Division, MRI
December 2018	Executive Officer, Head of Social ICT Innovation Division, MRI
April 2019	Executive Officer, Deputy Head of Consulting Division, MRI
October 2020	Executive Officer, Head of Digital Transformation Division, MRI
December 2022	Senior Executive Officer, Head of Digital Transformation Division, MRI
October 2023	Senior Executive Officer, Head of Digital Innovation Division, MRI
December 2023	Managing Director, Head of Digital Innovation Division, MRI
October 2024	Senior Managing Director, Head of Digital Innovation Division, MRI (current position)
External Director	Mariko Bando
Number of shares held	2,700
Career history	
July 1969	Joined the Prime Minister's Office
October 1985	Councilor, Cabinet Secretariat, Prime Minister's Office
July 1989	Director of Consumer Statistics Division, Statistics Bureau, Administrative Management Agency
July 1994	Director, Gender Equality Office, Cabinet Secretariat
April 1995	Deputy Governor of Saitama Prefecture
June 1998	Consul General of Japan in Brisbane, Commonwealth of Australia
January 2001	Director General, Gender Equality Bureau, Cabinet Office
October 2003	Director, Showa Women's University
April 2007	President, Showa Women's University
April 2014	Chairperson, Showa Women's University
July 2016	Chancellor, Showa Women's University (current position)
December 2019	Director, MRI (current position)

External Director	Ken Kobayashi
Number of shares held	1,000
Career history	
July 1971	Joined Mitsubishi Corporation
June 2007	Director and Senior Executive Officer, CEO of New Industry Financial Business Group, Mitsubishi Corporation
June 2008	Senior Executive Officer, CEO of New Industry Financial Business Group, Mitsubishi Corporation
April 2010	Executive Vice President, Assistant to the President, Mitsubishi Corporation
June 2010	Director and President, Mitsubishi Corporation
April 2016	Chairman of the Board, Mitsubishi Corporation
December 2021	Director, MRI (current)
April 2022	Director and Advisor, Mitsubishi Corporation
June 2022	Advisor, Mitsubishi Corporation (current)

External Director	Nobuyuki Hirano
Number of shares held	1400
Career history	
April 1974	Joined Mitsubishi Bank, Ltd.
April 2012	President, Bank of Tokyo-Mitsubishi UFJ, Ltd.
April 2013	President and Director, Mitsubishi UFJ Financial Group, Inc.
April 2016	Chairman of the Board, Bank of Tokyo-Mitsubishi UFJ, Ltd.
April 2019	Chairman of the Board and Executive Officer, Mitsubishi UFJ Financial Group, Inc.
April 2021	Special Advisor, Mitsubishi UFJ Bank, Ltd. (current)
December 2021	Director, MRI (current)

External Director	Seiji Izumisawa
Number of shares held	400
Career history	
April 1981	Joined Mitsubishi Heavy Industries, Ltd.
April 2016	Executive Officer, Head of Technology Strategy Office, Mitsubishi Heavy Industries, Ltd.
June 2017	Director and Full-time Audit and Supervisory Committee Member, Mitsubishi Heavy Industries, Ltd.
June 2018	Director, Senior Executive Officer, CSO, Mitsubishi Heavy Industries, Ltd.
April 2019	Director, President, CEO, and CSO, Mitsubishi Heavy Industries, Ltd.
April 2020	Director, President, and CEO, Mitsubishi Heavy Industries, Ltd. (current)
December 2022	Director, MRI (current)

External Director	Satoko Shisai
Number of shares held	-
Career history	
April 1986	Joined IBM Japan, Ltd.
April 2009	Executive Officer, Public Sector, IBM Japan, Ltd.
October 2015	Executive Officer, Head of Security Business Division, IBM Japan, Ltd.
January 2018	Executive Officer, Head of Enterprise Business Division, Government Systems, IBM Japan, Ltd.
May 2019	Executive Officer, Head of IT Management, Chugai Pharmaceutical Co., Ltd.
October 2019	Executive Officer, Head of Digital & IT Management, Chugai Pharmaceutical Co., Ltd.
April 2022	Senior Executive Officer, Head of Digital Transformation Unit, Chugai Pharmaceutical Co., Ltd.
December 2023	Director, MRI (current)
April 2024	Representative of i-SIS Consulting LLC (current)

Audit & Supervisory Board Member	Kazumichi Ito
Number of shares held	500
Career history	
July 1983	Joined MRI
October 2012	General Manager of Group Operations Department, MRI
October 2016	Deputy Head of Corporate Division, MRI
October 2017	General Manager of Finance and Accounting Department, MRI
October 2019	Seconded to Mitsubishi Research Institute DCS Co., Ltd. (Executive Officer in charge of Corporate Planning Department and Special Assignments)
October 2020	Executive Officer, Deputy Head of Corporate Division, Mitsubishi Research Institute DCS Co., Ltd.
December 2020	Assigned to Corporate Division, MRI
December 2020	Auditor, MRI (current)

Audit & Supervisory Board Member	Toshiyuki Ogawa
Number of shares held	10,900
Career history	
April 1987	Joined MRI
October 2008	Head of Environmental & Energy Research Division, MRI
October 2013	General Manager of Corporate Planning Department, MRI
October 2015	General Manager of Human Resources Department, MRI
October 2016	Director of Research Governance Office, MRI
October 2017	General Manager of Quality & Risk Management Department, MRI
October 2020	General Manager of Risk Management & Compliance Department, MRI
October 2021	Director of Advanced Technology Center, MRI
October 2022	Research Executive and Director of Advanced Technology Center, MRI
October 2023	Executive Officer and Research Executive, Director of Advanced Technology Center, MRI
December 2024	Executive Officer and Research Executive, MRI (current)
External Audit & Supervisory Board Member	Kenji Matsuo
Number of shares held	2,800
Career history	
April 1973	Joined Meiji Life Insurance Company
December 2005	President and Representative Director, Meiji Yasuda Life Insurance Company
July 2006	Representative Executive Director and President, Meiji Yasuda Life Insurance Company
July 2013	Representative Executive Officer, Meiji Yasuda Life Insurance Company
July 2013	Special Advisor, Meiji Yasuda Life Insurance Company
December 2015	Auditor, MRI (current)
April 2022	Honorary Advisor, Meiji Yasuda Life Insurance Company (current)
External Audit & Supervisory Board Member	Yutaka Kawakami
Number of shares held	1,000
Career history	
February 1976	Joined Tohmatsu & Aoki Audit Corporation (now Deloitte Touche Tohmatsu LLC)
March 1980	Registered as a Certified Public Accountant
July 1984	Assigned to the New York office of Tohmatsu & Aoki Audit Corporation
June 1990	Partner, Deloitte Touche Tohmatsu LLC
June 2007	Member of the Management Council and Head of Human Resources, Deloitte Touche Tohmatsu LLC
September 2016	Retired from Deloitte Touche Tohmatsu LLC
December 2020	Auditor, MRI (current)
External Audit & Supervisory Board Member	Naomi Koshi
Number of shares held	-
Career history	
October 2002	Registered as a lawyer
October 2002	Attorney, Nishimura & Partners (now Nishimura & Asahi)
June 2009	Graduated from Harvard Law School
October 2009	Worked at Debevoise & Plimpton LLP
January 2010	Registered as a lawyer in New York State
September 2010	Visiting Researcher, Center on Japanese Economy and Business, Columbia Business School
January 2012	Mayor of Otsu City
September 2020	Partner Attorney, Miura & Partners (current)
January 2021	Registered as a lawyer in California
February 2021	CEO and Representative Director, OnBoard Inc. (current)
December 2023	Auditor, MRI (current)

Source: Company data

Contact details

Address

Mitsubishi Research Institute, Inc.
Head Office
10-3, Nagatacho 2-Chome, Chiyoda-Ku, Tokyo 100-8141, Japan

IR Department

Tel: +81 (0) 3-6705-6001

Source: Company data

Shareholder details (as of the end of September 2024)

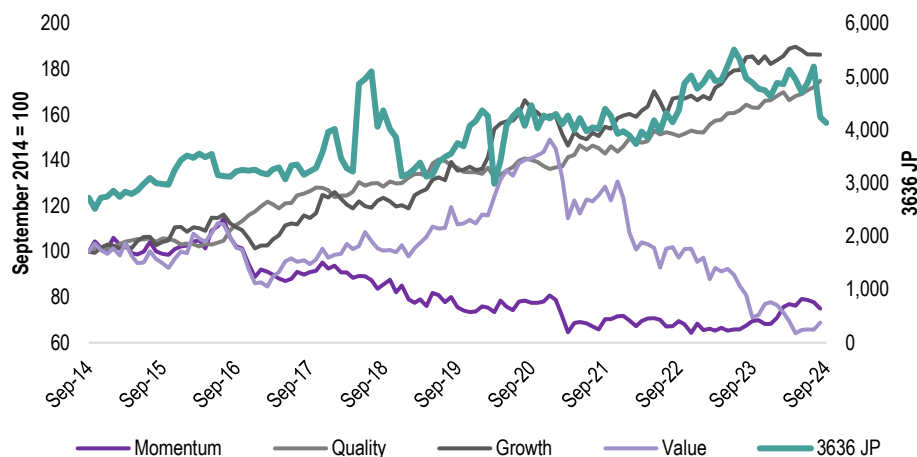
Major shareholders	Stake (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	10.68
Mitsubishi Corporation	6.07
Mitsubishi Heavy Industries, Ltd.	6.07
Mitsubishi Electric Corporation	5.62
Mitsubishi Research Institute Group Employee Shareholding Association	5.08
Mitsubishi Chemical Corporation	3.88
Mitsubishi Materials Corporation	3.45
MUFG Bank, Ltd.	3.14
Custody Bank of Japan, Ltd. (Trust Account)	3.01
AGC Inc.	2.78
Mitsubishi Estate Co., Ltd.	2.78

Source: Company data



Astris Quant Sheet

Share price chart and factor analysis (from September 2014)



Source: FactSet

Factors	2 Year Corr	5 Year Corr	10 Year Corr
Momentum: 12 Month - 1 Month Performance	-0.02	0.06	0.09
Quality: Free Cash Flow Yield	-0.19	0.23	0.15
Growth: Operating Profit Growth	0.05	-0.29	-0.01
Value: Book to Market	0.33	-0.26	-0.23

Source: FactSet

Mitsubishi Research Institute exhibits a significant correlation with the Quality Factor, reflecting the company's strong free cash flow generation characteristics.

Calculation method and definition of factors in the time series

Universe

TOPIX500

Factor return calculation

Quartile Range Analysis: Calculate the element return by subtracting the average performance of the lower quartile from the average performance of the upper quartile for each element forecasted for one month. This analysis is repeated monthly without considering transaction costs.

Factor

Momentum

1-month return

12-month return

Subtracting the most recent 1 month

Quality

FCF yield (estimate)

Growth

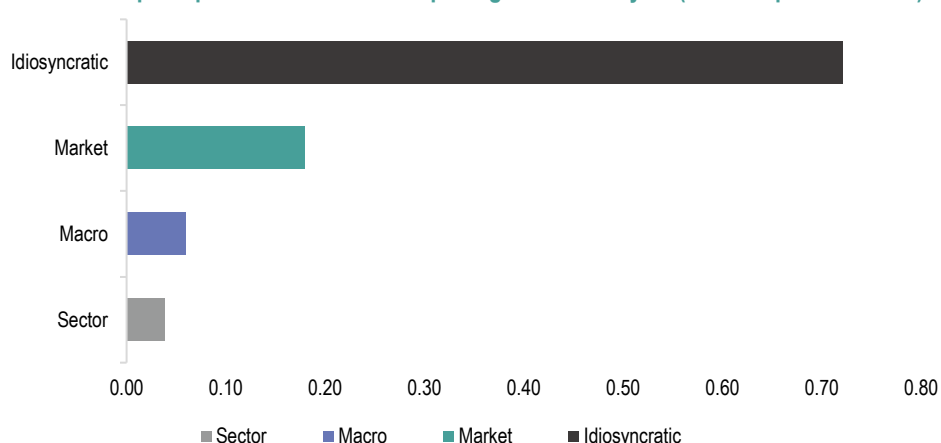
Operating profit growth (estimate)

Value

Book-to-Market ratio (actual)

Source: FactSet

Drivers of stock price performance and multiple regression analysis (since September 2014)



Source: FactSet

Mitsubishi Research Institute's (MRI) share price is primarily driven by market and macroeconomic factors, which combined account for over one-quarter of the share price movements. The sector exerts a very small impact, accounting for less than 5% of the share price fluctuations.

Calculation method for multiple regression analysis

Multiple regression analysis

Perform regression analysis including all drivers, and conduct individual regression analysis by excluding one driver at a time. To quantify the specific impact of each driver, calculate the partial coefficient of determination (partial R-squared value) using the formula: (Residual Sum of Squares from regression analysis including all drivers - Residual Sum of Squares from regression analysis excluding one driver) / Residual Sum of Squares from regression analysis excluding one driver.

Source: FactSet

Multiple regression analysis results

Factors	2Y Corr	5Y Corr	10Y Corr
Market			
Topix 1st Section	0.66	0.59	0.43
MSCI Japan	0.68	0.57	0.42
Topix Small Cap Index	0.59	0.64	0.51
Sector			
Topix Information and Communication Index	0.62	0.50	0.38
MSCI Japan Information Technology	0.57	0.57	0.39
MSCI Japan Software & Services	0.44	0.62	0.37
Macro			
10Y JGB	-0.09	-0.23	-0.09
CPI Nationwide	-0.03	0.15	0.02
JPYUSD	-0.47	-0.22	-0.23
Industrial Production	0.12	0.10	0.04
Eco Watchers Outlook	-0.01	0.29	0.21

Source: FactSet

Of all equity indices, Mitsubishi Research Institute (MRI) exhibits its highest correlation with the TOPIX Small Cap index, showing a correlation of 0.51 over 10 years and 0.64 over 5 years. Among sectors, the stock most closely correlates with the MSCI Japan Software & Services index at 0.62 over 5 years. For macroeconomic factors, the Economy Watchers Survey Outlook has the highest correlation at 0.21. While 0.21 is significant, this lower correlation compared to index and sector correlations indicates



that broad economic sentiment has less impact on MRI's stock than market and industry-specific factors.



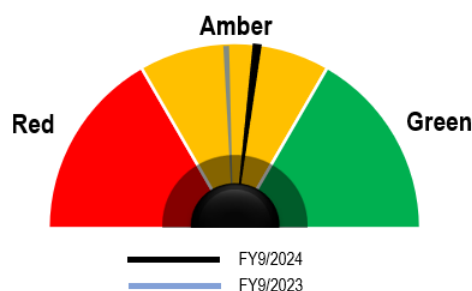
Astris-Sustainability ESG assessment

Ratings and scorecard

Our in-house Astris-Sustainability ESG model rates the company with a combined score of 53.1%, placing it in the ‘Amber’ rating of our assessment in FY9/24.

Our in-house methodology* takes what we have selected as core measurable ESG factors, ranking its performance versus its GICS Software & Services peers with a market capitalization between ¥50bn to ¥250bn (a total of 38 companies).

Astris-Sustainability ESG model rating for MRI



Source: Astris Advisory (*Note – for details of our in-house rating system please contact Astris Corporate Advisory)

ESG scorecards

	FY9/23	FY9/24
Environmental (7 factors from a selected peer group)		
Astris Environmental score	59.65	48.19
Social (10 factors from a selected peer group)		
Astris Social score	62.75	63.59
Governance (36 factors from a selected peer group)		
Astris Governance score	42.01	51.08
TOTAL SCORE (Out of a total of 53 factors)	48.3	53.1

Source: Company, FactSet, Astris Corporate Advisory

Our methodology has highlighted the following key topics:

Environmental

The company disclosed most of the commonly reported metrics relative to peers in the Environmental category. The company has disclosed CO2 emissions for scopes 1 and 2 alongside other numerical data for energy and water usage as well as waste. CO2 is expected to be reduced by 57% (vs. 2013) by 2030 to achieve a net zero by 2050.

Social

The company has the highest score in Social. It has outlined policies in the following key areas:

- **Human rights policy** — Covers human rights protection, child labor, discrimination, and occupational health and safety.
- **Procurement policy** — Includes sustainable trades, legal and ethical compliance, product quality management, fair pricing, sufficient information disclosure, and awareness of environmental issues among others in the selection of suppliers
- **External whistle-blower policy** — Sets a fair and anonymous external hotline, enabling whistleblowers to directly contact a lawyer.
- **Other key policies** — Encompass compliance, measures against anti-social forces, bribery, risk management, and cyber security

We note that MRI discloses numerical data comprehensively, including a female management ratio (13.5% FY9/23), a gender pay gap (77.5% FY9/23, 80.4% FY9/21), and a paternity leave take-up rate (51.7% FY9/23) for example, among many others.

Governance

The corporate governance system at MRI is organized in the following manner:

- **Board of directors** – Currently comprised of nine board members led by Chairman of the Board Takashi Morisaki, three directors, and five outside directors.
- **Audit Committee** – Composed of a total of five members including three external directors and usually covers submitting reports, and engaging in discussions and deliberations over audit-related matters.
- **Governance Advisory Committee** – No Nomination Committee and Remuneration Committee are placed specifically. Instead, the Governance Advisory Committee, led by the Chairman of the Board, three directors, and five external directors, advises on the election and dismissal of the Members of the Board and remuneration and bonuses for Members of the Board.

All in all, we highlight comprehensive ESG disclosures for both track records and targets on the company website.

Controversies

We note we have been unable to find major controversies that may have significant financial or reputational repercussions for the company and its shareholders.



Areas of discussion

Highlighting key topics for investors

We believe the following will be key areas for discussion with investors:

1. TTC
 - a. Can you tell us how much you managed to shift your resources from less profitable projects to more profitable projects?
 - b. Are you seeing another government-related project, which may reduce margins in the near future?
2. ITS
 - a. Please tell me how new client acquisition in the financial area and expansion of the business for the incumbent clients have been progressing.
 - b. How are you going to expand ITS business to the public sector?
 - c. How do you think the expansion into the public sector will impact segment OP margin?
3. Others
 - a. How do you think the R&D to sales ratio will trend going forward?
 - b. Can you explain the progress in identifying target companies for acquisition and how you assess their current valuations?
 - c. Please tell us your strategy in seeking partnerships.



JGAAP Financial Summary

Income statement (¥bn)	FY 9/23	FY 9/24	FY 9/25E	FY 9/26E	FY 9/27E
Sales	122.13	115.36	129.20	135.66	142.45
COGS	96.14	89.94	100.52	105.14	109.97
Gross profit	25.98	25.42	28.68	30.52	32.48
Gross profit margin (%)	21.3	22.0	22.2	22.5	22.8
Total OP	8.69	7.06	8.39	11.88	12.76
OP margin (%)	7.1	6.1	6.5	8.8	9.0
Non-operating income	1.41	1.13	1.27	1.20	1.23
Non-operating expenses	(0.09)	(0.04)	(0.07)	(0.05)	(0.06)
Recurring profit	10.00	8.15	9.59	13.02	13.93
Extraordinary gains	0.03	0.22	-	-	-
Extraordinary losses	(0.42)	(0.39)	-	-	-
Pre-tax profit	9.62	7.98	9.59	13.02	13.93
Tax	(2.48)	(2.42)	(2.83)	(3.84)	(4.11)
Effective tax rate (%)	24.8	29.7	29.5	29.5	29.5
Net income	7.14	5.56	6.76	9.18	9.82
Non-controlling NI	0.85	0.56	0.62	0.66	0.69
Parent attributable NI	6.29	5.00	6.14	8.53	9.13
Sales growth YoY (%)	+4.7	-5.5	+12.0	+5.0	+5.0
OP growth YoY (%)	-5.2	-18.7	+18.9	+41.5	+7.4
Pre-tax profit YoY (%)	-20.9	-17.0	+20.2	+35.8	+7.0
NI growth YoY (%)	-18.4	-20.4	+22.7	+38.9	+7.1

Balance sheet (¥bn)	FY 3/23	FY 3/24	FY 3/25E	FY 3/26E	FY 3/27E
Cash & equivalents	25.23	30.93	35.26	44.28	51.76
Inventory	0.34	0.21	0.23	0.24	0.26
Accounts receivables	26.07	26.64	29.83	31.32	32.89
Other	19.52	16.51	18.49	19.42	20.39
Current assets	71.15	74.28	83.82	95.27	105.29
Tangible assets	12.11	10.94	11.73	12.55	13.42
Goodwill	-	-	-	-	-
Intangible assets	6.25	6.83	7.62	8.45	9.31
Long term investments	19.85	18.13	18.13	18.13	18.13
Other	8.64	9.55	9.55	9.55	9.55
Fixed assets	46.85	45.45	47.03	48.68	50.42
Total assets	118.01	119.73	130.84	143.95	155.71
Short term borrowing	0.97	0.21	0.21	0.21	0.21
Trade creditors	4.30	3.73	4.28	4.47	4.68
Other	25.52	27.19	29.25	31.59	32.52
Current liabilities	30.78	31.13	33.74	36.27	37.41
Long term borrowing	1.12	0.90	0.90	0.90	0.90
Other LT liabilities	11.73	11.33	11.33	11.33	11.33
Long term liabilities	12.85	12.23	12.23	12.23	12.23
Total liabilities	43.62	43.36	45.97	48.50	49.64
Shareholder's equity, accumulated other comprehensive income	65.80	67.63	75.08	85.17	95.28
Share acquisitions rights	-	-	-	-	-
Non-controlling interests	8.58	8.74	9.79	10.28	10.79
Total net assets	74.39	76.37	84.87	95.45	106.07
Total liabilities & net assets	118.01	119.73	130.84	143.95	155.71

Source: Company data, Astris Advisory (estimates)

Cash flow statement (¥bn)	FY 9/23	FY 9/24	FY 9/25E	FY 9/26E	FY 9/27E
Profit before tax	9.62	7.98	9.59	13.02	13.93
Depreciation/amortization	3.75	3.75	4.13	4.34	4.56
Changes in working capital	(2.22)	3.02	(2.57)	0.12	(1.40)
Other non-cash items	(0.09)	0.16	-	-	-
Tax paid	(5.37)	(1.37)	(2.83)	(3.84)	(4.11)
Cash from Operating Activities	5.70	13.54	8.33	13.64	12.98
Capex	(5.48)	(4.13)	(3.23)	(3.39)	(3.56)
Acquisitions/increase stakes	-	-	-	-	-
Other investing cash flow	3.07	1.22	2.14	1.68	1.91
Cash from Investing Activities	(2.41)	(2.91)	(1.09)	(1.71)	(1.65)
Total cash dividends paid	(2.52)	(2.49)	(2.53)	(2.53)	(3.48)
Debt issuance/(retirement)	(1.51)	(1.04)	-	-	-
Equity financing/(buybacks)	(1.88)	(1.03)	-	-	-
Other	(0.29)	(0.38)	(0.38)	(0.38)	(0.38)
Cash from Financing Activities	(6.20)	(4.94)	(2.91)	(2.91)	(3.86)
FX impact	(0.02)	0.01	(0.00)	0.00	0.00
Net cash flow	(2.93)	5.70	4.33	9.03	7.47
Free cash flow	0.22	9.41	5.10	10.25	9.42
EBITDA	12.44	10.81	12.53	16.22	17.32
EBITDA margins (%)	10.2	9.4	9.7	12.0	12.2
Free cash flow margin (%)	0.2	8.2	3.9	7.6	6.6
Free cash flow conversion (%)	2.3	117.9	53.2	78.7	67.6
Capex/sales (%)	4.5	3.6	2.5	2.5	2.5
Capex/depreciation (%)	145.9	110.1	78.1	78.1	78.1
CFO margin (%)	4.7	11.7	6.4	10.1	9.1

Key metrics	FY 9/23	FY 9/24	FY 9/25E	FY 9/26E	FY 9/27E
Profitability					
Gross margin (%)	21.3	22.0	22.2	22.5	22.8
Operating margin (%)	7.1	6.1	6.5	8.8	9.0
Net margin (%)	5.1	4.3	4.8	6.3	6.4
ROA (%)	5.4	4.2	4.9	6.2	6.1
ROE (%)	9.8	7.5	8.6	10.6	10.1
ROCE (%)	10.0	8.0	8.6	11.0	10.8
ROIC (%)	9.7	7.3	8.2	10.3	9.8
Liquidity					
Current ratio (x)	2.3	2.4	2.5	2.6	2.8
Quick ratio (x)	2.3	2.4	2.5	2.6	2.8
Leverage					
Debt/Equity ratio (x)	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity ratio (x)	net	net	net	net	net
	cash	cash	cash	cash	cash
Equity ratio (x)	0.6	0.6	0.6	0.6	0.6
Interest cover (x)	N/A	N/A	N/A	N/A	N/A
Net Debt/EBITDA (x)	N/A	N/A	N/A	N/A	N/A
Valuation					
EPS reported (¥)	392.2	316.4	388.3	539.3	577.6
PER (x)	12.3	15.2	12.4	8.9	8.4
Diluted PER (x)	12.4	15.3	12.5	9.0	8.4
DPS (¥)	150.0	160.0	160.0	220.0	235.0
Dividend payout ratio (%)	38.2	50.6	41.2	40.8	40.7
Dividend yield (%)	3.1	3.3	3.3	4.6	4.9
Free cash flow yield (%)	0.3	12.2	6.6	13.2	12.2
Diluted FCF yield (%)	0.3	12.1	6.6	13.2	12.1
PBR (x)	1.2	1.1	1.0	0.9	0.8
EV/sales (x)	0.5	0.5	0.4	0.4	0.4
EV/EBITDA (x)	4.5	5.2	4.5	3.5	3.2
EV/EBIT (x)	6.5	8.0	6.7	4.7	4.4
EV/FCF (x)	256.3	6.0	11.0	5.5	6.0



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