

Mitsubishi Research Institute, Inc. (MRI)
Small Meeting with Securities Analysts (December 5th, 2023)
Summary of Q&A session

※Some contents have been added or modified for better understanding

[Analyst 1]

- Q. While other IT companies are increasing their profit margins, MRI's operating profit margin for the fiscal year ended September 2023(FY23/9) decreased by 0.8 percentage points compared to the previous year. What are the challenges and what improvements are planned for the Mid-term Plan 2026(MP2026)?
- A. Summarizing the FY23/9 results, the Think Tank & Consulting Services segment (TTC) experienced a significant decrease in profits due to increased upfront investments in human resources and advance investments for societal implementation businesses. The IT Services segment (ITS) saw a decrease in operating profit margin to 7.3%, a decline of 0.1 percentage points mainly due to loss provisions on orders received.
- In MP 2026, TTC aims to realize the monetization of upfront investments and continue to expand the business by actively increasing the workforce. As for ITS, large-scale system projects that have been driving performance are expected to be completed around the final year of MP2026. Therefore, upfront investments for alternative businesses to replace them will be necessary.
- Q. I've heard that there are cases where projects for government agencies are accepted even if they have low profitability. Is it possible to reduce these cases?
- A. For projects targeting government agencies, we are working on shifting towards cases that have either 1) high profit margins or 2) contribute to both financial and social value. While there are some projects that may appear to have low profitability due to high outsourcing costs (as explained in the FY23/9 financial results presentation), the actual per capita profit has been steadily improving.
- Q. How specifically will the reskilling in ITS be transformed, and which sectors of clients are you targeting?
- A. In MP2026, we are reorganizing the strategic areas within the business axis of our company into three categories: "Societal and Public Innovation," "Digital Innovation," and "Financial System Innovation." We aim to strengthen the connection between MRI and DCS in the value chain. To achieve this, we will

enhance the training and development of talent responsible for bridging both companies. Our target clients include government agencies, financial institutions, and general private sector. We will focus on industries and sectors where we can leverage our strengths. For example, in the field of "Societal and Public Innovation," we will target infrastructure-related sectors such as power and transportation, as well as the healthcare domain.

[Analyst 2]

- Q. Looking at the consolidated basis, the per capita operating profit is lower compared to other IT companies. What are the challenges, and how will you improve this?
- A. We believe that the main factor is our focus on manpower-dependent businesses. We recognize the need to increase productivity through the utilization of AI technology, such as generative AI, and expand our business areas by utilizing service-oriented and product-based approaches. We are fully aware of this and will continue to devote our efforts to address this challenge.
- Q. There are companies that have high productivity even with a focus on manpower-dependent businesses. Isn't there more that can be done?
- A. Proposal-based businesses that delve into the challenges and provide solutions are crucial. We are committed to reskilling and have established talent development functions (Academies) in both MRI and DCS.

[Analyst 3]

- Q. MP2026 is a long-term plan towards 2030, with the concepts of 3 steps, which are "Hop"(1st phase), "Step"(2nd phase) and "Jump"(3rd phase). What discussions took place during its formulation?
- A. MP2026 was developed by MRI and DCS as one body and back-casting from 2030. In particular, discussions were focused on the DCS aspect, considering the completion of large-scale system projects and how to connect to future growth. It was recognized that skill transition requires time and a phased approach from the base.
- Q. Can I understand it as a long-term plan aimed at 2030?
- A. We discussed our goals for 2030. Recognizing the need for a certain scale to be chosen by clients and employees, we set a target of 200 billion yen in revenue. To achieve this, it is necessary to change the basic skills and business structure, with a particular focus on ITS.

- Q. Regarding the target revenue of 200 billion yen as a goal for 2030, what would be the level of organic growth and the workforce required to reach that?
- A. The specific business scale and workforce size have not yet been determined. My image is to expand one-third of the gap between the current level and the target of 200 billion yen during the three years of MP2026, another one-third in the following three years, and achieve the remaining portion through non-organic growth.
- Q. The plan is to expand the Financial Systems Innovation Business beyond the large-scale system projects expected to be completed in a few years, but it is unclear what exactly will be expanded. Is it possible to expand with customers other than the current major clients?
- A. The plan includes expanding with customers such as payment system companies to a certain extent. Additionally, we will accumulate various projects, including collaborations with MRI, such as BaaS (Banking as a Service) and host system migration.
- Q. What are the benefits of partnering with Technos Japan Inc. ?
- A. They serve as a prime vendor for SAP. The advantage of partnering with them is the ability to offer system implementation services for ERP through collaboration with MRI Value Consulting & Solutions (MRVS), a service provider within our group.

【Analyst 4】

- Q. Reskilling involves reallocating personnel and incurring education costs. Are there any constraints?
- A. While there may be advance investment, enhancing the quality and quantity of our workforce is a top priority for management.
- Q. Regarding reskilling, Technos Japan, with whom you partnered, has many SAP qualification holders. Is the purpose of reskilling to increase such holders or to target different domains?
- A. Increasing certification holders is just one example, but the key is to strengthen the skill set that enables us to provide a consultative business approach to clients.

Q. Specifically, what will be done through reskilling to enhance the capabilities of consultants?

A. We will focus on development through both external hiring and internal talent as instructors for education.

Q. It is mentioned that there will be a transition in business and skills towards 2030. Are there any existing companies that serve as role models for this?

A. In a society characterized by high uncertainty and opacity, there is a growing demand for MRI's policy expertise. We will create our own unique model by combining DCS's strong skills in building reliable and robust systems.

【Analyst 2】

Q. I have an impression towards MRI consultants that they are serious and reliable, but is there a need to change the mindset to be more proactive and competitive?

A. We understand the need for a proactive mindset in a consultative business approach. However, it is also important to maintain the trust and strengths we currently have with our clients. It is crucial to find a balance where we maintain trust while directly addressing client challenges and providing hands-on proposals.

【Analyst 4】

Q. Is there any integration or incorporation plan with DCS? What are the benefits of keeping the organizations separate?

A. In the previous Mid-term Plan for 2023, there was mutual secondment between MRI and DCS to promote collaboration in their respective DX businesses. As concrete achievements have been made and the benefits have been felt at the operational level, we are further enhancing the connection through the three business axes. As the next step, we would like to explore the optimal organizational structure without any constraints.

Q. Recently, there has been noticeable collaboration among IT companies within groups that have a parent company. As a member of the Mitsubishi Group, are there any discussions about connectivity between the group companies?

A. Our company was established with the investment of 27 Mitsubishi Group companies, under the principle of using information and scientific technology to solve societal issues and make contributions, as part of the Mitsubishi 100th Anniversary Project. There is no specific single company within the group that holds a major stake, and at present, there are no discussions to strengthen connectivity with a specific company.

- Q. What is the connection in terms of receiving orders from the Mitsubishi Group?
- A. In terms of the entire MRI Group, MUFG has the deepest connection in terms of business (specifically in the financial and card-related businesses of DCS). Additionally, the Mitsubishi Group has industry-leading companies in various areas, such as energy and healthcare, which align with our key focus areas. There has been an increase in collaboration in these areas. However, it should be noted that this is happening alongside the overall expansion of our business scope, and it does not necessarily mean an increase in transaction share with specific companies.

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