

*Envisioning the future, leading change*

# Business Briefing

June 2022

 **Mitsubishi Research Institute**



# General Overview of the MRI Group's Business and the Future Direction

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Kenji Yabuta, President and Representative Director

# Medium-Term Management Plan 2023 (MP2023): Financial Targets and Key Initiatives

## Basic Policy

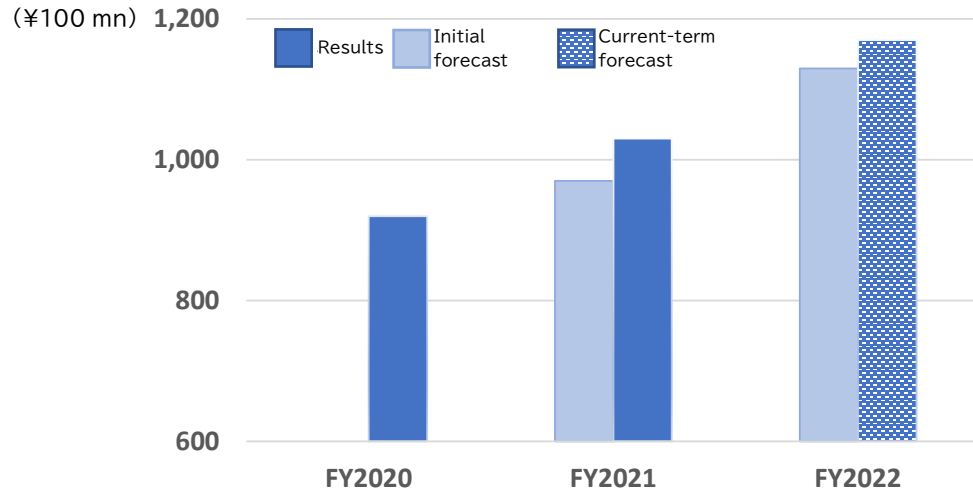
**Sustainable growth for individuals and the organization**

		FY2023/9	FY2020/9 results
Financial targets	1. Ordinary profit	10,000 mil. yen	7,000 mil. yen (excluding special factors)
	2. ROE	10%	8.9% (excluding special factors)
	CAGR (ordinary profit)	12%	—

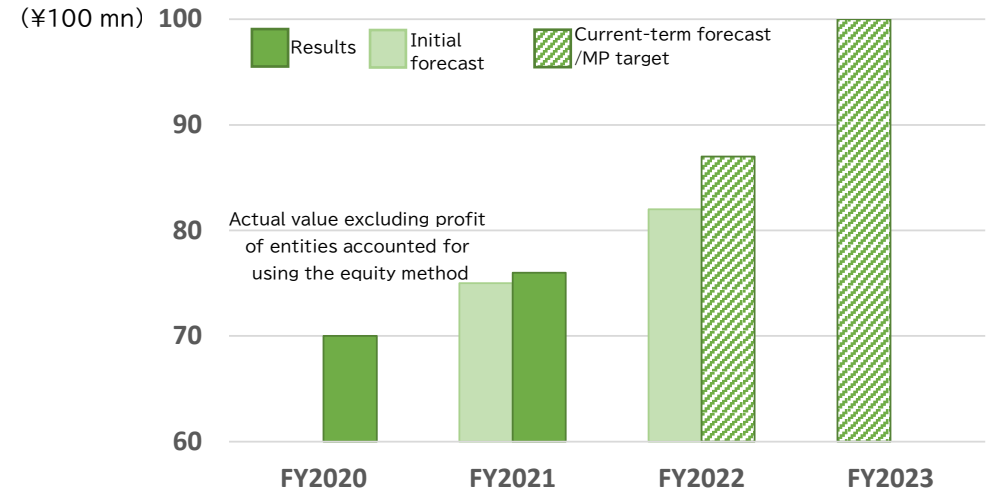
Key Initiatives	<p><b>1 VCP* management</b> Using societal issues as a starting point, we will strengthen the value chain</p> <p style="text-align: right;">*Value Creation Process</p>
	<p><b>2 Consolidation management</b> We will enhance the DX business based on collaboration between the four Group companies**</p> <p style="text-align: right;">** MRI, DCS, JBS and INES (⇒p. 22)</p>
	<p><b>3 New normal management</b> We will transform work styles and governance to strengthen the management base</p>

# Progress of Key Financial Figures

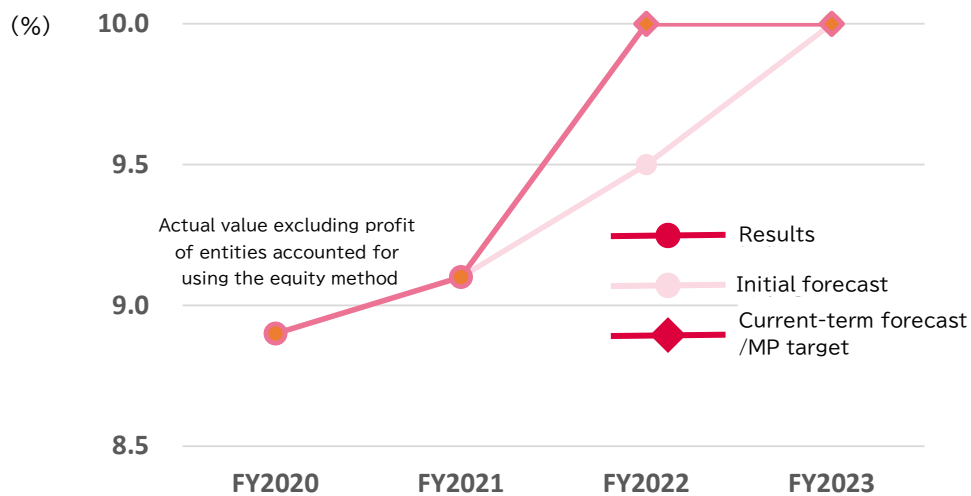
## Net sales



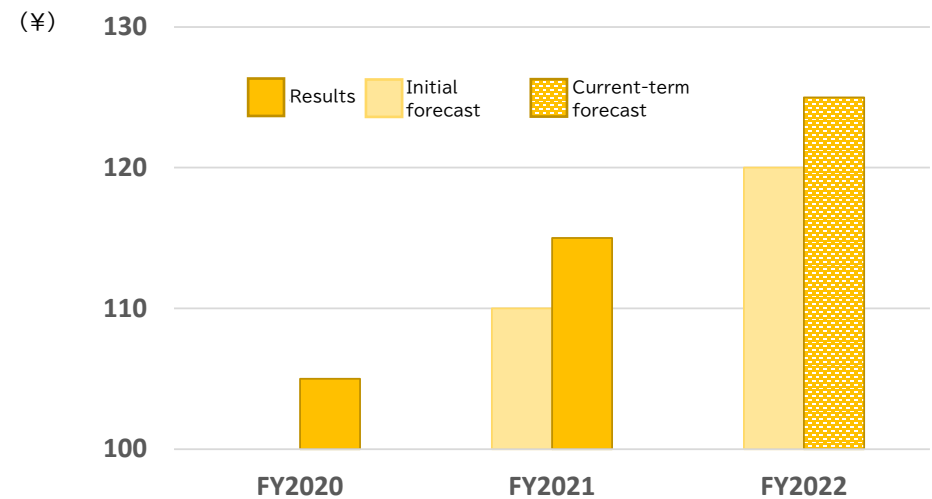
## Ordinary profit



## ROE



## Dividends



# Progress of VCP Management

## Increasing awareness of “societal issues” among corporations and greater society

- Expectations for VCP management’s value type “A”; Research & Recommendations
- Expansion of business provided by the MRI group, whose core function is as a think tank

## The transformation of the research and consulting business is making steady progress (⇒p. 11)

- Qualitative reforms of VCP management’s value types “B”; Analysis & Conceptualization and “C”; Design & Testing

## Breaking away from man-month dependent business with the expansion of recurring business (⇒p. 12, 15)

- Strengthening of VCP management’s value type “D”; Societal Implementation, achieved through DX and collaboration with business partners

# Progress of Consolidation Management

**The IT Services segment is delivering solid profits, driven by finance and credit card business**

- FY2020/9: Net sales 57,400 mil. yen; ordinary profit 3,000 mil. yen; ordinary profit margin 5.4%
- FY2022/9 (Forecast): Net sales 69,000 mil. yen; ordinary profit 4,400 mil. yen; ordinary profit margin 6.4%

**Strengthening the DX business through collaboration among the four MRI group companies (Strategic Consulting x SI and IT Services)**  
(⇒p. 22)

**Accelerating growth by leveraging non-organic growth in priority fields**  
(⇒p. 24)

# Progress of New Normal Management

## Implementing transformation of offices and workstyles

- Completed office integration (of MRI subsidiaries) and renovations
- The resulting cost reduction will become apparent beginning in FY2022/9 2H (200 mil. yen/year)
- Policies set for personnel system reforms and diversity & inclusion

## Insufficient human resources is the biggest management challenge

- Priority allocation of growth investment in order to increase the headcount and develop our human resources (⇒p. 8)

## Strengthening the governance structure (sustainability management, upgraded risk management)

# Growth Investment Policy

Invest cash provided from business mainly to the four areas below.

Investment in growth	Specific measures	Example initiatives
(1) Human Resources	<ul style="list-style-type: none"> <li>• <b>Hiring more people</b> (increasing 210 people by FY2023)</li> <li>• <b>Doubling opportunities for career development</b>, optimal placement</li> <li>• Transferring more human resources to partners for cultivating them</li> </ul>	<ul style="list-style-type: none"> <li>• Diversification of recruitment methods</li> <li>• Establishing the Company's unique human resources development model</li> <li>• Dispatching to venture capital</li> </ul>
(2) Research and Recommendations	<ul style="list-style-type: none"> <li>• <b>Joint research and recommendations with research institutions in Japan and overseas</b> (Macroeconomics, next-generation communications after 5G, etc.)</li> <li>• Personnel exchange, visiting members</li> </ul>	<ul style="list-style-type: none"> <li>• Partners (including expected ones) <ul style="list-style-type: none"> <li>- Chatham House (UK)</li> <li>- CEPS (Belgium)</li> <li>- Georgetown university (USA)</li> <li>- University of Tokyo, Osaka University</li> </ul> </li> </ul>
(3) R&D	<ul style="list-style-type: none"> <li>• Development and demonstration of <b>applications</b></li> <li>• Development and demonstration of <b>AI engines</b></li> <li>• Medium, large capital expenditures</li> </ul>	<ul style="list-style-type: none"> <li>• Local digital currency</li> <li>• AI and big data analysis</li> <li>• Renovations of our data center</li> </ul>
(4) Business Foundations	<ul style="list-style-type: none"> <li>• Expanding foundations and partners in <b>DX and social implementation</b></li> <li>• <b>Strategic investment</b> in focus areas (investment, JV, M&amp;A, etc.)</li> <li>• <b>Expanding venture businesses and venture capitals investment</b> (establishing a dedicated organization)</li> </ul>	<ul style="list-style-type: none"> <li>• Establishes an operation and capital alliance with French ForePaaS SAS <ul style="list-style-type: none"> <li>➔ Business collaboration with OVHcloud (French)</li> </ul> </li> <li>• Capital and business alliance with Nextremer, an AI venture</li> </ul>



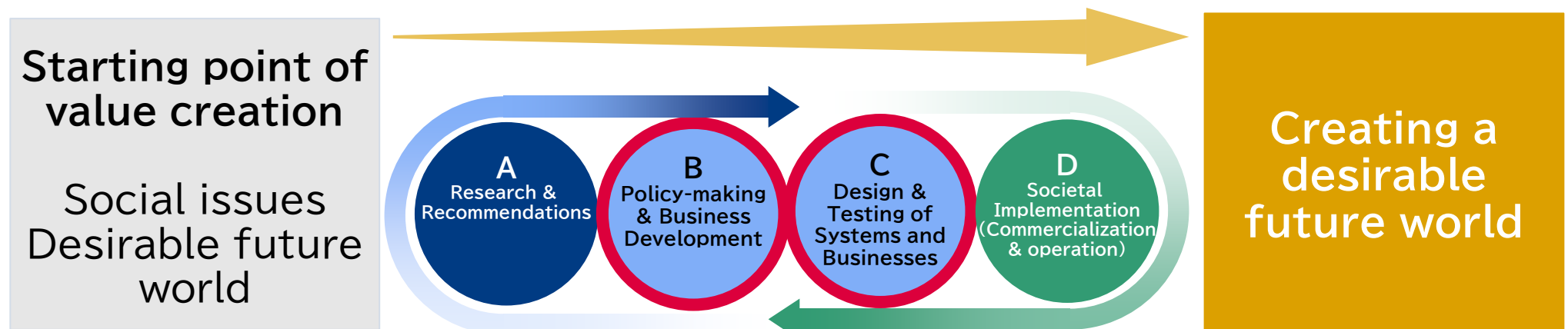
# Developing Business that uses Societal Issues as a Starting Point (VCP Management)

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Hiroshi Iwase, Senior Managing Executive Officer for VCP

# A Value Chain using Societal Issues as a Starting Point (Value Creation Process)

- Leverage our **existing strengths as a think tank** (“B” and “C” in the diagram below)
- Strengthen efforts between “B”; Research and Recommendations and “C”; Societal Implementation **as value chain pipelines**
- Uncover and identify new issues after “D”; Societal Implementation, and **provide feedback on and recirculate those issues** to “A”; Research and Recommendations



**Be conscious of the starting point of value creation**

- ➔ Focus on how basic policies and systems link to “B”, “C”, and “D”

**A**

**Create added value**

- ➔ Further strengthen links from “research and recommendations” and connections to “societal implementation”

**B·C**

**Invest early and create new businesses**

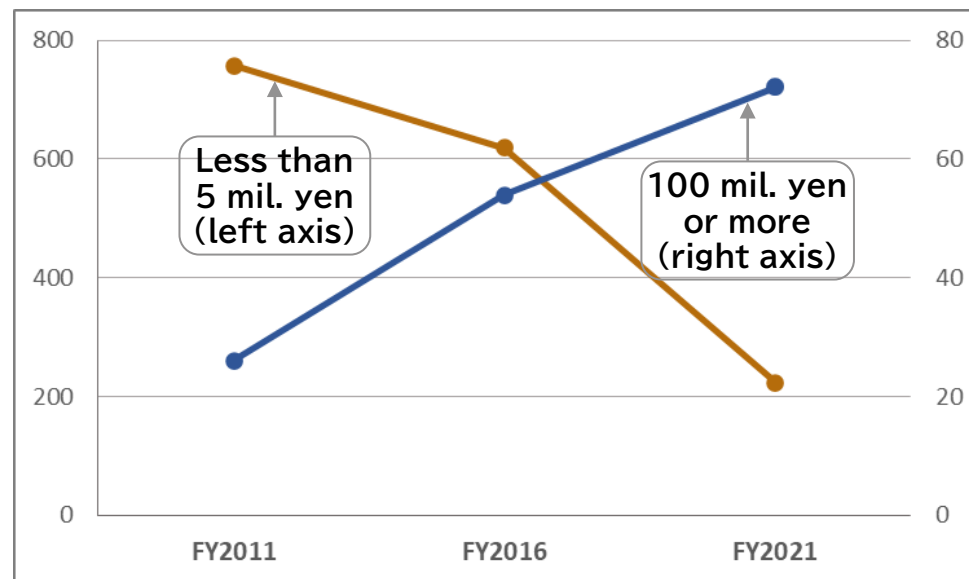
- ➔ Allocate resources obtained by high added-value “B” and “C” business
- ➔ Achieve this through independent business and through collaboration with diverse partners

**D**

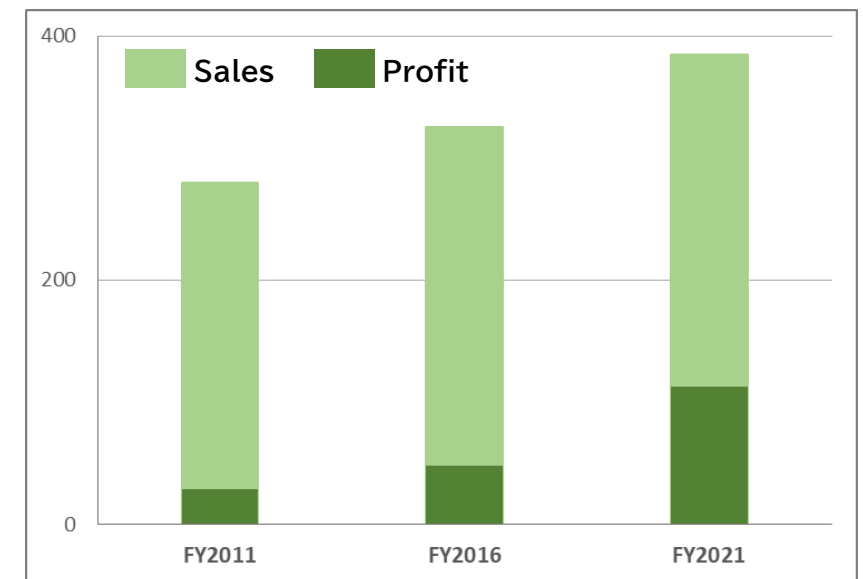
# Progress in the Shift to Focus on Quality (creating added value in “B” and “C” businesses)

- While major projects (of over 100 mil. yen) have significantly increased, small-scale projects (of less than 5 mil. yen) have decreased sharply
  - Projects have gotten progressively larger in scale, and the total number of projects has decreased by around 30% over a 10-year period on an MRI non-consolidated basis
- Sales and profit have increased
  - Even with the large decrease in volume, sales and profit have both grown
- By creating added value, progress has been made in the shift to focusing on quality

Number of projects (MRI non-consolidated)



Sales and profit (100 mil. yen) (MRI non-consolidated)



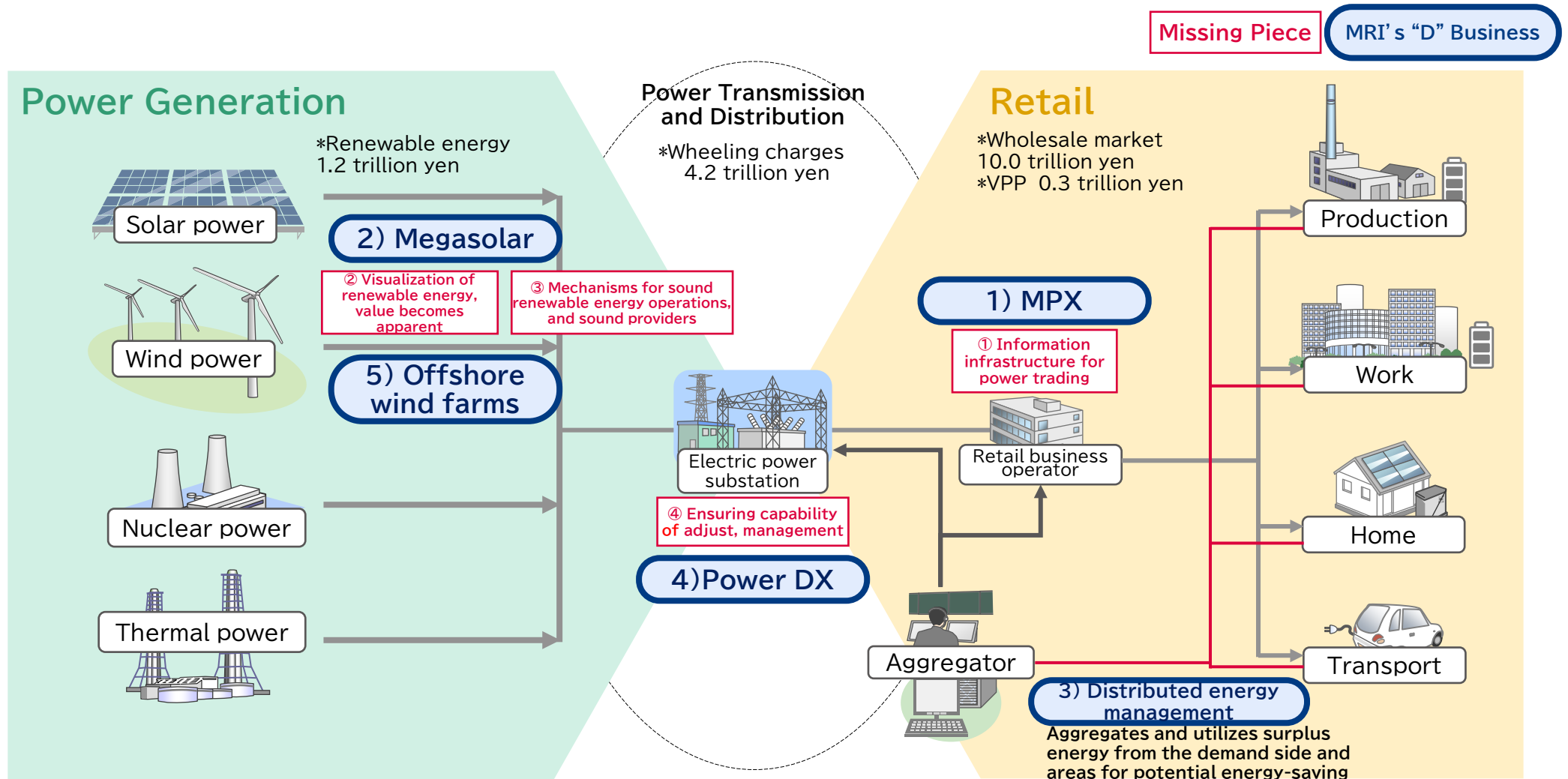
# Solving societal issues and “D” business

## Solving Societal Issues Through DX

To solve societal issues, we need to use data, analyze it, and then deploy it in order to manage existing demand and resources, to optimize services to suit individuals, and to settle payments electronically. **DX is essential for all of these needs.**

Area	Examples of solutions for issues	Functions needed	Corresponding DX component
Carbon neutrality	Distributed renewable energy resources, operational adjustments for storage batteries	Optimization of both the supply and the demand side amidst fluctuations in supply and demand capabilities	<ul style="list-style-type: none"> <li>Data collection, analysis, optimization logic, high-speed information processing</li> </ul>
	Build power networks that can easily accept renewable energy	Improved supply and demand forecasting	<ul style="list-style-type: none"> <li>Simulations</li> </ul>
		Long-term projections for the introduction of distributed energy resources for capital investment in systems	<ul style="list-style-type: none"> <li>Digitalization of business operations, simulations</li> </ul>
		Incentivize business operators for cooperating with supply and demand adjustments	<ul style="list-style-type: none"> <li>Switching to online operations, data analysis, digital payments</li> </ul>
Wellbeing	Provide individually customized opportunities for activities	Selection and recommendation from among many services that fits the individual’s circumstances	<ul style="list-style-type: none"> <li>Matching logic, auto suggest</li> </ul>
		Provision of method of transportation in order to use the service	<ul style="list-style-type: none"> <li>Centralized management of transportation routes, optimization, digital payments</li> </ul>
	Promote behavioral changes that contribute to climate change countermeasures and improved health	Management of points awarded based on level of contribution and use of points for a wide variety of goods and services, as well as payment	<ul style="list-style-type: none"> <li>Supplier/user management</li> <li>Offering points/coins, digital payments</li> </ul>

# Progress of Carbon Neutrality Initiatives



- \*Market scale (2030):  
 Single-year kWh value if the target 2030 power mix in the Sixth Strategic Energy Plan is achieved (MPX, megasolar, offshore wind farms); expected wheeling charges in 2030 (power DX); 2030 DER potential multiplied by expected market value (distributed energy management)

# Progress in Region Ring, a Local Digital Currency Service to Solve Local Issues

## What is Region Ring®?

- A platform service that helps issue digital currencies, electronic money, coins, points, electronic gift certificates, and so on.

## Features

- Uses blockchain technology and has high reliability.
- Enables the user to issue and manage different points, coins, etc. using the same platform and thereby to cut initial costs.
- Has a function to change (reduce) value according to periods of campaigns and events and thereby to encourage use (a patent has been obtained).

## Examples of introduction

- Kintetsu Harukas Coin, Shimakaze Coin: Stimulating consumption at retail facilities and in communities
- Tokyo Your Coin: a demonstration project for promoting SDGs activities
- Points for the Otemachi, Marunouchi, and Yurakucho (Dai-Maru-Yu) areas: promoting SDGs activities
- Kin-syachi money: (news release on April 25, 2022)

➔ **The total amount is expected to be 21,800 mil. yen, one of the largest in Japan.**

**Stimulating consumption and promoting cashless transactions to solve local issue**

A total of 21,800 mil. yen (paper, electronic) (of which, 8,500 mil. yen will be from electronic money, certificates, etc.)



# “D” Business Shifting from Investment to Returns

- **Since the service was launched, we have undertaken just under 10 projects and activities related to “D” business**
  - AI-based scoring service of application forms (PRaiO), wholesale power transaction forecasting service (MPX), megasolar business etc.: net sales are in the multiples of 100 mil. yen
  - Our service providing online applications for admissions to junior and senior high schools (miraicompass) has sales of over 1,000 mil. yen
  
- **Moving into the returns stage while investment continues**
  - In response to the shift to focusing on quality in “B” and “C” businesses, progress has been made with expansion of “D” business, improving its profitability, and business collaborations, and from the next MP period it will start recovering its investment
  - We are aiming for further development of new business at the same time
  
- **Thanks to the expansion of recurring business, we are able to transition from a business that is dependent on man-month factors**



# Development of Group DX Business and Initiatives

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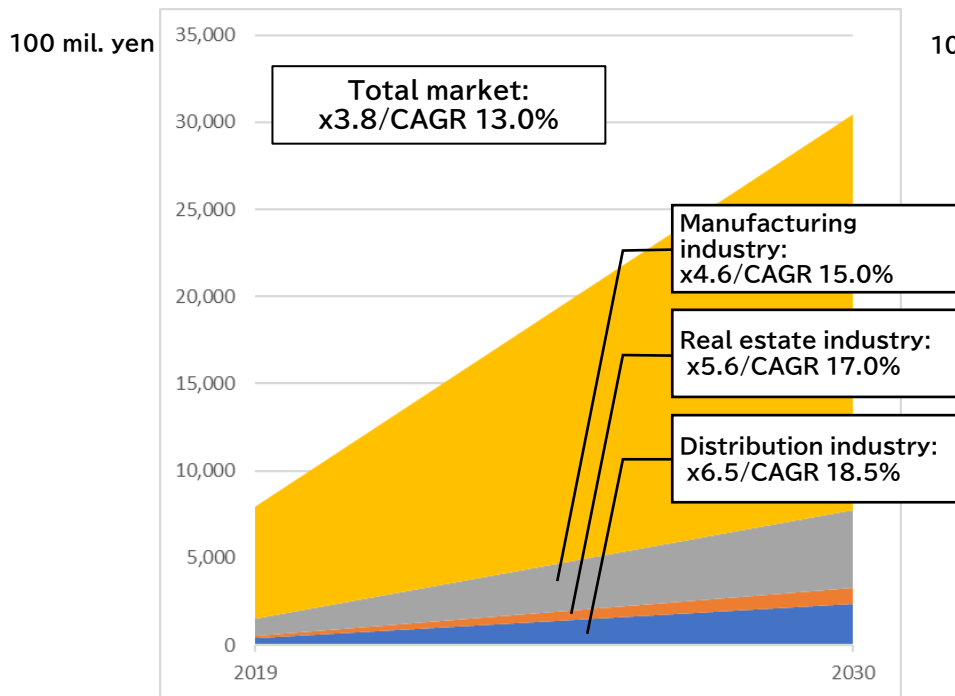
Yoshihiko Ito, Executive Officer, General Manager, Digital Transformation Unit



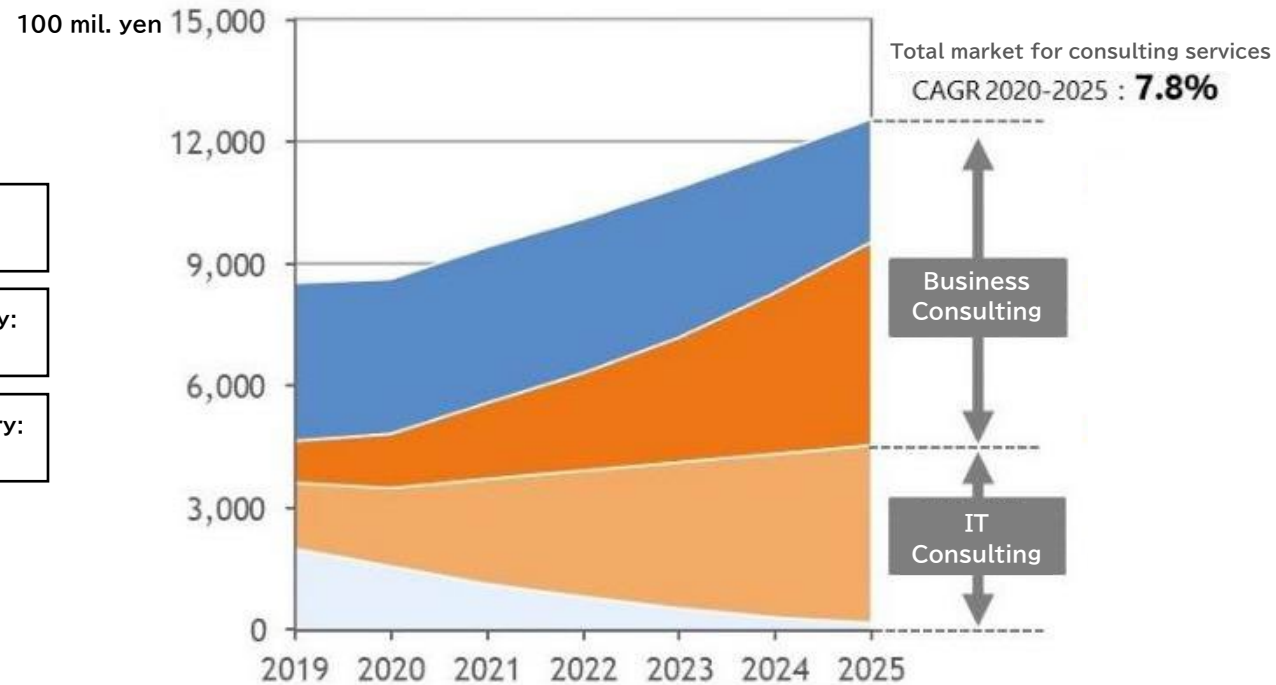
# Rapid Growth of the DX Market

- The scale of the domestic DX market will be over 3 trillion yen in 2030 (⇒Left: CAGR 13%)
- The domestic consulting market will be worth in 1.25 trillion yen in 2025 (⇒Right: CAGR 7.8%)
- **Digital-related business consulting and the logistics and manufacturing fields will be the market drivers**

Forecasted DX market scale in Japan (2019-2030)



Forecasted consulting market scale in Japan

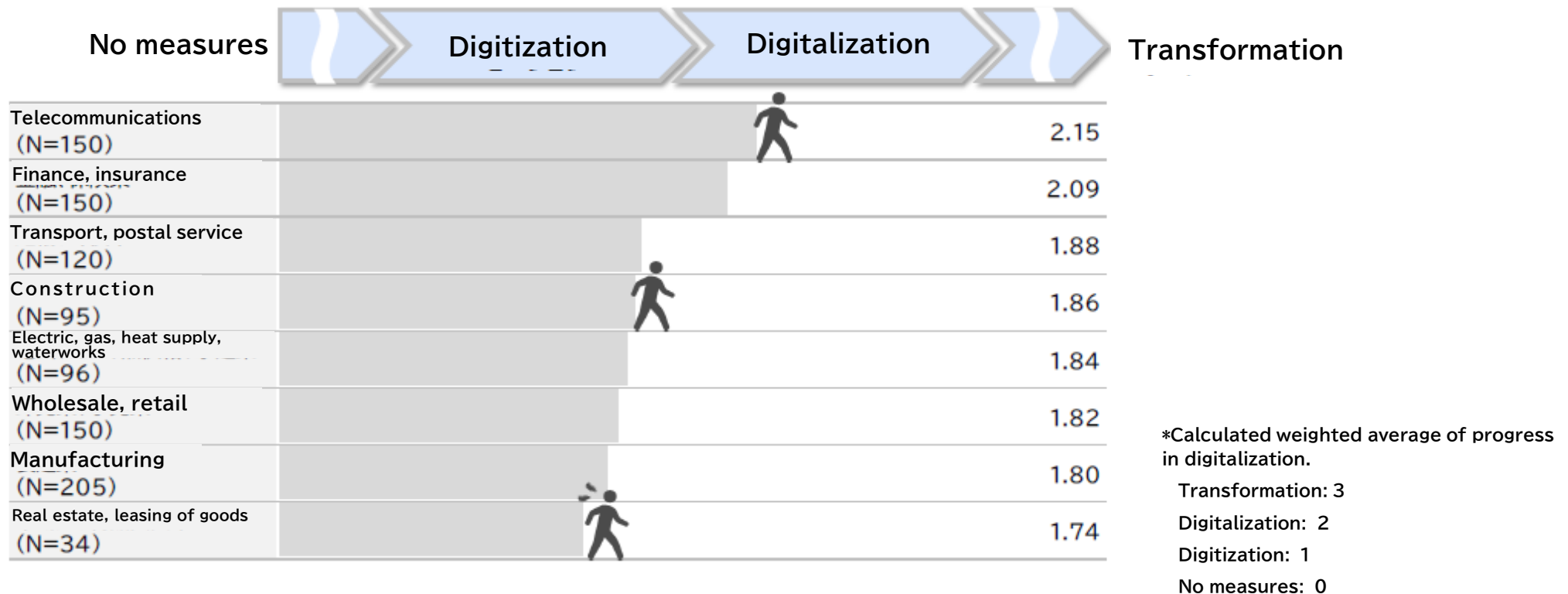


Source: Created by MRI based on Fuji Chimera Research Institute  
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# Progress by Industry

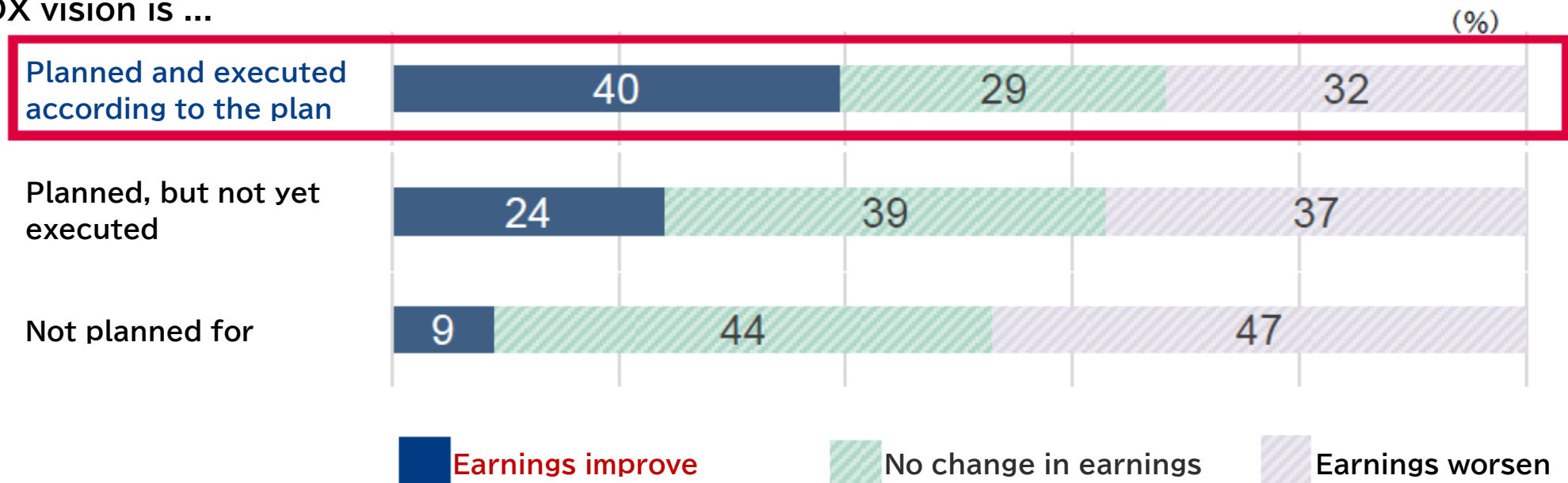
Telecommunications and finance are ahead, while manufacturing, real estate, and leasing of goods lag behind



# Correlation of Corporate Earnings with Implementation of the DX Vision

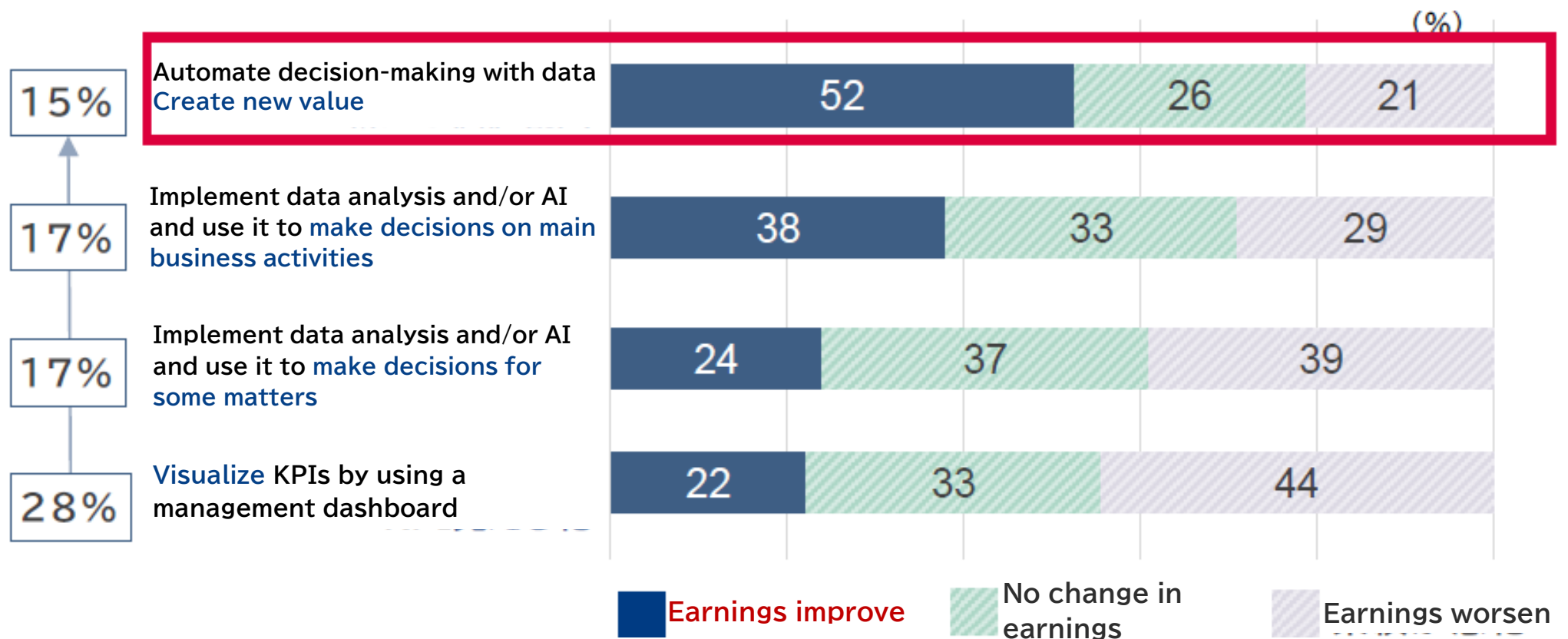
While progress on DX has no bearing on corporate earnings, the degree to which the vision is implemented does

DX vision is ...



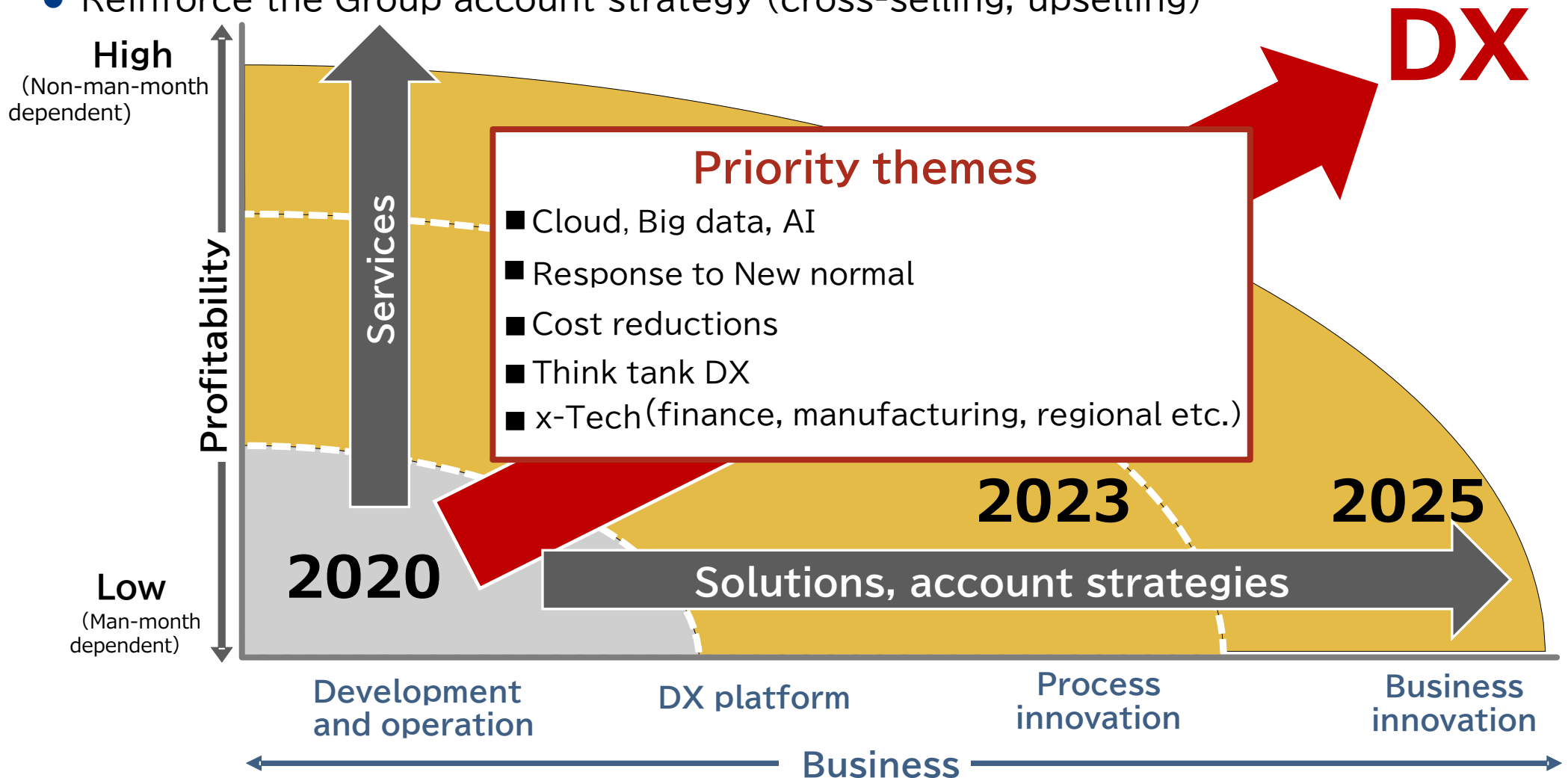
# Correlation of Corporate Earnings with Utilization of Data

Companies that are actively using data (for decision-making and value creation) have higher rates of earnings improvement



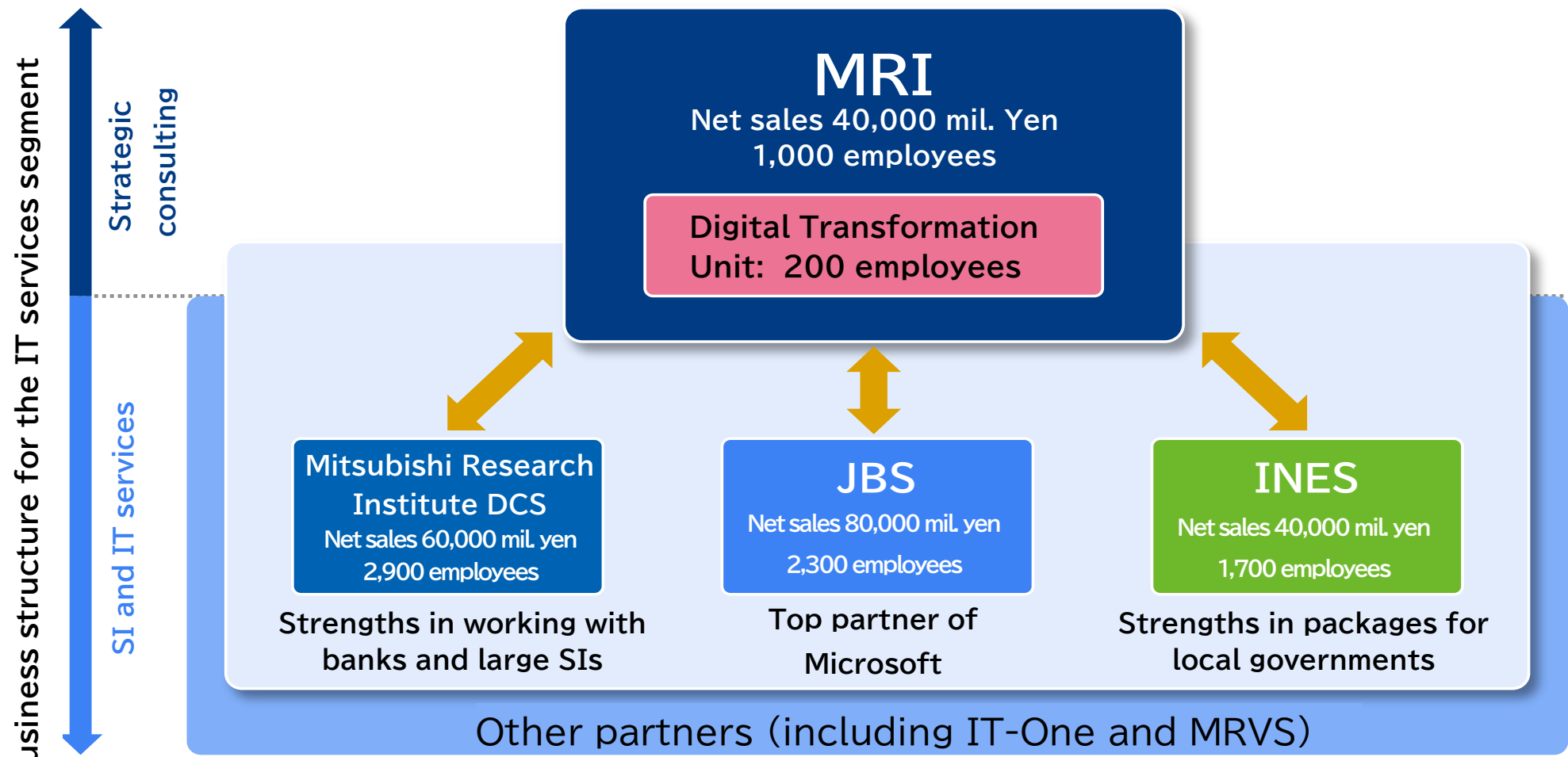
# MP2023: DX Policy

- Combine capabilities and strengths held across the Group to enhance the solutions and services we provide
- Reinforce the Group account strategy (cross-selling, upselling)



# Structure for Implementing Group DX Business

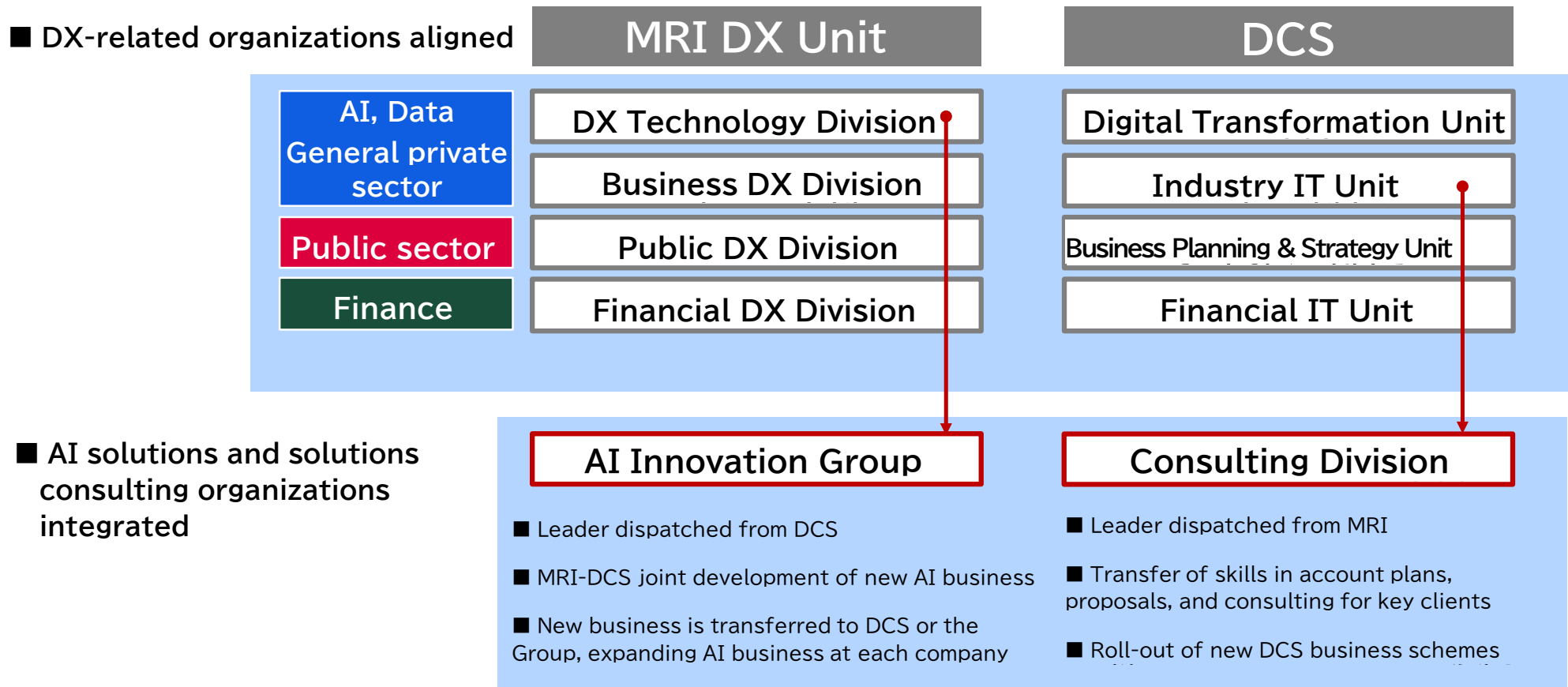
As the four Group companies collaborate to strengthen the DX business, the **Digital Transformation Unit is driving the Group DX business**



\*The figures for sales and number of employees are approximate figures. (Figures for MRI, DCS, Digital Transformation Unit, and JBS are for FY2021/9, and those for INES are for FY2021/3)

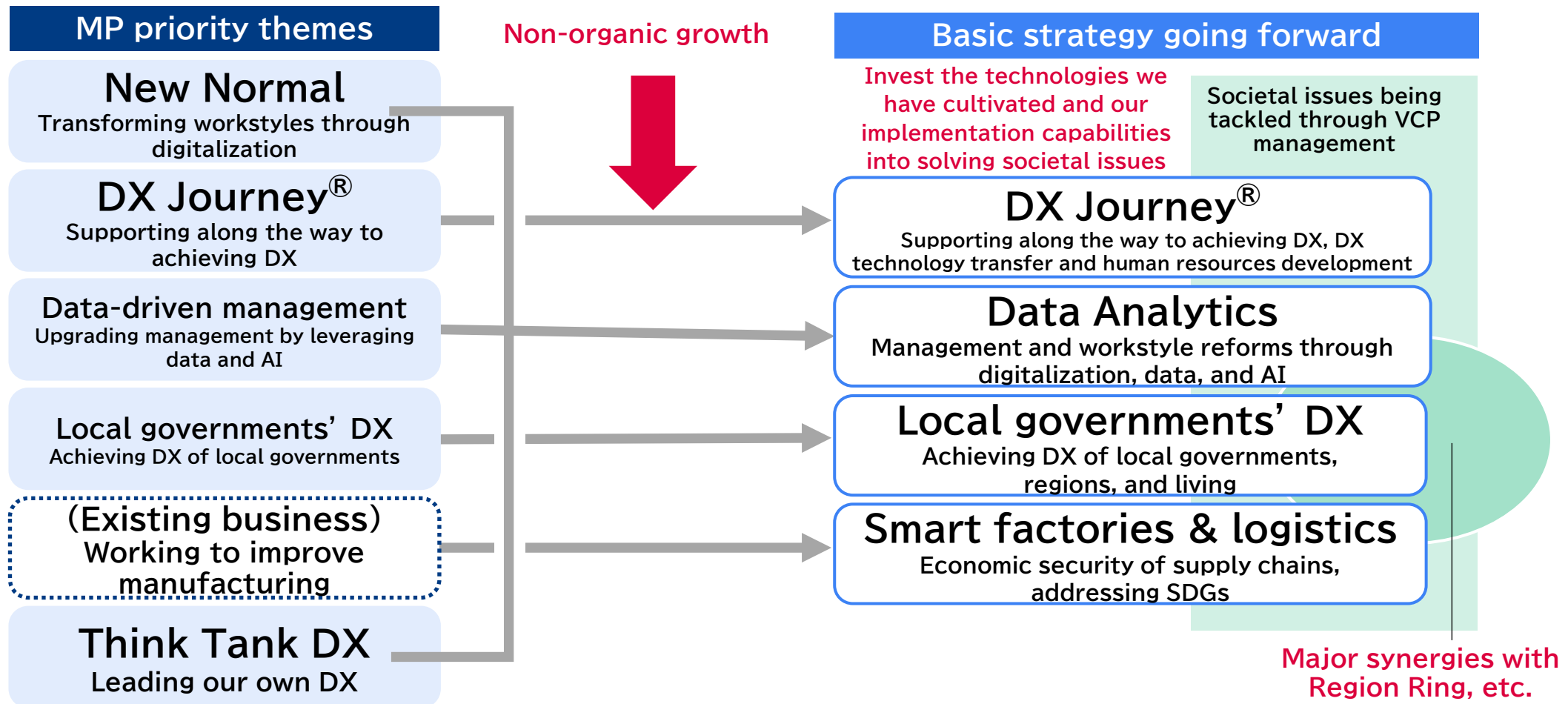
# Strengthening Collaboration between MRI and DCS

- DX-related organizations were aligned (from 2021/9)
- AI solutions and solutions consulting organizations were integrated (from 2022/9)
- Other: strategic integration of data analysis business, integration of sales organizations, etc. (from 2022/9)



# Basic Strategy Going Forward

- Enhance DX Journey,<sup>®</sup> digital x data, and AI x workstyle reforms
- Use X-Tech to strengthen local governments and smart factories & logistics
- Accelerate implementation by investing the technologies we have cultivated into solutions for societal issues being tackled through VCP management





# MP2023: Priority Themes and Results

- Advancing more than 40 projects with the new normal, DX Journey®, data-driven management, and local governments' DX as priority DX themes. In addition, promoting independent DX as Think Tank DX.
- While focusing our efforts on service development in operational DX and industrial IT fields, we also invest in our own research in new technological domains, such as AI and robotics.

Theme	Outline	Actual examples of customers
New Normal	<ul style="list-style-type: none"> <li>• Improving employee engagement, Work-style transformation by digital technology</li> <li>• Detection of sign of absence from work/prevention of resignation, transformation of experiences, techniques and operations into AI, zero-trust</li> </ul>	Securities companies Beverages
DX Journey®	<ul style="list-style-type: none"> <li>• Departure from the dilemma of innovation, appropriate implementation of DX</li> <li>• Accelerating DX based on strategy, improving digital literacy, improving environment</li> </ul>	Factoring companies Chemical manufacturers Prefectures
Data-driven management	<ul style="list-style-type: none"> <li>• Improving capability of making changes happen in the unpredictable era, responding to destructive changes</li> <li>• Using AI, providing dashboard to monitor necessary data and prediction-based utilization of big data</li> </ul>	Banks, insurance companies, credit card companies Electric power companies, Organizations <b>*Please refer to the actual examples</b>
Local governments' DX	<ul style="list-style-type: none"> <li>• Sustainable growth of regions (maintaining the quality of life and government services)</li> <li>• Digitalizing governments' support services for residents, accelerating DX of local governments' operations</li> </ul>	Prefectures City/town/village government
Think Tank DX	<ul style="list-style-type: none"> <li>• Pioneering DX, promotion of internal disruption</li> <li>• Promotion of DX in the field of planning, non-routine and cognitive work</li> </ul>	(Trial use inside our company prior to market implementation)

# Actual example 1: ForePaaS data analytics platform

- A one-stop, code-free data analytics platform
- Quick data analysis and dashboard utilization for innovation in operations

**Case study**

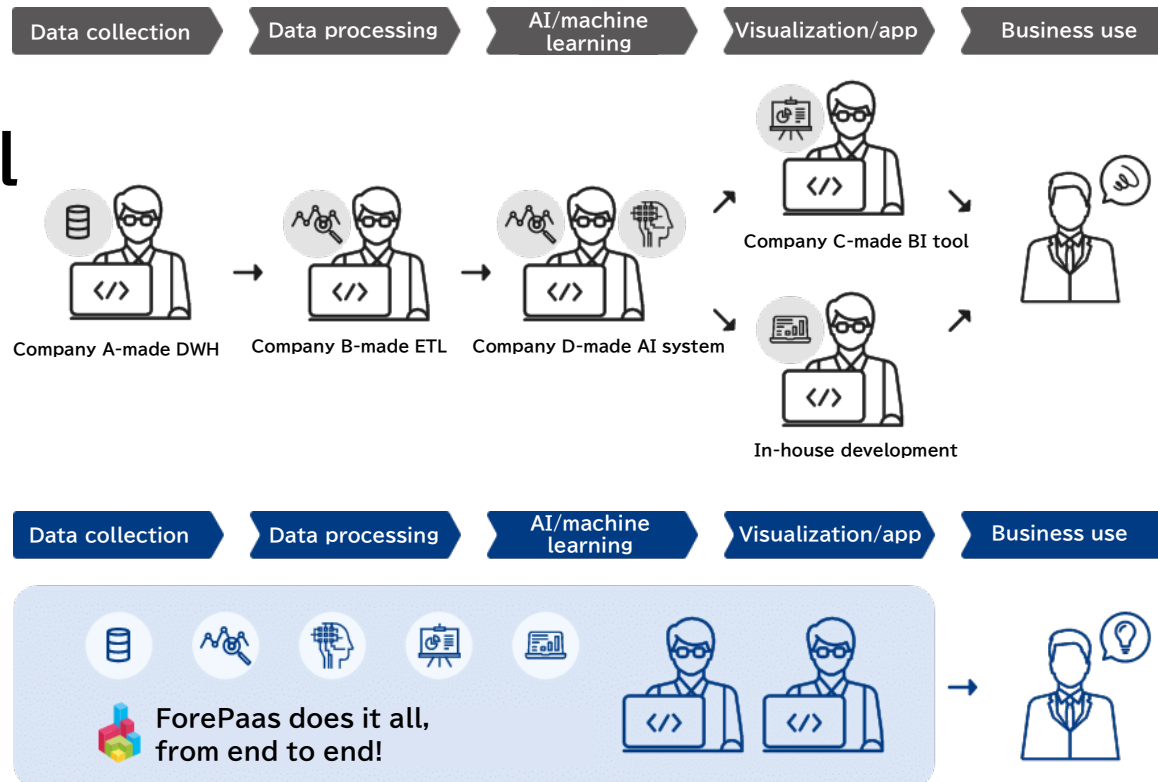
Client: Nippon Kaiji Kyokai (ClassNK)

The GHG emissions management tool “ClassNK ZETA” was taken from start of build to trials in two months, and officially released within six months.

## Conventional method



## ForePaaS

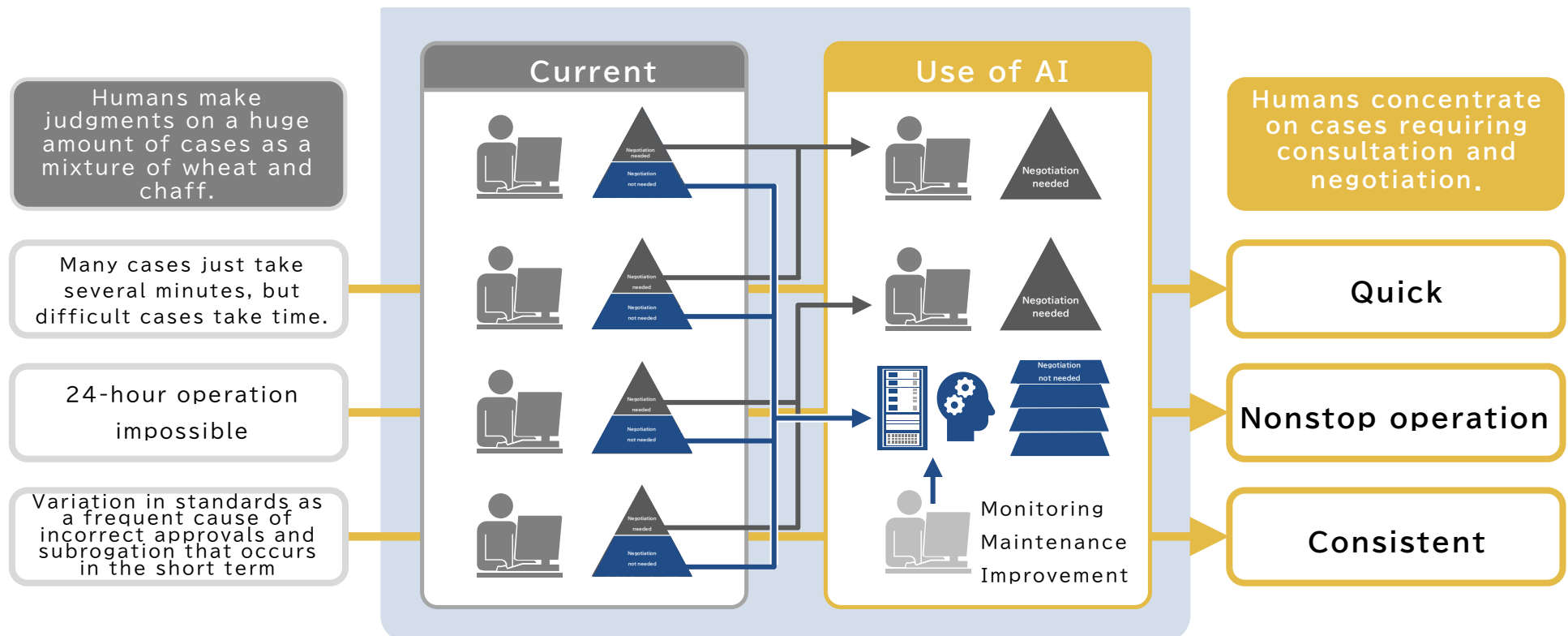


# Actual example 2: AI-based loan application examination service – workstyle reforms for white collar workers

- An AI model that has learned to make judgements on whether to provide loans or not enables digitalization of credit screening
- It can be implemented easily through an API connection with the financial institution's business systems

## Case study

Clients that are using or considering using this service: Mitsubishi Motors Finance Co., Ltd., MerryGate Guarantee, Japan Worker's Credit Fund Association, Mebuki Financial Group, etc.



# Actual example 3: Craft brewery AI – workstyle reforms for front-line workers

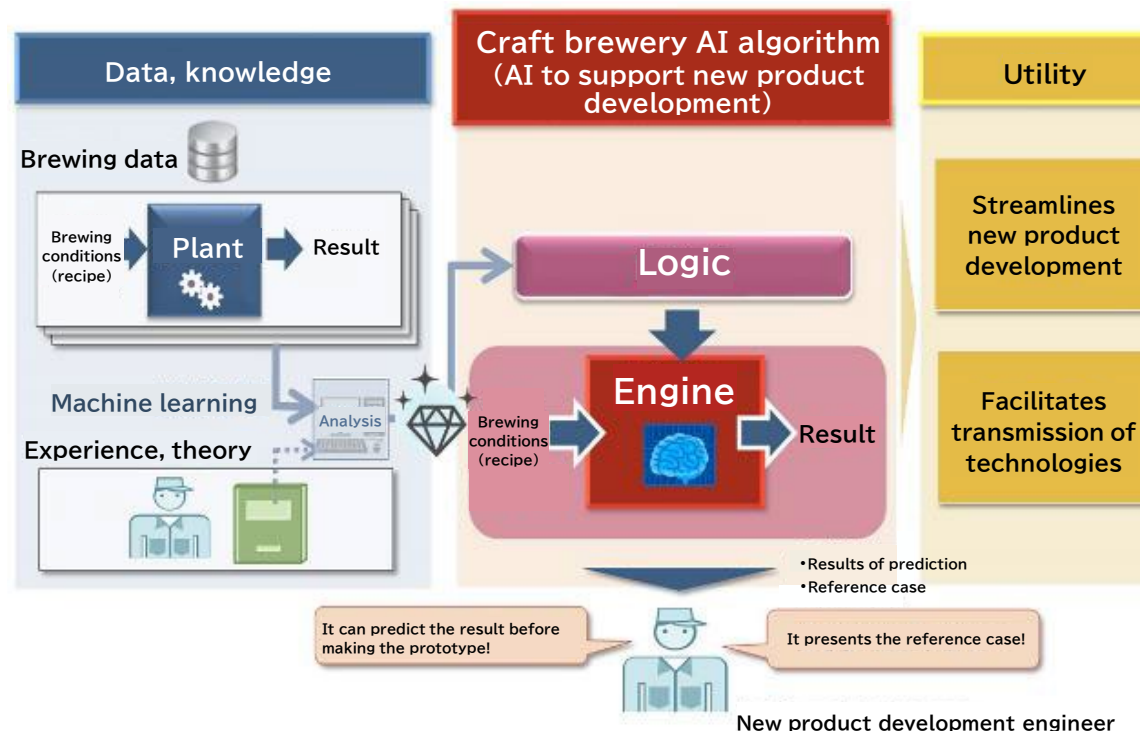
- AI that learns from the experience and know-how of expert technicians is used to help develop new kinds of beer
- This facilitates the transmission of manufacturing technologies that rely heavily on skilled workers and streamlines product development

**Case study**

Client: Kirin Holdings Company, Limited

Product development is streamlined with a function that predicts the results of the prototype based on the recipe (the conditions set for ingredients used), and a function that predicts what recipe will be used on the target flavor.

Overview of the craft brewery AI algorithm

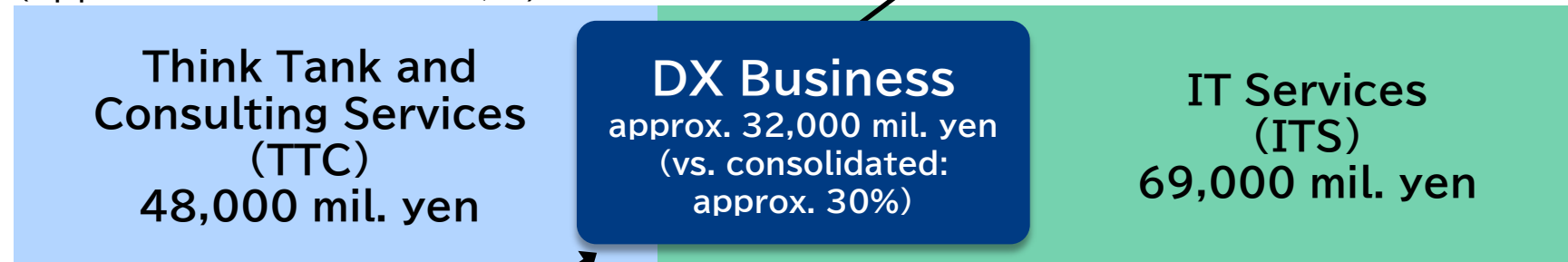


# Medium- to Long-term Growth Image

Medium- to long-term  
(growth in business scale including non-organic growth)

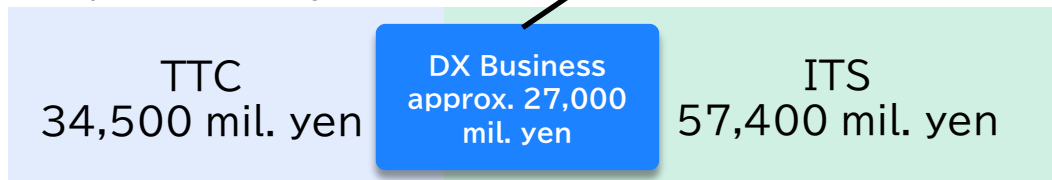


FY2022/9 net sales (est.)  
117,000 mil. yen  
(approx. x1.3 vs. FY2020/9)



FY2020/9 net sales  
92,000 mil. yen

+5,000 mil. yen  
approx x1.2



## Notes concerning forward-looking statements

This presentation contains forward-looking statements. These forward-looking statements, including forecasts, are based on the Company's assumptions in light of information available at this moment.

These statements do not guarantee future performance and involve unpredictable risks and uncertainties. Accordingly, actual performance may differ from the outlook due to such various factors.

The Company is under no obligation to update or revise any forward-looking statements in light of future events, new information or other findings.

### **[Translation for reference only]**

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*Envisioning the future, leading change*

