Mitsubishi Research Institute

*Envisioning the future, leading change*

Q2 Financial Results Briefing for the Fiscal Year Ending September 2022

May 2, 2022

**Yabuta:** My name is Yabuta, and I am the President. I will now explain the financial results for the second quarter of FY2022.

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## Summary

- Significant year-on-year growth in sales and profit. Profit reached a record high for the first half of a fiscal year.
- Despite the adverse effect of an unprofitable project on TTC, both sales and profit effectively rose in both of the two segments (YoY comparison under the previous accounting standard) (p. 5).

| Net sales: | Results | 68,265 mil. yen | YoY change | +15,937 mil. yen |
|---|---|---|---|---|

- Impact of change in accounting standard: +11,171 mil. yen (p. 5); effective YoY change: up 4,766 mil. yen to 57,094 mil. yen, a record high
- Think Tank and Consulting Services (TTC): effectively +2,008 mil. yen in government and public offices (large projects, advanced ICT projects, etc.)
- IT Services (ITS): effectively +2,757 mil. yen due to growth in finance and credit card services

| Ordinary profit: | Results | 10,012 mil. yen | YoY change | +3,548 mil. yen |
|---|---|---|---|---|

- Effective YoY change +1,256 mil. yen
- TTC: Profit effectively rose, with the adverse effect of an unprofitable project more than offset by increases in projects at government and public offices and in the private sector (up 505 mil. yen).
- ITS: Profit effectively rose due in part to growth in finance and credit card services (up 755 mil. yen).

| Profit: | Results | 7,788 mil. yen | YoY change | +3,647 mil. yen |
|---|---|---|---|---|

- Effective YoY change +2,082 mil. yen
- Sales of cross-held shares and shares in a subsidiary (UBS Co. Ltd.)





First, let me give you an overview of the overall picture of the second quarter results.

FY2022 is the second year of the Medium-Term Management Plan 2023（MP2023）. This first-half financial result is just the half-way point. We have maintained strong performance continuing from the first year, and sales, ordinary income, and operating income all reached record highs in the first half of the fiscal year.

Details are shown on page 27, but in this fiscal year, due to the change in accounting standards, sales and revenues have been recorded earlier in the first half of the year than in the past, making comparisons with past trends difficult. Therefore, today, I will explain using the old standard, that is, the actual basis, which is not affected by the change in accounting standards.

First, consolidated net sales were JPY68.2 billion, up JPY15.9 billion from the same period last year, and JPY57 billion, up JPY4.7 billion in actual basis. Think tank and consulting services (TTC) had large projects including AI simulations and advanced ICT projects for government agencies, while IT services (ITS) were driven by financial and credit card services, both segments reporting an increase in revenues.

Ordinary income exceeded JPY10 billion for the first time in the first half. Even in actual basis, this is the highest profit ever. TTC offset the impact of unprofitable projects with an increase in profit, increasing profit by JPY0.5 billion in actual basis. ITS increased profit by JPY750 million due to the growth in finance and cards. Net income is JPY7.78 billion, an increase of JPY3.64 billion from the

same period last year. The increase of JPY2.08 billion in actual basis includes the effect of increased income from the sale of cross shareholdings and shares in subsidiaries.

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# 1H Consolidated Results <YoY>

## [Including the effect of accounting standard change]

- Sales and profit rose significantly, reflecting the advanced posting of net sales due to the change in accounting standard and sales primarily from projects at government and public offices and in the private sector.
- See the next page (p.5) for a comparison based on the previous accounting standard.

(mil. yen)

| | FY2021/9 1H (Oct.-Mar.) | FY2022/9 1H (Oct.-Mar.) | YoY | |
|---|---|---|---|---|
| | | | Amount | Rate |
| Net sales | 52,328 | 68,265 | +15,937 | +30.5% |
| Gross profit | 14,100 | 17,670 | +3,570 | +25.3% |
| Gross profit margin | 26.9% | 25.9% | -1.0P | |
| SG&A expenses | 7,974 | 8,356 | +381 | +4.8% |
| Operating profit | 6,126 | 9,314 | +3,188 | +52.1% |
| Operating profit margin | 11.7% | 13.6% | +1.9P | |
| Ordinary profit | 6,464 | 10,012 | +3,548 | +54.9% |
| Profit attributable to owners of parent | 4,141 | 7,788 | +3,647 | +88.1% |
| Basic earnings per share (yen) | 254.81 | 480.03 | +225.22 | |





Page 4 shows a consolidated income statement of what I just explained.

# Consolidated Results <YoY>

## [Comparison under the previous accounting standard]

- Profit (operating profit) hit a record high for the first half of a fiscal year under the previous accounting standard (excluding the effect the accounting standard change).
- Profit attributable to owners of parent effectively increased YoY due to extraordinary income from sales of cross-held shares and sale of a subsidiary.

(mil. yen)

| | FY2021/9 1H (Oct.-Mar.) | FY2022/9 1H (Oct.-Mar.) | | | Effective YoY | |
|---|---|---|---|---|---|---|
| | | Actual result (new standard) | Effect of the standard change | Effective result (previous standard) | Effective amount | Effective rate |
| Net sales | 52,328 | 68,265 | +11,171 | 57,094 | +4,766 | +9.1% |
| Gross profit | 14,100 | 17,670 | +2,291 | 15,379 | +1,278 | +9.1% |
| Gross profit margin | 26.9% | 25.9% | – | 26.9% | -0.0P | |
| SG&A expenses | 7,974 | 8,356 | 0 | 8,356 | +381 | +4.8% |
| Operating profit | 6,126 | 9,314 | +2,291 | 7,022 | +896 | +14.6% |
| Operating profit margin | 11.7% | 13.6% | – | 12.3% | +0.6P | |
| Ordinary profit | 6,464 | 10,012 | +2,291 | 7,720 | +1,256 | +19.4% |
| Profit attributable to owners of parent | 4,141 | 7,788 | +1,564 | 6,223 | +2,082 | +50.3% |
| Basic earnings per share (yen) | 254.81 | 480.03 | – | 383.60 | +128.79 | |



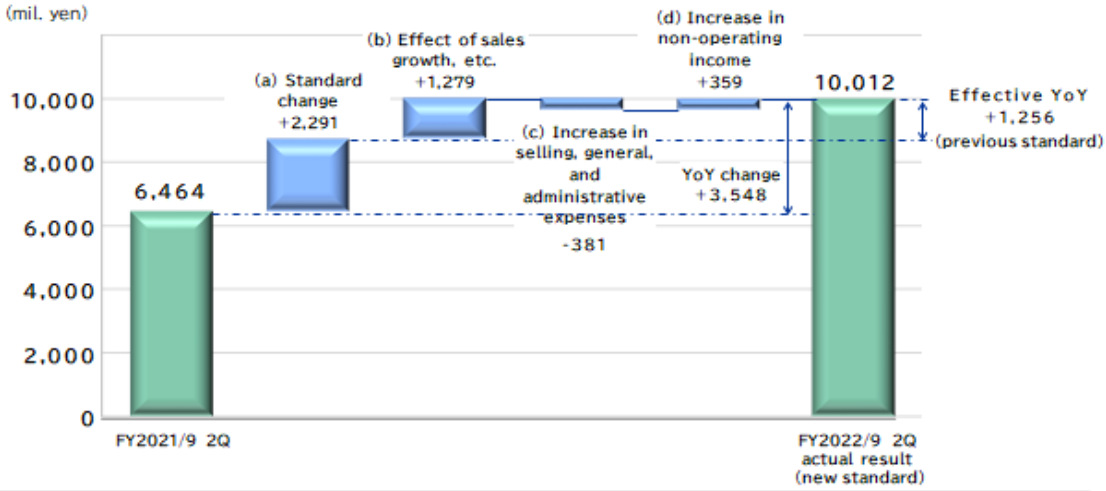


On page 5, we have included both the surface figures and the actual basis figures excluding the impact of the accounting standard change so that you can better understand the actual situation.

The third column from the right is the actual basis figure excluding the effect of the standard change. As mentioned before, sales, operating income, and ordinary income reached record highs in the first half.

## Factors Behind Fluctuation of Ordinary Profit<YoY>

- Compared with an ordinary profit of 6,464 mil. yen in FY2021/9 2Q, ordinary profit was 10,012 mil. yen, a record high, in FY2022/9 2Q due to the effect of the accounting standard change (a) and the effect of a rise in sales, etc. (b).
- An increase in SG&A expenses (c) was almost offset by non-operating income (share of profit of entities accounted for using equity method) (d).
- Effective YoY ((b) + (c) + (d)) excluding the effect of the accounting standard change(a) was +1,256 mil. yen.








Please see page 6. The following chart shows the factors that contribute to the change in ordinary income compared to the same period of the previous fiscal year.

Ordinary income for the second quarter of FY2021 was JPY 6.4 billion. First, (a) is the impact of the change in accounting standards, which is JPY2.2 billion. In addition to this, JPY1.2 billion (b) is added by the effect of increased revenue due to higher sales. On the other hand, the increase in SG&A and other expenses (c) was almost offset by non-operating income (d), mainly due to equity method investment income.

From the above, ordinary income increased by JPY3.5 billion, almost the sum of (a) and (b), to JPY10 billion. Excluding the impact of the change in standards, income increased by JPY1.2 billion in actual basis.

# Think Tank and Consulting Services (TTC)

(mil. yen)

| | FY2021/9 1H (Oct.-Mar.) | FY2022/9 1H (Oct.-Mar.) | | | Effective YoY | |
|---|---|---|---|---|---|---|
| | | Actual result (new standard) | Effect of the standard change | Effective result (previous standard) | Effective amount | Effective rate |
| Net sales | 20,803 | 34,221 | 11,408 | 22,812 | +2,008 | +9.7% |
| Operating profit | 4,009 | 6,337 | 2,131 | 4,205 | +196 | +4.9% |
| Operating profit margin | 19.3% | 18.5% | – | 18.4% | -0.9P | |
| Ordinary profit | 4,265 | 6,902 | 2,131 | 4,770 | +505 | +11.8% |
| Orders received | 28,072 | 25,849 | – | 25,849 | -2,222 | -7.9% |
| Order backlog | 38,364 | 25,211 | -19,487 | 44,699 | +6,334 | +16.5% |

## Key points

- Net sales effectively rose significantly (22,812 mil. yen), driven by large projects in the public sector, including AI simulations, and projects related to advanced ICT.
- Despite a loss recorded in a certain project, ordinary profit hit a record high (4,770 mil. yen) effectively for a first-half period (excl. special factors).
- Orders declined 2,222 mil. yen due to orders for large projects in the previous fiscal year but were still at a high level (25,849 mil. yen).
- Order backlog effectively rose 16.5% YoY. (The YoY decline in the actual value reflects the posting of net sales with the percentage-of-completion method.)





Next, I will explain our performance by segment. First is think tank and consulting services, TTC. This roughly corresponds to the performance of MRI itself.

Excluding the JPY11.4 billion impact of the change in standards in the fourth column from the right, sales in the third column from the right is JPY22.8 billion in actual basis, an increase of JPY2 billion from the same period last year. Excluding the JPY2.1 billion impact of the change in standards, ordinary income is JPY4.77 billion in actual basis, an increase of JPY0.5 billion from the same period last year.

The contribution from DX-related projects, such as government projects, especially societal issue-driven projects and cutting-edge ICT, was significant, and both sales and profits reached record highs in the first half of the fiscal year in actual basis. The order backlog also rose to an extremely high level of JPY44.6 billion, an increase of JPY6.3 billion over the same period last year in real terms.

# IT Services (ITS)

(mil. yen)

| | FY2021/9 1H (Oct.-Mar.) | FY2022/9 1H (Oct.-Mar.) | | | Effective YoY | |
|---|---|---|---|---|---|---|
| | | Actual result (new standard) | Effect of the standard change | Effective result (previous standard) | Effective amount | Effective rate |
| Net sales | 31,524 | 34,044 | -237 | 34,282 | +2,757 | +8.7% |
| Operating profit | 2,114 | 2,979 | 159 | 2, 819 | +705 | +33.3% |
| Operating profit margin | 6.7% | 8.8% | – | 8.2% | +1.5P | |
| Ordinary profit | 2,197 | 3,113 | 159 | 2,953 | +755 | +34.4% |
| Orders received | 36,276 | 37,122 | – | 37,122 | +845 | +2.3% |
| Order backlog | 47,188 | 47,245 | -2,914 | 50,159 | +2,971 | +6.3% |

## Key points

- Growth in the finance and credit card business resulted in an effective rise in both sales (+2,757 mil. yen) and profit (+755 mil. yen) were record-high for the first half of a fiscal year.
- Net sales and operating profit margin (8% range) improved, reflecting an increase in highly profitable projects.
- Both orders received and the order backlog were driven by finance and credit card services, resulting in effective YoY growth.





Next is IT Services, ITS. This is generally the performance of the Mitsubishi Research Institute DCS Group.

Compared to the TTC, the impact of the standard change is minor. Net sales increased JPY2.75 billion to JPY34.2 billion on YoY actual basis, and ordinary income increased JPY750 million to JPY2.95 billion, also on YoY actual basis.

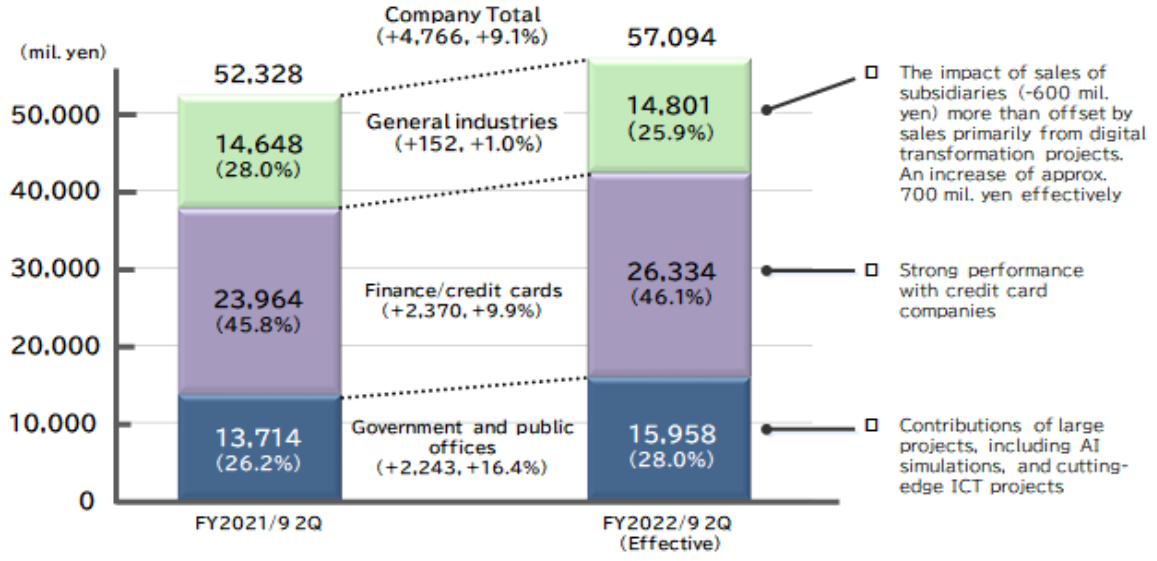
Sales and profits are record highs in actual basis as well, thanks to the significant contribution of the finance and credit card sectors. The profit margin, one of the challenges in this segment, also improved to the 8% level in the first half of the year.

Orders have also been steadily increasing, especially in the financial and credit card fields. The order backlog is JPY50.1 billion on actual basis, an increase of JPY2.9 billion from the same period last year.

# Net Sales by Industry of Customer

## <YoY/previous accounting standard>

- Net sales were driven by Government and public offices, in which sales increased 16.4%, or 2,243 mil. yen, and Finance/credit cards, in which sales rose 9.9%, or 2,370 mil. yen.
- See the next page (page 10) for the actual values (new standard).








Page 9 shows sales by customer industry category.

While there is a large increase in the government and financial/credit card sectors, general industry increased only 1%. Excluding the impact of the decrease in revenue due to the sale of a subsidiary, the increase is about JPY700 million, or about 5%.

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

(mil. yen)

| | | (Breakdown of results in the figure on the previous page 9) | | | | (Actual values under the new standard) | |
|---|---|---|---|---|---|---|---|
| | | FY2021/9 2Q | FY2022/9 2Q (effective) (previous standard) | Effective YoY | | <Reference> | |
| | | | | Effective amount | Effective rate | FY2022/9 2Q (actual/new standard) | Effect of the standard change |
| TTC | Government and public offices | 13,399 | 15,511 | +2,112 | +15.8% | 26,618 | 11,107 |
| | Finance/credit cards | 2,212 | 2,086 | -126 | -5.7% | 2,125 | 39 |
| | General industries | 5,191 | 5,214 | +22 | +0.4% | 5,476 | 262 |
| | TTC total | 20,803 | 22,812 | +2,008 | +9.7% | 34,221 | 11,408 |
| ITS | Government and public offices | 315 | 447 | +131 | +41.7% | 447 | — |
| | Finance/credit cards | 21,751 | 24,248 | +2,496 | +11.5% | 24,432 | 184 |
| | General industries | 9,456 | 9,586 | +129 | +1.4% | 9,164 | -421 |
| | ITS total | 31,524 | 34,282 | +2,757 | +8.7% | 34,044 | -237 |
| Total | | 52,328 | 57,094 | +4,766 | +9.1% | 68,265 | 11,171 |

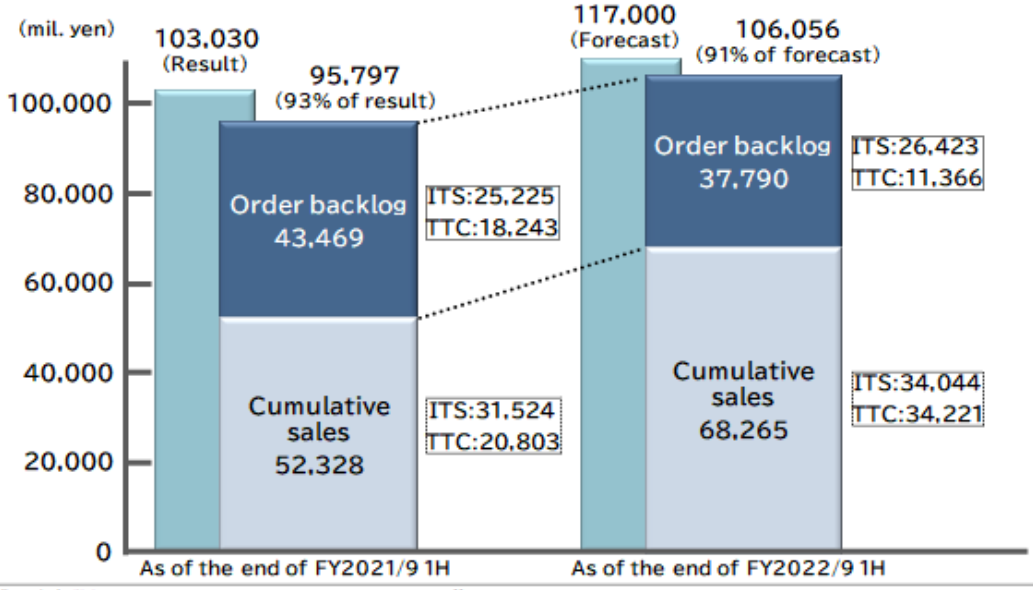




Page 10 shows sales by customer industry segment broken down by segment, along with the impact of the change in standards.

# Order Backlog (net sales for FY2022/9)

- 91% of FY2022/9 forecast (orders received to be sold in FY2022/9 and cumulative sales)
- Progress is less than the year-earlier level. Sales recognized by the percentage of completion method from projects that orders will be received for in the second half which will be completed in the next fiscal year will be added.








Please see page 11. This figure is the sum of first-half sales and the backlog of orders scheduled to be sold during the current fiscal year.

As we will explain later, the progress rate is 91% against the upwardly revised forecast of JPY117 billion in consolidated net sales for the current fiscal year.

Although this is lower than the 93% progress rate of the first half of the previous year, we understand that this is largely due to the impact of the change in standards and that orders are on track to achieve the earnings forecast.

# FY2022/9 Full Year Forecasts

## Full-year earnings forecast was revised upward.

- Both net sales and profit were strong in the first half. Orders were steadily accumulated.
- Full-year earnings forecast revised upward for both sales (up 4,000 mil. yen) and profit (up 500 mil. yen ) (p.14)

## The dividend forecast is revised upward.

- Due to the upward revision of the full-year forecast, the year-end dividend forecast is revised up 5 yen, to 65 yen. (The annual dividend forecast is 125 yen.) (p.15)





Next, we present our forecast for FY2022.

As I have just explained, first-half results have been record highs in terms of both sales and profits, and orders have been steadily increasing. In light of this, we have revised our full-year results upward by JPY4 billion in sales and JPY500 million in operating income and ordinary income. We also raise our year-end dividend forecast by JPY5.

# FY2022/9 Full Year Forecasts (Revised from the initial forecast)

(mil. yen)

| | FY2021/9 (Results) | FY2022/9 (Initial forecast) | FY2022/9 (Forecast) (After Revision) | Amount of the revision | YoY | |
|---|---|---|---|---|---|---|
| | | | | | Amount | Rate |
| Net sales | 103,030 | 113,000 | 117, 000 | +4,000 | +13, 969 | +13.6% |
| Think tank and consulting services | 40,376 | 44,000 | 48,000 | +4,000 | +7,623 | +18.9% |
| IT services | 62,653 | 69,000 | 69,000 | — | +6,346 | +10.1% |
| Operating profit | 6,853 | 7,200 | 7,700 | +500 | +846 | +12.3% |
| Operating profit margin | 6.7% | 6.4% | 6.6% | +0.2P | -0.1P | |
| Ordinary profit | 7,568 | 8,200 | 8,700 | +500 | +1,131 | +14.9% |
| Think tank and consulting services | 4,197 | 4,000 | 4,300 | +300 | +102 | +2.4% |
| IT services | 3,361 | 4,200 | 4,400 | +200 | +1,038 | +30.9% |
| Profit attributable to owners of parent | 5,009 | 5,500 | 6,400 | +900 | +1,390 | +27.8% |
| Basic earnings per share (yen) | 308.60 | 339.26 | 394.14 | +54.88 | +85.54 | |





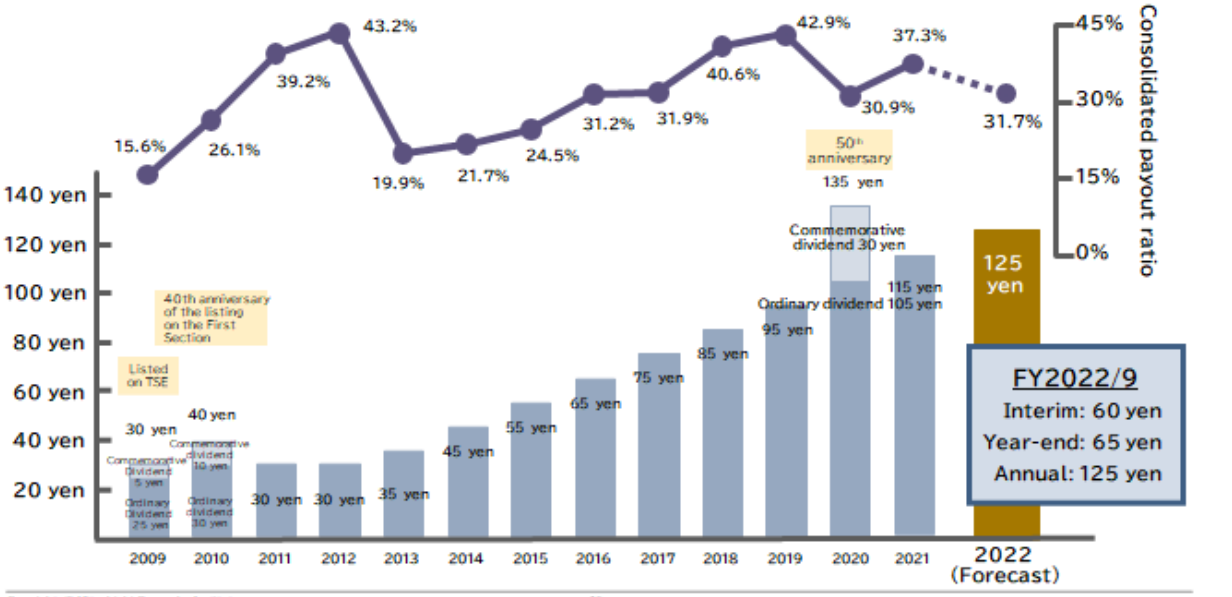
Page 14 is a table of what I just described.

# Dividends

**Dividend Policy**

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

(Note) The year-end dividend forecast is revised up 5 yen. The annual dividend will be 125 yen.








Next is the dividend forecast.

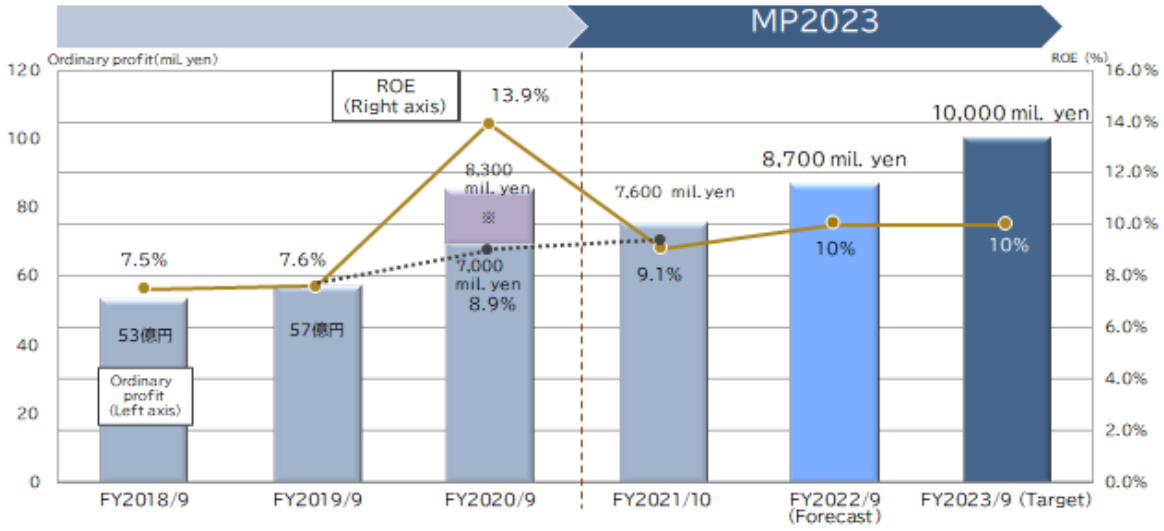
It has been our policy to strive to raise the level of dividends while comprehensively taking into account the balance of business performance and financial soundness, based on the principle of continuous stable dividends.

In accordance with this policy, as explained earlier, the interim dividend is JPY60, and the year-end dividend forecast has been raised by JPY5 to JPY65 for an annual dividend forecast of JPY125. The dividend payout ratio is expected to be 31.7%. The dividend payout ratio excluding extraordinary income is 36.1%.

# MP2023 Financial Targets

- Targets for FY2023/9:

| | |
|---|---|
| Ordinary profit | 10,000 mil. yen |
| ROE | 10% |
| CAGR | 12% (ordinary profit; excl. special factors in FY2020) |








Page 16 shows the revised forecast for the current fiscal year, along with the target figures of the MP2023.

We will continue to aim to achieve ordinary income of JPY10 billion and ROE of 10% in the final year of the plan.

# Midterm summary for FY2022/9 and MP2023

## (1) Summary for FY2022/9

Core businesses

- TTC: Government and public offices (large projects, security, digital) and Private sector (finance, energy) grew.
  The impact of an unprofitable project was offset.
  Office transformation and the development of internal infrastructure are almost completed. Expenses were curbed.
- ITS: Driven by card projects and large SI projects

Growth businesses

- TTC: Region Ring (local digital currency) and other concrete cases developed.
- ITS: Developed projects in the private sector in cooperation with MD.

## (2) Midterm summary for MP2023 (Medium-term Management Plan 2023)

- Developed Core Businesses under three major policies: VCP(Value Creation Process) management, consolidated/consolidation management, and management under the "new normal."
- Core Businesses and growth businesses made progress. Meanwhile, challenges materialized.
  - Lack of human resources for the business portfolio
  - Accelerating business transformation
- Investment for growth is necessary to address challenges (p. 18)





Page 17 is a brief summary of the report. In this first half of the year, steady progress was made in both the foundation and growth businesses that were initially set up.

The driving forces behind our performance were all of the Group's core businesses, including government, finance, and credit card services, but the contribution of AI simulation, security, cutting-edge ICT, and digital domain projects was significant in the government sector. In the private sector, projects in line with the areas targeted in the MP2023, such as financial and energy projects, have been playing a leading role, and we think the transfer in portfolio of projects is steadily progressing.

In the area of growth business, concrete examples, such as digital local currencies, are being developed, and the results of MRI-DCS collaboration are steadily beginning to be seen in the public and private sectors in the field of DX.

In summary of the progress of the MP2023, we see progress in building a foundation in line with the so-called three major policies:

1) VCP (Value Creation Process) management, which takes societal issues as its starting point and aims to solve them through business and to be involved in their implementation;

2) Consolidated management, which aims to expand and deepen cooperation with various companies centering on IT in addition to the two core Group companies, MRI and DCS;

3) New normal management, which is focused on the post-COVID-19 era.

On the other hand, challenges have also become apparent as the business side has progressed. In particular, we recognize that the lack of human resources for our business portfolio and the acceleration of business transformation are major challenges.

To address these challenges and accelerate growth, we believe it is necessary to strengthen our investment in growth.

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## Growth Investment Policy

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

| Investment in growth | Specific measures | Example initiatives |
|---|---|---|
| (1) Human Resources | ➢ Hiring more people (increasing 210 people by FY2023)<br>➢ Doubling opportunities for career development, optimal placement<br>➢ Transferring more human resources to partners for cultivating them | ・Diversification of recruitment methods<br>・Establishing the Company's own human resources development model<br>・Dispatching to venture capital |
| (2) Research and Recommendations | ➢ Joint research and recommendations with research institutions in Japan and overseas (Macroeconomics, next-generation communications after 5G, etc.)<br>➢ Personnel exchange, visiting members | ・Partners (including expected ones)<br>・Chatham House (UK)<br>・CEPS (Belgium)<br>・Georgetown university (USA)<br>・University of Tokyo, Osaka University |
| (3) R&D | ➢ Development and demonstration of applications<br>➢ Development and demonstration of AI engines<br>➢ Medium, large capital expenditures | ・Local digital currency (>page 22)<br>・AI and big data analysis<br>・Renovations of data centers |
| (4) Business Foundations | ➢ Expanding foundations and partners in digital transformation and social implementation<br>➢ Strategic investment in focus areas (investment, JV, M&A, etc.)<br>➢ Expanding Venture Businesses and Venture Capitals investment (establishing a dedicated organization) | ・Establishes an operation and capital alliance with French ForePaaS SAS<br>・Capital and business alliance with Nextremer, an AI venture |





Page 18 presents our approach to growth investment.

In order to realize the business plan set forth in the MP2023 and to achieve sustainable growth in the next medium-term business plan, we plan to invest the cash accumulated and generated from our business in the four areas shown in the table.

The first (①), human capital, is our greatest resource, an asset that is the source of the Group's growth. We believe that resolving the shortage of necessary human resources is our top priority and will take measures to strengthen recruitment, double the number of career development opportunities, and expand business opportunities through training secondments to our partners.

The second investment (②) in research and recommendations activities is one of the three major policies of the MP2023, which is to strengthen activities that serve as the starting point of the VCP management. We plan to actively promote joint research and proposals and exchange of human resources with domestic and international research institutions and universities, specifically the organizations listed on the right side of the table.

The third (③), R&D investment, is expected to be for medium to large facilities, such as applications and AI engines for so-called new business development and data centers.

The fourth (④) is business infrastructure investment, which aims to accelerate growth businesses, such as DX business and social implementation business, by executing strategic investments that utilize capital, such as equity participation, establishment of Joint Ventures, and M&A.

In April, we established a dedicated Corporate Venture Office and are further focusing on collaboration with venture businesses and venture capitalists.

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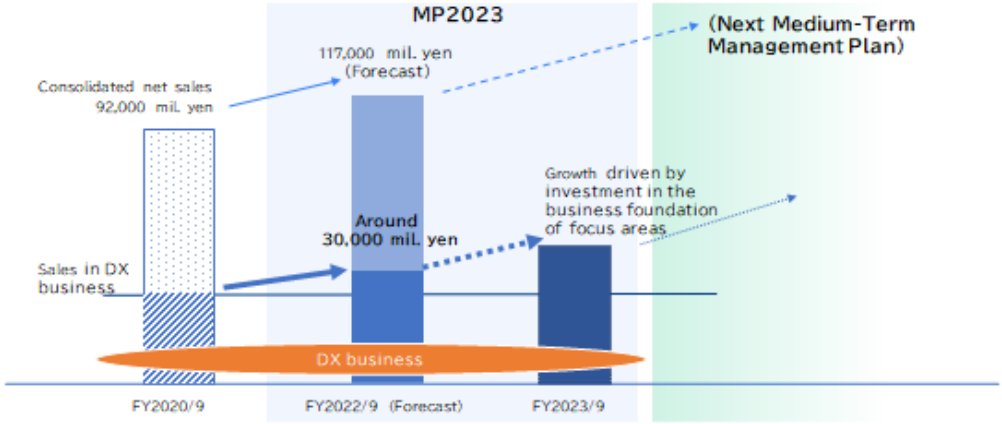
## Growth Driven by Digital Transformation Business

- Sales of the digital transformation business are expected to grow to approximately 30,000 mil. yen in the fiscal year under review (profit margin will be around 15%).
- Growth investment primarily in focus areas where the Group can take advantage of its strengths




➢ **Examples of priority areas**

- ◆Digital transformation in production and distribution: decarbonization in the entire supply chain, smart factories, smart distribution
- ◆Accompanying-type support for digital transformation overall: IoT, digital transformation using high volume, high speed communication (5G·6G)
- ◆Management emphasizing data, support for AI use: a big data analysis platform for an entire process





Page 19 shows the scale and areas of focus on a consolidated basis for the DX business, which is a pillar of growth.

The combined sales of MRI and DCS are expected to reach a level exceeding JPY30 billion this fiscal year. Profit margins are at a high level of approximately 15%. From the second half of this MP2023 to the next midterm business plan, we will invest in growth investments as explained on the previous page, focusing on priority areas where we can leverage the Group's strengths and incorporate market growth into the Group's growth.

Examples of priority areas to be covered include manufacturing and logistics DX and big data analysis, as shown at the bottom of the page 19.

A business presentation focusing on the DX business is scheduled to be held by the end of June. At that time, we plan to further elaborate and explain today's content. We look forward to your participation.

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# Promoting Sustainability Management

- Aim to achieve sustainability management, which MRI has been pursuing, both in name and reality and advance it
- Disclose more information as a company listed on to the Prime Market

## (1) Formulating a sustainability management policy

- Create an abundant and sustainable world in the coming era, with a global population of 10 billion and lifespans of 100 years, and achieve sustainable growth for the Group
- Create a sustainability page of the official website

## (2) Defining material issues related to sustainability

- Define six material issues (p. 22)

## (3) Disclosing information in compliance with the TCFD recommendations

- Can expand business opportunities, which will more than offset climate change risk, by helping examine policies related to carbon neutrality and expanding consulting to private companies (scenario analysis)
- Conduct scenario analysis etc. to achieve carbon neutrality in 2050 and disclose the results of the analysis
  ⇒Sustainability page of MRI's official website (climate change, disclosure of environmental information (TCFD))
  <https://www.mri.co.jp/sustainability/environment/tcfd.html>





Finally, we would like to introduce some topics in the first half of the year.

First is the promotion of sustainability management. In our group, I took the opportunity of the transition to the prime market in Tokyo Stock Exchange this past April to be appointed to the position of Chief Sustainability Officer and clarified our basic policy and promotion system.

Please refer to the website for more details, but we have implemented climate change responses and environmental disclosures in line with the materiality and TCFD (Task Force on Climate-related Financial Disclosures).

# MRI Group Material Issues

| Material Issues | | Examples of MRI Group initiatives | |
|---|---|---|---|
| Building a prosperous and sustainable world through business | **Individual wellbeing**<br>Ensuring health, self-fulfillment, and connection | •Healthcare business<br>•Human resources business<br>•Urban mobility business (e.g. MaaS) | •Research & consulting business<br>•Research & recommendations business<br>•Subscription -based business |
| | **Societal sustainability**<br>Ensuring safety, security, and global sustainability | •Finance & credit card business<br>•ICT business<br>•Energy and recycling business<br>•Food and agriculture business<br>•Resilience business | |
| | **Technology transforming society**<br>Societal implementation of innovative technologies, transformation of companies and society | •DX business<br>•Research into cutting-edge technologies<br>•Focused development of societal implementation business | |
| Sustainable growth of the Group | **Human infrastructure**<br>Sustainable improvement of our people and the organization | •Securing professionals, human resources development<br>•Work-life balance, health and productivity management<br>•Diversity and inclusion | |
| | **Knowledge and co-creation infrastructure**<br>Utilizing the value of collective knowledge and our co-creation infrastructure | •Research and recommendation activities, accumulation of intellectual property<br>•Customer and business partner network formulation<br>•Group management | |
| | **Societal trust infrastructure**<br>Maintaining and improving societal trust in the Group | •Risk management and information security<br>•Corporate governance<br>•MRI Group decarbonization initiatives | |





Page 22 is our disclosed materiality table.

In the future, through the PDCA cycle, we will further enhance these contents and practice sustainability management at a high level.

Mitsubishi Research Institute

# 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 SDG activities
- Points for the Otemachi, Marunouchi, and Yurakucho (Dai-Maru-Yu) areas: promoting SDG activities
- Kinsyachi 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 issues**

- A total of 21,800 mil. yen (paper, electronic) (electronic money, certificates, etc. of 8,500 mil. yen)

RegionRing®





On page 23, you will find our digital local currency services.

Based on the results of our research and development, we have launched our services and are finally at the stage of accumulating various achievements. The service is called as Region Ring which reflects our belief that the local currency mechanism can be effective in boosting local revitalization, SDGs, and other initiatives.

Last Monday, we issued a press release announcing that our platform has been selected for Kin Shachi Money, an electronic gift certificate program in Nagoya City, Japan, which is expected to be the largest of its kind in Japan, with an issue amount of JPY21.8 billion. We are also actively collaborating with outside parties to advance DX and other businesses.

DX business

# Expansion of Partnerships Related to Digital Transformation and ICT

## MRI Joins Forces with France-Based OVHcloud (News Release on April 22, 2022)

<Overview>

- MRI has formed an alliance with Europe's largest cloud services provider.
- Has agreed on cooperation in data analysis field in the Japanese market.
- Aims to promote digital transformation in the Asia-Pacific region.

<Background>

- France-based ForePaaS, with which MRI formed a capital and business alliance, was acquired by OVHcloud. Subsequently MRI expanded collaboration.
- OVHcloud provides cloud services to 1.6 million customers in 140 countries.

## MRI Starts Consulting Using Service of US-based SecurityScorecard, Inc. (New Release on April 11, 2022)

<Overview>

- MRI has started consulting using SecurityScorecard, a security risk qualitative assessment service of SecurityScorecard, Inc.
- Helps companies identify supply chain risks and establish a supply chain risk management system.
- Aims to promote digital transformation in the Asia-Pacific region.

<Background>

- SecurityScorecard analyses on its own corporate security information worldwide gathered through the Internet and evaluates risk status quantitatively on a 100-point scale.





On page 24, we present the two cases we have released since the beginning of April.

The partnerships are with OVHcloud, Europe's largest cloud services provider, and with SecurityScorecard, a US security risk services company. Both of these projects aim to introduce cutting-edge overseas services and technologies to the Japanese market, with the eventual goal of promoting DX in the Asia-Pacific region.

# Topics: Recent News Releases

【MRI】

(Note) All releases below are only in Japanese except for certain releases.

| Date | | Title |
|---|---|---|
| 2022.4.27 | DX | MRI Provides an SDGs Point App to Dai-Maru-Yu SDGs ACT5 as in the Previous Fiscal Year<br>Enhances the functionality of Region Ring®, a local digital currency service for solving local issues |
| 2022.4.26 | Over seas | Mitsubishi Research Institute and SIRC Sign MoU to transform waste recycling sector in Saudi Arabia<br>(Note) An English-language release is available. |
| 2022.4.25 | DX | MRI Provides Region Ring®, a Local Digital Currency Service for Solving Local Issues, for the First Electronic Gift Certificate in Nagoya<br>Starts to accept applications to purchase kinsyachi money—electronic gift certificates, the amount of which is one of the largest in Japan—on April 27 |
| 2022.4.22 | DX | Mitsubishi Research Institute Joins Forces with France-Based OVHcloud<br>(Note) An English-language release is available. |
| 2022.4.11 | DX | MRI Starts a Consulting Service to Help Strengthen the Security of Supply Chains |
| 2022.4.7 | DX | MRI Launches HACCP Navi Smart Audits and Inspections<br>Achieves at the same time the efficiency and sophistication of plant audits and inspections carried out manually, using digital transformation |
| 2022.4.1 | DX | MRI Agrees with Japan Worker's Credit Fund Association on the Introduction of an AI Credit Assessment Service<br>Expands Web-completion type credit assessment using automatic AI assessment |
| 2022.3.24 | DX | MRI Concludes a Basic Agreement with Resona Holdings on a Local Digital Currency<br>Examines a joint project for local revitalization in Osaka |
| 2022.3.14 | DX | MRI Publishes the Results of a Demonstration Experiment to Take SDG Action in the Dai-Maru-Yu Area |
| 2022.3.1 | DX | MRI Conducts a Demonstration Experiment of an Unmanned Ship Operation System in an Unmanned Ship Project, MEGURI2040, in Which It Participates |

# Topics: Recent News Releases

【DCS】 ※All releases below are only in Japanese

| Date | | Title |
|---|---|---|
| 2022.4.18 | DX | MRI DCS unveils a free Web service to immediately assess points necessary for zero trust<br>Supports companies' zero trust initiatives |
| 2022.3.28 | DX | MRI DCS Participates in Open Data Hackathon Demo Day<br>Wins the grand prize as a digital service using Tokyo's open data |
| 2022.3.17 | DX | Takaishi, Osaka and MRI DCS Conclude a Comprehensive Partnership Agreement for Local Revitalization Using ICT |
| 2022.3.14 | DX | A Report on a Demonstration Experiment to Use AI to Reproduce Technical Skills That Are Difficult to Pass Down to the Younger Generation<br>Cooperates with Nakajima Alloy Castings, a manufacturer specializing in non-ferrous-metal sand casting |





On pages 25 and 26, we introduce our company and our group's initiatives released during this period, including those mentioned above, with a focus on DX-related activities.

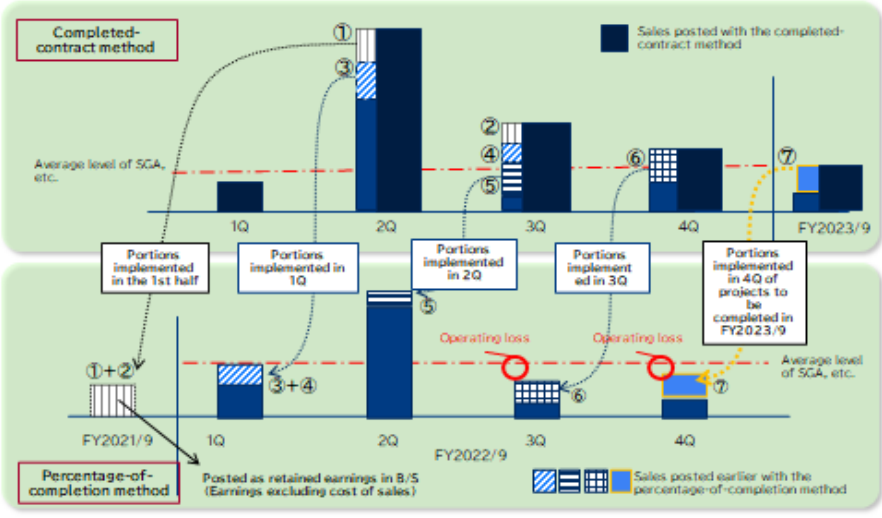
Mitsubishi Research Institute

# Reference) Effect of the accounting standard change on sales and profit (for illustration purposes only)

- Under the new standard, net sales, which used to be posted in a lump sum at the time of completion, are posted over the period of implementation.
  --> **Sales posted earlier than before (① to ⑦)**
- Usually, there are many projects, mainly for government and public offices, in which orders are received in 3Q and the delivery date is set in 2Q of the following year.
  **⇒An increase of 11,100 mil. yen in the first half (7,500 mil. yen in 1Q and 3,600 mil. yen in 2Q) ((3) to (5)) ⇒ Sales that had been posted in the second half were posted earlier.**

- In the second half, implemented portions of projects in which orders were received in the second half and which will be completed in the following fiscal year are reflected in sales. (Posting front-loaded from the next fiscal year to the second half of the current fiscal year: ⑥ and ⑦)
  --> Depending on when the orders were received and how much progress has been made, the amount of sales may be too small to cover SGA, etc., which are generated almost equally every quarter.
  = Operating loss expected
  (As described on p. 3 of the Consolidated Financial Results in 1Q)
- Fluctuates according to trends in orders received during the fiscal year

Note: The figure is only to illustration the effect of application of the Accounting Standard for Revenue Recognition. The figures are not the official forecasts of net sales in the respective quarters of the current fiscal year.








The explanation on page 27 is an illustration of the impact of the accounting standard change for reference.

Since there are some technical aspects, please do not hesitate to contact with Investor Relations Office later if you have any questions.

This concludes my presentation. Thank you for your attention.

## Question & Answer

**A:** Two questions. First, your revised plan does not change your view that the second half of the year will be in deficit. Please let us know if there are any changes in your view of the second half of the fiscal year from that at the beginning of the fiscal year.

Second, what is the background behind ITS's plan for a significant decrease in the ordinary profit margin in the second half of the year compared to the first half?

**Answer:** First, this is common for the first and second points, as you know, that sales are relatively concentrated in the first half of the year, and the second half of the year is a time when we activate the order activity to meet those sales based on our business details.

Therefore, sales and earnings tend to be concentrated on the first half of the year, and this change in standards has had a greater impact on this trend. This is one of the reasons why overall performance in the second half of the year looks considerably weaker than in the first half.

Orders have been received relatively steadily, as we had expected when we initially formulated our plan for the current fiscal year, so there has been no particular change in our view of the second half performance from our initial assumptions. We hope you understand that we are seeing a larger deficit in the second half of the year, mainly due to the change in standards.

The second point, for ITS, the DCS Group is at the center of the business, but the profit margin is high in the first half of the year and low in the second half, which has been the trend in past years. In the first half of the year, we managed to record a profit margin in the 8% range, but in the second half of the year, compared to the previous year, the profit margin improved, but it was still considerably lower than in the first half.

We have made some changes in the second half of this fiscal year compared to the beginning of the fiscal year, including a slight increase in investment for growth compared to the original plan, including in the area of personnel recruitment and R&D investment.

Also, some of the costs that were expected in the first half of the year have been shifted to the second half of the year. Although there are some changes in this area, we have not made any major changes to our second half forecasts for both MRI and DCS.

**B:** What kind of projects have led you to revise upward in terms of sales and profit in the Company's plan for FY2022? We understand that the profit margin is strong enough to rebound from the unprofitable project with a JPY800-million scale in the first quarter, so please explain as much as possible.

**Answer:** Through the first and second quarters, we have received several large orders from public agencies, mainly in the fields of DX, security, etc.

In the private sector, we have also been able to obtain relatively high-margin projects in the DX and MRI-DCS joint projects, which are recorded as sales. I hope you understand that sales and profits in the first half of the fiscal year increased compared to what we had expected at the beginning of the fiscal year in these areas.

**Answer 2:** There are some projects that span across fiscal years. In this sense, we have been able to work on several hot topics in the private sector as well as in the public sector.

Rather than beating back the allocation on a single project, we have managed to cover it this time with several projects.

In the private sector as well, there has recently been talk of such as carbon neutrality, we have received orders for such services from a variety of sources.

Furthermore, there were some opportunities for us to support our customers in a big way as they are going to develop various businesses in the future, and I hope you understand that we have managed to achieve the current results by actively pursuing some of these opportunities.

**C:** There are two. First, about page 19. If the operating profit margin of the DX business is 15%, the profit margin of the other non-DX businesses is about 3-4% in our calculations. Is it still difficult to improve the low profit margins of these non-DXs? Are there any measures you are currently considering?

Second point. Also about page 19. Is there any possibility that growth investment in priority areas will reduce DX's profit margin, which is currently 15%? Is it possible to maintain it?

**Answer:** First of all, regarding the scale and profit margin of the DX business on page 19, at this point we are only able to present a sense of scale, but we are now preparing to present this in a clearer form at the coming business briefing.

In terms of calculation, if we subtract sales from other areas and subtract this profit, it probably appears to be around as you said, but the management accounting figure is approx. 15%, so there are overlapping areas across various areas. Further, the cost center of corporate is also included in the other areas, so in fact, the other areas are not at the low level of 3% to 4% but rather at a slightly higher level.

However, profit margins vary considerably depending on the business field. We are also working to improve the profit margins of projects and business areas with low profit margins, which we call qualitative reforms. We have been working to increase the profit margin of each of these projects, and at the same time, we have also been taking a selective and concentrated approach, concentrating our resources in areas with higher profit margins in order to increase the overall profit margin.

The DX business is currently at around 15%, but looking at the change over time, it has risen from below 10% to this level, so we believe that we have been able to increase sales in the DX business with a high profit margin in a very efficient manner.

Regarding the second point of growth investment, we would like to maintain a profit margin of around 15% in the DX business. Accordingly, when making growth investments, we will select them by carefully examining their profitability, profit margins, and the level of return that can be achieved. Our strategy is not to pursue the expansion of volume unnecessarily.

**D:** Could you be more specific about your growth investments? For example, how much do you plan to invest in each of these areas?

**Answer:** On page 18, you will see that we will focus on growth investment in these four areas. This is an area that we have always identified as a priority area, but now we have clearly indicated in this way that this is an area that we will focus on in the future.

In terms of each scale, we do not have anything definitive to present at this time, but looking back over the past 10 years or so, cash on hand has increased by about JPY10 billion over the past 10 years due to the accumulation of cash flows that have been generated annually. In addition, we plan to continue to achieve sustainable profit growth and to use this to return profits to shareholders and

increase dividends in a sustainable manner. We are thinking to expect the cash accumulation of about JPY2 billion to JPY3 billion each year.

We intend to invest in these four areas using the cash that we raise and accumulate each year as a source of funds. Investment in human resources, research and recommendations, and R&D investment is something that we accumulate year after year.

Now, the fourth business infrastructure investment is counted as equity, so in addition to inorganic growth, if there are good opportunities, we would like to actively invest within the scope of overall cash as I mentioned earlier, including non-organic investments, if there are good projects.

**Answer 2:** As for the personnel part, when we made our MP2023, we talked about increasing the number of MRI and DCS employees by more than 300 or about 10%. During the past year and a half, we have been actively recruiting, of course, including new graduates and those with business experience. We will continue to recruit for the latter half of MP2023 as well, andt we are thinking of increasing the number of positions by about 210, including MRI and DCS.

Our Group does not hire a large number of people, place them in one project, and then consider how to utilize them in the next project. We would also like to have them grow and become active in a solid field.

However, the scope of the Group's business field is gradually broadening, and in this sense, we would like to finalize our recruitment plan in a way that allows us to recruit a diverse range of human resources and also to capture the growth of DX.

We have been holding recruitment briefings for the MRI Group in the past, but we are now holding recruitment briefings for the entire group, including human resource exchanges, so that we can become an attractive company and attract applicants for employment. And we will also work closely with companies that can introduce us to various resources.

**E:** You explained at the beginning of the fiscal year that you expected office reforms, etc. What is the progress of these reforms? Please let us know if the expenses are being used as planned.

**Answer:** We have already done the reform as planned. The building in Nagatacho, where our head office is located, and two affiliated companies, which are MRA and MBS, in the building next door were integrated into the office.

In addition, with a view to remote work and new ways of working after COVID-19, we decided to utilize the office as a set of remote workspace, and while reducing the number of seats, we also created a communication space and a booth for one person for meetings. The construction was completed by the end of January, and all employees have now started working in the new office.

The cost of the project is almost in line with the plan, but it is slightly lower than the planned cost.

**Answer 2:** While the effective use of space is important, we have also made some changes to the way we think about the office itself.

Naturally, a certain number of workspaces are secured, but this time, as is often the case, the COVID-19 pandemic actually resulted in less than half of the employees coming to work. That is one of the reasons why we have adopted a free address system throughout the company.

In addition, we have created a collaborative workspace in the emptied space for the areas where productivity is difficult to improve without gathering together.

Although MRI does not have many office locations, we will create an environment that will allow us to connect with remote locations, and in this sense, we would like to make effective use of the renewed facility as a base for creative time.

[END]