



*Envisioning the future,  
leading change*

**Mitsubishi Research Institute, Inc.**

Q2 Financial Results Briefing for the Fiscal Year Ended September 2023

April 28, 2023

# Presentation

**Yabuta:** My name is Yabuta, and I am the President. Thank you very much for taking time out of your busy schedules to attend our financial presentation today.



## Summary

- Net sales hit record high for 1H as firm progress toward ordinary profit target was made despite slight year-on-year decline.
- TTC remained firm, and ITS continued with strong sales to the finance/credit card sector services.

<b>Net sales:</b>	<b>Results</b>	<b>73,325 mil. yen</b>	<b>YoY change</b>	<b>+5,059 mil. yen</b>
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- Rose year on year, hitting record high for 1H.
- Think Tank & Consulting Services (TTC): Rose primarily because of large-scale 5G projects.
- IT Services (ITS): Grew due to continuing firm sales to the finance/credit card sector.

<b>Ordinary profit:</b>	<b>Results</b>	<b>9,836 mil. yen</b>	<b>YoY change</b>	<b>-176 mil. yen</b>
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- TTC: Steady progress toward target despite year-on-year decline due to outsourcing expenses, human resource investments for future growth, etc.
- ITS: Historic high for 1H due to growth, particularly of finance and credit card related services (ordinary profit margin exceeded 10%).

<b>Profit:</b>	<b>Results</b>	<b>6,533 mil. yen</b>	<b>YoY change</b>	<b>-1,255 mil. yen</b>
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- Profit declined year on year in the absence of extraordinary income recorded in previous fiscal year (gain on sales of cross-held shares and shares in subsidiary 1,400 mil. yen).

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3

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I would like to explain the financial results for 1H of the fiscal year ending September 2023 and the direction of the next medium-term management plan.

The fiscal year ending September 2023 is the third and final year of Medium-Term Management Plan 2023, and as in the first and second years, the Company has continued to perform well, with record sales in 1H and steady progress, although profits declined slightly.

First, consolidated net sales were JPY73.3 billion, up JPY5 billion YoY. Both segments posted record-high 1H revenue growth, with Think Tank & Consulting Services, or TTC, seeing large public-sector 5G projects, and IT Services, or ITS, driven by the financial and credit card sectors.

Ordinary profit decreased JPY176 million YoY to JPY9.8 billion. Although TTC is on track to meet its full-year forecast, it saw a YoY decrease due to outsourcing expenses and human resource investments for future growth. This was offset by growth in ITS finance and credit

cards, resulting in a slight decrease in consolidated income. ITS recorded its highest ever ordinary profit in 1H and achieved an ordinary profit margin in the 10% range for the first time.

Profit attributable to owners of parent declined to JPY6.5 billion, down JPY1.2 billion YoY in the absence of the extraordinary income recorded in previous fiscal year (gain on sales of investment securities of 1.4 billion yen).

## 1H Consolidated Results <YoY>

(mil. yen)

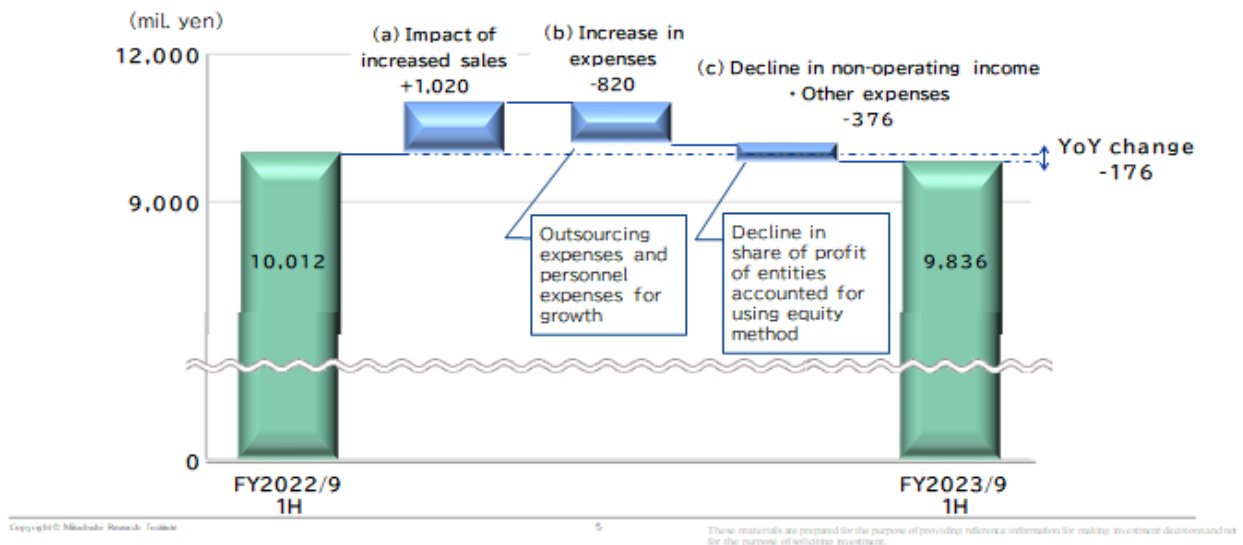
	FY2022/9 1H (Oct.-Mar.)	FY2023/9 1H (Oct.-Mar.)	YoY change	
			Amount	Rate
Net sales	68,265	73,325	+5,059	+7.4%
Gross profit	17,670	17,765	+94	+0.5%
Gross profit margin	25.9%	24.2%	-1.7P	
SG&A expenses	8,356	8,473	+116	+1.4%
Operating profit	9,314	9,291	-22	-0.2%
Operating profit margin	13.6%	12.7%	-0.9P	
Ordinary profit	10,012	9,836	-176	-1.8%
Profit attributable to owners of parent	7,788	6,533	-1,255	-16.1%
Basic earnings per share (yen)	480.03	404.40	-75.63	

Page four is a consolidated profit statement of what I just said.

# Factors Behind Fluctuation of Ordinary Profit

## <YoY>

- Although sales increased (a),
- such expenses as outsourcing expenses and personnel expenses for growth rose (b), and
- non-operating income declined and other expenses rose (c), resulting in ordinary profit of 9,836 mil yen, 176 mil. yen less than the 10,012 mil. yen for 1H FY2022/9.



Please see page five. The graph shows the factors behind the YoY change in ordinary profit.

Ordinary profit for 1H for the fiscal year ended September 30, 2022, was JPY10 billion.

First of all, there is (a), the increase in revenue led to an increase in profit of JPY1 billion.

On the other hand, there is (b), an increase in expenses of about JPY820 million due to an increase in outsourcing expenses for large projects and an increase in personnel costs for growth. Furthermore, there is (c), non-operating income, which was mainly due to a decrease in equity in earnings of affiliates and an increase in other expenses.

As a result of (a), (b) and (c), ordinary profit was reduced by JPY176 million to JPY9.8 billion.

## Think Tank & Consulting Services (TTC)

(mil yen)

	FY2022/9 1H (Oct.-Mar.)	FY2023/9 1H (Oct.-Mar.)	YoY change	
			Amount	Rate
Net sales	34,221	36,236	+2,015	+5.9%
Operating profit	6,337	5,705	-632	-10.0%
Operating profit margin	18.5%	15.7%	-2.8P	
Ordinary profit	6,902	6,102	-799	-11.6%
Orders received	25,849	23,895	-1,954	-7.6%
Order backlog	25,211	22,527	-2,683	-10.6%

### Key points

- Net sales rose chiefly because of large-scale 5G-related demonstration projects.
- Profit fell for such reasons as an increase in outsourcing expenses accompanying large-scale demonstration projects and increase in human resource investments for future growth.
- Orders fell off due to orders for large-scale projects in the previous fiscal year, and many orders were carried forward to the following year.
- While firm progress was made toward targets for the full fiscal year, sales activities will be further strengthened due to orders for large projects in the next fiscal year.

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I would like to explain our business performance by segment.

First is Think Tank & Consulting Services, or TTC. This generally corresponds to the performance of MRI itself.

Net sales were JPY36.2 billion, an increase of JPY2.0 billion YoY. Ordinary profit was JPY6.1 billion, down JPY799 million YoY.

While net sales increased due to government projects, especially large-scale 5G-related demonstration projects, profit decreased due to higher outsourcing expenses and increased human resources investment for future growth.

Orders received and order backlogs fell off JPY1.9 billion and JPY2.6 billion, respectively, YoY. Orders fell off on account of large projects in the previous fiscal year, and the order backlog is due to progress in posting sales, but orders carried over to the next fiscal year are expected to shift into high gear after this.

While firm progress was made toward targets for the full fiscal year, sales activities will be further strengthened with an eye toward next fiscal year.

## IT Services (ITS)

(mil. yen)

	FY2022/9 1H (Oct.-Mar.)	FY2023/9 1H (Oct.-Mar.)	YoY change	
			Amount	Rate
Net sales	34,044	37,088	+3,044	+8.9%
Operating profit	2,979	3,581	+601	+20.2%
Operating profit margin	8.8%	9.7%	+0.9P	
Ordinary profit	3,113	3,728	+615	+19.8%
Orders received	37,122	34,936	-2,186	-5.9%
Order backlog	47,245	44,993	-2,251	-4.8%

### Key points

- Both net sales and profit rose, driven primarily by finance and credit card services.
- Orders received fell as some were brought forward last year, and the order backlog declined as sales were recorded smoothly.
- Earnings remained strong, and efforts will be made to increase orders by strengthening sales activities.

Next is IT services, or ITS. Generally, this is the performance of the Mitsubishi Research Institute DCS Group.

Net sales increased JPY3billion to JPY37 billion and ordinary profit increased JPY615 million to JPY3.7 billion.

Both sales and income increased, driven mainly by the financial and credit card sectors. The ordinary profit margin improved to 10% in 1H of the year.

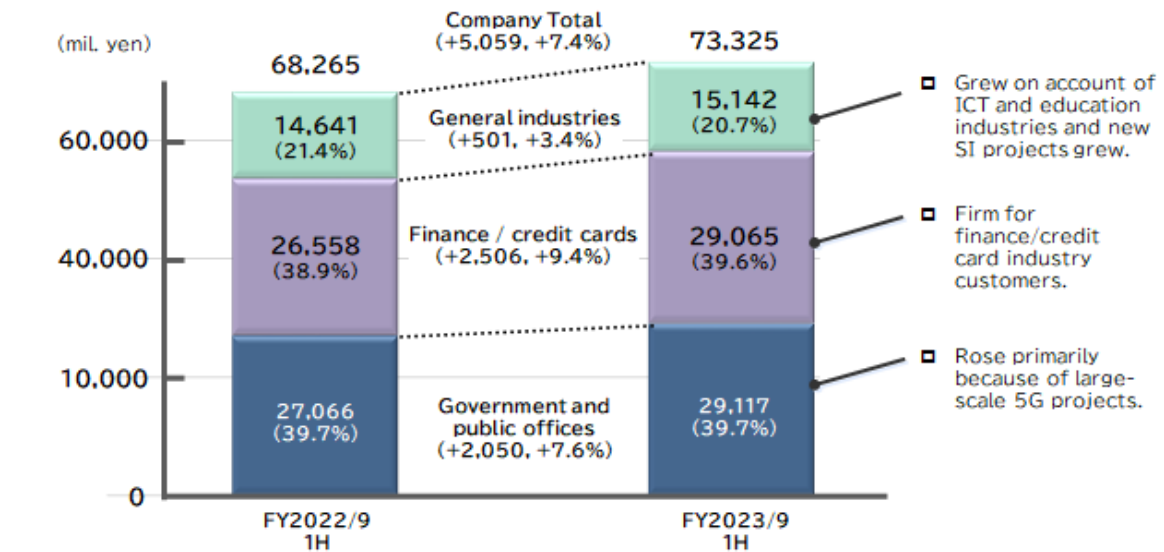
Orders received and order backlogs decreased by JPY2.1 billion and JPY2.2 billion, respectively, YoY.

Orders received fell as some were brought forward last year, and the order backlog declined as sales were recorded.

Progress toward the full-year forecast is on track. We will continue to strengthen sales activities.

## Net Sales by Industry of Customer <YoY>

- Net sales rose year on year for all industries of customers.
- Net sales for finance/credit card industry customers remained firm (+9.4%).
- Government and public offices net sales rose due to large-scale 5G-related projects, etc. (+7.6%).



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Page eight shows sales by segment and industry of customer.

Net sales to the financial/credit card and government sectors increased 9.4% and 7.6%, respectively.

General industry also increased by 3.4%, showing growth in all three client industries.

The growth in the general industrial sector was mainly due to an increase in customers in ICT and education industries while new SI projects grew.

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

(mil. yen)

		FY2022/9 1H (Oct.-Mar.)	FY2023/9 1H (Oct.-Mar.)	YoY change	
				Amount	Rate
T T C	Government and public offices	26,618	28,705	+2,086	+7.8%
	Finance/credit cards	2,125	1,885	-240	-11.3%
	General industries	5,476	5,645	+168	+3.1%
	TTC total	34,221	36,236	+2,015	+5.9%
I T S	Government and public offices	447	411	-35	-8.0%
	Finance/credit cards	24,432	27,179	+2,747	+11.2%
	General industries	9,164	9,497	+332	+3.6%
	ITS total	34,044	37,088	+3,044	+8.9%
Total		68,265	73,325	+5,059	+7.4%

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9

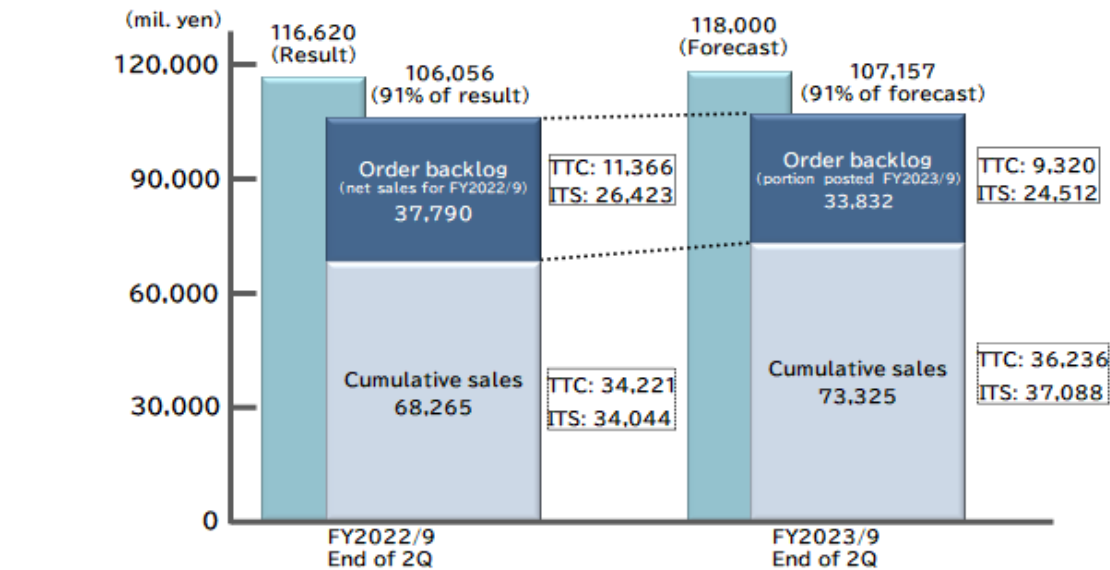
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Page nine shows segment sales broken down by customer industry category.



## Progress: Cumulative net sales + order backlog (portion expected to be posted this fiscal year)

- Progress was around 91% of target for the full fiscal year, about the same as that for 1H of the previous fiscal year.
- Order backlog carried forward was about the same as that for the 1H of the previous fiscal year, and efforts will continue to be made to strengthen sales activities.



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Please see page 10. The chart compares sales in 1H with last year's, supplemented with the order backlog for the planned sales during the period.

Progress was around 91% of JPY118 billion, target for the full fiscal year, about the same as that for 1H of the previous fiscal year.

You can see the structure of the order backlog decreasing in line with the increase in sales.

We will continue to strengthen our sales activities for the next fiscal year.

## FY2023/9 Full Year Forecasts

(no change from initial forecasts)

(mil. yen)

	FY2022/9 (Results)	FY2023/9 (Forecast)	YoY change	
			Amount	Rate
Net sales	116,620	118,000	+1,379	+1.2%
Think Tank & Consulting Services	48,548	46,000	-2,548	-5.3%
IT Services	68,072	72,000	+3,927	+5.8%
Operating profit	9,165	9,300	+134	+1.5%
Operating profit margin	7.9%	7.9%	+0.0P	
Ordinary profit	10,493	10,600	+106	+1.0%
Think Tank & Consulting Services	5,190	4,900	-290	-5.6%
IT Services	5,301	5,700	+398	+7.5%
Profit attributable to owners of parent	7,707	6,500	-1,207	-15.7%
Basic earnings per share (yen)	474.67	399.99	-74.68	

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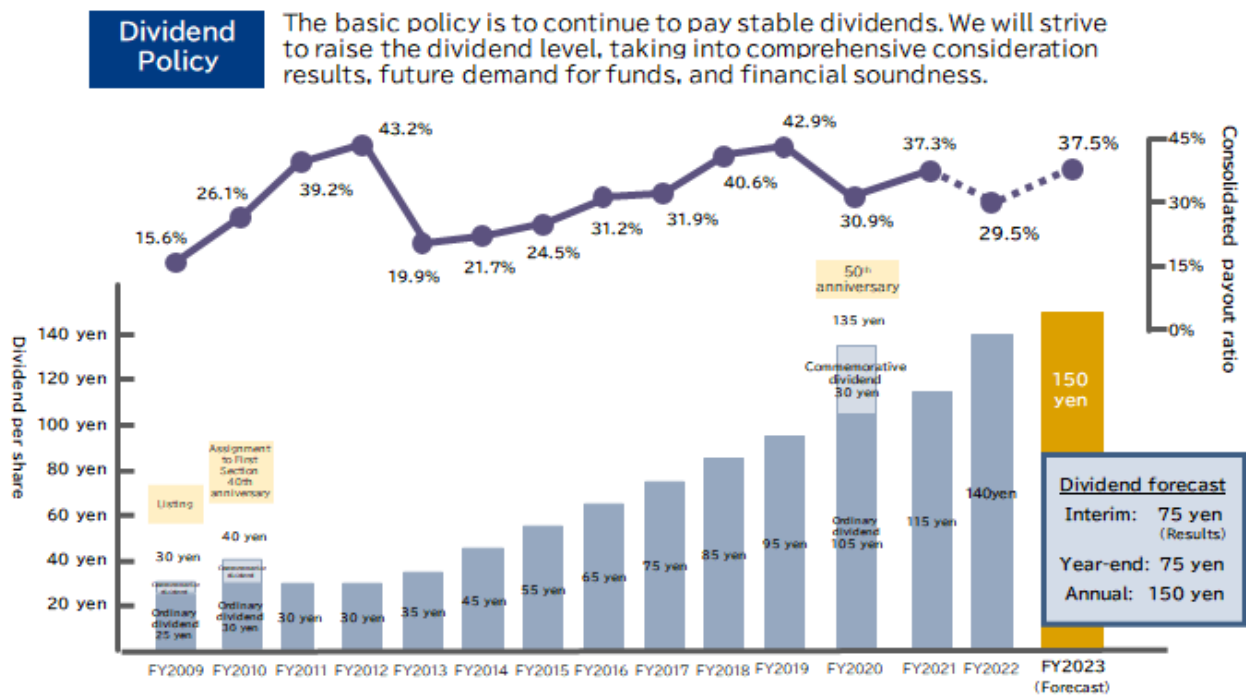
12

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Next is the forecasts for the fiscal year ending September 2023.

The 1H results are progressing steadily along the forecast, and the progress rate is on par YoY. Considering this, we are keeping our full-year forecasts unchanged.

## FY2023/9 Dividends (no change from initial forecasts)



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Regarding dividends, the basic policy remains unchanged.

As the earnings forecast is unchanged, there is no change to the annual dividend forecast of JPY150 per share, consisting of an interim dividend of JPY75 and a year-end dividend of JPY75 per share, as forecasted at the beginning of the fiscal year. The dividend payout ratio is expected to be 37.5%.

Next, I would like to explain the direction of the next medium-term management plan.

With six months remaining in Medium-Term Management Plan 2023 (MP2023), the next medium-term management plan will be launched in October. In the past, when we switched to a new medium-term plan, we announced it at the financial results briefing for the previous fiscal year. However, in many dialogues with investors and other stakeholders, we have come to realize that it is necessary to explain more specifically the future growth of our group and our business strategy.

Therefore, we have decided to present the direction of the next mid-term plan, which is currently under consideration at this stage, six months earlier than usual.

We are still in the process of considering this matter, and we would like to receive your feedback and refer to it as much as possible in the process of formulation of our next mid-term plan.

## Direction of the Next Medium-term Management Plan

### Summary of Medium-term Management Plan (1)

	Goal	Progress
Financial value	Ordinary profit: 10,000 mil. yen ROE: 10%	<ul style="list-style-type: none"> <li>● Ordinary profit 10,493 mil. yen and ROE of 12.8% (FY2022/9)</li> <li>● Achieved financial goals one year earlier than expected.</li> <li>● Profit margin improved to about 8%.</li> <li>● Made steady progress as of FY2023/9 2Q.</li> </ul>
Non-financial value	Set goals for two fields—ability to resolve societal issues and ESG	<ul style="list-style-type: none"> <li>● Formulated basic sustainability policy and D&amp;I*2.</li> <li>● Undertook disclosure in line with TCFD*3 recommendations.</li> <li>● Continued initiatives related to work-life balance, health and productivity, and diversity and inclusion.</li> </ul>
Social value	Set social and business targets for each VCP*1 field	<ul style="list-style-type: none"> <li>● Will take time for benefits to society to materialize, and there is room to improve measurement of the Company's contributions.</li> </ul>

\*1 MRI's own Value Creation Process, which creates a linked value chain that extends from research & recommendations to societal implementation in order to overcome the issues facing society.

\*2 Abbreviation for diversity and inclusion. The idea of accepting diversity and using that for social and corporate activity.

\*3 Abbreviation for Task Force on Climate-related Financial Disclosures, which released a report that recommend disclosure of climate-related information that impacts finances.

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15

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Before we begin the next medium-term management plan, I will first summarize the progress of the MP2023.

In the current medium-term plan, we have aimed for a virtuous cycle of three values; financial, non-financial, and social. We achieved our targets of financial value for ordinary income and ROE ahead of schedule in the previous fiscal year, and we are now working to further increase them in the current fiscal year.

Regarding non-financial value, we have formulated and published our sustainability policy and diversity and inclusion policy and have also made disclosures in accordance with TCFD.

On the other hand, with regard to social value goals, it may take some time for the results to become apparent, and we believe that there is still much room for improvement in how we measure the contribution of our group.

## Direction of the Next Medium-term Management Plan

### Summary of Medium-term Management Plan (2)

	Goal	Progress
<b>VCP management</b>	<ul style="list-style-type: none"> <li>Maximize financial, non-financial, and social value.</li> <li>Promote qualitative reforms.</li> <li>Foster and accelerate growth businesses. (DX, subscription services, overseas)</li> </ul>	<ul style="list-style-type: none"> <li>Expanded VCP field and created related system.</li> <li>Promoted quality reforms, captured large-scale projects, and drove earnings.</li> <li>Human resources are stretched, which is placing a constraint on orders.</li> <li>DX sales 27,000 mil. yen (FY2020/9) → 32,000 mil. yen (FY2022/9)</li> <li>Subscription-based services*/overseas** are in the upfront investment phase</li> <li>*Subscription-service sales: 6,800 mil. yen (FY2020/9) → 8,100 mil. yen (FY2022/9)</li> <li>**Overseas sales: 1,700 mil. yen (FY2020/9) → 2,000 mil. yen (FY2022/9)</li> </ul>
<b>Consolidated management</b>	<ul style="list-style-type: none"> <li>Grew business in DX market by integrating MRI and DCS.</li> <li>Moved forward with business portfolio reforms.</li> </ul>	<ul style="list-style-type: none"> <li>Moved forward with MRI/DCS integration through creation of face-to-face organization.</li> <li>Increased collaborative project orders e.g., DX projects for government and public offices.</li> <li>ITS ordinary profit margin 5.4% (FY2020/9) → 7.8% (FY2022/9)</li> <li>Developed new businesses and expanded subscription-based businesses.</li> </ul>
<b>Management under the new normal</b>	<ul style="list-style-type: none"> <li>Strengthened recruiting (MRI: 120, MRI DCS: 190 increase respectively).</li> <li>New-normal work styles and office reforms</li> <li>Flexible response to new businesses and new-normal risks</li> </ul>	<ul style="list-style-type: none"> <li>Recruiting About 580 employees, net increase of more than 100 (total for two fiscal years, FY2021/9 and FY2022/9)</li> <li>Remote work took root 40%~50% work from office, and 16 employees used the system for moving to regional cities.</li> <li>Used renovated office fully introduced free address system, etc.</li> <li>Increased sophistication of risk management and new business quality management.</li> </ul>

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And moreover, MP2023 sets forth three basic policies.

The first is VCP management, which takes social issues as its starting point and aims to solve them through business, and to be involved in the implementation process.

Second is consolidated management that expands and deepens cooperation with various IT-centered companies revolving around the two core group companies of the Mitsubishi Research Institute and DCS.

Third is the new normal management focused on conditions post-COVID-19. We believe that we are making steady progress in our efforts along these lines.

With regard to the VCP management, in terms of fostering and accelerating growth businesses, a comparison of sales from the fiscal year ended September 2020, the year before the start of the medium-term management plan, to the fiscal year ended September 2022 shows that DX business increased from JPY27 billion to JPY32 billion, subscription-based business from JPY6.8 billion to JPY8.1 billion, and overseas sales from JPY1.7 billion to JPY2 billion, all of which represent an increase of approximately 20%.

In consolidated management, the Mitsubishi Research Institute and DCS worked together to grow the DX business and reform the business portfolio. ITS's ordinary profit margin increased from 5.4% to 7.8% from the fiscal year 2020 to 2022 and is expected to exceed its target of 8% this year.

Under the new normal management, we have been working to strengthen recruitment, the new normal way of working, etc. However, the net increase in recruitment over the past two years has been slightly more than 100 people, and we expect the net increase to be in the mid-200s with the addition of the current term. Since the goal of the mid-term plan was to increase the number of employees by 310, we recognize the need for further strengthening.

On the other hand, the new normal working style is making significant progress, with the current attendance rate at our office at around 40% to 50%, and 16 people using the regional migration system at the end of the previous fiscal year.

## Direction of the Next Medium-term Management Plan

### Basic Direction

#### Vision for 2030

- Corporate group that combines the strengths of TTC and ITS and provides unique value
- Grow the business to the next stage

#### Guidelines on Initiatives in the Next Medium-term Management Plan (-FY2026)

- Creating one-stop model that combines digital, consulting, and think tank services
  - Foster and accelerate quality reforms to core businesses, DX business and new businesses
- Increasing sophistication of management and business foundation
  - Make strategic investments to promote Group integration and growth, etc.
- Leveraging human resources and virtuous cycle for financial, non-financial, and social value
  - Strengthen recruiting and training, undertake sustainability management, and reinforce engagement with stakeholders

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Based on this summary, the senior management of the Mitsubishi Research Institute and DCS are currently working together to formulate the next medium-term management plan.

First, we set our sights on the year 2030 as a guidepost and positioned the next medium-term plan as a step toward that goal.

By 2030, we aim to become a corporate group that provides unique value by combining the strengths of the two segments, and we hope to raise the scale of our business to a higher stage.

In the next mid-term plan, which sets FY2026 as the target year toward our vision for 2030,

- 1) we will build a one-stop model that integrates digital, consulting, and think-tank services
- 2) upgrading our management and business foundations
- 3) strive to expand the virtuous cycle of financial, non-financial, and social value and to become a corporate group where each employee can feel the growth and play an active role.



## Direction of the Next Medium-term Management Plan

### Composition and direction of key businesses

- Continue to generate growth by leveraging the strengths of the businesses for public sector and financial institutions, which are the core of financial foundation.
- Accelerate the DX business throughout the Group.
- Accelerate initiatives to foster new businesses for next generation.

Key businesses	Examples of actual businesses	Scale of current businesses	Future direction
(a) Businesses for public and private sector that leverage knowledge of government policies	<ul style="list-style-type: none"> <li>• Research and consulting</li> <li>• National government DX</li> <li>• Services</li> </ul>	about 45,000 mil. Yen	Core financial foundation Growth that leverages strengths Greater profitability
(b) Private-sector DX business to resolve customers' management issues	<ul style="list-style-type: none"> <li>• DX consulting</li> <li>• ERP introduction</li> <li>• Data analysis</li> <li>• AI</li> </ul>	About 20,000 mil. yen	Capture and dramatically expand growth markets Dramatically grow
(c) Businesses for financial institutions that leverage financial system knowledge	<ul style="list-style-type: none"> <li>• SI/maintenance for banks and card companies</li> <li>• Financial consulting</li> <li>• Financial DX</li> </ul>	About 50,000 mil. yen	Core financial foundation Growth that leverages strengths Increase profit margins

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The next medium-term business plan is being considered in three key businesses shown in the table.

(a) Businesses for public and private sector that leverage knowledge of government policies.

(b) Private-sector DX businesses that originate from the business issues of the customers.

(c) Businesses for the financial sector that leverage the knowledge of the financial system.

The specifics of the businesses are listed in the table. The current scale of their respective businesses is approximately JPY45 billion, JPY20 billion, and JPY50 billion.

(a) and (c) are the current strengths of our group and constitute the core of our financial base. We aim to grow by leveraging our strengths, while also improving profitability and profit margins.

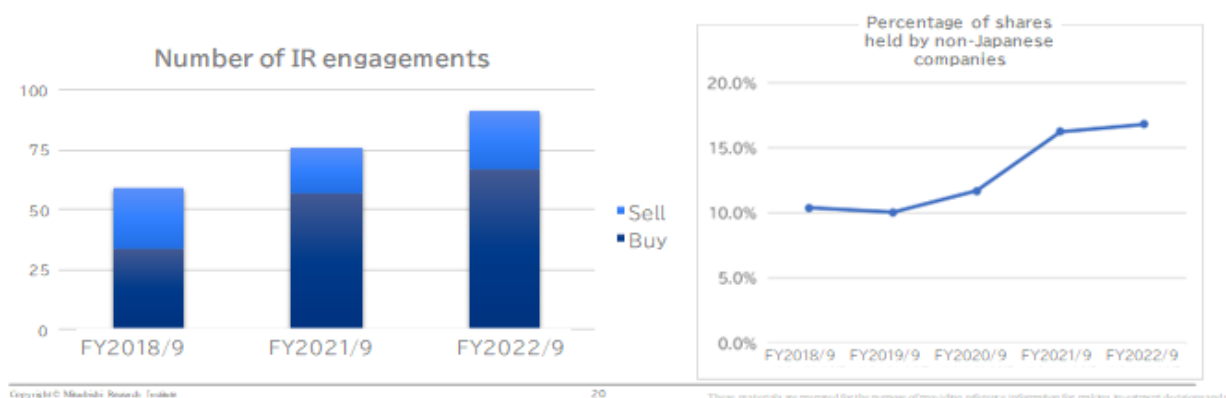
On the other hand, we view the private-sector DX business in (b), as the business with the most potential for growth, and we are considering further business growth in this area.



We will further examine the situation, including items that we have not been able to present today, take your feedback into consideration as much as possible, and plan to announce the results along with the announcement of this fiscal year's financial results.

## Market engagement, etc.

- Promote market engagement, etc.
  - Have managers actively participate in both buy and sell side meetings.
  - Number of meetings rose more than 50% between FY2018/9 and FY2022/9 (same level on sell side, but about doubled on buy side).
- Increase the number of non-Japanese companies that are shareholders.
  - Shareholders include 205 institution investors (trust banks, insurance companies, financial product businesses, overseas companies, etc.) such as Schroder Investment Management (Japan) Limited (submitted large shareholding report).
  - Percentage of shares held by non-Japanese companies (share basis) rose to 16.8% (FY2022/9) from 10.4% (FY2018/9).



Lastly, we will introduce some topics in 1H of the fiscal year.

First, I would like to talk about engagement with the market.

As you know, in March, the Tokyo Stock Exchange issued a document calling for management to be aware of the cost of capital and to promote and disclose dialogue with shareholders. Today, we would like to present some of our IR activities, including the status of engagement.

We are currently meeting with buy-side/sell-side clients approximately 100 times per year. Although it is still not enough, the number of interviews has increased by 50% compared to the fiscal year ended September 2018, with a particularly large increase in the number of interviews with buy-side clients.

Our management team, including myself, has also actively participated in the dialogue with shareholders. Furthermore, the number of shares held by non-Japanese companies has also increased during the same period.

We currently have approximately 200 institutional shareholders, trust banks, life and non-life insurance companies, financial services providers, and foreign corporations holding our shares. Among them is Schroder Investment Management (Japan), which recently submitted a large shareholding report. In February of this year, the same company disclosed a holding of 6.68%, or approximately 1.05 million shares, in a change report.

We will continue to be proactive in our efforts to engage with our shareholders.

## Release: Web survey AI "Robolisa" (Apr 20, 2023)

Uses GPT to automatically create reports and then detects and deletes incorrect information, which increases the reliability of reports.

- Make use of generative AI such as ChatGPT to automatically create prose.
- ChatGPT creates natural prose using a large language model (LLM), but the issue is that at times incorrect information is included.
- "Robolisa" has a function that detects and deletes incorrect information, which increases the reliability of reports.

Example of report generated by "Robolisa"



Source: Mitsubishi Research Institute, text created by GPT-3.5 and the images by DALL-E2.

Page 21 is our recently released service.










Since last year, ChatGPT, so-called generative AI or interactive AI, has been attracting worldwide attention, and we have begun to provide a service utilizing it.

One of the issues with ChatGPT is that at times incorrect information is included.

Our web survey AI, “Roborisa”, can collect, organize, and compile reports on the web and has a function that detects and deletes incorrect information. This service reduces the possibility of incorrect information slipping in and increases the reliability of reports. We would like to introduce the contact person in charge to all interested parties and look forward to hearing from you.


## Recent News Releases (MRI)

※All releases below are only in Japanese

Date		Title
[MRI]		
Apr 20, 2023		<a href="#">MRI Introduces Web Survey AI "Roborisa", Which Includes Automatic Report Writing Function Based on GPT</a>
Apr 13, 2023		<a href="#">Local Digital Currency "Region Ring"® Provided for Nagoya City's "Kinshachi Money 2023," the Largest Scale Digital Gift Certificates in Japan</a>
Mar 31, 2023		<a href="#">Demonstration Project for MRI Adult Education Support System Launched</a>
Mar 27, 2023		<a href="#">Demonstration of "Nowcasting" Based on Alternative Data</a>
Mar 6, 2023		<a href="#">Promoting Participation of Seniors through Merger of Digital and Real</a>
Feb 28, 2023		<a href="#">Athlete ELAP Support Business Launched</a>
Feb 27, 2023		<a href="#">Demonstration for Introduction of Assessment AI Service Launched with The 77 Bank, Ltd.</a>
Feb 16, 2023		<a href="#">MRI Presented the Minister's Award for 5th Japan Open Innovation Prize</a>
Feb 9, 2023		<a href="#">LINK-J, CIC, and MRI Consortium Selected As Ecosystem Promotor for Blockbuster Tokyo, a Tokyo Metropolitan Government's Pharmaceutical and Medical Startup Support Project</a>
Feb 9, 2023		<a href="#">Offering Risk Management Checkbook for Flying Cars and Industrial Drone Businesses Free of Charge—Ensuring Safety by Standardizing Risk Management for Next-Generation Airline Companies Through</a>

## Recent News Releases (MRI DCS, etc.)

※All releases below are only in Japanese

Date		Title
[DCS]		
Mar 1, 2023		<a href="#">Recreation Proxy Service for Long-Term Care Facilities for Seniors, Which Makes Use of Communication Robots Launched</a>
Feb 28, 2023		<a href="#">Neutrix Cloud Japan Launched Collaboration Promoting Use of Multi-Cloud/Hybrid-Cloud (EQ Smart+)</a>

Date		Title
[MRVS]		
Apr 12, 2023		<a href="#">MRI DCS Wins Service Partner of the Year Award from UiPath</a>
Mar 2, 2023		<a href="#">Business Partner Agreement Concluded with Software AG</a>

On pages 22 and 23, we introduce examples of DX-related activities that our group has released during the past few months.

That's all for my explanation. Thank you very much for your attention.

## Question & Answer

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**A:** Could you be more specific about the reasons for the decrease in profit despite the JPY5 billion increase in sales YoY?

**Answer:** Pages six and seven shows a breakdown of sales and profits for Think Tank and Consulting Services (TTC) and IT Services (ITS), respectively.

ITS on page seven reported an increase in net sales of approximately JPY3 billion, an increase in operating profit of JPY601 million, and an increase in ordinary profit of JPY615 million, with the increase in sales directly translating into an increase in income, resulting in higher sales and income.

On the other hand, TTC on page six reported that while net sales increased by JPY2 billion, operating profit decreased by JPY632 million, and ordinary profit decreased by about JPY799 million.

The main reason for the decrease in profit amid the increase in revenue is that TTC has decreased in profit regardless of the increase in sales.

Regarding TTC, although net sales increased, there was a large contribution from large-scale projects that require large outsourcing costs, and the increase in outsourcing costs and personnel costs associated with the increase in personnel required for upfront investment and the development of new business areas in the future were the two main reasons for the YoY decline in both operating profit and ordinary profit.

However, the increase in personnel expenses due to the increase in personnel is a factor that we had anticipated from the beginning of the fiscal year. As for the progress against the earnings forecast, TTC is slightly behind in terms of profit, but we expect to make up for this in 2H of the fiscal year.

In addition, ITS is performing well, and we believe that overall sales and earnings will be in line with our forecast.

**B:** Please tell us about the progress of profits through 1H against the full-year forecast, whether it is in line with the plan or not, and your perspective about it. Also, please comment if there are any on the same matter with TTC or ITS respectively.

**Answer:** Overall, we believe that sales and profits are almost in line with our plans and projections.

However, if we look at the breakdown of TTC and ITS, we see that TTC is slightly behind in profit progress. On the other hand, we believe that ITS is steadily increasing profits, and although there are some weaknesses when viewed by segment, we believe that we will be able to achieve our earnings forecast almost in line with our plan, taking into consideration the overall results and trends in orders in 2H.

**B:** I understand that the company is strengthening the hiring of human resources this fiscal year. Please tell us about the situation in 1H.

**Answer:** we believe that the lack of human resources is the biggest bottleneck in business performance and growth. Although we have been recruiting human resources and strengthening training since the start of the medium-term business plan, the consulting and IT industries are also the most competitive in terms of human resources, so we were not necessarily able to increase our workforce as planned in the first and second years.

We had planned to increase the number of employees by more than 300 during the period of the mid-term plan, but in the first and second years, there were special factors such as the sale of some subsidiaries. Even when including these factors, the number of employees has increased by only a little more than 100.

In this final year of our three-year plan, the entire Mitsubishi Research Institute Group including DCS is working to further strengthen the recruitment of human resources and the retention of those who are already active in the Company.

I feel that the results of these actions have had quite a response and believe that a net increase of more than 100 members is possible this year.

We still do not have enough human resources to realize our future vision, so we will continue to focus on recruitment, retention, and education of employees.

**Answer 2:** As for the situation in 1H, we have committed ourselves to mid-career hires.

As well as the actual number, if we compare it with the previous period, the Mitsubishi Research Institute has been promoting mid-career recruitment at a pace slightly more than 1.5 times faster than in the previous period. We just accepted slightly under 50 people.

At DCS, for mid-career hires for the full-year last year, more than 70% were hired in 1H. In addition, although not in 1H, we managed to increase the number of new graduates hired in April.

We are not increasing the number of employees by a percentage or suddenly increasing the number of employees like other companies. We are steadily hiring people who can contribute to our business.

Moreover, both the Mitsubishi Research Institute and DCS will continue to put effort into this area while striving to make the Company more attractive to join.

**C:** I believe the order backlog at the end of the last fiscal year was positive YoY. Currently, compared to the same term last year, both TTC and ITS segments are down about JPY2 billion. Has there been a significant change in the environment?

**Answer:** Please have a look at the order backlog for sales planned for this fiscal year on page 10. Here are the total sales for the previous term and 1H of the current period, as well as the order backlog for both.

The order backlog was JPY37.7 billion in the previous fiscal year ended September 30, and JPY33.8 billion in the current fiscal year, a decrease of almost JPY4 billion.

On the other hand, if you look at the cumulative sales, it has increased by more than JPY5 billion from JPY68.2 billion to JPY73.3 billion, and the total of the order backlog for expected sales for this fiscal year and the cumulative sales to date is the sum of solid sales forecasts. The current sales forecast for the current fiscal year shows an almost certain increase YoY, from JPY106 billion to JPY107.1 billion.

In terms of the percentage of progress toward the earnings forecast, we are at 91%, almost the same level as last year, and in this sense, our progress has not changed from last year, and we are feeling quite confident about achieving our sales target this year.

We believe that this phenomenon is occurring because the speed at which orders received are being booked as sales is much faster than before, and we do not believe that there has been a particularly large change in the environment for orders in the recent past.

Orders received to date that will be counted as sales in the next fiscal year and thereafter, which we refer to as carry-over orders, are almost on par with those of the previous year. The orders that will be recorded as sales in the next fiscal year are those that will be received in earnest from this point onward, so we would like to focus on sales activities to improve our performance in the next fiscal year and beyond.

**D:** Can you decide not to take on projects in TTC that increase sales but do not increase profits due to increased outsourcing costs? The term such as strategic orders is often used in these cases, but from the perspective of human resources and shareholder value management, orders that are not profitable appear meaningless. What do you think?

**Answer:** Regarding orders that do not lead to profits nor contribute enough to society in terms of providing value to society, since we are committed to providing social value as well as financial value, we will be selective, or rather strategic, in shifting orders to those with higher value. We have been pursuing a policy of qualitative reform.

In TTC, as for the ones where outsourcing expenses are increasing same as sales increasing, there are quite a few cases where we are taking up the entire portion of the sales and subcontracting that portion to other vendors. In determining the profit margin, or rather, whether the contribution to profit is significant, we measure the contribution to profit in terms of the actual value added after subtracting outsourcing expenses.

Although it is somewhat difficult to see from the announced figures, we are selectively and strategically responding to those that can secure sufficient profit in terms of a real profit margin, or in terms of the measure of the amount of profit that we can make by providing people to work there.

**B:** Regarding the next mid-term plan, what should we expect in terms of sales growth potential for each of the three areas (a), (b), and (C) on page 18? At this time, I would appreciate it if you could suggest the order in which the three areas are expected to grow.

**Answer:** Considering the current scale of sales and the size of this market, we believe that the private DX business has the highest potential and growth expectations.

However, in terms of our strengths as a group, the Mitsubishi Research Institute has great strength in the business based on policy knowledge (a), and DCS has



great strength in the business for finance based on knowledge of the financial system (c), but (b), the private-sector DX business, which is based on management issues, is not an area in which the Group has sufficient strength compared to (a) and (c).

In addition, competing companies are also making great efforts in this area, and many of them are very competitive. To expand our business in (b) market, we believe it is necessary to concentrate and invest resources in areas where we can demonstrate our strength and to promote alliances and collaborations with a wide range of companies, not only Mitsubishi Research Institute and DCS, and some of these may include non-organic strategies using capital.

We are in the process of finalizing the specific business areas and the level of growth we will aim for in those areas in the next Medium-term Management Plan.

**B:** I was very interested to learn more about “Roborisa” in terms of compensating for the shortcomings of generative AI. I would like to ask about your expectation for its revenue contribution. First, the potential as a service for government and private customers. Second, regarding the potential for productivity improvement through use within the Mitsubishi Research Institute.

**Answer:** This has been a hot topic since the end of last year, and we have been pursuing and researching the possibilities of AI for a long time. In this case, we were the first to announce the results of our research into various possibilities using ChatGPT. This is called “Roborisa”.

Generative AI creates natural prose automatically, but the issue is that at times incorrect information is included. But we will make sure that the information is as accurate as possible. “Roborisa” also includes a function to detect if the information is incorrect.

We have received interest and consultation from various organizations since the announcement. At present, the function is to collect various information and report it, but I believe it has many possibilities.

As for services for customers, we would like to consider offering exactly that type of service to a single organization or even a platform, but we are currently receiving inquiries at a very high pace, although we cannot give you a figure of how much we expect as a revenue contribution, since there are various possibilities.

We are also looking into the possibility of practical use within the Groupe. We have been working during the current mid-term plan period to see if we can improve the business efficiency of the think tank business as much as possible, not just with this ChatGPT.

This case also emerged from the extension of such research in the form of the use of new tools. It is important for us to compile information as quickly as possible. In such a situation, we believe that compiling this kind of information with more correct information will contribute greatly to efficiency.

On the other hand, if information is used in a general way, there are opportunities and concerns that it may be leaked outside the Company, so I think it is necessary to maintain such usage methods and adjust rules as well.

I believe that companies like ours that handle information are likely to undergo drastic changes in the future, and we will continue to make efforts to improve productivity by taking preemptive measures in such areas.

**E:** In the explanation of the next medium-term management plan, you refer to a “higher stage”. Can you be more specific about this image?

**Answer:** I hope you will understand that the expression, a “higher stage”, expresses our determination for the sustainable growth of our group.

Although we are not able to present a specific level at this time, we are considering making it concrete when the mid-term plan is announced, along with the FY2026 attainment goals for the next mid-term plan.

Looking back, when the structure of Mitsubishi Research Institute and Diamond Computer Service was formed in 2005, we had sales of about JPY70 billion. It took us about 15 years to reach the JPY100 billion mark, which occurred for the first time in this medium-term plan period.

We have been operating our business not necessarily by expanding our scale, but by focusing management and operation on improving the quality of value we provide to society and our customers. Although we will not change our focus, we believe that we must achieve further growth to continue to be selected by our customers, employees, and shareholders, and to secure the resources for future investments, in

the midst of major changes in the social structure and the environment surrounding our industry.

In order to somehow accelerate and shorten a term to reach the next stage, we have classified our businesses into (a), (b), and (c) by combining the Group's strengths centered on the Mitsubishi Research Institute and DCS. We hope you will understand that we are formulating our next medium-term management plan with the aim of increasing profitability while expanding the range of our businesses.

**F:** Why are you not making as much progress as expected in increasing your workforce? Is it because you have not yet achieved the number of hires, or is it because of an increase in the number of retirements? Is there any risk that the slow growth in headcount will affect the next mid-term plan?

Also, please tell us about your specific retention measures and efforts to increase the number of recruits.

**Answer:** We recognize that this is also a very important management issue. We recognize that the most important factor in achieving sustainable growth in the future is how to expand and strengthen the quality as well as the quantity of our personnel.

Currently, the number of hires is in the mid-200s, while in this mid-term plan it is proposed to be a little more than 300. Of course, we still have six months to go from here, so we will continue to strengthen our efforts. There are many reasons for this, but the number of retirees is high. The number of recruits is insufficient to cover this.

The market for the Mitsubishi Research Institute and DCS, the consulting industry and the IT industry, are extremely tight in terms of human resources, and I understand that there are more retirements than expected in this situation, and that the increase in the number of hires is not growing as expected.

As for the increase in the number of recruits, we are increasing the number of new graduates hired each year for both the Mitsubishi Research Institute and DCS.

In addition, we are also working on mid-career recruitment, and although it is an extremely competitive market, we are building close relationships with recruitment agencies, holding various types of information sessions

DCS is opening new offices in Tohoku (Sendai City) and now in Kitakyushu City, Kyushu. We are also focusing on increasing near-shore recruitment in these areas and using all means to increase recruitment.

We are putting a great effort into retention as well as strengthening recruitment. Specifically, there are various career paths and ways of thinking, especially among young and mid-career workers, and we will carefully respond to and provide guidance to each individual to minimize the risk of retirement before it happens.

We are also taking measures to prepare such a path while carefully listening to the desired job types and career paths. We are also focusing on creating a work environment where people with various possibilities can play an active role by multiplying down on functions in human resources.

The effect of these efforts has come out gradually, and I believe that the pace of retirements has slowed considerably since the beginning of this fiscal year.

**Answer2:** I would like to make some additions

We have been exchanging information with recruitment agencies on a frequent basis, monthly, about what kind of human resources we are looking for, and we have recently succeeded in recruiting people who are quite responsive to what we want to do. We are working to strengthen not only the quantity, but also the quality. This was additional information.

[END]