

COMPANY RESEARCH AND ANALYSIS REPORT

Mitsubishi Research Institute, Inc.

3636

Tokyo Stock Exchange Prime Market

20-Sept.-2022

FISCO Ltd. Analyst

Yoichiro Shimizu



FISCO Ltd.

<https://www.fisco.co.jp>

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3636 Tokyo Stock Exchange Prime Market

20-Sept.-2022
<https://ir.mri.co.jp/en/index.html>

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Summary

A think tank group that resolves societal issues by taking on functions from Research & Recommendations through to Societal Implementation. Achieved record-high results in FY9/22 3Q. Is focusing on VCP management to further grow sales and profits

Mitsubishi Research Institute, Inc. <3636> (hereafter, also “the Company,”) is a full-range research institute group conducting the Think Tank & Consulting Services business, which involves surveys, research, policy support, and management strategy support, and the IT Services business, which involves providing ICT solutions services, for its customers of government ministries and agencies and private-sector companies. Since its establishment in 1970, it has participated in important projects both in Japan and overseas and has continued to present its vision to society of always being a compass for the times. Nearly 30% of its consolidated net sales are from government ministries and agencies-related (FY9/21), which forms a stable earnings foundation. In 2020 on the occasion of the 50th anniversary of its establishment, it formulated the Medium-Term Management Plan 2023, through which it is considered to be further transforming to become a think tank group that resolves societal issues to achieve both sustainable growth and improved enterprise value.

1. Outline of cumulative results for FY9/22 3Q

In the FY9/22 3Q consolidated results, net sales increased 14.0%* compared to the same period in the previous fiscal year (year-on-year (YoY)) to ¥91,673mn, operating profit rose 40.6%* to ¥9,335mn, ordinary profit grew 41.6% to ¥10,430mn, and profit attributable to owners of parent increased 54.9% to ¥7,819mn. The factors causing sales and profits to increase were the steadily implementation of the various measures in the Medium-Term Management Plan 2023, the active development of the DX-related business, which is a growth business, for the private sector and for government, and the efforts to improve productivity and to reduce costs through office reforms. As a result, net sales, operating profit, and ordinary profit were all record-high results for a 3Q. The Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) from the start of FY9/22, and as a result, net sales increased ¥2,981mn, operating profit and ordinary profit increased ¥952mn, and profit attributable to owners of parent increased ¥522mn.

* The Company adopted the Accounting Standard for Revenue Recognition from FY9/22, so the comparison of results with those of the previous period are included as reference values.

2. Consolidated outlook for FY9/22

For the FY9/22 consolidated results, the Company upwardly revised the forecasts at the same time as it announced the 3Q results (August 1, 2022), continuing on from the time it announced the 1H results. It is forecasting higher sales and profits, with net sales to increase 13.6% YoY to ¥117,000mn, operating profit to rise 34.2% to ¥9,200mn, ordinary profit to grow 37.4% to ¥10,400mn, and profit attributable to owners of parent to increase 49.7% to ¥7,500mn. Based on the excellent results up to FY9/22 3Q, it has upwardly revised the initial forecasts by ¥4,000mn for net sales, by ¥2,000mn for operating profit, by ¥2,200mn for ordinary profit, and by ¥2,000mn for profit attributable to owners of parent. It is aiming to achieve these results forecasts by continuing to focus on its businesses for government ministries and agencies, including the strongly performing DX business, and on its businesses for the finance and credit cards fields.

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3. Overview of Medium-Term Management Plan

In November 2020, the Mitsubishi Research Institute Group announced the Medium-Term Management Plan 2023 in which it sets out its three basic policies of “VCP management,” “consolidated management,” and “new normal management.” “VCP (Value Creation Process) management” aims to resolve societal issues and to grow business opportunities through business activities with an awareness of connecting to the provision of four types of value (A: Research & Recommendations, B: Analysis & Conceptualization, C: Design & Testing, and D: Societal Implementation) as a full-range research institute group. It expresses its determination to strengthen A: Research & Recommendations and D: Societal Implementation, in addition to strengthening the functions of its previous strengths of B: Analysis & Conceptualization and C: Design & Testing, playing a key role in making reforms take root in society. It is also aiming to improve the quality of the value chain as a whole by organically connecting each of the functions. The benefits it envisages from this include that the findings obtained from D: Societal Implementation will be fed back to the other three functions and that it will be able to conduct more realistic Research & Recommendations activities.

With regards to “consolidated management,” in order to increase the effectiveness of VCP management, the Company’s policy is to further promote collaborations with the core companies in the Group, of Mitsubishi Research Institute DCS (DCS), Japan Business Systems <5036> (JBS)*, and INES <9742> and to effectively utilize the assets within the Group. Also, to create new businesses, such as the DX business, it is not limiting itself to the Group and actively exploring collaborations with non-Group companies and organizations, including venture companies, overseas companies, and major companies.

* Listed on the Tokyo Stock Exchange (TSE) Standard market on August 2, 2022

“New normal management” refers to the acceleration of work style reforms within the Group companies because the Mitsubishi Research Institute Group is conducting in advance of others various reforms associated with the novel coronavirus pandemic (hereafter, COVID-19). Through this, it is realizing an optimized work-life balance for employees and a maximized business performance. In addition, one of its aims is to connect the findings it obtains through pioneering these reforms to VCP management’s Research & Recommendations and Societal Implementation, and thereby to create new business opportunities.

Based on the above basic policy, the Group is conducting three business-related transformations of “Growth Businesses Transformation,” “Core Business Transformation” and “Think Tank Function Transformation,” and two infrastructure-related transformations of “Human Resources and Organizational Culture Transformation” and “Management Systems Transformation.” Through these transformations, its policy is to grow the total of “social value” realized by resolving societal issues, “non-financial value” realized by the sustainable growth of people and organizations, and “financial value” brought about by business growth to achieve both sustainable growth and improved shareholder value. As the specific financial targets in the Medium-Term Management Plan 2023, the Mitsubishi Research Institute Group is targeting ordinary profit of ¥10bn (a compound annual growth rate (CAGR) of 12%) and Return on Equity (ROE) of 10% in FY9/23. Of these targets, alongside the upwardly revised forecasts announced on August 1, 2022, it expects to achieve the ordinary profit target of ¥10bn one year ahead of schedule in FY9/22.

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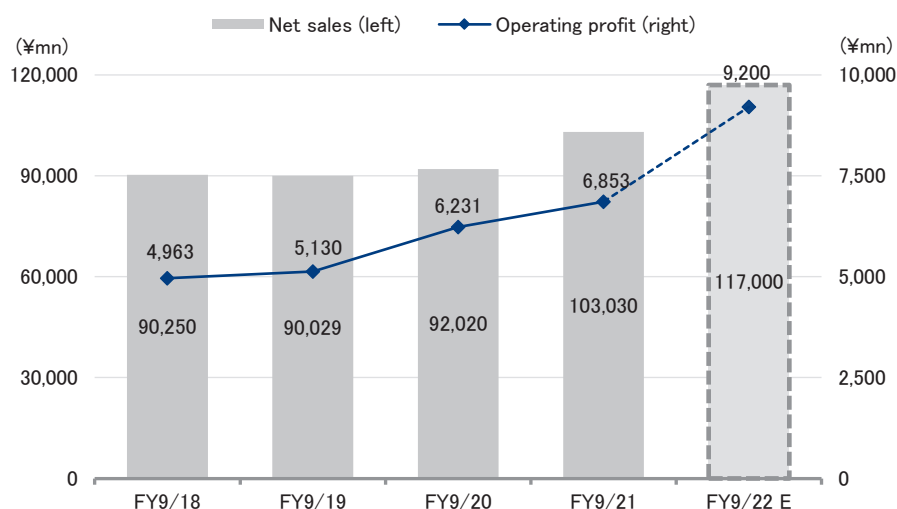
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Summary

Key Points

- A think tank group that “initiates resolutions to societal issues” as a business entity in addition to Research & Recommendations and other functions
- In FY9/22 3Q, every sales and profit item achieved record-high results
- Businesses are growing through the measures in the Medium-Term Management Plan 2023, so expects to achieve the plan’s ordinary profit target in FY9/22 ahead of schedule

Results trends



Note 1: Due to the adoption of the Accounting Standard for Revenue Recognition, etc., from FY9/22, the method of recording net sales has changed

Note 2: the FY9/22 values are the revised values announced on August 1, 2022

Source: Prepared by FISCO from the Company's financial results

Company profile

A pioneering private sector think tank. Since its establishment, it has been contributing to an prosperous future society through resolving societal issues

1. Company profile

The Company was established in 1970 through investment by 27 companies in the Mitsubishi Group as a business to commemorate the 100th anniversary of the establishment of Mitsubishi, and it can be said to be a pioneering private sector think tank. It provides think tank and consulting services and IT services to a wide range of customers, from government ministries and agencies and finance and credit cards-related companies, through to general private-sector companies.

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Company profile

In the 1980s, the Company established businesses in four think tank fields (economics and management, society and the public sector, science and technology, and systems and information), and then in the 1990s, it forged a solid presence supporting policy development for government ministries and agencies. On entering the 2000s, it made a consolidated subsidiary of DCS and launched a fully-fledged ICT solutions business. In recent years, it has been progressing “VCP management,” in which it undertakes the Value Creation Process, from Research & Recommendations through to Societal Implementation.

2020 was the 50th anniversary of the Company’s establishment. On considering society and the role that the Company has played within it up to the present time and furthermore the role that each employee is expected to play in the future, it formulated its New Guiding Principles, that “We, the Mitsubishi Research Institute, will continually envision a desirable future, resolve societal issues, and lead change in society to co-create a prosperous, sustainable future.” Toward the next 50 years, it is ready to conduct daily work with greater awareness of its responsibility as a company that resolves societal issues.

History

Date	Summary
May 1970	Mitsubishi Research Institute, Inc. was established with capital of ¥500mn in Yurakucho, Chiyoda-ku, Tokyo, in order to conduct businesses including survey and analysis work, outsourced survey and consulting work, and information processing services
October 1970	Technology & Economy Information Center, Inc. (currently MRI Business, Inc.) was established and started information processing services and printing-related work
May 1979	The head office was relocated to Otemachi, Chiyoda-ku, Tokyo
May 1984	System 21 Inc. (currently MRI Research Associates Inc.) was established and expanded software development work and a surveys and analysis business related to it
August 1987	MRI Career Staff Inc. (currently MD Business Partner Inc.) was established and started a human resources dispatch business related to survey support work, etc.
October 2000	Newly established the Business Solutions Division and started a fully-fledged solutions business
December 2004	Acquired the shares of Diamond Computer Service Co., Ltd. (currently Mitsubishi Research Institute DCS Co., Ltd.)
March 2005	Acquired additional shares of Diamond Computer Service Co., Ltd. (currently Mitsubishi Research Institute DCS Co., Ltd.) and made it a subsidiary
April 2005	Alongside the new establishment of the Consulting Business Division, strengthened the business structure and sales structure for private-sector companies through a business collaboration with Bank of Tokyo-Mitsubishi, Ltd. (currently MUFG Bank, Ltd.)
April 2007	Changed the trade name of Diamond Computer Service Co., Ltd. to Mitsubishi Research Institute DCS Co., Ltd.
December 2008	Acquired additional shares of Mitsubishi Research Institute DCS Co., Ltd. (ratio of voting rights held of this company, 80%)
June 2009	In order to strengthen the ERP (companies’ core work systems) business, established MRI Value Consulting Co., Ltd. through a joint venture with Mitsubishi Electric Information Systems Corporation
June 2010	Conducted a company split of consolidated subsidiary Diamond Fuji Soft Co., Ltd. and made Mitsubishi Research Institute DCS Co., Ltd. a wholly-owned subsidiary. Changed trade name to MRV Solutions Co., Ltd.
September 2010	Designated as an issue listed on the Tokyo Stock Exchange (TSE) 1st section
October 2010	Consolidated subsidiary MRV Solutions Co., Ltd. conducted an absorption merger of MRI Value Consulting Inc. and the trade name was changed to MRI Value Consulting & Solutions Co., Ltd.
December 2011	Mitsubishi Research Institute DCS Co., Ltd. conducted an absorption merger of consolidated subsidiary DCS Business Partner Co., Ltd. Changed the trade name of consolidated subsidiary DC Operations Co., Ltd. to MD Business Partner Co., Ltd.
April 2014	For an alliance for a collaborative platform business, acquired the shares of JBS, Inc. (currently Japan Business Systems, Inc.) and made it an equity-method affiliate
May 2018	Entered-into a business and capital alliance with INES Corporation in order to expand cutting-edge technological services and systems solutions, focused on the public sector and financial fields
October 2019	Made INES Corporation an equity-method affiliate in order to further strengthen the alliance and to accelerate joint initiatives in new business fields
December 2020	Opened a base in Vietnam (Hanoi) toward developing a business to solve societal issues overseas
February 2021	Opened a base in the UAE (Dubai)
April 2022	Listing was transferred to the TSE Prime market

Source: Prepared by FISCO from the companies’ securities reports

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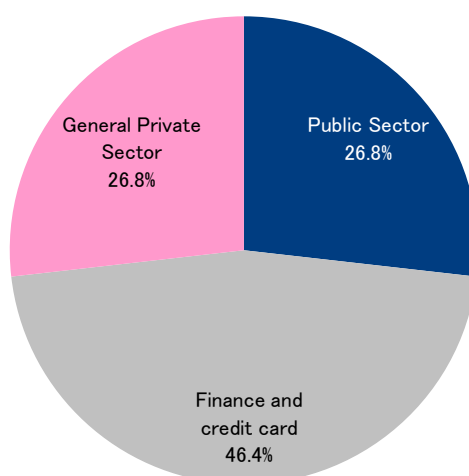
2. The features and strengthens of the Mitsubishi Research Institute Group

(1) Work for government ministries and agencies is its solid business foundation

The Company, which forged a solid presence in the 1990s supporting policy development for government ministries and agencies, subsequently also actively supported government's policy development, systems design, and project promotion and built strong relationships with the main government ministries. In fact, in FY9/21, 27% of its total consolidated net sales were provided by government ministries and agencies and they are one of the Mitsubishi Research Institute Group's main customers. The track record and the trust that it has accumulated over many years from the policy development stage and its integrated strengths that enable it to respond across many fields for various issues are strengths that competitor companies cannot imitate overnight.

The work outsourced to the Group in FY2020 by government ministries and agencies included the "COVID-19 AI and Simulation Project" (Cabinet Secretariat), "Development Demonstrations for Realizing Local 5G to Solve Local Issues," (Ministry of Internal Affairs and Communications), and "Project to acquire, disseminate, and promote international standards relating to energy saving, etc." (Ministry of Economy, Trade and Industry). In FY2021, it was outsourced projects in a wide range of fields from various government ministries and agencies, including "Survey research relating to the revitalization of the data distribution market" (Cabinet Secretariat) and "Project for a 'dialogue with the child-raising generation in regions' relating to JECS surveys" (Ministry of the Environment, Minister's Secretariat). From this, it can be seen that the Group is playing its part in policy development in Japan.

Percentages of total consolidated net sales by customers (FY9/21)



Source: Prepared by FISCO from the Company's financial results briefing materials

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Examples of the main projects outsourced from government ministries and agencies (FY2021)

Customer Name	Project name
Cabinet Secretariat	Survey research relating to the revitalization of the data distribution market
Cabinet Secretariat	Survey research work for the demonstration and introduction of the main technologies to realize the with-COVID-19 era
Cabinet Office, Director-General for Policy Planning (responsible for economic and financial analyses)	Analysis of economic trends utilizing real time data (household accounts app data utilization)
Digital Agency, Minister's Secretariat	Procurement support and process management support work to update the government's procurement-related systems
Reconstruction Agency, Director-General	Project to strengthen the outside of prefecture independent evacuee support system
Reconstruction Agency, Director-General	Survey and analysis work relating to reputation in Japan and overseas
Ministry of Internal Affairs and Communications, Minister's Secretariat	Technological support to update stationary satellite monitoring equipment, etc.
Ministry of Internal Affairs and Communications, Minister's Secretariat	Survey research toward the societal implementation of smartphones equipped with the My Number function
Ministry of Justice, Minister's Secretariat	Work to support process management, etc., for the family register information coordination system, etc.
Ministry of Foreign Affairs, Minister's Secretariat	Local survey work on abandoned chemical weapons in China
Ministry of Finance, Minister's Secretariat	Support for project management, etc., for the accounting work electronic decision-making infrastructure and the evidence document management system
Ministry of Education, Culture, Sports, Science and Technology, Education Policy Bureau	Demonstration research for the utilization of advanced technologies in vocational schools
Ministry of Education, Culture, Sports, Science and Technology, Education Policy Bureau	Project to promote vocational schools' recurrent education
Ministry of Health, Labour and Welfare, Minister's Secretariat	Survey project on securing the reliability of online clinical trials
Ministry of Health, Labour and Welfare, Health Policy Bureau	Comprehensive support and survey work for a medical venture total support project
Ministry of Agriculture, Forestry and Fisheries, Minister's Secretariat	Outsourced survey project relating to the promotion of food-tech
Ministry of Economy, Trade and Industry, Minister's Secretariat	Project for healthcare services' societal implementation (project for innovation promotion support, etc.)
Ministry of Economy, Trade and Industry, Minister's Secretariat	Survey on actual conditions of manufacturing infrastructure technologies, etc. (Survey on the technological development and system establishment toward the realization of a flying car)
Ministry of Land, Infrastructure and Transport, Minister's Secretariat	Survey and PR work relating to various issues to improve productivity at construction sites
Ministry of Land, Infrastructure and Transport, Minister's Secretariat	Survey on the possibility of technological cooperation in the railway field between Japan and the EU
Ministry of the Environment, Minister's Secretariat	Project to evaluate the impact of the increasing severity of disasters due to climate change
Ministry of the Environment, Minister's Secretariat	Project for "dialogue with the child-raising generation in regions" relating to Ecochill surveys

Source: Prepared by FISCO from the Company's website

(2) A diverse pool of human resources with high levels of expertise

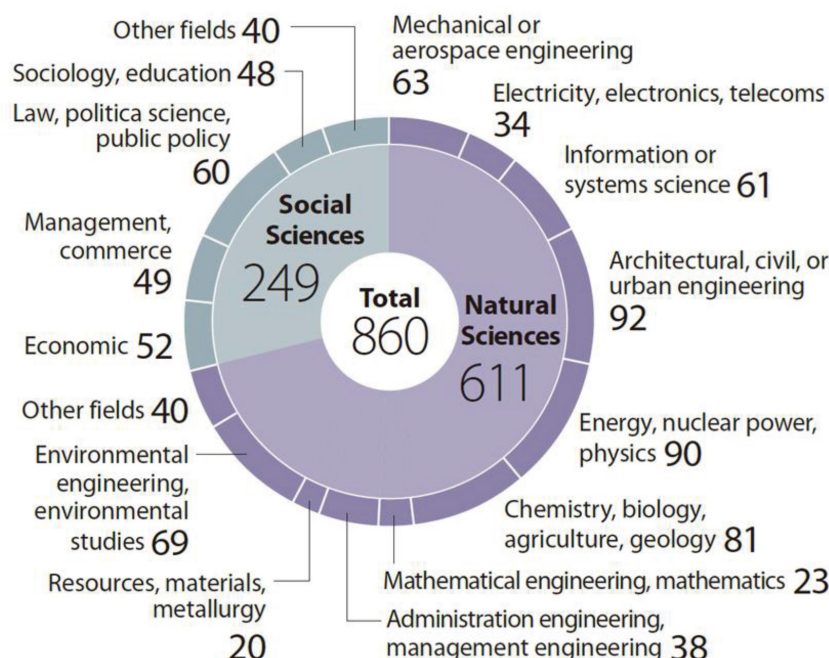
One of the factors that has enabled the Company to acquire a track record of many outsourced projects from government ministries and agencies is that it has researchers with high levels of specialism covering a wide range of fields. In particular, more than 70% of the Company's researchers specialize in the natural sciences. The government's policy development also requires knowledge relating to the natural sciences, showing high compatibility with and needs for the Company's services. Based on the Medium-Term Management Plan 2023 and as one investment in growth, the Mitsubishi Research Institute Group is conducting joint research and personnel exchanges with research institutes and universities in Japan and overseas. Going forward also, the quality of the human resources pool in the Mitsubishi Research Institute Group is expected to improve even more, and as well as contributing to VCP management, it seems likely to continue to be the source of its competitive advantages.

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The academic specialties of the Company's researchers (as of September 30, 2021)



Source: Reprinted from the Company's website

(3) A solid business foundation in the finance and credit cards fields

DCS, one of the main Group companies, was established by separating and making independent the computer outsourcing computing division of Mitsubishi Bank (currently MUFG Bank). From this formation, DCS conducts an infrastructure business mainly for the Mitsubishi Group, including development, maintenance, and management work for core systems in the finance and credit cards fields. The finance and credit cards business provided 46% of the FY9/21 consolidated net sales, which is about the same as that provided by government ministries and agencies, so it is one of the Mitsubishi Research Institute Group's main business fields.

In the Medium-Term Management Plan 2023, the Mitsubishi Research Institute Group set the DX business, the subscription-based business, and the overseas business as its growth businesses. Through actively investing in growth fields using the cash generated by the businesses for the government ministries and agencies and the finance and credit cards fields, which are its base customers, at FISCO we estimate that in the medium- to long-term, it will accelerate the growth of sales from general industry (private sector) customers as well.

(4) High quality discussions on the Board of Directors

Many of the members of the Company's Board of Directors have experience of top management in Mitsubishi Corporation <8058>, MUFG Bank, and Mitsubishi Heavy Industries <7011>. It is said that there are active discussions on the Board through these directors that possess this abundance of experience. In the future the VUCA* era will begin in earnest, and in this situation, the Board of Directors is expected to act as the Mitsubishi Research Institute Group's compass and to guide it.

* VUCA standards for Volatility, Uncertainty, Complexity, Ambiguity. It is used as a word to express the current management environment that is highly uncertain and fluid.

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Company profile

On the other hand, from the trends of prioritizing ESG and strengthening corporate governance, going forward it would seem that the Company will be required to select directors from outside the Mitsubishi Group and specifically, to add to the Board of Directors experts who have acquired deep knowledge on DX-related. In addition to securing diversity, at FISCO we think that holding discussions on the Board in which expertise has also been secured will serve to increasingly strengthen its role as the Group's compass.

Business overview

The Company, which provides Think Tank & Consulting Services, is responsible for services ranging from Research & Recommendations to Societal Implementation in VCP management, while DCS is responsible for Societal Implementation focused on IT Services

In the Mitsubishi Research Institute Group, the Company is mainly responsible for Think Tank & Consulting Services and DCS for IT Services.

Think Tank & Consulting Services involves providing survey research and consulting services based on the findings on policy and systems that the Company has accumulated since its establishment as a full-range research institute, the findings on and analytical capabilities for societal issues, and the quantitative analysis evaluation techniques and prediction techniques of its researchers who have a wide range of knowledge relating to next-generation advanced technologies and who specialize in scientific and technological fields. For government ministries and agencies, it conducts surveys and analyses, policy planning and formulation, and consulting and business support in the social and public sector fields, including national land maintenance, transportation, information communication, regional management, medical care and welfare, and education, and also in the science and technology policy fields, such as the environment, resources and energy, science and technology, and safety policies. For private-sector companies, it provides consulting on areas including management and business strategies, marketing strategies, personnel system and organizational reforms, sustainability and ESG management, work innovations, and also ICT consulting that realizes strengthened business competitiveness.

For IT Services, DCS is the core company and it utilizes the findings and advanced ICT accumulated through the Think Tank & Consulting Services to provide software development, management, maintenance, and information processing and outsourcing services to various customers, including in the finance, manufacturing, distribution, services, and education fields. Also, in fields like management system innovations that utilize ICT and business model innovations that utilize the Internet, it provides total support for implementing ICT for management from the upstream through to the downstream. These various services are provided to customers while collaborating with JBS, INES and other Group companies.

1. The units providing Think Tank & Consulting Services

The following are the business units that constitute the Company and that are responsible for the functions of A: Research & Recommendations, B: Analysis & Conceptualization, C: Design & Testing, and D: Societal Implementation in VCP management.

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Business overview

(1) The Think Tank Unit

This unit is responsible for A: Research & Recommendations in VCP management. In recent years, it has analyzed elements such as the post-COVID-19 international situation, economic trends, and trends in advanced technologies, and at the same time, it has depicted an image of what the society of the future should be from a medium- to long-term perspective and proposed solutions to realize it. Also, in order to create trends in society, it has been active in areas such as participating in government councils and industry committees and disseminating information through the media (it conducts these activities as an independent business). In particular, in the Medium-Term Management Plan 2023, this unit is actively progressing Research & Recommendations activities with an awareness of the connections between the VCP priority fields (“healthcare,” “human resources,” “cities and mobility,” “energy,” “information communication,” “food and agriculture,” “recycling,” and “resilience”).

(2) The Policy and Consulting Unit

It is responsible for the functions of B: Analysis & Conceptualization and C: Design & Testing, which are the core of VCP management, and it conducts the research and consulting business, a core business. Its customers include government ministries and agencies and it supports policy development, system design, and project promotion through cooperating with experts and business partners. It focuses on growth fields that have a high public aspect and which are closely related to policy trends, such as healthcare and energy, and it participates in projects including surveys and research, technical evaluations, analyses and predictions of the future using proprietary models, project management, and social demonstrations.

The business areas and the main customers of the Policy and Consulting Unit

Headquarters	Business areas	Main customers
Smart Region Division	Smart cities, infrastructure DX, mobility, and EBPM (Evidence Based Policy Making)	Ministry of Land, Infrastructure and Transport, Ministry of Internal Affairs and Communications, railway operators
Healthcare & Wellness Division	Medical care and nursing care, health management	Ministry of Health, Labour and Welfare, Japan Agency for Medical Research and Development
Sustainability Division	The environment, renewable energy, decarbonized society	Ministry of the Environment, Ministry of Economy, Trade and Industry, electric power companies
Frontier Technologies Division	Advanced technologies, space and oceans, defense and intelligence	Ministry of Internal Affairs and Communications, Cabinet Secretariat, Ministry of Economy, Trade and Industry, telecom carriers
Safety & Industry Division	Disaster prevention and risks, nuclear safety, industrial innovation	Ministry of Economy, Trade and Industry, Cabinet Office

Source: Prepared by FISCO based on the Mitsubishi Research Institute Group Report 2021

(3) The Business and Consulting Unit

With private-sector companies as the main customers, this unit provides a one-stop service, from proposal formulation through to implementation, by ascertaining the essential issues facing society and customers, and it covers VCP management from B: Analysis & Conceptualization and C: Design & Testing through to D: Societal Implementation. In particular, in the Medium-Term Management Plan 2023, it is actively progressing collaborations with Group companies and external partners in order to grow the “subscription-based business,” which is one of the growth businesses. Also, by feeding back to the A: Research & Recommendations function the data and expertise acquired through the Societal Implementation function, it contributes to creating solution policies that are realistic and to improving the value of the research and consulting business as a whole. It is one of the units that are expected to become even more active in the future.

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Business overview

The Business Consulting Unit's business areas and examples of a subscription-based business

Business	Business area
Research and consulting business	
All industries	Administrative strategy, business strategy, product and service strategy, management strategy, operation strategy
Industry Strategies	Energy, healthcare, mobility, ICT, human resources, food & agriculture etc.
Implementation business (subscription-based business)	
Energy	MPX (wholesale electric power transaction information), mega-solar power generation business (development and asset management)
Urban life and mobility	Region Ring (regional digital currency)
Healthcare	Email health notifications (checkup reminders)
Human resources	PRaiO (Matches new college graduates with companies based on information in job application forms), crexta (Human resource management system), JOBMINEs (Job matching system)
Food and agriculture	HACCP navi (food hygiene management)

Source: Prepared by FISCO based on Mitsubishi Research Institute Group Report 2021

(4) The Digital Transformation Unit

To strengthen the response to the rapidly growing DX market, this unit was newly established in October 2020 to accelerate business in the D: Societal Implementation area of VCP management. Targeting government ministries and agencies, private-sector companies such as in the manufacturing industry, financial institutions, and others, it is responsible for developing DX-related solutions and services through co-creation with a variety of partners, but especially with three Group companies, DCS, JBS, and INES. In particular, it is establishing and progressing “DX journey*1,” “new normal*2,” “data-driven management*3,” and “local government DX” as the important DX themes. It is working to strengthen the D: Societal Implementation function while also being aware of actively collaborating with partners.

*1 Accompanying support to realize DX.

*2 work style reforms through digital.

*3 Utilizing data and AI to increase the sophistication of management.

2. The units providing IT Services

The below units belong to DCS and are mainly responsible for D: Societal Implementation in VCP management.

(1) The Industry IT Unit

It is developing two business pillars, the Solution Business and the Service Business. In the Solution Business, it provides support to implement to DX that is tailored to customers' needs and situations. In the Service Business, it is developing a HR (human resources) business and an education business and is focusing on introductions and spreading the use of PROSRV, a HR salary outsourcing service, and miracompass, an Internet applications service for elementary, junior high and high schools. Approximately 2,000 businesses offices have introduced PROSRV and around 1,200 schools have introduced miracompass, so it seems that needs for these services are high.

(2) The Financial IT Unit

It provides ICT solutions to financial institutions such as the Mitsubishi UFJ Financial Group <8306> (MUFG). It is responsible for many large-scale projects and important projects, including for banks' core systems. In recent years, based on the Medium-Term Management Plan 2023, it has been gradually progressing various operations, including deepening transactions with existing companies through DX and opening-up new business areas.

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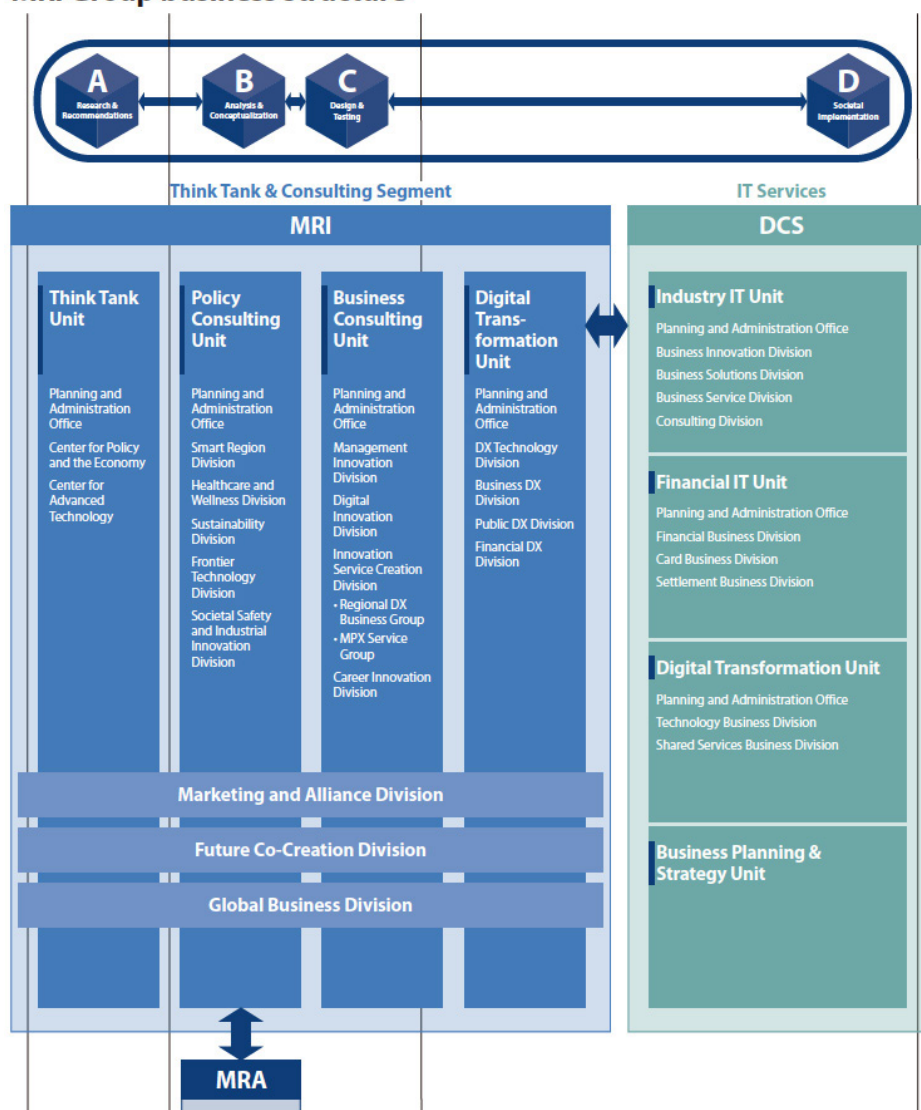
Business overview

(3) The Digital Transformation Unit

Centered on systems infrastructure, it is responsible for the research and development of solutions and services that contribute to customers' promotion of DX. For systems infrastructure, it is developing cloud services and storage services that utilize the data centers of DCS. It also has a long history of ICT operations and work-operations outsourcing, and in addition to conventional outsourced operations, it is contributing to work style reforms and to other areas through digital reforms of ICT operations through support for introducing platforms and a paperless comprehensive support service.

The positions of each unit in VCP management

MRI Group business structure



Source: Mitsubishi Research Institute Group Report 2021

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Results trends

In the FY9/22 3Q, each of net sales, operating profit, and ordinary profit achieved record highs, contributing to the progress made in the Medium-Term Management Plan 2023

1. Cumulative Results for FY 9/22 3Q

In the FY9/22 3Q cumulative consolidated results, net sales increased 14.0% YoY to ¥91,673mn, operating profit rose 40.6% to ¥9,335mn, ordinary profit grew 41.6% to ¥10,430mn, and profit attributable to owners of parent increased 54.9% to ¥7,819mn, and each of net sales, operating profit, and ordinary profit achieved record-high results. A factor causing sales and profits to increase was the steadily implementation of the various measures in the Medium-Term Management Plan 2023. In Think Tank & Consulting Services, the Company actively developed the DX-related business, which it has positioned as a growth business. This led to outsourcing projects from government ministries and agencies, including for 5G-related, an AI simulation in relation to the COVID-19 pandemic, cutting-edge ICT, and energy saving-related. The Company also realized qualitative conversions of projects through the reforms of the core businesses. In VCP management, it succeeded in raising the added value of the B: Analysis & Conceptualization and C: Design & Testing functions and in increasing the monetary scale per project. It also steadily progressed new normal management. It realized improved productivity and reduced costs through office reforms and other measures, and profits greatly increased compared to in the previous year. In fact, the operating profit margin rose 1.9 percentage points (pp) YoY to 10.2% and the Company is progressing the conversion to a high profit structure. It also steadily developed the subscription-based business, which it has positioned as a growth business. The Internet applications support service miraicompass is steadily growing on the market. In addition, introductions of Region Ring, which is a regional problem solving-orientated digital currency service, were progressed in commercial facilities, including in Tokyo Marunouchi and Kintetsu Harukas. Moreover, it appears to be increasing its track record of introductions of services including MPX*, which is an online information service for wholesale electric power transactions, and PRaiO, which is an entry sheet priority-level diagnostic service.

* On August 4, 2022, the Company announced it had performed a business split of the MPX business and made it a separate company.

In the results by segment, in Think Tank & Consulting Services, net sales increased 21.1% YoY to ¥40,848mn, operating profit rose 21.9% to ¥5,359mn, and ordinary profit grew 25.6% to ¥6,212mn. In IT Services, net sales increased 8.9% to 50,824mn, operating profit rose 77.2% to ¥3,978mn, and ordinary profit grew 74.5% to ¥4,220mn. In Think Tank & Consulting Services, large-scale DX-related projects for government ministries and agencies, such as for the latest ICT, contributed and sales and profits increased. In IT Services, the growth of sales to the finance and credit cards fields contributed. Alongside the growth of net sales, the operating profit margin also increased by 3.0pp YoY to as high as 7.8%, and the Company's ability to generate profits has increased.

The Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) from the start of FY9/22, and as a result, net sales increased ¥2,981mn, operating profit, ordinary profit and profit before income taxes, each increased ¥952mn, and profit attributable to owners of parent increased ¥522mn. The results when excluding the effects of this change of accounting standard were that net sales increased 10.3% YoY to ¥88,691mn, operating profit rose 26.2% to ¥8,383mn, ordinary profit grew 28.7% to ¥9,478mn, and profit attributable to owners of parent increased 44.6% to ¥7,297mn. So under the former standard as well, each of net sales, operating profit, ordinary profit achieved record-high results for a 3Q.

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Results trends

As described in the Company's securities report, in relation to the fiscal years of its main customers of government ministries and agencies and private-sector companies, in a typical year many projects are completed in the period in March and April, so in particular there is a tendency for the operating rate to increase in the 2Q. Following the change to the accounting standard, the tendency for results to be concentrated in the 1H has further strengthened and it is necessary to be aware of the seasonal factors that cause results to fluctuate.

Cumulative Results for FY 9/22 3Q

	FY9/21 3Q		FY9/22 3Q		YoY
	Results	vs. net sales	Results	vs. net sales	
Net sales	80,402	-	91,673	-	14.0%
Think Tank & Consulting Services	33,735	42.0%	40,848	44.6%	21.1%
IT Services	46,667	58.0%	50,824	55.4%	8.9%
Cost of sales	61,415	76.4%	69,422	75.7%	13.0%
SG&A expenses	12,345	15.4%	12,914	14.1%	4.6%
Operating profit	6,641	8.3%	9,335	10.2%	40.6%
Ordinary profit	7,364	9.2%	10,430	11.4%	41.6%
Think Tank & Consulting Services	4,944	14.7%	6,212	15.2%	25.6%
IT Services	2,419	5.2%	4,220	8.3%	74.5%
Profit attributable to owners of parent	5,046	6.3%	7,819	8.5%	54.9%

Note: Adopted the Accounting Standard for Revenue Recognition, etc., from FY9/22. The comparison of results with those of the previous year are shown as reference values.

Source: Prepared by FISCO from the Company's financial results

Has deep shareholders' equity due to the accumulation of retained earnings. Both the current ratio and non-current ratio are excellent and long-term and short-term liquidity are sound

2. Financial condition and business indicators

Looking at the financial condition in FY9/22 3Q, total assets increased ¥12,346mn on the end of the previous period to ¥112,051mn. The main change factors were that in current assets, cash and deposits increased ¥13,116mn due to seasonal factors and notes and accounts receivable - trade, and contract assets increased ¥9,763mn because of the adoption of the Accounting Standard for Revenue Recognition, but inventories decreased ¥9,405mn. In non-current assets, investment securities decreased ¥498mn following the sale of investment securities, while deferred tax assets declined ¥242mn.

Total liabilities increased ¥5,130mn on the end of the previous period to ¥40,998mn. In non-current liabilities, long-term borrowing decreased ¥300mn and lease liabilities declined ¥650mn, but in current liabilities, there were increases of accounts receivable of ¥2,017mn, accrued expenses of ¥3,291mn, and unpaid corporate tax, etc., of ¥1,859mn. Total net assets increased ¥7,216mn on the end of the previous period to ¥71,053mn. Retained earnings rose ¥7,084mn, mainly due to the recording of profit attributable to owners of parent.

Looking at the financial indicators, the equity ratio is higher than 50% while the current ratio is 271.5% and the non-current ratio is 62.0%, so it seems there are no problems with liquidity on hand in either the short or long term. From this, it can be said that the Company's financial condition is excellent.

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Results trends

Consolidated balance sheet and key financial indicators

	(¥mn)		
	FY9/21	FY9/22 3Q	Change
Current assets	59,142	72,938	13,796
Cash and deposits	29,397	42,514	13,116
Non-current assets	40,561	39,113	-1,448
Total liabilities	35,867	40,998	5,130
Current liabilities	20,618	26,861	6,243
Non-current liabilities	15,249	14,136	-1,113
Total net assets	63,836	71,053	7,216
Retained earnings	43,749	50,833	7,084
Total assets	99,704	112,051	12,346
<Key financial indicators>			
Equity ratio	56.4%	56.3%	-0.1pt
Current ratio	286.8%	271.5%	-15.3pt
Non-current ratio	77.1%	62.0%	-15.1pt

Source: Prepared by FISCO from the Company's financial results

■ Outlook

Has upwardly revised the FY9/22 results forecasts. Will conduct upfront investment from FY9/22 2H to FY9/23

Together with the announcement of the FY9/22 3Q results, on August 1, 2022, the Company announced the upwardly revised forecasts for the FY9/22 consolidated results. Continuing on from FY9/22 2Q, it upwardly revised them for the second successive quarter. It is forecasting higher sales and profits, with net sales to increase 13.6% YoY to ¥117,000mn, operating profit to rise 34.2% to ¥9,200mn, ordinary profit to grow 37.4% to ¥10,400mn, and profit attributable to owners of parent to increase 49.7% to ¥7,500mn. Based on the excellent results up to FY9/22 3Q, it has upwardly revised the initial forecasts by ¥4,000mn for net sales, by ¥2,000mn for operating profit, by ¥2,200mn for ordinary profit, and by ¥2,000mn for profit attributable to owners of parent. By segment, for Think Tank & Consulting Services, the forecasts are for net sales to increase 18.9% YoY to ¥48,000mn and ordinary profit to grow 23.9% to ¥5,200mn, and for IT Services, for net sales to increase 10.1% to ¥69,000mn and ordinary profit to rise 54.7% to ¥5,200mn. Based on the basic policies set in the Medium-Term Management Plan 2023, of "VCP management," "consolidated management," and "new normal management," it expects to achieve the ordinary profit target in the Medium-Term Management Plan 2023 one year ahead of schedule based on the continuing excellent performances of the businesses for government ministries and agencies and for the finance and credit cards fields.

In conjunction with this, the Company's policy for the period from FY9/22 2H to FY9/23 is to allocate the cash generated by the businesses to growth investment. Specifically, it has set four fields as the priority investment areas, of "Human resources investment," "Research & Recommendations investment," "R&D investment," and "Business Foundation investment," and in particular, it has set "Human resources investment" as the most important field and will conduct upfront investment for it. Through this, it will establish a foundation on which to even more strongly progress the Medium-Term Management Plan 2023, while it also plans collaborations with venture companies and others in order to strengthen in the DX and Societal Implementation areas.

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Outlook

On considering that ¥114,712mn, which is the total of the order backlog of ¥23,038mn for FY9/22 3Q and that will become sales in FY9/22 and the 3Q cumulative net sales of ¥91,673mn, is 98% of the full fiscal year net sales forecast (progress rate, 98%), at FISCO we think the Company is highly likely to achieve its results forecasts. If the businesses for private-sector companies and government ministries and agencies perform strongly, it seems probable that results will further exceed the forecasts.

Consolidated outlook for FY9/22

	FY9/21 Results	FY9/22		YoY	
		Previous forecast	Revised forecast	Change	Rate (%)
Net sales	103,030	113,000	117,000	13,969	13.6%
Operating profit	6,853	7,200	9,200	2,346	34.2%
Ordinary profit	7,568	8,200	10,400	2,831	37.4%
Profit attributable to owners of parent	5,009	5,500	7,500	2,490	49.7%
Earnings per share (¥)	308.60	339.26	394.14	85.54	-

Note: the revised values are those announced on August 1, 2022

Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

The Company's approach to growth investment

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

Source: The Company's business briefing materials

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■ Medium- to long-term growth strategy

Based on VCP management and consolidated management, is focusing on strengthening the Societal Implementation function. Is progressing the DX business and subscription-based business and intends to convert them both in terms of quantity and quality

1. Summary of the Medium-Term Management Plan

In the Medium-Term Management Plan 2023 (FY9/21 to FY9/23) announced in November 2020, the Mitsubishi Research Institute Group has set “VCP management,” “consolidated management,” and “new normal management,” as its three basic policies, and it is aiming to build the foundation on which to become sustainable growth companies by strengthening the A: Research & Recommendations and D: Societal Implementation functions and creating and growing new businesses, including the DX business. Based on this, the specific financial targets for FY9/23 include ordinary profit of ¥10bn (CAGR of 12%) and Return on Equity (ROE) of 10% (as previously explained, it expects to achieve the ordinary profit target in FY9/22 ahead of schedule).

For “VCP management,” which is one of the basic policies, the Mitsubishi Research Institute Group’s value chain is defined as A: Research & Recommendations, B: Analysis & Conceptualization, C: Design & Testing, and D: Societal Implementation. With the starting point being the societal issues that exist within the world, it is aiming to resolve these issues and increase business opportunities by developing business activities with an awareness of the connections between each of the functions, such as conducting highly realistic A: Research & Recommendations with an awareness up to D: Societal Implementation. It is also aiming to have reforms take root in society by being actively involved up to D: Societal Implementation. It has set healthcare, human resources, cities and mobility, energy, information communication, food and agriculture, recycling, and resilience as the priority fields. For example in the energy field, it is involved from Research & Recommendations for the energy policies that should be taken in the future through to the management of a mega-solar business, and it is implementing VCP management provided as one-stop, integrated management from A through to D. By progressing VCP management that is focused on these priority fields, it is thought that the Company is aiming to maximize the three values of social value (resolving societal issues), non-financial value (the sustainable growth of people and organizations), and financial value (business growth).

“Consolidated management” is important to further enhance the effectiveness of “VCP management” by strengthening the D: Societal Implementation function. The Company will progress it even more through collaborations with DCS, JBS, and INES, which are the core companies in the Group, targeting the horizontal utilization of Group assets. For new business creation, such as the DX business, it is not limiting itself to collaborations with Group companies and is actively exploring and progressing collaborations with non-Group companies, including research facilities and venture companies.

“New normal management” refers to the Company’s acceleration of work style reforms with an eye to the major changes taking place in society. It expresses the intention of the Mitsubishi Research Institute Group to be a pioneer in conducting reforms in the post COVID-19 society. Through it, it is realizing an optimized work-life balance for employees and a maximized business performance. In addition, it is aiming to connect the findings it obtains through pioneering these reforms to VCP management’s Research & Recommendations and Societal Implementation functions, and thereby to create new business opportunities.

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Medium- to long-term growth strategy

Based on these three basic policies, the Mitsubishi Research Institute Group has also formulated Five Transformation strategies of “Growth Businesses Transformation,” “Core Businesses Transformation,” “Think Tank Function Transformation,” “Human Resources and Organizational Culture Transformation,” and “Management Systems Transformation,” and it is incorporating them into specific activities.

2. The paths taken for the five transformations

(1) Growth Business Transformation

Toward the sustainable growth of the Mitsubishi Research Institute Group, the Company has set the “DX business,” “Subscription-based business,” and the “Global business” as the growth businesses. Focused on these businesses, it intends to build a new earnings foundation and to convert its business model and business portfolio. In the DX business, it has set “DX journey,” “new normal,” “data-driven management,” and “local government DX” as the priority themes. Centered on the Digital Transformation Unit that was newly established within the Company in October 2020, it is accelerating collaborations with DCS, JBS, INES and working to strengthen the DX business. According to the Company’s business briefing materials, the DX business’ consolidated net sales were approximately ¥27bn in FY9/20, which was before the start of the Medium-Term Management Plan 2023, but are forecast to increase by ¥5bn to around ¥32bn in FY9/22, which would be a sales share of slightly less than 30%. The Mitsubishi Research Institute Group is aiming to increase the DX business’ share of consolidated net sales to more than 50% in the medium- to long-term, including from non-organic business expansion.

For the subscription-based business, the intention is to utilize the Mitsubishi Research Institute Group’s expertise and intellectual assets to efficiently and continuously increase stable earnings. Specifically, it is working on two types of subscription-based business, implementing solutions to societal issues through providing ICT solutions, and provides services to solve societal issues. It has already market launched many services, including MPX, which is an online information service for wholesale electric power transactions; Region Ring, which is a regional problem solutions-orientated digital regional currency; email de health yell, which supports health management; PRaiO, which is an entry sheets priority-level diagnosis service; the crexta talent management service; the JOBMINES job matching system; the HACCP navi food sanitation management service; the PROSRV personnel salary BPO service; and the miraicompass Internet applications service. In the future, it plans to expand the scale of the services it has already launched and to continuously launch new services.

For the Global business, the Company is utilizing the expertise cultivated in Japan as a leading country in resolving societal issues to conduct business development focused on countries in Asia and the Middle East. In Hanoi, alongside the aging population, it is currently cultivating problem awareness and promoting an understanding of the usefulness of Japanese-style systems, such as by holding symposiums. In Dubai in the Middle East, it is utilizing its track record and expertise in the environment and energy fields to establish a position of being the government’s problem-solving partner. There remains plenty of room to apply Japan’s experiences to the societal issues of other countries, and at FISCO, we anticipate that the percentage of total net sales provided by the overseas business will increase in the future.

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Medium- to long-term growth strategy

(2) Core Business Transformation

For the research and consulting business, which is the earnings foundation in order to continuously invest in the growth businesses, the Company is aiming to improve quality and productivity in the financial solutions business. While being aware of the connections up to D: Societal Implementation in VCP management, in the research and consulting business it is conducting active business development and project formation for government ministries and agencies, local governments, and private-sector companies in the priority fields, which include healthcare, energy, cities and mobility, human resources, information communication, and food and agriculture. In the financial solutions business, while deepening collaborations with Group companies and partner companies, the plan is to grow results through the multifaceted utilization of the data held by financial institutions to create new businesses, including the DX business.

(3) Think Tank Function transformation

The starting point of VCP management is strengthening the A: Research & Recommendations function, which is the foundation of the Mitsubishi Research Institute Group's value creation process, through reforming the think tank business. For example, on the Company website, it has created a page entitled "Novel coronavirus (COVID-19) crisis countermeasures: analysis and recommendations," and it is continuously disseminating information from a medium- to long-term perspective in a wide range of fields, from economics through to carbon neutrality. It is also aiming to strengthen its Research & Recommendations capabilities, including by developing the human resources who will undertake the Research & Recommendations function and coordinating with its network of non-Group companies.

Furthermore, based on the awareness that AI will bring about destructive creation in the think tank business in the future, the Company is progressing think tank DX internally with an eye to future business development, and it is actively promoting the utilization of ICT and AI in its think tank business processes. It is independently guiding this creation and destruction in the think tank business and starting to provide to external customers the experience and expertise it has acquired from this*.

* On June 30, 2021, the Company announced that it had started a service for the total support of "Implementing DX for planning work."

(4) Human Resources and Organizational Culture Transformation

In order to secure and to develop the human resources who are the foundation of the value the Mitsubishi Research Institute Group provides, the Company is progressing Human Resources and Organizational Culture Transformation, including work style reforms. In its human resources strategy, it is strengthening the recruitment of both new graduates and mid-career hires to build a human resources portfolio suitable for VCP management and consolidated management. It is also aiming to attract and to retain excellent human resources by formulating a human resources system and human resources develop plan with an awareness of diversity and specialisms.

For work style reforms, the Company is preparing an optimized working environment that combines the real and the remote. For its organizational culture, it is working to permeate throughout the Group companies its new Guiding Principles and Code of Conduct to form a culture in which employees take on the challenge of reforms.

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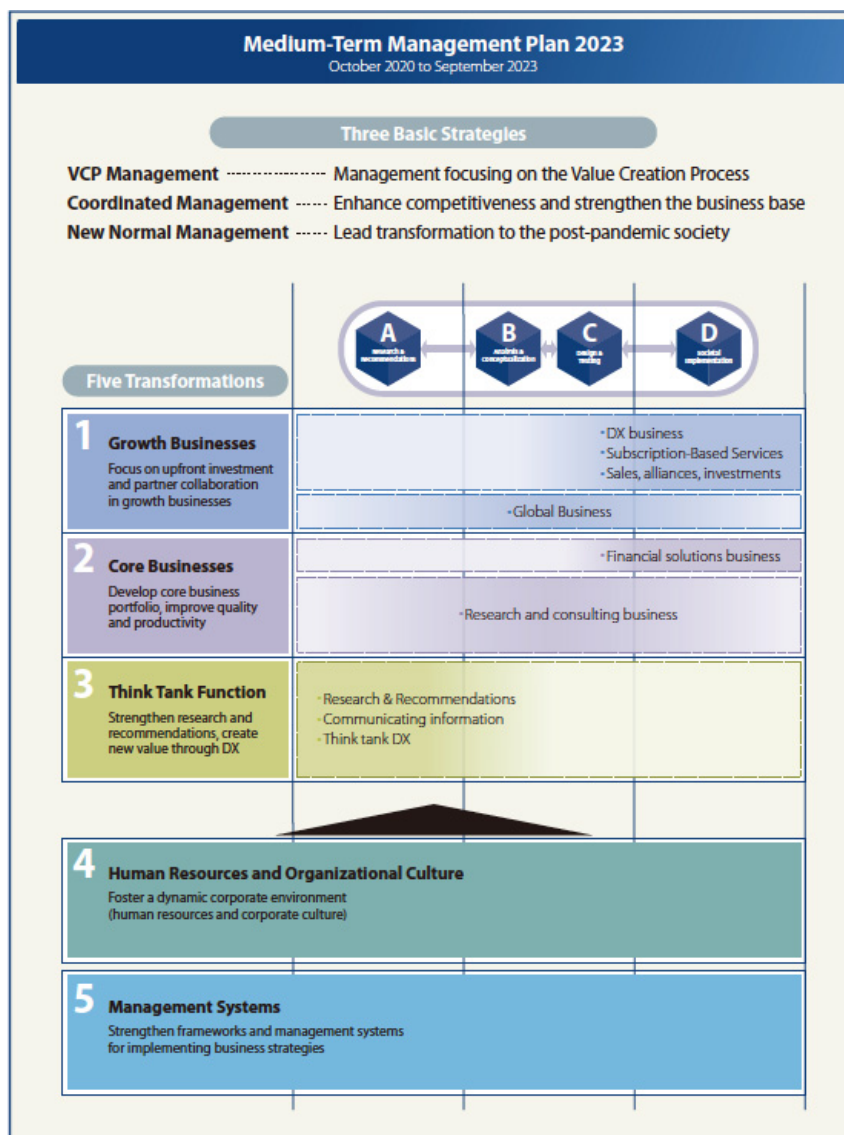
Medium- to long-term growth strategy

(5) Management Systems Transformation

This transformation is aimed at realizing the Mitsubishi Research Institute Group's sustainable growth and improved enterprise value in the medium- to long-term. Specifically, in management meetings, the Company is further enhancing the review and management system, including the various in-house committees that consult on important matters. For consolidated management as well, it is strengthening the comprehensive risk management structure and building a mechanism that can quickly and responsively deal with risks, such as those associated with new businesses. Moreover, for the infrastructure system that support business activities, it is preparing infrastructure that is highly robust and implementing both offensive and defensive measures.

As previously stated, the results of the Medium-Term Management Plan 2023 are expressed specifically in numerical results. The growth investment in the four priority fields that are being strengthened through progressing the Medium-Term Management Plan 2023 ("human resources," "Research & Recommendations," "R&D investment," and "business infrastructure") is expected to further contribute to the progress made and the results growth.

Conceptual diagram of the Medium-Term Management Plan 2023



Source: Mitsubishi Research Institute Group Report 2021

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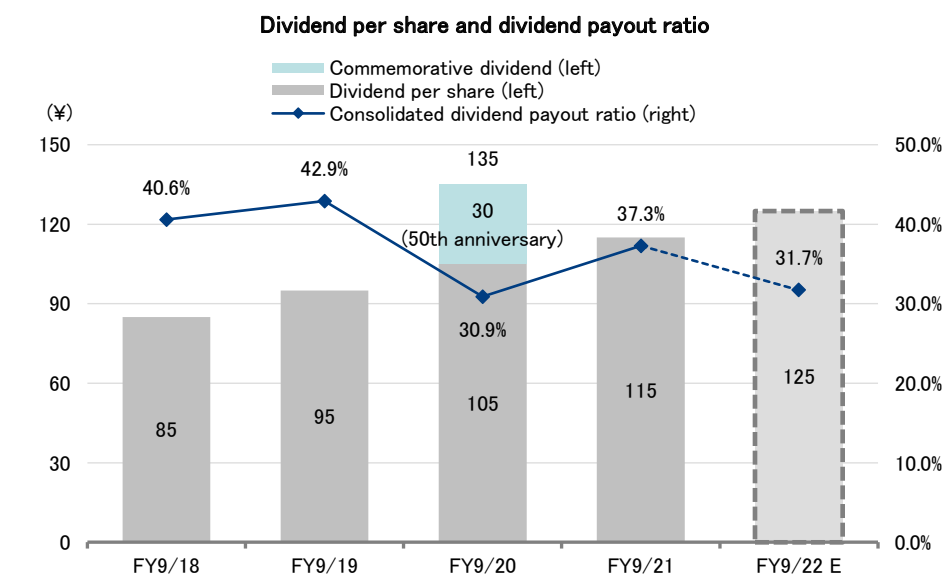
Shareholder return policy

Dividend policy prioritizes stable dividends. Alongside the expansion of business scale, is forecasting a higher dividend for the 10th consecutive period.

The Company's basic policy for shareholder returns is to stably pay dividends. It does not announce specific targets, such as for the dividend payout ratio, but it has formulated a dividend policy, that "Based on continuously paying stably dividends, we will work to raise-up the dividend level while comprehensively considering results, maintaining a balance with financial soundness, and other factors."

For the FY9/22 dividend, at the time the Company announced the 1H results, it upwardly revised the period-end dividend forecast ¥5 and the full fiscal year dividend forecast ¥125. Results will grow due to the measures in the Medium-Term Management Plan 2023, and in this situation, it seems it will continue to pay a dividend in accordance with the previously stated dividend policy. If the Company pays a dividend in FY9/22 as it has forecasted, it will increase the ordinary dividend for the 10th consecutive period since FY9/13 (excluding the 50th anniversary commemorative dividend (¥30) in FY9/20).

In the Medium-Term Management Plan 2023, the Mitsubishi Research Institute Group is aiming to convert to become companies realizing sustainable growth. At FISCO, we anticipate that it is highly likely to increase the dividend in the medium- to long-term alongside this results growth.



Source: Prepared by FISCO from the Company's news releases and financial results

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■ For inquiry, please contact: ■

FISCO Ltd.

5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062

Phone: 03-5774-2443 (IR Consulting Business Division)

Email: support@fisco.co.jp