

Special
Feature

2024 Medium-Term Business Plan

A Conversation with the CSO

In this section, Professor Masatoshi Fujiwara, an expert in innovation management, and MHI CSO, Masayuki Suematsu, discuss the 2024 Medium-Term Business Plan (MTBP) and the future direction of MHI Group.



Masayuki Suematsu

Executive Vice President and CSO

Joined MHI in 1986. Appointed Executive Vice President of Mitsubishi Agricultural Machinery Co., Ltd. in 2012 and CEO of Mitsubishi Mahindra Agricultural Machinery Co., Ltd. in 2016. Served as Senior Vice President and Head of Business Strategy Office at MHI in 2019. Assumed current position in 2023.



Masatoshi Fujiwara

Professor, Graduate School of Business Administration, Hitotsubashi University

Ph.D. in Commerce and Management at Hitotsubashi University. Specializes in strategic management and innovation management and received the 60th Economist Award for *Mechanisms for the Long-Term Innovation* (co-author).

Positioning of the 2024 MTBP

Leveraging the Foundation Built during the 2021 MTBP to Become a Leading Global Company

Fujiwara Thank you for taking the time for this conversation. I have been doing research on innovation management and strategic management. Today, I would like to ask you about MHI's corporate strategy and your innovation goals.

Suematsu Thank you for joining me today. I've been looking forward to this conversation.

Fujiwara Based on my discussions with the companies I have been researching, I hear that MHI responds in earnest to the needs of your customers. Also, there are former employees of your company who are now working in thriving start-ups. I recognize MHI as an organization that is more than just a company and that makes significant contributions to Japan's industry as a whole.

Suematsu Thank you for the kind words. MHI's "Our Principles," formulated in 1970, include this statement: "We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide." Going back even further, one of Mitsubishi's "Three Principles"—which were laid out by Koyata Iwasaki, the fourth president of Mitsubishi—focuses on "Corporate Responsibility to Society." This signifies that the ultimate purpose of business is to contribute to society. I believe that our commitment to benefiting society and our customers has been fundamental to MHI for the past 140 years.

Fujiwara Moving on to our first conversation topic, could you please share the positioning and objectives of the 2024 MTBP, which was announced in May 2024?

Suematsu Our previous plan, the 2021 MTBP, covered the three-year period from April 2021 through March 2024. It was formulated during the COVID-19 pandemic, which was a time of uncertainty. Accordingly, we designed the

2021 MTBP with the primary objective of strengthening profitability, rather than expanding business scale. As a result, in FY2023, the final year of the plan, we posted record-high results and successfully established strong business and financial foundations to support future growth. Under the 2024 MTBP, we have set the following targets: revenue of ¥5.7 trillion or higher, business profit of ¥450 billion or higher, and an ROE of 12% or higher. By reaching these goals, we seek to solidify our position as a truly global company.

Fujiwara One of the key concepts of the new plan is to strengthen portfolio management. What is your basic approach to MHI Group's portfolio of businesses?

Suematsu We place importance on setting distinctive points of focus for each of the businesses that make up the Group and finding ways to strengthen their composition as a whole. This approach is reflected in the 2024 MTBP, where we outlined three main strategies: Ensure steady performance in growing core businesses, Commercialize future growth areas, and Enhance our businesses' competitiveness. Also, our businesses range from short-cycle products, such as air conditioners, to those with longer timelines, like nuclear energy systems, where the process from planning to completion spans many years, and where plants can be operated for multiple decades. This perspective on time horizons is crucial when managing such a diverse range of businesses. We continuously think about our position in the market and who the best owner of each business is, while considering how best to strengthen the Group as a whole. With this in mind, we have identified growing core businesses and future growth areas as important focus areas in the 2024 MTBP.

2024 Medium-Term Business Plan

Capital Allocation Plan

Aggressively Invest in Business Expansion

Fujiwara Under the capital allocation plan of the 2024 MTBP, you will allocate ¥650 billion to your growing core businesses and future growth areas. Could you share more details on the specific investments being considered?

Suematsu As a manufacturer, I believe that capital investment is fundamental to success. For example, in Defense, one of our growing core businesses, it will be challenging to operate smoothly without scaling up our manufacturing facilities and equipment. In some cases, we might need to relocate operations from their current sites, so we are planning for a significant amount of capital investment. Of course, the plan also includes M&A investments. While we focus on capital expenditures and R&D to strengthen existing areas, we are also actively considering M&A to expand into new growth areas. A typical example of this is our data center business, which we are working to expand further. In October 2023, we completed the acquisition of Concentric, LLC, an American

company that provides power systems for data centers and logistics warehouses. We are considering further expansion of this business through M&A in the future.

Fujiwara Data centers are a rapidly growing sector. Could you tell us about MHI's strengths and the unique value you bring to this field?

Suematsu Data centers consume significant power 24 hours a day, so in addition to supplying our on-site standby generator sets, we will help build energy management systems to optimize overall power usage. We also specialize in HVAC systems and are developing cutting-edge technologies to efficiently cool high-heat-generating equipment. We expect to commercialize those technologies quickly. Our strength lies in our ability to provide such solutions as an integrated package. We aim to grow this into a business worth several hundreds of billions of yen in annual revenue within the next decade.

Becoming a Hub for Ecosystems

Creating Value by Combining Our Expertise with Our Partners'

Fujiwara The 2024 MTBP emphasizes your goal of becoming a hub for ecosystems. As you build ecosystems and create value for society in collaboration with various partners, what key areas will you be focusing on?

Suematsu We are not a financial services company, so we will not become a hub through financing. Our primary focus is to build an ecosystem that leverages MHI Group's proprietary technologies. One example of this is the Advanced Clean Energy Storage Project, a hydrogen production, storage, and supply project currently under

construction in Utah, United States. We supply the key component—a hydrogen-fired gas turbine—but that alone will not allow us to become a hub. This project involves a series of ecosystems in which hydrogen is produced using excess renewable energy and stored, then supplied to a gas turbine to generate electricity. We will design a comprehensive system by leveraging broad expertise and involving the most suitable partners as needed. In this way, the Group will function as a hub within this ecosystem.

“ I anticipate seeing you use the knowledge you have accumulated to innovate society and lead the world.

— Masatoshi Fujiwara, Professor

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Expand Business Areas and Grow Market Share

Enhance Competitiveness through Stronger Relationships with Customers

Fujiwara Over the years, MHI has achieved significant diversification, and your businesses operate in a wide range of sectors. What are your plans for the businesses targeted for enhancements to competitiveness?

Suematsu We anticipate growth in two directions: expanding the areas in which our businesses operate and increasing our market share. Although circumstances vary by business—such as having a high market share in a shrinking market—we generally aim to strengthen competitiveness and profitability by leveraging both of these directions. A crucial part of this process is reevaluating customer spending behavior. In most cases, purchases from the Group represent only a small portion of each customer’s total expenditures. We aim to grow the areas in which we operate by expanding business with such customers, which in turn will help attract new customers and drive market share growth as well. This is the growth model we envision.

Fujiwara In my research on business strategy, I have observed that the most successful companies are those that perform highly detailed analyses of their customer bases. For businesses that will need strengthening in the future, will you increase your focus on customer analysis?

Suematsu Yes, we will. To achieve this, it’s important for employees to have a mindset to proactively engage with customers and create opportunities to initiate dialogue.

I was previously involved in the Logistics Systems and Agricultural Machinery businesses. At that time, we extended the scope and duration of the post-sale warranty on our products, and this became a major differentiator for us versus the competition. I remember clearly how this helped strengthen relationships with existing customers and gave us more opportunities to approach new ones.

Fujiwara That’s a great example of how customer analysis and targeted strategies can improve the quality of dialogue. From another perspective, do you think that optimizing your business portfolio could also be a key factor in addressing the businesses you seek to make more competitive?

Suematsu For areas with declining demand, we need to adjust the businesses to match the reduced market volume. For example, coal-fired thermal power is facing significant challenges as the world shifts towards decarbonization. However, some customers are still operating existing coal-fired thermal power systems, so we must carefully consider how our business structure should be organized to support them effectively. In areas with shrinking demand, the possibility of excess personnel cannot be ruled out. In such cases, we may need to shift resources to other businesses. Our aim is to make full use of each individual’s skills and experience.

2024 Medium-Term Business Plan

Strengthening Technologies

Incorporating New Approaches to Increase the Latest Techniques

Fujiwara All of your businesses have their own potential for innovation, and you are making long-term investments in each of them. What approach are you taking to strengthen your technologies?

Suematsu As stated in our Group Mission, we have provided value to society by incorporating the latest techniques with technologies developed over our long history. We have a wealth of knowledge and expertise built up by combining advanced insights and technologies in response to the changing times. Our basic approach is to ensure that these assets are not left untapped and are actively utilized. Accordingly, we will accelerate this practice and decrease cycle time.

Fujiwara What are your thoughts on R&D investment?

Suematsu Our strategy is to make ongoing investments in R&D at a significant scale proportional to revenue. Currently, we are working on around 600 smaller research topics with a strong emphasis on speed, led by the CTO. We also aim to accumulate cutting-edge techniques through joint research and commissioned projects with government agencies.

Fujiwara As the CSO, are there any particular points you focus on when exploring new business opportunities?

Suematsu I pay particular attention to the technology readiness level (TRL). We intentionally diversify our

portfolio by including technologies at various stages, from early development to near commercialization. Also, as our business areas cover a broad range, the scope for exploring new ventures is equally diverse. We actively invest in promising areas, including start-ups, with varying scales of investment.

Fujiwara Recently, there has been an increase in Japanese companies investing in start-ups and then making financial and/or strategic returns as the ventures successfully grow. This seems to align with efforts to foster open innovation. MHI is also working hard to achieve open innovation, isn't it?

Suematsu Yes, and we expect these initiatives to continue to increase in the future. In Defense, for example, as ICT technology advances, we expect situations that will be difficult to address using traditional equipment alone. In addition to our own accumulated expertise, therefore, we will need to approach issues from different angles.

Fujiwara Within the section of the 2024 MTBP related to strengthening technologies, you also emphasize the need to expand monetization opportunities through the licensing business. Could you please provide a bit more detail on this?

Suematsu Most of the infrastructure-related equipment



“ As a company that is involved in solutions on both the supply and demand sides of energy, we provide unique value to society.

— Masayuki Suematsu

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the Group handles is custom-made to meet the specific requirements of each customer. Handling each project individually would lead to a shortage of manpower. Therefore, we aim to standardize key components and entrust the rest to licensees. Our intention here is to

minimize the effort required for customized solutions and achieve scalability—thereby maximizing opportunities. In terms of business areas, we expect Energy Transition-related products to be the main focus.

Realizing the Society We Aspire to Create

Building on and Refining Expertise Accumulated over 140 Years

Fujiwara MHI is involved in various types of infrastructure, including IT-related facilities like the data centers we discussed earlier. I believe that safety and reliability are the primary qualities expected of the companies that support this kind of infrastructure. Can you tell us about your company's efforts regarding safety and reliability?

Suematsu Lately, we are focusing particularly on cybersecurity. MHI Group has been targeted by numerous cyberattacks throughout the years, and by addressing them we have accumulated valuable knowledge regarding cybersecurity measures for infrastructure systems. We also provide cybersecurity solutions to monitor infrastructure facility control systems to detect and respond to unusual behavior.

Fujiwara A stable supply of energy is also essential for the safe, secure, and sustainable society that you are aiming for. What is your strategy in this area?

Suematsu Our top priority is developing and providing energy-efficient products. In the field of thermal power, our gas turbines have achieved world-class efficiency by increasing combustion temperature to 1,600°C. By also utilizing exhaust heat from gas turbines to generate power with steam turbines—a process known as gas turbine combined cycle (GTCC)—we can further enhance power generation efficiency. The availability of energy varies according to region and country, and by offering a wide

range of products and optimal solutions, we can meet diverse customer needs.

Fujiwara I look forward to seeing how things develop in the future. Speaking with you today, I've realized that there is strong ongoing demand for the technologies and services MHI has built, not only in energy but also in IT infrastructure. Also, there are high expectations for new infrastructure needs related to green transformation (GX). I anticipate seeing you use the knowledge you have accumulated to innovate society and lead the world. Finally, can you tell us about your aspirations for the future?

Suematsu MHI Group offers various solutions on the demand side of energy, including the electrification of infrastructure and automation through the use of digital technologies. Infrastructure requires reliable power supplies, and as we operate on both the supply and demand sides, we aim to use our technology to help create a smarter world. We will build upon and refine the expertise the Group has accumulated over the past 140 years and thus retain our position as a company that contributes to society.

Fujiwara Thank you very much. I have high hopes that you will successfully achieve the 2024 MTBP and realize your vision for the future.

Suematsu We are fully committed to achieving Net Zero and building a safe, secure, and sustainable society. I hope that you will follow our progress.