

3-Feb-14

Important disclosures and disclaimers appear at the back of this document.

FISCO Ltd. Analyst  
Yuzuru Sato

This company research report was originally written in Japanese, and translated to English by FISCO.

## ■ Q2 Results Sound, Potential for Full-year Results to Exceed Plan

Miroku Jyoho Service (9928) (herein MJS) is a market leader in financial accounting systems and ERP (comprehensive operating) systems for accounting firms (tax accounting and CPA firms) and their customers. In ERP systems for mid-sized companies they are the industry leader with a market share of 16%.

The Q2 FY3/14 cumulative consolidated operating results showed an increase in both sales and earnings, with sales up 3.8% y-o-y and recurring profit up 11.3% y-o-y. The major factor behind this is that since 2011 MJS has successively released new products for their flagship systems aimed at accounting firms and small- and mid-sized corporate clients, which in addition to activating replacement demand in existing customers has facilitated steady progress in new customer acquisition. Further, MJS' stock businesses, that continually generate revenue and profit, such as maintenance services and software rentals have also performed soundly.

The company's full-year FY3/14 results forecasts remained unchanged from their initial forecast with sales up 4.0% y-o-y to ¥21,760mn and recurring profit up 3.7% y-o-y to ¥2,370mn. However, given that, in addition to progress in their Q2 cumulative results being on track, we may expect demand from new customers considering systems replacement by reason of consumption tax revisions, we feel that the likelihood of MJS exceeding their plan is high.

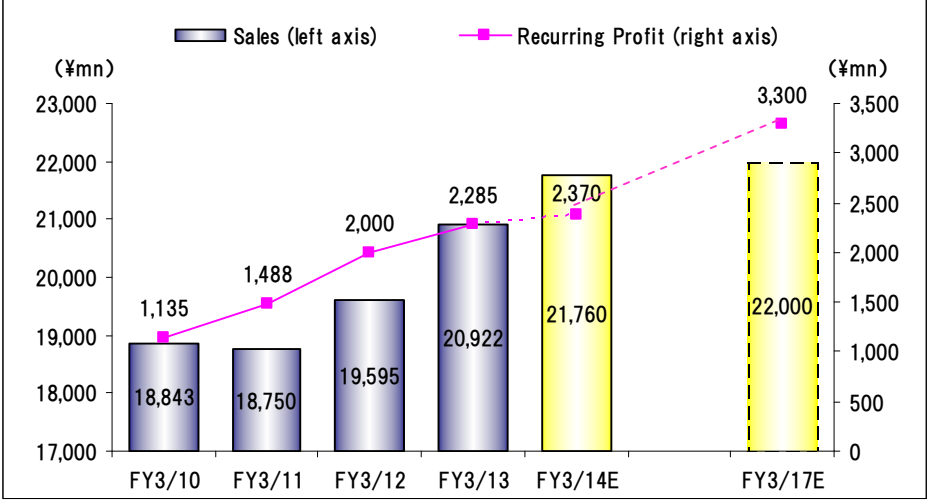
It is expected that the 3rd Mid-Term Management Plan, with its final year ending in FY3/17, will be announced at the end of fiscal 2013, with MJS taking the direction of creating new businesses using the internet as a platform, in addition to strengthening existing operations. From September MJS started providing 3 personal money management applications on a free basis, and also entered the BtoC field. MJS' direction will be to aim for further growth going forward, using as its platform maintenance service operations that have developed into a stable revenue source.

\*Share based on a shipped monetary basis of ERP systems for mid-sized companies with annual sales of ¥500mn to ¥5,000mn, according to the MIC Research Institute Ltd.'s "Core Operating Package Software Market Outlook, 2013 Edition".

## ■ Check Points

- Operating profit set a new record high on a half-yearly basis for the 3rd consecutive term
- Potential for full-year results to exceed the plan due to last-minute demand before the consumption tax hike
- 3rd Mid-term management Plan revenue target already in MJS' sights, potential for an upward revision

Result Trends, FY3/10-Mid-term goals



Corporate Overview

(1) Corporate History

Shifting its business model in line with changes in the times

Since its establishment in 1977, MJS has, while shifting its business model in line with changes in the times, from data processing services at its data processing centers, to office computer businesses, and then focused on management data and other information services in addition to the development and sale of package software, undertaken the provision of management and management information services, centered on financial and accounting systems. As a company developing and selling financial and accounting systems it has a long-established position in the Japanese marketplace. Currently, MJS is strengthening the development of services compatible with cloud computing and multi-devices, which form the new wave in technology.

Core Service Format	Year	History
Data Processing Center	1977	MIROKU JYOHO SERVICE Co., Ltd. Established
	1978	New financial data processing system MS-1 developed & sales started Online terminal MJ S800 developed & sales started, online service commenced
Office Computing	1980	Shift from data processing center to office computing development & sales business Development & commencement of sales for the specialist MicroAce Model Series for accounting firms
	1983	Entry into the market for clients advised by accounting firms Development & commencement of sales for the specialist Pro Office Computing [Accounts] aimed at accounting firm clients
	1988	Re-established the MJS logo, unified corporate naming under MJS
Shift to Open Systems Package Software	1990	Developed & commenced sales for package software for PC installation "SI Financial Chief", "SI Sales Chief" and "SI Salary Chief"
	1992	Became a listed enterprise by an OTC listing on the Japan Securities Dealers Association (currently
	1994	Developed & commenced sales for the accounting telecommunications system MJS-COMPASS linking accounting firms and the client companies advised
	1996	Commenced construction on the Shinshaya Bldg, Shifted Head Office to Yotsuya, Shinjuku-Ku, Tokyo Established a customer service center to improve customer service Listed on the TSE 2nd Section
Shift to Service Provider	1997	Commence sales of the MICSNET Series ERP systems compatible with Windows NT® for mid-sized
	1998	Received approval for registration/certification as a systems integration company by METI
	1999	Established MJS' think-tank the MJS Taxation Systems Research Facility
	2001	Commenced sales of the ACELINK Series of network solution systems for accounting firms
	2002	Commenced sales of the MJSLINK Series of operations and comprehensive information systems for small- and mid-sized companies
	2004	Received ISO 9001:2000 certification for quality management standards Developed business information system bicocean targeting businesspeople at small- and mid-sized companies and venture companies
	2005	Developed and commenced sales of the ACELINK Navi Series of network solution systems for accounting firms Developed and commenced sales of the MJS i-Series of web-based operations systems for small- and mid-sized companies
	2007	Developed and commenced sales of the Galileo package ERP systems for mid-sized companies Developed and commenced sales of the MJSLINK II Series of package ERP systems for small- and mid-sized companies
	2008	Concluded an official uniform partnership agreement with the J-Leagues Tokyo Verde
	2009	Received certification for all companies for the ISMS information security management system
2011	Commenced sales the ACELINK NX-Pro ERP system for accounting firms (April)	
2012	Commenced sales of the Galileo NX-I ERP system for mid-sized companies (February)	
2013	Commenced sales of MJSLINK NX- I ERP system for small- and mid-sized companies (April) Started providing free 3 multidevice compatible applications in its Money Tracker Series (September)	

Source: : Prepared by FISCO from company materials.



## (2) Operational Overview

### Partnership with accounting firms, approaching small- and mid-sized corporate clients

MJS' current business model, in addition to the development and sale of ERP (comprehensive operations management) systems focused on finance and accounting, consists of the provision of services associated with system installation such as instruction on system settings and operation, and network development, as well as operations, maintenance, call center and other support services.

MJS' main customers are accounting and tax accounting firms, and the small- and mid-sized corporate clients that these firms advise. In the accounting firm market, MJS boasts around 8,400, representing a share of approximately 25% of that industry. Further, MJS can claim approximately 17,000 small- and mid-sized corporate users, with its share of ERP system sales to mid-sized companies placing MJS as the industry leader at around 16%. Moreover, in respect of small- and mid-sized corporate users, while many are companies advised by MJS' accounting firm customers that are referred by those firms. If we consider that the number of small- and mid-sized corporate clients of these accounting firms is in the order of 550,000, there is arguably still significant room to exploit this market.

#### MSJ Operational Overview

	Accounting firms (tax accountant & CPA offices)	Small & mid-sized companies (Centered on entities advised by accounting firms)
System provided by MJS	<ul style="list-style-type: none"> <li>Financial &amp; accounting systems</li> <li>Tax reporting systems etc.</li> </ul>	<ul style="list-style-type: none"> <li>ERP systems centered on financial &amp; accounting systems (accounting, payroll, sales management)</li> </ul>
Service provided	<ul style="list-style-type: none"> <li>System installation support services</li> <li>Various maintenance services</li> <li>Training &amp; information services etc.</li> </ul>	<ul style="list-style-type: none"> <li>System integration</li> <li>Various maintenance services</li> <li>Training &amp; informations services etc.</li> </ul>
Marketing method/ Support systems	Almost 100% direct sales 30 sales & support locations nationwide	Direct sales 95% Agency sales (5%) 30 sales & support locations nationwide
No. of users/ Market share	8,400 offices, 25% market share	17,000 companies, 16% market share for mid-sized companies (*)

Note: Share based on a shipped monetary basis of ERP systems for mid-sized companies with annual sales of ¥500mn to ¥5,000mn, according to the MIC Research Institute Ltd.'s "Core Operating Package Software Market Outlook. 2013 Edition" .

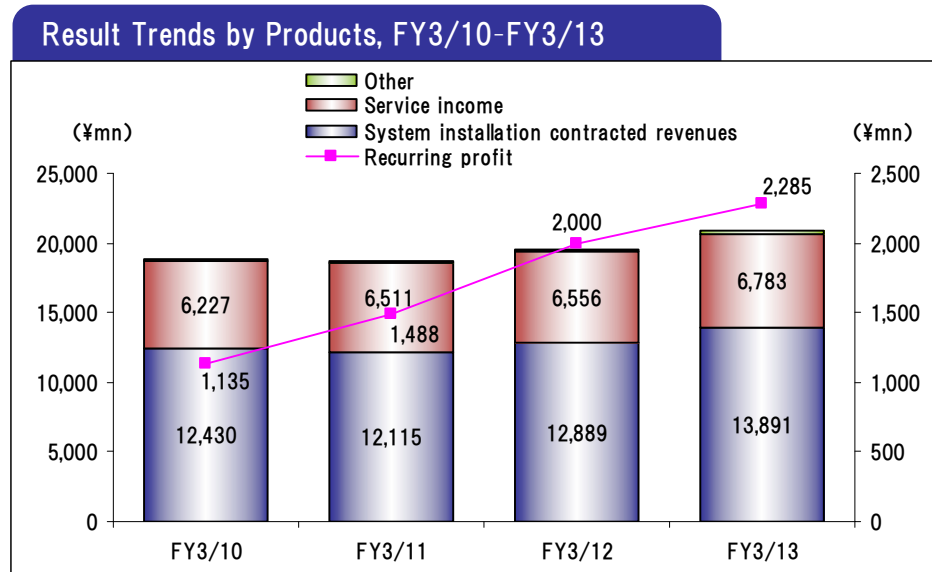
## (3) Business Trends

### Achieved record earnings for a second consecutive period by new customer acquisition and steady earnings growth

In the last few years, MJS has realized earnings growth in stock businesses that flow from after sales services (such as software, hardware and network maintenance services, and its call center that operates 24 hours a day 365 days a year) as a result of focusing on new customer acquisition. As a result, MJS' profitability has increased and it has achieved record earnings for a second consecutive period.

## ■ Corporate Overview

Moreover, new products being sold in MJS flagship systems include ACELINK NX-Pro for accounting firms in April 2011, the Galileopt NX-I ERP system aimed at mid-sized companies in February 2012, and the MJSLINK NE-I ERP system for small- and mid-sized companies in April 2013 respectively. Normally, the lifespan for each product is 5-6 years, with the trend being for sales to peak around 3rd year.



Note: System installation contracted revenues includes hardware/software sales and service support for system installation and other initial support

## ■ Operating Results Trends

### (1) Cumulative Q2 FY3/14 Results

### Operating profit set a new record high on a half-yearly basis for the 3rd consecutive term

MJS' cumulative Q2 FY3/14 operating results (Apr-Sep 2013) that were announced on October 30, 2013 showed sales up 3.8% y-o-y to ¥10,619mn, operating profit up 10.3% y-o-y to ¥1,156mn, recurring profit up 11.3% y-o-y to ¥1,180mn, and quarterly net profit up 12.3% y-o-y to ¥674mn. Sales and earnings both expanded solidly, with operating profit in particular setting new record highs on a half yearly basis for 3 consecutive periods. Further, despite sales being slightly below the Company plan from the beginning of the term, on an earnings basis all profits were above target. In respect of the operating profit margin also, with a rise of 0.6% from the preceding period to 10.9%, the trend for increased profitability is also continuing.

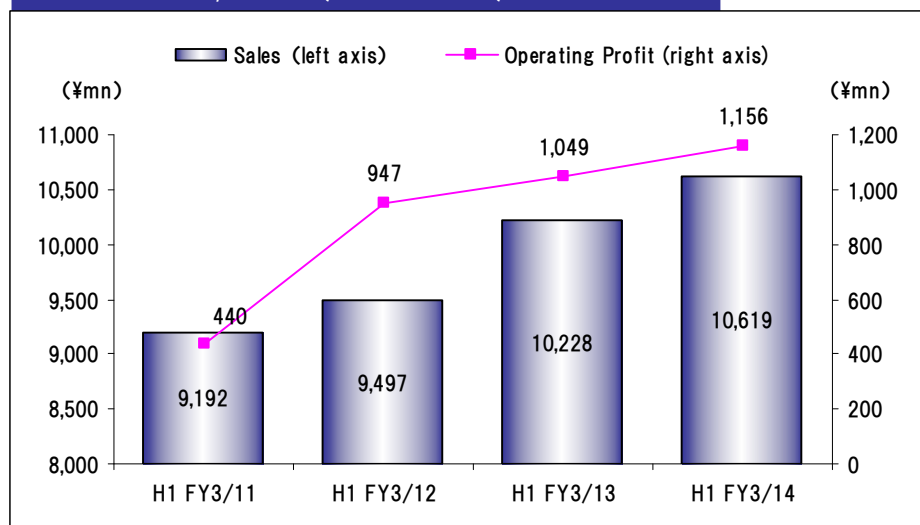
## ■ Operating Results Trends

## Consolidated results for H1 FY3/14

(Unit: ¥mn)

	H1 FY3/13		H1 FY3/14				
	Result	Ratio	Initial target	Result	Ratio	y-o-y	Change from the target
Sales	10,228	-	10,740	10,619	-	3.8%	-1.1%
Gross profit	6,544	64.0%	-	6,758	63.6%	3.3%	-
COGs	5,495	53.7%	-	5,601	52.7%	1.9%	-
Operating profit	1,049	10.3%	1,130	1,156	10.9%	10.3%	2.4%
Recurring profit	1,060	10.4%	1,130	1,180	11.1%	11.3%	4.5%
Net profit	600	5.9%	630	674	6.4%	12.3%	7.1%

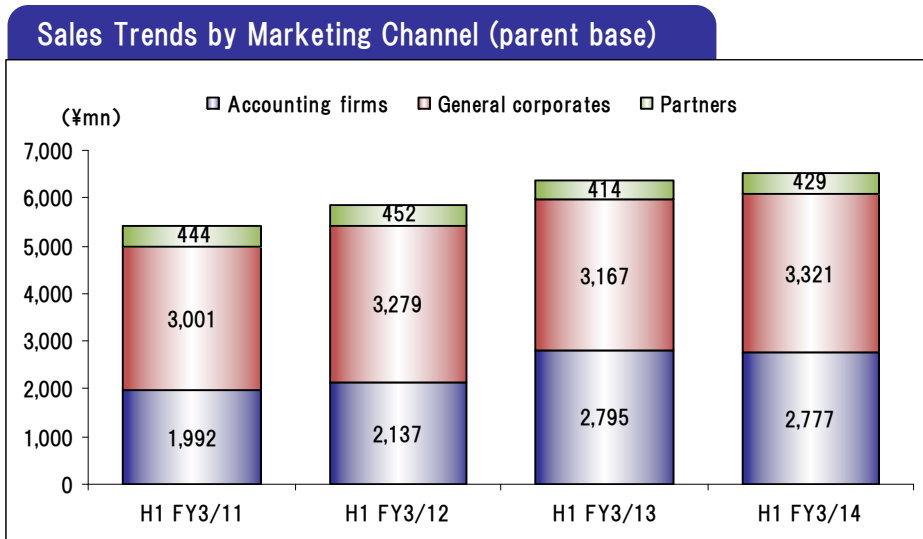
## Result Trends, H1 FY3/10 - H1 FY3/14



A major factor behind these sound results has been that, in the last 3 years, MJS has introduced 3 new flagship product types, activating replacement demand in existing customers. In the cumulative Q2 results this term also (Apr-Sep 2013), apart from ACELINK NX-Pro for accounting firms performing soundly, replacement demand for Galileopt NX-I aimed at mid-sized companies, and MJSLINK NX-I that was released in April 2013 aimed at small- and mid-sized companies, as well as the growth in sales to newly acquired customers proved to be the drivers. We understand that expansion in the growth of sales to newly acquired (corporate) customers, which rose 3.3% y-o-y, is progressing steadily.

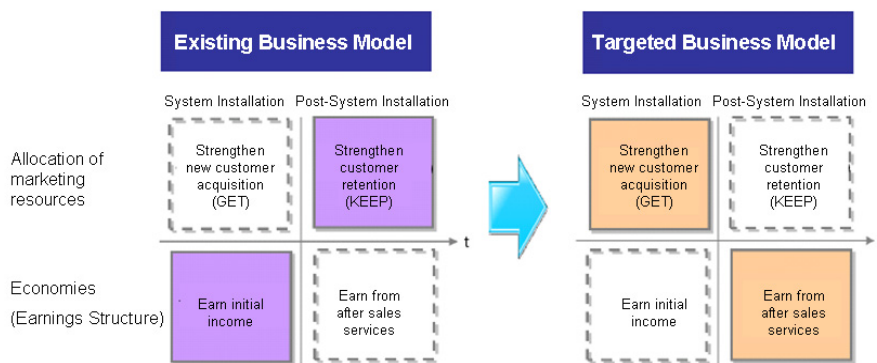
It can be seen from looking at sales by marketing channel (parent basis) that, in respect of accounting firms the impact from the introduction of a new product the year before last was apparent, with current cumulative Q2 sales stable at almost the same level of ¥2,777mn, down 0.6% y-o-y. On the other hand, corporate customer sales rose 4.9% y-o-y to ¥3,321mn, with the impact of the introduction of new products apparent. Within this, in respect of MJSLINK NX-I aimed at small- and mid-sized companies, it is anticipated that real revenue growth will occur from Q3. MJS' September-end contractual balance of orders for systems installation was 3.9 months, displaying further accretive growth from the 3.4 months at March-end. However, the bulk of this is represented by outstanding orders for MJSLINK NX-I. In respect of this product, it is believed that this marks the success of a proactive marketing strategy, including new product launches that were held in major cities nationwide in conjunction with the commencement of sales.

■ Operating Results Trends



Further, as another factor behind the continuing steady expansion in operating results in the last few years, as noted above, one may cite MJS’ promotion of the strengthening of service operations (stock business) as a key point. MJS’ previous business model, as per the diagram below, primarily derived income from flow business (sales from system installation contracts), with marketing channeling marketing resources accordingly, prioritizing the renewal of contracts with existing customers. However, in order to aim to expand income as well as profitability, MJS has promoted the strengthening of stock\*1 business (service income) in the last few years, and, as well as building a stable revenue base, has channeled marketing resources into new customer acquisition. We feel that the fruits of the transition to this type of earnings model are now starting to appear.

### Focused on Business Model Transition Via Ongoing New Customer Acquisition



<p><b>Flow Business (Contractual revenues from systems installation)</b></p> <p>Provision of hardware, software &amp; useware</p> <p>Installing a range of software into hardware, undertaking network development, establishment of operating environments, and operational guidance in accordance with customer requests.</p>	<p><b>Stock Business (Service income)</b></p> <p>Provision of a range of maintenance services</p> <p>Respond to hardware and network faults, software and other upgrades, and provide a range of maintenance services.</p>
---	--



## ■ Operating Results Trends

Further, sales by product are as set out in the table below. Sales from systems installation contracts rose 2.9% y-o-y to ¥6,971mn, within which software performed solidly up 4.0% y-o-y due to the impact, among other things, of the introduction of new products.

At the same time, service income rose steadily by 4.0% y-o-y to ¥3,484mn. The breakdown shows that software usage fees for accounting firms and corporate customers trended soundly being up 15.3% y-o-y to ¥354mn. In software rentals there was a partial start of cloud services. Products such as iCompass and Kichoukun, which are accounting software mainly used by small-scale enterprises that come via accounting firms, performed well. Currently, there are 26,000 software rental contracts expanding at a pace of 4,000-5,000 per annum, with double-digit growth also expected going forward.

Further, in respect of software operations support services also MJS' operations performed soundly with a rise of 5.2% y-o-y. In addition to an increase in customer numbers, one factor is that the percentage of maintenance service contracts is rising steadily. In respect of the percentage of maintenance service contracts amongst existing customers, whilst 10 years ago it was only at a level in the order of 35%, as a result of promoting stock business, currently almost 100% of customers have concluded maintenance service contracts, which is (as noted) a factor behind the fact the steady rise in earnings at MJS.

The growth rate of other sales was high at 52.3%. However, the major factor behind this was growth in advertising income from bizocyan, the business information site that MJS operates. This site was created to support business people at small- and mid-tier firms as well as venture companies, and is currently a site where membership has been free. 70% of members hold office at small-scale enterprises with 100 or less staff, with over 45% being managerial staff. Its content includes of over 16,000 templates including quotation and invoice documents used commercially that are distributed for free. Member registrations are increasing at the pace of about 1,500 per day, with total member numbers now breaking the 1 million mark. There are approximately 10 million page views (PV) per month, with its value as an advertising medium rising.

## Consolidated Revenue by Product/Service Income

(Unit: ¥mn)

Operating Segment	Service menu	H1 FY3/13	H1 FY3/14	y-o-y
System Installation Contract Revenues	-	6,772	6,971	2.9%
Hardware	PC, server & other hardware sales	1,381	1,389	0.6%
Software	Handling various software for ERP & other systems	4,201	4,370	4.0%
Useware	System installation & other initial support	1,190	1,211	1.8%
Service Income	-	3,349	3,484	4.0%
TVS	Comprehensive maintenance service for accounting firms	867	886	2.2%
Software usage fees	Software rentals for clients of accounting firms	307	354	15.3%
Software admin & support services	Comprehensive maintenance service for SMEs	1,337	1,406	5.1%
HW/NW maintenance	Hardware & network maintenance	548	537	-2.0%
Office supplies & consumables	Sales of office supplies & consumables	287	299	4.2%
Other		107	163	52.3%
Consolidated total		10,228	10,619	3.8%



## ■ Operating Results Trends

## (2) Financial Position

## Continual yearly improvement despite a minor y-o-y decline in the shareholders' equity ratio

MJS' financial position at the end of September 2013 is as per the table below. Total assets rose ¥907mn y-o-y to ¥16,769mn, with cash on hand and in banks rising. On the other hand, on the liability side, due to increases in accrued taxes payable and interest bearing liabilities, there was an increase of ¥543mn y-o-y to ¥6,866mn, with net assets increasing with earnings, rising ¥364mn y-o-y to ¥9,903mn. Despite the balance of interest bearing liabilities rising slightly, due to an increase in cash on hand and in banks, net cash rose ¥472mn y-o-y.

MJS' shareholders' equity ratio declined marginally y-o-y to 58.8%, however, as this is due to temporary factors such as the increase in accrued taxes payable, we feel there is continued underlying annual improvement.

### Consolidated Balance Sheet

(Unit: ¥mn)

	3/11	3/12	3/13	9/13	Change	Factors
Current assets	7,327	8,080	8,003	8,935	931	
Cash & near cash	3,129	3,992	3,285	4,069	784	Due to increases in profit
Accounts receivable	3,221	2,841	3,607	3,244	-362	
Inventories	264	480	407	709	302	
Fixed assets	7,666	7,351	7,859	7,834	-24	
Tangible fixed assets	4,038	4,003	4,020	4,080	59	
Intangible fixed assets	1,809	1,445	1,861	1,688	-172	Decrease in hardware assets
Investments & other assets	1,818	1,902	1,976	2,065	89	
<b>Total assets</b>	<b>14,993</b>	<b>15,431</b>	<b>15,862</b>	<b>16,769</b>	<b>907</b>	
Current liabilities	4,978	5,474	5,326	5,652	325	Increase in tax payable
Current portion of interest bear	1,802	1,819	1,933	2,025	91	
Fixed liabilities	2,115	1,341	996	1,214	217	
Bonds	662	410	30	-	-30	
Long-term borrowings	1,289	819	865	1,085	220	
<b>Total Liabilities</b>	<b>7,094</b>	<b>6,816</b>	<b>6,323</b>	<b>6,866</b>	<b>543</b>	
<b>Net assets</b>	<b>7,899</b>	<b>8,615</b>	<b>9,539</b>	<b>9,903</b>	<b>364</b>	
(retained earnings)	(2,958)	(3,650)	(4,470)	(4,776)	306	
<b>Total Liabilities &amp; Net Assets</b>	<b>14,993</b>	<b>15,431</b>	<b>15,862</b>	<b>16,769</b>	<b>907</b>	
Interest bearing debt	3,753	3,049	2,829	3,110	281	
Net cash (cash - Interest bearing debt)	624	-943	456	959	503	
Current ratio (%)	147.2	147.6	150.3	158.1	7.8	
Equity ratio (%)	52.7	55.8	60.0	58.6	-1.4	

### Cash Flow Statement

(Unit: ¥mn)

	FY3/11	FY3/12	FY3/13	H1 FY3/14
Cash flow from operations	1,054	2,570	411	1,184
Income before income taxes	1,381	2,003	1,752	1,177
Amortization of goodwill	516	542	558	299
Tax	-708	-749	-1,015	110
Other	-135	774		
Cash flow from investing	-238	-546	-560	-87
Acquisition cost of tangible fixed assets	-121	-157	-220	-119
Acquisition cost of intangible fixed assets	-175	-167	-278	-148
Cash flow from financing	-738	-1,161	-657	-112
Short-term borrowing	-200	0	-500	0
Bond	-47	-244	-252	-90
Long-term borrowing	163	-461	532	371
Dividends paid	-375	-367	-369	-367
Other	-279	-89	-68	
Increase in cash and cash equivalents	77	862	-807	984
Balance of cash and cash equivalents	3,001	3,863	3,056	4,041





### (3) FY3/14 Outlook

## Potential for full-year results to exceed the plan due to last-minute demand before the consumption tax hike

The FY3/14 operating results outlook is unchanged from the plan at the beginning of the term, with sales up 4.0% to ¥21,760mn, operating profit up 4.6% to ¥2,380mn, recurring profit up 3.7% to ¥2,370mn, and net profit up 11.1% to ¥1,320mn. Examining the percentage of progress up to the cumulative Q2 results (Apr-Sep 2013), both sales and operating profit are at the 49% level. However, given inter alia, as noted above, considering that from Q3 replacement demand for MJSLINK NX-I aimed at small- and mid-sized companies will be activated, and additionally, demand from new customers considering systems replacement as a result of consumption tax revisions in April 2014 is anticipated, we feel that there is significant potential for results to exceed the plan.

In operational development going forward 3 points have been cited for strengthening. Firstly, MJS will strengthen overall management support services, including business succession issues for accounting firms and the clients they advise. Secondly there is the issue of expansion of MJS' internet business, and lastly tackling BtoC operations.

### ● Strengthening overall management support services

## Strengthening consulting service for accounting firms and the clients

Regarding the first item of management support for accounting firms and the clients they advise, MJS' policy is to fortify consultative marketing, and thus also continuously tackle human resource development. In recent years, there is an increasing trend for succession issues to be amongst the management issues at accounting firms and small- and mid-sized companies. It is said that the average age of management at accounting firms is in the order of 65 years of age, with the number of accounting firms closing down also increasing. As a result, for MJS also strengthening business succession support is a critical issue. If MJS loses its accounting firm clients, it may lead to losing the corporate clients that those firms advise. In April last year MJS has newly established a specialist department called the Accounting Firm Support Office, which supports smooth business succession. Further, it seeks to enlarge the broad range of management services provided by accounting firms to their corporate advisory clients over and above accounting and tax services. Going forward, MJS has a policy of further strengthening its response in the field of consulting also, as part of its management mission to "promoting growth at SMEs together with accounting firms". In relation to human resources also, it plans to increase the intake of new graduate recruits from 40 in the spring of 2013 to 50 in the Spring of 2014.

## ● Expanding internet operations

### Expansion in advertising income from a growing rapidly free membership site

In respect of the 2nd item internet business, as noted above one can cite MJS' foray into the business management website bizocean. Currently, as a free membership site, it is growing rapidly with monthly page views of approximately 10mn, which in turn leads to expansion in advertising income. The direction MJS is aiming for is to expand sales by measures such as further enhancing content, considering the development of paid content, and collaboration with BtoC operations.

## ● Tackling BtoC operations

### Marked 140,000 download of Money Tracker Series in a short time

In respect of the 3rd item BtoC business, from September 2013 MJS started providing for free 3 multidevice compatible applications in its Money Tracker Series of money management applications for individuals. The 3 application types (Money Tracker, which can separate and manage personal and business monies, Tax Support\*2, which supports book keeping tasks required in tax returns, and Setsuyaku Kaneko, which links to coupons and facilitates fun and simple money management) have already in a short time broken the 140,000 download mark already on a cumulative basis.

A strength of the application that may be cited is that it was developed using the software development know-how from the specialist fields (accounting, taxation) that MJS engages in, and allows management of personal finances to be undertaken with ease. Ultimately it is planned for them to link to expense settlement and tax return systems, and allow for retrieval of data including bank account balances and credit card particulars. According to MJS teens are the most prolific user generation for the application, and from a long-term perspective, this penetration of a customer class that they have been hitherto unable to reach, has the potential to become the trigger to accelerate cloud service development going forward.

## ● Capital & Operational Tie-up

### XBRL enables more sophisticated service solutions

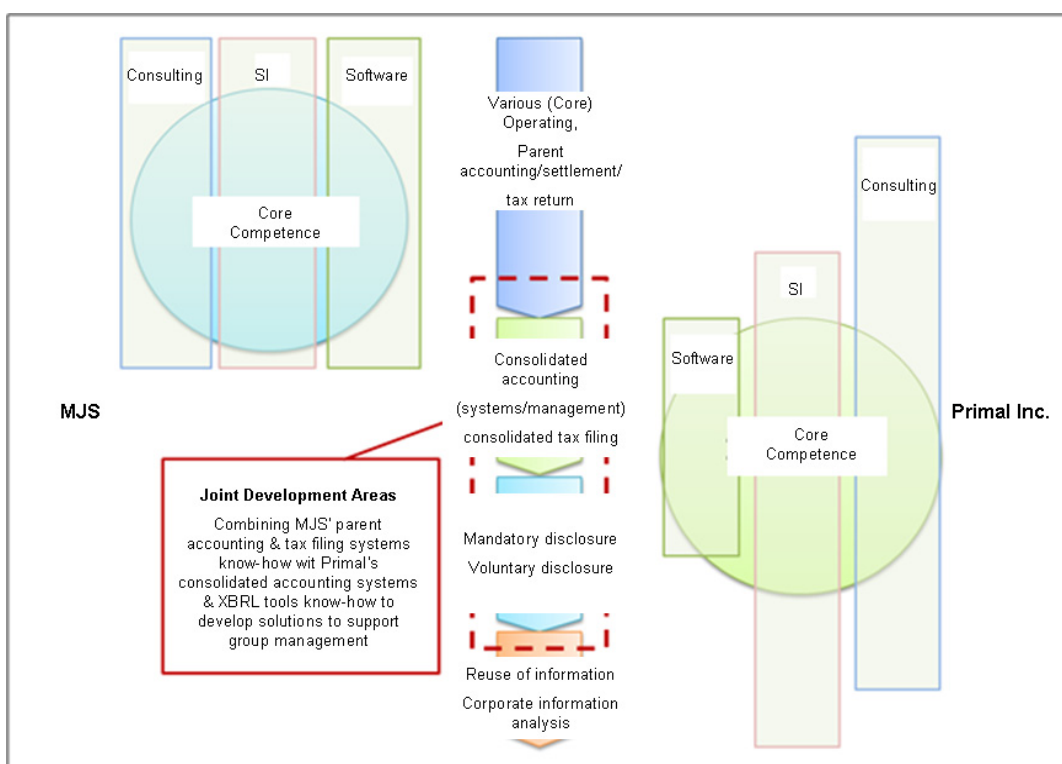
In addition to this, on October 10, 2013 MJS announced a capital and operational alliance with Primal Inc., which develops and markets consolidated accounting systems. Primal is a provider of consolidated accounting systems, and, in particular, possesses acclaimed technological know-how in the field of XBRL (Note 1), which is used when making corporate disclosures of financial statements and other materials. MJS will accept a third party allotment from Primal, and hold 33.3% of the shares outstanding.

Note 1: XBRL refers to a standardized XML based language that allows the creation, distribution and reuse of financial information. It is used in systems such as the TSE timely disclosure system and FSA's EDINET (an electronic disclosure system for securities reports and other materials).

■ Operating Results Trends

MJS formed an alliance in February 2012 with Primal, and promoted cooperation between the two companies' products, however, from September 2013, with the XRBL scope in the FSA's next generation EDINET being not limited to financial statements, but being expanded to all disclosure documents, and additionally its development of environmental enhancement in order to respond swiftly to accounting structures and changes in response to IFRS (International Financial Reporting Standards), MJS decided to jointly develop an advanced system. It is not expected that it will contribute in the near-term to operating results. However, by expanding its alliance with Primal, that possesses consolidated accounting systems know-how, and for the very reason that it will enable more sophisticated service solutions, it is expected that it will make a positive contribution in the mid-term.

**Overview of Business Competence and Joint Development Area**



Source: Company

■ **3rd Mid-Term Management Plan**

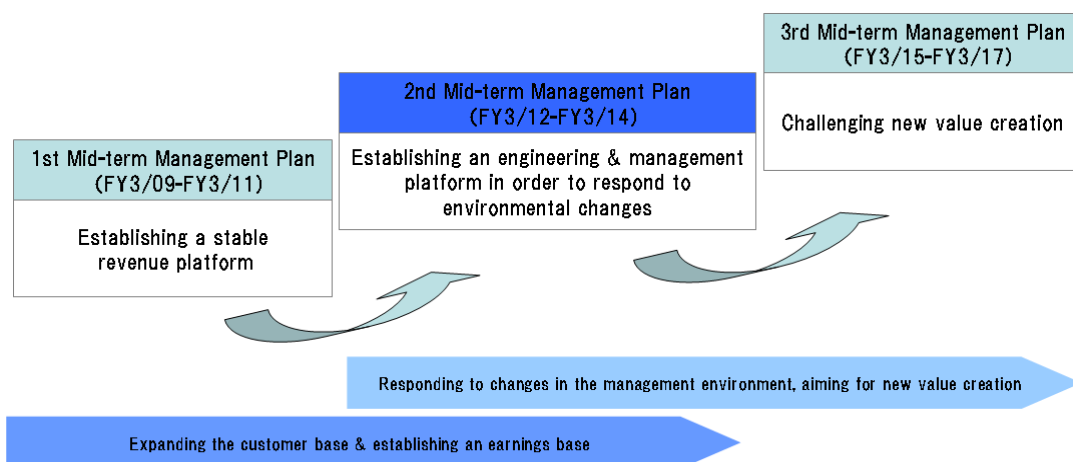
**Revenue target already in MJS' sights, potential for an upward revision.**

In the 2nd Mid-term Management Plan, that has FY3/14 as its final year, with its theme of "establishing technological and management platforms in order to respond to environmental changes", operating results targets of ¥21,760mn in sales and ¥2,370mn in recurring profit were flagged, however, the likelihood of clearing these targets is high.



### 3rd Mid-term Management Plan

In respect of the 3rd Mid-term Management Plan, which has FY3/17 as its last year, with its theme of “the challenge towards new value creation”, MJS aims for further growth, setting a basic policy of expanding existing businesses, creating new businesses and developing global operations. In respect of the 3rd Mid-term Management Plan operating targets that were announced at the same time as the 2nd Mid-term Management Plan, given that sales are already within an achievable range the likelihood for an upward revision is high. It appears that specific management targets will come at the end of the fiscal year, with how MJS will achieve a recurring profit margin in the order of 15% a focus of attention. In the creation of new businesses, as mentioned previously, MJS has already started to tackle internet business and BtoC operations. Further, in its global business roll-out, while still at the market research stage, it would appear that new development initiatives over the mid-term are already being considered.



## 2nd & 3rd Mid-term Management Plan Operating Targets

(Unit: ¥mn)

	Result FY3/12	Result FY3/13	2nd Mid-term Plan FY3/14		FY3/12→FY3/14 Annual Growth Rates	3rd Mid-term Plan FY3/17	FY3/14→FY3/17 Annual Growth Rates	Annual Growth Rates
Sales	19,595	20,922	20,500	21,760	+5.4	22,000	+4.0	+2.3
Recurring profit	2,000	2,285	2,150	2,370	+8.9	3,300	+11.7	+10.5
RP Margin	10.2%	10.9%	10.5%	10.9%	-	15.0%	-	-

Note: Average annual growth rates represent compound annual growth rates (CAGR)

## Comparative Share Price Valuation

### Positioned as relatively undervalued versus its 12 peers

We undertook a comparison in respect of MJS’ share price valuation against 12 corporate peers that provide financial and accounting systems in addition to ERP systems (refer table below). MJS’ expected PER and actual PBR were lower than the 12-peer average, while indicators such as its expected ROE, ROA and dividend yield were all at high levels. In particular, with MJS’ expected PER trading in the 9 times it is at the lowest level amongst those of the 12 peers listed on the TSE 1st Section, positioning it relatively speaking in the undervalued zone.

MJS’ operating results are on track to set new record highs, and with stable growth also expected going forward, a dividend yield in excess of 3%, and its maintenance going forward of an ROE in excess of 10%, which is viewed as a key investment criteria, we feel there are many points on which the stock ought be re-rated.



■ Comparative Share Price Valuation

## Peer Comparison

Name	Listed	Period	Code	Share price (¥)	Market capital (¥mn)	PER (x)	PBR (x)	ROE (%)	ROA (%)	Dividend yield (%)
Oracle Japan	TSE 1	May	4716	4,035	512,818	17.7	6.6	37.3%	35.5%	2.3%
Otsuka Corporation	TSE 1	Dec	4768	12,500	395,012	21.8	2.6	12.0%	11.6%	1.6%
OBIC	TSE 1	Mar	4684	3,185	285,635	18.7	2.3	12.1%	14.1%	0.8%
SCSK	TSE 1	Mar	9719	2,941	305,061	17.4	2.8	16.1%	7.6%	1.4%
OBC	TSE 1	Mar	4733	3,400	127,780	24.5	1.8	7.2%	8.8%	0.7%
TKC	TSE 1	Sep	9746	1,827	48,622	13.1	0.9	6.6%	8.3%	2.4%
JDL	TSE 1	Mar	6935	1,533	51,981	12.3	0.7	5.6%	5.7%	2.0%
MIROKU JYOHU SERVICE	TSE 1	Mar	9928	419	12,851	9.7	1.3	13.4%	14.2%	2.9%
Avant	JQ	Jun	3836	1,178	5,529	14.7	2.9	19.4%	15.1%	1.1%
PCA	TSE 2	Mar	9629	1,399	9,585	38.0	0.9	2.4%	3.2%	2.2%
Pro-Ship	JQ	Mar	3763	1,939	7,050	10.4	1.4	13.7%	18.1%	3.6%
Toyo Business Engineering	TSE 2	Mar	4828	999	5,994	25.0	2.1	8.4%	7.1%	1.4%
Total, mean value for 12 companies					1,255,100	18.8	2.0	10.8%	9.6%	1.9%

Note 1: ROA and ROE are calculated dividing expected NP and OP for the current period into the previous period's shareholders' equity and total assets.

Note 2: Share prices are the final prices for May 29, 2013.

Note 3: JQ is an abbreviation for a JASDAQ listing

## Income Statement for FY3/10-FY3/14E

(Unit: ¥mn)

	FY3/10	FY3/11	FY3/12	FY3/13	FY3/14E
Sales	18,843	18,750	19,595	20,922	21,760
COGs	7,205	6,433	6,850	7,440	8,015
Gross profit	11,638	12,308	12,741	13,485	13,745
SG&A	10,468	10,801	10,718	11,210	11,365
Operating profit	1,169	1,506	2,023	2,275	2,380
Recurring profit	1,135	1,488	2,000	2,285	2,370
Extraordinary gains	112	67	16	0	-
Extraordinary losses	81	175	12	533	-
EBIT	1,167	1,381	2,003	1,752	-
Corporate income tax	609	675	945	564	-
Net profit	558	705	1,058	1,187	1,320
Outstanding shares (mn shares)	31.38	30.59	30.67	30.67	30.67
EPS	17.72	22.97	34.53	38.73	43.04
DPS	12.00	12.00	12.00	12.00	12.00
y-o-y growth (%)					
Sales	-1.7	-0.5	4.5	6.8	4.0
Operating profit	40.2	28.9	34.3	12.4	4.6
Recurring profit	44.2	31.1	34.3	14.3	3.7
Net profit	2,225.0	26.3	50.1	12.2	11.1
Ratio to sales (%)					
Gross Profit	61.8	65.6	65.0	64.5	63.2
COGs	55.6	57.6	54.7	53.6	52.2
Operating profit	6.2	8.0	10.3	10.9	10.9
Recurring profit	6.0	7.9	10.2	10.9	10.9
Net profit	3.0	3.8	5.4	5.7	6.1
Tax rate	55.2	48.9	47.2	32.2	-



#### Disclaimer

FISCO Ltd. (the terms “ FISCO ” , “ we ” , mean FISCO Ltd.) has legal agreements with the Tokyo Stock Exchange, the Osaka Securities Exchange, and Nikkei Inc. as to the usage of stock price and index information. The trademark and value of the “ JASDAQ INDEX ” are the intellectual properties of the Tokyo Securities Exchange, and therefore all rights to them belong to the Tokyo Securities Exchange.

This report is based on information that we believe to be reliable, but we do not confirm or guarantee its accuracy, timeliness, or completeness, or the value of the securities issued by companies cited in this report. Regardless of purpose, investors should decide how to use this report and take full responsibility for such use. We shall not be liable for any result of its use. We provide this report solely for the purpose of information, not to induce investment or any other action.

This report was prepared at the request of its subject company using information provided by the company in interviews, but the entire content of the report, including suppositions and conclusions, is the result of our analysis. The content of this report is based on information that was current at the time the report was produced, but this information and the content of this report are subject to change without prior notice.

All intellectual property rights to this report, including copyrights to its text and data, are held exclusively by FISCO. Any alteration or processing of the report or duplications of the report, without the express written consent of FISCO, is strictly prohibited. Any transmission, reproduction, distribution or transfer of the report or its duplications is also strictly prohibited.

The final selection of investments and determination of appropriate prices for investment transactions are decisions for the recipients of this report.