

**MIROKU JYOHO  
SERVICE**9928 Tokyo Stock Exchange  
First Section

9-Aug.-16

Important disclosures  
and disclaimers appear  
at the end of this document.FISCO Ltd. Analyst  
Yuzuru Sato

## ■ Expanding Business Scope in Business Succession and Revitalization Assistance Services for Small Companies and Fintech Activities

Miroku Jyoho Service Co., Ltd. <9928> (hereafter “MJS”) is a market leader in developing and providing Enterprise Resource Planning (ERP) systems, including financial accounting and tax systems for tax accountant and CPA firms and small/mid-sized companies. It is also expanding business scope in business succession and revitalization assistance services for small companies and fintech activities.

Consolidated financial results reached new record highs in FY3/16 (April 2015 to March 2016) results. Net sales rose 5.6% YoY to ¥23,636mn, while ordinary income was up 18.6% to ¥3,068mn. The increases were mainly driven by stronger sales of My Number-related (Social Security and Tax Number) products released in September 2015 to tax accountant and CPA firms and small/mid-sized companies and healthy expansion of profitable services sales aided by development of new customers. The order backlog of sales for system installation contracts, a priority management indicator, also increased steadily to 5.32 months, a gain of 1.12 months from the end of FY3/15.

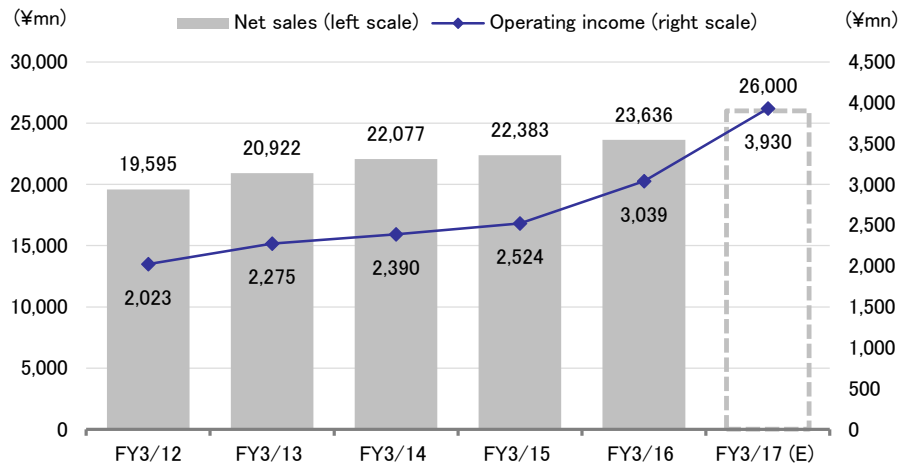
MJS expects higher sales and profits in FY3/17 with increases (YoY) of 10.0% to ¥26,000mn in sales and 30.4% to ¥4,000mn in ordinary income. It factors in stronger sales of ERP systems for small/mid-sized companies based on orders booked in FY3/16 and continued expansion of services revenue. It also projects a steep rise in advertising income thanks to the growing media value of “bizocean”, the business information site. MJS plans to deploy the bizocean site in Southeast Asia and India as well.

MJS will be rolling out multiple cloud services in the fintech area on “bizsky”, the B-to-B cloud platform for small companies as new offerings in FY3/17. It is beginning “Rakutasu Furikomi” as the first of these services. The service handles money transfer and payment tasks related to the receipt of invoices on behalf of small companies with the aim of improving business efficiency and lowering costs. MJS hopes to recruit about 8,000 companies to use the service in the first fiscal year and intends to broaden offerings to corporate fund procurement and loan intermediation services at some point. MJS is targeting ¥50,000mn in sales and a 30% ordinary income margin in FY3/21 driven by growth in existing businesses and expansion of new fintech services and business succession and revitalization assistance services for small companies.

## ■ Check Point

- Strengthening business with recurring revenue from after-services
- Significant improvement in financial standing in line with healthy profit expansion over the past few years
- Likely to increase sales and profits for a sixth straight year and reach new highs in FY3/17

**Financial Results Trends**



Source: FISCO Ltd. from earnings materials

**■ Corporate Overview**

**Strengthening business with recurring revenue from after-services**

**(1) Corporate history**

Since its establishment in 1977, MJS has been providing management systems and management information services, primarily for finance and accounting, and changing its business model in step with the times. The company previously focused on providing data processing services at processing centers, and developing and selling office computers. Now, MJS develops and provides package software and information services such as management information services. It has built up a long-established position in the Japanese market as an innovator in developing and providing systems for finance and accounting. Currently, MJS concentrates on developing services compatible with cloud computing, a new wave in technology. Furthermore, in 2014 MJS launched business succession and revitalization support services for small/mid-sized companies as a way of expanding its business scope.



## MIROKU JYOHO SERVICE

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### Company History

Core Service Format	Year	History	
Data Processing Center	1977	MIROKU JYOHO SERVICE Co., Ltd. established	
	1978	New financial data processing system MS-1 developed and sales started Online terminal MJS800 developed and sales and online service commenced	
Office Computing	1980	Shift from data processing to office computing development and sales business Development and commencement of sales for the specialist MicroAce Model Series for accounting	
	1983	Entry into the market for clients advised by tax accountant and CPA firms Development and commencement of sales for the specialist Pro Office Computing [Accounts] aimed at tax accountant and CPA firm clients	
	1988	Re-established the MJS logo, unified corporate naming under MJS	
	1990	Developed and commenced sales for package software for PC installation "SI Zaimu Taisho", "SI Hanbai Taisho", and "SI Kyuyo Taisho"	
Shift to Open Systems (Package Software)	1992	Became a listed enterprise by an OTC listing on the Japan Securities Dealers Association (currently TSE JASDAQ)	
	1994	Developed and commenced sales for the accounting telecommunications system MJS-COMPASS linking tax accountant and CPA firms and the client companies advised	
	1996	Completed construction on the New Office Building. Shifted Head Office to Yotsuya, Shinjuku-Ku, Tokyo Established a customer service center to improve customer service	
	1997	Listed on Second Section of Tokyo Stock Exchange	
	1998	Commenced development and sales of the MICSNET Series ERP system compatible with Windows NT® for medium-sized companies	
	2001	Commenced development and sales of the ACELINK Series of network solution systems for tax accountant and CPA firms	
	2002	Commenced sales of the MJSLINK Series of operations and comprehensive information systems for small- and medium-sized companies	
	2004	Developed business information website "bizocean" targeting business people at small- and medium-sized companies and venture companies	
	2005	Developed and commenced sales of the ACELINK Navi Series of network solution systems for tax accountant and CPA firms Developed and commenced sales of the MJS i-Series of web-based operations systems for small/mid-sized companies Developed and commenced sales of the Galileopt package ERP systems for medium-sized enterprises	
	Shift to Service Provider	2007	Developed and commenced sales of the MJSLINK II Series of package ERP systems for small- and medium-sized companies
		2011	Commenced sales the ACELINK NX-Pro ERP system for tax accountant and CPA firms (April)
		2012	Commenced sales of the Galileopt NX-I ERP system for medium-sized companies (February) Listed on First Section of Tokyo Stock Exchange
		2013	Commenced sales of MJSLINK NX-I ERP system for small- and mid-sized companies (April) Started providing three free multi-device compatible applications in the "Manetore", Money Tracker Series (September) Investment in consolidated accounting systems company Primal, Inc. (33.9%) and conversion into a consolidated affiliate (October)
		2014	Established MJS M&A Partners Co., Ltd. that provides services supporting the business succession and revitalization of small/mid-sized companies (September)
2015		Commenced sales of "MJS My Number" for tax accountant and CPA firms and small/mid-sized companies (September)	
2016		Split off the bizocean business and established a subsidiary	

Source: FISCO Ltd. from company materials

### (2) Operational overview

MJS's main businesses include the development and sale of ERP (comprehensive operations management) systems primarily for finance and accounting for tax accountant and CPA firms and small/mid-sized companies, as well as the provision of services associated with system installation, such as instructions on system settings and operations, and network establishment, as well as maintenance.

MJS's main customers are tax accountant and CPA firms and their clients (SMEs). In its business for tax accountant and CPA firms, MJS has around 8,400 user firms, representing a share of approximately 25% of the market. In its business for small/mid-sized companies, there are nearly 17,000 companies that use MJS software. Moreover, MJS also provides simplified accounting software for small businesses via its customer base of approximately 8,400 tax accountant and CPA firms, with close to 40,000 users. If we consider that the number of the clients of these tax accountant and CPA firms is in the order of 500,000 SMEs, there is still significant room to exploit this market.



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**MJS Operational Overview**

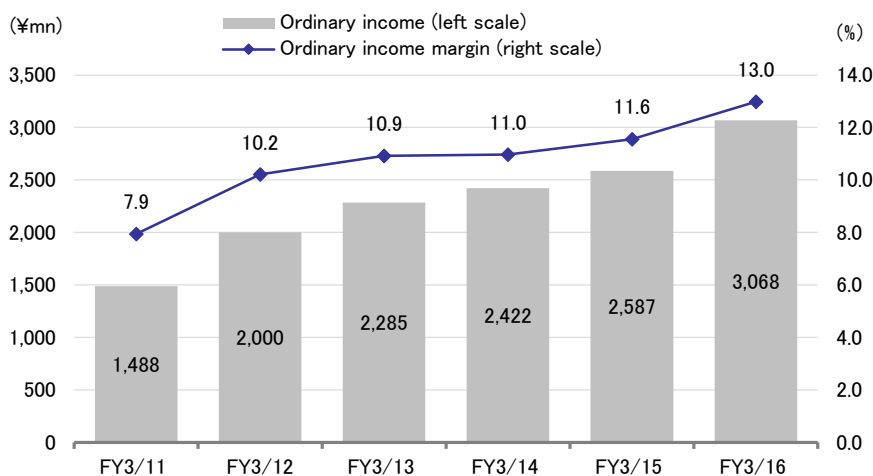
Customers	Tax accountant and CPA firms	Small/mid-sized companies (Most of them are clients of tax accountant and CPA firms)
Systems (developed by MJS)	<ul style="list-style-type: none"> <li>Financial and accounting systems</li> <li>Tax reporting systems, etc.</li> </ul>	<ul style="list-style-type: none"> <li>ERP systems centered on financial and accounting systems (accounting, payroll, sales management)</li> </ul>
Services	<ul style="list-style-type: none"> <li>System installation support services</li> <li>Various maintenance services</li> <li>Training and information services, etc.</li> </ul>	<ul style="list-style-type: none"> <li>System integration</li> <li>Software maintenance services</li> <li>Training and information services, etc.</li> </ul>
Marketing methods / customer support	<ul style="list-style-type: none"> <li>Almost 100% direct sales</li> <li>31 sales and support branches nationwide</li> </ul>	<ul style="list-style-type: none"> <li>Direct sales (95%, includes sales through tax accountant and CPA firms)</li> <li>Agency sales (5%)</li> <li>31 sales and support branches nationwide</li> </ul>
No. of users / market share	<ul style="list-style-type: none"> <li>8,400 firms/market share 25%</li> </ul>	<ul style="list-style-type: none"> <li>17,000 companies</li> </ul>

Source: Prepared by FISCO from company materials

**(3) Business trends**

In the last few years, MJS has focused on acquiring new customers and strengthening its business with recurring revenues by providing after-sale services (such as software, hardware, and network maintenance services). As a result, its earnings continue to grow while its profitability improves, and it achieved a record high for a fifth consecutive fiscal year on an ordinary income basis in FY3/16 and profit margin continues to trend upward.

**Trends in Ordinary Income and Ordinary Income Margin**



Source: FISCL Ltd. from company materials

**■ Financial Result Trends**

**Reached all-time high net sales and earnings**

**(1) Review of FY3/16 results**

Consolidated financial results for FY3/16, announced on May 13, 2016, showed strong performance with new record-high results and also exceeded the initial target in terms of sales and profits at ¥23,636mn in sales (+5.6% YoY), ¥3,039mn in operating income (+20.4%), ¥3,068mn in ordinary income (+18.6%), and ¥1,906mn in net income attributable to owners of the parent (+8.4%).



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**Overview of FY3/16 Results (Consolidated)**

(unit: ¥mn)

	FY3/15		FY3/16				
	Result	Ratio	Initial target	Result	Ratio	YoY	Difference with the target
Net sales	22,383	-	23,600	23,636	-	+5.6%	+0.2%
Gross profit	14,324	64.0%	15,560	15,393	65.1%	+7.5%	-1.1%
SG&A expenses	11,800	52.7%	12,560	12,353	52.3%	+4.7%	-1.6%
Operating income	2,524	11.3%	3,000	3,039	12.9%	+20.4%	+1.3%
Ordinary income	2,587	11.6%	3,000	3,068	13.0%	+18.6%	+2.3%
Extraordinary income (loss)	289	1.3%	-	-58	-0.2%	-	-
Net profit	1,757	7.9%	1,810	1,906	8.1%	+8.4%	+5.3%

Source: FISCO Ltd. from company materials

The main factors for the upbeat results appear to be the company's efforts over the last few years for "expansion of the customer base and increase in service revenues" and "careful management of business goals factoring in orders backlog." It also benefited from booking roughly ¥1,100mn in sales to tax accountant and CPA firms and small/mid-sized companies of products that accommodate the My Number program (under software and useware sales) released in September. While sales of corporate ERP systems missed initial guidance because of concentrated demand for My Number-related products, the order backlog relating to sales for system installation contracts stood at 5.32 months as of the end of March, an increase of 1.12 months from the end of FY3/15. This suggests that a substantial portion of projects slated for installations were postponed to FY3/17.

Gross profit margin increased by 1.1 percentage points YoY to 35.1% in FY3/16 (from FY3/15's 34.3%) owing to the rise in services revenue with high profitability. While selling, general and administrative (SG&A) expenses climbed due to aggressive investment in strengthening the personnel base (80 new graduates hired) and in advertising and promotion expenses, such as TV commercials, the effect of stronger sales resulted in double-digit increases in operating and ordinary income. Net profit attribute to parent shareholders only rose 8.4% YoY in part because of the tough previous-year hurdle due to booking a ¥291mn profit from selling investment securities.

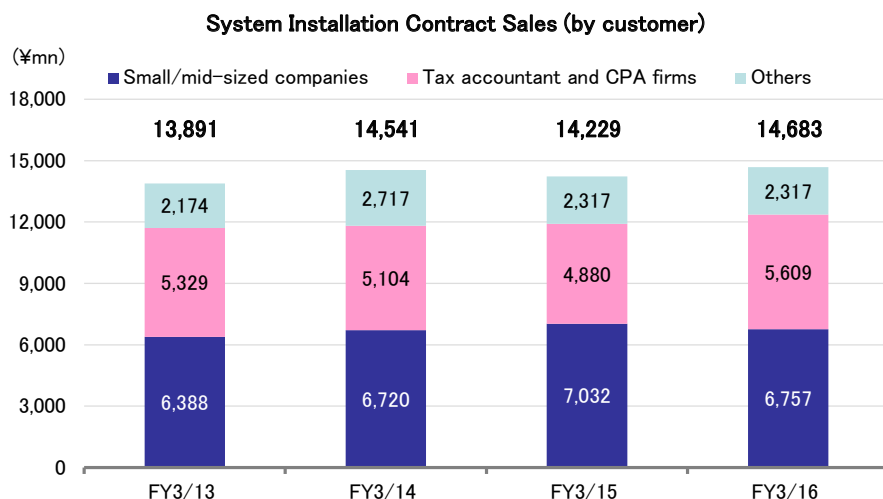
**(2) Sales trends by customer and by product category**

Net sales from system installation contracts (the total sales for hardware, software, and useware) increased 3.2% YoY to ¥14,683mn, services revenue climbed 8.3% to ¥8,307mn, and other revenue rose 33.7% to ¥645mn in FY3/16. All three categories achieved healthy gains. Higher advertising income for "bizocean" the internet information site geared to small business executives and business people led the increase in other revenue. Registered member volume expanded from just over 1.5mn members at the end of FY3/15 to just over 1.79mn members at the end of FY3/16, and the resulting rise in advertising media value lifted sales.

**○System installation contract sales**

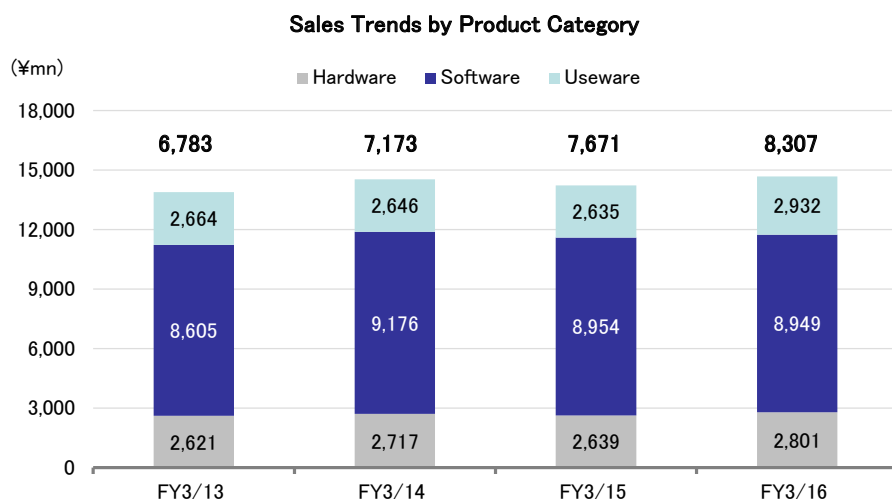
Sales to tax accountant and CPA firms increased by 14.9% to ¥5,609mn, while sales to small/mid-sized companies fell 3.9% to ¥6,757mn. The primary sales driver for tax accountant and CPA firms was a sharp rise in sales of My Number-related products to existing customers. In the ordinary corporate business, however, postponement of existing ERP system installations amid priority on deploying My Number-related products weakened sales. Yet order backlog has accumulated, as noted above, and we think demand itself remains vibrant.

Sales in My Number-related products totaled roughly ¥1,100mn, including software and installation assistance service. The breakdown was 60-70% from tax accountant and CPA firms and the rest from ordinary companies. MJS installed these products at just under 50% of existing tax account and CPA firm customers. We think it installed products at about 30% of existing mid-sized and small corporate customers using its salary system in the corporate business.



Source: FISCO Ltd. from earnings materials

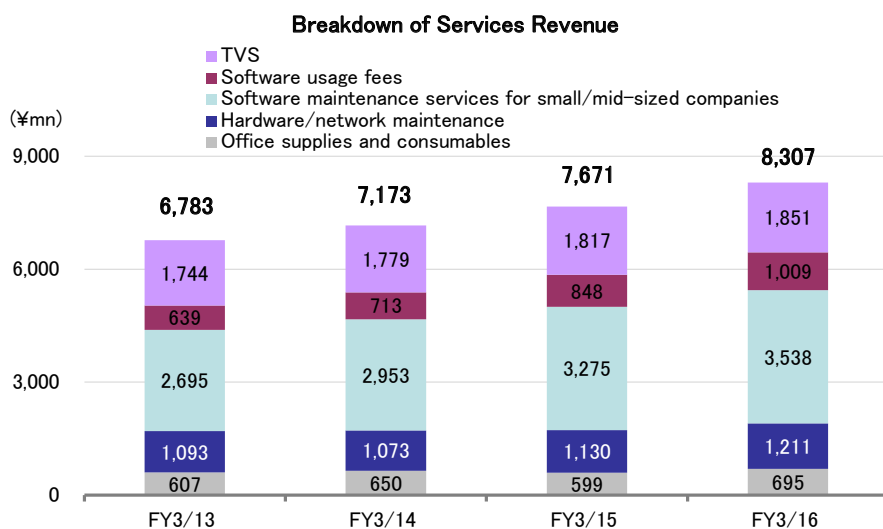
Sales results by product categories were software down 0.1% to ¥8,949mn, versus hardware up 8.3% to ¥2,801mn and useware up 11.3% to ¥2,932mn. Postponements of corporate ERP system installations affected software sales. Hardware and useware sales, meanwhile, improved because of higher sales of My Number-related products and related security products.



Source: FISCO Ltd. from earnings materials

○Services revenue trend

Net sales from service revenues steadily expanded, up 8.3% YoY to ¥8,307mn. With the steady increase in new small/mid-sized companies, sales from software maintenance services for companies increased 8.0% to ¥3,538mn. In addition, sales of simplified accounting software for small businesses via tax accountant and CPA firms (software usage fees) grew 19.0% to ¥1,009mn. Moreover, sales of the total maintenance service for tax accountant and CPA firms (TVS) were firm, rising 1.9% to ¥1,851mn. Since these are recurring-revenue services, sales increase stably as the customer base expands.



Note: TVS (total maintenance services for tax accountant and CPA firms)  
Source: FISCO Ltd. from earnings materials

## Significant improvement in financial standing in line with healthy profit expansion over the past few years

### (3) Financial status

Next, we review financial conditions at the end of March 2016. Gross asset value rose ¥210mn YoY to ¥19,882mn. Current assets recorded declines of ¥155mn for cash and deposits and ¥369mn for sales credits, but also a rise of ¥490mn in inventory assets. Fixed assets reported a decline of ¥111mn in intangible fixed assets because of progress in software depreciation, but a gain of ¥440mn in investments and other assets mainly led by investment securities.

Meanwhile, liabilities decreased by ¥501mn to ¥5,823mn. Interest-bearing debt, both short- and long-term, was down ¥322mn, while other current liabilities also declined (by ¥136mn). Net assets rose by ¥712mn to ¥14,059mn, mainly on a gain in capital surplus due to booking net profit.

The company's financial status has been improving significantly over the past few years in line with the expansion of earnings. Net cash (cash and deposits + short-term investment securities – interest-bearing debt) as of the end of March 2016 stood at ¥4,506mn, a roughly eightfold increase from three years ago. Management indicators have continued to improve with the liquidity ratio at 202.4%, shareholders' equity ratio at 70.2%, and interest-bearing debt ratio at 8.2%. ROE has been steadily rising too and was at 14.0%

### Consolidated Balance Sheet

(unit: ¥mn)

	FY3/13	FY3/14	FY3/15	FY3/16	Change
Current assets	8,003	9,299	10,231	10,120	-110
Cash and deposits	3,285	4,311	5,809	5,654	-155
Fixed assets	7,859	10,085	9,440	9,761	321
Total assets	15,862	19,384	19,671	19,882	210
Current liabilities	5,326	5,160	5,489	5,000	-489
Fixed liabilities	996	1,838	835	823	-11
Total liabilities	6,323	6,998	6,324	5,823	-501
Net assets	9,539	12,385	13,346	14,059	712
Interest-bearing debt	2,828	1,995	1,470	1,148	-322
Net cash	557	2,915	4,539	4,506	-33
Management indicators					
Current ratio (%)	150.3	180.2	186.4	202.4	
Shareholders' equity ratio (%)	59.9	63.6	67.8	70.2	
Interest-bearing debt ratio	29.8	16.2	11.0	8.2	
Return on equity (%)	13.1	12.7	13.7	14.0	

Source: FISCO Ltd. from company materials



## Likely to increase sales and profits for a sixth straight year and reach new highs in FY3/17

### (1) Business outlook for FY3/17

MJS expects to raise sales and profits for a sixth straight fiscal year and reach all-time profit highs in FY3/17 consolidated results with gains of 10.0% to ¥26,000mn in net sales, 29.3% to ¥3,930mn in operating income, 30.4% to ¥4,000mn in ordinary income, and 28.5% to ¥2,450mn in net income attributable to owners of the parent. These values are also the final-year goals from the Third Medium-term Business Plan (FY3/15-17) currently being implemented.

MJS envisions a 1.9 percentage points YoY rise in gross margin to 67.0% aided by changes in sales composition and a 2.2 percentage points increase in operating margin to 15.1% based on the positive effect of stronger sales more than offsetting continued expansion of SG&A expenses driven by increases in advertising and promotional costs and personnel expenses.

### Consolidated Operating Performance Outlook for FY3/17

(unit: ¥mn)

	FY3/16		FY3/17		
	Result	Ratio	Company target	Ratio	YoY
Net sales	23,636	-	26,000	-	10.0%
Gross profit	15,393	65.1%	17,410	67.0%	13.1%
SG&A expenses	12,353	52.3%	13,480	51.8%	9.1%
Operating income	3,039	12.9%	3,930	15.1%	29.3%
Ordinary income	3,068	13.0%	4,000	15.4%	30.4%
Net income attributable to owners of the parent	1,906	8.1%	2,450	9.4%	28.5%

Source: FISCO Ltd. from company materials

The company is focusing efforts on the following three points this fiscal year in order to achieve its goals.

#### ○Expanding the customer base and service revenues by continuing to actively acquire new customers

MJS plans to recruit new customers using the My Number system and opportunities as catalysts and promote cross sales of other products to existing customers. It also intends to conduct aggressive sales promotions, including TV commercials and other advertising, seminars, and fairs, aimed at raising awareness of the MJS brand. Additionally, it will continue to strengthen indirect sales of ERP products by promoting more activity at its over 400 partner companies. While sales to partner companies were still rather modest at about ¥1,000mn (+21% YoY) in FY3/16, MJS expects to continue achieving double-digit growth in this area.

#### ○Planning and developing new cloud services and bolstering the functionality of existing products and services

MJS intends to build a development foundation for cloud products and develop its proprietary new services. And collaborating with group companies and partner companies, it improves functionality and broadens existing products and thereby strengthen competitiveness. It also aims to work on enhancing quality and competitiveness of products and services with emphasis on the customer perspective and raising productivity.

#### ○Building and promoting the foundations for new businesses

MJS plans to further promote business succession and revitalization assistance services for small/mid-sized companies through collaboration with tax accountant and CPA firms that it ramped up during FY3/16. And it launched “bizsky”, the B-to-B platform as assistance to improve management and operations at small/mid-sized companies. It rolls out new fintech services. Additionally, it intends to actively pursue Internet business with “bizocyan”, the business information site and formulate and promote new growth strategies.

### (2) Sales outlook by category and customer

MJS expects sales increases of 6.0% YoY to ¥15,566mn for system installation contracts, 4.9% to ¥8,716mn for services revenue, and 165.9% to ¥1,718mn for other revenue.



The outlook for system installation contracts projects a modest overall decline in My Number-related product sales, but a rise in sales of corporate ERP systems due to business carried over from FY3/16. MJS aims to expand sales to small/mid-sized companies by 9.2% YoY to ¥7,378mn thanks to progress recruiting demand for My Number-related products and stronger sales of ERP systems. For tax accountant and CPA firms, however, it projects a 10.8% YoY decline in sales to ¥5,001mn, including the impact of an incremental transition to single-year license contracts at the replacement timing for accounting systems (it previously booked sales covering five years at once when systems were installed).

MJS forecasts a double-digit 13.5% YoY increase in software sales to ¥10,161mn led by ERP systems, though declines in hardware of 5.8% and useware of 5.7%.

For services revenue, MJS envisions ongoing gains in software operation assistance service and software usage fees with support from a rising number of customer companies. For other revenue, the outlook factors in a steep increase in advertising income from “bizocean” and expansion of other new businesses, such as business succession and revitalization assistance services for small companies.

**Sales Trends by Product Category (consolidated basis)**

Business Segment	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17 (E)	Growth
System installation contract sales	13,891	14,541	14,229	14,683	15,566	6.0%
Hardware	2,621	2,717	2,639	2,801	2,638	-5.8%
Software	8,605	9,176	8,954	8,949	10,161	13.5%
Useware	2,664	2,646	2,635	2,932	2,766	-5.7%
Services revenue	6,783	7,173	7,671	8,307	8,716	4.9%
Other	246	362	483	646	1,718	165.9%
Total	20,922	22,077	22,383	23,636	26,000	10.0%

Source: FISCO Ltd. from company materials

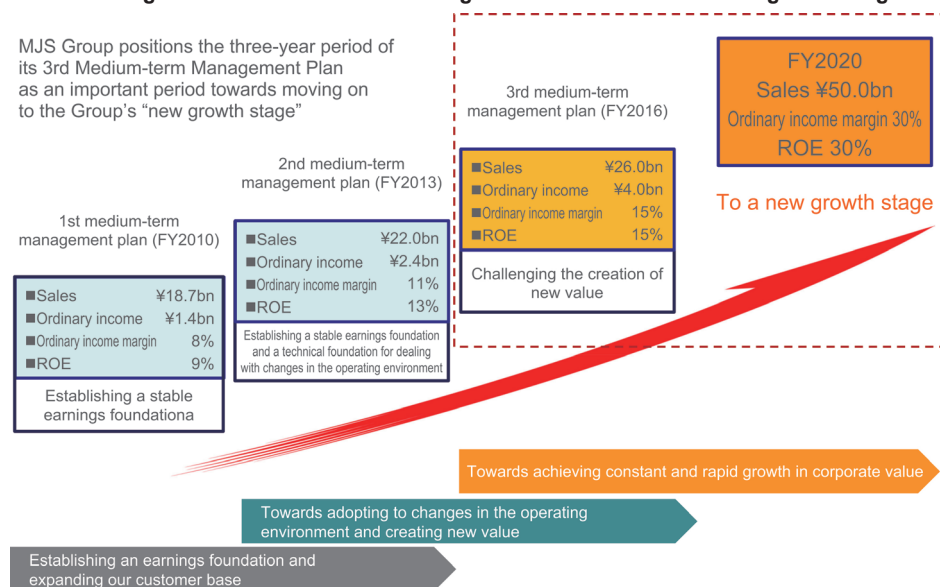
**Aiming for ¥50,000mn in sales, 30% ordinary income margin, and 30% ROE in FY3/21**

**(3) Growth strategy**

MJS set goals of ¥50,000mn in sales, 30% ordinary income margin, and 30% ROE in FY3/21 as the next phase of the Third Medium-term Business Plan and has aggressively engaged in M&A and other strategic investments to realize the goals since 2014.

**Positioning of the 3rd Medium-term Management Plan and FY3/21 management targets**

MJS Group positions the three-year period of its 3rd Medium-term Management Plan as an important period towards moving on to the Group’s “new growth stage”



Source: Company materials

**Strategic Investments and New Services Since 2014**

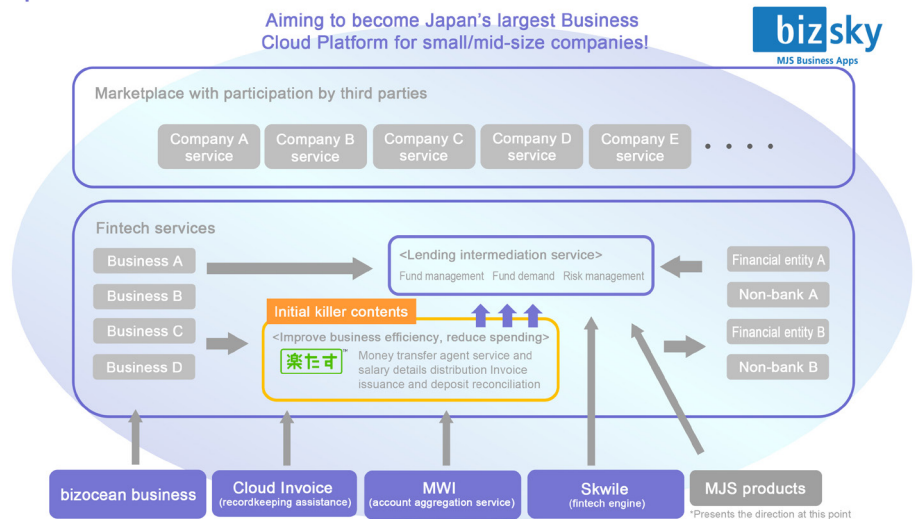
September 2014	Established MJS M&A Partners as a wholly owned subsidiary to provide business succession and revitalization assistance service to small/mid-sized companies
December 2015	Acquired Miroku Webcash International Co., Ltd. which provides account aggregation service, as a subsidiary
December 2015	Acquired Cloud Invoice Inc., which provides a recordkeeping assistance service, as a wholly owned subsidiary
February 2016	Agreed to a capital and business alliance with Skwile, Ltd., which operates a lending intermediation platform business in the UK
April 2016	Split off "bizocean", the business information site as a wholly owned subsidiary
2016	Built "bizsky", the B-to-B cloud platform to assist management and business improvements at small/mid-sized companies and plans to start provision of Rakutasu Furikomi cloud service as the first offering

○“bizsky”, B-to-B platform business

MJS built “bizsky”, the B-to-B cloud platform, equipped with marketplace functions that provide a variety of contents services for the management issues at small/mid-sized companies, such as spending reduction, improved business efficiency, and fund raising.

**Outlook for “bizsky”, the B-to-B platform business**

bizsky is a B-to-B cloud platform with a marketplace function that covers various contents and services that address fundamental management issues at small businesses, such as spending cutbacks, improved business efficiency, and fund raising.



Source: Earnings briefing materials

The first content being delivered is “Rakutasu Furikomi (developed by MJS)”, the service for small/mid-size companies that improves the efficiency of money transfer tasks and lowers transfer fee costs. MJS uses inexpensive pricing with no initial costs, no monthly usage fees, and just a ¥290 charge for the money transfer fee. We think the service offers significant benefits to small/mid-size companies. It includes an optional service for receiving paper-based invoices and making the money transfer on behalf of the customer. Cloud Invoice, Inc., which it acquired as a subsidiary in December 2015, handles the service. MJS aims to recruit 8,000 companies as customers in the initial fiscal year. The business model involves lowering costs paid to banks by processing money transfers from customer firms on a bulk basis and earning margin from the difference between the cost and money transfer fee it charges. MJS plans to broaden the service scope to fund raising, risk management, and other services related to loan intermediation using the fintech engine developed by capita and business partner Skwile.

Anticipated target customers are the company’s existing customers, the roughly 500,000 consulting customer companies of tax accounting and CPA firms that are MJS clients, and entirely new customers acquired thanks to being a Web-based cloud service. We will be closely monitoring trends because of the possibility of MJS increasing sales of other products via contracts of “Rakutasu Furikomi”.

MJS hopes to develop this platform into the largest customer platform used by small/mid-sized companies in Japan. It plans to supply not only its own services, but also offer third-party services over the same platform. MJS intends to guide customers from “bizocean”, the business information site with roughly 300,000 monthly active users to the platform as well.

\* Miroku Kaikeijinkai: An organization comprised of accounting firms who are voluntary members and use the company's system. The national organization is made up of 11 units board and five committees. The organization has about 3,500 member firms.

○“bizocean”, business information site

MJS split off the bizocean business information site and converted it into a subsidiary in April 2016 and plans to expand the business with an eye on an IPO at some point. The site currently has about 1.8mn registered members, and MJS has presented FY3/21 goals of 3mn members in Japan and also 40mn members in other countries based on the planned rollout to Southeast Asia, India, and other regions.

This is a popular site with free downloads of documents and other formats and templates used by companies in daily business, and it currently obtains income from advertising through display advertisements and distribution of email newsletters to registered members. Sales expanded from just over ¥300mn in FY3/15 to ¥500mn in FY3/16, and MJS expects a further increase in FY3/17. Management forecasts a growing contribution to profits because fixed costs are not so high and operating margin is an attractive 30%.

MJS plans to begin video advertisements on the site, develop a paid template service (C-to-C marketplace), and strengthen services using AI technology. It also sees significant room to develop overseas markets because of the almost complete absence of similar business information sites.

○Business succession and revitalization assistance services for small and medium-sized companies

MJS is striving to establish Japan's top sell-side platform through collaboration with tax accountant and CPA firms, which are also its customers, in business succession and revitalization assistance services for small/mid-size companies supplied by subsidiary MJS M&A Partners (below, mmap).

The business model involves receiving introductions to customer companies that need business successes or revitalization assistance services from tax accountant and CPA firms after concluding introduction partner contracts with these firms (mainly members of the Miroku Kaikeijinkai\*) and concluding advisory contracts with the subject companies and providing assistance services. MJS obtains a fee when a successor is finalized as revenue and also pays a fee to the introduction partner as an expense.

A key point in increasing deal volume is the extent to which MJS can expand the number of tax accountant and CPA firms as partners. MJS is steadily increasing partners, reaching about 750 offices at the end of FY3/16 and aiming for 2,000 offices at the end of FY3/17. It received roughly 100 business transfer requests and finalized contracts for a few of these cases in FY3/16. MJS is targeting 450 requests in FY3/17 and expects to achieve profitability in FY3/18. Raising the number of finalized contracts is vital to attaining profitability because the average fee is a few million yen.

## ■ Comparative Share Price Valuation and Shareholder Returns Policy

### ROA higher than at peers

#### (1) Comparative share price valuation

We conducted a comparison with respect to MJS's share price valuation against 11 corporate peers that provide financial and accounting systems, in addition to ERP system vendors. The company's share price has risen around 40% since the end of 2015 to around ¥1,300 currently. It has significantly outperformed considering that over the same period the Nikkei Stock Average fell 11%, and the simple average of the 11 corporate peers dropped by about 8%.

Factors in this performance include substantial undervaluation previously, upbeat earnings growth (including setting record profits), and mounting expectation for the growth of fintech, business revitalization support service, and other new businesses.

As of June 1, 2016, comparing the share price index with industry peers, the expected PER was slightly cheaper than the average of 12 companies (19x) at 17x and actual PBR was higher than the average (2.2x) at 3.1x. Expected ROE is at a high level of 17.5%, versus the 11.5% average for the 12 companies.

We intend to continue to closely monitor trends because MJS has been steadily setting record high profits and is likely to achieve sustainable growth, it is maintaining ROE, a key investment indicator, at a high level, and its pursuit of new businesses offers growth potential.

**Comparative Share Price Valuation**

Code	Name	Listed	Period	Share price (¥)	Market capital (¥mn)	PER (times)	PBR (times)	ROE (%)	ROA (%)	Dividend yield (%)
4716	Oracle Japan	TSE 1st	May	5,790	736,797	23.9	5.9	24.5%	25.1%	1.6%
4684	OBIC	TSE 1st	Mar.	5,980	535,077	24.3	3.3	13.6%	16.9%	1.4%
4768	Otsuka Corporation	TSE 1st	Dec.	5,070	480,642	19.1	2.8	14.9%	12.0%	2.1%
9719	SCSK	TSE 1st	Mar.	4,120	427,604	17.1	2.9	17.2%	9.6%	2.1%
4733	OBC	TSE 1st	Mar.	4,910	184,529	26.0	1.9	7.4%	9.1%	1.4%
9746	TKC	TSE 1st	Sep.	2,899	76,916	18.3	1.2	6.7%	8.6%	2.8%
6935	JDL	TSE 1st	Mar.	1,403	47,570	19.8	0.6	3.0%	3.2%	2.9%
9928	MIROKU JYOHO SERVICE	TSE 1st	Mar.	1,338	42,664	17.2	3.1	17.5%	20.1%	1.5%
9629	PCA	TSE 1st	Mar.	1,276	8,742	170.1	0.8	0.5%	1.2%	2.4%
4828	Toyo Business Engineering	TSE 1st	Mar.	1,380	8,279	23.7	2.5	10.5%	9.5%	1.2%
3763	Pro-Ship	JQ	Mar.	2,061	7,663	9.4	1.2	12.5%	16.0%	3.9%
3836	Avant	JQ	Jun.	1,178	5,529	9.7	1.8	18.9%	15.8%	1.9%
Total, mean value for 12 companies					1,284,609	19.0	2.2	11.5%	9.7%	1.9%

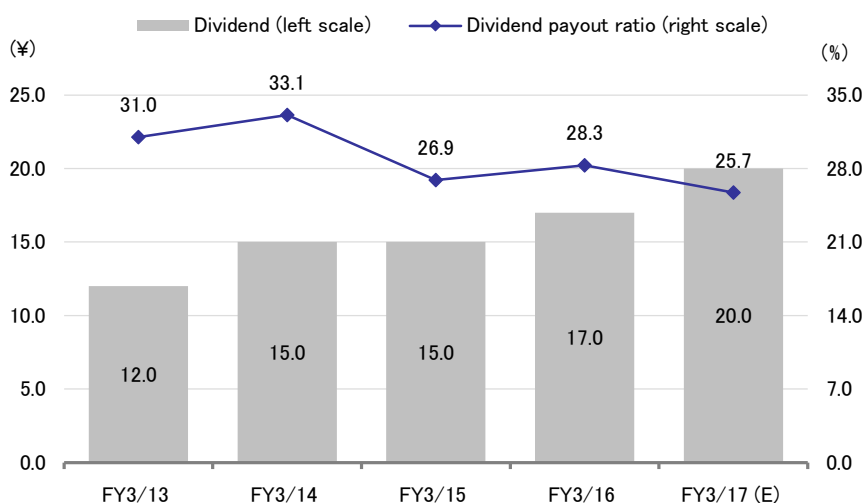
Notes: 1. Expected PER and dividend yield are estimates for this period. Actual PBR was calculated based on the immediately preceding quarter. ROE and ROA are calculated by dividing expected net income and ordinary income for the current period into the previous quarter's shareholders' equity and total assets.  
2. Oracle Japan data is from Japan Company Handbook figures since it does not disclose company forecasts.  
3. Share prices are closing prices from June 1, 2016

Source: Prepared by FISCO Ltd.

**(2) Shareholder returns policy**

MJS has a fundamental policy in shareholder returns of sustaining stable returns over the long term for the dividend. It raised the FY3/16 dividend by ¥2.0 to ¥17.0 thanks to setting all-time high profits and is aiming for a consecutive dividend hike in FY3/17 with an increase of ¥3.0 to ¥20.0. MJS also conducts share buybacks at appropriate times. It purchase a total of 1.13mn shares for ¥900mn in FY3/16. The dividend payout ratio works out to 25.7% using the FY3/17 earnings outlook.

**Dividend Per Share and Dividend Payout Ratio**



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