

Miroku Jyoho Service Co., Ltd.

9928

Tokyo Stock Exchange First Section

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Summary

Growth in product and service revenues from tax accountant and CPA firms lead to sustained record-high business performance

Miroku Jyoho Service Co., Ltd. <9928> (hereafter “MJS”) is an industry leader in developing and selling Enterprise Resource Planning (ERP) systems, primarily financial accounting and tax systems, for tax accountant and CPA firms and small/mid-sized companies. It is also expanding its reach to the fields of business succession services for small/mid-sized companies and FinTech activities.

1. Posted higher sales and profits in 1H FY3/18, surpassing the Company’s forecasts

For the first half of the fiscal year ending March 2018 (1H FY3/18), MJS posted consolidated net sales of ¥13,885mn, an increase of 6.2% year on year (YoY), and operating income of ¥2,685mn, up 28.4%. Both results surpassed the Company’s initial forecasts (net sales of ¥13,500mn and operating income of ¥2,200mn), resulting in all-time half-year highs. The main reasons for these strong results were solid sales of systems for tax accountant and CPA firms, which were up by 16.3%, primarily due to replacement demand. Another reason was that service revenue, which is based on a recurring revenue business model, expanded steadily by 6.8% in line with an increase in the number of service customers. MJS has been steadily accumulating an order backlog of system installation contract sales*, which it emphasizes as a key performance indicator. The order backlog of system installation contract sales at the end of 1H FY3/18 stood at 6.08 months of sales, which was 0.48 months more than the backlog sales equivalent at the beginning of FY3/18. The Company’s approach to management focused on the order backlog of sales has been gaining traction within the organization, serving as one factor behind MJS’s strong business results.

* System installation contract sales = total sales for hardware, software, and useware

2. On track to set all-time highs in FY3/18 for the seventh consecutive year

For FY3/18, MJS has maintained its initial forecasts of a 4.1% YoY increase in consolidated net sales to ¥27,300mn and a 7.2% YoY increase in operating income to ¥4,400mn. Backed by a strong order backlog, MJS is expected to continue to post strong business results in 2H FY3/18. Progress rates against forecasts for 1H were 50.9% for net sales and 61.0% for operating income, surpassing the averages for the past three years (50.1% for net sales and 50.9% for operating income). The portal site business undertaken by subsidiary bizocean Co., Ltd. (the operation of the bizocean business information site), the business succession support service business for small/mid-sized companies and certain other operations are growing steadily. Accordingly, these businesses are expected to contribute positively to earnings going forward.

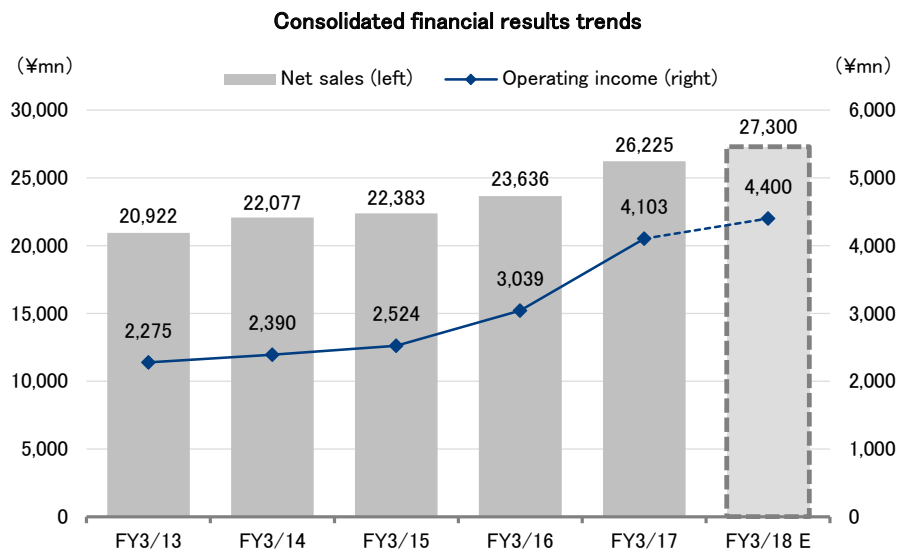
Summary

3. Nurture new businesses under MJS's fourth medium-term management plan, paving the way for future growth

For FY3/21, the final year of MJS's fourth medium-term management plan, MJS has set its numerical management targets as net sales of ¥50.0bn, an ordinary income margin of 30%, and ROE of 30%. In the existing ERP business, MJS plans to start rolling out new products with AI functions from 2019 onward. MJS will strive to achieve further sales growth by expanding its customer base through the acquisition of new customers. In addition, the Company intends to achieve its targets by increasing cloud services in the FinTech field based on the financial service platform bizsky, along with expanding the businesses of subsidiaries bizocean and MJS M&A Partners Co., Ltd. (mmap). On November 15, 2017, MJS announced that it entered into a capital and business alliance with Shinsei Bank, Limited <8303> for the purposes of developing financial services based on MJS products and further businesses targeting regional financial institutions. MJS additionally announced that it will consider establishing a new fund business to support companies undertaking operations in the field of FinTech. While we believe that MJS's ¥50bn net sales target is slightly ambitious, MJS has been steadily laying a firm business foundation for realizing solid sustained growth over the medium term. Therefore, we have high hopes for its new business initiatives in the FinTech field, which offers prospects for robust growth in the future.

Key Points

- A leading Japanese provider of financial and accounting systems for tax accountant and CPA firms and small/mid-sized companies
- System installation contract sales are expected to remain solid in 2H based on an extensive order backlog
- Targeting consolidated net sales of ¥50.0bn and ordinary income of ¥15.0bn for FY3/21



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

■ Corporate overview

A leading Japanese provider of financial and accounting systems for tax accountant and CPA firms and small/mid-sized companies

1. Corporate history

Since its establishment in 1977, the Company has been supplying management systems and management information services focused on finance and accounting. Its services have evolved in step with the rapid change in IT. Initially, the Company processed data for other companies at a processing center. It then entered the office computer business and started developing and selling packaged software for personal computers. Recently, it has offered cloud computing services. In 2014, it set up subsidiary mmap to provide support services for business succession and related priorities to small/mid-sized companies. In 2016, it launched the bizsky cloud platform for small/mid-sized companies. Through these measures, the Company has nurtured new businesses and expanded the scope of its business.

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Corporate overview

Company history

| Core service format | Year | History |
|--|------|--|
| | 1977 | Miroku Jyoho Service Co., Ltd. established |
| Data Processing Center | 1978 | New financial data processing system MS-1 developed and sales started Online terminal MJS800 developed and sales and online service commenced |
| | 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 |
| Office Computing | 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 |
| | 1990 | Developed and commenced sales for package software for PC installation "SI Zaimu Taisho," "SI Hanbai Taisho," and "SI Kyuyo Taisho" |
| | 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 |
| | 1997 | Listed on the Second Section of Tokyo Stock Exchange |
| Shift to open systems (package software) | 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 | Developed and commenced sales of the MJSLINK Series of operations and comprehensive information systems for small/mid-sized companies |
| | 2004 | Developed business information website "bizocean" targeting business people at small/mid-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 Galileopt package ERP systems for medium-sized enterprises |
| | 2007 | Developed and commenced sales of the MJSLINK II Series of package ERP systems for small/mid-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 the First Section of Tokyo Stock Exchange |
| | 2013 | Commenced sales of MJSLINK NX-I ERP system for small- and mid-sized companies (April) 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) |
| Shift to service provider | 2015 | Developed and commenced sales of "MJS My Number" for tax accountant and CPA firms and small/mid-sized companies (September) Made Miroku Webcash International a subsidiary (December) Made Cloud Invoice a subsidiary. This subsidiary offers bookkeeping services. (December) |
| | 2016 | Took a 48.8% stake in BlueTable Co., Ltd., which sells food to Asian countries through an e-commerce service. BlueTable is now an affiliate accounted for by the equity method. (February) Transferred the bizocean business to a new subsidiary, bizocean Co., Ltd. (April) Started the Marunage Kichodaiko bookkeeping support service for tax accountant and CPA firms (July) Started the MJSLINK NX-I for laas ERP cloud service for small and medium-sized companies (August) Started the bizsky cloud platform for small and medium-sized companies and the Rakutasu Money Transfer service over this platform (September) Opened Japan's first marketplace for business templates through the bizocean business information site (October) |
| | | Started offering the Rakutasu Kyuyo Money Transfer service through the bizsky cloud platform for small and medium-sized companies (January) |
| | | Started offering the Kicho-kun Cloud cloud accounting service to proprietors and small companies (April) |
| | 2017 | Commenced development and sales of the Galileopt NX-Plus ERP solution to small and medium-sized companies (April) Established a business alliance with Crowd Cast, Ltd. and connected that company's Staple cloud expense payment service with MJS's Rakutasu Money Transfer service using an application program interface (API) (March) |

Source: Prepared by FISCO from Company materials

Corporate overview

2. Business description

The main business of the Company is the development and sale of ERP systems, primarily for financial and accounting purposes, to tax accountant and CPA firms and small/mid-sized companies. The Company also provides services for the installation of systems, such as configuring various systems, instructing about their operation, and building networks. In addition, the Company supplies a broad range of system maintenance services. These businesses combined account for more than 90% of the Company's consolidated net sales.

The main customers of the Company are tax accountant and CPA firms and the small/mid-sized companies that these tax accountant and CPA firms serve as customers. The Company serves about 8,400 tax accountant and CPA firms in Japan, giving it an approximately 25% share of the Japanese market for accounting systems. Competitors TKC Corporation <9746> and Japan Digital Laboratory Co., Ltd. hold similar market shares, and the three companies dominate the industry. The Company also sells its software to about 17,000 small/mid-sized companies. Almost all its sales to 8,400 tax accountant and CPA firms are direct and 95% of its sales to small/mid-sized companies are direct, the remaining 5% being through sales agents. In addition, the Company sells simple accounting software through its tax accountant and CPA firm customers to about 40,000 small companies that are customers of the tax accountant and CPA firms. However, its accounting firm customers serve about 500,000 small companies, so there is ample room for the Company to expand its sales to these small companies.

Overview of Company businesses

| 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) | Financial and accounting systems Tax reporting systems, etc. | ERP systems centered on financial and accounting systems (accounting, payroll, sales management) |
| Services | System installation support services Various maintenance services Training and information services, etc. | System integration Software maintenance services Training and information services, etc. |
| Marketing methods / customer support | Almost 100% direct sales 31 sales and support branches nationwide | Direct sales (95%, includes sales through tax accountant and CPA firms) Agency sales (5%) 31 sales and support branches nationwide |
| No. of users / market share | 8,400 firms/market share of approx.25% | 17,000 companies |

Source: Prepared by FISCO from Company materials

3. Subsidiaries and affiliates

At the end of September 2017, the Company had eight consolidated subsidiaries and two equity-method affiliates. Since 2002, software development, sale, installation, and operation support services have been undertaken by three consolidated subsidiaries, NTC Co., Ltd., MSI Co., Ltd., and LeadInc., Ltd. In 2014, the Company established sub-sidiary mmap to provide business succession and revitalization services to small/mid-sized companies. In 2015, the Company set up two subsidiaries, Cloud Invoice, Inc. to offer cloud bookkeeping services and Miroku Webcash International Co., Ltd. to engage in FinTech services. In 2016, it founded bizocean to operate a business information site.

The Company's two equity-method affiliates are PRIMAL Inc., which develops and sells integrated accounting systems, and NFC (Korea), which owns technology in Phone2Phone payments.

Corporate overview

Company's subsidiaries and affiliates

(As of September 30, 2017)

| Company name | Ownership ratio | Main business |
|----------------------------------|-----------------|---|
| Consolidated subsidiaries | | |
| NTC | 100.0% | Software development, sales, installation, and operational support services; hardware sales |
| MSI | 100.0% | Software development, sales, installation, and operational support services; hardware sales |
| Lead | 100.0% | Software development, sales, installation, and operational support services |
| MJS M&A Partners | 100.0% | Arrange and mediate M&A deals, offer consulting service about such deals |
| Cloud Invoice | 100.0% | Develop and sell cloud computing services |
| bizocean | 100.0% | Operate the bizocean site for business information |
| MJS Finance & Technology | 97.5% | Sell multi smart cards and provide the payment service for these cards |
| Miroku Webcash International | 66.6% | Develop and sell software and content for business finance and asset management |
| Equity-method affiliates | | |
| Primal | 33.3% | Software development, sales, installation, and operational support services |
| NFC (Korea) | 22.9% | Development and supply of Phone2Phone payment technology services and incidental operations |

Source: Compiled by FISCO from the Company's securities report and news releases

Business trends

Results for 1H FY3/18 reached record highs, surpassing the Company's forecasts

1. Review of 1H FY3/18 results

For 1H FY3/18, MJS reported consolidated business results with net sales at ¥13,885mn (+6.2% YoY), operating income at ¥2,685mn (+28.4%), ordinary income at ¥2,643mn (+25.7%), and net income attributable to owners of the parent at ¥1,657mn (+22.5%), marking consecutive all-time half-year highs and exceeding initial forecasts at every level. In these and other ways, MJS posted extremely strong operating results for 1H FY3/18.

Consolidated operating results for 1H FY3/18

(¥mn)

| | 1H FY3/17 | | Company target | 1H FY3/18 | | | |
|---|-----------|-------|----------------|-----------|-------|-------|------------|
| | Result | Ratio | | Result | Ratio | YoY | vs. target |
| Net sales | 13,080 | - | 13,500 | 13,885 | - | 6.2% | 2.9% |
| Gross profit | 8,656 | 66.2% | 9,000 | 9,348 | 67.3% | 8.0% | 3.9% |
| SG&A expenses | 6,564 | 50.2% | 6,800 | 6,662 | 48.0% | 1.5% | -2.0% |
| Operating income | 2,091 | 16.0% | 2,200 | 2,685 | 19.3% | 28.4% | 22.1% |
| Ordinary income | 2,103 | 16.1% | 2,200 | 2,643 | 19.0% | 25.7% | 20.2% |
| Net income attributable to owners of the parent | 1,352 | 10.3% | 1,430 | 1,657 | 11.9% | 22.5% | 15.9% |

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

Business trends

MJS has been pursuing two main growth strategies: 1) expand its customer base and services revenue and 2) rigorously track progress against management goals, keeping in mind the importance of order backlogs. These strategies led to steady increases in sales and earnings. Notably, in 1H FY3/18, sales of products for tax accountant and CPA firms trended favorably, increasing by 16.3% YoY, and service revenues, which are based on a recurring revenue business model, expanded steadily by 6.8% in line with an increase in the number of service customers. MJS has steadily accumulated an order backlog of system installation contract sales, which it emphasizes as a key performance indicator. The order backlog of system installation contract sales at the end of 1H FY3/18 stood at 6.08 months of sales, which was 0.48 months more than the backlog sales equivalent at the beginning of FY3/18. This shows that MJS's business is steadily growing in terms of the order backlog of sales.

Looking at profitability, gross margin rose 1.1 percentage points YoY to 67.3%, reaching an all-time high. This mainly reflected a higher sales mix of lucrative software and service revenue. Moreover, selling, general and administrative (SG&A) expenses increased 1.5% YoY mainly due to higher personnel costs and advertising expenses. However, higher revenue had the positive effect of pushing down the ratio of SG&A expenses to sales by 2.2 percentage points. As a result, the operating income margin rose significantly by 3.3 percentage points to 19.3%.

In comparison with the Company's initial forecasts, net sales surpassed the forecast by 2.9% because of stronger-than-anticipated sales to tax accountant and CPA firms. In addition, operating income exceeded forecast by 22.1% because SG&A expenses were controlled better than MJS had foreseen, in addition to the positive effect of higher revenues.

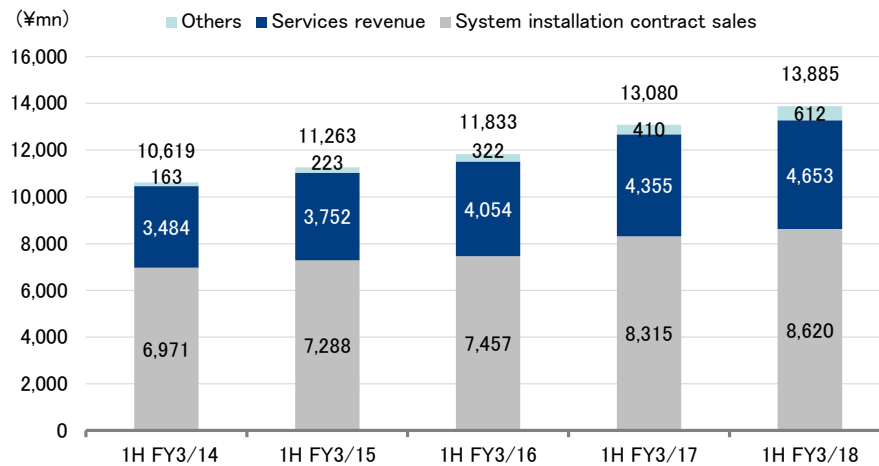
On the development front, MJS has developed Edge Tracker, a cloud service that streamlines tasks such as expense payments and employee attendance management at companies. Moreover, in October 2017, MJS released MJSLINK NX-Plus, an ERP system for small/mid-sized companies featuring upgraded FinTech functions and enhanced coordination functions with various cloud services.

Strong sales to tax accountant and CPA firms, plus steady growth in recurring revenue from business services

2. Sales trends by customer and product category

In 1H FY3/18, MSJ continued to post sales growth across all components of sales. Sales of system installation contracts were up 3.7% YoY to ¥8,620mn, revenue from services rose 6.8% to ¥4,653mn, and other sales climbed 49.3% to ¥612mn. The main contributing factors behind the increase in other sales were steady growth in sales at subsidiary bizocean to ¥450mn and an increase in the number of service contract signings for the business succession support services provided by mmap.

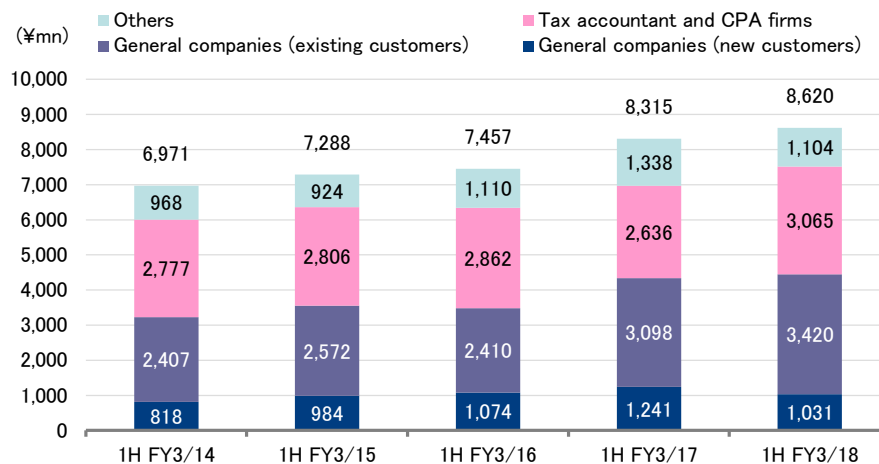
Business trends

Breakdown of consolidated sales by business


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

(1) System installation contract sales

Looking at system installation contract sales by customer, sales to tax accountant and CPA firms trended firmly, up 16.3% YoY to ¥3,065mn, and sales to general companies rose 2.6% to ¥4,451mn, but other sales (sales by the head office and subsidiaries and sales to business partners) decreased 17.5% to ¥1,104mn.

System installation contract sales (by customer)


Note: Others (sales by the head office and subsidiaries and sales to business partners)

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

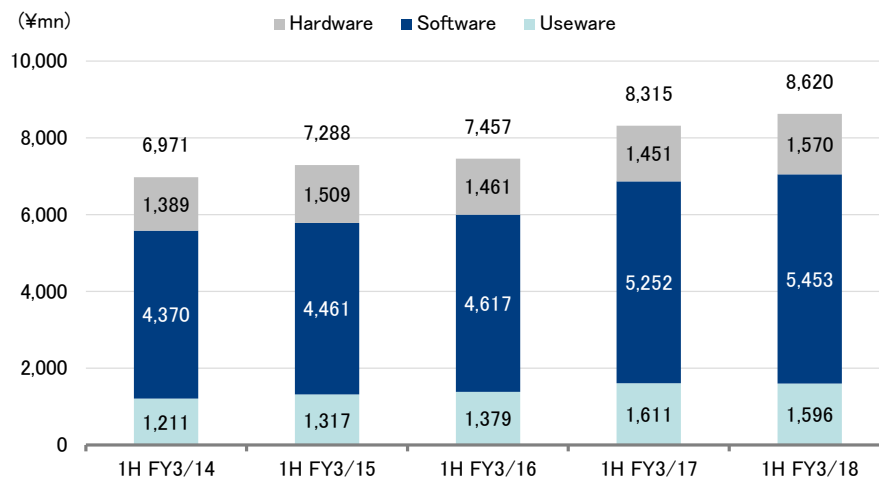
Business trends

MJS had originally expected sales of system installation contracts to tax accountant and CPA firms to decrease by around 8% YoY based on lower demand for products for Japan's My Number system of personal identification numbers and customers choosing to renew their five-year contracts for only one year. However, replacement demand for these products was greater than what the Company had expected, and many customers renewed their contracts for five years, spurring top-line growth.

Meanwhile, sales of system installation contracts to general companies were 0.6% below the initial forecast, trending largely as planned. Looking at the breakdown by customer, although sales to new corporate customers decreased 16.9% YoY to ¥1,031mn, sales to existing customers remained solid, up 10.4% at ¥3,420mn. Although an increase in customer inquiries for ACELINK NX-CE, a low-priced product for small/mid-sized companies, led to a decrease in net sales to new corporate customers, the number of contracts increased. In addition, in April 2017, MJS released Galileopt NX-Plus, an ERP solution for small/mid-sized companies. The Company's focus on selling products to existing customers in order to fulfill their replacement needs was another reason why sales to new corporate customers struggled to grow. Other sales decreased mainly due to a drop in sales by the head office as demand for services for local chambers of commerce settled down from a spurt of growth in the same period of the previous year. This was despite firm sales by subsidiaries and sales to business partners (sales agents).

Looking at sales by product category, system installation contract sales of software, primary products for tax accountant and CPA firms remained on a growth track with an increase of 3.8% YoY to ¥5,453mn. System installation contract sales of hardware products increased 8.2% to ¥1,570mn. System installation contract sales of useware (installation assistance service) edged down by 0.9% to ¥1,596mn partly due to lower sales to new corporate customers.

System installation contract sales by category

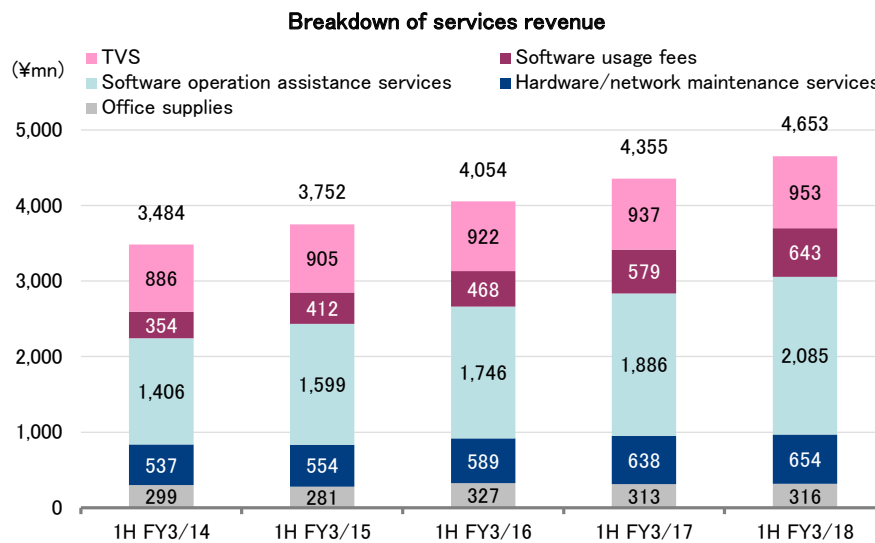


Source: Prepared by FISCO from the Company's results briefing materials

Business trends

(2) Services revenue

Looking at the breakdown of services revenue, sales from software operation assistance services (software maintenance services for companies) increased 10.6% YoY to ¥2,085mn, mainly due to the acquisition of new customers and additional sales to existing customers. Sales of simplified accounting software for small businesses via tax accountant and CPA firms (Kicho-kun, etc./software usage fees) maintained double-digit growth, increasing 11.1% to ¥643mn. Moreover, sales of the total maintenance service for tax accountant and CPA firms (TVS) rose by 1.6% to ¥953mn. Hardware/network maintenance services grew steadily in step with increases in the number of contracts for both types of service.



Note: TVS (total maintenance services for tax accountant and CPA firms)
 Source: Prepared by FISCO from the Company's results briefing materials

Maintained strong financial soundness, despite higher intangible assets following proactive investment in the development of new products and services

3. Financial status and management indicators

Looking at the Company's financial status at the end of 1H FY3/18, total assets stood at ¥22,478mn, an increase of ¥654mn from the end of FY3/17. Under current assets, cash and deposits decreased by ¥921mn due to higher cash outflows primarily stemming from the acquisition of intangible assets in connection with new product development and share buybacks. Under fixed assets, tangible fixed assets rose by ¥135mn, along with an increase of ¥1,029mn in intangible fixed assets, mainly due to the recording of software development in progress in connection with new product development.

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Business trends

Total liabilities stood at ¥7,277mn at the end of 1H FY3/18, an increase of ¥318mn from the end of FY3/17. Interest-bearing debt, both short- and long-term, rose by ¥393mn. There was also an increase of ¥194mn in trade payables, etc., which was partly offset by a decrease in income taxes payable of ¥126mn and certain other items. Net assets amounted to ¥15,201mn, an increase of ¥336mn from the end of FY3/17. There were increases of ¥727mn in retained earnings and ¥137mn in accumulated other comprehensive income, but these increases were partly offset by a decrease of ¥493mn from the purchase of treasury shares. During 1H FY3/18, the Company bought back 300,000 treasury shares for ¥729mn, while disposing of ¥235mn in treasury stock following the exercise of stock options. As a result, the number of treasury shares stood at 3,569,000 at the end of 1H FY3/18, a decrease of 43,000 shares from 3,613,000 shares at the end of FY3/17.

Looking at management indicators, MJS has seen a lull in the pace of improvement in its financial position, with the equity ratio decreasing to 67.5%, from 67.9% at the end of FY3/17, and the interest-bearing debt ratio increasing from 9.2% to 11.6%. The main reasons were proactive investments in developing next-generation products and services, and the purchase of treasury shares to improve the Company's capital efficiency. However, judging by the level of the foregoing management indicators, we believe that MJS has maintained a sound financial position.

Consolidated balance sheet

| | | | | | (¥mn) |
|---|--------|--------|-----------|---------|---|
| | FY3/16 | FY3/17 | 1H FY3/18 | Change | Factors |
| Current assets | 10,120 | 11,523 | 10,940 | -582 | Trade receivables +342, cash and deposits -921 |
| Cash and deposits | 5,654 | 6,465 | 5,544 | -921 | |
| Fixed assets | 9,761 | 10,300 | 11,538 | 1,237 | Tangible fixed assets +135, intangible fixed assets +1,029, investments and others +72 |
| Total assets | 19,882 | 21,823 | 22,478 | 654 | |
| Current liabilities | 5,000 | 6,174 | 6,590 | 415 | Short-term interest-bearing debt +544, trade payables +194, income taxes payable -126 |
| Fixed liabilities | 823 | 785 | 687 | -97 | Long-term debt -150, other fixed liabilities +52 |
| Total liabilities | 5,823 | 6,959 | 7,277 | 318 | |
| Net assets | 14,059 | 14,864 | 15,201 | 336 | Capital surplus +727, purchase of treasury shares -493, accumulated other comprehensive income +137 |
| Total liabilities and net assets | 19,882 | 21,823 | 22,478 | 654 | |
| Interest-bearing debt | 1,148 | 1,373 | 1,767 | 393 | |
| Net cash | 4,506 | 5,092 | 3,777 | -1,314 | (Cash and deposits + available-for-sale securities - interest-bearing debt) |
| Management indicators | | | | | |
| Current ratio (%) | 202.4 | 186.6 | 166.0 | -20.6pt | |
| Shareholders' equity ratio (%) | 70.2 | 67.9 | 67.5 | -0.4pt | |
| Interest-bearing debt ratio (%) | 8.2 | 9.2 | 11.6 | 2.3pt | |
| ROE (%) | 14.0 | 18.2 | - | | |

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

■ Outlook

Seventh straight year of record-high sales and profits projected for FY3/18

1. Business outlook for FY3/18

For FY3/18, MJS has maintained its initial forecasts, projecting a 4.1% YoY increase in consolidated net sales to ¥27,300mn, a 7.2% rise in operating income to ¥4,400mn, a 9.7% increase in ordinary income to ¥4,400mn, and a 9.3% increase in net income attributable to owners of the parent to ¥2,860mn. Thus, MJS expects FY3/18 to be its seventh consecutive year of record-high sales and profits. We believe that the Company is highly likely to outperform its full-year initial forecasts based on the following factors: (1) the progress rates against the full-year forecasts through 1H FY3/18 were 50.9% for net sales and 61.0% for operating income, surpassing the averages for the past three years (50.1% for net sales and 50.9% for operating income); and (2) there was a large order backlog of system installation contract sales at the end of 1H FY3/18, which stood at 6.08 months of sales. That said, the Company had not fully used its budget for sales promotions for 1H FY3/18. Therefore, in anticipation of growth in FY3/19, the Company could decide to allocate a significant portion of its budget to sales promotions in 4Q FY3/18.

Consolidated operating performance outlook for FY3/18

| | FY3/17 | | FY3/18 | | | | 1H progress rate | Three-year average progress rate |
|---|------------------|-------|-----------|-------|-------------|------|------------------|----------------------------------|
| | Full-year result | YoY | 1H result | YoY | Full-year E | YoY | | |
| Net sales | 26,225 | 11.0% | 13,885 | 6.2% | 27,300 | 4.1% | 50.9% | 50.1% |
| Operating income | 4,103 | 35.0% | 2,685 | 28.4% | 4,400 | 7.2% | 61.0% | 50.9% |
| Ordinary income | 4,010 | 30.7% | 2,643 | 25.7% | 4,400 | 9.7% | 60.1% | 51.2% |
| Net income attributable to owners of the parent | 2,616 | 37.3% | 1,657 | 22.5% | 2,860 | 9.3% | 57.9% | 51.8% |
| Net income per share (¥) | 83.46 | | 52.98 | | 91.45 | | | |

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

Outlook

System installation contract sales are expected to remain solid in 2H based on an extensive order backlog

2. Sales outlook by customer and product category

Sales trends by product category (consolidated basis)

| Business segment | FY3/16 | FY3/17 | FY3/18 E | YoY | 1H FY3/18 | YoY | 1H progress rate |
|---|--------|--------|----------|-------|-----------|-------|------------------|
| System installation contract sales | 14,683 | 16,345 | 16,469 | 0.8% | 8,620 | 3.7% | 52.3% |
| Hardware | 2,801 | 2,822 | 2,751 | -2.5% | 1,570 | 8.2% | 57.1% |
| Software | 8,949 | 10,281 | 10,547 | 2.6% | 5,453 | 3.8% | 51.7% |
| Ueware | 2,932 | 3,241 | 3,170 | -2.2% | 1,596 | -0.9% | 50.4% |
| Services revenue | 8,307 | 8,949 | 9,349 | 4.5% | 4,653 | 6.8% | 49.8% |
| TVS | 1,851 | 1,877 | 1,905 | 1.5% | 953 | 1.6% | 50.0% |
| Software usage fees | 1,009 | 1,211 | 1,270 | 4.9% | 643 | 11.1% | 50.6% |
| Software operation assistance services | 3,538 | 3,898 | 4,235 | 8.7% | 2,085 | 10.6% | 49.2% |
| Hardware/network maintenance services | 1,211 | 1,287 | 1,305 | 1.4% | 654 | 2.5% | 50.1% |
| Office supplies and consumables | 695 | 675 | 632 | -6.4% | 316 | 1.1% | 50.1% |
| Others | 646 | 931 | 1,482 | 59.2% | 612 | 49.3% | 41.3% |
| Total | 23,636 | 26,225 | 27,300 | 4.1% | 13,885 | 6.2% | 50.9% |

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

The Company is highly likely to outperform its full-year initial forecast for system installation contract sales based on a progress rate of 52.3% for 1H FY3/18 and a large order backlog of 6.08 months of system installation contract sales at the end of 1H FY3/18. By customer, MJS projects an 8.1% YoY decrease in system installation contract sales to tax accountant and CPA firms to ¥4,772mn, a 5.1% rise in sales to general companies to ¥8,798mn, and a 4.4% increase in other sales (sales by subsidiaries and the head office and sales to business partners) to ¥2,899mn. As mentioned earlier, there is surging replacement demand for products to tax accountant and CPA firms, and sales are therefore expected to outperform the forecast. Sales to general companies are expected to be largely in line with the initial forecast based primarily on replacement demand for Galileopt NX-Plus. In other sales, sales to partners are expected to increase. MJS's strategy is to expand sales by bolstering sales support for partner companies through such means as setting up a new specialized branch in the Tokyo metropolitan area.

Meanwhile, services revenue is largely in line with the initial forecast, with a progress rate of 49.8% for 1H FY3/18. In 2H FY3/18, sales are projected to increase steadily based on efforts to capture more new service customers. Notably, software usage fees for small businesses through tax accountant and CPA firms are trending at a slightly faster pace than the forecast, and are expected to deliver an approximate double-digit rate of sales growth on a full-year basis.

Other sales are trending slightly behind schedule, with a progress rate of 41.3% for 1H FY3/18. However, other sales are projected to continue growing strongly on a year-on-year basis. Notably, sales of subsidiary bizocean are forecast to increase to ¥1,000mn, from ¥750mn in the previous fiscal year. Previously, the bizocean portal site generated only advertising revenues. However, it started providing the pay service SPALO in October 2017. Trends in this service will be watched closely.

Outlook

SPALO is a document creation service that lets users enter data directly into Microsoft Excel in their smartphones using their voices. The service enables automated voice data entry using the AI technologies of LINE's Bot and IBM's Watson. SPALO is mainly envisioned for use in producing business reports, daily business logs, and other such documents. Voice-based text entry systems using chatbots have previously been available. However, SPALO stands out because it uses Watson to analyze and classify voice-entered text, thereby enabling the program to select the correct text entry field for documents (reports, ledgers, etc.) and automatically enter the text into each of those fields. Service plans* are classified into plans for individuals and those for companies. The goal is to sign up 100,000 users by March 2018.

* Plans for individuals are available with free initial installation and no monthly base usage fees. File storage fees are waived for the first 10 files, with tiered billing applied to the 11th and subsequent files. Plans for companies are available for an initial installation cost starting from ¥300,000 (varies depending on the size of ledgers and the number of items), with monthly base usage fees starting from ¥5,900 for B2E plans (plans for employees) and from ¥25,000 for B2C plans (plans for large numbers of unspecified users, such as stores). For B2E plans, file storage fees are waived for the first 25 files, with tiered billing applied to the 26th and subsequent files. For B2C plans, file storage fees are waived for the first 1,000 files, with tiered billing applied to subsequent files.

Meanwhile, MJS had projected net sales of ¥170mn from the business succession support services undertaken by mmap. However, net sales from these services have surpassed the forecast for 1H FY3/18 and are highly likely to finish above the full-year forecast. In addition, these services are expected to achieve profitability for the first time. The number of tax accountant and CPA firms with business partnerships has increased faster than planned, surpassing 3,000 firms in October 2017 (FY3/18 target: 3,195 firms), compared with 2,195 firms as of March 31, 2017. These tax accountant and CPA firms have been providing subsidiary mmap with more and more referrals to business succession proposals and related projects for the client companies they advise. Moreover, mmap supplies a Corporation Evaluation System free of charge to its tax accountant and CPA firm partners, in order to enhance the contract completion rate for the referrals. This system uses a discounted cash flow model to assess the fair corporate value of companies. Subsidiary mmap requests that the tax accountant and CPA firms first assess the fair value of client companies and create a shortlist of promising companies, before reporting the candidate companies as referral projects to mmap. This process will help to increase the contract completion rate for mmap.

In terms of the number of consultations, mmap plans to undertake 380 consultations in FY3/18 (172 in 1H FY3/18), compared with 245 in FY3/17. Business succession consultations with small/mid-sized companies have been increasing year after year. Supported by MJS's networks, we expect the scale of this business to continue to expand going forward.

■ Medium- to long-term growth strategy

Targeting consolidated net sales of ¥50.0bn and ordinary income of ¥15.0bn for FY3/21

1. Outline of fourth medium-term management plan

FY3/18 is the first year of the Company's fourth medium-term management plan, which runs through FY3/21. In the final year of the plan, the Company aims to achieve consolidated net sales of ¥50.0bn, an ordinary income margin of 30%, and an ROE of 30%. This sales target is 1.9 times the Company's sales in FY3/17, and its ordinary income target is 3.7 times its FY3/17 ordinary income. Thus, the Company plans to increase its sales by a compound annual growth rate of 17.5% and its ordinary income by a compound annual growth rate of 39.1% between FY3/17 and FY3/21.

Medium- to long-term growth strategy

In the existing ERP business, the Company’s strategy is to further expand the customer base by acquiring new customers while striving for functional improvement, with the aim of driving growth. In addition, the Company aims to establish a business foundation to support sustained growth into the future. To do this, it will expand its business fields by nurturing high-value-added services such as various cloud services, platform businesses, financial service businesses and other areas as new businesses in conjunction with advancing upselling and cross-selling initiatives targeting its customer base. At present, it appears that the Company has been able to budget for around 80% of net sales against the target. Going forward, the Company will closely examine matters such as the medium-term management plans for each business and is scheduled to announce the details in 2018 onward.

Targets of the fourth medium-term management plan

| | FY3/17 | Targets for FY3/21 | Change |
|------------------------|---------|--------------------|---------|
| Net sales | ¥26.2bn | ¥50.0bn | 1.9x |
| Ordinary income | 4.0bn | 15.0bn | 3.7x |
| Ordinary income margin | 15.3% | 30.0% | +14.7pt |
| ROE | 18.2% | 30.0% | +11.8pt |

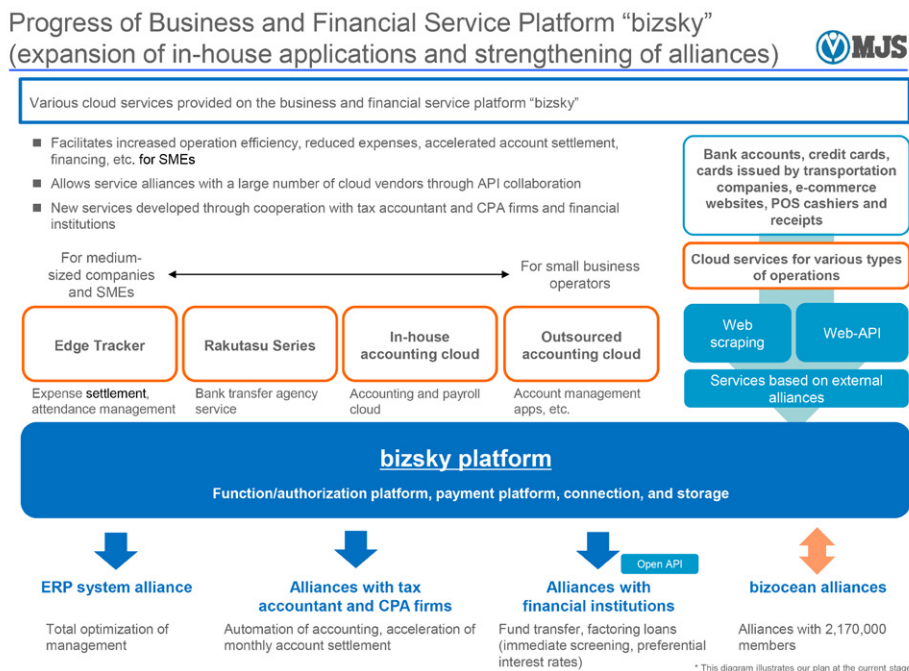
Source: Prepared by FISCO from the Company’s results briefing materials

2. Major initiatives to achieve the plan

(1) Full-scale operation of the financial service platform

Looking ahead, the Company plans to expand various solution services that will facilitate operating efficiency, reduced expenses, accelerated account settlement and financing for small/mid-sized companies through the financial service platform bizsky developed in-house. MJS will strive to form service alliances with a large number of cloud vendors through API collaboration. In addition, MJS will work to develop new services in collaboration with financial institutions and tax accountant and CPA firms. Through these efforts, the Company intends to realize its financial services platform concept.

Overview of the financial services platform



Source: The Company’s results briefing materials

Medium- to long-term growth strategy

MJS started providing the Rakutasu Series of bank transfer agency services in FY3/17 as a cloud service for small/mid-sized companies. Additionally, in October 2017, the Company released Edge Tracker, a business process management system for expense settlement, attendance management and other processes. Through the introduction of these services, MJS will make various business processes easier to perform by employees, thereby assisting companies with their “workstyle reforms.” Moreover, linking these services with ERP systems in real time will make it possible for companies to boost the operating efficiency of their businesses and swiftly utilize business information.

(2) Growth strategy for the tax accountant and CPA firm market

Looking at the Company’s growth strategy in the tax accountant and CPA firm market, MJS’s strategy is to expand its business scale through various initiatives. These will include providing services that realize automation of accounting, acceleration of monthly account settlement, and other priorities through the effective use of the financial service platform bizsky. Another priority is the cloud migration of products for the client companies of tax accountant and CPA firms. One notable measure on this front was the release of Kicho-kun Cloud in April 2017. MJS also plans to release new cloud services for individuals and sole proprietors.

(3) Supply of new ERP products

In ERP products, the Company plans to accelerate the capture of new customers through functional improvement, with plans to launch new products featuring AI and machine learning technology from 2019 onward. These new products will also support access to the financial service platform bizsky. In other areas, MJS also plans to drastically revise the partnership system, which has long presented issues, in conjunction with rolling out new products, with a view to bolstering the Company’s sales capabilities.

(4) Further improvement of bizocean’s financial performance

Subsidiary bizocean plans to accelerate growth in the Internet business based on the bizocean business information site that has expanded to encompass over 2.17 million members, with the aim of conducting an IPO in the near future. Currently, the main source of earnings is revenue from online advertisements shown on the site. Going forward, bizocean will monetize the platform by providing cloud services. As the first initiative, bizocean released SPALO in October 2017. The company plans to continue growing the size of its membership and providing a wide range of new services.

(5) mmap’s growth strategy

Subsidiary mmap is developing business succession support services. It will promote business partnership agreements with tax accountant and CPA firms, using the nationwide branch network of MJS. In addition, mmap will collaborate with regional financial institution partners across Japan to exchange information on business succession projects. The company currently has a staff of around 10 employees. By increasing staffing levels, mmap will strive to expand its business further.

3. Capital and business alliance with Shinsei Bank

On November 15, 2017, MJS announced a capital and business alliance with Shinsei Bank, Limited. The purpose of the alliance is to develop financial services based on MJS products and further businesses targeting regional financial institutions. In addition, the alliance will also see MJS consider establishing a new fund business to support companies undertaking operations in the field of FinTech. In connection with the business alliance, Shinsei Bank acquired on the same day 300,000 common shares of MJS from NK Holdings Co., Ltd., a major shareholder of MJS, representing approximately 0.9% of the outstanding shares of MJS.

Medium- to long-term growth strategy

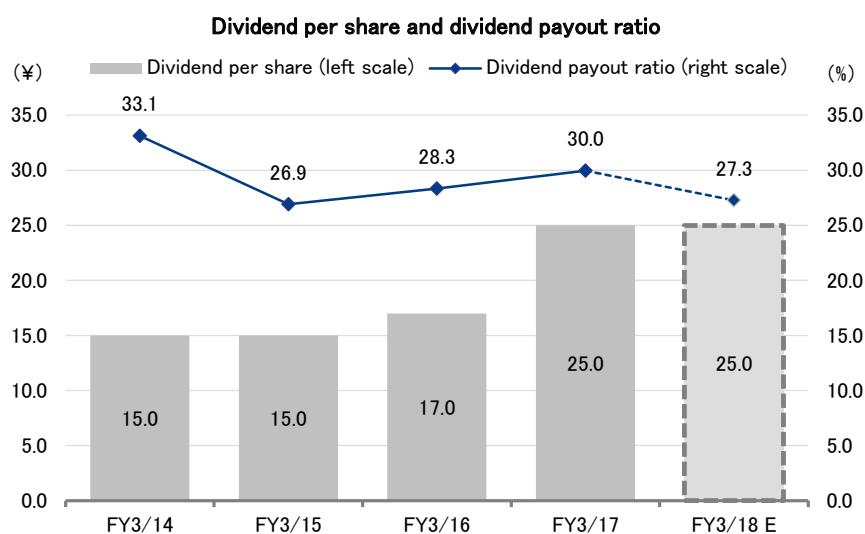
Looking at events leading up to this alliance, MJS believes that system linkage and business collaboration with as many financial institutions as possible are essential for the MJS Group to upgrade and expand services in the FinTech field, where the MJS Group has a competitive edge, on the financial service platform bizsky. Meanwhile, Shinsei Bank seeks to strengthen solution services for small/mid-sized businesses, a priority market sector it needs to address. The goals of both parties were aligned in this manner, leading to the formation of the alliance.

Under this alliance, the MJS Group aims to promote ERP products and the provision of cloud computing and new services in cooperation with regional financial institutions and to offer comprehensive business support services, including services for supporting business succession at small/mid-sized companies in local communities in cooperation with tax accountant and CPA firms and partner financial institutions throughout Japan. Going forward, MJS and Shinsei Bank expect to form a subcommittee to hold regular meetings, thereby laying the groundwork for starting specific initiatives to deliver new services.

Shareholder return policy

Plans to pay steady dividends reflecting its profits

MJS's policy is to steadily return profits to shareholders through dividends over the long term. For FY3/18, MJS plans to pay dividends of ¥25.0 per share, the same as in the previous fiscal year, representing a dividend payout ratio of 27.3%. MJS also conducts timely share buybacks to improve its capital efficiency. In FY3/17, MJS bought back 580,000 shares (1.7% of total shares outstanding) for ¥1,138mn. In 1H FY3/18, the Company bought back 300,000 shares for ¥729mn. The Company targets an ROE of 30% for FY3/21 in the fourth medium-term management plan, compared with an ROE of 18.2% in FY3/17. Therefore, we expect MJS to continue considering share buybacks while closely monitoring stock market conditions.



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

■ Information security measures

In the course of building information systems for customers, MJS may be entrusted with the information assets of customers. For this reason, in order to mitigate the risk of leaks of customer information and other data, MJS is striving to bolster its information security framework through such means as acquiring the Information Security Management System (ISMS) certification. In terms of specific actions, MJS has implemented information security measures such as creating IDs for room access management at the Company, using single-use passwords for e-mails, and ensuring that data cannot be downloaded from the server system to PCs.



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