

Miroku Jyoho Service Co., Ltd.

9928

Tokyo Stock Exchange First Section

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

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Summary

Building a business foundation in the FinTech field, aiming for rapid growth from FY3/20

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. FY3/18 results

The Company reported all-time highs for a seventh straight year in FY3/18 consolidated results at ¥27,582mn in net sales (+5.2% YoY) and ¥4,426mn in ordinary income (+10.4%). Main sources of higher sales and profits were expanded sales of tax accountant/CPA firm and corporate ERP systems and increase in services revenue from development of new customers and other activities. While sales and profits slipped YoY in 4Q (Jan-Mar 2018), these setbacks occurred because of delays in inspection timing in multiple corporate deals to April or later and booking about ¥380mn in costs to implement measures that improve employee satisfaction and we think results are still expanding. Period-end orders backlog for system installation contract sales*, which the Company closely monitors as a management indicator, steadily climbed to 6.63 months, an increase of 1.03 months compared to period-start.

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

2. FY3/19 forecast

The Company expects increased sales and profits in an eighth straight year in FY3/19 at ¥30,600mn in net sales (+10.9% YoY) and ¥5,000mn in ordinary income (+13.0%). This outlook factors in continuation of upbeat momentum in corporate ERP systems with a 12.1% YoY gain, mainly driven by replacement demand at existing customers, and growing sales in the portal site business (bizocean business information site) run by a subsidiary, business succession assistance service for small/mid-sized companies, and other areas. Additionally, the Company intends to focus on reinforcement of its business foundation for future growth in financial and business platform operations, a new area, including expansion of bizsky cloud services and initiatives in API collaboration with financial institutions.

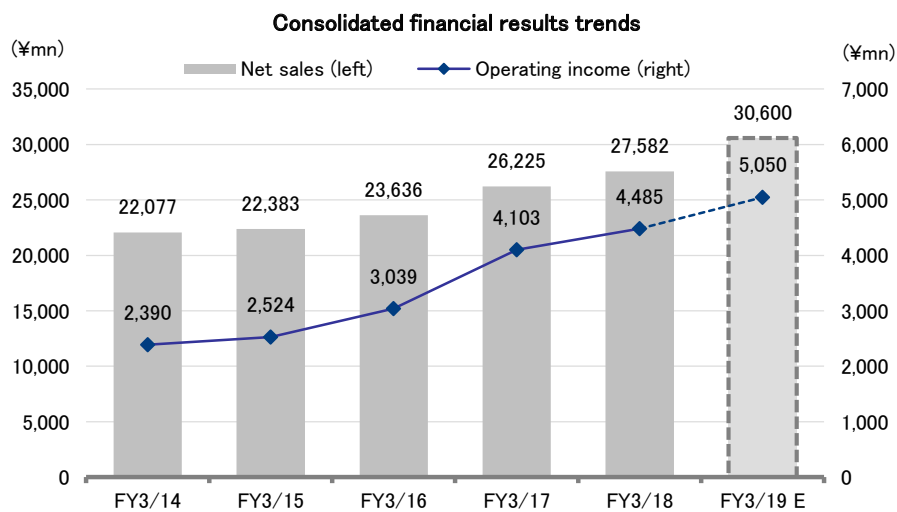
3. Growth strategy going forward

Goals for FY3/21, the final year of the 4th medium-term management plan, are ¥50bn in net sales, 30% ordinary profit margin, and 30% ROE. The Company intends to accelerate the growth pace by pursuing further sales growth in existing ERP business with emphasis on acquisition of new customers through continued strengthening of functions in ERP products and related systems and reinforcement of solution proposal capabilities and by cultivating high-margin finance and Internet businesses with growth opportunities, including business succession assistance service and cloud services utilizing the bizsky platform and bizocean portal site. While the goal of ¥50bn in net sales seems somewhat ambitious, we expect the Company to build a business foundation in FY3/19 and deliver rapid growth from FY3/20.

Summary

Key Points

- A leading Japanese provider of financial and accounting systems for tax accountant and CPA firms and small/mid-sized companies
- Expecting healthy growth in corporate ERP systems, bizocean, and business succession assistance services in FY3/19
- 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 MJS M&A Partners Co., Ltd. (mmap) to provide support services for business succession and related priorities to small/mid-sized companies. In 2016, it launched the bizsky B2B cloud platform to assist in management and operations improvement at small/mid-sized companies. Through these measures, the Company has nurtured new businesses and expanded the scope of its business.

We encourage readers to review our complete legal statement on "Disclaimer" page.

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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 consolidate 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 becomes an affiliate. (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)
	2017	Started offering the Rakutasu Kyuyo Money Transfer service through the bizsky cloud platform for small and medium-sized companies (January) 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) Commenced development and sales of the Galileopt NX-Plus ERP solution to small and medium-sized companies (April) Developed and released the new ERP system for small/mid-sized companies MJSLINK NX-Plus (October)
	2018	Started provision of the cloud service for small/mid-sized companies MJS Okane No Kanri (March) Started provision of the new cloud services for small/mid-sized companies and self-run businesses Kantan Cloud Kaikei and Kantan Cloud Kyuyo (April)

Source: Prepared by FISCO from the Company's 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)	<ul style="list-style-type: none"> Financial and accounting systems Tax reporting systems, etc. 	<ul style="list-style-type: none"> ERP systems centered on financial and accounting systems (accounting, payroll, sales management)
Services	<ul style="list-style-type: none"> System installation support services Various maintenance services Training and information services, etc. 	<ul style="list-style-type: none"> 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%	Approx. 17,000 companies

Source: Prepared by FISCO from the Company's materials

3. Subsidiaries and affiliates

At the end of September March 2018, the Company had eight consolidated subsidiaries and two equity-method affiliates. Since 2002, software development, sale, installation, and operational support services have been undertaken by three consolidated subsidiaries, NTC Co., Ltd., MSI Co., Ltd., and Lead Co., Ltd. In 2014, the Company established subsidiary 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 develops and sells payment services using near-field communications (NFC).

Corporate overview

Company's subsidiaries and affiliates

(As of March 31, 2018)

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%	Provision of payment services, finance services, and other services
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)	22.0%	Development and sales of payment services using near-field communications (NFC)

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

Business trends

Set all-time highs in FY3/18 for the seventh consecutive year

1. Review of FY3/18 results

The Company reported all-time highs for a seventh straight year in FY3/18 consolidated results at ¥27,582mn in net sales (+5.2% YoY), ¥4,485mn in operating income (+9.3%), ¥4,426mn in ordinary income (+10.4%), and ¥2,877mn in net income attributable to owners of the parent (+10.0%). Both sales and profit values were roughly on track with period-start guidance.

Consolidated operating results for FY3/18

(¥mn)

	FY3/17		Company target	FY3/18			
	Result	Ratio		Result	Ratio	YoY	vs. target
Net sales	26,225	-	27,300	27,582	-	5.2%	1.0%
Gross profit	17,389	66.3%	18,200	18,292	66.3%	5.2%	0.5%
SG&A expenses	13,286	50.7%	13,800	13,806	50.1%	3.9%	0.0%
Operating income	4,103	15.6%	4,400	4,485	16.3%	9.3%	2.0%
Ordinary income	4,010	15.3%	4,400	4,426	16.0%	10.4%	0.6%
Extraordinary losses	-65	-0.3%	-	-126	-0.5%	-	-
Net income attributable to owners of the parent	2,616	10.0%	2,860	2,877	10.4%	10.0%	0.6%

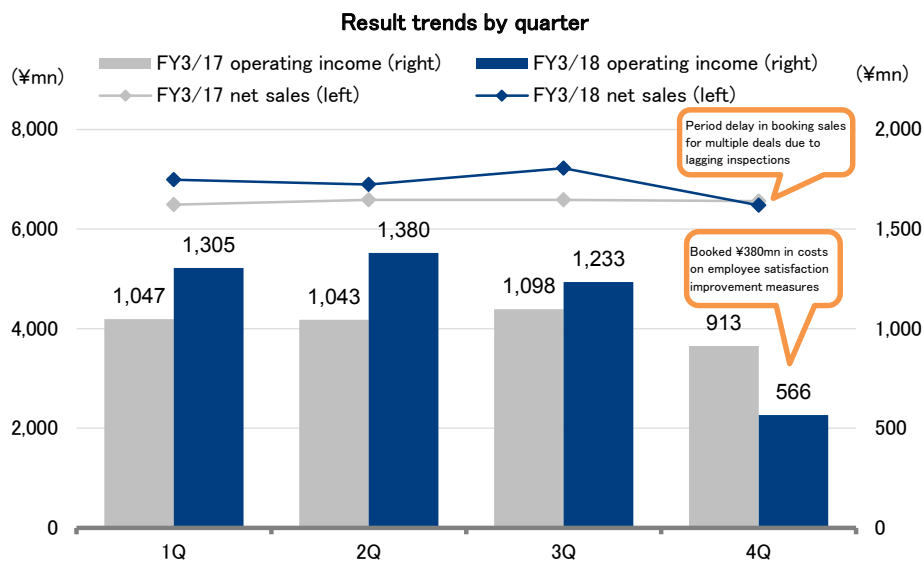
Source: Prepared by FISCO from the Company's financial results and the briefing materials

Business trends

We think the Company is steadily increasing income with its adopted growth strategies of “expanding its customer base and services revenue” and “rigorously tracking progress against management goals while keeping in mind the importance of order backlogs.” Sales rose mainly on 6-7% YoY increases in tax accountant/ CPA firm and corporate ERP systems and a 5.8% gain in services income, a recurring business making progress in recruitment of new customers. Furthermore, period-end orders backlog for system installation contract sales climbed to 6.63 months, an increase of 1.03 months compared to period-start. This shows healthy gains in orders as well.

In profitability, gross margin was flat YoY at 66.3%. Operating margin, meanwhile, improved by 0.7pt to 16.3%, the fourth straight increase and a new high, as stronger sales contributed to a 0.6pt reduction of the SG&A expenses ratio, despite a 3.9% YoY increase in SG&A expenses primarily on higher personnel expenses and sales promotion costs.

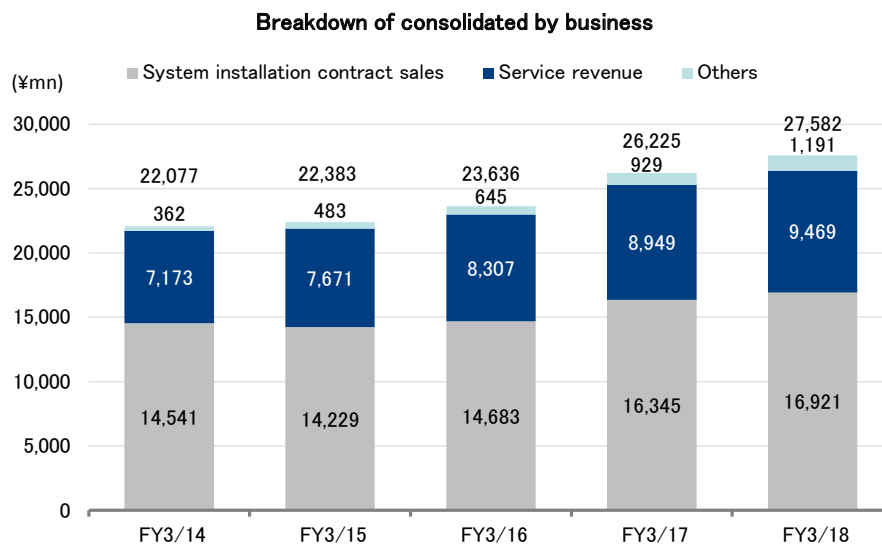
From a quarterly perspective, while the Company posted higher sales and profits through 3Q, results slipped in 4Q with a 1.3% YoY drop in sales and a 38.0% decline in operating income. Sales lagged mainly because of delays in final inspections of multiple corporate ERP systems. These delays were not caused by defects in the Company’s systems. Instead verification tests for collaboration with other systems at customer sites have been taking some time, and multiple deals had testing-related delays in 4Q. Operating income was lower as the Company booked about ¥380mn in costs on measures for improvement of employee satisfaction (including fiscal year-end bonus payments and work environment improvements) in light of the upbeat profit trend. The Company expects removal of some quarterly unevenness in FY3/19 by raising base pay and making other salary adjustments.



Healthy sales of tax accountant/CPA firm and corporate ERP systems

2. Sales trends by customer and product category

According to the sales breakdown, the Company continued to post higher sales in all segments with system installation contract sales at ¥16,921mn (+3.5% YoY), services revenue at ¥9,469mn (+5.8%), and others segment sales at ¥1,191mn (+28.1%). Other businesses are starting to contribute to income as well, albeit just slightly, with subsidiary bizocean sales growing at a healthy pace from ¥750mn in the previous fiscal year to ¥940mn, mainly on advertising income, and mmap business succession assistance service boosting sales from ¥76mn to ¥170mn on increase in contract volume. Operating income turned positive too.

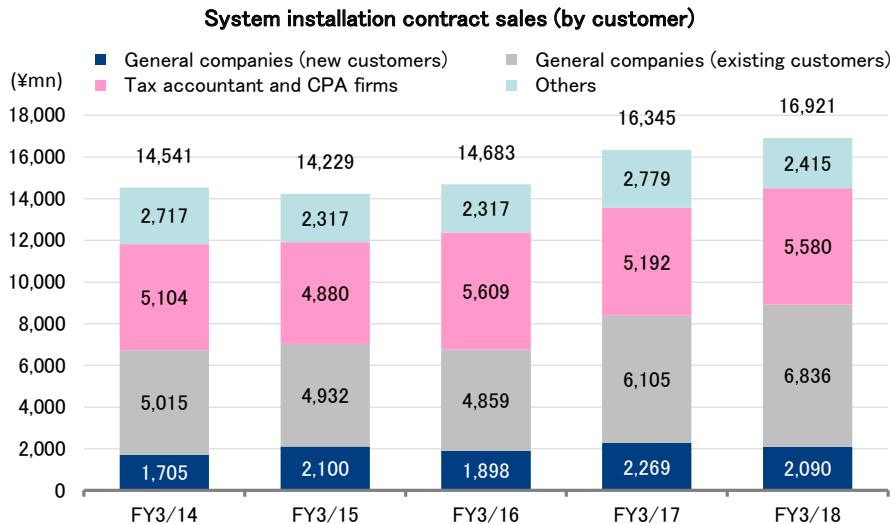


Source: Prepared by FISCO from the Company's results briefing materials

(1) System installation contract sales

Looking at system installation contract sales by customer, sales to tax accountant and CPA firms trended firmly, up 7.5% YoY to ¥5,580mn, and sales to general companies rose 6.6% to ¥8,926mn, but other sales (sales by the head office and subsidiaries and sales to business partners) decreased 13.1% to ¥2,415mn.

Business trends



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

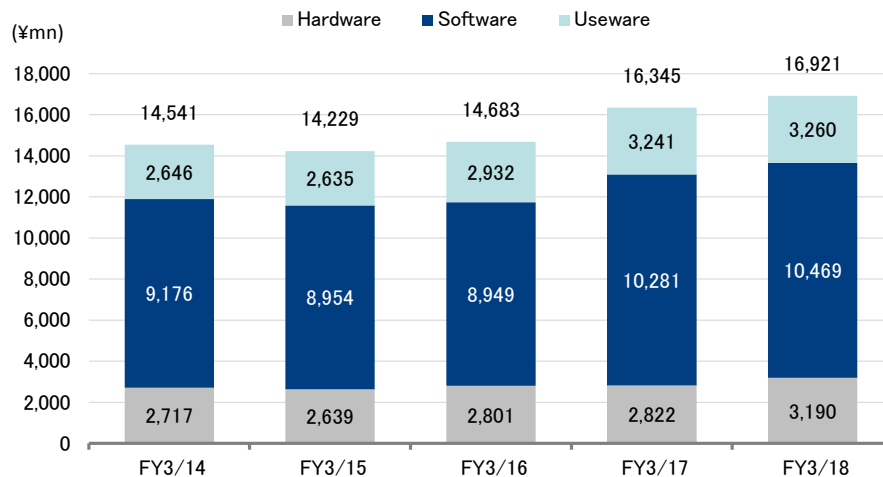
MJS had originally expected sales of system installation contracts to tax accountant and CPA firms to decrease by 8.1% YoY based on lower demand for products for Japan's My Number system of personal identification numbers and customers choosing to renew their five-year contracts for only one year. However, 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.

In business with general companies, while the Company targeted a 5.1% sales increase in the period-start plan, it exceeded the plan by 1.4% on upbeat sales of Galileopt NX-Plus (for medium-sized businesses) released in April 2017 and MJSLINK NX-Plus (for medium-sized and small/mid-sized companies) released in October 2017. We think actual sales growth was modestly stronger considering the multiple delayed deals mentioned above. New corporate sales fell 7.9% YoY to ¥2,090mn because of emphasis on replacement sales at existing customers during the period. Nevertheless, the new company sales ratio remains above 20% of sales to general companies at 23.4% and overall customer volume is still expanding.

In other business, subsidiary sales and partner (sales agent) business stayed at year-ago levels, while headquarters sales weakened on further decline in demand for services with chambers of commerce. The Company is focused on increasing sales with partners and aimed to strengthen support capabilities in FY3/18 with formation of a branch company that specializes in partner assistance (12-13 people) in metro Tokyo. We will be looking for manifestation of this effect.

Trends by item include a 1.8% YoY rise in software sales to ¥10,469mn, led by MJSLINK NX-Plus, a 13.0% gain in hardware sales to ¥3,190mn, and a 0.6% advance in useware (installation assistance service) to ¥3,260mn. Software growth slightly missed guidance (+2.6%), though mainly due to the period delays. Hardware sales benefited from healthy server and PC replacement demand and security product sales.

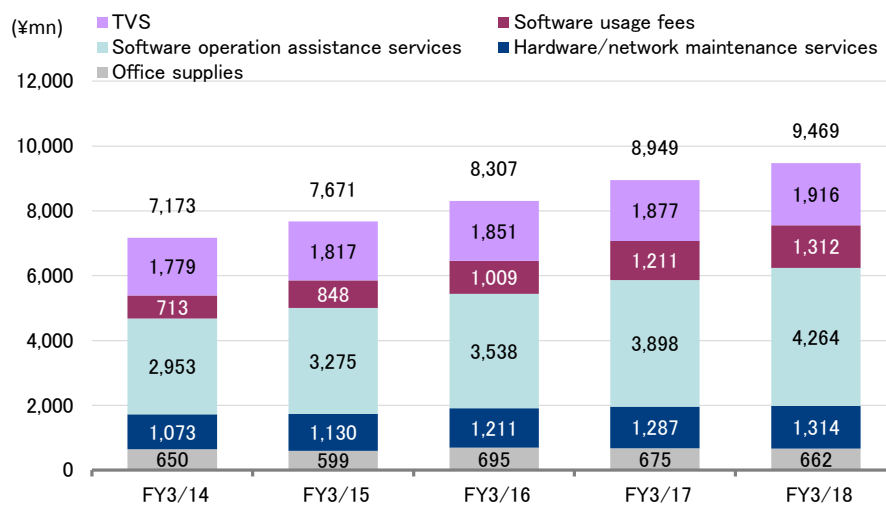
Business trends

System installation contract sales by category


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

(2) Services revenue

In services revenue, software operation assistance services (corporate software maintenance services) improved by 9.4% YoY to ¥4,264mn mainly due to acquisition of new customers, and simplified accounting software for small/mid-sized companies (Kicho-kun, etc./software licensing revenue) arranged by tax accountant and CPA firms expanded 8.3% to ¥1,312mn. TVS, which provides general maintenance services for tax accountant and CPA firms, steadily increased sales with a 2.1% gain to ¥1,916mn primarily on higher customer volume. Hardware and network maintenance services posted ¥1,314mn in sales (+2.1%) and supply goods recorded ¥662mn in sales (-2.0%).

Breakdown of services revenue


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

Business trends

Maintaining robust financial soundness even with expansion of intangible fixed assets driven by development investments in next-generation products

3. Financial status and management indicators

In financial standing at end-FY3/18, total assets climbed ¥3,016mn from the end of the previous fiscal year to ¥24,840mn. Current assets had a ¥6mn decline in sales credits and increases of ¥54mn in cash and deposits and ¥61mn in inventory assets. Fixed assets rose sharply on a ¥2,565mn increase in intangible fixed assets, mainly due to development investments for next-generation product creation and feature reinforcement in existing products. Tangible fixed assets grew by ¥231mn.

Total liabilities stood at ¥8,563mn at the end of FY3/18, an increase of ¥1,603mn from the end of FY3/17. Interest-bearing debt, both short- and long-term, rose by ¥1,374mn. There was also an increase of ¥291mn in trade payables. Net assets amounted to ¥16,277mn, an increase of ¥1,412mn from the end of FY3/17. There were increases of ¥1,948mn in retained earnings, but these increases were partly offset by a decrease of ¥494mn from the purchase of treasury shares.

In management indicators, financial enhancement stalled with the capital ratio dropping from 67.9% to 65.5% and the interest-bearing debt ratio rising from 9.2% to 16.9%. This change can be attributed to higher interest-bearing debt as development investment funds for next-generation products and other products and share buybacks aimed at lifting the capital ratio. Nevertheless, we think the Company's finances remain sound with the capital ratio at over 60% and net cash at more than ¥3bn. ROE rose 0.3pt YoY to 18.5%, the fourth straight annual gain.

Consolidated balance sheet

	FY3/16	FY3/17	FY3/18	Change	Factors
	(¥mn)				
Current assets	10,120	11,523	11,719	196	Trade receivables -6, cash and deposits +54, inventory assets +¥61
Cash and deposits	5,654	6,465	6,520	54	
Fixed assets	9,761	10,300	13,121	2,820	Tangible fixed assets +231, intangible fixed assets +2,565, investments and others +23
Total assets	19,882	21,823	24,840	3,016	
Current liabilities	5,000	6,174	8,105	1,931	Short-term interest-bearing debt +1,675, trade payables +291, income taxes payable -180
Fixed liabilities	823	785	457	-327	Long-term debt -301, other fixed liabilities -13
Total liabilities	5,823	6,959	8,563	1,603	
Net assets	14,059	14,864	16,277	1,412	Capital surplus +1,948, purchase of treasury shares -494
Total liabilities and net assets	19,882	21,823	24,840	3,016	
Interest-bearing debt	1,148	1,373	2,748	1,374	
Net cash	4,506	5,092	3,772	-1,319	(Cash and deposits + available-for-sale securities - interest-bearing debt)
Management indicators					
Current ratio (%)	202.4	186.6	144.6	-42.0pt	
Shareholders' equity ratio (%)	70.2	67.9	65.5	-2.4pt	
Interest-bearing debt ratio (%)	8.2	9.2	16.9	7.7pt	
ROE (%)	14.0	18.2	18.5	0.3pt	

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

■ Outlook

Targeting double-digit sales and profit increases and all-time high profits in an eighth straight year in FY3/19

1. Business outlook for FY3/19

FY3/19, MJS forecasts double-digit increases in sales and profits, projecting a 10.9% YoY increase in consolidated net sales to ¥30,600mn, a 12.6% rise in operating income to ¥5,050mn, a 13.0% increase in ordinary income to ¥5,000mn, and a 14.3% increase in net income attributable to owners of the parent to ¥3,290mn.

The Company expects stronger sales of corporate ERP systems, including deals delayed from the previous fiscal year, higher software sales, and further improvement in recurring services revenue thanks to increases in customer volume. It also forecasts additional growth in bizocean and mmap businesses. While gross margin is slated to decline by 0.4pt YoY because of bolstered efforts in new finance and Internet businesses, the Company projects a 0.2pt rise in OPM as higher sales drive a 0.7pt improvement in the SG&A expenses ratio. Furthermore, it is aiming for even larger orders backlog in system installation contract sales.

Consolidated operating performance outlook for FY3/19

	FY3/18		FY3/19 E		YoY
	Full-year result	Ratio	Full-year E	Ratio	
Net sales	27,582	-	30,600	-	10.9%
Gross profit	18,292	66.3%	20,160	65.9%	10.2%
SG&A expenses	13,806	50.1%	15,110	49.4%	9.4%
Operating income	4,485	16.3%	5,050	16.5%	12.6%
Ordinary income	4,426	16.0%	5,000	16.3%	13.0%
Net income attributable to owners of the parent	2,877	10.4%	3,290	10.8%	14.3%
Net income per share (¥)	92.05		105.33		

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

The Company intends to build the business foundation during FY3/19 to support double-digit sales and profit increases in FY3/20. Key measures are reviewed below.

(1) New customer development and productivity improvement in system installations

The Company is putting emphasis on personnel training to enhance business consulting capabilities utilizing ERP systems and is helping to strengthen partner sales operations and cultivate partner companies in order to develop new customers. It aims to shorten installation time and raise productivity too by reducing ERP system installation steps.

Outlook

(2) Acceleration of bizsky platform business and expansion of cloud product functions

The Company intends to strengthen the foundation in its bizsky financial and business platform business for small/mid-sized companies and promote collaboration with financial institutions. Since 2016, the bizsky platform has added Rakutasu Furikomi, Rakutasu Kyuyo Furikomi, Edge Tracker*1, and MJS Okane No Kanri*2. In April 2018, it started provision of the Kantan Cloud series as a replacement service for existing Kicho-Kun Cloud. The Company plans to introduce a variety of additional features in its offerings, including improved expense settlement service in Edge Tracker in November 2018. It also will be enhancing operations to monitor and research FinTech and AI usage trends and utilizing results to develop next-generation products.

*1 This is a cloud service for medium-sized and small/mid-sized company employees released in October 2017. By working with the ERP system, it supports real-time data provision, quicker processing, and visualization of attendance management, salary detail reference, and other administrative tasks. These capabilities boost employee work efficiency and enable timely use of management information. The service accommodates multiple devices.

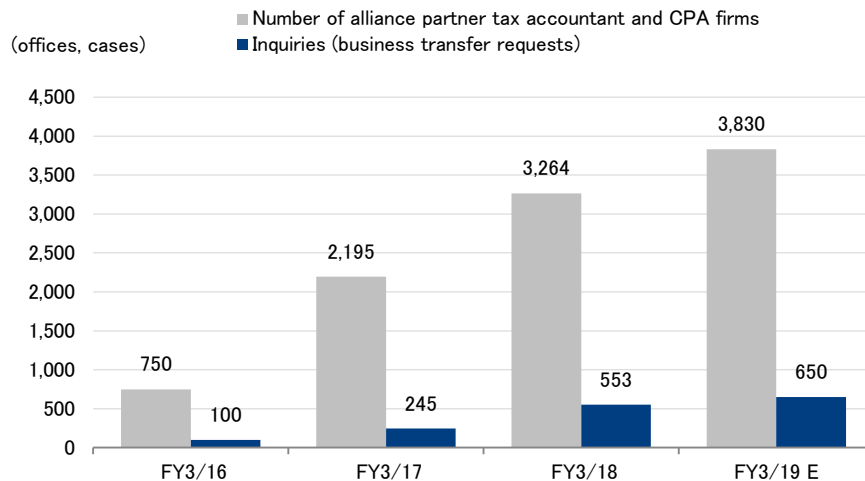
*2 This is a smart bankbook-style service that automatically collects money flow data and other transaction information data for multiple financial institution accounts and provides a straightforward record of movements on PCs and smartphones. The Company started the service in March 2018. The service collaborates with the Company's ACELINK NX-Pro product supplied to tax accountant and CPA firms and lets these firms promptly ascertain cash flow positions at customer companies using it. Tax accountant and CPA firms can improve their service quality by giving timely management guidance to customer companies and speeding up preparation of financial statements. It could also be called an assistance service for tax accountant and CPA firms and is available at no cost.

(3) Promotion of business succession assistance service and insurance business

The Company plans to pursue expansion of business succession assistance service via collaboration with mmap and promote initiatives with insurance agents to broaden services available to tax accountant and CPA firms. It wants to further improve alliances and collaboration with tax accountant and CPA firms to expand both businesses.

In mmap, its goal is building the top sell-side platform for the M&A market in Japan. This business had alliances with 3,264 offices at end-FY3/18 due to utilization of the Company's customer network. It aims to expand alliance partners to 3,830 offices and roughly double sales YoY through increase in consultations and contract volume in FY3/19. Key points in expansion of the business are adding more M&A advisers and shortening the period from inquiry to contract finalization (thereby improving productivity). The Company had about 10 advisers at the end of FY3/18 and wants to add more. In productivity efforts, it is implementing measures to identify inquiries with high feasibility, including the launch of a matching site in FY3/18 and free provision of a "company evaluation system" to tax accountant and CPA firm partners. It also partners with 34 financial institutions on information exchanges for business succession deals and intends to broaden the network. Operating income reached a profit in FY3/18. We expect further income contributions through expansion of business scale.

Outlook

Trends in the number of alliance partners and inquiries


Source: Prepared by FISCO from the Company's materials

Expecting healthy growth in corporate ERP systems, bizocean, and business succession assistance services in FY3/19

2. Sales outlook by customer and product category

Sales trends by product category (consolidated basis)

(¥mn)

Business segment	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19 E	YoY
System installation contract sales	14,229	14,683	16,345	16,921	18,291	8.1%
Hardware	2,639	2,801	2,822	3,190	3,075	-3.6%
Software	8,954	8,949	10,281	10,469	11,656	11.3%
Ueware	2,635	2,932	3,241	3,260	3,559	9.1%
Service revenue	7,671	8,307	8,949	9,469	9,659	2.0%
TVS	1,817	1,851	1,877	1,916	1,949	1.7%
Software usage fees	848	1,009	1,211	1,312	1,422	8.4%
Software operation assistance services	3,275	3,538	3,898	4,264	4,296	0.8%
Hardware/network maintenance services	1,130	1,211	1,287	1,314	1,368	4.1%
Office supplies and consumables	599	695	675	662	622	-5.9%
Others	483	646	931	1,192	2,650	122.3%
Total	22,383	23,636	26,225	27,582	30,600	10.9%

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

The Company projects an 8.1% YoY rise in system installation contract sales to ¥18,291mn with a breakdown of ¥10,006mn to general companies (+12.1%), ¥5,309mn to tax accountant and CPA firms (-4.8%), and ¥2,976mn to others (+23.2%).

Outlook

In business with general companies, the Company plans to focus on securing replacement demand from existing customers in FY3/19 due to being a peak in existing-customer replacement timing. This explains the conservative outlook for new customer business. In tax accountant and CPA firm business, it forecasts weaker sales based on incremental transition to single fiscal-year license contracts. For other business, it targets double-digit YoY growth in partner sales, reflecting anticipated benefits from bolstering support operations since the previous fiscal year.

In services revenue, meanwhile, the Company projects a 2.0% YoY sales increase to ¥9,659mn. While it only expects a 0.8% gain in software operation assistance services for companies, including the impact from its conservative view of new customer recruitment, the plan calls for healthy 8.4% expansion of software licensing sales on reinforcement of cloud service for client companies of tax accountant and CPA firms. The Company forecasts a solid 1.7% sales increase in TVS business, which covers maintenance services for tax accountant and CPA firms.

Others segment sales are slated to climb sharply with a 122.3% YoY gain to ¥2,650mn. The Company targets increases from ¥940mn to ¥1,200mn in subsidiary bizocean sales and ¥170mn to ¥360mn in business succession assistance service sales at mmap. We think it also intends to launch new services.

For bizocean, the Company factors in stronger advertising income and a rise in fee-paying service sales aided by robust expansion of registered members on the bizocean business information site from 2.32mn at end-FY3/18 to 2.5mn. It also expects sales additions from SPALO service available since October 2017.

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 Company is currently at the stage of proceeding with introduction of the service and accepting orders from a number of companies.

* 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.

■ Medium-term management plan

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

1. Outline of the 4th medium-term management plan

Main business goals for FY3/21, the final year of the 4th medium-term management plan started in FY3/18, are ¥50bn in consolidated sales, 30% in ordinary profit margin, and 30% ROE. With maximization of business synergies from strategic investments in FinTech and other growth areas, the Company hopes to achieve rapid growth from FY3/20 and boost its enterprise value. Based on FY3/18, it expects steep advances of 1.8x in sales and 3.4x in ordinary income. The Company is building the business foundation during FY3/19 to support accelerated growth from FY3/20.

Targets of the 4th medium-term management plan

	FY3/18	FY3/19 E	Targets for FY3/21	Change
Net sales	¥27.5bn	¥30.6bn	¥50.0bn	1.8x
Ordinary income	¥4.4bn	¥5.0bn	¥15.0bn	3.4x
Ordinary income margin	16.0%	16.3%	30%	14.0pt
ROE	18.5%	-	30%	11.5pt

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

2. Growth strategy

The Company presents three main points in its growth strategy to achieve medium-term management goals – growth in existing ERP business, expansion of finance and Internet business with high profitability, and implementation of effective strategic investments.

(1) Growth in existing business

The Company holds the top industry position in financial accounting systems for medium-sized and small/mid-sized companies (annual sales of less than ¥5bn) in the existing ERP business. It aims to expand the customer base further by improving product functionality and acquiring new customers and thereby establishing an overwhelming position.

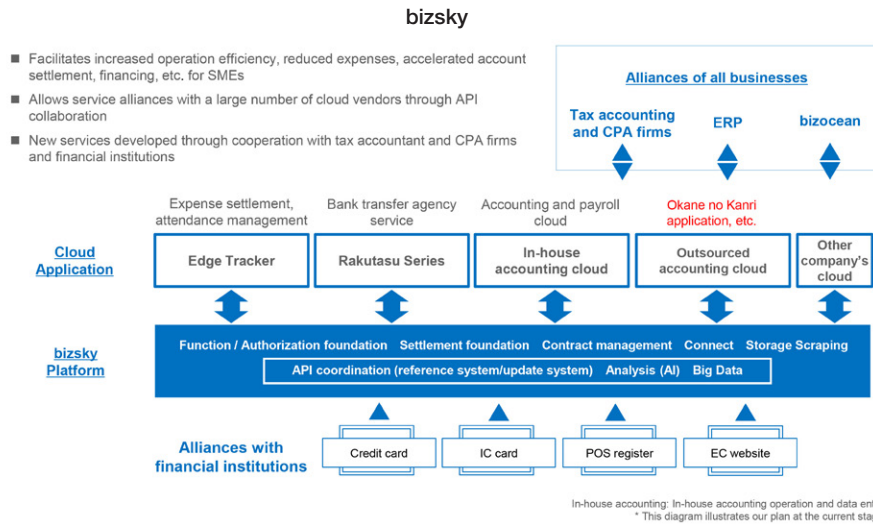
It seeks to expand sales via recruitment of new customers and promotion of cross-selling efforts by broadening the network of tax accountant and CPA firms and bolstering sales partner operations. Additionally, it plans to expand the stable income base by reinforcing cloud services and accumulating recurring service income and boost profitability through business improvements that leverage offshore developments and cutting-edge technologies.

(2) Expansion of finance and Internet businesses

In finance and Internet businesses, bizocean and mmap have arrived at a growth stage and the Company hopes to raise added value as a platform and monetize bizsky, a financial and business platform for small/mid-sized companies, by strengthening functions and promoting collaboration with other companies.

Medium-term management plan

The Company's bizsky strategy targets higher added value as a financial and business platform for small/mid-sized companies and establishment of a solid position in the industry through development and provision of new cloud services and collaboration with other company services and cooperation and API collaboration with financial institutions. We expect acceleration of the growth pace via upselling and cross-selling activities if the Company can build a customer base as a platformer.

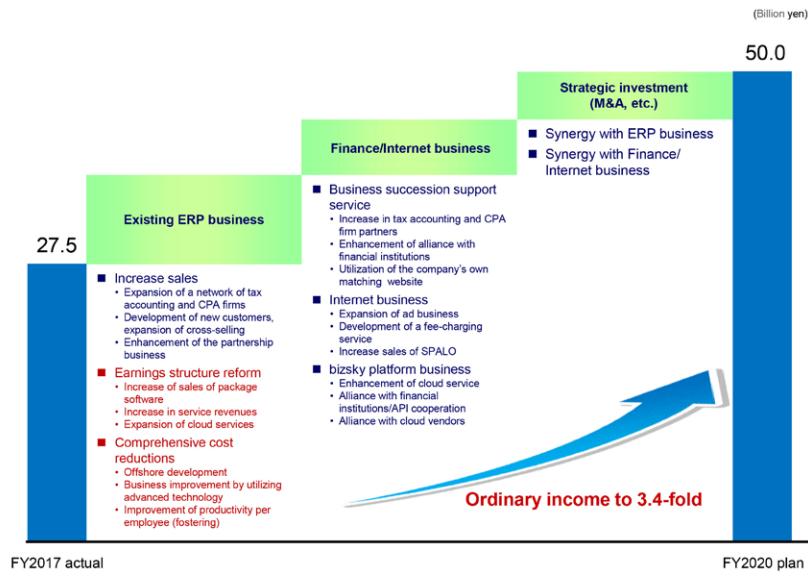


Source: The Company's results briefing materials

(3) Strategic investments

The Company reviews M&A and other initiatives in strategic investments. It targets companies with synergy potential in ERP business and finance and Internet businesses.

Image of FY3/21 business goals (consolidated sales).

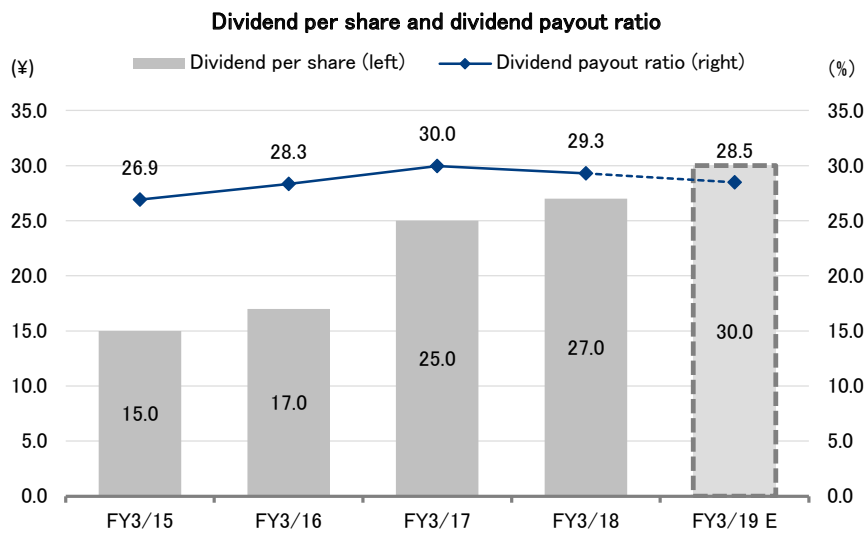


Source: The Company's results briefing materials

Shareholder return policy

Plans to pay steady dividends reflecting its profits

The Company maintains stable dividend compensation over the long term as its fundamental policy in shareholder return. It intends raise the dividend for a fourth straight fiscal year in FY3/19 with a ¥3.0 YoY hike to ¥30.0 (putting dividend payout at 28.5%). It also conducts share buybacks at appropriate times for the purpose of improving capital efficiency. The Company purchased 580,000 shares (1.7% of outstanding share volume) for ¥1,138mn in FY3/17 and 300,000 shares (0.86%) for ¥729mn in FY3/18. We think it is likely to sustain a suitable cash position while monitoring the balance with fund demand to expand the business.



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



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