

Miroku Jyoho Service Co., Ltd.

9928

Tokyo Stock Exchange First Section

25-Jul.-2019

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

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Summary

Expecting continuation of double-digit profit growth on upbeat ERP business for small/mid-sized companies

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. The Company is currently cultivating as new businesses the bizsky platform business, business succession support services and bizocean business being developed by subsidiaries.

1. FY3/19 results

The Company reported all-time high consolidated results in an eighth straight year in FY3/19 with ¥31,317mn in net sales (+13.5% YoY) and ¥5,056mn in ordinary profit (+14.2%), beating guidance. The effect increased earnings offset higher development costs for new products and increased personnel expenses and other costs, mainly from strong ERP products and services for small/mid-sized companies. In corporate system installation contract sales*, business with existing customers sustained double-digit growth at an 18.4% YoY increase driven by pickup in replacement demand, and new-customer business expanded by a robust 23.0%. Sales through partner distributors were strong too (similar to direct sales) with a hefty 46.7% gain. The Company succeeded with reinforcement of sales activities by creating a dedicated branch office for partners in the Tokyo metropolitan area two years ago and stimulation of partners at branches nationwide.

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

2. FY3/20 forecast

The Company expects to continuing higher sales and profits in FY3/20 with ¥34,000mn in net sales (+8.6%) and ¥6,200mn in ordinary profit (+22.6%). It factors in continued expansion of system installation contract sales by 7.5% YoY, due to extensive orders backlog (5.89 months at end-FY3/19) and promotion of new customer acquisitions, as well as a 7.6% rise in services income from steady customer accumulation. It also aims to increase ordinary margin from 16.1% in FY3/19 to 18.2% on a larger sales share of software and services with high added value and progress in raising work efficiency and improving subsidiary income.

Summary

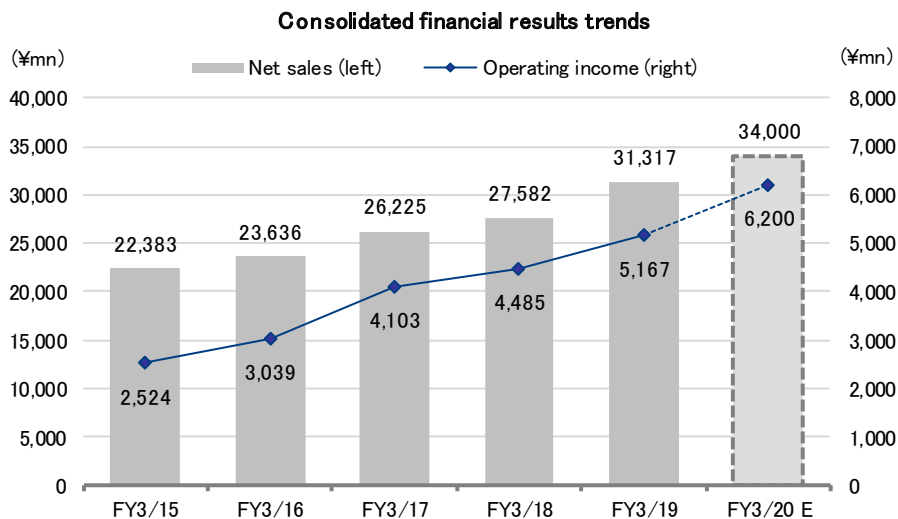
3. Updated numerical goals in the medium-term management plan

The Company updated goals from the medium-term management plan that lasts through FY3/21. It initially targeted ¥50bn in net sales and ¥15bn in ordinary profit based on large-scale M&A, but adjusted the goals to ¥38bn and ¥8bn respectively because of the need to revise subsidiary growth strategies and removal of M&A contributions. These levels work out to increases of 11.8% in net sales and 29.0% in ordinary profit versus FY3/20 guidance. The Company includes release of new products and services in mainstay ERP business and expansion of overall subsidiary results to ¥6bn in net sales and ¥1bn in ordinary profit. In FY3/19, meanwhile, subsidiaries booked ¥3.3bn in sales and a ¥100mn ordinary loss and income growth at these subsidiaries is a key point in reaching plan goals*. The three subsidiaries handling consigned development of business software seek to expand income through development of external customers, while bizocean Co., Ltd. operates a portal site business and intends to create paid services. Additionally, MJS M&A Partners Co., Ltd. (below, mmap) aims to expand income by building the top domestic sell-side platform in the M&A market and broadening service scope to business succession solutions and other areas. In the bizsky business platform business, the Company plans to actively pursue API collaboration with other services and local financial entities, in addition to proprietary cloud services as a platform, and cultivate business cloud services for small/mid-sized companies.

* Subsidiary results are values after consolidated offset.

Key Points

- Robust ERP system sales led to an 8th consecutive year of record consolidated results in FY3/19
- Expects to reach all-time high results in a ninth straight year in FY3/20 through expansion of parent income and reinforcement of subsidiary management and business operations
- Revised FY3/21 goals to ¥38bn in net sales and ¥8bn in ordinary profit



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

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

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 development 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 for developing and marketing. 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 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.

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
Shift to open systems (package software)	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
	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 "bizoclean" 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

Corporate overview

Core service format	Year	History
Shift to service provider	2011	Commenced sales the ACELINK NX-Pro ERP system for tax accountant and CPA firms (April)
	2012	Commenced sales of the Galleopt 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)
	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 Galleopt 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) Started provision of Edge Tracker, a cloud service for employees supporting multi-device use (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) Started provision Cloud Service Hub for MJS, an accounting support solution developed jointly with Fuji Xerox Co., Ltd. and giving greater efficiency to digitalizing and migrating paper documentation to the cloud. (April) Started provision of the new Workflow function on Edge Tracker, a cloud service promoting operational efficiency through real-time, time-saving, visualizing operations. (June) Developed and released MJS Zeimu NX-Plus, a new tax affair system (July) Started provision of the cloud services for small/mid-sized companies and self-run businesses Kantan Cloud Kaikei Plus and Kantan Cloud Kyuyo Plus (November)

Source: Prepared by FISCO from the Company's materials

2. Business description

The ERP business (ERP system development and sales, installation assistance service, and various maintenance services), which mainly handles finances and accounting, is the Company's primary business with more than 90% of overall sales. Other sales come from new business fields currently being cultivated, including mmap and bizocean.

- Main customers in the ERP business are tax accountant and CPA firms and small/mid-sized companies they mainly serve as consultants. In the market for tax accountants and CPA firms, the Company holds a roughly 25% industry share with about 8,400 offices as users and stands alongside TKC Corporation <9746> and Japan Digital Laboratory Co., Ltd. as an industry leader. In the market for small/mid-sized companies, the Company has about 17,000 users. Viewed by sales channel, direct sales are at almost 100% for tax accountants and CPA firms and nearly 90% for small/mid-sized companies. Distributors cover over 10% of sales for the latter. We think the Company still has substantial room to attract new customers because the tax accountant and CPA firms it handles provide services to around 500,000 companies. It supplies simplified accounting software for small-scale businesses through volume sellers and tax accountant and CPA firms and has just over 80,000 users.

Corporate overview

Overview of Company business

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 • Various maintenance services • Training and information services, etc.
Marketing methods /customer support	Almost 100% direct sales 31 sales and support branches nationwide	Direct sales (90%, includes sales through tax accountant and CPA firms) Agency sales (10%) 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

As of the end of March 2019, the Company had nine consolidated subsidiaries and two equity-method affiliates. Since 2002, three consolidated subsidiaries, NTC Co., Ltd, MSI Co., Ltd., and Lead Co., Ltd., have undertaken consigned development of business software. In 2014, the Company established MJS M&A Partners Co., Ltd. to provide business succession support services to small/mid-sized companies as a subsidiary. In 2015, the Company acquired two subsidiaries, Cloud Invoice, Inc. to offer cloud bookkeeping services and Miroku Webcash International Co., Ltd. (hereafter MWI) to develop FinTech services. In 2016, it founded bizocean Co., Ltd. to operate a business information website (bizocean) as a spin-off. In 2017, it acquired MJS Finance & Technology (hereafter MFT) as a subsidiary for payment services and finance services. Additionally, in 2018, it added Adtop Co., Ltd., which conducts an advertising agency business specializing in personnel hiring, as a second-tier subsidiary (currently an MJS subsidiary).

The Company's two equity-method affiliates are PRIMAL Inc., which develops and sells systems for consolidated accounting, and NFC (Korea), which develops and sells payment services using near-field communications (NFC).

The Company's subsidiaries and affiliates

(As of end of March, 2019)

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%	Business succession support services, etc. utilizing M&A
Cloud Invoice	100.0%	Development and provision of bookkeeping and other cloud 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
Adtop	98.0%	Advertising agency business specializing in personnel hiring
Equity-method affiliates		
Primal	33.3%	Software development, sales, installation, and operational support services
NFC (Korea)	21.9%	Development and sales of payment services using near-field communications (NFC)

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

Business trends

Posted record results for an 8th consecutive year due to brisk sales of ERP systems

1. FY3/19 results

The Company reported for FY3/19 consolidated results at ¥31,317mn in net sales (+13.5% YoY), ¥5,167mn in operating income (+15.2%), ¥5,056mn in ordinary income (+14.2%), and ¥3,730mn in net income attributable to owners of the parent (+29.7%). These results exceeded forecasts and were a record high for the 8th consecutive year.

Consolidated results for FY3/19

	FY3/18		FY3/19				
	Results	Ratio	Forecast	Result	Ratio	YoY	vs. forecast
Net sales	27,582	-	30,600	31,317	-	13.5%	2.3%
Gross profit	18,292	66.3%	20,160	19,952	63.7%	9.1%	-1.0%
SG&A expenses	13,806	50.1%	15,110	14,784	47.2%	7.1%	-2.2%
Operating income	4,485	16.3%	5,050	5,167	16.5%	15.2%	2.3%
Ordinary income	4,426	16.0%	5,000	5,056	16.1%	14.2%	1.1%
Extraordinary losses	-126	-0.5%	-	446	1.4%	-	-
Net income attributable to owners of the parent	2,877	10.4%	3,290	3,730	11.9%	29.7%	13.4%

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

Amid continuation of healthy market conditions, such as ongoing upbeat corporate IT investments, the Company holds seminars and study groups on work style reforms, IT deployment subsidies, measures for dealing with the consumption tax's reduced tax rate, and other interesting topics as sales measures throughout Japan. It also continuously runs TV commercials and web marketing to improve brand presence. Smooth recruitment of new customers contributed to upbeat results. The Company's growth initiatives to "expand the customer base and service revenues" and "management focused on the order backlog" are making healthy progress. New customer sales in corporate ERP systems grew 23.0% YoY to ¥2,572mn, an all-time high, thanks to expansion of the customer base. Software maintenance service income*¹, a recurring business, posted a steady 3.0% sales increase to ¥6,364mn, accompanying growth in customer volume. Backlog in parent system installation contract sales*² orders at end-FY3/19 (standalone) stayed at a high level at 5.89 months*³ (down 0.03 months versus the start of the fiscal year).

*1 Software maintenance service covers total maintenance service (TVS) for tax accountant and CPA firms and software operation assistance service for general companies

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

*3 Calculation of period-end orders backlog is based on the sales target for the subject fiscal year

Looking at profitability, gross margin dropped by 2.6 percentage points from 66.3% in the previous fiscal year to 63.7%, because of higher costs for function enhancements to products and services and a rise in depreciation costs on software assets as well as investments at a subsidiary related to new business under the others segment. SG&A expenses, meanwhile, were up 7.1% YoY on increase in personnel costs (+¥731mn) from a hike in employee base pay, but the ratio declined by 2.9 percentage points due to stronger sales. As a result, operating margin rose 0.2 percentage points to 16.5%, a fifth straight gain. Parent operating margin rose 0.5 percentage points to 17.8%.

Business trends

Non-operating income slipped by ¥51mn YoY, primarily because the equity-method investment loss widened from ¥152mn in the previous fiscal year to ¥221mn. Extraordinary income rose ¥573mn YoY, including ¥643mn in profits from selling investment securities with IPOs by BRIDGE International Corp. <7039> in Japan and Webcash Co., Ltd. in Korea as each became publicly listed.

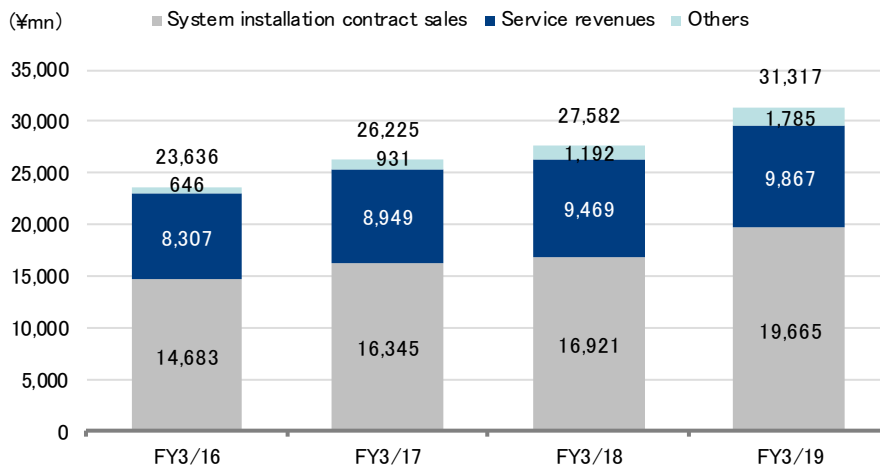
Net sales exceeded the initial target because of robust system installation contract sales to general companies and tax accountant and CPA firms. In business with general companies, the Company received strong inquiries from small/mid-sized businesses thanks to coverage of its products by IT deployment subsidies and sales to medium-sized companies were healthy too. It recorded about ¥1bn in sales on roughly 900 deals that utilized IT deployment subsidies. Operating income beat the forecast on lower SG&A expenses than planned with initiatives to improve business efficiency.

Healthy trends in corporate ERP system sales with double-digit increases for existing and new customers

2. Sales trends by customer and product category

Looking at the net sales breakdown, sales continued rising in all categories with system installation contract sales up 16.2% YoY to ¥19,665mn, service revenues up 4.2% to ¥9,867mn, and others (mainly subsidiaries) up 49.7% to ¥1,785mn. System installation contract sales and service revenues overshot initial forecast by 7.5% and 2.2% respectively, while others missed the target.

Breakdown of net sales by business



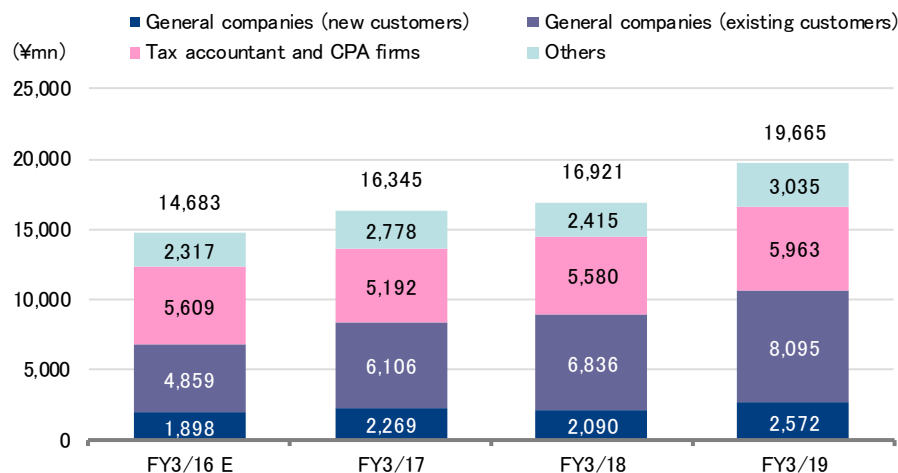
Source: Prepared by FISCO from the Company's results briefing materials

Business trends

(1) System installation contract sales by customer and product category

In system installation contract sales by customer, sales to general companies rose by a strong 19.5% YoY to ¥10,667mn on robust demand and sales to tax accountant and CPA firms climbed a steady 6.9% to ¥5,963mn. Other sales (sales by the parent and subsidiaries and sales to partners) were up by 25.7% to ¥3,035mn, a double-digit gain. In particular, sales to partners, which account for about half, expanded 46.7%, a manifestation of the effect from the Company's establishment of branch offices dedicated to partner assistance in the Tokyo metropolitan area in FY3/18 and other efforts to acquire partners, including in local areas.

In sales to general companies, existing customer business rose 18.4% YoY to ¥8,095mn and new customer business climbed 23.0% to ¥2,572mn. Both categories had double-digit gains. New customers stayed at over 20% of sales. Sales were healthy unrelated to customer size, including Galileopt NX-Plus (for medium-sized companies) and MJSLINK NX-Plus (for small/mid-sized companies). Furthermore, while the Company anticipated lower sales of ACELINK NX-Pro for tax accountant and CPA firms on exhaustion of replacement demand, actual demand was healthier than expected. All categories outpaced initial targets with upside of 6.6% in sales to general companies, 12.3% in sales to tax accountant and CPA firms, and 2.0% in other sales.

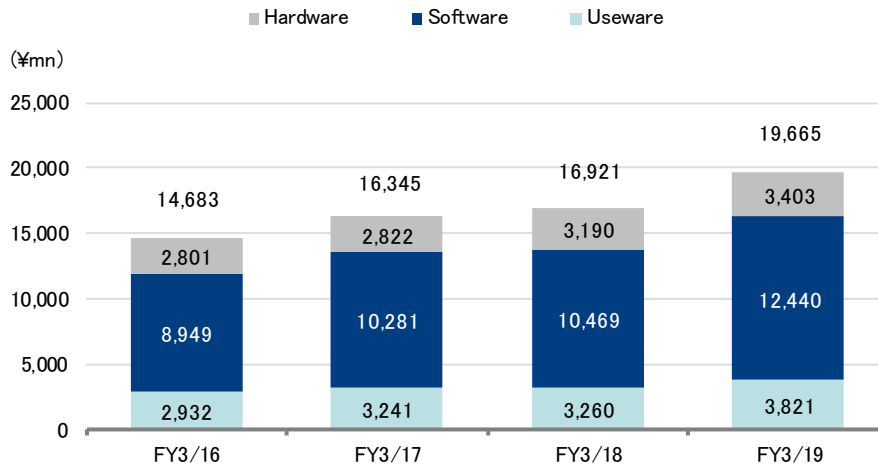
System installation contract sales by customer


Note: Others are sales by the parent and subsidiaries and sales to business partners.
 Source: Prepared by FISCO from the Company's results briefing materials

Looking at system installation contract sales by product category, there has been continued underlying growth in all categories with software up 18.8% YoY to ¥12,440mn, hardware up 6.7% to ¥3,403mn, and useware (installation assistance service) up 17.2% to ¥3,821mn. They outpaced forecast by 6.7%, 10.7%, and 7.4% respectively.

Business trends

System installation contract sales by product category



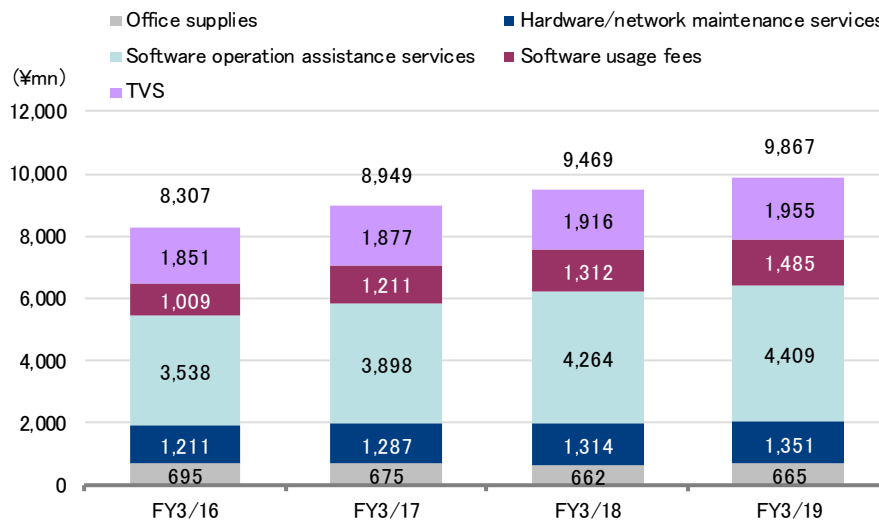
Source: Prepared by FISCO from the Company's results briefing materials

(2) Services revenues

In service revenues, software operation assistance services (corporate software maintenance services) improved by 3.4% YoY to ¥4,409mn, a stable growth pace, due to increase in the number of contracts. TVS (general maintenance services for tax accountant and CPA firms) steadily increased sales with a 2.0% gain to ¥1,955mn primarily on acquisition of new customers. Software usage fees for small businesses that utilize tax accountant and CPA firms rose by double digits with a 13.2% increase to ¥1,485mn on growth in cloud services, such as Kantan Cloud Accounting and Kantan Cloud Salary. Hardware and network maintenance services posted ¥1,351mn in sales (+2.8%) and office supplies recorded ¥665mn (+0.5%). All services booked higher sales.

Upside versus initial sales targets came to 2.6% in mainstay software operation assistance services, 0.3% in TVS, and 4.4% in software usage fees, reflecting healthy progress in customer acquisitions. Service revenues are recurring and hence offer a stable income base as a stock-type business for the Company.

Business trends

Breakdown of service revenues


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

(3) Others

Sales in the others segment (mainly subsidiary businesses) increased sharply with a 49.7% gain to ¥1,785mn, primarily on the addition of sales from Adtop as a new subsidiary. For bizocean, advertising income from the bizocean business information website only moved slightly higher. For mmap, while the number of consultations in business succession assistance service rose, both contract volume and results stalled.

Issued CBs to obtain development funds for next-generation products and services

3. Financial status and management indicators

In financial data at the end of FY3/19, total assets climbed ¥13,645mn from the end of FY3/18 to ¥38,211mn. Main changes were additions of ¥9,750mn from increased cash and deposits with the issuance of convertible bonds totaling ¥11bn in December 2018, ¥587mn from higher trade receivables, and ¥237mn from higher inventory assets under current assets and a rise of ¥3,272mn in software (including software in progress) under fixed assets. The latter reflects build-up in software-related assets from development outlays to create multiple next-generation products and services and strengthen capabilities of existing products since FY3/18.

Total liabilities stood at ¥20,153mn at the end of FY3/19, an increase of ¥11,864mn. The main impact was issuance of ¥11bn in convertible bonds (zero coupon). Net assets rose by ¥1,781mn YoY to ¥18,058mn. Surplus profit increased ¥2,887mn, though the Company also spent ¥1,000mn for share buybacks.

In management indicators, the equity ratio declined from 66.2% at the end of FY3/18 to 47.2% under pressure from the CB issuance. The Company hopes to raise the equity ratio by expanding profits through rollouts of next-generation products and services from FY3/21 and thereby raising the share price and promoting CB conversion to shares.

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Business trends

The Company plans to allocate the ¥11bn raised from CB issuance mainly as development funds through FY3/21 with about ¥7bn for development of next-generation products and services and roughly ¥3bn as development funds for function enhancement and expansion in existing products and services.

Consolidated Balance Sheet

	FY3/17	FY3/18	FY3/19	Change	Factors
(¥mn)					
Current assets	11,523	11,338	21,962	10,623	Cash and deposits +9,750, trade receivables +587, inventory assets +237
Cash and deposits	6,465	6,520	16,271	9,750	
Fixed assets	10,300	13,227	16,213	2,985	Tangible fixed assets +75, Software (including software in progress) +3,272, Investment securities-860
Software (including software in progress)	1,588	4,239	7,512	3,272	
Total assets	21,823	24,566	38,211	13,645	
Current liabilities	6,174	8,105	7,491	-613	Short-term interest-bearing debt -1,549, trade payables +242, income taxes payable +369
Fixed liabilities	785	183	12,661	12,478	Convertible bonds +11,051, Long-term debt +1,445
Total liabilities	6,959	8,289	20,153	11,864	
Net assets	14,864	16,277	18,058	1,781	Retained earnings +2,887, Treasury stock -1,000, valuation difference on available-for-sale securities -96
Total liabilities and net assets	21,823	24,566	38,211	13,645	
Interest-bearing debt	1,421	2,782	13,713	10,931	(Short-term loans + long-term loans + lease obligations)
Net cash	5,044	3,737	2,557	-1,180	(Cash and deposits + available-for-sale securities - interest-bearing debt)
Management indicators					
Current ratio	186.6	139.9	293.2	153.3pt	
Equity ratio	67.9	66.2	47.2	-19.0pt	
Interest-bearing debt ratio	9.6	17.1	75.9	58.8pt	
ROE	18.2	18.5	21.7	3.2pt	

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

Summary of the Euro-yen convertible bond (zero coupon) expiring in 2023

Fund procurement value: ¥11bn, Total number of share warrants: 1,100 (11.43% latent share ratio), Conversion price: ¥3,077.4 (adjusted/announced on 27 June 2019), Exercise period: 28 December 2018 to 30 November 2023

Fund uses	Value	Period
Funds to develop ERP products (tax accountant, CPA firms and general companies) and cloud service for next-generation and funds to create platform business as a new area	About ¥7bn	December 2018 -
Funds to support continuous R&D activities and enhance and expand existing products and services	About ¥3bn	March 31, 2021
Share buyback funds	About ¥1bn	End of November, 2018

Source: Produced by FISCO from media releases

■ Outlook

Expects to post all-time high results in a ninth straight year in FY3/20 through expansion of parent results and reinforcement of subsidiary management and business operations

1. Business outlook for FY3/20

The Company expects to increase consolidated sales and profits in a ninth straight year in FY3/20 with ¥34,000mn in net sales (+8.6% YoY), ¥6,200mn in operating profit (+20.0%), ¥6,200mn in ordinary profit (+22.6%), and ¥4,040mn in net profit attributable to parent shareholders (+8.3%). It forecasts higher sales and margin amid continued healthy growth in corporate IT investments by promoting further expansion of the customer base through new customer acquisition and by raising productivity with substantial reforms to development operations, enhanced group management, and business process reengineering (BPR). The Company booked about ¥260mn in special bonuses for employees (fiscal year-end bonuses) in 3-4Q due to meeting plan targets in FY3/19. We think FY3/19 operating margin was about 17.3% excluding special bonuses.

Consolidated operating performance outlook for FY3/20

	FY3/19		FY3/20		YoY
	Result	Ratio	Forecast	Ratio	
Net sales	31,317	-	34,000	-	+8.6%
Gross profit	19,952	63.7%	21,900	64.4%	+9.8%
SG&A expenses	14,784	47.2%	15,700	46.2%	+6.2%
Operating income	5,167	16.5%	6,200	18.2%	+20.0%
Ordinary income	5,056	16.1%	6,200	18.2%	+22.6%
Net income attributable to owners of the parent	3,730	11.9%	4,040	11.9%	+8.3%
Net income per share (¥)	119.89		130.86		

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

Below we review the Company's FY3/20 business policies.

(1) Bolstering sales operations and solution capabilities

The Company is splitting sales and support operations for tax accountant and CPA firms and medium-sized companies in major urban areas and pursuing solutions business with more specialization in these areas respectively. It increased new customer acquisitions in Tokyo, which moved to the new organizational format ahead of time, in FY3/19 and plans to steadily promote similar initiatives at other key locations from spring 2019.

Furthermore, it intends to strengthen functions of Edge Tracker, a cloud service that provides assistance for work style reforms, and expand sales of sales management and POS products that support the reduced tax rate. Edge Tracker currently delivers expense calculation, attendance management, salary detail reference, year-end adjustment application, and workflow services over the cloud to employees for access anytime and anywhere by accommodating multiple devices for expense calculation, attendance management, salary detail reference, and other work management systems. It can operate collaboratively with the Company's ERP products and improve employee work efficiency and accelerate management activities.

Outlook

(2) Reinforcement partnership operations

The Company aims to reinforce cooperative operations with Miroku Kaikeijinkai* and promote IT usage at small/mid-sized businesses that are customers. It also intends to strengthen partnerships with local financial institutions and assist utilization of IT functionality at small/mid-sized businesses that are customers. As of end-FY3/19, the Company had finalized contracts with 50 regional banks and 8 credit unions and others and was still working on contracts with 32 regional banks and 9 credit unions and others. Through collaboration with local financial entities, it intends to provide ERP products and various cloud services and offer mmap business continuation and succession assistance services.

* This is a private organization of tax accountant and CPA firms that uses the Company's system and is organized regionally into 11 groups nationwide. It engages in activities for the purpose of improving work operations and expanding scope of professional accountants and fostering member advancement and friendship.

2. Sales forecast by product category and customer

MJS expects sales increases of 7.5% YoY to ¥21,144mn for system installation contract sales, 7.6% to ¥10,614mn for services revenue, and 25.6% to ¥2,242mn for other revenue.

In system installation contract sales, it is focusing on sales expansion for EPR products used by small/mid-sized companies with tailwinds from the consumption tax hike and adoption of a reduced rate format scheduled to begin in October 2019 and continuation of IT deployment subsidies. In particular, it targets a steep 9.4% YoY rise in software products with high added value. By customer segments, the Company anticipates a 7.2% YoY decline in sales to tax accountant and CPA firms on exhaustion of replacement demand and incremental transition to single fiscal-year licensing contracts, but forecasts sustained double-digit growth with gains of 11.7% in sales to general companies and 21.7% in sales to others (mainly partners).

Looking at the service revenue breakdown, meanwhile, it expects double-digit sales advances in all areas with a 7.5% healthy expansion of corporate software operation assistance service sales thanks to recruitment of new customers, a 15.0% rise in TVS (total maintenance service) for tax accountants and CPA firms accompanying expansion of service content, and a 10.1% increase in sales to tax accountant and CPA firm customers with higher sales of various cloud services, including Kantan Cloud Accounting and Kantan Cloud Salary.

In the others segment, the Company projects a 20% YoY increase in sales at Adtop, which conducts an advertising agency business specializing in personnel hiring, supported by manpower shortages, stronger sales at mmap through steady build-up of contract volume via collaboration with partners (tax accountants and CPA firms and local financial institutions), and continued expansion of bizocean advertising business and new service business.

Sales trends by product category (consolidated basis)

Business segment						(¥mn)
	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20 E	YoY
System installation contract sales	14,683	16,345	16,921	19,665	21,144	7.5%
Service revenues	8,307	8,949	9,469	9,867	10,614	7.6%
TVS	1,851	1,877	1,916	1,955	2,249	15.0%
Software usage fees	1,009	1,211	1,312	1,485	1,635	10.1%
Software operation assistance services	3,538	3,898	4,264	4,409	4,738	7.5%
Hardware virtualizer and network maintenance services	1,211	1,287	1,314	1,351	1,361	0.8%
Office supplies	695	675	662	665	629	-5.3%
Others	646	931	1,192	1,785	2,242	25.6%
Total	23,636	26,225	27,582	31,317	34,000	8.6%

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

Outlook

System installation contract sales by customer

	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20 E	YoY
	(¥mn)					
Total	14,683	16,345	16,921	19,665	21,144	7.5%
Companies	6,757	8,375	8,926	10,667	11,917	11.7%
Accountant firms	5,609	5,192	5,580	5,963	5,533	-7.2%
Others	2,317	2,778	2,415	3,035	3,694	21.7%

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

Medium-term management plan

Revised FY3/21 goals to ¥38bn in net sales and ¥8bn in ordinary profit

1. Revisions to medium-term management plan goals

The Company revised FY3/21 management goals. While the initial consolidated plan called for ¥50bn in net sales, ¥15bn in ordinary profit, 30% ordinary margin, and 30% ROE, updated levels are ¥38bn in net sales, ¥8bn in ordinary profit, 21.1% ordinary margin, and 22.8% ROE. Parent results are steadily advancing, but group subsidiaries have been undershooting the initial outlook and needed revisions to growth strategies. Furthermore, while the initial plan forecast contributions from strategic M&A activities, the revised plan does not include these additions and instead relies on accumulated growth in existing businesses as factors. Nevertheless, the Company still forecasts robust growth in FY3/21 with increases of 11.8% in net sales and 29.0% in ordinary profit versus FY3/20 targets. It intends to continue deal assessment and negotiations for strategic M&A too.

Looking at the breakdown of FY3/21 goals, the Company targets ¥32bn in net sales and ¥7bn in ordinary profit for parent results, continuing the existing growth pace. It aims to achieve plan targets by reinforcing solutions business for small/mid-sized companies, strengthening functions for mainstay ERP products and cloud services, and promoting expansion of bizsky platform business and new cloud service sales.

In combined subsidiary results, meanwhile, the Company projects ¥1bn in ordinary profit (FY3/21). It hopes to attain this level with reorganization to improve group management efficiency and redefinition and implementation of the growth strategy by FY3/21.

Medium-term management plan

Results in Terms of FY3/20 Management Goals

Consolidated results	FY3/18	FY3/19	FY3/20 forecast	FY3/21 target	FY3/21 initial targets
Net sales	¥27.5bn	¥31.3bn	¥34.0bn	¥38.0bn	¥50.0bn
Ordinary income	¥4.4bn	¥5.0bn	¥6.2bn	¥8.0bn	¥15.0bn
Ordinary income margin	16.0%	16.1%	18.2%	21.1%	30.0%
ROE	18.5%	21.7%	20.8%	22.8%	30.0%
Parent results					
Net sales	¥25.0bn	¥28.0bn	¥30.0bn	¥32.0bn	
Ordinary income	¥4.5bn	¥5.1bn	¥6.0bn	¥7.0bn	
Ordinary income margin	18.0%	18.3%	20.0%	21.9%	
Subsidiary results (Consolidated results – parent results)					
Net sales	¥2.5bn	¥3.3bn	¥4.0bn	¥6.0bn	
Ordinary profit	¥-0.1bn	¥-0.1bn	¥0.2bn	¥1.0bn	

* Does not include contributions from undisclosed major M&A deals.

* Estimated ROE does not incorporate changes in treasury shares and CB conversion.

* Subsidiary results show values after adjusting for group internal transactions and are not simple totals of subsidiary values.

Source: From briefing materials on management plan

2. Fundamental policies

(1) Reinforcement of solutions business to recruit new customers

The Company plans to strengthen solutions business and sales partner assistance operations to promote recruitment of small/mid-sized company customers. Solutions business reinforcement involves setting up dedicated sales divisions for general companies at branches in major cities nationwide to improve solution proposal capabilities and support up-selling and cross-selling of a wide range of products. It will also promote higher productivity by effectively training sales and support personnel.

The Company is reorganizing to support full-fledged expansion of partner business and strengthening the sales partner support system by establishing a partner program, educational assistance program and evaluation program. It currently has about 400 sales partners nationwide, but only about 20% of the partners are actively promoting the Company's business. Management hopes to promptly cultivate more highly active partners in early stages.

Benefits from these efforts already started appearing in FY3/19 as mentioned above. The Company aims to expand sales to small/mid-sized businesses from FY3/20 as well through further promotion of these initiatives.

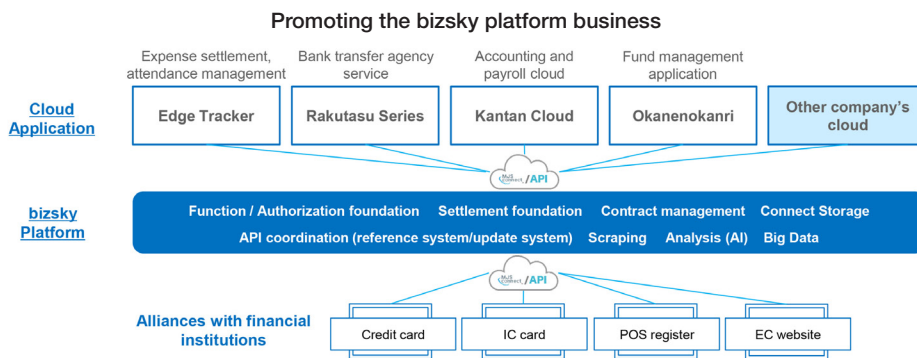
(2) Strengthening partnerships with tax accountants/CPA firms and local financial institutions

The Company is strengthening partnerships with tax accounts and CPA firms through provision of a wide range of products and services and hopes to assist management at the roughly 500,000 small/mid-sized businesses that are their customers using IT services. It has a business alliance with Shinsei Bank and is bolstering partnerships with local financial institutions too as explained above. It wants to expand sales through provision of various group products and services while collaborating with these local financial entities.

Medium-term management plan

(3) Promoting the bizsky platform business

With bizsky, a financial and business platform, the Company provides a variety of proprietary cloud services, including Edge Tracker, the Kantan Cloud series, the Rakutasu series, and Okane No Kanri. It has also started generating results in API collaboration with cloud services from other companies. Furthermore, it intends to arrange service collaboration with many other cloud vendors and expand business by adding new services through alliances with tax accountants/CPI firms and local financial entities. The Company hopes to create new services as well by utilizing blockchain technology and conducting R&D in commercial flow and financial EDI areas.



Source: From briefing materials on management plan

(4) Development operation substantial reforms and active hiring and training of human resources

a) Building prompt and flexible development operations

To build development operations that can continuously deliver innovative products and services with the highest quality, the Company needs to optimize the development process by bolstering upstream development, strengthen comprehensive development capabilities through utilization of offshore development as much as possible, build development and operation processes suited to the cloud and mobile era, actively hire and train a wide range of engineers and other personnel both in Japan and overseas, and train young employees with seminars and study groups that incorporate practical technology guidance and hackathon techniques*.

* An event where engineers engage in joint tasks, such as program development and service brainstorming, in a concentrated manner for a certain amount of time and compete for technologies and ideas.

b) Strengthening quality management operations

The Company aims to build system risk management operations suited to a cloud and mobile era by promoting more sophisticated quality control than the conventional premise of a waterfall model and by optimizing quality management operations to address new areas, such as cloud services, mobile services, AI, and agile products.

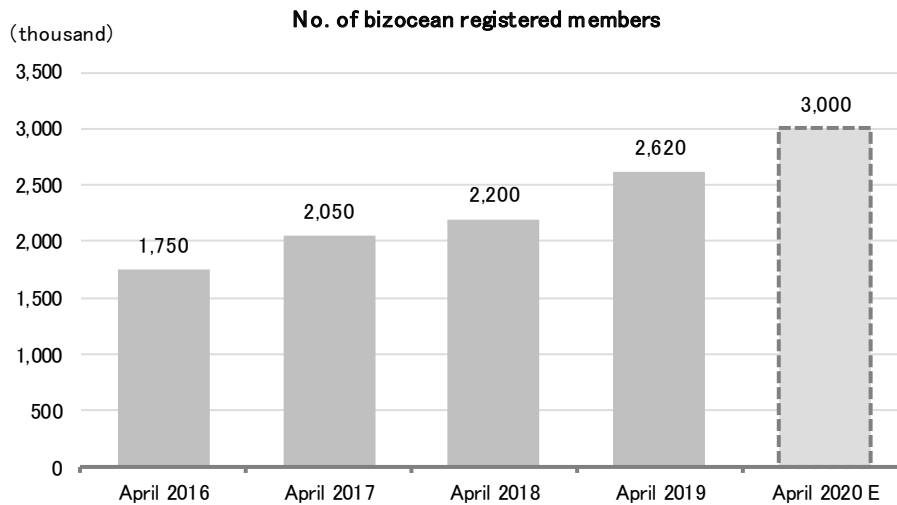
c) Reinforcement R&D operations

The Company consolidated development sites that had been scattered in three areas to one location in May 2019 with aims of stimulation communication among engineers and establishing and improving the environment to enhance creativity and productivity. It intends to further reinforce survey and research operations for AI, blockchain, FinTech, and other new technologies.

Medium-term management plan

(5) Improving group management

Looking at strategies for group subsidiaries, in bizocean business, the Company hopes to acquire steady advertising income based on the bizocean business information site with more than 2.62mn registered members (as of April 2019) and expand income through creation of new services based on new themes that make effective use of the member database. Specifically, it aims to expand sales of “template service” in a subscription model and SPALO automated document creation service using voice AI.



Source: From briefing materials on management plan

The mmap business aims to build the M&A market's No.1 sell-side platform in Japan and provide comprehensive business continuation solutions to small/mid-sized companies as broader income acquisition opportunities that contribute to growth. Partners intend to promote collaboration that expands scope beyond just tax accounts and CPA firms to local financial entities.

(6) Improving productivity with BPR and boosting employee satisfaction with work style reforms

a) Improving productivity with BPR

The Company aims to raise productivity by promoting companywide BPR, revamping the internal information system, and making effective use of group management resources. As measures to lower development and maintenance costs and strengthen cost competitiveness, it plans to lift productivity through cultivation of an optimal development environment and engineers, reduce maintenance costs by consolidating products, and optimize scale and operational costs by using AI at call centers.

b) Boosting employee satisfaction

As personnel system reforms to realize an easy-to-work environment, the Company plans to revamp the personnel evaluation system, foster diverse career paths, create a new system that offers a more accommodative work environment for women and seniors, and deploy telework and flex-time systems. Furthermore, as human-resource hiring and education system reforms, it intends to promote diverse hiring methods, adopt periodic job rotation, and introduce a program for cultivating executive candidates. The Company hopes to secure human resources who contribute to permanent growth.

Medium-term management plan

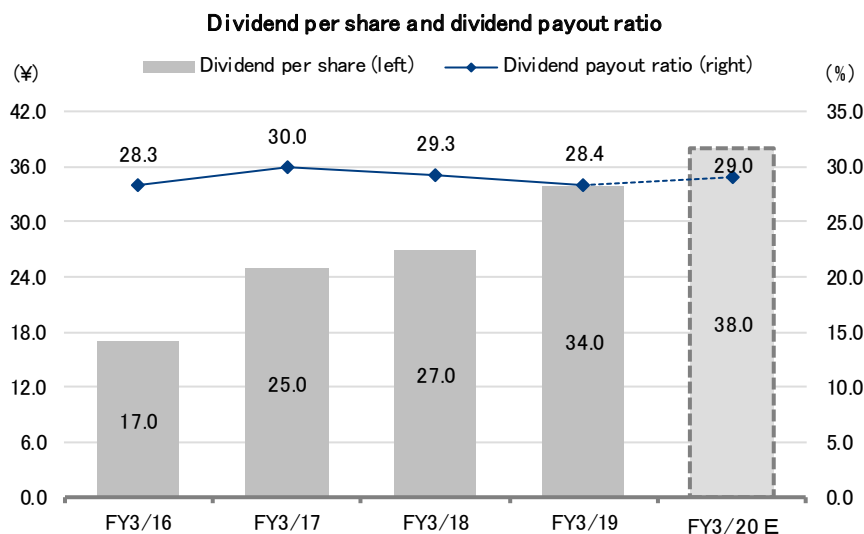
(7) Longer-term vision for FY3/26

The Company has presented a longer-term vision of driving innovative challenges and success at small/mid-sized businesses by innovating with advanced technologies to develop next-generation products and services and building a comprehensive business platform as well as creating new services in the financial area, such as business succession and continuation solutions. It aims to achieve sustainable profit growth from FY3/22 too through steady efforts toward realization of the vision.

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 to raise the dividend for a fifth straight fiscal year in FY3/20 with a ¥4.0 YoY hike to ¥38.0 (putting dividend payout at 29.0%). Dividend payout over the past few years has been about 30%. We think this is a target level and expect higher dividends if profit growth continues.



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



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