MIROKU JYOHO SERVICE

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Company Research and Analysis Report
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■Sales of Systems for Accounting Firms Sound, Upward Revision for Mid-term Management Plan

MJS is a major in financial and accounting systems and (comprehensive operational) ERP systems for accounting firms and their clients. MJS is also the market leader in small and mid-sized enterprise ERP systems with a market share of 23%.

Consolidated FY3/13 results saw a 6.8% YoY rise in revenues, 12.4% YoY rise in operating profit and the second consecutive year of posting record high earnings. Flagship software aimed at accounting firms entered an upgrade phase, with solid performance of 24.6% growth YoY a major contributing factor. Further, in respect of new customer acquisition also, which has been a focus for MJS over the last few years, accounting firms expanded 22.7% YoY and general corporates 39.2% YoY.

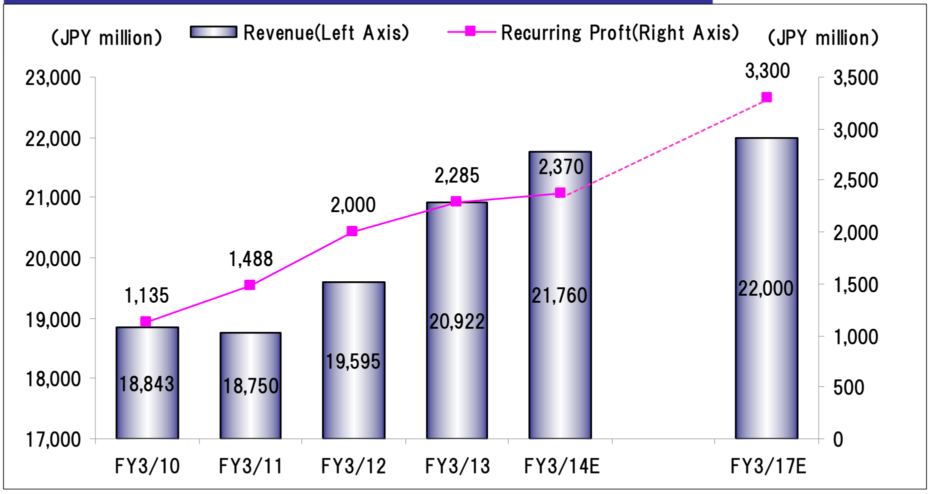
The FY3/14 results outlook forecasts revenue growth of 4.0% YoY, and 4.6% YoY operating profit growth to again post record earnings. Revenue from accounting firm is expected to decline due to cyclical upgrade demand. However, sales of the new ERP system MJSLINK NX-Ⅰ for small and mid-sized enterprises commenced in April 2013, expansion in sales of this product being expected. MJS is aiming to expand revenues through the introduction of services, including cloud services and new services compatible with, multi-devices.

In the 3rd Mid-term Management Plan that has FY3/17 as its final year, MJS has goals of JPY22.0 billion in revenues and JPY3.3 billion in recurring profit. In addition to strengthening staff training as well as expanding existing businesses, its policy is to devote efforts towards creating new businesses such as cloud services.

■Check Points

- 2 Consecutive Years of Record Revenues & Earnings, Excellent Results Exceeding the Initial Period Plan
- While Responding to Cloud & Multi-device Needs, MJS is Heading for 3 Consecutive Years of Revenue & Earnings Growth
- MJS is Undervalued Versus Peers, Annual Dividend Yield is More Than 3%

Result Trends, FY3/10-Mid-term goals



■Operational Overview

Top Share of ERPs for SMEs, Expansion in Stock Income

At the time of establishment in 1977, MJS undertook data processing for accounting firms at its data processing centers. Subsequently, it shifted its operations to the development and sales of office computers and other terminals. Again, from the 1990s, in line with the proliferation in PCs, it shifted its business model to the development and sale of packaged software. Currently, due to improvement in the internet environment, it has amongst other things recently started to focus on cloud services also and, while shifting its business model in response to changes in the prevailing environment of the times, been providing management and management information services centered on finance and accounting. As a corporate player developing and selling financial and accounting systems it has a well-established position in the Japanese market.

Within MJS' current scope of operations, apart from the development and sales of (comprehensive operational management) ERP systems with finance and accounting as the core, it provides services including those that accompany network development and installation support as well as systems operation, maintenance and other support services. Its main customers comprise tax accounting firms and CPA offices, as well as the small and mid-sized corporate clients of accounting firms. In the market for accounting firms MJS has 8,400 users, representing an industry market share of around 25%. Further, in the market for small and mid-sized enterprises it possesses 17,000 users, with an industry leading market share of 23% by sales in ERP systems for small and mid-sized corporates.

In the last few years, apart from systems installation income (hardware sales, software development and sales, useware etc.), MJS has been devoting efforts towards expanding stock income from after-sales and other services (including hardware, software and network maintenance services, and a 24 hour 365 day/year call center), with service income having grown 1.4x in comparison to FY3/02.

■Results Trends

2 Consecutive Years of Record Revenues & Earnings, Excellent Results Exceeding the Initial Period Plan

(1) FY3/13 Consolidated Results

MJS's consolidated results announced on May 9, 2013, showed sound performance with revenues of JPY20,922 million (+6.8% YoY), operating profit of JPY2,275 million (+12.4% YoY), recurring profit of JPY2,285 million (+14.3% YoY), and net profit of JPY1,187 million (+12.2% YoY), recording two consecutive years of posting record high earnings. Even compared to the initial plan for the period, the results for all figures exceeded targets, with revenue JPY692 million, operating profit JPY205 million, recurring profit JPY235 million and net profit JPY87 million over respectively.

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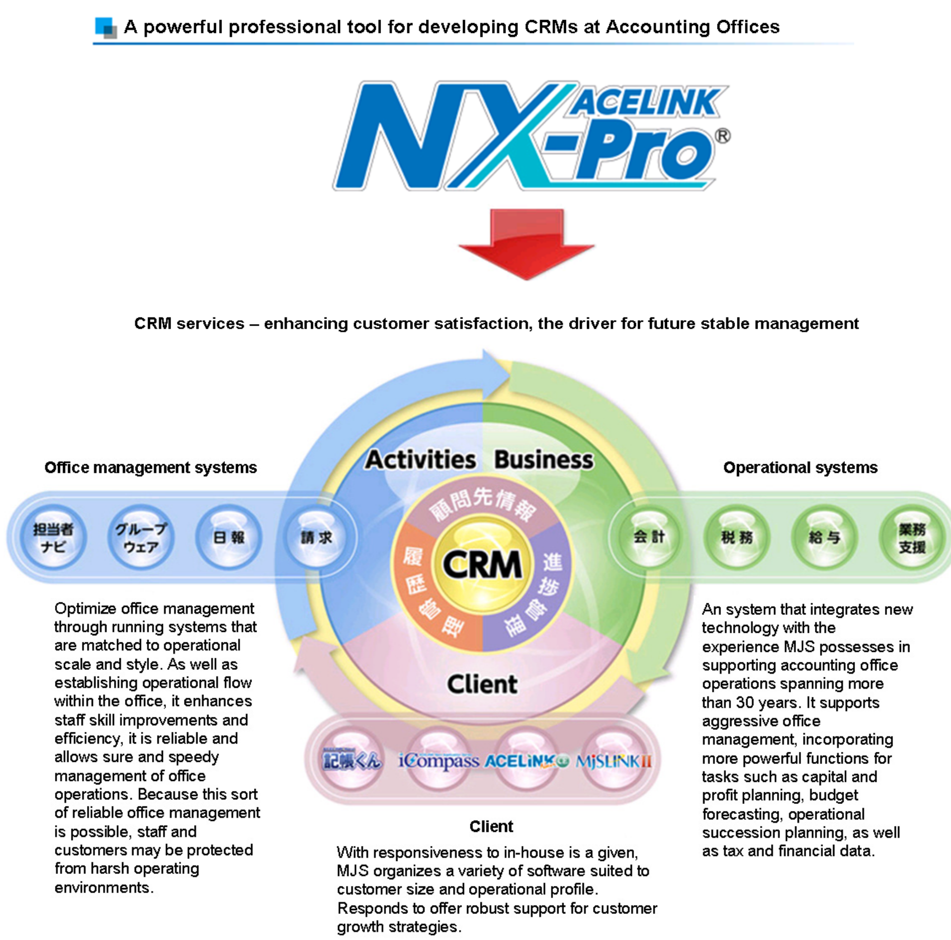
■Results Trends

Factors behind the increase in revenues were sound trends in sales of flagship software ACELINK NX-Pro and hardware for accounting firms, and also from solid trends in service income. ACELINK NX-Pro was released in April 2011 with increased replacement demand activity a factor behind its solid performance (usually, performance trends well 2-3 years from the release of new products including replacement demand). Further, growth in sales to new customers also led to the increase in revenues. Both sales to (new) accounting firm customers, which were up 22.7% YoY, and general corporates, which were up 39.2% YoY, displayed high growth.

Looking in relation to profitability, the gross margin has declined 0.5% YoY to 64.5%, however, within this the impact of low-value-added hardware sales rising 22.9% YoY is significant. Gross profits rose 5.8% YoY, with the decline in the gross margin due to changes in the product mix. Further, SG&A rose by JPY493 million YoY mainly concentrated in increases in promotional costs for new customer acquisition. However, this was absorbed by the impact from increased revenues, with the SG&A ratio falling 1.1% YoY. As a result, the operating profit margin rose 0.6% YoY to 10.9%. In relation to the operating profit margin, since its low point in FY3/06, it has continued to rise each period, which reflects progress in enhancing profit structures at the same time as operational expansion.

Moreover, extraordinary losses of JPY533 million were recorded in FY3/13, of which JPY500 million was recorded as settlement monies as a result of a court decision regarding subsidiary Miroku System Trading Co., Ltd. (liquidated in March 2013) that had been in litigation. Further, given that taxable income declined due to carry forward tax losses flowing from the liquidation of this subsidiary, the effective corporate income tax rate declined.

ACELINKNX-Pro Overview



Source: Company website

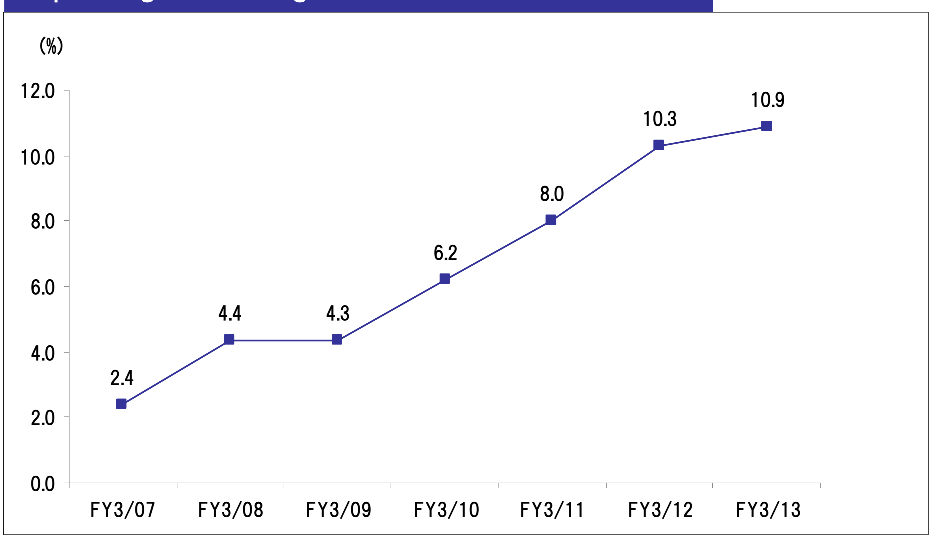
■Results Trends

Profit & Loss Statement (Consolidated)

(Unit: JPY million, %)

	FY3/11	FY3/12	FY3/13
Revenue	18,750	19,595	20,922
COGs	6,442	6,853	7,436
Gross Profit	12,308	12,741	13,485
SG&A	10,801	10,718	11,210
Operating Profit	1,506	2,023	2,275
Recurring Profit	1,488	2,000	2,285
Extraordinary income	67	16	0
Extraordinary losses	175	12	533
EBIT	1,381	2,003	1,752
Corporate income tax	675	945	564
Net Profit	705	1,058	1,187
Growth rate (%, YoY)			
Revenue	△0.5	+4.5	+6.8
Operating Profit	+28.8	+34.3	+12.4
Recurring Profit	+31.1	+34.4	+14.3
Net Profit	+26.3	+50.1	+12.2
Versus Revenue			
Gross margin	65.6	65.0	64.5
SG&A ratio	57.6	54.7	53.6
OP margin	8.0	10.3	10.9
RP margin	7.9	10.2	10.9
NP margin	3.8	5.4	5.7
Tax rate	48.9	47.2	32.2

Operating Profit Margin Trends



■Results Trends

Looking at the breakdown of sales by product type, in respect of hardware, as noted above, accompanying sales of flagship systems to accounting firms, in addition to increases in sales of servers and PCs, security products also such as measures to prevent information leakage performed well, growing 22.9% YoY to JPY2.621 billion. Further, in relation to software, flagship product ACELINK NX-Pro for accounting firms and the new ERP system product Galileopt NX-1 for small and mid-sized enterprises (sales launch February 2012) made full contributions. On the other hand, however, given that upgrade demand for the ERP system MJSLINK Ⅱ for small and mid-sized enterprises declined, the increase was limited to a 2.0% YoY increase, or JPY8.605 billion. In respect of useware (a systems installation support service), in line with increased sales of hardware and software, this grew 15.1% YoY to JPY2.664 billion.

Galileopt NX-I Overview

Source: Company website

Against this, service incomes performed solidly rising 3.5% YoY to JPY6,783 million. Looking at the breakdown gains were kept to a low 0.6% YoY for the comprehensive TVS (total value service) service which is for accounting firms. This was because while there was an increase in new accounting firm customer contracts, there were also a number of customers for which contracts came to an end due to office closures and other factors. Further, in software operating support services for small and mid-sized enterprises there was solid performance with a 3.2% YoY rise in contract numbers as a result of new customer acquisition. Despite being a small figure monetarily, software usage fees displayed a high 25% YoY rise in the revenue growth rate, with software such as ACELINK Navi Kicho Kun and the iCompass Series for corporate clients of accounting firms performing solidly. Mainly sole trader and small and mid-sized corporate users, currently these are used by just under 30,000 corporates, which is increasing at a pace of 3,000-4,000 per annum.

■Results Trends

Consolidated Revenue by Product/Service Income

(Unit: JPY million, %)

Operating segment	Service menu	FY3/11	FY3/12	FY3/13	YOY
System installation contracted revenues	-	12,115	12,889	13,891	7.8%
Hardware	PC, server & other hardware sales	2,038	2,133	2,621	22.9%
Software	Handling various software for ERP & other systems	7,664	8,440	8,605	2.0%
Useware	System installation & other initial support	2,412	2,315	2,664	15.1%
Service income	-	6,439	6,556	6,783	3.5%
TVS	Comprehensive maintenance service for accounting firms	1,696	1,733	1,744	0.6%
Software upgrade fee	Software upgrade fee	5	3	2	▲18.6
Software usage fee	Software rentals for clients of accounting firms	423	511	639	25.0%
Software operational support services	Comprehensive maintenance service for SMEs	2,552	2,609	2,695	3.3%
HV/NW maintenance services	Hardware & network maintenance	1,120	1,103	1,093	▲0.9
Office suppiies & consumables	Sales of office supplies & consumables	641	593	607	2.3%
Other		195	149	246	65.3%
Consolidated total		18,750	19,595	20,922	6.8%

Note: From FY3/13 there has been a partial restatement of service and other incomes, FY3/11 and FY3/12 having been restated in line with these standards.

Looking at the sales breakdown by channel (contracted revenues, parent base), in comparison with general corporate customers which performed poorly showing a decline of 2.5% YoY, accounting firms performed well growing 24.6% YoY. As noted above, this was due to cyclical upgrade demand trends for the ERP system MJSLINK Ⅱ for small and mid-sized enterprises. On the other hand, flagship software ACELINK NX-Pro for accounting firms was introduced in 2011 and, with upgrade demand reaching a peak in FY3/13, revenues increased significantly.

Sales by marketing channel (parent base, contracted revenues)

(Unit: JPY million, %)

	FY3/11	FY3/12	FY3/13	YOY
Revenue	11,170	12,291	13,046	6.1%
Accounting firms	3,604	4,276	5,329	24.6%
General corporates	6,656	6,923	6,750	▲2.5%
Partners	909	1,090	966	▲11.4%
Share				
Accounting firms	32%	35%	41%	-
General corporates	60%	56%	52%	-
Partners	8%	9%	7%	-

In relation to MJS’ financial condition, improvement is arguably proceeding in line with expansion in revenues. Looking at a breakdown of the comparison with the FY3/12 year-end, cash and near cash declined JPY707 million, however, this was due to borrowing repayments and a rise accounts receivable in FY3/13. Further, intangible fixed assets rose, however, the increases in software assets and the suspense account were at the core of this, it being a rise associated with new product development.

Examining management targets, both ROE and ROA, which are profitability indicators rose YoY, while gains in MJS’ financial health proceeded with the shareholders’ equity ratio rising 4.1% YoY to reach 59.9%. Also, both total capital turnover and inventory turnover which reflect efficiency improved, and thus it may be said that there was improvement in every aspect – profitability, stability and efficiency.

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■Results Trends

Consolidated Balance Sheet

(Unit: JPY million)

	FY3/12	FY3/13	Change	Factors
Current assets	8,080	8,003	△ 77	
Cash & near cash	3,992	3,285	△ 707	Due to increases in accounts receivable & borrowing repayments
Accounts receivable	2,841	3,607	765	Record revenues in March
Inventories	480	407	△ 73	Hardware increases associated with increased orders
Fixed assets	7,351	7,859	507	
Tangible fixed assets	4,003	4,020	17	
Intangible fixed assets	1,445	1,861	416	Increase in software assets & suspense account
Investments & other assets	1,902	1,976	73	
Total Assets	15,431	15,862	430	
Current liabilities	5,474	5,326	△ 147	
Current portion of interest bearing debt	1,819	1,933	113	Shift from long-term liabilities
Accounts payable	607	724	116	
Fixed liabilties	1,341	996	△ 345	
Bonds	410	30	△ 380	Shift to short-term liabilities
Long-term borowings	819	865	46	
Total Liabilties	6,816	6,323	△ 493	
Net assets	8,615	9,539	923	Associated with increased earnings
(retained earnings)	(3,650)	(4,470)	820	
Total Liabilities & Net Assets	15,431	15,862	430	
Interest bearing debt	3,048	2,829	△ 220	
Net debt (cash)	△ 944	△ 457	486	
ROE (%)	12.8	13.1	0.3	
ROA (%)	13.1	14.6	1.5	
Quick ratio (%)	147.6	150.3	2.7	
Shareholders' equity ratio (%)	55.8	59.9	4.1	
Debt/equity (x)	0.4	0.3	△ 0	
Total capital turnover (x)	1.27	1.32	0.05	
Inventory turnover (x)	14.3	18.3	4.0	

While Responding to Cloud & Multi-device Needs, MJS is Heading for 3 Consecutive Years of Revenue & Earnings Growth

(2) Results Outlook for FY3/14

The FY3/14 results outlook forecasts 3 years of consecutive posting of record earnings, with revenues of up 4.0% YoY to JPY21.76 billion, operating profit up 4.6% YoY to JPY2.38 billion, recurring profit up 3.7% to JPY2.37 billion, and net profit up 11.1% to JPY1.32 billion. Moreover, FY3/14 is the last year in the 2nd Mid-term Management Plan announced by MJS in November 2011, however, it has already been achieved in FY3/13, one year ahead of schedule. As a result, an upward revision of management targets was announced on May 9, 2013, with those forecasts being post-revision.

In FY3/14 areas cited to be strengthened include rigorous staff training, expansion of the customer base and service income, new business creation, and reinforcing profitability through enhanced productivity. Within new businesses, apart from progressing the strengthening of cloud services, the plan is to offer new services that are compatible with multi-devices such as tablet terminals. In respect of productivity enhancement MJS will proceed to drive business improvement by using mobile terminals, as well as by way of cost reductions (e.g. centralized purchasing by head office, reducing overtime, and making hardware and network maintenance autonomous). The rate of growth may decline slightly, however, it is a year of building the management platform in order to aim for further growth in the 3rd Mid-term Management Plan, including product development structures.

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■Results Trends

The forecast is for the operating profit margin to be on a par with the previous period at 10.9%. The gross margin is expected to deteriorate 1.1%, however, the main reason for this is a rise in development costs to strengthen new product functionality including responses to consumption tax revisions. On the other hand, by containing the SG&A ratio the plan is to maintain profit margins.

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

(Unit: JPY million)

	Result	Plan	2nd Mid-term Plan		FY3/12→FY3/14	3rd Mid-term Plan	FY3/14→FY3/17	FY3/12→FY3/17
	FY3/12	FY3/13	Planed	Revised Plan	Annual Growth Rates	FY3/17	Annual Growth Rates	Annual Growth Rates
Revenue	19,595	20,922	20,500	21,760	+5.4	22,000	+0.4	+2.3
Operating Profit	2,000	2,285	2,150	2,370	+8.9	3,300	+11.7	+10.5
OP Margin	10.2%	10.9%	10.5%	10.9%		15.0%		

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

The revenue plan by division forecasts hardware to decline 4.6% YoY, useware to swing to a decline of 9.1% YoY, but against this software and service income to both rise 9.5% and 3.9% respectively. Further, growth in other divisions include an increase in advertising revenues from business information site “bizocean”.

In respect of software, while a cyclical decline in upgrade demand for accounting firms is expected, it is anticipated that there will be an increase in ERP systems sales for small and mid-sized enterprises, and an increase in bespoke development project enquiries. In particular, MJS has high expectations for its new product MJSLINK NX-Ⅰ for small and mid-tier companies, sales of which commenced in April 2013.

The main characteristics of MJSLINK NX-Ⅰ is an ERP system that can handle a variety of different industry types, and that it contains the new knowledge tool Work Board. The Work Board function is a function that enables users, while engaged in operations, by merely writing points that have come to mind, messages and other data on Work Board to share the said information with 3rd parties, and it is hoped that this will contribute significantly to improving efficiency within organizations. Also, this product may be run on a private cloud environment.

In respect of service income, it is expected that there will be growth including increases in revenues flowing from increased numbers of TVS and software running support service contracts, and increases in usage fees for iCompass Series ACELINK Navi Kicho Kun software for accounting firm clients.

Consolidated Revenues by Income Category

(Unit: JPY million)

Operating segment	FY3/13	FY3/14E	YOY
System installation contracted revenues	13,891	14,340	3.2%
Hardware	2,621	2,500	▲4.6%
Software	8,605	9,419	9.5%
Useware	2,664	2,421	▲9.1%
Service income	6,783	7,045	3.9%
Other	246	374	51.7%
Consolidated total	20,922	21,760	4.0%

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■Results Trends

Sales by marketing channel (parent base, contracted revenues)

(Unit: JPY million)

	FY3/13	YOY	FY3/14	YOY
Revenue	13,046	6.1%	13,210	1.3%
Accounting firms	5,329	24.6%	4,530	▲15.0%
General corporates	6,750	▲2.5%	7,611	12.8%
Partners	966	▲11.4%	1,067	10.4%
(Share)				
Accounting firms	41%	-	34%	-
General corporates	52%	-	58%	-
Partners	7%	-	8%	-

Diagram of "Work board"

Source: Company website

Moreover, in relation to the current state of sales, things are proceeding smoothly with robust orders, including the balance of orders for system installations also building from 3.4 months at the end of March 2013 to 3.9 months recently. In respect of the domestic economy which impacts on MJS' results, as a result of the Abenomics effect a gradual improvement has become discernible and, given it is expected there will be a surge in demand prior to the consumption tax hike, it is felt there is a strong possibility of results exceeding the plan.

■3rd Mid-term Management Plan

Strengthening the Existing Product Line-up & Expansion of the Customer Base Through a Shift to Cloud

MJS is announcing the framework of its 3rd Mid-term Management Plan that has as its last year FY3/17. With a theme of Challenging New Value Creation, its philosophy includes expanding existing businesses, creating new businesses and developing global operations, setting numerical targets in the final year FY3/17 of JPY22.0 billion for revenues and JPY3.3 billion for recurring profit. In relation to revenues, given that they have expanded at a greater rate than forecast up to FY3/13, there is a strong likelihood of an upward revision.

■3rd Mid-term Management Plan

In the expansion of existing businesses, apart from developing products suitable for its customers' scale and strengthening its product line-up, by developing competitive products, MJS aims to acquire new customers and expand sales.

In new business creation, apart from progressing the shift to cloud services as noted above, MJS' philosophy is to seek further expansion in its customer base by proceeding with initiatives such as developing products in cooperation with SNSs and product development aimed at consumers.

Also, while global expansion steps are still at the market research stage and there are no specific plans, with the domestic market maturing, MJS shall turn its attention overseas where there is further growth potential and seek to expand.

■Comparative Share Price Valuation

MJS is Undervalued Versus Peers, Annual Dividend Yield is More Than 3%

In respect of MJS' share price valuation, we undertook a comparison with 12 corporate peers that apart from ERP systems provide financial and accounting systems (refer table below). MJS' forecast PER and actual PBR are below the 12-company average, and additionally its forecast ROE and ROA are at high levels. In particular, at the 8x PER mark, it is the only issue below the 10x level, positions it relatively speaking in the undervalued zone.

It may be conjectured that one reason behind MJS' share price being in zone where it is undervalued versus peers is that of the trends in the litigation at one if its subsidiaries, however, this litigation has already been settled by way of arbitration.

If one considers that MJS' results, amidst its posting of record high earnings, while expecting to again show stable growth going forward and having its dividend yield above 3%, we feel that there is significant room for upward appraisal.

Peer Comparison

Company	Listed	Period	Ticker Code	Share Price (JPY)	Market Cap. (JPY mn)	Issued Share	PER (x)	PBR (x)	ROE (%)	ROA (%)
Oracle Japan	TSE 1	May	4716	4,190	532,515	127,091,986	19.4	7.7	39.8%	40.4%
Otsuka Corporation	TSE 1	Dec	4768	10,030	316,958	31,601,026	17.5	2.3	13.0%	11.6%
OBIC	TSE 1	Mar	4684	25,360	227,432	8,968,131	15.4	1.9	12.4%	14.8%
SCSK	TSE 1	Mar	9719	2,130	220,844	103,682,658	12.6	2.2	17.1%	7.3%
OBC	TSE 1	Mar	4733	5,810	109,177	18,791,213	21.0	1.5	7.4%	8.7%
TKC	TSE 1	Sep	9746	1,648	43,858	26,613,152	11.9	0.8	6.8%	8.6%
JDL	TSE 1	Mar	6935	1,074	36,418	33,909,158	10.1	0.5	4.9%	5.3%
MIROKU JOYO SERVICE	TSE 1	Mar	9928	360	11,041	30,670,451	8.4	1.2	13.9%	15.0%
PCA	TSE 2	Mar	9629	1,045	7,160	6,851,968	50.8	0.7	1.3%	1.9%
Pro-Ship	JQ	Mar	3763	1,857	6,741	3,629,930	10.0	1.3	13.4%	18.0%
DIVA Corporation	JQ	Jun	3836	1,665	3,908	2,346,921	17.0	2.3	13.5%	9.1%
Toyo Business Engineering	TSE 2	Mar	4828	1,480	2,960	1,999,842	12.3	1.1	8.7%	6.9%
Cumulative 12 company total, cumulative mean value					986,498		15.1	1.7	11.1%	9.5%

Note 1: ROA and ROE are calculated dividing expected NP and OP for the current period into the previous period's shareholders' equity and total assets.
Note 2: Share prices are the final prices for May 29, 2013.
Note 3: JQ is an abbreviation for a JASDAQ listing

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