

Miroku Jyoho Service Co., Ltd.

9928

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

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■ Summary

Aiming for net sales of ¥50.0bn and an ordinary income margin of 30% in FY3/21

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

1. Increased revenue from services and sales of ERP products for companies propelled overall sales and profits to record highs in FY3/17

In the fiscal year through March 2017, in FY3/17, MJS's consolidated net sales grew 11.0% year on year (YoY) to ¥26,225mn and its ordinary income advanced 30.7% to ¥4,010mn. Both these figures were record highs, eclipsing the previous highs of FY3/16. Sales of ERP products to companies and for new customers increased YoY, as did revenues from services, and the product mix improved, lifting profitability. The backlog of orders for system installation contract sales, a key performance indicator for management, reached the equivalent of 6.06 months of sales at the end of FY3/17, which was 0.74 month larger than the order backlog at the end of FY3/16. This backlog has expanded regularly in recent years, reflecting the importance management places on it, and has promoted the continuous business growth.

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

2. Company projects continued sales and profit increases in FY3/18

For FY3/18, MJS forecasts a 4.1% YoY rise in consolidated net sales to ¥27,300mn and a 9.7% increase in ordinary income to ¥4,400mn. Although the demand for MJS's services stemming from Japan's introduction of the My Number system of personal identification numbers has dissipated, MJS intends to increase its sales and profits by aggressively pursuing advertising, promotion and sales activities, thereby attracting new customers. MJS also plans to promote its portal business (the operation of the bizocean business information site) and its business succession support service and anticipates increases in sales from both these businesses.

3. Company is pursuing fintech businesses in its fourth medium-term management plan

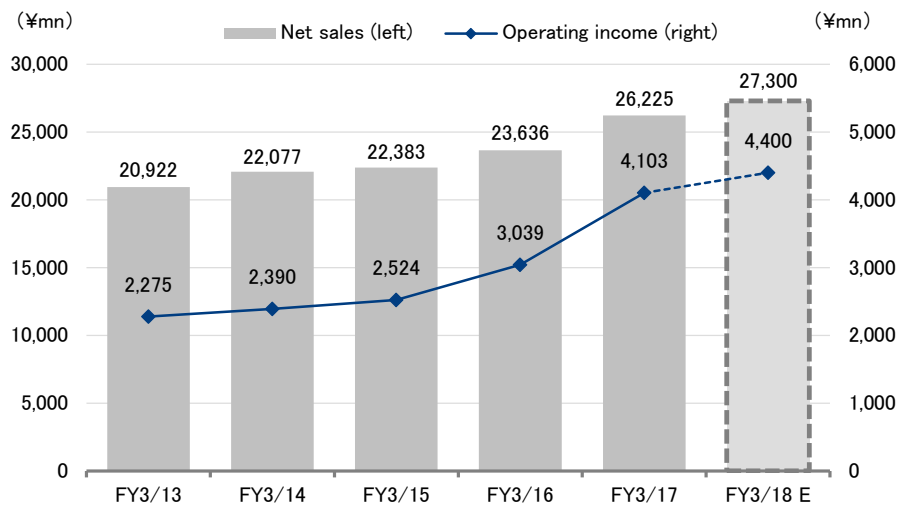
For FY3/21, the final year of MJS's fourth medium-term management plan, MJS targets net sales of ¥50.0bn and an ordinary income margin of 30%. MJS plans to expand the scope of its existing ERP business beyond the development and sale of software for accounting and tax calculation and to nurture new businesses, such as its portal site business, its business succession support business, and its fintech businesses, thereby achieving rapid growth. In FY3/17, it started operating its bizsky business-to-business (B to B) cloud platform for small and medium-sized companies. It also formed capital and business ties with two Korean companies engaged in fintech services and intends to develop fintech businesses in Japan and other Asian countries with these Korean partners. Until 2017, MJS plans to start a multi smart card business, and in summer 2018, it intends to start a new business using technology for phone-to-phone payments. The detailed business strategy is scheduled to be released around November 2017.

Summary

Key Points

- MJS's ERP systems for corporations continued to sell well, supporting the achievement of consecutive record-high sales and profits
- MJS attracted new customers, and its recurring revenue from stock-type business services grew
- MJS plans to expedite its growth by investing heavily in fintech businesses

Consolidated financial results trends



Source: Prepared by FISCO from MJS's financial results

Corporate overview

A leading Japanese provider of financial and accounting systems serving tax accountant and CPA firms and small and medium-sized companies

1. Corporate history

Since its establishment in 1977, MJS has been supplying management systems and management information services focused on finance and accounting. Its services have evolved accompanying the rapid change in information technology (IT). Initially, MJS 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 business revitalization to small and medium-sized companies. In 2016, it opened the bizsky cloud platform for small and medium-sized companies. Through these measures, MJS has nurtured new businesses and expanded the scope of its business.

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Corporate overview

Company history

Core service format	Year	History
	1977	Miroku Jyoho Service Co., Ltd. established
Data Processing Center	1978	New financial data processing system MS-1 developed and sales started Online terminal MJS800 developed and sales and online service commenced
	1980	Shift from data processing to office computing development and sales business Development and commencement of sales for the specialist MicroAce Model Series for accounting
Office Computing	1983	Entry into the market for clients advised by tax accountant and CPA firms Development and commencement of sales for the specialist Pro Office Computing [Accounts] aimed at tax accountant and CPA firm clients
	1990	Developed and commenced sales for package software for PC installation "SI Zaimu Taisho," "SI Hanbai Taisho," and "SI Kyuyo Taisho"
	1992	Became a listed enterprise by an OTC listing on the Japan Securities Dealers Association (currently TSE JASDAQ)
	1994	Developed and commenced sales for the accounting telecommunications system MJS-COMPASS linking tax accountant and CPA firms and the client companies advised
	1997	Listed on the Second Section of Tokyo Stock Exchange
Shift to open systems (package software)	1998	Commenced development and sales of the MICSNET Series ERP system compatible with Windows NT® for medium-sized companies
	2001	Commenced development and sales of the ACELINK Series of network solution systems for tax accountant and CPA firms
	2002	Developed and commenced sales of the MJSLINK Series of operations and comprehensive information systems for small/mid-sized companies
	2004	Developed business information website "bizocean" targeting business people at small/mid-sized companies and venture companies
	2005	Developed and commenced sales of the ACELINK Navi Series of network solution systems for tax accountant and CPA firms Developed and commenced sales of the Galileopt package ERP systems for medium-sized enterprises
	2007	Developed and commenced sales of the MJSLINK II Series of package ERP systems for small/mid-sized companies
	2011	Commenced sales the ACELINK NX-Pro ERP system for tax accountant and CPA firms (April)
	2012	Commenced sales of the Galileopt NX-I ERP system for medium-sized companies (February) Listed on the First Section of Tokyo Stock Exchange
	2013	Commenced sales of MJSLINK NX-I ERP system for small- and mid-sized companies (April) Investment in consolidated accounting systems company Primal, Inc. (33.9%) and conversion into a consolidated affiliate (October)
	2014	Established MJS M&A Partners Co., Ltd. that provides services supporting the business succession and revitalization of small/mid-sized companies (September)
Shift to service provider	2015	Developed and commenced sales of "MJS My Number" for tax accountant and CPA firms and small/mid-sized companies (September) Made Miroku Webcash International a subsidiary (December) Made Cloud Invoice a subsidiary. This subsidiary offers bookkeeping services. (December)
	2016	Took a 48.8% stake in BlueTable Co., Ltd., which sells food to Asian countries through an e-commerce service. BlueTable is now an affiliate accounted for by the equity method. (February) Transferred the bizocean business to a new subsidiary, bizocean Co., Ltd. (April) Started the Marunage Kichodaiko bookkeeping support service for tax accountant and CPA firms (July) Started the MJSLINK NX-I for laas ERP cloud service for small and medium-sized companies (August) Started the bizsky cloud platform for small and medium-sized companies and the Rakutasu Money Transfer service over this platform (September) Opened Japan's first marketplace for business templates through the bizocean business information site (October)
		Started offering the Rakutasu Kyuyo Money Transfer service through the bizsky cloud platform for small and medium-sized companies (January)
		Started offering the Kicho-kun Cloud cloud accounting service to proprietors and small companies (March)
	2017	Commenced development and sales of the Galileopt NX-Plus ERP solution to small and medium-sized companies (March) Established a business alliance with Crowd Cast, Ltd. and connected that company's Staple cloud expense payment service with MJS's Rakutasu Money Transfer service using an application program interface (API) (March)

Source: Prepared by FISCO from MJS materials

Corporate overview

2. Business description

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

The main customers of Miroku Jyoho Service are tax accountant and CPA firms and the small and medium-sized companies that these tax accountant and CPA firms serve as customers. MJS 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 Corp. (9746) and Japan Digital Laboratory Co., Ltd. hold similar market shares, and the three companies dominate the industry. Miroku Jyoho Service also sells its software to about 17,000 small and medium-sized companies, primarily customers of its accounting firm clients. Almost all its sales to tax accountant and CPA firms are direct sales and 95% of its sales to small and medium-sized companies are direct, the remaining 5% being through sales agents. In addition, MJS 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 MJS to expand its sales to these small companies.

Overview of Company businesses

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

Source: Prepared by FISCO from MJS materials

3. Subsidiaries and affiliates

At the end of FY3/17, Miroku Jyoho Service had eight consolidated subsidiaries and two equity-method affiliates. Since 2002, software development, sale, installation, and operation support services have been undertaken by three consolidated subsidiaries, NTC Co., Ltd., MSI Co., Ltd., and LeadInc., Ltd. In 2014, MJS established subsidiary mmap to provide business succession and revitalization services to small and medium-sized companies. In 2015, MJS 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 two more subsidiaries, bizocean Co., Ltd. to operate a business information site, and MJS Smartcard Co., Ltd. to provide fintech services. In May 2017, MJS Smartcard changed its name to MJS Finance & Technology Co., Ltd.

MJS's two equity-method affiliates are Primal Inc., which develops and sells integrated accounting systems, and BlueTable Co., Ltd., which arranges for the export and delivery of foods made in Japan to customers in other Asian countries using an e-commerce site.

Corporate overview

Company's subsidiaries and affiliates

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 Smartcard	69.9%	Sell multi smart cards and provide the payment service for these cards
Miroku Webcash International	66.6%	Develop and sell software and content for business finance and asset management
Equity-method affiliates		
BlueTable	39.2%	Export foods made in Japan to other Asian countries, deliver these foods directly to the homes of individual customers, and sell the foods on a retail and wholesale basis
Primal	33.3%	Software development, sales, installation, and operational support services

Source: Compiled by FISCO from Securities Reports and Company news releases

Business trends

MJS's ERP systems for corporations continued to sell well, supporting the achievement of consecutive record-high sales and profits

1. Review of FY3/17 results

MJS reported FY3/17 consolidated results with net sales at ¥26,225mn (+11.0% YoY), operating income at ¥4,103mn (+35.0%), ordinary income at ¥4,010mn (+30.7%), and net income attributable to owners of the parent at ¥2,616mn (+37.3%), resulting in double-digit increases in revenue and profits. Net sales and profits exceeded initial forecast and reached all-time highs. Sales and profits hit record highs for the sixth straight year and slightly exceeded MJS's initial forecasts.

Consolidated operating results for FY3/17

	FY3/16		Company target	FY3/17			
	Result	Ratio		Result	Ratio	YoY	vs. target
Net sales	23,636	-	26,000	26,225	-	11.0%	0.9%
Gross profit	15,393	65.1%	17,410	17,389	66.3%	13.0%	-0.1%
SG&A expenses	12,353	52.3%	13,480	13,286	50.7%	7.5%	-1.4%
Operating income	3,039	12.9%	3,930	4,103	15.6%	35.0%	4.4%
Ordinary income	3,068	13.0%	4,000	4,010	15.3%	30.7%	0.3%
Extraordinary gains/losses	-58	-0.2%	-	-65	-0.3%	-	-
Net income attributable to owners of the parent	1,906	8.1%	2,450	2,616	10.0%	37.3%	6.8%

Source: Prepared by FISCO from MJS's financial results

Business trends

MJS has been following two main growth strategies: 1) expand its customer base and services revenue, and 2) rigorously manage management goals keeping in mind the importance of order backlogs. These strategies continued to yield positive results in FY3/17. In 4Q FY3/17, consolidated net sales grew 13.0% YoY and operating income climbed 15.6%. Accompanying an increase in sales of ERP products for companies and the attraction of new customers, services revenue grew. The backlog of orders for system installation contract sales at the end of FY3/17 equaled 6.06 months of sales, which was 0.74 month more than the backlog sales equivalent a year earlier. This shows that MJS continued to receive many inquiries from potential customers in FY3/17.

Gross margin improved by 1.2 percentage points YoY because of the higher ratio of lucrative software and services revenue. SG&A expenses advanced 7.5% YoY in FY3/17, mainly because of a rise in personnel costs. Because of the sales increase, however, the ratio of SGA costs to sales fell by 1.6 percentage points in FY3/17. Thus, the operating income margin climbed by 2.7 percentage points to 15.6%, for the third consecutive annual upturn.

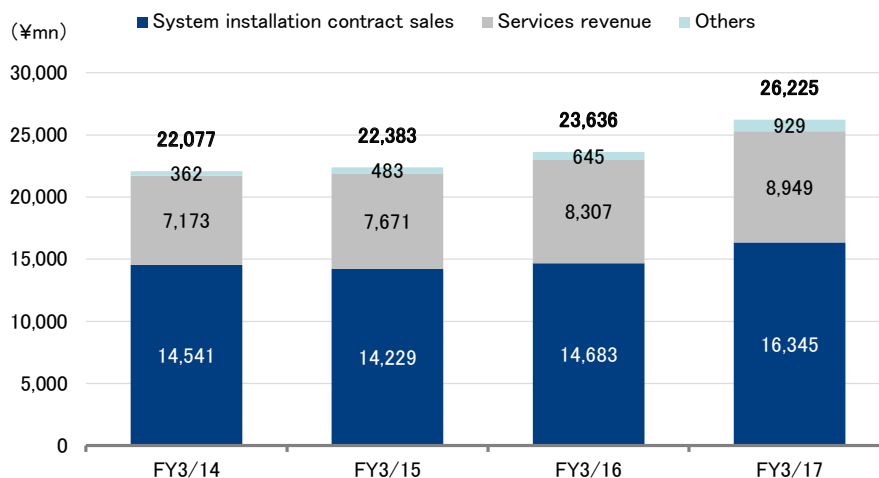
Net sales surpassed MJS's forecast by 0.9%, and operating income exceeded MJS's forecast by 4.4%, the latter because SGA costs were controlled better than MJS had foreseen. In the non-operating account, MJS recorded a loss of ¥138mn from its equity-method affiliates, up from a loss of ¥8mn in FY3/16. Consequently, ordinary income surpassed MJS's original forecast by only 0.3%.

The Company attracted new customers, and its recurring revenue from stock-type business services grew

2. Sales trends by customer and by product category

In FY3/17, MJS's sales of system installation contracts were up 11.3% YoY to ¥16,345mn, its revenue from services rose 7.7% to ¥8,949mn, and other sales climbed 44.0% to ¥929mn. This growth in other sales was mainly attributable to two factors: 1) sales at subsidiary bizocean grew 30% to ¥750mn, and 2) subsidiary mmap recorded ¥80mn in sales of services to support business succession and revitalization. Growth in sales at bisocean stemmed from an increase in advertising revenue from its bizocean portal site providing information for people engaged in business.

Breakdown of consolidated sales by business



Source: Prepared by FISCO from MJS's results briefing materials

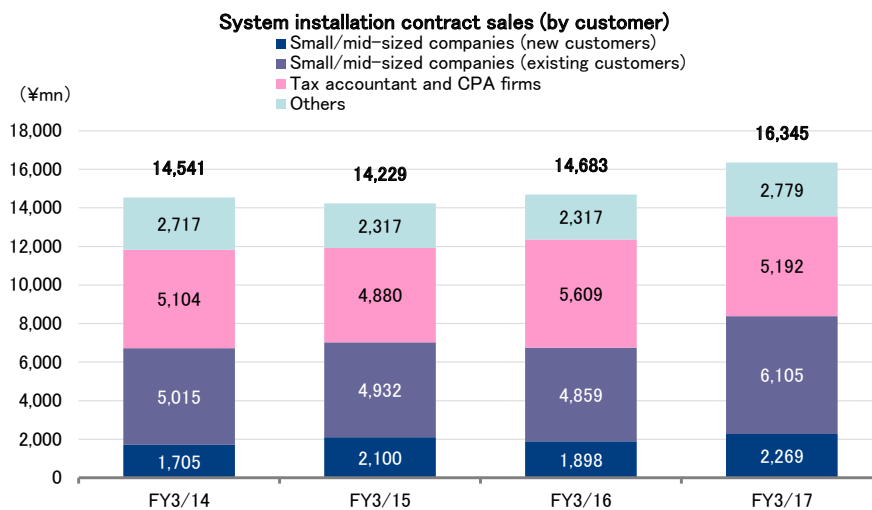
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Business trends

(1) System installation contract sales

Sales of system installation contracts to tax accountant and CPA firms declined 7.4% YoY in FY3/17 to ¥5,192mn, but sales to other companies advanced 23.9% to ¥8,375mn, and other sales (sales by MJS's head office, by subsidiaries, and to business partners) grew 19.9% to ¥2,778mn. Although MJS sold its system installation contracts to some new accounting firm customers, overall sales to tax accountant and CPA firms fell, mainly because of a drop in demand for systems to handle Japan's new My Number system of personal identification numbers. Furthermore, some existing accounting firm customers chose to renew their contracts for only one year, whereas they had previously signed five-year contracts. MJS's sales to all customers of system installation contracts related to the My Number system fell to about ¥500mn in FY3/17 from about ¥1.1bn in FY3/16.

Sales of system installation contracts to new corporate customers other than tax accountant and CPA firms increased by 19.6% YoY in FY3/17, while sales to previous corporate customers advanced by 25.6%. Sales to both customer categories were supported by a general increase in corporate investment into IT equipment and services. The growth in sales to new corporate customers was due to MJS's ongoing sales promotion activities and to the effectiveness of its TV commercials. The increase in sales to previous corporate customers reflected strong demand for replacement systems and MJS's success in selling additional services when these customers replaced their previous contracts. Of other sales, sales by the head office to local chambers of commerce increased, as did subsidiaries' sales of ERP systems. Sales to business partners (sales agents) were unchanged YoY and are being reviewed by MJS.

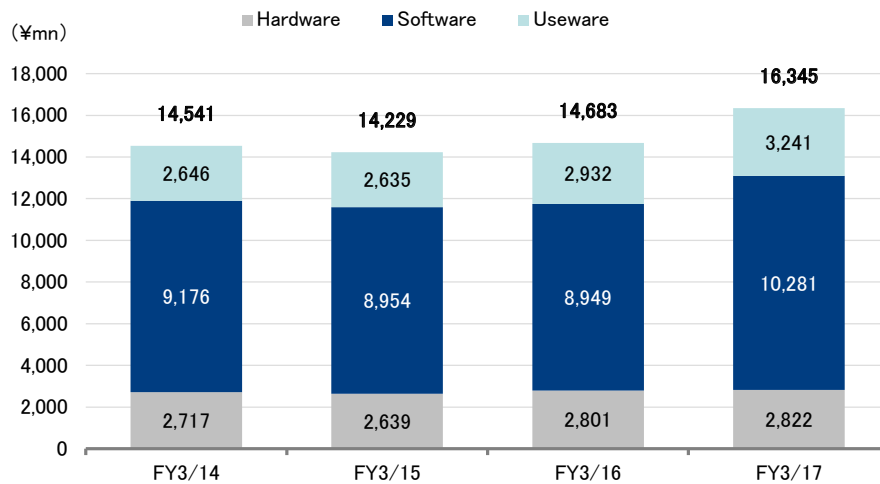


Note: Other (sales of subsidiaries, head office and partners)
 Source: Prepared by FISCO from MJS's results briefing materials

System installation contract sales of software products increased 14.9% YoY in FY3/17 to ¥10,281mn, led by sales of ERP products to small and medium-sized companies. System installation contract sales of userware (support services) grew 10.5% YoY to ¥3,241mn, a double-digit increase in revenue, due mainly to sales to new customers. System installation contract sales of hardware products edged up only 0.8% YoY to ¥2,822mn, mainly because of the fall in demand for hardware for the My Number system.

Business trends

System installation contract sales by category

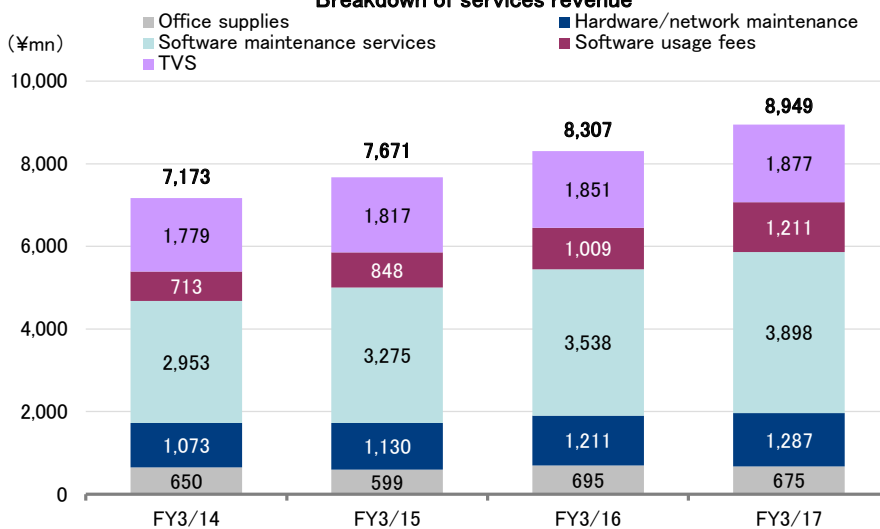


Source: Prepared by FISCO from MJS's results briefing materials

(2) Services revenue

Looking at the breakdown of services revenue, sales from software operation assistance services (software maintenance services for companies) continued an upward trend with a 10.2% increase to ¥3,898mn, and sales of simplified accounting software for small businesses via tax accountant and CPA firms (Kicho-kun, etc./software usage fees) grew 20.0% to ¥1,211mn, sustaining strong momentum. Moreover, sales of the total maintenance service for tax accountant and CPA firms (TVS) were firm, rising 1.4% to ¥1,877mn. Hardware and network maintenance services maintained gains with a rise of 6.2% to ¥1,287mn. Since these are recurring-revenue services, as the number of customers using MJS's services increases, these services stabilize sales and profit growth while supporting and lifting profits.

Breakdown of services revenue



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

Business trends

Very healthy financially, MJS is improving its capital efficiency by buying back shares

3. Financial status and management indicators

At the end of FY3/17, MJS's assets totaled ¥21,823mn, which was ¥1,941mn more than its total asset value at the end of FY3/16. Among current assets, cash and deposits increased by ¥811mn in FY3/17, due mainly to the net income increase achieved during the year, and trade receivable grew by ¥537mn. Among fixed assets, software development in progress increased by ¥569mn, reflecting MJS's development of the next generation of ERP systems.

Liabilities expanded by ¥1,136mn from the end of FY3/16 to ¥6,959mn. Interest-bearing debt, for both short- and long-term, increased ¥225mn and other increases include trade payables by ¥103mn and income taxes payable by ¥489mn. Net assets climbed ¥805mn from the end of FY3/16 to ¥14,864mn. While capital surplus increased ¥1,992mn, declining items included ¥982mn from purchase of treasury shares (582,000 shares).

As MJS's profits have expanded in recent years, its financial position has improved notably. At the end of FY3/17, MJS's equity ratio was 67.9%, which was slightly lower than its ratio a year earlier, mainly because MJS bought back some of its treasury shares to improve its capital efficiency. With the addition of the net profit earned in FY3/17, MJS's net cash increased by ¥585mn YoY during the year. Thus, MJS maintained a healthy financial position in FY3/17 while increasing its capital efficiency.

Consolidated balance sheet

					(¥mn)
	FY3/15	FY3/16	FY3/17	Change	Factors
Current assets	10,231	10,120	11,523	+1,402	Cash and deposits +811, trade receivables +537, inventory -58
Cash and deposits	5,809	5,654	6,465	+811	
Fixed assets	9,440	9,761	10,300	+538	Tangible fixed assets -50, intangible fixed assets +582, investments and others +6
Total assets	19,671	19,882	21,823	+1,941	
Current liabilities	5,489	5,000	6,174	+1,174	Short-term interest-bearing debt +127, trade payables +103, income taxes payable +489
Fixed liabilities	835	823	785	- 37	Long-term debt +98, deferred tax liability -116
Total liabilities	6,324	5,823	6,959	+1,136	
Net assets	13,346	14,059	14,864	+805	Capital surplus +1,992, purchase of treasury shares -982
Total liabilities & net assets	19,671	19,882	21,823	+1,941	
Interest-bearing debt	1,470	1,148	1,373	+225	
Net cash	4,539	4,506	5,092	+585	(Cash and deposits + available-for-sale securities – interest-bearing debt)
Management indicators					
Current ratio (%)	186.4	202.4	186.6		
Shareholders' equity ratio (%)	67.8	70.2	67.9		
Interest-bearing debt ratio (%)	11.0	8.2	9.2		
Return on equity (%)	13.7	14.0	18.2		

Source: Prepared by FISCO from MJS's financial results

■ Outlook

Company projects seventh straight year of record-high sales and profits in FY3/18

1. Business outlook for FY3/18

For FY3/18, MJS forecasts a 4.1% YoY increase in consolidated net sales to ¥27,300mn, a 7.2% rise in operating income to ¥4,400mn, a 9.7% upturn in ordinary income to ¥4,400mn, and a 9.3% increase in net income attributable to owners of the parent to ¥2,860mn. Thus, MJS expects FY3/18 to be its seventh consecutive year of record-high sales and profits. Reflecting its forecasts of a sales increase and an improvement in the product mix, MJS sees its operating income margin rising to 16.1% in FY3/18 from 15.6% in FY3/17.

MJS projects an increase in sales of ERP systems to companies other than tax accountant and CPA firms in FY3/18, but it foresees another drop in sales of these systems to tax accountant and CPA firms because of another downturn in sales for the My Number system. Thus, it expects a slower rate of sales growth, 4.1%, for FY3/18 than it achieved in FY3/17. However the backlog of orders for system installation contract sales exceeds six months. We believe active advertising and promotion and other promotional activities will advance capturing new customers and MJS' planning is conservative.

Consolidated operating performance outlook for FY3/18

	FY3/17		FY3/18			
	Full-year result	YoY	1H E	YoY	Full-year E	YoY
Net sales	26,225	11.0%	13,500	3.2%	27,300	4.1%
Operating profit	4,103	35.0%	2,200	5.2%	4,400	7.2%
Ordinary profit	4,010	30.7%	2,200	4.6%	4,400	9.7%
Net income attributable to owners of the parent	2,616	37.3%	1,430	5.7%	2,860	9.3%
Net income per share (¥)	83.46		45.84		91.69	

Source: Prepared by FISCO from MJS's financial results

Outlook

Sales growth projected for each business segment

2. Sales outlook by category and customer

Sales trends by product category (consolidated basis)

Business segment	(¥mn)					
	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18 (E)	YoY
System installation contract sales	14,541	14,229	14,683	16,345	16,469	0.8%
Hardware	2,717	2,639	2,801	2,822	2,751	-2.5%
Software	9,176	8,954	8,949	10,281	10,547	2.6%
Useware	2,646	2,635	2,932	3,241	3,170	-2.2%
Services revenue	7,173	7,671	8,307	8,949	9,349	4.5%
TVS	1,779	1,817	1,851	1,877	1,905	1.5%
Software usage fees	713	848	1,009	1,211	1,270	4.9%
Software maintenance services for small/mid-sized companies	2,953	3,275	3,538	3,898	4,235	8.7%
Hardware, NW maintenance service	1,073	1,130	1,211	1,287	1,305	1.4%
Office supplies and consumables	650	599	695	675	632	-6.4%
Others	363	483	646	931	1,482	59.2%
Total	22,077	22,383	23,636	26,225	27,300	4.1%

Source: Prepared by FISCO from MJS's results briefing materials

MJS expects sales increases of 0.8% YoY to ¥16,469mn for system installation contracts, 4.5% to ¥9,349mn for services revenue, and 59.2% to ¥1,482mn for other revenue.

In forecasting system installation contract sales, MJS has made conservative assumptions about the fall in demand for products for the My Number system and about the number of new customers it is likely to attract. Therefore, it forecasts only a 2.6% YoY upturn in system installation contract sales of software, while projecting a 2.5% decline in system installation contract sales of hardware and a 2.2% decrease in sales of userware. It projects an 8.1% YoY drop in system installation contract sales to tax accountant and CPA firms to ¥4,772mn, a 5.1% rise in sales to companies other than tax accountant and CPA firms to ¥8,798mn, and a 4.4% increase in other sales to ¥2,899mn. MJS foresees a drop in sales to tax accountant and CPA firms because it expects another decrease in demand for products related to the My Number system and it believes that more existing customers will opt for single-year contracts when they renew multi-year contracts that expire. MJS anticipates an increase in sales to companies other than tax accountant and CPA firms because it expects to attract new customers and it foresees contract extensions by existing customers. Other growth rates were high, but these are because of a forecast of increase in sales to partners. To strengthen expansion of sales through partners there needs to be a sales expansion strategy of strengthening sales support for partner companies compared to now in such ways as establishing a branch specializing in the Tokyo metropolitan area.

Among services revenues, MJS expects revenues from software operation support services to grow 8.7% in FY3/18, reflecting an increase in the number of corporate customers. MJS also projects a 4.9% rise in software usage fees paid by small business owners and a 1.5% upturn in TVS for accounting companies.

Among other sales, MJS sees sales generated by subsidiary bizocean rising to ¥1,000mn in FY3/18 from ¥750mn in FY3/17. It projects an increase in advertising revenue from the use of this subsidiary's bizocean portal site, and it expects an increase in the number of users of this portal site because the number of users of the social business information site is increasing, and this site is a tool for compiling a list of potential new customers for the portal site. The subsidiary also plans to offer more products for which it can charge fees, such as its business template marketplace, on its portal site, thereby increasing its sales and profits from sources other than advertising fees.

Outlook

MJS forecasts that subsidiary mmap will increase its sales of its business succession and revitalization support service to ¥170mn in FY3/18. The 2,200 tax accountant and CPA firms that serve as business partners to MJS have been introducing their corporate customers to mmap as possible new clients, and the number of consultations is also increasing steadily. Furthermore, mmap, which has only eight employees, plans to increase this number.

Medium to long-term growth strategy

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

1. Outline of fourth medium-term management plan

FY3/18 is the first year of MJS's fourth medium-term management plan, which runs through FY3/21. In the final year of the plan, MJS aims to achieve consolidated net sales of ¥50.0bn, an ordinary income margin of 30%, and an ROE of 30%. This sales target is 1.9 times MJS's sales in FY3/17, and its operating income target is 3.7 times its FY3/17 operating income. Thus, MJS plans to increase its sales by a compound annual growth rate of 17.6% and its ordinary income by a compound annual growth rate of 40.1% between FY3/17 and FY3/21.

MJS plans to expand its existing businesses and nurture new businesses. It is now analyzing the feasibility and growth potential of its new businesses, as well as likely synergy between these businesses and MJS's ERP business. Thus, it intends to announce detailed plans for each business in November 2017. MJS sees this fiscal year and the next three as a period in which to build a management base to pursue annual net sales of ¥100bn in the future.

Targets of fourth medium-term management plan

	FY3/17	Targets for FY3/21	Change
Net sales	¥26.2bn	¥50.0bn	1.9x
Ordinary income	4.0bn	15.0bn	3.8x
Ordinary income margin	15.3%	30.0%	+14.7pt
ROE	18.2%	30.0%	+11.8pt

Source: Prepared by FISCO from MJS's results briefing materials

In addition to its conventional ERP business, MJS plans to engage in services peripheral to this business, such as fintech businesses, business succession support, and portal site operation. Besides its current customers of tax accountant and CPA firms and small and medium-sized companies, MJS aims to serve individuals and to build overseas business. MJS's immediate strategy is to invest heavily in growth fields, primarily fintech businesses, to hasten the growth of its sales and profits.

In the first two years of its current medium-term management plan, MJS intends to restructure and to reinforce the bases of its businesses. It aims to develop the next generation of ERP systems, establish new businesses and build firm operational bases for them, and improve productivity through business process reengineering (BPR)*. In the last two years of the current management plan, MJS intends to accelerate the growth of its ERP business and its new businesses, thereby expanding its profits.

* Business process reengineering is restructuring the administrative structure of a company to optimize its business processes

Medium to long-term growth strategy

Plans to accelerate growth by investing heavily in fintech businesses

2. Main policies

(1) expand customer base by attracting new customers and improve customer satisfaction

MJS plans to strengthen its sales organization to attract new accounting firm customers and small and medium-sized corporate customers. It aims to build a base to improve cross-selling and to strengthen its system of partner sales. Cross-selling would involve the sales of ERP systems for sales, general administration, and human resource management at the same time as concluding sales of ERP systems for finance and accounting, thereby increasing total sales per customer.

(2) strengthen R&D capabilities to make products more competitive

In 2017, MJS will set up an R&D committee of specialists to guide R&D on products incorporating advanced technologies, such as cloud computing, mobile communications, and artificial intelligence. At the same time, MJS will rationalize its product development and improve its efficiency, in part, by developing products overseas. Through these measures, MJS aims to improve the quality of its goods and services.

(3) strengthen group management base, maximize synergy

MJS will expand the portal site operation business undertaken by subsidiary bizocean and the business succession support service business conducted by subsidiary mmap. The portal site operation business will offer more content for which it can charge a fee, and it may offer mobile communications services. The business succession support service business is providing a system to calculate enterprise value to the 2,200 tax accountant and CPA firms that partner with MJS for business. In July 2017, the business will open a business succession matching site to share information over the web and therefore expedite the closing of deals with customers. The business also plans to provide seminars and workshops on business succession.

(4) improve productivity by optimizing administrative processes and cost structure, improve employee satisfaction by reforming workforce and work methods

MJS will promote BPR that uses artificial intelligence. For example, it may introduce chatbots to its call center and use deep learning technology to formalize in manuals the script for chatbots to use when making appointments with outbound customers. Through these measures, it could improve the efficiency of its call center. MJS will also diversify its workforce and its work organization or methods.

(5) Promote new businesses, especially fintech businesses and overseas businesses

In 2016, MJS started its bizsky cloud platform services business for small and medium-sized companies. That business now offers its Rakutasu Money Transfer service, but it has not recorded many sales yet. Therefore, this business may seek to connect its system with the systems of MJS' accounting firm customers and it intends to expand its services content.

Medium to long-term growth strategy

MJS plans to start two new businesses in the field of financial technology (fintech) in Japan and other Asian countries in cooperation with two Korean companies with which it has recently concluded equity and business agreements.*1 One of these companies, BrilliantTS, owns technology for multi smart cards*2, and MJS will pursue business in these cards with BrilliantTS. The other company, NFC (Korea), owns technology in phone2phone payments*3, and MJS will enter this business in Asian countries.

*1 MJS took an approximately 14% stake in BrilliantTS for ¥300mn and an approximately 23% stake in NFC (Korea) for ¥300mn.

*2 a multi smart card combines the functions of up to 30 other cards, including credit cards and point cards, serving as a smart wallet.

*3 phone-to-phone payments is a capability whereby smartphones equipped with near field communication (NFC) technology and application programs can settle payments if held close together. Payments can also be settled if a credit card or record of electronic money transactions is held close to a smartphone equipped with NFC technology and an application program for settlements. NFC Korea holds patents on the world's first NFC technology.

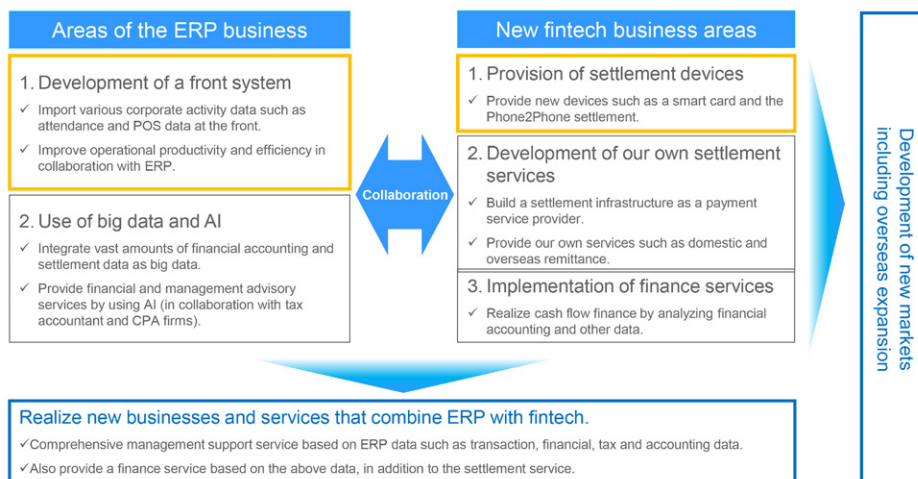
MJS plans to start selling multi smart cards by the end of 2017. A maximum of 30 cards can be integrated, so a multi smart card can combine the functions of not only credit cards and membership cards, but also security cards, such as cards that allow entry to a building based on proprietary authentication technology. Thus, MJS's strategy is to promote the use of multi smart cards by corporations. MJS's ERP business already sells systems to manage the attendance of employees, which are similar to multi smart cards equipped with authentication technology. MJS plans to combine Phone2Phone payment technology with mobile point-of-sale (POS) technology and to start offering a service combining these technologies in Japan in about summer 2018.

MJS plans to pursue fintech businesses aggressively because it sees great growth potential in these businesses. It intends to combine fintech technology with its current ERP business to create new goods and services and to develop new markets, mainly for payment settlement services, including overseas markets. Through these approaches, it aims to expand its overall sales and profits.

Vision of the Fintech Business

We will develop the fintech business mainly in the following two areas:

- (1) Create a new service in collaboration with the ERP business.
- (2) Develop a new market including overseas expansion mainly in the settlement service.

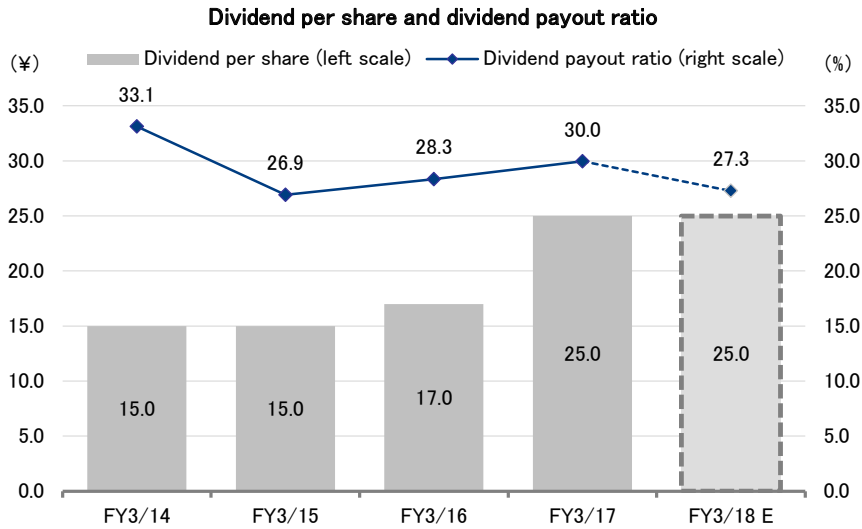


Source: MJS's results briefing materials

Shareholder return policy

Plans to pay steady dividends reflecting its profits

MJS's policy is to return regular profits to shareholders through dividends over the long term. Because MJS increased its profits notably in FY3/17, it raised its dividends by ¥8.0 per share YoY to ¥25.0, which yielded a dividend payout ratio of 30.0%. For FY3/18, MJS plans to pay dividends of ¥25.0 per share, which would yield a dividend payout ratio of 27.3% based on MJS's forecast of earnings per share for this year. MJS also buys back some of its outstanding shares at opportune moments to improve its capital efficiency. In FY3/17, it bought 580,000 shares (1.7% of total shares outstanding) for ¥1,138mn. Its ROE was 18.2% in FY3/17, and it targets ROE of 30% for FY3/21 in the fourth medium-term management plan, so we expect MJS to continue its share buybacks while observing stock market conditions.



Source: Prepared by FISCO from MJS's financial results



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