

## MIROKU JYOHO SERVICE

9928 Tokyo Stock Exchange  
First Section

6-Aug.-14

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### ■ Moving to a New Growth Stage with Execution of 3rd Medium-Term Management Plan

Miroku Jyoho Service <9928> (hereafter “MJS”) is a market leader in developing and providing Enterprise Resource Planning (ERP) systems including financial accounting and tax systems for accounting firms and small- and medium-sized enterprises (SMEs).

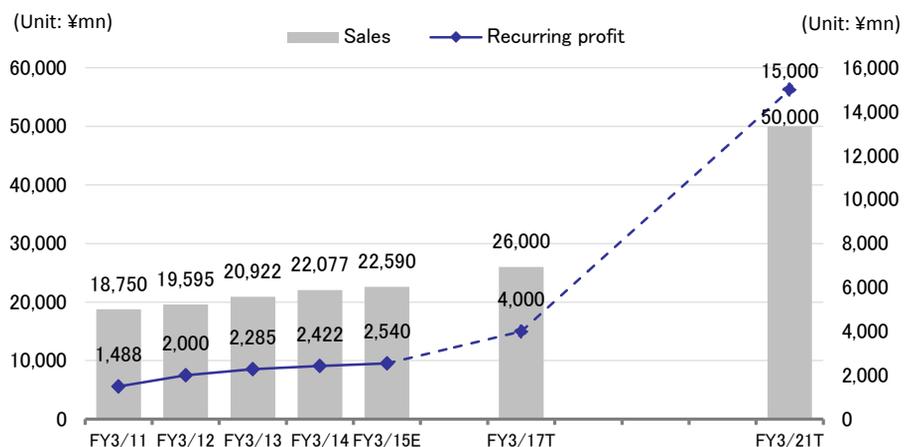
FY3/14 (Fiscal year = From April 1 to March 31) operating results showed sales up 5.5% y-o-y to ¥22,077 million and recurring profit up 6.0% to ¥2,422 million, the sales and profit increases and recorded historical high profit for three consecutive years. Factors behind the increases were brisk sales of ERP systems to small/mid-sized companies and service income growth due to a higher number of software maintenance contracts owing to the development of new customers.

In FY3/15, MJS expects sales to increase 2.3% y-o-y and recurring profit to rise 4.8% on higher income from ERP systems and services to small/mid-sized companies. It announced its financial results and also disclosed its 3rd Medium-Term Management Plan (for three years), which starts from FY3/15. The plan targets sales of ¥26.0 billion and recurring profit of ¥4.0 billion in FY3/17 through by expanding its sales force and sales channels, developing new products and services and establishing new revenue bases through new businesses. MJS considers FY3/15 as a preparation period for achieving these targets. Further into the future, in FY3/21, MJS aims to enter a new stage of growth and forecasts sales of ¥50.0 billion, recurring profit margin of 30%, and ROE of 30%.

### ■ Check Point

- Huge increase in net cash through reduction of interest-bearing debt.
- Aims for sales of ¥26.0 billion and recurring profit of 4.0 billion in FY3/17.
- Low PER/PBR and high ROA/dividend yield compared to competitors.

Sales and Recurring Profit including Medium-Term Management Plan



Source: Prepared by FISCO from company materials, FY3/17 through FY3/21 are the 3rd Medium-Term Management Plan targets

## ■ Corporate Overview

### Long-Established Position as Innovator in Financial and Accounting Systems

#### (1) Corporate History

Since its establishment in 1977, MJS has been optimizing its business model including providing data processing services, developing and selling office PCs and package software, and providing management information services. In particular, it has provided the latest management systems and information services specialized in finance and accounting. It has built up a position as an innovator in developing and providing finance and accounting systems in Japan. Currently, MJS concentrates on developing services compatible with cloud computing and multi-devices, which is new wave in technology.

#### 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 & sales started
	1980	Online terminal MJ S800 developed & sales started, online service commenced Shift from data processing center to office computing development & sales business Development & commencement of sales for the specialist MicroAce Model Series for accounting firms
Office Computing	1983	Entry into the market for clients advised by accounting firms Development & commencement of sales for the specialist Pro Office Computing [Accounts] aimed at accounting firm clients
	1988	Re-established the MJS logo, unified corporate naming under MJS
	1990	Developed & commenced sales for package software for PC installation "SI Financial Chief", "SI Sales Chief" and "SI Salary Chief"
Shift to Open Systems (Package Software)	1992	Became a listed enterprise by an OTC listing on the Japan Securities Dealers Association (currently JASDAQ)
	1994	Developed & commenced sales for the accounting telecommunications system MJS-COMPASS linking accounting firms and the client companies advised
	1996	Commenced construction on the Shinshaya Bldg. Shifted Head Office to Yotsuya, Shinjuku-Ku, Tokyo Established a customer service center to improve customer service
	1997	Listed on the TSE 2nd Section
	1998	Commence sales of the MICSNET Series ERP systems compatible with Windows NT® for mid-sized
	1999	Received approval for registration/certification as a systems integration company by METI Established MJS' think-tank the MJS Taxation Systems Research Facility
	2001	Commenced sales of the ACELINK Series of network solution systems for accounting firms
	2002	Commenced sales of the MJSLINK Series of operations and comprehensive information systems for small- and mid-sized companies Received ISO 9001:2000 certification for quality management standards
	2004	Developed business information system bizocean targeting businesspeople at small- and mid-sized companies and venture companies
	2005	Developed and commenced sales of the ACELINK Navi Series of network solution systems for accounting firms Developed and commenced sales of the MJS i-Series of web-based operations systems for small- and mid-sized companies
Shift to Service Provider	2007	Developed and commenced sales of the Galileopt package ERP systems for mid-sized companies Developed and commenced sales of the MJSLINK II Series of package ERP systems for small- and mid-sized companies
	2008	Concluded an official uniform partnership agreement with the J-Leagues Tokyo Verde
	2009	Received certification for all companies for the ISMS information security management system
	2011	Commenced sales the ACELINK NX-Pro ERP system for accounting firms (April)
	2012	Commenced sales of the Galileopt NX-I ERP system for mid-sized companies (February)
2013	Commenced sales of MJSLINK NX- I ERP system for small- and mid-sized companies (April) Started providing free 3 multidevice compatible applications in its Money Tracker Series (September)	

Source: Prepared by FISCO from company materials



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## Their strong partnership with tax accountant and CPA firms customers enable to expand Sales of EPR Systems for SMEs

### (2) Operational Overview

MJS' current business model, in addition to the development and sale of ERP (comprehensive operations management) systems focused on finance and accounting, consists of the provision of services associated with system installation such as instruction on system settings and operation, and network development, as well as operations, maintenance, call center and other support services.

MJS' main customers are tax accountant and CPA firms and their clients, SMEs. In its business for accounting firms, MJS boasts around 8,400 user firms, representing a share of approximately 25% of that industry. In its business for SMEs, there are nearly 17,000 companies that use MJS software. Many of them are clients of tax accountant and CPA firms that use MJS systems. If we consider that the number of SME clients of these accounting firms is in the order of 550,000, there is still significant room to exploit this market.

#### MJS Operational Overview

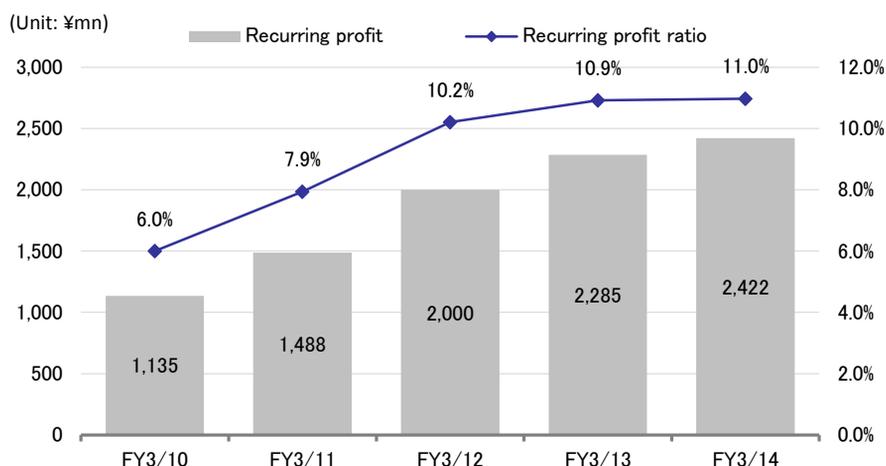
Customers	Accounting firms (tax accountant & CPA offices)	SMEs (Most of them are clients of accounting firms)
Systems (developed by MJS)	<ul style="list-style-type: none"> <li>Financial &amp; accounting systems</li> <li>Tax reporting systems, etc.</li> </ul>	<ul style="list-style-type: none"> <li>ERP systems centered on financial &amp; accounting systems (accounting, payroll, sales management)</li> </ul>
Services	<ul style="list-style-type: none"> <li>System installation support services</li> <li>Various maintenance services</li> <li>Training &amp; information services, etc.</li> </ul>	<ul style="list-style-type: none"> <li>System integration</li> <li>Various maintenance services</li> <li>Training &amp; information services, etc.</li> </ul>
Marketing methods/ Customer support	Almost 100% direct sales 30 sales & support offices nationwide	Direct sales (95%, includes sales through accounting firms) Agency sales (5%) 30 sales & support locations nationwide
No. of users/Market share	8,400 firms/market share 25%	17,000 companies

## Achieved Earnings Growth from Stock-type Management that Flow from After Sales Service

### (3) Business Trends

In the last few years, MJS has focused simultaneously on new customer acquisition and achieving earnings growth from stock-type management that flow from after sales services (such as software, hardware and network maintenance services, and its call center that operates 24 hours a day 365 days a year). As a result, earnings continue to grow while profitability increases.

### Recurring Profit and Recurring Profit Ratio



Source: Prepared by FISCO from company materials

## ■ Financial Result Trends

### Exceeded Company Target with Third Consecutive Year of Record-High Profits in FY3/14

#### (1) Consolidated Financial Results for FY3/14

Consolidated financial results for FY3/14, announced on May 9, 2014, showed sales up 5.5% y-o-y to ¥22,077 million, operating profit up 5.1% to ¥2,390 million, recurring profit up 6.0% to ¥2,422 million, and net income up 16.9% to ¥1,389 million. Sales and profits continued to increase and marked the third consecutive year of record-high profits. Further, both sales and profits exceeded the company's target.

Factors behind the increases were brisk sales of ERP systems for small/mid-sized companies and service income growth due to a higher number of software maintenance contracts owing to the development of new customers. Although the gross profit margin declined 2.4 percentage points year on year due to the development of large-scale and customized systems and higher expenses from addressing the consumption tax increase, the operating profit margin remained unchanged year on year at 10.8%.

#### Consolidated Operating Results for FY3/14

(Unit: ¥mn)

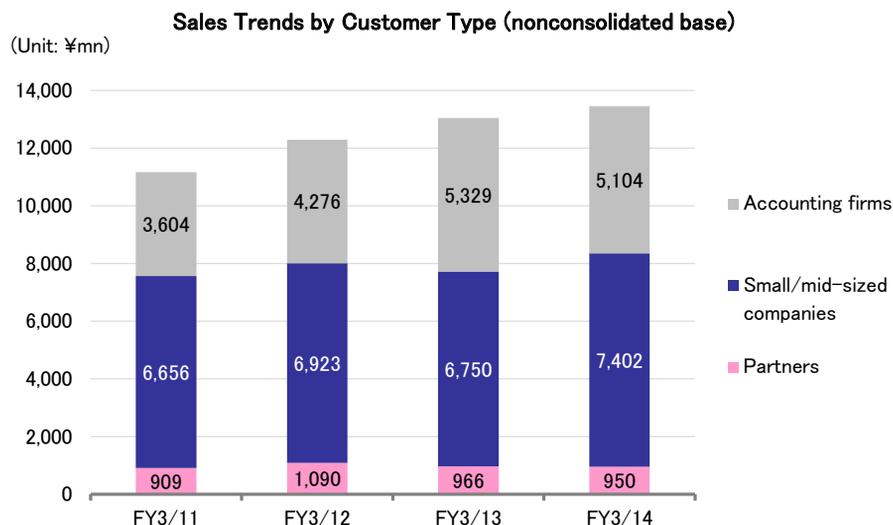
	FY3/13		FY3/14				
	Result	Ratio	Initial target	Result	Ratio	y-o-y	Change from target
Sales	20,922	-	21,760	22,077	-	5.5%	1.5%
Gross Profit	13,481	64.4%	-	13,758	62.3%	2.1%	-
SG&A	11,210	53.6%	-	11,324	51.3%	1.0%	-
Operating profit	2,275	10.9%	2,380	2,390	10.8%	5.1%	0.4%
Recurring profit	2,285	10.9%	2,370	2,422	11.0%	6.0%	2.2%
Extraordinary loss	-532	-	-	-2	-	-	-
Net profit	1,187	5.7%	1,320	1,389	6.3%	16.9%	5.2%

Source: Prepared by FISCO from company materials

#### ○ Sales Trends by Customer Type

As can be seen from looking at sales by customer type (nonconsolidated basis), while sales to accounting firms were down 4.2% y-o-y to ¥5,104 million, the first decrease in three fiscal years, sales to companies increased 9.7% to ¥7,402 million.

The reason for the decrease in sales to accounting firms is that replacement demand (from existing customers) has peaked out since the release of ACELINK NX-Pro three years ago in April 2011. On the other hand, among small/mid-sized companies, replacement demand for Galileopt NX-I (released in February 2012) for medium-sized companies and for MJSLINK NX-I (released in April 2013) for SMEs was vigorous. The development of new customers also lead to the sales increase. Sales from agencies were sluggish, declining 1.6% y-o-y, partly due to the fixed period of time it takes to train agency staffs to sell a new product for small/mid-sized companies.



Source: Prepared by FISCO from company materials

### ○Sales Trends by Product Category

Looking at sales trends by product category, sales of major products and services grew steadily as sales of software, its major products, increased 6.6% y-o-y to 9,176 million and service income rose 5.7% to ¥7,173 million.

With respect to software, sales of Galileopt NX-I and MJSLINK NX-I, ERP systems for small/mid-sized companies as well as individually developed software products increased. Sales of hardware, which go hand-in-hand with software, were strong, rising 3.7% to ¥2,717 million. Other sales climbed 47% y-o-y to ¥362 million. This was due to the increase in advertising income at bizocean, a business information site operated by MJS for SME managers and business people, surpassing 1.1 million registered members thanks to favorable recognition.

Looking at the breakdown of service income, we can see that software operations support services for small/mid-sized companies grew steadily, rising 9.6% to ¥2,853 million, while TVS (comprehensive maintenance service) for accounting firms was solid, up 2.0%. With overall sales to accounting firms down, the increase in service income was due to a larger number of new customers. This was because almost all new customers contracted them for software and TVS at the same time. Software usage fees (income from software rentals for clients of accounting firms), though small in amount, rose 11.6% y-o-y, increasing by double digits for the past several years. iCompass NX and ACELINK NX Kicho-kun, business software that enables data linkage with accounting firms contributed to the steady sales growth.

Service income has become a stock-type business that earns stable monthly income. Its sales composition ratio in FY3/14 was 32.5%, continuing at the 30% mark for the past several years and leading to the stability of company earnings.



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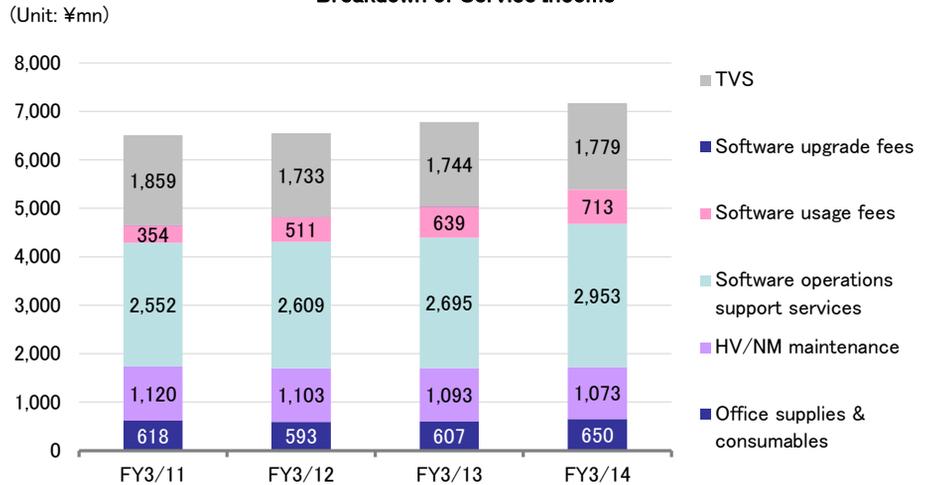
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**Sales Trends by Product Category (consolidated base)**



Source: Prepared by FISCO from company materials

**Breakdown of Service Income**



Source: Prepared by FISCO from company materials

**Remarkable increase in net cash by the reduction of interest-bearing debt**

**(2) Financial Position**

In FY 3/14 the total assets increased ¥3,522 million to ¥19,384 million. Cash on hand and in banks rose ¥1,026 million due to higher profits, and investment securities increased ¥2,792 million on higher valuation gains. On the other hand, software assets declined ¥344 million.

Looking at liabilities, while interest-bearing debt, both long- and short-term, decreased ¥833 million y-o-y, deferred tax liabilities and income tax payable increased ¥897 million and ¥596 million, respectively, for a total increase in liabilities of ¥675 million to ¥6,998 million. Net assets increased ¥2,846 million to ¥12,385 million on a ¥1,021 million surge in retained earnings and a ¥1,802 million higher valuation difference on available-for-sales securities.

Over the last several years, strong earnings growth along with the reduction of interest-bearing debt have reversed net cash flow (cash on hand and in bank + short-term investment securities – interest-bearing debt) from negative to positive, and in FY3/14, the net cash flow surplus increased further.

The equity ratio rose from 51.6% at the end of FY3/10, to 63.6% at the end of FY3/14, substantially improving the company's financial position.

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**Consolidated Balance Sheet**

(Unit: ¥mn)

	FY3/13	FY3/14	Change	Factors
Current assets	8,003	9,299	1,295	
(Cash on hand and in bank)	3,285	4,311	1,026	Due to increase in profit
Fixed assets	7,859	10,085	2,225	
(Tangible fixed assets)	4,020	4,017	-3	
(Intangible fixed assets)	1,861	1,516	-345	Decrease in software assets
(Investments & other assets)	1,976	4,551	2,575	Increase in investment securities (+2,792)
Total assets	15,862	19,384	3,521	
Current liabilities	5,326	5,160	-165	Increase in tax payable (+596), interest-bearing debt -758)
Fixed liabilities	996	1,838	841	Deferred tax liabilities (+897)
Total Liabilities	6,323	6,998	675	
Net assets	9,539	12,385	2,846	Retained earnings (+1,021), valuation difference on available-for-sale securities (+1,802)
Total Liabilities & Net Assets	15,862	19,384	3,521	
Interest-bearing deb	2,829	1,995	-833	
Net cash	556	2,915	2,359	

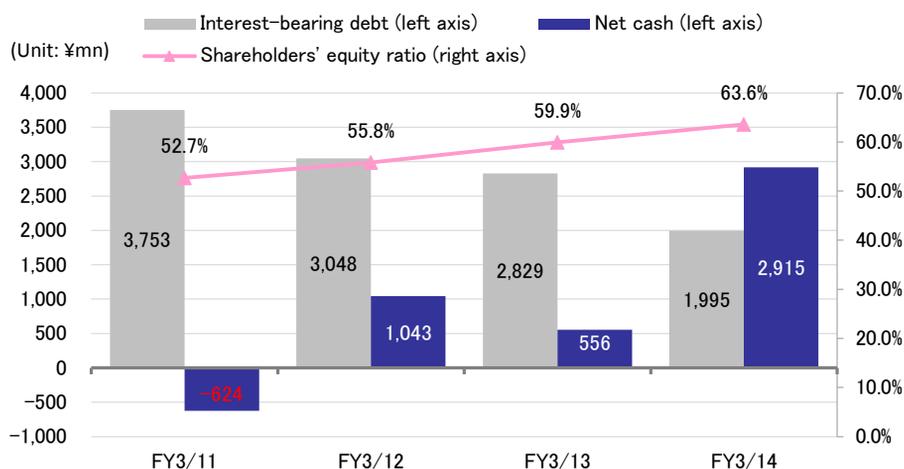
Source: Prepared by FISCO from company materials

**Management indicators**

	FY3/13	FY3/14	Change
ROE	13.1%	12.7%	-0.4pt
ROA	14.6%	13.7%	-0.9pt
Current ratio	150.3%	180.2%	29.9pt
Equity ratio	59.9%	63.6%	3.7pt

Source: Prepared by FISCO from company materials

**Interest-bearing debt, net cash and shareholders' equity ratio**



Source: Prepared by FISCO from company materials



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With regard to cash flows, cash flows from operating activities, mainly due to the profit growth, increased ¥3,179 million, while cash flows used in investing activities came to ¥399 million due mainly to the purchase of software assets. As a result, free cash flow increased substantially to ¥2,780 million. This free cash flow was allocated to reducing interest-bearing debt and payment of dividends, among other things. Cash flows used in investing activities were ¥1,253 million and the balance of cash and cash equivalents at year-end increased ¥1,526 million to ¥4,582 million.

**Consolidated Cash Flows**

	(Unit: ¥mn)				
	FY3/11	FY3/12	FY3/13	FY3/14	Change
Cash flow from operations	1,054	2,570	411	3,179	2,767
(Income before income taxes)	1,381	2,003	1,752	2,420	667
(Amortization of goodwill)	516	542	558	616	58
Cash flow from investing	-238	-546	-560	-399	161
<b>Free cash flow</b>	<b>815</b>	<b>2,024</b>	<b>-149</b>	<b>2,779</b>	<b>2,929</b>
Cash flow from financing	-738	-1,161	-657	-1,253	-596
(Change in interest-bearing debt)	-84	-705	-219	-833	-613
(Dividends paid)	-375	-367	-369	-368	0
Increase in cash and cash equivalents	77	862	-807	1,526	2,333
Balance of cash and cash equivalents at year-end	3,001	3,863	3,056	4,582	1,526

Source: Prepared by FISCO from company materials

**Aiming for Higher Sales and Profits in FY3/15 through  
Replacement Demand from Companies and New Customer  
Acquisition**

**(3) Business Outlook for FY3/15**

The FY3/15 consolidated business outlook is sales up 2.3% to ¥22,590 million, operating profit up 5.4% to ¥2,520 million, recurring profit up 4.8% to ¥2,540 million, and net profit up 8.7% to ¥1,510 million, the fourth consecutive fiscal year of sales and profits increases.

**Consolidated Operating Performance Outlook for FY3/15**

	FY3/14		FY3/15E		y-o-y
	Result	Ratio	Company target	Ratio	
Sales	22,077	-	22,590	-	2.3%
Gross profit	13,758	62.3%	14,720	65.2%	7.0%
SG&A	11,324	51.3%	12,200	54.0%	7.7%
Operating profit	2,390	10.8%	2,520	11.2%	5.4%
Recurring profit	2,422	11.0%	2,540	11.2%	4.8%
Extraordinary loss	-2	-	-	-	-
Net profit	1,389	6.3%	1,510	6.7%	8.7%

Source: Prepared by FISCO from company materials

Sales to accounting firms are expected to decrease by double digits, or 12.9% y-o-y, due to the continued reduction of replacement demand. However, sales of ERP systems for SMEs are likely to rise 9.0% due to replacement demand and the expansion of new customers, and continue to be an earnings driver. Service income is expected to steadily increase 2.9% as a result of a higher number of customer contracts.

In order to acquire new customers, in FY3/15, MJS plans to expand its sales and support labor, as well as run aggressive TV commercial campaigns and hold sales promotion seminars for companies. MJS will also focus on personnel training, sales support to business partners, and other areas. To that end, the company expects SG&A expenses to rise 7.7% y-o-y, and a SGA ratio of 54.0%, a 2.7 percentage point increase. Meanwhile, a gross profit margin of 65.2%, a 3.1 percentage point y-o-y improvement, is expected, while profitability of more than 10% is anticipated, with an operating profit margin of 11.2%.

Sales by Marketing Channel (Nonconsolidated)

	FY3/12	FY3/13	FY3/14	FY3/15E	y-o-y growth
Total sales	12,291	13,046	13,457	13,548	0.7%
(Accounting firms)	4,276	5,329	5,104	4,445	-12.9%
(Small/mid-sized companies)	6,923	6,750	7,402	8,071	9.0%
(Partners)	1,090	966	950	1,031	8.5%

Source: Prepared by FISCO from company materials

Consolidated Revenue by Product (Consolidated)

	FY3/12	FY3/13	FY3/14	FY3/15E	y-o-y growth
System Installation Contract Revenues	12,889	13,891	14,541	14,697	1.1%
(Hardware)	2,133	2,621	2,717	2,762	1.7%
(Software)	8,440	8,605	9,176	9,417	2.6%
(Ueware)	2,315	2,664	2,646	2,518	-4.9%
Service Income	6,556	6,783	7,173	7,384	2.9%
Other	149	246	362	509	40.6%
Consolidated sales total	19,595	20,922	22,077	22,590	2.3%

Source: Prepared by FISCO from company materials

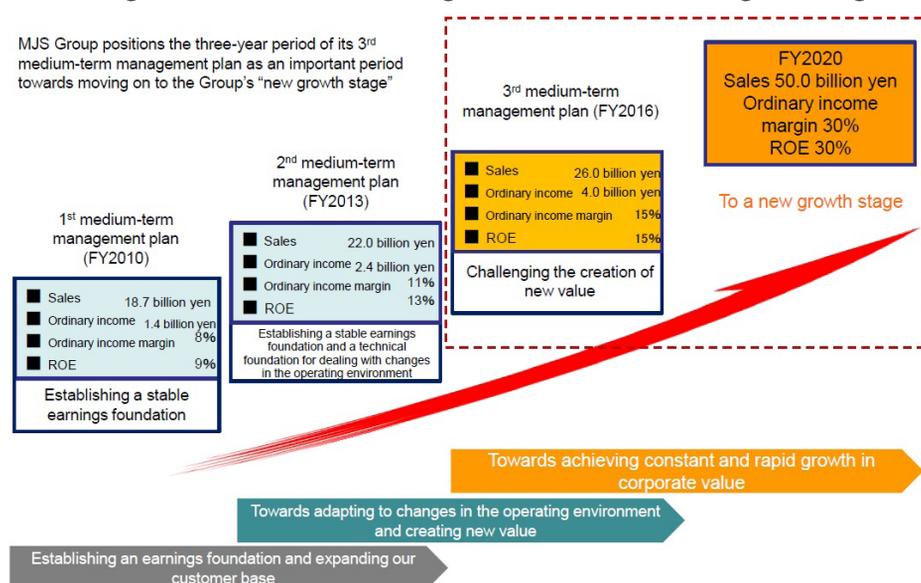
■ 3rd Medium-term Management Plan

Aims for sales of ¥26.0 billion and recurring profit of 4.0 billion in FY3/17

On May 19, 2014, MJS announced its 3rd Medium-term Management Plan, which starts from FY3/15. Under its management vision of “challenging the creation of new value,” MJS views the next three years as a startup period to a new growth sage.

Positioning of the 3rd Medium-term Management Plan and Future Management Targets

MJS Group positions the three-year period of its 3rd medium-term management plan as an important period towards moving on to the Group’s “new growth stage”



Source: Company data

In the 1st Medium-term Management Plan, which started in FY3/09, MJS increased service income based on stock businesses under the vision of “establishing stable earnings foundation.” In the 2nd Medium-term Management Plan, which started in FY3/12, MJS fortified its services compatible with cloud computing services and multi-devices under the vision of “establishing a stable earnings foundation and a technological foundation for dealing with changes in the operating environment.”

The 3rd Medium-term Management Plan, which ends in FY3/17, promotes a growth strategy with targets for sales of ¥26.0 billion, recurring profit of ¥4.0 billion, net income of ¥2.45 billion, and ROE of 15%. That's an average annual growth rate over the next three years of 5.6% for sales, 18.2% for recurring profit, and 20.8% for net profit. It is nearly the same average annual growth rate as the 2nd Medium-term Management Plan (5.6% for sales, 17.6% for recurring profit, and 25.4% for net profit).

## ERP Market Expected to Grow at Annual Growth Average of 6.7% until 2016

### (1) Market Environment

With respect to the market environment surrounding MJS, the macroeconomic environment is expected to continue seeing an improvement in domestic business confidence due to the effects of Abenomics and the decision to host the Tokyo Olympics. Further, business succession needs should increase in SMEs and accounting firms, the company's target customers. In the IT market, the push to use big data in one's business strategy is gaining momentum and the spread of cloud computing services and smart devices is increasing. As a result, the ERP market is expected to grow at an average annual rate of 6.7% until 2016.

#### Market Environment Assumptions in MJS' Third Medium-Term Management Plan

○Economic environment/legal system
<ul style="list-style-type: none"> <li>• Continuing improvement in domestic business confidence (Abenomics effects, decision to host Tokyo Olympics)</li> <li>• Revision of consumption tax rate (FY3/15, FY3/16)</li> <li>• Introduction of personal identification number (FY3/17)</li> </ul>
○SME market
<ul style="list-style-type: none"> <li>• Intensifying competition caused by rise of emerging countries</li> <li>• Rise in strategic IT investments</li> <li>• Progress in overseas business expansion</li> <li>• Smooth business succession • Greater need for business revitalization</li> </ul>
○Accounting firm market
<ul style="list-style-type: none"> <li>• Business succession problems increasing due to aging of general managers</li> <li>• Increase of incorporation of tax accountant and intensified price competition</li> <li>• Diversifying needs of the clients</li> <li>• Spread of support organizations including for management innovation</li> </ul>
○IT vendor industry
<ul style="list-style-type: none"> <li>• Shifting industrial structure due to cloud computing services</li> <li>• Broadening business applications for big data</li> <li>• Spread of smart devices and BYOD</li> <li>• ERP market to grow at annual rate of 6.7% until FY3/17</li> </ul>

Source: Prepared by FISCO from company materials

## Aiming to Expand Sales Force, Develop New Products, and Establish Earnings Foundation

### (2) Growth strategy

As its growth strategies, MJS has devised the basic policies of “enlarge the customer base by strengthening sales activities and expanding sale channels,” “develop and offer new products and services to create new customers,” and “build a new foundation for earnings by new businesses” The following is an outline of each of these strategies.



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**a) Enlarge the customer base by strengthening sales activities and expanding sales channels**  
Previously, the MJS' s sales organization had been divided into two business divisions, the accounting firm channel package business division (for accounting firms and their client companies) and the solutions business division (for small/mid-sized companies), but these were integrated into a single division in April 2014. To further boost the development of new SME customers, MJS seeks to effectively use its limited sales resources to the maximum extent possible. Its policy is to merge the sales force for package software for SMEs in the accounting firm channel package business division and the solutions power for medium-sized companies in the solutions business division to create a more comprehensive sales capability.

Further, in ERP systems for small/mid-sized companies, with each company facing a variety of business challenges, the ability to provide appropriate solutions for them will be needed. Therefore, MJS' policy is to promote a proposal-driven sales model and to augment its sales staff while strengthening personnel training. MJS currently has about 17,000 company users, and since the number of client companies of the accounting firms that are MJS' customers, alone totals to approximately 550,000 companies, the upside potential for developing new customers remains substantial.

MJS would also like to expand indirect sales through partner companies, which now stands at just under 5% of sales. Although it had conducted sales through partner companies in the past, sales remained sluggish for several years. One reason for this was that MJS products could not be sold without direct assistance from MJS, which posed a challenge. When partner companies sold MJS products to customers, MJS salesmen almost always accompanied them and partner companies rarely sold MJS products by themselves. Therefore, MJS plans to develop self-contained products that partners companies can sell by themselves without MJS sales assistance. Strengthening its support system for partner companies will enable them to sell the products by themselves without an accompanying MJS salesman, which will lead to an increase in the number of customers while raising sales efficiency. At the same time, MJS aims to increase the number of partner companies.

Beyond that, MJS seeks to improve customer satisfaction by enhancing its customer support and management information services, and raise MJS brand awareness through aggressive advertising campaigns such as TV commercials. Further, as sales to accounting firms are a maturing market, the 3rd Medium-term Management Plan expects sales to be flat.

**b) Develop and offer new products and services to create new customers**

To develop new customers, not only will it develop cloud services with multi-device compatibility, it will actively promote joint development with its subsidiaries and partner companies. Its policy is to effectively use development resources and fortify new product development by raising development efficiency through the elimination and consolidation of existing products.

**c) Build a new foundation for earnings by new businesses**

In new businesses MJS seeks to expand business leveraging its existing broad customer platform (customer base).



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**MJS Customer Base**

Customer base	No. of users	System installation and service
Accounting firms	About 8,400 firms	ACELINK NX-Pro system for accounting firms
SMEs	About 17,000 companies	ERP systems Galileopt NX-I, MJSLINK NX-I, and others.
Small businesses/ sole proprietorships	About 30,000 companies	ACELINK NX Kicho-kun for client companies of accounting firms
Small businesses/ sole proprietorships	About 40,000 companies	Number of registered users for Miroku Kantan! Series
Managers/Business people	About 1.1 million people	Registered members of business information site "bizocean"
Business people, etc.	About 200,000 people	Number of downloads for money management app "Money Tracker Series"
Small businesses/ sole proprietorships	Tens of thousands	Accounting and tax accounting cloud application for chamber of commerce members

Source: Prepared by FISCO from company materials

First, the MJS plans to roll out business revitalization support services for SMEs, which has grown over the last several years. In FY3/14, the company set up a dedicated department that has been involved in the business succession of accounting firms and other areas. Although it had not offered this service to small/mid-sized companies, it has now decided to officially enter this market. MJS expects business to start up relatively smoothly in its entry to this market where there are many requests from accounting firms, MJS customers.

In case of insufficient human resources for this business revitalization support service, MJS intends to secure them through M&A. As previously mentioned, the company's financial position has strengthened over the past several years, enabling M&As.

In addition, it is aggressively pursuing new online businesses. In its online business, the number of registered members of its business information service "bizocean" already exceeds 1.1 million and the sites advertising income is steadily growing. Currently, because it is a free membership site, its online income is limited to advertising income, but it is thinking of monetizing the site while enhancing the content. Money Tracker, an integrated household budget and expense settlement app released in FY3/14, is growing steadily and has been downloaded more than 200,000. In the future, it wants to explore the possibility of developing a new site that is monetized and has the capability of filing tax returns and C2C functions (for online auctions). MJS plans to roll out Money Tracker in Asia on a trial basis and is thinking of expanding business into other countries as it monitors the situation.

Furthermore, the company will provide accounting cloud services to business groups, franchise businesses and others. In May 2014, MJS announced that it developed accounting and tax cloud application software for Central Federation of Societies of Commerce and Industry (CFSCI), prefectural and municipal Societies of Commerce and Industry and its members. Using this application, CFSCI will provide cloud services to their members. MJS plans to expand the development of new cloud services by leveraging this development know-how.

**Accelerating the Speed of Growth to FY3/21 in a Single Stroke**

**(3) Management targets for FY3/21**

Through the implementation of the measures contained in the 3rd Medium-term Management Plan, the business base required for a new stage of growth is expected to be in place. MJS' management targets for FY3/21 are sales of ¥50.0 billion, a recurring profit margin of 30%, and ROE of 30%. They will accelerate the pace of growth in a single stroke.

Specific measures for achieving the plan will be implemented from now, but as already stated, considering that there is significant room for the development of ERP systems for SMEs, as well as the growth potential for the business revitalization support business for SMEs, the possibility for monetizing online business, the potential for M&A, and other factors, the plan can be achieved.

## MIROKU JYOHO SERVICE

9928 Tokyo Stock Exchange  
First Section

6-Aug.-14

### Management Targets for the 3rd Medium-Term Management Plan

	FY3/11 Result	(the 2nd Medium-Term Management Plan) FY3/14		11/3→14/3 Average growth rate	(the 3rd Medium-Term Management Plan) FY3/17	14/3→17/3 Average growth rate	Growth target FY3/21	14/3→21/3 Average growth rate
		Company target	Result					
		(¥mn; %)						
Sales	18,750	21,760	22,077	+5.6%	26,000	+5.6%	50,000	+12.4%
System Installation Contract Revenues	12,115	14,340	14,541	+6.3%				
Service sales	6,511	7,045	7,173	+3.3%				
Other	123	200	362	+43.3%				
Recurring profit	1,488	2,370	2,422	+17.6%	4,000	+18.2%	15,000	+29.8%
Recurring profit margin	7.9%	10.9%	11.0%		15.4%		30.0%	

Source: Prepared by FISCO from company materials

## ■ Comparative Share Price Valuation

### Low PER/PBR and High ROA/dividend yield compared to industry peers

We conducted a comparison with respect to MJS' share price valuation against 12 corporate peers that provide financial and accounting systems in addition to ERP system vendors. MJS' expected PER and actual PBR were lower than the 12-peer average, while indicators such as its expected ROA and dividend yield were all at high levels. Notably, it is trading at 10x for its expected PER, the lowest among the 12 industry peers. It appears that the management targets of the 3rd Medium-Term Management Plan and other factors have not been factored into the share price.

MJS' operating results are on track to set new record high profits, and with sustained growth expected, a dividend yield of 3% or higher, and maintaining an ROE of 10% or higher, which is viewed as a key investment criteria, we feel there are many points on which the stock should be re-rated.

### Comparative Share Price Valuation

Code	Name	Listed	Period	Share price (¥)	Market capital (¥mn)	PER (x)	PBR (x)	ROE (%)	ROA (%)	Dividend yield (%)
4716	Oracle Japan	TSE 1	May	4,255	541,218	18.7	5.8	30.9%	30.4%	2.1%
4768	Otsuka Corporation	TSE 1	Dec.	4,615	437,515	19.9	2.7	13.4%	9.7%	1.7%
4684	OBIC	TSE 1	Mar.	3,600	322,851	18.0	2.4	13.4%	13.2%	1.7%
9719	SCSK	TSE 1	Mar.	2,917	302,652	13.8	2.6	18.8%	7.6%	1.7%
4733	OBC	TSE 1	Mar.	3,115	117,069	17.8	1.5	8.6%	8.1%	1.6%
9746	TKC	TSE 1	Sep.	2,118	56,365	15.2	1.0	6.5%	8.1%	2.1%
6935	JDL	TSE 1	Mar.	1,858	63,000	12.7	0.8	6.3%	5.5%	2.2%
9928	MIROKU JYOHO SERVICE	TSE 1	Mar.	494	15,150	10.0	1.4	14.4%	12.7%	3.0%
3836	Avant	JQ	Jun.	1,612	7,566	12.2	3.4	27.6%	13.4%	1.1%
9629	PCA	TSE 2	Mar.	1,370	9,386	33.2	0.9	2.6%	3.0%	2.3%
3763	Pro-Ship	JQ	Mar.	2,455	8,997	10.9	1.7	15.6%	16.7%	2.9%
4828	Toyo Business Engineering	TSE 2	Mar.	1,375	8,249	33.0	2.8	8.4%	7.3%	1.0%
Total, mean value for 12 companies					1,890,021	17.0	2.5	14.6%	7.9%	1.9%

Source: Compiled by FISCO

Notes: 1. Expected PER and dividend yield are estimates for this period. Actual PBR was calculated based on the immediately preceding quarter. ROE and ROA are calculated by dividing expected net profits and recurring profits for the current period into the previous quarter's shareholders' equity and total assets.

2. Share prices are the final prices for Aug. 5, 2014.

### Income Statement

	(Unit: ¥mn)				
	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15E
Sales	18,750	19,595	20,922	22,077	22,590
(COGs)	6,433	6,850	7,440	8,318	—
Gross Profit	12,317	12,745	13,481	13,758	—
(SG&A)	10,801	10,718	11,210	11,324	—
Operating profit	1,506	2,023	2,275	2,390	2,520
(Non-operating profit)	68	49	71	76	—
(Non-operating expenses)	86	73	61	43	—
Recurring profit	1,488	2,000	2,285	2,422	2,540
(Extraordinary gains)	67	16	0	2	—
(Extraordinary losses)	175	12	533	4	—
EBIT	1,381	2,003	1,752	2,420	—
(Corporate income tax)	675	945	564	1,031	—
Net profit	705	1,058	1,187	1,389	1,510

Source: Prepared by FISCO from company materials

### Per Share

	(Unit: ¥ yen)				
	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15E
Net profit	22.97	34.53	38.73	45.29	49.23
Net assets	258.21	280.54	310.05	402.29	—
Dividend	12.00	12.00	12.00	15.00	15.00

Source: Prepared by FISCO from company materials

### Y-o-Y Change

	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15E
Sales	-0.5%	4.5%	6.8%	5.5%	2.3%
Operating profit	28.9%	34.3%	12.4%	5.1%	5.4%
Recurring profit	31.1%	34.4%	14.3%	6.0%	4.8%
Net profit	26.3%	50.1%	12.2%	16.9%	8.7%

Source: Prepared by FISCO from company materials

### Ratio to Sales

	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15E
Gross Profit	65.7%	65.0%	64.4%	62.3%	—
SG&A	57.6%	54.7%	53.6%	51.3%	—
Operating profit	8.0%	10.3%	10.9%	10.8%	11.2%
Recurring profit	7.9%	10.2%	10.9%	11.0%	11.2%
Net profit	3.8%	5.4%	5.7%	6.3%	6.7%

Source: Prepared by FISCO from company materials

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