

Miroku Jyoho Service Co., Ltd.

9928

Tokyo Stock Exchange First Section

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

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■ Summary

Aims to post higher sales and profits in a ninth straight year on support from robust IT investment demand

Miroku Jyoho Service Co., Ltd. <9928> (hereafter “MJS”) is an industry leader in developing and selling enterprise resource planning (ERP) systems, primarily financial accounting and tax systems, for tax accountant and CPA firms and small/medium-sized companies. The Company is currently cultivating as new businesses the bizsky platform business, business succession support services and bizocean business being developed by subsidiaries.

1. 1H FY3/20 results

The Company reported upbeat consolidated results in 1H FY3/20 (Apr-Sep 2019) at ¥18,825mn in net sales (+21.2% YoY) and ¥3,928mn in ordinary income (+30.2%), beating period-start targets (¥17,140mn in net sales and ¥3,220mn in ordinary income). All business areas outpaced guidance with a steep 52.8% YoY rise in hardware sales, mainly driven by replacement demand, ahead of the completion of Windows7 support and the consumption tax hike and gains of 15.4% in software sales and 9.4% in income from services, a recurring business. Profits also received a lift from curtailment of SG&A expenses by ¥138mn versus guidance, through cutbacks in spending and other measures.

2. FY3/20 forecast

The Company retained FY3/20 period-start targets for consolidated results at ¥34,000mn in net sales (+8.6% YoY) and ¥6,200mn in ordinary income (+22.6%) due to uncertainty in the business environment during 2H, promotion of R&D, product development, human resource investments, and other initiatives targeting growth from FY3/21, and a policy of placing emphasis on build-up of parent orders backlog in system installation contract sales that dropped to 4.49 months at end-1H (decline of 0.57 months versus period-start). However, we think profits should exceed the plan because ordinary income was already at 63.4% of the full-year plan through 1H.

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

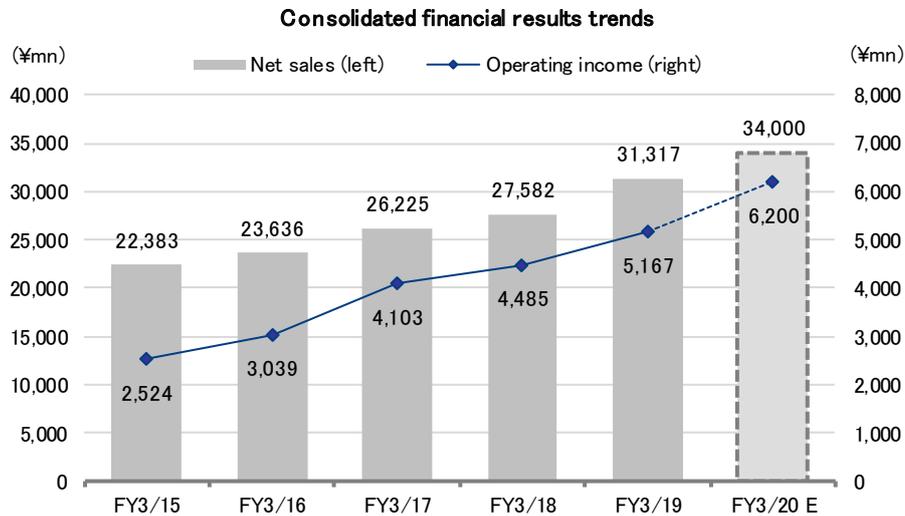
3. Longer-term outlook

The Company set goals of ¥38bn in net sales and ¥8bn in ordinary income for FY3/21, the final fiscal year of the medium-term business plan. It aims to reach plan goals through increased corporate ERP product sales, build-up of recurring business, expansion of business succession and other assistance services via subsidiary MJS M&A Partners Co., Ltd. (hereafter, mmap) and growth in advertising revenue from the portal site at bizocean Co., Ltd. In the longer-term outlook through FY3/26, the Company is developing capabilities to provide an orders handling system with electronic invoice support on the bizsky platform in pursuit of anticipated business opportunities from digital support of the invoice system being rolled out from October 2023 and renovation of EDI (orders handling) systems. It also envisions collaborative promotion of new finance services that facilitates optimal fund procurement and management at small/medium-sized companies with tax accountant and CPA firms, regional financial institutions, and others. We think these trends should be closely monitored.

Key Points

- Making progress in recruitment of new medium-sized company customers for corporate ERP systems
- Aiming for higher sales and profits in a ninth straight year in FY3/20 and orders build-up in 2H
- Seeking steep growth ahead of FY3/26 through deployment of cloud solutions and creation of new services

Summary



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

■ Corporate overview

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

1. Corporate history

Since its establishment in 1977, the Company has been supplying management systems and management information services focused on finance and accounting. Its services have evolved in step with the development in IT. Initially, the Company processed data for other companies at a processing center. It then entered the office computer business and shifted to develop and sell packaged software for personal computers. Recently, it has offered cloud computing services developed for marketing. In 2014, it set up subsidiary mmap to provide support services for business succession and related priorities to small/medium-sized companies. In 2016, it launched the bizsky cloud platform to assist in management and operations improvement at small/medium-sized companies. Through these measures, the Company has nurtured new businesses and expanded the scope of its business.

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Corporate overview

Company history

Core service format	Year	History	
Data Processing Center	1977	Miroku Jyoho Service Co., Ltd. established	
	1978	New financial data processing system MS-1 developed and sales started Online terminal MJS800 developed and sales and online service commenced	
	1980	Shift from data processing to office computing development and sales business Development and commencement of sales for the specialist Miroku 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 clients of tax accountant and CPA firm	
	1990	Developed and commenced sales for package software for PC installation "SI Zaimu Taisho," "SI Hanbai Taisho," and "SI Kyuyo Taisho"	
	1992	Became a listed enterprise by an OTC listing on the Japan Securities Dealers Association (currently TSE JASDAQ)	
	1994	Developed and commenced sales for the accounting telecommunications system MJS-COMPASS linking tax accountant and CPA firms and the client companies advised	
	1997	Listed on the Second Section of Tokyo Stock Exchange	
	1998	Commenced development and sales of the MICSNET Series ERP system compatible with Windows NT® for medium-sized companies	
	2001	Commenced development and sales of the ACELINK Series of network solution systems for tax accountant and CPA firms	
Shift to open systems (package software)	2002	Developed and commenced sales of the MJSLINK Series of operations and comprehensive information systems for small/medium-sized companies	
	2004	Developed business information website "bizocean" targeting business people at small/medium-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/medium-sized companies	
	2011	Developed and commenced sales of the ACELINK NX-Pro ERP system for tax accountant and CPA firms (April)	
	2012	Developed and commenced sales of the Galileopt NX-I ERP system for medium-sized companies (February) Listed on the First Section of Tokyo Stock Exchange	
	2013	Developed and commenced sales of MJSLINK NX-I ERP system for small/medium-sized companies (April) Investment in consolidated accounting systems company Primal, Inc. (33.9%) and conversion into a consolidate affiliate (October)	
	2014	Established MJS M&A Partners Co., Ltd. that provides services supporting the business succession and revitalization of small/medium-sized companies (September)	
	2015	Developed and commenced provision of My Number management system "MJS My Number" for tax accountant and CPA firms and small/medium-sized companies (September) Made Miroku Webcash International a subsidiary (December) Made Cloud Invoice a subsidiary. This subsidiary offers bookkeeping services. (December)	
	2016	Took a 48.8% stake in BlueTable Co., Ltd., which sells food to Asian countries through an e-commerce service. BlueTable becomes an affiliate. (February) Transferred the bizocean business to a new subsidiary, bizocean Co., Ltd. (April) Started the Marunage Kichodaiko bookkeeping support service for tax accountant and CPA firms (July) Developed and commenced provision of the MJSLINK NX-I for laas ERP cloud service for small/medium-sized companies (August) Developed and commenced provision of the bizsky cloud platform for small/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)	
	Shift to service provider	2017	Developed and commenced provision of offering the Rakutasu Kyuyo Money Transfer service through the bizsky cloud platform for small/medium-sized companies (January) Established a business alliance with Crowd Cast, Ltd. and connected that company's Staple cloud expense payment service with MJS's Rakutasu Money Transfer service using an application program interface (API) (March) Commenced development and sales of the Galileopt NX-Plus ERP solution for medium-sized companies (April) Developed and released the new ERP system for small/medium-sized companies MJSLINK NX-Plus (October) Developed and commenced provision of Edge Tracker, a cloud service for employees supporting multi-device use (October)
		2018	Developed and commenced provision of MJS Okane No Kanri, a cloud service for small sized companies (March) Developed and commenced provision of Kantan Cloud Kaikei and Kantan Cloud Kyuyo, new cloud services for small/medium-sized companies and self-run businesses (April) Started provision of Cloud Service Hub for MJS, an accounting support solution developed jointly with Fuji Xerox Co., Ltd. and giving greater efficiency to digitalizing and migrating paper documentation to the cloud. (April) Started provision of the new Workflow function on Edge Tracker, a cloud service promoting operational efficiency through real-time, time-saving, visualizing operations. (June) Developed and released MJS Zeimu NX-Plus, a new tax affair system (July) Developed and commenced provision of Kantan Cloud Kaikei Plus and Kantan Cloud Kyuyo Plus, cloud services for small/medium-sized companies and self-run businesses (November)
		2019	Developed and started provision of collection agent service Rakutasu Kaishu (July) Developed and commenced provision of AI-driven journaling and balance check system MJS AI Kansa Shien (November)

Source: Prepared by FISCO from the Company's materials

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Corporate overview

2. Business description

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

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

Overview of Company business

Customers	Tax accountant and CPA firms	Small/medium-sized companies (Most of them are clients of tax accountant and CPA firms)
Systems (developed by MJS)	<ul style="list-style-type: none"> Financial and accounting systems Tax reporting systems, etc. 	<ul style="list-style-type: none"> ERP systems centered on financial and accounting systems (accounting, payroll, sales management)
Services	<ul style="list-style-type: none"> System installation support services Various maintenance services Training and information services, etc. 	<ul style="list-style-type: none"> System integration Various maintenance services Training and information services, etc.
Marketing methods /customer support	Almost 100% direct sales 31 sales and support branches nationwide	Direct sales (90%, includes sales through tax accountant and CPA firms) Agency sales (10%) 31 sales and support branches nationwide
No. of users /market share	8,400 firms/market share of approx.25%	Approx. 17,000 companies

Source: Prepared by FISCO from the Company's materials

3. Subsidiaries and affiliates

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

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

Corporate overview

The Company's subsidiaries and affiliates

(As of end of September, 2019)

Company name	Ownership ratio	Main business
Consolidated subsidiaries		
NTC	100.0%	Software development, sales, installation, and operational support services; hardware sales
MSI	100.0%	Software development, sales, installation, and operational support services; hardware sales
Lead	100.0%	Software development, sales, installation, and operational support services
MJS M&A Partners	100.0%	Business succession support services, etc. utilizing M&A
Cloud Invoice	100.0%	Development and provision of bookkeeping and other cloud services
bizocean	100.0%	Operate the bizocean site for business information
MJS Finance & Technology	100.0%	Provision of payment services, finance services, and other services
Miroku Webcash International	66.6%	Develop and sell software and content for business finance and asset management
Adtop	98.0%	Advertising agency business specializing in personnel hiring
Equity-method affiliates		
Primal	33.3%	Software development, sales, installation, and operational support services
NFC (Korea)	21.2%	Development and sales of payment services using near-field communications (NFC)

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

Business trends

Achieved sharply higher sales and profits beating period-start guidance in 1H FY3/20

1. 1H FY3/20 results

The Company reported for 1H FY3/20 consolidated results at ¥18,825mn in net sales (+21.2% YoY), ¥3,876mn in operating income (+30.7%), ¥3,928mn in ordinary income (+30.2%), and ¥2,607mn in net income attributable to owners of parent (+34.1%). These results exceeded forecasts and showed an increase in both sales and profits for a ninth consecutive half-year period, reaching record highs.

Consolidated results for 1H FY3/20

(¥mn)

	1H FY3/19		Forecast	1H FY3/20		YoY	vs. forecast
	Results	Ratio		Results	Ratio		
Net sales	15,530	-	17,140	18,825	-	21.2%	9.8%
Gross profit	10,182	65.6%	11,020	11,547	61.3%	13.4%	4.8%
SG&A expenses	7,216	46.5%	7,810	7,671	40.7%	6.3%	-1.8%
Operating income	2,965	19.1%	3,210	3,876	20.6%	30.7%	20.8%
Ordinary income	3,016	19.4%	3,220	3,928	20.9%	30.2%	22.0%
Net income attributable to owners of parent	1,944	12.5%	2,120	2,607	13.8%	34.1%	23.0%

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

Business trends

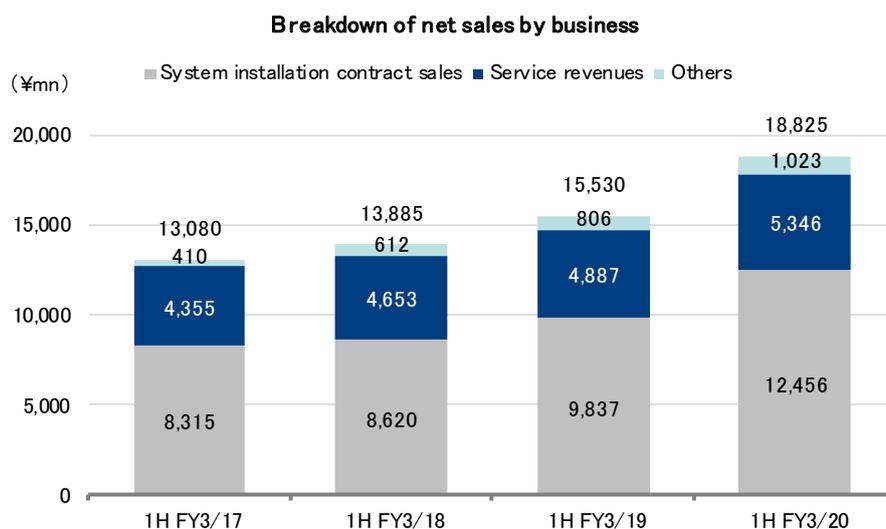
Hardware replacement demand was much stronger than expected with continued vibrant corporate IT investment appetite and the upcoming completion of Windows7 support (January 2020) and consumption tax hike (October 2019), and kitting, installation, and other useware sales were upbeat too with the improvement in hardware sales. Furthermore, software sales rose in both tax accountant and CPA firm and general company segments. System installation contract sales climbed 26.6% YoY to ¥12,456mn (+15.4% vs. the plan). Income from services, which is recurring business, increased at a healthy pace of 9.4% to ¥5,346mn (+2.0%) thanks to higher customer volume with recruitment of new customers. While parent orders backlog in system installation contract sales, an important business indicator for the Company, dropped by 0.57 months from the start of the fiscal year to 4.49 months at end-1H, concentration of sales in September ahead of the consumption tax hike played a large role. Additionally, backlash decline in October sales, which had been a concern, appears to have been limited.

In profitability, gross margin fell from 65.6% in the previous year to 61.3% because of increase in the hardware sales share and higher product and service development costs and software asset depreciation costs. The SG&A expenses ratio, meanwhile, dropped substantially from 46.5% to 40.7% with the impact of increased sales, and overall spending curtailment efforts kept SG&A expenses at ¥138mn less than in the plan. Operating margin hence rose by 1.5 percentage points YoY to 20.6%.

Making progress in recruitment of new medium-sized company customers for corporate ERP systems

2. Sales trends by customer and product category

Looking at the net sales breakdown, sales continued rising in all categories with system installation contract sales up 26.6% YoY to ¥12,456mn, service revenues up 9.4% to ¥5.346mn, and others (mainly subsidiaries) up 26.9% to ¥1,023mn.



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

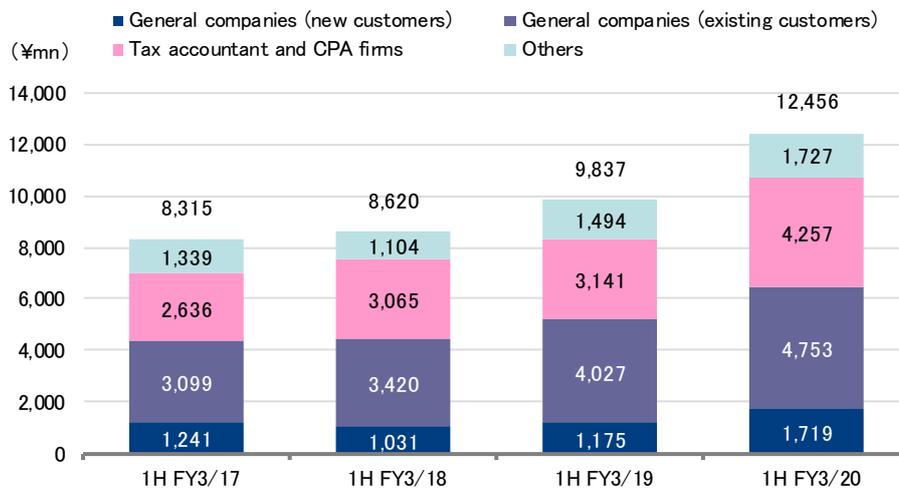
Business trends

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

System installation contract sales by customer segment included a 24.4% rise in sales to general companies to ¥6,472mn (+6.6% vs. the plan) with gains of 18.0% to ¥4,753mn to existing customers and 46.2% to ¥1,719mn to new customers. Steep increase in sales to new customers stood out. The Company succeeded in new customer acquisition measures with establishment of solution branches, a dedicated sales organization, at branch offices in major cities (Osaka, Nagoya, Saitama, Hiroshima, and Fukuoka) from April 2019, following the branch opened in Tokyo in FY3/19, and arrangement of joint seminars with partner regional banks and others for recruitment of potential customers. Increase in new customers deserves notice because it leads to higher sales of corporate software operation assistance services, a recurring business.

Sales to tax accountant and CPA firms expanded sharply with a 35.5% YoY rise in ¥4,257mn. While the Company presented a conservative outlook for a 10% YoY decline in sales in the period-start plan, 1H sales significantly beat guidance (by 51.0%) as replacement demand was healthier than expected and hardware and other additional sales increased. Other sales (parent and subsidiary sales and sales to partners) were up 15.6% to ¥1,727mn, the second straight year of double-digit increase. We attribute this outcome to manifestation of benefits from cultivating and assisting sales partners, which has been a focus in sales expansion measures. The Company launched a branch dedicated to partner assistance in the Tokyo metropolitan area in FY3/18 and has been promoting enhancement of partners, including in regional areas.

System installation contract sales by customer



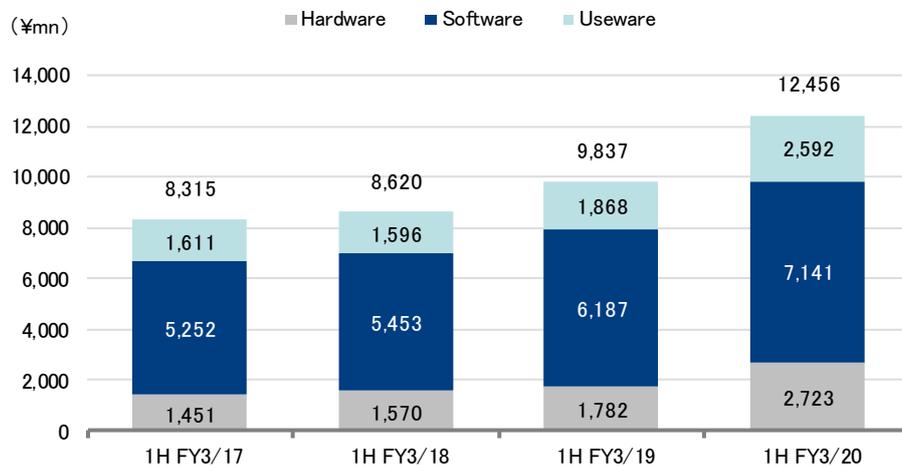
Note: Others are sales by the parent and subsidiaries and sales to business partners.
 Source: Prepared by FISCO from the Company's results briefing materials

Looking at system installation contract sales by product types, all categories continued to post higher sales and beat period-start targets with software up 15.4% YoY to ¥7,141mn (+2.7% vs. the plan), hardware up 52.8% to ¥2,723mn (+52.9%), and userware (installation assistance services) up 38.8% to ¥2,592mn (+25.6%). In particular, we think hardware and useware sales received lifts from replacement demand ahead of completion of Windows7 support and the consumption tax hike, as explained above.

In software sales, Galileopt NX-Plus, an ERP product for medium-sized companies, sold well to existing and new customers in general company business. Additionally, ACELINK NX-Pro, a product for tax accountant and CPA firms, enjoyed healthy replacement demand.

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Business trends

System installation contract sales by product category


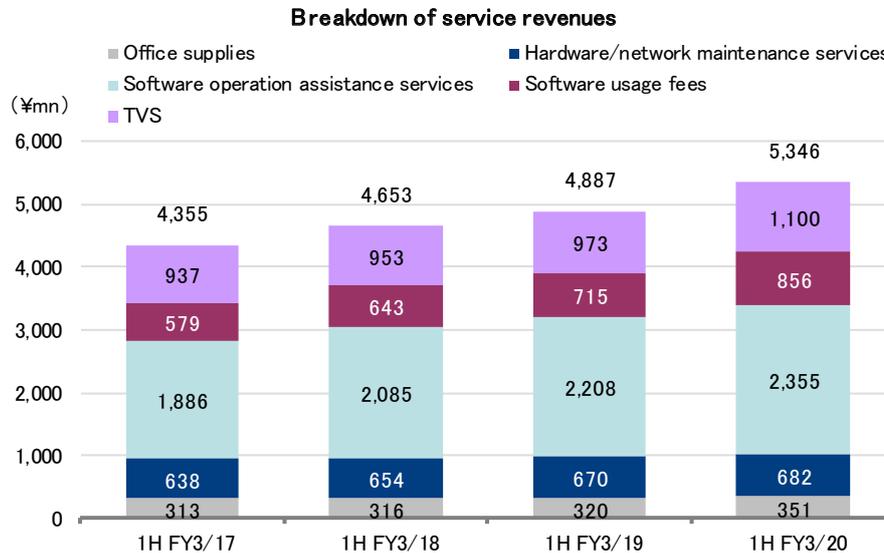
Source: Prepared by FISCO from the Company's results briefing materials

(2) Services revenues

In the services income breakdown, it is worth noting that TVS (comprehensive maintenance service for tax accountant and CPA firms) sales, which had been growing at just a slight pace of 1-2% in recent years, expanded 13.1% YoY to ¥1,100mn (+2.0% vs. the plan), a double-digit gain. While modest increase in customer volume contributed, fee revision from July 2019 had a large effect. The Company had provided TVS at the same fee level for 10 years and finally decided to make the revision, particularly with a rise in service maintenance costs. Despite a fee hike that averaged in the upper 10% range, cancellations due to fee revision have been almost non-existent.

Software operation assistance service (software maintenance service for general companies) sales climbed 6.7% YoY to ¥2,355mn (+0.2% vs. the plan), a steady increase on higher contract volume. Furthermore, software licensing fees for small businesses, the customers of tax account and CPA firms, were up 19.8% to ¥856mn (+7.7%), a double-digit gain thanks to growth in Kantan Cloud Kaikei, Kantan Cloud Kyuyo, and other cloud services and other products. Hardware and network maintenance service income rose 1.9% to ¥682mn (-0.1%), and supply product sales were up by a healthy 9.5% to ¥351mn (+5.0%).

Business trends



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

(3) Others

Other (mainly subsidiary business) sales increased 26.9% YoY to ¥1,023mn on boosts from higher bizocean and mmap sales. In bizocean business, no-charge registered member volume on the "bizocean" business information site has been steadily expanding from 2.47mn people in the previous year to 2.79mn people (as of end-November 2019). Advertising income rose on broadening the scope of major advertisers financial-related industries to other industries. However, non-advertising monetization is still an issue that needs to be addressed in order to achieve future growth.

In mmap business, both contract volume and sales expanded, but growth has been more moderate than initially expected. In response, this business is looking at broadening service scope from existing assistance of sellers to the buyer side as well and handling large deals.

Trade receivables, etc. increased and cash and deposits temporarily fell due to a steep rise in September sales

3. Financial status and management indicators

In financial standing at end-1H FY3/20, total asset value increased ¥935mn from the end of FY3/19 to ¥39,146mn. Main changes were a ¥2,071mn rise in trade receivables, etc. on the steep sales increase in September and declines of ¥1,461mn in cash and deposits and ¥254mn in inventories under current assets. In fixed assets, intangible fixed assets (including software development in progress) increased by ¥410mn, tangible fixed assets expanded by ¥96mn, and investments and other assets grew by ¥61mn.

Total liabilities dropped by ¥597mn from end-FY3/19 to ¥19,555mn on declines of ¥321mn in interest-bearing debt (long-term and short-term) and ¥123mn in accounts payable and a ¥112mn rise in accrued income taxes. Net asset increased by ¥1,532mn to ¥19,591mn, mainly due to a ¥1,557mn increase in retained earnings.

Business trends

Business indicators demonstrate that the Company is steadily bolstering its financial base with a rise in the equity ratio from 47.2% at end-FY3/19 to 50.0% accompanying the rise in earnings and improvements in the current ratio and interest-bearing debt ratio.

Consolidated balance sheet and management indicators

	FY3/18	FY3/19	1H FY3/20	Change	Factors
Current assets	11,338	21,962	22,332	370	Cash and deposits-1,461, inventories-254, trade receivables+2,071
Cash and deposits	6,520	16,271	14,809	-1,461	
Fixed assets	13,227	16,213	16,782	568	Tangible fixed assets+96, software (including software development in progress)+414, investments and other assets+61
Software (including software development in progress)	4,239	7,512	7,926	414	
Total assets	24,566	38,211	39,146	935	
Current liabilities	8,105	7,491	7,109	-382	Short-term interest-bearing debt-105, Trade payables-123, Accrued income taxes+112
Fixed liabilities	183	12,661	12,446	-215	Long-term debt-222
Total liabilities	8,289	20,153	19,555	-597	
Net assets	16,277	18,058	19,591	1,532	Retained earnings+1,557
Total liabilities and net assets	24,566	38,211	39,146	935	
Interest-bearing debt	2,782	13,713	13,392	-321	
Net cash	3,737	2,657	1,416	-1,240	(Cash and deposits + available-for-sale securities – interest-bearing debt)
Management indicators					
Current ratio	139.9%	293.2%	314.1%	20.9pt	
Equity ratio	66.2%	47.2%	50.0%	2.8pt	
Interest-bearing debt ratio	17.1%	75.9%	68.4%	-7.5pt	
ROE	18.5%	21.7%	-	-	

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

Outlook

Aiming for higher sales and profits in a ninth straight year in FY3/20 and orders build-up in 2H

1. Business outlook for FY3/20

The Company retained FY3/20 period-start targets for consolidated results at ¥34,000mn in net sales (+8.6% YoY), ¥6,200mn in operating income (+20.0%), ¥6,200mn in ordinary income (+22.6%), and ¥4,040mn in net income attributable to owners of parent (+8.3%). It kept the existing full-year outlook, despite raising 1H targets, due to uncertainty in the business environment during 2H, likely continuation of the upward trend in hardware demand (decline in gross margin) through 3Q, promotion of R&D and product development, targeting growth from FY3/21, and the prospect of higher costs to reinforce human resources and improve the work environment (it plans to move the Fukuoka branch).

Outlook

The Company intends to calibrate spending on R&D expenses, product and development investments, human resources investments, and other areas taking into account results trends in 2H. It plans to put emphasis on build-up during 2H of parent orders backlog in system installation contract sales that dropped to 4.49 months at end-1H. We think business expansion at consolidated subsidiaries and M&A action are important factors, besides parent growth, toward realizing goals in FY3/21 (¥38bn in net sales and ¥8bn in ordinary income), the final year of the medium-term business plan.

Consolidated operating performance outlook for FY3/20

	FY3/19		FY3/20		YoY	1H progress rate
	Results	Ratio	Forecast	Ratio		
Net sales	31,317	-	34,000	-	8.6%	55.4%
Gross profit	19,952	63.7%	21,900	64.4%	9.8%	52.7%
SG&A expenses	14,784	47.2%	15,700	46.2%	6.2%	48.9%
Operating income	5,167	16.5%	6,200	18.2%	20.0%	62.5%
Ordinary income	5,056	16.1%	6,200	18.2%	22.6%	63.4%
Net income attributable to owners of parent	3,730	11.9%	4,040	11.9%	8.3%	64.5%
Net income per share (¥)	119.89		130.86			

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

With the FY3/20 business plan's policy of assured expansion of parent results and reinforcement of management and business operations at consolidated subsidiaries, the Company is taking the following three specific steps.

(1) Management environment (legal system, subsidies, etc.)

The Company intends to recruit IT investment demand utilizing various subsidies and other incentive programs, such as the IT deployment subsidy, the reduced consumption tax rate support measures subsidy, and the investment program tax for small/medium-sized companies, and expand sales to small/medium-sized companies, which are customers of tax accountant and CPA firms, by broadening the cloud-service Kantan Cloud series that contributes to working style reforms and business efficiency improvements related to the revised Labor Standards Act and other legislation.

(2) Bolstering sales operations and solution capabilities

The Company separated sales and support operations for tax accountant and CPA firms and medium-sized companies in major urban areas and intends to promote solutions business with even more focus on respective specialties and pursue acquisition of new customers (it already ramped up solution branches in major cities). Furthermore, it intends to strengthen functions of Edge Tracker, a cloud service that provides assistance for work style reforms. Edge Tracker currently delivers expense calculation, attendance management, salary detail reference, year-end adjustment application, and workflow services over the cloud to employees for access anytime and anywhere by accommodating multiple devices for expense calculation, attendance management, salary detail reference, and other work management systems. It can operate collaboratively with the Company's ERP products and improve employee work efficiency and accelerate management activities.

(3) Reinforcement partnership operations

The Company aims to reinforce cooperative operations with Miroku Kaikeijinkai* and promote IT usage at customers, being small/mid-sized businesses. It also aims to strengthen partnerships with regional financial institutions and provide ERP products and cloud services to customers, local small/medium-sized companies and deliver mmap business continuation and succession assistance services.

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

Outlook

Seeking steep growth ahead of FY3/26 through deployment of cloud solutions and creation of new services

2. Longer-term outlook

The Company formulated a longer-term vision that aims for “dramatic growth” through FY3/26 driven by new creation and innovations amid rapid changes in the business environment, such as revisions to the legal system and IT advances. This vision calls for promotion of the bizsky platform that delivers the Company’s wide range of proprietary cloud services (and can also collaborate with other companies’ services) and support of business continuation and growth at small/medium-sized companies through creation of new services via a powerful network linked to tax accountant and CPA firms and financial institutions.

(1) Comprehensive cloud solutions concept

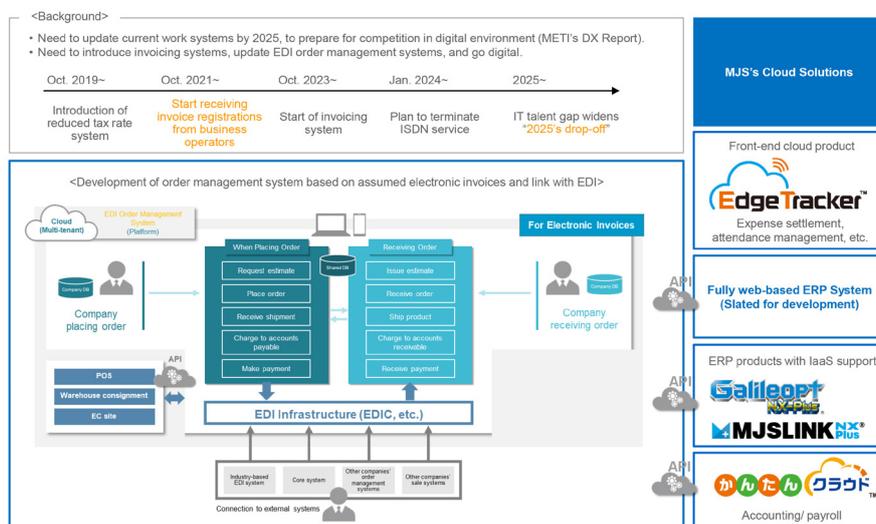
The bizsky platform currently delivers Edge Tracker, an integrated front cloud service that provides expense calculation, attendance management, and other operations anytime and anywhere as services for employees at small/medium-sized companies, the Kantan Cloud (Kaikai, Kyuyo) series, and collaborative services with other companies. The Company plans to develop a full web version of its corporate ERP product and arrange collaboration with bizsky. It also intends to strengthen Edge Tracker features enough to support use by medium-sized companies.

Furthermore, it is newly developing an orders handling system that supports electronic invoices as a solution to overcome the “2025 cliff” issue*1 for IT systems facing medium-sized companies and small/medium-sized companies and envisions evolution of bizsky into a comprehensive cloud solutions platform. There is substantial latent demand with the planned rollout of an invoice system from October 2023 and scheduled completion of NTT’s <9432> ISDN service, which is the foundation of the current EDI system, in January 2024 and resulting need for companies utilizing the ISDN-version EDI system*2 to upgrade their infrastructure to Internet support.

*1 Existing IT systems (legacy systems) have become outdated, oversized, complicated, and non-transparent (black box). Digital transformation (DX) might not proceed unless these issues can be resolved, and concerns about economic losses for Japan as a whole from 2025 are known as the “2025 cliff” (METI’s DX report “Overcoming of ‘2025 Digital Cliff’ Involving IT Systems and Full-fledged Development of Efforts for Digital Transformation”).

*2 The ISDN-version EDI system usage share is about 30% of small/medium-sized companies

Comprehensive cloud solution concept



Source: The Company’s results briefing materials

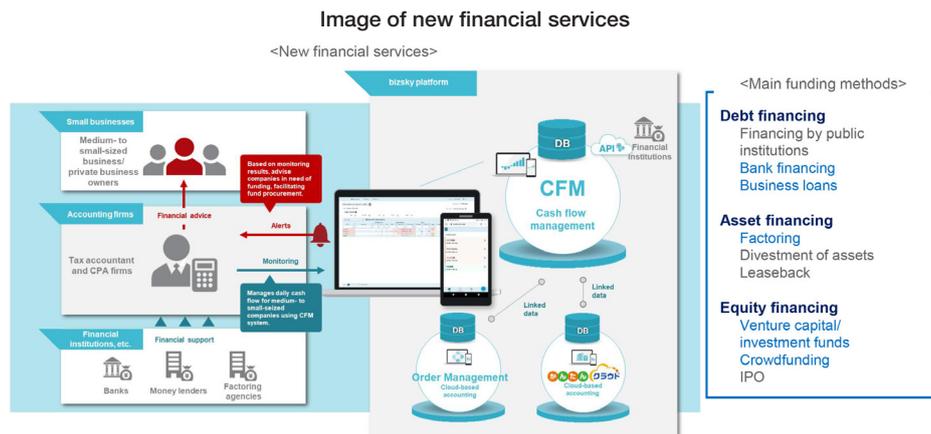
We encourage readers to review our complete legal statement on “Disclaimer” page.

Outlook

(2) Financial service concept

The Company wants to offer financial services to small/medium-sized companies based on bizsky as a new service. It envisions a business model of delivering a BPO service that proposes and implements optimal fund procurement methods (such as bank loans, factoring, and cloud funding) to and acquires fee income from small/medium-sized companies and individual business owners in the roughly 500,000 entities that are handled by tax accountant and CPA firms in collaboration with tax accountant and CPA firms, the Company's customers, and partner financial institutions.

Small/medium-sized companies have potential to realize better workflow efficiency through use of bizsky's orders handling system, accounting system, cash flow management system (hereafter, CFM), and other systems and confidently conduct optimal fund procurement and management utilizing BPO services of tax accountant and CPA firms. This scheme assume use by companies of the CFM system, EDI system, Kantan Cloud Kaikei, and other features provided by bizsky and places tax accountant and CPA firms in the role of CFO at small/medium-sized companies. As service flow, tax accountant and CPA firms regularly check and monitor fund liquidity of consulting customers on CFM, give financial advice to companies with borrowing demand based on monitoring results, and support finalization of lending, etc.

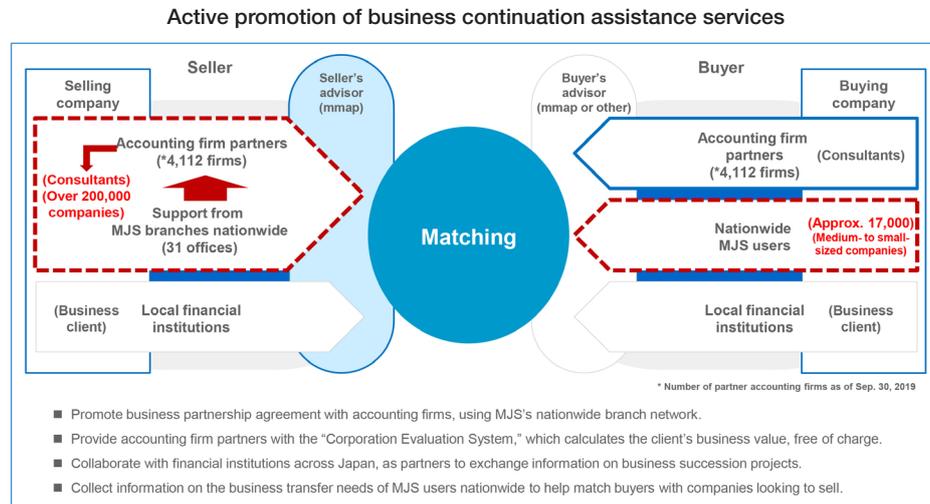


Source: The Company's results briefing materials

(3) Active promotion of business continuation assistance services

The Company plans to actively promote business continuation assistance services through subsidiary mmap. It is capable of finding interest in opportunities for business transfers utilizing a network of its own 31 sites nationwide and partner accountant and CPA firms (4,112 offices) and also promotion of matching with buyer companies utilizing a wide-ranging network of its ERP product users (about 17,000 companies) and alliance financial institutions (71 banks) as a buyer-side adviser. While it previously was only a selling-side adviser, the Company hopes to expand business by engaging as a buyer-side adviser and raising the matching rate.

Outlook



Source: The Company's results briefing materials

(4) Human resource investments

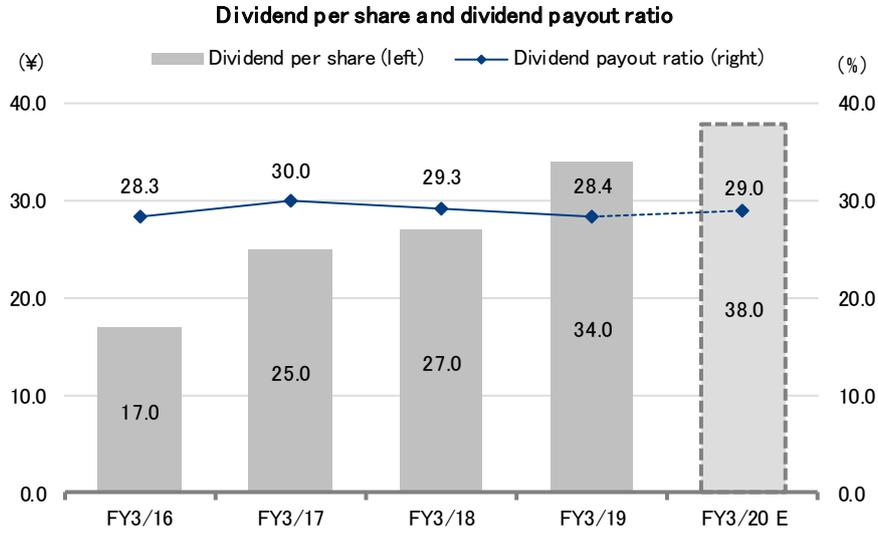
The Company plans to continue strengthening investments in human resources. While it hired 70 new graduate employees in spring 2019, it also intends to hire just over 70 people in spring 2020, mainly for sales and development divisions. The Company currently uses outsourcing too in development operations, but aims to steadily raise the in-house development share in order to accumulate knowhow. It has about 210 development people on its own.

Shareholder return policy

Plans to pay steady dividends reflecting its profits

The Company maintains stable dividend compensation over the long term as its fundamental policy in shareholder return. It intends to raise the dividend for a fifth straight fiscal year in FY3/20 with a ¥4.0 YoY hike to ¥38.0 (putting dividend payout at 29.0%). Dividend payout over the past few years has been about 30%. We expect higher dividends if profit growth continues.

Shareholder return policy



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



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