COMPANY RESEARCH AND ANALYSIS REPORT

Miroku Jyoho Service Co., Ltd.

9928

Tokyo Stock Exchange Prime Market

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Summary

Stronger-than-expected performance on tailwinds from invoice system introduction, Electronic Books Maintenance Act revision

Miroku Jyoho Service Co., Ltd. <9928> (hereafter, "MJS" and "the Company") 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 and medium enterprises (SMEs). Spurred-on by the novel coronavirus (hereafter, "COVID-19") pandemic, digitalization is progressing rapidly in society as a whole. In this situation, the Company is promoting the Comprehensive DX Platform business as a new business to support the management of SMEs* and others, while it is also working to strengthen the platform infrastructure through development of new cloud services and alliance strategies.

* Assumes SMEs and small businesses with annual sales of less than ¥0.5bn.

1. Summary of the 1H FY3/23 results

In the 1H FY3/23 (April to September 2022) consolidated results, net sales increased 11.8% year-on-year (YoY) to ¥19,881mn, and operating income rose 31.3% to ¥3,102mn, with both growing to exceed the Company's initial plan (net sales of ¥18,850mn, operating income of ¥2,370mn). Although depreciation of software assets increased due to the launch of a new product, and personnel expenses rose, net sales and operating income grew since ERP products for general companies (corporate) and tax accountant and CPA firms made a strong showing with double-digit growth, and services revenues steadily rose due to growth in sales of cloud service subscriptions for ERP products. As of September 2022, the ARR* of cloud subscriptions (software usage fees) was up 45.6% YoY, marking faster growth.

* ARR (Annual Recurring Revenue) is the figure obtained by multiplying net sales obtained in the relevant month by 12.

2. FY3/23 forecast

For the FY3/23 consolidated results, the Company is forecasting net sales to increase 11.5% YoY to ¥40,800mn and operating income to rise 21.1% to ¥5,800mn. It revised up its initial forecast for net sales of ¥38,800mn and operating income of ¥4,800mn. It expects inquiries about ERP products to stay strong as IT investment in DX and digitalization of back office operations at companies remains brisk even in 2H. The introduction of the invoice system*1 from fiscal 2023 and revisions to the Electronic Books Maintenance Act*2 are apparently underpinning robust demand. On the profit front, the Company revised up its forecasts after factoring in a rise in personnel expenses, increase in advertising costs, and the risk of subsidiary earnings shortfalls. As for the new Comprehensive DX Platform business, subsidiary Tribeck Inc. released the DX support service Hirameki 7 in July 2022, and has started working on increasing sales, and apparently inquiries have risen. Going forward, it plans to push ahead acquiring customers while expanding functions.

*1 The invoice system is a method for retaining qualified invoices, etc. wherein input consumption tax credits can be received through the issuance and retention of invoices that meet prescribed requirements. It comes into effect from October 2023.

*2 The Electronic Books Maintenance Act is a law that allows for tax-related accounting books and documents to be retained in the form of electronic data. The printing out and retention of such documents in hard copy format permitted as a transitory measure due to revisions made to the law in January 2022 will no longer be possible from January 2024.

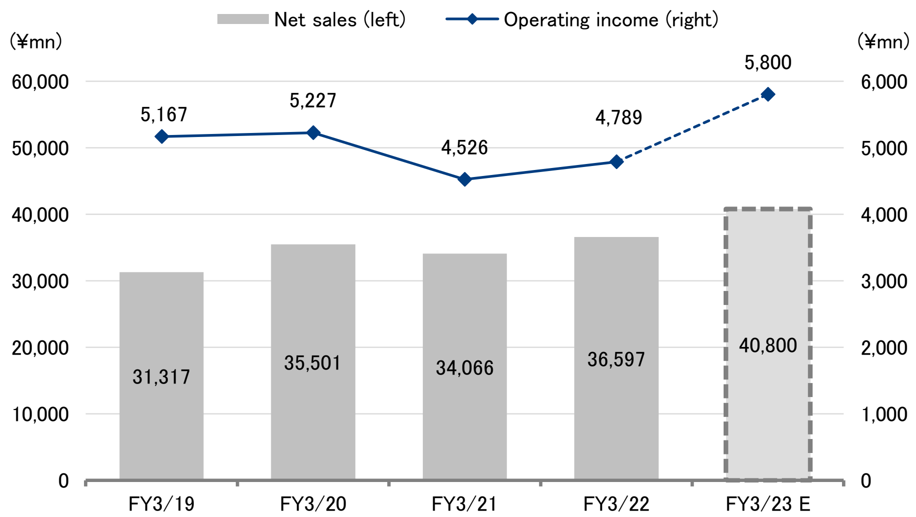
3. Summary of Medium-term Management Plan Vision 2025

The Medium-term Management Plan Vision 2025 announced in May 2021 sets forth two basic policies. They are promoting transition to a subscription model and evolving functions in the existing ERP business to stabilize the earnings foundation and realize sustainable growth, and building the Comprehensive DX Platform as a new business. The plan also targets net sales of ¥55.0bn and ordinary income of ¥12.5bn in FY3/26. The ordinary income target breaks down as ¥7.5bn (actual result was ¥5.0bn in FY3/22) from the Company's stand-alone results, mainly from the ERP business, ¥2.5bn from Group companies (¥0.5bn), and ¥2.5bn from the new Comprehensive DX Platform business. While earnings expansion at Group companies and progress with the Comprehensive DX Platform business are slightly behind plan, future developments will be spotlighted since Group synergies should increase and growth accelerate if Comprehensive DX Platform business building advances.

Key Points

- 1H FY3/23 results topped the Company's forecast due to strong sales of ERP products
- Revised up initial FY3/23 forecast, projects highest operating income and ordinary income for the first time in three fiscal years
- Is focusing on building the Comprehensive DX Platform business to attain its target for ordinary income of ¥12.5bn in FY3/26

Consolidated financial results trends



Note: From FY3/22, the Company has adopted the Accounting Standard for Revenue Recognition, etc. Values for FY3/21 and before use the old standards
Source: Prepared by FISCO from the Company's financial results

Corporate overview

Leading supplier of financial accounting systems promoting growth with tax accountant and CPA firms and SMEs as target customers

1. Corporate history

Since its establishment in 1977, the Company has provided management systems and management information services focused on finance and accounting. Its services have evolved along with advances in IT. It started out in data center processing services, shifted from office computer business to development and sales of packaged software for PCs, and has recently been developing cloud services too. To expand its business domain, it established MJS M&A Partners Co., Ltd. in 2014 as a subsidiary to provide business succession assistance and other services to support SMEs. It has also actively promoted an M&A strategy over the past few years. It made one of Japan's largest independent organizational and HR consulting firms, Transtructure Co., Ltd., into a subsidiary in April 2020, and went on to make the digital marketing support and digital platform business company Tribeck Inc. into a subsidiary in December 2020. At the end of November 2022, it sold all of its shares in Adtop Co., Ltd., which it made into a subsidiary in April 2018 to strengthen operations in the DX domain for HR recruitment.

Company history

Core service format	Year	History
Data Processing Center	1977	Miroku Jyoho Service Co., Ltd. established
	1978	New financial data processing system MS-1 developed and sales started Online terminal MJS800 developed and sales and online service commenced
Office Computing	1980	Shift from data processing to office computer development and sales business Development and commencement of sales for the specialist Miroku Ace Model Series for accounting
	1983	Entry into the market for clients advised by tax accountant and CPA firms Development and commencement of sales for the specialist Pro Office computer [Keiri] aimed at clients of tax accountant and CPA firm
Shift to open systems (package software)	1990	Developed and commenced sales for package software for PC installation "SI Zaimu Taisho," "SI Hanbai Taisho," and "SI Kyuyo Taisho"
	1992	Became a listed enterprise by an OTC listing on the Japan Securities Dealers Association (currently TSE JASDAQ)
	1994	Developed and commenced sales for the accounting telecommunications system MJS-COMPASS linking tax accountant and CPA firms and the client companies advised
	1997	Listed on the Second Section of Tokyo Stock Exchange
	1998	Developed and commenced sales of the MICSNET Series ERP system compatible with Windows NT® for medium-sized companies
	2001	Developed and commenced 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/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

Core service format	Year	History
Shift to service provider	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. (33.3%) 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 IaaS 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)
	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) Developed and commenced 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)
	2020	Made a wholly owned subsidiary of Transtructure Co., Ltd., an independent and one of Japan's largest organizations and HR consulting firms (April) Developed and began providing a function to assess eligibility for financing support for tax accountant and CPA firms, which automatically determines eligibility for the government's Subsidy Program for Sustaining Businesses (April) Developed and began providing MJS DX Cloud, a cloud service that enables MJS financial accounting and tax applications to be used on Microsoft Azure (August) Made a subsidiary of Tribeck Inc., which conducts digital marketing support and marketing platform businesses (December)
	2021	Developed and started providing MJSLINK DX, which is a cloud-based ERP system for small/medium-sized companies (March) The subsidiaries Tribeck Inc., and bizocean Co., Ltd., were merged, the digital marketing business was integrated with the media and advertising agency businesses, and is providing comprehensive DX consulting services (April) MJS AI Audit Support, a journal and balance check system that utilizes AI, was made cloud compliant (June) Capital and business partnership with KACHIEL Co., Ltd., which holds seminars, provides video distribution services, etc., for tax accountant and CPA firms (June) Capital and business partnership with SecondXight Analytica, Inc., which conducts analytics and AI development (September) Started providing MJS DX Workflow, a cloud-based workflow system that enables electronic applications and approvals from smartphones (September)
	2022	Developed and commenced provision of a cloud-type ERP system for medium enterprises "Galileopt DX" (April) Transitioned to the Prime Market, a new market segment of the Tokyo Stock Exchange (April) Launched MJS e-document Cloud Sign, a cloud-based e-contract service that complies with the revised Electronic Books Maintenance Act (June) Launched MJS e-Invoice, a cloud-based service for sending and receiving electronic invoices (September) Developed and commenced provision of MJS Zeimu DX, a new tax practice system (September) Made BizMagic Co, Ltd., which develops and sells a customer relationship management/sales force automation system, into a subsidiary (September)

Source: Prepared by FISCO from the Company's website, results briefing materials, and IR press release materials

2. Business description

Currently, the main business is the ERP business, with finance and accounting at its core (development and sales of ERP systems, installation support services, and various maintenance services), and it provides more than 90% of net sales. The remainder is provided by the new businesses conducted by subsidiaries, including MJS M&A Partners, Transtructure, and Tribeck.

Main customers in the ERP business are tax accountant and CPA firms and their SME clients. In the market for tax accountant 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 SMEs, the Company has about 17,000 users. Looking at the composition of distribution channels by customer type, direct sales accounts for almost 100% of tax accountant and CPA firms and more than 90% of SMEs, while the remaining 10% is through sales agencies. 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 provides simplified accounting software on a subscription model for microenterprises through volume sellers and tax accountant and CPA firms and has just over 80,000 users.

Overview of ERP business

Customers	Tax accountant and CPA firms	Small and medium enterprises (SMEs) (Most of them are clients of tax accountant and CPA firms)
Systems (developed by MJS)	• Financial and accounting systems • Tax return 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 • 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

At the end of November 2022, the Group companies consisted of 10 consolidated subsidiaries and three equity-method affiliates. Since 2002, three consolidated subsidiaries, NTC Co., Ltd., MSI Co., Ltd., and Lead Co., Ltd., have carried out the consigned development of business software. Since 2014, the Company has established or acquired by M&A seven companies to develop businesses in new areas. Of these seven companies, it seems that Tribeck is the subsidiary with the largest sales scale with annual sales of just over ¥2.0bn, followed by Transtructure with just under ¥1.0bn. In addition, in September 2022 the Company made a subsidiary of BizMagic Co, Ltd., which develops and sells BizMagic, a customer relationship management/sales force automation system.

The Company's three equity-method affiliates are Primal, Inc., which develops and sells systems for consolidated accounting; NFC (Korea) Co., Ltd., which develops and sells payment services using near-field communications (NFC); and KACHIEL Co., Ltd., which provides seminars and video distribution services for tax accountants and accounting firms.

The Company's subsidiaries and affiliates (as of November 30, 2022)

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
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
Transtructure	100.0%	Consulting services, specializing in the organization and personnel fields
Spice	100.0%	Manages in-store cash, improves distribution efficiency, etc.
Tribeck	71.2%	Digital marketing support, marketing platform service, management of business information site "bizocean," etc.
BizMagic	86.4%	Development, sales, and support of BizMagic, a customer relationship management/sales force automation system
Equity-method affiliates		
Primal	33.3%	Software development, sales, installation, and operational support services
NFC (Korea)	21.9%	Development and sales of payment services using near-field communications (NFC)
KACHIEL	33.5%	Holds seminars, provides video distribution services, etc. for tax accountant and CPA firms

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

Business trends

1H FY3/23 consolidated results topped the Company's forecast due to strong sales of ERP products

1. 1H FY3/23 Consolidated results

In the 1H FY3/23 consolidated results, net sales increased 11.8% YoY to ¥19,881mn, operating income increased 31.3% to ¥3,102mn, ordinary income increased 19.1% to ¥2,827mn, and net income attributable to owners of parent decreased 36.1% to ¥1,935mn. Net sales reached a record high for the first time in three years, and operating income and ordinary income returned to increases for the first time in three years.

Consolidated results for 1H FY3/23

(¥mn)

	1H FY3/22		1H FY3/23				
	Results	Ratio	Company forecast	Results	Ratio	YoY	vs. forecast
Net sales	17,781	-	18,850	19,881	-	11.8%	5.5%
Gross profit	10,890	61.2%	11,570	12,498	62.9%	14.8%	8.0%
SG&A expenses	8,527	48.0%	9,200	9,396	47.3%	10.2%	2.1%
Operating income	2,362	13.3%	2,370	3,102	15.6%	31.3%	30.9%
Ordinary income	2,373	13.3%	2,380	2,827	14.2%	19.1%	18.8%
Extraordinary profits and losses	2,096	11.8%	-	359	1.8%	-82.8%	
Net income attributable to owners of parent	3,027	17.0%	1,520	1,935	9.7%	-36.1%	27.3%

Note: In FY3/22 and FY3/23, the Company has adopted the Accounting Standard for Revenue Recognition, etc.
Source: Prepared by FISCO from the Company's financial results

For net sales, system installation contract sales rose a brisk 12.9% YoY on growth in sales of ERP products for general companies and accounting firms. Also, recurring income-type service revenues increased a solid 10.3% YoY, owing to the provision of subscription contracts for some ERP products, and growth in sales of cloud services. Trends were generally favorable and backed by brisk IT investment. The order backlog* (stand-alone), a leading indicator of system installation contract sales, rose by 0.2 of a month on the start of the period to 6.53 months, reflecting that the level of orders continues to be high.

* Order backlog = outstanding orders ÷ monthly average system installation net sales forecast for the relevant

On the profit front, there was an increase in depreciation (of ¥287mn YoY) due to new product launches and increase in personnel expenses alongside personnel framework bolstering, but profit rose at some levels on tailwinds from higher sales. Although net income attributable to owners of parent declined because the non-operating income balance deteriorated due to the recording of a ¥343mn* share of loss of entities accounted for using equity method, and a ¥2,087mn gain on the sale of shares of an affiliate was posted in the same period of the previous year, net sales and profits at all levels exceeded the Company's forecast due to strong sales of mainstay ERP products. While the initial forecast was based on conservative plans for net sales of ERP products amid a shift to subscriptions and transition to cloud services, sales also topped plan because there was demand for replacing products with new ones and progress was made acquiring customers. The consolidated number of employees rose by 71 YoY to 2,039 at the end of September 2022.

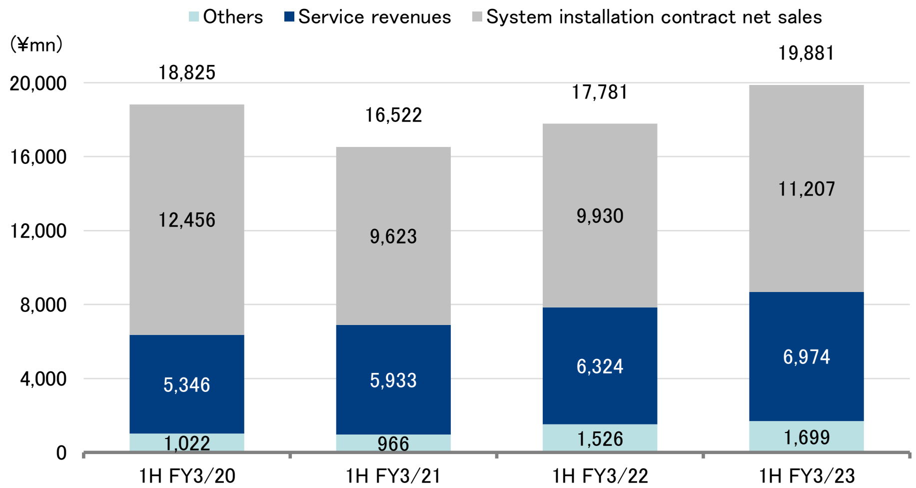
* This is mainly because the unamortized balance of goodwill for one entity accounted for using the equity method was posted as a one-time amortization of ¥303mn since the excess earnings capacity assumed in the business plan at the time of acquisition is no longer expected.

Sales of ERP products strong, cloud and subscription revenue growth also accelerating

2. Sales trends by customer and product category

Looking at the breakdown of net sales, all areas increased sales, with system installation contract net sales, which are flow-type revenues, increasing 12.9% YoY to ¥11,207mn, increasing for the second time in two years, and services revenues, which are recurring- income type revenues with a 10.3% increase to ¥6,974mn and others (mainly the sales at subsidiaries) increasing 11.4% to ¥1,699mn.

Net sales by product category

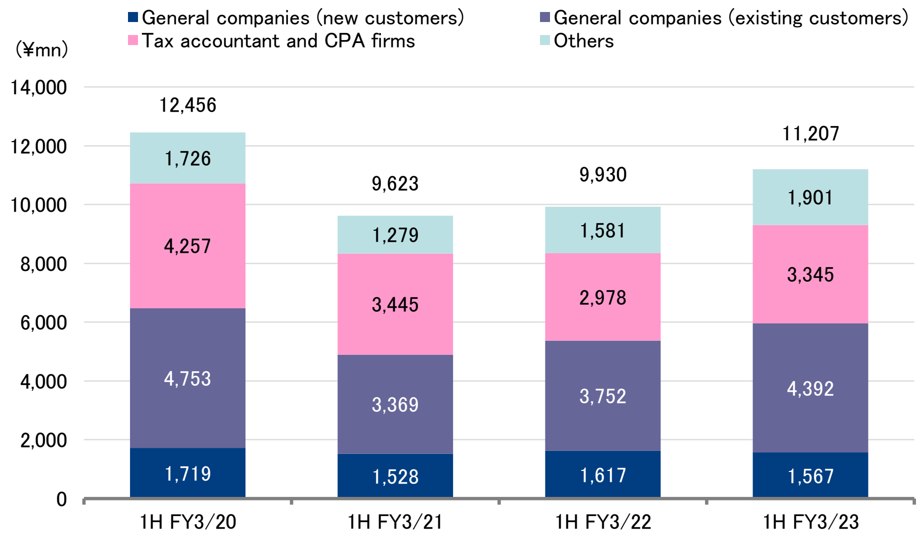


Note: From FY3/22, the Company has adopted the Accounting Standard for Revenue Recognition, etc. Values for FY3/21 and earlier years are displayed using the previous standard
Source: Prepared by FISCO from the Company's results briefing materials

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

Looking at system installation contract net sales by customer, net sales saw double-digit growth across the board with those to general companies (corporate) up 11.0% YoY to ¥5,959mn, tax accountant and CPA firms up 12.3% to ¥3,345mn, and others up 20.3% to 1,901mn.

System installation contract net sales by customer



Note 1: Others (sales by subsidiaries and the Head Office and sales to business partners)
Note 2: From FY3/22, the Company has adopted the Accounting Standard for Revenue Recognition, etc. Values for FY3/21 and earlier years are displayed using the previous standard
Source: Prepared by FISCO from the Company's results briefing materials

Sales to general companies of new products released in 2021 or later (MJSLINK DX for SMEs in March 2021, Galileopt DX* for medium enterprises in April 2022) were strong, driven by replacement demand. The Company opened 4 new solutions branches (in Chiba, Shizuoka, Hokuriku, and Shikoku), bringing the total number of these branches that conduct proposal-based marketing of corporate ERP products to 15. It appears that solutions branches' efforts to acquire new customers and cross-sell and upsell to existing customers also led to sales growth.

* Galileopt DX features enhanced convenience compared with the previous product, including improved operating performance from utilizing AI technology, faster processing speed, and expanding API alliance partners. It is helping to enliven replacement demand.

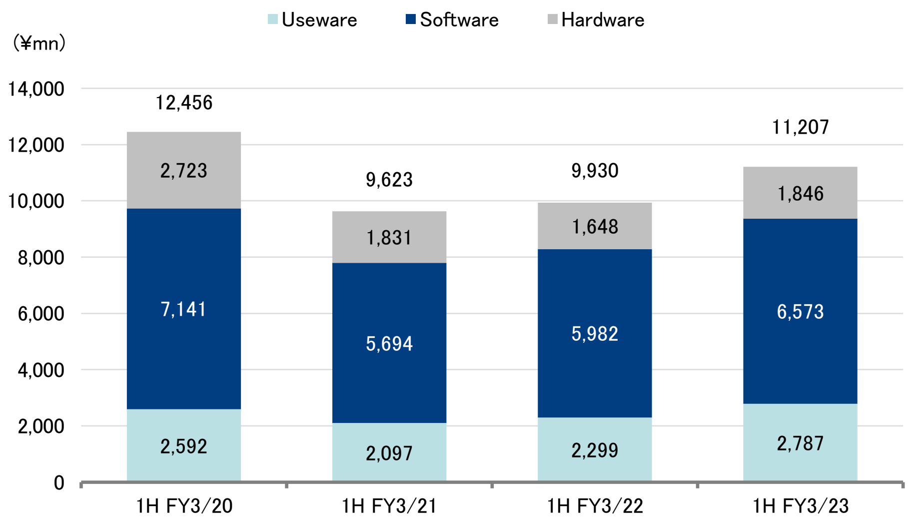
The ratio of total corporate sales provided by sales to new customers was 26.3%, down 3.8 percentage points YoY. This is mainly because net sales to existing customers grew a sharp 17.0% to ¥4,392mn, owing to replacement demand and upselling and cross-selling efforts. Also, net sales to new customers inched down 3.1% to ¥1,567mn, but that is probably partly because the Company is shifting from providing packaged products to cloud subscription services*. Cloud subscriptions' share of corporate product net sales rose from about 10% in previous period to just under 30%. They are recorded as service revenues (software utilization fees), and it is highly likely that they are growing when considered as a whole.

* In August 2020, in addition to the former package sales, the Company started providing cloud services (subscription model) that can be used on Microsoft Azure.

Net sales to tax accountant and CPA firms turned up for the first time in three periods. In FY3/20, sales expanded in scale due to the concentration of updates of ERP products along with extraordinary replacement demand for PCs and the like. Sales pulled back after that and had continued to decline, but have finally bottomed. It appears that sales of packaged products are still the mainstay, and that subscription contracts account for about 4% of net sales to tax accountant and CPA firms. Regarding net sales to others, sales through sales partners did well, and the net sales of three subsidiaries carrying out consigned development swung to growth, thanks to reinforcement of sales structures.

Looking at system installation contract net sales by product category, net sales of software increased 9.9% YoY to ¥6,573mn, hardware rose 12.0% to ¥1,846mn, and useware (installation support services) grew 21.2% to ¥2,787mn, marking higher rates of growth for each. One reason is that the number of subscription/ cloud-type installations increased, and reached the highest level for the first time in three periods for useware in particular. In addition to growth in the number of installations, headway made upselling and cross-selling through proposal-based marketing likely positively affected sales.

System installation contract net sales by product category

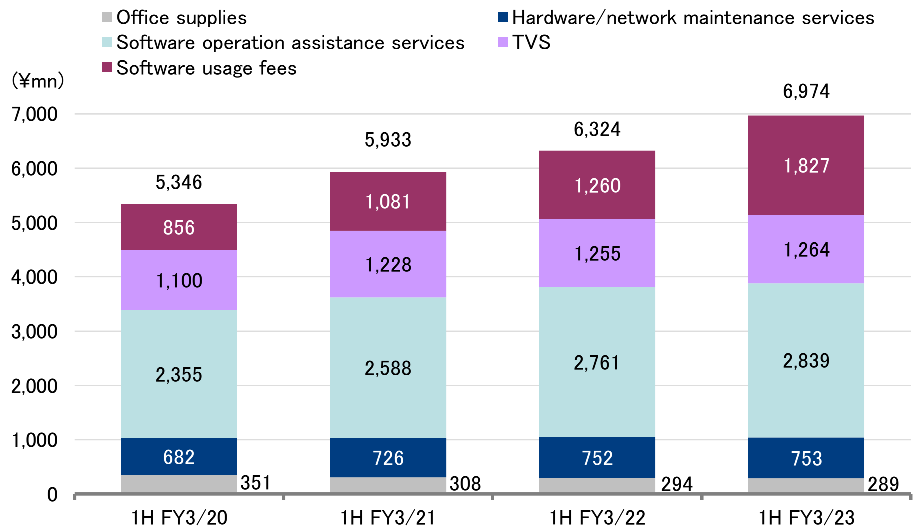


Note: From FY3/22, the Company has adopted the Accounting Standard for Revenue Recognition, etc. Values for FY3/21 and earlier years are displayed using the previous standard
Source: Prepared by FISCO from the Company's results briefing materials

(2) Service revenues

Looking at the breakdown of service revenues, TVS (a comprehensive maintenance service for tax accountant and CPA firms) increased 0.7% YoY to ¥1,264mn, software usage fees rose 45.0% to ¥1,827mn, software operation assistance services (corporate software maintenance services) grew 2.8% to ¥2,839mn, hardware/network maintenance services were flat at ¥753mn, and office supplies decreased 1.7% to ¥289mn. Revenue from software usage fees rose significantly, driven by the provision of subscriptions for some ERP products, and growth in sales of cloud services. Also, revenue from TVS and software operation assistance services rose steadily, owing to the cultivation of new customers.

Breakdown of service revenues



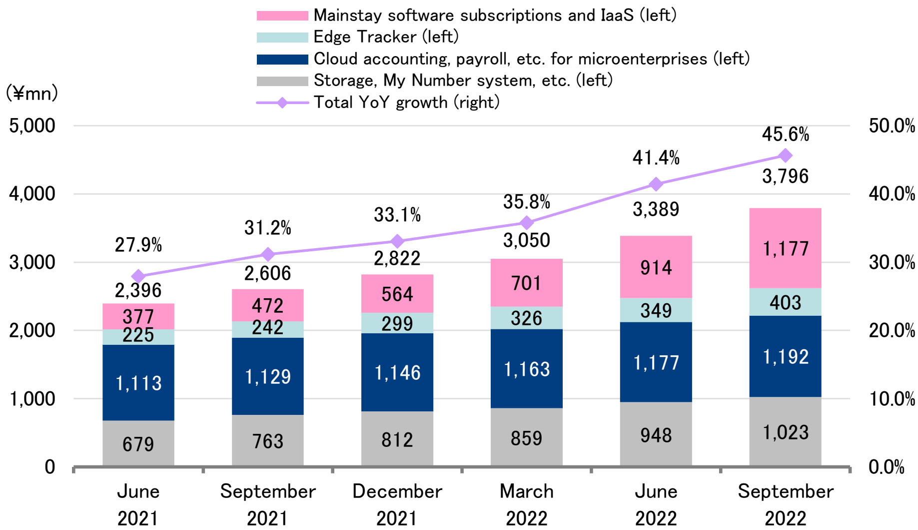
Note 1: TVS (a comprehensive maintenance service for tax accountant and CPA firms)
Note 2: From FY3/22, the Company has adopted the Accounting Standard for Revenue Recognition, etc. Values for FY3/21 and earlier years are displayed using the previous standard
Source: Prepared by FISCO from the Company's results briefing materials

Also, ARR, a KPI for cloud subscription revenue (software usage fees), rose 45.6% YoY to ¥3,796mn in September 2022, growing at a faster pace. This is mainly because the number of subscription and cloud service contracts is increasing in core ERP products. Looking solely at mainstay software subscriptions and IaaS*1, ARR is rapidly expanding, up 149.4% to ¥1,177mn. In other categories, ARR is also steadily increasing and rose 66.5% to ¥403mn for the Edge Tracker*2 comprehensive platform cloud service for companies, 5.6% to ¥1,192mn for various cloud services for microenterprises (e.g., Kantan Cloud Kaikei), and 34.1% to ¥1,023mn for various option services including storage and management of the Social Security and Tax Number System (My Number system). The number of customers using storage services is increasing because the revised Electronic Books Maintenance Act has created a need for electronic preservation of documents related to tax processing.

*1 IaaS (Infrastructure as a Service) is a service providing only the infrastructure parts, such as hardware and networks, of cloud service.

*2 A cloud service for the employees of SMEs. It is a service that can be used anywhere and at any time on multiple devices for tasks including expense payments, attendance management, referencing payroll statements, year-end adjustment reporting, and workflow.

Trend in ARR for cloud subscriptions



Note: In FY3/22 and FY3/23, the Company has adopted the Accounting Standard for Revenue Recognition, etc.
Source: Prepared by FISCO from the Company's results briefing materials

(3) Others

In others (mainly the business of the subsidiaries), net sales increased 11.4% YoY to ¥1,699mn. This was mainly due to growth in sales at Tribeck, which handles digital marketing services, and Transtructure, which provides HR consulting services. For MJS M&A Partners, which provides M&A support, sales remained lackluster due to a decline in the number of deals closed. Adtop, which conducts an advertising agency business specializing in the hiring and referrals of personnel, is no longer a subsidiary effective from November 2022 when the Company sold all of its shares in Adtop, given current earnings conditions and its future growth strategy.

Good financial standing, with ample net cash exceeding ¥15.0bn

3. Financial status and management indicators

Looking at the financial status at the end of 1H FY3/23, total assets decreased ¥561mn compared to the end of the previous fiscal period to ¥42,925mn. Looking at the main influencing factors in current assets, cash and deposits decreased ¥750mn, whereas accounts receivable increased ¥708mn and inventory assets increased ¥395mn. In fixed assets, software assets (including development in progress) increased ¥186mn, while investment securities decreased ¥1,376mn.

Total liabilities decreased ¥583mn compared to the end of the previous fiscal period to ¥20,273mn. Interest-bearing debt declined ¥235mn, and reserve for bonuses declined ¥249mn. Total net assets increased ¥21mn to ¥22,652mn. The slight increase owes to the recording of net income to owners of parent of ¥1,935mn, which offset dividend payments of ¥1,343mn and a decline of ¥577mn in unrealized gains on available-for-sale securities.

Looking at management indicators, the interest-bearing debt ratio declined from 7.1% at the end of the previous period to 6.1% due to a decrease in interest-bearing debt, and the equity ratio rose from 51.0% to 51.7%, marking progress in strengthening the financial foundation. Net cash declined ¥514mn from the end of the previous period to ¥15,139mn but remains ample, and the Company can be judged to have a high degree of financial soundness. The Company issued ¥11.0bn in Euro-yen convertible bonds with stock acquisition rights due 2023, and the conversion price is ¥3,022.4. It is scheduled to redeem the ¥11.0bn if its share price does not exceed the conversion price by the due date, and, if it does not raise new funds, liabilities will decline and the equity ratio will rise.

Consolidated balance sheet trends

(¥mn)

	FY3/20	FY3/21	FY3/22	1H FY3/23	Change	Factors
Current assets	23,603	24,859	24,403	24,836	433	Cash and deposits -750, trade receivables +708, inventories +395
Cash and deposits	17,979	18,267	17,260	16,509	-750	
Fixed assets	14,716	18,078	19,071	18,080	-990	Software assets (including development in progress) +186, investment securities -1,376
Total assets	38,348	42,958	43,487	42,925	-561	
Current liabilities	7,096	10,636	9,374	9,032	-341	Provision for bonuses -249
Fixed liabilities	12,222	11,891	11,482	11,241	-241	Long-term borrowings -229
Total liabilities	19,318	22,528	20,856	20,273	-583	
Total net assets	19,029	20,430	22,630	22,652	21	Retained earnings +591, valuation difference on available-for-sale securities, before tax -577
Total liabilities and net assets	38,348	42,958	43,487	42,925	-561	
Interest-bearing debt	2,118	4,917	1,606	1,370	-235	Excluding convertible bond-type bonds with share acquisition rights (zero coupon)
Net cash	15,861	13,580	15,653	15,139	-514	(Cash and deposits + securities – interest-bearing debt)
<Management indicators>						
Current ratio	332.6%	233.7%	260.3%	275.0%		
Equity ratio	49.6%	46.5%	51.0%	51.7%		
Interest-bearing debt ratio	11.1%	24.1%	7.1%	6.1%		
ROE	9.9%	13.6%	21.4%	-		

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

Outlook

The Company revised up initial forecast for FY3/23, projects highest operating income and ordinary income for the first time in three fiscal years

1. Consolidated outlook for FY3/23

For the FY3/23 consolidated results, the Company is forecasting net sales to increase 11.5% YoY to ¥40,800mn, operating income to rise 21.1% to ¥5,800mn, ordinary income to grow 17.4% to ¥5,600mn, and net income attributable to owners of parent to decline 20.3% to ¥3,600mn. It has revised up its initial forecasts. It projects net sales will reach a record high for the second straight fiscal year, and operating income and ordinary income will both mark the highest levels for the first time in three fiscal years.

Its initial forecasts were based on conservative plans, taking into account the gradual transition in how ERP products are provided from sales of packaged products to cloud subscription services. As previously mentioned, there was an impact from the transition to cloud subscriptions, but sales of packaged products were also strong, with 1H results topping plan, and sales of ERP products are expected to remain brisk in 2H on the back of a robust appetite for investment in DX and digitalization of back office operations at companies. Those are key reasons for the upward revisions. The progress rates for the full fiscal year forecasts up to 1H were 48.7% for net sales and 53.5% for operating income. The progress rate is high for operating income, but that is likely a conservative figure due to a roughly ¥200mn increase from the initial plan for advertising expenses, mainly for TV commercials to capture demand for products and services related to the upcoming introduction of the invoice system in October 2023, increase in personnel expenses, and the risk of subsidiary earnings shortfalls being taken into account.

Consolidated outlook for FY3/23

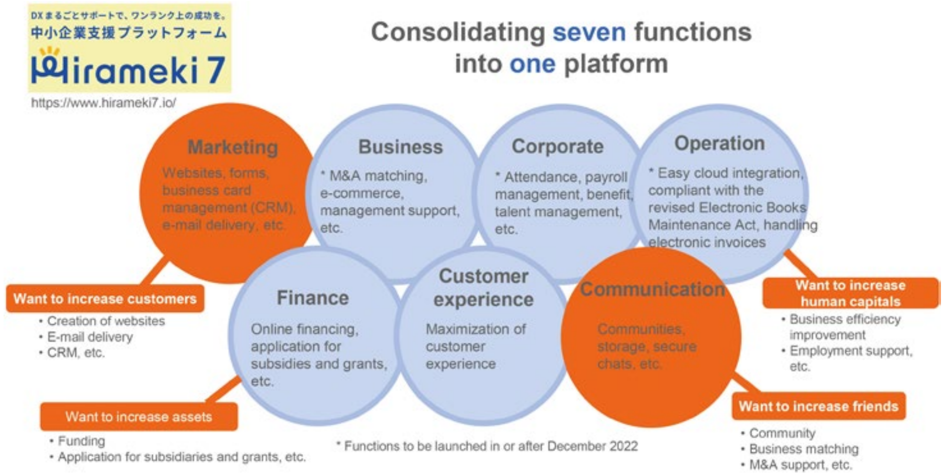
(¥mn)

	FY3/22		FY3/23				
	Results	Ratio	Initial forecast	Revised forecast	Ratio	YoY	1H progress rate
Net sales	36,597	-	38,800	40,800	-	11.5%	48.7%
Operating income	4,789	13.1%	4,800	5,800	14.2%	21.1%	53.5%
Ordinary income	4,771	13.0%	4,800	5,600	13.7%	17.4%	50.5%
Net income attributable to owners of parent	4,517	12.3%	2,900	3,600	8.8%	-20.3%	53.8%
Earnings per share (EPS) (¥)	149.78		97.13	120.57			

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

The Company forecasts higher sales and profits at the three subsidiaries carrying out consigned development as well as Transtructure. However, MJS M&A Partners looks set for sluggish growth to continue. Also, the Company expects sales to rise but profit to fall at Tribeck, owing mainly to a rise in development costs and promotion costs for the new service Hirameki 7 released in July 2022. Hirameki 7 is a service that will form the core of the comprehensive platform for SMEs, which is one priority measure in the medium-term growth strategy. It is a one-stop cloud service offering seven functions necessary for expanding business. They are marketing, finance, operation, communication, business matching, corporate, and customer experience functions. Since its launch, the Company has promoted the service using various media, including taxi ads, and over 1,000 companies had introduced it as of December 2022.

Hirameki 7 platform to support SMEs



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

In December 2022, MJS and ORIX Corporation <8591> (hereafter, "ORIX") announced a business alliance related to linking accounting data held by tax accountant and CPA firms. This enabled the roughly 500,000 client companies of tax accountant and CPA firms that use MJS's ERP product ACELINK NX-Pro to use ORIX's online financing services through Hirameki 7. The accounting data of companies requesting financing is linked to ORIX, eliminating the need to submit documents such as financial statements and business plans and provide collateral or guarantees by representatives that are usually required for financing. Also, the entire process is completed online, which provides the benefit of vastly improved convenience, including enabling financing as early as the same day of application. While upfront investment is expected to continue for the foreseeable future, Hirameki 7 will be spotlighted as a service with potential for growth since there is strong demand for DX assistance from SMEs.

Regarding net sales in FY3/23 by product, the Company has not revised its initial outlook, but system installation contract sales are expected to exceed plan, mainly due to growth in sales of EPR products, whereas sales in others is expected to trail plan due to an earnings shortfall for Group companies (including impact from the sale of Adtop) for which faster growth had been anticipated in 2H.

Net Sales by product category (consolidated basis)

(¥mn)

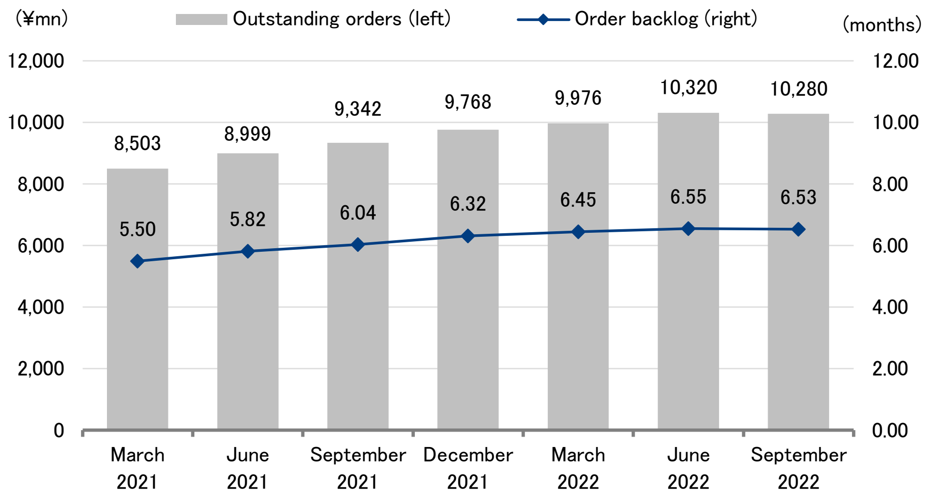
Business segment	FY3/21 results	FY3/22 results	FY3/23		
			Initial forecast	YoY	1H progress rate
System installation contract net sales	19,330	20,236	20,771	2.6%	54.0%
Hardware	3,596	3,110	3,170	1.9%	58.2%
Software	11,364	12,416	12,494	0.6%	52.6%
Useware	4,368	4,709	5,106	8.4%	54.6%
Service revenues	12,173	13,004	14,084	8.3%	49.5%
TVS	2,474	2,517	2,524	0.3%	50.1%
Software usage fees	2,298	2,778	3,894	40.2%	46.9%
Software operation assistance services	5,267	5,596	5,725	2.3%	49.6%
Hardware/network maintenance	1,467	1,505	1,428	-5.1%	52.7%
Office supplies	664	606	511	-15.7%	56.7%
Others	2,562	3,356	3,944	17.5%	43.1%
Total	34,066	36,597	38,800	6.0%	51.2%

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

(1) System installation contract net sales

System installation contract net sales are outpacing the initial forecast with a progress rate of 54.0% up to 1H. Also, outstanding orders (stand-alone) were ¥10,280mn at the end of 1H, up 3.0% from the end of the previous period, and the order backlog was a high 6.53 months. Since investment in DX for companies' back office departments is expected to remain strong in 2H, net sales growth of at least 10% YoY is also forecast for the full term. The Company envisions negative impact on net sales of about ¥1.5bn from the transition to a cloud subscription model, with the posting of sales in FY3/23 onward from software usage fees. Regarding the pace of transitioning to cloud subscriptions, the Company intends to proceed to a decree that does not significantly affect overall results, and will continue sales on a sell-out model basis even to new customers depending on their requirements. However, the Company expects outstanding orders for system installation contract sales to gradually decline going forward as the cloud subscription model ratio continues to rise. In fact, outstanding orders were down slightly at the end of September from the peak of ¥10,320mn at the end of June 2022.

Outstanding orders and order backlog for system installation contract sales (stand-alone)



Note: Order backlog = outstanding orders balance ÷ monthly average system installation net sales forecast for the relevant fiscal year
Source: Prepared by FISCO from the Company's results briefing materials

By customer, corporate net sales are forecast to continue to grow by double digits, driven by replacement demand for new products and acquisition of new customers. Conversely, sales to tax accountant and CPA firms had been forecast to decline 11.5% YoY to ¥5,299mn in the initial forecast taking into account impact from the transition to cloud subscriptions, but are likely to rise even for the full fiscal year since one-off purchase products actually account for the bulk of replacement demand. Additionally, the Company initially set a conservative forecast for sales to decline 1.7% YoY to ¥3,611mn in others (sales at subsidiaries, sales to partners, etc.), but now expects sales to rise due to solid sales through sales partners. From FY3/23, the chief officer of the sales division and vice president has been put in charge of managing the performance of all subsidiaries. They are currently working to deploy the Company's sales methods at subsidiaries and bolster their sales capabilities. The effects of these initiatives are expected to become apparent in FY3/24 onward.

(2) Service revenues

Looking at the breakdown of service revenues, software operation assistance services revenues are forecast to rise 2.3% YoY to ¥5,725mn, TVS to inch up 0.3% to ¥2,524mn, and software usage fees to rise a sharp 40.2% to ¥3,894mn. This mainly reflects transition from one-off purchases to cloud subscriptions. We at FISCO think the full-term forecast is achievable since progress rates up to 1H were basically in line with plan at 49.6% for software operation assistance services revenues and 50.1% for TVS, and a tad low at 46.9% for software usage fees but growth is accelerating with ARR for September up 45.6% YoY.

Regarding the Comprehensive DX Platform business, the Company had expected launches of services such as Hirameki 7 to generate several hundred million yen in sales for the full term, but business progress is a bit behind schedule, and it now expects the business to start contributing to sales in earnest from FY3/24 onwards.

Focusing on building the Comprehensive DX Platform business to achieve target of ordinary income of ¥12.5bn in FY3/26

2. Status of Progress on Medium-term Management Plan Vision 2025

In May 2021, the Company announced the five-year Medium-term Management Plan Vision 2025 with FY3/26 as its final fiscal year. Spurred on by COVID-19 pandemic, digital transformation (DX) is progressing at a stroke throughout society as a whole, and due to this and other factors, the market environment is changing greatly. As its strategy to continuously improve corporate value under these circumstances, the Company has set and is progressing two basic polices: “Evolve the existing ERP business and reform the business model” and “Create innovation through new businesses.”

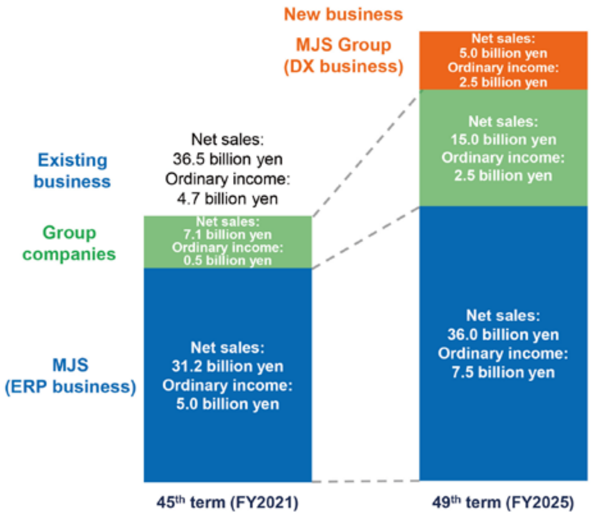
Also, the Company has set numerical performance targets for FY3/26 of net sales of ¥55.0bn and ordinary income of ¥12.5bn. That works out to average annual growth over the four years from FY3/23 of 10.7% for net sales and 27.2% for ordinary income. Up to 1H FY3/23, the Company has made steady progress on evolving the existing ERP business and reforming the business model. In contrast, it is a bit behind schedule on building the Comprehensive DX Platform business and expanding subsidiary earnings through Group synergies. Recouping that lost ground will be key to attaining its targets.

Compared to the Company’s FY3/22 non-consolidated results of net sales of ¥31.2bn and ordinary income of ¥5.0bn, the FY3/26 targets are net sales of ¥36.0bn and ordinary income of ¥7.5bn. The Company aims to further expand the stable earnings foundation by strengthening solution-based sales aimed at resolving customer issues and expanding cloud services and conversion to a subscription model in a strategy to expand earnings. It plans to raise the ratio of sales provided by subscription model service revenues, which are recurring-type sales, from 40.0% in FY3/22 to 55.0% in FY3/26, and the ordinary income margin is expected to rise from 13.0% to more than 20.0% In FY3/26.

Furthermore, targets also include increasing the results of Group companies, including net sales from ¥7.1bn in FY3/22 to ¥15.0bn in FY3/26 and ordinary income from ¥0.5bn to ¥2.5bn. In order for Group companies to grow independently, they are working on measures including to strengthen synergies and to optimize the Group management structure. To enhance synergies with subsidiaries, the Company is working on building the Comprehensive DX Platform. Tribeck launched Hirameki 7, and the Company's strategy is to efficiently acquire new customers by providing Transtructure's organizational and HR consulting services, BizMagic's customer relationship management services, and so forth on the platform as well in the future. While more than doubling sales over the next four years is a challenging target, sales could grow rapidly if the services provided are attractive. We at FISCO would like to closely monitor developments going forward.

Targets for the Comprehensive DX Platform business are net sales of ¥5.0bn and ordinary income of ¥2.5bn in FY3/26. This high profit margin occurs as it seems possible to keep down customer acquisition costs, such as advertising costs, as prospective customers are tax accountant and CPA firms and their client companies. The net sales of ¥5.0bn assumes 35,000 user companies and average revenue per user (ARPU) of ¥12,000 per month. The Company estimates the SaaS and software market for SMEs could potentially be roughly ¥1.42tn. We want to focus on future trends.

FY3/26 management targets of the Group



* Consolidation offsets are reflected in the consolidated results, so they do not match the results totals of each graph
Source: Prepared by FISCO from the Company's results briefing materials

In order to achieve the targets in the medium-term management plan, the Company is working the following six basic strategies.

(1) "No. 1 tax accountant and CPA firm network strategy"

To realize the strategy of having the "No. 1 tax accountant and CPA firm network," the Company intends to strengthen the functions of the ACELINK NX-Pro ERP system, while progressing planning and development through a joint project with MIROKU KAIKEIJINKAI (a user organization) for new solutions to improve work efficiency. Its market share of ERP systems for tax accountant and CPA firms is stable at around 25% and it has approximately 8,400 user sites, and there are also tax accountant and CPA firms that use services other than for ERP (such as mmap's M&A support service). It proposes installations of ERP systems to these tax accountant and CPA firms, while also focusing on new customer acquisitions, such as of tax accountant and CPA firms that are newly launching independent businesses.

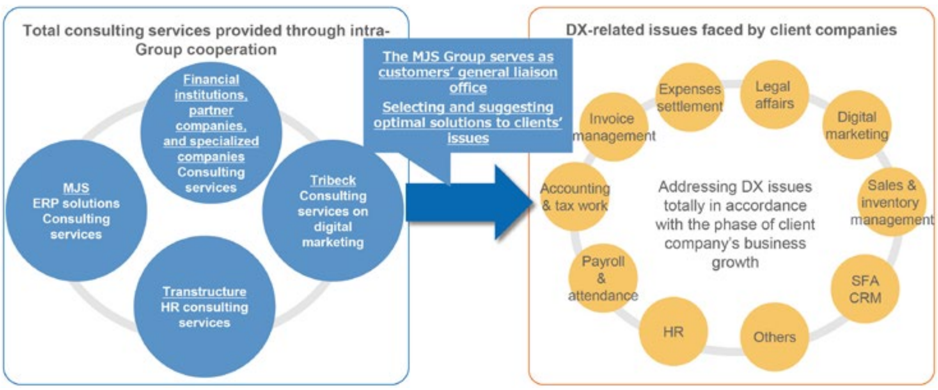
The Group is also working on maximizing customer loyalty by providing tools for management guidance to tax accountant and CPA firms for their client companies. The Company is planning and developing new services that will lead to financing measures, management guidance, and more based on collection and analysis of an array of data including the qualitative and quantitative information of client companies in the cloud. One example of this is the recently announced online financing service through a business alliance with ORIX. For tax accountant and CPA firms, installing it may well offer a big advantage as a new added-value service for client companies that leads to enhanced customer satisfaction. If the data of the roughly 500,000 client companies can be collected and analyzed, it will also enable the Company to elevate the management support services that it provides to high value-added services. Future developments will be under the spotlight.

(2) "Comprehensive solutions and business strategy for SMEs"

The Group is developing comprehensive solutions and businesses aimed at helping SMEs promote DX by expanding service areas to respond to management issues and maximizing the creation of added value through consulting.

Depending on the state of business growth and environmental changes, customer companies face a variety of DX-related issues, and the Group is meeting these customer needs by selecting and providing optimized solutions, including by tapping the resources of Group companies. For example, the Company is a specialist in the accounting and tax fields, while Tribeck is a specialist in the digital marketing field, Transtructure in the HR field, and BizMagic in the CRM/SFA field, and they provide consulting services in each respective field. There are few companies that are able to provide a one-stop solution to meet these diverse management-related consulting needs. Moreover, we at FISCO expect the Company to further enhance group synergies by providing a variety of cloud services in conjunction with group services on the Comprehensive DX Platform.

Comprehensive solutions and business strategy for small and medium enterprises (SMEs)



Source: The Company's results briefing material

Moreover, for the mainstay ERP products, the Group is building competitive advantages by expanding AI functions, strengthening collaborations with external products using API, and improving convenience for customer companies. Its policy is also to plan and develop new cloud-based (IaaS-based) and SaaS-based products and accelerate the shift to cloud services. Currently, sales forms include both on-premises and cloud (IaaS) services, but from FY3/26, mainly cloud (IaaS) or SaaS services will be offered, and provision of on-premises services is expected to shrink significantly.

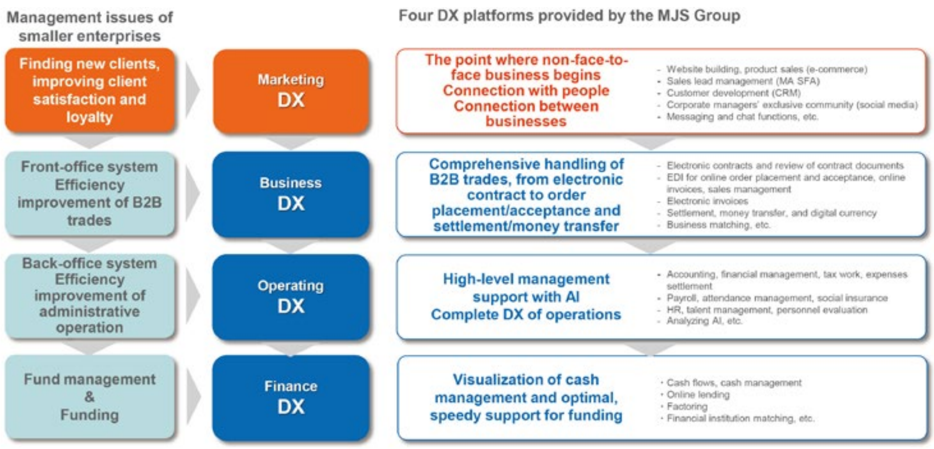
Key catalysts for promotion of DX at SMEs are revision of the Electronic Books Maintenance Act that took effect in January 2022 and the invoice system that is to come into effect in October 2023. The Electronic Books Maintenance Act has a grace period of two years, but makes the electronic preservation of national tax-related ledgers and documents obligatory from January 2024. As a related service, demand is growing for the Company's MJS e-Document Cloud storage service. Also, the Company launched MJS e-Invoice, a cloud-based service for sending and receiving electronic invoices, in September 2022, and future growth in demand looks promising. Therefore, the Company has been running TV commercials since the end of 2022, and intends to actively work to capture such demand along with ERP products.

(3) "Comprehensive DX Platform strategy"

Through building a Comprehensive DX Platform, the Company will promote DX at small enterprises and microenterprises, and support companies' growth by improving productivity and increasing sales, in effect revitalizing the Japanese economy, which continues to grow at a stunted rate. There is a shortage of digital human resources in small enterprises and microenterprises, and an issue they face is that DX transformation is not being progressed as anticipated. The UI design of the Comprehensive DX Platform enables easy installation and customization of necessary functions even without specialist IT knowledge, and makes centralized operation possible using a unified dashboard. In such ways, the Company is aiming to promote the concept of user-friendliness to increase the number of user companies.

The Comprehensive DX Platform provides four DX platforms. Specifically, they are marketing DX including for customer acquisitions, business DX for front-office systems, operating DX for back-office systems, and finance DX including for managing and raising funds, and multiple service offerings on each respective platform are envisioned. The Company is currently conducting operation on a trial basis, will start offering services as they become available for practical use, and expects the platform to contribute to sales in FY3/24 or thereafter. It will not just offer its Group's services on the platform, but also other companies' services (business intelligence tools, etc.), with the aim of making it a platform offering a full spectrum of services related to management for customers.

Comprehensive DX Platform strategy (new business area)



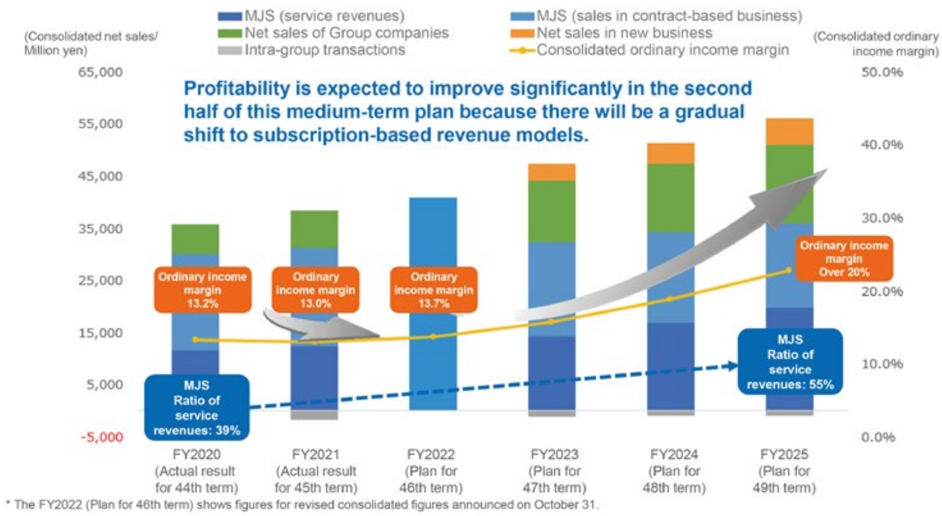
Source: Reprinted from Medium-term Management Plan Vision 2025

(4) “Converting to a cloud subscriptions business model”

Currently, the Group is gradually progressing a conversion to the cloud subscriptions for ERP products, 80% of sales for which consist of one-off purchase. Converting to a subscription model will have a temporary negative impact on net sales and profits, but is expected to generate stable sales that are not influenced by external factors, reduce the man power needed for replacement and enable operating resources to be focused on acquiring new customers. Moreover, since converting to cloud subscriptions will always provide users with an environment where they can use the latest systems, costs to maintain older versions of products will be minimized. In other words, converting to the cloud and a subscription model is expected to lead to continuous sales growth and improved profitability.

From the customer’s perspective, the benefits of transitioning to a subscription model are tremendous, including low initial costs compared to one-off purchases, labor shortage alleviation by eliminating the need for personnel to build and operate servers, and constant availability of the latest functions. As previously stated, the outlook suggests the ratio of revenue from recurring income-type revenue, including subscription revenue, on a non-consolidated basis will increase from about 40% in FY3/22 to 55% in FY3/26. Recurring income-type revenue also includes sales of maintenance and support services when making on-premises sales, and currently the sales ratio of these services is high. Going forward, the ratio of software usage fees, which will become subscription revenue, should rise.

Converting to a cloud subscriptions business model



Source: The Company’s results briefing material

(5) “Promoting the independent growth of Group companies through Group collaborations”

In addition to providing comprehensive consulting services through Group collaborations, Group companies will actively develop unique solutions. This will nurture each subsidiary’s independent growth. Also, MJS plans to strengthen profitability by realigning Group organizations and optimizing management frameworks.

Tribeck aims to become a comprehensive DX consulting company that provides support from brand strategy to customer acquisition and development by integrating the bizocean business information site with over 3.30mn registered members and digital marketing business. There are strong needs for services such as revamping corporate websites, and significant potential demand from SMEs. Transtructure plans to acquire new customers by holding joint seminars with the Company, while promoting transitions to the cloud and automation in HR consulting services. It will also strengthen its personnel structure, which was an issue. MJS M&A Partners, which provides M&A consulting services for SMEs, continues to not perform as well as initially expected, but it intends to promote efficient business operations by strengthening external collaborations and building a matching platform.

MJS Finance & Technology Co., Ltd. is focusing on expanding sales of SPALO, an automatic document creation system of the voice-activated chatbot type using AI technology. As a tool that helps accomplish things like going paperless and reducing the time it takes to create documents such as business reports by enabling data to be automatically entered into Excel and so forth by talking with a chatbot, SPALO has been introduced at over 200 companies, including distribution companies and HR service companies, and future growth looks promising.

Regarding the three subsidiaries carrying out consigned development, companies aim to achieve growth by utilizing their respective technological capabilities to provide proprietary solutions for specific applications. It intends to pursue growth by strengthening development capabilities centered on the cloud and online areas, while bolstering sales expertise. It also intends to continue M&A activities, targeting companies offering services that could be provided over the Comprehensive DX Platform and others as main candidates.

(6) Strengthening human resource capabilities and the management foundation to accelerate the realization of strategy

Given the environment during and after the COVID-19 pandemic, the Company is accelerating its investment in human resources and creating comfortable working environments, while also working on building a management and work foundation in response to new workstyles. For workplaces that are healthy and provide work satisfaction, the Company is working on themes including establishing a teleworking environment and reducing overtime, improving the rate of employees taking paid leave, establishing a market-competitive compensation system and enhancing employee benefits, developing and securing professional human resources, and establishing a training system and thoroughly training all human resources. In such ways, it is working to improve employee satisfaction and strengthen the recruitment and development of human resources. It plans to hire around 70-80 new graduates in spring 2023.

Moreover, by upgrading the in-house management information system, the aims are to accelerate and optimize management decision-making by visualizing revenue and expenditure management by business and by product. At the same time, it is also working to improve the productivity of management operations and to realize digitalization.

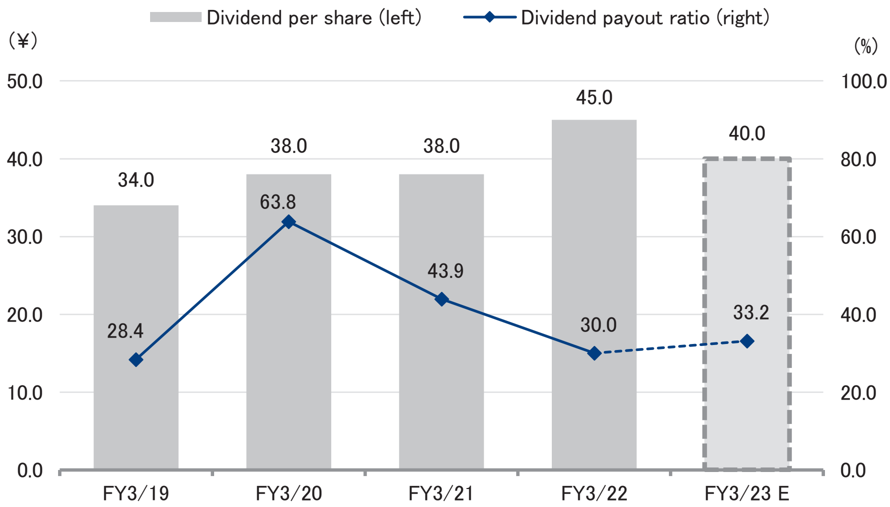
Shareholder return policy and sustainability management initiatives

The shareholder return policy is to continue to stably pay a dividend targeting a dividend payout ratio of 30%. Is also acquiring treasury shares, while observing conditions

1. Shareholder return policy

The Company's basic policy for returning profits to shareholders is to continue to stably pay a dividend over the long term, targeting a dividend payout ratio at a level of 30.0%. In FY3/23, it plans to pay a dividend of ¥40.0, which is ¥5.0 less than in FY3/22 but that included a special dividend of ¥5.0, so ordinary dividends are to be flat. Plans are thus for a dividend payout ratio of 33.2%, and should the level fall below 30.0% in the future, we can expect a dividend increase. Also, the Company acquires treasury shares as appropriate in order to improve capital efficiency, with its most recent acquisition being of 581,000 shares for about ¥1.0bn between August and November 2021. The Company's holdings of treasury shares have come to account for 14.2% of outstanding shares, but it plans to use them for things like employee stock options and M&A strategies.

Dividend per share and dividend payout ratio



Note: FY3/22 includes a special dividend of ¥5.0
Source: Prepared by FISCO from the Company's financial results

2. Sustainability management initiatives

The Company believes that the implementation of its corporate philosophy and management policy are the essence of sustainability management. Its Group goal of "growth and development of small enterprises" contribute to sustainability of the Japanese economy and society. Within this context, it established the Sustainability Committee and defined business opportunities and risks based on the two axes of "importance for stakeholders" and "level of importance to our business" and determined four issues that should be promoted with priority as materiality (material issues).

The material issues are 1) contributing to the global environment by promoting DX (reducing environmental impact by promoting DX through business activities), 2) supporting the business innovation, growth and development of accounting firms and SMEs (providing stable, high-quality ERP products and management information services, working on innovative new business that encourages DX, promoting collaboration and co-creation with accounting firms, and accumulating intellectual capital), 3) creating rewarding workplaces where diverse professionals thrive (recruit and develop human resources, create growth opportunities, promote diversity and work style reforms), and 4) strengthening governance for healthy growth (implement robust corporate governance and information security practices). The Company will set goals for each issue and take steps to realize them.

FISCO

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