COMPANY RESEARCH AND ANALYSIS REPORT

Miroku Jyoho Service Co., Ltd.

9928

Tokyo Stock Exchange Prime Market

4-Sept.-2023

FISCO Ltd. Analyst

Yuzuru Sato

FISCO Ltd.

https://www.fisco.co.jp

Index

Summary

Targeting sustainable growth and enhanced profitability by transitioning to a subscription model for ERP products and building the Comprehensive DX Platform business

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). 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 FY3/23 results

In the FY3/23 consolidated results, net sales increased 13.3% year-on-year (YoY) to ¥41,461mn, and operating income rose 27.0% to ¥6,084mn, both reaching record highs. Net sales grew by double digits as strong momentum for ERP products, led by the new ERP system Galileopt DX, for SMEs offset temporary negative impact from the transition to a cloud subscription model. On the profit front, higher sales neutralized an increase in depreciation due to new product launches and a rise in personnel expenses, and the operating margin rose from 13.1% in the previous fiscal year to 14.7%. The Company is shifting to a subscription-based earnings structure, and subscriptions accounted for 18.0% of mainstay ERP product sales in FY3/23. Since the transition to subscriptions apparently had negative impact of about ¥1.8bn on net sales and operating income, the growth in earnings was even larger on a real basis. As of March 2023, the ARR* of cloud subscriptions (software usage fees) was up 48.9% YoY to ¥4,540mn, marking continued strong growth.

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

2. FY3/24 forecast

For the FY3/24 consolidated results, the Company is forecasting net sales to increase 0.3% YoY to ¥41,600mn and operating income to rise 0.3% to ¥6,100mn. It looks like growth will slow, but that is because the Company plans to accelerate the shift to subscriptions to over 25% of net sales of mainstay ERP products. Net sales from those sales on a subscription basis would be about ¥3.0bn if sold under one-off purchase contracts. Since the net sales from subscription contracts actually to be posted come to ¥300mn–¥500mn, the Company estimates that net sales and operating income of about ¥2.5bn–¥2.7bn will be deferred to FY3/25 onward, so expects earnings on a real basis to continue to steadily grow. As for the new Comprehensive DX Platform business, subsidiary Tribeck Inc. released the comprehensive DX support service for SMEs called Hirameki 7 in July 2022, and is working to increase sales. As of June 2023, over 9,000 companies had introduced Hirameki 7. As the majority of users are on the free plan, Tribeck Inc. plans to enhance the service's functions and promote a shift to the fee-based plan (¥6,000/month) going forward.

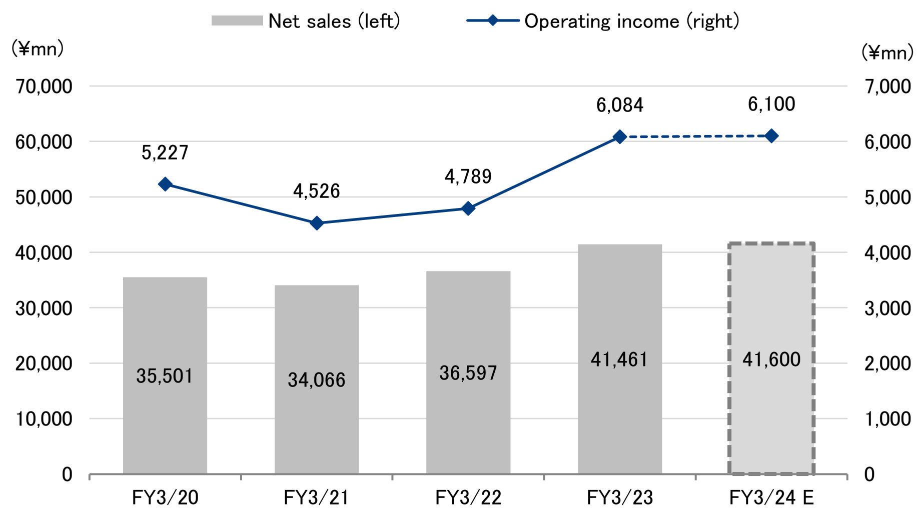
3. Status of progress on Medium-term Management Plan Vision 2025

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 sets numerical management targets of net sales of ¥55.0bn and ordinary income of ¥12.5bn in FY3/26. The ordinary income target breaks down as ¥7.5bn from non-consolidated results, mainly in the ERP business, ¥2.5bn from Group companies, and ¥2.5bn from the new Comprehensive DX Platform business. Looking at progress up to FY3/23, the Company is steadily acquiring SME customers for mainstay ERP products, but Group company earnings and the Comprehensive DX Platform business are behind plan and expected to catch up moving forward.

Key Points

- Net sales, operating income, and ordinary income grew by double digits in FY3/23 to highest levels in three fiscal years, driven by strong sales of ERP products
- FY3/24 forecast for growth to temporarily slow due to transition to cloud subscriptions seems conservative
- Building the Comprehensive DX Platform business and growth at Group companies are key to attaining FY3/26 ordinary income target of ¥12.5bn

Consolidated financial results trends



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 strengthening its development of cloud services too. It has also actively promoted an M&A strategy over the past few years to expand its business domain. As for key achievements, it made one of Japan's largest independent organizational and HR consulting firms, Transtructure Co., Ltd., into a subsidiary in April 2020, the digital marketing support and digital platform business company Tribeck into a subsidiary in December 2020, and the CRM/SFA system development and installation support company BizMagic Co., Ltd. into a subsidiary in August 2022.

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 (formerly 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) Made BizMagic Co, Ltd., which develops and sells a customer relationship management/sales force automation system, into a subsidiary (August) 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)

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 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. The number of CPA firm users is approximately 8,400 and the Company holds a roughly 25% industry share, standing 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 nearly 90% of SMEs, while the remaining just over 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 (SMEs with annual sales of ¥0.5bn to ¥50.0bn)

Source: Prepared by FISCO from the Company's materials

3. Subsidiaries and affiliates

At the end of March 2023, 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 areas such as consulting and fintech. 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.

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 CPA firms.

The Company's subsidiaries and affiliates (as of March 31, 2023)

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	74.2%	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

Net sales, operating income, and ordinary income grew by double digits in FY3/23 to highest levels in three fiscal years, driven by strong sales of ERP products

1. FY3/23 consolidated results

In the FY3/23 consolidated results, net sales increased 13.3% YoY to ¥41,461mn, operating income increased 27.0% to ¥6,084mn, ordinary income increased 22.4% to ¥5,839mn, and net income attributable to owners of parent decreased 16.6% to ¥3,767mn. All significantly exceeded the Company's initial forecast, with net sales, operating income, and ordinary profit all reaching record highs.

The results were slightly above the Company's FY3/23 consolidated results forecasts revised up on October 31, 2022.

Consolidated results for FY3/23

(¥mn)

	FY3/22		FY3/23				
	Results	Ratio	Initial forecast	Results	Ratio	YoY	vs. forecast
Net sales	36,597	-	38,800	41,461	-	13.3%	6.9%
Gross profit	22,607	61.8%	-	25,603	61.8%	13.3%	-
SG&A expenses	17,818	48.7%	-	19,519	47.1%	9.5%	-
Operating income	4,789	13.1%	4,800	6,084	14.7%	27.0%	26.8%
Ordinary income	4,771	13.0%	4,800	5,839	14.1%	22.4%	21.7%
Extraordinary profits and losses	2,048	5.6%	-	-101	-0.2%	-	-
Net income attributable to owners of parent	4,517	12.3%	2,900	3,767	9.1%	-16.6%	29.9%
EBITDA*	7,091	19.4%	-	9,550	23.0%	34.7%	-

*EBITDA=Operating income + depreciation + amortization of goodwill
Source: Prepared by FISCO from the Company's financial results

System installation contract sales rose 16.8% YoY, with active IT investment supporting brisk sales of ERP products for general companies and tax accountant and CPA firms. Also, recurring income-type service revenues increased a solid 9.6% YoY, owing to the provision of subscription contracts for some ERP products, and growth in sales of cloud services. The order backlog* (non-consolidated), a leading indicator of system installation contract sales, turned down by 0.60 of a month on the start of the period to 5.73 months. However, that was in line with expectations since sales posted were stronger than sales orders. As of March 2023, the number of mainstay ERP products provided by subscription was up 93.6% YoY to 2,059 with ARR rising a sharp 126.1% to ¥1.58bn, and subscriptions accounting for 18.0% of mainstay ERP product sales. Since sales from subscription contracts are prorated monthly and will also entail deferred posting in FY3/24 onward, they result in lower earnings for FY3/23 than if the products had been sold under one-off purchase contracts. The Company estimates the impact on net sales and operating income was about ¥1.8bn if all of the products sold under subscription contracts in FY3/23 had been sold under one-off purchase contracts instead.

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

On the profit front, the operating margin increased from 13.1% in the previous fiscal year to 14.7%, as sales growth offset increases in depreciation (of ¥820mn YoY) due to new product launches, goodwill amortization (of ¥343mn), and promotional expenses (of ¥405mn), as well as growth in the cost of sales and SG&A expenses due partly to higher personnel expenses accompanying an increase in base pay and personnel structure reinforcement (83 new graduates hired, etc.). Net income attributable to owners of parent declined because the non-operating income balance deteriorated slightly due to a ¥328mn* share of loss of entities accounted for using equity method, and the absence of the ¥2,087mn gain on the sale of shares of an affiliate that was posted as an extraordinary profit in the previous fiscal year. While the initial forecast was based on conservative plans for sales of ERP products amid a shift to subscriptions and cloud services, net sales and profit at all levels topped plan because there was demand for replacing products with new ones and solid headway was made acquiring customers. When transitioning from a business model based on one-off sales (flow-type) to one based on a subscription cloud services (recurring-income type), earnings often temporarily decline, so it is commendable that Company attained double-digit growth in sales and profits during the process. The consolidated number of employees rose by 93 YoY to 2,028 at the end of March 2023.

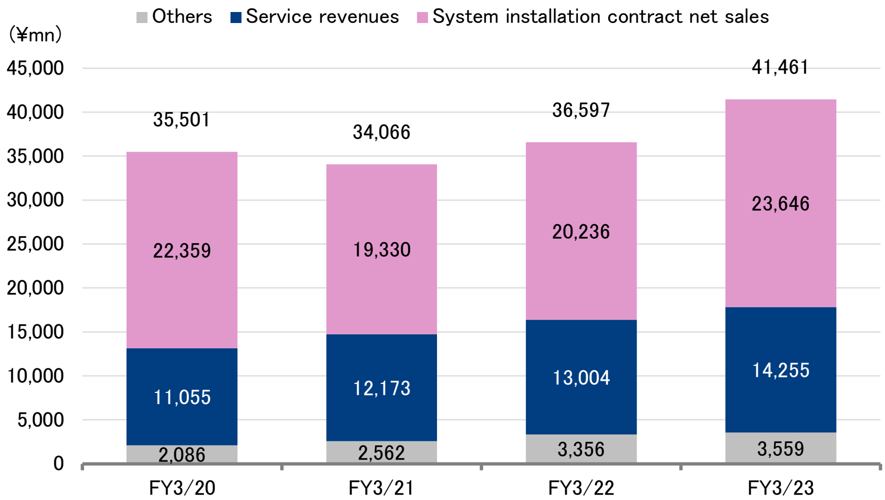
* This is mainly because the unamortized balance of goodwill for one entity accounted for using the equity method was posted as a one-time amortization of ¥303mn since the excess earnings capacity assumed in the business plan at the time of acquisition is no longer expected.

Flow-type system installation contract net sales and recurring-income type services revenues expanding, 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 16.8% YoY to ¥23,646mn, the highest level in three fiscal years. Services revenues, which are recurring-income type revenues, increased 9.6% to ¥14,255mn and others (mainly the sales at subsidiaries) increased 6.1% to ¥3,559mn.

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 growth across the board with those to general companies (corporate) up 22.9% YoY to ¥13,003mn, tax accountant and CPA firms up 11.6% to ¥6,679mn, and others up 7.9% to 3,963mn.

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 bringing the total number of these branches that conduct proposal-based marketing of corporate ERP products to 15. Solutions branches' efforts to acquire new customers and cross-sell and upsell to existing customers led to sales growth without losing replacement demand. With ERP system functions becoming increasingly sophisticated and complex, not just product functions but also consulting capabilities to accurately understand the issues that companies face and offer optimal solutions have become important. The Company's development of sales staff that are highly skilled at providing solutions is contributing to strong customer satisfaction and brisk sales. In fact, the subscriber retention rate for mainstay ERP products is very high at 99.1%.

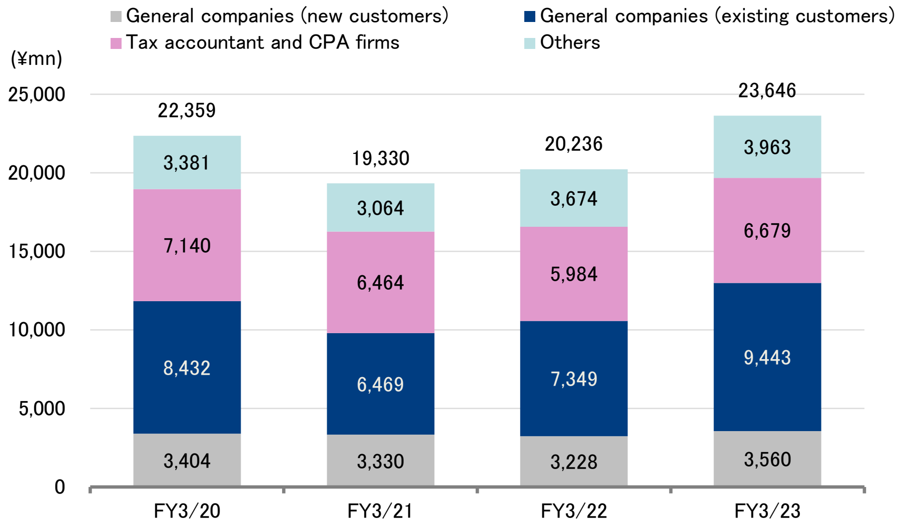
* Galileopt DX features enhanced convenience compared with the previous product, including improved operating performance from utilizing AI technology, faster processing speed, and expanding API alliance partners. It is helping to enliven replacement demand.

The ratio of total corporate sales provided by sales to new customers was 27.4%, down 3.1 percentage points YoY. This is mainly because net sales to existing customers grew a sharp 28.5% to ¥9,443mn, owing to replacement demand and upselling and cross-selling efforts. Net sales to new customers rose 10.3% to ¥3,560mn, turning up for the first time in three fiscal years, but growing less than for net sales to existing customers due to the high ratio of cloud subscription contracts. Cloud subscriptions' share of corporate ERP product sales apparently rose from nearly 20% in the previous fiscal year to about 30–35%, and those sales are recorded as service revenues (software utilization fees).

Net sales to tax accountant and CPA firms turned up for the first time in three periods, rising 11.6% YoY to ¥6,679mn. Sales had been on a downtrend after peaking in FY3/20 due to the concentration of updates of ERP products along with extraordinary replacement demand for PCs and the like, but have finally bottomed. Subscription contracts only account for a few percent of net sales to tax accountant and CPA firms; packaged products are still the mainstay. Regarding net sales to others, sales through sales partners rose a solid 7.9% to ¥3,963mn.

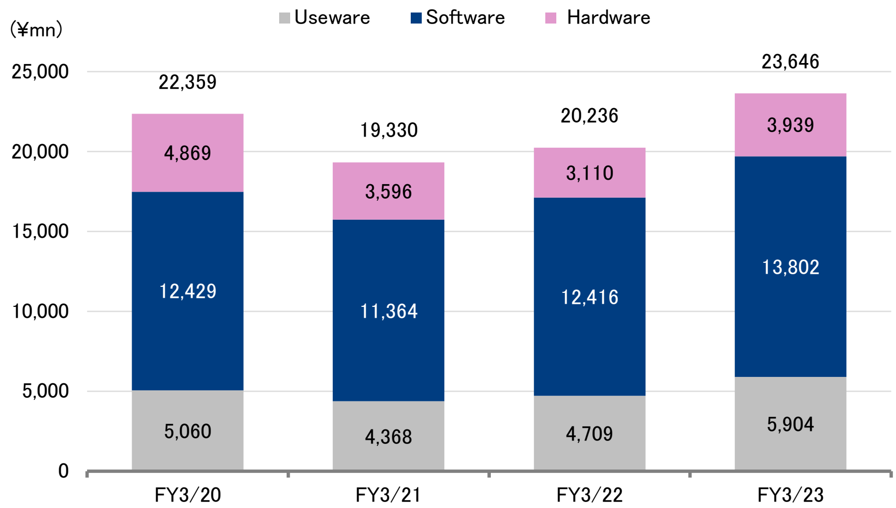
Looking at system installation contract sales by product category, sales of software rose 11.2% YoY to ¥13,802mn, hardware grew 26.7% to ¥3,939mn, and useware (installation support services) increased 25.4% to ¥5,904mn, marking double-digit growth for each. Software sales growth was relatively low because the ratio of cloud and subscription contracts increased. Hardware sales grew by double digits partly since semiconductor shortages were resolved such that sales were recorded for deliveries that were delayed in the previous fiscal year. As for useware, installation support services for customers with cloud and subscription contracts contributed to strong growth.

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

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 0.6% YoY to ¥2,534mn, software usage fees rose 41.6% to ¥3,934mn, software operation assistance services (corporate software maintenance services) grew 1.6% to ¥5,684mn, hardware/network maintenance services up 0.9% to ¥1,518mn, and office supplies decreased 3.9% to ¥582mn. 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. Some sales shifted from software operation assistance services to software usage fees accompanying some transitions to subscriptions for mainstay ERP products.

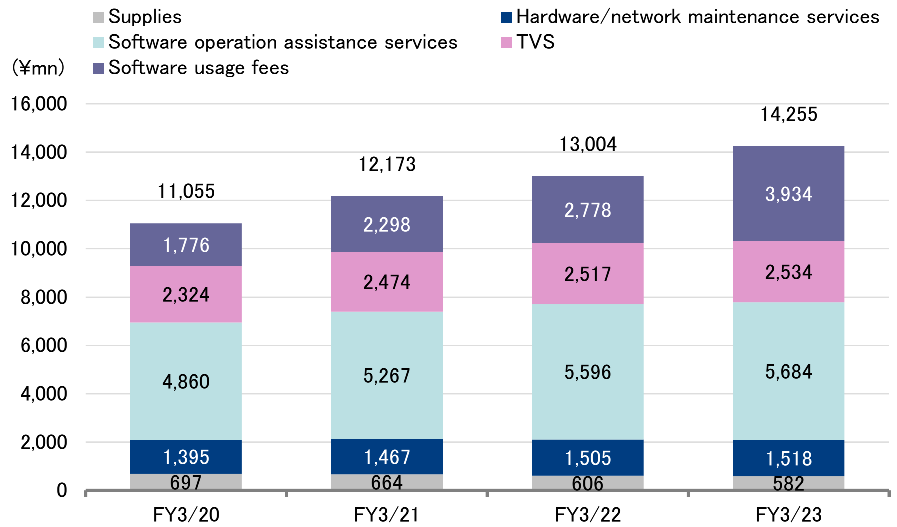
Also, ARR, a KPI for cloud subscription revenue (software usage fees), rose 48.9% YoY to ¥4,540mn in March 2023, growing at a faster pace. In particular, growth was rapid for mainstay ERP product subscriptions and IaaS*1, with ARR up 126.1% YoY to ¥1,585mn. Corporate customers accounted for about 90% of that ARR since progress was made transitioning corporate Galileopt and MJSLINK series customers to subscription and cloud services. Also, ARR is steadily increasing and rose 36.5% to ¥445mn for the Edge Tracker*2 comprehensive platform cloud service for companies, 4.5% to ¥1,215mn for various services for microenterprises (e.g., Kantan Cloud Kaikei), and 50.6% to ¥1,294mn for various option services including those relating to storage and 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*3 has created a need for electronic preservation of documents related to accounting and tax processing, which is leading to strong growth. While these services have little direct impact on profit, the Company is providing them as one strategy for retaining customers (=preventing churn). Regarding various cloud services for microenterprises, the Company has increased the number of contracts through tax accountant and CPA firms, which are its customers, but targets further growth while developing sales channels other than tax accountant and CPA firms going forward.

*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.

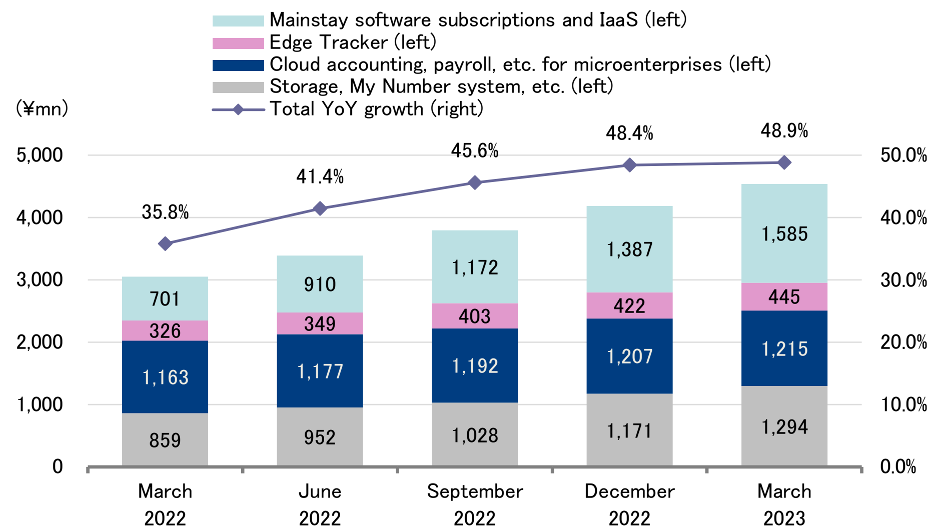
*3 The Electronic Books Maintenance Act is a law that allows for tax-related accounting books and documents to be retained in the form of electronic data. The printing out and retention of such documents in hard copy format permitted as a transitory measure due to revisions made to the law in January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

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

Trend in ARR for cloud subscriptions



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

(3) Others

In others (mainly the business of the subsidiaries), net sales increased 6.1% YoY to ¥3,559mn. Looking at trends at major subsidiaries, digital marketing support service provider Tribeck's profit declined because upfront investments (development costs, advertising and promotional expenses, etc.) in Hirameki 7, a comprehensive DX platform to support SMEs released in July 2022, outweighed solid growth in digital marketing support services to large companies. However, profit apparently topped initial plan.

Hirameki 7 is a one-stop cloud service with seven functions necessary for expanding business. They are marketing (website and webform creation, e-mail distribution, business card management, etc.), operation (file management, etc.), finance (online funding support, subsidy diagnosis navigation, etc.), communication (communities, etc.), business (management analysis, cash flow simulations, etc.), corporate (company newsletters, etc.), and CX (customer experience, coming soon) functions. Since its launch, the Company has promoted the service using various media, including TV commercials and taxi ads, and over 9,000 companies had introduced it as of the end of June 2023. However, the Company plans to add CX and a few other functions in stages in the future, and the majority of users are currently on the free plan. Going forward, its strategy is to promote a shift to fee-based plans (¥6,000/month, other option fees, etc.) by enhancing the service's functions.

HR consulting firm Transtructure's earnings were broadly on par with the previous fiscal year and in line with plan. It is apparently currently focusing on personnel hiring and development. MJS M&A Partners, which offers M&A support services, apparently aims to grow earnings by adding more professionals to its workforce in the future and concentrating on acquiring large projects.

BizMagic, which develops and sells a sales force automation system among other things, had little impact on earnings since not long has passed since its establishment in August 2022, which is also when it was made into a subsidiary. Moving forward, it aims to expand earnings by working with the Company's solution branches to propose the introduction of its offerings to existing ERP system customers and others.

Convertible bonds with share acquisition rights due at the end of November 2023 can be repaid with cash on hand and borrowings if their conversion does not advance

3. Financial status and management indicators

For the financial status at the end of FY3/23, total assets increased ¥2,306mn compared to the end of the previous fiscal period to ¥45,793mn. Looking at the main influencing factors in current assets, cash and deposits increased ¥2,586mn and inventory assets increased ¥463mn respectively. In fixed assets, software assets (including development in progress) increased ¥501mn, while goodwill decreased ¥540mn and investment securities decreased ¥866mn respectively.

Total liabilities increased ¥161mn compared to the end of the previous fiscal period to ¥21,018mn. Interest-bearing debt declined ¥495mn, while contract liabilities rose ¥284mn, accrued amount payable and accrued expenses rose ¥300mn, and reserve for bonuses rose ¥246mn. Total net assets increased ¥2,145mn to ¥24,775mn. The increase owes to the recording of net income to owners of parent of ¥3,767mn, which offset dividend payments of ¥1,343mn and a decline of ¥301mn in unrealized gains on available-for-sale securities.

As for management indicators, the interest-bearing debt ratio declined from 7.1% at the end of the previous period to 4.4%, and the equity ratio rose from 51.0% to 53.0%, further improving financial soundness. The Company is scheduled to redeem ¥11.0bn in convertible bonds with share acquisition rights on November 30, 2023 if its share price does not exceed the conversion price of ¥2,995.4 before then. That should not be a problem since its cash and deposits exceeded ¥19.0bn at the end of March 2023 and it could also borrow the required funds. The Company is likely to remain financially sound since its earnings are stable and it does not have significant capital needs.

Consolidated balance sheet

(¥mn)

	FY3/22	FY3/23	Change	Factors
Current assets	24,403	27,410	3,006	Cash and deposits +2,586, inventories +463
Cash and deposits	17,260	19,846	2,586	
Fixed assets	19,071	18,378	-692	Software assets (including development in progress) +501, goodwill -540, investment securities -866
Total assets	43,487	45,793	2,306	
Current liabilities	9,374	20,868	11,494	Convertible bond-type bonds with share acquisition rights +11,007, accrued amount payable and accrued expenses +300
Fixed liabilities	11,482	149	-11,333	Long-term borrowings -304, convertible bond-type bonds with share acquisition rights -11,018
Total liabilities	20,856	21,018	161	
Total net assets	22,630	24,775	2,145	Retained earnings +2,424, valuation difference on available for sale securities -301
Shareholders' equity	20,782	23,169	2,386	
Total liabilities and net assets	43,487	45,793	2,306	
Interest-bearing debt	1,606	1,090	-515	Excluding convertible bond-type bonds with share acquisition rights (zero coupon)
Net cash	15,653	18,755	3,101	(Cash and deposits + securities – interest-bearing debt)
<Management indicators>				
Current ratio	260.3%	131.3%	-129.0pt	
Equity ratio	51.0%	53.0%	2.0pt	
Interest-bearing debt ratio	7.1%	4.4%	-2.7pt	
ROE	21.4%	16.2%	-5.2pt	

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

Outlook

FY3/24 forecast for growth to temporarily slow due to acceleration of transition to cloud subscriptions seems conservative

1. Consolidated outlook for FY3/24

For the FY3/24 consolidated results, the Company is forecasting net sales to increase 0.3% YoY to ¥41,600mn, operating income to rise 0.3% to ¥6,100mn, ordinary income to grow 6.2% to ¥6,200mn, and net income attributable to owners of parent to increase 8.8% to ¥4,100mn. Given the transition in how software is provided from sales of packaged products to subscription services, it expects net sales to only increase slightly and aims to build up steady recurring income-type revenue over the long term. It projects operating income will grow as improvement in the product mix, other efforts to reduce the cost of sales and SG&A expenses, and improvement in subsidiaries' results offset an increase in depreciation and higher personnel expenses due partly to personnel system reinforcement (hiring of 78 new graduates).

For non-consolidated results, the Company is forecasting a decrease in both sales and profit, with net sales to decrease 2.6% YoY to ¥35,000mn and ordinary income to decline 9.2% to ¥5,800mn. It projects lower non-consolidated net sales partly because acceleration of the shift in the method of software provision from packaged products to subscriptions will increase sales from software usage fees and useware but decrease sales from software. Other reasons are there will be a pullback from the growth for hardware attributable to the posting of sales in FY3/23 from deliveries that were delayed, and impact from growth in the provision of ERP products in an IaaS environment. The Company assumes over 25% of mainstay ERP products (value basis) will be provided via subscriptions, up from 18% in FY3/23. If the 25% of products provided via subscriptions were sold under one-off purchase contracts instead, the net sales would be about ¥3.0bn. The Company plans to record net sales of ¥300mn–¥500mn in FY3/24 from subscription contracts under software usage fees, deferring the remaining ¥2.5bn–¥2.7bn to FY3/25 onward. Therefore, the speed of the transition to subscriptions is a variable that will affect net sales and operating income, and if the transition is slower than to subscriptions accounting for 25% of the mix, that would boost FY3/24 results.

For results at Group companies, the Company forecasts higher sales and profits overall. By major Group company, it projects sales and profit growth at the three subsidiaries carrying out consigned development as well as Transtructure and MJS M&A Partners. For Tribeck, it expects higher sales but slightly lower profits due to a drag from upfront investment. At the three subsidiaries carrying out consigned development, earnings have been lackluster over the past few years. However, the Company plans to expand earnings at all three of them by dispatching some of its sales staff and introducing its customers to them to promote solution-based sales in FY3/24. Also, Transtructure and MJS M&A Partners will work on developing and reinforcing personnel frameworks with an eye to growth. Tribeck will make upfront investments, including for development to enhance the functions of Hirameki 7 and ongoing work to increase sales, and aims to contribute to earnings in FY3/25 onward.

The outlook for net sales in FY3/24 by product calls for system installation contract sales to decrease 8.2% YoY to ¥21,710mn, but service revenues to increase 9.4% to ¥15,589mn and others (mainly sales at subsidiaries) to grow 20.8% to ¥4,300mn.

Consolidated outlook for FY3/24

(¥mn)

	FY3/23		FY3/24		
	Results	Ratio	Company's forecast	Ratio	YoY
Net sales	41,461	-	41,600	-	0.3%
Operating income	6,084	14.7%	6,100	14.7%	0.3%
Ordinary income	5,839	14.1%	6,200	14.9%	6.2%
Extraordinary profits and losses	-101	-0.2%	-	-	-
Net income attributable to owners of parent	3,767	9.1%	4,100	9.9%	8.8%
Earnings per share (EPS) (¥)	126		137		

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

Non-consolidated outlook

(¥mn)

	FY3/23		FY3/24		
	Results	Ratio	Company's forecast	Ratio	YoY
Net sales	35,952	-	35,000	-	-2.6%
Ordinary income	6,385	17.8%	5,800	16.6%	-9.2%

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

Net Sales by product category (consolidated basis)

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24 E	YoY
System installation contract net sales	22,359	19,330	20,236	23,646	21,710	-8.2%
Hardware	4,869	3,596	3,110	3,939	2,939	-25.4%
Software	12,429	11,364	12,416	13,802	12,480	-9.6%
Useware	5,060	4,368	4,709	5,904	6,290	6.5%
Service revenues	11,055	12,173	13,004	14,255	15,589	9.4%
TVS	2,324	2,474	2,517	2,534	2,542	0.3%
Software usage fees	1,776	2,298	2,778	3,934	5,262	33.7%
Software operation assistance services	4,860	5,267	5,596	5,684	5,774	1.6%
Hardware/network maintenance	1,395	1,467	1,505	1,518	1,434	-5.5%
Supplies	697	664	606	582	575	-1.2%
Others	2,086	2,562	3,356	3,559	4,300	20.8%
Total	35,501	34,066	36,597	41,461	41,600	0.3%

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

(1) System installation contract net sales

The Company projects system installation contract net sales will decline due to the shift from packaged products to cloud subscriptions. A gradual downtrend is also expected to continue going forward since (non-consolidated) outstanding orders have already peaked out—declining 6.8% YoY to ¥9,023mn at the end of FY3/23, and the Company's strategy is to transition to cloud subscriptions with the aim of establishing an earnings structure based on recurring revenue. By product category, the Company expects net sales of software to decline 9.6% to ¥12,480mn and hardware to decline 25.4% to ¥2,939mn, but useware to increase 6.5% to ¥6,290mn. For useware, there will also be sales to cloud subscription-based customers, so the outlook is for higher sales. Looking at sales by customer, the Company projects those to general companies will decline of 3.8% YoY to ¥12,505mn, tax accountant and CPA firms will decrease 14.1% to ¥5,736mn, and others (sales at subsidiaries, sales to partners, etc.) will decline 12.5% to ¥3,469mn.

System installation contract sales by customer

(¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24 E	YoY
Total	22,359	19,330	20,236	23,646	21,710	-8.2%
General companies	11,837	9,800	10,577	13,003	12,505	-3.8%
Tax accountant and CPA firms	7,140	6,464	5,984	6,679	5,736	-14.1%
Others	3,381	3,064	3,674	3,963	3,468	-12.5%

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

(2) Service revenues

As for the breakdown of service revenues, software operation assistance services revenues are forecast to rise 1.6% YoY to ¥5,774mn and TVS to inch up 0.3% to ¥2,524mn, while software usage fees are to grow significantly by 33.7% to ¥5,262mn. The driver is growth in monthly fee income from an increase in cloud subscriptions to mainstay ERP products. The Company established one new solutions branch specializing in selling ERP products to SMEs, bringing the total number of solutions branches to 16. Through these branches, it is actively developing solutions business, working on upselling and cross-selling to existing customers as well as acquiring new customers. Firstly, it is proposing cloud subscription offerings. The Company's strategy is also to capture robust demand by offering new added value by addressing the Electronic Books Maintenance Act and invoice system as well as integrating API with an array of products from other companies, while encouraging the use of IT subsidies. Through such initiatives, it targets increases in the number of mainstay ERP products provided by subscription of 50.5% YoY to 3,100, ARPU of 4.1% to ¥800,000, and ARR of 56.9% to ¥2.48bn. Since orders are currently maintaining the solid momentum since FY3/23, we at FISCO believe the Company's targets are well within reach.

KPI for mainstay ERP products provided by subscription

	FY3/23	FY3/24 E
Subscriptions to mainstay ERP products*1	2,059	3,100
ARPU*2 for mainstay ERP products (¥1,000)	768	800
ARR for mainstay ERP products (¥100mn)	15.8	24.8
Subscriptions' share of FY mainstay ERP product sales*3	18%	Over 25%

*1 Galileopt series, MJSLINK series, ACELINK NX-Pro, ACELINK NX-CE, MJS Zeimu series, MJS Cloud IaaS, and MJS DX Cloud
*2 Average revenue from software usage fees per customer for mainstay ERP products
*3 Comparison based on value of subscriptions and one-off purchase contracts for mainstay ERP products for the full fiscal year
Source: Prepared by FISCO from the Company's results briefing materials

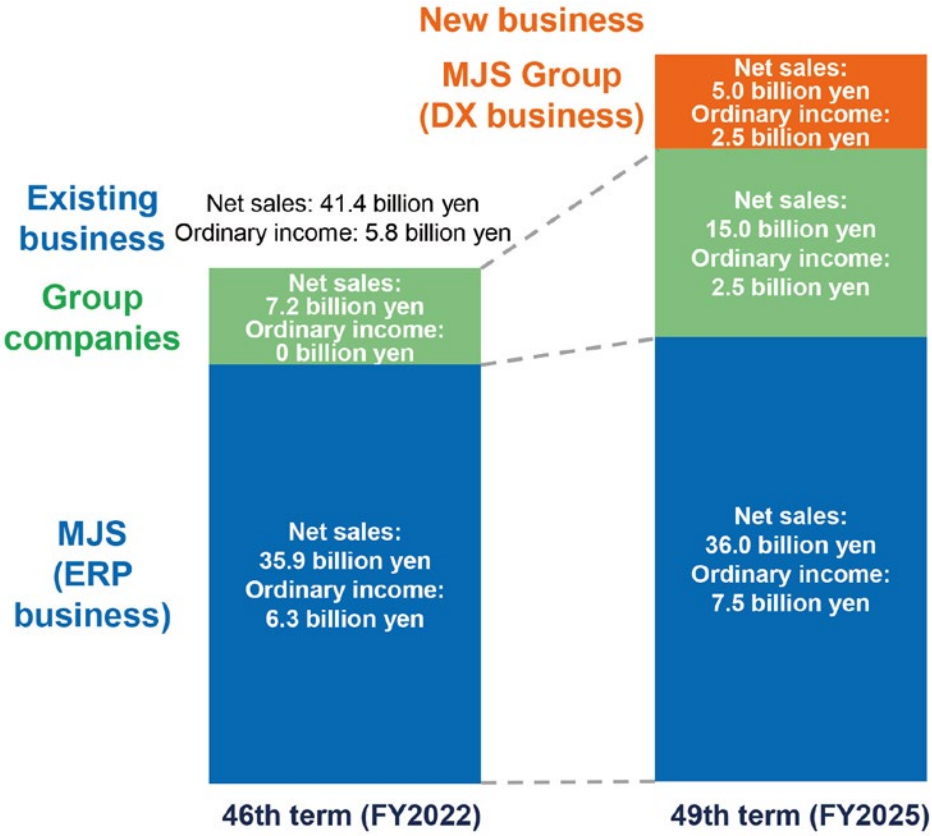
Building the Comprehensive DX Platform business and growth at Group companies are key to attaining FY3/26 ordinary income target of ¥12.5bn

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."

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 three years from FY3/24 of 9.9% for net sales and 28.9% for ordinary income. The performance of new businesses (Hirameki 7 and other Comprehensive DX Platform business) and Group companies is key to attaining the targets. The Company's FY3/26 targets for new businesses are net sales of ¥5.0bn and ordinary income of ¥2.5bn, and for Group companies are net sales of ¥15.0bn and ordinary income of ¥2.5bn (actual FY3/23 results: net sales of ¥7.2bn, break-even ordinary income). Its headway towards those targets is a bit slow so far, so it needs to catch up going forward.

FY3/26 management targets



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

In fact, consolidated results for the two fiscal years through FY3/23 appear to mark solid progress, with consolidated figures topping initial forecasts. Looking at the breakdown, however, non-consolidated results were revised up, whereas Group companies' results fell short of initial forecasts for two consecutive fiscal years. While there was also impact from the COVID-19 pandemic, this is apparently because earnings were lackluster at the three subsidiaries carrying out consigned development, and earnings growth trailed initial expectations at Transtructure and MJS M&A Partners.

The Company set a high profit margin target of 50% for new business because it believes it can keep down customer acquisition costs, such as advertising costs, since its 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. There is significant potential for market development, and we want to focus on future trends.

Medium-term earnings targets and status of progress

(¥mn)

	FY3/22		FY3/23		FY3/24	FY3/26	
	Initial forecast	Result	Initial forecast	Result	Initial forecast	Target	CAGR*
Consolidated net sales	37,400	36,597	38,800	41,461	41,600	55,000	9.9%
Ordinary income	4,000	4,771	4,800	5,839	6,200	12,500	28.9%
(margin)	10.7%	13.0%	12.4%	14.1%	14.9%	22.7%	
Non-consolidated net sales	30,500	31,233	32,150	35,952	35,000	36,000	-
Ordinary income	4,000	5,049	5,080	6,385	5,800	7,500	5.5%
(margin)	13.1%	16.2%	15.8%	17.8%	16.6%	20.8%	

*Average annual growth over the three fiscal years from FY3/24
Source: Prepared by FISCO from the Company's medium-term management plan material and financial results

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. A demonstration test for this is currently underway.

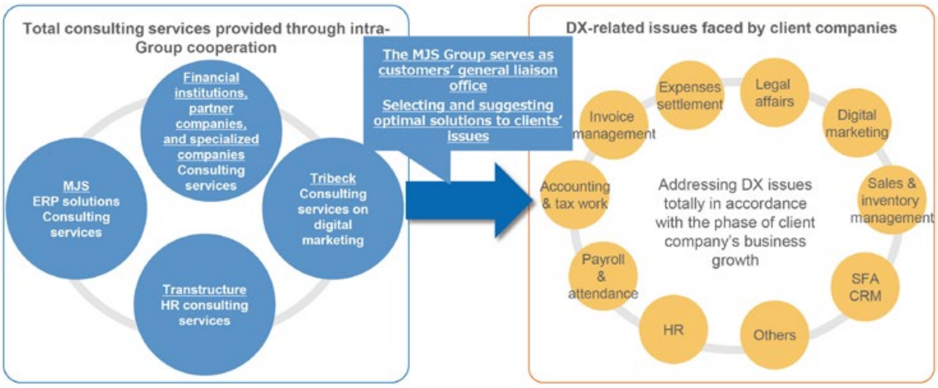
Its market share of ERP systems for tax accountant and CPA firms is stable at around 25%. As a measure to expand its market share in the future, it will help tax accountant and CPA firms expand their businesses by combining the ERP system ACELINK NX-Pro and the SME support platform Hirameki 7 so that it can provide management support services, such as business analysis and funding services that tax accountant and CPA firms provide to their clients. For new independent tax accountant and CPA firms, this has the potential to become a tool for realizing monetization early on as well as strengthening relationship building with client companies, so is an attractive solution. We look forward to future developments.

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

The Group develops 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

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 packaged products and cloud (IaaS) services, but from FY3/26, mainly cloud (IaaS) or SaaS services will be offered, and provision of services through packaged products is expected to shrink.

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. Already, demand is growing for the Company's e-Document Cloud storage service, as a related 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.

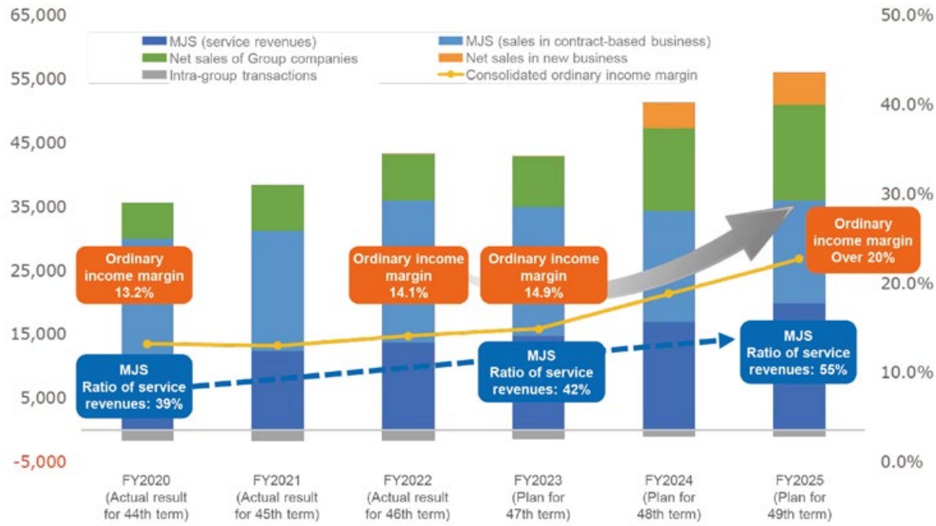
(3) "Comprehensive DX Platform strategy"

As for the Comprehensive DX Platform strategy, the Company will focus on cultivating Hirameki 7, a management support platform for SMEs and microenterprises provided by Tribeck. Many SMEs and microenterprises lack sufficient digital talent and face challenges in advancing DX. By providing Hirameki 7 to resolve such issues, it aims to support the growth of organizations such as SMEs, thereby revitalizing the Japanese economy, which continues to experience slow growth. As previously mentioned, one of Hirameki 7's seven functions, CX, is currently under development, and scheduled to be released in stages. Also, the Company plans to enhance each of Hiramkei 7's six existing functions, aiming to monetize it and enhance its quality as a Comprehensive DX Platform. Regarding customer acquisition, the Company will not only target client companies through tax accountant and CPA firms, but also utilize alliance strategies, mass-market advertising and digital marketing to gain customers.

(4) "Converting to a cloud subscriptions business model"

The Company will promote a shift in how it sells mainstay ERP products from one-off purchases to cloud subscriptions. A rise in subscriptions' share of the mix will have a temporary negative impact on net sales and profits. However, the transition to subscriptions is expected to generate a certain amount of stable sales that are not susceptible to external factors, thereby facilitating stable business operations. It will also enable operating resources to be focused on acquiring new customers by reducing work hours for sales activities related to replacements. Moreover, converting to cloud subscriptions will provide users with an environment where they can always use the latest systems, so costs to maintain older versions of products will be minimized. In other words, the transition to a cloud subscription model is expected to lead to continuous sales growth and improved profitability. It also benefits customers by reducing their initial investment and enabling them to use the latest services even in a remote work environment. The Company aims to sharply increase the ratio of mainstay ERP products provided via cloud subscriptions in FY3/26 from 18% in FY3/23, and wants to accelerate the transition if possible while assessing earnings trends.

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"

MJS plans to enhance its ability to provide comprehensive solutions through Group collaborations as well as realign Group organizations and optimize management frameworks, and will promote independent earnings growth at each Group company.

Tribeck aims to become a comprehensive DX consulting company that provides support from brand strategy to customer acquisition and development by cultivating DX platform business targeting SMEs as well as digital marketing support business targeting large enterprises. Its profitability is also likely to increase sharply if it can grow DX platform business, which does not reply on manpower, in particular. For Transtructure and MJS M&A Partners, which are trailing initial expectations, strengthening personnel structures is a pressing task. They have been unable to fully tap into the brisk demand for consulting in both the HR and M&A domains due to insufficient human resources, so we look forward to future initiatives.

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. They aim to strengthen their solution-based sales skills and development abilities, mainly in the cloud and Web fields, and leverage Group synergies such as client company introductions to expand their business scale. 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 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 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. It raised salaries 9.6% for regular employees in general positions in FY3/23, and will raise base pay again in FY3/24.

As for personnel hiring and development, the Company will continuously hire new graduates (about 80 every year), while developing and securing skilled professionals by establishing a training system covering all employees and providing thorough human resource development. In addition, it will conduct engagement surveys to ascertain the current status of employee satisfaction and so forth and analyze the results to make continuous improvements, with the aim of increasing engagement.

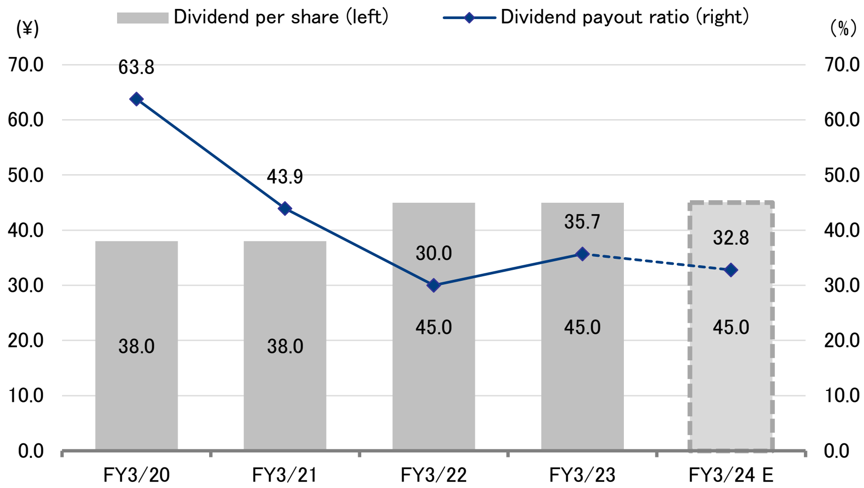
Shareholder return policy and sustainability management initiatives

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%. It paid a dividend of ¥45.0 per share (dividend payout ratio of 35.7%) in FY3/23, the same amount as in the previous fiscal year. It also plans to pay a dividend of ¥45.0 per share in FY3/24. Plans are thus for a dividend payout ratio of 32.8%, 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 in 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.

Disclaimer

FISCO Ltd. ("FISCO") offer stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Stock Exchange and Nikkei Inc.

This report is provided solely for the purpose of offering information, and is not a solicitation of investment nor any other act or action.

FISCO prepared and published this report based on information which it considered reliable; however, FISCO does not warrant the accuracy, completeness, fitness nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, securities and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be made based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report has been prepared at the request of the company subject hereto based on the provision of information by such company through telephone interviews and the like. However, the hypotheses, conclusions and all other contents contained herein are based on analysis by FISCO. The contents of this report are as of the time of the preparation hereof, and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report upon accepting the above points.

■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp