COMPANY RESEARCH AND ANALYSIS REPORT

Miroku Jyoho Service Co., Ltd.

9928

Tokyo Stock Exchange First Section

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Index

Summary

Likely to post all-time high profits for an eighth straight year in FY3/19 on robust ERP system sales

Miroku Jyoho Service Co., Ltd. <9928> (hereafter "MJS") is an industry leader in developing and selling enterprise resource planning (ERP) systems, primarily financial accounting and tax systems, for tax accountant and CPA firms and small/mid-sized companies. The Company is currently cultivating the Finance/Internet business (business succession support service, bizocean, bizsky platform, etc.) as a new business.

1. 1H FY3/19 results

In 1H FY3/19 (April-September 2018), consolidated results were ¥15,530mn in net sales (+11.8% YoY) and ¥3,016mn in ordinary income (+14.1%), beating initial targets (¥15,350mn and ¥2,710mn) and setting all-time highs on a half-year basis. Both new and renewal demand fueled vibrant activity in installation contracts for corporate ERP systems, supporting a 16.9% YoY increase. Service revenues, which reflect recurrent business, also expanded at a healthy pace with a 5.0% increase on build-up of contracts. These trends lifted overall figures. System installation contract sales*, a management indicator emphasized by the Company, had orders backlog (on a non-consolidated basis) of 6.19 months at the end of 1H, an increase of 0.27 months versus the start of the fiscal year. Orders are still expanding as well.

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

2. FY3/19 forecast

The Company retained its FY3/19 initial forecast of ¥30,600mn in net sales (+10.9% YoY) and ¥5,000mn in ordinary income (+13.0%), expecting higher sales and profits for an eighth straight year. It forecasts smooth expansion in 2H too with extensive orders backlog for ERP systems. It also plans to prepare for realizing management goals of ¥50bn in net sales, 30% ordinary margin, and 30% ROE in FY3/21. In the existing ERP business, main initiatives are strengthening business with partners, maximizing synergies at group companies, and implementing income structure reforms. While the Company is struggling slightly in the ramp-up of the business succession support business, which is handled at a subsidiary, it plans to promptly attain profitability by strengthening alliances and collaborations with tax accountant and CPA firms.

3. Growth strategies

As growth strategies, the Company intends to promote sales growth and profitability improvement in the existing ERP business and to put efforts into cultivation of the Finance/Internet business as a new source of income. It also has a stance of constructively assessing acquisition deals that could deliver synergies in any of its business areas. The Company aims to realize double-digit sales and profit gains, mainly through growth in the ERP business, in FY3/20, and position itself within range of FY3/21 goals.

Key Points

- Healthy trends in corporate ERP system sales with double-digit increases for existing and new customers
- Promoting establishment of a business foundation that aims for double-digit sales and profit gains in FY3/20
- Targeting net sales of ¥50bn and ordinary income of ¥15bn for FY3/21

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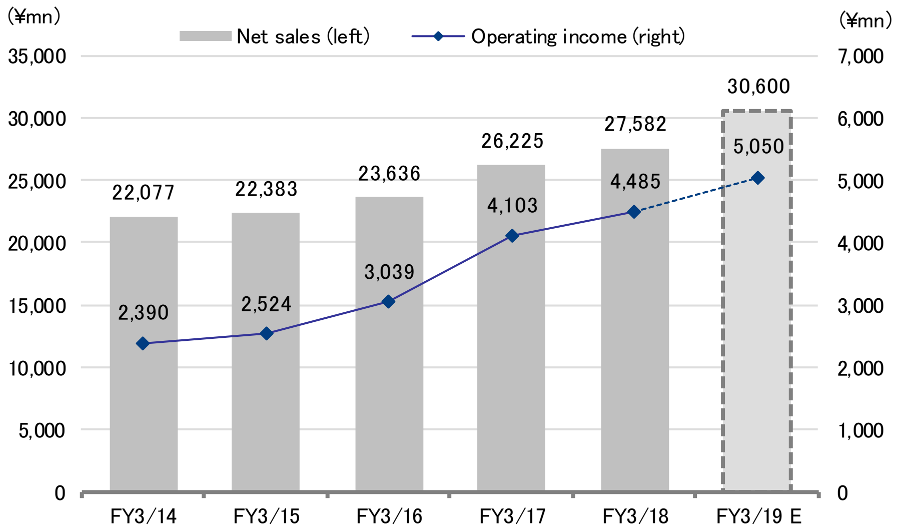

Source: Prepared by FISCO from the Company's financial results

Corporate overview

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

1. Corporate history

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

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 computing development and sales business Development and commencement of sales for the specialist MicroAce 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 Computing [Accounts] aimed at tax accountant and CPA firm clients
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	Commenced development and sales of the MICSNET Series ERP system compatible with Windows NT® for medium-sized companies
	2001	Commenced development and sales of the ACELINK Series of network solution systems for tax accountant and CPA firms
	2002	Developed and commenced sales of the MJSLINK Series of operations and comprehensive information systems for small/mid-sized companies
	2004	Developed business information website “bizocean” targeting business people at small/mid-sized companies and venture companies
	2005	Developed and commenced sales of the ACELINK Navi Series of network solution systems for tax accountant and CPA firms Developed and commenced sales of the Galileopt package ERP systems for medium-sized enterprises
	2007	Developed and commenced sales of the MJSLINK II Series of package ERP systems for small/mid-sized companies
Shift to service provider	2011	Commenced sales the ACELINK NX-Pro ERP system for tax accountant and CPA firms (April)
	2012	Commenced sales of the Galileopt NX-I ERP system for medium-sized companies (February) Listed on the First Section of Tokyo Stock Exchange
	2013	Commenced sales of MJSLINK NX-I ERP system for small- and mid-sized companies (April) Investment in consolidated accounting systems company Primal, Inc. (33.9%) and conversion into a consolidate affiliate (October)
	2014	Established MJS M&A Partners Co., Ltd. that provides services supporting the business succession and revitalization of small/mid-sized companies (September)
	2015	Developed and commenced sales of “MJS My Number” for tax accountant and CPA firms and small/mid-sized companies (September) Made Miroku Webcash International a subsidiary (December) Made Cloud Invoice a subsidiary. This subsidiary offers bookkeeping services. (December)
	2016	Took a 48.8% stake in BlueTable Co., Ltd., which sells food to Asian countries through an e-commerce service. BlueTable 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) Started the MJSLINK NX-I for Iaas ERP cloud service for small and medium-sized companies (August) Started the bizsky cloud platform for small and medium-sized companies and the Rakutasu Money Transfer service over this platform (September) Opened Japan’s first marketplace for business templates through the bizocean business information site (October)
	2017	Started offering the Rakutasu Kyuyo Money Transfer service through the bizsky cloud platform for small and medium-sized companies (January) Established a business alliance with Crowd Cast, Ltd. and connected that company’s Staple cloud expense payment service with MJS’s Rakutasu Money Transfer service using an application program interface (API) (March) Commenced development and sales of the Galileopt NX-Plus ERP solution to small and medium-sized companies (April) Developed and released the new ERP system for small/mid-sized companies MJSLINK NX-Plus (October)
	2018	Started provision of the cloud service for small/mid-sized companies MJS Okane No Kanri (March) Started provision of the new cloud services for small/mid-sized companies and self-run businesses Kantan Cloud Kaikei and Kantan Cloud Kyuyo (April) Developed and released MJS Zeimu NX-Plus, a new tax affair system (July)

Source: Prepared by FISCO from the Company’s materials

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2. Business description

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

Main customers in the ERP business are tax accountant and CPA firms and small/mid-sized companies they serve as consultants. In the market for tax accountants and CPA firms, the Company holds a roughly 25% industry share with about 8,400 offices as users and stands alongside TKC Corporation <9746> and Japan Digital Laboratory Co., Ltd. as an industry leader. In the market for small/mid-sized companies, the Company has about 17,000 users. Viewed by sales channel, direct sales are at almost 100% for tax accountants and CPA firms and 95% for small/mid-sized companies. Distributors cover about 5% of sales for the latter. We think the Company still has substantial room to attract new customers because the 8,400 tax accountant and CPA firms it handles provide services to around 500,000 companies. It supplies simplified accounting software for small-scale businesses through volume sellers and tax accountant and CPA firms and has just over 80,000 users.

Overview of Company businesses

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

Source: Prepared by FISCO from the Company's materials

3. Subsidiaries and affiliates

As of the end of September 2018, the Company had eight consolidated subsidiaries and two equity-method affiliates. Since 2002, software development, sale, installation, and operational support services have been undertaken by three consolidated subsidiaries, NTC Co., Ltd, MSI Co., Ltd., and Lead Co., Ltd. In 2014, the Company established MJS M&A Partners Co., Ltd. to provide business succession support services to small/mid-sized companies as a subsidiary in the Finance/Internet area being pursued as a new business field. In 2015, the Company set up two subsidiaries, Cloud Invoice, Inc. to offer cloud bookkeeping services and Miroku Webcash International Co., Ltd. (hereafter MWI) to engage in FinTech services. In 2016, it founded bizocean Co., Ltd. to operate a business information website. In 2017, it acquired MJS Finance & Technology (hereafter MFT) as a subsidiary to develop smartphone payment service. Additionally, in April 2018, MFT acquired a 75.7% stake in Adtop Co., Ltd. which conducts an advertising agency business specializing in personnel hiring, making it a subsidiary.

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

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The Company's subsidiaries and affiliates

(As of September 30, 2018)

Company name	Ownership ratio	Main business
Consolidated subsidiaries		
NTC	100.0%	Software development, sales, installation, and operational support services; hardware sales
MSI	100.0%	Software development, sales, installation, and operational support services; hardware sales
Lead	100.0%	Software development, sales, installation, and operational support services
MJS M&A Partners	100.0%	Business succession support services, etc. utilizing M&A
Cloud Invoice	100.0%	Development and provision of bookkeeping and other cloud services
bizocean	100.0%	Operate the bizocean site for business information
MJS Finance & Technology	97.5%	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
Equity-method affiliates		
Primal	33.3%	Software development, sales, installation, and operational support services
NFC (Korea)	22.0%	Development and sales of payment services using near-field communications (NFC)

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

Business trends

Posted double-digit sales and profit gains and reached all-time highs again thanks to upbeat sales of ERP systems

1. Review of 1H FY3/19 results

The Company reported all-time half-year highs again in 1H FY3/19 consolidated results at ¥15,530mn in net sales (+11.8% YoY), ¥2,965mn in operating income (+10.4%), ¥3,016mn in ordinary income (+14.1%), and ¥1,944mn in net income attributable to owners of the parent (+17.3%). Both sales and profits exceeded forecasts.

Consolidated operating results for 1H FY3/19

(¥mn)

	1H FY3/18		1H FY3/19				
	Result	Ratio	Forecast	Result	Ratio	YoY	vs. forecast
Net sales	13,885	-	15,350	15,530	-	11.8%	1.2%
Gross profit	9,348	67.3%	10,170	10,182	65.6%	8.9%	0.1%
SG&A expenses	6,662	48.0%	7,430	7,216	46.5%	8.3%	-2.9%
Operating income	2,685	19.3%	2,740	2,965	19.1%	10.4%	8.2%
Ordinary income	2,643	19.0%	2,710	3,016	19.4%	14.1%	11.3%
Extraordinary losses	-127	-0.9%	-	-44	-0.3%	-	
Net income attributable to owners of the parent	1,657	11.9%	1,780	1,944	12.5%	17.3%	9.2%

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

The Company's growth initiatives to "expand the customer base and service revenues" and "rigorously manage business goals with emphasis on orders backlog" continue to contribute to higher income. Net sales strengthened on a robust 16.9% YoY rise in sales of ERP systems to small/mid-sized companies and a steady 5.9% increase in software operation assistance services (corporate software maintenance service) accompanying build-up of contracts. Furthermore, orders are expanding smoothly as well with backlog in system installation contract sales orders at the end of 1H at 6.19 months (up 0.27 months versus the start of the fiscal year).

Looking at profitability, gross margin dropped 1.7 percentage points from 67.3% a year earlier to 65.6%. We think this mainly reflected decline in subsidiary profit on higher burden from investments. SG&A expenses, meanwhile, were up 8.3% YoY mainly on increase in personnel costs, but the ratio dropped 1.5 percentage points due to stronger sales. As a result, operating margin only eased 0.2 percentage points to 19.1%. Non-consolidated operating margin rose 0.5 percentage points to 20.8%.

Net income attributable to owners of the parent had a larger increase rate than operating income on shrinkage of the equity-method investment loss in non-operating income from ¥124mn a year earlier to ¥25mn and decline in the investment securities valuation loss in extraordinary income from ¥127mn to ¥55mn.

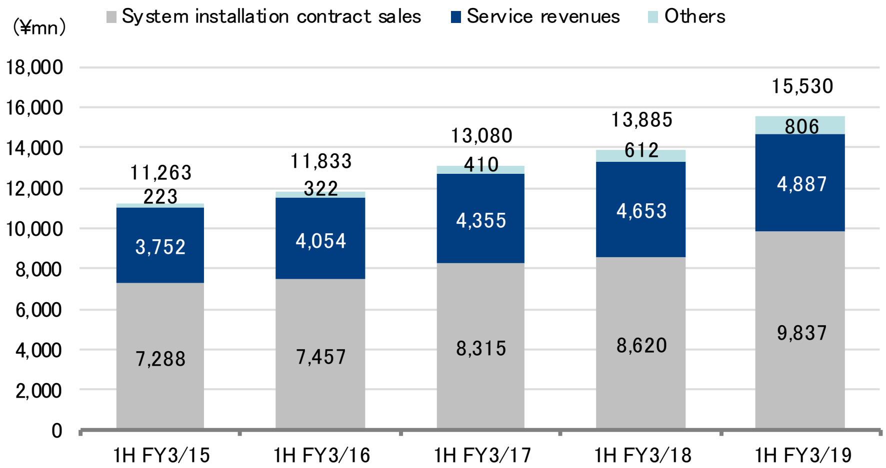
Net sales exceeded the initial target mainly because of higher sales of ERP systems to tax accountant and CPA firms. While the initial plan anticipated a decline in sales assuming progress in changes to contract duration (from five-year to single-year contracts) at contract renewals for existing customers, sales rose by a solid 2.5% YoY because of almost no effect from this factor and smooth progress in acquisition of new customers. Operating income beat forecast on the positive effect of higher sales and curtailment of SG&A expenses.

Healthy trends in corporate ERP system sales with double-digit increases for existing and new customers

2. Sales trends by customer and product category

Looking at the net sales breakdown, sales continued rising in all categories with system installation contract sales up 14.1% YoY to ¥9,837mn, service revenues up 5.0% to ¥4,887mn, and others (mainly the Finance/Internet business subsidiary) up 31.7% to ¥806mn. System installation contract sales and service revenues overshot initial forecast by 6.6% and 0.6% respectively, while others missed the target.

Breakdown of net sales by business

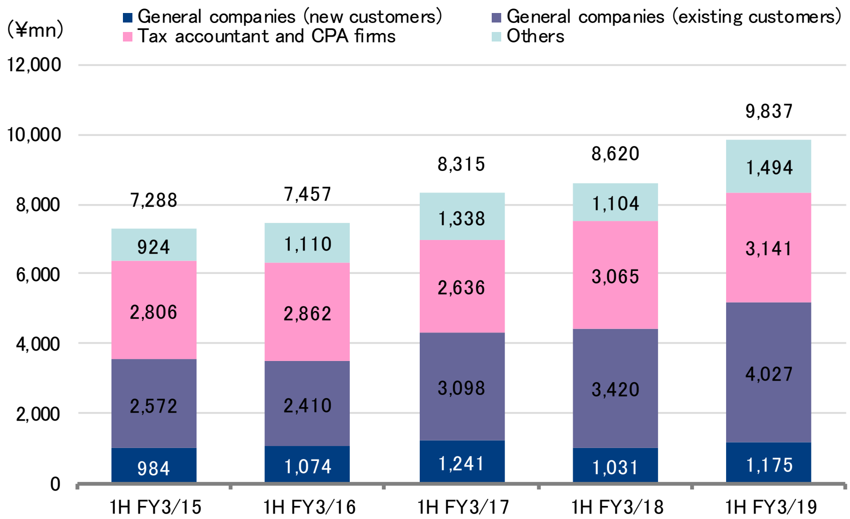


Source: Prepared by FISCO from the Company's results briefing materials

(1) System installation contract sales

In system installation contract sales by customer, sales to general companies rose by a strong 16.9% YoY to ¥5,202mn and sales to tax accountant and CPA firms climbed a steady 2.5% to ¥3,141mn. Other sales (sales by the parent and subsidiaries and sales to partners) were up sharply by 35.3% to ¥1,494mn. In particular, sales to partners roughly doubled, a manifestation of the effect from the Company's establishment of branch offices dedicated to partner assistance in the Tokyo metropolitan area in FY3/18 and aggressive efforts to acquire partners, including in regional areas.

System installation contract sales (by customer)



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

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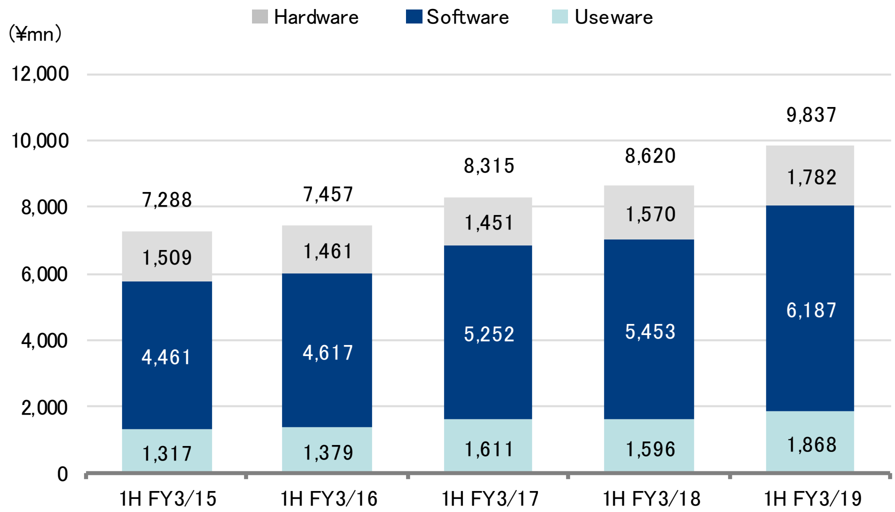
All categories outpaced initial targets with upside of 2.1% in sales to general companies, 16.2% in sales to tax accountant and CPA firms, and 4.7% in other sales. While the Company had been expecting switching from five-year contracts to single-year contracts in renewals for tax accountant and CPA firm contracts, as mentioned above, sales benefited from many customers actually renewing five-year contracts and healthy progress in acquisition of new customers.

Sales to general companies increased on an overall basis, including upbeat sales of MJSLINK NX-Plus (for small/mid-sized businesses) released in October 2017. Replacement and new demand from small/mid-sized businesses was vibrant with support from using the government's IT installation subsidies program. In a breakdown by sales to existing and new customers, existing customer sales rose 17.7% YoY to ¥4,027mn and new customer sales were up 14.0% to ¥1,175mn. Both categories performed well with double-digit sales gains. While the share of new customers in sales to companies slightly eased from 23.2% a year ago to 22.6%, sales grew in double digits and were at a healthy level.

Looking at system installation contract sales by type, all categories posted double-digit gains with software up 13.4% YoY to ¥6,187mn, hardware up 13.5% to ¥1,782mn, and useware (installation assistance service) up 17.0% to ¥1,868mn. They outpaced forecast by 5.9%, 13.4%, and 3.1% respectively.

System installation contract sales by category



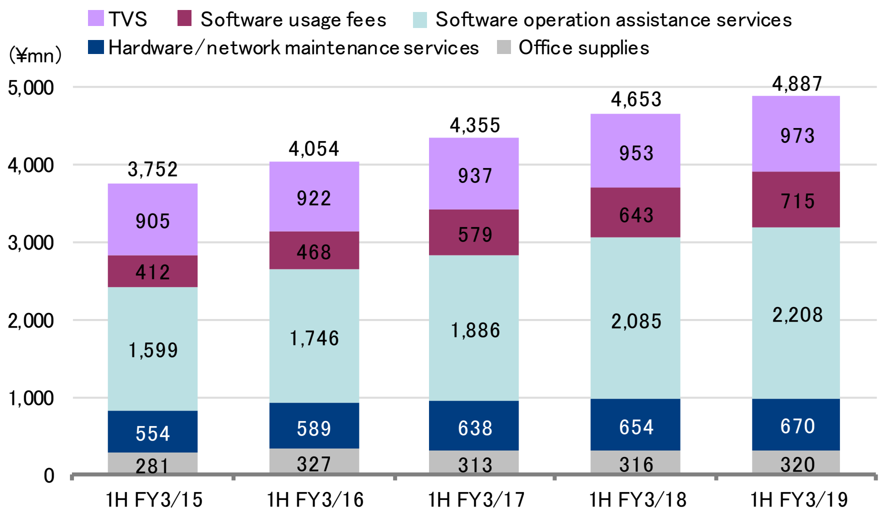
Source: Prepared by FISCO from the Company's results briefing materials

(2) Services revenues

In service revenues, software operation assistance services (corporate software maintenance services) improved by 5.9% YoY to ¥2,208mn mainly due to an increase in the number of contracts, and simplified accounting software for small companies (Kicho-kun, etc./software usage fees) arranged by tax accountant and CPA firms expanded 11.1% to ¥715mn, continuing the double-digit growth. TVS, which provides general maintenance services for tax accountant and CPA firms, steadily increased sales with a 2.1% gain to ¥973mn primarily on acquisition of new customers. Hardware and network maintenance services posted ¥670mn in sales (+2.4%) and office supplies recorded ¥320mn in sales (+1.1%).

Service revenues are recurring and hence do not diverge much from the initial sales target. Sales from software operation assistance services and TVS were roughly on track with the forecast. Software usage fees exceeded the target by 3.6%, including a lift from healthy expansion of the customer base.

Breakdown of service revenues



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

(3) Others

For bizocean, the main subsidiary in the others segment, sales were just flat YoY, even with expansion of registered members to the bizocean business information website from 2.32mn people at the end of FY3/18 to 2.47mn people (as of October 2018), due to sluggish advertising income and minimal sales contributions from the new SPALO service* released in October 2017, despite growing inquiries.

* SPALO is a document creation service that lets users enter data directly into Microsoft Excel in their smartphones using their voices. The service enables automated voice data entry using the AI technologies of LINE's Bot and IBM's Watson. SPALO is mainly envisioned for use in producing business reports, daily business logs, and other such documents. Voice-based text entry systems using chatbots have previously been available. However, SPALO stands out because it uses Watson to analyze and classify voice-entered text, thereby enabling the program to select the correct text entry field for documents (reports, ledgers, etc.) and automatically enter the text into each of those fields. There is no initial installation charge. The Company has three fee plans – Light Plan (¥30,000 a month), Basic Plan (¥80,000), and Premium Plan (¥120,000).

In mmap business succession support service, meanwhile, sales dropped on a decline in finalized contracts during the period, even though alliance partners rose by 427 from the end of FY3/18 to 3,691 and consultations roughly doubled from 172 a year earlier to 364.

Others segment sales booked a double-digit increase, even with sluggishness in bizocean and mmap services, thanks to roughly ¥300mn in sales at Adtop, which became a new consolidated entity in April 2018.

Financial standing healthy even with a rise in interest-bearing debt for next-generation product development investments

3. Financial status and management indicators

In financial data at the end of 1H FY3/19, total assets climbed ¥3,564mn from the end of FY3/18 to ¥28,131mn. Main changes were additions of ¥636mn from higher trade receivables, ¥786mn from increased cash and deposits, and ¥209mn from higher inventory assets under current assets and a large rise of ¥1,776mn in intangible fixed assets under fixed assets. The latter reflects increase in software and software development in progress from ¥4,239mn at end-FY3/18 to ¥5,987mn on steady development outlays to create multiple next-generation products and strengthen capabilities of existing products since FY3/18. We think the Company has been simultaneously advancing multiple development projects in just over the past year and a half because these software assets totaled ¥1,588mn at the end of FY3/17.

Total liabilities stood at ¥10,857mn at the end of 1H FY3/19, an increase of ¥2,568mn from the end of FY3/18. Interest-bearing debt, including short- and long-term and lease obligations, rose by ¥2,076mn. There was also an increase of ¥244mn in trade payables in current liabilities. Net assets amounted to ¥17,273mn, an increase of ¥996mn from the end of FY3/18. There were increases of ¥1,101mn in retained earnings, but these increases were partly offset by a decrease of ¥108mn from valuation difference on available-for-sale securities.

In management indicators, financial standing slightly weakened as the equity ratio declined from 66.2% at the end of FY3/18 to 61.3% while the interest-bearing debt ratio rose from 17.1% to 28.1%. This happened as the Company lifted interest-bearing debt to invest in development of next-generation products. Nevertheless, we believe the Company's finances remain healthy because its equity ratio is still above 60% and net cash is more than ¥2bn.

Consolidated balance sheet and management indicators

(¥mn)

	FY3/16	FY3/17	FY3/18	1H FY3/19	Change	Factors
Current assets	10,120	11,523	11,338	13,029	1,691	Trade receivables +636, cash and deposits +786, inventory assets +¥209
Cash and deposits	5,654	6,465	6,520	7,306	786	
Fixed assets	9,761	10,300	13,227	15,101	1,873	Tangible fixed assets +32, intangible fixed assets +1,776, investments and others +63
Total assets	19,882	21,823	24,566	28,131	3,564	
Current liabilities	5,000	6,174	8,105	9,009	903	Short-term interest-bearing debt +411, trade payables +244, income taxes payable +203
Fixed liabilities	823	785	183	1,848	1,664	Long-term debt +1,673
Total liabilities	5,823	6,959	8,289	10,857	2,568	
Net assets	14,059	14,864	16,277	17,273	996	Retained earnings +1,101, valuation difference on available-for-sale securities -108
Total liabilities and net assets	19,882	21,823	24,566	28,131	3,564	
Interest-bearing debt	1,214	1,421	2,782	4,858	2,076	(Short-term loans + long-term loans + lease obligations)
Net cash	4,439	5,044	3,737	2,447	-1,289	(Cash and deposits + available-for-sale securities – interest-bearing debt)
Management indicators						
Current ratio	202.4%	186.6%	139.9%	144.6%	4.7pt	
Equity ratio	70.2%	67.9%	66.2%	61.3%	-4.9pt	
Interest-bearing debt ratio	8.6%	9.6%	17.1%	28.1%	11.0pt	
ROE	14.0%	18.2%	18.5%	-	-	

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

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Outlook

Targeting sales and profit increases and all-time high profits in an eighth straight year in FY3/19

1. Business outlook for FY3/19

The Company forecasts increases in sales and profits and all-time high profits for an eighth straight year in FY3/19 consolidated results, projecting a 10.9% YoY increase in net sales to ¥30,600mn, a 12.6% rise in operating income to ¥5,050mn, a 13.0% increase in ordinary income to ¥5,000mn, and a 14.3% increase in net income attributable to owners of the parent to ¥3,290mn. The figures are left unchanged from the initial forecast. The Company expects to sustain operating margin at over 16% in FY3/19 even though it raised base pay to improve employee satisfaction and secure human resources and factored in higher SG&A expenses from expansion of subsidiary business.

Progress during the 1H were sales at 50.8% of full-year targets and operating income at 58.7%, both surpassing past three-year averages (50.4% and 54%). The Finance/Internet business appears to be modestly below forecast, but this should be offset by the robust ERP business with a backlog of orders in system installation contract sales at the end of 1H of 6.19 months, which is a strong level. The Company plans to consolidate development sites at three locations into a single location in April 2019. We think SG&A expenses are likely to stay within the range of the plan, despite the prospect of higher moving costs and other related expenses in 2H and expect operating income to moderately surpass the forecast.

Consolidated operating performance outlook for FY3/19

(¥mn)

	FY3/18		FY3/19			1H progress rate	Three-year average progress rate
	Result	Ratio	Forecast	Ratio	YoY		
Net sales	27,582	-	30,600	-	10.9%	50.8%	50.4%
Gross profit	18,292	66.3%	20,160	65.9%	10.2%	50.5%	50.1%
SG&A expenses	13,806	50.1%	15,110	49.4%	9.4%	47.8%	48.8%
Operating income	4,485	16.3%	5,050	16.5%	12.6%	58.7%	54.0%
Ordinary income	4,426	16.0%	5,000	16.3%	13.0%	60.3%	53.7%
Net income attributable to owners of the parent	2,877	10.4%	3,290	10.8%	14.3%	59.1%	53.1%
Net income per share (¥)	92.05		105.33				

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

The Company retained its sales outlook by category at period-start levels. In progress rates through 1H, meanwhile, system installation contract sales and service revenues outpaced forecast at 53.8% and 50.6% each but others was only at 30.4%.

In system installation contract sales, the Company targets ¥18,291mn (+8.1% YoY), with sales to general companies at ¥10,006mn (+12.1%), sales to tax accountant and CPA firms at ¥5,309mn (-4.8%), and other sales (sales by the parent and subsidiary and sales to partners) at ¥2,976mn (+23.2%). Progress rates in 1H were 52.0%, 59.2%, and 50.2% respectively. It expects continuation of upbeat momentum in sales to general companies during 2H on replacement at existing customers and higher orders from new customers. In business with tax accountant and CPA firms, while the Company had anticipated sales decline due to incremental transition to single-year licensing contracts, full-year sales are likely to exceed forecast because many customers are sticking with five-year contracts as mentioned earlier. In sales to others, the Company forecasts double-digit YoY growth in sales to partners and is likely to be on track with the plan.

In service revenues, the Company expects a 2.0% YoY increase to ¥9,659mn. While it only projected a slight 0.8% revenue gain in corporate software operation assistance services because of a conservative outlook for new customer acquisition, progress through 1H reached 51.4% and continuation at this level in 2H could result in a roughly 4% improvement. The Company forecasts a 1.7% rise in full-year revenue in TVS business, a comprehensive maintenance service for tax accountant and CPA firms, and realized progress on track with the plan through 1H. Additionally, the outlook envisions an 8.4% rise in software usage fees, a cloud service for consulting customer companies of tax accountant and CPA firms. Yet the Company started direct sales of the Kantan Cloud series, a cloud accounting and salary service for small/mid-sized companies and entrepreneurs, in June 2018 and there is a possibility of upside if contracts rise in direct-sales business too. We will also be paying close attention to trends from the end of 2018 into early 2019 with the consumption tax hike planned in October 2019 as a catalyst for customer acquisition.

In the others segment, the Company expected a steep 122.3% sales increase to ¥2,650mn. However, sales might undershoot, even with the addition of ¥800mn in Adtop sales, because of sluggish sales in bizocean and mmap services as mentioned earlier. The initial plan called for sales of ¥1,200mn in bizocean service (vs. ¥940mn in FY3/18) and ¥360mn in mmap service (vs. ¥170mn).

Sales trends by product category (consolidated basis)

(¥mn)

Business segment	FY3/16	FY3/17	FY3/18	FY3/19 E	YoY	1H progress rate
System installation contract sales	14,683	16,345	16,921	18,291	8.1%	53.8%
Hardware	2,801	2,822	3,190	3,075	-3.6%	58.0%
Software	8,949	10,281	10,469	11,656	11.3%	53.1%
Useware	2,932	3,241	3,260	3,559	9.1%	52.5%
Service revenues	8,307	8,949	9,469	9,659	2.0%	50.6%
TVS	1,851	1,877	1,916	1,949	1.7%	49.9%
Software usage fees	1,009	1,211	1,312	1,422	8.4%	50.3%
Software operation assistance services	3,538	3,898	4,264	4,296	0.8%	51.4%
Hardware/network maintenance services	1,211	1,287	1,314	1,368	4.1%	49.0%
Office supplies	695	675	662	622	-5.9%	51.5%
Others	646	931	1,192	2,650	122.3%	30.4%
Total	23,636	26,225	27,582	30,600	10.9%	50.8%

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

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Promoting establishment of a business foundation that aims for double-digit sales and profit gains in FY3/20

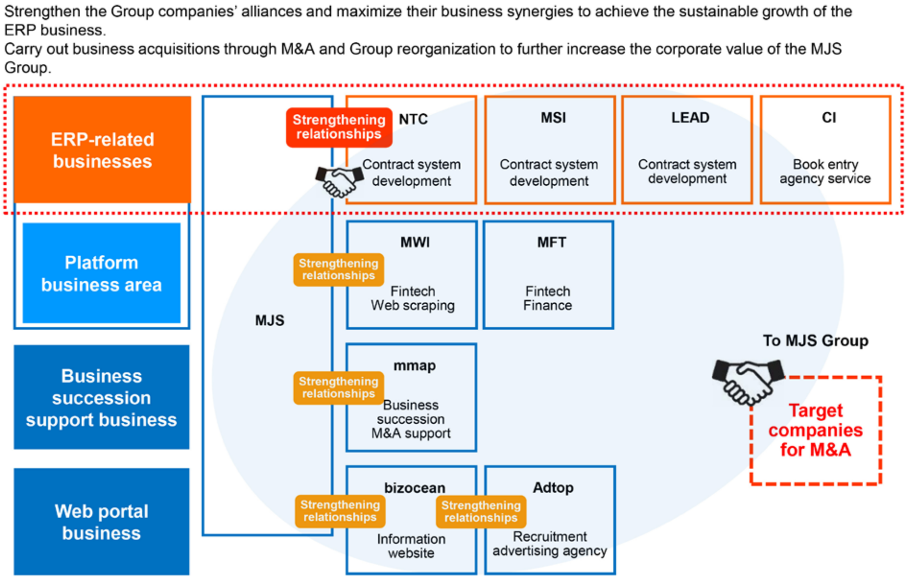
2. Initiatives in FY3/19

The Company intends to build the business foundation during FY3/19 to support double-digit sales and profit increases in FY3/20. Key measures are reviewed below.

(1) Efforts to maximize synergies at group companies

With the aim of lifting group competitiveness and thereby raising corporate value for the entire group, the Company plans to bolster collaboration among companies for maximizing synergies in the group, rebuild business models, and strengthen governance operations.

Efforts to maximize the MJS Group's Synergies



Source: The Company's results briefing materials

(2) Improve productivity by optimizing administrative processes and cost structure

The Company launched a business process reengineering (BPR) project and is working to raise productivity in FY3/19. It expects resulting improvements in business processes to lower costs. The Company also intends to create a better work environment by hiring more people and reforming personnel and training programs. Above-mentioned development site consolidation is part of these initiatives. Management hopes to foster a work environment that enables more creative thinking.

(3) Development of operations for implementing M&A deals

The Company plans to create a team dedicated to M&A deals and look for partner companies that could be M&A or capital-alliance candidates based on information obtained from 31 sales offices nationwide. It also intends to work more closely with sourcing agents to efficiently implement M&A deals and build post-M&A management control operations.

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(4) Profitability improvement measures in the ERP business

To improve profitability in the ERP business, the Company aims to strengthen cultivation of personnel that boosts capabilities for business consulting based on ERP products and support capabilities. It also intends to promote better productivity as a group with initiatives to reduce installation steps for ERP products and bolster collaboration with group companies. In particular, it has room to raise profitability by increasing collaboration because margin is relatively low at the three group subsidiaries handling business software development and sales on their own. For sales, it plans to strengthen sales capabilities by enhancing the organizational base that assists sales partner companies and promoting initiatives that establish a partner certification program, including preparation of manuals and building education and training operations.

(5) Functional additions for existing ERP products and cloud products and promotion of bizsky platform business

The Company has launched a cross-divisional product feature reinforcement project and quality improvement committee with the aim of realizing further competitive advantages in mainstay ERP products and cloud services. It plans to enhance product and service competitiveness by not only developing new features but also making improvements to features that trail rival products. For the bizsky platform, it plans to broaden the platform further and continue promoting collaboration with financial institutions.

(6) Promotion of business succession support service and insurance business

Key initiatives in mmap's business succession support service is to increase the number of partner tax accountant and CPA firms, utilize its own matching site, and strengthen collaboration with financial institutions. The Company targets 3,830 partners and 650 consultations by the end of FY3/19. It is also steadily growing the network, including business alliances with 34 financial entities as counterparts for exchanging business succession deal information.

The Company originally started this business for the purpose of resolving business succession issues due to aging of executives at smaller companies and thereby revitalizing these companies and planned to build a top sell-side platform in the domestic M&A market. Challenges, however, are a large number of small projects with few actual closures and limited profits because of modest deal sizes even when closed. To address these concerns, the Company provides a proprietary "corporate evaluation system" at no cost to tax accountant and CPA firms to help identify consultations with strong feasibility. It is also preparing to open a matching site aimed at boosting the contract closure ratio. It plans to lift business operating efficiency even more and expand business by bolstering ties with partner tax accountant and CPA firms, enhancing personnel training at various sites, and building external alliances in highly specialized fields.

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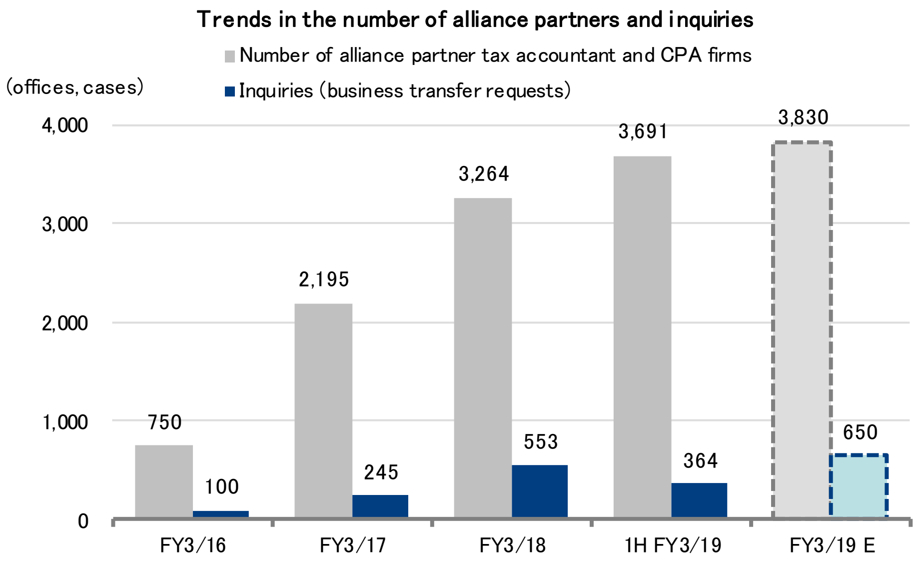


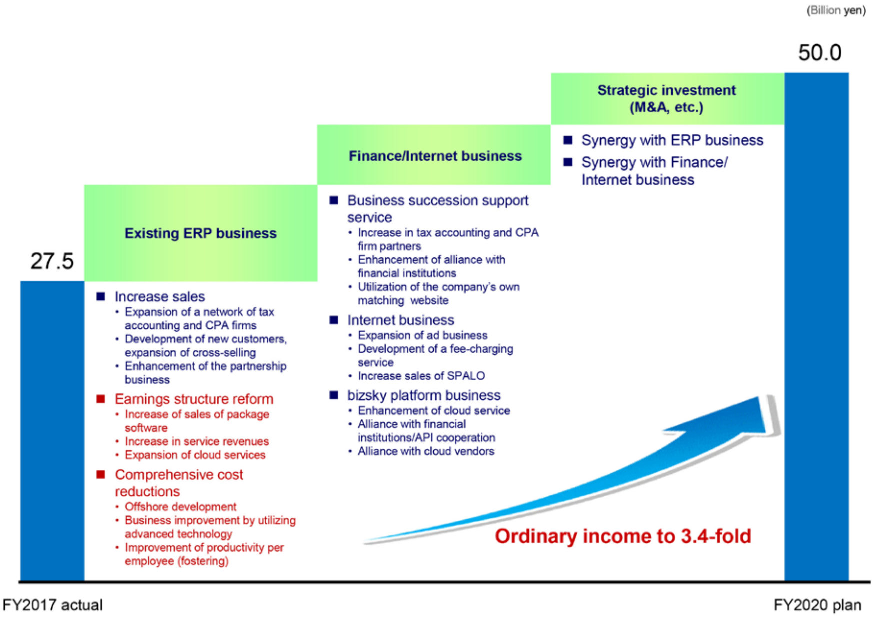
Source: Prepared by FISCO from the Company's results briefing materials

Medium-term management plan

Targeting consolidated net sales of ¥50bn and ordinary income of ¥15bn for FY3/21

In its 4th medium-term management plan that started in FY3/18, the Company set goals of ¥50bn in consolidated net sales, 30% ordinary margin, and 30% ROE for FY3/21, the final year. It hopes to attain these goals mainly via growth in the ERP business and also with cultivation of the high-margin Finance/Internet business and implementation of effective M&A deals in new areas. The plan seeks significantly higher levels than FY3/18 results with gains of 1.8x in sales and 3.4x in ordinary income.

Image of FY3/21 business goals (consolidated sales)



Source: The Company's results briefing materials

Targets of the 4th medium-term management plan

(¥mn)

	FY3/18	FY3/19 E	Targets for FY3/21	vs. FY3/18
Net sales	27,582	30,600	50,000	1.8x
Ordinary income	4,426	5,000	15,000	3.4x
Ordinary margin	16.0%	16.3%	30.0%	14.0pt
ROE	18.5%	-	30.0%	11.5pt

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

1. ERP business

In the ERP business, the Company plans to expand sales, implement income structure reforms, and reduce costs. Its sales expansion measures include broadening the network of tax accountant and CPA firms, acquiring new customers, boosting cross-selling activities, and enhancing partner business. Income structure reforms cover expansion of service revenues as recurrent business by adding more customers and wider cloud services. Cost reduction measures consist of lowering development costs through arrangement of offshore development, raising business efficiency with companywide BPR initiatives, and lifting productivity per employee.

2. Expansion of Finance/Internet business

In the Finance/Internet business, the Company intends to foster business succession assistance service, Internet business, and bizsky platform business. Refer above for the explanation of business succession assistance service. The Internet business mainly generates revenue from bizocean advertising sales at this point, but the Company plans to expand SPALO sales and develop paid services.

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The bizsky platform business is actively expanding cloud services and promoting collaboration and API connections to regional financial institutions and collaboration with cloud vendors. These efforts aim to raise added value and monetize as a financial and business platform for small/mid-sized companies. Due to slower progress in API connections to regional financial institutions than initially envisioned with the schedule currently at around 2020 and resulting delay in beginning FinTech services enabled by this collaboration, the Company is putting priority in collaboration with regional financial institutions on joint efforts in other areas, such as business succession support service and introduction of potential ERP customers, at this point.

Since 2016, the bizsky platform has supplied Rakutasu Money Transfer, Rakutasu Kyuyo Money Transfer, Edge Tracker*1, MJS Okane No Kanri*2, and other services. In April 2018, it started provision of the Kantan Cloud series, such as Kantan Cloud Kaikei and Kantan Cloud Kyuyo, for small/mid-sized business and entrepreneurs. Additionally, in November 2018, it announced the adoption of Account Tracker*3, an account aggregation service provided by subsidiary MWI, in LINE Kakeibo, a household account and asset management service supplied by LINE Pay Corporation, and start of collaboration. With Account Tracker, LINE users can manage daily spending and income activity and asset data on LINE and see money flow (payments and management). The business model consists of MWI receiving a monthly flat usage fee from LINE Pay. While it is unknown whether individuals will handle household accounting on LINE, this trend should be monitored because of LINE's massive presence of more than 76mn users in Japan.

*1 This is a cloud service for small/mid-sized company employees released in October 2017. By working with the ERP system, it supports real-time data provision, quicker processing, and visualization of attendance management, salary detail reference, and other administrative tasks. These capabilities boost employee work efficiency and enable timely use of management information. The service accommodates multiple devices.

*2 This is a smart bankbook-style service that automatically collects money flow data and other transaction information data for multiple financial institution accounts and provides a straightforward record of movements on PCs and smartphones. The Company started the service in March 2018. The service collaborates with the Company's ACELINK NX-Pro product supplied to tax accountant and CPA firms and lets these firms promptly ascertain cash flow positions at customer companies using it. Tax accountant and CPA firms can improve their service quality by giving timely management guidance to customer companies and speeding up preparation of financial statements. It could also be called an assistance service for tax accountant and CPA firms and is available at no cost.

*3 Account aggregation is a service that centrally manages information from multiple accounts at different financial institutions. Deployment of Account Tracker lets users confirm information from multiple financial accounts at once without inputting the web service IDs and passwords for respective financial institutions each time by automatically acquiring transaction details and balances for accounts at various financial institutions.

3. Strategic investments

The Company considers M&A and other initiatives in strategic investments. It targets companies with synergy potential in the ERP business and the Finance/Internet business.

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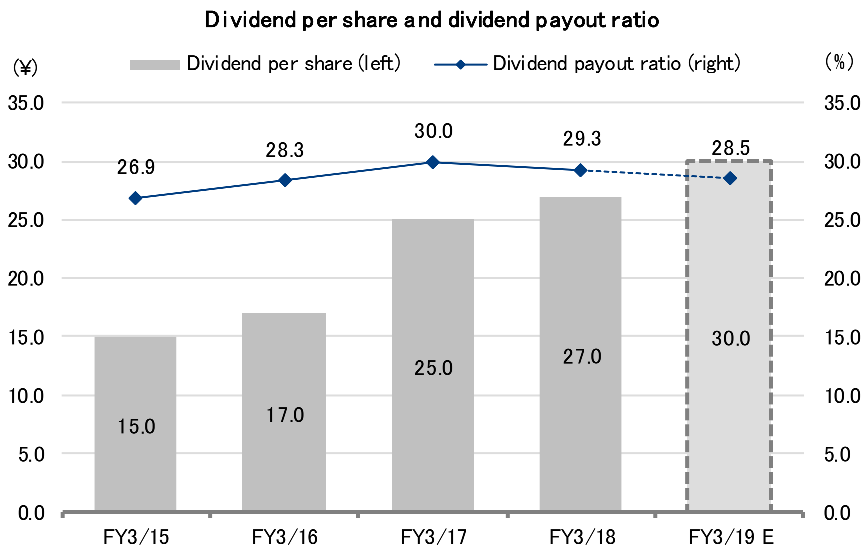
Shareholder return policy

Plans to pay steady dividends reflecting its profits

The Company maintains stable dividend compensation over the long term as its fundamental policy in shareholder return. It intends raise the dividend for a fourth straight fiscal year in FY3/19 with a ¥3.0 YoY hike to ¥30.0 (putting dividend payout at 28.5%). It also conducts share buybacks at appropriate times for the purpose of improving capital efficiency. The Company purchased 580,000 shares (1.7% of outstanding shares) for ¥1,138mn in FY3/17 and 300,000 shares (0.86%) for ¥729mn in FY3/18. We think it is likely to sustain a suitable cash position while monitoring the balance with fund demand to expand the business, taking into account matters such as the share price level if need be.



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

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