COMPANY RESEARCH AND ANALYSIS REPORT

Miroku Jyoho Service Co., Ltd.

9928

Tokyo Stock Exchange First Section

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Summary

Targets accelerated growth from FY3/22 with realization of a new Financial Services Framework

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

1. FY3/20 results

The Company consecutively reported all-time high consolidated results in FY3/20 with ¥35,501mn in net sales (+13.4% YoY), ¥5,227mn in operating income (+1.2%), and ¥5,311mn in ordinary income (+5.0%) on upbeat system installation contract sales for tax accountant and CPA firms and corporations and a double-digit rise in service revenues, a recurring business, on accumulation of new customers. Ordinary income missed guidance (¥6,200mn) due to implementing early amortization of software assets related to existing cloud products (about ¥1bn). Excluding this item, it was on track with the plan. The Company also booked valuation loss on software assets (about ¥2.5bn) as extraordinary losses because of revisions to the direction and priority order of Web-based ERP products that it is currently developing. Net income attributable to owners of parent hence fell 50.7% YoY. We expect these early amortization and valuation loss for software assets to strengthen the competitiveness and profitability of cloud products over the medium term due to alleviation of future depreciation costs.

2. FY3/21 forecast

The Company guides for weaker profit on an increase in sales in FY3/21 at ¥36,000mn in net sales (+1.4% YoY) and ¥36,00mn in ordinary income (-32.2%). It expects hefty decline in new customer acquisition for service revenues assuming continuation of COVID-19 impact through 2Q. M&A is the main reason for the anticipated sales increase. This factors in about ¥2bn in new sales from the two companies added to the group by May 2020. The Company's non-consolidated results plan, meanwhile, indicates sales and profit declines with net sales to decrease 6.9% YoY to ¥29,700mn and ordinary income to decrease 32.9% to ¥3,300mn. We think profits are likely to rise considering reduced future amortization expenses for software assets by the early amortization posted in FY3/20 and upside room in service revenues.

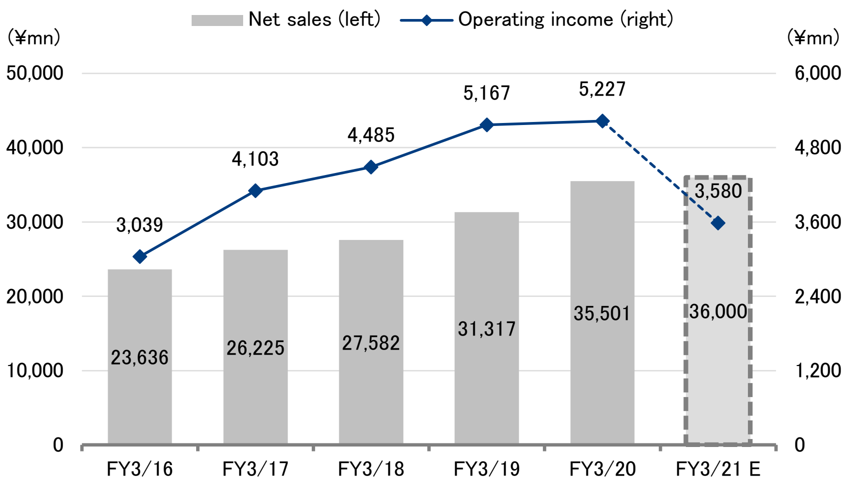
3. Longer-term outlook

The Company is currently formulating a longer-term vision through FY3/26 and intends to announce it by around May 2021. The fundamental policy consists of three main points; in addition to accelerating the growth of the existing ERP business, create and expand new businesses with highly profitable business models, implement positive M&A activities to make the Group's management more advanced and diversified, and learn lessons from the COVID-19 crisis to accelerate BCP (business continuity planning), BPR (business process reengineering) and work-style reforms in pursuit of sustainability. In bizsky platform business, in particular, it wants to enhance the convenience of existing products and services over the platform and expand business scale by realizing API collaboration with almost all regional banks and Internet banks by March 2021. It also hopes to achieve dramatic growth by developing new financing services enabled by API-level collaboration. We will be closely monitoring these trends.

Key Points

- Consecutive attainment of all-time high net sales, operating income, and ordinary income in FY3/20
- Headed for weaker system installation contract sales but expects increase in the recurring business service revenues in FY3/21
- Promoting API collaboration with financial institutions toward realizing a Financial Services Framework based on bizsky platform business

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 smaller/medium-sized companies as target customers

1. Corporate history

Since its establishment in 1977, the Company has been supplying management systems and management information services focused on finance and accounting. Its services have evolved in step with the development in IT. Initially, the Company processed data for other companies at a processing center. It then entered the office computer business and shifted to develop and sell packaged software for personal computers. Recently, it has offered cloud computing services developed for marketing. The Company also focuses on cultivation of new businesses and expansion of business scope, including establishment of MJS M&A Partners CO., LTD. (below, mmap), a subsidiary that provides assistance services for business succession and other areas to smaller/medium-sized companies, in 2014 and its launch of the bizsky cloud platform that supports business and work flow improvements at smaller/medium-sized companies in 2016.

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 computor 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 computor [Keiri] aimed at clients of tax accountant and CPA firm
Shift to open systems (package software)	1990	Developed and commenced sales for package software for PC installation “SI Zaimu Taisho,” “SI Hanbai Taisho,” and “SI Kyuyo Taisho”
	1992	Became a listed enterprise by an OTC listing on the Japan Securities Dealers Association (currently TSE JASDAQ)
	1994	Developed and commenced sales for the accounting telecommunications system MJS-COMPASS linking tax accountant and CPA firms and the client companies advised
	1997	Listed on the Second Section of Tokyo Stock Exchange
	1998	Developed and commenced sales of the MICSNET Series ERP system compatible with Windows NT® for medium-sized companies
	2001	Developed and commenced sales of the ACELINK Series of network solution systems for tax accountant and CPA firms
	2002	Developed and commenced sales of the MJSLINK Series of operations and comprehensive information systems for small/medium-sized companies
	2004	Developed business information website “bizocean” targeting business people at small/medium-sized companies and venture companies
	2005	Developed and commenced sales of the ACELINK Navi Series of network solution systems for tax accountant and CPA firms Developed and commenced sales of the Galileopt package ERP systems for medium-sized enterprises
	2007	Developed and commenced sales of the MJSLINK II Series of package ERP systems for small/medium-sized companies
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)

Source: Prepared by FISCO from the Company’s materials

2. Business description

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

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

Overview of ERP business

Customers	Tax accountant and CPA firms	Small/medium-sized companies (Most of them are clients of tax accountant and CPA firms)
Systems (developed by MJS)	• Financial and accounting systems • Tax return systems, etc.	• ERP systems centered on financial and accounting systems (accounting, payroll, sales management)
Services	• System installation support services • Various maintenance services • Training and information services, etc.	• System integration • Various maintenance services • Training and information services, etc.
Marketing methods /customer support	Almost 100% direct sales 31 sales and support branches nationwide	Direct sales (90%, includes sales through tax accountant and CPA firms) Agency sales (10%) 31 sales and support branches nationwide
No. of users /market share	8,400 firms/market share of approx.25%	Approx. 17,000 companies

Source: Prepared by FISCO from the Company's materials

3. Subsidiaries and affiliates

As of the end of March 2020, the Company had nine consolidated subsidiaries and two equity-method affiliates. Since 2002, three consolidated subsidiaries, NTC Co., Ltd, MSI Co., Ltd., and Lead Co., Ltd., have undertaken consigned development of business software. In 2014, the Company established MJS M&A Partners Co., Ltd. to provide business succession support services to small/medium-sized companies as a subsidiary. In 2015, the Company acquired two subsidiaries, Cloud Invoice, Inc. to offer cloud bookkeeping services and Miroku Webcash International Co., Ltd. to develop FinTech services. In 2016, it founded bizocean Co., Ltd. to operate a business information website (bizocean) as a spin-off. In 2016, it established MJS Finance & Technology as a subsidiary for payment services and finance services. Additionally, in 2018, it added Adtop Co., Ltd., which conducts an advertising agency business specializing in personnel hiring, as a second-tier subsidiary (currently an MJS subsidiary).

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

The Company's subsidiaries and affiliates

(As of end of September, 2019)

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

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

Business trends

Reported all-time high net sales, operating income, and ordinary income in FY3/20

1. FY3/20 results

The Company consecutively reported all-time high consolidated results in FY3/20 with ¥35,501mn in net sales (+13.4% YoY), ¥5,227mn in operating income (+1.2%), and ¥5,311mn in ordinary income (+5.0%). Net income attributable to owners of parent fell 50.7% YoY to ¥1,839mn.

Consolidated results for FY3/20

(¥mn)

	FY3/19		FY3/20				
	Results	Ratio	Forecast	Results	Ratio	YoY	vs. forecast
Net sales	31,317	-	34,000	35,501	-	13.4%	4.4%
Gross profit	19,952	63.7%	21,900	20,532	57.8%	2.9%	-6.2%
SG&A expenses	14,784	47.2%	15,700	15,305	43.1%	3.5%	-2.5%
Operating income	5,167	16.5%	6,200	5,227	14.7%	1.2%	-15.7%
Ordinary income	5,056	16.1%	6,200	5,311	15.0%	5.0%	-14.3%
Extraordinary losses	446	1.4%	-	-2,529	-7.1%	-	-
Net income attributable to owners of parent	3,730	11.9%	4,040	1,839	5.2%	-50.7%	-54.5%

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

Sustained vibrant corporate IT investment appetite and robust replacement demand, including hardware, ahead of completion of Windows7 support (January 2020) contributed to healthy net sales. Operating income only rose slightly, meanwhile, mainly because of early amortization (¥1,078mn) of substantial portion of software assets for existing cloud products (such as Kantan Cloud Accounting & Payroll and Edge Tracker) on conservative revision of future profitability in light of changes in the income structure with full-fledged transition to cloud service and the need for further development investments to significantly strengthen the competitiveness of cloud products. Excluding this factor, operating income climbed 22.0% YoY to ¥6,305mn, beating the plan target.

Furthermore, the Company booked ¥2,516mn in software valuation loss for Web-based products currently being developed as extraordinary losses due to concluding that there is a major variable component in the income outlook for software assets categorized under long-term development action following partial revision of the direction of new product development and priority order related to changes in customer needs and the competitive environment. This charge resulted in the decline in net income attributable to owners of parent.

Regarding the COVID-19 outbreak, while net sales grew at a steady pace of 9.6% YoY again in 4Q and did not face much impact, the orders pace has slowed somewhat since February, and period-end orders backlog for system installation contract sales (non-consolidated)*, which the Company monitors as a KPI, shortened from 5.06 months at period-start to 4.44 months.

* The Company calculates period-end orders backlog based on net sales guidance for the same fiscal year.

The Company's measures on behalf of employees in dealing with COVID-19 included distribution of masks, thermometers, and other items from January, incremental implementation of flex time, telework, and other adjustments and suspension of seminars and exhibitions from February, and prohibition of face-to-face sales and support activities with customers as a general rule (instead it promote online business discussions and other interaction) and rollout of telework for all employees from April. Since late May after the government ended its state of emergency declaration, the Company has been gradually restoring normal operations.

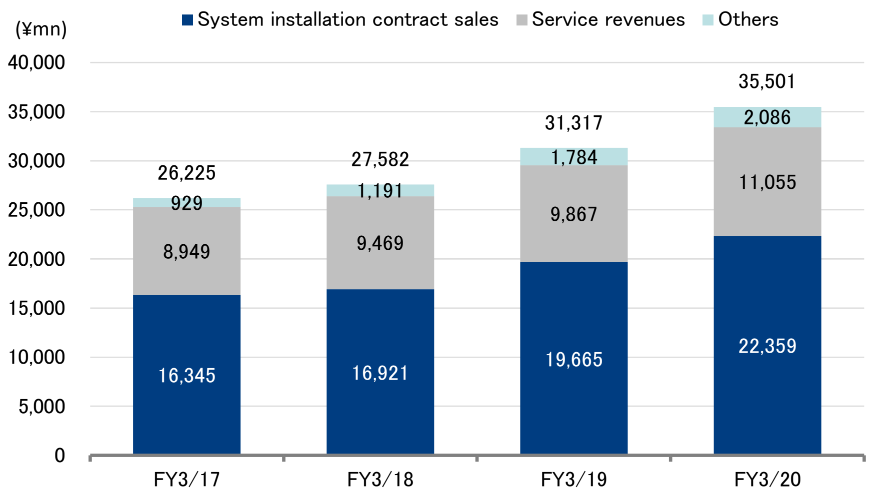
As customer measures, meanwhile, the Company launched free provision of its remote access iCompass Remote PC2 and remote support tool iCompass Communications for a limited period from February, created an information site on its web page on assistance from central ministries and agencies and financial institutions for tax accountant and CPA firms and smaller/medium-sized companies in March, and provided a liquidity assistance eligibility determination tool that automatically assesses sustainability grant and other fund eligibility mainly to tax accountant and CPA firms in April. The Company intends to accelerate its initiatives for companywide work process reforms and productivity enhancement on the prospect of making fundamental revisions to work promotion operations after the virus situation settles down.

Upbeat system installation contract sales with double-digit growth to corporate and accounting firm customers

2. Sales trends by customer and product category

All segments posted double-digit net sales growth with system installation contract sales at ¥22,359mn (+13.7% YoY), service revenues at ¥11,055mn (+12.0%), and others (mainly subsidiary businesses) at ¥2,086mn (+16.9%).

Breakdown of net sales by business



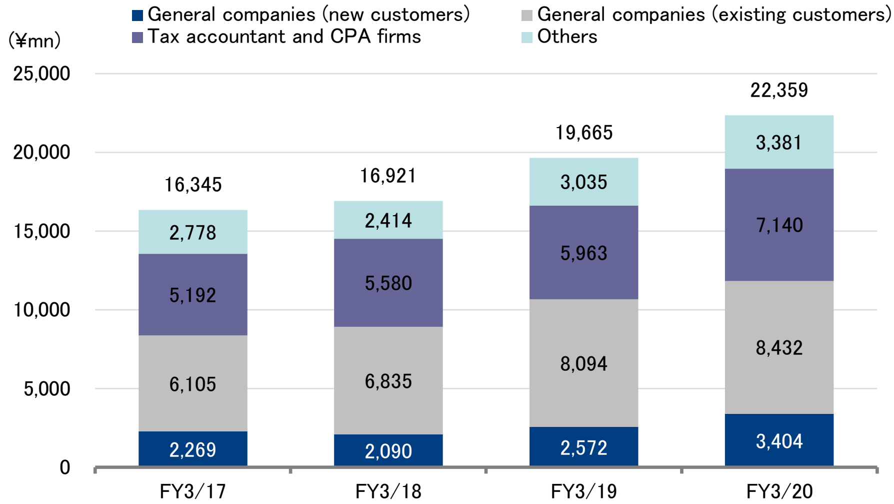
Source: Prepared by FISCO from the Company's results briefing materials

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

Looking at system installation contract sales by customer category, corporate sales rose 11.0% YoY to ¥11,837mn (-0.7% vs. the plan). Existing customer sales were healthy at ¥8,432mn (+4.2% YoY), and new customer sales improved substantially to ¥3,404mn (+32.3%). The percentage of sales to new customers within corporate sales increased from 24.1% in the previous fiscal year to 28.8%. The Company succeeded in new customer acquisition measures with establishment of solution branches, a dedicated sales organization, at branch offices in major cities (Osaka, Nagoya, Saitama, Hiroshima, and Fukuoka) from April 2019, following the branch opened in Tokyo in FY3/19, and proactive arrangement of joint seminars with partner regional banks and others for recruitment of potential customers. Increase in new customers contributes to the accumulation of stable income foundation by boosting sales of software operation assistance service for corporate customers, a recurring business.

Sales to tax accountant and CPA firms were also upbeat with a 19.7% YoY rise to ¥7,140mn (+29.0% vs. the plan). Replacement demand from existing customers climbed substantially ahead of completion of Windows7 support. Upside drivers were stronger replacement demand than expected and expansion of hardware replacement and related useware sales, such as kitting and installation services.

System installation contract sales by customer



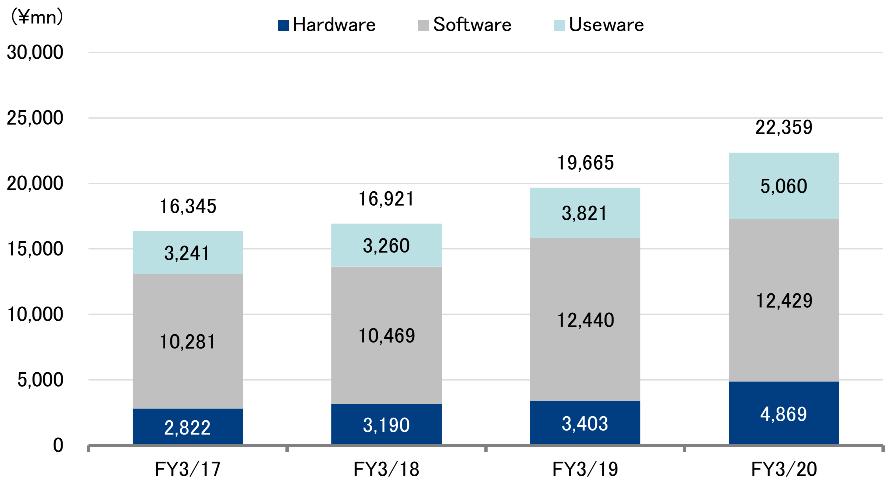
Note: Others are sales by the headquarter and subsidiaries and sales to business partners.
Source: Prepared by FISCO from results briefing materials and company materials

Additionally, other sales (headquarter and subsidiary sales and sales to partners) were up 11.4% YoY to ¥3,381mn, a second straight year of double-digit growth with higher sales to partners. The Company has taken steps to assist cultivation of sales partners since a few years ago as a sales expansion effort, and we think this effect is showing up. A specific example is setting up a branch office dedicated to partner assistance in the Tokyo metropolitan area in FY3/18. The Company is promoting stimulation of partner business, including in regional areas.

Looking at system installation contract sales by product category, while software sales were flat a 0.1% YoY decline to ¥12,429mn (-8.7% vs. the plan), hardware sales increased 43.1% to ¥4,869mn (+39.8% vs. the plan) and useware (deployment assistance service) sales rose 32.4% to ¥5,060mn (+25.0% vs. the plan). The main driver, as mentioned above, was the large number of replacement cases, including hardware, ahead of the completion of Windows7 support.

In software business, corporate ERP products had robust sales of Galileopt NX-Plus, which targets mid-sized enterprises, to existing and new customers and higher sales of MJSLINK NX-Plus, which targets smaller and medium-sized companies, to new customers. ACELINK NX-Pro for tax accountant and CPA firms received upbeat replacement demand. While the Company conducts subscription contract sales as well to tax accountant and CPA firms, on-premise contracts remain the primary business.

System installation contract sales by product category



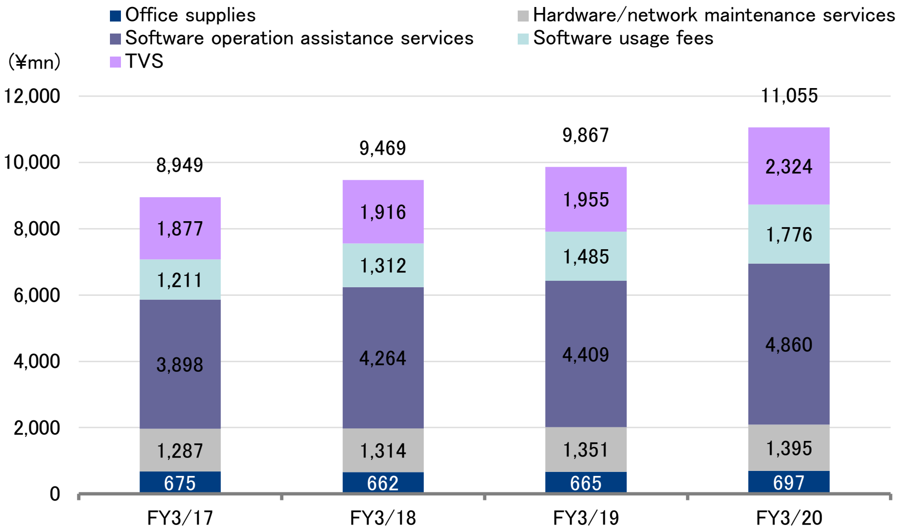
Source: Prepared by FISCO from the Company's results briefing materials

(2) Services revenues

In the breakdown of service revenues, TVS (comprehensive maintenance service for tax account and CPA firms) sales, which had been rising at a slow pace of 1-2% over the past few years, improved substantially with an 18.9% increase to ¥2,324mn (+3.3% vs. the plan). While the number of customers is steadily growing, fee revision in July 2019 had a large effect. The Company had provided TVS at the same fee level for 10 years and finally decided to make the revision, particularly with a rise in service maintenance costs. Despite a fee hike that averaged in the upper 10% range, cancellations due to fee revision have been almost non-existent.

Software operation assistance service (software maintenance service for general companies) sales climbed 10.2% YoY to ¥4,860mn (+2.6% vs. the plan), a steady increase on higher contract volume. Furthermore, software licensing fees for small businesses, the customers of tax account and CPA firms, were up 19.6% to ¥1,776mn (+8.6%), a double-digit gain thanks to growth in Kantan Cloud Kaikei, Kantan Cloud Kyuyo, and other cloud services and other products. Hardware and network maintenance service revenues rose 3.3% to ¥1,395mn (+2.5%), and supply product sales were up by a healthy 4.9% to ¥697mn (+10.8%).

Breakdown of service revenues



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

(3) Others

Sales in other business (mainly subsidiary businesses) grew 16.9% YoY to ¥2,086mn. Modest sales increase continued at bizocean thanks to higher advertising income on the "bizocean" business information site. However, cultivation of services other than advertising income remains an issue for achieving future growth.

The mmap business expanded sales by 2.6-fold YoY, albeit at a small scale, on increase in contract volume and upturn in the fee price. Conclusion of a contract for a major project appears to have contributed to higher sales. While this business previously only provided assistance on the selling side, it has broadened scope to the buying side too and aims to expand business.

Possesses extensive surplus cash and robust financial health

3. Financial status and management indicators

Looking at the Company's financial position as of end-FY3/20, total assets increased ¥136mn YoY to ¥38,348mn. Main changes included a decline in inventory assets and increases in cash and deposits of ¥1,708mn and accounts receivables of ¥327mn under current assets and a decline in intangible fixed assets of ¥2,986mn, due to implementing early amortization and posting valuation loss for software assets (including software development in progress) mentioned earlier, and increases in deferred tax assets of ¥978mn and investment securities of ¥302mn under fixed assets.

Total liabilities declined ¥834mn YoY to ¥19,318mn. Interest-bearing debt, including short-term and long-term, dropped ¥555mn and accounts payables was down ¥281mn. Net assets rose ¥971mn YoY to ¥19,029mn. Retained earnings increased ¥787mn on ¥1,049mn in dividend paid and ¥1,839mn in net income attributable to owners of parent.

In management indicators, the capital ratio climbed from 47.2% to 49.6% mainly on higher profits and decline in interest-bearing debt. The Company is strengthening the financial base, including improvements in the liquidity ratio and interest-bearing debt ratio. ROE, meanwhile, dropped from 21.7% at end-FY3/20 to 9.9% on decline in net income attributable to owners of parent.

Consolidated balance sheet and management indicators

(¥mn)

	FY3/18	FY3/19	FY3/20	Change	Factors
Current assets	11,338	21,962	23,603	1,641	Cash and deposits +1,708, Inventories -392, Trade receivables +327
Cash and deposits	6,520	16,271	17,979	1,708	
Fixed assets	13,227	16,213	14,716	-1,497	Tangible fixed assets +148, Intangible fixed assets -2,986, Investments and other assets +1,339
Software (including software development in progress)	4,239	7,512	4,532	-2,979	
Total assets	24,566	38,211	38,348	136	
Current liabilities	8,105	7,491	7,096	-394	Short-term debt -109, Trade payables -281, Income in advance +141
Fixed liabilities	183	12,661	12,222	-439	Long-term debt -442
Total liabilities	8,289	20,153	19,318	-834	
Net assets	16,277	18,058	19,029	971	Retained earnings +787, Accumulated other comprehensive income +185
Total liabilities and net assets	24,566	38,211	38,348	136	
Interest-bearing debt	2,782	13,713	13,158	-555	Convertible bond (zero coupon) includes ¥11,040mn
Net cash	3,737	2,657	4,821	2,164	(Cash and deposits + securities – interest-bearing debt)
Management indicators					
Current ratio	139.9%	293.2%	332.6%	39.4pt	
Equity ratio	66.2%	47.2%	49.6%	2.4pt	
Interest-bearing debt ratio	17.1%	75.9%	69.1%	-6.8pt	
ROE	18.5%	21.7%	9.9%	-11.8pt	

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

Outlook

Prepared conservative guidance with an assumption of COVID-19 impact continuing through 2Q FY3/21

1. Business outlook for FY3/21

The Company guides for ¥36,000mn in net sales (+1.4% YoY), ¥3,580mn in operating income (-31.5%), ¥3,600mn in ordinary income (-32.2%), and ¥2,340mn in net income attributable to owners of parent (+27.2%). It takes a conservative stance that assumes continued COVID-19 impact through 2Q and normalization of the business environment from 3Q and no additions from new customer acquisition in service revenues, which is a recurring business. It also lowered numerical goals disclosed in May 2019 (¥38,000mn in net sales and ¥8,000mn in ordinary income) to reflect COVID-19 impact.

Non-consolidated targets are ¥29,700mn in net sales (-6.9% YoY) and ¥3,300mn in ordinary profit (-32.9%). Discrepancy in consolidated and non-consolidated net sales factors in anticipated sales effect from M&A action, besides subsidiaries, at the consolidated level. The Company projects roughly ¥2.0bn from the M&A effect including the sales from two companies added to the group through May 2020. In operating income, however, the impact is minor due to booking amortization of goodwill and other factors.

Consolidated operating performance outlook for FY3/21

(¥mn)

	FY3/20		FY3/21			FY3/21 targets*
	Results	Ratio	Forecast	Ratio	YoY	
Net sales	35,501	-	36,000	-	1.4%	38,000
Gross profit	20,532	57.8%	20,790	57.8%	1.3%	
SG&A expenses	15,305	43.1%	17,210	47.8%	12.4%	
Operating income	5,227	14.7%	3,580	9.9%	-31.5%	
Ordinary income	5,311	15.0%	3,600	10.0%	-32.2%	8,000
Net income attributable to owners of parent	1,839	5.2%	2,340	6.5%	27.2%	
Net income per share (¥)	59.59		75.79			

*Disclosed in May 2019
Source: Prepared by FISCO from the Company's financial results

FY3/21 non-consolidated outlook

(¥mn)

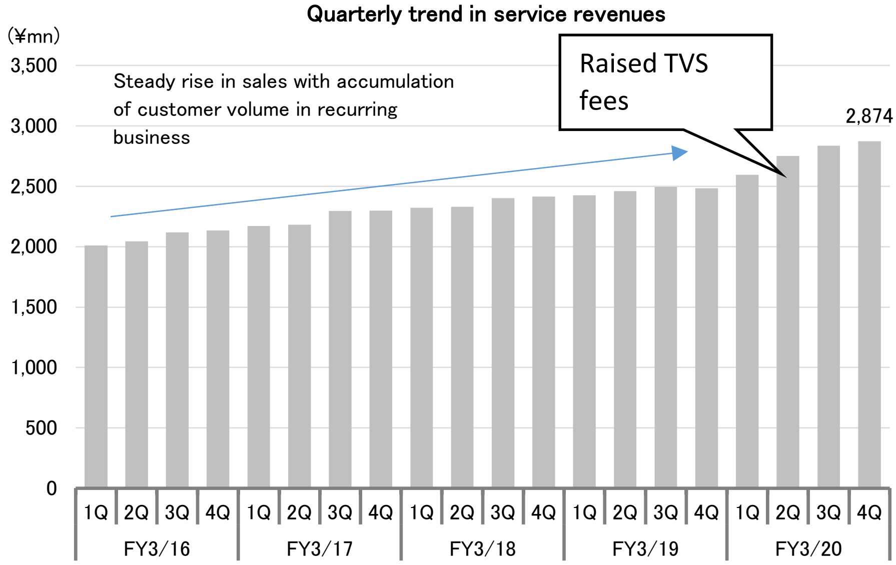
	FY3/20		FY3/21		
	Results	Ratio	Forecast	Ratio	YoY
Net sales	31,898	-	29,700	-	-6.9%
Ordinary income	4,917	15.4%	3,300	11.1%	-32.9%

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

While the Company could face risk of earnings shortfall if COVID-19 impact continues from 3Q, we expect upside in operating profit in the case of the situation settling down in 2Q and sales meeting guidance. In the non-consolidated results, the outlook projects a roughly ¥2bn decline in net sales, though mainly in hardware and useware with relatively low profit margins. We think profit setback from lower sales should be at most around ¥500mn in conservative terms. As a profit boost, meanwhile, the Company's early amortization from FY3/20 reduced future amortization expenses on software assets (about ¥1bn). Since the Company plans to increase development costs by about ¥200mn, the net profit gain comes to roughly ¥800mn. Despite profit decline impacts from higher personnel costs due to bolstering operations mainly in sales and development divisions (it added about 70 new university graduates in spring 2020) and moving costs for the Fukuoka branch office, we believe the Company's guidance is conservative.

Additionally, the Company takes a conservative view of highly profitable service revenues at a 1.5% YoY increase to ¥11,225mn, even though sales totaled ¥2,874mn in 4Q FY3/20. We think FY3/21 sales are on track to about ¥11,500mn, based on four times the 4Q level, assuming no change in contract volume and also see upside from new contracts acquired during this fiscal year. Despite lingering uncertainty from risk of slowdown in IT investments at smaller/medium-sized companies due to weaker economic activity, we expect profits to exceed guidance if COVID-19 impact settles down through 2Q and sales proceed in line with the plan.

Quarterly trend in service revenues

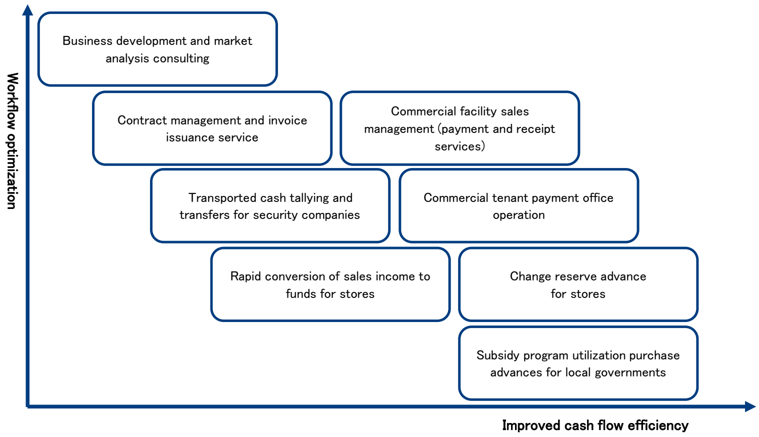


Source: Prepared by FISCO from the Company's financial results

New additions to the group through M&A are Transtructure Co., Ltd, a leading independent domestic organizational and personnel consulting firm, and Spice Co., Ltd., a subsidiary of Central Security Patrols Co., Ltd. <9470> that manages store cash and improves distribution efficiency. Transtructure provides assistance that ranges from planning and designing to deployment and operation of new personnel systems in accordance with corporate attributes and also develops and supplies personnel evaluation and analysis tools. With the acquisition of Transtructure as a subsidiary, the Company intends to promote collaboration and integration of its own ERP products and Transtructure's organizational and personnel consulting solutions and deliver more advanced and effective HR solutions via sales and customer foundations with its 31 sites throughout Japan. Transtructure currently only provides solutions in metropolitan Tokyo with sales totaling about ¥1bn annually and operating margin at just over 10%. We expect further growth in business scale applying the Company's sales capabilities, such as holding joint seminars nationwide, to steadily acquire new customers.

Spice, meanwhile, mainly offers services that support rapid conversion of sales income to funds for companies that operates as tenants in commercial facilities. When companies have tenant stores at commercial facilities, they require some time to recoup funds because the commercial facility operator initially collects daily sales revenue. Spice assists in improvement of store cash flow efficiency and minimization of cash handling risk by managing payments and receipts. MJS Finance & Technology, which develops the group's Fintech services, acquired Spice as a subsidiary. It hopes to recruit new commercial facilities and develop new services, such as cashless sales upfront payment service, by combining knowhow from the two companies. The Company also aims to provide its products and services to smaller security companies that are allied with CENTRAL SECURITY PATROLS utilizing the relationship built through the M&A deal and to assist smaller security company M&A and other initiatives through mmap. It intends to continue reviewing potential M&A actions as well.

Spice Co., Ltd.'s service portfolio



Source: Prepared by FISCO from the Company's materials

Headed for weaker system installation contract sales but expects continued increase in service revenues, a recurring business

2. Sales outlook by business areas and customer segments

In sales by business areas, the Company guides for ¥20,186mn in system installation contract sales (-9.7% YoY), ¥11,225mn in service revenues (+1.5%), and ¥4,587mn in other sales (+119.9%).

Looking at system installation contract sales, the Company expects large declines of 17.9% YoY in hardware and 21.0% in useware, mainly due to COVID-19 impact and absence of extraordinary demand relative to completion of Windows7 support in the previous fiscal year. It only projects a slight decline of 2.0% in software sales. The plan factors in a tough 1H on delays in business discussion activities and then recovery in 2H.

In sales by customer segment, the Company projects substantial decline in business with tax accountant and CPA firms by 27.6% to ¥5,167mn after the previous fiscal year's upbeat replacement demand. The average of FY3/20 and FY3/21 net sales works out to about ¥6.1bn, which is roughly on par with sales in FY3/19. Since existing customers constitute the bulk of the Company's tax accountant and CPA firms, COVID-19 does not appear to have affected sales activities much. The Company forecasts ¥11,670mn in corporate sales (-1.4% YoY). This reflects impact on sales efforts to recruit new customers, such as seminar suspensions in April and May, and reviews of IT investment plans at some companies. There are also cases that require extra time for system installation inspections. The plan hence anticipates lower sales in 1H followed by recovery in 2H.

Service revenues, meanwhile, takes a conservative view of additional income from new customers, as explained above. The plan projects a 4.1% YoY rise in TVS sales thanks to continuation of the positive effect of the price hike in July 2019 during 1Q. It also expects a 3.2% rise in software licensing fee sales due to contract additions for the Kantan Cloud series through FY3/20 and a 5.2% increase in software operation assistance service for corporate customers. However, it forecasts declines of 3.0% in hardware and network maintenance service and 27.3% in supplies. The Company's conservative view of supplies factors in vulnerability of this business to the impact of slower corporate activity.

Sales trends by product category (consolidated basis)

(¥mn)

	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21 E	YoY
System installation contract sales	16,345	16,921	19,665	22,359	20,186	-9.7%
Hardware	2,822	3,190	3,403	4,869	3,999	-17.9%
Software	10,281	10,469	12,440	12,429	12,187	-2.0%
Useware	3,241	3,260	3,821	5,060	3,999	-21.0%
Service revenues	8,949	9,469	9,867	11,055	11,225	1.5%
TVS	1,877	1,916	1,955	2,324	2,420	4.1%
Software usage fees	1,211	1,312	1,485	1,776	1,833	3.2%
Software operation assistance services	3,898	4,264	4,409	4,860	5,112	5.2%
Hardware/network maintenance services	1,287	1,314	1,351	1,395	1,352	-3.0%
Office supplies	675	662	665	697	506	-27.3%
Others	929	1,191	1,784	2,086	4,587	119.9%
Total	26,225	27,582	31,317	35,501	36,000	1.4%

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

Promoting API collaboration with financial institutions toward realizing a Financial Services Framework based on bizsky platform business

3. Longer-term outlook

The Company is preparing the longer-term vision that lasts through FY3/26 as a strategy aimed at realizing “dramatic growth.” While it plans to unveil the vision in May 2021, it has presented the following three points as the fundamental strategy.

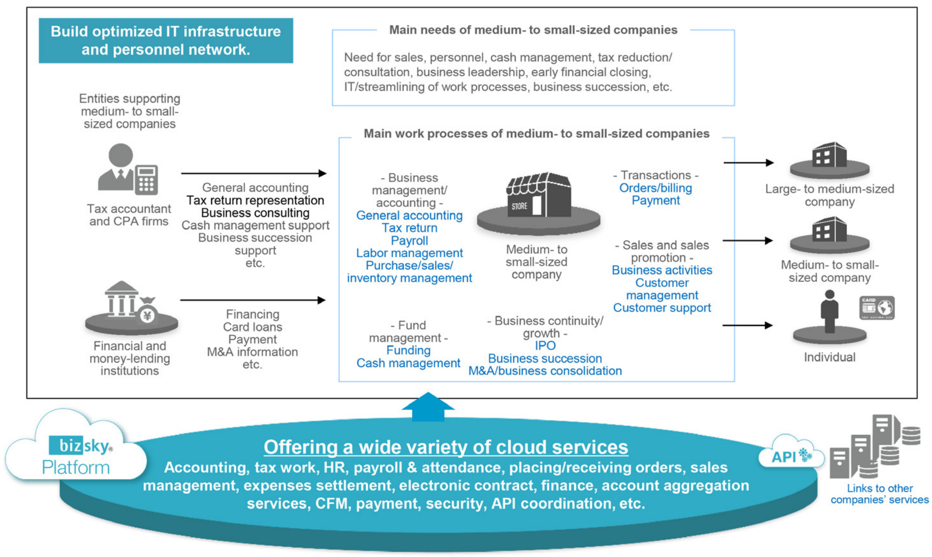
- In addition to accelerating the growth of the existing ERP business, create and expand new businesses with highly profitable business models.
- Implement positive M&A activities to make the Group’s management more advanced and diversified.
- Learn lessons from the COVID-19 crisis to accelerate BCP, BPR and work-style reforms in pursuit of sustainability.

(1) Expansion of bizsky platform business

The Company focuses mainly on bizsky platform as a new business, and we think this could serve as an important income foundation. It aims to foster this platform into a comprehensive platform for management assistance that provides a wide range of cloud services useful in addressing issues faced by smaller/medium-sized companies (such as increasing sales, enhancing business efficiency and managing funds). Information sharing with financial institutions is vital in expanding the platform because collaboration makes it possible to build a framework that supplies various financial services.

Expansion of bizsky platform business

■ The bizsky platform offers a wide variety of cloud services. Expand this business to operate a comprehensive solution for medium- and small-sized companies through a solid network with accounting films and financial institutions.



Source: The Company's results briefing materials

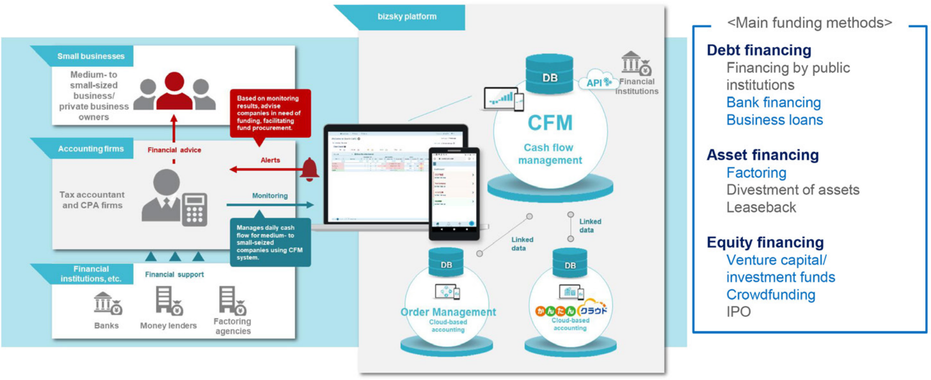
The Company completed registration of electronic payment handling firms*1 in order to promote API collaboration with financial institutions in June 2019 and is currently arranging API contracts and provisional scraping*2 contracts with financial institutions (it completed contracts with 60 institutions as of June 5, 2020). It expects to largely complete API collaboration arrangements with regional banks nationwide and Internet banks in March 2021. Users of Kantan Cloud Kaikei, Galileopt, MJSLINK, and ACELINK via collaboration arrangements with financial institutions can automatically link their account information at financial institutions to these products and services, significantly boosting convenience.

*1 Under the Revised Bank Act, electronic payment handling firms must conclude API contracts or scraping contracts with financial institutions in provision of accounting services to customers using account information at financial institutions.

*2 Scraping is a software technology that automatically extracts information from a website (it is also known as crawling). The difference with the API level is that an API facilitates information collaboration without having the customer ID and password on the Company's side, while scraping requires the customer ID and password and hence involves security risk. Due to this aspect, the Company intends to ultimately arrange API collaboration with financial institutions that provisionally agree to scraping contracts.

Furthermore, the Company believes it can offer new financial services by having collaboration with financial institutions. It created a new business strategy office in April 2020 to accelerate development and rollout of new services. The Company is advocating a Financial Services Framework that envisions tax accountant and CPA firms taking on the CFO role at client smaller/medium-sized companies and provision of BPO services related to fund availability on the bizsky platform. In this business model, financial institutions provide optimal financing services based on financial data from clients (smaller/medium-sized companies, individual business owners) held by tax accountant and CPA firms, and the Company receives fees and other income. The Company hopes to begin provision of this new service.

Financial Services Framework



Source: The Company's results briefing materials

Even though rivals are actively promoting similar fintech-related services, the Company sees opportunity to realize robust growth by leveraging its network of about 8,400 tax accountant and CPA firms nationwide and providing services to the roughly 500,000 smaller/medium-sized companies and individual business owners that they serve. It understands the importance of further expansion in the number of companies using the bizsky platform to achieve the Financial Services Framework and is ramping up development investments in order to strengthen functionality in existing products and services (Kantan Cloud, Edge Tracker, and others). It also intends to develop new services that can be used on the platform and collaborate with other services.

(2) Reinforcing partnerships with regional financial institutions for regional revitalization

The Company has been reinforcing partnerships with regional financial institutions since it concluded a capital and business alliance with Shinsei Bank, Limited <8303> in 2017, and results from these efforts are starting to appear. It concluded cooperation contracts with 47 institutions in sales alliances to introduce its products and services to financial institution customers and has received more than 200 introductions. It also concluded cooperation contracts with 55 institutions for mmap's business succession assistance service. The Company continues to bolster these initiatives and is also engaged in joint research with multiple institutions into new fintech services as mentioned above. Additionally, it might expand sales of the organization and personnel evaluation tools supplied by Transtructure, the newly acquired subsidiary, and other products through partnerships with financial institutions.

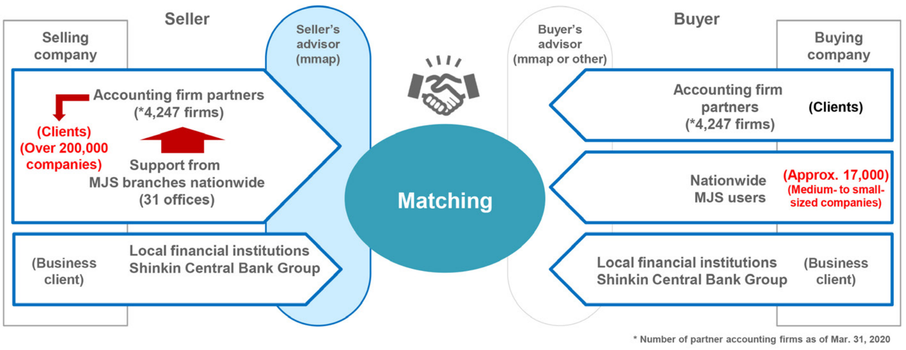
By continuing these activities, the Company aims to not only achieve its own earnings growth, but also help smaller/medium-sized companies to improve their management and promote activity in regional economies.

Reinforcement of business succession assistance service operations

The Company intends to proactively roll out business succession assistance services via subsidiary mmap. Its services cover identification of selling needs using 31 offices nationwide and a network of partner tax accountant and CPA firms (4,247 offices with more than 200,000 client companies) and also matching with potential buyers through existing customers (about 17,000 companies; particularly growth assistance for mid-sized enterprises) and a broad network of partner financial institutions. While it previously only served as an adviser on the selling side, the Company wants to raise the matching rate and expand business as a buying side adviser too.

Reinforcement of business continuation assistance service operations

■ Seeking out business transfer needs using MJS's nationwide branch network and many accounting firm partners, matching sellers with buyers via network of financial institutions and MJS users (to support growth of medium-sized companies in particular).



■ Promote business partnership agreement with accounting firms, using MJS's nationwide branch network.
■ Provide accounting firm partners with the "Corporation Evaluation System," which calculates the client's business value, free of charge.
■ Collaborate with financial institutions across Japan, as partners to exchange information on business succession projects.
■ Collect information on the business transfer needs of MJS users nationwide to help match buyers with companies looking to sell.

Source: The Company's results briefing materials

(3) Human resource investments

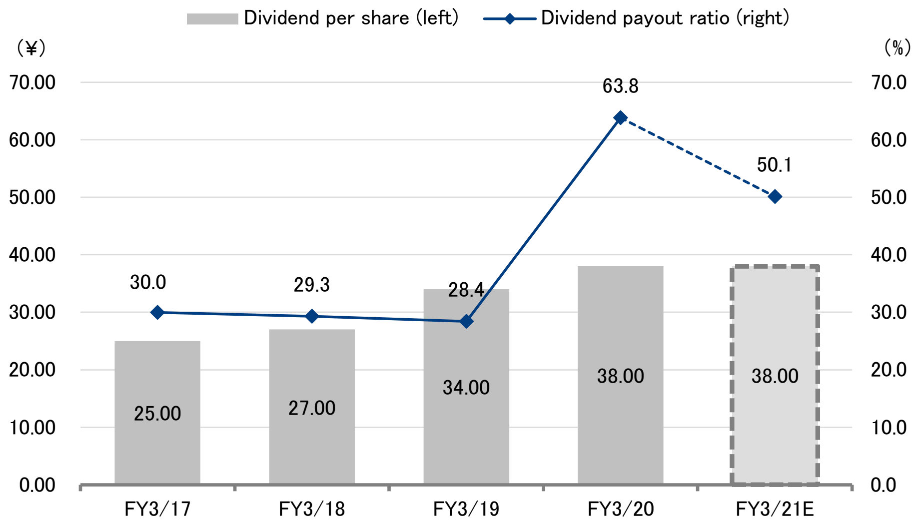
The Company plans to continue strengthening investments in human resources. While it hired 70 new graduate employees in spring 2020, the same as in the previous year, it also intends to hire just over 70 people in spring 2021, mainly for sales and development divisions. The Company currently uses outsourcing too in development operations, but aims to steadily raise the in-house development share in order to accumulate knowhow. It has about 210 development people on its own (about 430 people at the consolidated level).

Shareholder return policy

Plans to pay steady dividends reflecting its profits

The Company applies a core shareholder return policy of sustaining stable earnings return over the long term with the dividend. While net income attributable to owners of parent fell in FY3/20 due to booking extraordinary losses, it raised the dividend per share for a fifth straight fiscal year by ¥4.0 YoY to ¥38.0 (63.8% payout ratio). It targets ¥38.0 (50.1%), unchanged YoY for FY3/21. We think the Company is likely to increase the dividend if the payout ratio would otherwise drop below 30% considering the track record of dividend hikes in response to earnings growth while keeping the ratio at about 30% over the past few years.

Dividend per share and dividend payout ratio



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

FISCO

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