

Miroku Jyoho Service Co., Ltd.

9928

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

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Summary

Solidifying foundations toward realizing high growth through shifting to the cloud and an M&A strategy

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

1. 1H FY3/21 results

In the 1H FY3/21 (April–September 2020) consolidated results, net sales declined 12.2% year on year (YoY) to ¥16,522mn and operating income decreased 35.8% to ¥2,489mn. The main decreasing factors were the impact of the novel coronavirus pandemic (hereafter, the coronavirus) and a decline resulting from special demand for PCs in the previous year. However, the Company made steady progress in acquiring new customers through ERP products for small/medium-sized companies, while cloud services also steadily grew. As a result, service revenues, which are a recurring income-type business, continued to be strong, increasing 11.0% YoY. Also, the order backlog for system installation contract sales* (non-consolidated), which is a KPI for the Company, was 5.17 months, increasing by 0.52 of a month on the end of the previous fiscal period. So it can be said that the results were strong even in the severe market environment caused by the coronavirus.

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

2. FY3/21 forecast

For the FY3/21 results, the Company is forecasting net sales to decrease 5.6% YoY to ¥33,500mn and operating income to decline 15.8% to ¥4,400mn. Compared to the initial forecasts (net sales of ¥36,000mn and operating income of ¥3,580mn), it has downwardly revised the net sales forecast, but upwardly revised the operating income forecast. The reason for downwardly revising net sales is the slump in results of affiliates due to the impact of the coronavirus, but the Company is expected to achieve its initial forecast for net sales on a non-consolidated basis. Conversely, the reasons for upwardly revising the operating income forecast is that service revenues are trending higher than initially expected and progress has been made in reducing cost and expenses. Up to 1H, the progress rate toward achieving the operating income forecast was 56.6%, so at FISCO, we think that the full fiscal year forecast can be achieved.

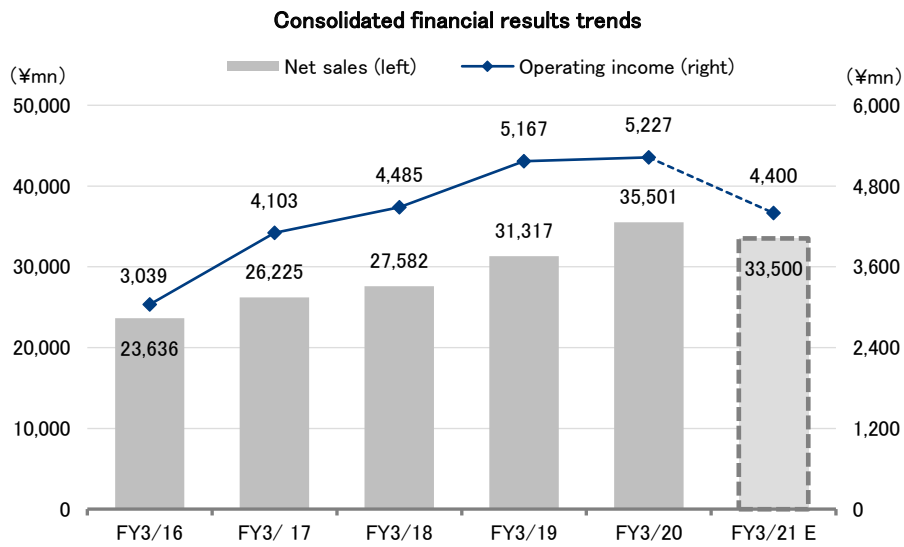
3. Prospects for 2025

The Company is currently formulating a medium-term management plan focused on FY3/26, and expects to announce it around May 2021. The basic strategies include accelerating the shift to a subscription model for the existing ERP business, establishing a new pillar of earnings by expanding business areas through M&A and Group synergies, expanding the bizsky platform to form a foundation for providing cloud services, and establishing a position as a platform to support the businesses of small/medium-sized companies. Its policy is to actively acquire the resources it lacks to promote these strategies (including AI and blockchain technologies) through M&A and alliances. If the Company realizes these strategies, its results may grow dramatically, so we will be paying attention to developments in the future.

Summary

Key Points

- In the 1H FY3/21 results, while sales and profits declined, service revenues were strong and profits were higher than expected
- Has upwardly revised the initial FY3/21 results forecasts except for the net sales forecast, and results may be above forecast depending on conditions going forward
- Intends to expand the bizsky platform while also utilizing M&A and is developing it to be a growth engine toward realizing high growth



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 small/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 development and sales of 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 the establishment of MJS M&A Partners Co., Ltd. (hereafter, mmap), a subsidiary that provides business succession assistance and other services to small/medium-sized companies, in 2014, its launch of the bizsky cloud platform that supports business and work flow improvements at small/medium-sized companies in 2016, and making Transtructure Co., Ltd., an independent and one of Japan's largest organizations and HR consulting firms, a wholly owned subsidiary in April 2020.

Company history

Core service format	Year	History
Data Processing Center	1977	Miroku Jyoho Service Co., Ltd. established
	1978	New financial data processing system MS-1 developed and sales started Online terminal MJS800 developed and sales and online service commenced
Office Computing	1980	Shift from data processing to office computer development and sales business Development and commencement of sales for the specialist Miroku Ace Model Series for accounting
	1983	Entry into the market for clients advised by tax accountant and CPA firms Development and commencement of sales for the specialist Pro Office computer [Keiri] aimed at clients of tax accountant and CPA firm
Shift to open systems (package software)	1990	Developed and commenced sales for package software for PC installation "SI Zaimu Taisho," "SI Hanbai Taisho," and "SI Kyuyo Taisho"
	1992	Became a listed enterprise by an OTC listing on the Japan Securities Dealers Association (currently TSE JASDAQ)
	1994	Developed and commenced sales for the accounting telecommunications system MJS-COMPASS linking tax accountant and CPA firms and the client companies advised
	1997	Listed on the Second Section of Tokyo Stock Exchange
	1998	Developed and commenced sales of the MICSNET Series ERP system compatible with Windows NT® for medium-sized companies
	2001	Developed and commenced sales of the ACELINK Series of network solution systems for tax accountant and CPA firms
	2002	Developed and commenced sales of the MJSLINK Series of operations and comprehensive information systems for small/medium-sized companies
	2004	Developed business information website "bizoccean" 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

Corporate overview

Core service format	Year	History
	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)
Shift to service provider	2017	Developed and commenced provision of offering the Rakutasu Kyuyo Money Transfer service through the bizsky cloud platform for small/medium-sized companies (January) Established a business alliance with Crowd Cast, Ltd. and connected that company's Staple cloud expense payment service with MJS's Rakutasu Money Transfer service using an application program interface (API) (March) Developed and commenced sales of the Galileopt NX-Plus ERP solution for medium-sized companies (April) Developed and released the new ERP system for small/medium-sized companies MJSLINK NX-Plus (October) Developed and commenced provision of Edge Tracker, a cloud service for employees supporting multi-device use (October)
	2018	Developed and commenced provision of MJS Okane No Kanri, a cloud service for small sized companies (March) Developed and commenced provision of Kantan Cloud Kaikei and Kantan Cloud Kyuyo, new cloud services for small/medium-sized companies and self-run businesses (April) Started provision of Cloud Service Hub for MJS, an accounting support solution developed jointly with Fuji Xerox Co., Ltd. and giving greater efficiency to digitalizing and migrating paper documentation to the cloud. (April) Started provision of the new Workflow function on Edge Tracker, a cloud service promoting operational efficiency through real-time, time-saving, visualizing operations. (June) Developed and released MJS Zeimu NX-Plus, a new tax affair system (July) Developed and commenced provision of Kantan Cloud Kaikei Plus and Kantan Cloud Kyuyo Plus, cloud services for small/medium-sized companies and self-run businesses (November)
	2019	Developed and started provision of collection agent service Rakutasu Kaishu (July) Developed and commenced provision of AI-driven journaling and balance check system MJS AI Kansa Shien (November)
	2020	Made a wholly owned subsidiary of Transtructure Co., Ltd., an independent and one of Japan's largest organizations and HR consulting firms (April) Developed and began providing a function to assess eligibility for financing support for tax accountant and CPA firms, which automatically determines eligibility for the government's Subsidy Program for Sustaining Businesses (April) Developed and began providing MJS DX Cloud, a cloud service that enables MJS financial accounting and tax applications to be used on Microsoft Azure (August) Made a subsidiary of Tribeck Inc., which provides digital marketing support and a marketing platform (December)

Source: Prepared by FISCO from the Company's website, results briefing materials, and news releases

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. Looking at the distribution channels and its composition by customers, direct sales accounts for almost 100% for tax accountants and CPA firms and more than 90% for small- and medium-sized companies, while the remaining 10% is through sales agencies. We think the Company still has substantial room to attract new customers because the tax accountant and CPA firms it handles provide services to around 500,000 companies. It supplies simplified accounting software for small-scale businesses through volume sellers and tax accountant and CPA firms and has just over 80,000 users.

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

Corporate overview

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

Source: Prepared by FISCO from the Company's materials

3. Subsidiaries and affiliates

As of the end of September 2020, the Company had eleven 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, and 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), followed by making Transtructure Co., Ltd., an organizations and HR consulting firm, a wholly owned subsidiary in April 2020 and making Spice Co., Ltd., which operates in-store cash management and distribution efficiency improvements, a second-tier subsidiary in May 2020. In December 2020, it acquired Tribeck Inc., which provides digital marketing support, and it is aiming to further expand its business scope.

In addition, 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

Affiliate conditions (as of the end of September 2020)

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
Transtructure	100.0%	Consulting services, specializing in the organization and personnel fields
Spice	100.0%	Manages in-store cash, improves distribution efficiency, etc.
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

In the 1H FY3/21 results, while sales and profits declined, service revenues were strong and profits were higher than expected

1. 1H FY3/21 results

The Company reported consolidated results for 1H FY3/21 of ¥16,522mn in net sales (-12.2% YoY), ¥2,489mn in operating income (-35.8%), ¥2,503mn in ordinary income (-36.3%), and ¥1,359mn in net income attributable to owners of parent (-47.8%).

Consolidated results for 1H FY3/21

	1H FY3/20		1H FY3/21		YoY
	Results	Ratio	Results	Ratio	
Net sales	18,825	-	16,522	-	-12.2%
Gross profit	11,547	61.3%	10,645	64.4%	-7.8%
SG&A expenses	7,671	40.7%	8,155	49.4%	6.3%
Operating income	3,876	20.6%	2,489	15.1%	-35.8%
Ordinary income	3,928	20.9%	2,503	15.1%	-36.3%
Extraordinary losses	-17	-0.1%	-169	-1.0%	-
Net income attributable to owners of parent	2,607	13.8%	1,359	8.2%	-47.8%

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

The main reasons for the lower sales and profits were certain restrictions on sales activities as part of the Japanese government's declaration of a state of emergency in response to the coronavirus and a decline resulting from special demand that occurred in FY3/20 to replace PCs before support ended for Windows 7. However, the Company made steady progress in acquiring new customers, cloud services steadily grew, sales of recurring income-type services also increased at a pace higher than expected (+11.0% YoY), and the gross profit margin improved (+3.1 percentage points (pp) YoY to 64.4%). In addition, the order backlog for system installation contract sales (non-consolidated), which is a KPI for the Company, was 5.17 months, increasing by 0.52 of a month on the end of the previous fiscal period. SG&A expenses increased 6.3% YoY mainly due to the rise in personnel expenses, but remained below internal forecasts due to lower transportation and internal expenses following the introduction of teleworking and a reduction in sales promotion expenses as seminars were suspended for a certain period of time to acquire prospective customers. The main reasons for the increase in personnel expenses were the additions of 70 new graduate recruits and the personnel expenses of Transtructure, which was made a subsidiary.

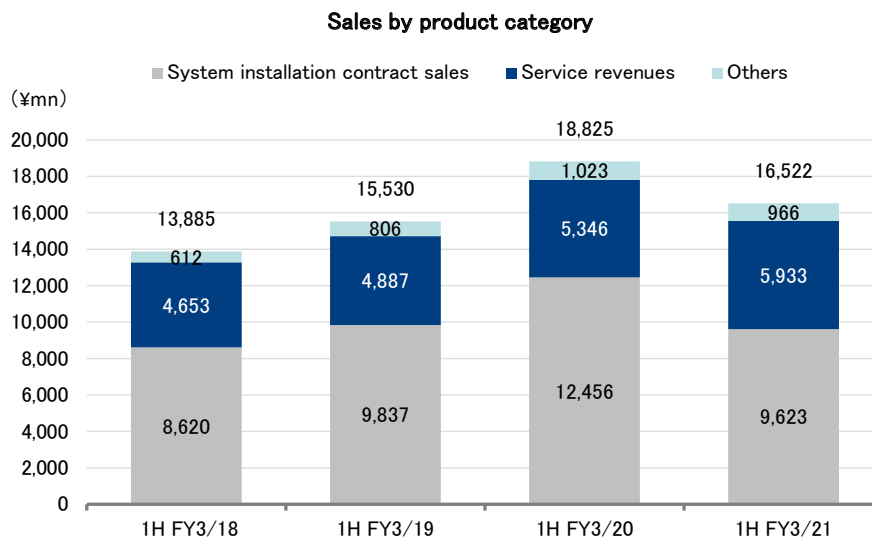
The Company did not disclose forecasts for 1H FY3/21, but it seems that net sales fell below forecast as subsidiaries were seriously affected by the impact of the coronavirus, while operating income was several hundreds of millions of yen above forecast due to an improving gross profit margin and curbed SG&A expenses.

Business trends

Recurring income-type service revenues are steadily growing through the expansion of the customer base

2. Sales trends by customer and product category

Looking at the breakdown of net sales, system installation contract sales decreased 22.7% YoY to ¥9,623mn, service revenues increased 11.0% to ¥5,933mn, and others (mainly the businesses of subsidiaries) declined 5.5% to ¥966mn.



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, sales to general companies (corporate) decreased 24.3% YoY to ¥4,898mn, with sales to existing customers declining by 29.1% to ¥3,370mn and sales to new customers falling 11.1% to ¥1,528mn. Business sentiment worsened due to the impact of the coronavirus, and in this environment, sales decreased as customers' intentions to invest cooled down and sales activities were restricted. However, the Company can be highly evaluated for reaching a certain level in acquiring new customers despite a decline compared to the same period in the previous fiscal year. This is because these new customer acquisitions lead to the accumulation of recurring income-type management support services and software usage fees*. Within corporate sales, the percentage from new customers rose from 26.6% in the same period in the previous fiscal year to 31.2%.

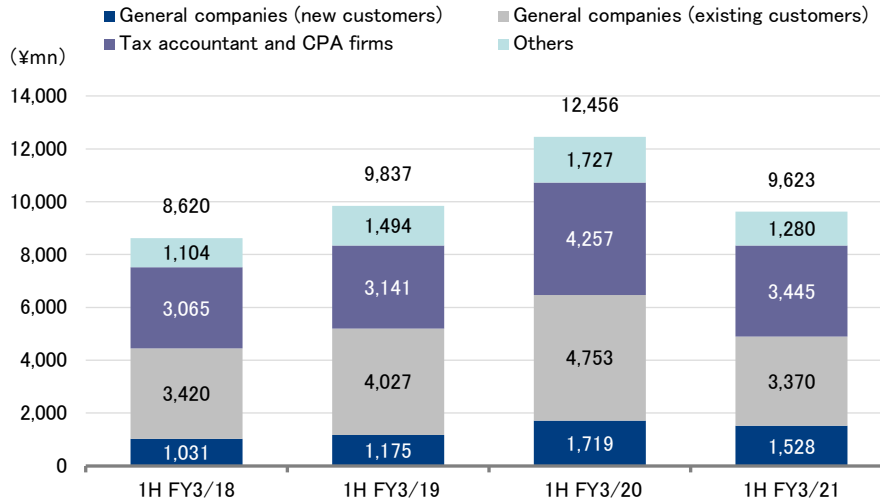
* In August 2020, in addition to the former package sales, the Company started providing services (subscription model) that can be used on Microsoft Azure, and sales of these services are recorded as software usage fees.

Sales to tax accountant and CPA firms decreased 19.1% YoY to ¥3,445mn. They were greatly affected by the special demand in the previous year to replace PCs, etc. before the end of support for Windows 7. That said, they were still high compared to the FY3/19 level and can be highly evaluated as performing strongly despite the coronavirus. Sales of others decreased 25.9% to ¥1,280mn as sales at subsidiaries and via sales partners declined due to the impact of the coronavirus.

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Business trends

System installation contract sales by customer

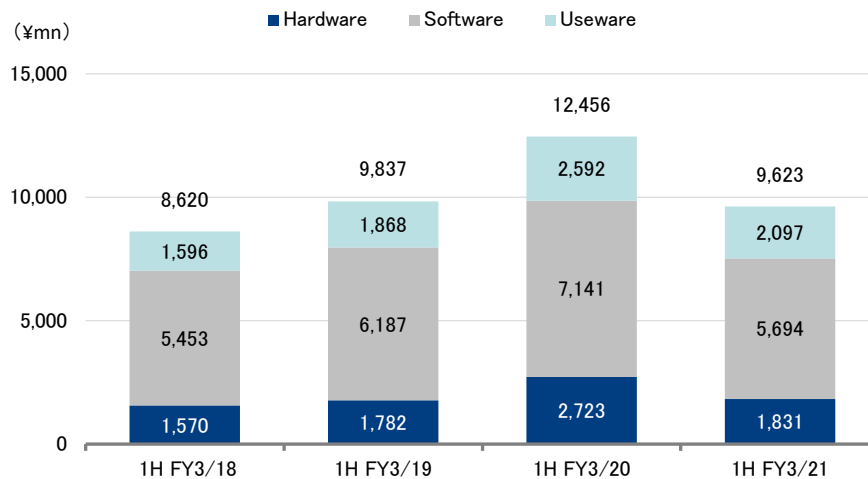


Note: Others includes sales by subsidiaries and the headquarters and sales to business partners
Source: Prepared by FISCO from the Company's results briefing materials

Also, looking at system installation contract sales by product category, software declined 20.3% YoY to ¥5,694mn, hardware fell 32.8% to ¥1,831mn, and useware (installation support services) decreased 19.1% to ¥2,097mn, so sales declined by double digits in every category. The reason for the significant decline in sales of hardware, as previously mentioned, is the many cases of replacement purchases for PCs and other hardware before the end of support for Windows 7 in FY3/20.

Within software, in corporate ERP products, sales decreased of both Galileopt NX-Plus for medium-sized companies and MJSLINK NX-Plus for small/medium-sized companies, and it appears that the sales decline was severe for medium-sized companies. Also, continuing on from ACELINK NX-Pro for tax accountant and CPA firms, the Company began sales of a subscription model for general companies as well, and going forward, the sales format is expected to gradually shift from package sales to the provision of services using a subscription model. It is necessary to point out that if the speed of the shift to the subscription model accelerates, the profit margin will improve in the medium to long term, but net sales and profit will decrease in the short term.

Business trends

System installation contract sales by product category


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

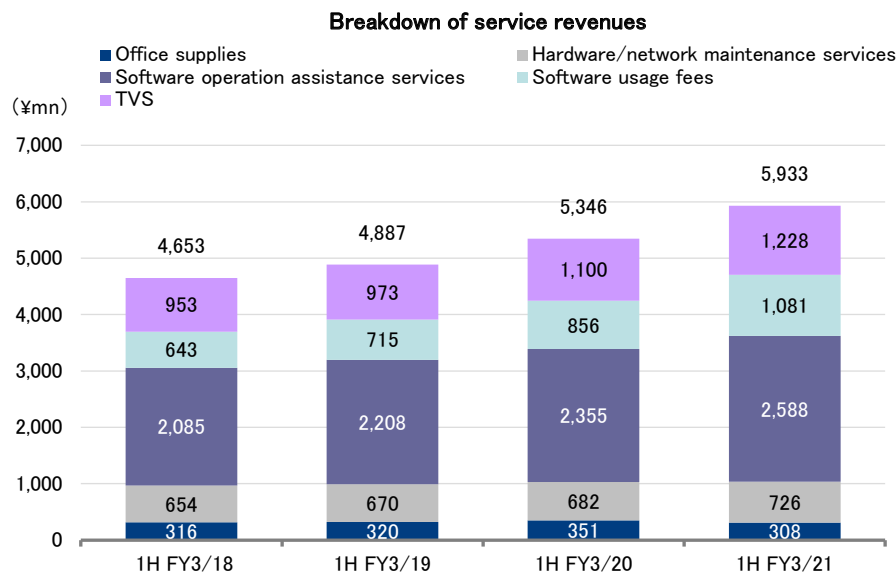
(2) Service revenues

Looking at the breakdown of service revenues, TVS (a comprehensive maintenance service for tax accountant and CPA firms) increased 11.6% YoY to ¥1,228mn, software usage fees rose 26.3% to ¥1,081mn, software operation assistance services (corporate software maintenance services) grew 9.9% to ¥2,588mn, hardware/network maintenance services increased 6.4% to ¥726mn, and office supplies decreased 12.0% to ¥308mn.

For TVS, the number of customers is stably increasing and fee revisions have been implemented since July 2019. As a result, it continued to be the main increasing factor up to 1H FY3/21. Looking at the change in sales by fiscal quarter, sales increased by 24.4% in 1Q compared to the same quarter in the previous year and by 1.2% in 2Q. At FISCO, we think that sales will also continue to grow stably from 3Q onwards.

For software usage fees, customer numbers for various types of cloud services, such as Kantan Cloud Kaikei and Kantan Cloud Kyuyo for small businesses that are the clients of accounting firms, are continuing to increase by double digits annually, and in 1H FY3/21, demand grew for remote tools for teleworking in addition to these services. Also, in August 2020, the Company began providing corporate ERP cloud services, and it seems that while sales of these services are still small, they contributed to results. Software operation assistance services (corporate software maintenance services) are also steadily growing through the accumulation of new customers. Sales declined only for office supplies, as demand from offices fell due to the impact of the coronavirus.

Business trends



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

(3) Others

In others (mainly the businesses of subsidiaries), net sales declined 5.5% YoY to ¥966mn. The decline seems small, but they include the results of newly added Transtructure and one other company. So it appears that sales at the existing subsidiaries are being greatly impacted by the coronavirus and that earnings conditions are severe in all of them.

Looking at the conditions at the main subsidiaries, there was a decrease in advertising income from bizocean, a business information website. At mmap, which provides business succession services, face-to-face advisory work could not be carried out fully due to the impact of the coronavirus, and both the number of concluded contracts and sales declined. The same applies to Adtop, which conducts an advertising agency business specializing in personnel hiring, and its results were severely affected. Newly consolidated Transtructure is a consulting company with a business scale of annual sales of more than ¥1bn, and it seems that it was also impacted by the coronavirus, however only slightly.

The financial status is stable and soundness is ensured

3. Financial status and management indicators

Looking at the financial status at the end of 1H FY3/21, total assets were up ¥3,955mn on the end of the previous fiscal period to ¥42,304mn. Breaking down the main influencing factors, in current assets, cash and deposits decreased ¥1,621mn, but accounts receivable increased ¥1,543mn and deposits rose ¥604mn due to the acquisition of treasury shares. In fixed assets, there were increases in software assets (including development in progress) of ¥676mn, goodwill of ¥758mn, and investments and other assets of ¥1,698mn.

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Business trends

Total liabilities were up ¥2,834mn on the end of the previous fiscal period to ¥22,152mn. The future of the economy is uncertain due to the coronavirus, so the Company conducted bank borrowing in order to secure cash on hand and interest-bearing debt increased ¥2,931mn. Also, total net assets increased ¥1,121mn to ¥20,151mn. Retained earnings rose ¥122mn as dividend payments decreased ¥1,170mn and net income attributable to owners of parent of ¥1,359mn was recorded. Also, alongside the increase in the market values of shares held, the valuation difference on available-for-sale securities rose ¥1,434mn.

Looking at the management indicators, mainly due to the increase in interest-bearing debt, the equity ratio declined from 49.6% at the end of the previous period to 47.6%, and other indicators, including the current ratio and the interest-bearing debt ratio, worsened slightly. However, the Company secured a surplus of net cash (more than ¥11bn excluding zero coupon convertible bonds) and it can be judged to be maintaining financial soundness.

Consolidated balance sheet and management indicators

					(¥mn)
	FY3/19	FY3/20	1H FY3/21	Change	Factors
Current assets	21,962	23,603	24,432	828	Cash and deposits -1,621, Accounts receivable +1,543, Deposits +604
Cash and deposits	16,271	17,979	16,357	-1,621	
Fixed assets	16,213	14,716	17,847	3,131	Goodwill +758, Software assets (including development in progress) +676, Investments and other assets +1,698
Software assets (including development in progress)	7,512	4,532	5,209	676	
Total assets	38,211	38,348	42,304	3,955	
Current liabilities	7,491	7,096	10,170	3,074	Short-term borrowings +3,148
Fixed liabilities	12,661	12,222	11,982	-240	Long-term borrowings -220
Total liabilities	20,153	19,318	22,152	2,834	
Total net assets	18,058	19,029	20,151	1,121	Retained earnings +122, Valuation difference on available-for-sale securities +1,434
[Management indicators]					
Current ratio	293.2%	332.6%	240.2%		
Equity ratio	47.2%	49.6%	47.6%		
Interest-bearing debt ratio	75.9%	69.1%	79.8%		
ROE	21.7%	9.9%	-		

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

Outlook

The initial FY3/21 results forecasts have been upwardly revised except for net sales, while results may be above forecast depending on conditions going forward

1. Business outlook for FY3/21

For the FY3/21 consolidated results, the Company is forecasting net sales to decrease 5.6% YoY to ¥33,500mn, operating income to decline 15.8% to ¥4,400mn, ordinary income to fall 18.1% to ¥4,350mn, and net income attributable to owners of parent to increase 39.7% to ¥2,570mn. Compared to the initial forecasts, the net sales forecast has been downwardly revised, but each profit item forecast has been upwardly revised. This is mainly due to an improved product mix, strong performance of highly profitable service revenues and SG&A expenses being curbed more than initially expected. In 2H FY3/21 as well, the Company intends to focus on growing service revenues and further expanding provision of cloud services and the subscription model for ERP products. At the same time, it will strengthen sales promotion activities, including increasing highly efficient online sales discussions and actively holding online seminars and workshops, and it will also progress acquisitions of new customers. Although the future remains unclear in terms of what will be the extent of the impact of the coronavirus, it is assumed that the business environment will return to a state of normal sometime after FY3/22.

Consolidated operating performance forecasts for FY3/21

	FY3/20		FY3/21			YoY	1H progress rate
	Results	Ratio	Initial forecast	Revised forecast	Ratio		
Net sales	35,501	-	36,000	33,500	-	-5.6%	49.3%
Operating income	5,227	14.7%	3,580	4,400	13.1%	-15.8%	56.6%
Ordinary income	5,311	15.0%	3,600	4,350	13.0%	-18.1%	57.5%
Net income attributable to owners of parent	1,839	5.2%	2,340	2,570	7.7%	39.7%	52.9%
Net income per share (¥)	59.59		75.79	83.45			

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

FY3/21 non-consolidated outlook

	FY3/20		FY3/21			YoY
	Results	Ratio	Initial forecast	Revised forecast	Ratio	
Net sales	31,898	-	29,700	29,700	-	-6.9%
Ordinary income	4,917	15.4%	3,300	4,650	15.7%	-5.4%
[Differences with consolidated results]						
Net sales	3,603		6,300	3,800		
Ordinary income	394		300	-300		

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

Outlook

If looking only at the non-consolidated results, the forecasts are for net sales to decrease 6.9% YoY to ¥29,700mn and ordinary income to decline 5.4% to ¥4,650mn. So compared to the initial forecasts, net sales remain unchanged and ordinary income has been upwardly revised by ¥1,350mn. The differences between the consolidated and non-consolidated results in the initial forecasts were ¥6,300mn for net sales and ¥300mn for ordinary income, but they have been greatly changed in the revised forecasts to ¥3,800mn for net sales and -¥300mn for ordinary income. The main reason the Company conservatively revised the full fiscal year forecasts is on considering that, as previously explained, earnings conditions at basically all of the main subsidiaries are severe due to the impact of the coronavirus. At the initial stage, it expected sales to increase by around ¥2bn from the effects of M&A and sales to also increase at existing subsidiaries.

At FISCO, we think that the Company's results can exceed the forecasts on a profits basis as long as corporate activities are not once again restricted in the future due to the coronavirus. This is mainly because the rate of progress toward achieving the operating income forecast at the end of 1H FY3/21 was 56.6% and the order backlog of system installation contract sales (non-consolidated) was also long, at 5.17 months. Only net income attributable to owners of parent is forecast to increase as a result of a valuation loss on software assets of ¥2,516mn being recorded in FY3/20 as an extraordinary loss.

Has not revised the full fiscal year sales forecasts by product category, but the rate of progress for service revenues at the end of 1H was 52.9%

2. Sales outlook by product category

The Company has not disclosed revised forecasts for sales by product category for FY3/21, but compared to the initial forecast, it has downwardly revised net sales by ¥2,500mn. As this references the contribution of consolidated subsidiaries, it is considered that net sales of others, which in the initial forecasts were expected to increase significantly (+119.9% YoY to ¥4,587mn), will decrease to around the same level as in FY3/20.

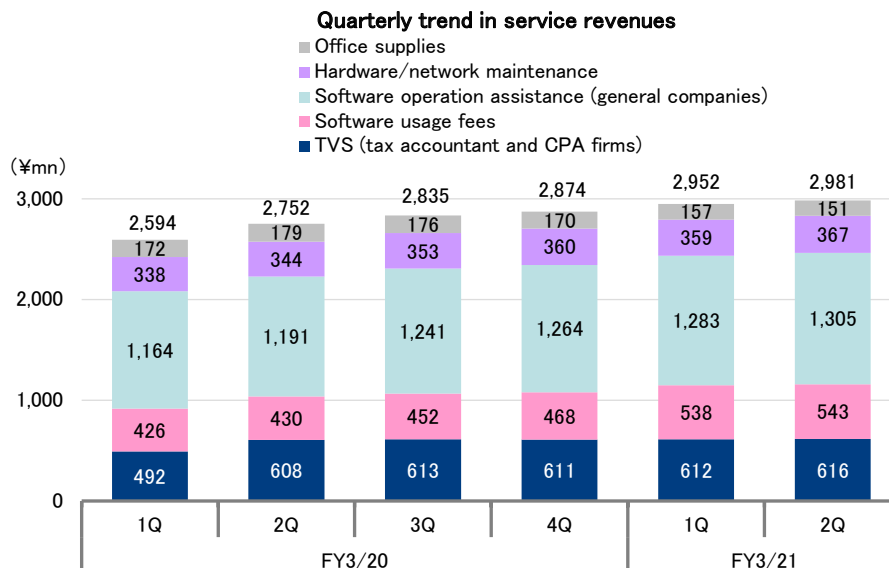
Sales trends by product category (consolidated basis)

	(¥mn)					
	FY3/18	FY3/19	FY3/20	Initial forecasts for FY3/21	YoY	1H progress rate
System installation contract sales	16,921	19,665	22,359	20,186	-9.7%	47.7%
Hardware	3,190	3,403	4,869	3,999	-17.9%	45.8%
Software	10,469	12,440	12,429	12,187	-2.0%	46.7%
Ueware	3,260	3,821	5,060	3,999	-21.0%	52.4%
Service revenues	9,469	9,867	11,055	11,225	1.5%	52.9%
TVS	1,916	1,955	2,324	2,420	4.1%	50.8%
Software usage fees	1,312	1,485	1,776	1,833	3.2%	59.0%
Software operation assistance services	4,264	4,409	4,860	5,112	5.2%	50.6%
Hardware/network maintenance services	1,314	1,351	1,395	1,352	-3.0%	53.7%
Office supplies	662	665	697	506	-27.3%	60.9%
Others	1,191	1,784	2,086	4,587	119.9%	21.1%
Total	27,582	31,317	35,501	36,000	1.4%	45.9%

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

Outlook

Looking at the rate of progress for the main businesses up to 1H FY3/21, system installation contract sales had reached 47.7%, so it can be said that further efforts will be necessary in 2H in order to achieve the forecast. Conversely, the rate of progress for service revenues was ahead of schedule at 52.9%. As service revenues are a recurring income-type business, if customer numbers increase, sales will rise stably. Looking at the Company's sales conditions on a quarterly basis, they have continued to trend upward, and if the current pace is maintained, they are forecast to exceed ¥3bn on a quarterly basis in 2H. In particular, under the coronavirus conditions, demand for cloud services with the aim of improving work efficiency is growing from small/medium-sized companies as well, and software usage fees are expected to increase. The rate of progress for software usage fees up to 1H was high, at 59.0%. Conversely, the rates of progress for TVS and software operation assistance services were basically as expected, with both being slightly more than 50%. For sales by customer, it seems there were no major changes to conditions up to 1H, and sales to both general companies and tax accountant and CPA firms are expected to decrease.



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

Intends to expand the bizsky platform while utilizing M&A and develop it as an engine for realizing high growth

3. Prospects for 2025

(1) Basic strategies

In order to achieve “dramatic growth” in the future, the Company is currently formulating a medium-term management plan toward FY3/26. In terms of the awareness of the business environment in the post-coronavirus era, the next few years will see the rapid development of trends such as “non face-to-face sales,” “cashless,” “sharing economy,” and “XaaS (the provision of services on the cloud),” and there will be major changes on the assumption that many corporate activities will become digital. Moreover, it seems that business styles will change due to digital transformation (hereafter, DX), and that value will be created for new customer experiences. In particular, the Japanese government has announced its World’s Most Advanced IT Nation Declaration, into which it has incorporated guidance for IT strategies, and it has newly established the Japan Digital Agency with the aim of realizing a “digitally resilient society.” In such ways, the government is also expected to support the acceleration of DX in the future. In fact, in FY2021, it is progressing an investigation into further enhancing subsidies for installing IT to support digitalization at small/medium-sized companies.

In this environment, the following four points are the Company’s management strategies toward FY3/26.

- Transform the business model of the existing ERP business (Shift to cloud services and a subscription model. However, it is necessary to point out that while this will improve the profit margin in the medium to long term, if the speed of the shift is too fast, it will have a negative impact on results in the short term.)
- Establish a new business (second pillar of earnings) (Acquire the resources it lacks, such as AI and blockchain technologies or services, through M&A and alliances and develop a new business targeting Group synergies.)
- Take on the challenges of value creation and innovation (Aim to create extraordinary customer experiences via the bizsky platform.)
- Realize a sustainable society (Contribute to society and improvements in stakeholder satisfaction.)

(2) Current status of the initiatives

For the specific strategies and management’s numerical targets, the Company is currently progressing the following initiatives, although it plans to announce them in May 2021.

a) Expansion of the bizsky platform business

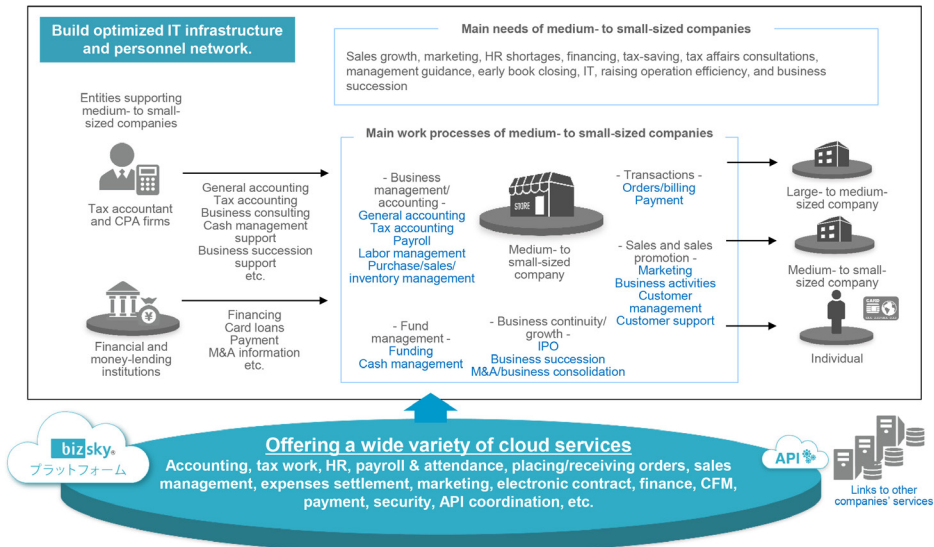
What the Company is focusing on the most is developing the bizsky platform business, and this business can be said to be the foundation on which to realize its target of high growth.

The bizsky platform not only provides various cloud services that are useful in addressing the issues faced by small/medium-sized companies (such as increasing sales, improving work efficiency, and managing funds), it is also a platform that aims to provide practically all of the solutions necessary to advance business activities, including daily sales activities, fund management, business management, and business succession, through API collaborations, such as with accounting firms, partner financial institutions, and other companies providing cloud services. Currently, it is recognized that there is no single platform that links a wide variety of work, from the flow of funds through to sales activities and other work, and by building this platform, the Company’s strategy is to develop a comprehensive solutions business mainly targeting small/medium-sized companies.

Outlook

Expansion of bizsky platform business

- Expand the bizsky platform business which offers a wide variety of cloud services and develop a comprehensive solution business for SMEs through strong networks with tax accountant and CPA firms and financial institutions.



Source: The Company's results briefing materials

The concept for this platform is that API collaboration is necessary not only for accounting firms, but also for the account information of financial institutions, and by the end of March 2021, the Company plans to have completed contracts with all the financial institutions with accounts linked to its products and services. By collaborating with financial institutions, users of products and services such as Kantan Cloud Kaikei, Galileopt, MJS LINK, and ACELINK will be able to automatically link these products and services with financial institution account information in a secure environment.

b) Financial Services Framework

Enabling collaborations with financial institutions will also make it possible to provide new financial services. In terms of the specific services, it is anticipated that accounting firms will take on the CFO role at small/medium-sized companies they advise and that BPO services for fund availability will be provided on the bizsky platform. The customers (small/medium-sized companies and individual business owners) will use the BPO services to reduce the work burden relating to fund management, making it possible to receive optimal services from financial institutions based on the financial data of customers held by accounting firms. The Company will not only provide customers with cloud services such as for accounting, fund management, and ordering, but may also possibly receive fee revenue when financing is conducted.

Even though rivals are actively promoting similar fintech-related services, the Company sees opportunity to realize robust growth by leveraging its network of users from about 8,400 tax accountant and CPA firms nationwide and providing services to the roughly 500,000 small/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, conduct M&A and collaborate with other services.

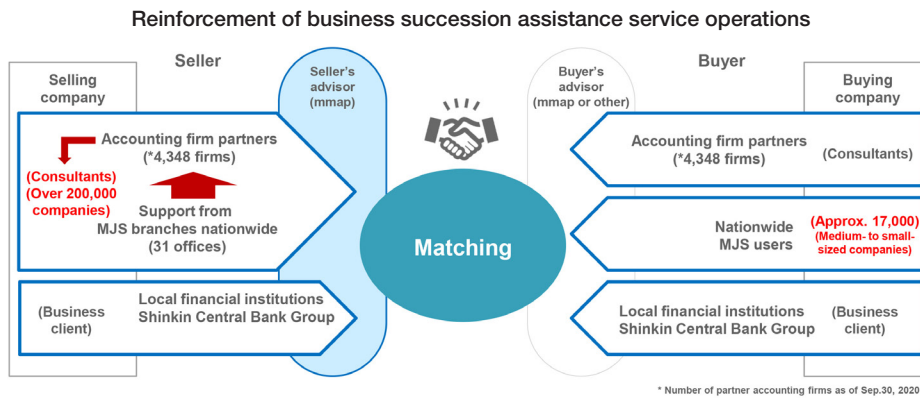
Outlook

c) Reinforcing partnerships with regional financial institutions

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 48 institutions (up 1 institution from the end of previous fiscal year) 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 58 institutions (up 3 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 small/medium-sized companies to improve their management and promote activity in regional economies.

d) Reinforcement of business succession assistance service operations

Due to the coronavirus, conditions are currently severe for the business succession assistance services conducted by subsidiary mmap, but as there are many potential needs, the policy is to continue strengthening the service structure going forward. In addition to using the Company's network of 31 nationwide bases and partner accounting firms (4,348 offices and more than 200,000 client companies) to uncover the needs of companies wishing to transfer their businesses (sellers), it will also promote the matching of sellers with buyers, through partnerships with collaborating financial institutions and by using the Company's network of approximately 17,000 small/medium-sized user companies from the point of view of supporting the growth of those companies. Previously, it only advised sellers, but it will improve the matching rate and grow this business by also assisting buyers.



* Number of partner accounting firms as of Sep.30, 2020

- 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

Outlook

e) Actively conducting M&A and capital and business alliances

The Company is actively working on M&A and alliances to strengthen the bizsky platform business. By November of FY3/21, it had already announced six deals (two of which are M&A). Moreover, in December, it acquired 50.4% of the shares of Tribeck, which provides digital and marketing support, and made it a consolidated subsidiary, and they are jointly aiming to build the Comprehensive DX Platform. Going forward, the Company plans to actively conduct business investment, including for M&A and capital alliances. Its policy is to search for candidates mainly among companies developing AI and blockchain technologies and venture companies for work-support tools for which synergies can be expected. The effect on results will be minimal in the short term, but it is considered that investment is necessary to build the foundation for growth in the medium to long term, so we will be paying attention to developments in the future.

Status of M&A and capital and business alliances (FY3/21)

April	Made Transtructure a wholly owned subsidiary
	Transtructure is an independent and one of Japan's largest organizations and HR consulting firms that conducts business mainly in the Tokyo metropolitan area. Annual sales of around ¥1bn. Is currently acquiring customers, while holding joint seminars with the Company
May	MFT made Spice a subsidiary
	Acquired shares from CENTRAL SECURITY PATROLS CO., LTD. Provides cash management, payment, and storage agency services for tenant stores in commercial facilities. Plans to launch a business jointly with MFT for new services, including a cashless sales, cash-replacement payment service
August	Business alliance with anew G.K.
	Started providing a completely online cloud factoring service provided by anew
September	Business alliance with Sight Visit Inc.
	Started providing NINJA SIGN, the digital contract and contract management service provided by Sight Visit, with small/medium-sized companies as the target customers
October	Capital and business alliance with pring Inc. (minority investment)
	Concluded a capital and business alliance with pring, which provides the pring money-transfer app. They will develop new fintech services using digital currency for the B-to-B market
November	Capital and business alliance with Lisse Co., Ltd. (minority investment)
	Concluded a capital and business alliance with Lisse, a legal tech company. Plans to start providing Ri-Ga-Ru Check, a legal tech service on the cloud utilizing AI. Also plans to coordinate with the digital contract and contract management service of Sight Visit
December	Made a subsidiary of Tribeck
	Tribeck provides digital marketing support and a marketing platform. Plans to build the Comprehensive DX Platform together with the Company

Source: Prepared by FISCO from the Company's results briefing materials, news releases, and hearings

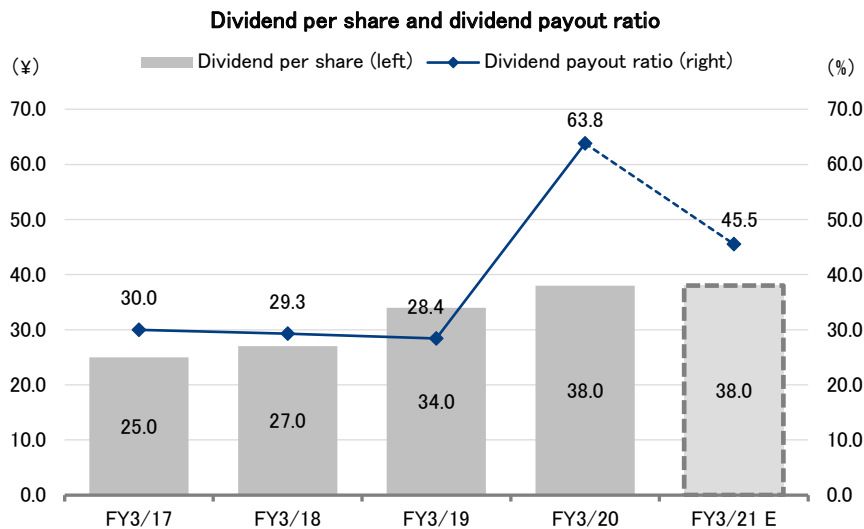
(3) Investment in human resources

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 90 people in spring 2021, mainly for sales and development divisions. The Company currently uses outsourcing too in development operations, but it aims to steadily raise the in-house development share in order to accumulate know-how. As of the end of September 2020, it has about 230 development people on its own (about 450 people at the consolidated level).

Shareholder return policy

Plans to pay steady dividends reflecting its profits and quickly obtain treasury shares

The Company's basic shareholder return policy is to stably return profits to shareholders in the long term through dividends. In FY3/21, the dividend will be unchanged YoY at ¥38.0 (dividend payout ratio: 45.5%). In the last few years, it has increased the dividend in line with the rise in profits, while maintaining the dividend payout ratio at around 30%. Going forward, we can expect it to increase the dividend if the dividend payout ratio falls below the 30% level. On the other hand, the Company also acquires treasury shares at the optimum time in order to improve capital efficiency. Recently, from September to October 2020, it acquired 500,000 shares (1.61% of the total number of shares issued, excluding treasury shares) for ¥1,095mn, increasing its shareholding ratio of treasury shares to 12.7%.



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

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