COMPANY RESEARCH AND ANALYSIS REPORT

# Miroku Jyoho Service Co., Ltd.

## 9928

Tokyo Stock Exchange Prime Market

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# Summary

## Targeting sales and profit growth in FY3/24, despite being a period of transition to cloud subscriptions

Miroku Jyoho Service Co., Ltd. <9928> (hereafter, "MJS" and "the Company") is an industry leader in developing and selling enterprise resource planning (ERP) systems, primarily financial accounting and tax systems, for tax accountant and CPA firms and small and medium enterprises (SMEs). The Company is promoting the Comprehensive DX Platform business as a new business to support the management of SMEs* and others, while it is also working to strengthen the platform infrastructure through development of new cloud services and alliance strategies.

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

### 1. Summary of the 1H FY3/24 results

In the 1H FY3/24 (April to September 2023) consolidated results, net sales increased 6.5% year-on-year (YoY) to ¥21,174mn, and operating income decreased 9.7% to ¥2,799mn. This is mainly because growth was solid for mainstay ERP products for general companies (corporate) and tax accountant and CPA firms, but related costs were significantly higher than in the previous period due to things like upfront investment in human resources as part of the human capital management strategy as well as the strengthening of new product development and temporary reinforcement of advertising. Also, operating income slightly trailed the Company's plan (net sales of ¥20,500mn, operating income of ¥2,900mn) despite non-consolidated results exceeding plan because measures to increase subsidiaries' earnings are generally behind schedule. Although the shift from selling ERP products under one-off purchase contracts to cloud subscriptions is temporarily increasing the fixed cost ratio and depressing profits, the Company believes that performance in real terms is good, including for new customer acquisitions. The number of companies with subscription contracts to mainstay ERP products rose 65.4% YoY to 2,590 companies, with ARR*1 as of September 2023 up 82.2% YoY to ¥2,184mn, and ARPU*2 up 10.1% to ¥844,000—all growing faster than expected. One reason ARPU grew is that there was an increase in the number of subscriptions to services such as MJS e-Invoice and MJS e-Document Cloud for addressing the invoice system's introduction and the upcoming revisions to the Electronic Books Maintenance Act (hereafter, Electronic Books Act)*3 from 2024.

*1 ARR (Annual Recurring Revenue) is the figure obtained by multiplying net sales obtained in the relevant month by 12.
*2 ARPU (Average Revenue Per User) is the average billing revenue per customer.
*3 The Electronic Books Maintenance Act is a law that allows for tax-related accounting books and documents to be retained in the form of electronic data. The printing out and retention of such documents with originals that are electronic data in hard copy format permitted as a transitory measure due to revisions made to the law in January 2022 will no longer be possible from January 2024.

### 2. FY3/24 forecast

The Company has left its initial FY3/24 forecasts unchanged, including net sales to increase 0.3% YoY to ¥41,600mn and operating income to rise 0.3% to ¥6,100mn. Although the progress rate for operating income up to 1H is a bit low at 45.9%, we at FISCO think the full-term target is achievable since the acquisition of new contracts related to the invoice system and the revised Electronic Books Act remain brisk in 3Q. As for negative impact on earnings from the shift to subscriptions for mainstay ERP products, if ¥300mn-¥500mn in net sales from new subscription contracts were recorded in FY3/24, that amount converted to sales under one-off purchase contracts would be about ¥3bn, and the remaining ¥2.5bn-¥2.7bn would be deferred to FY3/25 onward. Given such impact, the Company maintains its view that earnings on a real basis will continue to steadily grow in FY3/24.

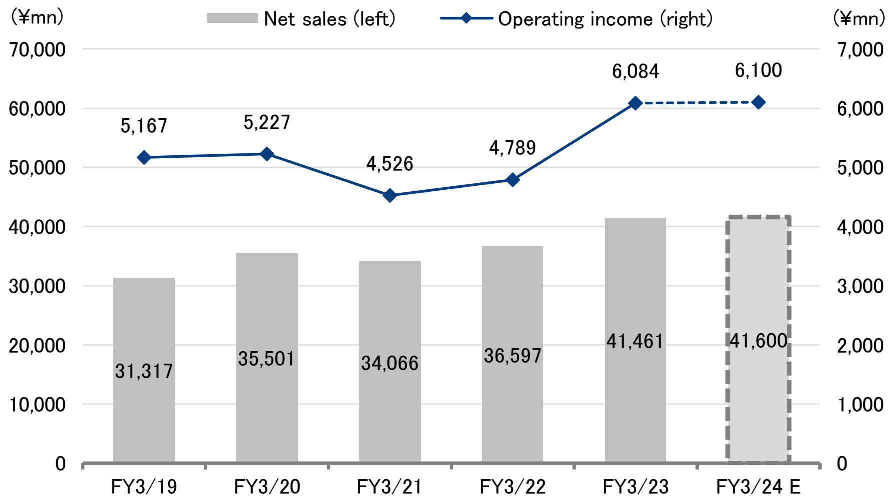
### 3. Status of progress on Medium-term Management Plan Vision 2025

The Medium-term Management Plan Vision 2025 announced in May 2021 sets forth two basic policies. They are promoting transition to a cloud subscription model and evolving functions in the existing ERP business to stabilize the earnings foundation and realize sustainable growth, and building the Comprehensive DX Platform as a new business. The plan also targets net sales of ¥55.0bn and ordinary income of ¥12.5bn in FY3/26. Looking at progress to date, mainstay ERP business is on track, whereas Group company earnings and the Comprehensive DX Platform business are trailing targets and expected to catch up going forward.

### Key Points

- 1H FY3/24 consolidated results remained solid on a real basis, though operating income declined
- Growth to temporarily slow in FY3/24 due to impact from cloud subscriptions but customer base to steadily expand
- While Medium-term Management Plan tasks of developing new businesses and achieving growth at Group companies remain, non-consolidated results are outpacing the initial forecast

Consolidated financial results trends




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

# Corporate overview

## Leader in financial accounting systems promoting growth with tax accountant and CPA firms and SMEs as target customers

### 1. Corporate history

Since its establishment in 1977, the Company has provided management systems and management information services focused on finance and accounting. Its services have evolved along with advances in IT. It started out in data center processing services, shifted from office computer business to development and sales of packaged software for PCs, and has recently been strengthening its development of cloud services too. It has also actively promoted an M&A strategy over the past few years to expand its business domain. As for key achievements, in 2020 the Company acquired one of Japan's largest independent organizational and HR consulting firms, Transtructure Co., Ltd., and the digital marketing support and digital platform business company Tribeck Inc., and made them into subsidiaries, and the CRM/SFA system development and installation support company BizMagic Co., Ltd. into a subsidiary in 2022.

**Company history**

| Core service format | Year | History |
|---|---|---|
| Data Processing Center | 1977 | Miroku Jyoho Service Co., Ltd. established |
| | 1978 | New financial data processing system MS-1 developed and sales started<br>Online terminal MJS800 developed and sales and online service commenced |
| Office Computing | 1980 | Shift from data processing to office computer development and sales business<br>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<br>Development and commencement of sales for the specialist Pro Office computer [Keiri] aimed at clients of tax accountant and CPA firm |
| Shift to open systems (package software) | 1990 | Developed and commenced sales for package software for PC installation "SI Zaimu Taisho," "SI Hanbai Taisho," and "SI Kyuyo Taisho" |
| | 1992 | Became a listed enterprise by an OTC listing on the Japan Securities Dealers Association (formerly TSE JASDAQ) |
| | 1994 | Developed and commenced sales for the accounting telecommunications system MJS-COMPASS linking tax accountant and CPA firms and the client companies advised |
| | 1997 | Listed on the Second Section of Tokyo Stock Exchange |
| | 1998 | Developed and commenced sales of the MICSNET Series ERP system compatible with Windows NT® for medium-sized companies |
| | 2001 | Developed and commenced sales of the ACELINK Series of network solution systems for tax accountant and CPA firms |
| | 2002 | Developed and commenced sales of the MJSLINK Series of operations and comprehensive information systems for small/medium-sized companies |
| | 2004 | Developed business information website "bizocean" targeting business people at small/medium-sized companies and venture companies |
| | 2005 | Developed and commenced sales of the ACELINK Navi Series of network solution systems for tax accountant and CPA firms<br>Developed and commenced sales of the Galileopt package ERP systems for medium-sized enterprises |
| | 2007 | Developed and commenced sales of the MJSLINK II Series of package ERP systems for small/medium-sized companies |

| Core service format | Year | History |
|---|---|---|
| Shift to service provider | 2011 | Developed and commenced sales of the ACELINK NX-Pro ERP system for tax accountant and CPA firms (April) |
| | 2012 | Developed and commenced sales of the Galileopt NX-I ERP system for medium-sized companies (February)<br>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)<br>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)<br>Made Miroku Webcash International a subsidiary (December)<br>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)<br>Transferred the bizocean business to a new subsidiary, bizocean Co., Ltd. (April)<br>Started the Marunage Kichodaiko bookkeeping support service for tax accountant and CPA firms (July)<br>Developed and commenced provision of the MJSLINK NX-I for IaaS ERP cloud service for small/medium-sized companies (August)<br>Developed and commenced provision of the bizsky cloud platform for small/medium-sized companies and the Rakutasu Money Transfer service over this platform (September)<br>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)<br>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)<br>Developed and commenced sales of the Galileopt NX-Plus ERP solution for medium-sized companies (April)<br>Developed and released the new ERP system for small/medium-sized companies MJSLINK NX-Plus (October)<br>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)<br>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)<br>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)<br>Started provision of the new Workflow function on Edge Tracker, a cloud service promoting operational efficiency through real-time, time-saving, visualizing operations. (June)<br>Developed and released MJS Zeimu NX-Plus, a new tax affair system (July)<br>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)<br>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)<br>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)<br>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)<br>Made a subsidiary of Tribeck Inc., which conducts digital marketing support and marketing platform businesses (December) |
| | 2021 | Developed and started providing MJSLINK DX, which is a cloud-based ERP system for small/medium-sized companies (March)<br>The subsidiaries Tribeck Inc., and bizocean Co., Ltd., were merged, the digital marketing business was integrated with the media and advertising agency businesses, and is providing comprehensive DX consulting services (April)<br>MJS AI Audit Support, a journal and balance check system that utilizes AI, was made cloud compliant (June)<br>Capital and business partnership with KACHIEL Co., Ltd., which holds seminars, provides video distribution services, etc., for tax accountant and CPA firms (June)<br>Capital and business partnership with SecondXight Analytica, Inc., which conducts analytics and AI development (September)<br>Started providing MJS DX Workflow, a cloud-based workflow system that enables electronic applications and approvals from smartphones (September) |
| | 2022 | Developed and commenced provision of a cloud-type ERP system for medium enterprises “Galileopt DX” (April)<br>Transitioned to the Prime Market, a new market segment of the Tokyo Stock Exchange (April)<br>Launched MJS e-document Cloud Sign, a cloud-based e-contract service that complies with the revised Electronic Books Maintenance Act (June)<br>Made BizMagic Co, Ltd., which develops and sells a customer relationship management/sales force automation system, into a subsidiary (August)<br>Launched MJS e-Invoice, a cloud-based service for sending and receiving electronic invoices (September)<br>Developed and commenced provision of MJS Zeimu DX, a new tax practice system (September) |
| | 2023 | Started providing MJS DX Denpyo Nyuryoku on MJSLINK DX (January)<br>Finished adding functions complying with the invoice system to various systems (September) |

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

### 2. Business description

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

Main customers in the ERP business are tax accountant and CPA firms and their SME clients. The number of accounting firm users is approximately 8,400 and the Company holds a roughly 25% industry share, standing alongside TKC Corporation <9746> and Japan Digital Laboratory Co., Ltd. as an industry leader. In the market for SMEs, the Company has about 17,000 users. Looking at the composition of distribution channels by customer type, direct sales accounts for almost 100% of tax accountant and CPA firms and nearly 90% of SMEs, while the remaining just over 10% is through sales agencies. We think the Company still has substantial room to attract new customers because the tax accountant and CPA firms it handles provide services to around 500,000 companies. It provides simplified accounting software on a subscription model for microenterprises through tax accountant and CPA firms and online, and has just over 80,000 users.

**Overview of ERP business**

| Customers | Tax accountant and CPA firms | Small and medium enterprises (SMEs)<br>(Most of them are clients of tax accountant and CPA firms) |
|---|---|---|
| Systems<br>(developed by MJS) | • Financial and accounting systems<br>• Tax return systems, etc. | • ERP systems centered on financial and accounting systems accounting, payroll, sales management) |
| Services | • System installation support services<br>• Various maintenance services<br>• Training and information services, etc. | • System integration<br>• Various maintenance services<br>• Training and information services, etc. |
| Marketing methods / customer support | Almost 100% direct sales<br>31 sales and support branches nationwide | Direct sales<br>(90%, includes sales through tax accountant and CPA firms)<br>Agency sales (10%)<br>31 sales and support branches nationwide |
| No. of users /market share | 8,400 firms/market share of approx. 25% | Approx. 17,000 companies<br>(SMEs with annual sales of ¥0.5bn to ¥50.0bn) |

Source: Prepared by FISCO from the Company's materials

### 3. Subsidiaries and affiliates

At the end of September 2023, the Group companies consisted of 10 consolidated subsidiaries and three equity-method affiliates. Since 2002, three consolidated subsidiaries, NTC Co., Ltd., MSI Co., Ltd., and Lead Co., Ltd., have carried out the consigned development of business software. Since 2014, the Company has established or acquired by M&A seven companies to develop businesses in areas such as consulting and fintech. Of these seven companies, it seems that Tribeck is the subsidiary with the largest sales scale with annual sales of just over ¥2.0bn, followed by Transtructure with just under ¥1.0bn.

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

The Company's subsidiaries and affiliates (as of September 30, 2023)

| Company name | Ownership ratio | Main business |
|---|---|---|
| Consolidated subsidiaries | | |
| NTC | 100.0% | Software development, sales, installation, and operational support services, hardware sales |
| MSI | 100.0% | Software development, sales, installation, and operational support services, hardware sales |
| Lead | 100.0% | Software development, sales, installation, and operational support services |
| MJS M&A Partners | 100.0% | Business succession support services, etc. utilizing M&A |
| MJS Finance & Technology | 100.0% | Provision of payment services, finance services, and other services |
| Miroku Webcash International | 66.6% | Develop and sell software and content for business finance and asset management |
| Transtructure | 100.0% | Consulting services, specializing in the organization and personnel fields |
| Spice | 100.0% | Manages in-store cash, improves distribution efficiency, etc. |
| Tribeck | 74.1% | Digital marketing support, marketing platform service, management of business information site "bizocean," etc. |
| BizMagic | 86.4% | Development, sales, and support of BizMagic, a customer relationship management/sales force automation system |
| Equity-method affiliates | | |
| Primal | 33.3% | Software development, sales, installation, and operational support services |
| NFC (Korea) | 21.9% | Development and sales of payment services using near-field communications (NFC) |
| KACHIEL | 33.5% | Holds seminars, provides video distribution services, etc. for tax accountant and CPA firms |

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

# Business trends

## 1H FY3/24 consolidated results remained solid on a real basis, though operating income declined

### 1. 1H FY3/24 consolidated results

In the 1H FY3/24 consolidated results, net sales increased 6.5% YoY to ¥21,174mn, operating income decreased 9.7% to ¥2,799mn, ordinary income increased 1.3% to ¥2,863mn, and net income attributable to owners of parent decreased 5.3% to ¥1,831mn. Although non-consolidated net sales and profits topped initial targets, consolidated profits at all levels were slightly below the Company's forecast because subsidiary earnings were below plan across the board.

Consolidated results for 1H FY3/24

(¥mn)

| | 1H FY3/23 | | 1H FY3/24 | | | | |
|---|---|---|---|---|---|---|---|
| | Results | % vs. net sales | Company's forecast | Results | % vs. net sales | YoY | vs. forecast |
| Net sales | 19,881 | - | 20,500 | 21,174 | - | 6.5% | 3.3% |
| Gross profit | 12,498 | 62.9% | 12,800 | 12,931 | 61.1% | 3.5% | 1.0% |
| SG&A expenses | 9,396 | 47.3% | 9,900 | 10,131 | 47.8% | 7.8% | 2.3% |
| Operating income | 3,102 | 15.6% | 2,900 | 2,799 | 13.2% | -9.7% | -3.5% |
| Ordinary income | 2,827 | 14.2% | 2,940 | 2,863 | 13.5% | 1.3% | -2.6% |
| Extraordinary profits and losses | 359 | 1.8% | - | -6 | - | - | - |
| Net income attributable to owners of parent | 1,935 | 9.7% | 1,990 | 1,831 | 8.7% | -5.3% | -8.0% |

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

System installation contract sales rose 4.7% YoY, with active IT investment supporting brisk sales of ERP products for general companies and tax accountant and CPA firms. Also, recurring income-type service revenues increased a solid 11.2% YoY, owing to the provision of subscription contracts for ERP products, and growth in sales of cloud services. The order backlog* (non-consolidated), a leading indicator of system installation contract sales, declined by 0.08 of a month on the start of the period to 5.28 months. However, momentum is strong since sales posted were better than budgeted. As of September 2023, MJS provided 2,590 companies with its mainstay ERP products via subscriptions, an 65.4% YoY increase, and ARR rose 82.2% YoY to ¥2.18bn—growth topping expectations. Although subscription contracts' share of mainstay ERP product sales declined from 18.0% in the previous period to 15.3%, sales under one-off purchase contracts to tax accountant and CPA firms were significantly higher than targeted, so the Company regards subscription contract sales themselves as in line with plan.

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

On the profit front, the gross profit margin declined 1.8ppt YoY to 61.1%. This reflects changes in the sales mix (rise in hardware's share of sales) and growth in personnel expenses accompanying bolstered investment in human resources. However, gross profit rose 3.5% YoY to ¥12,931mn, buoyed by higher sales. Meanwhile, SG&A expenses increased 7.8% YoY to ¥10,131mn, which led to lower operating income. Personnel expenses* increased ¥371mn YoY alongside strengthened investment in human resources, R&D expenses rose ¥215mn, and promotional expenses increased ¥161mn. As part of its human capital management strategy, MJS actively recruited new graduates (78 employees) as an upfront investment, and increased base pay.

* Personnel expenses = salaries and allowances + provision for bonuses + retirement benefit expenses (quarterly report).

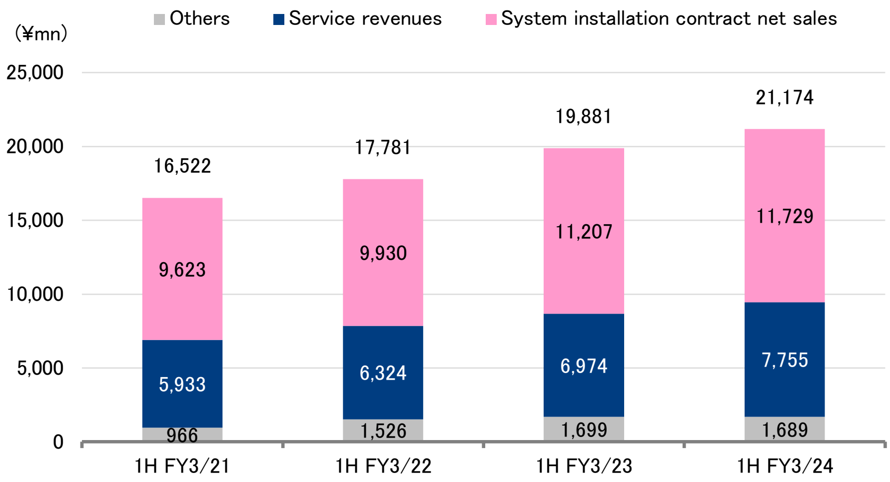
Ordinary income rose since the share of loss of entities accounted for using equity method, which is posted as a non-operating expense, declined from ¥343mn to ¥3mn. However, net income attributable to owners of parent declined due to the absence of the ¥383mn gain on the sale of investment securities that was posted as an extraordinary profit in the same period of the previous fiscal year. The consolidated number of employees rose by 92 YoY to 2,131 at the end of September 2023.

## System installation contract net sales growing on replacement demand from tax accountant and CPA firms, service revenues seeing continued strong growth in cloud subscription revenues from mainstay ERP products

### 2. Sales trends by customer and product category

Looking at the breakdown of net sales, system installation contract net sales, which are flow-type revenues, increasing 4.7% YoY to ¥11,729mn, remaining strong amid the ongoing shift to cloud subscription services for mainstay ERP products. Services revenues, which are recurring-income type revenues, continued to be strong, increasing 11.2% to ¥7,755mn and others (mainly the sales at subsidiaries) decreased 0.6% to ¥1,689mn.

Net sales by product category

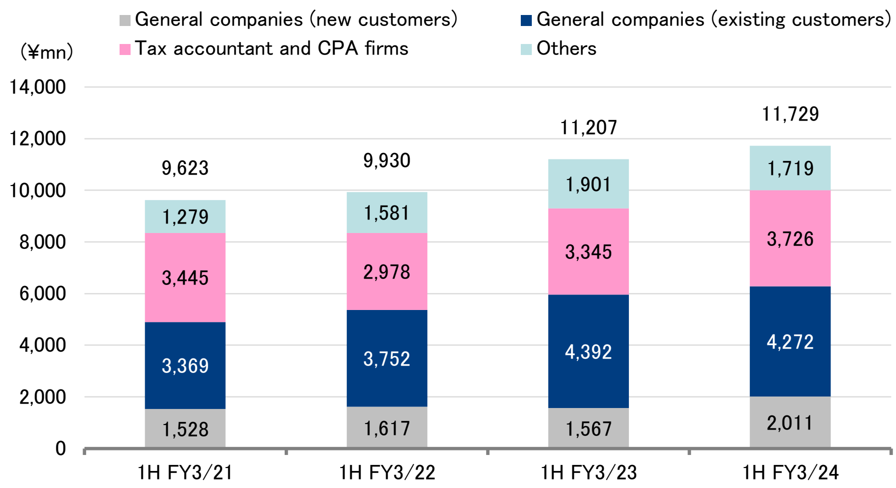



Note: From FY3/22, the Company has adopted the Accounting Standard for Revenue Recognition, etc. Values for FY3/21 are displayed using the previous standard
Source: Prepared by FISCO from the Company's results briefing materials

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

Looking at system installation contract net sales by customer, net sales saw growth across the board with those to general companies (corporate) up 5.4% YoY to ¥6,283mn, tax accountant and CPA firms up 11.4% to ¥3,726mn, and others (which includes net sales from subsidiaries and to sales partners, etc.) down 9.6% to 1,719mn.

System installation contract net sales by customer



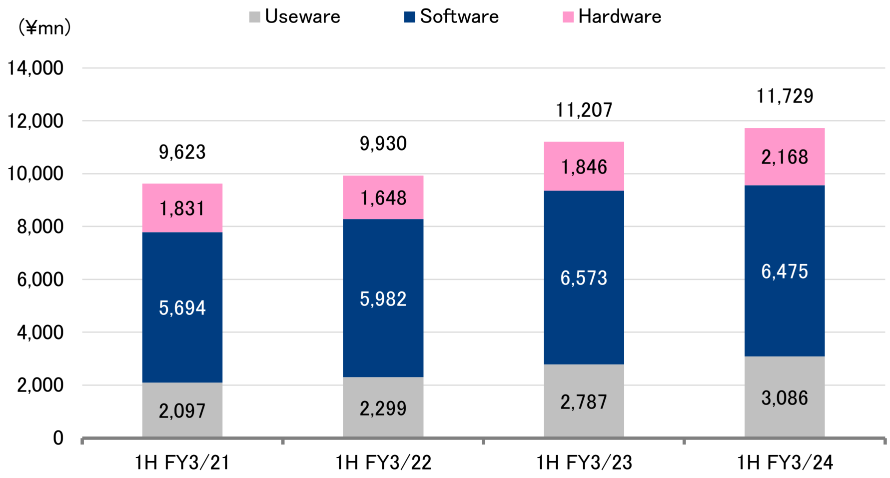

Note 1: Others (sales by subsidiaries and the Head Office and sales to business partners)
Note 2: From FY3/22, the Company has adopted the Accounting Standard for Revenue Recognition, etc. Values for FY3/21 are displayed using the previous standard
Source: Prepared by FISCO from the Company's results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

Net sales to general companies grew, despite a 2.7% decline in sales to existing customers due to a pullback from the high level a year ago and the shift to cloud subscriptions, because sales to new customers rose 28.4% YoY to ¥2,011mn—sharply exceeding the previous record high. Growth slowed for new products released in 2021 or later (MJSLINK DX for SMEs in March 2021, Galileopt DX for medium enterprises in April 2022), but ACELINK NX-CE, which is sold to SME clients of tax accountant and CPA firms, did well. Demand appears to have expanded ahead of the invoice system's introduction and Electronic Books Act revision. Also, the Company opened one new solutions branch (17 in total at the end of September 2023) conducting proposal-based marketing, which it has been working on over these past few years as a strategy for marketing to general companies. That is worked to strengthen the sales framework also led to sales growth. With ERP system functions becoming increasingly sophisticated and complex, not just product functions but also consulting capabilities to accurately understand the issues that companies face and offer optimal solutions have become important. The Company's development of sales staff with such skills is also leading to sales growth.

Net sales to tax accountant and CPA firms were brisk, driven by upgrade demand as it is a replacement period for such products, but new customer acquisitions also rose and other trends were solid. Regarding net sales to others, sales through sales partners were strong, whereas sales of subsidiaries' products were weak.

Looking at system installation contract net sales by product category, net sales of software turned down 1.5% YoY to ¥6,475mn, but were strong for hardware with 17.4% growth to ¥2,168mn and userware (installation support services) with 10.7% growth to ¥3,086mn. The Company believes that software was affected by progress transitioning to cloud subscriptions and that demand including that pertaining to new customer acquisitions was strong in real terms. The rate of sales growth for userware, which also includes installation support services for customers with cloud subscription contracts, apparently most closely reflects actual momentum.

System installation contract net sales by product category

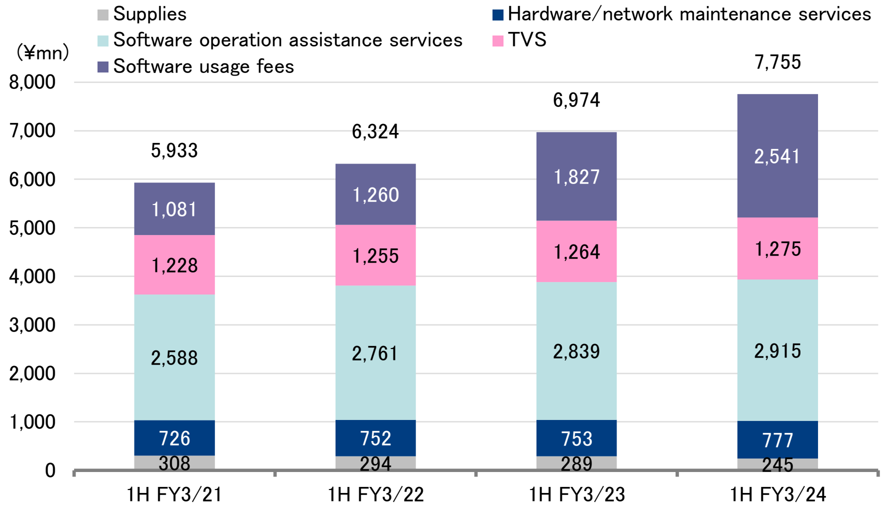



Note: From FY3/22, the Company has adopted the Accounting Standard for Revenue Recognition, etc. Values for FY3/21 are displayed using the previous standard
Source: Prepared by FISCO from the Company's results briefing materials

(2) Service revenues

Looking at the breakdown of service revenues, TVS (a comprehensive maintenance service for tax accountant and CPA firms) increased 0.9% YoY to ¥1,275mn, software operation assistance services (corporate software maintenance services) grew 2.7% to ¥2,915mn, software usage fees rose 39.1% to ¥2,541mn, hardware/network maintenance services up 3.2% to ¥777mn, and office supplies decreased 15.3% to ¥245mn. Revenue from software usage fees rose significantly, driven by the provision of subscriptions for some ERP products, and growth in sales of cloud services. Also, revenue from TVS and software operation assistance services rose steadily, owing to the cultivation of new customers. For software operation assistance services, some sales shifted to software usage fees because some existing customers transitioned to subscriptions, but the negative impact from those transitions to subscriptions was outweighed by new customer acquisitions.

Breakdown of service revenues




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

ARR, a KPI for cloud subscription revenue (software usage fees), rose 42.9% YoY to ¥5,423mn in September 2023. In particular, mainstay ERP product*1 subscription and IaaS*2 revenue rose 82.2% YoY to ¥2,184mn, growing rapidly. The number of companies with subscription contracts*3 rose 65.4% YoY to 2,590 companies. In addition to progress switching existing customers from one-off purchases to subscription and IaaS models, this owes to new customer acquisitions. Also, ARPU (average revenue per user)*1 rose 10.1% YoY to ¥844,000 because of an increase in customers signing up for various additional functions such as MJS e-Invoice and MJS e-Document Cloud. As a result, subscriptions accounted for 15.3% of mainstay ERP product sales*4, and that ratio is expected to stay on an uptrend going forward.

*1 ARR and ARPU for mainstay ERP products are calculated by adding monthly billing revenue from the MJS Zeimu series, MJS Cloud IaaS, MJS DX Cloud, MJS e-Document Cloud, and MJS e-Invoice to revenue from subscription contracts to the Galileopt series, the MJSLINK series, ACELINK NX-Pro, and ACELINK NX-CE. MJS e-Document Cloud's fee-based plans are ¥8,000 or ¥20,000 per month, while MJS e-Invoice fees range from ¥6,000 to ¥55,000 according to the number of qualified invoices (invoices).

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

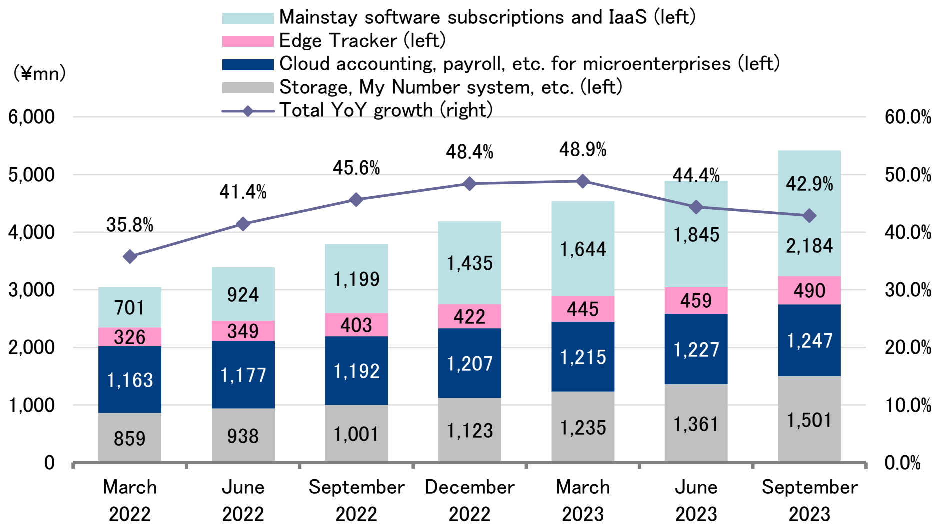
*3 Companies with subscription contracts to mainstay ERP products refer to subscribers to the Galileopt series, the MJSLINK series, ACELINK NX-Pro, and ACELINK NX-CE.

*4 Comparison of system installation contract software sales and subscription contract sales

Also, ARR rose 21.6% YoY to ¥490mn for the Edge Tracker* comprehensive platform cloud service for companies, 4.6% to ¥1,247mn for various cloud services for microenterprises (e.g., Kantan Cloud Kaikei), and 50.0% to ¥1,501mn for services relating to storage and the Social Security and Tax Number System (My Number system), other companies' cloud services, and so forth. Excluding cloud services for microenterprises, double-digit growth continued.

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

Trend in ARR for cloud subscriptions




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

### (3) Others

In others (mainly the business of the subsidiaries), net sales decreased 0.6% YoY to ¥1,689mn. In November 2022, the Company sold all of its shares in Adtop Co., Ltd., which conducts an advertising agency business, and Adtop's subsequent removal from subsidiaries depressed sales. Looking at trends at major subsidiaries, Tribeck's sales rose on brisk momentum for digital marketing support services for large companies. It is making upfront investments (development costs, advertising and promotional expenses, etc.) in Hirameki 7, a comprehensive DX platform to support SMEs released in July 2022, aiming for major business expansion in the future.

Hirameki 7 is a one-stop cloud-based platform service with seven functions necessary for expanding business. They are marketing (website and webform creation, e-mail distribution, business card management, etc.), operation (file management, etc.), finance (online funding support, subsidy diagnosis navigation, etc.), communication (communities, etc.), business (management analysis, cash flow simulations, etc.), corporate (company newsletters, etc.), and CX (customer experience, coming soon) functions. Since its launch, the Company has aggressively promoted the service using various media, including TV commercials and taxi ads. The service is steadily expanding, with the cumulative number of companies that have introduced it topping 10,000 as of the end of July 2023 and 19,000 as of the end of November 2023. However, the majority of users are currently on free plans for services such as web form creation and storage. Going forward, the Company's strategy is to promote a shift to fee-based plans (¥6,000/month, other option fees, etc.) by enhancing the service's CX and other functions in stages.

HR consulting firm Transtructure aims to grow earnings by reinforcing consultant personnel, and continues to focus on hiring and developing personnel. MJS M&A Partners, which offers M&A support services, is at the break-even level on a profit basis, and faces the task of hiring and developing professional human resources to further expand its sales scale. BizMagic, which has been a subsidiary since August 2022 and develops and sells a sales force automation system among other things, had little impact on earnings since not long has passed since its establishment.

## To use borrowings and cash on hand to fund the redemption of convertible bond-type bonds with share acquisition rights due in December 2023

### 3. Financial status and management indicators

For the financial status at the end of 1H FY3/24, total assets decreased ¥376mn compared to the end of the previous fiscal period to ¥45,416mn. Looking at the main influencing factors in current assets, cash and deposits decreased ¥1,826mn accounts receivable increased ¥873mn and inventories increased ¥204mn. In fixed assets, software assets (including development in progress) increased ¥743mn, while goodwill decreased ¥44mn and investment securities decreased ¥249mn respectively. Software assets increased because costs for developing new products and revamping internal information systems were posted as assets.

Total liabilities decreased ¥702mn compared to the end of the previous fiscal period to ¥20,315mn. Interest-bearing debt declined ¥264mn and reserve for bonuses decreased ¥473mn. Total net assets increased ¥325mn to ¥25,100mn. The recording of ¥1,831mn in net income attributable to owners of parent and dividend payments of ¥1,343mn resulted in a ¥433mn increase in retained earnings.

Looking at management indicators, the equity ratio rose from 53.0% at the end of the previous period to 54.2%, while the interest-bearing debt ratio declined from 4.4% to 3.3%, so financial conditions are considered to remain sound. However, the Company will use ¥8.5bn borrowed in November 2023 together with cash on hand to pay for the redemption of ¥11.0bn in convertible bond-type bonds with share acquisition rights due in December 2023. While that will raise the interest-bearing debt ratio to the 30% level, and decrease net cash (cash and deposits + securities – interest-bearing debt) from the ¥17bn level to the ¥8bn level, we at FISCO believe the Company can still maintain a sound financial standing.

Consolidated balance sheet

(¥mn)

| | FY3/23 | 1H FY3/24 | Change | Factors |
|---|---|---|---|---|
| Current assets | 27,410 | 26,391 | -1,019 | Cash and deposits -1,826, accounts receivable +873, inventories +204 |
| Cash and deposits | 19,846 | 18,020 | -1,826 | |
| Fixed assets | 18,378 | 19,024 | 645 | Software assets (including development in progress) +743, goodwill -44, investment securities -249 |
| Software assets (including development in progress) | 6,927 | 7,670 | 743 | |
| Total assets | 45,793 | 45,416 | -376 | |
| Current liabilities | 20,868 | 20,171 | -697 | Income taxes payable +114, provision for bonuses -473, borrowings -254 |
| Fixed liabilities | 149 | 144 | -4 | |
| Total liabilities | 21,018 | 20,315 | -702 | |
| Total net assets | 24,775 | 25,100 | 325 | Retained earnings +433, valuation difference on available for sale securities -167 |
| Interest-bearing debt | 1,090 | 826 | -264 | Excluding ¥11,001mn in convertible bond-type bonds with share acquisition rights (zero coupon) |
| Net cash | 18,755 | 17,193 | -1,561 | (Cash and deposits + securities – interest-bearing debt) |
| <Management indicators> | | | | |
| Current ratio | 131.3% | 130.8% | -0.5pt | |
| Equity ratio | 53.0% | 54.2% | 1.2pt | |
| Interest-bearing debt ratio | 4.4% | 3.3% | -1.1pt | |

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

# Outlook

## Growth to temporarily slow in FY3/24 due to impact from shift to cloud subscriptions but customer base to steadily expand

### 1. Consolidated outlook for FY3/24

The Company has left its initial FY3/24 forecasts unchanged, including net sales to increase 0.3% YoY to ¥41,600mn and operating income to rise 0.3% to ¥6,100mn, ordinary income to grow 6.2% to ¥6,200mn, and net income attributable to owners of parent to increase 8.8% to ¥4,100mn. The progress rates up to 1H were 50.9% for net sales and 45.9% for operating income. Though profit is slightly lagging, we at FISCO think the Company's targets are within reach since inquiries remain robust in 3Q for services such as MJS e-Invoice and MJS e-Document Cloud compliant with the invoice system, revised Electronic Books Act, and so on. How much profit can be increased in 3Q will be key.

Consolidated outlook for FY3/24

(¥mn)

| | FY3/23 | | FY3/24 | | | |
|---|---|---|---|---|---|---|
| | Results | % vs. net sales | Company's forecast | % vs. net sales | YoY | 1H progress rate |
| Net sales | 41,461 | - | 41,600 | - | 0.3% | 50.9% |
| Gross profit | 25,603 | 61.8% | 26,250 | 63.1% | 2.5% | 49.3% |
| SG&A expenses | 19,519 | 47.1% | 20,150 | 48.4% | 3.2% | 50.3% |
| Operating income | 6,084 | 14.7% | 6,100 | 14.7% | 0.3% | 45.9% |
| Ordinary income | 5,839 | 14.1% | 6,200 | 14.9% | 6.2% | 46.2% |
| Net income attributable to owners of parent | 3,767 | 9.1% | 4,100 | 9.9% | 8.8% | 44.7% |
| Earnings per share (EPS) (¥) | 126.18 | | 137.06 | | | |

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

The Company forecasts net sales will increase a slight 0.3% YoY because it assumes the shift to subscription contacts for mainstay ERP products will progress. While the shift is a negative factor just looking at net sales for the single fiscal year, it is likely to promote a stable earnings base and steady growth since subscriptions will generate ongoing sales in the next fiscal year and beyond. The Company assumes the ratio of mainstay ERP products (value basis) provided via subscriptions will rise from 18% in FY3/23 to 25% in FY3/24. If the 25% of products provided via subscriptions were sold under one-off purchase contracts instead, the net sales would be about ¥3.0bn. Net sales from subscription contracts to be posted in FY3/24 would come to ¥300mn-¥500mn, with the remaining ¥2.5bn-¥2.7bn posted in FY3/25 onward. Therefore, there will be a larger negative impact on earnings for the single fiscal year if the transition to subscriptions is faster than the Company assumes, but that is unlikely since looking at conditions through 1H shows that one-off purchase contracts are also growing at a solid clip.

On the other hand, Group companies are an issue since their earnings have continued to trail plans these past few years, except for at Tribeck. Therefore, the Company has strengthened the governance framework, including by assigning executive officer level personnel as directors at each subsidiary. As for concrete actions, meetings with executives and employees are being held and discussions have begun on topics such as measures needed to restore profitability and how to generate Group synergies, which are to be incorporated in measures for FY3/25.

The Company's initial forecast for net sales in FY3/24 by product calls for system installation contract sales to decrease 8.2% YoY to ¥21,710mn, but service revenues to increase 9.4% to ¥15,589mn and others (mainly sales at subsidiaries) to grow 20.8% to ¥4,300mn. Progress up to 1H was strong for system installation contract sales at 54.0% of the full-term target and broadly in line with plan for service revenues at 49.7%, but behind plan for others at 39.3%.

Net sales by product category (consolidated basis)

(¥mn)

| | FY3/22 | FY3/23 | FY3/24 E | YoY | 1H progress rate |
|---|---|---|---|---|---|
| System installation contract net sales | 20,236 | 23,646 | 21,710 | -8.2% | 54.0% |
| Hardware | 3,110 | 3,939 | 2,939 | -25.4% | 73.8% |
| Software | 12,416 | 13,802 | 12,480 | -9.6% | 51.9% |
| Useware | 4,709 | 5,904 | 6,290 | 6.5% | 49.1% |
| Service revenues | 13,004 | 14,255 | 15,589 | 9.4% | 49.7% |
| TVS | 2,517 | 2,534 | 2,542 | 0.3% | 50.2% |
| Software usage fees | 2,778 | 3,934 | 5,262 | 33.7% | 48.3% |
| Software operation assistance services | 5,596 | 5,684 | 5,774 | 1.6% | 50.5% |
| Hardware/network maintenance | 1,505 | 1,518 | 1,434 | -5.5% | 54.2% |
| Supplies | 606 | 582 | 575 | -1.2% | 42.6% |
| Others | 3,356 | 3,559 | 4,300 | 20.8% | 39.3% |
| Total | 36,597 | 41,461 | 41,600 | 0.3% | 50.9% |

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

### (1) System installation contract net sales

The Company projects system installation contract net sales will decline due to the shift from packaged products to cloud subscriptions. Within that, it projects those to tax accountant and CPA firms will decrease 14.1% to ¥5,736mn, but they were outpacing plan up to 1H at 65.0% of the full-term target and are expected to remain strong in 2H. It projects those to general companies will decline 3.8% YoY to ¥12,505mn. That looks attainable since the progress rate up to 1H was a solid 50.2%, although how much sales can be increased in 3Q in relation to the invoice system, revised Electronic Books Act, and so forth, as well as the status of the shift to cloud subscriptions will be key. As for others (sales at subsidiaries, sales to partners, etc.), the Company forecasts a decline of 12.5% to ¥3,468mn, partly due to weakness at subsidiaries carrying out consigned development.

System installation contract sales by customer

(¥mn)

| | FY3/22 | FY3/23 | FY3/24 E | YoY | 1H progress rate |
|---|---|---|---|---|---|
| Total | 20,236 | 23,646 | 21,710 | -8.2% | 54.0% |
| General companies | 10,577 | 13,003 | 12,505 | -3.8% | 50.2% |
| Tax accountant and CPA firms | 5,984 | 6,679 | 5,736 | -14.1% | 65.0% |
| Others | 3,674 | 3,963 | 3,468 | -12.5% | 49.6% |

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

### (2) Service revenues

As for the breakdown of service revenues, software operation assistance services revenues are forecast to rise 1.6% YoY to ¥5,774mn and TVS to inch up 0.3% to ¥2,524mn, while software usage fees are to grow significantly by 33.7% to ¥5,262mn. The driver for revenue growth is an increase in ARPU from cross-sales, including of services related to the invoice system and the revised Electronic Books Act, and growth in cloud subscriptions to mainstay ERP products. The Company targets growth of 49.9% YoY to 3,100 companies with subscription contracts to mainstay ERP products, with ARPU growth of 5.0% to ¥835,000 and ARR growth of 57.5% to ¥2.59bn. Given progress up to 1H, including ARPU outpacing expectations at ¥844,000 at the end of September 2023, we at FISCO believe results might slightly top the Company's targets.

KPI for mainstay ERP products provided by subscription

| | FY3/23 | 1H FY3/24 | FY3/24 E |
|---|---|---|---|
| Subscriptions to mainstay ERP products*1 | 2,059 | 2,590 | 3,100 |
| ARPU for mainstay ERP products (¥1,000)*1 | 768 | 844 | 835 |
| ARR for mainstay ERP products (¥100mn)*1 | 15.8 | 21.8 | 25.9 |
| Subscriptions' share of FY mainstay ERP product sales*2 | 18% | 15.3% | 25% |
| Mainstay ERP product subscriber retention rate | 99.1% | 99.3% | - |

*1 Subscription contract users of Galileopt series, MJSLINK series, ACELINK NX-Pro and ACELINK NX-CE. ARPU and ARR are calculated by adding the net sales of the MJS Zeimu series, MJS Cloud IaaS, MJS DX Cloud, MJS e-Document Cloud and MJS e-Invoice, which are calculated monthly.
*2 Comparison based on value of subscriptions and one-off purchase contracts for mainstay ERP products for the full fiscal year
Source: Prepared by FISCO from the Company's results briefing materials

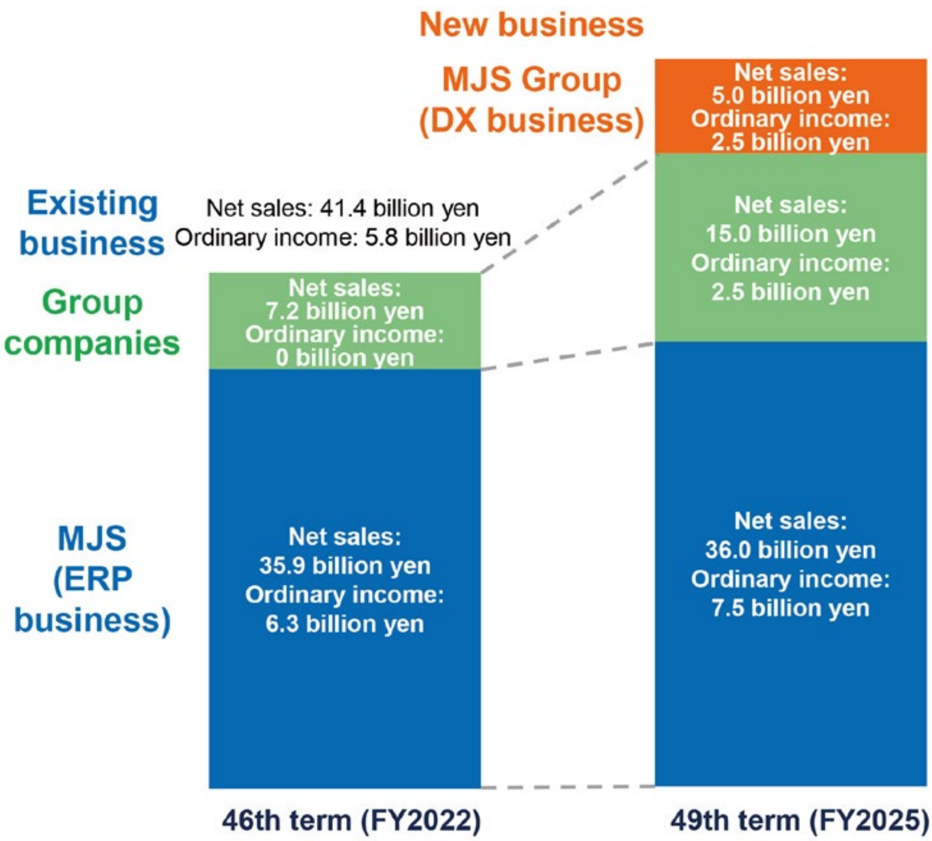
## While Medium-term Management Plan tasks of developing new businesses and achieving growth at Group companies remain, non-consolidated results are outpacing the initial forecast

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

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

The Company has set numerical performance targets for FY3/26 of net sales of ¥55.0bn and ordinary income of ¥12.5bn. That works out to average annual growth over the three years from FY3/24 of 9.9% for net sales and 28.9% for ordinary income. The performance of new businesses (Hirameki 7 and other Comprehensive DX Platform business) and Group companies is key to attaining the targets. The Company's FY3/26 targets for new businesses are net sales of ¥5.0bn and ordinary income of ¥2.5bn, and for Group companies are net sales of ¥15.0bn and ordinary income of ¥2.5bn (actual FY3/23 results: net sales of ¥7.2bn, break-even ordinary income). Its headway towards those targets is a bit slow so far, so it needs to catch up going forward.

FY3/26 management targets




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

In fact, consolidated results through FY3/23 are making solid progress topping initial forecasts. Looking at the break down, however, non-consolidated results were revised up, whereas Group companies' results trailed initial forecasts for two straight fiscal years, and that trend continued in 1H FY3/24. In addition to lingering impact from the COVID-19 pandemic leading to weak earnings at the three subsidiaries carrying out consigned development, this is apparently because earnings growth trailed initial expectations at Transtructure and MJS M&A Partners due to insufficient human resources. As noted above, the Company looks to put Group companies on a growth trajectory by further reinforcing governance, but it could consider other options such as Group reorganization depending on conditions.

Medium-term earnings targets and status of progress

(¥mn)

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

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

Also, the target for net sales of ¥5.0bn from new business assumes 35,000 user companies and average revenue per user (ARPU) of ¥12,000 per month. Currently, over 19,000 companies have introduced Hirameki 7. Further expanding that number and transitioning to fee-based plans are tasks. Achieving the targets in the remaining two years looks increasingly challenging. However, the Group believes the market potential for SaaS and software for SMEs is around ¥1.4tn, still plans to develop the area as a medium- to long-term growth driver, and plans to consider M&A and alliances to strengthen functions. The Company set a high profit margin target of 50% for new business because it believes it can keep down customer acquisition costs, such as advertising and promotional expenses, since its prospective customers are tax accountant and CPA firms and their client companies (about 500,000 companies).

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

**(1) “No. 1 tax accountant and CPA firm network strategy”**

The “No. 1 tax accountant and CPA firm network strategy” entails raising current market share of about 25% by strengthening the ACELINK NX-Pro ERP system’s functions, while providing new solutions to improve business efficiency, and advancing initiatives that help raise the added value of tax accountant and CPA firms and generate new business.

As for measures since April 2021, the Company has strengthened ACELINK NX-Pro’s functions with the December 2021 launch of AI Shiwake and AI-OCR, which use AI to make journal entry work more efficient and have been well received. Also, it has worked to make ACELINK NX-Pro more convenient by addressing the invoice system and revised Electronic Books Act, linking it to six services from other vendors, and so forth. This is leading to upselling to existing customers, and new customer acquisitions.

In addition, as a solution to enhance added value to tax accountant and CPA firms and contribute to the creation of new business, combining ACELINK NX-Pro and Hirameki 7 will enable tax accountant and CPA firms to provide management support services, such as business analysis, AI cash flows forecasting and funding services, supporting the expansion of tax accountant and CPA firms’ business. For new independent tax accountant and CPA firms, this has the potential to become a tool for realizing monetization early on as well as strengthening relationship building with client companies. We look forward to future developments.

**(2) “Comprehensive solutions and business strategy for SMEs”**

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

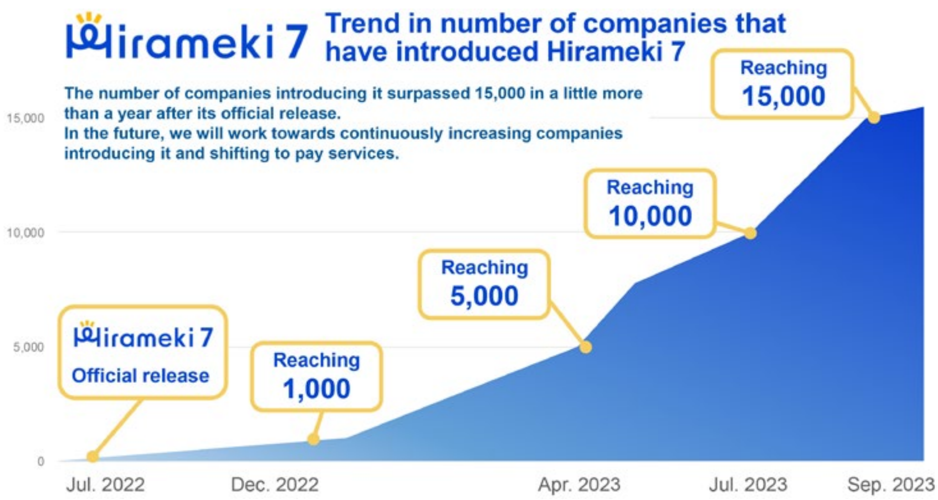
The management issues that companies face vary widely according to the stage of business growth, changes in the environment, and so forth. By selecting and offering the best solutions for those issues, including by tapping the resources of Group companies, the Company will meet customer needs. For example, the Company is a specialist in the accounting and tax fields, while Tribeck is a specialist in the digital marketing field, Transtructure in the HR field, and BizMagic in the CRM/SFA field, and they can provide consulting services in their respective fields. Also, the Company is strengthening its platform for linkage with other vendors’ services. Currently, ERP linkage is possible with 11 cloud services from other vendors including human resources and work and attendance management services. Few companies are able to provide one-stop solutions for diverse management-related consulting needs in this way, and we at FISCO believe that one of the Company’s strengths and a source of future potential.

Further, consulting capabilities are becoming more important than ever as companies' ERP product requirements grow more sophisticated and diverse each year. To address this market trend, the Company has been opening solutions branches in phases at major locations nationwide, and developing and increasing consultants. It has expanded the number of solutions branches from 8 as of the end of March 2021 to 17 at present, and is developing new customers by conducting solution-based marketing in various regions. While the Company is nearly finished opening solutions branches, it aims to grow sales by continuing to add to its consultant workforce going forward. Also, it plans to leverage its strengths (contributions to improving the productivity of accounting work) from its system linkages to about 90% of financial institutions nationwide as an electronic payments provider to provide services such as assistance with business succession and IT utilization and digital transformation to regional SMEs via the networks of financial institutions, tax accountant and CPA firms, and so forth.

**(3) "Comprehensive DX Platform strategy"**

Many SMEs and microenterprises lack sufficient digital talent and face challenges in advancing DX. By providing services via Hirameki 7, a comprehensive DX platform offering all the functions required for management in one place, the Company aims to resolve such issues, support the growth of organizations such as SMEs, and revitalize the Japanese economy, which continues to experience slow growth. As previously mentioned, Hirameki 7 has seven functions (marketing, operation, finance, communication, business, corporate, and CX), of which CX is currently under development, and scheduled to be released in stages. Also, the Company is enhancing each of Hirameki 7's six existing functions as its strategy aims to monetize it by promoting a shift to fee-based plans by enhancing its quality as a Comprehensive DX Platform. Regarding customer acquisition, the Company will not only target client companies through tax accountant and CPA firms, but also utilize alliance strategies, mass-market advertising and digital marketing to gain customers.

Trend in number of companies that have introduced Hirameki 7



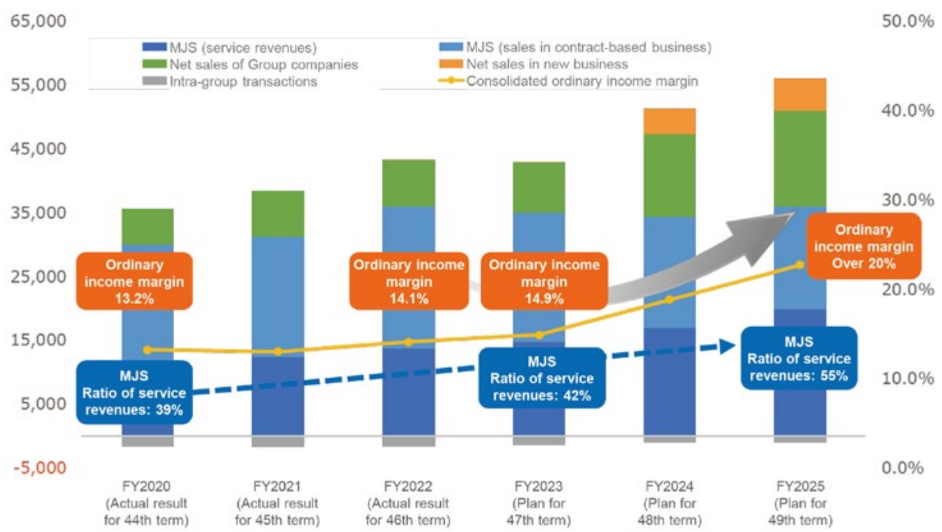

Source: The Company's results briefing materials

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

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

The Company aims to sharply increase the ratio of mainstay ERP products provided via cloud subscriptions in FY3/26 from 18% in FY3/23, and wants to accelerate the transition if possible while assessing earnings trends. On a non-consolidated basis, the Company plans to raise the ratio of service revenues including cloud subscription contracts from a projected 42% in FY3/24 to 55% in FY3/26, which converted to a value basis works out to average annual growth of 16% in FY3/25 onward. It looks to achieve strong growth by increasing the number of companies with contracts for mainstay ERP product subscriptions and IaaS and by raising ARPU through reinforcement of cross-selling. Also, it plans to streamline the functions of SaaS-based corporate ERP products currently being developed and release them in phases from 2024.

Converting to a cloud subscriptions business model




Source: The Company's results briefing materials

**(5) "Promoting the independent growth of Group companies through Group collaborations"**

The Group encompasses three companies that carry out consigned development, three companies each in the consulting and fintech fields, and one company each in the business succession support and CRM fields. MJS has worked to enhance its ability to provide comprehensive solutions through Group collaborations, realign Group organizations and optimize management frameworks, and promote independent earnings growth at each Group company. As previously mentioned, however, subsidiary earnings are lackluster. Therefore, MJS intends to bolster the governance framework and take a stronger leadership role to put subsidiaries on a growth trajectory.

Of these, Tribeck aims to become a comprehensive DX consulting company that provides support from brand strategy to customer acquisition and development by cultivating DX platform business targeting SMEs as well as digital marketing support business targeting large enterprises. Its profitability is also likely to improve significantly if it can grow DX platform business, which does not reply on manpower, in particular. In April 2021, the Group company bizocean Co., Ltd., which operates the business media bizocean (over 3.4mn registered members), was merged and absorbed into Tribeck, and synergies are expected to be generated by levering its robust member base.

For Transtructure and MJS M&A Partners, which are trailing initial expectations, strengthening personnel structures is a pressing task. They have been unable to fully tap into the brisk demand for consulting in both the HR and M&A domains due to insufficient human resources, so we look forward to future initiatives. The three subsidiaries carrying out consigned development aim to strengthen their solution-based sales skills and development abilities, mainly in the cloud and online domains, and leverage Group synergies such as client company introductions to expand their business scale. Also, the Company plans to continue to consider M&As and alliances, targeting companies offering services that could be provided over the Comprehensive DX Platform and others as main candidates.

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

Given the environment after the COVID-19 pandemic, the Company is accelerating its investment in human resources and creating comfortable working environments, while also working on building a management and work foundation in response to new workstyles. Specifically, for workplaces that are healthy and provide work satisfaction, the Company is working on establishing a teleworking environment and reducing overtime, improving the rate of employees taking paid leave, establishing a market-competitive compensation system and enhancing employee benefits. It raised salaries 9.6% for regular employees in general positions in FY3/23, also raised base pay again in FY3/24, by 5.2%, including the regular salary increase.

As for personnel hiring and development, the Company will continuously hire new graduates, while developing and securing skilled professionals by establishing a training system covering all employees and providing thorough human resource development. In addition, it will conduct engagement surveys to ascertain the current status of employee satisfaction and so forth and analyze the results to make continuous improvements, with the aim of increasing engagement. It is apparently taking measures based on the survey results to strengthen dialogue between management and employees, ensure compliance, revise rules to make it easier for men to take paternity leave, and so forth.

In November 2023, the Company built a private generative AI solution, an AI chat service employing Azure OpenAI Service for generative AI, which it has started operating within the Group. It plans to raise employees' work efficiency and productivity and strengthen customer service though the use of this service. It also intends to promote use of the service in ERP products in the future.

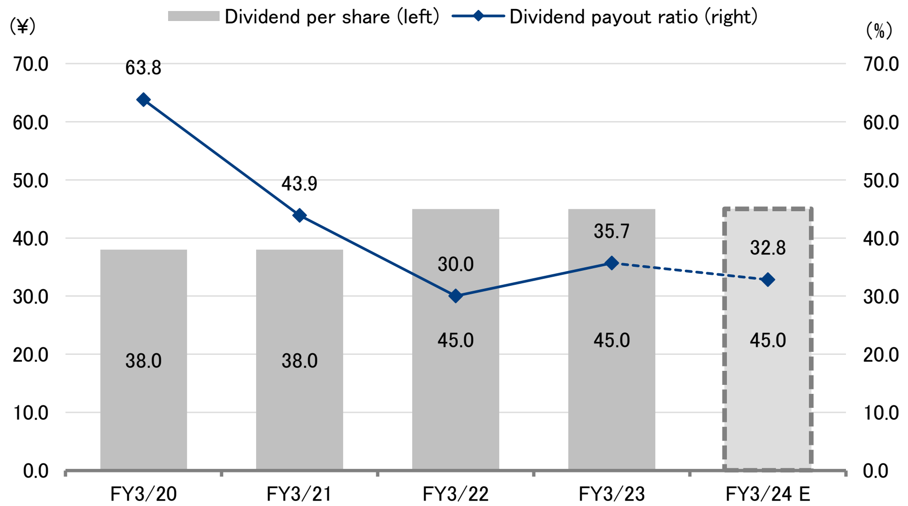
# Shareholder return policy and sustainability management initiatives

## Policy is to continue to stably pay a dividend targeting a dividend payout ratio of 30%. Also entails acquiring treasury shares, while observing conditions

### 1. Shareholder return policy

The Company's basic policy for returning profits to shareholders is to continue to stably pay a dividend over the long term, targeting a dividend payout ratio at a level of 30.0%. It paid a dividend of ¥45.0 per share (dividend payout ratio of 32.8%) in FY3/24, the same amount as in the previous fiscal year. Should the level fall below 30.0%, we can expect a dividend increase. Also, the Company acquires treasury shares as appropriate in order to improve capital efficiency, with its most recent acquisition being of 581,000 shares for about ¥1.0bn in 2021. The Company's holdings of treasury shares have come to account for 14.0% of outstanding shares, but it plans to use them for things like employee stock options and M&A strategies.

Dividend per share and dividend payout ratio




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

### 2. Sustainability management initiatives

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

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

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