

**MIROKU JYOHO
SERVICE**9928 Tokyo Stock Exchange
First Section

16-Jan.-17

Important disclosures
and disclaimers appear
at the end of this document.FISCO Ltd. Analyst
Yuzuru Sato* System installation contract sales=
the total sales for hardware,
software, and useware**■ Steep Increases in 1H FY3/17 Net Sales and Profits,
Posted All-Time Half-Year Highs**

Miroku Jyoho Service Co., Ltd. <9928> (hereafter "MJS") is a market leader in developing and providing Enterprise Resource Planning (ERP) systems, including financial accounting and tax systems for tax accountant and CPA firms and small/mid-sized companies. It is also expanding business scope in business succession and revitalization assistance services for small companies and fintech activities.

Consolidated financial results reached new record half-year highs in 1H FY3/17 (Apr-Sep 2016) results announced on October 31. Net sales rose 10.5% YoY to ¥13,080mn, while ordinary income was up 44.8% to ¥2,103mn, both exceeding initial targets. The net sales and profit increases were mainly driven by stronger sales of corporate ERP products and steady expansion of services sales aided by development of new customers. The order backlog of system installation contract sales*, a priority management indicator, also rose steadily to 5.75 months at the end of 1H, a gain of 0.43 months from the end of 1H FY3/16.

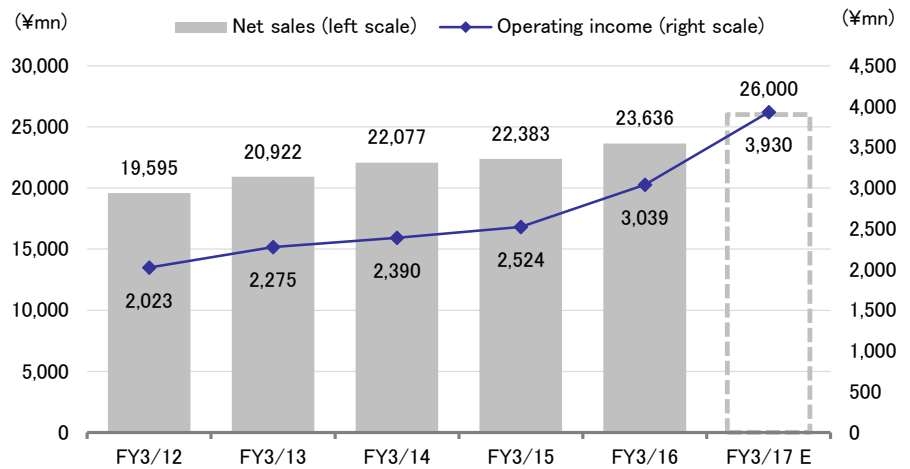
MJS maintained FY3/17 initial forecast of increases (YoY) of 10.0% to ¥26,000mn in net sales and 30.4% to ¥4,000mn in ordinary income. Progress through 1H was slightly ahead of the plan with net sales at 50.3% and ordinary income at 52.6% of full-year targets. We think MJS is capable of attaining plan targets because of its extensive order backlog in system installation contract sales.

MJS set goals of ¥50,000mn in sales and 30% ordinary income margin in FY3/21 for the next medium-term management plan. It aims to achieve sustainable growth while transitioning to cloud services in existing businesses and has a strategy of accelerating earnings growth by fostering new businesses, where it has laid seeds over the past 1-2 years and broadening business scope. As new businesses, it made full-fledge start of new fintech-related services on the "bizsky" B-to-B cloud platform for small/mid-sized companies from FY3/17, it will develop business successes and revitalization assistance services for small/mid-sized companies, and plans to provide paid services and expand to overseas markets using the "bizocean" business information site, which has more than 1.9mn members, as a foundation. MJS hopes to build bizsky into a B-to-B marketplace that includes supplying services from rivals with a vision of creating "Japan's largest business cloud platform used by small/mid-sized companies" in the future.

■ Check Point

- Expansion of services income linked to sales of corporate ERP products and new customer development should drive a steep sales increase
- Likely to increase sales and profits for a sixth straight year and reach new highs in FY3/17
- Heading into a stage of further growth by fostering new businesses

Financial Results Trends



■ Corporate Overview

Leading firm in development and sales of PER systems

(1) Corporate history

Since its establishment in 1977, MJS has been providing management systems and management information services, primarily for finance and accounting, and changing its business model in step with the times. The company previously focused on providing data processing services at processing centers, and developing and selling office computers. Now, MJS develops and provides package software and information services such as management information services. It has built up a long-established position in the Japanese market as an innovator in developing and providing systems for finance and accounting. Currently, MJS has started developing and providing services compatible with cloud computing, a new wave in technology. Furthermore, in 2014 MJS established MJS M&A Partners Co., Ltd. (mmap) that provides business succession and revitalization support services for small/mid-sized companies as a way of expanding its business scope.



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Company History

Core Service Format	Year	History	
Data Processing Center	1977	MIROKU JYOHO SERVICE Co., Ltd. established	
	1978	New financial data processing system MS-1 developed and sales started Online terminal MJS800 developed and sales and online service commenced	
Office Computing	1980	Shift from data processing to office computing development and sales business Development and commencement of sales for the specialist MicroAce Model Series for accounting	
	1983	Entry into the market for clients advised by tax accountant and CPA firms Development and commencement of sales for the specialist Pro Office Computing [Accounts] aimed at tax accountant and CPA firm clients	
	1988	Re-established the MJS logo, unified corporate naming under MJS	
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	
	1996	Completed construction on the new office building. Shifted Head Office to Yotsuya, Shinjuku-Ku, Tokyo Established a customer service center to improve customer service	
	1997	Listed on Second Section of Tokyo Stock Exchange	
	1998	Commenced development and sales of the MICSNET Series ERP system compatible with Windows NT® for medium-sized companies	
	2001	Commenced development and sales of the ACELINK Series of network solution systems for tax accountant and CPA firms	
	2002	Commenced sales of the MJSLINK Series of operations and comprehensive information systems for small/mid-sized companies	
	2004	Developed business information website "bizocean" targeting business people at small/mid-sized companies and venture companies	
	2005	Developed and commenced sales of the ACELINK Navi Series of network solution systems for tax accountant and CPA firms Developed and commenced sales of the MJS i-Series of web-based operations systems for small/mid-sized companies Developed and commenced sales of the Galileopt package ERP systems for medium-sized enterprises	
	Shift to Service Provider	2007	Developed and commenced sales of the MJSLINK II Series of package ERP systems for small/mid-sized companies
		2011	Commenced sales the ACELINK NX-Pro ERP system for tax accountant and CPA firms (April)
		2012	Commenced sales of the Galileopt NX-I ERP system for medium-sized companies (February) Listed on First Section of Tokyo Stock Exchange
2013		Commenced sales of MJSLINK NX-I ERP system for small- and mid-sized companies (April) Started providing three free multi-device compatible applications in the "Manetore," Money Tracker Series (September) Investment in consolidated accounting systems company Primal, Inc. (33.9%) and conversion into a consolidated affiliate (October)	
2014		Established MJS M&A Partners Co., Ltd. that provides services supporting the business succession and revitalization of small/mid-sized companies (September)	
2015		Commenced sales of "MJS My Number" for tax accountant and CPA firms and small/mid-sized companies (September)	
2016		Split off the bizocean business and established a subsidiary	

Source: Prepared by FISCO Ltd. from company materials

(2) Operational overview

MJS's main businesses include the development and sale of ERP systems primarily for finance and accounting for tax accountant and CPA firms and small/mid-sized companies, as well as the provision of services associated with system installation, such as instructions on system settings and operations, and network establishment, as well as maintenance.

MJS's main customers are tax accountant and CPA firms and their small/mid-sized company clients. In its business for tax accountant and CPA firms, MJS has around 8,400 user firms, representing a share of approximately 25% of the market. In its business for small/mid-sized companies, there are nearly 17,000 companies that use MJS software. Moreover, MJS also provides simplified accounting software for small businesses via its customer base of approximately 8,400 tax accountant and CPA firms with about 40,000 users. Considering that the number of the clients of these tax accountant and CPA firms is in the order of 500,000 SMEs, there is still significant room to exploit this market.

MJS Operational Overview

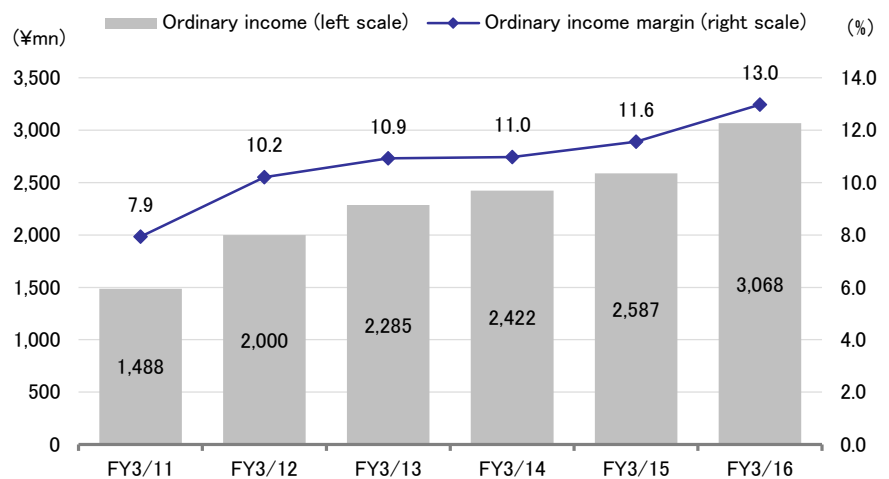
Customers	Tax accountant and CPA firms	Small/mid-sized companies (Most of them are clients of tax accountant and CPA firms)
Systems (developed by MJS)	Financial and accounting systems Tax reporting systems, etc.	ERP systems centered on financial and accounting systems (accounting, payroll, sales management)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

Source: Prepared by FISCO from company materials

(3) Business trends

In the last few years, MJS has focused on acquiring new customers and strengthening its business with recurring revenues by providing after-sale services (such as software, hardware, and network maintenance services). As a result, its earnings continue to grow while its profitability improves, and it achieved a record high for a fifth consecutive fiscal year on an ordinary income basis in FY3/16 and profit margin continues to trend upward.

Trends in Ordinary Income and Ordinary Income Margin



Source: Prepared by FISCO Ltd. from company materials

■ Financial Result Trends

Expansion of services income linked to sales of corporate ERP products and new customer development should drive a steep sales increase

(1) Review of FY3/16 results

MJS reported 1H FY3/17 consolidated results with net sales at ¥13,080mn (+10.5% YoY), operating income at ¥2,091mn (+45.9%), ordinary income at ¥2,103mn (+44.8%), and net income attributable to owners of the parent at ¥1,352mn (+61.6%). Net sales and profits exceeded initial forecast and reached all-time half-year highs.

Consolidated Operating Results for 1H FY3/17

(unit: ¥mn)

	1H FY3/16		Company target	1H FY3/17			
	Result	Ratio		Result	Ratio	YoY	vs. target
Net sales	11,833	-	12,800	13,080	-	10.5%	2.2%
Gross profit	7,636	64.5%	8,730	8,656	66.2%	13.4%	-0.8%
SG&A expenses	6,202	52.4%	6,800	6,564	50.2%	5.8%	-3.5%
Operating income	1,433	12.1%	1,930	2,091	16.0%	45.9%	8.4%
Ordinary income	1,452	12.3%	1,990	2,103	16.1%	44.8%	5.7%
Net income attributable to owners of the parent	837	7.1%	1,210	1,352	10.3%	61.6%	11.8%

Source: Prepared by FISCO Ltd. from earnings materials

MJS continues to benefit from growth-strategy initiatives of “expansion of the customer base and increase in service revenues” and “careful management of business goals factoring in orders backlog,” and these activities are supporting strong results. We also think it is worth noting that net sales in 1H climbed by 10.5%, the highest growth in the past few years, led by expansion of services income linked to sales of corporate ERP products and new customer development. Additionally, the order backlog of system installation contract sales rose to 5.75 months at the end of 1H, a gain of 0.43 months from the end of 1H FY3/16, and approached the near-term goal of 6.0 months.

Gross margin improved by 1.7 percentage points YoY because of the higher ratio of lucrative software and services revenue. While SG&A expenses were up 5.8%, mainly on higher personnel costs, although the SG&A expenses ratio fell by 2.2 percentage points due to increase in sales. Operating margin thereby climbed 3.9 percentage points to 16.0%, and this supported a steep rise in profits. Corporate sales were strong at 2.2% more than initial forecast, and operating income exceeded the initial target by 8.4% due to a greater reduction of SG&A expenses than anticipated.

(2) Sales trends by customer and by product category

Net sales from system installation contracts increased 11.5% YoY to ¥8,315mn, services revenue climbed 7.4% to ¥4,355mn, and other revenue rose 27.5% to ¥408mn in 1H FY3/17. All three categories achieved steady gains. Increase in other revenues were due to higher advertising income for “bizoclean,” the Internet information site geared to small business executives and business people, led by enhanced media value. Business succession and revitalization assistance services, a new area, also contributed about ¥30mn in net sales.



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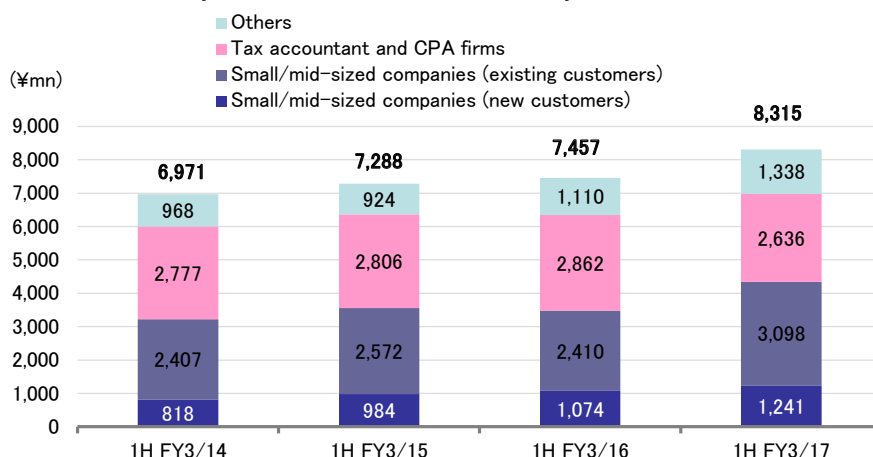
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a) System installation contract sales

Looking at system installation contract sales trends by customers, sales to tax accountant and CPA firms decreased 7.9% YoY to ¥2,636mn, while sales to ordinary corporate customers rose 24.6% to ¥4,340mn and other sales (headquarter and subsidiary sales and partner sales) expanded 20.5% to ¥1,338mn, posting strong gains. The Company's business with tax accountant and CPA firms weakened on maturation of the market and the absence of demand for My Number-related security measure products from a year ago. While MJS continues to obtain newly opened tax accountant and CPA firms as customers, it is difficult to gain sales growth in this area as firms initially start with low priced plans.

In business with ordinary companies, meanwhile, sales improved steadily with 15.6% increase YoY for new customers and 28.6% with existing customers. We think new customer business is benefiting from introductions to potential customers from tax accountant and CPA firms as well as advertising and promotional activities utilizing TV commercials proactively over the past 1-2 years. Existing customer business, meanwhile, posted a large gain thanks to vibrant replacement demand and success in promotion of cross-selling initiatives that propose additional services at replacement timing. Other sales mainly received a boost from increased services to chambers of commerce from within headquarter sales, while sales to partners (sales distributors) were flat.

System Installation Contract Sales (by customer)



Note: Other (sales of subsidiaries, head office and partners)

Source: Prepared by FISCO from company materials

By category, software sales increased 13.7% YoY to ¥5,252mn, thanks to higher sales of MJSLINK NX-1, an ERP product for small mid-sized companies, a rise in sales of individually developed software, and a steady increase in useware (installation assistance service) sales of 16.8% to ¥1,611mn following a larger volume of new customers. Hardware sales, however, decreased 0.6% to ¥1,451mn due to rebound from the previous year's upswing in security products related to the My Number program.

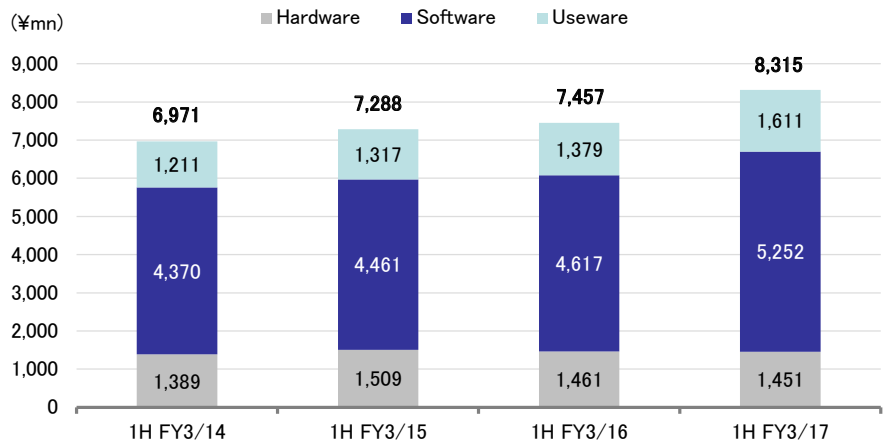


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System Installation Contract Sales by Category

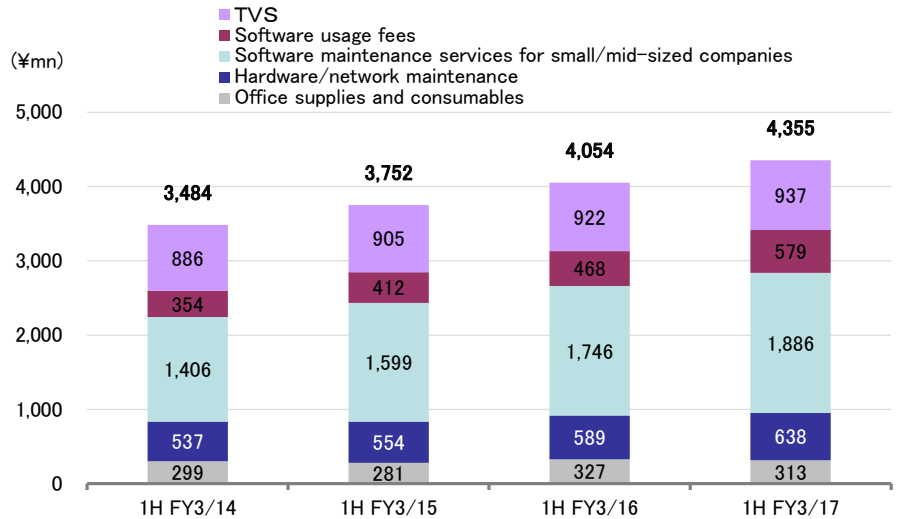


Source: Prepared by FISCO from

b) Services revenue trend

Looking at the breakdown of services revenue, sales from software operation assistance services (software maintenance services for companies) continued an upward trend with an 8.0% increase to ¥1,886mn, and sales of simplified accounting software for small businesses via tax accountant and CPA firms (software usage fees) grew 23.7% to ¥579mn, sustaining strong momentum. Moreover, sales of the total maintenance service for tax accountant and CPA firms (TVS) were firm, rising 1.7% to ¥937mn. Hardware and network maintenance services maintained gains with a rise of 8.3% to ¥638mn. Since these are recurring-revenue services, sales increase stably as the customer base expands. Simplified accounting software for small businesses is a highly profitable service and contributes to raising profit margin.

Breakdown of Services Revenue



(3) Financial status

Looking at financial conditions at the end of 1H FY3/17, gross asset value rose ¥947mn YoY from the end of FY3/16 to ¥20,829mn. Current assets had increases of ¥123mn for cash and deposits and ¥781mn for trade receivables, accompanying profit expansion. Fixed assets reported an increase of ¥130mn in intangible fixed assets, including goodwill and software, a gain of ¥16mn in tangible fixed assets, and a ¥95mn decline in investments and others mainly led by investment securities.

Liabilities expanded by ¥708mn from the end of FY3/16 to ¥6,531mn. Interest-bearing debt, for both short- and long-term, increased ¥411mn and other increases include trade payables by ¥106mn and income taxes payable by ¥255mn. Net assets climbed ¥239mn from the end of FY3/16 to ¥14,298mn. While capital surplus increased ¥786mn, declining items included ¥240mn from purchase of treasury shares and ¥269mn from difference in other valuation difference on available-for-sale securities.

The Company's financial status has been improving significantly over the past few years in line with the expansion of earnings. Shareholders' equity ratio moved slightly lower from the end of FY3/16 level though remained high at the end of 1H FY3/17. Net cash modestly declined owing to a rise in interest-bearing debt, but we think it stayed at a sizeable level considering the Company's business scale and is still in good shape.

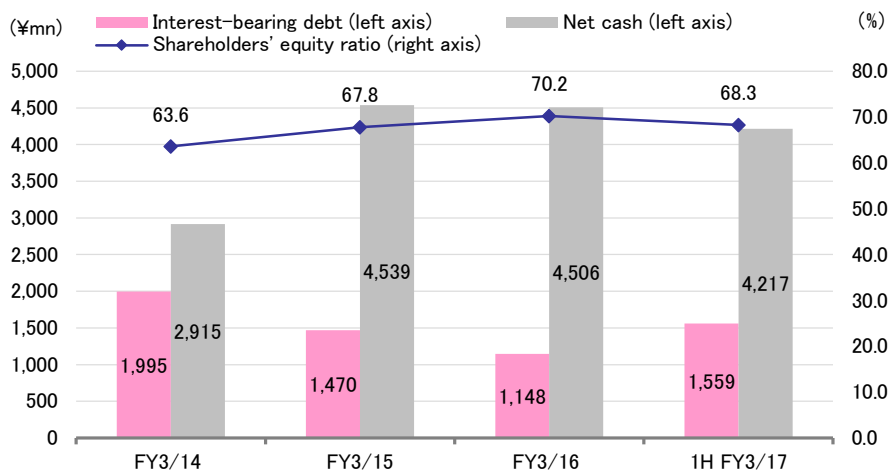
Consolidated Balance Sheet

(unit: ¥mn)

	FY3/14	FY3/15	FY3/16	FY3/17	Change	Factors
Current assets	9,299	10,231	10,120	11,017	+896	Cash and deposits +123, trade receivables +781, inventory -18
Cash and deposits	4,311	5,809	5,654	5,777	+123	
Fixed assets	10,085	9,440	9,761	9,812	+50	Tangible fixed asset +16, intangible fixed assets +130, investments and others -95
Total assets	19,384	19,671	19,882	20,829	+947	
Current liabilities	5,160	5,489	5,000	5,537	+537	Short-term interest-bearing debt +112, trade payables +106, income taxes payable +255
Fixed liabilities	1,838	835	823	993	+170	Long-term debt +299
Total liabilities	6,998	6,324	5,823	6,531	+708	
Net assets	12,385	13,346	14,059	14,298	+239	Capital surplus +786, purchase of treasury shares -240, other valuation difference on available-for-sale securities -269
Total liabilities & net assets	19,384	19,671	19,882	20,829	+947	
Interest-bearing debt	1,995	1,470	1,148	1,559	+411	
Net cash	2,915	4,539	4,506	4,217	-288	(Cash and deposits + available-for-sale securities - interest-bearing debt)
Management indicators						
Current ratio (%)	180.2	186.4	202.4	199.0		
Shareholders' equity ratio (%)	63.6	67.8	70.2	68.3		
Interest-bearing debt ratio	16.1	11.0	8.2	10.9		
Return on equity (%)	12.7	13.7	14.0	-		

Source: Prepared by FISCO Ltd. from earnings materials

Interest-Bearing Debt, Net Cash and Shareholders' Equity Ratio



Source: Prepared by FISCO from company materials

■ Outlook

Likely to increase sales and profits for a sixth straight year and reach new highs in FY3/17

(1) Business outlook for FY3/17

MJS expects to raise net sales and profits for a sixth straight fiscal year and reach all-time highs in FY3/17 consolidated results with gains of 10.0% to ¥26,000mn in net sales, 29.3% to ¥3,930mn in operating income, 30.4% to ¥4,000mn in ordinary income, and 28.5% to ¥2,450mn in net income attributable to owners of the parent.

We think MJS is capable of attaining FY3/17 forecast in light of progress rates through 1H modestly exceeding targets and a robust 5.75 months of order backlog of system installation contract sales. However, we only anticipate modest upside, if earnings beat its forecast, because MJS intends to aggressively implement sales promotion activities, such as TV commercials, to strengthen brand presence in 2H.

Consolidated Operating Performance Outlook for FY3/17

(unit: ¥mn)

	FY3/16		FY3/17			
	Result	Ratio	Company target	Ratio	YoY	1H progress rate
Net sales	23,636	-	26,000	-	10.0%	50.3%
Gross profit	15,393	65.1%	17,410	67.0%	13.1%	49.7%
SG&A expenses	12,353	52.3%	13,480	51.8%	9.1%	48.7%
Operating income	3,039	12.9%	3,930	15.1%	29.3%	53.2%
Ordinary income	3,068	13.0%	4,000	15.4%	30.4%	52.6%
Net income attributable to owners of the parent	1,906	8.1%	2,450	9.4%	28.5%	55.2%

Source: Prepared by FISCO Ltd. from earnings materials

MJS plans to implement the following measures in 2H aimed at reaching FY3/17 forecast

a) Expanding the customer base and service revenues by continuing to actively acquire new customers

MJS plans to recruit new customers using the My Number system and opportunities as catalysts and promote cross sales of other products to existing customers. It also intends to conduct aggressive sales promotions, including TV commercials and other advertising, seminars, and fairs, aimed at raising awareness of the MJS brand. Additionally, it will strengthen indirect sales of ERP products by promoting more activity at its over 400 partner companies.

b) Planning and developing new cloud services and bolstering the functionality of existing products and services

MJS intends to build a development foundation for cloud products and develop and provide its proprietary new services. And through collaboration with group companies and partner companies, it will improve functionality and broaden existing products and thereby strengthen competitiveness. It also aims to work on enhancing quality and competitiveness of products and services with emphasis on the customer perspective and raising productivity.

MJS started providing MJSLINK NX-1 for laas, an ERP product targeting small/mid-sized businesses, in August 2016 as a cloud version of the product sold as an on-premises version up to now. It plans to release a cloud service version of simplified accounting software for small/mid-sized companies in 2H.

c) Building and promoting the foundations for new businesses

We will touch on the measures in detail later but MJS's subsidiary mmap will further promote business succession and revitalization assistance services for small/ mid-sized companies through collaboration with tax accountant and CPA firms that it ramped up during FY3/16. And it plans to sequentially roll out new fintech services on "bizsky," a B-to-B cloud services platform to assist in management and operations improvement at small/mid-sized companies. Additionally, it intends to actively pursue Internet business with "bizocean," the business information site and formulate and promote new growth strategies.

(2) Sales outlook by category and customer

MJS expects sales increases of 6.0% YoY to ¥15,566mn for system installation contracts, 4.9% to ¥8,716mn for services revenue, and 165.8% to ¥1,716mn for other revenue.

It continues to expect a sales increase in ERP systems for ordinary companies under system installation contract sales. MJS booked about ¥1,100mn in My Number-related product sales from extraordinary demand in FY3/16, and while this business posted about ¥300mn in 1H sales, no sales are factored into the 2H plan. By customer, MJS anticipates a 9.2% YoY increase in sales to ordinary companies to ¥7,378mn, but a 10.8% decline in sales to tax accountant and CPA firms to ¥5,001mn.

By category, MJS forecasts a double-digit 13.5% YoY increase in software sales to ¥10,161mn led by ERP systems, in contrast to declines in hardware of 5.8% and useware of 5.7%. However, useware outpaced the plan in 1H and we expect a sales increase for the full year too.

For services revenue, MJS envisions ongoing gains in software operation assistance service and software usage fees with support from a rising number of customer companies. For other revenue, the outlook factors in a steep increase in advertising income from "bizocean" and expansion of other new businesses, such as business succession and revitalization assistance services for small/mid-sized companies.

Sales Trends by Product Category (consolidated basis)

(unit: ¥mn)

Business Segment	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17 (E)	Growth
System installation contract sales	13,891	14,541	14,229	14,683	15,566	6.0%
Hardware	2,621	2,717	2,639	2,801	2,638	-5.8%
Software	8,605	9,176	8,954	8,949	10,161	13.5%
Useware	2,664	2,646	2,635	2,932	2,766	-5.7%
Services revenue	6,783	7,173	7,671	8,307	8,716	4.9%
Other	246	362	483	645	1,716	165.8%
Total	20,922	22,077	22,383	23,636	26,000	10.0%

Source: Prepared by FISCO Ltd. from company materials

Heading into a stage of further growth by fostering new businesses

(3) Growth strategy

MJS is currently in the final fiscal year of the Third Medium-term Management Plan and starts the next plan from FY3/18. Its goals at this stage are ¥50,000mn in net sales, 30% ordinary income margin, and 30% ROE in FY3/21. Compared to the FY3/17 outlook, MJS is aiming ambitiously for increases of 1.92 times in net sales and 3.75 times in ordinary income that work out to annual growth rates of 18% and 39%, respectively.



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MJS explained that it will be preparing details, such as net sales goals for individual businesses, next. Yet the basic concept seeks stable growth in existing businesses and broadening overall business scope, including the product and services line-up by cultivating new businesses where it laid seeds over the past 1-2 years. In regard to customer base, MJS intends to expand from tax accountant and CPA firms and medium-sized and smaller businesses to individuals and overseas markets. Below we review the state of initiatives in new businesses.

Strategic Investments and New Services Since 2014

September 2014	Established MJS M&A Partners as a wholly owned subsidiary to provide business succession and revitalization assistance service to small/mid-sized companies
December 2015	Acquired Miroku Webcash International Co., Ltd. which provides account aggregation service, as a subsidiary
December 2015	Acquired Cloud Invoice Inc., which provides a recordkeeping assistance service, as a wholly owned subsidiary
February 2016	Agreed to a capital and business alliance with Skwile, Ltd., which operates a lending intermediation platform business in the UK
April 2016	Split off "bizocean," the business information site as a wholly owned subsidiary
September 2016	Built "bizsky," the B-to-B cloud platform to assist management and business improvements at small/mid-sized companies and started provision of Rakutasu Transfer cloud service as the first offering

Source: Prepared by FISCO from company materials

a) "bizsky," B-to-B platform business

MJS built "bizsky," a B-to-B cloud platform, equipped with marketplace functions that provide a variety of contents services for the management issues at mainly small/mid-sized companies, such as cost reduction, improved business efficiency, and fund raising.

MJS developed Rakutasu Transfer, a service for small/mid-sized companies that improves the efficiency of money transfer tasks and lowers transfer fee costs, as the first content for delivery and began provision in September 2016. It uses inexpensive pricing with no initial costs, no monthly usage fees, and just a ¥310 (tax inclusive) charge for every money transfer. We think the service offers significant benefits to small/mid-sized companies. It includes an optional "Invoice Marunage Plan" service (¥30 (tax inclusive) per item) for receiving paper-based invoices and making the money transfer on behalf of the customer. Cloud Invoice Inc., which it acquired as a subsidiary in December 2015, handles the service. The business model involves lowering costs paid to banks by processing money transfers from customer firms on a bulk basis and earning margin from the difference between the cost and money transfer fee it charges. While MJS is recruiting subscribers at a moderate pace, it intends to focus first on sales promotional activities mainly at existing customers.

MJS plans to begin provision of a service that supports better business efficiency for invoice issuance at the start of 2017 and also aims to steadily initiate services that enhance business efficiency related to corporate fund management, including distribution of salary details and payment confirmations. MJS has set a goal of obtaining 100,000 corporate users by providing these services. It needs to develop new customers in order to reach 100,000 companies, and MJS has devised a strategy to increase customer volume that includes recruitment from bizocean business information site which is used by roughly 2mn business people.

We expect bizsky to evolve into a B-to-B marketplace if MJS can reach 100,000 companies using services on the bizsky platform. This is because bizsky, which aims to attract 100,000 companies, would be an attractive sales channel for rivals. MJS hopes to foster bizsky into Japan's largest business cloud platform that attracts small/mid-sized companies.

MJS also intends to strengthen sales efforts for the bookkeeping support service provided by subsidiary Cloud Invoice. It will be promoting sales initiatives to tax accountant and CPA firms that are already customers and sites that are not customers yet as well. MJS wants to utilize the bookkeeping support service as a sales hook to replace financial and accounting systems from other firms.



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b) “bizocean,” business information site

MJS split off the bizocean business information site and converted it into a subsidiary in April 2016 and plans to expand the business with an eye on an IPO at some point. The site currently has about 1.93mn registered members as of the end of November 2016, and MJS aims to increase this to 2.01mn by the end of March 2017 and 3mn by the end of FY3/21 in Japan and also 40mn members in other countries based on the planned rollout to Southeast Asia, India, and other regions.

This is a popular site with free downloads of documents and other formats and templates used by companies in daily business, and it currently obtains income from advertising through display advertisements and distribution of email newsletters to registered members. Sales expanded from just over ¥400mn in FY3/15 to ¥500mn in FY3/16, and MJS expects ¥900mn in FY3/17. Management forecasts a growing contribution to profits as business scale increases because fixed costs are not so high and operating margin is an attractive 30%.

MJS plans to begin full-fledged rollout of video advertisements on the site and paid template service (C-to-C marketplace) from 2017. It also sees significant room to develop overseas markets because of the almost complete absence of similar business information sites. We think acquisitions and other initiatives offer a choice for activities in various countries.

c) Business succession and revitalization assistance services for small/mid-sized companies

MJS is striving to establish Japan's top sell-side platform through collaboration with tax accountant and CPA firms, which are also its customers, in business succession and revitalization assistance services for small/mid-size companies supplied by subsidiary mmap.

The business model involves receiving introductions to customer companies that need business successes or revitalization assistance services from tax accountant and CPA firms after concluding introduction partner contracts with these firms and concluding advisory contracts with the subject companies and providing assistance services. MJS obtains a fee when a successor is finalized as revenue and also pays a fee to the introduction partner as an expense.

A key point in increasing deal volume is the extent to which MJS can expand the number of tax accountant and CPA firms as partners. MJS is steadily increasing partners, reaching about 1,365 offices at the end of September 2016 and aiming for 2,000 offices at the end of FY3/17. It received roughly 100 business transfer requests and finalized contracts for a few of these cases in FY3/16. MJS finalized seven contracts out of about 240 consultations in 1H and is targeting 450 consultations in FY3/17. Conditions are strong thus far, and much of the consultations are from small/mid-sized businesses about business succession. MJS expects to achieve profitability from FY3/18 and needs to promote business in a timely manner.

■ Shareholder returns policy

Plans to increase the dividend by ¥3 to ¥20 in FY3/17

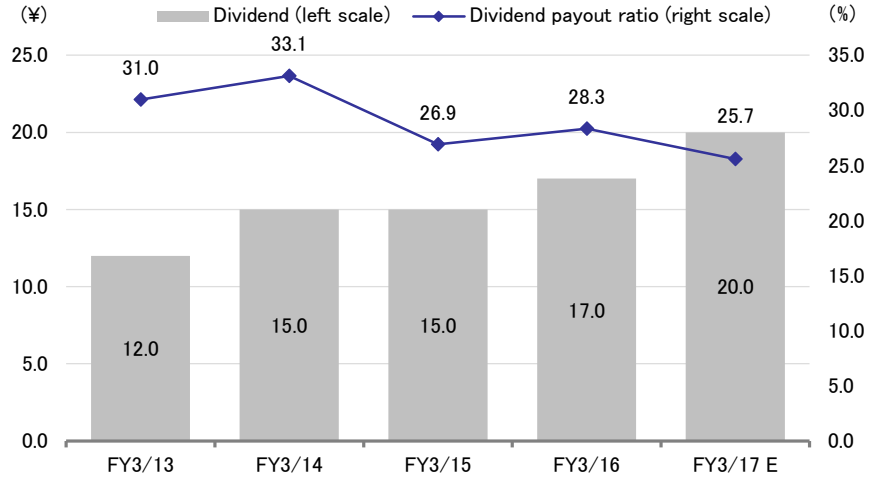
MJS has a fundamental policy in shareholder returns of sustaining stable returns over the long term for the dividend. It plans to increase the dividend by ¥3.0 to ¥20.0 in FY3/17 based on setting all-time high profits. MJS also conducts share buybacks at appropriate times. It purchased a total of 580,000 shares (1.7% of outstanding shares) for ¥1,138mn as of the end of November in FY3/17. The dividend payout ratio works out to 25.7% using the FY3/17 earnings outlook.

MIROKU JYOHO
SERVICE

9928 Tokyo Stock Exchange
First Section

16-Jan.-17

Dividend Per Share and Dividend Payout Ratio



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