

M C J (6670) TSE 2nd Section

Sailing with all sails up in the fair wind of “year one of esports”

Yuya Okamura, Analyst

Company profile

Location	Chuo-ku, Tokyo
President & COO	Motoyasu Yasui
Established	August 1998
Capital	¥3,854 million
Listing	June 2004
URL	http://www.mcj.jp/
Sector	Electric Appliances

Stock price data (closing price on May 31)

Stock price	¥1,772
Outstanding shares	50,870,600 shares
Trade unit	100shares
Market cap	¥90.14billion
PER (est.)	14.4times
EPS (est.)	122.33yen
PBR (actual)	2.52x

■ High-spec PC manufacturer with core fans

Operates an integrated business handling the development, purchasing, manufacturing, sales, and after-service of PCs, PC parts, monitors, peripheral equipment for PCs, etc.

Provides brands which target various usages such as the gaming PC "G-Tune," PC for corporate users "MousePro," and the PC for creators "DAIV."

Through M&As, has established the group power to perform any business independently. Currently investing in leading venture corporations in new fields but complementary to existing business domain such as VR.

■ This year again the Company is to post record-high figures for both net sales and profits

Forecasted results for the current period ending March 2019 are as follows: net sales of ¥131,100 million (up 5.3% YoY), operating profit of ¥9,000 million (up 5.8% YoY), and profit attributable to owners of parent of ¥5,950 million (up 2.4% YoY).

In addition to effects of an increase in brand awareness made possible due to concentrated advertising efforts made by the Company in the previous term as well as to the increase in demand for gaming PCs, PC-related business is expected to post a sure increase in revenue. R-Logic, a company providing repairs and technical support of IT-related products that was made into a consolidated subsidiary, shall also make a sizeable contribution to the results on a full year basis.

■ To increase the liquidity of the stock, the Company is due to implement a 2-for-1 stock split in the end of June

The upturn trend in its stock price reflecting the measures conducted to enhance IR initiatives is continuing. Nevertheless, the forecasted PER level for stock price of 14 times is not high-priced when compared with 18 times, which is the average for companies in the same industry category. Although the Company is to implement a 2-for-1 stock split with the record date of June 30, even after the split, the number of shares serving as criterion for preferential treatment of stockholders shall be kept unchanged. From the point of view of stockholders, the measure shall be very profitable as in real terms it will mean “doubling of the profits,” and is likely to result in a further increase in the number of shareholders and a further increase in the liquidity of the Company’s stock.

■ Supporting popularization of esports with hardware

The first thing that comes to people's minds when talking about PC industry is that it is plagued with bad sales, but one kind of computers does sell quite well – the high-spec PCs. This happens to be one of the areas the Company’s forte lies in, and now it is enjoying some truly strong fair wind as Japan is starting its full-scale efforts to popularize “esports.” Capitalizing on this increasing demand for gaming PCs, it shall contribute to popularization of esports with hardware.

Company Information

Operates an integrated business handling the development, purchasing, manufacturing, sales, and after-service of PCs, PC parts, monitors, peripheral equipment for PCs, etc. Sales channels include direct sales via EC sites and brick-and-mortar stores, via major electronics retailers, OEM supply, and direct corporate sales and indirect sales through distributors.

Overseas, possesses sales channels for monitors in Europe. The Company's unique and high-spec PCs are popular among knowledgeable users, and the Company has utilized group power that encompasses a variety of services to supply these PCs to the market. Today, the Company is simultaneously expanding sales to mass consumers.

● What is the source of uniqueness and originality?

The PCs offered by the Company target consumers with a high level of computer literacy; in other words, consumers for whom normal PCs are insufficient or unsatisfying. Since the Company's computers are not intended for the general public, the absolute number of the target group is small. Even so, the Company has moved forward with the firm belief that "strong demand exists" and has steadily expanded its business operations.



Easy - 300
(1999)

The Company was established in February 1998 when current Chairman & CEO Yuji Takashima incorporated his PC business under the name Mouse Computer Japan.

PCs had just started to spread at that time, and the market was dominated by major domestic manufacturers such as NEC and Fujitsu. Conversely, as a venture corporation, the Company devised a strategy to differentiate itself from other companies. The first computer released by the Company was the Easy-300 PC (300 dollar PC) in March 1999. At that time, the exchange rate for yen to U.S. dollars was around ¥120, about the same as it is now. Consumers were surprised by the release of this reasonably-priced PC.

Furthermore, the PCs of major manufacturers that dominated the market at that time were equipped with various functions as standard installation. Consequently, there was a gradual increase in demand for PCs that allowed users to select their own preferred functions. In order to meet this demand, there was an increase in non-branded PCs (then called white box = generic term for PCs produced by manufacturers other than national brands) such as those offered by the Company. Amidst these circumstances, the Company chose a business model of creating customized PCs in accordance with specifications desired by the user.

This was the start of the **BTO (Built To Order) style**. One advantage of BTO is that inventory is not accumulated. The Company pursued the strategy of carving a market niche by targeting "computer enthusiasts."

This strategy was successful and still forms the core of the Company's business strategy even today.

Product history



『Easy-Cube51C』
(2003)



G-Tune initial version
(2004)



G-Tune latest model
Slim model gaming PC
『NEXTGEAR-C』
(2017)



『m-Stick』
(2014)

● Pursuing originality

As business began to take off, the Company released the original PC "Easy-Cube 51C" in June 2003. It immediately became a hit as a cube PC. In November 2003, the Company changed its name to MCJ, its current name today.

At that time, online PC games were extremely popular. In response to trends of the time, the Company started to handle PCs targeting gamers; in other words, video game players who were engrossed in MMORPG (Massive Multiplayer Online Role Playing Games). In January 2004, the Company released "G-Tune," a brand which continues to drive the Company's business even today.

In 2005, the Company announced the release of the low-priced notebook PC "LuvBook" series. In June 2008, the Company entered the netbook market by releasing LuvBook U100, and then released its first tablet "LuvPad AD100" in September 2010.

In November 2014, the Company released "m-Stick," one of the world's smallest stick PCs. "m-Stick" is a ultra-lightweight stick PC that fits in the palm of a hand and makes it possible to use Windows on LCD televisions and monitors via HDMI connection. m-Stick attracted great attention as a revolutionary product that is widely used at meetings, presentations, and events.

In the past few years, the Company has frequently released high-spec PCs focused on the targeted consumers. In February 2016, they released "DAIV," a PC for creators. In May of this year, the Company also developed "DEEP ∞ (Deep Infiniti)," a PC specially made for deep learning, a system supporting the development of A.I. (Artificial Intelligence).

Also, the group company UNIT.COM has developed a PC especially for traders of financial securities. UNIT.COM released the "Kabu Paso" series through collaboration with the major online trading company kabu.com Securities Co., Ltd. This provides an optimal environment for full-scale online trading.



『DEEP ∞ 』 PC specially
made for deep learning
(2018)



『Kabu Paso』
(2013)

Overview of MCJ Group Companies

mouse



「G-Tune」 Gaming PC

(1) MouseComputer

This company was born at the founding of MCJ. Business activities include the development, manufacturing, and sales of PCs and peripheral equipment. Offers target-specific brands for specific uses such as the gaming PC “G-Tune,” the corporate PC “MousePro,” and the PC for creators “DAIV.”

Currently, the company is focused most on **increasing brand awareness**. Although MouseComputer is famous among the market niche of users with a high level of computer literacy, the company must increase appeal to mass consumers in order to increase its market share. The company is **actively broadcasting TV commercials** from 2016.

Products are domestically produced PCs and priced lower than PCs of other companies. ... Although that alone is quite sufficient to appeal to mass consumers, what is worth particular mention is the support system the company offers to its customers both before and after purchase. In addition to a call center operating 24 hours a day, 365 days a year, the company also has its own repair center. MouseComputer provides a **96-hour Repair Completion Service**, in which repairs are completed within 96 hours after the customer’s PC arrives at the repair center.

As an easy-to-use service, the company has established the PC industry’s first LINE support system to enable even faster response to client enquiry. By further improving customer support following the purchase of a PC, MouseComputer seeks to increase the number of fans for its products and is focused on heightening its repeater rate.

UNITCOM



「VIVE」

Recommended PC specifications
LEVEL-R027-i7-VNR

(2) UNIT.COM

Sells original PCs, PC parts, peripheral equipment, and other devices. Handles an increasing amount of **VR products**. Also conducts sales of sets consisting of the VR product VIVE manufactured by HTC in Taiwan together with PC recommended for VR (a high price can be set at around ¥200,000). Operates more than 70 shops (PC Koubou) in Japan. Also focuses on services such as IT support and inspection services for individual users utilizing its shops (assets).

TEKWIND



AKRacing Premium
Office Chair

(3) Tekwind

Conducts wholesaling and retail sales of PC peripheral equipment, and parts. Handles products from a wide range of more than 50 companies including Microsoft, Intel, and ASUS. In 2015, released a gaming chair designed to reduce fatigue when sitting for long periods of time. The price range is from ¥40,000 to ¥50,000, which is a reasonable price when compared to similar products from other companies (the market price is around ¥100,000).

iiyama Vision & Technology



iiyama Monitor

(4) iiyama

A corporation with high growth and high profit. Company headquarters are located in the Netherlands. iiyama conducts development and sales of PC monitors. Main countries for sales are major European countries such as Germany, France, and England. In addition to ordinary PC monitors, the company also focuses on touch monitors and high-end digital signage such as large-screen displays.

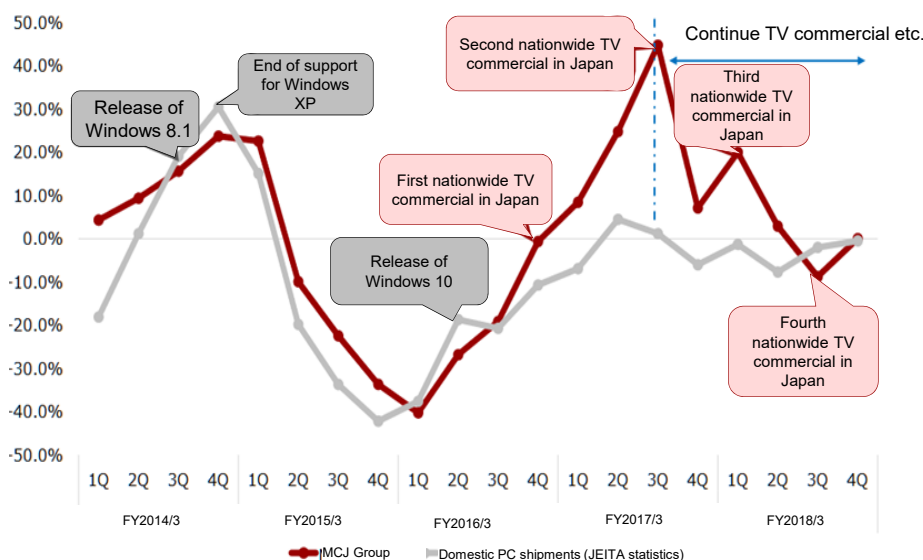
Considerations for Business Model (1)

● A growth strategy aiming to turn weaknesses into strengths and develop the advantages of the Company

Market of PCs is shrinking, both overseas and in Japan. According to JEITA statistics, shipments of PCs in Japan in the previous term ended March 2018 (April 2017 to March 2018) showed a 3% decrease. For this term ending March 2019, the Company similarly projects a “continued small decline of the market.” Operating in this declining PC market, the Company is still outperforming it by increasing the number of shipments. There are two main reasons that make it possible.

One is that the Company's share in the PC market is still low. Also, although it is a contracting market, it is still enormous and the Company had a weakness that it did not have much appeal to the mass consumers. The Company perceived this very weakness as potential for growth and used it as leverage to expand its market share. Actively going on the offensive with their TV commercials featuring Nogizaka46, it managed to bring the mouse logo to a level where it is well familiar to TV viewers across the country. The improvement in name recognition quickly translated into actual progress with an increase of Internet sales of notebook PCs. And the room for growth available through grabbing the share of other companies is quite large.

Change in increase/decrease rate for number of PCs shipped



*The graph above compares shipping in each quarter (accounting period) to the same quarter of the previous year.

The second reason is that the high-spec PC market, where the Company's core strengths lie, is a growing one. Last year, VR and its rise in popularity got into the news quite often, but now what everyone is talking about is development of A.I. (Artificial Intelligence). In May of this year, the Company announced release of its PC specially made for development of A.I./deep learning.

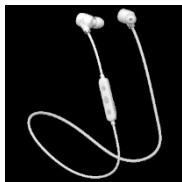
The demand for high-performance PCs tailor-made for such use is very high among companies, universities, and research institutions that develop A.I. The ability of the Company to utilize these kinds of market trends and use the latest technology in their products spawns from its capability to cash in on its strong point - the fact that it is a BTO manufacturer. The Company has a working system enabling it to receive the full benefit of the growing market it is operating in by prompt productization.

Considerations for Business Model (2)

● Creating a promising venture business portfolio

Currently, the Company is broadening its horizon to include long-term growth and is engaging in strategic **venture (VB) funding**. The basic strategy of the Company is to cover the areas that are not covered by its existing business through investments into venture businesses.

The three most recent cases of VB investment are listed below. The investment structure is portfolio to receive benefits from multifaceted market growth in the fields of hardware and contents.



Aplay N1L
Nain Inc.

(1) Nain

A venture corporation developing "hearable devices" that utilize voice recognition technology. Invested in November 2016. The company's earphones "**Aplay**" were developed under the concept of "being wearable (hearable) for ears" and are sold at major home appliance stores.



CHAINMAN
Ouka-ichi-mon.inc

(2) Ouka-ichi-mon

A venture corporation developing VR game content. Invested in November 2016. **Specializes in VR games**. In August of this year, released the game "ChainMan: Terror from the Darkness" for VIVE. Develops horror games which are a good fit with VR. If a hit game for VR is developed, it will have a positive effect on increasing sales for high-spec PCs recommended for VR HMDs.

(3) Immersv, Inc. (U.S.)

Based in the United States, this venture corporation develops **advertisement distribution platforms for smartphone-based VRs and mobile 360**. Invested in July 2017. Provides a platform enabling the display of advertisements using 360-degree video when the user wears a head-mounted display. Advertisements using VR have not yet spread widely. There is great potential for future growth. In addition to MCJ, HTC (Taiwan), GREE (Japan), and Metaps (Japan) also invest in this promising venture corporation.



Mobile
360° video



In headset
360° video



2D video in
Custom Scenes

Results of Operations

Performance (million yen)

Fiscal year end	Net sales	YoY	Operating profit	YoY	Profit attributable to owners of parent	YoY	EPS(¥)
March 2015	102,889	-1.1%	5,068	24.8%	2,627	45%	53.83
March 2016	103,288	0.4%	5,167	1.9%	3,087	17.5%	63.48
March 2017	108,727	5.3%	7,463	44.5%	5,030	62.9%	103.44
March 2018	124,544	14.5%	8,504	13.9%	5,811	15.5%	119.49
March 2019 (est.)	131,100	5.3%	9,000	5.8%	5,950	2.4%	122.33

● In the previous term ended March 2018, the Company posted net sales of ¥124,544 million (up 14.5% YoY), operating profit of ¥8,504 million (up 13.9% YoY), and profit attributable to owners of parent of ¥5,811 million (up 15.5% YoY). **This double digits increase both in revenue and profits is record high.** It should be noted that in the third quarter the Company posted a one-time gain on sale of property holdings. But even with the effect of this sale excluded, its net sales increase by 12.4% and increase of operating profit by 7.0% are still the highest ever.

During the previous term, **the Company implemented an advertisement campaign with TV commercials, etc. to raise its name recognition among mass consumers and went further with it than initially planned.** SG&A expenses increased by ¥1,500 million compared with the preceding term. It is worthy of special mention that although the term was primarily one to **sow the seeds for the future (by prior investment), the Company still managed to increase its profits.**

The primary cause of this increase in profits is the **effect of increased revenue** (by ¥15,800 million compared with the previous term). Revenue by subsidiary is as follows: MouseComputer increased revenue by 12.4%, UNIT.COM by 10.3%, and iiyama by 23.7%. MouseComputer displayed quick effect of the TV commercials with increased sales of notebook PCs through the Internet and to corporations. Sales of value-added products, such as gaming PCs, were also satisfactory.

● Forecasted results for the current period ending March 2019 are as follows: net sales of ¥131,100 million (up 5.3% YoY), operating profit of ¥9,000 million (up 5.8% YoY), and profit attributable to owners of parent of ¥5,950 million (up 2.4% YoY). In addition to the effect of the increased name recognition, the demand for gaming PCs is increasing, so the PC-related business is expected to post a sure increase in revenue. R-Logic, a company providing repairs and technical support of IT-related products that was made into a consolidated subsidiary, shall also make a sizeable contribution to the results on a full year basis

The estimate of ¥9,000 million for operating profit is based on the average value of an operating profit ratio of 6.9% in the past two terms. But, **with the exception of the second quarter** that was marked with an increase of the advertising and promotional expenses, **the operating profit ratio on quarterly base during the previous term was over 7%** (and 7.3% in the latest, fourth quarter).

The Company seemingly will increase the advertising and promotional expenses in this term also, but the planned increase is up approximately 2% from the previous term. If the planned figure for net sales is achieved, operating profit will naturally exceed the initial plan.

This term happens to be the final year of the Mid-term Management Plan. The upper limit goal for net sales the Company had initially set in its Mid-term Management Plan was ¥120,000 million, and this goal was achieved ahead of schedule in the previous term. The Company mentioned that no minor changes to the Mid-term Management Plan will be made and that **the growth vision for the Group after it has achieved an improvement in profitability exceeding the goals set will be shown in the new Mid-term Management Plan that is to be announced in the next term.**

Investment appraisal (1)

Stock Price (historical)

Year high	¥1,904
Year low	¥1,183
Highest since the IPO	¥2,863
Lowest since the IPO	¥28

*Considered with stock split



● If we take into account the stock split, the present price of Company's stock is the highest it was since September 2004. The cardinal point, when their stock started to get higher recognition, was not at the time of Abenomics stock market rise but in May 2016. From May 2016 and to March 2017, the Company managed to keep the stock price rising on monthly basis for 11 consecutive months.

This cardinal point of **May 2016 is when the Company announced its first Mid-term Management Plan since the listing.** With this step, the Company enhanced the disclosure of information and increased the points of contact with both institutional and individual investors in and outside the country. It had not been well known in the market to begin with, and this IR effort produced an immediate effect. And this initiative is quite similar to the recent advertising campaign of the brand using TV commercials that directly led to an increase in the sales of PCs.

The upturn in stock prices that began two years ago is still just as strong as it was at the time. The highest price this year was ¥1,904 recorded on May 18 after the Company announced its financial results. On the other hand, TOPIX as well as Second Section of the Tokyo Stock Exchange, to which the Company belongs, give its year-to-date high on January 23. For the year-to-date high performance also, against +50.1% of the Company, TOPIX is -3.8% and the Second Section of the Tokyo Stock Exchange index number is -0.2%. This is a proof that these numbers are based on a continued actual demand – although the conditions of the stock market as a whole are deteriorating, the Company's stocks keep at record high. The current forecasted PER level for stock price is 14 times. Still, as the forecasted average PER level for stock prices of the same "Electric Appliances" category on the First Section of the Tokyo Stock Exchange is 18 times, it is not overpriced. If the Company steps up to the next level of the TSE First Section, there may be even more investors who will notice that its stock is actually undervalued.



Shareholder Incentive Product Catalog for the fiscal year ended March 2018 (planned)

The Company itself is highly enthusiastic, striving to get to the point where it is promoted to the First Section of the Tokyo Stock Exchange.

In addition to its enhanced IR, the Company introduced a shareholder special benefit plan (with its "Shareholder Incentive Product Catalog," from which investors owning more than 1,000 shares can select products with value of about ¥10,000, an initiative that earned high acclaim among the investors) striving to increase the number of individual shareholders.

The Company also announced its plan to implement a 2-for-1 stock split with the record date of June 30. Even after the division the number of shares serving as criterion for preferential treatment of stockholders shall be kept unchanged, and from the point of view of stockholders, the measure shall be very profitable as in real terms it will mean "doubling of the profits."

The Company expects that the stock split will improve the liquidity of its stock. It seems that by improving the liquidity of the stock, the Company is also trying to attract institutional investors. From the point of view of purchases of institutional investors, the "market capitalization of ¥100,000 million" (it is ¥90,100 million as of the end of May) should be an important turning point.

If we take a look at the stocks traded on the First Section of the Tokyo Stock Exchange, as much as 90% of companies with market capitalization of ¥100,000 million or more (711 out of 786) are covered by analysts. For those with market capitalization of less than ¥100,000 million, on the other hand, the number is much lower at 37% (408 out of 1,289), signifying a significant difference between the two groups. The new phase that will start with the attainment of the market capitalization of ¥100,000 million (which would mean stock price of ¥1,966) is not a goal though, and the new phase will mean many future prospects.

Investment appraisal (2)

● The Company is covered by one brokerage firm. Although one firm is not really representative, its forecasted performance for the current term is “**¥135,000 million for net sales and ¥9,500 million for operating profit**”. As this figure constitutes what is called “consensus,” it shall serve as a standard for determining whether the Company performed well or not when financial statements and earnings revisions are announced in the future.

I also believe that the operating profit of ¥9,000 million planned by the Company is on the conservative side. In the second quarter of the previous term, when the Company aggressively used TV commercials, due to an increase in costs, the operating profit was ¥1,518 million. But in the third and fourth quarters, when the advertising and promotional expenses were already completing a full cycle, operating profit was ¥2,472 million and ¥2,520 million respectively. As the **quarterly operating profit was reaching on cruising speed figures of around ¥2,500 million**, and if we are working on the premise of net sales of over ¥130,000 million, the Company can well count on the operating profit for the full fiscal year of ¥10,000 million.

● The Company specializes in high-spec PCs, which are a growth niche that defies the trend of the otherwise shrinking PC market.

The spread of smartphones and tablets has negatively affected the PC market. However, **it is impossible to use smartphones instead of gaming PCs and programming PCs, which require high-specs.**

Another example of the same phenomenon is how demand for single-lens reflex cameras and mirrorless cameras has increased even while the camera market has shrunk due to the advancement of smartphones. Yet another is the growth of markets (yogurts, etc.), where manufacturers can sell products with “high functionality” even if the unit price is high. Competitive products with high unit price selling well – that is one of the most important factors for a manufacturer.

In the PC industry, the products with high unit price that sell well are high-spec PCs. And some even stronger fair winds are blowing today in this area the Company specializes in. The reason for it is that this year (2018), Japan launches its full-scale effort popularizing competitive sport of “**esports**,” a form of competition using PC games, declaring 2018 as “year one of esports.” “Japan esports Union” was established in February of this year and started issuing professional licenses. Taking advantage of this, in March, Yoshimoto Kogyo announced that it is establishing its own professional team. The initiative was quickly picked up by other major companies announcing their participation one after another, including J. League that announced that it shall hold an esports soccer game tournament.

The rising of esports is creating a demand for gaming PCs in strata of the society other than the so-called “otaku.”

To play PC games originating in foreign countries, people need gaming PCs and also various peripheral equipment for them. And to get a gaming PC, people have two choices - either assemble one themselves, or have it built to order (BTO), and **for beginners, BTO that offers extensive support becomes a good option** indeed. We are currently seeing esports-related products increasingly placed by major mass home electronics retailers so as to catch the eyes of the shoppers, with sales space allocated to them getting increasingly larger.

In the stock market, investors started to look for stocks of companies related to esports. But I believe that not many people know that the companies that are to directly benefit from the fair wind created by this trend are not the software manufacturers that produce their products for various consoles (home video game machines), whose names tend to be mentioned the most, but companies offering gaming PCs. Among gaming PCs produced by companies in Japan, the most prominent are TSUKUMO's “G-GEAR” and Dospara's “GALLERIA,” but neither of these companies are listed on stand-alone basis.

The Company is positioned right in the heart of the movement supporting popularization of esports with hardware, and is the only listed brand there.

(Okamura)

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