

M C J (6670) TSE 2nd Section

Do you know who We are?

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 November 17)

Stock price	¥1,037
Outstanding shares	50,870,600 shares
Trade unit	100shares
Market cap	¥52.75billion
PER (est.)	9.2 times
EPS (est.)	112.47 yen
PBR (actual)	1.69x

■ 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.

Leads other companies in launching products on the VR market where actual demand already exists. Has positioned itself to fully receive the benefits of an expansion in the VR market.

■ Midterm results show a steady growth which exceeds the Company plan

Forecasted results for the period ending March 2018 are as follows: net sales of ¥114,953 million (up 5.7% YoY), operating profit of ¥8,000 million (up 7.2% YoY), and net income of ¥5,470 million (up 8.8% YoY). Results until the midterm show an increasing top line and record sales. The decrease in profit items is as planned and announced by the Company beforehand due to intentional prior investment aimed at increasing brand awareness in the mass market. Results show a steady pace that exceeds the Company plan.

■ The current low level of recognition for MouseComputer and MCJ is actually appealing

Stock price has increased dramatically due to enhanced IR since last year.

Even so, the forecasted PER of slightly more than 9 times is significantly behind the industry average. There is sufficient potential for improvement depending on such actions as improving liquidity.

As the PC market contracts, the Company is labeled with the image of low growth. However, the high-spec PC market that is the strategic field of the Company continues to grow even today.

Furthermore, since the Company currently holds a small overall share in the enormous PC market, there is potential for the Company to grow through improved brand awareness to take shares away from other companies. The direction to be taken by management is clear, and the Company is a classic example of reasonably-priced stock of a small- to mid-size company being buried in the market.

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. However, 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. This PC features high image editing capability in response to such demand as uploading personally photographed images to YouTube.

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.

『kabu Paso』
(2013)



Overview of MCJ Group Companies

mouse



「G-Tune」 Gaming PC

MouseComputer is also working hard to **further enhance its customer support**. In addition to a call center that operates 24 hours a day, 365 days a year, the company also possesses its own repair center. MouseComputer provides a **96-hour Repair Completion Service** in which repairs are completed within 96 hours after the customer PC arrives at the Saitama Service 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.

(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.

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.

M&A Utilization and VB Investment

● M&A

In June 2004, launched its initial public offering (IPO) on the Tokyo Mothers Stock Exchange. Until then, the Company had been a fables manufacturer that also outsourced operations such as its call center.

However, the Company changed its policy upon its IPO. In October 2005, the Company started a free 24-hour telephone support service, the first for any gaming PC brand. In 2006, through a business transfer from iiyama, acquired a factory in Iiyama City, Nagano Prefecture and started independent operation of the factory to manufacture PCs. In January 2010, the Company opened its own call center in Okinawa Prefecture. In December 2016, started a talk support service for LINE consultation using LINE Talk. The Company is **expanding its business by using M&As to shift to more integrated business for PCs.**

○ R-Logic

In the Asia region, acquired 60% of shares in Asia's largest company providing repair and technical support of IT-related products with a focus on PCs, monitors, and smartphones. Plans to make R-Logic into a consolidated subsidiary.

● VB Investment

Currently, the Company is broadening its horizon to include long-term growth and is engaging in strategic **venture (VB) funding**. The three most recent cases of VB investment are listed below. The investment structure is designed 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

Considerations for Business Model

● Future growth identified by M&A experts

When conducting M&As after having its stock listed, the Company has focused on "**expanding its scope of independence**" by incorporating procurement, manufacturing, sales, and after-service into the Group. As a result, the Company has established a system capable of providing integrated domestic service.

One surprising business partner is the multifaceted cafe "aprecio." The clear intent behind this partnership is to link the Company's gaming PCs with end user by incorporating internet cafes, thus making it possible to develop new products that reflect the needs of users.

Now that the Company has established a system of comprehensive independence, it is seeking to use M&As in order to supplement insufficiencies in "higher added value elements." In this context, "higher added value elements" refer to **new fields such as VR, AR, and IoT**. The Company is solidifying a new M&A strategy in the form of new funding for outstanding venture corporations. In particular, actual demand already exists for VR (manufacturing sites for corporate VR content, etc.). The Company has released products into growth markets as quickly as possible and has **established a system to receive full benefits from the growth of the VR market**.

Integrated system established by MCJ Group

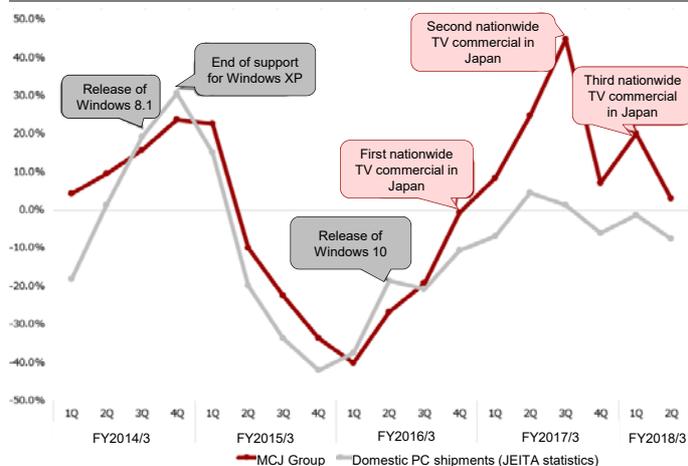


● Reason for high growth potential in a shrinking market

For PC manufacturers, the shrinking of the market itself is a source of concern. However, even within this shrinking market, the Group is steadily increasing the number of PCs shipped and is outperforming the market.

This performance actually originates from the Company's weakness; that is, still holding a **small share** in the PC market. The PC market itself is enormous, and it is very interesting that the Company's **weakness in products aimed at mass consumers is the basis for its future growth potential**. The Company has sufficient potential for growth by taking market share from other companies in the PC market. The Company is actively broadcasting TC commercials in order to increase its name recognition and, as a result, is steadily increasing its number of PCs shipped. Furthermore, **the high-spec PC market which is the core strategy of the Company is a strong growth market, partly due to the rise of VR**. The Company is positioned to continually receive the full benefit from this market expansion.

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.

Results of Operations

Performance (million yen)

Fiscal year end	Net sales	YoY	Operating profit	YoY	Profit attributable to owners of parent	YoY	EPS(¥)
March 2014	104,003	21%	4,061	166%	1,812	71%	36.38
March 2015	102,889	-1%	5,068	24%	2,627	45%	53.83
March 2016	103,288	0%	5,167	2%	3,087	17%	63.48
March 2017	108,727	5%	7,463	44%	5,030	62%	103.44
March 2018 (interim period)	55,964	10%	3,511	-15%	2,384	-24%	49.02
March 2018 (est.)	114,953	5%	8,000	7%	5,470	8%	112.46

● For the midterm period ending March 2018, net sales were ¥55,964 million (up 10.7% YoY), operating profit was ¥3,511 million (down 15.2% YoY), and net income was ¥2,384 million (down 24.3% YoY). The top line continues to increase and net sales for this period were a historical record. Revenues at MouseComputer were up 16% due to strong sales of gaming PCs and other high-added value products. Revenues at iyama were also up 18% due to increased sales for products such as touch panel monitors.

Conversely, profit items have decreased by double digits. SG&A expenses for the current period reach ¥9,100 million, an increase of ¥1,100 million from the same period last year. This is **due to intentional and planned advance investment (sowing seeds) with the aim of increasing brand awareness among mass consumers**. It is **reasonable to positively interpret this decrease in profit margin** due to forward-looking business policy.

Moreover, operating profit was ¥1,518 million in the 2nd quarter alone. This is equivalent to the peak profit on a quarterly basis (¥1,567 million in the 3rd quarter of the period ended March 2016) prior to starting TV commercials in January 2016. Even when including the cost of TV commercials, quarterly operating profit exceeded ¥1,500 million. Accordingly, it can be said that the Company is **successfully increasing the base profit level by leveraging the effect of increased revenue**.

● For the period ending March 2018, the Company expects net sales of ¥114,953 million (up 5.7% YoY), operating profit of ¥8,000 million (up 7.2% YoY), and net income of ¥5,470 million (up 8.8% YoY). Performance until the midterm (halfway point) exhibited a **strong pace that exceeds the Company plan** (net sales of ¥54,190 million and operating profit of ¥3,361 million). However, the full-term forecast is not added at the midterm point.

In the first place, **in its Mid-term Management Plan, the Company has set a goal for net sales of "¥112,000 million to ¥120,000 million" for the period ending March 2019**. The Company's stance is to **prioritize achieving the upper limit of the sales goal (¥120,000 million) in its Mid-term Management Plan**, and also to **seek "constant increase in profits" (in other words, a new profit record) through operating profit**. It can be inferred that the Company is acting in accordance with this strategy and is not revising numerical targets which can be easily achieved through immediate business performance.

The Company is covered by two brokerage firms. The average forecasted performance by these two firms for the period ending March 2018 is ¥116,000 million for net sales and ¥8,250 million for operating profit. There is only a slight difference from the Company plan, and the expected value (hurdle) by the market in contrast to actual business performance is not overly high.

Investment appraisal (1)

Stock Price (historical)

Year high	¥1,355
Year low	¥983
Highest since the IPO	¥2,863
Lowest since the IPO	¥28

*Considered with stock split



* Shareholder Incentive Product Catalog of the previous year

● The Company's stock price has increased significantly since last year. The yearly high was ¥1,355 on May 12, 2017. One year earlier, at the end of May 2016, the price was ¥477. The catalyst for the stock price increasing so dramatically in such a short period of time was the appointment of Motoyasu Yasui as President & COO in April of this year.

Yasui first became involved with the Company as an Executive Officer in March 2016. In May 2016, the Company released its first Mid-term Management Plan after being listed. From June, Yasui was appointed as head of IR and led a **movement to enhance IR initiatives**. Immediately from this point, the Company's name recognition in the market increased, the Company went from being undervalued to being the target of significant interest, and the stock price rose.

Revision of the Company system through enhanced IR was in response to how the Company had failed to show a future vision to investors despite having grown into a corporation with net sales exceeding ¥100,000 million for the period ended March 2008. For the first time ever, the Company informed investors of financial policy when formulating the Mid-term Management Plan. Specifically, the Company set a goal of **"an operating profit ratio of approximately 5%, ROE of 10% or higher, ROIC of 10% or higher, and a dividend payout ratio of 20% or higher."** The Company cleared all of these goals in the period ended March 2017, which was the first fiscal year of the Mid-term Management Plan.

However, this does not mean that investors had a high opinion of how the Company achieved these goals. Instead, the increase in stock price up until this point can be explained by how the Company had **grown close with investors through enhanced IR**. It is not uncommon for a brand with low market recognition to rise significantly due to enhanced dialogue with investors. The Company is a typical example of this phenomenon.

Most likely, the Company's ultimate aim for enhanced IR is to be listed on the First Section of the Tokyo Stock Exchange. It has already been more than two years since the Company was listed on the Second Section of the Tokyo Stock Exchange. During this time, the Company has **implemented a shareholder benefit plan**. Individual investor has shown high acclaim for the "Shareholder Incentive Product Catalog" from which investors owning more than 1,000 shares can select a product with value of about ¥10,000.

If the Company succeeds in raised to the First Section of the Tokyo Stock Exchange, there will probably be **high purchase demand via TOPIX-link passive funds due to how the shareholder benefits attract many long-term shareholders (low level of floating stock) and to how there is a low level of liquidity**.

Investment appraisal (2)

● There is a common element between the Company's business growth strategy and share price. MouseComputer has a low level of recognition among mass consumers. Therefore, the Company is actively investing in order to increase recognition for MouseComputer. This is done because increased recognition will lead to business growth. The same is true for recognition of the Company's stock in the market. It is still unknown. This is demonstrated by how the **forecasted PER for stock price is still between 9 and 10 times** even after a significant increase in stock price. The average forecasted PER for stocks listed on the Second Section of the Tokyo Stock Exchange is 24.7 times. The average forecasted PER for stocks listed on the First Section of the Tokyo Stock Exchange in the Nikkei industry category of "Electrical Equipment" is 24.2 times. The forecasted PER for the Company's stock falls well short of these averages.

● The Company's stock seems relatively inexpensive due to their forecasted PER of 9 to 10 times. It cannot be denied that one reason for this discount is the **preconceived image that PC manufacturers do business in a low-growth industry**.

However, we must not forget that the Company is intentionally incurring advertising and promotional expenses that have decreased the profit ratio. The forecasted PER of between 9 and 10 times for the forecasted base in the current term with a temporary decrease in the profit ratio is proof that the Company's growth strategy (expand share in PC market through increased name recognition) is proceeding as planned. It can be said that the Company's stock is reasonably priced.

Furthermore, the Company specializes in high-spec PCs which are a growth niche that defies the trend of the shrinking PC market. The spread of smartphones and tablets has negatively affected the PC market. However, it is **impossible to use smartphones in place of gaming PCs and programming PCs** which require a high level of specifications. 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. Furthermore, if VR and e-sports gain popularity in Japan in the future, gaming PCs will also expand concurrently and the market will grow.

● PCs are hardware. It is thought that **hardware itself will continue to be a growth market**. The recently popular smart speakers (Amazon Echo, Google Home, etc.) are also hardware. Even if revolutionary and outstanding applications are developed, those applications can only be used through installation in hardware. Hardware is also the bases for VR, IoT and other new fields which are expected to grow in the future. There are high **expectations for providing hardware by utilizing the advantages of connection with the end user** through multiple channels including sales, call centers, and repair centers.

A point requiring long-term attention is how the Company will utilize M&As and VB investment in order to be able to complement its existing business and receive the benefits of software that is produced after hardware.

The market capitalization of the Company is ¥52,700 million, which is less than half of its net sales (forecasted at ¥114,900 million for this period). There are very few listed electronic equipment manufacturers with a PSR below 0.5 times. It would not be surprising if the share price was changed with the goal of achieving a PSR of 1 time.

To start, the Company's goal is to achieve market capitalization of ¥100,000 million. This will cause the estimated stock price to reach ¥1,965. Even at this price, the forecasted PER will be 17.4 times, making it a very reasonable goal.

(Okamura)

Disclaimer

This report incorporates information that was received from the company covered at interviews at the company and other sources by analysts who are doing work for Magical Pocket Corporation. Assumptions and conclusions included in this report represent the analysis and assessments of analysts who prepared this report and are not the positions of the company or companies covered in this report.

This report was prepared solely for the purpose of providing information that is useful for reaching investment decisions. This report is not a solicitation or other inducement regarding securities transactions or any other activities.

Investors are always responsible for making judgments required to reach final investment decisions. Magical Pocket and the analysts that prepared this report under contract for Magical Pocket have no responsibility whatsoever regarding these investment decisions. All information in this report is current at the time this report was prepared and may be revised without prior notice.

This report is copyrighted material of Magical Pocket. Copying, selling, using, releasing to the public and/or distributing this report to others without permission is prohibited by law.

Publisher of this report:

Magical Pocket Corporation
3F Kudan South Side Square, 1-5-5 Kudanminami, Chiyoda-ku, Tokyo 102-0074
TEL:03-5226-5433 FAX:03-5226-5434

※Please be aware that Magical Pocket cannot answer the questions regarding the information of this analyst report.