



Matsui Securities / 8628

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company’s most recent earnings. First-time readers should start at the business section later in the report.

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Key financial data

Income statement (JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Parent	FY03/14 Parent	FY03/15 Parent	FY03/16 Parent	FY03/17 Parent	FY03/18 Parent	FY03/19 Parent	FY03/20 Parent
Operating revenue	22,091	17,703	20,799	39,883	34,306	34,435	27,727	32,210	27,313	24,150
YoY	-9.3%	-19.9%	17.5%	91.8%	-14.0%	0.4%	-19.5%	16.2%	-15.2%	-11.6%
Net operating revenue	21,320	16,728	19,915	38,738	32,893	33,003	26,499	30,480	25,999	22,345
YoY	-8.4%	-21.5%	19.1%	94.5%	-15.1%	0.3%	-19.7%	15.0%	-14.7%	-14.1%
GPM	96.5%	94.5%	95.7%	97.1%	95.9%	95.8%	95.6%	94.6%	95.2%	92.5%
Operating profit	8,450	7,368	10,195	27,090	22,087	21,745	14,939	18,532	13,451	8,909
YoY	-25.8%	-12.8%	38.4%	165.7%	-18.5%	-1.5%	-31.3%	24.1%	-27.4%	-33.8%
OPM	38.3%	41.6%	49.0%	67.9%	64.4%	63.1%	53.9%	57.5%	49.2%	36.9%
Recurring profit	8,479	7,426	10,245	27,175	22,202	21,833	15,044	18,632	13,592	9,016
YoY	-26.6%	-12.4%	38.0%	165.3%	-18.3%	-1.7%	-31.1%	23.9%	-27.1%	-33.7%
RPM	38.4%	41.9%	49.3%	68.1%	64.7%	63.4%	54.3%	57.8%	49.8%	37.3%
Net income	5,410	4,263	6,427	16,300	15,571	14,763	10,697	12,908	9,562	6,136
YoY	-29.4%	-21.2%	50.8%	153.6%	-4.5%	-5.2%	-27.5%	20.7%	-25.9%	-35.8%
Net margin	24.5%	24.1%	30.9%	40.9%	45.4%	42.9%	38.6%	40.1%	35.0%	25.4%
Per-share data										
Shares issued (year-end; '000)	269,265	269,265	269,265	269,265	269,265	259,265	259,265	259,265	259,265	259,265
EPS	21.1	16.6	25.0	63.5	60.7	57.5	41.7	50.3	37.2	23.9
EPS (fully diluted)	19.9	-	-	-	60.6	57.5	41.7	50.2	37.2	23.9
Dividend per share	15.0	15.0	20.0	50.0	40.0	45.0	33.0	44.0	84.0	45.0
Book value per share	295.1	296.7	314.9	332.5	350.6	361.0	369.0	384.1	375.5	311.7
Balance sheet (JPYmn)										
Cash and cash equivalents	17,882	16,479	8,857	12,166	15,717	26,569	25,743	36,256	36,120	52,501
Cash segregated as deposits	237,094	227,911	300,116	341,812	462,912	375,812	467,212	455,512	424,512	449,312
Margin transaction assets	142,281	135,011	252,751	282,225	284,207	232,043	245,202	310,574	202,490	161,594
Total current assets	423,210	413,808	602,447	678,743	808,528	655,217	761,510	826,368	685,275	697,272
Tangible fixed assets	1,160	1,047	927	998	1,039	953	958	845	1,255	1,410
Investments and other assets	2,830	2,191	4,158	5,886	4,765	4,256	4,129	4,640	4,948	5,222
Intangible fixed assets	4,529	4,018	3,271	2,726	2,850	2,999	4,118	4,465	4,514	4,410
Total assets	431,729	421,063	610,804	688,353	817,183	663,425	770,716	836,318	695,993	708,314
Deposits received	119,354	117,814	151,654	178,071	261,516	200,271	272,048	253,016	238,794	270,003
Guarantee deposits received	122,989	113,646	149,923	176,619	207,098	182,641	205,409	207,875	202,329	212,539
Short-term debt	62,020	56,550	137,525	176,100	164,600	128,050	126,100	187,600	97,800	78,900
Total current liabilities	354,662	343,603	528,430	600,058	724,237	567,151	672,527	734,322	596,188	624,628
Long-term debt	-	25	-	150	50	-	150	50	-	150
Total fixed liabilities	207	232	433	1,009	257	208	358	258	383	556
Total liabilities	355,977	344,902	529,963	602,988	727,155	570,707	675,896	737,567	599,414	628,029
Net assets	75,752	76,161	80,841	85,365	90,029	92,718	94,820	98,751	96,579	80,285
Total interest-bearing debt	62,020	56,575	137,525	176,250	164,650	128,050	126,250	187,650	97,800	79,050
Cash flow statement (JPYmn)										
Cash flows from operating activities	8,639	10,388	-74,775	-18,060	21,871	43,431	11,510	-39,665	103,499	60,195
Cash flows from investing activities	-1,272	-1,439	-791	-1,142	2,068	-824	-2,014	-2,067	-2,011	-2,749
Cash flows from financing activities	-5,310	-9,310	77,102	25,910	-21,867	-48,147	-10,269	51,908	-101,650	-41,209
Financial ratios										
ROA (RP-based)	1.9%	1.7%	2.0%	4.2%	2.9%	2.9%	2.1%	2.3%	1.8%	1.3%
ROE	7.2%	5.6%	8.2%	19.6%	17.8%	16.2%	11.4%	13.4%	9.8%	7.0%
Equity ratio	17.5%	18.1%	13.2%	12.4%	11.0%	14.0%	12.3%	11.8%	13.9%	11.3%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: The company does not disclose earnings forecasts.

Recent updates

Highlights

On November 20, 2020, Shared Research updated the report following interviews with Matsui Securities Co., Ltd.

On November 13, 2020, the company announced the launch of a spread reduction campaign for all currency pairs.

The company will launch a campaign that will reduce its bid-ask spread on all currency pairs handled by its forex margin trading service to the lowest in the industry, including cuts to the bid-ask spread on JPY/USD trades to JPY0.002, from November 16, 2020 (tentative). The company lowered its bid-ask spread on all currency pairs in July 2020 (lowered the spread on yen-dollar pair from JPY0.01–0.02 previously to JPY0.005). The bid-ask spread offered in the campaign will only apply to trades made between 9:00 to 17:00, Tokyo time, and the company will further reduce bid-ask spreads, in addition to its lowering of the bid-ask spread on JPY/USD trades to JPY0.002.

On October 27, 2020, the company announced earnings results for 1H FY03/21; see the results section for details.

On August 26, 2020, the company announced that it would pay an interim dividend for FY03/21.

The company had previously left undetermined its interim dividend forecast (record date of September 30, 2020), but decided to pay an interim dividend of JPY20.0 per share. Year-end and annual dividend forecasts remain undecided.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Cumulative (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating revenue	5,556	11,269	17,360	24,150	7,164	14,188		
YoY	-25.5%	-21.7%	-19.3%	-11.6%	28.9%	25.9%		
Net operating revenue	5,153	10,384	15,905	22,345	6,830	13,440		
YoY	-27.9%	-24.6%	-22.5%	-14.1%	32.5%	29.4%		
Commissions	3,005	6,015	9,374	13,490	4,671	8,789		
YoY	-25.5%	-22.4%	-20.3%	-10.0%	55.4%	46.1%		
Brokerage commissions	2,843	5,681	8,886	12,850	4,517	8,425		
YoY	-26.1%	-23.1%	-20.9%	-10.0%	58.9%	48.3%		
Equity and ETF	2,637	5,257	8,275	11,803	4,200	7,874		
YoY	-27.1%	-23.9%	-20.6%	-11.0%	59.3%	49.8%		
Futures and options	206	423	611	1,047	316	551		
YoY	-10.8%	-11.7%	-24.6%	2.1%	53.4%	30.3%		
Other commissions	142	301	442	593	154	338		
YoY	-13.4%	-11.7%	-8.7%	-9.0%	8.5%	12.3%		
Net trading income	284	602	832	1,120	225	414		
YoY	-22.0%	-10.1%	-15.1%	-7.7%	-20.8%	-31.2%		
Net interest income	1,864	3,766	5,698	7,734	1,934	4,236		
YoY	-32.1%	-29.6%	-26.8%	-21.1%	3.8%	12.5%		
SG&A expenses	3,239	6,397	9,656	13,436	3,853	7,570		
YoY	7.8%	6.8%	4.1%	7.1%	19.0%	18.3%		
% of net operating revenue	62.9%	61.6%	60.7%	60.1%	56.4%	56.3%		
Operating profit	1,915	3,987	6,249	8,909	2,977	5,869		
YoY	-53.7%	-48.8%	-44.4%	-33.8%	55.5%	47.2%		
% of net operating revenue	37.2%	38.4%	39.3%	39.9%	43.6%	43.7%		
Recurring profit	1,996	4,065	6,370	9,016	3,034	5,912		
YoY	-52.7%	-48.3%	-44.0%	-33.7%	52.0%	45.4%		
% of net operating revenue	38.7%	39.1%	40.1%	40.3%	44.4%	44.0%		
Net income	1,374	2,806	4,400	6,136	2,108	5,488		
YoY	-53.1%	-48.7%	-44.2%	-35.8%	53.4%	95.6%		
% of net operating revenue	26.7%	27.0%	27.7%	27.5%	30.9%	40.8%		

Quarterly (JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating revenue	5,556	5,713	6,091	6,790	7,164	7,024		
YoY	-25.5%	-17.5%	-14.4%	16.9%	28.9%	22.9%		
Net operating revenue	5,153	5,231	5,521	6,440	6,830	6,610		
YoY	-27.9%	-21.1%	-18.2%	17.6%	32.5%	26.4%		
Commissions	3,005	3,010	3,359	4,116	4,671	4,118		
YoY	-25.5%	-19.2%	-16.0%	27.4%	55.4%	36.8%		
Brokerage commissions	2,843	2,837	3,205	3,964	4,517	3,908		
YoY	-26.1%	-19.9%	-16.5%	29.8%	58.9%	37.8%		
Equity and ETF	2,637	2,620	3,018	3,527	4,200	3,674		
YoY	-27.1%	-20.5%	-14.0%	24.2%	59.3%	40.2%		
Futures and options	206	217	187	437	316	235		
YoY	-10.8%	-12.5%	-43.5%	102.3%	53.4%	8.3%		
Other commissions	142	159	141	151	154	184		
YoY	-13.4%	-10.2%	-1.4%	-10.1%	8.5%	15.7%		
Net trading income	284	318	230	288	225	189		
YoY	-22.0%	3.9%	-25.6%	23.1%	-20.8%	-40.6%		
Net interest income	1,864	1,902	1,932	2,037	1,934	2,302		
YoY	-32.1%	-27.0%	-20.7%	1.3%	3.8%	21.0%		
SG&A expenses	3,239	3,158	3,259	3,780	3,853	3,717		
YoY	7.8%	5.8%	-0.9%	15.6%	19.0%	17.7%		
% of net operating revenue	62.9%	60.4%	59.0%	58.7%	56.4%	56.2%		
Operating profit	1,915	2,073	2,262	2,660	2,977	2,893		
YoY	-53.7%	-43.2%	-34.6%	20.6%	55.5%	39.6%		
% of net operating revenue	37.2%	39.6%	41.0%	41.3%	43.6%	43.8%		
Recurring profit	1,996	2,069	2,306	2,646	3,034	2,878		
YoY	-52.7%	-43.4%	-34.3%	19.6%	52.0%	39.1%		
% of net operating revenue	38.7%	39.6%	41.8%	41.1%	44.4%	43.5%		
Net income	1,374	1,433	1,594	1,736	2,108	3,381		
YoY	-53.1%	-43.5%	-34.1%	3.3%	53.4%	135.9%		
% of net operating revenue	26.7%	27.4%	28.9%	27.0%	30.9%	51.1%		

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Quarterly performance figures calculated using differences in cumulative quarterly performance.

“..” denotes YoY change of more than 1,000%.

SG&A breakdown

SG&A breakdown (cumulative)		FY03/20				FY03/21			
(JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total SG&A expenses		3,239	6,397	9,656	13,436	3,853	7,570		
YoY		7.8%	6.8%	4.1%	7.1%	19.0%	18.3%		
Trading related expenses		974	2,052	3,119	4,566	1,378	2,684		
YoY		-6.5%	-0.3%	-3.8%	3.6%	41.5%	30.8%		
Stock exchange and association fees		280	542	809	1,163	387	754		
YoY		-11.4%	-12.0%	-13.9%	-6.0%	38.2%	39.1%		
Telecom and transportation		424	842	1,268	1,735	464	930		
YoY		0.5%	0.0%	-0.4%	0.6%	9.4%	10.5%		
Advertising		105	324	516	934	303	561		
YoY		-13.9%	42.7%	25.2%	42.6%	188.6%	73.1%		
Personnel expenses		687	1,333	1,974	2,607	703	1,356		
YoY		12.6%	9.0%	-2.5%	-2.0%	2.3%	1.7%		
Real estate expenses		282	564	848	1,134	274	513		
YoY		34.3%	33.3%	32.9%	30.3%	-2.8%	-9.0%		
Office expenses		637	1,316	2,016	2,747	797	1,566		
YoY		12.0%	17.2%	15.5%	15.2%	25.1%	19.0%		
Depreciation		546	992	1,455	1,923	495	1,042		
YoY		32.2%	18.5%	15.0%	13.7%	-9.3%	5.0%		
Other SG&A expenses		113	140	244	459	206	409		
Taxes and dues		76	145	217	296	103	261		
Provision for doubtful account		-11	-83	-87	-28	56	59		
Other		48	78	114	192	48	90		

SG&A breakdown (quarterly)		FY03/20				FY03/21			
(JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total SG&A expenses		3,239	3,158	3,259	3,780	3,853	3,717		
YoY		7.8%	5.8%	-0.9%	15.6%	19.0%	17.7%		
Trading related expenses		974	1,078	1,067	1,446	1,378	1,306		
YoY		-6.5%	6.1%	-10.0%	24.1%	41.5%	21.2%		
Stock exchange and association fees		280	262	268	353	387	367		
YoY		-11.4%	-12.4%	-17.3%	18.9%	38.2%	40.1%		
Telecom and transportation		424	418	426	467	464	466		
YoY		0.5%	-0.5%	-1.4%	3.3%	9.4%	11.5%		
Advertising		105	220	191	418	303	258		
YoY		-13.9%	109.5%	3.8%	72.0%	188.6%	17.3%		
Personnel expenses		687	646	640	633	703	652		
YoY		12.6%	5.4%	-20.2%	-0.6%	2.3%	0.9%		
Real estate expenses		282	282	285	286	274	240		
YoY		34.3%	32.4%	32.6%	23.3%	-2.8%	-14.9%		
Office expenses		637	678	700	731	797	769		
YoY		12.0%	22.6%	12.4%	14.2%	25.1%	13.4%		
Depreciation		546	446	463	468	495	547		
YoY		32.2%	5.2%	8.2%	9.9%	-9.3%	22.6%		
Other SG&A expenses		113	28	104	216	206	203		
Taxes and dues		76	69	72	79	103	157		
Provision for doubtful account		-11	-72	-3	59	56	3		
Other		48	30	35	78	48	41		

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Quarterly performance calculated using differences in cumulative quarterly performance.

Outline of operations

Cumulative	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Trading value (JPYtn)	6.0	11.7	17.7	25.2	9.3	17.7		
YoY	-23.7%	-19.9%	-19.2%	-11.2%	54.3%	51.3%		
Market share	10.6%	10.4%	10.1%	9.9%	10.1%	10.3%		
Excl. Margin Trading Service for Day-trades (JPYtn)	2.6	5.1	8.0	11.8	4.5	8.5		
YoY	-28.9%	-25.2%	-21.6%	-8.4%	73.0%	65.6%		
% of total trading value	43.3%	43.6%	45.1%	46.9%	48.6%	47.7%		
Margin Trading Service for Day-trades (JPYtn)	3.4	6.6	9.7	13.4	4.7	9.2		
YoY	-19.0%	-15.4%	-17.1%	-13.5%	38.2%	39.4%		
% of total trading value	56.7%	56.4%	54.9%	53.1%	50.8%	51.9%		
Equity brokerage commission rate								
Equity brokerage commission rate	0.044%	0.045%	0.047%	0.047%	0.045%	0.044%		
Equity commission rate (ex. Margin Trading Service for Day-trades)	0.100%	0.103%	0.104%	0.100%	0.092%	0.093%		
Margin trading balance and market share (long transactions)								
Margin trading balance (JPYbn)	225.3	228.4	236.1	192.8	250.0	265.3		
YoY	-29.3%	-18.2%	-2.1%	-18.1%	11.0%	16.2%		
Market share (long position)	8.6%	8.7%	8.3%	8.8%	9.0%	8.8%		
Average margin trading balance, net interest income rate								
Average margin trading balance (JPYbn)	225.7	227.4	228.1	229.3	219.4	235.6		
YoY	-30.2%	-26.2%	-23.6%	-18.8%	-2.8%	3.6%		
Net interest income, % of avg. margin trading balance	3.3%	3.3%	3.3%	3.4%	3.5%	3.6%		
AUM and number of mutual funds								
Mutual funds AUM (JPYbn)	13.2	14.9	17.3	16.7	22.5	27.9		
YoY	41.9%	40.6%	71.3%	38.0%	70.5%	87.2%		
Number of mutual funds	953	1,092	1,234	1,258	1,261	1,262		
Quarterly								
	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Trading value (JPYtn)	6.0	5.7	6.0	7.5	9.3	8.5		
YoY	-23.7%	-15.6%	-17.6%	15.4%	54.3%	48.3%		
Market share	10.6%	10.3%	9.5%	9.9%	10.1%	10.5%		
Excl. Margin Trading Service for Day-trades (JPYtn)	2.6	2.5	2.9	3.8	4.5	4.0		
YoY	-28.9%	-20.8%	-14.2%	40.3%	73.0%	58.0%		
% of total trading value	43.3%	43.9%	48.1%	51.0%	48.6%	46.8%		
Margin Trading Service for Day-trades (JPYtn)	3.4	3.2	3.1	3.7	4.7	4.5		
YoY	-19.0%	-11.1%	-20.5%	-2.6%	38.2%	40.6%		
% of total trading value	56.7%	56.1%	51.9%	49.0%	50.8%	53.2%		
Equity brokerage commission rate								
Equity brokerage commission rate	0.044%	0.046%	0.051%	0.047%	0.045%	0.043%		
Equity commission rate (ex. Margin Trading Service for Day-trades)	0.100%	0.102%	0.102%	0.092%	0.092%	0.091%		
Margin trading balance and market share (long position)								
Margin trading balance (JPYbn)	225.3	228.4	236.1	192.8	250.0	265.3		
YoY	-29.3%	-18.2%	-2.1%	-18.1%	11.0%	16.2%		
Market share (long position)	8.6%	8.7%	8.3%	8.8%	9.0%	8.8%		
Average margin trading balance, net interest income rate								
Average margin trading balance (JPYbn)	225.7	229.0	229.4	233.0	219.4	251.7		
YoY	-30.2%	-21.9%	-18.0%	0.2%	-2.8%	9.9%		
Net interest income, % of avg. margin trading balance	3.3%	3.3%	3.4%	3.5%	3.5%	3.7%		

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Quarterly figures for trading value market share are adjusted for days of operation.

Customer trends

	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total accounts ('000)	1,196	1,204	1,213	1,238	1,266	1,286		
YoY	4.2%	4.1%	3.7%	4.6%	5.8%	6.7%		
Trading accounts ('000)	105	113	130	177	156	150		
YoY	-21.2%	-12.7%	-10.2%	41.9%	48.1%	33.6%		
Assets under customers' accounts (JPYbn)	2,291	2,317	2,436	2,114	2,367	2,484		
YoY	-9.6%	-10.9%	8.6%	-9.7%	3.3%	7.2%		
Monthly trading turnover	0.93	0.88	0.89	1.17	1.46	1.23		
Unrealized loss on margin balance (long)	-11.6%	-9.8%	-6.5%	-21.7%	-8.8%	-7.5%		
Unrealized loss on margin balance (long; end of month, avg.)	-11.9%	-11.0%	-6.6%	-17.4%	-10.2%	-9.6%		

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Figures for number of accounts and assets under customers' accounts are quarter-end figures. The number of trading accounts is for accounts that traded stocks in each month.

Number of accounts at five major online brokers ('000)

('000)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SBI Securities	4,718	4,952	5,139	5,428	5,701	5,959		
YoY	8.1%	11.3%	13.2%	17.2%	20.9%	20.3%		
Rakuten Securities	3,145	3,377	-	3,757	4,101	4,402		
YoY	-	18.1%	-	17.2%	30.4%	30.4%		
Monex, Inc.	1,825	1,833	1,842	1,856	1,872	1,891		
YoY	2.6%	2.2%	1.9%	2.1%	2.6%	3.2%		
Matsui Securities	1,196	1,204	1,213	1,238	1,266	1,286		
YoY	4.2%	4.1%	3.7%	4.6%	5.8%	6.7%		
au Kabucom Securities	1,124	1,131	1,139	1,152	1,172	1,192		
YoY	2.6%	2.6%	2.6%	3.0%	4.2%	5.4%		

Source: Shared Research based on various company data
Note: Figures may differ from company materials due to differences in rounding methods.

Assets under customers' accounts at five major online brokers

(JPYbn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SBI Securities	11,262	11,650	12,190	11,087	12,920	14,178		
YoY	-1.0%	-3.1%	17.0%	-2.9%	14.7%	21.7%		
Rakuten Securities	5,802	6,183	6,893	6,606	7,922	8,822		
YoY	11.9%	12.1%	35.8%	18.0%	36.5%	42.7%		
Monex, Inc.	4,014	4,106	4,322	3,751	4,197	4,390		
YoY	-6.3%	-6.9%	12.8%	-7.6%	4.5%	6.9%		
Matsui Securities	2,291	2,317	2,436	2,114	2,367	2,484		
YoY	-9.6%	-10.9%	8.6%	-9.7%	3.3%	7.2%		
au Kabucom Securities	2,229	2,218	2,365	2,029	2,269	2,324		
YoY	-5.8%	-7.4%	12.3%	-8.0%	1.8%	4.8%		

Source: Shared Research based on various company data
Note: Figures may differ from company materials due to differences in rounding methods.

Equity trading value at five major online brokers

Quarterly (JPYtn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Retail investors trading value on TSE and NSE	56.8	56.3	62.4	78.5	91.6	81.2		
YoY	-21.3%	-15.9%	-14.8%	26.7%	61.2%	44.2%		
SBI Securities	20.0	19.8	21.9	30.5	36.9	32.3		
YoY	-22.7%	-18.7%	-18.1%	37.1%	83.9%	62.9%		
% of total retail investors trading value	35.3%	35.2%	35.1%	38.8%	40.2%	39.8%		
Rakuten Securities	12.4	13.1	14.3	19.5	24.6	22.0		
YoY	-2.8%	3.6%	0.1%	50.2%	98.7%	68.0%		
% of total retail investors trading value	21.8%	23.2%	22.9%	24.9%	26.9%	27.1%		
Monex, Inc.	2.9	2.9	3.4	4.4	5.2	4.2		
YoY	-24.1%	-17.4%	-11.0%	42.5%	78.4%	45.8%		
% of total retail investors trading value	5.1%	5.1%	5.4%	5.6%	5.6%	5.1%		
Matsui Securities	6.0	5.7	6.0	7.5	9.3	8.5		
YoY	-23.7%	-15.6%	-17.6%	15.4%	54.3%	48.2%		
% of total retail investors trading value	10.6%	10.1%	9.6%	9.6%	10.1%	10.4%		
au Kabucom Securities	4.9	4.8	5.4	7.2	8.4	7.7		
YoY	-22.4%	-17.2%	-16.0%	25.3%	69.9%	58.0%		
% of total retail investors trading value	8.7%	8.6%	8.6%	9.1%	9.2%	9.4%		

Source: Shared Research based on various company data
Note: Figures may differ from company materials due to differences in rounding methods.

Equity trading value per account at five major online brokers

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SBI Securities	4.29	4.10	4.33	5.77	6.62	5.54		
YoY	-28.7%	-25.9%	-27.0%	18.9%	54.5%	35.1%		
Rakuten Securities	3.90	4.01	4.22	5.20	6.26	5.16		
YoY	-20.1%	-9.2%	-15.3%	28.1%	60.5%	28.9%		
Monex, Inc.	1.59	1.56	1.84	2.38	2.76	2.22		
YoY	-26.2%	-19.4%	-12.8%	39.7%	74.3%	41.7%		
Matsui Securities	5.04	4.75	4.94	6.16	7.40	6.63		
YoY	-26.8%	-19.0%	-20.7%	10.8%	46.7%	39.5%		
au Kabucom Securities	4.40	4.30	4.72	6.25	7.22	6.47		
YoY	-24.4%	-19.3%	-18.1%	21.9%	64.0%	50.7%		

Source: Shared Research based on various company data
Note: Figures may differ from company materials due to differences in rounding methods.

Brokerage commissions at five major online brokers

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Five major online brokers total	16,332	16,680	18,984	24,865	27,659	25,153		
YoY	-18.6%	-13.6%	-10.6%	44.1%	69.4%	50.8%		
SBI Securities	6,639	6,777	7,547	10,888	11,403	10,286		
YoY	-13.4%	-10.5%	-10.5%	57.1%	71.8%	51.8%		
Rakuten Securities	3,295	3,453	3,930	5,152	6,525	6,472		
YoY	-13.4%	-8.6%	-3.8%	50.6%	98.0%	87.4%		
Monex, Inc.	2,154	2,171	2,781	3,352	3,767	3,349		
YoY	-25.3%	-19.0%	-6.0%	48.6%	74.9%	54.3%		
Matsui Securities	2,843	2,838	3,205	3,964	4,517	3,908		
YoY	-26.1%	-19.9%	-16.5%	29.8%	58.9%	37.7%		
au Kabucom Securities	1,401	1,441	1,521	1,509	1,447	1,138		
YoY	-24.3%	-16.3%	-21.2%	-5.0%	3.3%	-21.0%		

Source: Shared Research based on various company data
 Note: Figures may differ from company materials due to differences in rounding methods.
 Note: Brokerage commissions include futures and options commissions.

Brokerage commission rates at five major online brokers (basis points)

(basis points)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SBI Securities	3.3	3.4	3.5	3.6	3.1	3.2		
YoY change	0.4	0.3	0.3	0.5	-0.2	-0.2		
Rakuten Securities	2.7	2.6	2.8	2.6	2.7	2.9		
YoY change	-0.3	-0.4	-0.1	0.0	-0.0	0.3		
Monex, Inc.	7.5	7.6	8.2	7.6	7.3	8.0		
YoY change	-0.1	-0.1	0.4	0.3	-0.1	0.4		
Matsui Securities	4.7	5.0	5.4	5.3	4.9	4.6		
YoY change	-0.2	-0.3	0.1	0.6	0.1	-0.4		
au Kabucom Securities	2.8	3.0	2.8	2.1	1.7	1.5		
YoY change	-0.1	0.0	-0.2	-0.7	-1.1	-1.5		

Source: Shared Research based on various company data
 Note: Figures may differ from company materials due to differences in rounding methods.
 Note: Brokerage commissions include futures and options commissions.

Margin trading balance at five major online brokers

(JPYbn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Margin trading balance on TSE and NSE	3,062	3,089	3,116	2,837	3,242	3,483		
YoY	-24.9%	-16.8%	-0.5%	-17.9%	5.9%	12.7%		
SBI Securities	722	780	830	647	815	939		
YoY	-23.7%	-14.7%	5.9%	-22.8%	12.9%	20.4%		
% of total margin trading balance	23.6%	25.3%	26.6%	22.8%	25.1%	27.0%		
Rakuten Securities	372	410	452	336	463	509		
YoY	-18.6%	-6.2%	21.3%	-17.1%	24.5%	24.2%		
% of total margin trading balance	12.1%	13.3%	14.5%	11.8%	14.3%	14.6%		
Monex, Inc.	152	153	161	127	169	172		
YoY	-24.1%	-14.4%	1.9%	-19.2%	10.9%	12.6%		
% of total margin trading balance	5.0%	4.9%	5.2%	4.5%	5.2%	4.9%		
Matsui Securities	223	229	231	192	248	264		
YoY	-29.2%	-19.1%	3.5%	-17.7%	11.3%	14.9%		
% of total margin trading balance	7.3%	7.4%	7.4%	6.8%	7.6%	7.6%		
au Kabucom Securities	223	270	241	230	219	260		
YoY	-15.5%	-10.2%	-0.9%	-23.2%	-1.4%	-3.7%		
% of total margin trading balance	7.3%	8.7%	7.7%	8.1%	6.8%	7.5%		

Source: Shared Research based on various company data
 Note: Figures may differ from company materials due to differences in rounding methods.

Margin trading balance per account at five major online brokers

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SBI Securities	0.15	0.16	0.16	0.12	0.14	0.16		
YoY change	-29.4%	-23.3%	-6.5%	-34.1%	-6.6%	0.0%		
Rakuten Securities	0.12	0.12	0.13	0.09	0.12	0.12		
YoY change	-33.7%	-20.6%	2.7%	-29.3%	6.2%	-4.8%		
Monex, Inc.	0.08	0.08	0.09	0.07	0.09	0.09		
YoY change	-26.0%	-16.2%	0.0%	-20.9%	8.1%	9.2%		
Matsui Securities	0.19	0.19	0.19	0.15	0.20	0.21		
YoY change	-32.1%	-22.4%	-0.1%	-21.3%	5.2%	7.7%		
au Kabucom Securities	0.20	0.24	0.21	0.20	0.19	0.22		
YoY change	-17.6%	-12.5%	-3.4%	-25.4%	-5.4%	-8.6%		

Source: Shared Research based on various company data
 Note: Figures may differ from company materials due to differences in rounding methods.

Financial income at five major online brokers

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Five major online brokers total	21,663	21,000	22,290	20,131	20,045	23,203		
YoY	-19.3%	-15.8%	-11.2%	-1.0%	-7.5%	10.5%		
SBI Securities	9,008	9,062	9,235	8,641	8,079	10,067		
YoY	-21.6%	-18.7%	-13.3%	-2.9%	-10.3%	11.1%		
Financial income / Margin trading balance	1.2%	1.2%	1.1%	1.2%	1.1%	1.1%		
Rakuten Securities	4,863	4,853	4,948	4,580	4,416	5,256		
YoY	-17.7%	-13.8%	-12.2%	-2.7%	-9.2%	8.3%		
Financial income / Margin trading balance	1.3%	1.2%	1.1%	1.2%	1.1%	1.1%		
Monex, Inc.	2,873	2,379	2,832	2,050	2,576	2,339		
YoY	-11.5%	-7.3%	-6.6%	-5.7%	-10.3%	-1.7%		
Financial income / Margin trading balance	1.9%	1.6%	1.8%	1.4%	1.7%	1.4%		
Matsui Securities	2,266	2,385	2,502	2,386	2,268	2,716		
YoY	-26.0%	-17.7%	-10.9%	1.8%	0.1%	13.9%		
Financial income / Margin trading balance	1.0%	1.1%	1.1%	1.1%	1.0%	1.1%		
au Kabucom Securities	2,653	2,321	2,773	2,474	2,706	2,825		
YoY	-15.5%	-14.2%	-6.9%	11.7%	2.0%	21.7%		
Financial income / Margin trading balance	1.0%	0.9%	1.1%	1.1%	1.2%	1.2%		

Source: Shared Research based on various company data

Note: Figures may differ from company materials due to differences in rounding methods.

Earnings structure of five major online brokers

Q2 FY03/21 Quarterly (JPYmn)	SBI Securities	Rakuten Securities	Monex, Inc.	Matsui Securities	au Kabucom Securities
Operating revenue	38,655	18,398	7,284	7,024	4,629
Net operating revenue	35,892	17,733	6,518	6,610	3,867
Commissions received	16,075	8,103	3,893	4,118	1,415
% of net operating revenue	44.8%	45.7%	59.7%	62.3%	36.6%
Brokerage	10,286	6,472	3,349	3,908	1,138
% of net operating revenue	28.7%	36.5%	51.4%	59.1%	29.4%
Underwriting and distribution	325	32	19	26	-
% of net operating revenue	0.9%	0.2%	0.3%	0.4%	0.0%
Subscription and distribution	830	250	2	-	3
% of net operating revenue	2.3%	1.4%	0.0%	0.0%	0.1%
Other commissions	4,634	1,348	522	184	-173
% of net operating revenue	12.9%	7.6%	8.0%	2.8%	-4.5%
Net trading income	12,493	4,078	1,028	189	323
% of net operating revenue	34.8%	23.0%	15.8%	2.9%	8.4%
FX revenue	-	-	-	-	-
Net financial income	8,002	4,592	1,572	2,301	2,101
% of net operating revenue	22.3%	25.9%	24.1%	34.8%	54.3%
SG&A expenses	21,333	13,785	5,882	3,717	3,103
% of net operating revenue	59.4%	77.7%	90.2%	56.2%	80.2%
Operating profit	14,559	3,947	635	2,892	764
% of net operating revenue	40.6%	22.3%	9.7%	43.8%	19.8%

Source: Shared Research, based on various company data

Note: Figures for SBI Securities and Rakuten Securities reflect consolidated results. Figures shown for Rakuten Securities reflect its Q2 FY12/20 results because it concludes its fiscal year on December 31.

1H FY03/21 results

Consolidated results for 1H FY03/21 (April–September 2020)

▷ Operating revenue:	JPY14.2bn (+25.9% YoY)
▷ Net operating revenue:	JPY13.4bn (+29.4% YoY)
▷ Operating profit:	JPY5.9bn (+47.2% YoY)
▷ Recurring profit:	JPY5.9bn (+45.4% YoY)
▷ Net income:	JPY5.5bn (+95.6% YoY)

Market environment

During the six-month period through Q2 FY03/21 (April–September 2019), total equity trading value on the Tokyo and Nagoya stock exchanges climbed 17.9% over the same six-month period the previous year, with equity trading by individuals jumping 52.8% YoY as rising stock prices brought increased buying power and the market environment experienced greater volatility. The proportion of total trading on the two exchanges accounted for by individuals rose by 5.1pp YoY to 22.1%. (Note: Figures for trading volume by investor type adjusted for differences in the number of trading days.)

Company initiatives

- ▷ In April 2020, the company launched its Activist Tracker Tool, a new investment information tool that can be used in combination with stock price charts to understand trading trends of large investors such as activists.
- ▷ In the area of mutual funds, April also saw the company launch its Mutual Fund Monthly Cash Return Service, the first service in Japan to return a portion of the custodian fees* collected by the broker to customers in cash (*the portion above 0.3%). In October 2020, the company expanded its product lineup under its self-directed iDeCo pension plans, increasing the number of investment options to 40 (the highest in the industry).
- ▷ In regard to the FX service, the company worked to improve its service, taking measures such as reducing the spread of all currency pairs in July 2020 (see discussion below for further details).
- ▷ Upon approval of the company's annual general shareholders meeting held in June 2020 and the Board of Director's meeting thereafter, senior managing director Akira Warita assumed the position of president and representative director, and the former president Michio Matsui became advisor. The change in senior management notwithstanding, the company intends to stick with the strategy it adopted in FY03/19, which calls for expanding its product and service lineup and increasing its name recognition by further differentiating itself from competitors with the rollout of new information services that help investors identify profitable trading opportunities. As discussed in detail later in this report (under the Medium/long-term Outlook section), the new strategy represents a departure from the company's previous strategy under which it focused on maximizing revenues and earnings by concentrating its efforts on its stock brokerage business.

Equity trading value at Matsui Securities

- ▷ In the six-month period through Q2 FY03/21, the value of individual equity trading through all brokers rose 52.8% YoY while equity trading handled by Matsui Securities rose 51.3% YoY, to JPY17.7tn.
- ▷ Of the commissionable equity trades handled by Matsui Securities, JPY8.5tn (+65.6% YoY) came from trades other than day-trades on margin, and JPY9.2tn (+39.4% YoY) came from day-trades on margin.
- ▷ In terms of market share, Matsui Securities handled 10.3% (-0.1pp YoY) of all equity trading by individuals (value basis).

Commission income

Total commission income of JPY8.8bn was up 46.1% versus the same six-month period the previous year; of this, brokerage commission income of JPY8.4bn was up 48.3% YoY.

- ▷ In 1H FY03/21, the total value of commissionable equity trades handled by Matsui rose 51.3% YoY.
- ▷ The company's average stock brokerage commission rate (stock brokerage commissions/trading value) fell by 0.001pp YoY at 0.044%, as the proportion of commission-free Margin Trading Service for Day-trades to total equity trading through Matsui Securities fell 4.5pp YoY to 51.9%.
- ▷ Excluding Margin Trading Service for Day-trades accounts, the average brokerage commission rate was 0.093%, down 0.010pp YoY (calculated by Shared Research based on Matsui Securities' earnings results materials). The decline in the average brokerage commission rate excluding margin trading by day-traders during the six-month period can be traced back to Q4 FY03/20, when the company moved in December 2019 to expand the bracket of small-lot trades eligible for commission-free trading.

Previously, the company offered commission-free trading for accounts trading a total of less than JPY100,000 a day, but with the change raised the upper limit to qualify for commission-free trading to JPY500,000.)

Trading profit/loss

For the six-month period the company posted a net trading profit of JPY414mn (-31.2% YoY), stemming mainly from FX transactions.

Statistics from the Financial Futures Association of Japan show total OTC forex margin transactions of JPY3,012tn during the six-month period of April–September 2020, an increase of 76.9% versus the same period the previous year. Matsui's NetFx service handled JPY6.8tn worth of forex margin trades, an increase of 153.0% over the same six-month period in FY03/20, and generated income of JPY455mn (+7.8% YoY). The muted gains reflect a decline in interest income from swap points on trades (which came down in line with the decline in interest rates) and a reduction in Matsui's bid-ask spreads on all currency pairs.

Net interest income

Net interest income* of JPY4.2bn was up 12.5% YoY, the gains here reflecting a combination of rising average balances in margin trading accounts, rising income from its premium short-selling service, rising income from stock lending, and the resulting rise in the net interest margin. At JPY5.0bn, gross interest income was up 7.2% YoY and interest expenses of JPY749mn were down 15.4% YoY. (*Net interest income calculated as interest plus dividend income received less interest paid; net interest income rate calculated net interest income/average balance of margin trades outstanding.)

- ▷ For the period, the company reported an average balance of margin trades outstanding of JPY235.6bn (+3.6% YoY), and a period-end balance of margin trades outstanding of JPY217.7bn (+20.2% YoY). This compares with overall figures reported by the Tokyo and Nagoya stock exchanges showing a period-end balance of margin trades outstanding of JPY2.4tn (+16.7% YoY), giving Matsui Securities 8.8% share of all margin trades (up 0.1pp YoY).
- ▷ Calculated as a percent of the average balance of margin trades outstanding, the net interest margin was 3.6% (+0.3pp YoY). The rise in the net interest margin reflects rising income from the company's premium short-selling service and stock lending service following its move in December 2019 to offer the stock lending service (previously offered only to customers with cash accounts) to customers with margin trading accounts as well. The service expansion allows margin trading customers to receive stock-lending interest using the stocks held in their margin trading accounts (referred to in the industry as collateral securities). The stock-lending service balance as of Q2 rose to nearly JPY50.0bn versus only JPY1.0bn in the same quarter the previous year.

SG&A expenses

For the six-month period through Q2 FY03/21, the company reported SG&A expenses of JPY7.6bn, an increase of 18.3% YoY.

- ▷ Transaction-related expenses, which vary in line with trading value, rose 30.8% YoY to JPY2.7bn.
 - Of this, stock exchange/association fees of JPY754mn were up 39.1% YoY due to changes in equity trading value.
 - Advertising spending of JPY561mn was up 73.1% YoY. The company attributed the rise in its advertising spending to its ad campaign aimed at increasing its name recognition and the increasing payouts for the pay-for-performance ads accompanying the increase in new customers (account openings).
- ▷ Personnel-related spending of JPY1.4bn was up 1.7% YoY.
- ▷ Administration/office-related spending of JPY1.6bn was up 19.0% YoY, driven by increases in outsourcing costs stemming from the expansion of its product and service offerings, and the rise in back office processing volumes resulting from the increase in the number of customer accounts.
- ▷ Depreciation charges of JPY1.0bn were up 5.0% YoY, the modest increase here reflecting the increases in investment spending on equipment and other infrastructure associated with the expansion of the company's service lineup.

Consolidated results for the three-month period of Q2 FY03/21 (July–September 2020)

- ▷ Operating revenue: JPY7.0bn (+22.9% YoY, -2.0% QoQ)
 - ▷ Net operating revenue: JPY6.6bn (+26.4% YoY, -3.2% QoQ)
 - ▷ Operating profit: JPY2.9bn (+39.6% YoY, -2.8% QoQ)
 - ▷ Recurring profit: JPY2.9bn (+39.1% YoY, -5.1% QoQ)
 - ▷ Net income: JPY3.4bn (+135.9% YoY, +60.4% QoQ)
- ▷ For the three-month period of Q2 (July–September 2020), Matsui Securities reported a rise in net operating revenue on a YoY comparison basis, but net operating revenue was down QoQ. Commission income, which accounted for 62.3% of net operating revenue, was likewise up YoY and down QoQ. Swings in the overall market was a major factor that caused increase/decrease in the volume of commissionable trades. Net interest income, which accounted for 34.8% of net operating revenue, was up on both a YoY and QoQ comparison basis.
 - ▷ On the earnings front, consolidated operating profit and recurring profit were likewise up YoY and down QoQ, the magnitude of the changes here being amplified by changes in SG&A expenses, which were up YoY and down QoQ. Net income was up on both a YoY and QoQ comparison basis, reflecting an extraordinary gain of nearly JPY2.0bn booked on the sale of some of the company's investment securities holdings.

Market environment

Statistics for the Tokyo and Nagoya stock exchanges show total equity trading on the two exchanges during the July–September 2020 quarter up 11.1% YoY and down 11.2% QoQ (in value terms). Equity trading by individual investors during this timeframe was up 44.2% YoY and down 11.4% QoQ, the YoY gains driven by the increased buying power of investors following the turnaround in the market and the increase in profitable trading opportunity amid a still-volatile market. With this, the proportion of overall trading on the two exchanges accounted for by individual investors during the quarter rose to 22.0%, up 5.0pp YoY but down 0.1% QoQ.

Equity trading at Matsui Securities

- ▷ In Q2, Matsui Securities handled equity trading by individual investors totaling some JPY8.5tn, up 48.3% YoY and down 8.7% QoQ. This compares with total commissionable equity trading by individual investors on the two exchanges handled by all brokers, which was up 44.2% YoY and down 11.4% QoQ.
- ▷ Of the commissionable equity trades handled by Matsui Securities, trades other than day-trades on margin accounted for JPY4.0tn (+58.0% YoY, -12.1% QoQ) and day-trades on margin accounted for JPY4.5tn (+40.6% YoY, -4.3% QoQ).
- ▷ The company's share in commissionable equity trading by individual investors was 10.5% (+0.2pp YoY, +0.4pp QoQ).

Commission income

Total commission income of JPY4.1bn in Q2 was up 36.8% YoY and down 11.8% QoQ. Of this, brokerage commission income of JPY3.9bn was up 37.8% YoY and down 13.5% QoQ.

- ▷ Commissionable equity trades (in value terms) handled by Matsui Securities during the quarter increased 48.3% YoY and fell 8.7% QoQ.
- ▷ Matsui's average stock brokerage commission rate* of 0.043% was down 0.003pp YoY and 0.002pp QoQ, the decline stemming from changes in the proportion of equity trades handled by Matsui Securities that is accounted for by trades going through its commission-free margin trading service for day-traders, which at 53.2% in Q2 was down 2.9pp YoY and up 2.5pp QoQ. (*Average stock brokerage commission rate equals total stock brokerage commissions/total value of commissionable stock trades handled.)
- ▷ Excluding trades going through its commission-free margin trading service for day-traders, Shared Research estimates that the company's average brokerage commission rate was 0.091%, down 0.011pp YoY and 0.001pp QoQ. Calculated by Shared Research based on data from the company's results presentation materials, these figures provided further confirmation that the company's move in December 2019 to increase the maximum size of daily trades eligible for commission-free stock trading (as discussed above) is the main driver of the downtrend in its average stock brokerage commission rate.

Trading profit/loss

For Q2, the company posted a net trading profit of JPY189mn (-40.6% YoY, -16.0% QoQ), the trading gains coming mainly from its forex trading operations.

Statistics from the Financial Futures Association of Japan show total OTC forex margin transactions of JPY1,521tn during the three-month period of July–September 2020, representing a YoY increase of 61.8% and QoQ increase of 2.0%. In contrast, Matsui's NetFx service handled JPY4.3tn worth of forex margin trades, a YoY increase of 170.3% and QoQ increase of 75.6%. Still, Matsui's forex trading operations generated income of only JPY216mn, down 5.3% YoY and 9.6% QoQ—the decline here reflecting the big hit from the tightening of bid-ask spreads across all currency pairs, which led to a sharp increase in trades handled but in Q2 actually led to a decline in income from its forex trading service.

Net interest income

Net interest income* of JPY2.3bn in Q2 was up 21.0% YoY and 19.0% QoQ, the gains here reflecting a combination of rising balances in margin trading accounts, rising income from its premium short-selling service, rising income from its stock lending service, and the resulting rise in the net income rate. At JPY2.7bn, gross interest income was up 13.9% YoY and 19.8% QoQ, and interest expenses of JPY415mn were down 13.9% YoY and up 24.3% QoQ. (*Net interest income calculated interest plus dividend income received less interest paid; net interest income rate calculated net interest income/average balance of margin trades outstanding.)

- ▷ The company reported an average balance of margin trades outstanding in Q2 of JPY251.7bn (+9.9% YoY, +14.7% QoQ) and a period-end balance of JPY217.7bn (+20.2% YoY, +9.2% QoQ). This compares with Q2 figures reported by the Tokyo and Nagoya stock exchanges showing a period-end balance of margin trades outstanding of JPY2.4tn (+16.7% YoY, +10.2% QoQ), giving Matsui Securities a 8.9% share of the margin trading market (+0.2pp YoY, -0.1pp QoQ) in the July-September quarter.
- ▷ Calculated as a percent of the average balance of margin trades outstanding, the net interest margin of 3.7% in Q2 was up 0.4pp YoY and 0.2pp QoQ. The rise in the net interest margin reflects rising income from the company's premium short-selling service and stock lending service following its move in December 2019 to offer the stock lending service (previously offered only to customers with cash accounts) to customers with margin trading accounts as well. The service expansion allows margin trading customers to receive stock-lending interest using the stocks held in their margin trading accounts (referred to in the industry as collateral securities). The stock-lending service balance as of Q2 rose to nearly JPY50.0bn versus only JPY1.0bn in the same quarter the previous year..

SG&A expenses

The company reported Q2 SG&A expenses of JPY3.7bn, up 17.7% YoY and down 3.5% QoQ.

- ▷ Transaction-related expenses (varies in line with changes in equity trading value) of JPY1.3bn were up 21.2% YoY and down 5.2% QoQ.
 - Of this, stock exchange/association fees of JPY367mn were up 40.1% YoY and down 5.2% QoQ, due to changes in the equity trading value.
 - Advertising spending of JPY258mn was up 17.3% YoY and down 14.9% QoQ. The company attributed the YoY jump in Q2 advertising spending to higher payouts for pay-for-performance ads accompanying the increase in new customers (account openings). On a QoQ basis, advertising spending fell in the absence of aggressive ad campaign implemented in Q1 to increase its name recognition.
- ▷ Personnel-related spending of JPY652mn in Q2 was up 0.9% YoY and down 7.3% QoQ.
- ▷ Administration/office-related spending of JPY769mn was up 13.4% YoY and down 3.5% QoQ, the YoY increase reflecting rising outsourcing costs stemming from the expansion of its product and service offerings.
- ▷ Depreciation charges of JPY547mn were up 22.6% YoY and 10.5% QoQ, the increase here stemming from increases in investment spending on equipment and other infrastructure associated with the expansion of its service lineup.

Trends in customer-related metrics

Number of accounts, assets under custody, trading turnover of customer account assets

During Q2 FY03/21, equity trading by Matsui customers averaged around JPY2.8tn per month versus JPY1.9tn in Q2 FY03/20 and JPY3.1tn in Q1 FY03/21. The changes in monthly equity trading, both on a YoY and QoQ comparison basis, was driven in large part by changes in the turnover rate* of assets within customer accounts as opposed to changes in the value of accounts.

(*Turnover rate calculated average monthly trading value/average assets under customer accounts)

- ▷ As of the end of Q2 FY03/21 (i.e., September 30, 2020), the company reported a total of some 1,286,000 customer accounts, representing a YoY increase of 6.7% and QoQ increase of 1.6%. The company reported 150,000 active account (monthly basis), down 3.6% QoQ (up on a YoY basis).
- ▷ In absolute terms, the company realized a net increase of 20,000 accounts in Q2 FY03/21 versus net increases of 28,000 in Q1 FY03/21, 25,000 in Q4 FY03/20, and 9,000 in Q3 FY03/20. By way of explanation, the company noted that the jump in new account openings in Q4 FY03/20 came while the stock market was falling but that the fast pace of new account openings continued in Q2 FY03/21 on the back of a rising stock market. Another factor contributing to the net increase in accounts in

recent quarters is the company's move in December 2019 to expand the brackets of small trades eligible for commission-free trading.

- ▷ As of the end of Q2, the company reported a total of some JPY2.5tn in customer assets under custody, representing a YoY increase of 7.2% and QoQ increase of 5.0%—both the YoY and QoQ gains being driven primarily by rising stock prices.
- ▷ Turnover of assets under customer accounts averaged 1.23x in Q2 FY03/21 versus 0.88x in Q2 FY03/20 and 1.46x in Q1 FY03/21, the pronounced YoY increase in asset turnover in customer accounts being driven by the surge in stock trading by individual investors as the stock market rallied following the selloff in March.

Customer demographics

As of the end of FY03/19, customers age 50 and older accounted for 51% of all customer accounts at Matsui Securities, 77% of customer assets under custody, and 76% of trading (in value terms). During the first six months of FY03/21, customers that have been with the Matsui Securities going all the way back to FY2005 or earlier accounted for 49% of all stock trading (excluding trading under its Ichinichi margin trading service for day-traders) compared with 53% during the same period the previous year.

With the average age of its client base approaching 60, Matsui is taking steps to attract more young clients that it hopes will become its main revenue source in the future. To this end, it is working to raise brand recognition and expand its product and service lineup. According to the company, its account holders in their 20s, 30s, and 40s are mostly shying away from stock trading and, among the various financial products it offers, show a tendency to start off doing forex trades, where the choices are much more limited and transaction sizes also smaller. Based on these findings, the company is planning to upgrade its forex trading services (details to follow) and launch an ad campaign.

The company believes it must further expand its product and service lineup if it is to be considered a viable choice for people looking to open an account. Of the various new products and services it is considering adding, Matsui is currently looking at a short-term margin trading services that can be used in relation to shareholder benefits, a private trading service-based margin trading service, and trading in US stocks.

Company initiative: Mutual fund business

As of the end of Q2, the company reported a total of JPY27.9bn in customer assets in mutual funds (versus JPY22.5bn at the end of Q1) and a lineup of 1,262 mutual funds (versus 1,261). Mutual fund sales of JPY8.3bn were up 66.0% YoY and 20.3% QoQ; of this, sales to mutual fund-based savings accounts of JPY1.9bn were up 111.1% YoY and 26.7% QoQ.

Customer assets in mutual funds, number of mutual funds offered, and sales of mutual funds

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales of mutual funds	4,300	9,300	15,000	23,300	6,900	15,200		
Saving type of investment	800	1,700	2,600	3,800	1,500	3,400		

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
AUM of mutual funds	13,200	14,900	17,300	16,700	22,500	27,900		
Number of mutual funds	953	1,092	1,234	1,258	1,261	1,262		
Sales of mutual funds	4,300	5,000	5,700	8,300	6,900	8,300		
Saving type of investment	800	900	900	1,200	1,500	1,900		

Source: Shared Research, based on company data

In the area of mutual funds, the company's growth strategy calls for growing customer assets held in mutual funds through a combination of acquiring new customers and increasing the amounts accumulated in mutual fund-based savings accounts. In addition to the portfolio advisory service (using its proprietary robo-advisory service) that it has offered for some time, in January 2019 Matsui rolled out a new life plan simulation tool to help customers design/evaluate life financial plans along with a free telephone consultation service. Matsui is also looking to do more promotional activities tied to major life events in the lives of its customers; here, it is looking to collaborate with companies in other industries that provide services and products related to

major life events, such as marriages and childbirths, and use these opportunities to increase contact points with customers and promote its mutual fund-based savings plans.

Company Initiative: Upgrade forex trading services

In forex margin trading services, in May 2017 the company switched from a broking model (NDD, or No Dealing Desk) to a trading model (DD or Dealing Desk) method and, as a result of the switch, net profit on forex trading increased (see the Outlook section for details). Compared with before the switch to a new cover-trade model, the company has seen a four to five-fold increase in the profit margin on its forex margin trading.

Forex trading service: Trends in trading and revenue

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OTC FX margin trading (JPYtn)	762	1,702	2,525	4,266	1,491	3,012		
YoY	-23.9%	-8.8%	-10.6%	14.1%	95.6%	77.0%		
Matsui Securities' NetFx trading value (JPYtn)	1.1	2.7	3.8	6.4	2.5	6.8		
YoY	-37.0%	-13.9%	-16.2%	8.2%	127.5%	153.0%		
Net trading income	284	602	832	1,120	225	414		
YoY	-22.0%	-10.1%	-15.1%	-7.7%	-20.8%	-31.2%		
NetFx commissions	194	422	612	880	239	455		
YoY	-12.2%	-7.5%	-10.7%	1.7%	23.2%	7.8%		
% of trading value	0.018%	0.016%	0.016%	0.014%	0.010%	0.007%		

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OTC FX margin trading (JPYtn)	762	940	823	1,741	1,491	1,521		
YoY	-23.9%	8.7%	-14.2%	90.4%	95.6%	61.8%		
Matsui Securities' NetFx trading value (JPYtn)	1.1	1.6	1.1	2.6	2.5	4.3		
YoY	-37.0%	14.5%	-21.3%	87.2%	127.5%	170.3%		
Net trading income	284	318	230	288	225	189		
YoY	-22.0%	3.9%	-25.6%	23.1%	-20.8%	-40.6%		
NetFx commissions	194	228	190	268	239	216		
YoY	-12.2%	-3.0%	-17.0%	48.9%	23.2%	-5.3%		
% of trading value	0.018%	0.014%	0.017%	0.010%	0.010%	0.005%		

Source: Shared Research, based on company data

In July 2020, the company tightened its bid-ask spread on all currency pairs handled by its forex trading service. With the bid-ask spread on forex trade serving as a de facto commission rate on forex trades, the company's previous bid-ask spread of JPY0.01–0.02 was not competitive with other forex trading services. As a first step, the company cut its bid-ask spread down to JPY0.005.

With most competitors having a bid-ask spread of JPY0.01–0.002 (as of October 2020), the company made plans for following through with another cut that will bring its bid-ask spread down to JPY0.002 by the end of FY03/21. Up until now most of Matsui's forex trading customers have been drawn from the ranks of its existing customers in other areas, including stock trading customers as well as customers making use of Matsui's financial product and services in other areas. Going forward, however, the company plans to run mass promotions specifically aimed at attracting more forex traders.

Income from forex trading can be divided into the value of forex trades handled and the commission rate earned on those trades. While further cuts in its bid-ask spread will bring down its effective commission rate on forex trades, the company still sees earnings from forex trading rising in the future as the cuts in its bid-ask spread are expected to eliminate its competitive disadvantage and lead to growth in the volume of forex trading at its forex business.

Moves by competitors: SBI Securities offers commission-free trading for accounts trading less than JPY1.0mn in single day

The brokerage industry leader SBI Securities announced that it was raising the upper limit for the total amount of trades that could be done in a single-day under its Active Plan accounts and still qualify for commission-free trades, the limit being raised from JPY500,000 (as of September 2020) to JPY1,000,000 starting October 2020. As the hike in the upper limit applies to all three types of trading included in its Active Plan account (cash equities trading, standardized margin trading, and general margin trading), account holders could potentially trade as much as JPY3,000,000 in stocks a day and still qualify for commission-free trades.

At the Q2 FY03/20 results presentation held in October 2019, SBI Holdings (TSE1: 8473), the parent company of SBI Securities, clearly stated that it was looking to move its brokerage business to a fully commission-free business model within three years. Given the statement, Shared Research views this latest move to expand the range of commission-free trading under Active Plan accounts as part of steps toward that goal.

This move by SBI Securities was followed by an announcement from Rakuten Securities that it planned to make a similar change starting in December 2020, one difference being the upper limit on daily trading to qualify for commission-free trades would be set at JPY1,000,000 for cash equities and margin trading combined. Okasan Online Securities followed suit with its own announcement that, starting November 2020, it was raising the upper limit on daily trading to qualify for commission-free traders under its Standard Plan accounts to JPY1,000,000 for cash equity traders and JPY1,000,000 for margin trades, thus allowing a combined total of JPY2,000,000 worth of equity trades to be done in a day and still qualify for commission-free trades.

Matsui Securities, for its part, started with commission-free trades for small-lot trades, defined as accounts trading less than JPY100,000 worth of stocks on one day. In December 2019 Matsui hiked the upper limit for commission-free trades a day to JPY500,000, and as a result of this change has already seen its average stock brokerage commission rate decline by about 0.010pp since Q3 FY03/20. According to Matsui, if it were to raise its upper limit from JPY500,000 (as of October 2020) to JPY1,000,000, revenues and earnings would fall by more than JPY1.0bn a year, so it will carefully consider the implementation of such plan.

For details on previous quarterly and annual results, please refer to the Historical performance section.

Company outlook for FY03/21

Matsui's core brokerage business is driven by stock market movements. Therefore, the company does not make public earnings forecasts. Matsui discloses selected operational metrics such as monthly equity trading value, which significantly impacts earnings.

Related indices and data

	FY03/19				FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Nikkei 225 (JPY)	22,305	24,120	20,015	21,206	21,276	21,756	23,657	18,917	22,288	23,185		
YoY	11.3%	18.5%	-12.1%	-1.2%	-4.6%	-9.8%	18.2%	-10.8%	4.8%	6.6%		
QoQ	4.0%	8.1%	-17.0%	6.0%	0.3%	2.3%	8.7%	-20.0%	17.8%	4.0%		
TOPIX (Tokyo Stock Price Index)	1,731	1,817	1,494	1,592	1,551	1,588	1,721	1,403	1,558	1,625		
YoY	7.4%	8.5%	-17.8%	-7.3%	-10.4%	-12.6%	15.2%	-11.8%	0.4%	2.4%		
QoQ	0.9%	5.0%	-17.8%	6.5%	-2.5%	2.4%	8.4%	-18.5%	11.0%	4.3%		
Mothers Index	1,090	1,078	812	956	894	876	897	620	1,012	1,227		
YoY	-7.7%	-1.4%	-34.1%	-20.8%	-18.0%	-18.7%	10.5%	-35.1%	13.2%	40.0%		
QoQ	-9.6%	-1.2%	-24.6%	17.7%	-6.4%	-2.1%	2.5%	-30.9%	63.2%	21.2%		
Total trading value on TSE and NSE (JPYtn)	401	385	439	349	332	327	354	424	417	385		
YoY	5.8%	6.2%	-1.5%	-23.8%	-17.2%	-15.1%	-19.5%	21.7%	25.4%	18.0%		
Individuals trading value on TSE and NSE (JPYtn)	72	67	73	62	57	55	63	76	91	85		
YoY	3.7%	-2.5%	-18.7%	-30.3%	-21.3%	-17.1%	-13.7%	23.2%	61.0%	52.9%		
Individuals trading value as % of total	18.0%	17.4%	16.7%	17.8%	17.1%	17.0%	17.8%	18.0%	21.9%	22.0%		
Long position in margin trading on TSE and NSE (JPYtn)	3.3	2.8	2.5	2.4	2.2	2.1	2.2	1.8	2.2	2.4		
YoY	30.2%	7.3%	-18.0%	-33.8%	-34.7%	-24.8%	-10.3%	-25.5%	2.3%	16.7%		
Matsui equity trading value (JPYtn)	7.9	6.8	7.3	6.5	6.0	5.7	6.0	7.5	9.3	8.5		
YoY	-8.4%	-15.0%	-25.1%	-30.3%	-23.7%	-15.6%	-17.6%	15.4%	54.3%	48.3%		
As % of total individuals trading value on TSE and NSE	10.9%	10.1%	9.9%	10.6%	10.6%	10.3%	9.5%	9.9%	10.1%	10.5%		
Margin Trading Service for Day-trades equity trading value	4.2	3.6	3.9	3.8	3.4	3.2	3.1	3.7	4.7	4.5		
As % of Matsui equity trading value	53.4%	53.3%	53.8%	58.1%	56.7%	56.1%	51.9%	49.0%	50.8%	53.2%		
Matsui average margin trading balance (JPYbn)	323.2	293.2	279.7	232.6	225.7	229.0	229.4	233.0	219.4	251.7		
YoY	21.8%	5.1%	-7.0%	-30.2%	-30.2%	-21.9%	-18.0%	0.2%	-2.8%	9.9%		
Matsui margin trading balance (JPYbn)	314.9	283.7	223.1	232.8	222.8	229.4	231.0	191.7	248.0	263.6		
YoY	13.3%	3.3%	-29.2%	-29.9%	-29.2%	-19.1%	3.5%	-17.7%	11.3%	14.9%		
Long position (JPYbn)	285.8	240.5	207.8	198.1	183.7	186.7	185.0	157.8	200.3	222.2		
YoY	24.6%	4.7%	-24.0%	-35.3%	-35.7%	-22.4%	-11.0%	-20.3%	9.0%	19.0%		
As % of total long position on TSE and NSE	8.6%	8.6%	8.4%	8.4%	8.5%	8.9%	8.3%	9.0%	9.0%	9.1%		
Short position (JPYbn)	29.1	43.1	15.3	34.7	39.1	42.7	46.0	33.8	47.7	41.4		

Source: Shared Research based on company data

Note: TSE and NSE trading value includes ETFs and REITs.

Note: Figures for TSE and NSE trading value are after adjusting for days of operation.

Quarterly performance

(JPYmn)	FY03/19				FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating revenue	7,462	6,927	7,116	5,808	5,556	5,713	6,091	6,790	7,164	7,024		
YoY	3.4%	-6.0%	-18.6%	-34.6%	-25.5%	-17.5%	-14.4%	16.9%	28.9%	22.9%		
Net operating revenue	7,143	6,634	6,747	5,476	5,153	5,231	5,521	6,440	6,830	6,610		
YoY	3.6%	-4.6%	-17.4%	-35.3%	-27.9%	-21.1%	-18.2%	17.6%	32.5%	26.4%		
Commissions	4,034	3,723	3,999	3,230	3,005	3,010	3,359	4,116	4,671	4,118		
YoY	-6.9%	-11.0%	-23.6%	-38.1%	-25.5%	-19.2%	-16.0%	27.4%	55.4%	36.8%		
Brokerage commissions	3,848	3,543	3,840	3,054	2,843	2,837	3,205	3,964	4,517	3,908		
YoY	-7.3%	-11.4%	-24.4%	-39.1%	-26.1%	-19.9%	-16.5%	29.8%	58.9%	37.8%		
Brokerage commission rate	0.049%	0.052%	0.053%	0.047%	0.047%	0.050%	0.054%	0.053%	0.049%	0.046%		
Other commissions	164	177	143	168	142	159	141	151	154	184		
Net trading income	364	306	309	234	284	318	230	288	225	189		
YoY	163.8%	4.1%	-0.6%	-48.9%	-22.0%	3.9%	-25.6%	23.1%	-20.8%	-40.6%		
Net interest income	2,745	2,604	2,437	2,012	1,863	1,903	1,932	2,037	1,934	2,302		
YoY	13.3%	5.0%	-7.2%	-27.7%	-32.1%	-26.9%	-20.7%	1.2%	3.8%	21.0%		
Net interest margin	3.4%	3.6%	3.5%	3.5%	3.3%	3.3%	3.4%	3.5%	3.5%	3.7%		
Interest and dividend income	3,064	2,897	2,807	2,344	2,266	2,385	2,502	2,387	2,268	2,717		
Interest expenses	319	293	370	332	403	482	570	350	334	415		
Other operating revenue	364	307	310	234	285	318	230	287	225	189		
SG&A expenses	3,006	2,984	3,288	3,269	3,239	3,158	3,259	3,780	3,853	3,717		
YoY	2.6%	2.0%	7.2%	8.1%	7.8%	5.8%	-0.9%	15.6%	19.0%	17.7%		
% of net operating revenue	42.1%	45.0%	48.7%	59.7%	62.9%	60.4%	59.0%	58.7%	56.4%	56.2%		
Operating profit	4,136	3,651	3,458	2,206	1,915	2,073	2,262	2,660	2,977	2,893		
YoY	4.3%	-9.4%	-32.2%	-59.4%	-53.7%	-43.2%	-34.6%	20.6%	55.5%	39.6%		
% of net operating revenue	55.4%	52.7%	48.6%	38.0%	34.5%	36.3%	37.1%	39.2%	41.6%	41.2%		
Recurring profit	4,216	3,653	3,511	2,212	1,996	2,069	2,306	2,646	3,034	2,878		
YoY	5.0%	-9.4%	-31.8%	-59.3%	-52.7%	-43.4%	-34.3%	19.6%	52.0%	39.1%		
% of net operating revenue	59.0%	55.1%	52.0%	40.4%	38.7%	39.6%	41.8%	41.1%	44.4%	43.5%		
Net income	2,930	2,535	2,417	1,680	1,374	1,433	1,594	1,736	2,108	3,381		
YoY	5.4%	-9.1%	-32.2%	-55.5%	-53.1%	-43.5%	-34.1%	3.3%	53.4%	135.9%		
% of net operating revenue	41.0%	38.2%	35.8%	30.7%	26.7%	27.4%	28.9%	27.0%	30.9%	51.1%		

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

“-” denotes YoY change of more than 1,000%.

Because swings in Matsui's quarterly revenues and earnings are driven in large part by trends in equity trading by individuals, changes in its market share, and changes in balances of margin trades outstanding, it is important to keep track of monthly trends these figures.

Most of Matsui's net operating revenue comes from brokerage commissions on stock/ETF trades and net interest income, with brokerage commissions accounting for 52.8% and net interest income accounting for 34.6% of net operating income in FY03/20. Commission income from stock/ETF trades (in both cash and margin accounts) can be calculated by multiplying the total value of stock/ETF handled by Matsui by its average commission rate. Likewise, the difference between margin trading-related income and related interest expenses can be closely approximated by multiplying the average balance of margin trades outstanding by the net interest income rate.

On the cost front, we find Matsui's variable costs equal about 10% of net operating revenue, and include trading-related expenses, which move with trading value. Matsui began cutting fixed costs after the Livedoor scandal of 2006 and continued bringing down costs through FY03/12. Costs were fairly stable for several years after that until they started trending higher again in FY03/16 as Matsui added to its service offering. Annual fixed costs were about JPY11.0bn (+9.8% YoY) in FY03/20. (See the Earnings structure section.)

This report will delve into these important factors in greater detail below.

Stock market trends a major determinant of trading volumes

Customer trading at Matsui Securities is determined largely by the amount of trading done by individual investors on the Tokyo Stock Exchange (TSE) and the Nagoya Stock Exchange (NSE), and Matsui's market share.

- ▷ In the ten years from April 2010 through March 2020, the monthly correlation coefficient between the Tokyo Stock Price Index (TOPIX) and the value of individual investors' trading on the two markets was 0.81, indicating a strong correlation between the value of trading by individuals and stock-price indices. During this 10-year timeframe, trading by individual investors on the Tokyo and Nagoya stock exchanges as a percent of all trading ranged between a low of 14% and a high of 32%, this figure showing a monthly correlation coefficient of 0.62 with the TOPIX.
- ▷ Matsui's share of equity trading value of individuals was steady at around 8% between FY03/08 and FY03/13, after the price war on commissions settled down (for details, see "Market and value chain" section).
- ▷ In January 2013, the company launched the Margin Trading Service for Day-trades, a service aimed at day traders. Matsui's share of equity trading value of individuals on the TSE and NSE increased after that, reaching a high of 13.0% in FY03/17. Matsui began losing market share after that as Rakuten Securities followed up the February 2016 launch of its Ichinichi margin trading service for day-traders with further enhancements, including lowering the threshold for qualifying for zero interest on margin loans and stock borrowing. By FY03/20, Matsui Securities' share of equity trading by individual investors was down to 10.0%.

Brokerage commission rates change as Ichinichi margin trading service for day-traders grows to account for larger portion of trades handled and company raises upper limit for principal value of trades in a single day that are eligible for commission-free trading

- ▷ Matsui does not engage in commission price wars. From FY03/08 through FY03/12, the company's commission rates were stable at 0.11–0.13%. Commission rates, an indicator of customer trends, are calculated with this formula: commissions (including those on futures and options) ÷ equity trading value (including ETFs and REITs, but not futures and options).
- ▷ The company's Ichinichi margin trading service for day-traders does not charge commissions (1.8% annual interest and stock lending fee for customers whose trading value per transaction are less than JPY1.0mn), so related increases in trading value has limited impact on earnings. So, while Matsui's equity trading value has trended higher since the launch of its Ichinichi service, this increase in trades that do not generate commissions has pushed down the company's average brokerage commission rate.

It has been about 0.05% since Q4 FY03/14, with trades in Ichinichi accounts comprising some 50–60% of the equity trading value.

- ▷ Previously, the upper limit for the principal value of trades in a single day that are eligible for commission-free trading was JPY100,000, but in December 2019, the company revised its rate schedule and extended the upper limit to JPY500,000. The company says it had been getting roughly 8% of its brokerage commission income from accounts making trades in a single day with a combined principal value of between JPY100,000 and JPY500,000, so this move did bite into its brokerage commission income, pushing down its average brokerage commission rate in Q4 FY03/20 down to 0.092%, representing a YoY decline of 0.009pp and a QoQ decline of 0.010pp. The higher upper limit for the principal value of trades in a single day that are eligible for commission-free trading will be in effective throughout FY03/21. On the plus side, the company noted that this expansion of trades eligible for commission-free trading has greatly aided its efforts to bring in new accounts, reporting an increase of some 25,000 new accounts in Q4 FY03/20—well ahead of gains of around 14,000 new accounts at Monex Securities and 12,000 new accounts at au Kabucom Securities during the same quarter.

Stock market trends a major determinant of margin trading balances

- ▷ Like stock market turnover, the balance of margin trades outstanding is influenced greatly by overall direction of the stock market. In the ten years between April 2010 and March 2020, the monthly correlation between the Tokyo Stock Price Index (TOPIX) and the balance of margin trades outstanding on the Tokyo and Nagoya stock exchanges was 0.86, showing a strong correlation between margin trade balances outstanding and stock prices.
- ▷ During this same timeframe, Matsui market share on this metric ranged between 8.0% and 9.0%.

Major factors expected to impact revenues and earnings in FY03/21

Other than trends in the economy and the stock market as a whole, the following factors are expected to have a significant impact on company revenues and earnings in FY03/21:

Forex business initiatives

Changes in cover-trade model

In forex margin trading services, in May 2017 the company switched from a broking model (NDD, or No Dealing Desk) to a trading model (DD or Dealing Desk) method (for details, see the Outlook section). As a result of the switch, the company saw a jump in its profit margin on forex trading compared with before the switch, leading to a net profit on forex trading of JPY1.2bn in FY03/18 versus only JPY3mn in FY03/17. Forex trading profits have remained high, coming in once again at JPY1.2bn in FY03/19 and JPY1.1bn in FY03/20.

Service enhancements

The company implemented the followings upgrades to its forex trading services in April 2019:

- ▷ Upgrade trading platforms with improved user interface for trading from PCs and smartphones
- ▷ Increased currency pairs available for trading from nine to 13
- ▷ Lower size of smallest trading unit from 10,000 currency units to 1,000 currency units
- ▷ Allow individual customers to set their own upper limit for leverage, with options including zero leverage, low leverage (5x or 10x), and standard leverage (25x)

Cuts in bid-ask spread on forex trades

In July 2020, the company tightened its bid-ask spread on all currency pairs handled by its forex trading service. With the bid-ask spread on forex trade serving as a de facto commission rate on forex trades, the company's previous bid-ask spread of JPY0.01–0.02 was not competitive with other forex trading services. As a first step, the company cut its bid-ask spread down to JPY0.005.

With most competitors having a bid-ask spread of JPY0.002 (as of July 2020), the company made plans for following through with another cut that will bring its bid-ask spread down to JPY0.002 by the end of FY03/21. Up until now most of Matsui's forex trading customers have been drawn from the ranks of its existing customers in other areas, including stock trading customers as well as customers making use of Matsui's financial product and services in other areas. Going forward, however, the company plans to run mass promotions specifically aimed at attracting more forex traders.

Income from forex trading can be divided into the value of forex trades handled and the commission rate earned on those trades. While further cuts in its bid-ask spread will bring down its effective commission rate on forex trades, the company still sees earnings from forex trading rising in the future as the cuts in its bid-ask spread are expected to eliminate its competitive disadvantage and lead to growth in the volume of forex trading at its forex business.

Increase in expenses

On the expense front, the addition of new services is pushing up office-related expenses and depreciation. The company has also been increasing spending on advertising and promotion since FY03/19.

Breakdown of SG&A expenses

(JPYmm)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SG&A expenses	12,870	9,360	9,719	11,648	10,806	11,258	11,560	11,949	12,547	13,436
YoY	8.2%	-27.3%	3.8%	19.8%	-7.2%	4.2%	2.7%	3.4%	5.0%	7.1%
% of net operating revenue	60.4%	56.0%	48.8%	30.1%	32.9%	34.1%	43.6%	39.2%	48.3%	60.1%
Trading-related expenses	3,365	3,104	3,356	4,957	4,719	4,674	4,345	4,592	4,408	4,566
YoY	-7.3%	-7.8%	8.1%	47.7%	-4.8%	-1.0%	-7.0%	5.7%	-4.0%	3.6%
Commissions paid	555	425	455	786	779	770	735	830	791	734
Stock exchange and association fees	838	707	886	1,912	1,755	1,738	1,409	1,527	1,237	1,163
Telecommunications and transport fees	1,597	1,493	1,477	1,665	1,638	1,692	1,672	1,699	1,725	1,735
Advertising expenses	375	479	538	594	547	475	531	536	655	934
Personnel expenses	1,974	1,809	1,832	2,075	2,030	2,178	2,227	2,364	2,661	2,607
YoY	2.3%	-8.4%	1.3%	13.3%	-2.2%	7.3%	2.2%	6.2%	12.6%	-2.0%
Real estate-related	1,128	1,077	925	905	878	890	891	845	870	1,134
YoY	8.5%	-4.5%	-14.1%	-2.2%	-3.0%	1.4%	0.1%	-5.2%	3.0%	30.3%
Real estate expenses	355	348	319	318	325	325	327	342	349	355
Furniture and fixtures	793	749	605	586	553	564	563	503	522	779
Office and supplies expenses	1,931	1,742	1,625	1,745	1,677	1,713	1,841	2,104	2,385	2,747
YoY	-38.5%	-9.8%	-6.7%	7.4%	-3.9%	2.1%	7.5%	14.3%	13.4%	15.2%
Outsourcing expenses	1,925	1,735	1,621	1,740	1,673	1,708	1,835	2,098	2,378	2,739
Office supplies expenses	5	6	5	5	5	5	5	6	7	8
Depreciation	1,825	1,769	1,788	1,635	1,246	1,175	1,267	1,549	1,691	1,923
YoY	2.8%	-3.1%	1.1%	-8.6%	-23.8%	-5.7%	7.8%	22.3%	9.2%	13.7%
Taxes and dues	118	98	116	226	194	288	362	406	340	296
Provision for doubtful accounts	2,378	-346	-36	-68	-77	216	311	-29	56	-28
Other	151	108	114	173	138	123	317	117	136	192

Source: Shared Research, based on company data

Office-related expenses on the rise

Outsourcing costs account for the largest part of Matsui's office-related expenses, with much of this representing spending on systems maintenance and management. The uptrend in office-related expenses in recent years is due in large part to the addition of new services and enhancements in existing services, such mutual funds (in November 2016) and the switch in the cover-trade model used by its NetFx forex trading service (in FY03/18).

Depreciation charges also trending higher

Between FY03/11 and FY03/15, the company budgeted roughly JPY1.0bn a year for capital spending (on both tangible and intangible fixed assets). In contrast, since FY03/16 the company's capital spending has averaged around JPY2.0bn a year. Reflecting new investments in systems and equipment to support its growing mutual fund business, changes in its forex cover-trade model, and other new services such as its Best Match price enhancement service, the increase in capital spending has been accompanied by rising depreciation charges.

Capital spending and depreciation

(JPYmm)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Capital expenditures	-1,297	-1,492	-860	-1,161	-874	-1,804	-1,945	-2,029	-1,858	-2,304
Purchase of tangible fixed assets	-204	-15	-8	-221	-9	-169	-118	-9	-327	-276
Purchase of intangible fixed assets	-1,093	-1,477	-852	-940	-865	-1,635	-1,827	-2,020	-1,531	-2,028
Depreciation	1,825	1,769	1,788	1,635	1,246	1,175	1,267	1,549	1,691	1,923

Source: Shared Research, based on company data

Company also stepping up spending on advertising

Concerned by its low name recognition among young people, Matsui Securities has been stepping up its spending on advertising since the latter half of FY03/19. Prior to FY03/19, Matsui had been spending around JPY500mn a year on advertising. This figure went up to JPY665mn in FY03/19 and then up to JPY934mn in FY03/20 (including increased payouts for pay-for-performance ads that led to new account openings).

Plans for FY03/21 call for ongoing spending to ads aimed at further increasing its name recognition and mass promotions aimed specifically at attracting new forex trading accounts.

Dividend forecast

For FY03/20 Matsui paid a total of JPY45.0 in dividends per share, consisting of an interim dividend of JPY22.5 per share and a fiscal year-end dividend of JPY22.5 per share. The FY03/20 dividend represents a dividend payout ratio of 188.4%.

The company started out FY03/21 offering no guidance with respect to its dividend payment plans for the year. It has since announced its intention to pay an interim dividend of JPY20.0 per share but is still not providing any guidance with respect to its fiscal year-end dividend payment, leaving its annual dividend payment for FY03/21 undetermined.

Medium/long-term Outlook

Matsui Securities does not disclose its medium-term business plan. Shared Research thinks stock/ETF brokerage commissions and net interest income (which accounted for 52.8% and 34.6% of net operating revenues in FY03/20) will continue to account for the bulk of net operating revenue in the medium term, and thus its earnings will continue to be heavily influenced by stock market fluctuations (see section on Earnings Structure below). After all, brokerage commission income is nothing more than the value of stock/ETF trades handled times the average commission rate and net interest income is calculated simply by multiplying the average balance of margin trades outstanding by the net interest rate. The factors outside of the stock market that have the potential to drive the company's performance over the medium term include things like changes in its market share (of trading by individuals), mutual fund sales, forex trading services, stock lending services, and new service areas outside of stock and ETF trading, as discussed in greater detail below.

In this relation, Shared Research notes that Matsui focused on its online stock brokerage business and lagged behind other major online brokers in the handling of mutual funds and strengthening forex products up to FY03/16. Since FY03/17, however, Matsui has accelerated efforts to grow services other than stock brokerage, including the launch of mutual fund sales in November 2016 and switching to dealing-desk trading model in the forex business in May 2017 to expand and diversify its sources of earnings.

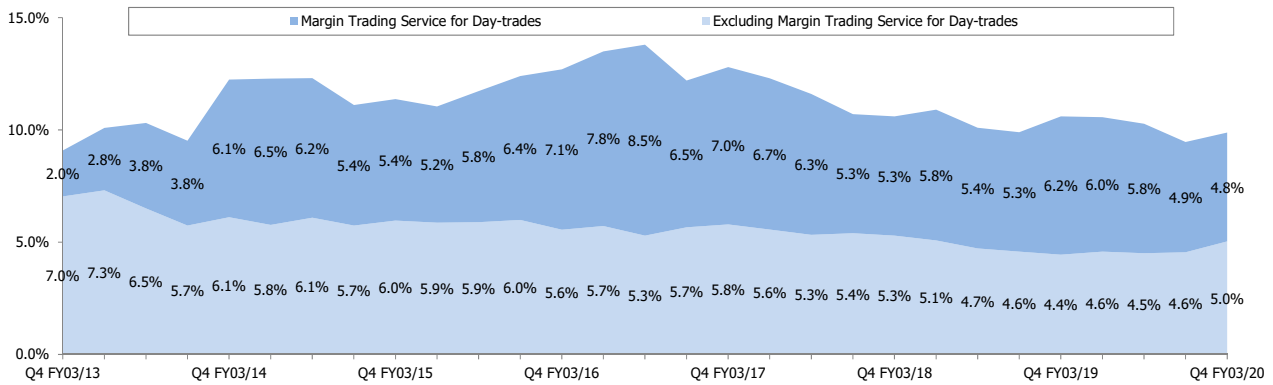
Market share of equity trading by individual investors

Online brokers' share of overall equity trading value of individuals is on a long-term upward trend. Five online brokers' (Matsui, SBI Securities, Rakuten Securities, Monex, Inc., and au Kabucom Securities) share of equity trading value of individuals has climbed from 29% in FY03/02 to 84% in FY03/20 (see Market and Value Chain section below). We expect the five online brokers' share to continue rising moderately because of their lower trading costs.

Matsui's market share of equity trading by individual investors

- ▷ Matsui's share of overall equity trading value of individuals rose following the launch of its Ichinichi margin trading service for day-traders in January 2013 and continued rising through Q2 FY03/17. During FY03/14, the company's share of equity trading value (cash and margin) of individuals shrank for services other than Ichinichi, and has been hovering around 5.0%–6.0% since then. Meanwhile, Matsui's Ichinichi accounts covered an increasingly high share of all equity trades by individuals from the launch of the margin trading service in Q4 FY03/13 through Q2 FY03/17.
- ▷ The market share of Matsui's Ichinichi margin trading service for day-traders has been coming down since Q3 FY03/17 following changes made by Rakuten Securities to its margin trading service for day-traders, namely lowering the threshold for margin day-trades that qualify for zero interest and zero stock lending fees (from JPY3.0mn to JPY1.0mn).
- ▷ Previously, the upper limit for the principal value of trades in a single day eligible for commission-free trading was JPY100,000, but in December 2019 Matsui revised its rate schedule and extended the upper limit up to JPY500,000. In December 2019 Matsui also lowered the minimum for the principal value of trades in a single day needed for Ichinichi margin trading accounts to qualify for zero-interest margin loans and zero stock lending fees from JPY3.0mn to JPY1.0mn and for single-day margin trading in Ichinichi accounts with a principal value of less than JPY1.0mn reduced the interest rate for margin loans and stock loan fees from 2.0% to 1.8%.

Matsui share of equity trading value of individuals



Source: Shared Research based on company data
 Individual trading value includes ETFs and REITs
 Figure for individual trading share value is adjusted for working days

Company initiatives aimed at expanding businesses outside of stock trading

As part of an effort to increase earnings in the medium term, Matsui Securities intends to expand its product and service offering outside of brokerage services geared toward high-frequency-trade customers. Specifically, the company plans to expand earnings by launching asset-management operations centering on mutual funds and by changing the business model for forex margin-trading.

Further, in the brokerage business Matsui plans to continue working to improve customer service and expand its own profit opportunities.

Launched mutual fund sales and portfolio proposal service (in November 2016)

Matsui started handling mutual funds and introduced the Toshin Kobo portfolio proposal service based on a proprietary “robo-advisory” system in November 2016.

Matsui’s Toshin Kobo service handles everything from the portfolio proposal stage to ongoing portfolio management, with the portfolio proposals being based on customers’ answers to eight questions that indicate what portfolio is most suitable to that individual’s needs. Toshin Kobo effectively replaces the stock broker and this, together with the company’s growing lineup of low-cost mutual funds, helps customers reduce their asset management costs. By bringing down costs, the company intends to improve the performance of customer accounts over the longer term.

As of the end of FY03/20, Matsui’s mutual fund lineup was up to 1,258 funds, providing a broad selection comparable to competing brokers. With total customer assets held in mutual funds having also risen, hitting JPY16.7bn at the end of FY03/20, Matsui sees expansion of its mutual fund lineup as a good way to further increase customer assets held in mutual funds, and also sees mutual fund-based savings plans as an effective way to build up customer assets under custody over the long term.

Customer assets invested in mutual funds and number of mutual funds offered

(JPYmn)	FY03 / 19				FY03 / 20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales of mutual funds	3,200	6,100	9,000	11,400	4,300	9,300	15,000	23,300
Saving type of investment	700	1,400	2,100	2,800	800	1,700	2,600	3,800
(JPYmn)	FY03 / 19				FY03 / 20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
AUM of mutual funds	9,300	10,600	10,100	12,100	13,200	14,900	17,300	16,700
Number of mutual funds	479	558	670	805	953	1,092	1,234	1,258
Sales of mutual funds	3,200	2,900	2,900	2,400	4,300	5,000	5,700	8,300
Saving type of investment	700	700	700	700	800	900	900	1,200

Source: Shared Research, based on company data

In the past, Matsui thought it was best to simply focus on its stock brokerage business and not waste time trying to diversify, and thus when it finally started offering mutual funds in November 2016 it was more than ten years behind other online brokers. This late start notwithstanding, Shared Research sees Matsui continuing to work towards building up its mutual fund business and increasing its name recognition, and believes that with the help of these efforts it may well be able to grow its mutual fund business over the medium term to the point where the amount of customer assets held in mutual funds is comparable to the levels seen at the other major online brokers.

Mutual funds account for roughly 16% of customer assets under custody at other online brokers

As of the end of March 2020, the combined value of mutual funds held in customer accounts at the four major online brokers other than Matsui was JPY3.8tn (versus JPY3.4tn at the end of March 2019), representing 14% of the JPY23.5tn in total customer assets under custody at the four brokers (versus 14% of total customer assets under custody of JPY23.3tn at the end of March 2019). In contrast, customer accounts at Matsui held only JPY16.7bn in mutual funds at the end of March 2020 (versus JPY12.1bn at the end of March 2019), with this being equal to only 0.8% of total customer assets under custody (versus 0.5% at the end of March 2019). As for prospects over the medium term, if we assume JPY2.1tn in customer assets under custody at Matsui, raising the proportion of customer assets held in mutual funds up to 15%—or roughly the same level as the other four major online brokers—would mean bringing the balance of mutual fund at Matsui accounts up to roughly JPY300bn.

As of March 2019, relatively inactive traders (those with 10 or fewer trades per month) accounted for 96% of customer accounts and 79% of the assets under customers' accounts. But those customers represented only 10% of trades (in value terms). In the past, Matsui Securities did not have enough investment products to offer these customers with heavy assets but who did not trade very often. Shared Research believes that Matsui Securities may have found a way to alleviate this problem with the launch of the portfolio proposal service and this may start generating more revenue from its large base of relatively inactive accounts.

Revenue and expenses related to mutual fund sales and portfolio proposal service

Generally speaking, securities brokers handling mutual funds earn commissions from the sale of mutual funds to customers, those sales commissions being based on the size of the mutual fund sold (in monetary terms); after the initial mutual fund sale, on an ongoing basis securities brokers collect a portion of the custodian fees earned by the fund management company as additional compensation for being the sales agent (agency fee), the size of the custodian fee being dependent on the size of assets under management. Shared Research understands that the agency fee collected by securities brokers (as the sales agent) is equal to roughly half of the custodian fee. On the income statement of securities brokers, sales commissions are listed under "commissions for underwriting, secondary distribution and solicitation for selling and others for professional investors" while the agency fees are listed under "other fee income."

Matsui's mutual fund lineup is comprised mainly of no-load funds. Matsui started handling some load funds in November 2018, but the load/no-load distinction has become irrelevant now that Matsui has eliminated all sales commissions on mutual funds. After eliminating all sales commissions on mutual funds in December 2019, Matsui is left with its share of the custodial fees (earned as the seller) as its sole source of income from its mutual fund business. Although fees for mutual fund custodial services can range from as low as 0.02% to as much as 1.00% of assets, starting in April 2020 Matsui, capped its custodial fee at 0.3% and any amount above that is being rebated in cash to customer accounts. Still, with mutual funds accounting for only JPY16.7bn of customer assets under custody as of the end of FY03/20, the impact of the mutual fund business on overall earnings is still quite small at this point.

On the expense front, the company sees little impact on earnings from the expenses associated with developing and operating the robo-advisory system it developed on its own. Startup expenses for the portfolio proposal service were about JPY1.0bn, including development costs for the robo-advisory service and the related trading and settlement system. However, since some of this expense was covered by regular IT spending, the increase in amortization charges came to around JPY100mn per annum. Operating costs for the new system added about JPY100mn a year to expenses.

Initiatives aimed at increasing customer assets invested in mutual funds

In addition to expanding its mutual fund lineup, the company has also put into action a number of other initiatives aimed at increasing the amount of customer assets invested in mutual funds, as detailed below.

- ▷ Began offering load funds with customers receiving rebates in the form of loyalty points (November 2018): Having started its own loyal point program (*Matsui Securities Points*), the company began adding load funds to its mutual fund lineup with customers receiving rebates on the sales commission charged on those funds in the form of loyalty points.
- ▷ Launched new robo-advisory services *Toshin Teian Robo* and *Toshin Minaoshi Robo* (December 2018): *Toshin Teian Robo* helps investors create a mutual fund portfolio while *Toshin Minaoshi Robo* helps investors rebalance their mutual fund portfolios. As the basis for their recommendations, both these robo-advisory services use QUICK Fund score.

QUICK Fund score: A scoring system for ranking mutual funds developed by QUICK Asset Management Research Institute that ranks mutual funds in terms of investor suitability

- ▷ Financial planning simulation tool (January 2019): Matsui Securities has also begun a new service known as *Matsui FP*, a life plan simulation tool that allows people to use smartphones to interface with a financial planner who will help them assess and design a life financial plan using the web; it includes a feature that allows them to simulate various mutual fund savings plans.
- ▷ Eliminating all sales commissions on mutual fund sales (December 2019): After previously rebating sales commission on load funds in the form of customer reward points, in December 2019, Matsui decided to eliminate sales commissions on all of the mutual funds it handles.
- ▷ Cash rebate of part of mutual fund custodial fees (April 2020): Matsui decided to cap the custodial fee it receives as the seller of the mutual fund at 0.3%, with any amount above that being rebated in cash to customers on a monthly basis.

Plans for increasing revenue generated by forex margin transactions

In forex margin transaction services, the company switched from a No Dealing Desk (NDD) broking model to a Dealing Desk (DD) trading model in May 2017.

Cover trades for forex margin trades differ depending on whether they are done using the NDD (No Dealing Desk) method or the DD (Dealing Desk) method. Under the NDD method, the foreign margin trading broker directs each individual order to a financial institution that is quoting him a rate, and then earns a spread on the difference between the rate he (the broker) pays and the rate he charges his customer. Under the DD method, the broker marries multiple sell and buy orders in-house, and only turns to an outside financial institution for quotes on those orders that he cannot marry in-house. Under the DD method, the broker's main source of income is the bid-ask spread he quotes to his customers.

As outlined below, companies which offer forex margin trading services (including brokerage firms) generate income through trading revenue from cover trades and from OTC marrying of trades. Prior to May 2017, Matsui was only generating trading revenue in forex services from cover trades.

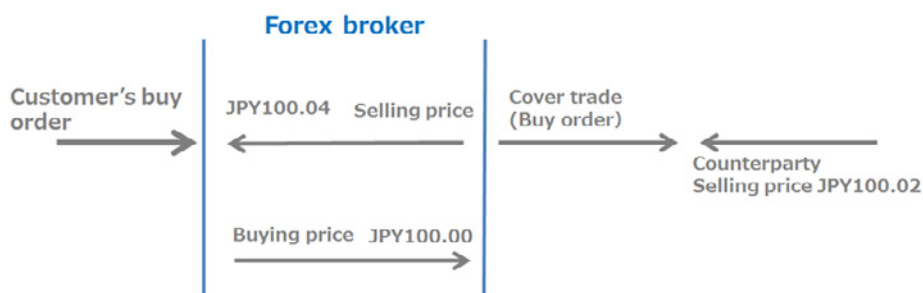
Trading revenue from cover trades

Forex margin trades are over-the-counter trades between the broker and the customer. When a customer executes a trading order at the rate offered, the broker holds the opposite position to the customer's buy or sell position, leading to market volatility risk. The broker avoids this risk by placing an order opposite to the customer's position (cover trade) with a partner financial institution (a bank or interbank market participant which acts as the counterparty).

In this case, the difference between the spread offered by the counterparty to the broker, and the spread offered by the broker to its customer, generates cover trade transaction income for the forex margin trading broker.

Cover trades with a counterparty can be conducted either automatically through a hedge system or manually by a dealer.

Revenue from cover trade



Case 1: When a customer places a buy order for JPY100.04 with USD quoted at 100.00-.04, the customer is sold the dollar at JPY100.04. If the broker has placed a buy order with its counterparty bank at JPY100.02/USD in a cover trade, it earns JPY0.02. If the transaction volume is USD10,000, the broker receives JPY200 in revenue.

Trading revenue from in-house cross trades

A forex margin trading broker responds to trade orders for currency pairs (buying and selling orders) from customers through an online trading screen in real time. When there are many simultaneous buying and selling orders from customers, they offset each other. As the offsetting portion is neutral with respect to market movements, there is no need to make a cover trade for this portion; cover trade is only necessary for the portion that has not been offset. In this case, the bid and ask spreads shown to the broker's customers generate the broker's trading revenue.

Revenue from in-house cross trades



Case 2: When customers place orders when the USD is quoted at 100.00-.04, the purchase is at JPY100.00 and the sale is at JPY100.04, generating revenue of JPY0.04. If each transaction is for USD10,000, the broker receives JPY400 in revenue from in-house cross trades.

No Dealing Desk (NDD) broking model changed to Dealing Desk (DD) trading model

Matsui Securities had designated Central Tanshi FX Co., Ltd. as its exclusive cover trade partner for forex margin trades, and conducted cover trades using the NDD method, avoiding the risk of holding any forex positions. Under this method, however, Matsui Securities was foregoing any revenue that might have been earned from marrying customer trades in-house.

Having known that introducing a forex margin trading system from an outside company would allow Matsui to marry trades in-house without increasing volatility risk in its earnings, in May 2017 the company introduced such a system, and began generating revenue from marrying trades in-house. The company also expanded the number of partner financial institutions for cover trades. As a result of these changes, the company has seen a four- to five-fold increase in the profit margin on its forex margin trading compared with before the switch to a new cover-trade model.

Forex margin trading: profit margin and net trading profit

(JPYmm)	FY03/18				FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Matsui Securities' NetFx trading value (JPYtn)	2.5	2.8	2.1	2.4	1.7	1.4	1.4	1.4	1.1	1.6	1.1	2.6
YoY	-14.7%	24.7%	-42.4%	-16.4%	-30.2%	-50.6%	-34.4%	-41.9%	-37.0%	14.5%	-21.3%	87.2%
Net trading income	138	294	311	458	364	306	309	234	284	318	230	288
YoY	-	-	-	-	163.8%	4.1%	-0.6%	-48.9%	-22.0%	3.9%	-25.6%	23.1%
NetFx commissions	125	205	188	227	221	235	229	180	194	228	190	268
YoY	-	-	-	-	76.8%	14.6%	21.8%	-20.7%	-12.2%	-3.0%	-17.0%	48.9%
As % of trading value	0.005%	0.007%	0.009%	0.009%	0.013%	0.017%	0.016%	0.013%	0.018%	0.014%	0.017%	0.010%
Excluding NetFx commissions	13	89	123	231	143	71	80	54	90	90	40	20

Source: Shared Research, based on company data

Forex service enhancements, cuts in bid-ask spread on forex trades

The company implemented a number of new initiatives in April 2019 including upgrades to trading platforms, an increase in the number of currency pairs available for trading, a reduction in the size of the smallest trading unit, and the addition of a feature making it possible for individual customers to set their own upper limit for leverage.

In July 2020, the company tightened its bid-ask spread on all currency pairs handled by its forex trading service. With the bid-ask spread on forex trade serving as a de facto commission rate on forex trades, the company's previous bid-ask spread of JPY0.01–0.02 was not competitive with other forex trading services. As a first step, the company cut its bid-ask spread down to JPY0.005.

With most competitors having a bid-ask spread of JPY0.002 (as of July 2020), the company made plans for following through with another cut that will bring its bid-ask spread down to JPY0.002 by the end of FY03/21. Up until now most of Matsui's forex trading customers have been drawn from the ranks of its existing customers in other areas, including stock trading customers as well as customers making use of Matsui's financial product and services in other areas. Going forward, however, the company plans to run mass promotions specifically aimed at attracting more forex traders.

Income from forex trading can be divided into the value of forex trades handled and the commission rate earned on those trades. While further cuts in its bid-ask spread will bring down its effective commission rate on forex trades, the company still sees earnings from forex trading rising in the future as the cuts in its bid-ask spread are expected to eliminate its competitive disadvantage and lead to growth in the volume of forex trading at its forex business.

Startup of stock lending services

Matsui Securities started a stock lending service in October 2018. A stock lending service allows a brokerage company to borrow stocks held in customer accounts and lend those stocks to other investors. For customers, this provides an opportunity to generate interest income from lending out the stocks held in their accounts. For brokerage companies, earnings are the difference between what it paid the customer to borrow the stocks held in account and the fees it collected from the investor who borrowed the stocks.

Under the stock lending service, Matsui Securities has capped the number of eligible stocks to the 1,000 or so stocks for which there is demand from borrowers, and set the minimum charge at 0.2% (the security industry's best rate). In addition to lending stocks borrowed from customer accounts to other investors, the company also uses these stocks as inventory to cover premium short-selling service made under its Margin Trading Services for Day-trades (in which positions are closed out within a single day) with the aim of raising its service level.

In December 2019, Matsui Securities expanded the range of accounts eligible to use its securities lending service, wherein the account owners earn interest by allowing the company to lend out securities held in their account. Now, margin account owners are also able to take advantage of the company's securities lending service and earn interest by allowing the stocks (collateral securities) bought on margin and held in their accounts to be loaned out.

With regard to related expenses, since the roughly JPY200mn investment in new systems to support this service will be depreciated over five years, the addition to the company's annual depreciation burden from this investment will only be about JPY40mn, so even including other related costs the impact on earnings will be limited.

Guiding management principles and strategies

The current president, Michio Matsui, made drastic changes to Matsui Securities (founded in 1918), which had been a mid-tier stock brokerage firm, after he was appointed executive director in 1990. The company's business strategy is derived from his management philosophy based on his experience working at NYK, a Japanese shipping company. To cope with the changes in the operating environment since FY03/19, the company has been sticking to its low-cost strategy while making additional changes as need. Mr. Matsui is scheduled to step down from his position as president in June 2020.

Management principles based on President Matsui's experience working at NYK

President Michio Matsui worked at NYK (TSE1: 9101) from 1976 to 1987, after graduation from Hitotsubashi University. When he was at NYK, the shipping industry saw the launch of container ships and price competition intensified. Shipping conferences (cartels) that had persisted for many years collapsed, and container rates fell to as low as 1/20 of those that had prevailed earlier. Matsui experienced a dramatic shift in the competitive climate.

In the wake of those changes, Michio Matsui joined Matsui Securities in 1987. In 1990, he was appointed executive director in the sales division. The securities industry at that time comprised the so-called convoy system with the Ministry of Finance and the four major brokerages at the core. Competitive principles did not apply. Thinking that the Japanese securities industry would one day be inundated by the waves of deregulation and competition would intensify, just as it had in the shipping industry, he set out to reform the company's earnings and cost structure. In particular, in the early 1990s, when face-to-face sales were the norm for securities firms, he shifted from a commission-based salesperson structure to one where stock broking was done mainly over the telephone. The firm was successful in growing revenues from brokerage commissions in the post-bubble economic climate.

Subsequently, Matsui Securities departed from industry tradition, adopting a customer-centric approach featuring innovative services. In 1996, the company began offering commission-free stock custody accounts. In 1997, the company cut commissions on over-the-counter stocks by half. In 1998, Matsui Securities launched Japan's first full-blown online brokerage service, and in 1999, with the complete deregulation of commissions on stock trading, it introduced its box-rate service, which offered one fixed rate for trades during the day. Matsui continues to offer new services in advance of other firms.

Furthermore, in order to respond to changing market environment, the company thought that low costs were important. The company, therefore, adopted a basic policy of no heedless diversification and no useless activity. As a result, the company constructed a low fixed-cost organization and set its breakeven point ratio lower than other firms (in terms of its actual sales to breakeven point ratio).

Guiding management principles and strategy up until FY03/18

Up until FY03/18, Matsui's guiding management principles called for being unafraid in the face of change and the will to depart from past practices and traditions within the industry and seek out new opportunities by acting on its own ideas and introducing innovative products and services ahead of competitors.

Its basic strategy at that time called for building up its stock brokerage business, expanding its product and service offering, and firmly establishing the Matsui Securities brand. To build up its stock brokerage business, the company worked to maximize revenues and earnings by focusing its resources on selected areas. To establish its brand image as an innovative securities company, it rolled out a steady stream of new products and services to offer to customers.

Based on these management principles and this strategy, Matsui Securities focused its resources on developing its business as an online brokerage company while at the same time maintaining low-cost operations that would allow it to realize profit margins higher than other companies in the industry.

Company assessment of current operating environment (as of April 2020)

Matsui sees room for further growth in trading by individuals through online brokers

In the years since online stock trading first came to Japan in 1998, the proportion of trades placed by individual investors going through online brokers has risen steadily and is now up to around 90%. The proportion of stockholdings held by individuals in online brokerage accounts has also risen year by year, though to a much lesser extent, and is currently around 20%. Brokerage account assets are still moving away from traditional brokers to online brokers, though, and Matsui Securities sees the volume of trades placed by individual investors through online brokers continuing to rise in the future.

Online brokers in Japan taking steps toward commission-free trading since September 2019—but not there yet

During the past few years, we saw a lull in price competition among online brokers after brokerage commission rates were cut about as low as they could go. That hiatus suddenly came to an end in September 2019 as major online securities brokers in the US began announcing one after the other that they were moving to commission-free trading models. This prompted online brokers in Japan to start offering commission-free trading on some transactions, followed by the expansion of the range of transactions qualifying for commission-free trades. Japanese online brokers have not gone as far as their US counterparts, though, owing to differences in the competitive landscape and earnings/costs structures. Indeed, the moves by Japanese online brokers toward commission-free trading thus far have been limited to areas that will have only a limited impact on their overall revenues and earnings, such as the move by au dot.com Securities to eliminate commissions on margin trades while at the same time raising the interest rates charged on margin trade balance, or the move by Matsui Securities to lower the minimum principal value of trades needed to qualify for commission-free trading.

Online brokers in Japan rethinking their revenue structures

Competition among online securities brokers in Japan has forced companies to rethink their revenues structures and diversify sources of revenue so as to allow them to reduce their dependence on brokerage commission income from stock trading. Towards this end, online brokers in Japan have focused on expanding their business in areas such as forex margin trading, mutual funds, (securities) wholesaling, and asset management, and have also broadened their service offerings with the aim of increasing customer assets under custody.

Key changes in management principles and strategy since FY03/19

In response to these changes in its operating environment, Matsui Securities has made some fundamental changes its guiding management principles and strategies with the aim of maintaining and expanding its base of long-time customers. Major changes included moving away from the previous focus on its stock brokerage business and aggressively diversifying its product and service lineup while maintaining low-cost operations. Matsui also did away with its previous emphasis on being the first online broker to offer innovative products and services and instead focused on providing financial products and services that meet the various needs of individual investors.

Changes in guiding management principles

- ▷ In terms of Matsui's basic management philosophy, one big change in FY03/20 was its move away from its previous mantra calling for "creating the best trading environment for individual investors." Now, the company's guiding philosophy calls for "supporting the bountiful lives of customers by providing value-added financial products and services suitable for individual investors."
- ▷ In terms of its guiding management principles, Matsui moved away from its previous approach calling for being fearless in the face of change and being willing to depart from past practices and traditions within the industry. Instead, it is emphasizing the pursuit of business opportunities by acting on its own ideas and introducing innovative products and services ahead of competitors, and using a customer-centric approach to create a financial product and service lineup that meets the various needs of individual investors and helps them build wealth.

Changes in business strategy

- ▷ Building up its stock brokerage business remains a key part of the company's overall strategy, as the company still intends to work on expanding its stock brokerage operations as one of its core businesses. What has changed is the previous strategy calling for maximizing revenues from its stock brokerage operations by focusing its resources on selected areas, this strategy being changed in FY03/19. In conjunction with this, Matsui also moved away from its previous strategy calling for "developing and offering products and services that will be best-suited to a limited range of customer needs." Instead, Matsui is now seeking to "develop and offer value-added products and services that will increase customer satisfaction."
- ▷ The company's strategy calling for the rollout of additional products and services was refined in FY03/19, with the company adding that it is looking to actively expand its online product and service lineup while at the same time maintaining efficient, low-cost operations, saying that broadening the scope of its business was essential if it was to meet the challenges of a changing operating environment over the long term. This strategy was further amended in FY03/20 with the company saying it would be actively seeking alliance with outside partners that had the technology and/or skills that it needed but did not have in-house. In keeping with these strategic plans, the company has been moving forward in a number of different areas, handling mutual funds, changing its forex business model, and starting up a stock lending service. In the medium term, the company is looking at adding still more services, including a short-term margin trading service to help investors capture shareholder perks, margin trading via its proprietary trading system, and trading in US stocks.
- ▷ With regard to its branding strategy, in FY03/19 Matsui dropped its previous call for trying to closely associate the Matsui Securities name with innovative financial products and services.
- ▷ On top of the considerations related to its management principles, operating environment, and business strategy, Matsui has seen increasing its brand and name recognition as one of its key challenges since FY03/19. With its core customer base being investors age 50 and older, these customers accounting for roughly half of Matsui's customer accounts and nearly 80% of customer assets under custody, Matsui launched an ongoing effort to increase its name and brand recognition so as to both maintain and grow its base of long-time customers while at the same time increasing its name recognition among younger generations of investors.

While President Michio Matsui stepped down from his position as president in June 2020, passing the reins to Akira Warita, Shared Research expects the company to continue its current efforts to expand its service lineup and increase its name recognition under the new management team.

Business

Industry innovator with focus on earnings

As an independent securities broker, Matsui has a track record of launching new services ahead of competitors. In 1998, Matsui became the first brokerage company in Japan to launch internet stock trading services. In 1999, the company launched the “box rate” service, taking advantage of deregulated commissions. Box rate commissions depend on the total value of trades per day.

In Japan, the big five online brokers (SBO Securities, Rakuten Securities, Monex, Inc., Matsui Securities, and au Kabucom Securities) dominate the market, handling more than 80% of stock trading by retail investors. In FY03/20, Matsui Securities reported a total of some 1,240,000 customer accounts (+4.6% YoY), 202,000 margin accounts (+5.5% YoY), JPY2.1tn in customer assets under custody (-9.7% YoY), total margin account balances of JPY191.7bn (-17.7% YoY), and handled stock trades worth a total of JPY25.2tn (-11.2% YoY). Among the top five online brokers, Matsui ranks fourth in terms of number of accounts, third in margin account balances, fourth in customer assets under custody, and third in stock trading value. Compared with the other major online brokers, a larger proportion of Matsui customer account were frequent traders (as measured by value of stock trades relative to total customer assets under custody); the average outstanding balance of margin accounts was also higher, but the average balance of mutual funds held per account was much lower due to Matsui’s late start in mutual fund sales.

Because Matsui has not recklessly diversified or engaged in commission price wars, its SG&A expense ratio is low and its operating profit margin is high compared with competitors.

Domestic stock market movements affect earnings; equity brokerage commissions and net interest income comprised about 90% of net operating revenue in FY03/20, with most of the net interest income coming from margin trading.

Even as other online brokers chased after market share in the late-2000s by cutting commission rates on stock trades, Matsui stayed out of the fray even at the expense of its own market share. As a result, Matsui saw its market share (as a percent of all trading by individual investors) come down off its peak in FY03/05 and remain stuck at the 7%–8% level during the years between FY03/08 and FY03/13. Finally, after launching its Ichinichi margin trading service for day-traders in January 2013, Matsui was able to attract more high-frequency day-traders and start picking up market once again, pushing up its market share to a high of 13.0% in FY03/17. Its market share has come down again from there, however, as other online brokers eventually followed suit with similar offerings with even more attractive terms, bringing Matsui’s market share back down to 10.4% by FY03/19 and 10.0% by FY03/20.

Services and customers

Matsui is a specialist online brokerage. Services include cash, margin, futures, forex trading, and mutual funds.

Approximately 95% of Matsui’s net operating revenue comes from commission income and net interest income, with roughly 90% of its commission income coming from stock trading (cash and margin trades) and most of its net interest income coming from margin trading by customers. This means roughly 90% of its net operating revenues are related to stock trading, coming either from commissions earned on stock trades or net interest income earned on margin trades.

According to the company, its strengths include customer support, the stability of its system, and the development of unique, ground-breaking services ahead of industry peers, such as box rates and unlimited margin trading.

The company’s Ichinichi margin trading service for day-traders, launched in January 2013 does not charge commissions on transactions that last one day or less. As such, contribution of this service to earnings was limited, but we believe it was successful in luring the accounts of high-frequency traders away from competitors.

Cash equity trading

In FY03/20, cash equity trading accounted for 19.1% of all stock trades handled by Matsui in value terms (versus 18.8% in FY03/19).

Commission rate schedule attractive, though still on the high side

Matsui offers box rates for cash and margin equity trading. Box rate commissions are based on the total value of trades per day, with no limit on the number of trades (as shown below).

Box rates

Maximum value of trades per day (JPY)	Commission (pretax) (JPY)
500,000	0
1,000,000	1,000
2,000,000	2,000
Commission increases by JPY1,000 per JPY1,000,000 value of trades	
100,000,000+	100,000 (max.)

Source: Shared Research based on company data

The commission structure used by the big five online brokers is determined by the total value of trading done in a single day or on a per-trade basis. Matsui Securities' commission structure is based on the total value of trading done by a customer in a single day while au Kabucom Securities is set on a per-trade basis. In contrast, SBI Securities, Rakuten Securities, and Monex, Inc. employ both methods, with commission rates set based on either the total value of trading done in a single day or on a per-trade basis.

Matsui Securities tries to attract customers by waiving commissions in some cases. Box rate commissions are zero for customers with trades of JPY500,000 or less per day (prior to a change in the company's rate schedule in December 2019, commission-free trades were available only if the maximum value of trades in a single day was less than JPY100,000). The proportion of single-day trades of JPY500,000 or less per day is quite small, however, so the elimination of commissions on trading falling within this bracket has little impact on the company's overall brokerage commission rate.

Brokerage commissions on spot trades at five major online brokerages

Brokerage	Brokerage commission	Trading value (JPY)						Average commission rate			
		100,000	200,000	300,000	500,000	1mn	2mn	3mn	Simple average	For trading value of JPY500,000+	
Matsui Securities	Per day	0				1,000	2,000	3,000	0.04%	0.08%	
SBI Securities	Standard Plan	Per trade	90	105	250	487	921		0.06%	0.04%	
	Active Plan	Per day	0				762	1,162	1,562	0.03%	0.05%
Rakuten Securities	Super Discount Plan	Per trade	90	105	250	486	921		0.06%	0.04%	
	Daily Flat Rate Plan	Per day	0				857	2,000	3,000	0.04%	0.07%
au Kabucom Securities	Per trade	90	180	250	Trading value x 0.09% + JPY90; max. JPY3,690			0.09%	0.08%		
Monex, Inc.	Per Trade Plan	Per trade	100	180	250	450	1,000	2,000	3,000	0.09%	0.10%
	Daily Flat Rate Plan	Per day	JPY2,500 per JPY3mn traded						0.08%	0.08%	

Source: Shared Research based on various company data

Note: the average figure is a simple average of commission rates (commission divided by maximum value traded).

Commission for Monex, Inc. is JPY2,500 per JPY3,000,000 traded. Therefore, commission is worked out as JPY2,500 divided by JPY3,000,000.

Margin trading

Matsui offers standardized, unlimited, and day-trading margin trading services. In FY03/20, margin trading accounted for 80.9% of the stock trades handled by Matsui in value terms (versus 81.2% in FY03/19). Of those margin trades, standardized trades and unlimited trades accounted for 33.8% of the total (versus 33.5% in FY03/19) and day trades 66.2% (versus 66.5% in FY03/19).

Standardized margin trading and unlimited margin trading

Eligible stocks for standardized margin transactions are specified by stock exchanges. Margin stocks are available for standardized margin trading. Lending stocks may only be bought on margin. Trades must be settled within six months. Unlimited margin trading allows margin purchasing of any listed stock, but margin selling can only be done on the stocks specified by Matsui. There is no time limit for settling the trades.

The **unlimited margin trading** service was developed by Matsui in 2003 taking advantage of the system for general margin transaction regulatory permitted in December 1998. There are no restrictions on settlement period, interest rate, premium charge and applicable securities.

High commission rates versus competitors for both cash and margin trading

Other online brokers tend to set margin trading commissions lower than for cash transactions. In contrast, Matsui's box rate commissions depend on the total value of trades per day, and are the same for both cash and margin trades.

Brokerage commissions on margin trading at five major online brokerages

Brokerage	Brokerage commission	Trading value (JPY)						Average commission rate				
		100,000	200,000	300,000	500,000	1mn	2mn	3mn	Simple average	For trading value of JPY500,000+		
Matsui Securities	Per day	0						1,000	2,000	3,000	0.04%	0.08%
SBI Securities	Standard Plan	Per trade	90	135	180		350			0.05%	0.03%	
	Active Plan	Per day	0						477	877	1,277	0.02%
Rakuten Securities	Super Discount Plan	Per trade	90	135	180		350			0.05%	0.03%	
	Daily Flat Rate Plan	Per day	0						858	2,000	3,000	0.04%
au Kabucom Securities	Per trade	0									0.00%	0.00%
Monex, Inc.	Per Trade Plan	Per trade	95	140	190		355	800	1,000	0.05%	0.04%	
	Daily Flat Rate Plan	Per day	JPY2,500 per JPY3mn traded									0.08%

Source: Shared Research based on various company data

Note: The average figure is a simple average of commission rates (commission divided by maximum value traded).

Note: Commission for Monex, Inc. is JPY2,500 per JPY3,000,000 traded. Therefore, commission rate is worked out as JPY2,500 divided by JPY3,000,000.

High interest rates and stock lending fees

For standardized margin transactions, Matsui's annual interest rate for long positions is 3.1% and its stock borrowing fee for short sales is 1.15%—this interest rate on standard margin trades being the second highest among the five major online broke

For unlimited margin trades, Matsui annual interest rate is 4.1% for long positions and its stock borrowing fee for short sales is 2.0%—this interest rate being highest among the five major online brokers and this stock borrowing fees being the second highest.

Interest and stock lending fees for margin trades at five major online brokerages

Brokerage	Standardized margin trade		General margin trade		Margin requirement		General margin trade
	Interest rate	Stock lending fee	Interest rate	Stock lending fee	Initial	Maintenance	Short stock availability
Matsui Securities	3.10%	1.15%	4.10%	2.00%	30%	20%	935
SBI Securities	2.80%	1.15%	2.80%	1.10%	33%	20%	816
Rakuten Securities	2.80%	1.10%	2.80%	1.10%	30%	20%	1,436
au Kabucom Securities	3.98%	1.15%	3.79%	2.25%	30%	25%	2,694
Monex, Inc.	2.80%	1.15%	3.47%	1.10%	30%	25%	331

Source: Shared Research based on various company data

Note: At both SBI Securities and Rakuten Securities, the preferential interest rate for buyers under standardized margin lending standards (set by the exchange) is 2.28%, the preferential interest rate for margin buyers under general margin lending standards (set by broker) is 2.10%. au Kabucom Securities has a standing policy of offering preferential interest rates depending the size of open positions in customer accounts.

Ichinichi margin trading service for day-traders

Deregulation of margin trading

In January 2013, the Cabinet amended an ordinance relating to article 161 of the Financial Instruments and Exchange Act covering trading and deposits. It became possible to carry out multiple margin trades per day using the same collateral, thanks to changes to calculation methods for customer margins on margin trading (see Systemic changes section). In response to the amendment, Matsui launched Ichinichi margin trading service for day-traders in January 2013.

No commissions; annual interest and stock lending fees at 0% to 1.8%

There is no commission on trades and offsetting (position closing) trades made on the same day. However, when an offsetting trade is not completed by the close of trading or the appropriate security is not delivered, Matsui may close the position at its discretion, charging JPY3,250 per order (excluding tax).

The annual interest rate (for long positions) and stock lending fee (for short positions) for each order under JPY1.0mn is 1.8%. There is no interest rate or stock lending fee for trades above JPY1.0mn. After the first day, regardless of the size of the trade, an annual interest rate of 1.8% (daily interest rate of 0.005%) applies. (For standardized margin trades, Matsui charges an annual interest rate of 3.1% on margin buys and for unlimited margin trades an annual interest of 4.1%.)

Commission, interest rate and stock lending charge for Margin Trading Service for Day-trades (same-day trade)

Principal value of single trade	Commission	Annual interest rate/Stock lending charge
Less than JPY1.0mn	Zero	1.8%
JPY1.0mn or more		0.0%

Matsui Securities introduced its margin trading services for day-traders with the aim of luring away the high-frequency traders whom its competitors depended on for a large portion of their revenues and earnings. Following the launch of its margin trading services for day-traders service in January 2013, Matsui's share of equity trading by individuals steadily rose from 8.2% in FY03/13 to a high of 13.0% in FY03/17. However, by FY03/20 its market share was down to 10.0% (versus 10.4% in FY03/19) as other online brokers followed suit with similar service offerings.

Ichinichi margin trading service for day-traders making only limited contribution to earnings

At its margin trading service for day-traders, Matsui earns 1.8% (0.005% per day) annual interest and stock lending fees on trades less than JPY1.0mn per order. It only charges commissions for offsetting trades that are not done on the same day. Meanwhile, there are variable costs that change with trading value such as stock exchange fees and clearing expenses; as together these charges generally equal to about 0.005% of the trade's principle value, we believe the contribution of this business to overall earnings is limited. However, the company began a premium short-selling service in March 2014, and the fee for this service has raised the net interest income rate.

Premium short-selling service

In March 2014, Matsui launched a premium short-selling service as a value-added service to its Ichinichi margin trading service for day-traders. This is a short-selling service in which positions are closed out within a single day.

As of May 2020, this service offers a list of roughly 80 different stocks that are eligible and suitable for this service based on high volatility and liquidity.

The premium short-selling service generates stock lending fees (an annual rate of 1.8% on trades less than JPY1.0mn; no charge on trades worth JPY1.0mn or more) and premium short-selling fees. Premium short-selling fees vary depending on the stock and day-to-day price swings, capped at 1% of the previous day's closing price per stock.

Shared Research understands these stocks are volatile and in demand by day traders, but delivery of stock lending is difficult under a conventional margin trading service. These stocks are not components in any major indices, and specific shareholders often own a large proportion of shares. However, since positions in Margin Trading Service for Day-trades are only open for one day, Matsui is able to manage the premium short-selling service with a relatively small inventory of shares for lending.

Competitors' intraday margin trading services

Matsui's competitors offer intraday margin trading services, which are similar to Margin Trading Service for Day-trades. SBI Securities launched Intraday margin trading and Hyper short selling services in January 2015, while Rakuten Securities began offering Ichinichi (intraday) margin trading and Tokubetsu (special) short selling services in February 2016.

SBI Securities charges commissions on margin trading but Rakuten Securities does not. Matsui and SBI Securities charge no interest/stock lending fees for trades over JPY3mn and interest/stock lending fee of 2.0%–2.8% on trades smaller than JPY3.0mn. In contrast, margin trading at both Matsui Securities and Rakuten Securities is commission-free. And, when it comes to interest/stock lending fees on margin trades, Matsui and Rakuten have no charge on trades of JPY1.0mn or more; on margin trades of JPY1.0mn or less, Matsui charges 1.8% and Rakuten Securities charges 1.9%.

- In December 2019, Matsui Securities lowered the required minimum for the principal value of trades in a single day needed for Ichinichi accounts to qualify for zero-interest margin loans and zero stock lending fees from JPY3.0mn to JPY1.0mn, and for single-day margin trading in Ichinichi accounts with a principal value of less than JPY1.0mn reduced the interest rate for margin loans and stock loan fees from 2.0% to 1.8%.
- In May 2017, Rakuten Securities lowered the threshold for waiving interest charges/stock lending fees to trades of JPY1.0mn from the previous threshold of JPY3.0mn in its margin trading service for day-traders.

Comparison of brokers' intraday margin trading services

Brokerage		Brokerage fee (JPY)	Interest rate Trading value (long)		Stock lending fee Trading value (short)		Notes
			Lower than JPY1mn	JPY1mn or higher	Lower than JPY1mn	JPY1mn or higher	
Matsui Securities	Margin Trading for Day-trades; Premium short-selling	0	2.00%	0%	2.00%	0%	Premium short-selling requires additional fees
SBI Securities	Intra-day margin trade; HYPER short-selling	Margin trade fees	2.80%	0%	2.00%	0%	HYPER short-selling requires HYPER fees in addition to stock lending fees
Rakuten Securities	One day margin trade; Special short-selling	0	1.90%	0%	1.90%	0%	Special short-selling requires additional fees

Source: Shared Research based on various company data

Note: In the case of SBI Securities, the principal value of trades needed to qualify for zero interest rate margin loans or stock lending fees should be read as JPY3.0mn rather than JPY1.0mn.

Customer support and system stability

Matsui's customer support is highly rated

Matsui has a comprehensive customer support system, including online and call center support. According to the company, its ratio of call center employees to customers is among the highest of five online brokerages.

In its FY2019 ratings, HDI-Japan—a helpdesk industry association—awarded Matsui's customer support the top rating (three stars) for the ninth consecutive year. Matsui also ranked first in the stock brokerage sector in an August 2013 Nikkei Business magazine survey on customer satisfaction. In August 2017, Matsui ranked first in the stockbroking industry for the second consecutive year in the JCSI (Japan Customer Satisfaction Index) survey.

In July 2020, a poll of individual investors taken by J.D. Power Japan showed Matsui ranking number one among online securities broker in terms of customer satisfaction.

System stability

According to the company, it experienced a service outage lasting for about half an hour in 1998, shortly after it began operations of its online securities business. Matsui has utilized this experience to strengthen countermeasures against system failures, and conducts frequent system maintenance on days where markets are closed.

Customers attributes

Majority of trading value comes from active traders

Small set of active traders account for majority of trading value at online securities

According to survey results published by the JSDA regarding online trading, traders performing in excess of 100 transactions per month accounted for roughly 60% of monthly trading value from March 2013 onward. Based on these data, it could be said that a small number of customers that trade frequently comprises a majority of trading value for online securities.

Ratio of trading value by clients executing over 100 stock trades per month

(JPYbn)	Sep. 2014	Mar. 2015	Sep. 2015	Mar. 2016	Sep. 2016	Mar. 2017	Sep. 2017	Mar. 2018	Sep. 2018	Mar. 2019	Sep. 2019
Trading value by customers with 100 trades or less	7,685	9,031	6,685	6,645	4,307	7,949	7,947	8,204	7,609	6,960	6,756
% of total	37.1%	34.9%	34.2%	32.1%	30.9%	40.8%	41.5%	36.1%	43.9%	38.9%	43.2%
Trading value by customers with more than 100 trades	13,021	16,836	12,882	14,085	9,639	11,556	11,181	14,506	9,722	10,945	8,883
% of total	62.9%	65.1%	65.8%	67.9%	69.1%	59.2%	58.5%	63.9%	56.1%	61.1%	56.8%
Total	20,706	25,867	19,568	20,730	13,946	19,505	19,128	22,710	17,332	17,905	15,639

Source: Shared Research based on Japan Securities Dealers Association data

Before beginning service for margin trading service for day-traders, ratio of active traders in trading value was average

During Q3 (October-December) FY03/13, prior to beginning service for service for margin trading service for day-traders, only 0.5% of customers conducted in excess of 100 trades per month, but composed 47% of trading value. Meanwhile, according to JSDA survey results, trading value by traders who conduct over 100 trades per month accounted for 61% of trading value across the online securities industry as a whole during the month of March 2019 (March 1 to March 31, 2019). Thus, before service for margin trading service for day-traders was launched, the proportion of overall trading (value) accounted for by traders conducting over 100 trades per month generated at Matsui was slightly lower than the industry average.

After beginning service for service for margin trading service for day-traders, ratio of active traders in trading value increased

As of the end of March 2019, customers conducting more than 100 trades per month accounted for only 0.6% of Matsui's customer base but represented 79% of trading value (this includes trades done by active day-traders using Matsui's service for margin trading service for day-traders and making more than 100 trades a month). According to the aforementioned JSDA survey results, traders who conduct over 100 trades per month accounted for 61% of trading value across the online securities industry as a whole as of March 31, 2019 (March 1–March 31, 2019). Thus, after it began offering the Margin Trading Service for Day-trades, Matsui's ratio of overall trading (value) accounted for by traders conducting over 100 trades per month grew to surpass the industry average.

Excluding the effects of service for margin trading service for day-traders, 0.6% of Matsui customers did more than 100 trades per month as of March 2019, representing about 52% of trading value. This meant that without service for margin trading service for day-traders, Matsui's ratio of overall trading by traders conducting over 100 trades per month still remained lower than the industry average.

Customer attributes by trade frequency

Number of customers	FY03/19	AUM (JPYmn)	FY03/19	Trading value (incl. Margin Trading Service for Day-trades) (JPYmn)	FY03/19
Total	1,184,102	Total	2,336,996	Total	2,134,447
Hyperactive (Over 100 trades per month)	7,676	Hyperactive (Over 100 trades per month)	134,481	Hyperactive (Over 100 trades per month)	1,675,747
% of total	0.6%	% of total	5.8%	% of total	78.5%
Active (Over 10 trades per month)	34,595	Active (Over 10 trades per month)	362,623	Active (Over 10 trades per month)	359,775
% of total	2.9%	% of total	15.5%	% of total	16.9%
Inactive (10 or less trades per month)	1,141,831	Inactive (10 or less trades per month)	1,839,893	Inactive (10 or less trades per month)	98,925
% of total	96.4%	% of total	78.7%	% of total	4.6%

Source: Shared Research based on company data

*Customer assets under custody as of the end of March 2019; value of trades executed during month of March 2019

* Sum of trades by active traders (more than 100 trades per month) and trades done by customer using Margin Trading Service for Day-trades

Inactive traders contribute little to revenue

During FY03/19, inactive traders, defined as traders who conduct 10 or fewer transactions per month, accounted for 96% of customers, and 79% of assets under customers' accounts. However, these clients only accounted for 10% of trading value.

Customers by age: Customers over age 50 account for 76% of stock trading

As of the end of March 2019, clients 50 years of age and above accounted for about 51% of customers at Matsui. In addition, 77% of assets under customers' accounts and 76% of total trading value were attributable to this same age bracket.

Concerning the online securities industry as a whole, customers 50 years of age and above accounted for 63% of the number of active trading accounts and 55% of total trading value (as of the end of September 2019), according to survey data published by the JSDA.

The contribution of clients 50 years of age is higher at Matsui than the industry average. It is possible that clients in this category place greater weight on user support than on commission fees, and this is a reflection on Matsui's commitment to providing superior user support and stable system infrastructure.

In FY03/20, Matsui saw trading by new account holders account for 52% of all trading (excluding trading by Ichinichi account holders) for the first time since FY3/06.

Customers value support and the trading system over commissions

Matsui's brokerage commission rates, interest on margin transactions, and stock lending fees are among the highest in its peer group. Its infrastructure is also more stable than its competitors. Shared Research concludes that Matsui's customers value customer support and a stable system over commissions.

Shared Research understands that Matsui's share of the day trader market is lower than SBI Securities and Rakuten Securities. Day traders tend to be sensitive to commissions.

Earnings structure

Earnings structure (JPYmm)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Operating revenue	22,091	17,703	20,799	39,883	34,306	34,435	27,727	32,210	27,313	24,150
YoY	-9.3%	-19.9%	17.5%	91.8%	-14.0%	0.4%	-19.5%	16.2%	-15.2%	-11.6%
Net operating revenue	21,320	16,728	19,915	38,738	32,893	33,003	26,499	30,480	25,999	22,345
YoY	-8.4%	-21.5%	19.1%	94.5%	-15.1%	0.3%	-19.7%	15.0%	-14.7%	-14.1%
Commissions	15,037	11,547	14,165	27,349	21,167	21,742	17,253	18,968	14,986	13,490
YoY	-13.0%	-23.2%	22.7%	93.1%	-22.6%	2.7%	-20.6%	9.9%	-21.0%	-10.0%
% of net operating revenue	70.5%	69.0%	71.1%	70.6%	64.4%	65.9%	65.1%	62.2%	57.6%	60.4%
Brokerage commissions	13,455	10,435	13,072	26,180	20,025	20,414	16,260	18,250	14,285	12,850
YoY	-12.8%	-22.4%	25.3%	100.3%	-23.5%	1.9%	-20.3%	12.2%	-21.7%	-10.0%
Brokerage commission rate	0.13%	0.13%	0.10%	0.06%	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%
Equity brokerage	11,126	8,898	11,635	23,867	18,686	18,898	15,249	17,144	13,260	11,803
Futures and options	1,815	973	1,074	1,516	1,290	1,516	1,011	1,106	1,025	1,047
Others	1,582	1,112	1,093	1,169	1,139	1,278	979	698	652	593
Net interest income	6,283	5,236	5,770	11,374	11,713	11,251	9,239	10,311	9,798	7,734
YoY	4.9%	-16.7%	10.2%	97.1%	3.0%	-3.9%	-17.9%	11.6%	-5.0%	-21.1%
% of operating revenue	29.5%	31.3%	29.0%	29.4%	35.6%	34.1%	34.9%	33.8%	37.7%	34.6%
Interest and dividend income	7,053	6,211	6,654	12,519	13,126	12,682	10,467	12,040	11,112	9,539
Interest expenses	770	975	884	1,145	1,413	1,431	1,228	1,729	1,314	1,805
Other operating revenue	1	-55	-20	15	13	11	7	1,202	1,215	1,121
SG&A expenses	12,870	9,360	9,719	11,648	10,806	11,258	11,560	11,949	12,547	13,436
YoY	8.2%	-27.3%	3.8%	19.8%	-7.2%	4.2%	2.7%	3.4%	5.0%	7.1%
SG&A as % of net operating revenue	60.4%	56.0%	48.8%	30.1%	32.9%	34.1%	43.6%	39.2%	48.3%	60.1%
Operating profit	8,450	7,368	10,195	27,090	22,087	21,745	14,939	18,532	13,451	8,909
YoY	-25.8%	-12.8%	38.4%	165.7%	-18.5%	-1.5%	-31.3%	24.1%	-27.4%	-33.8%
OP as % of net operating revenue	39.6%	44.0%	51.2%	69.9%	67.1%	65.9%	56.4%	60.8%	51.7%	39.9%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Brokerage commissions include those on ETFs starting in FY03/15.

The accounting items used in the securities industry are determined by the Cabinet Office Ordinance on Financial Instruments Business and the Regulations Regarding the Unification of Accounting Standard for Securities-Related Business, a set of voluntary regulations released by the Japan Securities Dealers Association (JSDA).

Net operating revenue

Net operating revenue mainly comprises commissions (60% of the total in FY03/20) and net interest income (35%).

Margin trading accounts for roughly 80% of equity trading value (81% in FY03/20, and 59% excluding Margin Trading Services for Day-Trades). Including net interest income, about 70% of net operating revenue is from margin trading. Futures trading's share of commissions is small (8% in FY03/20).

Commissions (60% of net operating revenue in FY03/20)

Commissions include brokerage commissions (95.3% of the total in FY03/20), and others (4.4%).

Equity-related commissions account for 90% of brokerage commissions

Matsui main source of trading commissions is stocks and ETFs (cash and margin), and futures. In FY03/20, stocks and ETFs accounted for more than 90% of brokerage commissions. Brokerage commission income can be calculated as trading value multiplied by the average brokerage commission rate.

Commission income = Value of stocks traded X commission rate

Matsui's share of equity trading and equity trading by individual investors on Tokyo and Nagoya stock exchanges

Trading value depends on market movements, the equity trading value of individuals on the Tokyo Stock Exchange and Nagoya Stock Exchange, and Matsui's share in it, which hovered around 8% between FY03/08 and FY03/13. By FY03/17, the company's share of equity trading value of individuals had risen to 13.0%, following the introduction of the commission-free Margin Trading Service for Day-trades in Q4 FY03/13. However, its share slipped to 10.0% in FY03/20 following the introduction of similar services with very competitive terms by other online brokers.

Matsui noted that trading volume in its Ichinichi margin trading accounts tends to increase (and consequently its market share of trading by individual investors) when stock market volatility is high and stocks listed on markets for up-and-coming companies are being actively traded. Shared Research believes this trend exists because Matsui has a higher percent of accounts that are

engaged in margin trading when compared with other online brokers and because many customers use that leverage to try to profit from the more volatile stocks that are traded on markets for young companies with high levels of potential.

Metrics	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Nikkei 225 (JPY)	9,755	10,084	12,398	14,828	19,207	16,759	18,909	21,454	21,206	18,917
YoY	-12.0%	3.4%	23.0%	19.6%	29.5%	-12.7%	12.8%	13.5%	-1.2%	-10.8%
TOPIX (Tokyo Stock Price Index)	869	854	1,035	1,203	1,543	1,347	1,513	1,716	1,618	1,403
YoY	-11.2%	-1.7%	21.1%	16.3%	28.3%	-12.7%	12.3%	13.5%	-5.7%	-13.3%
Mothers Index	460	386	644	767	879	1,021	1,071	1,206	956	620
YoY	2.2%	-16.1%	66.7%	19.1%	14.6%	16.1%	4.9%	12.6%	-20.8%	-35.1%
TSE and NSE (JPYtn)										
TSE and NSE trading value	735	630	735	1,414	1,337	1,634	1,417	1,645	1,574	1,437
YoY	3.7%	-14.2%	16.5%	92.4%	-5.4%	22.3%	-13.3%	16.1%	-4.3%	-8.7%
TSE and NSE trading value (individuals)	129	112	155	385	314	331	266	317	274	252
YoY	-15.4%	-13.0%	38.5%	148.0%	-18.5%	5.6%	-19.8%	19.4%	-13.5%	-8.2%
Individuals as % of total TSE and NSE trading value	17.5%	17.8%	21.1%	27.2%	23.5%	20.3%	18.8%	19.3%	17.4%	17.5%
Matsui Securities (JPYtn)										
Matsui trading value	10.4	8.1	12.8	40.4	36.6	38.7	34.5	35.4	28.3	25.2
YoY	-15.8%	-22.3%	57.4%	216.6%	-9.4%	5.7%	-10.8%	2.6%	-20.1%	-10.8%
Matsui as % of TSE and NSE trading value (individuals)	8.1%	7.2%	8.2%	10.5%	11.7%	11.7%	13.0%	11.2%	10.3%	10.0%
Excl. Margin Trading Service for Day-trades	10.4	8.1	11.2	25.2	18.3	18.9	15.0	17.1	13.0	11.8
YoY	-15.8%	-22.3%	37.7%	125.7%	-27.3%	3.3%	-21.1%	14.0%	-23.8%	-9.0%
% of total trading value	100.0%	100.0%	87.5%	62.4%	50.1%	48.9%	43.3%	48.1%	45.9%	46.9%
Margin Trading Service for Day-trades	-	-	1.6	15.2	18.3	19.8	19.6	18.4	15.3	13.4
YoY	-	-	-	852.6%	20.1%	8.2%	-1.0%	-6.2%	-16.8%	-12.4%
% of total trading value	-	-	12.5%	37.6%	49.9%	51.1%	56.7%	51.9%	54.1%	53.1%

Source: Shared Research based on various company data
 Note: TSE and NSE trading value includes ETFs and REITS.

Brokerage commission rates

Brokerage commission rate depends on Matsui's commission strategy. Matsui does not engage in commission price wars, and has higher commission rates than competitors, choosing instead to differentiate itself from competitors through unique product offerings, customer support, and a stable system.

Brokerage commission rate was about 0.12% from FY03/06 through FY03/12. Following the launch of the commission-free Margin Trading Service for Day-trades in Q4 FY03/13, the rising proportion of trades going through this service led to a decline in the average commission rate.

Commissions (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Commissions	15,037	11,547	14,165	27,349	21,167	21,742	17,253	18,968	14,986	13,490
Brokerage commissions	13,455	10,435	13,072	26,180	20,025	20,414	16,260	18,250	14,285	12,850
Commission rate	0.129%	0.129%	0.102%	0.065%	0.055%	0.053%	0.047%	0.052%	0.050%	0.051%
Commission rate (excl. Margin Trading Service for Day-trades)	0.129%	0.129%	0.117%	0.104%	0.109%	0.108%	0.109%	0.107%	0.110%	0.109%
Other commissions	1,579	1,111	1,088	1,164	1,139	1,278	979	698	652	593

Source: Shared Research based on various company data
 Note: Brokerage commission rate calculated as brokerage commissions (including options and futures) / equity trading value. The brokerage commission rate (excluding Margin Trading Service for Day-trades) is equal to brokerage commissions (including options and futures) / equity trading value excluding trades placed through Margin Trading Service for Day-trades.

Net interest income (35% of net operating revenue in FY03/20)

Net interest income is the difference between dividend and interest income and interest expenses.

Interest and other financial income is mainly derived from interest on margin transactions and stock lending fees. Other financial income from services like premium short selling are also included under net interest income. It is calculated as the average margin trading balance multiplied by interest and stock lending rates. Interest expenses comprise expenses on margin transactions and interest payable. Expenses on margin transactions are premium on stock lending and interest and stock lending fees paid to securities finance companies on margin and securities lending transactions. Interest payable arises from bank loans. Premiums on stock lending are reported under net interest income and interest expenses.

Premiums are charges levied to cover the cost of borrowing the stock from an institutional investor or other party to make up shortfalls in stock available for lending by securities finance companies that occur when the outstanding amount of margin selling of a stock exceeds the outstanding amount of margin buying.

Like equity trading, the balance of outstanding margin trades tends to track the overall market trend. In most customer portfolios the combined value of cash equity holdings and long margin positions is greater than the balance of short positions; When stock market conditions improve, customer assets increase, giving these customers more leeway to make purchases, which in turn tends to drive up the margin trading balance. Conversely, when the market goes down, they have less buying power and reduce their outstanding margin trade balances.

At Matsui Securities, the net interest margin (versus average balance of margin trades) calculated as net interest income divided by average margin trading balance, has been running around 3–4%. Matsui began its premium short-selling service in March 2014. Recording fees for the service has led to a rise in the net interest margin compared to the levels prior to FY03/13.

Net interest income

TSE and NSE (JPYbn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Average margin trading balance	2,362	2,049	2,064	3,529	3,515	3,742	3,083	3,796	3,761	3,131
YoY	1.0%	-13.3%	0.8%	70.9%	-0.4%	6.5%	-17.6%	23.1%	-0.9%	-16.8%
Margin trading balance	2,112	1,998	2,957	3,615	3,755	3,318	3,484	4,292	3,211	2,837
YoY	-7.9%	-5.4%	48.0%	22.2%	3.9%	-11.6%	5.0%	23.2%	-25.2%	-11.7%
Long position	1,494	1,389	2,418	3,128	3,038	2,679	2,626	3,557	2,356	1,754
Short position	618	609	539	487	717	639	859	735	855	1,083
Matsui Securities (JPYbn)										
Average margin trading balance	190.1	159.9	173.3	314.6	300.7	306.5	241.0	294.4	282.3	229.3
YoY	2.7%	-15.9%	8.4%	81.5%	-4.4%	1.9%	-21.4%	22.2%	-4.1%	-18.8%
Margin trading balance	159.7	165.1	287.6	295.3	319.0	255.2	278.1	331.9	232.8	191.7
YoY	-13.7%	3.4%	74.1%	2.7%	8.0%	-20.0%	9.0%	19.4%	-29.9%	-17.7%
% of of TSE and NSE trading balance	7.6%	8.3%	9.7%	8.2%	8.5%	7.7%	8.0%	7.7%	7.3%	6.8%
Long position	134.1	132.7	254.4	273.4	278.0	234.5	242.9	306.4	198.1	157.8
% of of TSE and NSE trading balance	9.0%	9.6%	10.5%	8.7%	9.2%	8.8%	9.3%	8.6%	8.4%	9.0%
Short position	25.6	32.4	33.2	21.9	41.0	20.7	35.2	25.6	34.7	33.8
% of of TSE and NSE trading balance	4.1%	5.3%	6.2%	4.5%	5.7%	3.2%	4.1%	3.5%	4.1%	3.1%
Net interest income (JPYmn)										
Net interest income	6,283	5,236	5,770	11,374	11,713	11,251	9,239	10,311	9,798	7,734
Net interest margin (vs. avg. margin trading balance)	3.3%	3.3%	3.3%	3.6%	3.9%	3.7%	3.8%	3.5%	3.5%	3.4%
Interest and dividend income	7,053	6,211	6,654	12,519	13,126	12,682	10,467	12,040	11,112	9,539
Interest expenses	770	975	884	1,145	1,413	1,431	1,228	1,729	1,314	1,805

Source: Shared Research, based on Japan Exchange Group "Monthly Statistics Report" and company data

Note: Net interest income equals interest income minus interest expenses.

Note: Net interest margin equals net interest income divided by the average margin trading balance.

Note: Average margin trading balance is the average over the year.

SG&A expenses: mostly fixed costs

SG&A expenses include trading-related expenses (34.0 % of SG&A expenses in FY03/20); personnel (19.4%); real estate expenses (8.4%); office expenses (20.4%); and depreciation (14.3%).

In terms of fixed and variable costs, variable costs include commissions paid, stock exchange and association fees, and telecommunications and transport costs, all classified under trading-related expenses. Shared Research understands that other costs are mostly fixed.

Fixed costs under SG&A expenses peaked in FY03/07 and trended lower through FY03/12, then stabilized for several years before starting to trend higher again from FY03/16. Fixed costs on the rise include personnel, office expenses, and depreciation. The increase in personnel costs reflects the rise in the company's employee headcount, and the increases in office expenses and depreciation reflect the expenses associated with the addition of new services.

SG&A expenses breakdown

(JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SG&A expenses	12,870	9,360	9,719	11,648	10,806	11,258	11,560	11,949	12,547	13,436
YoY	8.2%	-27.3%	3.8%	19.8%	-7.2%	4.2%	2.7%	3.4%	5.0%	7.1%
% of net operating revenue	60.4%	56.0%	48.8%	30.1%	32.9%	34.1%	43.6%	39.2%	48.3%	60.1%
Trading-related expenses	3,365	3,104	3,356	4,957	4,719	4,674	4,345	4,592	4,408	4,566
YoY	-7.3%	-7.8%	8.1%	47.7%	-4.8%	-1.0%	-7.0%	5.7%	-4.0%	3.6%
Commissions paid	555	425	455	786	779	770	735	830	791	734
Stock exchange and association fees	838	707	886	1,912	1,755	1,738	1,409	1,527	1,237	1,163
Telecommunications and transport fees	1,597	1,493	1,477	1,665	1,638	1,692	1,672	1,699	1,725	1,735
Advertising expenses	375	479	538	594	547	475	531	536	655	934
Personnel expenses	1,974	1,809	1,832	2,075	2,030	2,178	2,227	2,364	2,661	2,607
YoY	2.3%	-8.4%	1.3%	13.3%	-2.2%	7.3%	2.2%	6.2%	12.6%	-2.0%
Real estate-related	1,128	1,077	925	905	878	890	891	845	870	1,134
YoY	8.5%	-4.5%	-14.1%	-2.2%	-3.0%	1.4%	0.1%	-5.2%	3.0%	30.3%
Real estate expenses	355	348	319	318	325	325	327	342	349	355
Furniture and fixtures	793	749	605	586	553	564	563	503	522	779
Office and supplies expenses	1,931	1,742	1,625	1,745	1,677	1,713	1,841	2,104	2,385	2,747
YoY	-38.5%	-9.8%	-6.7%	7.4%	-3.9%	2.1%	7.5%	14.3%	13.4%	15.2%
Outsourcing expenses	1,925	1,735	1,621	1,740	1,673	1,708	1,835	2,098	2,378	2,739
Office supplies expenses	5	6	5	5	5	5	5	6	7	8
Depreciation	1,825	1,769	1,788	1,635	1,246	1,175	1,267	1,549	1,691	1,923
YoY	2.8%	-3.1%	1.1%	-8.6%	-23.8%	-5.7%	7.8%	22.3%	9.2%	13.7%
Taxes and dues	118	98	116	226	194	288	362	406	340	296
Provision for doubtful accounts	2,378	-346	-36	-68	-77	216	311	-29	56	-28
Other	151	108	114	173	138	123	317	117	136	192
Variable costs	1,914	1,666	1,852	3,138	2,964	2,969	2,613	2,792	2,495	2,398
% of commissions	12.7%	14.4%	13.1%	11.5%	14.0%	13.7%	15.1%	14.7%	16.6%	17.8%
% of net operating revenue	9.0%	10.0%	9.3%	8.1%	9.0%	9.0%	9.9%	9.2%	9.6%	10.7%
Fixed costs	10,956	7,694	7,867	8,511	7,843	8,289	8,948	9,158	10,052	11,039

Source: Shared Research based on company data

Trading-related expenses: about half of commissions paid, stock exchange/association fees, and telecommunications/transport fees are variable

Trading-related expenses include commissions paid, stock exchange and association fees, telecommunications and transport fees, and advertising expenses. About half of commissions paid, alongside stock exchange and association fees, are variable and move with trading value; about half of telecommunications and transport fees are semi-variable and move with the number of login-user accounts.

- ▷ Commissions paid: About half paid to the Japan Securities Clearing Corporation for delivery and settlement, and is closely tied to equity trading value. Also includes commissions paid to other Banks.
- ▷ Stock exchange and association fees: mostly monthly commissions that all brokerages pay to stock exchanges, which comprise about 80% of expenses. Also includes payments for futures and options transactions. According to the company, aggregate payments made to the Tokyo Stock Exchange, JASDAQ, and the Japan Securities Clearing Corporation are about 0.5 basis points of equity trading value.
- ▷ Telecommunications and transport: About half of telecommunications charges go to QUICK* for stock price information services. Fees depend on the number of login-user accounts (users must log in at least once a month to be counted as a trading account). This also includes system access fees to utilize Tokyo Stock Exchange systems. (*QUICK is a financial information service company in the Nikkei Group.)

System maintenance and management account for most business outsourcing expenses

Most of the company's office expenses are payments to outside contractors. Matsui has agreements with mainly SCSK Corporation (TSE1: 9719) and Internet Initiative Japan, Inc. (TSE1: 3774) for system management and maintenance. In June 2009, Matsui moved to a fixed cost model for outsourcing, from a system dependent on trading value, and reviewed the terms of existing agreements. As a result, business outsourcings expenses dropped significantly since FY03/10.

The rise in office expenses since FY03/17 is attributable to the company's move into mutual fund sales in November 2016 and changes in its NetFx cover trade model (for forex margin trading) in FY03/18.

Software accounts for most of the company's depreciation burden

Matsui mainly outsources development of its software—which is depreciated over five years—to SCSK. In June 2009, after a review of system maintenance costs, the company adopted a system in which Matsui purchases software developed by SCSK. As a result, depreciation expenses increased from FY03/10 onward. In FY03/15, however, the company completed the amortization of certain system-related expenditure capitalized as assets following changes to system-related expenses in FY03/10, leading to a fall in depreciation and amortization.

Since FY03/17 the company's depreciation burden has been rising in conjunction with capital spending on software, which has increased the amount of depreciable assets on its balance sheet. (Software is an intangible fixed asset.)

Real estate expenses

This comprises real estate, furniture and fixtures, and includes lease and maintenance fees.

Systems related expenses are categorized as business outsourcing expenses, depreciation, or furniture and fixtures under real estate expenses. Systems related expenses fell JPY2.2bn between FY03/09 and FY03/10, due to the company's review of its systems outsourcing agreements.

Personnel expenses stable

Matsui's employee numbers vary from 100 to 140. The average salary is stable at between JPY6mn and JPY9mn. Personnel expenses total between JPY1.8bn and JPY2.7bn. Since FY03/14, the number of temporary workers as well as other compensation expenses have been rising along with increases in average annual salaries. Personnel expenses in FY03/19 included a special bonus paid in connection with the celebration of the company's 100-year anniversary.

Matsui Securities: Number of employees, average annual salaries, and total personnel expenses

	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Personnel expenses (JPYmn)	1,974	1,809	1,832	2,075	2,030	2,178	2,227	2,364	2,661	2,607
YoY	2.3%	-8.4%	1.3%	13.3%	-2.2%	7.3%	2.2%	6.2%	12.6%	-2.0%
Number of employees	117	119	121	124	120	121	123	130	142	142
Average temporary workers	169	155	155	151	156	195	197	191	195	216
Average annual salary (JPYmn)	6.5	6.4	6.7	8.5	8.5	8.4	7.8	8.3	8.8	7.4

Source: Shared Research based on company data

Operating margins structurally high

Variable costs were JPY2.4bn in FY03/20 versus JPY2.5bn in FY03/19, assuming variable costs include half of commissions paid, stock exchange and association fees, and half of telecommunications and transport costs. In FY03/20 variable costs were equal to 17.8% of commissions received (versus 16.6% in FY03/19) and equal to 10.7% of net operating revenue (versus 9.6% in FY03/19). Fixed costs of JPY11.0bn in FY03/20 were up from JPY10.1bn in FY03/19. The increase in fixed costs reflects higher spending on personnel, administration and clerical work, and depreciation to support the company's expansion into new business areas and introduction of new services.

Based on FY03/20 results, the estimated breakeven point for net operating revenue was JPY12.4bn in FY03/20 (versus JPY11.1bn in FY03/19) and the breakeven point ratio was 55.3% (versus 42.8% in FY03/19), according to Shared Research estimates. Even if

Matsui's FY03/20 net operating revenue had more than halved, it would have been able to cover its fixed expenses and post an operating profit.

Strengths and weaknesses

Strengths

- Low cost structure:** The company has worked to maintain a low cost structure over the years, making it a rule to avoid reckless diversification and wasteful spending. These efforts have allowed it to keep SG&A spending down relative to its peers in absolute terms and also in terms of its SG&A expense ratio. With an SG&A expense ratio of 60.1% on net operating revenue in FY03/20, Matsui had an operating profit margin of 39.9%, the highest among Japan's five major online brokers (for further details see discussion in Competition section under *Market and Value Chain* later in this report). By keeping costs down, Matsui has also put itself in a better position to withstand adverse changes in its external operating environment. Shared Research estimates the company's breakeven point ratio at 55.3% based on FY03/20 results (versus 42.8% in FY03/19). This means Matsui Securities would be able to cover fixed costs and post an operating profit even if net operating income fell by almost half.
- The many active traders and margin traders among its customers provide a low-cost revenue source:** After becoming Japan's first online stock broker in 1998, Matsui Securities consistently ran ahead of other online brokers with its launch of new products and services during the early years of the online brokerage industry in the late 1990 and early 2000s. After being the first to introduce a flat-fee schedule for all trades placed in a single day as brokerage commission rates were fully deregulated in 1999, Matsui focused on building up its stock brokerage business, and this is when Matsui appears to have picked up many of the active traders that are still its clients today and why a larger portion of Matsui's customers trade on margin than at other major online brokers. (In Japan, most margin traders prefer to trade in the small and volatile stocks that are listed on markets for emerging young companies, and also trade on margin to amplify their gains in quick in-and-out trades.) As of FY03/20, Matsui is still ahead of other major online brokers on a number of margin trading-related metrics, including customer trading frequency (value of trade/customer assets under custody), average number of trades per account, average value of trades per account, margin accounts as percent of total accounts, and margin trading as a percent of all stock trading (for further details see discussion in Competition section under *Market and Value Chain*). Shared Research believes this is the reason that the average brokerage commission income generated per account and the average net interest income generated per account are higher at Matsui than at other major online brokers and, combined with its low-cost structure (as discussed above), is also the reason that Matsui has such high operating profit margins.
- Customers value support and a stable system more than low commissions:** Matsui maintained relatively high commission rates in the early 2000s, when commission price wars intensified. The company secured customers by focusing on customer support and product line-up. Shared Research thinks Matsui has successfully attracted and kept customers who value customer support and a stable system over low commissions and thus has been able to maintain higher commission rates than its competitors.

Weaknesses

- Focus on stock trading has meant little income diversification:** Matsui is a specialist brokerage with a policy of not diversifying its sources of income. The company is more dependent on stock brokerage commissions and net interest income than its competitors (for further details see discussion in Competition section under *Market and Value Chain*). Income rises in bull markets, but falls in bear markets, making the company exposed to economic swings. Shared Research expects Matsui to address this weakness, as explained below, by diversifying income sources without substantially increasing expenses. It began handling mutual funds in November 2016, and in FY03/18 took steps to improve income from forex margin trading and started up a securities lending service in FY03/19. While these moves diversified its sources of revenues without substantially increasing costs, stock brokerage commissions and net interest income still accounted for more than 90% of net operating revenue as of FY03/20.
- Monetization of inactive traders a challenge:** Inactive traders (those with 10 or fewer trades per month) accounted for 96% of customers and 79% of assets under customers' accounts as of March 2019, but only 5% of trading value. Matsui recognizes monetization of inactive traders as an area which requires attention. Handling mutual funds might be a solution for monetizing accounts of inactive traders. While competitors aggressively deal in mutual funds, Matsui did not offer these

instruments because traditionally the fee structure for mutual funds worked to the advantage of the sellers. However, in recent years, no-load mutual funds (mutual funds that do not charge sales commissions) have become more widespread, along with index funds with low custodian fees. In light of this trend, Matsui started selling mutual funds and launched a portfolio proposal service based on a proprietary robo-advisory service in November 2016. As of the end of FY03/20, only JPY16.7bn of customer assets were invested in mutual funds, up from JPY12.1bn at the end of FY03/19 but still well below comparable figures at competitors.

- Low name/brand recognition: As the first online broker in Japan and the industry front-runner in introducing innovative products and services, Matsui won a certain degree of name recognition. President Michio Matsui also received lots of coverage from the media (including television and magazines), with plenty of profile pieces on him as a sort of securities industry revolutionary, and Shared Research believes that this along with the company's image as an innovator won Matsui Securities a lot of fans and helped bring in a lot of new accounts in years past. Thanks in part to that image and reputation, today we find the core of Matsui's customer base being people aged 50 and older (the same customers who would have been in their 30s and 40s in the early 2000s), with this cohort accounting for about half of all customer accounts and nearly 80% of customer assets under custody as of May 2020. The problem is that the company's name recognition is low among younger generations, particularly aged 30 or younger, which could will hurt Matsui's ability to increase the number of customer accounts and customer assets under custody (the very source of its revenues) in the future. In this relation, we note that over the past five years (from the end of FY03/15 to the end of FY03/20), Matsui was able to increase its customer accounts at the rate of only 4.3% per annum and saw customer assets under custody *decrease* at the rate of 0.9% per annum. This compares poorly with SBI Securities, which increased the number of its customer accounts at the rate of 10.8% per annum and customer assets under custody at the rate of 6.3% per annum, and looks even worse compared with Rakuten Securities, which over the last five years increased the number of its customer accounts at the rate of 15.4% per annum and customer assets under custody at the rate of 13.5% per annum.

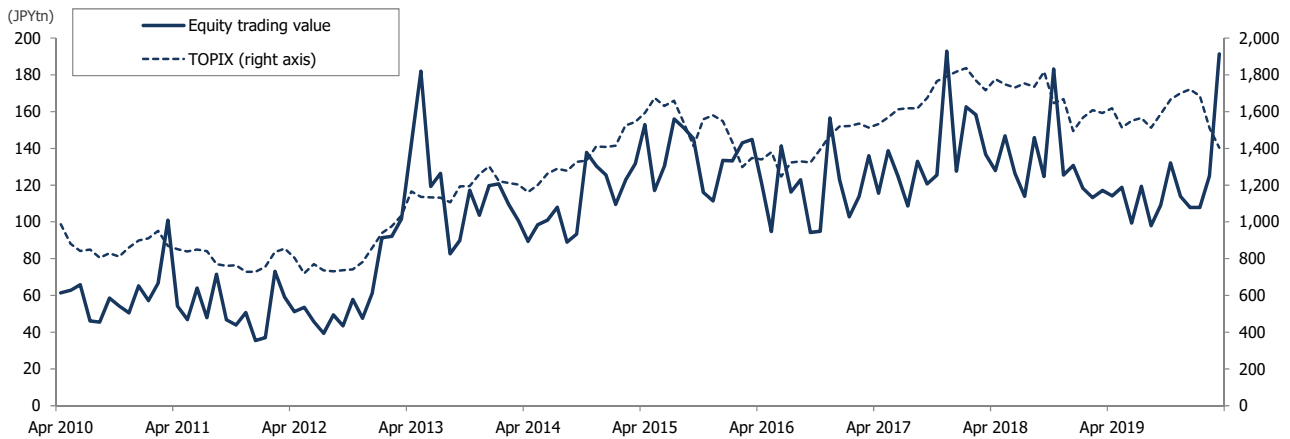
Market and value chain

Changes in equity trading value and margin trading balance

Equity trading value, equity trading value of individuals, and margin trading balance have significant impact on both operating revenue and earnings at Matsui.

Equity trading value and stock price indices

Equity trading value at Tokyo and Nagoya stock markets and TOPIX

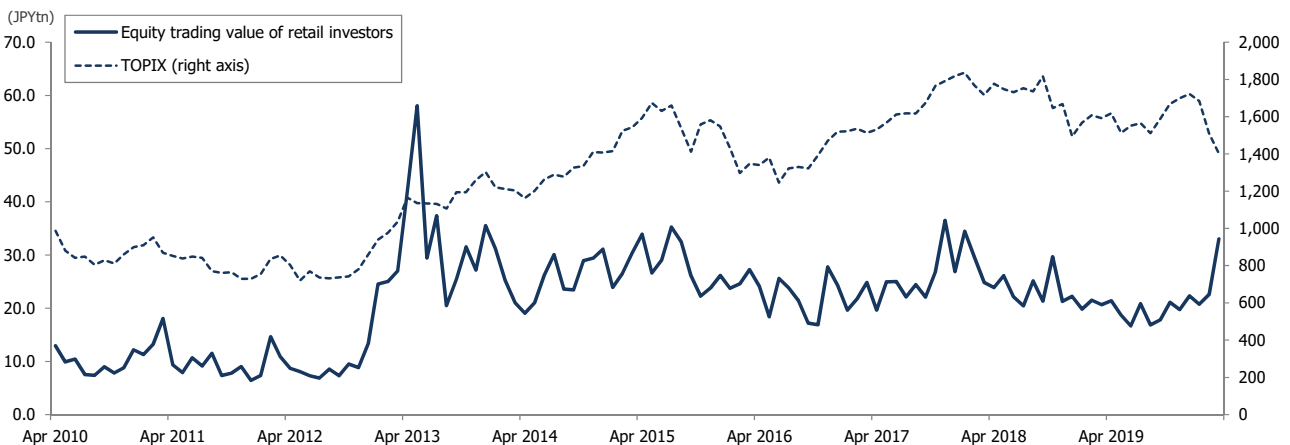


Source: Shared Research based on Japan Exchange Group Monthly Statistics Report

Equity trading value is determined by stock prices and the number of stocks traded, and is therefore closely linked with stock price indices. From April 2010 through March 2020, the correlation coefficient between the Tokyo Stock Price Index (TOPIX) and the equity trading value at Tokyo and Nagoya stock exchanges was 0.81, indicating a strong correlation.

Equity trading value of individuals and stock price indices

Equity trading value of individuals at Tokyo and Nagoya stock markets and TOPIX



Source: Shared Research based on Japan Exchange Group Monthly Statistics Report

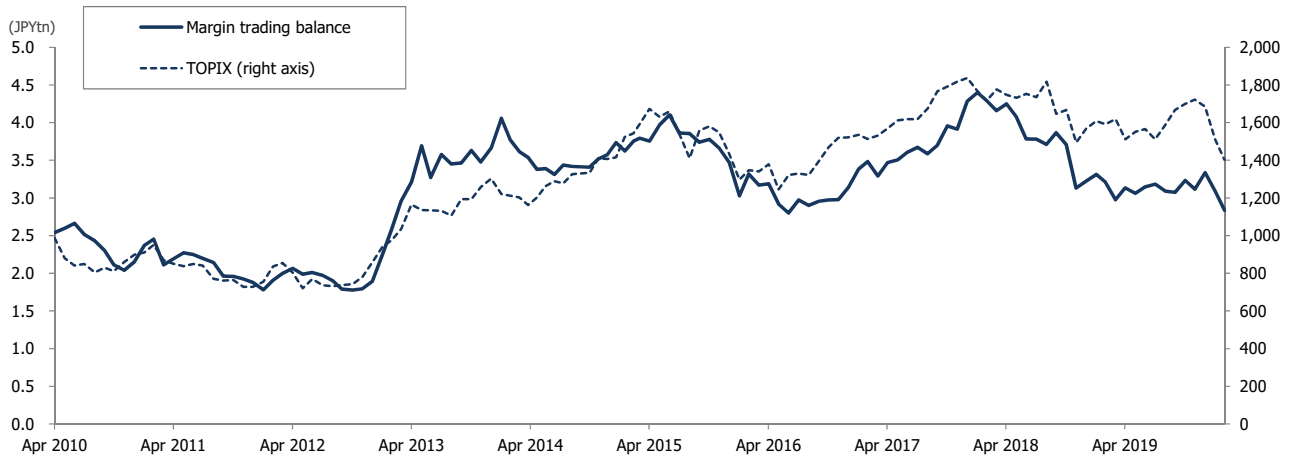
In March 2019, foreign investors accounted for 64.8% of equity trading value, followed by domestic retail investors at 14.7%, and domestic institutional investors at 6.3%.

Equity trading value of individuals (retail investors) also moves largely in line with stock price indices, but tends to settle down once the indices exceed a certain mark. Looking at the movements from April 2010 through March 2020, the equity trading value of individuals started to cool off around the time TOPIX hit the 1,200 mark in 2014, while TOPIX continued to trend upward.

During the same period, the correlation coefficient between TOPIX and individual investor equity trading value on the Tokyo and Nagoya stock exchanges was 0.62, and the correlation coefficient between non-individual equity trading value on these two stock exchanges was 0.81, indicating a weaker correlation compared with overall equity trading value.

Margin trading balance and stock price indices

Margin trading balance and TOPIX



Source: Shared Research based on Japan Exchange Group Monthly Statistics Report

Margin trading balance is also closely linked with stock price indices. From April 2010 through March 2020, the correlation coefficient between TOPIX and margin trading balance at Tokyo and Nagoya stock exchanges was 0.86, showing a strong correlation.

Evolution of online brokerages

The rise of online brokerages

Online broking in Japan launched in 1998; growth through FY03/06

Matsui was the first company to offer full-blown online broking services in Japan. In May 1998, the company launched internet trading through its Netstock service.

From the late 1990s, online stockbroking in Japan truly took off due to the spread of the internet and the full liberalization of stock trading commissions in October 1999. Because the online brokers did not need salespeople and sales offices required at brick-and-mortar rivals, they were able to cap personnel and other fixed costs and offer relatively low commission rates which lead to expansion in customer base.

Five major online brokerages

In 2001, following the collapse of the IT bubble, a number of players withdrew from the market because of earnings deterioration as the stock market languished. The online brokers were quick to execute a number of mergers and consolidations. In 2001, eWing Securities, affiliated with former Sanwa Bank Ltd. (now Bank of Tokyo-Mitsubishi UFJ), and Japan Online Securities, funded by Itochu Corporation among other, merged to form kabu.com Securities; in 2003 E*TRADE Securities merged with Fides Securities (former Nissho Iwai Securities Co., Ltd.) to form SBI E*TRADE Securities; in 2005, Monex, Inc. and Nikko Beans merged to form Monex Beans.

As a result, in 2005 the online brokerage industry came to be dominated by five major firms; Matsui, SBI Securities, Rakuten Securities, Monex, Inc., and kabu.com Securities. In FY03/05, the five major online brokers accounted for around 60% of the equity trading value of individuals.

Trading value and share of trading value of individuals at major online brokerages

(JPYtn)	FY03/02	FY03/03	FY03/04	FY03/05	FY03/06
Trading value (individuals)	52	54	112	156	337
YoY	-	4.3%	107.5%	39.0%	116.4%
Trading value at five online brokerages	15	19	50	93	193
YoY	-	24.9%	170.7%	84.9%	107.4%
Five firms' share of trading value by individuals	28.6%	34.3%	44.8%	59.6%	57.1%

Source: Shared Research based on company data

Note: Trading value (individuals) includes Tokyo Stock Exchange (TSE), Osaka Securities Exchange (OSE), and Nagoya Stock Exchange (NSE). It does not include ETFs or REITs.

Note: The five firms referred to above comprise Matsui Securities, SBI Securities, Rakuten Securities, Monex, Inc., and kabu.com Securities.

From 2001, commission competition intensifies

In 2001, E*TRADE Securities (currently SBI Securities) entered the Japanese online stockbroking market; it offered services with the lowest commission rates in the industry. Rakuten Securities followed it in cutting commission rates. E*TRADE Securities' commission levels dragged the other online brokers rates down; in the former half of the 2000s, the online brokers' commission rates (commissions ÷ trading value) fell.

The five online brokers' commission strategies varied. SBI Securities and Rakuten Securities were both aggressive in cutting commissions. Conversely, Matsui Securities, Monex, Inc., and kabu.com Securities were reluctant to engage in aggressive commission rate cutting. They preferred to differentiate themselves with products and services.

As a result, commission rates for SBI Securities and Rakuten Securities had fallen to the five basis point level in FY03/06. Meanwhile, their share of individual investors' equity trading value exceeded 30% in FY03/05. The market shares of Matsui, Monex, Inc., and kabu.com Securities all languished.

Of the five major online brokers, Matsui Securities had the leading market share in terms of equity trading value of individuals until FY03/02. In FY03/03, E*TRADE Securities overtook it and in FY03/06 Rakuten Securities passed Matsui.

Brokerage commission rates

	FY03/02	FY03/03	FY03/04	FY03/05	FY03/06
Matsui Securities	0.17%	0.17%	0.14%	0.12%	0.12%
SBI Securities	-	0.07%	0.06%	0.06%	0.05%
Rakuten Securities	0.13%	0.10%	0.08%	0.06%	0.06%
Monex, Inc.	0.21%	0.20%	0.15%	0.11%	0.10%
kabu.com Securities	0.22%	0.14%	0.10%	0.10%	0.09%

Source: Shared Research based on various company data

Five online brokerages' share of equity trading value of individuals

	FY03/02	FY03/03	FY03/04	FY03/05	FY03/06
Matsui Securities	10.6%	10.3%	12.2%	13.1%	9.9%
SBI Securities	6.9%	10.7%	15.2%	21.1%	23.0%
Rakuten Securities	7.1%	8.1%	9.5%	11.3%	11.0%
Monex, Inc.	2.6%	2.1%	3.3%	8.7%	8.0%
kabu.com Securities	1.5%	3.0%	4.6%	5.4%	5.2%

Source: Shared Research based on company data

Note: Trading value (individuals) does not include ETFs or REITs.

Note: FY03/02 excludes SBI Securities for want of disclosure.

During first decade of 21st century, online brokers best year was FY03/06

Through the first of half of the 2000s, the five major online brokers had increasing shares of equity trading value of individuals. In FY03/06, the five major online brokers enjoyed record revenue and earnings, buoyed by an upturn in the share market. In line with rising stock trading commissions, the five major online brokers' aggregate operating revenue reached JPY204.0bn and their aggregate operating profit totaled JPY120.1bn.

Earnings totals for five online brokerages

(JPYmn)	FY03/02	FY03/03	FY03/04	FY03/05	FY03/06
Operating revenue	23,717	32,924	64,667	102,166	203,974
YoY	-	38.8%	96.4%	58.0%	99.6%
Commissions	20,212	25,434	52,824	77,572	153,267
YoY	-	25.8%	107.7%	46.9%	97.6%
Net interest income	3,372	7,055	11,093	22,799	44,863
YoY	-	109.3%	57.2%	105.5%	96.8%
Net operating revenue	21,718	29,343	60,579	95,173	192,543
YoY	-	35.1%	106.5%	57.1%	102.3%
SG&A expenses	19,184	26,962	32,485	45,068	72,410
YoY	-	40.5%	20.5%	38.7%	60.7%
Operating profit	2,534	2,382	28,090	50,103	120,134
YoY	-	-6.0%	-	78.4%	139.8%

Source: Shared Research based on various company data
 Note: FY03/02 figures do not include SBI Securities (data undisclosed).

From FY03/07 to FY03/12 online stockbroking industry in correction phase
Following Livedoor shock, online securities brokers' earnings fell

Following the so-called Livedoor shock in January 2006, equity trading value of individuals fell, and declined further after the global financial crisis of September 2008. On the two stock markets (the TSE and NSE), the equity trading value of individuals fell for six consecutive years from FY03/07. The trading value, which stood at JPY337tn in FY03/06, fell to JPY112tn in FY03/12.

Because online brokerages depended highly on individual stock investors, they all suffered falling revenue and profits from FY03/07 through FY03/12. Through diligent cost-cutting, they were able to avoid operating losses, but aggregate OP for the five major online brokers fell from JPY120.1bn in FY03/06 to JPY23.7bn in FY03/12.

Earnings totals for five online brokerages

(JPYmn)	FY03/06	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12
Operating revenue	203,974	183,318	173,637	134,464	127,526	124,017	109,060
YoY	99.6%	-10.1%	-5.3%	-22.6%	-5.2%	-2.8%	-12.1%
Commissions	153,267	119,525	108,832	84,601	79,429	73,786	62,842
YoY	97.6%	-22.0%	-8.9%	-22.3%	-6.1%	-7.1%	-14.8%
Net interest income	44,863	54,611	59,065	44,867	37,227	38,436	35,458
YoY	96.8%	21.7%	8.2%	-24.0%	-17.0%	3.2%	-7.7%
Net operating revenue	192,543	170,895	158,269	122,946	117,018	113,973	99,449
YoY	102.3%	-11.2%	-7.4%	-22.3%	-4.8%	-2.6%	-12.7%
SG&A expenses	72,410	86,920	89,320	84,642	78,958	82,109	75,705
YoY	60.7%	20.0%	2.8%	-5.2%	-6.7%	4.0%	-7.8%
Operating profit	120,134	83,973	68,949	34,538	38,057	31,862	23,743
YoY	139.8%	-30.1%	-17.9%	-49.9%	10.2%	-16.3%	-25.5%

Source: Shared Research based on company data
 Note: FY03/02 figures do not include SBI Securities (data undisclosed).

Six major company structure becomes clear

From FY03/06, the market share of equity trading value held by the five major online brokers continued to rise. Industry mergers reinforced the trend. In 2007, SBI E*TRADE Securities merged with World Nichiei Frontier Securities; and in 2010, Monex Beans merged with ORIX Securities.

In 2005, GMO CLICK Securities entered the business, offering the lowest commissions in the industry. This enabled it to grow its share, and in FY03/12, its share of trading value was second only to Rakuten Securities. As a result, GMO CLICK Securities became a sixth player, and the oligopoly of six companies was entrenched. In FY03/12, the six major online brokers had a share of around 85% of the equity trading value of individuals.

Trading value and share of trading value of individuals at major online brokerages

(JPYtn)	FY03/06	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12
Trading value (individuals)	337	293	247	167	155	130	112
YoY	116.4%	-13.0%	-15.9%	-32.5%	-6.8%	-16.1%	-14.1%
Trading value at five online brokerages	193	188	169	120	107	91	78
YoY	107.4%	-2.6%	-9.8%	-28.9%	-11.5%	-14.6%	-14.9%
Five firms' share of trading value by individuals	57.1%	63.9%	68.6%	72.3%	68.7%	69.9%	69.2%
Trading value at six online brokerages	-	-	173	126	113	99	86
YoY	-	-	-	-27.6%	-9.8%	-12.8%	-12.4%
Six firms' share of trading value by individuals	-	-	70.3%	75.4%	72.9%	75.7%	77.2%

Source: Shared Research based on various company data
 Note: Trading value (individuals) includes Tokyo Stock Exchange (TSE), Osaka Securities Exchange (OSE), and Nagoya Stock Exchange (NSE). It includes ETFs and RETIs starting in FY03/07.

Note: The five firms referred to above comprise Matsui Securities, SBI Securities, Rakuten Securities, Monex, Inc., and kabu.com Securities.
 Note: The six firms referred to above comprise Matsui Securities, SBI Securities, Rakuten Securities, Monex, Inc., kabu.com Securities, and GMO CLICK Securities.

Major securities firms' efforts fizzle out

While online brokers continued to expand their market shares, Nomura Securities set up Joinvest Securities to enter the online broking market in FY03/07. However, the pace of new account openings in the industry was decelerating at that point, and commissions had already fallen substantially. Joinvest's new account opening performance and commission income were both dismal. In FY03/08, the company posted a JPY6.0bn net loss. In June 2008, the company announced price increases in a bid to improve profitability, but it posted a JPY4.7bn loss in FY03/09. In November 2009, it announced a merger with Nomura Securities (changing its name to Nomura Net and Call in October 2011).

Brokerage commissions fall

There had not been strong competition among the online brokers in commission rates since FY03/07, and commission rates were stable until FY03/12. That changed in FY03/10, when kabu.com Securities began to aggressively cut commissions by expanding the range of large margin trading customers to whom it offers commission-free trades. In FY03/12, it revised commissions on cash trades. Thus, from FY03/11 onward, commission fees throughout the industry have been trending downward.

Brokerage commission rates

	FY03/06	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12
Matsui Securities	0.12%	0.09%	0.12%	0.12%	0.12%	0.13%	0.13%
SBI Securities	0.05%	0.03%	0.03%	0.03%	0.04%	0.04%	0.04%
Rakuten Securities	0.06%	0.05%	0.04%	0.05%	0.05%	0.06%	0.06%
Monex, Inc.	0.10%	0.11%	0.11%	0.11%	0.12%	0.10%	0.09%
kabu.com Securities	0.09%	0.08%	0.08%	0.09%	0.09%	0.08%	0.07%

Source: Shared Research based on various company data

Stable share for six major online brokers

GMO Click Securities began to increase its share subsequent to FY03/07 following an industry shakeup caused by mergers and acquisitions. kabu.com Securities' market share also started to rise modestly subsequent to FY03/11 after the company aggressively lowered commissions. Matsui Securities, meanwhile, had seen its share gradually fall.

Six online brokerages' share of trading value of individuals

	FY03/06	FY03/07	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12
Matsui Securities	9.9%	9.1%	7.7%	7.7%	8.0%	8.0%	7.2%
SBI Securities	23.0%	29.1%	35.6%	38.3%	35.1%	33.4%	32.9%
Rakuten Securities	11.0%	13.3%	13.4%	14.3%	14.2%	14.5%	14.8%
Monex, Inc.	8.0%	6.5%	6.1%	6.2%	5.4%	7.3%	7.3%
kabu.com Securities	5.2%	5.9%	5.8%	5.8%	6.0%	6.7%	7.0%
GMO CLICK Securities	-	-	1.7%	3.1%	4.3%	5.8%	8.0%

Source: Shared Research based on various company data

Trends in the online brokerage industry since FY03/13

Earnings recovering since FY03/13

Revenues and earnings in the online brokerage industry hit bottom in FY03/12 followed by large gains the next two years (FY03/13 and FY03/14) as individual investors flocked back into the Japanese stock market as it turned up and entered a new bull-market phase in response to the election of Shinzo Abe to a second term as prime minister. Results have been uneven since then, however, with online brokers making no real progress as revenues rise in some years only to fall the next.

Earnings totals for five online brokerages

(JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Operating revenue	123,137	219,467	213,892	238,343	217,976	261,306	259,558	254,883
YoY	12.9%	78.2%	-2.5%	11.4%	-8.5%	19.9%	-0.7%	-1.8%
Commissions	73,156	132,143	115,710	122,258	103,689	123,010	111,602	108,395
YoY	16.4%	80.6%	-12.4%	5.7%	-15.2%	18.6%	-9.3%	-2.9%
Net interest income	37,896	68,428	77,735	82,466	77,539	101,310	97,228	85,084
YoY	6.9%	80.6%	13.6%	6.1%	-6.0%	30.7%	-4.0%	-12.5%
Net operating revenue	114,477	207,883	199,888	221,940	199,859	240,146	241,349	232,602
YoY	15.1%	81.6%	-3.8%	11.0%	-9.9%	20.2%	0.5%	-3.6%
SG&A expenses	77,128	99,570	103,853	117,754	121,603	133,863	145,092	164,616
YoY	1.9%	29.1%	4.3%	13.4%	3.3%	10.1%	8.4%	13.5%
Operating profit	37,347	108,313	96,032	104,185	78,253	106,282	96,253	67,985
YoY	57.3%	190.0%	-11.3%	8.5%	-24.9%	35.8%	-9.4%	-29.4%

Source: Shared Research based on various company data

Note: Figures for SBI Securities and Rakuten Securities reflect consolidated results from FY03/16; figures for Monex Group reflect results at Monex.

Oligopoly of six leading brokers grows

Alongside a continuing market recovery since FY03/13, the proportion of individual trades conducted online has risen, and during FY03/20, the six major online brokerages together handled 89% of overall equity trading value by individuals (versus 85% in FY03/19).

Trading value and share of trading value of individuals at major online brokerages

(JPYtn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Trading value (retail investors)	112	155	385	314	331	266	317	274	252
YoY	-14.1%	38.5%	148.0%	-18.5%	5.6%	-19.8%	19.4%	-13.5%	-8.2%
Trading value at five major online brokerages	78	109	279	235	247	204	243	219	213
YoY	-14.9%	39.9%	156.8%	-15.7%	5.1%	-17.2%	19.1%	-10.1%	-2.8%
Five firms' share of trading value by retail investors	69.2%	69.9%	72.4%	74.9%	74.5%	76.9%	76.7%	79.7%	84.4%
Trading value at six major online brokerages	86	121	310	261	274	226	266	233	224
YoY	-12.4%	39.4%	157.2%	-15.7%	4.7%	-17.5%	17.5%	-12.1%	-4.1%
Six firms' share of trading value by retail investors	77.2%	77.7%	80.6%	83.3%	82.6%	85.0%	83.7%	85.1%	88.8%

Source: Shared Research based on various company data

Note: Equity trading value (individuals) includes Tokyo Stock Exchange (TSE), Osaka Securities Exchange (OSE), and Nagoya Stock Exchange (NSE), including ETFs and REITs.

Note: The five firms referred to above comprise Matsui Securities, SBI Securities, Rakuten Securities, Monex, Inc., and au Kabucom Securities.

Note: The six firms referred to above comprise Matsui Securities, SBI Securities, Rakuten Securities, Monex, Inc., au Kabucom Securities, and GMO CLICK Securities.

After rate cuts, commission rates largely flat

Matsui introduced a commission-free service, Margin Trading Service for Day-trades, in January 2013. Limited to day traders, it was effectively a cut in commissions. During FY03/14, Rakuten Securities and au Kabucom Securities also lowered their commissions. Since then, brokerage commissions in general have either remained largely unchanged or have been slowly declining. Commission rates of major online brokers other than Matsui and Monex, Inc. were down to a low 0.03% in FY03/20.

Then came the events of September 2019, when major online securities brokers in the US began successively announcing that they were moving to commission-free trading models. This prompted online brokers in Japan to start offering commission-free trading on some transactions, followed by the expansion of the range of transactions qualifying for commission-free trades. Japanese online brokers have not gone as far as their US counterparts, though, owing to differences in the competitive landscape and earnings/cost structures. Indeed, the moves by Japanese online brokers toward commission-free trading thus far have been limited to areas that will have only a limited impact on overall revenues and earnings, such as the move by au dot.com Securities to eliminate commissions on margin trades while at the same time raising the interest rates charged on margin trade balance, or the move by Matsui Securities to lower the minimum principal value of trades needed to qualify for commission-free trading.

SBI Securities and Rakuten Securities have seen increases in their share of equity trading value by individuals since FY03/12. In contrast, Matsui's market share rose through FY03/17 and has come down since then, Monex's market share declined through FY03/16 and has been flat since then, and au Kabucom Securities steadily increased its market share through FY03/15 and since then has been flat.

Brokerage commission rates

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Matsui Securities	0.129%	0.102%	0.065%	0.055%	0.053%	0.047%	0.051%	0.050%	0.051%
SBI Securities	0.040%	0.034%	0.025%	0.026%	0.027%	0.031%	0.031%	0.031%	0.035%
Rakuten Securities	0.064%	0.056%	0.038%	0.041%	0.041%	0.039%	0.034%	0.029%	0.027%
Monex, Inc.	0.089%	0.086%	0.082%	0.089%	0.090%	0.091%	0.085%	0.076%	0.077%
au Kabucom Securities	0.072%	0.055%	0.040%	0.035%	0.035%	0.034%	0.032%	0.029%	0.026%

Source: Shared Research based on various company data

Six online brokerages' share of equity trading value of individuals

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Matsui Securities	7.2%	8.2%	10.5%	11.7%	11.7%	13.0%	11.2%	10.4%	10.0%
SBI Securities	32.9%	32.6%	33.8%	34.6%	34.9%	34.8%	35.1%	36.2%	36.6%
Rakuten Securities	14.8%	14.8%	14.6%	14.5%	14.1%	15.2%	16.4%	19.2%	23.5%
Monex, Inc.	7.3%	7.1%	6.2%	5.5%	5.1%	5.0%	5.3%	5.2%	5.4%
au Kabucom Securities	7.0%	7.2%	7.4%	8.6%	8.7%	8.9%	8.8%	8.9%	8.9%

Source: Shared Research based on various company data

In FY03/20, the six major online brokerages handled 89% of the overall equity trading value of individuals. Since the early 2000s, online brokers have achieved earnings growth by taking market share from their brick-and-mortar rivals, and Shared Research believes that this avenue for growing earnings has narrowed. With regard to commission rates, we would note that while over the last ten years there have been no major changes in commission rates at SBI Securities, commission rates at Rakuten Securities have come down 50% and commission rates at both Matsui Securities and au Kabucom Securities have come down by more than 50%. As a result, the brokerage commission rate at SBI Securities, Rakuten Securities, and au Kabucom Securities is down to 0.03% while the rate for Matsui Securities has come down to 0.05%. With little room left for commission rates to come down, Shared Research believes online brokers will have to either increase growth opportunities in areas other than commissions from retail equity trading over the medium to long term.

Regulatory changes

In the postwar period, the Japanese financial industry was led by the Ministry of Finance under the so-called convoy system; businesses were regulated and competition was limited. Foreign pressure to liberalize the financial system and the risk that Tokyo markets led the second Hashimoto administration to propose and carry out “big bang” reforms in the financial system in 1996.

The liberalization of stockbroking commissions

In April 1998, stock brokerage contract rules were amended so that trades of over JPY50mn were liberalized. In October 1999, they were completely liberalized; this enabled stockbroking firms to set their commission structures themselves.

General margin trading

In December 1998, revisions to the Financial Instruments and Exchange Act included the free setting of contracts between investors and securities firms with respect to settlement deadlines, interest and stock lending rates, and the treatment of rights.

Changes in margin requirements for margin trading

In January 2013, changes to article 161 of the Financial Instruments and Exchange Act due to a ministerial ordinance saw revisions to the way that collateral was calculated for margin trading.

This entailed a change from a delivery date basis to a trade date basis for the restraint period relating to margin requirements. The previous rules required that investors pledge deposits related to a margin trade until the day after closing the position. This limited how many trades could be carried out with one amount of deposits. After the reforms, once the old contract had been closed out, the collateral for the old contract could be used as collateral for a new contract. This enabled the same deposits to be used multiple times for margin trades per day. In addition, profits realized from any reversing trade could be included in the margin trading deposit balance—even before the delivery date

Competition

Five major online brokerages: Earnings and characteristics

Online brokerages have one characteristic in common—their high reliance on brokerage commissions and net interest income from stocks. Thus, their earnings are very sensitive to changes in the stock market. Each of the five major online brokerages has its own commission strategy and diversification strategy; their earnings reflect these characteristics.

Earnings at five major online brokerages

FY03/20 (JPYmn)	Matsui Securities	SBI Securities	Rakuten Securities	Monex Inc.	au Kabucom Securities
Operating revenue	24,150	124,466	58,931	27,987	19,349
Net operating revenue	22,345	113,418	56,501	24,708	15,630
Commissions	13,490	53,028	21,612	12,721	7,544
% of net operating revenue	60.4%	46.8%	38.3%	51.5%	48.3%
Brokerage commissions	12,850	31,851	15,830	10,458	5,872
% of net operating revenue	57.5%	28.1%	28.0%	42.3%	37.6%
Fees for offering, secondary distribution, and solicitation for selling and others for professional investors	10	2,019	43	104	-
% of net operating revenue	0.0%	1.8%	0.1%	0.4%	0.0%
Fees for offering, secondary distribution, and solicitation for selling and others for professional investors	36	2,044	1,303	175	112
% of net operating revenue	0.2%	1.8%	2.3%	0.7%	0.7%
Other commissions	593	17,111	4,433	1,982	1,559
% of net operating revenue	2.7%	15.1%	7.8%	8.0%	10.0%
Net gain (loss) on trading	1,120	35,431	16,833	5,028	1,114
% of net operating revenue	5.0%	31.2%	29.8%	20.3%	7.1%
Net interest income	7,734	28,667	16,813	6,855	6,807
% of net operating revenue	34.6%	25.3%	29.8%	27.7%	43.6%
Financial revenue	9,539	35,946	19,244	10,134	10,221
Financial expenses	1,805	7,279	2,431	3,279	3,414
SG&A expenses	13,436	71,292	44,644	22,028	13,216
% of net operating revenue	60.1%	62.9%	79.0%	89.2%	84.6%
Trading related expenses	4,566	17,011	20,831	5,183	5,021
% of net operating revenue	20.4%	15.0%	36.9%	21.0%	32.1%
Personnel	2,607	18,117	5,206	3,054	1,769
% of net operating revenue	11.7%	16.0%	9.2%	12.4%	11.3%
System-related	5,804	28,354	17,246	10,357	5,747
% of net operating revenue	26.0%	25.0%	30.5%	41.9%	36.8%
Real estate	1,134	7,426	1,800	3,842	2,970
% of net operating revenue	5.1%	6.5%	3.2%	15.5%	19.0%
Office	2,747	15,454	8,533	2,089	852
% of net operating revenue	12.3%	13.6%	15.1%	8.5%	5.5%
Depreciation	1,923	5,474	6,913	4,426	1,925
% of net operating revenue	8.6%	4.8%	12.2%	17.9%	12.3%
Other	459	7,810	1,361	3,434	679
Operating profit	8,909	42,126	11,856	2,680	2,414
% of net operating revenue	39.9%	37.1%	21.0%	10.8%	15.4%
Net assets	80,285	216,516	96,826	48,848	38,644

Source: Shared Research based on various company data
 Note: Monex, Inc. data (Japanese GAAP) used for Monex.

Figures for SBI Securities and Rakuten Securities reflect consolidated results. Figures for Rakuten Securities reflect results for the 12-month period comprising Q2, Q3, and Q4 of FY12/19 and Q1 of FY12/20.

Five major online brokerages

	Matsui Securities	SBI Securities	Rakuten Securities	Monex Inc.	au Kabucom Securities
Competitive commissions	No	Yes	Yes	No	Yes
Brokerage commission rate	0.05%	0.03%	0.03%	0.08%	0.03%
Point of difference	- Margin Trading Service for Day-trades - Premium Short-selling	- Commissions - HYPER short-selling	- Commissions - Rakuten points granted - Ichi-nichi (one day) margin trade - Special short selling	- Diversified ordering methods - Availability of US stocks; commissions - Trading tool - Activist fund	- No commissions on margin trades - Diversified ordering methods - Availability of short stocks for general margin trades
Number of accounts ('000)	1,238	5,428	3,757	1,856	1,152
Number of margin accounts ('000)	202	656	327	135	159
Margin accounts as % of total	16.3%	12.1%	8.7%	7.3%	13.8%
Assets under customers' account (JPYbn)	2,114	11,087	6,606	3,751	2,029
Assets under customers' account per account (JPYmn)	1.7	2.0	1.8	2.0	1.8
Equity trading value (JPYbn)	25,226	92,222	59,226	13,543	22,290
Equity trading value per account (JPYmn)	20.4	17.0	15.8	7.3	19.4
Margin trading balance (JPYbn)	192	647	336	127	230
Balance per account (JPYmn)	0.15	0.12	0.09	0.07	0.20
Margin trading balance per account (JPYmn)	0.95	0.99	1.03	0.94	1.44

Source: Shared Research based on Matsui Securities, SBI Securities, Rakuten Securities, Monex, Inc., au Kabucom Securities data

Note: Brokerage commission rates are calculated utilizing data from FY03/20.

Commission strategy

Since the early 2000s, SBI Securities and Rakuten Securities have had a strategy of trying to win customers through low commissions. On the other hand, Matsui, Monex, Inc., and au Kabucom were reluctant to do so. However, au Kabucom began to lower commissions in FY03/10, and Matsui aggressively followed suit from FY03/13 onward.

au Kabucom has been aggressively lowering commissions. Since FY03/10, it expanded the number of large-margin-trading customers to whom it will offer commission-free trades, and in FY03/12, it revised its cash trading commissions. It also reduced its margin-trading fees in November 2013 and spot-trading fees in November 2015, and in December 2019, moved to commission-free trading for margin trades while at the same time raising its interest rate on margin loans.

Meanwhile, Matsui launched its margin day trading service in Q4 FY03/13, and its commission rates have declined from FY03/13 onward. In December 2019, Matsui adjusted the range of single-day principal trade value that can qualify for commission-free trading, raising it from JPY100,000 and below to JPY500,000 and below.

Having essentially lowered commissions in various ways, au Kabucom and Matsui's shares in the equity trading value of individuals had trended higher through FY03/17. However, with the introduction of Rakuten Securities' Ichinichi margin trading service for day-traders in May 2017, the lower interest rates and stock lending fees offered under Ichinichi pushed up the market share of Rakuten Securities while Matsui saw its share decline in FY03/18 and FY03/19.

Diversification strategy

Shared Research notes that up to FY03/16, Matsui focused on its online stock brokerage business and lagged behind other major online brokers in the handling of mutual funds and strengthening forex products. Thus, a breakdown of the five main online brokers' net operating revenue showed that Matsui had a larger share of commissions and net interest income.

Handling of mutual funds and its contribution to earnings

SBI Securities, Rakuten Securities, Monex, Inc., and au Kabucom Securities have long been keen on handling mutual funds. SBI, Rakuten, and Monex, Inc. each handle over 1,000 different types of mutual funds, and au Kabucom boasts a strong lineup through group company Mitsubishi UFJ Kokusai Asset Management.

Revenues generated by securities brokers from their handling of mutual funds include sales commissions and custodial fees. Sales commissions are paid to the broker selling the mutual fund at the time of the sale. The custodial fee received by the broker is based on the net asset value of the mutual fund held in the customer's account, and represents the portion of the fee earned by the fund management company that is paid to the brokers in consideration of the broker's roles as the fund's agent. Sales commissions (booked under "fees for offering, secondary distribution, and solicitation of sales for specific investors, and others") and agency commissions (booked as "other commissions received") are recorded by securities brokers as operating revenue.

As a result, for the five major online brokerages (excluding Matsui), around 10% of net operating revenue in FY03/20 was from "fees for offering, secondary distribution, and solicitation of sales for specific investors, and others," which include sales commissions on mutual funds. "Other commissions received," including agency commissions, also played a role. This compares with revenues from commissions (mainly on stock trades) and net interest income, which account for between 50% and 80% of net operating income.

Matsui began handling mutual funds as of November 2016. Only 2.8% of net operating revenue in FY03/20 was attributable to "fees for offering, secondary distribution, and solicitation of sales for specific investors, and others" and "other commissions received" (versus 2.6% in FY03/19) This compares with revenues from commissions (mainly on stock trades) and net interest income, which accounted for 92.1% of net operating income in FY03/20 and 92.6% in FY03/19.

Contribution of forex margin trading business to earnings

Revenue from forex margin trading provided by a broker consists of the difference between the spread quoted to customers and the spread offered by partner financial institutions for cover trades, plus revenue from marrying trades in-house. This revenue is recorded as trading profit/loss.

The trading profit/loss of the major online brokers other than Matsui accounted for 5–30% of their FY03/20 net operating revenue versus 5% at Matsui. Matsui changed the business model of its forex margin trading business in May 2017 to improve profitability but trading profits still account for a small portion of its net operating revenue compared with competitors.

Key indicators of the top five online brokerages

Number of customer accounts, customer assets under custody, equity trading value, margin trading balance, and per account operating revenue

The core source of revenues for online brokerages is brokerage commissions and net interest income, which are affected by the number of customer accounts. These companies earn their commissions and interest income when customers deposit assets into their accounts and engage in cash or margin trades using those assets. Therefore, we think comparing key indicators of online brokerages like account numbers, assets under custody, equity trade value, and margin trading balance is important in understanding the competitive landscape of these companies.

The comparative analysis of these indicators suggests that Matsui has relatively higher indicators.

- ▷ High ratio of margin accounts relative to total number of customer accounts
- ▷ High equity trade value per account, trade frequency, and margin trade balance per account
- ▷ High operating revenue per account.

Number of customer accounts

Number of customer accounts

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	3,246,363	3,563,881	3,839,883	4,261,410	4,630,676	5,427,829	10.8%
Rakuten Securities	1,838,630	2,039,530	2,250,038	2,610,549	3,017,334	3,757,172	15.4%
Monex, Inc.	1,533,992	1,635,172	1,696,123	1,760,805	1,817,926	1,856,376	3.9%
Matsui Securities	1,002,439	1,056,072	1,094,240	1,136,018	1,184,102	1,237,989	4.3%
au Kabucom Securities	920,998	1,002,268	1,048,720	1,087,327	1,118,041	1,151,544	4.6%
Total	8,542,422	9,296,923	9,929,004	10,856,109	11,768,079	13,430,910	9.5%

Source: Shared Research based on each company's data

Customer account growth rate

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	10.3%	9.8%	7.7%	11.0%	8.7%	17.2%
Rakuten Securities	9.9%	10.9%	10.3%	16.0%	15.6%	24.5%
Monex, Inc.	5.2%	6.6%	3.7%	3.8%	3.2%	2.1%
Matsui Securities	6.4%	5.4%	3.6%	3.8%	4.2%	4.6%
au Kabucom Securities	6.0%	8.8%	4.6%	3.7%	2.8%	3.0%
Total	8.3%	8.8%	6.8%	9.3%	8.4%	14.1%

Source: Shared Research based on each company's data

Margin accounts

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	355,375	409,473	462,555	527,102	592,312	656,301	13.1%
Rakuten Securities	187,514	205,861	222,452	252,675	282,938	327,364	11.8%
Monex, Inc.	97,515	105,041	110,954	118,921	127,444	135,213	6.8%
Matsui Securities	159,375	169,534	177,242	184,731	190,961	201,521	4.8%
au Kabucom Securities	113,528	127,290	138,146	146,730	153,839	159,488	7.0%

Source: Shared Research based on each company's data

Margin account growth rate

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	13.1%	15.2%	13.0%	14.0%	12.4%	10.8%
Rakuten Securities	8.7%	9.8%	8.1%	13.6%	12.0%	15.7%
Monex, Inc.	-	7.7%	5.6%	7.2%	7.2%	6.1%
Matsui Securities	7.8%	6.4%	4.5%	4.2%	3.4%	5.5%
au Kabucom Securities	13.4%	12.1%	8.5%	6.2%	4.8%	3.7%

Source: Shared Research based on each company's data

Margin account ratio (number of margin accounts / number of customer accounts)

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	10.9%	11.5%	12.0%	12.4%	12.8%	12.1%
Rakuten Securities	10.2%	10.1%	9.9%	9.7%	9.4%	8.7%
Monex, Inc.	6.4%	6.4%	6.5%	6.8%	7.0%	7.3%
Matsui Securities	15.9%	16.1%	16.2%	16.3%	16.1%	16.3%
au Kabucom Securities	12.3%	12.7%	13.2%	13.5%	13.8%	13.8%

Source: Shared Research based on each company's data

Customer assets under custody
Customer assets under custody (JPYmn)

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	8,184,500	8,313,300	9,388,200	11,425,700	11,412,900	11,086,900	6.3%
Rakuten Securities	3,506,620	3,533,823	4,099,172	5,026,163	5,598,103	6,605,900	13.5%
Monex, Inc.	3,705,472	3,477,282	3,803,176	4,229,011	4,058,575	3,751,066	0.2%
Matsui Securities	2,215,656	2,063,892	2,275,160	2,524,428	2,340,344	2,114,300	-0.9%
au Kabucom Securities	2,026,681	1,920,672	2,120,425	2,335,700	2,205,100	2,029,000	0.0%
Total	19,638,929	19,308,969	21,686,133	25,541,002	25,615,022	25,587,166	5.4%

Source: Shared Research based on each company's data

Per account assets under custody (JPYmn)

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	2.5	2.3	2.4	2.7	2.5	2.0
Rakuten Securities	1.9	1.7	1.8	1.9	1.9	1.8
Monex, Inc.	2.4	2.1	2.2	2.4	2.2	2.0
Matsui Securities	2.2	2.0	2.1	2.2	2.0	1.7
au Kabucom Securities	2.2	1.9	2.0	2.1	2.0	1.8

Source: Shared Research based on each company's data

Equity trading value
Equity trading value

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	108,448,960	115,715,106	92,515,600	111,228,600	99,249,700	92,222,100	-3.2%
Rakuten Securities	45,578,939	46,549,165	40,416,297	51,942,687	52,593,061	59,226,260	5.4%
Monex, Inc.	17,093,831	17,054,153	13,315,856	16,768,680	14,166,404	13,542,899	-4.6%
Matsui Securities	36,626,479	38,724,705	34,540,204	35,606,752	28,414,607	25,226,433	-7.2%
au Kabucom Securities	27,093,482	28,675,866	23,534,144	27,872,478	24,292,400	22,290,000	-3.8%
Total	234,841,691	246,718,995	204,322,101	243,419,197	218,716,172	212,507,692	-2.0%

Source: Shared Research based on each company's data

Equity trading value: margin trading (JPYmn)

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	-	-	-	-	-	-
Rakuten Securities	28,808,261	29,829,703	26,947,483	34,371,858	37,321,076	42,199,519
Monex, Inc.	8,459,885	8,426,498	6,438,794	7,792,693	7,651,524	7,676,351
Matsui Securities	28,859,481	31,050,443	28,675,537	28,067,421	22,979,875	20,270,644
au Kabucom Securities	-	-	-	-	19,212,000	17,625,000

Source: Shared Research based on each company's data

Margin trading as percent of all equity trading

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	-	-	-	-	-	-
Rakuten Securities	63.2%	64.1%	66.7%	66.2%	71.0%	71.3%
Monex, Inc.	49.5%	49.4%	48.4%	46.5%	54.0%	56.7%
Matsui Securities	78.8%	80.2%	83.0%	78.8%	80.9%	80.4%
au Kabucom Securities	-	-	-	-	79.1%	79.1%

Source: Shared Research based on each company's data

Per account equity trading value (equity trading value / number of customer accounts)

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	35.0	34.0	25.0	27.5	22.3	18.3
Rakuten Securities	26.0	24.0	18.8	21.4	18.7	17.5
Monex, Inc.	11.4	10.8	8.0	9.7	7.9	7.4
Matsui Securities	37.7	37.6	32.1	31.9	24.5	20.8
au Kabucom Securities	30.3	29.8	22.9	26.1	22.0	19.6

Source: Shared Research based on various company data

Note: Number of customer accounts is the average of account numbers at beginning and end of financial year.

Trade frequency (equity trading value / customer assets under custody)

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	14.5	14.0	10.5	10.7	8.7	8.2
Rakuten Securities	14.6	13.2	10.6	11.4	9.9	9.7
Monex, Inc.	5.0	4.7	3.7	4.2	3.4	3.5
Matsui Securities	17.7	18.1	15.9	14.8	11.7	11.3
au Kabucom Securities	14.6	14.5	11.6	12.5	10.7	10.5

Source: Shared Research based on each company's data

Margin trading balance

Margin trading balance

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	787,000	677,000	799,000	1,001,000	838,000	647,000	-3.8%
Rakuten Securities	358,480	303,752	353,418	468,483	405,325	335,902	-1.3%
Monex, Inc.	197,800	163,400	166,100	205,300	157,000	126,800	-8.5%
Matsui Securities	319,024	255,177	278,086	331,931	232,829	191,676	-9.7%
au Kabucom Securities	289,124	265,811	295,752	335,800	299,300	230,000	-4.5%

Source: Shared Research based on each company's data

Per account margin trading balance

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	0.24	0.19	0.21	0.23	0.18	0.12
Rakuten Securities	0.19	0.15	0.16	0.18	0.13	0.09
Monex, Inc.	0.13	0.10	0.10	0.12	0.09	0.07
Matsui Securities	0.32	0.24	0.25	0.29	0.20	0.15
au Kabucom Securities	0.31	0.27	0.28	0.31	0.27	0.20

Source: Shared Research based on various company data

Per account revenue

Per account net operating revenue (net operating revenue / number of customer accounts)

(JPY)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	23,323	24,347	22,666	26,415	25,731	22,552	-0.7%
Rakuten Securities	25,077	26,691	20,459	21,510	20,127	16,680	-7.8%
Monex, Inc.	19,933	20,123	15,929	17,006	14,555	13,449	-7.6%
Matsui Securities	33,833	32,065	24,647	27,333	22,412	18,451	-11.4%
au Kabucom Securities	23,418	23,282	18,568	19,662	16,566	13,773	-10.1%

Source: Shared Research based on each company's data

Note: Number of customer accounts is the average of account numbers at beginning and end of financial year.

Per account brokerage commissions (brokerage commissions / number of customer accounts)

(JPY)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	9,242	9,195	7,690	8,522	6,882	6,333	-7.3%
Rakuten Securities	10,579	9,814	7,306	7,335	5,362	4,673	-15.1%
Monex, Inc.	10,623	10,191	7,614	8,237	6,023	5,693	-11.7%
Matsui Securities	20,597	19,834	15,123	16,366	12,314	10,611	-12.4%
au Kabucom Securities	10,639	10,375	7,832	8,451	6,430	5,175	-13.4%

Source: Shared Research based on each company's data

Note: Number of customer accounts is the average of account numbers at beginning and end of financial year.

Per account net interest income (net interest income / number of customer accounts)

(JPY)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	7,604	7,758	7,176	9,420	8,211	5,700	-5.6%
Rakuten Securities	7,552	7,113	6,224	7,646	6,760	4,964	-8.1%
Monex, Inc.	4,568	4,129	3,879	4,466	4,498	3,731	-4.0%
Matsui Securities	12,048	10,931	8,593	9,246	8,446	6,386	-11.9%
au Kabucom Securities	9,372	9,184	7,347	8,462	7,518	5,998	-8.5%

Source: Shared Research based on each company's data

Note: Number of customer accounts is the average of account numbers at beginning and end of financial year.

SG&A expenses of top five online brokerages

A comparative analysis of the SG&A expenses of top five online brokerages shows the following characteristics of Matsui.

- ▷ Low SG&A expense ratio (SG&A expenses to net operating revenue ratio) and per account SG&A expenses
- ▷ Low per account system-related expenses

SG&A expenses
SG&A expenses

(JPYmn)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	37,507	43,025	45,934	53,426	59,052	71,292	13.7%
Rakuten Securities	23,613	27,275	26,836	31,398	37,825	44,644	13.6%
Monex, Inc.	21,088	24,428	25,738	24,024	23,282	22,028	0.9%
Matsui Securities	10,806	11,258	11,560	11,949	12,547	13,436	4.5%
au Kabucom Securities	10,839	11,768	11,535	13,066	12,386	13,216	4.0%

Source: Shared Research based on each company's data

SG&A expenses to net operating revenue ratio

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	52.0%	51.9%	54.7%	49.9%	51.6%	62.9%
Rakuten Securities	53.6%	52.7%	61.2%	60.1%	66.8%	79.0%
Monex, Inc.	70.7%	76.6%	97.0%	81.7%	89.4%	89.2%
Matsui Securities	32.9%	34.1%	43.6%	39.2%	48.3%	60.1%
au Kabucom Securities	51.7%	52.6%	60.6%	62.2%	67.8%	84.6%

Source: Shared Research based on each company's data

Per account SG&A expenses

(JPY)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	12,118	12,635	12,408	13,189	13,282	14,175
Rakuten Securities	13,448	14,066	12,512	12,919	13,442	13,180
Monex, Inc.	14,098	15,416	15,452	13,899	13,011	11,990
Matsui Securities	11,115	10,938	10,752	10,715	10,816	11,095
au Kabucom Securities	12,110	12,238	11,248	12,234	11,233	11,646

Source: Shared Research based on each company's data

Note: Number of customer accounts is the average of account numbers at beginning and end of financial year.

Trading-related expenses

Trading-related expenses

(JPYmm)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	9,238	10,868	10,096	12,552	12,033	17,011	13.0%
Rakuten Securities	9,932	11,250	10,975	14,219	17,228	20,831	16.0%
Monex, Inc.	6,278	6,436	5,432	5,886	5,168	5,183	-3.8%
Matsui Securities	4,719	4,674	4,345	4,592	4,408	4,566	-0.7%
au Kabucom Securities	5,500	5,908	5,010	5,732	4,761	5,021	-1.8%

Source: Shared Research based on various company data

Personnel expenses

Personnel expenses

(JPYmm)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	4,227	5,891	8,680	13,065	16,310	18,117	-
Rakuten Securities	3,310	3,705	3,597	3,943	4,754	5,206	9.5%
Monex, Inc.	2,579	3,019	2,995	2,812	2,676	3,054	3.4%
Matsui Securities	2,030	2,178	2,227	2,364	2,661	2,607	5.1%
au Kabucom Securities	1,159	1,166	1,427	1,511	1,566	1,769	8.8%

Source: Shared Research based on each company's data

Note: Five-year average growth not shown for SBI Securities due to switch to consolidated accounting in FY03/16

Personnel expenses as percent of net operating revenue

(JPYmm)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	5.9%	7.1%	10.3%	12.2%	14.3%	16.0%
Rakuten Securities	7.5%	7.2%	8.2%	7.5%	8.4%	9.2%
Monex, Inc.	8.6%	9.5%	11.3%	9.6%	10.3%	12.4%
Matsui Securities	6.2%	6.6%	8.4%	7.8%	10.2%	11.7%
au Kabucom Securities	5.5%	5.2%	7.5%	7.2%	8.6%	11.3%

Source: Shared Research, based on individual company data

System-related expenses (real estate expenses, office expenses, depreciation)

System-related expenses

(JPYmm)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	20,760	21,997	22,398	22,528	23,260	28,354	6.4%
Rakuten Securities	9,660	10,763	11,183	11,813	13,801	17,246	12.3%
Monex, Inc.	9,049	11,335	13,567	11,839	12,121	10,357	2.7%
Matsui Securities	3,801	3,778	3,999	4,498	4,946	5,804	8.8%
au Kabucom Securities	3,714	3,847	4,356	5,050	5,045	5,747	9.1%

Source: Shared Research based on each company's data

System-related expenses to net operating revenue ratio

	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
SBI Securities	28.8%	26.5%	26.7%	21.1%	20.3%	25.0%
Rakuten Securities	21.9%	20.8%	25.5%	22.6%	24.4%	30.5%
Monex, Inc.	30.3%	35.5%	51.1%	40.3%	46.5%	41.9%
Matsui Securities	11.6%	11.4%	15.1%	14.8%	19.0%	26.0%
au Kabucom Securities	17.7%	17.2%	22.9%	24.0%	27.6%	36.8%

Source: Shared Research based on each company's data

Per account system-related expenses

(JPY)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	6,707	6,460	6,050	5,562	5,232	5,638	-3.4%
Rakuten Securities	5,502	5,551	5,214	4,861	4,905	5,091	-1.5%
Monex, Inc.	6,050	7,153	8,145	6,849	6,774	5,638	-1.4%
Matsui Securities	3,910	3,671	3,719	4,034	4,264	4,793	4.2%
au Kabucom Securities	4,150	4,000	4,248	4,728	4,575	5,064	4.1%

Source: Shared Research based on each company's data

Note: Number of customer accounts is the average of account numbers at beginning and end of financial year.

Per transaction system-related expenses

(JPY)	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	5-yr CAGR
SBI Securities	-	-	-	-	-	-	-
Rakuten Securities	11.0	12.4	14.1	14.2	18.5	26.2	19.0%
Monex, Inc.	16.0	20.2	26.9	21.1	23.2	20.7	5.3%
Matsui Securities	6.9	6.9	7.9	8.4	9.6	12.2	12.1%
au Kabucom Securities	3.6	3.7	4.8	5.3	5.5	6.9	14.0%

Source: Shared Research based on each company's data

Industry peers

SBI Securities

Japan's largest online broker. A subsidiary of SBI Holdings (TSE1: 8473). Parent company was Osawa Securities, which was founded in 1944. In October 1999, it began securities trading over the internet as E*TRADE Securities. In 2005, it took over Fides Securities, and in October 2007 merged with SBI securities (the former World Nichiei Frontier Securities). In August 2008, SBI Securities became a wholly owned subsidiary of SBI Holdings. The holding company structure contains banking, insurance and asset management businesses—it aims to be a diversified financial services firm.

Since the early 2000s, SBI Securities has been growing its share of the individual investor market through the lowest commissions in the industry. As of May 2020, it was the largest in the industry in terms of the number of accounts, assets under customers' accounts, and trading value.

A breakdown of net operating revenue at SBI Securities shows income from brokerage commissions, net interest income, net trading income, and other income related to trading volumes and margins trading, as well as income from forex trading guarantees and mutual funds.

SBI Securities: Earnings trends and key indicators

Key performance indicators	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Number of accounts ('000)	2,944	3,246	3,564	3,840	4,261	4,631	5,428
YoY	12.9%	10.3%	9.8%	7.7%	11.0%	8.7%	17.2%
Assets under customers' accounts (JPYbn)	6,750	8,185	8,313	9,388	11,426	11,413	11,087
YoY	18.0%	21.3%	1.6%	12.9%	21.7%	-0.1%	-2.9%
Domestic equity brokerage trading value (JPYbn)	129,986	108,449	115,715	92,516	111,229	99,250	92,222
YoY	157.2%	-16.6%	6.7%	-20.0%	20.2%	-10.8%	-7.1%
Margin trading balance (JPYmn)	691,000	787,000	677,000	799,000	1,001,000	838,000	647,000
YoY	33.7%	13.9%	-14.0%	18.0%	25.3%	-16.3%	-22.8%
Earnings (JPYmn)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Net operating revenue	69,878	72,188	82,906	83,907	106,997	114,402	113,418
YoY	73.1%	3.3%	14.8%	1.2%	27.5%	6.9%	-0.9%
Commissions received	41,453	40,241	43,994	40,737	52,671	52,623	53,028
YoY	77.3%	-2.9%	9.3%	-7.4%	29.3%	-0.1%	0.8%
Brokerage commissions	32,190	28,606	31,310	28,466	34,521	30,599	31,851
YoY	86.0%	-11.1%	9.5%	-9.1%	21.3%	-11.4%	4.1%
% of net operating revenue	46.1%	39.6%	37.8%	33.9%	32.3%	26.7%	28.1%
Underwriting and distribution	575	1,441	1,145	1,494	958	3,387	2,019
Subscriptoin and distribution	3,714	3,946	4,305	3,410	4,491	5,462	2,044
Other commissions	4,974	6,247	7,232	7,365	12,700	13,175	17,111
Net trading income	8,096	8,363	13,217	18,117	19,266	27,667	35,431
YoY	20.3%	3.3%	58.0%	37.1%	6.3%	43.6%	28.1%
% of net operating revenue	11.6%	11.6%	15.9%	21.6%	18.0%	24.2%	31.2%
Net interest income	20,254	23,537	26,417	26,564	38,159	36,507	28,667
YoY	98.8%	16.2%	12.2%	0.6%	43.6%	-4.3%	-21.5%
% of net operating revenue	29.0%	32.6%	31.9%	31.7%	35.7%	31.9%	25.3%
SG&A expenses	37,118	37,507	43,025	45,934	53,426	59,052	71,292
YoY	28.1%	1.0%	14.7%	6.8%	16.3%	10.5%	20.7%
SG&A as % of net operating revenue	53.1%	52.0%	51.9%	54.7%	49.9%	51.6%	62.9%
Trading related expenses	9,849	9,238	10,868	10,096	12,552	12,033	17,011
YoY	66.8%	-6.2%	17.6%	-7.1%	24.3%	-4.1%	41.4%
Personnel expenses	3,694	4,227	5,891	8,680	13,065	16,310	18,117
YoY	-4.7%	14.4%	39.4%	47.3%	50.5%	24.8%	11.1%
System related expenses	19,770	20,760	21,997	22,398	22,528	23,260	28,354
YoY	23.8%	5.0%	6.0%	1.8%	0.6%	3.2%	21.9%
Other expenses	3,806	3,282	4,264	4,756	5,277	7,447	7,806
YoY	17.9%	-13.8%	29.9%	11.5%	11.0%	41.1%	4.8%
Operating profit	32,760	34,681	39,881	37,972	53,570	55,349	42,126
YoY	187.4%	5.9%	15.0%	-4.8%	41.1%	3.3%	-23.9%
OPM	46.9%	48.0%	48.1%	45.3%	50.1%	48.4%	37.1%

Source: Shared Research based on various company data
Note: Consolidated figures from FY03/16

Rakuten Securities

A subsidiary of Rakuten Inc. (TSE1: 4755). In March 1999, DLJ Direct SFG Securities was established with investments from DLJ of the US and Sumitomo Bank. In June 1999, it began online stockbroking services. In November 2003, it became a subsidiary of Rakuten.

It is cooperating with other companies in the Rakuten group in acquiring customers, selling mutual funds, and offering loyalty points. Similar to SBI Securities, the company aggressively cut commissions and thus increased its share of individual investors' turnover.

Rakuten Securities: Earnings trends and key indicators

Key performance indicators	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Number of accounts ('000)	1,673	1,839	2,040	2,250	2,611	3,017	3,757
YoY	14.4%	9.9%	10.9%	10.3%	16.0%	15.6%	24.5%
Assets under customers' accounts (JPYbn)	2,752	3,507	3,534	4,099	5,026	5,598	6,606
YoY	20.8%	27.4%	0.8%	16.0%	22.6%	11.4%	18.0%
Domestic equity brokerage trading value (JPYbn)	56,037	45,579	46,549	40,416	42,189	52,593	59,696
YoY	143.4%	-18.7%	2.1%	-13.2%	4.4%	24.7%	13.5%
Margin trading balance (JPYmn)	322,252	358,480	303,752	353,418	468,483	405,325	335,902
YoY	20.8%	11.2%	-15.3%	16.4%	32.6%	-13.5%	-17.1%
Average margin trading balance (JPYmn)	320,795	332,274	346,611	300,775	399,998	417,755	398,756
YoY	92.3%	3.6%	4.3%	-13.2%	33.0%	4.4%	-4.5%
Earnings (JPYmn)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Net operating revenue	43,341	44,031	51,756	43,880	52,275	56,636	56,501
YoY	96.6%	1.6%	17.5%	-15.2%	19.1%	8.3%	-0.2%
Commissions received	26,066	23,706	24,834	20,478	23,478	20,803	21,612
YoY	72.8%	-9.1%	4.8%	-17.5%	14.6%	-11.4%	3.9%
Brokerage commissions	21,509	18,576	19,031	15,669	17,825	15,088	15,830
YoY	87.3%	-13.6%	2.4%	-17.7%	13.8%	-15.4%	4.9%
% of net operating revenue	49.6%	42.2%	36.8%	35.7%	34.1%	26.6%	28.0%
Subscription and distribution	2,215	2,178	1,944	1,343	1,882	1,484	1,303
Other commissions	2,340	2,950	3,858	3,464	3,771	4,204	4,433
Net trading income	5,142	6,508	9,609	9,568	9,425	15,777	16,833
YoY	316.4%	26.6%	47.6%	-0.4%	-1.5%	67.4%	6.7%
% of net operating revenue	11.9%	14.8%	18.6%	21.8%	18.0%	27.9%	29.8%
Net interest income	11,517	13,261	13,793	13,349	18,581	19,021	16,813
YoY	126.1%	15.1%	4.0%	-3.2%	39.2%	2.4%	-11.6%
% of net operating revenue	26.6%	30.1%	26.7%	30.4%	35.5%	33.6%	29.8%
SG&A expenses	20,730	23,613	27,275	26,836	31,398	37,825	44,644
YoY	37.8%	13.9%	15.5%	-1.6%	17.0%	20.5%	18.0%
SG&A as % of net operating revenue	47.8%	53.6%	52.7%	61.2%	60.1%	66.8%	79.0%
Trading related expenses	9,172	9,932	11,250	10,975	14,219	17,228	20,831
YoY	66.2%	8.3%	13.3%	-2.4%	29.6%	21.2%	20.9%
Personnel expenses	2,743	3,310	3,705	3,597	3,943	4,754	5,206
YoY	6.6%	20.7%	11.9%	-2.9%	9.6%	20.6%	9.5%
System related expenses	8,363	9,660	10,763	11,183	11,813	13,801	17,246
YoY	25.1%	15.5%	11.4%	3.9%	5.6%	16.8%	25.0%
Other expenses	447	707	1,552	1,078	1,418	2,036	1,356
YoY	67.4%	58.2%	119.5%	-30.5%	31.5%	43.6%	-33.4%
Operating profit	22,611	20,417	24,481	17,043	20,877	18,810	11,856
YoY	223.3%	-9.7%	19.9%	-30.4%	22.5%	-9.9%	-37.0%
OPM	52.2%	46.4%	47.3%	38.8%	39.9%	33.2%	21.0%

Source: Shared Research based on various company data

Note: Consolidated figures from FY03/16.

Note: FY03/20 figures are the 12-month period consisting of Q2, Q3, and Q4 FY12/19 and Q1 FY12/20.

au Kabucom securities (Unlisted)

The online broker affiliated with the Mitsubishi UFJ Financial Group and the KDDI Group. The company was born in April 2001 out of a merger between Japan Online Securities—which had an investment from Itochu Corporation (TSE1: 8001)—and the old Sanwa Bank group's eWing securities. In January 2006, it merged with the former Mitsubishi UFJ Securities subsidiary MeNet Securities. In June 2007, it became consolidated in the Mitsubishi UFJ Financial Group Inc. (TSE1: 8306). It received the highest credit rating—A+—among online brokers from the Japan Credit Rating Agency. In August 2019, au Financial Holdings Corporation—a wholly owned subsidiary of KDDI (TSE1: 9433)—launched a takeover bid and acquired 37.96% stake in kabu.com

Securities. With this leaving au Financial Holdings and the Mitsubishi UFJ Financial Group as the two remaining shareholders, kabu.com Securities became au Kabucom Securities and was delisted.

Its key characteristics are that it is the only online broker that creates its own computer systems internally and that it is the only net broker that belongs to a megabank group. It is deepening its ties with the bank by aggressively targeting bank customers, particularly senior citizens. It boasts the largest number of shares that are available for general margin trading in the industry.

In February 2012, au Kabucom began offering a margin trading program that limits the settlement date to 13 days, and allows for margin trading on securities that can be difficult to obtain. au Kabucom boasts the largest number of stocks in the industry which can be traded on general margin trading for short positions.

Along the big-five online brokers, au Kabucom securities is similar to Matsui Securities in terms of the breakdown of its net operating revenue in that it derives a large portion of its net operating revenue from brokerage commissions and net interest income.

au Kabucom Securities: Earnings trends and key indicators

Key performance indicators	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Number of accounts ('000)	869	921	1,002	1,049	1,087	1,118	1,152
YoY	7.3%	6.0%	8.8%	4.6%	3.7%	2.8%	3.0%
Assets under customers' accounts (JPYbn)	1,688	2,027	1,921	2,120	2,336	2,205	2,029
YoY	14.7%	20.1%	-5.2%	10.4%	10.2%	-5.6%	-8.0%
Domestic equity brokerage trading value (JPYbn)	28,373	27,093	28,676	23,534	27,872	24,292	22,290
YoY	153.1%	-4.5%	5.8%	-17.9%	18.4%	-12.8%	-8.2%
Margin trading balance (JPYmn)	247,600	289,100	265,800	295,800	335,800	299,300	230,000
YoY	21.8%	16.8%	-8.1%	11.3%	13.5%	-10.9%	-23.2%
Average margin trading balance (JPYmn)	213,625	225,308	242,975	208,758	254,192	254,608	223,775
YoY	78.3%	5.5%	7.8%	-14.1%	21.8%	0.2%	-12.1%
Earnings (JPYmn)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Net operating revenue	21,286	20,960	22,389	19,041	21,000	18,267	15,630
YoY	85.5%	-1.5%	6.8%	-15.0%	10.3%	-13.0%	-14.4%
Commissions received	13,362	11,555	12,210	9,842	10,806	8,821	7,544
YoY	71.2%	-13.5%	5.7%	-19.4%	9.8%	-18.4%	-14.5%
Brokerage commissions	11,340	9,522	9,977	8,032	9,026	7,090	5,872
YoY	82.6%	-16.0%	4.8%	-19.5%	12.4%	-21.4%	-17.2%
% of net operating revenue	53.3%	45.4%	44.6%	42.2%	43.0%	38.8%	37.6%
Underwriting and distribution	352	293	356	224	192	262	112
Subscription and distribution	1,670	1,739	1,876	1,585	1,588	1,468	1,559
Net trading income	623	1,016	1,347	1,108	1,062	1,040	1,114
YoY	291.8%	63.1%	32.6%	-17.7%	-4.2%	-2.1%	7.1%
% of net operating revenue	2.9%	4.8%	6.0%	5.8%	5.1%	5.7%	7.1%
Net interest income	7,300	8,388	8,832	7,534	9,038	8,290	6,807
YoY	108.2%	14.9%	5.3%	-14.7%	20.0%	-8.3%	-17.9%
% of net operating revenue	34.3%	40.0%	39.4%	39.6%	43.0%	45.4%	43.6%
SG&A expenses	9,707	10,839	11,768	11,535	13,066	12,386	13,216
YoY	27.9%	11.7%	8.6%	-2.0%	13.3%	-5.2%	6.7%
SG&A as % of net operating revenue	45.6%	51.7%	52.6%	60.6%	62.2%	67.8%	84.6%
Trading related expenses	4,672	5,500	5,908	5,010	5,732	4,761	5,021
YoY	35.1%	17.7%	7.4%	-15.2%	14.4%	-16.9%	5.5%
Personnel expenses	1,154	1,159	1,166	1,427	1,511	1,566	1,769
YoY	25.4%	0.4%	0.6%	22.4%	5.9%	3.6%	13.0%
System related expenses	3,453	3,714	3,847	4,356	5,050	5,045	5,747
YoY	17.8%	7.6%	3.6%	13.2%	15.9%	-0.1%	13.9%
Other expenses	424	462	843	739	771	1,010	674
YoY	53.1%	9.0%	82.5%	-12.3%	4.3%	31.0%	-33.3%
Operating profit	11,579	10,120	10,621	7,505	7,934	5,881	2,414
YoY	198.3%	-12.6%	5.0%	-29.3%	5.7%	-25.9%	-59.0%
OPM	54.4%	48.3%	47.4%	39.4%	37.8%	32.2%	15.4%

Source: Shared Research based on various company data

Monex Group (TSE1: 8698)

Independent online broker. Aims to offer individual investors worldwide institutional investor grade financial services; has a diversification strategy.

Formed in April 1999 with co-investments by Sony Corporation (TSE1: 6758) and Oki Matsumoto, who currently serves as president. It expanded through mergers with Nikko Beans Securities in May 2005 and ORIX Securities in May 2010. It is aggressively expanding overseas: in 2010 it brought China's Boom Securities group under its umbrella and in 2011 bought TradeStation in the US. Seeing blockchain and cryptocurrency technology as key growth drivers in the future, Monex Group started preparing to enter this field with the announcement of its "New Beginning" initiative in October 2017. In keeping with this plan, Monex subsequently acquired cryptocurrency exchange operator Coincheck, Inc. in April 2018.

With Japanese online broker Monex, Inc. (consolidated subsidiary) at the core, the group includes a US online securities and technological development business, the TradeStation group; and online broking in China.

As a result of its revenue diversification, the share of non-brokerage related commissions in revenue is high; it does however have a high cost structure. Monex, Inc. (parent) had among the highest brokerage commission rates in FY03/20 after Matsui Securities. However, its SG&A expense ratio was the highest among the five major online brokers, and its OP margin was the lowest.

The company has internally developed a global trading platform with cutting-edge financial technology. It aims to use this platform to set itself apart from competitors. The company is not keen on engaging in commission price wars, but went ahead and cut commission rates on margin trades in November 2017.

Monex, Inc.: Earnings trends and key indicators

Key performance indicators		FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Number of accounts ('000)		1,458	1,534	1,635	1,696	1,761	1,818	1,856
YoY		8.0%	5.2%	6.6%	3.7%	3.8%	3.2%	2.1%
Assets under customers' accounts (JPYbn)		3,150	3,705	3,477	3,803	4,229	4,059	3,751
YoY		12.9%	17.6%	-6.2%	9.4%	11.2%	-4.0%	-7.6%
Domestic equity brokerage trading value (JPYbn)		23,855	17,094	17,054	13,316	16,769	14,166	13,543
YoY		117.1%	-28.3%	-0.2%	-21.9%	25.9%	-15.5%	-4.4%
Margin trading balance (JPYmn)		189,900	197,800	163,400	166,000	205,300	157,000	126,800
YoY		11.6%	4.2%	-17.4%	1.6%	23.7%	-23.5%	-19.2%
Average margin trading balance (JPYmn)		194,700	183,500	186,900	152,000	177,900	179,300	154,300
YoY		63.8%	-5.8%	1.9%	-18.7%	17.0%	0.8%	-13.9%
Earnings (JPYmn)		FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
		Noncons.	Noncons.	Noncons.	Noncons.	Noncons.	Noncons.	Noncons.
Net operating revenue		34,640	29,816	31,886	26,532	29,394	26,045	24,708
YoY		67.5%	-13.9%	6.9%	-16.8%	10.8%	-11.4%	-5.1%
Commissions received		23,913	19,041	19,478	15,379	17,087	13,369	12,721
YoY		88.0%	-20.4%	2.3%	-21.0%	11.1%	-21.8%	-4.8%
Brokerage commissions		20,655	15,889	16,149	12,683	14,238	10,778	10,458
YoY		99.6%	-23.1%	1.6%	-21.5%	12.3%	-24.3%	-3.0%
% of net operating revenue		59.6%	53.3%	50.6%	47.8%	48.4%	41.4%	42.3%
Underwriting and distribution		120	99	152	136	171	69	104
Subscription and distribution		917	707	791	442	458	355	175
Other commissions		2,220	2,344	2,384	2,117	2,218	2,165	1,982
Net trading income		4,035	3,797	5,675	4,499	3,862	4,530	5,028
YoY		29.2%	-5.9%	49.5%	-20.7%	-14.2%	17.3%	11.0%
% of net operating revenue		11.6%	12.7%	17.8%	17.0%	13.1%	17.4%	20.3%
Net interest income		6,400	6,832	6,542	6,461	7,720	8,049	6,855
YoY		36.7%	6.7%	-4.2%	-1.2%	19.5%	4.3%	-14.8%
% of net operating revenue		18.5%	22.9%	20.5%	24.4%	26.3%	30.9%	27.7%
SG&A expenses		20,367	21,088	24,428	25,738	24,024	23,282	22,028
YoY		28.9%	3.5%	15.8%	5.4%	-6.7%	-3.1%	-5.4%
SG&A as % of net operating revenue		58.8%	70.7%	76.6%	97.0%	81.7%	89.4%	89.2%
Trading related expenses		6,175	6,278	6,436	5,432	5,886	5,168	5,183
YoY		36.9%	1.7%	2.5%	-15.6%	8.4%	-12.2%	0.3%
Personnel expenses		2,629	2,579	3,019	2,995	2,812	2,676	3,054
YoY		19.4%	-1.9%	17.1%	-0.8%	-6.1%	-4.8%	14.1%
System related expenses		8,073	9,049	11,335	13,567	11,839	12,121	10,357
YoY		21.0%	12.1%	25.3%	19.7%	-12.7%	2.4%	-14.6%
Other expenses		3,487	3,179	3,635	3,741	3,484	3,315	3,429
YoY		44.4%	-8.8%	14.3%	2.9%	-6.9%	-4.9%	3.4%
Operating profit		14,273	8,727	7,457	794	5,369	2,762	2,680
YoY		192.7%	-38.9%	-14.6%	-89.4%	576.2%	-48.6%	-3.0%
OPM		41.2%	29.3%	23.4%	3.0%	18.3%	10.6%	10.8%

Source: Shared Research based on various company data

Historical performance

Q1 FY03/21 results

Consolidated results for Q1 FY03/21 (April–June 2020)

▷ Operating revenue:	JPY7.2bn (+28.9% YoY, +5.5% QoQ)
▷ Net operating revenue:	JPY6.8bn (+32.5% YoY, +6.1% QoQ)
▷ Operating profit:	JPY3.0bn (+55.5% YoY, +11.9% QoQ)
▷ Recurring profit:	JPY3.0bn (+52.0% YoY, +14.7% QoQ)
▷ Net income:	JPY2.1bn (+53.4% YoY, +21.4% QoQ)

- ▷ Net operating revenue for Q1 FY03/21 was up on both a YoY and QoQ basis. The gains were driven by commission income (68.4% of net operating revenue), which rose both YoY and QoQ as the value of stock and other trades handled by the company increased along with the rising stock market. Net interest income (28.3% of net operating revenue) was up only slightly YoY and was down QoQ.
- ▷ On the earnings front, Q1 SG&A spending was up on both a YoY and QoQ basis but the gains in operating revenue were more than enough to give the company positive growth in earnings at the operating profit level and below.

Market environment

Equity trading on the Tokyo and Nagoya stock exchanges during Q1 FY03/21 (April–June 2020) was up 25.4% YoY and down 1.8% QoQ in value terms. With rising stock prices increasing buying power and volatile stock prices bringing more opportunities to trade, individual investors were a major driver of stock market activity during the quarter, increasing stock trading on the two exchanges by 61.0% YoY and 19.8% QoQ and, with this, pushing up the share of trading accounted for by individual investors to 21.9% for an increase of 4.9pp YoY and 3.9pp QoQ.

Company initiatives

- ▷ The company introduced its Activist Tracker Tool, a new investment information tool that can be used in combination with stock price charts to understand trading trends of large investors such as activists. Launched in April 2020, the new investment tool is designed to help investors find profitable trading opportunities and is part of an overall effort by the company to differentiate itself from competitors.
- ▷ In the area of mutual funds, the company launched Mutual Fund Monthly Cash Return Service, the first service in Japan to return portions of custodian fees to customers in cash. In addition to eliminating sales commissions in December 2020, this initiative is an effort to lower costs for customers associated with purchasing and holding mutual funds.
- ▷ At its expanded stock lending service, launched in December 2019, Q1 saw the balance of stock loans outstanding top the JPY50.0bn mark. The company had previously limited its stock lending service to stocks held in cash accounts, but with its move to expand the eligible accounts to include margin accounts, it also gave its margin account holders the opportunity to earn extra income by allowing stocks (collateral securities) held in their margin accounts to be loaned out.
- ▷ In the area of forex trading services, the company took additional steps in July 2020 to enhance services, including reducing its bid-ask spread on all currency pairs. (See below for further details).
- ▷ Upon approval at the company's annual general shareholders meeting held in June 2020 and the Board of Directors' meeting held thereafter, senior managing director Akira Warita assumed the position of president and representative director, and former president Michio Matsui became advisor. The change in senior management notwithstanding, the company intends to stick with the strategy it adopted in FY03/19, which calls for expanding its product and service lineup and increasing its name

recognition by further differentiating itself from competitors with the rollout of new information services that help investors identify profitable trading opportunities. As discussed in detail later in this report (under the Medium/long-term Outlook section), the new strategy represents a departure from the company's previous strategy under which it focused on maximizing revenues and earnings by concentrating its efforts on its stock brokerage business.

Equity trading value at Matsui Securities

- ▷ In Q1 FY03/21, individual equity trading through all brokers increased 61.0% YoY and 19.8% QoQ (in value terms) while equity trading handled by Matsui Securities rose 54.3% YoY and 22.7% QoQ, to JPY9.3tn.
- ▷ Of the commissionable equity trades handled by Matsui Securities, JPY4.5tn (+73.0% YoY, +17.0% QoQ) came from trades other than Margin Trading Services for Day-Trades, and JPY4.7tn (+38.2% YoY, +27.0% QoQ) came from Margin Trading Services for Day-Trades.
- ▷ In terms of market share, Matsui Securities handled 10.1% (-0.5pp YoY, +0.2pp QoQ) of all equity trading through brokers (value basis).

Commissions

Total commission income of JPY4.7bn in Q1 was up 55.4% YoY and 13.5% QoQ; of this, brokerage commission income of JPY4.5bn was up 58.9% YoY and 14.0% QoQ.

- ▷ In Q1 FY03/21, the total value of commissionable equity trading value rose by 54.3% YoY and 22.7% QoQ.
- ▷ The average stock brokerage commission rate of 0.045% was up 0.001pp YoY and down 0.001pp QoQ. Calculated as stock brokerage commissions divided by value of trades handled, this reflected changes in the proportion of all trading accounted for by commission-free Margin Trading Service for Day-trades, which at 50.8% in Q1 was down 5.9pp YoY and up 1.7pp QoQ.
- ▷ Excluding margin trading by day-traders, the average brokerage commission rate was 0.092%, down 0.008pp YoY and flat QoQ (calculated by Shared Research based on company data). The YoY decline in the average brokerage commission rate excluding margin trading by day-traders in Q1 FY03/21 follows a similar decline in Q4 FY03/20, with both stemming from the company's move in December 2019 to expand the bracket of small trades eligible for commission-free trading*.

*Previously, the company offered commission-free trading for accounts trading a total of less than JPY100,000 a day, but with the change raised the upper limit to qualify for commission-free trading to JPY500,000.

Trading profit/loss

The company posted a net trading profit of JPY225mn (-20.8% YoY, -21.9% QoQ), most of which came from forex trading.

Statistics from the Financial Futures Association of Japan show OTC forex margin transactions totaling JPY1,491tn during April–June 2020, up 95.6% YoY but down 14.3% QoQ. In contrast, Matsui's NetFx service handled JPY2.5tn in forex margin trading, up 127.5% YoY and down 5.5% QoQ. This generated income of JPY239mn, up 23.2% YoY and down 10.8% QoQ—the muted YoY rise and larger QoQ decline versus trading volume reflecting a decline in interest income from swap points on trades, which came down in line with the decline in interest rates.

Net interest income

Q1 net interest income (interest and dividend income minus interest expenses) of JPY1.9bn was up 3.8% YoY and down 5.1% QoQ. On a YoY comparison basis, the average balance of margin trades outstanding was down but this was offset by an increase in the company's net interest margin. On a QoQ comparison basis, the decline in the average balance of margin trades outstanding left net interest income down.

- ▷ The average margin trading balance of JPY219.4bn in Q1 was down 2.8% YoY and 5.8% QoQ. The end-Q1 margin trading balance of JPY199.3bn was up 7.2% YoY and 29.2% QoQ. This compares with the margin trading balance on the Tokyo and Nagoya stock exchanges of JPY2.2tn, up 2.3% YoY and 26.3% QoQ. On this metric the company's market share rose to 9.0%, an increase of 0.4pp YoY and 0.2pp QoQ.
- ▷ The Q1 net interest income figure of JPY1.9bn represents a gross interest income figure of JPY2.3bn (+0.1% YoY, -4.9% QoQ) less interest expenses of JPY334mn (-17.1% YoY, -4.6% QoQ). The company's net interest margin* of 3.5% for Q1 was up 0.2pp YoY and flat QoQ, with the YoY rise reflecting added income from its premium short-selling service and stock lending service. (*Net interest margin calculated as net interest income divided by average margin trading balance.)

SG&A expenses

Q1 SG&A expenses of JPY3.9bn were up 19.0% YoY and 1.9% QoQ.

- ▷ Transaction-related expenses (including advertising and promotion expenses) of JPY1.4bn were up 41.5% YoY and down 4.7% QoQ.
 - With transaction-related expenses varying in line with trading, the jump in stock trading during Q1 pushed stock exchange and broker association fees up to JPY387mn, an increase of 38.2% YoY and 9.6% QoQ.
 - Q1 advertising/promotional spending of JPY303mn was up 188.6% YoY and down 27.5% QoQ, the YoY increase reflecting increases in payouts on pay-for-performance ads in connection with the rise in new account openings during the quarter and an aggressive ad campaign aimed at raising the company's name recognition among investors.
- ▷ Q1 personnel expenses of JPY703mn were up 2.3% YoY and 11.1% QoQ, the rise stemming from a one-time payment booked in connection with stock option awards for retiring directors.
- ▷ Real estate-related expenses of JPY274mn were down 2.8% YoY and 4.2% QoQ.
- ▷ Office and supplies expenses of JPY797mn were up 25.1% YoY and 9.0% QoQ, the rise reflecting greater spending on outside contractors in connection with increases in its admin workload following the rollout of new products and services.
- ▷ Q1 depreciation of JPY495mn was down 9.3% YoY and up 5.8% QoQ. The YoY decline reflected the dropout of the temporary jump in depreciation resulting from the company's move to an accelerated depreciation method for assets related to its old forex system in Q1 FY03/20. The QoQ increase reflected additional depreciation charges booked in connection with capital investment associated with upgrades to its services.

Customer trends

In Q1 FY03/21, equity trading by Matsui customers averaged roughly JPY3.1tn per month, up from JPY2.0tn in Q1 FY03/20 and JPY2.5tn in Q4 FY03/20. The increase in equity trading reflected a combination of both increases in assets under customers' accounts and rising asset turnover (average monthly trading value divided by average assets under customers' accounts).

- ▷ As of end-June 2020, the company reported a total of some 1,266,000 customer accounts, representing a YoY increase of 5.8% and QoQ increase of 2.2% (versus end-March 2020). The company reported 156,000 active account (monthly basis), an increase of 48.1% YoY but down 11.7% QoQ (versus end-March 2020).
- ▷ In absolute terms, the company realized a net increase of roughly 28,000 accounts in Q1 FY03/21 versus net increases of 25,000 in Q4 FY03/20, 9,000 in Q3 FY03/20, and 9,000 in Q2 FY03/20. By way of explanation, the company noted that the jump in new account openings in Q4 FY03/20 came while the stock market was falling but that the fast pace of new account openings continued in Q1 FY03/21 as the stock market was rising. Another factor contributing to the net increase in accounts in recent quarters was its move in December 2019 to expand the brackets of small trades eligible for commission-free trading.

Compared with the net increase of some 28,000 accounts reported by Matsui during Q1 FY03/21, for the same period Monex reported a net addition of about 16,000 accounts while au Kabucom Securities reported a net addition of 20,000 accounts.

- ▷ As of end-June 2020, the company reported a total of some JPY2.4tn in assets under customers' accounts, representing a YoY increase of 3.3% and QoQ increase of 12.0% (versus end-March 2020). The gains in both cases were driven in large part by the rise in stock market prices.
- ▷ Turnover of assets under customers' accounts averaged 1.46x versus 0.93x in Q1 FY03/20 and 1.17x in Q4 FY03/20. The pronounced YoY and QoQ rise in asset turnover in customer accounts reflected the surge in stock trading by individual investors as stock market prices increased.

Company initiative: Mutual fund business

As of end-June 2020, the company reported a total of JPY22.5bn in customer assets in mutual funds (versus JPY16.7bn at end-March 2020) and a lineup of 1,261 mutual funds (versus 1,258 at end-March 2020). Mutual fund sales of JPY6.9bn were up 60.5% YoY and down 16.9% QoQ; of this, sales of mutual funds to mutual fund-based savings accounts of JPY1.5bn were up 87.5% YoY and 25.0% QoQ.

Customer assets under management in mutual funds, number of mutual funds offered, and sales of mutual funds

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales of mutual funds	4,300	9,300	15,000	23,300	6,900			
Saving type of investment	800	1,700	2,600	3,800	1,500			

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
AUM of mutual funds	13,200	14,900	17,300	16,700	22,500			
Number of mutual funds	953	1,092	1,234	1,258	1,261			
Sales of mutual funds	4,300	5,000	5,700	8,300	6,900			
Saving type of investment	800	900	900	1,200	1,500			

Source: Shared Research, based on company data

In the area of mutual funds, the company's growth strategy calls for growing customer assets held in mutual funds through a combination of acquiring new customers and increasing the amounts accumulated in mutual fund-based savings accounts. In addition to the portfolio advisory service (using its proprietary robo-advisory service) that it has offered for some time, in January 2019 Matsui rolled out a new life plan simulation tool to help customers design/evaluate life financial plans along with a free telephone consultation service. Matsui is also looking to do more promotional activities tied to major life events in the lives of its customers; here, it is looking to collaborate with companies in other industries that provide services and products related to major life events, such as marriages and childbirths, and use these opportunities to increase contact points with customers and promote its mutual fund-based savings plans.

Company Initiative: Upgrade forex trading services

In forex margin trading services, in May 2017 the company switched from a broking model (NDD, or No Dealing Desk) to a trading model (DD or Dealing Desk) method and, as a result of the switch, net profit on forex trading increased (see the Outlook section for details). Compared with before the switch to a new cover-trade model, the company has seen a four to five-fold increase in the profit margin on its forex margin trading.

Revenue and earnings trends at forex margin trading business

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OTC FX margin trading (JPYtn)	762	1,702	2,525	4,266	1,491			
YoY	-23.9%	-8.8%	-10.6%	14.1%	95.6%			
Matsui Securities' NetFx trading value (JPYtn)	1.1	2.7	3.8	6.4	2.5			
YoY	-37.0%	-13.9%	-16.2%	8.2%	127.5%			
Net trading income	284	602	832	1,120	225			
YoY	-22.0%	-10.1%	-15.1%	-7.7%	-20.8%			
NetFx commissions	194	422	612	880	239			
YoY	-12.2%	-7.5%	-10.7%	1.7%	23.2%			
% of trading value	0.018%	0.016%	0.016%	0.014%	0.010%			

(JPYmn)	FY03/20				FY03/21			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OTC FX margin trading (JPYtn)	762	940	823	1,741	1,491			
YoY	-23.9%	8.7%	-14.2%	90.4%	95.6%			
Matsui Securities' NetFx trading value (JPYtn)	1.1	1.6	1.1	2.6	2.5			
YoY	-37.0%	14.5%	-21.3%	87.2%	127.5%			
Net trading income	284	318	230	288	225			
YoY	-22.0%	3.9%	-25.6%	23.1%	-20.8%			
NetFx commissions	194	228	190	268	239			
YoY	-12.2%	-3.0%	-17.0%	48.9%	23.2%			
% of trading value	0.018%	0.014%	0.017%	0.010%	0.010%			

Source: Shared Research, based on company data

In July 2020, the company tightened its bid-ask spread on all currency pairs handled by its forex trading service. With the bid-ask spread on forex trade serving as a de facto commission rate on forex trades, the company's previous bid-ask spread of JPY0.01–0.02 was not competitive with other forex trading services. As a first step, the company cut its bid-ask spread down to JPY0.005.

With most competitors having a bid-ask spread of JPY0.01–0.002 (as of October 2020), the company made plans for following through with another cut that will bring its bid-ask spread down to JPY0.002 by the end of FY03/21. Up until now most of Matsui's forex trading customers have been drawn from the ranks of its existing customers in other areas, including stock trading customers as well as customers making use of Matsui's financial product and services in other areas. Going forward, however, the company plans to run mass promotions specifically aimed at attracting more forex traders.

Income from forex trading can be divided into the value of forex trades handled and the commission rate earned on those trades. While further cuts in its bid-ask spread will bring down its effective commission rate on forex trades, the company still sees earnings from forex trading rising in the future as the cuts in its bid-ask spread are expected to eliminate its competitive disadvantage and lead to growth in the volume of forex trading at its forex business.

In this relation, the company noted that its bid-ask spread of JPY0.01–0.02 on the yen-dollar currency pair brought the commission rate at its NetFx service in at 0.010% in Q1 FY03/21. In contrast, the bid-ask spread of JPY0.002 at other forex trading services during the same timeframe left them with a forex commission rate of roughly 0.003%.

Full-year FY03/20 results

Consolidated results for FY03/20 (April 2019–March 2020)

- ▷ Operating revenue: JPY24.2bn (-11.6% YoY)
- ▷ Net operating revenue: JPY22.3bn (-14.1% YoY)
- ▷ Operating profit: JPY8.9bn (-33.8% YoY)
- ▷ Recurring profit: JPY9.0bn (-33.7% YoY)
- ▷ Net income: JPY6.1bn (-35.8% YoY)

Revenues and profits finished the year down as weak market conditions led to both slower trading and declining margin account balances and earnings came under additional pressure from rising SG&A expenses. Still, on a quarter-on-quarter comparison, the company managed to end the year on a positive note with both revenues and profits rising in Q4 (January–March 2020) versus Q3, as detailed below.

Market environment

In FY03/20, equity trading on the Tokyo and Nagoya stock exchanges declined 8.7% YoY in value terms, with equity trading by individuals declining 8.2% YoY. The proportion of trading accounted for by individuals on the two exchanges was basically flat at 17.5%.

Company initiatives

- ▷ In the area of equity trading, Matsui Securities revised its commission and interest rate schedule, expanded the bracket for small trades eligible for commission-free trading, and lowered both interest rates and stock borrowing fees charged under its dedicated margin trading service for day-traders. The company also overhauled its customer website and expanded stock lending services.
 - In December 2019, the company changed its commission schedule for small accounts, raising the upper limit for the principal value of trades in a single day that are eligible for commission-free trading from JPY100,000 to JPY500,000.
 - Matsui Securities offers commission-free trading to accounts qualifying for its Ichinichi margin trading service for day-traders, and with the changes in December also lowered the minimum for the principal value of trades in a single day needed in these accounts to qualify for zero-interest margin loans and zero stock lending fees (from JPY3.0mn to JPY1.0mn), and for single-day margin trading in Ichinichi accounts with a principal value of less than JPY1.0mn, reduced the interest rate for margin loans and stock loan fees from 2.0% to 1.8%.
 - Also, in December 2019, Matsui Securities expanded the range of accounts eligible to use its securities lending service, wherein account owners earn interest by allowing the company to lend out securities held in their accounts. Previously, only cash equities held in accounts could be loaned out through the company's securities lending service. Now, margin account owners will also be able to take advantage of the company's securities lending service and earn interest by allowing the stocks (collateral securities) bought on margin and held in their accounts to be loaned out.
- ▷ In the area of equities and mutual funds, in October 2019 the company launched a new service in which it pays all transfer fees when customers transfer assets from another company to Matsui Securities.
- ▷ In December 2019, the company eliminated sales commissions on all mutual funds and announced the launch of its Mutual Fund Monthly Cash Return Service, the first service in Japan to return a portion of custodian fees (any amount over 0.3%) to customers in cash, in an effort to lower costs for customers purchasing and holding mutual funds.
- ▷ In the area of futures trading, in August 2019, the company lowered its commissions to make them the industry's lowest.
- ▷ In the area of FX services, in April 2019, the company updated customer services and upgraded trading platforms for PCs and smartphones. It also worked to expand currency-related services, for example by increasing currency pairs and lowering the size of the smallest currency unit for trading.

Equity trading value at Matsui Securities

- ▷ In FY03/20, the value of individual equity trading through all brokers declined 8.7% YoY while equity trading handled by Matsui Securities declined by 11.2% YoY, to JPY25.2tn.
- ▷ Of the commissionable equity trades handled by Matsui Securities, JPY11.8tn (-8.4% YoY) came from trades other than day-trades on margin, and JPY13.4tn (-13.5% YoY) came from day-trades on margin.

- ▷ In terms of market share, Matsui Securities handled 10.0% (-0.3pp YoY) of all equity trading through brokers (value basis).

Commission income

Total commission income of JPY13.5bn was down 10.0% YoY; of this, brokerage commission income of JPY12.9bn was down 10.0% YoY.

In FY03/20, the total value of commissionable equity trading value declined 11.2% YoY. The average stock brokerage commission rate (stock brokerage commissions/trading value) was flat YoY at 0.047%, as the proportion of commission-free trades in Ichinichi accounts (margin trading service for day-traders) to total equity trading through Matsui Securities fell 1.4pp YoY to 53.1%. Excluding Ichinichi accounts, the average brokerage commission rate was 0.100%, down 0.003pp YoY (calculated by Shared Research based on Matsui Securities' earnings results materials).

With the raising of the upper limit for the principal value of trades in a single day that are eligible for commission-free trading in December 2019 (as mentioned previously), Matsui's average commission rate (excluding its Ichinichi margin trading service) came down in Q4.

Net trading profit/loss

The company posted a net trading profit of JPY1.1bn (-7.7% YoY), mainly from FX transactions.

According to statistics from the Financial Futures Association of Japan, OTC forex margin transactions totaled some JP4,266tn during FY03/20 (April 2019–March 2020), an increase of 14.1% over FY03/19. In contrast, Matsui's NetFx service saw JPY6.4tn in forex margin trading, an increase of only 8.2% YoY. Revenues from NetFx rose only 1.7% YoY, to JPY880mn, the revenue gain failing to match the increase in trading as falling interest rates led to less interest income from swap points on trades.

Net interest income

Net interest income (interest, dividend, and other financial income minus financial costs) of JPY7.7bn was down 21.1% YoY.

- ▷ The average balance of margin trades outstanding, at JPY229.3bn, was down 18.8% YoY. The outstanding balance of margin trades in accounts at Matsui at the end of FY03/20 was JPY157.8bn, down 20.3% versus the end of FY03/19. This compares with the outstanding balance of all margin trades on the Tokyo and Nagoya stock exchanges, which at JPY1.8tn was down 11.7% YoY, with Matsui managing to increase its market share on this metric by 0.6pp, to 8.8%.
- ▷ The JPY7.7bn in net interest income was the product of JPY9.5bn in (gross) interest income (-14.2% YoY) and JPY1.8bn in interest expenses (+37.4% YoY). The decline in interest income was due to a lower average margin trading balance and rising interest expenses due to backwardation*. The net interest income rate (calculated as net interest income divided by average margin trading balance) slipped 0.1pp YoY to 3.4%.

Backwardation is a stock procurement fee incurred by a securities broker serving as a stock lender when a short position margin trading balance exceeds a long position margin trading balance, and the broker supplements its lack of stock on hand by borrowing stocks from third-parties such as institutional investors. Backwardation is calculated recognizing both interest income and interest expenses.

SG&A expenses

SG&A expenses of JPY13.4bn were up 7.1% YoY.

- ▷ Transaction-related expenses (including advertising and promotional expenses), which vary in line with trading value, increased 3.6% YoY to JPY4.6bn.
 - Stock exchange and association fees of JPY1.2bn were down 6.0% YoY as a result of the drop in customer trading.
 - Advertising/promotional expenses of JPY934mn were up 42.6% YoY, reflecting increases in payouts for performance-based ads that led to new account openings and aggressive ad campaigns aimed at raising Matsui's name recognition.

- ▷ Personnel expenses of JPY2.6bn were down 2.0% YoY as a reaction to special bonuses paid to employees last year in connection with the company's 100-year anniversary celebration.
- ▷ Real estate-related expenses of JPY1.1bn were up 30.3% YoY, the jump driven by increases in maintenance expenses following the expansion of its data center.
- ▷ Office expenses of JPY2.7bn were up 15.2%, reflecting increases in outsourcing costs and temporary increases in other costs (such as spending on research) in connection with the expansion of its service menu.
- ▷ Depreciation of JPY1.9bn was up 13.7% YoY, reflecting the use of accelerated depreciation for some assets starting in Q1 (April–June 2019).

Customer trends

Over the full year, equity trading by Matsui's customers averaged roughly JPY2.1tn per month, down from JPY2.4tn in FY03/19. In Q1, customer equity trading averaged roughly JPY2.0tn per month (versus JPY2.6tn in Q1 FY03/19); in Q2, the monthly average was about JPY1.9bn (versus JPY2.2tn in Q2 FY03/19); in Q3, the monthly average was JPY2.0tn (versus JPY2.4tn in Q3 FY03/19); and in Q4, the monthly average was JPY2.5tn (versus JPY2.0tn in Q4 FY03/19).

At the end of March 2020, Matsui Securities reported a total of 1,238,000 accounts, up 4.6% versus the end of March 2019 and 2.1% versus the end of December 2019. Matsui's active account total came to 177,000, up 36.0% versus the end of March 2019 and 41.9% versus the end of December 2019. Despite the YoY and QoQ increase in the number of active accounts, customer assets under custody of JPY2.1tn at the end of March 2019 were still down 9.7% YoY and down 13.2% QoQ.

In absolute terms, the total number of accounts at Matsui Securities increased by roughly 12,000 QoQ in Q1, by 9,000 QoQ in Q2, by 9,000 QoQ in Q3, and by 25,000 in Q4. The sharp jump in new account openings in Q4 came amidst the selloff in the stock market, with roughly two-thirds of those new accounts being opened by people identifying themselves as having no experience in stock investing. The jump in new account openings in Q4 was also attributed to company's move in December 2019 to increase the upper limit for the principal value of trades in a single day that are eligible for commission-free trading.

Company initiative: Mutual fund business

As of the end of March 2020, the company reported JPY16.7bn in customer assets in mutual funds (versus JPY12.1bn at the end of March 2019) and a lineup of 1,258 mutual funds (versus 805 at the end of March 2019). Mutual fund sales of JPY23.3bn were up 104.4% YoY, with this including sales of mutual funds to mutual fund-based savings accounts of JPY3.8bn (+35.7% YoY). The amount of customer assets held in mutual funds at the end of Q4 was down versus the end of Q3, but this was due to the decline in the stock market, as customers continued buying mutual fund holdings on a net basis as the stock market went down and thus continued to increase the principal amount put into mutual funds). That said, the contribution from the mutual fund business to Matsui's revenues and earnings is still quite small.

Customer assets held in mutual funds, number of mutual funds offered, and mutual fund sales

(JPYmn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales of mutual funds	3,200	6,100	9,000	11,400	4,300	9,300	15,000	23,300
Saving type of investment	700	1,400	2,100	2,800	800	1,700	2,600	3,800
(JPYmn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
AUM of mutual funds	9,300	10,600	10,100	12,100	13,200	14,900	17,300	16,700
Number of mutual funds	479	558	670	805	953	1,092	1,234	1,258
Sales of mutual funds	3,200	2,900	2,900	2,400	4,300	5,000	5,700	8,300
Saving type of investment	700	700	700	700	800	900	900	1,200

Source: Shared Research, based on company data

In the area of mutual funds, the company's growth strategy calls for growing customer assets held in mutual funds through a combination of acquiring new customers and increasing the balance of mutual fund-based savings accounts. In addition to the portfolio advisory service (using its proprietary robo-advisory service) that it has offered for some time, in January 2019 Matsui Securities rolled out a new life plan simulation tool to help customers assess and design a life financial plan and a free telephone consultation service. Further, it plans to strengthen promotional activities that target customers' life events. Specifically, it looks collaborate with companies in other industries that provide services and products catering to major life events such as marriages and childbirths to promote its mutual fund-based savings plans and increase contact points with customers.

Company Initiative: Upgrade forex trading services

In forex margin trading services, in May 2017 the company switched from a broking model (NDD, or No Dealing Desk) to a trading model (DD or Dealing Desk) method and, as a result of the switch, net profit on forex trading increased (for further details see the Outlook section).

Compared with before the switch to a new cover-trade model, the company has seen a four- to five-fold increase in the profit margin on its forex margin trading.

Profit margin on forex margin trading

(JPYmn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OTC FX margin trading (JPYtn)	1,002	1,867	2,826	3,740	762	1,702	2,525	4,266
YoY	-1.2%	-10.4%	-5.9%	-10.5%	-23.9%	-8.8%	-10.6%	14.1%
Matsui Securities' NetFx trading value (JPYtn)	1.7	3.1	4.5	5.9	1.1	2.7	3.8	6.4
YoY	-30.2%	-41.1%	-39.2%	-39.9%	-37.0%	-13.9%	-16.2%	8.2%
Net trading income	364	670	980	1,214	284	602	832	1,120
YoY	163.8%	55.1%	31.9%	1.1%	-22.0%	-10.1%	-15.1%	-7.7%
NetFx commissions	221	456	685	865	194	422	612	880
YoY	76.8%	38.2%	32.2%	16.1%	-12.2%	-7.5%	-10.7%	1.7%
% of trading value	0.013%	0.015%	0.015%	0.015%	0.018%	0.016%	0.016%	0.014%

(JPYmn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OTC FX margin trading (JPYtn)	1,002	865	959	914	762	940	823	1,741
YoY	-1.2%	-19.2%	4.5%	-22.3%	-23.9%	8.7%	-14.2%	90.4%
Matsui Securities' NetFx trading value (JPYtn)	1.7	1.4	1.4	1.4	1.1	1.6	1.1	2.6
YoY	-30.2%	-50.6%	-34.4%	-41.9%	-37.0%	14.5%	-21.3%	87.2%
Net trading income	364	306	309	234	284	318	230	288
YoY	163.8%	4.1%	-0.6%	-48.9%	-22.0%	3.9%	-25.6%	23.1%
NetFx commissions	221	235	229	180	194	228	190	268
YoY	76.8%	14.6%	21.8%	-20.7%	-12.2%	-3.0%	-17.0%	48.9%
% of trading value	0.013%	0.017%	0.016%	0.013%	0.018%	0.014%	0.017%	0.010%

Source: Shared Research based on various company data

The company is looking to further increase forex trading volume and related earnings with the help of new initiatives launched in April 2019, including upgrades to its trading platforms, increases in the number of currency pairs available for trading, further reductions in the minimum size of trading units, and a new function that allows customers to set the upper limit for leverage they want to use on their forex trades.

Shared Research thinks that the bid-ask spread of between JPY0.01 and JPY0.02 available on JPY/USD trades through Matsui's forex trading service (as of January 2020) compared unfavorably to the lowest spread (only JPY0.002) available in the industry. Matsui, however, appears to be making preparations so that it will be able to reduce its spread on forex trades to better match the competition.

Company initiative: Expand stock lending service

In December 2019, the company expanded its stock lending service to include margin accounts, whereas it had previously lent stocks only to cash accounts. With this expansion of its stock lending service, Matsui is now able to collect interest on stock lending using the stocks held as collateral in the accounts of customers trading on margin.

The extension of its stock lending service to margin accounts provided a big boost to its stock lending operations in Q4 (January–March 2020), with the outstanding stock loans at their highest point being more than double the amount prior to the change. Although the selloff in the stock market deflated the ballooning figures somewhat, the expansion of its stock lending service still increased the amount of stock loans outstanding at the end of Q4 by roughly 50% versus before the change, and more than doubled revenues from stock lending in Q4 versus Q3. That said, the impact on overall revenues and earnings from stock lending was still relatively small.

Consolidated results for Q4 FY03/20 (January–March 2020)

▷ Operating revenue:	JPY6.8bn (+16.9% YoY, +11.5% QoQ)
▷ Net operating revenue:	JPY6.4bn (+17.6% YoY, +16.6% QoQ)
▷ Operating profit:	JPY2.7bn (+20.6% YoY, +17.6% QoQ)
▷ Recurring profit:	JPY2.6bn (+19.6% YoY, +14.7% QoQ)
▷ Net income:	JPY1.7bn (+3.3% YoY, +8.9% QoQ)

Revenues and earnings in Q4 were up on both a YoY and QoQ comparison basis, the gains underpinned by the jump in trading amid the market meltdown and the accompanying increase in commission income.

Market environment

In Q4 FY03/20 (January–March 2020), equity trading on the Tokyo and Nagoya stock exchanges increased 21.7% YoY and 19.9% QoQ in value terms, with equity trading by individuals rising 23.2% YoY and 20.9% QoQ. The proportion of trading accounted for by individual investors at 18.0% was up 0.2pp YoY and also up 0.2pp QoQ.

Equity trading value at Matsui Securities

- ▷ In Q4 FY03/20, individual equity trading through all brokers rose 23.2% YoY and 20.9% QoQ in value terms, with equity trading handled by Matsui Securities of JPY7.5tn up 15.4% YoY and 26.3% QoQ.
- ▷ Of the commissionable equity trades handled by Matsui Securities, JPY3.8tn (+40.3% YoY, +33.8% QoQ) came from trades other than day-trades on margin, and JPY3.7tn (-2.6% YoY, +19.4% QoQ) came from day-trades on margin. Amid the market meltdown sparked by the coronavirus pandemic, trading increased and it was not just day traders, as Matsui reported seeing the largest increases in trading in cash accounts and in margin accounts other than those using its Ichinichi margin service for day traders.
- ▷ In terms of market share, Matsui Securities handled 9.9% (-0.7pp YoY, +0.4pp QoQ) of all equity trading through brokers (value basis).

Commissions

Total commission income of JPY4.1bn in Q4 was up 27.4% YoY and 22.5% QoQ, with brokerage commissions of JPY4.0bn up 29.8% YoY and 23.7% QoQ.

- ▷ In Q4 FY03/20, the total value of commissionable equity trading value rose 15.4% YoY and 26.3% QoQ as previously dormant investors became active amid the market meltdown, leading to increasing trading in cash accounts.

- ▷ Matsui's average stock brokerage commission rate (stock brokerage commissions/trading value) rose 0.003pp YoY and 0.004pp QoQ to 0.047%, with the proportion of trading accounted for by commission-free trades through Ichinichi accounts falling 9.1pp YoY and 2.9p QoQ to 49.0%. Excluding Ichinichi accounts, the average commission rate of 0.092%* was down 0.009pp YoY and 0.010% QoQ (*calculated by Shared Research based on company data). Matsui's average commission rate declined because the company raised its upper limit for the principal value of trades in a single day that are eligible for commission-free trading, as discussed previously.

Net trading profit/loss

The company posted a Q4 net trading profit of JPY288mn (+23.1% YoY, +25.2% QoQ), most of which came from forex trading.

According to statistics from the Financial Futures Association of Japan, OTC forex margin transactions totaled some JP1,741tn during Q4 FY03/20 (January–March 2020), representing a YoY increase of 90.4% and a QoQ increase of 111.5%. In contrast, Matsui's NetFx service saw JPY1.7tn in forex margin trading for a YoY increase of 87.2% and a QoQ increase of 136.9%. Revenues from NetFx of JPY268mn were up 48.9% YoY and 41.1% QoQ, with the revenue gains failing to match the increase in trading volume as falling interest rates led to less interest income from swap points on trades.

Net interest income

Net interest income (interest, dividend, and other financial income minus interest expenses) of JPY2.0bn was up 1.3% YoY and 5.4% QoQ, with the gains reflecting a combination of increases in margin loans outstanding and increases in income from stock lending.

- ▷ The average balance of margin trades outstanding, at JPY233.0bn, was up 0.2% YoY and 1.6% QoQ. At the end of Q4, Matsui reported margin trades outstanding of JPY154.3bn, down 20.5% YoY and 16.9% QoQ. This compares with the outstanding balance of all margin trades on the Tokyo and Nagoya stock exchanges, which at JPY1.8tn was down 25.5% YoY and 21.1% QoQ, with Matsui managing to increase its market share of outstanding margin trades to 9.0%, up 0.6pp YoY and 0.7pp QoQ.
- ▷ Gross interest income of JPY2.4bn in Q4 was up 1.8% YoY and down 4.6% QoQ, and interest expenses of JPY1.8bn were up 5.4% YoY and down 38.6% QoQ. The net interest income rate of 3.5% (calculated net interest income/ average balance of margin trades outstanding) was flat YoY and down 0.1pp QoQ.

SG&A expenses

Q4 SG&A expenses of JPY3.8bn were up 15.6% YoY and 16.0% QoQ.

- ▷ Transaction-related expenses of JPY1.4bn (including advertising/promotional expenses), which vary in line with trading value, were up 24.1% YoY and 35.5% QoQ.
 - Stock exchange/association fees of JPY353mn were up 18.9% YoY and 31.7% QoQ.
 - Advertising/promotional expenses of JPY418mn were up 72.0% YoY and 118.8% QoQ, the sharp jump reflecting increases in payouts for performance-based ads that led to new account openings and aggressive ad campaigns aimed at raising Matsui's name recognition.
- ▷ Personnel expenses of JPY633mn were down 0.6% YoY and 1.1% QoQ.
- ▷ Real estate-related expenses of JPY286mn were up 23.3% YoY and 0.4% QoQ, with most of the increase last year reflecting increases in maintenance costs following the expansion of the company's data center.
- ▷ Office expenses of JPY731mn were up 14.2% YoY and 4.4% QoQ.
- ▷ Depreciation charges of JPY468mn were up 9.9% YoY and 1.1% QoQ.

Q3 FY03/20 results

Results for the nine-month period through Q3 FY03/20 (April–December 2019)

▷ Operating revenue:	JPY17.4bn (-19.3% YoY)
▷ Net operating revenue:	JPY15.9bn (-22.5% YoY)
▷ Operating profit:	JPY6.2bn (-44.4% YoY)
▷ Recurring profit:	JPY6.4bn (-44.0% YoY)
▷ Net income:	JPY4.4bn (-44.2% YoY)

The YoY decline in operating revenues during the nine-month period ending December 31, 2019, was due in large part to market-level factors that led to a decline in equity trading across the market as a whole and a reduction in the average margin trading balance. The drop in earnings at the company was further aggravated by rising SG&A expenses, which together with the decline in operating revenue left earnings down sharply YoY. Momentum changed in Q3, however, giving Matsui Securities QoQ increases in both operating revenue and earnings, as detailed below.

Market environment

During the nine-month period ending December 31, 2019, aggregate equity trading value at the Tokyo and Nagoya stock exchanges contracted 17% YoY, with equity trading by individuals declining by 17% YoY as individuals refrained from actively trading due to stock market uncertainty. The proportion of trading accounted for by individuals stayed flat YoY at 17%.

Company initiatives

- ▷ In the area of equity trading, December 2019 saw Matsui Securities move to revise its commission and interest rate schedule, expand the bracket for small trades eligible for commission-free trading, and lower both interest rates and stock borrowing fees charged under its dedicated margin trading service for day-traders. The company also updated its Netstock Smart customer website and expanded stock lending services.
 - In December 2019, the company changed its commission schedule for small accounts, raising the upper limit for the principal value of trades in a single day that are eligible for commission-free trading from JPY100,000 to JPY500,000.
 - Matsui Securities offers commission-free trading to accounts qualifying for its Ichinichi margin trading service for day-traders, and with the changes in December it also lowered the minimum for the principal value of trades in a single day needed for Ichinichi accounts to qualify for zero-interest margin loans and zero stock lending fees from JPY3.0mn to JPY1.0mn and for single-day margin trading in Ichinichi accounts with a principal value of less than JPY1.0mn reduced the interest rate for margin loans and stock loan fees from 2.0% to 1.8%.
 - Also, in December 2019, Matsui Securities expanded the range of accounts eligible to use its securities lending service, wherein account owners earn interest by allowing the company to lend out securities held in their accounts. Previously, only cash equities held in accounts could be loaned out through the company's securities lending service. Now, margin account owners will also be able to take advantage of the company's securities lending service and earn interest by allowing the stocks (collateral securities) bought on margin and held in their accounts to be loaned out.
- ▷ In the area of equities and mutual funds, in October 2019 the company launched a new service that pays all transfer fees when customers transfer assets from another company to Matsui Securities. This was followed in December 2019 by the elimination of sales commissions on all mutual funds.
- ▷ In the area of futures trading, the company lowered its commissions in August 2019, making them the industry's lowest.

- ▷ In the area of forex trading, in April 2019 the company updated customer services and upgraded its forex trading platforms for PCs and smartphones. It also worked to expand currency-related services, for example by increasing currency pairs and lowering the size of the smallest currency unit for trading.

Equity trading value at Matsui Securities

Reflecting the overall decline in equity trading by individual investors, the value of commissionable equity trading handled by Matsui Securities was down YoY, though was further aggravated by a loss of market share.

- ▷ During the nine-month period through Q3 FY03/20, the value of individual equity trading through all brokers declined 17% YoY while equity trading handled by Matsui Securities declined by 19.2% YoY, to JPY17.7tn.
- ▷ Of the commissionable equity trades handled by Matsui Securities, JPY8.0tn (-21.6% YoY) came from trades other than day-trades on margin, and JPY9.7tn (-17.1% YoY) came from day-trades on margin.
- ▷ In terms of market share, Matsui Securities handled 10.1% (-0.2pp YoY) of all equity trading through brokers (value basis).

Commissions

Total commission income of JPY9.4bn was down 20.3% YoY; of this, brokerage commission income of JPY8.9bn was down 20.9% YoY.

- ▷ During the nine-month period through Q3FY03/20, the total value of commissionable equity trading value declined 19.2% YoY.
- ▷ The average stock brokerage commission rate (stock brokerage commissions/trading value) slipped 0.001pp YoY to 0.047%, as the proportion of commission-free Margin Trading Service for Day-trades to total equity trading through Matsui Securities rose 1.4pp YoY to 54.9%. Excluding Margin Trading Service for Day-trades accounts, the average brokerage commission rate was 0.104%, up 0.001pp YoY (calculated by Shared Research based on Matsui Securities' earnings results materials).
- ▷ As mentioned previously, on December 23, 2019, Matsui Securities raised the upper limit for the principal value of trades eligible for commission-free trading and also cut its margin loan interest rate and stock loan fees for accounts qualifying for its Ichinichi margin trading service for day-traders. According to the company, these changes in its terms of service had little impact on its revenues and earnings in Q3 and are expected to have only a modest impact on revenues and earnings in Q4 (January–March 2020) and subsequent quarters. On the plus side, the changes are expected to help the company bring in more new accounts.

Trading profit/loss

The company posted a net trading profit of JPY832mn (-15.1% YoY), mainly from FX transactions.

According to statistics from the Financial Futures Association of Japan, during the nine-month period from April 1 through December 31, 2019, OTC forex margin transactions totaled JPY2,525tn, down 10.6% YoY. By comparison, forex margin transactions handled by Matsui Securities through its NetFx totaled JPY3.8tn, a YoY decline of 16.1%, with the nine-month revenue total of JPY612mn for NetFx finishing down 10.7%.

Net interest income

Net interest income (interest and dividend income minus interest expenses) of JPY5.7bn was down 26.8% YoY.

- ▷ The average balance of margin trades outstanding, at JPY228.1bn, was down 23.6% YoY. The balance at the end of Q3 was JPY185.6bn, down 17.1% YoY. By comparison, the balance of all margin trades outstanding on the Tokyo and Nagoya stock

exchanges at the end of December 2019 was JPY2.2tn, down only 10.3% YoY. This brought the market share of Matsui Securities down to 8.3%, a loss of 0.7pp versus the end of 2018.

- ▷ The net interest income rate (calculated on the average margin account balance) slipped 0.1pp YoY to 3.3%.

SG&A expenses

SG&A expenses of JPY9.7bn were up 4.1% YoY.

- ▷ Transaction-related expenses (including advertising expenses), which vary in line with trading value, declined 3.8% YoY to JPY3.1bn.
 - Stock exchange and association fees of JPY809mn were down 13.9% YoY, the decline attributable mainly to the drop in trading.
 - Advertising expenses of JPY516mn were up 25.2% YoY, driven by the company's aggressive ad campaign aimed at increasing brand recognition and attracting new accounts.
- ▷ Personnel expenses of JPY2.0bn were down 2.5% YoY, the decline reflecting the dropout of special bonus for employees paid in Q3 FY03/19 in commemoration of the company's 100-year anniversary.
- ▷ Real estate-related expenses of JPY848mn were up 32.9% YoY on rising spending in connection with its data center.
- ▷ Office expenses of JPY2.0bn were up 15.5%, reflecting increases in outsourcing costs and one-time increases in spending in connection with its expansion of services and research.
- ▷ Depreciation of JPY1.5bn was up 15.0% YoY, reflecting the company's switch to accelerated depreciation for some assets starting in Q1 (April–June 2019).

Customer trends

During the nine-month period through Q3 FY03/20, equity trading by Matsui's customers averaged roughly JPY2.0tn per month, down from JPY2.4tn during the same nine-month period in FY03/19. In Q1 customer equity trading averaged roughly JPY2.0tn per month (versus JPY2.6tn in Q1 FY03/19), in Q2 the monthly average was about JPY1.9bn (versus JPY2.2tn in Q2 FY03/19), and in Q3 the monthly average was around JPY2.0tn (versus JPY2.4tn in Q3 FY03/19).

For the month of December 2019, the company reported a total of some 130,000 active accounts, down 10.2% YoY but up 15.4% versus September 2019. The YoY decline in the number of active accounts notwithstanding, customer assets under custody of JPY2.4tn at the end of December 2019 were up 8.6% YoY and up 5.2% versus September 2019.

With regard to the profitability of customer accounts, for the nine-month through Q3 FY03/20 the company reported zero net losses or gains in customer accounts. This compares with total net profits in customer accounts of JPY117.0bn in FY03/14 and JPY41.0bn in FY03/15; losses of JPY35.0bn in FY03/16, profits of JPY14.0bn in FY03/17, profits of JPY84.0bn in FY03/18, and losses of JPY55.0bn in FY03/19.

Company initiative: Mutual fund business

As of the end of December 2019, the company reported roughly JPY17.3bn in customer assets in mutual funds (versus JPY10.1bn at the end of December 2018) and only limited contributions to earnings from its mutual fund business. The company's fund lineup contained 1,234 funds at the end of December 2019 (versus 670 funds at the end of December 2018).

Customer assets held in mutual funds, number of mutual funds offered, and mutual fund sales

(JPYmn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
AUM of mutual funds	9,300	10,600	10,100	12,100	13,200	14,900	17,300	
Number of mutual funds	479	558	670	805	953	1,092	1,234	
Sales of mutual funds	3,200	2,900	2,900	2,400	4,300	5,000	5,700	
Saving type of investment	700	700	700	700	800	900	900	

Source: Shared Research, based on company data

In the area of mutual funds, the company's growth strategy calls for growing customer assets held in mutual funds through a combination of acquiring new customers and increasing the balance of mutual fund-based savings accounts. In addition to the portfolio advisory service (using its proprietary robo-advisory service) that it has offered for some time, in January 2019 Matsui Securities rolled out a new life plan simulation tool to help customers assess and design a life financial plan and a free telephone consultation service. Further, it plans to strengthen promotional activities that target customers' life events. Specifically, it looks collaborate with companies in other industries that provide services and products catering to major life events such as marriages and childbirths to promote its mutual fund-based savings plans and increase contact points with customers.

Company Initiative: Upgrade forex trading services

In forex margin trading services, in May 2017 the company switched from a broking model (NDD, or No Dealing Desk) to a trading model (DD or Dealing Desk) method and, as a result of the switch, net profit on forex trading increased (for further details see the Outlook section).

Compared with before the switch to a new cover-trade model, the company has seen a four- to five-fold increase in the profit margin on its forex margin trading.

Profit margin on forex margin trading

(JPYmn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OTC FX margin trading (JPYtn)	1,002	865	959	914	762	940	823	
YoY	-1.2%	-19.2%	4.5%	-22.3%	-23.9%	8.7%	-14.2%	
Matsui Securities' NetFx trading value (JPYtn)	1.7	1.4	1.4	1.4	1.1	1.6	1.1	
YoY	-30.2%	-50.6%	-34.4%	-41.9%	-37.0%	14.5%	-21.3%	
Net trading income	364	306	309	234	284	318	230	
YoY	163.8%	4.1%	-0.6%	-48.9%	-22.0%	3.9%	-25.6%	
NetFx commissions	221	235	229	180	194	228	190	
YoY	76.8%	14.6%	21.8%	-20.7%	-12.2%	-3.0%	-17.0%	
Excluding NetFx commissions	143	71	80	54	90	90	40	

Source: Shared Research based on various company data

The company is looking to further increase forex trading volume and related earnings with the help of new initiatives launched in April 2019, including upgrades to its trading platforms, increases in the number of currency pairs available for trading, further reductions in the minimum size of trading units, and a new function that allows customers to set the upper limit for leverage they want to use on their forex trades.

Shared Research thinks that the bid-ask spread of between JPY0.01 and JPY0.02 available on JPY/USD trades through Matsui's forex trading service (as of January 2020) compared unfavorably to the lowest spread (only JPY0.002) available in the industry. Matsui, however, appears to be making preparations so that it will be able to reduce its spread on forex trades to better match the competition.

Other online brokers announce moves to zero commissions for stock trades

In October 2019, Charles Schwab, the largest online broker in the US, announced that it was cutting its commission rate for equity, ETF, and option trades on US and Canadian exchanges to zero—a move that was quickly followed by others in the industry.

In Japan, SBI Holdings (TSE1: 8471), the parent company of SBI Securities, the largest online broker in Japan, told the audience at its results briefing for 1H FY03/20 (held in October 2019) that it was looking to cut commission rates on all trades to zero under its three-year plan and that the first step would be zero commissions for trades placed through its proprietary trading system in the after-hours market. (This bullet-point was missing from outline of the company's three-year plan that was presented at the time of its Q3 results presentation, however, the company saying instead that it would "push ahead with preparations for commission-free trading while keeping a close watch on moves by existing brokers and new entrants towards commission-free trading.") SBI Holdings said that before it could make the transition it would first have to expand its revenues sources outside of commissions, boost earnings from increased trading and market liquidity resulting from the move to zero commissions, and cut more costs. Towards this end, SBI Holdings plans to expand its revenue sources outside of commissions by strengthening profitability in areas such as underwriting, M&A-related services, forex trading, and crypto-currencies. As for boosting earnings from increased trading and market liquidity resulting from the move to zero commissions, SBI Holdings plans to expand trading through its proprietary trading system, increase the proportion of trades matched in off-auction markets (including so-called "dark pools"), and also increase its interest income by building up its margin trading balances. On the cost-cutting front, the company plans to use AI technology and robotic process automation (RPA) to help bring down costs.

Shared Research understands that for online brokers in Japan, main source of equity related revenue are commissions on client trades and net interest income earned on margin loans. In contrast, online brokers in the US have very substantial income streams from other sources, including net interest income earned on cash balances held in customer accounts and payments for order flows. This puts online brokers in the US in a much better position to handle a zero-commission environment, giving them time to offset the loss of commission income from trading with increases in customer accounts and growing income streams from a range of other sources.

Payment for order flow is revenue received for order flow provided to exchanges and market makers. In the US, market makers are intermediary firms that stand ready to buy/sell securities for a profitable price at all times. They offer their own bid-ask prices and transactions are executed between market makers that offer the best quotes. There is active participation of market makers in the US. Brokerages can receive a rebate from these market makers for passing on orders like limit orders that can create liquidity. A brokerage receiving an order that does not specify an exchange will check which party will provide the largest rebate before passing the order on to maximize revenue.

Matsui Securities is highly dependent on commission income from equity trading and income from margin trading, with commission income alone accounting for 54.9% of its net operating revenue, more than any other of Japan's top-five online brokers (see "Market and Value Chain" section for further details). This means the company's revenues and profits could fall sharply if it follows other online brokers in Japan as they move towards lower commissions over the medium term. Matsui Securities has already been working to build up revenue source outside of equity trading commissions, including building up its mutual fund business and its forex trading business, but Shared Research considers that the company needs to expand its revenue sources further going forward.

Results for Q3 FY03/20 (October–December 2019)

▷ Operating revenue:	JPY6.1bn (-14.4% YoY, +6.6% QoQ)
▷ Net operating revenue:	JPY5.5bn (-18.2% YoY, +5.5% QoQ)
▷ Operating profit:	JPY2.3bn (-34.6% YoY, +9.1% QoQ)
▷ Recurring profit:	JPY2.3bn (-34.3% YoY, +11.5% QoQ)
▷ Net income:	JPY1.6bn (-34.1% YoY, +11.2% QoQ)

Operating revenues in Q3 FY03/20 (October–December 2019) were down YoY, hurt mainly by market-level factors that led to an overall decline in equity trading and lower average margin trading balance. Operating revenue was up on a QoQ comparison basis, however, as an upturn in equity trading in Q3 drove up commission income.

Also, the decline in operating revenues led to lower earnings on a YoY comparison basis but earnings finishing higher on a QoQ comparison basis as the boost from a rising top-line offset the increase in SG&A expenses (the result of fewer reversals of provision for doubtful accounts compared with Q2).

Market environment

In Q3 FY03/20 (October–December 2020), aggregate equity trading value on the Tokyo and Nagoya stock exchanges was down 20% YoY but was up 8% QoQ, with equity trading by individuals down 14% YoY but up 14% QoQ. Individual investors accounted for 18.0% of all equity trading on the two exchanges, an increase of 1.0pp on both a YoY and QoQ comparison basis.

Equity trading at Matsui Securities

- ▷ In Q3 FY03/20, the value of individual equity trading through all brokers was down 14% YoY but up 14% QoQ. At Matsui Securities, the comparable figure of JPY6.0tn was down 17.6% YoY but up 4.8% QoQ.
- ▷ Of the JPY6.0tn in commissionable equity trades handled by Matsui Securities, JPY2.9tn (-14.2% YoY, +14.9% QoQ) came from trades other than day-trades on margin, and JPY3.1tn (-20.5% YoY, -3.1% QoQ) came from day-trades on margin. As Japanese stock market moved up during the October–December quarter, trading by day-traders declined QoQ; in contrast, trading in cash equities and margin trading increased in accounts other than the Ichinichi margin trading service for day-traders.
- ▷ In terms of market share, Matsui Securities handled 9.5% (-0.4pp YoY, -0.8pp QoQ) of all equity trading by individual investors through brokers (value basis).

Commissions

Total commission income of JPY3.4bn was down 16.0% YoY but up 11.6% QoQ, with brokerage commissions of JPY3.2bn down 16.5% YoY and up 13.0% QoQ.

- ▷ In Q3 FY03/20, the total value of commissionable equity trades at Matsui Securities was down 17.6% YoY and up 4.8% QoQ. This matched the change in direction of trading by individual investors across the market as a whole, which was still down YoY but up QoQ.
- ▷ The company's average stock brokerage commission rate (stock brokerage commissions/trading value) of 0.051% YoY was up 0.002pp YoY and up 0.005pp QoQ. The higher average commission rate reflected a decline in the proportion of commissionable trades accounted for by the company's Ichinichi margin trading service for day-traders, which at 51.9% was down 1.9pp YoY and 4.2pp QoQ. Excluding the trades done in the accounts using the company's Ichinichi margin trading service for day-traders, Shared Research estimates* an average commission rate of 0.102%, or basically flat both on a YoY and QoQ comparison basis (*calculated based company figures as presented in its results briefing materials).

Trading profit/loss

The company posted a net trading profit of JPY230mn (-25.6% YoY, -27.7% QoQ), most of which came from forex trading.

According to statistics from the Financial Futures Association of Japan, OTC forex margin transactions during the October–December 2019 quarter totaled JPY823tn, down 14.2% YoY and 12.4% QoQ. By comparison, forex margin transactions handled by Matsui Securities through its NetFx during the same three-month period totaled JPY1.1tn, a decline of 19.7% YoY and 29.1% QoQ; the quarterly revenue total for NetFx came in at JP190mn, down 17.0% YoY and 16.7% QoQ.

Net interest income

Net interest income (interest and dividend income minus interest expenses) of JPY1.9bn was down 20.7% YoY but up 1.6% QoQ.

- ▷ The average balance of margin trades outstanding in customer accounts, at JPY229.4bn, was down 18.0% YoY but up 0.2% QoQ. At the end of Q3, the balance of margin trades outstanding at Matsui Securities came to JPY185.6bn, down 17.1% YoY

but up 2.5% QoQ. By comparison, the balance of margin trades outstanding on the Tokyo and Nagoya stock exchanges at the end of Q3 came to JPY2.2tn (down 10.3% YoY but up 6.3% QoQ). In margin trading by individual investors, this gives Matsui Securities a market share of 8.3% (down 0.7pp YoY and 0.3pp QoQ).

- ▷ The net interest income rate (calculated on the average balance of outstanding margin debt) of 3.4% was down 0.1pp YoY but up 0.0pp QoQ.

SG&A expenses

Q3 SG&A expenses of JPY3.3bn were down 0.9% YoY but up 3.2% QoQ.

- ▷ Transaction-related expenses (including advertising expenses), which vary in line with trading value, came to JPY1.1bn, down 10.0% YoY and 1.0% QoQ.
 - Of this amount, stock exchange and association fees of JPY268mn were down 17.3% YoY but up 2.3% QoQ; this was a direct reflection of level of trading, which was also down YoY but up QoQ.
 - Advertising expenses of JPY191mn were up 3.8% YoY but down 13.2% QoQ, with the YoY increase reflecting aggressive advertising by the company to help raised its brand recognition.
- ▷ Personnel expenses of JPY640mn were down 20.2% YoY and 0.9% YoY, the sharp YoY decline reflecting the dropout of a special one-time bonus paid to employees in commemoration of the company's 100-year anniversary in Q3 FY 03/19.
- ▷ Real estate-related expenses of JPY285mn were up 32.9% YoY and 1.1% QoQ, with the YoY increase reflecting on rising spending at its data center.
- ▷ Office expenses of JPY700mn were up 12.4% YoY and 3.2% QoQ.
- ▷ Depreciation of JPY463mn was up 8.2% YoY and 3.8% QoQ.

1H FY03/20 results

Results for 1H FY03/20 (April–September 2019)

- ▷ Operating revenue: JPY11.3bn (-21.7% YoY)
- ▷ Net operating revenue: JPY10.4bn (-24.6% YoY)
- ▷ Operating profit: JPY4.0bn (-48.8% YoY)
- ▷ Recurring profit: JPY4.1bn (-48.3% YoY)
- ▷ Net income: JPY2.8bn (-48.7% YoY)

Most of the decline in operating revenue during the six-month period is attributable to the general market decline in equity trading value and average margin trading balance. The decline in earnings at Matsui Securities was further aggravated by increases in SG&A spending, leading to a sharp decline in earnings at the operating profit level and below.

Market environment

Aggregate equity trading value at the Tokyo and Nagoya stock exchanges contracted 16% YoY in 1H FY03/20, of which total equity trading value by individuals at the two stock exchanges declined by 19% YoY as individuals refrained from actively trading due to stock market uncertainty. As a result, the proportion of trading by individuals slipped to 17% of total market transactions, down from 18% in 1H FY03/19.

Company initiatives

- ▷ In the area of equity trading, Matsui Securities updated the equity market and shareholder incentive information provided on its website and expanded its investment information service. It also updated the customer website Netstock Smart.

- ▷ In the area of equities and mutual funds, the company launched a service in October 2019 by which it pays all transfer fees when customers transfer assets from another company to Matsui Securities.
- ▷ In the area of futures trading, the company lowered its commissions in August 2019 to make them the industry's lowest.
- ▷ In the area of forex services, the company updated customer services and upgraded trading platforms for PCs and smartphones in April 2019. It also worked to expand currency-related services, for example by increasing currency pairs and lowering the size of the smallest currency unit for trading.

Equity trading value at Matsui Securities

The decline in equity trading value at Matsui Securities was due primarily to the general decline in equity trading by individual investors. The company's market share of equity trading by individual investors did not change significantly on a YoY basis.

- ▷ In 1H FY03/20, the value of individual equity trading through all brokers declined 19% YoY. Equity trading handled by Matsui Securities declined 19.9% YoY to JPY11.7tn.
- ▷ Of the commissionable equity trades handled by Matsui Securities, JPY5.1tn (-25.2% YoY) was trades other than day-trades on margin, and JPY6.6tn (-15.4% YoY) was day-trades on margin.
- ▷ In terms of market share, Matsui Securities handled 10.4% (-0.1pp YoY) of all equity trading through brokers (value basis).

Commissions

Total commissions were JPY6.0bn (-22.4% YoY). Brokerage commissions were JPY5.7bn (-23.1% YoY).

In 1H FY03/20, the total value of commissionable equity trading value fell 19.9% YoY. The stock brokerage commission rate (stock brokerage commissions/trading value) fell 0.002pp to 0.045%, with the proportion of commission-free Margin Trading Service for Day-trades to total equity trading through Matsui Securities up 3.0pp YoY to 56.4%. Excluding Margin Trading Service for Day-trades accounts, the brokerage commission rate was 0.103%, up 0.002pp YoY (calculated by Shared Research based on Matsui Securities' earnings results materials).

Trading profit/loss

The company posted a JPY602mn trading profit (-10.1% YoY) mainly from forex transactions.

According to statistics from the Financial Futures Association of Japan, OTC forex margin transactions declined 8.8% YoY to JPY1,702tn during April-September 2019. Forex margin transactions handled by Matsui Securities (NetFx) declined 14.5% YoY to JPY2.7tn while revenue at NetFx declined 7.5% YoY to JPY422mn.

Net interest income

Net interest income (interest and dividend income minus interest expenses) fell 29.6% YoY to JPY3.8bn, due to the decline in average margin trading balance.

- ▷ The average margin trading balance at Matsui Securities declined 26.2% YoY to JPY227.4bn. The balance of margin trades outstanding was down 24.0% YoY, to JPY181.1bn. The balance of margin trades outstanding on the Tokyo and Nagoya stock exchanges was down 24.8% YoY, to JPY2.1tr, giving Matsui Securities an 8.7% share of all margin trades outstanding (up 0.1pp YoY).
- ▷ The net interest income rate (calculated as net interest income divided by average balance of margin account) was down 0.2pp YoY at 3.3%.

SG&A expenses

SG&A expenses rose 6.8% YoY to JPY6.4bn.

- ▷ Transaction-related expenses (including advertising expenses), primarily moving with trading value, came to JPY2.1bn (-0.3% YoY).
 - ▶ Stock exchange and association fees were JPY542mn (-12.0% YoY), reflecting the drop in equity trading value.
 - ▶ Advertising expenses were JPY324mn (+42.7% YoY) as Matsui stepped up spending on advertising to increase its name recognition.
- ▷ Personnel expenses of JPY1.3bn were up 9.0% YoY.
- ▷ Real estate expenses of JPY564mn were up 33.3% YoY, due to rising maintenance spending associated with the expansion of data center.
- ▷ Office expenses of JPY1.3bn were up 17.2% YoY, due to an increase in outsourcing costs and the expansion of product and services including Best Match price improvement service (started in May 2018), as well as temporary cost increases in research and other areas.
- ▷ Depreciation of JPY992mn was up 18.5% YoY, due to an increase in early depreciation of some assets in Q1 FY03/20 (April-June 2019).

Customer trends

Equity trading by Matsui's customers during 1H FY03/20 averaged roughly JPY1.9tn per month, down from JPY2.4tn in 1H FY03/19. In Q1 customer equity trading averaged roughly JPY2.0tn per month (versus JPY2.6tn in Q1 FY03/19) and in Q2 about JPY1.9bn a month (versus JPY2.2tn in Q2 FY03/19).

During the period the company saw YoY declines in both the number of active accounts and customer assets under custody, but both figures were up on a QoQ comparison basis. The number of monthly active accounts was 113,000 as of September 2019, down 12.7% YoY but up 6.9% versus June 2019. Customer assets under custody of JPY2.3tn as of September 2019 were down 10.9% YoY but up 1.1% versus June 2019.

With regard to the profitability of customer accounts, the company reported total net profits in customer accounts of JPY117.0bn in FY03/14 and JPY41.0bn in FY03/15; this was followed by losses of JPY35.0bn in FY03/16, profits of JPY14.0bn in FY03/17, profits of JPY84.0bn in FY03/18, and losses of JPY55.0bn in FY03/19. For 1H FY03/20, the company reported total net losses in customer accounts of JPY9.0bn.

Company initiative: "Best Match" price optimization service

Matsui began offering its "Best Match" price optimization service in May 2018. Trading results for the new service through the end of September 2019 are shown in the table below. The company noted that the price improvement ratio for the small and mid-cap stocks traded on the TSE Second Section, JASDAQ, and TSE Mothers market tends to be higher than large-cap stocks traded on the TSE First Section. Shared Research would note, however, that the price improvement ratio of around 0.03% on the JPY10–20bn in monthly trades under the new service means the company's share of the price improvement is still adding very little to overall earnings.

- When customers seeking better execution prices send an order to the stock exchange, Matsui's Best Match system (its proprietary system that determines whether a given order can be matched and executed) checks the orders placed by other Matsui customers as well as the order books of other brokers (to which the system is linked) to determine whether or not the order in question can be executed at a better price or the same price as the best bid/offer price available through floor trading (starting in July 2019, the system will only check to determine whether or not the order can be executed at a better price).
- If the Best Match system finds a match for the order at a better price than the best bid/offer price available on the floor, it executes the order at that price in an off-auction market. If the Best Match system cannot find a match for the order at a better price than the best bid/offer available on the floor, it forwards the order to floor trading.
- In addition to the regular commission for stock trades, when customers use Best Match, Matsui also gets additional compensation equal to 30% of the amount by which the execution price was improved.

Best Match price improvement service: performance track record

	2018				2019								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Price improvement ratio (%)	0.028	0.027	0.031	0.036	0.028	0.025	0.029	0.026	0.027	0.032	0.025	0.028	0.026
Trading value (JPYmn)	19,400	20,600	16,200	16,400	13,300	17,200	19,400	18,300	14,400	14,200	14,000	11,300	12,100
Number of clients traded	14,904	16,149	13,748	16,332	11,971	14,433	16,077	14,661	13,929	13,382	12,866	11,810	12,032

Source: Shared Research, based on various company data

Previously, only customers who had margin accounts could make use of the Best Match service; however, since February 2019 the company is allowing customers without margin accounts to use the price optimization service, provided they are at least 20 years old and have one or more years of experience in stock trading. According to the company, margin account customers generated roughly 30% of all the cash equity trades it handles; following this change, the proportion of cash equity trading represented by customer accounts eligible to use Best Match will go up to 70%. The company noted, however, that the newly eligible accounts will still be restricted to cash equity trading and will not be able to trade on margin. At this time, cash equity trading accounts for roughly 20% of the total value of stock trades handled by Matsui while margin trades account for about 80%.

Beginning July 2019, the company changed its order routing rule from “better or same price” to a “better price” than the best bid/offer price available on the floor of the Tokyo Stock Exchange in order to better show the effectiveness of its price improvement service.

During 2H FY03/20, Matsui Securities is looking to get the securities brokers that handle many of trades executed at the average price (between the bid and ask price) to participate in the off-exchange market with the aim of increasing the amount by which it can improve execution prices for customer trades in both percentage and value terms.

Company initiative: Mutual fund business

As of the end of September 2019, the company reported roughly JPY14.9bn in customer assets in mutual funds (versus JPY10.6bn at the end of September 2018) and only limited contributions to earnings from its mutual fund business. The company's fund lineup contained 1,092 funds at the end of September 2019 (versus 558 funds at the end of September 2018).

Customer assets held in mutual funds, number of mutual funds offered, and mutual fund sales

(JPYmn)	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
AUM of mutual funds	9,300	10,600	10,100	12,100	13,200	14,900		
Number of mutual funds	479	558	670	805	953	1,092		
Sales of mutual funds	3,200	2,900	2,900	2,400	4,300	5,000		
Saving type of investment	700	700	700	700	800	900		

Source: Shared Research, based on company data

In the area of mutual funds, the company's growth strategy calls for growing customer assets held in mutual funds through a combination of acquiring new customers and increasing the balance of mutual fund-based savings accounts. In addition to the portfolio advisory service (using its proprietary robo-advisory service) that it has offered for some time, in January 2019 Matsui Securities rolled out a new life plan simulation tool to help customers assess and design a life financial plan and a free telephone consultation service. Further, it plans to strengthen promotional activities that target customers' life events. Specifically, it looks collaborate with companies in other industries that provide services and products catering to major life events such as marriages and childbirths to promote its mutual fund-based savings plans and increase contact points with customers.

Company Initiative: Upgrade forex trading services

In forex margin trading services, in May 2017 the company switched from a broking model (NDD, or No Dealing Desk) to a trading model (DD or Dealing Desk) method and, as a result of the switch, net profit on forex trading increased (for further details see the Outlook section).

Compared with before the switch to a new cover-trade model, the company has seen a four- to five-fold increase in the profit margin on its forex margin trading.

Profit margin on forex margin trading

	FY03/19				FY03/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
OTC FX margin trading (JPYtn)	1,002	865	959	914	762	940		
YoY	-1.2%	-19.2%	4.5%	-22.3%	-23.9%	0		
Matsui Securities' NetFx trading value (JPYtn)	1.7	1.4	1.4	1.4	1.1	2		
YoY	-30.2%	-50.6%	-34.4%	-41.9%	-37.0%	0		
Net trading income (JPYmn)	364	306	309	234	284	318		
YoY	163.8%	4.1%	-0.6%	-48.9%	-22.0%	0		
NetFx commissions	221	235	229	180	194	228		
YoY	76.8%	14.6%	21.8%	-20.7%	-12.2%	-0		
Excluding NetFx commissions	143	71	80	54	90	90		

Source: Shared Research based on various company data

The company is looking to further increase forex trading volume and related earnings with the help of new initiatives launched in April 2019, including upgrades to its trading platforms, increases in the number of currency pairs available for trading, further reductions in the minimum size of trading units, and a new function that allows customers to set the upper limit for leverage they want to use on their forex trades.

Other online brokers announce moves to zero commissions for stock trades

In October 2019, Charles Schwab, the largest online broker in the US, announced that it was cutting its commission rate for equity, ETF, and option trades on US and Canadian exchanges to zero—a move that was quickly followed by others in the industry.

In Japan, SBI Holdings (TSE1: 8471), the parent company of SBI Securities, the largest online broker in Japan, told the audience at its results briefing for 1H FY03/20 (held in October 2019) that it was looking to cut commission rates on all trades to zero under its three-year plan and that the first step would be zero commissions for trades placed through its proprietary trading system in the after-hours market. SBI Holdings said that before it could make the transition it would first have to expand its revenues sources outside of commissions, boost earnings from increased trading and market liquidity resulting from the move to zero commissions, and cut more costs. Towards this end, SBI Holdings plans to expand its revenue sources outside of commissions by strengthening profitability in areas such as underwriting, M&A-related services, forex trading, and crypto-currencies. As for boosting earnings from increased trading and market liquidity resulting from the move to zero commissions, SBI Holdings plans to expand trading through its proprietary trading system, increase the proportion of trades matched in off-auction markets (including so-called “dark pools”), and also increase its interest income by building up its margin trading balances. On the cost-cutting front, the company plans to use AI technology and robotic process automation (RPA) to help bring down costs.

Matsui Securities is highly dependent on commission income from equity trading and income from margin trading, with commission income alone accounting for 54.9% of its net operating revenue, more than any other of Japan’s top-five online brokers (see “Market and Value Chain” section for further details). Therefore, the company’s revenues and profits could fall sharply if it follows other online brokers in Japan as they move towards a zero commission-based business model. Matsui Securities has already been working to build up revenue source outside of equity trading commissions, including building up its mutual fund business and its forex trading business, but Shared Research considers that the company needs to expand its revenue sources further going forward.

Results for Q2 FY03/20 (July–September 2019)

- ▷ Operating revenue: JPY5.7bn (-17.5% YoY, +2.8 QoQ)
- ▷ Net operating revenue: JPY5.2bn (-21.1% YoY, +1.5% QoQ)

- ▷ Operating profit: JPY2.1bn (-43.2% YoY, +8.3% QoQ)
- ▷ Recurring profit: JPY2.1bn (-43.4% YoY, +3.7 QoQ)
- ▷ Net income: JPY1.4bn (-43.5% YoY, +4.3% QoQ)

Revenues were down YoY mainly due to the general market declines in equity trading value and average margin trading balance, but revenues increased on a QoQ comparison basis. The QoQ increase in revenue was driven by increases in net interest income stemming from increased average margin trading balance, as well as by trading profit, offsetting decline in equity trading value.

On the profit front, Q2 profits were down YoY but up QoQ. The YoY decline reflected increases in SG&A spending, due mainly to increases in advertising expenses and office expenses. Advertising expenses was up QoQ but this was offset by lower depreciation and a reversal of allowance for loan losses.

Market environment

Aggregate equity trading value at the Tokyo and Nagoya stock exchanges was down 15% YoY and down 2% QoQ in Q2 FY03/20 (July–September 2019), of which total equity trading value by individuals at the two stock exchanges declined by 17% YoY and 2% QoQ. The proportion of market trading by individuals was 17%, flat on both a YoY and QoQ comparison basis.

Equity trading value at Matsui Securities

- ▷ In Q2 FY03/20, the value of individual equity trading through all brokers declined 17% YoY and 2% QoQ, and equity trading handled by Matsui Securities totaled at JPY5.7tn (-15.6% YoY, -5.0% QoQ).
- ▷ Of the commissionable equity trades handled by Matsui Securities, JPY2.5tn (-20.8% YoY, -3.8% QoQ) was trades other than day-trades on margin, and JPY3.2tn (-11.1% YoY, -5.9% QoQ) was day-trades on margin.
- ▷ In terms of market share, Matsui Securities handled 10.3% (+0.2pp YoY, -0.3pp QoQ) of all equity trading through brokers (value basis).

Commissions

Total commission income of JPY3.0bn was down 19.2% YoY and up 0.2% QoQ, of which brokerage commission income of JPY2.8bn was down 19.9% YoY and down 0.2% QoQ.

- ▷ In Q2 FY03/20, the total equity trading value was down 15.6% YoY and down 5.0% QoQ, reflecting general market decline in equity trading by individual investors.
- ▷ The stock brokerage commission rate (stock brokerage commissions/trading value) of 0.046% was down 0.003pp YoY and up 0.002pp QoQ, with the proportion of commission-free Margin Trading Service for Day-trades to total equity trading through Matsui Securities up 2.9pp YoY and down 0.6pp, to 56.1%. Excluding Margin Trading Service for Day-trades accounts, the brokerage commission rate was 0.102%, up 0.001pp YoY and 0.002pp QoQ (calculated by Shared Research based on Matsui Securities' earnings results materials).

Trading profit/loss

The company posted a JPY318mn trading profit (+3.9% YoY, -12.0% QoQ) mainly from forex trading.

According to statistics from the Financial Futures Association of Japan, OTC forex margin transactions rose 8.7% YoY and 23.3% QoQ to JPY940tn during July-September 2019. Forex margin transactions handled by Matsui Securities (NetFx) rose 13.3% YoY and 46.2% QoQ to JPY1.6tn while NetFx revenue of JPY228mn was down 3.0% YoY but up 17.5% QoQ.

Net interest income

Net interest income (interest and dividend income minus interest expenses) of JPY1.9bn was down 27.0% YoY and up 2.0% QoQ, mainly reflecting changes in the average margin trading balance.

- ▷ The average margin trading balance of JPY229.0bn was down 21.9% YoY and up 1.5% QoQ. The margin trading balance of JPY181.0bn was down 24.0% YoY and down 2.6% QoQ. The balance of margin trades outstanding on the Tokyo and Nagoya stock exchanges was JPY2.1tr (-24.8% YoY, -3.4% QoQ), giving Matsui Securities an 8.7% share of all margin trades outstanding (+0.1pp YoY, +0.1pp QoQ).
- ▷ The net interest income rate (calculated as net interest income divided by average balance of margin account) of 3.3% was down 0.2pp YoY and flat QoQ.

SG&A expenses

SG&A expenses of JPY3.2bn were up 5.8% YoY and down 2.5% QoQ.

- ▷ Transaction-related expenses (including advertising expenses), primarily moving with trading value, came to JPY1.1bn (+6.1% YoY, +10.7% QoQ).
 - Stock exchange and association fees were JPY262mn (-12.4% YoY, -6.4% QoQ), the decrease primarily reflecting the decline in Equity trading value.
 - Advertising expenses of JPY220mn was up 109.5% YoY and 109.5% QoQ, the YoY increase reflecting the launch of a large advertising campaign aimed at increasing Matsui's name recognition and the QoQ increase reflecting the timing of events and promotion.
- ▷ Personnel expenses of JPY646mn were up 5.4% YoY and down 6.0% QoQ.
- ▷ Real estate expenses of JPY282mn were up 32.4% YoY and flat QoQ, the YoY increase reflecting rising maintenance costs associated with the expansion of data center.
- ▷ Office expenses of JPY678mn were up 22.6% YoY and 6.4% QoQ, reflecting temporary cost increases in research and other areas.
- ▷ Depreciation of JPY446mn was up 5.2% YoY and down 18.3% QoQ. The QoQ decline reflects the dropout of the early depreciation of the assets (associated with the old forex trading system) booked in Q1. These early depreciation charges pushed total depreciation charges up to JPY546mn in Q1 but then fell out in Q2.

Income statement

Income statement (JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Parent	FY03/14 Parent	FY03/15 Parent	FY03/16 Parent	FY03/17 Parent	FY03/18 Parent	FY03/19 Parent	FY03/20 Parent
Operating revenue	22,091	17,703	20,799	39,883	34,306	34,435	27,727	32,210	27,313	24,150
YoY	-9.3%	-19.9%	17.5%	91.8%	-14.0%	0.4%	-19.5%	16.2%	-15.2%	-11.6%
Financial expenses	770	975	884	1,145	1,413	1,431	1,228	1,729	1,314	1,805
Net operating revenue	21,320	16,728	19,915	38,738	32,893	33,003	26,499	30,480	25,999	22,345
YoY	-8.4%	-21.5%	19.1%	94.5%	-15.1%	0.3%	-19.7%	15.0%	-14.7%	-14.1%
Net operating margin	96.5%	94.5%	95.7%	97.1%	95.9%	95.8%	95.6%	94.6%	95.2%	92.5%
SG&A expenses	12,870	9,360	9,719	11,648	10,806	11,258	11,560	11,949	12,547	13,436
SG&A ratio	58.3%	52.9%	46.7%	29.2%	31.5%	32.7%	41.7%	37.1%	45.9%	55.6%
Operating profit	8,450	7,368	10,195	27,090	22,087	21,745	14,939	18,532	13,451	8,909
YoY	-25.8%	-12.8%	38.4%	165.7%	-18.5%	-1.5%	-31.3%	24.1%	-27.4%	-33.8%
OPM	38.3%	41.6%	49.0%	67.9%	64.4%	63.1%	53.9%	57.5%	49.2%	36.9%
Non-operating income	34	64	50	87	118	90	109	105	145	133
Non-operating expenses	5	5	-	3	3	2	4	5	4	25
Recurring profit	8,479	7,426	10,245	27,175	22,202	21,833	15,044	18,632	13,592	9,016
YoY	-26.6%	-12.4%	38.0%	165.3%	-18.3%	-1.7%	-31.1%	23.9%	-27.1%	-33.7%
RPM	38.4%	41.9%	49.3%	68.1%	64.7%	63.4%	54.3%	57.8%	49.8%	37.3%
Extraordinary gains	646	43	118	-	2,912	1,012	338	25	144	-
Extraordinary losses	15	5	81	827	786	695	15	1	12	173
Income taxes	3,700	3,202	3,855	10,048	8,757	7,388	4,670	5,747	4,162	2,707
Implied tax rate	40.6%	42.9%	37.5%	38.1%	36.0%	33.4%	30.4%	30.8%	30.3%	30.6%
Net income	5,410	4,263	6,427	16,300	15,571	14,763	10,697	12,908	9,562	6,136
YoY	-29.4%	-21.2%	50.8%	153.6%	-4.5%	-5.2%	-27.5%	20.7%	-25.9%	-35.8%
Net margin	24.5%	24.1%	30.9%	40.9%	45.4%	42.9%	38.6%	40.1%	35.0%	25.4%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

See the Earnings structure section for details on factors that impact the income statement items from operating revenue to operating profit (revenue and expenses).

Discussion of non-operating income and expenses is omitted, as these items are negligible. The company occasionally records gains on sale of investment securities under extraordinary gains, and provisions under extraordinary losses.

Reserve for financial instruments transaction liability is booked as a reserve to compensate for losses incurred by a securities-related accident; the amount is calculated based on Article 46-5 of the Financial Instruments and Exchange Act.

Balance sheet

Balance sheet (JPYmn)	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Parent	FY03/14 Parent	FY03/15 Parent	FY03/16 Parent	FY03/17 Parent	FY03/18 Parent	FY03/19 Parent	FY03/20 Parent
Assets										
Cash and deposits	17,882	16,479	8,857	12,166	15,717	26,569	25,743	36,256	36,120	52,501
Cash segregated as deposits	237,094	227,911	300,116	341,812	462,912	375,812	467,212	455,512	424,512	449,312
Money held in trust	8,766	9,608	19,067	21,867	20,889	4,596	5,950	5,813	2,988	2,844
Trading products	1,802	1,687	1,402	1,307	1,538	1,817	1,408	2,258	1,260	1,877
Margin transaction assets	142,281	135,011	252,751	282,225	284,207	232,043	245,202	310,574	202,490	161,594
Loans secured by securities	4,827	14,689	12,225	9,636	12,080	7,869	9,536	7,331	9,507	21,188
Short-term guarantee deposits	6,191	3,337	3,749	4,122	5,736	2,166	1,648	3,352	3,329	3,378
Accrued income	3,212	3,444	3,762	4,142	4,569	3,807	4,174	4,689	4,609	3,678
Other	1,155	1,642	518	1,466	880	538	637	583	460	900
Total current assets	423,210	413,808	602,447	678,743	808,528	655,217	761,510	826,368	685,275	697,272
Buildings	294	275	253	232	211	197	177	159	311	285
Furniture and fixtures	431	337	240	331	394	321	347	251	510	691
Land	434	434	434	434	434	434	434	434	434	434
Total tangible fixed assets	1,160	1,047	927	998	1,039	953	958	845	1,255	1,410
Software	4,521	4,012	3,266	2,726	2,850	2,999	4,118	4,465	4,514	4,410
Other	8	6	5	1	-	-	-	-	-	-
Total intangible assets	4,529	4,018	3,271	2,726	2,850	2,999	4,118	4,465	4,514	4,410
Investment securities	262	214	3,562	5,201	3,975	3,119	2,893	3,572	3,710	3,874
Long-term loans receivable	199	416	425	438	534	507	499	440	433	453
Guarantee deposits	286	262	256	257	258	261	314	324	345	337
Deferred tax assets	1,939	1,238	-	-	16	587	675	408	564	623
Long-term advances paid	3,497	2,226	1,767	1,251	1,038	1,021	1,179	1,165	1,166	1,204
Allowance for doubtful accounts	-3,430	-2,293	-1,959	-1,372	-1,165	-1,348	-1,549	-1,384	-1,381	-1,405
Other	77	128	107	111	109	109	118	115	111	136
Investments and other assets	2,830	2,191	4,158	5,886	4,765	4,256	4,129	4,640	4,948	5,222
Total fixed assets	8,519	7,256	8,357	9,610	8,655	8,208	9,205	9,949	10,718	11,042
Total assets	431,729	421,063	610,804	688,353	817,183	663,425	770,716	836,318	695,993	708,314
Liabilities										
Trading products	229	286	611	699	1,379	458	281	143	164	120
Margin transaction liabilities	40,417	47,425	47,790	32,025	56,398	35,793	51,228	66,423	45,488	44,846
Loans payable secured by securities	5,818	5,735	36,598	25,498	25,558	14,838	13,262	13,499	7,878	14,782
Deposits received	119,354	117,814	151,654	178,071	261,516	200,271	272,048	253,016	238,794	270,003
Guarantee deposits received	122,989	113,646	149,923	176,619	207,098	182,641	205,409	207,875	202,329	212,539
Short-term loans payable	62,020	56,550	137,525	176,100	164,600	128,050	126,100	187,600	97,800	78,900
Other	3,835	2,147	4,329	11,046	7,688	5,100	4,199	5,766	3,735	3,438
Total current liabilities	354,662	343,603	528,430	600,058	724,237	567,151	672,527	734,322	596,188	624,628
Long-term loans payable	-	25	-	150	50	-	150	50	-	150
Other	207	207	433	859	207	208	208	208	383	406
Total long-term liabilities	207	232	433	1,009	257	208	358	258	383	556
Reserves under the special laws	1,108	1,067	1,100	1,922	2,660	3,349	3,012	2,987	2,843	2,845
Total liabilities	355,977	344,902	529,963	602,988	727,155	570,707	675,896	737,567	599,414	628,029
Net assets										
Capital stock	11,945	11,945	11,945	11,945	11,945	11,945	11,945	11,945	11,945	11,945
Capital surplus	9,793	9,793	9,793	9,793	9,793	9,793	9,793	9,793	9,796	9,797
Retained earnings	63,488	63,900	66,378	69,841	75,143	70,793	73,018	76,426	74,177	57,841
Treasury stock	-9,475	-9,475	-9,475	-9,475	-9,475	-1,915	-1,915	-1,896	-1,856	-1,794
Accumulated other comprehensive income	1	-2	2,200	3,260	2,613	2,066	1,898	2,359	2,358	2,290
Total net assets	75,752	76,161	80,841	85,365	90,029	92,718	94,820	98,751	96,579	80,285
Total interest bearing debt	62,020	56,575	137,525	176,250	164,650	128,050	126,250	187,650	97,800	79,050
Net debt	44,138	40,096	128,668	164,084	148,933	101,481	100,507	151,394	61,680	26,549

Source: Shared Research based on various company data

Note: Figures may differ from company materials due to differences in rounding methods.

Assets

The overwhelming majority of the company's assets are current assets (98.4% of total assets as of the end of FY03/20). The main components of current assets are cash segregated as deposits (64.4% of total current assets as of the end of FY03/20) and margin transaction assets (23.2%).

Cash segregated as deposits

Cash segregated as deposits refers to customer money entrusted to the company; under regulations stipulated by the Financial Instruments and Exchange Act (article 43-2-ii), domestic trust companies etc. must manage customer funds separately to their own money. These accounts include the separately managed customer deposits (current liability) and guarantee money received for margin trades (current liability).

Margin transaction assets

- ▷ Margin transaction assets include loans receivable from customers and cash deposited as collateral for securities borrowed from securities finance companies. Margin trading loans are accounted for in current assets – in amounts equivalent to those lent to customers purchasing securities on margin; contracts that extend over one year such as unlimited margin trading are treated in the same category.
- ▷ Matsui posts collateral when it borrows securities from securities finance companies such as Japan Securities Finance (TSE1: 8511) in lending transactions. This is cash collateral pledged for securities borrowing on margin transactions.

Securities finance company: a company whose main business is lending securities or money through the exchange settlement mechanism to stockbroking companies and other financial exchange participants in standardized margin trading.

Margin transaction assets

(JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Margin transaction assets	142,281	135,011	252,751	282,225	284,207	232,043	245,202	310,574	202,490	161,594
Loans on margin trades	138,217	126,087	248,476	279,353	277,246	228,152	237,047	308,037	194,027	154,302
Cash collateral pledged for securities borrowing on margin trades	4,064	8,924	4,275	2,872	6,961	3,890	8,154	2,537	8,463	7,292

Source: Shared Research based on company data

Liabilities

The vast majority of the company's liabilities are current liabilities (99.5% of the total as of the end of FY03/20). The main categories are margin transaction liabilities (7.2% of current liabilities at the end of FY03/20), deposits received (43.2%), guarantee money received (34.0%), and short-term borrowings (12.6%).

Margin transaction liabilities

Margin transaction liabilities are comprised of loans from securities finance companies and proceeds of securities sold on customers' account.

- ▷ Margin transaction liabilities represent borrowings from Japan Securities Finance to facilitate margin trading. As of May 2020, the interest rate on loans from Japan Securities Finance was 0.60%. Matsui uses bank loans or short-term money markets—which have lower rates—to fund long positions.
- ▷ Matsui takes proceeds from the sale of securities on margin as collateral and books an equivalent amount as current liabilities (proceeds of securities sold on customers' account).

Margin transaction liabilities

(JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Margin transaction liabilities	40,417	47,425	47,790	32,025	56,398	35,793	51,228	66,423	45,488	44,846
Borrowings on margin trades	13,043	2,148	3,360	2,798	3,774	5,452	5,932	37,158	4,016	6,369
Cash received for securities lending on margin trades	27,374	45,277	44,431	29,228	52,624	30,341	45,297	29,266	41,473	38,477

Source: Shared Research based on company data

Deposits received and guarantee money received

Deposits received are temporary deposits from customers engaged in buying and selling securities.

Guarantee money received is guarantees for margin trading, futures trading, etc.; guarantees for margin trading account for 80% of the total.

Guarantee deposits received

Guarantee deposits received (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Total guarantee deposits received	122,989	113,646	149,923	176,619	207,098	182,641	205,409	207,875	202,329	212,539
Guarantee deposits received for margin trading	97,536	86,338	116,910	140,940	165,473	144,726	161,958	171,917	159,359	186,695
As % of total guarantee deposits received	79.3%	76.0%	78.0%	79.8%	79.9%	79.2%	78.8%	82.7%	78.8%	87.8%
Initial margins received for futures trading	13,187	12,999	18,026	18,656	21,150	20,460	21,393	20,086	19,367	549
Other guarantee deposits received	12,267	14,308	14,987	17,023	20,475	17,454	22,058	15,873	23,603	25,295

Source: Shared Research based on company data

Short term borrowings

Margin trading for long positions are primarily financed by short term borrowings; there is a tendency for short-term borrowings to fluctuate with changes in margin balance. Most of Matsui's short-term borrowings come from banks and short-term money markets.

Net assets

Matsui's net assets have been rising to the accumulation of retained earnings. After FY03/16, the company has been active in providing returns to shareholders, targeting a dividend payout ratio of over 60%, and a dividend on equity (DOE) ratio of at least 8%. In both FY03/19 and FY03/20, the company paid out dividends in excess of its net income, resulting in a decline in retained earnings.

Capital adequacy ratio

The company has been able to maintain regulatory capital well above the 120% stipulated in article 46 of the Financial Instruments and Exchange Act.

Counterparty risk is defined as 2% of margin trading balance. Therefore, the capital adequacy ratio falls as margin trading balance rise.

Capital adequacy ratio	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Core capital (A)	71,808	72,212	73,506	76,969	82,271	85,480	87,705	89,335	77,368	72,008
Supplementary capital (B)	1,136	1,079	3,319	5,196	5,294	5,458	5,107	5,626	5,489	5,389
Valuation difference on investment securities	-	-	2,199	3,260	2,622	2,102	1,979	2,483	2,517	2,495
Reserve for financial products transaction liabilities	1,108	1,067	1,100	1,922	2,660	3,349	3,012	2,987	2,843	2,845
General allowance for doubtful accounts	28	12	20	14	11	6	115	156	129	49
Deductions (C)	9,034	7,675	5,238	4,882	5,092	5,426	6,686	6,770	7,530	8,147
Non-fixed capital (D)	63,910	65,617	71,587	77,283	82,472	85,512	86,125	88,191	75,328	69,250
Value of risk equivalent (E)	5,588	5,416	8,454	10,022	9,776	8,256	8,315	10,120	7,947	7,216
Market risk	-	-	551	813	620	478	440	546	547	529
Counterparty risk	3,349	3,267	5,841	6,518	6,589	5,083	5,329	6,754	4,469	3,678
Basic risk	2,238	2,149	2,061	2,690	9,776	2,694	2,545	2,818	2,930	3,009
Capital adequacy ratio (D) / (E)	1144%	1211%	847%	771%	844%	1035%	1035%	871%	947%	959%

Source: Shared Research based on company data * (D) = (A) + (B) - (C)

Capital adequacy ratio: Securities companies are in the business of buying and selling securities frequently and in large amounts. To cover all sorts of risks, including the risk of fluctuations in the price of securities, they are required to always have liquid capital. Under the Financial Instruments and Exchange Act, stockbroking companies must maintain regulatory shareholders' capital above a certain level.

According to Article 46-6-ii of the Financial Instruments and Exchange Act, companies engaged in the trading of financial instruments must manage their business in a way that ensures that their regulatory shareholders' capital ratio does not fall below 120%.

If a stockbroking company's regulatory capital ratio falls below 140%, it is required to notify the Financial Services Agency. If the ratio falls below 120%, the Financial Services Agency has the power to order business improvement; if the ratio falls below 100% the Financial Services Agency can order the company to cease doing business. In addition, the Tokyo Stock Exchange requires securities firms to report if their regulatory capital ratio falls below 140%; and it is able to stop a company trading security or impose restrictions if the ratio falls to 120%.

Calculation of the regulatory capital ratio is defined in the Financial Instruments and Exchange Act and a cabinet ordinance relating to the financial instruments trading business. It is determined by dividing liquid capital by a risk equivalent amount.

Capital adequacy ratio = Non-fixed capital/risk equivalent

Non-fixed capital comprises basic items + supplementary items (provisions and subordinated bonds etc.) - deducted assets

Basic items: capital, share premium, net unrealized gain on investments, treasury stock

Supplementary items: commissions, subordinated debt, and net unrealized gain on investments

Deducted assets: fixed assets

Risk equivalent includes market risk, counterparty risk, and basic risk

Market risk: the risk that the price of securities held will fluctuate

Counterparty risk: the risk that the counterparty will violate the contract with the company

Basic risk: risks that may arise in the carrying out of routine work such as clerical errors

Cash flow statement

Cash flow statement (JPYmn)	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
	Cons.	Cons.	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent
Cash flows from operating activities (1)	8,639	10,388	-74,775	-18,060	21,871	43,431	11,510	-39,665	103,499	60,195
Pre-tax profit	9,111	7,465	10,282	26,348	24,327	22,151	15,367	18,656	13,724	8,843
Depreciation	1,825	1,769	1,788	1,635	1,246	1,175	1,267	1,549	1,691	1,923
Change in margin transaction assets and liabilities	8,746	14,279	-117,375	-45,239	22,390	31,560	2,277	-50,177	87,149	40,254
Income taxes	-5,210	-3,598	-1,930	-4,687	-12,173	-9,407	-5,716	-4,556	-5,805	-2,857
Cash flows from investing activities (2)	-1,272	-1,439	-791	-1,142	2,068	-824	-2,014	-2,067	-2,011	-2,749
Purchase of tangible fixed assets	-204	-15	-8	-221	-9	-169	-118	-9	-327	-276
Purchase of intangible fixed assets	-1,093	-1,477	-852	-940	-865	-1,635	-1,827	-2,020	-1,531	-2,028
Free cash flow (1+2)	7,367	8,949	-75,566	-19,202	23,939	42,607	9,496	-41,732	101,488	57,446
Cash flows from financing activities	-5,310	-9,310	77,102	25,910	-21,867	-48,147	-10,269	51,908	-101,650	-41,209
Net increase (decrease) in short-term borrowings	25,000	-5,500	81,000	38,500	-11,500	-36,500	-2,000	61,500	-89,750	-18,950
Dividends paid	-3,857	-3,865	-3,848	-12,815	-10,266	-11,547	-8,469	-9,492	-11,800	-22,459

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Cash flows from operating activities

Matsui's cash flows from operating activities are comprised of income before taxes, depreciation, corporate tax payments. Net cash flow from operating activities is heavily influenced by changes in margin transaction assets and margin transaction liabilities.

When unsettled margin purchase amounts increase or decrease, there are corresponding increases and decreases in margin trading borrowings and corresponding decreases or increases in cash flow. Also, if the unsettled margin selling amounts increase or decrease, the increase/decrease in the proceeds of securities sold on customers' account has a positive/negative effect on cash flow.

Cash flows from investing activities

Outflows for the purchase of intangible assets tend to lead to investing cash outflows. The purchase of intangible assets is primarily investment in software development.

Cash flows from financing activities

Cash flows from financing activities fluctuate mainly with increases and decreases in borrowings. Because borrowings are used to pay for unsettled margin buying trades, when the amount increases/decreases, there is an increase/decrease leading to positive/negative cash flows from financing activities.

Other information

History

Matsui Securities is a mid-sized stockbroking firm founded in 1918. In the postwar period, most of its income was from sales representatives on commission. The current president, Michio Matsui, joined the firm in the late 1980s; in 1990, he began to effectively serve as president and embarked on a program of internal reform, driving the firm's development as the stockbroking industry underwent deregulation.

Late 1980s to late 1990s

Matsui, the fourth president of Matsui Securities, was born in 1953. After graduating from Hitotsubashi University, he worked for NYK; in 1987, after an arranged marriage, he joined Matsui Securities—his father-in-law's company. At that time, the Matsui Securities sales force was structured around salespeople on commission. During the bubble period (1980s to early 1990s), recurring profit ranged from a few hundred million yen to approximately JPY2.0bn.

Matsui was appointed executive director in the sales division when the bubble economy collapsed in 1990 and the company's earnings began to deteriorate. At a time when solicitation by salesmen was considered integral to a securities company, Matsui thought that some customers would not like being approached by salespeople. He changed to a strategy focused on telecommunications-based transactions, without sales activities.

At that time, stock sales were usually done by representatives making the rounds, taking orders, and communicate these orders to the branches. Most representatives would make telephone calls to the branches at around 5 p.m. with orders, prices, and so on. In contrast, Matsui focused on telephone transactions, and was able to relay the customers the results of their trades in one or two minutes. In 1993, the firm's telecommunications trading started to take off.

In 1995, Michio Matsui was appointed president. In 1996, he introduced commission-free custody accounts—an industry taboo—and in 1997, he halved the commissions on over-the-counter stocks.

Late 1990s to 2006

In 1996, the second Hashimoto administration advocated a reform of the financial sector. In 1999, stockbroking commissions were completely liberalized.

In May 1998, Matsui Securities launched the first fully fledged internet trading business in Japan, called Netstock; the first internet-based margin trading service; and the first internet-based Nikkei Index options trading. In 1999, with the full liberalization of stock brokerage commissions, the company launched the innovative "box-rate" service, with fixed commissions per day.

In 2001, SBI Securities entered the online stockbroking market and brokerage commission competition intensified. Matsui decided not to focus on commissions. Instead, the company concentrated on improving the convenience of margin trading. In 2003, the company introduced the country's first unlimited margin trading which has no repayment due. While other firms required a minimum deposit of at least 30%, Matsui set its minimum deposit at 25%, part of an effort to improve margin trading service levels.

A buoyant stock market and the shift from face-to-face stockbroking saw the online brokerage business post record earnings in FY03/06. Matsui's stock trading value rose from JPY3.3tn in FY03/01 to JPY33.6tn in FY03/06—a factor of 10. In line with this, operating profit rose from JPY3.0bn in FY03/01 to JPY37.1bn in FY03/06.

FY03/06 to FY03/12

Following the so-called Livedoor shock in January 2006, individual investors' trading activities plunged, and online securities firms' earnings languished. The situation worsened following the collapse of Lehman Brothers in September 2008 and the subsequent market meltdown.

As the online brokers' earnings continued to deteriorate in FY03/07, Matsui focused on cost reduction to stay profitable. Through this period, the company's stock trading value fell from JPY33.6tn in FY03/06 to JPY8.1tn in FY03/12, approximately one quarter of its peak level.

As operating revenues continued to decline, Matsui cut costs by looking for ways to reduce its spending on systems and in other areas, reducing SG&A expenses from JPY17.0bn in FY03/06 to JPY9.4bn in FY03/12. With the help of these reductions in SG&A spending, the company managed to stay in the black even though its net operating revenue came down by more than two-thirds during this period.

FY03/13 to FY03/16

Revenues and earnings in the online brokerage industry bottomed out in FY03/12 followed by large gains the next two years (FY03/13 and FY03/14) as individual investors flocked back into the Japanese stock market as it turned up and entered a new bull-market phase in response to the election of Shinzo Abe to a second term as prime minister.

With stock market conditions improving, Matsui used the full deregulation of brokerage commissions in January 2013 as an opportunity to launch its Ichinichi margin trading service for day-traders. With the help of this, Matsui was able to increase its market share (in terms of percent of total trading by individual investors on the Tokyo and Nagoya stock exchanges) until FY03/17, by which time other online brokers were offering similar services and starting to take back some of the market share previously lost to Matsui.

FY03/17 and subsequent years

Matsui concentrated on building up its stock brokerage business, deriving the vast majority of its operating revenues from stock brokerage commissions and net interest income on margin trades. At the same time, Matsui also eliminated wasteful spending, and was thus able to create an earnings structure that was highly profitable.

Starting in FY03/17, Matsui turned its sights to diversifying its sources of income and expanding customer services, and began rolling out new services matching those already offered by competitors, including a mutual fund sales/ portfolio advisory service starting November 2016. In the area of forex margin trading, Matsui made the important switch to a dealing-desk trading model in May 2017.

Timeline

- 1931 Matsui Shoten established
- 1947 Trading name changed to Matsui Securities
- 1991 Launches telecommunication-based transaction
- 1993 Ceases in-person marketing as telecommunication-based transactions increase
- April 1996 Introduces fee-free stock custody services
- February 1997 Cuts brokerage commissions in half for over-the-counter stocks
- May 1998 Launches Netstock—first full-fledged internet trading business in Japan
 Launches first margin trading via the internet in Japan
 Launches trading of Nikkei Index options over the internet
- October 1999 Launches innovative box rates with fixed commissions per day as brokerage commissions completely deregulated.
- September 2000 Launches new version of Box Trade, with fixed daily charges

- April 2001 Launches over-the-counter foreign currencies margin trading, NetFx
 Launches Netstock trader: real-time stock price updating service
- August 2001 Lists on First Section of Tokyo Stock Exchange
- December 2001 Awarded Porter prize
- July 2003 Launches unlimited margin trading
- March 2004 Cuts brokerage commissions in half for day trades
- September 2006 Launches real-time trading tool: Netstock high speed
- January 2013 Launches Margin Trading Service for Day-trades limited to day traders as margin trading is deregulated
- March 2014 Launches premium short-selling service as part of the Margin Trading Service for Day-trades
- February 2015 Launches futures trading service as part of the Margin Trading Service for Day-trades limited to day traders
- November 2016 Begins selling mutual funds and launched Toshin Kobo automated account management service using robo-advisors

News and topics

July 2020

On July 15, 2020, the company announced a reduction of bid-ask spreads for all currency pairs in FX services.

From July 27, 2020 (scheduled), the company has decided to reduce the spread of all currency pairs including the US dollar/yen and euro/yen in FX services (forex margin trading).

Overview of bid-ask spread reductions

▷ JPY/USD:	JPY0.005 (previously JPY0.01–0.02)
▷ JPY/EUR:	JPY0.008 (JPY0.02–0.04)
▷ JPY/AUD:	JPY0.008 (JPY0.02–0.04)
▷ JPY/CAD:	JPY0.034 (JPY0.06)
▷ JPY/CHF:	JPY0.025 (JPY0.06)
▷ JPY/GBP:	JPY0.017 (JPY0.06)
▷ JPY/NZD:	JPY0.024 (JPY0.06)
▷ JPY/ZAR:	JPY0.02 (JPY0.06)
▷ JPY/TRY:	JPY0.034 (JPY0.08)
▷ USD/EUR:	USD0.00008 (USD0.0001–0.0002)
▷ USD/AUD:	USD0.00015 (USD0.0002–0.0004)
▷ USD/GBP:	USD0.00015 (USD0.0006)
▷ JPY/MXN:	JPY0.013 (JPY0.04)

March 2020

On March 25, 2020, the company announced a change of representative director and the appointment of a new candidate for director.

Details of change

Name	New position	Current position
(Resigning) Michio Matsui	Adviser	Representative director and president
(New) Akira Warita	Representative director and president	Senior managing director Head of the Sales Promotion Department Head of the Customer Support Department

Scheduled date of change

The company plans to resolve the matter officially at the 104th General Meeting of Shareholders scheduled for June 28, 2020 and at the Board of Directors' meeting to be held afterward.

December 2019

On December 9, 2019, the company announced changes to its commission schedule for stock trades, interest rates charged on margin loans, and stock lending fees.

Effective December 23, 2019 (tentative), Matsui Securities will change its box rate commission schedule for regular stock trades (online trades for cash equities, standardized margin trades, and unlimited margin trades), as well as the interest rates charged on margin loans and stock lending fees under its dedicated margin trading service for day-trades.

Under the company's current box rate commission schedule for regular stock trades, the commission charged depends on the total principal value of all stock trades placed by an account owner in a single day, with no commissions charged for trades with a combined principal value of less than JPY100,000. According to Matsui Securities, in recent years more and more listed companies have been moving to lower the minimum trading unit for their stock in an effort to help expand their ownership base among individual investors, but still only about 40% of the companies listed on the Tokyo Stock Exchange have minimum trading

units that come in under JPY100,000. To help expand range of stocks that individual investors can buy and still qualify for commission-free trading, Matsui Securities decided to raise the upper limit for the combined principal value of trades placed in a single day to JPY500,000. Following this move, individual investors will be able to buy the minimum trading unit of more than 90% of the stocks listed on the Tokyo Stock Exchange and still qualify for commission-free trading at Matsui Securities.

Matsui Securities also offers commission-free trading under its margin trading service for day-trades and, having reduced the transaction costs associated with day-trades, will also lower the interest rate it charges on margin loans as well as stock lending fees, bringing both to the lowest level in the industry.

Commission schedule for regular stock trades

Principal value of all trades in single day	Old commission rate	New commission rate
Up to JPY100,000	zero	zero
Up to JPY300,000	JPY300	
Up to JPY500,000	JPY500	

Source: Company press release

Commissions and interest rates under Matsui's margin trading service for day-trades versus competitors

	Matsui Securities Margin trading service for day-trades	Rakuten Securities One-day margin trading service	SBI Securities Intra-day margin trading service
Commission rate	zero	zero	Standard commission (from JPY90)
Commission on cash settlement or delivery of stock sold	Reduced from 0.3% to zero	zero	zero
Interest rate on margin loans	Reduced from 2.0% to 1.8%	1.9%	2.8%
Stock lending fee	Reduced from 2.0% to 1.8%	1.9%	2.0%
Minimum size of principal value of trades needed to qualify for zero interest rate, zero stock lending fee	Reduced from JPY3mn to JPY1mn	JPY1mn	JPY3mn

Source: Company press release

Note: Commission rates indicated for SBI Securities represents rates for a single trade under its Standard Plan

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Maruroku Ltd.	86,812	33.79%
Shokosha Ltd.	35,722	13.91%
The Master Trust Bank of Japan, Ltd. (Trust account)	22,940	8.93%
Japan Trustee Services Bank, Ltd. (Trust account)	7,626	2.97%
Chizuko Matsui	5,321	2.07%
Michitaro Matsui	5,262	2.05%
Chiaki Miki	5,262	2.05%
Yuma Matsui	5,262	2.05%
Michio Matsui	4,429	1.72%
SMBC Nikko Securities Co., Ltd.	3,032	1.18%
SUM	181,667	70.72%

Source: Shared Research based on company data

Note: As of March 31, 2020; shareholding ratio based on shares outstanding (excl. treasury shares)

Shareholder returns

Concerning shareholder returns, the company targets a dividend payout ratio of 60% or higher and a dividend on equity (DOE) ratio of at least 8%, while comprehensively assessing business conditions, optimal shareholder equity levels to support margin transactions, and the environment for strategic investment.

Dividend per share, total dividends paid, dividend payout ratio, dividend on equity ratio

	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20
Dividend per share (JPY)	15.0	15.0	20.0	50.0	40.0	45.0	33.0	44.0	84.0	45.0
Total dividends (JPYmn)	3,851	3,851	5,135	12,837	10,269	11,553	8,472	11,297	21,572	11,559
Payout ratio	71.2%	90.4%	79.9%	78.8%	66.0%	78.3%	79.2%	87.5%	225.6%	188.4%
DOE	5.1%	5.1%	6.5%	15.4%	11.7%	12.6%	9.0%	11.7%	22.1%	13.1%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

In FY03/20 the company paid an interim dividend of JPY22.5 and a year-end dividend of JPY22.5 for an annual dividend of JPY45.0 per share.

The company decided to pay an interim dividend of JPY20.0 per share in FY03/21. Year-end and annual dividend forecasts remain undecided.

Company profile

Company Name	Head Office
Matsui Securities Co., Ltd.	1-4, Kojimachi Chiyoda-ku Tokyo, Japan 102-8516
Phone	Listed On
+81-3-5216-0606	Tokyo Stock Exchange 1st Section
Established	Exchange Listing
March 20, 1931	August 1, 2001
Website	Fiscal Year-End
https://www.matsui.co.jp/en/	March
IR Web	IR Contact
https://www.matsui.co.jp/en/	Akira Warita (Managing Director)
IR Mail	IR Phone
ir@matsui.co.jp	+81-3-5216-8650

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AI inside Inc.	Edion Corporation	Kondotec Inc.	Seria Co.,Ltd.
AirTrip Corp.	Elecom Co., Ltd.	Kumiai Chemical Industry Co., Ltd.	Serverworks Co.,Ltd.
and factory, inc.	en-Japan Inc.	Lasertec Corporation	SHIFT Inc.
ANEST IWATA Corporation	Estore Corporation.	Locondo, Inc.	Shikigaku Co., Ltd
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Anritsu Corporation	Ferrotec Holdings Corporation	Media Do Co., Ltd.	SMS Co., Ltd.
Apaman Co., Ltd.	FIELDS CORPORATION	Medical System Network Co., Ltd.	Snow Peak, Inc.
ARATA CORPORATION	Financial Products Group Co., Ltd.	MEDINET Co., Ltd.	Solasia Pharma K.K.
Artspark Holdings Inc.	First Brothers Col, Ltd.	MedPeer,Inc.	SOURCENEXT Corporation
AS ONE CORPORATION	FreeBit Co., Ltd.	Mercuria Investment Co., Ltd.	Star Mica Holdings Co., Ltd.
Ateam Inc.	Fujita Kanko Inc.	Micronics Japan Co., Ltd.	Strike Co., Ltd.
Aucfan Co., Ltd.	Gamecard-Joyco Holdings, Inc.	MIRAIT Holdings Corporation	Symbio Pharmaceuticals Limited
AVANT CORPORATION	GameWith, Inc.	Monex Goup Inc.	Synchro Food Co., Ltd.
Axell Corporation	GCA Corporation	MORINAGA MILK INDUSTRY CO., LTD.	TAIYO HOLDINGS CO., LTD.
Azbil Corporation	Good Com Asset Co., Ltd.	Mortgage Service Japan Limited.	Takashimaya Company, Limited
AZIA CO., LTD.	Grandy House Corporation	NAGASE & CO., LTD	Take and Give Needs Co., Ltd.
AZoom, Co., Ltd.	Hakuto Co., Ltd.	NAIGAI TRANS LINE LTD.	Takihyo Co., Ltd.
Base Co., Ltd	Hamee Corp.	NanoCarrier Co., Ltd.	TEAR Corporation
BEENOS Inc.	Happinet Corporation	Net Marketing Co., Ltd.	Tempo Innovation Inc.
Bell-Park Co., Ltd.	Harmonic Drive Systems Inc.	Net One Systems Co.,Ltd.	3-D Matrix, Ltd.
Benefit One Inc.	HENNGE K.K.	Nichi-Iko Pharmaceutical Co., Ltd.	The Hokkoku Bank,Ltd.
B-lot Co.,Ltd.	Hope, Inc.	Nihon Denkei Co., Ltd.	TKC Corporation
Broadleaf Co., Ltd.	HOUSEDO Co., Ltd.	Nippon Koei Co., Ltd.	TKP Corporation
CarBas Co., Ltd.	H2O Retailing Corporation	NIPPON PARKING DEVELOPMENT Co., Ltd.	Tsuzuki Denki Co., Ltd.
Canon Marketing Japan Inc.	IDOM Inc.	NIPRO CORPORATION	TOCALO Co., Ltd.
Career Design Center Co., Ltd.	IGNIS LTD.	Nisshinbo Holdings Inc.	TOKAI Holdings Corporation
Carma Biosciences, Inc.	i-mobile Co.,Ltd.	NS TOOL CO., LTD.	Tokyu Construction Co., Ltd.
CARTA HOLDINGS, INC	Inabata & Co., Ltd.	OHIZUMI MFG. CO., LTD.	TOYOBO CO., LTD.
CERES INC.	Infocom Corporation	Oisix ra daichi Inc.	Toyo Ink SC Holdings Co., Ltd
Chiyoda Co., Ltd.	Infomart Corporation	Oki Electric Industry Co., Ltd	Toyo Tanso Co., Ltd.
Chori Co., Ltd.	Intelligent Wave, Inc.	ONO SOKKI Co., Ltd.	Tri-Stage Inc.
Chugoku Marine Paints, Ltd.	ipet Insurance CO., Ltd.	ONWARD HOLDINGS CO.,LTD.	TSURUHA Holdings
cocokara fine Inc.	Itochu Enex Co., Ltd.	Pan Pacific International Holdings Corporation	VISION INC.
COMSYS Holdings Corporation	JAFCO Co.,Ltd.	PARIS MIKI HOLDINGS Inc.	VISIONARY HOLDINGS CO., LTD.
COTA CO.,LTD.	JMDC Inc.	PIGEON CORPORATION	World Holdings Co., Ltd.
CRE, Inc.	JSB Co., Ltd.	QB Net Holdings Co., Ltd.	YELLOW HAT LTD.
CREEK & RIVER Co., Ltd.	JTEC Corporation	RACCOON HOLDINGS, Inc.	YOSHINOYA HOLDINGS CO., LTD.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.	J Trust Co., Ltd	Raysum Co., Ltd.	YUMESHIN HOLDINGS CO., LTD.
Daiseki Co., Ltd.	Japan Best Rescue System Co., Ltd.	RESORTTRUST, INC.	ZAPPALLAS, INC.
Demae-Can CO., LTD	JINS HOLDINGS Inc.	ROUND ONE Corporation	
DIC Corporation	JP-HOLDINGS, INC.	RYOHIN KEIKAKU CO., LTD.	
Digital Arts Inc.	KAMEDA SEIKA CO., LTD.	SanBio Company Limited	

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