# Strike / 6196

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# INDEX

**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.

# Executive summary

## Overview

- Strike is an M&A boutique. In terms of client companies, a typical seller is unlisted and has revenue of around JPY1.0bn, and a typical buyer is a listed or unlisted company or investment fund. Strike does not specialize in any sector, and more than 60% of its deals are related to business succession.
- Revenue is mostly success fees the company receives from both buyers and sellers. In FY08/18, the company closed 88 deals (+31.3% YoY), generating an average success fee of JPY42.5mn (-7.8% YoY). The number of consultants was 48 (+14 YoY), and the average deals closed per consultant were 1.9 (2.0 in FY08/17).
- The company differentiates with a website that helps raise the number of deals closed per consultant. In FY08/18, these online introductions accounted for around 30% of successful deals. Strike says this figure is higher than for industry peers. In addition, licensed CPAs make up a high ratio of its employees (15%, versus 6% [Shared Research estimate] for Nihon M&A Center, the largest player in the industry). Strike says this is a marketing advantage, as business owners (potential clients) are interested in share valuations and tax matters.
- Other boutique M&A brokers include Nihon M&A Center Inc. (TSE1: 2127), M&A Capital Partners Co., Ltd. (TSE1: 6080), and Yamada Consulting Group Co., Ltd. (JASDAQ: 4792). In 2017, these four companies combined closed 471 deals, six times the 2010 level. Shared Research thinks the overall M&A brokerage market is expanding and has room to grow. According to Recof Data Corp., per press reports and other available data sources, there were 3,050 closed M&A transactions between Japanese companies in 2017. Our calculations suggest that the over the next decade starting in 2018, the potential market for SME business succession deals alone is 35,000 companies.

## Trends and outlook

- In FY08/18, revenue was JPY3.7bn (+21.1% YoY), operating profit was JPY1.4bn (+17.6% YoY), recurring profit was JPY1.4bn (+18.4% YoY), and net income was JPY920mn (+14.4% YoY).
- For FY08/19, the company forecasts revenue of JPY4.5bn (+21.4% YoY), operating profit of JPY1.6bn (+17.6% YoY), recurring profit of JPY1.6bn (+17.4% YoY), and net income of JPY1.1bn (+15.9% YoY).
- Strike does not publicize a medium-term plan, but Shared Research calculates that double-digit annual revenue and operating profit growth should continue for the five years from FY08/19. We believe this growth will stem from increasing the number of consultants and the number of deals closed per consultant.

## Strengths and weaknesses

Shared Research believes Strike's strengths are a high number of deals per consultant thanks to its website; a high ratio of consultants who are CPAs and can respond quickly and accurately to clients; and being trusted as one of the three listed companies specializing in M&A brokerage among numerous M&A brokerage firms. We also see Strike as having three weaknesses: it has fewer business partners than industry leaders, putting it at a disadvantage in obtaining information; difficulty differentiating from competitors leading to lower fees per deal; and lower profitability due to being smaller than industry peers. (See the "Strengths and weaknesses" section.)

# Key financial data

| Income statement (JPYmn) | FY08/12 Parent | FY08/13 Parent | FY08/14 Parent | FY08/15 Parent | FY08/16 Parent | FY08/17 Parent | FY08/18 Parent | FY08/19 Est. |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | **419** | **823** | **591** | **1,424** | **2,007** | **3,093** | **3,744** | **4,545** |
| YoY | 11.6% | 96.6% | -28.2% | 141.0% | 41.0% | 54.1% | 21.1% | 21.4% |
| **Gross profit** | **400** | **739** | **328** | **930** | **1,299** | **1,850** | **2,319** | |
| YoY | - | 84.7% | -55.7% | 183.6% | 39.7% | 42.5% | 25.3% | |
| GPM | 95.6% | 89.8% | 55.5% | 65.3% | 64.7% | 59.8% | 61.9% | |
| **Operating profit** | **143** | **308** | **90** | **546** | **797** | **1,151** | **1,353** | **1,591** |
| YoY | - | 114.9% | -70.7% | 505.1% | 46.1% | 44.4% | 17.6% | 17.6% |
| OPM | 34.2% | 37.4% | 15.3% | 38.3% | 39.7% | 37.2% | 36.1% | 35.0% |
| **Recurring profit** | **144** | **311** | **94** | **547** | **790** | **1,145** | **1,355** | **1,591** |
| YoY | 173.6% | 116.6% | -69.7% | 480.1% | 44.4% | 44.9% | 18.4% | 17.4% |
| RPM | 34.3% | 37.8% | 16.0% | 38.4% | 39.4% | 37.0% | 36.2% | 35.0% |
| **Net income** | **77** | **181** | **82** | **329** | **511** | **804** | **920** | **1,066** |
| YoY | 68.7% | 135.4% | -54.8% | 301.5% | 55.2% | 57.4% | 14.4% | 15.9% |
| Net margin | 18.4% | 22.0% | 13.9% | 23.1% | 25.5% | 26.0% | 24.6% | 23.5% |
| **Per share data** | | | | | | | | |
| Shares issued (year-end; '000) | 5 | 5 | 5 | 6 | 2,972 | 9,677 | 19,354 | |
| EPS | 5.0 | 11.8 | 5.3 | 20.9 | 30.3 | 43.4 | 47.5 | 55.1 |
| EPS (fully diluted) | - | - | - | - | 28 | - | 47 | |
| Dividend per share | 1.0 | 4.1 | 2.1 | 7.3 | 5.8 | 8.0 | 9.0 | 11.0 |
| Book value per share | 33.0 | 43.9 | 45.2 | 70.8 | 126.6 | 193.5 | 233.0 | |
| **Balance sheet (JPYmn)** | | | | | | | | |
| Cash and cash equivalents | 570 | 848 | 641 | 1,525 | 2,384 | 4,158 | 4,918 | |
| **Total current assets** | **585** | **853** | **716** | **1,640** | **2,539** | **4,314** | **5,131** | |
| Tangible fixed assets | 5 | 6 | 9 | 10 | 46 | 44 | 81 | |
| Investments and other assets | 60 | 59 | 57 | 46 | 137 | 148 | 206 | |
| Intangible fixed assets | - | - | 1 | 1 | 1 | 2 | 1 | |
| **Total assets** | **650** | **919** | **783** | **1,697** | **2,722** | **4,507** | **5,419** | |
| Accounts payable | 2 | 8 | 17 | 14 | 23 | 22 | 76 | |
| Short-term debt | - | - | - | - | - | - | - | |
| **Total current liabilities** | **122** | **234** | **90** | **519** | **464** | **721** | **879** | |
| Long-term debt | 19 | 10 | - | - | - | - | - | |
| **Total fixed liabilities** | **21** | **12** | **0** | **-** | **-** | **41** | **26** | |
| **Total liabilities** | **143** | **246** | **90** | **519** | **464** | **763** | **905** | |
| **Net assets** | **506** | **672** | **692** | **1,177** | **2,258** | **3,745** | **4,514** | |
| Total interest-bearing debt | 19 | 10 | - | - | - | - | - | |
| **Cash flow statement (JPYmn)** | | | | | | | | |
| Cash flows from operating activities | 199 | 302 | -141 | 716 | 430 | 1,108 | 1,025 | |
| Cash flows from investing activities | 32 | 0 | 18 | 16 | -136 | -7 | -115 | |
| Cash flows from financing activities | -19 | -24 | -74 | 153 | 564 | 673 | -150 | |
| **Financial ratios** | | | | | | | | |
| ROA (RP-based) | - | 39.7% | 11.1% | 44.1% | 35.8% | 31.7% | 27.3% | |
| ROE | - | 30.7% | 12.0% | 35.2% | 29.7% | 26.8% | 22.3% | |
| Equity ratio | 77.9% | 73.2% | 88.4% | 69.4% | 83.0% | 83.1% | 83.2% | |

Source: Shared Research based on company data
Note: The company carried out a 2-for-1 stock split effective June 2018.
Note: Amounts in the table may differ from company data due to differences in rounding methods.

# Recent updates

## Highlights

On **December 25, 2018**, Strike Co., Ltd. announced earnings results for Q1 FY08/19; see the results section for details.

On **November 12, 2018**, Shared Research updated the report following interviews with the company.

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

# Trends and outlook

## Quarterly trends and results

| Cumulative | FY08/18 | | | | FY08/19 | | | | FY08/19 | | FY08/19 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (JPYmn) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | % of 1H | 1H Est. | % of FY | FY Est. |
| Revenue | 704 | 1,552 | 2,820 | 3,744 | 827 | | | | 36.7% | 2,254 | 18.2% | 4,545 |
| YoY | 3.1% | 10.6% | 39.9% | 21.1% | 17.5% | | | | | 45.2% | | 21.4% |
| Gross profit | 469 | 946 | 1,788 | 2,319 | 551 | | | | | | | |
| YoY | 3.5% | 1.0% | 35.1% | 25.3% | 17.4% | | | | | | | |
| GPM | 66.6% | 60.9% | 63.4% | 61.9% | 66.6% | | | | | | | |
| SG&A expenses | 235 | 454 | 725 | 966 | 321 | | | | | | | |
| YoY | 19.4% | 32.7% | 45.8% | 38.1% | 36.3% | | | | | | | |
| SG&A ratio | 33.4% | 29.2% | 25.7% | 25.8% | 38.8% | | | | | | | |
| Operating profit | 234 | 492 | 1,063 | 1,353 | 230 | | | | 29.1% | 790 | 14.5% | 1,591 |
| YoY | -8.8% | -17.2% | 28.7% | 17.6% | -1.6% | | | | | 60.5% | | 17.6% |
| OPM | 33.2% | 31.7% | 37.7% | 36.1% | 27.8% | | | | | 35.0% | | 35.0% |
| Recurring profit | 234 | 493 | 1,065 | 1,355 | 230 | | | | 29.1% | 790 | 14.5% | 1,591 |
| YoY | -8.8% | -17.1% | 28.7% | 18.4% | -1.6% | | | | | 60.3% | | 17.4% |
| RPM | 33.2% | 31.7% | 37.8% | 36.2% | 27.8% | | | | | 35.0% | | 35.0% |
| Net income | 159 | 331 | 717 | 920 | 152 | | | | 28.8% | 528 | 14.2% | 1,066 |
| YoY | 1.3% | -13.2% | 27.8% | 14.4% | -4.8% | | | | | 59.4% | | 15.9% |
| Net margin | 22.7% | 21.3% | 25.4% | 24.6% | 18.4% | | | | | 23.4% | | 23.5% |

| Quarterly | FY08/18 | | | | FY08/19 | | | |
|---|---|---|---|---|---|---|---|---|
| (JPYmn) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Revenue | 704 | 848 | 1,267 | 924 | 827 | | | |
| YoY | 3.1% | 17.7% | 107.1% | -14.2% | 17.5% | | | |
| Gross profit | 469 | 477 | 842 | 531 | 551 | | | |
| YoY | 3.5% | -1.2% | 117.6% | 0.7% | 17.4% | | | |
| GPM | 66.6% | 56.2% | 66.5% | 57.4% | 66.6% | | | |
| SG&A expenses | 235 | 218 | 271 | 241 | 321 | | | |
| YoY | 19.4% | 51.0% | 74.5% | 19.1% | 36.3% | | | |
| SG&A ratio | 33.4% | 25.7% | 21.4% | 26.0% | 38.8% | | | |
| Operating profit | 234 | 259 | 571 | 290 | 230 | | | |
| YoY | -8.8% | -23.6% | 146.7% | -10.7% | -1.6% | | | |
| OPM | 33.2% | 30.5% | 45.0% | 31.4% | 27.8% | | | |
| Recurring profit | 234 | 259 | 572 | 291 | 230 | | | |
| YoY | -8.8% | -23.5% | 146.1% | -8.5% | -1.6% | | | |
| RPM | 33.2% | 30.5% | 45.1% | 31.4% | 27.8% | | | |
| Net income | 159 | 172 | 386 | 202 | 152 | | | |
| YoY | 1.3% | -23.4% | 115.1% | -16.6% | -4.8% | | | |
| Net margin | 22.7% | 20.3% | 30.5% | 21.9% | 18.4% | | | |

Source: Shared Research based on company data
Note: Amounts in the table may differ from company data due to differences in rounding methods.

### Key indicators

| | FY08/18 | | | | FY08/19 | | | | FY08/19 | |
|---|---|---|---|---|---|---|---|---|---|---|
| (Cumulative) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | % of FY | FY Est. |
| No. of new contracts | 51 | 103 | 169 | 232 | 57 | | | | 21.4% | 266 |
| YoY | 82.1% | 51.5% | 61.0% | 62.2% | 11.8% | | | | | 14.7% |
| No. of M&A deals closed | 24 | 43 | 63 | 88 | 22 | | | | 18.3% | 120 |
| YoY | 41.2% | 22.9% | 18.9% | 31.3% | -8.3% | | | | | 36.4% |
| Fees per deal closed (JPYmn) | 29.3 | 36.1 | 44.8 | 42.5 | 37.6 | | | | | |
| YoY | -26.9% | -10.0% | 17.7% | -7.8% | 28.2% | | | | | |

Source: Shared Research based on company data
Note: Amounts in the table may differ from company data due to differences in rounding methods.

### Cost of Revenue

| | FY08/18 | | | | FY08/19 | | | |
|---|---|---|---|---|---|---|---|---|
| (JPYmn) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Cost of revenue | 235 | 606 | 1,031 | 1,425 | 276 | | | |
| YoY | 2.5% | 29.8% | 49.1% | 14.7% | 17.7% | | | |
| Introduction fees | 53 | 172 | 262 | 394 | 70 | | | |
| YoY | - | 56.4% | 65.8% | -12.8% | 32.1% | | | |
| % of revenue | - | 11.1% | 9.3% | 10.5% | 8.5% | | | |
| Personnel costs | 154 | 386 | 697 | 921 | 175 | | | |
| YoY | - | 19.9% | 45.5% | 29.1% | 13.6% | | | |
| Other costs | 26 | 47 | 71 | 109.999 | 30 | | | |
| YoY | - | 42.4% | 34.0% | 42.3% | 15.4% | | | |

| | FY08/18 | | | | FY08/19 | | | |
|---|---|---|---|---|---|---|---|---|
| (JPYmn) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Cost of revenue | 235 | 371 | 425 | 394 | 276 | | | |
| YoY | 2.5% | 56.2% | 89.0% | -28.5% | 17.7% | | | |
| Introduction fees | 53 | 119 | 90 | 132 | 70 | | | |
| YoY | - | - | 87.5% | -55.1% | 32.1% | | | |
| % of revenue | - | 14.0% | 7.1% | 14.3% | 8.5% | | | |
| Personnel costs | 154 | 232 | 311 | 224 | 175 | | | |
| YoY | - | - | 98.1% | -4.5% | 13.6% | | | |
| Other costs | 26 | 21 | 24 | 37.697 | 30 | | | |
| YoY | - - | | 20.3% | 67.1% | 15.4% | | | |

Source: Shared Research based on company data

### SG&A expenses

| | FY08/18 | | | | FY08/19 | | | |
|---|---|---|---|---|---|---|---|---|
| (JPYmn) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| SG&A expenses | 235 | 454 | 725 | 966 | 321 | | | |
| YoY | 19.4% | 32.7% | 45.8% | 38.1% | 36.3% | | | |
| Personnel expenses | - | 162 | 291 | 359 | 128 | | | |
| YoY | - | 62.0% | 95.3% | 72.6% | 85.5% | | | |
| Advertising expenses | - | 75 | 116 | 159 | 53 | | | |
| YoY | - | 29.3% | 41.5% | 30.3% | -19.7% | | | |

| | FY08/18 | | | | FY08/19 | | | |
|---|---|---|---|---|---|---|---|---|
| (JPYmn) | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| SG&A expenses | 235 | 218 | 271 | 241 | 321 | | | |
| YoY | 19.4% | 51.0% | 74.5% | 19.1% | 36.3% | | | |
| Personnel expenses | - | - | 129 | 68 | 128 | | | |
| YoY | - | - | 163.3% | 15.3% | 85.5% | | | |
| Advertising expenses | - | - | 41 | 43 | 53 | | | |
| YoY | - | - | 70.8% | 7.5% | -19.7% | | | |

Source: Shared Research based on company data

### Number of consultants by years of experience

| | FY08/18 Act. | FY08/19 Est. |
|---|---|---|
| Number of consultants (year-end) | 56 | 82 |
| First year | 22 | 26 |
| % of total | 39.3% | 31.7% |
| Second year | 10 | 22 |
| % of total | 17.9% | 26.8% |
| Third year | 24 | 34 |
| % of total | 42.9% | 41.5% |
| Number of consultants (average) | 48 | 69 |
| First year | 17 | 24 |
| % of total | 34.7% | 34.8% |
| Second year | 9 | 16 |
| % of total | 17.9% | 23.2% |
| Third year | 23 | 29 |
| % of total | 47.4% | 42.0% |

Source: Shared Research based on company data

## Q1 FY08/19 results

Revenue was JPY827mn (+17.5% YoY), operating profit was JPY230mn (-1.6% YoY), recurring profit was JPY230mn (-1.6% YoY), and net income was JPY152mn (-4.8% YoY).

Revenue came to JPY827mn (+17.5% YoY). The number of deals closed decreased, but the revenue per deal increased.

The company closed 22 M&A deals (-8.3% YoY). This decrease occurred despite a rise in the number of consultants. The company had 72 consultants as of end-Q1, 16 more than end-FY08/18.

Revenue per deal was JPY37.6mn (+28.2% YoY). No large deals were closed during Q1 (same as in Q1 FY08/18), but revenue per deal rose, boosted by an increase in fees per deal.

Gross profit was JPY551mn (+17.4% YoY), and the gross profit margin was 66.6%, about level with Q1 FY08/18.

SG&A expenses were JPY321mn (+36.3% YoY), and the SG&A expense ratio was 38.8% (+5.3pp YoY). The rise in SG&A expenses was primarily due to increases in personnel expenses and rent. Personnel expenses were JPY128mn (+85.5% YoY) as non-consultant staff expanded. Rent came to JPY37mn (+48.0% YoY) in connection with the January 2018 relocation of the Nagoya sales office, which was aimed at strengthening the company's marketing and streamlining business operations. Another primary contributing factor to the higher rent was the company's June 2018 expansion of its Tokyo headquarters, performed with the goal of responding to higher staff numbers.

Q1 revenue and all levels of profit achieved less than 20% of targets outlined in the FY08/19 full-year company forecast, but the company maintains that reaching its full-year targets remains possible as new deals are performing strongly and large deals are on the horizon for Q2 and beyond.

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

## Full-year company forecasts

| | FY08/18 | | | FY08/19 | | |
|---|---|---|---|---|---|---|
| (JPYmn) | 1H Act. | 2H Act. | FY Act. | 1H Est. | 2H Est. | FY Est. |
| **Revenue** | **1,552** | **2,192** | **3,744** | **2,254** | **2,291** | **4,545** |
| YoY | 10.6% | 29.7% | 21.1% | 45.2% | 4.5% | 21.4% |
| Cost of sales | 606 | 819 | 1,425 | | | |
| **Gross profit** | **946** | **1,373** | **2,319** | | | |
| YoY | 1.0% | 50.2% | 25.3% | | | |
| GPM | 60.9% | 62.6% | 61.9% | | | |
| SG&A expenses | 454 | 512 | 966 | | | |
| SG&A ratio | 29.2% | 23.4% | 25.8% | | | |
| **Operating profit** | **492** | **861** | **1,353** | **790** | **801** | **1,591** |
| YoY | -17.2% | 54.8% | 17.6% | 60.5% | -6.9% | 17.6% |
| OPM | 31.7% | 39.3% | 36.1% | 35.0% | 35.0% | 35.0% |
| **Recurring profit** | **493** | **863** | **1,355** | **790** | **801** | **1,591** |
| YoY | -17.1% | 56.8% | 18.4% | 60.3% | -7.1% | 17.4% |
| RPM | 31.7% | 39.4% | 36.2% | 35.0% | 35.0% | 35.0% |
| **Net income** | **331** | **588** | **920** | **528** | **538** | **1,066** |
| YoY | -13.2% | 39.4% | 14.4% | 59.4% | -8.6% | 15.9% |

Source: Shared Research based on company data
Note: Amounts in the table may differ from company data due to differences in rounding methods.

### Key indicators

| (Number of deals and consultants) | FY08/18 Act. | FY08/19 Est. |
|---|---|---|
| **New contracts** | **232** | **266** |
| YoY | 62.2% | 14.7% |
| **Deals closed** | **88** | **120** |
| YoY | 31.3% | 36.4% |
| Large deals | 3 | 4 |
| **Fees per deal closed (JPYmn)** | **42.5** | **37.9** |
| YoY | -7.8% | -11.0% |
| **Consultants (year-end)** | **56** | **82** |
| YoY | 43.6% | 0.464285714 |
| **Consultants (average)** | **48** | **69** |
| **Deals closed per consultant** | **1.9** | **1.7** |
| YoY | -7.4% | -6.1% |

Source: Shared Research based on company data
Note: Large deals are those with fees of at least JPY100mn.
Note: Amounts in the table may differ from company data due to differences in rounding methods.

### Consultants by years of experience

| | FY08/18 Act. | FY08/19 Act. |
|---|---|---|
| Number of consultants (year-end) | 56 | 82 |
| First year | 22 | 26 |
| % of total | 39.3% | 31.7% |
| Second year | 10 | 22 |
| % of total | 17.9% | 26.8% |
| Third year | 24 | 34 |
| % of total | 42.9% | 41.5% |
| Number of consultants (average) | 48 | 69 |
| First year | 17 | 24 |
| % of total | 34.7% | 34.8% |
| Second year | 9 | 16 |
| % of total | 17.9% | 23.2% |
| Third year | 23 | 29 |
| % of total | 47.4% | 42.0% |

Source: Shared Research based on company data

## Company forecasts for FY08/19

For FY08/19, Strike forecasts revenue of JPY4.5bn (+21.4% YoY), operating profit of JPY1.6bn (+17.6% YoY), recurring profit of JPY1.6bn (+17.4% YoY), and net income of JPY1.1bn (+15.9% YoY).

The company mainly expects revenue to rise due to more deals closed. However, it expects revenue per deal closed to decrease.

Strike expects to close 120 deals (+36.4% YoY), up on an increase in the number of consultants. The company assumes that the number of consultants will increase to 82 by end-FY08/19 (+46.4% YoY). Strike plans to hire 26 more people during FY08/19, and at the beginning of the fiscal year it already had 20 new hires and others who had agreed to join the company. Even so, the company says that if it finds good candidates, it will hire more.

The company plans to close 1.7deals per consultant (-6.1% YoY), explaining that the decrease will be because of a higher percentage of first-and second-year consultants and lower share of those in their third year or longer. First-year consultants close less than one deal per year on average, says Strike, while those in their third year close around three.

Strike forecasts revenue per deal closed of JPY37.9mn (-11.0% YoY). The company expects four large closed deals (with fees of at least JPY100mn) which impact average revenue per deal. While this is one more than FY08/18, it expects the share of large deals to be 3.3% (-0.1pp YoY).

Strike believes gross profit will rise despite higher expenses stemming from an increase in the number of consultants on the back of revenue growth. It expects the gross profit margin to be flat YoY.

The company expects SG&A expenses and the SG&A expense ratio to rise YoY on higher personnel expenses and rent. There will be full-year expenses from employees other than consultants such as systems personnel hired in FY08/18. As of end-FY08/18 it had 19 such employees (10 at end-FY08/17), and is budgeting for 20 at end-FY08/19. The company expects rents to increase due to the planned FY08/19 move of its Osaka office and higher rents at its Fukuoka sales office (moved in September 2017), Nagoya sales office (moved in January 2018), and Tokyo headquarters (increased floor space in June 2018).

# Medium-term outlook

## May maintain double-digit revenue and profit growth via more consultants and deals closed per consultant

Strike does not disclose a medium-term plan, but Shared Research calculates that the company should maintain double-digit growth in revenue and operating profit for each of the five years from FY08/19.

We believe this growth will stem from increasing the number of consultants and the number of deals closed per consultant.

## Over medium term, planning for a 30% annual increase in the number of consultants

As of end-FY08/18, Strike had 56 consultants (+43.6% YoY). That figure has grown by a CAGR of 36.1% for the past five years (FY08/13 to FY08/18). Based on past performance, Shared Research believes the company can increase its number of consultants by 25–30% annually over the medium term.

To increase its number of consultants, Strike needs to identify candidates who meet its standards, conduct on-the-job training (OJT) and absorb these costs. Strike says that the number of candidates has increased since it listed in 2016. The company explains that personnel expenses per consultant were JPY19.4mn in FY08/18, lower than at industry peers. Strike conducts OJT by pairing new consultants (usually inexperienced) with more experienced consultants, who act as supervisors. When increasing the number of consultants in the past, the company found that despite hiring many new consultants, it did not hinder revenue growth. For this reason, the company believes that it should be possible to increase the number of new consultants by around 30% per year, starting them off from OJT. On average, first-year consultants close less than one deal. Still, Shared Research understands that consultants contribute to profits from their first year, as average fee per deal is JPY42.5mn (FY08/18) and average personnel costs per consultant are JPY19.4mn.

Strike says it plans to add at least 25 consultants in FY08/19, and will raise this number if it finds good candidates.

## Deals closed per consultant

As of end-FY08/18, deals closed per consultant were 1.9 (2.0 at end-FY08/17). This figure has remained unchanged for the past five years. Strike explains that consultants tend to close more deals as they gain experience, that one is the average for first-year consultants, while around three is the norm for consultants in their third year. Aggressive recruiting means that the number of people with three or more years of experience is low, making it difficult to raise the number of deals closed per consultant.

Strike says the number of deals closed per consultant rises as years with the company increase. As most consultants start without experience in M&A brokerage, the number of deals averages less than one in their first year, but this figure increases to around three after the third year.

Strike aims to increase the number of deals closed per consultant with three or more years of experience to four. The company is working on several measures to achieve this goal.

### Medium-term measures to boost deals closed per consultant

To improve operating efficiency for medium- to long-term growth, the company established business support department, business promotion department, M&A online editorial department, and information systems department in December 2017. In September 2018 the company rejigged the organization, and now has 10 corporate information departments. It also established new marketing and PR departments.

#### Shift to ten corporate information department structure

The company subdivided its three former corporate information departments into 10. By reducing the number of consultants assigned to a department, the company aims to enhance progress in closing deals and strengthen intradepartmental collaboration. The company boosted recruitment, with 39.3% of its 56 consultants (+43.6% from end-FY08/17) at end-FY08/18 in their first year at the company (28.2% at end-FY08/17).

Business support department

A team of lawyers, licensed CPAs, and other qualified personnel provide support with projects involving complicated rights relations such as business succession. They also support novice consultants with closing deals and evaluating companies, by answering questions and addressing issues. With the establishment of this department, the company is able to internalize tasks such as checking documents that were previously outsourced to outside lawyers and CPAs. In addition, the company is able to put in place a support system for novice consultants, enabling them to perform their tasks smoothly.

Business promotion department, marketing department, PR department

Business promotion department undertakes marketing activities toward business partners such as accounting firms and financial institutions that were previously performed by consultants. The marketing department conducts marketing activities over the phone and recruits attendees for seminars to strengthen the company's ability to win deals. The PR department plans seminars for management officers and works to boost the company's profile. By having specialized departments for each line of work, the company hopes to strengthen its various initiatives. Meanwhile, consultants can use the time previously spent in visiting business partners to search for new deals and perform other tasks, and focus on tasks that require their professional expertise.

M&A online editorial department

M&A online editorial department creates content for M&A online, an M&A information site operated by the company. The company believes that improving content enhances the value of its website as an effective media and leads to increased access to the website. According to the company, its site had been viewed 350,000 times by February 2018, and the number has exceeded 650,000 by May 2018.

Information systems department

Information systems department develops and maintains the company's database, internal system, and websites including SMART, an M&A brokerage site. In addition to improving user friendliness of SMART, it aims to increase the number of deals a consultant closes by consolidating information on sellers and buyers each consultant has into a database.

**Revenue per deal closed**

Revenue per deal closed rose at a CAGR of 8.4% per year between FY08/13 and FY08/18. The company explains three main reasons for this increase. (1) In FY08/15, Strike initiated a policy of not handling small deals. (2) The June 2016 IPO has increased recognition of and trust in the company. (3) The number of large deals (fees at least JPY100mn) has increased. Strike says its medium-term priority is to increase the number of deals closed rather than the success fee per deal closed. The company also says it aims to complete larger deals while maintaining a stable flow of deals generating success fees of between JPY10mn and JPY100mn.

In FY08/18, revenue per deal closed averaged JPY42.5mn (-7.8% YoY). The number of deals closed increased, but revenue per deal closed decreased because there were just three large deals closed (down by one from FY08/17).

## Bullish and bearish scenarios

Shared Research sees increases in the number of consultants and deals closed per consultant as the sources of Strike's medium-term growth. We calculate that the company should be able to maintain annual double-digit growth in revenue and operating profit for the five years from FY08/18. The scenarios below are based on Shared Research's assumptions, and are not company forecasts.

Our bearish calculation comes from adding 10 consultants each year, with consultant productivity remaining flat. The bullish figures assume 30% YoY increases in the number of consultants, with productivity rising.

For reference, revenue grew by an average of 21.8% and operating profit by 23.0% for Nihon M&A Center (the largest company in the M&A brokerage business) from FY03/08 through FY03/18.

## Trial calculations

### Bullish scenario

| (Number of deals and consultants) | FY08/14 Act. | FY08/15 Act. | FY08/16 Act. | FY08/17 Act. | FY08/18 Act. | FY08/19 SRF | FY08/20 SRF | FY08/21 SRF | FY08/22 SRF | FY08/23 SRF |
|---|---|---|---|---|---|---|---|---|---|---|
| Deals closed | 26 | 42 | 48 | 67 | 88 | 118 | 163 | 228 | 315 | 434 |
| YoY | -10.3% | 61.5% | 14.3% | 39.6% | 31.3% | 34.2% | 37.7% | 40.0% | 38.3% | 37.9% |
| Fees per deal closed (revenue / deals closed; JPYmn) | 22.7 | 33.9 | 41.8 | 46.2 | 42.5 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 |
| YoY | -19.9% | 49.2% | 23.3% | 10.4% | -7.8% | -6.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Consultants (year-end) | 16 | 21 | 28 | 39 | 56 | 82 | 107 | 139 | 181 | 235 |
| YoY | 33.3% | 31.3% | 33.3% | 39.3% | 43.6% | 46.4% | 30.0% | 30.0% | 30.0% | 30.0% |
| Consultants (average) | 14 | 19 | 25 | 34 | 48 | 69 | 95 | 123 | 160 | 208 |
| YoY | 27.3% | 32.1% | 32.4% | 36.7% | 41.8% | 45.3% | 37.0% | 30.2% | 30.1% | 30.0% |
| Deals closed per consultant | 1.9 | 2.3 | 2.0 | 2.0 | 1.9 | 1.7 | 1.7 | 1.9 | 2.0 | 2.1 |
| (JPYmn) | FY08/14 | FY08/15 | FY08/16 | FY08/17 | FY08/18 | FY08/19 | FY08/20 | FY08/21 | FY08/22 | FY08/23 |
| Revenue | 591 | 1,424 | 2,007 | 3,093 | 3,744 | 4,723 | 6,503 | 9,107 | 12,598 | 17,368 |
| YoY | -28.2% | 141.0% | 41.0% | 54.1% | 21.1% | 26.2% | 37.7% | 40.0% | 38.3% | 37.9% |
| Cost of revenue | 263 | 494 | 708 | 1,243 | 1,425 | 1,736 | 2,378 | 3,252 | 4,414 | 5,980 |
| YoY | 213.3% | 87.9% | 43.3% | 75.5% | 14.7% | 21.8% | 37.0% | 36.7% | 35.7% | 35.5% |
| Cost ratio | 44.5% | 34.7% | 35.3% | 40.2% | 38.1% | 36.7% | 36.6% | 35.7% | 35.0% | 34.4% |
| Personnel expenses | 160 | 376 | 500 | 713 | 921 | 1,163 | 1,598 | 2,172 | 2,934 | 3,957 |
| YoY | - | 134.8% | 32.9% | 42.8% | 29.1% | 26.3% | 37.4% | 36.0% | 35.1% | 34.9% |
| Introduction fees | 51 | 77 | 143 | 451 | 394 | 472 | 650 | 911 | 1,260 | 1,737 |
| YoY | - | 51.5% | 86.7% | 215.6% | -12.6% | 19.9% | 37.7% | 40.0% | 38.3% | 37.9% |
| Other expenses | 32 | 37 | 60 | 64 | 77 | 100 | 130 | 169 | 220 | 286 |
| YoY | - | 15.9% | 63.4% | 6.8% | 20.1% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% |
| Gross profit | 328 | 930 | 1,299 | 1,850 | 2,319 | 2,988 | 4,125 | 5,855 | 8,185 | 11,388 |
| YoY | -55.7% | 183.6% | 39.7% | 42.5% | 25.3% | 28.8% | 38.1% | 42.0% | 39.8% | 39.1% |
| GPM | 55.5% | 65.3% | 64.7% | 59.8% | 61.9% | 63.3% | 63.4% | 64.3% | 65.0% | 65.6% |
| SG&A expenses | 238 | 384 | 502 | 699 | 966 | 1,243 | 1,606 | 2,104 | 2,747 | 3,597 |
| YoY | -44.9% | 61.5% | 30.7% | 39.4% | 38.1% | 28.7% | 29.3% | 31.0% | 30.6% | 30.9% |
| SG&A ratio | 40.2% | 27.0% | 25.0% | 22.6% | 25.8% | 26.3% | 24.7% | 23.1% | 21.8% | 20.7% |
| Operating profit | 90 | 546 | 797 | 1,151 | 1,353 | 1,745 | 2,518 | 3,751 | 5,438 | 7,791 |
| YoY | -70.7% | 505.1% | 46.1% | 44.4% | 17.6% | 29.0% | 44.3% | 49.0% | 45.0% | 43.3% |
| OPM | 15.3% | 38.3% | 39.7% | 37.2% | 36.1% | 36.9% | 38.7% | 41.2% | 43.2% | 44.9% |

Source: Shared Research
Note: Amounts in the table may differ from company data due to differences in rounding methods.
Note: "SRF" refers to Shared Research forecasts

Our bullish scenario assumes that the company will have 82 consultants at end-FY08/19 as planned, with a CAGR in consultant numbers of 30% from FY08/20 to FY08/23. We assume a gradual increase in the number of deals closed per consultant starting in FY08/19, in response to the share of consultants with three years or more of experience. Based on these assumptions, in FY08/23 revenue would be JPY17.4bn (CAGR of 35.9% from FY08/18) and operating profit JPY7.8bn (41.9% CAGR).

### Revenue (calculated based on a bullish scenario)

- We assume revenue per deal closed of JPY40mn based on the company's track record. In FY08/17, the company booked a large deal generating JPY510mn, which brought the average revenue per deal closed to JPY46.2mn. The company has set and rigorously applied a fee minimum, and we believe the effects have taken hold. Strike is not targeting an increase in revenue per deal closed in the medium term.
- We assume that the company will have 82 consultants at end-FY08/19 as planned and a 30% annual increase in the number of consultants as of fiscal year-end from FY08/20 to FY08/23.
- We assume that a higher share of consultants with just one or two years of experience will result in a decline in the average revenue per consultant in FY08/19, with a subsequent gradual upswing.

### Cost of revenue (calculated based on a bullish scenario)

- We assume that personnel expenses are the sum of salaries and bonuses. From historical results, we calculate salaries and allowances per consultant (salaries and allowances divided by the number of consultants) at JPY7mn. Given that Strike pays performance bonuses to consultants, we assume that salaries and allowances per consultant will remain flat over the medium term, so we calculate salaries and allowances as JPY7mn times the number of consultants. Strike rewards consultants with performance bonuses. Using historical results, after deducting introduction fees we calculate consultant bonuses at 16% of revenue. We have applied that figure to calculations over the medium term.
- We have assumed introduction fees as 10% of revenue based on historical performance. Strike says introductions account for around half of deals, and the company pays a portion of the success fees to business partners for introductions.

SG&A expenses (calculated based on a bullish scenario)

The main SG&A expense categories are rent and advertising expenses.

- We have calculated rent expanses as the number of employees times rent per employee. Historical figures indicate JPY1.8mn in rent per employee, and we assume this level will remain constant over the medium term.
- We estimate advertising expenses at 7% of gross profit, in line with historical results.
- We have assumed that personnel expenses are 50% fixed cost and 50% variable, linked to revenue. Within salaries and allowances, a high percentage of administrative salaries are fixed costs, and we have taken into account the company's medium-term intention of increasing the number of support staff such as accountants and lawyers. We have assumed other SG&A expenses at 9% of revenue, in line with historical results.

## Trial calculations

### Bearish scenario

| (Number of deals and consultants) | FY08/14 Act. | FY08/15 Act. | FY08/16 Act. | FY08/17 Act. | FY08/18 Act. | FY08/19 SRF | FY08/20 SRF | FY08/21 SRF | FY08/22 SRF | FY08/23 SRF |
|---|---|---|---|---|---|---|---|---|---|---|
| Deals closed | 26 | 42 | 48 | 67 | 88 | 112 | 139 | 172 | 203 | 239 |
| YoY | -10.3% | 61.5% | 14.3% | 39.6% | 31.3% | 27.8% | 23.3% | 23.9% | 18.0% | 17.9% |
| Fees per deal closed (revenue / deals closed; JPYmn) | 22.7 | 33.9 | 41.8 | 46.2 | 42.5 | 40.0 | 40.0 | 40.0 | 40.0 | 40.0 |
| YoY | -19.9% | 49.2% | 23.3% | 10.4% | -7.8% | -6.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Consultants (year-end) | 16 | 21 | 28 | 39 | 56 | 82 | 90 | 99 | 109 | 120 |
| YoY | 33.3% | 31.3% | 33.3% | 39.3% | 43.6% | 46.4% | 10.0% | 10.0% | 10.0% | 10.0% |
| Consultants (average) | 14 | 19 | 25 | 34 | 48 | 69 | 86 | 95 | 104 | 115 |
| YoY | 27.3% | 32.1% | 32.4% | 36.7% | 41.8% | 45.3% | 24.8% | 10.0% | 10.0% | 10.0% |
| Deals closed per consultant | 1.9 | 2.3 | 2.0 | 2.0 | 1.9 | 1.6 | 1.6 | 1.8 | 1.9 | 2.1 |
| (JPYmn) | FY08/14 | FY08/15 | FY08/16 | FY08/17 | FY08/18 | FY08/19 | FY08/20 | FY08/21 | FY08/22 | FY08/23 |
| Revenue | 591 | 1,424 | 2,007 | 3,093 | 3,744 | 4,498 | 5,544 | 6,870 | 8,110 | 9,564 |
| YoY | -28.2% | 141.0% | 41.0% | 54.1% | 21.1% | 20.1% | 23.3% | 23.9% | 18.0% | 17.9% |
| Cost of revenue | 263 | 494 | 708 | 1,243 | 1,425 | 1,681 | 2,086 | 2,508 | 2,928 | 3,422 |
| YoY | 213.3% | 87.9% | 43.3% | 75.5% | 14.7% | 17.9% | 24.1% | 20.3% | 16.7% | 16.9% |
| Cost ratio | 44.5% | 34.7% | 35.3% | 40.2% | 38.1% | 37.4% | 37.6% | 36.5% | 36.1% | 35.8% |
| Personnel expenses | 160 | 376 | 500 | 713 | 921 | 1,131 | 1,401 | 1,652 | 1,897 | 2,179 |
| YoY | - | 134.8% | 32.9% | 42.8% | 29.1% | 22.8% | 23.9% | 17.9% | 14.8% | 14.9% |
| Introduction fees | 51 | 77 | 143 | 451 | 394 | 450 | 554 | 687 | 811 | 956 |
| YoY | - | 51.5% | 86.7% | 215.6% | -12.6% | 14.2% | 23.3% | 23.9% | 18.0% | 17.9% |
| Other expenses | 32 | 37 | 60 | 64 | 77 | 100 | 130 | 169 | 220 | 286 |
| YoY | - | 15.9% | 63.4% | 6.8% | 20.1% | 30.0% | 30.0% | 30.0% | 30.0% | 30.0% |
| Gross profit | 328 | 930 | 1,299 | 1,850 | 2,319 | 2,817 | 3,458 | 4,362 | 5,182 | 6,142 |
| YoY | -55.7% | 183.6% | 39.7% | 42.5% | 25.3% | 21.5% | 22.7% | 26.1% | 18.8% | 18.5% |
| GPM | 55.5% | 65.3% | 64.7% | 59.8% | 61.9% | 62.6% | 62.4% | 63.5% | 63.9% | 64.2% |
| SG&A expenses | 238 | 384 | 502 | 699 | 966 | 1,202 | 1,421 | 1,667 | 1,894 | 2,155 |
| YoY | -44.9% | 61.5% | 30.7% | 39.4% | 38.1% | 24.4% | 18.2% | 17.3% | 13.6% | 13.8% |
| SG&A ratio | 40.2% | 27.0% | 25.0% | 22.6% | 25.8% | 26.7% | 25.6% | 24.3% | 23.4% | 22.5% |
| Operating profit | 90 | 546 | 797 | 1,151 | 1,353 | 1,616 | 2,038 | 2,695 | 3,288 | 3,988 |
| YoY | -70.7% | 505.1% | 46.1% | 44.4% | 17.6% | 19.4% | 26.1% | 32.3% | 22.0% | 21.3% |
| OPM | 15.3% | 38.3% | 39.7% | 37.2% | 36.1% | 35.9% | 36.8% | 39.2% | 40.5% | 41.7% |

Source: Shared Research

Our bearish scenario assumes that the company will have 82 consultants at end-FY08/19 as planned, with a CAGR in consultant numbers of 10% from FY08/20 to FY08/23. We assumed that the number of deals closed per consultant will vary in response to the share of consultants with three years or more of experience, amid a medium-term uptrend. Based on these assumptions, in FY08/23 revenue would be JPY9.6bn (CAGR of 20.6% from FY08/18) and operating profit JPY4.0bn (CAGR of 24.1%).

Below, we outline our revenue, gross profit, and operating profit assumptions.

Revenue, cost of revenue, and SG&A expenses (calculated based on a bearish scenario)

- As in the bullish scenario, we assume revenue per deal closed of JPY40mn.
- We assumed that the company will have 82 consultants at end-FY08/19 as planned, with a CAGR in consultant numbers of 10% from FY08/20 to FY08/23.
- We assume deals closed per consultant will decline in FY08/19 on a higher share of consultants with just one or two years of experience, with a subsequent gradual upswing from FY08/20 onward.

We made the same assumptions for cost of revenue and SG&A expenses as in the bullish scenario.

## Long-term initiatives

As long-term initiatives, Strike plans to cultivate exits of venture companies and operate M&A online, an M&A information site. The company also says it aims to increase the liquidity of Japanese companies and businesses. However, Shared Research believes these long-term initiatives will have a negligible impact on medium-term performance.

### Cultivate the market for start-up company exits (those established five years or less)

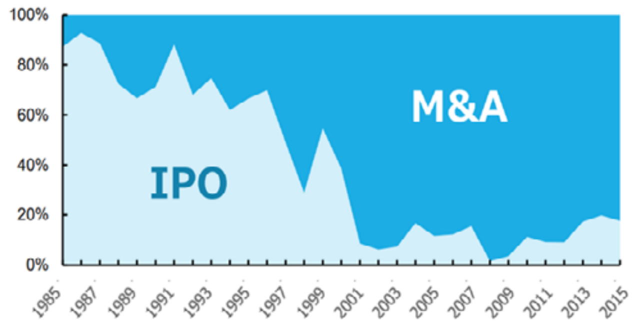
In FY08/17, Strike assigned three people to take charge of the market for start-up company (those established five years or less) exits, which it intends to cultivate over the long term. In FY08/18 Strike had nine start-up company exit deals.

The company explains that in Japan, IPOs are the typical route for exiting start-up company investments. According to the "Venture White Paper 2017," published by the Venture Enterprise Center, in 2016 there were 102 exits through IPOs (92 in 2015), compared with 73 (41) through M&A.

By contrast, in the US the majority of exits have been via M&A since the IT bubble burst in 2000, although most exits were via IPOs until that time. According to the white paper, the reasons for this shift were a downturn in the stock market after the IT bubble burst. Also, the enactment of the Sarbanes-Oxley Act in July 2002 caused IPO costs to rise. A third factor was increasing competition, making it more necessary for venture companies to be acquired at an early stage.

As in the US, Strike believes that venture company exits via M&A will become mainstream in Japan, and is cultivating this market accordingly.

**Exit of venture capital-supported companies in the US**




Source: Company materials

### Operate M&A information website, M&A online

M&A online is Strike's M&A information site available to the general public. The site hosts various content such as M&A-related news and legal information. Major content includes M&A News (M&A-related news articles), M&A Archives (a history of M&A by company), and a database of reports on large shareholders. Strike explains that its objective for the site is to increase general understanding and enhance the image of M&A. As of October 2018, the site was not contributing to earnings.

**Sample page of M&A online (Japanese only)**


Source: Shared Research based on company materials

### Aim to increase corporate liquidity

Strike's long-term goal is to make companies more liquid by encouraging the proliferation of M&A. Strike believes that as companies become more liquid, people who have taken up that challenge of starting a new business can more easily decide to sell when the business becomes lackluster, and that better liquidity will make it easier for companies to enter new areas of business.

To boost the ratio of startup companies, in 1997 the Japanese government introduced a tax credit for the promotion of investment in venture companies. Also, the Law for Facilitating the Creation of New Business was enacted in 2003, making it possible to establish a company with only JPY1 in capital, but these efforts have not been as successful as hoped. According to the "White Paper on Small and Medium Enterprises in Japan" by the SME Agency, the start-up ratio* in Japan is lower than in other advanced countries, as is the rate of entry into new areas of business. In 2016, Japan had a start-up ratio of 5.6%. By comparison, the figure was 14.6% in the UK and 12.7% in France.

Strike thinks this is because after starting a business, owners typically see their only options as being to continue the business or to close it. By increasing corporate liquidity—invigorating the sale/purchase of companies and businesses through M&A—Strike aims to make it easier for entrepreneurs to enter new businesses and lay the groundwork for building venture companies in Japan.

* The start-up ratio is calculated as the annualized number of businesses (or companies) started during a year divided by the number of businesses (or companies) that existed at the start of that year.

# Business

## Business description

### A boutique M&A broker leveraging CPAs, uses the web to achieve high introduction rates

Strike is a boutique M&A broker that arranges deals between unlisted companies. Strike differentiates with a high percentage of M&A introductions received via its website and a high percentage of employees who are certified accountants.

Strike specializes in M&A brokerage. It has only one business segment and no group companies.

## The M&A brokerage process

Strike divides its flow of the M&A brokerage business into four phases: searching for leads (target companies and businesses looking to sell), turning leads into deals (signing M&A brokerage agreements with potential sellers), matching (finding a potential buyer), and closing (signing a sales agreement). Most times, the process begins by searching for potential sellers. Potential buyers then select the company or business they wish to acquire from among the potential sellers Strike has found.

At Strike, the same consultant takes charge of the entire process for each deal, from searching for deals to closing. The company says this process typically takes six to eight months.

**Flow of M&A brokerage business**

| | |
|---|---|
| **Search for leads** | Hold seminars for business owners, issue publicity magazines, disseminate M&A information via web, newspapers, and magazines |
| | Direct sales, direct mail |
| | Cultivate operating business partners, strengthen relations, introductions from business partners |
| | Respond to questions from potential seller, make proposals |
| **Obtain lead** | Sign non-disclosure agreement with potential seller, obtain information on company to be sold |
| | Conduct company pre-analysis, consider potential for sale |
| | Sign agreement requesting M&A brokerage with potential seller |
| | Propose transfer (such as a share transfer, business transfer, merger, or share swap), conduct company valuation |
| | Prepare proposal documents |
| **Matching** | Search for potential buyer (post on M&A Market SMART), sound out buyer anonymously |
| | Sign non-disclosure agreement with potential buyer, disclose proposal materials |
| | Sign agreement requesting M&A brokerage with potential buyer |
| | Interview top management, arrange company visit |
| | Confirm potential buyer’s intention, adjust basic conditions |
| **Closing** | Support signing of memorandum of understanding |
| | Prepare environment for potential buyer to conduct due diligence |
| | Adjust final conditions between potential seller and potential buyer |
| | Support signing of purchase/sale agreement |

### Search for leads

**Search for potential sellers among unlisted SMEs (through introductions and independent searches)**

Strike’s consultants search for unlisted SMEs that wish to sell. Strike handles two main types of deals: those introduced by business partners and those it finds independently. In FY08/18, deals were split evenly between the two.

**Business partners introduce potential sellers**

Strike has agreements to receive introductions from business partners, including accounting offices, cooperative societies of certified public tax accountants, cooperative societies of certified public accountants, and financial institutions. These relationships are not exclusive on either side, and most business partners have agreements in place with multiple M&A brokers. Key business partners are the Tokyo Certified Public Tax Accountant Cooperative Society (13,794 members as of March 2017), cooperative societies of certified public accountants, and T&D Holdings Group.

Strike says that in most introductions, owners already have a clear desire to sell, so signing agreements with potential sellers is easier than when the company conducts searches independently. Strike pays business partners introduction fees in line with the size of those partners' contributions.

**Strike conducts independent searches for potential sellers**

Strike holds seminars for business owners and uses telephone calls and its website to establish contact with potential sellers. At seminars, the company introduces M&A case studies and responds to questions of individual participants. Strike attracts seminar participants (10 to 100 per seminar) through advertising and direct mailings. In FY08/18, the company held 38 seminars (26 in FY08/17).

For independent searches, consultants build relationships with owners who are interested in learning more about M&A but have not yet decided to sell, turning leads into potential deals. These searches require more work but are more profitable than introductions because the company does not need to pay introduction fees.

## Obtain lead (enter contract with the seller)

After obtaining a lead, if a consultant believes there is a strong likelihood of a sale, it signs an agreement for M&A brokerage services with the potential seller, and prepares documents for distribution to potential buyers.

**Consider potential for sale**

When a search turns up a lead with a clear intention to sell, Strike signs an NDA with the potential seller. Consultants then consider the potential for sale by ascertaining the details of the potential seller's business, analyzing the company, and looking at the seller's conditions (such as selling price, number of employees to retain, or geographic area of the buyer). If significant gaps exist between a potential seller's stated conditions and the prospects of selling based on the consultant's analysis, the two parties discuss the situation.

**Take on project by signing agreement to act as M&A brokerage**

After consideration, if one of Strike's consultants believes a company has a high potential for sale, Strike and the potential seller sign an M&A brokerage agreement. In FY08/18, Strike signed 232 new agreements (+62.2% YoY).

However, from August 2015 onward, Strike has maintained a policy of not undertaking small projects (see the "Fees per deal" section for details), and in principle does not accept a project if it assesses that the project would not fulfill requirements.

When Strike and a potential seller enter into an M&A brokerage agreement, the seller pays Strike an initial fee. Unless the potential seller requests otherwise, the agreement is exclusive, and the potential seller may not enter into other M&A brokerage agreements with industry peers or potential sellers.

**Prepare documents for potential buyers**

After signing an agreement to act as an M&A brokerage, Strike's consultants propose a transfer method that satisfies the owner's conditions and prepares documents for potential buyers.

M&A transfer methods include stock transfers, third-party allocation of new shares, business transfers, company splits, mergers, share swaps, and capital or business alliances.
Three principal company valuation methods: The net asset valuation approach, based on the assets a company holds; the discounted cash flow

method; and comparable peer company valuation, based on valuations indexed to comparable peer companies. Strike values companies using each of these methods, as well as combinations of them.

## Matching (finding buyers)

In the matching process, Strike searches for potential buyers, interviews potential sellers and buyers, arranges for the two parties to meet, confirms the potential buyer's intensions, and adjusts the basic conditions.

Strike's consultants look for potential buyers in two ways: waiting to be contacted by interested buyers through SMART, Strike's M&A brokerage site, or having its consultants actively search for interested buyers. The drawback of the first method is that only around 60% of potential sellers elect to list on SMART, out of concern that information could leak to employees or business partners. For the second method, consultants actively look for potential buyers based on company lists and past acquisitions, keeping the name of the potential seller anonymous.

Strike uses both methods simultaneously. In FY08/18, 30% of successful matches came through SMART and 70% were from consultants' independent searches.

### Finding potential buyers through the SMART M&A brokerage site

SMART ("M&A Market SMART™", short for Strike M&A Rapid Trading system) lists potential sellers anonymously, stating their business category, location, sales, number of employees, target sale price, and business profile. As of October 2018, SMART listed 73 potential sellers.

Businesses looking for acquisition targets browse the site for information on potential targets. If they find a company of interest, they can submit an inquiry via the site to contact Strike.

SMART helps potential buyers search a large pool of acquisition targets with minimum manpower. The site also allows potential buyers to look for acquisitions in areas consultants may not consider, such as in different locations or sectors.

Strike launched SMART in January 1999, two years after establishment, to compensate for a lack of manpower to look for potential buyers. Industry peers also operate M&A introductory sites, but Shared Research estimates that SMART accounts for a relatively higher proportion of successful deals (30% in FY08/18).

### Finding potential buyers through consultant searches

When searching for potential buyers, Strike's consultants look to company lists and past acquisitions to compile a shortlist of potential buyers. Consultants then contact them, generally by phone or email, to discern interest. In addition to consultant searches, Strike makes proposals to business partners.

Consultants shortlist potential buyers in one of two ways. Either they choose candidates from a database of potential buyers or first analyze the potential seller's market and business category and then select companies they believe are likely to be interested based on the business' attributes.

In addition to consultant searches, Strike makes proposals to business partners using anonymized material, and those business partners introduce to Strike any companies that match the described acquisition needs. If such an introduction leads to a deal closed, Strike pays the business partner an introduction fee in line with the size of the partner's contribution.

### Potential buyers consider deals

If a potential buyer shows interest in a potential seller, Strike signs a non-disclosure agreement with the potential buyer. Strike then provides the potential buyer with a second proposal containing more detailed information. If the potential buyer remains interested in the purchase based on the second proposal, Strike signs an agreement with the potential buyer, requesting that Strike act as the M&A brokerage.

After the agreement is signed, the potential buyer may meet with the potential seller. If the potential buyer decides to buy, Strike's consultant helps draft a letter of intent to purchase, which contains purchase conditions, and shows the document to the potential seller.
Next, the potential seller considers the letter of intent. If several potential buyers exist, the potential seller narrows the field down to a single potential buyer, based on the conditions stated in the letter of intent to purchase, impressions from meeting, and other factors.

## Closing

For the closing, Strike assists in the process of signing memorandums of understanding, creating the environment for the potential buyer to conduct due diligence, adjusting final conditions between the potential seller and the potential buyer, and concluding the purchase/sale agreement. In FY08/18, Strike closed 88 M&A deals.

### Potential seller selects one potential buyer, signs memorandum of understanding

Strike next adjusts conditions to conclude a memorandum of understanding (MOU) between the potential seller and the potential buyer. The MOU states the two parties' intent to enter a purchase/sale agreement and prohibits the potential seller from negotiating with other potential buyers. After signing an MOU, Strike receives an initial fee from the potential buyer.

### Potential buyer conducts due diligence

After signing an MOU, the potential buyer may ask CPAs or M&A advisors to perform due diligence. Strike may also assist potential sellers in the process. Strike explains that many sellers are small, unlisted companies that have little experience with due diligence. As such, it supports the process, explaining which documents will be required by CPAs.

As the M&A brokerage, Strike does not actually perform the due diligence. Strike explains that due diligence is to protect the interests of the potential buyer, and the brokerage performing due diligence could create a conflict of interest between Strike and the client company.

### Adjust final conditions, sign purchase/sale agreement

Based on the results of due diligence, the potential seller and potential buyer adjust the final conditions for the M&A deal. After these adjustments, the two parties sign a purchase/sale agreement and proceed to closing. At closing, Strike receives success fees from both the buyer and the seller based on the transaction amount. These fees are calculated using the Lehman method (see the Client attributes section for a more detailed explanation). Strike receives 1–5% of the sale price from the seller and 1–5% of the market value of total assets from the buyer. (See the "Fees per deal" section for details.)

## Distinguishing characteristics of Strike

Strike's distinguishing characteristics as an M&A brokerage is that it finds a high percentage of buyers via its website, and that it has a high ratio of employees who are CPAs.

### Searching for potential buyers through its website

**About the SMART M&A brokerage platform**

When it was established, Strike lacked the personnel to conduct extensive searches for potential buyers. To compensate, the company built SMART, Japan's first M&A brokerage website listing selling and buying information and allowing counterparty searches. This site went online in January 1999.

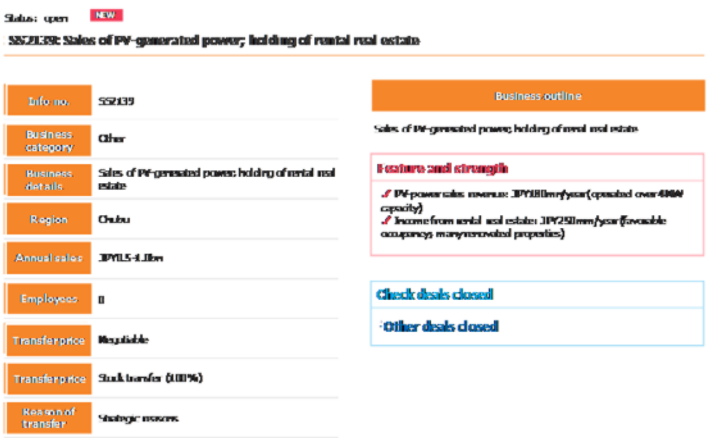
SMART lists a seller's business category, geographic area, sales, number of employees, target sale price, and corporate profile. Buyers can browse the site for potential sellers. If they find a company of interest, they submit an online form to contact Strike. Shared Research estimates that the site provides 30% of the company's successful M&A brokerage deals (FY08/18), a figure that is higher than industry peers.

**Detailed information on potential sellers (our translation: website in Japanese only)**

**M&A (transfer) candidates** — Click here to request listing >

| Info no. | Business category | Annual sales | Region | Details |
|---|---|---|---|---|
| SS2139 | Sales of PV-generated power; holding of rental real estate NEW | JPY0.5-1.0bn | Chubu | Click for details > |
| SS2011 | Manufacturing of food products NEW | JPY1.0 5.0bn | Kanto | Click for details > |
| SS2025 | Restaurant | JPY100-500mn | Kanto | Click for details > |
| SS2014 | Planning and sales of products for pets | Less than JPY100mn | Tohoku | Click for details > |
| SS2009 | Restaurant | Less than JPY100mn | Kanto | Click for details > |
| SS1966 | Take out food store | JPY1.0 5.0bn | West Japan | Click for details > |
| SS1945 | Printing | JPY100-500mn | Kanto | Click for details > |
| SS1937 | Transportation | JPY100-500mn | Hokkaido | Click for details > |
| SS1915 | Fire fighting equipment construction and maintenance | JPY100 500mn | Kanto | Click for details > |
| SS1914 | Restaurant | JPY100-500mn | Kinki | Click for details > |
| SS1897 | Steel structure construction; plumbing; installation of machine tools | JPY0.5-1.0bn | Chubu | Click for details > |

**Sample M&A candidate page**


Status: open NEW
SS2139: Sales of PV-generated power; holding of rental real estate

| | |
|---|---|
| Info no. | SS2139 |
| Business category | Other |
| Business details | Sales of PV-generated power; holding of rental real estate |
| Region | Chubu |
| Annual sales | [illegible] |
| Employees | [illegible] |
| Transfer price | [illegible] |
| Transfer price | [illegible] |
| Reason of transfer | Strategic reasons |

Business outline

Sales of PV-generated power; holding of rental real estate

Feature and strength

Check deals closed

Other deals closed

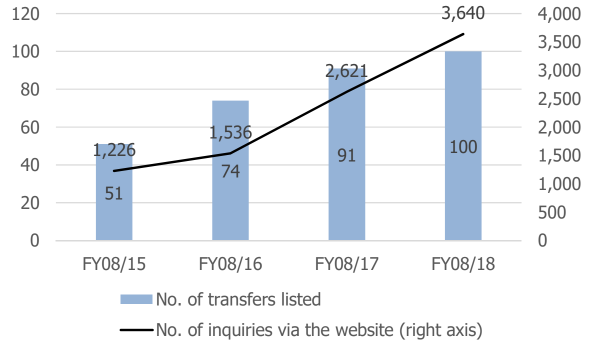
Source: Shared Research based on company materials

### Performance of the SMART M&A brokerage site

Strike says SMART led to 100 deals in FY08/18 (+9.9% YoY), accounting for around 60% of deals. It received 3,640 inquiries via the site (+38.9% YoY), and the number of buyer agreements concluded* amounted to 30% of the total (flat YoY). Shared Research estimates that the company's contract rate via the M&A brokerage site is higher than for industry peers.

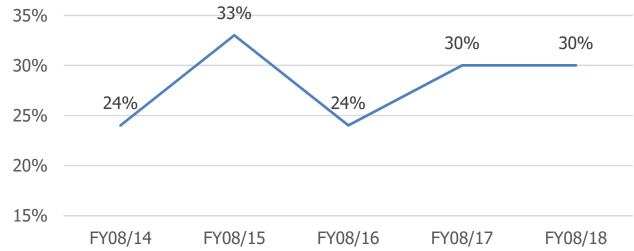
Strike credits the SMART website for its higher number of deals per consultant than industry peers: 1.9 (in FY08/18), versus 1.3 (FY03/18) for Nihon M&A Center and 1.8 (FY09/17) for M&A Capital Partners.

**Inquiries via SMART**




Source: Shared Research based on Company materials

**Percentage of deals completed based on SMART introductions**




Source: Shared Research based on Company materials

* Most M&A brokers sign agreements with both buyers and sellers, but some may sign an agreement with only one or the other. The number of buyer agreements concluded indicates the number of deals Strike closed minus the number of buyer-only agreements.

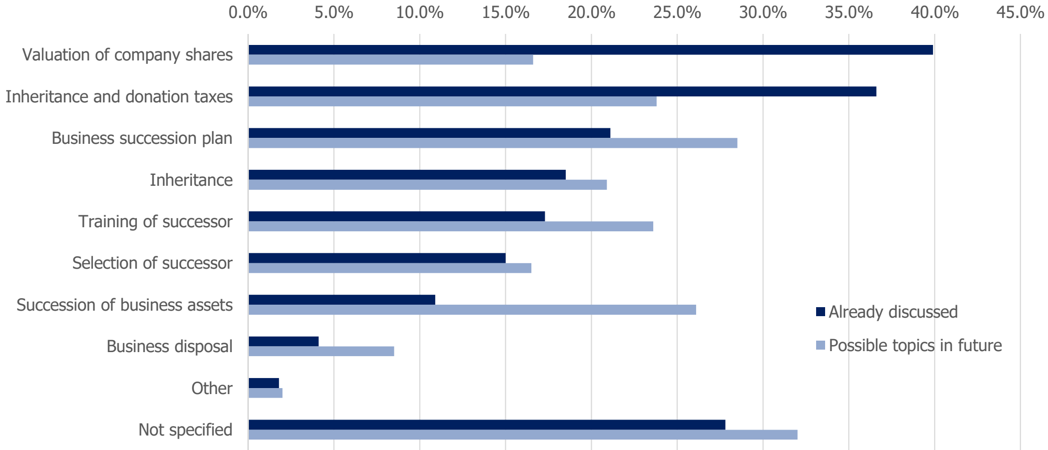
## High percentage of employees are licensed CPAs

Strike's second distinguishing characteristic as a boutique M&A broker is the high percentage of its employees who are licensed CPAs. In FY08/18, 15% of Strike's employees held CPA certifications, compared with about 6% (as calculated by Shared Research) for Nihon M&A Center, the industry leader. Shared Research believes this helps Strike build better client relationships.

### Business owners interested in share valuation and tax implications

According to the Shoko Research Institute's "Survey of Business Succession at Small and Medium-Sized Companies," owners who are considering business succession are most interested in assessing the value of their shares and determining tax implications. Shared Research thinks that because Strike has a high percentage of consultants who are CPAs, it can respond accurately to these questions.

**Details of inquiries related to business succession (multiple responses possible)**




Source: Company materials; original source: "Survey of Business Succession at Small and Medium-Sized Companies" (September 2014), Shoko Research Institute

### Accounting knowledge to handle company valuations and due diligence

Accounting knowledge is necessary for considering a company's selling potential and conducting company valuations and due diligence. Shared Research understands that Strike's consultants need to accurately understand accounting terms and financial statements to discern a seller's business characteristics and commercial practices. Having a high percentage of consultants who are CPAs means staff can look internally rather than going to external accounting firms for accounting-related questions and support.

Shared Research thinks Strike can leverage its high percentage of CPAs to work with companies using specialized accounting terminology and accounting standards, whereas industry peers might shy away from such sellers.

## Client attributes

### Sellers

For Strike, a typical seller is an unlisted small or medium-sized enterprise (SME) with sales of around JPY1bn. Strike does not specialize in any sector. More than 60% of the deals Strike handles involve business succession, with the rest involving selling off unprofitable businesses, exiting from subsidiaries acquired for investment purposes, and turnarounds. Strike says demand in the latter category tends to rise during economic downturns.

In FY08/18, Strike closed 88 deals (67 in FY08/17). The top five business categories of sellers were manufacturing (18 deals, four in FY08/17), construction (10, eight), the medical/healthcare industry (eight, eight), leisure (eight, two), and logistics and distribution (seven, five). Of sellers, 40 were in the Kanto area (36 in FY08/17), 15 in Chubu (eight), 14 in Hokkaido/Tohoku (nine), 10 in Kinki (11), four in Kyushu/Okinawa (two), four in Chugoku/Shikoku (one), and one overseas (none).

When Strike undertakes a deal, it does not set specific standards for a seller company's level of sales, profits, or assets, no does it narrow down by business category or financial condition. Instead, individual consultants apply their experience to decide whether to take on a potential seller based on the likelihood of finding a buyer. Potential sellers with low expected selling prices often find it difficult to locate a buyer, but demand depends on the industry, timing, and other factors. Setting hard-and-fast rules, Strike explains, can lead to lost opportunities. For instance, even if the potential seller is a pharmacy that only has minor sales, Strike may take on the deal because it recognizes small pharmacy acquisitions are in high demand from larger companies that want to expand their business area and secure more pharmacists. By contrast, in the construction industry, which features a multiple-subcontractor structure, a subcontractor with minor sales may offer little in the way of technical expertise or personnel, making the likelihood of a sale low.

Strike says a potential seller whose debt exceeds its assets might be salable if a bank is likely to forgive some of the debt.

### Buyers

Buyers that the company finds are typically general corporations (listed or unlisted), investment companies, or funds. The buyer is usually larger than the seller, but Strike notices no particular trend in the scale of buyers' sales, profits, or assets. Reasons for purchasing are to increase the business area within a category, to acquire human resources, and to purchase a company in another industry to diversify the business portfolio.

Of the 88 deals Strike closed in FY08/18 (67 in FY08/17), 16 were in the manufacturing industry (six in FY08/17), eight in services (four), eight in restaurants and food (four), eight in construction (seven), and five in logistics and distribution (three). Of buyers, 41 were in the Kanto area (43 in FY08/17), 16 in Kinki (eight), 15 in Chubu (six), eight in Hokkaido/Tohoku (seven), three in Kyushu/Okinawa (two), four in Chugoku/Shikoku (one), and one overseas (none).

In FY08/18, Strike located 70% of buyers by consultants creating lists of potential purchases and contacting them based on sellers' needs, while 30% were a result of inquiries via the SMART M&A advisory site.

Strike says that after acquiring one company, some buyers go on to make other acquisitions, but they do not necessarily use the same brokerage exclusively. Strike explains that this is because buyers base their decisions mainly on price and other details of the seller, and that the M&A broker is not a significant factor when comparing sellers.

## Fees per deal: Success fees calculated using the Lehman method

**Fee structure (Lehman method)**

| Basis of calculating fees from seller | Basis of calculating fees from buyer | Fee | |
|---|---|---|---|
| Sale price, the amount paid to the seller | Market value of seller's total assets | Portion below JPY500mn | 5% |
| | | Portion from JPY500mn to JPY1.0bn | 4% |
| | | Portion from JPY1.0bn to JPY5.0bn | 3% |
| | | Portion from JPY5.0bn to JPY10.0bn | 2% |
| | | Portion above JPY10.0bn | 1% |

Source: Shared Research based on company data
Note: The "market value of total assets" is the book value of total assets times the market value.
Note: "Sale price" refers to the market value of total assets less liabilities.

For M&A brokerage deals, Strike receives initial fees and success fees from both buyers and sellers. Strike says success fees account for the majority of its revenue.

### Fees received from sellers

From sellers, Strike receives an initial fee upon signing an M&A brokerage agreement. It receives success fees from both buyers and sellers when a purchase/sale agreement is concluded. Initial fees from sellers range from JPY1mn to JPY3mn, determined according to the seller's assets. Success fees are determined according to the sale price* using the Lehman method, with the percentage based on common M&A advisory industry guidelines**.

* "Sale price" refers to the market value of total assets less liabilities.
** For example, if the sale price is JPY8.0bn, the fee is JPY225mn (JPY0.5bn x 5% + (JPY1.0bn – JPY0.5bn) x 4% + (JPY5.0bn – JPY1.0bn) x 3% + (JPY8.0bn – JPY5.0bn) x 2%).

### Fees received from buyers

Strike receives an initial fee from a buyer when the buyer signs an MOU, and success fees when the seller signs a purchase/sale agreement. The initial fee from buyers is around JPY1mn to JPY3mn, based on the seller's assets. Success fees from buyers are calculated according to the market value of total assets*** using a rate based on the Lehman method.

*** The "market value of total assets" is the book value of total assets times the market value.

Strike uses different bases for calculating the success fees it receives from sellers and buyers. The amount received from the seller is the basis for calculating its success fee received from the buyer. However, the success fee Strike receives from the buyer is based on the market value of the seller's total assets.

Shared Research understands this arrangement as being Strike's way of considering the difference in circumstances between the potential seller and the potential buyer: the buyer generally has more sales, profits, and assets than the seller, and has the chance to generate more earnings following the acquisition, while the seller is often retiring using the money received from the sale.

# Earnings structure

### Earnings structure

| (Number of deals and consultants) | FY08/16 Act. | FY08/17 Act. | FY08/18 Act. |
|---|---|---|---|
| Deals closed | 48 | 67 | 88 |
| YoY | 14.3% | 39.6% | 31.3% |
| Large deals | 2 | 4 | 3 |
| Fees per deal closed (revenue / no. of deals closed) | 41.8 | 46.2 | 42.5 |
| YoY | 23.3% | 10.4% | -7.8% |
| Consultants (year-end) | 28 | 39 | 56 |
| YoY | 33.3% | 39.3% | 43.6% |
| Consultants (average) | 25 | 34 | 48 |
| YoY | 32.4% | 36.7% | 41.8% |
| Deals closed per consultant (average) | 2.0 | 2.0 | 1.9 |
| YoY | -13.7% | 2.1% | -7.4% |
| (JPYmn) | FY08/16 | FY08/17 | FY08/18 |
| Total revenue | 2,007 | 3,093 | 3,744 |
| YoY | 41.0% | 54.1% | 21.1% |
| Cost of revenue | 708 | 1,243 | 1,425 |
| Gross profit | 1,299 | 1,850 | 2,319 |
| YoY | 39.7% | 42.5% | 25.3% |
| GPM | 64.7% | 59.8% | 61.9% |
| SG&A expenses | 502 | 699 | 966 |
| YoY | 30.7% | 39.4% | 38.1% |
| SG&A ratio | 25.0% | 22.6% | 25.8% |
| Operating profit | 797 | 1,151 | 1,353 |
| YoY | 46.1% | 44.4% | 17.6% |
| OPM | 39.7% | 37.2% | 36.1% |

Source: Shared Research based on company data
Note: Amounts in the table may differ from company data due to differences in rounding methods.

# Revenue

## Revenue mainly from success fees

Strike's revenue mostly comes from the M&A brokerage business, where it receives initial fees and success fees from both sellers and buyers.

Revenue is calculated as success fee per deal times the number of deals. In FY08/18, Strike closed 88 deals, with fees per deal of JPY42.5mn.

### Deals closed

The main variables in the number of deals closed are the number of consultants and their productivity (deals closed per consultant). In FY08/18, Strike closed 88 deals and had an average of 48 consultants, resulting in 1.9 deals per consultant.

#### Number of consultants

As of end-FY08/18, Strike had 56 consultants (+43.6% YoY), with 48 as the average for the year (+41.8% YoY). The company aims to expand by increasing the number of consultants. Over the past five years, this number has grown by an average of 36% per year. Over the medium term, Shared Research understands that Strike plans to hire 20 or more consultants each year. The company says that recruiting is going well; the number of consultant applicants has increased since listing in 2016.

#### Consultant productivity

In FY08/18, deals closed per consultant were 1.9 (-7.4% YoY). This figure has remained essentially flat for the past five years. Strike explains that the number of deals closed per consultant tends to rise along with experience, and that less than one deal is common for a first-year consultant and three for a consultant with three years of experience. Strike has been hiring aggressively since FY08/14, so the number of consultants has been growing at more than 30% per year, the number of first-year consultants is high, and the number of deals closed per consultant has not risen. The company also notes that the number of deals per consultant tends to fall during business downturns, such those following the global financial crisis and the Great East Japan Earthquake, as buyers grow reluctant to make acquisitions.

To increase deals closed per consultant, Strike is hiring more sales support staff so that consultants can concentrate on work leading to deals. In the medium-term, the company also plans to hire lawyers and CPAs as support staff. As a result, by FY08/23 Strike aims to increase the number of deals closed per consultant with three or more years of experience to four (compared with three as of October 2018). (See the "Medium-term outlook" section for details.)

**Consultants and years of experience**

| | FY08/16 Act. | FY08/17 Act. | FY08/18 Act. |
|---|---|---|---|
| Number of consultants (year-end) | 28 | 39 | 56 |
| First year | 7 | 11 | 22 |
| % of total | 25.0% | 28.2% | 39.3% |
| Second year | 5 | 7 | 10 |
| % of total | 17.9% | 17.9% | 17.9% |
| Third year | 16 | 21 | 24 |
| % of total | 57.1% | 53.8% | 42.9% |
| Number of consultants (average) | 25 | 34 | 48 |
| First year | 6 | 9 | 17 |
| % of total | 24.5% | 26.9% | 34.7% |
| Second year | 5 | 6 | 9 |
| % of total | 18.4% | 17.9% | 17.9% |
| Third year | 14 | 19 | 23 |
| % of total | 57.1% | 55.2% | 47.4% |

Source: Shared Research based on company data

### Fees per deal

After Strike changed its policy regarding small deals, average fees per deal tend to vary depending on the size of large deals (fees of JPY100mn or more). In FY08/18, fees per deal were JPY42.5mn (-7.8% YoY). Fees per deal increased from FY08/15 to FY08/17 largely because Strike decided in FY08/15 not to handle small deals and began vetting deals more stringently. Also, Strike closed three large deals in FY08/18 (four in FY08/17). Strike has set a medium-term target for increasing the number of deals closed, but not for increasing the success fees per deal.

## Operating profit

### Gross profit

Strike's main cost of revenue is salaries and allowances, bonuses, and introduction fees. Salaries and allowances include the fixed portion of consultants' salaries, while bonuses and introduction fees vary in line with revenue.

**Cost of revenue analysis**

| | FY08/15 Act. | FY08/16 Act. | FY08/17 Act. |
|---|---|---|---|
| No. of consultants (average) | 19 | 25 | 34 |
| No. of deals closed | 42 | 48 | 67 |
| Cost of revenue | 494 | 708 | 1,243 |
| YoY | 87.9% | 43.3% | 75.5% |
| Cost ratio | 34.7% | 35.3% | 40.2% |
| Salaries and allowances | 131 | 174 | 220 |
| YoY | 44.5% | 32.7% | 26.4% |
| Salaries and allowances per consultant | 7.1 | 7.1 | 6.6 |
| Bonuses | 220 | 290 | 445 |
| YoY | 216.2% | 32.1% | 53.4% |
| % of revenue (excl. introduction fees) | 16.3% | 15.6% | 16.9% |
| Introduction fee | 77 | 143 | 452 |
| YoY | 51.5% | 86.7% | 216.2% |
| % of revenue | 5.4% | 7.1% | 14.6% |
| Other expenses | 37 | 60 | 65 |
| YoY | 15.9% | 63.4% | 7.8% |

Source: Shared Research based on Company materials
Note: Amounts in the table may differ from company data due to differences in rounding methods.

#### Salaries and allowances

Salaries and allowances, a cost of revenue, refer to the fixed portion of consultant salaries and are calculated as the number of consultants times salaries and allowances per consultant. In FY08/17, salaries and allowances were JPY220mn (+26.4% YoY), and the number of consultants (average between the beginning and end of the year) was 34. Salaries and allowances per consultant were therefore JPY6.6mn (-7.6% YoY).

The number of consultants has grown by 31% per year over the past five years, and Strike plans to continue hiring 10 or more per year over the medium term.

Shared Research estimates that salaries and allowances per consultant are stable at around JPY7mn. Strike remunerates employees in line with performance. In FY08/17, salaries and allowances per consultant were JPY6.5mn. We attribute this decrease to the accelerated hiring of consultants (average for the year): four in the first half and seven in the second half.

#### Performance-linked bonuses

Strike pays performance bonuses to consultants. The company says it calculates bonuses based on revenue minus introduction fees. In FY08/17, bonuses amounted to JPY445mn (+53.4% YoY). During the year, bonuses accounted for 16.9% of revenue minus introduction fees (+1.3pp). Bonuses have been at around 16% of revenue minus introduction fees since Strike began disclosing detailed cost of revenue data in FY08/15.

#### Introduction fees linked to revenue

Strike pays an introduction fee to the business partner that introduced the seller or buyer of a successful deal. The introduction fee is in line with the size of the partner's contribution. In FY08/17, introduction fees totaled JPY452mn (+216.2% YoY). Introduction fees as a percentage of revenue were 14.6% (+7.5pp).

Strike says introductions account for around half of deals closed. Introduction fees made up a higher percentage of revenue in FY08/17 because a business partner introduced a large deal generating JPY510mn in fees. Strike notes that although introduction fees lower the gross profit margin, such deals are easier to close than deals located through its own searches, because owners' selling intentions are clear.

### SG&A expenses

In FY08/17, the main components of SG&A expenses were advertising expenses (17.5% of SG&A expenses), rent (12.9%), and executive fees (12.7%). Next in size were salaries and allowances for management division employees (7.9%), bonuses (6.7%), and depreciation and amortization (1.1%). Shared Research understands that Strike's SG&A expenses are mostly fixed costs, and are not as affected by revenue.

**SG&A expenses**

| | FY08/15 Act. | FY08/16 Act. | FY08/17 Act. |
|---|---|---|---|
| No. of non-consultants (average) | 5 | 6 | 8 |
| No. of employees (average) | 24 | 31 | 42 |
| No. of seminars | 18 | 17 | 26 |
| SG&A expenses (JPYmn) | 384 | 502 | 699 |
| YoY | 61.5% | 30.7% | 39.4% |
| SG&A ratio | 27.0% | 25.0% | 22.6% |
| Directors' compensations | 95 | 63 | 89 |
| YoY | 77.9% | -33.5% | 40.0% |
| % of revenue | 6.7% | 3.2% | 2.9% |
| Salaries and allowances | 29 | 44 | 55 |
| YoY | 100.3% | 54.1% | 24.6% |
| Salaries and allowances per non-consult | 5.7 | 7.4 | 6.9 |
| Bonuses | 27 | 40 | 47 |
| YoY | 849.1% | 50.5% | 16.6% |
| % of revenue | 1.9% | 2.0% | 1.5% |
| Rent | 32 | 53 | 90 |
| YoY | 16.5% | 63.2% | 71.5% |
| Rent per employee | 1.4 | 1.7 | 2.2 |
| Advertising expenses | 83 | 87 | 123 |
| YoY | 25.4% | 5.1% | 40.4% |
| Advertising expenses per seminar | 4.6 | 5.1 | 4.7 |
| Other | 117 | 208 | 288 |
| YoY | 62.4% | 78.5% | 38.5% |
| Other expenses per employee | 16.3 | 16.4 | 16.9 |

Source: Shared Research based on Company materials
Note: Amounts in the table may differ from company data due to differences in rounding methods.

### Advertising expenses

In addition to the costs of renting space for seminars to search for sellers, advertising expenses include newspaper advertisements and direct mail to reach business owners. Advertising expenses vary depending on the number of seminars held. Costs per seminar vary depending on venue size, but the company typically spends several hundred thousand yen on space rental for each seminar. In FY08/17, advertising expenses were JPY122mn (+40.4% YoY), and the company held 26 seminars (17 in FY08/16). Advertising expenses per seminar were JPY4.7mn (-8.6% YoY). Advertising expenses rose because the company held more seminars.

### Rent

Strike pays rent for its head office and sales offices. In FY08/17, rent was JPY90mn (+71.5% YoY), of which JPY74mn was for head office rent (JPY38mn in FY08/16). In FY08/16, Strike relocated its head office (August 2016). Higher rent in FY08/17 reflects a full year at the new location.

# Strengths and weaknesses

## Strengths

- **High number of deals per consultant thanks to its website**: Strike was earlier than its industry peers at setting up an M&A brokerage website, SMART. This site makes it possible to efficiently search among a large number of potential buyers. In FY08/18, of buyer agreements concluded, roughly 30% (flat YoY) were due to the website. Shared Research estimates that this number is higher than at industry peers. As a result, Strike closes more deals per consultant: 1.9 (FY08/18), versus 1.3 (FY03/18) for Nihon M&A Center and 1.8 (FY09/17) for M&A Capital Partners.
- **High ratio of consultants are CPAs, so can respond quickly and accurately to clients:** Around 15% of Strike's employees are CPAs, compared with about 6% (Shared Research estimate) at Nihon M&A Center, the largest company in the industry. The business owners who are Strike's clients are interested in their share valuations and tax matters, which require accounting knowledge. Shared Research believes that employing a higher percentage of CPAs is beneficial for marketing. (See the "Business description section.")
- **Among numerous M&A brokerage firms, trusted as one of the three listed companies specializing in M&A brokerage:** The M&A brokerage industry has no regulatory agencies, regulations, or licensing systems. M&A service providers range from sole proprietors to listed companies, and M&A brokers have no products or significant assets, nor do they receive third-party assessments. Absent these differentiators, Shared Research thinks SME owners tend to choose M&A brokers based on name recognition, track record, and scale (revenue, profits, and assets). Over the 20 years since its establishment, Strike has brokered more than 350 M&A deals, and listed on the TSE First Section in June 2017. Strike explains that since listing, large financial institutions have become business partners and large deals (with success fees of JPY100mn or more) have increased. Shared Research believes the increased sense of trust from being a listed company will increase the number of deals, and building up a track record will snowball into further deals.

## Weaknesses

- **Fewer business partners than industry leaders, putting Strike at a disadvantage in obtaining information:** Nihon M&A Center was established in 1991, earlier than Strike, and focused on cultivating business partners from the start. As of end-FY03/18, Nihon M&A Center's business partners in deal searches numbered 735 accounting offices and 302 regional financial institutions, or around 20% of accounting offices (Shared Research's estimate), 90% of regional banks, and 80% of *shinkin* banks. Shared Research understands that Strike has fewer business partners than Nihon M&A Center, so is at a disadvantage in locating potential deals.
- **Difficulty differentiating from competitors leads to lower fees per deal:** Strike closed 88 deals in FY08/18, compared with 332 for Nihon M&A Center (FY03/18) and 111 for M&A Capital Partners (FY09/17). Strike's IPO was later than industry peers, and compared to its peers the company has lower name recognition, less of a track record, and a smaller scale of revenue, profit, and assets, the key factors business owners use to choose an M&A broker. Shared Research understands that larger deals are more profitable, as the cost of closing a deal varies little based on size, but to differentiate Strike sets a lower bar on fees and engages in relatively lower-margin deals. As such, Strike's fee per deal closed is lower than industry peers, at JPY42.5mn (FY08/18), compared with Nihon M&A Center's JPY73.3mn (FY03/18) and M&A Capital Partners' JPY75.1mn (FY09/17).
- **Proportionally higher fixed costs due to being smaller than industry peers, leading to lower profitability:** Strike's OPM is 36.1% (FY08/18), lower than industry leader Nihon M&A Center's 47.1% (FY03/18). Shared Research believes the reason is Strike's higher SG&A expense ratio at 25.8% compared to 15.8% for Nihon M&A Center over the same period. Strike spends 4.2% of its revenue on advertising, versus 2.9% for Nihon M&A Center. Strike is smaller than Nihon M&A Center, and its costs are relatively higher, leading to lower profitability.

# Market and value chain

## Market overview

The number of deals closed by the four leading boutique M&A advisors has continued to grow since 2010, when data became available, in line with an expanding market for M&A brokerage services for unlisted companies.

According to Recof Data (M&A Retrospective 2017), per press reports and other available data sources, in 2017 there were 3,050 M&A deals closed (+15.0% YoY) between Japanese companies. Shared Research's calculations suggest the potential market for business succession is 35,000 companies over the next 10 years.

## Number of M&A deals rising among unlisted companies in Japan

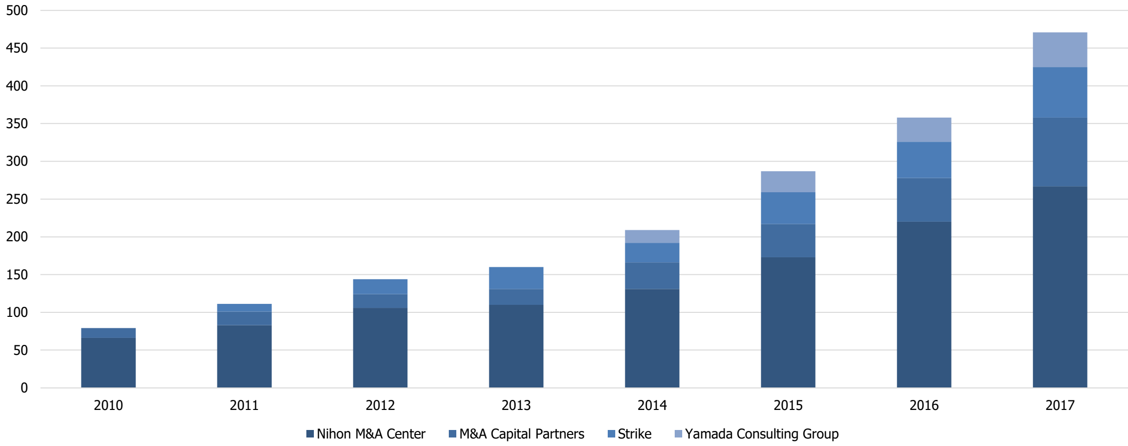
Strike brokers M&A deals between SMEs*, as well as when SMEs are purchased by listed companies. No formal and accurate data by an industry organization exists on the number of M&A deals involving SMEs. One reason is that deals between SMEs can include purchase/sale agreements between the two parties without mediation by M&A brokers. No regulatory authorities or industry bodies are in place, M&A brokers require no special certifications, and advisors range in size from sole proprietors to listed companies.

* The definition of an SME differs by industrial classification under the Small and Medium-Sized Enterprises Basic Act. Under the manufacturing and other classification, an SME is defined as a company or individual entity having a capital or total investment amount of JPY300mn or less or 300 or fewer regular employees. The corresponding definition in wholesaling is JPY100mn or less in capital or total investment or 100 or fewer regular employees. In retailing, the definition is JPY50mn or less in capital or total investment or 50 or fewer regular employees. In the service industry, an SME is defined as a company or individual entity having JPY50mn or less in capital or total investment amount or 100 or fewer regular employees.

According to Recof Data (M&A Retrospective 2017), per press reports and other available data sources, in 2017 there were 3,050 M&A deals closed (+15.0% YoY) between Japanese companies. According to the company, this figure is on a long-term uptrend as business succession needs increase. The number of deals closed fell off temporarily during business slumps following the global financial crisis of 2008 and the Great East Japan Earthquake of 2011, when there was reluctance to buy. The market has since recovered, and the long-term trend is upward. During business downturns, a rise in the number of sellers trying to achieve corporate turnarounds helps offset the general fall in M&A deals.

Four listed boutique M&A advisors disclose operating performance: Strike, Nihon M&A Center Inc. (TSE1:2127), M&A Capital Partners Co., Ltd. (TSE1:6080), and Yamada Consulting Group (JASDAQ 4792). Shared Research assumes that the overall number of M&A deals closed moves in tandem with deals closed by these four companies.

### Deals closed by four main firms in the M&A brokerage business




| No. of deals closed | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| Nihon M&A Center | 66 | 83 | 106 | 110 | 131 | 173 | 220 | 267 |
| YoY | 15.8% | 25.8% | 27.7% | 3.8% | 19.1% | 32.1% | 27.2% | 21.4% |
| M&A Capital Partners | 13 | 18 | 18 | 21 | 35 | 44 | 58 | 91 |
| YoY | 44.4% | 38.5% | 0.0% | 16.7% | 66.7% | 25.7% | 31.8% | 56.9% |
| Strike | 13 | 10 | 20 | 29 | 26 | 42 | 48 | 67 |
| YoY | - | -23.1% | 100.0% | 45.0% | -10.3% | 61.5% | 14.3% | 39.6% |
| Yamada Consulting Group | 0 | 0 | 0 | 0 | 17 | 28 | 32 | 46 |
| YoY | - | - | - | - | - | 64.7% | 14.3% | 43.8% |
| Total | 92 | 111 | 144 | 160 | 209 | 287 | 358 | 471 |
| YoY | 39.4% | 20.7% | 29.7% | 11.1% | 30.6% | 37.3% | 24.7% | 31.6% |

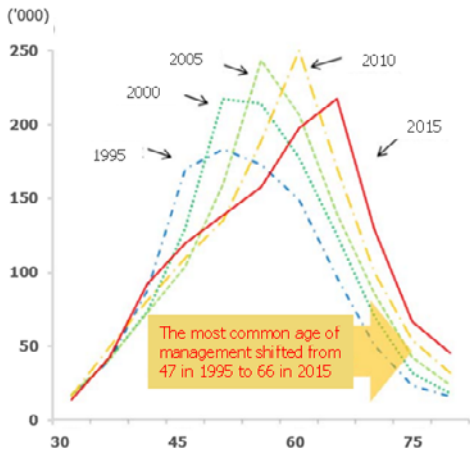
Source: Shared Research based on individual companies' published data
Note: Deals in 2017 refer to FY03/17 for Nihon M&A Center, FY09/17 (parent) for M&A Capital Partners, FY08/17 for Strike, and FY03/17 for Yamada Consulting Group.
Note: For the Yamada Consulting Group, deals closed are in the management consulting business.

The overall number of deals closed by the four leading M&A brokers has been growing since 2010. Total deals closed in 2017 numbered 471 (+31.6% YoY), with CAGR of 26.3% between 2010 and 2017. The rising age of SME business owners and a shortage of business successors have prompted an increase in succession through M&A.

## Succession through M&A increasing, due to aging SME owners and shortage of business successors

According to the Small and Medium Enterprise Agency's "Business Succession Guidelines," SME owners are struggling to find successors. The guidelines point to a falling number of childbirths in Japan and the fact that children of business owners are choosing other careers. According the guidelines, the percent of companies that saw a change in presidents within the year fell from an average of 5% in the 1970s to 2.46% in 2011. Given a shortage of business successors, the age of SME owners has increased, with most in their late 60s as of 2015. The average age of business owners coincides with the average age when the president of a company typically steps down. Teikoku Databank's "Analysis of Presidents across Japan (2017)" indicates that the average age at which a company president changed in 2016 was 67.1.

### Age distribution of SME owners




Source: "Business Succession Guidelines," published by the Small and Medium Enterprise Agency; original source: "Survey on SME Growth and Investment Activity" (Teikoku Databank, December 2015)

### Rising percentage of business successions to non-family members

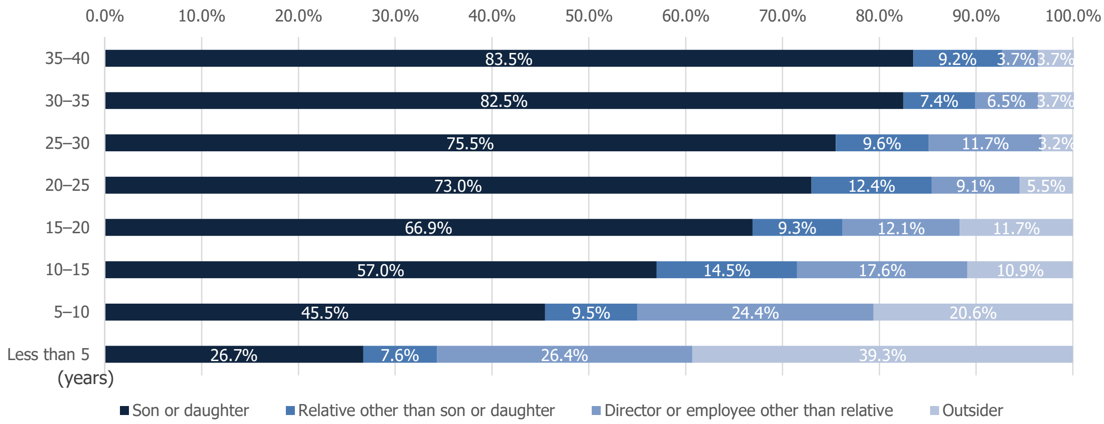
Succession problems are growing more apparent as the age of business owners without successors in place continues to increase. Consequently, more companies are being taken over by people outside the family, including through M&A.

According to the Mizuho Research Institute "Survey of SME Fund-Raising," family business succession is less prevalent among companies managed by business owners for a shorter period of time. In these cases, passing on a business to a third party (company director, employee, or outsider) is more common. Between 2010 and 2015, 39.3% of survey respondents indicated that business succession would be outside the company, up 18.7pp compared with the 2005–2010 figure (20.6%).

In this survey, in-family succession was 92.7% for companies with owners in place for 35 to 40 years (since 1970 to 1975). By comparison, this rate was 64.7% for companies with owners in place for zero to five years (since 2010 to 2015).

Succession to third parties has increased substantially over the past decade. For companies with owners in place for 10 to 15 years (since 2000 to 2005), the rate of third-party succession was 10.9%. The corresponding figure is 39.3% for companies with owners in place for zero to five years (since 2010 to 2015).

**Relationship between business owners' years at the company and previous generation of owners**




Source: "Business Succession Guidelines," Small and Medium Enterprise Agency; original source: "Survey of SME Fund-Raising" (December 2015), Mizuho Research Institute

## Potential market for business succession: 35,000 companies in next decade

According to Recof Data (M&A Retrospective 2017), per press reports and other available data sources, there were 3,050 M&A deals closed (+15.0% YoY) over the year between Japanese companies. Strike says that as of October 2018 about 60% of the deals it undertakes are cases of business succession. Assuming that this percentage applies to all M&A deals, the number of M&A deals for business succession was about 1,800.

Shared Research calculates that business successions number 3,500 per year, so estimates 35,000 over the next decade. This figure suggests ample room for growth in the number of M&A deals involving succession.

### Some 35,000 companies considering business succession via M&A

Business succession comes in three types: by a family member, by a director or employee who is not a family member, or by an outside party. Until the early 2000s, business succession by a family member was mainstream, with succession by an outside party at only around 10%, but this percentage has been rising since around 2005.

Given the number of SMEs (441,000), the percentage of companies with owners aged 60 or older without a successor in place (22.7%), and the number of companies without a successor in place that are considering M&A (35%), Shared Research calculates the number of companies considering business succession through M&A at 35,000 over the next decade.

### Number of SMEs

According to the Small and Medium Enterprise Agency's "2018 SME White Paper," the number of SMEs in non-primary industries, excluding small companies*, was 441,000 in 2014.

* The definition of a small company depends on the industrial classification: 20 or fewer employees for a company in the manufacturing and other category but five or fewer in the trading or service industries.

### Ratio of companies with owners aged 60+ without a successor in place

Based on Small and Medium Enterprise Agency's "2018 SME White Paper," Shared Research calculates that 46.6% of company owners were 60 or older, that 48.7% of companies had no successor in place, and that the number of companies falling into both categories was 22.7%.

Assuming this ratio applies to all SMEs, we estimate the number of SMEs in Japan with owners aged 60 or older and without a successor in place at 100,000 (441,000 companies times 22.7%).

### Companies without a successor in place that are considering M&A

The 2017 SME White Paper lists the results of a questionnaire survey on corporate management succession. To this survey, around 35% of companies without a successor responded that they "were specifically considering or had decided on M&A" or "were engaging in M&A activity for the purpose of business succession."

As this percentage is close to the percentage of survey respondents who indicated that successors would be third-parties with owners in place since 2010 to 2015, Shared Research concludes that the survey reflects reality.

We therefore estimate the number of companies considering business succession through M&A at 35,000 (100,000 companies with owners aged 60 or older and without a successor in place times the 35% of companies without a successor that are considering M&A). As 67.1 is the average age for business owners to change, Shared Research believes this demand will materialize over the next 10 years from the 35,000 companies that are potential sellers.

## Strong long-term growth forecast for number of companies considering succession through M&A

Shared Research believes the number of companies considering business succession through M&A varies according to the number of companies with owners over 60 and the percentage of companies considering M&A. We think that the number of companies with owners over 60 will fall until 2025, and then increase through 2035. We believe the long-term market for succession through M&A is robust, however, because the percentage of companies considering M&A should rise.

### Number of companies with owners over 60

Assuming a fixed ratio of business owners for each generation of Japanese people, the number of owners aged 60 and above should correlate with demographic trends.

According to the National Institute of Population and Social Security Research's "Population Projections for Japan (2017)," the number of people aged 60 to 69 will fall from 18.3mn in 2015 to 14.9mn in 2025, as the post-war baby boomers age. However, second-generation baby boomers are then expected to increase this demographic to 17.5mn in 2035.

**Population aged 60–69 ('000)**

| ('000) | 2015 | 2020 | 2025 | 2030 | 2035 | 2040 |
|---|---|---|---|---|---|---|
| 60-69 | 18,312 | 15,658 | 14,882 | 15,831 | 17,460 | 17,055 |
| CAGR | - | -3.1% | -1.0% | 1.2% | 2.0% | -0.5% |

Source: Shared Research, based on the National Institute of Population and Social Security Research's "Population Projections for Japan (2017)"

### Percentage of companies considering M&A

Business successions to non-family members, including through M&A, are trending upward. According to Mizuho Research Institute's "Survey of SME Fund-Raising," the percentage of business successions to third parties outside the company has risen since 2005. Shared Research assumes the number of companies considering succession through M&A will increase as children are given more leeway to choose their profession and as succession through M&A becomes more common.

# Industry peers

## Types of M&A advisors

Companies involved in M&A typically engage M&A advisors for support through the entire process, such as providing advice and coordinating through closing. M&A advisors provide support either in an advisory or brokerage capacity. Advisors adopting the advisory format provide M&A advice to either the buyer or the seller. M&A brokers coordinate between the two parties.

Shared Research understands that the advisory format is typically used to provide multiple buyer and/or seller stakeholders with objective justification for an M&A deal and to provide explanations about the clarity and fairness of the buying or selling price. For these reasons, M&A advisors tend to handle relatively large deals between Japanese and foreign firms or between listed companies. M&A advisors are mainly banks, securities firms, non-Japanese investment banks, and independent M&A advisory firms.

M&A brokers are more common for relatively small M&A deals between unlisted Japanese companies or acquisitions of unlisted companies by listed companies. In addition to independent M&A brokers such as Strike, regional banks and accounting offices also broker deals as intermediaries.

### Types of M&A advisors

| Typical seller | Format | Handled mainly by | Characteristics |
|---|---|---|---|
| Listed | Advisory | Investment banks<br>Securities companies | Mainly handle large and cross-border deals |
| | | City banks | Strength lies in providing M&A funding, leveraging network of corporate clients to search for companies |
| | | Independent advisory firms | Provide M&A advisory services from a neutral perspective, unrelated to financing transactions |
| Unlisted | Brokerage | Regional banks | Characteristics similar to city banks, but typically weaker at finding purchasing companies outside their region of operation |
| | | M&A brokers | Focused on the M&A brokerage business |
| | | Accounting offices | Strong relationships with individual companies, but weaker at finding buyers |

Source: Shared Research based on individual companies' data

## M&A brokerage business

The M&A brokerage business has no regulatory agency and requires no permissions or specific capital expenditures. As a result, Shared Research understands that there are many M&A brokers, from individual proprietors with experience at financial institutions to companies that specialize in M&A brokerage. In addition to Strike, listed companies that specialize in M&A brokerage include Nihon M&A Center Inc. (TSE1:2127) and M&A Capital Partners Co., Ltd. (TSE1:6080). Yamada Consulting Group Co., Ltd. (JASDAQ: 4792) also does M&A brokering.

In 2017, Nihon M&A Center closed 267 deals (FY03/17, +21.4% YoY, accounting for 56.7% of total deals closed by the four largest companies), M&A Capital Partners closed 91 (FY09/17, +56.9%, 19.3% share), Strike closed 67 (FY08/17, +39.6%, 14.2% share), and Yamada Consulting Group closed 46 (for FY03/17 in the management consulting segment, +43.8%, 9.8% share).

### Characteristics of industry peers

| Company | Characteristics | Revenue (JPY mn) | Operating profit (JPY mn) | Deals closed | Fees per deal closed (JPY mn) | Consultants | Deals closed per consultant |
|---|---|---|---|---|---|---|---|
| Nihon M&A Center | Strong with partner organizations | 24,625 (+29.1% YoY) | 11,606 (+28.3% YoY) | 332 | 73.3 | 247 | 1.3 |
| M&A Capital Partners | No initial fee Direct, proposal-based sales | 8,337 (—) | 3,657 (—) | 111 | 75.1 | 63 | 1.8 |
| Strike | Focused on finding buyers online Mainly accountants | 3,744 (+21.1% YoY) | 1,353 (+17.6% YoY) | 88 | 42.5 | 48 | 1.9 |
| Yamada Consulting Group | M&A brokerage as part of business succession services | 3,450 (—) | 2,604 (—) | 79 | 43.7 | — | — |

Source: Shared Research based on individual companies' published data
Note: Revenue in FY03/18 for Nihon M&A Center, consolidated revenue in FY09/17 for M&A Capital Partners, revenue in FY08/18 for Strike, and M&A-related revenue in the management consulting segment (merged with the capital, stock, and shareholder-related consulting business in FY03/18) in FY03/18 for Yamada Consulting Group.
Note: Fee per deal is revenue ÷ deals closed.
Note: The number of consultants is the average for the year.
Note: Deals closed per consultant is deals closed ÷ number of consultants.

### Industry peer fee structures

| Company | Initial fee | Interim fee | Success fees | Method of calculating success fees | Basis for calculating success fees (sellers) | Basis for calculating success fees (buyers) |
|---|---|---|---|---|---|---|
| Nihon M&A Center | Yes | No | Yes | Lehman method | Market value of total assets | Market value of total assets |
| M&A Capital Partners | No | Yes | Yes | Lehman method | Sale price | Sale price |
| Strike | Yes | No | Yes | Lehman method | Sale price | Market value of total assets |

Source: Shared Research based on individual companies' published data
Note: The "market value of total assets" is the book value of total assets times the market value
Note: "Sale price" refers to the market value of total assets less liabilities.

### Nihon M&A Center Inc. (TSE1: 2127)

Nihon M&A Center, the largest boutique M&A broker handling mostly unlisted companies, was established in 1991, and its employees are mainly CPAs and tax accountants. Nihon M&A Center does not specialize in any particular region or business category. In terms of a compensation structure, Strike receives an initial fee and also calculates success fees based on the market value of total assets of both buyers and sellers.

This company is notable for having more alliances with accounting offices and regional financial institutions than industry peers. As of March 2018, Nihon M&A Center had alliances with 735 accounting offices (+10.5% YoY) and 302 regional financial institutions (+0.3%). This comes to around 20% of accounting offices (Shared Research's estimate), 90% of regional banks, and 80% of *shinkin* banks.

In FY03/18, Nihon M&A Center closed 332 deals (+24.3% YoY), fee per deal closed was JPY73.3mn (+4.0%), the number of consultants was 247 (average for year, +20.5%), and deals closed per consultant were 1.3 (+3.2%).

**Overview of Nihon M&A Center**

| Earnings (JPYmn) | FY03/14 Cons. | FY03/15 Cons. | FY03/16 Cons. | FY03/17 Cons. | FY03/18 Cons. |
|---|---|---|---|---|---|
| Revenue | 10,547 | 12,227 | 14,778 | 19,070 | 24,625 |
| YoY | 46.2% | 15.9% | 20.9% | 29.0% | 29.1% |
| Gross profit | 7,056 | 8,140 | 9,459 | 12,090 | 15,496 |
| YoY | 49.3% | 15.4% | 16.2% | 27.8% | 28.2% |
| GPM | 66.9% | 66.6% | 64.0% | 63.4% | 62.9% |
| SG&A expenses | 1,608 | 2,042 | 2,457 | 3,044 | 3,890 |
| YoY | 21.7% | 27.0% | 20.3% | 23.9% | 27.8% |
| SG&A ratio | 15.2% | 16.7% | 16.6% | 16.0% | 15.8% |
| Operating profit | 5,448 | 6,098 | 7,002 | 9,046 | 11,606 |
| YoY | 60.0% | 11.9% | 14.8% | 29.2% | 28.3% |
| OPM | 51.7% | 49.9% | 47.4% | 47.4% | 47.1% |
| No. of deals closed | 131 | 173 | 220 | 267 | 332 |
| YoY | 19.1% | 32.1% | 27.2% | 21.4% | 24.3% |
| Fees per deal closed | 79.1 | 69.4 | 66.1 | 70.4 | 73.3 |
| No. of consultants (year end) | 115 | 146 | 188 | 221 | 272 |
| No. of consultants (average) | 105 | 131 | 167 | 205 | 247 |
| No. of deals closed per consultant | 1.2 | 1.3 | 1.3 | 1.3 | 1.3 |

Source: Shared Research based on Nihon M&A Center's materials

### M&A Capital Partners Co., Ltd. (TSE1: 6080)

M&A Capital Partners is a boutique M&A broker focused on business succession. The company has closed a large number of deals among dispensing pharmacies. M&A Capital Partners was established in 2005 by its current president, Satoru Nakamura, who has experience in real estate sales.

M&A Capital Partners has a different fee structure and management approach than the other two top-three companies. Rather than receiving an initial fee (as Strike and Nihon M&A Center do), M&A Capital Partners receives interim fees when an MOU is signed. Also, M&A Capital Partners uses the sale price* as the basis for calculating success fees from seller and buyer alike.

In addition, M&A Capital Partners' sales take a direct, proposal-oriented approach. This means that rather than receiving introductions from accounting offices and financial institutions, M&A Capital Partners' consultants make proposals to business owners. The advantages of this approach are that the company does not need to pay introduction fees and it can search out potential demand.

* The sale price refers to the market value of total assets less liabilities. However, Strike uses fees from sellers as the basis for calculating the sale price, but uses fees from buyers as the basis for calculating the market value of total assets. The market value of total assets refers to the book value of total assets times market value.

In October 2016, M&A Capital Partners acquired Recof Corporation (Japan's first M&A specialist) and subsidiary Recof Data Corporation in a bid to promote cross-border M&A and boost brand value.

In FY09/17, M&A Capital Partners closed 111 deals, fee per deal closed was JPY75.1mn, the number of consultants was 84 (as of fiscal year-end), and deals closed per consultant were 1.8.

### Overview of M&A Capital Partners

| Earnings (JPYmn) | FY09/13 Parent | FY09/14 Parent | FY09/15 Parent | FY09/16 Parent | FY09/17 Cons. |
|---|---|---|---|---|---|
| Revenue | 1,157 | 1,667 | 2,847 | 3,755 | 8,337 |
| YoY | 7.8% | 44.1% | 70.8% | 31.9% | - |
| (M&A revenue) | 838 | 1,119 | 1,989 | 2,697 | 5,725 |
| Gross profit | 7.4% | 33.5% | 77.7% | 35.6% | - |
| YoY | 72.4% | 67.1% | 69.9% | 71.8% | 68.7% |
| GPM | 237 | 296 | 439 | 837 | 2,068 |
| SG&A expenses | 17.9% | 24.9% | 48.3% | 90.7% | - |
| YoY | 20.5% | 17.8% | 15.4% | 22.3% | 24.8% |
| SG&A ratio | 601 | 823 | 1,549 | 1,860 | 3,657 |
| Operating profit | 3.8% | 36.9% | 88.2% | 20.1% | - |
| YoY | 51.9% | 49.4% | 54.4% | 49.5% | 43.9% |
| OPM | 21 | 35 | 44 | 58 | 111 |
| No. of deals closed | 16.7% | 66.7% | 25.7% | 31.8% | 91.4% |
| YoY | 55.1 | 47.6 | 64.7 | 64.7 | 75.1 |
| No. of consultants (year end) | 17 | 25 | 32 | 42 | 84 |
| No. of consultants (average) | - | 21 | 29 | 37 | 63 |
| No. of deals closed per consultant | - | 1.7 | 1.5 | 1.6 | 1.8 |

Source: Shared Research based on M&A Capital Partners' materials
Note: Figures for FY09/16 are non-consolidated but are consolidated for FY09/17, so no YoY comparison is provided for FY09/17.

### Yamada Consulting Group Co., Ltd. (JASDAQ: 4792)

Yamada Consulting Group is a management consulting company that handles M&A brokerage business as part of its business succession solutions. The company mounted a full-fledged entry into business succession M&A in FY03/15.

In FY03/18, Yamada Consulting Group closed 79 deals and fee per deal closed was JPY43.7mn.

### Overview of Yamada Consulting Group

| (JPYmn) | FY03/14 | FY03/15 | FY03/16 | FY03/17 | FY03/18 |
|---|---|---|---|---|---|
| Management consulting revenue | 5,478 | 5,921 | 6,381 | 7,930 | 11,455 |
| YoY | - | 8.1% | 7.8% | 24.3% | - |
| (M&A revenue) | 500 | 1,022 | 1,308 | 1,890 | 3,450 |
| YoY | - | 104.4% | 28.0% | 44.5% | - |
| Operating profit | 1,194 | 1,249 | 1,368 | 1,749 | 2,604 |
| YoY | - | 4.6% | 9.5% | 27.9% | - |
| OPM | - | 21.1% | 21.4% | 22.1% | 22.7% |
| No. of deals closed | 17 | 28 | 32 | 46 | 79 |
| YoY | - | 64.7% | 14.3% | 43.8% | - |
| Fees per deal closed | 29.4 | 36.5 | 40.9 | 41.1 | 43.7 |

Source: Shared Research based on Yamada Consulting Group' materials
In FY03/18, Yamada Consulting Group consolidated its capital, stock, and shareholder-related consulting business into its management consulting segment.

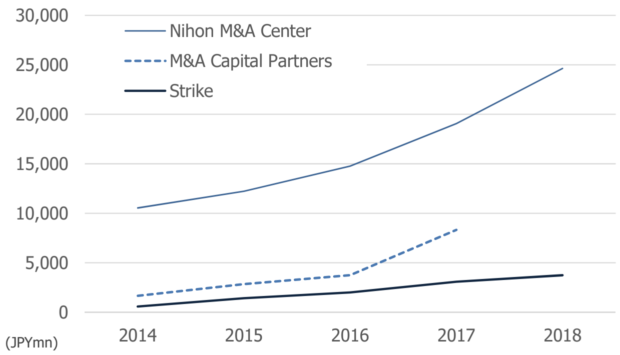
## Indicators for three companies specializing as M&A brokers

The figures below compare key indicators for the three specialized M&A brokers. The three have different fiscal years, so 2017 figures are for FY03/17 for Nihon M&A Center, FY09/17 for M&A Capital Partners, and FY08/17 for Strike.

Compared with industry peers, Strike:

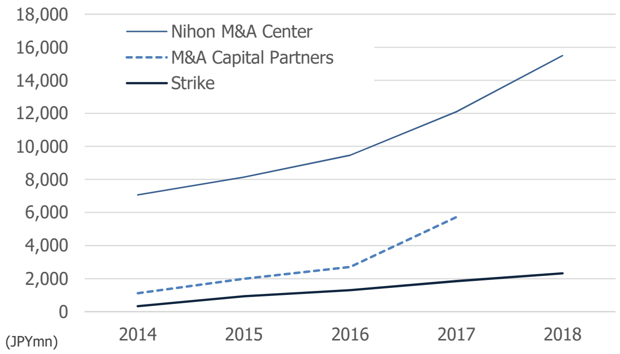
- Ranks lower in terms of revenue, operating profit, and number of deals closed;
- Is below industry peers in revenue per deal closed;
- Has fewer consultants than industry-leading Nihon M&A Center, although Strike's rate of growth is high; and
- Closes more deals per consultant.

## Revenue



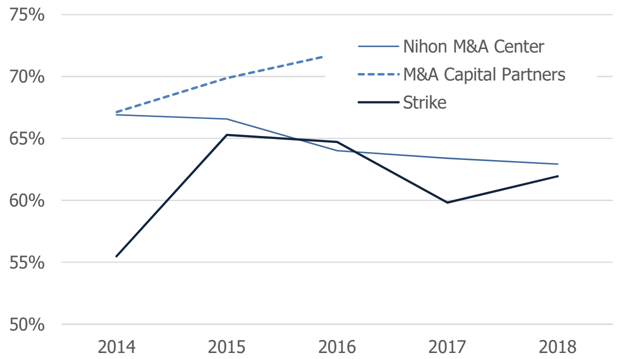

| Revenue (JPYmn) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nihon M&A Center | 10,547 | 12,227 | 14,778 | 19,069 | 24,625 |
| YoY | 46.2% | 15.9% | 20.9% | 29.0% | 29.1% |
| M&A Capital Partners | 1,667 | 2,847 | 3,755 | 8,337 | |
| YoY | 44.1% | 70.8% | 31.9% | 122.0% | |
| Strike | 591 | 1,424 | 2,007 | 3,093 | 3,744 |
| YoY | -28.2% | 140.9% | 40.9% | 54.1% | 21.0% |

## Gross profit



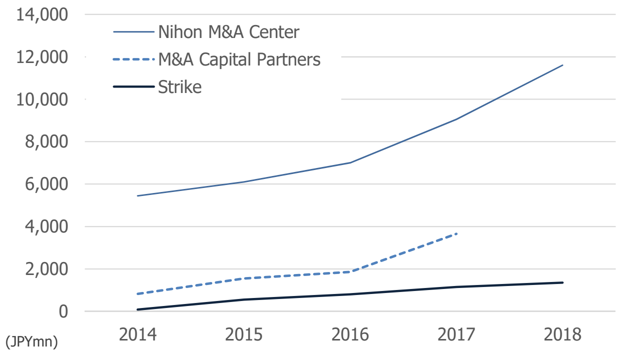

| Gross profit (JPYmn) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nihon M&A Center | 7,056 | 8,140 | 9,459 | 12,090 | 15,496 |
| YoY | 49.3% | 15.4% | 16.2% | 27.8% | 28.2% |
| M&A Capital Partners | 1,119 | 1,989 | 2,697 | 5,725 | |
| YoY | 33.5% | 77.7% | 35.6% | 112.3% | |
| Strike | 328 | 930 | 1,299 | 1,850 | 2,319 |
| YoY | -55.6% | 183.5% | 39.7% | 42.4% | 25.3% |

## Gross profit margin



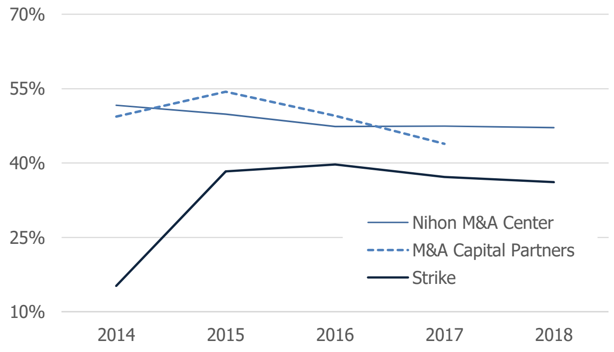

| GPM | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nihon M&A Center | 66.9% | 66.6% | 64.0% | 63.4% | 62.9% |
| M&A Capital Partners | 67.1% | 69.9% | 71.8% | 68.7% | |
| Strike | 55.5% | 65.3% | 64.7% | 59.8% | 61.9% |

## Operating profit



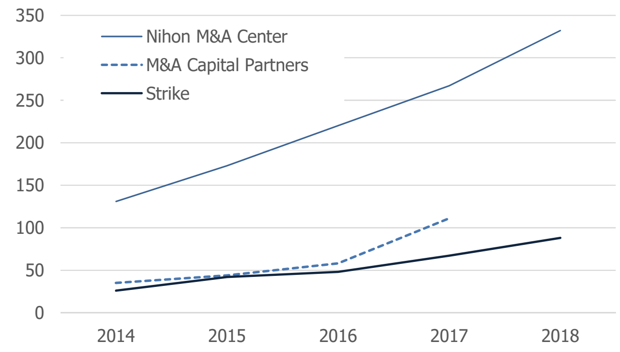

| Operating profit (JPYmn) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nihon M&A Center | 5,448 | 6,098 | 7,002 | 9,046 | 11,606 |
| YoY | 60.0% | 11.9% | 14.8% | 29.2% | 28.3% |
| M&A Capital Partners | 823 | 1,549 | 1,860 | 3,656 | |
| YoY | 36.9% | 88.2% | 20.1% | 96.6% | |
| Strike | 90 | 546 | 797 | 1,151 | 1,353 |
| YoY | -70.8% | 506.7% | 46.0% | 44.4% | 17.5% |

## Operating profit margin



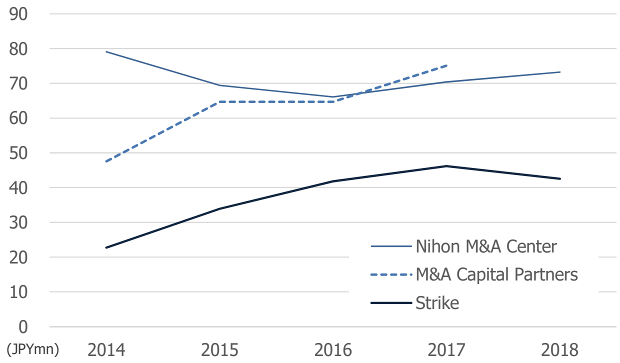

| OPM | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nihon M&A Center | 51.7% | 49.9% | 47.4% | 47.4% | 47.1% |
| M&A Capital Partners | 49.4% | 54.4% | 49.5% | 43.9% | |
| Strike | 15.3% | 38.3% | 39.7% | 37.2% | 36.1% |

### Deals closed



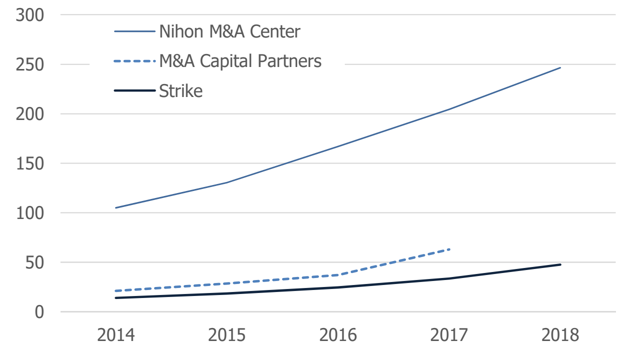

| No. of deals closed | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nihon M&A Center | 131 | 173 | 220 | 267 | 332 |
| YoY | 19.1% | 32.1% | 27.2% | 21.4% | 24.3% |
| M&A Capital Partners | 35 | 44 | 58 | 111 | |
| YoY | 66.7% | 25.7% | 31.8% | 91.4% | |
| Strike | 26 | 42 | 48 | 67 | 88 |
| YoY | -10.3% | 61.5% | 14.3% | 39.6% | 31.3% |

### Fees per deal closed (JPY mn)



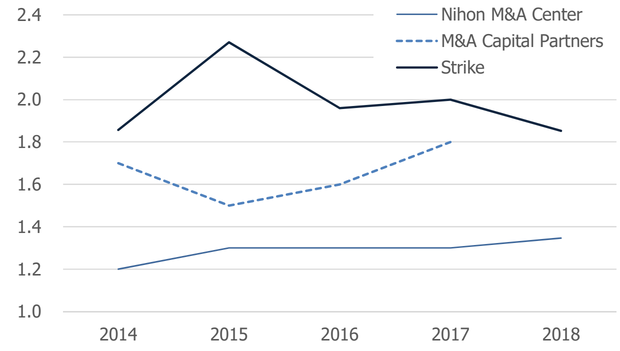

| Fees per deal closed (JPYmn) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nihon M&A Center | 79.1 | 69.4 | 66.1 | 70.4 | 73.3 |
| M&A Capital Partners | 47.6 | 64.7 | 64.7 | 75.1 | |
| Strike | 22.7 | 33.9 | 41.8 | 46.2 | 42.5 |

### Number of consultants (average for the year)



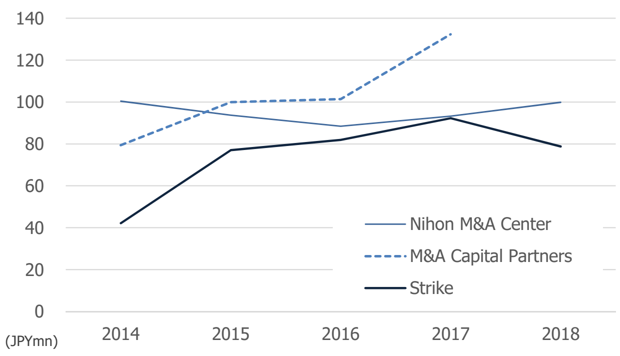

| No. of consultants | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nihon M&A Center | 105 | 131 | 167 | 205 | 247 |
| YoY | 15.4% | 24.3% | 28.0% | 22.5% | 20.5% |
| M&A Capital Partners | 21 | 29 | 37 | 63 | |
| YoY | | 35.7% | 29.8% | - | |
| Strike | 14 | 19 | 25 | 34 | 48 |
| YoY | 27.3% | 32.1% | 32.4% | 36.7% | 41.8% |

### Deals closed per consultant (average for the year)



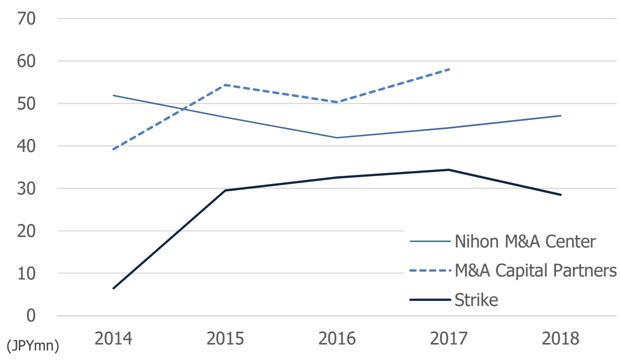

| No. of deals per consultant | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nihon M&A Center | 1.2 | 1.3 | 1.3 | 1.3 | 1.3 |
| M&A Capital Partners | 1.7 | 1.5 | 1.6 | 1.8 | |
| Strike | 1.9 | 2.3 | 2.0 | 2.0 | 1.9 |

### Revenue per consultant




| Revenue per consultant (JPYmn) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nihon M&A Center | 100.4 | 93.7 | 88.5 | 93.2 | 99.9 |
| M&A Capital Partners | 79.4 | 99.9 | 101.5 | 132.3 | |
| Strike | 42.2 | 77.0 | 81.9 | 92.3 | 78.8 |

### Operating profit per consultant




| OP per consultant (JPYmn) | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Nihon M&A Center | 51.9 | 46.7 | 41.9 | 44.2 | 47.1 |
| M&A Capital Partners | 39.2 | 54.4 | 50.3 | 58.0 | |
| Strike | 6.4 | 29.5 | 32.5 | 34.4 | 28.5 |

Source: Shared Research based on company data

# Historical performance

## Full-year FY08/18 results

Revenue was JPY3.7bn (+21.1% YoY), operating profit was JPY1.4bn (+17.6% YoY), recurring profit was JPY1.4bn (+18.4% YoY), and net income was JPY920mn (+14.4% YoY).

Revenue came to JPY3.7bn (+21.1% YoY). Revenue grew on an increase in number of deals closed, although the revenue per deal decreased. On the earnings front, although the company experienced an increase in profits given the rise in revenue, the increase in the number of consultants drove up personnel costs and caused growth in operating profits to lag behind the top-line gains.

### Results versus forecasts

Regarding results versus full-year forecasts for FY08/18, revenue was 106.0% of the target, operating profit 102.0%, recurring profit 102.1%, and net income 101.2%. Revenue was above forecast as the revenue per deal, JPY42.5mn, was above the company forecast (JPY38.4mn) despite the number of deals closed (88) falling short of the forecast (92). Results for operating profit and below categories did not exceed forecasts by as much as revenue because the company made more progress than anticipated in recruiting consultants. The number of new deals, a leading indicator of deals closed, came to 232, exceeding the forecast for 192.

### Comparison with prior year

Revenue was JPY3.7bn (+21.1% YoY). Revenue grew as the impact of an increase in the number of deals closed offset lower revenue per deal closed. The company closed 88 M&A deals (+31.3% YoY).

The rise in the number of deals closed was mainly attributable to an increase in the number of consultants. The company increased the number of consultants by 17 YoY in FY08/18, bringing the total to 56 (from 39 at end FY08/17). Among the 56 consultants, 22 joined in FY08/18. According to the company, first-year consultants close less than one deal a year on average. As a result, Shared Research believes that the increase in the number of consultants since FY08/17 has begun to contribute to results in a meaningful way in FY08/18.

Revenue per deal was JPY42.5mn (-7.8% YoY). There were more deals closed, but just three large deals (fees of at least JPY100mn), one fewer than FY07/18, resulting in a decline in revenue per deal.

Gross profit was JPY2.3bn (+25.3% YoY), and the gross profit margin was 61.9% (+2.1pp YoY). Profit grew on higher sales. The gross profit margin increased primarily due to lower introduction fees, which declined by 12.8% YoY to JPY394mn on fewer large deals closed through introductions.

SG&A expenses were JPY966mn (+38.1% YoY), and the SG&A expense ratio was 25.8% (+3.2pp YoY). The increase in the number of employees involved in M&A online, an M&A information site, and systems-related operations, drove up personnel expenses to JPY359mn (+72.6% YoY). Strike relocated the Fukuoka sales office in September 2017 and the Nagoya sales office in January 2018 to strengthen marketing and improve efficiency of business operations. The company also expanded its Tokyo office to accommodate headcount growth in June 2018, so rent and consumables were JPY162mn (+50.0% YoY). It also held 36 seminars in FY08/18. Advertising expenses were JPY162mn (+50.0% YoY).

### Initiatives for medium- to long-term growth

To improve operating efficiency for medium- to long-term growth, the company established business support department, business promotion department, M&A online editorial department, and information systems department in December 2017. In September 2018, the company rejigged the organization and now has 10 corporate information departments. It also established new marketing and PR departments.

#### Shift to ten corporate information department structure

The company subdivided its three former corporate information departments, consisting of consultants, into 10. By reducing the number of consultants assigned to a department, the company aims to enhance progress in closing deals and strengthen intradepartmental collaboration. The company boosted recruitment, with 39.3% of its 56 consultants (+43.6% from end-FY08/17) at end-FY08/18 in their first year at the company (28.2% at end-FY08/17).

#### Business support department

A team of lawyers, licensed CPAs, and other qualified personnel provide support with projects involving complicated rights relations such as business succession. They also support novice consultants with closing deals and evaluating companies, by answering questions and addressing issues. With the establishment of this department, the company is able to internalize tasks such as checking documents that were previously outsourced to outside lawyers and CPAs. In addition, the company is able to put in place a support system for novice consultants, enabling them to perform their tasks smoothly.

#### Business promotion department, marketing department, PR department

Business promotion department undertakes marketing activities toward business partners such as accounting firms and financial institutions that were previously performed by consultants. The marketing department conducts marketing activities over the phone and recruits attendees for seminars to strengthen the company’s ability to win deals. The PR department plans seminars for management officers and works to boost the company’s profile. By having specialized departments for each line of work, the company hopes to strengthen its various initiatives. Meanwhile, consultants can use the time previously spent in visiting business partners to search for new deals and perform other tasks, and focus on tasks that require their professional expertise.

#### M&A online editorial department

M&A online editorial department creates content for M&A online, an M&A information site operated by the company. The company believes that improving content enhances the value of its website as an effective media and leads to increased access to the website. According to the company, its site had been viewed 350,000 times by February 2018, and the number has exceeded 650,000 by May 2018.

#### Information systems department

Information systems department develops and maintains the company’s database, internal system, and websites including SMART, an M&A brokerage site. In addition to improving user friendliness of SMART, it aims to increase the number of deals a consultant closes by consolidating information on sellers and buyers each consultant has into a database.

## Q3 FY08/18 results

Revenue was JPY2.8bn (+39.9% YoY), operating profit was JPY1.1bn (+28.7% YoY), recurring profit was JPY1.1bn (+28.7% YoY), and net income was JPY717mn (+27.8% YoY). Rise in revenue can be attributed to an increase in M&A deals closed and a higher fee per deal. On the earnings front, although the company experienced an increase in profits given the rise in revenue, the increase in the number of consultants drove up personnel costs and caused growth in operating profits to lag behind the top-line gains.

### Progress versus forecasts

Regarding progress toward full-year forecasts for FY08/18, revenue reached 79.9% of the target (65.2% of full-year results in Q3 FY08/17), operating profit 80.2% (71.8%), recurring profit 80.2% (72.3%), and net income 78.9% (69.8%). Revenue and all profit lines exceeded previous year levels driven by a large deal (fees of JPY100mn or more) that closed in Q3 (March–May).

### Comparison with Q3 FY08/17

Revenue marked a record high at JPY2.8bn (+39.9% YoY). The number of deals closed increased as did the revenue per deal. The company closed 63 M&A deals (+18.9% YoY). The number of new deals, a leading indicator of the number of deals closed, was 169 (+61.0% YoY).

The rise in the number of deals closed was mainly attributable to an increase in the number of consultants. The company added 14 consultants in Q3, bringing the total to 53 (39 at end-FY08/17). Among the 53 consultants, seven joined the company in 2H FY08/17 and 15 joined in 1H FY08/18. According to the company, first-year consultants closed less than one deal a year on average. As a result, Shared Research believes that the increase in the number of consultants since 2H FY08/17 has now begun to contribute to results in a meaningful way starting in Q3 FY08/18.

Revenue per deal was JPY44.8mn (+17.7% YoY). The company closed three large deals (up one deal from Q3 FY08/17), which led to an increase in revenue per deal. According to the company, listing their shares helped brand recognition as well as credibility, and is leading to new assignments that are bigger in transaction size.

Gross profit was JPY1.8bn (+35.1% YoY), and the gross profit margin was 63.4% (-2.2pp). The company aggressively hired consultants in view of expanding business, which led to an increase in personnel expenses. In addition to the increase in the number of deals closed, the proportion of introductions to deals closed was greater YoY, leading to an increase in introduction fees. Personnel expenses came to JPY697mn (+45.5% YoY), and introduction fees to JPY262mn (+65.8%). In cumulative Q3 FY08/18, introduction fees comprised 9.3% of revenue (11.1% in 1H FY08/18). The large deal closed in Q3 did not require an introduction fee, and thus lowered the introduction fees to revenue ratio.

SG&A expenses were JPY725mn (+45.8% YoY), and the SG&A expense ratio was 25.7% (+1.0pp). The increase in the number of employees involved in M&A online, an M&A information site, and systems-related operations, drove up personnel expenses to JPY291mn (+95.3% YoY). The company relocated the Fukuoka sales office in September 2017 and the Nagoya sales office in January 2018 in order to boost regional marketing. The relocation resulted in rent and supply expenses totaling JPY110mn (+39.2%). The company also held 20 seminars during cumulative Q3 FY08/18 increasing advertising fees to JPY116mn (+41.5%).

**Initiatives for medium- to long-term growth**

To improve operating efficiency for medium- to long-term growth, the company established business support department, business promotion department, M&A online editorial department, and information systems department in December 2017. The company formed business partnerships with Shikoku Certified Tax Accountants' Association to win more projects in Shikoku region, and with Slogan, Inc. (not listed) to secure more exit deals from venture companies.

Business support department

A team of lawyers, licensed CPAs, and other qualified personnel provide support with projects involving complicated rights relations such as business succession. They also support novice consultants with closing deals and evaluating companies, by answering questions and addressing issues. With the establishment of this department, the company is able to internalize tasks such as checking documents that were previously outsourced to outside lawyers and CPAs. In addition, the company is able to put in place a support system for novice consultants, enabling them to perform their tasks smoothly.

Business promotion department

Business promotion department undertakes marketing activities toward business partners such as accounting firms and financial institutions that were previously performed by consultants. This department also plans seminars. As a result, consultants can use the time previously spent in visiting business partners to search for new deals and perform other tasks, instead, and focus on tasks that require their professional expertise.

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## 1H FY08/18 results

Revenue was JPY1.6bn (+10.6% YoY), operating profit was JPY492mn (-17.2% YoY), recurring profit was JPY493mn (-17.1% YoY), and net income was JPY331mn (-13.2% YoY). Revenue rose in conjunction with the increase in the number of M&A deals closed, and profits fell due to increased expenses in hiring more consultants.

### Progress versus forecasts

In March 2018, the company announced revisions to its forecasts for 1H FY08/18. Results for 1H FY08/18 were more or less in line with the revised forecasts. Revisions were made to account for a delay in the closing of a large deal (success fee of greater than JPY100mn) expected to close in Q2 (December 2017–February 2018) to Q3 (March–May 2018). Since the delay only affected forecasts for 1H, no revisions were made to the full-year forecasts for FY08/18.

Regarding progress toward full-year forecasts for FY08/18, revenue reached 44.0% of the target (45.4% in 1H FY08/17), operating profit 37.1% (51.7%), recurring profit 37.1% (51.9%), and net income 36.4% (47.5%).

Revenue achieved less than 50% of the target due to the delay in booking of the large deal mentioned above. However, the number of new deals that would lead to future revenue reached 103 (63 in 1H FY08/17), exceeding the 1H target of 86 and achieving over 50% versus the full-year target of 192. Profits performed worse than 1H FY08/17 in terms of meeting the targets due to revenue missing the initial forecast and hiring of more consultants than initially planned. Number of consultants increased from 39 at end-FY08/17 to 54 at end-1H FY08/18 (initial target of 50 by end-FY08/18). The company was able to secure talents who met its standards including those experienced in M&A brokerage business, which led to hiring of more employees than initially planned in anticipation of future growth.

### Comparation with 1H FY08/17

Revenue was JPY1.6bn (+10.6% YoY). There was an increase in the number of M&A deals closed, but revenue per deal declined. The company closed 43 M&A deals (+22.9%). The number of new deals, a leading indicator of the number of deals closed, was 103 (+51.5%).

The rise in the number of deals closed was mainly attributable to an increase in consultants. The number of consultants rose to 54 in 1H FY08/18 (32 in 1H FY08/17). Among the 54 consultants, 22 were in their first year of employment (seven joined the company in 2H FY08/17 and 15 joined in 1H FY08/18). According to the company, first-year consultants closed less than one deal a year on average. As a result, Shared Research expects that the increase in the number of consultants since 2H FY08/17 will begin contributing to results from 2H FY08/18 onward.

Revenue per deal was JPY36.1mn (-10.0% YoY). The company had two large deals, the same number of deals as 1H FY08/17.

Gross profit was JPY946mn (+1.0% YoY), and the gross profit margin was 60.9% (-5.8pp YoY). The company aggressively hired consultants in view of expanding business, which led to an increase in personnel expenses. In addition to the increase in the number of deals closed, the proportion of introductions to deals closed was greater YoY, leading to an increase in introduction fees. Personnel expenses came to JPY386mn (+19.9% YoY), and introduction fees to JPY172mn (+56.4%).

SG&A expenses were JPY454mn (+32.7% YoY), and the SG&A expense ratio was 29.2% (+4.9pp). The number of employees involved in M&A online, an M&A information site, and systems-related operations increased to 15 (six in 1H FY08/17), driving up personnel expenses to JPY162mn (+62.0% YoY). Rent and supplies expenses came to JPY77mn (+48.1%) in conjunction with the relocation of the Fukuoka sales office in September 2017 and the Nagoya sales office in January 2018. The company also held 15 seminars during 1H FY08/18, pushing advertising expenses to JPY75mn (+29.3%).

**Initiatives for medium- to long-term growth**

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## Q1 FY08/18 results

Revenue was JPY704mn (+3.1% YoY), operating profit was JPY234mn (-8.8% YoY), recurring profit was JPY234mn (-8.8% YoY), and net income was JPY159mn (+1.3% YoY).

In terms of progress toward the company's forecasts for 1H FY08/18, revenue was at 39.8%, operating profit at 36.7%, recurring profit at 36.7%, and net income at 36.6%. Strike says it expects to close large deals (fees of more than JPY100mn) in Q2 and has lined up 51 new deals (+82.1% YoY), so the Q1 results are still in line with its 1H forecasts.

Revenue was JPY704mn (+3.1% YoY). There was an increase in the number of M&A deals closed, but revenue per deal declined. The company closed 24 M&A deals (+41.2% YoY).

The rise in the number of deals closed was mainly attributable to an increase in consultants. Seven were added during Q1 for a total of 46 (+53.3% YoY) as of the end of Q1.

Revenue per deal was JPY29.3mn (-26.9% YoY). Whereas Q1 FY08/17 felt the effect of a large deal, there was no such large deal during Q1 FY08/18, resulting in lower revenue per deal.

Gross profit was JPY469mn (+3.5% YoY), and the gross profit margin was 66.6%, (+0.2pp YoY and 17.8pp QoQ). During Q4 FY08/17, one large deal generated revenue of JPY510mn, but also caused higher introduction fees, increasing the cost of revenue. By contrast, the ratio of introduction fees to the total cost of revenue fell in Q1 FY08/18.

SG&A expenses were JPY235mn (+19.4% YoY), and the SG&A expense ratio was 33.4% (-4.5pp). The main increases were for rent, advertising expenses, and shareholder-related expenses. Rent increased in conjunction with the relocation of the Fukuoka sales office in September 2017. Advertising expenses were up because the company held 16 seminars during Q1 (up from 10 in Q1 FY08/17). Shareholder-related expenses were up as the cost of the general meeting of shareholders increased with a YoY increase in the company's shareholder count.

## FY08/17 results

Revenue was JPY3.1bn (+54.1% YoY), operating profit was JPY1.2bn (+44.4% YoY), recurring profit was JPY1.1bn (+44.9% YoY), and net income was JPY804mn (+57.4% YoY).

Revenue rose due to increases in the number of M&A deals closed and the revenue per deal closed.

The company closed 67 M&A deals (+39.6% YoY). The rise in the number of deals closed was mainly attributable to an increase in consultants to 39 (+39.3% YoY). Another factor was the number of deals closed per consultant, at 2.0 (+2.1%). Strike explains that consultants tend to close more deals as they gain experience and that first-year consultants close one deal on average, while consultants in their third year or more close around three. Aggressive recruiting means that the number of people with three or more years of experience is low, making it difficult to raise the number of deals closed per consultant.

Revenue per deal closed was JPY46.2mn (+10.4% YoY). The company closed four large deals (fees of more than JPY100mn) in FY08/17 (up from two in FY08/16). One of these generated revenue of more than JPY510mn.

Higher revenue pushed gross profit to JPY1.9bn (+42.5% YoY), and the gross profit margin was 59.8% (down 4.9pp). Cost of revenue, mainly introduction fees, was JPY451mn (+215.6%). This rise was attributable mainly to introduction fees the company paid for one large deal that generated revenue of JPY510mn.

SG&A expenses were JPY699mn (+39.4% YoY), and the SG&A expense ratio was 22.6% (-2.4pp). The main increases were for rent and advertising expenses. Rent was JPY90mn (+71.2%), up because of a full year of rent for its new head office (the company moved during FY08/16) as well as the relocated Takamatsu sales office. Advertising expenses came to JPY122mn (+39.8%), up because the company held 26 seminars during the year (up from 17 in FY08/16).

## FY08/16 results

Revenue was JPY2.0bn (+41.0% YoY), operating profit was JPY796mn (+46.1% YoY), recurring profit was 790mn (+44.4% YoY), and net income was JPY510mn (+55.2% YoY). The company closed 48 deals.

During the year, the company began forming alliances with the Kanto Shin-Etsu Tax Association Mutual Cooperative, Kyoto cooperative societies of certified public tax accountants, and cooperative societies of certified public accountants. Strike also expanded its network of tax accounting and CPA offices and cultivated business succession deals.

In FY08/16, Strike added seven M&A consultants in the aim of increasing its number of deals. To expand the business, in August 2016 the company relocated to Otemachi, in Tokyo's Chiyoda-ku.

Revenue increased, due to rises in the number of deals closed and fee per deal. The company closed 48 deals (+14.3% YoY). Of these, five were in pharmacy, five were in real estate, and four were in worker dispatch.

The rise in deals closed was mostly due to an increase in the number of consultants, at 28 (+33.3% YoY). The number of deals closed per consultant was down, however, at 2.0 (-13.7%). The number of consultants has grown more than 30% per year during the three years from FY08/14, so average years of experience has fallen, which lowers deals per consultant. Strike explains that the average first-year consultant closes less than one deal, while those in their third year close three.

Fees per deal closed averaged JPY41.8bn (+23.3% YoY). This growth was attributable to two large-scale projects (generating fees of more than JPY100mn).

Profits rose, as higher revenue compensated for increased expenses for business expansion. Gross profit was JPY1.3bn (+39.7% YoY), while the gross profit margin 64.7%, down 0.6pp. Cost of revenue was JPY143mn (+86.7%), due to higher introduction fees. SG&A expenses amounted to JPY502mn (+30.7%), falling 2.0pp to 25.0% of revenue. SG&A expenses rose mainly because of personnel expenses (salaries and bonuses) and rent.

# Income statement

| Income statement (JPYmn) | FY08/12 Parent | FY08/13 Parent | FY08/14 Parent | FY08/15 Parent | FY08/16 Parent | FY08/17 Parent | FY08/18 Parent |
|---|---|---|---|---|---|---|---|
| **Revenue** | **419** | **823** | **591** | **1,424** | **2,007** | **3,093** | **3,744** |
| YoY | 11.6% | 96.6% | -28.2% | 141.0% | 41.0% | 54.1% | 21.1% |
| Cost of revenue | 18 | 84 | 263 | 494 | 708 | 1,243 | 1,425 |
| **Gross profit** | **400** | **739** | **328** | **930** | **1,299** | **1,850** | **2,319** |
| YoY | - | 84.7% | -55.7% | 183.6% | 39.7% | 42.5% | 25.3% |
| GPM | 95.6% | 89.8% | 55.5% | 65.3% | 64.7% | 59.8% | 61.9% |
| SG&A expenses | 257 | 431 | 238 | 384 | 502 | 699 | 966 |
| SG&A ratio | 61.4% | 52.4% | 40.2% | 27.0% | 25.0% | 22.6% | 25.8% |
| **Operating profit** | **143** | **308** | **90** | **546** | **797** | **1,151** | **1,353** |
| YoY | - | 114.9% | -70.7% | 505.1% | 46.1% | 44.4% | 17.6% |
| OPM | 34.2% | 37.4% | 15.3% | 38.3% | 39.7% | 37.2% | 36.1% |
| Non-operating income | 2 | 4 | 4 | 2 | 1 | 2 | 2 |
| Non-operating expenses | 0 | 0 | 0 | - | 8 | 8 | - |
| **Recurring profit** | **144** | **311** | **94** | **547** | **790** | **1,145** | **1,355** |
| YoY | 173.6% | 116.6% | -69.7% | 480.1% | 44.4% | 44.9% | 18.4% |
| RPM | 34.3% | 37.8% | 16.0% | 38.4% | 39.4% | 37.0% | 36.2% |
| Extraordinary gains | - | 0 | 16 | 1 | - | - | 0 |
| Extraordinary losses | - | - | 2 | - | - | - | - |
| Income taxes | 67 | 131 | 27 | 219 | 279 | 341 | 436 |
| Implied tax rates | 46.9% | 42.1% | 24.9% | 39.9% | 35.4% | 29.8% | 32.1% |
| **Net income** | **77** | **181** | **82** | **329** | **511** | **804** | **920** |
| YoY | 68.7% | 135.4% | -54.8% | 301.5% | 55.2% | 57.4% | 14.4% |
| Net margin | 18.4% | 22.0% | 13.9% | 23.1% | 25.5% | 26.0% | 24.6% |

Source: Shared Research based on company data
Note: Amounts in the table may differ from company data due to differences in rounding methods.

Refer to the “Earnings structure” section for details on income statement items, from revenue to operating profit.

Non-operating items and extraordinary items are small. Due to a decline in the statutory tax rate, the tax rate trended downward, falling from 46.9% in FY08/12 to 32.1% in FY08/18.

# Balance sheet

| Balance sheet (JPYmn) | FY08/12 Parent | FY08/13 Parent | FY08/14 Parent | FY08/15 Parent | FY08/16 Parent | FY08/17 Parent | FY08/18 Parent |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and cash equivalents | 570 | 848 | 641 | 1,525 | 2,384 | 4,158 | 4,918 |
| Accounts receivable | 13 | 4 | 18 | 63 | 92 | 94 | 152 |
| Prepaid expenses | 2 | 1 | 13 | 14 | 20 | 24 | 30 |
| Deferred tax assets | - | - | - | 27 | 30 | 36 | 28 |
| Other | 0 | - | 6 | 11 | 12 | 2 | 3 |
| Allowance for doubtful accounts | -0 | -0 | -0 | -0 | -1 | -1 | -1 |
| **Total current assets** | **585** | **853** | **716** | **1,640** | **2,539** | **4,314** | **5,131** |
| Buildings and structures (net) | 5 | 5 | 8 | 9 | 31 | 27 | 53 |
| Machinery, equipment, and vehicles (net) | 0 | 1 | 1 | 1 | 15 | 13 | 28 |
| Construction in progress | - | - | - | - | - | 3 | - |
| **Tangible fixed assets** | **5** | **6** | **9** | **10** | **46** | **44** | **81** |
| **Intangible fixed assets** | **-** | **-** | **1** | **1** | **1** | **2** | **1** |
| **Investment and other assets** | **60** | **59** | **57** | **46** | **137** | **148** | **206** |
| **Total fixed assets** | **65** | **65** | **67** | **57** | **183** | **194** | **289** |
| **Total assets** | **650** | **919** | **783** | **1,697** | **2,722** | **4,507** | **5,419** |
| **Liabilities** | | | | | | | |
| Accounts payable | 2 | 8 | 17 | 14 | 23 | 22 | 76 |
| Accounts payable–other | 45 | 109 | 68 | 188 | 199 | 351 | 442 |
| Accrued expenses | - | - | - | - | 18 | 17 | 17 |
| Income taxes payable | 64 | 96 | - | 244 | 177 | 242 | 269 |
| Deferred tax liabilities | - | - | 2 | - | - | - | - |
| Advances received | - | - | - | - | 1 | 12 | - |
| Deposits received | 1 | 3 | 4 | 1 | 4 | 5 | 10 |
| Other | 10 | 18 | - | 72 | 43 | 74 | 66 |
| **Total current liabilities** | **122** | **234** | **90** | **519** | **464** | **721** | **879** |
| Other | 2 | 2 | - | - | - | 41 | 26 |
| **Total fixed liabilities** | **21** | **12** | **0** | **-** | **-** | **41** | **26** |
| **Total liabilities** | **143** | **246** | **90** | **519** | **464** | **763** | **905** |
| Net assets | | | | | | | |
| Capital stock | 30 | 30 | 30 | 115 | 431 | 824 | 824 |
| Capital surplus | 8 | 8 | 8 | 92 | 409 | 801 | 801 |
| Retained earnings | 469 | 635 | 653 | 966 | 1,416 | 2,115 | 2,880 |
| Evaluation and translation differences | - | - | 1 | 4 | 2 | 4 | 4 |
| **Total net assets** | **506** | **672** | **692** | **1,177** | **2,258** | **3,745** | **4,514** |
| Working capital | 12 | -4 | 1 | 49 | 69 | 71 | 77 |
| Total interest-bearing debt | 19 | 10 | - | - | - | - | - |
| Net debt | -551 | -838 | -641 | -1,525 | -2,384 | -4,158 | -4,918 |

Source: Shared Research based on company data
Note: Amounts in the table may differ from company data due to differences in rounding methods.

## Assets

### Current assets

As the M&A brokerage business mainly generates fees in exchange for services, it requires no stock of products for sale, and the majority of current assets are cash and deposits. In FY08/18, cash and deposits amounted to JPY4.9bn (+18.3% YoY), or 90.8% of total assets.

Cash and deposits rose due to the accumulation of retained earnings, as well as to equity financing. The company raised JPY525mn through public offering at listing in June 2016, JPY108mn through a third-party placement in July 2016, and JPY737mn through public offering when changing its listing status in June 2017.

Strike says it maintains enough cash and deposits to keep the company operating for two years even without making any sales. Shared Research estimates this amount to be JPY3.8bn for FY08/18, calculated as double the total cost of revenue (in FY08/18, personnel expenses of JPY921mn) and SG&A expenses (JPY966mn). In line with its medium-term policy, Strike plans to use excess cash to fund the increase in employees. Strike's number of employees increased by a CAGR of 36.1% from FY08/13 to FY08/18.

**Fixed assets**

The main fixed asset category is "other assets," within "investments and other assets." This amount is mostly the security deposit on the company's office.

## Liabilities

Liabilities center on current liabilities, chiefly payables (JPY442mn in FY08/18) and income taxes payable (JPY269mn). The main payable is employee bonuses (JPY289mn in FY08/17). Strike's deadlines for bonus calculations are at the end of the second and fourth quarters, so payables tend to increase in Q2 and Q4.

Since FY08/14, the company has had no borrowings, bonds, or other interest-bearing debt.

## Net assets

At end-FY08/18, net assets stood at JPY4.5bn, and the equity ratio was 83.2%. Strike's net assets are increasing due to the accumulation of retained earnings and equity financing.

Looking at equity finance, Strike raised JPY525mn through public offering at listing in June 2016, JPY108mn through a third-party placement in July 2016, and JPY737mn through public offering when changing its listing status in June 2017. Principal uses of these funds are for working capital to recruit personnel (to expand business), working capital for marketing (to acquire new deals), and for capital expenditures. The capital expenditures are for management support systems to augment matching efficiency, for outsourcing expenses to enhance content on M&A online, and for the establishment of new offices and the relocation of existing ones.

# Cash flow statement

| Cash flow statement (JPYmn) | FY08/12 Parent | FY08/13 Parent | FY08/14 Parent | FY08/15 Parent | FY08/16 Parent | FY08/17 Parent | FY08/18 Parent |
|---|---|---|---|---|---|---|---|
| Cash flows from operating activities (1) | 199 | 302 | -141 | 716 | 430 | 1,108 | 1,025 |
| Pre-tax profit | 144 | 312 | 109 | 548 | 790 | 1,145 | 1,355 |
| Decrease (increase) in accounts receivable | 85 | 9 | -14 | -45 | -30 | -1 | -59 |
| Increase (decrease) in accounts payable | -7 | 7 | 8 | -3 | 9 | -1 | 53 |
| Increase (decrease) in accounts payable–other | -36 | 63 | -41 | 121 | 9 | 153 | 91 |
| Increase (decrease) in income taxes payable | 6 | 9 | -18 | 72 | -29 | 31 | -8 |
| Increase (decrease) in income taxes paid | - | -99 | -160 | 13 | -355 | 77 | -395 |
| Cash flows from investing activities (2) | 32 | 0 | 18 | 16 | -136 | -7 | -115 |
| Purchase of tangible fixed assets | - | -1 | -5 | -2 | -40 | -6 | -49 |
| Payments for lease and guarantee deposits | - | -4 | -6 | - | -90 | -13 | -57 |
| FCF (1+2) | 231 | 302 | -124 | 732 | 295 | 1,101 | 910 |
| Cash flows from financing cash flows | -19 | -24 | -74 | 153 | 564 | 673 | -150 |
| Proceeds from issuance of shares | - | - | - | 169 | 625 | 777 | - |
| Dividends paid | -9 | -15 | -63 | -16 | -61 | -104 | -155 |
| Simple FCF (NI+A+B-C) | 89 | 165 | 83 | 376 | 497 | 806 | 925 |
| Depreciation and goodwill amortization (A) | 0 | 1 | 1 | 1 | 6 | 8 | - |
| Capital expenditures (B) | - | -1 | -6 | -2 | -40 | -8 | - |
| Increase (decrease) in working capital (C) | 12 | -16 | 6 | 47 | 21 | 2 | 5 |

Source: Shared Research based on company data
Note: Amounts in the table may differ from company data due to differences in rounding methods.

## Cash flows from operating activities

Strike's cash flows from operating activities are affected mainly by income before income taxes and income tax and other payments. Depreciable assets are low, so depreciation has little effect on cash flows from operating activities, and changes in working capital are limited.

FY08/14 was notable in that cash flows from operating activities were negative. This situation occurred because income before income taxes fell to JPY109mn (-65% YoY), due to the postponement of a large deal.

## Cash flows from investing activities

Cash flows from investing activities are affected mainly by the acquisition of tangible fixed assets. Strike's expenditures on tangible fixed assets are limited mainly to fixtures for the head office (JPY37mn in FY08/17).

In FY08/16, the company used a significantly larger amount of net cash in investing activities, at JPY136mn. This figure was because of JPY40mn in expenditures for the acquisition of tangible fixed assets in line with the head office relocation and JPY89mn spent on security deposits and guarantees related to this relocation.

## Cash flows from financing activities

Strike's cash flows from financing activities mainly varied because of proceeds from the issuance of shares.

Strike raised JPY525mn through public offering at listing in June 2016, JPY108mn through a third-party placement in July 2016, and JPY737mn through public offering when changing its listing status in June 2017.

# Other information

## History

**Kunihiko Arai, previously an accountant, established the company in 1997 to help companies transform**

Strike's founder and current president, Kunihiko Arai, says that even as a student he wanted to start a company. At university, he believed that gaining accounting qualifications and experience would give him the chance to view a variety of companies from an accounting perspective, so he became a CPA. Thereafter, he joined Ohta Showa Audit Corporation (now Ernst & Young ShinNihon LLC), graduating from university after joining the company because he had focused on earning his accounting certification during his time in school. During his work as an accountant, he gained experience in M&A and was impressed by its potential to support corporate transformations and earn large amounts of fees. Based on this experience, in July 1997 he established Strike to focus on M&A brokerage.

**In 1999, Strike began full-fledged operations of SMART, Japan's first M&A brokerage site**

Strike's establishment coincided with the spread of the internet. Shortly after establishing the company, Mr. Arai discovered a US M&A website listing a restaurant in California with sales of USD1mn. This discovery stoked his awareness of the possibilities of online M&A matching for small companies. As Strike was newly established, it also lacked the ability to search for potential buyers. Mr. Arai learned programming, and in October 1998 Strike launched Japan's first independent M&A brokerage site, SMART. Thus the company gained a head start in using websites for M&A matching, a factor that distinguishes Strike today.

**In 2000, the company performed its first business succession deal for a business whose owner was told he had not long to live**

The company concluded no deals and booked no revenue from establishment until 2000. Mr. Arai explains that during that time, he made ends meet by applying his accounting certification and working as a subcontractor for accounting offices.

The company says it received its first deal in 1999. Arriving via the website, this was a business succession for a company with sales of around JPY400mn. The owner of the business was told he had not long to live, and Mr. Arai was unsure whether he could find a buyer for such a small company. That said, he had not received any other deals since establishing the company, so he decided to take on the project.

Two years after taking on the deal, Mr. Arai finally closed it in December 2000. He noted that this gave the owner's wife much relief. At that point, Mr. Arai began to realize that Strike's work could have an important human role, as well. This idea lives on in Strike's current corporate philosophy of "building people, serving people."

**Since 2000, the company has grown by overcoming such hurdles as the global financial crisis and the Great East Japan Earthquake**

Since closing its first deal in 2000, Strike's performance has expanded as revenue and the number of consultants has grown. Although revenue dropped due to buyers' diminished interested in M&A following the global financial crisis of 2008 and the Great East Japan Earthquake of 2011, Strike did not move into the red. In addition, since 2000, Strike has experienced the difficulty that comes with the departure of employees who had made significant contributions since the company's founding.

In the late 2000s, other M&A brokers listed their shares. Mr. Arai began to think that over the long term the M&A brokerage business would polarize into large listed companies and boutique firms, including individual proprietorships. Choosing the boutique path, Strike listed its shares on the Mothers market in June 2016, changing its listing to the First Section of the Tokyo Stock Exchange in June 2017.

| Date | Activity |
|---|---|
| Jul. 1997 | Business established in Adachi-ku, Tokyo, to handle M&A brokerage business |
| Jan. 1999 | Commenced full-scale operation of SMART, Japan's first M&A brokerage site |
| 2012 | Opened sales offices in Osaka, Sapporo, Sendai, Fukuoka, and Takamatsu |
| Jan. 2013 | Opened the Nagoya sales office |
| Mar. 2014 | Entered business alliance with cooperative societies of certified public tax accountants |
| Jul. 2015 | Launched M&A online, a website specializing in M&A information |
| Aug. 2015 | Entered business alliance with Daido Life Insurance Company |
| Feb. 2016 | Entered business alliance with cooperative societies of certified public accountants |
| Jun. 2016 | Listed on the Mothers market of the Tokyo Stock Exchange |
| Jun. 2017 | Changed listing to the First Section of the Tokyo Stock Exchange |

## News and topics

### April 2018

On **April 16, 2018**, the company announced a stock split, a partial revision of its Articles of Incorporation following the split, and a revision to its FY08/18 dividend forecast.

Strike resolved at the Board of Directors meeting held on the same day to conduct two-for-one stock split with May 31, 2018 as the record date, effective June 1, 2018. Accordingly, the company has revised the FY08/18 year-end dividend forecast after this stock split from JPY18.0 per share to JPY9.0 per share.

### March 2018

On **March 19, 2018**, the company announced a revision to its 1H FY08/18 earnings forecasts.

Revision to 1H FY08/18 forecasts

- Revenue: JPY1.6bn (previous forecast: JPY1.8bn)
- Operating profit: JPY492mn (JPY637mn)
- Recurring profit: JPY492mn (JPY638mn)
- Net income: JPY331mn (JPY436mn)
- EPS: JPY34.23 (JPY45.12)

*Net income refers to net income attributable to parent company shareholders

Reasons for the revision

In 1H FY08/18, the number of newly assigned deals have increased, and Strike expects to close a record high number of deals. However, since the closing of a large deal was pushed back to 2H, the company revised down its revenue forecast to JPY1.6bn. Operating profit, recurring profit, and net income were also revised down to JPY492mn, JPY492mn, and JPY331mn, respectively. In addition to the effect of delay in booking revenue for the large deal, an increase in personnel expenses from hiring consultants, and expenses associated with the move and expansion of sales offices have weighed down profits.

The dividend forecast and the earnings forecasts for full-year FY08/18 remain unchanged, as the company expects the large deal mentioned above to close in Q3.

# Corporate governance and top management

## Corporate governance

Strike is a company with a Board of Auditors. The Board of Directors is composed of six members, including two outside directors. The board holds regular monthly meetings, as well as extraordinary meetings, as needed. The board addresses matters prescribed by laws, regulations, and the Articles of Incorporation and in line with the Board of Directors regulations, making decisions on Strike's execution of operations and supervising the performance of activities of the directors.

### Corporate governance

| Organization and capital structure | |
|---|---|
| Organizational form | Company with Audit & Supervisory Board |
| Controlling interests | N |
| Parent company's ticker | — |
| **Directors** | |
| Number of directors (per Articles of Incorporation) | 7 |
| Directors' term of office (per Articles of Incorporation) | 2 years |
| Number outside directors (independent executives) | 2 |
| **Other** | |
| Participation in electronic platform for the exercise of voting rights | N |
| Provision of English-language convocation notice (summary) | N |
| Disclosure of director compensations | Totals for directors and for auditors disclosed |
| Policy for determining amount or method of calculating compensations | Y |
| Corporate takeover defenses | N |

## Top management

**Kunihiko Arai, President and CEO**

President Kunihiko Arai joined Ohta Showa Audit Corporation (now Ernst & Young ShinNihon LLC) in April 1993. Having repeated a year of university while he was studying to get his CPA certification, he graduated from Hitotsubashi University's Faculty of Commerce and Management later, in March 1994. In July 1997, he established Strike and became the company's president and CEO (current position). He was appointed as auditor of Tein, Inc., in June 1999 (stepped down in June 2004), auditor of Amuse, Inc., in June 2005 (stepped down in June 2013) and director of CellBank Corp. in October 2005 (stepped down in January 2015).

# Major shareholders

| Top shareholders | Shares held | Shareholding ratio |
|---|---|---|
| K&Company Inc. | 2,700,000 | 27.90% |
| Kunihiko Arai | 2,048,900 | 21.17% |
| Sumitomo Mitsui Trust Bank, Limited | 402,000 | 4.15% |
| Tatsuya Ishizuka | 350,000 | 3.62% |
| Nobuo Suzuki | 290,000 | 3.00% |
| Daido Life Insurance Company | 249,000 | 2.57% |
| Kazuya Kaneda | 200,000 | 2.07% |
| Keishi Ishigaki | 131,500 | 1.36% |
| Koichi Nakamura | 120,000 | 1.24% |
| Dai Shibuya | 114,000 | 1.18% |
| SUM | 6,605,400 | 68.26% |

Source: Shared Research based on company data
Note: As of August 31, 2017

## Profile

| Company name | Head office |
|---|---|
| Strike Co., Ltd. | 1-9-2 Otemachi, Chiyoda-ku, Tokyo |
| **Phone** | **Exchange listing** |
| +81-3-6865-7799 | TSE First Section |
| **Established** | **Listed on** |
| July 1997 | June 2016 |
| **Website** | **Fiscal year-end** |
| http://www.Strike.co.jp/index.html | August |
| **IR contact** | **IR web** |
| - | https://www.strike.co.jp/ir/index_en.html |

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Grandy House Corporation
Hakuto Co., Ltd.
Happinet Corporation
Harmonic Drive Systems Inc.
HOUSEDO Co., Ltd.
IDOM Inc.
IGNIS LTD.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
istyle Inc.
Itochu Enex Co., Ltd.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kenedix, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
Milbon Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
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NS TOOL CO., LTD.
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