



## Matsui Securities / 8628

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## Key financial data

Income statement (JPYmn)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
	Cons.	Cons.	Cons.	Cons.	Parent	Parent	Parent	Parent	Parent	Parent
<b>Operating revenue</b>	<b>26,724</b>	<b>24,346</b>	<b>22,091</b>	<b>17,703</b>	<b>20,799</b>	<b>39,883</b>	<b>34,306</b>	<b>34,435</b>	<b>27,727</b>	<b>32,210</b>
YoY	-33.0%	-8.9%	-9.3%	-19.9%	17.5%	91.8%	-14.0%	0.4%	-19.5%	16.2%
<b>Net operating revenue</b>	<b>24,464</b>	<b>23,276</b>	<b>21,320</b>	<b>16,728</b>	<b>19,915</b>	<b>38,738</b>	<b>32,893</b>	<b>33,003</b>	<b>26,499</b>	<b>30,480</b>
YoY	-33.3%	-4.9%	-8.4%	-21.5%	19.1%	94.5%	-15.1%	0.3%	-19.7%	15.0%
GPM	91.5%	95.6%	96.5%	94.5%	95.7%	97.1%	95.9%	95.8%	95.6%	94.6%
<b>Operating profit</b>	<b>9,943</b>	<b>11,385</b>	<b>8,450</b>	<b>7,368</b>	<b>10,195</b>	<b>27,090</b>	<b>22,087</b>	<b>21,745</b>	<b>14,939</b>	<b>18,532</b>
YoY	-51.9%	14.5%	-25.8%	-12.8%	38.4%	165.7%	-18.5%	-1.5%	-31.3%	24.1%
OPM	37.2%	46.8%	38.3%	41.6%	49.0%	67.9%	64.4%	63.1%	53.9%	57.5%
<b>Recurring profit</b>	<b>9,998</b>	<b>11,545</b>	<b>8,479</b>	<b>7,426</b>	<b>10,245</b>	<b>27,175</b>	<b>22,202</b>	<b>21,833</b>	<b>15,044</b>	<b>18,632</b>
YoY	-51.8%	15.5%	-26.6%	-12.4%	38.0%	165.3%	-18.3%	-1.7%	-31.1%	23.9%
RPM	37.4%	47.4%	38.4%	41.9%	49.3%	68.1%	64.7%	63.4%	54.3%	57.8%
<b>Net income</b>	<b>6,921</b>	<b>7,661</b>	<b>5,410</b>	<b>4,263</b>	<b>6,427</b>	<b>16,300</b>	<b>15,571</b>	<b>14,763</b>	<b>10,697</b>	<b>12,908</b>
YoY	-45.8%	10.7%	-29.4%	-21.2%	50.8%	153.6%	-4.5%	-5.2%	-27.5%	20.7%
Net margin	25.9%	31.5%	24.5%	24.1%	30.9%	40.9%	45.4%	42.9%	38.6%	40.1%
<b>Per share data</b>										
Shares issued (year end; '000)	269,260	269,260	269,265	269,265	269,265	269,265	269,265	259,265	259,265	259,265
EPS	26.4	29.8	21.1	16.6	25.0	63.5	60.7	57.5	41.7	50.3
EPS (fully diluted)	23.5	27.0	19.9	-	-	-	60.6	57.5	41.7	50.2
Dividend per share	10.0	15.0	15.0	15.0	20.0	50.0	40.0	45.0	33.0	44.0
Book value per share	269.1	289.0	295.1	296.7	314.9	332.5	350.6	361.0	369.0	384.1
<b>Balance sheet (JPYmn)</b>										
Cash and cash equivalents	15,839	15,191	17,882	16,479	8,857	12,166	15,717	26,569	25,743	36,256
Cash segregated as deposits	237,989	246,018	237,094	227,911	300,116	341,812	462,912	375,812	467,212	455,512
Margin transaction assets	115,246	156,429	142,281	135,011	252,751	282,225	284,207	232,043	245,202	310,574
<b>Total current assets</b>	<b>465,067</b>	<b>457,814</b>	<b>423,210</b>	<b>413,808</b>	<b>602,447</b>	<b>678,743</b>	<b>808,528</b>	<b>655,217</b>	<b>761,510</b>	<b>826,368</b>
Tangible fixed assets	1,125	1,115	1,160	1,047	927	998	1,039	953	958	845
Investments and other assets	2,300	1,912	2,830	2,191	4,158	5,886	4,765	4,256	4,129	4,640
Intangible fixed assets	3,653	5,247	4,529	4,018	3,271	2,726	2,850	2,999	4,118	4,465
<b>Total assets</b>	<b>472,145</b>	<b>466,089</b>	<b>431,729</b>	<b>421,063</b>	<b>610,804</b>	<b>688,353</b>	<b>817,183</b>	<b>663,425</b>	<b>770,716</b>	<b>836,318</b>
Deposits received	124,623	132,559	119,354	117,814	151,654	178,071	261,516	200,271	272,048	253,016
Guarantee deposits received	135,112	133,458	122,989	113,646	149,923	176,619	207,098	182,641	205,409	207,875
Short-term debt	33,330	63,538	62,020	56,550	137,525	176,100	164,600	128,050	126,100	187,600
<b>Total current liabilities</b>	<b>369,013</b>	<b>389,997</b>	<b>354,662</b>	<b>343,603</b>	<b>528,430</b>	<b>600,058</b>	<b>724,237</b>	<b>567,151</b>	<b>672,527</b>	<b>734,322</b>
Long-term debt	31,104	20	-	25	-	150	50	-	150	50
<b>Total fixed liabilities</b>	<b>31,759</b>	<b>225</b>	<b>207</b>	<b>232</b>	<b>433</b>	<b>1,009</b>	<b>257</b>	<b>208</b>	<b>358</b>	<b>258</b>
<b>Total liabilities</b>	<b>403,054</b>	<b>391,886</b>	<b>355,977</b>	<b>344,902</b>	<b>529,963</b>	<b>602,988</b>	<b>727,155</b>	<b>570,707</b>	<b>675,896</b>	<b>737,567</b>
<b>Net assets</b>	<b>69,090</b>	<b>74,203</b>	<b>75,752</b>	<b>76,161</b>	<b>80,841</b>	<b>85,365</b>	<b>90,029</b>	<b>92,718</b>	<b>94,820</b>	<b>98,751</b>
Total interest-bearing debt	64,434	63,558	62,020	56,575	137,525	176,250	164,650	128,050	126,250	187,650
<b>Cash flow statement (JPYmn)</b>										
Cash flows from operating activities	102,118	-44,912	8,639	10,388	-74,775	-18,060	21,871	43,431	11,510	-39,665
Cash flows from investing activities	-1,431	-3,272	-1,272	-1,439	-791	-1,142	2,068	-824	-2,014	-2,067
Cash flows from financing activities	-74,828	-3,265	-5,310	-9,310	77,102	25,910	-21,867	-48,147	-10,269	51,908
<b>Financial ratios</b>										
ROA (RP-based)	2.0%	2.5%	1.9%	1.7%	2.0%	4.2%	2.9%	2.9%	2.1%	2.3%
ROE	9.2%	10.7%	7.2%	5.6%	8.2%	19.6%	17.8%	16.2%	11.4%	13.4%
Equity ratio	14.6%	15.9%	17.5%	18.1%	13.2%	12.4%	11.0%	14.0%	12.3%	11.8%

Source: Shared Research based on company data

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

Note: The company does not disclose earnings forecasts. Dividend forecast for FY03/19 is undecided.

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## Recent updates

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### Highlights

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On **January 28, 2019**, Matsui Securities Co., Ltd. announced earnings results for Q3 FY03/19; see the results section for details.

On **the same day**, the company announced that it had reached an agreement to enter into a capital and business alliance with Smart Trade Inc.

Founded in May 2016, Smart Trade Inc. is capitalized at JPY32mn (as of January 2019). Its main business is *QuantX*, a platform that allows developers of quantitative stock trading algorithms to sell the programs they have developed to individual investors. QuantX has thus far facilitated the development, sale, and operation of more than 1,400 different trading algorithms from more than 600 different developers and is constantly adding new trading algorithms to its lineup. Using QuantX, individual investors are able to buy trading algorithms that will generate buy and sell signals (based on projected stock prices) to help guide their trading.

Under the terms of the business alliance, Matsui Securities will include QuantX on its menu of helpful data tools available to its clients for stock trading with the aim of increasing the volume of trading done by its brokerage customers. Under the terms of business and capital alliance the two companies entered into in January 2019, Matsui Securities will also take a JPY19mn equity stake in Smart Trade through a third-party allocation of new shares.

On **December 6, 2018**, the company announced its plan to renew the FX service.

The company announced its plan to revamp the FX (forex margin transactions) service in March 2019 (tentative). In addition to improving the trading channels including computers and smartphones, the company plans to expand the number of currency pairs available for trading, lower currency units for trading, and introduce a function that enables customers to set the maximum leverage.

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

## Trends and outlook

### Quarterly trends and results

Cumulative (JPYmn)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating revenue	7,215	14,586	23,327	32,210	7,462	14,389	21,505	
YoY	-3.3%	6.1%	12.5%	16.2%	3.4%	-1.4%	-7.8%	
Net operating revenue	6,896	13,852	22,023	30,480	7,143	13,777	20,523	
YoY	-4.4%	4.6%	11.0%	15.0%	3.6%	-0.5%	-6.8%	
Commissions	4,334	8,517	13,751	18,968	4,034	7,756	11,756	
YoY	-5.2%	1.0%	6.7%	9.9%	-6.9%	-8.9%	-14.5%	
Brokerage commissions	4,152	8,149	13,232	18,250	3,848	7,391	11,231	
YoY	-3.6%	3.0%	9.0%	12.2%	-7.3%	-9.3%	-15.1%	
Equity and ETF	3,913	7,686	12,477	17,144	3,617	6,912	10,421	
YoY	-2.4%	3.9%	9.6%	12.4%	-7.6%	-10.1%	-16.5%	
Futures and options	240	464	755	1,106	231	479	810	
YoY	-19.5%	-10.4%	-0.7%	9.4%	-3.8%	3.2%	7.3%	
Other commissions	181	360	508	698	164	341	484	
YoY	-31.7%	-31.2%	-31.1%	-28.7%	-9.4%	-5.3%	-4.7%	
Net trading income	138	432	743	1,201	364	670	980	
YoY	-	-	-	-	163.8%	55.1%	31.9%	
Net interest income	2,423	4,902	7,528	10,310	2,744	5,349	7,787	
YoY	-8.2%	2.1%	8.3%	11.6%	13.2%	9.1%	3.4%	
SG&A expenses	2,931	5,856	8,923	11,949	3,006	5,990	9,278	
YoY	-7.9%	-1.1%	2.5%	3.4%	2.6%	2.3%	4.0%	
SG&A expenses / Net operating revenue	42.5%	42.3%	40.5%	39.2%	42.1%	43.5%	45.2%	
Operating profit	3,964	7,996	13,099	18,532	4,136	7,787	11,245	
YoY	-1.6%	9.2%	17.7%	24.1%	4.3%	-2.6%	-14.2%	
Operating profit / Net operating revenue	57.5%	57.7%	59.5%	60.8%	57.9%	56.5%	54.8%	
Recurring profit	4,016	8,051	13,200	18,632	4,216	7,869	11,380	
YoY	-1.7%	9.1%	17.4%	23.9%	5.0%	-2.3%	-13.8%	
Recurring profit / Net operating revenue	58.2%	58.1%	59.9%	61.1%	59.0%	57.1%	55.4%	
Net income	2,780	5,570	9,136	12,908	2,930	5,465	7,882	
YoY	-1.7%	9.1%	17.5%	20.7%	5.4%	-1.9%	-13.7%	
Net income / Net operating revenue	40.3%	40.2%	41.5%	42.3%	41.0%	39.7%	38.4%	

Quarterly performance (JPYmn)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating revenue	7,215	7,371	8,741	8,883	7,462	6,927	7,116	
YoY	-3.3%	17.3%	25.2%	26.9%	3.4%	-6.0%	-18.6%	
Net operating revenue	6,896	6,957	8,170	8,458	7,143	6,634	6,747	
YoY	-4.4%	15.4%	23.9%	27.0%	3.6%	-4.6%	-17.4%	
Commissions	4,334	4,183	5,234	5,217	4,034	3,723	3,999	
YoY	-5.2%	8.3%	17.7%	19.4%	-6.9%	-11.0%	-23.6%	
Brokerage commissions	4,152	3,997	5,082	5,018	3,848	3,543	3,840	
YoY	-3.6%	10.9%	20.2%	21.8%	-7.3%	-11.4%	-24.4%	
Equity and ETF	3,913	3,773	4,791	4,667	3,617	3,295	3,510	
YoY	-2.4%	11.5%	20.2%	20.6%	-7.6%	-12.7%	-26.7%	
Futures and options	240	224	291	352	231	248	331	
YoY	-19.5%	1.8%	20.2%	40.2%	-3.8%	10.7%	13.7%	
Other commissions	181	180	148	190	164	177	143	
YoY	-31.7%	-30.2%	-30.8%	-21.5%	-9.4%	-1.7%	-3.4%	
Net trading income	138	294	311	458	364	306	309	
YoY	-	-	-	-	163.8%	4.1%	-0.6%	
Net interest income	2,423	2,479	2,625	2,783	2,744	2,605	2,437	
YoY	-8.2%	14.5%	22.3%	21.5%	13.2%	5.1%	-7.2%	
SG&A expenses	2,931	2,925	3,067	3,025	3,006	2,984	3,288	
YoY	-7.9%	6.9%	10.2%	5.9%	2.6%	2.0%	7.2%	
SG&A expenses / Net operating revenue	42.5%	42.0%	37.5%	35.8%	42.1%	45.0%	48.7%	
Operating profit	3,964	4,032	5,103	5,433	4,136	3,651	3,458	
YoY	-1.6%	22.5%	33.8%	42.8%	4.3%	-9.4%	-32.2%	
Operating profit / Net operating revenue	57.5%	58.0%	62.5%	64.2%	57.9%	55.0%	51.3%	
Recurring profit	4,016	4,034	5,150	5,431	4,216	3,653	3,511	
YoY	-1.7%	22.4%	33.4%	42.7%	5.0%	-9.4%	-31.8%	
Recurring profit / Net operating revenue	58.2%	58.0%	63.0%	64.2%	59.0%	55.1%	52.0%	
Net income	2,780	2,790	3,566	3,773	2,930	2,535	2,417	
YoY	-1.7%	22.5%	33.4%	29.3%	5.4%	-9.1%	-32.2%	
Net income / Net operating revenue	40.3%	40.1%	43.6%	44.6%	41.0%	38.2%	35.8%	

Source: Shared Research based on company data

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

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

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

**SG&A breakdown**

SG&A breakdown (cumulative)		FY03/18				FY03/19			
(JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total SG&A expenses		2,931	5,856	8,923	11,949	3,006	5,990	9,278	
YoY		-7.9%	-1.1%	2.5%	3.4%	2.6%	2.3%	4.0%	
Trading related expenses		1,093	2,176	3,375	4,592	1,042	2,058	3,243	
YoY		2.4%	4.0%	5.8%	5.7%	-4.7%	-5.4%	-3.9%	
Stock exchange and association fees		364	720	1,121	1,527	316	616	940	
YoY		-1.6%	2.9%	7.0%	8.4%	-13.2%	-14.4%	-16.1%	
Telecom and transportation		416	833	1,256	1,699	422	842	1,273	
YoY		1.5%	2.1%	1.7%	1.6%	1.4%	1.1%	1.4%	
Advertising		117	236	405	536	122	227	412	
YoY		15.8%	15.7%	13.8%	0.9%	4.3%	-3.8%	1.7%	
Personnel expenses		581	1,169	1,770	2,364	610	1,223	2,025	
YoY		3.9%	4.7%	5.5%	6.2%	5.0%	4.6%	14.4%	
Office expenses		216	432	635	845	210	423	638	
YoY		-4.4%	-3.4%	-4.7%	-5.2%	-2.8%	-2.1%	0.5%	
Office expenses		508	1,046	1,563	2,104	569	1,123	1,745	
YoY		15.7%	19.7%	15.9%	14.3%	12.0%	7.4%	11.6%	
Depreciation		363	750	1,146	1,549	413	837	1,265	
YoY		16.3%	18.3%	22.0%	22.3%	13.8%	11.6%	10.4%	
Other SG&A expenses		170	283	434	495	162	326	362	
Taxes and dues		101	194	295	406	101	189	273	
Provision for doubtful account		20	24	41	-29	14	65	-13	
Other		49	64	98	117	47	71	103	

SG&A breakdown		FY03/18				FY03/19			
(JPYmn)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total SG&A expenses		2,931	2,925	3,067	3,025	3,006	2,984	3,288	
YoY		-7.9%	6.9%	10.2%	5.9%	2.6%	2.0%	7.2%	
Trading related expenses		1,093	1,083	1,198	1,218	1,042	1,016	1,185	
YoY		2.4%	5.5%	9.1%	5.5%	-4.7%	-6.2%	-1.1%	
Stock exchange and association fees		364	356	401	405	316	299	324	
YoY		-1.6%	8.2%	15.2%	12.2%	-13.2%	-16.0%	-19.2%	
Telecom and transportation		416	418	423	443	422	420	432	
YoY		1.5%	3.0%	1.2%	1.4%	1.4%	0.5%	2.1%	
Advertising		117	119	169	131	122	105	184	
YoY		15.8%	16.7%	10.5%	-24.7%	4.3%	-11.8%	8.9%	
Personnel expenses		581	589	601	594	610	613	802	
YoY		3.9%	5.7%	7.1%	8.2%	5.0%	4.1%	33.4%	
Office expenses		216	216	203	209	210	213	215	
YoY		-4.4%	-2.3%	-7.3%	-7.1%	-2.8%	-1.4%	5.9%	
Office expenses		508	538	517	541	569	553	623	
YoY		15.7%	23.7%	9.1%	10.0%	12.0%	2.8%	20.5%	
Depreciation		363	387	396	403	413	424	428	
YoY		16.3%	20.2%	29.8%	22.9%	13.8%	9.6%	8.1%	
Other SG&A expenses		170	112	152	60	162	165	35	
Taxes and dues		101	93	101	111	101	89	84	
Provision for doubtful account		20	4	17	-70	14	51	-79	
Other		49	16	34	19	47	24	32	

Source: Shared Research based on company data

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

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

**Outline of operations**

Cumulative	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Trading value (JPYtn)	8.6	16.5	26.2	35.6	7.9	14.6	21.9	
YoY	-6.8%	-7.1%	-0.1%	2.7%	-8.4%	-11.6%	-16.6%	
Market share	12.3%	12.0%	11.5%	11.2%	10.9%	10.5%	10.3%	
Excl. Margin Trading Service for Day-trades (JPYtn)	3.9	7.5	12.4	17.1	3.7	6.8	10.2	
YoY	-0.6%	4.6%	11.5%	14.2%	-5.7%	-9.4%	-18.1%	
Composition	45.2%	45.6%	47.4%	48.0%	46.6%	46.7%	46.5%	
Margin Trading Service for Day-trades (JPYtn)	4.7	9.0	13.8	18.5	4.2	7.8	11.7	
YoY	-11.3%	-15.1%	-8.6%	-6.1%	-10.6%	-13.3%	-15.2%	
Composition	54.8%	54.4%	52.6%	52.0%	53.4%	53.3%	53.5%	
<b>Equity brokerage commission rate</b>								
Equity brokerage commission rate	0.043%	0.046%	0.048%	0.048%	0.046%	0.047%	0.048%	
Equity brokerage commission rate (ex. Margin Trading Service for Day-trades)	0.101%	0.102%	0.100%	0.100%	0.099%	0.101%	0.102%	
<b>Margin trading balance and market share (long transactions)</b>								
Margin trading balance (JPYbn)	278.7	281.9	323.5	337.3	318.5	279.2	241.1	
YoY	24.3%	22.2%	34.1%	19.5%	14.3%	-1.0%	-25.5%	
Market share (long position)	8.9%	8.9%	9.0%	8.9%	8.7%	8.7%	8.7%	
<b>Average margin trading balance and net interest income rate</b>								
Average margin trading balance (JPYbn)	265.3	272.2	281.7	294.4	323.2	308.1	298.6	
YoY	6.7%	15.2%	19.9%	22.2%	21.8%	13.2%	6.0%	
Net interest income rate	3.7%	3.6%	3.6%	3.5%	3.4%	3.5%	3.5%	
<b>Quarterly</b>								
	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Trading value (JPYtn)	8.6	7.9	9.7	9.4	7.9	6.8	7.3	
YoY	-6.8%	-7.5%	14.8%	11.2%	-8.4%	-15.0%	-25.1%	
Market share	12.3%	11.6%	10.7%	10.6%	10.9%	10.1%	9.9%	
Excl. Margin Trading Service for Day-trades (JPYtn)	3.9	3.6	4.9	4.7	3.7	3.2	3.4	
YoY	-0.6%	10.8%	24.1%	21.9%	-5.7%	-13.4%	-31.4%	
% of trading value	45.2%	45.9%	50.5%	49.9%	46.6%	46.7%	46.2%	
Margin Trading Service for Day-trades (JPYtn)	4.7	4.3	4.8	4.7	4.2	3.6	3.9	
YoY	-11.3%	-18.9%	6.7%	2.2%	-10.6%	-16.3%	-18.8%	
% of trading value	54.8%	54.1%	49.5%	50.1%	53.4%	53.3%	53.8%	
<b>Equity brokerage commission rate</b>								
Equity brokerage commission rate	0.045%	0.047%	0.049%	0.050%	0.046%	0.049%	0.048%	
Equity brokerage commission rate (ex. Margin Trading Service for Day-trades)	0.099%	0.100%	0.096%	0.098%	0.096%	0.101%	0.102%	
<b>Margin trading balance and market share (long position)</b>								
Margin trading balance (JPYbn)	278.7	281.9	323.5	337.3	318.5	279.2	241.1	
YoY	24.3%	22.2%	34.1%	19.5%	14.3%	-1.0%	-25.5%	
Market share (long position)	8.9%	8.9%	9.2%	8.7%	8.7%	8.6%	9.0%	
<b>Average margin trading balance and net interest income rate</b>								
Average margin trading balance (JPYbn)	265.3	279.0	300.6	333.3	323.2	293.2	279.7	
YoY	6.7%	24.6%	29.2%	28.5%	21.8%	5.1%	-7.0%	
Net interest income rate	3.7%	3.6%	3.5%	3.3%	3.4%	3.6%	3.5%	

Source: Shared Research based on company data

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

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

**Customer trends**

	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total accounts ('000)	1,104	1,113	1,122	1,136	1,147	1,157	1,170	
YoY	3.7%	3.7%	3.7%	3.8%	3.9%	3.9%	4.3%	
Trading accounts ('000)	146	141	150	141	134	129	145	
YoY	1.0%	15.3%	-3.8%	-4.4%	-8.6%	-8.4%	-3.3%	
Assets under customers' accounts (JPYbn)	2,408	2,451	2,582	2,524	2,535	2,601	2,243	
YoY	21.9%	20.3%	14.3%	11.0%	5.2%	6.1%	-13.2%	
Monthly trading turnover	1.30	1.15	1.36	1.30	1.10	0.94	1.08	

Source: Shared Research based on company data

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

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

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

('000)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SBI Securities	3,923	4,005	4,110	4,261	4,362	4,448		
YoY	8.3%	8.9%	9.8%	11.0%	11.2%	11.1%		
Rakuten Securities	-	2,372	-	2,611	-	2,858		
YoY	-	11.7%	-	16.0%	-	20.5%		
Monex, Inc.	1,710	1,726	1,742	1,761	1,780	1,793		
YoY	3.6%	3.7%	3.7%	3.8%	4.1%	3.9%		
Matsui Securities	1,104	1,113	1,122	1,136	1,147	1,157		
YoY	3.7%	3.7%	3.7%	3.8%	3.9%	3.9%		
kabu.com Securities	1,058	1,068	1,078	1,087	1,096	1,103		
YoY	4.4%	4.1%	4.1%	3.7%	3.6%	3.2%		

Source: Shared Research based on various company data

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

## Assets under customers' accounts at five major online brokers

(JPYbn)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SBI Securities	9,805	10,369	10,961	11,426	11,378	12,028		
YoY	25.2%	25.0%	23.4%	21.7%	16.0%	16.0%		
Rakuten Securities	4,369	4,584	4,946	5,026	5,184	5,515		
YoY	26.8%	28.7%	26.4%	22.6%	18.7%	20.3%		
Monex, Inc.	3,977	4,099	4,328	4,229	4,283	4,409		
YoY	20.3%	18.7%	13.9%	11.2%	7.7%	7.6%		
Matsui Securities	2,408	2,451	2,582	2,524	2,535	2,601		
YoY	21.9%	20.3%	14.3%	11.0%	5.2%	6.1%		
kabu.com Securities	2,241	2,277	2,413	2,336	2,365	2,396		
YoY	20.1%	18.8%	14.5%	10.2%	5.5%	5.2%		

Source: Shared Research based on various company data

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

## Equity trading value at five major online brokers

Quarterly (JPYtn)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Retail investors trading value on TSE and NSE	69.6	68.6	90.2	88.9	72.2	66.9		
YoY	2.1%	10.0%	30.8%	34.2%	3.7%	-2.5%		
SBI Securities	24.0	24.1	31.7	31.4	25.9	24.4		
YoY	-1.3%	7.5%	36.3%	39.6%	8.0%	1.2%		
% of total retail investors trading value	34.5%	35.1%	35.2%	35.4%	35.9%	36.4%		
Rakuten Securities	11.2	11.2	14.5	15.0	12.7	12.6		
YoY	7.9%	18.0%	43.5%	44.0%	13.7%	12.8%		
% of total retail investors trading value	16.1%	16.3%	16.1%	16.9%	17.6%	18.8%		
Monex, Inc.	3.8	3.6	4.6	4.7	3.8	3.5		
YoY	12.8%	17.0%	31.0%	42.1%	-0.5%	-3.2%		
% of total retail investors trading value	5.5%	5.2%	5.1%	5.3%	5.3%	5.2%		
Matsui Securities	8.5	8.0	9.5	9.5	7.9	6.8		
YoY	-6.9%	-7.3%	14.5%	11.5%	-7.9%	-15.5%		
% of total retail investors trading value	12.3%	11.6%	10.6%	10.7%	10.9%	10.1%		
kabu.com Securities	6.2	6.1	7.8	7.8	6.4	5.9		
YoY	5.4%	7.5%	31.6%	28.1%	3.4%	-3.4%		
% of total retail investors trading value	8.8%	8.8%	8.7%	8.8%	8.8%	8.7%		

Source: Shared Research based on various company data

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

## Equity trading value per account at five major online brokers

(JPYmn)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SBI Securities	6.19	6.08	7.81	7.51	6.01	5.54		
YoY	-8.6%	-1.0%	24.6%	26.4%	-2.8%	-8.9%		
Rakuten Securities	4.98	4.72	6.13	5.76	4.88	4.41		
YoY	-2.2%	5.7%	28.5%	24.2%	-2.0%	-6.4%		
Monex, Inc.	2.25	2.09	2.67	2.70	2.15	1.94		
YoY	8.8%	12.9%	26.3%	36.9%	-4.3%	-7.0%		
Matsui Securities	7.76	7.21	8.53	8.45	6.89	5.87		
YoY	-10.2%	-10.7%	10.4%	7.4%	-11.3%	-18.6%		
kabu.com Securities	5.84	5.70	7.31	7.22	5.82	5.33		
YoY	0.9%	3.1%	26.4%	23.3%	-0.2%	-6.6%		

Source: Shared Research based on various company data

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

## Brokerage commissions at five major online brokers

(JPYmn)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Five major online brokers total</b>	<b>21,494</b>	<b>21,317</b>	<b>25,930</b>	<b>25,118</b>	<b>20,054</b>	<b>19,295</b>		
YoY	0.2%	16.9%	25.2%	21.2%	-6.7%	-9.5%		
SBI Securities	7,785	7,814	9,618	9,304	7,667	7,572		
YoY	4.4%	21.2%	34.3%	25.8%	-1.5%	-3.1%		
Rakuten Securities	4,220	4,206	4,784	4,615	3,804	3,779		
YoY	-1.2%	20.6%	23.6%	14.2%	-9.9%	-10.2%		
Monex, Inc.	3,290	3,323	4,000	3,625	2,885	2,679		
YoY	-0.1%	14.1%	18.3%	17.1%	-12.3%	-19.4%		
Matsui Securities	4,152	3,997	5,082	5,018	3,848	3,543		
YoY	-3.6%	10.9%	20.2%	21.8%	-7.3%	-11.4%		
kabu.com Securities	2,047	1,977	2,446	2,556	1,850	1,722		
YoY	-3.2%	11.1%	18.5%	23.3%	-9.6%	-12.9%		

Source: Shared Research based on various company data

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

Note: Brokerage commissions include futures and options commissions.



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

(Basis points)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SBI Securities	3.2	3.2	3.0	3.0	3.0	3.1		
YoY change	0.2	0.4	-0.0	-0.3	-0.3	-0.1		
Rakuten Securities	3.8	3.8	3.3	3.1	3.0	3.0		
YoY change	-0.3	0.1	-0.5	-0.8	-0.8	-0.8		
Monex, Inc.	8.6	9.3	8.6	7.7	7.6	7.7		
YoY change	-1.1	-0.2	-0.9	-1.6	-1.0	-1.5		
Matsui Securities	4.9	5.0	5.3	5.3	4.9	5.2		
YoY change	0.2	0.8	0.3	0.4	0.0	0.2		
kabu.com Securities	3.3	3.3	3.1	3.3	2.9	2.9		
YoY change	-0.3	0.1	-0.3	-0.1	-0.4	-0.3		

Source: Shared Research based on various company data

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

Note: Brokerage commissions include futures and options commissions.

## Margin trading balance at five major online brokers

(JPYbn)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Margin trading balance on TSE and NSE</b>	<b>3,507</b>	<b>3,586</b>	<b>3,913</b>	<b>4,292</b>	<b>4,077</b>	<b>3,711</b>		
YoY	20.2%	23.6%	31.4%	23.2%	16.3%	3.5%		
SBI Securities	787	853	927	1,001	946	914		
YoY	37.8%	30.6%	43.7%	25.3%	20.2%	7.2%		
% of total margin trading balance	22.4%	23.8%	23.7%	23.3%	23.2%	24.6%		
Rakuten Securities	370	389	432	468	456	436		
YoY	38.3%	34.6%	41.6%	32.6%	23.5%	12.2%		
% of total margin trading balance	10.5%	10.8%	11.0%	10.9%	11.2%	11.8%		
Monex, Inc.	165	163	189	205	201	178		
YoY	14.6%	14.3%	25.8%	23.6%	21.5%	9.1%		
% of total margin trading balance	4.7%	4.6%	4.8%	4.8%	4.9%	4.8%		
Matsui Securities	278	274	315	332	315	284		
YoY	25.2%	20.4%	33.3%	19.4%	13.3%	3.3%		
% of total margin trading balance	7.9%	7.7%	8.1%	7.7%	7.7%	7.6%		
kabu.com Securities	240	304	272	336	263	301		
YoY	30.9%	23.9%	44.6%	13.5%	9.9%	-1.1%		
% of total margin trading balance	6.8%	8.5%	6.9%	7.8%	6.5%	8.1%		

Source: Shared Research based on various company data

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

## Margin trading balance per account at five major online brokers

(JPYmn)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
SBI Securities	0.20	0.21	0.23	0.23	0.22	0.21		
YoY change	27.3%	20.0%	30.9%	12.9%	8.1%	-3.5%		
Rakuten Securities	0.16	0.16	0.18	0.18	0.17	0.15		
YoY change	25.3%	20.6%	26.9%	14.3%	6.4%	-6.9%		
Monex, Inc.	0.10	0.09	0.11	0.12	0.11	0.10		
YoY change	10.6%	10.2%	21.3%	19.1%	16.7%	5.0%		
Matsui Securities	0.25	0.25	0.28	0.29	0.27	0.25		
YoY change	20.7%	16.1%	28.5%	15.0%	9.0%	-0.5%		
kabu.com Securities	0.23	0.28	0.25	0.31	0.24	0.27		
YoY change	25.4%	18.9%	38.9%	9.5%	6.1%	-4.2%		

Source: Shared Research based on various company data

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

## Financial income at top five online brokerages

(JPYmn)	FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Five major online brokers total</b>	<b>22,882</b>	<b>24,205</b>	<b>27,862</b>	<b>26,375</b>	<b>26,842</b>	<b>24,942</b>		
YoY	17.3%	38.6%	40.5%	27.2%	17.3%	3.0%		
SBI Securities	9,761	10,854	12,339	11,759	11,485	11,144		
YoY	29.4%	51.1%	52.0%	35.2%	17.7%	2.7%		
Financial income / Margin trading balance	1.2%	1.3%	1.4%	1.2%	1.2%	1.2%		
Rakuten Securities	4,592	5,345	5,911	5,921	5,906	5,630		
YoY	20.2%	44.4%	44.0%	42.1%	28.6%	5.3%		
Financial income / Margin trading balance	1.3%	1.4%	1.4%	1.3%	1.3%	1.3%		
Monex, Inc.	2,888	2,393	2,980	2,519	3,246	2,565		
YoY	12.2%	28.0%	22.0%	-5.7%	12.4%	7.2%		
Financial income / Margin trading balance	1.7%	1.5%	1.7%	1.3%	1.6%	1.4%		
Matsui Securities	2,743	2,893	3,196	3,208	3,064	2,897		
YoY	-5.1%	19.5%	26.3%	22.1%	11.7%	0.1%		
Financial income / Margin trading balance	1.0%	1.0%	1.1%	1.0%	0.9%	1.0%		
kabu.com Securities	2,898	2,720	3,436	2,968	3,141	2,706		
YoY	8.0%	19.1%	30.2%	15.5%	8.4%	-0.5%		
Financial income / Margin trading balance	1.1%	1.0%	1.2%	1.0%	1.0%	1.0%		

Source: Shared Research based on various company data

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

## Q3 FY03/19 results

The results for the nine-month period through Q3 FY03/19 (April–December 2018) were as follows:

- ▷ Operating revenue: JPY21.5bn (-7.8% YoY)
  - ▷ Net operating revenue: JPY20.5bn (-6.8% YoY)
  - ▷ Operating profit: JPY11.2bn (-14.2% YoY)
  - ▷ Recurring profit: JPY11.4bn (-13.8% YoY)
  - ▷ Net income: JPY7.9bn (-13.7% YoY)
- 
- ▷ Market environment: Aggregate equity trading value at the Tokyo and Nagoya stock exchanges increased 3% YoY during the nine-month period through Q3 FY03/19 (April–December 2018). However, total equity trading value by individuals at the two stock exchanges declined by 7% YoY as individuals refrained from actively trading due to stock market uncertainty against the backdrop of US-China trade dispute. As a result, the proportion of trading by individuals slipped to 17% of total market transactions, down from 19% during the same period in FY03/18.
  - ▷ Company initiatives: In the area of equity trading, Matsui Securities began offering its *Best Match* service and also implemented other measures aimed at enhancing the convenience of trading, such as improving application procedures for initial public offerings and public offerings, expanding deposit services, the startup of a stock lending service. In the area of mutual funds, the company began offering new robo-advisory services, *Toshin Teian Robo* and *Toshin Minaoshi Robo*, to provide additional support for clients selecting the mutual funds when making initial investments and subsequent reviews of mutual funds already in their portfolios, and continued to expand its mutual fund offerings including installment-type NISA products, focused on launching new information tools (e.g., an official LINE account for FX traders with market alert and order placement features, and compatibility with Amazon’s voice service Amazon Alexa), and bolstered its trading channels.
  - ▷ Equity trading value at Matsui Securities: During the nine-month period through Q3 FY03/19, the value of individual equity trading through all brokers declined 7% YoY. In contrast, equity trading handled by Matsui Securities declined 16.6% YoY to JPY21.9tr.
    - Of the commissionable equity trades handled by Matsui Securities, JPY10.2tr (-18.1% YoY) was trades other than day-trades on margin, and JPY11.7tr (-15.2% YoY) was day-trades on margin. (These figures are Shared Research estimates based on total equity trading value stated in Matsui Securities’ earnings results materials and its monthly disclosures for equity trading under its Margin Trading Service for Day-trades and other, non-proprietary equity trading.)
    - In terms of market share, Matsui Securities handled 10.3% (-1.2pp YoY) of all equity trading through brokers (value basis).

### Commissions

Total commissions were JPY11.8bn (-14.5% YoY). Brokerage commissions were JPY11.2bn (-15.1% YoY).

During the nine-month period through Q3 FY03/19 (April–December 2018), the total value of commissionable equity trading value fell 16.6% YoY. The stock brokerage commission rate (stock brokerage commissions/trading value) was flat at 0.048%, with the proportion of commission-free Margin Trading Service for Day-trades to total equity trading through Matsui Securities up 0.9pp YoY to 53.5%. Excluding Margin Trading Service for Day-trades accounts, the brokerage commission rate was 0.102%, up 0.002pp YoY (calculated by Shared Research based on Matsui Securities’ earnings results materials).

### Trading profit/loss

The company posted a JPY980mn trading profit (+31.9% YoY) mainly from FX transactions.

### Net interest income

Net interest income (interest and dividend income minus interest costs) grew 13.4% YoY to JPY7.8bn. The average balance of margin accounts was up 6.0% YoY to JPY298.6bn. The net interest income rate (calculated as net interest income divided by average balance of margin account) fell 0.1pp YoY to 3.5%.

### SG&A expenses

SG&A expenses rose 4.0% YoY to JPY9.3bn.

- ▷ Transaction-related expenses (including advertising expenses), primarily moving with trading value, came to JPY3.2bn (-3.9% YoY), of which stock exchange and association fees were JPY940mn (-16.1% YoY).
- ▷ Personnel-related expenses of JPY2.0bn were up 14.4% YoY, driven in large part by the payment of special employee bonuses in commemoration of the 100-year anniversary of the company's founding.
- ▷ Office expenses were JPY1.7bn (+11.6% YoY).
- ▷ Depreciation totaled JPY1.3bn (+10.4% YoY).

### Q3 FY03/19 (October–December 2018) results

The results for Q3 FY03/19 (October–December 2018) were as follows:

- ▷ Operating revenue: JPY7.1bn (-18.6% YoY)
- ▷ Net operating revenue: JPY6.7bn (-17.4% YoY)
- ▷ Operating profit: JPY3.5bn (-32.2% YoY)
- ▷ Recurring profit: JPY3.5bn (-31.8% YoY)
- ▷ Net income: JPY2.4bn (-32.2% YoY)
  
- ▷ Market environment: Aggregate equity trading value at the Tokyo and Nagoya stock exchanges declined 1% YoY during Q3 FY03/19 (October–December 2018), and total equity trading value by individuals was down by 19% YoY. Proportion of trading by individuals was also down YoY, slipping to 17% of total market transactions.
  
- ▷ Equity trading value at Matsui Securities: In Q3 FY03/19 (October–December 2018), the value of equity trading handled at Matsui Securities declined 25.1% YoY to JPY7.3tr.
  - Of the commissionable equity trades handled by Matsui Securities, JPY3.4tr (-31.4% YoY) was trades other than day-trades on margin, and JPY3.9tr (-18.8% YoY) was day-trades on margin. (These figures are Shared Research estimates based on total equity trading value stated in Matsui Securities' earnings results materials and its monthly disclosures for equity trading under its Margin Trading Service for Day-trades and other, non-proprietary equity trading.)
  - In terms of market share, Matsui Securities handled 19.9% (-0.8pp YoY) of all equity trading through brokers (value basis).

### Commissions

Total commissions were JPY4.0bn (-23.6% YoY). Brokerage commissions were JPY3.8bn (-24.4% YoY).

In Q3 FY03/19 (October–December 2018), the total value of commissionable equity trading fell 25.1% YoY. The stock brokerage commission rate (stock brokerage commissions/trading value) decreased by 0.001pp YoY to 0.048%, with the proportion of commission-free Margin Trading Service for Day-trades to total equity trading through Matsui Securities rising 4.2pp YoY to

53.8%. Excluding Margin Trading Service for Day-trades accounts, the brokerage commission rate was 0.102%, up 0.006pp YoY (calculated by Shared Research based on Matsui Securities' earnings results materials).

**Trading profit/loss**

The company posted a JPY309mn trading profit (-0.6% YoY), mainly from FX transactions.

**Net interest income**

Net interest income (interest and dividend income minus interest costs) fell 7.2% YoY to JPY2.4bn. The average balance of margin accounts declined 7.0% YoY to JPY279.7bn. The net interest income rate (calculated as net interest income divided by average balance of margin account) was flat YoY at 3.5%.

**SG&A expenses**

SG&A expenses rose 7.2% YoY to JPY3.3bn.

- ▷ Transaction-related expenses (including advertising expenses), primarily moving with trading value, came to JPY1.2bn (-1.1% YoY), of which stock exchange and association fees were JPY324mn (-19.2% YoY).
- ▷ Personnel-related expenses of JPY802mn were up 33.4% YoY, driven in large part by the payment of special employee bonuses in commemoration of the 100-year anniversary of the company's founding.
- ▷ Office expenses were JPY623mn (+20.5% YoY).
- ▷ Depreciation totaled JPY428mn (+8.1% YoY).

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

## FY03/19 outlook

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

### Related indices and data

	FY03/17				FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Nikkei 225 (JPY)	15,576	16,450	19,114	18,909	20,033	20,356	22,765	21,454	22,305	24,120	20,015	
YoY	-23.0%	-5.4%	0.4%	12.8%	28.6%	23.7%	19.1%	13.5%	11.3%	18.5%	-12.1%	
TOPIX	1,246	1,323	1,519	1,513	1,612	1,675	1,818	1,716	1,731	1,817	1,494	
YoY	-23.6%	-6.3%	-1.9%	12.3%	29.4%	26.6%	19.7%	13.5%	7.4%	8.5%	-17.8%	
Total trading value on TSE and NSE (JPYtn)	357	333	374	352	379	362	446	458	401	385	439	
YoY	-10.9%	-26.3%	3.7%	-16.3%	6.3%	8.6%	19.2%	29.8%	5.8%	6.2%	-1.5%	
Individuals trading value on TSE and NSE (JPYtn)	68	62	69	66	70	69	90	89	72	67	73	
YoY	-23.9%	-33.6%	-4.6%	-12.3%	2.1%	10.0%	30.5%	34.2%	3.7%	-2.5%	-18.7%	
Individuals trading value as % of total	19.1%	18.7%	18.4%	18.8%	18.3%	19.0%	20.2%	19.4%	18.0%	17.4%	16.7%	
Matsui equity trading value (JPYtn)	9.2	8.6	8.4	8.4	8.6	7.9	9.7	9.4	7.9	6.8	7.3	
YoY	-6.9%	-17.7%	-5.6%	-12.1%	-6.8%	-7.5%	14.8%	11.2%	-8.4%	-15.0%	-25.1%	
Matsui as % of individuals trading value on TSE and NSE	13.5%	13.8%	12.2%	12.8%	12.3%	11.6%	10.7%	10.6%	10.9%	10.1%	9.9%	
Margin Trading Service for Day-trades equity trading value	5.3	5.3	4.5	4.6	4.7	4.3	4.8	4.7	4.2	3.6	3.9	
As % of Matsui equity trading value	57.6%	61.7%	53.3%	54.5%	54.8%	54.1%	49.5%	50.1%	53.4%	53.3%	53.8%	
Matsui average margin trading balance (JPYbn)	248.6	224.0	232.6	259.3	265.3	279.0	300.6	333.3	323.2	293.2	279.7	
YoY	-23.5%	-32.0%	-24.3%	-1.9%	6.7%	24.6%	29.2%	28.5%	21.8%	5.1%	-7.0%	
Matsui margin trading balance (JPYbn)	222.1	227.9	236.5	278.1	278.0	274.5	315.2	331.9	314.9	283.7	223.1	
YoY	-35.4%	-23.9%	-19.6%	9.0%	25.2%	20.4%	33.3%	19.4%	13.3%	3.3%	-29.2%	
Short position (JPYbn)	21.1	27.1	45.8	35.2	48.6	44.8	41.8	25.6	29.1	43.1	15.3	
Long position (JPYbn)	201.0	200.8	190.7	242.9	229.4	229.7	273.4	306.4	285.8	240.5	207.8	

Source: Shared Research based on company data

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

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

### Quarterly performance

(JPYmn)	FY03/17				FY03/18				FY03/19			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating revenue	7,463	6,284	6,981	6,998	7,215	7,371	8,741	8,883	7,462	6,927	7,116	
YoY	-19.2%	-32.5%	-13.5%	-10.5%	-3.3%	17.3%	25.2%	26.9%	3.4%	-6.0%	-18.6%	
Net operating revenue	7,212	6,029	6,596	6,662	6,896	6,957	8,170	8,458	7,143	6,634	6,747	
YoY	-17.9%	-32.7%	-14.9%	-11.3%	-4.4%	15.4%	23.9%	27.0%	3.6%	-4.6%	-17.4%	
Commissions	4,572	3,862	4,448	4,370	4,334	4,183	5,234	5,217	4,034	3,723	3,999	
YoY	-22.2%	-34.7%	-10.1%	-12.5%	-5.2%	8.3%	17.7%	19.4%	-6.9%	-11.0%	-23.6%	
Brokerage commissions	4,308	3,604	4,228	4,120	4,152	3,997	5,082	5,018	3,848	3,543	3,840	
YoY	-22.6%	-35.0%	-8.5%	-12.0%	-3.6%	10.9%	20.2%	21.8%	-7.3%	-11.4%	-24.4%	
Brokerage commission rate	0.047%	0.042%	0.050%	0.049%	0.048%	0.050%	0.052%	0.053%	0.049%	0.052%	0.053%	
Other commissions	265	258	214	242	179	180	148	190	164	177	143	
Net trading income	1	-	1	1	138	294	311	458	364	306	309	
YoY	-50.0%	-	0.0%	0.0%	-	-	-	-	163.8%	4.1%	-0.6%	
Net interest income	2,638	2,165	2,146	2,291	2,423	2,479	2,626	2,783	2,745	2,604	2,437	
YoY	-9.2%	-28.7%	-23.4%	-8.7%	-8.2%	14.5%	22.4%	21.5%	13.3%	5.0%	-7.2%	
Net interest margin	4.2%	3.9%	3.7%	3.5%	3.7%	3.6%	3.5%	3.3%	3.4%	3.6%	3.5%	
Interest and dividend income	2,889	2,420	2,532	2,627	2,743	2,893	3,196	3,208	3,064	2,897	2,807	
Interest expenses	251	255	386	336	320	414	570	425	319	293	370	
Other operating revenue	2	2	1	1	138	295	311	458	364	307	310	
SG&A expenses	3,184	2,737	2,783	2,857	2,931	2,925	3,067	3,025	3,006	2,984	3,288	
YoY	14.9%	-2.8%	1.9%	-2.8%	-7.9%	6.9%	10.2%	5.9%	2.6%	2.0%	7.2%	
% of net operating revenue	44.1%	45.4%	42.2%	42.9%	42.5%	42.0%	37.5%	35.8%	42.1%	45.0%	48.7%	
Operating profit	4,028	3,292	3,813	3,805	3,964	4,032	5,103	5,433	4,136	3,651	3,458	
YoY	-33.1%	-46.4%	-24.0%	-16.7%	-1.6%	22.5%	33.8%	42.8%	4.3%	-9.4%	-32.2%	
% of net operating revenue	54.0%	52.4%	54.6%	54.4%	54.9%	54.7%	58.4%	61.2%	55.4%	52.7%	48.6%	
Recurring profit	4,084	3,296	3,860	3,805	4,016	4,034	5,150	5,431	4,216	3,653	3,511	
YoY	-32.6%	-46.4%	-23.7%	-16.7%	-1.7%	22.4%	33.4%	42.7%	5.0%	-9.4%	-31.8%	
% of net operating revenue	56.6%	54.7%	58.5%	57.1%	58.2%	58.0%	63.0%	64.2%	59.0%	55.1%	52.0%	
Net income	2,828	2,277	2,673	2,919	2,780	2,790	3,566	3,773	2,930	2,535	2,417	
YoY	-30.4%	-50.1%	-18.3%	1.9%	-1.7%	22.5%	33.4%	29.3%	5.4%	-9.1%	-32.2%	
% of net operating revenue	39.2%	37.8%	40.5%	43.8%	40.3%	40.1%	43.6%	44.6%	41.0%	38.2%	35.8%	

Source: Shared Research based on company data

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

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

There are three key influences on earnings: equity trading value of individuals and Matsui's share of it, plus margin trading balance.

Brokerage commissions and net interest income account for most of Matsui's net operating revenue. Matsui collects brokerage commissions from stock and ETF (cash and margin), as well as futures and option trading. Net interest income equals revenue from margin and securities lending transactions minus interest expenses on margin transactions.

With respect to costs, variable costs equal about 9% of net operating revenue, and include trading-related expenses, which move with trading value. Matsui began cutting fixed costs after the Livedoor scandal of 2006 and continued bringing down costs through FY03/12. Costs were fairly stable for several years after that until they started trending higher again in FY03/16. Annual fixed costs were about JPY9.2bn in FY03/18. (See the Earnings structure section.)

### **Stock market movements affect trading value**

Trading value is affected by the equity trading value of individuals on the Tokyo Stock Exchange (TSE) and the Nagoya Stock Exchange (NSE), as well as Matsui's share of it.

In the ten years from April 2008 through March 2018, the monthly correlation coefficient between the Tokyo Stock Price Index (TOPIX) and the value of individual investors' trading on the two markets was 0.86, indicating a strong correlation between the value of trading by individuals and stock-price indices.

Matsui's share of equity trading value of individuals was steady at around 8% between FY03/08 and FY03/13, after the price war on commissions settled down (for details, see "Market and value chain" section). In January 2013, the company launched the Margin Trading Service for Day-trades, a service aimed at day traders. Matsui's share of equity trading value of individuals on the TSE and NSE increased after that, reaching a high of 13.0% in FY03/17, but slipped back to 11.2% in FY03/18.

### **Brokerage commissions change with Margin Trading Service for Day-trades**

Matsui does not engage in commission price wars. From FY03/08 through FY03/12, the company's commission rates were stable at 0.11-0.13 percent. Commission rates, an indicator of customer trends, are calculated with this formula: commissions (including those on futures and options) ÷ equity trading value (including ETFs and REITs, but not futures and options).

Margin Trading Service for Day-trades does not charge commissions (2.0% annual interest and stock lending fee for customers whose trading value per transaction are less than JPY3.0mn). Increased trading value has limited impact on earnings. As mentioned earlier, Matsui's equity trading value has been trending higher since the introduction of the Margin Trading Service for Day-trades, but an increase in trades that do not generate commissions has pushed down the company's brokerage commission rate since Q4 FY03/13. It has been about 0.05% since Q4 FY03/14, with the Margin Trading Service for Day-trades accounting for 50-60% of the equity trading value.

### **Stock market movements affect margin trading balance**

Between April 2008 and March 2018, the correlation coefficient between TOPIX and Matsui's margin trading balance was 0.91 on a monthly basis, indicating a strong correlation.

## **Factors that may influence FY03/19 earnings**

The following factors – which exclude any impact from changes in the economic condition or market fluctuations – may influence the company's earnings for FY03/19:

### **Poised to start handling orders for execution on the Proprietary Trading System**

In March 2018 the company began handling orders for execution on the Proprietary Trading System (J-Market) operated by SBI Japannext Co., Ltd. and, along with this, started handling stock trades during the night-time market. According to the company, Matsui Securities is only the second retail stock broker to handle trading of domestic stocks during the night-time market.

Shared Research expects the handling of orders for execution on the Proprietary Trading System to have a limited impact on earnings, but believes it will have an effect in terms of enhancing customer convenience by expanding trade opportunities.

### **Start of Best Match (price optimization service)**

In May 2018 Matsui Securities began offering its "Best Match" price optimization service.

In addition to the off-auction trading at the Tokyo Stock Exchange, proprietary trading systems (PTS) and other off-auction trading alternatives (including the so-called dark pools) already exist in the domestic stock market, providing a way for investors to find better prices than those offered through the Tokyo Stock Exchange auction market. With its Best Match price optimization service, Matsui Securities plans to utilize off-auction trading to offer retail investors the same price optimization opportunities that are already available to institutional investors.

Included in the execution costs incurred during the course of trading are commissions and other direct costs, spread costs (the difference between the market bid and asking price), opportunity costs (the cost of changes in the market price before the entire order is filled), and market impact costs (incurred when the order itself moves the market price).

According to the company, stock brokers in the US and Europe have been able to lower their execution costs for stock trades and improve order execution prices by making widespread use of order matching systems outside of exchanges. In Japan, order matching services such as these have until now only been available to institutional investors, but with Best Match the same kind of off-auction price optimization service will be available to retail investors.

### Overview of Best Match service

When customers seeking better execution prices send an order to the stock exchange, Matsui's Best Match system (its proprietary system that determines whether a given order can be matched and executed) checks the orders placed by other Matsui customers as well as the order books of institutional investors (to which the system is linked) to determine whether or not the order in question can be executed at a better price or the same price as the best bid/offer price available through floor trading. If the Best Match system finds a match for the order at a better price than the best bid/offer price available on the floor, it executes the order at that price in an off-auction market. If the Best Match system cannot find a match for the order at a better price than the best bid/offer available on the floor, it forwards the order to floor trading.

The Best Match service can only be used by Matsui customers with margin accounts that are trading in cash equities. When selecting the order type from the order placement screen on Matsui's trading platform, eligible customers just need to select the "best execution" tab (which is the default setting). The system provides the customer with a "price optimization report" for each trade.

According to the company, the difference between Best Match and the Smart Order Routing systems (SOR) \* offered by other brokers is the large margin at which Best Match improves the price and the larger percent of order successfully executed. According to figures from Rakuten Securities, as of March 2018, its SOR system executed 12% of orders with an average price improvement of 0.0278%.

\*Smart order routing (SOR): Refers to order systems that compare the bid-ask prices available on stock exchanges with those available on proprietary trading systems and directs the order to whichever market offers the best price.

### Superiority of Best Match over similar systems offered by other brokers

In April 2018, SBI Securities and SBI Prime Securities began offering a new SBBO-X (SBI Best Bid Offer-Cross) service for trading domestic cash equities. Orders placed through SBBO-X go through a smart order routing system for domestic cash equities trades that can match customer orders with those from institutional investors and execute them in the off-auction markets.

Best Match takes a portion of the price improvement on orders as its compensation (i.e., pay for performance). Explaining why SBBO-X does not do this, the company says SBI Prime Securities expects to collect commissions from institutional investors and the difference in the amount of price improvement between Best Match and SBBO-X reflects this amount. Therefore, when it comes to the degree of actual price improvement, Matsui Securities believes Best Match is superior to the systems offered by other brokers.



Matsui Securities noted that it handles a lot of trades for small- and mid-cap stocks, which tend to be more volatile than large caps. Because small- and mid-cap stocks also have less liquidity, the bid-ask spreads tend to be quite large, making it easier to improve prices when executing orders.

### Impact of new Best Match service on sales and earnings

In addition to the stock trading commissions earned on stock trades through its Best Match order execution system, Matsui Securities will also receive additional compensation equal to 30% of the amount the execution price was improved by (though between May and December 2018 they will be running a special promotion campaign and will forego this 30%).

Based on the experience of Rakuten Securities with its SOR system, we have estimated the potential earnings for Matsui's Best Match price optimization service as shown below, making certain assumptions about the amount of trading going through the system and the compensation earned based on the amount of price improvement. Our assumptions and calculations are below:

- ▷ For the degree of price improvement, we assume the Best Match system improves prices by an average of 0.06%, roughly twice the improvement achieved by the SOR system used by Rakuten Securities (based on our expectation that the price improvement under Best Match will be greater than that attained by the SOR systems of other brokers.)
- ▷ Margin accounts comprise 16% of trading in cash equities (the same as the percent of margin accounts relative to all accounts as of March 2018)
- ▷ Best Match is able to improve the price and execute orders 10% of the time (same as the SOR system at Rakuten Securities)

Under these assumptions, we estimate that Best Match will generate roughly JPY20mn a year in compensation from price improvement, calculated as total cash equities trading (JPY7.0tn, the actual figure for FY03/18) times the percent of all accounts that are margin trading accounts (16%), times the percent of trades executed by Best Match (10%), times the degree of price improvement (0.06%), times the added compensation for improving the price (30% of the price improvement achieved). In other words, the direct impact on earnings from the new system at Matsui will be minimal. However, if over the medium term Matsui is able to increase the proportion of trades that are sent through the Best Match system to all trades and the system is able to improve the price orders 30% of the time, then the added compensation from price improvement would be more like JPY1.9bn (calculated total equities trading of JPY35.6tn (FY03/18) times Best Match order completion ratio of JPY30%, times the degree of price improvement (0.06%), times 30% of the amount the price was improved).

One thing the Best Match system is also likely to do, in our view, is bring in additional accounts and increase the amount of trading done through Matsui as the price improvement achieved on orders increases the company's competitive standing.

On the cost side, we note that Matsui spent roughly JPY600mn to develop the system (including the programming needed to send orders to proprietary trading systems). With software development costs being depreciated at a fixed rate over five years, that means the Best Match system will add JPY120mn a year to depreciation.

### Plans for forex margin transactions

In forex margin trading services, in May 2017 the company switched from a broking model (NDD, or No Dealing Desk) to a trading model (DD or Dealing Desk) method (for details, see "Outlook" section). As a result of the switch, in FY03/18 the value of forex trading handled declined 16.2% YoY to JPY9.8tn while the net trading profit jumped to JPY1.2bn versus JPY3mn the prior year. And net income for forex margin transactions (net of swap points paid, which is included under interest expense) rose 138.8% YoY to JPY745mn.

As for plans for the forex business in FY03/19, the company is looking to increase forex trading volume and grow revenues and earnings from forex trading by renovating its front-end system, spending more on promotion, and possibly shrinking the spreads offered to customers.



**Startup of stock lending services**

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

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

With regard to related expenses, the company said that it has invested about JPY200mn in systems to handle the new stock lending service and that other expenses are limited as well.

**Credit card to be issued along with startup of new loyal point service**

In October 2018, the company started its own loyal point service ("Matsui Securities Points") and began issuing credit cards in partnership with JACCS Co., Ltd. Under its new loyal point system, customers can earn points for things like buying mutual funds or based on the assets in their Matsui Securities accounts. The points acquired by using the credit card for purchases can be exchanged for credits to their mutual fund holdings or for various types of merchandise.

Based on its policy of not charging a sales commission on sales of mutual funds, Matsui Securities has traditionally offered only no-load mutual funds (mutual funds where the buyer does not pay a commission). However, with the startup of this new loyalty point service Matsui Securities plans to start adding load funds but will return the load (commission on purchase) to the customer in the form of loyalty points.

Although the company does not expect the introduction of this loyal point service or credit card service to have a material impact on results in the near term, Shared Research believes this is a necessary step to help Matsui Securities close the gap with competitors in the area of service.

**Dividend forecast**

Matsui forecasts total dividend payments of JPY10.0bn in FY03/19, and it has decided to distribute a commemorative dividend of JPY39 per share to mark the 100th year since the company's founding. It plans to pay an interim dividend of JPY19.0 per share and a year-end dividend of JPY65.0 per share (including JPY39.0 commemorative dividend), yielding an annual dividend of JPY84.0 per share.

## Outlook

Matsui does not publish medium-term plans. Shared Research thinks stock brokerage commissions and net interest income will continue to account for the bulk of net operating revenue in the medium term, and thus its earnings will continue to be heavily influenced by stock market fluctuations (see section on Earnings Structure below). As detailed below, factors other than stock market trends that are likely to affect the company's medium-term performance include its share of the total equity trading value of individuals and the impact of new services.

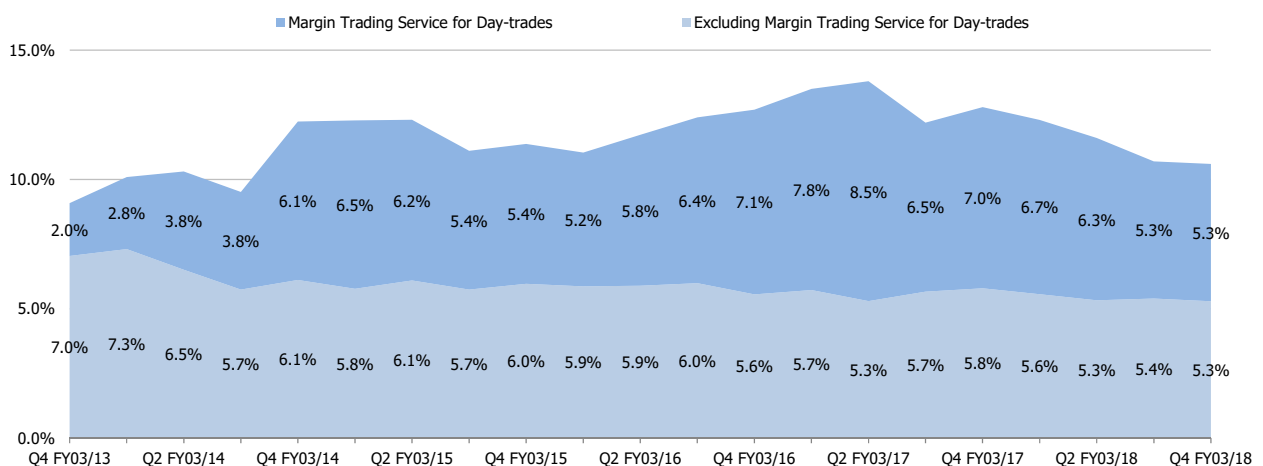
Shared Research notes that Matsui focused on its online stock brokerage business and lagged behind other major online brokers in the handling of mutual funds and strengthening forex products up to FY03/16. Since FY03/17, however, Matsui has accelerated efforts to grow services other than stock brokerage,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

### Matsui's share of equity trading value (individuals)

Online brokers' share of overall equity trading value of individuals is on a long-term upward trend. Five online brokers' (Matsui, SBI Securities, Rakuten Securities, Monex, Inc., and kabu.com Securities) share of equity trading value of individuals has climbed from 29% in FY03/02 to 77% in FY03/18 (see Market and Value Chain section below). We expect the five online brokers' share to continue rising moderately because of their lower trading costs.

Matsui's share of overall equity trading value of individuals has increased since the launch of the Margin Trading Service for Day-trades in January 2013. During FY03/14, the company's share of equity trading value (cash and margin) of individuals shrank for services other than the Margin Trading Service for Day-trades, and has been hovering around 5.0%–6.0% since then. Meanwhile, the share of Margin Trading Service for Day-trades in overall equity trading value of individuals trended higher from the launch of the service in Q4 FY03/13 through FY03/17, then came down in FY03/18 following Rakuten Securities' changes in its Ichinichi margin trading service that lowered the threshold for margin day-trades that qualify for zero interest and zero stock lending fees (from JPY3.0mn to JPY1.0mn).

### Matsui share of equity trading value of individuals



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

### New services

As part of an effort to increase earnings in the medium term, Matsui Securities intends to strengthen products and services not only in brokerage operations geared toward high-frequency-trade customers, but also in asset-related operations geared toward customers who wish to build up assets. Specifically, the company plans to expand earnings by launching asset-management operations centering on mutual funds and by changing the business model for forex margin-trading.

Further, in the brokerage business Matsui plans to handle orders on a proprietary trading system and offer a new price optimization service as a means of improving customer service and expanding its own profit opportunities.

### Launched mutual fund sales and portfolio proposal service in November 2016

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

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

Shared Research sees potential for the company to increase its balance of mutual funds held in customer accounts to a level equivalent to other online brokers in the medium term, and the share of mutual funds (against total assets under Matsui's custody) also to a similar level in the longer term (see below).

#### Mutual funds account for 13% of customer assets under custody at other online brokers

As of March 2017, the combined value of mutual fund held in customer accounts at major online brokers other than Matsui was JPY3.0, or 13% of their total assets under customers' accounts, which amount to JPY23.0tn. At the end of March 2018, customer accounts at Matsui held a total of only JPY8.0bn in mutual funds. In the medium term, we see potential for Matsui's mutual fund balance to increase to around 10% of total assets under custody, or roughly in line with the figure at other major online brokers. This would mean roughly JPY250bn in mutual funds in customer accounts at Matsui, assuming total customer assets under custody of JPY2.5tn.

#### Assets under Matsui's customer accounts equates to 2% of overall equity holdings by individuals

Japan Investment Trusts Association reported JPY109.2tn as the total net asset value of public mutual funds as of March 2018. Meanwhile, total customer assets under custody at the five major online brokers (Matsui, SBI Securities, Rakuten Securities, Monex, Inc., and Kabu.com Securities) accounted for roughly 25% of overall equity holdings by individuals, with Matsui's share estimated at about 2.5% (as of the end of March 2018).

The five major online brokers had about JPY3.0tn in mutual funds under customers' accounts, equal to only 2.8% of the total net asset value of public mutual funds outstanding as of March 2018. However, over the long term, we believe there is a possibility that online brokers can raise the balance of mutual funds under their custody to about 20% of the total net asset value in public mutual funds, or roughly JPY22tn (JPY109.2tn x 20%). If Matsui's share of mutual funds under its customers' accounts was able to reach the same level as its share of customer assets under custody (versus overall equity holdings by individuals), this could increase Matsui's mutual fund balance to as much as JPY2.7tn (JPY109.2tn x 2.5%).

As of March 2017, relatively inactive traders (those with 10 or fewer trades per month) accounted for 95% of customer accounts and 75% of the assets under customers' accounts. But those customers represented only 5% of trades (in value terms). In the past, Matsui Securities did not have enough investment products to offer these customers with heavy assets but who did not trade very often. Shared Research believes that Matsui Securities may have found a way to alleviate this problem with the launch of the portfolio proposal service and this may start generating more revenue from its large base of relatively inactive accounts.

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

The only income source from the portfolio proposal service is from the seller's custodial fees. Custodial fees from mutual funds are split by the seller, fund manager, and trust bank, with the seller receiving about half. Shared Research estimates that Matsui receives about 0.20% based on the 0.35% average for custodian fees from this service. However, in October 2017 Matsui added bull/bear-type mutual funds to its suite of products; sales commissions on these are around 1% and custodial fees (to the seller)

around 0.3%. Matsui Securities is also working to expand funds other than bull/bear-type mutual funds that it handles on a monthly basis, especially actively managed mutual funds.

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

**Plans for increasing revenue generated by forex margin transactions**

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

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

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

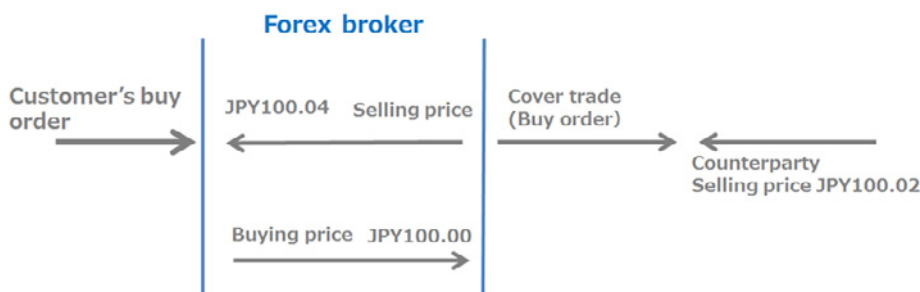
**Trading revenue from cover trades**

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

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

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

**Revenue from cover trade**



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

**Trading revenue from in-house cross trades**

A forex margin trading broker responds to trade orders for currency pairs (buying and selling orders) from customers through an online trading screen in real time. When there are many simultaneous buying and selling orders from customers, they offset each

other. As the offsetting portion is neutral with respect to market movements, there is no need to make a cover trade for this portion; cover trade is only necessary for the portion that has not been offset. In this case, the bid and ask spreads shown to the broker's customers generate the broker's trading revenue.

**Revenue from in-house cross trades**



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

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

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

Having known that introducing a forex margin trading system from an outside company would allow Matsui to marry trades in-house without increasing volatility risk in its earnings, in May 2017 the company introduced such a system, and began generating revenue from marrying trades in-house. The company also expanded the number of partner financial institutions for cover trades.

The company commented that by changing to the DD trading model it expected to increase forex margin trading-related earnings even if the value of forex margin trading it handled did not change. Following the switch, in FY03/18 the value of forex trading handled declined 16.2% YoY to JPY9.8tn while the net trading profit jumped to JPY1.2bn versus only JPY3mn the prior year, and net income for forex margin transactions (net of swap points paid, which is included under interest expense) rose 138.8% YoY to JPY745mn.

As for plans for the forex business in FY03/19, the company is looking to increase forex trading volume and grow revenues and earnings from forex trading by renovating its front-end system, spending more on promotion, and possibly shrinking the spreads offered to customers.

In terms of expenses, Matsui incurred around JPY200mn in IT capex to change to a trading model, but the effect on annual spending was minimal because of depreciation. The company intends to reduce running costs through a profit-share arrangement with the company that supplies the new forex trading system.

## Business

### Industry innovator with a focus on earnings

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

In Japan, the big five online brokers (SBO Securities, Rakuten Securities, Monex, Inc., Matsui Securities, and kabu.com Securities) dominate the market, handling roughly 80% of stock trading by retail investors. In FY03/18, Matsui Securities reported a total of some 1,140,000 customer accounts (ranking it fourth among the big five), 185,000 margin accounts (third), JPY2.5tn in customer assets under custody (fourth), total margin account balances of JPY331.9bn (fourth), and handled JPY35.6tn worth of stock trades (third). Compared with the other major online brokers, a larger proportion of Matsui customer account were frequent traders (as measured by value of stock trades relative to total customer assets under custody); the average outstanding balance of margin accounts was also higher, but the average balance of mutual funds held per account was lower (reflecting Matsui's late start in mutual fund sales).

Matsui does not heedlessly diversify or engage in commission price wars. SG&A expense ratio is low and operating profit margin is high compared with competitors.

Domestic stock market movements affect earnings; equity brokerage commissions and net interest income comprised about 90% of net operating revenue in FY03/18, with most of the net interest income coming from margin trading.

Long term strategy hinges on avoiding commission price wars and shifting the focus of competition. As part of that strategy, the company worked to generate additional earnings with the launch of new services such as Margin Trading Service for Day-trades (aimed at high-frequency day traders), launched in January 2013. Another new service was the company's Best Match price optimization services that made use of off-auction markets in an effort to secure better execution prices for customer trades. Best Match was launched in May 2018.

Matsui's share of equity trading value of individuals fell after peaking in FY03/05, as the company avoided commission price wars. From FY03/08 through FY03/13, it hovered between 7% and 8%. After the launch of Margin Trading Service for Day-trades in January 2013, the company's share of the equity trading value of individuals steadily increased as the new service attracted more high-frequency day-traders, peaking at 13.0% in FY03/17. Matsui's share came down to 11.2% in FY03/18, however, as other online brokers followed suit with similar service offerings with even more competitive terms for customers.

### Services and customers

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

Brokerage commissions on equity transactions—cash and margin—comprise about 90% of brokerage commission revenue. Shared Research estimates that equity related revenue, including net interest income, accounts for about 90% of net operating revenue.

According to the company, Matsui's strengths include customer support, the stability of its system, and the development of revolutionary services ahead of competitors, such as box rates and unlimited margin trading.

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

## Cash transactions

### An attractive structure, despite relatively high commissions

Matsui offers box rates for equity trading. Box rate commissions are based on the total value of trades per day. There is no limit to the number of trades.

#### Box rates

Maximum value of trades per day (JPY)	Commission (pretax) (JPY)
100,000	0
300,000	300/0*
500,000	500
1,000,000	1,000
2,000,000	2,000
Commission increases by JPY1,000 per JPY1,000,000 value of trades	
100,000,000+	100,000 (max.)

Source: Shared Research based on company data

\*Commissions are JPY0 for up to JPY300,000 in trades per day for the first six months after a margin trading account is opened.

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

Matsui Securities does not participate in commission price wars among online brokerages, but it boosts customer appeal by waiving commissions in some cases. Box rate commissions are zero for customers with trades of JPY100,000 or less per day. According to Matsui surveys, the most frequent reason customers cite for choosing Matsui is low commissions.

However, proportion of trade JPY100,000 or less per day is quite limited, and the effect on brokerage commission rates is minimal.

#### Brokerage commissions on spot trades at five major online brokerages

Brokerage	Brokerage commission	Trading value (JPY)							Average commission rate		
		100,000	200,000	300,000	500,000	1,000,000	2,000,000	3,000,000	Simple average	For trading value of JPY500,000+	
Matsui Securities	Per day	0	300	500	1,000	2,000	3,000	0.09%	0.10%		
SBI Securities	Standard Plan	Per trade	90	105	250	487	921	0.06%	0.04%		
	Active Plan	Per day	0	191	286	429	762	1,162	1,562	0.07%	0.07%
Rakuten Securities	Super Discount Plan	Per trade	90	105	250	487	921	0.06%	0.04%		
	Daily Flat Rate Plan	Per day	0	191	286	429	858	2,000	3,000	0.08%	0.09%
kabu.com Securities	Per trade	90	180	250	Trading value x 0.09% + JPY90 (max. JPY3,690)			0.09%	0.10%		
Monex, Inc.	Per Trade Plan	Per trade	100	180	250	450	1,000	2,000	3,000	0.09%	0.10%
	Daily Flat Rate Plan	Per day	JPY2,500 per JPY3,000,000 traded						0.08%	0.08%	

Source: Shared Research based on various company data

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

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

## Margin transactions

Matsui offers standardized, unlimited, and day-trading margin transactions.

### Standardized and unlimited margin trading

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

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

### Relatively high commissions on margin trading, as in cash trading

Competitors tend to set margin trading commissions lower than for cash transactions. Matsui's box rate commissions depend on the total value of trades per day, including both cash and margin transactions.

#### Brokerage commissions on margin trading at five major online brokerages

Brokerage	Brokerage commission	Trading value (JPY)							Average commission rate		
		100,000	200,000	300,000	500,000	1,000,000	2,000,000	3,000,000	Simple average	For trading value of JPY500,000+	
Matsui Securities	Per day	0	300 (0)		500	1,000	2,000	3,000	0.09%	0.10%	
SBI Securities	Standard Plan	Per trade	90	135	180		350		0.05%	0.03%	
	Active Plan	Per day	0	239			477	877	1,277	0.05%	0.05%
Rakuten Securities	Super Discount Plan	Per trade	90	135	180		350		0.05%	0.03%	
	Daily Flat Rate Plan	Per day	0	191	286	429	858	2,000	3,000	0.08%	0.09%
kabu.com Securities	Per trade	99	179	249	449	760	940	1,100	0.07%	0.06%	
Monex, Inc.	Per Trade Plan	Per trade	95	140	190		355	800	1,000	0.05%	0.04%
	Daily Flat Rate Plan	Per day	JPY2,500 per JPY3,000,000 traded							0.08%	0.08%

Source: Shared Research based on various company data

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

Note: Matsui Securities does not charge commissions on margin accounts opened within six months when the total value of trades per day is less than or equal to JPY300,000.

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

### High interest rates and stock lending fees

Matsui's annual interest rate for long positions on standardized margin transactions is 3.1%; 1.15% is charged for stock borrowing on sales. The rate is 4.1% on unlimited margin trading for long-position and 2.0% for stock borrowing on sales. The company's rates on standardized and unlimited margin trading are among the highest of five major online brokerages.

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

Brokerage	Standardized margin trade		General margin trade		Margin requirement	Margin requirement (minimum)	General margin trade Short stock availability
	Interest rate	Stock lending fee	Interest rate	Stock lending fee			
Matsui Securities	3.10%	1.15%	4.10%	2.00%	31%	25%	893
SBI Securities	2.80%	1.15%	3.09%	2.00%	33%	20%	*
Rakuten Securities	2.80%	1.10%	3.09%	2.00%	30%	20%	*
kabu.com Securities	2.98%	1.15%	3.60%	1.50%	30%	25%	2,105
Monex, Inc.	2.80%	1.15%	3.47%	-	30%	25%	-

Source: Shared Research based on various company data

Note: At both SBI Securities and Rakuten Securities, the preferential interest rate for buyers under standardized margin lending standards (set by the exchange) is 2.28%, the preferential interest rate for margin buyers under general margin lending standards (set by broker) is 2.90%.

## Margin Trading Service for Day-trades

### Deregulation of margin transactions

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



### No commissions; annual interest and stock lending fees at 0% to 2%

There is no commission on trades and offsetting (position closing) trades made on the same day. However, when an offsetting trade is not completed by the close of trading or the appropriate security is not delivered, Matsui may close the position at its discretion. In that case, the company applies a 0.3% fee to the amount traded (minimum JPY20).

The annual interest rate (for long positions) and stock lending fee (for short positions) for each order under JPY3.0mn is 2.0%. There is no interest rate or stock lending fee for trades above JPY3.0mn. After the first day, regardless of the size of the trade, a 2.0% annual interest rate applies.

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

Principal value of single trade	Commission	Annual interest rate/Stock lending charge
JPY3.0mn or less	Zero	2.0%
JPY3.0mn or more		0.0%

In its battle against other online brokers, Matsui Securities introduced its margin trading services for day-traders with the aim of luring away the high-frequency traders whom its competitors depended on for a large portion of their revenues and earnings. Following the launch of its margin trading services for day-traders service in January 2013, Matsui's share of equity trading by individuals steadily rose from 8.2% in FY03/13 to a high of 13.0% in FY03/17. Its share came down to 11.2% in FY03/18, however, as other online brokers followed suit with similar service offerings.

### Limited short-term contribution to earnings

With regard to Margin Trading Service for Day-trades, Matsui earns 2.0% (0.005% per day) annual interest and stock lending fees on trades less than JPY3.0mn per order. It only charges commissions for offsetting trades that are not done on the same day, or for converting margin positions to cash positions. Meanwhile, there are variable costs that change with trading value such as stock exchange fees and clearing expenses; thus we believe the contribution of this business to overall earnings is limited. However, the company began a premium short-selling service in March 2014, and the fee for this service has raised the net interest income rate.

### Premium short-selling service

In March 2014, Matsui launched a premium short-selling service as a value-added service to Margin Trading Service for Day-trades. This is a short-selling service in which positions are closed out within a single day.

As of May 2018, this service offers a list of roughly 180 different stocks that are eligible and suitable for this service based on high volatility and liquidity.

The premium short-selling service generates stock lending fees (an annual rate of 2% on trades less than JPY3.0mn; no charge on trades worth JPY3.0mn or more) and premium short-selling fees. Premium short-selling fees vary depending on the stock and day-to-day price swings, capped at 1% of the previous day's closing price per stock. They were between 0.1% and 1.0% as of May 2018.

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

## Competitors' intraday margin trading services

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

SBI Securities charges a fee for margin trading, but Rakuten Securities does not. Matsui and SBI Securities charge no fee for trades over JPY3mn and an interest charge/stock lending fee of 2.0%–2.8% on trades smaller than JPY3mn. In May 2017, Rakuten Securities lowered the threshold for waiving interest charges/stock lending fees to trades of JPY1mn from the previous JPY3mn in its Ichinichi margin trading product. As a result, the product is commission free, and does not charge interest or stock lending fees for trades of JPY1mn or more; for smaller trades, interest charge/stock lending fees are 1.9%.

### Comparison of brokers' intraday margin trading services

Brokerage	Brokerage fee (JPY)	Interest rate		Stock lending fee		Notes	
		Trading value: long Lower than JPY3mn	Trading value: long JPY3mn or higher	Trading value: short Lower than JPY3mn	Trading value: short JPY3mn or higher		
Matsui Securities	Margin Trading for Day-trades; Premium short-selling	0	2.00%	0%	2.00%	0%	Premium short-selling requires additional fees
SBI Securities	Intra-day margin trade; HYPER short-selling	Margin trade fees	2.80%	0%	2.00%	0%	HYPER short-selling requires HYPER fees in addition to stock lending fees
Rakuten Securities	One day margin trade; Special short-selling	0	1.90%	0%	1.90%	0%	Special short-selling requires additional fees

Source: Shared Research based on various company data

Note: In May 2017, Rakuten Securities lowered the threshold for waiving interest charges/stock lending fees to trades of JPY1mn from the previous JPY3mn.

## Customer support and system stability

### Matsui's customer support is highly rated

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

In its FY2017 ratings, HDI-Japan—a helpdesk industry body—awarded Matsui's customer support the top rating (three stars) for the seventh consecutive year. Matsui also ranked first in the stock brokerage sector in an August 2013 Nikkei Business magazine survey on customer satisfaction. In August 2017, Matsui ranked first in the stockbroking industry for the second consecutive year in the JCSI (Japan Customer Satisfaction Index) survey.

### System stability

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

## Customers attributes

### Majority of trading value comes from active traders

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

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

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

(JPYbn)	Mar. 2013	Sep. 2013	Mar. 2014	Sep. 2014	Mar. 2015	Sep. 2015	Mar. 2016	Sep. 2016	Mar. 2017	Sep. 2017
Trading value by customers with 100 trades or less	8,320	7,763	6,775	7,685	9,031	6,685	6,645	4,307	7,949	7,947
% of total	38.2%	37.4%	36.7%	37.1%	34.9%	34.2%	32.1%	30.9%	40.8%	41.5%
Trading value by customers with more than 100 trades	13,460	13,013	11,669	13,021	16,836	12,882	14,085	9,639	11,556	11,181
% of total	61.8%	62.6%	63.3%	62.9%	65.1%	65.8%	67.9%	69.1%	59.2%	58.5%
Total	21,780	20,776	18,444	20,706	25,867	19,568	20,730	13,946	19,505	19,128

Source: Shared Research based on Japan Securities Dealers Association data

### Before beginning service for Margin Trading Service for Day-trades, ratio of active traders in trading value was average

During Q3 (October-December) FY03/13, prior to beginning service for Margin Trading Service for Day-trades, only 0.5% of customers conducted in excess of 100 trades per month, but composed 47% of trading value. Meanwhile, according to JSDA survey results, trading value by traders who conduct over 100 trades per month accounted for 48% of trading value across the online securities industry as a whole during the month of September 2012. Thus, before Margin Trading Service for Day-trades was launched, the proportion of overall trading (value) accounted for by traders conducting over 100 trades per month generated at Matsui was slightly lower than the industry average.

### After beginning service for Margin Trading Service for Day-trades, ratio of active traders in trading value increased

As of the end of March 2017, about four years after Matsui launched Margin Trading Service for Day-trades, customers conducting more than 100 trades per month amounted to 0.8%, but represented 76% of trading value. According to the aforementioned JSDA survey results, trading value by traders who conduct over 100 trades per month accounted for 59.2% of trading value across the online securities industry as a whole as of the end of March 2017 (March 1–March 31, 2017). Thus, after it began offering the Margin Trading Service for Day-trades, Matsui's ratio of overall trading (value) accounted for by traders conducting over 100 trades per month grew to surpass the industry average.

Excluding the effects of Margin Trading Service for Day-trades, 0.5% of Matsui customers conducting more than 100 trades per month as of the end of March 2017, representing about 51% of trading value. This meant that without Margin Trading Service for Day-trades, Matsui's ratio of overall trading by traders conducting over 100 trades per month still remained lower than the industry average.

#### Characteristics of equity trading customers (March 31, 2017)

(JPYmn)	Number of customers	Assets under customers' accounts	Trading value
Transactions per month: exceeding 100	8,910 (1%)	163,689 (7%)	2,209,900 (75%)
Transactions per month: 100 or less	1,085,330 (99%)	2,187,824 (93%)	725,506 (25%)
<b>Total</b>	<b>1,094,240</b>	<b>2,351,513</b>	<b>2,935,406</b>

Source: Shared Research based on company data  
Note: Figures in parentheses represent the % of the total.

#### Characteristics of equity trading customers (March 31, 2017) (exc. Margin Trading Service for Day-trades)

(JPYmn)	Number of customers	Assets under customers' accounts	Trading value
Transactions per month: exceeding 100	5,292 (0%)	148,380 (6%)	754,443 (51%)
Transactions per month: 100 or less	1,085,330 (100%)	2,187,824 (94%)	725,506 (49%)
<b>Total</b>	<b>1,090,622</b>	<b>2,336,204</b>	<b>1,479,949</b>

Source: Shared Research based on company data  
Note: Figures in parentheses represent the % of the total.

### Inactive traders contribute little to revenue

During FY03/17, inactive traders, defined as traders who conduct 10 or fewer transactions per month, accounted for 95% of customers, and 75% of assets under customers' accounts. However, these clients only accounted for 5% of trading value.

For such clients that have low transaction volume but large assets in their accounts, the company is looking to provide products and services to fit their needs and views expansion of this customer base as an ongoing challenge (see Strategy).

## Customers by age

As of the end of March 2017, clients 50 years of age and above accounted for about 49% of customers at Matsui. In addition, 76% of assets under customers' accounts and 55% of total trading value were attributable to this same age bracket.

Concerning the online securities industry as a whole, customers 50 years of age and above accounted for 63% of the number of active trading accounts and 54% of total trading value (as of the end of March 2017), according to survey data published by the JSDA.

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

## Customers value support and the trading system over commissions

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

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

## Earnings structure

Earnings structure (JPYmn)										
	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Operating revenue	26,724	24,346	22,091	17,703	20,799	39,883	34,306	34,435	27,727	32,210
YoY	-33.0%	-8.9%	-9.3%	-19.9%	17.5%	91.8%	-14.0%	0.4%	-19.5%	16.2%
Net operating revenue	24,464	23,276	21,320	16,728	19,915	38,738	32,893	33,003	26,499	30,480
YoY	-33.3%	-4.9%	-8.4%	-21.5%	19.1%	94.5%	-15.1%	0.3%	-19.7%	15.0%
Commissions	18,263	17,282	15,037	11,547	14,165	27,349	21,167	21,742	17,253	18,968
YoY	-25.5%	-5.4%	-13.0%	-23.2%	22.7%	93.1%	-22.6%	2.7%	-20.6%	9.9%
% of net operating revenue	74.7%	74.2%	70.5%	69.0%	71.1%	70.6%	64.4%	65.9%	65.1%	62.2%
Brokerage commissions	15,888	15,424	13,455	10,435	13,072	26,180	20,025	20,414	16,260	18,250
YoY	-28.1%	-2.9%	-12.8%	-22.4%	25.3%	100.3%	-23.5%	1.9%	-20.3%	12.2%
Brokerage commission rate	0.12%	0.12%	0.13%	0.13%	0.10%	0.06%	0.05%	0.053%	0.047%	0.052%
Equity brokerage	15,672	15,246	11,126	8,898	11,635	23,867	18,686	18,898	15,249	17,144
Futures and options	216	178	1,815	973	1,074	1,516	1,290	1,516	1,011	1,106
Others	2,375	1,858	1,582	1,112	1,093	1,169	1,139	1,278	979	698
Net interest income	6,196	5,991	6,283	5,236	5,770	11,374	11,713	11,251	9,239	10,311
YoY	-49.0%	-3.3%	4.9%	-16.7%	10.2%	97.1%	3.0%	-3.9%	-17.9%	11.6%
% of operating revenue	25.3%	25.7%	29.5%	31.3%	29.0%	29.4%	35.6%	34.1%	34.9%	33.8%
Interest and dividend income	8,456	7,060	7,053	6,211	6,654	12,519	13,126	12,682	10,467	12,040
Interest expenses	2,260	1,069	770	975	884	1,145	1,413	1,431	1,228	1,729
Other operating revenue	5	4	1	-55	-20	15	13	11	7	1,202
SG&A expenses	14,521	11,891	12,870	9,360	9,719	11,648	10,806	11,258	11,560	11,949
YoY	-9.4%	-18.1%	8.2%	-27.3%	3.8%	19.8%	-7.2%	4.2%	2.7%	3.4%
SG&A as % of net operating revenue	59.4%	51.1%	60.4%	56.0%	48.8%	30.1%	32.9%	34.1%	43.6%	39.2%
Operating profit	9,943	11,385	8,450	7,368	10,195	27,090	22,087	21,745	14,939	18,532
YoY	-51.9%	14.5%	-25.8%	-12.8%	38.4%	165.7%	-18.5%	-1.5%	-31.3%	24.1%
OP as % of net operating revenue	40.6%	48.9%	39.6%	44.0%	51.2%	69.9%	67.1%	65.9%	56.4%	60.8%

Source: Shared Research based on company data

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

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

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

### Net operating revenue

Net operating revenue mainly comprises commissions (62% of the total in FY03/18) and net interest income (34%).

Margin trading accounts for 60% to 80% of equity trading value (79% in FY03/18, and 57% excluding Margin Trading Services for Day-Trades). Including net interest income, 60% to 70% of net operating revenue is from margin trading. Futures trading's share of commissions is negligible.

### Commissions (62% of net operating revenue in FY03/18)

Commissions include brokerage commissions (96.2% of the total in FY03/18), and others (3.7%).

#### Equity-related commissions account for 90% of brokerage commissions

Matsui main source of trading commissions is stocks and ETFs (cash and margin), and futures.

In FY03/18, stocks and ETFs accounted for 90% of brokerage commissions. Brokerage commissions are calculated as trading value multiplied by brokerage commission rate.

Trading value depends on market movements, the equity trading value of individuals on the Tokyo Stock Exchange and Nagoya Stock Exchange, and Matsui's share in it, which hovered around 8% between FY03/08 and FY03/13. By FY03/17 the company's share of equity trading value of individuals had risen to 13.0%, following the introduction of the commission-free Margin Trading Service for Day-trades in Q4 FY03/13. However, the share dipped to 11.2% in FY03/18 following the introduction of similar services with very competitive terms by other online brokers.

Matsui noted that trading volume of Margin Trading Services for Day Trades tends to increase (and consequently its market share) when stock market volatility is high and emerging market stocks are actively traded.

Brokerage commission rate depends on Matsui's commission strategy. Matsui does not engage in commission price wars, and charges relatively high brokerage commissions. The company differentiates itself through unique products, customer support, and a stable system.

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

#### Related indices and data

Metrics	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Nikkei 225 (JPY)	8,110	11,090	9,755	10,084	12,398	14,828	19,207	16,759	18,909	21,454
YoY	-35.3%	36.8%	-12.0%	3.4%	23.0%	19.6%	29.5%	-12.7%	12.8%	13.5%
TOPIX	774	979	869	854	1,035	1,203	1,543	1,347	1,513	1,716
YoY	-36.2%	26.5%	-11.2%	-1.7%	21.1%	16.3%	28.3%	-12.7%	12.3%	13.5%
TSE and NSE trading value (JPYtn)	928	709	735	630	735	1,414	1,337	1,634	1,417	1,645
YoY	-31.4%	-23.6%	3.7%	-14.2%	16.5%	92.4%	-5.4%	22.3%	-13.3%	16.1%
TSE and NSE trading value (individuals; JPYtn)	164	152	129	112	155	385	314	331	266	317
YoY	-31.3%	-7.0%	-15.4%	-13.0%	38.5%	148.0%	-18.5%	5.6%	-19.8%	19.4%
Individuals as % of total TSE and NSE trading value	17.6%	21.5%	17.5%	17.8%	21.1%	27.2%	23.5%	20.3%	18.8%	19.3%
Matsui trading value (JPYtn)	12.8	12.4	10.4	8.1	12.8	40.4	36.6	38.7	34.5	35.4
YoY	-33.0%	-2.7%	-15.8%	-22.3%	57.4%	216.6%	-9.4%	5.7%	-10.8%	2.6%
Matsui as % of TSE and NSE trading value (individuals)	7.8%	8.2%	8.1%	7.2%	8.2%	10.5%	11.7%	11.7%	13.0%	11.2%
Excl. Margin Trading Service for Day-trades	12.8	12.4	10.4	8.1	11.2	25.2	18.3	18.9	15.0	17.1
YoY	-33.0%	-2.7%	-15.8%	-22.3%	37.7%	125.7%	-27.3%	3.3%	-21.1%	14.0%
% of total trading value	100.0%	100.0%	100.0%	100.0%	87.5%	62.4%	50.1%	48.9%	43.3%	48.1%
Margin Trading Service for Day-trades	-	-	-	-	1.6	15.2	18.3	19.8	19.6	18.4
YoY	-	-	-	-	-	852.6%	20.1%	8.2%	-1.0%	-6.2%
% of total trading value	-	-	-	-	12.5%	37.6%	49.9%	51.1%	56.7%	51.9%

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

#### Commissions

(JPYmn)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Commissions	18,263	17,282	15,037	11,547	14,165	27,349	21,167	21,742	17,253	18,968
Brokerage commissions	15,888	15,424	13,455	10,435	13,072	26,180	20,025	20,414	16,260	18,250
Brokerage commission rate	0.12%	0.12%	0.13%	0.13%	0.10%	0.06%	0.05%	0.05%	0.05%	0.05%
Brokerage commission rate (excl. Margin Trading Service for Day-trades)	0.12%	0.12%	0.13%	0.13%	0.12%	0.10%	0.11%	0.11%	0.11%	0.11%
Others	2,374	1,846	1,579	1,111	1,088	1,164	1,139	1,278	979	698

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

### Net interest income (34% of net operating revenue in FY03/18)

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

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

Margin trading balance, similar to equity trading value, is affected by market movements, rising in a bull market as investors gain more buying power and falling in a bear market as investors lose buying power.

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

**Net interest income**

Net interest income (JPYmn)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Net interest income	6,196	5,991	6,283	5,236	5,770	11,374	11,713	11,251	9,239	10,311
Net interest margin	3.3%	3.2%	3.3%	3.3%	3.3%	3.6%	3.9%	3.7%	3.8%	3.5%
Interest and dividend income	8,456	7,060	7,053	6,211	6,654	12,519	13,126	12,682	10,467	12,040
Interest expenses	2,260	1,069	770	975	884	1,145	1,413	1,431	1,228	1,729
Margin trading balance (JPYbn)										
Average margin trading balance	185.0	185.1	190.1	159.9	173.3	314.6	300.7	306.5	241.0	294.4
Margin trading balance	137.8	185.0	159.7	165.1	287.6	295.3	319.0	255.2	278.1	331.9
Long position	102.9	146.3	134.1	132.7	254.4	273.4	278.0	234.5	242.9	306.4
Short position	34.8	38.7	25.6	32.4	33.2	21.9	41.0	20.7	35.2	25.6

Source: Shared Research based on various company data

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

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

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

**SG&A expenses: mostly fixed costs**

SG&A expenses comprise trading-related expenses (38.4% of SG&A expenses in FY03/18); personnel (19.8%); real estate-related expenses (7.1%); office and supplies (17.6%); and depreciation (13.0%).

When SG&A expenses are broken down into fixed and variable costs, the latter includes commissions paid, stock exchange and association fees, and telecommunications and transport costs, all classified under trading-related expenses. Shared Research understands that other costs are mostly fixed.

Fixed costs peaked in FY03/07 and trended lower through FY03/12, then stabilized for several years before starting to trend higher again from FY03/16. Fixed costs on the rise include personnel, office and supplies, and depreciation.)

**SG&A expenses breakdown**

(JPYmn)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SG&A expenses	14,521	11,891	12,870	9,360	9,719	11,648	10,806	11,258	11,560	11,949
YoY	-9.4%	-18.1%	8.2%	-27.3%	3.8%	19.8%	-7.2%	4.2%	2.7%	3.4%
SG&A as % of net operating revenue	59.4%	51.1%	60.4%	56.0%	48.8%	30.1%	32.9%	34.1%	43.6%	39.2%
Trading-related expenses	4,096	3,630	3,365	3,104	3,356	4,957	4,719	4,674	4,345	4,592
YoY	-11.0%	-11.4%	-7.3%	-7.8%	8.1%	47.7%	-4.8%	-1.0%	-7.0%	5.7%
Commissions paid	637	612	555	425	455	786	779	770	735	830
Stock exchange and association fees	745	747	838	707	886	1,912	1,755	1,738	1,409	1,527
Telecommunications and transport fees	2,115	1,880	1,597	1,493	1,477	1,665	1,638	1,692	1,672	1,699
Advertising expenses	599	391	375	479	538	594	547	475	531	536
Personnel expenses	2,024	1,930	1,974	1,809	1,832	2,075	2,030	2,178	2,227	2,364
YoY	-6.7%	-4.6%	2.3%	-8.4%	1.3%	13.3%	-2.2%	7.3%	2.2%	6.2%
Real estate-related	501	1,040	1,128	1,077	925	905	878	890	891	845
YoY	13.6%	107.6%	8.5%	-4.5%	-14.1%	-2.2%	-3.0%	1.4%	0.1%	-5.2%
Real estate expenses	386	392	355	348	319	318	325	325	327	
Furniture and fixtures	135	668	793	749	605	586	553	564	563	
Office and supplies expenses	6,353	3,139	1,931	1,742	1,625	1,745	1,677	1,713	1,841	2,104
YoY	-5.9%	-50.6%	-38.5%	-9.8%	-6.7%	7.4%	-3.9%	2.1%	7.5%	14.3%
Outsourcing expenses	6,347	3,134	1,925	1,735	1,621	1,740	1,673	1,708	1,835	
Office supplies expenses	6	5	5	6	5	5	5	5	5	
Depreciation	1,261	1,775	1,825	1,769	1,788	1,635	1,246	1,175	1,267	1,549
YoY	17.2%	40.8%	2.8%	-3.1%	1.1%	-8.6%	-23.8%	-5.7%	7.8%	22.3%
Taxes and dues	160	143	118	98	116	226	194	288	362	406
Provision of allowance for doubtful accounts	-	124	2,378	-346	-36	-68	-77	216	311	-29
Other	125	109	151	108	114	173	138	123	317	117
Variable costs	2,121	1,993	1,914	1,666	1,852	3,138	2,964	2,969	2,613	2,792
Variable cost ratio (% of commissions)	11.6%	11.5%	12.7%	14.4%	13.1%	11.5%	14.0%	13.7%	15.1%	14.7%
Variable cost ratio (% of net operating revenue)	8.7%	8.6%	9.0%	10.0%	9.3%	8.1%	9.0%	9.0%	9.9%	9.2%
Fixed costs	12,400	9,898	10,956	7,694	7,867	8,511	7,843	8,289	8,948	9,158

Source: Shared Research based on company data

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

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

► **Commissions paid:** About half paid to the Japan Securities Clearing Corporation for delivery and settlement, and is closely tied to equity trading value. Also includes commissions paid to other Banks.

**Stock exchange and association fees:** mostly monthly commissions that all brokerages pay to stock exchanges, which comprise about 80% of expenses. Also includes payments for futures and options transactions at the Osaka Exchange.

According to the company, aggregate payments made to the Tokyo Stock Exchange, JASDAQ, and the Japan Securities Clearing Corporation are about 0.5 basis points of equity trading value.

**Telecommunications and transport:** about half of telecommunications charges go to QUICK for stock price information services. Fees depend on the number of login-user accounts (users must log in at least once a month to be counted as a trading account). This also includes system access fees to utilize Tokyo Stock Exchange systems.

#### System maintenance and management main component of business outsourcing expenses

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

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

#### Depreciation costs are mainly for software

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

#### Real estate-related expenses

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

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

#### Personnel expenses stable

Matsui's employee numbers vary from 100 to 130. The average salary is stable at between JPY6mn and JPY7mn. Personnel expenses total between JPY1.8bn and JPY2.3bn. Other compensation expenses have declined since FY03/09, due to a decrease in temporary workers. Since FY03/15, however, the number of temporary workers as well as other compensation expenses have been on the rise.

#### Employees

(Number of people)	FY03/08	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17
Employees	109	108	108	117	119	121	124	120	121	123
Average temporary workers	214	203	178	169	155	155	151	156	195	197

Source: Shared Research based on company data

#### Operating margins structurally high

Variable costs were JPY2.8bn in FY03/18, assuming variable costs include half of commissions paid, stock exchange and association fees, and half of telecommunications and transport costs. Variable costs stood at 14.7% of commissions received and 9.2% of net operating revenue in FY03/18. Fixed costs were JPY9.2bn.



As a result, based on FY03/18 results, the breakeven point for OP was JPY10.1bn; and the breakeven point ratio was 33.1%, according to Shared Research estimates. Even if Matsui's FY03/18 net operating revenue had more than halved, the company would have been able to cover its fixed expenses and post an operating profit.

## Strengths and weaknesses

### Strengths

- Low cost structure:** Matsui prides itself on its low costs and has built a cost structure that can withstand deteriorations in the external environment. Shared Research estimates the company's breakeven point ratio at 33.1% based on FY03/18 results. Matsui Securities would be able to cover fixed costs and post an operating profit even if net operating income fell by more than half. Additionally, as of end-FY03/18, shareholder equity was JPY98.6bn, second only to SBI Securities among the five major online stockbrokers.
- Customers emphasize support and a stable system over low commissions:** Matsui maintained relatively high commission rates in the early 2000s, when commission price wars intensified. The company secured customers by focusing on customer support and product line-up. Shared Research thinks Matsui has successfully captured customers who prioritize customer support and a stable system over low commissions. The company has been able to maintain high commission rates since FY03/07. The introduction of Margin Trading Service for Day-trades in January 2013 helped the company to lure active day traders from competitors without negatively impacting its own earnings.
- President's reputation, insight, and ability to execute:** Since being appointed executive director in 1990, President Michio Matsui has developed and executed major strategic initiatives. Matsui was an industry innovator in telephone trading and internet stockbroking services. His name value is also a lure for potential clients. In Shared Research's view, President Michio Matsui's insight allows him to exploit shifts in the business climate. He has an exceptional ability to make decisions and act on them.

### Weaknesses

- Focus on stock trading has meant little income diversification:** Matsui is a specialist brokerage with a policy of not diversifying its sources of income. The company is more dependent on stock brokerage commissions and net interest income than its competitors. Income rises in bull markets, but falls in bear markets, making the company exposed to economic swings. Shared Research expects Matsui to address this weakness, as explained below, by diversifying income sources without substantially increasing expenses. It began handling mutual funds in November 2016, and in FY03/18 took steps to improve income from forex margin trading, while considering potential launch of a securities lending service.
- Monetization of inactive traders a challenge:** Inactive traders (those with 10 or fewer trades per month) accounted for 95% of customers and 75% of assets under customers' accounts as of March 2017, but only 5% of trading value. Matsui recognizes monetization of inactive traders as an area which requires attention. Handling mutual funds might be a solution for monetizing accounts of inactive traders. While competitors aggressively deal in mutual funds, Matsui did not offer these instruments because traditionally the fee structure for mutual funds worked to the advantage of the sellers. However, in recent years, no-load mutual funds (mutual funds that do not charge sales commissions) have become more widespread, along with index funds with low custodian fees. In light of this trend, Matsui started selling mutual funds and launched a portfolio proposal service based on a proprietary robo-advisory service in November 2016.
- Dependence on the president:** as outlined above, Shared Research understands that Matsui depends on President Michio Matsui for its corporate policies and business strategy decisions. However, reliance on a single individual could hamper growth and reduce the company's ability to innovate.

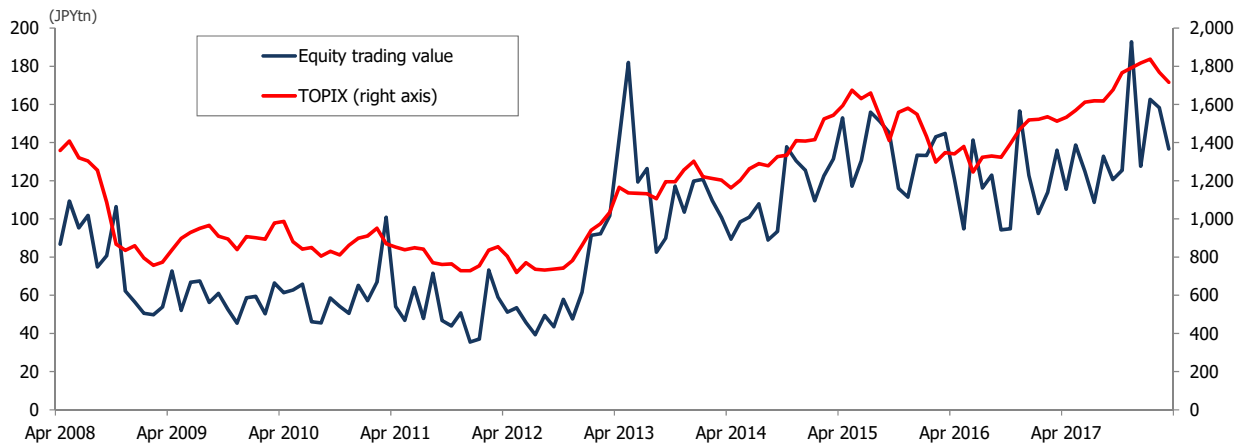
## Market and value chain

### Changes in equity trading value and margin trading balance

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

### Equity trading value and stock price indices

Equity trading value at Tokyo and Nagoya stock markets and TOPIX

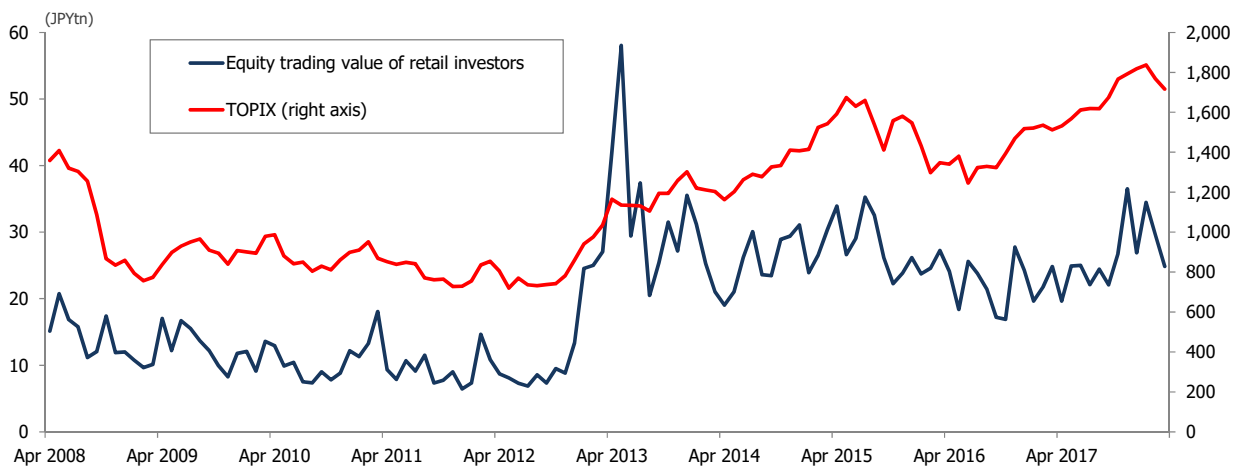


Source: Shared Research based on Japan Exchange Group Monthly Statistics Report

Equity trading value is determined by stock prices and the number of stocks traded, and is therefore closely linked with stock price indices. From April 2008 through March 2018, the correlation coefficient between the Tokyo Stock Price Index (TOPIX) and the equity trading value at Tokyo and Nagoya stock exchanges was 0.86, indicating a strong correlation.

### Equity trading value of individuals and stock price indices

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



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

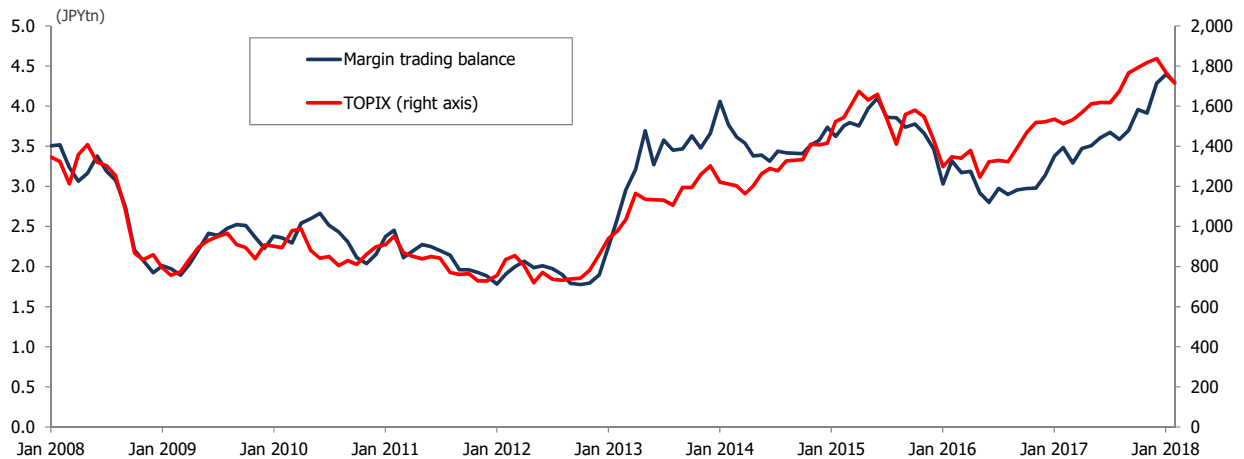
In March 2018, foreign investors accounted for 60.2% of equity trading value, followed by domestic retail investors at 16.5%, and domestic institutional investors at 6.2%.

Equity trading value of individuals (retail investors) also moves largely in line with stock price indices, but tends to settle down once the indices exceed a certain mark. Looking at the movements from April 2008 through March 2018, the equity trading value of individuals started to cool off around the time TOPIX hit the 1,200 mark in 2014, while TOPIX continued to trend upward.

During the same period, the correlation coefficient between TOPIX and the equity trading value of individuals at Tokyo and Nagoya stock exchanges was 0.72, indicating a weaker correlation compared with overall equity trading value.

## Margin trading balance and stock price indices

### Margin trading balance and TOPIX



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

Margin trading balance is also closely linked with stock price indices. From April 2008 through March 2018, the correlation coefficient between TOPIX and margin trading balance at Tokyo and Nagoya stock exchanges was 0.91, showing a strong correlation.

## Evolution of online brokerages

### The rise of online brokerages

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

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

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

#### Five major online brokerages

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

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

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

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

Source: Shared Research based on company data

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

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

**From 2001, commission competition intensifies**

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

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

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

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

**Brokerage commission rates**

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

Source: Shared Research based on various company data

**Five online brokerages' share of equity trading value of individuals**

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

Source: Shared Research based on company data

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

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

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

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

**Earnings totals for five online brokerages**

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

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

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

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

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

**Earnings totals for five online brokerages**

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

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

**Six major company structure becomes clear**

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

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

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

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

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

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

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

### Major securities firms' efforts fizzle out

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

### Brokerage commissions fall

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

#### Brokerage commission rates

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

Source: Shared Research based on various company data

### Stable share for six major online brokers

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

#### Six online brokerages' share of trading value of individuals

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

Source: Shared Research based on various company data

## Beyond FY03/13

### Earnings recovering since FY03/13

Recovery in the broader stock market brought with it an increase in trades of individuals and a corresponding recovery in online brokers' earnings from FY03/13 onward.

#### Earnings totals for five online brokerages

(JPYmn)	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Operating revenue	109,060	123,137	219,467	213,892	233,680	207,303	247,433
YoY	-12.1%	12.9%	78.2%	-2.5%	9.3%	-11.3%	19.4%
Commissions	62,842	73,156	132,143	115,710	122,136	103,077	118,577
YoY	-14.8%	16.4%	80.6%	-12.4%	5.6%	-15.6%	15.0%
Net interest income	35,458	37,896	68,428	77,735	82,452	77,541	101,288
YoY	-7.7%	6.9%	80.6%	13.6%	6.1%	-6.0%	30.6%
Net operating revenue	99,449	114,477	207,883	199,888	218,046	190,763	229,438
YoY	-12.7%	15.1%	81.6%	-3.8%	9.1%	-12.5%	20.3%
SG&A expenses	75,705	77,128	99,570	103,853	115,779	117,922	131,591
YoY	-7.8%	1.9%	29.1%	4.3%	11.5%	1.9%	11.6%
Operating profit	23,743	37,347	108,313	96,032	102,266	72,840	97,846
YoY	-25.5%	57.3%	190.0%	-11.3%	6.5%	-28.8%	34.3%

Source: Shared Research based on various company data

Note: Figures for SBI Securities and Rakuten Securities reflect parent company results; figures for Monex Group reflect results at Monex.

### Six-brokerage structure becomes apparent

Alongside a continuing market recovery since FY03/13, the proportion of individual trades conducted online has risen, and during FY03/18, the six major online brokerages together handled 84% of overall equity trading value by individuals.

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

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

Source: Shared Research based on various company data

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

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

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

### Commissions trending flat after a period of downward movement

Matsui introduced a commission-free service, Margin Trading Service for Day-trades, in January 2013. Limited to day traders, it was effectively a cut in commissions. During FY03/14, Rakuten Securities and kabu.com Securities also lowered their commissions. Since then, brokerage commissions in general have either remained largely unchanged or have been slowly declining. Commission rates of major online brokers other than Matsui and Monex, Inc. were down to a low 0.03% in FY03/18.

Matsui Securities, SBI Securities, Rakuten Securities, and kabu.com Securities have seen an increase in their share of equity trading value by individuals since FY03/12, while Monex, Inc., whose commissions have remained the highest, has been losing market share.

#### Brokerage commission rates

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Matsui Securities	0.13%	0.10%	0.06%	0.05%	0.05%	0.05%	0.05%
SBI Securities	0.04%	0.03%	0.02%	0.03%	0.03%	0.03%	0.03%
Rakuten Securities	0.06%	0.06%	0.04%	0.04%	0.04%	0.04%	0.03%
Monex, Inc.	0.09%	0.09%	0.08%	0.09%	0.09%	0.09%	0.08%
kabu.com Securities	0.07%	0.06%	0.04%	0.04%	0.03%	0.03%	0.03%

Source: Shared Research based on various company data

#### Six online brokerages' share of equity trading value of individuals

	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Matsui Securities	7.2%	8.2%	10.5%	11.7%	11.7%	13.0%	11.2%
SBI Securities	32.9%	32.6%	33.8%	34.6%	34.9%	34.8%	35.1%
Rakuten Securities	14.8%	14.8%	14.6%	14.5%	14.1%	15.2%	16.4%
Monex, Inc.	7.3%	7.1%	6.2%	5.5%	5.1%	5.0%	5.3%
kabu.com Securities	7.0%	7.2%	7.4%	8.6%	8.7%	8.9%	8.8%
GMO CLICK Securities	8.0%	7.7%	8.1%	8.5%	8.2%	8.1%	7.0%

Source: Shared Research based on various company data

By FY03/18 the six major online brokerages were handling more than 80% of the overall equity trading value of individuals. Since the early 2000s, online brokers have achieved earnings growth by taking market share from their brick-and-mortar rivals, and Shared Research believes that such a way of growing earnings has become limited. With regard to commission rates, we would note that while over the last ten years there have been no major changes in commission rates at SBI Securities, commission rates at Rakuten Securities have come down about 25% and commission rates at both kabu.com Securities and Matsui Securities have come down by more than 50%. As a result, the brokerage commission rate at SBI Securities, Rakuten Securities, and kabu.com Securities is down to 0.03% while the rate for Matsui Securities has come down to 0.05%. With little room left for commission rates to come down, Shared Research believes online brokers will have to either seek growth opportunities in areas other than commissions from retail equity trading or try to increase their market share and growth over the medium to long term by distinguishing themselves from competitors based on factors other than low commission rates.



## Regulatory changes

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

### The liberalization of stockbroking commissions

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

### General margin trading

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

### Changes in margin requirements for margin trading

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

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

## Competition

### Five major online brokerages: Earnings and characteristics

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

#### Earnings at five major online brokerages

FY03/18 (JPY mn)	Matsui Securities	SBI Securities	Rakuten Securities	Monex Inc.	kabu.com Securities
Operating revenue	32,210	102,843	55,450	32,454	24,476
Net operating revenue	30,480	96,289	52,275	29,394	21,000
Commissions	18,968	48,238	23,478	17,087	10,806
% of net operating revenue	62.2%	50.1%	44.9%	58.1%	51.5%
Brokerage commissions	18,250	34,521	17,825	14,238	9,026
% of net operating revenue	59.9%	35.9%	34.1%	48.4%	43.0%
Fees for offering, secondary distribution, and solicitation for selling and others for professional investors	5	4,491	1,882	458	192
% of net operating revenue	0.0%	4.7%	3.6%	1.6%	0.9%
Other commissions	698	8,267	3,771	2,218	1,588
% of net operating revenue	2.3%	8.6%	7.2%	7.5%	7.6%
Net gain (loss) on trading	1,201	9,849	9,425	3,862	1,062
% of net operating revenue	3.9%	10.2%	18.0%	13.1%	5.1%
Net interest income	10,310	38,137	18,581	7,720	9,038
% of net operating revenue	33.8%	39.6%	35.5%	26.3%	43.0%
Interest income	12,040	44,691	21,755	10,780	12,022
Interest expenses	1,729	6,554	3,174	3,060	2,984
Others	16	64	790	898	94
% of net operating revenue	0.1%	0.1%	1.5%	3.1%	0.4%
SG&A expenses	11,949	51,154	31,398	24,024	13,066
SG&A / Net operating revenue	39.2%	53.1%	60.1%	81.7%	62.2%
Operating profit	18,532	45,134	20,877	5,369	7,934
OP / Net operating revenue	60.8%	46.9%	39.9%	18.3%	37.8%
Net assets	98,751	203,471	94,204	50,536	44,753

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

**Five major online brokerages**

	Matsui Securities	SBI Securities	Rakuten Securities	Monex Inc.	kabu.com Securities
Competitive commissions	No	Yes	Yes	No	Yes
Brokerage commission rate	0.05%	0.03%	0.03%	0.08%	0.03%
Diversification	No	Yes	Yes	Yes	Yes
Point of difference	- Margin Trading Service for Day-trades - Premium Short-selling	- Commissions - HYPER short-selling	- Commissions - Ichi-nichi (one day) margin trade - Special short selling	- Diversified ordering methods - Availability of US stocks; commissions - Trading tool	- Diversified ordering methods - Availability of short stocks for general margin trades
Number of accounts ('000)	1,136	4,261	2,611	1,761	1,087
Number of margin accounts ('000)	185	527	253	119	147
Margin accounts as % of total	16.3%	12.4%	9.7%	6.8%	13.5%
Assets under customers' account (JPYbn)	2,524	11,426	5,026	4,229	2,336
Assets under customers' account per account (JPYmn)	2.2	2.7	1.9	2.4	2.1
Equity trading value (JPYbn)	35,607	111,229	51,943	16,769	27,872
Equity trading value per account (JPYmn)	31.3	26.1	19.9	9.5	25.6
Margin trading balance (JPYbn)	332	1,001	468	205	336
Balance per account (JPYmn)	0.29	0.23	0.18	0.12	0.31
Margin trading balance per account (JPYmn)	1.80	1.90	1.85	1.73	2.29

Source: Shared Research based on Matsui Securities, SBI Securities, Rakuten Securities, Monex, Inc., kabu.com Securities data  
 Note: Brokerage commission rates are calculated utilizing data from FY03/18.

**Commission strategy**

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

kabu.com has been aggressively lowering commissions. Since FY03/10, it expanded the number of large-margin-trading customers to whom it will offer commission-free trades, and in FY03/12, it revised its cash trading commissions. It also reduced its margin-trading fees in November 2013 and spot-trading fees in November 2015. Meanwhile, Matsui launched its margin day trading service in Q4 FY03/13, and its commission rates have declined from FY03/13 onward.

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

**Diversification strategy**

Shared Research notes that up to FY03/16, Matsui focused on its online stock brokerage business and lagged behind other major online brokers in the handling of mutual funds and strengthening forex products. Thus a breakdown of the five main online brokers' net operating revenue in FY03/17 showed that Matsui had a larger share of commissions and net interest income.

**Handling of mutual funds and its contribution to earnings**

SBI Securities, Rakuten Securities, Monex, Inc., and kabu.com Securities are all keen to handle mutual funds. SBI, Rakuten, and Monex, Inc. each handle over 1,000 different types of mutual funds, and kabu.com boasts a strong lineup through group company Mitsubishi UFJ Asset Management.

When brokerages handle mutual funds, fund management companies pay them an agency fee, which is a portion of the custodian fee calculated as a percentage of total net asset value. Brokerages also receive sales commissions when they sell mutual funds to their customers. Sales commissions (booked under "fees for offering, secondary distribution, and solicitation of sales for specific investors, and others") and agency commissions (booked as "other commissions received") are recorded as brokers' revenue.

As a result, for the five major online brokerages (excluding Matsui), around 10% of net operating revenue in FY03/17 was from "fees for offering, secondary distribution, and solicitation of sales for specific investors, and others," which include sales

commissions on mutual funds. “Other commissions received,” including agency commissions, also played a role. In contrast, brokerage commissions, primarily those from equity trades, composed 30–55% of net operating revenue.

Matsui began handling mutual funds as of November 2016. Only 3.7% of net operating revenue in FY03/17 was attributable to “fees for offering, secondary distribution, and solicitation of sales for specific investors, and others” and “other commissions received.” In contrast, brokerage commissions, primarily those from equity trades, composed 61.4% of net operating revenue.

#### Contribution of forex margin trading business to earnings

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

The trading profit/loss of the major online brokers other than Matsui accounted for 5–22% of their FY03/17 net operating revenue versus Matsui’s 0%. Matsui changed the business model of its forex margin trading business in May 2017 to improve profitability.

### Key indicators of the top five online brokerages

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

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

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

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

#### Number of customer accounts

##### Number of customer accounts

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	2,608,716	2,943,969	3,246,363	3,563,881	3,839,883	4,261,410	10.3%
Rakuten Securities	1,462,267	1,673,081	1,838,630	2,039,530	2,250,038	2,610,549	12.3%
Monex, Inc.	1,349,208	1,457,574	1,533,992	1,635,172	1,696,123	1,760,805	5.5%
Matsui Securities	870,552	942,005	1,002,439	1,056,072	1,094,240	1,136,018	5.5%
kabu.com Securities	810,069	869,044	920,998	1,002,268	1,048,720	1,087,327	6.1%
<b>Total</b>	<b>7,100,812</b>	<b>7,885,673</b>	<b>8,542,422</b>	<b>9,296,923</b>	<b>9,929,004</b>	<b>10,856,109</b>	<b>8.9%</b>

Source: Shared Research based on each company’s data

##### Customer account growth rate

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	9.3%	12.9%	10.3%	9.8%	7.7%	11.0%
Rakuten Securities	14.3%	14.4%	9.9%	10.9%	10.3%	16.0%
Monex, Inc.	8.2%	8.0%	5.2%	6.6%	3.7%	3.8%
Matsui Securities	3.7%	8.2%	6.4%	5.4%	3.6%	3.8%
kabu.com Securities	5.5%	7.3%	6.0%	8.8%	4.6%	3.7%
<b>Total</b>	<b>8.9%</b>	<b>11.1%</b>	<b>8.3%</b>	<b>8.8%</b>	<b>6.8%</b>	<b>9.3%</b>

Source: Shared Research based on each company’s data

## Margin accounts

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	266,979	314,183	355,375	409,473	462,555	527,102	14.6%
Rakuten Securities	153,569	172,441	187,514	205,861	222,452	252,675	10.5%
Monex, Inc.	-	-	97,515	105,041	110,954	118,921	6.8%
Matsui Securities	134,576	147,788	159,375	169,534	177,242	184,731	6.5%
kabu.com Securities	89,096	100,085	113,528	127,290	138,146	146,730	10.5%

Source: Shared Research based on each company's data

Note: In the case of Monex, Inc., the 5-year CAGR reflects the average growth rate from FY03/15 through FY03/18.

## Margin account growth rate

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	10.8%	17.7%	13.1%	15.2%	13.0%	14.0%
Rakuten Securities	8.3%	12.3%	8.7%	9.8%	8.1%	13.6%
Monex, Inc.	-	-	-	7.7%	5.6%	7.2%
Matsui Securities	6.7%	9.8%	7.8%	6.4%	4.5%	4.2%
kabu.com Securities	9.7%	12.3%	13.4%	12.1%	8.5%	6.2%

Source: Shared Research based on each company's data

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

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	10.2%	10.7%	10.9%	11.5%	12.0%	12.4%
Rakuten Securities	10.5%	10.3%	10.2%	10.1%	9.9%	9.7%
Monex, Inc.	-	-	6.4%	6.4%	6.5%	6.8%
Matsui Securities	15.5%	15.7%	15.9%	16.1%	16.2%	16.3%
kabu.com Securities	11.0%	11.5%	12.3%	12.7%	13.2%	13.5%

Source: Shared Research based on each company's data

## Customer assets under custody

### Customer assets under custody

(JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	5,721,100	6,750,100	8,184,500	8,313,300	9,388,200	11,425,700	14.8%
Rakuten Securities	2,279,028	2,752,308	3,506,620	3,533,823	4,099,172	5,026,163	17.1%
Monex, Inc.	2,789,573	3,149,938	3,705,472	3,477,282	3,803,176	4,229,011	8.7%
Matsui Securities	1,715,927	1,916,806	2,215,656	2,063,892	2,275,160	2,524,428	8.0%
kabu.com Securities	1,472,046	1,687,805	2,026,681	1,920,672	2,120,425	2,335,600	9.7%
Total	13,977,674	16,256,957	19,638,929	19,308,969	21,686,133	25,540,902	12.8%

Source: Shared Research based on each company's data

### Per account assets under custody

(JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	2.2	2.3	2.5	2.3	2.4	2.7
Rakuten Securities	1.6	1.6	1.9	1.7	1.8	1.9
Monex, Inc.	2.1	2.2	2.4	2.1	2.2	2.4
Matsui Securities	2.0	2.0	2.2	2.0	2.1	2.2
kabu.com Securities	1.8	1.9	2.2	1.9	2.0	2.1

Source: Shared Research based on each company's data

## Equity trading value

### Equity trading value

(JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	50,530,731	129,985,891	108,448,960	115,715,106	92,515,600	111,228,600	17.1%
Rakuten Securities	23,021,492	56,036,747	45,578,939	46,549,165	40,416,297	51,942,687	17.7%
Monex, Inc.	10,985,709	23,855,300	17,093,831	17,054,153	13,315,856	16,768,680	8.8%
Matsui Securities	12,775,612	40,444,819	36,626,479	38,724,705	34,680,714	35,606,752	22.8%
kabu.com Securities	11,211,437	28,373,267	27,093,482	28,675,866	23,534,144	27,872,478	20.0%
Total	108,524,981	278,696,024	234,841,691	246,718,995	204,462,611	243,419,197	17.5%

Source: Shared Research based on each company's data

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

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	20.2	46.8	35.0	34.0	25.0	27.5
Rakuten Securities	16.8	35.7	26.0	24.0	18.8	21.4
Monex, Inc.	8.5	17.0	11.4	10.8	8.0	9.7
Matsui Securities	14.9	44.6	37.7	37.6	32.3	31.9
kabu.com Securities	14.2	33.8	30.3	29.8	22.9	26.1

Source: Shared Research based on various company data

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

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

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	10.1	20.8	14.5	14.0	10.5	10.7
Rakuten Securities	11.7	22.3	14.6	13.2	10.6	11.4
Monex, Inc.	4.4	8.0	5.0	4.7	3.7	4.2
Matsui Securities	8.4	22.3	17.7	18.1	16.0	14.8
kabu.com Securities	8.6	18.0	14.6	14.5	11.6	12.5

Source: Shared Research based on each company's data

**Margin trading balance**
**Margin trading balance**

(JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	517,000	691,000	787,000	677,000	799,000	1,001,000	14.1%
Rakuten Securities	266,769	322,252	358,480	303,752	353,418	468,483	11.9%
Monex, Inc.	170,100	189,900	197,800	163,400	166,000	205,300	3.8%
Matsui Securities	287,591	295,295	319,024	255,177	278,086	331,931	2.9%
kabu.com Securities	203,283	247,550	289,124	265,811	295,752	335,822	10.6%

Source: Shared Research based on each company's data

**Per account margin trading balance**

(JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	0.20	0.23	0.24	0.19	0.21	0.23
Rakuten Securities	0.18	0.19	0.19	0.15	0.16	0.18
Monex, Inc.	0.13	0.13	0.13	0.10	0.10	0.12
Matsui Securities	0.33	0.31	0.32	0.24	0.25	0.29
kabu.com Securities	0.25	0.28	0.31	0.27	0.28	0.31

Source: Shared Research based on various company data

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

(JPY)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	16,159	25,169	23,323	23,204	20,209	23,771	8.0%
Rakuten Securities	16,080	27,647	25,077	26,691	20,459	21,510	6.0%
Monex, Inc.	15,929	24,683	19,933	20,123	15,929	17,006	1.3%
Matsui Securities	23,287	42,744	33,833	32,065	24,647	27,333	3.3%
kabu.com Securities	14,543	25,354	23,418	23,282	18,568	19,662	6.2%

Source: Shared Research based on each company's data

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

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

(JPY)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	6,927	11,594	9,242	9,195	7,690	8,522	4.2%
Rakuten Securities	8,378	13,720	10,579	9,814	7,306	7,335	-2.6%
Monex, Inc.	7,972	14,718	10,623	10,191	7,614	8,237	0.7%
Matsui Securities	15,285	28,887	20,597	19,834	15,123	16,366	1.4%
kabu.com Securities	7,874	13,507	10,639	10,375	7,832	8,451	1.4%

Source: Shared Research based on each company's data

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

**Per account net financial income (net financial income / number of customer accounts)**

(JPY)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	4,078	7,295	7,604	7,754	7,176	9,415	18.2%
Rakuten Securities	3,716	7,347	7,552	7,113	6,224	7,646	15.5%
Monex, Inc.	3,606	4,560	4,568	4,129	3,879	4,466	4.4%
Matsui Securities	6,747	12,550	12,048	10,931	8,593	9,246	6.5%
kabu.com Securities	4,445	8,695	9,372	9,184	7,347	8,462	13.7%

Source: Shared Research based on each company's data

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

**SG&A expenses of top five online brokerages**

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

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

## SG&amp;A expenses

**SG&A expenses**

(JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	28,972	37,118	37,507	41,050	42,253	51,154	12.0%
Rakuten Securities	15,047	20,730	23,613	27,275	26,836	31,398	15.8%
Monex, Inc.	15,801	20,367	21,088	24,428	25,738	24,024	8.7%
Matsui Securities	9,719	11,648	10,806	11,258	11,560	11,949	4.2%
kabu.com Securities	7,589	9,707	10,839	11,768	11,535	13,066	11.5%

Source: Shared Research based on each company's data

**SG&A expenses to net operating revenue ratio**

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	71.8%	53.1%	52.0%	52.0%	56.5%	53.1%
Rakuten Securities	68.3%	47.8%	53.6%	52.7%	61.2%	60.1%
Monex, Inc.	76.4%	58.8%	70.7%	76.6%	97.0%	81.7%
Matsui Securities	48.8%	30.1%	32.9%	34.1%	43.6%	39.2%
kabu.com Securities	66.2%	45.6%	51.7%	52.6%	60.6%	62.2%

Source: Shared Research based on each company's data

**Per account SG&A expenses**

(JPY)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	11,597	13,369	12,118	12,055	11,414	12,629
Rakuten Securities	10,977	13,223	13,448	14,066	12,512	12,919
Monex, Inc.	12,172	14,513	14,098	15,416	15,452	13,899
Matsui Securities	11,364	12,853	11,115	10,938	10,752	10,715
kabu.com Securities	9,620	11,562	12,110	12,238	11,248	12,234

Source: Shared Research based on each company's data

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

## Trading-related expenses

**Trading-related expenses**

(JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	5,903	9,849	9,238	10,142	8,833	11,249	13.8%
Rakuten Securities	5,520	9,172	9,932	11,250	10,975	14,219	20.8%
Monex, Inc.	4,511	6,175	6,278	6,436	5,432	5,886	5.5%
Matsui Securities	3,356	4,957	4,719	4,674	4,345	4,592	6.5%
kabu.com Securities	3,458	4,672	5,500	5,908	5,010	5,732	10.6%

Source: Shared Research based on various company data

## Personnel expenses

**Personnel expenses**

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	3,877	3,694	4,227	4,654	5,481	6,071	9.4%
Rakuten Securities	2,574	2,743	3,310	3,705	3,597	3,943	8.9%
Monex, Inc.	2,201	2,629	2,579	3,019	2,995	2,812	5.0%
Matsui Securities	1,832	2,075	2,030	2,178	2,227	2,364	5.2%
kabu.com Securities	920	1,154	1,159	1,166	1,427	1,511	10.4%

Source: Shared Research based on each company's data

## System-related expenses (real estate-related expenses, office and supplies, depreciation)

**System-related expenses**

(JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	5-yr CAGR
SBI Securities	15,965	19,770	20,760	22,194	23,434	29,035	12.7%
Rakuten Securities	6,683	8,363	9,660	10,763	11,183	11,813	12.1%
Monex, Inc.	6,672	8,073	9,049	11,335	13,567	11,839	12.2%
Matsui Securities	4,338	4,285	3,801	3,778	3,999	4,498	0.7%
kabu.com Securities	2,931	3,453	3,714	3,847	4,356	5,050	11.5%

Source: Shared Research based on each company's data

**System-related expenses to net operating revenue ratio**

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	39.5%	28.3%	28.8%	28.1%	31.3%	30.2%
Rakuten Securities	30.3%	19.3%	21.9%	20.8%	25.5%	22.6%
Monex, Inc.	32.3%	23.3%	30.3%	35.5%	51.1%	40.3%
Matsui Securities	21.8%	11.1%	11.6%	11.4%	15.1%	14.8%
kabu.com Securities	25.5%	16.2%	17.7%	17.2%	22.9%	24.0%

Source: Shared Research based on each company's data

**Per account system-related expenses**

(JPY)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	6,390	7,121	6,707	6,518	6,330	7,168
Rakuten Securities	4,875	5,335	5,502	5,551	5,214	4,861
Monex, Inc.	5,140	5,752	6,050	7,153	8,145	6,849
Matsui Securities	5,072	4,728	3,910	3,671	3,719	4,034
kabu.com Securities	3,716	4,113	4,150	4,000	4,248	4,728

Source: Shared Research based on each company's data

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

**Per transaction system-related expenses**

(JPY)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
SBI Securities	-	-	-	-	-	-
Rakuten Securities	15.3	15.8	11.0	12.4	14.1	14.2
Monex, Inc.	12.8	11.9	16.0	20.2	26.9	21.1
Matsui Securities	10.8	6.9	6.9	6.9	7.9	8.4
kabu.com Securities	3.4	3.1	3.6	3.7	4.8	5.3

Source: Shared Research based on each company's data

## Competitors

### SBI Securities

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

Since the early 2000s, SBI Securities has been growing its share of the individual investor market through the lowest commissions in the industry. As of March 2017, it was the largest in the industry in terms of the number of accounts, assets under customers' accounts, and trading value.

**Earnings trends and key indicators at SBI Securities**

Key performance indicators	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Number of accounts ('000)	2,609	2,944	3,246	3,564	3,840	4,261
YoY	9.3%	12.9%	10.3%	9.8%	7.7%	11.0%
Assets under customers' accounts (JPYbn)	5,721	6,750	8,185	8,313	9,388	11,426
YoY	32.6%	18.0%	21.3%	1.6%	12.9%	21.7%
Domestic equity brokerage trading value (JPYbn)	50,531	129,986	108,449	115,715	92,516	111,229
YoY	37.0%	157.2%	-16.6%	6.7%	-20.0%	20.2%
Earnings (JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Net operating revenue	40,370	69,878	72,188	79,012	74,811	96,289
YoY	12.0%	73.1%	3.3%	9.5%	-5.3%	28.7%
Commissions received	23,378	41,453	40,241	43,872	40,125	48,238
YoY	17.0%	77.3%	-2.9%	9.0%	-8.5%	20.2%
Brokerage	17,305	32,190	28,606	31,311	28,467	34,521
YoY	17.0%	86.0%	-11.1%	9.5%	-9.1%	21.3%
% of net operating revenue	42.9%	46.1%	39.6%	39.6%	38.1%	35.9%
Underwriting and distribution	297	575	1,441	1,146	1,495	958
Subscription and distribution	1,858	3,714	3,946	4,306	3,411	4,491
Other commissions	3,918	4,974	6,247	7,110	6,753	8,267
Net trading income	6,731	8,096	8,363	8,692	8,055	9,849
YoY	-5.9%	20.3%	3.3%	3.9%	-7.3%	22.3%
% of net operating revenue	16.7%	11.6%	11.6%	11.0%	10.8%	10.2%
Net financial income	10,187	20,254	23,537	26,402	26,565	38,137
YoY	16.1%	98.8%	16.2%	12.2%	0.6%	43.6%
% of net operating revenue	25.2%	29.0%	32.6%	33.4%	35.5%	39.6%
SG&A expenses	28,972	37,118	37,507	41,050	42,253	51,154
YoY	1.5%	28.1%	1.0%	9.4%	2.9%	21.1%
% of net operating revenue	71.8%	53.1%	52.0%	52.0%	56.5%	53.1%
Trading-related	5,903	9,849	9,238	10,142	8,833	11,249
YoY	7.3%	66.8%	-6.2%	9.8%	-12.9%	27.4%
Personnel	3,877	3,694	4,227	4,654	5,481	6,071
YoY	-26.2%	-4.7%	14.4%	10.1%	17.8%	10.8%
System-related	15,965	19,770	20,760	22,194	23,434	29,035
YoY	7.8%	23.8%	5.0%	6.9%	5.6%	23.9%
Others	3,227	3,806	3,282	4,059	4,504	4,795
YoY	8.6%	17.9%	-13.8%	23.7%	11.0%	6.5%
Operating profit	11,399	32,760	34,681	37,962	32,559	45,134
YoY	51.9%	187.4%	5.9%	9.5%	-14.2%	38.6%
% of net operating revenue	28.2%	46.9%	48.0%	48.0%	43.5%	46.9%

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

**Rakuten Securities**

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

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



**Earnings trends and key indicators at Rakuten Securities**

Key performance indicators	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Number of accounts ('000)	1,462	1,673	1,839	2,040	2,250	2,611
YoY	14.3%	14.4%	9.9%	10.9%	10.3%	16.0%
Assets under customers' accounts (JPYbn)	2,279	2,752	3,507	3,534	4,099	5,026
YoY	36.7%	20.8%	27.4%	0.8%	16.0%	22.6%
Domestic equity brokerage trading value (JPYbn)	23,021	56,037	45,579	46,549	40,416	51,943
YoY	38.7%	143.4%	-18.7%	2.1%	-13.2%	28.5%
Earnings (JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Net operating revenue	22,042	43,341	44,031	51,756	43,880	52,275
YoY	20.8%	96.6%	1.6%	17.5%	-15.2%	19.1%
Commissions received	15,088	26,066	23,706	24,834	20,478	23,478
YoY	11.5%	72.8%	-9.1%	4.8%	-17.5%	14.6%
Brokerage	11,484	21,509	18,576	19,031	15,669	17,825
YoY	22.3%	87.3%	-13.6%	2.4%	-17.7%	13.8%
% of net operating revenue	52.1%	49.6%	42.2%	36.8%	35.7%	34.1%
Underwriting and distribution	1,065	2,215	2,178	1,944	1,343	1,882
Other commissions	2,538	2,340	2,950	3,858	3,464	3,771
Net trading income	1,235	5,142	6,508	9,609	9,568	9,425
YoY	285.9%	316.4%	26.6%	47.6%	-0.4%	-1.5%
% of net operating revenue	5.6%	11.9%	14.8%	18.6%	21.8%	18.0%
Net financial income	5,094	11,517	13,261	13,793	13,349	18,581
YoY	29.0%	126.1%	15.1%	4.0%	-3.2%	39.2%
% of net operating revenue	23.1%	26.6%	30.1%	26.7%	30.4%	35.5%
SG&A expenses	15,047	20,730	23,613	27,275	26,836	31,398
YoY	4.8%	37.8%	13.9%	15.5%	-1.6%	17.0%
% of net operating revenue	68.3%	47.8%	53.6%	52.7%	61.2%	60.1%
Trading-related	5,520	9,172	9,932	11,250	10,975	14,219
YoY	9.8%	66.2%	8.3%	13.3%	-2.4%	29.6%
Personnel	2,574	2,743	3,310	3,705	3,597	3,943
YoY	26.8%	6.6%	20.7%	11.9%	-2.9%	9.6%
System-related	6,683	8,363	9,660	10,763	11,183	11,813
YoY	-7.2%	25.1%	15.5%	11.4%	3.9%	5.6%
Others	267	447	707	1,552	1,078	1,418
YoY	161.8%	67.4%	58.2%	119.5%	-30.5%	31.5%
Operating profit	6,994	22,611	20,417	24,481	17,043	20,877
YoY	79.9%	223.3%	-9.7%	19.9%	-30.4%	22.5%
% of net operating revenue	31.7%	52.2%	46.4%	47.3%	38.8%	39.9%

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

**kabu.com securities (TSE1: 8703)**

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

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

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

**Earnings trends and key indicators at kabu.com securities**

Key performance indicators	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Number of accounts ('000)	810	869	921	1,002	1,049	1,087
YoY	5.5%	7.3%	6.0%	8.8%	4.6%	3.7%
Assets under customers' accounts (JPYbn)	1,472	1,688	2,027	1,921	2,120	2,336
YoY	28.5%	14.7%	20.1%	-5.2%	10.4%	10.1%
Domestic equity brokerage trading value (JPYbn)	11,211	28,373	27,093	28,676	23,534	27,872
YoY	43.7%	153.1%	-4.5%	5.8%	-17.9%	18.4%
Earnings (JPYmn)	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Net operating revenue	11,472	21,286	20,960	22,389	19,041	21,000
YoY	6.9%	85.5%	-1.5%	6.8%	-15.0%	10.3%
Commissions received	7,806	13,362	11,555	12,210	9,842	10,806
YoY	7.3%	71.2%	-13.5%	5.7%	-19.4%	9.8%
Brokerage	6,211	11,340	9,522	9,977	8,032	9,026
YoY	10.3%	82.6%	-16.0%	4.8%	-19.5%	12.4%
% of net operating revenue	54.1%	53.3%	45.4%	44.6%	42.2%	43.0%
Underwriting and distribution	205	352	293	356	224	192
Other commissions	1,389	1,670	1,739	1,876	1,585	1,588
Net trading income	159	623	1,016	1,347	1,108	1,062
YoY	297.5%	291.8%	63.1%	32.6%	-17.7%	-4.2%
% of net operating revenue	1.4%	2.9%	4.8%	6.0%	5.8%	5.1%
Financial income	3,506	7,300	8,388	8,832	7,534	9,038
YoY	2.7%	108.2%	14.9%	5.3%	-14.7%	20.0%
% of net operating revenue	30.6%	34.3%	40.0%	39.4%	39.6%	43.0%
SG&A expenses	7,589	9,707	10,839	11,768	11,535	13,066
YoY	-2.2%	27.9%	11.7%	8.6%	-2.0%	13.3%
% of net operating revenue	66.2%	45.6%	51.7%	52.6%	60.6%	62.2%
Trading-related	3,458	4,672	5,500	5,908	5,010	5,732
YoY	0.9%	35.1%	17.7%	7.4%	-15.2%	14.4%
Personnel	920	1,154	1,159	1,166	1,427	1,511
YoY	1.7%	25.4%	0.4%	0.6%	22.4%	5.9%
System-related	2,931	3,453	3,714	3,847	4,356	5,050
YoY	-7.4%	17.8%	7.6%	3.6%	13.2%	15.9%
Others	277	424	462	843	739	771
YoY	5.3%	53.1%	9.0%	82.5%	-12.3%	4.3%
Operating profit	3,882	11,579	10,120	10,621	7,505	7,934
YoY	30.8%	198.3%	-12.6%	5.0%	-29.3%	5.7%
% of net operating revenue	33.8%	54.4%	48.3%	47.4%	39.4%	37.8%

Source: Shared Research based on various company data

**Monex Group (TSE1: 8698)**

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

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

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

As a result of its revenue diversification, the share of non-brokerage related commissions in revenue is high; it does however have a high cost structure. Monex, Inc. (parent) had among the highest brokerage commission rates in FY03/17 after Matsui Securities. However, its SG&A expense ratio was the highest among the five major online brokers; its OP margin was the lowest.

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

**Earnings trends and key indicators at Monex, Inc.**

Key performance indicators		FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Number of accounts ('000)		1,349	1,458	1,534	1,635	1,696	1,761
YoY		8.2%	8.0%	5.2%	6.6%	3.7%	3.8%
Assets under customers' accounts (JPYbn)		2,790	3,150	3,705	3,477	3,803	4,229
YoY		26.5%	12.9%	17.6%	-6.2%	9.4%	11.2%
Domestic equity brokerage trading value (JPYbn)		10,986	23,855	17,094	17,054	13,316	16,769
YoY		34.9%	117.1%	-28.3%	-0.2%	-21.9%	25.9%
Earnings (JPYmn)		FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Net operating revenue		20,678	34,640	29,816	31,886	26,532	29,394
YoY		16.8%	67.5%	-13.9%	6.9%	-16.8%	10.8%
Commissions received		12,719	23,913	19,041	19,478	15,379	17,087
YoY		21.1%	88.0%	-20.4%	2.3%	-21.0%	11.1%
Brokerage		10,349	20,655	15,889	16,149	12,683	14,238
YoY		24.0%	99.6%	-23.1%	1.6%	-21.5%	12.3%
% of net operating revenue		50.0%	59.6%	53.3%	50.6%	47.8%	48.4%
Underwriting and distribution		47	120	99	152	136	171
Subscription and distribution		493	917	707	791	442	458
Other commissions		1,828	2,220	2,344	2,384	2,117	2,218
Net trading income		3,122	4,035	3,797	5,675	4,499	3,862
YoY		22.0%	29.2%	-5.9%	49.5%	-20.7%	-14.2%
% of net operating revenue		15.1%	11.6%	12.7%	17.8%	17.0%	13.1%
Financial income		4,681	6,400	6,832	6,542	6,461	7,720
YoY		4.6%	36.7%	6.7%	-4.2%	-1.2%	19.5%
% of net operating revenue		22.6%	18.5%	22.9%	20.5%	24.4%	26.3%
SG&A expenses		15,801	20,367	21,088	24,428	25,738	24,024
YoY		0.8%	28.9%	3.5%	15.8%	5.4%	-6.7%
% of net operating revenue		76.4%	58.8%	70.7%	76.6%	97.0%	81.7%
Trading-related		4,511	6,175	6,278	6,436	5,432	5,886
YoY		2.4%	36.9%	1.7%	2.5%	-15.6%	8.4%
Personnel		2,201	2,629	2,579	3,019	2,995	2,812
YoY		17.4%	19.4%	-1.9%	17.1%	-0.8%	-6.1%
System-related		6,672	8,073	9,049	11,335	13,567	11,839
YoY		-5.3%	21.0%	12.1%	25.3%	19.7%	-12.7%
Others		2,414	3,487	3,179	3,635	3,741	3,484
YoY		2.8%	44.4%	-8.8%	14.3%	2.9%	-6.9%
Operating profit		4,877	14,273	8,727	7,457	794	5,369
YoY		141.3%	192.7%	-38.9%	-14.6%	-89.4%	576.2%
% of net operating revenue		23.6%	41.2%	29.3%	23.4%	3.0%	18.3%

Source: Shared Research based on various company data

## Strategy

The current president, Michio Matsui, made drastic changes to Matsui Securities when he was appointed executive director in 1990. The company he joined was a mid-sized stockbroking firm founded in 1918. The company's current corporate strategy is derived from his management philosophy based on his experience working at NYK, a Japanese shipping company.

### Management philosophy based on experience working at NYK

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

In 1987, Michio Matsui joined Matsui Securities. In 1990, he was appointed executive director in the sales division. The stockbroking industry at that time comprised the so-called convoy system with the Ministry of Finance and the four major brokerages at the core. Competitive principles did not apply. Thinking that the brokerage industry would one day be subject to the winds of change, and that it would face the same type of competitive pressures as the shipping industry, he set out to reform the earnings structure of Matsui. In particular, in the early 1990s, when face-to-face sales were the norm for securities firms, he shifted from a commission-based salesperson structure to one where stock broking was done mainly over the telephone. The firm was successful in growing stockbroking revenue in the post-bubble economic climate.

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

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

### Superior competitiveness

Matsui's strengths in the online stockbroking market lie in its low-cost structure and solid capital base.

Based on FY03/18 results assuming a portion of trading-related expenses as variable, Shared Research estimated the company's fixed costs at JPY9.2bn; variable cost ratio was 9.2%, the breakeven point for operating revenue JPY10.1bn, and the breakeven point ratio 33.1%. The company has structured its business so that it would be profitable at the operating level even if net operating revenue fell by one third in FY03/18.

Also, the company has eschewed a diversification strategy; with a buildup of retained earnings, it had JPY98.8bn in net assets at the end of FY03/17. Among the five major online brokerages, this is second only to SBI Securities. Considering that Matsui's fixed costs were around JPY9.2bn in FY03/17, it could—in theory—maintain its capital base for over 10 years without any income.

## Historical performance

### 1H FY03/19 results

The results for 1H FY03/19 (April–September 2018) were as follows:

▷ Operating revenue:	JPY14.4bn (-1.4% YoY)
▷ Net operating revenue:	JPY13.8bn (-0.5% YoY)
▷ Operating profit:	JPY7.8bn (-2.6% YoY)
▷ Recurring profit:	JPY7.9bn (-2.3% YoY)
▷ Net income:	JPY5.5bn (-1.9% YoY)

Net operating revenues were basically flat YoY as increases in trading income and net interest income largely offset the decline in commissions. In addition to the decline in top-line revenues, profits were further pressured by increases in SG&A spending.

Aggregate equity trading value at the Tokyo and Nagoya stock exchanges increased 6% YoY during 1H FY03/19 (April–September 2018). However, total equity trading value by individuals at the two stock exchanges only went up by 1% YoY. As a result, the proportion of trading by individuals was 18% of total market transactions, down 1pp from 1H FY03/18.

In 1H, Matsui Securities began offering its Best Match service, which provides investors an opportunity to trade at a better price than through regular trading at the Tokyo Stock Exchange. Further, the company took measures to enhance convenience of trading, such as improving application procedures for initial public offerings and public offerings and expanding deposit services. It continued to expand its mutual fund offerings including installment-type NISA products, focused on launching new information tools (e.g., an official LINE account for FX traders with market alert and order placement features, and compatibility with Amazon's voice service Amazon Alexa), and bolstered its trading channels.

In 1H FY03/19, the value of individual equity trading through all brokers rose 1% YoY. However, equity trading handled at Matsui Securities declined 11.6% YoY to JPY14.6tn. The breakdown was JPY6.8tn (-9.4% YoY) in commissionable equity trades other than day-trades on margin, and JPY7.8tn (-13.3% YoY) in day-trades on margin. (These figures are Shared Research estimates based on total equity trading value stated in Matsui Securities' earnings results materials and its monthly disclosures for equity trading under its Margin Trading Service for Day-trades and other, non-proprietary equity trading.)

In terms of market share, Matsui Securities handled 10.5% (-1.4pp YoY) of all equity trading through brokers (value basis). As indicated above, trading at the company's margin day-trading service was sluggish. Changes in the terms of service for margin day-trades at other online brokers (such as lower interest rates, no fees for stock lending) also appear to have reduced Matsui's market share in this area. Specifically, in May 2017, Rakuten Securities lowered the threshold for waiving interest charges/stock lending fees to trades of JPY1.0mn from the previous JPY3.0mn in its Ichinichi (intraday) margin trading product. In contrast, Matsui's Margin Trading Service for Day-trades has no charges on trades of JPY3mn or more, whereas interest charges/stock lending fees are 2.0% for smaller trades. With its Ichinichi margin trading product, Rakuten Securities waives interest charges/stock lending fees on trades of JPY1.0mn or more and 1.9% for smaller trades.

### Commissions

Total commissions were JPY7.8bn (-8.9% YoY). Brokerage commissions were JPY7.4bn (-9.3% YoY).

The total value of commissionable equity trading at the company was down 11.6% YoY, but its average commission rate increased. The company's stock brokerage commission rate (stock brokerage commissions/trading value) rose by 0.001pp YoY to 0.047% as the proportion of commission-free Margin Trading Service for Day-trades to total equity trading through Matsui

Securities declined 1.1pp YoY to 53.3%. Excluding Margin Trading Service for Day-trades accounts, the brokerage commission rate was 0.101%, down 0.001pp YoY (calculated by Shared Research based on Matsui Securities' earnings results materials).

### Net trading income

The company posted net trading income of JPY670mn (+55.1% YoY), most of which came from forex trading following changes in its forex coverage model made in Q2 FY03/18.

### Net interest income

Net interest income (interest and dividend income minus interest costs) grew 9.1% YoY to JPY5.3bn. The average balance of margin accounts was up 13.2% YoY to JPY308.1bn. In May 2017, Matsui changed the threshold for additional guarantee deposits for margin trades from 25% to 20%, and the maintenance margin to eliminate the need for additional guarantee deposits from a recovery amount equivalent to 31% to one equivalent to 20%. According to management, these changes have helped prevent a decline in the margin trading balance.

The net interest income rate (calculated as net interest income divided by average balance of margin account) fell 0.1pp YoY to 3.5% owing to changes in the forex cover order execution model that changed the basis on which swap points are calculated. (Following the change, swap points paid to the party covering the swap are booked under trading profits/losses while the swap points paid by Matsui to its customer are booked under interest expense.)

### SG&A expenses

SG&A expenses rose 2.3% YoY to JPY6.0bn.

- ▷ Transaction-related expenses (including advertising expenses), primarily moving with trading value, came to JPY2.1bn (-5.4% YoY), of which stock exchange and association fees were JPY616mn (-14.4% YoY).
- ▷ Office expenses were JPY1.1bn (+7.4% YoY). Business outsourcing expenses increased, supported by the "Best Match" price optimization service.
- ▷ Depreciation totaled JPY837mn (+11.6% YoY). The increase was driven by factors such as a change in the NetFx cover order execution model.

### Customer trends

Equity trading value by Matsui's customers averaged roughly JPY2.4tn per month in 1H FY03/19 versus JPY2.7tn in 1H FY03/18.

The number of monthly active accounts fell 8.4% YoY to 129,000 in September 2018. Customer assets under custody at the end of September 2018 totaled JPY2.6tn (+6.1% YoY). While the number of trading accounts declined, customer assets under custody grew.

With regard to the profitability of customer accounts, the company reported total profits in customer accounts of JPY188.0bn in 2013, JPY4.0bn in 2014, and JPY23.0bn in 2015. Losses of JPY42.0bn in 2016 were followed by profits of JPY84.0bn in 2017. Thus far in 2018 (January–September) customer accounts are showing a profit of JPY15.0bn.

### Overview of mutual fund business

As of the end of September 2018, the company had about JPY10.6bn in customer assets in mutual funds (versus JPY8.0bn at the end of March 2018), though contributions to earnings from the mutual fund business were still limited. The company has been working to increase the amount of customer assets invested in mutual funds by increasing the number of mutual funds that it offers. As of the end of September 2018, Matsui Securities offered a total of 558 mutual funds versus 400 at the end of FY03/18.

### Conditions at "Best Match" price optimization service

In May 2018, Matsui began offering its "Best Match" price optimization service. In September 2018, its Best Match service handled a total of JPY19.4bn worth of trades for 14,904 customers involving 2,438 different stocks. The transaction price was improved by an average stock of 2.8 basis points (or JPY280 per JPY1.0mn), the price improvement ratio for small and mid-cap stocks being higher than the average and the price improvement ratio for large-cap stocks lower.

When customers seeking better execution prices send an order to the stock exchange, Matsui's Best Match system (its proprietary system that determines whether a given order can be matched and executed) checks the orders placed by other Matsui customers as well as the order books of other brokers (to which the system is linked) to determine whether or not the order in question can be executed at a better price or the same price as the best bid/offer price available through floor trading. If the Best Match system finds a match for the order at a better price than the best bid/offer price available on the floor, it executes the order at that price in an off-auction market. If the Best Match system cannot find a match for the order at a better price than the best bid/offer available on the floor, it forwards the order to floor trading.

In addition, the rate of cases in which contract prices were less favorable than through regular trading at the Tokyo Stock Exchange due to system processing delays (latency) amounted to less than 0.05%.

Note that even when the Best Match service determines it can provide investors a better transaction price than through regular trading at the Tokyo Stock Exchange, this may not be achieved in practice due to the time lag between system processing and updates to transaction prices at the Tokyo Stock Exchange.

### Q2 FY03/19 (July–September 2018) results

The results for Q2 FY03/19 (July–September 2018) were as follows:

▷ Operating revenue:	JPY6.9bn (-6.0% YoY)
▷ Net operating revenue:	JPY6.6bn (-4.6% YoY)
▷ Operating profit:	JPY3.7bn (-9.4% YoY)
▷ Recurring profit:	JPY3.7bn (-9.4% YoY)
▷ Net income:	JPY2.5bn (-9.1% YoY)

The decline in operating revenue in Q2 was due in large part to a decline in commissions, and the decline in profits was due largely to the decline in operating revenue.

Aggregate equity trading value at the Tokyo and Nagoya stock exchanges increased 6% YoY during Q2 FY03/19 (July–September 2018); total equity trading value by individuals went down by 3% YoY. Proportion of trading by individuals was down YoY to 17% of total market transactions.

In Q2 FY03/19 (July–September 2018), the value of equity trading handled at Matsui Securities declined 15.0% YoY to JPY6.8tn. The breakdown was JPY3.2tn (-13.4% YoY) in commissionable equity trades other than day-trades on margin, and JPY3.6tn (-16.3% YoY) in day-trades on margin. (These figures are Shared Research estimates based on total equity trading value stated in Matsui Securities' earnings results materials and its monthly disclosures for equity trading under its Margin Trading Service for Day-trades and other, non-proprietary equity trading.)

In terms of market share, Matsui Securities handled 10.1% (-1.5pp YoY) of all equity trading through brokers (value basis); trading at its Ichinichi margin trades for day-traders was down.

On a QoQ comparison basis, operating revenues were down JPY535mn or 7.2%, with commissions down JPY311mn or 7.7%, net interest income down JPY139mn or 5.5%, and net operating revenues down JPY509mn or 7.1%. On the profits front, SG&A expenses declined only JPY22mn or 0.7%, leaving operating profit down JPY485mn or 11.7%.

### Commissions

Total commissions were JPY3.7bn (-11.0% YoY). Brokerage commissions were JPY3.5bn (-11.4% YoY).

In Q2 FY03/19 (July–September 2018), the total value of commissionable equity trading value fell 15.0% YoY. The stock brokerage commission rate (stock brokerage commissions/trading value) increased by 0.001pp YoY to 0.049%, with the proportion of commission-free Margin Trading Service for Day-trades to total equity trading through Matsui Securities down 0.8pp YoY to 53.3%. Excluding Margin Trading Service for Day-trades accounts, the brokerage commission rate was 0.101%, up 0.001pp YoY (calculated by Shared Research based on Matsui Securities' earnings results materials).

On a QoQ comparison basis, commissions were down JPY311mn or 7.7%, the decline driven by a JPY322mn or 8.9% decline in brokerage commissions from stock and EFT trading. Hit by a 7.3% decline in individual trading (in value terms) on the Tokyo and Nagoya stock exchanges and a 0.8pp decline in its share of the individual trading market, equity trading value saw decline 14.0% QoQ. The one bright spot was the rise in its average commission rate on stock trading, which rose by 0.003pp QoQ due to a 0.1pp decline in the proportion of equity trading value accounted for by its Ichinichi margin trading service.

### Net trading income

The company posted a JPY306mn trading profit (+4.1% YoY) mainly from FX transactions.

### Net interest income

Net interest income (interest and dividend income minus interest costs) grew 5.1% YoY to JPY2.6bn. The average balance of margin accounts was up 5.1% YoY to JPY293.2bn. The net interest income rate (calculated as net interest income divided by average balance of margin account) was flat YoY at 3.6%.

On a QoQ comparison basis, interest and dividend income was down JPY167mn or 5.5% and, with interest costs down JPY26mn or 8.2%, net interest income was down JPY139mn or 5.1%. The decline in interest and dividend income reflects a 9.3% decline in average margin trading balance. The net interest margin calculated as net interest income divided by average margin trading balance, rose 0.2pp to 3.6%.

### SG&A expenses

SG&A expenses rose 2.0% YoY to JPY3.0bn.

- ▷ Transaction-related expenses (including advertising expenses), primarily moving with trading value, came to JPY1.0bn (-6.2% YoY), of which stock exchange and association fees were JPY299mn (-16.0% YoY).
- ▷ Office expenses were JPY553mn (+2.8% YoY). Business outsourcing expenses increased, supported by the “Best Match” price optimization service.
- ▷ Depreciation totaled JPY424mn (+9.6% YoY). The increase was driven by factors such as a change in the NetFx cover order execution model.

On a QoQ comparison basis, SG&A expenses were down JPY22mn or 0.7%. Transaction-related expenses were down JPY26mn or 2.5% in conjunction with the drop in equity trading value, but the company increased provision of allowance for doubtful accounts by JPY37mn.

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## Q1 FY03/19 results

The results for Q1 FY03/19 were as follows:

- ▷ Operating revenue: JPY7.5bn (+3.4% YoY)
- ▷ Net operating revenue: JPY7.1bn (+3.6% YoY)
- ▷ Operating profit: JPY4.1bn (+4.3% YoY)



- ▷ Recurring profit: JPY4.2bn (+5.0% YoY)
- ▷ Net income: JPY2.9bn (+5.4% YoY)

Aggregate equity trading value at the Tokyo and Nagoya stock exchanges increased 6% YoY during Q1 FY03/19; total equity trading value by individuals went up by 4% YoY. Proportion of trading by individuals was 18% of total market transactions, unchanged from a year earlier.

During the quarter, the company began offering the Best Match service, which provides investors an opportunity to trade at a better price than through regular trading at the Tokyo Stock Exchange. It continued to expand its mutual fund offerings, focused on launching new information tools (e.g. an official LINE account for FX traders with market alert and order placement features, and compatibility with Amazon's voice service Amazon Alexa), and bolstered its trading channels.

In Q1 FY03/19, the value of individual equity trading through all brokers rose 4% YoY. At Matsui Securities, however, fewer margin trading by day-traders led to an 8.4% decline to JPY7.9tn in equity trading handled. The breakdown was JP3.7tn (-5.7% YoY) in commissionable equity trades other than day-trades on margin, and JPY4.2tn (-10.6%) in day-trades on margin. (These figures are Shared Research estimates based on total equity trading value stated in Matsui Securities' earnings results materials and its monthly disclosures for equity trading under its Margin Trading Service for Day-trades and other, non-proprietary equity trading.)

In terms of market share, Matsui Securities handled 10.9% (-1.4pp YoY) of all equity trading through brokers (value basis). As indicated above, trading at the company's margin day-trading service was sluggish. Changes in the terms of service for margin day-trades at other online brokers (such as lower interest rates, no fees for stock lending) also appear to have reduced Matsui's market share in this area. Specifically, in May 2017, Rakuten Securities lowered the threshold for waiving interest charges/stock lending fees to trades of JPY1.0mn from the previous JPY3.0mn in its Ichinichi (intraday) margin trading product. In contrast, Matsui's Margin Trading Service for Day-trades has no charges on trades of JPY3mn or more, whereas interest charges/stock lending fees are 2.0% for smaller trades. With its Ichinichi margin trading product, Rakuten Securities waives interest charges/stock lending fees on trades of JPY1.0mn or more and 1.9% for smaller trades.

Operating revenue was down JPY1.4bn (-16.0%) from Q4 FY03/18 (QoQ), breaking down as a decline of JPY1.2bn for commissions (-22.7%), JPY144mn for interest and dividend income (-4.5%), JPY106mn for interest expenses (-24.9%), and JPY39mn (-1.4%) for net interest income. Net operating revenues were down JPY1.3bn (-15.5%). Turning to profit, SG&A expenses were down JPY19mn (-0.6%), and operating profit was down JPY1.3bn (-23.9%).

### Commissions

Total commissions were JPY4.0bn (-6.9% YoY). Brokerage commissions were JPY3.8bn (-7.3%).

Equity trading value declined, but brokerage commission rates increased. In Q1 FY03/19, the total value of commissionable equity trading value fell 8.4% YoY. The stock brokerage commission rate (stock brokerage commissions/trading value) increased by 0.003pp YoY to 0.046%, with the proportion of commission-free Margin Trading Service for Day-trades to total equity trading through Matsui Securities down 1.4pp YoY to 53.4%. Excluding Margin Trading Service for Day-trades accounts, the brokerage commission rate was 0.099%, down 0.002pp YoY (calculated by Shared Research based on Matsui Securities' earnings results materials).

Commissions were down JPY1.2bn (-22.7%) QoQ. The main factor behind the decline was a JPY1.1bn drop in commissions from stock and ETF trading (-22.5%). While the equity trading value of individuals at the Tokyo and Nagoya stock exchanges declined 18.8% QoQ, Matsui's share of equity trading of individuals increased 0.3pp QoQ, and equity trading value fell 16.3% QoQ. The average commission rate for stock trading was down 0.004pp QoQ. The proportion of Margin Trading Service for Day-trades to total equity trading through Matsui Securities increased 3.4pp YoY.

### Trading profit/loss

The company posted a JPY364mn trading profit (+163.8% YoY) mainly from FX transactions. The increase was attributable to a change in the company's FX cover order execution model in Q2 FY03/18.

### Net interest income

Net interest income (interest and dividend income minus interest costs) grew 13.2% YoY to JPY2.7bn. The average balance of margin accounts was up 21.8% YoY to JPY323.2bn. In May 2017, Matsui changed the threshold for additional guarantee deposits for margin trades from 25% to 20%, and the maintenance margin to eliminate the need for additional guarantee deposits from a recovery amount equivalent to 31% to one equivalent to 20%. According to management, these changes have helped prevent a decline in the margin trading balance. The net interest income rate (calculated as net interest income divided by average balance of margin account) fell 0.3pp YoY to 3.4% owing to changes in the forex cover order execution model that changed the basis on which swap points are calculated. (Following the change, swap points paid to the party covering the swap are booked under trading profits/losses while the swap points paid by Matsui to its customer are booked under interest expense.)

Dividend and interest income was down JPY144mn QoQ (-4.5%), interest expenses were down JPY106mn QoQ (-24.9%), and net interest income was down JPY39mn QoQ (-1.4%). The average margin trading balance fell 3.0% QoQ, and dividend and interest income declined. The net interest income rate (calculated as net interest income divided by average margin trading balance) rose 0.1pp QoQ.

### SG&A expenses

SG&A expenses rose 2.6% YoY to JPY3.0bn.

- ▷ Transaction-related expenses (including advertising expenses), primarily moving with trading value, came to JP1.0bn (-4.7% YoY), of which stock exchange and association fees were JPY316mn (-13.2%).
- ▷ Office expenses were JPY569mn (+12.0% YoY). Business outsourcing expenses increased, supported by the "Best Match" price optimization service.
- ▷ Depreciation totaled JPY413mn (+13.8% YoY). The increase was driven by factors such as a change in the NetFx cover order execution model.

SG&A expenses were down JPY19mn QoQ (-0.6%). Transaction-related expenses fell JPY176mn QoQ (-14.4%) in tandem with a decline in equity trading value, but the provision of allowance for doubtful accounts increased JPY84mn. A review of the reserve ratio in the previous quarter led to a reversal of the allowance for doubtful accounts.

### Customer trends

Equity trading value by Matsui's customers averaged roughly JPY2.6tn per month in Q1 FY03/19 (April–June 2018) versus JPY2.8tn in Q1 FY03/18.

The number of monthly active accounts fell 8.6% YoY to 134,000 in June 2018. Assets under customer accounts at the end of June 2018 totaled JPY2.5tn (+5.2% YoY). While the number of trading accounts declined, assets under customers' accounts grew.

Combined customer profits were JPY188.0bn in 2013, JPY4.0bn in 2014, and JPY23.0bn in 2015. A loss of JPY42.0bn in 2016 was followed by a profit of JPY84.0bn in 2017, and a profit of JPY22.0bn in January–June 2018.

### Overview of mutual fund business

As of the end of June 2018, the company had about JPY9.0bn in customer assets in mutual funds (versus JPY8.0bn at the end of March 2018), though contribution to earnings from the mutual fund business was still limited. Most mutual fund customers are in their 30s and 40s, with 86% using a regular investment plan (versus 85% as of the end of March 2017).

### Conditions at "Best Match" price optimization service

In May 2018, Matsui began offering its "Best Match" price optimization service. As of the end of July 2018, 97% of the eligible customers (the service is only available to Matsui customers with margin accounts that are trading in cash equities) had opted to use the service, and 12,818 users had benefitted from optimized pricing. The improvement rate for optimized pricing was roughly three basis points (JPY300 per JPY1 mn).

When customers seeking better execution prices send an order to the stock exchange, Matsui's Best Match system (its proprietary system that determines whether a given order can be matched and executed) checks the orders placed by other Matsui customers as well as the order books of other brokers (to which the system is linked) to determine whether or not the order in question can be executed at a better price or the same price as the best bid/offer price available through floor trading. If the Best Match system finds a match for the order at a better price than the best bid/offer price available on the floor, it executes the order at that price in an off-auction market. If the Best Match system cannot find a match for the order at a better price than the best bid/offer available on the floor, it forwards the order to floor trading.

In addition, the rate of cases in which contract prices were less favorable than through regular trading at the Tokyo Stock Exchange due to system processing delays (latency) amounted to less than 0.1%.

Note that even when the Best Match service determines it can provide investors a better transaction price than through regular trading at the Tokyo Stock Exchange, this may not be achieved in practice due to the time lag between system processing and updates to transaction prices at the Tokyo Stock Exchange.

As a future initiative, the company aims to increase the number of trades subject to price optimization and enhance the rate of improvement by capturing a larger number of orders from institutional investors for its matching system.

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## FY03/18 results

The results for full-year FY03/18 were as follows:

▷ Operating revenue:	JPY32.2bn (+16.2% YoY)
▷ Net operating revenue:	JPY30.5bn (+15.0% YoY)
▷ Operating profit:	JPY18.5bn (+24.1% YoY)
▷ Recurring profit:	JPY18.6bn (+23.9% YoY)
▷ Net income:	JPY12.9bn (+20.7% YoY)

Aggregate equity trading value at the Tokyo and Nagoya stock exchanges increased 16% YoY during FY03/18; total equity trading value by individuals went up by 19% YoY. Proportion of trading by individuals was 19% of total market transactions, unchanged from a year earlier.

In FY03/18, the company began handling stock trades during the night-time market. It also enhanced the asset management capabilities of its Netstock trading screen for customers, and changed the screens and procedures used to open new accounts so that new account applications could be completed entirely over the internet.

Matsui Securities started selling investment trusts and introduced the Toshin Kobo portfolio advisory service, based on a proprietary robo-advisory system, in November 2016. The company worked on expanding its range of investment trusts, lowering the minimum purchase amount and launching a smartphone app. Further, the company became the first domestic broker to introduce a new automatic rebalancing function to its advisory-oriented portfolio management service, for which it does not charge a management fee. In an effort to extend customer services and improve the trading environment, the company also began handling installment-type NISA (made available to the market via securities brokers from January 2018) and iDeCo (individual defined contribution pension plans) accounts, and launched AI Chart FX (an information tool for FX transactions).

In FY03/18, the value of individual equity trading through all brokers rose 19% YoY. At Matsui Securities, the value of equity trading handled during the period rose only 2.7%, as the low level of intraday market volatility relative to FY03/17 put a damper on margin trading by day-traders. That said, trading on the cash equities side increased and equity trading handled by Matsui Securities during this period finished at JPY25.6tn, of which the value of commissionable equity trades other than day-trades on margin came to JPY17.1tn (+14.0% YoY). The value of day-trades on margin declined 6.2% to JPY18.4tn. (These figures are Shared Research estimates based on total equity trading value stated in Matsui Securities' earnings results materials and its monthly disclosures for equity trading under its Margin Trading Service for Day-trades and other, non-proprietary equity trading.)

In terms of market share, Matsui Securities handled 11.2% (-1.8pp YoY) of all equity trading through brokers (value basis). As indicated above, the decline in market share was due in part to the low level of intraday volatility in the market, which put a damper on trading at the company's margin day-trading service. Changes in the terms of service for margin day-trades at other online brokers (such as lower interest rates, no fees for stock lending) also appear to have reduced Matsui's market share in this area. Specifically, in May 2017, Rakuten Securities lowered the threshold for waiving interest charges/stock lending fees to trades of JPY1.0mn from the previous JPY3.0mn in its Ichinichi (intraday) margin trading product. In contrast, Matsui's Margin Trading Service for Day-trades has no charges on trades of JPY3mn or more, whereas interest charges/stock lending fees are 2.0% for smaller trades. With its Ichinichi margin trading product, Rakuten Securities waives interest charges/stock lending fees on trades of JPY1.0mn or more and 1.9% for smaller trades.

### Commissions

Total commissions were JPY19.0bn (+9.9% YoY). Brokerage commissions were JPY18.3bn (+12.2%).

The rise in commission income was attributable to both an increase in trading value and an increase in the commission rate. In FY03/18, the total value of commissionable equity trading value rose 2.7% YoY. The stock brokerage commission rate (stock brokerage commissions / trading value) increased by 0.004pp YoY to 0.048%, with the proportion of commission-free Margin Trading Service for Day-trades to total equity trading through Matsui Securities down 4.8pp YoY to 52.0%. Excluding Margin Trading Service for Day-trades accounts, the brokerage commission rate was 0.100%, down 0.002pp YoY (calculated by Shared Research based on Matsui Securities' earnings results materials).

### Trading profit/loss

As a result of changing its FX cover order execution model, the company posted a JPY1.2bn trading profit versus a JPY3.0mn trading profit during the previous fiscal year.

Net income from forex margin transactions\* rose 138.8% YoY to JPY745mn. (\*Net of swap points paid, which is included under interest expense.)

### Net interest income

Net interest income (interest and dividend income minus interest costs) grew 11.6% YoY to JPY10.3bn. The average balance of margin accounts was up 22.2% to JPY294.4bn. The net interest margin (calculated as net interest income divided by average balance of margin account) fell 0.4pp YoY to 4.7% owing to changes in the forex coverage model that changed the basis on which swap points are calculated. (Following the change, swap points paid to the party covering the swap are booked under trading profits/losses while the swap points paid by Matsui to its customer are booked under interest expense.)

### SG&A expenses

SG&A expenses rose 3.4% YoY to JPY11.9bn.

- ▷ Reflecting the rise in stock trading, transaction-related expenses (including advertising expenses), primarily moving with trading value, increased 5.7% to JPY4.6bn, of which stock exchange and association fees amounted to JPY1.5bn (+8.4% YoY).
- ▷ Office expenses were JPY2.1bn (+14.3% YoY), increasing due to changing the NetFx coverage model and starting sales of investment trusts.
- ▷ Depreciation totaled JPY1.5bn (+22.3% YoY), up due to factors such as starting sales of investment trusts.

- ▷ Reversal of allowance for doubtful accounts was JPY29mn (provision for doubtful accounts of JPY311mn in the previous fiscal year).

### Customer trends

Equity trading value by Matsui's customers averaged roughly JPY3.0tn per month over the full year (April 2019–March 2018) versus JPY2.9tn in FY03/17.

The number of monthly active accounts fell 4.4% YoY to 141,000 in March 2018. Assets under customer accounts at the end of March 2018 totaled JPY2.5tn (+11.0% YoY). While the number of trading accounts declined, assets under customers' accounts grew.

Combined customer profits were JPY188.0bn in 2013, JPY4.0bn in 2014, and JPY23.0bn in 2015. A loss of JPY42.0bn in 2016 was followed by a profit of JPY84.0bn in 2017, and a profit of JPY18.0bn in January-March 2018.

### Overview of mutual fund business

As of the end of March 2018, the company had about JPY8.0bn in customer assets in mutual funds (versus JPY 1.0bn at the end of March 2017), though contribution to earnings from the mutual fund business was still limited. Most mutual fund customers are in their 30s and 40s, with 85% using a regular investment plan (versus 79% as of the end of March 2017). In contrast to the large proportion of those in their 30s and 40s who purchase mutual funds based on a model portfolio, many account holders age 70 and above cherry pick actively managed mutual funds. This led the company to expand its lineup of mutual funds suitable for those with tax-advantaged accounts like installment-type NISA and IDeCO accounts, as well as its lineup of actively managed mutual funds that will appeal to account holders age 70 and above.

### Q4 FY03/18 results (January–March 2018)

The results for Q4 FY03/18 were as follows:

- ▷ Operating revenue: JPY8.9bn (+26.9% YoY)
- ▷ Net operating revenue: JPY8.5bn (+27.0% YoY)
- ▷ Operating profit: JPY5.4bn (+42.8% YoY)
- ▷ Recurring profit: JPY5.4bn (+42.7% YoY)
- ▷ Net income: JPY3.8bn (+29.3% YoY)

Aggregate equity trading value on the Tokyo and Nagoya stock exchanges increased 30% YoY in Q4 FY03/18 (January–March 2018); total equity trading value by individuals went up by 34% YoY. Proportion of trading by individuals was 20% of total market transactions, up 0.6pp from a year earlier.

During the quarter the value of commissionable stock trading through Matsui Securities rose 11.2% YoY to JPY9.4tn thanks to the increase in equity trading value by individuals overall. Of the total, the value of equity trading other than margin day-trading was JPY4.7tn (+21.7% YoY) and the value of equity through the company's Margin Trading Service for Day-trades was JPY4.7tn (+2.3%). These figures are Shared Research estimates based on total equity trading value stated in Matsui Securities' earnings results materials and its monthly disclosures for equity trading under its Margin Trading Service for Day-trades and other, non-proprietary equity trading.

In terms of market share, Matsui Securities handled 10.6% (-2.2pp YoY) of all equity trading through brokers (value basis).

**Commissions**

Total commissions were JPY5.2bn (+19.4% YoY). Brokerage commissions were JPY5.0bn (+21.8%).

In Q4 (January–March 2018), the value of commissionable stock trading through Matsui Securities rose 11.2% YoY. The stock brokerage commission rate (stock brokerage commissions / trading value) increased by 0.004pp YoY to 0.050%, with the proportion of commission-free Margin Trading Service for Day-trades to total equity trading through Matsui Securities down 4.3pp YoY to 49.8%. Excluding Margin Trading Service for Day-trades accounts, the brokerage commission rate was largely on par with previous year level at 0.097% (calculated by Shared Research based on Matsui Securities' earnings results materials).

**Trading profit/loss**

The company posted a JPY458mn trading profit as a result of changing its FX cover order execution model versus a JPY1mn trading profit in Q3 FY03/17.

**Net interest income**

Net interest income (interest and dividend income minus interest costs) grew 21.5% YoY to JPY2.8bn. The average balance of margin accounts was up 28.5% YoY to JPY333.3bn. The net interest income rate (calculated as net interest income divided by average balance of margin account) fell 0.2pp YoY to 3.3%.

**SG&A expenses**

SG&A expenses rose 5.9% YoY to JPY3.0bn.

- ▷ Transaction-related expenses (including advertising expenses), primarily moving with trading value, increased 5.5% to JPY1.2bn, of which stock exchange and association fees amounted to JPY405mn (+12.2% YoY).
- ▷ Office expenses were JPY541mn (+10.0% YoY).
- ▷ Depreciation totaled JPY403mn (+22.9% YoY).
- ▷ Reversal of allowance for doubtful accounts was JPY70mn versus JPY196mn in FY03/17.

## Income statement

Income statement (JPYmn)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Parent	FY03/14 Parent	FY03/15 Parent	FY03/16 Parent	FY03/17 Parent	FY03/18 Parent
<b>Operating revenue</b>	<b>26,724</b>	<b>24,346</b>	<b>22,091</b>	<b>17,703</b>	<b>20,799</b>	<b>39,883</b>	<b>34,306</b>	<b>34,435</b>	<b>27,727</b>	<b>32,210</b>
YoY	-33.0%	-8.9%	-9.3%	-19.9%	17.5%	91.8%	-14.0%	0.4%	-19.5%	16.2%
Financial expenses	2,260	1,069	770	975	884	1,145	1,413	1,431	1,228	1,729
<b>Net operating revenue</b>	<b>24,464</b>	<b>23,276</b>	<b>21,320</b>	<b>16,728</b>	<b>19,915</b>	<b>38,738</b>	<b>32,893</b>	<b>33,003</b>	<b>26,499</b>	<b>30,480</b>
YoY	-33.3%	-4.9%	-8.4%	-21.5%	19.1%	94.5%	-15.1%	0.3%	-19.7%	15.0%
Net operating margin	91.5%	95.6%	96.5%	94.5%	95.7%	97.1%	95.9%	95.8%	95.6%	94.6%
SG&A expenses	14,521	11,891	12,870	9,360	9,719	11,648	10,806	11,258	11,560	11,949
SG&A as % of operating revenue	54.3%	48.8%	58.3%	52.9%	46.7%	29.2%	31.5%	32.7%	41.7%	37.1%
<b>Operating profit</b>	<b>9,943</b>	<b>11,385</b>	<b>8,450</b>	<b>7,368</b>	<b>10,195</b>	<b>27,090</b>	<b>22,087</b>	<b>21,745</b>	<b>14,939</b>	<b>18,532</b>
YoY	-51.9%	14.5%	-25.8%	-12.8%	38.4%	165.7%	-18.5%	-1.5%	-31.3%	24.1%
OPM	37.2%	46.8%	38.3%	41.6%	49.0%	67.9%	64.4%	63.1%	53.9%	57.5%
Non-operating income	83	190	34	64	50	87	118	90	109	105
Non-operating expenses	28	30	5	5	-	3	3	2	4	5
<b>Recurring profit</b>	<b>9,998</b>	<b>11,545</b>	<b>8,479</b>	<b>7,426</b>	<b>10,245</b>	<b>27,175</b>	<b>22,202</b>	<b>21,833</b>	<b>15,044</b>	<b>18,632</b>
YoY	-51.8%	15.5%	-26.6%	-12.4%	38.0%	165.3%	-18.3%	-1.7%	-31.1%	23.9%
RPM	37.4%	47.4%	38.4%	41.9%	49.3%	68.1%	64.7%	63.4%	54.3%	57.8%
Extraordinary gains	1,600	1,259	646	43	118	-	2,912	1,012	338	25
Extraordinary losses	17	22	15	5	81	827	786	695	15	1
Income taxes	4,661	5,121	3,700	3,202	3,855	10,048	8,757	7,388	4,670	5,747
Implied tax rate	40.2%	40.1%	40.6%	42.9%	37.5%	38.1%	36.0%	33.4%	30.4%	30.8%
<b>Net income</b>	<b>6,921</b>	<b>7,661</b>	<b>5,410</b>	<b>4,263</b>	<b>6,427</b>	<b>16,300</b>	<b>15,571</b>	<b>14,763</b>	<b>10,697</b>	<b>12,908</b>
YoY	-45.8%	10.7%	-29.4%	-21.2%	50.8%	153.6%	-4.5%	-5.2%	-27.5%	20.7%
Net margin	25.9%	31.5%	24.5%	24.1%	30.9%	40.9%	45.4%	42.9%	38.6%	40.1%

Source: Shared Research based on company data

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

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

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

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

Please see the Historical performance section for FY03/17–FY03/18 results. Results up to FY03/16 are outlined below.

### FY03/17 results

Aggregate equity trading value at the Tokyo and Nagoya stock exchanges fell 13% YoY; total equity trading value of individuals went down by 20% YoY. Proportion of trading by individuals declined to 19% of total market transactions, down from 20% a year earlier.

In FY03/17, Matsui's equity trading value was JPY34.5tn (-10.8% YoY) due to a decline in overall equity trading value by individuals. This breaks down into JPY19.6.0tn (-1.0%) for transactions using the Margin Trading Services for Day Trades and JPY15.0 (-21.1%) for transactions outside the Margin Trading Service for Day-trades. In terms of market share, Matsui Securities handled 13.0% (+1.3pp YoY) of all equity trading through brokers (value basis) in FY03/17.

Results: operating revenue of JPY27.7bn (-19.5% YoY), net operating revenue of JPY26.5bn (-19.7% YoY), operating profit of JPY15.0bn (-31.3% YoY), recurring profit of JPY15.0bn (-31.1% YoY), and net income of JPY10.7bn (-27.5% YoY).

### FY03/16 results

Aggregate equity trading value at the Tokyo and Nagoya stock exchanges rose 22% YoY; total equity trading value of individuals picked up 6%. Proportion of trading by individuals declined to 20% of total market transactions, down from 23% a year earlier.

Reflecting the increase in equity trading by individual investors, stock trading through Matsui Securities rose 5.7% YoY to JPY38.7tn. Of the total, equity trading through brokers other than the Margin Trading Service for Day-trades was JPY18.9tn



(+3.3%) and equity trading through brokers in the Margin Trading Service for Day-trades was JPY19.8tn (+8.2%). In terms of market share, Matsui Securities handled 11.7% of all equity trading through brokers (value basis).

Results: operating revenue of JPY34.4bn (+0.4% YoY), net operating revenue of JPY33.0bn (+0.3% YoY), operating profit of JPY21.7bn (-1.5% YoY), recurring profit of JPY21.8bn (-1.7% YoY), and net income of JPY14.8bn (-5.2% YoY).

### **FY03/15 results**

Aggregate equity trading value at the Tokyo and Nagoya stock exchanges fell 8% YoY; total equity trading value of individuals fell 23%. Trading by individuals accounted for 23% of total market transactions, down from 27% a year earlier. Turnover fell owing to a pullback from FY03/14, when anticipation of Prime Minister Abe's economic policies (Abenomics) and the Bank of Japan's monetary easing buoyed stock prices and led to a corresponding increase in turnover.

Matsui's equity trading value fell 10% YoY, and brokerage commissions dropped to JPY20.0bn (-23.5%) as a result. Net interest income was JPY11.7bn (+3.0%).

Results: operating revenue of JPY34.3bn (-14.0% YoY), net operating revenue of JPY32.9bn (-15.1%), operating profit of JPY22.1bn (-18.5%), recurring profit of JPY22.2bn (-18.3%), and net income of JPY15.6bn (-4.5%).

### **FY03/14 results**

Aggregate equity trading value at the Tokyo and Nagoya stock exchanges was up 87% YoY; total equity trading value of individuals was up 140%. Trading by individuals accounted for 27% of total market transactions, up from 21% a year earlier.

Matsui's equity trading value rose by 217% YoY due to the increase in stock trading value of individuals. As a result, brokerage commissions were JPY26.2bn (+100.3%). Also, due to the rise in average margin trading balance, net interest income was JPY11.4bn (+97.1%).

Results: operating revenue of JPY39.9bn (+91.8% YoY), net operating revenue of JPY38.7bn (+94.5%), operating profit of JPY27.1bn (+165.7%), recurring profit of JPY27.2bn (+165.2%), and net income of JPY16.3bn (+153.6%).

### **FY03/13 results**

Aggregate equity trading value at the Tokyo and Nagoya stock exchanges was up 16% YoY; total equity trading value of individuals was up 38%. Trading by individuals accounted for 21% of total market transactions, up from 18% a year earlier.

Matsui's stock trading value increased 57% YoY due to the rise in stock trading value of individuals. As a result, brokerage commissions were JPY13.1bn (+25.3%). Also, due to the increase in average margin trading balance, net interest income was JPY5.8bn (+10.2%).

Results: operating revenue of JPY20.8bn (+17.5% YoY), net operating revenue of JPY19.9bn (+19.0%), operating profit of JPY10.2bn (+38.5%), recurring profit of JPY10.2bn (+38.1%), and net income of JPY6.4bn (+51.0%).

### **FY03/12 results**

On the two major markets (the Tokyo and Nagoya stock exchanges), aggregate stock trading value was down 15% year on year. Due to the market slump, individual investors had reduced buying appetite, and stock trading value of individuals on the two markets fell by 14% from a year before.

Matsui's equity trading value fell by 23% YoY due to the fall in stock trading value of individuals. As a result, brokerage commissions were JPY10.4bn (-22.4%). Also, due to the fall in average margin balances outstanding, net interest income was JPY5.2bn (-16.7%).



Results: operating revenue of JPY17.7bn (-19.9% YoY), net operating revenue of JPY16.7bn (-21.5%), operating profit of JPY7.4bn (-12.8%), recurring profit of JPY7.4bn (-12.4%), and net income, JPY4.2bn (-21.2%).

## FY03/11 results

On the two major markets (the Tokyo and Nagoya stock exchanges), aggregate stock trading value was up 3% year on year. However, stock trading value of individual investors on the two markets fell by 16% from the year before.

Matsui's equity trading value fell by 16% YoY in line with the fall in stock trading value by individuals. As a result, brokerage commissions were JPY13.5bn (-12.8%). Also, due to a rise in average margin balances outstanding, net interest income was JPY6.3bn (+4.9%).

Results: operating revenue of JPY22.1bn (-9.3% YoY) and net operating revenue of JPY21.3bn (-8.4%). Due to the Great East Japan Earthquake, and accompanying fluctuations in stock prices, Matsui had to pay for settlement losses incurred by its customers in futures and options trading. The company recorded JPY2.4bn in provisions for doubtful debts in relation to this. As a result, SG&A expenses rose 8.2% YoY to JPY12.9bn. Operating profit was JPY8.5bn (-25.8%), recurring profit was JPY8.5bn (-26.6%); and net income was JPY5.4bn (-29.4%).

## Balance sheet

Balance sheet (JPYmm)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Parent	FY03/14 Parent	FY03/15 Parent	FY03/16 Parent	FY03/17 Parent	FY03/18 Parent
<b>Assets</b>										
Cash and deposits	15,839	15,191	17,882	16,479	8,857	12,166	15,717	26,569	25,743	36,256
Cash segregated as deposits	237,989	246,018	237,094	227,911	300,116	341,812	462,912	375,812	467,212	455,512
Money held in trust	75,751	22,450	8,766	9,608	19,067	21,867	20,889	4,596	5,950	5,813
Trading products	1,980	1,823	1,802	1,687	1,402	1,307	1,538	1,817	1,408	2,258
Margin transaction assets	115,246	156,429	142,281	135,011	252,751	282,225	284,207	232,043	245,202	310,574
Loans secured by securities	3,109	5,143	4,827	14,689	12,225	9,636	12,080	7,869	9,536	7,331
Short-term guarantee deposits	2,139	4,148	6,191	3,337	3,749	4,122	5,736	2,166	1,648	3,352
Accrued income	2,977	3,494	3,212	3,444	3,762	4,142	4,569	3,807	4,174	4,689
Others	10,037	3,118	1,155	1,642	518	1,466	880	538	637	583
<b>Total current assets</b>	<b>465,067</b>	<b>457,814</b>	<b>423,210</b>	<b>413,808</b>	<b>602,447</b>	<b>678,743</b>	<b>808,528</b>	<b>655,217</b>	<b>761,510</b>	<b>826,368</b>
Buildings	330	309	294	275	253	232	211	197	177	159
Furniture and fixtures	360	313	431	337	240	331	394	321	347	251
Land	435	435	434	434	434	434	434	434	434	434
<b>Total tangible fixed assets</b>	<b>1,125</b>	<b>1,115</b>	<b>1,160</b>	<b>1,047</b>	<b>927</b>	<b>998</b>	<b>1,039</b>	<b>953</b>	<b>958</b>	<b>845</b>
Software	3,642	5,237	4,521	4,012	3,266	2,726	2,850	2,999	4,118	4,465
Others	11	10	8	6	5	1	-	-	-	-
<b>Total intangible assets</b>	<b>3,653</b>	<b>5,247</b>	<b>4,529</b>	<b>4,018</b>	<b>3,271</b>	<b>2,726</b>	<b>2,850</b>	<b>2,999</b>	<b>4,118</b>	<b>4,465</b>
Investment securities	320	302	262	214	3,562	5,201	3,975	3,119	2,893	3,572
Long-term loans receivable	204	217	199	416	425	438	534	507	499	440
Guarantee deposits	293	268	286	262	256	257	258	261	314	324
Deferred tax assets	1,443	1,154	1,939	1,238	-	-	16	587	675	408
Long-term advances paid	-	-	3,497	2,226	1,767	1,251	1,038	1,021	1,179	1,165
Allowance for doubtful accounts	-875	-831	-3,430	-2,293	-1,959	-1,372	-1,165	-1,348	-1,549	-1,384
Others	915	802	77	128	107	111	109	109	118	115
<b>Investments and other assets</b>	<b>2,300</b>	<b>1,912</b>	<b>2,830</b>	<b>2,191</b>	<b>4,158</b>	<b>5,886</b>	<b>4,765</b>	<b>4,256</b>	<b>4,129</b>	<b>4,640</b>
<b>Total fixed assets</b>	<b>7,078</b>	<b>8,275</b>	<b>8,519</b>	<b>7,256</b>	<b>8,357</b>	<b>9,610</b>	<b>8,655</b>	<b>8,208</b>	<b>9,205</b>	<b>9,949</b>
<b>Total assets</b>	<b>472,145</b>	<b>466,089</b>	<b>431,729</b>	<b>421,063</b>	<b>610,804</b>	<b>688,353</b>	<b>817,183</b>	<b>663,425</b>	<b>770,716</b>	<b>836,318</b>
<b>Liabilities</b>										
Trading products	192	294	229	286	611	699	1,379	458	281	143
Margin transaction liabilities	57,052	45,819	40,417	47,425	47,790	32,025	56,398	35,793	51,228	66,423
Loans payable secured by securities	7,547	9,393	5,818	5,735	36,598	25,498	25,558	14,838	13,262	13,499
Deposits received	124,623	132,559	119,354	117,814	151,654	178,071	261,516	200,271	272,048	253,016
Guarantee deposits received	135,112	133,458	122,989	113,646	149,923	176,619	207,098	182,641	205,409	207,875
Short-term loans payable	5,032	37,032	62,020	56,550	137,525	176,100	164,600	128,050	126,100	187,600
Current portion of bonds and CBs	28,298	26,506	-	-	-	-	-	-	-	-
Others	11,157	4,936	3,835	2,147	4,329	11,046	7,688	5,100	4,199	5,766
<b>Total current liabilities</b>	<b>369,013</b>	<b>389,997</b>	<b>354,662</b>	<b>343,603</b>	<b>528,430</b>	<b>600,058</b>	<b>724,237</b>	<b>567,151</b>	<b>672,527</b>	<b>734,322</b>
Corporate bonds and CBs	31,052	-	-	-	-	-	-	-	-	-
Long-term loans payable	52	20	-	25	-	150	50	-	150	50
Others	655	205	207	207	433	859	207	208	208	208
Total long-term liabilities	31,759	225	207	232	433	1,009	257	208	358	258
Reserves under the special laws	2,283	1,665	1,108	1,067	1,100	1,922	2,660	3,349	3,012	2,987
<b>Total liabilities</b>	<b>403,054</b>	<b>391,886</b>	<b>355,977</b>	<b>344,902</b>	<b>529,963</b>	<b>602,988</b>	<b>727,155</b>	<b>570,707</b>	<b>675,896</b>	<b>737,567</b>
<b>Net assets</b>										
Capital stock	11,944	11,944	11,945	11,945	11,945	11,945	11,945	11,945	11,945	11,945
Capital surplus	9,792	9,792	9,793	9,793	9,793	9,793	9,793	9,793	9,793	9,793
Retained earnings	56,835	61,929	63,488	63,900	66,378	69,841	75,143	70,793	73,018	76,426
Treasury stock	-9,474	-9,474	-9,475	-9,475	-9,475	-9,475	-9,475	-1,915	-1,915	-1,896
Accumulated other comprehensive income	-	13	1	-2	2,200	3,260	2,613	2,066	1,898	2,359
<b>Total net assets</b>	<b>69,090</b>	<b>74,203</b>	<b>75,752</b>	<b>76,161</b>	<b>80,841</b>	<b>85,365</b>	<b>90,029</b>	<b>92,718</b>	<b>94,820</b>	<b>98,751</b>
Total interest bearing debt	64,434	63,558	62,020	56,575	137,525	176,250	164,650	128,050	126,250	187,650
Net debt	48,595	48,367	44,138	40,096	128,668	164,084	148,933	101,481	100,507	151,394

Source: Shared Research based on various company data

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

## Assets

The overwhelming majority of the company's assets are current (98.8% of total assets as of the end of FY03/18). The main components of current assets are cash segregated as deposits (55.1% of total current assets as of the end of FY03/18) and margin account assets (37.6%).

## Cash segregated as deposits

Cash segregated as deposits refers to customer money entrusted to the company; under regulations stipulated by the Financial Instruments and Exchange Act (article 43-2-ii), domestic trust companies etc. must manage customer funds separately to their

own money. These accounts include the separately managed customer deposits (current liability) and guarantee money received for margin trades (current liability).

### Margin account assets

Margin account assets include loans receivable from customers and cash deposited as collateral for securities borrowed from securities finance companies. Margin trading loans are accounted for in current assets – in amounts equivalent to those lent to customers purchasing securities on margin; contracts that extend over one year such as unlimited margin trading are treated in the same category.

Matsui posts collateral when it borrows securities from securities finance companies such as Japan Securities Finance (TSE1: 8511) in lending transactions. This is cash collateral pledged for securities borrowing on margin transactions.

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

(JPYmm)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Margin transaction assets	115,246	156,429	142,281	135,011	252,751	282,225	284,207	232,043	245,202	310,574
Loans on margin trades	98,639	146,634	138,217	126,087	248,476	279,353	277,246	228,152	237,047	308,037
Cash collateral pledged for securities borrowing on margin	16,608	9,795	4,064	8,924	4,275	2,872	6,961	3,890	8,154	2,537

Source: Shared Research based on company data

## Liabilities

The vast majority of the company's liabilities are current (99.6% of the total as of the end of FY03/18). The main categories are margin account liabilities (9.0% of current liabilities at the end of FY03/18), deposits received (34.5%), guarantee money received (38.3%), and short-term borrowings (25.5%).

### Margin account liabilities

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

Margin transaction liabilities represent borrowings from Japan Securities Finance to facilitate margin trading. As of May 2018, the interest rate on loans from Japan Securities Finance was 0.60%. Matsui uses bank loans or short-term money markets—which have lower rates—to fund long positions. Therefore, the company's financing cost is relatively low.

Matsui takes proceeds from the sale of securities on margin as collateral and books an equivalent amount as current liabilities (proceeds of securities sold on customers' account).

(JPYmm)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Margin transaction liabilities	57,052	45,819	40,417	47,425	47,790	32,025	56,398	35,793	51,228	66,423
Borrowings on margin trades	17,073	4,154	13,043	2,148	3,360	2,798	3,774	5,452	5,932	37,158
Cash received for securities lending on margin trades	39,980	41,665	27,374	45,277	44,431	29,228	52,624	30,341	45,297	29,266

Source: Shared Research based on company data

### Deposits received and guarantee money received

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

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

(JPYmm)	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Guarantee deposits received	135,112	133,458	122,989	113,646	149,923	176,619	207,098	182,641	205,409	207,875
Guarantee deposits received for margin transactions	99,327	97,262	97,536	86,338	116,910	140,940	165,473	144,726	161,958	
Initial margins received for futures transactions	21,305	20,011	13,187	12,999	18,026	18,656	21,150	20,460	21,393	
Other guarantee deposits received	14,480	16,185	12,267	14,308	14,987	17,023	20,475	17,454	22,058	

Source: Shared Research based on company data

### Short term borrowings

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

### Net assets

Matsui's net assets have been rising to the accumulation of retained earnings. After FY03/16, the company has been active in providing returns to shareholders, targeting a dividend payout ratio of between 60% and 100%, and a dividend on equity (DOE) ratio of at least 8%.

### Capital adequacy ratio

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

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

Capital adequacy ratio	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Core capital (A)	66,446	70,253	71,808	72,212	73,506	76,969	82,271	85,480	87,705	89,335
Supplementary capital (B)	2,410	1,927	1,136	1,079	3,319	5,196	5,294	5,458	5,107	5,626
Valuation difference on investment securities	-	13	-	-	2,199	3,260	2,622	2,102	1,979	2,483
Reserve for financial products transaction liabilities	2,283	1,665	1,108	1,067	1,100	1,922	2,660	3,349	3,012	2,987
General allowance for doubtful accounts	127	249	28	12	20	14	11	6	115	156
Deductions (C)	7,418	8,680	9,034	7,675	5,238	4,882	5,092	5,426	6,686	6,770
Non-fixed capital (D)	61,437	63,500	63,910	65,617	71,587	77,283	82,472	85,512	86,125	88,191
Value of risk equivalent (E)	7,099	6,388	5,588	5,416	8,454	10,022	9,776	8,256	8,315	10,120
Market risk	3	3	-	-	551	813	620	478	440	546
Counterparty risk	3,409	3,671	3,349	3,267	5,841	6,518	6,589	5,083	5,329	6,754
Basic risk	3,686	2,713	2,238	2,149	2,061	2,690	9,776	2,694	2,545	2,818
Capital adequacy ratio (D) / (E)	865.4%	993.9%	1143.6%	1211.3%	846.7%	771.0%	843.5%	1035.0%	1035.0%	871.0%

Source: Shared Research based on company data

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

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

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

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

Capital adequacy ratio = Non-fixed capital/risk equivalent

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

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

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

Deducted assets: fixed assets

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

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

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

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

## Cash flow statement

Cash flow statement (JPYmm)	FY03/09 Cons.	FY03/10 Cons.	FY03/11 Cons.	FY03/12 Cons.	FY03/13 Parent	FY03/14 Parent	FY03/15 Parent	FY03/16 Parent	FY03/17 Parent	FY03/18 Parent
Cash flows from operating activities (1)	102,118	-44,912	8,639	10,388	-74,775	-18,060	21,871	43,431	11,510	-39,665
Pre-tax profit	11,582	12,782	9,111	7,465	10,282	26,348	24,327	22,151	15,367	18,656
Depreciation	1,261	1,775	1,825	1,769	1,788	1,635	1,246	1,175	1,267	1,549
Change in margin trade assets and liabilities	119,317	-52,416	8,746	14,279	-117,375	-45,239	22,390	31,560	2,277	-50,177
Income taxes	-7,047	-3,148	-5,210	-3,598	-1,930	-4,687	-12,173	-9,407	-5,716	-4,556
Cash flows from investing activities (2)	-1,431	-3,272	-1,272	-1,439	-791	-1,142	2,068	-824	-2,014	-2,067
Purchase of tangible fixed assets	-249	-58	-204	-15	-8	-221	-9	-169	-118	-9
Purchase of intangible fixed assets	-1,194	-3,239	-1,093	-1,477	-852	-940	-865	-1,635	-1,827	-2,020
Free cash flow (1+2)	100,687	-48,184	7,367	8,949	-75,566	-19,202	23,939	42,607	9,496	-41,732
Cash flows from financing activities	-74,828	-3,265	-5,310	-9,310	77,102	25,910	-21,867	-48,147	-10,269	51,908
Net increase (decrease) in short-term debt	-5,500	37,000	25,000	-5,500	81,000	38,500	-11,500	-36,500	-2,000	61,500
Dividends paid	-9,408	-2,579	-3,857	-3,865	-3,848	-12,815	-10,266	-11,547	-8,469	-9,492
Capital expenditures (B)	-1,443	-3,297	-1,297	-1,492	-860	-1,161	-874	-1,804	-1,945	-2,029

Source: Shared Research based on company data

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

### Cash flows from operating activities

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

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

### Cash flows from investing activities

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

### Cash flows from financing activities

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

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## Other information

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### History

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

#### Late 1980s to late 1990s

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

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

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

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

#### Late 1990s to 2006

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

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

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

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

#### FY03/06 to FY03/12

Following the so-called Livedoor shock in January 2006, individual investors' trading activities plunged, and online securities firms' earnings languished.

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

Matsui cut costs by reviewing its system expenses, and reduced SG&A expenses from JPY17.0bn in FY03/06 to JPY9.4bn in FY03/12.

## Since FY03/13

Matsui introduced its Margin Trading Service for Day-trades as margin trading was deregulated in January 2013. Through this product, President Michio Matsui said he wanted to overturn the competitive climate in the online broking industry.

The company began selling mutual funds and offer automated account management services (robo-advisors) in FY03/17.

## Timeline

- 1931 Matsui Shoten established
- 1947 Trading name changed to Matsui Securities
- 1991 Launches telecommunication-based transaction
- 1993 Ceases in-person marketing as telecommunication-based transactions increase
- April 1996 Introduces fee-free stock custody services
- February 1997 Cuts brokerage commissions in half for over-the-counter stocks
- May 1998 Launches Netstock—first full-fledged internet trading business in Japan  
Launches first margin trading via the internet in Japan  
Launches trading of Nikkei Index options over the internet
- October 1999 Launches innovative box rates with fixed commissions per day as brokerage commissions completely deregulated.
- September 2000 Launches new version of Box Trade, with fixed daily charges
- April 2001 Launches over-the-counter foreign currencies margin trading, NetFx  
Launches Netstock trader: real-time stock price updating service
- August 2001 Lists on First Section of Tokyo Stock Exchange
- December 2001 Awarded Porter prize
- July 2003 Launches unlimited margin trading
- March 2004 Cuts brokerage commissions in half for day trades
- September 2006 Launches real-time trading tool: Netstock high speed
- January 2013 Launches Margin Trading Service for Day-trades limited to day traders as margin trading is deregulated
- March 2014 Launches premium short-selling service as part of the Margin Trading Service for Day-trades
- February 2015 Launches futures trading service as part of the Margin Trading Service for Day-trades limited to day traders
- November 2016 Begins selling mutual funds and launched Toshin Kobo automated account management service using robo-advisors

## News and topics

### October 2018

On **October 15, 2018**, the company announced the launch of a stock lending program for its customers.

The company plans to launch a stock lending program on October 20, 2018, under which Matsui Securities' customers can lend the stocks in their cash accounts to the company and receive an interest fee in exchange. The customers will gain another earnings opportunity leveraging their shareholdings in addition to the gains from selling shares and receiving dividends.

### September 2018

On **September 21, 2018**, the company announced a revision to its basic dividend policy.

At the Board of Directors meeting held on the same day, the company resolved to revise its basic dividend policy. The new policy will take effect from FY03/19.

Concerning shareholder return, the company intends to maintain a dividend policy in line with earnings. It previously targeted a dividend payout ratio between 60% and 100% and a dividend on equity (DOE) ratio of at least 8% while comprehensively assessing earnings results, optimal shareholder equity levels to support margin transactions (its mainstay business), and the environment for strategic investment among other factors. In the new policy, the company will eliminate the upper limit of payout ratio of 100% and maintain the yardstick of payout ratio of 60% and above. It will keep at least 8% of DOE ratio unchanged.

### July 2018

On **July 26, 2018** the company made an announcement regarding its dividend forecast for FY03/19.

The company announced it will submit a dividend payment proposal for resolution at the general meeting of shareholders following the close of FY03/19. According to the proposal, Matsui plans to distribute an interim dividend of JPY19 per share, and a year-end dividend of JPY65 per share (including JPY39 per share in commemorative dividend marking the 100th year since the company's founding). Total dividends for the year will be JPY84 per share. As a fundamental policy, the company aims to maintain a dividend payout ratio of between 60% and 100% and a DOE of 8% or above.

### May 2018

On **May 10, 2018**, the company announced a dividend payment commemorating its 100th year anniversary.

In addition to the year-end ordinary dividend, the company decided to pay a dividend for a total amount of JPY10.0bn (JPY39 per share) in commemoration of the 100th year since its founding. The year-end ordinary dividend, separate from this commemorative dividend, will be paid at a dividend payout ratio of between 60% and 100% and a DOE of 8% and above, in accordance with the company's fundamental policy.

### March 2018

On **March 2, 2018**, the company announced it will begin handling stock trades in the night-time market. It will also start offering the Best Match service, aimed at offering trades at optimal prices.

#### Launching night-time trading service

The company will begin handling orders for execution on the Proprietary Trading System (PTS) starting March 19, 2018 (scheduled). PTS allows investors to trade stocks (cash transaction) through a private trading system that operates outside the traditional stock exchanges. Matsui Securities will be sending orders to the J-Market PTS operated by SBI Japannext Co., Ltd.

Compared to the stock exchanges, PTS offers longer trading hours, allowing investors to trade any time from early in the morning, during lunch breaks, and at night. PTS also gives investors a better chance to execute trades that normally cannot be filled at a traditional exchange (such as a buy order for a stock locked limit up or the reverse). Additionally, it offers investors an opportunity to execute trades at a better price than through the exchanges as minimum price movements under PTS are set between one-tenth to one-one thousandth (excluding stocks composing the TOPIX 100 index) of the minimum at stock exchanges.



### Best Match (price optimization service)

From May 2018 (scheduled), Matsui Securities plans to offer the Best Match service aimed at offering trades at optimal prices. In addition to the after-hours trading at the Tokyo Stock Exchange, PTS (a private trading system) and other after-hours trading options (including the so-called dark pools) exist in the domestic stock market, providing an opportunity for investors to trade at a better price than through the Tokyo Stock Exchange. With the Best Match service, the company plans to utilize after-hours trading to offer retail investors price optimization benefits that are already available to institutional investors.

### January 2018

On **January 29, 2018**, the company also announced its planned dividend payment for FY03/18.

Regarding its year-end dividend for FY03/18, the company announced that it would propose a dividend payment of JPY27 per share at the regular general shareholders meeting held after the end of the fiscal year. Because the company already paid an interim dividend of JPY17 per share, a year-end dividend of JPY27 per share would bring the annual dividend to JPY44. The company's dividend policy calls for a payout ratio between 60% to 100%, and a dividend on equity ratio of over 8%.

Also **on the same day**, the company announced that it would begin handling orders for execution on the Proprietary Trading System (J-Market) operated by SBI Japannext Co., Ltd.

The company announced that it would begin handling orders for execution on the Proprietary Trading System (J-Market) operated by SBI Japannext Co., Ltd. and, along with this, would also start handling stock trades during the night-time market. According to the company, Matsui Securities will be only the second retail stock broker to handle trading of domestic stocks during the night-time market.

Also **on the same day**, the company announced that it will begin handling iDeCo accounts (individual defined contribution pension plans).

The company announced that it will begin handling iDeCo accounts (individual defined contribution pension plans) starting late-March 2018. iDeCo accounts are defined private contribution pension plan that allow individuals to build up and manage their own private retirement account; as a general rule, people will be able to start making withdrawals from age 60, the amount will depend on the account's performance. Under the iDeCo account system, contributions, investment gains, and withdrawals all receive preferential tax treatment. With the changes to the system that went into effect in January 2017, participation in iDeCo accounts is expected to expand, as in addition to self-employed individuals and company employees, public sector employees and full-time housewives are also now eligible to open accounts.

The iDeCo account system was established to promote long-term savings and diversified investments, goals that are in line with the principles of Matsui Securities. In an effort to support the iDeCo account system as one of its many services that helps individuals accumulate capital, Matsui Securities said it will not charge a management fee on funds put into iDeCo accounts.

## Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Maruroku Ltd.	86,812	33.81%
Shokosha Ltd.	35,722	13.91%
The Master Trust Bank of Japan, Ltd. (Trust account)	20,912	8.14%
Japan Trustee Services Bank, Ltd. (Trust account)	11,205	4.36%
Chizuko Matsui	5,321	2.07%
Michitaro Matsui	5,262	2.05%
Chiaki Matsui	5,262	2.05%
Yuma Matsui	5,262	2.05%
Michio Matsui	4,376	1.70%
Trust & Custody Services Bank, Ltd. (Security investment trust account)	3,781	1.47%

Source: Shared Research based on company data  
 Note: As of March 31, 2018

## Shareholder return

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

### Dividend per share, dividend payout ratio, dividend on equity ratio

	FY03/09	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18
Dividend per share (JPY)	10.0	15.0	15.0	15.0	20.0	50.0	40.0	45.0	33.0	44.0
Payout ratio	37.8%	50.3%	71.2%	90.4%	79.9%	78.8%	66.0%	78.3%	79.2%	87.5%
DOE	3.5%	5.4%	5.1%	5.1%	6.5%	15.4%	11.7%	12.6%	9.0%	11.7%

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

Matsui forecasts total dividend payments of JPY10.0bn in FY03/19, and it has decided to distribute a commemorative dividend of JPY39 per share to mark the 100th year since the company's founding. It plans to pay an interim dividend of JPY19.0 per share and a year-end dividend of JPY65.0 per share (including JPY39.0 commemorative dividend), yielding an annual dividend of JPY84.0 per share.

## Company profile

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<b>Phone</b>	<b>Listed On</b>
+81-3-5216-0606	Tokyo Stock Exchange 1st Section
<b>Established</b>	<b>Exchange Listing</b>
March 20, 1931	August 1, 2001
<b>Website</b>	<b>Fiscal Year-End</b>
<a href="https://www.matsui.co.jp/en/">https://www.matsui.co.jp/en/</a>	March
<b>IR Web</b>	<b>IR Contact</b>
<a href="https://www.matsui.co.jp/en/">https://www.matsui.co.jp/en/</a>	Akira Warita (Managing Director)
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Chugoku Marine Paints, Ltd.	Kumiai Chemical Industry Co., Ltd.	Take and Give Needs Co., Ltd.
cocokara fine Inc.	Lasertec Corporation	Takihyo Co., Ltd.
COMSYS Holdings Corporation	LUCKLAND CO., LTD.	TEAR Corporation
CRE, Inc.	MATSUI SECURITIES CO., LTD.	Tempo Innovation Inc.
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en-Japan Inc.	Nihon Denkei Co., Ltd.	Yushiro Chemical Industry Co., Ltd.
euglena Co., Ltd.	NIPPON PARKING DEVELOPMENT Co., Ltd.	ZAPPALLAS, INC.
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