

Alpha-Win Company Research Report

PCA (9629 TSE First Section)

Issued: 12/20/2019

● Summary

Research Dept., Alpha-Win Capital Inc.
<http://www.awincap.com/>

Business Description

- PCA CORPORATION (hereinafter, the “Company”) is an independent software manufacturer specialized in packaged enterprise system software. It is a major specialized player in the industry.
- The Company was founded in 1980. Since then, it has been providing on-premises or cloud-based software mainly to small- and medium-sized companies. The Company’s mission is to contribute to society as a “management-supporting company” that supports the smooth management and operation of other companies mainly by providing enterprise system software that realizes high-level automatization.

Current Financial Performance

- The Company's H1 results (Q2 FY 2020) were extremely strong – sales and profit increased for the fourth consecutive year and record-high H1 sales and profit were achieved. Sales were Y7,169 million (+45.8% YoY) and operating profit was Y1,771 million (+625.8% YoY). Sales of the cloud and the labor management system business, which are the growth drivers, had continued to grow. In addition, the solutions and the products contributed significantly to the sales growth, thanks to an event-driven high demand (early demand related to events such as the consumption tax revision and the termination of support for Windows 7). The Company's business model has a high marginal profit ratio, so the increase in sales absorbed the increase in costs such as personnel costs, leading to a significant increase in the profits.
- Also, the Company significantly revised upward its full-year result estimates for FY 2020 (this fiscal year). Revisions were made as follows: sales of 12,783 → 13,404 million yen (+17.2% YoY), operating profit of 1,478 → 2,405 million yen (+92.7% YoY), and net profit of 976 → 1,572 million yen (+73.5% YoY). This new forecast is well above Alpha-Win Research Department's expectations, which had already been higher than the Company’s previous forecast. With continued strong performance of the cloud and the labor management system and the event-driven high demand especially in H1, sales and profits are expected to increase for the fifth consecutive year as well as hit their all-time highs.

Competitiveness

- The Company has a customer base of approximately 240,000 companies. It has a high brand recognition and top-ranking market share in the fields of accounting and finance toward small/medium-sized companies. The Company’s cloud-based enterprise system software business in those fields is especially strong, continuing to rank No. 1 in the industry as a pioneer in the business. Going forward, we should pay attention to the changes in the competition with its major competitors who have entered the cloud service business at a later stage.
- The Company’s strengths are its ability to concentrate business resources in its field of expertise as a specialist to develop products and services that meet various customer needs, including those related to changes in tax and other regulations, before its competitors. It also has a stable customer base and can provide high-quality products and services at reasonable prices.

Business Strategy

- As the basic business strategy for its corporate group, the Company aims to create a strong earnings base for its main businesses (reinforce and increase the sales of PCA Cloud and strengthen the on-premises business), create new business opportunities, and strengthen the business structure to become a highly profitable company. In addition, the Company has started a new strategy – the reinforcement of product creation – through which it hopes to enter another growth phase by providing new products and services.
- The medium-term business plan announced last year remains unchanged for now. However, it is almost certain that during this fiscal year the Company will achieve results that are greater than the consolidated numerical targets for the final year (FY 2022) – sales of at least Y11.5 billion (of which the subscription-based business’s

sales are Y6 billion), an operating profit of at least Y1.5 billion, and an operating margin of at least 10%. Consequently, at the beginning of next fiscal year, the Company will most likely announce upward revisions to the target figures and a more specific medium- to long-term strategy.

Alpha-Win Research Department's Forecast on Financial Results

- Even after October, we have seen very little fallback from the high demand related to the consumption tax rate, and the sales of the cloud, the products, etc., seem to be continuing to be strong. Taking into account the cost assumptions for H2, we believe that the Company's sales and profit targets for the current fiscal year are conservative and have room for further upward revisions. In the next fiscal year, a temporary decline in sales and profits due to the anticipated fallback from the event-driven high demand seems inevitable. However, since the subscription-based business is in a phase of continuous expansion, we believe that the Company will be able to keep the rate of decline in sales and profits low compared to the previous period of fallback following event-driven high demand if the Company conducts appropriate cost control. Based on normalized figures after the end of the event-driven high demand, we estimate the medium- to long-term profit growth rate to be 8-10%.

Stock Price

- A defensive, domestic-demand-related, small-cap growth stock that is positively affected by the rise in consumption tax and the work-style reform. Stock price soared once again in response to the announcement of a major upward revision to the full-year forecast for this fiscal year. It has reached the highest price since the beginning of the year and has been significantly outperforming the TOPIX. Although the valuation of the Company is slightly higher than the average of the First Section of the TSE, it is still cheaper than its competitors. Given the recent strong performance, the expectation that profit will be greater than the full-year forecast, and the expectation that performance over the medium to long term will be strong thanks to the subscription-based businesses as the driving force, there seems to be potential for a further rise in the stock price.

Shareholder Return

- The Company has been stably paying dividend (a dividend payout ratio of about 33%) and has been buying back its shares. This fiscal year, it plans to keep the dividend at Y31 per share per year. When the Quo Card shareholder benefit plan is taken into account, the actual dividend yield comes out to be 1.0% (at maximum). With the strong performance, enhanced shareholder return such as dividend hike, stock split, and share buyback are also possible.

【 9629 PCA Sector: Information & Communication 】 Figure A												
FY		Sales (million yen)	YOY (%)	O.P. (million yen)	YOY (%)	R.P. (million yen)	YOY (%)	N.P. (million yen)	YOY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
2017		9,360	10.9	432	957.9	463	593.6	160	—	23.49	1,568.59	31.00
2018		9,785	4.5	807	86.8	834	79.9	441	174.1	64.37	1,644.39	31.00
2019		11,439	16.9	1,248	54.7	1,277	53.0	906	105.5	133.25	1,789.76	31.00
2020	CE	13,404	17.2	2,405	92.7	2,435	90.7	1,572	73.5	236.40	—	31.00
2020	E	13,600	18.9	2,700	116.3	2,730	113.8	1,750	93.2	263.11	2,021.85	41.00
2021	E	12,600	-7.4	2,000	-25.9	2,030	-25.6	1,300	-25.7	195.45	2,176.31	33.00
2022	E	13,350	6.0	2,400	20.0	2,430	19.7	1,550	19.2	233.04	2,376.35	33.00
2019	Q1	2,346	11.3	57	-67.1	69	-62.3	34	-64.6	5.09	1,624.69	0.0
2020	Q1	3,073	31.0	587	917.5	598	754.6	364	945.3	54.76	1,848.46	0.0
2019	Q2	2,571	8.7	187	-28.6	199	-27.7	162	1,761.1	23.52	1,699.55	0.0
2020	Q2	4,096	59.4	1,184	535.5	1,191	501.6	813	404.8	122.28	1,975.61	0.0
2019	H1	4,917	9.9	244	-44.1	268	-41.7	196	83.0	28.61	1,699.55	31.00
2020	H1	7,169	45.8	1,771	625.8	1,789	567.7	1,177	500.8	177.04	1,975.61	31.00

(Note) CE: the Company's estimate/forecast. E: estimate/forecast by Alpha-Win Research Dept. Q1 (first quarter): April-June of each year. Q2 (second quarter): July-September of each year. H1 (first half): April to September of each year. All fiscal years discussed in this document are March-ending.

(Note 2) Hereinafter, differences due to rounding, processing during calculations, the method of display, etc., may cause values for the same item to not match completely.

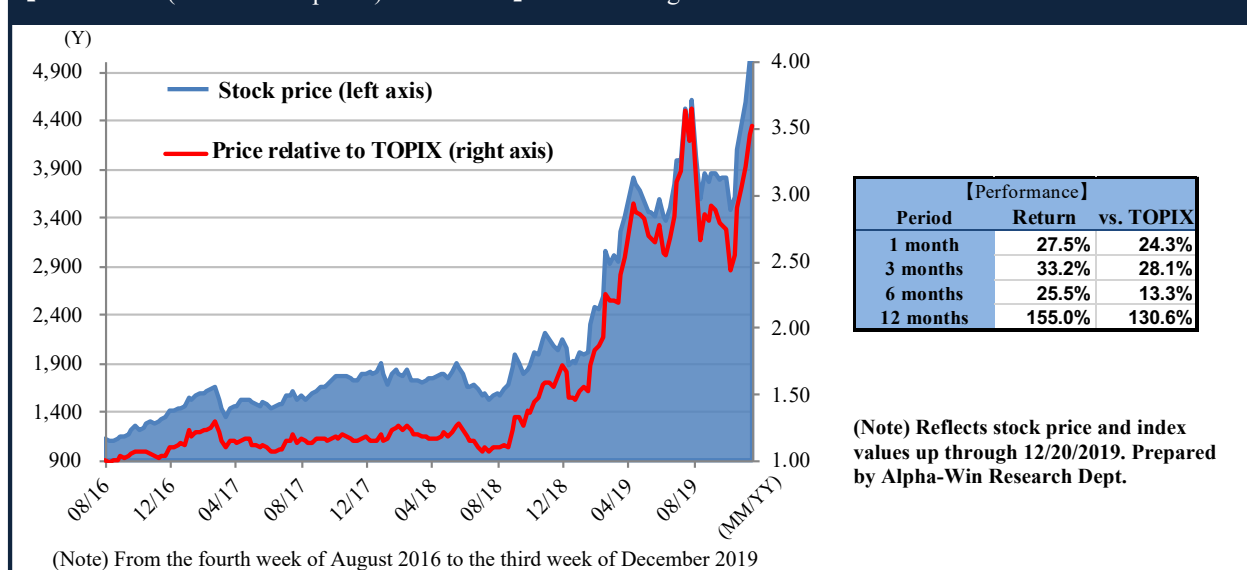
【 Stock Price and Valuation Indicators: 9629 PCA 】 Figure B

Item	as of 12/20/2019	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	5,100	Last FY (actual)	38.3	2.8	0.6%	23.3%
Shares Outstanding (thou.)	7,700	This FY (est.)	19.4	2.5	0.8%	15.6%
Market Capitalization (million yen)	39,270	Next FY (est.)	26.1	2.3	0.6%	16.9%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End	59.3%	Last FY's ROE	7.8%	

(Note) Estimates/forecasts were made by Alpha-Win Research Dept.

【 Stock Chart (end-of-week prices) : 9629 PCA 】

Figure C



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Note: Upon translating to English, when the page numbers differed from the original Japanese version, they were adjusted to those of the English version of this Report.

- ◆ **Major specialized player in the industry with 39 years of practice, developing and providing packaged enterprise system software for small/medium-sized companies**

(1) Enterprise system: a part of a company's information system that deals with matters directly affecting business, such as financial accounting, production control, sales and inventory control, purchases, HR, and payroll. A general term for back-office applications. Also called the mission-critical system, it serves as an important core system for operations/services.

(2) Labor management system: also called the attendance management system, it manages/utilizes various info on working hours. Can automatically aggregate data on working hours, etc., and prepare data to link with payroll software. Provided as on-premises or by cloud.

- ◆ **The Group is composed of the Company and 3 subsidiaries.**

- ◆ **Acquired Keepdata, a company with technological development capability, know-how, and proven record, as a foothold for the data utilization business**

- ◆ **All fiscal years in this document are March-ending unless otherwise noted (e.g. FY 2020 ends in March 2020).**

1. Company Overview

◆ Major Specialized Player in the Enterprise System Software Industry

PCA CORPORATION (hereinafter, the "Company") is an independent, mid-tier, specialized company in the software industry. The Company is a specialist in developing and selling packaged software (software prepared for use in certain operations) for enterprise systems¹, such as those for accounting and tax. It is a major player as a specialist in such software for small/medium-sized companies. About 240,000 companies are active users of the Company's products. Sales toward ordinary companies comprise greater than 90% of the total sales. With regards to the size of the corporate customers, the Company is especially strong in business toward small/medium-sized companies with 50 to 100 employees. 80% of the Company's sales are made via dealers (the remaining 20% are direct sales). It has the largest transaction with the dealer RICOH (sells the Company's software along with its own hardware such as office appliances), which contributes to about 22% of the Company's total sales. The Company's customers are diversified, with major companies as its largest customers by monetary value. It ranks No. 1 in the accounting software industry for public benefit corporations, with software implemented by over 8,000 corporations.

As of the end of November 2019, the Company's group is composed of a total of four companies: the Company and three consolidated subsidiaries. The consolidated subsidiaries are Xronos Inc. (development/sales of labor management system² and time recorders; the Company founded this subsidiary in 2001 and owns 80% of the shares), KEC Corporation (implementation support, operation, maintenance, and other services for PCA's products/services; wholly owned and founded in 1998 by the Company), and the newly acquired Keepdata Ltd. (hereinafter, "Keepdata").

The Company acquired Keepdata in March 2019 and made it its subsidiary (acquired 66.8% of the shares for approximately Y44 million). The subsidiary is included in the consolidated financial results starting this fiscal year (FY 2020). Keepdata's strength is its originally developed system (KeepData Hub: cloud service targeting large companies) that enables real-time integration of various big data such as IoT and the one-stop management of the accumulation, aggregation, and visualization of data to facilitate effective data utilization. As a management-supporting company, the Company intends to use this system as a foothold for a new service that provides a platform for data utilization to small and medium-sized companies. In addition, in the future, the Company plans to integrate this system with its own operation-related product development to create synergy in technology and business development. Specific strategies and measures are currently being formulated.

Keepdata posted sales of Y120 million, a net loss of Y262 million, and negative net assets of Y66 million in FY 2018 (ended September); upfront investment costs associated with system development had caused a net loss and an excess of debt. Since the development of the

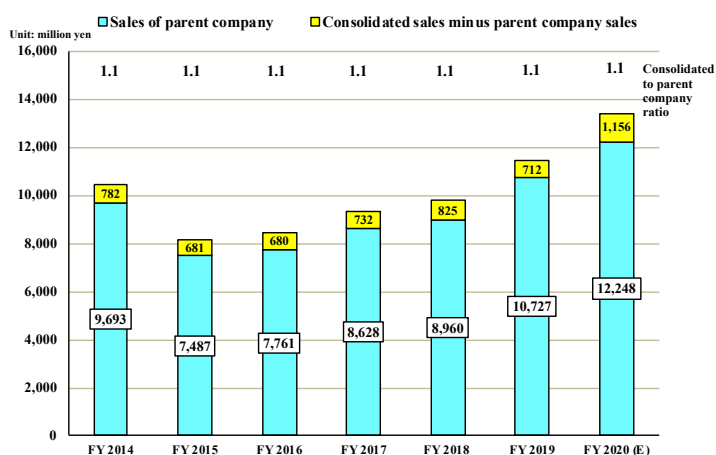
system has already been completed, the Company expects profit and loss for this fiscal year to be close to zero, but a net loss may still be posted, although in a smaller amount. For the time being, the impact of this subsidiary on the Company's results is expected to be limited.

As for MACS System Corporation (development/sales of computer software for medical office use such as electronic medical records; the Company acquired it as a subsidiary in 2008 and owned 80% of its shares), it was a consolidated subsidiary up through last fiscal year (FY 2019), but the Company sold it in February 2019 since the business was unprofitable. Thus, the Company is making progress with the restructuring of its business portfolio.

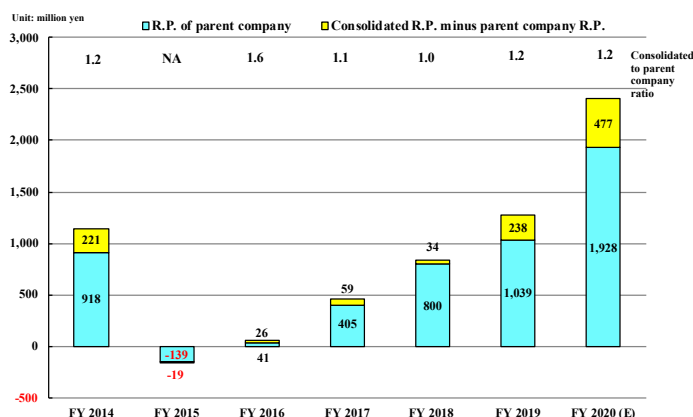
◆ Consolidated-to-parent-company sales ratio has stayed around 1.1. The summed recurring profit of the consolidated subsidiaries has also been positive and has been increasing.

The ratio of consolidated-to-parent-company sales has stably remained around 1.1, indicating that a greater weight is placed on the parent company's financial results (Figure 1). Although the subsidiaries' profits and losses are not disclosed, the ratios of consolidated-to-parent-company recurring profit have been in the range of 1.0-1.6 during the fiscal years that the Company has been in the black (including this fiscal year's forecast). Additionally, the summed profit/loss of the three subsidiaries, calculated by consolidated minus parent company recurring profit, has been a surplus since FY 2016 (Figure 2). Among the subsidiaries, Xronos seems to be continuing to contribute the most to the financial results, thanks to the work-style reform (Xronos' results are not disclosed).

[Figure 1] Ratio of Consolidated-to-Parent-Company Sales (ratios shown on upper portion of graph)



[Figure 2] Ratio of Consolidated-to-Parent-Company Recurring Profit (ratios shown on upper portion of graph)



(Ref) Figures 1 and 2 were both prepared by Alpha-Win Research Dept. based on the securities report. Estimates/forecasts (E) are from the Company's business plan.

- ◆ **Founded by certified public accountants in 1980**

The name of the Company comes from the five founders who were certified public accountants (CPA); the letters CPA were shuffled into the meaningful name **P (Professional) C (Computer) A (Automation)**.

- ◆ **Rich in cash and debt-less**

The Company's finance is firm, rich in cash and debt-less. Relative to its sales of Y13.4 billion (this fiscal year's forecast), total assets of Y21.7 billion, and market capitalization of approx. Y29.8 billion, its cash and deposits are abundant, at Y9.5 billion, and increasing (values from the B/S as of the end of Sept. 2019). Free cash flow (FCF) has been positive except for a certain period, and cash and deposits on the B/S have been increasing (Figure 3). The financial ratios, including the equity ratio of 60.7% and the current ratio of 238.1%, indicate financial soundness (value as of the end of September 2019).

[Figure 3] Transition in Cash Flow (unit: million yen)

Unit: million yen	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2019 (this H1)	FY 2018 (last H1)
Operating CF ①	627	488	141	847	1,048	547	1,427	1,533	1,270	2,141	1,402	818
Investing CF ②	-405	-127	185	-407	-750	-606	-627	-395	1,715	-80	-2	556
Financing CF	-207	-210	-205	-215	-216	-284	-214	-215	-216	-572	-225	-213
FCF (①+②)	222	361	326	440	299	-60	800	1,137	2,985	2,061	1,400	1,375
Cash and Deposits (on B/S)	6,817	5,970	5,493	6,621	6,606	6,154	6,612	7,487	7,269	7,280	9,506	7,280

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary.

(Note) Cash and deposits shown are values from the balance sheet, not values used in the CF calculation.

- ◆ **The Group's basic business policy is to "aim for a more rational business with clear vision."**

◆ Business Philosophy

The Company's business philosophy was announced as "customer-first" when it made its first public offering in March 1994. Then, in 2010, the Company laid out the three key ideas of its business philosophy and 34 rules for the code of conduct and announced that the basic business policy for its corporate group is to "aim for a more rational business with clear vision."

- ◆ **The mission statement is to "contribute to society by developing and providing packaged enterprise system software that realizes advanced automation."**

The Company's mission statement is to "contribute to society by developing and providing packaged enterprise system software that realizes advanced automation." While its corporate culture is down-to-earth and homely, the Company is also a pioneer in the conservative industry, conducting R&D and launching new products ahead of its competitors.

The following are the three key ideas of the Company's business philosophy:

- 1) We will always make our best effort to be customer-first.
- 2) We will aspire to become a highly profitable company over the long term with sound management.
- 3) We will treat our employees like family members and create a company with a homely culture.

2. Business Description and Business Model

- ◆ Enterprise systems are mission-critical. Stability and reliability are critical elements since they are used inside a company.

◆ Enterprise System Software Necessary for Efficient Business Operations

The Company's main business is enterprise systems that support internal business operations. Unlike systems that simply work on personal computers, an enterprise system is a computer system that supports a series of processes throughout all business operation flows in a company. Since it is mission-critical for business operations, it is required to be reliable, efficient, stable, user-friendly, safe, and expandable.

The main ways for building an enterprise system are package-based system development and original system development. Generally, the method of combining sold packaged software into a system has advantages such as short development time, cheapness, and having relatively few bugs. On the other hand, its disadvantage is the difficulty in customizing the system to a company's business conditions, operations, management styles, and other specific needs.

As for original software development and implementation, outsourced development and in-house development are the two options. In either case, the advantage of an original system is that it can be made to be user-friendly since it can be customized to a company's needs and operations. However, development cost and time are larger and longer, and it requires revisions, addition of functions, and maintenance after implementation. Micro-sized, small-sized, medium-sized, and mid-tier companies will especially find the development, implementation, and operation of original software difficult due to financial, staff, and time constraints.

(3) Accounting software: application software for recording, processing, and integrated management of accounting data

(4) HR and payroll software: software for payroll calculations and HR management

In response to such needs, the Company has been developing original enterprise system software that especially meets the needs of individuals or micro-sized (SOHO), small-sized, medium-sized, and mid-tier companies in areas such as accounting³, finance, HR and payroll⁴, sales management, purchasing and inventory management, tax, and medical and medical office work. The enterprise system software is either packaged (on-premises: conventional products operated in-house by a corporate customer) or cloud-based (a service where the corporate customer can operate the enterprise system software via the Internet easily and at a low cost without having to prepare its own server). The enterprise system software is sold and distributed by direct or indirect methods.

Additionally, the Company has not only been developing and selling enterprise system software but has also been expanding its business by providing consulting services based on solution proposals. With its subsidiaries, the Company has also been providing various support services such as maintenance service and implementation/operation support. Going forward, the Company plans to further strengthen these businesses.

- ◆ Provides about 16 types of originally developed packaged enterprise system software
- ◆ About 70% of sales comes from originally developed products and services
- ◆ Entry barrier is high, since reliability and proven track record are required.
- ◆ Changed its business model – now focused on the subscription-based businesses.

◆ Business Model with High Continuity and Marginal Profit Ratio

The Company provides 16 types of software and its business model is based on the mass production of several types of products. Due to the nature of its business, its marginal profit ratio is high. Its original products and services (products/maintenance/cloud) account for greater than 70% of the total sales, while the remaining 30% comes from goods and other companies' products (purchased goods). From the development to the release of a new product, approximately two years and a corresponding amount of cost are necessary per product. Version upgrades (revision updates), which are prepared as needed, are released usually in a one- to two-year cycle. In recent years, software functions have become so enhanced that the customers seem to be purchasing less in response to this version upgrade cycle.

Since these types of software are related to operations that require high reliability, and since software replacements give rise to issues of cost, labor, and data continuity, their users show little interest in actively or frequently replacing their current software with an alternative of a different company. Therefore, customer loyalty is high, and contracts have high repeat rates (50% to 90% or greater depending on the type of software). The barrier to market entry is high because trust and brand recognition are a must in this industry and its companies are currently mostly being able to exist alongside one another by taking strong positions in different niches.

◆ Expansion of Highly Stable and Profitable Subscription-Based Businesses

Until FY 2016, sales and profit/loss were disclosed for the four business segments of "for ordinary companies," "for non-profit organizations," "medical," and "cloud." In FY 2017, all business segments became consolidated. Sales are now disclosed for five sales categories (types): "products," "goods," "maintenance service," "cloud service," and "other operating revenue" (also called "solutions") (Figure 4). Profit and loss by segment are no longer disclosed.

[Figure 4] Sales Classification (by category)

Sales Classification by Category	Details	FY 2019 (actual result)			H1 FY 2020 (actual result)	
		Sales (million yen)	% of Total Sales	Est. Gross Margin	Sales (million yen)	% of Total Sales
Products	Sales of original packaged software (accounting, sales management, purchasing and inventory management, payroll, HR, etc.) (includes version upgrades)	2,516	22.0	approx. 40%	1,842	25.7
Goods	Sales of other companies' products such as business forms	566	4.9	approx. 40%	219	3.1
Maintenance Service	By signing up to PSS membership, one can receive inquiry and support services from call centers	3,125	27.3	80-90%	1,699	23.7
Cloud Service	Subscription service for software provided via the cloud	2,403	21.0	60-70%	1,569	21.9
Other Operating Revenue	Sales of other companies' products such as software/hardware combined with its original products; also called "solutions"	2,830	24.7	approx. 25%	1,841	25.7
Total & Average		11,439	100.0	Actual: 57.0%	7,170	100.0

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and interview. Includes estimates. Sales for each category are based on the new standards.

During FY 2019, the maintenance service contributed the most to total sales (Figure 4 and Figure 5 on page 10), serving as a stable source of profit. In recent years, the sales of the cloud service for packaged software have largely grown. In fact, the cloud service is becoming a growth driver for the entire company with regards to both sales and

- ◆ **Subscription-based maintenance and cloud businesses (“stock businesses”) account for about 50% of the total sales.**

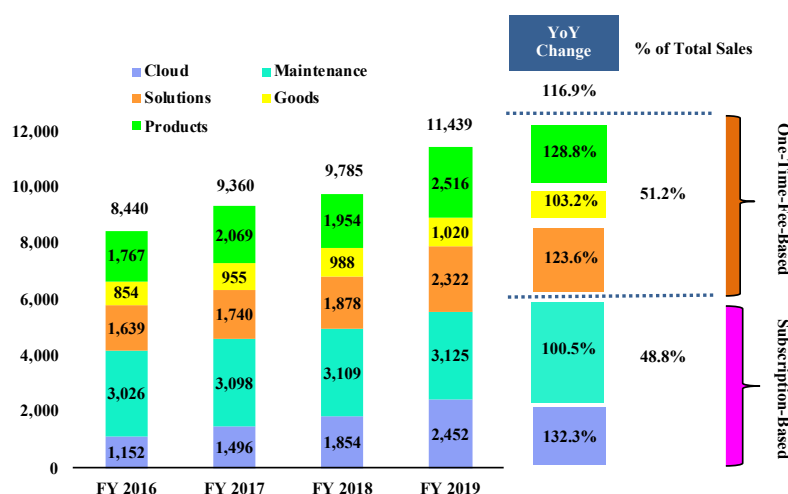
profits. Subscription-based revenue, which is the sum of the maintenance service and the cloud service, accounts for about 50% of the total sales, contributing to greater stability in management and profit. Both the maintenance service and the cloud service have a high gross margin and continuity.

On a consolidated basis, sales breakdown by the operation type of software is not disclosed. However, the sales seem to be diversified, with the sales for “accounting software” predicted to be the largest by composition (about 15% of the total sales), followed by “sales management and purchase & inventory management,” and then by “payroll and HR.”

Currently, as the Company’s primary internal management targets, goals are set for software sales (or the sold number of products) by operation type. Profit and loss by the operation type of software are not targets of management. However, going forward, the Company plans to develop and establish a performance management indicator for each internal organizational unit, etc., and make a transition from sales-based management to profit-based management. The Company has commented that the profit/loss values for each software operation type do not greatly differ between one another, but the main accounting software business is assumed to be generally highly profitable. Meanwhile, since the profitability of the business for medical software and related products, which was started at a later stage, had worsened due to upfront investment costs such as sales promotion and development expenses, the Company sold the subsidiary concerned with the business and withdrew from the business (past disclosures indicate posting of a loss for this business segment).

The percentages of new software sales or version upgrade sales over the total sales change every year, but the percentage of version upgrades has always been greater than 50%. As a side note, the Company’s on-premises products tend to be installed and used by users on a single PC (stand-alone).

[Figure 5] Change in Full-Year Sales and Sales Breakdown (unit: million yen, %)



(Ref) Excerpt from the Company’s financial results briefing supplemental materials, reworked by Alpha-Win Research Dept. Sales for each category are based on the new standards.

- ◆ **The rapidly growing cloud is based on a subscription-based, stable business model. Taking a lead in the industry, the Company has a competitive advantage.**

(5) API (Application Programming Interface): interface/network to operate software; connects the software and the program.

(6) Kintone: cloud service for building business app on a web database, provided by Cybozu. Allows easy system build-up and linkage with other systems.

◆ **Cloud Business as the Growth Driver**

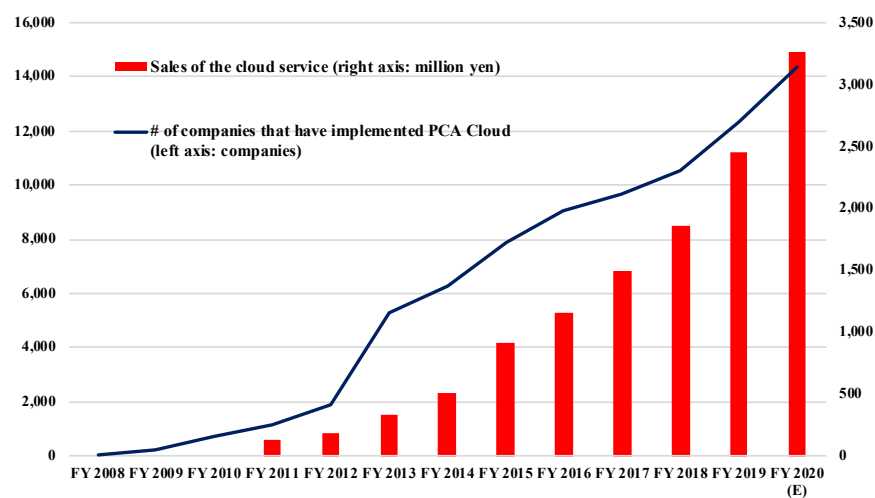
Until recently, the Company had focused its business on selling conventional packaged software, also known as on-premises. However, as the Internet became more sophisticated and more widely used, the Company predicted that demand for the cloud will rise due to its user-friendliness and cost performance. Therefore, since 2008, the Company has been providing cloud versions of the same software as the on-premises, more than ten years ahead of its competitors.

This cloud business, where the users pay fees continuously for a certain period of time to use the software (subscription-based business model), is attractive as a stable, subscription-based business model similar to the maintenance service (average monthly payment of 20-30 thousand yen per corporate user). As the cost of this cloud business is largely fixed, with small variable costs such as those related to server maintenance, manufacturing, sales, and logistics, this business has a high marginal profit ratio.

The Company leads the industry as No. 1 in cloud-based enterprise system software for small/medium-sized companies. The advantages listed below seem to make the Company stand out from its competitors in the field. In recent years (2017-2018), its competitors have entered the cloud market in full scale as their “first year of the cloud,” but the Company is expected maintain its advantage for the meantime.

- Providing a wide variety of advanced software for business operations
- Originally developed open architecture and low cost
- Economies of scale are in effect, with more than 13,000 companies already using the cloud as customers, contributing well to the Company’s profit
- Consequently, it has a very strong price advantage compared to its competitors
- 12 years’ worth of operation know-how
- User-friendly, with WebAPI⁵ allowing linkage with other companies on the cloud (already linked with about 60 companies, including Kintone⁶ of Cybozu)

As shown in Figure 6 on page 12, the Company has recently been focusing its business on the cloud service, and the number of contracts as well as sales has been growing steadily. The business’s growth rate has been accelerating along with the expansion of scale, making it the Company’s main driver of business growth.

[Figure 6] Transition in the Number of Companies that Have Implemented PCA Cloud and the Sales of PCA Cloud

(Note) Sales from FY 2008 to FY 2010 have not been disclosed. Estimates are partially included in the number of companies that have implemented PCA Cloud.

(Ref) Prepared by Alpha-Win Research Dept. using information including those from the Company's financial results briefing materials and interviews. (E) represents estimates/forecasts made by Alpha-Win Research Dept.

(7)

◆ **Topic:** (Due to contract and copyright issues, this section was deleted)

3. Shareholder Composition

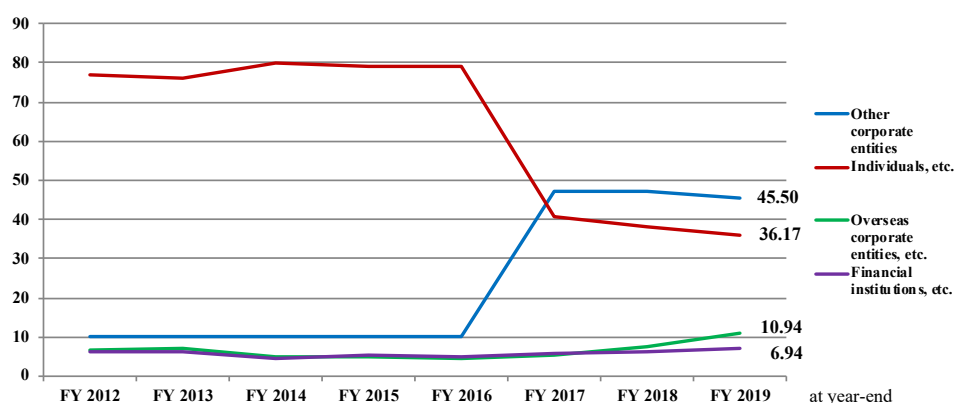
◆ Change in Composition by Type of Shareholder

- ◆ Shares were transferred due to inheritance and other events, but there has been no substantial change in the major shareholder composition.

Regarding shareholder composition by shareholder type as of the end of March 2019 (Figure 7), the sum of “other corporate entities” and “individuals, etc.” accounts for approximately 80% of all shares. “Overseas corporate entities, etc.” and “financial institutions, etc.” account for only 11% and 7%, respectively, but the share of “overseas corporate entities, etc.” is gradually rising.

Certain individually owned shares were transferred upon inheritance from the founder (Mr. Kawashima) and then transferred in FY 2017 to a general incorporated association (the founder family’s asset management company, categorized under “other corporate entities”). However, no substantial change occurred in the composition of major shareholders.

[Figure 7] Change in Shareholder Composition by Type of Shareholder (unit: %)



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report

◆ Major Shareholder Composition

Major shareholders as of the end of September 2019 are shown on Figure 8 on page 14.

- ◆ MSIP CLIENT SECURITIES entered the ranking for the first time as the third largest shareholder with 3.8% of the shares, replacing GOLDMAN SACHS INTERNATIONAL.

Compared to the end of March 2019, the key difference is that GOLDMAN SACHS INTERNATIONAL, which had appeared in the major shareholder ranking for the first time in the previous report as the second largest shareholder (ranking excluding treasury shares; the same applies below), was replaced by MSIP CLIENT SECURITIES (third place), Japan Trustee Services Bank, Ltd. (trust account; seventh place), and BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD (eighth place). Their investment purposes are unknown, but since some accounts have a history of investment in various Japanese stocks, they are predicted to be purely investments by institutional investors, funds, etc., through trustees.

Although there have been some changes in the shareholding ratios, the other major shareholders and the number of shares they own have not changed significantly. Below is supplemental information:

♦ The founder family's asset management company is the largest shareholder with greater than 40% of all shares. This, combined with the treasury shares and the Employee Stock Ownership Plan, amounts to more than 50% of all shares, indicating stability.

♦ OBC, its rival, is also a major shareholder.

♦ Currently, there is no activist-like behavior. Anti-takeover measures have not been adopted.

• The largest shareholder Kawashima Co., Ltd. is the asset management company of two directors of the Company (president Sato and Mr. Kumamoto) and their relatives (descendants to the founder Mr. Kawashima).

• The Company has essentially been the second largest shareholder. After Kawashima Co., Ltd. indicated its intention to sell its shares, the Company additionally acquired 200,000 shares (equivalent to 2.6% of outstanding shares) by a tender offer by December 2018. As a result, the Company now owns a total of approx. 13.6% of its own shares. Currently, the Company has not yet decided on how to effectively use its treasury shares, but some possibilities include stock-based remuneration for its officers and employees, cancellation of stock, and stock-swap in a tie-up or an M&A.

• The second largest shareholder Obic Business Consultants Co., Ltd. (OBC) is a competitor with no transaction with the Company. Mr. Shigefumi Wada, the ninth largest shareholder, is the current president of OBC. In either case, their purposes are unknown. While there has been no change in the number of shares held under the corporate account, shares held under the personal account are declining.

• The fourth largest shareholder Mizuho Bank, Ltd. is holding shares probably for the purpose of cross-shareholding.

• The fifth largest shareholder Logic Systems Co., Ltd.'s purpose is unknown.

• Shares held by the sixth largest shareholder PCA Employee Stock Ownership Plan have decreased, perhaps because of some shares were sold in response to the rising stock price.

• The tenth largest shareholder Nagoya PCA Co., Ltd. is the company to which software development (SHOKON and other products of the Company) is outsourced.

• GOLDMAN SACHS INTERNATIONAL (as described above), State Street Bank and Trust Company 505001, and KBL EPB S.A.107704 were previously listed as major shareholders but no longer belong in the top ten. They have probably sold a part or all of their shares.

• Currently, there are no major shareholders with activist-like behavior. Also, the Company has not adopted any anti-takeover measures.

[Figure 8] Major Shareholders' Status

Unit for shares owned: thou. shares

For ratios: %

	End of Mar. 2015	End of Mar. 2016	End of Mar. 2017	End of Mar. 2018	End of Mar. 2019	End of Sept. 2019	←% of Total Shares	←Ranking
Kawashima Co., Ltd.	—	—	2,935	2,935	2,736	2,735	41.11	1
PCA CORPORATION (treasury shares)	848	848	848	849	1,049	1,045	13.57	—
Obic Business Consultants Co., Ltd.	254	254	254	254	254	254	3.81	2
MSIP CLIENT SECURITIES	—	—	—	—	—	250	3.76	3
Mizuho Bank, Ltd.	121	121	121	121	121	121	1.81	4
Logic Systems Co., Ltd.	114	114	114	114	114	114	1.71	5
PCA Employee Stock Ownership Plan	110	119	127	127	135	108	1.64	6
Japan Trustee Services Bank, Ltd. (trust account)	—	—	—	—	—	108	1.63	7
BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS	—	—	—	—	—	107	1.62	8
M LSCB RD	—	—	—	—	—	—	—	—
Shigefumi Wada (individual)	181	181	181	151	112	106	1.60	9
Nagoya PCA Co., Ltd.	—	100	100	100	100	100	1.50	10
GOLDMAN SACHS INTERNATIONAL	—	—	—	—	303	—	—	—
State Street Bank and Trust Company 505001	244	249	266	266	174	—	—	—
KBL EPB S.A. 107704	—	—	—	—	90	—	—	—
APPLIED SYSTEM LABORATORY Inc.	—	—	86	86	94	—	—	—
Reiko Sato (individual): Heir to the founder Mr. Kawashima	1,467	1,467	—	—	—	—	—	—
Tomoko Kumamoto (individual): Heir to the founder Mr.	1,467	1,467	—	—	—	—	—	—
Hiroko Wada (individual)	358	—	—	—	—	—	—	—
(Ratio of treasury shares)	11.0	11.0	11.1	11.0	13.6	13.6	—	—

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and the general shareholders' meeting reference materials.

(Note) The official English name could not be verified for some.

4. ESG

There have been no large changes with regards to ESG. The Company has been conducting ESG activities on a steady basis as usual.

◆ Environment

Although the Company does not directly own any production facility and therefore does not harm the environment, it still makes consideration for energy/electricity conservation.

◆ Society

In its mission statement, the Company has declared to “support its customers’ business management through enterprise system software.” The idea is that by contributing to improved user convenience and efficiency, it is fulfilling its responsibility as a member of the society. In addition, the Company has become a gold sponsor of the U22 Programing Contest backed by the Ministry of Economy, Trade, and Industry. As a sponsor, it supports the stimulation of Japan’s technologies and innovations and the discovery and training of talented programmers who will shape the future. In addition, the Company sponsors and supports athletics promotion activities such as the marathon.

Also, in order to support the reconstruction after the Great East Japan Earthquake and help the people who suffered from it, the Company made a donation to the incorporated non-profit organization Médecins Sans Frontières (MSF) Japan. Furthermore, it provided free replacements for the Company’s products (CD-ROMs, manuals, etc.) that were damaged or lost due to the Earthquake.

The Company also operates a farm in Chiba Prefecture where it proactively hires physically disabled staff. It also purchases flowers, lunchboxes, bakeries, etc., produced by a company that hires physically disabled staff.

As a general employer action plan based on the Act on Promotion of Women’s Participation and Advancement in the Workplace, the Company has set goals to “continue to hire new female employees at a ratio of 40% or greater for new hires, raise the percentage of female full-time employees from the current 25% to 30%, and create a foundation for raising the number of future female managers by raising the percentage of women in our company.” The Company is promoting the workplace retention of women and making efforts to promote greater female participation. One outside director and one outside auditor are women.

◆ Governance

For internal control, the Company has set up an internal audit office, directly under the control of the president, that operates in cooperation with two outside directors. It has also set up a risk-control committee

◆ Proactively supporting the disabled and the discovery and training of IT talents

◆ Promoting diversity by improving gender mix. Has set goals to increase the percentage of women.

with the president as the chairperson to create a risk control system that can flexibly, quickly, and appropriately respond to the risks.

As of December 2019, the Company does not have an executive officer system. The management team consists of six directors (including two outside directors) and four auditors (including three outside auditors, one tax accountant, one CPA, and one lawyer).

5. History of Growth

- ◆ **Founded upon recognizing the importance and promising future of computer and enterprise system software businesses in Japan**

- ◆ **With a pioneering spirit, became the first to begin cloud services in the industry**

(8) SaaS (Software as a Service): software where, as a service, one can use the necessary function in the necessary amount when needed; or the method of providing such service. Instead of the user installing the software, the vendor operates the software and provides the necessary function to the user via a network.

- ◆ **Changed its market listing from the Second to the First Section of the TSE in Dec. 2014**

- ◆ **Has been generally increasing sales over the long term. Meanwhile, profit had not changed significantly.**

◆ Company History

A group of five certified public accountants with the late Mr. Kawashima as its leader founded the Company in 1980 upon recognizing the importance and the promising future of computer and software businesses in Japan. At first, they developed and sold business accounting software for small business computers. In 1995, in anticipation of making transition from small business computer users in the future, the Company officially began the development and marketing of packaged software for personal computers (PC).

Then, with the emergence of the PC era, the Company has grown mainly due to the following four efforts: 1) created a greater variety of and version upgrades for packaged software in Japan, 2) expanded the maintenance service business, 3) developed the cloud business, and 4) expanded the solutions business which includes providing other companies' products. Furthermore, by increasing the number of offices and cooperating with manufacturers and dealers, the Company has developed a nationwide sales/support system that has helped the rapid expansion of its business. The Company is also seen as a pioneer in the rather conservative industry, as it was the first in the industry to begin providing cloud services (SaaS⁸) in 2008.

Regarding shares, the first public offering was made in 1994. The Company became listed on the Second Section of the TSE in 2000 and then on the First Section in 2014. Upon becoming listed on the First Section of the TSE, the Company changed its logo to the current one.

◆ Past Transition in Financial Results

Since foundation until now, the Company has been expanding its business as a specialist in the development and marketing of enterprise system software and related businesses, as described above. The transition in financial results since its first public offering is described in Figure 9 on page 18. The following is supplemental information on the financial results, in chronological order:

- Aside from certain periods such as the post-Lehman economic downturn and the fallback from the high demand stimulated by revisions in tax and other regulations, the Company has generally kept increasing sales since 1994. On the other hand, no significant improvement had been made for profit, being unable to maintain or raise the level of profit that it had once achieved.

- Consecutive decline in sales and profit from FY 2001 to FY 2002 occurred due an economic downturn and the fallback from the high demand brought by the year 2000 problem.

- The decline in sales for four consecutive years from FY 2007 to FY 2010, as well as the decline in profit for seven consecutive years from FY 2007 to FY 2013, was caused by decreased demand (due to the post-Lehman economic downturn, etc.) and increased personnel, R&D, and

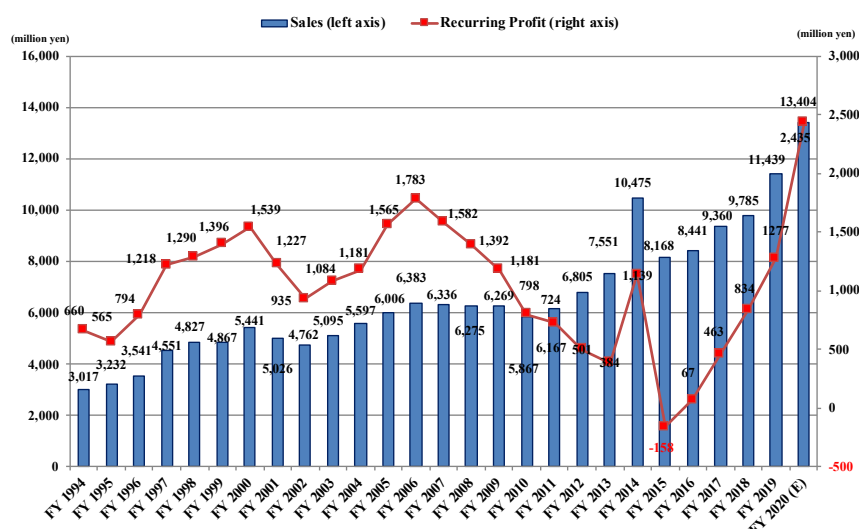
♦ **Achieved record-high sales of Y10 billion in 2014 thanks to event-driven high demand**

sales promotion expenses, as well as worsened profitability caused by intensified competition.

• In FY 2014, record-high sales (Y10,475 million) were achieved thanks to the high demand driven by two events: the termination of Windows XP support (support ended in April 2014) and the change in consumption tax (from 5% to 8% in April 2014). The large growth of the cloud service also contributed to the record-high sales.

• Decreased sales in FY 2015 are explained by the fallback from the high demand brought by the two events as described above. Since FY 2016 to this fiscal year, the Company has been increasing sales again thanks to the continued growth of the cloud, new products, strengthened sales force, and economic recovery.

[Figure 9] Long-Term Transition in Financial Results



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. Estimate/forecast (E) for FY 2020 is from the Company's business plan.

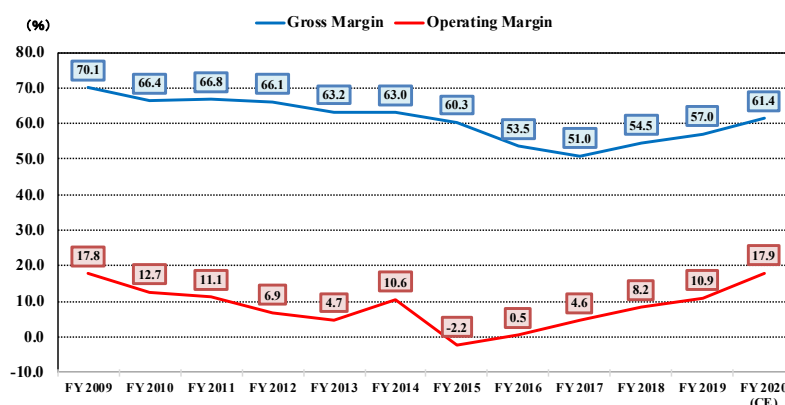
(9) ERP (integrated enterprise system): stands for Enterprise Resource Planning. Management concept based on the integration and real-time processing of core business information to efficiently optimize as a whole. Provided as IT solutions software for integrating enterprise systems.

♦ **Record-high operating profit and recurring profit in FY 2006**

With regards to profit, a record-high net profit (Y937 million) was achieved in FY 2000, having benefitted from the high demand brought by the year 2000 problem. Additionally, in FY 2006, record highs were achieved for operating profit and recurring profit (Y1,747 million and Y1,783 million, respectively). Demand stimulated by the revised accounting regulation for public benefit corporations and by the drastic changes in regulation caused by the new Companies Act, as well as the Company's ERP⁹ (integrated enterprise system) product Dream 21 (old product name), helped improve profitability, leading to the record highs in 2006.

For many years, the Company's gross margin and operating margin had been gradually decreasing (Figure 10 on page 19). Gross margin declined due to increased price competition from intensified competition among packaged software developers during the economic downturn, worsened product mix from a rise in the percentage of other companies' less-profitable goods, and higher costs especially for labor costs, production expenses (subcontractor costs), and R&D costs.

[Figure 10] Long-Term Transition in Gross Margin and Operating Margin



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. The Company's estimate/forecast (CE) used for FY 2020.

- ◆ A net loss was posted for two consecutive years in a fallback from past event-driven high demand.
- ◆ From FY 2016, began to consecutively raise sales/profit, staying in the black, thanks to new products, growth of the cloud, and cost reduction. Operating margin improved.
- ◆ Thanks in part to the structural reform, financial performance recovered in a V-shaped curve. High demand for software version upgrade (replacement): for accounting and sales management software in response to the revision of the consumption tax rate to 10% and the new reduced-tax system, as well as for software installed in PCs that were replaced by users due to the termination of the Windows 7 support in January 2020.

Despite efforts to cut down on cost, a net loss was consecutively posted in FY 2015 and FY 2016 (net loss for the year: Y207 million in FY 2015 and Y93 million in FY 2016), affected by decreased sales due to the fallback from the event-driven high demand as described above and the postponed revision of consumption tax to 10%.

However, since FY 2016, the Company has been increasing sales again and the decline in gross margin has stopped. Operating margin has bottomed out and began to gradually increase thanks to increased sales of the new products and the cloud and cost reduction. In recent years, the Company has been working on a structural reform, including the disposal of assets with impairment risk (real estate and securities) and shortening of software amortization, and is starting to see positive results from these efforts. The Company's success in recent years in the growth and recovery of its financial performance was helped by cost reduction and sales growth of the cloud and the maintenance service despite domestic sales dwindling just below Y10 billion.

Since FY 2017, the Company has been continuously making and increasing profit. In FY 2019 (last fiscal year), the Company achieved an increase in sales and a significant increase in profit for the fourth consecutive year. Due to an event-driven high demand of about a billion yen in H2 of the previous fiscal year, the financial results were revised largely upward in the middle of the fiscal year. Sales increased in all categories, but the sales of the cloud service, the products, and the solutions especially grew well – by about 20-30% each – thanks to the effect of the event-driven high demand (rise in the consumption tax rate, termination of Windows 7 support, version upgrades related to the change in the name of the era, etc., led to an early demand of almost a billion yen, as estimated by the Company). As a result, the Company achieved record-high full-year sales for the first time in five years since the record of Y10,475 million attained in FY 2014 when a high demand was induced by two events.

As a reference, Figure 11 on page 20 shows the comparison of the Company's initial forecast and the actual results in the past in chronological order. Although the actual results have sometimes

greatly deviated from the initial forecast, since the recovery phase starting in FY 2017, sales have been close to the initial forecast and profits have generally tended to exceed the initial forecast. As a side note, past announcements of revisions to financial results have often been made in September or February to April of the following year.

[Figure 11] Comparison of the Company's Initial Financial Forecast and Actual Results in Chronological Order

Consolidated	Sales		Operating Profit		Recurring Profit		Net Profit Attributable to Owners of the Parent (hereinafter "net profit")		Sales	Operating Profit	Recurring Profit	Net Profit	Sales	Operating Profit	Recurring Profit	Net Profit
Unit: million yen	Initial forecast	Actual result	Initial forecast	Actual result	Initial forecast	Actual result	Initial forecast	Actual result	Difference from initial forecast				YoY change in actual results			
FY 2001	-	5,026	-	1,224	-	1,227	-	695	-	-	-	-	-	-	-	-
FY 2002	5,634	4,762	-	925	1,215	935	-	533	-15.5%	-	-23.0%	-	-5.3%	-24.4%	-23.8%	-23.3%
FY 2003	5,104	5,095	-	1,073	1,015	1,083	589	576	-0.2%	-	6.7%	-2.2%	7.0%	16.0%	15.8%	8.1%
FY 2004	5,521	5,595	-	1,170	1,125	1,181	653	682	1.3%	-	5.0%	4.4%	9.8%	9.0%	9.0%	18.4%
FY 2005	6,096	6,005	-	1,551	1,293	1,565	769	915	-1.5%	-	21.0%	19.0%	7.3%	32.6%	32.5%	34.2%
FY 2006	6,870	6,383	-	1,747	1,780	1,783	1,059	327	-7.1%	-	0.2%	-69.1%	6.3%	12.6%	13.9%	-64.3%
FY 2007	6,860	6,336	-	1,533	1,550	1,582	922	852	-7.6%	-	2.1%	-7.6%	-0.7%	-12.2%	-11.3%	160.6%
FY 2008	6,790	6,274	1,321	1,325	1,365	1,391	812	644	-7.6%	0.3%	1.9%	-20.7%	-1.0%	-13.6%	-12.1%	-24.4%
FY 2009	6,800	6,268	1,294	1,117	1,360	1,181	809	680	-7.8%	-13.7%	-13.2%	-15.9%	-0.1%	-15.7%	-15.1%	5.6%
FY 2010	6,500	5,867	1,141	744	1,200	797	714	436	-9.7%	-34.8%	-33.6%	-38.9%	-6.4%	-33.4%	-32.5%	-35.9%
FY 2011	5,908	6,166	878	686	927	724	519	411	4.4%	-21.9%	-21.9%	-20.8%	5.1%	-7.8%	-9.2%	-5.7%
FY 2012	6,505	6,805	806	468	835	501	381	75	4.6%	-41.9%	-40.0%	-80.3%	10.4%	-31.8%	-30.8%	-81.8%
FY 2013	7,025	7,550	56	354	84	383	29	181	7.5%	532.1%	356.0%	524.1%	10.9%	-24.4%	-23.6%	141.3%
FY 2014	8,641	10,474	284	1,110	311	1,138	141	604	21.2%	290.8%	265.9%	328.4%	38.7%	213.6%	197.1%	233.7%
FY 2015	9,198	8,168	453	-179	483	-157	283	-207	-11.2%	-139.5%	-132.5%	-173.1%	-22.0%	-116.1%	-113.8%	-134.3%
FY 2016	8,880	8,440	242	40	272	66	131	-93	-5.0%	-83.5%	-75.7%	-171.0%	3.3%	-122.3%	-142.0%	-55.1%
FY 2017	9,731	9,360	165	432	187	463	51	160	-3.8%	161.8%	147.6%	213.7%	10.9%	980.0%	601.5%	-272.0%
FY 2018	9,876	9,785	645	807	669	834	425	441	-0.9%	25.1%	24.7%	3.8%	4.5%	86.8%	80.1%	175.6%
FY 2019	10,486	11,439	825	1,248	842	1,277	588	906	9.1%	51.3%	51.7%	54.1%	16.9%	54.6%	53.1%	105.4%
FY 2020 (CE)	12,783	13,404	1,478	2,405	1,499	2,435	976	1,572	4.9%	62.7%	62.4%	61.1%	17.2%	92.7%	90.7%	73.5%
Simple average of difference (unit: %), calculated based on the longest period with available data for sales & profits (excluding this FY) →									-1.7%	60.5%	30.2%	32.2%	5.3%	55.8%	32.7%	10.3%
Blue highlight: Previous record	Green highlight: Record high	From initial forecast, upward revision : downward revision (including this FY) (unit: # of times)→							7:12	7:6	12:7	8:10	↑ Simple average for each period (excluding this FY)			

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary and securities report. Regarding the FY 2020 forecasts/estimates (CE), the Company's initial forecast is compared with its revised forecast.

♦ Decreasing number of small/medium-sized companies (potential users) in Japan

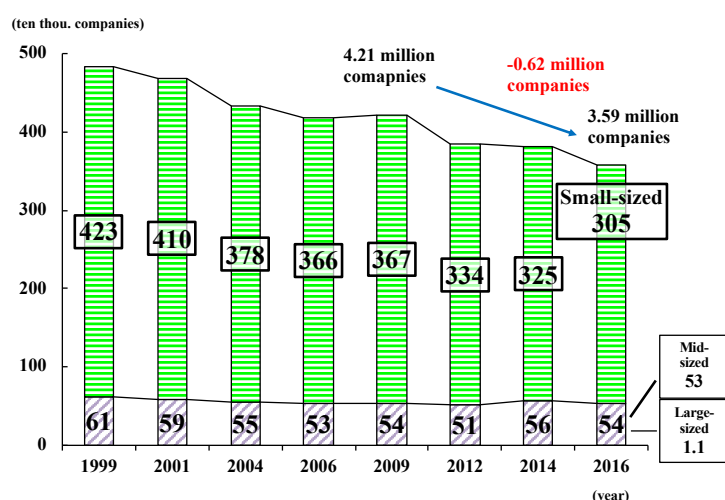
(10) Small-sized company: diff. definition by each industry, but essentially the same as “small/medium-sized companies” in staff size and sales

6. Business Environment

◆ Market Trend for Enterprise System Software

The number of companies in Japan is on a downward trend, falling below four million companies (Figure 12). The number of small/medium-sized companies – the Company’s target customer zone – is especially declining because of small-sized companies¹⁰ closing their businesses. With the decreasing population and aging society of Japan, the total number of small and medium-sized companies (the Company’s customers) is decreasing. In fact, the total number of companies as of June 2016 was approximately 3.59 million, which is about 0.62 million smaller (-14.7%) compared to 2009.

[Figure 12] Change in the Number of Companies in Japan



(Ref) Data aggregated by the Small and Medium Enterprise Agency based on the “2016 Economic Census for Business Activity” by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade, and Industry

Meanwhile, facing aggravating necessities for manpower, operational efficiency, and improved corporate financial performance, companies and other corporate bodies have been working on rebuilding or reinforcing their enterprise systems. Although the number of small/medium-sized companies may continue to decrease, we predict that the size of the relevant market will steadily increase as the demand for software to streamline business operations will increase.

Also, according to the “WHITE PAPER Information and Communications in Japan” by the Ministry of Internal Affairs and Communications, the size of the packaged software market (excluding game software, embedded software, etc.) in 2015 was approximately Y1.1 trillion and its size has been gradually increasing in recent years.

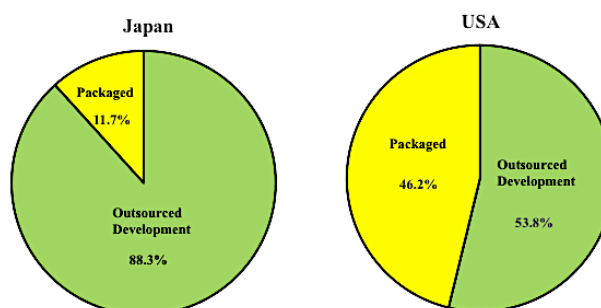
We estimate Japan’s current market size for enterprise system software specifically related to the Company’s business to be approximately Y500 billion and for ERP to be approximately Y100 billion. Annual growth rate is forecasted to be about 3% for the former and 10% for the latter over the medium term. The cloud-based enterprise system

- ◆ Stably growing enterprise system software market. Transitioning from on-premises to the cloud.
- ◆ Market potential for cloud-based enterprise system software in Japan is still large.

software market is expected to have an especially high annual growth rate of 20-30% over the long term, replacing a part of the packaged software (on-premises) market. In fact, compared to the U.S. where the use of cloud-based enterprise system software is several years ahead of Japan, the penetration rate of such system in Japan is $\frac{1}{2}$ to $\frac{1}{3}$ of that of the U.S. (ref: “WHITE PAPER Information and Communications in Japan” by the Ministry of Internal Affairs and Communications, etc.). With regards to the software development method, outsourced development continues to be popular in Japan. In fact, the share of packaged software in Japan is about 12%, compared to 25% in the U.S. (Figure 13). Therefore, the growth potential of the packaged software market in Japan seems to be large (according to the year 2017 version of the “WHITE PAPER,” the penetration rate of the cloud in Japan is approximately 26% for “payroll / financial accounting / HR” and only 6-8% each for “production management / logistics management / store management,” “purchasing,” and “sales on orders”).

[Figure 13] Software Ratio in Japan and the USA

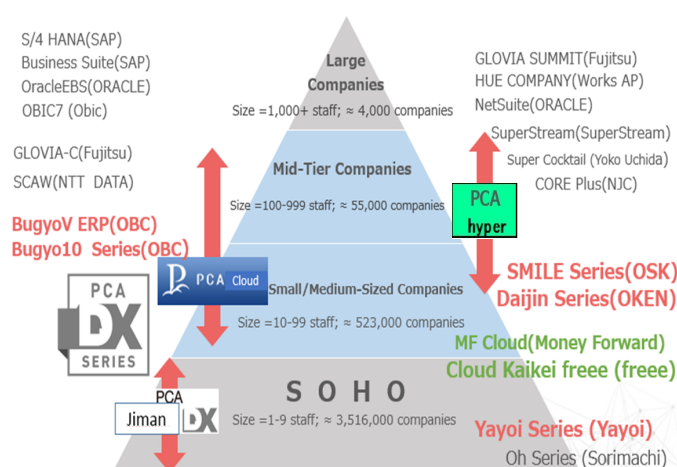
(Ref) Ministry of Internal Affairs and Communications: “Report on Current Status of Japan’s ICT”



◆ Comparison with Competitors

Figure 14 portrays an overview of the various positions and main players in the industry, categorized by target customer zone. The players in the industry are mostly being able to exist alongside one another by taking strong positions in different niches, segregated by the size of the company/organization that are their users or by the operation targeted by the software.

[Figure 14] Customer Zones and Main Players of the Enterprise System Software Market



(Ref) Excerpt from the financial results briefing material, partially edited by Alpha-Win Research Dept.

- ♦ Its key product, the accounting software, is third in the industry.

- ♦ OBC, MJS, Yayoi, and OHKEN are its rivals.

- ♦ The Company provides high-quality products and services at a reasonable price.

- ♦ In addition to OBC, competing with Money Forward and freee with regards to the cloud accounting business

- ♦ Regarding margins and asset efficiency, although leaving room for improvement, each of the margins has bottomed out and begun to increase due to improved gross margin and cost reduction.

The Company has different rivals for each type of operation targeted by its software. In general, regarding business including its key accounting software, its rivals among listed companies are thought to be Obic Business Consultants (OBC: 4733), directly, and Miroku Jyoho Service (MJS: 9928), indirectly. In particular, OBC is the greatest competitor, since it has a similar product lineup and business model as the Company. Among unlisted companies, Yayoi (subsidiary of ORIX), OHKEN (independent company), and OSK (subsidiary of OTSUKA CORPORATION) are its direct competitors.

The Company is characterized by how it provides high-quality but reasonably-priced products and services to its customers.

The accounting software market size is approximately Y200 billion. The market is reaching maturity and its size has not largely changed. In this market, the Company is estimated to be third from the top (about 10% of total market shares). The Company seems to have a similar level of market share and be at a similar position with its payroll and HR software. In the cloud accounting market, the two companies described below join in as rivals. Both target small companies such as SMEs and SOHOs, competing with the Company in certain areas.

Money Forward (TSE Mothers 3994)

- Providing cloud services such as household accounting application for individuals and accounting software, etc., for companies
- Market capitalization of Y112.6 billion based on a stock price of Y5,080 (closing price on 12/20)
- FY 11/2019: the company expects sales of Y7,350 million, net loss of Y2,570 million, and no dividend (P/S of 15.3; as a reference, P/S = market cap / sales)

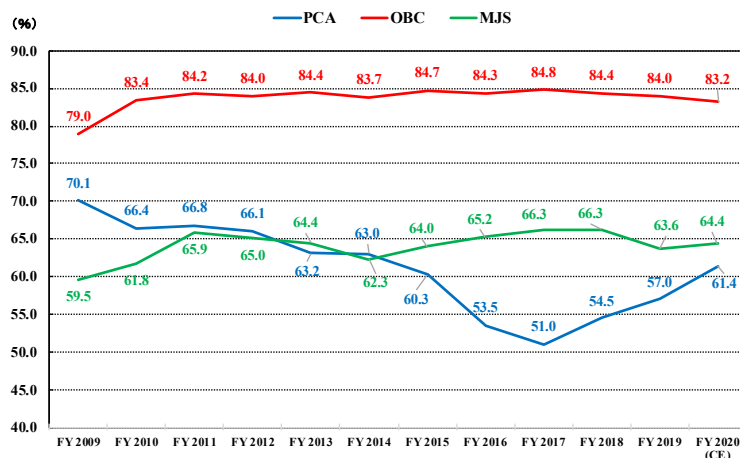
freee (TSE Mothers 4478; became listed in December 17, 2019)

- Providing ERP services for small businesses (cloud accounting software)
- Market capitalization of Y150.4 billion based on a stock price of Y3,220 (closing price on 12/20)
- FY 06/2020: the company expects sales of Y6,941 million, net loss of Y3,135 million, and no dividend (P/S of 21.6)

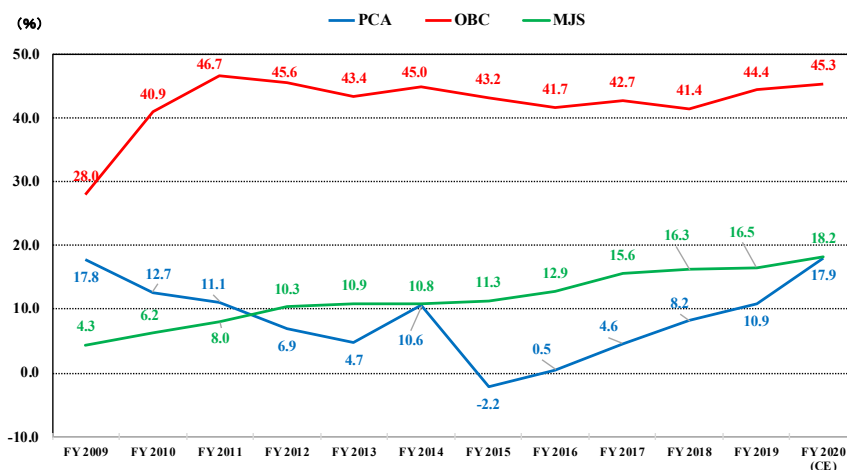
A comparison of the long-term transition in gross margin and operating margin of the three major listed companies (the Company, OBC, and MJS) is shown in Figures 15 and Figure 16 on page 24. Compared to the Company, both margins are stable for OBC and MJS, presumably due to the merit of scale (the sales of both OBC and MJS are about 2.6x greater than the Company's and their operating profits are about 6x and 2.6x greater, respectively, based on this fiscal year's company forecasts) and the difference in efficiency and sales composition. Both companies used to have a lower proportion of users signing a contract for the maintenance support service but succeeded in raising this ratio, resulting in a greater earning capacity. However, the Company's profit margins have also bottomed out in recent years, and the Company is now aiming for a greater earning capacity.

Similarly, the transition in the Company's ROA and ROE in Figure 17 shows that the ratios have been sharply improving in recent years and the Company seems to have room for improvement in earning capacity as well as asset efficiency. (Actual results for FY 2019, in the order of ROA and ROE: compared to 7.8% and 6.8% for PCA, 9.1% and 10.7% for OBC and 21.7% and 16.1% for MJS.)

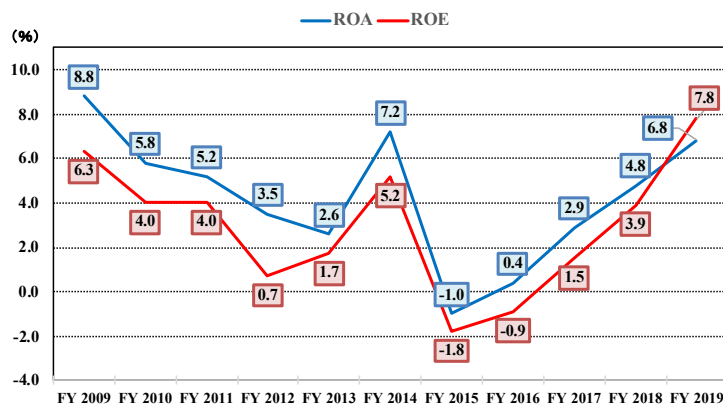
[Figure 15] Long-Term Transition in the Gross Margin of Three Major Listed Companies (PCA, OBC, and MJS)



[Figure 16] Long-Term Transition in the Operating Margin of Three Major Listed Companies (PCA, OBC, and MJS)



[Figure 17] Transition in the Company's ROA and ROE



* ROA is the ratio of recurring profit to total assets.

(Ref) Figures 15-17 were prepared by Alpha-Win Research Dept. based on the securities report. Estimates/forecasts (CE) are from the companies' business plans.

7. First-Half Results and Full-Year Forecast for This Fiscal Year

◆ Results for the Second Quarter (first half) of FY 2020

- ◆ This H1's results: sales grew for the fourth consecutive year and record-high sales and profit were achieved. Sales growth as well as the improvement in margins led to the large profit growth.

Consolidated results for the first half of FY 2020 (hereinafter, "H1") were marked by a significant growth in sales and profits: sales were Y7,169 million (+45.8% YoY), operating profit was Y1,771 million (+625.8% YoY), recurring profit was Y1,789 million (+567.7% YoY), and net profit attributable to owners of the parent was Y1,177 million (+500.8% YoY; hereinafter, "net profit"). As H1 results, sales increased for the fourth consecutive year and hit a record high, and operating profit increased for the fifth consecutive year and hit a record high for the first time in 13 fiscal years since H1 FY 2007 (Figure 18).

- ◆ Exceeded the Company's undisclosed H1 targets

Although the Company does not disclose its H1 forecast, it did comment that, compared to its undisclosed and internal plan, sales were greater by a little less than Y400 million (internal H1 target for sales: Y6.8 billion), gross profit was greater by about Y500 million, and operating profit was greater by about Y800 million (internal H1 target: slightly less than Y1 billion) (comments by the president during the financial results briefing). In September, which is the end of H1, high demand before the consumption tax revision especially affected the products (mostly accounting and sales management software) and the solutions, leading to a higher-than-expected sales growth. As a result, the profits also increased, largely exceeding the internal plan.

[Figure 18] Financial Results for FY 2020 (H1) (unit: million yen, %)

H1 Results		H1 FY 2019	H1 FY 2020	% Change	Difference	% of Total Sales Growth	% of Total Sales
Unit: million yen		Apr-Sept 2018	Apr-Sept 2019	YoY: %	YoY: million yen	%	%
Consolidated Sales		4,915	7,168	45.8	2,253	100.0	100.0
Sales Category	Products	813	1,842	126.7	1,029	45.7	25.7
	Goods	207	219	5.6	12	0.5	3.1
	Maintenance Service	1,553	1,698	9.4	145	6.4	23.7
	Cloud Service	1,129	1,568	38.9	439	19.5	21.9
	Other Operating Revenue	1,214	1,841	51.6	627	27.8	25.7
Gross Profit		2,714	4,343	60.0	1,629	-	-
Gross Margin (%)		55.2	60.6	5.4	5.4	-	-
SG&A Expenses		2,470	2,572	4.1	102	-	-
SG&A Expenses Ratio (%)		50.3	35.9	-14.4	-14.4	-	-
Operating Profit		244	1,772	625.8	1,527	-	-
Operating Margin (%)		5.0	24.7	19.7	19.7	-	-
Net Profit		195	1,177	500.8	982	-	-
Net Margin (%)		4.0	16.4	12.4	12.4	-	-

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. (Note) "Other operating revenue" is the same as the "solutions" business. Sales for each category are based on the new standards.

- ◆ With the high demand brought by two major events, all sales categories experienced sales growth. Products, solutions, and the cloud especially grew.

Of the total sales growth of Y2,253 million (YoY), sales growth for each sales category in decreasing order was as follows: Y1,029 million for the products (% of total sales growth: approx. 46%), Y626 million for the solutions (28%), Y439 million for the cloud (20%), Y145 million for the maintenance (6%), and Y12 million for the goods (1%). Sales increased in all categories.

In H1 of this fiscal year, there was a high demand due to two events (early demand for software version upgrades in response to the revision of the consumption tax rate and for software replacements in response to the termination of support for Windows 7) that amounted to a little less than Y1 billion (value estimated by Company; last H1, there was

- ◆ **Corporate users of PCA Cloud are steadily increasing. Over 13,000 users. A high annual sales growth rate of 20-30% maintained.**
- ◆ **From H1 FY 2017 to H1 FY 2019, sales have been growing continuously at a high rate of about 20-30%, from +20.1% → +29.6% → +38.9%.**
- ◆ **The labor management system also contributed to both sales and profit.**

zero event-driven high demand). This demand greatly contributed to business performance. In particular, sales of the products (on-premises) and the solutions were strong; sales of the products increased by 127%, mainly for accounting and sales management software, and sales of the solutions, which consist of implementation support fee linked to product sales and the purchase and sale of other companies' products, increased by 52%. Meanwhile, although the maintenance category's sales growth rate had been in the low single-digit range, its sales increased by about 9% due to strong product sales and an increase in the proportion of users subscribing to the maintenance service (new purchases and upgrades come with a maintenance contract in 100% of cases).

The number of corporate users of the PCA Cloud reached 10,000 on 1/11/2018 and then further increased to 11,331 at the end of September 2018, to 12,313 at the end of March 2019 (compared to six months ago: +982), and to 13,343 at the end of September 2019 (compared to six months ago: +1,030). Overall, the number of corporate users increased by 2,012 companies in the last 12 months (Figure 6 shown previously on page 12). On a simple average, the number of corporate users increased at a net rate of about 168 companies per month. The positive trend is maintained in H2, with users increasing at a net rate of about 170 companies per month. Of the total number of new contracts, approximately 40% are with new customers (the proportion is the same as before).

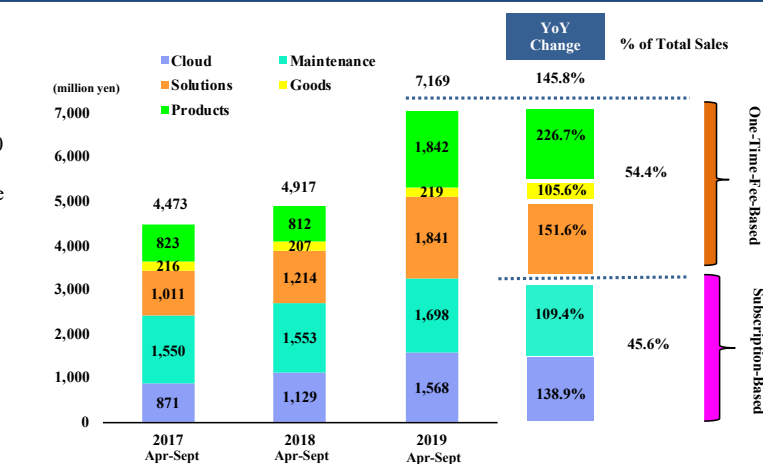
As a result, the sales of the cloud increased from Y871 million (YoY: +155 million yen or +20.1%) in H1 of the fiscal year before the previous (FY 2017) → Y1,129 million (YoY: +258 million yen or +29.6%) in the previous fiscal year's H1 → Y1,568 million (YoY: +439 million yen or +38.9%) in H1 of this fiscal year (FY 2019). With the expansion of business, the amount and rate of sales growth are increasing.

Sales of the Company's subscription-based businesses (combined sales of the maintenance service and the cloud), which are the Company's key performance indicator, accounted for 45.6% of the total sales during this H1, a lower proportion than what it had once been in the past. This is because customers who still prefer to use stand-alone software purchased on-premises or other companies' products ahead of schedule in response to version upgrade campaigns, etc., before the rise in the consumption tax rate. Consequently, sales of the products and the solutions grew more than the cloud (Figure 19 on page 27).

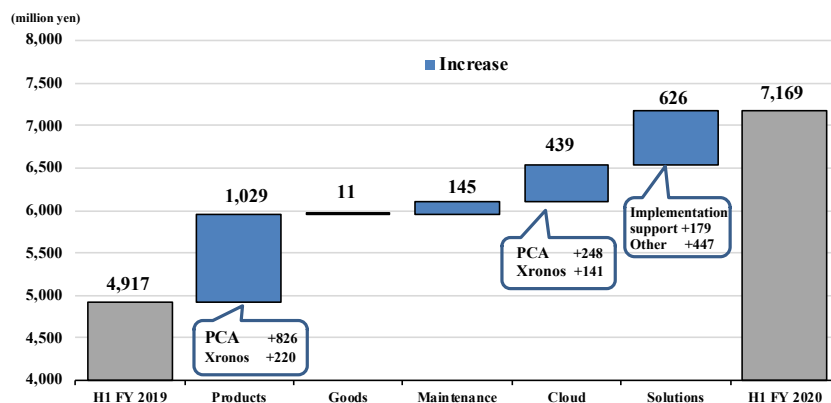
The labor management system of the subsidiary Xronos also made a significant contribution, thanks in part to the work-style reform. Sales of the product version grew by Y220 million and sales of the cloud version grew by Y141 million, totaling a sales growth of Y361 million. In sum, the subsidiary contributed to about 16% to the overall sales growth (Figure 20 on page 27).

[Figure 19] Transition in H1 Sales by Sales Category (unit: million yen, %)

(Ref) Prepared by Alpha-Win Research Dept. from the Company's H1 FY 2020 financial results briefing materials. Sales for each category are based on the new standards.

**[Figure 20] Actual Sales in FY 2020 (this H1) (unit: million yen)**

(Ref) Prepared by Alpha-Win Research Dept. from the Company's H1 FY 2020 financial results briefing materials



◆ Last fiscal year, the profit margins largely improved.

(11) PCA Hyper: a new software for mid-tier companies as a successor to Dream21. Targets the approx. 90,000 companies in Japan with sales of 1 to 10 billion yen, less than or equal to 1,000 employees, and less than 10 subsidiaries in the corporate group. A superior version of the DX Series. Its unique features are how the user can flexibly select between the on-premises and the cloud according to their stage of growth, make flexible linkage with other systems using API, and streamline data management for the entire corporate group (consolidated accounting).

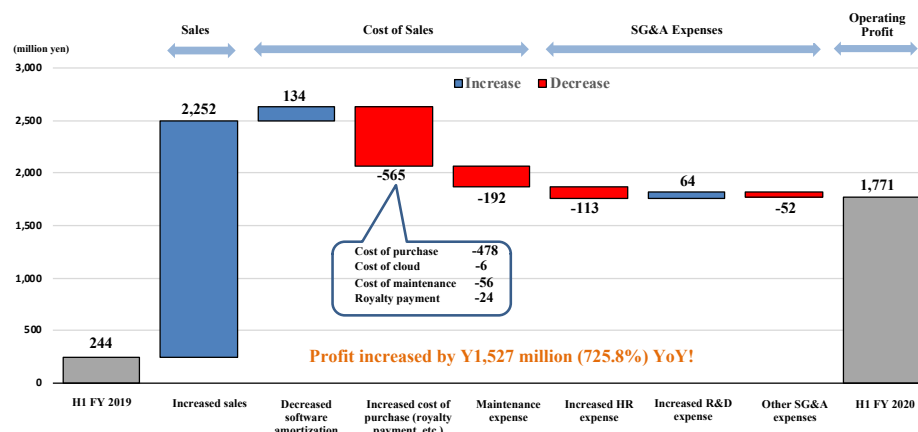
Regarding profit, gross profit in H1 of this fiscal year was ¥4,343 million, an increase of 60% or ¥1,629 million YoY. The gross margin improved 5.4 points from 55.2% in H1 of the previous fiscal year to 60.6% in H1 of this fiscal year due to the sales growth as well as the reduction in software amortization and maintenance costs that compensated for the rise in the cost of purchase. Meanwhile, SG&A expenses increased only slightly, by ¥102 million or about 4% YoY, and the SG&A expenses ratio improved by 14.4 points from 50.3% to 35.9%.

As a result, operating profit increased significantly by ¥1,527 million or 625.8% YoY and operating margin also improved dramatically by 19.7 points from 5.0% to 24.7%. Figure 21 on page 28 shows the factors contributing to the increase or decrease in consolidated operating profit. Since the Company is based on a business model with a high marginal profit ratio, the sales growth directly contributed to profit growth with successful cost control. Since investment in software development and R&D for new software such as the Hyper series¹¹ have settled for now, they have not caused large increases in cost.

With no significant non-operating profit/loss or extraordinary profit/loss, recurring profit and net profit both increased by more than 5x. Although profit for each category is not disclosed, sales growth of the highly profitable products and cloud businesses are predicted to have largely contributed to the increase in profit.

[Figure 21] Factors that Increased/Decreased Operating Profit in FY 2020 (this H1)

(Ref) Prepared by Alpha-Win Research Dept. from the Company's H1 FY 2020 financial results briefing materials



Examining the sales for each quarter (Figure 22), we can see that the sales in the first quarter (April-June 2019: Q1) were Y3,073 million, a 31% YoY growth, while sales in the second quarter (July-September 2019: Q2) were Y 4,095 million, a +59% YoY growth; sales growth is accelerating. Regarding the sales breakdown by sales category, the sales growth rates of the cloud business in Q1 and Q2 were the same, at about +40% YoY.

On the other hand, the sales of the products increased sharply from Y652 million in Q1 to Y1,190 million in Q2. Similarly, the sales of the solutions increased significantly from Y688 million to Y1,153 million.

Also, comparing Q1 and Q2, the gross margins were the same at about 60% and the absolute amounts of SG&A expenses were also almost the same at just under Y1.3 billion. As a result, operating margin improved significantly from 19.1% in Q1 to 28.9% in Q2 and net profit doubled from Y364 million to Y842 million.

[Figure 22] Financial Results for Q1 and Q2 of FY 2020

Q1 Results		Q1 FY 2019	Q1 FY 2020	% Change	Difference	% of Total Sales Growth	% of Total Sales
Unit: million yen		Apr-June 2018	Apr-June 2019	YoY: %	YoY: million yen	%	%
Consolidated Sales		2,346	3,073	31.0	727	100.0	100.0
Sales Category	Products	394	652	65.3	258	35.5	21.2
	Goods	107	102	-4.6	-5	-0.7	3.3
	Maintenance Service	788	865	9.8	77	10.6	28.1
	Cloud Service	544	764	40.3	220	30.3	24.9
	Other Operating Revenue	511	688	34.7	177	24.4	22.4
Gross Profit		1,287	1,868	45.1	581	-	-
Gross Margin (%)		54.9	60.8	5.9	-	-	-
SG&A Expenses		1,229	1,281	4.2	52	-	-
SG&A Expenses Ratio (%)		52.4	41.7	-10.7	-	-	-
Operating Profit		57	587	917.5	530	-	-
Operating Margin (%)		2.4	19.1	16.7	-	-	-
Net Profit		34	364	945.3	330	-	-
Net Margin (%)		1.4	11.8	10.4	-	-	-
Q2 Results		Q2 FY 2019	Q2 FY 2020	% Change	Difference	% of Total Sales Growth	% of Total Sales
Unit: million yen		July-Sept 2018	July-Sept 2018	YoY: %	YoY: million yen	%	%
Consolidated Sales		2,569	4,095	59.4	1,526	100.0	100.0
Sales Category	Products	419	1,190	184.3	771	50.6	29.1
	Goods	100	117	16.5	17	1.1	2.9
	Maintenance Service	765	833	8.9	68	4.5	20.3
	Cloud Service	585	804	37.4	219	14.4	19.6
	Other Operating Revenue	704	1,153	63.9	449	29.4	28.2
Gross Profit		1,427	2,475	73.4	1,048	-	-
Gross Margin (%)		55.6	60.4	4.9	-	-	-
SG&A Expenses		1,241	1,291	4.0	50	-	-
SG&A Expenses Ratio (%)		48.3	31.5	-16.8	-	-	-
Operating Profit		187	1,185	533.2	997	-	-
Operating Margin (%)		7.3	28.9	21.6	-	-	-
Net Profit		161.4	842	421.6	681	-	-
Net Margin (%)		6.3	20.6	14.3	-	-	-

(Ref) Prepared by Alpha-Win Research Dept. based on the FY 2020 summary of quarterly results. Sales of each sales category are based on the new standards.

◆ PCA's Financial Forecast for FY 2020 (this fiscal year)

The Company revised up its forecast for sales and each of the profits in FY 2020 (this fiscal year) upon considering the H1 results and the H2 situation.

- ◆ Event-driven high demand contributed to H1 results. This FY, the Company expects increasing sales and profits for the fifth fiscal year. On a full-year basis, too, record-high sales and profits are expected.

Summary of Full-Year Forecast

Upward revisions were made as follows, in the order of previous forecast → new forecast for this fiscal year: sales of Y12,783 million (+11.8% YoY) → Y13,404 million (+17.2% YoY; +4.9% revision), operating profit of Y1,478 million (+18.5% YoY) → Y2,405 million (+92.7% YoY; +62.7% revision), recurring profit of Y1,499 million (+17.4% YoY) → Y2,435 million (+90.7% YoY; +62.4% revision), and net profit of Y976 million (+7.7% YoY) → Y1,572 million (+73.5% YoY; +61.1% revision). The Company expects an extremely high sales and profit growth year-on-year (Figure 23).

On a full-year basis, sales are expected to reach a record high for the second consecutive year and operating, recurring and net profit are expected to reach their record highs (the last record highs were Y1,747 million in FY 2006, Y1,783 million in FY 2006, and Y937 million in FY 2000, respectively).

[Figure 23] Initial and Revised Company Forecast for FY 2020 (this fiscal year) (unit: million yen)

FY 2020 Consolidated	Initial Company Forecast	% Change YoY	New Company Forecast	Difference from Initial Forecast	% Diff. from Initial Forecast	% Change YoY Diff. from Last Year (%)
Sales	12,783	11.8	13,404	621	4.9%	17.2
Operating Profit	1,478	18.5	2,405	927	62.7%	92.7
(% over sales)	11.6	-	17.9	6.4	--	7.0
Recurring Profit	1,499	17.4	2,435	936	62.4%	90.7
(% over sales)	11.7	-	18.2	6.4	-	7.0
Net Profit	976	7.7	1,572	596	61.1%	73.5
(% over sales)	7.6	-	11.7	4.1	-	3.8

(Ref) Prepared by Alpha-Win Research Dept. based on an excerpt from the Company's FY 2020 financial results briefing

H2 Forecast

The Company's forecast for sales in H2 is based on estimates or assumptions as shown in Figure 24 on page 30 and Figure 25 on page 31. Sales are expected to decrease by Y287 million (about -4% YoY) compared to H2 of the previous year when there was an event-driven high demand of a little more than Y900 million. The expected sales are Y932 million or 13% lower than this H1's results.

- ◆ In H2, fallback from the event-driven high demand will begin, causing a significant decline in sales and profits compared to the previous year's H2 and this year's H1.

Regarding the expected increase or decrease in sales for each sales category, due to the anticipated fallback from the high demand related to consumption tax, the Company made a stern forecast that the sales of the products (on-premises) and the solutions (implementation support, etc.) will decline by Y538 million (-32% compared to the previous year's H2; the same applies below) and Y325 million (-20%), respectively (Figure 24 on page 30). On the other hand, the cloud and the maintenance businesses are expected to continue to perform well, with sales up by Y368 million (+29%) and Y219 million (+14%), respectively. The goods business's sales are expected to decline by only a slight amount.

- ◆ **Expecting further improvement in margins, but SG&A expenses may also sharply rise.**

Factors that are expected to contribute to an increase or decrease in H2 consolidated operating profit are shown in Figure 26 on page 31. The effect of sales growth on profit is estimated to be large. The Company believes that the gross margin will improve (from 58.3% in H1 of the previous year → 62.4% in H2 of the current year) due to reductions in software amortization costs, cost of purchasing, maintenance costs, etc. However, due to the increase in personnel expenses and other SG&A expenses (includes the assumption that advertising expense, etc., will rise by Y230 million), operating profit is expected to drop sharply by Y361 million (-36%) compared to the previous year's H2.

As for non-operating profit and loss, a profit of Y12 million is expected. Recurring profit is estimated to decrease by 35% YoY, from Y998 million to Y645 million. At this stage, the Company does not expect to post any significant extraordinary profit or loss. Net profit is expected to decrease by 44% YoY from Y700 million to Y394 million.

- ◆ **Event-driven high demand in H2 will be limited, at a few hundred million yen.**
- ◆ **Contribution of the Hyper series will begin next fiscal year.**
- ◆ **Performance of the labor management software is strong. Its cloud version is also growing.**

The event-driven high demand seen from last year's H2 to this year's H1 is expected to mostly cease by H2 – its impact will be limited.

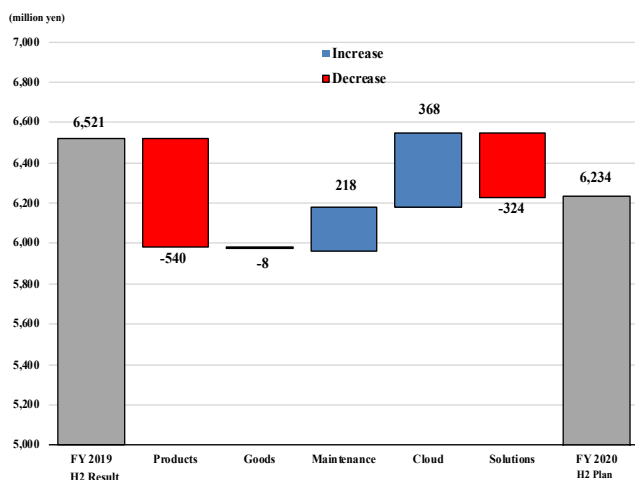
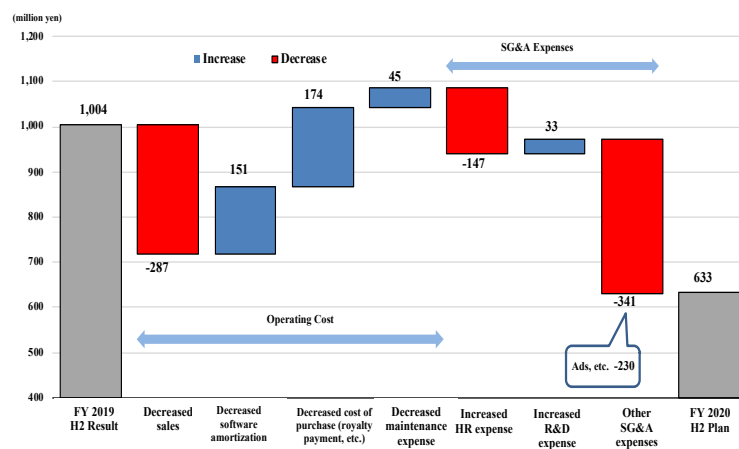
In addition, as a successor to the ERP software Dream21 from which the Company has decided to withdraw, the Company has been incrementally releasing the new cloud-related product series Hyper (PCA Hyper) for mid-tier companies and preparing for sales expansion. The Company launched the accounting and fixed assets software in February 2019 and the payroll and labor management software in July of the same year. In February 2020, it plans to release two options, upon which all the software releases will be complete. However, since the Company will be busy this fiscal year in responding to the event-driven high demand, the contribution of the new software to the results will be limited – full-scale sales expansion is expected to start next fiscal year.

Amidst the work-style reform, there are still many SMEs who are not using labor management software, meaning that the potential demand is large. Xronos has taken in this demand; orders for both the on-premises version and the cloud version (service name: X'sion) of the labor management software are strong. The Company expects its sales to grow at a double-digit rate YoY (we expect the growth to be about 10%).

[Figure 24] Semi-Annual Transition in Results and Company Forecast for the Previous and the Current FY (unit: million yen)

Half Year	Consolidated	H1 FY 2019 AR	H2 FY 2019 AR	H1 FY 2020 AR	H2 FY 2020 CE	Diff. from Last H2	% Diff. from Last H2	Diff from This H1	% Diff from This H1
Sales		4,917	6,521	7,169	6,234	-287	-4.4%	-935	-13.0%
Gross Profit		2,714	3,808	4,343	3,893	85	2.2%	-450	-10.4%
	(% over sales)	55.2%	58.3%	60.6%	62.4%	4.1%		1.8%	
SG&A Expenses		2,470	2,814	2,571	3,259	445	15.8%	688	26.8%
	(% over sales)	50.2%	43.1%	35.9%	52.4%	9.3%		16.5%	
Operating Profit		244	994	1,771	633	-361	-36.3%	-1,138	-64.3%
	(% over sales)	5.0%	15.2%	24.7%	9.9%	-5.3%		-14.8%	
Recurring Profit		268	998	1,789	645	-353	-35.4%	-1,144	-63.9%
	(% over sales)	5.5%	15.3%	25.0%	10.1%	-5.2%		-14.9%	
Net Profit		196	700	1,205	394	-306	-43.7%	-811	-67.3%
	(% over sales)	4.0%	10.7%	16.4%	6.2%	-4.5%		-10.2%	
Products		813	1,703	1,842	1,165	-538	-32%	-677	-37%
Goods		208	356	219	347	-9	-2%	128	58%
Maintenance Service		1,553	1,572	1,698	1,791	219	14%	93	5%
Cloud Service		1,129	1,274	1,568	1,642	368	29%	74	5%
Other Operating Revenue		1,214	1,616	1,841	1,291	-325	-20%	-550	-30%
Total		4,917	6,520	7,168	6,236	-284	-4%	-932	-13%

(Ref) Prepared by Alpha-Win Research Dept. from the financial results briefing materials. AR: actual result. CE: the Company's forecast.
Sales for each category are based on the new standards.

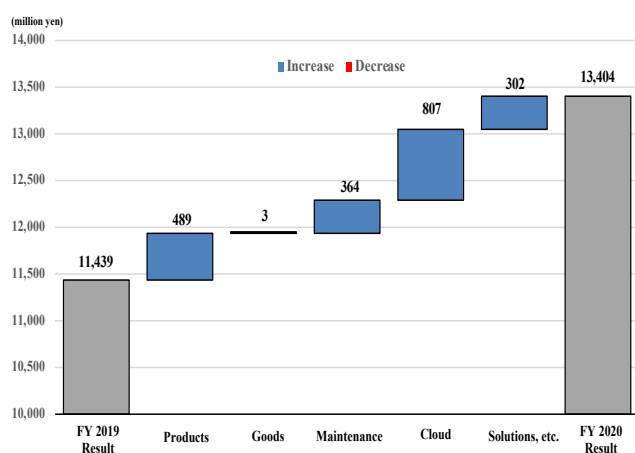
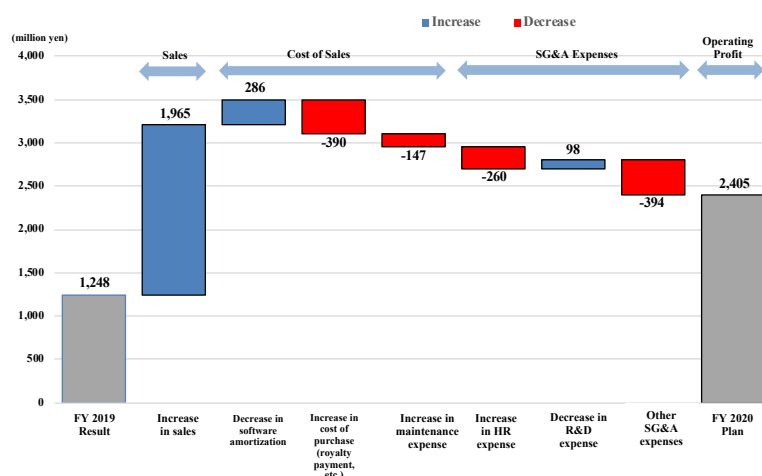
[Figure 25] Factors that Are Expected to Increase/Decrease This H2's Sales (company forecast)**[Figure 26] Factors that Are Expected to Increase/Decrease This H2's Operating Profit (company forecast)**

(Ref) Prepared by Alpha-Win Research Dept. from the Company's Q2 FY 2020 financial results briefing materials

Full-Year Forecast

The factors that are expected to contribute to sales growth for the full fiscal year are shown in Figure 27. Sales are expected to increase in all five categories. Over the full fiscal year, contribution to sales are predicted to the largest for the cloud (Y807 million), accounting for about 41% of the total. Next, the products (Y489 million) will account for about 25%, the maintenance (Y364 million) will account for about 19%, the solutions (Y364 million) will be about 15%, and the sales of the goods are expected to stay about the same.

As for the factors expected to contribute to an increase or decrease in operating profit on a full-year basis, sales growth is by far the most important factor, expected to fully absorb the rise in the cost of purchasing, personnel costs, and other SG&A expenses and lead to a significant increase in profit (Figure 28).

[Figure 27] Factors that Are Expected to Increase/Decrease Sales in FY 2020 (this full FY) (company forecast)**[Figure 28] Factors that Are Expected to Increase/Decrease Operating Profit in FY 2020 (this full FY) (company forecast)**

(Ref) Prepared by Alpha-Win Research Dept. from the Company's H1 FY 2020 financial results briefing materials

- ◆ We reviewed this FY's forecast and revised both sales and profits upward.

- ◆ The double high demand from the consumption tax and W7 has mostly ended but there seems to be no slowdown in growth at this point. H2 assumptions for sales and costs are both on the conservative side, so the actual results may be even higher.

◆ Alpha-Win Research Dept.'s Financial Forecast for FY 2020 (this fiscal year)

We updated the financial forecast for the current fiscal year based on the H1 results and the current situation (Figure 29 on page 33). Although the Company has revised up its forecast for the current fiscal year, we believe that the Company's new predictions for sales and profits are still on the conservative side and that the actual results could be even higher. Compared to the Company's new forecast, our new forecast for sales are greater by about Y200 million (+1.5% revision), operating profit is about Y300 million larger (+12% revision), and net profit is higher by a little less than Y200 million (+11% revision). In either forecast, record-high sales and profits are expected with a high degree of confidence.

Compared to H1 when there was an event-driven high demand of a little less than Y1 billion (according to the Company's estimate), in H2, the Company expects that sales will decline in a fallback from the demand by Y935 million (about -13%) and operating profit will decrease by Y1,138 million (about -64%). Compared to H2 of the previous fiscal year, sales are predicted to be about 4% lower and operating profit is expected to decline by about 36%. It cannot be denied that H2 sales and profits will be affected by the level of demand related to the switching from Windows 7 (W7), which will reach its peak by around January 2020, and by the number of orders for the products, the solutions, etc., following the demand, both of which are somewhat uncertain at this point. However, in October and November, there seemed to be no large decline in the growth rate of key businesses such as the products, the cloud, the solutions, etc., and sales appeared to be firm.

Also, as mentioned earlier (page 29), the Company had made a stern assumption that, by sales category, H2 sales of the products and the solutions will fall by more than 30% each from H1. Meanwhile, its forecasted sales growth of the cloud and the maintenance service is 5% compared to H1, a conservative assumption.

In contrast to these assumptions, the cloud and the labor management software are continuing to be strong with regards to contracts. The products' version upgrades and the solutions business are also not declining as drastically as the Company had expected. Although the HR capacity is somewhat of a bottleneck to the implementation support and maintenance services, the order backlog carried over into H2 ensures strong sales.

In addition, the Company expects SG&A expenses to increase significantly due to advertising expenses remaining from H1, personnel expenses, and other expenses (SG&A expenses growth rate is predicted to be +16% compared to the previous H2 and +27% compared to this H1). This seems to be an overestimate, though.

Therefore, forecasts for both sales and profit in the current fiscal year's H2 seem to be on the conservative side. The full-year results also seem to have room for more growth.

[Figure 29] This Fiscal Year's New Financial Forecast by the Company and Alpha-Win Research Department (unit: million yen)

Consolidated (unit: million yen)	FY 2020 Alpha-Win		Alpha-Win's Initial vs New Forecast		FY 2020	Alpha-Win's New Forecast vs. New Company Forecast	
	Initial Forecast	New Forecast	Diff. in Amount	% Diff.	New Company Forecast	Diff. in Amount	% Diff.
Sales	11,000	13,600	2,600	23.6%	13,404	196	1.5%
Gross Profit	6,300	7,800	1,500	112.4%	7,331	469	6.4%
Gross Margin	57.3%	57.4%	0.1%	—	57.3%	0.1%	—
SG&A Expenses	5,100	5,100	0	0.0%	5,852	-752	-12.9%
SG&A expenses ratio	46.4%	37.5%	-8.9%	—	45.8%	-8.3%	—
Operating Profit	1,200	2,700	1,500	125.0%	2,405	295	12.3%
O.P. Margin	10.9%	19.9%	8.9%	—	11.6%	8.3%	—
Recurring Profit	1,220	2,730	1,510	123.8%	2,435	295	12.1%
R.P. Margin	11.1%	20.1%	9.0%	—	11.7%	8.4%	—
Net Profit Attributable to Owners of the Parent	800	1,750	950	118.8%	1,572	178	11.3%
N.P. Margin	7.3%	12.9%	5.6%	—	7.6%	5.3%	—
Annual Dividend per Share	31	41	10	—	31	10	—

(Ref) Prepared by Alpha-Win Research Dept. CE is the Company's estimate/forecast. E is Alpha-Win's estimate/forecast.

8. Growth Strategy

◆ Management indicator targets are sales, DOE, and the number of cloud users

◆ Five areas of focus

◆ Announced PCA Vision 2030: 1st Stage – Medium-Term Business Plan to 2021 in November 2018

◆ Management Indicator Targets and Areas of Focus

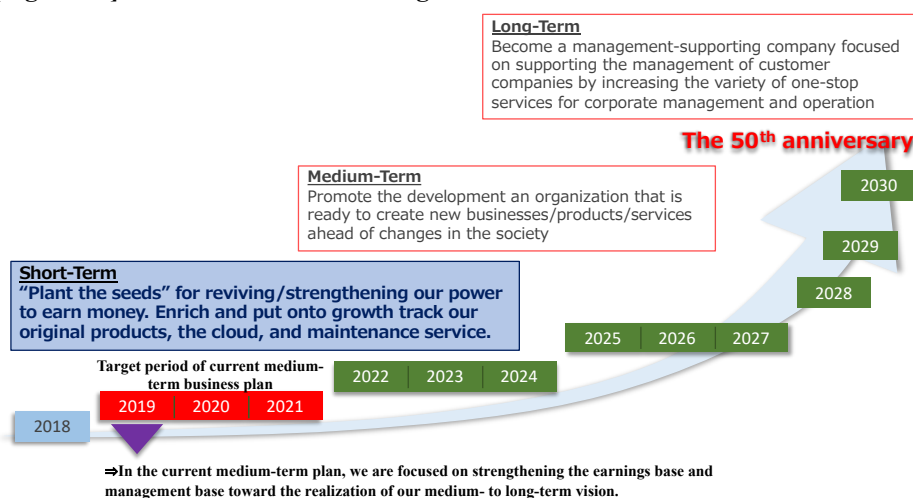
In 2012, the Company announced its group's management indicator targets as Y20 billion in sales (as a reference, the actual result in FY 2019 was Y11.4 billion), 2.5% in DOE (FY 2019 actual: 1.8%), and 80,000 corporate customers for the cloud (a little over 13,000 as of the end of September 2019), and has been developing its business in line with this plan. To achieve these targets, five areas of focus have been chosen: 1) become even greater as No. 1 in the cloud-based enterprise system software market, 2) enhance the solutions to provide more than simple functionality, 3) further advance the technology of PCA Cloud, 4) pursue new services, and 5) actively conduct M&As.

◆ New Medium-to-Long-Term Vision *PCA Vision 2030: 1st Stage – Medium-Term Business Plan to 2021*

In June 2018, Fumiaki Sato, who was previously executive vice president, was promoted to president and created a new operating framework for the Company. A little before this event, the core concept "PCA4.0" of the medium-to-long-term vision *PCA Vision 2030* was announced in May 2018. The concept is summarized in Figure 30 and Figure 31 on page 35. The *Vision* was created in line with the fact that the Company will reach a milestone in the year 2030 as its 50th anniversary. Then, as the next and further step, the Company announced in November 2018 the *PCA Vision 2030: 1st Stage – Medium-Term Business Plan to 2021*.

Specifically, Company has categorized the 50 years from 1980 to 2030 into four phases of business development as follows: 1980 to 1998 as "PCA1.0," the period of transition from small business computer to PC; 1998 to 2008 as "PCA2.0," the period of flourishing of the internet and client servers; 2008 to 2018 as "PCA3.0," the period of transformation of internet into infrastructure and popularization of the cloud; and 2018 to 2030 as "PCA4.0."

[Figure 30] The New Medium-to-Long-Term Vision *PCA Vision 2030*



(Ref) Excerpt from the Company's financial results briefing material

(Note) The years in this figure are such that 2019 stands for FY 2020 (the same applies to all years in this figure).

[Figure 31] Overview of the Core Concept “PCA4.0” of the Medium-to-Long-Term Vision

(Ref) Prepared by Alpha-Win Research Dept. based on the Company's FY 2019 and H1 FY 2020 financial results briefing materials

PCA4.0 [Becoming a Problem-Solving Service Provider]
1. Service-oriented creation of products
2. Sales partnership enriched by solution proposals
3. Strengthening digital direct marketing
4. Enhancing customer contact and relationship
5. Implementation of strategic recruitment, training, and evaluation programs
6. Development of flexible organizational and operational systems

In the medium-term business plan, the Company described its medium-to-long-term vision that it will continue to be a company that contributes to society as a “management-supporting company” that supports the smooth management and operation of other companies mainly by providing enterprise system software that realizes high-level automatization.

In the recently announced *PCA Vision 2030: 1st Stage – Medium-Term Business Plan (FY 2020 – FY 2022)*, the Company stated that its basic policy over the medium term is to “conduct structural reforms and develop business platforms so that business will continue to exist and develop stably over the long term.” Aiming to become a solution-providing service provider, the Company's plan for the medium term is to focus on creating a firm earnings base and management system for the realization of its medium-to-long-term vision.

- ◆ Reinforcement of product creation, adoption of the annual plan system, and reform of the HR system were added as key measures.

The basic strategies based on the basic policy, as well as their summaries and measures, are described below (Figure 32). The medium-term business plan has not been changed, but in comparison with the past version, reinforcement of product creation has been added as a basic strategy (IV). In addition, in III, adoption of the annual plan system (1) and reform of the human resources system (4) were added as key measures (shown in red in Figure 32). Also, an execution roadmap has been set for each measure, making their schedules more specific.

[Figure 32] Basic Strategies and Their Summaries and Measures
[PCA Vision 2030: 1st stage – Medium-Term Business Plan to 2021]

Basic Strategy	Summary and Measures	Basic Strategy	Summary and Measures
I. Build the earnings base for the main businesses		III. Strengthen the management system to become a highly profitable company	
1. Strengthen and increase the sales of PCA Cloud	Will work on PCA Cloud, for which it has a rich product lineup and over ten years' worth of business know-how. Will secure a firm position in the market and build a strong earnings base as one of its main businesses by focusing on improving brand power, finding new Web-API partners, strengthening service functions, and strengthening cooperation with specialists (professionals) in accounting offices, certified social insurance and labor consultant offices, etc.	1. Adopt the annual business plan system (reinforce coordination with medium-term plan)	Create a culture or a system that promotes the autonomous advancement of organization by reflecting the company-wide policies and key measures in each department's policies and plans each fiscal year and adopting a management system that is based on the PDCA (a method to manage and improve business processes, etc., by repeatedly conducting the four steps of Plan → Do → Check → Act and continuously improving and optimizing the processes).
2. Strengthen the on-premises business	Engage in strengthening the on-premises business (sales and maintenance of the on-premises) by reviewing the products, service system, etc., based on the users' needs. Will make a transition from the on-premises to the subscription-based model, as well as improving the maintenance contract repeat rate and operation productivity.	2. Strengthen the profit management system to support strategic decision-making	Strengthen the profit management system so that it supports strategic decision-making through autonomous efforts by each internal organizational unit to improve profit, products and services adapted to changes in the business environment, reassessment of business asset allocation, etc.
II. Create new business opportunities		3. Adopt performance evaluation indicators that reflect profitability improvement	In addition to conventional management indicators, create and adopt a performance management indicator that would help improve profitability under the Company's business model as the Company tries to strengthen and shift to the subscription-based business model.
1. Find the "seeds" of new products and businesses	In an aim to create a new earnings base for the future, Will accelerate its progress with creating new business opportunities by establishing a division (called "General Innovation Office" for now; established in Jan. 2019) tasked with the role to find the seeds of new products and businesses related to new technologies such as AI, big data, RPA, and FinTech.	4. Reform the HR system	Remove barriers between divisions, create a corporate culture that encourages taking on challenges toward common goals, and restructure the organization into one that fosters and values members who can think and act on their own.
2. Renew efforts to develop the mid-tier company market	With the new Hyper Series, renew efforts to develop the mid-tier company market, which is an attractive market since it encompasses the upper zone of the Company's major customers and has the capacity to bear large system investment costs.	IV. Strengthen product creation	
		1. Restore product development capacity (tradition and innovation)	Cooperate with the General Innovation Office in creating the foundation and system to encourage innovation. Reinforce internal and external cooperation to improve our insight into and sensitivity toward changes in the external environment related to our products and services.
		2. Reform the organizational structure and management policy of the development division	Give more authority to the group leader assigned to each group of products in order to enhance agility. Reform the organizational structure for R&D by securing research budgets and development capacity to create service-oriented products.

(Ref) Prepared by Alpha-Win Research Dept. based on excerpts from the Company's FY 2019 and H1 FY 2020 financial results briefing materials

- ◆ No changes to the medium-term plan, but the final year's targets are expected to be exceeded by a large amount during this fiscal year. Revision to the plan is scheduled at the beginning of next fiscal year.

Also, the Company has announced new numerical targets for FY 2022, the final fiscal year of the medium-term plan (the fiscal year ended March 31, 2022), as shown below (targets for each year have not been disclosed; please refer to Figures 33, 34, and 35).

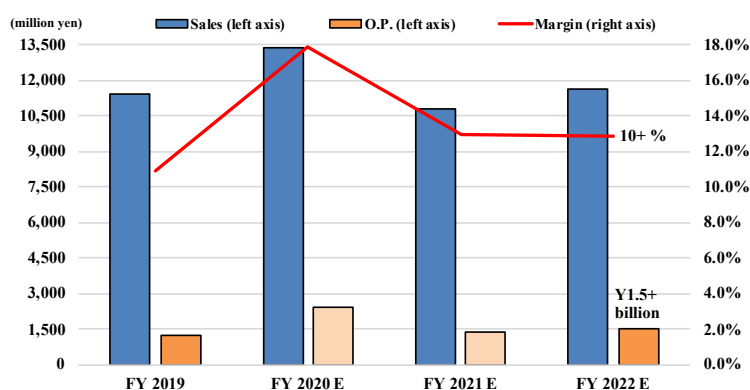
However, all numerical targets for the final year or FY 2022 are expected to be exceeded by a large amount during this fiscal year. Therefore, when the Company announces this year's full-year results (around May of next year), it will also likely announce (upward) revisions for the targets and additional, specific strategies and measures.

[Figure 33] Targets of the Medium-Term Business Plan

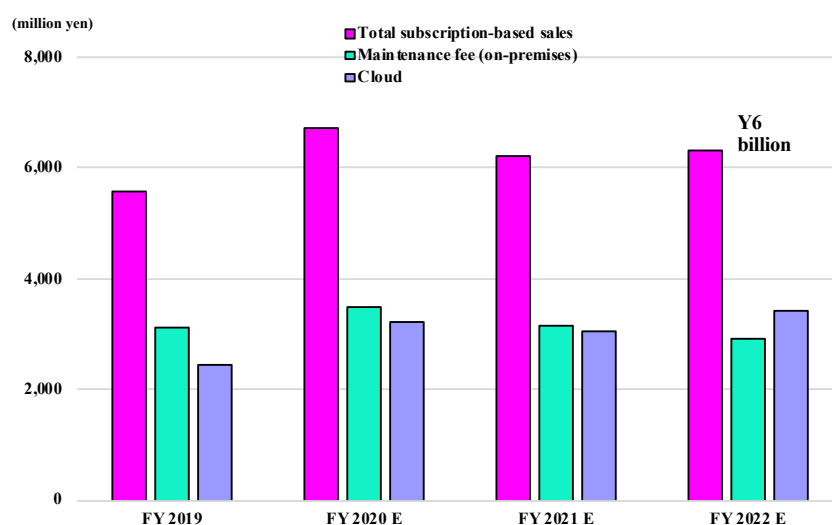
Target Items of the Medium-Term Plan	FY 2022 Target	FY 2020 New Target	FY 2020 Initial Target	FY 2019 Results
• Consolidated Sales	≥Y11.5 bill	Y13.404 billion	Y12.783 bill	Y11.439 bill
Of which are sales from subscription-based businesses (maintenance & cloud)	Achieve Y6 bill	Y6.738 billion	Y6.211 bill	Y5.577 bill
• Consolidated Operating Profit	≥Y1.5 bill	Y2.405 billion	Y1.478 bill	Y1.248 bill
• Consolidated Operating Margin	≥10%	17.94%	11.60%	10.90%

(Ref) Figures 33–35 were prepared by Alpha-Win Research Dept. based on the financial results briefing materials. Targets/estimates (E) are those announced by the Company.

[Figure 34] Financial Results Forecast in the Medium-Term Business Plan (consolidated)



[Figure 35] Sales Forecast for the Subscription-Based Businesses



◆Alpha-Win Research Dept.'s Financial Results Forecast for the Medium Term

- ◆ We revised our medium-term forecast for next fiscal year and onward.

Assumptions for sales and costs were reviewed and upward revision was made to profit.

- ◆ In FY 2021 (next FY), sales and profit may temporarily decrease in a fallback from the event-driven high demand. However, the scale of the fallback is expected to be limited.

We revised our medium-term financial forecast, including this fiscal year's forecast, upon considering the H1 results (Figure 36).

We made upward revisions to our sales and profit forecast for next fiscal year (FY 2021) compared to our previous forecast (forecast made in the report issued on June 25, 2019). (In the order of previous→current forecast, we changed our forecast from Y11,000 million → Y12,600 million for sales and Y1,220 million → Y2,030 million for recurring profit.)

For next fiscal year, we have not changed our view that sales and profit will temporarily decrease, but we revised the sales forecast. We believe that a full fallback in the sales of the products, the solutions, etc., due to the event-driven high demand will be prevented to some extent by the support of the stable subscription-based businesses as well as by new contracts for the still-growing cloud and labor management software businesses. We have already reflected in our previous forecast the fact that SG&A costs – mainly upfront investment and sales promotion costs – could be further reduced. Therefore, in making the revision, we did not make changes to those cost assumptions.

In sum, we are expecting a smaller fallback compared to the previous fallback after a high demand from two events. In the previous fallback, in the order of FY 2014 → FY 2015, sales declined from Y10,425 million → Y8,168 million (-22% YoY); recurring profit fell from Y1,139 million → a loss of Y158 million; and a net loss was posted.

[Figure 36] Medium-Term Financial Forecast

Unit: million yen, %		FY 2019 AR	FY 2020 CE	FY 2020 E	FY 2021 E	FY 2022 E	FY 2020 PE	FY 2021 PE	FY 2022 PE
Category	Sales	11,439	13,404	13,600	12,600	13,350	12,900	11,000	11,600
	Products	2,516	3,005	3,080	2,350	2,400	2,700	1,800	1,900
	Goods	563	566	570	550	550	1,020	1,000	1,000
	Maintenance Service	3,125	3,489	3,500	3,550	3,600	3,220	3,000	3,000
	Cloud Service	2,403	3,160	3,300	3,700	4,200	3,100	3,400	4,000
	Other Operating Revenue	2,830	3,132	3,200	2,450	2,600	2,860	1,800	1,900
Gross Margin		57.0%	61.4%	61.0%	56.3%	57.7%	57.4%	57.3%	57.5%
SG&A Expense		5,274	5,831	5,600	5,100	5,300	5,805	5,100	5,300
		(% over sales)	46.1%	43.5%	41.2%	40.5%	39.7%	45.0%	46.4%
Operating Profit		1,248	2,405	2,700	2,000	2,400	1,600	1,200	1,400
		(% over sales)	10.9%	17.9%	19.9%	15.9%	18.0%	12.4%	10.9%
Recurring Profit		1,277	2,435	2,730	2,030	2,430	1,620	1,220	1,420
		(% over sales)	11.2%	18.2%	20.1%	16.1%	18.2%	12.6%	11.1%
Net Profit for the Year		906	1,572	1,750	1,300	1,550	1,050	800	920
		(% over sales)	7.9%	11.7%	12.9%	10.3%	11.6%	8.1%	7.3%
Category	Sales (% YOY growth for all values)	16.9%	17.2%	18.9%	-7.4%	6.0%	2.4%	-14.7%	5.5%
	Products	28.8%	19.4%	22.4%	-23.7%	2.1%	14.9%	-33.3%	5.6%
	Goods	3.2%	0.5%	1.2%	-3.5%	0.0%	85.5%	-2.0%	0.0%
	Maintenance Service	0.5%	11.6%	12.0%	1.4%	1.4%	-9.3%	-6.8%	0.0%
	Cloud Service	29.6%	31.5%	37.3%	12.1%	13.5%	-16.2%	9.7%	17.6%
	Other Operating Revenue	50.7%	10.7%	13.1%	-23.4%	6.1%	16.7%	-37.1%	5.6%
Gross Margin (% YOY diff.)		2.5%	4.4%	4.0%	-4.7%	1.3%	1.1%	-0.1%	0.2%
SG&A Expense (% growth)		16.5%	10.6%	6.2%	-8.9%	3.9%	13.8%	-12.1%	3.9%
Operating Profit (% growth)		54.6%	92.7%	116.3%	-25.9%	20.0%	11.2%	-25.0%	16.7%
Recurring Profit (% growth)		53.1%	90.7%	113.8%	-25.6%	19.7%	-20.0%	-24.7%	16.4%
Net Profit for the Year (% growth)		105.4%	73.5%	93.2%	-25.7%	19.2%	-21.9%	-23.8%	15.0%

(Ref) Prepared by Alpha-Win Research Dept (E = new forecast; PE = previous forecast). CE = the Company's new estimate/forecast.
AR = actual result. Accounting standards for the sales of each sales category have been changed starting this fiscal year and adjustments were retrospectively made.

- ◆ **Upfront investment in new technologies, products, businesses, etc., will continue, but their costs are controllable.**
- ◆ **In FY 2022, business will return to normal as the fallback from the event-driven high demand will have ceased. The Company will then return to a trend of increasing sales and profits.**
- ◆ **With the subscription-based businesses as the growth driver, annual profit growth rate is expected to be about 8-10% over the medium term based on normalized figures.**

As for the Company's targets for the fiscal year after the next (FY 2022, the final year of the medium-term business plan) – consolidated sales of Y11.5 billion and operating profit of greater than Y1.5 billion – we used to believe that the targets are somewhat high. Therefore, we had made a somewhat conservative forecast of Y11.6 billion for sales and Y1.4 billion for operating profit, having taken into account the risk factors. However, since the subscription-based businesses have been excellent, we largely raised our forecast to Y13.35 billion and Y2.4 billion, respectively (Figure 36 shown previously on page 37).

Each category's expected gross margin was not largely altered, but instead we focused our analysis mostly on the positive effect of improved product mix on the gross margin. Also, although the Company is in an investment phase, which includes business structure reinforcement in preparation for future growth, new product development, and technology research necessary for the product development (virtualization technology, AI, Web API, and FinTech-linked technology), we predict that the general and administrative expenses – especially the sales promotion, R&D, and personnel costs – are controllable to some extent.

Since the Company is in a phase where its subscription-based businesses are continuously expanding, we believe that if the Company can put the new businesses described above onto a successful track, then it will be able to enter another growth phase and continue to increase its sales and profits again after FY 2022.

Over the medium to long term, based on normalized figures excluding the effect of the event-driven high demand, we are expecting an annual sales growth rate of around 6-8% and an even greater net profit growth rate (8-10% per year). Since the Company's business model is characterized by a high marginal profit ratio, the sales growth will contribute significantly to profit growth, such that the profit growth rate will exceed the sales growth rate. In addition, the shift to the subscription-based ("stock-based") business is expected to improve the stability of financial performance.

9. Analyst's View

◆ PCA's Strengths and Challenges

The Company's SWOT analysis results are listed in Figure 37.

[Figure 37] SWOT Analysis

Strength	<ul style="list-style-type: none"> • Brand recognition and trust earned over many years (major specialized player in the enterprise system software market for small/medium-sized companies) • Firm financial standing (debtless management) • Growth of the subscription-based business capable of generating stable revenue • Strong and diversified customer base (240,000 corporate users in total) • Taking a lead with the cloud (top-level financial performance, know-how, number of customers, & years of business for enterprise system software business targeting small/medium-sized companies) • High barrier to market entry • Very experienced call center staff and engineers • Rich product lineup; provides products both as on-premises and by cloud • Sales network (13 sales offices in Japan; 2,000 partnered companies)
Weakness	<ul style="list-style-type: none"> • Relatively low margins • Financial results susceptible to revisions related to accounting and tax laws, termination of OS support, etc. (consumption tax, change in the name of the era, Windows 7, etc.) • Subscription rate of the maintenance service is improving (from about 50 to 70%) but could still be improved • Highly competitive market • Absence of a major, next-generation, growth-driving product/service • Domestic-demand oriented; overseas expansion difficult
Opportunity	<ul style="list-style-type: none"> • Increased demand from lack of manpower and need for efficient operation (for business software in general); work-style reform (labor management system) • Potential for cloud services to increase users; development potential (toward small/medium-sized companies and mid-tier companies) • New products (Hyper & utilization of Keepdata), new services (transition of on-premises to subscription-based model), and technology innovations • Revisions related to accounting and tax laws, etc.
Threat	<ul style="list-style-type: none"> • Emergence of an alternative as advanced AI technology becomes generally used, delayed product development, defects in products, etc. • Termination risk of contracts, etc. • Information leakage • Rise in personnel and development costs

(Ref) Prepared by Alpha-Win Research Dept.

◆ Long years of trust and track record, customer base, and technological skill are its strengths.

Describing the strengths listed in Figure 37 in more detail, the Company is well known due to its long years of practice in the industry and the trust that it has earned over those years. It is especially strong in certain areas of business such as accounting software for small/medium-sized companies and public benefit corporations. Its customers also have high loyalty, as there is little incentive to frequently change enterprise system software. Additionally, the Company has been developing a subscription-based business model with high continuity and stability by providing maintenance support, the cloud, and version upgrades to its customers.

◆ Top-level competitiveness and achievements with the cloud. The cloud market has a high growth potential.

On the other hand, looking at the weaknesses in more detail, profitability had been an issue as the margins had been gradually decreasing over many years. In fact, the margins are still low compared to its major listed competitors. This may be explained by how the proportion of users subscribing to the profitable maintenance service is low for the Company compared to its competitors and by how the Company has not been developing major, long-lasting new products (not being able to fully benefit from the advantage of scale).

However, the operating margin has been recovering sharply in the past four years and had risen to 10.9% in the previous fiscal year (24.7% this H1). In recent years, the Company is working on shifting to the subscription-based businesses with the cloud and is seeing signs of change in the revenue structure.

◆ **Improve profitability and stability with the transition to the subscription-based business model.**

If the Company could dig up hidden demand from its growth-driving, cloud-related market with its price advantage, improve the on-premises business by shifting to the subscription-based model, and increase the proportion of users subscribing to the maintenance service, then the Company may be able to further improve its profitability.

Shifting the on-premises to a subscription-based business gives users the advantage of being able to use the latest software at a fixed cost. Meanwhile, it gives the Company the advantage of merging multiple versions of software to streamline maintenance, development, and support, thus reducing the cost, as well as creating a stable revenue source. However, some users still prefer the traditional style of purchasing on-premises software. In April 2020, the Company plans to create a specialized department to expand sales in full scale.

◆ **Improvement in subscription rate of the maintenance services for the on-premises may lead to a higher profitability**

Maintenance service contracts were an issue because the proportion of users subscribing to the service (including existing customers) was low, at 50%. Therefore, the Company made maintenance service contracts a requirement when newly purchasing on-premises software or when purchasing version upgrades. Thus, the subscription rate (for new and existing customers) has recently been raised to about 70%. Since OBC's rate is about 80% and MJS's rate is almost 100%, the subscription rate could still be improved. An increase in the subscription rate will help secure a stable revenue source and improve the profit margin.

As for the opportunity and threat, occurrence of events such as the consumption tax revision and work-style reform that we currently see will induce a high demand related to those events, which would tend to cause a higher volatility in financial performance before and after the event. Also, we should keep note of the progress of major competitors in catching up to the Company in the cloud-service market, in which the Company currently takes a lead, and in their development of new products and services.

◆ **Shareholder Return and Shareholder Benefit Program**

The Company's basic policy is to stably, constantly pay dividend while improving the ratio of net profit for the year to shareholders' equity (ROE) under an effective management. In returning profit to its shareholders, its policy is to determine the level of dividend to be paid based on a comprehensive analysis of elements such as its financial results and dividend payout ratio.

Regarding dividend, ever since the first public offering of the Company's stock, the ordinary dividend has not been decreased and has been gradually increasing over the long term with several years of no change in between (Figure 38 on page 41).

Excluding commemorative dividend, the ordinary dividend has been kept at Y31 per share per year since FY 2011. Only in FY 2014 was a commemorative dividend paid; in celebration of "the achievement of consolidated sales of Y10 billion," Y10 was added to the ordinary dividend of Y31 to an annual total of Y41 per share. Even in FY 2015 and FY 2016 when a net loss was posted, the Y31/year dividend was maintained in line with the Company's stable dividend policy.

- ♦ The target dividend payout ratio is 33% and the target DOE is 2.5% but the actual results are lower. Has been steadily paying Y31 in dividend per year over the long term.

The targeted dividend payout ratio is 33%. Although the actual ratio was 48.2% in FY 2018, it was 23.3% in FY 2019 and is expected to be 13.1% in FY 2020 according to the Company's forecast (after upward revision) and 19.6% according to our forecast (after revision) – all below target. In order to achieve the target of 33% in dividend payout ratio during this fiscal year, the Company will need to pay an annual dividend of Y78 (a rise in dividend by Y47). As for dividend yield, it is 0.6% when calculated based on a stock price of Y5,100 (closing price on December 20, 2019; based on a dividend of Y31).

Also, the DOE, which is one of the KPIs (key performance indicators) that the Company focuses on, was 1.9% and 1.8% in FY 2018 and FY 2019, respectively, both below the Company's target of 2.5%. Since the net assets are expected to increase during this fiscal year as well, if the dividend is kept the same, the DOE is expected to further decline.

In FY 2020, too, the Company has not changed its policy to maintain an annual ordinary dividend of Y31. Considering the significant improvement in the profit level, the expected achievement of record-high sales and profits, and the expected dividend payout ratio (predicted to be far below the target based on the Company's estimated EPS), we believe that there will likely be a dividend hike, including commemorative dividends, during this fiscal year or later.

- ♦ The actual annual net yield including the shareholder benefit plan is about 1.0% (at maximum).

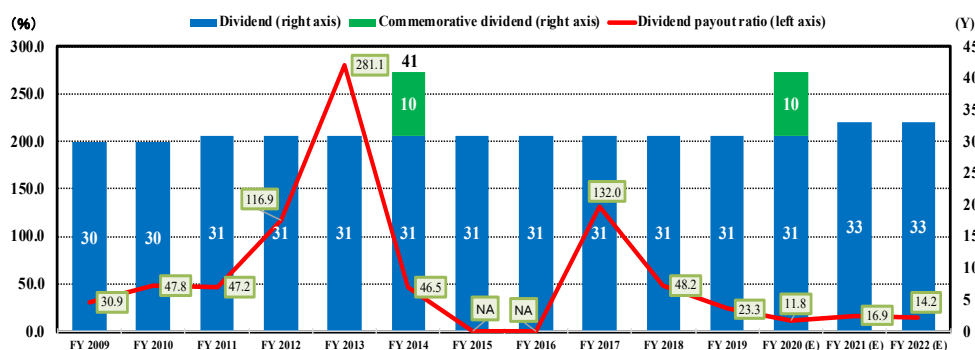
A shareholder benefit program was started in 2013, and its partial revision was announced in July 2017. Specifically, a Quo Card is granted to shareholders based on the number of shares held at the end of the March of every year. For example, shareholders with equal to or greater than 100 shares and less than 300 shares are granted Y2,000 worth of Quo Card. Assuming that the stock price is Y5,100 (closing price on December 20, 2019), then the actual annual net yield for a shareholder with 100 shares is about 1.0% (at maximum) including the ordinary dividend of Y31 and the shareholder benefit (Figure 39 on page 42). Under the same condition, the actual annual net yield for OBC is about 1.6%, and for MJS it is about 1.1% which is the same as the dividend yield since MJS has no shareholder benefit program.

- ♦ The target dividend payout ratio is likely to not be achieved. Anticipating dividend hike including commemorative dividend and stock split.

The Company's financial standing is great with essentially no debt. Its stock price has increased by three times over the last three years. Therefore, starting this fiscal year and over the medium term, we should keep an eye out for stock splits (1-to-2 or 1-to-3) as well as an additional share buyback in terms of the total return ratio. A stock split has not been conducted since the 1-to-1.3 stock split in May 2000.

[Figure 38] Transition in Dividend and Dividend Payout Ratio

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. Estimates/forecast (E) were made by Alpha-Win.



[Figure 39] Shareholder Benefit Program and Net Yield

Number of Shares Owned (greater than or equal to)	(less than)	Shareholder Benefit (Quo Card: Y)	Dividend: Y	Net Yield (maximum): %
100	300	2,000	31	1.00
300	500	3,000	31	0.80
500		4,000	31	0.76

Net yield = (dividend + benefit value) / (stock price) was calculated for the minimal amount of stock owned in each range
 Stock price: ¥5,100 (closing price on 12/20/2019)

(Ref) Prepared by Alpha-Win Research Dept.

- ◆ The upward revision to financial results was a positive surprise. In response, the stock price rose sharply again and is largely outperforming the TOPIX.

- ◆ Becoming more and more recognized as a defensive stock with good financial performance

- ◆ The rise in consumption tax and the work-style reform affects the Company positively. Unrelated to trade wars.

- ◆ Valuation is higher than the average of the First Section of the TSE, but considering the competitor's valuations and the Company's growth potential over the medium term, the stock price can be even higher.

◆ Stock Price and Factors that May Affect Stock Price

The Company's stock price and relative stock price compared to TOPIX for the past approximately three years are described in the summary section (Figure C on page 3). The stock price has been rising since around October 2018, significantly outperforming the TOPIX. In particular, after the announcement made in October 2019 of a significant upward revision, the stock price soared, reaching ¥5,100 as the closing price on December 20, the highest price since the beginning of the fiscal year and since becoming listed on the First Section of the TSE. The stock price has stayed high since then.

After September, the stock price had been going through short ups and downs, but the fact that the H1 results and full-year forecast for this fiscal year were much higher than the prior forecast seems to have directly given a good impression to the investors.

In addition, the Company may have become recognized as a domestic-demand-related stock with strong business performance that can benefit from the rise in consumption tax and the government's work-style reform despite the increasing uncertainty of the global economy (trade war, etc.) and of the financial performance of Japanese companies starting this fiscal year. Another factor contributing to the high evaluation may be its high competitiveness and growth potential seen from its pioneering activity in providing packaged enterprise system software via the cloud.

A comparison of major valuation indicators was made between the Company, the market average, and its listed competitors (Figure 40 on page 43). Thanks to the sharp rise in the stock price, its P/E for this fiscal year is predicted to be approximately 21.6 (based on EPS estimated by the Company for FY 2020; according to our prediction, 19.4 for this fiscal year, 26.1 for next fiscal year, and 21.9 for the year after the next), largely exceeding the TSE First Section's average of about 16.2.

While the Company's dividend yield, at 0.6%, is largely below the average of the First Section (the simple average is 1.9%; the weighted average is 2.3%), the Company's P/B is 2.8, which is higher than the First Section's average of 1.3 (based on the closing price on December 20 and the previous fiscal year's results).

Meanwhile, compared to its competitors (4733 Obic Business Consultants or OBC and 9928 Miroku Jyoho Service or MJS), while

their difference is becoming smaller with the sharp rise in the Company's stock price, many of the Company's valuation indicators are still relatively low, giving its stock an undervalued impression even after the sharp rise. Since financial performance during this fiscal year and next fiscal year may rise beyond the market consensus, the stock price may further increase.

[Figure 40] Comparison of Valuation Indicators with Competitors

Company Name	PCA (consolidated)	Obic Business Consultants (OBC: non-consolidated)	Miroku Jyoho Service (MJS: consolidated)
Code	9629	4733	9928
Stock Price (at 12/20 closing)	5,100	5,090	3,425
Market Cap (million yen)	39,270	410,783	119,212
P/E (price-to-earnings ratio)	21.6	38.0	29.4
P/B (price-to-book ratio)	2.8	3.3	5.9
Dividend Yield (%)	0.6	1.0	1.1
EV/EBITDA	18.6	23.3	19.0
P/S (price-to-sales ratio)	2.9	12.8	3.5

Market cap = shares outstanding x market stock price [at 12/20 closing]

EV/EBITDA = (market cap + interest-bearing debt - cash & deposits) / (O.P. + depreciation + intangible fixed asset amortization, etc.)

P/S = market cap / sales [the companies' estimate for FY 2020]

The companies' estimated EPS for FY 2020 used in all P/E calculations

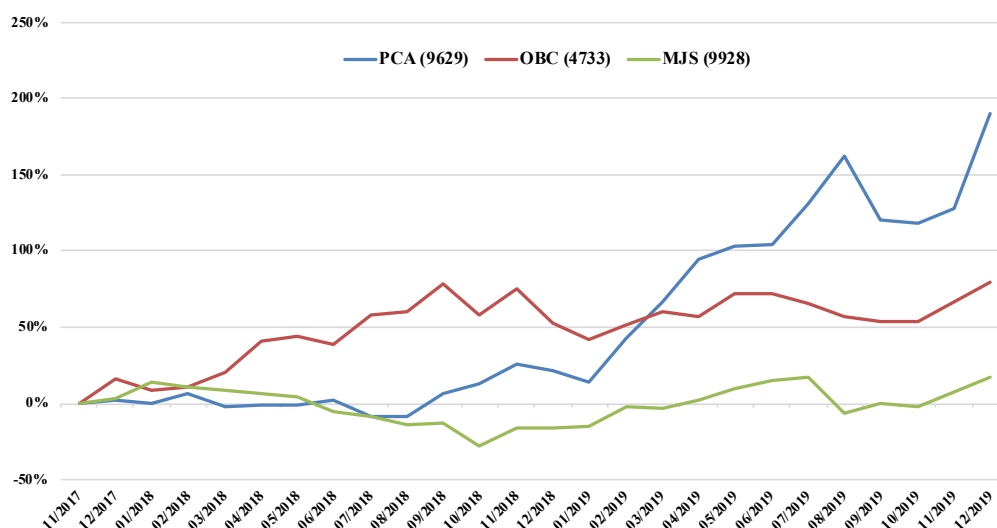
(Ref) Prepared by Alpha-Win Research Dept. based on information including the securities report and the financial results summary

◆ The Company's stock performance stands out from its competitors

Additionally, over the past two years or so, the Company has grown by about 2.9x, largely outperforming its two competitors OBC and MJS by 111% and 173%, respectively (Figure 41).

[Figure 41] Comparison of Stock Performance with Competitors

(Note: stock price as of the end of November 2017 was set at zero upon creating the graph. Reflects prices up through the closing price on December 20, 2019)



(Ref) Prepared by Alpha-Win Research Dept.

♦ **Going forward, points of interest are this and next fiscal year's performance and the contents of the new medium-term business plan.**

Going forward, the following events or factors may have an impact on the stock price:

The first point to note is the current fiscal year's performance (upside). Although demand during this H2 and especially in Q4 are uncertain, such as due to the fallback from the event-driven high demand, the Company's H2 forecast seems to be on the conservative side as mentioned above. The full-year results have already been revised upward and the market participants' expectations seem to already be reflected in the stock price to some extent, but depending on the extent of the upward revision, the stock price may have room for more growth.

Next, we should look forward to next fiscal year's financial forecast and the medium-term plan that will probably be announced in April to May of 2020. Next fiscal year, although the negative impact on business results due to the fallback from the event-driven high demand is a concern, the anticipated decline in sales and profits seems to already be reflected in the market. However, since the subscription-based business is in a phase of continuous expansion, we believe that a significant decline in profit could be avoided if the costs are properly controlled. In any case, for the time being, the key point will be the rate of change in financial results during the current and the next fiscal year.

Also, over the medium to long term, the following topics are ongoing themes that will continue to draw attention: the cloud, the work-style reform, the transition of on-premises to the subscription-based model, and the development and growth of new products and businesses utilizing new technologies. For now, we expect that the cloud and the labor management system will be the driving forces, bringing the Company back to growth starting in the year after the next (FY 2022) such that it can maintain sales and profit growth. Therefore, we expect the decline in stock price to also be temporary.

Basic policies have already been set out in the medium- to long-term business plan. When formulating the next medium-term plan, if more specific measures and their effects on earnings (upward revision of profit targets, etc.) become confirmed, then the stock price may rise.

Specifically, we want to watch the following points that are expected to affect stock price and performance:

- Growth rate of the number of contracts for the cloud, which is the growth driver
- Changes in the competition with major competitors in the cloud business
- Sales growth rate of the subscription-based businesses
- Change in the proportion of users subscribing to the maintenance service
- Progress with the transition of the on-premises software to the subscription-based business model (whether it can become a major component of the monthly-charging, subscription-based business)
- Fallback from the high demand induced by the rise in the consumption tax rate and the termination of Windows 7 support
- Progress with margin improvement

- Performance of Xronos's labor management system
- Progress with the development of new services and products (performance of business utilizing the acquired Keepdata's data, acquisition of new mid-tier corporate users with the Hyper, etc.)
- Shareholder return measures such as dividend hike, stock split, and share buyback
- New tax regulations and changes to regulations
- Progress with the M&A strategy

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