

Alpha-Win Company Research Report

PCA (9629 TSE First Section)

Issued: 6/9/2021

● Summary

Alpha-Win Capital Inc. Research Department
<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/medium-sized companies. The Company’s mission is to contribute to society as a “Management Support Company” that supports other companies conduct smooth management and operation, mainly by providing enterprise system software that realizes high-level automatization.

Last Fiscal Year’s Financial Results and This Fiscal Year’s Forecast

- Last full fiscal year (FY 2021: note that the Company’s fiscal year is March-ending, so FY 2021 ends in March 2021), sales and profit dropped in reaction to the event-driven spike of demand in the fiscal year before the previous (FY 2020). Its sales were Y13,308 million (-6.7% YoY), operating profit was Y2,314 million (-16.8% YoY), and net profit was Y1,668 million (-8.1% YoY). These results, however, were higher than the Company’s initial forecast as well as Alpha-Win’s forecast, which had been even higher than the Company’s. Also, although sales and profit had declined, they were the second highest in the Company’s history after their record highs achieved in FY 2020. Sales and profit had both exceeded the levels achieved in FY 2019 before the event-driven high demand.
- In the previous period of decline (FY 2015) after an event-driven high demand, there were large drops in sales and profit, and the Company posted a net loss. This time, though, the situation turned out to be much different, mainly because of the Company’s strategic shift in business portfolio to the continuous and stable subscription-based businesses (maintenance and cloud services).
- The Company announced that its forecast for this fiscal year (FY 2022) is as follows: sales of Y12,447 million, operating profit of Y1,866 million, and net profit of Y1,192 million. Since the new revenue-recognition standard will be applied starting this fiscal year, values cannot be simply compared, but the forecast appears to indicate declines in sales and profit. Based on the previous standard, sales are forecasted to actually increase to Y14,153 million (+6.3% YoY), since the decline following the previous event-driven spike of demand will have ended by then. This forecast for sales is close to the record high achieved during the event-driven high demand. On the other hand, profit is expected to decrease even by the previous standard, due to the drop in maintenance sales following the end of support for the X series and the increase in costs related to investment for future growth. However, operating profit (by the previous standard) is expected to be kept at a high level, resulting in Y2,012 million (-13.1% YoY).

Alpha-Win Research Department’s Forecast of Financial Results

- Although there was a change in the revenue-recognition standard, this fiscal year’s company forecast for a profit decline was somewhat surprising to us since we had expected a profit growth. After interviewing the Company, we reviewed our forecast based on the new standard, and revised our previous forecast downward. However, since the cost estimates for this fiscal year seem somewhat conservative, we believe that the potential downward deviation from the Company’s forecasted profit should be limited. In fact, we believe that it is more likely to be revised upward.
- Next fiscal year onwards, we predict that economic activities will gradually return to normal as the COVID-19 crisis settles down. There should also be no additional downward shifts due to the application of the new standard. Considering these factors, we believe that the Company will begin increasing sales and profit again, with the cloud as the growth driver. We have not changed our forecast that the annual profit growth rate will be 8-10% (on a normalized basis) over the medium to long term.

Competitiveness

- The Company has a customer base of approx. 240,000 companies. It has a high brand recognition and top-level market share in accounting and finance software targeting small/medium-sized companies. It is especially taking a lead in cloud-based enterprise system software in those fields and is the top player in the market. Going forward, the key points continue to be the Company's competition with its major competitors who have entered the cloud service business at a later stage, and with other competitors that are focused on low-price-range services.
- Its strength is its concentration of 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, ahead of 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 the PCA Group, the Company aims to create a strong earnings base for its main businesses (strengthen and increase the sales of PCA Cloud and strengthen the subscription business for the on-premises), create new business opportunities (development of new technology and businesses), and strengthen the management foundation to build a high-profit structure, as well as strengthening its monozukuri ("creation of things"; development system for creating unique products and services). Through these strategies, it hopes to achieve further growth, and has been executing various measures along its schedule. Meanwhile, the biggest challenge is to get the new businesses (PCA Subscription, hyper, HR business, PCA HUB, etc.) on track to monetize them.
- The consolidated numerical goals (after upward revision) for this fiscal year (FY 2022), which is the final year of the current medium-term management plan, had mostly been achieved in the previous fiscal year. This fiscal year, it plans to start a part of the investment planned for the new medium-term plan that starts next fiscal year.

Stock Price

- A defensive, domestic-demand-oriented, and small-cap growth stock that is positively influenced by the transition to a subscription-based business model, the workstyle reform, and tax reforms. This fiscal year, the consensus for companies listed on TSE First Section is that their profit will grow by about 30-40% on average, and large-cap, economically sensitive stocks are being preferred. The Company, on the other hand, is expecting a drop in sales and profit during this fiscal year, so its stock price has recently been underperforming the TOPIX.
- The valuation of the Company's stock does not seem cheap based on this fiscal year's forecasted values. However, we believe there is an upside to the stock price over the medium to long term for the following reasons: its likelihood of achieving its forecasted profit for this FY seems high, a greater return of profit to shareholders through dividend hikes and stock splits can be expected again, its business is mainly subscription-based and is therefore stable and continuous, its subscription business has a high growth potential, and a growth trend for sales and profit is expected to start next fiscal year.

Return of Profit to Shareholders

- The Company has been stably paying dividend and has been buying back its shares. In FY 2020, it raised its annual dividend per share by Y23 (ordinary dividend by Y3, plus a commemorative dividend of Y20) to Y54 in total. This FY, it plans to keep its ordinary dividend at Y34 per share, the amount after the dividend hike. When the Quo Card shareholder benefit plan is taken into account, the actual dividend yield comes out to be (at maximum) 1.3% based on this fiscal year's forecasted values. Currently, there is a distance from its goals for dividend payout ratio (33%) and DOE (2.5%). With solid performance, further return of profit to shareholders is possible over the medium to long term, including dividend hikes, stock splits, share buybacks, and expansion of the shareholder benefit program.

【 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)
2019		11,439	16.9	1,248	54.7	1,277	53.0	906	105.5	133.25	1,789.76	31.00
2020		14,266	24.7	2,781	122.8	2,808	119.9	1,816	100.4	272.92	2,027.42	54.00
2021		13,308	-6.7	2,314	-16.8	2,340	-16.7	1,668	-8.1	250.49	2,374.93	34.00
2022	CE: Old Standard	14,153	6.3	2,012	-13.1	2,046	-12.6	1,294	-22.4			
2022	CE: New Standard	12,447	-	1,866	-	1,899	-	1,192	-	178.86	2,148.71	34.00
2022	E: New Standard	12,500	-	1,900	-	1,930	-	1,210	-	181.51	2,296.21	34.00
2023	E: New Standard	13,000	4.0	2,070	8.9	2,100	8.8	1,315	8.7	197.26	2,459.47	36.00
2024	E: New Standard	13,600	4.6	2,270	9.7	2,300	9.5	1,440	9.5	216.01	2,639.48	36.00

(Note) CE: the Company's forecast/estimate. E: Alpha-Win Research Dept.'s forecast/estimate.

(Note) The Company's fiscal year is March ending (e.g. FY 2022 ends in March 2022).

The "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) is applied starting in FY 2022.

Alpha-Win Company Research Report

PCA (9629 TSE First Section)

Issued: 6/9/2021

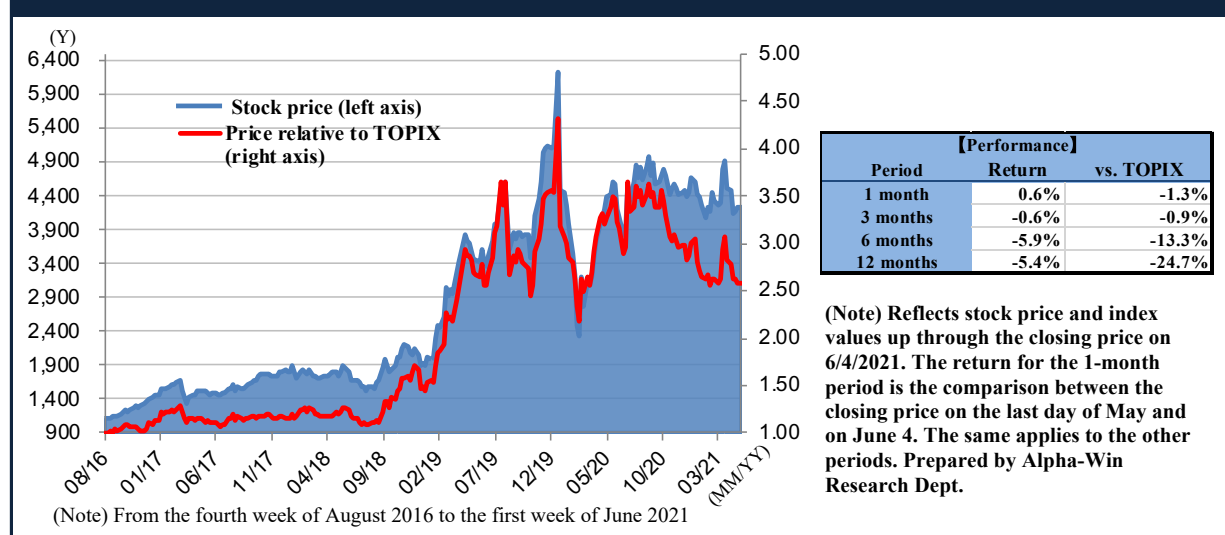
【Stock Price and Valuation Indicators: 9629 PCA】 Figure B

Item	6/4/2021	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	4,230	Last FY's Results	16.9	1.8	0.8%	19.8%
Shares Outstanding (thou.)	7,700	This FY's Forecast	23.3	1.8	0.8%	18.7%
Market Capitalization (million yen)	32,571	Next FY's Forecast	21.4	1.7	0.9%	18.3%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End	62.4%	Last FY's ROE		11.4%

(Note) Forecasts were made by Alpha-Win Research Dept.

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

Figure C



(Note) In this Report, the values for the same item may not match completely due to rounding, processing during calculation, method of display, etc.

Disclaimers

This Alpha-Win Company Research Report (hereinafter “this Report”) has been prepared by Alpha-Win-Capital Inc. (hereinafter “Alpha-Win”) on the request of the company presented in this Report.

This Report is not to be construed as a recommendation or solicitation of investment. Alpha-Win shall not be liable for any consequences including direct or indirect loss, lost profit, or damage resulting from the use of or reliance on this Report. Investors who read this Report must make their own decisions on all investment matters and take full responsibility regarding their investment.

This Report has been prepared with a focus on objectivity and neutrality based on the analysis of generally accessible public information and supplemental information including interview(s) by the analyst. Alpha-Win, the writer, and/or other persons involved in the publication of this Report may already hold, or buy and sell in the future, the stock of the company presented in this Report.

Contents of this Report are based on information current as of the issue date and are subject to change without notice. For the latest (updated) report, please see our website (<http://www.awincap.com/>). We also do not warrant or represent that the information in this Report is accurate, reliable, complete, appropriate, or fit for any purpose and do not accept any responsibility or liability.

Copyright of this Report belongs to Alpha-Win and no part of the publication may be copied, photocopied, cited, or translated without our consent.

For inquiries regarding this Report, please send us an e-mail to info@awincap.com. However, Alpha-Win and the writer of this Report do not have any obligation to reply to inquiries.

PFV2021-0620-0900

Contents

1. Company Overview	P5
Major Specialized Player in the Enterprise System Software Industry	P5
Business Philosophy	P7
2. Business Description and Business Model	P8
Enterprise System Software Crucial for Efficient Business Operations	P8
Business Model with High Continuity and Marginal Profit Ratio	P8
Expansion of Highly Stable and Profitable Subscription-Based Business	P9
Cloud Business as the Growth Driver	P10
Topic 1: Impact of COVID-19 and the Company's Response	P11
Topic 2: Acquisition of Dreamhop Co., Ltd. and Development of HR Business	P12
3. Shareholder Composition	P15
Change in Composition by Type of Shareholder	P15
Major Shareholder Composition	P15
4. ESG	P17
Environment, Society, and Governance	P17
5. History of Growth	P18
Company History	P18
Past Transition in Financial Results	P18
6. Business Environment	P21
Trends of the Software Market	P21
Comparison with Competitors	P22
7. Last Fiscal Year's Results and This Fiscal Year's Forecast	P25
Results for FY 2021 (last fiscal year)	P25
PCA's Financial Forecast for FY 2022 (this fiscal year)	P28
Alpha-Win Research Dept.'s Financial Forecast for FY 2022 (this fiscal year)	P31
8. Growth Strategy	P33
Management Indicators and Areas of Focus	P33
New Medium-to-Long-Term Vision	
"PCA Vision 2030: First Stage – 2022 Medium-Term Management Plan"	P33
Alpha-Win Research Dept.'s Forecast of Medium-Term Financial Results	P35
9. Analyst's View	P37
PCA's Strengths and Challenges	P37
Shareholder Return and Shareholder Benefit Program	P38
Stock Price and Factors that May Affect Stock Price	P39

Note: 1) Upon translating to English, when the page numbers differed from the original Japanese version, they were adjusted to those of the English version of the report. 2) The Company's fiscal year is March-ending, i.e., FY 2022 ends in March 2022.

1. Company Overview

◆ Major Specialized Player in the Enterprise System Software Industry

- ◆ Major specialized player in the industry with 41 years of history, developing and providing packaged enterprise system software for domestic 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.

- ◆ The PCA Group is composed of the Company and 3 subsidiaries. Acquired Dreamhop and sold Keepdata.

(2) Work 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.

- ◆ Consolidated-to-parent-company sales ratio has stably been around 1.1. The summed recurring profit of the consolidated subsidiaries (consolidated minus parent) has been a surplus.

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 distributors (the remaining 20% are direct sales). The Company's customers are diversified, and by monetary value, many of its major customers are large corporations. It is the top player in accounting software for public benefit corporations, with its software having been implemented by over 8,000 public benefit corporations in total.

As of the end of May 2021, the Company's group was composed of a total of four companies: the Company and three consolidated subsidiaries. The consolidated subsidiaries are Xronos Inc. (development/sales of work 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 Dreamhop Co., Ltd. (became wholly acquired through an acquisition; described in detail on page 12) that was newly acquired in October 2020.

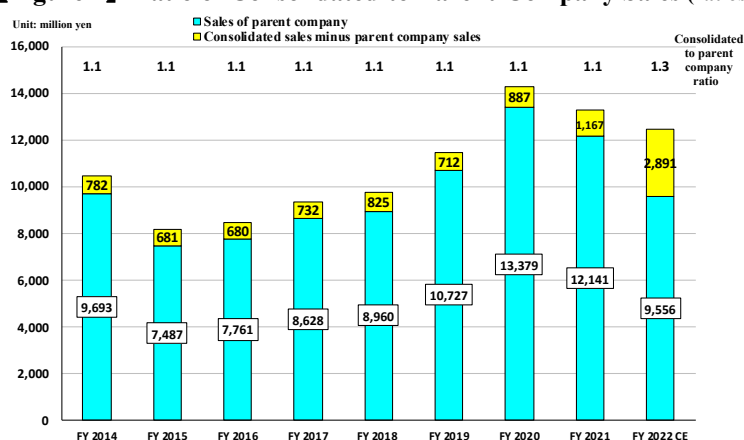
The Company acquired Keepdata Ltd. (hereinafter, "Keepdata") in March 2019 and made it its consolidated subsidiary (acquired 66.8% of the shares for approximately Y44 million). It had acquired this company as a foothold for the new data utilization business, since it has technology development skills as well as expertise and proven record in the business. However, creating synergy with the Company in system linkage and sales had turned out to be difficult, and Keepdata had been continuously posting a net loss and an excess of debt. In December 2020, the Company sold all shares of this subsidiary to a third party (sales price was not disclosed). The Company ended up selling Keepdata less than two years after its acquisition, but this decision should contribute positively to consolidated results in terms of profit starting this fiscal year, since Keepdata's sales (estimated by Alpha-Win to be about Y80 million in the previous fiscal year) and net loss (similarly estimated to be several dozen million yen) will no longer be included.

The ratio of consolidated-to-parent-company sales has stably remained at around 1.1, indicating that a greater weight is placed on the parent company's financial results (Figure 1 on page 6). This fiscal year, with the change to the new revenue-recognition standard, the ratios for sales and recurring profit are both expected to be 1.3.

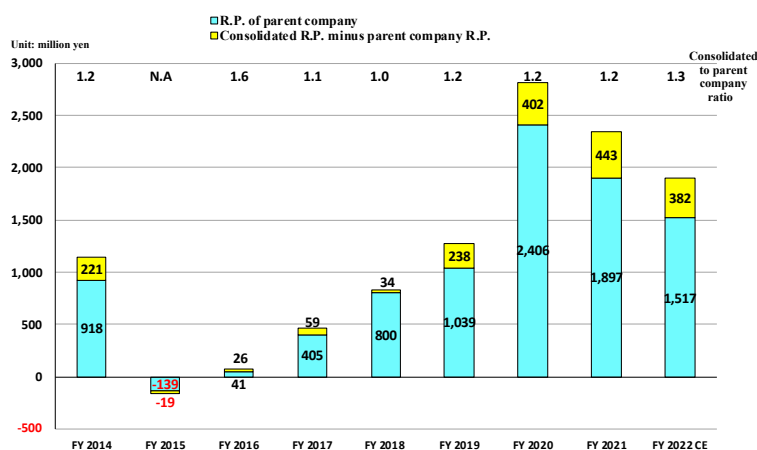
Although the subsidiaries' profit/loss is not disclosed, the ratios of consolidated-to-parent-company recurring profit have been in the range of 1.0-1.6 during the fiscal years that the Company has been in the black (including this fiscal year's forecast). Additionally, the summed profit/loss of the 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 continue to contribute the most to the financial results, thanks to the workstyle reform. Its sales were Y1.5 billion in FY 2019 and Y2.1 billion in FY 2020. Sales in FY 2021 have not been disclosed at this point. In FY 2025, the company is planning for sales of Y4 billion (according to Xronos's former website). Although its profits have not been disclosed, the subsidiary has mostly likely been staying in the black like KEC and contributing positively to consolidated profit.

【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. CE: the Company's business plan.

- ◆ Founded by certified public accountants in 1980
- ◆ Rich in cash. Debt-less management.

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)**.

The Company's finance is firm, rich in cash and debt-less. Relative to its sales of Y13.3 billion (last fiscal year's result) and total assets of Y25.4 billion, its debt is zero and it has Y11.7 billion in cash and deposits (values as of the end of March 2021), which is equivalent to 46% of total assets and 10.6 months' worth of monthly sales.

Free cash flow (FCF) has been positive except for a certain period, and cash and deposits on the balance sheet (B/S) have been generally increasing (Figure 3). For the financial ratios, its equity ratio is 62.4% and current ratio is 260.4%, also indicating financial soundness (values as of the end of March 2021).

【Figure 3】 Change in Cash Flow (CF) (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 2020	FY 2021
Operating CF ①	627	488	141	847	1,048	547	1,427	1,533	1,270	2,141	3,328	1,632
Investing CF ②	-405	-127	185	-407	-750	-606	-627	-395	1,715	-80	-719	253
Financing CF	-207	-210	-205	-215	-216	-284	-214	-215	-216	-572	-225	-355
FCF (①+②)	222	361	326	440	299	-60	800	1,137	2,985	2,061	2,609	1,885
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	10,716	11,749

(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.

◆ Business Philosophy

- ◆ The Group's basic business policy is to "aim for a more rational business management with clear vision."
- ◆ The mission statement is to "contribute to society by developing and providing packaged enterprise system software that enables high-level automation."

The Company's business philosophy was announced as "customer-first" when it made its first public offering in March 1994. Then, in 2010, it 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 of the PCA Group is to "aim for a more rational business management with clear vision."

The Company's mission statement is to "contribute to society by developing and providing packaged enterprise system software that enables high-level automation." While its corporate culture is down-to-earth and homely, the Company is also characterized as having a pioneering spirit in the rather 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 be customer-first.
- 2) We will aspire to become a highly profitable company over the long term with sound management.
- 3) We will treat employees like family and create a homely culture.

2. Business Description and Business Model

◆ Enterprise System Software Crucial for Efficient Business Operations

- ◆ **Enterprise systems are mission-critical. Stability and reliability are crucial elements since they are used inside companies.**

The Company's core 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 within a company. Since it is mission-critical for business operations, it is required to be reliable, efficient, stable, user-friendly, secure, and expandable.

The main methods 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 is easier to use 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 especially tend to 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 this, the Company has been developing original enterprise system software that specifically meets the needs of one-person businesses and 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, and tax. The enterprise system software is either packaged (on-premises: conventional products operated in-house by a corporate user) or cloud-based (a service where a corporate user can use the enterprise system software via the Internet easily and at a low cost without having to prepare its own server). The Company sells and provides its software through either direct or indirect channels.

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 26 types of originally developed packaged enterprise system software**
- ◆ **About 70% of sales comes from originally developed products and services**

◆ Business Model with High Continuity and Marginal Profit Ratio

The Company provides a total of about 26 types of software (counted by product name, including options) and its business model is based on the mass production of a limited number of 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

- ◆ Entry barrier is high since reliability and proven track record are required.

total sales, while the remaining 30% comes from other companies' products (purchased merchandise) in the merchandise / other operating revenue categories. 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, however, software functions have become so enhanced that customers now tend to purchase less in response to this version upgrade cycle.

Since these types of software are related to operations that are required to be highly reliable, 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 contract 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 Business

- ◆ Sales are divided into five categories. Focused on the subscription-based businesses.

Until FY 2016, sales and profit/loss had been 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 into one. Sales are now disclosed for five sales categories (types): "products," "merchandise," "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	Contents	FY 2021 (results)		
		Sales (million yen)	% of Total Sales	Est. Gross Margin
Product	Sales of original packaged software (accounting, sales management, purchasing and inventory management, payroll, HR, etc.) (includes version upgrades)	1,985	14.9	About 70%
Merchandise	Sales of other companies' products such as ledgers	485	3.6	About 40%
Maintenance Service	By signing up to PSS membership, users can receive inquiry and support services from call centers	3,552	26.7	80-90%
Cloud Service	Subscription service for software provided via the cloud	4,057	30.5	60-70%
Other Operating Revenue	Sales of other companies' products such as software/hardware combined with its original products; also called "solutions"	3,227	24.2	About 25%
Total & Average		13,308	100.0	Result: 60.3%

(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 standard.

(Note) Maintenance service and cloud service are the subscription-based businesses.

- ◆ Subscription-based businesses (maintenance & cloud) account for about 57% of the total sales.

In recent years, sales for the service of providing cloud versions of the Company's packaged software have grown significantly, and the service has become the Company's growth driver with regards to both the overall sales and profit. In FY 2021, sales of the cloud service were the largest by sales category, followed by maintenance service. The sum of these two categories, or "subscription-based revenue" (also called the "stock business" in Japanese), accounted for about 57% of the total sales. The maintenance and the cloud services have had high gross margins and contract repeat rates and have been stable sources of profit, contributing to a greater stability of business and profit.

On the other hand, sales of products and solutions (other operating revenue) tend to be influenced by event-driven high demands, replacement cycles, and version upgrades.

Consolidated sales breakdown by the operation type of software is not disclosed. However, 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/purchase/inventory management software, and then by payroll/HR software.

Currently, the Company primarily sets internal target values based on software sales (or the sold number of products) by operation type. Target values are not set for the profit/loss of each software operation type. However, in line with the medium-term plan, the Company has been working with an external IT consultation firm to create and adopt new performance management indicators to make a transition from sales-based management to profit-based management. The Company has commented that the margins of each software operation type do not greatly differ between one another, but the main accounting software business is presumably generally the most profitable.

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

- ♦ **Rapidly shifting from packaged software sales to the cloud/subscription-based model**

- ♦ **The rapidly growing cloud business is based on a subscription-based, stable business model. Taking a lead in the market as the single, obvious top player, the Company has a high 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. For example, since June 2021, the Company has been providing a plugin that allows non-programming linkage between PCA Cloud and Kintone.

◆ Cloud Business as the Growth Driver

For many years, the Company had been focused on the business of selling conventional packaged software, also known as on-premises. However, as the Internet became more sophisticated and more widely used, the Company predicted that the demand for the cloud will rise due to its user-friendliness and cost performance. Therefore, in 2008, the Company started providing cloud-based services more than ten years ahead of its competitors. Since then, it has been providing cloud versions for all of its on-premises software.

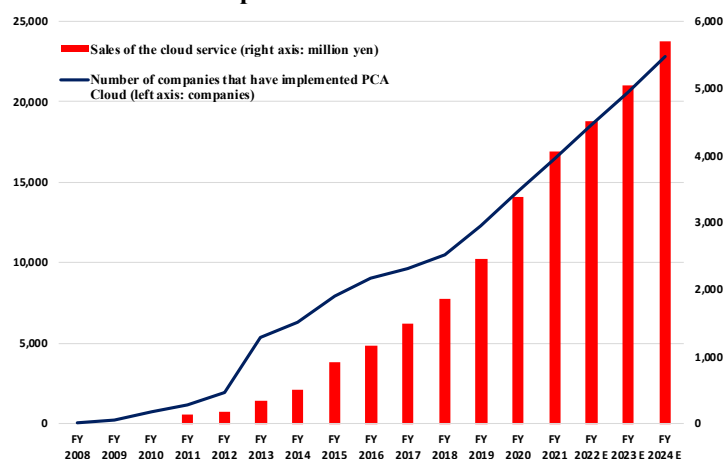
In the cloud business, users pay fees continuously for a certain period to use the software (subscription-based business model). It is attractive as a stable, subscription-based business model, similar to the maintenance service (average monthly payment of 20-30 thousand yen per corporate user). As the cost of this cloud business is largely fixed due to the relatively small amount of variable costs such as those related to server maintenance, manufacturing, sales, and logistics, it 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 be making the Company stand out from its competitors in the field. In recent years (2017-2018), its competitors have also entered the cloud market in full scale as their "first year of the cloud," but the Company is expected maintain its advantages for the meanwhile.

- Providing a wide variety of advanced software for business operations
- Originally developed open architecture; low cost
- Economies of scale are in effect, with more than 16,000 corporate users of the cloud service already; well profitable
- Consequently, it has a very strong price advantage compared to its competitors
- More than ten years' worth of operation expertise
- User-friendly software, with WebAPI⁵ allowing linkage with other companies' cloud (linkage already possible with about 60 companies, including Kintone⁶ of Cybozu)

The Company has recently been focused on the cloud service, and its number of contracts as well as sales has been growing steadily (Figure 5 on page 11). As the business expands amidst the COVID-19 crisis, its growth rate has somewhat slowed down, but it is still believed to continue to be the Company's main growth driver.

【Figure 5】 Change in the Sales of PCA Cloud and the Number of Companies that Have Implemented 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. based on the Company's financial results briefing materials and interviews. (E) represents estimates/forecasts made by Alpha-Win Research Dept.

◆ Topic 1: Impact of COVID-19 and the Company's Response

- ◆ Taking measures against COVID-19. Shifted to remote work.

The Company has established the COVID-19 Response Headquarters and has been encouraging work-from-home and staggered working hours for its employees. It been on remote work in general. It has been preparing the telecommunications infrastructure and other environment for work-from-home by providing mobile devices such as iPhones to all employees, as well as providing remote work preparation stipend and remote work allowances.

It has also prepared the system for remote call center operation. Currently, about 80-90% of its officers and employees still work from home. To fulfill its social mission to provide enterprise system software while ensuring the safety of its officers and employees, it has also been on a shift-work system.

For its customers and business connections, the Company has cancelled or postponed events, seminars, and in-person meetings, and has shifted them online.

- ◆ Due to the nature of its business, the impact of COVID-19 has overall been minimal.
- ◆ Sales activities toward new customers, business development, and support services have been somewhat impacted.

The impact of COVID-19 on business results has been small, since the Company's packaged software products can be installed and implemented by the customers themselves, and its enterprise system software can also be provided on the cloud thanks to the large shift that it had made to the subscription-based business model and subscription businesses. The Company believes that it can continue to make revenue through the mix of remote and in-person sales activities.

However, there has undeniably been some impact on new customer acquisition, support services (visiting customers to help implement

- ◆ With the impact of COVID-19, sales expansion of new businesses and services has been slow.

software), new business development, etc. Its main users are small/medium-sized companies who are financially susceptible to the impact of the self-restraint request under the emergency declaration and the stagnation of economic activities. If the situation is prolonged, there may be a negative impact on the sales expansion of the existing services and the development of new businesses.

Regarding “PCA Subscription,” a new business started as a subscription service for the on-premises, and the new product “hyper series,” sales expansion has been slow partially due to COVID-19. “PCA HUB” (providing a data utilization platform for small/medium-sized companies) too had initially been planned to be released in April 2021, but its development plan has been similarly impacted. The Company currently is in the process of reviewing its plan.

◆ Topic 2: Acquisition of Dreamhop Co., Ltd. and Development of HR Business

- ◆ Acquired Dreamhop, a company focused on stress check services.

Overview of Dreamhop Co., Ltd.

In October 2020, the Company acquired Dreamhop Co., Ltd. (hereinafter, “Dreamhop”; headquartered in Shinjuku-ku, Tokyo; Toshiyuki Mukuno as the new president; established in June 2005; capital of ¥56.5 million after capital increase; a little less than 20 employees) for approx. ¥108 million as a wholly owned subsidiary.

- (7) Stress check: The revision in the Industrial Safety and Health Act has required workplaces with 50 or more employees to conduct stress checks of its employees starting in December 2015. Checks are conducted on a regular basis, and the results are notified to the individual. The purpose is to reduce the mental health risk of each person as well as improving the workplace environment.

Dreamhop is a small-sized company specialized in services and business management related to mental health and health management, with a focus on stress check services⁷. It has unique programs and expertise and offers full operation of the programs on behalf of its corporate customers.

- ◆ Plans to increase synergy within the PCA Group and expand the HR business

Background of Acquisition

The PCA Group already has a lineup of HR (human resources) solutions, such as the PCA Salary and the PCA Personnel Management series and its subsidiary Xronos’s work management system.

The Company believes that its HR solutions must urgently be strengthened to sustainably grow as a Management Support Company. For this purpose, the Company acquired Dreamhop, with whom synergy in the development and expansion of business connections as well as cross-selling and up-selling can also be expected. Note that the Company has previously used Dreamhop’s services as one of its customers and had been in a collaborative partnership.

- ◆ Developing business in wide areas of mental health
- ◆ Has an excellent customer base including the government, associations, and large companies in the private sector. Strong track record.

Business Description

With the corporate value of “Data x Technology x Human Service,” Dreamhop supports the organizational improvement of companies. It provides stress checks, uses the obtained data to discover the bottlenecks to the organization, and offers suitable measures for fixing the problem. Through these means, the company supports its user’s workplace environment improvement, employee retention, and recruitment enhancement. It is developing business in wide areas of mental health, including employee engagement solutions and harassment prevention.

Its customers include the Ministry of Health, Labour, and Welfare, the Ministry of the Environment, the Tokyo Metropolitan Government, City of Sapporo, and other governments, municipal governments, and associations

such as the Japan Health Insurance Association. It also has many companies in the private sector as its customers.

Track Record

Dreamhop's tests have been conducted at more than 10,000 offices. After the stress check, contracts have been made with more than 1,200 organizations (governments and companies in the private sector). Currently, more than 1 million people are using its service.

Future Business Development and Synergy

With the drastically changing working environment amidst the COVID-19 crisis, the Companies believes that the mental health care of employees has become crucial and is a key area in HR solutions.

It plans to use big data and introduce PCA's technology in areas which has historically been analog to develop more effective services.

- ◆ Planning to use big data to create synergy with the existing HR businesses

Expansion of Service Lineup

After the acquisition, the stress check program "ALART" was rebranded to the mental health program "ORIZIN." The service lineup was also expanded: the original mental health program is "ORIZIN," the newly created anti-harassment program is "ORIZIN+," and the occupational health physician service was named "irodori" (Figure 6).

The price system is based on a monthly subscription payment for the main service determined by price per user and other factors, combined with the price of options.

- ◆ Conducted rebranding and the expansion of service lineup after the acquisition

【Figure 6】 Rebranding of the Mental Health Program



(Ref) Financial results briefing materials

Financial Performance

Dreamhop's past financial performance disclosed in its news release is summarized in Figure 7 on page 14. In the fiscal year ended May 2020, sales grew but a net loss was posted: sales were Y129 million (+16.5% YoY) and net loss was Y38 million (a net profit of Y0.2 million was posted in the previous fiscal year). There was also an excess of debt by Y20 million. These results seem to have been due to increased upfront investment costs and fixed costs for the expansion of systems and businesses.

After the acquisition, PCA increased Dreamhop's capital by Y80 million and the excess in debt seems to have been relieved. Going forward, Dreamhop's sales are planned to be increased by using PCA's sales force to increase its customers, while also working on the streamlining of business. Net profit is hoped to be achieved within several years.

- ◆ Dreamhop posted a net loss due to upfront investment costs. Excess in debt was relieved through an increase in capital. Hopes to gain net profit within several years.

- ◆ Small sized, with relatively heavy fixed costs. To gain net profit, top line growth would be necessary.

【Figure 7】 Transition in Dreamhop's Financial Results

(Rounded to the nearest unit)

Unit: million yen	FY ended May 2018	FY ended May 2019	FY ended May 2020
Sales	104	111	129
Operating Profit	2	4	-39
Net Profit	0	0	-38
Net Assets	17	18	-20
Total Assets	102	86	74
Net Assets Per Share (yen)	10,507	10,645	-12,383

(Ref) Prepared by Alpha-Win Research Dept. based on the news release

- ◆ Became a consolidated subsidiary. Goodwill amortization expense will be posted every fiscal year.

Goodwill and Factors that May Affect PCA's Results

Judging from Dreamhop's finance and its balance with sales, the acquisition price seems to be slightly expensive (P/S: 0.84), and goodwill from the acquisition is estimated to be about 150 to 200 million yen.

Dreamhop became a consolidated subsidiary in the previous fiscal year (FY 2021), but since it was acquired in late October 2020, its impact on last fiscal year's results seems to have been limited (Dreamhop's financial forecast for its fiscal year ending May 2021 is not disclosed).

Starting this fiscal year (FY 2022), Dreamhop's results will be fully included in the consolidated results (of the PCA Group). PCA has not adopted the IFRS, so we estimate that the total goodwill amortization is Y175 million, the amortization period is five years, and that last fiscal year's amortization expense was Y17 million and this fiscal year's will be Y35 million.

3. Shareholder Composition

◆ Change in Composition by Type of Shareholder

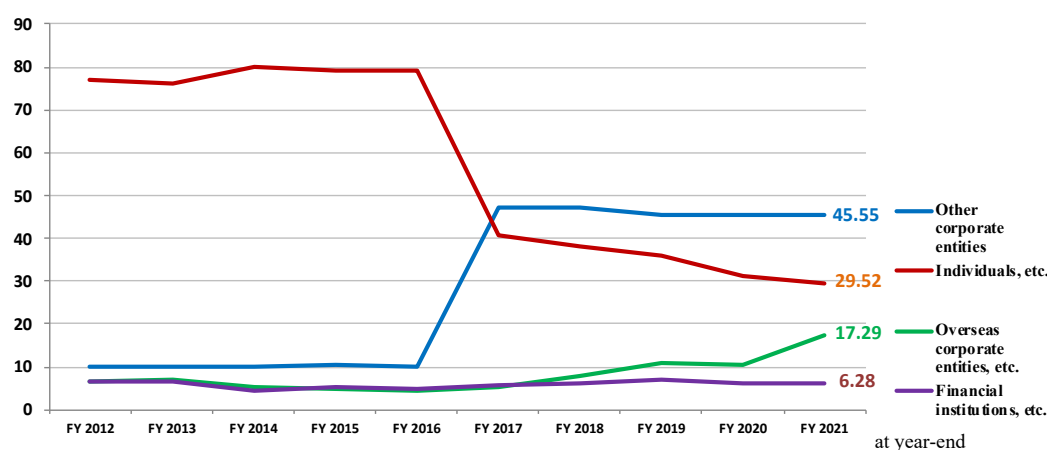
- ◆ Percent of shares held by overseas corporate entities has increased.

- ◆ Shares were transferred due to inheritance and other events, but the largest shareholder has not essentially changed.

Regarding shareholder composition by shareholder type as of the end of March 2021 (Figure 8), the sum of “other corporate entities” and “individuals, etc.” accounts for greater than 60% of the total. Compared with the end of FY 2020, “individuals, etc.” has sold shares, while “overseas corporate entities, etc.” has bought shares, changing the weight of shares.

Upon inheritance from the founder (Masao Kawashima), individually owned shares were transferred in FY 2017 to the general incorporated association Kawashima Co., Ltd. (the founder family’s asset management company, categorized under “other corporate entities”).

【Figure 8】 Change in Shareholder Composition by Type of Shareholder (unit: %)



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

◆ Major Shareholder Composition

- ◆ No change to stable shareholders in Japan

- ◆ MFS, a major US-based investment management firm, submitted a statement of large-volume holdings for holding more than 5% of shares.

Major shareholders as of the end of March 2021 are shown in Figure 9 on page 16. Compared to the end of March 2020, shares held by the top ten major shareholders have not largely changed, except for custodians (trust banks) and the Employee Stock Ownership Plan.

Massachusetts Financial Services Company (“MFS”) owned 5.22% (401,900 shares) as of March 31, 2021, and a statement of large-volume holdings (the “5%-rule” statement) had been submitted. MFS is one of the oldest investment firms in the US. It invests globally and its AUM is 610.2 billion dollars (approx. 63 trillion yen as of the end of December 2020). Characterized by a long-term, active investment style, it has an office in Japan and invests in many Japanese stocks as well.

Although MFS is not included in the list of major shareholders shown in Figure 9 on page 16, it is probably investing through several accounts including JP Morgan at second place (ranking excludes the Company and its treasury shares; the same applies hereinafter).

- ◆ Several Japanese and overseas institutional investors, etc., seem to be investing in the Company through custodians.

- ◆ The largest shareholder is the founder family's asset management company.

- ◆ PCA owns 13.4% of its own shares.

- ◆ Its rival OBC is also the fourth largest shareholder.

- ◆ There seems to be no activists among the major shareholders

MSIP CLIENT SECURITIES (third place), BYN GCM CLIENT ACCOUNT (fifth place), JPMBL RE NOMURA INTERNATIONAL (sixth place), and Japan Trustee Services Bank (trust account) (tenth place) are also among the major shareholders. Their final investors and investment purposes are unknown, but they are predicted to be pure investments by Japanese and foreign institutional investors and funds.

Regarding investment trusts in Japan, the Company's shares are incorporated in index funds managed by companies such as Nomura Asset Management and Sumitomo Mitsui Trust Asset Management, as well as an active fund (GS Big Data Strategy Japan Equity) managed by Goldman Sachs Asset Management.

Below is supplemental information:

- The largest shareholder Kawashima Co., Ltd. is the asset management company of two directors of the Company (President Sato and Director Kumamoto) and their relatives (descendants to the founder Masao Kawashima).

- The Company itself has essentially been the second largest shareholder for many years. After Kawashima Co., Ltd. had indicated its intention to sell its shares, the Company additionally acquired shares in a tender offer. As a result, it currently owns a total of approx. 13.4% of its own shares.

- The fourth largest shareholder Obic Business Consultants Co., Ltd. (OBC) is a competitor with whom the Company has no transactions. There has been no change in the number of shares held.

- The seventh largest shareholder Logic Systems Co., Ltd.'s purpose is unknown.

- The eighth largest shareholder, or the Employee Stock Ownership Plan, had been selling shares in response to the rising stock price, decreasing the percent of shares owned. However, with shareholding encouragement measures, the number of shares held has been increasing again.

- The ninth largest shareholder Nagoya PCA Co., Ltd. is a company to which the Company outsources a part of its software development (SHOKON and other products).

- Currently, there seems to be no activist-like behavior among the major shareholders. Also, the Company has not adopted any anti-takeover measures.

【Figure 9】 Current Major Shareholders

	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 Mar. 2020	End of Mar. 2021	% of Total Shares	Ranking
Kawashima Co., Ltd.			2,935	2,935	2,736	2,735	2,736	41.40	1
PCA CORPORATION (treasury shares)	848	848	848	849	1,049	1,045	1,034	13.42	—
JP MORGAN CHASE BANK 385632							338	5.07	2
MSIP CLIENT SECURITIES						295	295	4.43	3
Obic Business Consultants Co., Ltd.	254	254	254	254	254	254	254	3.81	4
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)							154	2.31	5
JPMBL RE NOMURA INTERNATIONAL PLC 1 COLLEQUITY							120	1.79	6
Logic Systems Co., Ltd.	114	114	114	114	114	114	114	1.71	7
PCA Employee Stock Ownership Plan	110	119	127	127	135	100	112	1.68	8
Nagoya PCA Co., Ltd.		100	100	100	100	100	100	1.50	9
The Master Trust Bank of Japan, Ltd. (trust account)							95	1.41	10
JP MORGAN LUXEMBOURG S.A. 1300000									
MSCO CUSTOMER SECURITIES									
Credit Suisse Securities						472			
Japan Trustee Services Bank, Ltd. (trust account)							89		
SSBYC CLIENT OMNIBUS ACCOUNT						87			
APPLIED SYSTEM LABORATORY Inc.			86	86			86		
Mizuho Bank, Ltd.	121	121	121	121	121				
BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS									
MLSCB RD									
Shigefumi Wada (individual)	181	181	181	151		112			
GOLDMAN SACHS INTERNATIONAL						303			
State Street Bank and Trust Company 505001	244	249	266	266	174				
KBL EPB S.A. 107704				90	94				
Reiko Sato (individual): Heir to the founder Masao Kawashima	1,467	1,467							
Tomoko Kumamoto (individual): Heir to the founder Masao	1,467	1,467							
Hiroko Wada (individual)	358								

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

4. ESG

There have been no large changes with regards to ESG. The Company has continued to work on ESG activities as usual.

◆ Environment

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

◆ Society

As its mission statement, the Company has declared to “support customers’ businesses through enterprise system software.” The concept is that it is fulfilling its social responsibility by contributing to the improvement of user convenience and efficiency. It plans to especially focus on supporting small/medium-sized corporate users and helping them become digitalized (remote work, going paperless, building digital infrastructure, etc.).

- ◆ Proactively supporting the persons with physical disabilities and the spotting and training of IT talents

Through sponsorship, the Company supports the spotting and training of talented programmers who will shape the future as well as promoting athletics such as the marathon. It also operates a farm in Chiba Prefecture where it proactively hires physically disabled staff. It purchases flowers, lunchboxes, bakeries, etc., from companies hiring physically disabled staff.

- ◆ Working on improving the working/workplace environment

In response to the Act on Advancement of Measures to Support Raising Next-Generation Children, it has set out a general employer plan pursuant to the Act and has been working on “creating a system for financially supporting workers with children in paying for services related to child rearing, adopting work-styles such as work-from-home and remote work that is not limited by location, and placing measures for encouraging the acquisition of annual paid leaves.”

- ◆ Promoting diversity in terms of gender. Has set goals to increase the percentage of women.

In the general employer action plan pursuant to the Act on Promotion of Women’s Participation and Advancement in the Workplace, the Company has set goals to “continue to hire female employees at a ratio of 40% or greater, raise the percentage of female full-time employees from the current 25% to 30%, increase women in manager positions from 22% to 30%, and raise the paid leave acquisition rate from 76% to 80%.” 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 that directly reports to the president and is operated also in coordination with the outside directors. It has also set up a risk control committee with the president as the chairperson and has created a risk control system that allows flexible, quick, and appropriate response to risks. It does not have an executive officer system.

- ◆ Shareholders’ meeting proposal: planning for 11 directors, of which two are women.

In the shareholders’ meeting proposal, the Company has described its plan to add a new director, for a total of seven directors (including three outside directors), and have four auditors (including three outside auditors, one tax accountant, one CPA, and one lawyer). There will be 11 directors in total, with two being women.

5. History of Growth

◆ Company History

- ◆ Founded upon recognizing the importance and promising future of computers and enterprise system software 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

A group of five certified public accountants with the late Masao Kawashima as the 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, expecting users to eventually switch from small business computers, the Company began the development and marketing of packaged software for personal computers (PC) in full scale.

Then, with the emergence of the PC era, the Company has achieved growth mainly through the following four strategies: 1) creation of a greater variety of domestic packaged software as well as their version upgrades, 2) expansion of the maintenance service, 3) development of the cloud business, and 4) expansion of the solutions business which includes providing other companies' products. Furthermore, by increasing the number of offices and cooperating with manufacturers and distributors, the Company has developed a nationwide sales/support system that has contributed to the rapid expansion of its business. It is seen as a pioneer in the conservative industry, having been the first in the industry to begin providing cloud services (SaaS⁸) in 2008.

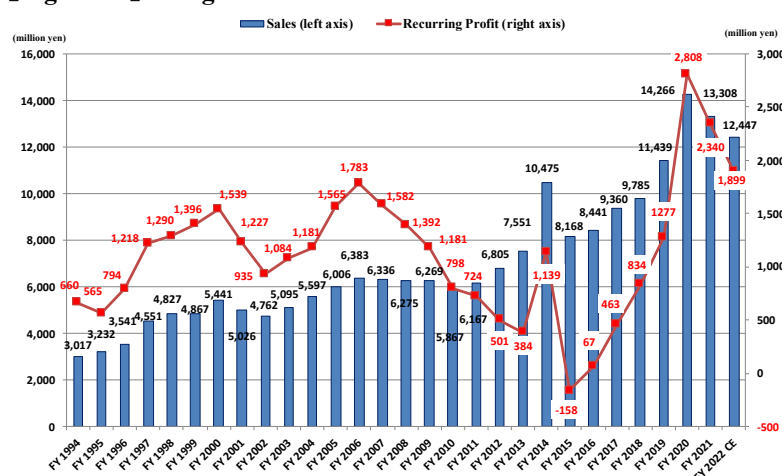
Regarding stock, the first public offering was made in 1994. The Company became listed on the Second Section of the TSE in 2000 and then on the First Section in 2014. Upon becoming listed on the First Section of the TSE, the Company changed its logo to the current one.

◆ Past Transition in Financial Results

As described above, the Company has been expanding its business since foundation until now as a specialist in the development and marketing of enterprise system software and related businesses. The transition in financial results since its first public offering is described in Figure 10. The following is supplemental information on the financial results in chronological order:

- ◆ Has been generally increasing sales over the long term. Profit had temporarily weakened, but then recovered in a V-shape.

【Figure 10】 Long-Term Transition in Financial Results



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. Estimate/forecast (CE) for FY 2022 is from the Company's plan (based on new revenue-recognition standard).

- ◆ **Record-high net profit achieved in FY 2000 owing to the high demand stimulated by the year 2000 problem.**

- ◆ **In FY 2006, record-high operating/recurring profits were posted due to regulation revisions and contribution by ERP.**

(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.

- ◆ **Results weakened after the Lehman shock. In FY 2014, record-high sales of the time were achieved (Y10 billion) due to an event-driven high demand.**

- ◆ **Net loss posted consecutively in FY 2015 and FY 2016, partially in reaction to the previous event-driven high demand.**

- ◆ **Positive effects from the structural reform have started to be seen in FY 2016.**

- ◆ **Growth of cloud, release of new products, and cost reduction helped. Operating margin improved.**

• Aside from certain periods such as the post-Lehman economic downturn and the decline following the spike of high demand stimulated by revisions in tax and other regulations, the Company has generally kept increasing sales since 1994. On the other hand, profit growth had been slow for some time, being unable to maintain or exceed the level of profit that it had once achieved.

• Record-high net profit (Y937 million) was achieved in FY 2000, thanks to the sales growth from the high demand brought by the year 2000 problem. The consecutive decline in sales and profit from FY 2001 to FY 2002 occurred in reaction to this previous high demand as well as the economic downturn.

• In FY 2006, record highs were achieved for operating profit and recurring profit (Y1,747 million and Y1,783 million, respectively). These record highs were brought by the improvement in profitability due to the demand stimulated by the revision of the accounting regulation for public benefit corporations and the drastic change in regulations caused by the new Companies Act, as well as due to the Company's ERP⁹ (integrated enterprise system) product Dream 21 (former product name).

• 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 sales promotion expenses, as well as worsened profitability due to intensified competition.

• In FY 2014, record-high sales (Y10,475 million) were achieved thanks to the high demand driven by two events: the end 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.

• 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) due to decreased sales in reaction to the previous event-driven high demand as described above and the postponed revision of consumption tax to 10%.

• For many years, the Company's gross margin and operating margin had been gradually decreasing (Figure 11 on page 20). This was 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.

• However, since FY 2016, the Company has been increasing sales again and the decline in gross margin had stopped. Operating margin bottomed out and began to gradually increase thanks to increased sales of the new products and the cloud and cost reduction. The Company also saw positive results from the structural reform that it had been working on for several years, including the disposal of assets with impairment risk (real estate and securities) and shortened software amortization.

◆ Turned to sales/profit growth trend starting in FY 2016. Stable net profit. V-shaped recovery of results.

◆ Significant sales/profit growth in FY 2020 due to the high demand stimulated by the consumption tax revision and the end of Windows 7 support. Posted record-high sales and profit.

◆ For the past six fiscal years, its profit results have exceeded its initial plan. Revisions to financial forecasts have often been announced in September or the next year's February to April.

• The Company's growth and recovery in financial performance after this were supported by sales growth of the cloud and the maintenance service and cost reduction.

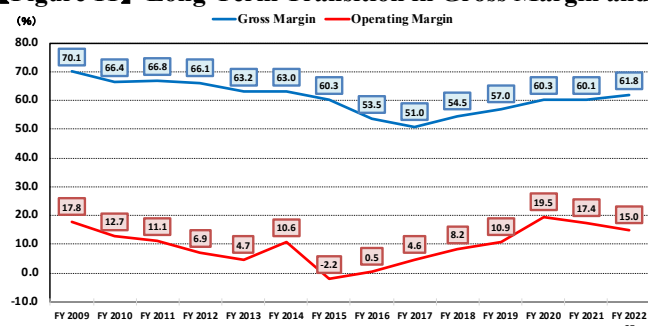
• From FY 2016 to FY 2020, the Company increased sales for five fiscal years in a row thanks to the continued growth of the cloud, the release of new products, and strengthened sales force, as well as economic recovery. Since FY 2017, the Company has generally been stably and continuously making and increasing profit.

• In FY 2020 (the fiscal year before the previous), thanks to the event-driven high demand (rise in the consumption tax rate, end of Windows 7 support, version upgrades related to the change in the name of the era, etc., led to an early demand of a little over a billion yen, as estimated by the Company), sales and profit grew significantly, hitting their record highs.

• Then, in reaction to this event-driven high demand, sales dropped in FY2021. However, sales were still higher than the previous record high that it had achieved in FY 2019 before the event-driven high demand.

As reference, the Company's initial forecast and actual results in the past are compared in chronological order (Figure 12). Although the actual results have sometimes greatly deviated from the initial forecast, since FY 2017, actual profit has tended to largely exceed the initial forecast. Note that past announcements of revisions to financial forecasts have often been made in September or February to April of the following year.

【Figure 11】 Long-Term Transition in Gross Margin and Operating Margin



【Figure 12】 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	827	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%	298.8%	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%	Revised down	Revised down	Revised down	-22.0%	To loss	To loss	To loss
FY 2016	8,880	8,440	242	40	272	66	131	-93	-5.0%	-83.5%	-75.7%	-75.7%	3.3%	To profit	To profit	To profit
FY 2017	9,731	9,360	163	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	12,783	14,266	1,478	2,781	1,499	2,808	976	1,816	11.6%	88.2%	87.3%	86.1%	24.7%	122.8%	119.9%	100.4%
FY 2021	13,280	13,308	2,034	2,314	2,055	2,340	1,358	1,668	0.2%	13.8%	13.9%	22.8%	-6.7%	-16.8%	-16.7%	-8.1%
FY 2022 (CE)	12,447	-	1,866	-	1,899	-	1,192	-	-	-	-	-	-	-	-	-
Simple average of difference (unit: %), calculated based on the longest period with available data for sales & profits (excluding this FY) →									-0.9%	74.4%	40.9%	58.9%	5.7%	74.9%	52.7%	26.0%
Blue highlight: Previous record	Green highlight: Record high	From initial forecast, upward revision : downward revision (unit: # of times) →							8:12	8:6	13:7	9:10	Simple average for each period (excluding this FY)			

(Ref) Figures 10 and 11 were prepared by Alpha-Win Research Dept. based on the financial results summary. The FY 2022 forecasts/estimates (CE) are from the Company's plan. (Note) The new revenue-recognition standard is applied starting in FY 2022 (CE).

6. Business Environment

◆ Trends of the Software Market

Number of Small/Medium-Sized Companies (potential users) in Japan

- ◆ Decreasing number of small/medium-sized companies (its current and potential users) in Japan, but the enterprise system software market size is expected to steadily grow over the medium to long term.

The number of small/medium-sized companies, or the Company's main potential customers, has been declining since they have been closing their businesses due to the decreasing and aging population of Japan.

On the other hand, companies and organizations have been working on rebuilding or strengthening their enterprise systems, as they have been faced by increasingly serious needs for human resources and have been working on improving operational efficiency and financial performance. Although the number of small/medium-sized companies will likely continue to decrease, we predict that the size of the enterprise system software market will steadily increase over the medium to long term as the demand for software to streamline business operations increases.

Current Situation: BOJ Tankan

- ◆ Business environment had worsened for small, medium, and mid-tier companies, but has started to improve compared to one time.

According to the Bank of Japan Tankan for March 2021, software investment (planned amount) in 2021 by small/medium-sized companies (all industries) will be +1.9% YoY (breakdown: +17.9% for manufacturing and -4.4% for non-manufacturing), expecting investment by especially manufacturers to increase. Mid-tier companies are also showing an eager attitude toward software investment, planning to increase it by 9.8% (+28.6% and +6.1%, respectively). For the survey on the business sentiment of small/medium-sized companies, the "recent" sentiment improved from the December 2020 survey's -18 to -12, and "outlook" also improved from -23 and -15, indicating that business sentiments are beginning to recover (same for mid-tier companies).

Market Size and Growth Potential

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 2017 was approximately Y1.1 trillion and its size had been gradually expanding. However, since the outbreak of COVID-19, there seems to be some temporary stagnation in growth.

We estimate the current size of the enterprise system software market in Japan specifically related to the Company's business to be approx. Y500 billion and the size of the ERP market to be approx. Y100 billion. Annual growth rate is predicted to be about 3% and 10%, respectively, over the medium term.

- ◆ Market potential of cloud-based enterprise system software in Japan is still large.

In the U.S., the cloud-based enterprise system software market is said to be several years ahead of Japan. The market penetration rate in Japan is about ½ to ⅓ compared to the US (ref: "WHITE PAPER Information and Communications in Japan" by the Ministry of Internal Affairs and Communications, etc.). Therefore, there seems to be a large growth potential (according to this 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 order").

The cloud-based enterprise system software market may grow at a high rate of 20% per year over the medium to long term as it replaces a part of the outsourced system development or packaged software (on-premises) market.

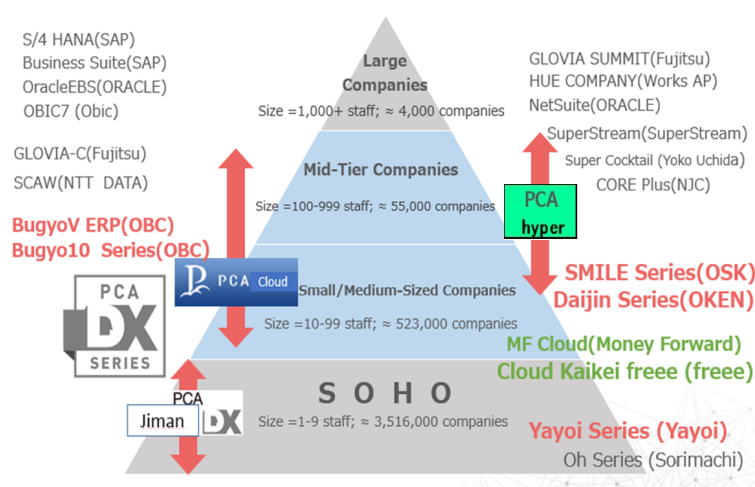
◆ Comparison with Competitors

- ◆ In the industry, companies are mostly able to exist alongside one another by taking strong positions that are segregated by their users' sizes and software function.

Positions and Main Players of the Industry

Figure 13 is an overview of the various positions and main players of the industry, categorized by 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 companies/organizations that are their users or by the operation targeted by their software.

【Figure 13】 Target Customers and Main Players of the Enterprise System Software Market



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

- ◆ Its key product or the accounting software has the third largest share in the market.
- ◆ OBC, MJS, Yayoi, and OHKEN are its rivals.
- ◆ The Company provides high-quality products and services at reasonable prices.

The Company has different rivals for each type of operation targeted by its software. Regarding 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.

OBC is the greatest rival since it has almost the same product lineup and business model as the Company. Among private companies, Yayoi (subsidiary of ORIX), OHKEN (independent company), and OSK (subsidiary of OTSUKA CORPORATION) are its direct competitors.

The Company is characterized by its high-quality but reasonably priced products and services.

The accounting software market size is approximately Y200 billion. The market is reaching maturity and its size has not largely changed in recent years. In this market, the Company is estimated to be third from the top (about 10% of the total market share). It also seems to have a similar level of market share and position with its payroll and HR software.

In the cloud accounting market, the two companies Money Forward (TSE Mothers 3994; providing cloud services such as household accounting application for individuals and accounting software for companies) and freee (TSE Mothers 4478; providing ERP services or cloud accounting

- ◆ In addition to OBC, also competing with Money Forward and free in a part of the cloud-based accounting software business.

software for small businesses) are also its competitors among listed companies. Both target one-person businesses and small companies such as small/medium-sized companies and SOHOs. They directly compete with the Company in specific areas.

Profitability Comparison of Three Similar, Major Listed Companies

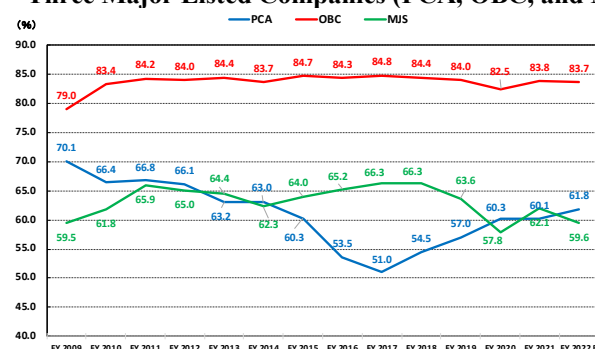
A comparison of the long-term transition in gross margin and operating margin of the three major listed companies (the Company, OBC, and MJS) is shown in Figures 14 and 15. Compared to the Company, both margins are stable for OBC and MJS, presumably due to the economies of scale (the sales of OBC and MJS are about 2.2x and 2.6x greater than the Company, respectively, and similarly their operating profit is about 5.6x and 2.0x greater, respectively, based on last fiscal year's results) and the difference in the sales composition (the percentage of support service sales, etc.).

- ◆ Large improvement in margins and capital efficiency

Both competitors used to have a lower contract rate for the maintenance support service but succeeded in raising this rate, resulting in a greater earning power. However, the Company's profit margins have also stabilized and have been improving in recent years through its focus on the subscription business. It plans to continue to aim for greater earning power.

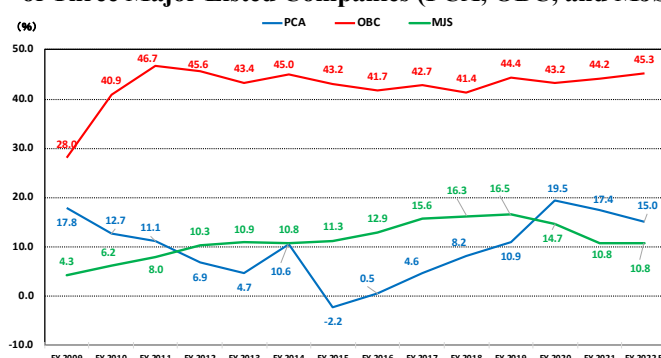
Similarly, the transition in the Company's ROA and ROE, shown in Figure 16, indicates that its capital efficiency has also been significantly improving. In the most recent fiscal year, the Company was in the middle among the three companies in terms of those ratios (actual results for FY 2021, in the order of ROA and ROE: compared to 9.7% and 11.4% for PCA, 9.2% and 7.8% for OBC and 11.1% and 13.6% for MJS). As reference, overview of the three companies is compared in Figure 17 on page 24.

【Figure 14】 Long-Term Transition in the Gross Margin of Three Major Listed Companies (PCA, OBC, and MJS)

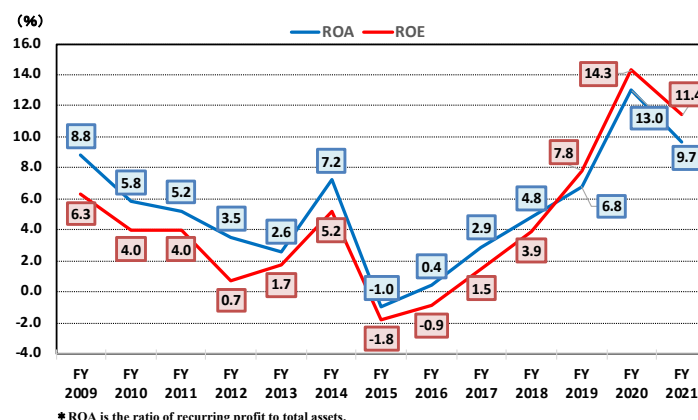


(Ref) Figures 14-16 were prepared by Alpha-Win Research Dept. based on the securities reports. Estimates/forecasts (E) are from the companies' business plans.

【Figure 15】 Long-Term Transition in the Operating Margin of Three Major Listed Companies (PCA, OBC, and MJS)



【Figure 16】 Transition in the Company's ROA and ROE



【Figure 17】 Summary of the Comparison of the Three Competing Companies

Company Name	PCA	Obic Business Consultants (OBC)	Miroku Jyoho Service (MJS)
Code	9629	4733	9928
Characteristics	Development and sales of packaged enterprise system for mainly small/medium-sized companies. Second-tier in the industry. Taking a lead in cloud services. No. 1 in industry in sales toward public benefit corporations.	Development and sales of packaged enterprise system for small/medium-sized companies. Became top-ranking in the industry from rapid growth in the early days of the OS W95, NT, etc. Highly profitable structure; largest player in the industry by profit. No. 1 in packaged software for financial accounting, payroll, HR, and labor management.	Top market share (25%) in software for accounting firms. Recently, also strengthening development/sales of software for mid-tier and small/medium-sized companies. Largest player by sales among the three companies.
Founded	Aug. 1980	Dec. 1980	Jan. 1977
Date Listed on the Market	Mar. 1994	Oct. 1999	Aug. 1992
Sales Categories/Breakdown (FY 2021)	<ul style="list-style-type: none"> Solutions 24.3% Maintenance Service 26.7% Cloud Service 30.5% Products 14.9% Merchandise 3.6% 	<ul style="list-style-type: none"> Services 65.2% Products 34.8% (Solution technology 24.5%) (Related products 10.3%) 	<ul style="list-style-type: none"> Revenue from services 31.7% (general maintenance) Sales from system installation contract 56.7% (Software 33.4%) (Ueware 12.8%) (Hardware 10.6%) Other 7.5%
Sales Method	20% direct sales; 80% indirect sales through dealers/makers	Nearly 100% indirect sales through dealers, makers, etc.	Nearly 100% direct sales; for ordinary companies, mostly direct sales through referrals by accounting firms
Number of Bases	13 offices; 2,000 sales partners	11 offices with customer service personnel; 3,000 sales partners	31 sales/support offices throughout Japan; accounting firms acting as sales partners (referrals)
Number of Active Users (approx.)	200,000 companies	200,000 companies	8,400 accounting firms; 170,000 ordinary companies
Maintenance Service Contract Rate over Total Number of Active Users	Approx. 70%	Approx. 80%	Nearly 100%
Management Goals	<p>Raised target for FY 2022, the final year of the mid-term plan. Revised goal: sales ¥13.5 bil</p> <ul style="list-style-type: none"> Consolidated O.P. 2¥2.1 bil Consolidated O.P. margin 215% ROE 210%, DOE 22.5% <p>(goals already achieved in FY 2021 except for sales and DOE)</p> <ul style="list-style-type: none"> In FY 2022, planning to conduct a part of the investment planned for the new mid-term plan starting in FY 2023 	<p>Undisclosed mid-term targets. Focused on profit indicators. Maintaining or increasing O.P. margin and R.P. margin while increasing sales to continue to grow as a highly profitable company.</p> <p>Focusing on the cloud and subscription businesses. Aiming to achieve sales of ¥30 bil (Bugyo i [products + maintenance] + Bugyo V ERP [products + maintenance]) with the conventional on-premises/Windows platform. Also planning to achieve sales of ¥50 bil (¥35 bil in Bugyo Cloud [iVERP level] + ¥15 bil in Bugyo Cloud Edge) with the DX-generation, cloud-based/Azure platform.</p>	<p>FY 2021, the final year of the previous mid-term plan, ended after several downward revisions to its goals. The new mid-term plan Vision2025 was created (FY 2022 - FY 2026):</p> <p>In its final year, aiming for sales of ¥55 bil, R.P. of ¥12.5 bil (record-high sales and R.P.), and ROE of more than 20%.</p> <p>Existing ERP biz: start digital marketing, raise the proportion of subscription-based business model, secure a stable source of revenue, and achieve continuous growth.</p> <p>New biz: Become No.1 in Japan with integrated DX platform through which anyone can easily achieve DX to adapt to the digital, non-face-to-face era.</p>
Business Strategy and Priority Measures	<ul style="list-style-type: none"> Establish earnings base for the main biz (strengthen & expand sales of PCA Cloud, strengthen on-premises biz, etc.) Create new business opportunities Strengthen business foundation to become structurally highly profitable Enhance monozukuri (creation of things) 	<p>Strengthen "core competence." Focused on the following:</p> <ul style="list-style-type: none"> Enterprise operation services Mid-tier and small/mid-sized companies Microsoft technology Partnership strategy Branding strategy Cloud business development Secure/train staff (HR) 	<ul style="list-style-type: none"> "No. 1 in accounting firm network" strategy "Comprehensive solution business for mid-tier and small/mid-sized companies" strategy Integrated DX platform strategy (new biz area) Shift to cloud/subscription biz model Promote individual growth of subsidiaries through group-wide coordination enhancement Build HR and management foundation to accelerate strategy execution
Main Types of Enterprise System Software (approx.)	<ul style="list-style-type: none"> Approx. 26 types (by name of product; includes options) Originally developed with in-house platform 	<ul style="list-style-type: none"> 12 types for the flagship Bugyo series Approx. 60-80 types by product name, including other software Development focused on Microsoft platform for both on-premises and cloud 	<ul style="list-style-type: none"> 1 module for accounting firms 6 modules for ordinary companies (each module contains software for several operation types)
Sales (million yen) CE for FY 2022	12,447	34,000	37,400
Gross Margin (%) Result for FY 2021	60.1	83.8	62.1
Operating Profit (million yen) Est.	1,866	15,390	4,030
Operating Margin (%) Est.	15.0	45.3	10.8
EPS (CE) FY 2022, YOY (%)	Omitted since the new revenue-recognition standard will be applied in FY 2022 and there will be no continuity between the data		
DOE (%) Result	1.5	3.2	6.0
Past 10 Years' Sales Growth Rate (FY 2021's result div. by FY 2011's result; %)	215.8	170.0	181.7
O.P. Growth Rate (same condition as above)	337.3	161.2	300.5
Equity Ratio (%) Result	62.4	82.8	46.5
# of Full-Time Employees in the Group: Actual #	524	842	1,891
Sales Per Full-Time Employee (million yen / person)	23.8	40.4	19.8
O.P. Per Full-Time Employee (million yen / person)	3.6	18.3	2.1
ROE (%) Result for FY 2021 A=B×C×D	11.4	7.8	13.6
N.P. Margin (N.P. for the year / sales : %) B	12.5	33.1	7.8
Total Asset Turnover Ratio (sales / ave. total asset) C	0.6	0.2	0.8
Financial Leverage (ave. total asset / ave. owner's equity) D	1.6	1.2	2.1
ROA (R.P. / total asset : %) E=F×G	9.7	9.2	11.1
R.P. Margin (%) Result F	17.6	47.6	13.2
Total Asset Turnover Ratio (sales / ave. total asset) G	0.6	0.2	0.8

Italics show each company's estimates (CE) for FY 2022. Others are actual results of FY 2021. Orange highlights indicate the highest value among the three companies.

7. Last Fiscal Year's Results and This Fiscal Year's Forecast

◆ Results for FY 2021 (last fiscal year)

Overview

- ◆ Last fiscal year, in reaction to the previous event-driven high demand, sales and profit dropped significantly.

Full-year, consolidated financial results for FY 2021 were as follows: sales were Y13,308 million (-6.7% YoY), operating profit was Y2,314 million (-16.8% YoY), recurring profit was Y2,340 million (-16.7% YoY), and net profit attributable to owners of the parent was Y1,688 million (-8.1% YoY; hereinafter “net profit”) (Figure 18). Both sales and profit had declined.

- ◆ Sales ended up being mostly as expected. Profit exceeded the company forecast as well as our forecast, mainly due to reduced expenses amidst the COVID-19 crisis.

In the fiscal year before the previous (FY 2020), high demand from two major events (early demand from the revision of the consumption tax rate and the end of support for Windows 7) had led to the achievement of a sales and profit growth for the fifth consecutive fiscal year, and record-high sales and profit were achieved. However, in the previous fiscal year, sales and profit dropped mainly in reaction to this previous event-driven high demand.

However, compared to the Company's forecast, sales were mostly as expected, exceeding the forecasted value by Y28 million (+0.2% compared to the forecast). Operating profit also exceeded the forecast by Y280 million (+13.8%).

Compared to Alpha-Win's forecast, which had been higher than the Company's, sales were Y42 million lower (-0.3% compared to our forecast), but operating profit had exceeded our forecast by Y164 million (+7.6%). This upward revision in profit was mainly because expenses such as travel expenses, entertainment expenses, and sales promotion expenses (decreased venue cost due to exhibitions shifted online) had decreased due to the COVID-19 crisis.

【Figure 18】 Financial Results for FY 2021 (Unit: million yen, %)

Full-Year Results		FY 2020	FY 2021	% Change	Difference	FY 2021	Difference	FY 2021	Difference
Unit: million yen		Results	Results	YoY: %	YoY: million yen	Company Forecast	YoY: million yen	Alpha-Win Forecast	YoY: million yen
Consolidated Sales		14,266	13,308	-6.7	-958	13,280	28	13,350	-42
Gross Profit		8,599	8,001	-7.0	-598	8,039	-38		8,001
	Gross Margin (%)	60.3	60.1		-0.2	60.53	-0.4	0	60.1
SG&A Expenses		5,817	5,686	-2.3	-131	5,985	-299		5,686
	SG&A Expenses Ratio (%)	40.8	42.7		2.0	45.1	-2.3	0	42.7
Operating Profit		2,781	2,314	-16.8	-467	2,034	280	2,150	164
	Operating Margin (%)	19.5	17.4		-2.1	15.3	2.1	16.1	1.3
Net Profit		1,816	1,668	-8.1	-148	1,358	310	1,430	238
	Net Margin (%)	12.7	12.5		-0.2	10.2	2.3	10.7	1.8

(Ref) Prepared by Alpha-Win Research Dept.

Comparison with Past Periods of Decline After Event-Driven High Demand

- ◆ Compared to the previous period of decline after an event-driven high demand, the impact on results were limited thanks to the shift to the subscription businesses.

Last fiscal year, although sales and profit had declined, they were still at the second highest level in the Company's history after the record-high sales and profit achieved in FY 2020 due to the event-driven high demand. In fact, they exceed the results of FY 2019 before the event-driven high demand.

In FY 2015, the previous period of decline following an event-driven high demand, sales decreased by 22% YoY, which caused the net profit of Y604 million to fall to a net loss of Y207 million.

In contrast to this, last fiscal year's sales drop rate was small, and a high level of profit was maintained. This has clearly been due to the Company's large shift to the continuous and stable subscription business to strengthen its business structure, having learned from its past lesson.

- ◆ Last fiscal year, due to the revision in the bonus policy, operating and recurring profit were each reduced by Y115 million. The profit decline rates would actually be a little less than 13% YoY.

- ◆ Sales dropped due to the decline following the previous event-driven spike of demand.

- ◆ Sales of products were significantly impacted in reaction to the previous high demand stimulated by the consumption tax revision.

- ◆ Sales growth maintained in the subscription businesses.

Change in the Accounting Standard

In the second quarter of the previous fiscal year, the bonus policy was revised and the period for which bonuses are paid was changed. This caused operating profit and recurring profit to each be reduced by Y115 million compared to what they were. Considering this factor, last fiscal year's operating profit would actually turn out to be Y2,429 million (-12.7% YoY) and recurring profit would be Y2,455 million (-12.6% YOY), staying within a drop of a little less than 13%.

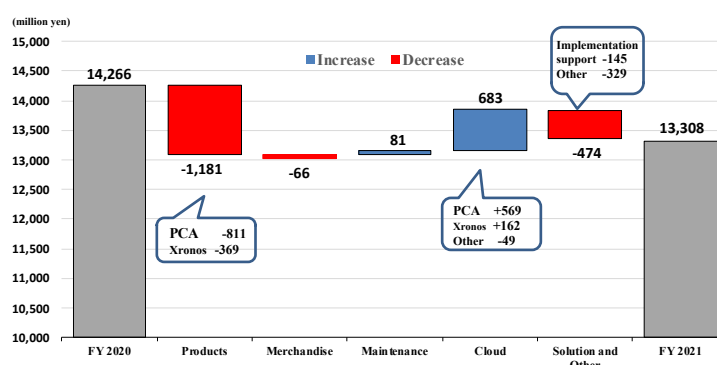
Sales

In the fiscal year before the previous (FY 2020), two major events (early demand for version upgrades in response to the revision of the consumption tax rate and for software replacements in response to the end of support for Windows 7) created a high demand of several billion yen mainly in the first half, as estimated by the Company. This demand had contributed significantly to the results. Last fiscal year (FY 2021), sales fell by Y958 million YoY and the Company had been able to offset some of the decline following this previous event-driven spike of demand.

The factors that caused sales to grow or drop compared to FY 2020 was analyzed in terms of sales category. A total sales decline of Y1,721 million was caused by the following: decrease in sales of products by Y1,181 million, solutions by Y474 million, and merchandise by Y66 million, with the products accounting for about 69% of the total sales decline. The products' sales had been significantly impacted in reaction to the previous high demand stimulated by the consumption tax revision, although the drop was still within expectations (Figure 19).

On the other hand, the total sales growth of Y764 million was caused by the following: YoY sales growth of the cloud by Y683 million yen and maintenance by Y81 million, with the cloud accounting for about 90% of the total amount of sales growth. The subscription businesses' sales growth helped offset 44% of the total amount of sales drop. The cloud's sales included the sales decline of Keepdata (-49 million yen), which had been sold during the fiscal year, but with the shift of the on-premises to the cloud, both PCA (+569 million yen) and Xronos (+162 million yen) had experienced a sales growth.

[Figure 19] Factors that Increased/Decreased Sales by Category in FY 2021 (last fiscal year)



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

- ♦ The number of corporate users of PCA Cloud has been increasing steadily. More than 16,000 users now.

Cloud

The number of corporate users of PCA Cloud reached 10,000 on 1/11/2018. Then, the number reached 11,331 by the end of September 2018, 12,313 by the end of March 2019 (compared to half a year ago: +982), 13,343 by the end of September 2019 (+1,030), 14,388 by the end of March 2020 (+1,045), 15,262 as of the end of September 2020 (+874), and 16,444 as of the end of March 2021 (+1,182), increasing steadily (Figure 5 shown previously on page 11).

The semi-annual comparison indicates that the net increase in the number of users had temporarily slowed down for some time due to the impact of COVID-19, but during the past year, there was a net increase of 2,056 corporate users, at a net growth rate of about 171 companies per month on a simple average. This pace is about the same as the previous fiscal year (approx. +173 companies per month). Note that about 40% of the total number of new contracts are with new customers.

- ♦ YoY sales growth of the cloud has somewhat slowed down but is still at 20%.

The net growth speed has not slowed down since the start of this fiscal year too, and the Company hopes to maintain the net growth in corporate customers at more than 2,000 companies per year for the meanwhile.

As a result, the cloud's sales have been expanding from ¥1,496 million in FY 2017 → ¥1,854 million in FY 2018 (+358 million yen or +23.9% YoY) → ¥2,452 million yen in FY 2019 (+598 million yen or +32.3% YoY) → ¥3,374 million yen in FY 2020 (+922 million yen or +37.6% YoY) → ¥4,057 million in FY 2021 (last fiscal year) (+683 million yen or +20.2%).

The cloud business also partially experienced an event-driven high demand in FY 2020 and was hit by a decline in the previous fiscal year in reaction to that high demand. In addition, the sales growth of cloud services other than PCA Cloud had slowed down, and the overall scale of the cloud's sales has been expanding. These have led to a somewhat smaller amount of sales growth and slower sales growth rate.

- ♦ The proportion of the subscription businesses' sales increased to 57% of the total.

Subscription-Based Business

The proportion of subscription-based revenue (combined sales of the maintenance service and the cloud), which is one of the Company's key performance indicators, increased largely to 57.2% of the total sales in the previous fiscal year, compared to 48.0% in the fiscal year before the previous. This was not only because the subscription-based revenue had increased, but also because there was a large drop in the one-time-payment-based revenue of the products and the solutions due to the decline following the previous event-driven high demand.

- ♦ Xronos also experienced a sales decline for its products in reaction to the previous event-driven high demand.

Xronos

Despite the tailwind from the work-style reform, the subsidiary Xronos's work management system was also affected by the decline following the previous event-driven spike of demand. Last fiscal year, the growth rate seems to have temporarily slowed down. Although Xronos's non-consolidated results are not disclosed, it is at least known that its product sales had decreased by ¥369 million and cloud sales had increased by ¥162 million in a total decline of ¥207 million, or about 22% of the entire PCA Group's net sales drop in amount (Figure 19 on page 26).

Profit

Factors that contributed to an increase or decrease in consolidated operating profit in the previous fiscal year are shown in Figure 20 on page 28. Since

◆ **Gross margin maintained at about 60% but profit declined due to the sales drop.**

◆ **SG&A expenses decreased, but the SG&A expenses ratio increased due to the sales drop.**

◆ **Operating margin decreased by 2.1 percentage points.**

◆ **This fiscal year's 4 strategies: market penetration of subscription business, sales expansion of hyper and the HR business, and pursuing customer success.**

(10) AWS: Stands for Amazon Web Services; the collective name for the cloud computing services provided by Amazon.

(11) PCA hyper: 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: 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 within an entire corporate group (consolidated accounting).

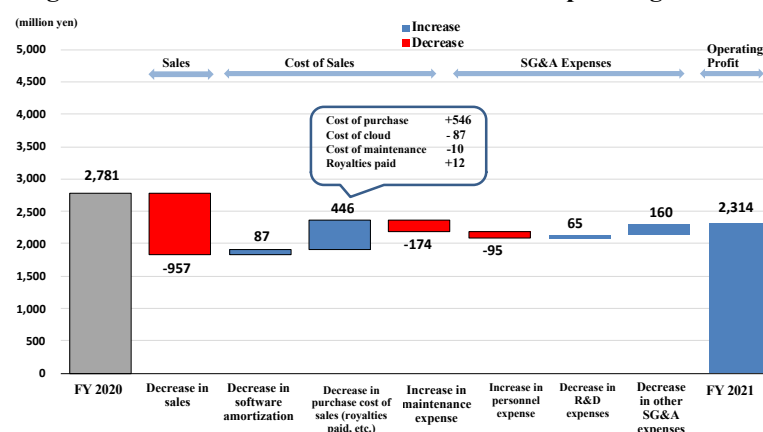
the Company's business model has a high marginal profit ratio, the sales decline directly led to a profit decline.

Due to the improvement in the cost of sales and the significant sales growth of the cloud, which is estimated to have a high margin, the gross margin only decreased slightly from 60.3% to 60.1%. With decreased sales and lower gross margin, gross profit ended up decreasing by 7% or ¥598 million YoY to ¥8,001 million.

Although the personnel expense had increased (+95 million yen YoY) and the maintenance expense had also increased due to higher subcontractor costs (+174 million yen YoY), there was a decrease in other SG&A expenses such as sales promotion and advertising expenses (-160 million yen YoY) and R&D expenses (-65 million yen YoY). As a result, SG&A expenses decreased by ¥131 million YOY (-2.3% YoY). However, due to the sales decline, the SG&A expenses ratio worsened by 1.9 percentage points from 40.6% → 42.7%.

Consequently, operating profit decreased by ¥467 million or 16.8% YoY and operating margin also decreased by 2.1 percentage points from 19.5% → 17.4%. With no significant nonoperating profit/loss or extraordinary profit/loss posted, both recurring and net profit had decreased.

【Figure 20】 Factors that Increased/Decreased Operating Profit in FY 2021 (last FY)



(Ref) Prepared by Alpha-Win Research Dept. from the financial results briefing materials.

◆ PCA's Financial Forecast for FY 2022 (this fiscal year)

This Fiscal Year's Strategy

The following are the four strategies for this fiscal year.

- (1) Greater market penetration of the subscription business: "PCA Cloud on AWS"¹⁰ released
- (2) Aim once again to capture market share among mid-tier companies with PCA hyper¹¹
- (3) Build a strong work-style reform (HR) solution: Rebranding of the stress check "ALART" to the mental health program "ORIZIN" (Figure 6 on page 13)
- (4) Pursue customer success: Strengthen coordination with users and partners and work on enhancement and greater market penetration of the subscription businesses (full-scale launch of PCA Subscription)

Regarding (1), the current PCA Cloud is available only for a limited time of the day, from 5:00 to 24:00, but PCA Cloud on AWS is available 24 hours a day, 365 days a year. This is more suitable for remote work and

would improve user experience. By also setting a price that is about 20% cheaper than the original, the Company hopes to expand its sales.

Regarding (2), hyper is the successor software to Deam21, through which the Company plans to aim once again to capture market share among mid-tier companies. However, since the market is a red ocean, the situation with sales should be closely watched.

Regarding (3), it is expected that the entire PCA Group, including Xronos, will work on customer acquisition, sales strategies such as cross-selling, and improving service strength. For the actual specific strategies of the entire HR business, though, we will need to wait for the Company's announcement.

Regarding (4), a new division for it was established in April 2021. To support the growth of its customers' businesses, the Company plans to strengthen its contact with users and collaborate more with its partner companies.

- ◆ This fiscal year, there will be a "gap down" due the application of the new revenue-recognition standard, and a sales/profit drop is forecasted.

(12) New revenue-recognition standard: "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) released by the Accounting Standards Board of Japan (ASBJ) that incorporates the concepts of IFRS-15. Large companies are required to apply this standard starting in April 2021.

- ◆ According to the previous standard, the Company is expecting a sales growth and profit drop. Both sales and profits become smaller under the new standard compared to the old standard.

- ◆ H1 forecast not disclosed

Summary of the Full-Year Forecast

The Company has announced its full-year financial forecast for FY 2022 (this fiscal year) that takes into account the application of the new revenue-recognition standard¹². It is expecting sales of Y12,447 million, operating profit of Y1,866 million, recurring profit of Y1,899 million, and net profit of Y1,192 million. Simply looking at these figures, on the surface, the Company seems to be expecting a sales and profit drop compared to the previous fiscal year (Figure 21).

Since the new revenue-recognition standard will be applied starting this fiscal year, a "gap down" will occur, and there will be no continuity in sales and profit figures from the previous fiscal years based on the old standard. According to the Company, the forecasted sales for this fiscal year based on the conventional standard are Y14,153 million (+6.3% YoY), which is close to the record-high sales achieved during the event-driven high demand. Similarly, under the conventional standard, operating profit is expected to be Y2,012 million (-12.7% YoY), recurring profit is expected to be Y2,046 million (-12.6% YoY), and net profit is expected to be Y1,294 million (-22.4% YoY).

In addition, to achieve the final profit target, the Company may either promote or suppress expenditure depending on changes in the internal and external conditions. Since this makes predictions difficult, the Company has not announced its consolidated financial forecast for the first half.

【Figure 21】 Financial Forecast for This Fiscal Year (the Company's plan)

Consolidated (unit: million yen)	FY 2021	FY 2022	New revenue-recognition standard		FY 2022	Previous revenue-recognition standard		FY 2022
	Results (previous revenue-recognition standard)	Company forecast	Simple diff. (amount)	Simple diff. (%)	Company forecast	Diff. (amount)	Diff. (%)	Diff. in company forecast: New - Previous
Sales	13,308	12,447	-861	-6.5%	14,153	845	6.3%	-1,706
Gross Profit	8,001	7,690	-311	-3.9%				
Gross Margin	60.1%	61.8%	1.7%					
SG&A Expenses	5,686	5,824	138	2.4%				
SG&A Expenses Ratio	42.7%	46.8%	4.1%					
Operating Profit	2,314	1,866	-448	-19.4%	2,021	-293	-12.7%	-155
O.P. Margin	17.4%	15.0%	-2.4%		14.3%	-3.1%		0.7%
Recurring Profit	2,340	1,899	-441	-18.8%	2,046	-294	-12.6%	-147
R.P. Margin	17.6%	15.3%	-2.3%		14.5%	-3.1%		0.8%
Net Profit Attributable to Owners of the Parent	1,668	1,192	-476	-28.5%	1,294	-374	-22.4%	-102
N.P. Margin	12.5%	9.6%	-3.0%		9.1%	-3.4%		0.4%
Annual Dividend Per Share (yen)	34	34			34			

(Note) "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) is applied starting from the company forecast for FY 2022. For both the old and the new standard, the (simple) differences in amount and by percentage for the FY 2022 company forecast are the comparison with the FY 2021 results.

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

- ♦ According to the previous standard, a large sales growth is expected for the solutions. On the other hand, maintenance sales are expected to largely drop due to the end of support for the X series.

- ♦ The change in the revenue-recognition standard does not affect the sales of cloud and merchandise at all. The proportion of subscription-based revenue over total sales is expected to increase to a little greater than 60%.

Summary of the Full-Year Forecast (sales by category)

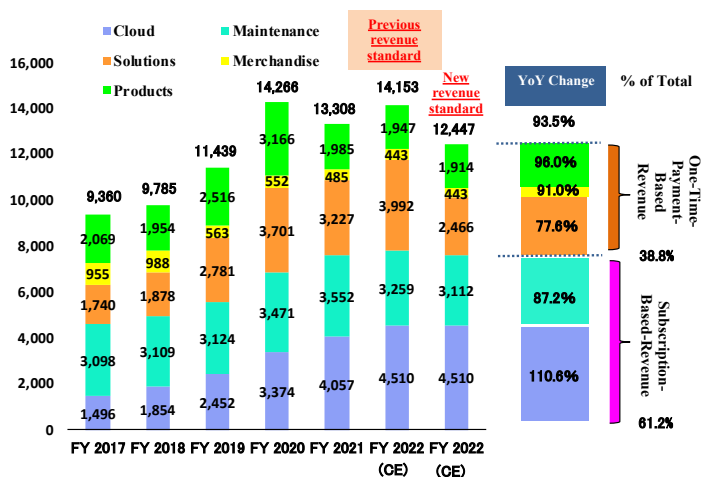
Figure 22 shows the predicted full-year sales breakdown by sales category.

Based on the previous revenue-recognition standard, the Company is expecting an overall increase in sales of Y845 million YoY (net amount). The increase in sales of solutions is especially large (+765 million yen YoY). This is because the Company expects the sales of other companies' products to grow once the decline in reaction to the previous event-driven high demand settles down and the situation returns to normal. For the cloud, sales are expected to grow by Y453 million (+11.2% YoY).

On the other hand, sales of products are expected to decrease due to the shift to the cloud (-39 million yen YoY), maintenance and operation sales are expected to drop significantly due to the end of support for the X series (-293 million yen YoY), and sales of merchandise are expected to decrease from companies going paperless (-42 million yen YoY).

When the new standard is applied, the sales of the cloud and merchandise are exactly the same as those based on the old standard. However, the sales of the other three categories decrease compared to the old standard. Sales of solutions, in which other companies' merchandises are purchased and sold, are especially impacted, since the amount after deducting the purchasing cost is recorded as sales. The difference in maintenance sales is caused by the stricter apportionment of revenue over a period under the new standard. As a result, after the application of the new standard, the proportion of subscription-based revenue (cloud + maintenance) over total sales is expected to rise further to 61.2%.

【Figure 22】 Change in Sales and This Fiscal Year's Forecasted Sales Breakdown by Category (Unit: million yen, %)



(Ref) Modified and prepared by Alpha-Win Research Dept based on the financial results briefing and financial results summary. (CE) is the Company's forecast.

(Note) The accounting standard for the posting of sales as merchandise or solutions had been partially changed in FY 2020, and adjustments were retroactively made for FY 2019 according to the new standard. However, for the two categories, there is no continuity with the years before FY 2019. Also, starting in FY 2022, the new revenue-recognition standard will be applied, and the Company has announced its sales forecast based on both the previous and the new standard. "° of total" is for the forecast for FY 2022 based on the new revenue standard.

- ♦ The change in the revenue-recognition standard will create a gap in the figures, and there will be no continuity between the figures for sales and profit.

Summary of the Full-Year Forecast (profit)

The factors that are expected to increase or decrease consolidated operating profit during this fiscal year (YoY) are described in Figure 23 on page 31. Since the difference between the old and new standards would create a gap

- ◆ Based on the new standard, this fiscal year, the Company expects profit to decline due to a sales drop, as well as due to resumed investment and the return to the normal level of expenses.

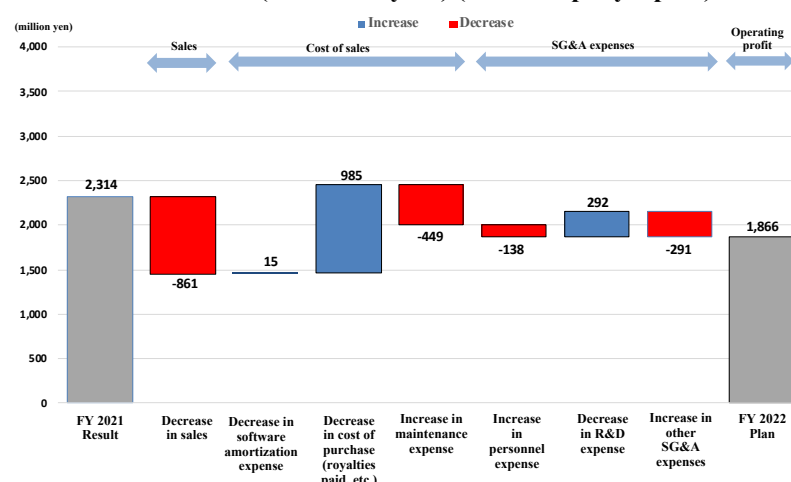
in the comparison, there are probably some adjustments included (difference in the amount of sales recorded, transfer between accounts, etc.). Anyhow, the Company is predicting operating profit to decrease due to a sales drop, as well as due to an increase in maintenance expense and other expenses such as the personnel expense. Costs are expected to increase this fiscal year since the Company will resume the investments necessary for future growth and the execution of expenses, which had been suppressed due to the COVID-19 crisis. SG&A expenses are expected to increase by ¥138 million (+2.4%) YoY to ¥5,824 million, and the SG&A expenses ratio is expected to rise from 42.7% in the previous fiscal year to 46.8% in the current fiscal year.

On the other hand, the decrease in the purchase cost of sales and the R&D expenses will increase profit but will not be enough to offset the decline. Consequently, a net decline in profit of -448 million yen is expected.

The gross margin is expected to rise from 60.1% in the previous fiscal year to 61.8% in the current fiscal year, but there is no continuity between the figures since they are ratios before and after the application of the new revenue-recognition standard. The same applies to the operating margin and other subsequent margins.

No significant non-operating profit/loss or extraordinary profit/loss are expected to be posted.

【Figure 23】 Factors that Are Expected to Increase/Decrease Operating Profit in FY 2022 (This fiscal year) (The Company's plan)



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials. Results for FY 2021 are based on the previous revenue-recognition standard. The new standard is applied to the plan for FY 2022.

◆ Alpha-Win Research Dept.'s Financial Forecast for FY 2022 (This fiscal year)

Summary

We had previously predicted sales of ¥14,000 million for the current fiscal year (in the report issued on February 5, 2021), which is close to the Company's recently announced forecast of ¥14,153 million based on the previous revenue standard. However, we have revised our forecast for the current fiscal year to reflect the new revenue-recognition standard, the previous fiscal year's results, and the current situation (see Figure 27 on page 35 for details).

- ◆ We reviewed our forecast of results based on the new revenue-recognition standard, and slightly revised sales up compared to the Company's forecast.
- ◆ We made a somewhat cautious forecast for the recovery in solutions' sales.
- ◆ Since the estimates for cloud's sales seem conservative, we believe the results will exceed the Company's forecast.
- ◆ End of support for the X series will have a large negative impact on profit, but this impact seems to have been overestimated.
- ◆ We revised profit down from our previous forecast, reflecting the new revenue-recognition standard, but we predict that profit will still be greater than the Company's plan.

Sales

We predict this fiscal year's sales to be Y12,500 million (based on the new standard), which is slightly higher than the Company's forecast. The difference from the Company's forecast is mainly due to how we view the sales of the solutions, the cloud, and maintenance. For instance, the Company expects sales of solutions to increase by Y765 million (+23.7% YoY) based on the old standard in a rebound from the previous year, but we revised this company forecast downward by 166 million yen and predicted its sales to be Y2,300 million.

Also, although the Company expects sales of the cloud to increase by Y453 million YoY (+11.2% YoY), considering the continued growth of PCA Cloud and X'sion (cloud version of the work management software), the trend up through the previous fiscal year (20-30% increase in sales per fiscal year), and the current solid situation, this forecast seems conservative. Therefore, we predicted that the cloud's sales will increase by 14.3% YoY to Y4,650 million (+140 million yen compared to the Company's forecast).

If there had been no change in the revenue standard, this fiscal year, the Company's forecast would actually have been a sales growth of Y845 million, and a profit growth should have been expected. However, because it has been 10 years since the PCA X series was released, its support will end after the end of December 2021, and the Company assumes that the maintenance support revenue associated with this will become close to zero. This would cause profit to decline, since the profit margin of maintenance sales is high. On the other hand, the Company is not expecting significant growth from the transition of the X series to the cloud or to its successor product in a version upgrade, so the Company's forecast seems be a somewhat cautious one. Consequently, in addition to the cloud, we predicted that the sales of the products and maintenance will also slightly exceed the Company's forecasts.

Profit

Profit will also be impacted by the shift to the new revenue-recognition standard, so we revised down our forecast (in the order of previous forecast → current forecast) from Y2,280 million → Y2,000 million for operating profit and Y1,520 million → Y1,210 million for net profit. We are expecting a decline in the profits. However, as mentioned above, we believe that the sales of the Company's plan seem somewhat conservative. Also, we believe that the product mix is likely to improve more than the Company expects and that even greater cost control is possible, especially for the SG&A expenses. Therefore, our profit forecasts are Y34 million and Y18 million higher than the Company's plan, respectively.

Risk Factors

In the medium-term financial forecast including this fiscal year, the main risk factors are the prolongation of the COVID-19 crisis (outbreaks of mutants types, etc.) leading to the stagnation of economic activities, as well as weaker financial performance of corporate users that will cause them to refrain from purchasing products and services or postpone their implementation. Regarding the existing services, the Company was able to adequately overcome the difficult situation during the previous fiscal year, and they will most likely not present large issues during this fiscal year too.

However, in providing the new services such as PCA Subscription, the health-care-related services, and hyper, as well as in customer acquisition, sales expansion, and the development of PCA HUB, the Company may not be able to make progress as it plans.

8. Growth Strategy

◆ Management Indicators and Areas of Focus

- ◆ As its management indicators, it has set goals for sales, DOE, and the number of cloud users.

In 2012, the PCA Group had announced goals of Y20 billion in sales (as reference, the actual result in FY 2021 was Y13.3 billion), 2.5% in DOE (FY 2021: 1.5%), and 80,000 corporate users for the cloud (a little over 16,000 companies as of the end of March 2021) as its management indicators, and has been developing its business in line with this plan.

- ◆ Has set out five areas of focus, planning to further strengthen the cloud, provide solution-services, and work on M&As.

To achieve these goals, it has set out five areas of focus: 1) grow even greater as the No. 1 player in the cloud-based enterprise system software market, 2) enhance the solutions business to provide more than simple functionality, 3) enhance PCA Cloud with greater leading-edge technologies, 4) pursue the shift to services, and 5) actively conduct M&As.

◆ New Medium-to-Long-Term Vision “PCA Vision 2030: First Stage – 2022 Medium-Term Management Plan”

Since the Company will reach a milestone in the year 2030 as its 50th anniversary, in November 2018 it announced the “PCA Vision 2030: First Stage – 2022 Medium-Term Management Plan” (Figure 24).

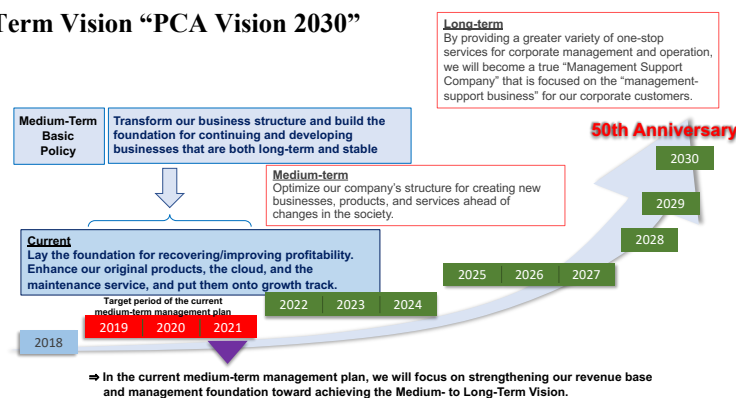
- ◆ In the current medium-term plan, it is aiming to become a solution-providing service provider and is focused on creating a firmer earnings base and management foundation.

The Company’s basic policy over the medium term set forth in the Medium-Term Management Plan (FY 2020 – FY 2022) is to “transform our business structure and build the foundation for continuing and developing businesses that are both long-term and stable.” Aiming to become a solution-providing service provider, the Company has been focusing on creating a firm earnings base and management foundation.

- ◆ Executing new measures mostly in line with schedule, under the basic strategies of the medium-term plan.

The basic strategies and current situation of the new medium-term vision and the current medium-term plan are described below (Figure 24, and Figure 25 on page 34). It has prepared an execution roadmap for each measure and has been controlling its schedule based on it. The Company has been making progress with its priority measures mostly along schedule, including the strengthening of the PCA Cloud through the release of the onAWS version, launch and sales expansion of the hyper series, launch of PCA Subscription, development of new areas such as HR through the acquisition of Dreamhop, preparation for implementation of new KPIs and management system, and strengthening of the R&D system.

【Figure 24】 The New Medium- to Long-Term Vision “PCA Vision 2030”



(Note) The years in Figure 24 are based on the Japanese expression of fiscal years and are one year smaller than the fiscal year in the English expression. For example, “2021” stands for “FY 2022” ending in March 2022.

(Ref) Figures 24 and 25 are based on the financial results briefing materials, partially edited by Alpha-Win Research Dept. with supplementary information.

【Figure 25】 Basic Strategies and Priority Measures of the Medium-Term Plan and Their Execution Status

I. Establish a strong revenue base for the core businesses

1. Strengthen PCA Cloud and expand its sales

PCA Cloud offers an extensive lineup and an operational expertise of more than 10 years of service. By focusing on areas such as improving brand power, acquiring Web-API partners, and enhancing service functions, we will establish a firm market position and a strong revenue base as one of our core businesses.

Release of the onAWS version (May 2021); expand sales

2. Strengthen the on-premises business

To strengthen the on-premises business (sales/maintenance of the on-premises products), we will review our products, service systems, etc., based on our users' needs.

Greater market penetration of PCA Subscription (released in July 2020)

II. Create new business opportunities

To create a new revenue base for the future, we will create a team for discovering the seeds of new products and businesses in areas related to new technologies such as AI, big data, RPA, and Fintech. We will thereby accelerate the progress with our initiatives for the new business opportunities.

Developing new areas of business—Acquisition of Dreamhop (HR business expansion)

III. Strengthen the management foundation to build a high-profit structure

To continue to further improve our earning power, we will work on improving and strengthening our management foundation, including our management plan and profit management system, while reflecting the changes in the business environment.

Shift to a new HR system and operational IT infrastructure

IV. Strengthen monozukuri (creation of 'things')

We will build a corporate structure that will boost our potential to create PCA brand products and services with originality, innovativeness, user-friendliness, and other features that "only PCA can provide." We will transform and strengthen our foundation for "monozukuri."

Integrated planning, development, and verification

- ◆ Numerical goals for FY 2022, the final year of the current medium-term plan, had been revised largely upward but were mostly achieved in FY 2021.

- ◆ This FY, a part of the upfront investment planned for the next medium-term plan starting next FY will be conducted.

In FY 2020, the first year of the current medium-term management plan, the initial medium-term management goals (before revision) were achieved. Consequently, the Company revised upward the goals for FY 2022, the final year of the plan (Figure 26). However, the revised goals were also mostly achieved in the previous fiscal year (FY 2021).

This fiscal year, the Company plans to conduct a part of the investment that had been planned for the new medium-term management plan that starts next fiscal year. As a result, based on values under the previous revenue-recognition standard which have continuity between the years, while the revised goals for consolidated sales and the subscription business's sales will be achieved, the consolidated operating profit and margin are expected to become slightly lower than their goals.

【Figure 26】 Targets of the Medium-Term Management Plan and Their Actual or Forecasted Progress

Target Items of the Medium-Term Plan	FY 2020 Result	FY 2021 Result	FY 2022 Company Plan		FY 2022 Revised Medium-Term Goals	FY 2022 Initial Medium-Term Goals	Diff. in Medium-Term Goals (Revised - Initial)
	Previous revenue-recognition standard→		New revenue-recognition standard	←Previous revenue-recognition standard	Previous revenue-recognition standard	Previous revenue-recognition standard	Previous revenue-recognition standard
• Consolidated Sales	¥14,266 billion ◎	¥13,308 billion △	¥12,447 billion	¥14,153 billion ◎	¥13.5 billion or more	← ¥11.5 billion or more	¥2 billion
Of which are sales from subscription-based businesses (maintenance & cloud)	¥6,845 billion △	¥7,609 billion ◎	¥7,626 billion	¥7,769 billion ◎	Achieve ¥7.5 billion	← Achieve ¥6 billion	¥1.5 billion
• Consolidated Operating Profit	¥2,781 billion ◎	¥2,314 billion ◎	¥1,866 billion	¥2,012 billion △	¥2.1 billion or more	← ¥1.5 billion or more	¥600 million
• Consolidated Operating Margin	19.49% ◎	17.39% △	14.99%	14.21% △	15% or more	← 10% or more	5%

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials. Goals are those announced by the Company. ◎ indicates that the revised goal of the medium-term management plan has been achieved or is expected to be achieved. △ indicates that the unrevised (initial) goal of the medium-term management plan has been achieved, but the revised goal was not achieved or is expected to not be achieved.

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

We revised our medium-term financial forecast for the three fiscal years including this fiscal year (Figure 27). Considering the application of the new accounting standard and this fiscal year's situation, we revised down our forecast for this fiscal year and the next, and also added new forecasts for FY 2024.

Next Fiscal Year (FY 2023)

Since COVID-19 vaccines are starting to be distributed across Japan in full scale, we predicted that people's lives, economic activities, and IT investments by small/medium-sized companies will gradually normalize from the next fiscal year onwards.

Although there will no longer be a "gap down" due to the new revenue-recognition standard, we made some adjustments of values to reflect the differences caused by the application of the new standard. We also reconsidered our estimates for sales by category (especially for the products, cloud, and other) and the costs.

Compared to our previous forecast, we revised our forecast for the next fiscal year from ¥14,650 million → ¥13,000 million for sales and ¥2,600 → ¥2,070 million yen for operating profit. However, although we made a downward revision, these sales and profit still indicate a growth compared to our new forecasts for FY 2022 (+4% for sales and a little less than +9% for profit), since we are expecting sales and profit to begin increasing again in the next fiscal year. Also, we predicted that dividend per share will increase by 2 yen compared to the current fiscal year's forecast, to a total of 36 yen.

We have not changed our view that the large growth potential of the cloud and the work management software will enable them to continue to be the growth drivers, absorbing costs related to upfront investment as well as sales promotion and personnel expense, and consequently contribute to margin improvement and the growth of sales and profits.

【Figure 27】 Medium-Term Financial Forecast

Unit: million yen, %		FY 2020 AR	FY 2021 AR	FY 2022 CE	FY 2022 E	FY 2023 E	FY 2024 E	FY 2022 PE	FY 2023 PE
Category	Sales	14,266	13,308	12,447	12,500	13,000	13,600	14,000	14,650
	Products	3,166	1,985	1,914	1,950	2,000	2,070	2,550	2,650
	Merchandise	552	485	443	450	380	330	400	350
	Maintenance Service	3,471	3,570	3,112	3,150	3,050	2,900	3,300	3,200
	Cloud Service	3,374	4,057	4,510	4,650	5,300	5,950	4,850	5,500
	Other Operating Revenue	3,701	3,227	2,466	2,300	2,270	2,350	2,900	2,950
Gross Margin		60.3%	60.1%	61.8%	61.6%	61.5%	61.4%	59.9%	59.9%
SG&A Expense		5,817	5,686	5,824	5,800	5,920	6,080	6,100	6,180
(% over sales)		40.8%	42.7%	46.8%	46.4%	45.5%	44.7%	43.6%	42.2%
Operating Profit		2,781	2,314	1,866	1,900	2,070	2,270	2,280	2,600
(% over sales)		19.5%	17.4%	15.0%	15.2%	15.9%	16.7%	16.3%	17.7%
Recurring Profit		2,808	2,340	1,899	1,930	2,100	2,300	2,300	2,620
(% over sales)		19.7%	17.6%	15.3%	15.4%	16.2%	16.9%	16.4%	17.9%
Net Profit for the Year		1,816	1,668	1,192	1,210	1,315	1,440	1,520	1,700
(% over sales)		12.7%	12.5%	9.6%	9.7%	10.1%	10.6%	10.9%	11.6%
Category	Sales (% YOY growth for all values)	24.7%	-6.7%	-	-	4.0%	4.6%	5.2%	4.6%
	Products	25.8%	-37.3%	-	-	2.6%	3.5%	28.5%	3.9%
	Merchandise	-2.0%	-12.1%	-8.7%	-7.2%	-15.6%	-13.2%	-17.5%	-12.5%
	Maintenance Service	11.1%	2.9%	-	-	-3.2%	-4.9%	-7.6%	-3.0%
	Cloud Service	37.6%	20.2%	11.2%	14.6%	14.0%	12.3%	19.5%	13.4%
	Other Operating Revenue	33.1%	-12.8%	-	-	-1.3%	3.5%	-10.1%	1.7%
Gross Margin (% YOY diff.)		3.3%	-0.2%	-	-	-0.1%	-0.1%	-0.4%	0.1%
SG&A Expense (% growth)		10.3%	-2.3%	-	-	2.1%	2.7%	7.3%	1.3%
Operating Profit (% growth)		122.8%	-16.8%	-	-	8.9%	9.7%	2.0%	14.0%
Recurring Profit (% growth)		119.9%	-16.7%	-	-	8.8%	9.5%	-1.5%	13.9%
Net Profit for the Year (% growth)		100.4%	-8.1%	-	-	8.7%	9.5%	-6.3%	11.8%

(Note) "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) has been applied starting in FY 2022, so there is no YoY change available for FY 2022.

Also, the previous estimates and the results are based on the old revenue-recognition standard.

(Ref) Forecasted and prepared by Alpha-Win Research Dept. (E = new forecast; PE = previous forecast). CE = the Company's estimate/forecast. AR = actual results.

- ◆ Expecting consecutive sales and profit growth in FY 2024 too

- ◆ Cloud and work management software are expected to continue to be the growth drivers. On-site support is expected to be fully resumed.

- ◆ Over the medium term, in addition to the growth rate of the existing cloud business, results will be affected by whether the new products/services will succeed.

- ◆ Operating margin is expected to improve.

- ◆ With the subscription-based businesses as the growth driver, annual profit growth rate is expected to be about 8-10% over the medium term.

The Fiscal Year after the Next (FY 2024)

We have newly added the forecast for the year after the next or FY 2024. We expect sales to increase by 4.6% YoY to Y13,600 million, operating profit to be Y2,270 million, and net profit to be 1,440 million, at a growth rate of 9.5% for both profits.

We believe that as economic activities get back on track, the Company will enter a phase in which its subscription businesses will continuously and stably expand. In addition, as the COVID-19 crisis settles down, the Company is expected to be able to provide full on-site support for its customers. Therefore, if the new businesses currently under progress can also be put on track, we believe that a growth trend can be maintained for sales and profits.

In addition to the growth rate of the cloud, the Company's financial performance will most likely be affected by whether it will succeed in its business expansion with PCA Subscription, hyper, and the HR business with Dreamhop that it is working on developing in full scale.

Estimates Used for Expenses and Profit

In forecasting FY 2023 and FY 2024, we estimated that the gross margin will gradually decrease (-0.1 percentage point per year) due to the increase in costs such as development costs and subcontractor costs. Meanwhile, we predicted that the operating margin will improve by about 0.7 percentage point per year due to the decrease in the SG&A expenses ratio. Therefore, with sales growth, we predicted that profit will increase.

In moving to the next medium-term management plan in FY 2023, the Company will increase its upfront investments, including business foundation reinforcement in preparation for future growth, new product development, and technology research necessary for that development (virtualization technology, AI, Web API, and FinTech-linked technology). However, we predict that the SG&A expenses are controllable to some extent, especially regarding the sales promotion, R&D, and personnel expenses.

Merchandise sales will continue to decline as more companies go paperless, and sales of maintenance services will also continue to drop due to the shift to the cloud. However, the improvement of product mix as the cloud's sales and their proportion of total sales increase, the shift of various businesses to the subscription-based business model, and the progress with rationalization of business may lead to improved profitability.

Profit Growth Rate over the Medium/Long Term

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 cloud business (subscription business), which is the Company's core business as well as its growth driver, has a high marginal profit ratio, sales growth will directly contribute to profit growth, such that the profit growth rate will likely exceed the sales growth rate.

9. Analyst's View

◆ PCA's Strengths and Challenges

The Company's SWOT analysis results are listed in Figure 28.

【Figure 28】 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) and stable cash flow • Growth of the subscription business based on continuous payment for service; capable of continuously generating stable revenue • Strong and diversified customer base (240,000 corporate users in total) • Taking a lead with the cloud (top-level results, expertise, number of users, and years in service for enterprise system software business targeting small/medium-sized companies) • High barrier to market entry • Very experienced call center staff and engineers (non-price competition through services) • Rich product lineup; provides products both as on-premises and by cloud (non-price competition through products) • Sales network (13 sales offices in Japan; 2,000 partnered companies)
Weakness	<ul style="list-style-type: none"> • Relatively somewhat low profit margins • Financial results susceptible to revisions related to accounting and tax laws, end of OS support, etc. (consumption tax, change in the name of the era, Windows 7, etc.) • Maintenance service subscription rate is improving but could still be improved • 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 human resources and for streamlining operation (for business software in general); work-style reform (work management system) • Potential to increase users of cloud service; development potential (toward small/medium-sized companies and mid-tier companies) • New products (hyper), new services (transition of on-premises to subscription-based model), and innovations in technology • Development of HR businesses • Revisions related to accounting and tax laws, etc.
Threat	<ul style="list-style-type: none"> • Emergence of an alternative as advanced AI technology becomes widely used, delayed product development, defects in products, etc. • High competition (maturation of on-premises market; other companies catching up with the Company in the cloud business) • COVID-19 outbreak/prolongation • Contract termination risk, etc. • Information leakage • Rise in personnel and development costs

(Ref) Prepared by Alpha-Win Research Dept.

- ◆ **Trust and track record built over long years, customer base, and expertise in technology are its strengths.**

- ◆ **Also has a high competitive edge and top-level achievements with the cloud business that it is taking a lead. The cloud market has a high growth potential.**

- ◆ **Development of the next new products/services is the challenge.**

- ◆ **Business volatility increases before and after events.**

- ◆ **Aiming for non-price competition, but the situation of competition with its competitors will be key**

Describing the strengths listed in Figure 28 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). 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, cloud versions, and version upgrades to its customers. It is leading the market with the cloud, which has a high growth potential, and its high competitive edge and top-level achievements have become its strengths.

On the other hand, looking at the weaknesses in more detail, the Company has been searching for the next, new large-scale products and services and for ways to gain market share among mid-tier companies, but has not been able to develop businesses that would enable enough economies of scale. Also, companies that have joined the group through M&As, like MACS System Corporation and Keepdata Ltd., could not generate the expected synergies and have already been sold, although Xronos is a successful exception to this.

As for the opportunity and weakness (or threat), events such as the consumption tax revision, work-style reform, and end of Windows support tend to induce a high demand before and after and cause a higher volatility in financial performance, as we have seen in the past.

In the cloud service that it is taking a lead, the Company is aiming for non-price competition through product strength, service, and support. However, its competition with major competitors that have started the business at a later stage and with service providers that provide limited functions at lower price ranges will be the key points.

◆ Shareholder Return and Shareholder Benefit Program

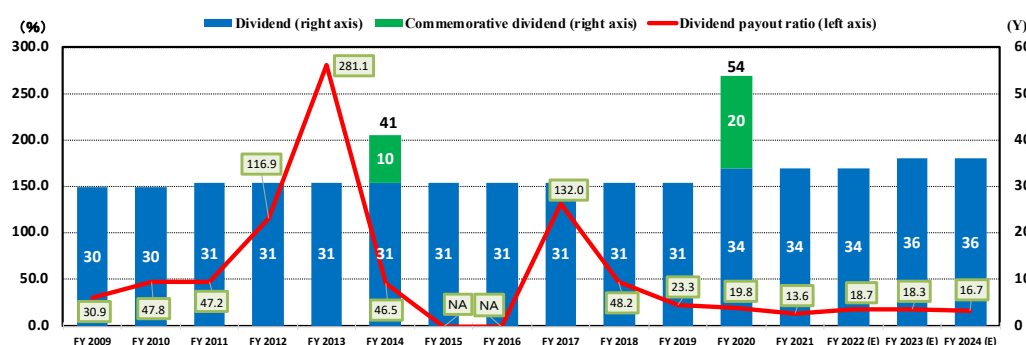
Dividend Policy

The Company's basic policy is to continue stable payment of dividend while improving the ratio of net profit to shareholders' equity (ROE) under effective business 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.

Dividend History

Regarding dividend, ever since the first public offering of the Company's stock, ordinary dividend has not been decreased and has been gradually raised over the long term with several years of no change in between (Figure 29).

【Figure 29】 Change in Dividend and Dividend Payout Ratio



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

- ◆ **Planning to maintain ordinary dividend at Y34/share, the amount after the dividend hike.**

Excluding commemorative dividend, the ordinary dividend had been kept at Y31 per share per year since FY 2011. Then, in FY 2020, it increased dividend by 3 yen to Y34 and also paid a commemorative dividend for its 40th foundation anniversary (Y20 per share). In FY 2021, there was no commemorative dividend, and dividend returned to just the ordinary dividend of Y34 per share, the amount after the dividend hike. This Y34/share dividend is planned to be continued this fiscal year too.

- ◆ **The target dividend payout ratio is 33% and the target DOE is 2.5%. There is a distance between the actual and target ratios, so dividend hikes are likely to occur over the medium to long term.**

The target dividend payout ratio is 33%, but the actual ratio was 19.8% in FY 2020 and 13.6% in FY 2021, and the ratio is predicted to be 19.0% in FY 2022 (the Company's forecast), all below the target ratio. To achieve the target dividend payout ratio of 33% during this fiscal year, the Company would need to pay an annual dividend of Y59 (dividend hike by Y25). As for dividend yield, it will be about 0.8% this fiscal year when calculated based on a stock price of Y4,230 (based on the closing price of June 4, 2021, and a dividend of Y34).

Dividend on equity (DOE), which is one of the Company's KPIs (key performance indicators), was 1.5% in FY 2021 and was below the target of 2.5%.

Compared to the past, stability and the level of profit have improved significantly, but there is a large distance between the target and actual values for dividend payout ratio and DOE. Considering their common levels among companies, we believe that a dividend hike will be necessary.

Dividend Yield

- ♦ The actual annual net yield including the shareholder benefit program is about 1.3% (at maximum).

The Company has a shareholder benefit program and gives out Quo Cards to shareholders based on the number of shares held at the end of 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. Based on a stock price of Y4,230, the actual annual net yield for a shareholder owning 100 shares is about 1.3% (at maximum) including the ordinary dividend of Y34 and the shareholder benefit (Figure 30).

Based on the same conditions, the actual annual net yield is about 1.5% for OBC (4733: Obic Business Consultants) (including the shareholder benefit program) and about 2.5% for MJS (9928: Miroku Jyoho Service) (only dividend yield since it has no shareholder benefit program).

【Figure 30】 Shareholder Benefit Program and Actual 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	34	1.28
300	500	3,000	34	1.04
500		4,000	34	0.99

Net yield = (dividend + benefit value) / (stock price), calculated for the minimal amount of stock owned in each range
Stock price: Y4,230 (closing price on 6/4/2021)

(Ref) Prepared by Alpha-Win Research Dept.

Stock Split

Since its stock price has stayed in the Y4,000s and it is rich in cash, stock splits (2-for-1 or 3-for-1) may be conducted, as well as share buybacks in terms of the total payout ratio. Note that a stock split has not been conducted since the 1.3-for-1 stock split in May 2000.

◆ Stock Price and Factors that May Affect Stock Price Performance

- ♦ With solid performance, stock price has increased largely and has been significantly outperforming the TOPIX for the past 5 years.

The Company's stock price and relative stock price compared to the TOPIX for the past approximately five years are described in the summary section (Figure C on page 3) (stock price has risen by approx. 3.8x over the past five years). Since around October 2018, the stock price has especially been increasing, significantly outperforming the TOPIX.

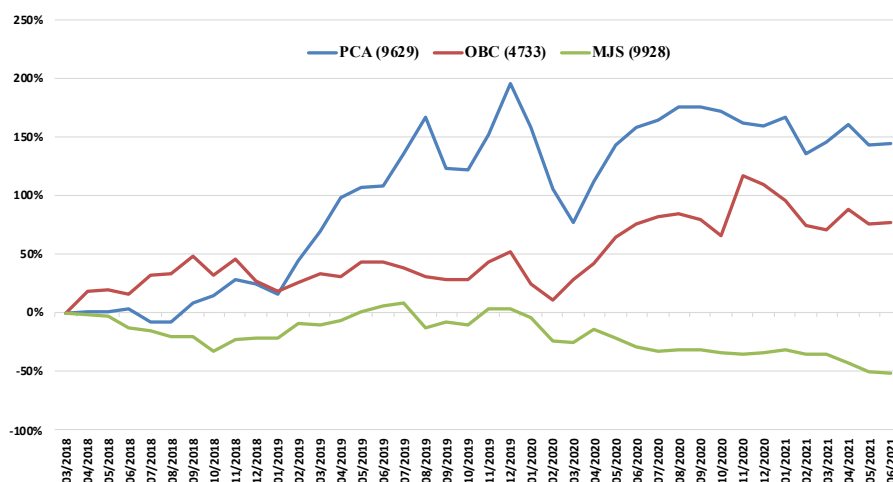
- ♦ As with its competitors, it has been underperforming the TOPIX over the past 12 months.

On the other hand, the market has recently tended to buy large-cap, economically sensitive stocks that are expected to increase profits by 30 to 40% this fiscal year. Consequently, over the last 12 months, the Company's stock as well as its two competitors' stocks (4733 Obic Business Consultants or OBC and 9928 Miroku Jyoho Service or MJS) has been underperforming the TOPIX.

Since March 2018, the Company has had the highest performance among the three competing companies (Figure 31 on page 40).

【Figure 31】 Comparison of Stock Performance with Competitors

(Note: stock price as of the end of March 2018 was set to zero upon creating the graph. Reflects prices up through the closing price on June 4, 2021)



(Ref) Prepared by Alpha-Win Research Dept.

Valuation

Based on the Company's current level of stock price, there is no cheapness in valuation in terms of the main valuation indicators compared to the average of the TSE First Section.

- ◆ No cheapness indicated by comparison of valuation with TOPIX.

Compared to the TSE First Section's forecasted average P/E of 16.4, the Company's P/E based on its forecasted values is 23.6. Similarly, compared to TSE's actual P/B of 1.3 and dividend yield (simple average) of 1.8%, the Company's is 1.9 and 0.8%, respectively.

- ◆ Valuation is about the middle, or somewhat cheap, compared to its competitors.

Based on our forecast for profit, the Company's P/E is 23.3 in the current fiscal year, 21.4 in the next fiscal year, and 19.6 in the year after the next.

When its valuation is compared with the two competitors described above, the Company's valuation is cheap in terms of P/B and EV/EBITDA, but at the middle in terms of P/E and P/S (Figure 32).

【Figure 32】 Comparison of Valuation with Competitors

Company Name	PCA (consolidated)	Obic Business Consultants (OBC: nonconsolidated)	Miroku Jyoho Service (MJS: consolidated)
Code	9629	4733	9928
Stock Price (at 6/4 closing)	4,230	6,020	1,552
Market Cap (million yen)	32,571	485,838	54,019
P/E (price-to-earnings ratio)	23.6	40.4	19.8
P/B (price-to-book ratio)	1.8	3.5	2.4
Dividend Yield (%)	0.8	1.0	2.4
EV/EBITDA	8.4	28.1	8.9
P/S (price-to-sales ratio)	2.6	14.3	1.4

Market cap = shares outstanding x market stock price [at 6/4 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 2022]

The companies' estimated EPS for FY 2022 used in all P/E calculations

(Note) "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) applied to all companies starting in the estimates for FY 2022

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

- ♦ The two cloud-accounting companies have extremely high valuations.

Money Forward (TM: 3994) and free (TM: 4478) described in the previous section are also the Company's competitors among listed companies in the area of cloud accounting software. However, they are not reasonable targets for valuation comparison since they have been posting net losses and paying no dividend. Regarding P/S and P/B, the comparable valuation indicators, these two companies' valuations are extremely expensive.

*Money Forward (TSE Mothers: 3994)

- Market cap of Y270 billion at stock price of Y5,620 (6/4 closing price)
- FY 2021 (November-ending) company forecast: sales of Y15,250 million and net loss of Y1,108 million (median values, since both were announced as ranges); no dividend (P/S of 17.7 [as reference, P/S = market cap / sales]; P/B of 27.9)

*free (TSE Mothers: 4478)

- Market cap of 431 billion at stock price of Y7,920 (6/4 closing price)
- FY 2021 (June-ending) company forecast: sales of Y10,200 million and net loss of Y2,212 million; no dividend (P/S of 42.3 and P/B of 30.2)

- ♦ Domestic-demand-oriented growth stock with high growth potential. The key themes are "cloud, subscription, work-style reform, and mental healthcare."

Stock Forecast

The impact of COVID-19 remains, and there are still uncertainties surrounding the economic situation. However, the Company will most likely continue to be evaluated as a domestic-demand-oriented growth stock which has a strong subscription-based business (shifting packaged enterprise system software to the cloud/subscription business) and can benefit from the growth potential of this business as well as its advantageous position in terms of the government's promotion of the work-style reform and the expansion of the metal-health-related market.

- ♦ Expected to return to sales and profit growth starting next FY with the normalization of economic activities.

Also, we believe the Company will be able to return to a growth trajectory again since the cloud and work management system will be the drivers of growth, in addition to the normalization of the economy and the gradual contribution to results by the new businesses. From next fiscal year onwards, there should no longer be a gap in the results from the change in the revenue-recognition standard, so the Company is expected to return to a growth trend for sales and profits.

- ♦ Considering the growth potential over the medium term, we believe that there is an upside to the stock price.

Since this fiscal year's results are not very likely to fall below the forecasted values and a growth trend is expected in the next fiscal year onwards, we believe that there is only a limited downside to the stock price in terms of the fundamentals and valuation. Over the medium term, there seems to be an upside to the stock price.

- ♦ Key points are the cloud's growth rate, the monetization of the new businesses/services, return of profit to shareholders, and the next medium-term plan.

Going forward, the key points to watch are 1) performance of the cloud business (PCA Cloud's number of corporate users and sales growth rate), 2) whether the transition of the on-premises to the subscription version (PCA Subscription) will succeed, 3) progress with the development of new products, services, and businesses, their contribution to profit, and their market competition (especially regarding the financial performance of the acquired Dreamhop, sales situation of hyper, and development progress of PCA HUB), 4) contents of the new medium-term management plan to be announced in the next fiscal year, 5) measures to return profit to shareholders such as dividend hikes, stock splits, and share buybacks, 6) progress with the M&A strategy, 7) implementation of business/profit management system and their effects, and 8) new tax systems and changes in regulations.