

Alpha-Win Company Research Report

PCA CORPORATION (9629 TSE First Section)

Issued: 8/3/2021

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

● Flash Report on Financial Results

◆ A major specialized player in enterprise system software; taking a lead in the cloud business as No. 1 in the industry

- PCA CORPORATION (hereinafter referred to as the "Company") sells originally-developed, packaged business software (for accounting, sales management, purchasing and inventory management, payroll, human resources, work management, etc.) mainly to small/medium-sized companies as on-premises or as cloud software. It also provides related maintenance services. Its mission is to contribute to society as a "Management Support Company" that supports other companies conduct smooth management and operation.
- It is taking a lead in cloud-based business software (PCA Cloud) as No. 1 in the industry. Thanks to the transition to the subscription-based business model, stability and profitability of business have improved significantly. Going forward, it plans to make a further transition to the subscription businesses. In FY 2020 (note that the Company's fiscal year is March-ending, e.g., FY 2020 ended in March 2020), it achieved record-high sales and profit thanks to the high demand driven by the consumption tax revision and the end of support of Windows 7.

◆ This fiscal year's Q1 results were a positive surprise: thanks to the products' high replacement demand and the solid cloud business, sales grew significantly YoY and profits doubled. Stock split and dividend hike were also announced.

Summary of Q1 Results

- The Company's first quarter results for FY 2022 (April-June 2021; hereinafter, "Q1" = April-June) were as follows: sales of Y3,328 million (+19.3% YoY; however, note that this is only a simple comparison between "this fiscal year's results based on the new revenue-recognition standard" and "the previous fiscal year's results based on the previous revenue-recognition standard"; the same applies below), operating profit of Y975 million (+109.4% YoY), recurring profit of Y987 million (+109.4% YoY), and net profit of Y614 million (+125.4% YoY). Both sales and profit had grown significantly YoY (Figure 1). The profit growths were especially significant, as they doubled, indicating a clear and sharp recovery from the previous Q1 when sales and profits had declined in reaction to the past event-driven high demand.
- Since the new revenue-recognition standard has been applied to this Q1's results, sales have been decreased by Y426 million and operating profit has been decreased by Y74 million compared to the conventional standard (previous standard). When this difference is factored out, sales would essentially come out to be Y3,754 million (+34.6% YoY) and operating profit would be Y1,049 million (+125.6% YoY).
- Progress against the full-year company plan (based on the new standard) has been extremely strong: 26.7% for sales, 52.3% for operating profit, and 51.5% for net profit. Compared with past Q1 results, this progress greatly exceeds the past five fiscal years' average sales progress of 21.2% and average operating profit progress of 14.6%.
- The Company has not released forecasts for Q1 or the first half, but Alpha Win Research Department predicts that the results have most likely significantly exceeded the Company's internal expectations.

【Figure 1】 Q1 Results

Q1 Results		Q1 FY 2021	Q1 FY 2022	% Change	Difference	% of Total Sales	Q1 FY 2022		% Change	Difference
Unit: million yen		Apr-June 2020	Apr-June 2021	YoY: %	YoY: million yen	%	Apr-June 2021		YoY: %	YoY: million yen
		Previous Revenue-Recognition Std.	New Revenue-Recognition Std.	Simple Comparison of New/Previous Revenue-Recognition Std.			Comparison with Previous Std. (New - Previous)	Under Previous Std. (adjusted)	Comparison with Last Q1 under Previous Std.	
Consolidated Sales		2,789	3,328	19.3	539	100.0	-426	3,754	34.6	965
Sales Category	Products	307	955	204.2	648	28.1	-4	939	205.9	632
	Merchandise	77	85	9.5	8	2.6	0	85	10.4	8
	Maintenance Service	899	820	-8.8	-79	-24.6	-74	894	-0.6	-5
	Cloud Service	957	1,255	31.1	298	37.7	0	1,255	31.1	298
Other Operating Revenue		546	231	-57.7	-315	-6.9	-346	577	5.7	31
Gross Profit		1,756	2,284	30.1	528		-80	2,364	34.6	608
Gross Margin (%)		63.0	68.6	5.7				63.0		0.0
SG&A Expenses		1,290	1,309	1.5	19		-4	1,313	1.8	23
SG&A Expenses Ratio (%)		46.3	39.3	-6.9				35.0		-11.3
Operating Profit		465	975	109.4	510		-74	1,049	125.6	584
Operating Margin (%)		16.7	29.3	12.6				27.9		11.3
Net Profit		272	614	125.4	342					
Net Margin (%)		9.8	18.4	8.7						

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

Short Report

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Q1 Sales by Category

- Of the overall sales increase of +539 million yen (+965 million yen based on the previous standard; the same applies below), the products' sales growth was +628 million yen (+632 million yen) and the cloud service's sales growth was +298 million yen (no difference between the previous and the new standards), which offset the sales decline of -315 million yen in other operating revenue (+31 million yen) and -79 million yen in maintenance (-5 million yen).
- Breakdown of sales by category (the Company's sales categories) was as follows:
 1. Sales of products (conventional packaged software: on-premises) increased significantly, in the order of last Q1 \Rightarrow this Q1 (same order for the rest), from Y307 million \Rightarrow Y935 million due to the early replacement demand in response to the end of support of the "PCA X Series" scheduled for December 2021 (shift to the DX series). By sales category, this category had the largest sales growth rate and contributed the most to the overall sales growth. It had also most likely helped boost the overall profit. The new revenue-recognition standard only caused a small decline of -5 million yen.
 2. Although the trend of going paperless through digitalization has continued, sales of merchandise (ledgers, etc.) had increased from Y77 million \Rightarrow Y85 million (+9.5% YoY; 2.8% \Rightarrow 2.6% of total sales).
 3. Regarding maintenance service, sales decreased by Y79 million or -8.8% YoY from Y899 million \Rightarrow Y820 million due to cancellations of contracts in anticipation of the end of support of the X series. However, sales were mostly flat based on values in which the decline caused by the new revenue-recognition standard (-74 million yen) is factored out.
 4. Cloud service's sales were Y1,255 million, the largest of all sales categories, accounting for 37.7% of the total. Combined with maintenance service that accounts for 24.6%, the subscription-based businesses account for 62.3% of the total sales. Both businesses are also continuous in nature and have high marginal profit ratios, so they are most likely contributing significantly to the Company's financial performance in terms of both sales and profits. Cloud's sales have continued to grow at a high rate of +31.1% YoY (not impacted by the new revenue-recognition standard). Due to the COVID-19 outbreak, the increase in the number of new members of the cloud service (net increase) had slowed down temporarily to around 130 to 140 companies per month, but seems to have recovered to around 180 companies per month in Q1. As a result, quarterly sales of maintenance services plus the cloud have continued to increase year-on-year as well as compared to the previous quarter, regardless of seasonality. By fiscal year, the number of members of the cloud service (existing members) has increased steadily from 12,313 companies in March 2019 and 14,388 companies in March 2020 (YoY: +2,075) to 16,444 companies in March 2021 (YoY: +2,056) (the number of members as of the end of June 2021 has not been disclosed).
 5. Other operating revenue decreased significantly from Y546 million \Rightarrow Y231 million (-57.7% YoY). However, since the application of the new revenue-recognition standard had caused a decline of Y346 million (sales decline), sales would essentially be Y577 million, which would be a +31 million yen or +5.7% YoY growth.

Q1 Profit

- In terms of profit, since the Company's business model is characterized by a high marginal profit ratio, changes in sales have a large impact on profit margins and the amount of profit. This Q1, the breakdown of sales changed due to the significant increase in the sales of the products and the cloud, which are the profitable businesses, and the decline of the less profitable other operating revenue. Due to the improvement of the product mix and the reduction of the cost of sales, the gross margin had improved significantly from 63.0% in the previous Q1 to 68.6% in the current Q1. While sales had increased at a double-digit rate, the SG&A expenses had increased only slightly by Y19 million or +1.5% YoY, which led to an improvement of the SG&A expenses ratio by 7.0% from 46.3% \Rightarrow 39.3%. As a result, the operating margin improved significantly from 16.7% \Rightarrow 29.3% (+12.6%). Note that the Company's estimate for the full fiscal year's operating margin is 15.0%, and the actual margin in Q1 far exceeds this. Since there was no major nonoperating or extraordinary profit/loss in Q1, the increase in operating profit had led to an increase in the net profit.
- During the Q1 period (April-June), the sales and profits of Keepdata Ltd. (already sold), which was included in the previous fiscal year's consolidated results, and Dreamhop Co., Ltd. (acquired), which is included in this fiscal year's consolidated results, are estimated to have been almost about the same. Consequently, the replacement of subsidiaries seems to have been mostly offset regarding its impact on the Company's consolidated results.

Balance Sheet

- The balance sheet as of the end of this Q1 has not largely changed compared to the same period of the previous fiscal year. The increase in profit had led to an increase in the cash & deposits (in the order of last Q1 \Rightarrow this Q1:

Y10,176 million \Rightarrow Y12,401 million) and an increase in the net assets (same order: Y13,824 million \Rightarrow Y16,387 million). The ratio of cash & deposits to this fiscal year's planned sales or total assets is 99.6% (about 12 months' worth of average monthly sales) and 48.4%, respectively, indicating that the Company has ample liquidity on hand. With an equity ratio of 63.3% and a current ratio of 208.7%, its financial position is firm.

- Contract liabilities (previously unearned revenue, etc.; consideration received for services not yet provided in subscription contracts such as the cloud service) have steadily increased to Y5,704 million.
- By September 28, the Company plans to sell a part of an issue of investment securities that it owns for pure investment purposes. The gain on sale is expected to be Y737 million, but this has not yet been included in the Company's financial forecast for this fiscal year, and it would be one factor that may lead to an upward revision of the net profit. The use of the gain on sale has not been decided.

◆Financial Forecast for This Fiscal Year Onwards

The Company's Financial Forecast for This Fiscal Year

- The Company's forecast of this full fiscal year's results (based on the new revenue-recognition standard) is as follows: sales of Y12,447 million (-6.5% YoY; only as reference since last fiscal year was based on the previous revenue-recognition standard; the same applies below), operating profit of Y1,866 million (-19.4% YoY), and net profit of Y1,192 million (-28.5% YoY) (Figure 2 on page 4). It is expecting both sales and profit to decline. Note that based on the previous standard, the forecasted results would be Y14,153 million (+6.3% compared to last fiscal year's results under the previous standard), Y2,012 million (-13.1%), and Y1,294 million (-22.4%), respectively, such that sales are expected to grow while the profits are expected to decline (at smaller amounts of decline). So far, the Company has not changed its full-year forecast since it had been announced at the beginning of the fiscal year.
- When the Q1 results were announced, the Company also announced a 3-for-1 stock split (October 1, 2021, as the scheduled effective date) and an essential increase in dividend (annual dividend will increase from Y34/share \Rightarrow Y36/share based on the shares before the stock split).
- The change in the shareholder benefit program had been made to adjust for the change in the number of shares due to the stock split, so the actual content and standards of the benefit program are essentially the same as before.

Alpha-Win Research Department's Financial Forecast for This Fiscal Year Onwards

- In the previous report (issued on June 9, 2021), we saw the Company's full-year forecast as conservative and expected a slight upward revision in both sales and profits. However, this fiscal year had begun stronger than expected, especially in the selling of the products (replacement of the X series with the DX series, etc.) and the cloud's sales. Since this positive trend is expected to continue after Q1 as well, we reviewed our forecast for both sales and profits of this fiscal year.
- In particular, we revised our profit forecasts significantly upward, and we believe that record-high profits may be achieved. In addition, since the Company has not been achieving its goals for dividend payout ratio (33%) and dividend on equity ratio (DOE: 2.5%) for some time, we believe that dividend may be increased again to match the level of profit.
- The Company's business is highly compatible with remote work and is mainly focused on subscription-based businesses. In fact, its financial performance since the previous fiscal year indicates that the impact of COVID-19 has been minimal. However, since the rebound of the COVID-19 outbreak in Japan too has been more serious than expected, it should be considered a risk factor in terms of sales activities and support.
- Although the forecasts for next fiscal year and beyond are still tentative, we revised our estimates for the sales of the cloud and the products and the profit margin. We also revised sales, profits, and dividend upward. We plan to revise and make an official forecast when the first-half results become disclosed.

Progress with the New Businesses

- After acquisition, Dreamhop Co., Ltd., has been focusing on improving business performance by strengthening its sales, services/products, and capital.
- The Company has been working on expanding the sales of PCA Subscription/Hyper and on the in-house development of PCA HUB. However, partly due to the COVID-19 crisis and because it has been too busy responding to the replacement demand for the products, it seems to have not made much progress.
- The Company has been accumulating cash & deposits year by year thanks to its cash-cow business. Its next challenges would be to improve asset efficiency, execute investment strategies for future growth, and develop businesses that will be the next major source of earnings.

Prime Market

- Currently, the Company is listed on the First Section of the Tokyo Stock Exchange. Although the Company has not made any official announcement, we believe that it will most likely move to the Prime Market that will be newly established.

【Figure 2】 Financial Forecast for This Fiscal Year and Over the Medium Term

Unit: million yen, %	FY 2020 AR	FY 2021 AR	FY 2022 Previous CE	FY 2022 New CE	FY 2022 Previous E	FY 2022 Current E	FY 2023 Previous E	FY 2023 Current E	FY 2024 Previous E	FY 2024 Current E
Sales	14,266	13,308	14,153	12,447	12,500	14,200	13,000	14,400	13,600	15,680
Category Products	3,166	1,985	1,947	1,914	1,950	3,500	2,000	2,500	2,070	2,600
Merchandise	552	485	443	443	450	400	380	380	330	330
Maintenance Service	3,471	3,570	3,259	3,112	3,150	3,150	3,050	3,050	2,900	2,900
Cloud Service	3,374	4,057	4,510	4,510	4,650	5,050	5,300	6,200	5,950	7,500
Other Operating Revenue	3,701	3,227	3,992	2,466	2,300	2,100	2,270	2,270	2,350	2,350
Gross Margin	60.3%	60.1%		61.8%	61.6%	65.0%	61.5%	62.5%	61.4%	62.5%
SG&A Expense	5,817	5,686		5,824	5,800	5,900	5,920	6,050	6,080	6,200
(% over sales)	40.8%	42.7%		46.8%	46.4%	41.5%	45.5%	42.0%	44.7%	39.5%
Operating Profit	2,781	2,314	2,012	1,866	1,900	3,330	2,075	2,950	2,270	3,600
(% over sales)	19.5%	17.4%	14.2%	15.0%	15.2%	23.5%	16.0%	20.5%	16.7%	23.0%
Recurring Profit	2,808	2,340	2,046	1,899	1,930	3,360	2,100	2,980	2,300	3,630
(% over sales)	19.7%	17.6%	14.5%	15.3%	15.4%	23.7%	16.2%	20.7%	16.9%	23.2%
Net Profit for the Year	1,816	1,668	1,294	1,192	1,210	2,475	1,315	1,863	1,440	2,269
(% over sales)	12.7%	12.5%	9.1%	9.6%	9.7%	17.4%	10.1%	12.9%	10.6%	14.5%
Sales (% YOY growth for all values)	24.7%	-6.7%	6.3%	-6.5%	-6.1%	6.7%	4.0%	1.4%	4.6%	8.9%
Category Products	25.8%	-37.3%	-1.9%	-3.6%	-1.8%	76.3%	2.6%	-28.6%	3.5%	4.0%
Merchandise	-2.0%	-12.1%	-8.7%	-8.7%	-7.2%	-17.5%	-13.6%	-5.0%	-13.2%	-13.2%
Maintenance Service	11.1%	2.9%	-8.7%	-12.8%	-11.8%	-11.8%	-3.2%	-3.2%	-4.9%	-4.9%
Cloud Service	37.6%	20.2%	11.2%	11.2%	14.6%	24.5%	14.0%	22.8%	12.3%	21.0%
Other Operating Revenue	33.1%	-12.8%	23.7%	-23.6%	-28.7%	-34.9%	-1.3%	8.1%	3.5%	3.5%
Gross Margin (% YOY diff.)	3.3%	-0.2%		1.7%	1.5%	4.9%	-0.1%	-2.5%	-0.1%	0.0%
SG&A Expenses (% growth)	10.3%	-2.3%		2.4%	2.0%	3.8%	2.1%	2.5%	2.7%	2.5%
Operating Profit (% growth)	122.8%	-16.8%	-13.1%	-19.4%	-17.9%	43.9%	9.2%	-11.4%	9.4%	22.0%
Recurring Profit (% growth)	119.9%	-16.7%	-12.6%	-18.8%	-17.5%	43.6%	8.8%	-11.3%	9.5%	21.8%
Net Profit (% growth)	100.4%	-8.1%	-22.4%	-28.5%	-27.5%	48.4%	8.7%	-24.7%	9.5%	21.8%

(Note) "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), etc., have been applied starting in FY 2022.

YoY differences for "FY 2022 New CE" and "FY 2022 Previous/Current E" are comparisons with the previous standard and therefore have no continuity.

"CE" stands for the Company's forecast/estimate. "Previous CE" is based on the previous revenue-recognition standard; "New CE" is based on the new standard.

"E" stands for Alpha-Win's forecast/estimate, all based on the new revenue-recognition standard.

"Previous E" is the forecast made in the previous report (June 9, 2021). "Current E" is the updated forecast made in the current report.

"AR" stands for actual results.

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

◆ Stock Price

- The Company's stock is seen as a defensive, domestic-demand-oriented, and small-cap growth stock with subscription-based businesses. Over the past ten years, its stock price has been significantly outperforming the TOPIX. Over the past 12 months, though, due to the market's preference for economically sensitive stocks, the Company's stock had been underperforming the TOPIX. However, most recently, the solid Q1 results, the stock split, and the dividend hike seem to have been received as a positive surprise and have caused the stock price to soar to around Y5,000.
- With the rise in the stock price, the Company's valuation does not seem cheap compared with the average of the First Section of the TSE, based on the Company's forecasted results (reference: TSE First Sections' averages are 15.6 for forecasted P/E, 1.3 for actual P/B, and 1.8% for the simple average of dividend yield). Compared with its competitors Obic Business Consultants and Miroku Jyoho Service (forecasted P/E of 20 for this fiscal year excluding extraordinary profit), the Company's valuation is in between the two (Figure 3 on page 5).
- We are expecting significant upward revisions of profits during this fiscal year, and based on this expectation, the forecasted P/E for this fiscal year is estimated to be 12.9 (15.2 even when extraordinary profit/loss is excluded). Similarly, next fiscal year's P/E is estimated to be around 17.
- With no more fluctuations in results caused by the event-driven high demand and with the strong performance of the subscription businesses, we expect to see the Company grow as a stable growth stock with solid performance and potential to improve sales and profit margins over the medium to long term.
- As mentioned above, even after the recently announced dividend hike, there is still a gap between the actual and target dividend payout ratio and DOE. Consequently, we anticipate the Company to further improve the return of profit to shareholders over the medium term.

【Figure 3】 Comparison of Valuation with Competitors

Company Name	PCA (consolidated)	Obic Business Consultants (OBC: non-consolidated)	Miroku Jyoho Service (MJS: consolidated)
Code	9629	4733	9928
Stock Price (at 7/30 closing)	4,800	5,610	1,571
Market Cap (million yen)	36,960	423,016	54,681
This FY's Forecasted P/E (price-to-earnings ratio)	26.8	37.7	12.6
P/B (price-to-book ratio)	2.0	3.2	2.6
Dividend Yield (%)	0.8	1.2	2.4
EV/EBITDA	9.9	23.3	9.5
P/S (price-to-sales ratio)	2.8	13.9	1.5
This Q1's YoY Sales Growth Rate (%)	19.3	17.1	10.3
This Q1's YoY Operating Profit Growth Rate (%)	109.4	26.3	-5.3
This Full Fiscal Year's Company Forecast: YoY Sales Growth Rate (%)	-6.5	16.2	10.2
This Full Fiscal Year's Company Forecast: YoY Operating Profit Growth Rate (%)	-19.4	18.9	-26.5

Market cap = shares outstanding x market stock price [at 7/30 closing]

EPS values used in P/E calculations are based on the companies' forecasts for FY 2022.

BPS values used in P/B calculations reflect this FY's Q1 results.

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

*Interest-bearing debt and cash & deposits reflect this FY's Q1 results.

P/S = market cap / sales [the companies' forecasts for FY 2022]

*YoY values for Q1 and the full year are for reference only since different revenue-recognition standards are used (new standard for this FY; previous standard for last FY)

(Ref) Prepared by Alpha-Win Research Dept. based on each company's financial results summary, securities report, and stock data

【 9629 PCA Sector: Information & Communication 】 Figure A												
FY		Sales	YOY	O.P.	YOY	R.P.	YOY	N.P.	YOY	EPS	BPS	Dividend
		(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(Y)	(Y)	(Y)
2018		9,785	4.5	807	86.8	834	79.9	441	174.1	64.37	1,644.39	31.00
2019		11,439	16.9	1,248	54.7	1,277	53.0	906	105.5	133.25	1,789.76	31.00
2020		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 Std.	14,153	6.3	2,012	-13.1	2,046	-12.6	1,294	-22.4	—	—	—
2022	CE New Std.	12,447	-6.5	1,866	-19.4	1,899	-18.8	1,192	-28.5	178.86	—	36.00
2022	E New Std.	14,200	6.7	3,330	43.9	3,360	43.6	2,475	48.4	371.27	2,712.18	36.00
2023	E New Std.	14,400	1.4	2,950	-11.4	2,980	-11.3	1,863	-24.7	279.46	2,955.65	36.00
2024	E New Std.	15,680	8.9	3,600	22.0	3,630	21.8	2,269	21.8	340.37	3,260.01	38.00
2019	Q1 Old Std.	2,346	11.3	57	-67.1	69	-62.3	34	-64.6	5.09	1,624.69	—
2020	Q1 Old Std.	3,073	31.0	587	917.5	598	754.6	364	945.3	54.76	1,848.46	—
2021	Q1 Old Std.	2,789	-9.2	465	-20.7	471	-21.2	272	-25.1	40.99	2,029.56	—
2022	Q1 Old Std.	3,754	34.6	1,049	125.6	1,061	125.3	—	—	—	—	—
2022	Q1 New Std.	3,328	19.3	975	109.4	987	109.4	614	125.4	92.24	2,432.89	—

(Note) CE: The Company's forecast/estimate. E: Alpha-Win's forecast/estimate. Q1: Results for April-June.

Forecasts of EPS, BPS, and dividend do not reflect the 3-for-1 stock split scheduled for Oct 1, 2021.

"Old Std" stands for the previous revenue-recognition standard.

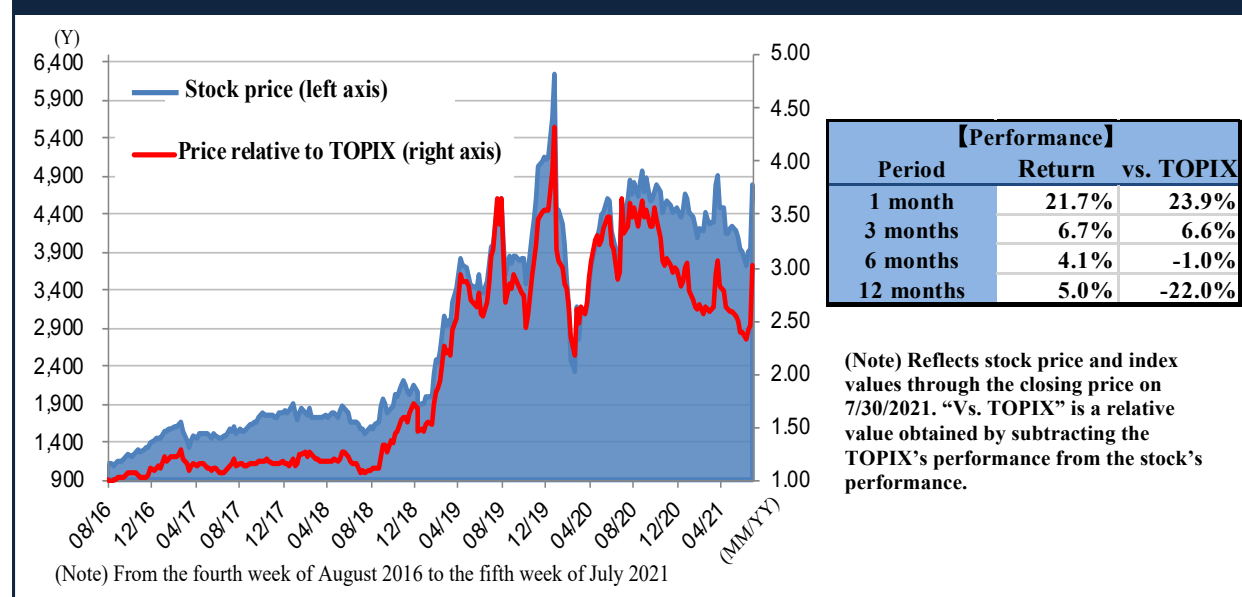
"New Std" stands for the new revenue-recognition standard.

【 Stock Price and Valuation Indicators: 9629 PCA 】 Figure B						
Item	7/30/2021	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (¥)	4,800	Last FY (actual)	19.2	2.0	0.7%	19.8%
Shares Outstanding (thou.)	7,700	This FY (est.)	12.9	1.8	0.8%	9.7%
Market Capitalization (million yen)	36,960	Next FY (est.)	17.2	1.6	0.8%	12.9%
Dilutive Shares (thou.)	0	Equity Ratio at End of This Q1	63.3%	Last FY's ROE		11.4%

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

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

Figure C



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