Alpha-Win Company Research Report

PCA

(9629 TSE First Section) Issued: 7/18/2018

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

● **Summary**

Business Description

・PCA CORPORATION (the Company, hereinafter) is an independent software manufacturer specialized in packaged software for core business operations. It is a major specialized player in the industry.

・The Company was founded in 1980 by a group of Certified Public Accountants. Since then, it has been providing packaged or cloud-based software mainly to small- and medium-sized companies. With "customer first" as its slogan, the Company declares its mission to be to contribute to the customers' businesses through enterprise system software.

Current Financial Results

・The Company is quickly recovering from a period of decreasing revenue, decreasing profit, and postings of losses. In FY 2018 (full year), sales increased by 4.5% YOY and each profit also largely increased. Sales of the highly profitable cloud business, the labor management system, and the solutions business grew. Thanks to these increases in sales and serious efforts to reduce cost, the Company's profit margins have improved.

・In FY 2019, the Company plans to increase sales by 7.2% YOY (Y10,486 mil), operating profit by 2.2% YOY (Y825 mil), and net profit for the year by 33.5% YOY (Y588 mil). Businesses such as the cloud and the labor management system are expected to continue to drive growth, leading to increased sales and profit for the fourth consecutive year. However, operating profit growth rate should be small due to a strategic upfront investment.

Competitiveness

・The Company has a customer base of approximately 200,000 companies and is marked by its high brand recognition and top-ranking market share in the fields of accounting and finance for small/medium-sized companies. The Company's cloud-based enterprise system software business in these fields is especially strong, ranking No. 1 in the industry as a pioneer of the business. The strengths of the Company are its ability to develop products and services that meet various customer needs including those related to changes in tax and other regulations, its stable customer base, and its ability to provide high-quality products and services at reasonable prices.

Business Strategy

・Cloud & smart device, post-ERP, and industry specialization are the Company's group business strategies. Regarding the Key Performance Indicators (KPI), the Company has declared that it will achieve Y20 bil in sales, 2.5% in DOE, and 80,000 companies as customers of the cloud service over the long term.

・Meanwhile, issues remain with regards to the improvement of profitability and the development of next-generation, growth-driving new products. More information should be revealed when the new president announces the specific measures and goals to add to the concept of the new medium-to-long-term business plan that has been disclosed.

Forecast on Financial Results

・Alpha-Win's Research Dept. expects FY 2019's sales and profits to be at the same level as the Company's forecasts. Over the medium term, increased sales and profit margins can be expected for the cloud business, which is in a stably expanding phase. Meanwhile, costs will rise from the upfront investment to expand business and strengthen organization. Considering these factors, profit is expected to continue to increase at 5-6% per year.

Stock Price

・Comparing valuation indicators with the average of the 1st section of the TSE, the Company's P/E is approx. 20, greater than the average of about 15. Its dividend yield is around average, at approx. 1.7%. Its P/B is approx.

1.0, below the average of 1.3. Meanwhile, most indicators of the Company are relatively cheap compared to its competitors.

Shareholder Return

・To date, the Company has followed a stable dividend policy. When the Quo Card shareholder benefit plan is taken into account, the actual dividend yield is even higher. The Company plans to continue to enhance shareholder return while paying dividend and improving the EPS.

【 9629 PCA Sector: Information & Communication 】

FY		Sales (Y mil)	YOY (%)	O.P. (Y mil)	YOY (%)	R.P. (Y mil)	YOY (%)	N.P. (Y mil)	YOY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
2016		8,440	3.3	40	-	66	-	-93	-	-13.70	1,567.18	31.0
2017		9,360	10.9	432	957.9	463	593.6	160	-	23.49	1,568.59	31.0
2018		9,785	4.5	807	86.8	834	79.9	441	174.1	64.37	1,644.39	31.0
2019	CE	10,486	7.2	825	2.2	842	0.9	588	33.5	85.95	—	31.0
2019	E	10,400	6.3	850	5.3	875	4.9	600	35.9	87.50	1,701.09	31.0
2020	E	11,000	5.8	900	5.9	925	5.7	634	5.8	92.60	1,762.95	31.0
2021	E	11,680	6.2	950	5.6	975	5.4	669	5.5	97.60	1,829.80	31.0

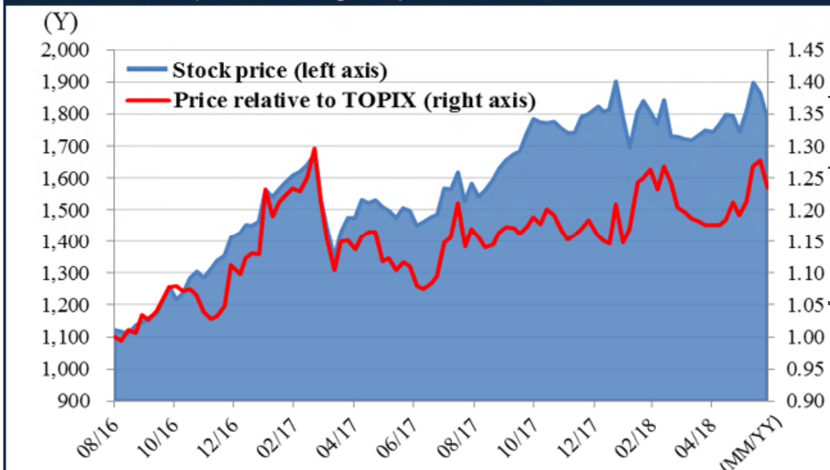
(Note) CE = the Company's estimate; E = estimate by Alpha-Win's Research Dept. All fiscal years discussed in this document are March-ending.

【 Stock Price and Valuation Indicators: 9629 PCA 】

Item	as of 6/29/2018	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1789.0	Last FY (actual)	27.8	1.1	1.7%	48.2%
Shares Outstanding (thou.)	7700.0	This FY (est.)	20.4	1.0	1.7%	35.4%
Market Capitalization (Y mil)	13,775	Next FY (est.)	19.3	1.0	1.7%	33.5%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End		65.0%	Last FY's ROE	3.9%

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

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



(Note) From the 4th week of August 2016 to the 5th week of June 2018

【Performance】

Period	Return	vs. TOPIX
1 month	2.6%	3.6%
3 months	3.5%	2.6%
6 months	-0.6%	4.4%
12 months	19.4%	11.2%

(Note) Stock price and index as of the end of June 2018

Contents

1. Company Overview

- **Major specialized player in the industry with 38 years of practice, developing and providing packaged enterprise system software for small/medium-sized companies**

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

- **The Group is comprised of the Company and 3 subsidiaries. Consolidated to parent company sales ratio has stayed around 1.1.**

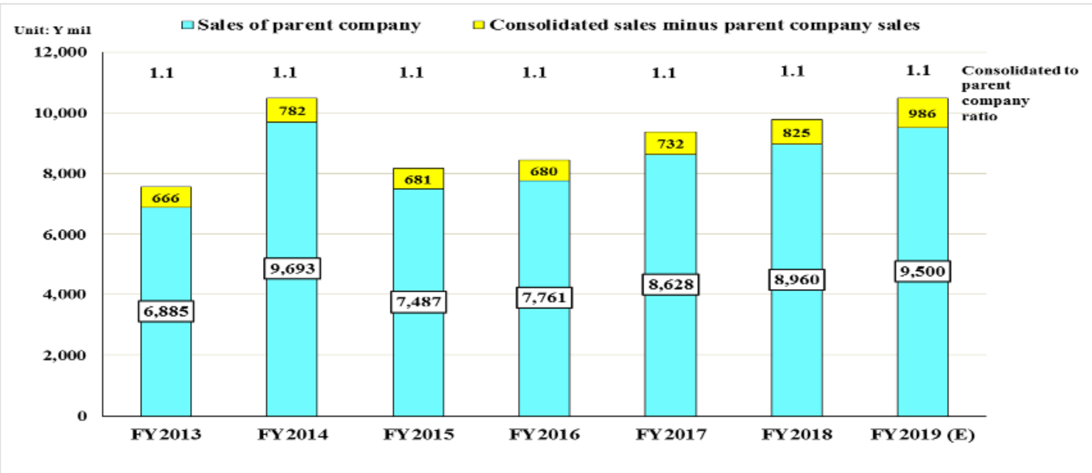
- **The Company's fiscal year ends in March (e.g. FY 2018 ends in March 2018)**

◆ Major Specialized Player in the Enterprise System Software Industry

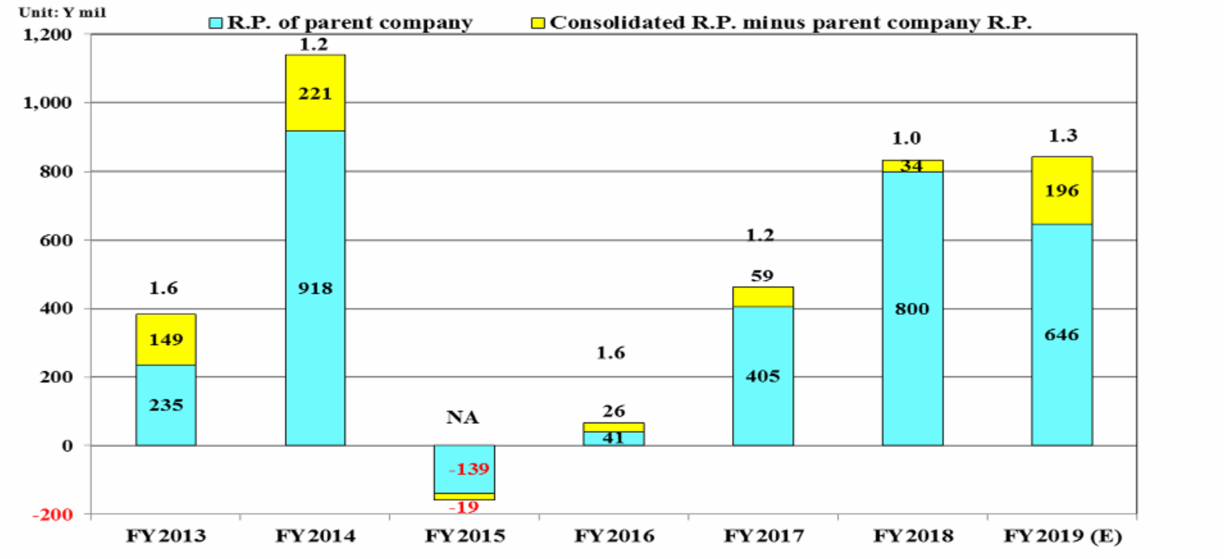
PCA CORPORATION (hereinafter "the Company") is an independent, mid-tier, specialized company in the software industry. The Company is a specialist in developing and selling packaged software (software prepared for use in certain operations) for enterprise systems[1], such as those for accounting and tax. It is a major player as a specialist of such software for small/medium-sized companies. About 200,000 companies are active users of the Company's products, with sales for ordinary companies comprising greater than 90% of total sales. With regards to the size of the customer companies, the Company is especially popular among small/medium-sized companies with 50 to 100 staff. 80% of the Company's sales are via dealers (the remaining 20% are direct sales). It has the largest transaction with the dealer RICOH (sells the Company's software along with its own hardware such as office appliances), which contributes to about 18% of the Company's total sales. The Company's customers are diversified, with major companies as its largest customers by monetary value. The Company ranks No. 1 in the industry in software for public benefit corporations, having installed software in over 8,000 corporations.

The Company's group is made of a total of four companies: the Company and three consolidated subsidiaries. The consolidated subsidiaries are Xronos Inc. (development/sales of labor management system and time recorders; 80% of shares owned by the Company), KEC Corporation (installation guidance, operation, maintenance, and other services for PCA products/services; wholly owned by the Company), and MACS System Corporation (development/sales of computer software for medical office use such as electronic medical records; 80% of shares owned by the Company). The ratio of consolidated to parent company sales has remained around 1.1, indicating that a greater weight is placed on the parent company's financial results (Figure 1). Although the subsidiaries' profits and losses are not disclosed, during the past seven years, the ratios of consolidated to parent company recurring profit were in the range of 1.0-1.6 for the fiscal years that the Company was in the black (including this fiscal year's forecast). Additionally, the summed profit and loss of the three subsidiaries, calculated by consolidated minus parent company recurring profit, indicate a surplus (Figure 2).

[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's Research Dept. based on the securities report. Estimates (E) are from the Company's business plan.

- **Founded by Certified Public Accountants in 1980**

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

- **Rich in cash and debt-less**

The Company's finance is firm, rich in cash and debt-less. Considering that its total asset is Y17.3 billion and market capitalization is approximately Y13.8 billion, it has ample cash and deposits (Y7.3 billion). Its financial ratios, such as its equity ratio of 65% and current ratio of 303%, are also very sound (all values are as of the end of March 2018).

◆ Business Philosophy

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

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

- **The mission statement is to "contribute to society by developing and providing packaged software that realizes advanced automation of core business operations"**

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

The following are the three key ideas of the Company's business philosophy:
1) We will always make our best effort to be customer-first.
2) We will aspire to become a highly profitable company over the long term with sound management.
3) We will treat our employees like family members and create a company with a homely culture.

2. Business Description and Business Model

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

◆ Enterprise System Software Necessary for Efficient Business

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

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

For original software development and installment, outsourced development and in-house development are the two options. In either case, the advantage of an original system is that it is user-friendly since it can be customized to a company's needs and operations. However, development cost and time are larger and longer, and it continues to need revisions, addition of functions, and maintenance after installment. Especially for micro-, small-, and medium-sized companies, the development, installment, and operation of original software are not easy due to financial, staff, and time constraints.

(2) Accounting software: application software for recording, processing, and managing accounting data in an integrated way

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

In response these needs, the Company has been developing original enterprise system software that especially meets the needs of individuals or micro (SOHO)-, small-, and medium-sized companies in areas such as accounting[2], finance, HR and payroll[3], sales management, purchasing and inventory management, tax, and medical and medical office work. The enterprise system software is either packaged (on-premises: conventional product operated inside a corporate customer) or cloud-based (a service where the corporate customer can operate the enterprise system software via the Internet easily and at a low cost without having to prepare its own server). The enterprise system software is sold and distributed by direct or indirect methods.

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

- **Provides about 14 types of originally developed packaged enterprise system software**
- **About 70% of sales come from original products and services**

◆ Business Model with High Continuity and Marginal Profit Ratio

The Company's business model is based on a mass production of a few types of products, providing about 14 types of software. 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 total sales, while the remaining 30% are from other companies' products (purchased goods) included in the goods/other categories (Figure 3).

From developing to selling a new product, approximately two years and corresponding amount of cost are necessary per product. Version upgrades (revision updates) are released usually in a one- to two-year cycle, although this cycle is reconsidered as needed. In fact, in recent years, software functions have become so enhanced that the customers' purchasing in response to this version upgrade cycle seems to be slowing down.

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

◆ Expansion of Highly Stable and Profitable Subscription-Based Businesses

Until FY 2016, sales and loss and profit were disclosed for the four business segments: "for ordinary companies," "for non-profit organizations," "medical," and "cloud." In FY 2017, all business segments became consolidated. Sales are now disclosed for fives sales types (categories): "products," "goods," "maintenance service," "cloud service," and "other operating revenue" (also called "solutions") (Figure 3). Profit and loss by segment are no longer disclosed.

[Figure 3] Sales Classification by Type

Sales Classification by Type	Detail	FY 2018 (actual)		
		Sales (Y mil)	% of Total Sales	Est. Gross Margin
Products	Sales of original packaged software (accounting, sales management, purchasing and inventory management, payroll, HR, etc.) (includes version upgrades)	1,954	20.0	approx. 40%
Goods	Sales of other companies' products such as business forms	988	10.1	approx. 40%
Maintenance Service	By signing up to PSS membership, one can receive inquiry and support services from call centers	3,109	31.8	80-90%
Cloud Service	Subscription service for software provided via the cloud	1,854	18.9	60-70%
Other Operating Revenue	Sales of other companies' products such as software/hardware combined with its original products; also called "solutions"	1,878	19.2	approx. 25%
Total & Average		9,785		54.5%

(Ref) Prepared by Alpha-Win's Research Dept. based on the securities report and interviews. Includes estimated values.

- **Subscription-based maintenance and cloud businesses account for about 50% of the total sales**

During FY 2018, the maintenance service had the greatest sales (Figure 3 and Figure 4), serving as a stable source of profit. In recent years, sales of the cloud service for packaged software have largely grown. The cloud service is becoming a growth driver for the entire company with regards to both sales and profits. Subscription-based revenue, which is the sum of the maintenance service and the cloud service, accounts for greater than 50% of total sales, contributing to greater stability in management and profit. Both the maintenance service and the cloud service have a high gross margin and continuity.

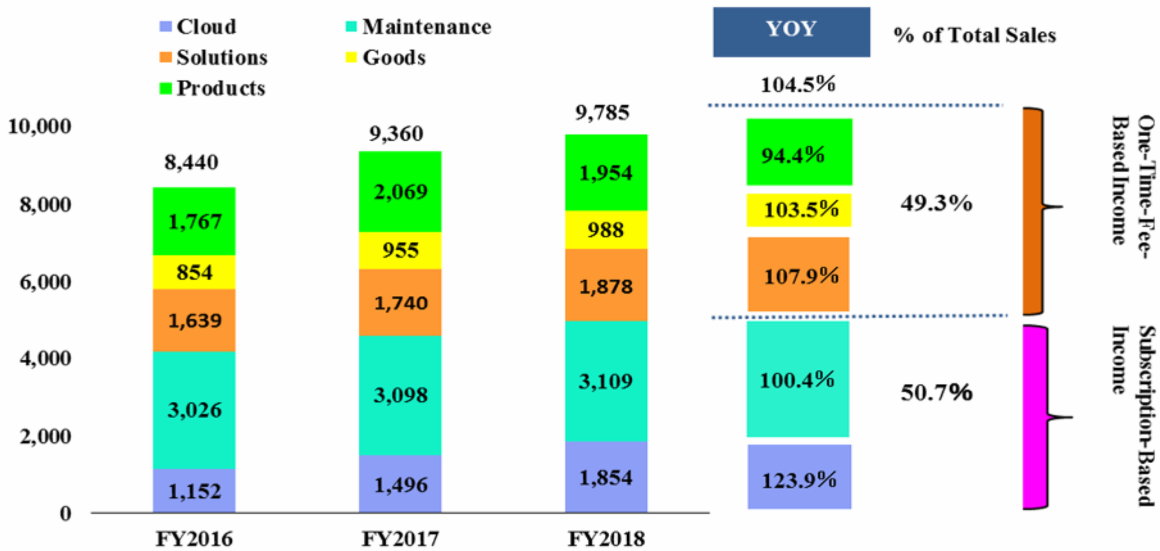
On a consolidated basis, sales breakdown by software operation type is not disclosed. However, sales are known to be diversified, with sales for "accounting software" predicted to be the largest by composition (about 15% of total sales), followed by "sales management and purchase & inventory management," and then by "payroll and HR" ("other including cloud" comprises greater than 50% of total sales).

- **Sales are the focus of the internal management of financial performance and goals**

Currently, as the Company's primary internal management target, goals are set for software sales (or the sold number of products) by operation type. Profit and loss by software operation type are not targets of management, but their values do not seem to be greatly different from one another. The main accounting software business is generally assumed to be highly profitable. Meanwhile, the business for medical software and related products, which was started at a later stage, is thought to be less profitable than other software due to upfront investment costs such as marketing and development costs (past disclosures indicate posting of a loss for this business, but currently no information is disclosed).

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

[Figure 4] Change in Sales and Sales Breakdown (unit: Y mil, %)



(Ref) Excerpt from the Company's financial results briefing and supplemental materials, reworked by Alpha -Win's Research Dept.

◆ Cloud Business as a Growth Driver

- **Shifting from packaged to cloud-based software**
- **Drastic growth of the cloud: awakening of the sleeping beast PCA**

Until recently, the Company had focused its business on conventional packaged software, also known as on-premises. However, as the Internet became more sophisticated and more widely used, the Company expected that demands for the cloud would become greater due to its usability and cost performance. Therefore, since 2008, the Company has been providing on the cloud the same software as the on-premises, ten years ahead of its competitors. This cloud business, where customers pay fees continuously for a certain period of time to use the software, is attractive as a stable,

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

subscription-based business model, categorized together with the maintenance service. The Company has lately been focusing its business on the cloud service, and the number of contracts as well as sales has been growing steadily (Figure 5). As the cost of this cloud business is nearly fixed, with small variable costs such as those related to manufacturing, selling, and logistics, this business has a high marginal profit ratio.

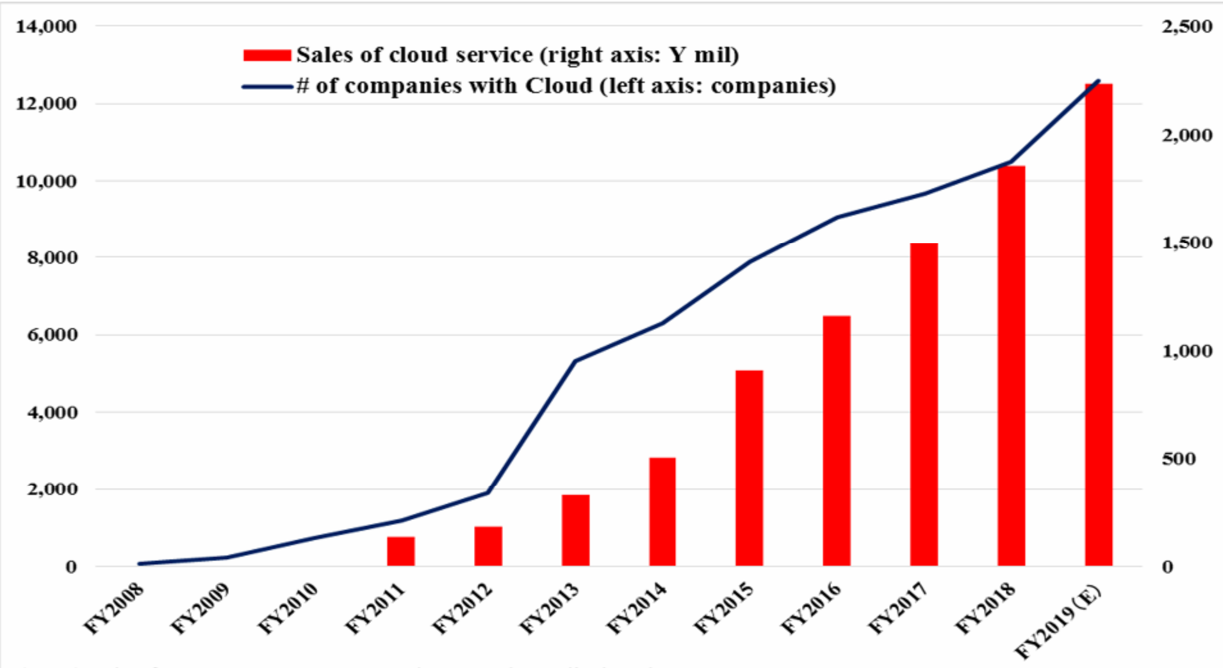
The Company leads the industry as No. 1 in cloud-based enterprise system software for small/medium-sized companies. The following advantages make the Company stand out from its competitors. Its competitors have also begun to enter the cloud market in recent years (2017-2018) as their first year of cloud, but the effect of the Company's advantages is expected to last for the meantime.

- Providing a wide variety of advanced software for business operations
- Originally-developed open architecture, at a low cost
- Economies of scale are in effect, with more than 10,000 companies already using cloud as customers, contributing to the Company's profit
- Consequently, it has a strong price advantage compared to its competitors
- Ten years' worth of operation know-how
- User-friendly, with WebAPI[4] allowing linkage with other companies' cloud (already linked with dozens of companies, including Kintone[5] of Cybozu)

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

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

[Figure 5] Transition in the Number of Companies with PCA Cloud and Sales of Cloud



(Note) Sales from FY 2008 to FY 2010 have not been disclosed.

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

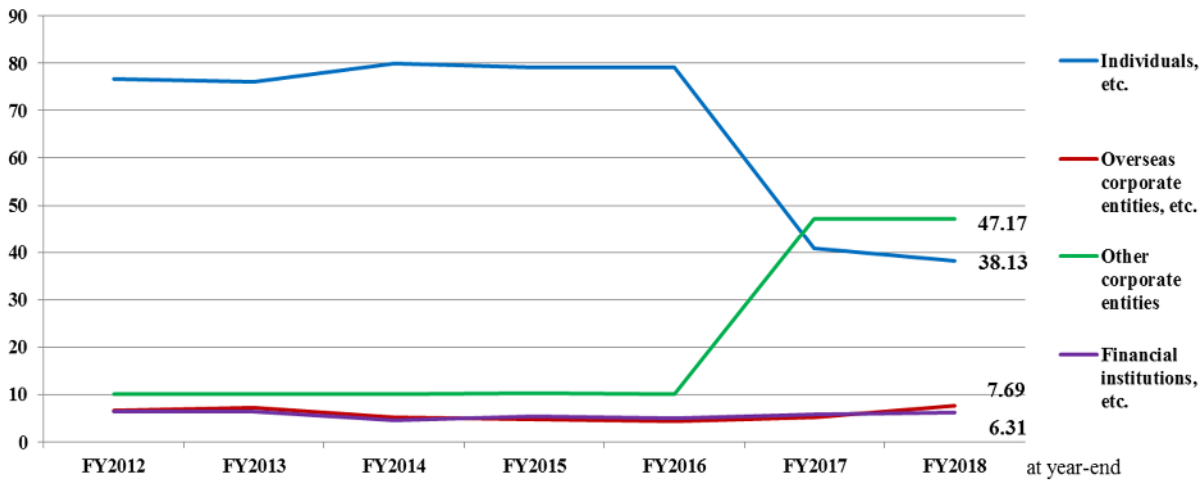
3. Shareholder Composition

◆ Change in Composition by Type of Shareholder

- **Shares were transferred due to inheritance and other events, but there was no substantial change in major shareholder composition**

Regarding shareholder composition by shareholder type as of the end of March 2018 (Figure 6), the sum of "other corporate entities" and "individuals, etc." accounts for approximately 85% of the total. "Overseas corporate entities, etc." and "financial institutions, etc." account for only 7% and 6%, respectively, and their ratios have not change much over the years. Certain individually owned shares were transferred upon inheritance from the founder (Mr. Kawashima) and then transferred in FY 2017 to a general incorporated association (the founder family's asset management company, categorized under "other corporate entities"). However, no substantial change occurred in shareholder composition.

[Figure 6] Change in Shareholder Composition by Type of Shareholder (unit: %)



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

◆ Major Shareholder Composition

- **The largest shareholder is an asset management company of the founder's family. OBC, its rival, is also a major shareholder.**

Major shareholders are listed on Figure 7. The following are supplementary information.

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

・ The second largest shareholder (excluding treasury stock; the same applies to the rest of the ranking) State Street Trust and Banking Company 505001: most likely a fund but its investors are unknown. Also invests at below 5% in several other Japanese small/mid-caps.

・ The third largest shareholder Obic Business Consultants Co., Ltd. (OBC): a competitor with no transaction with the Company. Mr. Shigefumi Wada, the fourth largest shareholder, is the current president of OBC. In either case, their purposes are unknown, but may perhaps be to collect information or for future M&A or partnership.

・ The sixth largest shareholder Mizuho Bank, Ltd.: probably for the purpose of cross-shareholding.

・ The seventh largest shareholder Logic Systems Co., Ltd., and the tenth largest shareholder APPLIED SYTEM LABORATORY Inc.: unknown purpose.

- **A new shareholder joined ninth in ranking. Probably an investment fund. Its actions are to be closely watched.**

・ The eight largest shareholder Nagoya PCA Co., Ltd.: the company to which software development (SHOKON and other products of the Company) is outsourced.
・ The ninth largest shareholder KBL EPB S.A. 107704: thought to be a Europe-based investment fund targeting Asian equity. Holds large amounts of several Japanese small/mid-caps for pure investment purposes. First disclosed in FY 2018's securities report as a major shareholder.

[Figure 7] Major Shareholders' Status

(at year-end) Unit: thou. shares %

	FY2015	FY2016	FY2017	FY2018	% of Total Shares	Ranking
Kawashima Co., Ltd.	—	—	2,935	2,935	42.85	1
PCA CORPORATION	848	848	848	848	11.02	—
State Street Trust and Banking Company 505001	244	249	266	266	3.90	2
Obic Business Consultants Co., Ltd.	254	254	254	254	3.71	3
Shigefumi Wada (individual)	181	181	181	151	2.29	4
PCA Employee Stock Ownership Plan	110	119	127	127	1.97	5
Mizuho Bank, Ltd.	121	121	121	121	1.77	6
Logic Systems Co., Ltd.	114	114	114	114	1.66	7
Nagoya PCA Co., Ltd.	—	100	100	100	1.46	8
KBL EPB S.A. 107704	—	—	—	90	1.32	9
APPLIED SYSTEM LABORATORY Inc.	—	—	86	86	1.25	10
Reiko Sato (individual) Heir to the founder Mr. Kawashima	1,467	1,467	—	—		
Tomoko Kumamoto (individual) Heir to the founder Mr.Kawashima	1,467	1,467	—	—		
Hiroko Wada (individual)	358	—	—	—		

(Ref) Prepared by Alpha-Win's Research Dept. based on the securities report. Note: the official English name could not be verified for some.

There has been almost no change in the amount of treasury stock for several years, accounting for about 11% of the outstanding shares.

- **Restricted stock (granted after requirements have been met) system started for directors and auditors. Uses a part of the treasury stock, which is about 11% of the total.**

In June 2018, the Company terminated its retirement bonus plan for its directors, and decided to instead use a part of its treasury stock to support the newly created restricted stock[6] (stock is granted after meeting requirements). The restricted stock targets directors (excluding external directors) and full-time auditors. Its system is as follows: "points" are accumulated with an upper limit, where 30% of the base salary counts as a "point" – these points are then exchanged for the Company's treasury stock upon retirement. Promoting directors to possess more shares by granting the Company' treasury stock, this new compensation system was started in an aim to share interests with shareholders over the long-term. In the past, active management members only directly possessed small amounts of the Company's shares, with the exception of a few management members. The implementation of this system should be effective in improving the incentives of directors with regards to management and financial results.

(6) Restricted stock: A type of stock compensation plan that directly grants a company's actual shares to its directors, etc.

Currently, the Company has not completely decided on how to furthermore effectively use the remaining treasury stock in the future, but some possibilities include cancellation of stock and stock-swap in a tie-up or an M&A.

4. ESG

◆ **Environment**

Although the Company does not directly own any production facility and therefore does not harm the environment, it still makes consideration for energy/electricity conservation. Specifically, it follows the "cool biz" standard by setting the default temperature for air conditioners inside buildings to 28°C.

◆ **Society**

- **Proactively supporting the disabled and the discovery and training of IT talents**

The Company declares to "contribute to society through the developing and providing of packaged software that realizes advanced automation of core business operations" in its mission statement. The idea is that by contributing to improved user convenience and efficiency, it is fulfilling its responsibility as a member of the society. In addition, the Company has become a gold sponsor of the U22 Programing Contest backed by the Ministry of Economy, Trade and Industry. In becoming a sponsor, it is supporting the stimulation of Japan's technologies and innovations and the discovery and training of talented programmers who will shape the future.

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

The Company also operates a farm in Chiba Prefecture where it proactively hires physically disabled staff. It also purchases packaged lunch and bakeries made by a company that hires physically disabled staff.

- **Promoting diversity by improving gender mix**

As a general employer action plan based on the Act on Promotion of Women's Participation and Advancement in the Workplace, the Company has set goals to "continue to hire new female employees at greater than 40% of total new hires, raise the percentage of female full-time employees from the current 25% to 30%, and create the foundation for raising the number of future female managers by raising the percentage of women in the Company." The Company is promoting the workplace retention of women and making efforts to promote greater female participation. Of the Company's directors, one is a female (external director).

◆ **Governance**

For internal control, the Company has set up an internal audit office, directly under control of the president, that cooperatively operates with two external directors. It has also set up a risk-control committee with the president as the chairperson. These measures contribute to creating a risk control system that can flexibly, quickly, and appropriately respond to risks.

As of June 2018, the Company does not have an executive officer system. The management team is comprised of seven directors (including two external directors) and four auditors (including three external auditors, one tax accountant, one CPA, and one lawyer).

5. History of Growth

◆ Company History

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

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

A group of five Certified Public Accountants with the late Mr. Kawashima as its leader founded the Company in 1980 in recognition of the importance and the promising future of computer and software businesses in Japan. At first, they developed and sold business accounting software for small business computers. In 1995, in anticipation of future transition from small business computer users, the Company officially began the development and marketing of packaged software for personal computers (PC). Then, with the emergence of the PC era, the Company grew thanks mainly to the following four efforts: 1) greater variety of and version upgrades for domestic packaged software, 2) expansion of the maintenance service, 3) development of the cloud business, and 4) expansion of the solutions business which includes the providing of other companies' products. Furthermore, the increased number of offices, cooperation with manufacturers and dealers, and development of a nationwide sales/support system helped rapidly expand its business. The Company is also seen as a pioneer in the rather conservative industry, as it was the first in the industry to begin providing cloud services (SaaS[7]) in 2008.

(7) 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.

As for the three consolidated subsidiaries, KEC Corporation was founded in 1998, MACS System Corporation was made its subsidiary in 2008, and Xronos Inc. was founded in 2001.

◆ **Changed its market from the second to the first section of the TSE in Dec. 2014**

Regarding shares, the first public offering was made in 1994. The Company was then listed on the second section of the TSE in 2000 and then the first section in 2014. Upon being listed on the first section of the TSE, the Company changed its logo to the current one.

◆ Transition in Past Financial Results

Since foundation until now, the Company has been expanding its business as a specialist in the development and marketing of enterprise system software and related businesses, as described above. The transition in financial results since its first public offering is described on Figure 8. Supplemental information on the financial results is as follows, in chronological order:

◆ **Increased sales over the long term. No significant change in profit.**

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

・Consecutively decreasing sales and profit from FY 2001 to FY 2002 occurred due the economic downturn and the market recoil from the high demand driven by the year 2000 problem.

・The four consecutive decreases in sales from FY 2007 to FY 2010, as well as the seven consecutive decreases in profit from FY 2007 to FY 2013, were caused by decreased demand (due to the post-Lehman economic downturn, etc.), increased HR/R&D/advertising costs, and decreased profitability caused by intensified competition.

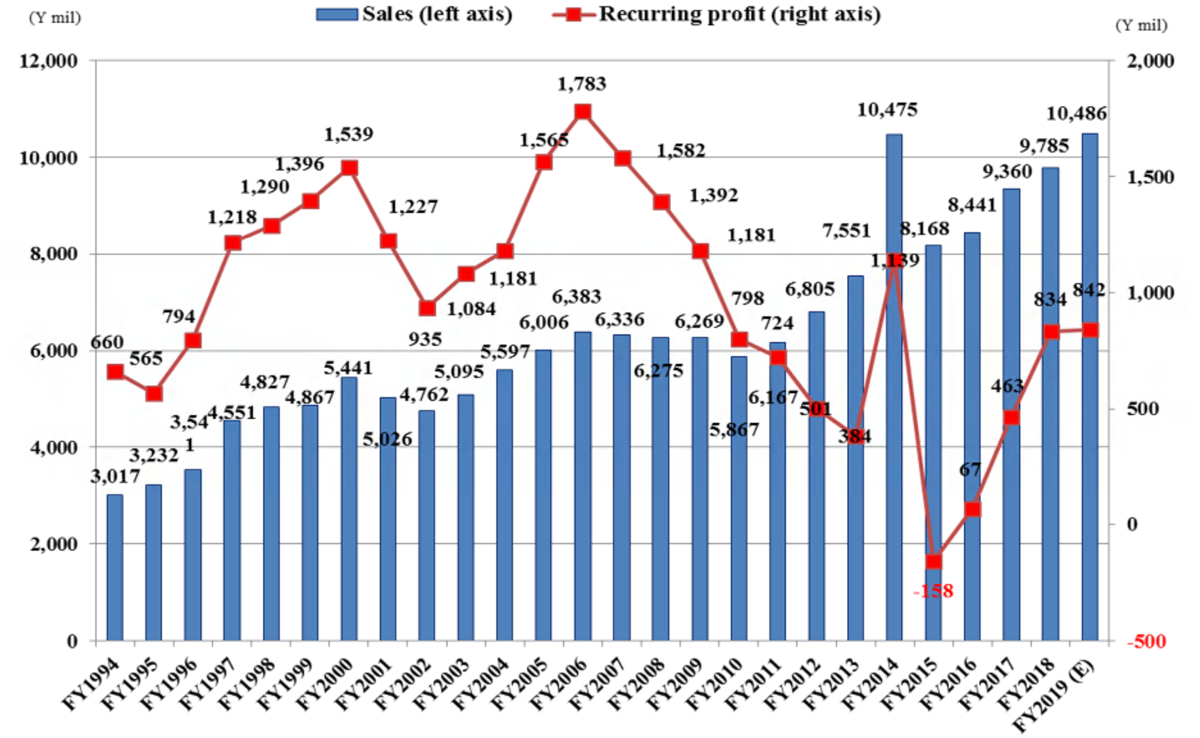
・In FY 2014, record-high sales (Y10,475 million) were achieved thanks to

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

the high demand driven by two events: the termination of Windows XP support (support ended in April 2014) and the change in consumption tax (from 5% to 8% in April 2014). The large growth of the cloud service also contributed to the record-high sales.

・Decreased sales in FY 2015 is explained by the market recoil from the high demand driven by the two events as described above. Since FY 2016, the Company has been increasing its sales again thanks to the continued growth of the cloud, new products, strengthened sales force, and economic recovery.

[Figure 8] Long-Term Transitions in Financial Results



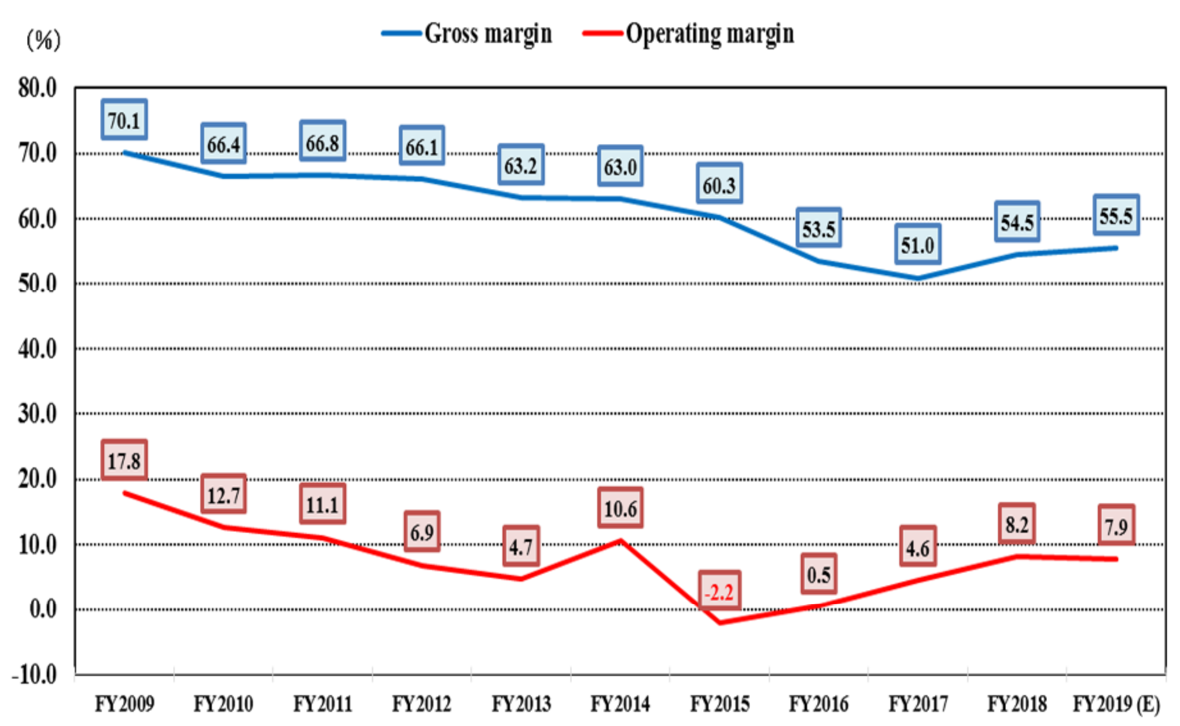
(Ref) Prepared by Alpha-Win's Research Dept. based on the securities report. Estimate (E) for FY 2019 is from the Company's business plan.

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

With regards to earnings, record-high net profit (Y937 million) was achieved in FY 2000, having benefitted from the high demand driven by the year 2000 problem. Additionally, in FY2006, record-highs were achieved for operating profit and recurring profit (Y1,747 million and Y1,783 million, respectively). Demand stimulated by the revised accounting regulation for public benefit corporations and by the drastic changes caused by the new Companies Act, as well as the Company's ERP (integrated enterprise system) product "Dream 21," contributed to these record-highs in 2006.

The Company's gross margin and operating margin had been gradually decreasing for a long time (Figure 9). Gross margin declined due to increased price competition from intensified competition among packaged software developers during the economic downturn, worsened product mix from a rise in the percentage of other companies' less-profitable products, and higher costs, mainly in labor costs, production expenses (subcontractor costs), and R&D costs.

[Figure 9] Long-Term Transition in Gross Margin and Operating Margin



(Ref) Prepared by Alpha-Win's Research Dept. based on the securities report. FY 2019's values are estimates (E) by the Company.

- **A loss was recorded for two consecutive years in recoil from past event-driven high demand**
- **From FY 2016, began to consecutively raise sales/profit, staying in the black, thanks to new products, growth of the cloud, and cost reduction. Improved operating margin.**

Despite efforts to cut down on cost, losses were consecutively recorded for the full-year results in FY 2015 and FY 2016 (net loss for the year: -Y207 million in FY 2015 and -Y93 million in FY 2016), affected by decreased sales in response to the market recoil from the event-driven high demand as described above and to the postponed revision of consumption tax to 10%.

However, in FY 2016, the Company started to increase sales again. Although gross margin still continued to decrease, operating margin had bottomed out and began to gradually increase thanks to the sales of the new products and the cloud and cost reduction. Since FY 2017, the Company has been able to continuously make and increase profit. The sales growth of the cloud and maintenance services and the cost reduction have been supporting this growth/recovery of the Company's financial results in recent years despite its domestic sales being in a standstill below Y10 billion (Figure 9).

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

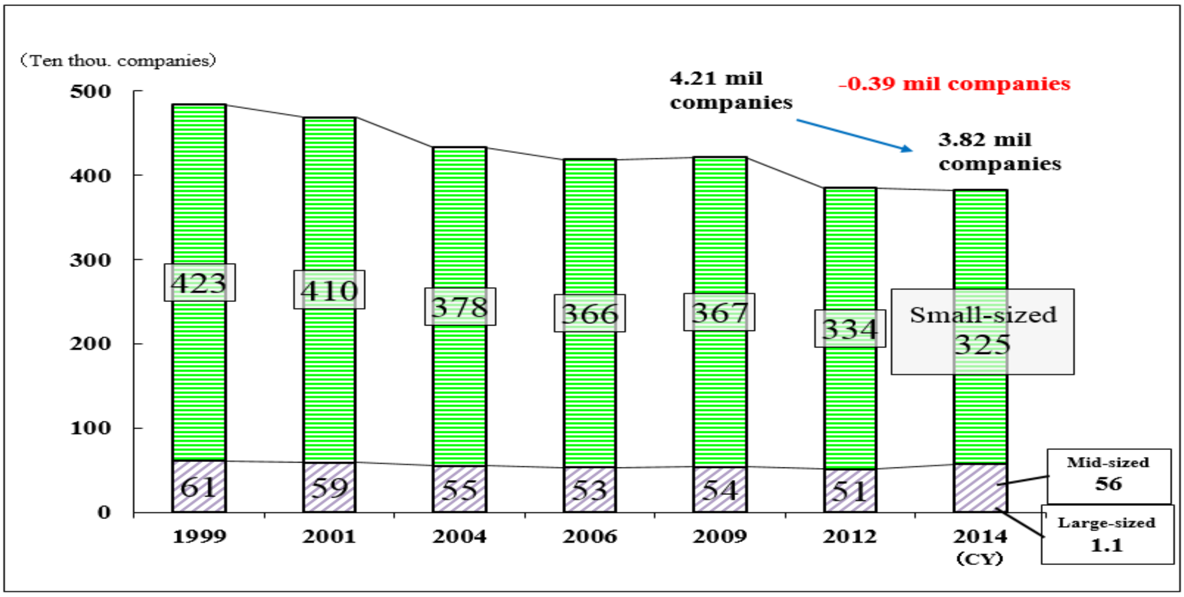
(8) Small-sized company: diff. definition by each industry, but essentially the same as "small/medium-sized companies" in staff size and sales

6. Business Environment

◆Market Trend for Enterprise System Software

The number of companies in Japan is following a declining trend, falling below four million companies (Figure 10). The number of small/medium-sized companies is especially declining because of small-sized companies[8] closing their businesses. With the decreasing population and aging society of Japan, the total number of small and medium-sized companies – the Company's customers – is not likely to experience a large increase. As a side note, the total number of companies as of June 2016 was approximately 3.87 million, slightly greater than the year 2014 by 50,000 companies (+1.3%).

[Figure 10] Change in the Number of Domestic Companies



(Ref) The "2016 Economic Census for Business Activity" by the Ministry of Internal Affairs and Communications and the Ministr y of Economy, Trade and Industry and the "2017 White Paper on Small and Medium Enterprises in Japan" by the Small and Medium Enterprise Agency

Meanwhile, facing necessities for manpower, operational efficiency, and improved corporate financial results, companies and other corporate bodies are starting to rebuild or reinforce their enterprise systems. Alpha-Win's Research Department forecasts that the size of the relevant market will steadily increase along with increasing demand for software to streamline business operations.

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

Our Research Department estimates Japan's current market size for enterprise system software specifically related to the Company's business to be approximately Y500 billion and for ERP to be approximately Y100 billion. Annual growth rate is forecasted to be about 3% for the former and

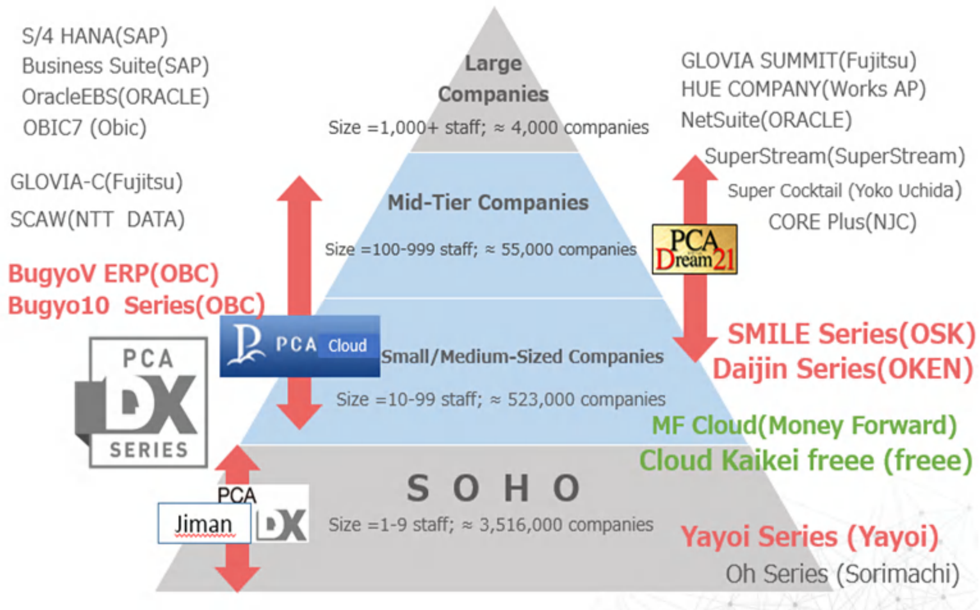
- **Stably growing enterprise system software market. Transitioning from on-premises to the cloud.**
- **Market potential for cloud-based enterprise system software in Japan continues to be great**

10% for the latter over the medium term. The cloud-based enterprise system software market is expected to have an especially high annual growth rate of 20-30% over the long term, replacing a part of the packaged software (on-premises) market. In fact, compared to the U.S. where the cloud-based enterprise system software market is several years ahead of Japan, the penetration rate of such system in Japan is ½ to ⅓ of that of the U.S. (ref: “WHITE PAPER Information and Communications in Japan” by the Ministry of Internal Affairs and Communications, etc.). Consequently, the growth potential of the market in Japan should be great (according to the year 2017 version of the “WHITE PAPER,” the penetration rate of the cloud in Japan is approximately 26% in “payroll / financial accounting / HR” and only 6-8% each in “production management / logistics management / store management,” “purchasing,” and “sales on orders”).

◆Comparison with Competitors

Figure 11 portrays an overview of the various positions and main players in the industry, categorized by target customer. The players in the industry are mostly able exist alongside one another by taking strong positions in different niches, segregated by the size of the company/organization that are their users or by the operation targeted by the software.

[Figure 11] Customers and Main Players of the Enterprise System Software Market



(Ref) The Company’s financial results briefing material
Note: the official English name could not be verified for some.

- **OBC, MJS, Yayoi, and OHKEN are its rivals**

The Company has different rivals for each type of operation targeted by the software. In general, including its key accounting software product, 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 competitor, since it has similar product lineup and business model as the Company. Among unlisted companies, Yayoi (subsidiary of ORIX), OHKEN (independent), and OSK (subsidiary of OTSUKA CORPORATION) are its direct competitors.

The accounting software market size is approximately Y200 billion. The

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

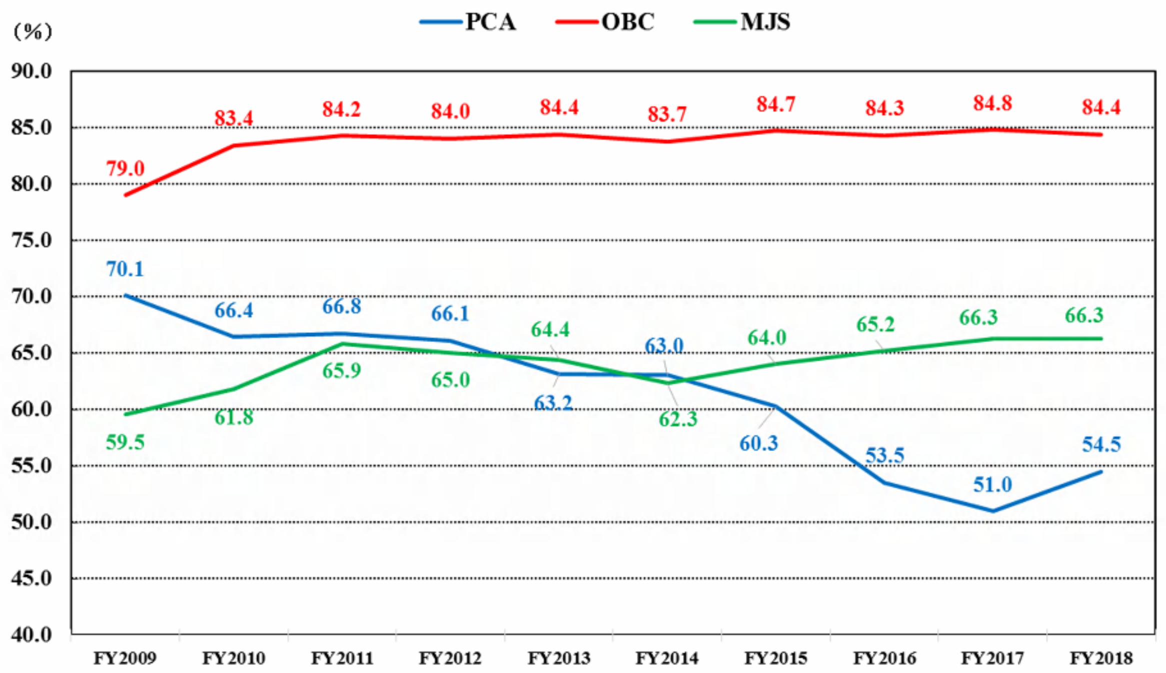
market is reaching maturity and its size should not largely change. The Company is estimated to be third from the top in the market (about 10% of total market shares). Similar market share and positions are also predicted to be true for the Company's payroll and HR software. Money Forward and freee also join in as rivals in the cloud market.

A characteristic of the Company is that it provides high quality but reasonably priced products and services to its customers.

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 on Figures 12 and 13. Compared to the Company, both OBC and MJS's margins are stable, perhaps due to the merit of scale (the sales of both OBC and MJS are more than two times greater than the Company's, and their operating profits are about twelve times and fives times greater, respectively), the difference in efficiency, and the difference in sales composition. Both companies used to have a lower subscription rate to maintenance support, but had been able to raise this rate, leading to greater earning capacity. However, the Company's profit margins have also bottomed out in recent years, now aiming for greater earning capacity.

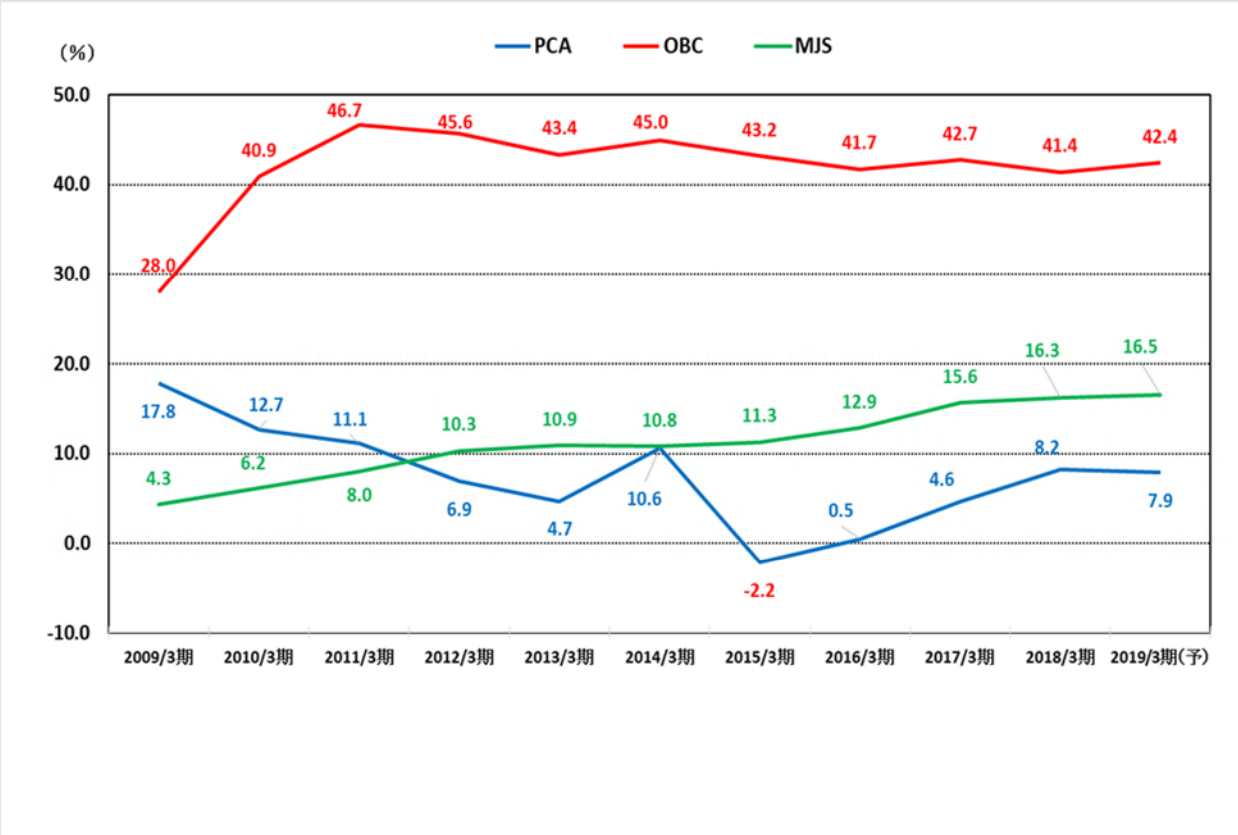
Similarly, looking at the transition in the Company's ROA and ROE on Figure 14 and the comparison of the three listed companies' business overview and management indicators on Figure 15, the Company seems to have room for improvement in earning capacity as well as asset efficiency.

[Figure 12] Long-Term Transition in the Gross Margin of Three Major Listed Companies (PCA, OBC, and MJS)

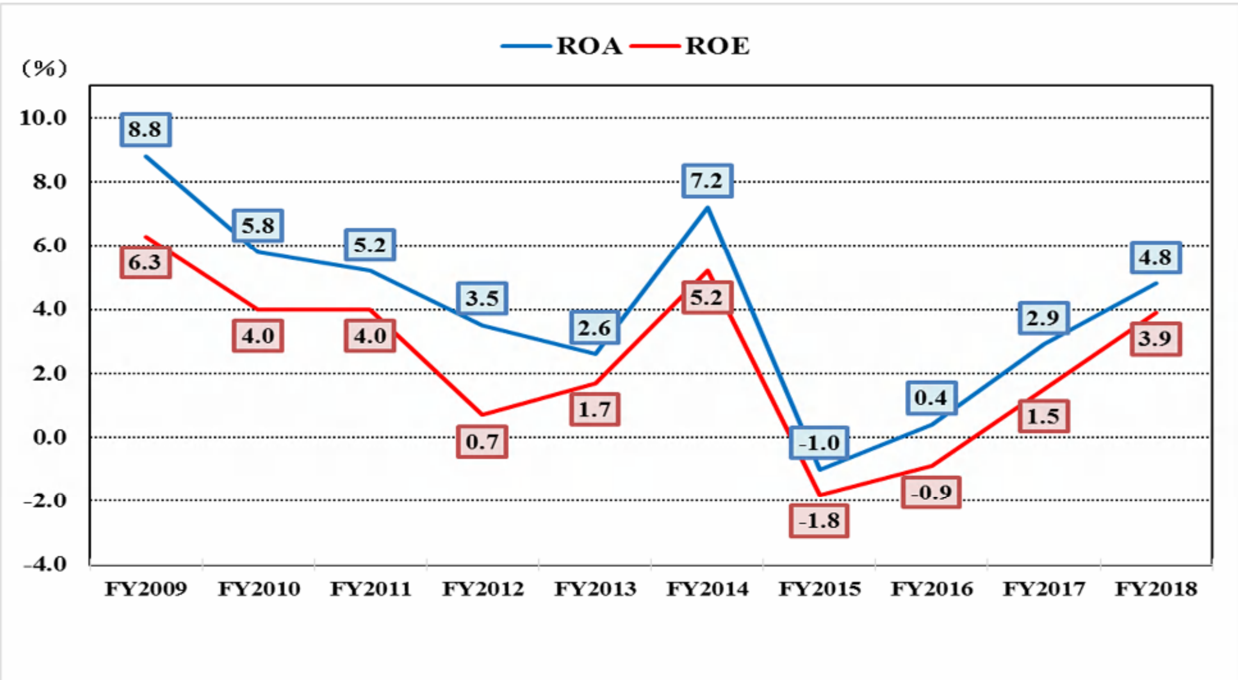


(Ref) Figures 12-14 were prepared by Alpha-Win's Research Dept. based on the securities report, and their estimates (E) are from the Company's business plan.

[Figure 13] Long-Term Transition in the Operating Margin of Three Major Listed Companies (PCA, OBC, and MJS)



[Figure 14] Transition in the Company's ROA and ROE



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

[Figure 15] Company Overview and Management Indicator Comparison for Three Major Listed Companies (PCA, OBC, and MJS)

Company Name	PCA	Obic Business Consultants (OBC)	Miroku Jyoho Service (MJS)
Code	9629	4733	9928
Characteristics	Development and sales of packaged enterprise system software 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 software for small/medium-sized companies. Became top-ranking in the industry from rapid growth in the early days of the OS W95, NT, etc. Largest player in the industry by profit and profitability. 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
Listed Date	Mar. 1994	Oct. 1999	Aug. 1992
Sales Categories/Breakdown (FY 2019)	- Maintenance service 32% - Cloud service 19% - Products 20% - Other 19% - Goods 10%	- Services 58.5% - Products 41.5% (Solution technology 28.0%) (Related products 13.5%)	- Revenue from services 34.3% (general maintenance) - Sales from system installation contract 61.3% (System installation service 11.8%) (Hardware product sales 11.6%) (Software 38.0%) - Other 4.3%
Sales Method	20% direct sales, 80% indirect sales by dealers/makers	Nearly 100% indirect sales by dealers, makers, etc.	Approx. 30 sales/support offices throughout Japan; accounting firms acting as sales partners (referrals)
Number of Sales Bases	13 offices; 2,000 sales partners	3 offices with customer service personnel; 3,000 sales partners	Approx. 30 sales/support offices throughout Japan; accounting firms acting as sales partners (referrals)
Number of Active Users (rounded)	200,000 companies	200,000 companies	8,400 accounting firms; 100,000 ordinary companies
Subscribers to Maintenance Service among Active Users	Approx. 50%	Approx. 80%	Nearly 100%
Management Goals	Long-term goal: sales Y20 bil, DOE 2.5%, 80,000 companies using cloud	Mid-term targets not disclosed. Continue to grow as a highly profitable company by maintaining/improving O.P. margin and R.P. margin while increasing sales.	Sales Y50 bil, R.P. margin 30%, ROE 30% in FY 2021
Business Strategy	- Cloud & smart device - Post-ERP - Industry specialization	Strengthen "core competence," focused on the following: - Enterprise operation services - Mid-tier and small/mid-sized companies - Microsoft technology - Partnership strategy - Branding strategy Emphasis on cloud	- Maximize synergy by strategically investing in growth domains like FinTech - Realize continuous improvement of corporate value and the group's dramatic growth - Expand the high-margin finance/internet business with a focus on developing the current ERP business
Main Types of Enterprise System Software	Approx. 12 types	13 types in Bugyo series	1 module for accounting firms 6 modules for ordinary companies (each module contains software for several operations)
Sales (Y mil) CE for FY 2019	*10,486*	*25,000*	*30,600*
Gross Margin (%) Actual for FY 2018	54.5	79.4	66.2
Operating Profit (Y mil) Est.	*825*	*10,600*	*5,050*
Operating Margin (%) Est.	*8.2*	*42.4*	*16.5*
EPS (CE) FY 2019, YOY (%)	*33.5*	*4.5*	*14.4*
DOE (%) Actual	1.9	2.9	5.4
Past 10 Years' Sales Growth Rate (FY 2019's company plan div. by FY 2009: %)	*67.3*	*53.7*	*53.9*
O.P. Growth Rate (same condition as above)	*-26.1*	*132.5*	*511.6*
Equity Ratio (%) Actual	65.0	84.9	65.5
# of Full-Time Employees Actual	471	739	1,433
Sales Per Full-Time Employee (Y mil / person)	*22.3*	*33.8*	*21.4*
O.P. Per Full-Time Employee (Y mil / person)	*1.8*	*14.3*	*3.5*
ROE (%) Actual for FY 2018 A=B×C×D	3.9	8.0	18.5
N.P. Margin (N.P. for the year / sales : %) B	4.5	34.8	9.4
Total Asset Turnover Ratio (sales / ave. total asset) C	0.6	0.2	1.3
Financial Leverage (ave. total asset / ave. owner's equity) D	1.5	1.2	1.5
ROA (R.P. / total asset : %) E=F×G	4.8	9.3	19.0
R.P. Margin (%) Actual F	8.5	47.6	14.5
Total Asset Turnover Ratio (sales / ave. total asset) G	0.6	0.2	1.3

Italics show each company's estimates (CE) for FY 2019. Others are actual values for FY 2018.

(Ref) Prepared by Alpha-Win's Research Dept. based on each company's securities report, financial results briefing materials, HP, and interviews

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

- **Last fiscal year, sales rose for the 3rd consecutive year and profit increased significantly**
- **Sales could not reach forecasted value at the beginning of the year, but still the 2nd highest in history despite the lack of event-driven high demand. Profit exceeded expectation at the beginning of the year.**

◆ Full-Year Financial Results for FY 2018 (last fiscal year)

Positive full-year consolidated financial results were reported for FY 2018 (hereinafter, "last fiscal year"): Y9,785 million in sales (+4.5% YOY), Y807 million in operating profit (+86.8% YOY), Y834 million in recurring profit (+79.9% YOY), and Y441 million in net profit for the year attributable to owners of the parent (+174.1% YOY). Although sales were below the value forecasted at the beginning of the year as well as the revised forecasts (Y9,876 million expected at the beginning of the year; the actual result was Y9,785 million), profit for the year exceeded all forecasts (Y425 million and Y441 million in net profit for the year in the same order as above; Figure 16). However, last fiscal year's sales were one of the highest in the Company's history, second only to the Y10,475 million recorded in FY 2014 under the influence of high demand driven by two events (Windows XP support termination and consumption tax revision).

[Figure 16] FY2018 Actual Results and Change in Forecast (unit: Y mil, %)

FY2018 Consolidated	Forecast at Beginning of Year	% YOY Change	Revised Forecast (10/16/2017)	Diff. from Initial Forecast	Revised Forecast (1/29/2018)	Diff. from Initial Forecast	Actual Result	Diff. from Initial Forecast	Diff. from Final Forecast	% YOY Change
Sales	9,876	5.5	9,917	41	9,842	-34	9,785	-91	-57	4.5
Operating Profit	645	49.3	768	123	766	121	807	162	41	86.8
(% of sales)	*6.5*		*7.7*		*7.8*		*8.2*		*0.5*	
Recurring Profit	669	44.4	809	140	797	128	834	165	37	79.9
(% of sales)	*6.8*		*8.2*		*8.1*		*8.5*		*0.4*	
Net Profit for the Year	425	164.4	352	-73	429	4	441	16	12	174.1
(% of sales)	*4.3*		*3.5*		*4.4*		*4.5*		*0.1*	

(Ref) Prepared by Alpha-Win's Research Dept. based on information including those from the financial results summary and news release

- **The cloud was the growth driver for both the Company's sales and profits**

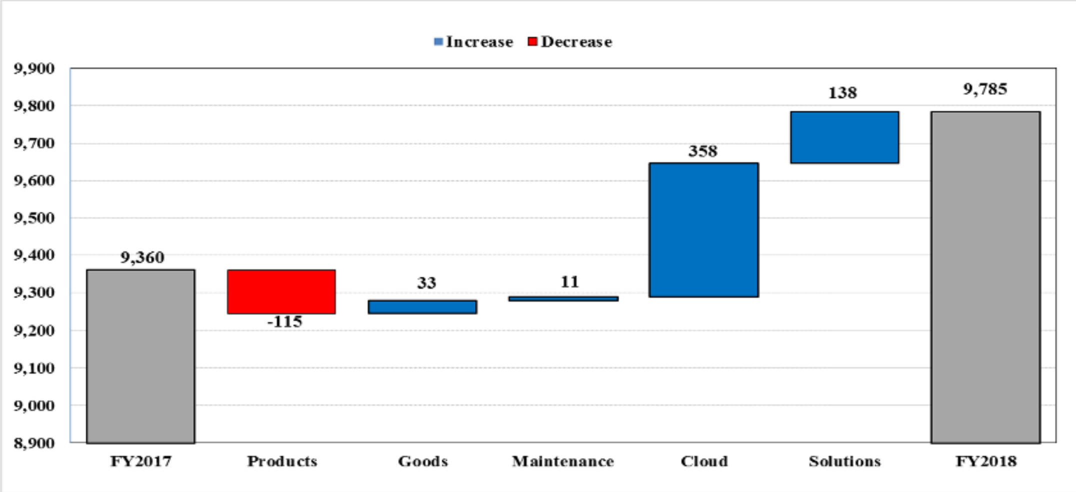
Last fiscal year, sales increased by Y425 million compared to FY 2017. This increase breaks down to Y358 million by the cloud business and Y138 million by the solutions business (other revenue) (Figure 17).

The flagship product PCA Cloud (the product name for the Company's cloud service; a system that allows business applications, etc., to be flexibly used via the Internet) has begun to successfully penetrate into the market. This success, in addition to the transition from the on-premises (conventional software), helped increase the number of users at a steady pace, and thus contributed largely to the rise in the Company's sales as a whole. Since about 40% of new cloud contracts are with new customers, the cloud service serves as an important medium for finding new customers. Also, the solutions business (other companies' products) was supported by the demand for the kinds of products that are not included in the Company's original product lineup (such as the POS system).

Meanwhile, sales of the maintenance service and products only increased modestly. Also, for product sales, although the subsidiary Xronos' labor management system[9] business grew in light of the correction of long working hours as part of the Work-Style Reform, sales of version upgrades for products such as the accounting software did not grow as expected, resulting in a sales decrease by Y115 million.

(9) Labor management system: also called the attendance management system, it manages/utilizes various info on working hours. Can automatically aggregate data on working hours, etc., and prepare data to link with payroll software.

[Figure 17] Factors Contributing to Increased Sales in FY 2018 (last fiscal year) (unit: Y mil)

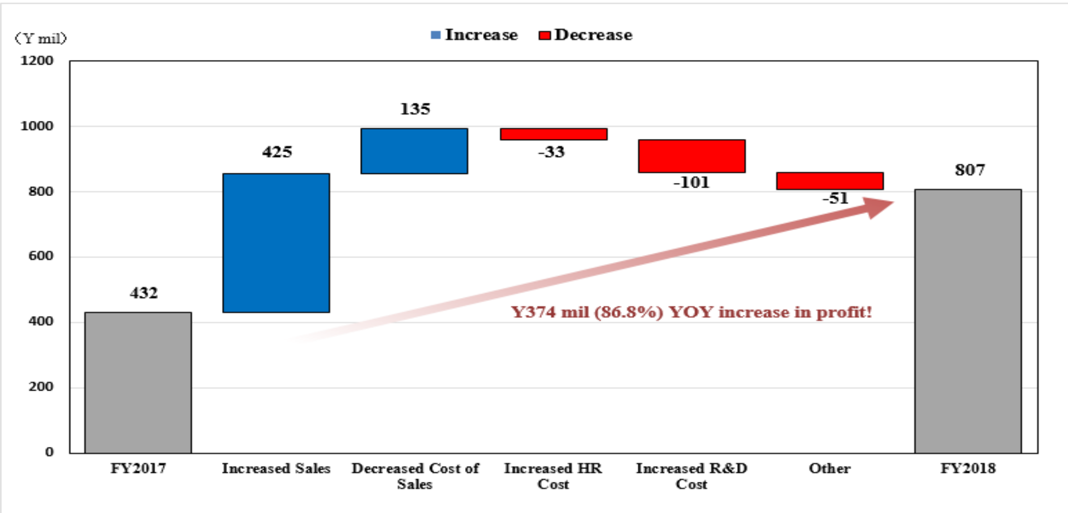


(Ref) Excerpt from the Company's FY 2018 financial results briefing materials, reworked by Alpha-Win's Research Dept.

- **Profit margins bottomed out and began improving, with improved gross margin and cost reduction**

Large improvements were seen in income, mainly due to an increase in sales and the improvement of gross margin by 3.5 points to 54.5%. Several factors contributed to the improvement in gross margin, such as the decrease in software amortization which is recorded as a cost (from Y893 million in FY 2017 to Y528 million in FY 2018, equivalent to a 3.7% improvement in the cost-to-sales ratio) and the expansion of the subscription-based maintenance and cloud businesses (from 49.1% of total sales in FY 2017 to 50.2% in FY 2018) which helped improve sales composition with their high continuity and profitability. Additionally, SG&A expenses only increased by 4.3% YOY despite increased R&D and HR expenses, as reduction and control of sales promotion and advertising expenses were successful. Since this increase was smaller than the sales increase of 4.5% YOY and the gross margin increase of 11.8% YOY, the ratio of SG&A expense to sales stayed about the same with 46.4% in FY 2017 and 46.3% in FY 2018. As a result, operating margin largely improved from 4.6% to 8.2% for the same years, leading to a large increase in profit by nearly 90% (Figure 18).

[Figure 18] Factors Contributing to Increased Profit in FY 2018 (last fiscal year) (unit: Y mil)



(Ref) Excerpt from the Company's FY 2018 financial results briefing materials, reworked by Alpha-Win's Research Dept.

◆ **Structural reform has come into effect**

A large increase in net profit for the year was also achieved despite the non-operating profit or loss, which stayed at about the same level as last fiscal year at +Y28 million, and the extraordinary profit or loss, for which the real estate revaluation continued from last year led to the posting of an impairment loss of -Y244 million (-Y228 mil in FY 2017) as extraordinary loss. In the several years before transitioning to a new system under the new president, the Company has been pushing forward with a structural reform, reorganizing assets that have impairment risks (such as real estate and securities) and making software amortization period shorter.

Several factors caused sales to fall below the forecast at the beginning of the year. First, the sales of version upgrades for the on-premises could not reach the Company's goal. Also, while the consolidated subsidiary MACS System Corporation (in charge of development and sales of medical enterprise systems) was able to complete the development of the next version of electronic medical records, the date of sale was delayed due to circumstances such as the postponement of new orders. As a result, MACS System Corporation posted a loss (value not disclosed), and the "consolidated minus parent company" recurring profit, as well as net profit for the year, was revised downward.

◆ **The Company expects increased sales and profit for the 4th consecutive year due to the sales of cloud and maintenance. Record-high sales planned to be achieved.**

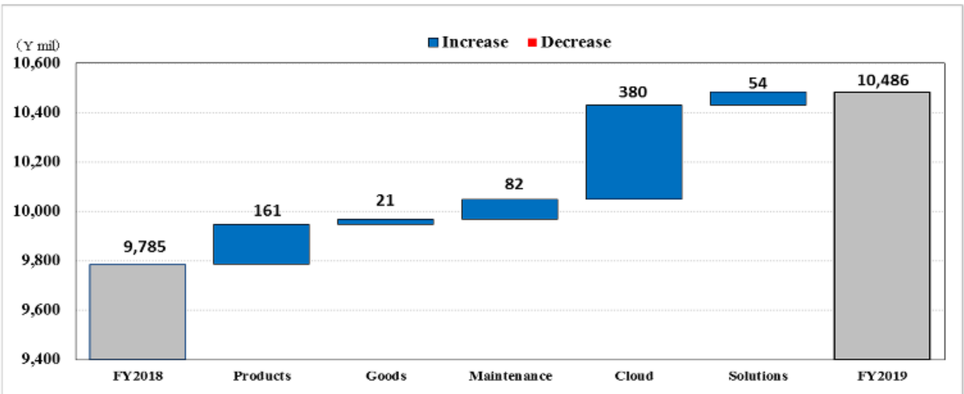
(10) ERP (integrated operation): stands for Enterprise Resource Planning. Management concept based on the integration and real-time processing of core business information to efficiently optimize the whole. Provided as IT solutions software for integrating enterprise systems.

◆ PCA's Financial Results Forecast for FY 2019 (this fiscal year)

The Company expects the financial results for FY 2019 to be Y10,486 million in sales (+7.2% YOY), Y825 million in operating profit (+2.2% YOY), Y842 million in recurring profit (+0.9% YOY), and Y588 million in net profit for the year (+33.5% YOY).

The Company aims to increase sales in all categories (by type), by +Y701 million in total. The breakdown of this sales increase in descending order is as follows: Y380 million by "cloud services" (+20.5% YOY), Y161 million by "products" (+8.2% YOY), and Y82 million by "maintenance service" (+2.6% YOY) (Figure 19). Continued growth of the cloud service (especially for accounting software) and the labor management software (categorized under "products"; the subsidiary Xronos is in charge), products with early-bird campaigns prior to consumption tax revision, and new products (next-generation product for ERP[10], cloud-related products, etc.) are expected to help increase sales. New orders for labor management software have been increasing especially briskly due to the Work-Style Reform, giving the Company reason to expect a double-digit sales growth.

[Figure 19] Forecasted Contributions to Sales Increase in FY 2019 (this fiscal year) (the Company's business plan) (unit: Y mil)



(Ref) Excerpt from the Company's FY 2018 financial results briefing materials, reworked by Alpha-Win's Research Dept.

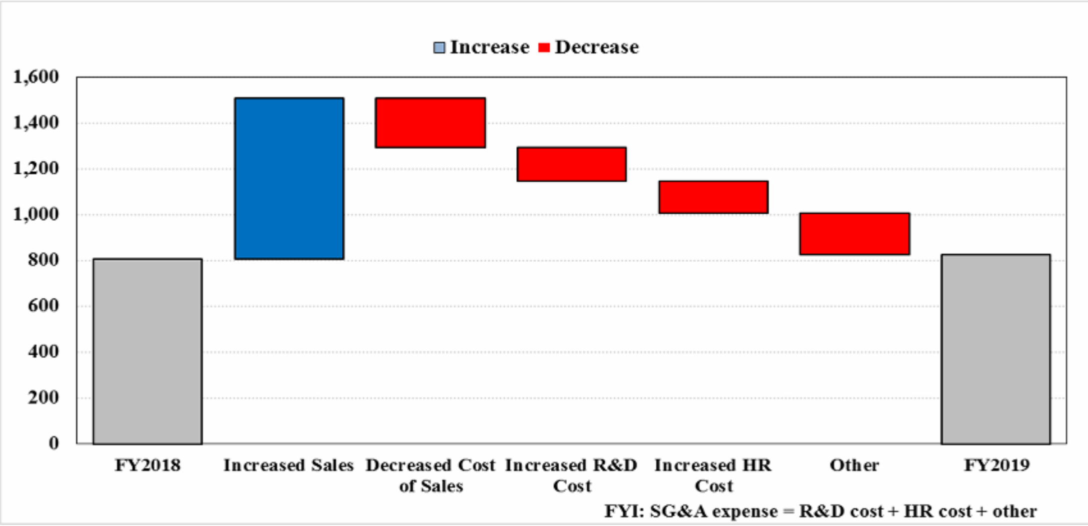
- **Because of upfront investment, growth rate of operating profit and recurring profit should be small. However, in the absence of extraordinary loss, net profit for the year should increase by 30%.**

Regarding profit and loss, the gross margin is expected to improve by 1.0 point from 54.5% to 55.5% owing to increased sales in the highly profitable cloud business and cost reduction. Consequently, gross profit should also increase by 9.1% YOY. On the other hand, SG&A expense is expected to increase by 10.4% YOY due to the upfront investment for future growth (+Y146 million in R&D expense and +Y140 million in HR expense planned) (Figure 20). As a result, the Company expects operating margin to slightly worsen from 8.2% last fiscal year to 7.9%, resulting in a minimal increase in profit. No extraordinary loss is planned, and net profit for the year is forecasted to increase greatly by 33.5% YOY.

- **Plans to control cost in order to achieve the goal for full-year profit**

The company's financial forecast for the upper half is not disclosed, as the Company states: "Since the final target for profit will be achieved by controlling the expenses, making a forecast for the upper half is difficult." For dividend, the Company plans to continue the annual payout of Y31.

[Figure 20] Forecasted Contributions to Profit Increase in FY 2019 (this fiscal year) (the Company's business plan) (unit: Y mil)



(Ref) Excerpt from the Company's FY 2018 financial results briefing materials, reworked by Alpha-Win's Research Dept.

◆ Alpha-Win Research Dept.'s Financial Results Forecast for FY 2019 (this fiscal year)

Alpha-Win's Research Department (our Research Dept.) has prepared a forecast for the financial results of the Company as shown on Figure 21 (P25).

- **Our Research Dept. has made a conservative estimate for this fiscal year's sales, but expects the Company's goals for profit to be achievable through cost control**

Regarding sales forecast for FY 2019 (this fiscal year), the effects of the campaign before consumption tax revision and the new products are hard to judge at this point. Sales may possibly slightly go below the Company's plan, especially for the products. On the other hand, the Company's plan for profit should be achievable since the cost control of advertising and other expenses seems feasible, the profitable subscription-based business is likely to post good results, and the general performance of Japanese companies seems to be solid.

Our Research Dept. predicts Y10,400 million in sales (+6.3% YOY; the Company estimates Y10,486 mil; -Y86 mil different from the Company's estimate), Y850 million in operating profit (in the same order as above:

+5.3% YOY; CE Y825 mil; +Y25 mil diff.), Y875 million in recurring profit (+4.9% YOY; CE Y842 mil; +Y33 mil diff.), and Y600 million in net profit for the year (+35.9% YOY; CE Y588 mil; +Y12 mil diff.). Regarding sales forecast by type, our Research Dept.'s prediction matches the forecast disclosed by the Company in that the sales of the cloud business will be the growth driver for the entire sales as well as profit. The current situation of new contracts for the cloud is also good.

While profit does in fact depend on sales, since the Company is determined to control expense in order to achieve the full-year profit goal, large revisions should not be needed for net profit at this point. Since the Company holds a stable dividend policy, and the forecast for EPS does not have many reasons for revision, our Research Dept. has judged that dividend will stay the same as the Company's forecast, at Y31.

[Figure 21] Financial Results Forecast by Alpha-Win Res. Dept. for This Fiscal Year and Over the Medium Term

(Unit: Y mil)		FY2018 AR	FY2019 CE	FY2019 E	FY2020 E	FY2021 E
Sales		9,785	10,486	10,400	11,000	11,680
Category	Products	1,954	2,115	2,080	2,100	2,150
	Goods	988	1,009	1,000	1,020	1,030
	Maintenance Service	3,109	3,191	3,160	3,200	3,250
	Cloud Service	1,854	2,234	2,230	2,680	3,200
	Other Operating Revenue	1,878	1,932	1,930	2,000	2,050
Gross Margin		54.5%	55.5%	55.8%	56.4%	56.5%
SG&A Expense		4,528	4,997	4,950	5,300	5,650
	(% of sales)	46.3%	47.7%	47.6%	48.2%	48.4%
Operating Profit		807	825	850	900	950
	(% of sales)	8.2%	7.9%	8.2%	8.2%	8.1%
Recurring Profit		834	842	875	925	975
	(% of sales)	8.5%	8.0%	8.4%	8.4%	8.3%
Net Profit for the Year		441	588	600	634	669
	(% of sales)	4.5%	5.6%	5.8%	5.8%	5.7%
Sales (% YOY growth for all values)		4.5%	7.2%	6.3%	5.8%	6.2%
Category	Products	-5.6%	8.2%	6.4%	1.0%	2.4%
	Goods	3.3%	2.1%	1.2%	2.0%	1.0%
	Maintenance Service	0.4%	2.6%	1.6%	1.3%	1.6%
	Cloud Service	23.9%	20.5%	20.3%	20.2%	19.4%
	Other Operating Revenue	7.9%	2.9%	2.8%	3.6%	2.5%
Gross Margin (% YOY diff.)		*3.5%*	*1.0%*	*1.3%*	*0.6%*	*0.1%*
SG&A Expense (% growth)		4.3%	10.4%	9.3%	7.1%	6.6%
Operating Profit (% growth)		86.8%	2.2%	5.3%	5.9%	5.6%
Recurring Profit (% growth)		79.9%	0.9%	4.9%	5.7%	5.4%
Net Profit for the Year (% growth)		174.1%	33.5%	35.9%	5.8%	5.5%

(Ref) Prepared by Alpha-Win's Research Dept. CE = the Company's estimate. E = Alpha-Win Research Dept.'s estimate. AR = actual result.

8. Growth Strategy

◆ Management Indicator Goals and Areas of Focus

In 2012, the Company announced its group goal for management indicators as Y20 billion in sales (actual result for FY 2018 was Y9.8 bil), 2.5% in DOE (same as above, 1.9%), and 80,000 corporate customers of the cloud (10,000 as of the end of January 2018), and has been developing its business in line with this goal. To achieve this goal, five areas of focus have been decided: 1) become No. 1 in the cloud-based enterprise system software market, 2) enhance solutions to provide more than simple functionality, 3) further advance the technology in PCA Cloud, 4) pursue new services, and 5) actively pursue M&As.

◆ New Medium-to-Long-Term Vision *PCA Vision 2030*

◆ Core concept of the medium-to-long-term vision was disclosed. In November, the medium-term business plan will be announced by the new president.

Fumiaki Sato, previously executive vice president, was promoted to president in June 2018. From then on, a new system was started. As the first step, the core concept "PCA4.0" (Figure 22) of the medium-to-long-term vision *PCA Vision 2030* was announced at the financial results briefing for FY 2018. The *Vision* was created in line with the fact that the Company will reach a milestone in the year 2030 as its 50th anniversary.

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

"PCA4.0" is sumarized below. However, specific strategies and new numerical targets have not been disclosed yet. Having created a Corporate Planning Division in January 2018, a specific business plan and growth plan should be determined and then disclosed in November of this year.

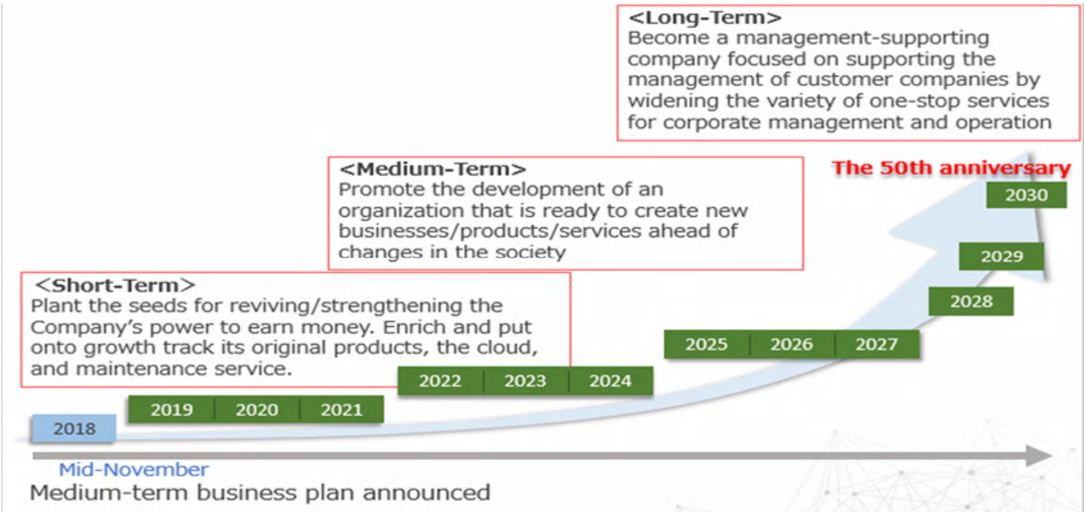
[Figure 22] Overview of the Core Concept "PCA4.0" of the Medium-to-Long-Term Vision

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

(Ref) Prepared by Alpha-Win's Research Dept. based on an excerpt from the Company's FY 2018 financial results briefing materials

Additionally, in the new medium-to-long-term management vision *PCA Vision 2030*, the Company has declared that it will continue to be a contributing member of the society – a "management supporting company" that supports the smooth management and operation of companies mainly through the providing of software that helps realize advanced-level automation of core business operations. The specific vision for the upcoming three stages (short-term, medium-term, and long-term) was also disclosed (Figure 23).

[Figure 23] The New Medium-to-Long-Term Vision *PCA Vision 2030*



(Ref) Excerpt from the Company's FY 2018 financial results briefing material

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

Our Research Dept. made a prediction of the financial results for the three years leading to FY 2021 (described previously on page 25, Figure 21). There are several uncertain factors, such as anticipated changes in consumption tax and other laws, progress in new product development, changing balance in the competition with major competitors, and the progress of the M&A strategy. However, since the subscription-based businesses (the cloud and the maintenance services) should grow, for the meantime, sales and profit are expected to continue to increase.

The annual sales growth rate for each category (by sales type) is assumed to be about 20% for the cloud service, 1.5% for the maintenance service, and 2% for the remaining three categories (by sales type) for both FY 2020 and FY 2021. The fraction of gross margin contributed by each sales type was not largely altered, but instead we focused our analysis on the effect of improved product mix on the gross margin. General and administrative expenses are predicted to increase annually by 6-7% mostly due to increased R&D, advertising, and HR expenses since the Company is in an investment phase, for instance, for business structure reinforcement in preparation for future growth, new product development, and technology research (virtualization technology, AI, Web API, and FinTech-linked technology). No extraordinary profit or loss is expected.

◆ Our Res. Dept. expects the subscription-based businesses to be the growth driver and the annual profit growth rate to be 5-6% over the medium term

Overall, our Research Dept. expects that, over the medium term, sales should grow annually by about 6% and profit for the year should similarly grow by 5-6%. Since the Company's business model gives it a high marginal profit ratio, the profit growth rate is actually supposed to be greater than the sales growth rate, but we have predicted only a small difference upon taking into account the upfront investment cost as described above.

We will revise the medium-term financial results forecast as needed when the medium-term business plan is announced as planned around the middle of November 2018.

9. Analyst's Views

◆ PCA's Strengths and Challenges

The Company's SWOT analysis results are listed on Figure 24.

[Figure 24] SWOT Analysis

Strength	･Brand recognition and trust built up over long years (major specialized player in the enterprise system software market for small/medium-sized companies) ･Firm financial standing ･Growth of a subscription-based business capable of generating stable revenue ･ Strong and diversified customer base (200,000 companies total as active users) ･Taking a lead in the market with cloud services (No. 1 in enterprise system software for small/medium-sized companies) ･ High barrier to market entry ･Very experienced call center staff and engineers ･ Sales network (13 sales offices in Japan; 2,000 partnered companies)
Weakness	･Low margins ･Business results susceptible to revisions related to accounting and tax laws, etc. ･Large improvements still needed in maintenance service with membership rate only around 50% ･Highly competitive market ･Absence of a major, next-generation, growth-driving product/service ･Domestically oriented; overseas development difficult
Opportunity	･Increased demand from lack of manpower and need of efficient operation ･Potential for cloud services to increase users; development potential ･New products, new services, and technology innovations ･Revisions related to accounting and tax laws, etc.
Threat	･Emergence of an alternative with the popularization of advanced AI technology, lagged product development, defects in products, etc ･Termination risk of contracts, etc. ･Information leakage ･Rise in HR and development costs

(Ref) Prepared by Alpha-Win's Research Dept.

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

On the other hand, looking at the weaknesses in more detail, the margins have been gradually decreasing over the long term. Although operating margin has begun to improve over the past few years, it was 8.2% last fiscal year, still low compared to its major listed competitors. This may be explained by how the subscription rate of the profitable maintenance service is low for the Company compared to its competitors and by how the Company has not been developing major, long-lasting new products (not being able to benefit from the advantage of scale).

However, if the Company could dig up hidden demand from its growth-driving, cloud-related market with its price advantage, and if it could improve the on-premises business by increasing the membership of the maintenance service through strategies such as direct contracts with customers, then there is potential for the Company to largely improve profitability. For instance, even just by raising the maintenance service subscription rate from the current 50% (approx.) to the same level as OBC, at about 80%, or as MJS, at nearly 100%, the gross margin would theoretically improve from 54.5% last fiscal year to about 59% and 62%, respectively. This improvement would help largely increase sales and profit.

- **Increased subscription rate of the maintenance service will create a large potential for improved earnings capacity**

As for opportunity and threat, business volatility would generally become greater in the case of high demand driven by events such as those related to consumption tax revisions and Work-Style Reforms. Also, we should keep note of the progress of major competitors in catching up with the Company in the cloud-service market, in which the Company currently takes a lead, and in their development of new products and services.

◆ Shareholder Return and Shareholder Benefit Program

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

- **Stable dividend of Y31 per year. Expects dividend to keep increasing over the long term.**

Ever since the first public offering of the Company's stock was made, ordinary dividend has not been decreased, and has been gradually increasing over the long term with several years of no change in between (Figure 25). Excluding commemorative dividends, ordinary dividend since FY 2011 has been Y31 per share per year. Commemorative dividend was paid out only in FY 2014 in celebration of the change in listing from the second to the first section of the TSE in December 2014, adding Y10 to the ordinary dividend of Y31 to an annual total of Y41 per share. Even in FY 2015 and FY 2016 when a net loss was recorded, the Y31/year dividend was maintained in line with the Company's stable dividend policy.

The dividend payout ratio was 48.2% in FY 2018 and is expected to be 36.1% in FY 2019 (based on the Company's estimate; 35.4% based on our Research Dept.'s). When calculated based on a stock price of Y1,789 (closing price as of the end of June 2018), the dividend yield comes out to be 1.7% (the average of the first section of the TSE is also about 1.7%). As for DOE, one of the major KPIs (Key Performance Indicators), the actual value for FY 2018 was 1.9% (the Company's goal is 2.5%).

Taking into consideration the current dividend payout ratio, our Research Dept. expects that the ordinary dividend of Y31 will be continued after FY 2018 for a while. Over the medium term, when the investment phase ends and profitability increases considerably, dividend may increase.

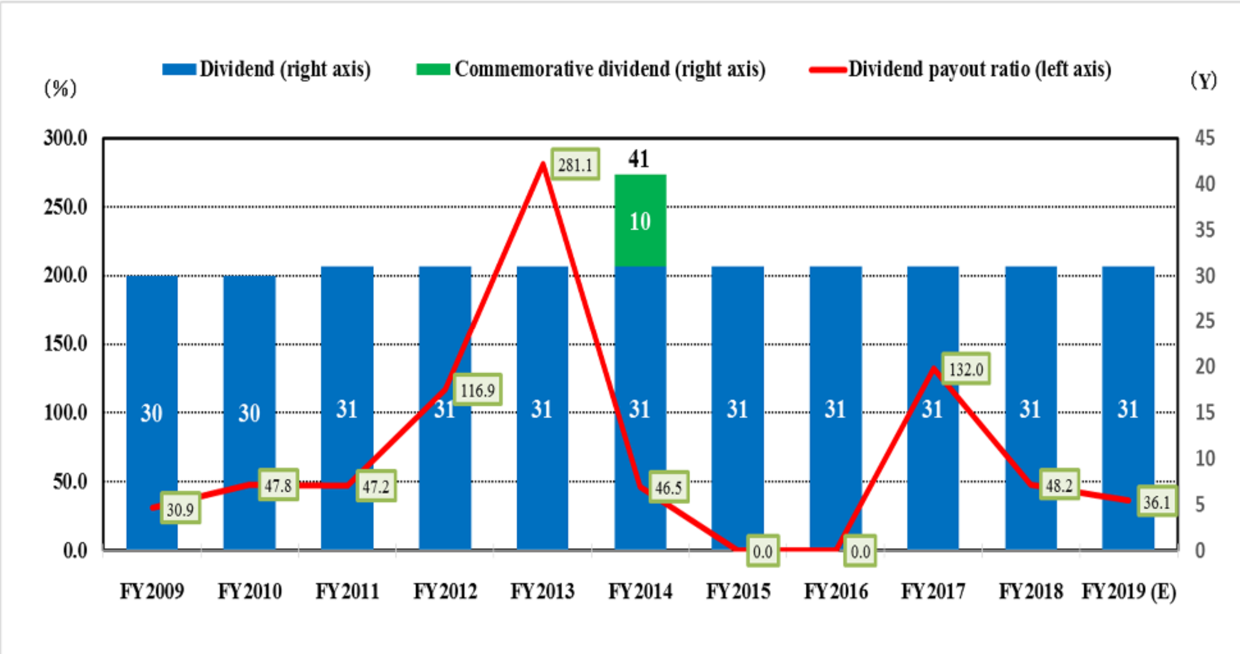
A shareholder benefit program was started in 2013, and its partial revision was annouced in July 2017 (Figure 26). Spcifically, a Quo Card is granted to shareholders based on the number of shares held at the end of the March of every year. For instance, shareholders with equal to or greater than 100 shares and less than 300 shares are granted Y2,000 worth of Quo Card; assuuming that the stock price is Y1,789, then the annual net yield for a shareholder with 100 shares is about 2.9% including the ordinary dividend of Y31 and the shareholder benefit (under the same condition, the annual

- **Annual net yield including the shareholder benefit program is about 2.9%**

net yield for OBC is about 1.4%, and for MJS it is about 1.1% which is the same as the dividend payout ratio since MJS has no shareholder benefit program).

The Company's financial standing is also great with essentially no debt. We should keep an eye out for stock splits as well as additional share repurchasing in terms of total return ratio. Stock splits have not been conducted since the 1-to-1.3 stock split in May 2000.

[Figure 25] Transition in Dividend and Dividend Payout Ratio



(Ref) Prepared by Alpha-Win's Research Dept. based on the securities report. Estimates (E) are the Company and Alpha -Win's estimates.

[Figure 26] Shareholder Benefit Program and Net Yield

Number of Shares Owned (greater than or equal to)	(less than)	Shareholder Benefit (Quo Card: Y)	Dividend: Y	Net Yield: %
100	300	2,000	31	2.85
300	500	3,000	31	2.29
500		5,000	31	2.29

Net yield = (dividend + benefit value) / (stock price) was calculated for the minimal amount of stock owned in each range
Stock price assumed to be at: Y1,789

(Ref) Prepared by Alpha-Win's Research Dept. based on the Company's data

◆ Factors that May Affect Stock Price

- **Has been outperforming TOPIX for the past one year**

The Company's stock price and relative stock price compared to TOPIX for the past two years are described in the summary section on page 2. Since March 2017, the Company's stock price, although with some swaying, has generally been rising up along with the index. Stock price relative to TOPIX has especially been rising up since around the July of 2017 until now. The stock price may reflect the fact that, following the appreciation of the yen and the implementation of trade protection, the Company has become more recognized as a domestic stock with stable business results. It may also reflect the Company's good performance as it has started to consecutively increase sales and profits again, and the fact that it is very competitive and has high potential in the cloud-based enterprise system software market in which it has pioneered.

- **Cheaper valuation than its competitors**

Furthermore, a comparison of major valuation indicators was made between the Company, the market average, and its competitors (Figure 27). In comparison with the average of first section of the TSE, the Company's P/E is approximately 20.8 (based on EPS estimated by the Company for FY 2019; 20.4 according to our Research Dept.'s prediction), exceeding the first section's average of about 15.0. While the Company's dividend yield, at 1.7%, is around average (the simple average is 1.7%), the Company's P/B is only 1.1, below the first section's average of 1.3. Meanwhile, compared to its competitors (4733 Obic Business Consultants and 9928 Miroku Jyoho Service), the Company's indicators are mostly low and give an undervalued impression (Figure 27).

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

- **Going forward, the announcement of specific business strategies, numerical targets, and commitment statements by the new president is the key point of interest**

First of all, the contents of the medium-term business plan that is to be announced in November are of great interest. Since only the concept is currently disclosed, a disclosure of new numerical targets and specific strategies and tactics for the medium to long term is anticipated. If, in the announcement, the new president declares a strong commitment toward numerical targets (KPI) and business goals, the stock price may be affected positively. Similarly, stock price may rise if he reveals a growth strategy that includes business domain expansion and M&A/tie-ups, a determination to advance from a sales-oriented to a profit-oriented business, or a transition to management focused on asset efficiency.

Secondly, the progress of this fiscal year's financial results including cost control, the rate of increase in the number of contracts for the cloud service, the improvement status of profit margins, the sales progress of new products, the progress in increasing the membership of the maintenance service, and other factors may also affect stock price and should be watched.

[Figure 27] Comparison of Valuation Indicators with Competitors

Company Name	PCA (consolidated)	Obic Business Consultants (OBC: non-consolidated)	Miroku Jyoho Service (MJS: consolidated)
Code	9629	4733	9928
Stock Price (at 6/29 closing)	1,789	7,870	2,790
Market Cap (Y mil)	13,775	317,570	97,109
P/E (price-to-earnings ratio)	20.8	34.6	29.4
P/B (price-to-book ratio)	1.1	2.8	5.4
Dividend Yield (%)	1.7	1.0	1.1
EV/EBITDA	4.2	22.9	18.5
P/S (price-to-sales ratio)	1.3	12.7	3.2

Market cap = (shares outstanding) x (market share price [at 6/29 closing])
EV/EBITDA = (market cap + interest-bearing debt −cash & deposits) / (O.P. + depreciation + intangible fixed asset amortization)
P/S = market cap / sales [the Company's estimate for FY 2019]
The Company's estimated EPS for FY 2019 used in all P/E calculations
(Ref) Prepared by Alpha-Win's Research Dept. based on information including those from the securities report and the financial results summary

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