Alpha-Win Company Research Report

PCA

(9629 TSE First Section)

Issued: 6/29/2020

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

● Summary

Business Description

・PCA CORPORATION (hereinafter, the "Company") is an independent software manufacturer specialized in packaged enterprise system software. It is a major specialized player in the industry.

・The Company was founded in 1980. Since then, it has been providing on-premises or cloud-based software mainly to small- and medium-sized companies. The Company's mission is to contribute to society as a "Management Support Company" that supports other companies conduct smooth management and operation, mainly by providing enterprise system software that realizes high-level automatization.

Current Financial Performance

・Last fiscal year (FY 2020: full year), the Company's performance was remarkably excellent, achieving the fifth consecutive increase in both sales and profit as well as record-high full-year sales and profit. Its sales were Y14,266 million (+24.7% YoY) and operating profit was Y2,781 million (+122.8% YoY). Sales of the cloud and the labor management system businesses, which are its growth drivers, had continued to grow. In addition, the solutions and the products also contributed significantly to the sales growth, thanks to an event-driven high demand (early demand related to events such as the consumption tax revision and the termination of support for Windows 7). The Company's business model has a high marginal profit ratio, so the increase in sales absorbed the increase in costs such as personnel costs and led to a significant increase in profit. Both sales and profit were greater than the Company's upwardly revised forecast as well as Alpha-Win Research Dept.'s forecast.

・The Company announced that for this full fiscal year (FY 2021), it will post sales of Y13,280 million (-6.9% YoY), an operating profit of Y2,034 million (-26.9% YoY), and a net profit of Y1,358 million (-25.2% YoY). Sales and profit are expected to drop in a recoil from the event-driven high demand up through last fiscal year and due to the rise in costs from investments for future growth. This Company's forecast for profit is about the same level as our profit forecast in our previous report.

Competitiveness

・The Company has a customer base of approx. 240,000 companies. It has a high brand recognition and top-ranking market share in the fields of accounting and finance toward small/medium-sized companies. The Company's cloud-based enterprise system software business in those fields is especially strong, continuing to rank No. 1 in the industry as a pioneer. Going forward, we should pay attention to how the Company competes with its major competitors who have entered the cloud service business at a later stage and with competitors mainly in the low-price range.

・The Company's strength is its ability to concentrate business resources in its field of expertise as a specialist to develop products and services that meet various customer needs, including those related to changes in tax and other regulations, ahead of its competitors. It also has a stable customer base and can provide high-quality products and services at reasonable prices.

Business Strategy

・As the basic business strategies for its corporate group, the Company aims to create a strong earnings base for its main businesses (reinforce and increase the sales of PCA Cloud and strengthen the PCA Subscription business for the on-premises), create new business opportunities (development of new technology and businesses), and strengthen the business structure to become a highly profitable company. As a new goal, it also plans to strengthen its monozukuri ("creation of things": foundation of development for unique products and services). Through these strategies, it hopes to enter another growth phase. On the other hand, its challenges are the acquisition of talents and getting Keepdata and the new businesses (PCA Subscription, Hyper, etc.) on track.

・The consolidated targets for FY 2022, the final year of the medium-term management plan, were revised up. Sales were revised from at least Y11.5 billion ⇒ at least Y13.5 billion (of which sales of the subscription-based businesses are Y6 billion ⇒ Y7.5 billion), operating profit was raised from at least Y1.5 billion ⇒ at least Y2.1 billion, and operating margin was revised from at least 10% ⇒ at least 15%. These are the minimum target values, although

COVID-19 may affect the results.

Alpha-Win Research Department's Forecast on Financial Results

・The impact of COVID-19 is hard to speculate, but some points of concern over the short term are that it may cause delays in negotiations and new services and negatively impact the financial performance of small-to-medium-sized companies which are the Company's users. Taking this risk into account, we revised the sales forecast for this fiscal year to a level below the Company's forecast. In April and May, the Company seems to have made progress with its financial performance mostly as it had been expected. However, we should closely watch its performance since the impact of COVID-19 on sales/marketing activities and sales may start to become visible after June.

・A temporary sales and profit drop is inevitable this fiscal year. However, the cost assumptions are on the conservative side, so the downside risk of the Company's forecasted profit seems to be limited. Therefore, we kept our profit forecast at about the same level as the Company's. Since the Company is in a phase where its subscription-based businesses are continuously expanding, if it conducts cost control appropriately, it should be able to suppress the negative impact due to the recoil from the event-driven high demand compared to the past. Its business structure is indeed improving.

・Next fiscal year onward, although the impact of COVID-19 will remain, the situation should gradually return to normal. We expect that the Company will then return to a trend of rising sales and profit. Over the medium to long term, we expect the annual profit growth rate (on a normalized basis) to be 8-10%.

Stock Price

・A defensive, domestic-demand-related, small-cap growth stock that is positively affected by the transition to a subscription-based business model, the workstyle reform, and tax reforms. A majority of the companies listed on the First Section of the TSE with March-ending accounting period did not announce their full-year forecasts for this fiscal year because of COVID-19. However, although expecting a sales and profit decline, the Company still announced its forecast. Since this announcement, its stock price has been rising and significantly outperforming the TOPIX. The valuation of its stock seems cheap compared to its competitors. Since it is a subscription-based business with high stability and continuity and can tolerate a certain amount of cost, the likelihood that it will achieve this fiscal year's profit targets seems high. In addition, the Company is expected to continue to enhance shareholder return through dividend hike and stock splits and achieve solid financial performance over the medium to long term as it returns to a trend of growing sales and profit. Due to these factors, we believe that there is still an upside to the stock price.

Shareholder Return

・The Company has been stably paying dividend (a dividend payout ratio of about 33%) and has been buying back its shares. Last fiscal year, it raised its dividend by Y23 per share per year (ordinary dividend of Y2 and commemorative dividend of Y20) to Y54. This fiscal year, it plans to continue with the ordinary dividend of Y34. When the Quo Card shareholder benefit plan is taken into account, the actual dividend yield comes out to be (at maximum) 1.6% for last fiscal year and 1.2% for this fiscal year. With solid performance, further enhancement of shareholder return is anticipated over the medium to long term.

【9629 PCA Sector: Information & Communication】 Figure A

FY		Sales (million yen)	YOY (%)	O.P. (million yen)	YOY (%)	R.P. (million yen)	YOY (%)	N.P. (million yen)	YOY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
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	CE	13,280	-6.9	2,034	-26.9	2,055	-26.8	1,358	-25.2	204.70	-	34.00
2021	E	12,840	-10.0	2,050	-26.3	2,060	-26.6	1,360	-25.1	204.36	2,177.77	34.00
2022	E	13,500	5.1	2,215	8.0	2,230	8.3	1,470	8.1	220.89	2,364.67	34.00
2023	E	14,300	5.9	2,460	11.1	2,470	10.8	1,630	10.9	244.94	2,575.60	36.00

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

(Note 1) The Company's fiscal year is March-ending.

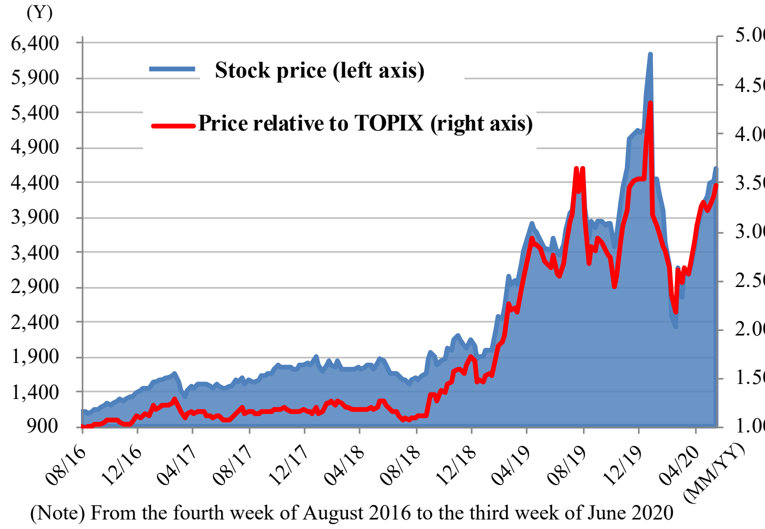
(Note 2) Hereinafter, differences due to rounding, processing during calculations, the method of display, etc., may cause values for the same item to not match completely.

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

Item	6/19/2020	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	4,610	Last FY (actual)	16.9	2.3	1.2%	19.8%
Shares Outstanding (thou.)	7,700	This FY (est.)	22.6	2.1	0.7%	16.6%
Market Capitalization (million yen)	35,497	Next FY (est.)	20.9	1.9	0.7%	15.4%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End		58.7%	Last FY's ROE	14.3%

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

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



(Note) From the fourth week of August 2016 to the third week of June 2020

【Performance】		
Period	**Return**	**vs. TOPIX**
1 month	**9.8%**	**8.4%**
3 months	**50.4%**	**33.3%**
6 months	**-9.8%**	**-1.9%**
12 months	**28.2%**	**25.7%**

(Note) Reflects stock price and index values up through 6/19/2020. The return for the 1-month period is calculated from the difference between closing prices on the last day of May and June 19. The same applies to the other periods. Prepared by Alpha-Win Research Dept.

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Note: 1) Upon translating to English, when the page numbers differed from the original Japanese version, they were adjusted to those of the English version of the report. 2) The Company's fiscal year is March-ending; i.e. FY 2021 ends in March 2021.

1. Company Overview

- **Major specialized player in the industry with 40 years of practice, developing and providing packaged enterprise system software for domestic small/medium-sized companies**

◆ 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 in such software for small/medium-sized companies.

About 240,000 companies are active users of the Company's products. Sales toward ordinary companies comprise greater than 90% of the total sales. With regards to the size of the corporate customers, the Company is especially strong in business toward small/medium-sized companies with 50 to 100 employees. 80% of the Company's sales are made via dealers (the remaining 20% are direct sales). It has the largest transaction with the dealer RICOH (sells the Company's software along with its own hardware such as office appliances), which contributes to about 21% of the Company's total sales. The Company's customers are diversified, with major companies being its largest customers by monetary value. It ranks No. 1 in the accounting software industry for public benefit corporations, as its software is implemented by over 8,000 public benefit corporations.

(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 composed of the Company and 3 subsidiaries.**

As of the end of May 2020, the Company's group is composed of a total of four companies: the Company and three consolidated subsidiaries. The consolidated subsidiaries are Xronos Inc. (development/sales of labor management system[2] and time recorders; the Company founded this subsidiary in 2001 and owns 80% of the shares), KEC Corporation (implementation support, operation, maintenance, and other services for PCA's products/services; wholly owned and founded in 1998 by the Company), and the newly acquired Keepdata Ltd. (hereinafter, "Keepdata").

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

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

The Company acquired Keepdata in March 2019 and made it its subsidiary (acquired 66.8% of the shares for approximately Y44 million). The subsidiary has been included in the consolidated financial results starting essentially last fiscal year (FY 2020). Keepdata's strength is its originally developed system (KeepData Hub: cloud service targeting large companies) that enables real-time integration of various big data such as IoT and one-stop management of the accumulation, aggregation, and visualization of data to facilitate effective data utilization. As a Management Support Company, the Company intends to use this system as a foothold for a new service that provides a platform for data utilization to small and medium-sized companies.

Keepdata posted sales of Y120 million, a net loss of Y262 million, and negative net assets of Y66 million in FY 2018 (ended September); upfront investment costs associated with system development had caused a net loss and an excess of debt. With the development of the system already completed, the Company expected profit and loss to balance out in the previous fiscal year after its acquisition. However, a net loss seems to have been posted as sales did not expand as expected. This loss may continue for a while, but most likely it will gradually become smaller and have limited impact on the Group's financial results.

- **The medical system subsidiary was sold as part of the restructuring of the business portfolio.**

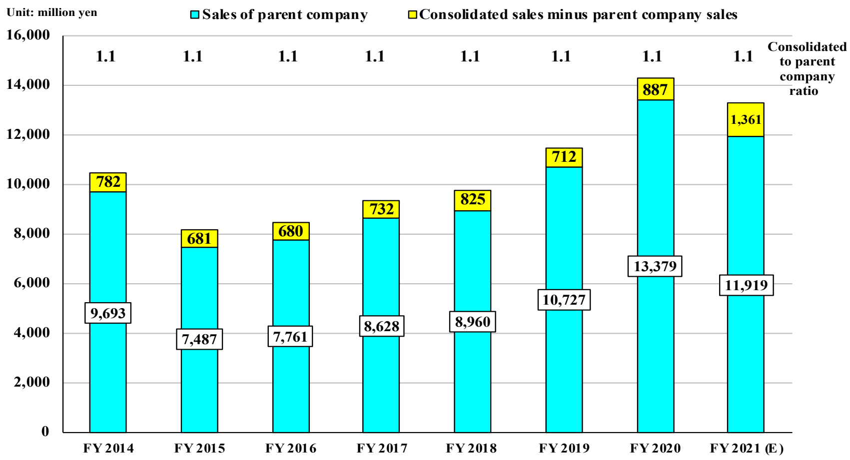
Concerning MACS System Corporation (development/sales of computer software for medical office use such as electronic medical records), it was a consolidated subsidiary up through the fiscal year before the previous (FY 2019), but the Company sold it in February 2019 since the business was unprofitable. Thus, the Company is making progress with the restructuring of its business portfolio.

- **Consolidated-to-parent-company sales ratio has stably stayed around 1.1. The summed recurring profit of the consolidated companies (consolidated – parent) has been positive.**

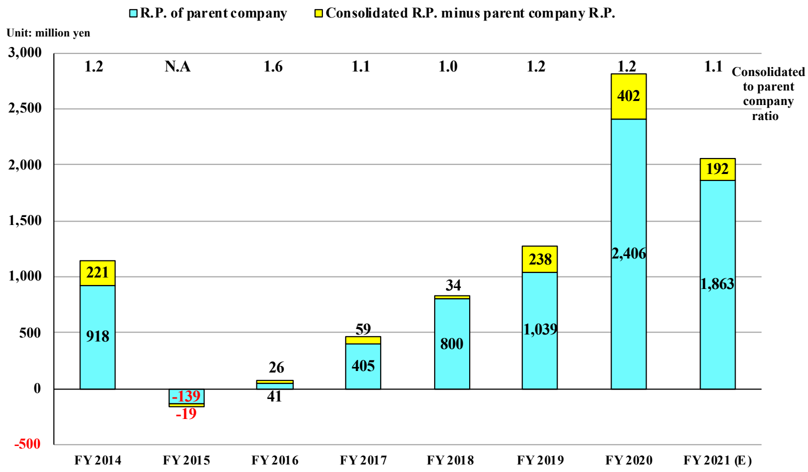
The ratio of consolidated-to-parent-company sales has stably remained around 1.1, indicating that a greater weight is placed on the parent company's financial results (Figure 1). Although the subsidiaries' profits and losses are not disclosed, the ratios of consolidated-to-parent-company recurring profit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

Among the subsidiaries, Xronos seems to be continuing to contribute the most to the financial results, thanks to the workstyle reform. Xronos's sales were Y1.5 billion in FY 2019 and Y2.1 billion in FY 2020. The Company expects this solid trend to continue and has set a sales target of Y4 billion for FY 2025 (from Xronos's website). Profit has not been disclosed, but the subsidiary is most likely contributing to consolidated profit with a net profit like KEC.

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



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



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

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

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

The Company's finance is firm, rich in cash and debt-less. Relative to its sales of Y14.3 billion (last fiscal year's result), total assets of Y23.0 billion, and market capitalization of Y23.6 billion, its cash and deposits are abundant, at Y10.7 billion, as well as increasing (values from the B/S as of the end of March 2020).

Free cash flow (FCF) has been positive except for a certain period, and cash and deposits on the B/S have been increasing (Figure 3). The financial ratios, including the equity ratio of 58.7% and the current ratio of 231.0%, also indicate financial soundness (value as of the end of March 2020).

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

Unit: million yen	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Operating CF ①	627	488	141	847	1,048	547	1,427	1,533	1,270	2,141	3,328
Investing CF ②	-405	-127	185	-407	-750	-606	-627	-395	1,715	-80	-719
Financing CF	-207	-210	-205	-215	-216	-284	-214	-215	-216	-572	-225
FCF (①+②)	222	361	326	440	299	-60	800	1,137	2,985	2,061	2,609
Cash and Deposits (on B/S)	6,817	5,970	5,493	6,621	6,606	6,154	6,612	7,487	7,269	7,280	10,716

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary.
(Note) Cash and deposits shown are values from the balance sheet, not values used in the CF calculation.

◆ Business Philosophy

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

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

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

The following are the three key ideas of the Company's business philosophy:
1) We will always 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 System Software Necessary for Efficient Business Operations

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

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

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

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

In response to such needs, the Company has been developing original enterprise system software that especially meets the needs of one-person businesses or micro-sized (SOHO), small-sized, medium-sized, and mid-tier companies in areas such as accounting[3], finance, HR and payroll[4], sales management, purchasing and inventory management, and tax. The enterprise system software is either packaged (on-premises: conventional products operated in-house by a corporate customer) or cloud-based (a service where the corporate customer can use the enterprise system software via the Internet easily and at a low cost without having to prepare its own server). The Company sells and provides its software either by direct or indirect methods.

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

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

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

◆ Business Model with High Continuity and Marginal Profit Ratio

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

The Company provides a total of about 26 types of software (counted by product name, including options) and its business model is based on the mass production of a limited number of types of products. Due to the nature of its business, its marginal profit ratio is high. Its original products and services (products/maintenance/cloud) account for greater than 70% of the total sales, while the remaining 30% comes from other companies' products (purchased goods) in the merchandise / other operating revenue categories. From the development to the release of a new product, approximately two years and a corresponding amount of cost are necessary per product. Version upgrades (revision updates), which are prepared as needed, are released usually in a one- to two-year cycle. In recent years, software functions have become so enhanced that the customers seem to be purchasing less in response to this version upgrade cycle.

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

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

◆Expansion of Highly Stable and Profitable Subscription-Based Businesses

- **Sales are divided into five segments. Focused on the subscription-based business.**

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

[Figure 4] Sales Classification (by category)

Sales Classification by Category	Contents	FY 2020 (actual result)		
		Sales (million yen)	% 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)	3,166	22.2	approx. 70%
Merchandise	Sales of other companies' products such as ledger sheets	552	3.9	approx. 40
Maintenance Service	By signing up to PSS membership, one can receive inquiry and support services from call centers	3,471	24.3	80-90%
Cloud Service	Subscription service for software provided via the cloud	3,374	23.7	60-70%
Other Operating Revenue	Sales of other companies' products such as software/hardware combined with its original products; also called "solutions"	3,701	25.9	approx. 25%
Total & Average		14,266	100.0	Actual: 60.3%

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and interview. Includes estimates. Sales for each category are based on the new standard.
(Note) Maintenance service and cloud service are the subscription-based businesses.

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

During FY 2020, the maintenance service was as a stable source of revenue since it was the second largest contributor to the total sales (Figure 4, and Figure 5 on page 10), following solutions (other operating revenue). In recent years, the sales of the cloud service for packaged software have largely grown. In fact, the cloud service has become a growth driver for the entire company with regards to both sales and profits. Subscription-based revenue (also called the "stock business" in Japanese), which is the sum of the maintenance service and the cloud service, accounts for about 50% of the total sales, contributing to a greater stability in management and profit. Both the maintenance service and the cloud service have a high gross margin and continuity.

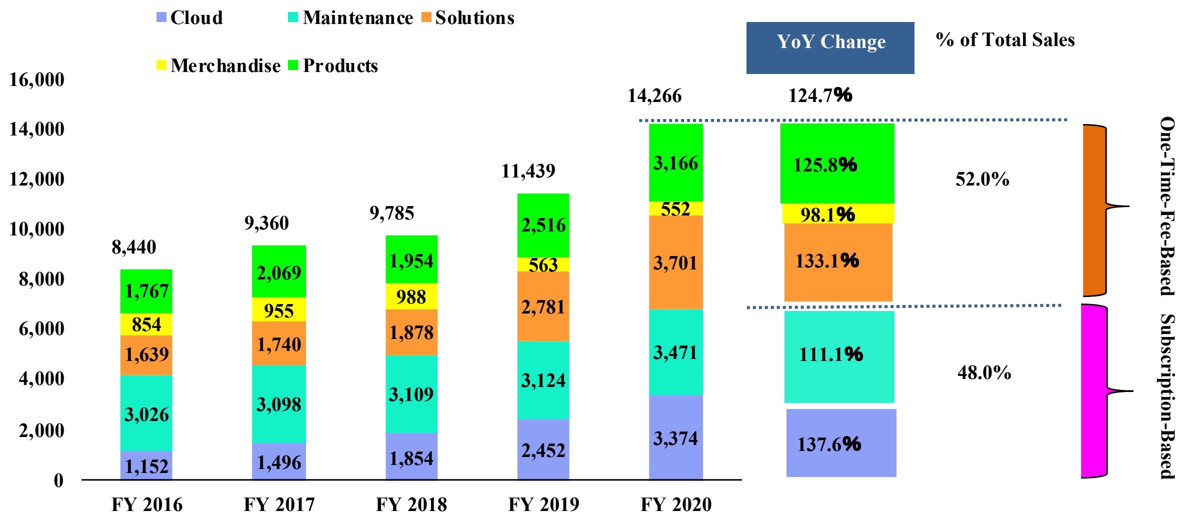
Consolidated sales breakdown by the operation type of software is not disclosed. However, sales seem to be diversified, with the sales for "accounting software" predicted to be the largest by composition (about

15% of the total sales), followed by "sales management and purchase & inventory management," and then by "payroll and HR."

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

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

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



(Ref) Excerpt from the Company's financial results briefing materials and financial results summary, reworked by Alpha-Win Research Dept.
(Note) In FY 2020, the accounting standard for the products and solutions segments were partially changed (new standard). This new standard was retroactively reflected in FY 2019. However, for the two segments, there is no continuity with the period before FY 2018.

◆ Cloud Business as the Growth Driver

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

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

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

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

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

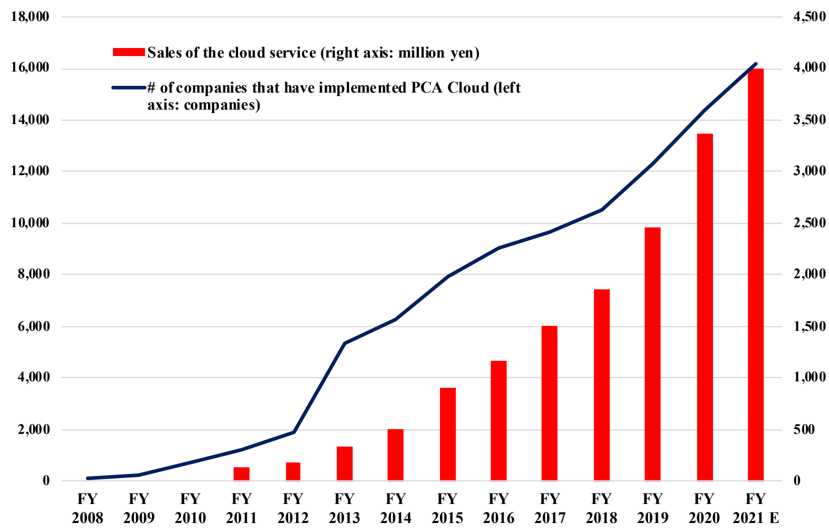
- Providing a wide variety of advanced software for business operations
- Originally developed open architecture and low cost
- Economies of scale are in effect, with more than 14,000 companies already using the cloud as customers, contributing well to the Company's profit
- Consequently, it has a very strong price advantage compared to its competitors
- More than ten years' worth of operation expertise
- User-friendly, with WebAPI[5] allowing linkage with other companies on the cloud (already linked with about 60 companies, including Kintone[6] of Cybozu)

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

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

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

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



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

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

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

- **Due to the nature of its business, overall, the impact of COVID-19 has been minimal. However, sales efforts for new contracts, business development, and support services were somewhat affected.**

On February 26, 2020, the COVID-19 Response Headquarters was established with President Sato as the chief director. Internally, the Company has been encouraging remote work and staggered commuting hours among its employees. Since the day after April 8th, when the emergency declaration on the new coronavirus disease[7] (hereinafter, "COVID-19") was made, the Company has been on remote work in principle. It replaced a few hundred PCs and improved the communication infrastructure and remote-work environment. Currently, about 80 to 90% of its officers and employees work from home. To fulfill its social mission to provide enterprise system software while ensuring the safety of officers and employees, it has been on a shift-work system.

(7) New coronavirus disease or COVID-19: a viral respiratory disease caused upon the infection of humans by the new coronavirus. It has become a pandemic.

Toward its customers and business partners, the Company has cancelling or postponing events, seminars, and in-person meetings, and has been switching them online.

Since the Company has been making a large shift to a subscription-based business model and provides enterprise system software in cloud format as well, the impact of COVID-19 has been small over the short term.

- **The release of PCA Subscription, its new business, has been pushed back by about two months.**

However, undeniably, there has been an impact on new customer acquisition, support services (visiting customers to help implement software), new business development, and version upgrades for the on-premises software. Its main users are small- to medium-sized companies that are likely to be financially affected by the self-restraint request and stagnation of economic activities under the emergency declaration. If the situation is prolonged, there is likely to be a negative impact on the sales expansion of the existing services and the development of new businesses. In fact, the Company had initially planned to launch the new business *PCA Subscription*, the subscription version of its on-premises software, on May 11. However, due to the COVID-19 impact, it announced that it has decided to push this back to July 1. It has not changed its plan to launch the Hyper Series, a new product targeting mid-tier companies, but sales expansion may be slower than anticipated.

PCA Subscription is an alternative to the conventional packaged versions of software (one-time sales of PCA series products). By paying a monthly or annual fee, the user becomes subscribed (subscription: selling/billing method for software where usage right is periodically updated) and can use the Company's enterprise system software. The service's features are shown below (edited/reworked excerpt from the Company's news release). The Company intends to actively expand the sales of this service.

・Can use PCA software without initial cost
・Latest program version always available
・Enhanced automatic updating function (download, not packaged)
・Client-API[8] is a standard feature (need to pay in packaged version)
・Operated under a public cloud environment (Iaas or Paas)
・Also provided as a complete model (all PCA software can be used without limit)

(8) Client-API: an API (application interface) by which PCA software functions can be used from external applications.

3. Shareholder Composition

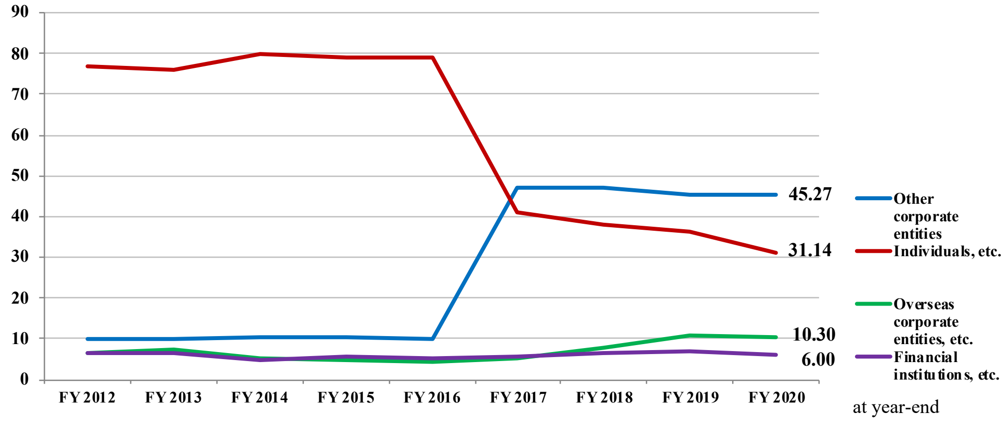
◆ Change in Composition by Type of Shareholder

Regarding shareholder composition by shareholder type as of the end of March 2020 (Figure 7), the sum of "other corporate entities" and "individuals, etc." accounts for approximately 80% of all shares. "Overseas corporate entities, etc." and "financial institutions, etc." account for only 10% and 6%, respectively, but the share of "overseas corporate entities, etc." has been gradually rising.

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

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

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



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

◆ Major Shareholder Composition

Major shareholders as of the end of March 2020 are shown on Figure 8 on page 14.

◆ No change to the stable shareholders, but several new investors joined the top list of shareholders.

Compared to the end of March 2019, excluding the five shareholders who seem stable, the top ten list of major shareholders has changed. The Employee Stock Ownership Plan sold shares in response to the rising stock price, causing its shareholding ratio to decrease. Other major shareholders include the second largest shareholder (ranking excluding treasury shares; the same applies below) Credit Suisse Securities, the third largest shareholder MSIP CLIENT SECURITIES, the eighth largest shareholder Japan Trustee Services Bank (trust account), and the ninth largest shareholder SSBTC CLIENT OMNIBUS ACCOUNT. These shareholders' final investors and purpose of investment are unknown. However, since some of the accounts have a history of investment in several Japan stocks, they are expected to include a large amount of pure investment by institutional investors, funds, etc., through trustees. Also, the Company's stock is included in an index fund managed by Mitsubishi UFJ Kokusai Asset Management, Nomura Asset Management, Sumitomo Mitsui Trust Asset Management, and other companies.

The shareholding ratio of Credit Suisse Securities report exceeded 5% at the end of January 2020 and therefore the company submitted a Report of Possession of Large Volume. However, it has been incrementally selling its shares such that its shareholding ratio decreased to 2.24% by the end of April.

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

Below is supplemental information:

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

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

- **Its rival OBC is also a major shareholder.**

・The fourth largest shareholder Obic Business Consultants Co., Ltd. (OBC) is a competitor with no transaction with the Company. Mr. Shigefumi Wada, the current president of OBC, had also been a major shareholder under his personal account, but he has been gradually selling his shares. Meanwhile, there has been no change in the number of shares held under the corporate account. In either case, the purpose of shareholding is unknown.

・The fifth largest shareholder Logic Systems Co., Ltd. and the tenth largest shareholder APPLIED SYSTEM LABORATORY Inc.'s purposes are also unknown.

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

- **Currently, there is no activist-like behavior. The Company has not adopted anti-takeover measures.**

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

[Figure 8] Major Shareholders' Status **Unit for shares owned: thou. shares** **For ratios: %**

	End of Mar. 2015	End of Mar. 2016	End of Mar. 2017	End of Mar. 2018	End of Mar. 2019	End of Mar. 2019	←% of Total Shares	←Ranking
Kawashima Co., Ltd.			2,935	2,935	2,736	2,735	41.12	1
PCA CORPORATION (treasury shares)	848	848	848	849	1,049	1,045	13.57	—
Credit Suisse Securities						472	7.09	2
MSIP CLIENT SECURITIES						295	4.44	3
Obic Business Consultants Co., Ltd.	254	254	254	254	254	254	3.81	4
Logic Systems Co., Ltd.	114	114	114	114	114	114	1.71	5
PCA Employee Stock Ownership Plan	110	119	127	127	135	100	1.50	6
Nagoya PCA Co., Ltd.		100	100	100	100	100	1.50	7
Japan Trustee Services Bank, Ltd. (trust account)						89	1.34	8
SSBTC CLIENT OMNIBUS ACCOUNT						87	1.32	9
APPLIED SYSTEM LABORATORY Inc.			86	86		86	1.30	10
Mizuho Bank, Ltd.	121	121	121	121	121			
BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD								
Shigefumi Wada (individual)	181	181	181	151	112			
GOLDMAN SACHS INTERNATIONAL					303			
State Street Bank and Trust Company 505001	244	249	266	266	174			
KBL EPB S.A. 107704				90	94			
Reiko Sato (individual): Heir to the founder Mr. Kawashima	1,467	1,467						
Tomoko Kumamoto (individual): Heir to the founder Mr. Kawashima	1,467	1,467						
Hiroko Wada (individual)	358							
% of treasury shares over all outstanding shares	11.0	11.0	11.1	11.0	13.6	13.6		

(Note) The percent of shares held by shareholders other than PCA (treasury shares) are the percent over all outstanding shares excluding treasury shares.

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

4. ESG

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

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

◆ **Society**
In its mission statement, the Company has declared to "support its customers' business management through enterprise system software." The idea is that by contributing to the improvement of user convenience and efficiency, it is fulfilling its responsibility as a member of the society. It plans to especially focus on supporting its small- and medium-sized corporate users in becoming a digitalized company (remote work, going paperless, building digital infrastructure, etc.).

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

By sponsoring events, the Company supports the spotting and training of talented programmers who will shape the future as well as the promotion of athletics such as the marathon.

In the past, it had also made a donation to the incorporated non-profit organization Médecins Sans Frontières (MSF) Japan in order to support the reconstruction after the Great East Japan Earthquake and help the people who suffered from it.

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

- **Promoting diversity by improving gender mix. Has set goals to increase the percentage of women. Two out of ten executive officers are women.**

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

◆ **Governance**
For internal control, the Company has set up an internal audit office, directly under the control of the president, that operates in cooperation with two outside directors. It has also set up a risk-control committee with the president as the chairperson to create a risk control system that can flexibly, quickly, and appropriately respond to risks.

As of June 2020, the Company does not have an executive officer system. The management team consists of six directors (including two outside directors) and four auditors (including three outside auditors, one tax accountant, one CPA, and one lawyer).

5. History of Growth

◆ Company History

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

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

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

Then, with the emergence of the PC era, the Company has grown mainly due to the following four efforts: 1) created a greater variety of and version upgrades for packaged software in Japan, 2) expanded the maintenance service business, 3) developed the cloud business, and 4) expanded the solutions business which includes providing other companies' products. Furthermore, by increasing the number of offices and cooperating with manufacturers and dealers, the Company has developed a nationwide sales/support system that has helped the rapid expansion of its business. The Company is also seen as a pioneer in the rather conservative industry, as it was the first in the industry to begin providing cloud services (SaaS[9]) in 2008.

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

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

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

◆ Past Transition in Financial Results

Since foundation until now, the Company has been expanding its business as a specialist in the development and marketing of enterprise system software and related businesses, as described above. The transition in financial results since its first public offering is described in Figure 9 on page 17. The following is supplemental information on the financial results, in chronological order:

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

・Aside from certain periods such as the post-Lehman economic downturn and the 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 had been made for profit, being unable to maintain or exceed the level of profit that it had once achieved.

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

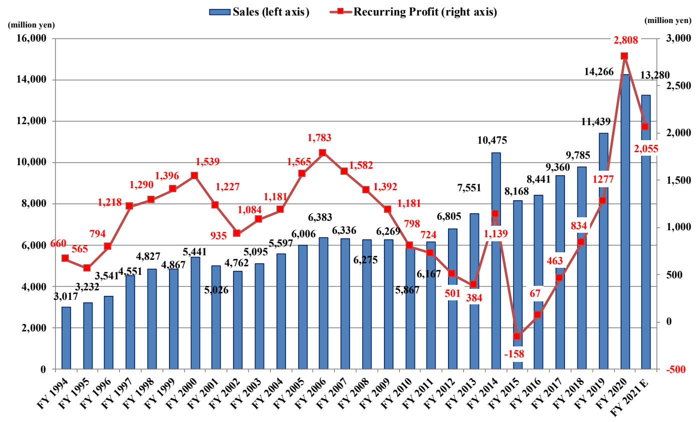
・The decline in sales for four consecutive years from FY 2007 to FY 2010, as well as the decline in profit for seven consecutive years from FY 2007 to FY 2013, was caused by decreased demand (due to the post-Lehman economic downturn, etc.) and increased personnel, R&D, and sales promotion expenses, as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

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

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

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

[Figure 9] Long-Term Transition in Financial Results



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. Estimate/forecast (E) for FY 2021 is from the Company's business plan.

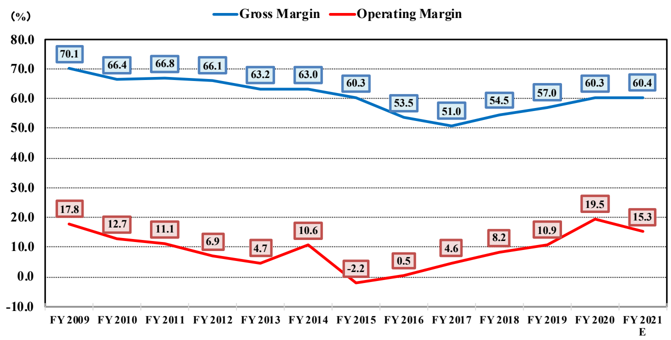
(10) ERP (integrated enterprise system): stands for Enterprise Resource Planning. Management concept based on the integration and real-time processing of core business information to efficiently optimize as a whole. Provided as IT solutions software for integrating enterprise systems.

Regarding profit, record-high net profit (Y937 million) was achieved in FY 2000, thanks to the high demand brought by the year 2000 problem. Additionally, in FY 2006, record highs were achieved for operating profit and recurring profit (Y1,747 million and Y1,783 million, respectively). These record highs were brought by the improvement in profitability due to the demand stimulated by the revision of the accounting regulation for public benefit corporations and the drastic change in regulations caused by the new Companies Act, as well as the Company's ERP[10] (integrated enterprise system) product Dream 21 (former product name).

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

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

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



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. The Company's estimate/forecast (CE) used for FY 2021.

◆ **A net loss was posted for two consecutive years in a recoil from past event-driven high demand.**

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

◆ **From FY 2016, began to consecutively raise sales/profit, staying in the black, thanks to new products, growth of the cloud, and cost reduction. Operating margin improved.**

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

◆ **Thanks in part to the structural reform, financial performance recovered in a V-shaped curve.**

◆ **Consecutive, large growth in sales and profit in FY 2019 and FY 2020 due to the high demand driven by the consumption tax revision and termination of Windows 7 support.**

Since FY 2017, the Company has been continuously making and increasing profit. In FY 2019 (the fiscal year before the previous), the Company achieved an increase in sales and a significant increase in profit for the fourth consecutive year. Due to an event-driven high demand of about a billion yen in the second half of the previous fiscal year, the financial results were revised largely upward during the fiscal year. Sales increased in all categories, but the sales of the cloud service, the products, and the solutions especially grew well – by about 20-30% each – thanks to the event-driven high demand (rise in the consumption tax rate, termination of Windows 7 support, version upgrades related to the change in the name of the era, etc., led to an early demand of almost a billion yen, as estimated by the Company). As a result, the Company achieved record-high full-year sales for the first time in five years since the record of Y10,475 million attained in FY 2014 when a high demand was induced by two events. This trend continued into FY 2020, and record-high sales and profit were achieved.

As a reference, a comparison of the Company's initial forecast and the actual results in the past was made in chronological order (Figure 11). Although the actual results have sometimes greatly deviated from the initial forecast, since FY 2017, the actual profits have tended to largely exceed the initial forecast. Past announcements of revisions to financial forecasts have often been made in September or February to April of the following year.

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

Consolidated	Sales		Operating Profit		Recurring Profit		Net Profit Attributable to Owners of the Parent (hereinafter "net profit")		Sales	Operating Profit	Recurring Profit	Net Profit	Sales	Operating Profit	Recurring Profit	Net Profit
Unit: million yen	*Initial forecast*	Actual result	*Initial forecast*	Actual result	*Initial forecast*	Actual result	Initial forecast	Actual result	Difference from initial forecast				YoY change in actual results			
FY 2001	-	5,026	-	1,224	-	1,227	-	695	-	-	-	-	-	-	-	-
FY 2002	*5,634*	4,762	-	925	*1,215*	935	-	533	-15.5%	-	-23.0%	-	-5.3%	-24.4%	-23.8%	-23.3%
FY 2003	*5,104*	5,095	-	1,073	*1,015*	1,083	*589*	576	-0.2%	-	6.7%	-2.2%	7.0%	16.0%	15.8%	8.1%
FY 2004	*5,521*	5,595	-	1,170	*1,125*	1,181	*653*	682	1.3%	-	5.0%	4.4%	9.8%	9.0%	9.0%	18.4%
FY 2005	*6,096*	6,005	-	1,551	*1,293*	1,565	*769*	915	-1.5%	-	21.0%	19.0%	7.3%	32.6%	32.5%	34.2%
FY 2006	*6,870*	6,383	-	1,747	*1,780*	1,783	*1,059*	327	-7.1%	-	0.2%	-69.1%	6.3%	12.6%	13.9%	-64.3%
FY 2007	*6,860*	6,336	-	1,533	*1,550*	1,582	*922*	852	-7.6%	-	2.1%	-7.6%	-0.7%	-12.2%	-11.3%	160.6%
FY 2008	*6,790*	6,274	*1,321*	1,325	*1,365*	1,391	*812*	644	-7.6%	0.3%	1.9%	-20.7%	-1.0%	-13.6%	-12.1%	-24.4%
FY 2009	*6,800*	6,268	*1,294*	1,117	*1,360*	1,181	*809*	680	-7.8%	-13.7%	-13.2%	-15.9%	-0.1%	-15.7%	-15.1%	5.6%
FY 2010	*6,500*	5,867	*1,141*	744	*1,200*	797	*714*	436	-9.7%	-34.8%	-33.6%	-38.9%	-6.4%	-33.4%	-32.5%	-35.9%
FY 2011	*5,908*	6,166	*878*	686	*927*	724	*519*	411	4.4%	-21.9%	-21.9%	-20.8%	5.1%	-7.8%	-9.2%	-5.7%
FY 2012	*6,505*	6,805	*806*	468	*835*	501	*381*	75	4.6%	-41.9%	-40.0%	-80.3%	10.4%	-31.8%	-30.8%	-81.8%
FY 2013	*7,025*	7,550	*56*	354	*84*	383	*29*	181	7.5%	532.1%	356.0%	524.1%	10.9%	-24.4%	-23.6%	141.3%
FY 2014	*8,641*	10,474	*284*	1,110	*311*	1,138	*141*	604	21.2%	290.8%	265.9%	328.4%	38.7%	213.6%	197.1%	233.7%
FY 2015	*9,198*	8,168	*453*	-179	*483*	-157	*283*	-207	-11.2%	-139.5%	-132.5%	-173.1%	-22.0%	-116.1%	-113.8%	-134.3%
FY 2016	*8,880*	8,440	*242*	40	*272*	66	*131*	-93	-5.0%	-83.5%	-75.7%	-171.0%	3.3%	-122.3%	-142.0%	-55.1%
FY 2017	*9,731*	9,360	*165*	432	*187*	463	*51*	160	-3.8%	161.8%	147.6%	213.7%	10.9%	980.0%	601.5%	-272.0%
FY 2018	*9,876*	9,785	*645*	807	*669*	834	*425*	441	-0.9%	25.1%	24.7%	3.8%	4.5%	86.8%	80.1%	175.6%
FY 2019	*10,486*	11,439	*825*	1,248	*842*	1,277	*588*	906	9.1%	51.3%	51.7%	54.1%	16.9%	54.6%	53.1%	105.4%
FY 2020	*12,783*	14,266	*1,478*	2,781	*1,499*	2,808	*976*	1,816	11.6%	88.2%	87.3%	86.1%	24.7%	122.8%	119.9%	100.4%
FY 2021 (CE)	*13,280*		*2,034*		*2,055*		*1,358*									
Simple average of difference (unit: %), calculated based on the longest period with available data for sales & profits (excluding this FY) →									-1.7%	60.5%	30.2%	32.2%	5.3%	55.8%	32.7%	10.3%
Blue highlight: Previous record	Green highlight: Record high	From initial forecast, upward revision : downward revision (unit: # of times)→							7:12	7:6	12:7	9:10	↑ Simple average for each period (excluding this FY)			

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary and securities report. The FY 2021 forecasts/estimates (CE) is from the Company's plan.

6. Business Environment

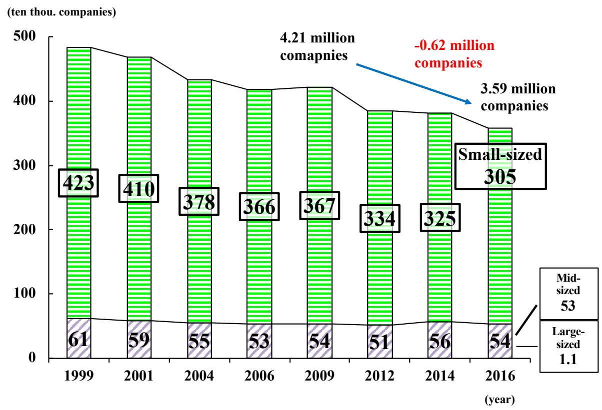
◆ Market Trend for Enterprise System Software

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

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

The number of companies in Japan is on a downward trend, falling below four million companies (Figure 12). The number of small/medium-sized companies is especially declining because of small-sized companies[11] closing their businesses. With the decreasing population and aging society of Japan, the total number of small and medium-sized companies, or the Company's target customer zone, is decreasing. In fact, the total number of companies as of June 2016 was approximately 3.59 million, which is about 0.62 million smaller (-14.7%) than 2009.

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



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

◆ **Temporary downturn of the market for small/medium-sized companies**

The Bank of Japan Tankan for March 2020 predicted that software investment in the year 2020 (plan) by small/medium-sized companies of all industries will decrease by 1.8% YoY (of which manufacturing will decrease by 5.0% and non-manufacturing will decrease by 0.4%). Business sentiment of small/medium-sized companies has worsened from +1 in the December 2019 survey ("recent") to -7 and "outlook" also worsened from -4 to -23; over the short term, the market environment is facing a downturn.

◆ **Enterprise system software market size will steadily grow over the medium to long term.**

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

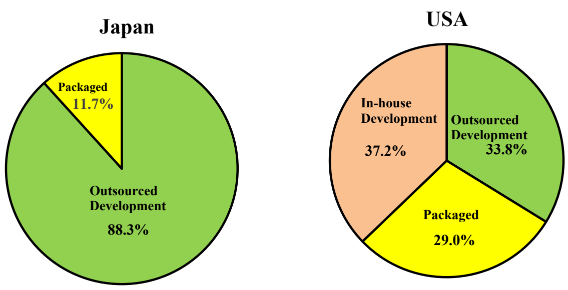
Also, according to the "WHITE PAPER Information and Communications in Japan" by the Ministry of Internal Affairs and Communications, the size of the packaged software market (excluding game software, embedded software, etc.) in 2017 was approximately Y1.1 trillion and its size has been gradually increasing in recent years.

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

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

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 use of cloud-based enterprise system software is said to be several years ahead of Japan, the penetration rate of such system in Japan is ½ to ⅓ (ref: "WHITE PAPER Information and Communications in Japan" by the Ministry of Internal Affairs and Communications, etc.). With regards to software development method in Japan, the share of packaged software in Japan is about 12%, and the proportion of outsourced software development is still large compared to the US (Figure 13). Therefore, the growth potential of the packaged software market in Japan seems to be large (according to the year 2019 version of the "WHITE PAPER," the penetration rate of the cloud in Japan is approximately 26% for "payroll / financial accounting / HR" and only 6-8% each for "production management / logistics management / store management," "purchasing," and "sales on orders").

[Figure 13] Software Ratio in Japan and the USA



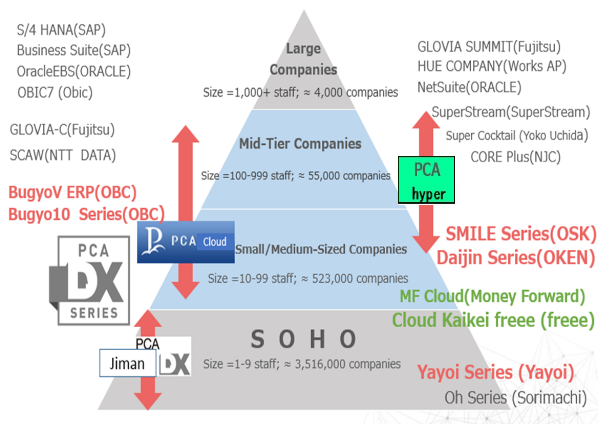
(Note) Monetary amount of software developed in-house is not disclosed in Japan's statistics (System of National Accounts). Therefore, data from software providers are used, but these data do not include in-house developed software. When the total of the US's packaged software and outsourced development software is set to 100% in order to compare data between the two countries, US's proportion of packaged software comes out to be 46.2%, which is about four times that of Japan.

(Ref) Ministry of Internal Affairs and Communications: "WHITE PAPER Information and Communications for 2019" (Japan: Ministry of Internal Affairs and Communications and Ministry of Economy, Trade, and Industry) (USA: US Department of Commerce)

◆Comparison with Competitors

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

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



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

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

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

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

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

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

The accounting software market size is approximately Y200 billion. The market is reaching maturity and its size has not largely changed. In this market, the Company is estimated to be third from the top (about 10% of total market share). The Company seems to have a similar level of market share and be at a similar position with its payroll and HR software. In the cloud accounting market, the two companies described below join in as rivals among listed companies. Both target one-person businesses and companies that are small in scale such as small/medium-sized companies and SOHOs. They directly compete with the Company in specific areas.

- **In addition to OBC, competing with Money Forward and freee with regards to a part of the cloud accounting business**

Money Forward (TSE Mothers 3994)
・Providing cloud services such as household accounting application for individuals and accounting software, etc., for companies
・Market capitalization of Y145 billion based on a stock price of Y6,180 (closing price on 6/19)
・FY 2020 (November-ending): the company expects sales of Y11,272 million and net loss of Y3,151 million (median values, since both were announced as ranges), and no dividend (P/S of 12.9 [reference: P/S = market cap / sales] and P/B of 17.4)

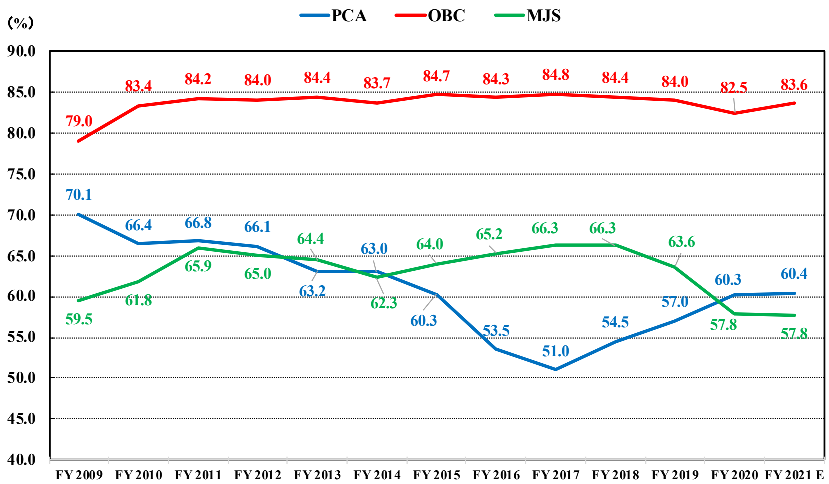
freee (TSE Mothers 4478; became listed in December 17, 2019)
・Providing ERP services for small businesses (cloud accounting software)
・Market capitalization of Y231.2 billion based on a stock price of Y4,785 (closing price on 6/19)
・FY 2020 (June-ending): the company expects sales of Y6,700 million, net loss of Y3,135 million, and no dividend (P/S of 34.5 and P/B of 17.2)

- **Margins and asset efficiency largely improved. Top-level ROA and ROE among the three companies.**

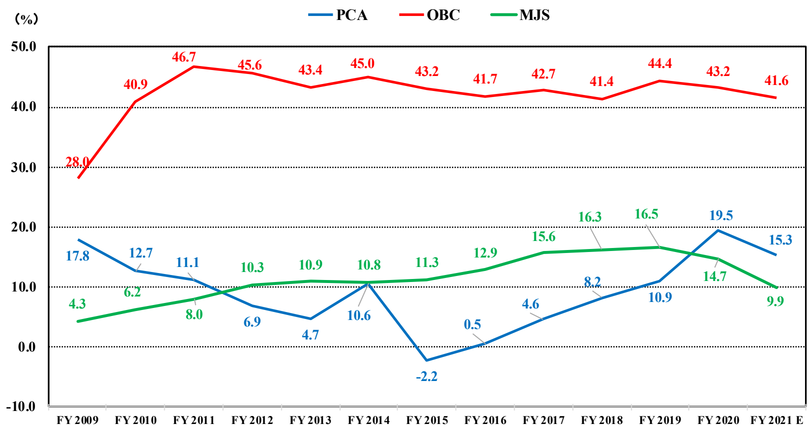
A comparison of the long-term transition in gross margin and operating margin of the three major listed companies (the Company, OBC, and MJS) is shown in Figure 15 and Figure 16 on page 22. Compared to the Company, both margins are stable for OBC and MJS, presumably due to the merit of scale (the sales of OBC and MJS are about 2.3x and 2.7x greater than the Company's, respectively, and their operating profits are about 6.2x and 1.8x greater, respectively, based on this fiscal year's company forecasts) and the difference in efficiency and sales composition. Both companies used to have a lower contract rate for the maintenance support service but succeeded in raising this rate, resulting in a greater earning capacity. However, the Company's profit margins have also bottomed out and are increasing in recent years, and the Company is now aiming for a greater earning capacity.

Similarly, the transition in the Company's ROA and ROE in Figure 17 shows that the ratios have been sharply improving in recent years and that its asset efficiency has also been significantly improving in addition to the earning capacity. In fact, this improvement in the most recent period brings the Company to the top level among the three companies. (Actual results for FY 2020, in the order of ROA to ROE: compared to 13.0% and 14.3% for PCA, 9.9% and 8.5% for OBC and 13.9% and 9.9% for MJS.)

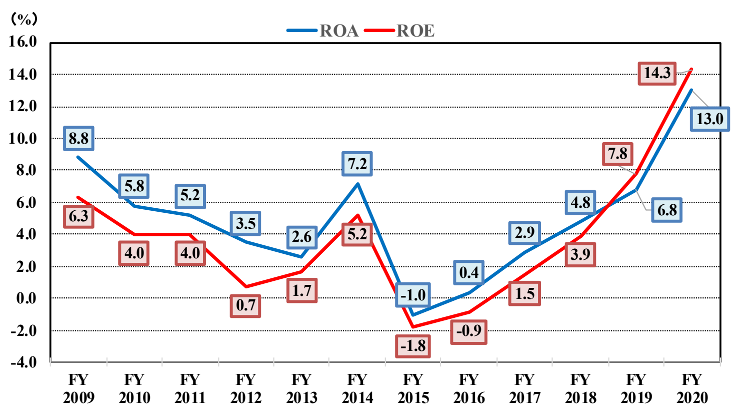
[Figure 15] Long-Term Transition in the Gross Margin of Three Major Listed Companies (PCA, OBC, and MJS)



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



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



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

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

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

◆ Last fiscal year, with the event-driven high demand, sales and operating profit grew for the 5th consecutive year. Record-high sales and profit were achieved. Sales growth and the improvement in margins led to the large profit growth.

◆ Results were solid, exceeding both the second upward revision made by the Company during the fiscal year as well as our forecast.

◆ Results for FY 2020 (last fiscal year)

Overview

Full-year, consolidated financial results for FY 2020 indicated a significant growth in sales and profit: sales were Y14,266 million (+24.7% YoY), operating profit was Y2,781 million (+122.8% YoY), recurring profit was Y2,808 million (+119.9% YoY), and net profit attributable to owners of the parent was Y1,816 million (+100.4% YoY, hereinafter "net profit") (Figure 18). For full-year results, the Company achieved sales growth and record sales for the fifth consecutive term, and furthermore achieved operating profit growth for the fifth consecutive term as well as record-high net profit for the first time in 15 years since FY 2005 (Figure 11 on page 18).

Last fiscal year, the forecast announced at the beginning of the fiscal year was revised upward twice, once on October 28, 2019 and once on January 24, 2020. The results exceeded the Company's second, upwardly revised forecast as well as our previous forecast made on January 31, 2020. The event-driven high demand was greater than expected, which had caused sales to be significantly higher, also leading to higher-than-expected profit.

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

Full-Year Results		FY 2019	FY 2020	% Change	Difference	% of Total Sales Growth	% of Total Sales
Unit: million yen				YOY: %	YOY: million yen	%	%
Consolidated Sales		11,439	14,266	24.7	2,827	100.0	100.0
Sales Category	Products	2,516	3,166	25.8	650	23.0	22.2
	Merchandise	563	552	-1.9	-11	-0.4	3.9
	Maintenance Service	3,125	3,471	11.1	346	12.2	24.3
	Cloud Service	2,452	3,374	37.6	922	32.6	23.7
	Other Operating Revenue	2,781	3,701	33.1	920	32.6	25.9
Gross Profit		6,522	8,599	31.8	2,077	-	-
	Gross Margin (%)	57.0	60.3		3.3	-	-
SG&A Expenses		5,274	5,817	10.3	543	-	-
	SG&A Expenses Ratio (%)	46.1	40.8		-5.3	-	-
Operating Profit		1,248	2,781	122.8	1,533	-	-
	Operating Margin (%)	10.9	19.5		8.6	-	-
Net Profit		906	1,816	100.4	910	-	-
	Net Margin (%)	7.9	12.7		4.8	-	-

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary.
(Note) "Other operating revenue" is the same as the "solutions." "Merchandise" and "other operating revenue" sales categories are based on the new standards.

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

Sales

Of the total sales growth (YoY) of Y2,827 million, sales growth by category in descending order of percent contribution is as follows: cloud was +922 million yen (about 33% of total sales growth), solutions were +920 million yen (33%), products were +650 million yen (23%), maintenance was +346 million yen (12%), and merchandise were -11 million yen. Excluding merchandise, whose sales of ledger sheets decreased due the trend of going paperless, sales increased in all categories.

Last fiscal year, two major events (early demand for software version upgrades in response to the revision of the consumption tax rate and for software replacements in response to the termination of support for Windows 7) created a high demand of about Y1 billion mainly in the first half, as estimated by the Company (event-driven high demand during the fiscal year before the previous was estimated to be about Y800 million). This demand contributed significantly to the results.

Cloud's sales were firm and grew at 38% YoY, helped by the acquired Keepdata Inc. (estimated to be about Y100 million). In addition, thanks to the event-driven high demand, sales of the products and the solutions showed a significant growth. Sales of the products (on-premises) increased by 26% mainly for accounting and sales management software. Sales of the solutions grew by 33% with the implementation support fee that increases with increasing product sales and with the business of purchasing and selling other companies' goods.

Sales growth rate of the maintenance service used to be in the low single digit, but it grew by 11% thanks to the solid sales of the products and the rise in the number of maintenance contracts (new purchases and version upgrades almost always come with maintenance contracts).

- **Corporate users of PCA Cloud have been steadily increasing. Now over 14,000 users.**
- **From FY 2018 to FY 2020, sales growth of the cloud has been accelerating from +23.9% → +32.2% → +37.6%.**

Cloud

The number of corporate users of PCA Cloud reached 10,000 on 1/11/2018. Then, the number reached 11,331 by the end of September 2018, 12,313 by the end of March 2019 (compared to half a year ago: +982), 13,343 by the end of September 2019 (+1,030), and 14,388 by the end of March 2020 (+1,045). Over the past 12 months, the number of corporate users rose by 2,075 (Figure 6 shown previously on page 11). On a simple average, the number of corporate users increased at a pace of about 173 companies per month. This net-increase trend seems to be continuing into this fiscal year, but the pace may slow down temporarily due to the impact of COVID-19. About 40% of new contracts are with new customers.

As a result, the cloud's sales have been expanding, and the amount and rate of increase have been accelerating as well: its sales were Y1,496 million in FY 2017 → Y1,854 million in FY 2018 (+358 million yen or +23.9% YoY) →Y2,452 million yen in FY 2019 (the fiscal year before the previous) (+598 million yen or +32.3% YoY) → Y3,374 million yen in FY 2020 (last fiscal year) (+922 million yen or +37.6% YoY).

- **The subscription-based businesses account for about 50% of the total sales.**

Subscription-Based Business

Sales of the Company's subscription-based businesses (combined sales of the maintenance service and the cloud), which are the Company's key performance indicator, accounted for 48.7% of the total sales during the fiscal year before the previous, but this percentage of contribution decreased slightly to 48.0% last fiscal year. This is because customers who still prefer to use stand-alone software purchased on-premises or other companies' products ahead of schedule in response to version upgrade campaigns, etc., before the rise in the consumption tax rate. Consequently, sales growth rate of the products and the solutions were greater than the subscription-based businesses' growth (Figure 19).

【 Figure 19 】Transition in Full-Year Sales by Category (unit: million yen, %)

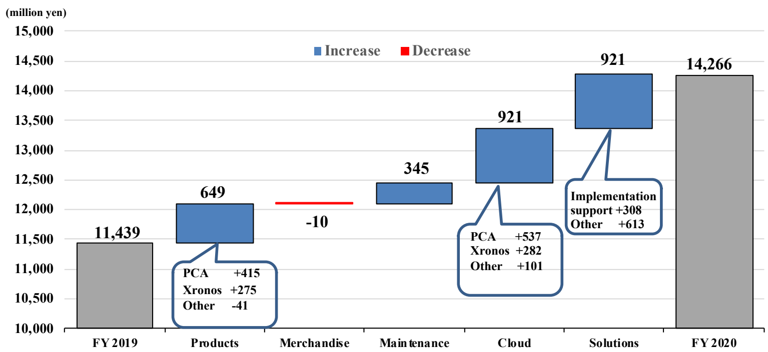
Sales by Category	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	% YoY Change
Cloud	1,152	1,496	1,854	2,452	3,374	37.6%
Maintenance	3,026	3,098	3,109	3,124	3,471	11.1%
Subscription-Based Business (total)	4,178	4,594	4,963	5,576	6,845	22.8%
% of Subsc. Business over Entire Sales	49.5%	49.1%	50.7%	48.7%	48.0%	
Solutions	1,639	1,740	1,878	2,781	3,701	33.1%
Merchandise	854	955	988	563	552	-2.0%
Products	1,767	2,069	1,954	2,516	3,166	25.8%
Total	8,440	9,360	9,785	11,439	14,266	24.7%

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials.
(Note) For the sales categories of merchandise and solutions (other operating revenue), new standards were retroactively reflected in FY 2019.

- **The labor management system also contributed to both sales and profit.**

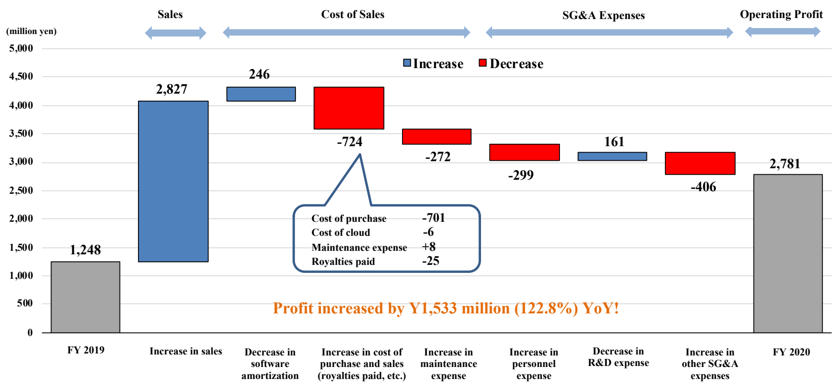
Xronos
With the workstyle reform, the labor management system of the subsidiary Xronos also made a significant contribution. Sales of the product version grew by Y275 million and sales of the cloud version grew by Y282 million, totaling Y557 million in sales growth. In sum, the subsidiary contributed to about 20% of the Group's overall sales growth (Figure 20).

【 Figure 20 】 Factors that Increased/Decreased Sales in FY 2020 (last fiscal year) (unit: million yen)



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

【 Figure 21 】 Factors that Increased/Decreased Operating Profit in FY 2020 (last fiscal year)



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

- **Last fiscal year, the gross margin and SG&A expenses ratio largely improved.**

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

Profit
Factors that contributed to an increase or decrease in consolidated operating profit are shown in Figure 21. Since the Company's business model has a high marginal profit ratio, the sales growth directly led to a profit growth.

Since the cloud and the products, which presumably have high margins, accounted for a large portion of the sales growth (profit by category is not disclosed), the gross profit margin rose by 3.3 points from 57.0% to 60.3% (Figure 18 on page 23). With the sales growth and improvement in gross margin, gross profit rose by 32% or Y2,077 million YoY to Y8,599 million. This increase in gross profit was caused by how, for the cost of sales, the purchase cost and maintenance cost were held down relative to the increase in sales.

Regarding SG&A expenses, investments in R&D and development of new software such as the Hyper Series[12] have settled down for now, leading to a decrease in the R&D expenses (-161 million yen). On the other hand, increase in personnel expenses such as raising the basic salary of its employees (+299 million yen) and increase in other SG&A expenses such as advertising expenses and IT-related investment (replacement of PCs and improvement of the communication environment) (+406 million yen) caused the SG&A expenses to rise significantly by +543 million yen or +10.3% YoY. With solid financial performance, the Company seems to have actively returned benefits to its officers and employees and made investments for the future. Still, as sales had significantly increased, the SG&A expenses ratio ended up improving by 5.3 points from 46.1% to 40.8%.

As a result, operating profit increased significantly by Y1,533 million or 122.8% YoY and operating margin also improved by 8.6 points from 10.9% to 19.5%. As no non-operating profit/loss or extraordinary profit/loss were posted, recurring profit and net profit both doubled from the previous fiscal year.

- **Looking at the quarterly results, sales and profit reached a peak in Q2 due to the rush of event-triggered demand in September**

Quarterly Results

Analyzing the results on a quarterly basis (Figure 22 on page 27), we can see that in the first quarter (April to June 2019: Q1), sales increased by 31% YoY to Y3,073 million, and in the second quarter (July to September of the same year: Q2), sales increased by 59% YoY to Y4,095 million. The sales growth rate accelerated and the amount of sales also reached a peak. Then, this momentum decreased, as sales grew by 21% YoY to Y3,538 million in the third quarter (October to December 2019: Q3) and declined by 1% YoY to Y3,560 million in the fourth quarter (January to March 2020: Q4). However, considering that the event-driven high demand had already started in the second half of the year before this, the Company has arguably succeeded in maintaining a high level of sales in the second half of the previous fiscal year.

- **Sales returned to normal levels in Q3 and Q4 and the sales growth momentum decreased, but a high level was still maintained.**

Looking at the change in the sales breakdown, the cloud business continued to be excellent, with a sales growth rate of nearly 40% YoY during all quarters from Q1 to Q4. Regarding the products and the solutions, their sales doubled from Q1 to Q2 and then came back to normal levels in Q3 and Q4. This large fluctuation impacted the overall sales.

- **Sales of the cloud were excellent, maintaining a high sales growth rate during all quarters.**

The gross margin generally decreased from Q1 to Q4: 60.8% → 60.4% → 60.4% → 59.5%. However, the change was not large, staying mostly around 60%. On the other hand, the SG&A expenses increased (in the same order as above) from Y1,281 million → Y1,291 million → Y1,359 million → Y1,886 million, sharply increasing in the second half and especially in Q4. As a result, the operating profit also showed a downward trend: Y587 million → Y1,185 million → Y776 million → Y233 million. In Q4, there was a significant decline in profit on a year-on-year comparison as well as compared to Q2 or Q3. This was caused by the sharp increase in SG&A expenses, mostly for advertising expense and personnel expense (bonuses, etc.). The incurred expenses are in line with the budget plan; the Company seems to have incorporated cost control as part of its plan in advance, so that its financial results had room for adjustments in terms of profit and loss.

- **Gross margin is on a downward trend, but mostly stable at around 60%.**
- **In Q4, SG&A expense largely increased and profit declined, but these had been expected.**

【 Figure 22 】Quarterly Transition in Financial Performance in FY 2020

Q1 Results		Q1 FY 2019	Q1 FY 2020	% Change	Difference	% of Total Sales Growth	% of Total Sales
Unit: million yen		Apr-June 2018	Apr-June 2019	YoY: %	YoY: million yen	%	%
Consolidated Sales		2,346	3,073	31.0	727	100.0	100.0
Sales Category	Products	394	652	65.3	258	35.5	21.2
	Merchandise	107	102	-4.6	-5	-0.7	3.3
	Maintenance Service	788	865	9.8	77	10.6	28.1
	Cloud Service	544	764	40.3	220	30.3	24.9
	Other Operating Revenue	511	688	34.7	177	24.4	22.4
Gross Profit		1,287	1,868	45.1	581	-	-
	Gross Margin (%)	54.9	60.8		5.9	-	-
SG&A Expenses		1,229	1,281	4.2	52	-	-
	SG&A Expenses Ratio (%)	52.4	41.7		-10.7	-	-
Operating Profit		57	587	917.5	530	-	-
	Operating Margin (%)	2.4	19.1		16.7	-	-
Net Profit		34	364	945.3	330	-	-
	Net Margin (%)	1.4	11.8		10.4	-	-
Q2 Results		**Q2 FY 2019**	**Q2 FY 2020**	**% Change**	**Difference**	**% of Total Sales Growth**	**% of Total Sales**
Unit: million yen		July-Sept 2018	July-Sept 2018	YoY: %	YoY: million yen	%	%
Consolidated Sales		2,569	4,095	59.4	1,526	100.0	100.0
Sales Category	Products	419	1,190	184.3	771	50.6	29.1
	Merchandise	100	117	16.5	17	1.1	2.9
	Maintenance Service	765	833	8.9	68	4.5	20.3
	Cloud Service	585	804	37.4	219	14.4	19.6
	Other Operating Revenue	704	1,153	63.9	449	29.4	28.2
Gross Profit		1,427	2,475	73.4	1,048	-	-
	Gross Margin (%)	55.6	60.4		4.9	-	-
SG&A Expenses		1,241	1,291	4.0	50	-	-
	SG&A Expenses Ratio (%)	48.3	31.5		-16.8	-	-
Operating Profit		187	1,185	533.2	997	-	-
	Operating Margin (%)	7.3	28.9		21.6	-	-
Net Profit		161.4	842	421.6	681	-	-
	Net Margin (%)	6.3	20.6		14.3	-	-
Q3 Results		**Q3 FY 2019**	**Q3 FY 2020**	**% Change**	**Difference**	**% of Total Sales Growth**	**% of Total Sales**
Unit: million yen		Oct-Dec 2018	Oct-Dec 2019	YoY: %	YoY: million yen	%	%
Consolidated Sales		2,921	3,538	21.1	617	100.0	100.0
Sales Category	Products	521	654	25.6	133	21.6	18.5
	Merchandise	253	237	-6.2	-16	-2.6	6.7
	Maintenance Service	765	894	16.9	129	20.9	25.3
	Cloud Service	634	862	36.0	228	37.0	24.4
	Other Operating Revenue	746	890	19.3	144	23.3	25.2
Gross Profit		1,653	2,137	29.3	484	-	-
	Gross Margin (%)	56.6	60.4		3.8	-	-
SG&A Expenses		1,375	1,359	-1.1	-16	-	-
	SG&A Expenses Ratio (%)	47.1	38.4		-8.6	-	-
Operating Profit		277	776	180.4	500	-	-
	Operating Margin (%)	9.5	21.9		12.5	-	-
Net Profit		176	440	150.6	265	-	-
	Net Margin (%)	6.0	12.4		6.4	-	-
Q4 Results		**Q4 FY 2019**	**Q4 FY 2020**	**% Change**	**Difference**	**% of Total Sales Growth**	**% of Total Sales**
Unit: million yen		Jan-Mar 2019	Jan-Mar 2020	YoY: %	YoY: million yen	%	%
Consolidated Sales		3,603	3,560	-1.2	-43	100.0	100.0
Sales Category	Products	1,183	670	-43.3	-513	-	18.8
	Merchandise	103	96	-6.4	-7	-	2.7
	Maintenance Service	807	879	8.9	72	-	24.7
	Cloud Service	689	944	37.0	255	-	26.5
	Other Operating Revenue	820	970	18.3	150	-	27.2
Gross Profit		2,155	2,119	-1.7	-36	-	-
	Gross Margin (%)	59.8	59.5		-0.3	-	-
SG&A Expenses		1,429	1,886	32.0	457	-	-
	SG&A Expenses Ratio (%)	39.7	53.0		13.3	-	-
Operating Profit		727	233	-68.0	-494	-	-
	Operating Margin (%)	20.2	6.5		-13.6	-	-
Net Profit		535	170	-68.2	-365	-	-
	Net Margin (%)	14.8	4.8		-10.1	-	-

(Ref) Prepared by Alpha-Win Research Dept. based on each quarter's financial results summary in FY 2020

◆ PCA's Financial Forecast for FY 2021 (this fiscal year)

This Fiscal Year's Strategy

The Company's strategy for this fiscal year is based on the following three points:

・Enhancing the subscription business and improving its market prevalence (full-scale launch of PCA Subscription).

・Give another try at entering the mid-tier company market with the Hyper (planning to release Receivables Management Option and Debt Management Option for PCA Accounting Hyper)

・Establish a workstyle reform (HR) solution business

◆ Will support the digitalization of its small/medium-sized corporate clients

The Company intends to strongly support and help promote business digitalization by its small/medium-sized corporate clients. Specifically, it has declared that it will provide small/medium-sized companies with solutions for starting remote work (work-at-home support) and digitalizing information storage and replacement (from paper) in order to support the company or organization in building a digital infrastructure to respond to changes in the society.

Summary of the Full-Year Financial Forecast

- **This FY, sales and profit decline is expected in a recoil from the event-driven high demand. However, profit is expected to be at a high level.**
- **Impact of COVID-19 is uncertain. Plans to control expenses to attain the profit target.**

The Company announced its full-year financial forecast for FY 2021 (this fiscal year). It expects sales and profit to decline YoY, with sales of Y13,280 million (-6.9% YoY), operating profit of Y2,034 million (-26.9% YoY), recurring profit of Y2,055 million (-26.8% YoY), and net profit of Y1,358 million (-25.2% YoY) (Figure 23). During the announcement, the Company said that "In making calculations in the first quarter, we took into account the impact of COVID-19 on our financial results, but the actual results may differ from the forecast figures due to various factors in the future. Also, in order to achieve the final profit target, we may promote or suppress the incurrence of expenses depending on changes in the internal and external environment." The forecast for the interim period is not disclosed.

Summary of the Full-Year Forecast (Sales)

- **Significant sales decline expected for solutions and products (on-premises) due to a recoil from the event-driven high demand. On the other hand, the cloud is forecasted to remain excellent and help support the overall results.**

Forecasts for full-year sales by category are shown in Figure 24 on page 29. Of the expected overall sales decline of Y986 million (net amount), decline in the sales of solutions (-812 million yen) is expected to account for 80%. This is because the Company expects a large decline in the sales of other companies' goods, etc., in the recoil from the event-driven high demand. Similarly, the expected sales decline of the products (-627 million yen) is equivalent to 60% of the total. Sales of maintenance and merchandise are also expected to decrease. Only the sales of the cloud are expected to increase by Y645 million (+19.1% YoY). The ratio of the subscription-based revenue, which is the total sales of the cloud and the solutions, over the Company's overall sales is expected to be 56% – a majority.

Summary of the Full-Year Forecast (Profit)

- **Sales decline, but a rise in SG&A expenses expected.**

This fiscal year's gross margin is expected to be 60.4%, which is about the same as the previous fiscal year's 60.3%. Although sales will decrease by 6.9%, SG&A expenses are planned to increase by Y168 million or 2.9% from Y5,817 million to Y5,985 million. As a result, the SG&A ratio will worsen by 4.3 points from 40.8% to 45.1%, and the operating margin will also decrease by 4.2 points from 19.7% to 15.5%. Non-operating profit and loss and extraordinary profit and loss are not expected to be large.

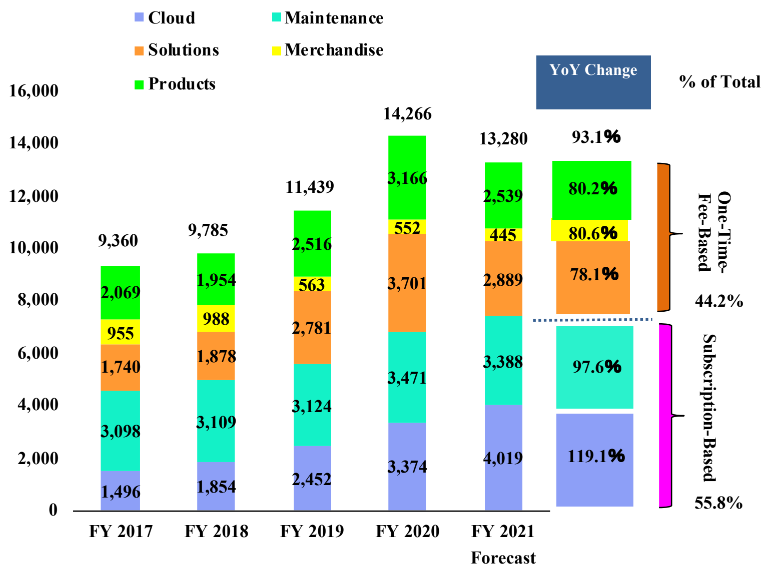
【 Figure 23 】 Financial Forecast for this Fiscal Year (the Company's plan)

Consolidated (unit: million yen)	FY 2020 *Result*	FY 2021 *Company Forecast*	Change/Diff.	% Change
Sales	***14,266***	**13,280**	**-986**	**-6.9%**
Gross Profit	***8,599***	**8,019**	**-580**	**112.4%**
Gross Margin	*60.3%*	60.4%	0.1%	–
SG&A Expense	***5,817***	**5,985**	**168**	**2.9%**
SG&A Expenses Ratio	*40.8%*	45.1%	4.3%	–
Operating Profit	***2,781***	**2,034**	**-747**	**-26.9%**
O.P. Margin	*19.5%*	15.3%	-4.2%	–
Recurring Profit	***2,808***	**2,055**	**-753**	**-26.8%**
R.P. Margin	*19.7%*	15.5%	-4.2%	–
Net Profit Attributable to Owners of the Parent	***1816***	**1,358**	**-458**	**-25.2%**
N.P. Margin	*12.7%*	10.2%	-2.5%	–
Annual Dividend per Share (yen)	***54***	**34**	-	-

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

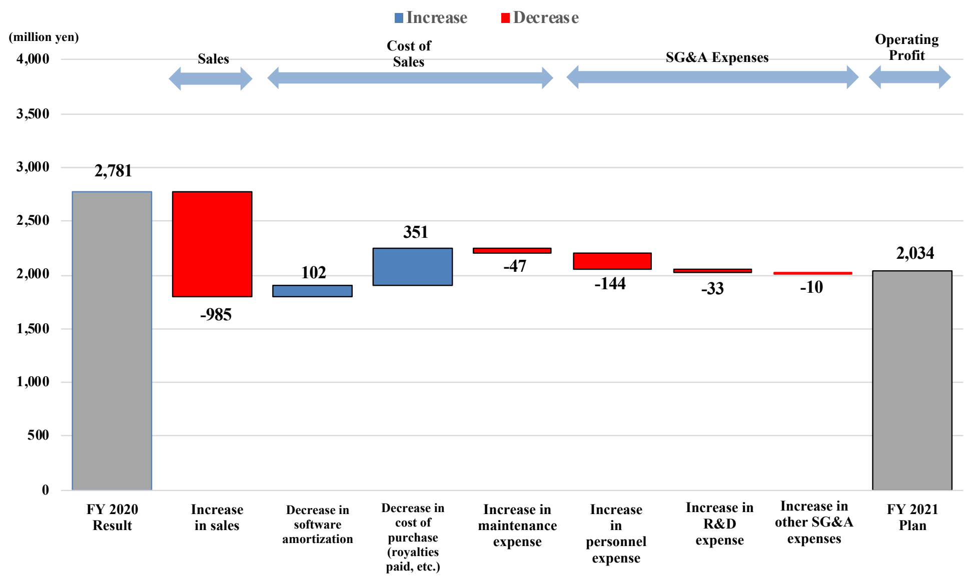
Figure 25 shows the factors that are expected to increase or decrease (YoY) the consolidated operating profit for this fiscal year. An increase will be caused by the decrease in royalty payments and software amortization resulting in a net reduction in the cost of sales by Y406 million yen. On the other hand, a decrease will be caused by the increase in SG&A expenses, such as the increase in personnel expense by Y144 million and R&D expenses by Y33 million, of a total of Y187 million. Unable to offset the sales decline of Y986 million, operating profit is expected to decline by Y747 million (-26.9% YoY).

【 Figure 24 】 Factors that Are Expected to Increase/Decrease Sales in FY 2021 (this fiscal year) (the Company's plan)



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials. From FY 2019, the new standard has been applied to the sales by category.

【 Figure 25 】 Factors that Are Expected to Increase/Decrease Operating Profit in FY 2021 (this fiscal year) (the Company's plan)



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

◆ Alpha-Win Research Dept.'s Financial Forecast for FY2021 (this fiscal year)

- **This fiscal year's Company forecast for profit seems to be within an achievable range.**

- **Currently, COVID-19 has an effect on sales and marketing activities, but Q1 sales and profit seem to be mostly in line with the plan. Prolongation of COVID-19 is a risk factor.**

Summary

We updated our financial forecast for this fiscal year based on the previous fiscal year's results and the current situation (Figure 31 on page 33). This fiscal year, due to direct and indirect effets of COVID-19 in addition to the recoil from the event-driven demand of just over 1 billion yen, we believe that a temporary decline in sales and profit is inevitable.

Compared to our previous forecast (in the report issued on January 31, 2020), this fiscal year's sales and profits were both revised slightly upward in our current forecast (in the order of previous → current forecast: sales of Y12,600 million → Y12,840 million and operating profit of Y2,000 million →Y2,050 million). However, we reviewed the sales for each category cautiously due to the COVID-19 risk – specifically the self-refraining from sales and marketing activities causing cancellation and postponement of negotiations, launching of new products, software upgrades, software implementation, and software implementation support. As a result, we ended up predicting that sales will be Y440 million (3.3%) lower than the Company's forecast of Y13,280 million. On the other hand, we expect profit to be slightly above the Company's forecast of Y2,034 million. The Company's cost assumption is rather conservative, so there seems to be room for cost control, especially for the SG&A expenses. Therefore, we believe that the Company's forecasted profit can be achieved.

The cloud and the labor management software are continuing to grow. We believe that these two could offset the decline that will occur for the products and the solutions in a recoil. Therefore, compared to the past period of recoil from event-driven high demand, we believe that the rate of decline in sales and profit will be small this time. In the previous period of recoil after an event-driven high demand, from FY 2014 to FY 2015, sales decreased from 10,425 million yen → 8,168 million yen (-22% YoY) and recurring profit decreased from 1,139 million yen → -158 million yen. The bottom line also turned into a net loss.

Amidst the workstyle reform, there are still many small- to medium-sized companies that are not making use of labor management software, meaning that the potential demand is large. Xronos can provide labor management software as both on-premises or cloud-based software (service name: X'sion), so we expect its sales to grow by about 20% YoY.

Risk Factors

The main risk factors are those caused by the weak financial performance of corporate users due to the prolongation of COVID-19, such as users holding off purchases of products and services and the postponment of software implementation. In April and May, financial performance was slightly above the plan due to businesses continued from the previous fiscal year. In June, though, the Company may slightly underperform its plan due to the impact of COVID-19. Q1 results overall seem to be in line with the plan. Especially since the weight of Q1 sales and profit in the full-year result is low in the first place (average over the past three years: 21% of the whole for sales and 16% of the whole for operating profit), we will most likely not find the Q1 results as a big surprise.

From negotiation to receiving orders, there is usually a time lag of a few months. Therefore, we need to pay careful attention since the impact of COVID-19 will likely become visible in Q2 or later.

8. Growth Strategy

◆ Management Indicator Targets and Areas of Focus

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

◆ **Five areas of focus**

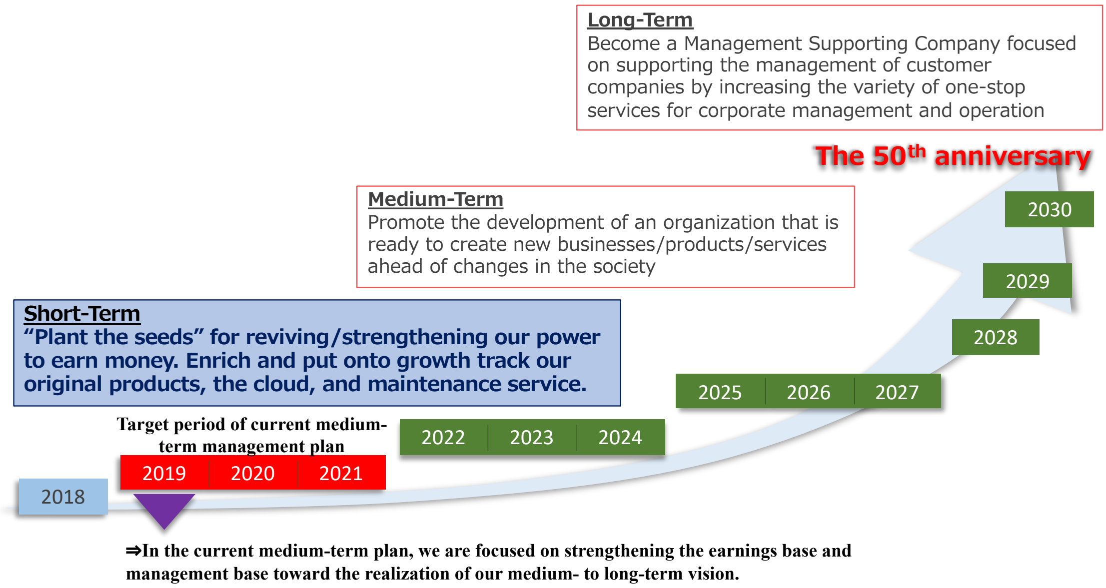
In 2012, the Company announced its group's management indicator targets as Y20 billion in sales (as a reference, the actual result in FY 2020 was Y14.3 billion), 2.5% in DOE (FY 2020 actual: 2.8%), and 80,000 corporate customers of the cloud (a little over 14,000 as of the end of March 2020), and has been developing its business in line with this plan. To achieve these targets, five areas of focus have been chosen: 1) become even greater as No. 1 in the cloud-based enterprise system software market, 2) enhance the solutions to provide more than simple functionality, 3) enhance PCA Cloud with leading-edge technologies, 4) pursue new services, and 5) actively conduct M&As.

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

Since the Company will reach a milestone in the year 2030 as its 50th anniversary, it announced the *New Medium-Term/Long-Term Vision PCA Vision 2030* (Figure 26). 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 computers to PCs; 1998 to 2008 as "PCA2.0," the period of the 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."

In the Medium-Term Management Plan, the Company described its medium-to-long-term vision that it will continue to be a company that contributes to society as a Management Support Company that supports other companies conduct smooth management and operation mainly by providing enterprise system software that realizes high-level automatization.

[Figure 26] The New Medium-Term/Long-Term Vision *PCA Vision 2030*



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

- **Announced *PCA Vision 2030: First Stage – 2022 Medium-Term Management Plan* in November 2018**

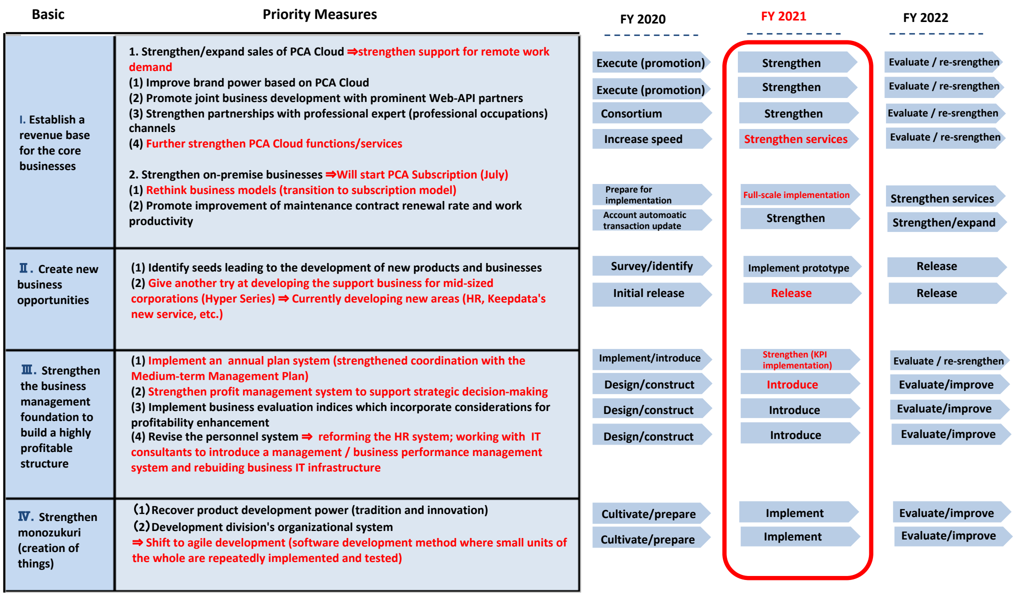
In June 2018, Fumiaki Sato was promoted to president and created a new operating framework for the Company. In November of the same year, he announced *PCA Vision 2030: First Stage – 2022 Medium-Term Management Plan.*

The Company's basic policy over the medium term set forth in the First Stage of the Medium-Term Management Plan (FY 2020 – FY 2022) is to "conduct structural reforms and develop a business foundation through which business can continue to exist and develop stably over the long term." Aiming to become a solution-providing service providor, the Company's plan for the medium term is to focus on creating a firm earnings base and management system for the realization of its medium-to-long-term vision.

- **Steadily executing its priority measures**

The basic strategies and priority measures of the current medium-term plan and their execution status are shown below (Figure 27). The Company has created an executaion roadmap for each measure, giving its schedule more clarity. It has been making steady progress with the execution of the priority measures, for instance, by lauching the Hyper Series, starting the PCA Subscription service, preparing for the introduction of a new KPI and management system, and strengthening its R&D system.

[Figure 27] Basic Strategies and Priority Measures of the Medium-Term Plan and Their Execution Status



(Ref) Based on excerpts from the financial results briefing materials, with information added by Alpha-Win Research Dept.

- **Large upward revision to the targets for FY 2022, the final year of the current medium-term management plan**

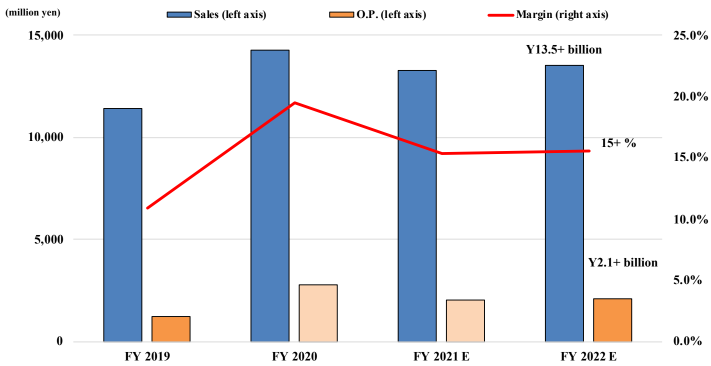
Since last fiscal year's results were much greater than the Company had planned, the Company revised up the targets for 2021 (FY 2022), the final year of the medium-term plan (see Figure 28, and Figures 29 and 30 on page 33).

[Figure 28] Targets of the Medium-Term Management Plan

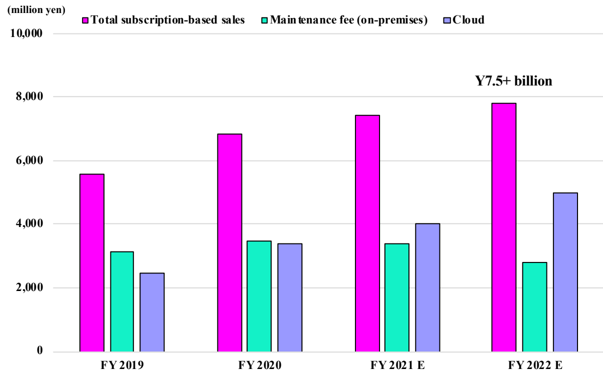
Target Items of the Medium-Term Plan	FY 2019 Result	FY 2020 Result	FY 2021 Target	FY 2022 Previous Target	FY 2022 New Target	Diff. bet. Previous and New
・Consolidated Sales	Y 11.439 billion	Y14.266 billion	Y13.280 billion	≥Y11.5 billion	≥Y13.5 billion	Y2.5 billion
Of which are sales from subscription-based businesses (maintenance & cloud)	Y5.577 billion	Y6.845 billion	Y7.407 billion	Achieve Y6 billion	Achieve Y7.5 billion	Y1.5 billion
・Consolidated Operating Profit	Y1.248 billion	Y2.781 billion	Y2.034 billion	≥Y1.5 billion	≥Y2.1 billion	Y600 million
・Consolidated Operating Margin	10.90%	19.49%	15.32%	≥10%	≥15%	5%

(Ref) Figures 28–30 were prepared by Alpha-Win Research Dept. based on the financial results briefing materials. Targets/estimates (E) are those announced by the Company.

[Figure 29] Financial Forecast in the Medium-Term Management Plan (consolidated)



[Figure 30] Sales Forecast for the Subscription-Based Businesses



- **Made a medium-term financial forecast for the upcoming three fiscal years**
- **The cloud and labor management software will continue to be the growth driver. Expected to return to a trend of increasing sales and profit after FY 2022 when the recoil from the event-driven high demand will have ended and the COVID-19 impact will have settled down to some extent.**

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

We prepared a financial forecast for the three fiscal years of the medium-term period including this fiscal year (Figure 31).

Next Fiscal Year (FY 2022)

Next fiscal year, although we took into account the fact that COVID-19 will continue to have an effect to some extent, since the recoil from the event-driven high demand will have ended by then, we expect sales to increase by 5.1% and profit to increase by about 8.0% compared to our forecast for FY 2021. Compared to our previous forecast, this new forecast has been revised from Y13,360 million → Y13,500 million for sales and Y2,400 → Y2,215 million yen for operating profit. We had reviewed our cost assumptions, sales growth rate by category, and sales breakdown by category (also, expecting the on-premises in the products category to be gradually be switched to PCA Subscription, we assumed that PCA Subscription will be categoriezed under the "products" sales category). The growth potential of the cloud and the labor management software is large, so we believe that they will continue to be the growth drivers, absorbing upfront investment, sales promotion expense, and personnel expense and contributing to the growth in sales and profit.

[Figure 31] Medium-Term Financial Forecast

Unit: million yen, %		FY 2019 AR	FY 2020 AR	FY 2021 CE	FY 2021 E	FY 2022 E	FY 2023 E	FY 2020 PE	FY 2021 PE	FY 2022 PE
Sales		11,439	14,266	13,280	12,840	13,500	14,300	14,000	12,600	13,350
Category	Products	2,516	3,166	2,539	2,500	2,550	2,600	3,100	2,350	2,400
	Merchandise	563	552	445	440	400	350	570	550	550
	Maintenance Service	3,125	3,471	3,388	3,300	3,200	3,100	3,500	3,550	3,600
	Cloud Service	2,452	3,374	4,019	4,000	4,700	5,500	3,330	3,700	4,200
	Other Operating Revenue	2,780	3,701	2,889	2,600	2,650	2,750	3,500	2,450	2,600
Gross Margin		*57.0%*	60.3%	60.4%	60.4%	60.4%	60.4%	*59.3%*	*56.3%*	*57.7%*
SG&A Expense		5,274	5,817	5,985	5,705	5,940	6,180	5,600	5,100	5,300
	(% over sales)	*46.1%*	*40.8%*	*45.1%*	*44.4%*	*44.0%*	*43.2%*	*40.0%*	*40.5%*	*39.7%*
Operating Profit		1,248	2,781	2,034	2,050	2,215	2,460	2,700	2,000	2,400
	(% over sales)	*10.9%*	*19.5%*	*15.3%*	*16.0%*	*16.4%*	*17.2%*	*19.3%*	*15.9%*	*18.0%*
Recurring Profit		1,277	2,808	2,055	2,060	2,230	2,470	2,730	2,030	2,430
	(% over sales)	*11.2%*	*19.7%*	*15.5%*	*16.0%*	*16.5%*	*17.3%*	*19.5%*	*16.1%*	*18.2%*
Net Profit for the Year		906	1,816	1,358	1,360	1,470	1,630	1,750	1,300	1,550
	(% over sales)	*7.9%*	*12.7%*	*10.2%*	*10.6%*	*10.9%*	*11.4%*	*12.5%*	*10.3%*	*11.6%*
Sales (% YOY growth for all values)		16.9%	24.7%	-6.9%	-10.0%	5.1%	5.9%	18.9%	-10.0%	6.0%
Category	Products	28.8%	25.8%	-19.8%	-21.0%	2.0%	2.0%	22.4%	-24.2%	2.1%
	Merchandise	3.2%	-2.0%	-19.4%	-20.3%	-9.1%	-12.5%	1.2%	-3.5%	0.0%
	Maintenance Service	0.5%	11.1%	-2.4%	-4.9%	-3.0%	-3.1%	12.0%	1.4%	1.4%
	Cloud Service	32.3%	37.6%	19.1%	18.6%	17.5%	17.0%	34.6%	11.1%	13.5%
	Other Operating Revenue	23.6%	33.1%	-21.9%	-29.7%	1.9%	3.8%	15.1%	-30.0%	6.1%
Gross Margin (% YOY diff.)		*2.5%*	*3.3%*	*0.1%*	*0.1%*	*0.0%*	*0.0%*	*4.0%*	*-2.9%*	*1.3%*
SG&A Expense (% growth)		16.5%	10.3%	2.9%	-1.9%	4.1%	4.0%	6.2%	-8.9%	3.9%
Operating Profit (% growth)		54.6%	122.8%	-26.9%	-26.3%	8.0%	11.1%	116.3%	-25.9%	20.0%
Recurring Profit (% growth)		53.1%	119.9%	-26.8%	-26.6%	8.3%	10.8%	113.8%	-25.6%	19.7%
Net Profit for the Year (% growth)		105.4%	100.4%	-25.2%	-25.1%	8.1%	10.9%	93.2%	-25.7%	19.2%

(Ref) Prepared by Alpha-Win Research Dept (E = new forecast; PE = previous forecast). CE = the Company's estimate/forecast. AR = actual result. Accounting standards for the sales of merchandise and other operating revenue (solutions) had changed starting in FY 2020 and adjustments were retroactively made according to the new standard (includes estimates).

The Fiscal Year after the Next (FY 2023)

We have newly added the forecast for the year after the next. We expect sales to increase by 5.9% to 14,300, operating profit to increase by 11.1% to 2,460, net profit to increase by 10.9% to 1,630, and dividend to be raised by Y2 per share to a total of Y36. We believe that the situation will have returned to normal from the COVID-19 impact and the Company will have entered a phase in which its subscription-based business continuously and stably expands. In addition, if the new businesses currently under progress can be put on track, we believe that the Company will be able to continuously increase its sales and profit again.

- **In FY 2023, the situation is expected to return to normal and a double-digit profit growth is expected. Upfront investment in new tech, new products, new businesses, etc., will continue, but can be managed through cost control.**

Financial performance will most likely be affected by whether it will succeed in PCA Subscription, Hyper, and Keepdata's service that it plans to develop in full scale, in addition to the growth rate of PCA Cloud.

Assumptions for Expenses and Profit

In making the forecast for FY 2022 and FY 2023, we assumed that the gross margin will not change, and focused our analysis on the effect of sales growth and decline in the SG&A expenses ratio. Although the Company will continue its upfront investments, which include business foundation reinforcement in preparation for future growth, new product development, and technology research necessary for that development (virtualization technology, AI, Web API, and FinTech-linked technology), we predict that the SG&A expenses – especially the sales promotion, R&D, and personnel expenses – are controllable to some extent.

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

Profitability may be further improved (exceeding assumptions for gross margin, etc.) by improvement of the product mix as the weight of cloud's sales increases, the shift from on-premises to the subscription-based business model, and the increase in the maintenance service contract rate.

Shifting the on-premises to a subscription-based business gives users the advantage of being able to use the latest software at a fixed, reasonable cost. At the same time, it gives the Company the advantage of merging multiple versions of software into one so that maintenance, development, and support can be made more efficient, consequently reducing the cost. It also allows the Company to secure a stable source of revenue.

- **Potential for improved profitability lies in increasing the maintenance service contract rate of the on-premises.**

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

Profit Growth Rate over the Medium/Long Term

Over the medium to long term, based on normalized figures excluding the effect of the event-driven high demand, we are expecting an annual sales growth rate of around 6-8% and an even greater net profit growth rate (8-10% per year). Since the Company's business model has a high marginal profit ratio, sales growth will directly contribute to profit growth, such that the profit growth rate will likely exceed the sales growth rate.

9. Analyst's View

◆ PCA's Strengths and Challenges

The Company's SWOT analysis results are listed in Figure 32.

[Figure 32] SWOT Analysis

Strength	・Brand recognition and trust earned over many years (major specialized player in the enterprise system software market for small/medium-sized companies) ・Firm financial standing (debtless management) ・Growth of the subscription-based business capable of generating stable revenue ・ Strong and diversified customer base (240,000 corporate users in total) ・Taking a lead with the cloud (top-level financial performance, know-how, number of customers, & years in business for enterprise system software business targeting small/medium-sized companies) ・High barrier to market entry ・Very experienced call center staff and engineers (non-price competition through services) ・Rich product lineup; provides products both as on-premises and by cloud (non-price competition through products) ・ Sales network (13 sales offices in Japan; 2,000 partnered companies)
Weakness	・Relatively somewhat low margins ・Financial results susceptible to revisions related to accounting and tax laws, termination of OS support, etc. (consumption tax, change in the name of the era, Windows 7, etc.) ・Maintenance service contract rate is improving but could still be improved ・Absence of a major, next-generation, growth-driving product/service ・Domestic-demand oriented; overseas expansion difficult
Opportunity	・Increased demand from lack of HR and need for efficient operation (for business software in general); work-style reform (labor management system) ・Potential for cloud services to increase users; development potential (toward small/medium-sized companies and mid-tier companies) ・New products (Hyper & utilization of Keepdata), new services (transition of on-premises to subscription-based model), and technology innovations ・Revisions related to accounting and tax laws, etc.
Threat	・Emergence of an alternative as advanced AI technology becomes widely used, delayed product development, defects in products, etc. ・High competition (mature on-premises product market; other companies catching up with the Company in the cloud business) ・COVID-19 outbreak/prolongation ・Contract termination risk, etc. ・Information leakage ・Rise in personnel and development costs

(Ref) Prepared by Alpha-Win Research Dept.

- **Trust and track record built over long years, customer base, and technological skill are its strengths.**
- **Leading the market with the cloud, its strengths are its high competitive edge and to-level achievements. The cloud market has a high growth potential.**

Describing the strengths listed in Figure 32 in more detail, the Company is well known due to its long years of practice in the industry and the trust that it has earned over those years. It is especially strong in certain areas of business (such as accounting software for small/medium-sized companies). Its customers also have high loyalty, as there is little incentive to frequently change enterprise system software. Additionally, the Company has been developing a subscription-based business model with high continuity and stability by providing maintenance support, the cloud, and version upgrades to its customers. It is leading the market with the cloud, which has a high growth potential, and its high competitive edge and top-level achievements have become its strengths.

On the other hand, looking at the weaknesses in more detail, profitability had been an issue as the margins had been gradually decreasing over many years. This may have been due to how the Company had not been constantly developing major new products (not being able to fully benefit from the advantage of scale) and how the contract rate for the profitable maintenance service had been low for the Company compared to its listed competitors. In recent years, the Company has been working on shifting to subscription-based businesses. This has helped raise its profitability, but it could still be improved.

- **Business volatility increases before and after events.**
- **Prefers non-price competition, but competition with its competitors should be noted.**

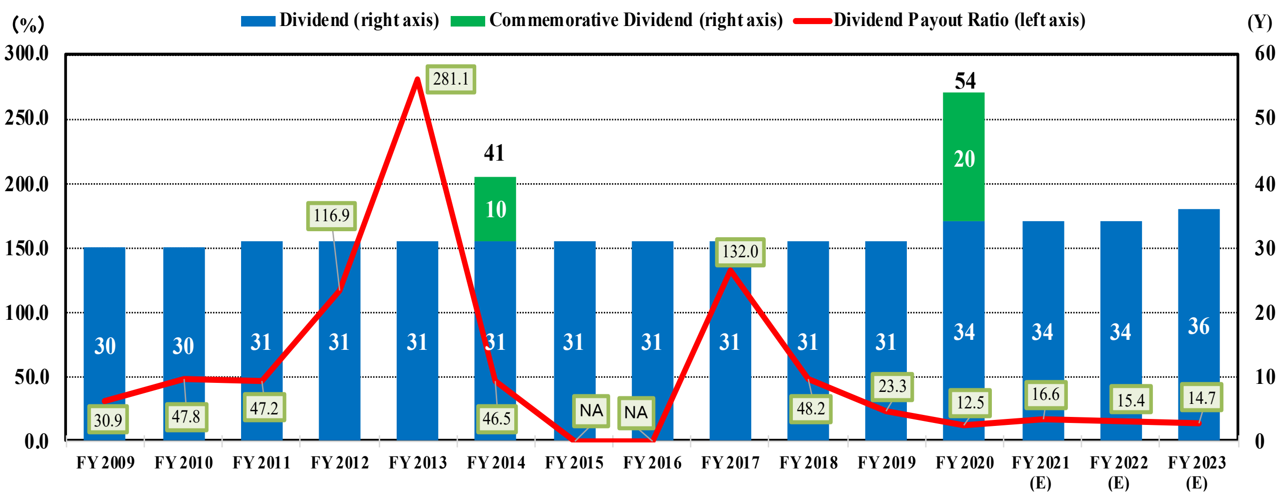
As for the opportunity and weakness (or threat), occurrence of events such as the consumption tax revision and workstyle reform as we have seen in the past will induce a high demand before and after those events, which tend to cause a higher volatility in financial performance. In the cloud service that it is taking a lead, the Company prefers to engage in non-price competition through product strength, service, and support. However, its competition with major competitors taking a later start in the business and with low-price-range service providers should be carefully followed.

◆ Shareholder Return and Shareholder Benefit Program

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

Regarding dividend, ever since the first public offering of the Company's stock, the ordinary dividend has not been decreased and has been gradually increasing over the long term with several years of no change in between (Figure 33).

[Figure 33] Change in Dividend and Dividend Payout Ratio



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

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

- **Last FY, it paid a commemorative dividend and raised its ordinary dividend.**

In FY 2020, the Company conducted a dividend hike (ordinary dividend was raised by 3 yen from Y31→ Y34) and also included a commemorative dividend (40th foundation anniversary: Y20 per share) .

- **The target dividend payout ratio is 33% and the target DOE is 2.5%. Their differences from the actual results are large. Over the medium to long term, dividend hike is possible.**

The target dividend payout ratio is 33%. Although the actual ratio was 48.2% in FY 2018, it was 23.3% in FY 2019, 19.8% in FY 2020, and expected to be 16.7% in FY 2021 (the Company's plan) – all below target. In order to achieve the target of 33% in dividend payout ratio during this fiscal year, the Company will need to pay an annual dividend of Y67 (even based on the ordinary dividend of Y34 after the dividend hike, an additional hike of Y33 would be necessary). As for dividend yield, it would be about 0.7% this fiscal year when calculated based on a stock price of Y4,610 (based on the closing price on June 19, 2020 and a dividend of Y34).

Also, the DOE, which is one of the KPIs (key performance indicators) that the Company focuses on, was 1.9% and 1.8% in FY 2018 and FY 2019, respectively, both below the Company's target of 2.5%. In FY 2020, due to a dividend hike including a commemorative dividend, the DOE reached 2.8%, exceeding this target. However, this fiscal year, the target will most likely not be achieved if only an ordinary dividend of Y34 is paid as planned.

- **Anticipating dividend hike, stock split, and share buyback**

Compared to the past, the level of profit has become structurally higher. Therefore, upon also considering the level of dividend payout ratio and DOE, we believe that the Company has enough capacity to raise its dividend every few years over the medium term.

- **The actual annual net yield including the shareholder benefit plan is about 1.2% (at maximum).**

A shareholder benefit program was started in 2013, and its partial revision was announced in July 2017. Spcifically, a Quo Card is granted to shareholders based on the number of shares held at the end of March of every year. For example, shareholders with equal to or greater than 100 shares and less than 300 shares are granted Y2,000 worth of Quo Card. Assuming that the stock price is Y4,610, then the actual annual net yield for a shareholder with 100 shares is about 1.2% (at maximum) including the ordinary dividend of Y34 and the shareholder benefit (Figure 34). Under similar conditions, the actual annual net yield for OBC is about 1.3% (including shareholder benefit program), and for MJS it is about 1.6% which is the same as the dividend yield since MJS has no shareholder benefit program.

[Figure 34] Shareholder Benefit Program and Net Yield

Number of Shares Owned (greater than or equal to)	(less than)	Shareholder Benefit (Quo Card: Y)	Dividend: Y	Net Yield (maximum): %
100	300	2,000	34	1.17
300	500	3,000	34	0.95
500		4,000	34	0.91

Net yield = (dividend + benefit value) / (stock price) was calculated for the minimal amount of stock owned in each range

Stock price: Y4,610 (closing price on 6/19/2020)

(Ref) Prepared by Alpha-Win Research Dept.

The Company's financial standing is firm with essentially no debt. Its stock price has increased by three times over the past three years. Since its stock price has reached the Y4,000 level and it is rich in cash, stock splits (1-to-2 or 1-to-3) as well as additional share buybacks in terms of raising the total return ratio are anticipated this fiscal or later over the medium term. A stock split has not been conducted since the 1-to-1.3 stock split in May 2000.

◆ Stock Price and Factors that May Affect Stock Price

- **With excellent performance, has been significantly outperforming the TOPIX for the past 4 years**

The Company's stock price and relative stock price compared to the TOPIX for the past approximately four years are described in the summary section (Figure C on page 3). The stock price has been rising since around October 2018 and significantly outperforming the TOPIX.

- **Relatively firm stock price even after COVID-19**

In particular, after the announcement of a significant upward revision to the financial results in October 2019, the stock price soared again, reaching Y6,240 as the closing price on January 24, 2020, the highest price since the beginning of the fiscal year and since becoming listed on the First Section of the TSE. After that, the stock price went through large fluctuations until the middle of March, but after the announcement of results on April 27, it returned to a rising trend and has been significantly outperforming the TOPIX again.

- **This FY, sales and profit decline is forecasted, but is temporary and expected.**
- **The shift to the subscription-based business model and the workstyle reform works positively. Defensive, domestic-demand-related growth stock.**

This rise had been caused by how the Company had announced solid financial forecasts for FY 2021 (this fiscal year), although forecasting a sales and profit decline, while a majority of the companies listed on the First Section of the TSE had kept their forecast undetermined out of concern for the impact of COVID-19. This seems to have given a good impression to the market's investors. Although there are still some uncertainties with the economic situation, the Company is most likely evaluated as a domestic-demand-related stock characterized by the strength of its subscription-based business (shifting from packaged to cloud-based enterprise system software), the growth potential of this business, and how it can benefit from the government's workstyle reform.

Currently, a meaningful comparison of valuation between the Company and the average of the First Section of the TSE cannot be made (since many companies have not disclosed their financial forecasts). Instead, we compared the major valuation indicators and business outline with its listed competitors (Figure 35, and Figure 37 on page 40).

[Figure 35] 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 6/19 closing)	4,610	5,970	2,359
Market Cap (million yen)	35,497	481,803	82,108
P/E (price-to-earnings ratio)	22.6	45.1	29.4
P/B (price-to-book ratio)	2.3	3.8	3.8
Dividend Yield (%)	0.7	0.8	1.6
EV/EBITDA	8.2	28.2	10.4
P/S (price-to-sales ratio)	2.7	15.8	2.3

Market cap = shares outstanding x market stock price [at 6/19 closing]
EV/EBITDA = (market cap + interest-bearing debt - cash & deposits) / (O.P. + depreciation + intangible fixed asset amortization, etc.)
P/S = market cap / sales [the companies' estimate for FY 2021]
The companies' estimated EPS for FY 2021 used in all P/E calculations

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

The Company's P/E forecast for this fiscal year is about 22.5 (based on the EPS that the Company predicts for FY 2021). Our forecast is that it will be 22.6 this fiscal year, 20.9 next fiscal year, and 18.8 the year after that.

- **Relative cheap valuation compared to its competitors. Considering the growth potential over the medium term, there is still an upside to the stock price.**

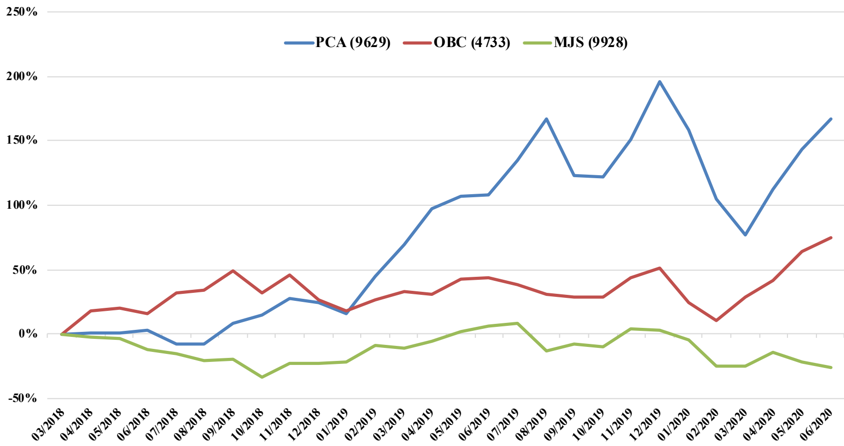
Compared with its competitors (4733 Obic Business Consultants or OBC and 9928 Miroku Jyoho Service or MJS), main valuations indicators such as P/E, P/B, and EV/EBITDA of the Company is relatively low and seems cheap. Money Forward (TM: 3994) and freee (TM: 4478) described in the previous section are also listed competitors, but since they have been posting net losses and paying no dividend, they are not good comparison targets regarding valuation (these companies' P/S and P/B are way too expensive).

Financial performance in the next fiscal year onward may still be affected by COVID-19, but it will probably return to a growth track as business situation returns to normal after the recoil from the event-driven high demand settles down. We believe that the cloud and the labor management system will be the growth drivers and the Company will return to a trend of rising sales and profit. Therefore, predicting that the stock price will only potentially drop to limited levels, we believe that the stock price still has an upside over the medium term.

- **Its performance over the recent 2 years stands out from its competitors. Its stock price has been significantly outperforming its 2 competitors.**

Over the past approximately two years, the Company's stock price has increased by about 2.5 times, significantly outperforming its competitors OBC and MJS by 91% and 192%, respectively (Figure 36).

[Figure 36] Comparison of Stock Performance with Competitors
(Note: stock price as of the end of March 2018 was set to zero upon creating the graph. Reflects prices up through the closing price on June 19, 2020)



(Ref) Prepared by Alpha-Win Research Dept.

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

- **This FY's quarterly financial performance will affect the stock price.**

The first key point is this fiscal year's financial performance. As described above, it is still uncertain how much sales will be affected by the recoil from the event-driven high demand and COVID-19. Q1 accounts for only a small portion of the full-year results, but depending on the quarterly financial performance, the stock price volatility may increase and thereby affect the stock price.

- **Should watch how the cloud business expands, whether the new businesses will succeed, shareholder return measures, and introduction of business management system**

Over the medium to long term, the key points are 1) development of the cloud and the labor management software businesses (the cloud's number of contracts with companies and sales growth rate, etc.), 2) whether the transition of on-premises to the subscription-based business model (PCA Subscription) will succeed, and 3) creation of new products and businesses using new technology and the development of those businesses (especially regarding the direction and financial progress of the business utilizing Keepdata's data, Hyper's sales situation, etc.). The contribution of each of these points to profit and their competition in the market should be noted.

Other points of interest are the improvement in margins; the subsidiary Xronos's situation with its labor management system business; shareholder return measures such as dividend hike, stock split, and share buyback; new tax reforms or changes in regulations; progress with the M&A strategy; and the introduction of business management and profit management systems.

【 Figure 37 】Summary of the Comparison of the Three Competing Companies

Company Name	PCA	Obic Business Consultants (OBC)	Miroku Jyoho Service (MJS)
Code	9629	4733	9928
Characteristics	Development and sales of packaged enterprise system for mainly small/medium-sized companies. Second-tier in the industry. Taking a lead in cloud services. No. 1 in industry in sales toward public benefit corporations.	Development and sales of packaged enterprise system for small/medium-sized companies. Became top-ranking in the industry from rapid growth in the early days of the OS W95, NT, etc. Highly profitable structure; largest player in the industry by profit. No. 1 in packaged software for financial accounting, payroll, HR, and labor management.	Top market share (25%) in software for accounting firms. Recently, also strengthening development/sales of software for mid-tier and small/medium-sized companies. Largest player by sales among the three companies.
Founded	Aug. 1980	Dec. 1980	Jan. 1977
Date of Becoming Listed on the Market	Mar. 1994	Oct. 1999	Aug. 1992
Sales Categories/Breakdown (FY 2020)	・Solutions 25.9% ・Maintenance Service 24.3% ・Cloud Service 23.7% ・Products 22.2% ・Merhandise 3.9%	・Services 58.9% ・Products 41.1% (Solution technology 28.9%) (Related products 12.2%)	・Revenue from services 31.1% (general maintenance) ・Sales from system installation contract 63.0% (Software 35.0%) (Useware 14.3%) (Hardware 13.7%) ・Other 5.9%
Sales Method	20% direct sales; 80% indirect sales through dealers/makers	Nearly 100% indirect sales through dealers, makers, etc.	Nearly 100% direct sales; for ordinary companies, mostly direct sales through referrals by accounting firms
Number of Bases	13 offices; 2,000 sales partners	13 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 (approx.)	200,000 companies	200,000 companies	8,400 accounting firms; 100,000 ordinary companies
Maintenance Service Contract Rate over Total Number of Active Users	Approx. 70%	Approx. 80%	Nearly 100%
Management Goals	Raised target for FY 2022, the final year of the mid-term plan. Goal: sales ≥ Y13.5 bil, consolidated O.P. ≥Y2.1 bil, consolidated O.P. margin ≥15%. ROE ≥10%, DOE ≥2.5%	Undisclosed mid-term targets. Focused on profit indicators. Maintain O.P. margin and R.P. margin while increasing sales, or increase them to continue to grow as a highly profitable company.	Downward revision of targets for FY 2021, the final year of the mid-term plan, to this FY's forecast. Mid/long-term vision: growth acceleration of current ERP biz; creation of highly profitable new biz; active M&A; pursue sustainability by accelerating progress with BCP, BPR, and workstyle reform.
Business Strategy and Priority Measures	・Establish earnings base for the main biz (strengthen & expand sales of PCA Cloud, strengthen on-premises biz, etc.) ・Create new business opportunities ・Strengthen business foundation to become structurally highly profitable ・Enhance monozukuri (creation of things)	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 ・Secure/train staff (HR)	・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 biz
Main Types of Enterprise System Software (approx.)	・Approx. 26 types (by name of product; includes options) ・Originally developed with in-house platform	・12 types for the flagship Bugyo series ・Approx. 60-80 types by product name, including other software ・Development focused on Microsoft platform for both on-premises and cloud	・1 module for accounting firms ・6 modules for ordinary companies (each module contains software for several operation types)
Sales (million yen) CE for FY 2021	*13,280*	*30,500*	*36,000*
Gross Margin (%) Actual for FY 2020	60.3	82.5	63.6
Operating Profit (million yen) Est.	*2,034*	*12,700*	*3,580*
Operating Margin (%) Est.	*15.3*	*41.6*	*9.9*
EPS (CE) FY 2021, YOY (%)	*-25.2*	*-8.0*	*27.2*
DOE (%) Actual	2.8	3.2	6.3
Past 10 Years' Sales Growth Rate (FY 2021's company plan div. by FY 2011: %)	*115.4*	*77.2*	*88.4*
O.P. Growth Rate (same condition as above)	*196.5*	*58.2*	*347.1*
Equity Ratio (%) Actual	59.3	82.8	49.6
# of Full-Time Employees for the Group Actual	524	842	1,640
Sales Per Full-Time Employee (million yen / person)	*25.3*	*36.2*	*22.0*
O.P. Per Full-Time Employee (million yen / person)	*3.9*	*15.1*	*2.2*
ROE (%) Actual for FY 2020 A=B×C×D	14.3	8.5	9.9
N.P. Margin (N.P. for the year / sales : %) B	12.7	33.1	5.2
Total Asset Turnover Ratio (sales / ave. total asset) C	0.7	0.2	0.9
Financial Leverage (ave. total asset / ave. owner's equity) D	1.7	1.2	2.1
ROA (R.P. / total asset : %) E=F×G	13.0	9.9	13.9
R.P. Margin (%) Actual F	19.7	46.7	15.0
Total Asset Turnover Ratio (sales / ave. total asset) G	0.7	0.2	0.9

Italics show each company's estimates (CE) for FY 2021. Others are actual values for FY 2020.

(Ref) Prepared by Alpha-Win Research Dept.