Alpha-Win Company Research Report

PCA
(9629 TSE First Section)

Issued: 11/24/2020

● Summary

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

Business Description

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

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

Current Financial Performance

・The Company's results for the first half of the current fiscal year (cumulative through the second quarter of FY 2021; hereinafter "H1"; note that the Company's fiscal year is March-ending) were as follows: sales of Y5,980 million (-16.6% YoY) and operating profit of Y938 million (-47.0% YoY). The drop from the event-driven spike of demand in the previous FY's H1 (demand prior to the consumption tax revision, termination of Windows 7 support, etc.) had caused a double-digit decline in sales and profit. The Company has not disclosed its forecast for H1, but the results have most likely slightly exceeded its internal target values. Despite the COVID-19 crisis, sales of the cloud service (its growth driver) and maintenance had continued to grow. In fact, sales of the subscription business accounted for 62.3% of the total – a record-high ratio.

・The Company made no changes to its initial forecast for this full fiscal year (FY 2021) that 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 as part of the decline following last FY's event-driven spike of demand and due to the rise in investment costs for future growth. However, the negative impact on results has not been as large as the previous period of decline following an event-driven high demand (last time, a net loss was posted), and the achieved levels of sales and profit have been relatively high compared to the FY before the previous (FY 2019) when the event-driven high demand had not arrived yet (both were the second highest in the Company's history, following the previous FY's record high). Excluding the temporary impact of the event-driven high demand, the Company seems to be on a steady growth trend regarding both sales and profit.

Competitiveness

・The Company has a customer base of approx. 240,000 companies. It has a high brand recognition and top-level market share in accounting and finance software targeting small/medium-sized companies. It has an especially high competitive advantage with cloud-based enterprise system software in those fields, taking a lead in the market. In fact, it is the top player in cloud services, whose market is rapidly expanding. Going forward, it would be key to watch the Company's competition with its major competitors who have entered the cloud service business at a later stage and with other competitors that are focused on low-price-range services.

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

Business Strategy

・As the basic business strategy for 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 management structure to become a highly profitable company. As a new goal, it also plans to strengthen its monozukuri ("creation of things"; improving the development system to create unique products and services). Through these strategies, it hopes to further develop its businesses.

・Its challenges are the acquisition of talents and putting Keepdata, Dreamhop, and the new businesses (PCA Subscription, Hyper, etc.) on growth curves. This October, the Company acquired Dreamhop Co., Ltd., a company that provides stress check services, for approx. Y108 million. This acquisition was part of the Company's strategy to

expand its HR (human resources) business. Dreamhop is a small company with a net loss, and its synergy with the Company regarding business development and financial performance should be closely watched. The Company does not disclose the results of individual acquired companies, though, so the consolidated subsidiaries will need to be assessed through the difference in the consolidated and standalone results.

・The Company had previously revised up its consolidated target values for FY 2022, the final year of the medium-term management plan (target values: sales of Y13.5 billion with Y7.5 billion coming from the subscription business, operating profit of Y2.1 billion, and operating margin of 15%). Going forward, the Company plans to further expand its business with those target values as the bottom line.

Alpha-Win Research Department's Forecast of Financial Results

・Since the decline following the event-driven spike of demand and the actual impact of COVID-19 were hard to predict, points of concern over the short term had been the potential delays in negotiations and new services and the negative impact on the financial performance of the Company's small/medium-sized corporate users. Considering these risk factors, we had predicted that sales for this fiscal year will be slightly below the Company's forecast.

・However, although a temporary drop in sales and profit is inevitable, the impact of COVID-19 on this FY's results has not been as large as expected. In fact, in H1, both sales and profit were greater than our previous forecast. The subscription business is continuing to grow, and the Company is starting to see positive results from the shift to this new business model and the improvement in the management structure. Its forecast for sales (cloud and maintenance) and costs for the second half (H2) seems rather conservative, so we made an upward revision to the full-year forecast.

・Next FY onward, although the impact of COVID-19 will probably remain, the environment is expected to gradually normalize, allowing the Company to 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 the subscription-based business model, the workstyle reform, and tax reforms. Stock price has been rising since the latter half of FY 2018, largely outperforming the TOPIX. Its valuation seems cheap compared to the average of TSE First Section and its competitors. We believe its stock price still has an upside since the Company has a subscription-based business with high stability and continuity, has a high likelihood of achieving its conservatively decided forecast for this FY's profit, has significant potential to improve the return to shareholders through dividend hikes and stock splits, and is expected to achieve solid financial performance over the medium to long term with the cloud business as the growth driver.

Return to Shareholders

・The Company has been stably paying dividend (targeted 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 by Y3 plus commemorative dividend of Y20) to Y54 in total. This FY, it plans to continue with the ordinary dividend of Y34. Last FY's dividend yield was 1.2% and this FY's dividend yield will be 0.8% based on current data. Since the level of dividend, DOE, and other related values are expected to be largely below the Company's target values, further enhancement of return to shareholders may be expected over the medium to long term to reflect its positive financial performance.

【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	13,350	-6.4	2,150	-22.7	2,170	-22.7	1,430	-21.3	214.88	2,188.29	34.00
2022	E	14,000	4.9	2,280	6.0	2,300	6.0	1,520	6.3	228.41	2,382.70	34.00
2023	E	14,650	4.6	2,600	14.0	2,620	13.9	1,700	11.8	255.45	2,604.15	36.00
2020	Q1	3,073	31.0	587	917.5	598	754.6	364	945.3	54.76	1,848.46	—
2021	Q1	2,789	-9.2	465	-20.7	471	-21.2	272	-25.1	40.99	2,029.56	—
2020	Q2	4,097	59.4	1,184	535.5	1,192	501.6	814	404.8	122.28	2,027.42	—
2021	Q2	3,191	-22.1	473	-60.1	488	-59.0	317	-61.1	47.58	2,108.24	—
2020	H1	7,169	45.8	1,771	625.8	1,789	567.7	1,177	500.8	177.04	2,027.42	—
2021	H1	5,980	-16.6	938	-47.0	959	-46.4	589	-50.0	88.57	2,108.24	—
2020	H2	7,096	8.8	1,010	0.6	1,018	1.0	638	-10.0	95.88	2,027.42	—
2021	H2 CE	7,299	2.9	1,095	8.4	1,095	7.6	768	20.4	116.13	—	—

(Note) CE: the Company's forecast. E: Alpha-Win Research Dept.'s forecast. Q1: Apr-June. Q2: July-Sept. H1: Apr-Sept. H2: Oct-Mar.

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

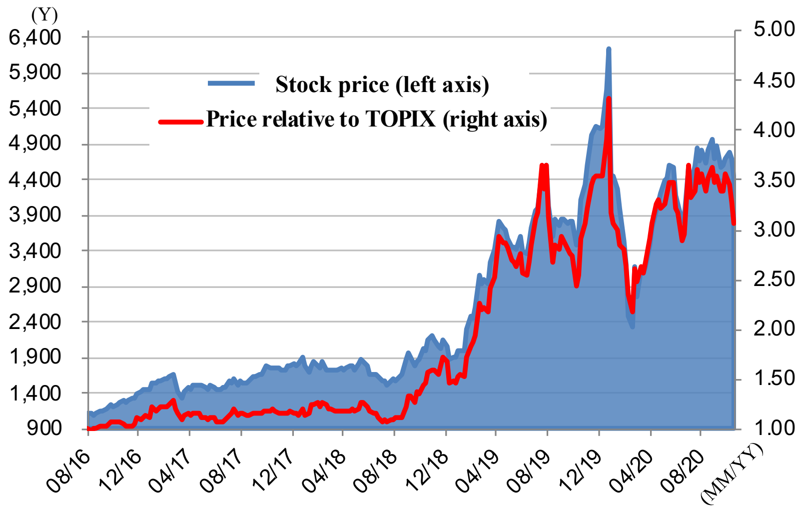
(Note) In this Report, values for the same item may not match completely due to rounding and other processing of values during calculations, differences in the standard used in displaying values, etc.

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

Item	11/20/2020	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	4,430	Last FY (actual)	16.2	2.2	1.2%	19.8%
Shares Outstanding (thou.)	7,700	This FY (est.)	20.6	2.0	0.8%	15.8%
Market Capitalization (million yen)	34,111	Next FY (est.)	19.4	1.9	0.8%	14.9%
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 November 2020

【Performance】

Period	Return	vs. TOPIX
1 month	-5.7%	-13.8%
3 months	-7.1%	-13.0%
6 months	5.5%	-4.5%
12 months	2.0%	0.3%

(Note) Reflects stock price and index values up through the closing price on 11/20/2020. The return for the 1-month period is the comparison between the closing price on the last day of October and November 20. 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 history, developing and providing packaged enterprise system software for domestic small/medium-sized companies**

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

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

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

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

◆ 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 distributors (the remaining 20% are direct sales). It has the largest transaction with the distributor 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. By monetary value, many of its major customers are large corporations. It ranks No. 1 in the accounting software industry for public benefit corporations; its software has been implemented at over 8,000 public benefit corporations.

As of the end of September 2020, the Company's group was composed of a total of four companies: the Company and three consolidated subsidiaries. The consolidated subsidiaries are Xronos Inc. (development/sales of work management 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 recently acquired Keepdata Ltd. (hereinafter, "Keepdata") (these companies' website addresses are listed on the very last page of this Report as reference).

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 fully included in the consolidated financial results starting 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 the new service of providing data utilization platform to small/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 this net loss and an excess of debt. Since this system development had been completed, the Company had expected profit and loss to balance out in the previous fiscal year after its acquisition. However, sales did not expand as much as expected and a net loss seems to have been posted. The subsidiary may continue to post a net loss for a while, but it will most likely gradually improve and have limited impact on the Group's financial performance.

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

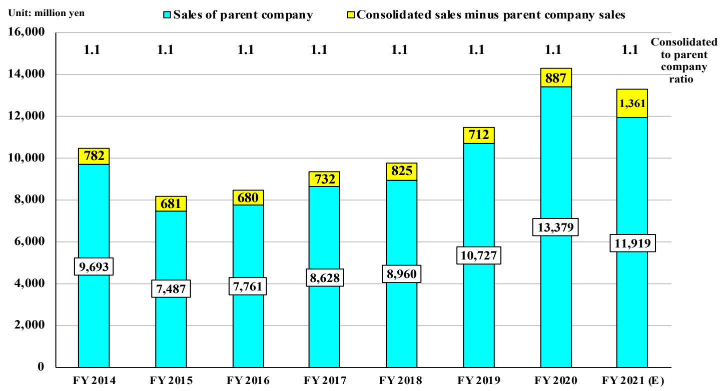
Concerning MACS System Corporation (development/sales of computer software for medical office use such as electronic medical records), which had been a consolidated subsidiary up through the fiscal year before the previous (FY 2019), it was sold in February 2019 since its business was unprofitable. Thus,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

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

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

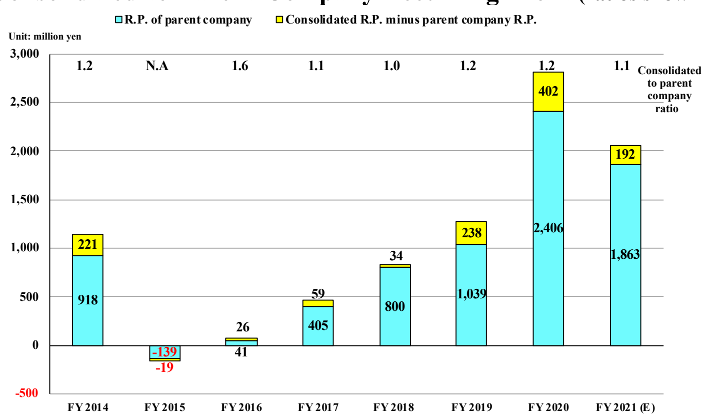
Among the subsidiaries, Xronos seems to be continuing to contribute the most to the financial results, thanks to the work-style reform. Its sales have been following a solid trend, with Y500 million in FY 2013, Y1 billion in FY 2017, Y1.5 billion in FY 2019, and Y2.1 billion in FY 2020. In FY 2025, sales of Y4 billion are expected (announced on Xronos's former website). Although its profits have not been disclosed, the subsidiary has mostly likely been staying in the black and contributing positively to the Company's consolidated profit like KEC.

[Figure 1] Ratio of Consolidated-to-Parent-Company Sales (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.

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



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

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

- **Rich in cash. Debt-less management.**

The Company's finance is firm, rich in cash and debt-less. Relative to its sales of Y13.3 billion (the Company's plan for this fiscal year), total assets of Y22.6 billion, and market capitalization of Y36.7 billion, its cash and deposits are abundant, at Y11.0 billion (values as of the end of September 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 62.0% and the current ratio of 267%, also indicate financial soundness (values as of the end of September 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	Period Ended Sept 2020 (this H1)	Period Ended Sept 2019 (last H1)
Operating CF ①	627	488	141	847	1,048	547	1,427	1,533	1,270	2,141	3,328	487	1,402
Investing CF ②	-405	-127	185	-407	-750	-606	-627	-395	1,715	-80	-719	163	-2
Financing CF	-207	-210	-205	-215	-216	-284	-214	-215	-216	-572	-225	-377	-225
FCF (①+②)	222	361	326	440	299	-60	800	1,137	2,985	2,061	2,609	650	1,400
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	10,991	9,505

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

◆ Business Philosophy

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

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

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

The Company's mission statement is to "contribute to society by developing and providing packaged enterprise system software that realizes advanced automation." While its corporate culture is down-to-earth and homely, the Company is also 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 with sound management over the long term.
3) We will treat our employees like a family and create 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 companies.**

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

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

As for original software development and implementation, outsourced development and in-house development are the two options. In either case, the advantage of an original system is that it is 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 especially tend to find the development, implementation, and operation of original software difficult due to financial, staff, and time constraints.

In response to this situation, the Company has been developing original enterprise system software that specifically meets the needs of one-person businesses and micro-sized (SOHO), small-sized, medium-sized, and mid-tier companies in areas such as 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 user) or cloud-based (a service where a corporate user can use the enterprise system software via the Internet easily and at a low cost without having to prepare its own server). The Company sells and provides its software through either direct or indirect channels.

(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 27 types of originally developed packaged enterprise system software**

The Company provides a total of about 27 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.

- **About 70% of sales comes from originally developed products and services**

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 merchandise) in the merchandise / other operating revenue categories. From the development to the release of a new product, approximately two years and a corresponding amount of cost are necessary per product. Version upgrades (revision updates), which are prepared as needed, are released usually in a one- to two-year cycle. In recent years, however, software functions have become so enhanced that 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 categories. Focused on the subscription-based businesses.**

The Company only has one business segment, but it discloses sales for five sales categories (types): "products," "merchandise," "maintenance service," "cloud service," and "other operating revenue" (also called "solutions and other") (Figure 4, and Figure 5 on page 10). Profit and loss for each sales category are not disclosed.

[Figure 4] Sales Classification (by category)

Sales Classification by Category	Contents	FY 2020 (results)			H1 FY 2021 (results)	
		Sales (million yen)	% of Total Sales	Est. Gross Margin	Sales (million yen)	% of Total Sales
Products	Sales of original packaged software (accounting, sales management, purchasing and inventory management, payroll, HR, etc.) (includes version upgrades)	3,166	22.2	approx. 70%	727	12.2
Merchandise	Sales of other companies' products such as ledger sheets	552	3.9	approx. 40%	175	2.9
Maintenance Service	By signing up to PSS membership, users can receive inquiry and support services from call centers	3,471	24.3	80-90%	1,777	29.7
Cloud Service	Subscription service for software provided via the cloud	3,374	23.7	60-70%	1,949	32.6
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%	1,350	22.6
Total & Average		14,266	100.0	Actual: 60.3%	5,980	100.0

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

- **Subscription-based businesses (maintenance & cloud) account for about 60% of the total sales.**

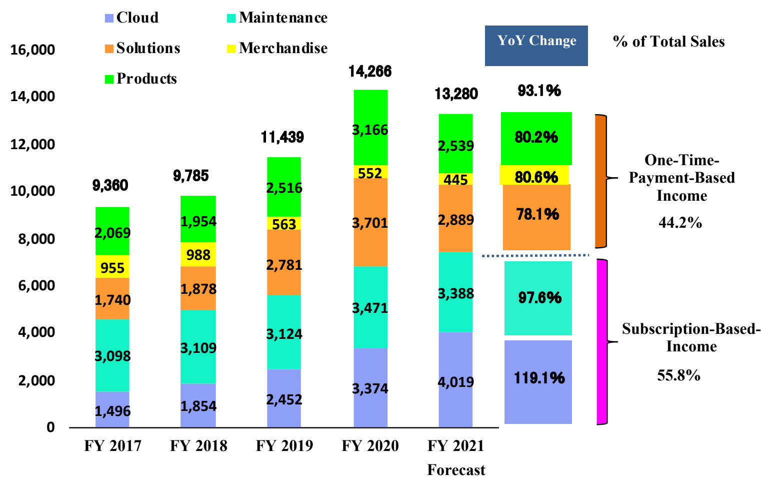
In recent years, the service of providing cloud versions of the Company's packaged software has become the Company's growth driver with regards to both the overall sales and profit. In the first half (H1) of FY 2021, sales of the cloud service continued to grow, surpassing the sales of the maintenance service and becoming the largest sales category for the first time. Subscription-based revenue (sum of the cloud service and the maintenance service; also called the "stock business" in Japanese) accounts for about 60% of the total sales and has helped improve the stability of management and profit through its 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/purchase/inventory management software, and then by payroll/HR software.

Currently, the Company primarily sets internal target values for software sales (or the sold number of products) by operation type. Target values are not set for the profit/loss of each software operation type. However, in line with the medium-term plan, the Company has been 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 presumably generally highly profitable.

The percentage of new software sales or version upgrade sales over the total sales changes every year, but the percentage of version upgrades has always been greater than 50%. As 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. Forecast is from the Company's plan.
(Note) In FY 2020, the accounting standard for the products and the solutions segments were partially revised (new standard). This new standard was retroactively reflected in FY 2019. However, for the two segments, there is no continuity in data 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 been focused on the business of selling conventional packaged software, also known as on-premises. However, as the Internet became more sophisticated and more widely used, the Company predicted that the demand for the cloud will rise due to its user-friendliness and cost performance. Therefore, in 2008, the Company started providing cloud-based services more than ten years ahead of its competitors. Since then, it has been providing cloud versions for all of its on-premises software.

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

◆ **The rapidly growing cloud business 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 be making the Company stand out from its competitors in the field. In recent years (2017-2018), its competitors have also entered the cloud market in full scale as their "first year of the cloud," but the Company is expected maintain its advantages for the meanwhile.

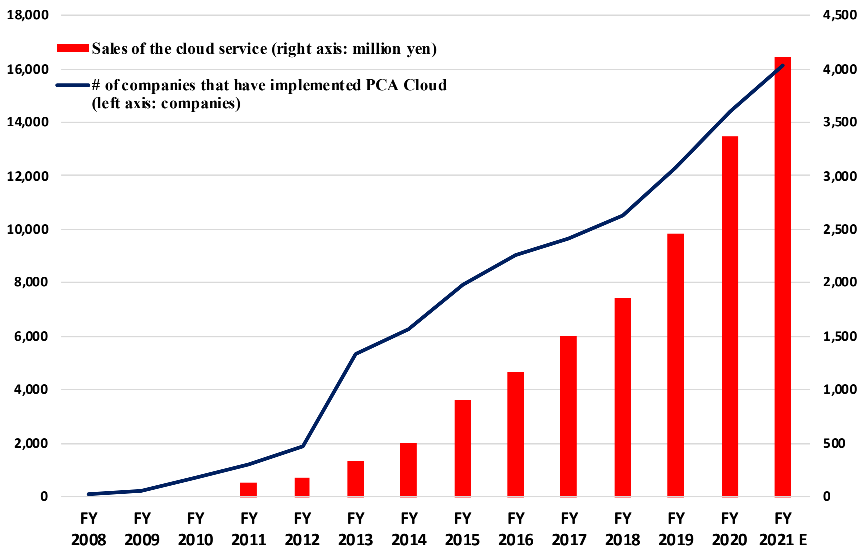
- Providing a wide variety of advanced software for business operations
- Originally developed open architecture and low cost
- Economies of scale are in effect, with more than 15,000 corporate users of the cloud service as of the end of September 2020; a significant source of profit
- Consequently, 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 (linkage already possible with about 60 companies, including Kintone[6] of Cybozu)

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 (Figure 6). The business's growth rate has been accelerating along with the expansion of scale, making it the Company's main driver of business growth.

(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.

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



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

(Ref) Prepared by Alpha-Win Research Dept. 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 1: Impact of COVID-19 and the Company's Response

In February 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 working hours among its employees. Since April 8th, a day after the emergency declaration on the new coronavirus disease[7] (hereinafter, "COVID-19"), the Company has been on remote work in principle.

(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 worldwide pandemic.

It replaced a few hundred PCs, supplied all employees with mobile devices such as iPhones, provided remote work preparation stipend and remote work allowance, and improved its communication infrastructure and remote-work environment. Currently, about 70% of its officers and employees work from home. It also strengthened its user support system by starting remote call-center operation. To fulfill its social mission to provide enterprise system software while ensuring the safety of its officers and employees, it has also been on a shift-work system.

Toward its customers and business connections, the Company has been cancelling or postponing events, seminars, and in-person meetings, and has been switching to online negotiations. However, recently, it has gradually begun combining them with some face-to-face sales activities.

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

Since the Company has been making a large shift to the subscription-based business model and providing its enterprise system software in cloud format too, the impact of COVID-19 has been small for the short term.

However, undeniably, there has been impact on new customer acquisition, its support services (visiting customers to help implement software), new business development, and version upgrades for the on-premises software. Its main users are small/medium-sized companies who are financially susceptible to the impact of the self-restraint request under the emergency declaration and the stagnation of economic activities. If the situation becomes 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, a subscription service for its on-premises software, on May 11, but due to COVID-19, this was pushed back to July 1. Also, although it launched the Hyper Series (described on page 33; a new product targeting mid-tier companies) according to its original schedule, sales expansion so far seems to be slower than expected.

◆ PCA Subscription, its new business, was released about two months behind schedule.

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 to use the Company's enterprise system software (subscription: selling/billing method where software usage right is periodically updated). The service's features are described below (edited/reworked excerpt from the Company's news release). The Company intends to actively expand the sales of this service.

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

- 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/Paas)

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

◆ **Acquired Dreamhop, a company focused on stress check services. Plans to expand the HR business.**

This October, the Company acquired Dreamhop Co., Ltd. (hereinafter, Dreamhop; headquartered in Shinjuku-ku, Tokyo; Toshiyuki Mukuno as the new president; established in June 2005; capital of Y56.5 million after capital increase; a little less than 20 employees) for approx. Y108 million as a wholly owned subsidiary. Dreamhop is a small-sized company specialized in services and business management related to mental health and health management, with a focus on stress check services[9]. It has unique programs and expertise and offers full management of the programs on behalf of its customers. The Company had previously used Dreamhop's services as a customer and had been in a collaborative partnership.

(9) The revision in the Industrial Safety and Health Act has required workplaces with 50 or more employees to conduct stress checks of its employees starting in December 2015.

◆ **Expecting synergy with the existing HR businesses**

The PCA Group already has a lineup of HR (human resources) solutions, such as PCA Salary, PCA Personnel Management series, and its subsidiary Xronos's work management system. The Company believes that its HR solutions must be urgently be strengthened to sustainably grow as a Management Support Company. For this purpose, the Company decided to acquire Dreamhop, with whom it can also expect synergetic effects in the development and expansion of business connections as well as cross-selling and up-selling. Its rationale is that with the drastically changing working environment amidst the COVID-19 crisis, mental health care of employees will become crucial and become a key area in HR solutions.

Dreamhop's financial performance disclosed in its news release is summarized in Figure 7. In the most recent fiscal year ended May 2020, sales were Y129 million (+16.5% YoY) but a net loss of Y38 million was posted (a net profit of Y0.2 million was posted in the previous fiscal year). There was also an excess of debt by Y20 million. Judging from its financial condition and the balance with sales, the acquisition price seems to be slightly expensive (P/S: 0.84) and goodwill is estimated to be about 150 to 200 million yen (estimated by Alpha-Win based on an amortization period of five years and total amortization of Y175 million).

◆ **Dreamhop has a net loss and excess of debt; will be included in the consolidated results.**

Dreamhop will most likely be treated as a consolidated subsidiary starting this fiscal year, but since it was acquired in late October, its impact on this fiscal year's results should be limited (Dreamhop's financial forecast for this fiscal year is not disclosed). Next fiscal year, Dreamhop will be fully included in the consolidated results, so its trends in financial performance and impact on consolidated results, including the amortization of goodwill, should be watched.

[Figure 7] Change in Dreamhop's Financial Performance Rounded to the nearest million yen

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

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

3. Shareholder Composition

◆ Major Shareholder Composition

Major shareholders as of the end of September 2020 are shown on Figure 8 on page 15. Compared to the end of March 2020, the top ten list of major shareholders has changed, excluding the five shareholders who are presumably stable shareholders.

The largest shareholder has not changed and is Kawashima Co., Ltd., the asset management company of two directors of the Company (president Sato and director Hiroshi Kumamoto) and their relatives (descendants to the founder Masao Kawashima).

- **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.**

The second largest shareholder MSIP CLIENT SECURITIES and the fourth, fifth, sixth, and tenth largest shareholders are all custodians (ranking excluding treasury shares; the same applies below). Their final investors and purpose of investment are unknown, but some of the accounts have a history of investment in several Japan stocks and many of them are most likely pure investment by institutional investors, funds, etc., made through trustees (their number of shares and ranking tend to change frequently due to the trading of shares).

The Company's stock is also included in index funds managed by companies such as Mitsubishi UFJ Kokusai Asset Management, Nomura Asset Management, and Sumitomo Mitsui Trust Asset Management.

- **No change to the stable shareholders but a few new shareholders have entered the top ranking**

The shareholding ratio of Credit Suisse Securities exceeded 5% at the end of January 2020 and a Report of Possession of Large Volume had been submitted. However, it has been incrementally selling its shares since then.

Below is supplemental information:

・The Company itself has essentially been the second largest shareholder for many years. 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) in a tender offer by December 2018. As a result, the Company currently owns a total of approx. 13.6% of its own shares. The Company has not decided on how to use its treasury shares, but some have already been sold to the Employee Stock Ownership Plan as part of its new incentive program. Some possibilities for the use of treasury shares include additional stock-based renumeration for its officers and employees and stock-swap in a tie-up or an M&A.

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

・The third largest shareholder Obic Business Consultants Co., Ltd. (OBC) is a competitor with no transaction with the Company. 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 seventh largest shareholder Logic Systems Co., Ltd.'s purpose is also unknown.

・The shareholding ratio of the PCA Employee Stock Ownership Plan, at eighth place, has been decreasing due to the selling of shares in response to the recent rise in stock price.

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

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

[Figure 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. 2020	End of Sept. 2020	% of Total Shares	Ranking
Kawashima Co., Ltd.			2,935	2,935	2,736	2,735	2,735	41.11	1
PCA CORPORATION (treasury shares)	848	848	848	849	1,049	1,045	1,045	13.57	—
MSIP CLIENT SECURITIES						295	294	4.43	2
Obic Business Consultants Co., Ltd.	254	254	254	254	254	254	254	3.82	3
JP MORGAN CHASE BANK 385632							205	3.09	4
The Master Trust Bank of Japan, Ltd. (trust account)							148	2.23	5
JP MORGAN LUXEMBOURG S.A. 1300000							131	1.97	6
Logic Systems Co., Ltd.	114	114	114	114	114	114	114	1.71	7
PCA Employee Stock Ownership Plan	110	119	127	127	135	100	101	1.52	8
Nagoya PCA Co., Ltd.		100	100	100	100	100	100	1.50	9
MSCO CUSTOMER SECURITIES							90	1.36	10
Credit Suisse Securities						472			
Japan Trustee Services Bank, Ltd. (trust account)						89			
SSBTC CLIENT OMNIBUS ACCOUNT						87			
APPLIED SYSTEM LABORATORY Inc.			86	86		86			
Mizuho Bank, Ltd.	121	121	121	121	121				
BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS 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 Masao Kawashima	1,467	1,467							
Tomoko Kumamoto (individual): Heir to the founder Masao 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	13.6		

(Note 1) The percent of shares held by shareholders other than PCA (treasury shares) are the percent over all outstanding shares excluding treasury shares.
(Note 2) The official English name could not be verified for some.
(Ref) Prepared by Alpha-Win Research Dept. based on the securities report.

4. ESG

This fiscal year, there has so far been no large change with regards to ESG and the Company has been conducting ESG activities on a steady basis as usual. With the COVID-19 crisis, it has been encouraging remote work, working on ensuring the safety of its employees and customers, ensuring smooth business operations, and helping support its customers.

- **Shifting to remote work to ensure safety and continue business operation. Implementing various measures against the COVID-19 crisis.**

◆ **Environment**

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

◆ **Society**

As its mission statement, the Company has declared to "support the customers' business 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 small/medium-sized corporate users and helping them become digitalized (remote work, going paperless, building digital infrastructure, etc.).

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

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

In the past, it had donated to the incorporated non-profit organization Médecins Sans Frontières (MSF) Japan to support 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., from companies that hire 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 pursuant to the Act on Promotion of Women's Participation and Advancement in the Workplace, the Company has set goals to "continue to hire female employees at a ratio of 40% or greater 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 control of the president that is operated in coordination with two outside directors. It has also set up a risk control committee with the president as the chairperson and has created a risk control system that allows flexible, quick, and appropriate response to risks.

As of the end of September 2020, the Company has not adopted 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 Masao Kawashima as the leader founded the Company in 1980 upon recognizing the importance and the promising future of computer and software businesses in Japan. At first, they developed and sold business accounting software for small business computers. In 1995, in anticipation of shifting away from small business computer users in the future, the Company began the development and marketing of packaged software for personal computers (PC) in full scale.

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

Then, with the emergence of the PC era, the Company began growing and has continued to grow mainly through the following four strategies: 1) creation of a greater variety of domestic packaged software as well as their version upgrades, 2) expansion of the maintenance service, 3) development of the cloud business, and 4) expansion of the solutions business which includes providing other companies' products. Furthermore, by increasing the number of offices and cooperating with manufacturers and distributors, the Company has developed a nationwide sales/support system that has contributed to the rapid expansion of its business. It is seen as a pioneer in the conservative industry, having been the first in the industry to begin providing cloud services (SaaS[10]) in 2008.

(10) 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

As described above, the Company has been expanding its business since foundation until now as a specialist in the development and marketing of enterprise system software and related businesses. The transition in financial results since its first public offering is described in Figure 9 on page 18. 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 decline following the spike of high demand stimulated by revisions in tax and other regulations, the Company has generally kept increasing sales since 1994. On the other hand, profit had not significantly improved, 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 was due an economic downturn and the decline following the spike of high demand stimulated by the year 2000 problem.

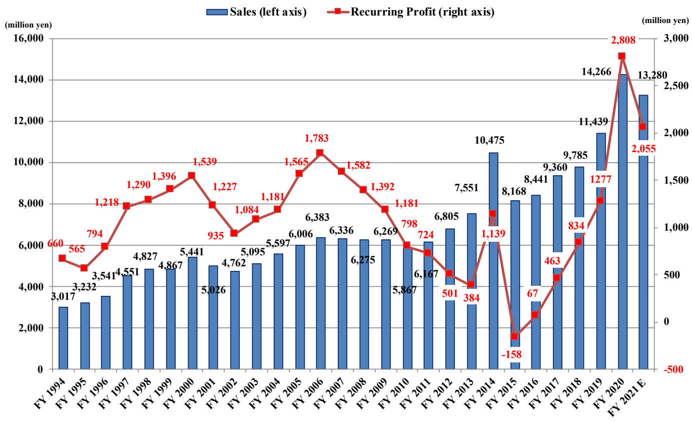
・The decline in sales for four consecutive years from FY 2007 to FY 2010 and the decline in profit for seven consecutive years from FY 2007 to FY 2013 were caused by decreased demand (due to the post-Lehman economic downturn, etc.) and increased personnel, R&D, and sales promotion expenses, as well as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

・Decreased sales in FY 2015 were due to the decline following the spike of high demand caused by the two events described above. From FY 2016 to this fiscal year, the Company has again been on a trend of increasing sales 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.

(11) 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.

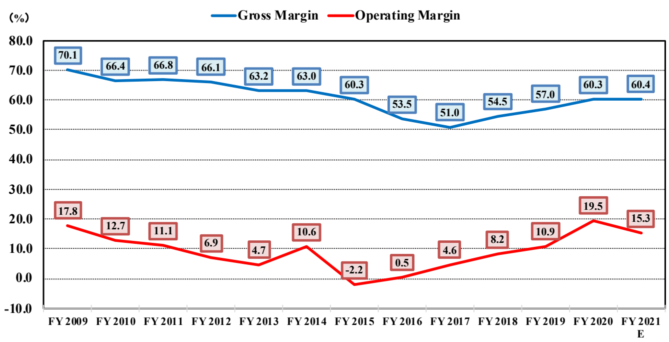
Regarding profit, record-high net profit (Y937 million) was achieved in FY 2000, thanks to the high demand stimulated by the year 2000 problem. Additionally, in FY 2006, record highs were achieved for operating profit and recurring profit (Y1,747 million and Y1,783 million, respectively). These record highs were achieved through the improvement in profitability from the demand stimulated by the revision of the accounting regulation for public benefit corporations and the drastic change in regulations due to the new Companies Act, as well as the Company's ERP[11] (integrated enterprise system) product Dream 21 (former product name).

- **In FY 2006, record highs at that time for operating and recurring profits were achieved.**

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 (E) used for FY 2021.



- **In the previous period of decline following an event-driven spike of high demand, a net loss was posted for two years in a row.**

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 a drop in sales caused by the decline following the event-driven spike of high demand as described above and the postponed revision of consumption tax to 10%.

- **Sales/profit began to grow again starting in FY 2016 and the Company has been staying in the black since then, thanks to the new products, growth of the cloud, and cost reduction. Operating margin improved.**

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

- **Partly due 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 caused by the consumption tax revision and the termination of Windows 7 support.**

Since FY 2017, the Company has been continuously making profit as well as increasing it. 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 (H2) of the 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 – 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 a demand of almost a billion yen prior to those events, as estimated by the Company). As a result, it achieved record-high full-year sales for the first time in five years since the record of Y10,474 million attained in FY 2014 when a high demand was induced by two events. This high demand continued into FY 2020 (last fiscal year), mainly in H1, leading to the achievement of record-high sales and profit.

- **Record-high sales and profit achieved in FY 2020**

As reference, the Company's initial forecast and actual results in the past were compared 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) are from the Company’s plan.

6. Business Environment

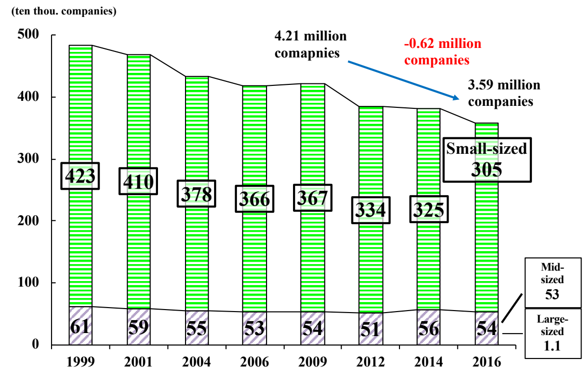
◆ Trends of Enterprise System Software Market

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

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[12] closing their businesses. With the decreasing population and aging society of Japan, the total number of small/medium-sized companies, the Company's current and potential customers, is decreasing. In fact, the total number of companies as of June 2016 was approximately 3.59 million, having decreased by 0.62 million (-14.7%) since 2009.

(12) Small-sized company: defined differently for each industry, but essentially the same as "small/medium-sized companies" in staff size and sales

[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,

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

However, 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 enterprise system software market will steadily increase over the medium to long term as the demand for software to streamline business operations increases.

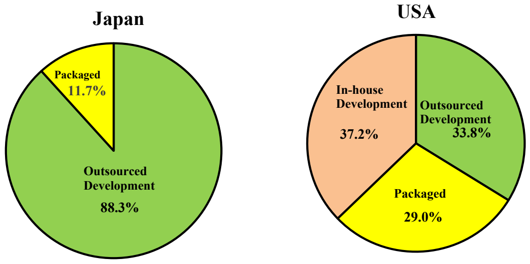
Also, according to the "WHITE PAPER Information and Communications in Japan" by the Ministry of Internal Affairs and Communications, the size of the packaged software market (excluding game software, embedded software, etc.) in 2017 was approximately Y1.1 trillion and its size has been gradually increasing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

◆ **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.**

We estimate the current size of the enterprise system software market in Japan specifically related to the Company's business to be approx. Y500 billion and the size of the ERP market to be approx. Y100 billion. Annual growth rate is predicted to be about 3% and 10%, respectively, over the medium term. The cloud-based enterprise system software market may grow at an especially high rate of 20-30% per year over the long term as it replaces a part of the packaged software (on-premises) market. In fact, compared to the U.S. where the cloud-based enterprise system software market is said to be several years ahead of Japan, the penetration rate in Japan is about 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, 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 is believed to be large (according to the year 2017 version of the "WHITE PAPER," the penetration rate of the cloud in Japan is approximately 26% for "payroll / financial accounting / HR" and only 6-8% each for "production management / logistics management / store management," "purchasing," and "sales on order").

[Figure 13] Share of Each Software Type in Japan and the USA



(Note) Monetary amount of software developed in-house is not disclosed in Japan's official statistics (System of National Accounts). Therefore, data from software providers are used, but data on in-house developed software are not included. To compare data between the two countries, the total of packaged software and outsourced development software for the USA needs to be set to 100%, upon which the proportion of packaged software comes out to be 46.2% for the USA, 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)

◆ Recent Trends of Small/Medium-Sized Companies (the Company's users)

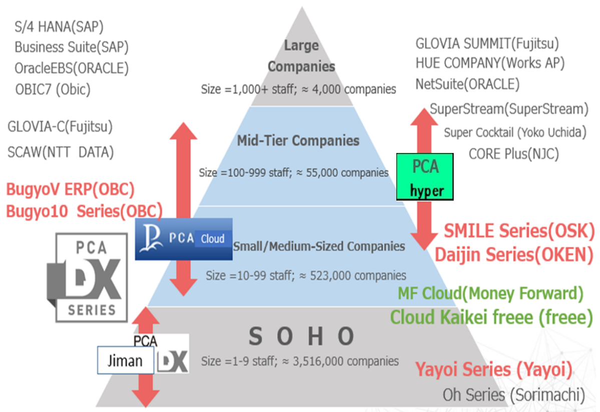
◆ **Market sentiments are gradually and slightly improving but the economic situation remains difficult for small/medium-sized companies.**

According to the Bank of Japan Tankan for September 2020, software investment (planned amount) in 2020 by small/medium-sized companies (all industries) improved by 0.5 percentage points since the previous survey in June and is expected to increase by 2.8% YoY (breakdown: -9.9% for manufacturing and +8.4% for non-manufacturing). For the survey on the business sentiment of small/medium-sized companies, although the "recent" sentiment slightly improved from the June 2020 survey to the September 2020 survey, it was still -44 for manufacturing and -22 for non-manufacturing. "Outlook" was also -38 and -27, respectively, indicating the continued severity of the situation.

◆ Comparison with Competitors

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

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

Three Major Listed Companies

The Company has different rivals for each type of operation targeted by its software. Regarding its key accounting software and 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. OBC is the greatest rival since it has almost the same product lineup and business model as the Company. Among private companies, Yayoi (subsidiary of ORIX), OHKEN (independent company), and OSK (subsidiary of OTSUKA CORPORATION) are its direct competitors. The Company stands out in that it provides high-quality but reasonably priced products and services.

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

- **In addition to OBC, it partially competes with Money Forward and freee in its accounting software business. Both rivals have a net loss but have rapidly growing their sales.**

Money Forward (TSE Mothers: 3994)

・Providing cloud services such as household accounting application for individuals and accounting software, etc., for companies

・Market capitalization of Y211.8 billion and stock price of Y8,950（closing price on 11/20）

・FY 2020 (November-ending) forecast by the company: sales of Y11,272 million and net loss of Y3,151 million (median values, since both were announced as ranges); no dividend

freee (TSE Mothers: 4478)

・Providing ERP services for small businesses (cloud accounting software)

・Market capitalization of Y431.9 billion and stock price of Y8,900（closing price on 11/20）

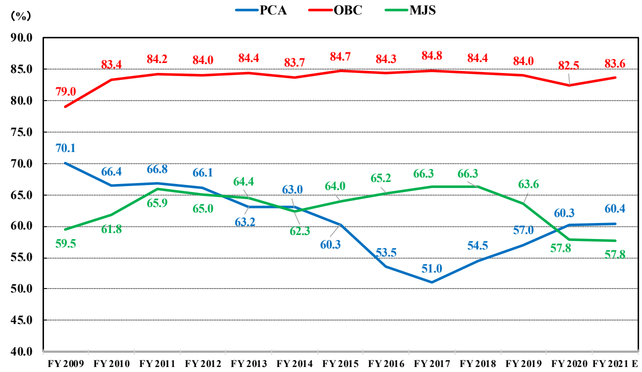
・FY 2021 (June-ending) forecast by the company: sales of Y9,657 million, adjusted operating loss of Y2,212 million (adjusted operating profit/loss = operating profit/loss + stock-based compensation + amortization of intangible assets acquired through M&As + other one-time expenses), and no dividend

A comparison of the long-term transition in gross margin and operating margin of the three major listed companies (the Company, OBC, and MJS) is shown in Figures 15 and 16 on page 23. 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 2.5x greater than the Company, respectively, and similarly their operating profit is about 6.2x and 2.2x 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 subscription rate for the maintenance support service but succeeded in raising this rate, resulting in a greater earning power. However, the Company's profit margins have also bottomed out in recent years and have been increasing as it aims for greater earning power.

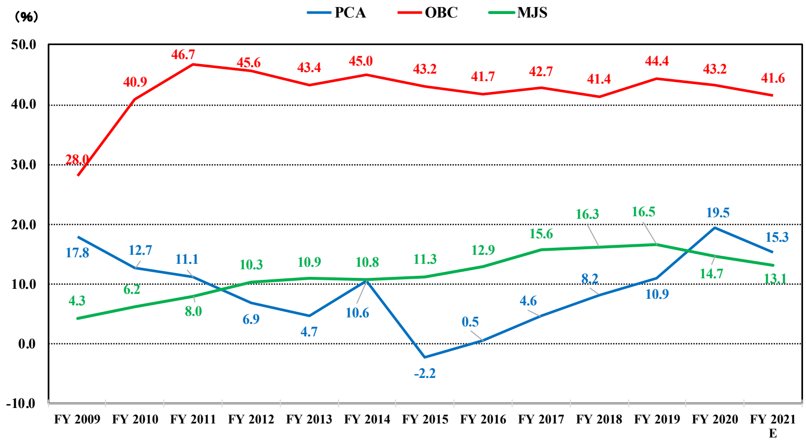
◆ **Margins and asset efficiency largely improved. Top-level ROA and ROE among the three competing companies.**

Similarly, the transition in the Company's ROA and ROE shown in Figure 17 on page 23 indicates that the ratios have been sharply improving in recent years, bringing the Company to the top level among the three companies in the most recent period. Consequently, its asset efficiency as well as earning power has also been significantly improving. (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.)

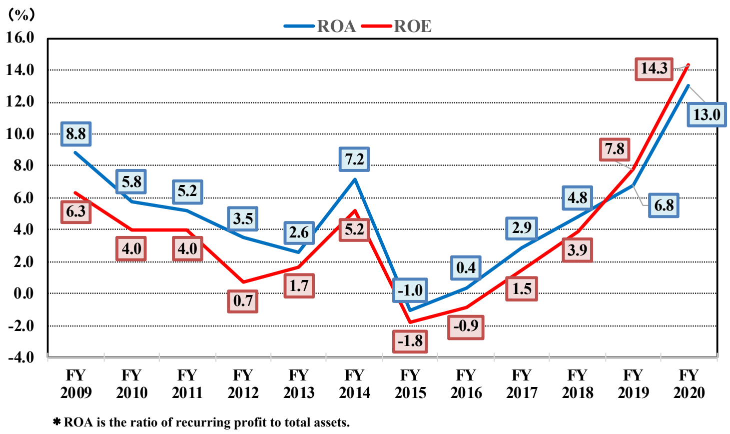
[Figure 15] Long-Term Transition in the Gross Margin of Three Major Listed Companies (PCA, OBC, and MJS)



[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



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

7. First-Half Results and Full-Year Forecast

◆ Consolidated Financial Results for the First Half of FY 2021

◆ **Last fiscal year, there was a high demand driven by two events (version upgrades following the revision in consumption tax rate and demand prior to the replacement of software related to the termination of Windows 7 support). Due to the decline following this spike of demand, this H1's sales and operating profit decreased, but this was not a surprise since they were still within an expected range.**

Summary of the First Half

Consolidated results for the first half of FY 2021 were as follows: sales were Y5,980 million (-16.6% YoY), operating profit was Y938 million (-47.0% YoY), recurring profit was Y959 million (-46.4% YoY), and net profit attributable to owners of the parent was Y589 million (-50.0% YoY; hereinafter "net profit") (Figure 18). There was a significant decline in sales and profit. In the previous fiscal year, sales and profit reached their record highs due to an event-driven high demand (estimated to be 1 to 1.2 billion yen; mainly in H1). The drop during this fiscal year's H1 was part of the decline following this spike of demand. However, this was not a negative surprise, since the amount of decline was mostly within an expected range.

Due to the COVID-19 crisis, the Company did not disclose its financial forecast for H1 at the beginning of this fiscal year, but its sales and profit have presumably reached or slightly exceeded the internal target values. In addition, compared to H1 of the fiscal year before the previous which was unaffected by any event-driven high demand, sales had increased by 21.6% and operating profit had increased by 284.4%. In fact, relative to past H1 results over the long term, its achievement during this H1 can be judged as being high. Progress against the full-year forecast was also comparable to progress during the same period in recent years; progress was 45.0% for sales and 46.1% for operating profit.

[Figure 18] Financial Results for the First Half of FY 2021 (unit: million yen, %)

H1 Results		H1 FY 2020	H1 FY 2021	% Change	Difference	% of Total Sales Growth	% of Total Sales
Unit: million yen		Apr-Sept 2019	Apr-Sept 2020	YoY: %	YoY: million yen	%	%
Consolidated Sales		7,169	5,980	-16.6	-1,188	-100.0	100.0
Sales Category	Products	1,842	727	-60.5	-1,114	-93.8	12.2
	Merchandise	219	175	-19.9	-44	-3.7	2.9
	Maintenance Service	1,699	1,777	4.6	78	6.6	29.7
	Cloud Service	1,568	1,949	24.3	380	32.0	32.6
	Other Operating Revenue	1,840	1,350	-26.6	-490	-41.2	22.6
Gross Profit		4,343	3,665	-15.6	-678	-	-
	Gross Margin (%)	60.6	61.3		0.7	-	-
SG&A Expenses		2,572	2,727	6.0	155	-	-
	SG&A Expenses Ratio (%)	35.9	45.6		9.7	-	-
Operating Profit		1,772	938	-47.1	-834	-	-
	Operating Margin (%)	24.7	15.7		-9.0	-	-
Net Profit		1,177	589	-50.0	-588	-	-
	Net Margin (%)	16.4	9.8		-6.6	-	-

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

◆ **Subscription-based income increased, accounting for a little more than 60% of the total sales.**

Sales in the First Half

Breakdown of the total sales decline of Y1,188 million (YoY) by business type is as follows: one-time-payment-based income (products + merchandise + solutions) decreased by Y1,650 million and subscription-based income (maintenance service + cloud) increased by Y458 million. As a result, the percentage of the subscription-based income (over total sales), which is one of the Company's KPIs, ended up being 62.3%, a significant rise from the past years when the percentage had been about 50%.

For the one-time-payment based income, breakdown by sales category were as follows in the order of increasing amount of YoY decline: -1,114 million yen for the products (-60.5%), -490 million yen for the solutions (-26.6%), and -43 million yen for the merchandise category (-19.9%). These decreases in sales were most likely mainly due to the decline following the

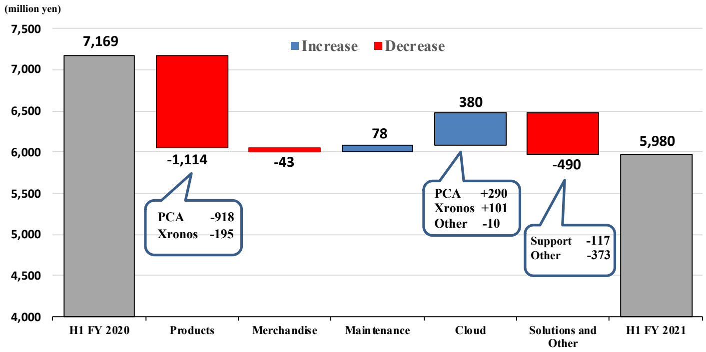
- **Sales of "products" and "solutions and other" significantly declined in reaction to the previous event-driven high demand.**

large rush demand in the previous year's September before the consumption tax revision. Sales of the products especially fell in large amount, as well as the solutions whose sales tend to follow the same trend as the products (-117 million yen for implementation support and -373 million yen for the sales of other companies' products). Also, due to the trend of going paperless, sales of ledger sheets had continued to decline (Figure 19).

- **On the other hand, subscription-based income (cloud + maintenance) grew and stayed solid.**

On the other hand, for the subscription-based income, sales of the cloud were solid and grew by Y380 million, maintaining a growth rate of greater than 20% (+24.3%). Sales of the maintenance service also increased by Y78 million (+4.6%) in a steady growth, thanks to the rise in the number of companies that are subscribed to the service.

[Figure 19] Factors that Increased/Decreased Sales in the First Half of FY 2021 (unit: million yen)



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

Cloud Service

- **Corporate users of PCA Cloud have been steadily increasing. Now over 15,000 users.**

The number of corporate users of PCA Cloud reached 10,000 on 1/11/2018 and has been steadily increasing since then from 11,331 at the end of September 2018, 12,313 at the end of March 2019 (compared to half a year ago: +982 or +8.7%), 13,343 at the end of September 2019 (+1,030 or +8.4%), 14,388 at the end of March 2020 (+1,045 or +7.8%), and most recently 15,262 at the end of September 2020 (+874 or +6.1%) (Figure 6 shown previously on page 11).

- **Percentage of the sales of the subscription-based business over total sales was a little over 60% during this H1 and is planned to be 56% for the full year.**

In this fiscal year's H1, the growth and growth rate of the number of users of the cloud service had somewhat slowed down, but this may have been a temporary slowdown due to COVID-19. Over the past six months, the number of corporate users has increased by 874 in a net increase of about 146 companies per month (simple average). This positive trend seems to be continuing into H2. About 40% of new contracts are with new customers.

For the full fiscal year, the total amount of increase in sales is planned to be Y645 million. Y381 million was achieved in H1, so a growth of Y263 million seems to be expected in H2. Also, it should be noted that sales of the cloud include the results of the recently acquired Keepdata (estimated annual sales of Y100 million; contribution will be proportionate to the corresponding period).

Xronos

Up through the previous fiscal year, the work management system of the subsidiary Xronos had been contributing significantly to the results thanks to the work-style reform. There are still many small/medium-sized companies that have not started using any work management software, so

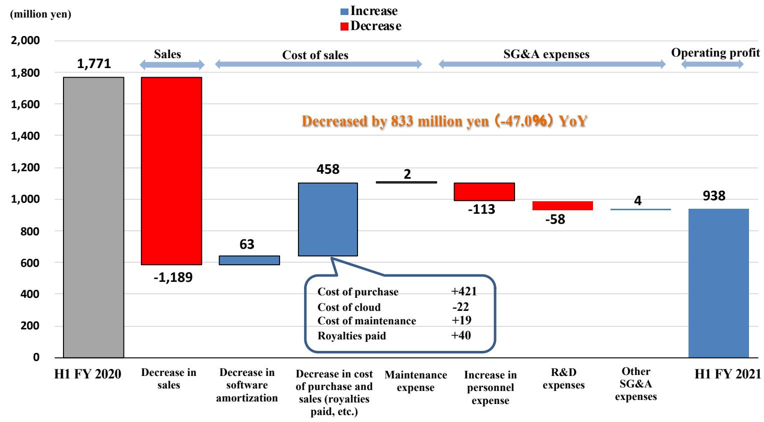
- **In a reaction to the previous event-driven high demand, sales of the product version of the work management system declined, but sales of the cloud version increased.**

the potential demand is large. Since Xronos can provide work management software both as on-premises and as cloud-based software (service name: X'sion), we had expected its sales to grow by about 10-20% YoY this fiscal year too. However, in this fiscal year's H1, the decline following the event-driven spike of demand seems to have had a significant impact on the results; its product-type software sales decreased by Y195 million and cloud-type software sales grew by Y101 million in a total decline of Y94 million. This sales decline seems to be temporary, though, and Xronos plans to work on expanding sales again in H2 (Figure 19 on page 25).

Profit for the First Half

Factors that increased or decreased consolidated operating profit are summarized in Figure 20. Since the Company's business model has a high marginal profit ratio, the sales decline directly caused a decline in profit.

[Figure 20] Factors that Increased/Decreased Operating Profit in the First Half of FY 2021



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

- **Gross margin improved but profit declined due to the sales drop.**

Gross margin improved by 0.7 percentage points from 60.6% in the previous fiscal year's H1 to 61.3% in this fiscal year's H1 due to cost control and solid support from the sales growth of the cloud, which is estimated to have a high profit margin, as well as the maintenance service (profit by sales category is not disclosed) (Figure 18 on page 24). Despite the improvement in the gross margin, gross profit decreased by Y678 million YoY (-15.6%) to Y3,665 million due to the large sales decline.

SG&A expenses increased by Y155 million (+6.0%) from Y2,572 million to Y2,727 million. This had been caused by the increase in personnel expenses (+113 million yen) due to the change in the bonus policy, etc., to reflect the previous fiscal year's strong performance on compensation toward officers and employees, as well as the rise in R&D expenses (+58 million yen) as part of the increased investment for future growth. Consequently, the SG&A expenses ratio rose from 35.9% to 45.6%.

- **The change in bonus policy caused profit to decrease by Y110 million (temporary).**

As a result, operating profit significantly decreased by 47.0% from Y1,771 million in the previous H1 to Y938 million and operating margin decreased by 9 percentage points from 24.7% to 15.7%. If the bonus policy had not been changed, the SG&A expenses would have only increased by Y43 million and operating profit would have been Y1,051 million (operating margin of 17.6%).

In the past, though, the Company's operating margin in H1 rarely exceeded 10%. Therefore, both the profit margin and amount have been maintained at high levels despite the decline from the previous fiscal year's event-driven spike of demand and the impact of COVID-19.

Since no significant non-operating profit/loss or extraordinary profit/loss were posted, recurring profit and net profit both decreased at about the same rate as the operating profit.

- **Regarding quarterly results, sales and profit decreased in both Q1 and Q2. The impact of the decline following the event-driven spike of high, rush demand in last year's September seems to have reached its peak in this FY's Q2.**

Quarterly Results

Analyzing the results of this fiscal year's H1 based on a quarterly comparison (Figure 21), we can see that sales and profit declined YoY both in the first quarter (April to June 2020: Q1) and the second quarter (July to September 2020: Q2). The rate of decline in both sales and profit was larger in Q2 than in Q1 mostly due to the large, event-driven, rush demand in the previous year's September.

- **Profit and sales increased in Q2 compared to Q1 partly due to seasonal variations.**
- **Continued strong sales of the cloud.**

Partly due to seasonal variations, sales of all sales categories other than maintenance increased from Q1 to Q2, resulting in an overall sales growth of 14.4% (last fiscal year, sales increased by 33.3% from Q1 to Q2). Sales of the cloud were particularly strong, having increased from Y957 million in Q1 (+25.2% YoY) to Y992 million in Q2 (+23.4% YoY; +35 million yen or +3.7% compared to Q1). In fact, sales of the cloud had continued to grow at a high rate of more than 20% YoY. Also, although sales of the products and the solutions declined YoY, compared to Q1, their sales increased from Y307 million → Y420 million and Y546 million → Y804 million, respectively.

- **Gross margin decreased but has still stayed stable at around 60%.**
- **Operating margin was essentially maintained at over 15%.**

From Q1 to Q2, gross margin decreased from 63.0% → 59.8% and operating margin also decreased from 16.7% → 14.8%. In Q2, an increase in personnel expenses (about Y110 million) was recorded as SG&A expenses due to the revision of bonus policy. Excluding this factor, the operating margin would come out to be 18.4% in Q2, which is greater than the target ratio of 15%.

[Figure 21] Quarterly Transition in Financial Performance

Q1 Results		Q1 FY 2020	Q1 FY 2021	% Change	Difference	% of Total Sales Growth	% of Total Sales
Unit: million yen		Apr-June 2019	Apr-June 2020	YoY: %	YoY: million yen	%	%
Consolidated Sales		3,073	2,789	-9.2	-284	-100.0	100.0
Sales Category	Products	652	307	-52.9	-345	-121.5	11.0
	Merchandise	102	77	-24.4	-25	-8.7	2.8
	Maintenance Service	865	899	4.0	34	12.0	32.2
	Cloud Service	764	957	25.2	193	68.0	34.3
	Other Operating Revenue	688	546	-20.6	-142	-50.0	19.6
Gross Profit		1,868	1,756	-6.0	-112	-	-
	Gross Margin (%)	60.8	63.0		2.2	-	-
SG&A Expenses		1,281	1,290	0.7	9	-	-
	SG&A Expenses Ratio (%)	41.7	46.3		4.6	-	-
Operating Profit		587	465	-20.7	-122	-	-
	Operating Margin (%)	19.1	16.7		-2.4	-	-
Net Profit		364	272	-25.1	-92	-	-
	Net Margin (%)	11.8	9.8		-2.1	-	-
Q2 Results		Q2 FY 2020	Q2 FY 2021	% Change	Difference	% of Total Sales Growth	% of Total Sales
Unit: million yen		July-Sept 2019	July-Sept 2019	YoY: %	YoY: million yen	%	%
Consolidated Sales		4,096	3,191	-22.1	-905	-100.0	100.0
Sales Category	Products	1,190	420	-64.7	-770	-85.1	13.2
	Merchandise	117	98	-16.4	-19	-2.1	3.1
	Maintenance Service	833	878	5.4	45	5.0	27.5
	Cloud Service	804	992	23.4	188	20.8	31.1
	Other Operating Revenue	1,153	804	-30.3	-349	-38.6	25.2
Gross Profit		2,475	1,909	-22.9	-566	-	-
	Gross Margin (%)	60.4	59.8		-0.6	-	-
SG&A Expenses		1,291	1,437	11.3	146	-	-
	SG&A Expenses Ratio (%)	31.5	45.0		13.5	-	-
Operating Profit		1,184	473	-60.1	-711	-	-
	Operating Margin (%)	28.9	14.8		-14.1	-	-
Net Profit		813	317	-61.0	-496	-	-
	Net Margin (%)	19.8	9.9		-9.9	-	-

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

◆ PCA's Full-Year Financial Forecast for FY 2021

Summary of the Full-Year Financial Forecast

- **This FY, in a decline following the event-driven spike of demand, sales and profit are expected to decrease. However, both sales and profit are still expected to be the second highest in the Company's history following the previous FY's record highs.**

The Company has not changed its full-year financial forecast for FY 2021 (this fiscal year) that was announced at the beginning of the fiscal year. It expects sales and profit to decrease YoY as part of the decline following the event-driven spike of demand; it is anticipating 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 22). However, these expected values are greater than the sales and profit achieved in the fiscal year before the previous (FY 2019) when there was no event-driven high demand, and would in fact be the second largest in the Company's history following last fiscal year's record highs. Excluding the temporary impact of the event-driven high demand, the Company has been increasing sales and profits in a steady trend.

[Figure 22] Financial Forecast for This Full 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	-6.7%
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.

Summary of Second Half's Forecast (the Company's sales forecast)

The Company's plan for H2, which can be deduced by subtracting the H1 results from its full-year plan, is as follows: sales of Y7,299 million (+2.9% YoY), operating profit of Y1,095 million (+8.4% YoY), recurring profit of Y1,095 million (+7.6% YoY), and net profit of Y768 million (+20.4% YoY) (Figure 23). It seems to be expecting both sales and profits to grow compared to the previous fiscal year's H2.

[Figure 23] Financial Forecast for the Second Half of FY 2021 (the Company's plan)

H2 Results		H2 FY 2020 Results	H2 FY 2021 Company Forecast	% Change	Difference	% of Total Sales Growth	% of Total Sales
Unit: million yen		Oct 2019 - Mar 2020	Oct 2020 - Mar 2021	YoY: %	YoY: million yen	%	%
Consolidated Sales		7,096	7,299	2.9	203	100.0	100.0
Sales Category	Products	1,325	1,812	36.8	487	239.9	24.8
	Merchandise	333	270	-18.9	-63	-31.0	3.7
	Maintenance Service	1,772	1,611	-9.1	-161	-79.3	22.1
	Cloud Service	1,807	2,070	14.6	263	129.6	28.4
	Other Operating Revenue	1,861	1,539	-17.3	-322	-158.6	21.1
Gross Profit		4,255	4,354	2.3	99	-	-
	Gross Margin (%)	60.0	59.7		-0.3	-	-
SG&A Expenses		3,245	3,259	0.4	14	-	-
	SG&A Expenses Ratio (%)	45.7	44.6		-1.1	-	-
Operating Profit		1,010	1,095	8.4	85	-	-
	Operating Margin (%)	14.2	15.0		0.8	-	-
Net Profit		638	768	20.4	130	-	-
	Net Margin (%)	9.0	10.5		1.5	-	-

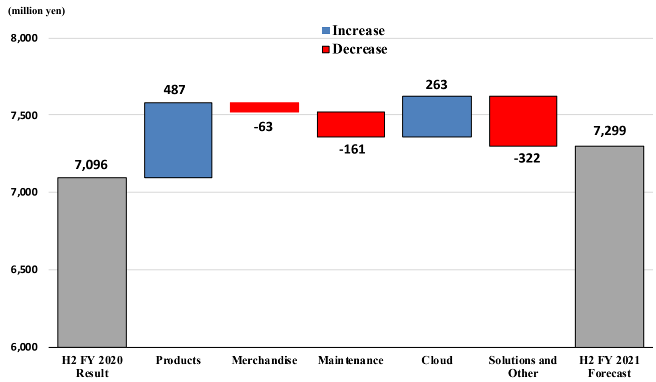
(Ref) Prepared by Alpha-Win Research Dept.

- **In H2, sales decline of solutions is expected to be offset by the recovery of the products (on-premises) and the solid growth of the cloud, so that sales/profit growth will be achieved again.**

Forecasted sales for each sales category in H2 are summarized in Figure 24 on page 29. Overall, the Company expects sales to increase by Y203 million YoY (net amount). Since the decline following the event-driven spike of demand is expected to have mostly ended by then, it is expecting a large recovery in the sales of products in H2 by Y487 million YoY (+36.8%); specifically, Y1,842 million in H1 of the previous fiscal year → Y1,325 million in H2 of the previous fiscal year → Y727 million in H1 of this fiscal year → Y1,812 million in H2 of this fiscal year (planned). It is also expecting cloud's sales to grow by Y263 million (+14.6%) due to continued growth of the number of corporate users.

On the other hand, sales of solutions (other operating revenue) are expected to continue to fall (-322 million yen; -17.3%) due to the nature of the business which makes it difficult for distributors to make active sales efforts amidst the COVID-19 crisis, the time lag inherent to implementation support (like last fiscal year, a few months of time lag are expected during busy seasons), and the decrease in sales of other companies' products, etc., as part of the decline following the event-driven spike of demand. Similarly, sales of maintenance are expected to decrease by Y161 million (-9.1%).

[Figure 24] Factors that Are Expected to Increase/Decrease Sales in the Second Half of FY 2021 (the Company's plan)



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

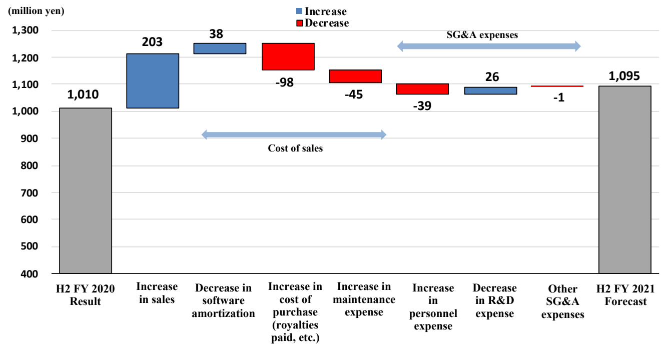
◆ **In H2, the Company expects the gross margin to decline but expects to maintain an operating margin of 15% through the improvement of SG&A expenses.**

Summary of Second Half's Forecast (the Company's profit forecast)

In H2, the Company plans to increase operating profit by 8% and net profit by 20.4% through an increase in sales. Gross margin is expected to decrease slightly from 60.0% in the previous fiscal year's H2 to 59.7% in the current fiscal year's H2, but the SG&A expenses are planned to be held down so that the SG&A expenses ratio will fall from 45.7% to 44.6%. In consequence, operating margin is expected to improve by 0.8 percentage points from 14.2% to 15.0%. No large non-operating profit/loss or extraordinary profit/loss are expected.

The Company's analysis of the factors that may increase or decrease operating profit in H2 (YoY) is shown in Figure 25. The increase in the payment of royalties, maintenance expenses, and personnel expenses are expected to be offset by the growth in sales and the decline in software amortization.

[Figure 25] Factors that Are Expected to Increase/Decrease Operating Profit in the Second Half of FY 2021 (the Company's plan)



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

◆ Alpha-Win Research Dept.'s Full-Year Financial Forecast for FY 2021

Summary

- **H1 results were stronger than expected.**
- **We believe that the full-year profit forecast is highly likely to be achieved.**

This fiscal year, due to direct and indirect impact by COVID-19 in addition to the decline following the event-driven demand of just over 1 billion yen, we believe that a temporary drop in sales and profit is inevitable. However, since the H1 results had been stronger than expected, we reviewed our forecast for H2 and revised the forecast for the fiscal year upward to reflect the current situation (Figure 26).

- **The previous forecast for sales was conservative, having considered the various risk factors**

In the previous forecast (the report published in June 2020), we had made a cautious forecast for the sales of each sales category based on the potential risks of the COVID-19 crisis. Specifically, we were concerned that the Company's self-refraining of sales and marketing activities could cause cancellation or postponement of negotiations, launching of new products, software upgrades, and software implementation support.

However, sales in H1 ended up exceeding our forecast by several hundred million yen. The Company's forecast for H2 is somewhat ambitious for the products' sales but seems to be on the conservative side regarding the increase in cloud's sales, the decrease in the sales of maintenance, and the gross margin. Therefore, we revised the forecast for sales and profit in H2 upward compared to the Company's forecast (Figure 27 on page 31).

- **We revised our full-year forecast upward, expecting results that are somewhat greater than the Company's plan.**

We consequently also revised up the full-year forecast for sales and operating profit from our previous forecast. The following are the changes in our forecast (previous forecast → new forecast): Y12,840 million → Y13,450 million for sales (+510 million yen; +4.0%) and Y2,050 million → Y2,150 million for operating profit (+100 million yen; +4.9%). These new forecasted values are greater than the values of the Company's plan by Y70 million (+0.5%) and Y116 million (+5.7%), respectively.

[Figure 26] Comparison of Financial Forecasts for FY 2021 (the Company's plan vs. Alpha-Win's forecast)

Consolidated (unit: million yen)	FY 2021	FY 2021 Alpha-Win's Forecast		Diff. from Company Forecast		Diff. from Previous Forecast	
	Company Forecast	New Forecast	*Previous Forecast*	Change/Diff.	% Change	Change/Diff.	% Change
Sales	**13,280**	**13,350**	***12,840***	**70**	**0.5%**	**510**	**4.0%**
Gross Profit	**8,019**	**8,130**	***7,755***	**111**	**1.4%**	**375**	**4.8%**
Gross Margin	60.4%	60.9%	*60.4%*	0.5%	–	0.5%	–
SG&A Expense	**5,985**	**5,980**	***5,705***	**-5**	**-0.1%**	**275**	**4.8%**
SG&A Expenses Ratio	45.1%	44.8%	*44.4%*	-0.3%	–	0.4%	–
Operating Profit	**2,034**	**2,150**	***2,050***	**116**	**5.7%**	**100**	**4.9%**
O.P. Margin	15.3%	16.1%	*16.0%*	0.8%	–	0.1%	–
Recurring Profit	**2,055**	**2,170**	***2,060***	**115**	**5.6%**	**110**	**5.3%**
R.P. Margin	15.5%	16.3%	*16.0%*	0.8%	–	0.2%	–
Net Profit Attributable to Owners of the Parent	**1,358**	**1,430**	***1360***	**72**	**5.3%**	**70**	**5.1%**
N.P. Margin	10.2%	10.7%	*10.6%*	0.5%	–	0.1%	–
Annual Dividend Per Share (yen)	**34**	**34**	***34***	-	-	-	-

(Ref) Prepared by Alpha-Win Research Dept.

Our Forecast for the Second Half

- **In H2, sales and profit are expected to grow YoY again.**

Sales of product sharply decreased by Y1,114 million in H1 of this fiscal year as part of the decline following the event-driven spike of demand in the previous fiscal year's H1. However, since this high demand had peaked out and was mostly gone in the previous fiscal year's H2, the Company expects the decline against this past demand to be smaller during this fiscal year's H2. Therefore, assuming that more progress will be made with its sales activities, it expects sales to increase significantly by Y487 million in H2 (Figure 27 on page 31).

Considering the current situation with sales and the new products, we judged that the Company's forecast for the sales of the products in H2 are somewhat ambitious and revised its sales to a more conservative one.

- **The Company predicts that sales of products will recover sharply when the period of decline following the event-driven high demand ends, but this prediction seems somewhat ambitious.**

- **The Company's forecast for the subscription-based business in H2 seems to be on the conservative side.**

For the cloud's sales, which were Y1,807 million in the previous fiscal year's H2 (+483 million yen or +36.5% YoY) and Y1,949 million in this fiscal year's H1 (+380 million yen or +24.3% YoY), the Company expects Y2,070 million in H2 (+263 million yen or +14.6% YoY). However, although the cloud's growth rate has slowed down compared to the period of event-driven high demand, its sales are still growing by more than 20%. Also, with the steady net increase in the number of cloud users leading to a greater total number of users, there seems to be no particular reason for its sales or sales growth rate to fall significantly from H1 to H2. Considering these factors, the Company's forecast seems conservative, so we estimate that sales will grow by about 20% from the previous fiscal year's H2.

Similarly, for maintenance, whose sales increased by Y78 million YoY in H1 (grew YoY in both Q1 and Q2), the Company expects its sales to decrease by Y161 million YoY in H2. However, we judged that this too was a conservative forecast in considering the current situation and raised the forecast. For merchandise and solutions, our forecasts are about the same as those of the Company.

The Company predicts that sales in H2 will increase by Y203 million and gross profit will increase by Y99 million, meaning that its expected gross margin with respect to its forecasted sales growth is 48.8% (we predict it to be about 60%). We revised up the H2 sales of the cloud and maintenance compared to the Company's forecast and also predict these categories' gross margin to be greater than 60%. The profit margin may also increase from an improvement in the product mix.

- **Its planned gross margin is also conservative.**

Therefore, the Company's forecasted gross margin of 59.7% for this fiscal year's H2 seems conservative compared to 60.0% achieved in the previous H2 and 61.3% during this H1, and we predict that it will be 60.6%.

Although the results will ultimately depend on cost control, we believe that if sales reach the upwardly revised value and lead to a greater increase in profit and gross margin, profit may potentially end up being greater than the Company's forecast.

- **We predict H2 sales and profit to be greater than the Company's plan.**

Based on the above, we predict that sales in H2 will be Y7,370 million (+3.9% YoY), which is greater than the Company's forecast of Y7,299 million. Similarly, we predict operating profit and net profit in H2 to be greater than the Company's forecast; our forecast for operating profit is Y1,212 million compared to the Company's Y1,095 million and net profit is Y841 million compared to the Company's Y768 million.

[Figure 27] Comparison of Financial Forecasts for the Second Half of FY 2021 **(the Company's plan vs. Alpha-Win's forecast)**

H2 Results		H2 FY 2020 Result	H2 FY 2021 Company Forecast	% Change	Difference	% of Total Sales Growth	H2 FY 2021 Alpha-Win's Forecast	Diff. from Company Forecast (%)	Diff. from Company Forecast (amount)
Unit: million yen		Oct 2019 - Mar 2020	Oct 2020 - Mar 2021	YoY: %	YoY: million yen	%	Oct 2020 - Mar 2021	YoY: %	YoY: million yen
Consolidated Sales		7,096	7,299	2.9	203	100.0	7,370	1.0	71
Sales Category	Products	1,325	1,812	36.8	487	239.9	1,743	-3.8	-69
	Merchandise	333	270	-18.9	-63	-31.0	270	0.0	0
	Maintenance Service	1,772	1,611	-9.1	-161	-79.3	1,673	3.8	62
	Cloud Service	1,807	2,070	14.6	263	129.6	2,156	4.2	86
	Other Operating Revenue	1,861	1,539	-17.3	-322	-158.6	1,530	-0.6	-9
Gross Profit		4,255	4,354	2.3	99	-	4,465		111
	Gross Margin (%)	60.0	59.7		-0.3	-	60.6	0.9	
SG&A Expenses		3,245	3,259	0.4	14	-	3,253		-6
	SG&A Expenses Ratio (%)	45.7	44.6		-1.1	-	44.1	-0.5	
Operating Profit		1,010	1,095	8.4	85	-	1,212		117
	Operating Margin (%)	14.2	15.0		0.8	-	16.4	1.4	
Net Profit		638	768	20.4	130	-	841		73
	Net Margin (%)	9.0	10.5		1.5	-	11.4	0.9	

(Ref) Prepared by Alpha-Win Research Dept.

Comparison with the Previous Decline Following an Event-Driven High Demand

- **Shift to the subscription-based businesses helped strengthen its earnings structure.**

Compared with the previous period of decline following an event-driven spike of demand, we expect the negative impact on sales and profit during this fiscal year to be much smaller. The key difference is the improvement in the Company's earnings structure from its shift to the subscription-based business focused on the cloud service which has high profitability and continuity.

In the previous period of decline following an event-driven spike of demand, sales decreased from Y10,474 million → Y8,168 million (-22% YoY) from FY 2014 to FY 2015 and recurring profit similarly decreased from Y1,139 million → recurring loss of Y158 million. The bottom line also fell from a net profit to a net loss (-207 million yen).

Risk Factors

- **The impact of COVID-19 on sales activities is a concern.**

With the government-led Go-To campaigns, recovery of the Chinese economy, and US-led rise in stock prices, corporate and consumer acitivites had been beginning to show signs of recovery. However, the rebound of the COVID-19 outbreak (the third wave) and its prolongation may cause negotiations to become stagnated, potential and current corporate users to refrain from purchasing products and services due to worsened financial performance, and software implementation to become postponed; these seem to be the Company's main risk factors.

Another risk factor is the potential deterioration of the financial performance of the acquired companies. However, the impact of this risk on consolidated profit and loss is expected to be limited since the companies are small in size.

8. Growth Strategy

◆ Management Indicators and Areas of Focus

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

In 2012, the Company announced goals of Y20 billion in sales (as reference, the actual result in FY 2020 was Y14.3 billion), 2.5% in DOE (FY 2020 result: 2.8%), and 80,000 corporate users of the cloud (a little over 15,000 companies as of the end of September 2020) as the PCA Group's management indicators, and has been developing its business in line with this plan. To achieve these goals, it has set out five areas of focus: 1) grow even greater as the No. 1 player in the cloud-based enterprise system software market, 2) enhance the solutions business to provide more than simple functionality, 3) enhance PCA Cloud with more leading-edge technologies, 4) pursue new services, and 5) actively conduct M&As.

- **Five areas of focus**

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

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

Since the Company will reach a milestone in the year 2030 as its 50th anniversary, it announced its new vision, "New Medium-Term/Long-Term Vision PCA Vision 2030."

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 took this a step further and announced "PCA Vision 2030: First Stage – 2022 Medium-Term Management Plan."

- **Its medium-to-long-term vision is to contribute to society as a "Management Support Company"**

In the Medium-Term Management Plan, the Company described its medium-to-long-term vision to continue 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.

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 and develop stably over the long term." Aiming to become a solution-providing service providor, the Company's plan over the medium term is to focus on creating a firm earnings base and management structure to realize its medium-to-long-term vision.

The basic strategies and priority measures of the current medium-term plan and their execution status were described in the previous report (please refer to the original Japanese report published in June 2020 or the English translation of the same report published in July 2020). No changes were made to the Medium-Term Management Plan during this fiscal year's H1. The Company has created an executaion roadmap for each priority measure and has been making steady progress with their execution, mostly on schedule. It has lauched the Hyper[12] Series, has started the PCA Subscription service, is preparing for the implementation of a new KPI and management system, and is strengthening its R&D system.

(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: the user can flexibly select between the on-premises and the cloud according to their stage of growth, make flexible linkage with other systems using API, and streamline data management within an entire corporate group (consolidated accounting).

- **Target values for FY 2022, the final year of the current medium-term plan, had been revised largely upward but may become achieved earlier than planned.**

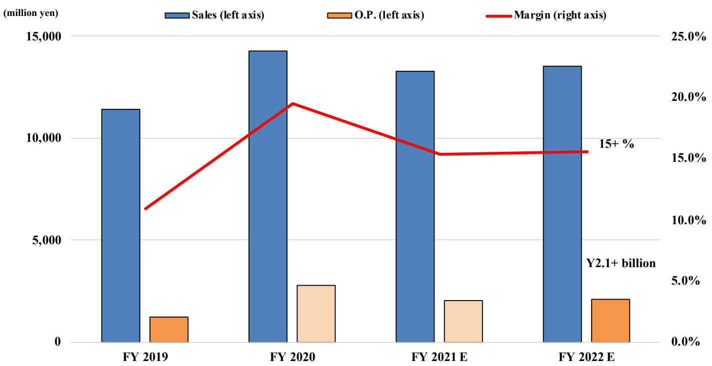
Since last fiscal year's results had been much greater than the Company had initially expected, it had revised up the target values for FY 2022 (fiscal year ending March 2022), the final year of the medium-term plan (Figures 28-30 on page 34). However, even those revised values may be achieved ahead of schedule, perhaps within this fiscal year.

[Figure 28] Target Values of the Medium-Term Management Plan

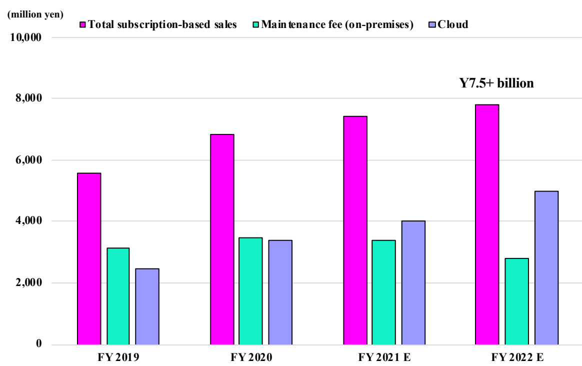
Target Items of the Medium-Term Plan	FY 2019 Result	FY 2020 Result	FY 2021 Target	FY 2022 Target
・Consolidated Sales	Y 11.439 billion	Y14.266 billion	Y13.280 billion	≥Y13.5 billion
Of which are sales from subscription-based businesses (maintenance & cloud)	Y5.577 billion	Y6.845 billion	Y7.407 billion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

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

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



[Figure 30] Forecasted Sales of the Subscription-Based Business



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

- **We revised upward the medium-term financial forecast for the 3 fiscal years starting this fiscal year.**

We revised the medium-term financial forecast for the three fiscal years starting this fiscal year (Figure 31 on page 35). Considering the H1 results and the current situation as well as the expectations for H2, we reviewed and revised up the forecast for the three fiscal years from this fiscal year to the fiscal year after the next.

- **We expect the cloud and work management software to continue to be the growth drivers. We also expect the Company to return to a trend of increasing sales and profit starting in FY 2022 when the decline from the event-driven spike of demand will have ended and the COVID-19 impact will probably have settled down to some extent.**

Next Fiscal Year (FY 2022)

Previously, we had mentioned, "next fiscal year (FY 2022), although the risk of prolonged impact by COVID-19 is a concern, since the decline following the event-driven spike of demand will most likely end by then, we expect sales to increase by 5.1% and profit to increase by about 8.0% (compared to our previous forecast for FY 2021)." We revised this previous forecast and prepared a new forecast; sales were revised from Y13,500 million → Y14,000 million (difference between the two forecasts: +4.9%), operating profit was revised from Y2,215 million → Y2,280 million (+6.0%), and net profit was revised from Y1,470 million → Y1,520 million (+6.3%).

We have reviewed our assumptions for the sales of each sales category (growth rate and breakdown) and the costs (we expect the on-premises in the products category to be gradually be switched to PCA Subscription; sales of PCA Subscription are included in the "cloud" category). The growth potential of the cloud and the work management software is large, so we believe that they will continue to be the growth drivers, absorbing costs such as upfront investment, sales promotion expense, and personnel expense and contributing to the growth in sales and profit. We have not included the potential contribution from the new businesses and the acquired subsidiaries in our assumptions.

[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 2021 PE	FY 2022 PE	FY 2023 PE
Sales	11,439	14,266	13,280	13,350	14,000	14,650	12,840	13,500	14,300
Category: Products	2,516	3,166	2,539	2,470	2,550	2,650	2,500	2,550	2,600
Category: Merchandise	563	552	445	445	400	350	440	400	350
Category: Maintenance Service	3,125	3,471	3,388	3,450	3,300	3,200	3,300	3,200	3,100
Category: Cloud Service	2,452	3,374	4,019	4,105	4,850	5,500	4,000	4,700	5,500
Category: Other Operating Revenue	2,780	3,701	2,889	2,880	2,900	2,950	2,600	2,650	2,750
Gross Margin	57.0%	60.3%	60.4%	60.9%	59.9%	59.9%	60.4%	60.4%	60.4%
SG&A Expense	5,274	5,817	5,985	5,980	6,100	6,180	5,705	5,940	6,180
(% over sales)	46.1%	40.8%	45.1%	44.8%	43.6%	42.2%	44.4%	44.0%	43.2%
Operating Profit	1,248	2,781	2,034	2,150	2,280	2,600	2,050	2,215	2,460
(% over sales)	10.9%	19.5%	15.3%	16.1%	16.3%	17.7%	16.0%	16.4%	17.2%
Recurring Profit	1,277	2,808	2,055	2,170	2,300	2,620	2,060	2,230	2,470
(% over sales)	11.2%	19.7%	15.5%	16.3%	16.4%	17.9%	16.0%	16.5%	17.3%
Net Profit for the Year	906	1,816	1,358	1,430	1,520	1,700	1,360	1,470	1,630
(% over sales)	7.9%	12.7%	10.2%	10.7%	10.9%	11.6%	10.6%	10.9%	11.4%
Sales (% YOY growth for all values)	16.9%	24.7%	-6.9%	-6.4%	4.9%	4.6%	-10.0%	5.1%	5.9%
Category: Products	28.8%	25.8%	-19.8%	-22.0%	3.2%	3.9%	-21.0%	2.0%	2.0%
Category: Merchandise	3.2%	-2.0%	-19.4%	-19.4%	-10.1%	-12.5%	-20.3%	-9.1%	-12.5%
Category: Maintenance Service	0.5%	11.1%	-2.4%	-0.6%	-4.3%	-3.0%	-4.9%	-3.0%	-3.1%
Category: Cloud Service	32.3%	37.6%	19.1%	21.7%	18.1%	13.4%	18.6%	17.5%	17.0%
Category: Other Operating Revenue	23.6%	33.1%	-21.9%	-22.2%	0.7%	1.7%	-29.7%	1.9%	3.8%
Gross Margin (% YOY diff.)	2.5%	3.3%	0.1%	0.6%	-1.0%	0.1%	0.1%	0.0%	0.0%
SG&A Expense (% growth)	16.5%	10.3%	2.9%	2.8%	2.0%	1.3%	-1.9%	4.1%	4.0%
Operating Profit (% growth)	54.6%	122.8%	-26.9%	-22.7%	6.0%	14.0%	-26.3%	8.0%	11.1%
Recurring Profit (% growth)	53.1%	119.9%	-26.8%	-22.7%	6.0%	13.9%	-26.6%	8.3%	10.8%
Net Profit for the Year (% growth)	105.4%	100.4%	-25.2%	-21.3%	6.3%	11.8%	-25.1%	8.1%	10.9%

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

Fiscal Year After the Next (FY 2023)

- **Expecting normalization of economy, improvement of costs, and growth driven by the cloud, we revised up the forecast for FY 2023.**

Expecting the recovery of the solutions and the products as the COVID-19 crisis settles down, continued solid performance of the subscription-based businesses, and overall improvement of SG&A expenses including those of the subsidiaries, we also revised our forecast for FY 2023. Sales were revised up from Y14,300 million → Y14,650 million, operating profit was revised up from Y2,460 million → Y2,600 milion, and net profit was revised up from Y1,630 million → Y1,700 million. We did not change our forecast that dividend will be raised by 2 yen per share to a total of 36 yen.

We expect that the economy will normalize by FY 2023 and the subscription-based businesses will continue to stably expand. In addition, if the Company can put its newly started businesses and acquired companies on growth curves, it may be able to sustain a growth trend for sales and profit over the medium to long term.

- **With the subscription-based business as the growth driver, we expect the annual profit growth rate to be about 8-10% over the medium term.**

Financial performance will most likely be affected by the growth rate of PCA Cloud, as well as the PCA Subscription business which it will start developing in full scale, PCA Hyper, expansion of the HR business, and whether it will succeed in improving the earnings of Keepdata and Dreamhop. The Company will probably continue to work on developing new technologies, products, and businesses and conduct upfront investment for M&As, etc., but we believe that the costs can be controlled.

Profit Growth Rate over the Medium/Long Term

Over the medium to long term, based on normalized figures excluding the impact of the event-driven high demand and COVID-19, we expect 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 lead 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. Below are the main points:

・Strengths: long years of trust from customers and proven track record; taking a lead in the cloud market, which has a large growth potential, giving it a high competitive advantage

・Volatility of business tends to increase before and after certain events such as those related to revisions in accounting/tax laws.

[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 continuously 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 users, 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 profit 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 subscription rate is improving but could still be improved ・Absence of a major, next-generation, growth-driving product/service ・Domestic-demand oriented; overseas expansion difficult
Opportunity	・Increased demand from lack of human resources and for streamlining operation (for business software in general); work-style reform (work management system) ・Potential to increase users of cloud service; development potential (toward small/medium-sized companies and mid-tier companies) ・New products (Hyper & working with Keepdata), new services (transition of on-premises to subscription-based model), and innovations in technology ・Development of HR businesses ・Revisions related to accounting and tax laws, etc.
Threat	・Emergence of an alternative as advanced AI technology becomes widely used, delayed product development, defects in products, etc. ・High competition (maturation of on-premises market; other companies catching up with the Company in the cloud business) ・COVID-19 outbreak/prolongation ・Contract termination risk, etc. ・Information leakage ・Rise in personnel and development costs

(Ref) Prepared by Alpha-Win Research Dept.

◆ Shareholder Return and Shareholder Benefit Program

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

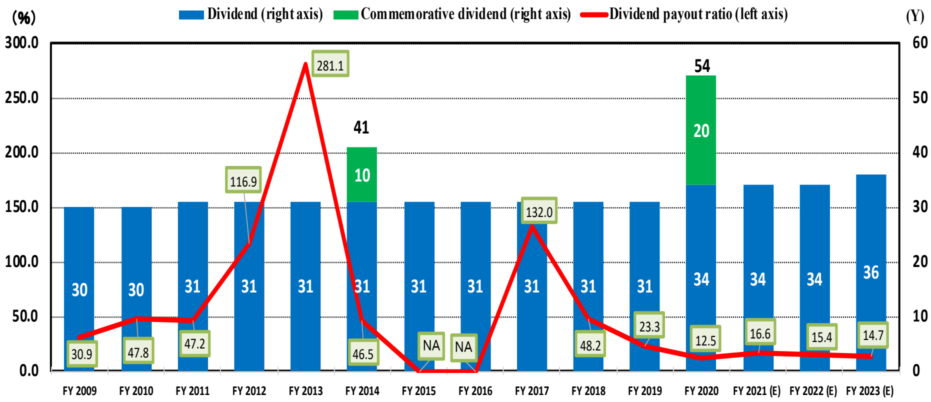
◆ Has been increasing dividend over the long term

Regarding dividend, ever since the first public offering of the Company's stock, ordinary dividend has not been decreased and has been gradually raised over the long term with several years of no change in between (Figure 33 on page 37).

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

Excluding commemorative dividend, ordinary dividend had been kept at Y31 per share per year after FY 2011. A commemorative dividend of Y10 was paid in FY 2014 in celebration of "achievement of consolidated sales of Y10 billion," which was added to the ordinary dividend of Y31 in an annual total of Y41 per share. Even in FY 2015 and FY 2016 when net losses were posted, the Y31/year dividend was maintained in line with its stable dividend policy. A dividend hike occurred in FY 2020; a commemorative dividend was paid (Y20 per share for the 40th anniversary of foundation) and ordinary dividend was raised (by Y3 from Y31 to Y34).

[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.

- **The target dividend payout ratio is 33% and the target DOE is 2.5%. Their difference from the actual results is large, so dividend hike is quite possible over the medium to long term.**

The target dividend payout ratio is 33% but has not been achieved since FY 2019, as shown in Figure 33. The Company's forecasted payout ratio for this fiscal year (FY 2021) is 16.6%, which is also only about a half of the target ratio and indicates a large deviation. As for this fiscal year's dividend yield, it is expected to be about 0.8% when calculated based on a stock price of Y4,430 (the closing price on November 20, 2020).

Dividend on equity (DOE), which is one of the Company's KPIs (key performance indicators), is expected to be about 1.5% based on the ordinary dividend of Y34 planned for this fiscal year and will also mostly likely end up being below the target ratio of 2.5%. Also, compared to the past, the level of profit achieved has become significantly larger due to the change in the business model and the stabilization of business. Considering this improvement, as well as the current level of dividend payout ratio and DOE, we believe that the Company has the capacity to raise its dividend over the medium term. We predict that the Company will increase dividend by 2 yen from Y34 to Y36 in the fiscal year after the next, but this dividend hike may occur earlier depending on next fiscal year's results for profit.

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

The Company has a shareholder benefit program and gives out Quo Cards to shareholders based on the number of shares held at the end of March of every year. For example, shareholders with equal to or greater than 100 shares and less than 300 shares are granted Y2,000 worth of Quo Card. Based on a stock price of Y4,430, the actual annual net yield for a shareholder owning 100 shares is about 1.2% (at maximum) including the ordinary dividend of Y34 and the shareholder benefit (Figure 34). Similarly, the actual annual net yield is estimated to be about 1.3% for OBC (including its shareholder benefit program) and about 1.7% for MJS (same as the dividend yield since MJS does not have a 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	1.22
300	500	3,000	34	0.99
500		4,000	34	0.95

Net yield = (dividend + benefit value) / (stock price) was calculated for the minimal amount of stock owned in each range
Stock price: Y4,430 (closing price on 11/20/2020)

(Ref) Prepared by Alpha-Win Research Dept.

The Company's financial standing is firm with essentially no debt. Its stock price has increased by more than threefold over the past four years. Since its stock price has reached the Y4,000 level, the Company is highly likely to conduct a stock split (1-to-2 or 1-to-3) over the short/medium term in order to expand its shareholder base. A stock split has not been conducted since the 1-to-1.3 stock split in May 2000.

- **Stock split is also anticipated.**

◆ Stock Price and Factors that May Affect Stock Price

Performance

- **With solid performance, has been significantly outperforming the TOPIX for the past approx. 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 has been significantly outperforming the TOPIX. However, over the short term, it has been underperforming the TOPIX in the most recent month due to the news about the new progress in COVID-19 vaccine development that has caused economically sensitive stocks to relatively increase in a return reversal.

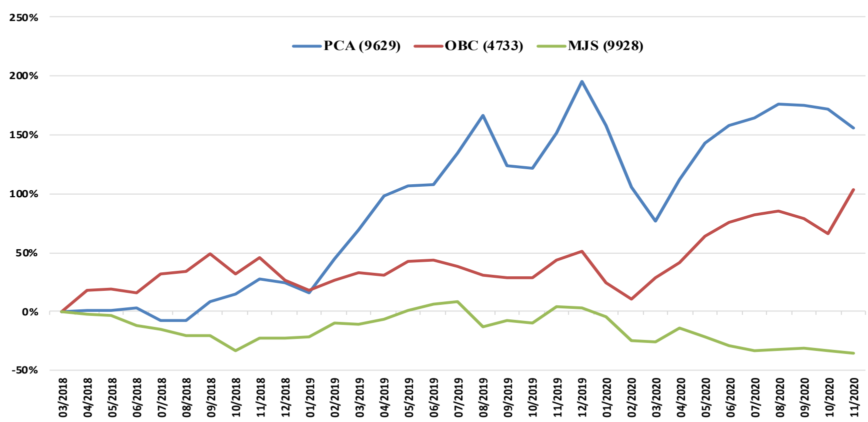
After the announcement of a significant upward revision to the financial forecast in October 2019, the stock price soared, reaching Y6,240 as the closing price on January 24, 2020, which is the highest price not only since the beginning of the fiscal year but also since becoming listed on the First Section of the TSE. Then, the stock price went through large fluctuations until the middle of March, but after the announcement of full-year results, the stock price has been on an increasing trend again. This rise seems to have been caused by how the Company has received high evaluation as a domestic-demand-related, defensive stock since it was able to announce its financial forecast for FY 2021 (this fiscal year) at the beginning of the fiscal year while most other companies of the First Section of the TSE could not disclose a forecast because of the various risks of the COVID-19 crisis. Although the Company forecasted that sales and profit will decline, they were within an expected range, and its financial performance seems to have been judged as having a relatively small downside risk.

- **Its performance over the last 3 years stands out from its competitors. Its stock price has been significantly outperforming its 2 competitors.**

Over the past approximately three years, the Company's stock price has increased by about 2.6 times, significantly outperforming its competitors Obic Business Consultants (4733: OBC) and Miroku Jyoho Service (9928: MJS) by 53% and 191%, respectively (Figure 35).

[Figure 35] Comparison of Stock Performance with Competitors

(Note: stock price at of the end of March 2018 was set to zero upon creating the graph. Reflects prices up through the closing price on November 20, 2020)



(Ref) Prepared by Alpha-Win Research Dept.

Valuation

◆ **Low P/E compared to the average of TSE First Section**

Compared with the First Section of the TSE (this fiscal year's forecast for P/E is 26.5, P/B is 1.3, and weighted average dividend yield is 2.0%), the Company's current valuation is currently low for the forecasted P/E.

The Company's forecasted P/E for this fiscal year is about 21.7 (based on the EPS for FY 2021 forecasted by the Company). According to Alpha-Win's forecast, P/E is expected to be 20.6 this fiscal year, 19.4 next fiscal year, and 18.1 the year after the next.

◆ **Relatively cheap valuation compared to its competitors regarding the major valuation indicators**

Compared with its major competitors OBC and MJS, the Company's valuation seems cheap concerning the major valuation indicators such as P/E, P/B, and EV/EBITDA (Figure 36).

[Figure 36] Comparison of Valuation with Competitors

Company Name	PCA (consolidated)	Obic Business Consultants (OBC: nonconsolidated)	Miroku Jyoho Service (MJS: consolidated)
Code	9629	4733	9928
Stock Price (at 11/20 closing)	4,430	6,930	2,063
Market Cap (million yen)	34,111	559,279	71,805
P/E (price-to-earnings ratio)	21.7	52.3	29.4
P/B (price-to-book ratio)	2.2	4.4	3.3
Dividend Yield (%)	0.8	0.7	1.8
EV/EBITDA	7.7	34.0	9.0
P/S (price-to-sales ratio)	2.6	18.3	2.1

Market cap = shares outstanding x market stock price [at 11/20 closing]
EV/EBITDA = (market cap + interest-bearing debt - cash & deposits) / (O.P. + depreciation + intangible fixed asset amortization, etc.)
P/S = market cap / sales [the companies' estimate for FY 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

Money Forward (TM: 3994) and freee (TM: 4478) described in the previous section (page 22) are also the Company's listed competitors. The two companies have been rapidly growing and their stock price has been starting to show a sharp increase, but they are not great targets for valuation comparison since they have been posting net losses and paying no dividend (these companies' P/S and P/B are significantly higher, at about 20-40).

The following two companies listed on the First Section of the TSE also partially compete with the Company in the software business.
・3763 Pro-Ship (packaged accounting software for fixed asset management, etc.)
・3836 AVANT (packaged software for consolidated corporate management and accounting)
Pro-Ship and AVANT's P/E (company forecast) is expected to be 20.1 and 24.8, P/B (actual result) is 2.6 and 5.4, and P/S (company forecast) is expected to be 4.3 and 2.4, respectively. PCA is about midway between these two companies and does not seem expensive in valuation.

Stock Forecast

◆ **Next FY onward, the Company is expected to return to a growth trend with increasing sales and profit**

Starting next fiscal year, we predict that the Company will return to a growth curve and increase its sales and profit with the cloud and work management system as the growth drivers, since the decline following the event-driven spike of demand is expected to end and the products and solutions businesses are expected to return to normal conditions.

The Company's valuation does not seem expensive and it has received positive evaluation as a defensive, domestic-demand-related, and small-cap growth stock. Therefore, there seems to be an upside potential to its stock price over the medium term granted that it maintains a stable profit growth.

- **Defensive, domestic-demand-related growth stock. Valuation does not seem expensive. Stock price may rise over the medium term with stable profit growth.**

Factors that May Affect Stock Price

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

The first key point is this fiscal year and next fiscal year's financial performance. As described above, we believe that the Company is highly likely to achieve its target values for this fiscal year as well as increasing sales and profit next fiscal year thanks to its transition to the more stable subscription model and the limited impact of COVID-19 on its business. However, if the COVID-19 outbreak cannot be contained over the medium term, its sales and marketing activities may be impacted, such as in the acquisition of new customers. In that case, short-term (quarterly) financial performance may be affected, causing the volatility of stock price to increase.

- **The impact of COVID-19 seems to be limited but its influence on sales activities should be carefully watched.**

Over the medium to long term, the key points are 1) trends of the cloud and the work-style reform (the cloud's number of contracts with companies and its sales growth rate, etc.), 2) whether the transition of on-premises to the subscription-based business model (PCA Subscription) will succeed, and 3) the creation and development of new products and businesses (especially regarding the profitability and financial trends of the data utilization business with the acquired Keepdata and the HR businesses including those with Dreamhop, progress with Hyper's sales, etc.). The contribution of each of these points to profit as well as the market competition should be watched.

- **Points to watch: growth rate of the cloud business, whether M&As and new businesses will succeed, measures to enhance return to shareholders, and change in competition**

Other factors that may affect stock price are the following: the overall improvement in the top-line growth rate and profit margins; the subsidiary Xronos's progress with its work management system business; measures to increase return to shareholders including dividend hikes and stock splits; new tax reforms or changes in regulations; progress with the M&A strategy; changes in competition, particularly for the cloud business; and the introduction of business management and profit management systems and their effects.

Websites of the Company and Its Key Subsidiaries

・PCA CORPORATION: https://corp.pca.jp/

・Xronos Inc.: https://www.xronos-inc.co.jp/corporate/index.html

・Keepdata Ltd.: https://www.keepdatahub.asia/login/_view_page.php?i=company&c=uStJNnivNS4!eq

・KEC Corporation: https://www.kec-sp.com/page1

・Dreamhop Co., Ltd.: https://www.dreamhop.com/company-3/