# Alpha-Win Company Research Report

# PCA

## (9629 TSE First Section)

Issued: 11/22/2021

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

● Summary

**Business Description**

・PCA CORPORATION (hereinafter, "the Company") is an independent software manufacturer specialized in packaged enterprise system software. It is a major specialized player in the industry. In recent years, though, it has been actively expanding its business through M&As.

・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.

・The Company has a customer base of approx. 240,000 companies. It has a high brand recognition and top-level market share in accounting and finance software targeting small/medium-sized companies. It is especially taking a lead in cloud-based enterprise system software in those fields and is the top player in the market.

・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.

**This Fiscal Year's H1 Results and Full-Year Forecast**

・This fiscal year's first-half results (first half or "H1"; ended September 2021; note that the Company's fiscal year is March-ending, i.e., FY 2022 ends in March 2022) showed significant increases in sales and profits compared to the previous H1 (ended September 2020) during which sales and profits had decreased in reaction to past event-driven high demand. Sales were Y6,609 million (+10.5% YoY), operating profit was Y1,753 million (+86.8% YoY), and net profit was Y1,449 million (+145.9% YoY). The Company had not disclosed its earnings plan for H1, but the results have presumably largely exceeded its internal plan. In addition, thanks to the high demand for its products in response to the upcoming end of support for the X series, H1 sales and operating/recurring profits were the second highest level in the Company's history, following the record-high H1 sales and profits achieved in H1 FY 2020. There was also a gain on sales of securities, resulting in record-high net profit.

・The new revenue-recognition standard has been applied starting this H1, causing the "other operating revenue" category to decrease significantly. In addition, maintenance sales decreased due to the end of support for the PCA X series. On the other hand, product sales grew significantly due to replacement demand for the series, and the cloud services continued to perform well. As a result, there was a double-digit sales growth YoY. In addition to the sales growth, the improvement in the product mix contributed to improvements in the profit margin, leading to significant increases in profits.

・Considering this solid performance in H1, the Company revised its full-year forecast (FY 2022) significantly upward compared to its initial forecast: sales of Y12,447 million → Y13,515 million, operating profit of Y1,866 million → Y2,586 million, and net profit of Y1,192 million → Y2,310 million. Due to the increase in investment costs for future growth and the impact of the application of the new revenue-recognition standard, the Company had expected at the beginning of the fiscal year that there will be decreases in sales and profits during this fiscal year. However, it now expects increases in sales and profits. As with H1, the full-year company plan is that the second highest level in its history will be achieved for sales and operating profit, following the record highs of FY 2020, and that net profit will hit a record high.

**Alpha-Win Research Department's Forecast of Financial Results**

・We had previously predicted that the Company's forecasted results could be revised upward since the Company's initial forecasts for sales and costs seemed somewhat conservative. The Company's new, upwardly

revised forecasts for sales and operating profit are again lower than our forecasts, and still seem conservative. However, considering the H1 results and the current situation, we revised our sales forecast for the full fiscal year downward by about Y400 million. In addition, since the Company plans to have greater expenses and upfront investments than what it had planned in its initial plan, we reflected this additional increase in costs and other factors in our profit forecast and revised operating profit from Y3,330 million to Y2,700 million. We believe that the results could be greater than the Company's forecasts for profit, unless costs are further increased intentionally.

・Next fiscal year, sales may decrease slightly and the final profit may decrease due to a decline in reaction to this fiscal year's event-driven high demand for the products and because there will no longer be an extraordinary income like this fiscal year. However, assuming that economic activities will gradually normalize as the COVID-19 settles down, we predict that high levels of financial performance will be maintained since there will not be another gap-down from the application of the new standard and the cloud will likely continue to be a growth driver. Starting in the fiscal year after the next, we believe that the Company will begin increasing sales and profit again and that the annual profit growth rate will be 8-10% (on a normalized basis) over the medium to long term.

### Business Strategy

・As the basic business strategy for the PCA Group, the Company aims to create a strong earnings base for its main businesses (strengthen and increase the sales of PCA Cloud and strengthen the subscription business for the on-premises), create new business opportunities (development of new technology and businesses), and strengthen the management foundation to build a high-profit structure, as well as strengthening its monozukuri ("creation of things"; development system for creating unique products and services). Based on these strategies for achieving further growth, it has been executing and making progress with various measures mostly along schedule. Meanwhile, challenges remain with effectively using its abundant cash for future growth and getting the new businesses (PCA Subscription, hyper, HR business, PCA Hub, healthcare business, etc.) on track to monetize them.

・The consolidated numerical goals (after upward revision) for this fiscal year (FY 2022), which is the final year of the current medium-term management plan, had mostly been achieved in the previous fiscal year and are expected to be fully achieved this fiscal year. This fiscal year, it plans to start in advance a part of the investment planned for the new medium-term plan that starts next fiscal year.

### Stock Price

・A defensive, domestic-demand-oriented, and small-cap growth stock that is making progress with the transition to a subscription-based business model and is positively influenced by the workstyle reform and tax reforms. Since large-cap, economically sensitive stocks have recently tended to be bought in the market in anticipation of post-COVID-19 changes, and the Company had been underperforming the TOPIX in the first half of this year. However, since the announcement of Q1 results, its stock has been outperforming in response to its solid business performance.

・The valuation of the Company's stock does not seem cheap based on profit excluding extraordinary income/losses. However, we believe there is an upside to the stock price for the following reasons: further upward revisions to this fiscal year's forecasted profit forecasts are likely, there is potential for dividend hike over the medium term as well, its business is mainly subscription-based and is therefore stable and continuous, and its subscription business has a high growth potential so a growth trend for sales and profit can be expected over the medium to long term.

### Return of Profit to Shareholders

・The Company has been stably paying dividend and has been buying back its shares. In October of this year, a 3-for-1 stock split was conducted. Last fiscal year, it paid a dividend of 11.3 yen (retroactively revised for the stock split; 34 yen/share before the split), and it announced in July that this fiscal year it plans to increase ordinary dividend to 12 yen/share (36 yen/share before the split).

・Currently, there is a difference between its goals for dividend payout ratio (33%) and DOE (2.5%) and their current values. With solid performance, further return of profit to shareholders is possible, including further dividend hikes, share buybacks, and enhancement of the shareholder benefit program.

**【9629 PCA Sector: Information & Communication】 Figure A**

| FY | | Sales (million yen) | YoY (%) | O.P. (million yen) | YoY (%) | R.P. (million yen) | YoY (%) | N.P. (million yen) | YoY (%) | EPS (Y) | BPS (Y) | Dividend (Y) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2018 | Old Standard | 9,785 | 4.5 | 807 | 86.8 | 834 | 79.9 | 441 | 174.1 | 21.46 | 548.13 | 10.33 |
| 2019 | Old Standard | 11,439 | 16.9 | 1,248 | 54.7 | 1,277 | 53.0 | 906 | 105.5 | 44.42 | 596.59 | 10.33 |
| 2020 | Old Standard | 14,266 | 24.7 | 2,781 | 122.8 | 2,808 | 119.9 | 1,816 | 100.4 | 90.97 | 675.81 | 18.00 |
| 2021 | Old Standard | 13,308 | -6.7 | 2,314 | -16.8 | 2,340 | -16.7 | 1,668 | -8.1 | 83.50 | 791.64 | 11.33 |
| 2022 | CE New Standard | 13,515 | 1.6 | 2,586 | 11.8 | 2,604 | 11.3 | 2,310 | 38.5 | 115.52 | | 12.00 |
| 2022 | E New Standard | 13,760 | 3.4 | 2,700 | 16.7 | 2,720 | 16.2 | 2,380 | 42.7 | 119.01 | 899.31 | 12.00 |
| 2023 | E New Standard | 13,700 | -0.4 | 2,300 | -14.8 | 2,320 | -14.7 | 1,580 | -33.6 | 79.00 | 966.31 | 12.00 |
| 2024 | E New Standard | 15,000 | 9.5 | 2,600 | 13.0 | 2,620 | 12.9 | 1,780 | 12.7 | 89.00 | 1,043.32 | 13.00 |
| 2021 | Q1 Old Standard | 2,789 | -9.2 | 465 | -20.7 | 471 | -21.2 | 272 | -25.1 | 13.66 | 676.52 | 0.00 |
| 2022 | Q1 New Standard | 3,328 | 19.3 | 975 | 109.4 | 987 | 109.4 | 614 | 125.4 | 30.75 | 810.96 | 0.00 |
| 2021 | Q2 Old Standard | 3,191 | -22.1 | 473 | -60.1 | 488 | -59.0 | 317 | -61.1 | 15.85 | 702.75 | 0.00 |
| 2022 | Q2 New Standard | 3,281 | 2.8 | 778 | 64.5 | 795 | 62.9 | 835 | 163.4 | 30.75 | 823.79 | 0.00 |
| 2021 | H1 Old Standard | 5,980 | -16.6 | 938 | -47.0 | 959 | -46.4 | 589 | -50.0 | 29.52 | 702.75 | 0.00 |
| 2022 | H1 New Standard | 6,609 | 10.5 | 1,753 | 86.8 | 1,782 | 85.7 | 1,449 | 145.9 | 72.48 | 823.79 | 0.00 |
| 2021 | H2 Old Standard | 7,328 | 3.3 | 1,376 | 36.2 | 1,381 | 35.6 | 1,079 | 69.1 | 53.95 | 791.64 | 12.00 |
| 2022 | H2 CE New Standard | 6,906 | -5.8 | 833 | -39.5 | 822 | -40.5 | 861 | -20.2 | 43.05 | — | 12.00 |

**(Note 1) CE: the Company's estimate/forecast. E: Alpha-Win Research Dept.'s estimate/forecast. Q1: April-June. Q2: July-September. H1: April-September. H2: October-March. Forecasts/estimates for EPS, BPS, and dividend reflect the 3-for-1 stock split conducted on October 1, 2021 (past years have been revised retroactively).**

**(Note 2) "Accounting Standard for Revenue Recognition (ASBJ Statement No. 29)," etc. (hereinafter, "the new revenue-recognition standard" or "the new standard"), have been applied starting in FY 2022. Years previous to this are based on the old standard. The YoY comparisons for the new standard are comparisons with the old standard so they are for reference only.**

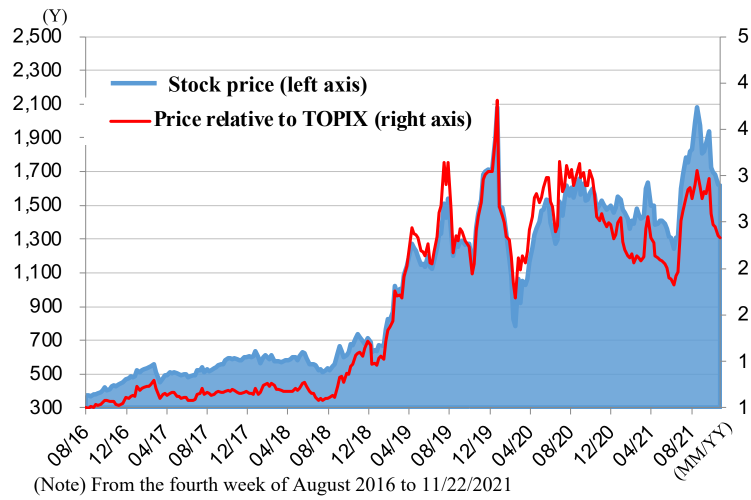
**(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary.**

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

| Item | 11/22/2021 | Item | P/E | P/B | Dividend Yield | Dividend Payout Ratio |
|---|---|---|---|---|---|---|
| Stock Price (Y) | 1,617 | Last FY's Results | 19.4 | 2.0 | 0.7% | 13.6% |
| Shares Outstanding (thou.) | 23,100 | This FY's Forecast | 13.6 | 1.8 | 0.7% | 10.1% |
| Market Capitalization (million yen) | 37,353 | Next FY's Forecast | 20.5 | 1.7 | 0.7% | 15.2% |
| Dilutive Shares (thou.) | 0 | Equity Ratio at This FY's Q2-End | | 61.6% | Last FY's ROE | 11.4% |

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

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




(Note) From the fourth week of August 2016 to 11/22/2021

**【Performance】**

| Period | Return | vs. TOPIX |
|---|---|---|
| 1 month | -6.3% | -8.5% |
| 3 months | -10.8% | -15.1% |
| 6 months | 15.4% | 9.0% |
| 12 months | 7.0% | -9.5% |

**(Note) Reflects stock price and index values up through the closing price on 11/22/2021. The return for the 1-month period is the comparison of the closing price on the last day of October with the closing price on November 22 as the point of comparison. The same applies to the other periods. Prepared by Alpha-Win Research Dept.**

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

# Contents



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

# 1. Company Overview

## ◆ Major Specialized Player in the Enterprise System Software Industry

- **Major specialized player in the industry with 41 years of history, developing and providing packaged enterprise system software for domestic small/medium-sized companies**

PCA CORPORATION (hereinafter, the "Company" or "PCA") 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. Established in 1980, it has 41 years of history.

(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.

About 240,000 companies are active users of the Company's products. Sales toward ordinary companies comprise greater than 90% of the total sales. With regards to the size of the corporate customers, the Company is especially strong in business toward small/medium-sized companies with 50 to 100 employees. 80% of the Company's sales are made via distributors (the remaining 20% are direct sales). The Company's customers are diversified, and by monetary value, many of its major customers are large corporations. It is the top player in accounting software for public benefit corporations, with its software having been implemented by over 8,000 public benefit corporations in total.

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

As of the end of May 2021, the Company's group was composed of a total of four companies: the Company and three consolidated subsidiaries. The consolidated subsidiaries are Xronos Inc. (development/sales of work management system[2] and time clocks; the Company founded this subsidiary in 2001 and owns 80% of the shares), KEC Corporation (implementation support, operation, maintenance, and other services for PCA's products/services; wholly owned and founded in 1998 by the Company), and Dreamhop Co., Ltd. (wholly acquired) that was newly acquired in October 2020 (details of the business of each subsidiary are described later on pages 20-30).

(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.

The Company had acquired Keepdata Ltd. (hereinafter, "Keepdata") in March 2019 as its consolidated subsidiary. It had acquired Keepdata as a foothold for a new data utilization business, since Keepdata has technology development skills as well as expertise and proven record in the business. However, creating synergy with the Company in system linkage and sales had turned out to be difficult, and Keepdata had been continuously posting net losses and had an excess of debt. Therefore, in December 2020, the Company sold all shares of this subsidiary to a third party. The Company ended up selling Keepdata less than two years after its acquisition, but this decision should contribute positively to consolidated results in terms of profit/loss starting this fiscal year, since Keepdata's sales (estimated by Alpha-Win to be about Y80 million in the previous fiscal year) and net loss (similarly estimated to be several dozen million yen) will no longer be posted.

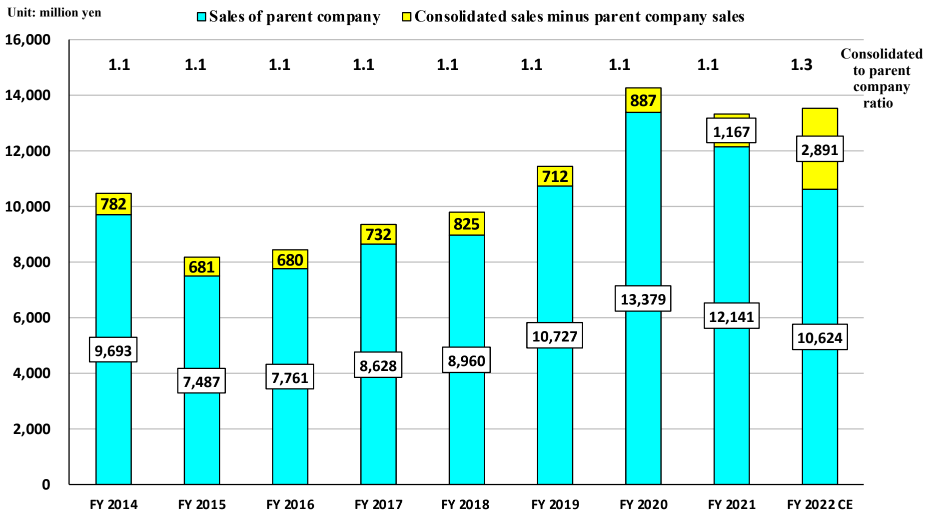
(3) New revenue-recognition standard: "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) released by the Accounting Standards Board of Japan (ASBJ) that incorporates the concepts of IFRS-15. Large companies are required to apply this standard starting in April 2021.

- **Consolidated to parent-company sales ratio has been around 1.1 to 1.3. 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 at around 1.1, indicating that a greater weight is placed on the parent company's financial results (Figure 1 on page 6). This fiscal year, with the change to the new revenue-recognition standard[3], etc., the ratios for sales and recurring profit are expected to be 1.3 and 1.2, respectively.

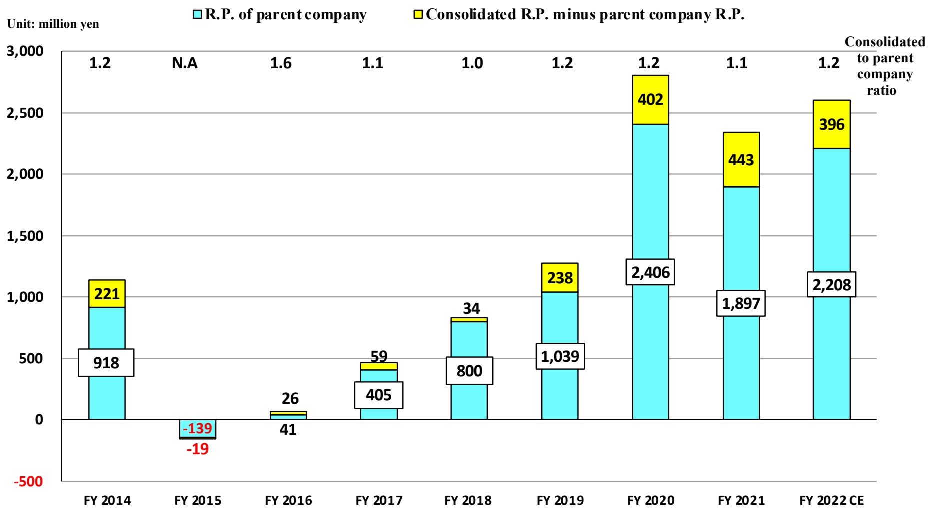
Although the subsidiaries' profit/loss is not disclosed, the ratios of consolidated to parent-company recurring profit have been in the range of 1.0-1.6 during the fiscal years that the Company has been in the black (including this fiscal year's forecast). Additionally, the summed profit/loss of the subsidiaries, calculated by consolidated minus parent-company recurring profit, has been a surplus since FY 2016 (Figure 2).

**【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. CE: the Company's plan.

**【Figure 2】Ratio of Consolidated to Parent-Company Recurring Profit** **(ratios shown on upper portion of graph)**




- **Company name comes from how the founding members were certified public accountants (CPA).**
- **Rich in cash. Debt-less management.**

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

The Company's finance is firm, rich in cash and debt-less. Relative to its sales of Y13.5 billion (this fiscal year's company plan) and total assets of Y26.8 billion, its debt is zero and it has Y14.1 billion in cash & deposits (values as of the end of September 2021), which is equivalent to 53% of total assets and 12.5 months' worth of monthly sales.

- **Established a cash-cow business model. Increasing cash & deposits with positive FCF.**

Free cash flow (FCF) has been positive except for a certain period, and cash & deposits on the balance sheet (B/S) have been generally increasing (Figure 3). As the business has become a “cash cow” and further accumulation of cash & deposits is expected each year, the next challenge would be to effectively use those cash & deposits. For the financial ratios, its equity ratio is 61% and current ratio is 211%, also indicating financial soundness (values as of the end of September 2021).

**【Figure 3】Change in Cash Flow (CF) (unit: million yen)**

| Unit: million yen | FY 2010 | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 | H1 FY 2022 (This H1) | H1 FY 2021 (Last H1) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operating CF ① | 627 | 488 | 141 | 847 | 1,048 | 547 | 1,427 | 1,533 | 1,270 | 2,141 | 3,328 | 1,632 | 1,988 | 487 |
| Investing CF ② | -405 | -127 | 185 | -407 | -750 | -606 | -627 | -395 | 1,715 | -80 | -719 | 253 | 589 | 163 |
| Financing CF | -207 | -210 | -205 | -215 | -216 | -284 | -214 | -215 | -216 | -572 | -225 | -355 | -247 | -376 |
| FCF (①+②) | 222 | 361 | 326 | 440 | 299 | -60 | 800 | 1,137 | 2,985 | 2,061 | 2,609 | 1,885 | 2,577 | 650 |
| Cash and Deposits (on B/S) | 6,817 | 5,970 | 5,493 | 6,621 | 6,606 | 6,154 | 6,612 | 7,487 | 7,269 | 7,280 | 10,716 | 11,749 | 14,080 | 10,991 |

(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 clearly declared as “customer-first” when it made its first public offering in March 1994. Then, in 2010, it laid out its mission statement, 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 enables high-level automation.”**

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

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

## ◆ Tagline Renewal

- **The new tagline is “When WORK Changes”**

As the new brand message, the tagline was renewed to “When WORK Changes.” Aspiring to become a company that grows together with all its customers and partners, the Company declares to help improve back-office productivity, understand and support working people, and contribute to its corporate clients’ *customer success* for their greater development.

働く、が変わるとき。

PCA

## 2. Business Description and Business Model

### ◆ Enterprise System Software Crucial for Efficient Business Operations

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

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

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

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

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

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

In response to this, the Company has been developing original enterprise system software that specifically meets the needs of one-person businesses and micro-sized (SOHO), small-sized, medium-sized, and mid-tier companies in areas such as accounting[4], finance, HR and payroll[5], sales management, purchasing and inventory management, and tax. The enterprise system software is either packaged (on-premises: conventional products operated in-house by a corporate user) or cloud-based (a service where a corporate user can use the enterprise system software via the Internet easily and at a low cost without having to prepare its own server). The Company sells and provides its software through either direct or indirect channels.

Additionally, the Company has not just 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, it has also been providing various support services such as maintenance service and implementation/operation support. Going forward, the Company plans to further strengthen these businesses.

### ◆ Business Model with High Continuity and Marginal Profit Ratio

- **Provides about 26 types of originally developed packaged enterprise system software**
- **About 90% of sales come from originally developed products and services.**

The Company provides a total of about 26 types of software (counted by product name, including options) and its business model is based on the mass production of a limited number of types of products. Due to the nature of its business, its marginal profit ratio is high. After the application of the new revenue-recognition standard, its original products and services (products/maintenance/cloud) have accounted for greater than 90% of the total sales, while the remaining 10% are from other companies' products (purchased merchandise) in the merchandise / other operating revenue categories. From the development to the release of a new product, approximately two years and a corresponding amount of cost are necessary per product. Version upgrades (revision updates), which are prepared as needed, are released usually in a one- to two-year cycle. In recent years, however, software functions have become so enhanced that customers now tend to purchase less in response to this version upgrade cycle.

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

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

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

## ◆ Highly Stable and Profitable Subscription-Based Business

Since FY 2017, all business segments have been consolidated into one, and sales are disclosed for five sales categories (types): "products," "merchandise," "maintenance service," "cloud service," and "other operating revenue (also called "solutions")" (Figure 4). Profit and loss by segment are not disclosed.

**【Figure 4】Sales Classification (by category)**

| Sales Classification by Category | Contents | H1 FY 2022 (results) | | |
|---|---|---|---|---|
| | | Sales (million yen) | % of Total Sales | Est. Gross Margin |
| Products | Sales of original packaged software (accounting, sales management, purchasing and inventory management, payroll, HR, etc.) (includes version upgrades) | 1,718 | 26.0 | About 70% |
| Merchandise | Sales of other companies' products such as ledgers | 167 | 2.5 | About 40% |
| Maintenance Service | By signing up to PSS membership, users can receive inquiry and support services from call centers | 1,647 | 24.9 | 80-90% |
| Cloud Service | Subscription service for software provided via the cloud | 2,596 | 39.3 | 60-70% |
| Other Operating Revenue | Sales of other companies' products such as software/hardware combined with its original products; also called "solutions" | 482 | 7.3 | 30-40% |
| Total & Average | | 6,609 | 100.0 | Result: 68.2% |

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

◆ **Subscription-based businesses (maintenance & cloud) account for about 64% of the total sales.**

In recent years, sales of cloud services for the Company's packaged software have grown significantly, and the services have become the Company's growth driver with regards to both the overall sales and profit. In FY 2021, sales of the cloud service became the largest by sales category, followed by maintenance service. The sum of these two categories, or "subscription-based revenue" (also called the "stock business" in Japanese), accounted for about 57% of the total sales. During this fiscal year's H1, this ratio rose to about 64%, partly also due to the change in the revenue-recognition standard. The maintenance and the cloud services have high gross margins and contract repat rates and have been stable sources of profit, contributing to a greater stability of business and profit.

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

Consolidated sales breakdown by the operation type of software is not disclosed. However, sales seem to be diversified, with the sales for accounting software predicted to be the largest by composition (about 15% of the total sales), followed by software for sales management, purchase/inventory management, and then lastly by payroll/HR.

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

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

## ◆ 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, it predicted that the demand for the cloud will rise due to its convenience 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 of all of its on-premises software.

- **The rapidly growing cloud business is based on a subscription-based, stable business model. Taking a lead in the market as the single, obvious top player, the Company has a high competitive advantage.**

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

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

- Providing a wide variety of advanced software for business operations
- Originally developed open architecture; low cost
- Economies of scale are in effect, with more than 17,000 corporate users of the cloud service already; well profitable (already a cash-cow business)
- Therefore, it has a very strong price advantage compared to competitors
- More than ten years' worth of operation expertise
- User-friendly software, with WebAPI[6] allowing linkage with other companies' cloud (linkage already possible with about 60 companies, including Kintone[7] of Cybozu)
- In PCA Cloud on AWS[8], service is possible 24 hours, 365 days (max number of licenses for simultaneous use expanded from 3 to 72 CAL).

The Company has been focused on the cloud service, and its number of contracts as well as sales has been growing steadily (details described later; see Figure 19 on page 26). Although there was some temporary slowdown in the growth rate due to the COVID-19 crisis, the business is returning to a strong growth track again and is still believed to continue to be the Company's main growth driver.

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

(7) Kintone: cloud service for building business app on a web database, provided by Cybozu. Allows easy system build-up and linkage with other systems. For example, since June 2021, the Company has been providing a plugin that allows non-programming linkage between PCA Cloud and Kintone.

(8) AWS: Stands for Amazon Web Services; the collective name for the cloud computing services provided by Amazon. "on AWS" is the use of PCA's cloud services on the AWS server.

# 3. Shareholder Composition

## ◆ Major Shareholder Composition

- **No large change to major shareholders.**

Major shareholders as of the end of September 2021 are shown in Figure 5 on page 12. Compared to the end of March 2021, the top ten major shareholders have not largely changed, except for custodians (trust banks, etc.).

- **MFS, a major US-based investment management firm, bought more shares and holds more than 6% of shares.**

Massachusetts Financial Services Company ("MFS") owned 5.22% of shares as of March 31, 2021, and a statement of large-volume holdings (the "5%-rule" statement) had been submitted. It later purchased more shares and held 6.23% as of May 31. MFS is one of the oldest investment firms in the US. It invests globally and its AUM is 610.2 billion dollars (approx. 63 trillion yen as of the end of December 2020). Characterized by a long-term, active investment style, it has an office in Japan and invests in many Japanese stocks as well.

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

Although MFS is not included in the list of major shareholders, it is presumably investing through several accounts including JP Morgan Chase Bank at second place (ranking excludes the Company and its treasury shares; the same applies hereinafter).

The Master Trust Bank of Japan at third place, MSIP CLIENT SECURITIES at fourth place, GOLDMAN SACHS INTERNATIONAL at sixth place, and Custody Bank of Japan (trust account) at tenth place are also among the major shareholders. Their final investors and investment purposes are unknown, but they are predicted to be pure investments by Japanese and foreign institutional investors and funds. Th change in custodians (trust banks, etc.) indicates that perhaps some of the large investors or investment funds may have changed.

Regarding investment trusts in Japan, the Company's shares are incorporated in index funds managed by mainly Sumitomo Mitsui Trust Asset Management, Mitsubishi UFJ Kokusai Asset Management, and Asset Management One.

- **The largest shareholder is the founder family's asset management company.**
- **Owns approx. 1,000,000 shares or 13.4% as treasury shares**
- **No change to stable shareholders in Japan**
- **Its rival OBC is also the fifth largest shareholder.**

Below is supplemental information:

・The largest shareholder Kawashima Co., Ltd. is the asset management company of two directors of the Company (President Sato and Director Kumamoto) and their relatives (descendants to the founder Masao Kawashima). Excluding treasury shares (about 1,000,000 shares or 13.4% based on the number before the stock split), it possesses approximately 41% of all outstanding shares.

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

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

・The eighth largest shareholder Logic Systems Co., Ltd.'s purpose is unknown.

・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).

◆ **There seems to be no activists among the major shareholders.**

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

**【Figure 5】Current Major Shareholders** **Unit for shares owned: thou. shares** **For ratios: %**

| | End of Mar. 2015 | End of Mar. 2016 | End of Mar. 2017 | End of Mar. 2018 | End of Mar. 2019 | End of Mar. 2020 | End of Mar. 2021 | End of Sept. 2021 | % of Total Shares | Ranking |
|---|---|---|---|---|---|---|---|---|---|---|
| Kawashima Co., Ltd. | | | 2,935 | 2,935 | 2,736 | 2,735 | 2,736 | 2,735 | 41.05 | 1 |
| *PCA CORPORATION (treasury shares)* | *848* | *848* | *848* | *849* | *1,049* | *1,045* | *1,034* | *1,033* | *13.42* | — |
| JP MORGAN CHASE BANK 385632 | | | | | | | 338 | 466 | 6.99 | 2 |
| The Master Trust Bank of Japan, Ltd. (trust account) | | | | | | | 95 | 330 | 4.96 | 3 |
| MSIP CLIENT SECURITIES | | | | | | 295 | 295 | 295 | 3.84 | 4 |
| Obic Business Consultants Co., Ltd. | 254 | 254 | 254 | 254 | 254 | 254 | 254 | 254 | 3.30 | 5 |
| GOLDMAN SACHS INTERNATIONAL | | | | | 303 | | | 126 | 1.64 | 6 |
| PCA Employee Stock Ownership Plan | 110 | 119 | 127 | 127 | 135 | 100 | 112 | 115 | 1.49 | 7 |
| Logic Systems Co., Ltd. | 114 | 114 | 114 | 114 | 114 | 114 | 114 | 114 | 1.48 | 8 |
| Nagoya PCA Co., Ltd. | | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 1.29 | 9 |
| Custody Bank of Japan (trust account) | | | | | | | | 89 | 1.16 | 10 |
| BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC) | | | | | | | 154 | | | |
| JPMBL RE NOMURA INTERNATIONAL PLC 1 COLLEQUITY | | | | | | | 120 | | | |
| JP MORGAN LUXEMBOURG S.A. 1300000 | | | | | | | | | | |
| MSCO CUSTOMER SECURITIES | | | | | | | | | | |
| 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 | | | | | |
| State Street Bank and Trust Company 505001 | 244 | 249 | 266 | 266 | 174 | | | | | |
| KBL EPB S.A. 107704 | | | | 90 | 94 | | | | | |
| Reiko Sato (individual): Heir to the founder Masao Kawashima | 1,467 | 1,467 | | | | | | | | |
| Tomoko Kumamoto (individual): Heir to the founder Masao | 1,467 | 1,467 | | | | | | | | |
| Hiroko Wada (individual) | 358 | | | | | | | | | |

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report.
(Note) “% of Total Shares” is the percent of shares over the total number of outstanding shares excluding treasury shares. “Ranking” excludes treasury shares (shares held by PCA).

# 4. History of Growth

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

## ◆ Company History

A group of five certified public accountants with the late Masao Kawashima as the leader founded the Company in 1980 upon recognizing the importance and the promising future of computer and software businesses in Japan. At first, they developed and sold business accounting software for small business computers. In 1995, expecting users to eventually switch from small business computers, the Company began the development and marketing of packaged software for personal computers (PC) in full scale.

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

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

Then, with the emergence of the PC era, the Company has achieved growth mainly through the following four strategies: 1) creation of a greater variety of domestic packaged software as well as their version upgrades, 2) expansion of the maintenance service, 3) development of the cloud business, and 4) expansion of the solutions business which includes providing other companies' products. Furthermore, by increasing the number of offices and cooperating with manufacturers and distributors, the Company has developed a nationwide sales/support system that has contributed to the rapid expansion of its business. It is seen as a pioneer in the conservative industry, having been the first in the industry to begin providing cloud services (SaaS[9]) in 2008.

- **Changed its market listing from the Second to the First Section of the TSE in Dec. 2014. Expected to move to the Prime Market.**

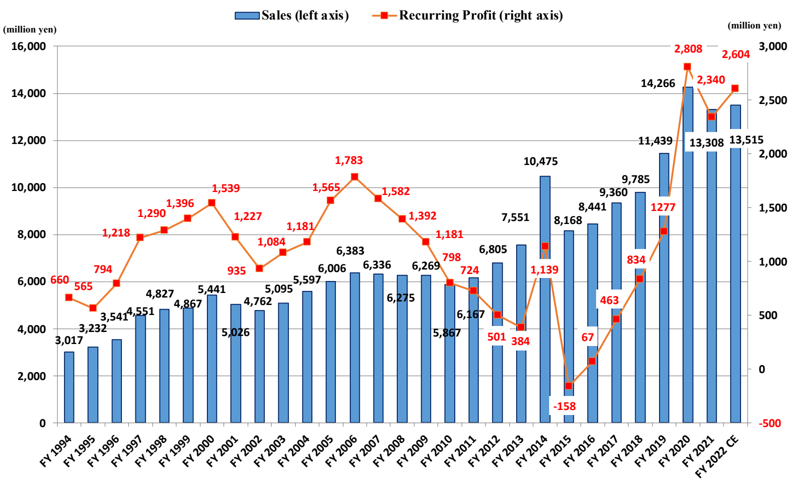
Regarding stock, the first public offering was made in 1994. The Company became listed on the Second Section of the TSE in 2000 and then on the First Section in 2014. Also, since the Company meets the requirements of the Prime Market that will be newly established, it is expected to move to the Prime Market.

## ◆ 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 6. The following is supplemental information on the financial results in chronological order:

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

**【Figure 6】Long-Term Transition in Financial Results**




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

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

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

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

- **In FY 2006, record-high operating/recurring profits were posted due to regulation revisions and contribution by ERP.**
- **Results weakened after the Lehman shock. In FY 2014, record-high sales were achieved (Y10 billion) due to event-driven high demand.**

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

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

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

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

- **Net loss posted for two consecutive fiscal years in FY 2015 and FY 2016, partially in reaction to the previous event-driven high demand.**

・Despite efforts to cut down on cost, a net loss was consecutively posted in FY 2015 and FY 2016 (net loss for the year: Y207 million in FY 2015 and Y93 million in FY 2016) largely due to decreased sales in reaction to the previous event-driven high demand as described above and the postponed revision of consumption tax to 10%.
・For many years, the Company's gross margin and operating margin had been gradually decreasing (Figure 7 on page 15). This was due to increased price competition from intensified competition among packaged software developers during the economic downturn, worsened product mix from a rise in the percentage of other companies' less-profitable goods, and higher costs especially for labor costs, production expenses (subcontractor costs), and R&D costs.

- **Positive effects from the structural reform have started to be seen in FY 2016.**
- **Growth of cloud, release of new products, and cost reduction helped. Operating margin improved.**

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

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

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

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

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

- **Improving profit margin**

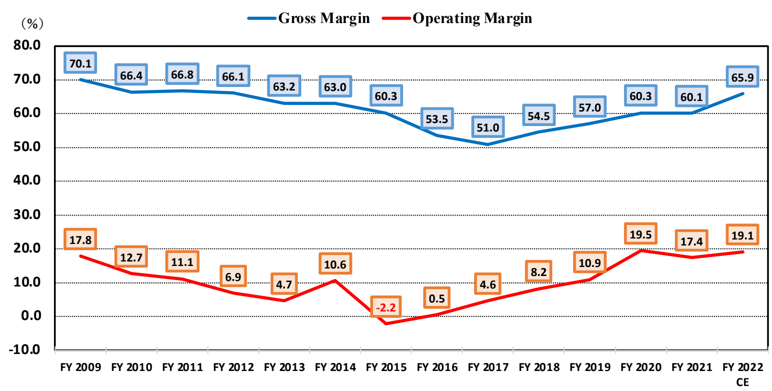
・ From FY 2016 to FY 2020, the Company increased sales for five fiscal years in a row thanks to the continued growth of the cloud, the release of new products, and strengthened sales force, as well as due to economic recovery. Since FY 2017, the Company has generally been stably and continuously making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

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

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

・As reference, the Company's initial forecast and actual results in the past are compared in chronological order (Figure 8). Although the actual results have sometimes greatly deviated from the initial forecast, since FY 2017, actual profit has tended to largely exceed the initial forecast. Note that past announcements of revisions to financial forecasts have often been made in September or February to April of the following year. This fiscal year, it announced upward revisions with the announcement of H1 results in October (for details, see "Full Year" on page 29).

**【Figure 7】Long-Term Transition in Gross Margin and Operating Margin**




**【Figure 8】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% | Revised down | Revised down | Revised down | -22.0% | To loss | To loss | To loss |
| FY 2016 | *8,880* | 8,440 | *242* | 40 | *272* | 66 | *131* | -93 | -5.0% | -83.5% | -75.7% | Revised down | 3.3% | To profit | To profit | To profit |
| 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 | *13,280* | 13,308 | *2,034* | 2,314 | *2,055* | 2,340 | *1,358* | 1,668 | 0.2% | 13.8% | 13.9% | 22.8% | -6.7% | -16.8% | -16.7% | -8.1% |
| FY 2022 (CE) | *12,447* | 13,515 | *1,866* | 2,586 | *1,899* | 2,604 | *1,192* | 2,310 | 8.6% | 38.6% | 37.1% | 93.8% | 1.6% | 11.8% | 11.3% | 38.5% |
| Simple average of difference (unit: %), calculated based on the longest period with available data for sales & profits (excluding this FY) → | | | | | | | | | -0.9% | 74.4% | 40.9% | 58.9% | 5.7% | 74.9% | 52.7% | 26.0% |
| Pink highlight: Second highest | Green highlight: Record high | From initial forecast, "upward revision : downward revision" (unit: # of times) (excl. this FY)→ | | | | | | | 8:12 | 8:6 | 13:7 | 9:10 | ↑ Simple average for each period (excluding this FY) | | | |

(Ref) Figures 7 and 8 were prepared by Alpha-Win Research Dept. based on the financial results summary. The FY 2022 forecasts/estimates (CE) are from the Company's plan. (Note) The new revenue-recognition standard is applied starting in FY 2022.

# 5. Business Environment

## ◆ Trends of the Software Market

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

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

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

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

**Current Situation: BOJ Tankan**

- **Active software investment among small/medium-sized and mid-tier companies. Improving market environment.**

According to the Bank of Japan Tankan for September 2021, software investment (planned amount) in 2021 by small/medium-sized companies (all industries) came out to be +26.7% YoY (breakdown: +57.4% for manufacturing and 15.2% for non-manufacturing), with investment by especially manufacturers expected to increase significantly. Mid-tier companies are also showing similar trends, planning to increase investment by +15.2% (+59.5% and +8.0%, respectively). Compared to the previous survey in June, software investment by small/medium-sized companies (all industries) have been revised upward by +5.9%, which is greater than the mid-tier companies' revision of +0.6%. The Company's customer base, or small/medium-sized companies, seems to be starting to be eager in investing in software.

For the survey on the business sentiment of small/medium-sized companies, the "recent" sentiment improved from the December 2020 survey's -18 to -8, and "outlook" also improved from -23 to -10, indicating that the negative business sentiment is weakening (same for mid-tier companies). Regarding profit plans, profit margins are expected to improve compared to the previous fiscal year. Although there is still some concern that a potential slowdown may occur in the second half ("H2"), significant increases in profit are expected for the full fiscal year and the percent of revision from the previous survey is also in the positive direction, indicating that improvement of sentiment is likely.

**Market Size and Growth Potential**

According to the "WHITE PAPER Information and Communications in Japan" by the Ministry of Internal Affairs and Communications, the size of the packaged software market (excluding game software, embedded software, etc.) in 2017 was approximately Y1.1 trillion and its size had been gradually expanding. However, since the outbreak of COVID-19, there seems to be some temporary stagnation in growth.

We estimate the current size of the enterprise system software market in Japan specifically related to the Company's business to be approx. Y500 billion and the size of the ERP market to be approx. Y110 billion. Annual growth rate is predicted to be about 3% and 10%, respectively, over the medium term.

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

In the U.S., the cloud-based enterprise system software market is said to be several years ahead of Japan. The market penetration rate in Japan is about ½ to ⅓ compared to the US (ref: "WHITE PAPER Information and Communications in Japan" by the Ministry of Internal Affairs and Communications, etc.). Therefore, there seems to be a large growth potential (according to this 2017 version of the "WHITE PAPER," the penetration rate of the cloud in Japan is approximately 26% for "payroll / financial accounting / HR" and only 6-8% each for "production management / logistics management / store management," "purchasing," and "sales on order").

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

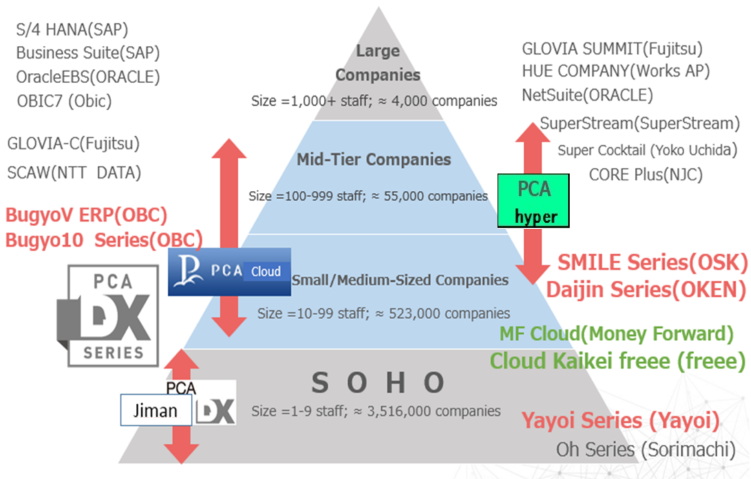
## ◆ Comparison with Competitors

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

### Positions and Main Players of the Industry

Figure 9 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 9】Target Customers and Main Players of the Enterprise System Software Market**




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

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

The Company has different rivals for each type of operation targeted by its software. Regarding its key accounting software, its rivals among listed companies are thought to be Obic Business Consultants (OBC: 4733), directly, and Miroku Jyoho Service (MJS: 9928), indirectly.

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

**◆ The Company provides high-quality products and services at reasonable prices.**

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

- **Its key product or the accounting software has the third largest share in the market.**

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

In the cloud accounting market, the two companies Money Forward (TSE Mothers 3994; providing cloud services such as household accounting application for individuals and accounting software for companies) and freee (TSE Mothers 4478; providing ERP services or cloud accounting software for small businesses) are also its competitors among listed companies. Both target one-person businesses and small companies such as small/medium-sized companies and SOHOs. They directly compete with the Company in specific areas.

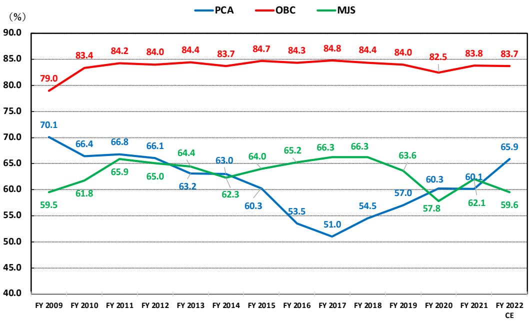
## Profitability Comparison of Three Similar, Major Listed Companies

A comparison of the long-term transition in gross margin and operating margin of the three major listed companies (the Company, OBC, and MJS) is shown in Figures 10 and 11. Compared to the Company, both margins are stable for OBC and MJS, presumably due to the economies of scale (the sales of OBC and MJS are about 2.5x and 2.8x greater than the Company, respectively, and similarly their operating profit is about 6.0x and 1.6x greater, respectively, based on the companies' forecasted values for this fiscal year) and the difference in the sales composition (the percentage of support service sales, etc.).

Both competitors used to have a lower contract rate for the maintenance support service but succeeded in strategically raising this rate, resulting in a greater earning power. However, the Company too has been moving its focus toward the subscription business in recent years, and as a result, its profit margin has been increasing to levels that are high compared to past years' performance as well. It plans to continue to aim for greater earning power.

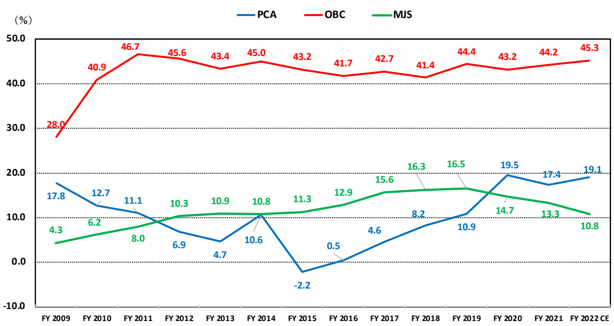
Similarly, the transition in the Company's ROA and ROE, shown in Figure 12, indicates that its capital efficiency has also been significantly improving. In the most recent fiscal year, the Company was about average among the three companies in terms of those ratios (actual results for FY 2021, in the order of ROA and ROE: compared to 9.7% and 11.4% for PCA, 9.2% and 7.8% for OBC and 11.1% and 13.6% for MJS).

**【Figure 10】Long-Term Transition in the Gross Margin of Three Major Listed Companies (PCA, OBC, and MJS)**

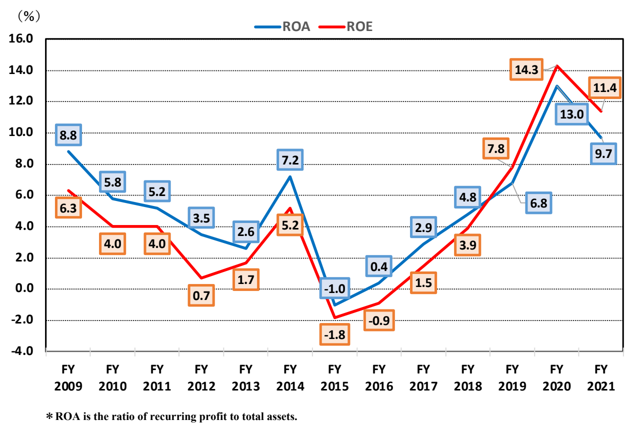



(Ref) Figures 10-12 were prepared by Alpha-Win Research Dept. based on the securities reports. Estimates/forecasts (CE) are from the companies' business plans.

**【Figure 11】Long-Term Transition in the Operating Margin of Three Major Listed Companies (PCA, OBC, and MJS)**




**【Figure 12】Transition in the Company's ROA and ROE**



# 6. Recent Topics and Overview of Consolidated Subsidiaries

- **PCA Hub centered around "PCA Hub eDOC" is scheduled to start service in February of next year. Cloud service for document management that also supports the application of the Electronic Books Maintenance Act.**

- **Monthly-subscription-based business model**

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

(12) [The revised] Electronic Books Maintenance Act: A law that allows the storage of national-tax-related books and documents as electronic data. Scheduled to come into effect in January 2022. Its purpose is to improve productivity and convenience, as well as promoting paperless operation and remote work.

(13) JIIMA certification: "Legal Requirements Certification Program for Scan-Store Software in Applying the Electronic Books Law" administered by the Japan Image and Information Management Association (JIIMA). Checks whether commercially available software meets the requirements of the Electronic Books Maintenance Act and certifies those that have been judged to meet the legal requirements.

## ◆PCA Hub Service Started

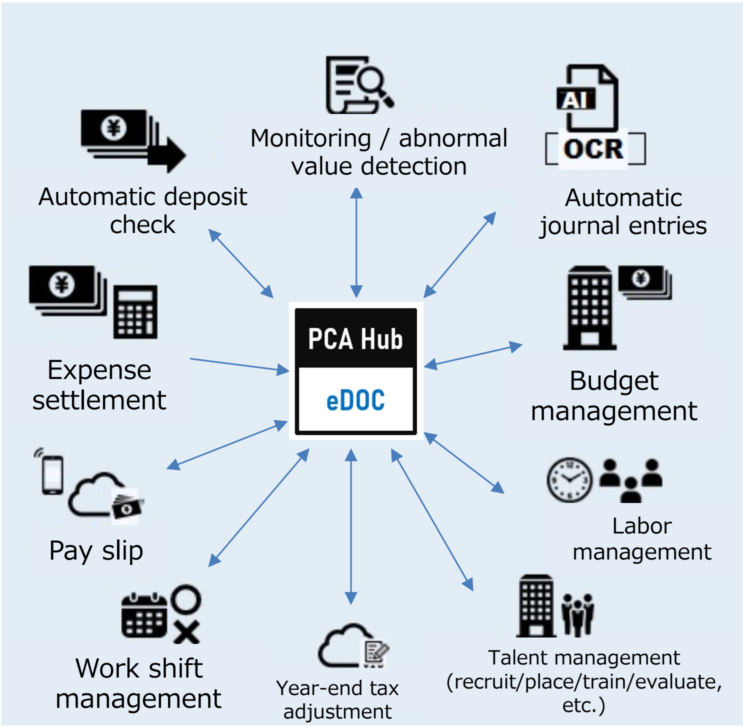
PCA Hub (hub as in "center of something"), which has been developed in-house for some time, has been completed and is scheduled to start service in February 2022.

PCA Hub is a group of services centered on "PCA Hub eDOC," a cloud-based document management service. It is also linked with the PCA DX series and the hyper[11] series, and provides the tool for centrally managing business-related documents to optimize business efficiency. As shown in Figure 13, these services will promote the digitization and paperless operation of fund management, accounting management, labor management, and more. It also supports the application of the Electronic Books Maintenance Act[12] (planning to acquire the JIIMA certification[13]).

In addition, though effective utilization of the data accumulated from these services using visualization, analysis, AI-linkage, etc., the Company aims to create new values. Through the new values, it hopes to contribute to the customer success of especially small/medium-sized companies, which are its current customers.

Whereas the conventional "eDOC" was provided free of charge as on-premises, "PCA Hub eDOC" is a cloud-based, monthly subscription service that is highly expandable. In the future, the Company intends to also provide peripheral services for the eDOC and develop the business as a stable source of revenue.

**【Figure 13】Overview of the Service Lineup of PCA Hub eDOC**




(Ref) Financial results briefing materials

## ◆Overview of the Three Consolidated Subsidiaries

Figure 14 summarizes the current conditions of the three consolidated subsidiaries. Each company's sales (excluding internal sales between consolidated companies) account for less than 10% of consolidated sales.

- **Summed profit/loss of the consolidated subsidiaries has been a surplus.**
- **Dreamhop's loss compensated by the other two subsidiaries**

The summed profit/loss of the consolidated subsidiaries (Figure 2 on page 6; based on difference between consolidated and parent recurring profit) has stayed at a surplus. The performance of individual companies is generally not disclosed, but among the three companies, Xronos' contribution to consolidated results is presumably the largest due to positive impact from the work-style reforms. Xronos, as well as KEC with its stable business, seems to be posting profits and offsetting Dreamhop's net loss.

**【Figure 14】Overview of Consolidated Subsidiaries**

| | Overview of Consolidated Subsidiaries | | |
|---|---|---|---|
| Company Name | Dreamhop Co., Ltd. | Xronos Inc. | KEC Corporation |
| Headquarters Location | Create Bldg, 1-8-10 Iidabashi, Chiyoda-ku, Tokyo | 15th Floor, Sumitomo Fudosan Akihabara Ekimae Building, 300 Kanda Neribeicho, Chiyoda-ku, Tokyo | 4th Floor, PCA Building, 1-2-21 Fujimi, Chiyoda-ku, Tokyo |
| | Sales offices and bases in the 3 cities of Osaka, Yokohama, and Sapporo | 6 sales offices in Sapporo, Sendai, Nagoya, Osaka, Hiroshima, and Fukuoka | 3 sales offices in Osaka, Nagoya, and Kyushu |
| Business Description | Mental-health-related businesses (providing stress check tests and feedback for early detection of persons with mental health problems, and providing services for preventing leave of absence and job separation), occupational health physician services (consultation with occupational health physicians), harassment prevention (law compliance, liability insurance, and training), and health management (solutions such as revitalizing organizations and improving productivity) | Labor management (*attendance management) systems, in-house development of time clocks, and their sales and maintenance services | Sales of packaged business software such as "PCA Accounting" and "PCA Salary," maintenance of network systems, software installation support, instructor support for implementation, and various user support |
| Customers | 1,500 companies; 10,000 offices; more than 1,000,000 users<br>PCA Corporation; Hongo Tsuji Tax & Consulting; Ministry of Health, Labour and Welfare; Ministry of the Environment; Ministry of Land, Infrastructure, Transport and Tourism; Tokyo Metropolitan Government; Kanagawa Prefecture; Saitama Prefecture; Chiba Prefecture; City of Yokohama; Osaka City; City of Sapporo; and other government organizations and private companies. Used by companies and organizations of 10-100,000 people. | Number of accounts using Xronos Performance: 1,710,000<br>Number of accounts using X'sion: 431,784<br>(Both as of the Nov. 15, 2021) | More than 20,000 companies (in Japan) |
| Founded | October 2020 (date acquired; founded in June 2005) | May 2011 (business acquired) | April 1988 |
| Capital Stock (million yen) | 56.5 | 60 | 10 |
| Percent of Shares Owned by PCA | 100% | 80% | 100% |
| Number of Employees (as of the end of Sept. 2021) | 15 | 111 | 42 |
| Sales (for the most recent period) | Not disclosed | Y2,163 million (FY ended March 2021; information from its website) | Not dislocsed |
| Management Policy | Same as PCA | Formulates its own medium-term plan: working on "investments for future growth" and "steady performance growth" | Same as PCA |
| Consolidated Sales Category | Other operating revenue | Mostly product sales and cloud sales, plus maintenance and other operating revenue | Most other operating revenue, plus products, merchandise, maintenance, and cloud |
| Website URL | https://www.dreamhop.com/ | https://www.xronos-inc.co.jp/ | https://www.kec-sp.com/page1 |

(Ref) Prepared by Alpha-Win Research Dept. based on each company's website and interview

## ◆Dreamhop Co., Ltd.

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

### Overview of Dreamhop Co., Ltd.

In October 2020, the Company (PCA) 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; 15 employees) for approx. Y108 million as a wholly owned subsidiary.

The Company believes that its HR solutions must urgently be strengthened to sustainably grow as a Management Support Company. For this purpose, the Company acquired Dreamhop, with whom synergy in the development and expansion of business connections as well as cross-selling and up-selling can also be expected.

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

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[14]. It has unique programs and expertise and offers full management of the programs on behalf of its corporate customers (for details of business/service, see pages 13-14 of our company report issued on June 9, 2021).

- **Has an excellent customer base including the government, various organizations, and large companies in the private sector. Strong track record.**

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

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

### Financial Performance

- **Dreamhop posted a net loss due to upfront investment costs. Excess in debt was relieved through an increase in capital.**

Dreamhop's financial performance disclosed in its past news release is summarized in Figure 15. In the most recently disclosed financial results for the fiscal year ended May 2020, sales grew but a net loss was posted: sales were Y129 million (+16.5% YoY) and net loss was Y38 million (a net profit of Y0.2 million was posted in the previous fiscal year). There was also an excess of debt by Y20 million. These results seem to have been due to increased upfront investment costs and fixed costs for the expansion of systems and businesses. Also, after the acquisition, PCA increased Dreamhop's capital by Y80 million and the excess in debt seems to have been relieved.

**【Figure 15】Transition in Dreamhop's Financial Results** (Rounded to the nearest unit)

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

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

- **Conducted rebranding and the expansion of service lineup after the acquisition. Also adopted the subscription model.**

Regarding its business, its mental health program was rebranded and the service lineup was also expanded. The price system for its main service is a monthly subscription payment based on price per user and other factors, combined with the price of options.

- **Became a consolidated subsidiary, but due to worsened financial performance, goodwill was recorded as extraordinary losses in a one-time amortization.**

Dreamhop's financial results for the previous fiscal year (ended May 2021) is not disclosed, but its loss seems to have worsened due to costs from employee retirements and upfront investment costs (its fiscal year has been changed to be March-ending). Starting this fiscal year (FY 2022 ending March 2022), Dreamhop's results will be fully included in the consolidated results (of the PCA Group). Due to the worsened financial performance of Dreamhop, PCA recorded the remaining goodwill of Y174 million entirely as impairment loss under extraordinary losses for this H1.

- **Hopes to gain net profit within several years.**
- **Small sized, with relatively heavy fixed costs. To gain net profit, top line growth would be necessary.**

Going forward, Dreamhop's sales are planned to be increased by using PCA Group's sales force and development capabilities to increase its customers, while also working on the streamlining of business. Net profit is hoped to be achieved within several years. We should wait for the Company to announce drastic reconstruction measures and growth strategies.

## ◆Xronos Inc.

### Overview of Xronos Inc.

- **Xronos is a major player in work management systems.**

Xronos conducts development, sales, and maintenance of work management (or attendance management) systems and time clocks. It is a major player in the market and has a high market share among medium-sized companies with 100 to 999 employees.

- **Provides service as on-premises and on the cloud. Its strength are its strong products and flexibility in meeting customer needs.**

It provides work management software (automatic tabulation of working hours, creation of data linked to payroll software, etc.) as an on-premises product (product name: Xronos Performance) and on the cloud (service name: X'sion). In either format, there seem to be a little less than 10 companies providing such services. Xronos' strength is its ability to flexibly make proposals according to customer needs and environment in combination with external devices such as time clocks (product: Teletime series).

Its main customers include the Company (PCA), Miroku Jyoho Service, OHKEN, Mitsubishi Electric IT Solutions, Daiwabo Information System, and NTT Data Sekisui Systems.

**Financial Performance**

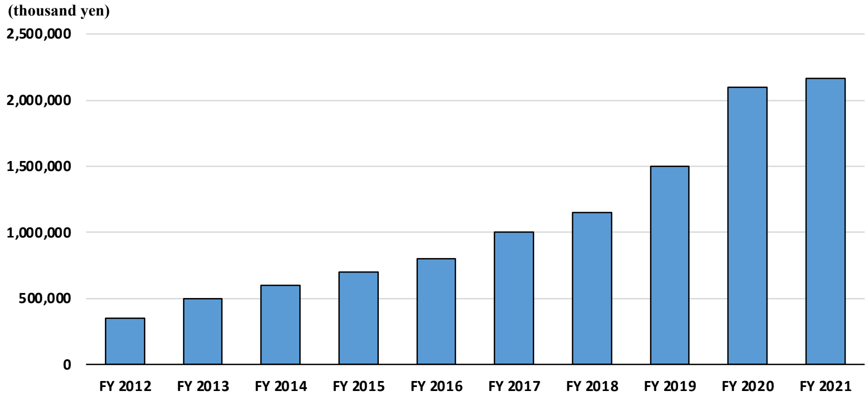
◆ **Growing sales partly owing to the work-style reform**

Its sales have been solid and were Y1.5 billion in FY 2019, Y2.1 billion in FY 2020, and Y2.16 billion in FY 2021 (fiscal years are March ending; Figure 16). Sales plan for FY 2022 has not been disclosed, but sales and profit growth are expected. In FY 2025, the company is planning to achieve sales of Y4 billion (according to Xronos' former website).

Thanks to the tailwind from the work-style reform, Xronos' business with its work management system has been solid. Among PCA's three consolidated subsidiaries, it presumably has the largest sales and profit.

Profit is not disclosed, but it seems to be maintaining profit and generally increasing sales and profit, thus contributing to the Company's consolidated financial results.

**【Figure 16】Change in Xronos' Sales** (Rounded to the nearest unit)




(Ref) Prepared by Alpha-Win Research Dept. based on information on Xronos' website.
(Note) Xronos was founded in May, so sales for FY 2012 are for the 11 months through March 2021.

**Market Environment and Competitors**

◆ **SaaS for work management is a growing market.**

Although the work management market has about 30 major players and is not a blue ocean market, it is expected to continue to grow steadily in business areas related to work-style reforms. In particular, in the form of SaaS (cloud), double-digit annual growth is expected.

The main competitors by service content are as follows (in parentheses are the names of the competing products or services; in the case of listed companies, the listed market and securities code are also shown).

・Competitors in the three areas of packaged software, SaaS, and time clocks:

OHKEN (Shugyo Daijin NX and Shugyo Daijin NX Cloud), Kinjiro (previously Nittsu System; Kinjiro Enterprise Shugyo), and Hitachi Solutions (Lysithea / work management)

・Competitors in the two areas of packaged software and time clocks:
Amano (TSE First Section 6436: Time Pro-XG Shugyo, Time Pro-VG Shugyo, Time Pro-NX Shugyo, and Time Asset), and Obic (TSE First Section 4684: OBIC7 Work Information System)
・Competitors in SaaS only:
Human Technologies (King of Time), DONUTS (Jobcan), and jinjer (previously Neo Career: jinjer attendance management system)

**Strategy Going Forward (excerpt from Xronos' website)**

◆ **Planning for full-scale entry into the market targeting small companies**

There is plenty of room for market development in business toward small companies with 10 to 50 employees. Therefore, Xronos plans to prepare new products and expand its market share through full-scale entry. In addition, its cloud service sales have exceeded its on-premises sales and have grown to account for 26% of Xronos' total sales. It is aiming to increase this proportion to greater than 50% in 2025, the final year of its medium-term plan. Its strategy is also to create replacement demand by developing a new time clock.

## ◆KEC Corporation

◆ **Centered on PCA's packaged software, providing instructor support for software implementation, etc.**

KEC provides specialized services (useware business: a general term for technologies and services necessary for utilizing information systems such as computers and the Internet), centering on PCA's packaged business software. Specifically, it provides instructor support for implementing PCA's and other partnered companies' packaged software, sells business software, provides consulting service and data migration support related to computer system implementation and operation, and provides implementation and operation support for network environments and cloud environments.

Its business performance is affected by sales and renewals of products, contract status of the maintenance and cloud services, sales of related equipment, and the COVID-19 crisis since its services are mainly provided face-to-face. However, it is a stable business and seems to be stably profitable.

# 7. This Fiscal Year's H1 Results and Full-Year Forecast

## ◆ Financial Results for the First Half of FY 2022 (H1)

### Overview of H1

- **Strong H1 results. Although a simple comparison cannot be made due to the change in the revenue-recognition standard, sales and profits grew significantly YoY. Both sales and profits are the second highest levels in the Company's history.**

Consolidated financial results for the first half of FY 2022 (April-September 2021) were as follows: sales were Y6,609 million (+10.5% YoY), operating profit was Y1,753 million (+86.8% YoY), recurring profit was Y1,782 million (+85.3% YoY), and net profit attributable to owners of the parent was Y1,449 million (+145.9% YoY; hereinafter, "net profit"), resulting in large, double-digit increases in sales and profits (Figure 17 on page 25). These results are the second highest level in the Company's history after the record-high sales and profits achieved in H1 of the fiscal year before the previous (FY 2020) which had fully benefited from the high demand driven by two events (early demand in response to consumption tax revision and end of support for Windows 7). Note that the rates of YoY change have not been adjusted for the change in the revenue-recognition standard and are for reference only.

- **Based on the previous standard, sales and profits have essentially hit their H1 record highs.**

As reference, if we take into account the change to the new revenue-recognition standard and correct this H1's results to the previous standard, sales will increase by Y854 million to Y7,463 million (+24.8% YoY), and operating profit and recurring profit will each increase by Y120 million to Y1,873 million (+99.7% YoY) and Y1,902 million (+98.3% YoY), respectively. These corrected values all exceed the Company's record highs for H1.

- **H1 forecast had not been disclosed, but sales and profits seem to have exceeded the company plan. Replacement demand for the products and the cloud business were the drivers of growth.**
- **Progress against the upwardly revised, new full-year forecast is also high compared to past rates of progress.**

Although the Company had not disclosed its forecast for this H1, sales and each of the profit seem to have largely exceeded the Company's internal plans (sales seem to have exceeded the plan by about +Y850 million and operating profit by about +Y940 million). Compared to the Company's upwardly revised full-year forecasts, the progress in H1 was 48.9% for sales, 67.8% for operating profit, and 62.7% for net profit. These each greatly exceed the progress of 44.9%, 40.5%, and 35.3%, respectively, in H1 of the previous fiscal year as well as the average sales progress of 45.2% and operating profit progress of 39.0% for the past 16 years.

This solid performance is due to the greater-than-expected replacement demand in response to the upcoming end of support for the PCA X series (scheduled for December 2021), which had led to strong sales of products (DX series), and the high growth maintained for the sales of the cloud even though the prior forecast had been set at a somewhat conservative value.

- **Product mix improved, and SG&A expenses ratio also decreased. Due to sales growth and improved profit margins, profit nearly doubled. Extremely strong results.**
- **Dreamhop's goodwill was recorded under extraordinary losses in a one-time amortization, but this was offset by the gain on sales of securities.**

Additionally, in terms of profit, the product mix had improved due to increased sales of profitable in-house products and growth of the highly profitable cloud business, resulting in a YoY increase in the gross margin (61.3% → 68.2%; +6.9%). Also, since expenses were suppressed during the COVID-19 crisis, the actual amount of SG&A expenses stayed mostly flat (Y2,727 million → Y2,753 million; +Y26 million or +1%), and consequently the sales growth led to a decrease in the SG&A expenses ratio from 45.6% → 41.7%. Similarly, the operating margin improved significantly from 15.7% → 26.5% (+10.8%). As a result, operating profit and recurring profit almost doubled YoY. Also, while the goodwill of Dreamhop was recorded as impairment loss of Y174 million under extraordinary losses, the Company had sold some of the listed securities that it had owned and recorded Y673 million as extraordinary income. This made the net profit growth rate even higher.

**【Figure 17】Change in Financial Performance for H1 FY 2022 (Q1 and Q2)** **(Unit: million yen, %)**

| H1 Results | | Q1 FY 2021 | Q1 FY 2022 | Q2 FY 2021 | Q2 FY 2022 | H1 FY 2021 | H1 FY 2022 | % Change in H1 | Difference in H1 | % of H1 sales over total sales |
|---|---|---|---|---|---|---|---|---|---|---|
| Unit: million yen | | April-June 2020 | April-June 2021 | July-Sept. 2020 | July-Sept. 2021 | April-Sept. 2020 | April-Sept. 2021 | YoY: % | YoY: million yen | % |
| | | Old revenue-recognition standard | New revenue-recognition standard | Old revenue-recognition standard | New revenue-recognition standard | Old revenue-recognition standard | New revenue-recognition standard | Last H1 = old standard, this H1 = new standard | | |
| Consolidated Sales | | 2,789 | 3,328 | 3,192 | 3,281 | 5,981 | 6,609 | 10.5 | 628 | 100.0 |
| Sales Category | Products | 307 | 935 | 420 | 783 | 727 | 1,718 | 136.2 | 991 | 26.0 |
| | Merchandise | 77 | 85 | 98 | 82 | 175 | 167 | -4.8 | -8 | 2.5 |
| | Maintenance Service | 899 | 820 | 877 | 826 | 1,776 | 1,646 | -7.3 | -130 | 24.9 |
| | Cloud Service | 957 | 1,255 | 991 | 1,340 | 1,948 | 2,595 | 33.2 | 647 | 39.3 |
| | Other Operating Revenue | 546 | 231 | 805 | 250 | 1,351 | 481 | -64.4 | -870 | 7.3 |
| Gross Profit | | 1,756 | 2,284 | 1,909 | 2,222 | 3,665 | 4,506 | 22.9 | 841 | |
| | Gross Margin (%) | 63.0 | 68.6 | 59.8 | 67.7 | 61.3 | 68.2 | | 6.9 | |
| SG&A Expenses | | 1,290 | 1,309 | 1,437 | 1,444 | 2,727 | 2,753 | 1.0 | 26 | |
| | SG&A Expenses Ratio (%) | 46.3 | 39.3 | 45.0 | 44.0 | 45.6 | 41.7 | | -3.9 | |
| Operating Profit | | 465 | 975 | 473 | 778 | 938 | 1,753 | 86.8 | 815 | |
| | Operating Margin (%) | 16.7 | 29.3 | 14.8 | 23.7 | 15.7 | 26.5 | | 10.8 | |
| Recurring Profit | | 272 | 987 | 687 | 795 | 959 | 1,782 | 85.7 | 823 | |
| | Recurring Margin (%) | 9.8 | 29.7 | 21.5 | 24.2 | 16.0 | 27.0 | | 10.9 | |
| Net Profit | | 272 | 614 | 317 | 835 | 589 | 1449 | 145.9 | 860 | |
| | Net Margin (%) | 9.8 | 18.4 | 9.9 | 25.4 | 9.8 | 21.9 | | 12.1 | |

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

- **Significant YoY growth in both Q1 and Q2. Q1 growth was especially large, with doubled profit, thanks to event-driven high demand for the products. Somewhat decreased momentum in Q2.**

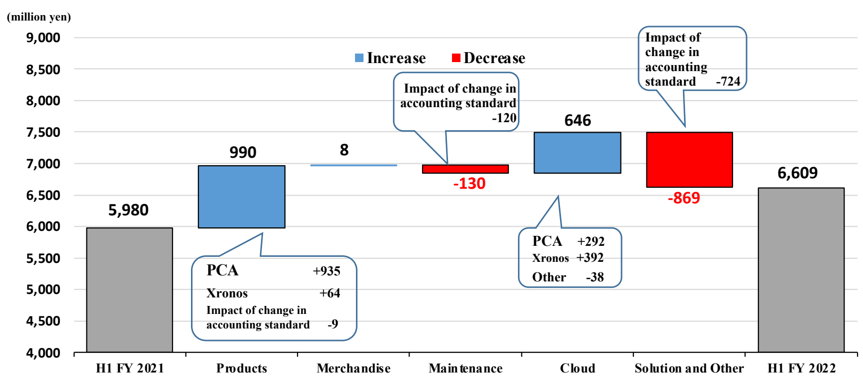
By quarter, Q1 sales were Y3,328 million (+19.3% YoY) and operating profit was Y975 million (+109.7% YoY), while Q2 sales were Y3,281 million (+2.8% YoY) and operating profit was Y778 million (+64.5% YoY). Both in Q1 and Q2, there were significant YoY increases in sales and profit. However, the growth momentum declined in Q2, resulting in a Y47 million decrease in sales and a Y197 million decrease in operating profit compared to Q1. This was because there was greater event-driven high demand related to sales of products during Q1, which also led to greater improvement in profit margins. Also, Q2 had greater SG&A expenses than Q1 (+Y135 million).

## H1 Sales

- **Event-driven high demand for the products and the growth of the cloud business were the drivers of growth. Xronos also contributed to the results.**

Figure 18 summarizes the factors that increased or decreased sales in H1 compared to the previous fiscal year's H1 (overall sales growth of +Y628 million). Analyzing the increase or decrease in sales since the previous H1 by sales category, sales of products had increased by Y990 million (+136.2% YoY) and cloud sales had increased by Y646 million (+33.2% YoY). These offset the categories that were greatly negatively impacted by the change in the revenue-recognition standard; sales of solution and other had decreased by -Y869 million (including sales decline of -Y724 million due to the change in standard) and sales of maintenance had decreased by -Y130 million (-Y120 million from the change in standard). By company, regarding the summed sales of products + cloud, sales of the Company alone increased by Y1,227 million and Xronos increased by Y456 million, contributing significantly to the results.

**【Figure 18】Increase/Decrease in Sales by Sales Category in H1 FY 2022 (ended September 2021)**




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

**Cloud**

- **The number of corporate users of PCA Cloud has been increasing steadily. More than 17,000 users now.**

The number of corporate users of PCA Cloud reached 10,000 in FY 2018. Then, the number reached 11,331 by the end of September 2018, 12,313 by the end of March 2019 (compared to half a year ago: +982), 13,343 by the end of September 2019 (+1,030), 14,388 by the end of March 2020 (+1,045), 15,262 by the end of September 2020 (+874), 16,444 by the end of March 2021 (+1,182), and 17,785 by the end of September 2021 (+1,341), increasing steadily (Figure 19).

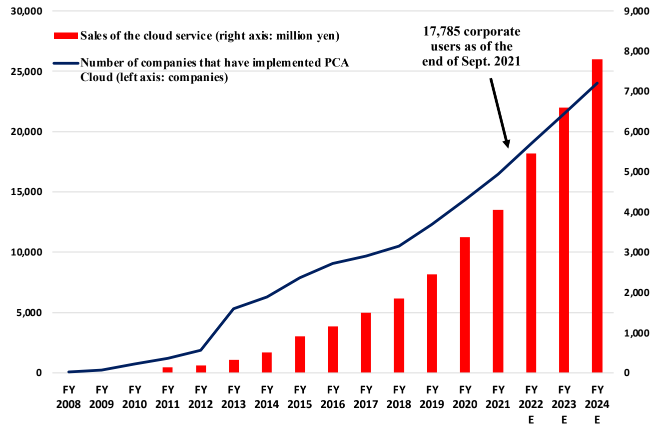
- **Number of corporate users of PCA Cloud is also currently increasing steadily.**

The semi-annual comparison indicates that the net increase in the number of users had temporarily slowed down for some time due to the impact of COVID-19, but the net number of corporate users has been increasing over the past two half-year periods thanks to the increasing penetration of the cloud service among users. This net growth speed also has been maintained as the Company entered the second half, and the Company hopes to maintain the net growth in corporate customers at more than 2,000 companies per year for the meanwhile.

- **In H1, cloud sales increased by 33% YoY at an accelerated growth rate.**
- **The Company and Xronos' products and the cloud had contributed to the sales growth.**

As a result, the cloud's sales have been expanding from Y1,496 million in FY 2017 → Y1,854 million in FY 2018 (+Y358 million or +23.9% YoY) → Y2,452 million in FY 2019 (+Y598 million or +32.3% YoY) → Y3,374 million in FY 2020 (+Y922 million or +37.6% YoY) → Y4,057 million in FY 2021 (last fiscal year) (+Y683 million or +20.2%). In H1, sales increased by +33.2% YoY to Y2,595 million at an accelerated sales growth rate (sales growth rates: +24.3% in the previous H1 and +16.7% in the previous H2). This growth seems to reflect the increase in the number of corporate users, the increase in the number of licenses including options, and the increase in cloud sales of Xronos.

**【Figure 19】Change in the Sales of PCA Cloud and the Number of Companies that Have Implemented PCA Cloud**




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

(Ref) Prepared by Alpha-Win Research Dept. based on the Company's financial results briefing materials and interview. (E) represents estimates/forecasts made by Alpha-Win Research Dept.

**Subscription-Based Business**

- **The proportion of the subscription businesses' sales increased further to 62% of the total.**

For subscription-based revenue (combined sales of the maintenance service and the cloud), which is one of the Company's key performance indicators, its percentage over total sales has been generally increasing over the past five years excluding H1 of FY 2020 when there was a sharp increase in product sales due to event-driven high demand. This fiscal year, the proportion was 65.2%, increasing further from 62.3% in the previous fiscal year. This was because subscription-based revenue had increased due to the high growth of the cloud, while the new revenue-recognition standard had caused the one-time-payment-based revenue of solution and other to appear to decrease significantly.

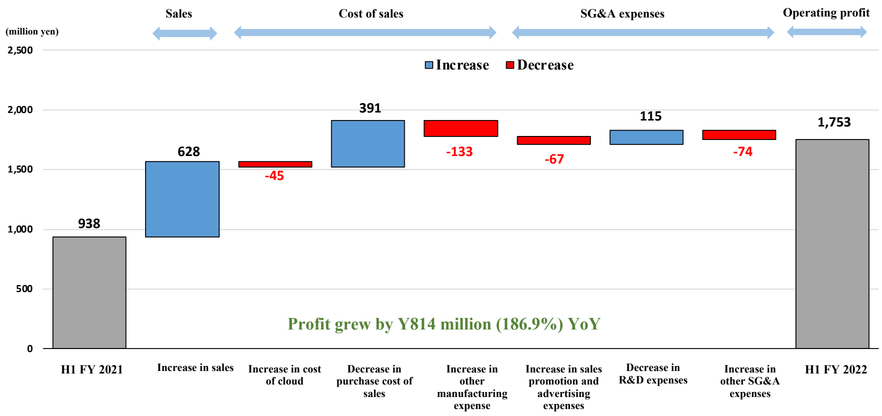
**Profit**

- **SG&A expenses had increased slightly, and sales growth had contributed to the profit growth. In-house products and the cloud with high profit margins contributed to the large profit growth.**

Factors that contributed to an increase or decrease in consolidated operating profit in H1 are shown in Figure 20. While SG&A expenses have been kept as planned, sales of in-house products and the cloud service with high profit margins had increased, resulting in the achievement of a significant increase in profit.

Although there was a decrease in cost of sales, as well as an increase in sales promotion and advertising expenses (+Y67 million YoY) and an increase in other SG&A expenses (+Y74 million YoY), R&D expenses had decreased (-Y115 million YoY), resulting in only a slight increase in the SG&A expenses. Sales growth had contributed largely to the profit growth, and operating profit increased significantly by Y814 million or +186.9% YoY.

**【Figure 20】Factors that Increased/Decreased Operating Profit in H1 FY 2022 (ended September 2021)**




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

## ◆ PCA's Financial Forecast for FY 2022 (full year)

**Second Half (H2)**

- **Sales and profit decline expected in H2**

The Company also announced its financial forecast for the second half (H2) of this fiscal year (October 2021 to March 2022) when it announced its financial results for H1. It expects sales to be Y6,905 million, operating profit to be Y833 million, recurring profit to beY822 million, and net profit to be Y861 million.

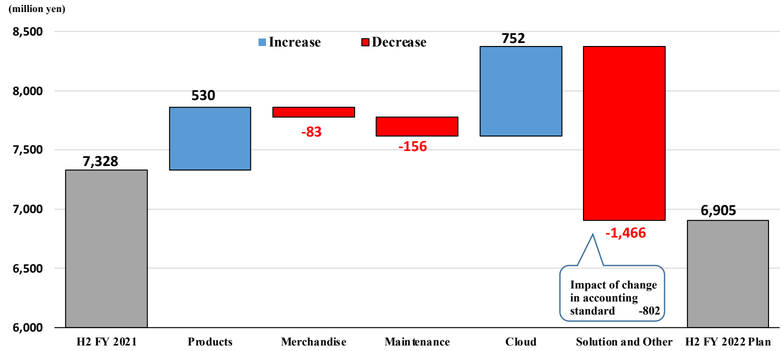
Although a simple comparison cannot be made due to the difference in the revenue-recognition standard, compared to the previous H2, the Company is expecting sales to decrease by Y422 million (-5.8%), operating profit to decrease by Y543 million (-39.5%), recurring profit to decrease by Y559 million (-40.5%), and net profit to decrease by Y218 million (-20.2%).

- **Sales of cloud and products expected to increase in H2 too. The "gap down" due to the new revenue-recognition standard is expected to have a large impact on solution and other and become a sales decreasing factor.**

Regarding sales, as shown in Figure 21 on page 28, the cloud is expected to continue to perform well in H2 and replacements of the DX series products are expected to continue in response to the upcoming end of support for the X series. Consequently, the Company expects sales of cloud to increase by Y752 million (35.7%) and sales of products to increase by Y530 million (42.8%), totaling an increase in sales by Y1,282 million.

On the other hand, sales of solution and other are expected to decrease significantly by Y1,466 million (-78.2%), which includes the expected negative impact of Y802 million due to the change in the accounting standard. In addition to this, small sales declines are expected for the merchandise, by Y83 million (-27.1%), and for maintenance, by Y156 million (-8.8%).

**【Figure 21】Expected Increase/Decrease in Sales by Sales Category in H2 FY 2022**




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

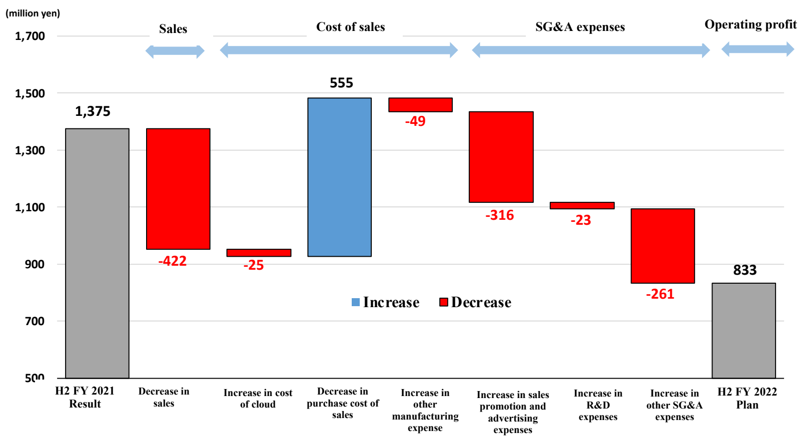
- **Operating profit expected to decline in H2 due to the sales drop was well as the planned increase in expenses such as personnel expenses and upfront investments.**

Regarding operating profit, although the decrease in the cost of purchase, etc., are expected to increase profit by Y555 million, large negative impacts are expected due to the sales decline by Y422 million, increase in sales promotion and advertising expenses by Y316 million, and increase in various costs by Y261 million. Consequently, the Company expects operating profit to decrease by Y543 million (-39.5%) from Y1,376 million in the previous H2 to Y833 million in this H2 (Figure 22).

Due to solid H1 results and the anticipated improvement of business environment, the Company has decided to increase sales promotion expenses by Y200 million and personnel expenses (recorded as other manufacturing expense and SG&A expenses) by Y120 million compared to its initial plan as part of its active upfront investment for growth starting in the next fiscal year. As a result, operating profit in H2 will be reduced by Y320 million compared to its actual value.

Taking this into consideration, as well as the impact of the new accounting standard on earnings in H2 (estimated be 20-30 million yen), operating profit in H2 is estimated to be essentially a little less than Y1,200 million, meaning that it would only be about 14% less than Y1,375 million of the previous fiscal year.

**【Figure 22】Factors that Are Expected to Increase/Decrease Operating Profit in H2 FY 2022**




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

- **Gross margin expected to improve YoY in H2, but SG&A expenses ratio will increase. Operating margin predicted to decrease significantly.**

By improving the product mix, the Company expects the gross margin in H2 to improve by 4.4 percentage points from 59.2% in the previous H2 to 63.6%, but it also expects the SG&A expenses to increase by Y601 million from Y2,960 million to Y3,561 million. Consequently, the SG&A expenses ratio is expected to increase by 11.2 percentage points from 40.4% to 51.6%, and the operating margin to decrease by 6.7 percentage points from 18.8% to 12.1%. This decrease in profit margin and the sales drop are expected to lead to decreased profit. In Q3, gain on sales of securities is expected to be recorded as Y500 million in extraordinary income. As a result, net profit is predicted to be kept to a Y218 million decline (-20.2%), from Y1,078 million to Y860 million.

- **Compared to H1, although sales growth is expected, due to the sharp increase in SG&A expenses, the profit margin is expected to decline. Operating profit expected to be halved.**

Compared to H1, sales are expected to increase by Y296 million (+4.5%), but the gross margin is expected to decrease by 4.6 percentage points, while the SG&A expenses will increase sharply by Y808 million (+29.3%) with an increase in the SG&A expenses ratio by 9.9 percentage points. As a result, operating profit is expected to decrease by Y920 million (-52.5%), and the operating margin is expected to worsen by 14.4 percentage points.

## Full Year

- **Major upward revision to full-year forecast.**

Based on the solid performance in H1, the Company has revised its forecast for this full fiscal year (FY 2022) significantly upward from its initial forecast: sales from Y12,447 million → Y13,515 million, operating profit from Y1,866 million → Y2,586 million, and net profit from Y1,192 million → Y2,310 million (Figure 23).

- **Although sales drop of -6.5% and operating profit drop of -19.4% had been expected, the Company now expects 1.6% sales growth and large operating profit growth of 38.6%.**

Although a simple comparison with the previous fiscal year cannot be made due to the change in the revenue-recognition standard, it appears that for the full fiscal year the Company now expects sales to increase by 1.6% instead of decline by 6.5% and operating profit to increase by 11.8% instead of decline by 19.4%.

When the impact of the new revenue-recognition standard on business results (estimated to decrease sales by about Y1.7 billion and operating profit by about Y150 million for the entire year) is taken into account, the full-year forecasts for FY 2022 (the current fiscal year) are estimated to be Y15.2 billion for sales (+14% YoY) and Y2.7 billion for operating profit (+18% YoY). Sales are essentially expected to hit a record high and operating profit to be close to its record high.

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

| Consolidated (unit: million yen) | FY 2021 | FY 2022 | New revenue-recognition standard | | FY 2022 | New revenue-recognition standard | | FY 2022 | |
|---|---|---|---|---|---|---|---|---|---|
| | Results (old revenue-recognition standard) | Initial company forecast A | YoY: Simple diff. (amount) | YoY: Simple diff. (%) | Revised company forecast B | YoY: Simple diff. (amount) | YoY: Simple diff. (%) | Amount of revision B-A | % of revision B/A |
| Sales | 13,308 | 12,447 | -861 | -6.5% | 13,515 | 207 | 1.6% | 1,068 | 8.6% |
| Gross Profit | 8,001 | 7,690 | -311 | -3.9% | 8,901 | 900 | 11.2% | 1,211 | 15.7% |
| Gross Margin | 60.1% | 61.8% | 1.7% | | 65.9% | 5.7% | | 4.1% | |
| SG&A Expenses | 5,686 | 5,824 | 138 | 2.4% | 6,315 | 629 | 11.1% | 491 | 8.4% |
| SG&A Expenses Ratio | 42.7% | 46.8% | 4.1% | | 46.7% | 4.0% | | -0.1% | |
| Operating Profit | 2,314 | 1,866 | -448 | -19.4% | 2,586 | 272 | 11.8% | 720 | 38.6% |
| O.P. Margin | 17.4% | 15.0% | -2.4% | | 19.1% | 1.7% | | 4.1% | |
| Recurring Profit | 2,340 | 1,899 | -441 | -18.8% | 2,604 | 264 | 11.3% | 705 | 37.1% |
| R.P. Margin | 17.6% | 15.3% | -2.3% | | 19.3% | 1.7% | | 4.0% | |
| Net Profit Attributable to Owners of the Parent | 1,668 | 1,192 | -476 | -28.5% | 2,310 | 642 | 38.5% | 1,118 | 93.8% |
| N.P. Margin | 12.5% | 9.6% | -3.0% | | 17.1% | 4.6% | | 7.5% | |
| Annual Dividend Per Share (yen) | 11.33 | 11.33 | | | 12.00 | | | 0.67 | |

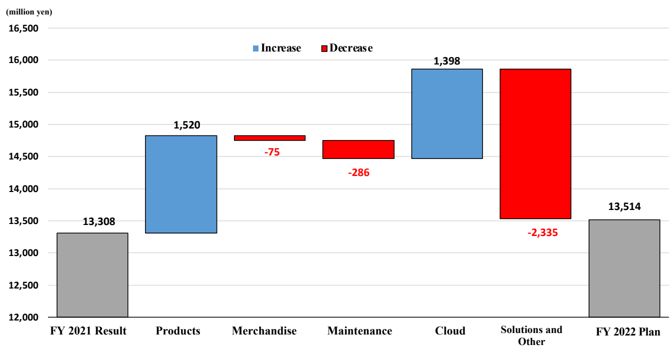
(Ref) Prepared by Alpha-Win Research Dept. from the financial results summary

The factors that are expected to increase sales or profit in the full fiscal year are shown in Figure 24 and Figure 25, respectively (sum of H1 results and H2 forecast). Comparing the full-year sales forecast with the initial plan (corrected version), the Company has revised its overall sales upward by Y1,068 million or 8.6%. Looking at the breakdown by sales category, maintenance, solution and other, and merchandise have been revised downward by Y112 million, Y47 million, and Y50 million, respectively, while the products have been revised upward by Y1,059 million (+43.3% revision) and the cloud has been revised upward by Y214 million (+4.1% revision) (Figure 26).

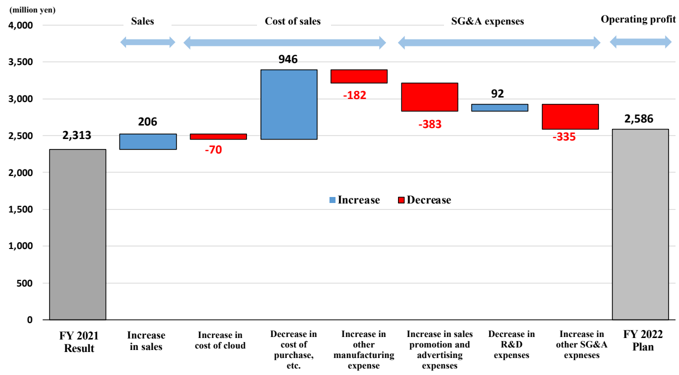
- **With the gain on sales of securities, the final profit is expected to hit a record high.**

Regarding profit, compared to the initial forecast, it revised each profit significantly upward since it expects the gross margin to improve by 4.1 percentage points, the SG&A expense ratio to improve by 0.1 percentage point, the operating margin to improve by about 4.2 percentage points, sales to increase, and gain on sales of securities to be recorded under extraordinary income. The final profit is expected to hit a record high.

**【Figure 24】Factors that Are Expected to Increase/Decrease Sales in FY 2022 (company plan)**

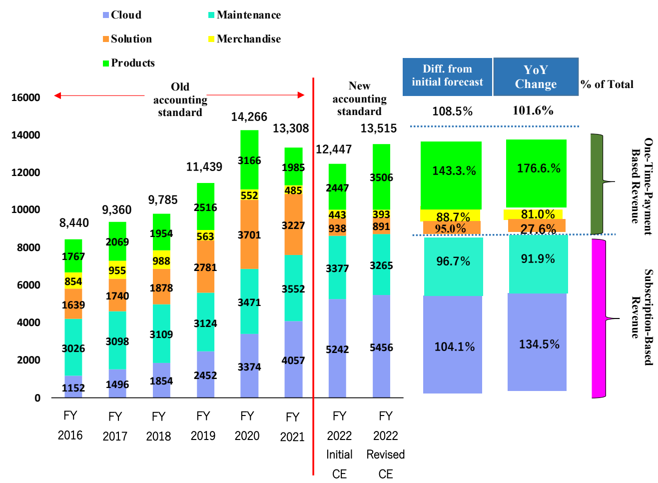



**【Figure 25】Factors that Are Expected to Increase/Decrease Operating Profit in FY 2022 (company plan)**




(Ref) Figures 24 and 25 were prepared by Alpha-Win Research Dept. based on the financial results briefing materials.

**【Figure 26】Change in Sales and This Fiscal Year's Forecasted Sales Breakdown by Category (Unit: million yen, %)**




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

(Note) The accounting standard for the posting of sales as merchandise or solution had been partially changed in FY 2020, and adjustments were retroactively made for FY 2019 according to this new standard. However, for the two categories, there is no continuity with the years before FY 2019. Also, starting in FY 2022, the new revenue-recognition standard, etc., have been applied, and there is no continuity in sales between the old and the new standards except for the cloud and merchandise. "% of Total" is based on the company forecast for FY 2022 (after revision) that uses the new revenue standard.

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

**Summary**

- We reviewed our forecast for this fiscal year, and revised down sales and profits. Dividend was raised to the same amount as the Company's forecast.

・Although the new company forecast for this fiscal year after the upward revision on October 25 did not reach the values of our previous forecast (described in the report issued on August 3, 2021), it greatly exceeds the initial company forecast made the beginning of the fiscal year.
・Based on the H1 results and the current situation, we reviewed our forecast for this fiscal year (Figure 29 on page 34). While we lowered sales and profits compared to our previous forecast, we revised annual dividend upward to the Company's forecast of 12 yen/share. However, since the sales of the cloud and the products are continuing to be solid, the Company's estimates seem conservative, and we believe that the full-year results have the potential to exceed the Company's forecasts for both sales and profits.

**Sales**

- Sales of products and the cloud were revised up, while other operating revenue was revised down.

In our previous forecast, we had expected full-year sales to be Y14,200 million, but we have now revised this to Y13,760 million. However, this forecast still excceeds the new company forecast by Y245 million (+1.8%). The main difference between our previous and current forecasts is that while the the sales of products and the cloud were revised upward due to their greater-than-expected performance, we had revised downward the other operating revenue (solution and other) in which recovery had previously been expected. This reflects the slow recovery of the sales of software and hardware of other companies and the Company's slow progress with its new businesses.

**Profit**

- Due to downward revision of sales forecast and the increase in upfront investment, we revised our profit forecasts downward. However, our forecast is still higher than the Company's conservative forecasts for profit.

For profit, too, we revised our forecast to reflect the increased upfront investment of Y320 million in H2, which had not been initially expected, and in accordance with the revision of sales. In the order of previous → current forecast, we reduced operating profit from Y3,330 million → Y2,700 million and net profit from Y2,475 million → Y2,380 million. However, as mentioned above, the current situation is solid and the Company's plan for H2 seems somewhat conservative. More cost control seems possible, too, especially for the SG&A expenses. Therefore, we predicted that profits will exceed the Company forecast by about Y114 million (+4.4%) or Y70 million (+3.0%), respectively.

**Risk Factors**

- The risks are the sixth wave of COVID-19 which may cause economic stagnation, slowed IT investment, and struggles with new products and services.

In the medium-term financial forecast including this fiscal year, the main risk factors are the occurrence of the sixth wave of COVID-19 (outbreaks of mutants types, etc.) and its prolongation leading to another stagnation of economic activities, as well as weaker financial performance of corporate users that will cause them to refrain from purchasing products and services or postpone software implementation.

However, regarding the existing services, their financial results so far show that the Company has been able to adequately overcome the difficult situation, and they will most likely not present large issues during H2 too. Progress may possibly not be made as planned, though, in customer acquisition and sales of the new services such as PCA Subscription (subscription-based use of downloaded software), healthcare-related services, hyper, and PCA Hub, and also in the business restructuring of Dreamhop.

# 8. Growth Strategy

## ◆ Management Indicators and Areas of Focus

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

In 2012, the PCA Group announced management indicator goals of Y20 billion for sales (as reference, the actual result in FY 2021 was Y13.3 billion), 2.5% for DOE (FY 2021: 1.5%), and 80,000 corporate users of the cloud service (a little less than 18,000 companies as of the end of September 2021), and has been developing its business in line with this plan.

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

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

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

Since the Company will reach a milestone in the year 2030 as its 50th anniversary, in November 2018 it announced the "PCA Vision 2030: First Stage – 2022 Medium-Term Management Plan." There has been no change to this plan since then.

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

The Company has been working on its basic policy for the medium term, which has been set forth in the Medium-Term Management Plan (FY 2020 – FY 2022) as "transform our business structure and build the foundation for continuing and developing businesses that are both long-term and stable." Aiming to become a solution-providing service providor, the Company has been creating a firm earnings base and management foundation through enhancement of its original products, cloud services, and maintenance services. As a result, the Company seems to have succeeded in getting its business on a growth path.

- **Executing measures mostly along schedule under the basic strategies of the medium-term plan.**

The basic strategies, priority measures, and progress of the current medium-term plan are described in Figure 27. The Company has been making progress with its priority measures, including the strengthening of PCA Cloud through the release of the onAWS version, launch and sales expansion of the hyper series, launch of PCA Subscription, development of new areas such as HR through the acquisition of Dreamhop, preparation for the introduction of new KPIs and management system, and strengthening of the R&D system.

**【Figure 27】Basic Strategies, Priority Measures, and Progress of the Medium-Term Plan (recap)**


(Ref) Based on the financial results briefing materials, partially edited by Alpha-Win Research Dept. with supplementary information.

- **Numerical goals for FY 2022, the final year of the current medium-term plan, had been revised significantly upward, but are expected to be largely exceeded.**

In FY 2020, the first year of the current medium-term management plan, the initial medium-term management goals for the final year of the plan (FY 2022) were achieved. Consequently, last fiscal year, the Company revised the goals upward (Figure 28). These revised goals, too, are expected to be fully achieved during this fiscal year.

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

Consequently, this fiscal year, the Company plans to conduct a part of the investment that is planned for the next medium-term management plan that will start next fiscal year. The next medium-term management plan will likely be announced after late April 2022 (when the full-year financial results will be announced), and its strategy and numerical targets should be noted. In the next medium-term management plan, the Company plans to start "developing our company's structure for creating new businesses, products, and services ahead of changes in the society."

**【Figure 28】Targets of the Medium-Term Management Plan and Their Actual or Forecasted Progress**

| | Current Medium-Term Management Plan (FY 2020 - FY 2022) | | | | | | |
|---|---|---|---|---|---|---|---|
| | 1st Year of Current Plan | 2nd Year of Current Plan | 3rd Year of Current Plan = Final Year (FY 2022) | | | | |
| Target Items of the Medium-Term Plan | FY 2020 Result | FY 2021 Result | Initial Goal (A) | Last FY's Revision (B) | Current Outlook (C) | Difference (B-A) | Difference (C-B) |
| ・Consolidated Sales | Y14.266 billion | Y13.308 billion | ≥Y11.5 billion | ≥13.5 billion | Y13.515 billion | Y2.0 billion | Y15 million |
| Of which are sales from subscription-based businesses (maintenance & cloud) | Y6.845 billion | Y7.609 billion | Achieve Y6.0 billion | Achieve ≥7.5 billion | Y8.721 billion | Y1.5 billion | Y1.221 billion |
| ・Consolidated Operating Profit | Y2.781 billion | Y2.314 billion | ≥Y1.5 billion | ≥Y2.1 billion | Y2.586 billion | Y600 million | Y486 million |
| ・Consolidated Operating Margin | 19.49% | 17.39% | ≥10% | ≥15% | 19.1% | 5% | 4.1% |

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials.
(Note) "Accounting Standard for Revenue Recognition," etc. (new revenue-recognition standard), have been applied starting in the company plan for FY 2022. The previous standard was used through FY 2021. Plan refers to the plan announced by the Company.

- **Reviewed our forecast for next fiscal year onwards as well**

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

We had made medium-term financial forecasts for the three fiscal years including this fiscal year (FY 2022 – FY 2024) (Figure 29 on page 34), but upon considering this fiscal year's situation, we revised down our forecasts for next fiscal year and beyond as well.

- **Expecting economic activities to gradually normalize in FY 2023**

### Next Fiscal Year (FY 2023)

Since strong progress has been made with COVID-19 vaccinations in Japan and the COVID-19 crisis is starting to settle down, we predicted that people's lives, economic activities, and IT investments by small/medium-sized companies will gradually and almost fully normalize starting in the next fiscal year.

- **We reviewed our sales and profit forecasts and revised them downward.**
- **Next fiscal year, sales and profit drops may occur in a reactionary decline from this fiscal year's event-driven high demand, but we expect high levels of sales and profits to be maintained.**
- **High growth expected to be maintained for the cloud**

Although there will no longer be a "gap down" due to the new revenue-recognition standard, temporary sales and profit drops are expected due to the following factors:
1. Product sales are expected to decline relative to this fiscal year's high replacement demand for the X series (sales have been greater than expected, with estimated event-driven demand of approx. Y1.7 billion for the current fiscal year).
2. The launch of new products and services have been slow.
3. Sales of other operating revenue, which had been expected to recover, were revised down in a conservative prediction.
4. In the next medium-term management plan which is expected to be announced at the beginning of the next fiscal year, the Company may increase upfront investment for future growth and various costs in the next fiscal year, the first year of the plan (see "Estimates for Expenses and Profit" explained later on page 35).

5. The gain on sales of securities that is scheduled to be posted this fiscal year (a little less than +Y1.2 billion) will most likely no longer be present.

◆ **High growth expected to be maintained for the cloud**

However, since the cloud business (PCA + Xronos) is expected to continue to grow at a high rate, and IT investments are expected to recover as the economy normalizes, we believe that the overall sales decline rate will be kept small and that high levels of sales and profits will likely be maintained.

We revised our forecast for the next fiscal year from our previous forecast (see our report issued on August 3, 2021) as follows: sales of Y14,400 million → Y13,700 million, operating profit of Y2,950 million → Y2,300 million, and net profit of Y1,863 million → Y1,580 million. However, even though we had made downward revisions, compared to our new forecasts for this fiscal year, we are expecting a slight decrease in sales by -0.4%, a decrease in operating profit by a little less than -15%, and a decrease in net profit by -33.6%. We also predicted that dividend will be 12 yen/share, which is the same as the forecast for the current fiscal year.

**【Figure 29】Medium-Term Financial Forecast**

| Unit: million yen, % | | FY 2020 Result | FY 2021 Result | FY 2022 Old CE | FY 2022 Revised CE | FY 2022 Revised E | FY 2023 Revised E | FY 2024 Revised E | FY 2022 Old E | FY 2023 Old E | FY 2024 Old E |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Sales | | 14,266 | 13,308 | 12,447 | 13,515 | 13,760 | 13,700 | 15,000 | 14,200 | 14,400 | 15,680 |
| Category | Products | 3,166 | 1,985 | 2,447 | 3,506 | 3,700 | 2,700 | 2,900 | 3,500 | 2,500 | 2,600 |
| | Merchandise | 552 | 485 | 443 | 393 | 390 | 350 | 300 | 400 | 380 | 330 |
| | Maintenance Service | 3,471 | 3,552 | 3,377 | 3,265 | 3,270 | 3,050 | 2,900 | 3,150 | 3,050 | 2,900 |
| | Cloud Service | 3,374 | 4,057 | 5,242 | 5,456 | 5,500 | 6,600 | 7,800 | 5,050 | 6,200 | 7,500 |
| | Other Operating Revenue | 3,701 | 3,227 | 938 | 891 | 900 | 1,000 | 1,100 | 2,100 | 2,270 | 2,350 |
| Gross Margin | | 60.3% | 60.1% | 61.8% | 65.9% | 65.5% | 65.7% | 65.3% | 65.0% | 62.5% | 62.5% |
| SG&A Expense | | 5,817 | 5,686 | 5,824 | 6,315 | 6,320 | 6,700 | 7,200 | 5,900 | 6,050 | 6,200 |
| | (% over sales) | *40.8%* | *42.7%* | *46.8%* | *46.7%* | *45.9%* | *48.9%* | *48.0%* | *41.5%* | *42.0%* | *39.5%* |
| Operating Profit | | 2,781 | 2,314 | 1,866 | 2,586 | 2,700 | 2,300 | 2,600 | 3,330 | 2,950 | 3,600 |
| | (% over sales) | *19.5%* | *17.4%* | *15.0%* | *19.1%* | *19.6%* | *16.8%* | *17.3%* | *23.5%* | *20.5%* | *23.0%* |
| Recurring Profit | | 2,808 | 2,340 | 1,899 | 2,604 | 2,720 | 2,320 | 2,620 | 3,360 | 2,980 | 3,630 |
| | (% over sales) | *19.7%* | *17.6%* | *15.3%* | *19.3%* | *19.8%* | *16.9%* | *17.5%* | *23.7%* | *20.7%* | *23.2%* |
| Net Profit for the Year | | 1,816 | 1,668 | 1,192 | 2,310 | 2,380 | 1,580 | 1,780 | 2,475 | 1,863 | 2,269 |
| | (% over sales) | *12.7%* | *12.5%* | *9.6%* | *17.1%* | *17.3%* | *11.5%* | *11.9%* | *17.4%* | *12.9%* | *14.5%* |
| Sales (% YoY growth for all values) | | 24.7% | -6.7% | -6.5% | 1.6% | 3.4% | -0.4% | 9.5% | 6.7% | 1.4% | 8.9% |
| Category | Products | 25.8% | -37.3% | 23.3% | 76.6% | 86.4% | -27.0% | 7.4% | 76.3% | -28.6% | 4.0% |
| | Merchandise | -2.0% | -12.1% | -8.7% | -19.0% | -19.6% | -10.3% | -14.3% | -17.5% | -5.0% | -13.2% |
| | Maintenance Service | 11.1% | 2.3% | -4.9% | -8.1% | -7.9% | -6.7% | -4.9% | -11.3% | -3.2% | -4.9% |
| | Cloud Service | 37.6% | 20.2% | 29.2% | 34.5% | 35.6% | 20.0% | 18.2% | 24.5% | 22.8% | 21.0% |
| | Other Operating Revenue | 33.1% | -12.8% | -70.9% | -72.4% | -72.1% | 11.1% | 10.0% | -34.9% | 8.1% | 3.5% |
| Gross Margin (% YoY diff.) | | *3.3%* | *-0.2%* | *1.7%* | *5.7%* | 5.4% | 0.2% | -0.4% | 4.9% | -2.5% | 0.0% |
| SG&A Expense (% growth) | | 10.3% | -2.3% | 2.4% | 11.1% | 11.2% | 6.0% | 7.5% | 3.8% | 2.5% | 2.5% |
| Operating Profit (% growth) | | 122.8% | -16.8% | -19.4% | 11.8% | 16.7% | -14.8% | 13.0% | 43.9% | -11.4% | 22.0% |
| Recurring Profit (% growth) | | 119.9% | -16.7% | -18.8% | 11.3% | 16.2% | -14.7% | 12.9% | 43.6% | -11.3% | 21.8% |
| Net Profit for the Year (% growth) | | 100.4% | -8.1% | -28.5% | 38.5% | 42.7% | -33.6% | 12.7% | 48.4% | -24.7% | 21.8% |

(Note 1) "Old" refers to the previous forecast and "Revised" refers to the current, new forecast. CE is the Company's forecast. E is Alpha-Win's forecast.
(Note 2) "Accounting Standard for Revenue Recognition," etc., have been applied starting in FY 2022. The previous standard was used through FY 2021. FY 2022 onwards are based on the new standard, so there is no continuity with the past years with some exceptions.

(Ref) Prepared by Alpha-Win Research Dept.

## Fiscal Year After the Next (FY 2024)

◆ **For FY 2024, forecasts were revised downward, but sales and profit growth is expected.**

In the fiscal year after the next, we believe that as economic activities get back on track, the Company will enter a phase in which its subscription businesses will continuously and stably expand. In addition, as the COVID-19 crisis settles down, the Company is expected to be able to resume sales acitivities and full on-site support for its customers. Therefore, if the new businesses can be put on track, we believe that the Company can return to a growth trend for sales and profits.

◆ **The cloud and the products were revised upward, while other operating revenue was revised downward.**

◆ **A large upfront investment for future growth is expected.**

For FY 2024, the fiscal year after the next, we also revised our forecast as follows: sales of Y15,680 million ⇒ Y15,000 million (+9.5% YoY), operating profit of Y3,600 million ⇒ Y2,600 million (+13.0% YoY), and net profit of Y2,269 million ⇒ Y1,780 million (+12.7% YoY). While the cloud and the products were revised upoward, we reviewed the predicted contribution by the new businesses to the results, and revised other operating revenue downward. In addition, since costs of upfront investment for future growth may be increased, SG&A expenses have been revised upward and the SG&A expenses ratio was also revised.

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

In addition to the growth rate of the cloud, the Company's financial performance will most likely be affected by whether it will succeed in business expansion in its areas of focus, which are PCA Subscription, hyper, PCA Hub which it is currently working on, and the HR business with Dreamhop.

**Estimates for Expenses and Profit**

- **We somewhat conservatively expect that the gross margin will remain about the same and the operating margin will decrease by about 2-3%.**

In our forecasts for FY 2023 and FY 2024, we predicted that the product mix will improve but the gross margin will remain almost unchanged due to the increase in development costs, outsourcing costs, etc. On the other hand, we estimated the SG&A expenses ratio to rise to around 48-49% due to the increase in expenses, which had previously been suppressed, in response to the normalization of economic activities, and also due to active upfront investments. Consequently, we predicted that the operating margin will be lower than the forecast for this fiscal year.

- **Development of new products and technologies and increase in the number of employees are expected to increase upfront investment costs.**

In moving to the next medium-term management plan in FY 2023, we predicted that the Company will increase its upfront investments, including reinforcing business foundation in preparation for future growth, developing new products, researching technologies necessary for that development (virtualization technology, AI, Web API, and FinTech-linked technology), and increasing employees for that purpose. Therefore, we predicted that SG&A expenses will increase, especially regarding the sales promotion, R&D, and personnel expenses.

Merchandise sales will continue to decline as more companies go paperless, and sales of maintenance services will also continue to drop due to the shift to the cloud. However, the increase in cloud sales, improvement of product mix with the increasing sales and proportion of the cloud, the shift of various businesses to the subscription-based business model, and the progress with rationalization of business may lead to improved profitability after the upfront investment phase ends.

**Profit Growth Rate over the Medium/Long Term**

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

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

# 9. Analyst's View

## ◆ PCA's Strengths and Challenges

The Company's SWOT analysis results are listed in Figure 30.

Looking at its strengths, the Company is well known due to its long years of practice in the industry and the trust that it has earned over those years. It is especially strong in certain areas of business (such as accounting software for small/medium-sized companies). Additionally, the Company has been developing a subscription-based business model with high continuity and stability. It is leading the market with the cloud, which has a high growth potential, and has a high competitive edge and top-level track record.

As for its risks, events such as the end of support for Windows and revisions in tax laws, accounting regulations, and other laws and regulations induce high demand before and after the event and tend to cause greater volatility in financial performance. Intensifying competition with competitors is another risk. Its challenges may be to develop new customers among mid-tier companies, develop next-generation products and services for future growth, and effectively utilize its abundant cash.

**【Figure 30】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)<br>・Firm financial standing (debtless management) and stable cash flow<br>・Growth of the subscription business based on continuous payment for service; capable of continuously generating stable revenue (established a cash-cow business)<br>・ Strong and diversified customer base (240,000 corporate users in total)<br>・Taking a lead with the cloud (top-level results, expertise, number of users, and years in service for enterprise system software business targeting small/medium-sized companies)<br>・High barrier to market entry<br>・Very experienced call center staff and engineers (non-price competition through services)<br>・Rich product lineup; provides products both as on-premises and by cloud (non-price competition through products)<br>・ Sales network (13 sales offices in Japan; 2,000 partnered companies) |
| Weakness | ・Relatively somewhat low profit margins<br>・Financial results susceptible to revisions related to accounting and tax laws, end of OS support, etc. (consumption tax, change in the name of the era, Windows 7, etc.)<br>・Maintenance service subscription rate is improving but could still be improved<br>・Absence of a major, next-generation, growth-driving product/service<br>・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)<br>・Potential to increase users of cloud service; development potential (toward small/medium-sized companies and mid-tier companies)<br>・New products (hyper, PCA Hub, etc.), new services (transition of on-premises to subscription-based model), and innovations in technology<br>・Development of HR businesses<br>・Revisions in regulations related to accounting and tax, etc. |
| Threat | ・Emergence of an alternative as advanced AI technology becomes widely used, delayed product development, defects in products, etc.<br>・High competition (maturation of on-premises market; other companies catching up with the Company in the cloud business)<br>・COVID-19 outbreak/prolongation<br>・Contract termination risk, etc.<br>・System troubles and information leakage<br>・Rise in personnel and development costs |

(Ref) Prepared by Alpha-Win Research Dept.

## ◆ Shareholder Return and Shareholder Benefit Program

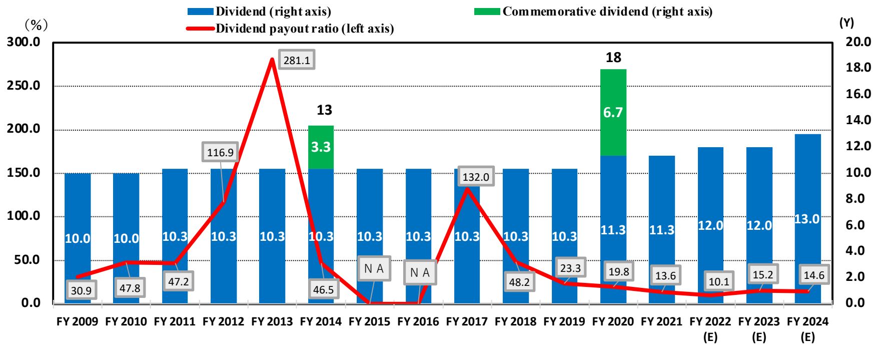
**Dividend Policy**

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

## Dividend History and Forecast

Regarding dividend, ever since the first public offering of the Company's stock, ordinary dividend has not been decreased and has generally been gradually raised with several years of no change in between (Figure 31).

**【Figure 31】Change in Dividend and Dividend Payout Ratio**




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

- **Ordinary dividend has been increasing. Dividend revised upward this fiscal year.**

Excluding commemorative dividend, the ordinary dividend had been kept at 10.3 yen/share per year since FY 2011 (retroactively reflects the 3-for-1 stock split on October 1, 2021, and rounded to the first decimal place; same applies hereinafter). Then, in FY 2020, it increased dividend to 11.3 yen and also paid a commemorative dividend for its 40th foundation anniversary (6.7 yen/share). In FY 2021, there was no commemorative dividend, and dividend returned to just the ordinary dividend of 11.3 yen/share, the amount after the dividend hike. This dividend had been planned to be maintained this fiscal year as well, but due to positive financial performance, dividend has been revised upward to 12.0 yen/share.

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

The target dividend payout ratio is 33%, but the actual ratio was 19.8% in FY 2020 and 13.6% in FY 2021, and the Company expects the ratio to be 10.4% in FY 2022 (the Company's forecast; 15.7% when calculated based on EPS excluding extraordinary income/losses), all below the target ratio. To achieve the target dividend payout ratio of 33% during this fiscal year, based on EPS excluding extraordinary income/losses, the Company would need to pay an annual dividend of 25.3 yen (dividend hike by 13.3 yen).

Dividend on equity (DOE), which is one of the Company's KPIs (key performance indicators), was 1.5% in the previous fiscal year or FY 2021 and was below its target of 2.5% (a similar level is forecasted for this fiscal year as well).

In recent years, stability and the level of profit have improved significantly, but there is still a large difference between the target and actual values for dividend payout ratio and DOE. Considering their common levels among companies, we believe that a further dividend hike will be necessary.

## Dividend Yield and Shareholder Benefit Program

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

Based on a stock price of Y1,617 (closing price on November 22, 2021, assuming dividend to be 12 yen), the annual net yield for this fiscal year will be about 0.7%.

The Company also 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 300 shares and less than 900 shares (based on the number after the stock split) are granted Y2,000 worth of Quo Card. Based on a stock price of Y1,617, the actual annual net yield for a shareholder owning 300 shares is about 1.2% (at maximum) including the ordinary dividend of 12 yen (after the stock split) and the shareholder benefit (Figure 32).

Based on the same conditions, the actual annual net yield is about 1.8% for OBC (4733: Obic Business Consultants) (including the shareholder benefit program) and about 2.2% for MJS (9928: Miroku Jyoho Service) (only dividend yield since it has no shareholder benefit program).

**【Figure 32】Shareholder Benefit Program and Actual Net Yield**

| Number of Shares Owned (greater than or equal to) | (less than) | Shareholder Benefit (Quo Card: Y) | Dividend: Y | Net Yield (maximum): % |
|---|---|---|---|---|
| 300 | 900 | 2,000 | 12 | 1.15 |
| 900 | 1500 | 3,000 | 12 | 0.95 |
| 1,500 | | 4,000 | 12 | 0.91 |

Net yield = (dividend + benefit value) / (stock price), calculated for the minimal amount of stock owned in each range
Stock price: Y1,617 (closing price on 11/22/2021)

(Ref) Prepared by Alpha-Win Research Dept.

**Stock Split**

- **3-for-1 stock split conducted**

A stock split had not been conducted since the 1.3-for-1 stock split in May 2000, but on October 1, 2021, it conducted a large, 3-for-1 stock split. The announcement of this stock split positively affected stock price and has led to increasing liquidity.

## ◆ Stock Price and Factors that May Affect Stock Price

**Performance**

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

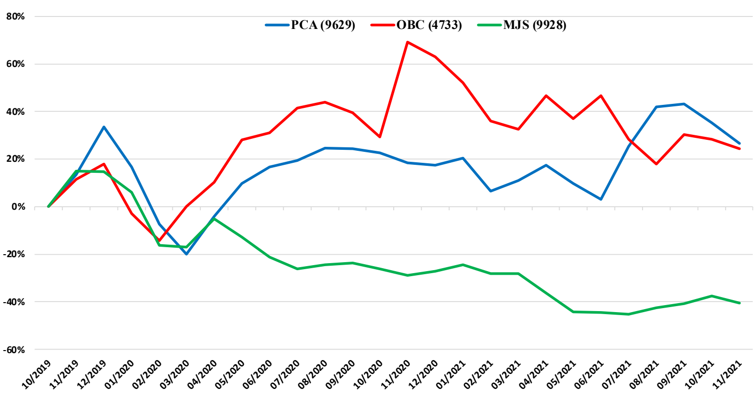
The Company's stock price and relative stock price compared to the TOPIX for the past approximately five years are described in the summary section (Figure C on page 3) (stock price has risen by approx. 4.3x over the past five years or so). Since around October 2018, the stock price has especially been increasing, significantly outperforming the TOPIX.

- **Outperforming its competitors over the past two years**

On the other hand, the market has recently tended to buy large-cap, economically sensitive stocks this year in anticipation of post-COVID-19 changes, and the Company's stock had been underperforming the TOPIX due to its defensive characteristic. However, it has been starting to outperform again after the announcement of Q1 results. Also, over the past two years, it has been showing a high performance compared to its two competitors (4733 Obic Business Consultants or OBC and 9928 Miroku Jyoho Service or MJS) (Figure 33).

**【Figure 33】Comparison of Stock Performance with Competitors**

**(Note: stock price as of the end of October 2019 was set to zero upon creating the graph. Reflects prices up through the closing price on November 22, 2021)**




(Ref) Prepared by Alpha-Win Research Dept.

## Valuation

◆ **No cheapness in valuation compared to the average of the entire TSE First Section**

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

Compared to the TSE First Section's forecasted average P/E of 15.8, the Company's P/E based on its forecasted values for this fiscal year is 14.0. Similarly, compared to TSE's actual P/B of 1.3 and dividend yield (simple average) of 1.9%, the Company's is 2.0 and 0.7%, respectively.

Based on the Company's forecast and excluding extraordinary income/losses, the Company's expected P/E after revision is 21.1 (calculated by Alpha-Win). Based on our forecast for profit, the P/E is expected to be 20.5 in the next fiscal year and 18.2 in the year after the next.

◆ **Valuation is around average compared to its competitors.**

When its valuation is compared with the two competitors, the Company's valuation is cheap in terms of P/B, but the lowest of the three companies for dividend yield. For the other valuation indicators, it is around average (Figure 34).

**【Figure 34】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 11/22 closing) | 1,617 | 5,440 | 1,708 |
| Market Cap (million yen) | 37,353 | 410,198 | 59,449 |
| P/E (price-to-earnings ratio) | 14.0 | 33.9 | 13.6 |
| P/B (price-to-book ratio) | 2.0 | 3.2 | 2.4 |
| Dividend Yield (%) | 0.7 | 1.3 | 2.2 |
| EV/EBITDA | 9.4 | 22.0 | 10.2 |
| P/S (price-to-sales ratio) | 2.8 | 12.1 | 1.6 |

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary
(Note) Market cap = shares outstanding x market stock price [at 11/22 closing]
EV/EBITDA = (market cap + interest-bearing debt - cash & deposits) / (O.P. + depreciation + intangible fixed asset amortization, etc.)
Interest-bearing debt and cash & deposits are actual H1 values. The denominator's values are from FY 2021.
The companies' forecasted EPS for FY 2022 used in all P/E calculations. BPS values used in P/B calculation are actual values as of the end of September 2021. Dividends are the companies' forecasts.
P/S = market cap / sales [the companies' forecasts for FY 2022]

◆ **The two cloud-accounting companies have extremely high valuations.**

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

*Money Forward (TSE Mothers: 3994)

・Market cap of Y452.6 billion at stock price of Y8,500（11/22 closing price）

・FY 2021 (November-ending) company forecast: sales of Y15,250 million and net loss of Y1,108 million (median values, since both were announced as ranges); no dividend (P/S of 29.7 [as reference, P/S = market cap / sales]; P/B of 39.7)

*freee (TSE Mothers: 4478)

・Market cap of 438.4 billion at stock price of Y7,940（11/22 closing price）

・FY 2022 (June-ending) company forecast: sales of Y14,361 million and operating loss (after adjustment) of Y2,461 million; no dividend (P/S of 30.5 and P/B of 9.3)

**Outlook**

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

Although there are still uncertainties surrounding the rise in prices of commodities and interest, as well as the economic situation such as China's real estate issue, the COVID-19 crisis is beginning to settle down in Japan and economic activities are expected to gradually normalize. The Company will most likely continue to be evaluated as a domestic-demand-oriented growth stock which has a strong subscription-based business (shifting packaged enterprise system software to the cloud/subscription services) and can benefit from the growth potential of this business as well as its advantageous position in terms of the government's promotion of the work-style reform and the expansion of the metal-health-related market.

- **Temporary sales and profit declines are possible next fiscal year, but expected to return to sales and profit growth trend starting in the fiscal year after the next.**
- **Considering the growth potential over the medium term, we believe that there may be an upside to the stock price.**

Sales and profits may decline temporarily in the next fiscal year as there will no longer be the event-driven high demand for its products and the extraordinary income that will occur this fiscal year. However, there seems to be limited downside to stock price since (1) the Company's estimates for the current fiscal year are somewhat conservative, with small downside risk in terms of profit, (2) with the cloud and the work management system as the growth drivers, sales and profit growth trends are likely over the medium term starting in the fiscal year after the next, (3) there is a high possibility that dividend hikes will occur and the Company has abundant cash and deposits that will enable it to conduct share buybacks and M&As, and (4) the valuation does not seem overpriced. In fact, over the medium term, there seems to be an upside to the stock price.

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

Going forward, the following are the key points to watch:
1) Performance of the cloud business (PCA Cloud's number of corporate users and sales growth rate)
2) Shift of users to subscription versions of the on-premises (PCA Subscription)
3) Progress with the development of new products, services, and businesses, their contribution to profit, and their market competition (especially regarding the financial performance of the acquired Dreamhop, and sales situation of hyper and PCA Hub)
4) Contents of the new medium-term management plan to be announced in the next fiscal year
5) Measures to return profit to shareholders such as dividend hikes, stock splits, and share buybacks
6) Progress with the M&A strategy
7) Introduction of business/profit management system and their effects
8) New tax systems and changes in regulations
9) Effective use of its accumulated cash

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