Alpha-Win Company Research Report

PCA
(9629 TSE Prime)

Issued: 7/4/2022

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

● Summary

Business Description

・PCA CORPORATION (hereinafter, the "Company") is an independent software manufacturer specialized in packaged enterprise system software. It is a major specialized player in the industry.
・The Company was founded in 1980. Since then, it has been providing on-premises or cloud-based software mainly to small/medium-sized companies. The Company's mission is to contribute to society as a "Management Support Company" that supports other companies in conducting smooth management and operation, with a focus on providing enterprise system software that realizes high-level automatization.

Last Fiscal Year's Financial Results and This Fiscal Year's Forecast

・The Company's financial results for the previous fiscal year (full year, FY 2022; note that the Company's fiscal year is March-ending, i.e., FY 2022 ended in March 2022) were mostly as expected with no surprises. Due to the change in the revenue-recognition standard, sales increased slightly compared to the FY before the previous (FY 2021). On the other hand, in response to the end of support for the PCA X series, there was a large, event-driven demand for product replacements, resulting in double-digit profit growths. Sales were Y13,382 million (+0.6% YoY), operating profit was Y2,655 million (+14.7% YoY), and net profit was Y2,367 million (+41.9% YoY).
・However, sales were slightly lower than the Company's forecast as well as Alpha-Win Research Department's forecast which had been somewhat higher than the Company's. On the other hand, profits exceeded the Company's forecasts and resulted in levels that were close to Alpha-Win's forecasts. Sales, operating profit, and recurring profit were the second highest in the Company's history, following the record-high sales and profits achieved in FY 2020 due to event-driven high demand. Since gain on sales of securities was recorded, net profit reached a record high.
・The Company announced its forecast for the current FY (FY 2023): sales of Y12,927 million, operating profit of Y1,100 million, and net profit of Y639 million. Due to the fallback from the high demand for the products and upfront investment costs for PCA Hub, etc., sales are expected to decrease by 3.4% and operating profit is expected to drop significantly by 58.0% during this FY.
・During the past fallback period following an event-driven high demand (FY 2015), sales and profits fell significantly and a net loss was posted. This time, though, the results are expected to be largely helped by the strategic shift of the business portfolio to the subscription-based business (maintenance + cloud service) which has high continuity and stability. Therefore, although profits are expected to decrease significantly, the Company expects that it will be able to absorb its upfront investment costs and maintain the operating profit at greater than Y1 billion.

Alpha-Win Research Department's Forecast of Financial Results

・Based on the Company's financial forecast for this FY and interview, we reviewed our forecasts for the next three years including this FY and have revised them downward.
・For this FY, we had expected a decrease in sales and profits in a fallback from the event-driven high demand. However, the Company's forecasts turned out to be lower than our forecast. The forecast that there will be an operating profit decline of a little less than 60% (a decrease of about Y1.56 billion) was a particularly negative surprise. This difference is most likely due to the fallback from the event-driven high demand for the products and the profit decline (about Y700 million) to be caused by upfront investments for PCA Hub, etc. However, the Company's estimates for this FY's sales growth rate of the cloud and overall profit margin seem somewhat conservative, and its forecasted profit for this FY has limited downside risks. Therefore, we predict that there is potential for an upward revision.
・From the next FY onward, under the assumption that economic activities will gradually normalize as the global economy stabilizes and the COVID-19 situation settles down, we predict that the Company will return to a sales and profit growth trend as its upfront investments peak out, the impact of the fallback from the event-driven high demand disappears, and the cloud business grows. We have not changed our prediction that the annual profit growth rate over the medium term (on a normalized basis excluding event-driven high demand) will be 8-10%, with the cloud business continuing to support its growth.

Competitiveness

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

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

Business Strategy

・The Company has announced the medium-term management plan for the three years starting this FY. Numerical targets for the final year or FY 2025 are as follows: sales of Y15 billion or more (of which, subscription-based sales are Y9.5 billion or more), consolidated operating profit of Y2.5 billion or more (profit margin of 16% or more), ROE of 10% or more, DOE of 2.5%, and dividend payout ratio of 30%. Excluding sales, all figures have already been mostly achieved in the past and they seem like conservative goals.

・The PCA Group's growth strategy is to provide total solution services centered on software. It will execute four priority measures (establishing a strong revenue base for the core businesses; creating new business opportunities; strengthening monozukuri or the creation of things with a focus on safety, security, and anticipation of needs; and establishing a highly profitable and sustainable management foundation). Basically succeeding the previous medium-term plan, it will respond to digitalization needs while proactively working on the SDGs.

・On the other hand, its biggest challenges are to effectively utilize its abundant cash and deposits (which exceed its annual sales) for future growth and to develop the new businesses that it has started (PCA subscription, hyper, HR business, PCA Hub, etc.) to put them onto track and monetize them.

Stock Characteristics and Price

・A defensive, domestic-demand-oriented, and small-cap growth stock that is positively influenced by the transition to a subscription-based business model, the work-style reform, and tax reforms. However, volatility of business performance and stock price tend to rise before and after event-driven high demands.

・In response to the forecast for this FY that profit will drop largely, the Company's stock price fell sharply and has been underperforming the TOPIX.

・Compared to the average value of all companies listed on the TSE Prime, the valuation of the Company's stock seems to be overpriced in terms of P/B based on the previous FY's financial results and expected P/E and dividend yield based on the current FY's forecasts.

・However, we believe there is an upside to the stock price over the medium to long term for the following reasons: its likelihood of achieving its forecasted profit for this FY seems high, a greater return of profit to shareholders can be expected over the medium to long term, its business is mainly subscription-based and is therefore stable and continuous, its subscription business has a high growth potential so it is expected to return to a growth trend for sales and profit starting next FY, and its P/E is expected to decrease. For the time being, stock price will likely be affected by whether the new businesses (especially PCA Hub) will succeed, the growth rate of the cloud business, and whether there will be changes in the tax system and accounting system.

Return of Profit to Shareholders

・The Company has been stably paying dividend and has been buying back its shares. In FY 2022, the annual dividend per share was 24 yen (stock split taken into account: ordinary dividend of 13 yen plus a special commemorative dividend of 11 yen), and dividend was essentially raised by about 12.6 yen. This FY, there will no longer be a commemorative dividend, and the ordinary dividend of 13 yen will be maintained.

・When the Quo Card shareholder benefit plan is taken into account, the actual dividend yield comes out to be 1.7% (maximum) based on this FY's figures. The dividend payout ratio is 40.7% based on the Company's financial forecast for this FY, which is higher than the target of 33%. However, we estimate that the DOE will be 1.8%, becoming lower than the target of 2.5% again. From the next FY, business performance is expected to recover, and we anticipate that the Company may further strength its return of profit to shareholders such as dividend hikes and share buybacks.

【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)
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	Old Standard	15,142	13.8	2,516	8.7	2,542	8.6					
2022	New Standard	13,382	0.6	2,655	14.7	2,697	15.2	2,367	41.9	118.36	847.14	24.00
2023	CE: New Standard	12,927	-3.4	1,100	-58.6	1,132	-58.0	639	-73.0	31.95		13.00
2023	E: New Standard	12,950	-3.2	1,300	-51.0	1,320	-51.1	700	-70.4	35.00	858.09	13.00
2024	E: New Standard	14,310	10.5	1,870	43.8	1,890	43.2	1,130	61.4	56.50	901.60	14.00
2025	CE: New Standard	15,000		2,500								
2025	E: New Standard	15,520	8.5	2,550	36.4	2,570	36.0	1,550	37.2	77.50	965.10	15.00

(Note) CE: the Company's estimate/forecast. E: Alpha-Win Research Dept.'s estimate/forecast. Forecasts for EPS, BPS, and dividend reflect the 3-for-1 stock split conducted on October 1, 2021 (past years have been revised retroactively). "Accounting Standard for Revenue Recognition (ASBJ Statement No. 29)," etc., have been applied starting in FY 2022. "Old Standard" is the previous revenue-recognition standard. "New Standard" is the new revenue-recognition standard.

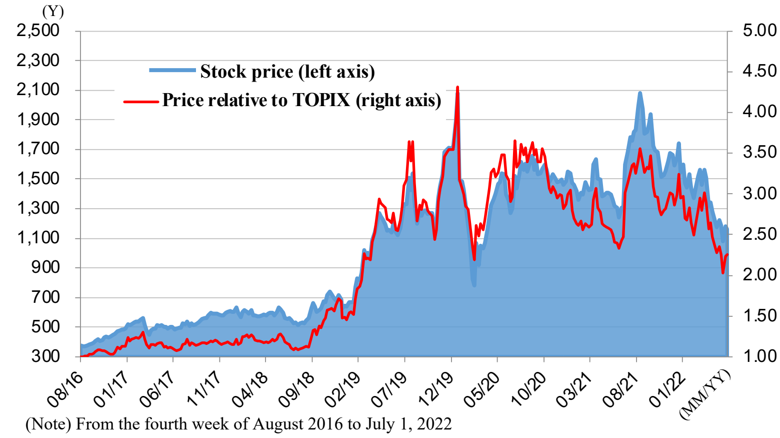
(Note) In this Report, the values for the same item may not match completely due to rounding, processing during calculation, method of display, etc.

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

Item	7/1/2022	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,158	Last FY's Results	9.8	1.4	2.1%	13.6%
Shares Outstanding (thou.)	23,100	This FY's Forecast	33.1	1.3	1.1%	37.1%
Market Capitalization (million yen)	26,750	Next FY's Forecast	20.5	1.3	1.2%	24.8%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End	59.7%	Last FY's ROE		14.4%

(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 July 1, 2022

【Performance】		
Period	Return	vs. TOPIX
1 month	-6.2%	-2.6%
3 months	-24.7%	-19.5%
6 months	-30.3%	-22.9%
12 months	-11.9%	-6.9%

(Note) Reflects stock price and index values through the closing price on 7/1/2022. The return for the 1-month period is the comparison between the closing price on the last day of May and the closing price on July 1. Similar for the other periods. Prepared by Alpha-Win Research Dept.

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Note: 1) Upon translating to English, when the page numbers differed from the original Japanese version, they were adjusted to those of the English version of the report. 2) The Company's fiscal year is March-ending, i.e., FY 2023 ends in March 2023.

1. Company Overview

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

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

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

(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.

◆ Major Specialized Player in the Enterprise System Software Industry

PCA CORPORATION (hereinafter, the "Company") is an independent, mid-tier, specialized company in the software industry. The Company is a specialist in developing and selling packaged software (software prepared for use in certain operations) for enterprise systems[1], such as those for accounting and tax. It is a major player as a specialist in such software for small/medium-sized companies.

About 240,000 companies are active users of the Company's products. Sales toward ordinary companies comprise greater than 90% of the total sales. With regards to the size of the corporate customers, the Company is especially strong in business toward small/medium-sized companies with 50 to 100 employees. 80% of the Company's sales are made via distributors (the remaining 20% are direct sales). 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.

As of the end of May 2022, the Company's group is composed of a total of four companies: the Company and three consolidated subsidiaries.

The consolidated subsidiaries are 1) Xronos Inc. (development/sales of work management system[2] and time clocks; the Company founded this subsidiary in 2001 with an 80% stake), 2) KEC Corporation (implementation support, operation, maintenance, and other services for PCA's products/services; wholly owned and founded in 1998 by the Company), and 3) Dreamhop Co., Ltd. (became wholly acquired) that was newly acquired in October 2020 (Figure 1).

For the details on the three consolidated subsidiaries, please see pages 20-23 of our report published on November 22, 2021.

【Figure 1】Overview of the Three Consolidated Subsidiaries

	Overview of Consolidated Subsidiaries		
Company Name	Dreamhop Co., Ltd.	Xronos Inc.	KEC Corporation
Headquarters Location	Iidabashi, Chiyoda-ku, Tokyo	Kanda Neribeicho, Chiyoda-ku, Tokyo	Fujimi, Chiyoda-ku, Tokyo (PCA Building)
	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)	Work 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
Customer	1,500 companies; 10,000 offices; more than 1,000,000 users PCA Corporation; 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; varous other government organizations and private companies. Used by companies and organizations of 10-100,000 people.	12,000 corporate users Number of users of Xronos Performance: 1,710,000 ⇒ 1,910,580 Number of users of X'sion: 431,784 ⇒ 515,412 (Both as of Nov. 15, 2021 ⇒ May 9, 2022; information on its old website)	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
PCA's Stake	100%	80%	100%
Number of Employees (as of the end of Sept. 2021)	15	110 (as of April 1, 2022)	42
Sales (for the most recent period)	Not disclosed	Y2,163 million (FY ended March 2021; information on 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	Mostly 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
Trends in Business Performance and Recent Situation	Expanding its business; has formed a business alliance with TOKYOTO BUSINESS SERVICE CO.,LTD. Its net loss seems to be improving thanks to streamlining.	Intense competition, but since it is a growing market, there is potential for development in areas such as construction. Solid business performance. Profitability seems high.	Since its business performance tends to be basically linked with the performance of PCA, sales and profit drops are expected this fiscal year. However, it seems to be generally posting a net profit.

(Ref) Prepared by Alpha-Win Research Dept. based on each company's website and securities report and interview with the Company. Each company's performance trends have been analyzed by Alpha-Win.

The Company acquired Keepdata Ltd. (hereinafter, "Keepdata") in March 2019 and made it its consolidated subsidiary (acquired 66.8% of the shares for approximately Y44 million). It had acquired this company as a foothold for the 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 a net loss and an excess of debt. Therefore, in December 2020, the Company sold all shares of Keepdata to a third party (sales price was not disclosed). The Company ended up selling Keepdata less than two years after its acquisition, but this decision had most likely contributed positively in terms of profit, since Keepdata's sales (estimated by Alpha-Win to be about Y80 million in the fiscal year before the previous) and net loss (similarly estimated to be several dozen million yen) were no longer included in the consolidated results starting in the previous fiscal year.

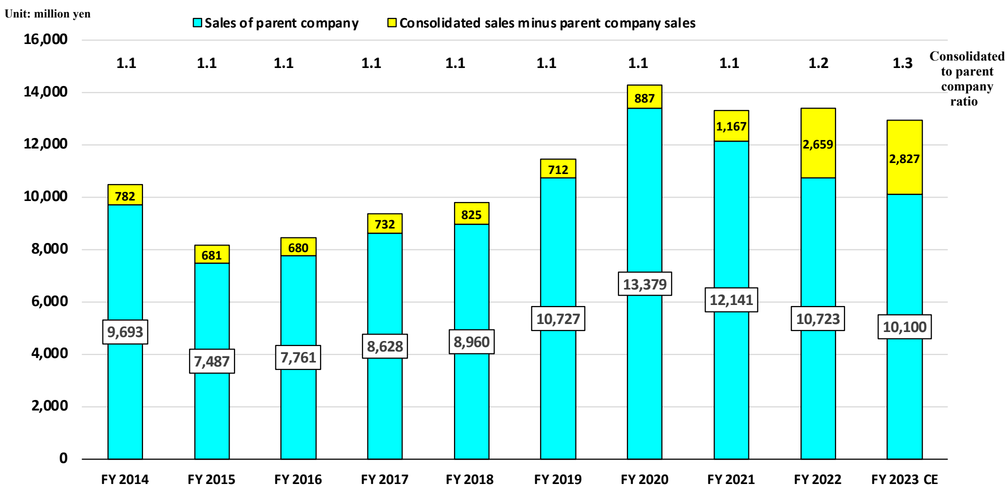
- **Consolidated-to-parent-company sales ratio has stably been around 1.1. The summed recurring profit of the consolidated subsidiaries (consolidated minus parent) has been a surplus.**

The ratio of consolidated to parent-company sales has stably remained at around 1.1, indicating that the parent company's financial results have a greater weight (Figure 2). This fiscal year, since the parent company's sales are expected to decline while the subsidiaries' sales will grow, the ratio is expected to become 1.3.

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 three subsidiaries, calculated by consolidated minus parent-company recurring profit, has been a surplus since FY 2016 (Figure 3 on page 7).

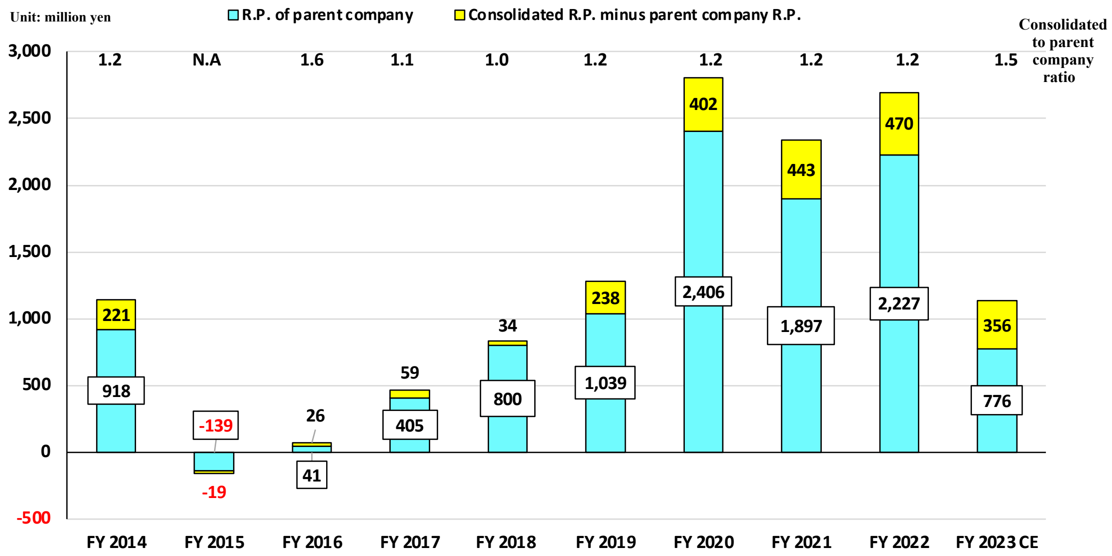
Among the subsidiaries, Xronos seems to continue to contribute the most to the financial results, thanks to the work-style reform. Its sales were Y1.5 billion in FY 2019 and Y2.16 billion in FY 2021. Sales of FY 2022 have not been disclosed at this point. In FY 2025, the company is planning for sales of Y4 billion (according to Xronos's former website). Although its profits have not been disclosed, the subsidiary has mostly likely been staying in the black along with KEC and contributing positively to consolidated profit.

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



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

【Figure 3】Ratio of Consolidated to Parent Company Recurring Profit (ratios shown on upper portion of graph)



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

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

◆ **Rich in cash. Debt-less management. FCF is positive. Cash & deposits are on an increasing trend, reaching levels that exceed the annual sales.**

The Company's financial standing is firm, rich in cash and debt-less. Relative to its sales of Y13.4 billion (last fiscal year's result) and total assets of Y28.4 billion, its debt is zero and it has Y16.1 billion in cash and deposits (values as of the end of March 2022), which is equivalent to 57% of total assets and 14.4 months' worth of average monthly sales.

Free cash flow (FCF) has been positive except for a certain period, and cash and deposits on the balance sheet (B/S) have been generally increasing (Figure 4). Regarding the financial ratios, its equity ratio is 59.7% and current ratio is 217.7%, also indicating financial soundness (values as of the end of March 2022).

【Figure 4】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	FY 2022
Operating CF ①	627	488	141	847	1,048	547	1,427	1,533	1,270	2,141	3,328	1,632	3,684
Investing CF ②	-405	-127	185	-407	-750	-606	-627	-395	1,715	-80	-719	253	708
Financing CF	-207	-210	-205	-215	-216	-284	-214	-215	-216	-572	-225	-355	-254
FCF (①+②)	222	361	326	440	299	-60	800	1,137	2,985	2,061	2,609	1,885	4,392
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	16,090

(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.

◆ Renewed Tagline and Product Brand

Tagline

- **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, it aims to help improve back-office productivity, understand and support the working people, and contribute to its corporate customers' customer success for their greater development (Figure 5).

【Figure 5】New Tagline

【Figure 6】New Brand Logo

- **Renewed the names and logo designs of its product series. The rebranding is aimed at raising recognition as a subscription brand.**

Branding

In January 2022, the Company rebranded the names and logos of its products and services. The names based on the DX series were abolished, and it created new product names and logos linked with PCA Cloud and PCA Subscription[3]. Through these changes, it aims to raise recognition as PCA of subscription services (Figure 6).

(3) PCA Subscription: Instead of purchasing or owning packaged software, monthly or annual fixed fees are paid for the amount of use. Not cloud-based; operating equipment is built and managed in-house.

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 the 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 in which 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.

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

◆ Business Model with High Continuity and Marginal Profit Ratio

The Company provides a total of about 26 types of software (counted by product name, including options). Its business model is based on the mass production of a limited number of types of products. Due to the nature of its business, its marginal profit ratio is high. Its original products and services (products/maintenance/cloud) account for a little over 70% of the total sales, while the remaining 30% 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. 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.

◆ Expansion of the Highly Stable and Profitable Subscription-Based Business

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

Until FY 2016, sales and profit/loss had been disclosed for the four business segments of "for ordinary companies," "for non-profit organizations," "medical," and "cloud." Since FY 2017, though, all business segments have been consolidated into one, and sales have been disclosed for five sales categories (types): "products," "merchandise," "maintenance service," "cloud service," and "other operating revenue (also called "solutions")" (Figure 7). Profit and loss by segment are no longer disclosed.

【Figure 7】Sales Classification (by category)

Sales Classification by Category	Contents	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)	2,954	22.1	About 65%
Merchandise	Sales of other companies' products such as ledger sheets	439	3.3	About 30%
Maintenance Service	By signing up to PSS membership, users can receive inquiry and support services from call centers	3,316	24.8	About 75%
Cloud Service	Subscription service for software provided via the cloud	5,568	41.6	About 65%
Other Operating Revenue	Sales of other companies' products such as software/hardware combined with its original products; also called "solutions"	1,103	8.2	About 60%
Total & Average		13,382	100.0	Result: 65.8%

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and interview. Gross margins have been estimated by Alpha-Win. Sales for each category are based on the new standard.

(Note) Maintenance service and cloud service are the subscription-based businesses.

In recent years, sales of cloud services of 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 2022, sales of the cloud service were 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), account for about 66% of the total sales. The maintenance and the cloud services have high gross margins and contract repeat rates and they have been stable sources of profit, contributing to a greater stability in business and profit.

- **Subscription-based businesses (maintenance & cloud) account for about 66% of the total sales.**

On the other hand, sales of products and solutions (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 operation type of software. However, it has been working with an external IT consultation firm to create and adopt new performance management indicators to prepare for the transition from sales-based management to profit-based management. The Company has commented that the profit margins of each operation type of software 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).

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

◆ Cloud Business as the Growth Driver

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 edge.**

In the cloud business, users pay fees continuously for a certain period to use the software (subscription model). It is attractive as a stable, subscription-based business model, similar to the maintenance service (average monthly fee of 20-30 thousand yen per corporate user). Due to its cost structure, this business has relatively small variable costs such as those for server maintenance, manufacturing, sales, and logistics. It therefore 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 19,000 corporate users of the cloud service already; well profitable
- Therefore, it has a very strong price advantage compared to competitors
- More than ten years' worth of operation expertise
- User-friendly, 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 available 24 hours, 365 days (max number of licenses for simultaneous use expanded from 3 to 72 CAL).

In recent years, it has been focused on the cloud service, and the number of users as well as sales has been growing steadily (Figure 8 on page 12).

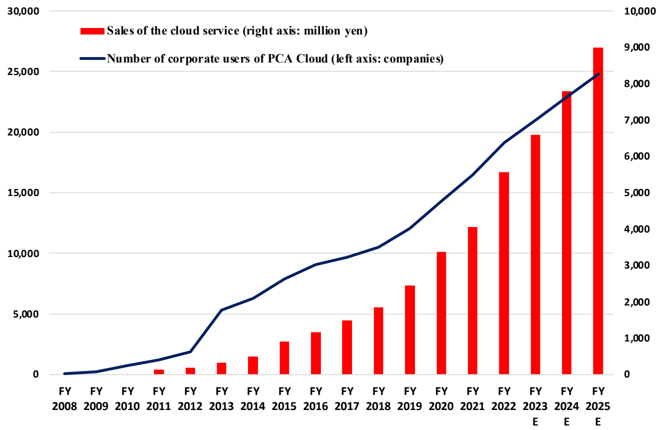
(6) API (Application Programming Interface): interface/network to operate software; connects the software and the program.

(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.

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

During the expansion phase amidst the COVID-19 crisis, there was some temporary slowdown in the growth rate. However, both the net number of users and the sales growth rate increased at accelerate rates in the previous fiscal year, partially due to the event-driven high demand, and the business is believed to continue to be the Company's main growth driver.

【Figure 8】Change in the Number of Corporate Users of PCA Cloud and the Sales of Cloud



(Note) Sales from FY 2008 to FY 2010 have not been disclosed. Estimates are partially included in the number of corporate users of 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.

- **PCA Hub service centered around PCA Hub eDOC was started in March 2022. Cloud service for document management that also supports the application of the Electronic Books Maintenance Act.**
- **Monthly-subscription-based business model. Aiming to gain 2,000 corporate users in the first year.**

(9) hyper (PCA hyper): new software for mid-tier companies as a successor to Dream21. A superior version of the DX series. Users can flexibly select between or combine on-premises and cloud versions according to their stage of growth. Its unique feature is that smooth linkage can be made with other systems using API, allowing streamlining of data management within an entire corporate group (consolidated accounting).

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

◆ Started the PCA Hub eDOC Service

The service series PCA Hub (hub as in "the center of something") was started in March 2022. PCA Hub is a new service that helps small/medium-sized and mid-tier companies share core business data and shift to paperless internal operations and B2B transactions, thereby contributing to the digitization of the Japanese society.

As the first service of the series, PCA Hub eDOC was released. It is an online storage service (cloud-type document management service) that allows companies to safely and securely share important business data and files internally. Linked with the PCA DX series and the hyper[9] series, it enables the collective management of business-related documents. It is a tool for optimizing operation efficiency by promoting 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[10].

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 into a stable source of revenue.

There are three price plans depending on the number of users and storage capacity, with monthly fees of Y6,380, Y10,780, or Y19,580 (plus, paid options available). Under the concept of "online storage service that provides *levels of operation efficiency optimization that seemed out of reach* at *prices within reach*," the pricing system is set at easy-to-introduce prices. The Company aims to gain 2,000 corporate users in the first year after release (annual full contribution to sales of approx. Y153 million to Y470 million).

3. Shareholder Composition

◆ Change in Composition by Type of Shareholder

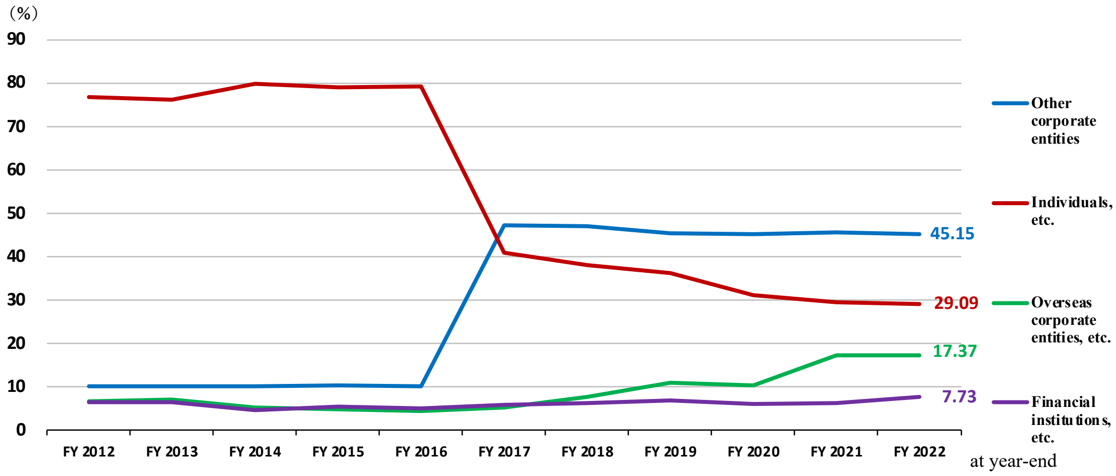
- **Percent of shares held by overseas corporate entities has increased.**

Regarding shareholder composition by shareholder type as of the end of March 2022 (Figure 9), the sum of "other corporate entities" and "individuals, etc." accounts for greater than 60% of the total. There has been no significant change compared with the end of FY 2021, with the proportions of "individuals, etc." (29.1%, of which 13.4% are treasury shares) and "overseas corporate entities, etc." staying mostly the same and financial institutions rising only by 2 basis points.

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

Note that upon inheritance from the founder (Masao Kawashima), individually owned shares were transferred in FY 2017 to the general incorporated association Kawashima Co., Ltd. (the founder family's asset management company, categorized under "other corporate entities").

【Figure 9】Change in Shareholder Composition by Type of Shareholder (unit: %)



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

◆ Major Shareholder Composition

- **No change to stable shareholders in Japan**

Major shareholders as of the end of March 2022 are shown in Figure 10 on page 14. Compared to the end of March 2021, shares held by the top ten major shareholders have practically not changed by a large amount (the three-for-one stock split did cause the number of shares to increase), except for custodians (trust banks) and the Employee Stock Ownership Plan.

- **The largest shareholder is the founder family's asset management company.**

・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).

- **PCA owns 13.4% of its own shares and is essentially the second largest shareholder.**

・Although not listed among the major shareholders, the Company itself has essentially been the second largest shareholder for many years. After Kawashima Co., Ltd. indicated its intention to sell its shares, the Company additionally acquired the shares in a tender offer. As a result, it currently owns a total of approx. 13.4% of its own shares.

【Figure 10】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 Mar. 2022	Shareholding Ratio	Ranking
Kawashima Co., Ltd.			8,805	8,805	8,208	8,205	8,208	8,208	41.04	1
PCA CORPORATION (treasury shares)	*2,544*	*2,544*	*2,544*	*2,546*	*3,146*	*3,136*	*3,101*	*3,101*	*13.42*	—
JP MORGAN CHASE BANK 385632							1,014	1,399	6.99	2
The Master Trust Bank of Japan, Ltd. (trust account)							284	1,137	5.68	3
MSIP CLIENT SECURITIES						885	886	886	4.43	4
Obic Business Consultants Co., Ltd.	762	762	762	762	762	762	762	762	3.81	5
FCP SEXTANT AUTOUR DU MOUDE								377	1.88	6
PCA Employee Stock Ownership Plan	330	357	381	381	406	300	337	349	1.74	7
Logic Systems Co., Ltd.	342	342	342	342	342	342	342	342	1.71	8
Nagoya PCA Co., Ltd.		300	300	300	300	300	300	300	1.50	9
APPLIED SYSTEM LABORATORY Inc.			258	258		258		260	1.29	10
GOLDMAN SACHS INTERNATIONAL					909					
Custody Bank of Japan, Ltd. (trust account)										
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)							463			
JPMBL RE NOMURA INTERNATIONAL PLC 1 COLLEQUITY							359			
JP MORGAN LUXEMBOURG S.A. 1300000										
MSCO CUSTOMER SECURITIES										
Credit Suisse Securities						1,416				
Japan Trustee Services Bank, Ltd. (trust account)						267				
SSBTC CLIENT OMNIBUS ACCOUNT						261				
Mizuho Bank, Ltd.	363	363	363	363	363					
BNYM SA/NV FOR BNYM FOR BNY GCM CLIENT ACCOUNTS M LSCB RD										
Shigefumi Wada (individual)	543	543	543	453	335					
State Street Bank and Trust Company 505001	732	747	798	798	521					
KBL EPB S.A. 107704				270	282					
Reiko Sato (individual): Heir to the founder Masao Kawashima	4,401	4,401								
Tomoko Kumamoto (individual): Heir to the founder Masao Kawashima	4,401	4,401								
Hiroko Wada (individual)	1,074									
Proportion of Treasury Shares to All Outstanding Shares	11.0	11.0	11.1	11.0	13.6	13.6	13.4	13.4		

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. Number of shares in March 2022 is the number after the three-for-one stock split. Numbers previous to this are numbers before the split.

- **MFS, a major US-based investment management firm, holds more than 5% of all shares and has submitted a statement of large-volume holdings. It seems to be continuing to hold the shares.**

・The second largest shareholder is JP Morgan Chase Bank.

Massachusetts Financial Services Company ("MFS") owned 5.22% of shares (401,900 shares) as of March 31, 2021, and had submitted a statement of large-volume holdings (the "5%-rule" statement). It has later purchased more shares and submitted a change report indicating that it held 6.23% (479,400 shares) as of May 31, 2021. A change report has not been submitted since then.

MFS is one of the oldest investment firms in the US. It invests globally and its AUM is 692.6 billion dollars (approx. 80 trillion yen as of the end of December 2021). Characterized by a long-term, active investment style, it has an office in Japan and invests in many Japanese equity as well.

Although MFS is not included in the list of major shareholders shown in Figure 10, it is presumably investing through several accounts including JP Morgan Chase Bank at second place (ranking excluding the Company with its treasury shares; the same applies hereinafter).

- **Several Japanese and overseas institutional investors, etc., are mostly likely investing in the Company through custodians.**

The third largest shareholder, Japan Trustee Services Bank, Ltd. (trust account), raised its shareholding ratio from 1.4% to 5.7%. The shareholding ratio of the fourth largest shareholder, MSIP CLIENT SECURITIES, has not changed.

Although there are trust banks and custodians among the major shareholders, their final investors and investment purposes are unknown. However, they are predicted to be pure investments by Japanese and overseas institutional investors and funds.

Regarding investment trusts in Japan, the Company's shares are incorporated in index funds including those managed by Asset Management One, Daiwa Asset Management, and Sumitomo Mitsui DS Asset Management.

◆ **Its rival OBC is also the fifth largest shareholder.**

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

◆ **A French investment fund newly became a major shareholder.**

The sixth largest shareholder, FCP SEXTANT AUTOUR DU MONDE, newly appeared as a major shareholder and holds 1.9% of all shares. It is an equity investment fund managed by the French company Amiral Gestion (an independent asset management company founded in 2003 and focused on long-term investments; total investment amount of 4 billion euro). The fund invests in equities of OECD and emerging countries. Its exposure to Japanese equities is up to 28% of its portfolio and it is also a major shareholder of several Japanese equities such as Uniden HD.

・There has essentially been no large change in the number of shares held by the Employee Stock Ownership Plan at seventh place, Logic Systems Co., Ltd. (investment purpose unknown) at eighth place, Nagoya PCA Co., Ltd. (a company to which the Company outsources a part of its software development of SHOKON and other products) at nineth place, and APPLIED SYSTEM LABORATORY Inc. (investment purpose unknown) at tenth place.

◆ **There seems to be no activist 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.

4. ESG

◆ Environment

- **Promoting paperless operations**

Since the Company does not directly own any production facility, its business is not the kind that harms the environment. It has been working on digitalizing internal documents, invoices, and other papers to make them completely paperless. It also makes consideration for business activity efficiency and conservation of energy and electricity.

◆ Society

- **Supporting digitalization of small/medium-sized companies**

As its mission statement, the Company has declared to "support customers' businesses through enterprise system software." The concept is that it is fulfilling its social responsibility by contributing to the improvement of user convenience and efficiency. It plans to especially focus on supporting small/medium-sized corporate users and helping them digitalize.

- **Proactively supporting people with physical disabilities and the spotting and training of IT talents**

Through sponsorship, the Company supports the spotting and training of talented programmers who will shape the future as well as promoting athletics such as the marathon. It also operates a farm in Chiba Prefecture where it proactively hires physically disabled employees. It purchases flowers, lunchboxes, bakeries, etc., from companies that hire physically disabled employees.

- **Working on improving the working/workplace environment**

In addition, under the concept that the enhancement of the working environment of each individual will lead to the sustainability of the Company as a whole, it has been focusing on promoting new work-styles, for instance, by promoting work-life balance and actively introducing remote work environments, using the technologies and other expertise that it has cultivated through its business activities. In fact, the return-to-work rate for employees who have taken a maternity leave is 100%. The Company also has no dress code, employees can request for paid holidays starting from one hour, and employees can take nursing leaves and child nursing leaves (five days each per year). It has been working on creating and enhancing the working environment for everyone.

- **Promoting diversity in terms of gender. Has set goals to increase the percentage of women.**

In the general employer action plan pursuant to the Act on Promotion of Women's Participation and Advancement in the Workplace, the Company has set goals to raise the percentage of female employees at section-head-levels from the current 20% to 25% and raise the paid holiday acquisition rate from 68% to 70%. Also, based on its action plan pursuant to the Act on Advancement of Measures to Support Raising Next-Generation Children, it is working on initiatives such as providing subsidies for the use of welfare services related to child rearing and placing measures to encourage the acquisition of annual paid holidays.

◆ Governance

For internal control, the Company has set up an internal audit office that directly reports to the president which is operated also in coordination with the outside directors. It has also set up a risk control committee with the president as the chairperson and has created a risk control system that allows flexible, quick, and appropriate response to risks. It does not have an executive officer system.

- **Of the total of 12 board members, two are women. Six are outside directors and auditors.**

Its board members have all been reappointed. It has eight directors (of which, three are outside directors) and four auditors (of which, three are outside auditors, one is a tax accountant, one is a CPA, and one is a lawyer). Of this total of 12, two are women.

5. History of Growth

◆ Company History

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

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

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

Then, with the emergence of the PC era, the Company 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[11]) in 2008.

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

- **Changed its market listing from the Second to the First Section of the TSE in Dec. 2014. Moved to the Prime Market in April 2022.**

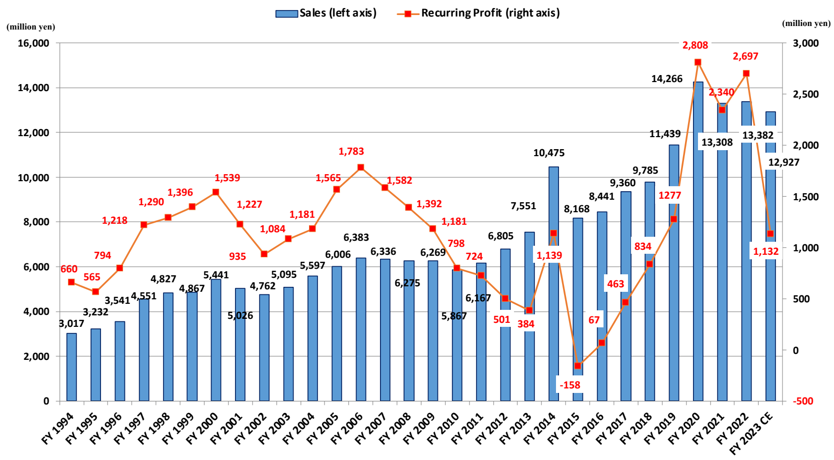
Regarding stock, the first public offering was made in 1994. The Company became listed on the Second Section of the TSE in 2000 and then on the First Section in 2014. Upon becoming listed on the First Section of the TSE, the Company changed its logo to the current one. In April 2022, it moved to the TSE Prime Market.

◆ Past Transition in Financial Results

- **Has been generally increasing sales over the long term. Profit had temporarily weakened, but then recovered in a V-shape. Profit expected to decline again in FY 2023.**

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 11. The following is supplemental information on the financial results in chronological order.

【Figure 11】Long-Term Transition in Financial Results



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. Estimate/forecast (CE) for FY 2023 is from the Company's plan (based on the 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 some time, being unable to maintain or exceed the high 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 a fallback from 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.**

・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[12] (integrated enterprise system) product Dream 21 (former product name).

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

- **Results weakened after the Lehman shock. In FY 2014, record-high sales of the time were achieved (Y10 billion) due to an event-driven high demand.**

・In FY 2014, record-high sales (Y10,475 million) were achieved thanks to the high demand driven by two events: the 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 a fallback from 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) due to the sales decline in a fallback from the high demand stimulated by two events 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 12 on page 19). 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, expenses (subcontractor costs), and R&D costs.

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

・However, since FY 2016, the Company has been increasing sales again and the decline in gross margin had stopped. Operating margin bottomed out and began to gradually increase thanks to increased sales of the new products and the cloud and cost reduction. 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.
・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 profits.**
- **This fiscal year, sales and profits are expected to decline temporarily in a fallback from the event-driven high demand.**
- **For the past six fiscal years, its profit results have exceeded its initial plan. In the past, revisions to financial forecasts have often been announced in September or February to April of the following year.**

・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 economic recovery. Since FY 2017, the Company has generally been stably and continuously making and increasing profit.

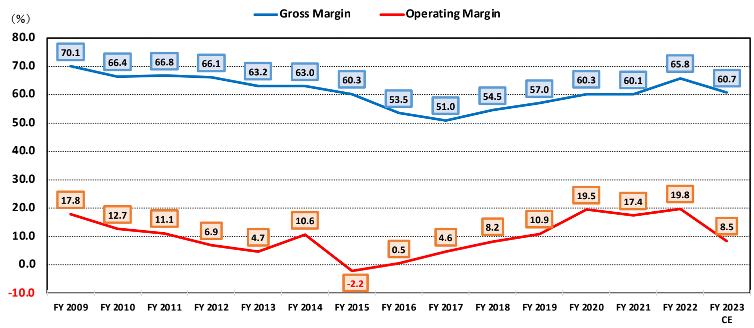
・In FY 2020, thanks to the event-driven high demand (rise in the consumption tax rate, end of Windows 7 support, version upgrades related to the change in the name of the era, etc., led to an early demand of a little over a billion yen, as estimated by the Company), sales and profit grew significantly,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

・In a fallback from the event-driven high demand, sales and profits declined in FY 2021. In the previous fiscal year (FY 2022), although there was a negative impact from the change in the revenue-recognition standard[13], sales and operating profit became the second highest in the Company's history due to the high replacement demand in response to the end of support for the older products. In a fallback from this event-driven demand, sales and profits are expected to decline temporarily this fiscal year.

As reference, the Company's past initial forecast and actual results over the years were compared (Figure 13). Although the actual results have sometimes greatly deviated from the initial forecast, since FY 2017, the 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.

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

【Figure 12】Long-Term Transition in Gross Margin and Operating Margin



【Figure 13】Comparison of the Company's Initial Financial Forecast and Actual Results over the Years

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	*Initial forecast*	Actual result	*Initial forecast*	Actual	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	*12,447*	13,382	*1,866*	2,655	*1,899*	2,697	*1,192*	2,367	7.5%	42.3%	42.0%	98.6%	0.6%	14.7%	15.3%	41.9%
FY 2023 (CE)	*12,927*		*1,100*		*1,132*		*639*		*Ratio of This FY's Forecast to Last FY's Result ⇒*				-3.4%	-58.6%	-58.0%	-73.0%
Simple average of difference (unit: %), calculated based on the longest period with available data for sales & profits (excluding this FY) →									-0.5%	72.1%	40.9%	61.1%	5.4%	71.7%	50.7%	26.8%
Pink highlight: 2nd highest record	Green highlight: Record high		From initial forecast, upward revision : downward revision (unit: # of times)→						9:12	9:6	14:7	10:10	↑ Simple average of each period (excluding this FY)			

(Ref) Figures 12 and 13 were prepared by Alpha-Win Research Dept. based on the financial results summary. The FY 2023 forecasts/estimates (CE) are from the Company's plan. (Note) The new revenue-recognition standard has been applied starting in FY 2022 (CE).

6. 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 staff shortage 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

- **Although there was a period of relief regarding the worsening business environment of small/medium-sized and mid-tier companies, it has started to worsen again.**

According to the Bank of Japan Tankan for March 2022, amount of software investment in 2022 (plan) by small/medium-sized companies (all industries) is planned to rise by +5.6% YoY (of which, +23.6% for manufacturing and -1.4% for non-manufacturing), with growth especially expected for the manufacturing industries. Mid-tier companies are also showing an eager attitude toward software investment, with an increase of +17.5% (+16.3% and +17.8%, respectively) expected. Regarding the survey on business sentiment among small/medium-sized companies, the "recent" sentiment declined from -3 in the December 2021 survey to -6, and "outlook" also declined from -4 and -8. Although there was a period of relief from the worsening business sentiment, the sentiment is beginning to somewhat worsen again (similar for mid-tier companies).

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. With the increasing digitalization and shift to online activities, the B2B market seems to be gradually expanding (our estimate for the annual growth rate is +4 to +5%).

We estimate the current size of the enterprise system software market in Japan specifically related to the Company's business to be approx. Y500 billion and the size of the ERP market to be approx. Y100 billion. Annual growth rate is predicted to be about 3% and 10%, respectively, over the medium term.

- **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 "WHITE PAPER," the penetration rate of the cloud in Japan has grown from 2017 to 2020 from 26% ⇒ 38% for "payroll / financial accounting / HR" and from 6-8% ⇒ still at a low rate of about 10% 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 about 20%

per year over the medium term as it replaces a part of the outsourced system development or packaged software (on-premises) market.

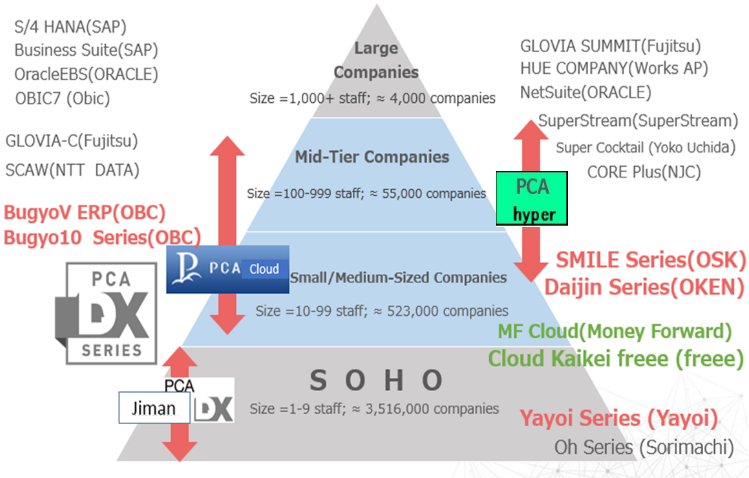
◆Comparison with Competitors

Positions and Main Players of the Industry

- **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.**

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

【Figure 14】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 unlisted companies, Yayoi Co., Ltd. (in the fiscal year ended September 2021, sales were Y21,193 million, recurring profit was Y4,937 million, and the number of users were a little over 2.5 million) that was purchased by Kohlberg Kravis Roberts & Co. L.P. ("KRR") from ORIX Corporation (8591; listed on TSE Prime; headquartered in Minatoku, Tokyo; Makoto Inoue as president), 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, 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, freee, and Yayoi in a part of the cloud-based accounting software business.

In the cloud accounting market, Money Forward (TSE Prime 3994; providing cloud services such as household accounting application for individuals and accounting software for companies) and freee (TSE Growth 4478; providing ERP services or cloud accounting software for small businesses) are also its competitors among listed companies. Among unlisted companies, it also competes with Yayoi. All of these companies 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 the Three Similar, Major Listed Companies

◆ Improvements in margins and capital efficiency

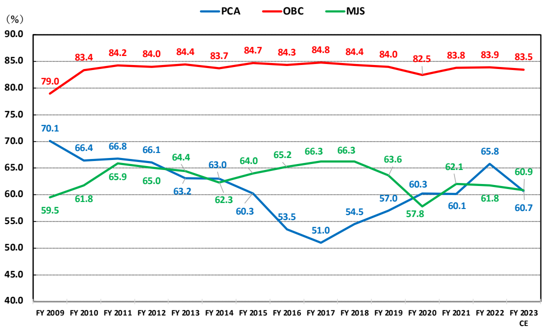
A comparison of the long-term transition in gross margin and operating margin of the three major listed companies (the Company, OBC, and MJS) is shown in Figures 15 and 16. Compared to the Company, both margins are stable for OBC and MJS. This is presumably due to the difference in the sales composition (the percentage of support service sales and cloud sales) and the economies of scale (the sales of OBC and MJS are about 2.6x and 2.7x greater than the Company, respectively, and similarly their operating profit is about 6.1x and 1.8x greater, respectively, according to last fiscal year's results).

Both competitors used to have a lower subscription rate for the maintenance support service but succeeded in raising this rate strategically, resulting in a greater earning power. However, through its focus on the subscription business, the Company's profit margins have also been improving and becoming stable in recent years excluding the period of fallback from the event-driven high demand.

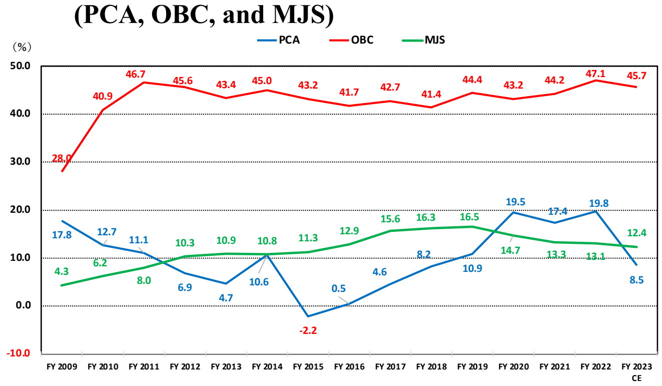
Similarly, the transition in the Company's ROA and ROE, shown in Figure 17, indicates that its capital efficiency has also been significantly improving. In FY 2022, the Company has not been largely different from its competitors, with the ROA and ROE being 10.0% and 14.4% for PCA, 10.4% and 8.9% for OBC, and 11.0% and 21.4% for MJS, respectively. As reference, the overview of the three companies is compared in Figure 18 on page 23.

(Ref) Figures 15-18 were prepared by Alpha-Win Research Dept. based on the securities reports. Estimates/forecasts (E) are from the companies' business plans.

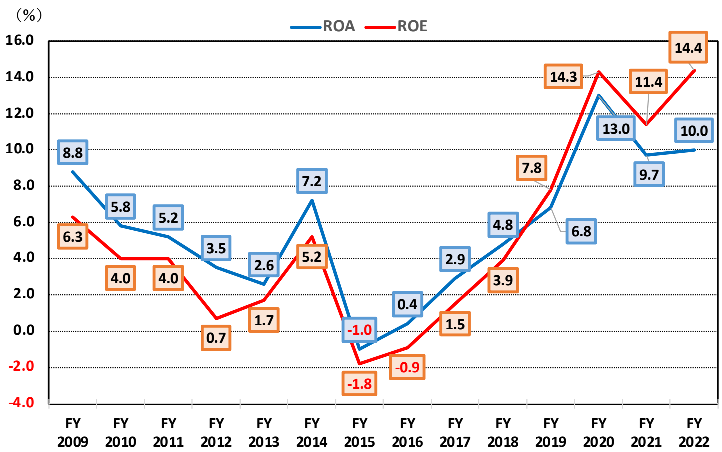
【Figure 15】Long-Term Transition in the Gross Margin of Three Major Listed Companies (PCA, OBC, and MJS)



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



【Figure 17】Transition in the Company's ROA and ROE



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

【Figure 18】Summary of the Comparison of the Three Competing Companies

Company Name	PCA	Obic Business Consultants (OBC)	Miroku Jyoho Service (MJS)
Code	9629	4733	9928
Characteristics	Development and sales of packaged enterprise system for mainly small/medium-sized companies. Second-tier in the industry. Taking a lead in cloud services. No. 1 in industry in sales toward public benefit corporations.	Development and sales of packaged enterprise system for small/medium-sized companies. Became top-ranking in the industry from rapid growth in the early days of the OS W95, NT, etc. Highly profitable structure; largest player in the industry by profit. No. 1 in packaged software for financial accounting, payroll, HR, and labor management.	Top market share (25%) in software for accounting firms. Recently, also strengthening development/sales of software for mid-tier and small/medium-sized companies. Largest player by sales among the three companies.
Founded	Aug. 1980	Dec. 1980	Jan. 1977
Date Listed on the Market	Mar. 1994	Oct. 1999	Aug. 1992
Sales Categories/Breakdown (FY 2022)	・Cloud Service 41.6% ・Maintenance Service 24.8% ・Products 22.1% ・Merchandise 3.3% ・Solutions 8.2%	・Products 53.2% (Of which, solution technologies 44.1%) (Of which, related products 9.1%) ・Services 39.2%	・Revenue from services 35.5% (general maintenance) ・Sales from system installation contract 55.3% (Software 33.9%) (Useware 12.9%) (Hardware 8.5%) ・Other 9.2%
Sales Method	20% direct sales; 80% indirect sales through dealers/makers	Nearly 100% indirect sales through dealers, makers, etc.	Nearly 100% direct sales; for ordinary companies, mostly direct sales through referrals by accounting firms
Number of Bases	13 offices; 2,000 sales partners	11 offices with customer service personnel; 3,000 sales partners	31 sales/support offices throughout Japan; accounting firms acting as sales partners (referrals)
Number of Active Users (approx.)	200,000 companies	200,000 companies	8,400 accounting firms; 170,000 ordinary companies
Percentage of Maintenance Service Subscription among Total Number of Active Users	Approx. 70%	Approx. 80%	Nearly 100%
Management Goals	Medium-Term Management Plan 2024 (FY 2023 - FY 2025) ・Sales ≥ Y15 bil (of which, subscription-based sales ≥ Y9.5 bil) ・Consolidated O.P. ≥Y2.5 bil ・Consolidated O.P. margin ≥16% ROE ≥10%, DOE ≥2.5%, dividend payout ratio 30%	Undisclosed mid-term targets. Focused on profit indicators. Maintaining or increasing O.P. margin and R.P. margin while increasing sales to continue to grow as a highly profitable company. In FY 2023, it aims to shift all of its services to subscriptions: 1) responding to DX and law revision needs, 2) DX-Suite VERP SaaS model, 3) shift to subscriptoin and DX based on sales strategy as its priority measure	Newly created the medium-term management plan Vision 2025 (FY 2022 - FY 2026). In the final fiscal year, it aims to achieve sales of Y55 bil (CAGR: 10.7%), R.P. of Y12.5 bil (similarly, 27.2%), record-high sales and R.P., and ROE of more than 20%. Existing ERP biz: start digital marketing, shift to cloud and subscription models, secure a stable source of revenue, and achieve continuous growth. New biz: Become No.1 in Japan as integrated DX platform through which anyone can easily achieve DX to adapt to the digital, non-face-to-face era.
Business Strategy and Priority Measures	・Establish earnings base for the core businesses (strengthen & promote sales of PCA Cloud and strengthen on-premises biz) ・Create new business opportunities ・Strengthen business foundation to become structurally highly profitable ・Strengthen monozukuri (creation of things) by anticipating needs	Strengthen "core competence." Focused on the following: ・Enterprise operation services ・Focus on mid-tier and small/mid-sized companies ・Shift existing customers to cloud using IT Introduction Subsidies ・Microsoft technology ・Partnership strategy (build a strong ecosystem with OBC Business Parnters, OBC Accountant Partners, and Connect Partners) ・Branding strategy ・Secure/train employees (HR)	・"No. 1 in accounting firm network" strategy ・"Comprehensive solution business for mid-tier and small/mid-sized companies" strategy ・Integrated DX platform strategy (new biz area) ・Shift to cloud/subscription biz model ・Promote individual growth of subsidiaries through group-wide coordination enhancement ・Build HR and management foundation to accelerate strategy execution
Main Types of Enterprise System Software (approx.)	・Approx. 26 types (by name of product; includes options) ・Originally developed with in-house platform	・12 types for the flagship Bugyo series ・Total of approx. 60-80 types by product name, including other software ・Development focused on Microsoft platform for both on-premises and cloud	・1 module for accounting firms ・6 modules for ordinary companies (each module contains software for several operation types)
Sales (million yen) CE for FY 2023	*12,927*	*37,000*	*32,150*
Gross Margin (%) FY 2023 Est.	*65.8*	*83.9*	*61.8*
Operating Profit (million yen) Est.	*1,100*	*16,910*	*5,050*
Operating Margin (%) Est.	*8.5*	*45.7*	*15.7*
EPS (CE) FY 2023, YoY (%)	*-73.0*	*4.1*	*-9.1*
DOE (%) Result	2.9	4.0	6.0
Past 10 Years' Sales Growth Rate (FY 2022's result div. by FY 2012's result: %)	196.6	203.0	186.8
O.P. Growth Rate (same condition as above)	567.3	209.3	236.7
Equity Ratio (%) Result	59.7	79.5	46.5
# of Full-Time Employees in the Group: Actual #	604	908	1,935
Sales Per Full-Time Employee (million yen / person)	*21.4*	*40.7*	*16.6*
O.P. Per Full-Time Employee (million yen / person)	*1.8*	*18.6*	*2.6*
ROE (%) Result for FY 2022 A=B×C×D	14.4	8.9	21.4
N.P. Margin (N.P. / sales : %) B	17.7	34.0	12.3
Total Asset Turnover Ratio (sales / ave. total asset) C	0.6	0.2	0.8
Financial Leverage (ave. total asset / ave. owner's equity) D	1.3	1.2	2.1
ROA (R.P. / total asset : %) E=F×G	12.6	10.4	11.0
R.P. Margin (%) Result F	20.2	49.4	13.0
Total Asset Turnover Ratio (sales / ave. total asset) G	0.6	0.2	0.8

Italics show each company's estimates (CE) for FY 2023. Others are actual results of FY 2022. Orange highlights indicate the highest value among the three companies.

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

◆ Results for FY 2022 (last fiscal year)

◆ **Last FY, sales grew slightly and profits increased at double-digit rates.**

◆ **Both sales and operating profit were at high levels – the second highest in the Company's history. Extraordinary income was recorded, and record-high net profit was posted.**

Overview

Full-year consolidated results for FY 2022 were as follows: sales of Y13,382 million (+0.6% YoY), operating profit of Y2,655 million (+14.7% YoY), recurring profit of Y2,697 million (+15.2% YoY), and net profit attributable to owners of parent of Y2,367 million (+41.9% YoY; hereinafter, "net profit"). Sales increased slightly and profits increased significantly (Figure 19).

In FY 2020, high demand stimulated by two events (early demand in response to the revision of the consumption tax and the end of support for Windows 7) had led to the consecutive achievement of record-high sales and profits. Last fiscal year, sales, operating profit, and recurring profit were the second highest in the Company's history following these achievements of FY 2020. Due to the gain on sales of securities recorded under extraordinary income, net profit alone hit a record high.

【Figure 19】Financial Results for FY 2022 **(Unit: million yen, %)**

Full-Year Results		FY 2021	FY 2022	Difference	% Change	FY 2022	Result - Plan	Result/Plan	FY 2022	Result-Forecast	Result/Forecast	FY 2022
Unit: million yen		Results	Results	YoY: million yen	YoY: %	Company Forecast	Diff: million yen	Diff: %	Alpha-Win Forecast	Diff: million yen	Diff: %	Initial Company Forecast
Consolidated Sales		13,308	13,382	74	0.6	13,515	-133	-1.0	13,760	-378	-2.7	12,447
Gross Profit		8,001	8,809	808	10.1	8,901	-92	-1.0	9,013	-204	-2.3	7,690
	Gross Margin (%)	60.1	65.8	5.7		65.9	-0.0		65.5	0.3		61.8
SG&A Expenses		5,686	6,153	467	8.2	6,315	-162	-2.6	6,320	-167	-2.6	5,824
	SG&A Expenses Ratio (%)	42.7	46.0	3.3		46.7	-0.7		45.9	0.0		46.8
Operating Profit		2,314	2,655	341	14.7	2,586	69	2.7	2,700	-45	-1.7	1,866
	Operating Margin (%)	17.4	19.8	2.5		19.1	0.7		19.6	0.2		15.0
Net Profit		1,668	2,367	699	41.9	2,310	57	2.5	2,380	-13	-0.5	1,192
	Net Margin (%)	12.5	17.7	5.2		17.1	0.6		17.3	0.4		9.6

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. The Company's plan and Alpha-Win's forecasts are the most recent forecasts.

◆ **When the negative effects of the transition to the new accounting standard are factored in, sales and profits essentially become record-high values.**

Impact of the Change in the Accounting Standard

In the previous fiscal year, the revenue-recognition standard had been changed. As a result, compared to the previous standard, sales were decreased by Y1,833 million, and operating profit, recurring profit, and profit before tax were each decreased by Y202 million. When these effects are factored in, sales become Y15,213 million (+14.3% YoY), operating profit becomes Y2,857 million (+23.5% YoY), and recurring profit becomes Y2,899 million (+23.9% YoY), indicating that the Company has essentially achieved record-high sales and profits.

This strong performance was due to the replacement demand prior to the end of support for the PCA X series (December 2021) which had brought a greater-than-expected demand mainly in the first half. Also, the sales of the products (DX series) were strong, and sales of the cloud had continued to grow at a high rate.

◆ **Both sales and profits came out be within the expected range.**

Comparison with Forecast

The Company had revised its initial forecast upward in October 2021, which were mostly achieved in the results. Compared to the Company's revised forecast, sales were slightly lower by Y133 million (-1.0% compared to the plan), while operating profit was Y69 million higher (similarly, +2.7%).

- **Costs increased in Q4 and profit became slightly lower than Alpha-Win's forecast.**

Compared to Alpha-Win's forecasts which were higher than the Company's forecasts, sales were Y378 million lower (-2.73% compared to our forecast) and operating profit was Y45 million lower (similarly, -1.7%). The difference from our forecast mainly seems to be due to the slightly sluggish sales in Q4 in a fallback from the event-driven high demand and due to increased promotion and personnel expenses.

Sales

- **Event-driven high demand for the products mainly occurred in the first half and contributed largely to the financial performance.**

In the previous fiscal year (FY 2022), the Company estimated that there was a replacement demand (event-driven high demand) of Y1.2 billion in the first half and Y500 million in the second half in response to the end of support for the X series. This demand greatly contributed to its business results.

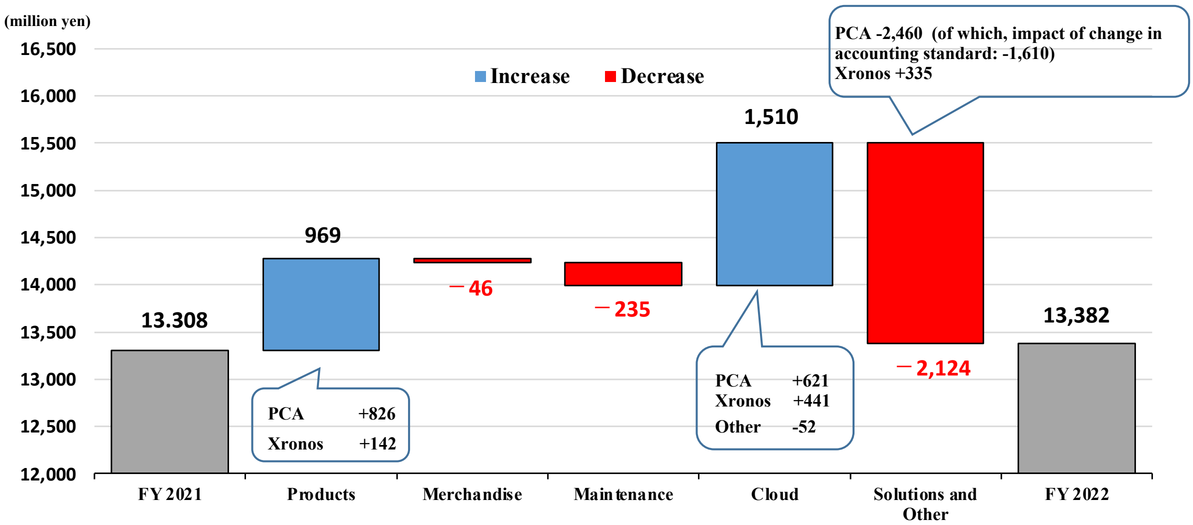
Analyzing the factors that increased or decreased sales from FY 2021 to FY 2022 by sales category, sales decreased by -Y2,124 million for solutions, -Y235 million for maintenance, and -Y46 million for merchandise. On the other hand, sales of products increased by +Y969 million and cloud's sales increased significantly by +Y1,510 million, resulting in a slight increase in overall sales (+Y74 million).

In addition, regarding the factors that increased sales of PCA alone, sales of products increased by +Y826 million and sales of cloud increased by +Y621 million, totaling +Y1,447 million. Similarly, for Xronos, sales increased by +Y142 million and +Y441 million, respectively, totaling +Y583 million (Figure 20). Both companies' financial performance had been solid.

- **With the change in the accounting standard, sales of solutions declined significantly but were offset by the growth of the cloud.**

By sales category, the change in the accounting standard caused sales to decrease by -Y1,610 million for solutions, -Y202 million for maintenance, and -Y21 million for products. When corrected for this impact, the decrease in sales actually becomes -Y514 million (-15.9% YoY) for solutions and -Y34 million (-1.0% YoY) for maintenance, while the increase in sales of product becomes +Y990 million (+49.9% YoY). Aside from solutions, the amount of sales decline is small.

【Figure 20】Factors that Increased/Decreased Sales by Category in FY 2022 (last fiscal year)



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

Cloud

- **Last FY, there was a record-high net increase in the number of corporate users of the cloud.**

The number of corporate users of PCA Cloud reached 10,000 on 1/11/2018. The number has then been increasing steadily, from 12,070 at the end of March 2019, 14,327 at the end of March 2020 (+2,257), 16,444 at of the end of March 2021 (+2,117), and 19,152 at the end of March 2022 (+2,708, the largest net increase ever) (Figure 8 shown previously on page 12).

Semi-annual comparison indicates that the net increase in the number of users had once temporarily slowed down due to the impact of COVID-19, but during the past 12 months, there has been a net increase in the number of corporate users at a net growth rate of about +226 companies per month on a simple average. This pace is greater than the previous fiscal year (approx. +176 companies per month). Note that about 40% of the total number of new contracts are with new customers.

The net growth speed has not slowed down as this fiscal year began, and the Company hopes to maintain the net growth in corporate customers at more than 2,000 companies per year for the meanwhile.

- **Rate of net increase has remained high this fiscal year too.**
- **Sales growth rate of the cloud accelerated to greater than 30% again partly due to the event-driven high demand.**

As a result, the cloud's sales have been expanding from Y1,496 million in FY 2017 → Y1,854 million in FY 2018 (+358 million yen or +23.9% YoY) → Y2,452 million in FY 2019 (+598 million yen or +32.3% YoY) → Y3,374 million in FY 2020 (+922 million yen or +37.6% YoY) → Y4,057 million in FY 2021 (+683 million yen or + 20.2%) → Y5,568 million in FY 2022 (+1,511 million yen or + 37.2%). The cloud business also partially experienced an event-driven high demand in the previous fiscal year and its amount and rate of sales growth has somewhat increased.

Subscription-Based Business

- **Sales of maintenance declined, but the proportion of subscription businesses' sales has increased to essentially about 60%.**

The proportion of subscription-based revenue (combined sales of the maintenance service and the cloud), which is one of the Company's key performance indicators, increased further from 57.2% in FY 2021 to 66.4% (on the surface level) or 59.7% (adjusted for the change in the revenue-recognition standard) in FY 2022. This was because the sales of cloud increased while the sales of solutions declined.

Xronos

- **Xronos' performance has been solid. Has presumably contributed to the consolidated results.**

Although Xronos's standalone results are not disclosed, this subsidiary's work management system experienced a high growth rate in the previous fiscal year thanks to the tailwind from the work-style reform. It is at least known that its product's sales had increased by +Y142 million YoY, cloud's sales had increased by +Y441 million, and solutions also increased by +Y335 million in a total sales growth of Y918 million. This is about 37% of the entire PCA Group's net sales growth (Y2,479 million).

Profit

- **Operating margin grew by 3.1 basis points due to improved gross margin and SG&A expenses ratio.**

Factors that contributed to an increase or decrease in consolidated operating profit in the previous fiscal year are shown in Figure 21 on page 27. Due to the decrease in the cost of purchase caused by fewer amount of purchases from other companies and the decrease in maintenance expense, the increase in SG&A expenses such as increased personnel expense was offset, resulting in a profit growth. The gross margin improved from 60.1% to 65.8%, and operating margin also improved from 17.4% to 19.8% thanks to the decreased SG&A expenses ratio.

◆ **In the first half, the impact of the sales growth was significant, and operating profit grew by about 3x YoY.**

Looking at the first and the second half, in the first half, a significant increase in profit was achieved due to the increase in the sales of the in-house products with high profit margins and the cloud service. The decreased cost of sales contributed to profit growth, and although sales promotion and advertising expenses increased (+Y67 million YoY) and other SG&A expenses also increased (+Y74 million YoY), the R&D expenses decreased (-Y115 million YoY) and therefore the SG&A expenses increased only slightly. The sales growth (+Y628 million in total) had a large effect in increasing profit, and operating profit increased by Y814 million YoY in a significant increase of +186.9%.

◆ **In the second half, the momentum somewhat declined, and sales and profits dropped. Expenses increased in Q4, and the SG&A expenses increased sharply. Operating profit declined by 6.7 basis points.**

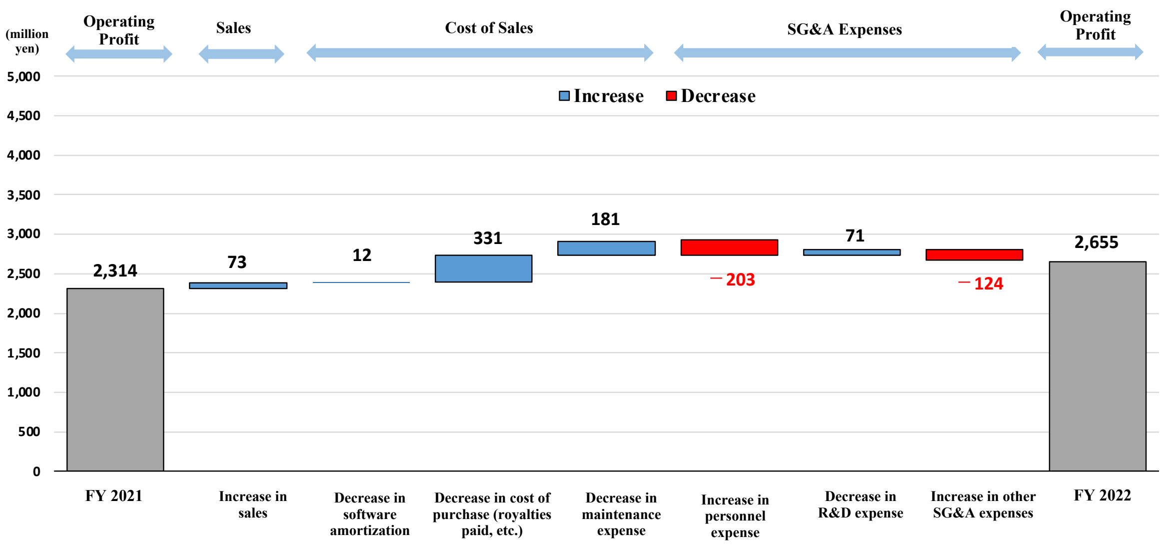
On the other hand, in the second half, cloud's sales continued to grow YoY, but solution's sales declined due to the change in the accounting standard and overall sales also declined. However, the gross margin rose, and the gross profit stayed mostly the same at Y4,302 million. Since the promotion expense (advertising expense) was increased by Y200 million and expenses such as bonuses were increased by Y220 million, the SG&A expenses increased by 14.9% in the second half to Y3,400 million. As a result, the SG&A expenses ratio rose by 11.2 basis points, and the operating margin fell from 18.8% to 12.1%. The operating profit fell from Y1,375 million to Y902 million, decreasing by Y473 million or 34.4%. If the two above expenses had not been incurred, the profit decline would have been kept at about Y122 million (-8.9%).

◆ **Gain on sales of shares was recorded under non-operating income. Dreamhop's goodwill was amortized in a lump sum under extraordinary losses.**

For the full year, although there was no significant non-operating income or loss posted, the Company had sold shares of a listed company and an extraordinary income of Y1,111 million was recorded.

The excess earning power of the acquired company Dreamhop was also reviewed. Although its goodwill had been planned to be amortized over seven years, the remaining balance of Y174 million was recorded under extraordinary losses in a lump sum as impairment loss.

【Figure 21】Factors that Increased/Decreased Operating Profit in FY 2022 (last FY)



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

◆ PCA's Financial Forecast for FY 2023 (this fiscal year)

- **Expecting sales and profit declines this fiscal year.**
- **First-half forecasts not disclosed.**

Summary of the Full-Year Forecast

The Company has announced its full-year financial forecast for FY 2023 (this fiscal year). It is expecting a slight sales decline and significant profit drops: sales of Y12,927 million (-3.4% YoY), operating profit of Y1,100 million (-58.6% YoY), recurring profit of Y1,132 million (-58.0% YoY), and net profit of Y639 million (-73.0%) (Figure 22).

In addition, to achieve the final profit goal, the Company may either promote or suppress expenditure depending on changes in the internal and external conditions. Since this makes predictions difficult, the Company has not announced its consolidated financial forecast for the first half.

【Figure 22】Financial Forecast for This Fiscal Year (the Company's plan)

Consolidated (unit: million yen)		FY 2022	FY 2023: Company Forecast		
		New Revenue-Recognition Standard	New Revenue-Recognition Standard	YoY: simple diff. in amount / diff.	YoY: simple % change
Sales		13,382	12,927	-455	-3.4%
Sales by Category	Products	2,954	1,399	-1,555	-52.6%
	Merchandise	439	402	-37	-8.4%
	Maintenance Service	3,316	3,257	-59	-1.8%
	Cloud Service	5,568	6,115	547	9.8%
	Other Operating Revenue	1,103	1,752	649	58.8%
Gross Profit		8,809	7,845	-964	-10.9%
	Gross Margin	65.8%	60.7%	-5.1%	
SG&A Expenses		6,153	6,744	591	9.6%
	SG&A Expenses Ratio	46.0%	52.2%	6.2%	
Operating Profit		2,655	1,100	-1,555	-58.6%
	O.P. Margin	19.8%	8.5%	-11.3%	
Recurring Profit		2,697	1,132	-1,565	-58.0%
	R.P. Margin	20.2%	8.8%	-11.4%	
Net Profit Attributable to Owners of the Parent		2,367	639	-1,728	-73.0%
	N.P. Margin	17.7%	4.9%	-12.7%	
Annual Dividend Per Share (yen)		24.0	13.0	-11.0	

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

- **With no more event-driven high demand for the products, a significant sales drop is expected. On the other hand, the cloud is expected to continue to grow, and solutions are expected to recover.**

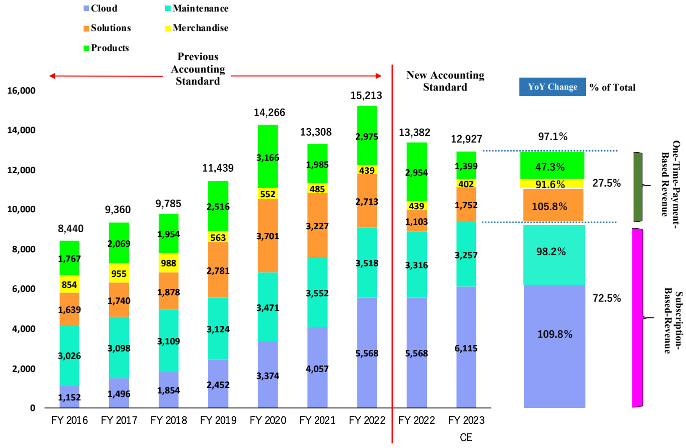
Summary of the Full-Year Forecast (sales)

Although there will be no "gap down" from the change in the revenue-recognition standard this fiscal year, regarding sales categories, the product's sales are expected to become halved since there will be no event-driven high demand for the products like last fiscal year (Figure 23 on page 29). In addition, due to structural changes, net decline is expected for maintenance (shift to the cloud) and merchandise (shift to paperless operation and digitalization) at the same pace as before.

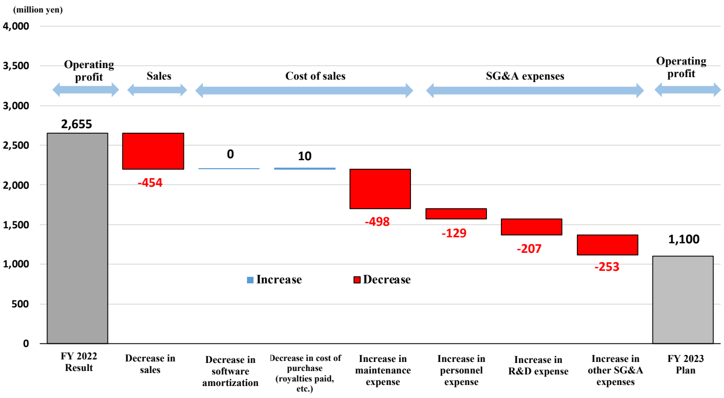
On the other hand, sales of other companies' products are expected to recover this fiscal year, and sales of solutions are expected to increase.

The Company will continue to focus on the cloud and its sales are expected to continue to grow, planning to achieve sales of Y6,115 million at a sales growth rate of 9.8%.

【Figure 23】Change in Sales and This Fiscal Year's Forecasted Sales Breakdown by Category (unit: million yen, %)



【Figure 24】Factors that Are Expected to Increase/Decrease Operating Profit in FY 2023 (this fiscal year) (the Company's plan)



(Ref) Figures 23 and 24 were modified and prepared by Alpha-Win Research Dept. based on the financial results briefing and financial results summary. (CE) is the Company's forecast.
(Note) In Figure 23, since the accounting standard for the posting of sales as merchandise or solutions had been partially changed in FY 2020, adjustments were retroactively made for FY 2019 according to the 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 the Company has been announcing its sales forecast based on both the previous and the new standard. "% of Total" is for the forecast for FY 2023 based on the new revenue standard.

Summary of the Full-Year Forecast (profit)

- **In addition to the sales drop, there are expected to be increases in maintenance, personnel, and R&D expenses. Therefore, profit decline is expected.**

Figure 24 shows the analysis of the factors that are expected to increase or decrease consolidated operating profit (YoY) in the current fiscal year. In addition to the decline in product sales, the Company plans to actively make investments to strengthen its development capabilities for the next stage of growth.

- **Will actively invest in the development of PCA Hub.**

The Company believes that in order to strengthen and develop its subscription models and new services, it must increase the R&D expense and the number of development staff and subcontractors even if sales are expected to decline. Indeed, this fiscal year, it plans to spend Y700 million to increase the development expenses, especially for the PCA Hub series (R&D expense +Y207 million and maintenance expense +Y498 million).

In the current fiscal year, sales are expected to decrease, development expenses are planned to be increased as described above, and personnel and other expenses are expected to increase. These will cause profit to decrease. Costs will also increase as the Company makes the necessary investments for future growth, which had been suppressed due to the COVID-19 crisis, and as expenses return to full scale this fiscal year (seminars and events). SG&A expenses are expected to increase by Y591 million YoY (+9.6%) to Y6,744 million, and the SG&A expenses ratio is planned to rise from 46.0% in the previous fiscal year to 52.2% in the current fiscal year.

- **Gross margin is expected to decrease, and SG&A expenses ratio is expected to increase. Operating margin is planned to decline by 11 basis points.**

The gross margin is estimated to drop significantly from 65.8% in the previous fiscal year to 60.7%. With the rise in the SG&A expenses ratio, too, the operating margin is expected to drop significantly from 19.8% to 8.5%. No major extraordinary income or losses are expected this fiscal year.

◆ Alpha-Win Research Dept.'s Financial Forecast for FY 2023 (This fiscal year)

- This fiscal year, sales and profit declines are inevitable due to the fallback from the event-driven demand and upfront investments.
- Estimates used in predicting cloud's sales are on the conservative side.
- This fiscal year's results may possibly exceed the Company's plan.

Overview

We revised our previous forecast for this fiscal year (forecast made in the report issued on January 31, 2022) based on the company plan and the current situation (Figure 25).

This fiscal year, a temporary decrease in sales and profits seems inevitable since upfront investments will increase as the Company invests in development for the next stage of growth and increases the number of employees, and also due to a fallback from last fiscal year's event-driven high demand. However, since the Company's estimates for sales and profit margins seem somewhat conservative, we believe that the results may possibly exceed its plan.

【Figure 25】Factors Predicted to Increase or Decrease Operating Profit in FY 2023 (this fiscal year) (Alpha-Win's forecast)

Consolidated (unit: million yen) New Revenue-Recognition Standard		FY 2022	FY 2023	FY 2023: Alpha-Win Research Department's Forecasts					
		Results	Company Forecast: CE	Alpha-Win's Forecast: E	Alpha-Win's Forecast - Company Forecast	% Difference (E/CE)	YoY: Difference in Amount	YoY: % Change	Alpha-Win's Old Forecast
Sales		13,382	12,927	12,950	23	0.2%	-432	-3.2%	13,700
Sales by Category	Products	2,954	1,399	1,300	-99	-7.1%	-1,654	-56.0%	2,700
	Merchandise	439	402	400	-2	-0.5%	-39	-8.9%	350
	Maintenance Service	3,316	3,257	3,250	-7	-0.2%	-66	-2.0%	3,050
	Cloud Service	5,568	6,115	6,600	485	7.9%	1,032	18.5%	6,600
	Other Operating Revenue	1,103	1,752	1,400	-352	-20.1%	297	26.9%	1,000
Gross Profit		8,809	7,845	8,000	155	2.0%	-809	-9.2%	9,000
	Gross Margin	65.8%	60.7%	61.8%	1.1%		-4.1%		65.7%
SG&A Expenses		6,153	6,744	6,700	-44	-0.7%	547	8.9%	6,700
	SG&A Expenses Ratio	46.0%	52.2%	51.7%	-0.4%		5.8%		48.9%
Operating Profit		2,655	1,100	1,300	200	18.2%	-1,355	-51.0%	2,300
	O.P. Margin	19.8%	8.5%	10.0%	1.5%		-9.8%		16.8%
Recurring Profit		2,697	1,132	1,320	188	16.6%	-1,377	-51.1%	2,320
	R.P. Margin	20.2%	8.8%	10.2%	1.4%		-10.0%		16.9%
Net Profit Attributable to Owners of the Parent		2,367	639	700	61	9.5%	-1,667	-70.4%	1,580
	N.P. Margin	17.7%	4.9%	5.4%	0.5%		-12.3%		11.5%
Annual Dividend Per Share (yen)		24.0	13.0	13.0	0.0		-11.0		12.0

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials. CE: company forecast/estimate. E: Alpha-Win's forecast/estimate. "Alpha-Win's Old Forecast" is our forecast as of Jan. 31, 2022.

Sales and Profits

- We revised our forecast downward for both sales and profits, but predict that they will both be greater than the Company's plan.

We revised our sales forecast for the current fiscal year downward by Y750 million from our previous forecast to Y12,950 million, which is almost the same as the Company's forecast. However, although the forecasts of total sales are not so different, by sales category, our forecasts for solutions (other operating revenue), products, and cloud are different from the Company's forecasts. First, while the Company expects sales of solutions to increase by Y649 million (+58.8% YoY), our forecast for sales is Y1,400 million (sales growth of +Y297 million YoY), which is Y352 million lower than the Company's forecasted sales. The marginal profit ratio is expected to be around 60% (after the change in revenue-recognition standard), and the downside risk in profits due to this is estimated to be around Y200 million.

Since the event-driven high demand has come to a pause, and has been remaining so, we made a somewhat cautious forecast of the product's sales and profits compared to the company plan. For sales of maintenance service and merchandise, our forecasts are about the same as the company plan.

- Cloud's predicted sales growth rate seems somewhat conservative.

On the other hand, while the Company expects cloud's sales to reach Y6,115 million in an increase of Y547 million from the previous fiscal year (+9.8% YoY), this seems to be conservative forecast considering the continued growth of PCA Cloud and X'sion (cloud version of work management software), trends up through the previous fiscal year (simple average of the annual sales growth rate over the past five years: about +30%), and the current situation. We forecast cloud's sales to be Y6,600 million (+Y485 million compared to the Company's plan), estimating that sales will increase by +20% YoY. Since it is a business with a high marginal profit ratio, there is estimated to be an upside of about Y400 million in profit.

The Company has said that it may control costs depending on fluctuations in profits. Therefore, if profits exceed the plan, expenses may be increased to some extent.

Taking the above into consideration, we revised downward our forecast for this fiscal year's operating profit from our previous forecast of Y2,300 million to Y1,300 million. However, this forecast is still Y200 million greater than the Company's forecast of Y1,100 million.

Assuming that there will be no major non-operating or extraordinary income/losses, we similarly revised downward our forecast for recurring profit from our previous Y2,320 million to Y1,320 million, and for net profit from Y1,580 million to Y700 million. These exceed the company plan by Y188 million (+16.6%) and Y61 million (+9.5%), respectively.

Risk Factors

- **The risk factor is the impact of the worsening macroeconomy on corporate earnings and IT investment interests.**

The main risk factor in the medium-term financial forecast including this fiscal year is that the corporate users' business performance may worsen due to the stagnation of economic activities in response to another rebound and prolongation of COVID-19, which had been settling down, and also due to the inflation and logistics disruption caused by the Russian invasion of Ukraine. These may cause the corporate users to refrain from purchasing products and services or postpone their implementation.

- **Since the Company benefits from digitalization and work-style reforms, the risks are limited.**

However, the existing services of the Company's group have a high affinity with remote work and work-at-home in terms of the Company's business and operations, and they also benefit from the digitization and work-style reforms of companies and the society. Business performance was solid in both the previous fiscal year and the year before that, and worsening external factors will mostly likely not be a major issue this fiscal year either. Therefore, the risks seem to be limited.

- **Increased cost, intensifying competition, and slower growth rate of the cloud are risk factors.**

Other risks include increased costs due to rising personnel expense and subcontracting expense and slower growth rate of the cloud business due to intensifying competition with competitors.

- **Monetization of the new businesses will be the challenge.**

In addition, although presumably not included as a large part of the budget, progress may not be made as expected regarding the new services such as PCA Subscription, the healthcare business, hyper, and PCA Hub in providing these service, acquiring new customers, and promoting their sales. Monetization of the new businesses will be the challenge.

8. Growth Strategy

- Long-term vision is to become a Management Support Company focused on the management-support business for its corporate customers.
- Created a new medium-term plan. For sustainable growth, it will strengthen its development capability, build its business foundation, and transform its business structure.
- Will continue with and develop its previous medium-term plan and execute the four priority measures.

◆ Medium- to Long-Term Vision and Policy

Long-Term Vision

The PCA Group's long-term vision through FY 2031, when it will reach its 50th anniversary, is as follows: "By providing a greater variety of one-stop services for corporate management and operation, we will become a true Management Support Company that is focused on the management-support business for our corporate customers."

New Medium-Term Management Plan

The Company has been creating medium-term management plans for three-year spans, and in April 27, it announced a new medium-term management plan (FY 2023 – FY 2025) that starts this fiscal year. Its medium-term basic policy is to "transform the business structure and build the foundation for continuing and developing businesses that are both long-term and stable" and aims to "optimize the company's structure for creating customer-oriented new businesses, products, and services ahead of changes in the society."

To provide total solution services centered on software, it has set four items as shown in Figure 26 (I through IV) as its priority measures.

【Figure 26】Growth Strategy and Priority Measures of the New Medium-Term Plan

I. Establish a strong revenue base for the core businesses — Greater earning power through continuous growth

1. Further expand the cloud business: strengthen and promote sales of PCA Cloud
With a focus on PCA Cloud / on AWS, meet demands related to new ways of working such as remote work with flexibility.

2. Promote the shift to the subscription-based business model
With a focus on PCA Subscription, switch from sales of packaged on-premises software to the subscription services.

3. Greater digital customer success
Effectively meet the direct needs of customers and pursue greater customer success to improve contract success rate and customer retention rate.

II. Create new business opportunities — For the development of the next core business and the future

Conduct applied research on fundamental technologies such as AI (enabling linkage between core business operations and peripheral operations and automating data entry), find and create new areas of business (materialize ideas, seeds, and customer needs), and launch the PCA Hub service (respond to DX needs to develop the service into a new source of earnings)

III. Strengthen our monozukuri (creation of things) with a focus on safety, security, and anticipation of needs — Gain greater competitive edge and differentiate through modernized software development

Digital (support DX of operation), Service (fast service development and release from a user-oriented approach), and Modern (strengthen development system, expand the PCA Hub series, and modernize in the area of enterprise systems)

IV. Strengthen the management foundation for a highly profitable structure — For sustainable growth

Build and leverage the foundation for DX acceleration, strengthen IT governance and security measures, and create an environment for active engagement by a diverse workforce

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

- **Main points are to strengthen the subscription-based business model, respond to digitalization needs, create business opportunities, and strengthen its development and service system as well as management foundation.**

(14) DX: stands for Digital Transformation. The changes in lifestyles and businesses brought about by digital technologies.

- **As numerical goals of the medium-term plan, seven items have been set from the perspectives of business performance, capital efficiency, and shareholder return. Somewhat conservative goals.**

The priority measures have basically been developed based on the previous medium-term plan. By first strengthening the subscription-based business model centered on the cloud business, and then strengthening the development and service systems, the Company plans to support the DX[14] of the operations of small/medium-sized companies.

In addition, it plans to work on its own DX and strengthen its management foundation such as governance and structure to achieve sustainable growth.

◆ Management Indicators Set as Goals

Numerical Goals of the New Medium-Term Plan

The following seven items (Figure 27) have been set as numerical targets for the current medium-term management plan from the perspectives of business performance, capital efficiency, and shareholder return.

Aside from the two items related to sales, all figures have already been achieved in the past during event-driven high demands, etc., and seem to be realistically achievable targets.

Note that the Company assumes that there will be no event-driven high demand.

【Figure 27】Progress and Forecasts for the Goals of the Medium-Term Management Plan

Goals of the Current Medium-Term Management Plan (FY 2022 - FY 2025)		FY 2025: Company Plan	FY 2023: Company Plan	Record High	Goals for the Final Year of the Previous Medium-Term Management Plan (FY 2022)		
					Results	Initial Goals (as of April 2019)	Revised Goals (Previous FY)
Business Performance	• Consolidated Sales	Y15 billion or more	Approx. Y13 billion	Approx. Y14.3 billion (FY 2020)	Y13.38 billion	Y11.5 billion or more	Y13.5 billion or more
	Of which, are sales from subscription-based businesses (maintenance & cloud)	Y9.5 billion or more	Approx. Y9.4 billion	Approx. Y8.9 billion (FY 2022)	Y8.88 billion	Achieve Y6 billion	Achieve Y7.5 billion
	• Consolidated Operating Profit	Y2.5 billion or more	Y1.1 billion	Approx. Y2.8 billion (FY 2020)	Y2.65 billion	Y1.5 billion or more	Y2.1 billion or more
	• Consolidated Operating Margin	16% or more	8.5%	During the past 10 years: 19.8% (FY 2022) During the longest period with data available: 28.5% (FY 1999)	19.8%	10% or more	15% or more
Asset Efficiency	• ROE	10% or more	3.8% (Alpha-Win's estimate)	14.4%	14.4%		
Shareholder Return	• DOE	2.5%	1.8% (Alpha-Win's estimate)		2.9%		
	• Dividend Payout Ratio	30.0%	40.7%		20.3%		

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials. Goals are those announced by the Company.

- **Last medium-term plan's upwardly revised numerical goals had been reached. Sufficient results were achieved.**

Progress Made in the Previous Medium-Term Plan (numerical targets)

The initial goals of the previous medium-term management plan had been achieved in its first year for FY 2021, so the numerical goals for the final year or FY 2022 had been revised upward (Figure 27: right). However, practically all of the revised targets have been achieved (sales, too, were achieved based on the old revenue-recognition standard).

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

- **We reviewed our medium-term financial forecasts and revised the profit forecasts downward.**

We revised our medium-term financial forecast for the three years including this fiscal year (Figure 28). Upon considering the Company's forecasts for this fiscal year and its medium-term plan, we revised downward the profit forecasts for this and the next fiscal year. We also added a new forecast for FY 2025.

【Figure 28】Medium-Term Financial Forecast

	Units: million yen, %	FY 2021	FY 2022	FY 2023 CE	FY 2023: Old E	FY 2024: Old E	FY 2023: New E	FY 2024: New E	FY 2025: New E	FY 2025 CE Medium-Term Plan
Sales		13,308	13,382	12,927	13,700	15,000	12,950	14,310	15,520	15,000
Category	Products	1,985	2,954	1,399	2,700	2,900	1,300	1,450	1,500	
	Merchandise	485	439	402	350	300	400	360	320	
	Maintenance Service	3,552	3,316	3,257	3,050	2,900	3,250	3,150	3,000	9,500
	Cloud Service	4,057	5,568	6,115	6,600	7,800	6,600	7,800	9,000	
	Other Operating Revenue	3,227	1,103	1,752	1,000	1,100	1,400	1,550	1,700	
Gross Margin		60.1%	65.8%	60.7%	65.7%	65.3%	61.8%	62.0%	62.5%	
SG&A Expenses		5,686	6,153	6,744	6,700	7,200	6,700	7,000	7,150	
	(% over sales)	*42.7%*	46.0%	52.2%	*48.9%*	*48.0%*	*51.7%*	*48.9%*	*46.1%*	
Operating Profit		2,314	2,655	1,100	2,300	2,600	1,300	1,870	2,550	2,500
	(% over sales)	*17.4%*	19.8%	8.5%	*16.8%*	*17.3%*	*10.0%*	*13.1%*	*16.4%*	*16.7%*
Recurring Profit		2,340	2,697	1,132	2,320	2,620	1,320	1,890	2,570	
	(% over sales)	*17.6%*	20.2%	8.8%	*16.9%*	*17.5%*	*10.2%*	*13.2%*	*16.6%*	
Net Profit		1,668	2,367	639	1,580	1,780	700	1,130	1,550	
	(% over sales)	*12.5%*	17.7%	4.9%	*11.5%*	*11.9%*	*5.4%*	*7.9%*	*10.0%*	
Sales (% YoY growth for all values)		-6.7%	0.6%	-3.4%	-0.4%	9.5%	-3.2%	10.5%	8.5%	
Category	Products	-37.3%	48.8%	-52.6%	-27.0%	7.4%	-56.0%	11.5%	3.4%	
	Merchandise	-12.1%	-9.5%	-8.4%	-10.3%	-14.3%	-8.9%	-10.0%	-11.1%	
	Maintenance Service	2.3%	-6.6%	-1.8%	-6.7%	-4.9%	-2.0%	-3.1%	-4.8%	
	Cloud Service	20.2%	37.2%	9.8%	20.0%	18.2%	18.5%	18.2%	15.4%	
	Other Operating Revenue	-12.8%	-65.8%	58.8%	11.1%	10.0%	26.9%	10.7%	9.7%	
Gross Margin (% YoY diff.)		*-0.2%*	5.7%	-5.1%	0.2%	-0.4%	-4.0%	0.2%	0.5%	
SG&A Expenses (% growth)		-2.3%	8.2%	9.6%	6.0%	7.5%	8.9%	4.5%	2.1%	
Operating Profit (% growth)		-16.8%	7.6%	13.5%	-14.8%	13.0%	-51.0%	43.8%	36.4%	15.0%
Recurring Profit (% growth)		-16.7%	14.7%	-58.6%	-14.7%	12.9%	-51.1%	43.2%	36.0%	
Net Profit (% growth)		-8.1%	14.1%	-57.1%	-33.6%	12.7%	-70.4%	61.4%	37.2%	

(Ref) Predicted and prepared by Alpha-Win Research Dept. (E is the new forecast/estimate and Old E is the previous forecast/estimate). CE is the Company's forecast/estimate.
(Note) "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) has been applied starting in FY 2022.

Macroeconomic Assumptions

- **Economic activities are assumed to normalize starting in FY 2023.**

The current macroeconomic environment is unforseeable due to the depreciation of the yen, inflation due to soaring resource prices, and disruption of logistics. However, since the COVID-19 risk in Japan is becoming smaller, we predicted that people's lives, economic activities, corporate earnings, and IT investments by small/medium-sized companies will gradually normalize and improve. At present, we do not anticipate the occurrence of high demand caused by tax systems, accounting standards, and product versions. In addition, starting this fiscal year, there will mostly be no gap down caused by the new revenue-recognition standard.

Estimates Used for Sales, Expenses, and Profit

- **We reviewed our estimates for sales by category and costs.**

We reviewed our estimates for costs and sales by category, especially for products, cloud, and other. Merchandise sales are expected continue to decline as more companies go paperless, and sales of maintenance service will also likely continue to drop due to the shift to the cloud. However, we predict that the increase in cloud sales (growth of about 15-20% per year), improvement of product mix with the increasing proportion of the cloud, the shift of various businesses to the subscription-based business model, and the progress with the streamlining of business will lead to improved profitability (operating margin).

- **Cloud and work management software are expected to continue to be the growth drivers. On-site support is also likely to be resumed in full scale.**

Since the growth potential of the cloud and the work management software is high, we believe that they will continue to be the growth drivers, absorbing the increase in upfront investment, sales promotion expense, and personnel expense and contributing to the increase in sales and profits. We see the subscription business centered on the cloud as being in the phase of continuous and stable expansion. In addition, as the COVID-19 crisis settles down, the Company should be able to provide full, on-site on-site support to its customers. Also, if it could put its current new businesses on track, the sales and profit growth trend will become more solid.

- **We expect operating margin to improve YoY.**

In making forecasts for FY 2024 and FY 2025, we assumed that while development and subcontracting expenses will increase, they will settle down and the gross margin will gradually increase (expecting improvement by 0.2 or 0.5 basis point YoY, respectively). On the other hand, we expect the SG&A expenses to increase as the Company strengthens upfront investments (R&D, personnel, and sales promotion expenses), for instance, to reinforce its business foundation in preparation for future growth, develop new products, and conduct research on technologies necessary for that development (virtualization technology, AI, Web API, and FinTech-linked technology). However, since cost control should be possible to some extent, we assumed that the SG&A expenses ratio will decline and the operating margin will improve by around 3 basis points per year. Consequently, with the sales growth, we expect that profits will increase.

- **Over the medium term, in addition to the cloud business' growth rate, the success or failure of the new products and services will impact results.**

Factors that May Cause Differences

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 of PCA Hub which it is currently working on in full scale, as well as PCA Subscription, hyper, and the HR business with Dreamhop. Whether there will be M&As will also affect the results.

- **Next fiscal year, we expect that the sales of cloud, etc., will continue to grow and the Company will return to a sales and profit growth trend.**

Forecast for the Next Fiscal Year (FY 2024)

For next fiscal year, compared to our previous forecast, we revised sales from Y15,000 million → Y14,310 million and operating profit from Y2,600 million → Y1,870 million. However, although we have made downward revisions, we still forecast that both sales and profit will return to growth next fiscal year, with sales increasing by 10.5% and profit increasing by 43.8% compared to our new forecast for FY 2023. We also predict that dividend per share will be 14 yen, in an increase of 1 yen from the current fiscal year's forecast.

- **We expect consecutive increases and sales and profits in FY 2025 too.**

Forecast for the Fiscal Year after the Next (FY 2025)

We have added a new forecast for the fiscal year after the next or FY 2025. We expect that sales will increase by 8.5% YoY to Y15,520 million, operating profit will be Y2,550 million, and net profit will be Y1,550 million, with an approx. 30% growth for both profits. In addition, we expect dividend per share to be increased by 1 yen from FY 2024 to 15 yen.

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

Profit Growth Rate over the Medium/Long Term

Over the medium term (two to three years starting this fiscal year), we expect that there will be a double-digit profit growth, supported by the sales growth rate of the cloud at around 15-20% per year.

Over the long term, based on normalized figures excluding the effect of the event-driven high demand, we are expecting an annual sales growth rate of around 6-8% and an even greater net profit growth rate (8-10% per year). Since the 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 has been updated and the results are listed in Figure 29.

【Figure 29】SWOT Analysis

Strength	・Brand recognition and trust earned over many years (major specialized player in the enterprise system software market for small/medium-sized companies) ・Firm financial standing (debtless management) and stable cash flow; ample cash & deposits exceeding annual sales ・Growth of the subscription business based on continuous payment for service; capable of continuously generating stable revenue (became a cash-cow business) ・ Strong and diversified customer base (240,000 corporate users in total) ・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) ・High barrier to market entry ・Very experienced call center staff and engineers (support capability) ・Rich product lineup; provides products both as on-premises and by cloud (development capability) ・ Sales capability: sales network with sales offices throughout Japan (13 offices) and 2,000 partnered companies
Weakness	・Relatively somewhat low profit margins ・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.) ・Maintenance service subscription rate is improving but could still be improved ・Absence of a major, next-generation, growth-driving product/service ・Domestic-demand oriented; overseas expansion difficult
Opportunity	・Increased demand from lack of human resources and for streamlining operation (for business software in general); work-style reform (work management system) ・Potential to increase users of cloud service; development potential (toward small/medium-sized companies and mid-tier companies) ・New products (hyper, PCA Hub, etc.), new services (transition of on-premises to subscription-based model), and innovations in technology ・Development of HR businesses ・Revisions in regulations related to accounting and tax, etc. (the revised Electronic Books Maintenance Act, invoice system, etc.)
Threat	・Emergence of an alternative as advanced AI technology becomes widely used, delayed product development, defects in products, etc. ・High competition (maturation of on-premises market; other companies catching up with the Company in the cloud business) ・COVID-19 outbreak/prolongation and worsening business performance of Japanese small/medium-sized companies due to the worsening global macroeconomy ・Contract termination risk, etc. ・System troubles and information leakage ・Rise in personnel and development costs

(Ref) Prepared by Alpha-Win Research Dep.

- **Trust and track record built over many years, customer base, expertise in technology, ample cash & deposits, and firm financial base are its strengths.**
- **Also has a high competitive edge and top-level achievements with the cloud business that it is taking a lead. The cloud market has a high growth potential.**
- **Development of the next new products/services is the challenge.**
- **Business volatility increases before and after events due to event-driven high demand.**

Describing the strengths listed in Figure 29 in more detail, the Company is well known due to its long years of service in the industry and the trust that it has earned over those years. It is especially strong in certain areas of business (such as accounting software for small/medium-sized companies). Its customers also have high loyalty, as there is little incentive to frequently change enterprise system software. Additionally, the Company has been developing a subscription-based business model with high continuity and stability by providing maintenance support, cloud versions, and version upgrades to its customers. It is leading the market with the cloud, which has a high growth potential, and its high competitive edge and top-level achievements have become its strengths. Also, its solid financial base with no debt and abundant cash and deposits exceeding the annual sales are enhancing the stability and reliability of management.

On the other hand, looking at the weaknesses in more detail, the Company has been searching for the next, new major products and services and for ways to gain market share among mid-tier companies, but has not been able to develop businesses that would enable enough economies of scale. Also, companies that have joined the group through M&As, like MACS System Corporation and Keepdata Ltd., could not generate the expected synergies and have already been sold, although Xronos is a successful exception to this.

As for the opportunity and weakness (or threat), as we have seen in the past, volatility of financial performance tends to increase due to high demand before and after events such as the consumption tax revision, work-style reform, end of Windows support, replacement in response to termination of support for the existing product series as in the previous fiscal year, and perhaps also the revised Electronic Books Maintenance Act in the future.

- **Aiming for non-price competition. The situation of competition with its competitors will be a key point.**

In the cloud service that it is taking a lead, the Company is aiming for non-price competition through product strength, service, and support. However, its competition with major competitors that have started the business at a later stage and with service providers that provide limited functions at lower price ranges will be the key points.

◆ Shareholder Return and Shareholder Benefit Program

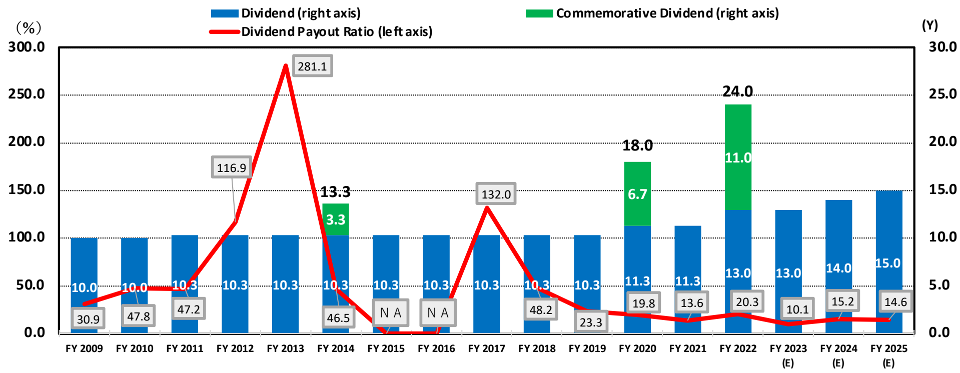
Dividend Policy

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

Regarding dividend, ever since the first public offering of the Company's stock, ordinary dividend has essentially not been decreased and has been gradually raised over the long term with several years of no change in between (Figure 30).

【Figure 30】Change in Dividend and Dividend Payout Ratio (after stock split)



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. The above graph has been retroactively adjusted for the three-for-one stock split that came into effect on October 1, 2021. Estimates/forecasts (E) were made by Alpha-Win.

- **Will maintain an ordinary dividend of 13 yen per share (post-stock-split), the value after being practically raised.**
- **The target dividend payout ratio is 33% and the target DOE is 2.5%. This FY, dividend payout ratio is expected to exceed the target, but the DOE is expected to fall short. Over the medium to long term, dividend hikes are possible as profit grows.**

Excluding commemorative dividend, the ordinary dividend had been kept at 10.3 yen/share per year since FY 2011 (31 yen before the stock split: dividend before the retroactive adjustment for the stock split is underlined). Then, in FY 2020, it increased dividend by 1 yen (3 yen) to 11.3 yen (34 yen) and also paid a commemorative dividend of 6.7 yen/share (20 yen) for its 40th anniversary.

In FY 2021, there was no more commemorative dividend, and the ordinary dividend of 11.3 yen (34 yen) was kept.

In FY 2022, the ordinary dividend was increased from 11.3 yen (34 yen) to 13.0 yen (39 yen), and a commemorative dividend of 11 yen was added to a total of 24 yen (72 yen). Although there will be no commemorative dividend this fiscal year, it plans to maintain the ordinary dividend at the increased value of 13 yen (39 yen before being adjusted for the stock split).

The target dividend payout ratio is 33%, but the actual ratio was 13.68% in FY 2021 and 20.3% in FY 2022, both below the target. However, the ratio is expected to exceed the target at 40.7% in FY 2023 (the Company's forecast) with the decrease in the EPS. Based on the stock price of Y1,158 (closing price on July 1, 2022, with dividend assumed to be 13 yen), this fiscal year's dividend yield is estimated to be about 1.1%.

Dividend on equity (DOE), which is one of the Company's KPIs (key performance indicators), was 2.9% in FY 2022, exceeding the target of 2.5%. This fiscal year, we estimate that DOE will be around 1.8%, falling short of the target again. Although profits can change greatly depending on whether there is event-driven high demand, also causing the dividend payout ratio and DOE to easily fluctuate, the Company has been generally increasing its ordinary dividend and strengthening its return of profit to shareholders.

Dividend Yield

- **The actual annual net yield including the shareholder benefit program is about 1.7% (at maximum).**

The Company has a shareholder benefit program and gives out Quo Cards to shareholders based on the number of shares held at the end of March of every year. For example, shareholders with equal to or greater than 100 shares and less than 300 shares are granted Y2,000 worth of Quo Card. Based on a stock price of Y1,158, the actual annual net yield for a shareholder owning 100 shares is about 1.7% (maximum) including the ordinary dividend of Y13 and the shareholder benefit (Figure 31). Note that last fiscal year, the dividend yield was 2.6% due to the commemorative dividend.

Based on the same conditions, the actual annual net yield is about 2.1% for OBC (4733: Obic Business Consultants) (including the shareholder benefit program) and about 3.4% for MJS (9928: Miroku Jyoho Service) (only dividend yield since it has no shareholder benefit program).

【Figure 31】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	13	1.70
900	1500	3,000	13	1.41
1,500		4,000	13	1.35

Net yield = (Ths fiscal year's forecasted dividend + benefit value) / (stock price), calculated for the minimal amount of stock owned in each range
Stock price: Y1,158 (closing price on 7/1/2022)

(Ref) Prepared by Alpha-Win Research Dept.

Stock Split

A 1.3-for-1 stock split was conducted in May 2000. Then, for the first time in approximately ten years, it conducted another stock slit – a three-for-one stock split in October 1, 2021.

◆ 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 6 years.

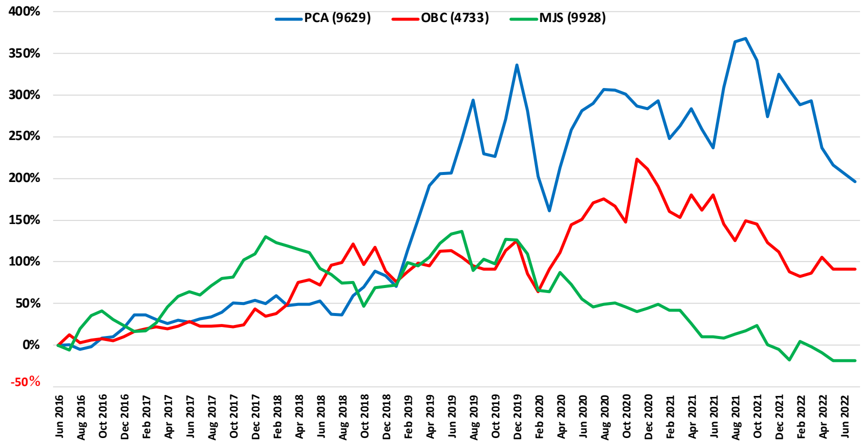
The Company's stock price and relative stock price compared to the TOPIX for the past approximately six years are described in the summary section (Figure C on page 3). Its stock price has risen by approx. 3.1x over this period, significantly outperforming the TOPIX which only increased by 1.4x.

◆ Has been underperforming compared to its competitors and the TOPIX over the past month.

However, stock price became weak after the announcement of large profit drops for this fiscal year. Over the past month or so, the Company's stock has been underperforming compared to its two competitors (4733 Obic Business Consultants or OBC and 9928 Miroku Jyoho Service or MJS) and the TOPIX.

Note that for the past six years starting in May 2016, the Company has had the highest performance among the three competing companies (Figure 32).

【Figure 32】Comparison of Stock Performance with Competitors
(Note: stock price as of the end of June 2016 was set to zero upon creating the graph. Reflects prices up through the closing price on July 1, 2022)



(Ref) Prepared by Alpha-Win Research Dept.

Valuation

◆ Valuation is expensive compared to the TOPIX based on this fiscal year's values.

Based on the Company's current level of stock price, its valuation seems expensive in terms of the main valuation measures compared to the average of the TSE Prime Market.

Compared to the TSE Prime's forecasted average P/E of 13.4, the Company's P/E based on its forecasted values is 36.2. Similarly, compared to TSE's actual P/B of 1.1 and dividend yield (simple average) of 2.4%, the Company's is 1.4 and 1.1%, respectively.

◆ Valuation also does not seem underpriced compared to its two listed competitors.

Based on our forecast of profit, the Company's P/E is 33.1 for the current fiscal year, 20.5 in the next fiscal year, and 14.9 in the year after the next.

When its valuation is compared with its two competitors, the Company's valuation is cheap in terms of P/B and EV/EBITDA, but expensive in terms of P/E and dividend yield (Figure 33 on page 40).

【Figure 33】Comparison of Valuation with Competitors

Company Name	PCA (consolidated)	Obic Business Consultants (OBC: nonconsolidated)	Miroku Jyoho Service (MJS: consolidated)
Code (TSE Prime Market)	9629	4733	9928
Stock Price (at 7/1/2022 closing)	1,158	4,730	1,187
Market Cap (million yen)	26,750	356,661	41,315
P/E (price-to-earnings ratio)	36.2	28.9	12.2
P/B (price-to-book ratio)	1.4	2.6	1.6
Dividend Yield (%)	1.1	1.5	3.4
EV/EBITDA	3.8	13.9	5.6
P/S (price-to-sales ratio)	2.1	9.6	1.3

(Note) Market cap = total outstanding shares x market stock price [at 7/1/2022 closing]
EV/EBITDA = (market cap + interest-bearing debt - cash & deposits) / (O.P. + depreciation + intangible fixed asset amortization, etc.)
*Interest-bearing debt, cash & deposits, operating profit (O.P.), depreciation, and intangible fixed asset amortization are actual values of FY 2022.
The companies' estimated EPS for FY 2023 used in all P/E calculations. BPS values used in P/B calculations are actual results of FY 2022.
Dividend is based on the companies' forecasts.
P/S = market cap / sales [the companies' estimate]
"Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), etc., have been applied to all companies since FY 2022's forecast
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary

- **The two cloud-accounting competitors have extremely high valuations.**

Money Forward (TM: 3994) and freee (TM: 4478) described previously are also the Company's competitors among listed companies in the area of cloud accounting software. However, they are not reasonable targets for valuation comparison since they have been posting net losses and paying no dividend. Also, although both companies' stock prices have fallen sharply, their valuations are still extremely expensive regarding the comparable valuation measures of P/S and P/B (similar for the comparison with the unlisted company Yayoi).

*Money Forward (TSE Prime: 3994)
・Market cap of Y180 billion at stock price of Y3,555（7/1 closing price）
・FY 2022 (November-ending) company forecast: sales of Y21,094 million (median value since announced as a range; +35% YoY); profit forecast not disclosed (last fiscal year's result: net loss of Y1,482 million); no dividend.
・P/S of 8.5 and P/B of 4.7 [as reference, P/S = market cap / sales]

*freee (TSE Growth: 4478)
・Market cap of Y180.4 billion at stock price of Y3,185（7/1 closing price）
・FY 2022 (June-ending) company forecast: sales of Y14,361 million (+40.0% YoY), adjusted operating loss of Y2,461 million, and no dividend
・P/S of 12.6 and P/B of 4.0

*Yayoi (unlisted company)
・Acquisition price estimated by KKR: approx. Y250 billion (as of Dec. 2021)
・FY 2021 (September-ended): sales of Y21,193 million, recurring profit of Y4,937 million, and net assets of Y8,772 million
・P/S of 11.3, P/B of 28.7 (valuation on based on FY 2021 results and acquisition price), and P/E of 74.4 (similarly estimated, with the corporate tax rate assumed to be 32%)

Outlook

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

While the impact of COVID-19 is becoming alleviated, there are still uncertainties surrounding the economic situation due to factors such as the war in Ukraine, the lockdown in China, inflation, and the monetary tightening. However, 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 business) 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, digitalization, and the expansion of the metal-health-related market.

- **Expected to return to sales and profit growth starting next FY since there will no longer be the impact of the fallback from the event-driven high demand.**

Also, we believe the Company will be able to return to a growth trajectory again with the cloud and work management system as the drivers of growth and with the new businesses also gradually contributing to results as the economy normalizes. From next fiscal year, we expect that the Company will no longer be impacted by the fallback from the event-driven high demand, so that it will return to a growth trend for sales and profits.

- **Considering the growth potential over the medium term, we believe that there is an upside to the stock price.**

The stock price seems to already mostly reflect this fiscal year's large profit drop. Since this fiscal year's downside risk to business results is small, based on the forecasted profit growth trend starting next fiscal year, there seems to be an upside to the stock price over the medium term.

- **Key points are the profit growth rate over the medium term, the cloud's growth rate, the monetization of the new businesses/services (especially PCA Hub), return of profit to shareholders, and utilization of its cash.**

Going forward, the key points to watch are 1) performance of the cloud business (change in PCA Cloud's number of corporate users and sales growth rate), 2) progress with the transition of the on-premises to the subscription version (PCA Subscription) and 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 the sales situation of hyper and PCA Hub, its area of focus), 3) progress with the new medium-term management plan and profit growth rate over the medium term, 4) measures to return profit to shareholders such as dividend hikes and share buybacks, 5) progress with the M&A strategy, 6) implementation of business/profit management system and their effects, 7) new tax systems and changes in regulations, and 8) utilization of its ample cash.