Alpha-Win Company Research Report

PCA CORPORATION
(9629 TSE Prime)

Issued: 8/1/2022

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

● Flash Report on Financial Results

◆ A major specialized player in enterprise system software, taking a lead in the cloud business as No. 1 in the industry

・PCA CORPORATION (hereinafter referred to as the "Company") and its group sell originally-developed, packaged business software (for accounting, sales management, purchasing and inventory management, payroll, human resources, work management, attendance management, etc.) mainly to small/medium-sized companies as on-premises or as cloud-based software. It also provides related maintenance services. Its mission is to contribute to society as a "Management Support Company" that supports companies in conducting smooth management and operation.

・It is taking a lead in cloud-based business software (PCA Cloud) as No. 1 in the industry. Thanks to the transition to the subscription-based business model, its business stability and profitability have improved significantly. Amidst the COVID-19 crisis, the PCA Group has been providing products and services that help improve its corporate users' operation with regards to work-from-home and staggered working hours, and has been developing its business mainly around cloud and solution services.

・In FY 2020 (note that the Company's fiscal year is March-ending, i.e., FY 2020 ended in March 2020), record-high sales, operating profit, and recurring profit were achieved thanks to high demand driven by the consumption tax revision and the end of Windows 7 support. In FY 2022, although there was a change in the revenue-recognition standard, net profit hit a record high as solid business performance was maintained through the event-driven high demand for the products (explained later) and gain on sales of securities was posted under extraordinary income.

◆ Results for the first quarter of this fiscal year: double-digit YoY sales decline and significant profit decline in a fallback from the event-driven high demand for the products, but results were mainly in line with the Company's plan and were not a surprise.

Q1: Summary of Results

・The Company's financial results for the first quarter of FY 2023 (April-June 2022: hereinafter, Q1 = April-June) were as follows: sales of Y2,954 million (-11.2% YoY) , operating profit of Y309 million (-68.3% YoY), recurring profit of Y315 million (-68.0% YoY), and net profit of Y142 million (-76.8% YoY). On a YoY comparison, both sales and profits declined significantly (Figure 1). This was mainly because of the decline of the event-driven replacement demand for the products and the decrease in profit margin due to increased costs including upfront investments.

・The new revenue-recognition standard has been applied since the previous fiscal year and does not impact this fiscal year's results.

・Progress in Q1 against the Company's full-year plan was 22.9% for sales and 28.1% for operating profit, both exceeding the past five years' average (21.8% and 20.8%, respectively).

・The Company does not disclose its financial forecast for Q1 or the first half, but the results seem to be mostly in line with its plan that was made at the beginning of the fiscal year.

【Figure 1】Results for the First Quarter and Full-Year Plan

Q1 Results		Q1 FY 2022	Q1 FY 2023	% Change	Change in Amount	% of Total Sales	% Progress against Full Year		Full Year		This FY's Change in %	This FY's Change in Amount
Unit: million yen		April-June 2021	April-June 2022	YoY: %	YoY: million yen	%	April-June 2021	April-June 2022	FY 2022 Results	FY 2023 Company Plan	YoY: %	YoY: million yen
Consolidated Sales		3,328	2,954	-11.2	-374	100.0	24.9	22.9	13,382	12,927	-3.4	-455
Sales Category	Products	935	241	-74.2	-694	8.2	31.7	17.2	2,954	1,399	-52.6	-1,555
	Merchandise	85	108	27.0	23	3.7	19.4	26.9	439	402	-8.4	-37
	Maintenance Service	820	838	2.2	18	28.4	24.7	25.7	3,316	3,257	-1.8	-59
	Cloud Service	1,255	1,361	8.5	106	46.1	22.5	22.3	5,568	6,115	9.8	547
	Other Operating Revenue	231	404	74.9	173	13.7	20.9	23.1	1,103	1,752	58.8	649
Gross Profit		2,284	1,829	-19.9	-455	-	25.9	23.3	8,809	7,845	-10.9	-964
	Gross Margin (%)	68.6	61.9		-6.7	-			68.6	60.7		-7.9
SG&A Expenses		1,309	1,520	16.1	211	-	21.3	22.5	6,153	6,744	9.6	591
	SG&A Expenses Ratio (%)	39.3	51.5		12.2	-			46.0	52.2		6.2
Operating Profit		975	309	-68.3	-666	-	36.7	28.1	2,655	1,100	-58.0	-1,555
	Operating Margin (%)	29.3	10.5		-18.8	-			19.8	8.5		-11.3
Net Profit		614	142	-76.8	-472	-	25.9	22.2	2,367	639	-73.0	-
	Net Margin (%)	18.4	4.8		-13.6	-			18.4	4.9		

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

Q1: Sales of Each Sales Category

・Regarding the sales of each sales category, sales declined YoY only for the products (-Y694 million), decreasing by an amount that exceeds the overall sales decline of -Y374 million. Other operating revenue increased by +Y173 million, cloud service increased by +Y106 million, merchandise increased by +Y23 million, and maintenance service increased by +Y18 million, but these were not enough to fully offset the sales decline of the products.

・Sales by category (the Company's categorization of sales) were as follows.

1. Regarding the products (conventional packaged software: on-premises), there was an early replacement demand mainly in the first half of the previous fiscal year prior to the end of support of the PCA X series in December 2021 (shift to the DX series). As a result, sales had increased significantly in the order of Q1 FY 2021 ⇒ Q1 FY 2022 from Y307 million ⇒ Y935 million (+204.2% YoY; percent of total sales changed from 11.0% ⇒ 28.1%). In a fallback from this, sales decreased significantly to Y241 million during this fiscal year's Q1 (-74.2% YoY; 8.2% of total sales). Since the products have a high profit margin compared to the other categories and were also the single category whose sales had declined, this category had most likely also pushed down the profits.
2. Despite the continued trend of going paperless through digitalization, demand for merchandise (ledger sheets, etc.) such as pay slips has been strong. In the order of Q1 FY 2022 ⇒ Q1 FY 2023 (same order applies below), sales increased from Y85 million ⇒ Y108 million (+27.0% YoY; percent of total sales changed from 2.6% ⇒ 3.7%).
3. Sales of maintenance service have been solid and increased from Y820 million ⇒ Y838 million, which is a +Y18 million or +2.2% growth YoY. This was due to replacements of the on-premises (products) in response to the end of support for the X series and the subsequent increase in maintenance subscriptions.
4. Cloud service's sales were Y1,361 million, which accounts for 46.1% of total sales and is the largest among all sales categories. Combined with maintenance service which is 28.4% of the total, the subscription businesses account for 74.5% of total sales. Since both businesses have high continuity and marginal profit ratios, they have most likely been continuing to contribute significantly to the Company's results regarding both sales and profits.
 ・Cloud's sales had increased by +31.1% YoY in the Q1 of the previous fiscal year, but the growth rate has slowed down to +8.5% in the Q1 of this fiscal year. Since the cloud business had also benefited from the event-driven high demand in the previous fiscal year as users shifted from the products, the impact of the fallback from this was most likely not small (Figure 2).
 ・By fiscal year, the number of cloud users (net number) has increasing from 12,313 in March 2019, 14,388 in March 2020 (+2,075 YoY), 16,444 in March 2021 (+2,056 YoY), 19,152 as of the end of March 2022 (+2,708 YoY), and 19,441 as of the end of June 2022.
 ・However, the quarterly net increase has slowed down, in the order of Q3 FY 2022 ⇒ Q4 FY 2022 ⇒ Q1 FY 2023, from +793 companies ⇒ +574 companies ⇒ +289 companies (note that the number of users as of the end of June 2021 was not disclosed). The cloud's quarterly sales (three-month periods) have also decreased, changing from Y1,449 million ⇒ Y1,524 million ⇒ Y1,361 million in the same order.

【Figure 2】Quarterly Change in the Cloud Service's Number of Corporate Users and Sales

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

Cloud	Number of Corporate Users of PCA Cloud (unit: number of companies)		Each Quarter's Sales of the Cloud (unit: million yen)	Each Quarter's % Change in Sales of the Cloud (compared to the same quarter of the previous quarter: unit = %)
As of: end of month (period)	Net number	Change from the previous quarter (amount)		
June 2022 (Q1)	19,441	289	1,361	8.5
March 2022 (Q4)	19,152	574	1,524	41.6
December 2021 (Q3)	18,578	793	1,449	40.4
September 2021 (Q2)	17,785	*671*	1,340	35.1
June 2021 (Q1)	Not disclosed	*(Obtained quarterly value by dividing the first-half amount of change by 2)*	1,255	31.1
March 2021 (Q4)	16,444		1,076	14.0

5. Other operating revenue increased significantly from Y231 million ⇒ Y404 million (+74.9% YoY). Sales of other companies' products such as those related to DX have been strong.

Note: Due to the renovation of its system, the Company can now more appropriately reflect internal transaction in the sales of each category. Consequently, in the Q1 of this fiscal year, it revised its method of adjusting for internal transactions on a consolidated basis and has changed the calculation method for the sales of each category. However, the resulting difference from the previous method is limited in impact (in the Q1 of this fiscal year, sales were decreased by -Y8 million for maintenance service and -Y2 million for cloud, while they were increased by +Y5 million for products and +5 million for other operating revenue). Also, the changes from the previous fiscal year (%) have been calculated based on comparisons with the sales of each category in the Q1 of the previous fiscal year before the change.

Q1: Profits

・Regarding profits, since the Company has a business model with a high marginal profit ratio, changes in sales tend to have a large impact on changes in profit margins and profits. In the Q1 of the current fiscal year, the sales composition has changed as sales of the profitable products declined significantly (-74.2% YoY) and other operating revenue with relatively low profitability increased significantly (+74.9% YoY). Due to worsened product mix and increase in costs, the gross margin dropped from 68.6% in the Q1 of the previous fiscal year to 61.9% in the Q1 of this fiscal year.
・While sales had decreased at a double-digit rate, the SG&A expenses increased by +Y211 million or +16.1% YoY due to increased costs such as personnel and development expenses. As a result, the SG&A expenses ratio rose by 12.3 basis points from 39.2% ⇒ 51.5% and the operating margin fell sharply from 29.3% ⇒ 10.5% (worsened by -18.8 basis points). Note that the Company expects its operating margin for the full year to be 8.5% and the actual result in Q1 exceeds this.
・In this fiscal year's Q1, there were no major non-operating or extraordinary income/losses, and net profit declined.

Balance Sheet

・As of the end of the Q1 of this fiscal year (June 2022), there has been no significant change to the balance sheet compared to the end of the previous fiscal year (March 2022). Its financial position has been solid, with cash and deposits maintained at around Y16 billion, which exceeds the annual sales, and with an equity ratio of 59.9% and current ratio of 216.4%. Contract liability (previously "unearned revenue," etc.: applicable to subscription contracts such as the cloud, refers to consideration received for services which have not been provided yet) was about Y7.3 billion, having decreased slightly YoY due to the slower growth rate of the cloud.

◆Financial Forecast for This Fiscal Year Onward

The Company's Financial Forecast for This Fiscal Year

・So far, the Company has not changed its full-year forecast since the announcement at the beginning of the fiscal year. For the full year, it expects large sales and profit declines, with sales of Y12,927 million (-3.4% YoY), operating profit of Y1,100 million (-58.6% YoY), and net profit of Y639 million (-73.0% YoY) (Figure 1 on page 1).
・For the full fiscal year, too, the fallback from the event-driven high demand for the products is expected to be large (-Y1,555 million or -52.6% YoY). Sales of merchandise and maintenance service are also expected to decline, albeit slightly. The expected increase in other operating revenue (+Y649 million or +58.8% YoY) and increase in sales of cloud (+Y547 million or +9.8% YoY) will not be enough to offset this decline, and an overall sales decline of -Y455 million is expected.

・For similar reasons as Q1, the gross margin for the full fiscal year is expected to decrease by 7.9 basis points from 68.6% in the previous fiscal year to 60.7% in the current fiscal year. In addition, the SG&A expenses are expected to increase by Y591 million (+9.6% YoY) due to an increase in upfront investments including personnel expenses and development expenses for PCA Hub, and the SG&A expenses ratio is expected to rise significantly from 46.0% to 52.2%. As a result, the operating margin is expected to drop from 19.8% to 8.5%.
・The Company plans to reduce the annual dividend from Y24/share in the previous fiscal year to Y13/share. This is because the commemorative dividend of Y11/share of the previous fiscal year will no longer be present. The ordinary dividend of Y13/share will be maintained (already reflects the 3-for-1 stock split conducted on October 1, 2021).

Alpha-Win Research Department's Financial Forecast for This Fiscal Year Onward

・We have not changed our financial forecast since the previous report (issued on July 4, 2022). We believe that the Company's full-year forecast is somewhat conservative and we expect both sales and profits to be revised slightly upward (Figure A on page 5).
・The slow sales of the products and the slowdown in the growth of the cloud's number of users (net number of increase) and sales are points of concern. However, both are largely due to the fallback from the event-driven high demand (replacement of products from the X series to the DX series, switch to the cloud service, etc.) and this trend is expected to continue but become weaker after Q2 (the previous fiscal year's event-driven high demand mainly occurred in the first half). The Company's cost estimates also seem conservative. These points have been reflected in our forecast.

・The Company's business is highly compatible with remote work and it is focused on domestic-demand-oriented, subscription businesses. Therefore, the impact of COVID-19 has been small, as indicated by the recent years' business performance. However, Japan has also been experiencing a rebound of COVID-19 that has been more serious than expected. In addition, the prolongation of the situation in Ukraine is causing higher resource prices as well as prices in general. These are concerning since they may worsen the business performance of small/medium-sized companies which are the Company's users and lead to the suppression of their IT investments, and should be noted as risk factors.
・So far, we have also not changed our financial forecasts for next fiscal year onward. We predict that starting in the next fiscal year, when the fallback from the event-driven high demand will have ended, upfront investments will also peak out and the Company will return to sales and profit growth trends again.

The New Business' Situation

・After acquiring Dreamhop Co., Ltd., the Company strengthened its sales activities, services, products, and capital. It is currently focused on improving its business performance, but the recent situation has not been disclosed.
・It has also been working on promoting the sales of PCA Subscription (shares common application functions with the cloud with data compatibility), PCA Hub (online storage service that enables corporate users to safely and securely share important business data and files; meets the requirements of the Electronic Books Maintenance Act; aiming to gain 2,000 corporate users in the first year after the release in March 2022), and hyper (enterprise system for mid-tier companies). However, it is currently still in the stage of improving product and service recognition and strengthening sales activities, and there seems to have been no major progress up to this point.
・The Company's business is a cash cow, accumulating cash and deposits every year. Its challenges will be to improve capital efficiency, execute investment strategies for growth, and develop businesses that will be the next main source of earnings.

◆ Stock Price and Characteristics

・The Company's stock is seen as a defensive, domestic-demand-oriented, and small-cap growth stock in subscription-based businesses. Since December 2018, it had been significantly outperforming the TOPIX. However, it has been underperforming the TOPIX starting this year due to selling in anticipation of financial results becoming impacted by the fallback from the event-driven high demand (Figure C on page 6).
・The Company's volatility in financial results and stock price tends to increase in response to high demand triggered by events such as those related to changes in the tax system, accounting standards, OS, and products.

・Compared to the average of the TSE Prime, the Company's valuation is indeed expensive regarding the actual P/B and forecasted dividend yield as well as forecasted P/E, based on the Company's forecasts for this fiscal year and the decrease in forecasted EPS (as reference, the TSE Prime's averages are 13.7 for forecasted P/E, 1.2 for P/B, and 2.3% for the simple average of dividend yield). Its valuation also does not seem cheap compared to its competitors Obic Business Consultants and Miroku Jyoho Service regarding the major valuation measures excluding P/B (Figure 3 on page 5).

・We expect that there will be upward revisions to the Company's forecast for this fiscal year's profits. Based on our forecast, the forecasted P/E is estimated to be about 34x for the current fiscal year, 21x based on the next fiscal year's forecast, and about 15x based on the forecast for the fiscal year after the next.
・From the next fiscal year onward, we expect that there will no longer be a negative impact caused by the fallback

from the event-driven high demand for the products, so that the Company will begin increasing sales and profits. Over the medium term, changes in sales and improvements in profit margins will depend on the cloud's growth rate, whether the new businesses will succeed, and the sales situation of the products. Changes in the growth rate of the cloud, which has been the Company's growth driver, will especially be a key point.

・Since the Company is rich in cash as already described, share buybacks, dividend hikes, and M&As will also be important factors that may impact the stock price.

【Figure 3】Comparison of Valuation with Competitors

Company Name	PCA (consolidated)	Obic Business Consultants (OBC: nonconsolidated)	Miroku Jyoho Service (MJS: consolidated)
Code	9629	4733	9928
Stock Price (at 7/29/2022 closing)	1,196	4,515	1,500
Market Cap (million yen)	27,628	340,449	52,209
This Fiscal Year's Forecasted P/E (price-to-earnings ratio)	37.4	27.6	12.0
P/B (price-to-book ratio)	1.4	2.5	2.1
Dividend Yield (%)	1.1	1.6	2.7
EV/EBITDA	9.25	12.4	6.8
P/S (price-to-sales ratio)	2.1	9.2	1.3
This Fiscal Year's Q1: Sales (million yen)	2,954	8,343	9,716
Operating Profit (million yen)	309	3,674	1,503
This Fiscal Year's Q1: YoY Change in Sales (%)	-11.2	8.5	11.1
YoY Change in Operating Profit (%)	-68.3	14.1	60.0
Operating Margin (%)	10.5	44.0	15.5
This Fiscal Year's Full-Year Company Forecast: Sales (million yen)	12,927	37,000	38,800
Operating Profit (million yen)	1,100	16,910	4,800
This Fiscal Year's Full-Year Company Forecast: YoY Change in Sales (%)	-3.4	6.5	6.0
YoY Change in Operating Profit (%)	-58.6	3.4	0.2
Operating Margin (%)	8.5	45.7	12.4

Market cap = shares outstanding x stock price【7/29/2022 closing price】
EPS values used in P/E calculations are based on each company's forecast for FY 2023. BPS values used in P/B calculations refelct this fiscal year's Q1 results.
EV/EBITDA = (market cap + interest-bearing debt – cash & deposits) / (O.P. + depreciation + intangible fixed assets amortization, etc.)
Interest-bearing debt and cash & deposits are based on the actual results of this fiscal year's Q1.
Operating profit (O.P.) is based on each company's full-year forecast for this fiscal year.
"Depreciation + intangible fixed assets amortization, etc." is based on the actual results for the previous fiscal year.
P/S = market cap / sales【each company's forecast for FY 2023】

(Ref) Prepared by Alpha-Win Research Dept. based on each company's financial results summary and stock data.

【 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 (¥)	BPS (¥)	Dividend (¥)
2019	Old Std.	11,439	16.9	1,248	54.7	1,277	53.0	906	105.5	44.42	596.59	10.33
2020	Old Std.	14,266	24.7	2,781	122.8	2,808	119.9	1,816	100.4	90.97	675.81	18.00
2021	Old Std.	13,308	-6.7	2,314	-16.8	2,340	-16.7	1,668	-8.1	83.50	791.64	11.33
2022	Old Std.	15,142	13.8	2,516	8.7	2,542	8.6					
2022	New Std.	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 Std.	12,927	-3.4	1,100	-58.6	1,132	-58.0	639	-73.0	31.95		13.00
2023	E New Std.	12,950	-3.2	1,300	-51.0	1,320	-51.1	700	-70.4	35.00	858.09	13.00
2024	E New Std.	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 Std.	15,000		2,500								
2025	E New Std.	15,520	8.5	2,550	36.4	2,570	36.0	1,550	37.2	77.50	965.10	15.00
2019	Q1 Old Std.	2,346	11.3	57	-67.1	69	-62.3	34	-64.6	5.09	1,624.69	—
2020	Q1 Old Std.	3,073	31.0	587	917.5	598	754.6	364	945.3	54.76	1,848.46	—
2021	Q1 Old Std.	2,789	-9.2	465	-20.7	471	-21.2	272	-25.1	40.99	2,029.56	—
2022	Q1 New Std.	3,328	19.3	975	109.4	987	109.4	614	125.4	92.24	2,432.89	—
2023	Q1 New Std.	2,954	-11.2	309	-68.3	315	-68.0	142	-76.8	7.13	930.18	—

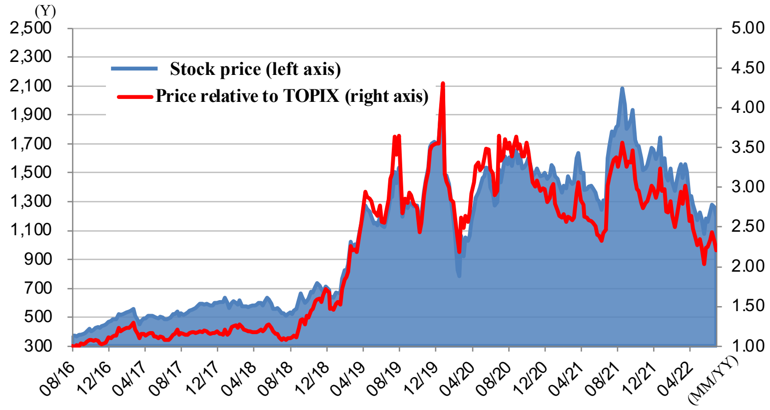
(Note) CE: the Company's forecast/estimate. E: Alpha-Win's forecast/estimate. Q1: results for Apr-June.
Forecasts for EPS, BPS, and dividend reflect the 3-for-1 stock split conducted on Oct 1, 2021, with past years revised retroactively.
"Old Std." stands for the previous revenue-recognition standard, and "New Std." stands for the new revenue-recognition standard.

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

Item	7/29/2022	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,196	Last FY (actual)	10.1	1.4	2.0%	13.6%
Shares Outstanding (thou.)	23,100	This FY (est.)	34.2	1.4	1.1%	37.1%
Market Capitalization (million yen)	27,628	Next FY (est.)	21.2	1.3	1.2%	24.8%
Dilutive Shares (thou.)	0	Equity Ratio at End of This FY's Q1	59.9%	Last FY's ROE		14.4%

(Note) Forecasts have been 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 29, 2022

【Performance】		
Period	**Return**	**vs. TOPIX**
1 month	3.0%	-0.7%
3 months	-9.1%	-11.3%
6 months	-24.6%	-26.9%
12 months	-25.3%	-27.3%

(Note) Reflects stock price and index values through the closing price on 7/29/2022. Performance vs. TOPIX is the relative performance calculated by subtracting the TOPIX's performance from the performance of each stock.

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Disclaimers