Alpha-Win Company Research Report

PCA
(9629 TSE Prime)

Issued: 12/19/2022

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.

Financial Results For the First Half and Forecast for the Second Half and the Full Year

・In the first half of this fiscal year (FY 2023; note that the Company's fiscal year is March-ending, i.e., FY 2023 ends in March 2023 and its first half ended in September 2022), the Company posted declines in sales and profits due to a fallback from the demand related to the PCA X series whose support was ended in the previous fiscal year. Sales were Y6,163 million (-6.7% YoY), operating profit was Y847 million (-51.7% YoY), and net profit was Y494 million (-65.9% YoY).

・The Company did not announce its forecast for the first half, but it appears that the profits exceeded its internal forecasts. Progress in the first half in terms of the Company's full-year plan was 47.7% for sales, 77.0% for operating profit, and 77.3% for net profit, indicating a large progress in terms of profit.

・The Company has maintained its forecasts for the current fiscal year (FY 2023): sales of Y12,927 million, operating profit of Y1,100 million, and net profit of Y639 million. In the full fiscal year, too, the Company expects a 3.4% decline in sales and a large, 58.6% decline in operating profit due to a fallback from the event-driven high demand for its products and due to upfront investments including those for PCA Hub. In addition, since the gain on sales of securities that was recorded in the previous fiscal year will no longer be present, it expects a 73.0% decline in net profit.

・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 fiscal year, though, such a drop is expected to be largely prevented thanks to the strategic shift of the business portfolio to the subscription-based businesses (maintenance + cloud service), which have 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.

・Subtracting the first-half results from the full-year plan shows that the Company is expecting second-half sales of Y6,764 million (-0.1% YoY), operating profit of Y253 million (-72.0% YoY), and net profit of Y145 million (-84.3% YoY). While sales are expected to remain flat, the Company expects a significant decline in profits due to its planned, significant increase in development costs, which will cause the profit margins to worsen.

Alpha-Win Research Department's Forecast of Financial Results

・For this fiscal year, we had forecasted sales of Y12,950 million (+Y23 million compared to the Company's forecast), operating profit of Y1,300 million (similarly, +Y200 million), and net profit of Y700 million (similarly, +Y61 million). We had expected slight upward revisions to both sales and profit compared to the Company's plan. In our current forecast, though, we have kept our sales forecast the same, but have revised our forecast for operating profit upward by Y100 million to Y1,400 million and, similarly, revised net profit upward by Y100 million to Y800 million. Along with these revisions, we have also raised our forecast for dividend per share from 13.0 yen to 16.0 yen.

・The sluggish sales of the products and the increase in costs such as R&D investments and personnel expenses are points of concern. However, there was a large progress with the profits in the first half, the impact from the event-driven high demand should become relaxed in the second half since the demand occurred mainly in the first half of the previous fiscal year, and the cloud business is solid as it is practically maintaining a 20% sales growth rate. The Company's estimates of second-half costs and profits also seem conservative. We have prepared our current forecast based on these factors.

・From the next fiscal year onward, assuming 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 diminishes, and the cloud business grows.
・Currently, high demand is not expected from the Electronic Books Maintenance Act and the new invoicing system, and their impact on financial performance is expected to be limited. We have left our forecasts for the next fiscal year and the year after that unchanged, but have changed the proportions of total sales for the cloud and the solutions (overall sales forecast is the same) and have raised only the dividend forecast based on the forecasts for this fiscal year. 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 fiscal year. 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, these figures have been achieved during past periods of event-driven high demand and could potentially be achieved again, but they seem to be somewhat high goals unless a certain scale of M&A or an event-driven high demand occurs.

・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 while responding to digitalization needs, it will also proactively work on the SDGs.
・On the other hand, its biggest challenges are to effectively utilize its abundant cash & deposits (which exceed its annual sales) for future growth and to develop the new businesses that it has started (PCA Hub, HR business, PCA Subscription, hyper, etc.) to put them onto a growth trajectory 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. Volatility of business performance and stock price tends to rise before and after event-driven high demands.
・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 fiscal year's results) and the expected P/E and dividend yield (based on the current fiscal year's forecasts).
・However, the following could be expected of the Company: potential upward revision of its forecasted profit for this fiscal year, a greater return of profit to shareholders over the medium to long term, stability and high continuity of its mainly subscription-based business, and the high growth potential of its subscription business leading to a return to a sales and profit growth trend starting next fiscal year with this fiscal year's results as a temporary low. Since the profit growth will most probably cause the P/E to decrease, we believe there is an upside to the stock price over the medium to long term.

・The stock price had been corrected in advance for this fiscal year's worsened financial performance. However, the stock price has then turned around and has been outperforming major indices such as the TOPIX and TSE Prime, as well as its competitors, due to its characteristic as a defensive stock which is not affected by the macro environment and the large progress with profit in its announced first-half results.

- For the time being, stock price will likely be affected by whether the new businesses (mainly PCA Hub and Dreamhop) 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 consistently and stably paying dividends and has been buying back its shares. In FY 2023, there will no longer be a special, commemorative dividend of 11 yen/share like the previous fiscal year, and it plans to continue to pay an annual ordinary dividend of 13 yen/share (stock split reflected).
- The dividend yield is expected to be about 1% based on the current fiscal year's forecasts. Based on the Company's financial forecast for this fiscal year, the dividend payout ratio is expected to be 40.7%, which is above the Company's target of 33%. We expect the DOE, though, to be about 1.5%, which is again below its target of 2.5%.
- In the short term, with this fiscal year's results as the bottom, the Company's financial performance is expected to recover starting in the next fiscal year. Therefore, it is expected to further strengthen the return of profit to shareholders, including dividend hikes, share buybacks, stock splits, and cancellation of treasury shares.

【 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	New E: New Standard	12,950	-3.2	1,400	-47.3	1,420	-47.3	800	-66.2	40.00	863.09	16.00
2024	E: New Standard	14,310	10.5	1,870	33.6	1,890	33.1	1,130	41.3	56.50	903.60	18.00
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	963.10	19.00
2022	Q1: New Standard	3,328	19.3	975	109.4	987	109.4	614	125.4	30.75	810.96	0.00
2023	Q1: New Standard	2,954	-11.2	309	-68.3	315	-68.0	142	-76.8	7.13	830.18	0.00
2022	Q2: New Standard	3,281	2.8	778	64.5	795	62.9	835	163.4	30.75		0.00
2023	Q2: New Standard	3,209	-2.2	538	-30.8	556	-30.1	352	-57.8	17.60		0.00
2022	H1: New Standard	6,609	10.5	1,753	86.8	1,782	85.7	1,449	145.9	72.48	823.79	0.00
2023	H1: New Standard	6,163	-6.7	847	-51.7	871	-51.1	494	-65.9	24.73	850.85	0.00
2022	H2: New Standard	6,773	-7.6	902	-34.4	915	-33.7	918	-14.9	45.90		24.00
2023	H2 CE: New Standard	6,764	-0.1	253	-72.0	261	-71.5	145	-84.2	7.25		13.00

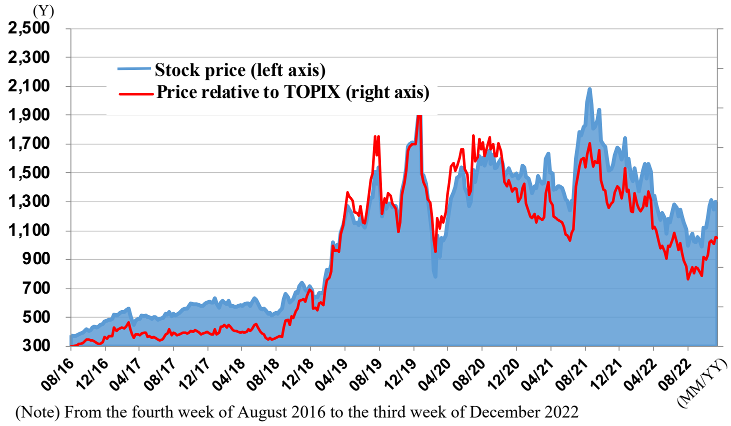
(Note) CE: the Company's estimate/forecast. E: Alpha-Win Research Dept.'s estimate/forecast. Q1: April-June. Q2: July-September. H1: first half or April-September. H2: second half or October-March. Forecasts for EPS, BPS, and dividend reflect the 3-for-1 stock split conducted on October 1, 2021 (past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

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

Item	12/16/2022	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,285	Last FY's Forecasts	10.9	1.5	1.9%	13.6%
Shares Outstanding (thou.)	23,100	This FY's Forecast	32.1	1.5	1.2%	40.0%
Market Capitalization (million yen)	29,684	Next FY's Forecast	22.7	1.4	1.4%	31.9%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End		59.6%	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 the third week of December 2022

【Performance】		
Period	Return	vs. TOPIX
1 month	0.2%	2.0%
3 months	25.7%	19.5%
6 months	10.7%	6.4%
12 months	-22.6%	-20.5%

(Note) Reflects stock price and index values through the closing price on 12/16/2022. The return for the 1-month period is the comparison between the closing price on the last day of November and the closing price on Dec 16. Similar for the other periods. Prepared by Alpha-Win Research Dept.

＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊＊

Disclaimers

This Alpha-Win Company Research Report (hereinafter “this Report”) has been prepared by Alpha-Win-Capital Inc. (hereinafter “Alpha-Win”) on the request of the company presented in this Report.

This Report is not to be construed as a recommendation or solicitation of investment. Alpha-Win shall not be liable for any consequences including direct or indirect loss, lost profit, or damage resulting from the use of or reliance on this Report. Investors who read this Report must make their own decisions on all investment matters and take full responsibility regarding their investment.

This Report has been prepared with a focus on objectivity and neutrality based on the analysis of generally accessible public information and supplemental information including interview(s) by the analyst. Alpha-Win, the writer, and/or other persons involved in the publication of this Report may already hold, or buy and sell in the future, the stock of the company presented in this Report.

Contents of this Report are based on information current as of the issue date and are subject to change without notice. For the latest (updated) report, please see our website (http://www.awincap.com/). We also do not warrant or represent that the information in this Report is accurate, reliable, complete, appropriate, or fit for any purpose and do not accept any responsibility or liability.

Copyright of this Report belongs to Alpha-Win and no part of the publication may be copied, photocopied, cited, or translated without our consent.

For inquiries regarding this Report, please send us an e-mail to info@awincap.com. However, Alpha-Win and the writer of this Report do not have any obligation to reply to inquiries. PFV2022-1228-1030

(Note) In this Report, the values for the same item may not match completely within the document (including its graphs and tables) or with the Company’s announced values due to rounding, processing during calculation, method of display, adjustments related to the consolidation of results, etc.

Contents

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

(1) Enterprise system: a part of a company's information system for operations directly related to business, such as financial accounting, production management, sales and inventory management, purchases, HR, and payroll. A general term for back-office applications. Also called the mission-critical system, it is important as the core system for operations/services.

- **The PCA Group is composed of the Company and 3 subsidiaries. Acquired Dreamhop in 2020.**

(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 as a cloud service.

◆ 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 its 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 November 2022, the Company's group is composed of a total of four companies: the Company and three consolidated subsidiaries.

An overview of the consolidated subsidiaries is shown below (Figure 1). For the details on the three consolidated subsidiaries, please see pages 20-23 of our report published on November 22, 2021.

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)
3) Dreamhop Co., Ltd. (HR/labor solutions including mental health; acquired in October 2020 as a wholly owned subsidiary)

【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	HR/labor solutions and 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 the organization 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; various other government organizations and companies of the private sector. Used by companies and organizations of a scale of 10-100,000 people.	Number of users of Xronos Performance (million users): 1.7 ⇒ 1.9 ⇒ 2.3 Number of companies using Xronos Performance: 3,935 (as of 12/5/2022) Number of users of X'sion: 431,784 ⇒ 515,412 ⇒ 604,594 Number of companies using X'sion: 8,588 (as of 12/5/2022) (As of Nov. 15, 2021 ⇒ May 9, 2022 ⇒ Dec. 5, 2022; info on its website)	More than 20,000 companies (in Japan)
Founded	October 2020 (date acquired; founded in June 2005)	May 2011 (business acquired)	April 1988
Capital (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	Y2,205 million (FY ended March 2022; information on its website; +2% YoY sales growth)	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 among the consolidated subsidiaries. Profitability seems high.	Business performance tends to be basically linked with the performance of PCA. Due to the COVID-19 crisis, its business performance seems to be somewhat stagnant.

(Ref) Prepared by Alpha-Win Research Dept. based on each company's website and securities report.
(Note) Each company's performance trends include estimates by Alpha-Win.

- **Selling Keepdata positively impacted the Company's profit.**

The Company acquired Keepdata Ltd. (hereinafter, "Keepdata") in March 2019 as a consolidated subsidiary. It had acquired this company as a foothold for the new data utilization business. However, creating synergy with the Company in system linkage and sales had turned out to be difficult, and Keepdata had continuously posted a net loss and an excess of debt. Therefore, in December 2020, the Company sold all shares of Keepdata to a third party. The Company ended up selling Keepdata less than two years after its acquisition. However, this decision had most likely contributed positively in terms of consolidated profit/loss, since Keepdata's sales (estimated by Alpha-Win to have been about Y80 million) and net loss (similarly estimated to have been several dozen million yen) no longer became included in the consolidated results starting in FY 2021.

- **Ratio of consolidated to parent-company sales had been stable at around 1.1, but is expected to rise to 1.3 in the current fiscal year.**

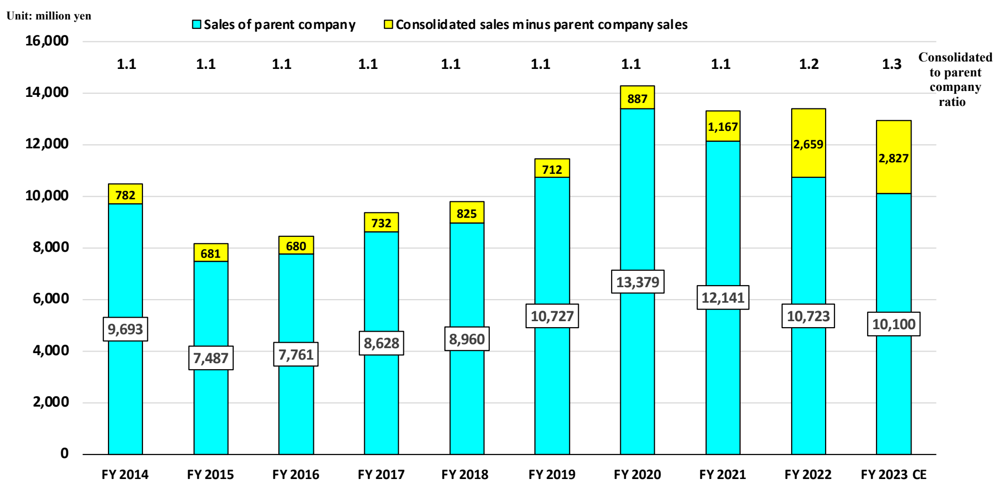
The ratio of consolidated to parent-company sales had stably been around 1.1, with the parent company's financial results having a greater weight (Figure 2). This fiscal year, the parent company's sales are expected to decline while the subsidiaries' sales will grow. Therefore, the consolidated-to-parent ratio is expected to rise to 1.3 and 1.5 for sales and recurring profit, respectively.

- **Sum of the recurring profit/loss of the consolidated subsidiaries (consolidated minus parent) has been positive (profitable).**

Although each subsidiary's 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 had posted a net profit (including this fiscal year's forecast but excluding FY 2015 when a net loss was posted). Additionally, concerning the summed profit/loss of the three subsidiaries calculated by consolidated minus parent-company recurring profit, a profit has been maintained since FY 2016, with a summed profit of about Y400 million in recent years (Figure 3 on page 8).

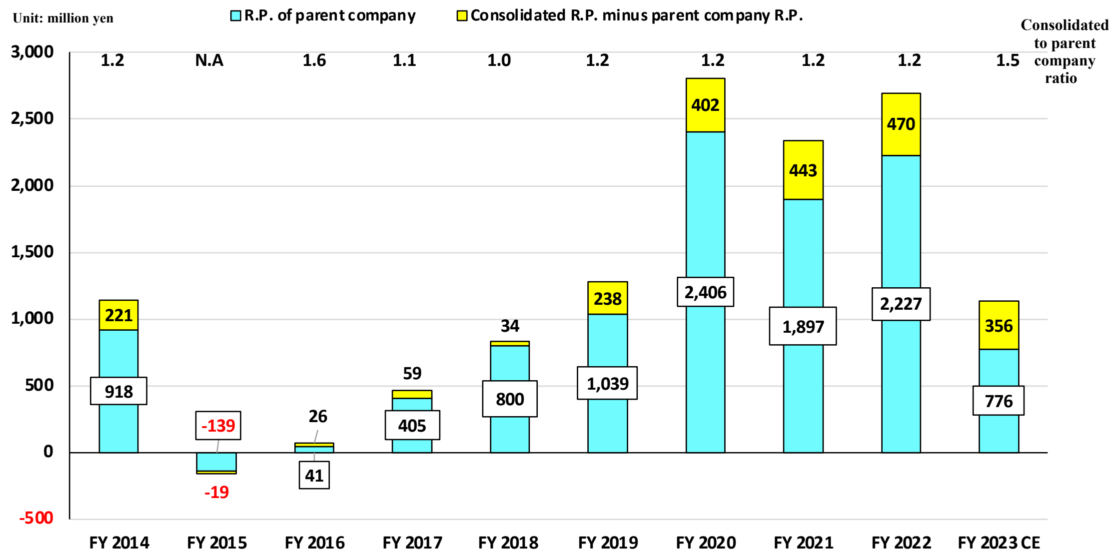
Among the subsidiaries, Xronos seems to be continuing to contribute the most to the consolidated financial results, thanks to the work-style reform. Its sales have been increasing from Y1.5 billion in FY 2019 and Y2.16 billion in FY 2021 to Y2.21 billion in FY 2022 (according to Xronos's website). For FY 2025, this subsidiary had planned to achieve sales of Y4 billion (according to Xronos's former website). Although its profits have not been disclosed, this subsidiary seems to be posting a profit and contributing positively to consolidated profit.

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



(Ref) Figures 2 and 3 were 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. Positive FCF maintained.**

The Company's financial standing is firm, rich in cash and debt-less. Relative to its sales of Y13.0 billion (this fiscal year's plan) and total assets of Y28.5 billion, its debt is zero and it has Y16.5 billion in cash & deposits, which is equivalent to 58% of total assets and 15.3 months' worth of average monthly sales (values as of the end of September 2022).

(3) FCF (Free Cash Flow): FCF = Operating CF + Investing CF. Cash which can be "freely" used. CF generated by a company minus its investments, etc., necessary to maintain its business.

Free cash flow (FCF)[3] has been positive except for FY 2015, and cash & deposits on the balance sheet (B/S) have been increasing (Figure 4). In the first half of the current fiscal year, while CF from operating activities decreased, CF from investing activities increased due to factors including the acquisition of investment securities. Consequently, FCF became almost halved from the previous fiscal year, but remained positive at over Y1 billion.

◆ **Cash & deposits are increasing to record-high levels, exceeding the annual sales. Financial standing is solid.**

In addition, capital has been accumulating due to profits, and the balance of cash & deposits on the balance sheet has risen to a record-high level. Financial ratios are at also highly secure levels, with an equity ratio of 59.6% and a current ratio of 214.5% (as of the end of September 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	First Half of FY 2023	First Half of 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	1,296	1,988
Investing CF ②	-405	-127	185	-407	-750	-606	-627	-395	1,715	-80	-719	253	708	-266	589
Financing CF	-207	-210	-205	-215	-216	-284	-214	-215	-216	-572	-225	-355	-254	-605	-247
FCF (①+②)	222	361	326	440	299	-60	800	1,137	2,985	2,061	2,609	1,885	4,392	1,030	2,577
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	16,517	14,080

(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 from the CF statement.

◆ Health Management

- **The Company believes that employees are the most important business resource supporting sustainable growth, and has created a working environment with a commitment to health management.**

The Company believes that the most important business resource supporting sustainable growth is its employees. Under the "Health Management Declaration," the Company recognizes that one of its most important business challenges is to create an environment in which every employee can continue to work toward challenges while maintaining good physical and mental health and feeling a sense of fulfillment in their work and personal growth.

The Company is working on initiatives from the following perspectives:

(1) Management of employee health
- Encourage periodic health checkups (100% of employees have received checkups)
- Mental health care and stress checks (conducted once a year for all employees)
- Infection prevention measures (free vaccination to those who wish)

2) Workplace environment
- Innovative office environment (all free-address across the Company with the ABW or Active Based Working workstyle)
- All offices are non-smoking; also created relaxation spaces

3) Flexible workstyles (remote-work rate is around 80%, with work-from-home support subsidies provided)

4) Work-life balance
- Measures to prevent overwork (internal rule setting 30 hours as the maximum hours of overtime work)
- Measures to improve the paid-leave acquisition rate and measures to balance work and childcare

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, purchase 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.

◆Business Model with High Continuity and Marginal Profit Ratio

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

The Company provides a total of about 26 types of software (counted by product name, including options). 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.**

Since FY 2017, 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 5). Profit and loss by segment are not disclosed.

【Figure 5】Sales Classification (by category) and Composition

Sales Classification by Category	Contents	First Half of FY 2023 (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)	557	9.0	About 65%
Merchandise	Sales of other companies' products such as ledger sheets	222	3.6	About 30%
Maintenance Service	By signing up to PSS membership, users can receive inquiry and support services from call centers	1,688	27.4	About 75%
Cloud Service	Subscription service for software provided as a cloud service	2,860	46.4	About 65%
Other Operating Revenue	Sales of other companies' products such as software/hardware combined with its original products; also called "solutions"	834	13.5	About 60%
Total & Average		6,163	100.0	Result: 63.5%
Reference		Estimate based on weighted average: 65.7%		

(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.

- **Subscription-based businesses (maintenance & cloud) account for about 74% of the total sales.**

In recent years, sales of cloud services of the Company's packaged software have grown significantly, and they have become the Company's growth driver with regards to both the overall sales and profit. In the first half of FY 2023, 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), accounted for about 74% 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. 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 payroll/HR. Currently, the Company primarily sets internal targets 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. Future changes such as its transition from sales-based management to profit-based management will be a key point. The profit margins of each operation type of software do not greatly differ between one another, but the main accounting software business is generally the most profitable.

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

◆Cloud Business as the Growth Driver

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

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

- **The rapidly growing cloud business is based on a subscription-based, stable business model. Taking a lead in the market as the single, obvious top player, the Company has a high competitive 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 sophisticated 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 its users as well as sales has been growing steadily (Figure 12 on page 20). During the COVID-19 crisis, though, the business expanded but there was some temporary slowdown in the growth rate. However, both the net

(6) API (Application Programming Interface): interface/network to use to 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. The on AWS version enables the use of PCA's cloud services on the AWS server.

number of users and the sales growth rate increased at accelerated rates in the previous fiscal year with the event-driven high demand, and the business is believed to continue to be the Company's main growth driver.

- **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.**

◆ PCA Hub Series

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

The concept of the PCA Hub series is "supporting companies and our society through technology." Toward the creation of a sustainable society, the series will provide "levels of operation efficiency optimization that seemed out of reach" at "prices within reach" for operational challenges which have yet to be solved by systems due to investment costs being too high.

As the first and the core service of the series, PCA Hub eDOC was released (PCA Hub eDOC is a part of the PCA Hub service). It is an online storage service (cloud-based 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 is a tool for optimizing operation efficiency.

As shown in Figure 6, PCA Hub eDOC enables the digitization and paperless operation of fund management, accounting management, labor management, and so on. It also supports the requirements of the Electronic Books Maintenance Act[10] and has acquired the JIIMA certification.

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

Whereas the previous product eDOC X 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). The pricing system is set at easy-to-start prices. The Company aims to gain 2,000 corporate users in the first year after its release (annual full contribution to sales is estimated to be approx. Y153 million to Y470 million).

Following PCA Hub eDOC, PCA Hub eDOC AI-OCR Option was released in November as part of the PCA Hub Series.

For the lineup of the PCA Hub series, see Figure 7 on page 14.

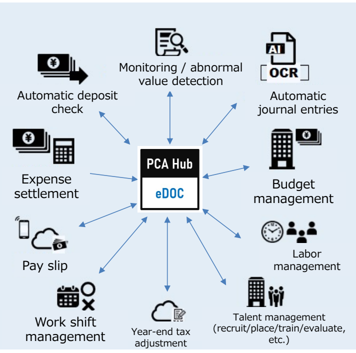
The optional service will enable the user's accounting staff to automate their input work by reading the customer name, amount, and date on the

(9) (PCA) hyper: new software for mid-tier companies as a successor to Dream21. A superior version of the DX series. 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.

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

【Figure 6】Business Areas and Functions of PCA Hub eDoc



(Ref) Financial results briefing materials received invoices and receipts using the AI-OCR function to automatically register and link the information to PCA Hub eDOC.

In addition to this, in March 2023, the Company plans to release web-based services for invoices that also support electronic invoices (such as the conversion of invoices to electronic forms) and for pay slips (pay slips, withholding tax slips, year-end adjustment notifications, etc.).

In response to the Qualified Invoice Preservation Method (new invoicing system[12]) that will start in October 2023, the Company also plans to release new versions of its current, major PCA products and services around the summer of 2023 that will be compatible with this system. It plans to also continue to create a variety of other services of the PCA Hub series.

(12) New invoicing system: The Qualified Invoice Preservation Method, which will start in October 2023. A new system for issuing and storing invoices and delivery slips, created for the purpose of accurately recognizing the amount of consumption tax in transactions.

【Figure 7】Lineup and Release Schedules of the PCA Hub Series

Date	Service/product	Situation	Notes (characteristics)
March 2022	PCA Hub	Released / Service started	A new service that supports mid-tier and small/medium-sized companies in shifting to paperless internal operations and B2B transactions for the digitalization of the Japanese society.
March 2022	PCA Hub eDOC	Released / Service started	An online storage service for safe and secure sharing of important business data and files within a company. It is also compatible with the Electronic Books Maintenance Act and can be used to store receipts, invoices, and other vouchers.
November 2022	PCA Hub eDOC AI-OCR Option	Released / Service started	Optional service. Function which automatically registers the customer name, amount, and date on received invoices and receipts to PCA Hub eDOC using AI-OCR. Advantages: ・ Can automate the input work of accounting staff. ・Registered data can be linked to various software of the PCA Accounting series to create journal entries.
March 2023	PCA Hub Invoice	Release planned	A service for electronic delivery of invoices and transaction details that is also compatible with electronic invoices. It can be linked to the PCA Shokon and Shokan series and PCA Accounting hyper Receivables Management Option. Supports the shift to paperless invoicing and digitalization of the invoicing process itself. Advantages: ・Web-based delivery of invoices reduces the cost of mailing paper invoices. ・Significant reduction in the amount of time required to enclose and send invoices by mail. ・Eliminates the need for employees to come to office for invoicing work (eliminating a barrier to remote work) ・Reduction in the workload necessary to reissue invoices
March 2023	PCA Hub Pay Slip	Release planned	Service specialized in web-based pay slip delivery. Calculation results of the PCA Payroll series can be imported into PCA Hub Pay Slip and sent to employees as a notification. Documents that can be delivered include pay slips, bonus slips, refund statements, and withholding tax slips. Advantages: Same as PCA Hub Invoice above
Around summer 2023	Existing major products	Planned to become compatible with the new invoice system	The hyper/DX series (packaged versions), PCA Cloud (including onAWS), PCA Subscription, and PCA Hub will all be compatible; X series and other products whose support has ended will not be compatible.
Not decided	Labor-related product	Release planned	Services for labor-related processes, etc.

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials and news release on its website

3. Shareholder Composition

◆ Major Shareholder Composition

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

Major shareholders as of the end of September 2022 are shown in Figure 8. Compared to the end of March 2022, shares held by the top ten major shareholders have not significantly changed except for FCP, STATE STREET, and the Employee Stock Ownership Plan as described below.

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

・The largest shareholder is Kawashima Co., Ltd. (asset management company of the founder Kawashima's family and the Company's president Fumiaki Sato) whose shares have not changed.

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

・The Company itself is essentially the second largest shareholder and owns a total of approx. 13.4% of its own shares.

- **The two overseas investors have bought more shares.**

・The sixth largest shareholder FCP SEXTANT AUTOUR DU MONDE (an equity investment fund managed by the French company Amiral Gestion, which is an independent asset management company founded in 2003 and focused on long-term investments) and its eighth largest shareholder STATE STREET BANK AND TRUST COMPANY (reappeared as a major shareholder) have bought more shares.

【Figure 8】Current Major Shareholders

Unit for number of shares owned: thousand shares Unit 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	nd of Mar. 202	End of Sept. 2022	Shareholding Ratio	Ranking
Kawashima Co., Ltd.			8,805	8,805	8,208	8,205	8,208	8,208	8,207	41.04	1
PCA CORPORATION (treasury shares)	*2,544*	*2,544*	*2,544*	*2,546*	*3,146*	*3,136*	*3,101*	*3,101*	*3,100*	*13.42*	—
JP MORGAN CHASE BANK 385632							1,014	1,399	1,398	*6.99*	2
The Master Trust Bank of Japan, Ltd. (trust account)							284	1,137	1,320	6.60	3
MSIP CLIENT SECURITIES						885	886	886	885	4.43	4
Obic Business Consultants Co., Ltd.	762	762	762	762	762	762	762	762	762	3.81	5
FCP SEXTANT AUTOUR DU MOUDE								377	450	2.25	6
PCA Employee Stock Ownership Plan	330	357	381	381	406	300	337	349	372	1.86	7
State Street Bank and Trust Company 505001	732	747	798	798	521				351	1.76	8
Logic Systems Co., Ltd.	342	342	342	342	342	342	342	342	342	1.71	9
Nagoya PCA Co., Ltd.		300	300	300	300	300	300	300	300	1.50	10
APPLIED SYSTEM LABORATORY Inc.			258	258		258		260			
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						
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										

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report the notice of shareholders' meeting.

- **MFS, a major US-based investment management firm, continues to hold more than 5% of all shares.**

・The Massachusetts Financial Services Company (MFS: one of the oldest investment firms in the US that invests globally) had submitted a statement of large-volume holdings (the "5%-rule" statement) for the increase in its shareholding ratio from 5.22% to 6.23% (401,900 shares to 479,400 shares) as of March 31, 2022. Although MFS is not included in the list of major shareholders on Figure 8, it is presumably investing through several accounts of custodians (trust banks).

Regarding investment trusts in Japan, the Company's shares are incorporated in index funds managed by major asset management companies.

4. History of Growth

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

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

(13) 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. Its listing was changed to the Prime Market in April 2022.**

- **Has been generally increasing sales over the long term. Profit had temporarily weakened, but then recovered in a V-shape. Hit record sales and profits in FY 2020 thanks to event-driven high demand. Sales and profit are expected to decline again in FY 2023.**

◆ Company History

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

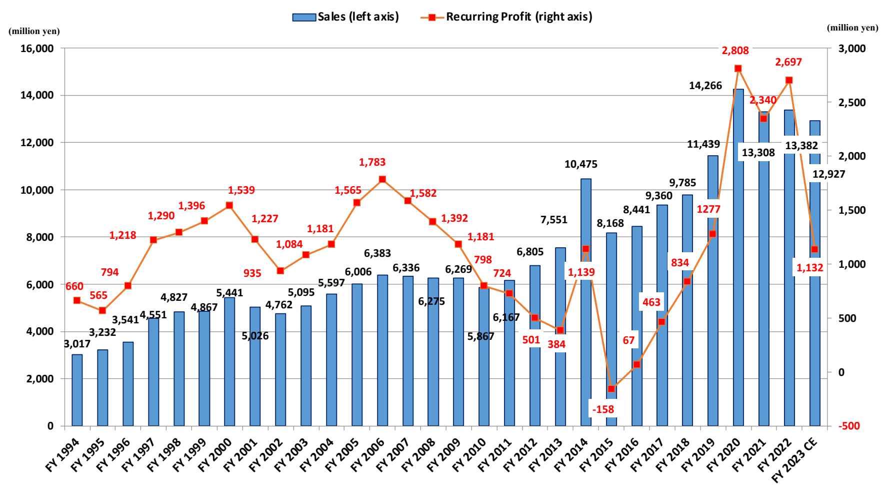
Then, with the emergence of the PC era, the Company has achieved growth mainly through the following four strategies: 1) creation of a greater variety of packaged software for Japanese customers as well as their version upgrades, 2) expansion of the maintenance service, 3) development of the cloud business, 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 also seen as a pioneer in the conservative industry, having been the first in the industry to begin providing cloud services (SaaS[13]) in 2008.

Regarding its 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, its listing was changed to the TSE Prime Market.

◆ Past Transition in Financial Results

As described above, the Company has been expanding its business since foundation until now as a specialist in the development and marketing of enterprise system software and related businesses. The transition in financial results since its first public offering is described in Figure 9 (for details, see the previous report issued on July 4, 2022).

【Figure 9】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).

5. Business Environment

◆Trends of the Software Market

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

- **Decreasing number of small/medium-sized companies (its current and potential users) in Japan, but the cloud-based enterprise system software services are 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, especially for the cloud services, as the demand for software to improve business operation efficiency increases.

Market Size and Growth Potential

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

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 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.

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 is still low: from 2017 to 2020, it has grown from 26% to 38% for "payroll / financial accounting / HR" and from 6-8% to 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.

Current Situation: BOJ Tankan

- **The sentiment of small/medium-sized and mid-tier companies has settled down compared to the past and software investment is expected to increase. However, with the uncertainties of the macro environment, the earnings environment continues to be difficult.**

According to the Bank of Japan Tankan in December 2022, the amount of software investment in 2022 (plan) by small/medium-sized companies (all industries) is planned to rise significantly by +15.5% YoY (of which, +29.5% for manufacturing and +11.6% for non-manufacturing), with growth especially expected for the manufacturing industries. Mid-tier companies are also showing an eager attitude toward increasing software investment, with an increase of +23.8% (+39.7% and +19.8%, respectively) expected. Regarding the survey on business sentiment among small/medium-sized companies, the "recent" sentiment improved from -2 in the June 2022 survey to 0 in September 2022 and +4 in December 2022, and "outlook" also improved from -5 to -4 to -2 in the same order. Although the market sentiment has improved compared to the past, the earnings environment of small/medium-sized companies continues to be difficult with the inflation, weak yen, and the COVID-19 crisis.

◆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.**

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 10).

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

The Company has different rivals for each type of operation targeted by its software. Regarding its rivals among listed companies for its key accounting software, its direct rival is thought to be Obic Business Consultants (OBC: 4733) and its indirect rival is most likely Miroku Jyoho Service (MJS: 9928). OBC is the greatest rival since it has almost the same product lineup and business model as the Company.

Among private companies, its direct competitors are Yayoi Co., Ltd. (in the fiscal year ended September 2021, sales were Y21,193 million and the number of users was 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), OHKEN (independent company), and OSK (subsidiary of OTSUKA CORPORATION).

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

In addition to the above, in the cloud accounting market, its main competitors among listed companies are 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). These companies target one-person businesses and small companies such as small/medium-sized companies and SOHOs, so they compete with the Company only in specific areas.

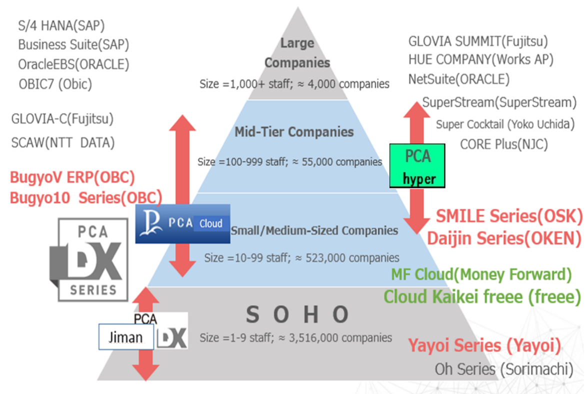
- **The Company provides high-quality products and services at reasonable prices.**

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 estimated to be approx. Y200 billion. The market is reaching maturity and its size has stayed mostly flat over the 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.

【Figure 10】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.

6. Results for the First Half and Full-Year Financial Forecast for This Fiscal Year

◆ Results for the First Half of FY 2023

Overview

- **First-half results: decline in sales and a significant drop in profits**

Consolidated results for the first half of FY 2023 were as follows: sales of Y6,163 million (-6.7% YoY), operating profit of Y847 million (-51.7% YoY), recurring profit of Y871 million (-51.1% YoY), and net profit attributable to owners of the parent of Y494 million (-65.9% YoY; hereinafter, "net profit"). Sales decreased, and profits also decreased significantly (Figure 11).

- **Although the forecast for the first half is not disclosed, profits have presumably largely exceeded the plan, judging from its large progress.**

Progress in the first half compared to the full-year plan was 47.7% for sales, 77.0% for operating profit, and 77.3% for net profit. Although the Company has not disclosed its forecasts of consolidated results for the first half of this fiscal year, comparison with progress during past years indicates that sales were most likely slightly above the plan by several percentage points, while profits were significantly higher than the plan.

【Figure 11】Financial Results for the First Half

		First-Half Results				
Results		First Half of FY 2022	First Half of FY 2023	% Change	Amount of Change	% of Total Sales
Unit: million yen		Apr-Sep 2021	Apr-Sep 2022	YoY: %	YoY: million yen	%
Consolidated Sales		6,609	6,163	-6.7	-446	100.0
Sales by Category	Products	1,718	557	-67.6	-1,161	9.0
	Merchandise	167	222	33.4	55	3.6
	Maintenance Service	1,646	1,688	2.5	42	27.4
	Cloud Service	2,595	2,860	10.2	265	46.4
	Other Operating Revenue	481	834	73.2	353	13.5
Gross Profit		4,506	3,912	-13.2	-594	
	Gross Margin (%)	68.2	63.5		-4.7	
SG&A Expenses		2,753	3,065	11.3	312	
	SG&A Expenses Ratio (%)	41.7	49.7		8.1	
Operating Profit		1,753	847	-51.7	-906	
	Operating Margin (%)	26.5	13.7		-12.8	
Recurring Profit		1,782	871	-51.1	-911	
	Recurring Margin (%)	27.0	14.1		-12.8	
Net Profit		1,449	494	-65.9	-955	
	Net Margin (%)	21.9	8.0		-13.9	

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

Sales

- **The large decline in sales this fiscal year was mainly due to the fallback from the event-driven high demand for the products in the previous fiscal year.**

In the previous fiscal year (FY 2022), the termination of support (at the end of December 2021) for the X series (on-premises product) had generated a replacement demand (event-driven high demand) of approximately 1 to 1.2 billion yen in the first half and approximately 500 million yen in the second half as estimated by the Company. This demand had contributed significantly to its financial performance. Since this event-driven high demand mainly occurred in the first half of the previous fiscal year, the first half of the current fiscal year was also significantly impacted in a fallback.

- **Sales and operating profit in the previous fiscal year were the second highest in the Company's history.**

As reference, in the previous fiscal year, the high demand for the replacement to the DX (successor product) and the shift to the cloud service led to the second-highest levels of sales and operating profit in the

Company's history, following FY 2020 (when there was high demand driven by two events, the consumption tax revision and the termination of Windows 7 support).

- **Sales increased in all four categories excluding the products.**
- **The solutions and the cloud businesses performed well.**

Regarding the increase or decrease in sales caused by each of the five sales categories from the first half of FY 2022 to the first half of FY 2023, sales increased in the following four categories: solutions by Y352 million (+73.2% YoY), cloud by Y264 million (+10.2% YoY), merchandise by Y55 million (+33.4% YoY), and maintenance by Y41 million (+2.5% YoY). In contrast, sales of products decreased sharply by Y1,160 million (-67.6% YoY) in a fallback from the event-driven high demand, being the single factor that caused the overall sales decline (-Y446 million).

Regarding the solutions, sales declined in the previous fiscal year since the Company focused on the products' sales and could not devote resources to sales of other companies' products. This fiscal year, though, sales rose significantly in a rebound from that as well as due to strengthened sales efforts. Regarding the cloud, the business continued to be supported by the increase in the number of companies using PCA Cloud.

- **Sales of maintenance also increased slightly. Sales of products declined, and the proportion of sales of the subscription businesses increased to over 70%.**

Subscription-Based Business

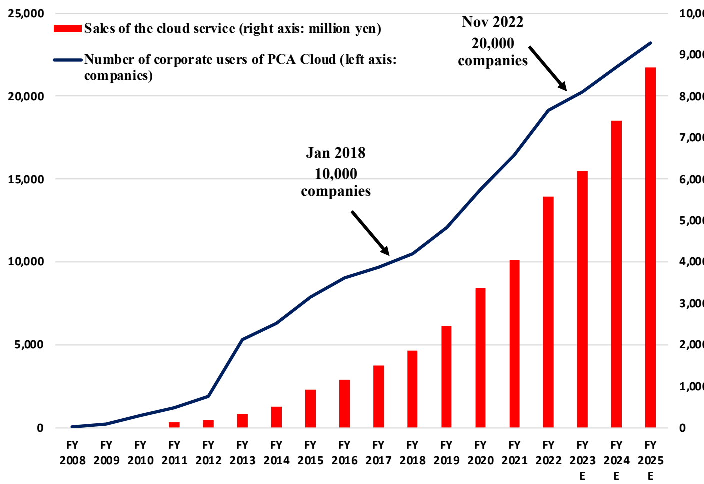
The proportion of the subscription-based revenue to total sales, which is a key indicator for the Company, rose sharply from 64.2% in the first half of the previous fiscal year to 73.5% in the first half of this fiscal year, as sales of the cloud increased while sales of the products declined significantly.

- **High level of net increase in the number of users of the cloud service in the previous fiscal year.**
- **This fiscal year, too, the rate of net increase has been at a high level. In November, the number of corporate users surpassed 20,000.**

Cloud

The number of corporate users of PCA Cloud reached 10,000 in Jan 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 compared to the end of the previous fiscal year), 16,444 at the end of March 2021 (+2,117), 19,152 at the end of March 2022 (+2,708, a high level of annual net increase), and 19,853 in September 2022 (+701 in half a year) to over 20,000 in November 2022 (Figure 12).

【Figure 12】Change in the Number of Companies Using PCA Cloud and the Sales of PCA Cloud (yearly change)



(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 financial results summary. (E) represents estimates/forecasts made by Alpha-Win Research Dept.

◆ **In the previous fiscal year, there was an event-driven high demand for replacement from the X series to the cloud service, which accelerated the cloud's sales growth rate.**

As a result, the cloud's sales have also been expanding from Y1,496 million in FY 2017 → Y1,854 million in FY 2018 (+Y358 million or +23.9% YoY) → Y2,452 million in FY 2019 (+Y598 million or +32.3% YoY) → Y3,374 million in FY 2020 (+Y922 million or +37.6% YoY) → Y4,057 million in FY 2021 (+Y683 million or + 20.2% YoY) → Y5,568 million in FY 2022 (last fiscal year; +Y1,511 million or + 37.2% YoY). The cloud business also partially experienced an event-driven high demand in the previous fiscal year and its amount and rate of sales growth had somewhat increased.

Current Situation of the Cloud Business

◆ **The cloud's growth momentum has somewhat declined, partly due to the fallback from the previous fiscal year.**

The monthly average net increase in the number of corporate users of PCA Cloud (YoY: the net increase in the number over the past 12 months compared to the end of the previous fiscal year ÷ 12 months) has been slowing down from approximately +171 companies/month in FY 2021 and +226 companies/month in FY 2022 to approximately +172 companies/month in the first half of the current fiscal year. Regarding the number of corporate users during each quarter, the net increase in the number compared to the previous quarter (QoQ) had hit a bottom in this fiscal year's Q1 (net increase in the number over the past three months compared to the end of the previous quarter ÷ three months; +289÷3 = +96 companies/month), but then recovered in Q2 (similarly, +412÷3 = +137 companies/month). The number of users seems to be increasing in the second half, too, at a net rate of about +130 companies/month YoY.

For the time being, the Company aims to gain approximately 2,000 corporate users per year (+167 companies/month). As reference, about 40% of the total number of new contracts are with new customers.

The cloud service's number of users and sales are still increasing, but the growth rate and the number or amount of increase are slowing down in Q1, Q2, and the first half of this fiscal year both on a YoY and QoQ comparison. In the second half, the Company projects sales of Y3,255 million, an increase of only 9.5% YoY (+Y282 million). The momentum is somewhat declining (Figure 13).

【Figure 13】Change in the Number of Companies Using PCA Cloud and the Sales of PCA Cloud (semi-annual and quarterly changes)

Cloud	Number of corporate users of PCA Cloud (units: number of companies or change in the number)			Sales of PCA Cloud		
As of the end of (period)	Current number of accounts (unit: number of companies)	YoY Change (unit: change in the number of companies)	QoQ change (unit: change in the number of companies)	Quarterly sales of PCA Cloud (unit: million yen)	YoY change (unit: %)	QoQ change (unit: %)
Sep 2022 (Q2)	19,853	2,068	412	1,499	11.9	10.1
Jun 2022 (Q1)	19,441		289	1,361	8.5	-10.7
Mar 2022 (Q4)	19,152	2,708	574	1,524	41.6	5.2
Dec 2021 (Q3)	18,578		793	1,449	40.4	8.1
Sep 2021 (Q2)	17,785	2,523		1,340	35.1	6.8
Jun 2021 (Q1)				1,255	31.1	16.6
Mar 2021 (Q4)	16,444	2,056		1,076	14.0	4.3
Dec 2020 (Q3)				1,032	19.7	4.0
Sep 2020 (Q2)	15,262	1,919		992	23.4	3.7
Jun 2020(Q1)				957	25.3	1.4
Mar 2020 (Q4)	14,388	2,075		944	37.0	9.5
Dec 2019 (Q3)				862	36.0	7.2
Sep 2019 (Q2)	13,343	2,012		804	37.4	5.2
Jun 2019 (Q1)				764	40.4	10.9
Mar 2019 (Q4)	12,313			689	35.4	8.7
Dec 2018 (Q3)				634	33.8	8.4
Sep 2018 (Q2)	11,331			585	30.9	7.5
Jun 2018 (Q1)				544	28.3	6.9
Mar 2018 (Q4)				509	38.1	7.4
Dec 2017 (Q3)				474	31.5	6.0
Sep 2017 (Q2)				447	27.1	5.4
Jun 2017 (Q1)				424	22.1	15.1

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

- **The change in the method of aggregation also caused the sales growth rate to decline. A growth rate of more than 20% YoY has essentially been maintained.**

The following four factors seem to have been responsible for this decline in momentum:

(1) As already mentioned, in the previous fiscal year, there was an event-driven high demand for the products due to replacement with the DX series following the end of support for the X series. There has also been a shift from the X series to the cloud service. The Company experienced a fallback from these in the first half of the current fiscal year, which is likely to continue through the second half.

(2) Due to a change in the sales aggregation method (see supplemental information below), cloud's sales for the first half of the current fiscal year have been reduced compared to the previous method.

(3) The rates of change appear to be becoming smaller with the expansion of business scale (number of current users of the cloud service).

(4) With the worsening macroeconomy, such as the weak yen, inflation in resource and material costs as well as labor costs, and the rebound of COVID-19, some industries are experiencing business closures, bankruptcies, and financing issues. As a result, the Company has started to see cancellations by some of its users.

(1) and (2) were especially significant factors. The Company has commented that when adjusted for (2), the cloud's sales growth rate in the first half of this fiscal year (YoY) was essentially maintained at more than 20%, instead of the 10.2% increase as shown in the results.

The Company expects a sales growth of 13.8% YoY in the second half of this fiscal year compared to this first half. Assuming that the change in the aggregation method will cause the same effect in the second half of this fiscal year, it is estimated that the Company will continue to essentially increase sales by approximately 15-20% per year (YoY).

The Company's cloud service seems to be maintaining a high growth thanks to the digitization of small/medium-sized companies, the economic rationality and increased recognition of cloud services, and the enhancement of options.

Supplemental Information: Impact of the Change in the Method for Aggregating the Sales of the Cloud

In the previous fiscal year, more sales tended to be aggregated as the cloud's sales due to partial allocations during the process of calculating the sales of each category. However, from the first half of the current fiscal year, the Company began aggregating sales based on each individual sales to more clearly recognize the sales of the cloud.

As a result, sales for the first half of this fiscal year are estimated to have been decreased by approximately Y250 million compared to the previous method in the last fiscal year (the amount that was decreased appears to have been transferred to the solutions' sales, and consequently there is no effect on overall sales).

Taking this into account, the sales of the cloud are estimated to have been solid at Y3.1 billion in the first half (an increase of more than 20% YoY). In any case, the cloud's half-year sales remained at a high level.

- **Rate of sales growth is expected to remain at 15-20% per year for the meanwhile.**

The slowdown in momentum cannot be denied when compared to the cloud's past rate of increase in sales and in the number of corporate users. However, since the current situation is partly caused by the fallback from the event-driven high demand, the Company is expected to continue to increase sales at a rate of about 15% to 20% per year for the time being.

◆ **Profit decreased due to lower sales and higher R&D and personnel expenses.**

◆ **Operating margin was halved due to lower gross margin and higher SG&A expenses ratio.**

◆ **In the previous fiscal year, a gain on sales of securities was recorded as an extraordinary income, but this will no longer be present in the current fiscal year.**

Profit

Factors that increased or decreased consolidated operating profit in the first half are shown in Figure 14. Of the overall decrease in operating profit (net amount) of -Y906 million, the largest factor was the decline in sales (-Y446 million), which accounted for 49% of the total decline. This was followed by other manufacturing expenses (-Y206 million, mainly due to an increase in subcontracting costs), which was caused by the increase in development expenses and accounted for 23% of the total decline. Lastly, the increase in the cost of the cloud (-Y148 million) accounted for 16% of the decline.

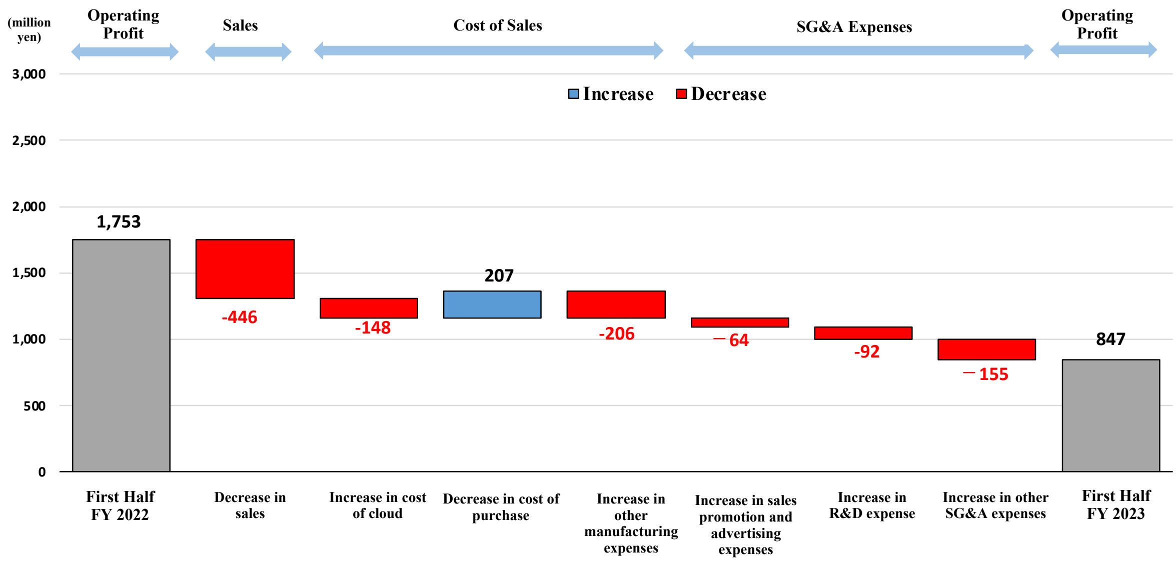
The gross margin worsened by 4.7 percentage points from 68.2% in the first half of last fiscal year to 63.5% in the first half of this fiscal year. This was due to the worsened product mix caused by lower sales of the products, which have a high marginal profit ratio, and due to greater upfront investments including those for product development.

In addition, due to an increase in other SG&A expenses (-Y155 million, mainly due to higher personnel expenses), R&D expense (-Y92 million), and sales promotion and advertising expenses (-Y64 million), the SG&A expenses increased by Y312 million, or 11.3%, from Y2,753 million to Y3,065 million in the same order as above. As a result, the SG&A expenses ratio also rose by 8.0 percentage points from 41.7% to 49.7%.

Consequently, the operating margin was almost halved from 26.5% to 13.7%. With the sales decline, too, both the amount and rate of decline in operating profit became large.

Furthermore, while a gain on sales of securities (+Y670 million) was recorded as an extraordinary income in the previous fiscal year, no such gain is present in the current fiscal year. As a result, net profit resulted in a similar decline.

【Figure 14】Factors that Increased/Decreased Operating Profit in the First Half



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

◆ PCA's Financial Forecast for the Second Half of FY 2023

Summary of the Forecast for the Second Half

- **Sales in the second half are expected to remain flat YoY.**
- **However, as in the first half, a significant decrease in profit is expected due to increased costs.**

The Company has not made changes to its initial full-year forecast. Therefore, the Company's forecast for the second half, which is calculated by subtracting the first-half results from the full-year forecast, would be as follows: sales are expected to be Y6,764 million (-Y8 million or -0.1% YoY), which is about the same level as the second half of the previous fiscal year, while operating profit is predicted to be Y253 million (-Y649 million or -72.0% YoY) and net profit is predicted to be Y144 million (-Y773 million or -84.3% YoY). As in the first half of this fiscal year, it expects significant declines in profits due to higher costs (Figure 15).

- **Estimates used in the forecast for the second half are conservative compared to the results of past years.**

Second-half sales and operating profit are expected to account for 52.3% and 23.0% of the full fiscal year's total, respectively. The second half's proportion of the total over the past 10 years through the previous fiscal year was 54.7% and 56.9%, respectively, on average. The proportion is expected to be about 2 percentage points lower for sales and 34 percentage points lower for operating profit.

【Figure 15】Financial Forecast for the Second Half of FY 2023 (the Company's plan)

		Second-Half Financial Performance				
Results and Forecasts		Second Half of FY 2022	Second Half of FY 2023: CE	% Change	Amount of Change	% of Total Sales
Unit: million yen		Oct 2021 - Mar 2022	Oct 2022 - Mar 2023	YoY: %	YoY: million yen	%
Consolidated Sales		6,772	6,764	-0.1	-8	100.0
Sales by Category	Products	1,236	842	-31.9	-394	12.4
	Merchandise	272	180	-33.8	-92	2.7
	Maintenance Service	1,670	1,569	-6.0	-101	23.2
	Cloud Service	2,973	3,255	9.5	282	48.1
	Other Operating Revenue	622	918	47.6	296	13.6
Gross Profit		4,302	3,932	-8.6	-370	
	Gross Margin (%)	63.5	58.1		-5.4	
SG&A Expenses		3,400	3,679	8.2	279	
	SG&A Expenses Ratio (%)	50.2	54.4		4.2	
Operating Profit		902	253	-72.0	-649	
	Operating Margin (%)	13.3	3.7		-9.6	
Recurring Profit		914	261	-71.4	-653	
	Recurring Margin (%)	13.5	3.9		-9.6	
Net Profit		917	144	-84.3	-773	
	Net Margin (%)	13.5	2.1		-11.4	

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

Forecast for the Second Half (by sales category)

- **While the second half will also be impacted by the lack of event-driven high demand, this will be offset by the continued growth of the cloud and recovery of the solutions. Sales are expected to remain flat YoY.**

In the second half, a fallback from the event-driven high demand is expected like in the first half. The product's sales are expected to fall to Y842 million (-Y394 million or -31.9% YoY). However, as already mentioned, the event-driven demand had become smaller in the second half of the previous fiscal year compared to its first half (1.0 to 1.2 billion yen → 0.5 billion yen), so there should be a smaller impact on the second half of the current fiscal year too. Due to the slow recovery of the product's sales, the Company also expects the sales of merchandise and maintenance service to decline by Y92 million (-33.9% YoY) and Y101 million (-6.0% YoY), respectively, compared to the previous fiscal year's second half.

On the other hand, sales of the cloud and solutions are expected to increase steadily, offsetting declines in the other segments. The Company consequently expects sales in this second half to be about the same as the second half of the previous fiscal year. The sales decline rate is planned to be improved from 6.7% in the first half to 0.1% in the second half.

Forecast for the Second Half (profit)

- **Profit margins are expected to worsen due to increased subcontracting, R&D, and personnel expenses.**

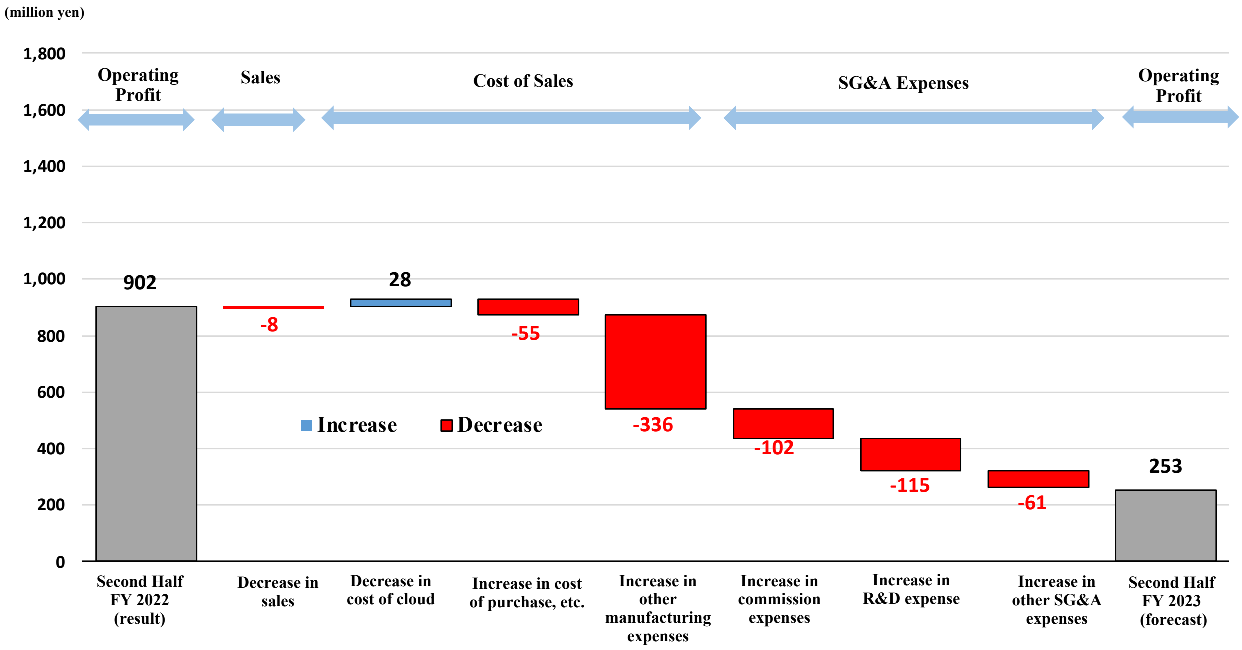
While sales will remain flat, gross profit is expected to decline by Y370 million (-8.6%) from Y4,302 million to Y3,932 million in the order of last fiscal year's second half to this fiscal year's second half (the same order for the rest). This is because it expects an increase in development-related expenses under other manufacturing expenses (factors causing a decrease in profit: increase in subcontracting cost by Y250 million and R&D expense by Y110 million) and higher cost of purchase. Consequently, the gross margin is expected to decline by 5.4 percentage points from 63.5% to 58.1%.

In addition, the SG&A expenses are expected to increase by Y279 million, or 8.2%, from Y3,400 million to Y3,679 million, due to an increase in R&D expense for future growth (factor causing a decrease in profit: -Y115 million YoY), commissions paid to distributors (similarly, -Y102 million), and internal DX[14] acceleration expense (similarly, -Y100 million). In consequence, the SG&A expenses ratio is expected to rise by 4.2 percentage points from 50.2% to 54.4%, and the operating margin is expected to decline by nearly 10 percentage points from 13.3% to 3.7%. As reference, the operating margin in this fiscal year's Q1 and Q2 was 10.5% and 16.8%, respectively, from which the margin is expected to decline sharply.

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

In addition, as in the first half, the gain on sales of securities which were also recorded in the second half of the previous fiscal year will no longer be present in the second half of this fiscal year, resulting in an expected 84.3% decline in net profit.

【Figure 16】Factors that Are Expected to Increase/Decrease Operating Profit in the Second Half of FY 2023 (the Company's plan)



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

◆ PCA's Full-Year Financial Forecast for FY 2023

Summary of the Full-Year Forecast

- **For the current fiscal year, the Company forecasts a slight decrease in sales but a significant decrease in profit.**

The Company has maintained its full-year financial forecast for FY 2023 (this fiscal year) that was announced at the beginning of the 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% YoY) (Figure 17).

【Figure 17】Full-Year Financial Forecast for FY 2023 (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 briefing materials

Summary of the Full-Year Forecast (sales)

- **The Company maintained its full-year forecast made at the beginning of the fiscal year.**

The Company has not changed its full-year sales forecast from its initial forecast made at the beginning of the fiscal year.

By sales category, the Company expects the product's sales for the full year to decline by half or by Y1,555 million to Y1,399 million, due to the lack of event-driven high demand for the products that had occurred in the previous fiscal year (Figure 17, and Figure 18 on page 27). Also, despite their sales growth in the first half, sales declines are expected for maintenance (shift to the cloud) and merchandise (shift to paperless operation and digitalization) in the second half due to structural changes. For the full year, net declines are expected for their sales at about the same pace as in past years.

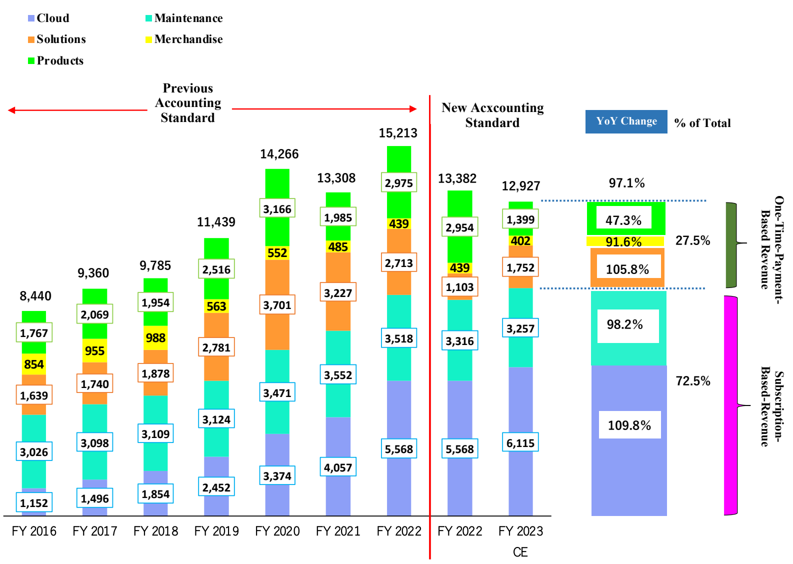
On the other hand, sales of other companies' products are expected to recover in the current fiscal year, with a significant increase in the sales of solutions (sales of Y1,752 million; +Y649 million or +58.8% YoY). Similarly, the Company plans to increase sales of the cloud business (sales of Y6,115 million; +Y547 million or +9.8% YoY) by strengthening the product lineup.

- **The proportion of subscription-based sales for the full year is also expected to be over 70%.**

As a result of the above, the percentage of the subscription businesses' sales in the full-year sales is expected to become 72.5%, exceeding 70% for the full year for the first time in the Company's history. During the past period of fallback from an event-driven high demand (FY 2015 and FY 2016), the Company had posted net losses. However, it has shifted its core business model to stable, subscription-based businesses since then. Therefore, even during the current period of fallback from an event-driven high demand, sales are not expected to decline significantly. Furthermore, even with strategic increases in upfront investments, operating profit is expected to be maintained at more than Y1 billion. The Company's management efforts to date seem to have strengthened its business foundation.

- **Due to the change in business model, the Company expects to secure an operating profit of over Y1 billion even with the fallback from the event-driven high demand.**

【Figure 18】Forecasted Sales Breakdown by Category in FY 2023 (full year) (company plan)



(Ref) Prepared by Alpha-Win Research Dept. based on excerpts from the financial results briefing materials and financial results summary. (CE) is the Company's forecast.
(Note) 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. "% of Total" is also for the Company's forecast for FY 2023.

Summary of the Full-Year Forecast (profit)

An analysis of the factors that are projected to cause an increase/decrease (YoY) in consolidated operating profit for the current fiscal year is shown in Figure 19 on page 28.

- **Greater upfront investment, including investment in the development of PCA Hub, is the main reason for the expected decline in profit.**

In addition to the decline in sales of the products, another major factor causing profit to decrease is the greater upfront investments aimed at strengthening development capabilities for the next stage of growth. The Company plans to increase investment and research expenses by approximately Y700 million (increased maintenance expense + increased R&D expense), including those for its existing products' maintenance, version upgrades, and various support and particularly for investment in the development of the PCA Hub series.

- **Developing and strengthening new products and services for future growth.**

The Company believes that in order to strengthen its new products and services and develop the businesses as its future growth drivers, increasing and enhancing its R&D expense, development personnel, and subcontractors are necessary even amidst declining sales and profits.

In addition to higher development expenses, the increase in personnel expense (+Y129 million YoY), other expenses (+Y253 million YoY), and cost of the cloud (+Y119 million YoY) is also expected to be factors that will decrease profit. Costs are expected to increase since investments and expenses necessary for future growth will be resumed in full scale this fiscal year, although they had been held off during the COVID-19 crisis (seminars and events).

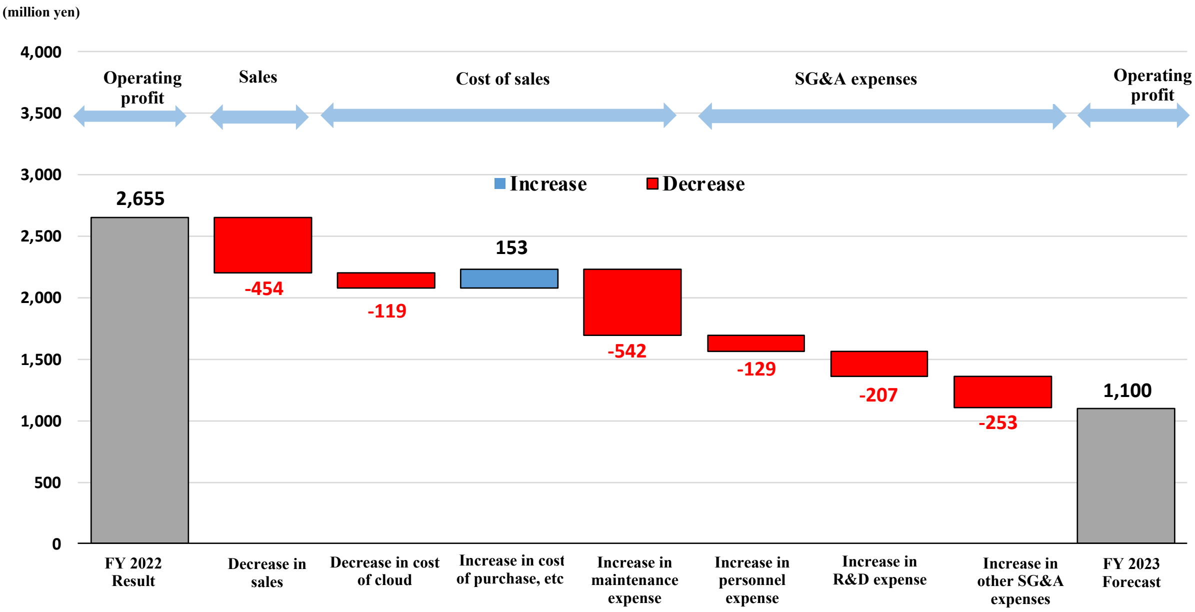
- **The gross margin is expected to decline, the SG&A expenses ratio is expected to rise, and the operating margin is planned to decline by 11 percentage points.**

The gross margin for the full fiscal year is expected to decrease significantly from 65.8% in the previous fiscal year to 60.7%.

SG&A expenses are expected to increase by Y591 million YoY (+9.6% YoY) to Y6,749 million, and the SG&A expenses ratio is expected to rise from 46.0% in the previous fiscal year to 52.2% in the current fiscal year.

With the increase in the SG&A expenses ratio, the operating margin is expected to decline significantly from 19.8% to 8.5%. No major extraordinary income or losses are expected for this fiscal year.

【Figure 19】Factors that Are Expected to Increase/Decrease Operating Profit in FY 2023 or this fiscal year (the Company's plan)



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

◆Alpha-Win Research Dept.'s Full-Year Financial Forecast for FY 2023

Overview

- **Declines in sales and profits are inevitable this fiscal year due the fallback from the event-driven high demand and the upfront investments.**

In the current fiscal year, we believe that a temporary decline in sales and profits is inevitable since the Company will increase upfront investments, as it increases development investment and the number of employees toward the next stage of growth, and since there will be a fallback from the event-driven high demand of the previous fiscal year. However, the Company's forecasts for costs and profit margins seem somewhat conservative and we believe that they will most likely exceed the plan.

Previously, expecting slight upward revisions to both sales and profit compared to the Company's plan, we had expected sales of Y12,950 million (+Y23 million compared to the Company's plan), operating profit of Y1,300 million (similarly, +Y200 million), and net profit of Y700 million (similarly, +Y61 million) for this fiscal year.

- **We have upwardly revised our forecast for this fiscal year. The Company's profit forecast could be revised upward.**

We have now reviewed and revised our forecasts for the current fiscal year, keeping sales unchanged from our previous forecast (as of the report issued on July 4, 2022), while upwardly revising the forecasts for operating profit, recurring profit, and net profit by Y100 million each (Figure 20). We have also revised dividend upward from 13.0 yen/share to 16.0 yen/share accordingly.

Our new forecasts are as follows: sales of Y12,950 million (±0 compared to our prevoius forecast or +Y23 million compared to the Company's plan), operating profit of Y1,400 million (similarly, +Y100 million or +Y300 million), and net profit of Y800 million (+Y100 million or +Y161 million).

【Figure 20】Financial Forecast for FY 2023 or this fiscal year by Alpha-Win Research Department

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%	12,950
Sales by Category	Products	2,954	1,399	1,300	-99	-7.1%	-1,654	-56.0%	1,300
	Merchandise	439	402	400	-2	-0.5%	-39	-8.9%	400
	Maintenance Service	3,316	3,257	3,250	-7	-0.2%	-66	-2.0%	3,250
	Cloud Service	5,568	6,115	6,200	85	1.4%	632	11.4%	6,600
	Other Operating Revenue	1,103	1,752	1,800	48	2.7%	697	63.2%	1,400
Gross Profit		8,809	7,845	8,000	155	2.0%	-809	-9.2%	8,000
	Gross Margin	65.8%	60.7%	61.8%	1.1%		-4.1%		61.8%
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%		51.7%
Operating Profit		2,655	1,100	1,400	300	27.3%	-1,255	-47.3%	1,300
	O.P. Margin	19.8%	8.5%	10.8%	2.3%		-9.0%		10.0%
Recurring Profit		2,697	1,132	1,420	288	25.4%	-1,277	-47.3%	1,320
	R.P. Margin	20.2%	8.8%	11.0%	2.2%		-9.2%		10.2%
Net Profit Attributable to Owners of the Parent		2,367	639	800	161	25.2%	-1,567	-66.2%	700
	N.P. Margin	17.7%	4.9%	6.2%	1.2%		-11.5%		5.4%
Annual Dividend Per Share (yen)		24.0	13.0	16.0	3.0		-8.0		13.0

(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 July 4, 2022.

- **There was large progress in the first half, and the forecasted costs and profits for the second half seem conservative.**

There are some concerning points such as the sluggish sales of the products and the increasing costs (including R&D investment and personnel expense). However, we have made the above revisions since there was large progress with profit in the first half, the event-driven high demand occurred mainly in the first half of the previous fiscal year and its impact is expected to ease in this second half, the cloud business has been solid as it is essentially maintaining a double-digit sales growth, and the Company's forecasts for second-half costs and profits seem conservative. The Company has commented, though, that it may control costs depending on changes in revenue. So if profits swing upward, it may also increase the expenses to some extent (e.g., sales promotion, personnel, and development expenses).

We have, however, taken the above factor into account to some extent in making our profit forecast for the current fiscal year. In making the financial forecasts, we did not include the possibility of M&As or nonoperating and extraordinary income/losses during the period.

Sales by Category

- **Regarding sales forecast by category, we reduced the sales of the cloud to reflect the change in the method of sales aggregation. On the other hand, we raised the sales of solutions.**
- **We expect the cloud's sales to essentially increase by 20% YoY.**

While the overall amount of sales do not differ significantly between our forecast and the Company's plan, there were differences in the sales of each category, especially for the cloud, solutions (other operating revenue), and products. However, this difference became smaller upon reflecting the change in the sales aggregation method between the cloud and the solutions .

The Company forecasts that the full-year sales of the cloud will be Y6,115 million, at an increase of Y547 million YoY (+9.8%). However, we had previously seen this as a conservative forecast, considering the continued growth of the PCA Cloud and X'sion (cloud version of the work management software), trends through the previous fiscal year (simple average of the annual sales growth rate over the past five years: approx. +30%), and the current situation. Therefore, estimating the sales growth rate to be +20% YoY, we had previously forecasted that the cloud's sales will be Y6,600 million (+Y485 million compared to the Company's plan).

In the current forecast, though, we have reflected the change in the aggregation method and revised our forecast of cloud's sales to Y6,200 million (on the surface, +Y85 million or +1.4% compared to the Company's plan and +Y632 million or +11.4% YoY) (Figure 20 on page 29).

On the other hand, while the Company expects sales of solutions for this fiscal year to grow by Y649 million (+58.8% YoY), we had previously forecasted its sales to be Y1,400 million (+Y297 million YoY), which was Y352 million less than the Company's forecast. For similar reasons, we have now raised this forecast to Y1,800 million (+Y48 million or +2.7% compared to the Company and +Y697 million or +63.2% YoY).

Risk Factors to Financial Performance

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

The main risk factors to the medium-term financial forecast including this fiscal year are the weak yen, stagnation of economic activities due to a rebound and prolongation of COVID-19 which had seemed to be settling down, and the inflation and logistics disruption caused by the Russian invasion of Ukraine which will cause corporate users to refrain from replacing products and services or postpone their implementation due to worsening business performance.

- **Since the Company benefits from digitalization and the work-style reform, 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 the worsening macro environment will mostly likely not cause a direct, major impact on the Company in the current fiscal year either. Therefore, the risks seem to be limited.

- **Increased cost, intensifying competition, slower growth rate of the cloud, and delays in the monetization of the new businesses are risk factors.**

Other risks include futher increases in costs due to rising personnel, development, and subcontracting expenses, market penetration of the cloud business coming to an end of a phase, slower growth rates due to intensifying competition with competitors, and delays in monetizing the new businesses.

7. Growth Strategy

◆ Medium- to Long-Term Vision and Policy

Long-Term Vision

- **Long-term vision is to become a "Management Support Company" focused on the management-support business for its corporate customers.**

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

- **Created a new medium-term plan. For sustainable growth, it will strengthen its development capability, build its business foundation, and transform its business structure.**

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 that starts this fiscal year (FY 2023 to FY 2025) (no change since the announcement). 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."

- **Will continue and develop its previous medium-term plan and execute four priority measures.**

To provide total solution services centered on software, it has set four priority measures as shown in Figure 21 (items I through IV). It is currently working on various measures toward the achievement of its plan.

【Figure 21】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.**

The priority measures have been developed based on the previous medium-term plan. To achieve sustainable growth, the Company plans to strengthen the subscription-based business model centered on the cloud business as its revenue base, strengthen its development and service systems to create a new source of earnings, support the DX of operations of small/medium-sized companies, also work on its own DX, and strengthen its management foundation such as its governance and corporate structure.

◆ Management Indicators Set as Goals

Numerical Goals of the New Medium-Term Plan

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

In the previous medium-term plan, the Company made decent progress as it achieved its numerical goals even after their upward revisions. Consequently, it has set the following seven items as its numerical targets for the current medium-term management plan from the perspectives of business performance, capital efficiency, and shareholder return (Figure 22).

Aside from the two items related to sales, all figures have already been achieved in the past during periods of event-driven high demand, and may become achieved again. However, they seem to be somewhat high goals unless it conducts an M&A of a certain scale or there is an event-driven high demand.

【Figure 22】Goals, Progress, and Forecasts for 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 and Results of 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 the subscription 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% or more	1.5% (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.

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

- **We updated our medium-term financial forecasts. Maintained our previous forecasts for the next fiscal year and the year after that.**

In our previous report (July 5, 2022), we had reviewed our medium-term forecasts for the three fiscal years including the current fiscal year. We have now updated some parts of them (Figure 23).

【Figure 23】Medium-Term Financial Forecast

	Units: million yen, %	FY 2021	FY 2022	FY 2023: CE	FY 2023: New E	FY 2024: New E	FY 2025: New E	FY 2025 CE Medium-Term Plan	FY 2023: Old E	FY 2024: Old E	FY 2025: Old E
Sales		13,308	13,382	12,927	12,950	14,310	15,520	15,000	12,950	14,310	15,520
Category	Products	1,985	2,954	1,399	1,300	1,450	1,500		1,300	1,450	1,500
	Merchandise	485	439	402	400	360	320		400	360	320
	Maintenance Service	3,552	3,316	3,257	3,250	3,150	3,000	9,500	3,250	3,150	3,000
	Cloud Service	4,057	5,568	6,115	6,200	7,400	8,700		6,600	7,800	9,000
	Other Operating Revenue	3,227	1,103	1,752	1,800	1,950	2,000		1,400	1,550	1,700
Gross Margin		60.1%	65.8%	60.7%	61.0%	62.0%	62.5%		61.8%	62.0%	62.5%
SG&A Expenses		5,686	6,153	6,744	6,500	7,000	7,150		6,700	7,000	7,150
	(% over sales)	*42.7%*	46.0%	52.2%	*50.2%*	*48.9%*	*46.1%*		*51.7%*	*48.9%*	*46.1%*
Operating Profit		2,314	2,655	1,100	1,400	1,870	2,550	2,500	1,300	1,870	2,550
	(% over sales)	*17.4%*	19.8%	8.5%	*10.8%*	*13.1%*	*16.4%*	*16.7%*	*10.0%*	*13.1%*	*16.4%*
Recurring Profit		2,340	2,697	1,132	1,420	1,890	2,570		1,320	1,890	2,570
	(% over sales)	*17.6%*	20.2%	8.8%	*11.0%*	*13.2%*	*16.6%*		*10.2%*	*13.2%*	*16.6%*
Net Profit		1,668	2,367	639	800	1,130	1,550		700	1,130	1,550
	(% over sales)	*12.5%*	17.7%	4.9%	*6.2%*	*7.9%*	*10.0%*		*5.4%*	*7.9%*	*10.0%*
Sales (% YoY growth for all values)		-6.7%	0.6%	-3.4%	-3.2%	10.5%	8.5%		-3.2%	10.5%	8.5%
Category	Products	-37.3%	48.8%	-52.6%	-56.0%	11.5%	3.4%		-56.0%	11.5%	3.4%
	Merchandise	-12.1%	-9.5%	-8.4%	-8.9%	-10.0%	-11.1%		-8.9%	-10.0%	-11.1%
	Maintenance Service	2.3%	-6.6%	-1.8%	-2.0%	-3.1%	-4.8%		-2.0%	-3.1%	-4.8%
	Cloud Service	20.2%	37.2%	9.8%	11.4%	19.4%	17.6%		18.5%	18.2%	15.4%
	Other Operating Revenue	-12.8%	-65.8%	58.8%	63.2%	8.3%	2.6%		26.9%	10.7%	9.7%
Gross Margin (% YoY diff.)		*-0.2%*	5.7%	-5.1%	-4.8%	1.0%	0.5%		-4.0%	0.2%	0.5%
SG&A Expenses (% growth)		-2.3%	8.2%	9.6%	5.6%	7.7%	2.1%		8.9%	4.5%	2.1%
Operating Profit (% growth)		-16.8%	7.6%	13.5%	-47.3%	33.6%	36.4%	16.0%	-51.0%	43.8%	36.4%
Recurring Profit (% growth)		-16.7%	14.7%	-58.6%	-47.3%	33.1%	36.0%		-51.1%	43.2%	36.0%
Net Profit (% growth)		-8.1%	14.1%	-57.1%	-66.2%	41.3%	37.2%		-70.4%	61.4%	37.2%
Dividend per share (yen)		11.33	24.00	13.00	16.00	18.00	19.00	Dividend Payout Ratio: 30%	13.00	14.00	15.00

(Ref) Predicted and prepared by Alpha-Win Research Dept. New E is our current forecast/estimate and Old E is our previous forecast/estimate. CE is the Company's forecast/estimate.

Macroeconomic Assumptions

- **Economic activities are assumed to normalize starting in FY 2023. Not expecting event-driven high demand.**

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 compared to the past, we predicted that people's lives, economic activities, corporate earnings, and IT investments by small/medium-sized companies will gradually normalize and improve.

Currently, we do not anticipate any high demand to occurr in response to events such as those related to the Electronic Books Maintenance Act coming into effect, the introduction of the new invoicing system (Qualified Invoice Preservation Method), tax system, accounting standards, and OS or product versions.

Estimates/Assumptions Used for Sales, Expenses, and Profit

- **We kept our forecasts for the next fiscal year and the year after that the same. Only the dividend was revised upward.**
- **We expect a long-term annual profit growth rate of 8-10%, driven by the subscription business.**

We have not changed our forecasts for the next fiscal year and the year after that. However, we have changed the breakdown of sales between cloud and solutions for both fiscal years and have also raised the dividend (Figure 25 on page 36).

From the next fiscal year onward, we expect sales and profits to return to a growth trend as upfront investments peak out, the negative impact in reaction to the past event-driven high demand diminishes, and the cloud business continues to grow. Over the medium and long term, based on normalized figures excluding the effect of the event-driven high demand, we expect an annual sales growth rate of around 6-8% and an even greater net profit growth rate (8-10% per year).

Since the 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, resulting in an profit growth rate will most likely exceed the sales growth rate.

Although the sales of merchandise will continue to decline with the shift to paperless operation and sales of maintenance service will keep declining due to the shift to the cloud, we expect sales of the cloud to grow (at an annual growth rate of about 15-20%), which will also lead to improved product mix with the increased proportion of the cloud business. In addition, the Company is expected to shift to the subscription model for various businesses and is working on streamlining its business. We predict that these will lead to an improvement of its profitability (operating margin).

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.

- **In the medium term, the success or failure of new products and services, in addition to the growth of the cloud business, will affect earnings.**

Although the growth rate is slowing down compared to the past, we believe that the Company's subscription business centered on the cloud is in the phase of continuously and stably expanding. In addition, if the new businesses currently underway gets on a growth trajectory, they should be able to further solidly contribute to the trend of increasing sales and profits.

- **Gross profit margin is expected to improve from the next fiscal year onward.**

In making forecasts for FY 2024 and FY 2025, we assumed that development and subcontracting expenses will settle down, although they may still increase, so that the gross margin will gradually increase (expecting improvement by 0.2 or 0.5 percentage point YoY, respectively).

- **SG&A expenses will increase, but we expect the SG&A expenses ratio to decline and operating margin to improve.**

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) 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 percentage points per year. Consequently, with the sales growth, we expect that profits will increase.

Factors that May Cause Change

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 the business expansion of PCA Hub which it is currently focusing, as well as PCA Subscription[15], hyper, and Dreamhop's HR business. Whether there will be new M&As will also affect the results. Risk factors include higher costs due to inflation, upward pressure on personnel expenses and subcontracting costs, and weak performance or bankruptcy of small/medium-sized companies (the Company's customer base) with the economic downturn.

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

- **In the next fiscal year, we expect the Company to return to a sales and profit growth trend due to the completion of a phase of upfront investment and continued growth of businesses including the cloud.**

Forecast for the Next Fiscal Year (FY 2024)

We have not changed our forecasts for the next fiscal year: sales of Y14,310 million and operating profit of Y1,870 million. We expect a 10.5% increase in sales and a 33.6% increase in operating profit compared to our forecast for FY 2023. Sales and profit growth are expected in the next fiscal year since upfront investments may have come to the end of a phase and the fallback from the event-driven high demand will have ended, while the cloud will continue to grow.

- **We expect sales and profits to continue to increase in FY 2025 too.**

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

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 a greater than 30% growth for both profits. The positive results of the upfront investments are expected to be seen in sales and profits.

8. Analyst's View

◆ PCA's Strengths and Challenges

The Company's SWOT analysis has been updated and the results are listed in Figure 24 (no change since the previous analysis).

【Figure 24】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, invoicing 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 competitive edge and top-level achievements with the cloud business that it is taking a lead. The cloud market has a high growth potential.**

◆ **Rich in cash and debtless**

Describing the strengths listed in Figure 24 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 competitive edge and top-level achievements have become its strengths.

Also, its solid financial base with no debt and abundant cash & deposits exceeding the annual sales are enhancing the stability and reliability of management.

◆ **Development of the next new products/services is the challenge.**

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 yet been able to develop businesses that has high profitability and would enable enough economies of scale.

◆ **Business volatility increases before and after events due to event-driven high demand.**

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 potential tax reforms and changes in the mainstream OS 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 companies that have started the business later 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

◆ **Stable payment of dividend is its basic policy.**

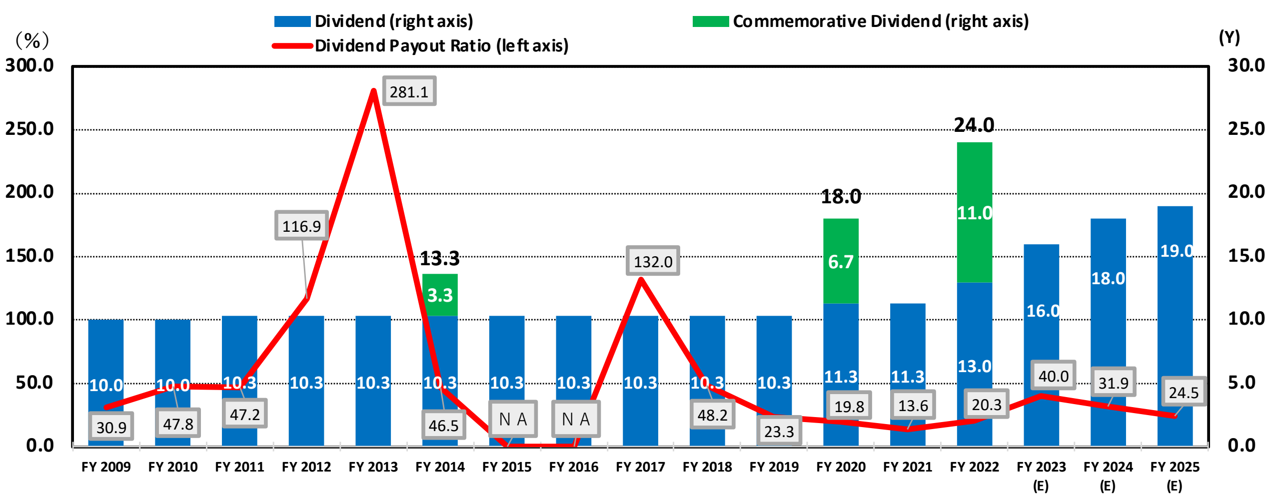
The Company's basic policy is to continue the stable payment of dividend while improving the ratio of net profit to shareholders' equity (ROE) under effective business management. In returning profit to its shareholders, its policy is to determine the level of dividend to be paid based on a comprehensive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

Dividend History

◆ **No decrease in ordinary dividend in the past.**

Regarding dividend, ever since the first public offering of the Company's stock, ordinary dividend has never been decreased and has been gradually raised over the long term with several years of no change in between (Figure 25). It has also been generally strengthening the return of profit to shareholders.

【Figure 25】 Change in Dividend and Dividend Payout Ratio (reflecting 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 on October 1, 2021. Estimates/forecasts (E) were made by Alpha-Win.

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 raised 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, while the ordinary dividend was kept at 11.3 yen (34 yen). 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).

Dividend Forecast

- **This fiscal year, it will maintain the ordinary dividend of 13 yen per share (post-stock-split), the value after the essential rise in dividend.**

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 medium-term targets are a dividend payout ratio of 30% (previously 33%) and dividend on equity (DOE) of 2.5% or more. 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.**

The target dividend payout ratio used to be 33%, but the actual ratio was 13.6% in FY 2021 and 20.3% in FY 2022, both below the target. However, in FY 2023 (based on the Company's forecast), the ordinary dividend of 13 yen is planned to be maintained, but the dividend payout ratio is expected to become 40.7% with the decline in EPS, exceeding the target of 33%. Also, based on a stock price of Y1,285 (closing price on December 16, 2022, with dividend assumed to be 13 yen), this fiscal year's dividend yield is estimated to be about 1.0%.

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 the DOE will be around 1.5%, falling short of the target again. The dividend payout ratio and DOE tend to largely fluctuate, though, in response to large changes in profit that may be caused depending on whether there is event-driven high demand.

- **The actual annual net yield including the shareholder benefit program is about 1.5% (at maximum) (based on the Company's forecast)**

Also, even if the amount of dividend remains constant, the dividend payout ratio can fluctuate with changes in business performance. Therefore, we have revised our dividend forecast based on the assumption that the DOE, which is a stable standard, will be around 2%. In the order of our previous forecast to our current forecast, we have revised the ordinary dividend per share for the current fiscal year from 13 yen (same as the previous fiscal year) to 16 yen (+3 yen YoY), and for the next fiscal year from 14 yen (+1 yen YoY) to 18 yen (+2 yen YoY). Similarly, for the fiscal year after the next, we have revised the dividend from 15 yen (+1 yen YoY) to 19 yen (+1 yen YoY). Based on our dividend forecasts, the dividend yield for each year would be 1.2%, 1.4%, and 1.5%, respectively.

Dividend Yield Including the Shareholder Benefit Program

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 300 shares and less than 900 shares are granted Y2,000 worth of Quo Card. Based on a stock price of Y1,285, the actual annual net yield for a shareholder owning 300 shares is expected to be about 1.5% (max) according to the Company's forecast, including the ordinary dividend of Y13 and the shareholder benefit, and 1.8% (max) according to our forecast (Figure 26 on page 38).

Based on the same conditions, the actual annual net yield is about 2.3% for OBC (4733: Obic Business Consultants) (including the shareholder benefit program) and about 2.7% for MJS (9928: Miroku Jyoho Service) (only dividend yield since it has no shareholder benefit program).

【Figure 26】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	1.53
900	1500	3,000	13	1.27
1,500		4,000	13	1.22

Net yield = (Dividend + Benefit value) / (Stock price), calculated for the minimal number of shares owned in each range
Stock price: Y1,285 (closing price on 12/16/2022)

(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 (three-for-one stock split) on October 1, 2021.

◆ Stock Price and Factors that May Affect Stock Price

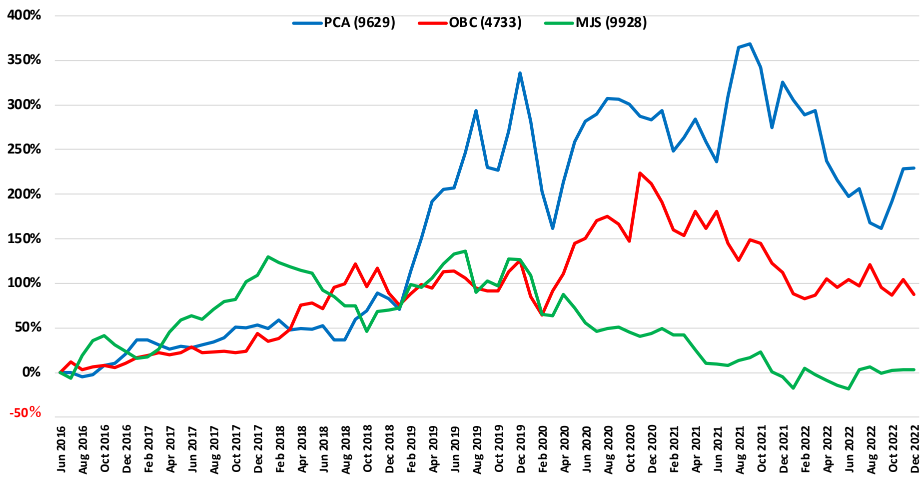
Performance

- **With solid performance, stock price has increased largely and has been significantly outperforming the TOPIX for the past approximately six and a half years.**
- **Weak stock price since September 2021**

The Company's stock price and relative stock price compared to the TOPIX for the past approximately six and a half years are described in the summary section (Figure C on page 4). Its stock price has risen by approx. 3.4x over this period, significantly outperforming the TOPIX which only increased by 1.5x meanwhile.

However, after reaching a recent high in September 2021 (closing price after adjustment for the stock split: 2,083.33 yen), the share price became weak both in absolute and relative value in reaction to this and also in response to the forecast of a large drop in profit during this fiscal year.

【Figure 27】Comparison of Stock Performance with Competitors
(Note: the 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 December 16, 2022)



(Ref) Prepared by Alpha-Win Research Dept.

◆ **In the most recent two months after the announcement of the first-half results, stock price has been outperforming the TOPIX as well as its competitors.**

The Company's stock price has been outperforming indices such as the TOPIX and the TSE Mothers since the beginning of the year. Moreover, after the announcement of this fiscal year's first-half results (during the approx. two months since October 24), the Company's stock price has been outperforming the major indices as well as its two competitors (4733 Obic Business Consultants or OBC and 9928 Miroku Jyoho Service or MJS), presumably since the stock price has been favorably affected by the announcement that there was large progress with profits in the first half compared to the Company's full-year plan (Figure 27 on page 38 and Figure 28).

In the approximately six and a half years since June 2016, the Company's performance has been the highest compared to its two competitors (Figure 26 on page 38).

【Figure 28】Comparison of Stock Performance and Valuation (comparison with major indices)
(Note: stock price through the closing price on December 16, 2022. The Company's first-half results were announced on October 24, 2022)

Closing price on Dec. 16, 2022	Stock price or index	This fiscal year's forecasted P/E	Actual P/B (at end of quarter)	Dividend yield (simple average)	Return since the beginning of the year	Return since the end of April 2022	Return since Oct. 24, 2022
PCA (PRM 9629)	1,285	40.22	1.51	1.01	6.73	33.3	27.2
Average of all TSE Prime stocks: PRM	1,003.51	13.42	1.15	2.38	-	2.7	3.3
Average of all TSE Standard stocks: STD	1,010.60	14.21	0.91	2.22	-	4.7	2.9
Average of all TSE Growth stocks: GRT	983.14	85.05	4.20	0.32	-	11.9	6.4
TOPIX	1,950.21				-2.11	2.7	3.3
TSE Mothers	774.83				-23.74	11.6	6.7
Nikkei Stock Average	27,527.12	12.58	1.14	2.31	-4.4	2.5	2.0

(Ref) Prepared by Alpha-Win Research Dept.

◆ **Valuation is expensive compared to the average valuation of TSE Prime based on this fiscal year's values.**

Valuation

Based on the Company's current level of stock price, its valuation seems overvalued in terms of the main valuation measures compared to the average of all stocks of the TSE Prime Market (Figure 28).

Compared to the TSE Prime's forecasted average P/E of 13.42, the Company's P/E based on its forecasted values for this fiscal year is 40.22. Similarly, compared to TSE's actual P/B of 1.15 and dividend yield (simple average) of 2.38%, the Company's is 1.51 and 1.05%, respectively.

◆ **P/E expected to sharply decrease with the increase in profit.**

Based on our forecast of profit, the Company's P/E is 32.1 for the current fiscal year, 22.7 in the next fiscal year, and 16.6 in the fiscal year after the next.

◆ **Valuation does not seem underpriced compared to its competitors (OBC and MJS).**

When its valuation is compared with its two competitors (OBC and MJS), the Company's valuation is undervalued in terms of P/B, but overvalued in terms of P/E, dividend yield, and EV/EBITDA (Figure 29 on page 40).

◆ **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 areas such as 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 in terms of the comparable valuation measures of P/S (market capitalization / sales) and P/B (similar for the comparison with the private company Yayoi).

【Figure 29】Comparison of Valuation with Competitors

	Company Name	PCA (consolidated)	Obic Business Consultants (OBC: nonconsolidated)	Miroku Jyoho Service (MJS: consolidated)	Money Forward (MF: consolidated)	freee (FR: consolidated)	Yayoi (at the time of acquisition)
Market where listed, stock price, and valuations	Code	9629	4733	9928	3994	4478	-
	Market	TSE Prime	TSE Prime	TSE Prime	TSE Prime	TSE Growth	Private company
	Stock price (at 12/16/2022 closing)	1,285	4,295	1,505	4,395	3,010	-
	Market cap (million yen)	29,684	323,860	52,383	236,511	171,656	250,000
	P/E (price-to-earnings ratio)	40.2	26.3	12.5	-	-	74.4
	P/B (price-to-book ratio)	1.5	2.3	2.0	6.8	5.2	28.7
	Dividend yield (%)	1.0	1.6	2.7	-	-	-
	EV/EBITDA	10.5	11.2	5.6	Negative	Negative	-
	P/S (price-to-sales ratio)	2.3	8.8	1.3	11.2	5.3	11.3
Company forecasts for this fiscal year (Forecasts for fiscal year ending March 2023 for PCA, OBC, and MJS; forecasts for fiscal year ending Nov. 2022 for MF; forecasts for fiscal year ending June 2023 for FR)	Sales (million yen)	12,927	37,000	40,800	21,197	18,821	21,193
	Gross margin (%)	60.7	83.5	Not disclosed	Not disclosed	Not disclosed	-
	Operating profit (million yen)	1,100	16,910	5,800	-8,554	-7,124	-
	Operating margin (%)	8.5	45.7	14.2	-40.4	-37.9	-
	YoY change in EPS (company forecast) (%)	-73.0	4.1	-4.0	-	-	-
Last fiscal year's results	Actual DOE (%)	2.9	4.0	6.0	-	-	-
Past growth rates	Past ten years' sales growth rate (%)	96.7	103.0	86.8	-	-	-
	Past ten years' operating profit growth rate (%)	467.3	109.3	136.7	-	-	-
First-half results (First half of fiscal year ending March 2023 for PCA, OBJ, and MJS; first half of fiscal year ending Nov. 2022 for MF; first half of fiscal year ending June 2023 for FR)	Equity ratio (%)	59.6	80.6	51.7	56.4	86.4	-
	Sales (million yen)	6,163	16,224	19,881	9,841	6,856	-
	Sales growth rate (%) (YoY)	-6.7	-0.3	11.8	31.9	48.5	-
	Operating profit (million yen)	847	6,787	3,102	-	-	-
	Operating profit growth rate (%) (YoY)	-51.7	-5.6	31.3	-	-	-
	Operating margin (%)	13.7	41.8	15.6	-	-	-

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

(Note) Market cap = total outstanding shares x market stock price [at 12/16/2022 closing]

EV/EBITDA = (market cap + interest-bearing debt - cash & deposits) / (O.P. + depreciation + intangible fixed asset amortization, etc.)

*Interest-bearing debt and cash & deposits are based on the actual quarterly values of the most recent period. Operating profit (O.P.) is based on this fiscal year's company forecasts. Depreciation and intangible fixed asset amortization are full-year values calculated from actual quarterly values of the most recent period.

The companies' forecasted EPS for FY 2023 was used in all P/E calculations. BPS values used in P/B calculations are actual quarterly results of the most recent period. Dividend is based on the companies' forecasts.

P/S = market cap / sales [the companies' forecasts]

For values that were announced as ranges, the average was used. Growth rate over the past ten years is the comparison between the full-year results for the most recent fiscal year and for ten fiscal years ago.

Yayoi (private company): Values are all for the fiscal year ended September 2021. Market capitalization is the estimated acquisition price by KKR as of December 2021.

Outlook

- **Domestic-demand-oriented growth stock with high growth potential. The key themes are the cloud, subscription, DX, response to the Electronic Books Maintenance Act and the new invoicing system, work-style reform, and mental health.**

While the COVID-19 regulations are becoming relaxed in Japan and other major countries, there are still uncertainties concerning the economic situation due to factors such as the war in Ukraine, inflation, and the monetary tightening.

However, the Company will most likely continue to be recognized as a domestic-demand-oriented growth stock with a strong subscription-based business (shifting packaged enterprise system software to the cloud/subscription business) which 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.

- **Return to sales and profit growth expected in the next fiscal year onwards as there will no longer be a fallback from the event-driven high demand.**

From the next fiscal year onwards, as the economy normalizes, the new businesses will most likely gradually contribute to its financial performance, and the growth of the cloud and the work management system will be the growth drivers. The fallback from the event-driven high demand for the products will also most likely have ended. In addition, the Electronic Books Maintenance Act and the new invoicing system may create new demand for PCA Hub and replacement demand for the existing software, although they may not be as large as an impact to call it an event-driven high demand. Due to these changes, we believe that the Company will return to a sales and profit growth trend.

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

The stock price seems to already mostly reflect this fiscal year's large profit drop. On the other hand, financial performance may be revised upward this fiscal year. 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.

Going forward, the following will be the key points that may impact the stock price:

- **Key points are the cloud's growth rate, the monetization of the new businesses/services (especially PCA Hub), medium-term profit growth rate, changes in tax systems and other regulations, return of profit to shareholders, and the ways it will utilize its cash.**

1) Performance of the cloud business (changes in PCA Cloud's number of corporate users and sales growth rate)
2) Progress with the development of new products, services, and businesses, their contribution to profit, and their market competition (the financial performance of the acquired company Dreamhop as well as the sales situation of PCA Hub that it is currently especially focusing on, the progress with the shift of the on-premises to the subscription-based business model or PCA Subscription, and sales situation of hyper)
3) Progress with the current medium-term management plan and changes in the medium-term profit growth rate and profitability (gross margin and operating margin)
5) Measures to return profit to shareholders such as dividend hikes, share buybacks, and stock splits, as well as the utilization of treasury shares including their cancellation
6) Progress with the M&A strategy
7) Introduction of business/profit management system and their effects
8) New tax systems and changes in regulations
9) Effective use of its ample cash