Alpha-Win Company Research Report

PCA CORPORATION
(9629 TSE Prime)

Issued: 2/6/2023

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

● Flash Report on Financial Results

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

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

・It is taking a lead in cloud-based business software (PCA Cloud) as No. 1 in the industry. Thanks to the transition to the subscription-based business model, its business stability and profitability have improved significantly.

・The PCA Group has been providing products and services that help improve its corporate users’ operation with regards to work-from-home and staggered working hours during the COVID-19 crisis, and has been developing its business mainly around cloud and solution services.

◆ Results for the first nine months of this fiscal year: continued fallback from the event-driven high demand for the products, resulting in sales and profit declines

First Nine Months: Summary of Results

・The Company’s financial results for the first nine months of FY 2023 (the first nine months were from April to December 2022; hereinafter, Q1 = April to June, Q2 = July to September, Q3 = October to December, and Q4 = January to March; note that the Company’s fiscal year is March ending, i.e., FY 2023 ends in March 2023) were as follows: sales of Y9,533 million (-6.0% YoY), operating profit of Y1,340 million (-47.7% YoY), recurring profit of Y1,372 million (-47.2% YoY), and net profit of Y824 million (-63.6% YoY). Compared to the same period of the previous fiscal year, there were a sales decline and a significant profit drop (Figure 1). The main reasons for these declines were the lower sales due to the fallback from the high, event-driven replacement demand for the products and the higher costs due to upfront investments and inflation which caused the profit margin to decline.

・In terms of achieving the upwardly-revised company plan for the full year (described later on page 3), there was a large progress in the first nine months of this fiscal year, with a progress of 73.3% for sales, 96.3% for operating profit, and 102.0% for net profit.

【Figure 1】Results for the First Nine Months

Results for the First Nine Months		FY 2022: First Nine Months	FY 2023: First Nine Months	Change in Amount	% Change	% of Total Sales
Unit: million yen		Apr-Dec 2021	Apr-Dec 2022	Million yen	%	%
Consolidated Sales		10,144	9,533	-611	-6.0	100.0
Sales by Category	Products	2,463	865	-1,598	-64.9	9.1
	Merchandise	357	432	75	21.0	4.5
	Maintenance Service*	2,479	2,488	9	0.3	26.1
	Cloud Service*	4,044	4,372	328	8.1	45.9
	Other Operating Revenue	799	1,375	576	72.1	14.4
Gross Profit		6,790	5,976	-814	-12.0	
	Gross Margin (%)	66.9	62.7	-4.2		
SG&A Expenses		4,227	4,635	408	9.7	
	SG&A Expenses Ratio (%)	41.7	48.6	7.0		
Operating Profit		2,563	1,340	-1,223	-47.7	
	Operating Margin (%)	25.3	14.1	-11.2		
Recurring Profit		2,599	1,372	-1,227	-47.2	
	Recurring Margin (%)	25.6	14.4	-11.2		
Net Profit		2,268	824	-1,444	-63.6	
	Net Margin (%)	22.4	8.6	-13.7		

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

First Nine Months: Sales by Category

・In terms of the sales of each sales category (the Company's categorization of sales for which results are disclosed), only the products' sales declined YoY. Sales of the cloud service, merchandise, maintenance service, and especially other operating revenue increased, but were not enough to offset the decline in the products' sales.
・Sales by category were as follows (descriptions all pertain to the first nine months):

1. Regarding the products (conventional packaged software: on-premises), there was an early replacement demand mainly in the first half of the previous fiscal year prior to the end of support for the PCA X series in December 2021 (shift to the DX series). A fallback from this demand was seen during this fiscal year's first nine months, and sales fell significantly (from the first nine months of FY 2022 ⇒ the first nine months of FY 2023; the same order applies hereinafter) from Y2,463 million ⇒ Y865 million (-Y1,598 million or -64.9% YoY; from 24.3% ⇒ 9.1% of total sales). Since the products have a high profit margin compared to the other categories and also experienced a large decline in the amount of sales, this category had most likely also pushed down the overall profit.

2. Despite the continued trend of going paperless through digitalization, demand for merchandise (ledger sheets, etc.) such as pay slips has been solid. Its sales increased from Y357 million ⇒ Y432 million (+Y75 million or +21.0% YoY; 3.5% ⇒ 4.5% of total sales).

3. Sales of maintenance service increased slightly from Y2,479 million ⇒ Y2,488 million (+Y9 million or +0.3% YoY) due to decreased sales of the on-premises (products) and the shift to the cloud services.

4. The cloud service's sales were Y4,372 million, which accounted for the largest proportion of total sales among the sales categories (45.9%). Combined with maintenance service (26.1% of total sales), the subscription businesses accounted for 72.0% of total sales. Since both businesses have high continuity and marginal profit ratios, they have likely been continuing to contribute significantly to the Company's stability of business performance in terms of both sales and profits.

   The sales growth rate of the cloud has slowed down, with a sales growth of +35.6% YoY in the first nine months of FY 2022 but +8.1% YoY in the first nine months of FY 2023. This slowdown during this fiscal year was presumably due to the expansion of business scale with further implementation of the cloud service among its customers, as well as the fallback from the partial high demand in the previous fiscal year for the migration from the products to the cloud service.

   On a yearly basis, the number of corporate users of the cloud service (net number) has been increasing from 12,313 in March 2019, 14,388 in March 2020 (+2,075 YoY), 16,444 in March 2021 (+2,056 YoY), 19,152 as of the end of March 2022 (+2,708 YoY), 19,441 as of the end of June 2022 (YoY increase not disclosed for this period), and 19,853 as of the end of September 2022 (+2,608 YoY), and exceeded 20,000 users at 20,406 as of the end of December 2022 (+1,828 YoY).

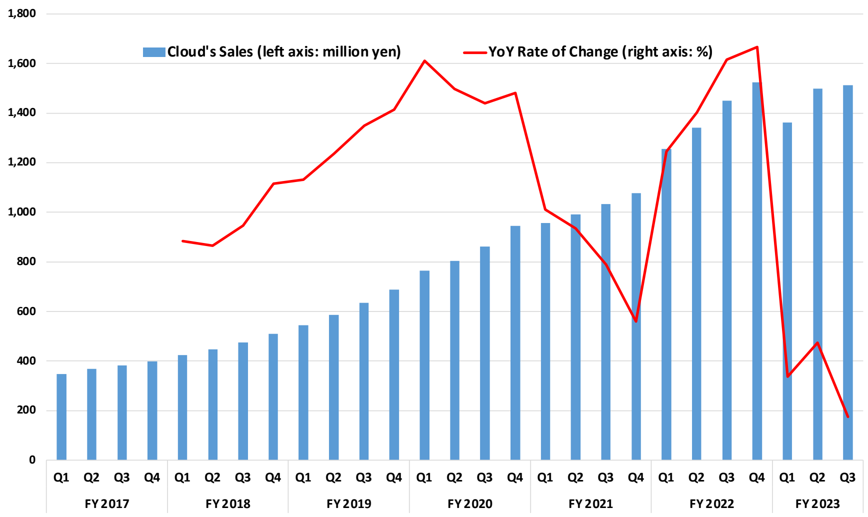
   The year-on-year increase in the number of corporate users has been slowing down compared to before. However, looking at the increase in the number compared to the most recent quarter (QoQ), in the order of Q3 FY 2022 ⇒ Q4 FY 2022 ⇒ Q1 FY 2023 ⇒ Q2 FY 2023 ⇒ Q3 FY 2023, the amount of growth in the number of corporate users has been recovering from +793⇒ +574⇒ +289 ⇒ +412 ⇒ +553.

   The cloud's quarterly sales (three-month periods) have been solid as shown in Figure 2 on page 3, but the YoY sales growth rate has been slowing down.

5. Other operating revenue increased significantly from Y799 million ⇒ Y1,375 million (+72.1% YoY). Sales of other companies' products such as those related to DX have been strong.

【Figure 2】Quarterly Change in the Sales of the Cloud Business

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



First Nine Months: Profit

・Since the Company has a business model with a high marginal profit ratio, changes in sales tend to have a large impact on changes in profit margins and profits. In this fiscal year's first nine months, the sales composition changed significantly due to a large decrease in the sales of the products which have good profitability and a large increase in the less profitable other operating revenue. With worsened product mix and increased costs, the gross margin declined by 4.2 percentage points from 66.9% in the previous fiscal year's first nine months to 62.7% in this fiscal year's first nine months (Figure 1 on page 1).

・While sales declined by -6.0% YoY, the SG&A expenses increased by Y408 million or +9.7% YoY due to higher personnel, development, and other costs. As a result, the SG&A expenses ratio rose by 7.0 percentage points from 41.7% ⇒ 48.6% and the operating margin declined sharply from 25.3% ⇒ 14.1% (worsened by -11.2 percentage points). This first nine months' result exceeded the Company's targeted full-year operating margin of 10.7%, though.

・In the first nine months of the previous fiscal year, a gain on sales of investment securities of Y1,111 million was recorded under extraordinary income, but there were no major non-operating or extraordinary income/losses during this fiscal year's first nine months. Consequently, there was a greater rate of decline for net profit than operating profit.

Balance Sheet

・As of the end of the Q3 of this fiscal year (December 2022), there has been no significant change in the balance sheet compared to the end of the previous fiscal year (March 2022).

・Its financial position has continued to be solid, with a high equity ratio of 59.4% and current ratio of 215.8%.

・The Company's business is a cash cow. Its cash & deposits have been accumulating year after year and exceeding the annual sales (from Y16.1 billion at the end of March 2022 ⇒ Y16.8 billion at the end of December 2022; the same order applies hereinafter). Its challenges will be to improve capital efficiency, execute investment strategies for growth, and develop businesses that will become the next major source of earnings.

・Contract liability (previously "unearned revenue," etc.: applicable to subscription contracts such as the cloud and refers to consideration received for services which have not yet been provided) had increased from about Y7.3 billion ⇒ about Y7.7 billion with the growth of the cloud business.

◆Financial Forecast for This Fiscal Year

Financial Forecast for This Full Fiscal Year: Announced upward revisions, increased dividend, and cancelled treasury shares

・Upon announcing the Q3 results (on January 30, 2023), the Company also upwardly revised its full-year forecasts which had been announced at the beginning of the fiscal year, both on a consolidated and non-consolidated basis (Figure 3 on page 4). For the full fiscal year (consolidated; the same applies hereinafter), the Company raised its sales forecast by +Y80 million or +0.6% (from the initial forecast ⇒ revised forecast; the same order applies hereinafter) from Y12,927 million (-3.4% YoY) ⇒ Y13,008 million yen (-2.8% YoY).

・The forecast for operating profit was significantly raised (by +Y291 million or +26.5%) from Y1,100 million (-58.6% YoY) ⇒ Y1,391 million (-47.6% YoY). The Company expects the operating margin to improve from 8.5% ⇒ 10.8% since its initial cost estimates had been conservative and it has been reducing costs through a more efficient use of expenses. The Company has also revised its net profit forecast upward from Y639 million (-73.0% YoY) ⇒ Y808 million (-62.6% YoY).

・The fallback from the event-driven high demand for the products is expected to still continue and impact the full-year results too. As the sales growth of other operating revenue and the cloud will not be enough to compensate for this decline, the Company expects an overall decline in sales.

・The Company's new forecast is almost the same as our forecast in terms of both sales and profits, so there was no major surprise.

【Figure 3】Forecast of Consolidated Results for the Full Fiscal Year

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

Consolidated (unit: million yen) New Revenue-Recognition Standard		FY 2022	FY 2023: Company Forecast				FY 2023: Alpha-Win Research Department's Forecast				
		Results	Old Forecast: CE	New Forecast: CE	Amount of Revision: New - Old	% Revision: New/Old	Alpha-Win's Forecast: E	Alpha-Win's Forecast - The Company's New Forecast	% Difference (E / New CE)	YoY: Amount of Change	YoY: % Change
Sales		13,382	12,927	13,008	81	0.6%	12,950	-58	-0.4%	-432	-3.2%
Sales by Category	Products	2,954	1,399				1,300			-1,654	-56.0%
	Merchandise	439	402				400			-39	-8.9%
	Maintenance Service	3,316	3,257				3,250			-66	-2.0%
	Cloud Service	5,568	6,115				6,200			632	11.4%
	Other Operating Revenue	1,103	1,752				1,800			697	63.2%
Gross Profit		8,809	7,845				8,000			-809	-9.2%
	Gross Margin	65.8%	60.7%				61.8%			-4.1%	
SG&A Expenses		6,153	6,744				6,700			547	8.9%
	SG&A Expenses Ratio	46.0%	52.2%				51.7%			5.8%	
Operating Profit		2,655	1,100	1,391	291	26.5%	1,400	9	0.8%	-1,255	-47.3%
	O.P. Margin	19.8%	8.5%	10.7%	2.2%		10.8%	2.3%		-9.0%	
Recurring Profit		2,697	1,132	1,426	294	26.0%	1,420	-6	-0.5%	-1,277	-47.3%
	R.P. Margin	20.2%	8.8%	11.0%	2.2%		11.0%	2.2%		-9.2%	
Net Profit Attributable to Owners of the Parent		2,367	639	808	169	26.6%	800	-8	-1.3%	-1,567	-66.2%
	N.P. Margin	17.7%	4.9%	6.2%	1.3%		6.2%	1.2%		-11.5%	
Annual Dividend Per Share (yen)		24.0	13.0	17.0	4.0		17.0	0.0		-7.0	

【Figure 4】Quarterly Consolidated Results (Results and Forecasts)

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

Quarterly Results		Q1 FY 2022	Q2 FY 2022	Q3 FY 2022	Q4 FY 2022	Q1 FY 2023	Q2 FY 2023	Q3 FY 2023	Q4 FY 2023	Q4 (Jan-Mar)	
Unit: million yen		Apr-Jun 2021	Jul-Sep 2021	Oct-Dec 2021	Jan-Mar 2022	Apr-Jun 2022	Jul-Sep 2022	Oct-Dec 2022	Jan-Mar 2023	Amount of Change (FY2023 - FY2022)	% Change (FY2023/FY2022)
Consolidated Sales		3,328	3,281	3,535	3,238	2,954	3,209	3,370	3,475	237	7.3
Sales by Category	Products	935	783	745	491	241	316	308			
	Merchandise	85	82	190	82	108	114	210			
	Maintenance Service	820	826	833	837	838	850	800			
	Cloud Service	1,255	1,340	1,449	1,524	1,361	1,499	1,512			
	Other Operating Revenue	231	250	318	304	404	480	491			
Gross Profit		2,284	2,222	2,284	2019	1,829	2,083	2,064			
	Gross Margin (%)	68.6	67.7	64.6	62.4	61.9	64.9	61.2			
SG&A Expenses		1,309	1,444	1,474	1926	1,520	1,545	1,570			
	SG&A Expenses Ratio (%)	39.3	44.0	41.7	59.5	51.5	48.1	46.6			
Operating Profit		975	778	810	92	309	538	493	51	-41	-44.6
	Operating Margin (%)	29.3	23.7	22.9	2.8	10.5	16.8	14.6	1.5		
Recurring Profit		987	795	817	98	315	556	501	54	-44	-44.9
	Recurring Margin (%)	29.7	24.2	23.1	3.0	10.7	17.3	14.9	1.6		
Net Profit		614	835	819	99	142	352	330	-16	-115	Loss
	Net Margin (%)	18.4	25.4	23.2	3.1	4.8	11.0	9.8	-0.5		

Financial Outlook for This Fiscal Year's Fourth Quarter

・In Q4 (January to March 2023), the Company expects to increase sales to Y3,475 million (+7.3% YoY), but it expects operating profit to be halved YoY to Y51 million (-44.6% YoY) and net profit to fall from a profit of Y99 million in Q4 of the previous fiscal year to a loss of -Y16 million (Figure 4). The decline in operating profit is expected to be mainly caused by the Company's ambitious investment (over Y200 million) in promotional expenses, as it sees the Revised Electronic Books Preservation Act (hereinafter, "Electronic Books Preservation Act") and the new invoicing system as business opportunities. Regarding the Electronic Books Preservation Act, its grace period (during which preservation in paper form will be allowed) will end on December 31, 2023. The new invoicing system will start on October 1, 2023. Since most companies, regardless of size, will have to adapt to these new laws/systems, replacement demand for the Company's software and services is anticipated (e.g., sales expansion of PCA Hub* eDOC). *PCA Hub is the Company's originally developed, online storage service that enables corporate users to safely and securely share important business data and files. Meets the requirements of the Electronic Books Preservation Act. Aiming to gain 2,000 corporate users in the first year after its release in March 2022.

・The Company's profit forecast for Q4 (January to March 2023) seems somewhat conservative (operating margin of 1.5% expected for Q4), and we believe that further upward revisions may be possible for the full fiscal year depending on cost control. However, since the Company intends to accelerate upfront investments for growth in the next fiscal year and beyond, we have not changed our forecast (for sales and profits).

・At the beginning of this fiscal year, the Company had planned to reduce its annual dividend from 24 yen/share in the previous fiscal year (including a commemorative dividend of 11 yen/share) to 13 yen/share for this fiscal year (maintaining the same amount of ordinary dividend). However, on December 26, 2022, the Company announced that it will increase dividend to 17 yen/share, so we also revised up our forecast for dividend from 16 yen to 17 yen accordingly.
・The Company had previously determined the amount of dividend based on the dividend payout ratio, but in order to improve the stability of dividend in its dividend policy, the Company has decided to place more emphasis on the consolidated DOE and pay this fiscal year's dividend based on a DOE of 2.0%.
・On the same day, the Company also announced its decision to cancel 1.1 million treasury shares (4.8% of the total number of outstanding shares before the cancellation) and executed the cancellation on December 28. As a result, the Company now has 22 million shares outstanding, of which it holds approximately 2 million shares as treasury shares (9.1% of the total number of outstanding shares).

Forecast for Next Fiscal Year Onward

・We have not changed our forecast for this fiscal year onward since our previous report (issued on December 19, 2022) (Figure 3 on page 4).
・From the next fiscal year onward, since the fallback from the event-driven high demand for the products will have ended, the Company's overall sales are expected to return to growth with the continued growth of the cloud. While the rise in costs due to upfront investments in R&D, personnel, and promotion expenses, as well inflation, will likely push down profits, the Company is expected to conduct cost control so that it will return to a profit growth trend along with the sales growth.
・Although the slowdown in the growth rate of the cloud's number of contracts (net increase) and sales is a point of concern, we plan to reflect the positive effects of the Electronic Books Preservation Act and the announcement of the final results for FY 2023 in reviewing our medium-term financial outlook.

◆Stock Price and Valuation

Stock Characteristics and Performance

・The Company's stock is seen as a subscription-service growth stock that is defensive, domestic-demand oriented, and small-cap. Since December 2018, it had been significantly outperforming the TOPIX.
・However, after the announcement of the Q3 results (on January 30, 2023), the stock price fell due to sell-offs since all positive news seemed to have come out for now with the announcement of the upward revisions. The stock has been underperforming the major indices since then (Figure 5 on page 6). As reference, the historical beta of the Company's stock (on a monthly basis over the past five years; vs. TOPIX; including dividends) is low at 0.62. Therefore, as a characteristic of this stock, it will be less likely to outperform the TOPIX and economically sensitive stocks during this recent market rally in anticipation of lower interest rates.
・Volatility of its financial results and stock price tends to increase in response to high demand triggered by events such as those related to changes in the tax system, accounting standards, OS, and products. At this point, the impact of the Electronic Books Preservation Act is expected to be limited so that there will be no major demand driven by it. However, it is still a tailwind for the Company and its impact on future financial performance and stock price should be closely watched.

Valuation

・Compared to the average of all TSE Prime stocks, valuation of the Company's stock based on this fiscal year's company forecast (after the upward revisions) is undeniably expensive regarding the P/E, actual P/B, and forecasted dividend yield (Figure 5 on page 6).
・Its valuation also does not seem cheap compared to its competitors Obic Business Consultants (listed on TSE Prime; securities code 4733) and Miroku Jyoho Service (also TSE Prime; 9982) regarding the major valuation measures excluding P/B.
・Based on our financial forecasts, the P/E would be about 21x for next fiscal year and about 16x for the fiscal year

after the next. The stock price already seems to reflect the anticipated future recovery in financial performance to some extent.

Key Points Going Forward

・Over the medium term, changes in the Company's overall sales and profit margins will depend on the cloud's growth rate, whether the new businesses will succeed (PCA Hub series, PCA Subscription, PCA hyper, Dreamhop's mental health business, etc.), the sales situation of the products, and cost control. An especially key point will be the cloud business, specifically concerning the increase in the number of corporate users of PCA Cloud and its quarterly rate of change in sales, since the business has been the Company's growth driver but has been experiencing a slowdown in its growth rate.

・Since the Company is rich in cash, it has enough capital to potentially conduct share buybacks, dividend hikes, and M&As in the future. These will be important factors that may impact the stock price.

【Figure 5】Comparison of Valuation and Performance with Major Indices and Competitors

Closing price on February 3, 2023	Stock price or index	This fiscal year's forecasted P/E (in terms of the Company's planned EPS)	Actual P/B (at the end of the most recent quarter)	Forecasted dividend yield (simple average): %	Return since the beginning of the year: %	Return since January 30, 2023: %
PCA (TSE Prime 9629)	1,266	31.30	1.46	1.34	-5.7	-8.3
OBC (TSE Prime 4733)	4,935	30.18	2.72	1.42	14.9	-3.2
MJS (TSE Prime 9928)	1,755	14.55	2.52	2.28	21.6	11.5
Average of all TSE Prime stocks	1,013.91	13.58	1.16	2.38	4.2	4.4
Average of all TSE Standard stocks	1,022.87	14.44	0.92	2.23	2.8	-0.1
Average of all TSE Growth stocks	993.61	82.15	4.27	0.32	7.1	1.3
TOPIX	1,970.26				4.2	4.4
Nikkei Stock Average	27,509.46	12.78	1.15	2.28	5.4	0.3

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

【9629 PCA Sector: Information & Communication】 Figure A

FY		Sales (million yen)	YoY (%)	O.P. (million yen)	YoY (%)	R.P. (million yen)	YoY (%)	N.P. (million yen)	YoY (%)	EPS (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 (applies to all below)	13,382	0.6	2,655	14.7	2,697	15.2	2,367	41.9	118.36	847.14	24.00
2023	CE Initial Forecast	12,927	-3.4	1,100	-58.6	1,132	-58.0	639	-73.0	31.95		13.00
2023	CE Revised Forecast	13,008	-2.8	1,391	-47.6	1,426	-47.1	808	-62.6	40.45		17.00
2023	E Forecast	12,950	-3.2	1,400	-47.3	1,420	-47.3	800	-66.2	40.00	863.09	17.00
2024	E	14,310	10.5	1,870	33.6	1,890	33.1	1,130	41.3	56.50	902.60	18.00
2025	CE	15,000		2,500								
2025	E	15,520	8.5	2,550	36.4	2,570	36.0	1,550	37.2	77.50	962.10	19.00

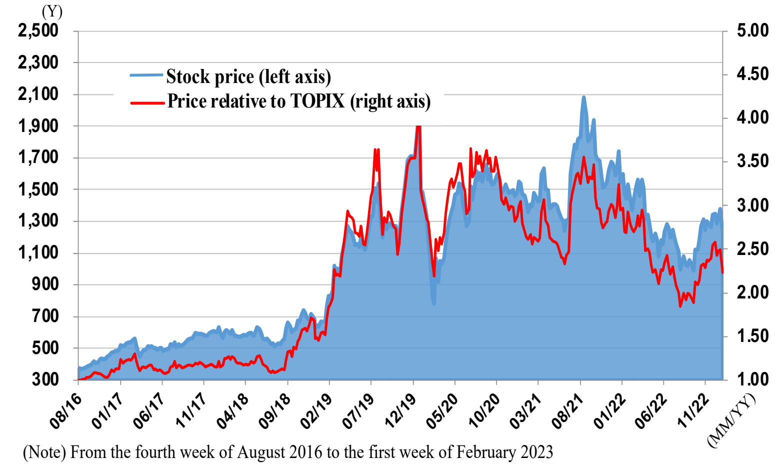
(Ref) Prepared by Alpha-Win Research Dept.
(Note) CE: the Company's forecast/estimate. E: Alpha-Win's forecast/estimate. "Old Standard" stands for the previous revenue-recognition standard and "New Standard" stands for the new revenue-recognition standard.

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

Item	2/3/2023	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,226	Last FY's Forecasts	10.4	1.45	2.0%	13.6%
Shares Outstanding (thou.)	22,000	This FY's Forecasts	30.6	1.42	1.4%	42.5%
Market Capitalization (million yen)	26,972	Next FY's Forecasts	21.7	1.36	1.5%	31.9%
Dilutive Shares (thou.)	0	Equity Ratio at the End of This FY's Q3	59.4%	Last FY's ROE		14.4%

(Ref) Prepared by Alpha-Win Research Dept.
(Note) Forecasts were made by Alpha-Win Research Dept. "Shares Outstanding" are the number of shares after the cancellation of treasury shares.

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



(Note) From the fourth week of August 2016 to the first week of February 2023

【Performance】		
Period	Return	vs. TOPIX
1 month	-8.6%	-12.8%
3 months	7.4%	5.3%
6 months	2.5%	1.0%
12 months	-22.7%	-26.6%

(Note) Reflects stock price and index values through the closing price on 2/3/2023. Performance vs. TOPIX is the relative performance calculated by subtracting the TOPIX's performance from the Company's performance. Performance for the one-month period is the comparison between the closing price on the last day of the December 2022 and the closing price on 2/3/2023 (the same applies to the other periods).

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