Alpha-Win Company Research Report

PCA
(9629 TSE Prime)

Issued: 6/23/2023

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

● Summary

Business Description

・PCA CORPORATION (hereinafter, the "Company") is an independent software manufacturer specialized in packaged enterprise system software. It is a major specialized player in the industry.

・The Company was founded in 1980. Since then, it has been providing on-premises or cloud-based software mainly to small/medium-sized companies. The Company's mission is to contribute to society as a "Management Support Company" that supports other companies in conducting smooth management and operation, with a focus on providing enterprise system software that realizes high-level automatization.

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

・The full-year financial results for the previous fiscal year (fiscal year ended March 31, 2023) were as follows: sales of Y12,981 million (-3.0% YoY), operating profit of Y1,288 million (-51.5% YoY), and profit attributable to owners of the parent of Y883 million (-62.7% YoY). The Company had made upward revisions to its forecasts during the fiscal year, compared to which sales were mostly as expected while the operating and recurring profits were short of the forecasts by about Y100 million (about 7%). On the other hand, the net profit exceeded the forecast by Y75 million (about 9%); the results were mixed. Dividend was 17 yen as planned.

・Alpha-Win Research Dept. had forecasted the same level of results as the Company' revised forecasts.

・Due to the end of support for the PCA X series, product replacement demand occurred in the fiscal year before the previous (FY2022). In the previous fiscal year, the products' sales decreased significantly (-61.1%) in reaction to this previous high demand. However, this was compensated by the growth of the other operating revenue and the cloud service's sales, resulting in only a slight decrease in overall sales. The gross margin decreased because the product mix worsened with the sales decline of the products, which presumably have a high profit margin, and because the costs such as labor and subcontracting costs increased. In addition, the SG&A expenses rose because of increased upfront investments (such as development costs) and higher costs due to inflation, causing profit to become halved.

・Regarding each quarter, both sales and profits decreased YoY from Q1 to Q3, but profit was maintained. However, in Q4, although sales turned to an increase, the Company posted an operating loss and a recurring loss. These were mainly due to the strategic increase in costs, such as those for investment in development, which seemed to have caused the divergence from Alpha-Win's profit forecast.

・During the past period of reactionary decline following an event-driven high demand (FY2015), sales and profits fell significantly and a net loss was posted. Last fiscal year, though, thanks to the strategic shift of the business portfolio to the subscription-based businesses (maintenance + cloud service) which are highly maintainable and stable, the upfront investment costs were absorbed and the Company was able to post an operating profit of more than Y1.2 billion albeit with a significant profit decline.

・The Company announced its financial forecast for the current fiscal year (FY2024): sales of Y14,700 million, operating profit of Y1,445 million, and profit attributable to owners of the parent of Y925 million. This fiscal year, it plans to revise the prices of the current products and services in July 2023. It is also expecting sales to increase by 13.2% due to the sales of the PCA Hub series and the continued growth of the cloud services. On the other hand, although the Company's business model is characterized by a high marginal profit ratio, it expects the profit growth rate to be equal to or slightly lower than the sales growth rate due to inflation and upfront investment costs such as continued investment in development. Dividend per share is planned to be 17 yen, the same amount as the previous fiscal year.

・As with the previous fiscal year, the forecast for the first half has not been disclosed.

Alpha-Win Research Department's Forecast of Financial Results

・Based on the Company's financial forecast for this fiscal year and interview, we reviewed our forecasts for the current and the next fiscal year. We also prepared forecasts for the next three years, newly adding a forecast for the fiscal year after the next or FY2026. For the current and the next fiscal year, we revised our sales forecasts slightly upward, while the profit forecasts were revised downward.

・The main reasons are that the upfront investment costs have increased more than expected due to greater investment in the development of products and service, general expenses such as personnel expense and subcontracting costs are expected to increase due to inflation, and there have been delays in the contribution of the new businesses such as Dreamhop Co., Ltd., to profit.
・We revised our forecasts for this fiscal year (in the order of previous ⇒ current forecast) as follows: while sales were revised upward from 14,310 ⇒ 14,700 million yen (compared to the Company's forecast: the same amount), operating profit was revised down from 1,870 ⇒ 1,450 million yen (similarly, +5 million yen), net profit was revised down from 1,130 ⇒ 925 million yen (the same amount), and dividend was also revised down from 18.0 ⇒ 17.0 yen (the same amount), each revised down to the same level as the Company's forecasts.
・In the financial forecasts for the current fiscal year, the likelihood is high that the upward price revision during the fiscal year will have an effect, while the sales trend of the PCA Hub series and cost control will be the factors that may cause change. We believe if there is no longer a reactionary decline in sales and profit caused by an event-driven high demand and if the Company does not strategically increase costs like in the previous fiscal year's Q4, then its profit plan may be achieved.
・Assuming that economic activities will gradually return to normal as the global economy and the COVID-19 outbreak settle down, we predict that the Company will return to sales, profit, and dividend growth trends over the medium term as its cloud business grows, the PCA Hub series contribute to its business performance, and the upfront investments peak out in the fiscal year after the next or later. We have not changed our prediction that the annual profit growth rate over the medium to long term (on a normalized basis excluding any 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 for accounting and finance software targeting small/medium-sized companies. It is especially taking a lead with cloud-based enterprise system software in those fields and is the top player for them in the market.
・Its strength is its concentration of resources in its field of expertise as a specialist, enabling the development of products and services that meet various customer needs ahead of its competitors, including needs related to changes in tax and other regulations. 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 that started last fiscal year. Numerical targets for the final year or FY2025 (next fiscal year) 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 (consolidated profit margin of 16% or more), ROE of 10% or more, DOE of 2.5%, and dividend payout ratio of 30%. Excluding sales, all figures have already been mostly achieved in the past.
・Sales and dividend payout ratio are well within the range of achievement, but operating profit, ROE, and DOE, which were initially thought to be conservative targets, have deviated from the plans for this fiscal year.
・The PCA Group's growth strategy is to provide total solution services centered on software. It is executing 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). It plans to proactively work on the SDGs while expanding its subscription business, strengthening its product development capacity, and responding to digitalization needs.
・On the other hand, its biggest challenges are to effectively utilize its abundant cash and deposits (which exceed its annual sales) for future growth and to put onto track and monetize the new businesses that it has started (PCA Hub, PCA Subscription, hyper, and healthcare business).

Stock Characteristics and Price

・The Company's stock is a defensive, domestic-demand-oriented, and small-cap growth stock that is anticipated to experience growth in the subscription businesses and is positively impacted by the work-style reform and tax reforms. However, the volatility of business performance and stock price tends to increase before and after periods of event-driven high demand.

・Over the past seven years, the Company has outperformed the TOPIX and its competitors. On the contrary, it has been underperforming since the beginning of this year, but has been outperforming again after the announcement of the financial forecasts for this fiscal year.
・The valuation of the Company’s stock based on this fiscal year’s forecasts is somewhat expensive compared to the average of all stocks listed on the Tokyo Stock Exchange’s Prime Market.
・However, its business is mainly subscription-based and is therefore stable and maintainable, and the subscription business has a high growth potential. The Company is therefore expected to return to a growth trend for sales and profit starting this fiscal year. Since EPS growth and subsequent dividend hikes are expected, we believe that there is an upside to the stock price over the medium to long term. For the time being, the stock price will likely be affected by the quarterly trends in business performance, as well as whether the new businesses (especially PCA Hub) will succeed, the growth rate of the cloud business, and whether its financial performance will be impacted by changes in the tax system and accounting system (especially the new invoicing system and the Electronic Books Preservation Act).

Return of Profit to Shareholders

・The Company has been stably paying dividend and has bought back its shares several times. The dividend payout ratio was 38.5% in FY2023 (last fiscal year’s result) and expected to exceed the target (30%) again this fiscal year at 36.8% (Alpha-Win’s forecast). Meanwhile, we estimate that this fiscal year’s DOE will be 1.9%, falling below the target of 2.5%.
・Since business performance is expected to grow in the next fiscal year onwards too, we anticipate that the Company may further enhance its return of profit to shareholders, such as dividend hikes and share buybacks.

【9629 PCA Sector: Information & Communication】 Figure A

FY		Sales (million yen)	YoY (%)	O.P. (million yen)	YoY (%)	R.P. (million yen)	YoY (%)	N.P. (million yen)	YoY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
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	New Standard	12,981	-3.0	1,288	-51.5	1,326	-50.8	883	-62.7	44.16	870.38	17.00
2024	CE New Standard	14,700	13.2	1,445	12.2	1,478	11.4	925	4.8	46.27		17.00
2024	E New Standard	14,700	13.2	1,450	12.6	1,480	11.6	925	4.8	46.25	899.60	17.00
2025	CE Medium-term Plan, New Standard	15,000	2.0	2,500	73.0							
2025	E New Standard	15,520	5.6	1,550	6.9	1,570	6.1	980	5.9	49.00	931.60	18.00
2026	E New Standard	16,500	6.3	1,650	6.5	1,670	6.4	1,040	6.1	52.00	965.60	19.00

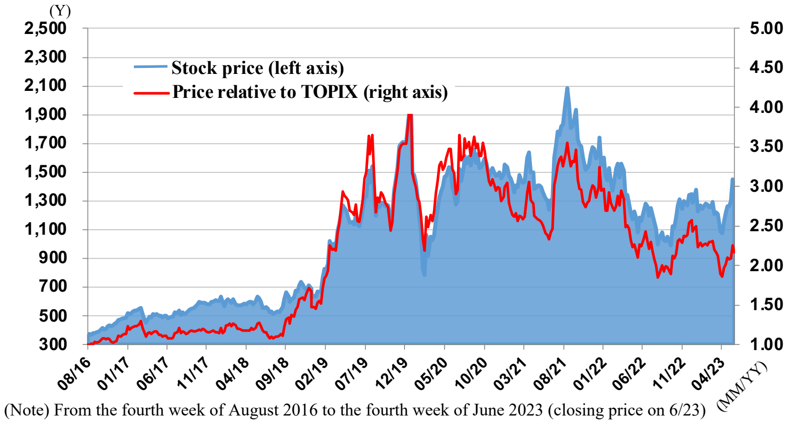
(Note) CE: the Company’s estimate/forecast. E: Alpha-Win Research Dept.’s estimate/forecast.
Past years were retroactively revised for the stock split (3-for-1) conducted on October 1, 2021 (for EPS, BPS, and dividend)
The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29), etc., have been applied starting in FY2022. “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	6/23/2023	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,367	Last FY's Results	31.0	1.6	1.2%	38.5%
Shares Outstanding (thou.)	22,000	This FY's Forecast	29.6	1.5	1.2%	36.8%
Market Capitalization (million yen)	30,074	Next FY's Forecast	27.9	1.5	1.3%	36.7%
Dilutive Shares (thou.)	0	Equity Ratio at the End of Last FY		56.9%	Last FY’s ROE	5.1%

(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 fourth week of June 2023 (closing price on 6/23)

【Performance】		
Period	Return	vs. TOPIX
1 month	13.2%	6.9%
3 months	5.8%	-7.2%
6 months	1.9%	-17.9%
12 months	17.7%	-3.3%

(Note) Reflects stock price and index values through the closing price on 6/16/2023. The return for the 1-month period is the comparison between the closing price on the last day of May and the closing price on July 16. Similar for the other periods. Prepared by Alpha-Win Research Dept.

(Note) In the text and figures of this Report, the values for the same item may not match completely with each other or with the Company's announced values due to rounding, rounding during the calculation process, format of display, and other factors.

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Note: 1) Upon translating to English, when the page numbers differed from the original Japanese version, they were adjusted to those of the English version of the report. 2) The Company's fiscal year is March-ending, i.e., FY2024 ends in March 2024.

1. Company Overview

- **Major specialized player in the industry with 43 years of history, developing and providing packaged enterprise system software for small/medium-sized Japanese companies**

◆ Major Specialized Player in the Enterprise System Software Industry

PCA CORPORATION (hereinafter, the "Company") is an independent, mid-tier company in the software industry. Founded in 1980, it has 43 years of history. It is a specialist in developing and providing packaged software (software prepared for use in certain operations) for enterprise systems[1], such as those for accounting and tax. It is a major, specialized player for such software targeting 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 total sales. With regards to the size of the corporate customers, the Company is especially strong in business toward small/medium-sized and mid-tier companies with 20 to 300 employees. 80% of the Company's sales are made through distributors (the remaining 20% are direct sales). Its customers are diversified. By monetary value, many of its major customers are large corporations. In past years, its largest customer has been Ricoh Co., Ltd. (listed on the Tokyo Stock Exchange's Prime Market; securities code 7752), which accounts for about 25% of total sales. Its accounting software has been implemented by over 8,000 public benefit corporations in total; it is the top player in the market for these customers.

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

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

As of the end of May 2023, the Company's group is composed of a total of four companies: the Company and three consolidated subsidiaries (Figure 1).

1) Xronos Inc. (development/sales of work management system[2]; the Company founded this subsidiary in 2001 with an 80% stake)

2) KEC Corporation (implementation support for PCA's products/services, sales of business software, etc.; wholly owned and founded in 1998 by the Company)

3) Dreamhop Co., Ltd. (mental-health-related business; acquired in October 2020; wholly owned)

(2) Work management system: Also called the attendance management system, it manages/utilizes various data on working hours. Can automatically aggregate data such as working hours and prepare data to link with payroll software. Provided as an on-premises or cloud-based system.

【Figure 1】Overview of the Three Consolidated Subsidiaries (Words in red indicate the main updates since the previous report)

	Overview of Consolidated Subsidiaries		
Company Name	Dreamhop Co., Ltd.	Xronos Inc.	KEC Corporation
Main Office Location	Iidabashi, Chiyoda-ku, Tokyo	Kanda Neribeicho, Chiyoda-ku, Tokyo	Fujimi, Chiyoda-ku, Tokyo (PCA Building)
	Sales offices and bases in the 2 cities of Osaka and Yokohama	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; the necessary amount of time can be chosen individually), 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 ⇒ 2.5 Number of companies using Xronos Performance: 9,385 (6/7/2023) Number of users of X'sion: 431,784 ⇒ 515,412 ⇒ 682,465 (6/7/2023) Number of companies using X'sion: 4,406 (6/7/2023) (As of Nov. 15, 2021 ⇒ May 9, 2022 ⇒ June 7, 2023; 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)	96.5 (capital increased from 56.5 million yen)	60	10
PCA's Stake	100%	80%	100%
Number of Employees (as of the end of Mar. 2023)	16	127	45
Sales (for the most recent period)	Not disclosed	Y2,528 million (FY ended March 2023; information on its website; +15% 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
Category of Consolidated Sales	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	Strengthening projects for the private sector through collaboration with PCA; started providing group analysis and consulting services for stress checks as well; expanding business into areas with added value. However, it still seems to be posting a net loss due to upfront investments.	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. Working on shifting to the cloud, strengthening related services, and acquiring new customers.	Business performance tends to be basically linked with the performance of PCA. Due to the COVID-19 crisis, its business performance had been somewhat stagnant, but now seems to be recovering.

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

The Company acquired Keepdata Ltd. in March 2019 as a consolidated subsidiary, aiming to create a foothold for the data utilization business. However, linking systems with the Company and creating synergy in sales had turned out to be difficult, and Keepdata had been continuously posting a net loss and an excess of debt. Therefore, in December 2020, the Company sold all shares of Keepdata to a third party.

- **Consolidated-to-parent-company sales ratio has stably been around 1.1-1.2. The summed recurring profit of the consolidated subsidiaries (consolidated minus parent) has been a surplus.**

The ratio of consolidated sales to parent company's sales has stably remained around 1.1-1.2, indicating that the parent company's financial results have a greater weight (Figure 2).

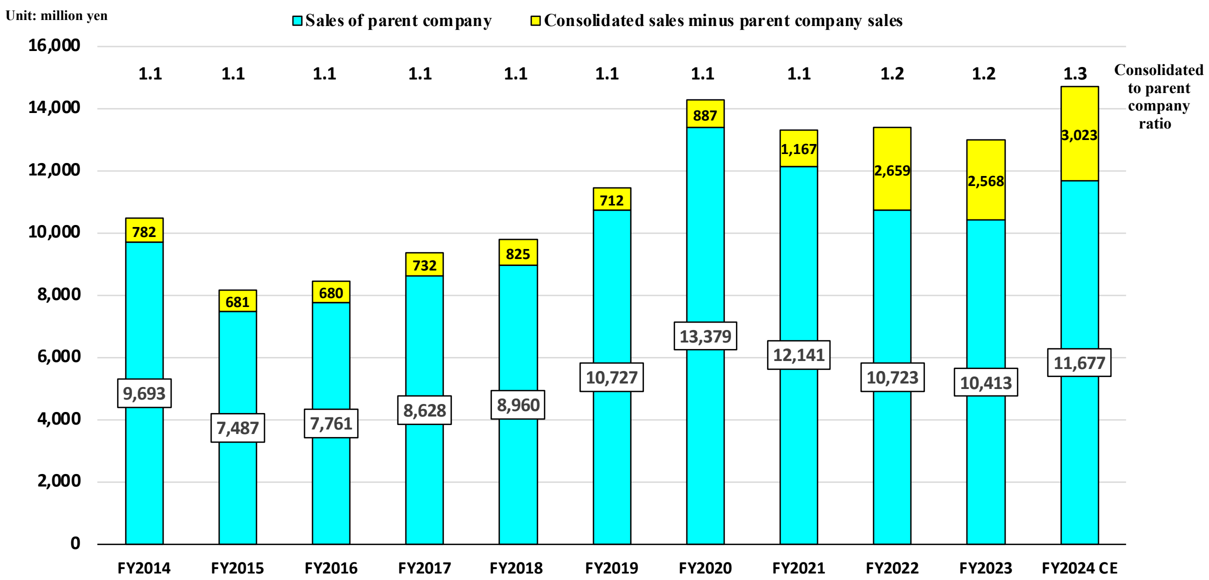
Although each subsidiary's profit/loss is not disclosed, the ratios of consolidated to parent-company recurring profit have been in the range of 1.0-1.6 during the fiscal years that the Company has posted a net profit (including this fiscal year's forecast).

Additionally, the summed profit/loss of the subsidiaries, calculated by consolidated minus parent-company recurring profit, has been a surplus since FY2016 (Figure 3 on page 8).

Among the subsidiaries, Xronos seems to be continuing to contribute the most to the financial results, thanks to the work-style reform. Its sales were Y1.5 billion in FY2019, Y2.1 billion in FY2020, Y2.16 billion in FY2021, Y2.21 billion in FY2022, and Y2.53 billion in FY2023 (+15% YoY). For FY2025, Xronos had expected its sales to be Y4 billion (according to Xronos's former website).

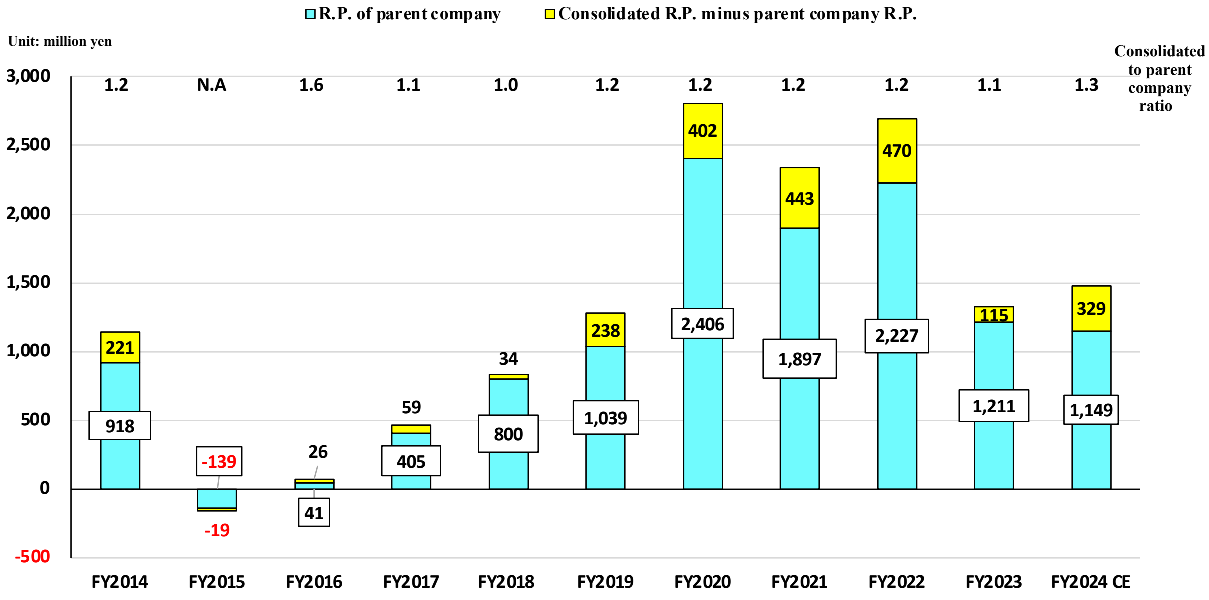
Although Xronos's profits have not been disclosed, it has mostly likely been staying profitable along with KEC and contributing positively to consolidated profits.

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



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

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



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

- **Founded by certified public accountants**

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.**

The Company's financial standing is firm, rich in cash and debt-less. While its sales are Y13 billion (last fiscal year's result) and total assets are Y30.6 billion, it has Y17.8 billion in cash and deposits, which is equivalent to 58% of total assets and 16.5 months' worth of average monthly sales (values as of the end of March 2023).

In addition, it owns more than Y3 billion in securities, which are mainly corporate bonds and listed stocks.

- **FCF is positive. Cash & deposits are increasing and exceeding annual sales. Its financial standing its firm.**

Its free cash flow (FCF) has been positive except during a certain period, and cash and deposits on the balance sheet (B/S) have been generally increasing (Figure 4). Regarding the financial ratios, its equity ratio is 56.9% and current ratio is 208.9%, indicating financial soundness (values as of the end of March 2023).

【Figure 4】Change in Cash Flow (CF) (unit: million yen)

Unit: million yen	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Operating CF ①	627	488	141	847	1,048	547	1,427	1,533	1,270	2,141	3,328	1,632	3,684	2,641
Investing CF ②	-405	-127	185	-407	-750	-606	-627	-395	1,715	-80	-719	253	708	-308
Financing CF	-207	-210	-205	-215	-216	-284	-214	-215	-216	-572	-225	-355	-254	-606
FCF (①+②)	222	361	326	440	299	-60	800	1,137	2,985	2,061	2,609	1,885	4,392	2,333
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	17,819

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary
(Note) Cash and deposits shown are values from the balance sheet, not values used in the CF calculation.

◆ Business Philosophy

- **The Group's basic business policy is to "aim for a more rational business management with clear vision."**

The Company's business philosophy was clearly declared as "customer-first" when it made its first public offering in March 1994. Then, in 2010, it laid out its mission statement, the three key ideas of its business philosophy, and 34 rules for the code of conduct, and announced that the basic business policy of the PCA Group is to "aim for a more rational business management with clear vision."

- **The mission statement is to "contribute to society by developing and providing packaged enterprise system software that enables high-level automation."**

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

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

◆ Renewed Tagline and Product Brand

Tagline

- **The new tagline is "When WORK Changes"**

As the new brand message, the tagline was renewed to "When WORK Changes." Aspiring to become a company that grows together with all its customers and partners, it aims to help improve back-office productivity, understand and support the working people, and contribute to its corporate customers' customer success for their greater development (Figure 5).

【Figure 5】New Tagline

【Figure 6】New Brand Logo

(Ref) Website

Branding

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

In January 2022, the Company rebranded the names and logos of its products and services. It created new product names and logos linked with PCA Cloud and PCA Subscription[3]. Through these changes, it aims to raise its brand recognition as *PCA of subscription services* (Figure 6). The following is the meaning of the logo:

> The "P" in PCA is "P" as in "Professional." It is also the "P" as in "Person" and "Partner." It's not just the creators of the accounting software, but also the people who use it and the people who connect the creators and the users. We are committed to ensuring that the power of each and every working person will help companies, the economy, and the society evolve always toward a bright future. From foundation until now, the logo of PCA has been alongside each and every worker, with the reassuring face of a person looking toward tomorrow in the middle of each "P."

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

2. Business Description and Business Model

◆ Enterprise System Software Crucial for Efficient Business Operations

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

The Company's core business is enterprise systems that support internal business operations. Unlike systems that simply work on PCs, 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, convenient, 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 characteristics, operations, management styles, and other specific needs.

As for original software development and implementation, outsourced development and in-house development are the two methods. 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 greater, and it will need 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.

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.

(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

Additionally, the Company has not just been developing and selling enterprise system software, but it has also been expanding its business by providing proposal-based consulting services. 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.

◆Highly Maintainable Business Model with High Marginal Profit Ratio

- **Provides about 26 types of originally developed, packaged enterprise system software**

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.

- **80% of sales come from originally developed products and services.**

Its original products and services (products/maintenance/cloud) account for 80% of total sales, while the remaining 20% 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 credibility and proven track record are necessary.**

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 proactively or frequently replacing their current software with an alternative of a different company.

Therefore, customer loyalty and contract repeat rates are high (50% to 90% or greater depending on the type of software). The barrier to market entry is high because credibility and brand recognition are a must in this industry and since companies have been able to adjust toward coexistence within the market to a certain extent by taking strong positions in different niches.

◆Expansion of the Highly Stable and Profitable Subscription Businesses

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

Until FY2016, sales and profit/loss had been disclosed for the four business segments of "for ordinary companies," "for non-profit organizations," "medical," and "cloud." Since FY2017, though, all business segments have been consolidated into one. Instead, sales are disclosed for five sales categories (types): "products," "merchandise," "maintenance service," "cloud service," and "other operating revenue" (also called "solutions") (Figure 7). Profit and loss by segment are no longer disclosed.

【Figure 7】Sales Classification (by category)

Sales Classification by Category	Contents	FY2023 (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.)	1,149	8.9	About 65%
Merchandise	Sales of other companies' products such as ledger sheets	577	4.5	About 30%
Maintenance Service	By signing up to PSS membership, users can receive inquiry and support services from call centers	3,327	25.6	About 75%
Cloud Service	Subscription service for software provided via the cloud	5,956	45.9	About 65%
Other Operating Revenue	Sales of other companies' products such as software/hardware combined with its original products; also called "solutions"	1,969	15.2	About 54%
Total & Average		12,981	100.0	Result: 62.0%
Reference		Estimated weighted average: 62.3%		

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and interview. Gross margins have been estimated by Alpha-Win.
(Note) Maintenance service and cloud service are the subscription-based businesses.

- **Subscription-based businesses (maintenance & cloud) account for about 72% of 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 FY2023, sales of the cloud service were the largest among the sales categories, followed by maintenance service. The sum of these two categories, or subscription-based revenue (also called the "stock business" in Japanese), accounts for about 72% of 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 greater stability in terms of management and profit.

On the other hand, sales of products and solutions (other operating revenue) tend to be impacted by event-driven high demand, replacement cycles, and version upgrades.

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

The Company has commented that the profit margins of each operation type of software do not greatly differ between one another, but the main accounting software is generally the most profitable.

The percentage of new software sales or version upgrade sales in 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 sales of packaged software 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 software. However, as the Internet became more sophisticated and widely used, it predicted that the demand for cloud services will rise due to its convenience and cost performance. Therefore, in 2008, the Company started providing cloud 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 and obvious top player, the Company has a high competitive edge.**

In the cloud business, users pay fees continuously for some span to use the software (subscription model). Like the maintenance service, it is attractive as a stable, subscription-based business model (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 the top player for cloud-based, enterprise system software targeting small/medium-sized companies. In recent years (2017-2018), its competitors have also entered the cloud market in full scale as their "first year of the cloud." However, due to the advantages and points of differentiation listed below, the Company is expected maintain a competitive edge against its competitors 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 21,000 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 service (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).

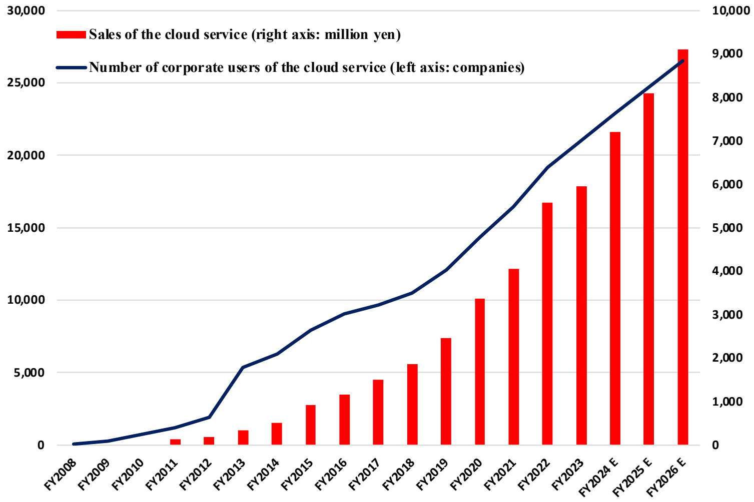
(6) API (Application Programming Interface): Interface/network to use software; connects the software and the program.

(7) Kintone: Cloud service for building business app on a web database, provided by Cybozu. Allows easy system building 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.

The Company has been focusing on cloud services for more than a decade, and both the number of corporate users and sales have been growing steadily (Figure 8). The growth rate has slowed with the expansion of business scale, but this is most likely partly in reaction to the event-driven high demand in the previous fiscal year (the shift from the X series, or the Company's previous products, to the PCA Cloud). Both the sales and the net increase in the number of users have been recovering on a quarterly basis (Figure 25 on page 29) and the business will most likely continue to serve as the growth driver.

【Figure 8】Change in the Number of Corporate Users of PCA Cloud (nonconsolidated figures) and Consolidated Sales of the Cloud



(Ref) Prepared by Alpha-Win Research Dept. based on the Company's financial results briefing materials and interview. "E" represents estimates/forecasts made by Alpha-Win Research Dept.
(Note) Sales from FY2008 to FY2010 are not disclosed. The number of corporate users of the cloud service includes estimates.

◆ **The PCA Hub services, centered on PCA Hub eDOC, were started in March 2022. Cloud service for document management that also supports the Electronic Books Preservation Act.**

◆ PCA Hub Series

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

The concept of the PCA Hub series is "supporting companies and the 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 has been released (PCA Hub eDOC is a part of the PCA Hub services).

PCA Hub eDOC is an online storage service (cloud-based document management service) that enables companies to safely and securely share important business data and files internally. Also linked with the PCA DX series and the hyper[9] series, it is a tool for optimizing operation efficiency.

It enables the digitization and paperless operation of fund management, accounting management, labor management, and so on. It also supports the

(9) (PCA) hyper: New software for mid-tier companies as a successor to Dream21. A superior version of the DX series. A company can choose flexibly between the on-premises or the cloud version, depending on its stage of growth. Its unique feature is that smooth linkage can be made with other systems using API, allowing streamlining of data management within a corporate group (consolidated accounting).

(10) [The revised] Electronic Books Preservation 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. Its grace period will end at the end of 2023.

(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 Preservation Act and certifies those that have been judged to meet the legal requirements.

- **The PCA Hub series is a service based on monthly subscriptions. Aiming for 2,000 users within 1 year after release (total of the entire 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.

requirements of the Electronic Books Preservation Act[10] and has acquired the JIIMA certification.

Following PCA Hub eDOC, the PCA Hub eDOC AI-OCR Option was released in November 2022 as part of the PCA Hub series (see Figure 9 for the lineup of the PCA Hub series).

In addition to this, in March 2023, the Company released web-based delivery 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.).

The PCA Hub series are cloud-based subscription services that charge monthly fees and are highly scalable. Each service has price plans based on options such as the number of users, storage amount, the number of employees, and the number of invoices created, providing a pricing structure that lowers the hurdle of starting software use.

The Company aims to gain a total of 2,000 corporate users within one year after the release of the current three services (eDOC, Invoice, and Pay Slip) (sales target not disclosed). Although it used to purchase and sell other companies' software, treating them as the solutions business, it now plans to sequentially develop products in response to customer needs, switching to its original products and providing various peripheral services as the PCA Hub series. The Company intends to develop this business into a stable revenue source.

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.

【Figure 9】Lineup of the PCA Hub Series and the Release Schedule Including the Conventional Products

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 Preservation 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	Released / Service started	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	Released / Service started	Service specialized in web-based pay slip delivery. Calculation results of the PCA Salary 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	Current main products	Planned to become compatible with the new invoicing 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 disclosed	Various peripheral services for PCA Hub	Release planned	Services for labor-related processes, tax declaration, etc. (details not disclosed)

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

3. Shareholder Composition

◆ Change in Composition by Type of Shareholder

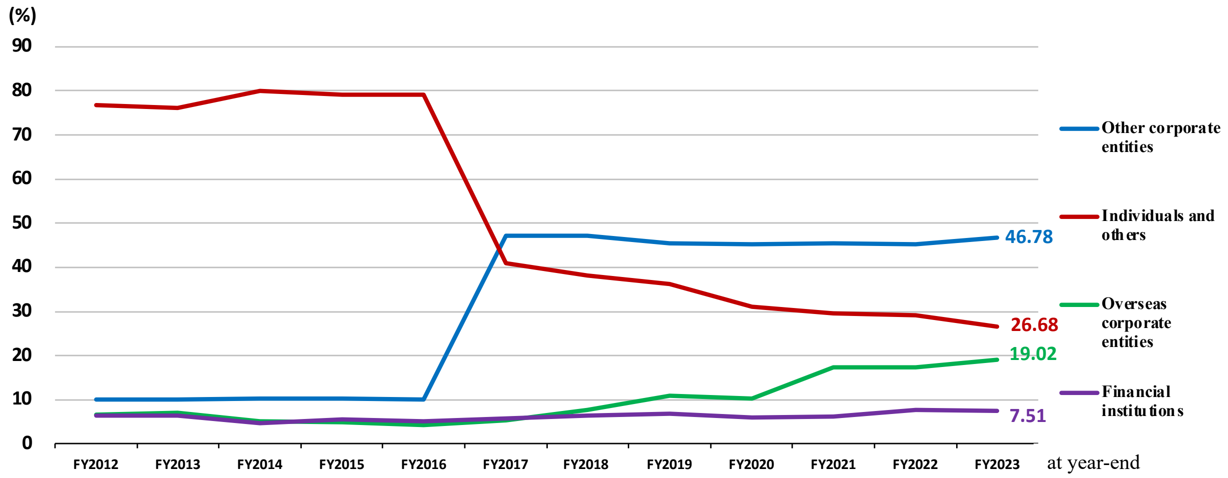
◆ **No large change to the proportion of each type of shareholder**

Regarding shareholder composition by shareholder type as of the end of March 2023 (Figure 10), the sum of "other corporate entities" and "individuals and others" (including treasury shares) accounts for greater than 70% of the total. There has been no large change compared with the end of FY2022, with the proportion of "individuals and others" decreasing by about 2 percentage points to about 27%, "financial institutions" staying about the same at about 8%, and "overseas corporate entities" rising by about 2 percentage points to 19%.

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

Note that upon inheritance from the founder (Masao Kawashima), individually owned shares were transferred in FY2017 to the general incorporated association Kawashima Co., Ltd. (the founder family's asset management company, categorized under "other corporate entities").

【Figure 10】Change in Shareholder Composition by Type of Shareholder (unit: %)



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

◆ Major Shareholder Composition

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

Major shareholders as of the end of March 2023 are shown in Figure 11 on page 16. Compared to the end of March 2022 (the same point of comparison applies below), shares held by the top ten major shareholders have not largely changed except for the custodians (trust banks) and the Employee Stock Ownership Plan.

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

・The largest shareholder Kawashima Co., Ltd. (hereinafter, "Kawashima") is the asset management company of two directors of the Company (President Sato and Director Kumamoto) and their relatives (descendants to the founder Masao Kawashima). Its shareholding ratio remains unchanged at approximately 41% (ratio to total outstanding shares excluding treasury shares; the same applies hereinafter).

◆ **PCA owns 9.1% of its own shares and is essentially the second largest shareholder.**

・The Company itself has long been essentially the second largest shareholder (although not listed among the major shareholders). After Kawashima had indicated its intention to sell a part of its shares, the

Company acquired additional shares through a tender offer and other means. Currently, the treasury shares currently owned by the Company is approx. 9.1% of all outstanding shares.

【Figure 11】Current Major Shareholders

Unit for shares owned: thousand shares **For proportions and ratios: %**

Units: thousand shares for the number of shares owned and % for the ratios and proportions	End of Mar. 2015	End of Mar. 2016	End of Mar. 2017	End of Mar. 2018	End of Mar. 2019	End of Mar. 2020	End of Mar. 2021	End of Mar. 2022	End of Mar. 2023	Shareholding Ratio	Ranking	Change (2023 minus 2022)
Kawashima Co., Ltd.	–	–	8,805	8,805	8,208	8,205	8,208	8,208	8,208	41.04	1	0
PCA CORPORATION (treasury shares)	*2,544*	*2,544*	*2,544*	*2,546*	*3,146*	*3,136*	*3,101*	*3,101*	*2,001*	*9.10*	—	-1,100
JP MORGAN CHASE BANK 385632	–	–	–	–	–	–	1,014	1,399	1,399	6.99	2	0
The Master Trust Bank of Japan, Ltd. (trust account)	–	–	–	–	–	–	284	1,137	948	4.74	3	-189
MSIP CLIENT SECURITIES	–	–	–	–	–	885	886	886	886	4.43	4	0
Obic Business Consultants Co., Ltd.	762	762	762	762	762	762	762	762	762	3.81	5	0
FCP SEXTANT AUTOUR DU MOUDE	–	–	–	–	–	–	–	377	450	2.25	6	73
PCA Employee Stock Ownership Plan	330	357	381	381	406	300	337	349	392	1.95	7	42
Logic Systems Co., Ltd.	342	342	342	342	342	342	342	342	342	1.71	8	0
Nagoya PCA Co., Ltd.		300	300	300	300	300	300	300	300	1.50	9	0
APPLIED SYSTEM LABORATORY Inc.			258	258		258	–	260	260	1.29	10	0
State Street Bank and Trust Company 505001	732	747	798	798	521	–	–	–	–			
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	–	–	–	–	–	–	–	–			
Proportion (%) of Treasury Shares to All Outstanding Shares	11.0	11.0	11.1	11.0	13.6	13.6	13.4	13.4	9.1			

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. (Note) The number of shares has been retroactively adjusted for the 3-for-1 stock split conducted in October 2021.

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

・The shares owned by the second largest shareholder, JP Morgan Chase Bank, have not changed.

・The shareholding ratio of the third largest shareholder, the Master Trust Bank of Japan (trust account), fell from 5.7% to 4.7%. Meanwhile, the shareholding ratio of the fourth largest shareholder, MSIP CLIENT SECURITIES, has not changed.

・Although there are trust banks and custodians among the major shareholders, including those mentioned above, their final investors and investment purposes are unknown. However, they are most likely for purely investments by Japanese and overseas institutional investors and funds.

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

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

MFS is one of the oldest investment firms in the US. It invests globally and its AUM is 547.5 billion dollars (approx. 72 trillion yen as of the end of December 2022). Characterized by a long-term and active investment style, it also has an office in Japan and currently invests in many Japanese equities.

Although MFS is not included in the list of major shareholders shown in Figure 11, it is presumably investing through several accounts including JP Morgan Chase Bank at second place (ranking excluding the Company and its treasury shares; the same applies hereinafter) and MSIP at fourth place.

◆ **The Japanese investment trusts investing in the Company are mainly index funds.**

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

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

・The fifth largest shareholder, Obic Business Consultants Co., Ltd. (OBC; listed on TSE Prime; securities code 4733), is a competitor with whom the Company has no transactions. There has been no change in the number of shares held.

◆ **A French investment fund is also a major shareholder.**

Shareholding ratio of the sixth largest shareholder, FCP SEXTANT AUTOUR DU MONDE, increased from 1.9% to 2.3%. It is an equity investment fund managed by the French company Amiral Gestion (an independent asset management company founded in 2003 and focused on long-term investments; total investment amount of 3.5 billion euro). The fund invests in equities of OECD and emerging countries. The fund managed by this firm is also a major shareholder of several listed Japanese companies.

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

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

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

4. ESG and SDGs

In consideration of the sustainability of the environment, society, and economy, the Company works on the following initiatives from the perspectives of ESG and business sustainability (SDGs).

◆ Environment

- **Promoting paperless operations and energy saving**

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

◆ Society

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

As its mission statement, the Company has declared to "support customers' businesses through enterprise system software." The concept is that it is fulfilling its social responsibility by contributing to the improvement of user convenience and efficiency. With services centered on the PCA Cloud, the Company has realized labor reduction and automation for data entry operations. It has been releasing various services over the years for the productivity improvement of back-office operations and for business continuity planning against disasters and other risks, as well as services using AI. In this way, it aims to support rational management and safe business operation by its users (small/medium-sized companies) based on their data, as well as supporting their transformation into a digital company.

- **Proactively supporting people with physical disabilities and the discovering/developing of IT talents**

The Company also provides various support such as helping discover and develop talented programmers who will create the future, promoting sports such as marathons, and hiring people with physical disabilities.

- **Working on improving the working/workplace environment**
- **Certified as the 2023 Health and Productivity Management Outstanding Organization (Large enterprise Category)**

In addition, under the concept that the enhancement of the working environment of each individual will lead to the sustainability of the Company as a whole, it has been focusing on promoting new work-styles using the technologies and other expertise that it has cultivated through its business activities. These include promoting the work-life balance, introducing and encouraging remote work, and enabling employees to have side jobs. It was certified as a 2023 Health and Productivity Management Outstanding Organization (Large Enterprise Category) as an excellent corporation working on health management in the Health and Productivity Management Outstanding Organization Recognition System sponsored by the Ministry of Economy, Trade, and Industry and Nippon Kenko Kaigi.

Pursuant to the Act on Promotion of Women's Participation and Advancement in the Workplace and the Act on Advancement of Measures to Support Raising Next-Generation Children, the Company has been working on raising the percentage of female managers, raising the paid holiday acquisition rate, providing financial support for child rearing, and promoting the acquisition of annual paid holidays.

◆ Governance

- **Of the total of 11 directors, two are women. Six are external directors and auditors.**

For internal control, the Company has set up an internal audit office that directly reports to the president, which is managed also in coordination with the external directors. It has also set up a risk control committee with the president as the chairperson and has created a risk control system that enables flexible, quick, and appropriate response to risks. It has not adopted an executive officer system. There are a total of 11 directors, including seven directors (reduced by one; three external directors) and four auditors (three of whom are external auditors, including a tax accountant, a certified public accountant, and a lawyer). Of these directors, two are female directors (after resolutions at the general meeting of shareholders).

5. 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 a service. Instead of the user installing the software, the vendor hosts 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 weakened during a period, but then recovered in a V-shape.**

◆ 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 promising future of computers 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 sales of packaged software for PCs.

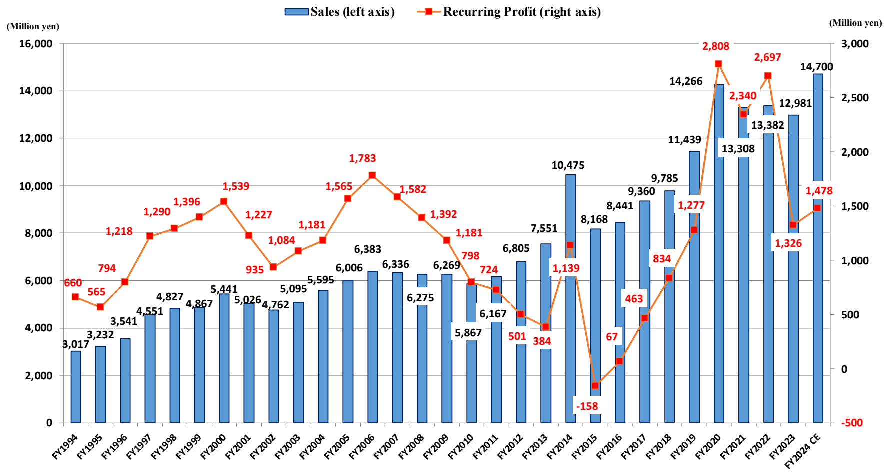
Then, with the emergence of the PC era, the Company has grown mainly through the following four strategies: 1) creation of a greater variety of packaged software for Japanese customers as well as their version upgrades, 2) expansion of the maintenance service, 3) development of the cloud business, and 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. 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 sales of enterprise system software and related businesses. The transition in financial performance since its first public offering is described in Figure 12. The following is supplemental information on the financial results in chronological order.

【Figure 12】Long-Term Transition in Financial Results



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. Estimate/forecast (CE) for FY2024 is from the Company's plan.

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

- **Record-high net profit achieved in FY2000 owing to the high demand stimulated by the year 2000 problem.**

・Record-high net profit (Y937 million) of the time was achieved in FY2000, thanks to the sales growth from the high demand brought by the year 2000 problem. The consecutive decline in sales and profit from FY2001 to FY2002 occurred in reaction to this high demand as well as due to the economic downturn.

- **In FY2006, record-high operating/recurring profits were posted thanks to regulation revisions and ERP.**

・In FY2006, record highs of the time were achieved for operating profit and recurring profit (Y1,747 million and Y1,783 million, respectively). These record highs were due to the demand stimulated by the revision of the accounting regulation for public benefit corporations and the drastic change in regulations caused by the new Companies Act, as well as due to the improvement in profitability thanks to the Company's ERP[14] (integrated enterprise system) product, Dream 21.

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

・The sales decline for four consecutive years from FY2007 to FY2010, as well as the profit decline for seven consecutive years from FY2007 to FY2013, was caused by the decrease in demand due to the post-Lehman-collapse economic downturn and the increase in personnel, R&D, and sales promotion expenses, as well as by worsened profitability due to intensified competition.

- **Results weakened after the Lehman's collapse. In FY2014, record-high sales were posted due to an event-driven high demand, achieving Y10 billion in sales.**

・In FY2014, record-high sales (Y10,475 million) were achieved thanks to the high demand driven by two events: the end of Windows XP support (support ended in April 2014) and the change in consumption tax (from 5% to 8% in April 2014). The large growth of the cloud service also contributed to the record-high sales.

- **Net loss posted for two consecutive fiscal years in FY2015 and FY2016, partially in reaction to the previous event-driven high demand.**

・Despite efforts to cut down on cost, a net loss was consecutively posted in FY2015 and FY2016 (net loss for the year: Y207 million in FY2015 and Y93 million in FY2016) due to the sales decline in reaction to the high demand stimulated by the two events as described above and the postponed revision of consumption tax to 10%.

・For many years, the Company's gross margin and operating margin had been gradually decreasing (Figure 13 on page 21). This was due to intensified price competition among packaged software makers during the economic downturn, worsened product mix from a rise in the percentage of other companies' less-profitable goods, and higher costs, especially labor costs, various expenses (subcontracting costs), and R&D expense.

- **Positive effects of the structural reform have started to be seen in FY2016 onward.**

・However, since FY2016, the Company has been increasing sales again and the decline in gross margin has stopped. Operating margin bottomed out and began to gradually increase thanks to increased sales of the new products and the cloud service as well as cost reduction. The Company also saw positive results from the structural reform that it had been working on for several years, including the disposal of assets with impairment risk (real estate and securities) and shortened software amortization period.

- **Growth of the cloud business, release of new products, and cost reduction have helped with its performance. Operating margin improved.**

・Its growth and recovery in financial performance after this were supported by sales growth of the cloud and maintenance services and cost reduction.

◆ **Turned to sales/profit growth trend starting in FY2016. Stabling posting a net profit. V-shaped recovery of results.**

◆ **Significant sales/profit growth in FY2020 due to the high demand stimulated by the consumption tax revision and the end of Windows 7 support. Posted record-high sales and profits.**

◆ **Financial results are largely impacted before and after event-driven demands.**

◆ **For the past seven fiscal years, its profit results have exceeded its initial plan. In the past, revisions to financial forecasts have often been announced in September or January to April of the following year.**

(15) [New] revenue-recognition standard: Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) and other standards set by the Accounting Standards Board of Japan (ASBJ), which incorporate the concepts of IFRS-15. Large companies have been required to apply this standard starting in April 2021.

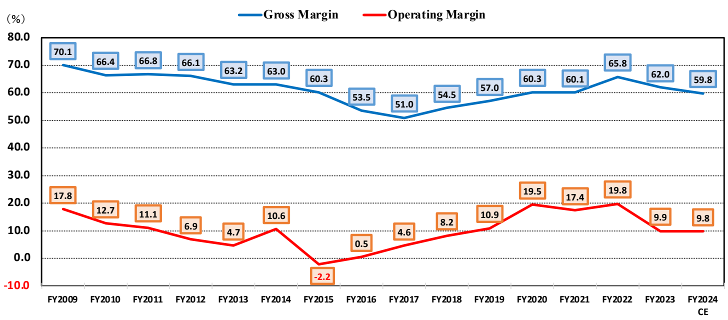
・ From FY2016 to FY2020, the Company increased sales for five fiscal years in a row thanks to the continued growth of the cloud service, the release of the new products, and strengthened sales force, as well as due to economic recovery. Since FY2017, the Company has recovered in a V-shape and has been stably posting a net profit.

・Especially in FY2020, thanks to event-driven high demand (rise in the consumption tax rate, end of Windows 7 support, and version upgrades related to the change in the name of the era created an early demand), sales and profit grew significantly, hitting their record highs (sales, operating profit, and recurring profit).

・In reaction to this event-driven high demand, sales and profits turned to a decline in FY2021. In FY2022, although there was a negative impact from the change in the revenue-recognition standard[15], sales and operating profit became the second highest in the Company's history due to the high replacement demand in response to the end of support for its older products (record high was only achieved for net profit, with the gain on sales of securities). In reaction to this event-driven demand for the products, sales and profits declined in FY2023.

As reference, the Company's past initial forecasts and actual results over the years were compared (Figure 14). Since FY2017, the profit results have tended to exceed the initial plans/forecasts made at the beginning of fiscal years. Note that past announcements of revisions to financial forecasts have often been made in September or January to April of the following year.

【Figure 13】Long-Term Transition in Gross Margin and Operating Margin



【Figure 14】Comparison of the Company's Initial Financial Forecast and Actual Results over the Years

Consolidated	Sales		Operating Profit		Recurring Profit		Net Profit Attributable to Owners of the Parent (hereinafter "net profit")		Sales	Operating Profit	Recurring Profit	Net Profit	Sales	Operating Profit	Recurring Profit	Net Profit
Unit: million yen	*Initial forecast*	Actual result	*Initial forecast*	Actual result	*Initial forecast*	Actual result	Initial forecast	Actual result	Difference from initial forecast				YoY change in actual results			
FY2001	-	5,026	-	1,224	-	1,227	-	695	-	-	-	-	-	-	-	-
FY2002	*5,634*	4,762	-	925	*1,215*	935	-	533	-15.5%	-	-23.0%	-	-5.3%	-24.4%	-23.8%	-23.3%
FY2003	*5,104*	5,095	-	1,073	*1,015*	1,083	*589*	576	-0.2%	-	6.7%	-2.2%	7.0%	16.0%	15.8%	8.1%
FY2004	*5,521*	5,595	-	1,170	*1,125*	1,181	*653*	682	1.3%	-	5.0%	4.4%	9.8%	9.0%	9.0%	18.4%
FY2005	*6,096*	6,005	-	1,551	*1,293*	1,565	*769*	915	-1.5%	-	21.0%	19.0%	7.3%	32.6%	32.5%	34.2%
FY2006	*6,870*	6,383	-	1,747	*1,780*	1,783	*1,059*	327	-7.1%	-	0.2%	-69.1%	6.3%	12.6%	13.9%	-64.3%
FY2007	*6,860*	6,336	-	1,533	*1,550*	1,582	*922*	852	-7.6%	-	2.1%	-7.6%	-0.7%	-12.2%	-11.3%	160.6%
FY2008	*6,790*	6,274	*1,321*	1,325	*1,365*	1,391	*812*	644	-7.6%	0.3%	1.9%	-20.7%	-1.0%	-13.6%	-12.1%	-24.4%
FY2009	*6,800*	6,268	*1,294*	1,117	*1,360*	1,181	*809*	680	-7.8%	-13.7%	-13.2%	-15.9%	-0.1%	-15.7%	-15.1%	5.6%
FY2010	*6,500*	5,867	*1,141*	744	*1,200*	797	*714*	436	-9.7%	-34.8%	-33.6%	-38.9%	-6.4%	-33.4%	-32.5%	-35.9%
FY2011	*5,908*	6,166	*878*	686	*927*	724	*519*	411	4.4%	-21.9%	-21.9%	-20.8%	5.1%	-7.8%	-9.2%	-5.7%
FY2012	*6,505*	6,805	*806*	468	*835*	501	*381*	75	4.6%	-41.9%	-40.0%	-80.3%	10.4%	-31.8%	-30.8%	-81.8%
FY2013	*7,025*	7,550	*56*	354	*84*	383	*29*	181	7.5%	532.1%	356.0%	524.1%	10.9%	-24.4%	-23.6%	141.3%
FY2014	*8,641*	10,474	*284*	1,110	*311*	1,138	*141*	604	21.2%	290.8%	265.9%	328.4%	38.7%	213.6%	197.1%	233.7%
FY2015	*9,198*	8,168	*453*	-179	*483*	-157	*283*	-207	-11.2%	Revied down	Revised down	Revised down	-22.0%	To loss	To loss	To loss
FY2016	*8,880*	8,440	*242*	40	*272*	66	*131*	-93	-5.0%	-83.5%	-75.7%	Revised down	3.3%	To profit	To profit	To profit
FY2017	*9,731*	9,360	*165*	432	*187*	463	*51*	160	-3.8%	161.8%	147.6%	213.7%	10.9%	980.0%	601.5%	-272.0%
FY2018	*9,876*	9,785	*645*	807	*669*	834	*425*	441	-0.9%	25.1%	24.7%	3.8%	4.5%	86.8%	80.1%	175.6%
FY2019	*10,486*	11,439	*825*	1,248	*842*	1,277	*588*	906	9.1%	51.3%	51.7%	54.1%	16.9%	54.6%	53.1%	105.4%
FY2020	*12,783*	14,266	*1,478*	2,781	*1,499*	2,808	*976*	1,816	11.6%	88.2%	87.3%	86.1%	24.7%	122.8%	119.9%	100.4%
FY2021	*13,280*	13,308	*2,034*	2,314	*2,055*	2,340	*1,358*	1,668	0.2%	13.8%	13.9%	22.8%	-6.7%	-16.8%	-16.7%	-8.1%
FY2022	*12,447*	13,382	*1,866*	2,655	*1,899*	2,697	*1,192*	2,367	7.5%	42.3%	42.0%	98.6%	0.6%	14.7%	15.3%	41.9%
FY2023	*12,927*	12,981	*1,100*	1,288	*1,132*	1,326	*639*	883	0.4%	17.1%	17.1%	38.2%	-3.0%	-51.5%	-50.8%	-62.7%
FY2024 CE	*14,700*		*1,445*		*1,478*		*925*		*Ratio of This FY's Forecast to Last FY's Result ⇒*				*13.2%*	*12.2%*	*11.4%*	*4.8%*
Reference: simple average of difference (unit: %), calculated based on the longest period with data available for both sales & profits (excluding periods with loss and this FY) →									-0.5%	68.5%	39.8%	59.9%	5.1%	65.6%	45.6%	22.3%
Green highlight: Record high	Pink highlight: 2nd highest record		Yellow highlight: 3rd highest record		←All excluding this FY's forecast		Number of times revised upward:downward from initial forecast (unit: # of times)→		10:12	10:6	15:7	11:10	↑ Simple average of all periods (excluding this FY)			

(Ref) Figures 13 and 14: Prepared by Alpha-Win Research Dept. based on the financial results summary. The FY2024 forecasts/estimates (CE) are from the Company's plan. (Note) The new revenue-recognition standard has been applied starting in FY2022 (CE).

6. Business Environment

◆Trends of the Software Market

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

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

The number of small/medium-sized companies, or the Company's main potential customers, has been declining since they have been closing their businesses due to the decreasing and aging population of Japan. On the other hand, companies and organizations have been working on rebuilding or strengthening their enterprise systems, as they have been faced by an increasingly serious labor shortage and have been working on improving operational efficiency and financial performance. Although the number of small/medium-sized companies will likely continue to decrease, we predict that the size of the enterprise system software market will steadily increase over the medium to long term as the demand for software to improve business operation efficiency increases.

Current Situation: BOJ Tankan

- **The deterioration of the economic environment surrounding small, medium, and mid-tier companies has eased and the DI is flat. Software investment is still on an upward trend.**

According to the Bank of Japan Tankan in March 2023, the growth in the amount of software investment planned in 2022 by small/medium-sized companies (of all industries) was +4.5% YoY (of which, +15.0% for manufacturing and +0.8% for non-manufacturing), with growth especially expected for the manufacturing industries. In 2023, the planned investment amount has grown again at a higher growth rate of +6.2% YoY (of which, +12.5% for manufacturing and +3.7% for non-manufacturing). Mid-tier companies are showing an even more eager attitude toward software investment, with a planned growth of +17.2% (+30.0% and +14.0%, respectively) in FY2022 and +12.0% (+20.4% and +9.6%, respectively) in FY2023.

Regarding the survey on business sentiment among small/medium-sized companies, the recent sentiment was +4 in December 2022 and +3 in March 2023, and the outlook also changed from -2 to 0. The deterioration in business sentiment has eased and is trending sideways (similar for mid-tier companies).

Market Size and Growth Potential

According to the "WHITE PAPER Information and Communications in Japan" by the Ministry of Internal Affairs and Communications, the size of the packaged software market (excluding game software, embedded software, etc.) in 2017 was approximately Y1.1 trillion. With the increasing digitalization and the shift to online activities, the B2B market seems to be gradually expanding (our estimate for the annual growth rate is +4% to +5%). We also estimate the current size of the enterprise system software market in Japan specifically related to the Company's business to be approx. Y500 billion. We predict its annual growth rate to be about 3% over the medium term.

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

In the U.S., the utilization of cloud-based enterprise system software is said to be several years ahead of Japan. The adoption rate in Japan is about ½ to ⅓ compared to the US (source: "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. The cloud-based enterprise system software market may grow at a high rate of about 10-20% per year over the medium term as it replaces a part of the outsourced system development or packaged software (on-premises) market.

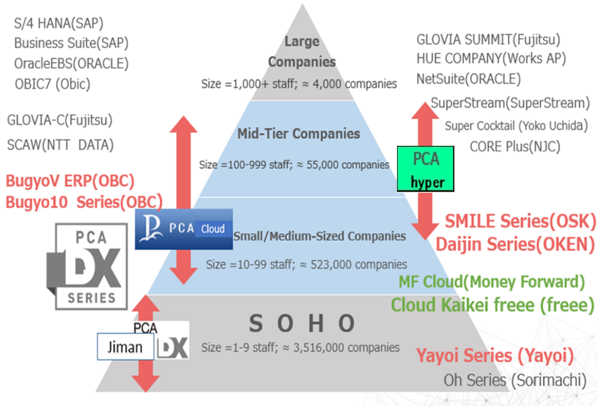
◆Comparison with Competitors

Positions and Main Players of the Industry

◆ **In the industry, companies are moving toward a certain degree of coexistence by taking strong positions depending on the user size or software function.**

Figure 15 is an overview of the various positions and main players of the industry, categorized by customer type. The players in the industry have adjusted toward a certain degree of coexistence by taking strong positions in different niches, segregated by the size of the companies/organizations that are their users or the type of operation targeted by their software.

【Figure 15】Target Customers and Main Players of the Enterprise System Software Market



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

◆ **OBC, MJS, Yayoi, OHKEN, and OSK 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; listed on the TSE Prime Market; securities code 4733) and its indirect rival is most likely Miroku Jyoho Service (MJS; TSE Prime; 9928). OBC is the greatest rival since it has a similar product lineup and business model as the Company.

In addition, the following private companies are the main direct competitors, both for the on-premises and the cloud-based software.
・Yayoi Co., Ltd.: acquired from Orix Corporation (TSE Prime: 8591) by Kohlberg Kravis Roberts & Co. L.P. ("KKR"); sales in the fiscal year ended September 2022 were Y22.1 billion; 850 employees; over 2.8 million registered users.
・ OHKEN Co., Ltd.: the DAIJIN series are the main products; independent company; sales in the fiscal year ended December 2022 were Y5.24 billion; 340 employees.
・ OSK Co., Ltd.: the SMILE series are the main products; wholly-owned subsidiary of Otsuka Corporation; sales in the fiscal year ended December 2022 were Y9.5 billion and net profit was Y1.24 billion; 468 employees.

◆ **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 flagship product, or 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 (a share of about 10%). It also seems to have a similar level of market share and position with its payroll and HR software.

- **In addition to OBC, also competing with Money Forward, freee, and Yayoi for 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 mainly 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.

Comparison of Profitability of the Three Competing, Listed Companies

- **Profit margins and capital efficiency are generally improving, but decreased in the previous fiscal year.**

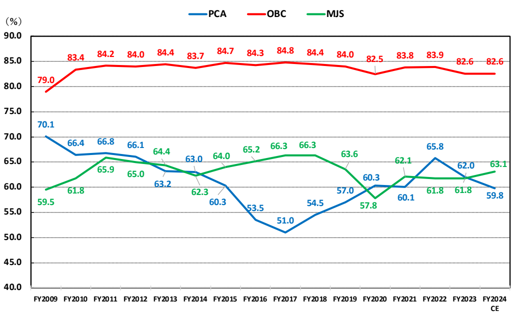
A comparison of the long-term transition in gross margin and operating margin of the three competing, listed companies (the Company, OBC, and MJS) is shown in Figures 16 and 17. Compared to the Company, both margins are stable for OBC and MJS. This is presumably due to the difference in the business model, the sales composition, and scale advantage (the sales of OBC and MJS are about 2.6x and 3.2x greater than the Company, respectively, and similarly their operating profit is about 11.4x and 4.7x greater, respectively, according to last fiscal year's results).

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

The transition in the Company's ROA and ROE, shown in Figure 18, shows that they had been significantly improving in recent years due to profit growth. In FY2023, though, the significant decline in profit caused the Company's ROA and ROE to be 4.5% and 5.1%, falling below OBC's 9.0% and 8.0% and MJS's 13.1% and 16.2%, respectively.

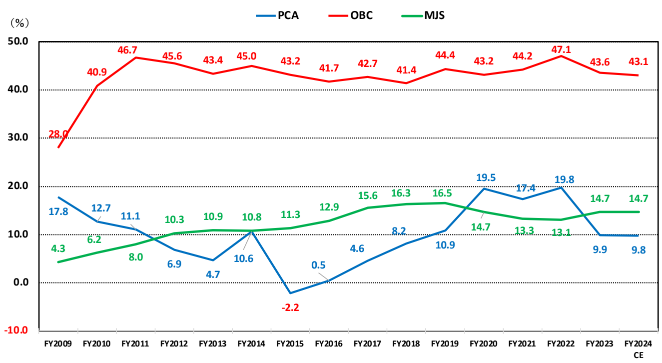
As reference, the overview of the three companies is compared in Figure 19 on page 25.

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

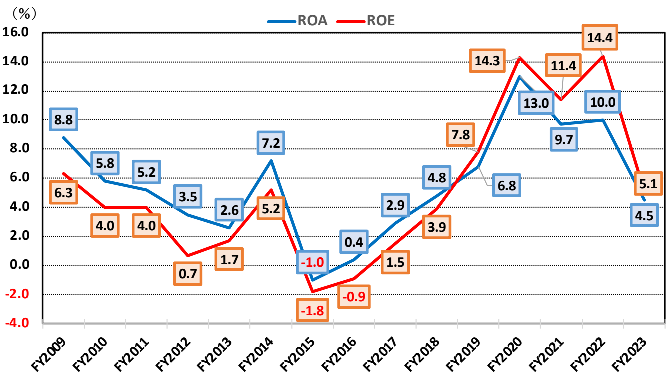


(Ref) Figures 16-18: Prepared by Alpha-Win Research Dept. based on the securities reports. Estimates/forecasts (E) are from the companies' plans.

【Figure 17】Long-Term Transition in the Operating Margin of the Three Major Listed Companies (PCA, OBC, and MJS)



【Figure 18】Transition in the Company's ROA and ROE



* For ROA, the ratio of recurring profit to total assets was used.

【Figure 19】Summary of the Comparison of the Three Competing Companies

Company Name	PCA	Obic Business Consultants (OBC)	Miroku Jyoho Service (MJS)
Code (listed on TSE Prime)	9629	4733	9928
Characteristics	Development and sales of packaged enterprise system for mainly small/medium-sized companies. Second-tier in the industry. Taking a lead in cloud services. No. 1 in industry in sales toward public benefit corporations.	Development and sales of packaged enterprise system for small/medium-sized companies. Became top-ranking in the industry from rapid growth in the early days of the OS W95, NT, etc. Highly profitable structure; largest player in the industry by profit. No. 1 in packaged software for financial accounting, payroll, HR, and labor management.	Top market share (25%) in software for accounting firms. Recently, also strengthening development/sales of software for mid-tier and small/medium-sized companies. Largest player by sales among the three companies.
Founded	Aug. 1980	Dec. 1980	Jan. 1977
Market Listing	Mar. 1994	Oct. 1999	Aug. 1992
Sales Categories/Breakdown (PCA, OBC, and MJS: FY ended March 2023)	･Cloud Service 45.9% ･Maintenance Service 25.6% ･Products 8.9% ･Merchandise 4.4% ･Solutions 15.2%	･Products 54.2% (Of which, solution technologies 44.7%) (Of which, related products 9.5%) ･Services 45.8%	･Revenue from services 34.3% (general maintenance) ･Sales from system installation contract 57.0% (Software 33.3%) (Useware 14.2%) (Hardware 9.5%) ･Other 8.6%
Sales Method	20% direct sales; 80% indirect sales through dealers/makers	Nearly 100% indirect sales through dealers, makers, etc.	Nearly 100% direct sales; toward ordinary companies, mostly direct sales through referrals by accounting firms
Number of Bases	13 sales offices; 2,000 sales partners	11 sales offices with customer service personnel; 3,000 sales partners	31 sales/support offices throughout Japan; accounting firms acting as sales partners (referrals)
Number of Active Users (approx.)	200,000 companies	200,000 companies	8,400 accounting firms; 170,000 ordinary companies
Percentage of Maintenance Service Subscription among Total Number of Active Users	Approx. 70%	Approx. 80%	Nearly 100%
Management Goals	Medium-Term Management Plan 2024 (FY2023 - FY2025) ・FY2023: Sales of Y13B (result: Y12.98B), O.P. of Y1.4B (result: Y1.3B), and O.P. margin of 10.7% (result: 9.9%) ・FY2024: Sales of Y14.7B, O.P. of Y1.4B, and O.P. margin of 9.8% ・FY2025: Sales ≥Y15B (of which, subscription-based sales ≥ Y9.5B), O.P. ≥Y2.5B, O.P. margin ≥16%, ROE ≥10%, DOE = 2.5%, and dividend payout ratio = 30%	・Focused on profit indicators. Maintaining or increasing O.P. margin and R.P. margin while increasing sales to continue to grow as a highly profitable company. ・Strengthen new sales by meeting needs (expansion of new sales and advertising strategy) ・Execute a strategy based on the cloud businesses and develop a customer success system (retain current customers)	Newly created the medium-term management plan Vision 2025 (FY2022 - FY2026). In the final fiscal year, it aims to achieve sales of Y55B (CAGR: 10.7%), R.P. of Y12.5B (similarly, 27.2%), record-high sales and R.P., and ROE of more than 20%. Conventional ERP biz: start digital marketing, shift to cloud and subscription models, secure a stable source of revenue, and achieve continuous growth. New biz: Become No.1 in Japan as integrated DX platform through which anyone can easily achieve DX to adapt to the digital, non-face-to-face era.
Business Strategy and Areas of Focus	･I. Establish a strong revenue base for the core businesses: 1) Further expansion of the cloud business with enhancement and expansion of PCA Cloud, 2) Accelerate the shift toward the subscription-based business model, and 3) Enhance customer success with digital tools. ･II. Create new business opportunities: Applied research of fundamental technologies including AI, finding and creating new areas of business, and launching the PCA Hub services ･III. Strengthen monozukuri (creation of things) with a focus on safety, security, and anticipation of needs: Digital (support DX of operations), Service (quick service development and release based on 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 toward a high-profit structure: Build and leverage the foundation for DX acceleration, strengthen IT governance and security, and build a system that enables active engagement by a diverse workforce.	Key Strategies ･Meeting needs related to regulation revisions and DX Cloud: Cloud-based DX to support the revised Electronic Books Preservation Act and the new invoicing system ･Up to Cloud: Conversion to Bugyo 11 (subscription service) following the end of support for Bugyo 10 (at the end of April 2024) ･V ERP SaaS: Release Bugyo V ERP Cloud, a SaaS for mid-tier companies ･Price strategy: Revise prices to respond to changes in the external environment, including global conditions	･"No. 1 in accounting firm network" strategy ･"Comprehensive solution business for mid-tier and small/mid-sized companies" strategy ･Integrated DX platform strategy (new biz area) ・Shift to cloud/subscription biz model ・Promote individual growth of subsidiaries through group-wide coordination enhancement ・Build HR and management foundation to accelerate strategy execution
Main Types of Enterprise System Software or the Number of Provided Products (approx.) or Services	･Approx. 26 types (by name of product; includes options) ・Originally developed with in-house platform	･13 types for the flagship Bugyo series ・Total of approx. 60-80 types by product name, including other software ・Development focused on Microsoft platform for both on-premises and cloud services	・1 module for accounting firms ・6 modules for ordinary companies (each module contains software for several operation types)
Sales (million yen): FY2024 CE	*14,700*	*37,000*	*41,600*
Gross Margin (%): FY2024 CE	*59.8*	*82.6*	*63.1*
Operating Profit (million yen): FY2024 CE	*1,445*	*15,950*	*6,100*
Operating Margin (%): FY2024 CE	*9.8*	*43.1*	*14.7*
EPS (FY2024 CE), YoY (%)	*4.8*	*5.3*	*8.8*
DOE (%): Result	2.0	3.8	5.8
Past 10 Years' Sales Growth Rate (FY2023's result divided by FY2013's result: %)	71.9	99.1	98.2
O.P. Growth Rate (same condition as above)	263.8	100.4	167.4
Equity Ratio (%): Result	56.9	78.0	53.0
# of Full-Time Employees in the Group: Actual #	643	999	1,935
Sales Per Full-Time Employee (million yen / person)	*22.9*	*37.0*	*21.5*
O.P. Per Full-Time Employee (million yen / person)	*2.2*	*16.0*	*3.2*
ROE (%): Result A=B×C×D	5.1	8.0	16.2
N.P. Margin (N.P. / sales) (%) B	6.8	32.7	9.1
Total Asset Turnover Ratio (sales / ave. total asset) C	0.4	0.2	0.9
Financial Leverage (ave. total asset / ave. owner's equity) D	1.7	1.3	1.9
ROA (R.P. / total asset) (%) E=F×G	4.5	9.0	13.1
R.P. Margin (%): Result F	10.2	47.0	14.1
Total Asset Turnover Ratio (sales / ave. total asset) G	0.4	0.2	0.9

(Ref) Prepared by Alpha Win Research Department based on financial results summaries and securities reports. Forecasts are company plans. Italics indicate the company forecasts for FY2024 and the rest are actual results of FY2023.

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

◆ Results for FY2023 (last fiscal year)

Summary

◆ **In the previous fiscal year's results, sales slightly declined while profits were halved.**

Full-year consolidated results for FY2023 were as follows: sales of Y12,981 million (-3.0% YoY), operating profit of Y1,288 million (-51.5% YoY), recurring profit of Y1,326 million (-50.8% YoY), and net profit attributable to owners of the parent of Y883 million (-62.7% YoY; hereinafter, "net profit"). Sales slightly declined, while the profits declined significantly (Figure 20).

【Figure 20】Financial Results for FY2023 **(Unit: million yen, %)**

Full-Year Results		FY2022	FY2023	Difference	% Change	FY2023	Result - Plan	Result/Plan	FY2023	Result-Forecast	Result/Forecast	FY2023
Unit: million yen		Results	Results	YoY: million yen	YoY: %	Company Forecast	Diff: million yen	Diff: %	Alpha-Win's Forecast	Diff: million yen	Diff: %	Initial Company Forecast
Consolidated Sales		13,382	12,981	-401	-3.0	13,008	-27	-0.2	12,950	31	0.2	12,927
Gross Profit		8,809	8,051	-758	-8.6	-	-	-	8,100	-49	-0.6	7,845
	Gross Margin (%)	65.8	62.0	-3.8		-	-		62.5	-0.5		60.7
SG&A Expenses		6,153	6,763	610	9.9	-	-	-	6,700	63	0.9	6,744
	SG&A Expenses Ratio (%)	46.0	52.1	6.1		-	-		51.7	0.4		52.2
Operating Profit		2,655	1,288	-1,367	-51.5	1,391	-103	-7.4	1,400	-112	-8.0	1,100
	Operating Margin (%)	19.8	9.9	-9.9		10.7	-0.8		10.8	-0.9		8.5
Net Profit		2,367	883	-1,484	-62.7	808	75	9.3	800	83	10.4	639
	Net Margin (%)	17.7	6.8	-10.9		6.2	0.6		6.2	0.6		4.9

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

Comparison with the Forecast

◆ **Sales came out be about the same level as the forecast, while the operating profit fell slightly short.**

In January 2023, the Company had upwardly revised its initial forecasts made at the beginning of the fiscal year. The results came out to be slightly short of these forecasts, excluding net profit. Sales fell short of the Company's revised forecast by Y27 million (-0.2% compared to the plan), operating profit was Y103 million lower (similarly, -7.4%), and recurring profit was Y100 million lower (similarly, -7.0%). Net profit, on the other hand, was Y75 million higher (similarly, +9.3%). Compared to the initial forecasts, both the sales and each of the profits came out to be higher (Figure 20).

Compared to our forecast, which was about the same level as the Company's, sales were Y31 million higher (+0.2% compared to our forecast), but operating profit was Y112 million lower (similarly, -8.0%). Net profit also exceeded our forecast by Y83 million (similarly, +10.4%), but this was presumably due to the difference in the estimate for deferred income taxes.

Sales

◆ **There was an event-driven high demand in FY2022.**

Factors that increased or decreased sales in FY2023 (previous fiscal year) are as shown in Figure 21 on page 27.

In FY2022 (the fiscal year before the previous), the Company estimates that there was a replacement demand (event-driven high demand) of Y1.2 billion in the first half and Y500 million in the second half in response to the end of support for the X series. This demand greatly contributed to its business results.

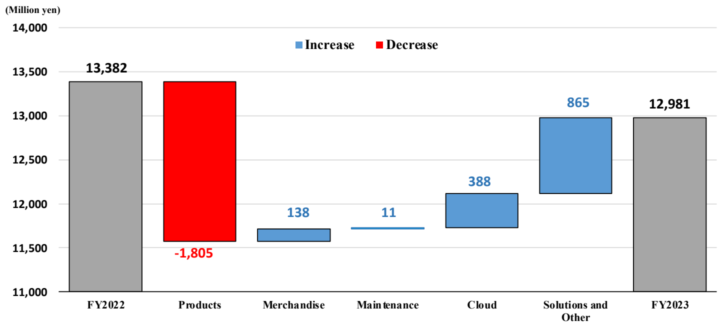
◆ **In FY2023, sales of products fell sharply in reaction to the previous event-driven high demand, but the other sales categories compensated for this decline.**

In FY2023, sales of the products declined significantly (-Y1,805 million or -61.1% YoY) in reaction to the event-driven high demand mentioned above. However, this decline was mostly offset by the sales growth of the remaining four sales categories, resulting in an overall sales decline of only Y401 million (-3.0% YoY).

◆ Solutions recovered and the cloud service continued to grow.

In FY2022, the Company could not allocate sufficient resources to sales activities for the solutions business since it needed to respond to the event-driven high demand for its products. In FY2023, though, sales efforts were strengthened. As a result, sales of the solutions rose sharply by Y865 million YoY (+78.4% YoY). The cloud service also contributed to the sales growth, with sales rising by Y388 million (+7.0% YoY).

【Figure 21】Each Sales Category's Impact on Sales in FY2023 (last fiscal year)



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

Cloud

◆ The number of corporate users of the cloud service is increasing steadily.

The number of corporate users of PCA Cloud reached 10,000 on January 11, 2018. The number has then been increasing from 12,070 at the end of March 2019 to 14,327 at the end of March 2020 (+2,257 YoY), 16,444 at of the end of March 2021 (+2,117 YoY), 19,152 at the end of March 2022 (+2,708 YoY; the largest net increase ever), and 21,022 at the end of March 2023 (+1,870 YoY) (Figure 22; the eventual goal is to achieve 80,000 users).

◆ The number of corporate users increased at a slower pace than in the past, but a high net growth rate has been maintained.

In FY2023, the net increase in the number of corporate users fell below 2,000 users, but this seems to have been a reactionary decline from a part of the event-driven high demand for the products in FY2022 that was reflected in the cloud service as well. The monthly rate of net increase has not changed in the current fiscal year, remaining at a high level. The Company hopes to maintain the net growth in the number of corporate users at about 1,800 to 2,000 companies per year for the meanwhile.

◆ Sales growth rate of the cloud service decreased in the previous fiscal year.

The cloud's sales have been increasing from Y2,452 million in FY2019 (+Y598 million or +32.3% YoY) → Y3,374 million in FY2020 (+Y922 million or +37.6% YoY) → Y4,057 million in FY2021 (+Y683 million or + 20.2%) → Y5,568 million in FY2022 (the fiscal year before the previous; +Y1,511 million or + 37.2%) → Y5,956 million in FY2023 (previous fiscal year; +Y388 million or + 7.0%).

◆ Upward trend for the average price per corporate user.

Since the cloud's sales include PCA Hub and PCA Subscription, a simple comparison cannot be made, but the annual sales from each corporate user (= annual sales / average number of corporate users of the PCA Cloud during the fiscal year) (unit: thousand yen per company per year) have been increasing during this period.

【Figure 22】Change in the Number of Corporate Users of the Cloud Service and the Sales of the Cloud Service (yearly change)

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

Fiscal Year	Number of Corporate Users of the Cloud Service	Cloud Service's Sales	Number of Corporate Users (companies)		Sales (million yen)		Average Annual Unit Price	Average Monthly Unit Price
	Unit: companies	Unit: million yen	% Change (YoY)	Change in Number (YoY)	% Change (YoY)	Amount of Change (YoY)	Thousand yen/ company/year	Thousand yen/ company/month
FY2019	12,070	2,452	15.0	1,570	32.3	598	217	18
FY2020	14,327	3,374	18.7	2,257	37.6	922	256	21
FY2021	16,444	4,057	14.8	2,117	20.2	683	264	22
FY2022	19,152	5,568	16.5	2,708	37.2	1,511	313	26
FY2023	21,022	5,956	9.8	1,870	7.0	388	297	25
FY2024 CE	Not disclosed	7,285	–	–	22.3	1,329	–	–

Subscription-Based Business

- **The sales proportion of the subscription businesses has increased to about 70%.**

The proportion of subscription-based revenue (total sales of the maintenance service + cloud service) to total sales, a key indicator for the Company, rose from 66.4% in the fiscal year before the previous to 71.5% in the previous fiscal year (the same order applies hereinafter). This was because the cloud's sales increased, while the products' sales declined.

- **The balance of contract liabilities has been building up steadily.**

Also, the balance of contract liabilities (advances received for the cloud and maintenance services) has increased steadily by Y929 million (+12.6%) from Y7,364 million at the end of FY2022 to Y8,293 million at the end of FY2023.

Profit

- **Lower sales of products and higher costs, including development expense, were the main reasons for the decline in profit. Gross margin declined by 3.8 percentage points.**

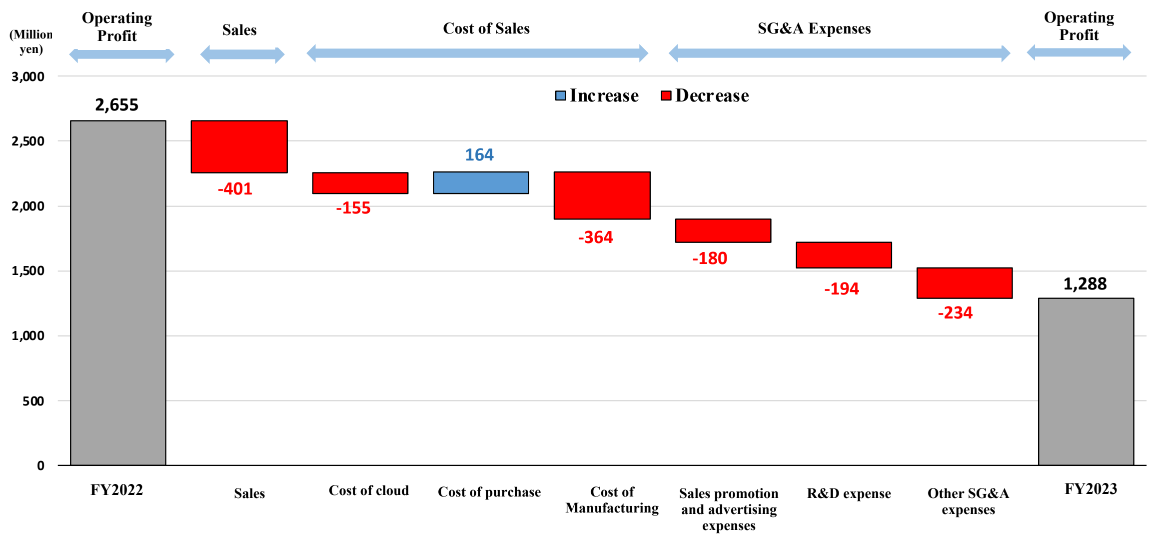
Figure 23 shows the factors contributing to the increase or decrease in consolidated operating profit in the previous fiscal year. The largest factor that caused profit to decrease was the decline in the products' sales. This was followed by the increase in the cost of manufacturing (+Y364 million YoY) due to higher labor costs (+Y170 million) and subcontracting costs (+Y380 million), and then the rise in the cost of the cloud (+Y155 million) that came with the increase in the sales of the cloud. As a result, the gross margin worsened by 3.8 percentage points from 65.8% to 62.0%.

- **In addition to the decline in gross margin, the SG&A expenses ratio increased, resulting in a decline in operating margin by about 10 percentage points.**

Regarding SG&A expenses, there was an increase in the R&D expense (Y419 million ⇒ Y614 million; about +Y194 million) and the personnel expense (Y3,287 million ⇒ Y3,533 million; +Y246 million) included in the "other SG&A expenses," and the sales promotion and advertising expenses were also increased (+Y180 million) to strengthen sales activities as the COVID-19 outbreak settled down. These caused profit to decline.

Although the overall sales decline was -3.0% YoY, the SG&A expenses increased by 9.9% (+Y610 million), causing the SG&A expenses ratio to worsen by 6.1 percentage points from 46.0% to 52.1%. As a result, the operating margin fell by nearly 10 percentage points from 19.8% to 9.9%.

【Figure 23】 Factors that Increased/Decreased Operating Profit in FY2023 (last fiscal year)



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

Quarterly Financial Results

- **In Q4, sales and profits declined and SG&A expenses rose sharply due to increased development expense and other expenses. An operating loss was posted.**

Looking at the quarterly performance, the previous fiscal year saw a YOY decline in sales and profit from Q1 to Q3, but profit was posted for each quarter (Figure 24). In Q4, however, the Company posted a loss, starting from operating loss, despite a 6.5% increase in sales. However, due to adjustments for income taxes, a net profit was maintained in Q4 as well.

- **Gross margin declined in Q4, while the SG&A expenses ratio rose. The operating margin fell by about 4 percentage points.**

The gross margin in Q4 fell by 2.2 percentage points YoY from 62.4% to 60.2%. The SG&A expenses increased from Y1,926 million to Y2,128 million (+Y202 million or +10.4% YoY), and the SG&A expenses ratio rose by 2.2 percentage points from 59.5% to 61.7%. As a result, the operating margin in Q4 worsened from +2.8% to -1.5s%.

Note that in Q4 FY2022 and Q4 FY2023, the SG&A expenses ratio increased significantly compared to Q1 through Q3 of both fiscal years, and the operating margin declined (simple average of the operating margins from Q1 to Q3 of both fiscal years: 25.3% and 14.0%, respectively). The main reason is that the Company had strategically increased upfront investments, such as development expense, in the last quarter of each fiscal year to prepare for future growth.

- **On a quarterly basis, both the cloud service's sales and net increase in its number of corporate users are on a recovery trend.**

PCA Cloud, the key driver of the Company's business performance, has been recovering both in terms of the quarterly net increase in the number of corporate users and quarterly sales (Figure 25).

【Figure 24】Quarterly Change in Financial Performance in FY2023 (last fiscal year)

		FY2022							FY2023						
Results		Q1	Q2	First Half	Q3	Q4	Second Half	Full Year	Q1	Q2	First Half	Q3	Q4	Second Half	Full Year
Unit: million yen		(Apr-Jun)	(Jul-Sep)	Apr-Sep 2021	(Oct-Dec)	(Jan-Mar)	Oct 2021 - Mar 2022		(Apr-Jun)	(Jul-Sep)	Apr-Sep 2022	(Oct-Dec)	(Jan-Mar)	Oct 2022 - Mar 2023	
Consolidated Sales		3,328	3,281	6,609	3,535	3,238	6,773	13,382	2,954	3,209	6,163	3,370	3,448	6,818	12,981
Sales by Category	Products	935	783	1,718	745	491	1,236	2,954	241	316	557	308	284	592	1,149
	Merchandise	85	82	167	190	82	272	439	108	114	222	210	145	355	577
	Maintenance Service	820	826	1,646	833	837	1,670	3,316	838	850	1,688	800	839	1,639	3,327
	Cloud Service	1,255	1,340	2,595	1,449	1,524	2,973	5,568	1,361	1,499	2,860	1,512	1,584	3,096	5,956
	Other Operating Revenue	231	250	481	318	304	622	1,103	404	430	834	541	594	1,135	1,969
Gross Profit		2,284	2,222	4,506	2,284	2,019	4,303	8,809	1,829	2,083	3,912	2,064	2,075	4,139	8,051
	Gross Margin (%)	68.6	67.7	68.2	64.6	62.4	63.5	65.8	61.9	64.9	63.5	61.2	60.2	60.7	62.0
SG&A Expenses		1,309	1,444	2,753	1,474	1,926	3,400	6,153	1,520	1,545	3,065	1,570	2,128	3,698	6,763
	SG&A Expenses Ratio (%)	39.3	44.0	41.7	41.7	59.5	50.2	46.0	51.5	48.1	49.7	46.6	61.7	54.2	52.1
Operating Profit		975	778	1,753	810	92	902	2,655	309	538	847	493	-52	441	1,288
	Operating Margin (%)	29.3	23.7	26.5	22.9	2.8	13.3	19.8	10.5	16.8	13.7	14.6	-1.5	6.5	9.9
Recurring Profit		987	795	1,782	817	98	915	2,697	315	556	871	501	-46	455	1,326
	Recurring Margin (%)	29.7	24.2	27.0	23.1	3.0	13.5	20.2	10.7	17.3	14.1	14.9	-1.3	6.7	10.2
Net Profit		614	835	1,449	819	99	918	2,367	142	352	494	330	59	389	883
	Net Margin (%)	18.4	25.4	21.9	23.2	3.1	13.6	17.7	4.8	11.0	8.0	9.8	1.7	5.7	6.8

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

【Figure 25】Change in the Number of Corporate Users of the Cloud Service and the Sales of the Cloud Service (quarterly change)

Quarter	Number of Corporate Users of the Cloud Service	Cloud Service's Sales	Quarterly Change in the Number of Corporate Users (companies)				Quarterly Change in Sales (million yen)			
	At the End of Each Month, Cumulative (unit: companies)	For Each Quarter (unit: million yen)	% Change (YoY)	Change in Number (YoY)	% Change (QoQ)	Change in Number (QoQ)	% Change (YoY)	Change in Amount (YoY)	% Change (QoQ)	Change in Amount (QoQ)
March 2021 (Q4)	16,444	1,076	14.8	2,117	—	—	14.0	132	4.3	44
June 2021 (Q1)	非公表	1,255	—	—	—	—	31.1	298	16.6	179
September 2021 (Q2)	17,785	1,340	16.5	2,523	—	—	35.1	348	6.8	85
December 2021 (Q3)	18,578	1,449	—	—	4.5	793	40.4	417	8.1	109
March 2022 (Q4)	19,152	1,524	16.5	2,708	3.1	574	41.6	448	5.2	75
June 2022 (Q1)	19,441	1,361	—	—	1.5	289	8.4	106	-10.7	-163
September 2022 (Q2)	19,853	1,499	11.6	2,068	2.1	412	11.9	159	10.1	138
December 2022 (Q3)	20,466	1,512	10.2	1,888	3.1	613	4.3	63	0.9	13
March 2023 (Q3)	21,033	1,584	9.8	1,881	2.8	567	3.9	60	4.8	72

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

◆ PCA's Financial Forecast for FY2024 (this fiscal year)

Summary of the Full-Year Forecast

◆ **Expecting double-digit growths in sales and operating profit this fiscal year.**

The Company announced its full-year forecasts for FY2024 (the current fiscal year). It expects double-digit growths in sales and operating profit, with sales of Y14,700 million (+13.2% YoY), operating profit of Y1,445 million (+12.2% YoY), recurring profit of Y1,478 million (+11.4% YoY), and net profit of Y925 million (+4.8% YoY) (Figure 26).

◆ **First-half forecasts not disclosed.**

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

【Figure 26】 Financial Forecast for This Fiscal Year (the Company's plan and Alpha-Win's forecasts)

Consolidated (unit: million yen)		FY2023	FY2024: Company Forecast			FY2024: Alpha-Win's New Forecast		
		New Revenue-Recognition Standard	New Revenue-Recognition Standard	YoY: Diff. in amount / Diff.	YoY: % change	New Revenue-Recognition Standard	YoY: Diff. in amount / Diff.	YoY: % change
Sales		12,981	14,700	1,719	13.2%	14,700	1,719	13.2%
Sales by Category	Products	1,149	1,403	254	22.1%	1,450	301	26.2%
	Merchandise	577	547	-30	-5.2%	540	-37	-6.4%
	Maintenance Service	3,327	3,359	32	1.0%	3,360	33	1.0%
	Cloud Service	5,956	7,282	1,326	22.3%	7,200	1,244	20.9%
	Other Operating Revenue	1,969	2,107	138	7.0%	2,150	181	9.2%
Gross Profit		8,051	8,797	746	9.3%	9,000	949	11.8%
	Gross Margin	62.0%	59.8%	-2.2%		61.2%	-0.8%	
SG&A Expenses		6,763	7,351	588	8.7%	7,550	787	11.6%
	SG&A Expenses Ratio	52.1%	50.0%	-2.1%		51.4%	-0.7%	
Operating Profit		1,288	1,445	157	12.2%	1,450	162	12.6%
	O.P. Margin	9.9%	9.8%	-0.1%		9.9%	-0.1%	
Recurring Profit		1,326	1,478	152	11.4%	1,480	154	11.6%
	R.P. Margin	10.2%	10.1%	-0.2%		10.1%	-0.1%	
Net Profit Attributable to Owners of the Parent		883	925	42	4.8%	925	42	4.8%
	N.P. Margin	6.8%	6.3%	-0.5%		6.3%	-0.5%	
Annual Dividend Per Share (yen)		17.0	17.0	0.0		17.0		

(Ref) Prepared by Alpha-Win Research Dept.

Summary of the Full-Year Forecast (Sales)

◆ **Overall price revision planned.**

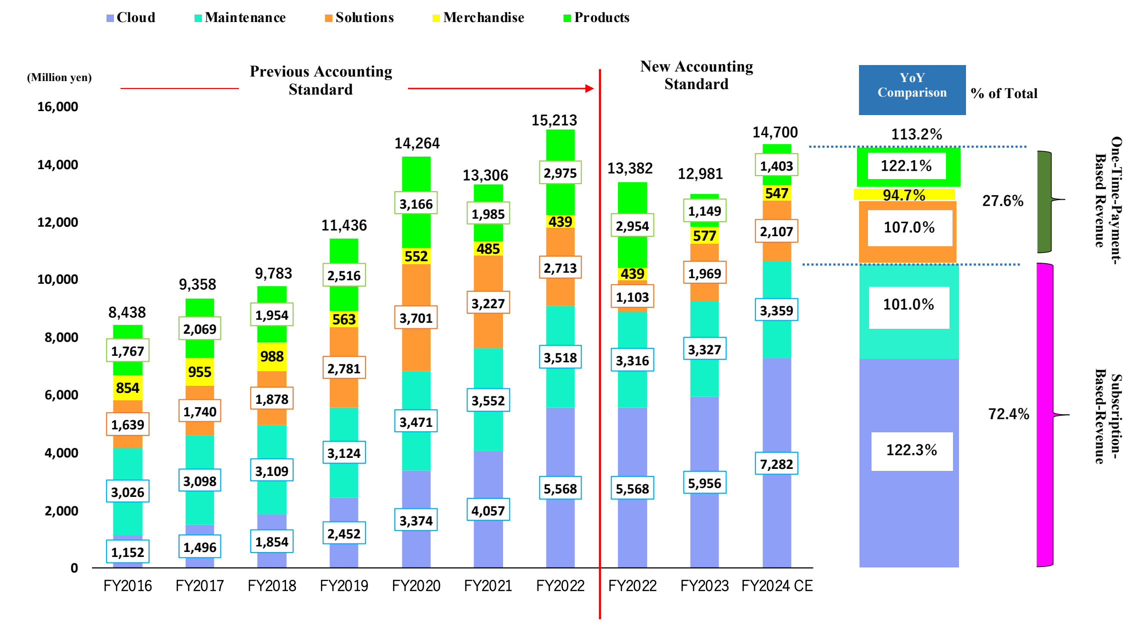
For the current fiscal year, the Company expects overall sales to grow by Y1,719 million YoY (+13.2%) due to an increase in the cloud service's sales, the overall price revision for the products and services (scheduled for July; rate of price increase not disclosed), and sales of the Hub series.

◆ **With no more reactionary decline from the previous event-driven high demand for the products and with continued growth of the cloud and solutions, the sales of the products are expected to recover.**

By sales category, the cloud service is expected to account for 77% of the overall amount of sales growth, at a sales growth of Y1,326 million (+22.3% YoY). With no longer a reactionary decline from the event-driven high demand like the previous fiscal year, this will be followed by the products' sales which are expected to increase by Y254 million (+22.1% YoY) and the solutions' sales which are expected to rise by Y138 million (+7.0% YoY), each contributing to 15% or 8% of the overall sales growth (Figure 27 on page 31). As a result, the sales proportion of the subscription businesses is planned to rise to 72.4%.

In addition, due to structural changes, the Company plans a 5.3% sales decline for the merchandise (paperless operations and digitalization) and a slight 1.0% increase in sales for maintenance (shift to the cloud).

【Figure 27】Change in Sales and This Fiscal Year's Forecasted Sales Breakdown by Category (unit: million yen, %)



(Ref) Modified and prepared by Alpha-Win Research Dept. based on the financial results briefing and financial results summary (partially edited the YoY comparison). Sales forecasts (amount; CE) are the amounts forecasted by the Company.

(Note) Since the accounting standard for the posting of sales as merchandise or solutions had been partially changed in FY2020, adjustments were retroactively made for FY2019 according to the new standard. However, for the two categories, there is no continuity with the years before FY2019. Also, starting in FY2022, the new revenue-recognition standard, etc., have been applied, and the Company has been announcing its sales forecast based on both the previous and the new standard. "% of Total" is based on the Company's forecast for FY2024.

Summary of the Full-Year Forecast (Profit)

Figure 28 on page 32 shows the factors that are expected to increase or decrease consolidated operating profit (YoY) in the current fiscal year.

- **Forecasting an increase in profit, since the sales growth is expected to absorb the upfront investment costs, including investment in new product development.**

To strengthen development of products such as the PCA Hub series for the next stage of growth, there will be increases in the cost of sales (+Y180 million YoY for labor costs and +Y660 million YoY for subcontracting costs), the R&D expense (+Y285 million YoY), and other SG&A expenses (+Y332 million YoY, including system usage fees and rent expense). However, the Company expects the increase in sales (+Y1,719 million) to absorb all of these costs, resulting in an increase in profit.

- **Gross margin and SG&A expenses ratio are both expected to decline, while the operating margin will remain mostly flat.**

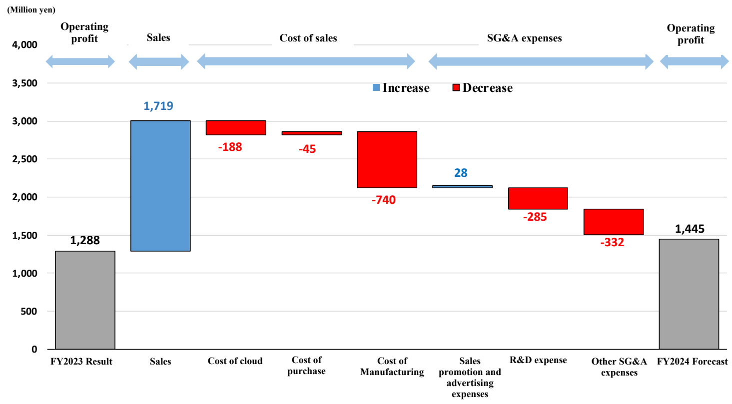
The gross margin is planned to worsen by 2.2 percentage points from 62.0% to 59.8%, in the order of the previous fiscal year to the current fiscal year (the same order applies below). However, since the rate of increase in the SG&A expenses will be kept at +8.7% YoY, which is lower than the rate of sales growth (+13.2%), the SG&A expenses ratio is expected to decrease by 2.1 percentage points from 52.1% to 50.0%.

- **Due upfront investment costs, the profit growth rate is expected to be about the same as the sales growth rate.**

As a result, the operating margin is expected to decrease by only 0.1 percentage point from 9.9% to 9.8%. Although the Company's business model has a high marginal profit ratio, it expects the sales growth rate and the profit growth rate to be about the same level this fiscal year due to upfront investment costs.

No major non-operating or extraordinary income/losses are expected this fiscal year either.

【Figure 28】Factors that Are Expected to Increase/Decrease Operating Profit in FY2024 (this fiscal year) (the Company's plan)



Prepared by Alpha-Win Research Dept. based on the financial results materials.

◆ Alpha-Win Research Dept.'s Financial Forecast for FY2024 (this fiscal year)

Summary

We reviewed our forecast for the current fiscal year, taking into account the previous fiscal year's results, the Company's plan for the current fiscal year, and the current situation (Figure 26 on page 30).

We revised our sales forecast upward from Y14,310 million in our previous forecast (February 2023 report) to Y14,700 million, which is the same as the Company's plan. Meanwhile, we also revised our profit forecasts downward to the same levels as the Company's plan.

Regarding profit, we lowered our profit margin forecast due to high levels of continued upfront investment in development and recruitment, as well as the greater-than-expected rise in cost due to inflation. We believe that the sales and profit margins in the Company's plan are generally reasonable and could be achieved through the upward price revision and cost control.

The Company's estimates for the cloud business' amount of sales growth and sales growth rate are high, but they presumably reflect the effects of the upward price revision and the sales growth of the PCA Hub series (sales expansion of the current products and release of new products) and PCA Subscription.

Risk Factors and Factors that May Cause Change

- **The risk factor is the impact of the deteriorating macroeconomy on corporate earnings and IT investment interests.**
- **Since the Company is mainly focused on subscription businesses and benefits from digitalization and work-style reforms, the risks are limited.**

The main risk factor in the medium-term financial forecast including this fiscal year is that the corporate users' business performance and IT investment interests may worsen due to the stagnation of economic activities in response to the rebound and prolongation of COVID-19, the inflation and logistics disruption caused by the Russian invasion of Ukraine, the global economic downturn, and revisions to Japan's loose monetary policy. These may cause the corporate users to refrain from purchasing products and services or postpone their implementation.

However, the conventional services of the Company's group are centered on stable subcription businesses and the Company's businesses and operations also have a high affinity with remote work and working from home. They also benefit from the digitization and work-style reforms of companies and the society. In the current fiscal year, the Japanese companies' financial performance is expected to remain strong, especially in the second half, and risks due to macroeconomic factors are expected to be limited.

- **Increasing costs, intensifying competition, and slower growth rate of the cloud service are risk factors.**

Other risks include increases in costs due to rising labor costs, personnel expense, and subcontracting costs, as well as a slower growth rate of the cloud business due to intensifying competition with competitors.

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

In addition, although presumably not included as a large part of the budget, progress may not be made as expected regarding the new services such as PCA Hub, PCA Subscription, the healthcare business, and hyper in terms of providing these service, acquiring new customers, and promoting their sales. Monetization of these new businesses will be the challenge. In particular, Dreamhop seems to be continuing to post a net loss, which is perhaps even worsening, and drastic business transformation will be needed.

- **Key points are whether there will be an event-driven high demand during this fiscal year, and also M&As in the medium to long term.**

Other factors that may impact the Company's results include the new invoicing system (October 2023) and the revision of the Electronic Books Preservation Act (January 2024). Currently, the Company is not anticipating any large, event-driven high demand, but demand may change significantly within a short time span before and after the introduction of new regulations. Their impact on sales and profit (especially on the upside) should be closely watched.

In addition, if a new M&A is conducted, whether it succeeds or not will impact business performance.

8. Growth Strategy

◆ Medium- to Long-Term Vision and Policy

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

Long-Term Vision

The PCA Group's long-term vision through FY2031, 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."

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

New Medium-Term Management Plan

The Company has been creating medium-term management plans for three-year spans and has announced a new medium-term management plan (FY2023 to FY2025) that started last fiscal year. Its medium-term basic policy is to "transform the business structure and build the foundation for continuing and developing stable businesses over the long term" and aims to "optimize the company's structure for creating customer-oriented new businesses, products, and services ahead of changes in the society."

◆ **Will execute the four priority measures.**

To provide total solution services centered on software, it has set four priority measures as shown in Figure 29 (items I through IV). Their execution status is listed in the right-hand column.

【Figure 29】Growth Strategy and Priority Measures of the New Medium-Term Plan, Including Their Progress

Themes of the Medium-Term Management Plan (FY2023 - FY2025)	Priority Strategies	Current Progress
I. Establish a strong revenue base for the core businesses	**Further Strengthen PCA's Earning Power through Continous Growth**	
1. Further expand the cloud business with enhancement and expansion of PCA Cloud	With a focus on PCA Cloud / on AWS, capture demand related to new ways of working such as remote work with flexiblity.	・Working on gaining new customers by shifting the existing customers to the cloud and focusing on digital marketing. In the first half, there was a reactionary drop from the previous high demand related to the end of support for the X series, but the demand recovered in the second half.
2. Accelerate the shift toward the subscription-based business model	With a focus on PCA Subscription, switch from sales of the packaged, on-premises products to the subscription services.	・Recommending subscription and cloud versions for new projects and to existing customers replacing their products. To customers who have not yet subscribed to the maintenance plan, suggestions are made as to how it will be helpful for the upcoming new invoicing system.
3.Enhance customer success with digital tools	Effectively meet the direct needs of customers and pursue greater customer success to raise subscription rate and customer retention rate.	・Strengthened engagement with potential customers who accessed PCA's website from channels such as digital ads. As a result, greater lead acquisition was achieved, trial usage increased, and more new customers were gained compared to the previous fiscal year.
II. Create new business opportunities	**For Developing the Next Core Busineesses and the Future** Applied research of fundamental technologies including AI (enabling linkage between core business operations and peripheral operations and automating data entry), finding and creating new areas of business (materialize ideas, seeds, and customer needs), and launching the PCA Hub services (meeting DX needs and developing as a new revenue source)	・Applied research including AI: In November 2022, a new option for PCA Hub eDOC was released - an automatic journal entry service using an AI-OCR module. Also looking into more applications in making entries other than reading images. ・Finding and creating new areas of business: Continuing to work on finding and creating new areas of business, looking into possibilities such as finding partners for product alliances, forming business alliances, and conducting M&As. Although significant progress has not been achieved yet, these activities are planned to be continued. ・Launching the PCA Hub services: Released the new services PCA Hub Pay Slip and PCA Hub Invoice as planned in March 2023. During FY2023, the next new services were investigated and a budget has been secured, which have been reflected in the development plan for FY2024.
III. Strengthen 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 operations), Service (quick 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).	・Digital (Electronic Books Preservation Act): Acquired the JIIMA certification for the PCA Accounting series in Jan. 2022, for the PCA Shokon/Shokan series in Nov. 2022, and for PCA Hub eDOC in Jan. 2023. They can now be used while meeting law requirements such as the Electronic Books Preservation Act. Planning to also acquire the certification for the fixed asset software and other services. ・Service (service development / agile):Working on shortening the overall service development process through the integration of development and testing, conducting testing from early stages in the process. Also started applying this method to the service development for the Hub series. ・Modern (browser-based): Working on further strengthening the development system to expand the service platform to browsers, not just the current focus on the Windows platform.
IV. Strengthen the management foundation toward a high-profit structure	**For Sustainable Growth** Build and leverage the foundation for DX acceleration, strengthen IT governance and security, and build a system that enables active engagement by a diverse workforce.	・Build and leverage the foundation for DX acceleration: In October 2022, a transitionwas made to a new customer management system. Information on potential customers and distribution channels can now be shared under a single system. This new system will be used to improve the acquisition of new customers and reduce customer churn for the existing customers. ・IT governance and security: Updated and strengthened the rules for IT systems and security. Providing security training widely across the PCA Group's companies, including employees, part-time staff, and temporary staff. ・Build a system that enables active participation by a diverse workforce: As part of the measures to prevent the spread of COVID-19, the working environment and system has been prepared to facilitate remote work.

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

- **The 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 basically been developed based on the previous medium-term plan. By first strengthening the subscription-based business model centered on the cloud business, and then strengthening the development and service structure, the Company plans to support the DX[16] of the operations of small/medium-sized companies.

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

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

◆ 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.**

The seven items below have been set as the numerical targets for the current medium-term management plan (the goals for the final year are for FY2025 or the next fiscal year) from the perspectives of business performance, capital efficiency, and shareholder return (Figure 30). There have so far been no changes to the targets.

Aside from the two items related to sales, all figures have already been achieved in the past, such as during periods of event-driven high demand. Therefore, they seemed at first to be realistically achievable targets.

- **Currently, the sales-related targets seem achievable, but the profit-related targets are high hurdles.**

However, a comparison of this fiscal year's forecast with the goals of the final fiscal year of the plan (next fiscal year) shows a large discrepancy, with the exception of sales and dividend payout ratio. Realistically, achieving the targeted consolidated operating profit, ROE, and DOE will especially be a challenge.

【Figure 30】Progress with the Goals of the Medium-Term Management Plan and Their Outlook

Goals of the Current Medium-Term Management Plan (FY2022 - FY2025)		FY2025: Company Plan	FY2024: Company Plan	Record High
Business Performance	• Consolidated Sales	Y15 billion or more	Y14.7 billion	Y14.27 billion (FY2020)
	Of which, sales from the subscription businesses (maintenance & cloud)	Y9.5 billion or more	Y10.64 billion	Y9.28 billion (FY2023)
	• Consolidated Operating Profit	Y2.5 billion or more	Y1.45 billion	Y2.78 billion (FY2020)
	• Consolidated Operating Margin	16% or more	9.8%	During the past 10 years: 19.8% (FY2022) During the longest period with data available: 28.5% (FY1999)
Asset Efficiency	• ROE	10% or more	5.2% (Alpha-Win's estimate)	14.4% (FY2022)
Shareholder Return	• DOE	2.5%	1.9% (Alpha-Win's estimate)	
	• Dividend Payout Ratio	30.0%	36.7%	

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials. The plan was announced by the Company.
(Note) Values have been rounded to the nearest unit.

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

- **We reviewed our medium-term financial forecasts.**

We newly added a forecast for the fiscal year after the next (FY2026) and prepared a medium-term forecast for the three fiscal years including the current fiscal year (Figure 31 on page 37). For the current and the next fiscal year's forecasts, we revised our previous profit forecasts downward.

Macroeconomic Assumptions

- **Economic activities are assumed to return to normal starting this fiscal year.**

The outlook of the macroeconomic environment is currently uncertain due to factors such as the depreciation of the yen, inflation due to soaring resource prices, and disruption of logistics. However, since the COVID-19 risk in Japan is becoming smaller, we predicted that people's lives, economic activities, corporate earnings, and IT investments by small/medium-sized companies will gradually return to normal and improve. At present, we do not anticipate any occurrence of high demand related to tax systems, accounting standards, and product versions.

Estimates Used for Sales, Expenses, and Profit

- **Reconsidered the estimates for the sales of each sales category and the costs.**

We reviewed our estimates for costs and sales by category, especially for the products, cloud, and other. We continue to predict that the merchandise's sales will decline as more companies go paperless and that the sales of maintenance service will also continue to drop due to the shift to the cloud.

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

However, we predict that due to the increase in the cloud's sales (growth of about 15-20% per year), the improvement of the product mix with the increasing proportion of the cloud, the transition of various businesses to the subscription-based business model, and the streamlining of business, the results could be controlled to some extent so that the SG&A expenses ratio will somewhat decline and the operating margin will gradually rise. Consequently, we expect profit to increase mainly due to sales growth.

- **The cloud and work management software will continue to be the growth drivers.**

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 investments, sales promotion expense, and personnel expense and contributing to the increase in sales and profits. In addition, as the COVID-19 crisis settles down, the Company should be able to start providing on-site support to its customers and conduct in-person sales like before.

Also, if the Company could put its current new businesses on track (the mental health business, PCA Subscription, and Hyper that it is struggling with) and monetize them, they should be able to more solidly support the sales and profit growth trend.

Forecast for the Next Fiscal Year (FY2025)

- **We revised downward our forecast for the next fiscal year.**

For the next fiscal year, we maintained our sales forecast at Y15,520 million, while we revised downward the forecast for operating profit from Y2,550 million → Y1,550 million, recurring profit from Y1,890 million → Y1,570 million, and net profit from Y1,130 million → Y980 million compared to our previous forecast.

- **The upward price revision is expected to fully contribute to the results, but the costs will remain high.**

We expect sales to grow steadily for the cloud, products, and solutions, with the upward price revision contributing fully to the results (will only contribute for about nine months during this fiscal year since the revision is scheduled for July). However, since the high level of upfront investment and the cost rise caused by inflation may continue into the next fiscal year, we reflected these in the financial forecast.

- **We expect that the Company will increase dividend in the next fiscal year as well in response to higher sales and profits.**

While we revised the next fiscal year's forecasts downward, we still expect continued growths in sales and profit, with a 5.6% increase in sales and a 6.9% increase in operating profit compared to our new forecast for FY2024. Also, we predict that the dividend per share will be 18 yen, increasing by 1 yen compared to this fiscal year's forecast.

- **Our forecasts are below the targets of the medium-term management plan.**

Compared to the Company's goal of the medium-term management plan to achieve sales of Y15,000 million, our forecast is Y520 million higher, but our operating profit forecast is Y950 million lower than the Company's goal of Y2,500 million. The Company would need an event-driven high demand or need to drastically cut costs in order to achieve its profit targets.

◆ **We expect increases in sales, profits, and dividend in the fiscal year after the next, too.**

Forecast for the Fiscal Year after the Next (FY2026)

We added a new forecast for the fiscal year after the next or FY2026. We predict sales to be Y16,500 million, growing by 6.3% YoY. Operating profit is expected to be Y1,650 million and net profit is expected to be Y1,040 million, both growing by about 6%. We also predict that dividend per share will be 19 yen, which is 1 yen higher than in FY2025.

◆ **We expect that the continued growth of businesses such as the cloud will lead to a sales and profit growth trend.**

Forecasted Profit Growth Rate over the Medium/Long Term

Since the cloud business (subscription business), which is the Company's core business as well as its growth driver, is based on a subscription model with a high marginal profit ratio, its sales growth is expected to directly contribute to profit growth, with the profit growth rate exceeding the sales growth rate.

◆ **Revised downward our forecast for the medium-term profit growth rate. Rising costs and delays in monetizing the new products/services have been reflected in the financial forecasts.**

Over the medium term (two to three years starting this fiscal year), we had expected that there will be a double-digit profit growth, supported by the sales growth of the cloud. However, we have revised our forecast to a 5-8% growth since the level and span of upfront investments for the next phase of growth, as well as the rise in general costs due to inflation, have been greater than expected. Also, there have been delays in the contribution of the new businesses to profit.

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

We have not changed our forecast that over the long term, upfront investments will settle down and the subscription business will drive growth so that the annual sales growth rate will be around 6-8% and the net profit growth rate will be even greater (8-10% per year), based on normalized figures excluding the effects of event-driven high demand. Going forward, the Company's growth rate will most likely be impacted by the creation and development of new growth businesses that will contribute to its earnings.

【Figure 31】Medium-Term Financial Forecast

	Units: million yen, %	FY2022	FY2023	FY2024: CE	FY2024: New E	FY2025: New E	FY2026: New E	FY2025 CE Medium-Term Plan	FY2023: Old E	FY2024: Old E	FY2025: Old E
Sales		13,382	12,981	14,700	14,700	15,520	16,500	15,000	12,950	14,310	15,520
Category	Products	2,954	1,149	1,403	1,450	1,500	1,600		1,300	1,450	1,500
	Merchandise	439	577	547	540	530	520		400	360	320
	Maintenance Service	3,316	3,327	3,359	3,360	3,370	3,380	9,500	3,250	3,150	3,000
	Cloud Service	5,568	5,956	7,282	7,200	8,100	9,100		6,200	7,400	8,700
	Other Operating Revenue	1,103	1,969	2,107	2,150	2,020	1,900		1,800	1,950	2,000
Gross Profit		8,808	8,051	8,797	9,000	9,600	10,100		8,100	8,870	9,700
Gross Margin	(ratio to sales)	65.8%	62.0%	59.8%	61.2%	61.9%	61.2%		62.5%	62.0%	62.5%
SG&A Expenses		6,153	6,763	7,351	7,550	8,050	8,450		6,700	7,000	7,150
SG&A Expenses Ratio	(ratio to sales)	46.0%	52.1%	50.0%	51.4%	51.9%	51.2%		51.7%	48.9%	46.1%
Operating Profit		2,655	1,288	1,445	1,450	1,550	1,650	2,500	1,400	1,870	2,550
Operating Margin	(ratio to sales)	19.8%	9.9%	9.8%	9.9%	10.0%	10.0%	16.7%	10.8%	13.1%	16.4%
Recurring Profit		2,697	1,326	1,478	1,480	1,570	1,670		1,420	1,890	2,570
Recurring Margin	(ratio to sales)	20.2%	10.2%	10.1%	10.1%	10.1%	10.1%		11.0%	13.2%	16.6%
Net Profit		2,367	883	925	925	980	1,040		800	1,130	1,550
Net Margin	(ratio to sales)	17.7%	6.8%	6.3%	6.3%	6.3%	6.3%		6.2%	7.9%	10.0%
Sales (YoY growth rate)		0.6%	-3.0%	13.2%	13.2%	5.6%	6.3%		-3.2%	10.5%	8.5%
Category	Products	48.8%	-61.1%	22.1%	26.2%	3.4%	6.7%		-56.0%	11.5%	3.4%
	Merchandise	-9.5%	31.4%	-5.2%	-6.4%	-1.9%	-1.9%		-8.9%	-10.0%	-11.1%
	Maintenance Service	-6.6%	0.3%	1.0%	1.0%	0.3%	0.3%		-2.0%	-3.1%	-4.8%
	Cloud Service	37.2%	7.0%	22.3%	20.9%	12.5%	12.3%		11.4%	19.4%	17.6%
	Other Operating Revenue	-65.8%	78.5%	7.0%	9.2%	-6.0%	-5.9%		63.2%	8.3%	2.6%
Gross Margin (% YoY diff.)		5.7%	-3.8%	-2.2%	-0.8%	0.6%	-0.6%		-3.3%	-0.5%	0.5%
SG&A Expenses (% growth)		8.2%	9.9%	8.7%	11.6%	6.6%	5.0%		8.9%	4.5%	2.1%
Operating Profit (% growth)		7.6%	13.3%	12.2%	12.6%	6.9%	6.5%	16.0%	-47.3%	33.6%	36.4%
Recurring Profit (% growth)		14.7%	-51.5%	11.4%	11.6%	6.1%	6.4%		-47.3%	33.1%	36.0%
Net Profit (% growth)		14.1%	-50.0%	4.8%	4.8%	5.9%	6.1%		-66.2%	41.3%	37.2%

(Ref) Prepared by Alpha-Win Research Dept. CE is the Company's forecast/estimate. E is Alpha-Win's forecast/estimate.

9. Analyst's View

◆ PCA's Strengths and Challenges

The Company's SWOT analysis has been updated and the results are listed in Figure 32.

【Figure 32】SWOT Analysis

Strength	・Brand recognition and credibility 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 stably generating 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 company for enterprise system software business targeting small/medium-sized companies; expertise; more than 21,000 corporate users of the PCA Cloud) ・High barrier to market entry ・Very experienced call center staff and engineers (support capability) ・Rich product lineup with track record; capacity to provide and develop products and services both as on-premises and by cloud ・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 due to labor shoratage and the need to streamline operation (for business software in general); work-style reform (work management system) ・Potential to develop and increase the market penetration of the cloud service (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 Preservation Act, invoicing system, changes in Windows OS, changes in consumption tax rate, 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; new companies entering the market in the low price range) ・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 subcontracting, personnel, and development costs

(Ref) Prepared by Alpha-Win Research Dep. Words in red indicate additions or revision made in this Report.

◆ **Credibility 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.**

Describing the strengths in more detail, the Company's brand, products, and services are well known thanks to its long years of service and credibility. It is especially strong in certain areas of business (such as accounting software for small/medium-sized companies). Its customers also have high loyalty toward products and services, as there is little incentive to frequently change the enterprise system software. Additionally, the Company has developed a subscription-based business model that is highly maintainable and stable, providing maintenance support, cloud services, and version upgrades. It is leading the market with the cloud services, which have a high growth potential, and its competitive edge and top-level achievements are its strengths. Also, it has a solid financial base with no debt and abundant cash & deposits exceeding the annual sales. These are enhancing the stability, reliability, and flexibility of management.

◆ **Development of the next pillars of 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 would create enough scale advantage. Regarding companies that have joined the group through M&As, it failed to create synergies with MACS System Corporation and Keepdata Ltd. and ended up selling them, while Xronos has been a successful exception.

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

As for the opportunities and weaknesses (or threat), we have seen in the past that the volatility of financial performance tends to increase before and after periods of high demand caused by events such as the consumption tax revision, the work-style reform, end of Windows support, termination of support for the old product series, and upgrades (the revised Electronic

Books Preservation Act and the new invoicing system coming into effect this fiscal year are not expected to have as much of an impact as an event-driven high demand).

◆ **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.**

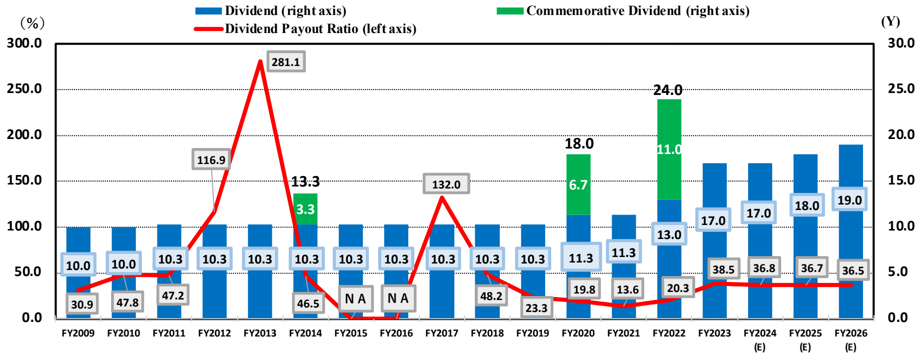
The Company's basic policy is to continue the stable payment of dividend while improving the ratio of net profit to shareholders' equity (ROE) under effective business management. In returning profit to its shareholders, its policy is to determine the level of dividend to be paid based on a comprehensive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

Dividend History

◆ **No decrease in ordinary dividend in the past. Has been increasing dividend in recent years.**

For many years after its stock became listed, the ordinary dividend had stayed fixed with no increase or decrease. Since FY2020, though, the Company has generally been gradually increasing its ordinary dividend and has also paid commemorative dividends (Figure 33).

【Figure 33】Change in Dividend and Dividend Payout Ratio (reflecting stock split)



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary.
(Note) Retroactively adjusted for the 3-for-1 stock split on October 1, 2021. Estimates/forecasts (E) were made by Alpha-Win.

◆ **Dividend increased in the previous fiscal year (ordinary dividend) and will continue to be 17 yen/share per year in the current fiscal year.**

Since FY2011, the Company had been paying an annual ordinary dividend of 10.3 yen per share (retroactively adjusted for the stock split; the same applies hereinafter), excluding the commemorative dividend, but in FY2021 it increased the dividend by 1 yen to 11.3 yen per share. It then raised the dividend consecutively to 13.0 yen (+1.7 yen) in FY2022 and to 17.0 yen (+4.0 yen) in FY2023. For the current fiscal year, the Company plans to continue to pay a dividend of Y17.0, the same as the previous fiscal year. During this period, the Company also paid commemorative dividends three times.

◆ **The target dividend payout ratio of 30% is expected to be exceeded this fiscal year.**

The target dividend payout ratio is 30%, but the actual ratio was 13.6% in FY2021 and 20.3% in FY2022, both below the target. However, the ratio exceeded the target at 38.5% in FY2023 because the ordinary dividend was increased, although the EPS had declined. For the current fiscal year, too, the Company expects to continue to pay an ordinary dividend of 17 yen per share at a dividend payout ratio of 36.7% (based on the Company's forecasts). Based on a stock price of Y1,367 (closing price on June 23, 2023), this fiscal year's dividend yield is estimated to be about 1.2%.

- **The goal for dividend on equity (DOE) is 2.5% but this fiscal year's DOE is expected to fall below this target.**

Dividend on equity (DOE), which is one of the Company's KPIs (key performance indicators), was 2.9% in FY2022, exceeding the target of 2.5%. However, in FY2023, the DOE was 2.0%. This fiscal year, too, the DOE is expected to fall below the target at around 1.9% based on our estimate.

- **Plans for greater return of profit to shareholders.**

Since profits are impacted greatly by whether there is an event-driven high demand, the dividend payout ratio and the DOE also tend to fluctuate. However, the Company has been generally increasing its ordinary dividend and plans for a greater return of profit to its shareholders.

Dividend Yield

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

As one of the ways of returning profit to its shareholders, 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 Y1,367, the actual annual net yield for a shareholder owning 300 shares is about 1.7% (at maximum) including the ordinary dividend of Y17 and the shareholder benefit program (Figure 34).

Based on the same conditions, the actual annual net yield of its two competitors is about 1.9% for OBC (4733: Obic Business Consultants) (including its shareholder benefit program) and about 2.9% for MJS (9928: Miroku Jyoho Service) (only dividend yield since it has no shareholder benefit program).

【Figure 34】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	17	1.73
900	1500	3,000	17	1.49
1,500		4,000	17	1.44

(Ref) Prepared by Alpha-Win Research Dept.
(Note) Actual dividend yield = (Dividend + Shareholder benefit program's value) / Stock price; calculated based on the minimum number of shares owned for each range.
Share price: 1,367 yen (closing price on June 23, 2023)

Stock Split

- **Stock split in 2021 and stock cancellation in 2022.**

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) in October 1, 2021.

Stock Cancellation

In December 2022, the Company cancelled 1,100 thousand shares (4.8% of the total number of outstanding shares before the cancellation) out of approx. 3,001 thousand shares held as treasury shares. As a result of this cancellation, the Company's total number of outstanding shares decreased to 22,000 thousand shares, and the Company now owns 2,001 thousand shares as treasury shares (9.1% of the total number of outstanding shares).

◆ Stock Price and Factors that May Affect Stock Price

◆ With solid financial performance, stock price has increased largely and has been significantly outperforming the TOPIX over the past approximately seven years.

Performance

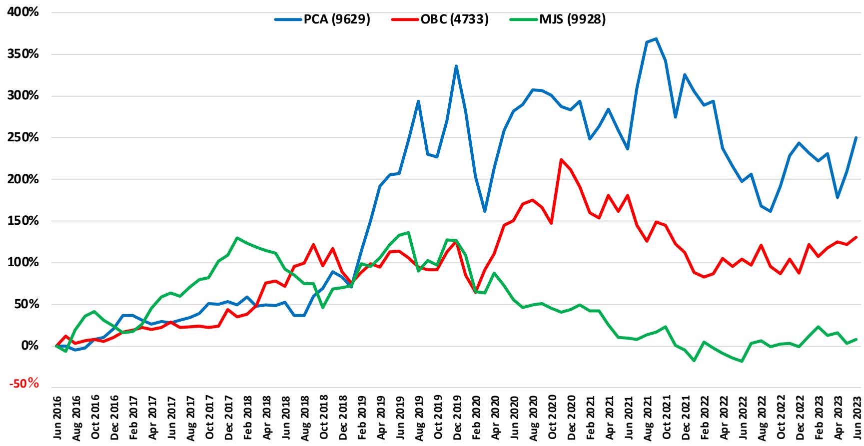
The Company's stock price and relative stock price compared to the TOPIX over the past approximately seven years are described in the summary section (Figure C on page 4). Its stock price has risen by approx. 3.7x during this period, significantly outperforming the TOPIX which had meanwhile only increased by 1.7x.

Also, over the approximately seven years since May 2016, the Company's stock performance has been the strongest among the three competing companies (the Company and its two competitors [4733 Obic Business Consultants or OBC and 9928 Miroku Jyoho Service or MJS]) (Figure 35).

◆ Outperforming its competitors and TOPIX in the last two months following the financial results announcement.

However, since the beginning of this year, it has been underperforming OBC and the TOPIX. After the announcement of this fiscal year's financial forecast, though, it has been outperforming its two competitors and the TOPIX (for the last two months or so).

【Figure 35】Comparison of Stock Performance with Competitors



(Ref) Prepared by Alpha-Win Research Dept.
(Note) stock price as of the end of June 2016 was set to zero upon creating the graph. Reflects prices up through the closing price on June 23, 2023.

Valuation

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

Based on the Company's current stock price, its valuation seems expensive in terms of the main valuation indicators compared to the average of all stocks listed on the TSE Prime Market. Compared to the TSE Prime's forecasted average P/E of 15.42, the Company's P/E based on the Company's profit forecasts is 29.54. Similarly, compared to TSE Prime's actual P/B of 1.32 and forecasted dividend yield (simple average) of 2.28%, the Company's is 1.57 and 1.24%, respectively (based on the closing price on June 23, 2023).

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

Based on our profit forecasts, the Company's P/E is expected to be 29.6 for the current fiscal year, 27.9 in the next fiscal year, and 26.3 in the year after the next.

When its valuation is compared with its two competitors, the Company's valuation is cheap in terms of P/B but about average in terms of the other valuation indicators (P/E, EV/EBITDA, dividend yield, and P/S), also indicating no cheapness based on absolute values (Figure 36 on page 42).

【Figure 36】Comparison of Valuation with Competitors

Company Name	PCA (consolidated)	Obic Business Consultants (OBC: nonconsolidated)	Miroku Jyoho Service (MJS: consolidated)
Code (TSE Prime Market)	9629	4733	9928
Stock price (at 6/23/2023 closing)	1,367	5,270	1,575
Market cap (million yen)	30,074	397,379	54,820
P/E (price-to-earnings ratio)	29.5	34.1	11.5
P/B (price-to-book ratio)	1.6	2.8	1.9
Dividend yield (%)	1.2	1.3	2.9
EV/EBITDA	7.6	16.1	4.9
P/S (price-to-sales ratio)	2.3	11.8	1.3

(Note) Market cap = total outstanding shares x market stock price [at 6/23/2023 closing]
EV/EBITDA = (market cap + interest-bearing debt - cash & deposits) / (O.P. + depreciation + intangible fixed asset amortization, etc.)
*Interest-bearing debt, cash & deposits, depreciation, and intangible fixed asset amortization are actual values of FY2023. Operating profit is based on this fiscal year's company forecasts.
The companies' estimated EPS for FY2024 was used in all P/E calculations. BPS values used in P/B calculations are actual results of FY2023. Dividend is based on the companies' forecasts for this fiscal year.
P/S = market cap / sales [the companies' estimate]
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summaries

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

Money Forward (TM: 3994) and freee (TM: 4478) described earlier are also the Company's competitors among listed companies in the area of cloud accounting software. However, they are not reasonable targets for valuation comparison since they have been posting net losses and paying no dividend.

Their valuations are extremely expensive regarding the comparable valuation measures of P/S and P/B (similar for the private company Yayoi).

*Money Forward (TSE Prime: securities code 3994)
・Market capitalization of Y310.1 billion at a stock price of Y5,753 (closing price on 6/23)
・FY2023 (November-ending) company forecast: sales of Y28,565 million (average value of the announced range; +33.0% YoY); forecasts for operating profit and net profit not disclosed (last fiscal year's result: net loss of Y9,449 million); no dividend.
・P/S of 10.9 and P/B of 10.1

*freee (TSE Growth: 4478)
・Market capitalization of Y193.3 billion at a stock price of Y3,370 (closing price on 6/23)
・FY2023 (June-ending) company forecast: sales of Y18,821 million (+30.9% YoY), adjusted operating loss of 6,801 to 7,452 million yen, and no dividend
・P/S of 10.3 and P/B of 6.7

*Yayoi (private company)
・Acquisition price estimated by KKR: approx. Y250 billion (as of Dec. 2021)
・FY2021 (September-ended): sales of Y21,193 million, recurring profit of Y4,937 million, and net assets of Y8,722 million
・P/S of 11.3, P/B of 28.7 (valuation on based on FY2021 results and acquisition price), and P/E of 74.4 (similarly estimated, with the corporate tax rate assumed to be 32%)

Stock Price Outlook

While the COVID-19 regulations have become relaxed in Japan, there are still global uncertainties concerning the economic situation due to factors such as the prolonged war in Ukraine, inflation, and interest rates remaining high.

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

However, the Company still has strengths and high growth potential in its subscription-based businesses, including the maintenance service for its packaged, enterprise system software and the cloud or subscription versions of its products. It will most likely continue to be evaluated as a domestic-demand-oriented growth stock which can benefit from the government's promotion of the work-style reform, digitalization, and the expansion of the metal-health-related market.

- **Sales and profit growth trend expected in the next fiscal year onward too.**

Also, we believe the Company will be able to return to a growth trajectory again if the cloud business (including the work management system) drives growth and the new businesses contribute to financial performance. Starting this fiscal year, we expect that the Company will return to a growth trend for sales and profits since it will not be impacted, at least for now, by a reactionary decline against an event-driven high demand.

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

If cost control is appropriately conducted, the downside risk to the current fiscal year's financial performance should be small. Assuming that there will be a profit growth trend in the next fiscal year onwards, there is an upside to the Company's stock price in the medium term due to higher EPS and dividends.

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

Going forward, the following will be the key factors to watch due to their potential impact on the stock price.

1. Performance of the cloud business (changes in PCA Cloud's number of corporate users and sales growth rate)
2. Financial performance of the acquired company Dreamhop, as well as Xronos whose growth is highly anticipated, and the sales of PCA Hub, which the Company is currently focused on, in addition to its contribution to profit.
3. Progress with shifting the on-premises software to subscription services (PCA Subscription), sales of hyper, progress with the other new products/services and new business development, amount of upfront investment, the business' contribution to profit, and market competition.
4. Progress with the medium-term management plan and the profit growth rate over the medium term
5. Measures to return profit to shareholders such as dividend hikes, share buybacks, and stock splits
6. Progress with the M&A and alliance strategies
7. New tax systems and changes in regulations
8. How its ample cash will be effectively used