Alpha-Win Company Research Report

PCA
(9629 TSE Prime)

Issued: 12/15/2023

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 the smooth management and operation of companies, with a focus on providing enterprise system software that realizes high levels of automation.

Financial Results for the First Half

・In the first half of FY2024 (April to September 2023; note that the Company's fiscal year is March-ending, i.e., FY2024 ends in March 2024)), the Company posted sales of 7,074 million yen (+14.8% YoY), operating profit of 998 million yen (+17.8% YoY), and net profit of 660 million yen (+33.5% YoY). Although the Company does not disclose its forecast for the first half, the results seem to have exceeded its internal forecasts. Compared to the Company's full-year plan, progress in the first half was 48.1% for sales, 69.1% for operating profit, and 71.4% for net profit, showing strong progress with the profits.

・Of the amount of sales growth in the first half (+911 million yen YoY), approximately 64% was attributable to the increase in the cloud service's sales (+583 million yen YoY). The quarterly sales growth rate of the cloud service had previously temporarily declined, but the further shift from the products to the cloud and the demand related to the new invoicing system have led to a high growth rate again (+20% compared to the previous first half). Since this service has a high marginal profit ratio, it has most likely significantly contributed to improving the profits, too. The number of corporate users of the PCA Cloud has increased steadily to 22,238 as of the end of first half, having increased by 1,216 (+5.8%) during the six months since the end of the previous fiscal year and by 2,385 (+12.0%) during the 12 months since the end of the first half of the previous fiscal year.

・The demand related to the new invoicing system also provided a tailwind for the solutions (regarding its peripheral services) and the products, resulting in sales growth of 168 million yen (+20.2% YoY) and 156 million yen (+28.1% YoY), respectively.

・The Company revised the prices of its current products and services in July 2023 (raised prices by about 20%), which contributed to sales growth for about three months of this first half.

・The gross margin was 62.6%, down 0.9 percentage point from the previous first half. This was due to an increase in the cost of manufacturing, mainly for the subcontracting and development costs. SG&A expenses increased by 365 million yen, mainly due to personnel expenses for increasing the number of employees, sales promotion expenses for holding events, R&D expenses, and system usage fees. However, the rate of increase in SG&A expenses was 11.9%, which was 2.9 percentage points below the rate of sales growth. Consequently, the SG&A expense ratio declined by 1.2 percentage points from 49.7% to 48.5%.

・As a result, the operating margin improved by 0.4 percentage point, from 13.7% to 14.1%.

Financial Forecast for This Fiscal Year

・The Company maintained its initial forecasts for the current fiscal year (FY2024), which have been made at the beginning of the fiscal year. It expects sales of 14,700 million yen (+13.2% YoY), operating profit of 1,445 million yen (+12.2% YoY), net profit of 925 million yen (+4.8% YoY), and an annual dividend of 17 yen per share. Sales are expected to hit a record high for the first time in four years since FY2020.

・Subtracting the first-half results from the full-year forecasts shows that, in the second half, the Company expects sales of 7,626 million yen (+11.9% YoY), operating profit of 447 million yen (+1.4% YoY), and net profit of 265 million yen (-31.9% YoY). It expects sales to increase and profits to decline. The operating margin is expected to decrease from 6.5% in the previous fiscal year's second half to 5.9%.

・In the second half, the Company expects to achieve a double-digit sales growth by capturing the DX needs of users, mainly through the sales expansion of the Hub series and the increasing demand related to the revised Electronic

Books Preservation Act in addition to the new invoicing system. The Company expects operating profit to increase only slightly due to accelerated development to strengthen the Hub series' lineup and greater promotion including online advertising. However, net profit for this second half is expected to decline significantly. This is because in the previous second half, the tax rate (income taxes, etc.) had been low due to the application of tax effect accounting.

Alpha-Win Research Department's Forecast of Financial Results

・We had expected the full-year results to be somewhat greater than the Company's plan, but we have now revised our forecasts upward, taking into account the strong first-half results and the Company's conservative estimates for the second half. The new forecasts, which further exceed the Company's plan, are as follows: sales of 14,900 million yen (+200 million yen or +1.4% compared to the Company's plan), operating profit of 2,000 million yen (similarly, +555 million yen or +38.4%), and net profit of 1,220 million yen (similarly, +295 million yen or +31.9%). In line with these revisions, we also raised our dividend forecast from 17.0 yen/share to 19.0 yen/share.

・These upward revisions have been made due to the following reasons: (1) strong demand for systems to comply with the new invoicing system has been leading to solid sales of the related products and services; (2) stable sales growth has been maintained due to the further shift to the cloud; (3) a certain level of demand is expected in the second half in relation to the revised Electric Books Preservation Act; (4) the potential increase in costs such as R&D investments, personnel expenses, and sales promotion expenses seems to be factored into the plan already; (5) progress has been strong in the first half for the profits; and (6) the Company's assumptions and estimates for the second half's sales, costs, and profits seem conservative.

・We have also reviewed our forecasts for the next fiscal year (FY2025) and the fiscal year after the next (FY2026). We revised the forecasts for both of their sales and profits upward, such that sales and profits will increase by around 5% in both fiscal years, which will also lead to increases in dividend.

・The main reasons for these are the following: (1) continued solid growth of the cloud service is expected; (2) the new services are expected to start making full-scale contributions to earnings; (3) the price revisions will contribute to the next fiscal year's results over the entire year; (4) in the fiscal year after the next, the upfront investment costs related to greater investment in the development of services and products are expected to peak out; and (5) the increase in general expenses due to inflation, such as personnel expenses and subcontracting costs, are expected to ease in the fiscal year after the next.

・On the other hand, the risk factors include a delayed contribution to earnings by the new businesses, such as the PCA Hub series and the acquired company Dreamhop's business, and a decline in earnings following the period of demand brought by the two major law changes (the invoicing system and the Electronic Books Preservation Act), as well as plans to intentionally increase upfront investments and general costs.

・We expect that the annual profit growth rate over the medium to long term will be 5-8% (on a normalized basis excluding any event-driven high demand), since we expect sales, profit, and dividend to increase as the cloud business continues to support the Company's 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 enterprise system cloud services in those fields and has been steadily expanding its business.

・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 a medium-term management plan for the three years starting 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 mostly been achieved in the past already.

・The goals for sales and dividend payout ratio are well within the range of achievement. The goals for operating profit, ROE, and DOE were initially thought to be conservative targets, but they now seem to be somewhat high hurdles since they have each been deviating from the current plans for this fiscal year. However, depending on cost controls, operating profit should also be within an achievable range.

- 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 meeting 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 the healthcare business).

Stock Characteristics and Price

- The Company is seen as a defensive, domestic-demand-oriented, and small-cap growth stock that is positively impacted by the work-style reform and tax reforms, with anticipation of continued business growth mainly with the subscription businesses. 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 and a half years, the Company has outperformed the TOPIX and its competitors. On the contrary, it has been underperforming them since the beginning of the year.
- The valuation of the Company's stock based on this fiscal year's forecasts is somewhat overpriced compared to the average of all stocks listed on the Tokyo Stock Exchange's Prime Market and compared to its competitors.
- However, its business is mainly subscription-based and is therefore stable and maintainable. The subscription business also has a high growth potential, so continued growth of sales and profit is anticipated in the next fiscal year and beyond. 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 and especially by the financial results of this full fiscal year (deviation from the current forecast). It may also be impacted by whether the new businesses will succeed (especially PCA Hub and the healthcare business of Dreamhop), the growth rate of the cloud business, and whether its financial performance will be impacted by changes in the tax system or 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 is expected to be 38.3% for this fiscal year (the Company's forecast), both exceeding the target ratio (30%). Meanwhile, we estimate that forecasted DOE for this fiscal year (based on the Company's forecast) is 1.9%, falling below the target of 2.5%.
- Since business performance is expected to grow in the next fiscal year and beyond as well, we anticipate that the Company may further enhance its shareholder returns through dividend hikes, share buybacks, or other means.

【9629 PCA Sector: Information & Communication】 Figure A

FY		Sales (million yen)	YoY (%)	O.P. (million yen)	YoY (%)	R.P. (million yen)	YoY (%)	N.P. (million yen)	YoY (%)	EPS (¥)	BPS (¥)	Dividend (¥)
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	New E: New Standard	14,900	14.8	2,000	55.3	2,030	53.1	1,220	38.2	60.90	912.77	19.00
2024	Old E: New Standard	14,800	14.0	1,570	21.9	1,600	20.7	1,000	13.3	49.92	903.35	18.00
2025	CE Medium-Term Plan: New Standard	15,000	2.0	2,500	73.0							
2025	New E: New Standard	15,520	4.2	2,100	5.0	2,130	4.9	1,280	4.9	63.89	957.66	20.00
2025	Old E: New Standard	15,520	4.9	1,700	8.3	1,730	8.1	1,080	8.0	53.91	939.35	19.00
2026	New E: New Standard	16,500	6.3	2,250	7.1	2,280	7.0	1,350	5.5	67.39	1,005.05	21.00
2026	Old E: New Standard	16,500	6.3	1,800	5.9	1,820	5.2	1,135	5.1	56.66	977.10	20.00
2023	Q1: New Standard	2,954	-11.2	309	-68.3	315	-68.0	142	-76.8	7.13	830.18	0.00
2024	Q1: New Standard	3,387	14.7	428	38.5	436	38.4	266	86.9	13.33	867.22	0.00
2023	Q2: New Standard	3,209	-2.2	538	-30.8	556	-30.1	352	-57.8	17.60	-	0.00
2024	Q2: New Standard	3,687	14.9	570	5.9	590	6.1	394	11.9	19.67	-	0.00
2023	H1: New Standard	6,163	-6.7	847	-51.7	871	-51.1	494	-65.9	24.73	850.85	0.00
2024	H1: New Standard	7,074	14.8	998	17.8	1,026	17.8	660	33.5	33.00	885.19	0.00
2023	H2: New Standard	6,818	0.7	441	-51.1	455	-50.3	389	-57.6	19.45	-	17.00
2024	H2 CE: New Standard	7,626	11.9	447	1.4	452	-0.7	265	-31.9	13.27	-	17.00

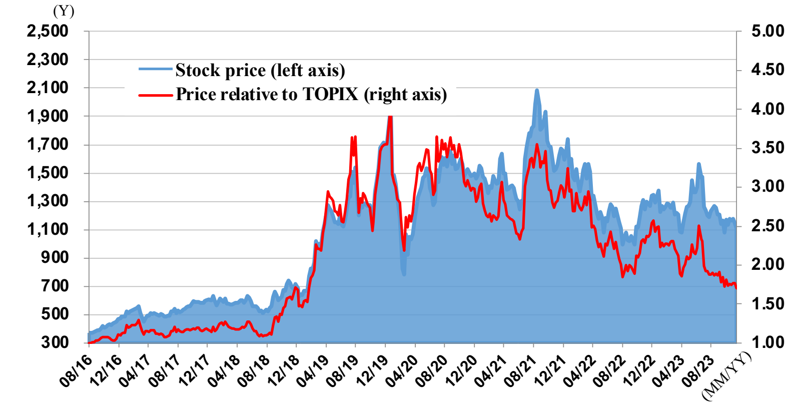
(Note) CE: the Company's estimate/forecast. E: Alpha-Win Research Dept.'s estimate/forecast. Old E: previous forecast. New E: forecast made this fiscal year. Q1: April to June. Q2: July to September. H1: April to September. H2: October to March. Past years were retroactively revised for the stock split (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	12/15/2023	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,111	Forecast for Last FY	25.2	1.3	1.5%	13.6%
Shares Outstanding (thou.)	22,000	Forecast for This FY	18.2	1.2	1.7%	31.2%
Market Capitalization (million yen)	24,442	Forecast for Next FY	17.4	1.2	1.8%	31.3%
Dilutive Shares (thou.)	0	Forecast for Fiscal Year After the Next	16.5	1.1	1.9%	31.2%
Equity Ratio at the End of This First Half	56.7	Last FY's Dividend on Equity Ratio (DOE)		2.0%	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 third week of December 2023 (12/15)

【Performance】		
Period	Return	vs. TOPIX
1 month	-5.3%	-3.5%
3 months	-8.0%	-8.4%
6 months	-18.7%	-20.6%
12 months	-17.2%	-40.5%

(Note) Reflects stock price and index values through the closing price of 12/15/2023. The return for the 1-month period is the comparison between the closing price of the last day of November and the closing price of Dec. 15. 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, etc.

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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 Enterprise System Software Industry

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

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 companies. Its largest customer has usually 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 November 2023, the Company's group consists of a total of four companies: the Company and three consolidated subsidiaries (Figure 1). It has 643 employees in total (as of last fiscal year's end).
1. Xronos Inc. (development/sales of work management system[2]; business was acquired in 2001 and the Company has 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	1. Xronos Inc.	2. KEC Corporation	3. Dreamhop Co., Ltd.
Main Office Location	Kanda Neribeicho, Chiyoda-ku, Tokyo	Fujimi, Chiyoda-ku, Tokyo (PCA Building)	Iidabashi, Chiyoda-ku, Tokyo
	6 sales offices in Sapporo, Sendai, Nagoya, Osaka, Hiroshima, and Fukuoka	3 sales offices in Osaka, Nagoya, and Kyushu	Sales offices and bases in the 2 cities of Osaka and Yokohama
Business Description	Work management (attendance management) systems, in-house development of time clocks, and their sales and maintenance services. Main services/products are X'sion, a cloud service, and Xronos Performance, which is offered as a cloud service or as on-premises software.	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	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)
Number of Customers	*Number of users of Xronos Performance (million users): 1.7 ⇒ 1.9 ⇒ 2.5 ⇒ 2.6 (As of Nov. 15, 2021 ⇒ May 9, 2022 ⇒ June 7, 2023 ⇒ Dec. 6, 2023; info on its website; the same order applies below) Number of companies using Xronos Performance: 9,385 (6/7/2023) ⇒ 10,149 (12/6/2023) *Number of users of X'sion (persons): 431,784 ⇒ 515,412 ⇒ 682,465 ⇒ 755,708 Number of companies using X'sion: 4,406 (6/7/2023) ⇒ 4,938 (12/6/2023)	More than 20,000 companies (in Japan)	1,500 companies; 10,000 offices; more than 1,000,000 users
Main Customers	PCA Corporation, Miroku Jyoho Service, Ohken, Obic Business Consultants, and Mitsubishi Electric IT Solutions (companies or end users: Hatchando, Sanyo Foods, Shabondama Soap, Sembikiya Fruit, Amanoya, FujiContact, and more)	Companies that use software and other products manufactured and sold by PCA Corporation	PCA Corporation; Hongo Tsuji Tax & Consulting; 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.
Founded	May 2011 (business acquired)	April 1988	October 2020 (date acquired; founded in June 2005)
Capital (million yen)	60	10	96.5 (capital increased from 56.5 million yen)
PCA's Stake	80%	100%	100%
Number of Employees (as of the end of Mar. 2023)	120 (most recent number according to its website as of 12/10/2023)	45	16
Sales (for the most recent period)	Y2,528 million (FY ended March 2023; information on its website; +15% YoY sales growth)	Not dislocsed	Not disclosed
Management Policy	Formulates its own medium-term plan: working on "investments for future growth" and "steady performance growth"	Same as PCA	Same as PCA
Category of Consolidated Sales	Mostly product sales and cloud sales, plus maintenance and other operating revenue	Mostly other operating revenue, plus products, merchandise, maintenance, and cloud	Other operating revenue
Website URL	https://www.xronos-inc.co.jp/	https://www.kec-sp.com/page1	https://www.dreamhop.com/
Trends in Business Performance and Recent Situation	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.	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.

(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).

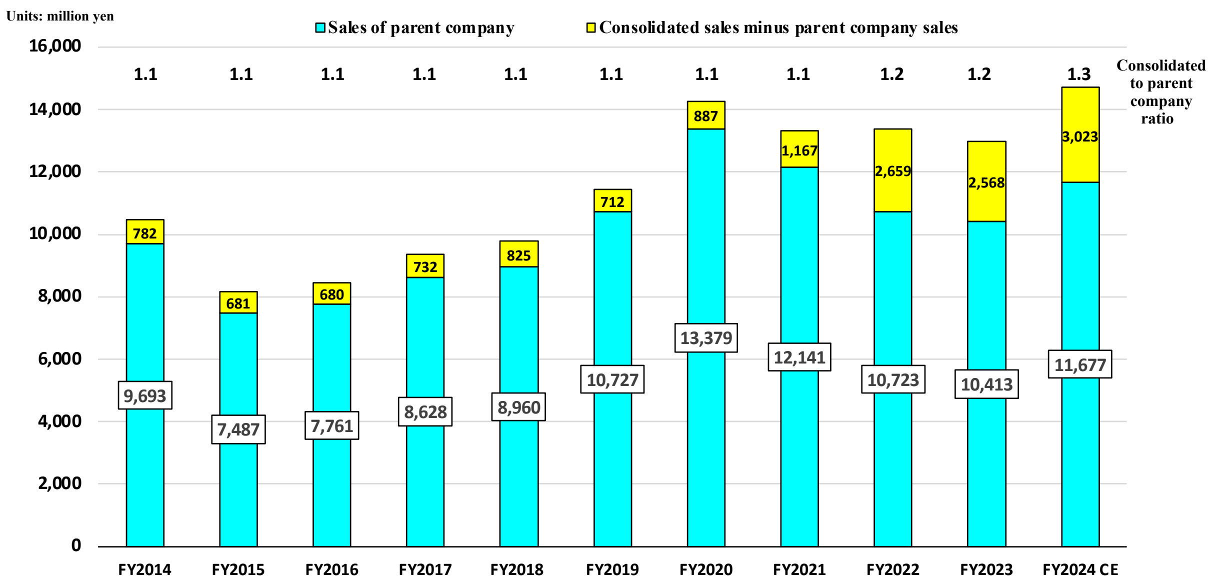
Although each subsidiary's profit/loss is not disclosed, the ratios of consolidated to parent-company recurring profit have been in the range of 1.0-1.6 during the fiscal years that the Company has posted a net profit (including this fiscal year's forecast).

Additionally, the summed profit/loss of the subsidiaries, calculated by consolidated minus parent-company recurring profit, has been a surplus since FY2016 (note that the Company's fiscal year is March-ending; FY2016 ended in March 2016) (Figure 3 on page 8).

- **Xronos's earnings growth is also presumed to be contributing to the consolidated results.**

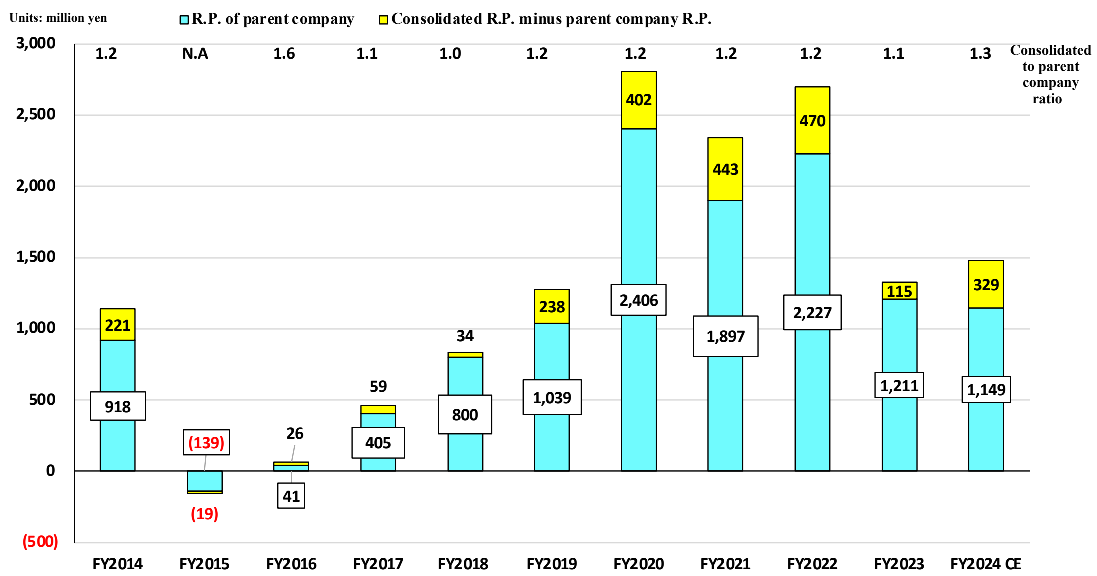
Among the subsidiaries, Xronos seems to be continuing to contribute the most to the financial results, thanks to the work-style reform. Its sales were 1.5 billion yen in FY2019, 2.1 billion in FY2020, 2.16 billion yen in FY2021, 2.21 billion yen in FY2022, and 2.53 billion yen in FY2023 (+15% YoY). For FY2025, Xronos had expected its sales to be 4 billion yen (according to Xronos's former website). Although Xronos's profit is not disclosed, it has mostly likely been posting a profit like 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. Compared to its sales of 14.7 billion yen (this fiscal year's plan) and total assets of 31.3 billion yen, it has 18.9 billion yen in cash and deposits, which is equivalent to 60% of total assets and 15.4 months' worth of average monthly sales (values as of the end of September 2023). In addition, it owns more than 2.8 billion yen in securities, which are mainly corporate bonds and listed stocks.

◆ **FCF is positive. The balance of cash & deposits is 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 56.7% and current ratio is 210.6%, indicating financial soundness (as of the end of September 2023).

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

Units: million yen	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2023 First Half (Last first half)	FY2024 First Half (This first half)
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	1,296	1,203
Investing CF ②	-405	-127	185	-407	-750	-606	-627	-395	1,715	-80	-719	253	708	-308	-266	356
Financing CF	-207	-210	-205	-215	-216	-284	-214	-215	-216	-572	-225	-355	-254	-606	-605	-457
FCF (①+②)	222	361	326	440	299	-60	800	1,137	2,985	2,061	2,609	1,885	4,392	2,333	1,030	1,559
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	16,517	18,922

(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.

2. Business Description and Business Model

◆ Enterprise System Software Crucial for Efficient Business Operations

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

The Company's core business is enterprise systems that support internal business operations. Unlike systems that simply work on 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.

- **Provides originally developed, packaged enterprise system software**

(3) Accounting software: Application software for the recording, processing, and integrated management of accounting data

(4) HR and payroll software: Software for payroll calculations and HR management

In response to this, the Company has been developing original enterprise system software that specifically meets the needs of one-person businesses and micro-sized (SOHO), small-sized, medium-sized, and mid-tier companies in areas such as accounting[3], finance, HR and payroll[4], sales management, purchase and inventory management, and tax. The enterprise system software is either packaged (on-premises: conventional products operated in-house by a corporate user) or cloud-based (a service in which a corporate user can use the enterprise system software via the Internet easily and at a low cost without having to prepare its own server). The Company sells and provides its software through either direct or indirect channels.

Additionally, the Company has not just been developing and selling enterprise system software, but 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

The Company provides a total of about 60 to 70 software products and services (counted by product name or service 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 5). Profit and loss by segment are no longer disclosed.

【Figure 5】Sales Classification (by category)

Sales Classification by Category	Contents	FY2024 First Half (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.)	713	10.1	About 60%
Merchandise	Sales of other companies' products such as ledger sheets	198	2.8	About 30%
Maintenance Service	By signing up to PSS membership, users can receive inquiry and support services from call centers	1,715	24.2	About 70%
Cloud Service	Subscription service for software provided via the cloud	3,443	48.7	About 65%
Other Operating Revenue	Sales of other companies' products such as software/hardware combined with its original products; also called "solutions"	1,002	14.2	About 50%
Total & Average		7,074	100.0	Result: 62.6%
Reference		Estimated weighted average: 62.6%		

(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 service & cloud service) account for about 73% of total sales.**

In recent years, sales of the cloud service of the Company's packaged software have grown significantly, and they have become the Company's growth driver with regards to both the overall sales and profit. In the first half of FY2024, 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), accounted for about 73% of total sales. The maintenance and the cloud services, with their high gross margins and contract repeat rates, have been stable sources of profit and have been contributing to greater stability of business 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 in proportion (about 15% of total sales), followed by software for sales management, purchase/inventory management, and then lastly payroll and 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%. Note that 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 strong 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 22,000 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[5] allowing linkage with other companies' cloud services (linkage already possible with about 60 companies, including Kintone[6] of Cybozu)
- In PCA Cloud on AWS[7], service is available 24 hours, 365 days (max number of licenses for simultaneous use expanded from 3 to 72 CAL).

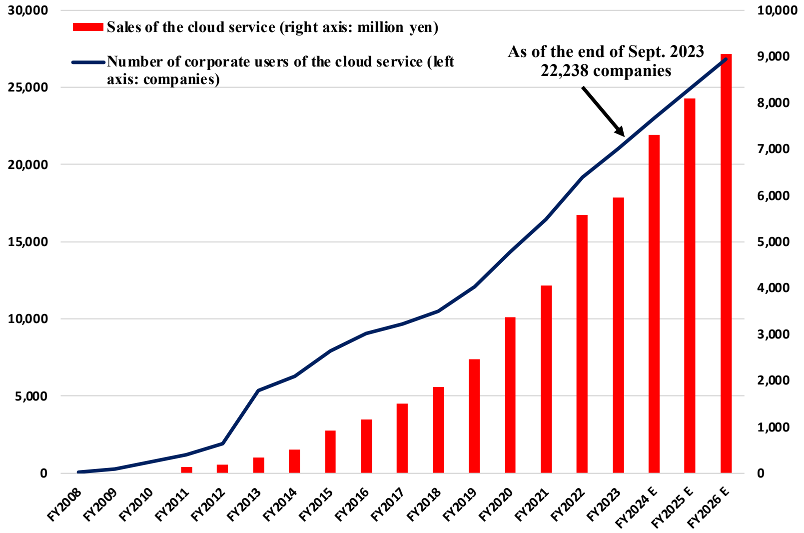
(5) API (Application Programming Interface): Interface/network to use software; connects the software and the program.

(6) Kintone: Cloud service for building business app on a web database, provided by Cybozu. Allows easy system building and linkage with other systems.

(7) 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 6). The growth rate has slowed with the expansion of business scale, but in the previous fiscal year, this was probably partly in reaction to the previous event-driven high demand (the shift from the X series, or the Company's previous products, to the PCA Cloud). Since both the sales and the net increase in the number of users are recovering on a quarterly basis (Figure 19 on page 25), the business will most likely continue to be the growth driver.

【Figure 6】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.

◆PCA Hub Series

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

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 one 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[8] series, it is a tool for optimizing operation efficiency.

(8) (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).

It enables the digitization and paperless operation of fund management, accounting management, labor management, and more. It also supports the requirements of the Electronic Books Preservation Act[9] and has acquired the JIIMA certification[10].

Following PCA Hub eDOC, the PCA Hub eDOC AI-OCR Option was also released in November 2022 as part of the PCA Hub series (see Figure 7 for the lineup of the PCA Hub series).

In addition to this, in March 2023, the Company released web-based delivery services for invoices (such as the conversion of invoices to electronic forms), including compatibility with electronic invoices, and for pay slips (pay slips, withholding tax slips, year-end adjustment notifications, etc.).

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

The PCA Hub series are cloud-based subscription services that charge monthly fees and is highly expandable. Each service has a price plan based on options such as the number of users, storage size, 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, switch to its original products, and provide various peripheral services as the PCA Hub series. The Company intends to develop this business into a stable revenue source.

For the Qualified Invoice Preservation Method (new invoicing system[11]) that started in October 2023, the Company released updated versions of its current, major PCA products and services in the summer of 2023 that are compatible with this system.

(9) [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.

(10) 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.

(11) New invoicing system: The Qualified Invoice Preservation Method, which was started in October 2023, is a new system for issuing and storing invoices and delivery slips, created for the purpose of accurately recognizing the amount of consumption tax in transactions.

【Figure 7】Lineup 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
May 2023	eDOC Upload Tool	Released as standard feature	A function to automatically upload files saved in a local folder on a PC to PCA Hub eDOC on the cloud is provided as a standard feature (released the eDOC Upload Tool; however, its price is included in the license price of PCA Hub eDOC itself). In enables the autmoatic registration of data such as transaction dates, counterparty names, and amounts on PCA Hub eDOC along with invoice and receipt files. The registered data can be linked to various software of the PCA Accounting series to create journal entries. This enables automation of a series of accounting tasks from storing invoices and receipts to creating and registering journal entries.
This First Half (April to Sept. 2023)	Current main products	Compatible with the new invoicing system Released / Service started	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. Word in red indicate details which have been newly added in this report.

3. Shareholder Composition

◆ Major Shareholder Composition

Major shareholders as of the end of September 2023 are shown in Figure 8. Compared to the end of March 2023 (the same point of comparison shall apply hereinafter), shares held by the top ten major shareholders have not largely changed except for several of the custodians (such as trust banks) and the Employee Stock Ownership Plan.

【Figure 8】Current Major Shareholders **Units 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	End of Sept. 2023	Shareholding Ratio	Ranking	Change (Sept. 2023 minus Mar. 2023)
Kawashima Co., Ltd.	–	–	8,805	8,805	8,208	8,205	8,208	8,208	8,208	8,207	40.97	1	-1
PCA CORPORATION (treasury shares)	*2,544*	*2,544*	*2,544*	*2,546*	*3,146*	*3,136*	*3,101*	*3,101*	*2,001*	*1,967*	*8.94*	—	-34
JP MORGAN CHASE BANK 385632	–	–	–	–	–	–	1,014	1,399	1,399	1,398	*6.98*	2	-1
The Master Trust Bank of Japan, Ltd. (trust account)	–	–	–	–	–	–	284	1,137	948	1,266	6.32	3	318
MSIP CLIENT SECURITIES	–	–	–	–	–	885	886	886	886	885	4.42	4	-1
Obic Business Consultants Co., Ltd.	762	762	762	762	762	762	762	762	762	762	3.80	5	-0
Custody Bank of Japan, Ltd. (trust account)	–	–	–	–	–	–	–	–	–	466	2.33	6	466
PCA Employee Stock Ownership Plan	330	357	381	381	406	300	337	349	392	414	2.06	7	22
STATE STREET BANK AND TRUST COMPANY 505001	732	747	798	798	521	–	–	–	–	385	1.92	8	385
FCP SEXTANT AUTOUR DU MONDE	–	–	–	–	–	–	–	377	450	360	1.79	9	-90
Logic Systems Co., Ltd.	342	342	342	342	342	342	342	342	342	342	1.70	10	0
Nagoya PCA Co., Ltd.		300	300	300	300	300	300	300	300	–			
APPLIED SYSTEM LABORATORY Inc.			258	258		258	–	260	260	–			
GOLDMAN SACHS INTERNATIONAL	–	–	–	–	909	–	–	–	–	–			
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	8.9			

(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.

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

◆ **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 (Fumiaki Sato, President, and Hiroshi Kumamoto, Director) and their relatives (descendants to the founder Masao Kawashima). Its shareholding ratio remains mostly unchanged at approximately 41% (proportion of total outstanding shares excluding treasury shares; the same shall apply hereinafter).

◆ **PCA owns about 9% 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). Currently, the treasury shares currently owned by the Company is approx. 8.94% of all outstanding shares.

・The shares owned by the second largest shareholder, JP MORGAN CHASE BANK 385632, have mostly not changed.

◆ **Several custodians have bought more shares of the Company.**

・The Master Trust Bank of Japan (trust account) has not changed from third place in the shareholder ranking, but has increased its shareholding to 318,000 shares as of the end of March. Also, the Custody Bank of Japan (trust account) and STATE STREET BANK AND TRUST COMPANY 505001 have also bought more shares, reappearing in the major shareholder ranking at sixth and eighth place, respectively.

・The numbers of shares and shareholding ratio of the fourth largest shareholder, MSIP CLIENT SECURITIES, have mostly not changed.

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

・As mentioned above, although there are trust banks and custodians among the major shareholders, their final investors and investment purposes are unknown. However, they are most likely 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 its shareholding ratio was 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, active investment style, it also has an office in Japan and currently invests in many Japanese equities. Although MFS is not among the list of major shareholders shown in Figure 8, it is presumably investing through the accounts of several custodians.

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

Regarding investment trusts in Japan, the Company's shares are incorporated in the "Social Issue Solution Support Fund (Smile Kakehashi)," an active thematic investment fund managed by Daiwa Asset Management, as well as index funds managed by Sumitomo Mitsui Trust Asset Management, Mitsubishi UFJ Kokusai Asset Management, and Asset Management One.

- **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.**

・Shares held by the sixth largest shareholder, FCP SEXTANT AUTOUR DU MONDE, has decreased by about 90 thousand shares and its shareholding ranking fell from sixth to nineth. 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 and 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.

・Nagoya PCA Co., Ltd. (a company to which the Company outsources a part of its software development for SHOKON and other products) and Logic Systems Co., Ltd. (investment purpose unknown) seem to be continuing to hold their shares, but they are no longer among the top ten shareholders as of the end of September.

- **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 works on 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 to fulfill 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 the rational management and safe business operation of small/medium-sized companies (its users) based on their data, as well as supporting their transformation into a digital company.

- **Proactively supporting sports, people with physical disabilities, and the discovering and development of IT talents**

The Company also supports various activities. It has been helping the discovery and development of talented programmers who will create the future, promoting sports such as marathons, basketball, professional baseball (ads and sponsorship), and hiring physically disabled people.

- **Working on health management**

- **Certified as the 2023 Health and Productivity Management Outstanding Organization (Large enterprise Category)**

The Company believes that its people are the most important business resource for sustainable growth. To this end, the Company has made the "Health Management Declaration" in which one of the most important management issues is to develop an environment in which each and every employee can continue to take on challenges while maintaining good mental and physical health and experiencing job satisfaction and growth. In particular, the Company is working on improving and developing health management, the workplace environment, flexible work styles, and work-life balance. 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.

◆ Governance

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

For internal control, the Company has set up an internal audit office that directly reports to the president, which is also managed 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 and auditors, specifically, 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 members, two are female.

5. History of Growth

◆ Company History

- **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**

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[12]) in 2008.

(12) 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.**

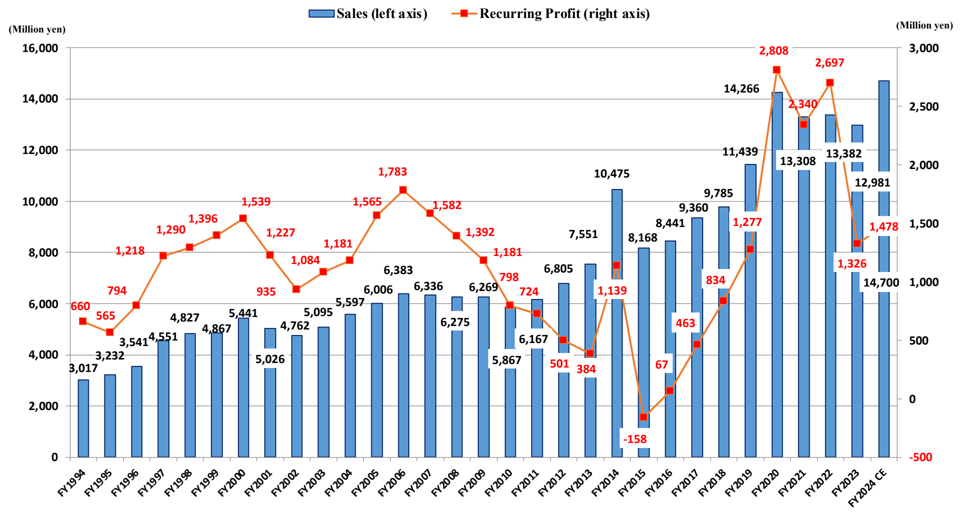
Regarding its stock, the first public offering was made in 1994. The Company became listed on the Second Section of the TSE in 2000 and then on the First Section in 2014. In April 2022, its listing was changed to the TSE Prime Market.

◆ Past Transition in Financial Results

- **Has been generally increasing sales over the long term. Profit had weakened during a period, but then recovered in a V-shape.**

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

【Figure 9】Long-Term Transition in Financial Results



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. Estimate/forecast (CE) for 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 (937 million yen) 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 (1,747 million yen and 1,783 million yen, 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[13] (integrated enterprise system) product, Dream 21.

(13) 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 10 billion yen in sales.**

・In FY2014, record-high sales (10,475 million yen) 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: 207 million yen in FY2015 and 93 million yen 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 10 on page 19). 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 expenses.

- **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.**

- **Large changes in financial results 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.**

(14) [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.

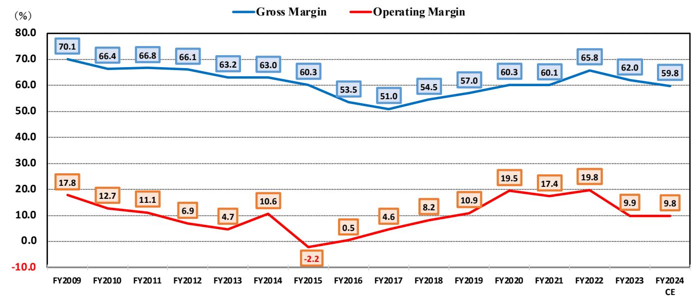
・ From FY2016 to FY2020, the Company increased sales for five fiscal years in a row thanks to the continued growth of the cloud service, the release of the new products, and strengthened sales force, as well as due to economic recovery. Since FY2017, the Company has recovered in a V-shape and has been 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[14], 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. This fiscal year (FY2024), the Company expects to return to sales and profit growth and achieve record-high sales.

As reference, the Company's past initial forecasts and actual results over the years were compared (Figure 11). 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 10】Long-Term Transition in Gross Margin and Operating Margin



【Figure 11】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
Units: 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 (units: %), 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 10 and 11: 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 business 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 and digitalize increases.

Current Situation: BOJ Tankan

- **Software investment (planned amount) by small and mid-tier companies is expected to increase significantly in FY2023. Business sentiment is improving, but the outlook is uncertain.**

According to the Bank of Japan Tankan in December 2023, the amount of software investment planned in 2023 by small/medium-sized companies (all industries) is +21.7% greater than last year (of which, +30.0% for manufacturing and +18.5% for non-manufacturing). Manufacturing industries are especially expected to increase their investment. Note that planned investment in FY2022 was somewhat low at -2.6% compared to the previous year (of which, manufacturing was +4.8% and non-manufacturing was -5.2%).

Mid-tier companies are showing an even more eager attitude toward software investment compared to small/medium-sized companies, with a planned increase in investment of +19.8% in FY2022 (+6.0% and +8.8%, respectively) and +27.3% in FY2023 (+13.3% and +16.4%, respectively).

Regarding the survey on business sentiment among small/medium-sized companies (all industries), the recent sentiment has improved from +5 in September 2023 to +9 in December 2023. On the other hand, the outlook stayed the same at +4, which is 5 less than the recent sentiment. This indicates the worsened sentiment regarding the economic outlook (similar for large and mid-tier companies).

◆Comparison with Competitors

Positions and Main Players of the Industry

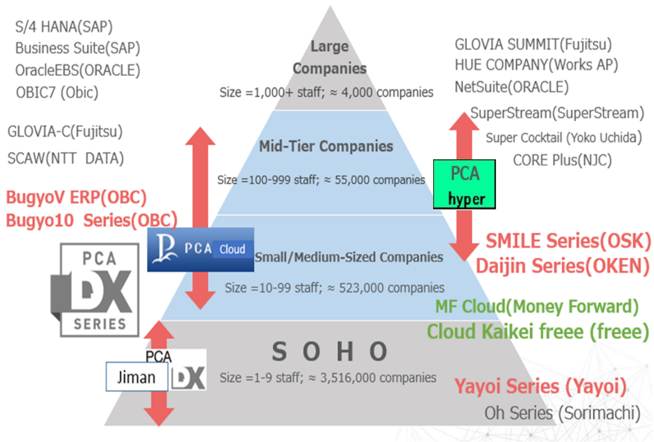
- **In the industry, companies are moving toward a certain degree of coexistence by taking strong positions depending on the user size or software function.**

Figure 12 on page 21 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.

- **OBC is its greatest rival. It also indirectly competes with MJS.**

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.

【Figure 12】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.

- **Among private companies, it competes with companies including Yayoi, OHKEN, and OSK.**

In addition, the following private companies are the main direct competitors, both for the on-premises and the cloud-based software.
・Yayoi Co., Ltd. (main office in Chiyoda-ku, Tokyo): acquired from Orix Corporation (TSE Prime: 8591) by Kohlberg Kravis Roberts & Co. L.P. ("KKR"); sales in the fiscal year ended September 2022 were 22.1 billion yen (slight sales growth); 978 employees (as of the end of September 2023); over 3.1 million registered users.
・OHKEN Co., Ltd. (main offices in Shibuya-ku, Tokyo, and Fukuoka City, Fukuoka): the DAIJIN series are the main products; independent company; sales in the fiscal year ended December 2022 were 5.24 billion yen; 340 employees (as of the end of April 2023).
・ OSK Co., Ltd. (main office in Sumida-ku, Tokyo): the SMILE series are the main products; wholly-owned subsidiary of Otsuka Corporation; sales in the fiscal year ended December 2022 were 9.5 billion yen and net profit was 1.24 billion yen; 459 employees (as of the end of October 2023).

- **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. 200 billion yen. 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 and freee 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.

◆ **Profit margins have improved compared to before, but have the potential to be improved further.**

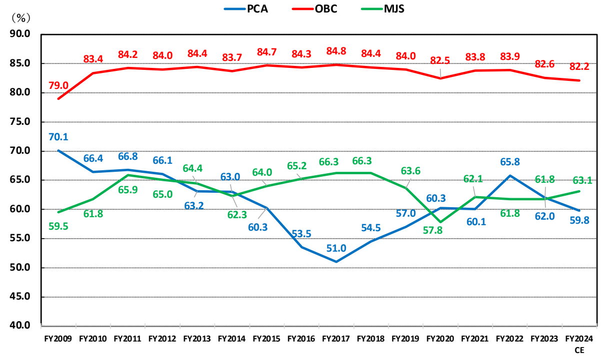
Comparison of Profitability of the Three Competing, Listed Companies

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 13 and 14. 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).

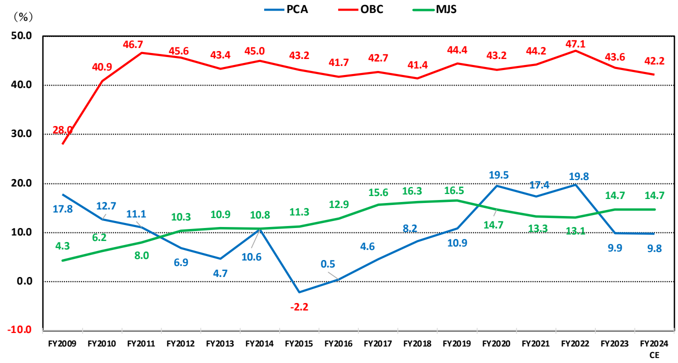
Both competitors used to have a lower subscription rate for maintenance support but have succeeded in raising this rate strategically, resulting in a greater earning power. However, through its focus on the subscription business, the Company's profit margins have also been improving and becoming stable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

The transition in the Company's ROA and ROE, shown in Figure 15, 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.

【Figure 13】Long-Term Transition in the Gross Margin of the Three Major Listed Companies (PCA, OBC, and MJS)

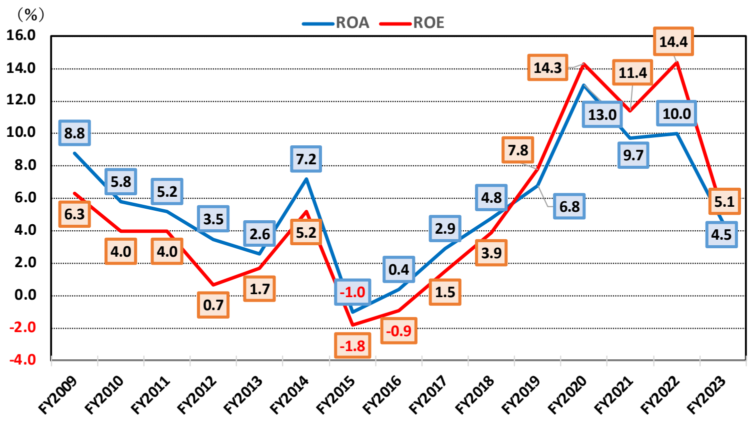


【Figure 14】Long-Term Transition in the Operating Margin of the Three Major Listed Companies (PCA, OBC, and MJS)



(Ref) Figures 13-15: Prepared by Alpha-Win Research Dept. based on the securities reports. Estimates/forecasts (E) are from the companies' plans.

【Figure 15】Transition in the Company's ROA and ROE



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

7. The First Half's Results and This Fiscal Year's Forecast

◆Results for the First Half of FY2024 (April to September 2023)

Summary

- This first half's results were strong, with double-digit increases in sales and profit.

Consolidated results for the first half of FY2024 were as follows: sales of 7,074 million yen (+14.8% YoY), operating profit of 998 million yen (+17.8% YoY), recurring profit of 1,026 million yen (+17.8% YoY), and net profit attributable to owners of the parent of 660 million yen (+33.5% YoY; hereinafter, "net profit"). A double-digit sales growth and a significant profit growth were achieved (Figure 16).

【Figure 16】 Financial Results for the First Half of FY2024 (April to September 2024) (Units: million yen or %)

		First-Half Results				
Results		First Half of FY2023	First Half of FY2024	% Change	Amount of Change	% of Total
Units: million yen		Apr. to Sept. 2022	Apr. to Sept. 2023	YoY: %	YoY: million yen	%
Consolidated Sales		6,163	7,074	14.8	911	100.0
Sales by Category	Products	557	713	28.1	156	10.1
	Merchandise	222	198	-10.7	-24	2.8
	Maintenance Service	1,688	1,715	1.6	27	24.2
	Cloud Service	2,860	3,443	20.4	583	48.7
	Other Operating Revenue	834	1,002	20.2	168	14.2
Gross Profit		3,912	4,429	13.2	517	
	Gross Margin (%)	63.5	62.6		-0.9	
SG&A Expenses		3,065	3,430	11.9	365	
	SG&A Expense Ratio (%)	49.7	48.5		-1.2	
Operating Profit		847	998	17.8	151	
	Operating Margin (%)	13.7	14.1		0.4	
Recurring Profit		871	1,026	17.8	155	
	Recurring Margin (%)	14.1	14.5		0.4	
Net Profit		494	660	33.5	166	
	Net Profit Margin (%)	8.0	9.3		1.3	

(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

- Strong progress made with the profits in terms of achieving the full-year plan.

The Company does not announce its first-half forecasts. However, progress in this first half in terms of achieving its full-year plan was 48.1% for sales, 69.1% for operating profit, and 71.4% for net profit. Progress has been greater than past years (average progress for each of the profits over that past six years was 49.3% and 51.6%, respectively), so the results have most likely been significantly greater than the Company's internal forecasts.

Sales

- Sales grew due to the new invoicing system and the price revision.

Each sales category's impact on sales in the first half of this fiscal year is as shown in Figure 17 on page 24. In FY2022 (the fiscal year before the previous), there was a replacement demand (event-driven high demand) due to the end of support for the X series (in December 2021). In FY2023 (previous fiscal year), though, sales and profits declined significantly in reaction to this previous high demand. However, the first half of the current fiscal year was no longer impacted by this reactionary decline and its sales were strong, driven overall by the demand related to the new invoicing system. In addition, the price revision in July 2023 also had a significant impact (prices were raised by about 20%; estimated to have contributed about 500 million yen to sales growth in about three months).

- Sales of merchandise decreased but the impact was minimal.

By sales category, merchandise was the only category among the five sales categories whose sales declined. This was due to the drop in demand for ledger sheets due to digitalization, but the amount of sales decline was small since this category itself is small in scale. Maintenance also saw a slight increase in sales due to the recovery of the products' sales and the demand related to the new invoicing system, despite the shift to the cloud.

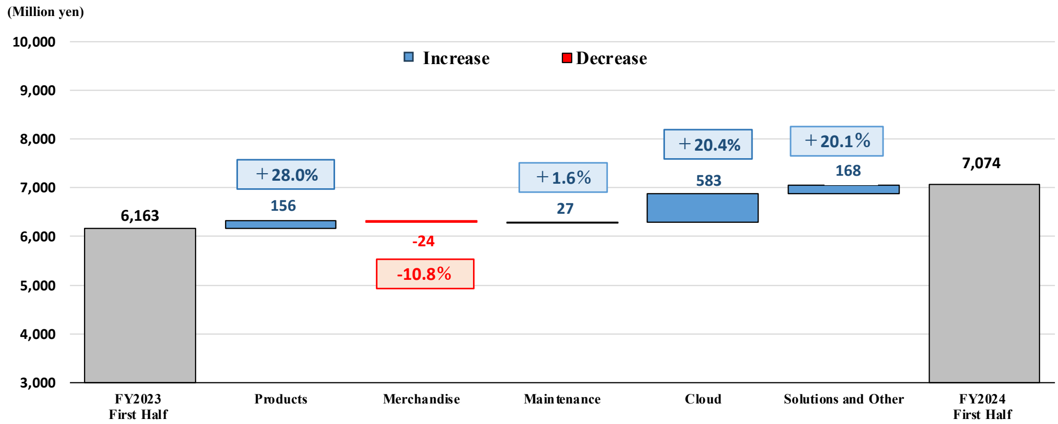
- **Cloud service's sales have continued to grow with the steady increase in the number of corporate users of the cloud service. Largest growth driver.**

On the other hand, the number of corporate users of the cloud service has steadily increased. Of the company-wide (net) sales growth of +911 million yen in the first half, sales of the cloud service accounted for +583 million yen or 64%. Its sales growth rate (YoY) recovered to +20% and this category was the largest growth driver.

- **Solutions also performed well. The products recovered and their sales increased.**

This was followed by the "solutions and other" category, whose sales grew by +168 million yen, and the products, whose sales grew by +156 million yen. They accounted for 18% and 17% of the total amount of sales growth, respectively. Both of these were driven by greater sales related to the new invoicing system and were also helped by the demand for peripheral services and version upgrades.

【Figure 17】 Each Sales Category's Impact on Sales in the First Half of FY2024 (April to September 2024)



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

- **The number of corporate users of the cloud service surpassed 22,000 as of the end of the first half.**

<u>Cloud</u>

The number of corporate users of the 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), 21,022 at the end of March 2023 (+1,870 YoY), and 22,238 at the end of September 2023(+2,385 YoY) (Figure 6 on page 12 and Figure 18 on page 25).

- **A high net growth rate has been maintained.**

In FY2023, the net increase in the annual number of corporate users fell below 2,000 users, but this seems to have been a reactionary decline due to a part of the event-driven high demand for the products in FY2022 being reflected in the cloud service as well. The rate of net increase has been maintained at a high level in the current fiscal year, too, gaining +2,153 corporate users in Q1 (YoY) and +2,385 corporate users in Q2 (YoY) (Figure 19 on page 25). 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 has slowed compared to before.**

The cloud's sales have been increasing from 2,452 million yen in FY2019 (+598 million yen or +32.3% YoY) to 3,374 million yen in FY2020 (+922 million yen or +37.6% YoY), 4,057 million yen in FY2021 (+683 million yen or + 20.2%), 5,568 million yen in FY2022 (the fiscal year before the previous; +1,511 million yen or + 37.2%), and 5,956 million yen in FY2023 (previous fiscal year; +388 million yen or + 7.0%).

◆ **Cloud service's sales growth rate has recovered to about 20% in the first half of this fiscal year.**

As already mentioned, the cloud service's sales increased by 583 million yen (+20.4%) from 2,860 million yen in the first half of the previous fiscal year to 3,443 million yen in the first half of the current fiscal year, and its rate of sales growth is recovering (+18.7% in Q1 and +21.9% in Q2).

◆ **Average unit price per corporate user is on an upward trend.**

Since the cloud's sales include PCA Hub and PCA Subscription, a simple comparison cannot be made, but the annual sales per corporate user (= annual sales / average number of corporate users of the PCA Cloud during the fiscal year; units of thousand yen per company per year) have been increasing during this period (Figure 18).

On a quarterly basis, the average unit price rose by about 9% YoY in Q2 of the current fiscal year, presumably due to the price revision (Figure 19).

【Figure 18】Change in the (Non-Consolidated) Number of Corporate Users of the Cloud Service and the (Consolidated) Sales of the Cloud Service (yearly and semi-annual change)

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
	Units: companies	Units: 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	–	–	32.3	598	–	–
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	7,282	–	–	22.3	1,326	–	–
First Half of FY2023	19,853	2,860	11.6	2,068	10.2	265	293	24
First Half of FY2024	22,238	3,443	12.0	2,385	20.4	583	318	27

(Ref) Prepared by Alpha-Win Research Dept. from the financial results summary
(Note) Average unit price was calculated by dividing the sales for the period by the average number of users during the period. The annual unit price for the first and the second half is the unit price which has been calculated into the full year (simply multiplied by two for the first half).

【Figure 19】Change in the (Non-Consolidated) Number of Corporate Users of the Cloud Service and the (Consolidated) Sales of the Cloud Service (quarterly change)

Quarter	Number of Corporate Users of the Cloud Service: A	Cloud Service's Sales: B	Quarterly Change in the Number of Corporate Users (companies)				Quarterly Change in Sales (million yen)				Monthly Unit Price of the Cloud Service (thousand yen / company / month)	YoY Diff. for the Left
	Cumulative Number of Users at the End of the Month (units: companies)	For Each Quarter (units: 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)	B (quarterly sales) / Average of A During the Period / 3 months	%
Ended Mar 2021 (Q4)	16,444	1,076	14.8	2,117	—	—	14.0	132	4.3	44		
Ended June 2021 (Q1)	Not disclosed	1,255	—	—	—	—	31.1	298	16.6	179		
Ended Sept. 2021 (Q2)	17,785	1,340	16.5	2,523	—	—	35.1	348	6.8	85		
Ended Dec. 2021 (Q3)	18,578	1,449	—	—	4.5	793	40.4	417	8.1	109	26.6	
Ended Mar. 2022 (Q4)	19,152	1,524	16.5	2,708	3.1	574	41.6	448	5.2	75	26.9	
Ended June 2022 (Q1)	19,441	1,361	—	—	1.5	289	8.4	106	-10.7	-163	23.5	
Ended Sept. 2022 (Q2)	19,853	1,499	11.6	2,068	2.1	412	11.9	159	10.1	138	25.4	
Ended Dec. 2022 (Q3)	20,406	1,512	9.8	1,828	2.8	553	4.3	63	0.9	13	25.0	-5.8%
Ended Mar. 2023 (Q4)	21,022	1,584	9.8	1,870	3.0	616	3.9	60	4.8	72	25.5	-5.3%
Ended June 2023 (Q1)	21,594	1,616	11.1	2,153	2.7	572	18.7	255	2.0	32	25.3	7.5%
Ended Sept. 2023 (Q2)	22,238	1,827	12.0	2,385	3.0	644	21.9	328	13.1	211	27.8	9.3%

(Ref) Prepared by Alpha-Win Research Dept. from the financial results summary
(Note) The cloud service's monthly unit price is the average unit price per month for each three-month period.

Subscription-Based Business

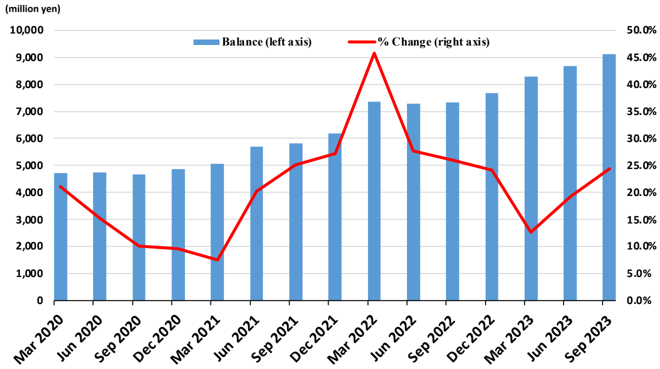
◆ **The sales proportion of the subscription businesses has increased to about 70%.**

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 shall apply hereinafter). The further shift to the cloud has helped increase this proportion to 72.9% in the first half of this fiscal year.

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

Also, the balance of contract liabilities (advances received for the cloud and maintenance services; future sales) has increased steadily from 7,364 million yen at the end of FY2022 to 8,293 million yen at the end of FY2023, and then to 9,112 million yen at of the end of this fiscal year's first half (+819 million yen or +9.9% compared to the end of the previous fiscal year) (Figure 20 on page 26).

【Figure 20】Change in the Balance of Contract Liabilities (units: million yen or %)

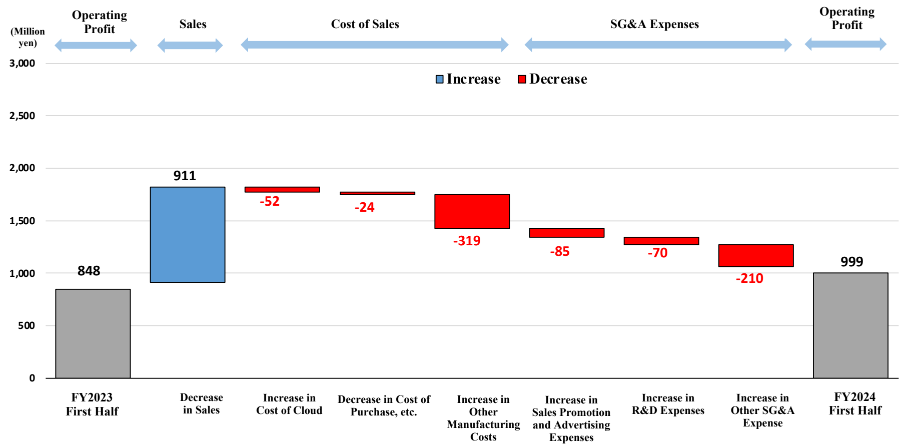


(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary.
(Note) Figures for FY2021 and before are the sum of unearned revenue and long-term unearned revenue. "% Change" is YoY.

Profit

Figure 21 shows the factors contributing to an increase or decrease in consolidated operating profit in the first half of this fiscal year.

【Figure 21】Factors that Increased/Decreased Operating Profit in the First Half of FY2024 (April to September 2023)



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

- **The sales growth absorbed the increase in costs, including subcontracting costs and personnel expenses.**

On a company-wide basis, profit increased by 151 million yen in the first half of the current fiscal year compared to the first half of the previous fiscal year. The only factor contributing to profit growth was the increase in sales (+911 million yen compared to the previous fiscal year's first half), which offset all the negative impact of various increased costs on profit. The cost of sales caused profit to decline by 395 million yen, mainly due to the increase in other manufacturing costs by 319 million yen (including an increase of about 250 million yen in subcontracting costs associated with development).

In addition, SG&A expenses increased by 365 million yen and negatively impacted profit. The majority of the amount of increase was due to other SG&A expenses, which increased by 210 million yen mainly due to higher personnel expenses associated with increasing the number of employees and greater system usage fees. Sales promotion and advertising expenses also increased due to events held in this first half (e.g., PCA Fest).

- **Gross margin declined, while the SG&A expense ratio improved, and the operating margin rose by 0.4%.**

Profit Margins and SG&A Expense Ratio

The gross margin deteriorated by 0.9 percentage point from the previous first half to 62.6% in this first half due to the previously mentioned increase in development and subcontracting costs. SG&A expenses increased, but their rate of increase was 11.9%, which was smaller than the sales growth rate of 14.8%. Consequently, the SG&A expense ratio declined by 1.2 percentage point from 49.7% to 48.5%. As a result, the operating margin improved by 0.4 percentage point, from 13.7% to 14.1%.

Analyzing the factors that increased/decreased profit in terms of profit margins, we estimate that the increase in profit due to the improvement in the operating margin was 28 million yen (= rise in operating margin x sales for the first half of the current fiscal year = 0.4% x 7,074 million yen), while the increase in profit due to the increase in sales was 123 million yen (overall amount of increase in profit - increase in profit due to the improvement in operating margin = 151 million yen - 28 million yen ≈ overall amount of increase in sales x operating margin in the previous first half = 911 million yen x 13.7%) and was therefore greater.

- **Due to upfront investment costs, the operating and recurring margins only slightly exceeded the sales growth rate.**

Since the Company's business model is characterized by a high marginal profit ratio, the increase in sales should have led to a significant improvement in the operating margin, such that the operating margin and recurring margin growth rates significantly exceed the rate of increase in sales. However, in the first half of this fiscal year, both growth rates only rose to a limited extent due to the rise in upfront investment costs.

- **Operating loss was recorded in Q4 of the previous fiscal year, but in Q1 and Q2 of the current fiscal year, both sales and profit increased and an operating profit was posted.**

Quarterly Financial Results

Looking at the quarterly results, the Company had posted an operating loss in Q4 of the previous fiscal year due to its emphasis on upfront investments, but profits were posted in both Q1 and Q2 of the current fiscal year (Figure 22). In Q1, sales were 3,387 million yen (+14.7% YoY) and operating profit was 428 million yen (+38.5% YoY), and in the following Q2, sales were 3,687 (+14.9% YoY) and operating profit was 570 million yen (+5.9% YoY). The Company maintained a sales growth and turned profitable again. The operating margin rose significantly from -1.5% in the previous fiscal year's Q4 to 12.6% and 15.5%, respectively, recovering to almost the same level as the same period of last fiscal year (10.5% and 16.8%).

【Figure 22】Quarterly Change in Financial Performance

Results		FY2022 Q1	FY2022 Q2	FY2022 First Half	FY2022 Q3	FY2022 Q4	FY2022 Second Half	FY2022 Full Year
Units: million yen		(Apr-Jun)	(Jul-Sep)	Apr-Sep 2021	(Oct-Dec)	(Jan-Mar 2022)	Oct 2021 - Mar 2022	
Consolidated Sales		3,328	3,281	6,609	3,535	3,238	6,773	13,382
Sales by Category	Products	935	783	1,718	745	491	1,236	2,954
	Merchandise	85	82	167	190	82	272	439
	Maintenance Service	820	826	1,646	833	837	1,670	3,316
	Cloud Service	1,255	1,340	2,595	1,449	1,524	2,973	5,568
	Other Operating Revenue	231	250	481	318	304	622	1,103
Gross Profit		2,284	2,222	4,506	2,284	2,019	4,303	8,809
	Gross Margin (%)	68.6	67.7	68.2	64.6	62.4	63.5	65.8
SG&A Expenses		1,309	1,444	2,753	1,474	1,926	3,400	6,153
	SG&A Expense Ratio (%)	39.3	44.0	41.7	41.7	59.5	50.2	46.0
Operating Profit		975	778	1,753	810	92	902	2,655
	Operating Margin (%)	29.3	23.7	26.5	22.9	2.8	13.3	19.8
Recurring Profit		987	795	1,782	817	98	915	2,697
	Recurring Margin (%)	29.7	24.2	27.0	23.1	3.0	13.5	20.2
Net Profit		614	835	1,449	819	99	918	2,367
	Net Profit Margin (%)	18.4	25.4	21.9	23.2	3.1	13.6	17.7

Results		FY2023 Q1	FY2023 Q2	FY2023 First Half	FY2023 Q3	FY2023 Q4	FY2023 Second Half	FY2023 Full Year
Units: million yen		(Apr-Jun)	(Jul-Sep)	Apr-Sep 2022	(Oct-Dec)	(Jan-Mar 2023)	Oct 2022 - Mar 2023	
Consolidated Sales		2,954	3,209	6,163	3,370	3,448	6,818	12,981
Sales by Category	Products	241	316	557	308	284	592	1,149
	Merchandise	108	114	222	210	145	355	577
	Maintenance Service	838	850	1,688	800	839	1,639	3,327
	Cloud Service	1,361	1,499	2,860	1,512	1,584	3,096	5,956
	Other Operating Revenue	404	430	834	541	594	1,135	1,969
Gross Profit		1,829	2,083	3,912	2,064	2,075	4,139	8,051
	Gross Margin (%)	61.9	64.9	63.5	61.2	60.2	60.7	62.0
SG&A Expenses		1,520	1,545	3,065	1,570	2,128	3,698	6,763
	SG&A Expense Ratio (%)	51.5	48.1	49.7	46.6	61.7	54.2	52.1
Operating Profit		309	538	847	493	-52	441	1,288
	Operating Margin (%)	10.5	16.8	13.7	14.6	-1.5	6.5	9.9
Recurring Profit		315	556	871	501	-46	455	1,326
	Recurring Margin (%)	10.7	17.3	14.1	14.9	-1.3	6.7	10.2
Net Profit		142	352	494	330	59	389	883
	Net Profit Margin (%)	4.8	11.0	8.0	9.8	1.7	5.7	6.8

Results		FY2024 Q1	FY2024 Q2	FY2024 First Half	FY2024 Second-Half Forecast	FY2024 Full-Year Forecast
Units: million yen		(Apr-Jun)	(Jul-Sep)	Apr-Sep 2023	Oct 2023 - Mar 2024	
Consolidated Sales		3,387	3,687	7,074	7,626	14,700
Sales by Category	Products	349	364	713	690	1,403
	Merchandise	95	103	198	349	547
	Maintenance Service	839	876	1,715	1,644	3,359
	Cloud Service	1,616	1,827	3,443	3,839	7,282
	Other Operating Revenue	486	516	1,002	1,107	2,109
Gross Profit		2,116	2,313	4,429	4,368	8,797
	Gross Margin (%)	62.5	62.7	62.6	57.3	59.8
SG&A Expenses		1,688	1,742	3,430	3,921	7,351
	SG&A Expense Ratio (%)	49.8	47.2	48.5	51.4	50.0
Operating Profit		428	570	998	447	1,445
	Operating Margin (%)	12.6	15.5	14.1	5.9	9.8
Recurring Profit		436	590	1,026	452	1,478
	Recurring Margin (%)	1.3	1.6	1.5	0.6	1.0
Net Profit		266	394	660	265	925
	Net Profit Margin (%)	7.9	10.7	9.3	3.5	6.3

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

- **In recent years, the Company have been strategically making more investments in Q4, which have reduced profit as a result.**

Note that in Q4 FY2022 and Q4 FY2023, the SG&A expense ratio largely rose compared to Q1 through Q3 of each fiscal year, while the operating margin declined (simple average of the operating margin from Q1 to Q3 for each fiscal year was 25.3% and 14.0%, respectively, whereas it was +2.8% and -1.5% in Q4). The main reason is that the Company had strategically increased upfront investments, such as development costs and personnel expenses, in the last quarter of each fiscal year to prepare for future growth.

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

Summary of the Full-Year Forecast

- **The Company has maintained the forecasts for this fiscal year that have been made at the beginning of the fiscal year. Expecting double-digit growths in sales and operating profit, as well as record-high sales.**

There has been no change to the full-year plan that the Company has announced at the beginning of the fiscal year. In FY2024 (the current fiscal year), the Company expects double-digit growths in sales and operating profit, with sales of 14,700 million yen (+13.2% YoY), operating profit of 1,445 million yen (+12.2% YoY), recurring profit of 1,478 million yen (+11.4% YoY), and net profit of 925 million yen (+4.8% YoY) (center left column of Figure 23).

Sales for the current fiscal year are expected to hit a record high for first time in four fiscal years, exceeding the 14,266 million yen recorded in FY2020 when there was an event-driven, high demand.

- **The Company may conduct cost control to some extent achieve the forecasted profits for the full year.**

To achieve the final profit goal, the Company may either increase or suppress expenditure depending on changes in the internal and external conditions.

【Figure 23】Financial Forecast for This Fiscal Year (the Company's plan and Alpha-Win's forecasts)

Consolidated (units: million yen)		FY2023	FY2024: Company Forecast			FY2024: Alpha-Win's New Forecast (current)			Difference bet. Alpha-Win's New Forecast and Company Forecast	FY2024: Alpha-Win's Old Forecast (previous)			Difference bet. Alpha-Win's New and Old Forecasts
		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	New Forecast - Company Forecast	New Revenue-Recognition Standard	YoY: Diff. in amount / Diff.	YoY: % change	New Forecast - Old Forecast
Sales		12,981	14,700	1,719	13.2%	14,900	1,919	14.8%	200	14,800	1,819	14.0%	100
Sales by Category	Products	1,149	1,403	254	22.1%	1,500	351	30.5%	97	1,600	451	39.3%	-100
	Merchandise	577	547	-30	-5.2%	520	-57	-9.9%	-27	520	-57	-9.9%	0
	Maintenance Service	3,327	3,359	32	1.0%	3,360	33	1.0%	1	3,330	3	0.1%	30
	Cloud Service	5,956	7,282	1,326	22.3%	7,300	1,344	22.6%	18	7,100	1,144	19.2%	200
	Other Operating Revenue	1,969	2,107	138	7.0%	2,220	251	12.7%	113	2,250	281	14.3%	-30
Gross Profit		8,051	8,797	746	9.3%	9,300	1,249	15.5%	503	9,050	999	12.4%	250
	Gross Margin	62.0%	59.8%	-2.2%		62.4%	0.4%		2.6%	61.1%	-0.9%		1.3%
SG&A Expenses		6,763	7,351	588	8.7%	7,300	537	7.9%	-51	7,480	717	10.6%	-180
	SG&A Expense Ratio	52.1%	50.0%	-2.1%		49.0%	-3.1%		-1.0%	50.5%	-1.6%		-1.5%
Operating Profit		1,288	1,445	157	12.2%	2,000	712	55.3%	555	1,570	282	21.9%	430
	O.P. Margin	9.9%	9.8%	-0.1%		13.4%	3.5%		3.6%	10.6%	0.7%		2.8%
Recurring Profit		1,326	1,478	152	11.4%	2,030	704	53.1%	552	1,600	274	20.7%	430
	R.P. Margin	10.2%	10.1%	-0.2%		13.6%	3.4%		3.6%	10.8%	0.6%		2.8%
Net Profit Attributable to Owners of the Parent		883	925	42	4.8%	1,220	337	38.2%	295	1,000	117	13.3%	220
	N.P. Margin	6.8%	6.3%	-0.5%		8.2%	1.4%		1.9%	6.8%	0.0%		1.4%
Annual Dividend Per Share (yen)		17.0	17.0	0.0		19.0			2.0	18.0			1.0

(Ref) Prepared by Alpha-Win Research Dept.

Summary of the Full-Year Forecast (Sales)

- **Prices have been revised.**

For the current fiscal year, the Company expects overall sales to grow by 1,719 million yen YoY (+13.2%) due to an increase in the cloud service's sales, the overall price revision of the main products and services (revised in July; rate of price increase was approx. 20%), and sales of the Hub series.

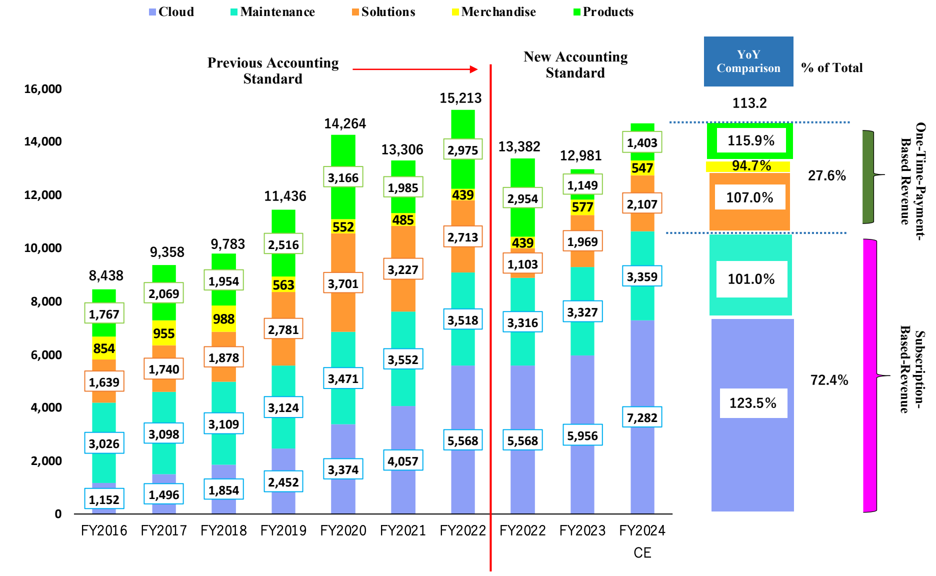
- **Cloud and solutions are expected to continue to grow. The products' sales are expected to recover since there will no longer be a reactionary drop from the previous event-driven high demand.**

The sales forecast for each sales category is also unchanged from the initial plan. Sales of the cloud service are expected to increase by 1,326 million yen (+22.3% YoY) to account for 77% of the total forecasted amount of increase in sales.

This is expected to be followed by the sales of the products and solutions, which are forecasted to increase by 254 million yen (+22.1% YoY) and 138 million yen (+7.0% YoY), respectively, since there will no longer be a reactionary drop from the previous fiscal year's event-driven high demand. Their contribution to total sales growth is expected to be 15% and 8%, respectively (Figure 24 on page 29). As a result, the sales proportion of the subscription businesses is planned to rise to 72.4% (already achieved in the first half at 72.9%).

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

【Figure 24】Change in Sales and This Fiscal Year's Forecasted Sales Breakdown by Category (units: million yen or %)



(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 announced its sales forecast based on both the previous and the new standard for FY2022. "% of Total" is based on the Company's forecast for FY2024.

- **Sales growth rate in the first half exceeded the Company's plan for the full year, especially due to the solutions and the products.**

A simple comparison of each sales category's sales growth rate between the first-half results and the full-year forecasts shows that the sales growth rate of the solutions and the products in the first half exceeded the full year plan by about 13 percentage points and 6 percentage points, respectively. On the other hand, merchandise fell short of the plan by about 5 percentage points, and maintenance was mostly in line with the plan. The cloud service grew at a high rate, but was about 2 percentage points below the full-year forecast. The company-wide sales growth rate was +14.8% in the first half, which was 1.6 percentage points higher than the plan of +13.2%.

Summary of the Full-Year Forecast (Profit)

Figure 25 on page 30 shows the factors that are expected to increase or decrease consolidated operating profit (YoY) in the current fiscal year (no change from the initial plan).

- **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, it will increase the cost of sales (+180 million yen YoY in labor costs and +660 million yen YoY in subcontracting costs), the R&D expenses (+285 million yen YoY), and other SG&A expenses (+332 million yen YoY, including system usage fees and rent expenses). However, the Company expects the increase in sales (+1,719 million yen) to absorb all of these costs, resulting in an increase in profit.

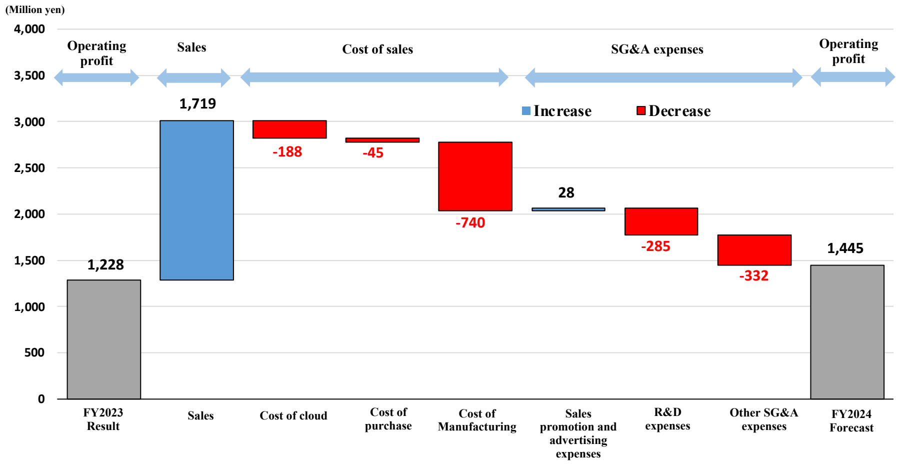
- **As in the first half, a decline in the gross margin is expected to be offset by an improvement in the SG&A expense ratio.**

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

- **Due to upfront investment costs, the operating 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 operating profit growth rate to be about the same this fiscal year due to upfront investment costs. No major non-operating or extraordinary income/losses are expected this fiscal year either.

【Figure 25】 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.

Summary of Forecast for This Second Half (Sales and Profit)

The Company's forecast for the second half of this fiscal year, calculated by subtracting the first half's results from the full-year forecasts, is as follows.

【Figure 26】 Financial Forecast for the Second Half of FY2024 (the Company's plan)

Results Units: million yen		Second-Half Results Second Half of FY2023 Oct. 2022 - Mar. 2023	Second Half of FY2024: CE Oct. 2023 - Mar. 2024	% Change YoY: %	Amount of Change YoY: million yen	% of Total %
Consolidated Sales		6,818	7,626	11.9	808	100.0
Sales by Category	Products	592	690	16.6	98	9.0
	Merchandise	355	349	-1.7	-6	4.6
	Maintenance Service	1,639	1,644	0.3	5	21.6
	Cloud Service	3,096	3,839	24.0	743	50.3
	Other Operating Revenue	1,135	1,105	-2.6	-30	14.5
Gross Profit		4,139	4,368	5.5	229	
	Gross Margin (%)	60.7	57.3		-3.4	
SG&A Expenses		3,688	3,921	6.3	233	
	SG&A Expense Ratio (%)	54.1	51.4		-2.7	
Operating Profit		441	447	1.4	6	
	Operating Margin (%)	6.5	5.9		-0.6	
Recurring Profit		455	452	-0.7	-3	
	Recurring Margin (%)	6.7	5.9		-0.7	
Net Profit		389	265	-31.9	-124	
	Net Profit Margin (%)	5.7	3.5		-2.2	

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

- **Operating profit is expected to increase slightly in the second half of the fiscal year, despite a double-digit sales growth. Plans to strengthen sales promotion.**

In the second half of FY2024, the Company expects sales of 7,626 million yen (+11.9% YoY), operating profit of 447 million yen (+1.4% YoY), recurring profit of 452 million yen (-0.7% YoY), and net profit of 265 million yen (-31.9% YoY). It expects a double-digit sales growth but a slight increase in operating profit and a more than 30% decline in net profit (Figure 26). The Company plans to intensively spend advertising expenses in the second half, especially in Q4. In the first-half financial results briefing by the CEO, it was clear that the Company is confident of achieving the full-year targets.

Status of Initiatives for Achieving the Current Fiscal Year's Business Plan at Each Company of the PCA Group

The following (Figure 27) shows the status of initiatives (themes, matters that are addressed, plans, current status, and progress) for the current fiscal year's business plan that the major companies of the PCA Group are working on. Measures are generally being implemented in line with the plan.

【Figure 27】(Progress with) Initiatives for FY2024 (this fiscal year)

Company Name	Initiative	Plan	Curren Situation and Progress
PCA	Response to law revisions	・Meet needs related to the new invoicing system and the Electronic Books Presevation Act ・Promote the shift to the cloud and subscription versions ・Promote sales of the Hub series to facilitate compliance with law revisions ・Thorough and focused engagement in negotiations for digitalization projects	・New demand related to the revised Electronic Books Preservation Act, the new invoicing system, and DX expected in the second half as well ・Focusing on the Hub series to appeal to users who have not yet adjusted to the law revisions
	Strengthen development	Increase recruitment, while also using outsourcing to fill in for shortages	Shortage of engineers; carrying out the recruitment plan
	Health management	Raise market penetration of Dreamhop's mental health services	Expanding service by proposing improvement plans based on the results of company diagnosis
	Post-COVID19	Enhance customer touchpoints	Online business meetings and remote work have become normal, but more employees are also returning to the office.
	Price revision	Revised in July 2023	Raised prices of main products by about 20% as planned
Xronos	Cloud shift	Promote the shift to the cloud by developing, advertising, and providing software, as well as providing various guidance and support	Since solid progress has been made toward achieving FY2024's goal to raise the number of new users of the cloud services by 20% YOY, TV commercials will be broadcast in the second half.
		Recommend cloud services to existing customers upon product replacement	Steadily increasing recommendations of the cloud services (increasing number of user accounts and corporate users)
	Strengthen related services	Develop services that digitalize various internal processes Strengthen the linkage of various services (such as the PCA series) with the cloud or with enterprise systems	Released a function which enables API (Application Programming Interface) linkage with the time clock data of LINE WORKS
	Gain new customers	Improve the acquisition of new customers by strengthening digital marketing and developing new channels	Preparing to collaborate with security product makers (fire alarm manufacturer and access control system provider) as new channels
Dreamhop	Project enhancement	・Strengthen projects with companies of the private sector ・Leveraging collaboration with PCA as well as its networks ・Strengthen digital marketing initiatives	Working with PCA to enhance contacts with professional firms and strengthen alliances with EAP (Employee Assistance Program) providers
	Differentiate through value adding	・Provide an integrated service starting from individual stress checks to conducting group analysis that identifies the negative factors in the workplace based on those results, and then providing consulting services for organization improvement ・Promote well-being, improvement of employee engagement, and health management	・Working on differentiation (a new plan released for the Mental Health Program ORIZIN) ・Comes with a new group analysis report that is based on a psychological correlation diagram and an analysis report session in which a specialist will explain and help understand the report
	R&D		Started research on the correlation between stress and well-being with Keio University's Maeno Laboratory, which is also participated by Nissin HD (and 3 other companies)

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 have again revised our financial forecast for the current fiscal year upward.**

We reviewed our forecast again for the current fiscal year, taking into account the the first half's results, the Company's plan for the current fiscal year, and the current situation (Figure 23 on page 28).

We raised our sales forecast from 14,800 million yen in our previous forecast (as of the report published in August 2023) to 14,900 million yen, operating profit from 1,570 million yen to 2,000 million yen, and net profit from 1,000 million yen to 1,220 million yen. Accordingly, we also revised our dividend forecast upward from 18 yen to 19 yen. Compared to the Company's plan, our new forecast is 200 million yen greater for sales (+1.4% compared to the Company's plan), 555 million yen greater for operating profit (similarly, +38.4%), 295 million yen greater for net profit (similarly, +31.9%), and 2 yen higher than the Company for dividend.

- **Strong sales for the cloud, solutions, and products, which have high profit margins.**

In addition to the strong performance of the cloud service, sales of the products and solutions have also been exceeding expectations. These sales categories seem to have high profit margins, so we expect them to contribute to the Company's plan in terms of both sales and profits.

Regarding profit, the increase in costs is a point of concern, since there is inflation in addition to the continued high level of upfront investments in development and in increasing the number of employees. However, the Company's full-year forecasts for sales and profit margins seem conservative since the first half's sales growth rate was higher than expected and was able to absorb the cost increase, and the Company has estimated the increase in the cost of the cloud, R&D expenses, and other manufacturing costs be greater than they actually would most likely turn

- **The assumptions/estimates for the second half of the fiscal year seem conservative.**

out to be in the second half (analyzed by subtracting the factors that impacted operating profit in the first half from the factors that are planned to impact operating profit in the full fiscal year). In addition, the price hikes are expected to fully conribute to the second half's earnings, and demand from the two major law reforms is also expected. Therefore, the Company is likely to exceed its plan if it exercises appropriate cost control.

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.**

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 a stagnation of economic activities in response to an outbreak of infection or its prolongation, the inflation and logistics disruption caused by the Russian invasion of Ukraine, increased geopolitical risk due to the Israel-Hamas war, the global economic downturn, wild fluctuations of exchange rates, and revisions of Japan's loose monetary policy. These may cause the corporate users to refrain from purchasing products and services or to postpone their implementation.

- **Since the Company is mainly focused on subscription businesses and benefits from digitalization and work-style reforms, the risks are limited.**

However, any further adverse effects by external factors will most likely be limited. Additionally, the current services of the PCA Group are centered on stable subcription businesses and the Company's businesses and operations have a high affinity with remote work and work-from-home. It also benefits from the digitization and work-style reforms of companies and the society. Also, in the current fiscal year, Japanese companies' financial performance is forecasted to remain strong with growth in both sales and profits, and risks due to macroeconomic factors are expected to be limited.

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

Other risks include increase in costs due to rising labor costs, personnel expenses, 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.

- **The impact of the new invoicing system and the revision of the Electronic Books Preservation Act on business performance will be a key point.**

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 the new regulations. Their impact on sales and profit (especially on the upside) should be closely watched.

- **In the medium- to long-term, the M&A strategy and whether it succeeds are some of the key points.**

In addition, if a new M&A is conducted, whether it succeeds or not will impact business performance. Going forward, the Company will need to improve the efficiency of capital investment from the perspective of (1) identifying M&A targets that are expected to create high synergies and quickly contribute to the PCA Group's performance and (2) effectively utilizing its abundant cash and deposits for its growth strategy (for example, acquiring profitable companies and businesses which are related to the Company's business and which have little goodwill at the time of acquisition and are therefore undervalued, or closing and selling unprofitable businesses).

8. Growth Strategy

◆ Medium- to Long-Term Vision and Policy

Long-Term Vision

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

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."

New Medium-Term Management Plan

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

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 priority measures based on four themes.**
- **The main pillars of the medium-term plan are to strengthen the subscription-based business model, meet digitalization needs, create business opportunities, and strengthen its development and service system as well as management foundation.**

There has been no change to this medium-term plan so far. To provide total solution services centered on software, it has been working on the following themes: (i) establish a strong revenue base for the core businesses, (ii) create new business opportunities, (iii) strengthen monozukuri (creation of things) with a focus on safety, security, and anticipation of needs, and (iv) strengthen the management foundation toward a high-profit structure (for details of the priority measures and their progress, see Figure 29 on page 34 of the full report published in June 2023).

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[15] of operation by small/medium-sized companies.

(15) DX: Stands for Digital Transformation. Changing lifestyles and businesses through digital technologies.

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

◆ Management Indicators Set as Goals

Numerical Goals of the New Medium-Term Plan

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

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 returns (Figure 28 on page 34). These targets have not been changed so far. 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 a high hurdle.**

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 deviation, with the exception of sales and dividend payout ratio. In particular, achieving the targets for consolidated operating profit, ROE, and DOE is realistically a high hurdle.

【Figure 28】Goals of the Medium-Term Management Plan and Their Progress/Outlook

Goals of the Current Medium-Term Management Plan (FY2022 - FY2025)		FY2025: Company Plan	FY2024: Company Plan	Record High	Goals and Results of the Final Year of the Previous Medium-Term Management Plan (FY2022)		
					Results	Initial Goals (as of April 2019)	Revised Goals (Previous FY)
Business Performance	• Consolidated Sales	Y15 billion or more	Y14.7 billion	Y14.27 billion (FY2020)	Y13.38 billion	Y11.5 billion or more	Y13.5 billion or more
	Of which, sales of the subscription businesses (maintenance & cloud)	Y9.5 billion or more	Y10.64 billion	Y9.28 billion (FY2023)	Y8.88 billion	Achieve Y6 billion	Achieve Y7.5 billion
	• Consolidated Operating Profit	Y2.5 billion or more	Y1.45 billion	Y2.78 billion (FY2020)	Y2.65 billion	Y1.5 billion or more	Y2.1 billion or more
	• 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)	19.8%	10% or more	15% or more
Asset Efficiency	• ROE	10% or more	5.2% (Alpha-Win's estimate)	14.4% (FY2022)	14.4%		
Shareholder Return	• DOE	2.5%	1.9% (Alpha-Win's estimate)		2.9%		
	• Dividend Payout Ratio	30.0%	36.7%		20.3%		

(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 revised our medium-term financial forecasts.

We reviewed our medium-term forecast for the three fiscal years including the current fiscal year (Figure 29 on page 36). For the next fiscal year and the fiscal year after the next, we have kept our sales forecast the same and upwardly revised our profit and dividend forecasts.

Macroeconomic Assumptions

◆ We have assumed that the Japanese economy will remain solid after this fiscal year too.

The outllook of the macroeconomic environment is unclear due to factors such as the depreciation of the yen, inflation due to soaring resource prices, geopolitical risks, and recession worries. However, socieal and economic activities are returning to normal, so we have assumed that corporate earnings and IT investments by companies in Japan will improve. At present, we do not anticipate any high demand related to tax systems, accounting standards, and product versions.

Estimates/Asusmptions Used for Sales, Expenses, and Profits

◆ We reconsidered our 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, the cloud, and other operating revenue (solutions and other). We continue to predict that the merchandise's sales will decline as more companies shift to paperless operations 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.

On the other hand, we predict that the Company will be able to control its results to a certain extent due to the increase in the cloud's sales (growth of about 10-20% 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 businesses. We therefore predict that although the SG&A expense ratio will gradually increase, the gross margin will improve so that 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 service (accounting software, work management software, etc.) is high, we believe that it will continue to be the growth driver, absorbing the increase in upfront investments, sales promotion expenses, and personnel expenses 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 growth trend for sales and profit.

Forecast for the Next Fiscal Year (FY2025)

- **We raised our profit forecasts for the next fiscal year.**

For the next fiscal year, we have kept our forecast for sales the same at 15,520 million yen, but we have raised our forecast (in the order of our previous forecat to our new forecast) for operating profit from 1,700 million yen to 2,100 million yen, recurring profit from 1,730 million yen to 2,130 million yen, and net profit from 1,080 million yen to 1,280 million yen.

- **The price hikes are expected to fully contribute to the results. The cloud service is expected to continue to grow, while the costs will remain high but peak out.**

We expect sales to increase due to the price hikes fully contributing to earnings (they will only contribute to about nine months of earnings for this fiscal year since prices were raised in July) and the steady growth of both the cloud service and the products. Although a high level of upfront investment and high costs due to inflation will most likely continue in the next fiscal year, we expect them to peak out and have reflected this expectation in our forecasts.

- **In the next fiscal year, the growth rates are expected to slow down, but we expect increases in sales and profits, as well as consecutive increases in dividend.**

Although we have upwardly revised our forecasts for the next fiscal year, we expect the growth rate to be slower than our new forecast for FY2024, at a 4.2% growth rate for sales and a 5.0% growth rate for operating profit. However, since we expect that the Company will continue to increase sales and profit in the next fiscal year, we have raised our forecast for dividend per share by 1 yen from this fiscal year's forecast to 20 yen.

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

Compared to the Company's medium-term management plan whose sales goal is 15,000 million yen, our forecast is 520 million yen higher, but for operating profit, our forecast is 400 million yen lower than the Company's target of 2,500 million yen. To achieve the profit target, the Company would need an event-driven high demand or need to reduce upfront investments and costs, achieve a recovery in Dreamhop's performance, and have its new services contribute significantly to earnings.

Forecast for the Fiscal Year After the Next (FY2026)

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

For the fiscal year after the next, we have maintained our sales forecast at 16,500 million yen (+6.3% YoY), while we have raised our operating profit forecast from 1,800 million yen to 2,250 million yen (+7.1% YoY) and our net profit forecast from 1,135 million yen to 1,350 million yen (+5.5% YoY). We also raised our forecast for dividend per share to 21 yen, which is 1 yen greater than our forecast for FY2025.

Forecasted Profit Growth Rate over the Medium/Long Term

- **We 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.**

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 company-wide profit growth rate exceeding the sales growth rate. Over the medium term (three to five years starting this fiscal year), we had previously expected that the subscription business (manily the cloud service) will drive growth so that the annual profit growth rate will be 8-10% (based on normalized figures excluding the effects of event-driven high demand).

- **With the subscription business as the growth driver, we expect the annual profit growth rate over the medium to long term to be 5-8%.**

However, we have revised our forecast to a 5-8% profit 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, and also because there have been delays in the contribution of the new businesses to profit.

Finding and developing new growth businesses that will contribute to earnings will mostly likely impact the Company's future growth rate.

【Figure 29】Medium-Term Financial Forecast

	Units: million yen or %	FY2022	FY2023	FY2024: CE	FY2024: New E	FY2025: New E	FY2026: New E	FY2025 CE Medium-Term Plan	FY2024 Old E	FY2025 Old E	FY2026 Old E
Sales		13,382	12,981	14,700	14,900	15,520	16,500	15,000	14,800	15,520	16,500
Category	Products	2,954	1,149	1,403	1,500	1,550	1,600		1,600	1,500	1,600
	Merchandise	439	577	547	520	500	480		520	530	520
	Maintenance Service	3,316	3,327	3,359	3,360	3,350	3,340	9,500	3,330	3,370	3,380
	Cloud Service	5,568	5,956	7,282	7,300	8,100	9,050		7,100	8,100	9,100
	Other Operating Revenue	1,103	1,969	2,107	2,220	2,020	2,030		2,250	2,020	1,900
Gross Profit		8,808	8,051	8,797	9,300	10,000	10,750		9,050	9,750	10,400
Gross Margin		65.8%	62.0%	59.8%	62.4%	64.4%	65.2%		61.1%	62.8%	63.0%
SG&A Expenses		6,153	6,763	7,351	7,300	7,900	8,500		7,480	8,050	8,600
	(ratio to sales)	46.0%	52.1%	50.0%	*49.0%*	*50.9%*	*51.5%*		50.5%	*51.9%*	*52.1%*
Operating Profit		2,655	1,288	1,445	2,000	2,100	2,250	2,500	1,570	1,700	1,800
	(ratio to sales)	19.8%	9.9%	9.8%	*13.4%*	*13.5%*	*13.6%*	*16.7%*	*10.6%*	*11.0%*	*10.9%*
Recurring Profit		2,697	1,326	1,478	2,030	2,130	2,280		1,600	1,730	1,820
	(ratio to sales)	20.2%	10.2%	10.1%	*13.6%*	*13.7%*	*13.8%*		*10.8%*	*11.1%*	*11.0%*
Net Profit		2,367	883	925	1,220	1,280	1,350		1,000	1,080	1,135
	(ratio to sales)	17.7%	6.8%	6.3%	*8.2%*	*8.2%*	*8.2%*		*6.8%*	*7.0%*	*6.9%*
Sales (YoY growth rate)		0.6%	-3.0%	13.2%	14.8%	4.2%	6.3%		14.0%	4.9%	6.3%
Category	Products	48.8%	-61.1%	22.1%	30.5%	3.3%	3.2%		39.3%	-6.3%	6.7%
	Merchandise	-9.5%	31.4%	-5.2%	-9.9%	-3.8%	-4.0%		-9.9%	1.9%	-1.9%
	Maintenance Service	-6.6%	0.3%	1.0%	1.0%	-0.3%	-0.3%		0.1%	1.2%	0.3%
	Cloud Service	37.2%	7.0%	22.3%	22.6%	11.0%	11.7%		19.2%	14.1%	12.3%
	Other Operating Revenue	-65.8%	78.5%	7.0%	12.7%	-9.0%	0.5%		14.3%	-10.2%	-5.9%
Gross Margin (% YoY diff.)		5.7%	-3.8%	-2.2%	0.4%	2.0%	0.7%		-0.9%	1.7%	0.2%
SG&A Expenses (% growth)		8.2%	9.9%	8.7%	7.9%	8.2%	7.6%		10.6%	7.6%	6.8%
Operating Profit (% growth)		7.6%	13.3%	12.2%	55.3%	5.0%	7.1%	16.0%	21.9%	8.3%	5.9%
Recurring Profit (% growth)		14.7%	-51.5%	11.4%	53.1%	4.9%	7.0%		20.7%	8.1%	5.2%
Net Profit (% growth)		14.1%	-50.0%	4.8%	38.2%	4.9%	5.5%		13.3%	8.0%	5.1%

(Ref) Prepared by Alpha-Win Research Dept. CE: the Company's forecast/estimate. E: Alpha-Win's forecast/estimate. Old E: the previous forecast. New E: the current forecast.

9. Analyst's View

◆ PCA's Strengths and Challenges

The Company's SWOT analysis has been updated and the results are listed in Figure 30. There has been no major change.

【Figure 30】SWOT Analysis

Strength	・Brand recognition and credibility earned over many years (major specialized player in the enterprise system software market targeting 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); subscription businesses are about 73% of total sales ・Strong and diversified customer base (240,000 corporate users in total); largest customer is RICOH (about 25% of total sales) ・Taking a lead with the cloud (top-level company for enterprise system software business targeting small/medium-sized companies; expertise; more than 22,000 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 cloud services ・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 version, etc.) ・Sluggish performance of Dreamhop; delay in the contribution of the new services and products to earnings ・Absence of a major, next-generation, growth-driving product/service ・Domestic-demand oriented; overseas expansion difficult
Opportunity	・Increasing demand due to labor shoratage and the neeed 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 laws and regulations related to accounting, 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 performance 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, through its maintenance support, cloud services and version upgrades, the Company has developed a subscription-based business model that is highly maintainable and stable. It is leading the market with the cloud service, which has a high growth potential, and its competitive edge and top-level performance are its strengths.

Also, it has a solid financial base with no debt and abundant cash and deposits which exceed the annual sales. These are enhancing the stability, reliability, and flexibility of management.

- **The challenge will be to turn Dreamhop profitable and develop the next pillars of new products/services.**

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. Also, about three years have passed since the acquisition of Dreamhop. Even though the Company has been working on bolstering its performance by increasing its capital, collaborating within the PCA Group, and expanding its sales network and services, its performance appears to have been sluggish. There also seems to be a delay in the contribution of the new services and products to earnings, which is another challenge.

◆ **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 (this fiscal year's revised Electronic Books Preservation Act and new invoicing system are not expected to have as much of an impact as an event-driven high demand).

◆ **Aiming for non-price competition. 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 followed suit and with service providers that provide limited functions at lower prices 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. Regarding shareholder returns, 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.

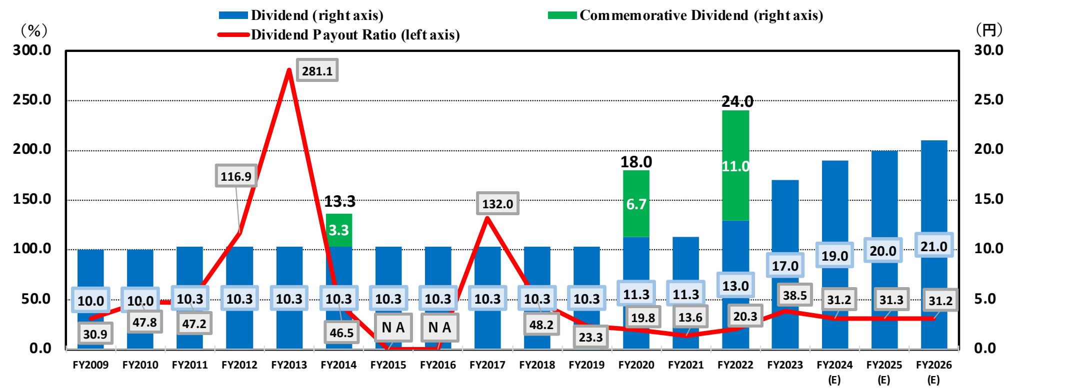
Dividend History

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

For many years since FY2011, the Company had been paying an annual ordinary dividend of 10.3 yen per share, excluding commemorative dividend (retroactively adjusted for the stock split; the same shall apply hereinafter). In FY2020, it increased dividend by 1 yen to 11.3 yen per share. It then raised dividend consecutively to 13.0 yen (+1.7 yen) in FY2022 and to 17.0 yen (+4.0 yen) in FY2023. During this period, the Company also paid commemorative dividends three times.

In recent years, the Company seems to be gradually increasing its ordinary dividend and also intentionally paying commemorative dividends whenever there is an opportunity (Figure 31).

【Figure 31】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.

◆ **This fiscal year, it plans to continue to pay dividends of 17 yen/share and exceed the target dividend payout ratio of 30%.**

The target dividend payout ratio is 30%, but the actual ratio was 13.6% in FY2021 and 20.3% in FY2022, both falling 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, the Company plans 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 1,111 yen (closing price of December 15, 2023), this fiscal year's dividend yield is estimated to be about 1.5%.

◆ **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% (our estimate based on the Company's current forecasts).

◆ **Enhancing shareholder returns.**

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 enhancing shareholder returns.

Dividend Yield

◆ **The actual annual net yield including the shareholder benefit program is about 2.1% (at maximum).**

As a shareholder return measure, the Company has a shareholder benefit program and gives out Quo Cards to shareholders based on the number of shares they own 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 2,000 yen of Quo Card. Based on a stock price of 1,111 yen, the actual annual net yield for a shareholder owning 300 shares is about 2.1% (at maximum) including an ordinary dividend of 17 yen and the shareholder benefit program (Figure 32).

Based on the same conditions, the actual annual net yield of its two competitors is about 1.5% for OBC (4733: Obic Business Consultants) (including its shareholder benefit program) and about 2.7% for MJS (9928: Miroku Jyoho Service) (only dividend yield since it does not have a shareholder benefit program).

【Figure 32】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	2.13
900	1500	3,000	17	1.83
1,500		4,000	17	1.77

(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: 1,111 yen (closing price on December 15, 2023).

Stock Split, Stock Cancellation, and Treasury Shares

◆ **Conducted a stock split in 2021 and a 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 (there has been no stock split since then).

In December 2022, the Company cancelled 1,100 thousand shares (4.8% of all outstanding shares before the cancellation) out of approx. 3,001 thousand shares held as treasury shares. As a result, as of the end of September, there are 22,000 thousand outstanding shares in total and the Company owns 1,967 thousand shares as treasury shares (8.94% of all outstanding shares).

◆ Stock Price and Factors that May Affect Stock Price

Performance

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

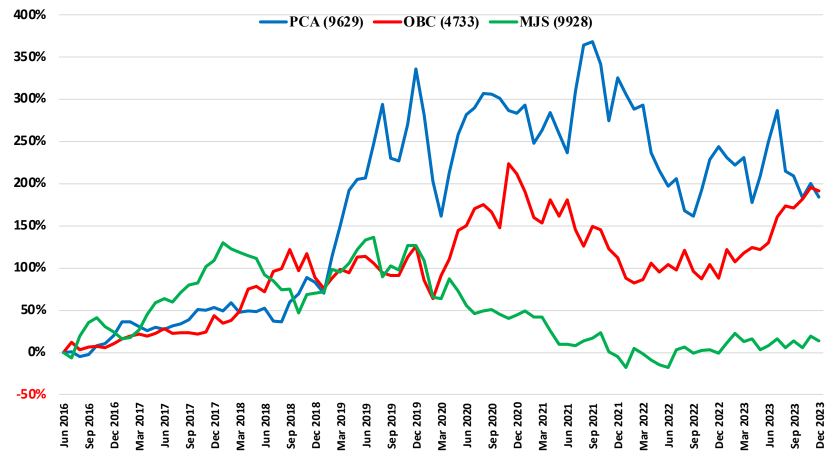
The Company's stock price and relative stock price compared to the TOPIX over the past approximately seven and a half years are described in the summary section (Figure C on page 4). Its stock price has risen by approx. 3.7x during this period, significantly outperforming the TOPIX which has meanwhile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

Also, over the approximately seven and a half years since May 2016, the Company's stock performance has been the strong along with OBC when compared 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 33).

- **Has been underperformed its competitors and the TOPIX since the beginning of the year.**

However, since the beginning of the year, it has been underperforming its two competitors and the TOPIX. This is likely because it is a small, defensive stock and there were no positive surprises in its financial results announcement for the first half of the current fiscal year.

【Figure 33】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 of December 15, 2023.

Valuation

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 on which it is listed (Figure 34).

【Figure 34】Comparison of Valuation and Performance with Major Indices

Closing price of Dec. 15, 2023	Stock Price / Indices	This Fiscal Year's P/E Forecast	Actual P/B (at the end of quarter)	Dividend Yield (simple average)	Return Since the Beginning of the Year	Return Since the End of April 2022	Return Since Oct. 23, 2023
PCA (P 9629)	1,111	24.01	1.26	1.53	-17.21	-15.6	-1.3
Average of All TSE Prime Stocks: P	1,200.01	14.84	1.26	2.29	-	22.8	4.2
Average of All TSE Standard Stocks: S	1,148.42	14.27	0.97	2.30	-	19.0	5.1
Average of All TSE Growth Stocks: G	858.35	52.37	3.15	0.54	-	-2.3	5.0
TOPIX	2,332.28	-	-	-	23.29	22.8	4.2
TSE Growth 250 (former TSE Mothers)	677.57	-	-	-	-7.23	-2.4	6.6
Nikkei Stock Average	32,970.55	14.52	1.29	2.01	26.4	22.8	6.4

(Ref) Prepared by Alpha-Win Research Dept. based on various stock price data. (Note) PCA's P/E and dividend yield are based on its forecast and actual figures.

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

Compared to the TSE Prime's forecasted average P/E of 14.84, the Company's P/E based on its forecast is 24.01. Similarly, compared to TSE Prime's actual P/B of 1.26, the Company's is the same at 1.26, and compared to the TSE Prime's forecasted dividend yield (simple average) of 2.29%, the Company's is 1.53% (based on the closing price of December 15, 2023).

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

Based on our profit forecasts, the Company's P/E is expected to be 18.2 for the current fiscal year, 17.4 for the next fiscal year, and 16.5 for the fiscal year after the next. When its valuation is compared with its two competitors (OBC and MJS), the Company's valuation is cheap in terms of P/B and EV/EBITDA but about average in terms of the other valuation indicators (P/E, dividend yield, and P/S), indicating no cheapness based on absolute values either (Figure 35).

【Figure 35】Comparison of Valuation with Competitors

	Company Name	PCA (consolidated)	Obic Business Consultants (OBC: nonconsolidated)	Miroku Jyoho Service (MJS: consolidated)	Money Forward (MF: consolidated)	freee (FR: consolidated)
Market where listed, stock price, and valuation	Code (TSE Prime Market)	9629 P	4733 P	9928 P	3994 P	4478 G
	Stock price (closing price of 12/15/2023)	1,111	6,665	1,654	4,266	3,080
	Market cap (million yen)	24,442	502,568	57,570	231,344	179,160
	P/E (price-to-earnings ratio)	24.0	40.3	12.1	-	-
	P/B (price-to-book ratio)	1.3	3.5	2.0	7.9	6.9
	Dividend yield (%)	1.5	1.1	2.7	-	-
	EV/EBITDA	3.3	20.7	5.9	Negative	Negative
	P/S (price-to-sales ratio)	1.7	12.6	1.4	7.7	7.1
Company Forecasts for This Fiscal Year (full year) *PCA, OBC, and MJS: Forecasts for FY ending Mar. 2024 *MF: Forecasts for FY ended Nov. 2023 *FR: Forecasts for FY ending June 2024	Sales (million yen)	14,700	40,000	41,600	29,961	25,400
	Gross Margin (%)	59.8	82.2	Not disclosed	Not disclosed	Not disclosed
	Operating Profit (million yen)	1,445	16,860	6,100	-6,415	-8,225
	Operating Margin (%)	9.8	42.2	14.7	-	-
	EPS (company forecast): YoY change (%)	4.8	12.7	8.6	-	-
Last Fiscal Year's Full-Year Results	DOE (%): Result	2.0	3.8	5.8	-	-
Past Growth Rates	Past 10 Years' Sales Growth Rate	77.2	105.3	74.9	(Past 10 years: 0 ⇒ 21,477)	(Past 8 years: 216 ⇒ 19,219)
	Past 10 Years' Operating Profit Growth Rate	650.0	122.9	110.5	(Past 6 years: -876 ⇒ -8,469)	(Past 4 years: -2,830 ⇒ -7,918)
This First Half's Results *PCA, OBJ, and MJS: First half ended Sept. 2023 *MFR: First half ended May 2023 *FR: First haf ending Dec. 2023 (before announcement)	Equity Ratio (%)	56.7	77.6	54.2	42.3	59.5
	Sales (million yen)	7,074	19,488	21,174	14,087	-
	Sales Growth Rate	14.8	20.1	6.5	43.2	-
	Operating Profit (million yen)	998	8,162	2,799	-3,502	-
	Profit Growth Rate	17.8	20.3	-9.7	-	-
	Operating Margin (%)	14.1	41.9	13.2	-	-
	% Progress with Sales (vs. Full-Year Plan)	48.1%	48.7%	50.9%	47.0%	-
	% Progress with Operating Profit (vs. Full-Year Plan)	69.1%	48.4%	45.9%	54.6%	-

(Note)

・P and G of the TSE Market stands for the Prime and Growth markets, respectively.
・Market cap = total outstanding shares x market stock price [closing price of December 15, 2023]
・EV/EBITDA = (market cap + interest-bearing debt - cash & deposits) / (operating profit + depreciation + intangible fixed asset amortization, etc.)
*Interest-bearing debt and cash & deposits are actual quarterly values. Operating profit is based on this fiscal year's company forecasts. Depreciation and intangible fixed asset amortization have been calculated for the full year based on actual values (or the company's full-year forecast).
・The companies' forecasted EPS for this fiscal year (ending March 2024 for PCA, OBC, and MJS; ended November 2023 for MF; and ending June 2024 for FR) was used in the P/E calculations.
・BPS values used in the P/B calculations are results for the most recent quarter.
・Dividend is based on the companies' forecasts for this fiscal year.
・P/S = market cap / sales [the companies' forecast]
・The average value is used when the forecast is disclosed as a range.
・Past 10 year's growth rate is a simple comparison of the most recent full-year result and the full-year result of 10 fiscal years ago.
・Equity ratios are based on the latest quarterly results (for FR only, Q1 results for the current fiscal year were used instead of the first-half results).
・Fiscal years of PCA, OBC, and MJS are March-ending, MF's fiscal year is November-ending, and FR's fiscal year is June-ending.

(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 compared to the Company in terms of the comparable valuation indicators of P/S and P/B.

Stock Price Outlook

The economic situation remains uncertain due to inflation and the higher interest rates following the Bank of Japan's adjustment of monetary easing, in terms of situations in Japan, and globally due the prolonged war in Ukraine and Israel, global inflation, and recession worries.

- **Domestic-demand-oriented growth stock with high growth potential. The key themes are cloud, subscription, DX (including the new invoicing system and Electronic Books Preservation Act), 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 seen as a domestic-demand-oriented growth stock which can benefit from the government's promotion of the work-style reform, digitalization (including compliance with the new invoicing system and revision of the Electronic Books Preservation Act), and the expansion of the mental-health-related market.

- **Trends of increasing sales, profit, and dividend are also expected in the next fiscal year and beyond.**

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. We expect the Company to return to an upward trend for sales and profit since IT investments by its corporate customers are expected to remain strong along with strong business performance, the Company's upfront investment costs will most certainly peak out, and the new subscription businesses are expected to gain momentum over time.

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

If cost controls are properly conducted, there is a strong possibility that the Company's financial results will be greater than the forecasts in the current fiscal year. Depending on their level, the results may become a positive surprise. In addition, the Company is expected to increase profit over the medium term, starting in the next fiscal year, and EPS and dividends are expected to increase. These suggest an upside potential for the Company's stock price.

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