Alpha-Win Company Research Report

PCA
(9629 TSE First Section)

Issued: 6/25/2019

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

● Summary

Business Description

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

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

Current Financial Performance

・The Company's financial performance is extremely strong, having achieved significant sales and profit growth for the fourth consecutive fiscal year. In FY 2019 (last fiscal year), sales were Y11,439 million (+16.9% YoY) and operating profit was Y1,248 million (+54.7% YoY). Although sales were slightly below the upwardly revised target announced in February of this year, each of the profits exceeded their targets. Thanks to continued growth of sales related to the cloud and the labor management system, which are the Company's growth drivers, in addition to the event-driven high demand (early demand from the rise in the consumption tax rate, termination of Windows 7 support, etc.), sales of the solutions and the products grew and contributed to the total sales growth. As a result, record-high sales were achieved for the first time in five years. In addition, the increase in costs such as new product development and personnel expenses was offset by the effect of increased sales and the improvement in gross margin and SG&A expenses ratio, resulting in a significant rise in profit.

・In FY 2020 (this fiscal year), the Company plans to increase sales by 11.8% YoY (Y12,783 million: another record high) and operating profit by 18.5% (Y1,478 million: the fourth highest in the Company's history) and achieve a record-high net profit of Y976 million. In addition to the continued growth of the cloud and the labor management system, the continued event-driven high demand is expected to raise sales and profits for the fifth consecutive fiscal year.

Competitiveness

・The Company has a customer base of approximately 240,000 companies and is marked by its high brand recognition and top-ranking market share in the fields of accounting and finance for small/medium-sized companies. The Company's cloud-based enterprise system software business in those fields is especially strong, continuing to rank No. 1 in the industry as a pioneer of the business. Going forward, we should pay attention to how the Company fares in the competition with its major competitors that have entered the cloud service business at a later stage.

・The Company's strengths are its ability to concentrate management resources in its field of expertise as a specialist to develop products and services that meet various customer needs including those related to changes in tax and other regulations, its stable customer base, and its ability to provide high-quality products and services at reasonable prices.

Business Strategy

・As the basic business strategy for its corporate group, the Company aims to create a strong earnings base for its main businesses (reinforce and increase the sales of PCA Cloud and strengthen the on-premises business), create new business opportunities, and strengthen the management system to become a highly profitable company. In addition, the Company has started a new strategy – the reinforcement of product creation – through which it hopes to enter another growth phase by providing new products and services.

・No change has been made to the medium-term business plan disclosed last year, in which the consolidated numerical targets for the final fiscal year, or FY 2022, have been set out as follows: Y11.5 billion or greater for sales (of which the sales of the subscription-based businesses are targeted to be Y6 billion), Y1.5 billion or greater for operating profit, and 10% or greater for operating margin.

Forecast on Financial Results

・Upon evaluating the effects of the event-driven high demand, sales of the cloud and other businesses, and the estimated cost, Alpha-Win Research Department has judged that the Company's plan for this fiscal year is conservative with regards to both sales and profits and that there is room for upward revisions. Next fiscal year, a temporary decline in sales and profits due to a fallback from the event-driven high demand seems inevitable. However, since the Company is in a phase where its subscription-based businesses are continuously expanding, if the new businesses currently in progress begin to be successful, we expect that the Company will be able to enter another growth phase over the medium to long term and achieve continuous increases in sales and profits.

Stock Price

・A defensive, domestic-demand-related, small-cap growth stock that is positively affected by the rise in consumption tax and the work-style reform. The stock price soared in response to the recovery in financial performance, achieving in May the highest price since becoming listed on the market and outperforming the TOPIX significantly. The stock price has been steady since then. Comparing valuation indicators with the average of the First Section of the TSE, the Company's P/E, dividend yield, and P/B are slightly on the high side. However, compared to its two major competitors, it still has an undervalued impression regarding many valuation indicators. Over the past two years, the Company's stock has been significantly outperforming its two competitors.

Shareholder Return

・The Company has continued to make stable payment of dividend (a dividend payout ratio of about 30%) and has bought back its shares. This fiscal year, it plans to keep the dividend of Y31 per share per year. When the Quo Card shareholder benefit plan is taken into account, the actual dividend yield comes out to be 1.5% (at maximum). As its KPI, the Company has set the DOE target to 2.5%. Consequently, over the medium to long term, with expected strong financial performance, the Company may increase shareholder return through means such as dividend hikes, a flexible buyback of shares, stock splits, and enhancement of the shareholder benefit plan.

【 9629 PCA Sector: Information & Communication 】 Figure A

FY		Sales (Y mil)	YOY (%)	O.P. (Y mil)	YOY (%)	R.P. (Y mil)	YOY (%)	N.P. (Y mil)	YOY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
2017		9,360	10.9	432	957.9	463	593.6	160	-	23.49	1,568.59	31.00
2018		9,785	4.5	807	86.8	834	79.9	441	174.1	64.37	1,644.39	31.00
2019		11,439	16.9	1,248	54.7	1,277	53.0	906	105.5	133.25	1,789.76	31.00
2020	CE	12,783	11.8	1,478	18.5	1,499	17.4	976	7.7	146.77	-	31.00
2020	E	12,900	12.8	1,600	28.2	1,620	26.9	1,050	15.9	157.87	1,916.61	31.00
2021	E	11,000	-14.7	1,200	-25.0	1,220	-24.7	800	-23.8	120.28	2,005.89	31.00
2022	E	11,600	5.5	1,400	16.7	1,420	16.4	920	15.0	138.32	2,113.21	33.00

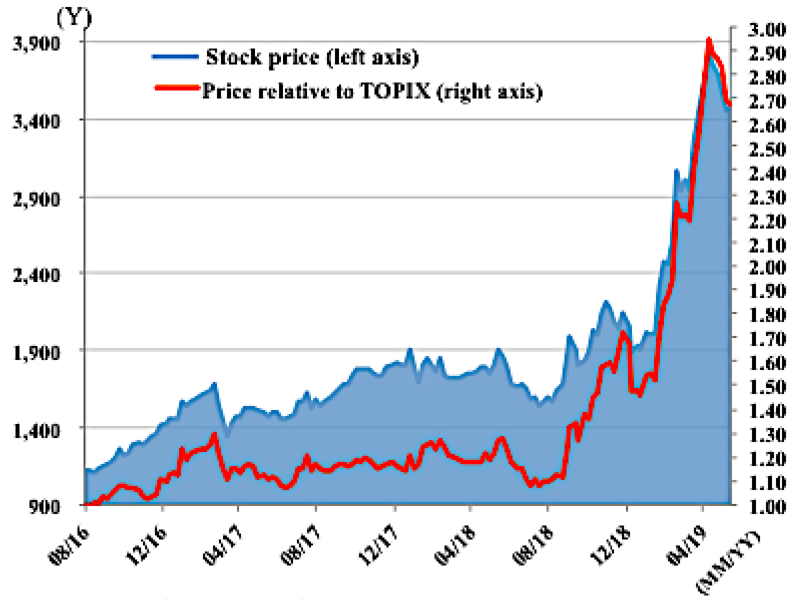
(Note) CE = the Company's estimate/forecast. E = estimate/forecast by Alpha-Win Research Dept. All fiscal years discussed in this document are March-ending. Hereinafter, differences that arose during the calculation processes, etc., may cause values for the same item to not match completely.

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

Item	as of 6/14/2019	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	3,465	Last FY (actual)	26.0	1.9	0.9%	23.3%
Shares Outstanding (thou.)	7,700	This FY (est.)	21.9	1.8	0.9%	19.6%
Market Capitalization (Y mil)	26,681	Next FY (est.)	28.8	1.6	0.9%	25.8%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End	59.3%	Last FY's ROE		7.8%

(Note) Estimates/forecasts were made by Alpha-Win Research Dept.

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



(Note) From the 4th week of August 2016 to the 3rd week of June 2019

【Performance】		
Period	Return	vs. TOPIX
1 month	-3.2%	-5.4%
3 months	18.0%	21.4%
6 months	61.5%	56.0%
12 months	93.7%	116.7%

(Note) Reflects stock price and index values up through 6/14/2019. Prepared by Alpha-Win Research Dept.

Contents

Note: 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.

1. Company Overview

- Major specialized player in the industry with 39 years of practice, developing and providing packaged enterprise system software for small/medium-sized companies

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

- The Group is comprised of the Company and 3 subsidiaries.

- Acquired Keepdata, a company with technological development capability, know-how, and proven record, as a foothold for the data utilization business

- All fiscal years in this document are March-ending unless otherwise noted (e.g. FY 2019 ends in March 2019).

- Meanwhile, the Company sold its medical system subsidiary and restructured its business portfolio.

◆ Major Specialized Player in the Enterprise System Software Industry

PCA CORPORATION (hereinafter the "Company") is an independent, mid-tier, specialized company in the software industry. The Company is a specialist in developing and selling packaged software (software prepared for use in certain operations) for enterprise systems[1], such as those for accounting and tax. It is a major player as a specialist of such software for small/medium-sized companies. About 240,000 companies are active users of the Company's products, with sales for ordinary companies comprising greater than 90% of total sales. With regards to the size of the customer companies, the Company is especially good at business toward small/medium-sized companies with 50 to 100 employees. 80% of the Company's sales are via dealers (the remaining 20% are direct sales). It has the largest transaction with the dealer RICOH (sells the Company's software along with its own hardware such as office appliances), which contributes to about 22% of the Company's total sales. The Company's customers are diversified, with major companies as its largest customers by monetary value. The Company ranks No. 1 in the industry in software for public benefit corporations, with software implemented in in over 8,000 corporations.

As of the end of May 2019, the Company's group is composed of a total of four companies: the Company and three consolidated subsidiaries. The consolidated subsidiaries are Xronos Inc. (development/sales of labor management system and time recorders; the Company founded this subsidiary in 2001 and owns 80% of the shares), KEC Corporation (implementation support, operation, maintenance, and other services for PCA's products/services; wholly owned by the Company, which founded it in 1998), and the newly acquired Keepdata Ltd. (hereinafter "Keepdata").

The Company acquired Keepdata in March 2019 and made it a subsidiary (acquired 66.8% of its shares for approximately Y44 million) that will be consolidated starting this fiscal year (FY 2020). Keepdata's strength is its proprietary system (KeepData Hub: cloud service targeting large companies) that enables real-time integration of various big data such as IoT and the one-stop management of the accumulation/aggregation/visualization of data to facilitate effective data utilization. As a management-supporting company, the Company intends to use this system as a foothold for a new service that provides a platform for data utilization to small and medium-sized companies. In addition, in the future, the Company plans to integrate this system with its own operation-related product development to create synergy in technology and business development.

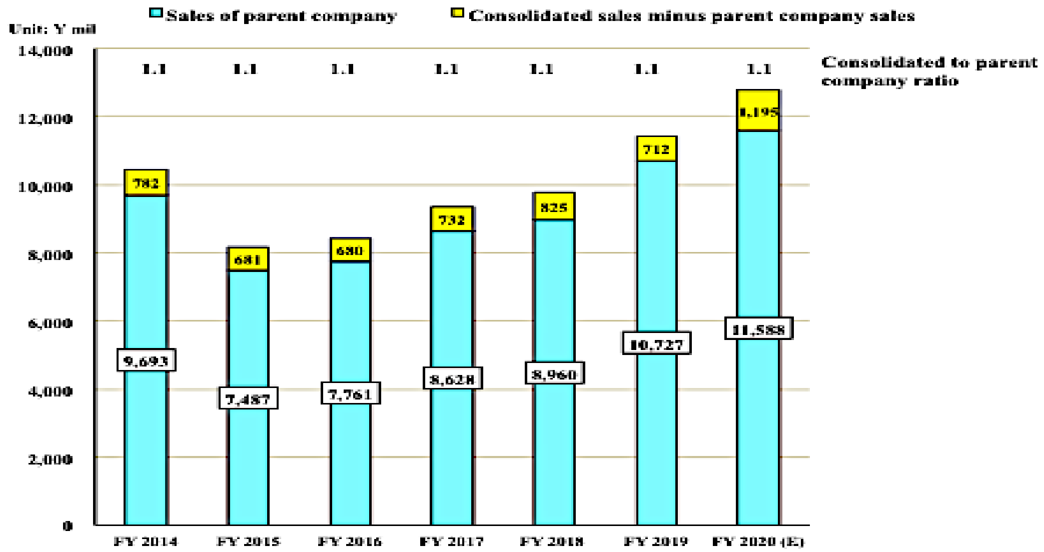
Keepdata posted sales of Y120 million, a net loss of Y262 million, and negative net assets of Y66 million in FY 2018 (ended September); upfront investment costs associated with system development had caused a net loss and an excess of debt. Since the development of the system has been completed, profit and loss for this fiscal year are expected to be close to zero.

In February 2019, the Company sold MACS System Corporation (development/sales of computer software for medical office use such as electronic medical records; the Company acquired it as a subsidiary in 2008 and owned 80% of its shares), which was a consolidated subsidiary up through last fiscal year (FY 2019), since its business was unprofitable (following this transaction, Y81 million was posted as loss on sales of stocks of subsidiaries and affiliates under extraordinary loss).

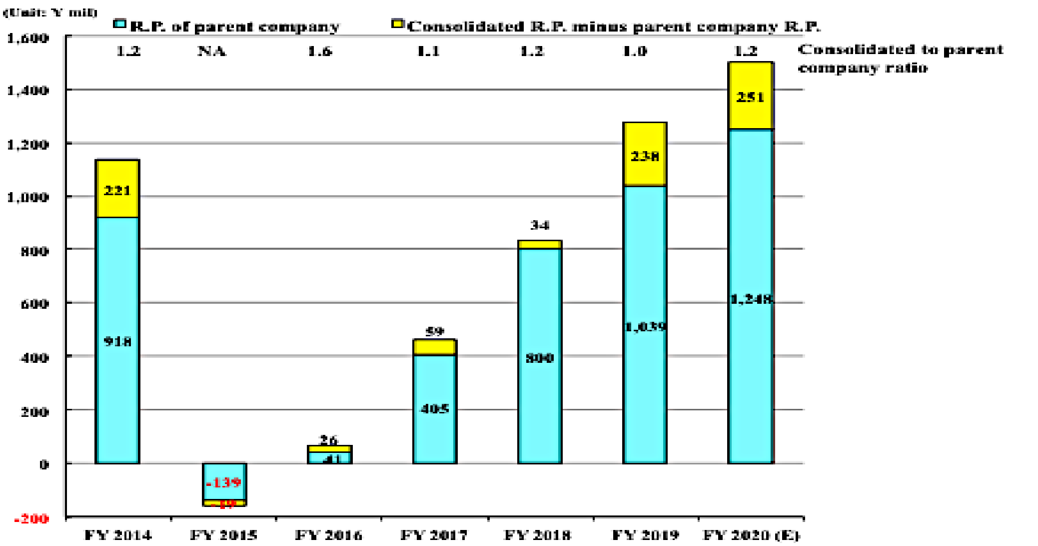
- Consolidated to parent company sales ratio has stayed around 1.1. The summed recurring profit of the consolidated subsidiaries has also been a surplus.

The ratio of consolidated to parent company sales has stably remained around 1.1, indicating that a greater weight is placed on the parent company's financial results (Figure 1). Although the subsidiaries' profits and losses are 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 was in the black (including this fiscal year's forecast). Additionally, the summed profit and loss of the three subsidiaries, calculated by consolidated minus parent company recurring profit, has been a surplus since FY 2016 (Figure 2). Among the subsidiaries, Xronos seems to be contributing the most to financial results, owing to the work-style reform (the results of individual companies are not disclosed).

[Figure 1] Ratio of Consolidated to Parent Company Sales (ratios shown on upper portion of graph)



[Figure 2] Ratio of Consolidated to Parent Company Recurring Profit (ratios shown on upper portion of graph)



(Ref) Figures 1 and 2 were both prepared by Alpha-Win Research Dept. based on the securities report. Estimates/forecasts (E) are from the Company's business plan.

- Founded by certified public accountants in 1980
- Rich in cash and debt-less

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)**.

The Company's finance is firm, rich in cash and debt-less. Relative to its sales of Y11.4 billion, total assets of Y20.1 billion, and market capitalization of approximately Y27.8 billion, its cash and deposits are abundant at Y7.3 billion. Free cash flow (FCF) has been positive except for a certain period, and cash has been increasing (Figure 3). The financial ratios, including the equity ratio of 59% and current ratio of 223%, indicate financial soundness. (Value as of the end of May 2019 for market capitalization – the rest are values as of the end of March 2019).

[Figure 3] Transition in Cash Flow (unit: Y million)

Unit: Y mil	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Operating CF ①	627	488	141	847	1,048	547	1,427	1,533	1,270	2,141
Investing CF ②	-405	-127	185	-407	-750	-606	-627	-395	1,715	-80
Financing CF	-207	-210	-205	-215	-216	-284	-214	-215	-216	-572
FCF (①+②)	222	361	326	440	299	-60	800	1,137	2,985	2,061
Cash and Deposits	6,817	5,970	5,493	6,621	6,606	6,154	6,612	7,487	7,269	7,280

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

◆ Business Philosophy

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

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

The Company's mission statement is to "contribute to society by developing and providing packaged enterprise system software that realizes advanced automation." While its corporate culture is down-to-earth and homely, the Company is also a pioneer in the conservative industry, conducting R&D and launching new products ahead of its competitors.

- The mission statement is to "contribute to society by developing and providing packaged enterprise system software that realizes advanced automation."

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

2. Business Description and Business Model

- Enterprise systems are mission-critical. Stability and reliability are critical elements since they are used inside a company.

◆ Enterprise System Software Necessary for Efficient Business Operations

The Company's main business is enterprise systems that support internal business operations. Unlike systems that simply work on personal computers, an enterprise system is a computer system that supports a series of processes throughout all business operation flows in a company. Since it is mission-critical for business operations, it is required to be reliable, efficient, stable, user-friendly, safe, and expandable.

The main ways for building an enterprise system are by package-based system development and by original system development. Generally, the method of combining sold packaged software into a system has advantages such as short development time, cheapness, and having relatively few bugs. On the other hand, its disadvantage is the difficulty in customizing the system to a company's business conditions, operations, management styles, and other specific needs.

For original software development and installment, outsourced development and in-house development are the two options. In either case, the advantage of an original system is that it can be made to be user-friendly since it can be customized to a company's needs and operations. However, development cost and time are larger and longer, and it requires revisions, addition of functions, and maintenance after implementation. Especially for micro-sized, small-sized, medium-sized, and mid-tier companies, the development, implementation, and operation of original software are not easy due to financial, staff, and time constraints.

In response to these needs, the Company has been developing original enterprise system software that especially meets the needs of individuals or micro-sized (SOHO), small-sized, medium-sized, and mid-tier companies in areas such as accounting[2], finance, HR and payroll[3], sales management, purchasing and inventory management, tax, and medical and medical office work. The enterprise system software is either packaged (on-premises: conventional products operated in-house by a corporate customer) or cloud-based (a service where the corporate customer can operate the enterprise system software via the Internet easily and at a low cost without having to prepare its own server). The enterprise system software is sold and distributed by direct or indirect methods.

(2) Accounting software: application software for recording, processing, and integrated management of accounting data

(3) HR and payroll software: software for payroll calculations and HR management

Additionally, the Company has not only been developing and selling enterprise system software but has also been expanding its business by providing consulting services based on solution proposals. With its subsidiaries, the Company 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.

- Provides about 16 types of originally developed packaged enterprise system software
- About 70% of sales come from original products and services

◆Business Model with High Continuity and Marginal Profit Ratio

The Company provides 16 types of software and its business model is based on the mass production of several types of products. Due to the nature of its business, its marginal profit ratio is high. Its original products and services (products/maintenance/cloud) account for greater than 70% of total sales, while the remaining 30% are from other companies' products (purchased goods) included in the goods/other categories (Figure 4 on page 9).

From the development to the release of a new product, approximately two years and a corresponding amount of cost are necessary per product. Version upgrades (revision updates), which are prepared as needed, are released usually in a one- to two-year cycle. In recent years, software functions have become so enhanced that the customers seem to be purchasing less in response to this version upgrade cycle.

Since these types of software are related to operations that require high reliability, and since software replacements give rise to issues of cost, labor, and data continuity, their users show little interest in actively or frequently replacing their current software with an alternative of a different company. Therefore, customer loyalty is high, and contracts have high repeat rates (50% to 90% or greater depending on the type of software). The barrier to market entry is high because trust and brand recognition are a must in this industry and its companies are currently mostly being able to exist alongside one another by taking strong positions in different niches.

◆ Expansion of Highly Stable and Profitable Subscription-Based Businesses

- Changed its business model – now focused on the subscription-based business.

Until FY 2016, sales and profit and loss were disclosed for the four business segments of "for ordinary companies," "for non-profit organizations," "medical," and "cloud." In FY 2017, all business segments became consolidated. Sales are now disclosed for fives sales categories (types): "products," "goods," "maintenance service," "cloud service," and "other operating revenue" (also called "solutions") (Figure 4). Profit and loss by segment are no longer disclosed.

[Figure 4] Sales Classification (by category)

Sales Classification by Category	Detail	FY 2019 (actual result)		
		Sales (Y mil)	% of Total Sales	Est. Gross Margin
Products	Sales of original packaged software (accounting, sales management, purchasing and inventory management, payroll, HR, etc.) (includes version upgrades)	2,516	22.0	approx. 40%
Goods	Sales of other companies' products such as business forms	1,020	8.9	approx. 40%
Maintenance Service	By signing up to PSS membership, one can receive inquiry and support services from call centers	3,125	27.3	80-90%
Cloud Service	Subscription service for software provided via the cloud	2,452	21.4	60-70%
Other Operating Revenue	Sales of other companies' products such as software/hardware combined with its original products; also called "solutions"	2,322	20.3	approx. 25%
Total & Average		11,439	100.0	Actual: 57.0%

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and interviews. Includes estimated values.

- Subscription-based maintenance and cloud businesses ("stock businesses") account for about 50% of the total sales.

During FY 2019, the maintenance service contributed the most to total sales (Figure 4 and Figure 5 on page 10), serving as a stable source of profit. In recent years, sales of the cloud service for packaged software have largely grown. In fact, the cloud service is becoming a growth driver for the entire company with regards to both sales and profits. Subscription-based revenue, which is the sum of the maintenance service and the cloud service, accounts for about 50% of the total sales, contributing to greater stability in management and profit. Both the maintenance service and the cloud service have a high gross margin and continuity.

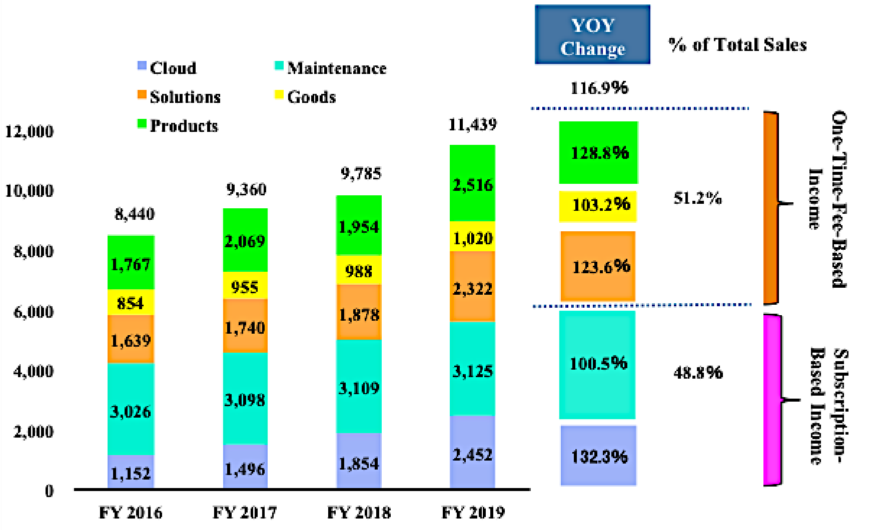
On a consolidated basis, sales breakdown by software operation type is not disclosed. However, sales seem to be diversified, with sales for "accounting software" predicted to be the largest by composition (about 15% of the total sales), followed by "sales management and purchase & inventory management," and then by "payroll and HR" ("other including the cloud" comprises greater than 50% of the total sales).

- Shifting from sales-based to profit-based internal management of financial performance and goals

Currently, as the Company's primary internal management targets, goals are set for software sales (or the sold number of products) by operation type. Profit and loss by software operation type are not targets of management. However, going forward, the Company plans to develop and establish a performance management indicator for each internal organizational unit, etc., and make a transition from sales-based management to profit-based management. The Company has commented that the profit/loss values for each software operation type do not greatly differ between one another, but the main accounting software business is assumed to be generally highly profitable. Meanwhile, since the profitability of the business for medical software and related products, which was started at a later stage, had worsened due to upfront investment costs such as sales promotion and development expenses, the Company sold the subsidiary concerned with the business and withdrew from the business (past disclosures indicate posting of a loss for this business segment).

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

[Figure 5] Change in Sales and Sales Breakdown (unit: Y mil, %)



(Ref) Excerpt from the Company's financial results briefing supplemental materials, reworked by Alpha-Win Research Dept.

- Rapidly shifting from packaged to cloud-based software

- Sharp growth of the cloud: awakening of PCA, "the sleeping beast"

◆ Cloud Business as the Growth Driver

Until recently, the Company had focused its business on conventional packaged software, also known as the on-premises. However, as the Internet became more sophisticated and more widely used, the Company predicted that demand for the cloud will rise due to its user-friendliness and cost performance. Therefore, since 2008, the Company has been providing cloud versions of the same software as the on-premises, more than ten years ahead of its competitors. This cloud business, where customers pay fees continuously for a certain period of time to use the software, is attractive as a stable, subscription-based business model, similar to the maintenance service. As shown in Figure 6, the Company has lately been focusing its business on the cloud service, and the number of contracts as well as sales has been growing steadily. As the cost of this cloud business is largely fixed, with small variable costs such as those related to manufacturing, sales, and logistics, this business has a high marginal profit ratio.

- The rapidly growing cloud is based on a subscription-based, stable business model. Taking a lead in the industry, the Company has a competitive advantage.

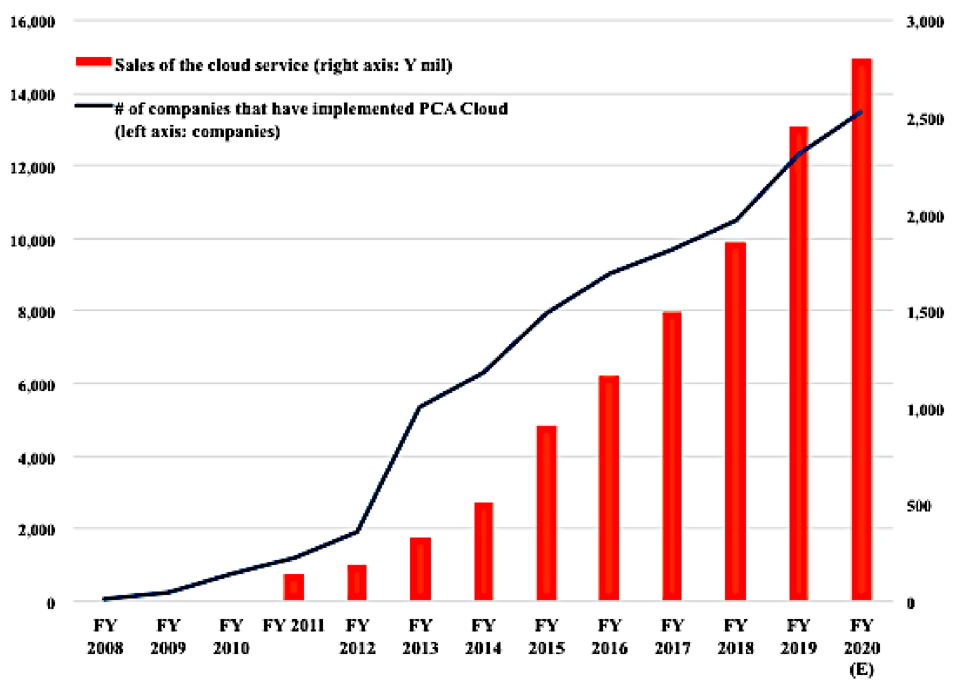
The Company leads the industry as No. 1 in cloud-based enterprise system software for small/medium-sized companies. The advantages listed below seem to be making the Company stand out from its competitors. Its competitors have also begun their full-scale entry into the cloud market in recent years (2017-2018) as their "first year of the cloud," but the Company is expected maintain its advantages for the meantime.

- Providing a wide variety of advanced software for business operations
- Originally-developed open architecture and low cost
- Economies of scale are in effect, with more than 12,000 companies already using the cloud as customers, contributing to the Company's profit
- Consequently, it has a strong price advantage compared to its competitors
- Ten years' worth of operation know-how
- User-friendly, with WebAPI[4] allowing linkage with other companies' cloud (already linked with about 60 companies, including Kintone[5] of Cybozu)

(4) API (Application Programming Interface): interface/network to operate software; connects the software and the program.

(5) Kintone: cloud service for building business app on a web database, provided by Cybozu. Allows easy system build-up and linkage with other systems.

[Figure 6] Transition in the Number of Companies that Have Implemented PCA Cloud and Sales of PCA Cloud



(Note) Sales from FY 2008 to FY 2010 have not been disclosed. Estimates are partially included in the number of companies that have implemented PCA Cloud.

(Ref) Prepared by Alpha-Win Research Dept. using information including those from the Company's financial results briefing materials and interviews. (E) represents estimates/forecasts made by Alpha-Win Research Dept.

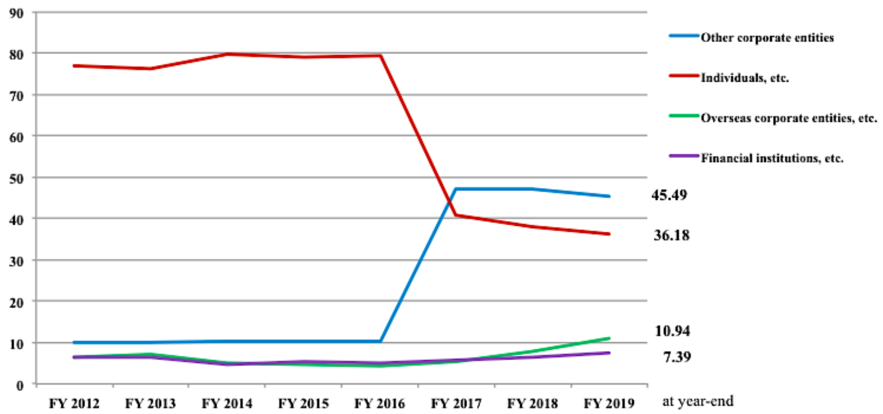
3. Shareholder Composition

- Shares were transferred due to inheritance and other events, but there was no substantial change in major shareholder composition.

◆ Change in Composition by Type of Shareholder

Regarding shareholder composition by shareholder type as of the end of March 2019 (Figure 7), the sum of "other corporate entities" and "individuals, etc." accounts for approximately 80% of all shares. "Overseas corporate entities, etc." and "financial institutions, etc." account for only 11% and 7%, respectively, although the share of "financial institutions, etc." is gradually rising. Certain individually owned shares were transferred upon inheritance from the founder (Mr. Kawashima) and then transferred in FY 2017 to a general incorporated association (the founder family's asset management company, categorized under "other corporate entities"). However, no substantial change has occurred in the composition of major shareholders.

[Figure 7] Change in Shareholder Composition by Type of Shareholder (unit: %)



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and general shareholders' meeting reference materials.

- GOLDMAN SACHS INTERNATIONAL newly appeared as the second largest shareholder with 4.6% of all shares.
- The founder family's asset management company is the largest shareholder with greater than 40% of all share. This, combined with the treasury shares and the employee stock ownership plan, amounts to more than 50% of all shares, indicating stability.

◆ Major Shareholder Composition

Major shareholders as of the end of March 2019 are shown on Figure 8 on page 13. One key difference compared to the end of March 2018 is that, as the second largest shareholder (ranking excludes treasury shares; the same applies hereinafter), GOLDMAN SACHS INTERNATIONAL (owns approximately 4.6% of all shares) appeared in the major shareholder ranking for the first time (while its investment purpose is unknown, it has invested in several Japanese stocks under the same name; presumed to be pure investment from a fund). Although there have been some fluctuations in the shareholding ratio, the major shareholders have not changed significantly. Below is supplemental information.

・The largest shareholder Kawashima Co., Ltd. is the asset management company of two directors of the Company (president Sato and Mr. Kumamoto) and their relatives (descendants to the founder Mr. Kawashima). After Kawashima Co., Ltd. indicated its intention to sell its shares, the Company acquired 200,000 shares (equivalent to 2.6% of outstanding shares) by a tender offer by December 2018. As a result, the Company now owns a total of approximately 13.6% of its own shares. Essentially, the Company has been keeping its position as the second largest shareholder. Currently, the Company has not yet decided on how to effectively use its treasury shares, but some possibilities include cancellation of stock and stock-swap in a tie-up or an M&A.

◆ OBC, its rival, is also a major shareholder.

・The third largest shareholder Obic Business Consultants Co., Ltd. (OBC) is a competitor with no transaction with the Company. Mr. Shigefumi Wada, the eighth largest shareholder, is the current president of OBC. In either case, their purposes are unknown. While there has been no change in the number of shares held under the corporate account, shares held under the personal account are declining.

・The fourth largest shareholder, State Street Bank and Trust Company 505001, is thought to be a long-term fund investor since it has been continuing to hold its shares. However, in the most recent year, the number of shares held decreased by about 90,000. It also invests widely in other small- and medium-cap Japanese stocks under the same name, but the shareholding ratio for each company is less than 5%.
・The sixth largest shareholder Mizuho Bank, Ltd. is holding shares probably for the purpose of cross-shareholding.
・The seventh largest shareholder Logic Systems Co., Ltd.'s purpose is unknown.
・The ninth largest shareholder Nagoya PCA Co., Ltd. is the company to which software development (SHOKON and other products of the Company) is outsourced.

◆ Currently, there is no activist-like behavior. Anti-takeover measures have not been adopted.

・The tenth largest shareholder, KBL EPB S.A. 107704, is a European private banking account and is presumed to be an investment fund. This shareholder also invests in several small- and medium-cap Japanese stocks as a major shareholder.

・Currently, there are no major shareholders showing activist-like behavior. Also, the Company has not adopted any anti-takeover measures.

[Figure 8] Major Shareholders' Status

Unit for shares owned: thou. shares
For ratios: %

	End of Mar. 2015	End of Mar. 2016	End of Mar. 2017	End of Mar. 2018	End of Mar. 2019	← % of Total Shares	← Ranking
Kawashima Co., Ltd.	—	—	2,935	2,935	2,736	41.14	1
PCA CORPORATION (treasury shares)	848	848	848	849	1,049	11.01	—
GOLDMAN SACHS INTERNATIONAL				—	303	4.55	2
Obic Business Consultants Co., Ltd.	254	254	254	254	254	3.82	3
State Street Bank and Trust Company 505001	244	249	266	266	174	2.60	4
PCA Employee Stock Ownership Plan	110	119	127	127	135	2.03	5
Mizuho Bank, Ltd.	121	121	121	121	121	1.81	6
Logic Systems Co., Ltd.	114	114	114	114	114	1.71	7
Shigefumi Wada (individual)	181	181	181	151	112	1.68	8
Nagoya PCA Co., Ltd.	—	100	100	100	100	1.50	9
KBL EPB S.A. 107704	—	—	—	90	94	1.41	10
APPLIED SYSTEM LABORATORY Inc.	—	—	86	86			
Reiko Sato (individual): Heir to the founder Mr. Kawashima	1,467	1,467	—	—			
Tomoko Kumamoto (individual): Heir to the founder Mr. Kawashima	1,467	1,467	—	—			
Hiroko Wada (individual)	358	—	—	—			
(Ratio of treasury shares)	11.02		11.05	11.02	13.62		

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and the general shareholders' meeting reference materials.
(Note) The official English name could not be verified for some.

4. ESG

◆ **Environment**

Although the Company does not directly own any production facility and therefore does not harm the environment, it still makes consideration for energy/electricity conservation. Specifically, it follows the "cool biz" standard by setting the default temperature for air conditioners inside buildings to 28°C.

◆ **Society**

- Proactively supporting the disabled and the discovery and training of IT talents

In its mission statement, the Company has declared to "support its customers' business management through packaged enterprise system software." The idea is that by contributing to improved user convenience and efficiency, it is fulfilling its responsibility as a member of the society. In addition, the Company has become a gold sponsor of the U22 Programing Contest backed by the Ministry of Economy, Trade, and Industry. In becoming a sponsor, it is supporting the stimulation of Japan's technologies and innovations and the discovery and training of talented programmers who will shape the future. In addition, the Company sponsors and supports athletics promotion activities such as the marathon.

Also, in order to support the reconstruction after the Great East Japan Earthquake and help the people who suffered from it, the Company donated to the incorporated non-profit organization Médecins Sans Frontières (MSF) Japan. Furthermore, it provided free replacements for the Company's products (CD-ROM, manuals, etc.) that were damaged or lost due to the Earthquake.

The Company also operates a farm in Chiba Prefecture where it proactively hires physically disabled staff. It also purchases flowers, lunchboxes, bakeries, etc., produced by a company that hires physically disabled staff.

- Promoting diversity by improving gender mix. Has set goals to increase the percentage of women.

As a general employer action plan based on the Act on Promotion of Women's Participation and Advancement in the Workplace, the Company has set goals to "continue to hire new female employees at a ratio of 40% or greater for new hires, raise the percentage of female full-time employees from the current 25% to 30%, and create a foundation for raising the number of future female managers by raising the percentage of women in our company." The Company is promoting the workplace retention of women and making efforts to promote greater female participation. One outside director and one outside auditor are women.

◆ **Governance**

For internal control, the Company has set up an internal audit office, directly under control of the president, that operates in cooperation with two outside directors. It has also set up a risk-control committee with the president as the chairperson to create a risk control system that can flexibly, quickly, and appropriately respond to the risks.

As of June 2019, the Company does not have an executive officer system. The management team is comprised of six directors (including two outside directors) and four auditors (including three outside auditors, one tax accountant, one CPA, and one lawyer).

5. History of Growth

◆ Company History

- Founded in recognition of the importance and promising future of computer and enterprise system software businesses in Japan

A group of five certified public accountants with the late Mr. Kawashima as its leader founded the Company in 1980 in recognition of the importance and the promising future of computer and software businesses in Japan. At first, they developed and sold business accounting software for small business computers. In 1995, in anticipation of making transition from small business computer users in the future, the Company officially began the development and marketing of packaged software for personal computers (PC).

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

Then, with the emergence of the PC era, the Company grew mainly due to the following four efforts: 1) created a greater variety of and version upgrades for packaged software in Japan, 2) expanded the maintenance service business, 3) developed the cloud business, and 4) expanded the solutions business which includes providing other companies' products. Furthermore, by increasing the number of offices and cooperating with manufacturers and dealers, the Company developed a nationwide sales/support system that helped rapidly expand its business. The Company is also seen as a pioneer in the rather conservative industry, as it was the first in the industry to begin providing cloud services (SaaS[6]) in 2008.

(6) SaaS (Software as a Service): software where, as a service, one can use the necessary function in the necessary amount when needed; or the method of providing such service. Instead of the user installing the software, the vendor operates the software and provides the necessary function to the user via a network.

- Changed its market listing from the Second to the First Section of the TSE in Dec. 2014

Regarding shares, the first public offering was made in 1994. The Company was then listed on the Second Section of the TSE in 2000 and then the First Section in 2014. Upon becoming listed on the First Section of the TSE, the Company changed its logo to the current one.

◆ Past Transition in Financial Results

Since foundation until now, the Company has been expanding its business as a specialist in the development and marketing of enterprise system software and related businesses, as described above. The transition in financial results since its first public offering is described in Figure 9 on page 16. The following is supplemental information on the financial results, in chronological order:

- Has been generally increasing sales over the long term. Meanwhile, profit had not changed significantly.

・Aside from certain periods such as the post-Lehman economic downturn and the fallback from the high demand stimulated by revisions in tax and regulations, etc., the Company has generally kept increasing sales since 1994. On the other hand, no significant improvement had been made for profit, being unable to maintain or raise the level of profit that it had once achieved.

・Consecutive decreases in sales and profit from FY 2001 to FY 2002 occurred due an economic downturn and the fallback from the high demand brought by the year 2000 problem.

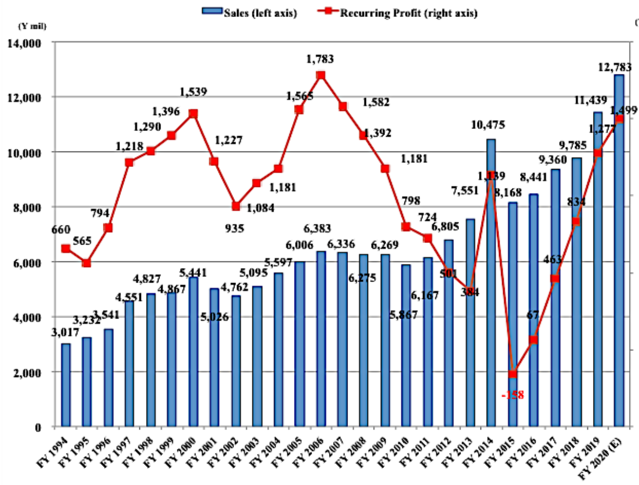
・The four consecutive decreases in sales from FY 2007 to FY 2010, as well as the seven consecutive decreases in profit from FY 2007 to FY 2013, were caused by decreased demand (due to the post-Lehman economic downturn, etc.) and increased personnel, R&D, and sales promotion expenses, as well as worsened profitability caused by intensified competition.

- Achieved record-high sales of Y10 billion in 2014 thanks to event-driven high demand

・In FY 2014, record-high sales (Y10,475 million) were achieved thanks to the high demand driven by two events: the termination 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.

・Decreased sales in FY 2015 are explained by the fallback from the high demand driven by the two events as described above. Since FY 2016, the Company has been increasing its sales again thanks to the continued growth of the cloud, new products, strengthened sales force, and economic recovery.

[Figure 9] Long-Term Transition in Financial Results



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. Estimate/forecast (E) for FY 2020 is from the Company's business plan.

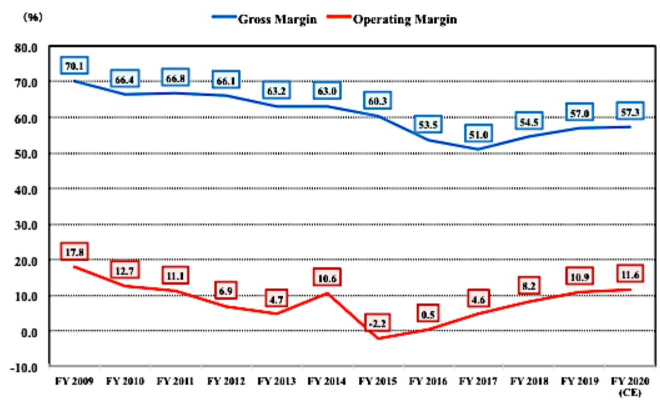
(7) ERP (integrated operation): stands for Enterprise Resource Planning. Management concept based on the integration and real-time processing of core business information to efficiently optimize as a whole. Provided as IT solutions software for integrating enterprise systems.

With regards to earnings, a record-high net profit (Y937 million) was achieved in FY 2000, having benefitted from the high demand brought by the year 2000 problem. Additionally, in FY 2006, record highs were achieved for operating profit and recurring profit (Y1,747 million and Y1,783 million, respectively). Demand stimulated by the revised accounting regulation for public benefit corporations and by the drastic changes in regulation caused by the new Companies Act, as well as the Company's ERP[7] (integrated enterprise system) product Dream 21 (old product name), contributed to improved profitability leading to these record highs in 2006.

◆Record-high operating profit and recurring profit in FY 2006

For many years, the Company's gross margin and operating margin had been gradually decreasing (Figure 10). Gross margin declined due to increased price competition from intensified competition among packaged software developers during the economic downturn, worsened product mix from a rise in the percentage of other companies' less-profitable goods, and higher costs especially for labor costs, production expenses (subcontractor costs), and R&D costs.

[Figure 10] Long-Term Transition in Gross Margin and Operating Margin



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. The Company's estimate/forecast (E) used for FY 2020.

- A net loss was posted for two consecutive years in a fallback from past event-driven high demand.

Despite efforts to cut down on cost, a net loss was consecutively posted in FY 2015 and FY 2016 (net loss for the year: -Y207 million in FY 2015 and -Y93 million in FY 2016), affected by decreased sales due to the fallback from the event-driven high demand as described above and the postponed revision of consumption tax to 10%.

- From FY 2016, began to consecutively raise sales/profit, staying in the black, thanks to new products, growth of the cloud, and cost reduction. Operating margin improved.
- The Company is also beginning to see the effects of structural reform and financial performance is recovering in a V-shaped curve.

However, since FY 2016, the Company has been increasing sales again and the decline in gross margin had stopped. Operating margin bottomed out and began to gradually increase thanks to increased sales for the new products and the cloud and cost reduction. In recent years, the Company has been working on a structural reform including the disposal of assets with impairment risk (real estate and securities) and shortening of software amortization, and is starting to see positive results from these efforts. While domestic sales have been dwindling just below Y10 billion, cost reduction and sales growth of the cloud and maintenance services have helped with the Company's recent success in the growth and recovery of its financial performance. Since FY 2017, the Company has been continuously making and increasing profit. In FY 2019, the Company achieved an increase in sales and a significant increase in profit for the fourth consecutive year.

- Past revisions to financial results have often been made in Sept. or Feb.-Apr. of the following year. In the most recent three fiscal years, the initial profit targets have been exceeded.

As a reference, Figure 11 shows the comparison of the Company's initial forecast and its actual results in the past in chronological order. Although the actual results have sometimes greatly deviated from the initial forecast, since the recovery phase starting in FY 2017, sales have been close to the initial forecast and profits have generally tended to exceed the initial forecast. As a side note, past announcements of revisions to financial results have often been made in September or February to April of the following year.

[Figure 11] Comparison of the Company's Initial Financial Results Forecast and Actual Results in Chronological Order

Consolidated	Sales		Operating Profit		Recurring Profit		Net Profit Attributable to Owners of the Parent (hereinafter "net profit")		Sales	Operating Profit	Recurring Profit	Net Profit	Sales	Operating Profit	Recurring Profit	Net Profit
Unit: Y mil	*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			
FY 2001	-	5,026	-	1,224	-	1,227	-	695	-	-	-	-	-	-	-	-
FY 2002	*5,634*	4,762	-	925	*1,215*	935	-	533	-15.5%	-	-23.0%	-	-5.3%	-24.4%	-23.8%	-23.3%
FY 2003	*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%
FY 2004	*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%
FY 2005	*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%
FY 2006	*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%
FY 2007	*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%
FY 2008	*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%
FY 2009	*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%
FY 2010	*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%
FY 2011	*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%
FY 2012	*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%
FY 2013	*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%
FY 2014	*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%
FY 2015	*9,198*	8,168	*453*	-179	*483*	-157	*283*	-207	-11.2%	-139.5%	-132.5%	-173.1%	-22.0%	-116.1%	-113.8%	-134.3%
FY 2016	*8,880*	8,440	*242*	40	*272*	66	*131*	-93	-5.0%	-83.5%	-75.7%	-171.0%	3.3%	-122.3%	-142.0%	-55.1%
FY 2017	*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%
FY 2018	*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%
FY 2019	*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%
FY 2020 (CE)	*12,783*		*1,478*		*1,499*		*976*									
Simple average of difference (unit: %), calculated based on the longest period with available data for sales & profits→									-1.7%	60.5%	30.2%	32.2%	5.3%	55.8%	32.7%	10.3%
Green highlight: Record high		From initial forecast, upward revision : downward revision (unit: # of times)→							6:12	6:6	11:7	7:10	↑ Simple average for each period			

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary and securities report. Forecasts/estimates (CE) for FY 2020 are from the Company's plan.

◆ Decreasing number of small/medium-sized companies (potential users) in Japan

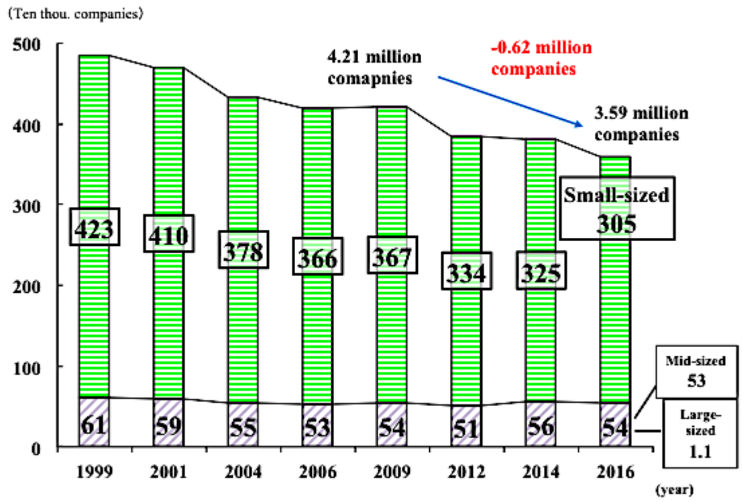
(8) Small-sized company: diff. definition by each industry, but essentially the same as "small/medium-sized companies" in staff size and sales

6. Business Environment

◆ Market Trend for Enterprise System Software

The number of companies in Japan is on a downward trend, falling below four million companies (Figure 12). The number of small/medium-sized companies – the Company's target customer zone – is especially declining because of small-sized companies[8] closing their businesses. With the decreasing population and aging society of Japan, the total number of small and medium-sized companies (the Company's customers) is decreasing. In fact, the total number of companies as of June 2016 was approximately 3.59 million, which is about 0.62 million smaller (-14.7%) compared to 2009.

[Figure 12] Change in the Number of Companies in Japan



(Ref) Data aggregated by the Small and Medium Enterprise Agency based on the "2016 Economic Census for Business Activity" by the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry

Meanwhile, facing aggravating necessities for manpower, operational efficiency, and improved corporate financial performance, companies and other corporate bodies have been working on rebuilding or reinforcing their enterprise systems. While the number of small/medium-sized companies will continue to tend to decrease, we predict that the size of the relevant market will steadily increase as the demand for software to streamline business operations increases.

Also, according to the "WHITE PAPER Information and Communications in Japan" by the Ministry of Internal Affairs and Communications, the size of the packaged software market (excluding game software, embedded software, etc.) in 2015 was approximately Y1.1 trillion and its size has been gradually increasing in recent years.

We estimate Japan's current market size for enterprise system software specifically related to the Company's business to be approximately Y500 billion and for ERP to be approximately Y100 billion. Annual growth rate is forecasted to be about 3% for the former and 10% for the latter over the medium term. The cloud-based enterprise system software market is expected

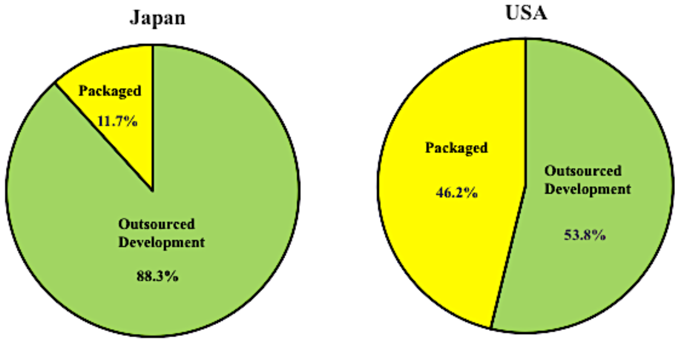
- Stably growing enterprise system software market. Transitioning from the on-premises to the cloud.

- Market potential for cloud-based enterprise system software in Japan continues to be great.

to have an especially high annual growth rate of 20-30% over the long term, replacing a part of the packaged software (on-premises) market. In fact, compared to the U.S. where the use of cloud-based enterprise system software is several years ahead of Japan, the penetration rate of such system in Japan is ½ to ⅓ of that of the U.S. (ref: "WHITE PAPER Information and Communications in Japan" by the Ministry of Internal Affairs and Communications, etc.). With regards to the software development method in Japan and the U.S., outsourced development continues to be popular in Japan. In fact, the share of packaged software in Japan is about 12%, which is about a quarter of the share in the U.S. (Figure 13). Consequently, the growth potential of the packaged software market in Japan also seems to be large (according to the year 2017 version of the "WHITE PAPER," the penetration rate of the cloud in Japan is approximately 26% for "payroll / financial accounting / HR" and only 6-8% each for "production management / logistics management / store management," "purchasing," and "sales on orders").

[Figure 13] Software Ratio in Japan and the USA

(Ref) Ministry of Internal Affairs and Communications: "Report on Current Status of Japan's ICT"

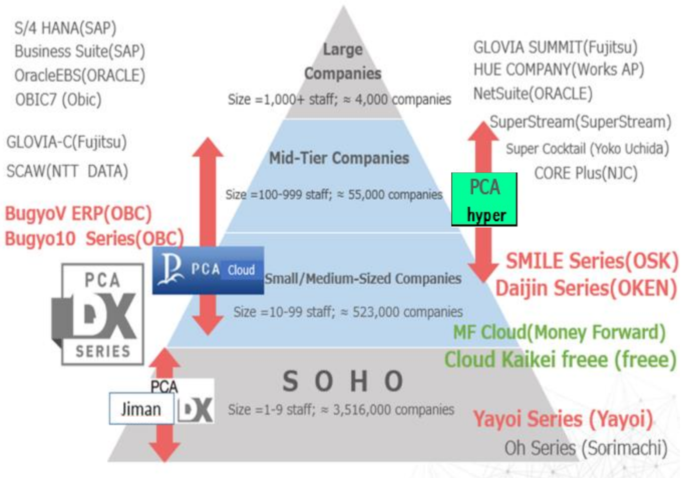


◆ Comparison with Competitors

Figure 14 portrays an overview of the various positions and main players in the industry, categorized by target customer zone. The players in the industry are mostly being able to exist alongside one another by taking strong positions in different niches, segregated by the size of the company/organization that are their users or by the operation targeted by the software.

[Figure 14] Customer Zones and Main Players of the Enterprise System Software Market

(Ref) Excerpt from the financial results briefing material, partially reworked by Alpha-Win Research Dept.



- Its key product, the accounting software, is third in the industry.
- OBC, MJS, Yayoi, and OHKEN are its rivals.

The Company has different rivals for each type of operation targeted by its software. In general, regarding business including its key accounting software, its rivals among listed companies are thought to be Obic Business Consultants (OBC: 4733), directly, and Miroku Jyoho Service (MJS: 9928), indirectly. In particular, OBC is its greatest competitor, since it has a similar product lineup and business model as the Company. Among unlisted companies, Yayoi (subsidiary of ORIX), OHKEN (independent company), and OSK (subsidiary of OTSUKA CORPORATION) are its direct competitors.

- In addition to OBC, competing with Money Forward and freee with regards to the cloud business

The accounting software market size is approximately Y200 billion. The market is reaching maturity and its size should not largely change. In this market, the Company is estimated to be third from the top (about 10% of total market shares). The Company seems to have a similar level of market share and be at a similar position with its payroll and HR software. Money Forward (TSE Mothers: 3994) and freee (unlisted) also join in as rivals in the cloud market.

- The Company provides high-quality products and services at a reasonable price.

The Company is characterized by how it provides high-quality but reasonably-priced products and services to its customers.

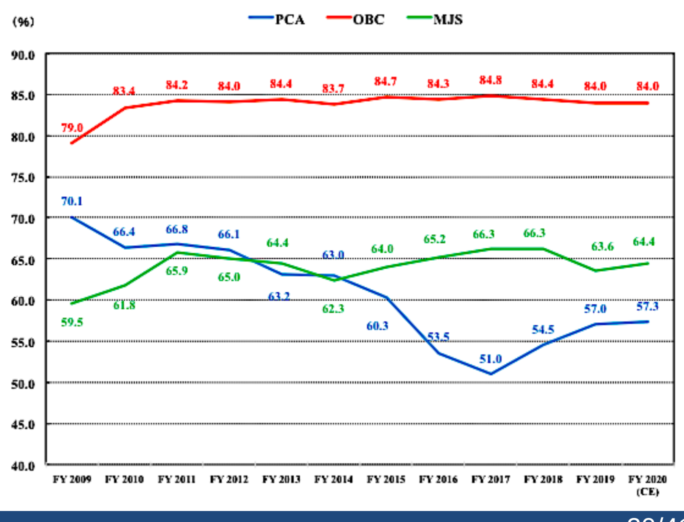
- Regarding margins and asset efficiency, although leaving room for improvement, each of the margins has bottomed out and begun to increase due to improved gross margin and cost reduction.

A comparison of the long-term transition in gross margin and operating margin of the three major listed companies (the Company, OBC, and MJS) is shown in Figures 15 and Figure 16 on page 21. Compared to the Company, both OBC and MJS's margins are stable, presumably due to the merit of scale (the sales of both OBC and MJS are about 2.6x greater than the Company's, and their operating profits are about 10x and 4x greater, respectively), the difference in efficiency, and the difference in sales composition. Both companies used to have a lower proportion of users signing a contract for the maintenance support service, but succeeded in raising this ratio, resulting in a greater earning capacity. However, the Company's profit margins have also bottomed out in recent years, and the Company is now aiming for a greater earning capacity.

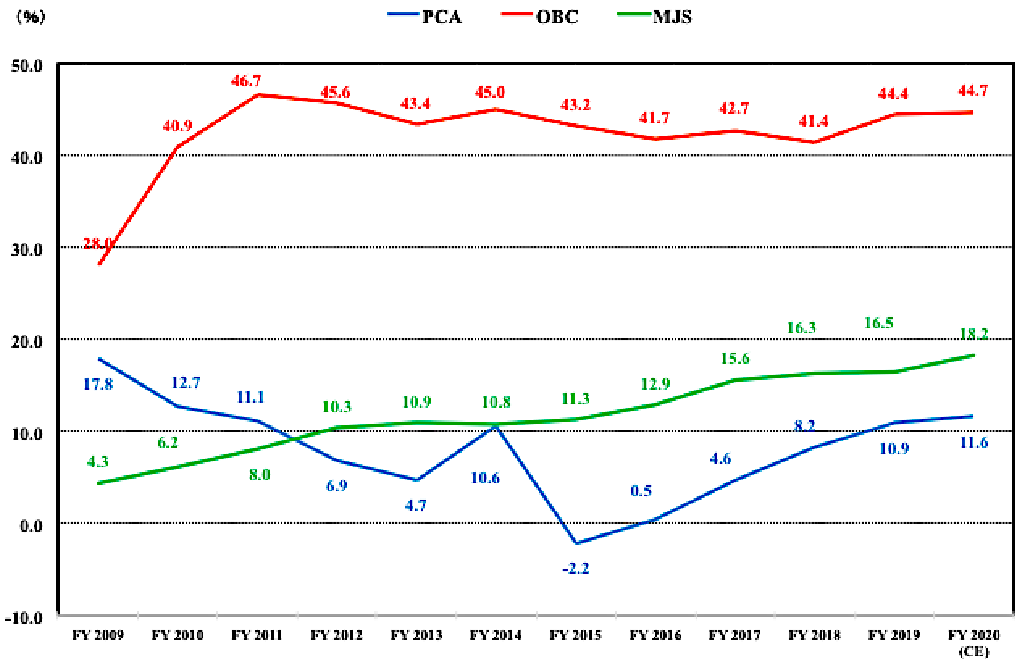
Similarly, looking at the transition in the Company's ROA and ROE in Figure 17 on page 21, while the ratios have been sharply improving in recent years, the Company seems to have room for improvement in earning capacity as well as asset efficiency. (Actual results for FY 2019, in the order of ROA and ROE: compared to 7.8% and 6.8% for PCA, 9.1% and 10.7% for OBC and 21.7% and 16.1% for MJS.)

[Figure 15] Long-Term Transition in the Gross Margin of Three Major Listed Companies (PCA, OBC, and MJS)

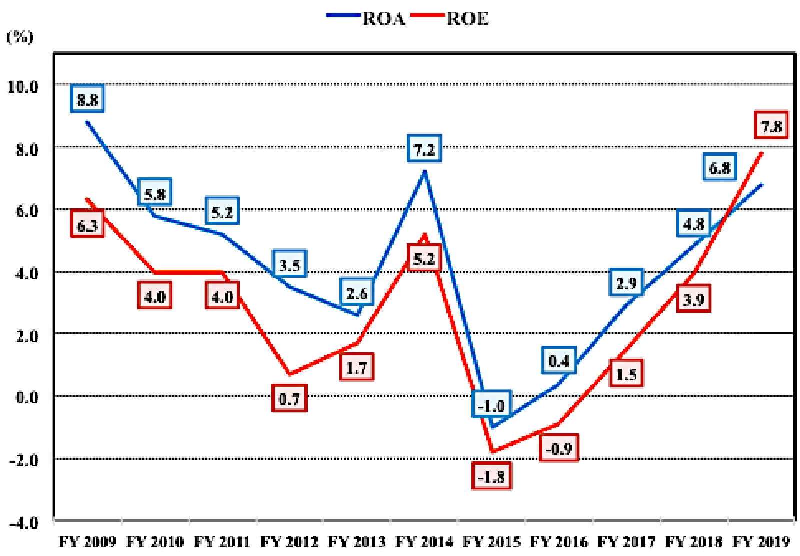
(Ref) Figures 15-17 were prepared by Alpha-Win Research Dept. based on the securities report. Estimates/forecasts (CE) are from the Company's business plan.



[Figure 16] Long-Term Transition in the Operating Margin of Three Major Listed Companies (PCA, OBC, and MJS)



[Figure 17] Transition in the Company's ROA and ROE



* ROA is the ratio of recurring profit to total assets.

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

◆ Last fiscal year, the Company achieved an increase in sales for the fourth consecutive year and record-high sales. Margins improved and profit increased significantly. Results exceeded the initial forecast.

◆ Financial Results for FY 2019 (last fiscal year)

Full-year, consolidated financial results for FY 2019 (hereinafter, "last fiscal year" or "previous fiscal year") were as follows: sales of Y11,439 million (+16.9% YoY), operating profit of Y1,248 million (+54.7% YoY), recurring profit of Y1,277 million (+53.0% YoY), and net profit attributable to owners of the parent of Y906 million (+105.5% YoY; hereinafter, "net profit"). Significant increases in sales and profits were achieved.

In terms of the large upward revision made in February 2019 to the Company's initial forecast from the beginning of the fiscal year, although sales were slightly below the revised target, each of the profits exceeded their targets by several tens of millions of yen. Our prediction had also been about the same as the Company's revised plan (Figure 18).

[Figure 18] Change in Financial Results during FY 2019 (last fiscal year) (unit: Y mil, %)

FY 2019 Consolidated	Initial Forecast	% YoY Change	Revised Forecast	Diff. from Initial Forecast	Actual Result	Diff. from Initial Forecast	Diff. from Revised Forecast	% YoY Change	Alpha-Win's Forecast	Diff. (Alpha-Win forecast - actual result)
Sales	10,486	7.2	11,518	1,032	11,439	953	-79	16.9	11,520	-81
Operating Profit	825	2.2	1,195	370	1,248	423	53	54.7	1,200	48
(% over sales)	*7.9*		*10.4*		*10.9*	*3.0*	*0.5*		*10.4*	*0.5*
Recurring Profit	842	1.0	1,224	382	1,277	435	53	53.0	1,225	52
(% over sales)	*8.0*		*10.6*		*11.2*	*3.1*	*0.5*		*10.6*	*0.5*
Net Profit	588	33.3	870	282	906	318	36		870	36
(% over sales)	*5.6*		*7.6*		*7.9*				*7.6*	*0.4*

(Note) Revised forecast = values announced by the Company on 2/18/2019. Alpha-Win's forecast = values revised as of 2/21/2019.

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

◆ Partly due to the event-driven high demand, the cloud, products, and solutions business contributed largely to the increase in sales.

Each sales category's contribution to the total increase in sales of Y1,654 million (YoY) is as follows, in the order of decreasing contribution: Y598 million (+32.3% YoY) for the cloud service, Y562 million (+28.8% YoY) for the products, Y444 million (+23.6% YoY) for the solutions, Y32 million (+3.2% YoY) for the goods, and Y16 million (+0.5% YoY) for the maintenance service (Figure 19 on page 23). Sales increased in all categories, but sales of the cloud service, products, and solutions especially grew well – by about 20-30% each – thanks to the effect of the event-driven high demand (rise in the consumption tax rate, termination of Windows 7 support, version upgrades related to the change in the name of the era, etc., led to an early demand of almost a billion yen, as estimated by the Company). As a result, the Company achieved a record-high for its full-year sales for the first time in five years since the record of Y10,475 million attained in FY 2014 when a high demand was induced by two events.

◆ The number of corporate users of PCA Cloud is also currently steadily increasing.

The number of coompanies using PCA cloud reached 10,000 on January 11, 2018, and then increased to 11,331 by the end of September 2018 and 12,313 by the end of March 2019 – more than 2,300 new users were acquired in about 15 months (Figure 6 shown previously on page 11). On a monthly basis, the simple average for the net increase in the number of corporate users was about 160 per month. This good trend is continued into this fiscal year. About 40% of the total number of new contracts are with new customers.

As a result, sales of the cloud service increased substantially from Y1,854 million in the fiscal year before the previous to Y2,452 million in the previous fiscal year. The sales growth rate of the business from FY 2017 to FY 2019 was 29.9% → 23.9% → 32.3%; the rate has been maintained at a high level of 20-30% as the Company began to provide the cloud service in full-scale.

The sales growth rate of the maintenance service has been increasing only little by little every year, remaining mostly flat. This is because, with the shift from the on-premises to the cloud, the maintenance service is no longer needed. In addition, subscription-based sales (the total of the maintenance service and the cloud service), which is a key indicator for the Company, have lost its share of total sales by 2.1 points from 50.7% at the end of March 2018 to 48.6%. This decline is explained by the fact that customers who still prefer to use stand-alones have purchased the on-premises in response to the campaign before the rise in cosumption tax or in response to the version upgrades, leading to a siginificant growth in the sales of the products from quarter to quarter (Figure 5 shown previously on page 10).

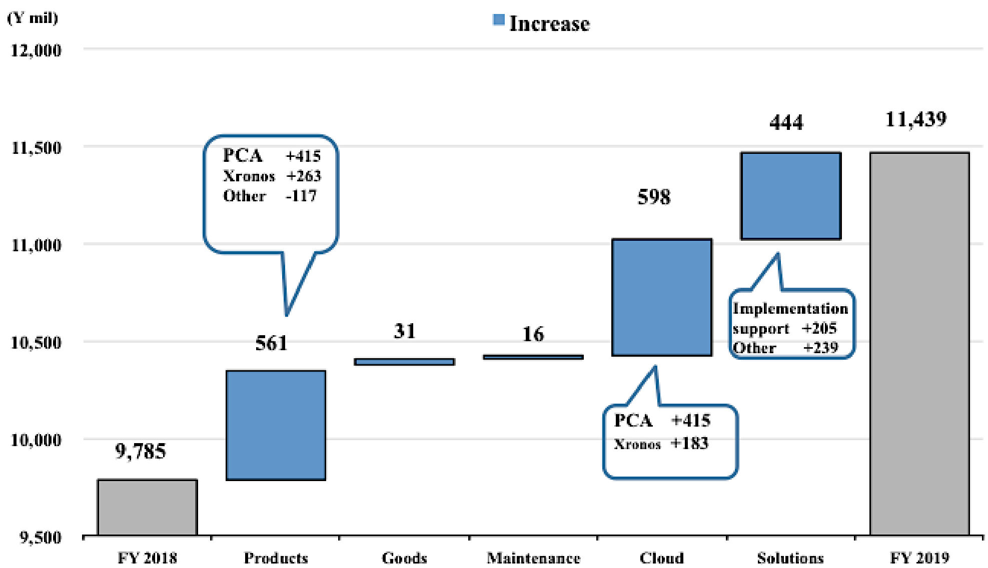
- The labor management system also contributed to both sales and profits.

Concerning the sales of the products, in addition to the version upgrades accompanying the event-driven high demand as mentioned above (the Company alone had increased sales by Y415 million), sales growth was driven by the labor management system[9] of the subsidiary Xronos as it benefitted from the work-style reform (Y263 million sales increase). This sales growth helped offset the declined sales of the subsidiary (MACS System) whose financial performance had worsened.

(9) Labor management system: also called the attendance management system, it manages/utilizes various info on working hours. Can automatically aggregate data on working hours, etc., and prepare data to link with payroll software. Provided as on-premises or by cloud.

In addition, sales of implementation support fees, etc., increased (by Y205 million) along with the increased sales of the products, creating a good cause-and-effect cycle that resulted in a sales growth of 23.6% for the solutions. Meanwhile, sales of the goods had remained almost flat (the above information is shown in Figure 19).

[Figure 19] Actual Sales in FY 2019 (last full fiscal year) (unit: Y mil, %)



(Ref) Excerpt from the Company's FY 2019 financial results briefing materials, reworked by Alpha-Win Research Dept.

- **Last fiscal year, the gross margin greatly improved.**

Meanwhile, concerning the profits, gross profit increased by 22.2% YoY, having risen by Y1,187 million. In addition to the increase in profit caused by increased sales, the decrease in software amortization expense helped improve the gross margin by 2.5 points from 54.5% in the fiscal year before the previous to 57.0% in the previous fiscal year. On the contrary, the SG&A expenses increased only by Y746 million or 16.5% YoY, improving the SG&A expenses ratio by 0.2 points from 46.3% to 46.1%.

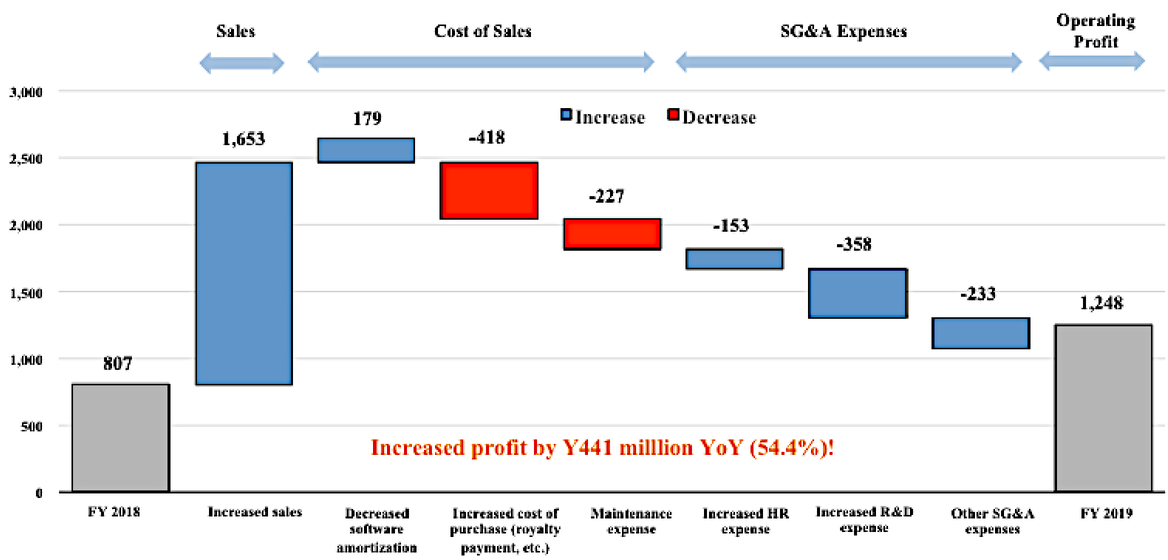
Consequently, operating profit increased significantly by Y441 million or 54.7% YoY and operating margin also improved by 2.7 points from 8.2% to 10.9%. Factors that increased or decreased consolidated operating profit are described in Figure 20. While the cost rose due to increased maintenance costs from the modification of software in response to the tax system reform (+Y227 million YoY), increased R&D costs set aside to invest in new software development mainly for the Hyper Series[10] (+Y358 million YoY), and increased personnel expenses (+Y153 million YoY), these were fully absorbed by the increase in sales.

Regarding extraordinary gains and losses, the Company sold its investment securities to improve asset efficiency and recorded Y63 million as extraordinary gain. On the contrary, when the Company sold its subsidiary MACS System, it recorded Y81 million as loss on sales of stocks of subsidiaries and affiliates under extraordinary loss, almost fully offsetting the above extraordinary gain as a consequence. Net profit doubled to Y906 million, which is Y465 million greater YoY (105.5% increase; in FY 2018, an impairment loss of Y244 million was recorded).

Also, although the profits for each category have not been disclosed, the sales increase of the highly profitable cloud and products had probably greatly contributed to the profit increase.

(10) PCA Hyper: a new software for mid-tier companies as a successor to Dream21. Targets the approx. 90,000 companies in Japan with sales of 1 to 10 billion yen, less than or equal to 1,000 employees, and less than 10 subsidiaries in the corporate group. A superior version of the DX Series. Its unique features are how the user can flexibly select between the on-premises and the cloud according to their stage of growth, make flexible linkage with other systems using API, and streamline data management for the entire corporate group (consolidated accounting).

[Figure 20] Factors that Increased/Decreased Operating Profit in FY 2019 (last full FY) (unit: Y mil)



(Ref) FY 2019 financial results briefing materials, reworked by Alpha-Win's Research Dept.

◆ PCA's Financial Results Forecast for FY 2020 (this fiscal year)

- This fiscal year, the Company expects to increase sales and profit for the fifth year in a row. It plans to achieve record-high sales and net profit.

With regard to the financial results for FY 2020 (this fiscal year), the Company expects sales and profit to increase; it is expecting sales of Y12,783 million (+11.8% YoY), an operating profit of Y1,478 million (+18.5% YoY), a recurring profit of Y1,499 million (+17.4% YoY), and a net profit of Y976 million (+7.7% YoY) (Figure 23 on page 28). It expects to achieve record-high sales for the second year in a row, the fourth highest operating profit in the Company's history, and a record-high net profit (the previous record-high net profit was Y937 million in FY 2000).

Thanks to continued event-driven high demand for the products and solutions, in addition to the continued growth of the cloud and the labor management system, financial performance is expected to be extremely strong with an increase in sales and profits expected for the fifth consecutive fiscal year. Concerning the financial results forecast for the first half, the Company has decided to keep it undisclosed for this fiscal year too since it believes that, because it may conduct cost control in line with changes in internal and external conditions in order to achieve the final profit target, making a prediction for the first half is difficult.

- Event-driven high demand will also be the driver of growth during this fiscal year.

The estimates or assumptions used by the Company in making the full-year forecast for sales are as shown in Figure 21 on page 26. Contribution to the total sales increase of Y1,344 million by sales category, in the order of decreasing contribution, is as follows: Y535 million (contributing 39.8%) for the solutions, Y352 million (contributing 26.2%) for the cloud, Y282 million (contributing 21.0%) for the maintenance, Y157 million for the products, and Y16 million for the goods. For the solution business, since there are many carryover projects due to the replacement of software from the event-driven high demand, revenue from implementation support is expected to rise in association. Therefore, the Company expects the business to contribute largely to the increase in sales (+23.0% YoY). Although the cloud service is making steady progress, its financial performance is expected to decline both in terms of the increase in sales (in the order of last fiscal year → this fiscal year: Y598 million → Y352 million) and the sales growth rate (+32.3% → +14.4% in the same order as above). For maintenance, the Company plans to acquire maintenance service contracts during the event-driven high demand for the on-premises, which would lead to a large growth rate (+0.5% → +9.0%). The sales of the products are also expected to grow at a similarly low rate (+28.8% → +6.2%) since it had already grown significantly during the previous fiscal year's event-driven high demand. As a whole, the event-driven high demand during this fiscal year is expected to be about Y1.1 billion (mainly for the products, cloud, and solutions) and is not expected to be significantly greater than the demand of a little less than Y1 billion during the previous fiscal year.

- Expecting further improvement in margins

Regarding profit, with improved margins as well as increased sales, the Company expects that gross profit will increase by Y809 million YoY (+12.4%) and operating profit will increase by Y230 million YoY (+18.5%). Its plan for this fiscal year is to improve the gross margin by about 0.3 point (in the order of last fiscal year → this fiscal year: 57.0% → 57.3%) and improve the SG&A expenses ratio by about 0.3 point (46.1% → 45.8%) by suppressing the growth rate of SG&A expenses (in the same order: +18.2% → +11.0%), so that the operating margin will improve by 0.7 point (10.9% → 11.7%). As a result, the operating margin is predicted to improve for the fifth consecutive fiscal year.

- **Planning for a double-digit increase in recurring profit during this fiscal year with the increase in sales and improvement in gross margin**

For non-operating profit and loss, a profit of Y21 million is expected (profit of Y29 million in the previous fiscal year). Recurring profit is expected to increase by 17.4% from the previous fiscal year. At this point, no major extraordinary loss is expected, and net profit is expected to increase by 7.7%.

Factors that expected to contribute to the projected increase and decrease in consolidated operating profit for the current fiscal year are as shown in Figure 22 on page 27. The decrease in software amortization (Y292 million decrease) is expected to lead to an improvement of gross profit. The increase in sales are expected to offset the increase in expenses from the rise in product maintenance costs (+Y332 million) mainly to cope with the raised consumption tax, active investments in the fields of growth to prepare for future growth, and increase in personnel and sales promotion expenses.

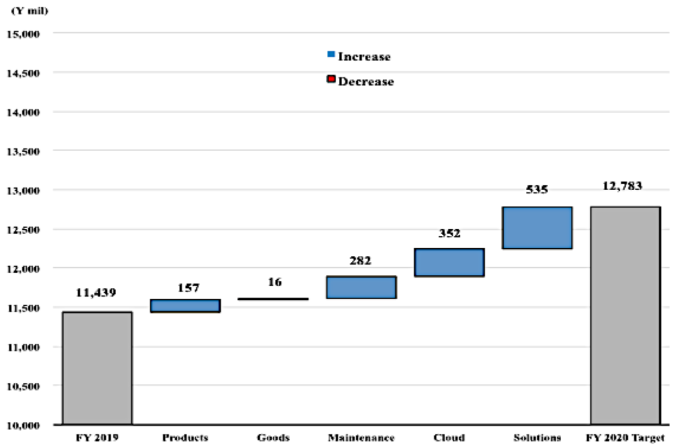
As its product strategy for this fiscal year, the Company plans to benefit from the high demand induced by tax system reforms, including the revision of consumption tax to 10% and the introduction of a reduced tax rate system, by launching in August 2019 a new product version adapted to those changes. Also, since the users are expected to replace their PCs when the Windows 7 support ends in January 2020, the Company may release version upgrades (replacements) of its software in advance.

In addition, as a successor to the ERP software Dream21, from which the Company has decided to withdraw, a new cloud-related product for mid-tier companies – the Hyper Series (PCA hyper) – is scheduled to become released sequentially (released software for accounting and fixed assets in February 2019; will release payroll and HR management software in July of the same year; and will release two options in February 2020). However, since the Company will be busy responding to the event-driven high demand during this fiscal year, their contribution to financial results is expected to occur in the next fiscal year onward.

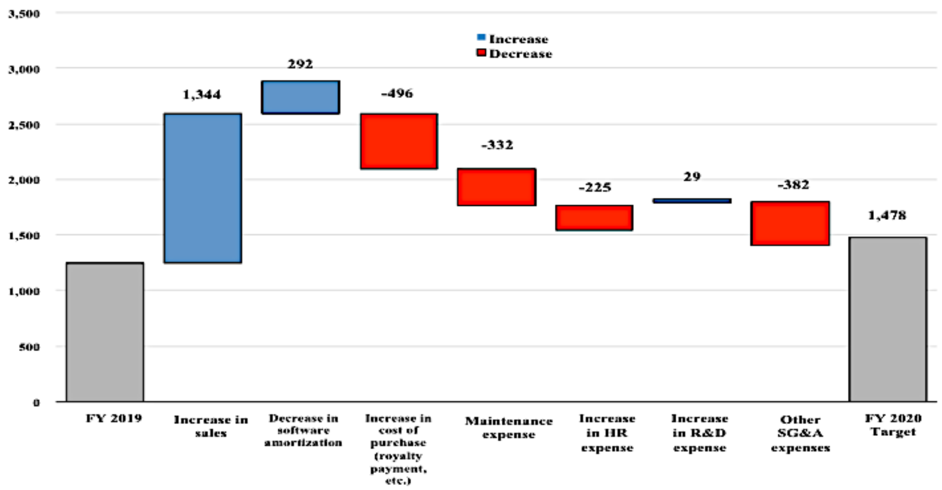
Also, amidst the work-style reform, since many SMEs still have not used labor management software, there is a large potential demand. Having taken advantage of this demand, the Company has been receiving orders for on-premise and cloud versions of the labor management software (cloud service's name: X'sion) at an excellent pace. Therefore, the Company expects a double-digit sales growth for this business (we expect that it will be about +20%).

[Figure 21] Factors that Are Expected to Contribute to Sales in FY 2020 (this FY) (company plan) (unit: Y mil)

(Ref) Excerpt from the Company's FY 2019 financial results briefing materials, reworked by Alpha-Win Research Dept.



[Figure 22] Factors that Are Expected to Increase Operating Profit in FY 2020 (this FY) (company plan) (unit: Y mil)



(Ref) Excerpt from the Company's FY 2019 financial results briefing materials, reworked by Alpha-Win Research Dept.

◆ Alpha-Win Research Dept.'s Financial Results Forecast for FY 2020 (this fiscal year)

- With event-driven high demand, significant increases in sales and profits are expected during this fiscal year. However, growth is restricted by human resources – an issue to overcome.
- We believe that the Company's estimates for cost and the sales of the cloud, products, etc., are conservative and that there is room for an upward revision to the Company's forecast for profits.
- The amount of orders to be received in the second half and onward, when the high demand related to consumption tax would have ended, is a factor of uncertainty.

We have updated our original forecast and added a new forecast for FY 2022 (the fiscal year after the next) (Figure 23 on page 28). We revised our forecast for this fiscal year's sales upward and kept the forecast for profit about the same. However, we believe that the Company's forecast for profit is conservative and the actual results could be greater.

The revisions that we made to the financial results are as follows: in FY 2020 (in the order of previous forecast presented in the report issued on February 15, 2019 → current forecast), sales of Y12,200 million → Y12,900 million (+12.8% YoY; the Company's forecast is Y12,783 million; difference from the Company's forecast is +Y117 million), operating profit of Y1,600 million → unchanged (+28.2% YoY; Company forecast is Y1,478 million; +Y122 million difference), recurring profit of Y1,620 million → unchanged (+26.9% YoY; Company forecast is Y1,499 million; +Y121 million difference), and net profit of Y1,110 million → Y1,050 million (+15.9% YoY; Company forecast is Y976 million; +Y74 million difference). While the human resources capacity is somewhat a bottleneck to the implementation support and maintenance services, the cloud, the labor management software, and the product version upgrades seem to be continuing to increase their number of contracts at a steady pace and are predicted to become the drivers of growth with regards to sales and profits for the Company as a whole.

The high demand related to consumption tax is expected to reach its peak by August to September of 2019, but the extent of this demand as well as the outlook for the amount of orders to be received after the peak is somewhat uncertain. We cannot rule out the possibility that this uncertainty will cause fluctuations in sales and profits. However, for the following reasons, we believe that the Company's plan for this fiscal year is conservative and has room for an upward revision in terms of profit.

1. We believe that the assumption that the event-driven high demand will increase by 10% or a little over 100 million yen compared to the previous fiscal year is on the conservative side.

- Sales estimates for the cloud and the products seem conservative.

2. As for the sales forecast for each category, we believe that it is a cautiously made forecast since 1) even though there continues to be no signs of decline in the orders received, the forecast is based on the assumption that the growth rate of the cloud will be halved in the second half due to the diminishment of the event-driven high demand (for the increase in sales, Y598 million last fiscal year → Y352 million this fiscal year; for the sales growth rate, 32.3% → 14.4%) and 2) the forecast is based on the assumption that the growth rate of the products will be small since it grew largely during the previous fiscal year (for the increase in sales, Y561 million last fiscal year → Y157 million this fiscal year; for the growth rate, 28.7% → 6.2%). On the other hand, the predicted growth rate for maintenance is +9.0% YoY (increase in sales: Y16 million last fiscal year → Y282 million this fiscal year), which seems high and rather optimistic. Nevertheless, we believe that there is room for an upward revision to sales by around Y100-300 million in total.

- The costs also seem to be estimated on the high side; there seems to be room for an upward revision to profit.

3. Various costs such as sales promotion expenses seem to be estimated on the high side, suggesting that there is room for adjustment. In addition, since the above-mentioned increase in sales will add to profit, we also believe that there is room for an upward revision to the profits. However, as a fallback from the event-driven high demand seems inevitable in the next fiscal year (FY 2021), we believe that this fiscal year may give the Company the opportunity to control the costs and even out the profits.

[Figure 23] Alpha-Win Res. Dept.'s Financial Results Forecast for This Fiscal Year and New Medium-Term Forecast (unit: Y mil)

Unit: Y mll, %		FY 2019 AR	FY 2020 CE	FY 2020 E	FY 2021 E	FY 2022 E
Sales		11,439	12,783	12,900	11,000	11,600
Category	Products	2,516	2,673	2,700	1,800	1,900
	Goods	1,020	1,036	1,020	1,000	1,000
	Maintenance Service	3,125	3,407	3,220	3,000	3,000
	Cloud Service	2,452	2,804	3,100	3,400	4,000
	Other Operating Revenue	2,322	2,857	2,860	1,800	1,900
Gross Margin		*57.0%*	*57.3%*	*57.4%*	*57.3%*	*57.5%*
SG&A Expense		5,274	5,852	5,805	5,100	5,300
	(% over sales)	*46.1%*	*45.8%*	*45.0%*	*46.4%*	*45.7%*
Operating Profit		1,248	1,478	1,600	1,200	1,400
	(% over sales)	*10.9%*	*11.6%*	*12.4%*	*10.9%*	*12.1%*
Recurring Profit		1,277	1,499	1,620	1,220	1,420
	(% over sales)	*11.2%*	*11.7%*	*12.6%*	*11.1%*	*12.2%*
Net Profit for the Year		906	976	1,050	800	920
	(% over sales)	*7.9%*	*7.6%*	*8.1%*	*7.3%*	*7.9%*
Sales (% YOY growth for all values)		16.9%	11.7%	12.8%	-14.7%	5.5%
Category	Products	28.8%	6.2%	7.3%	-33.3%	5.6%
	Goods	3.2%	1.6%	0.0%	-2.0%	0.0%
	Maintenance Service	0.5%	9.0%	3.0%	-6.8%	0.0%
	Cloud Service	32.3%	14.4%	26.4%	9.7%	17.6%
	Other Operating Revenue	23.6%	23.0%	23.2%	-37.1%	5.6%
Gross Margin (% YOY diff.)		*2.5%*	*0.3%*	*0.4%*	*-0.1%*	*0.2%*
SG&A Expense (% growth)		16.5%	11.0%	10.1%	-12.1%	3.9%
Operating Profit (% growth)		54.6%	18.4%	-2.4%	-25.0%	16.7%
Recurring Profit (% growth)		53.1%	17.4%	28.2%	-24.7%	16.4%
Net Profit for the Year (% growth)		105.4%	7.7%	13.7%	-23.8%	15.0%

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

8. Growth Strategy

◆ Management Indicator Targets and Areas of Focus

In 2012, the Company announced its group's management indicator targets as Y20 billion in sales (actual result for FY 2019 was Y11.4 billion), 2.5% in DOE (FY 2019 actual: 1.8%), and 80,000 corporate customers for the cloud (a little over 12,000 as of the end of March 2019), and has been developing its business in line with this plan. To achieve these targets, five areas of focus have been set: 1) become even greater as No. 1 in the cloud-based enterprise system software market, 2) enhance the solutions to provide more than simple functionality, 3) further advance the technology of PCA Cloud, 4) pursue new services, and 5) actively conduct M&As.

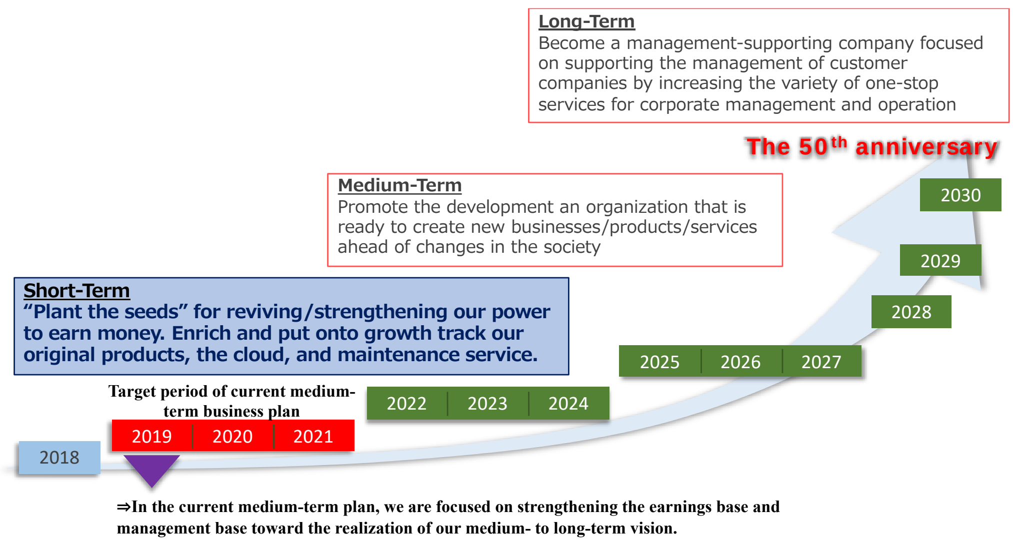
◆ New Medium-to-Long-Term Vision *PCA Vision 2030: 1st Stage – Medium-Term Business Plan to 2021*

- In November 2018, *PCA Vision 2030: 1st Stage – Medium-Term Business Plan* was announced.

In June 2018, Fumiaki Sato, who was previously executive vice president, was promoted to president and created a new operating framework for the Company. The core concept "PCA4.0" of the medium-to-long-term vision *PCA Vision 2030* was announced in May 2018 and is summarized in Figure 24 and Figure 25 on page 30. The *Vision* was created in line with the fact that the Company will reach a milestone in the year 2030 as its 50th anniversary. Then, as the next and further step, the Company announced in November the *PCA Vision 2030: 1st Stage – Medium-Term Business Plan to 2021.*

As a side note, the Company has categorized the 50 years from 1980 to 2030 into four phases of business development as follows: 1980 to 1998 as "PCA1.0," the period of transition from small business computer to PC; 1998 to 2008 as "PCA2.0," the period of flourishment of the internet and client servers; 2008 to 2018 as "PCA3.0," the period of transformation of internet into infrastructure and popularization of the cloud; and 2018 to 2030 as "PCA4.0."

[Figure 24] The New Medium-to-Long-Term Vision *PCA Vision 2030*



(Ref) Excerpt from the Company's financial results briefing material
(Note) The years in this figure are such that 2019 stands for FY 2020 (the same applies to all years in this figure).

[Figure 25] Overview of the Core Concept "PCA4.0" of the Medium-to-Long-Term Vision

(Ref) Prepared by Alpha-Win Research Dept. based on the Company's FY 2019 financial results briefing materials

PCA4.0 [Becoming a Problem-Solving Service Provider]
1. Service-oriented creation of products
2. Sales partnership enriched by solution proposals
3. Strengthening digital direct marketing
4. Enhancing customer contact and relationship
5. Implementation of strategic recruitment, training, and evaluation programs
6. Development of flexible organizational and operational systems

In the medium-term business plan, the Company described its medium-to-long-term vision that it will continue to be a company that contributes to society as a "management-supporting company" that supports the smooth management and operation of other companies mainly by providing enterprise system software that realizes high-level automatization.

In the recently annouced *PCA Vision 2030: 1st Stage – Medium-Term Business Plan (FY 2020 – FY 2022)*, the Company stated that its basic policy over the medium term is to "conduct structural reforms and develop business platforms so that business will continue to exist and develop stably over the long term." Aiming to become a solution-providing service providor, the Company's plan for the medium term is to focus on creating a firm earnings base and management system for the realization of its medium-to-long-term vision.

- Reinforcement of product creation, adoption of the annual plan system, and reform of the HR system were added as key measures.

The basic strategies based on the basic policy, as well as their summaries and measures, are described below (Figure 26). The medium-term business plan has not been changed, but in comparison with the past version, reinforcement of product creation has been added as a basic strategy (IV). In addition, in III, adoption of the annual plan system (1) and reform of the human resources system (4) were added as key measures (shown in red in Figure 26). In addition, an execution roadmap has been set for each measure, making their schedules more specific.

[Figure 26] Basic Strategies and Their Summaries and Measures
[*PCA Vision 2030: 1st stage – Medium-Term Business Plan to 2021*]

Basic Strategy	Summary and Measures
I. Build the earnings base for the main businesses	
1. Strengthen and increase the sales of PCA Cloud	Will work on PCA Cloud, for which it has a rich product lineup and over ten years' worth of business know-how. Will secure a firm position in the market and build a strong earnings base as one of its main businesses by focusing on improving brand power, finding new Web-API partners, strengthening service functions, and strengthening cooperation with specialists (professionals) in accounting offices, certified social insurance and labor consultant offices, etc.
2. Strengthen the on-premises business	Engage in strengthening the on-premises business (sales and maintenance of the on-premises) by reviewing the products, service system, etc., based on the users' needs. Will make a transition from the on-premises to the subscription-based model, as well as improving the maintenance contract repeat rate and operation productivity.
II. Create new business opportunities	
1. Find the "seeds" of new products and businesses	In an aim to create a new earnings base for the future. Will accelerate its progress with creating new business opportunities by establishing a division (called "General Innovation Office" for now; established in Jan. 2019) tasked with the role to find the seeds of new products and businesses related to new technologies such as AI, big data, RPA, and FinTech.
2. Renew efforts to develop the mid-tier company market	With the new Hyper Series, renew efforts to develop the mid-tier company market, which is an attractive market since it encompasses the upper zone of the Company's major customers and has the capacity to bear large system investment costs.
III. Strengthen the management system to become a highly profitable company	
1. Adopt the annual business plan system (reinforce coordination with medium-term plan)	Create a culture or a system that promotes the autonomous advancement of organization by reflecting the company-wide policies and key measures in each department's policies and plans each fiscal year and adopting a management system that is based on the PDCA (a method to manage and improve business processes, etc., by repeatedly conducting the four steps of Plan → Do → Check → Act and continuously improving and optimizing the processes).
2. Strengthen the profit management system to support strategic decision-making	Strengthen the profit management system so that it supports strategic decision-making through autonomous efforts by each internal organizational unit to improve profit, products and services adapted to changes in the business environment, reassessment of business asset allocation, etc.
3. Adpot performance evaluation indicators that reflect profitability improvement	In addition to conventional management indicators, create and adopt a performance management indicator that would help improve profitability under the Company's business model as the Company tries to strengthen and shift to the subscription-based business model.
4. Reform the HR system	Remove barriers between divisions, create a corporate culture that encourages taking on challenges toward common goals, and restructure the organization into one that fosters and values members who can think and act on their own.
IV. Strengthen product creation	
1. Restore product development capacity (tradition and innovation)	Cooperate with the General Innnovation Office in creating the foundation and system to encourage innovation. Reinforce internal and external cooperation to improve our insight into and sensitivity toward changes in the external environment related to our products and services.
2. Reform the organizational structure and managemet policy of the development division	Give more authority to the group leader assigned to each group of products in order to enhance agility. Reform the organizational structure for R&D by securing research budgets and development capacity to create service-oriented products.

(Ref) Prepared by Alpha-Win Research Dept. based on an excerpt from the Company's FY 2019 financial results briefing materials

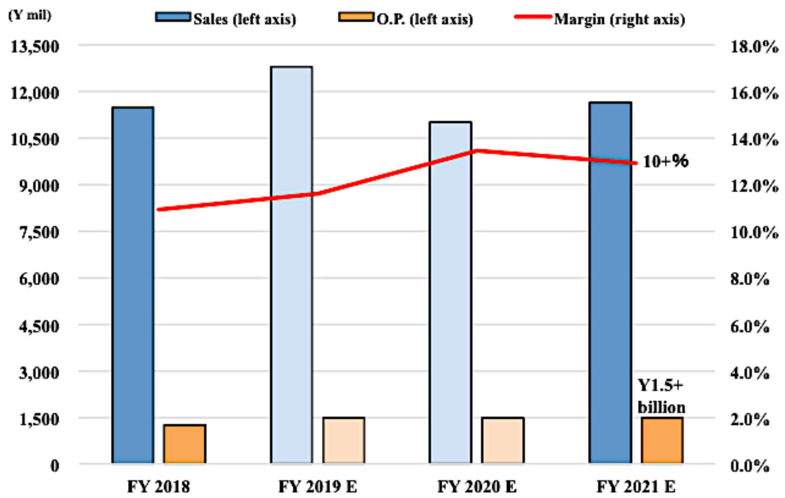
Also, the Company has annouced the following new numerical targets for FY 2022, the final fiscal year of the medium-term plan (the fiscal year ended March 31, 2022) (targets for each year have not been disclosed; please refer to Figures 27, 28, and 29).

[Figure 27] Targets of the Medium-Term Business Plan

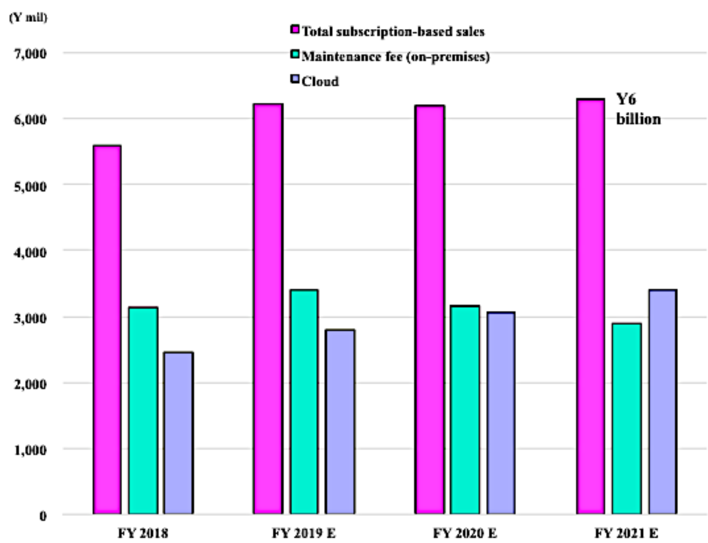
Target Items of the Medium-Term Plan	FY 2022 Target	FY 2020 Target	FY 2019 Results
· Consolidated Sales	≥Y11.5 bill	Y12.783 bill	Y11.439 bill
Of which are sales from subscription-based businesses (maintenance/cloud)	Achieve Y6 bill	Y6.211 bill	Y5.577 bill
· Consolidated Operating Profit	≥Y1.5 bill	Y1.478 bill	Y1.248 bill
· Consolidated Operating Margin	≥10%	11.60%	10.90%

(Ref) Figures 27–29 were prepared by Alpha-Win Research Dept. based on excerpts from the Company's FY 2019 financial results briefing materials. Forecasts/targets (E) are those announced by the Company.

[Figure 28] Financial Results Forecast in the Medium-Term Business Plan (consolidated)



[Figure 29] Sales Forecast for the Subscription-Based Businesses



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

- We revised the previous forecast for next fiscal year's financial results. Sales were kept the same but the cost estimates were reviewed and profit was revised upward.

We revised this fiscal year's forecast as well as next fiscal year's sales and profits, and also newly added a forecast for FY 2022 (Figure 30).

The revisions that we made to the financial results for next fiscal year (FY 2021) are as follows (original forecast: report issued on February 15, 2019). We made an upward revision to the profits despite keeping the sales unchanged since we have reevaluated the cost estimates (for instance, sales promotion expenses could be cut down more).

[Figure 30] Financial Results Forecast for FY 2021 (next FY)

Consolidated (unit: Y mil)	FY 2021		Comparison with Initial Forecast	
	Initial Forecast	New Forecast	Diff.	% Diff.
Sales	*11,000*	11,000	0	0.0%
Gross Profit	*6,300*	6,300	0	112.4%
Gross Margin	*57.3%*	57.3%	0.0%	—
SG&A Expenses	*5,200*	5,100	-100	-1.9%
SG&A expenses ratio	*47.3%*	46.4%	-0.9%	—
Operating Profit	*1,100*	1,200	100	9.1%
O.P. Margin	*10.0%*	10.9%	0.9%	—
Recurring Profit	*1,120*	1,220	100	8.9%
R.P. Margin	*10.2%*	11.1%	0.9%	—
Net Profit Attributable to Owners of the Parent	*767*	800	33	4.3%
N.P. Margin	*7.0%*	7.3%	0.3%	—
Annual Dividend per Share	*31*	31	0	—

(Ref) Predicted and prepared by Alpha-Win Research Dept.

- In FY 2021 (next FY), sales and profit may temporarily decrease in a fallback from the event-driven high demand. However, the scale of the fallback is expected to be limited.

For next fiscal year, we have not changed our view that sales and profits will decrease due to the expected fallback from this fiscal year's high financial performance after the event-driven high demand (estimated by the Company as appoximately Y1.1 billion for this fiscal year), although the phenomenon is thought to be temporary. However, we believe that a full fallback will be prevented by the support of the stable, existing subscription-based businesses as well as by the new contracts for the still-growing cloud and labor management software business to some extent. Therefore, we are expecting a smaller fallback compared to the previous fallback after the high demand from past two events (in the previous fallback, in the order of FY 2014 → FY 2015: sales of Y10,425 million → Y8,168 million; recurring profit of Y1,139 million → -Y158 million; and a net loss).

- In FY 2022, the Company will have already gone through the fallback from the event-driven high demand, and business is expected to return to normal, increasing sales and profit again. The Company's targets in its medium-term plan are within an achievable range.

Furthermore, concerning cost, since various costs have been recorded ahead of schedule up through this fiscal year, there seems to be some room for adjustment. Therefore, we have judged that the decline in profit shall not be as great as would normally be expected from the rate of decline in sales and have revised our original forecast upward.

Also, although the Company's targets for the fiscal year after the next (FY 2022, the final year of the medium-term business plan) are somewhat high – consolidated sales of Y11.5 billion and operating profit of greater than Y1.5 billion – they seem to be within an achievable range under the right conditions. At this point, our forecast is somewhat conservative, with sales of Y11.6 billion and operating profit of Y1.4 billion, having taken into account the risk factors. Also, based on the dividend payout ratio, we believe that a dividend hike will become a possibility when the targets are achieved (Figure 23 shown previously on page 28).

Furthermore, for the estimated annual sales growth rate for each category (sales type) for FY 2020 and FY 2021, we changed the estimate for the maintenance service from about 1.5% in the previous forecast to 0.5% and used estimated rates of about 20% for the cloud service and about 1-5% for each of the remaining three categories (products, goods, and solutions) (evened-out figures excluding the effect of the event-driven high demand).

Each sales category's amount of contribution to the expected gross margin was not largely altered, but instead we focused our analysis on the positive effect of improved product mix, such as the cloud, on the gross margin. Also, although the Company is in an investment phase, which includes business structure reinforcement in preparation for future growth, new product development, and technology research necessary for the product development (virtualization technology, AI, Web API, and FinTech-linked technology), we predict that the general and administrative expenses – especially the sales promotion, R&D, and personnel expenses – are controllable to some extent. No extraordinary gain or loss is expected.

- **Should keep an eye out for new technology, new products, and new businesses**

Going forward, there seems to be several factors of uncertainty, such as the anticipated rise in consumption tax, occurrence of and fallback from the high demand related to Windows 7 support termination, new tax laws and regulations or changes in the laws and regulations, progress with new product development and new businesses (transition from the on-premises to the subscription-based model, situation with the sales of the Hyper Series, financial performance of the data utilization business of the acquired Keepdata, etc), changing balance in the competition with major competitors in the cloud business, and the progress with the M&A strategy.

However, since the Company is in a phase where its subscription-based businesses are continously expanding, we believe that the when the fallback from the event-driven high demand settles down and if the Company is able to put the new businesses described above onto a succesful track, then the Company will be able to enter another growth phase and begin to increase its sales and profits again starting in FY 2022.

- **With the subscription-based businesses as the growth driver, annual profit growth rate is expected to be about 8-10% over the medium term based on evened-out figures.**

Over the medium to long term, based on figures that are evened out excluding the effect of the event-driven high demand, we are expecting an annual sales growth rate of around 6-8% and an even greater net profit growth rate (8-10% per year). Although upfront investment costs for new business domains will continue to be incurred, since the Company's business model is characterized by a high marginal profit ratio, we believe that the profit growth rate will exceed the sales growth rate. In addition, the shift to the subscription-based business is expected to improve the stability of financial performance.

9. Analyst's View

◆ PCA's Strengths and Challenges

The Company's SWOT analysis results are listed in Figure 31.

[Figure 31] SWOT Analysis

Strength	･Brand recognition and trust earned over many years (major specialized player in the enterprise system software market for small/medium-sized companies) ･Firm financial standing (debtless management) ･Growth of the subscription-based business capable of generating stable revenue ･ Strong and diversified customer base (240,000 corporate users in total) ･Taking a lead with the cloud (top-level financial performance, know-how, number of customers, & years of practice for enterprise system software business targeting small/medium-sized companies) ･ High barrier to market entry ･Very experienced call center staff and engineers ･Rich product lineup; provides products as on-premises and by cloud ･ Sales network (13 sales offices in Japan; 2,000 partnered companies)
Weakness	･Relatively low margins ･Financial results susceptible to revisions related to accounting and tax laws, termination of OS support, etc. (consumption tax, change in the name of the era, Windows 7, etc.) ･Large improvements still needed in maintenance service with only around 50% of users subscribing to the service ･Highly competitive market ･Absence of a major, next-generation, growth-driving product/service ･Domestically oriented; overseas expansion difficult
Opportunity	･Increased demand from lack of manpower and need for efficient operation (for business software in general); work-style reform (labor management system) ･ Potential for cloud services to increase users; development potential (esp. toward small/medium-sized companies and mid-tier companies) ･New products, new services, and technology innovations ･Revisions related to accounting and tax laws, etc.
Threat	･Emergence of an alternative as advanced AI technology becomes generally used, lagged product development, defects in products, etc. ･Termination risk of contracts, etc. ･Information leakage ･Rise in personnel and development costs

(Ref) Prepared by Alpha-Win Research Dept.

◆ Long years of trust and track record, customer base, and technological skill are its strengths.

Describing the strengths listed in Figure 31 in more detail, the Company is well known due to its long years of practice in the industry and the trust that it has earned over those years. It is especially strong in certain areas of business such as accounting software for small/medium-sized companies and public benefit corporations. Its customers also have high loyalty, as there is little incentive to frequently change enterprise system software. Additionally, the Company has been developing a subscription-based business model with high continuity and stability by providing maintenance support, the cloud, and version upgrades to its customers.

◆ Top-level competitiveness and achievements with the cloud. The cloud market has a high growth potential.

◆ Improved profitability and stability with the transition to the subscription-based business model.

On the other hand, looking at the weaknesses in more detail, profitability has been an issue as the margins had been gradually decreasing over many years. In fact, the margins are still low compared to its major listed competitors. This may be explained by how the proportion of users signing a contract for the profitable maintenance service is low for the Company compared to its competitors, by the low sales growth rate of the maintenance service, and by how the Company has not been developing major, long-lasting new products (not being able to benefit from the advantage of scale). However, the operating margin has been recovering sharply in the past four years and had risen to 10.9% in the previous fiscal year. In recent years, the Company is working on shifting to the subscription-based businesses with the cloud and is showing signs of changes in the revenue structure.

- Increase in the proportion of users signing a contract for the maintenance service for the on-premises will create a large potential for improved earnings capacity.

If the Company could dig up hidden demand from its growth-driving, cloud-related market with its price advantage, and if it could improve the on-premises business by shifting to the subscription-based model and increasing the proportion of users subscribing to the maintenance service, then the Company may be able to improve its profitability. For instance, even just by raising the proportion of users signing a contract for the maintenance service from the current 50% (approx.) to the same level as OBC (about 80%) or MJS (nearly 100%), the gross margin would theoretically improve by a few points in each case compared to last fiscal year’s 57.0%.

As for the opportunity and threat, occurrence of events such as the consumption tax revision and work-style reform that we currently see will induce a high demand related to the event, which would tend to cause higher volatility in financial performance before and after the event. Also, we should keep note of the progress of major competitors in catching up with the Company in the cloud-service market, in which the Company currently takes a lead, and in their development of new products and services.

◆ Shareholder Return and Shareholder Benefit Program

The Company’s basic policy is to stably, constantly pay dividend while improving the ratio of net profit for the year to shareholders’ equity (ROE) under an effective management. In returning profit to its shareholders, its policy is to determine the level of dividend to be paid based on a comprehensive analysis of elements such as its financial results and dividend payout ratio.

Regarding dividend, ever since the first public offering of the Company’s stock, ordinary dividend has not been decreased and has been gradually increasing over the long term with several years of no change in between (Figure 32 on page 36).

Excluding commemorative dividends, ordinary dividend since FY 2011 has been kept at Y31 per share per year. Only in FY 2014 was a commemorative dividend paid; in celebration of “the achievement of consolidated sales of Y10 billion,” Y10 was added to the ordinary dividend of Y31 to an annual total of Y41 per share. Even in FY 2015 and FY 2016 when a net loss was posted, the Y31/year dividend was maintained in line with the Company’s stable dividend policy

- The Company’s goal for dividend payout ratio is 30% and its goal for DOE is 2.5% but the actual percentages are lower. It has been stably paying a dividend of Y31 per year for many years.

The target for dividend payout ratio is 30%, but the actual percentages were 48.2% in FY 2018 and 23.3% in FY 2019, the Company’s forecast for FY 2020 is 21.1%, and our forecast is 19.6% – all below target. The dividend yield is 0.9% when calculated based on a stock price of Y3,465 (closing price on June 14, 2019). Also the DOE, which is one of the KPIs (key performance indicators) that the Company focuses on, was 1.9% and 1.8% in FY 2018 and FY 2019, respectively, both below the Company’s target of 2.5%.

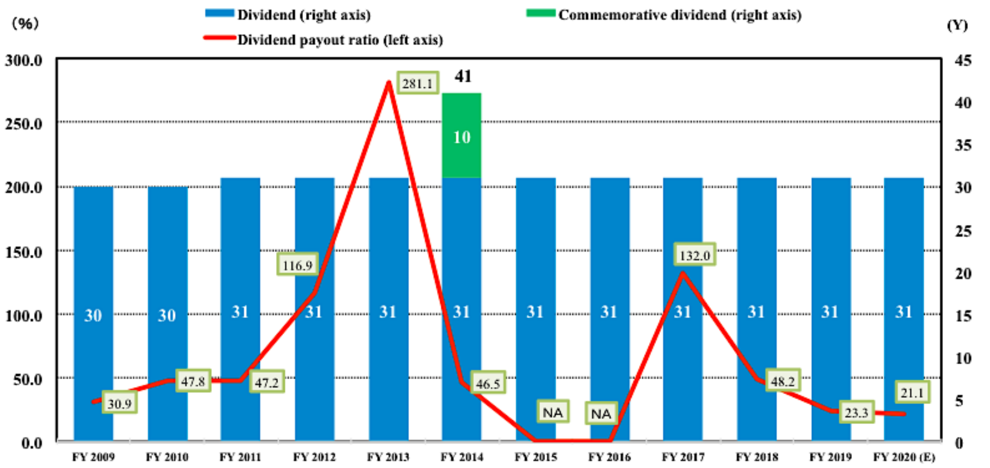
Under its policy to continuously and stably pay dividend, the Company plans to maintain an annual ordinary dividend of Y31 in FY 2020. We believe that there will be potential for a dividend hike over the medium term as upfront investment costs come to an end and profitability improves.

A shareholder benefit program was started in 2013, and its partial revision was annouced in July 2017. Spcifically, a Quo Card is granted to shareholders based on the number of shares held at the end of the March of every year. For example, shareholders with equal to or greater than 100 shares and less than 300 shares are granted Y2,000 worth of Quo Card; assuming that the stock price is Y3,465 (closing price of June 14, 2019), then the actual annual net yield for a shareholder with 100 shares is about 1.5% (at maximum) including the ordinary dividend of Y31 and the shareholder benefit (Figure 33). Under the same condition, the actual annual net yield for OBC is about 1.6%, and for MJS it is about 1.1% which is the same as the dividend payout ratio since MJS has no shareholder benefit program.

- The actual annual net yield including the shareholder benefit plan is about 1.5% (at maximum).

The Company's financial standing is great with essentially no debt. We should keep an eye out for stock splits, since the stock price had risen, as well as additional share buyback in terms of the total return ratio over the medium term. A stock split has not been conducted since the 1-to-1.3 stock split in May 2000.

[Figure 32] Transition in Dividend and Dividend Payout Ratio



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report. Estimates/forecast (E) were made by the Company and Alpha-Win.

[Figure 33] Shareholder Benefit Program and Net Yield

Number of Shares Owned (greater than or equal to)	(less than)	Shareholder Benefit (Quo Card: Y)	Dividend: Y	Net Yield (maximum): %
100	300	2,000	31	1.47
300	500	3,000	31	1.18
500		5,000	31	1.18

Net yield = (dividend + benefit value) / (stock price) was calculated for the minimal amount of stock owned in each range
Stock price: Y3,465 (closing price on 6/14/2019)

(Ref) Prepared by Alpha-Win Research Dept.

◆ Stock Price and Factors that May Affect Stock Price

- Thanks to the upward revision to financial results, stock price rose sharply and is largely outperforming the TOPIX.

The Company's stock price and relative stock price compared to TOPIX for the past three years are described in the summary section (Figure C on page 3). The Company's stock price has been rising since around October 2018, significantly outperforming the TOPIX. In particular, after the announcement made in February 2019 of a significant upward revision to last full fiscal year's financial results, the stock price soared, reaching Y4,075, the highest price since becoming listed on the market, on May 13. The stock price has remained firm since then, probably because the Company has been highly evaluated by its investors for last fiscal year's upward revision, this fiscal year's significant rise in sales and profits from the event-driven high demand, and the direction and achievements of its management reform. In addition, the Company has become recognized as a domestic-demand-related stock with stable business results that can benefit from the rise in consumption tax and the government's work-style reform despite the increasing uncertainty of the global economy (trade war, etc.) and the financial performance of Japanese companies starting this fiscal year. Another factor contribution to the high evaluation is its high competitiveness and potential due to its pioneering activity in providing packaged enterprise system software via the cloud.

- Earning higher valuation, seen as a defensive and stable growth stock

- The rise in consumption tax and the work-style reform are positive factors for the Company. Not affected by trade wars.

- Valuation indicators are higher than the average of the TSE First Section but cheaper than its competitors.

A comparison of major valuation indicators was made between the Company, the market average, and its listed competitors (Figure 34). Since the Company's stock price had risen, its P/E for this fiscal year is predicted to be approximately 23.6 (based on EPS estimated by the Company for FY 2020; according to our prediction, 21.9 for this fiscal year and 28.8 for next fiscal year), exceeding the TSE First Section's average of about 13.4. While the Company's dividend yield, at 0.9%, is slightly below the average of the First Section (the simple average is 2.1%; the weighted average is 2.6%), the Company's P/B is 1.9, which is higher than the First Section's average of 1.1 (based on the closing price of June 14). Meanwhile, compared to its competitors (4733 Obic Business Consultants or OBC and 9928 Miroku Jyoho Service or MJS), while their difference is becoming smaller with the sharp rise in the Company's stock price, many of the Company's indicators are still relatively low, giving it an undervalued impression (Figure 34). The Company's P/B, P/S, and EV/EBITDA values are especially low.

[Figure 34] Comparison of Valuation Indicators with Competitors

Company Name	PCA (consolidated)	Obic Business Consultants (OBC: non-consolidated)	Miroku Jyoho Service (MJS: consolidated)
Code	9629	4733	9928
Stock Price (at 6/14 closing)	3,465	5,150	3,505
Market Cap (Y mil)	26,681	415,626	121,996
P/E (price-to-earnings ratio)	23.6	38.4	29.4
P/B (price-to-book ratio)	1.9	3.4	6.0
Dividend Yield (%)	0.9	1.0	1.1
EV/EBITDA	11.3	23.6	19.5
P/S (price-to-sales ratio)	2.1	13.9	3.6

Market cap = shares outstanding x market stock price [at 6/14 closing]

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

P/S = market cap / sales [the companies' estimate for FY 2020]

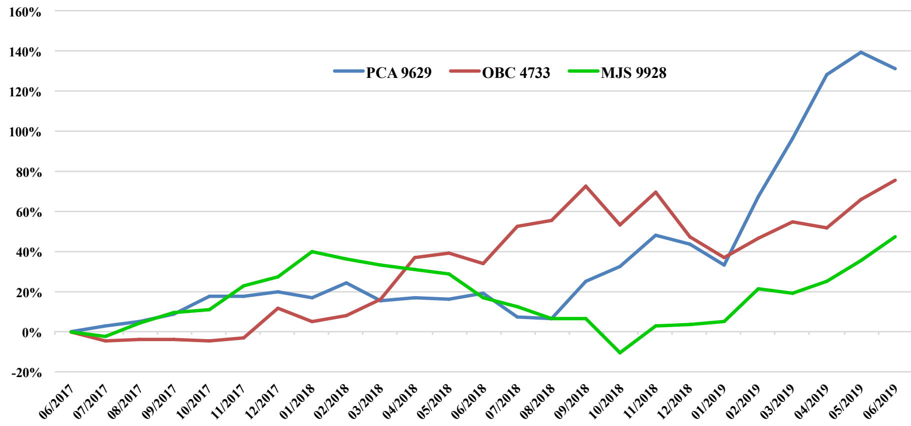
The companies' estimated EPS for FY 2020 used in all P/E calculations

(Ref) Prepared by Alpha-Win Research Dept. based on information including those from the securities report and the financial results summary

- During the past two years, the Company's stock has been significantly outperforming its two competitors.

Additionally, in the past two years, the Company has been largely outperforming its two competitors OBC and MJS by 56% and 84%, respectively (Figure 35 on page 38).

[Figure 35] Comparison of Stock Performance with Competitors **(Note: stock price as of the end of June 2017 was set to zero upon creating the graph)**



(Ref) Prepared by Alpha-Win Research Dept.

Going forward, the following events or factors may have an impact on stock price.

- Going forward, the key points of interest are the progress with the new businesses and financial performance over the medium term including this fiscal year.

The first factor to note is the financial performance (growth) for this fiscal year. We believe that, by around the end of September 2019, full-year sales including the effect of the event-driven high demand will be mostly predictable. The points of interest are the contents of the second or third quarter results that will be disclosed around November or next year's February, whether or not the full-year financial results forecast will be revised, and the extent of such revision. Although the trend in demand during this fiscal year's second half is uncertain, as stated earlier, the Company's profit forecast for the current fiscal year seems conservative. The stock price seems to already reflect the expectation for an upward revision to some extent, but there seems to be room for a further rise depending on the extent of the revision.

In addition, next fiscal year, there is a concern that the fallback from the event-driven high demand may negatively impact the financial result. However, since the subscription-based business is in a phase of continuous expansion, if the Company succeeds in putting the new business currently in progress on track, we expect that the Company will be able to enter another growth phase and continue to increase sales and profit over the medium to long term. Therefore we believe that the Company will be able to keep the negative impact limited. The Company's medium- to long-term business plan is to execute growth strategies including the expansion of business domains, M&As, and alliances, improve its management system from sales-based to profit-based management, and shift to a management system focused on asset efficiency. When the market confirms the positive effects of these strategies on profit, then the stock price may rise.

Additionally, other factors that may affect stock price include the rate of increase in the number of contracts for the cloud service, the sales growth rate of the subscription-based businesses, the improvement of margins, the progress with new products and services (utilization of data, etc.), the progress in increasing the proportion of users who subscribe to the maintenance service, dividend increase, stock-splits, enhancement of the shareholder benefit plan, progress in shifting from the on-premises to the subscription-based business model (a monthly-charging subscription-based business), and progress in acquiring new mid-tier corporate customers with the Hyper. We should continue to check these factors.

10. (The 2nd) Interview with the President

◆ Q&A

On June 7, 2019, we conducted a second interview with the Company's president Mr. Fumiaki Sato (below is the summary of the interview).

1. **About one year has passed since you became president, but what do you believe are the future challenges or the matters that you are currently most focused on?**
   - **Under the idea that we should change our business model and our company, we have repeatedly conducted various discussions within our company and have implemented various measures. In the near future, we would like to shoot a new "arrow" and achieve greater results. As the company changes, I believe that it is my mission as president to work on creating a consensus within the company and unifying the direction of all of our members, and I will work on improving our financial results.**

2. You are expecting sales and profits to rise again this fiscal year. The forecast seems conservative, but how do you think of this?

- **We are a down-to-earth company, and please understand that the disclosed targets are values that we would definitely like to achieve. We cannot mention the specific figures, but we would like to try to exceed the targets that we have announced. It may be possible for us to make more profit during this fiscal year, but in order to create more popular software for the cloud and the products in preparation for future growth, we have set aside a relatively large amount for the costs such as sales promotion expenses (expenses for advertising, enhanced website, etc.).**

3. Please tell us about your forecast and strategy for the next fiscal year and onward when there will be a fallback from the high demand triggered by several events.

- **Due to events such as the consumption tax revision that will start in October of this year and the termination of the Windows 7 support in January of next year, we are seeing high demand related to replacements of the OS, leading to replacement of PCs, leading to replacement of software, implementation support, cloud contracts, and so on. The amount of demand was a little less than one billion yen in the previous fiscal year and is expected to be around 1.1 billion yen for this fiscal year.**

- **Due to a fallback from the two years of high demand driven by various events, we predict that next fiscal year there will be a temporary decline in sales and profits. However, we plan to take measures to reduce the impact as much as possible. Specifically, we intend to further shift our business toward the subscription-based business model (accelerated expansion of the cloud business, transition of on-premises to a subscription-based business model, etc.) that we believe will provide us with stable earnings. Since we have already been making the transition to the subscription-based business with the cloud, (next fiscal year) we believe that the fallback from the event-driven high demand should not be as great as the last one, and we would like to aim for that to happen. Also, there will be high demand from the work-style reform over the medium term, so that the sales of our subsidiary Xronos (labor management system) would most likely keep growing at a steady pace. With such increases in sales, we hope to make up for the decline in sales due to the fallback from the event-driven high demand, and then start increasing sales and profits again in the fiscal year after the next or fiscal year 2022, and thus achieve our medium-term business targets.**

- **While meeting the high demand from special events and earning trust are a part of our mission,**

I believe that it is also my responsibility as president to strengthen our foundation as a company so that we can provide new services alongside our customers and grow with our customers. We believe that out current task is to put the new products and services on the track to success to enter another growth phase over the medium to long term.

4. Could you tell us why you decided to acquire Keepdata Ltd. (hereinafter, "Keepdata"), its business details, business conditions, and future synergy with your company?

- **On March 28, 2019, we acquired Keepdata Ltd., whose strength includes its utilization of big data and its file-sharing system that uses the cloud. It developed and possesses a proprietary system called KeepData Hub that can perform real-time integration of various big data such as IoT, operation software data, and public open data and enables the one-stop accumulation, aggregation and visualization of the data.**

- **Although the company had posted a net loss due to system development costs, the system development has been completed and the company is providing service under a subscription-based business model toward large companies. We believe that its sales could be improved and profit could (eventually) be made. Keepdata will join us as a consolidated subsidiary starting this fiscal year, but we have not largely reflected it in our forecast for this fiscal year.**

- **In the future, we hope to create synergy, for instance, by merging the technology development skills of our company specialized in operation software with Keepdata and provide new data-utilization services that target small- and medium-sized companies. As a management-supporting company that supports the management of small- and medium-sized companies, we believe that it would be a business with an important role.**

5. Could you tell us about the new product (Hyper) or new service (transition of the on-premise to the subscription-based business model) or other products or services, especially about their aims, the outline of their plans, and their expected contribution to financial results?

- **We launched the Hyper (PCA hyper) with the aim of expanding our customer zone to mid-tier companies and promoting the transition to cloud-based software. Although the target customer zone is the same as the previous Dream 21, Dream 21 did not support the cloud. So we developed the Hyper that can support both the on-premises and the cloud. During this fiscal year, we will start selling six types of software. However, since our priority for this fiscal year is the event-driven high demand, we believe that the contribution of Hyper to financial results will start next fiscal year.**

- **Also, in 2022, we plan to shift from the on-premises to the subscription-based model, and we are currently preparing for this. We will always provide the latest software also as on-premises while shifting to subscription-based businesses. By changing to the subscription-based business model, efficient management of function maintenance, especially of the latest software, will become possible. As a result, it would lead to cost improvement.**

6. If you have any other message for stakeholders, including shareholders, please tell us.

- **By establishing a business model that will enable us to enter another growth phase and firmly make profit even after the event-driven high demand ends, we hope to create (a higher) shareholder return.**

End of Interview

* *

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