

Alpha-Win Company Research Report

PCA
(9629 TSE First Section) Issued: 8/6/2018

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

● Flash Report on Performance

◆ Major Player as a Specialist of Enterprise System Software; Financial Results Recovering in a V-shaped Curb

- PCA (the Company, hereinafter) sells and provides maintenance service for originally developed, packaged business software (for accounting, sales management, purchase and inventory management, payroll, HR, etc.) to mainly small- and medium-sized companies.
- In recent years, the Company has been focusing on providing cloud-based versions of its software and on making its business more rational. Financial results have been recovering in a V-shaped curb. This fiscal year, the Company plans to achieve an increase in sales for the fourth consecutive year as well as record-high sales. A medium-term business plan is planned to be announced in November.

◆ For This Fiscal Year's First Quarter Financial Results, Large Profit Decrease Due to Upfront Investment Cost but Strong Fundamentals

- The Company's first quarter (Q1, hereinafter) financial results for FY 2019 (March-ending) were as follows: Y2,346 mil in sales (+11.3% YOY), Y57 mil in operating profit (-67.1% YOY), Y69 mil in recurring profit (-62.3% YOY), and Y34 mil in net profit (-64.6% YOY). At first glance, there is a large decrease in profit. However, since this decrease was for a positive reason – upfront investment for the development of next-generation products – and since sales are growing faster than expected, Alpha-Win's Research Department (our Research Department, hereinafter) has judged that the fundamentals are still strong.
- Sales increased YOY in each category (classified by type of sales into five categories), owing to efforts to strengthen products and marketing, recovery of the financial performance of Japanese companies in general, investment comeback in the information services industry, and demand for PC replacements. In total, sales increased by Y238 mil YOY, of which approximately 50% is from the cloud service and 34% is from other revenue (Figure 1: each figure has been prepared by our Research Department based on the financial results summary and other materials – the same applies to all figures that follow). Sales for each sales type are as follows:
 1. Sales of the maintenance service were Y788 mil (+0.5% YOY), contributing the most to total sales (33.6%). While its growth rate continues to be low, it is a stable source of profit.
 2. Cloud service posted Y544 mil in sales (+28.3% YOY), with accelerating sales growth. Quarterly sales are linearly increasing without seasonal variation compared to the quarter just before, changing from last fiscal year's Q1:424 (Y mil; the same for the rest) ⇒ Q2:447 ⇒ Q3:475 ⇒ Q4:508 ⇒ this fiscal year's Q1:544. Increased membership, rather than increased price per contract, has been contributing to the rise in sales. In fact, about 200 companies seem to be joining as new members every month. In January 2018, the membership of the cloud service reached 10,000 companies, and about 1,200 additional companies are estimated to have joined by the end of July. The cloud service is contributing largely to profit with its sales increase and high profitability.
 3. Other operating revenue posted Y439 mil in sales (+22.5% YOY). The solutions business and installation service related to the Work Style Reform contributed to this high sales increase rate.
 4. Sales steadily increased for both the products (conventional software) and the goods (business forms, etc.), with Y394 mil for the products (+6.4% YOY; 16.8% of total sales) and Y179 mil for the goods

(+5.7% YOY; 7.6% of total sales). The subsidiary Xronos Inc.'s labor management system has been continuing to be successful, with a nearly 20% YOY growth in sales (actual value not disclosed).

- Driven by the success of the cloud business, sales largely increased. However, due to strategic and active upfront investment, gross margin decreased by 3.9 points YOY to 54.9%. This Q1 result is below the Company's full-year goal for this fiscal year's gross margin, which is 55.5% (55.8% by our Research Department's prediction). Intentionally raised spending, such as subcontractor costs, related to next-generation product development (including ERP- and cloud-related products) caused this underachievement. Similarly, mainly because of greater R&D cost, SG&A expense increased by Y166 mil YOY. Because of the lower gross margin and higher SG&A expense, operating margin decreased, leading to a large drop in each of the profits.
- The Q1-end balance sheet had not largely changed, but cash and deposits decreased due to the payment of expenses (last fiscal year's Q1 ⇒ this fiscal year's Q1: Y7,268 mil ⇒ Y6,862 mil). On the contrary, investments and other assets increased (the same order: Y2,689 mil ⇒ Y3,230 mil). The Company's finance is sound, as indicated by its equity ratio of 65.3% and abundant liquidity in hand. The abundant liquidity can be inferred from the ratio of cash and deposits to the planned sales or total assets for this fiscal year, which is 65.4% and 40.3%, respectively.

[Figure 1] Q1 Financial Results		FY 2018 Q1	FY 2019 Q1	Change (rate)	Change (amount)	% of Sales Increase	% of Total Sales
(unit: Y mil, %)		Apr-June 2017	Apr-June 2018	YOY: %	YOY: Y mil	%	%
Consolidated Sales		2,108	2,346	11.3	238	100.0	100.0
Sales Classification by Type	Products	371	394	6.4	23	9.7	16.8
	Goods	169	179	5.7	10	4.2	7.6
	Maintenance Service	783	788	0.5	5	2.1	33.6
	Cloud Service	424	544	28.3	120	50.4	23.2
	Other Operating Revenue	359	439	22.5	80	33.6	18.7
Gross Profit		1,238	1,287	4.0	49	-	-
	Gross Margin (% of sales)	58.7	54.9		-3.9	-	-
SG&A Expense		1,063	1,229	15.6	166	-	-
	SG&A Ratio (% of sales)	50.4	52.4		2.0	-	-
Operating Profit		175	57	-67.1	-118	-	-
	O.P. Margin (% of sales)	8.3	2.4		-5.9	-	-
Net Profit		98	34	-64.6	-64	-	-
	N.P. Margin (% of sales)	4.6	1.4		-3.2	-	-

◆ Current Progress Rate with Respect to the Financial Forecast

- The Company has not disclosed a mid-year financial result forecast for this fiscal year. The progress rate as of Q1 in terms of this fiscal year's full-year financial forecast made by the Company is 22.4% for sales and 6.9% for operating profit. For the same period during last fiscal year, the Q1 progress rate with respect to the full-year financial result was 21.5% for sales and 21.7% for operating profit. Since the simple average of the Q1 sales progress rates for the past six years including last fiscal year is similarly 21.1% (not available for operating profit due to the posting of a loss in Q1 during several fiscal years), and the Company plans to increase full-year sales by 7.2%, sales itself seem to be growing steadily.
- Since the decrease in profit was caused by upfront investment costs and was expected, the Company has not changed its full-year forecast for sales and profits. Sales are expected to continue to firmly make progress after Q1 mainly in the cloud and the labor management system (classified under "products").
- Our Research Department expects the annual goal for profit to be achievable since the fundamentals are strong with Q1 sales growing at a slightly higher rate than expected, especially with the cloud and other revenue. Also, we expect that, in the end, the Company should be able to control its costs to achieve its goal for profit. For these reasons, we have not made any revision to this fiscal year's financial forecast at this point. Also, our Research Department expects that the annual EPS growth rate will be 5-6% over the medium term under the assumption that upfront investment costs will continue to be present.

◆ Stock Price

- The Company has been underperforming the TOPIX for the past month or so. Compared to the average of the first section of the TSE (based on closing prices of 8/6/2018: approx. 15 for P/E, 1.3 for P/B, and 1.7% for dividend yield based on a simple average), the Company's values are relatively cheap except for the P/E. The Company's indicators are also cheaper than its competitors Obic Business Consultants and Miroku Jyoho Service in terms of all the major indicators such as P/E, P/B, dividend yield, EV/EBITDA, and P/S, as shown below (Figure 2).

[Figure 2] 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 8/6 closing)	1,584	9,050	2,433
Market Cap (Y mil)	12,197	365,186	84,684
P/E (price-to-earnings ratio)	18.4	39.8	29.4
P/B (price-to-book ratio)	1.0	3.2	4.7
Dividend Yield (%)	2.0	0.9	1.2
EV/EBITDA	3.2	27.7	16.0
P/S (price-to-sales ratio)	1.2	14.6	2.8

Market cap = (shares outstanding) x (market share price [at 6/29 closing]).

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

P/S = market cap / sales [the Company's estimate for FY 2019]. The Company's estimated EPS for FY 2019 used in all P/E calculations

【 9629 PCA Sector: Information & Communication 】												
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)
2016	Full-year	8,440	3.3	40	-	66	-	-93	-	-13.70	1,567.18	31.0
2017	Full-year	9,360	10.9	432	957.9	463	593.6	160	-	23.49	1,568.59	31.0
2018	Full-year	9,785	4.5	807	86.8	834	79.9	441	174.1	64.37	1,644.39	31.0
2019	Full-year, CE	10,486	7.2	825	2.2	842	0.9	588	33.5	85.95	—	31.0
2019	Full-year, E	10,400	6.3	850	5.3	875	4.9	600	35.9	87.50	1,701.09	31.0
2020	Full-year, E	11,000	5.8	900	5.9	925	5.7	634	5.8	92.60	1,762.95	31.0
2021	Full-year, E	11,680	6.2	950	5.6	975	5.4	669	5.5	97.60	1,829.80	31.0
2018	Q1	2,108	5.6	175	626.2	185	435.0	98	—	14.37	1,579.92	—
2019	Q1	2,346	11.3	57	-67.1	69	-62.3	34	-64.6	5.09	1,624.69	—

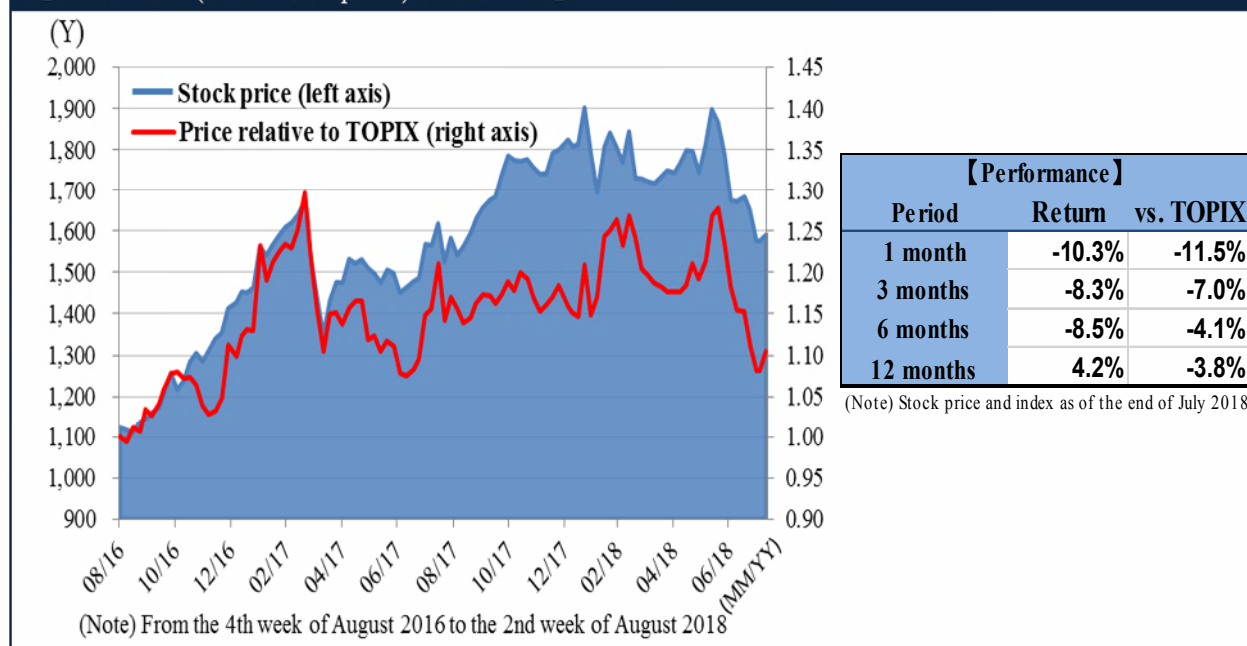
(Note) CE = the Company's estimate; E = estimate by Alpha-Win's Research Dept. Q1 (first quarter) is from April to June.

All fiscal years (FY) discussed in this document are March-ending.

【 Stock Price and Valuation Indicators: 9629 PCA 】						
Item	as of 8/6/2018	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,584	Last FY (actual)	24.6	1.0	2.0%	48.2%
Shares Outstanding (thou.)	7,700	This FY (est.)	18.1	0.9	2.0%	35.4%
Market Capitalization (Y mil)	12,197	Next FY (est.)	17.1	0.9	2.0%	33.5%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End	65.0%		Last FY's ROE	3.9%

(Note) Estimates were made by Alpha-Win's Research Dept.

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



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