

7618 PC DEPOT Corporation

Overhauling toward the Subscription-based Business Model Focused on Premium Members

March 8, 2022

First section of Tokyo Stock Exchange (TSE)

Key Points

- In 3Q (October to December), the net increase in premium members exceeded the plan. In 4Q, the Company's efforts to attract members to stores have been subject to constraints due to the effect of the Omicron variant. Once the coronavirus pandemic is controlled, the pace of increase in the number of members should pick up further. The Company's preparation for such a situation is in progress.
- The Yokohama Key Station, a base for the provision of information and communication on digital life, is expected to be fully operational from April this year. This is a facility annexed to the new head office and will be a station for new value creation. The Company will strive to acquire new members while expanding inside sales by inviting premium member families to real places and starting Internet broadcasts for members from the studio as part of network building with these families.
- The workplace of the new head office that opened in February is also innovative, incorporating the latest ideas. The amount of investment for the term ending March 2022 will increase to 4.5 billion yen. In addition to store renovation, the Company is investing in the equipment for the Key Station in conjunction with the relocation of the head office, the acquisition of a workcation facility in Karuizawa, etc., but the level of investment is expected to return to normal (1.0 to 1.5 billion yen) in the next term.
- In May last year, the Company started the process of complete shift to a unique subscription model. The Company had already spent 10 years implementing a shift to a business model focusing on premium members. The Company has a subscriber base of 450,000 members in a broad sense (ARPU of 3,500 yen) as of the end of March last year, from which it aims to increase the number of premium members (NCS), to whom Digital Consultants will be assigned, from 97,000 (ARPU of 8,053 yen) as of the same date to 140,000 (ARPU of 8,100 yen) in one year. To this end, the Company will continue to build up human resources and make up-front investments in advertisements.
- As the Company is in the process of shifting its focus to members in the current term ending March 2022, product sales to general customers will decrease significantly. This is partly due to the burden of up-front investment, and operating results are expected to decline significantly, but this had been anticipated in advance. As the number of NCS members increases, the pace of recovery in business performance will likely get into gear from the second half of the next term onwards.
- Subscriptions already account for 50% of sales and are planned to be increased by up to 80% in three to five years. This proposal-based demand generation effect is expected to materialize gradually. The shift to a new business model is advanced and is unique even by international standards. With new members increasing, the Company's business will become more profitable than before, which should also raise the Company's valuation in the stock market.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Table of Contents

1. New business model: Complete shift to unique subscription model
2. Characteristics: Migration to stores specializing in Internet device services
3. Strength: Shifting to a profit structure focused on service revenue
4. Future development: Enhancement of the connection with members and development of the related population
5. Near-term operating results: Up-front investment to acquire NCS (new customer success) members
6. Evaluation: Increase in new NCS members and shift to an active approach

Company rating: A

Stock price (March 8, 2022): 285 yen

Market capitalization: 15.0 billion yen (52.622 million shares)

PBR 0.55 ROE 2.3% PER 23.9 Dividend yield: 4.9%

(Figures are in millions of yen)

Fiscal yearend	Sales	Operating	Ordinary	Net	EPS	Dividend
Mar. 2014	53772	2256	2357	1536	38.0	4.7
Mar. 2015	51261	3045	3162	1914	42.0	6.9
Mar. 2016	51729	4086	4139	2693	56.9	9.6
Mar. 2017	46417	3402	3467	2269	44.1	13.0
Mar. 2018	43590	2981	3079	1958	38.6	13.0
Mar. 2019	40447	2579	2685	1553	30.9	13.0
Mar. 2020	39137	2941	3018	1718	34.2	13.0
Mar. 2021	38312	2893	2935	1854	36.8	13.5
Mar. 2022 (forecast)	33800	1300	1350	600	11.9	14.0
Mar. 2023 (forecast)	35500	1500	1500	850	13.9	14.0
Mar. 2024 (forecast)	38000	2300	2300	1500	29.7	14.0

(2021.12 base)

Total assets: 39,537 million yen Net assets: 26,356 million yen Equity ratio: 66.5%

BPS: 521.5 yen

NOTE: ROE, PER and dividend yield are based on the most recent forecast. In October 2013, the Company carried out a share split at a ratio of 1:100, in January 2015, a share split at a ratio of 1:1.5 and in October 2016, a share split at a ratio of 1:1.2. The EPS and dividends for the preceding terms have been revised accordingly.

Analysis by: Yukio Suzuki

(Chief Analyst, Belle Investment Research of Japan)

Definition of Company rating: Qualitative evaluation based on criteria such as 1) management capabilities; 2) abilities to grow the business; 3) risk management with respect to downward forecast revision, 4) sustainability from the ESG perspective.

The Company is expressed as a four-level rating where "A" means good, "B" means some degree of improvement is required, "C" means considerable improvement is required, and "D" means the state of the company is extremely grave.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

1. New business model: Complete shift to unique subscription model

Aiming to be a customer success company

PC DEPOT aims to be a customer success company. Its mission is to be the "Digital Consultant for every home" by assigning its Digital Consultants to each household in order to support the customers' digital lives.

PC DEPOT internally refers to a fulfilling digital life as "*ikka ryoran*" which means that a family can enjoy its digital life in various ways, with an image of *hyakka ryoran*, i.e., hundred flowers blooming in profusion.

Target to pursue LTV (lifetime value)

The Company has redefined its corporate target as focusing on LTV. The LTV (lifetime value) means enhancing the customers' long-term value and is measured by the formula: LTV = Increasing subscriptions (increasing monthly-fee members) x increasing period of duration.

New Business Model of PC DEPOT		
–LTV (life time value)-based unique subscription model–		
Target	Improve the LTV of NCS (new customer success members)	
	Increase in NCS x Prolongation of continuous period	
KPI	<ul style="list-style-type: none"> • Number of NCS subscription members • ARPU (average monthly sales per member) • CRR (monthly continuation rate of subscription members) • ARR (annual sales of subscription members) 	
Near-term target		
	Mar. 2021	→ Mar. 2022 (about 1 year later)
Number of NCS members (ten thousand)	9.7	14.0
ARPU (yen/month)	8053	8100
CRR (%/month)	99.6	99.6
APP (100 m yen/year)	94	130

From premium members to NCS (New Customer Success) members – New Definition

The subscriptions by premium members, etc. already account for 50% of sales and the Company has a policy to increase it to 80%. Currently, in a broad sense PC DEPOT has a membership base of 450,000 members (i.e., members using flat-rate services), from which it will focus on increasing the number of NCS customers, who have a high retention rate of 10 years or more. To this end, it will

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

concentrate on investment in 1) in-house education (human resources), 2) store facilities and 3) advertising.

Subscription members mean members using flat-rate services, who are mainly premium members, and other members using cloud services (excluding members of Internet-related businesses). The NCS (New Customer Success) members mean subscription members to whose households the Company's Digital Consultants are assigned and who are expected to be scaled up continuously in the future.

Contents of the subscription-based services include the use of : 1) the Company's unique (patented) Wi-Fi system; 2) service recurring integration system, which batch manages multiple service procedures; 3) full data backup cloud, which enables customers to "Just Show up and Buy a New PC;" 4) electronic books and other digital contents; and 5) charge-based purchase of service-inclusive products.

NCS plan menu		
Up to 4 family members	Up to 4 devices	5500 yen/month
	Up to 7 devices	7000 yen/month
Additional one member		+1500/month
Personal (individual person)	Up to 2 devices	4000 yen/month
	Up to 4 devices	5000 yen/month

Announced the breakdown for the first time

The results for the term ended March 2021 show that the sales of 38.3 billion yen consist of 19.9 billion yen in subscriptions (52% of the total sales), 2.6 billion yen in lump-sum purchases of goods by subscription members, 2.6 billion yen in one-shot technology (repair, etc.), 12 billion yen in sale of goods, and 1.2 billion yen in other sales.

The sales of solution services were 22.5 billion yen in total, consisting of 19.9 billion yen in subscriptions and 2.6 billion yen in lump-sum purchases of goods by subscription members.

The subscriptions overall show ARR (annual sales) of 20.1 billion yen with 450,000 members, ARPU (average monthly sales per member) of 3,500 yen, and CRR (monthly duration rate of members) of 99.1%. ARR is a figure obtained by multiplying MRR (monthly sales) in March by 12, which does not coincide with the actual sales amount for the fiscal year.

Of the above, the NCS achieved ARR (Average Recurring Revenue) of 9.4 billion yen, 97,000 members, ARPU of 8,053 yen/month and CRR (Customer Recurring Rate) of 99.6%.

The announcements of sales for solution services did not contain a detailed breakdown to date, but it has been disclosed.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Near-term Target: 140,000 NCS members in approximately one year

Amid the coronavirus pandemic, the Company is preparing to shift to a new business model. As the target for the next year or so, it represents that it will increase the number of NCS members to 140,000 as soon as possible.

In the term ended March 2021, the number of NCS members was 97,000 (22% of all members) and NCS's ARR was 9.4 billion yen, which accounted for 47% of the ARR for subscriptions as a whole. The Company aims to increase the number of NCS members to 140,000 (31% of all members) and NCS's ARR to 13 billion yen, that is, 55% of the ARR of 23.5 billion yen for subscriptions as a whole.

Among the 450,000 members, 97,000 persons (families) are NCS members to whom the Company's Digital Consultants are assigned. The Company will connect the Digital Consultants to 140,000 persons (up 43,000), including existing and new members.

In the coming three years, the Company will focus on human resources, stores, and advertisement marketing, with an aim of 20 billion yen of NCS's ARR.

Future market opportunity

* Number of households of two or more members in Japan: 34.31 million
 → Number of households PC DEPOT can approach currently: 6 million

PC DEPOT	2021.3		2022.3		⇒	Number of NCS members		
	Subscription-related	NCS	Subscription-related	NCS		200,000	300,000	600,000
ARR (hundred million yen)	201	94	235	130		190	290	580
Number of members (ten thousand)	45	9.7	45	14		20	30	60
ARPU (yen/month)	3500	8053	4000	8100		8100	8100	8100

(Note) Estimation

Structure of subscription members

Among the 450,000 members, approximately 100,000 are NCS core customers. Then, what types of customers are the remaining 350,000? They are subscription-based members but, from the viewpoint of stores, single-service users for anti-virus software, smartphones, storage and so on.

The Company assumes 140,000 as the next NCS target. It plans to cover half of these additional 40,000 or more from the existing 350,000 members and to untap the potential of the remaining half as new customers.

Market is large

Among the NCS members defined by the Company (i.e., members to whose households the exclusive Digital Consultants are assigned), TAM (Total Addressable Market, i.e., the maximum number of members to whom the Company can reach) is assumed to be 34 million households. The

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Company currently has a potential market of 6 million households that it can approach, which constitutes 18% of the TAM. The potential market is large.

DX is prevailing in schools and workplaces and the Company will develop a DX environment in the family home and will render support to enable everyone to enjoy a digital life.

Currently, the number of NCS is 100,000 but, if it increases to 200,000, 300,000 or 600,000, for example, the ARR will grow to 19 billion yen, 29 billion yen and 58 billion yen, respectively, even if the ARPU remains at 8,100 yen.

Taking on the challenge at once

The Company has more than 10 years' experience with its membership system for digital services for families. During these three years, it has been reliably fostering and positioning the Digital Consultants for families by considering them as the core market. It acquired a trademark right for the Digital Life Planner and built a business base unsurpassed by others.

In the term ending March 2022, the Company has taken on the challenge at once with its new subscription model. It redefined the business model and announced all new KPIs. This is innovative. The business model is based on the Company's past experiences and therefore is not discontinuous in evolution. The Company has made a leap after having prepared for it.

Digital consultant	
1 Works	: A team of 3–5 members
1 Works covers	: 500–800 households
500 Works (1500 to 2500 members)	: Cover 250,000–400,000 households

Implement three strategies

To acquire NCS members, the Company will implement several strategies. Firstly, the Company will enhance its human resources. It 1) hired 139 employees in April last year (up 49% YoY) who were new graduates and internally promoted part-timers and casual staff; and 2) will accept up to 200 employees transferred by HIS to foster them as digital life planners. An increase of approximately 300 persons is a remarkable expansion, considering that the current number of personnel for the Works is 1,500.

As the Works has already been implemented, there will be no problem in fostering human resources. For the HIS personnel, the president heads the implementation of the education system and every employee will become able to deal with the site independently in approximately one month and a half.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Any shortfalls will be covered by the Works. A Works, which consists of three members, will render support as a Digital Consultant. These will soon be increased to 500 teams and will be expanded thereafter as well.

Secondly, the Company will enhance the store format. It will 1) establish new bases such as the Yokohama Key Station, 2) remodel Smart Life stores to change the basic format, 3) launch trials of Connected Mobile Stores, and 4) develop, among others, small stores specialized for NCS. For opening new stores, small stores can be opened more easily than before as the Works grows.

Thirdly, the Company will expand advertisements. It will increase channels further, such as information magazines for members, in addition to TV commercials.

Literally, PC DEPOT is about to become a company that will draw success for its customers through digital utilization.

Subscription-based new KPIs and previous financial KPIs: How are they linked?

How are subscription-based new KPIs linked to previous financial KPIs? Traditionally, the Company set management goals of an ordinary income to sales ratio of 10% and ROE of 15%. The new business model has set the number of subscription members as a KPI, and has withdrawn the previous financial targets as KPIs.

According to President Nojima, once the number of subscription members reaches 140,000, the quality of the business model will improve and the ability to increase profitability will follow. As a result, an ordinary income to sales ratio of 10% and ROE of 15% will become achievable, but they are not his priority targets, merely expected results.

If so, is all the Company has to do is increase the number of members? The answer is no; the Company needs to boost the number of quality members who fit its business model. As such, the Company intends to increase the number of members to whom Digital Consultants are assigned to help them make the most of digital life as a family and who can share each other's added value with the Company. The Company is not at all considering, for example, a method aimed at increasing the number of members for a monthly fee of 1,000 yen.

Pace of net increase in NCS members
(Number of members)

(Quarterly)		1Q	2Q	3Q	4Q
2022.3	Plan			+6500	+8000
	Actual	+3787	+5233	+7512	
2023.3	Plan	+9000	+10000		

NOTE: Figures from 3Q of the term ending March 2022 onwards are based on company plan.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

The pace of net increase will gradually increase

The net increase in subscription members in 3Q was 7,512, exceeding the plan of 6,500. To accelerate the pace, the Company will (1) start inside sales in 4Q, including the start of an information magazine for members and (2) open the Yokohama Key Station in 1Q of the next term.

Quarterly net increase in NCS members is gradually accelerating. The pace of increase is expected to increase further going forward as the success model for Works is already known. A quarterly net increase of 10,000 in NCS members is almost in sight given the current trend. The next target would be an increase of 20,000 members per quarter. To realize this, the Company will need another expansion to its workforce capacity. As profitability will improve considerably in this phase, the Company will be poised to enter a growth phase in no time.

2. Characteristics: Migration to stores specializing in Internet device services

Specializing in PC-related technical services, keeping the lead position in the industry

PC DEPOT fully supports home digital life. The Company is strong in Japan's Kanto region and covers 90% of the population there. Consumers who want to make use of PC DEPOT support services will find there is a store within reasonable travel distance. Consumers who buy a desktop or notebook can have a Wi-Fi router set up for them at the store, and can start using their new computer as soon as they get home simply by plugging it in. This saves them from having to do the initial setup themselves. Smartphones also can connect to these Wi-Fi routers. If customers have a problem, they can contact someone in charge at a store (My Digital Consultant) and get immediate attention. Users can obtain all these services just by paying a monthly fee.

The Company leads the industry in PC repairs and maintenance services. Although the Company is a middle-standing company in the industry, in terms of the number of PCs sold, it has unique service characteristics. Over the last 10 years, PC DEPOT has dramatically shifted its business focus to services. The Company has been creating a unique presence among its competition with consumer electronics superstores. It has survived well against local competition as a computer specialist although it could not compete against major companies in terms of total sales volume. Under such circumstances, the Company did not overextend itself when opening new stores.

It did decide however to become a customer-orientated IT solutions company, by striving to improve its services instead of increasing the sales volume for desktops, notebooks, and other hardware. The Company markedly changed its tack to follow this direction in 2005. This was the second turning point for the Company since it was founded.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Trend in constituent ratios of sales accessories

(% , millions of yen)

	2009.3		2013.3	2017.3	2020.3	2021.3	
	Sales	Constituent ratios	Sales				
Goods sales	35572	82.4	69.0	43.4	38.3	37.8	14486
PC and peripherals	24375	58.5	46.4	23.5	20.9	23.3	8944
Accessories, supplies, and software	6554	14.6	12.1	6.7	5.5	6.4	2437
Used items and others	4643	9.3	10.5	14.2	11.8	8.1	3103
Service sales	11340	17.6	31.0	56.6	61.7	59.1	22622
Solution services	8726	10.3	27.3	53.7	58.4	58.9	22558
Royalties and other revenue (FC)	522	1.3	0.3	0.2	0.2	0.2	64
Internet-related businesses	2090	6.0	3.4	2.7	3.1	3.1	1203
Total	46912	100.0	100.0	100.0	100.0	100.0	38312

NOTE: Sales from solution services include sales of service inclusive products and technical services/fees.

Providing solutions in combination with various services is the key to success. Moreover, when members subscribe to the Company's premium services, they can get any support they need: maintenance, call-center services, anti-virus support, a "full installation" service when customers replace old PCs, instruction in how to use smartphones, and future digital life plan consultation.

One of the Company's strengths is this lineup of original services it has developed. No other PC shop is capable of delivering technical services especially data recovery, as speedily as PC DEPOT. The Company set its transformation into a store that specializes in services as a part of its policy objectives and has strengthened its commitment to this policy as it entered the Internet era.

Unique business model with premium services as its source of income

The Company's solution services consist of three service categories. The first is the PC Clinic which provides installations along with repair and replacement services. Support for solution services are provided at all stores and is managed by about 1,000 employees.

The second is premium services which solve problems customers are having. The services cover: (1) any type of product; (2) products regardless of how old they are; and (3) products purchased at the stores of other companies.

The third is solution services which combine communication or content with devices. By subscribing to these services, customers can read digital magazines on their iPad or connect with the printer wirelessly with a monthly payment.

Premium services backed up on the cloud (automatic data storage) provide sufficient capability to cope with defective hardware or security issues.

The Company's business model is quite unique, even when compared to companies outside of Japan. The model consists of product sales, service sales, and other areas. Members enter into a three to four-year premium service contract. The Company bears the cost of support up front, and then recovers it from the fees paid by members.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Customers want to use the PCs, tablets, or other devices they have bought as soon as they get home. If after buying a PC for example, a user takes three hours to do things such as create a recovery disc, set up anti-virus software, configure the initial settings and set a password, and if the customer then hits a dead end, he or she will be stuck without help. PC DEPOT's premium services are solutions that help such users over the Internet.

Elimination of the digital divide, which the Company has regarded as one of its social missions

PC DEPOT is prioritizing support for customers struggling to use digital network devices. To this end, the Company has been making steadfast efforts to improve its services. These efforts cultivate a service market, enabling the Company to achieve its unique business model.

The Company considers that its corporate social responsibility (CSR) is to lower the digital divide in society. To a certain extent, a digital divide arises between people who can use information and communication technologies, and those who cannot. It is not good for society as a whole. The Company intends to contribute to more convenient and enjoyable daily lives of these people by supporting them in making the most of IT services.

New devices and services are continuously entering the market, which is a characteristic of the information and communication technology market. Customers need support in order to maintain an IT environment that enables them to fully utilize the products and services they use. Smart Life stores provide services and detailed explanations so that users can make full use of the features of their desktops, notebooks, smartphones, tablets (multi-function mobile terminals), and other devices, as well as meeting any other user requirements as part of a total set.

These services are truly convenient. If consumers use products over a long period of time, in addition to the profit generated at the time they make the purchase, it is quite likely they will start to pay fees for services that make using such products more convenient. To make this happen, users must already be satisfied with the convenience provided by the service.

Business starts with personal computers

The starting point for traditional retailers is merchandise, but since the Company is both a retailer and service provider, its starting point is also services. It will offer Internet-related services, mainly for devices, thereby building relations with its customers.

President Nojima used to work at Nojima Corporation, a consumer electronics superstore (Code No. 7419, listed on the first section of the TSE). The eldest son of Nojima Corporation's founder is currently president of that company, while Takahisa Nojima his brother, is president of PC DEPOT. He was in charge of supervising stores and merchandise at Nojima Corporation, but once personal computers began to become popular, he decided to set out on his own and established an independent

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

business. While Nojima is still one of the shareholders of Nojima Corporation, there is no business relationship between that company and PC DEPOT.

At age 34, President Nojima founded the Company. In the early days after the founding of his business, many people wanted to own their own desktop or notebook computer, but such hardware was still beyond their reach. In those days, only a limited number of people went all the way to Akihabara to buy their own personal computers. In contrast, Nojima went into business selling PCs in the same way that retailers in general deal with new merchandise. Company business performance steadily improved and in 1999, some five years after its establishment, it became listed on JASDAQ. Subsequently, the Company was promoted to the first section of the TSE in November 2015.

At present, desktops, notebooks, and related products are commonly sold at consumer electronics superstores. Also, there is a wide variety of specialist computer superstores. When viewed in the broad sense of consumer electronics and computer superstore sectors, the Company ranks in a low position in terms of size, yet is competing on a different playing field to its rivals. The Company is not directly competing with the biggest companies such as Yamada Denki, Edion, and K's Denki, but is differentiating itself from these companies.

Store development conditions

As of December 2021	(Stores)			Total
	PC DEPOT Large suburban-type stores	Smart Life stores Medium and small stores in metropolitan areas	PC Clinics Counters established as concessions inside consumer electronics superstores	
Directly-managed	1	54	58	113
Subsidiaries	5	9	6	20
FC	2			2
Total	8	63	64	135

NOTE: Smart Life stores represent PC DEPOT Smart Life Partner (SLP) stores.
 Subsidiaries represent PC DEPOT Stores (Kyushu, Chubu, Shikoku, Shinetsu and Tohoku regions).
 PC Clinics represent counters established as concessions inside consumer electronics superstores, and FC represents franchise stores.

Converting franchises to directly-managed stores

When developing its PC DEPOT stores, which are comprehensive specialist computer retailers, the Company allowed K's Denki stores, which are operated by K'S HOLDINGS CORPORATION (Code No. 8282), to become PC DEPOT franchisees. K's Denki was the second PC DEPOT franchisee. It was a beneficial move for both companies in that a consumer electronics superstore began to deal with

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

PCs.

Aside from PC DEPOT franchises, PC DEPOT PC Clinics which are franchise outlets providing technical services which were established as concessions inside consumer electronics superstores. PC Clinics successfully operated in K's Denki stores, and the franchise was then expanded.

As of the end of December 2021, there are 55 directly-managed PC DEPOT stores (including 54 Smart Life stores), 14 stores outside the Kanto region run by the PC DEPOT Stores Co., Ltd. subsidiary (including 9 Smart Life store), and 2 franchise stores, for a total of 71 stores. In addition, there are 58 directly-managed PC Clinics, 6 stores run by the PC DEPOT Stores Co., Ltd. subsidiary. As such, the Company currently operates 135 stores.

PC Clinic was operated mainly by FC stores until 10 years ago, but the Company transformed the FC stores into directly-managed stores. The Company and K's Denki agreed that direct management would be more effective for enhancing service functions of the stores, and so the Company acquired these franchised stores. Currently, the Company operates directly managed PC Clinics inside K's Denki stores.

Ongoing Web business

EJWORKS Co. (ejworks), a PC DEPOT subsidiary is engaged in the IT solution business and has a line of business that includes providing Internet services and Web content creation. Moreover, the Company has recently been utilizing this subsidiary as a support team for its content development and has come to attach more importance to it. The idea is to position it as a new support base for development.

The Company has made use of part-time workers, and it has hired some of them as regular employees

As of the end of December 2021, in addition to 906 regular employees, 602 part-timers on an 8-hour shift were working for the Company. They carry walkie-talkies with them in the store in order to help each other by sharing information, which allows them to ensure a high level of customer satisfaction. Many part-time workers have been working for the Company for years, and each year roughly 40 to 50 workers change their status from part time to full time.

Corporate governance: Establishing the Appointment and Compensation Committee

Of eight directors, there are three outside directors, two of whom are independent outside directors. In addition to five executive directors, there are seven executive officers. There are four auditors, three of whom are independent outside auditors.

Mr. Mineo Fukuda, an outside director, is an entrepreneur who successively filled the post of

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

managing director at Recruit Holdings Co., Ltd., president of KADOKAWA CORPORATION, and vice-president of Jupiter Telecommunications Co., Ltd. Mr. Hidetaka Fukuda, an outside director, has worked at the Ministry of Economy, Trade and Industry and is acquainted with IT, information and telecommunication. Ms. Yumiko Masuda is the representative director of Consumer Voice Research Institute, Limited, and is familiar with consumer-oriented management.

Established in February 2019, the Appointment and Compensation Committee consists of at least three directors, with the chairman and the majority of committee members being outside directors.

Most executive officers who are responsible for the business are in their 40s, indicating that management talent has developed. Regarding the operation of the Company, President Nojima is aiming to implement business management suitable to PC DEPOT as a public company. In October last year, Ms. Yasuyo Kaneko (62 years old), who previously served as the President of C'BON COSMETICS Co., Ltd. (cosmetics), joined the Company as Executive Vice President & Executive Officer. Her experience is expected to be particularly valuable in the areas of building ties with customers, customer retention, expansion of inside sales, etc.

3. Strength: Shifting to a profit structure focused on service revenue

A mechanism that is impossible for others to copy

The business model at PC DEPOT is unique, and competitors have opened stores similar to Smart Life stores. However, these competitors have not established a system or trained employees to provide premium services at the same level as the Company. With no other companies pursuing a solution-service-based business model in the same manner as the Company does, the Company is building up to become the one and only business of its type.

Even if another company tried to provide such services, it would be extremely difficult to (1) train the personnel required for technical services, (2) tolerate a decline in profits in the early stages due to the shift to a service income type business, and (3) provide an extensive service menu from now onwards. We can therefore say that the Company's superiority over its rivals is significant.

Service income has been increasing as the number of use of PCs, smartphones and tablets increases. Most individual own not only one device but rather multiple devices. Also, families own multiple devices. Needs for dependable services rise according to the number of devices owned which makes it easier for the Company to have such users become regular customers. Moreover, service income has been increasing thanks to an increase in the number of users of service-inclusive products where products and services are provided together.

The Company provides services by team play. It has spent more than 10 years developing this

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

system, which has become a business model that constitutes part of its corporate culture.

Smart Life stores are fashionable and convenient: Specialization in services

Smart Life stores display less merchandise, but have significantly more space for service provision than conventional stores. Space available for service needs has greatly increased via store renovation, providing services that customers want, rather than focusing on selling products.

The variety of professional accessories in a store may not satisfy the needs of PC aficionados, but this poses no problems since customers can ask for an item at the store counter and the store will obtain it for them soon after. The name of the counter for responding to customers' needs (such as computer repairs) changed from PC Clinic to Dr. Smart, and staff members now wear a new uniform.

The "Smart Pack" billing plan is also coming into wide use, which includes a hardware device, software, and Internet connection in a single package. This package allows customers to use hardware, software, and an Internet connection by simply paying a monthly fee instead of having to buy a hardware device and paying a monthly fee for the necessary software and Internet connection. Although this is a type of three to four year loan for an amount determined by subtracting the product's estimated residual value at the end of the loan term from the product's sticker price, since customers are already familiar with the billing plans of Japanese cell phone carriers, which require a two-year subscription, they will find this system acceptable.

Smart Life stores will not just sell products; they will create packages and provide customers with the solutions that they want. Their customers will become members who will use the services they offer over long periods of time. President Nojima stressed that the approach for Smart Life stores will not be to simply display products and ask customers to choose the ones they like. Instead they will be offered a one-stop service to provide them with the Internet communications that they want. Consequently, the atmosphere at these stores will be different from that of conventional stores and customer counters will be centrally placed within them.

Opening a large number of Smart Life stores by renovating existing ones

The Company continues to open new Smart Life stores by renovating and reopening existing stores. Smart Life stores transformed from existing PC DEPOT stores already have achieved a certain level of recognition and regular customers. The key to their success is how many new service-oriented customers they can acquire. Smart Life stores can be set up even if the location is less than favorable. As the service grows, and the percentage of total sales that it represents increases, profitability will further improve as a result.

Costs for renovation are lower than those for opening new stores. Moreover, a marked impact can be noted. The same expenditure required to open a new store with an area of 400 to 500 *tsubo* could

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

instead be used for renovating four stores each with an area of 300 *tsubo*. Furthermore, the probability of recouping investments is higher, and the returns are also higher. Therefore, such moves are given first priority.

On the other hand, there still remains considerable room for new Smart Life store openings. As a store focusing on providing services, we estimate there are approximately 200 locations where these stores could be opened. The Company will first open stores primarily in the Kanto region to enhance its brand power through providing community-based services. The Company reckons that it requires 100 to 200 *tsubo* of land in Tokyo's 23 wards and 200 to 300 *tsubo* of land in the greater Tokyo area if it plans to effectively open a Smart Life store in a vacant space.

Store development history of PC DEPOT

Number of stores at the end of each term	(Stores)							
	1995.3	2000.3	2005.3	2010.3	2015.3	2019.3	2020.3	2021.3
PC DEPOT								
Directly-managed Smart Life store	1	10	28	43	36 15	12 43	8 46	3 52
Subsidiaries Smart Life store				4	13	10 3	7 6	4 9
FC		8	32	17	3	3	3	3
PC DEPOT PC Clinics								
Directly-managed					52	53	58	58
Subsidiaries					0	5	5	6
FC				24	6			
Total	1	18	60	88	125	129	133	135

NOTE: Smart Life stores include renovated stores and new openings. Decline in number of directly-managed stores due to conversion to Smart Life stores.

Unique service program members

The inspiration for this business model dated back more than 10 years. President Nojima aimed to make customers of people who were not skilled at using PCs. He tried to provide free help to people who were unable to use PCs easily and those who wanted to reset their frozen PCs.

Next, he gave priority to serving "people who have difficulties." He dug deep into the technical support business and made it a tool for differentiating his company from others. Thinking that it would be more convenient to receive service continually by paying monthly fees than paying fees every time a technical problem occurred, he launched a monthly fee system in 2005. Today, the service has been refined into a scheme that can provide services when users face any type of technical trouble. The convenience of the premium service has been enhanced as more women and families use PCs.

Premium members have been increasing at a very high rate. However, this does not make money in

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

the short term. The Company needs to make an up-front investment for each router which takes a year to recoup from the monthly premium service fees. However, once the initial outlay has been covered, profit is generated at a fixed rate from the second year onward.

Convenience of PC Clinics

PC DEPOT's PC clinic service, Dr. Smart, offers free consultation and free diagnosis for any products including those purchased at other stores without the need to make a reservation. For fixed fees, the Company provides repairs and other services for Windows, Mac, smartphones, tablets, data, and assembled computers. The Company offers highly convenient services for a variety of purposes such as initialization, configuration, upgrading, exchanging, data backup, data salvage, and security measures. As premium members will gain free access or significantly reduced fees for the available services, they will receive strong value from their membership.

PC technical services (example) of PC Clinics (Dr. Smart)

		(yen)	
		Premium member	General
Regular maintenance	Windows	0	48000
	Mac	0	43000
Recovery work updates	Windows	7000–11000	35000
	Mac	7000–11000	25000
Special for simultaneous PC purchase PC setup service - regular	Windows	6000	32000
	Mac	14000	35000
Data	Data backup for a PC under repair	7000	32000
	Data backup for a PC that does not start	12000	37000

(Note) "Premium member" and "General" indicate the Company's members and non-members, respectively.

4. Future development: Enhancement of the connection with members and development of the related population

Changes in the business environment: New Lifestyle

The coronavirus pandemic has led to a significant increase in online response needs. Meanwhile, sales of products that are not urgent purchases have decreased. Needs have increased more than ever before for PC replacement, network environment improvements, online learning using tablets, online calls and video calls using smartphones, etc.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

In response, the Company is working to 1) accurately understand service needs, 2) serve members on a priority basis, 3) focus on urgent support, 4) reflect such needs in planned demand, and 5) acquire new members.

The Company's first management priority during the coronavirus pandemic is to ensure the effectiveness of safety measures as much as possible. Each employee is expected to act by prioritizing the safety of employees and customers by paying attention to his or her own personal life as well as workplace environment. On this basis, employees work to improve and support customers' digital lives.

As customers now come to stores mainly on an appointment basis, they are less likely to experience a crowded situation or to have to wait a long time as was the case before. Customer traffic does not sharply increase or decrease and has become evenly distributed.

With regard to the New Lifestyle initiative, demand is increasing on the back of the following developments: 1) inquiries about purchasing new PCs to replace old models in order to use online services effectively and improving one's Internet environment, 2) how to use online learning and remote communications, 3) revision of the new service usage fees, and 4) growth from existing to new members.

The government's policy to promote digital transformation (DX) is drawing attention in the form of remote working and remote schooling partly due to the effects of the coronavirus. To promote DX at home, Digital Consultant by family, a type of service in which the Company is a forerunner, will be crucial. The Company has been focusing on publicity and advertisement, sending the message of joining up with a Digital Consultant to create a new digital life.

Establishment of a new vision and mission

The Company renewed its vision and mission in 2020. This new vision is to "eliminate the digital divide that arises from differences in age, gender, income, education, place of residence, and so on," while the new mission is to "bring Digital Consultants to all homes."

The Company is promoting a dedicated team system to provide one-stop support services in order to support customers' digital lives at home so as to become their Digital Consultants. The dedicated Digital Consultants will work with premium members to plan their future digital lives and to introduce products and services based on said plans, which will lead to the creation of planned demand.

Working from home, online learning, online life, and online social exchanges have accelerated. At home, people may have thought that smartphones were all they needed, but now they must also be able to use PCs effectively again.

"Digital Consultant" declaration

The Company believes that three out of four households do not have a Digital Consultant. This view

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

is based on the collective opinion of employees working at our stores. It is rare for customers to have among their family members a reliable person to consult about their digital needs. "We can become that Digital Consultant." This is how our new mission was born.

A team of Digital Consultants (Works) for premium members consists of 3 to 5 consultants and covers 500 to 800 households. As such members are families, the number of persons covered by a team is estimated to be 1,500 to 2,500 in total. Digital Consultants make comprehensive proposals on digital utilization from a lifecycle viewpoint and identify potential future needs. They do not adopt an attitude of pushing products to increase sales. While obtaining referrals to family members and friends, colleagues, neighbors, etc., Digital Consultants will work to increase the related population among covered households. In this way, they will acquire new members.

PC DEPOT's Vision and Mission	
Vision	<p>"Eliminate the digital divide."</p> <ul style="list-style-type: none"> • Eliminate the digital divide that arises from differences in age, gender, income, education, and place of residence.
Mission	<p>"Bring Digital Consultants to all homes."</p> <ul style="list-style-type: none"> • By promoting a dedicated team system to provide one-stop support services in order to support customers' digital lives at home so as to become their Digital Consultants, • we will help our premium members to design their future digital lives, • thereby promoting digital life consultation services to create demand with planned proposals.
Current strategies	<p>Shifting to management focused on LTV (lifetime value)</p> <ol style="list-style-type: none"> 1. Expansion of stores and commercial areas, development of new-style stores <ul style="list-style-type: none"> • Promotion of the Key Station concept: Creating a value creation network with family members • Promotion of renovation into Smart Life stores • Development of a new-style store (Connected Mobile Store) 2. Development of new services, expansion of promotional activities <ul style="list-style-type: none"> • Strengthening of collaboration with companies (e.g., Asahi Culture Center (online lectures) and Kanagawa Shimbun) • Participation in the SMBC Elder Program • Provision of Benefit One services • Plan to launch a wide range of advertising activities (e.g., television commercials) 3. Expansion of hiring and education <ul style="list-style-type: none"> • Focus on hiring more new graduates • Acceptance of 200 employees from HIS under an employment sharing arrangement • Strengthening of Digital Consultants
KPI	<p>ARR of NCS (New Customer Success members), number of subscription members, APRU and CRR</p>

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

From sales to producing value

In May 2018, President Nojima released a four-page document entitled "To Stakeholders" that outlined his thoughts which was a highly significant step.

First, he deemed business operations to be productive for creating long-term value. While AI and robots were attracting attention, he wrote about "expansion of human production domains."

Second, President Nojima cited the following corporate values: i) Social (sociability and social contribution); ii) Environment (the environment); iii) Education (work styles and learning methods); iv) Entertainment (creation of new value, such as enjoyment, based on human efforts); v) Governance (corporate governance and operational control). These were referred to as EEESG ("Triple ESG") by adding two Es to ESG.

Third, for education, President Nojima proposed shifting to new work styles in consideration of the stability of life and productivity, as well as the enhancement of humanity and productivity. Stressing the importance of future design, he cited a consultant designer and engineer-artisan.

Fourth, President Nojima attached importance to entertainment, seeking to provide venues to deliver satisfaction to customers where: i) customers find satisfaction when they visit stores; ii) PC DEPOT staff can share and deliver satisfaction and create a future by providing the customer a feeling of being cared for; iii) customers find gaming enjoyable; iv) customers enjoy learning about new ways of using devices; v) customers find assembling devices enjoyable; vi) customers feel secure when seeing their IT devices being inspected; and vii) customers find it fun to come to stores along with family members and make future digital plans together.

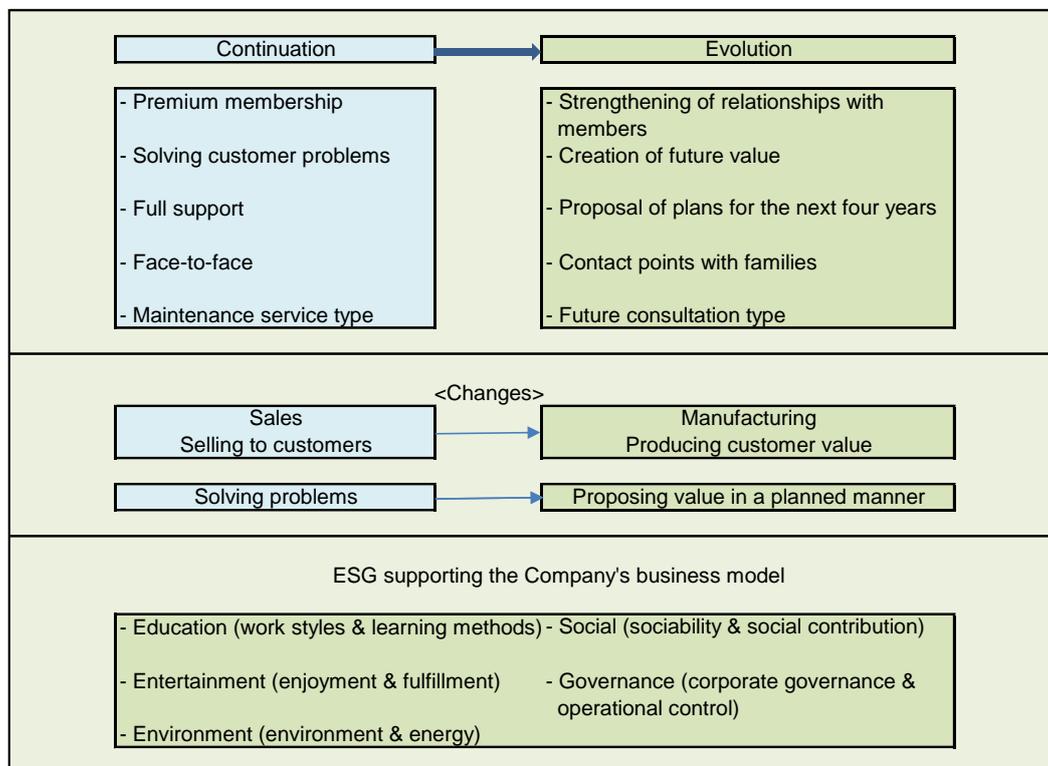
Fifth, to deepen communication with stakeholders through mutual exchange of information, President Nojima installed officers dedicated to v) AR (associate relations), vi) PTR (partner relations), vii) MR (member relations), and viii) ICR (intercompany relations) in addition to the existing officers in charge of i) CCC (customer communication centers), ii) CR (call centers), iii) IRSR (investor shareholder relations), and iv) PR (public relations). AR will serve as the contact point with employees and their families, PTR as the contact point with business partners, MR as the contact point with members, and ICR as an internal public relations contact point.

Full-scale rollout of Digital Consultant with the trademark registration of Digital Life Planner

Since summer 2018, the Company has been shifting to a digital life consultation-based business model. Premium members are supported by teams called "Works," each of which is composed of three staff members: (1) consultant designer and (2) engineer-artisan. This model became fully operational in stores since autumn of the same year, and the employee performance evaluation scheme was updated accordingly. The Company has been expanding this activity since spring 2019.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Evolution of PC DEPOT's business model



With the trademark registration of Digital Life Planner having been completed in May 2019, this term may be used only by the Company. Personnel dedicated to the Digital Life Planner comprise a Works (a term used internally by PC DEPOT) of three to five members, and this Works plans future digital life together with premium members. The Digital Life Planner will systematically create digital value, which focuses on the family and consists of all types of digital devices, in the lives of our premium members. The Company will expand the service through word-of-mouth with our members' friends and neighbors.

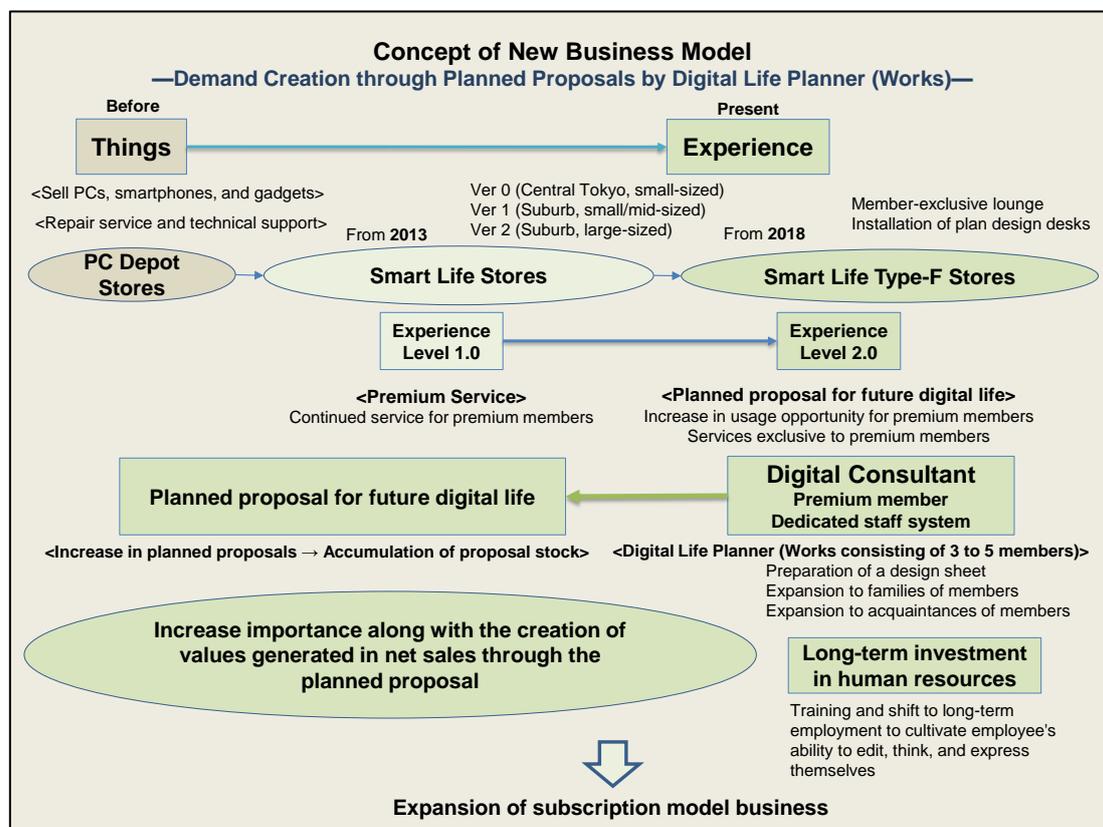
This plan will be compiled in the design sheet, which specifically schematizes a plan up to three to four years into the future and will be shared among the team members. It is a tool for the team to engage the families of our premium members, and it makes it possible to conduct careful and detailed consultations. As the relationship grows closer, the proposal will entail the things that are really necessary and that add value, and it will be actualized as planned demand.

The benefit to the user will be prioritized first, which in turn will create demand that will generate profit for the Company.

The team of Digital Life Planner will systematically provide consultation to associates of the membership system, which the Company has cultivated over the past 10 years. The Company builds

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

this system and reinforces the cycle of subscription-based business into an even stronger model.



The key will be human resource development, and the president himself is leading this effort. This business model was borne out of the president's personal concept: how to increase the customer's digital assets and enrich their lives. It is not about the consumption of physical goods, but enhancing the experience. The Company named this concept "Experience Level 2.0," and it is nurturing human resources to realize this concept.

To achieve this purpose, the Company is planning for the evolution of Smart Life stores in the area of store creation. In the remodeling of stores into Smart Life Ver 1 Type-F stores, lounges that can only be accessed by premium members will be created and Plan Design Desks, where the customer will develop solutions together with the Digital Life Planner, will be installed.

Formation of teams

A Works that consists of three to five members has three benefits. 1) The working style of a Digital Life Planner is more enjoyable in comparison to conventional working styles; 2) Members of the team will work together, which will accelerate the growth of members; and 3) From the perspective of

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

premium members, they will be supported by three staff members who all share the member's needs through the design sheet, conveying the feeling that the service level is being upgraded.

Works will have its own objective as a team, and it will contribute to increase in net sales by actualizing the demand created through planned proposals. Instead of pursuing sales in a flow, the Works only needs to accumulate future digital assets according to the plan.

The Company hired 140 new graduates in April 2021, compared to the 70 and 100 new graduates hired in April 2019 and April 2020, respectively. Applicants must meet all of the following requirements: 1) attend a briefing session held at the headquarters, 2) submit a report on a specified issue to move on to the second interview, 3) submit a collage to undergo a job interview with directors, and 4) receive an employment guarantee notice after the Company obtains their parents' approval. These requirements are relatively severe, making it difficult to join the Company.

The Company emphasizes that it is not a mere retailer of PC products but a creator of digital life value for the new digital society through face-to-face communication with customers. Its business model is extremely advanced and epoch-making. As such, the presentation of its business is popular among students, which has led to a remarkable increase in the ability level of successful applicants.

Promoting workers' work way reform

PC DEPOT has set a regular closed store day. As a general rule, all stores are closed on the third Wednesday of each month. However, exceptions are PC Clinics inside K's Denki stores and some other stores, such as those inside shopping malls.

The Company will focus on three points in future management. The first point is the work way reform, by which the Company has shortened business hours. The Company shifted the closing time of the stores which used to stay open until 8 or 9 p.m. to around 7:30 p.m. While the customers come to our stores with problems, if we can quickly understand and respond to those problems, this will result in greater customer satisfaction and shortened waiting time. This will also prove effective in fostering a workforce.

Secondly, the Company will focus on the importance of PCs in the educational market and make an effort to restore the role played by the PC. The Company will emphasize not only smartphones but also the smooth connection to smartphones with the PC as a base. On the other hand, low-priced smartphones are not the Company's main products and focusing on IoT is regarded as a little bit premature even if the use of IoT will eventually spread to homes.

Thirdly, the Company will make work creative and highly value-added through the development of new customers. While people seeking cheap products go to other shops, the Company will aim to attract customers to our stores for excellent services. Consultation on membership is increasing. General customers who are not the members of our services also visit our stores with their smartphones

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

or PCs purchased at other shops when problems occur.

The pursuit of merchandise selling, sales promotion through price reductions, and increasing efficiency only brings about negative impact on enhancing productivity stresses President Nojima. The Company will, on the contrary, dedicate its focus towards : 1) elevating consulting proficiency, 2) fostering technical expertise, and 3) expansion of member-service-inclusive product line-up. The consultant shall foresee the client's needs, four years into the future, and present a proposal following a consultation hearing. The consultant shall take into consideration future purchasing needs of families and potential replacement with newer models.

The Company goal for its employees is to deliver information and proposals aligned with the customers' future needs, extending 48 months into the future rather than to be constrained to that day's sales. The employee shall present a clear picture of when and what kind of merchandise and service the customer is likely to require, and propose products and services that match the customer's image. The Company policy is to foster consulting proficiency that matches customer needs, and use that as the source for its competitiveness.

Devising future roadmaps (design sheets) is the key

Under the president's leadership, personnel will create collages of new value creation (a bird's-eye view summarizing ideas currently in mind) and devise roadmaps (design sheets) suited to individual customers.

This will not be a matter of simply providing new smartphones and having customers buy them as replacements. Each officer and each customer should work together to consider the customer's digital life over the next four years, based on which the former will provide a planned proposal and create value in a planned manner.

For premium services, PC DEPOT creates value based on planned proposals. While coming to understand new ways to use devices through such planned proposals, customers are encouraged to buy new products as replacements. New product launches do not motivate replacement purchasing. Customers want to buy replacement products that meet their needs when appropriate. What happens at that time? If a consulting service has been properly provided, the customer will want an item that has high quality and functionality. It will certainly be convenient to know how to use it. This is the fundamental reason the Company attaches importance to face-to-face customer interactions.

Each officer will write customers' needs down to devise roadmaps, making it easy for customers to imagine their digital lives over the next four years. Although devising roadmaps is burdensome, doing so will make it easier to provide proposals for the future. As such customers are premium members, they can be contacted properly. By giving proposals for planning and spending, officers can reliably retain customers.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Experience-based menu and members lounge at Smart Life stores

In terms of specific actions taken to create planned demand, the Company is expanding the experience-based product menu. Members can experience and learn, among other things, PC assembly, programing, and the creation of original postcards and New Year's cards. At Smart Life stores, members can enjoy various experience in a members' lounge.

The Digital Consultant within the Works talks to members (subscribers) to find interested users among families. Therefore, the ability of this store to win customers for such experience-based services is markedly higher than other stores.

The Tomisato Store, which was a large store that had a floor space of 800 *tsubo*, was remodeled into a store that has a floor space of 400 *tsubo*. The remaining 400 *tsubo* will be utilized separately. As Smart Life stores provide advice on digital life, they do not display a large collection of products. Therefore, even a store with a floor space of 400 *tsubo* is fairly large. The Tomisato Store is quite wide and also has a members' lounge. The remaining space is expected to be used as a base for providing digital life services suitable for the next era.

The Morioka Store, which was also a large store with a floor space of 700 *tsubo*, has been remodeled to have a floor area of 400 *tsubo*. The number of Works will increase compared to before. The increased number of Works will enable the Company to increase the number of members.

New store openings and shift to Smart Life stores

	(Stores)							
	2014.3	2015.3	2016.3	2017.3	2018.3	2019.3	2020.3	2021.3
PC DEPOT stores								
Directly-managed/subsidiaries (new)		3						
Smart Life store (new)		1	3	2	1			
Smart Life store (renovated)	4	10	7	5	8	6	6	9
PC Clinics								
Directly-managed (new)		2		1			5	1
Total	4	16	10	8	9	6	11	10

Further renovation of Smart Life stores

The Company has made significant progress in store renovation. The transition from the previous PC DEPOT stores to Smart Life stores (SL stores) has made considerable progress. The next stage is to focus on further renovating SL stores in order to make them into consulting-oriented stores that focus on premium members. For example, a new floor layout that has a wider member's lounge is being adopted.

Store innovation is also underway. The Works designs planned proposals for premium members through discussions with such members at the store. These discussions occur in the premium member lounge. This lounge has none of the fixings of the floor layout of a conventional PC store, such as a communication area, product displays, experience area, and workshop.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Each phase of renovation costs only tens of millions of yen. This is not a large burden because it can be funded within the regular cash flow. In addition, the Company is opening new PC Clinics. Three to five PC Clinics together are expected to generate a business scale equivalent to that of one Smart Life store.

A new concept facility "Yokohama Key Station" to open in April

PC DEPOT will launch the Yokohama Key Station as part of a value creation network with members' families. It is scheduled to open in April 2022.

The Key Station will be a base for the provision of information to members. It will be annexed to the new headquarters building. The Company will invite members to a space with a capacity of 200 to 300 people for new experience related to digital life. The Company's personnel and members will share various scenes concerning life and digital technologies, and planned demand will be derived from their learning and realization through this experience. The Key Station will also engage in Internet broadcasting. Programs and other contents can be archived.

As a mother base for PC DEPOT's Smart Life stores, it will address in a comprehensive manner any and all customer needs that cannot be handled adequately by individual stores. Specific transactions (purchase of products and services) will be realized at each member's own store.

The Key Station will be a place and a base for the provision of information. It is a marché (plaza) for "people × experience" and will function as a hub of the network.

The amount of investment in the Key Station is equivalent to investing in 10 regular stores. An investment in a regular store would require 150 million yen for the building and equipment and 100 million yen for inventory. As the Key Station will not require inventory, the required investment will be 150 million yen multiplied by 10. The Company plans to leverage this as a marketplace and a base of the provision of information in inside sales to existing members.

A member can visit the Key Station physically or share information online to get a hint for a new digital life, which will lead to an appointment for experience. Actual services will be delivered to the member by their nearby local store.

General customers cannot visit the Key Station by themselves, but a member can bring them to the Key Station under a special arrangement. The Key Station is a place where members will be provided with experiences, rather than products to purchase. Its contents will be supported by PC DEPOT. It is similar to the services provided by some of the experience-type stores of Marui or b8ta, which is headquartered in the U.S. Or perhaps to those of Apple Stores. President Nojima has been developing this concept for the last three years and will now put it into practice in conjunction with the relocation of the head office.

The Key Station will start in Yokohama, but if it will be successful, similar bases could also be

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

opened elsewhere.

Innovative new head office

The new head office in Yokohama started its operations in February. It is in a totally new space, which is wonderful. The office is open and totally non-territorial, and there is also a studio for Internet broadcasting. In April, the Yokohama Key Station will start its activities based here.

The Company invested 1.5 billion yen in this new head office with twice the floor space as the old head office. It is housed in a leased space on the 18th and 19th floors of Yokohama Gate Tower (10 minutes from JR Yokohama Station and one minute from Shin-takashima Station on the Minatomirai Line). The 19th floor is used for the head office and the 18th floor is used for the Key Station, which are connected via inner stairs.

They are an entirely new type of office and a station for new value creation, where NCS members can come to the Key Station in Yokohama to gather and enjoy. Various events will be planned. Programs (contents) will be edited here and broadcasted to members. While this Key Station will function as a central base, Smart Life stores all over Japan will function as satellite stations for members.

Value creation with Yokohama Key Station

The Yokohama Key Station is scheduled to start its operations in April. As for actual effort to attract members, its activities will be expanded at an appropriate pace depending on how well the coronavirus pandemic will be controlled.

Its business operations will focus on 1) maintaining close communication with existing members to generate upselling of service-inclusive products for members; 2) planning large events that go beyond the scope of individual stores to generate event-driven inside sales to members; 3) proposing new workcations from here in conducting training for Works and new graduates and mid-career recruiting; and 4) promoting the creation of content through employees' voluntary and autonomous activities and with active participation of members, rather than pushing it in a top-down manner.

Introduction of mobile stores: New SaaS

With respect to new-style store development, the Company is developing mobile stores. What are stores to PC DEPOT? They are no longer places to sell products. They are a place to meet family members, discuss and give advice on their needs, make proposals, and create digital lives together.

At present, stores wait for customers to visit them, and if necessary, a Works of Digital Consultants will visit each household. Telephone interactions have always been possible. The Company has come this far, and President Nojima is going to take the next step: a new form of SaaS (Software as a

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Service).

Stores can take diverse forms. The Company could provide a service base in the form of a vehicle that will visit customers rather than waiting for them to visit. Thus, mobile Smart Life stores are likely to appear.

Like a mobile library, these stores will come near customers' homes. A mobile store can go to a location where it would be convenient to have a conventional store, whether in a city center or a suburb. These mobile stores are not places to sell products. Mobile store staff will discuss and give advice on customers' needs, help them understand how they can receive services, and encourage them to become members. These are the opportunities that mobile stores will provide.

It would be convenient if customers could discuss their needs by making an appointment like a medical examination car for regular medical checkups. Mobile stores can also be a place for having fun through coordination with other services. They can be described as "mobile digital life centers," which is an interesting concept.

If a sizable customer base is formed in the neighborhood, the Company could then open a new store nearby. Alternately, the Company could induce such customers to visit remote stores. A physical store may not be necessary if customers start to visit a remote store by PC or smartphone.

"Mobile digital consultation" vehicles providing complete support for digital transformation of the local community

As part of its "Connected Mobile Store" initiative, PC DEPOT has entered into a comprehensive alliance agreement with Shiwa Town, Iwate and JAPANDX Inc., a subsidiary of Eltes Co., Ltd. (Code: 3967, TSE Mothers), in November last year to operate Connected Mobile Stores, which will be equipped with digital solutions and will provide "mobile digital consultation" in various areas in the town. This service started in January 2022 as a measure to support digitalization of local residents.

Shiwa Town is located in the south of Morioka City, serving as a bedroom suburb. A partnership with PC DEPOT, which is promoting Digital Life Planner (Digital Consultant to households) and has stores in Morioka City, was requested as it was considered to be effective in promoting a more effective use of Shiwa Navi, an application developed jointly by the town and JAPANDX Inc., a subsidiary of an IT venture company Eltes Co., Ltd.

The operation of mobile digital consultation vehicles started here and is expected to be expanded for broader use.

New store: Smart Life Toyota "Toyota Digital Store for Your Daily Life"

The Company will newly open PC DEPOT Smart Life Toyota this March. This new opening is totally different from those in the past. This store will be opened as "Toyota Digital Store for Your

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Daily Life" in T-FACE, a commercial facility operated by Toyota Town Management Co., Ltd.

In other words, it will be opened as part of a collaboration with Toyota Town Management in a location where needs and a well-developed customer base already exist, rather than developing potential customers solely through PC DEPOT's own effort. People have a strong need to enjoy a digital life as part of their daily lives. Developing people's ability to use digital technologies is important also from the perspective of public services in local communities.

In the area of "regional revitalization × digital technologies," PC DEPOT, a provider of life-supporting products and services, is expected to play more important roles more frequently. What is essential is to increase the number of members with whom PC DEPOT can create their digital life together, rather than merely to support smartphones and PCs. This is an area where social value and enterprise value intersect. The Company will focus on this.

Service-inclusive products for premium members

MacBook	PC Tablet Smartphone Router Camera Printer Audio Speaker Keyboard Display Magazine	Education&Hobby PC
iMac		VAIO Mobile
iPad		FMV Mobile
iPhone		
Apple Watch		Mobile router
Apple TV		iPad + Magazine
MiDi keyboard		Wireless printer system
Sound Bar		Pen tablet
MacBook Pro		Access Point
Wireless speaker system		4K wide display
Multi-audio component		Digital camera
Stereo record player		

NOTE: Premium members may select services in which any of the above products are combined.

Provision of "Member-service-inclusive products"

Of sales generated through our solution services, the percentage of service-inclusive products is around 10%. It is a consultation service based on planned proposals, so it does not involve pushing products onto the customer. We expect this ratio to gradually increase over time.

Service-inclusive products are now referred to as "Member-service-inclusive products" to clarify the concept. In other words, this means that a customer can purchase service-inclusive products only after becoming a member of the Company's program. Of course, it is possible for a customer to purchase just products only. The customer may also select an appropriate service from various service menus. However, the Company will strive to improve the mechanism that attracts members for a long time, by further meeting customers' needs and increasing customer satisfaction through services and products combined together.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

These service-inclusive products will start contributing to earnings with a slight time lag. These products have a mechanism similar to four-year installment sales, where the Company makes great efforts at the time of sale to offer services. Since the cost will be collected as part of the monthly service fees, these products will start contributing to earnings after six months to one year.

Changes in gross profit of products and services (provisional)

	(millions of yen, %)									
	2014.3		2016.3		2018.3		2020.3		2021.3	
Overall sales (consolidated)	53772	100.0	51729	100.0	43590	100.0	39137	100.0	38312	100.0
Service sales (consolidated)	16194	30.1	24631	47.6	24566	56.4	22878	58.5	22558	58.9
Goods sales (consolidated)	37578	69.9	27098	52.4	19024	43.6	16259	41.5	15754	41.1
Cost of services (Isolated, Estimate)	4676	28.9	7443	30.2	6845	27.9	6068	26.5	5632	25.0
Overall gross profit (consolidated)	18273	34.0	21715	42.0	20044	46.0	18453	47.1	18076	47.2
Service gross profit (provisional)	11518	71.1	17188	69.8	17721	72.1	16810	73.5	16926	75.0
Goods gross profit (provisional)	6755	18.0	4527	16.7	2323	12.2	1643	10.1	1150	7.3

NOTE: Goods sales include other services (royalties, Internet-related).

Figures in the column next to sales amount are a ratio of each segment sales to overall sales.

Provisional values are not necessarily accurate; these are approximations as reference data.

The quality of services is its source of competitiveness

The Company does not merely sell hardware such as PCs and tablets, but offers services. This is a system under which convenient solutions are provided on a continual basis for a monthly fee. Some 60% of visitors to PC Clinics are those who bought products at other stores. That means they are interested in something other than low prices. PC Clinics support PCs owned by our customers, which brings about efficiency.

When considering the profits generated by products sales and from service sales from a perspective of operating profit levels, a clear-cut breakdown of levels classified into products and services is nearly impossible to achieve. The reason why this cannot be done is that the Company's management does not differentiate between products sales and service sales. Even though each staff member at stores has their own role, everyone provides both products and services. These sales are not differentiated when assessing employee performance. One pattern used involves a customer buying a product and subscribing to a service, thus becoming a regular customer of PC DEPOT, who naturally comes back again to buy some other product.

However, even when profits derived from product sales and from service sales are viewed from the perspective of operating income under certain prerequisites, the structure in which service sales are highly profitable remains unchanged. In the competition to capture this demand for services, the Company has an advantage that is furthered by its track record over the years and its personnel. Originally, the Company core policy that differentiates it from competitors is providing services requiring time and effort for those customers who are having difficulties using their purchases, but not

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

for customers who do not require any follow-up services after purchase. Such customers are the main target of other companies.

Major capital investments undertaken

The Company plans and is making a capital investment of 4.5 billion yen for the current term ending March 2022. The Company already invested 0.4 billion yen in 1Q, 1.6 billion yen in 2Q, and 1.0 billion yen in 3Q.

The planned 4.5 billion yen is broken down into 1.5 billion yen for the new head office and the Key Station, 1.5 billion yen for the workcation facility in Karuizawa, and the remaining 1.5 billion yen for regular store refurbishment and other purposes. As cash flow from operating activities through 3Q amounted to 1.8 billion yen, regular investments are within this range. Long-term borrowings at the end of December increased by 2.5 billion yen from the end of the previous term to fund investments in the new head office and the facility in Karuizawa.

While there were two special capital investment projects for the current term, no major project is currently planned for the next term. Therefore, the level of capital investment is expected to return to normal in the next term. More specifically, capital investment is expected to remain in the range of 1.0 to 1.5 billion yen per year.

Balance sheets

(millions of yen, %)

	2016.3	2017.3	2018.3	2019.3	2020.3	2021.3	2021.12
Current assets	25381	26123	25702	24589	23823	26899	27118
Cash and deposits	4754	7726	10597	9542	8383	11408	11965
Accounts receivable-trade	13249	11202	8514	9039	9421	9364	9675
Inventories	6128	6103	6125	5642	5695	5704	4730
Fixed assets	9622	9506	9351	9031	9220	10324	12418
Tangible fixed assets	5041	4857	4440	3977	4362	5213	7493
Guarantee deposits	1810	1750	1703	1647	1639	1585	1544
Lease deposits	1323	1403	1332	1338	1226	1648	1600
Total assets	35004	35629	35053	33620	33043	37224	39537
Current liabilities	12271	6786	6279	5499	5059	6436	6992
Accounts payable-trade	1245	1230	964	958	875	869	1789
Short-term loans payable	5200	0	0	0	0	0	0
Long-term loans payable (within one year)	1044	2125	2243	1594	1286	2187	2831
Fixed liabilities	1347	5830	5523	3962	2725	4268	6188
Long-term loans payable	751	5265	4952	3358	2071	3584	5499
Net assets	21334	23011	23250	24159	25259	26518	26356
Interest-bearing liabilities	6996	7391	7195	4952	3358	5771	8330
Interest-bearing liabilities ratio	20.0	20.7	20.5	14.7	10.2	15.5	21.1

The balance sheet is sound

In the first half of the term ended March 2021, the Company borrowed 4.5 billion yen as working capital, including funds used for coronavirus response. Inventories increased slightly as the Company secured a certain level of inventory position. Meanwhile, accounts receivable decreased as sales of service-inclusive products decreased.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Although the Company borrowed funds in preparation for an emergency as part of its coronavirus response, during the subsequent half year, the Company has had no particular capital needs. The original intention was to secure cash equivalent to three times monthly sales, but the Company did not experience any increase in payment postponement or delays from corporate and individual customers.

There are no issues in particular in terms of working capital. The stock level is expected to decline further from now on if the planned demand becomes clearer.

As net sales have decreased, the Company now has a lower need for working capital. It was able to sufficiently fund the capital investment for store remodeling with its internal funds (retained earnings and depreciation).

There are no major financial concerns. So, how should the Company make efficient use of its free cash flow going forward? The Company will be able to put more effort into investing in human resources and start to create the next business model as well as consider R&D-type open innovation.

As a financial strategy, the Company considers a sound financial position to be an equity ratio of at least 50% and a degree of indebtedness within 25%. Thus, it has sufficient capacity to make further investments.

Cash flow trends

(millions of yen)

	2016.3	2017.3	2018.3	2019.3	2020.3	2021.3	2022.3 (forecast)
Cash flow from operating activities	516	4292	5045	2563	2029	3350	2620
Net profit after tax	2742	1325	2282	1348	1905	1946	600
Depreciation	897	943	919	834	752	794	920
Accounts receivable	-3640	2034	2687	-525	-381	56	300
Inventories	420	24	-21	482	-53	-8	1300
Accounts payable	-449	-16	-282	14	-80	-5	-500
Cash flow from investing activities	-970	-1090	-297	-721	-949	-2072	-4500
Tangible fixed assets	-604	-830	-450	-369	-729	-1665	-4450
Intangible fixed assets	-291	-178	-68	-297	-272	-45	-50
Free cash flow	-454	3202	4748	1842	1080	1278	1880
Cash flow from financing activities	2837	-229	-1876	-2897	-2238	1747	1700
Long-short term borrowings	-767	394	-195	-2243	-1594	2414	2600
Common stock issuance	3983						
Common stock repurchases	0	-5	-1006	1	5	-1	0
Cash dividends paid	-380	-612	-660	-652	-644	-654	-700
Cash and cash equivalents at end-term	4754	7726	10597	9542	8383	11408	11228

Response to the rise of Internet shopping

There is some concern that Internet shopping might be a threat to over-the-counter sales. In fact, some people browse products at stores but actually buy them online, because of the lower prices.

This scenario is fine for those users who are able to make full use of their newly purchased hardware. However, others are in great need of convenient services in case they do not understand how to use

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

their new hardware fully or are faced with some problem. That is where the Company has a chance to show what it can do. Basic sales of products such as iPhones or iPads do not make much profit. But if customers subscribe to premium services, the relationship with them can be maintained for a long period of time, and service sales will contribute to earnings. In that sense, the Company is continuing to handle new products in a proactive way.

Pursuit of LTV (lifetime value)

LTV (lifetime value) is a concept in which the time span during which a customer uses a product is considered to be that product's "lifetime." The value of the customer to the business in a general sense during the lifetime of that product is raised, allowing the Company to generate sales accordingly during that time. The Company's service sales do grow but in the normal growth pattern for services they become profitable only in the second or third year of a three or four-year contract. Service quality should be improved so that members are encouraged to buy more products from the same store. Of course, member numbers are bigger at existing stores than at new stores. New stores should initially compete in terms of products sales and then gradually increase the number of customer members from then onwards.

The number of service subscription members is increasing, so the LTV of a particular level can be ensured depending on the terms of the members' subscriptions. PC DEPOT is meeting the challenge of expanding a business model that is dependent on a customer base formed from members who subscribe to its services. The Company operates while carrying out analysis of its service sales.

Strengthening of media marketing

The Company is also focusing on new media strategies. Unlike traditional flyers for stores or product/service promotions, these new strategies aim to inform the public 1) about how to create a digital life, 2) that a Digital Consultant (Digital Life Planner) can help in planning a digital life, 3) that Digital Consultants can provide advice effectively either in-person or remotely, 4) that PC DEPOT will hire many new employees because it needs a new workforce to support its services, and 5) that PC DEPOT would like parents to know all of the above.

Strengthening business alliances

To acquire new members, the Company is expanding business alliances. For example, it has participated in Sumitomo Mitsui Banking Corporation's SMBC Elder Program. The Company plans to help enrich the lives of Program subscribers, focusing on their digital life.

The Company has also teamed up with Benefit One Inc. to provide its "Benefit Plus" service to premium members. This is a welfare service that can be used by families. Under this arrangement,

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

premium members can choose from among 1.4 million service choices to use at a preferential price in exchange for a monthly charge of 500 yen. These options include a wide variety of services, such as lodging, eating, and drinking, leisure, long-term care services, childcare, e-learning, online fitness, etc.

Employees training: Who are customers?

On April 6 (Tuesday) and 7 (Wednesday), 2021, the Company was closed to business to provide employee training. This was the first such event since its beginning. To achieve a subscription-based customer success company, all employees received thorough training under the president's policy. On May 19 (Wednesday), the Company held an all-employee meeting and confirmed the directions of eight topics.

The most important topic in the training was to reliably determine who are the customers for the Company. Like a membership-based golf club, the Company will focus on its premium members and their families as its customers and will clearly differentiate its services for members from those for non-members. Its policy is to expand the subscription-based business, and not emphasize the mere sale of goods and one-time repair services. Reservations will be the standard for almost all services, which may be a little troublesome for walk-in customers.

Devotion of full efforts to human resource development and teambuilding

Human resource development is the key for team building. President Nojima has been devoting 70–80% of his time to human resource development. Opportunities for all the staff to get together and listen to plan announcements for discussion have increased from once a year to three times a year. In addition to regular employees, part-time and other non-regular employees engage in direct dialogue with top management.

A Works, which is a team comprised of persons in charge, draws up the future roadmaps (design sheets) of members (subscribers). It is these roadmaps themselves that are the assets that will generate demand sooner or later. This future consultant is the very business model PC DEPOT aims for.

Members (subscribers) are invited to come to the store to discuss their family's future digital life plan with a dedicated team of three to five persons in charge. It takes time at first, and not much business is generated. However, as the roadmap gradually becomes clear, members will understand what digital life can be incorporated to create joy for themselves and their spouse, children, and parents.

Pursuit of uniqueness and initiative to increase the related population

President Nojima calls the method the creation of the related population. This is to increase the population of people who are involved in the work of PC DEPOT and to create new values from the

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

network in the population. PC DEPOT aims to become a creative company that increases related population.

President Nojima has devised unique strategies to avoid competition as much as possible. He has created a way to avoid competition with both the e-commerce of Internet companies and consumer electronics superstores. Even now, the Company does not provide customers with any rewards points for sales. It intends to compete in terms of gross margin ratio rather than sales amount.

The past two years were a period of transition to the new business model, but its direction and contents have been greatly clarified. As consumption of services is strong, support needs for devices continue to be high. Although mass retailers are also trying to shift to a service-based business model, they have in reality not been successful.

What is the difference? In a business model in which gross profit is earned by product sales, companies cannot secure short-term profit unless they pursue flow-type profit. It is difficult for them to patiently pursue stock-type profit completely ignoring flow-type profit. It is nearly impossible for them to be patient for several years accepting current losses.

Then, why can PC DEPOT now realize the shift to a future Digital Life Planner business model? Because the subscription by premium members has already been well established. The Company has a strength as a forerunner that is 10 years ahead of others. For this reason, while PC DEPOT can realize such a shift, it is considerably difficult for other companies, such as consumer electronics superstores, to do it.

Aiming to expand the customer base: Strengthening new member acquisition based on planned proposals

There are not many people in their twenties among the members of the Company. They are mostly people with children who want to enjoy a digital life. Seniors who are parents of these people are also active as digital seniors. As it is women who are usually the key people in a family, the Company is also putting effort into support for women's digital life.

New member development in addition to existing members (subscribers) has also been started. While existing members are the main segment, demand creation is led by products. Once the subscriptions of new members increase, costs for the provision of services are incurred first and will be recovered later.

The shift to the business model in which the Company supports customers' digital lives and makes planned proposals to create demand is making steady progress. Thus far, the Company has prioritized services to existing members, but it places greater focus on the acquisition of new members because the internal structure to support such efforts has been improved. Until last year, the Company focused mainly on the promotion of new member acquisition via referrals from existing members and upon

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

PC purchases. Since this year, the Company is putting more effort into acquiring new premium members through advertising and other means. In fact, the Company also focused on providing experience-based products. As a result, the number of new members is increasing.

Aims to enter the expansion phase with the concept of *icchisoshin* (team-based value creation and innovation)

President Nojima is telling employees that business sustainability lies where social contributions and earning power coexist. Now that human resources have been developed, the Company is about to enter a new phase in which it will put its business model into practice to achieve business growth.

The Company is ready to push forward with new business strategies by leveraging value creation as a member of a Works and through the expansion of Works. President Nojima calls this "*icchisoshin*" (team-based value creation and innovation). To put it plainly, team members will be united to work together to create benefits to customers (value) and business profit (value) by bringing a new mechanism (innovation) there and putting it into practice. This requires autonomous management and ethical standards. The Company is also working on employee education to realize this.

The framework of NCS-based business model has been completed. Works-based human resource development is ongoing. While maintaining dialogue with premium members, a Works of three to five members supports recruitment activities, invites a successful candidate to join the Works, and then divides itself in an amoeba-like manner into two Works to create a new Works.

In other words, the Company has put a teal (evolutionary) organization model into practice, rather than seeking to drive the organization in a conventional, top-down manner. The today's younger generation is sympathetic with this type of organization model more than others. This is a suitable mechanism for the Company to promote the business to support the GIGA initiative, which aims to provide a PC together with the telecommunication capability to every elementary and junior high school student and to utilize them for education.

5. Near-term operating results: Up-front investment to acquire NCS (new customer success) members

Response to the novel coronavirus

Regarding the response to the novel coronavirus pandemic, 1) As the Works (teams) are responding to members' needs, they are increasing member satisfaction regarding services by distinguishing members' urgent needs from needs that can be postponed slightly. As the Works can learn customer needs very well through close conversations, they will not lose customers' business even if they have

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

customers wait. 2) Stores are being visited by an increasing number of customers in their 30s and 40s who come with their family members. This is because of the increase in home computing needs. As the Company's customers seek accurate services rather than cheap products, many customers become new members. 3) Although the hiring environment in general has deteriorated due to the effects of the novel coronavirus, the Company considers this to be an opportunity. As the number of job applicants is increasing, the Company is expected to hire more employees. 4) The economic shock caused by the coronavirus has provided an opportunity to reinvent how PCs are used. Most people who intend to improve their network environment by purchasing a PC from the Company will also become members.

Remained at the same level in the term ended March 2021

The term ended March 2021 saw the net sales of 38,312 million yen (down 2.1% YoY), operating income of 2,893 million yen (down 1.6% YoY), ordinary income of 2,935 million yen (down 2.7% YoY), and net income of 1,854 million (up 7.9% YoY).

The sales of goods increased 3.4% YoY owing to the increasing online commerce. The solution service declined just 5.4% YoY. Selling and administration expenses decreased 2.1% YoY owing to downsizing of sales promotion activities and reduction of business hours. However, the advertising activities have been expanded, including TV commercials, since December last year.

Sales of goods grew remarkably in 1Q. Demand from teleworking from home and learnings at home increased.

On the other hand, regarding solution service sales, the Company proceeded with arranging the digital environment to prevent coronavirus infection by enabling members to book and visit to avoid congestion and distinguishing members' urgent needs from needs that can be postponed slightly, whereby the planned demand was made more visible.

New developments started

Preparations for new developments started in the second half of the term ended March 2021: 1) the development of new-style stores to expand the areas covered by stores, 2) the expansion of advertising and publicity taking into account the development of new services, and 3) the hiring of new employees and wider provision of training.

In December 2020, the company ran a full-page advertisement in the national edition of the Nihon Keizai Shimbun. Taking the form of an interview with the President, it featured two themes: 1) the change in the digital environment in Japan starting from the home and 2) bringing Digital Consultants to all homes. In addition, television commercials began airing. One response to the television commercials was "I thought that PC DEPOT ran shops specializing in PCs, but it seems that we can consult with them freely," and another was "PC DEPOT seems to be shifting to PC services, and I

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

understood the content of its services for the first time."

There is a growing understanding of PC DEPOT's business model among customers, business partners, and employees' families. This advertising does not have large sales promotional effects in terms of immediately attracting customers to stores, but the recognition level for Digital Life Planners is rising as television commercials talk about them using an easy-to-understand term: Digital Consultants.

The business model for Digital Consultants has been clarified. Amid the COVID-19 pandemic, there is a growing need for digitization and online communication in the home. In dealing with customers, priority is given to members, but it has become necessary to reinforce the personnel of Works (the team in charge of members at the store). The number of workers who are either hired as new graduates or converted from part-timers to regular employees was increased from about 100 in April 2020 to 140 in 2021. Plans call for over 150 employees to be maintained in 2022, too, but that number is still insufficient.

Employment sharing, a scheme to accept loan employees from businesses that are struggling amid the COVID-19 pandemic, began in March last year. The Company has accepted 200 employees from travel company HIS in the initial phase, who have joined each of its Works and work with its employees. The cost of the loan employees will be paid partially by the Company, but partly because of government subsidies, both PC DEPOT and HIS can make effective use of this scheme.

Changes in accounting standard for revenue recognition: Impact is insignificant

The Company adopted a new accounting standard for revenue recognition since the beginning of the term ending March 2022. The impact is attributable to agency transactions and the allocation of transaction price. The first change pertains to agency transactions. The Company is required to recognize revenue on a net basis (net of purchases, etc.) rather than a gross basis for product sales and the provision of premium services that fall under agency transactions.

The second change pertains to the allocation of transaction prices. When the Company provides multiple goods or services in one contract, it is required to estimate the stand-alone selling prices for each and allocate them to the transaction price.

For the first nine months of the term ending March 2022, net income decreased by 181 million yen, cost of sales decreased by 302 million yen, operating income increased by 121 million yen, and net income also increased by 124 million yen as compared with those figures calculated under the previous basis.

A significant decrease in profit for the first nine months of the term ending March 2022

For the first nine months of the term ending March 2022, the Company has reported net sales of

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

24,814 million yen (down 13.4% YoY, before revenue recognition adjustment), operating income of 1,228 million yen (down 46.5% YoY), ordinary income of 1,284 million yen (down 45.2% YoY), and net income of 727 million yen (down 53.9% YoY).

Quarterly results

(millions of yen)

	(Fiscal year)	1Q	2Q	3Q	4Q
Products	2018	3512	3335	3552	3496
	2019	3077	3792	3706	4204
	2020	4005	3463	3492	3526
Solution services	2018	6499	6171	6363	6237
	2019	5996	5756	5577	5742
	2020	5729	5438	5582	5809
Internet-related	2018	300	307	304	305
	2019	296	311	298	322
	2020	298	299	302	304
Total net sales	2018	10329	9828	10235	10055
	2019	9385	9875	9594	10283
	2020	10050	9216	9390	9656
	2021	8441	8024	8349	
Operating income	2018	666	607	753	553
	2019	674	702	854	711
	2020	1057	673	566	597
	2021	454	155	619	

NOTE: No disclosure based on previous segments will be provided from FY2021 onwards.

As the current term is the first term of the shift to the new subscription model, a significant decrease in profit was part of the Company's plan. However, the Company has already achieved a planned full-year operating income of 970 million yen by the end of 3Q, although the Company has not revised its full-year plan.

The Omicron variant has posed a significant impact on society since January. The Company's membership business relies heavily on appointments. If the pandemic situation worsens, it is more difficult for the Company to encourage members to make appointments for a visit to its store. In addition, there is no need for the Company to make advertisements for member marketing when it will not be sufficiently effective. Progress so far in manpower buildup is also less than initially planned. As a result, expenses have been less than planned.

The Company reported a quarterly operating income of 454 million yen for 1Q, 155 million yen for 2Q and 619 million yen for 3Q. As there is no possibility that operating income will be negative in 4Q, the Company is expected to secure a full-year operating income of 1.3 billion yen. However, net income will be suppressed as non-recurring expenses related to the relocation of the head office will be recognized as an extraordinary loss.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

Subscription-related KPIs

Subscription-related KPIs	As of March 31, 2021		As of June 30, 2021		As of September 30, 2021		As of December 31, 2021	
	NCS	Overall	NCS	Overall	NCS	Overall	NCS	Overall
ARR (hundred million yen)	94	201	98	204	103	197	111	215
Number of subscription members (ten thousand)	9.7	45.0	10.1	45.0	10.6	44.5	11.3	43.9
ARPU (yen/month)	8053	3500	8084	3788	8111	3680	8170	3742
CRR (%/month)	99.6	99.1	99.6	99.2	99.7	99.3	99.6	99.2

NOTE: NCS: New Customer Success members; ARR: Annual subscription membership sales

Subscription members: Members using flat-rate services; ARPU: Average monthly sales per member

CRR: Monthly retention rate of subscription members

As this is a subscription model, an increase in members will be reflected in net sales gradually. On the other hand, a decrease in product sales to general customers is immediately reflected in a decrease in gross profit. The Company is also slashing its product inventories. Each store has reviewed its product inventories to determine what products will be needed by subscription members and has started to slash other inventory items.

As KPIs have been changed, sales breakdown is not provided in the previous manner from this term onwards. However, the breakdown of net sales for 3Q of 24,800 million yen by service content is as follows: 1) subscription sales of 16,300 million yen; 2) package purchases of products by subscription members of 500 million yen; 3) product sales of 5,500 million yen; 4) one-shot technology sales of 1,400 million yen; and other sales of 900 million yen.

Sales breakdown by quarter of FY ending March 2022
 (hundred million yen)

By service content	1Q	2Q	3Q
Subscriptions	52.8	53.1	57.5
Subscription member products	2.5	1.4	1.1
Products	20.8	18.0	17.1
One-shot technology	5.0	4.5	4.6
Other	3.3	3.2	3.1
Total net sales	84.4	80.2	83.5

NOTE: Based on new KPIs and a new revenue recognition method; year-on-year comparison is not provided.

Subscriptions include service-inclusive products.

Subscription member products are one-off product purchases by members.

In addition to monthly charges premium members pay, they also purchase some products. They may

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

purchase them outright or in installments included in the payment for services (monthly charge). Non-member customers would also purchase products or order a repair. Subscription members includes both premium members and non-premium members, and the sales breakdowns are affected by these differences.

Financial results for the next term ending March 2023 are expected to improve

Amid the coronavirus pandemic and rising geopolitical risks, whether the supply shortage of semiconductors and electronic components will start to affect the product procurement of the Company is a concern. If the shortage intensifies, sales of service-inclusive products will be subject to constraints.

Otherwise, financial results of the Company are expected to rally from the next term onwards after hitting bottom in this term. The Company will continue to strengthen the recruitment of human resources. The Company will also place advertisements, while measuring their effectiveness. Depreciation will increase as a result of major investments in this term. As a result of these movements, expenses have increased before sales increase. Nevertheless, as the positive effect of subscription will steadily increase, the Company's financial results are expected to improve.

Comparison of earnings forecasts

(ten thousand, millions of yen, %)

	2016.3	2017.3	2018.3	2019.3	2020.3	2021.3	2022.3 (forecast)	2023.3 (forecast)	2024.3 (forecast)
NCS member count (end of FY)						9.4	11.7	15.9	20.7
Net sales	51729	46417	43590	40447	39137	38312	33800	35500	38000
Gross profit	21715	21249	20044	18663	18453	18076	17300	18400	19800
Ratio to sales	42.0	45.8	46.0	46.1	47.2	47.2	51.2	51.5	52.1
SG&A expenses	17628	17846	17062	16083	15512	15183	16000	16800	17500
Ratio to sales	34.1	38.4	39.1	39.8	39.6	39.6	47.3	47.3	46.1
Operating income	4086	3402	2981	2579	2941	2893	1300	1500	2300
Ratio to sales	7.9	7.3	6.8	6.4	7.5	7.6	3.8	4.2	6.1
Ordinary income	4139	3467	3079	2685	3018	2935	1350	1500	2300
Ratio to sales	9.0	7.5	7.1	6.6	7.7	7.7	4.0	4.2	6.1

Future development: Effect of NCS's subscription model will appear gradually

For the past several years, as it made efforts to shift to new business models, the Company has been able to maintain a certain level of profits despite a sales decrease because it reduced the number of part-time workers hired and advertisements placed and did not open any new stores.

On the other hand, amid the coronavirus pandemic, the Company accelerated progress on its business model and has been shifting to an active approach. It will (1) increase advertising and publicity to acquire more members, (2) substantially reinforce the personnel of Works, and (3) open new outlets through large bases and Connected Mobile Stores. In that sense, it is prioritizing costs for the time being.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

The shift of focus to members involves the activation of member families by Works. By understanding the digital needs of members including those of their families, Works will generate planned demand therefrom. The role of the Key Station is to accelerate this cycle. PC DEPOT will also leverage the Key Station as well as workcation facilities in Denenchofu and Karuizawa to further attract workers to the Company. To support this, the Company will also focus on improving its brand strength.

The important point is whether new KPIs will progress steadily. As the Company plans to adopt new techniques, the effects of which may come to pass in the second or third year.

The net sales of 51.7 billion yen with an operating profit of 4.08 billion yen reported for the term ended March 2016 is the highest achieved in the Company's history, but under the new business model, net sales of 50 billion yen with an operating profit of 5 billion yen should be achievable.

In regard to creating future value, the Company has given priority to existing premium members. It now focuses on acquiring new members, including via introduction by way of existing members amid the acceleration of the New Lifestyle initiative.

The Company does in fact recognize a new customer also as a family and draws a picture of digital life for three generations. The Company will expand its focus into various opportunities including: (1) Do they make full use of smartphones? (2) When do they replace and what do they purchase? (3) Is Wi-Fi at home sufficient? (4) Are PCs updated adequately and available for use? (5) Is a new PC really necessary? (6) If a PC is replaced, when? (7) Is there an opportunity to use a tablet? (8) Will they be connected with a printer, camera, musical instrument, and so on? (9) Will they also be connected with a TV monitor, speaker, audio, and so on?

The Company will properly summarize these items and increase the utility value for customers. It will also improve the usability and provide satisfaction. Since the Company draws a picture of the life stage together, it may understand what products or services customers require and when they need them. Therefore, it is easy for customers to speak with a person-in-charge when necessary. The development of such business styles is already popular.

6. Evaluation: Increase in new NCS members and shift to an active approach

Conformance to the Prime Market

Initiatives expected to be realized in the future include securing three independent directors and diversity, responding to the TCFD, monitoring CO₂ emissions throughout the entire supply chain, and operating company-wide sustainability initiatives. The Company's member customers consist of three-generation families, and it plans to focus on promoting sustainability to become a company that the

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

customer base can easily understand.

Sustainability management initiatives are expected to be documented going forward as they have already been fairly substantial. As for governance, the current system of the Company will be sufficiently effective provided that the standards for its independence will be clearly established.

The Company has chosen to implement the transition to the Prime Market. Its stock price has been falling recently. For its market capitalization to remain above 10 billion yen, its stock price needs remain above 330 yen. Once the market is stabilized and the Company's subscription-based business model starts to produce a positive effect, we can reasonably expect that stock price will also rise, reflecting the profitability improvement.

Attention on new KPIs: Acquisition of new NCS members

Regarding immediate priority measures, President Nojima puts human resource development first. This has not been changed. The second measure is to introduce new techniques for advertising and publicity, i.e., member acquisition business marketing. The third is to shift to internal sales.

The Company reviewed the KPIs drastically upon shifting the business model. The priority of KPIs is likely to change for investors as well. Rather than selling products and services to customers, the Company will work with customers as their Digital Consultants to make digital life plans. These plans will cover a period longer than three to four years. The monthly charge for members is a price to enrich their digital lives in the medium to long run. If Digital Consultants support members by meeting their requests for advice properly, their value will be enhanced; otherwise, the members will resign. The key is how to increase LTV (lifetime value).

The subscription-based business model will generate annual income of 60 billion yen if the NCS target is 600,000 and the monthly charge is 8,500 yen. To this, the proceedings of solutions and product sales are added. It can be easily assumed that the existing target, i.e., an ordinary income to sales ratio of 10% and ROE of 15%, will be exceeded. The rest depends on how fast the new business model can be expanded.

There is no parallel to PC DEPOT's business model even in overseas markets. Based on Digital Consultants for all homes, how should the Company upgrade its subscription-type business model from SaaS to a platform-type service. Its Phase 2 efforts to develop it in earnest are about to begin.

Upgraded shareholder special benefit plan

The dividend for the term ended March 2021 was 13.5 yen with increase of 0.5 yen in the second half. For the term ending March 2022, it is expected to be 14.0 yen. The Company will make an up-front investment in human resources and marketing for shifting to the subscription-based business model. With this impact, the profit for the term ending March 2022 will decline approximately by 60%

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.

but President Nojima is not concerned about that at all. He is very confident that with subscription-based sales having already exceeded 50% of the entire sales, they will rise to 80% in the long term.

The number of shareholders was 8,254 as of the end of September 2021, including individual shareholders and overseas investors who account for 28.4% and 6.6%, respectively, of the total shareholding. The Company reviewed the shareholder special benefit plan, hoping that the premium members will become shareholders and that the minor shareholders will be long-term shareholders. Accordingly, the Company upgraded the special benefit plan for the shareholders who own 200 shares, 400 shares or 1,000 shares. For example, the Company increased the benefit (i.e., entitlement to goods and services of the Company) for premium members, that is, increased the benefit for holders of 200 shares from 2,000 yen to 4,000 yen, the benefit for holders of 400 shares from 4,000 yen to 6,000 yen and the benefit for holders of 1,000 shares from 6,000 yen to 10,000 yen, while the benefit for holders of 100 shares remains 2,000 yen.

Shifting the business model for the chance to win

The Company's business model will continue to evolve and it will strengthen its service structure to match the customers' needs more, which will result in an even more robust system than before.

In this system, more demand for services will be captured and more repeat customers will be retained. Profit is therefore highly likely to recover and grow higher than before. Since the Company's fundamental business model is sound and solid, it is likely that the Company will post record profits in several years.

It is almost certain that the Company's business model will retain its niche existence after it overcomes this problem. The Company has been promoting a shift to a stock-type profit structure based on service sales. As the transformation of its business model through human resources training is now within sight, we have upgraded the Company's corporate rating to A. (Please refer to the front page for an explanation of corporate ratings.)

Based on a stock price of 285 yen as of March 8, 2022, PC DEPOT has PBR of 0.55, ROE of 2.3%, and PER of 23.9, with a dividend yield of 4.9%. As the Company's business expands due to enhanced services delivered to NCS members, an increase in new membership, and increasing net sales of solution services, ROE will exceed 10% with the demand increase brought about by the cumulative effect of the planned proposals. A PBR of 1.5 times can reasonably be expected. The pace of increase in NCS members is worthy of attention going forward.

This report has been written based on an independent viewpoint, and therefore in principle it is not based on the Company's position on the matter herein. The objective of this report is to facilitate a deeper understanding of the Company on the part of investors, and as such does not recommend investor investment in the Company, does not solicit such investment, and does not advise that such investment be made. The analyst who authored this report is wholly responsible for the content herein, and has no conflict of interest regarding the investment decisions of investors regarding the Company. This report is a presentation of the Analyst's opinion of the Company, and all unauthorized usage hereof is prohibited.