

# Alpha-Win Company Research Report

## CUBE SYSTEM INC. (2335 TSE First Section)

Issued: 6/7/2021

### ● Summary

Alpha-Win Capital Inc. Research Department

<http://www.awincap.com/>

#### Business Description

- CUBE SYSTEM INC. (hereinafter, the “Company”) is an independent, mid-tier system integrator (SI) listed on the First Section of the TSE. Its main customers include Nomura Research Institute and Fujitsu Group. It develops systems and provides services mainly for the finance, distribution, and telecommunications industries. Founded in 1972, it has 49 years of history.

#### Current Financial Performance

- With the exception of one fiscal year, the Company has been continuously increasing sales YoY for the past 20 years (including the period during which its results were nonconsolidated). During this period, its annual sales growth rate (simple average of the rate of increase in sales) was +6.0% and its annual recurring profit growth rate (simple average) was +7.1%; the Company has been steadily expanding its business and keeping its business in the black over many years. Thanks to its committed efforts in business development and management reform, the recurring margin has been stable at around 7% (7.2% on average) and the increase in sales has been contributing directly to increases in profit, dividend, and market capitalization.
- Last fiscal year (FY 2021; note that the Company’s fiscal year is March-ending), sales were about 7.6% lower than the Company’s initial forecast but had grown by 0.5% YoY to Y14.79 billion. Operating profit was Y1.17 billion, or 4.8% above the initial forecast, and had grown significantly by 22.5% YoY. Record-high sales were achieved for the ninth consecutive year, and operating, recurring, and net profit also hit their record highs. Operating and recurring profit each exceeded Y1 billion for the first time. Dividend was raised by Y2 to Y20 per share.
- This fiscal year (FY 2022), the Company plans to achieve sales of Y16 billion (+8.2% YoY), operating profit of Y1.23 billion (+4.7% YoY), and net profit of Y850 million (+0.7% YoY). It is planning to achieve consecutive record highs for sales, operating profit, and net profit. It plans to keep dividend at Y20, the amount after the previous dividend hike.
- Going forward, the impact of COVID-19 is expected to become smaller and the business environment is predicted to turn toward recovery. Consequently, the Company expects sales to grow since IT investments will likely begin increasing again and it will be able to win projects for strategic IT investments. In addition to sales growth, it plans to maintain profit growth by working on its own digitalization and resource optimization to improve profitability and productivity.
- Given the risks of COVID-19, Alpha-Win made a somewhat more cautious forecast than the Company for this FY’s sales and profits. However, we believe that cost control will keep the downward deviation of profit limited.

#### Business Strategy

- Last fiscal year, which was the final year of the medium- to long-term management vision V2020, the Company had planned to achieve sales of Y18.5 billion, operating margin of 9.6%, and ROE of 13%, but was only able to achieve the goal for ROE (the results were Y14.8 billion, 7.9%, and 14.0%, respectively). This was because its new business development, recruitment, and orders received for large-scale projects had been below expectations.
- In the medium-term management plan (V2026) that started this fiscal year, the Company plans to actively work on developing its proposal-based business (proposal of solutions to customers/industries based on the Company’s technology and expertise in its customers’ industries, followed by the providing of the corresponding services) and contract-based business (contract development of information systems according to customer request), as well as strengthening the SI Business based on the Enhancement Business and strengthening the Digitalization Business.
- It has also been actively engaged in in-house development/enhancement of new technologies and services and joint development with other companies. It has been building the foundation for such development through investments, providing financing, and forming alliances.
- In the new medium-term plan, it announced the financial goals for each fiscal year, including those for sales,

1/41

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operating profit, and ROE. In the final year or FY 2024, it hopes to achieve Y18.5 billion, Y1.48 billion, and 13% or greater, respectively. It has also set nonfinancial goals for diversity promotion and work-style reform, which it plans to achieve through IT.

- Going forward, the key points will most likely be its collaboration with major system integrators, development of proposal-based businesses targeting end users, improvement of project management skills, continued improvement of profit margins, monetization of businesses in new business areas, acquisition of new customers, acquisition and training of employees, M&As and alliance strategies, globalization, and incorporation of new technologies.

### Forecast of Medium-Term Financial Results

- The Company's business is affected by the financial performance and system investment trends of its domestic corporate customers. However, the impact of COVID-19 is expected to gradually become smaller so that people's lives and economic activities will also start returning to normal.
- Over the medium to long term, IT investments by the Company's corporate users are expected to continuously expand. We believe that this trend will allow the Company to stably increase both sales and profit by about 6-10% per year through the expansion of the Enhancement Business (the Company's strong point), acquisition of new customers, the new Digitalization Business, development of the SI Business, and productivity improvement.

### Shareholder Return

- The Company has been proactively returning profit to shareholders through share buybacks, stock splits, and sequential dividend hikes. When benefits from the shareholder benefit program are added to the dividend, the dividend yield essentially comes out to be about 2.2% at maximum. The forecasted dividend payout ratio is 32%, which is about average for its industry, but its DOE (based the most recent actual values) is high at 4.5%. With solid financial performance and ample cash, shareholder return measures such as share buybacks and dividend hikes can be continued to be expected.

### Stock Characteristics and Stock Price

- Over the past 12 years or so, its stock price has increased by about 4.3 times and has been largely outperforming the TOPIX. Based on this fiscal year's forecasted values, valuation does not seem cheap compared to the average of all stocks listed on the TSE First Section or its competitors. However, with stock price corrections, the Company's stock price seems to have come close to the fair value.
- Since it is a domestic-demand-oriented, defensive stock and stable profit growth is expected to continue, it is most likely seen as a potential medium/long-term investment target. In terms of stock price, we should not only watch its progress with this fiscal year's financial performance and the IT investment trends of companies, but also the contribution of businesses in new digitalization-related technologies/areas to the financial results, alliances with other companies, M&As, and return of profit to shareholders.

【 2335 CUBE SYSTEM Sector: Information & Communication 】 Figure A											
FY	Sales	YOY	O.P.	YOY	R.P.	YOY	N.P.	YOY	EPS	BPS	Dividend
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(Y)	(Y)	(Y)
2019	14,325	5.6	921	7.8	959	7.5	596	5.1	43.25	393.29	16.0
2020	14,708	2.7	959	4.1	976	1.7	525	-11.9	38.69	411.96	18.0
2021	14,788	0.5	1,174	22.5	1,295	32.7	844	60.7	62.11	476.52	20.0
2022	CE 16,000	8.2	1,230	4.7	1,250	-3.5	850	0.7	62.55		20.0
2022	E 15,700	6.2	1,200	2.2	1,220	-5.8	830	-1.7	61.07	560.14	20.0
2023	CE 17,200	7.5	1,340	8.9							
2023	E 16,650	6.1	1,290	7.5	1,310	7.4	890	7.2	65.49	605.63	20.0
2024	CE 18,500	7.6	1,480	10.4							
2024	E 17,700	6.3	1,400	8.5	1,420	8.4	965	8.4	71.01	656.64	20.0

(Note) CE = the Company's estimate/forecast. E = Alpha-Win Research Dept.'s estimate/forecast. The Company's fiscal year is March-ending.

【 Stock Price and Valuation Indicators: 2335 CUBE SYSTEM 】 Figure B						
Item	6/4/2021	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,017	Last FY (actual)	16.4	2.1	2.0%	32.2%
Shares Outstanding (thou.)	14,500	This FY (est.)	16.7	1.8	2.0%	32.7%
Market Capitalization (million yen)	14,747	Next FY (est.)	15.5	1.7	2.0%	30.5%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End	68.6%	Last FY's ROE		14.0%

(Note) Estimates were made by Alpha-Win Research Dept. Due to cancellation of a part of the treasury shares at the end of May 2021, the number of outstanding shares were revised accordingly.

【 Stock Chart (end-of-week prices): 2335 CUBE SYSTEM 】 Figure C



Period	【Performance】	
	Return	vs. TOPIX
1 month	-11.1%	-13.9%
3 months	-6.6%	-11.1%
6 months	-29.7%	-37.0%
12 months	31.7%	5.1%

(Note) Reflects stock price and index values up through the closing price on 6/4/2021. Return for the 1-month period is the comparison of the closing price at the end of April and on June 4. The same applies to the other periods.  
Prepared by Alpha-Win Research Dept.

(Note) From the first week of September 2016 to the first week of June 2021

(Note) Values calculated or shown in this Report have generally been rounded to the nearest unit. Therefore, the values may differ from the Company’s official disclosed values.

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## Contents

<b>1. Company Overview</b>	<b>P5</b>
Independent, Mid-Tier System Integrator	P5
Business Philosophy and Basic Management Policy	P7
<b>2. Business Description and Business Model</b>	<b>P8</b>
Three Lines of System Service	P8
Labor-Intensive Business Model in which Human Resources Are Key	P10
Sales Composition Well-Balanced by Industry	P11
Stable Customer Base and Business with High Continuity	P12
Future Areas of Growth and Foundation for Next-Generation Technologies	P14
<b>3. Shareholder Composition</b>	<b>P16</b>
Change in Composition by Type of Shareholder	P16
Major Shareholder Composition	P16
<b>4. ESG</b>	<b>P19</b>
Environment, Society, and Governance	P19
<b>5. History of Growth</b>	<b>P20</b>
Company History	P20
Past Transition in Financial Results	P20
<b>6. Business Environment</b>	<b>P23</b>
Trends of Japan's System Integration Market	P23
CUBE SYSTEM's Position and Comparison with Competitors	P25
<b>7. Last Fiscal Year's Results and This Fiscal Year's Company Forecast</b>	<b>P27</b>
Full-Year Financial Results for FY 2021 (last fiscal year)	P27
CUBE SYSTEM's Financial Forecast for FY 2022 (this fiscal year)	P30
<b>8. Growth Strategy</b>	<b>P33</b>
Review of Medium- to Long-Term Management Vision "VISION 2020"	P33
The First Medium-Term Management Plan of "VISION 2026"	P33
Alpha-Win Research Dept.'s Financial Forecast for FY 2022 (this fiscal year)	P36
Alpha-Win Research Dept.'s Forecast of Medium-Term Financial Results	P37
<b>9. Analyst's Views</b>	<b>P38</b>
SWOT Analysis	P38
Shareholder Return and Shareholder Benefit Program	P39
Stock Characteristics/Price and Valuation Comparison	P40

Note: 1) Upon translating to English, when the page numbers differed from the original Japanese version, they were adjusted to those of the English version of this Report. 2) The Company's fiscal year is March-ending; i.e. FY 2022 ends in March 2022.

## 1. Company Overview

### ◆ Independent, Mid-Tier System Integrator

- ◆ **An independent system integrator with 49 years of history in the industry. Specialized and mid-tier. Stable customer base with several blue-chip companies as its customer.**

(1) System integrator: a company that conducts system integration. Abbreviated as “SI” or “SIer.” A general term for companies that plan, design, develop, operate, and provide other solutions for the IT operation systems of customers including companies and the government.

- ◆ **The Company’s group is made of the Company and three subsidiaries.**

(2) Offshore development: providing services that meet customer needs, from system development to maintenance, at a low cost using overseas/offshore sites

CUBE SYSTEM INC. (hereinafter, the “Company”) is an independent system integrator<sup>1</sup> (a.k.a. SI). It is listed on the First Section of the TSE and is a mid-tier player in the system integration industry. Often as a subcontractor for major SIs, the Company mainly develops the systems of large companies in the finance, telecommunications, and distribution industries, as well as for the government. Its customer base is firm, having expanded its business with its main customers over many years. The Company has technological expertise and has earned strong trust from its customers, with the four corporate groups Nomura Research Institute, Fujitsu, Aeon, and Mizuho as its main customers and receiving outsourced jobs from the Tokyo Stock Exchange as well.

Founded in 1972 at the outset of the software industry, the Company has 49 years of history. Osamu Sakiyama, who became Chairman and Representative Director upon the appointment of a new president, is one of the founding members. Masahiro Nakanishi became Representative Director, President, and CDO (Chief Digital Officer) in June 2020. Nakanishi previously worked as vice manager of Nomura Research Institute’s Chubu Branch and then joined the Company in 2017. He also has experience working for a consulting company. At the Company, he directly conducts sales activities for DX and other businesses as the company representative.

The Company’s group consists of four companies: the Company and three consolidated subsidiaries. The consolidated subsidiaries are as follows (Figure 1).

1. HOKKAIDO CUBE SYSTEM INC.

(Located in Sapporo, Hokkaido; founded with 90.9% of the shares owned; for system development and sales reinforcement in the Tohoku and Hokkaido regions)

2. CUBE SYSTEM VIETNAM CO., LTD.

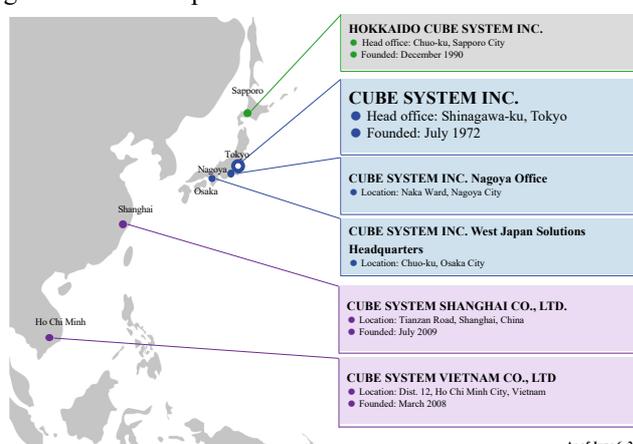
(Ho Chi Minh City, Socialist Republic of Vietnam; founded by the Company as a wholly-owned subsidiary)

3. CUBE SYSTEM SHANGHAI CO., LTD.

(Shanghai, China; the Company established a joint company and then acquired all shares in 2017)

The Company established its overseas subsidiaries mainly for the purpose of conducting offshore development<sup>2</sup>.

**[Figure 1] Locations of CUBE SYSTEM Group’s Subsidiaries and Offices**



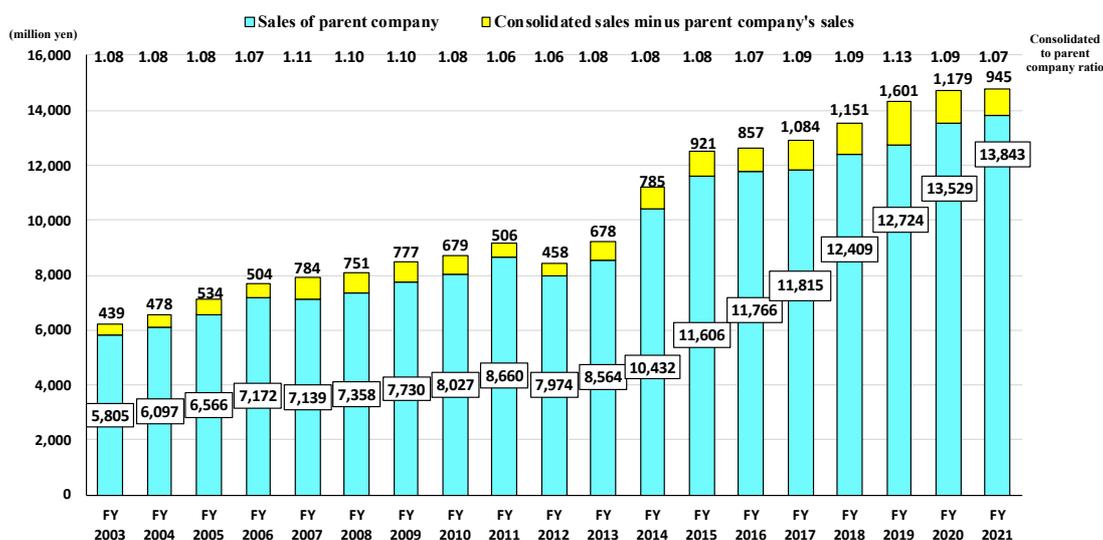
(Ref) Notice of convocation of the ordinary general meeting of shareholders

As of June 6, 2020

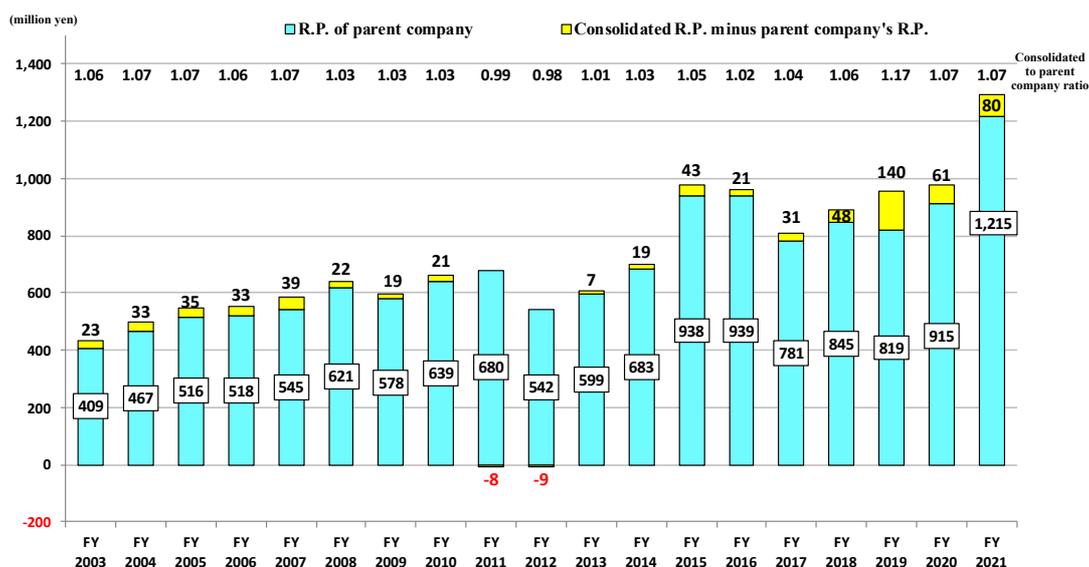
- ◆ Consolidated sales and profit have been on an increasing trend. Consolidated subsidiaries have been staying in the black. Consolidated-to-parent-company ratios have been a little greater than 1 for both sales and profit.

The consolidated-to-parent-company sales ratio has stayed around 1.08 for the past 19 years, with a large weight placed on the parent company's results (Figure 2). Although the individual subsidiary's profit/loss is not disclosed, the consolidated-to-parent-company recurring profit ratio has been around 0.98-1.17 (simple average of 1.05) during the same period. The total profit/loss of the three subsidiaries, calculated by subtracting the parent company's recurring profit from the consolidated recurring profit, has been a surplus excluding the two periods FY 2011 and FY 2012 (Figure 3). During the three fiscal years from FY 2017 to FY 2019, sales and profit of the subsidiaries (= consolidated minus parent company) had grown too. In FY 2020, due to the completion of the subsidiaries' major system development projects, their sales and profit declined. Most recently, in FY 2021, profit increased again despite a sales drop.

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



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



(Ref) Both Figures 2 and 3 were prepared by Alpha-Win Research Dept. based on the securities report.

(Note) The estimates/forecasts are, unless otherwise noted, from the Company's plan/forecast.

- ◆ Essentially debt-less and rich in cash. Financially solid.

The Company's finance is strong with essentially no debt. Its free cash flow (FCF) has also been stably positive, and cash and deposits have been gradually accumulating (Figure 4). The Company has approximately Y4,470 million in cash and deposits (on B/S) in addition to more than Y1,170 million in investment securities (high-liquidity stocks and bonds), totaling about Y5,600 million in highly liquid assets (equivalent to 60% of the total assets of 9,400 million and a little less than 40% of the sales of 14,800 million). In comparison, its debt is Y280 million. Its financial ratios are also high and stable, with an equity ratio of 69% and current ratio of 308% (all are values as of the end of March 2021).

【Figure 4】 Transition in Cash Flow (CF) (Note: FCF stands for free cash flow. Unit = million yen)

Unit: million yen	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Operating CF ①	283	622	101	451	317	503	534	936	388	773	747	1,043
Investing CF ②	-1	309	54	-321	-172	-307	25	94	28	46	25	58
Financing CF	-144	-173	-125	-151	-188	-439	-241	-610	-392	-531	-339	-215
FCF (①+②)	282	931	155	130	145	196	559	1,030	416	819	772	1,101
Cash and Cash Equivalents	1,619	2,376	2,405	2,383	2,339	2,099	2,408	2,822	2,846	3,131	3,557	4,448

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

(Note) "Cash and cash equivalents" are not "cash and deposits" of the B/S but are from the "Statements of Consolidated Cash Flows" in the financial results summary.

- ◆ The business philosophy / goal is to "create a world-class company."

- ◆ The basic management policies are "Customer First," "Focus," and "All-Employee Sales."

(3) All-employee sales system: a system where there is no dedicated department for sales but instead each project is managed as a whole from receiving an order to delivering the product and confirming payment. The system engineer, who is in charge of responding to customers, will materialize the systemization needs of customers through dialogues and carry out projects with responsibility and authority under a sales goal.

- ◆ Shares management targets/results with all employees

### ◆ Business Philosophy and Basic Management Policy

The Company's business philosophy is as follows:

- A company flourishes with the people's support. We must continue to exist to promise the well-being of people including our employees. Root of continuity and development is profit, and profit is brought by customers. Under this philosophy, we will "create a world-class company."

The following are the Company's three basic management policies:

- Customer First: All decisions are based on our customers' values and it is our standard to think from our customers' perspectives.
- Focus: The four main elements of a company are people, assets, money, and time. To maximally utilize these elements, we will focus our business resources on the most important matters that have been decided based on our customer-first policy.
- All-Employee Sales: To provide user-oriented services, each employee will work toward the development of the Company's business as independent business persons. (⇒ has established a unique all-employee sales system<sup>3</sup>)

Targets for the entire company as well as for each department, such as those for sales, profits, and progress, are disclosed to all employees. Information is being shared in an open management.

## 2. Business Description and Business Model

### ◆ Three Lines of System Service

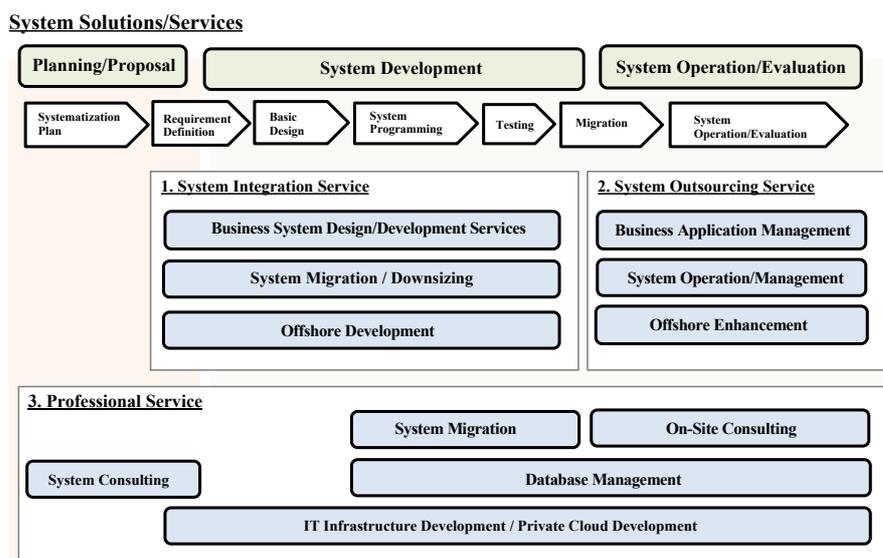
- ◆ Business is classified into three categories. The System Integration Service, which is mainly system development, accounts for 70% of the total sales. Profit margins of the three categories are about the same.

As its business, the CUBE SYSTEM Group provides system solutions<sup>4</sup>. Specifically, the Company provides a series of services from system development through planning/proposal, design, and manufacture (programming), to testing, operating, and evaluating systems for other companies or the government. Since this is the Company’s single business, the business is further classified according to the informatization cycle of customers into the following three categories (services lines).

1. System Integration Service (SIS)
2. System Outsourcing Service (SOS)
3. Professional Service (ProS)

(4) System solution: solving issues related to systems through hardware, software, and services

【Figure 5】 Overview Diagram of the Processes of Each Service



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

- ◆ Projects are diversified.

(5) Requirement definition: defining the scope and target of systemization

(6) Basic design: also called external design, a part of the upstream process where the basics of the functions necessary for a system from the user’s perspective are designed (screen, method of operation, security, etc.). The workflow is as follows: basic design → internal design → detailed design → manufacture (also called programming or implementation).

1. System Integration Service (SIS)
  - The Company’s main business. Develops business operation systems that meet the needs of end users such as companies and the government (hereinafter collectively referred to as “corporate users”). Includes requirement definition<sup>5</sup>, basic design<sup>6</sup>, programming, and testing (Figure 5).
  - While the time it takes from receiving an order to delivering the product can range from a few months at the shortest to about three years, many of the projects are completed in the order of a few months. Most orders are received and delivered during the same fiscal year. The price can also range from several million yen to several hundred million yen, but projects priced less than Y50 million are by far the most common.
  - In general, engineers are stationed at the corporate user’s site and conduct system development for each project in teams. However, to cut down on cost and secure the necessary number of engineers, a part of the development is outsourced to subsidiaries in Japan and overseas, or other companies in the same business, under the supervision of the Company’s project manager.
  - Since the system development business is, in general, based on contract agreements, the SI (the Company), who is the contractor, bears responsibility

◆ **System Integration Services are based on contracts. Project management is important in controlling the risks and profit/loss.**

(7) Standard development framework F@CE: The Company’s unique general framework for standardizing and streamlining application development. A tool for carrying out projects efficiently by preventing operation errors or omissions.

(8) Enhancement Service: Providing not just system maintenance, management, and development services but also improving system performance and quality to increase the value of the system. Or proposing ideas for new businesses. Improves customer satisfaction through these means. For the Company, this service essentially means continued business with the customer.

(9) Business related to Oracle Cloud: Cloud-related services and proposals based on Oracle’s database. The Company plans to continue to strengthen this business by increasing the number of certified employees. Current annual sales are several hundred million yen.

for the products (systems). Therefore, management of the risks and the profit/loss of projects and products is important.

- Projects are often obtained through proposals or by bidding. Estimates are generally calculated based on [number of staff] x [number of months]. After receiving an order, in developing a system, the Company employs knowledge, know-how, and fundamental technologies pertaining to various industries, companies, and businesses that it has accumulated over the years, as well as its standard development framework F@CE<sup>7</sup>, to reduce the risk and improve quality, profitability, and efficiency.

- Since unexpected changes in specifications, additional work exceeding the initial estimate, etc., can negatively impact profitability and make a project unprofitable, the Company has created a new, specialized department to work on improving its project management. The Company has also been actively working on providing the Enhancement Service<sup>8</sup>, in which the Company works closely with corporate users to make various proposals that will lead to new businesses (compact system development).

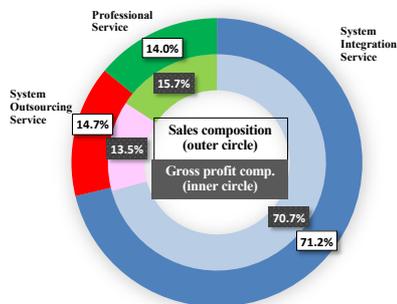
2. System Outsourcing Service (SOS)

- Services related to the operation and evaluation of systems. It provides two solution services: System Operation & Management (development, management, and evaluation of components of a system such as hardware, basic software, database, network environment, etc.) and Business Application Management (maintenance, management, and improvement of business applications and evaluation of management processes). The Company has also established a seamlessly linked service structure where new challenges found and proposed during system maintenance and operation (SOS) can lead to a new Enhancement Service project (SIS).

3. Professional Service (ProS)

- Services that utilize the Company’s technologies to solve everything related to the informatization cycle from planning, designing, and developing infrastructure to operating/monitoring systems, including consulting, database improvement for greater efficiency, system monitoring, management support, and informatization strategies. High performance is realized through development tools and the skills of certified experts. The Company is especially strong in database technologies, for which it has expert engineers (business related to Oracle Cloud<sup>9</sup>).

**[Figure 6] Breakdown of Sales (outer circle) and Gross Profit (inner circle) by Service Category in FY 2021**

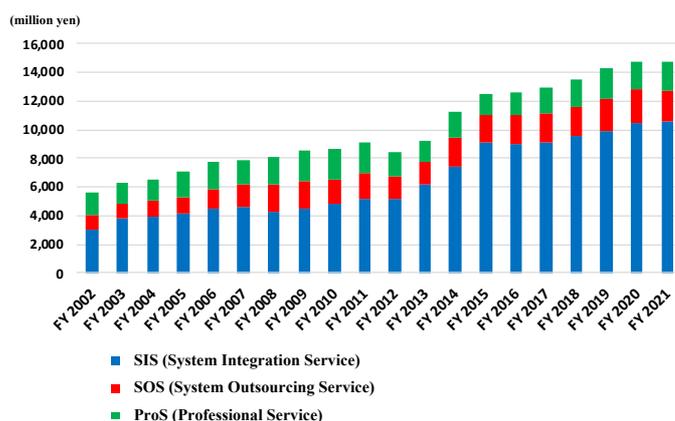


(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary

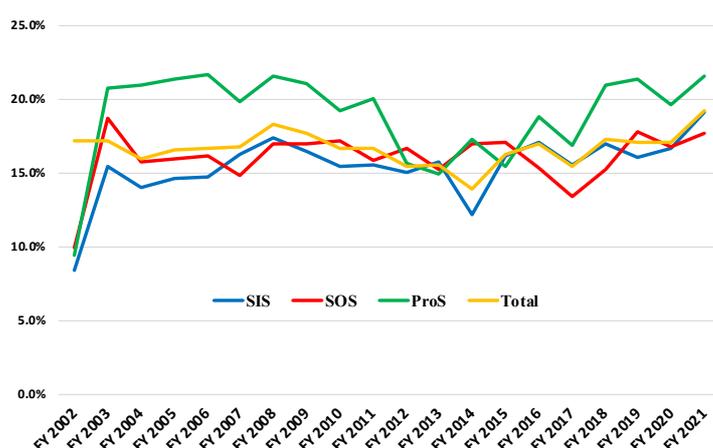
Breakdown of sales and gross profit by each of the three categories and their transition over the years are shown in Figures 6-8. Regarding sales breakdown, SIS accounts for about 70% of the total, and SOS and ProS almost equally share the remaining 30% (outer circle of Figure 6). Over the past 19 years, total sales grew by 2.6x. Specifically, sales of SIS grew by 3.5x, SOS grew by 2.1x, and ProS grew by 1.3x; SIS has been the main driver of business growth (Figure 7 on page 10).

Breakdown of gross profit is shown in Figure 6 (inner circle). The breakdown is not largely different from that of sales. The change in gross margin is as shown in Figure 8 on page 10. Although some years were marked by a 5% deviation at maximum, each category has generally stayed within the range of 15% to 21%. However, the gross margin of ProS, which has high added value, has been increasing again and is 3-5 points higher than the other two categories. The overall gross margin, though, depends on the gross margin of SIS since SIS accounts for an extremely large percentage of the total sales.

【Figure 7】 Sales of Each Service Category



【Figure 8】 Change in Gross Margin of Each Service Category



(Ref) Figures 7 and 8 were prepared by Alpha-Win Research Dept. based on the financial results briefing materials.

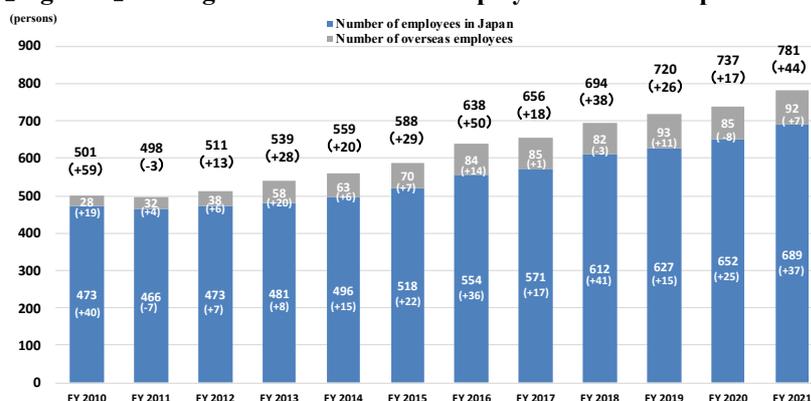
- ◆ Labor-intensive business. Securing and training talented employees are key to growth.

### ◆ Labor-Intensive Business Model in which Human Resources Are Key

Since most of the Company’s business is based on made-to-order, contract development of systems, its business is strongly characterized as a labor-based, single-product production model. Therefore, the acquisition and training of talented personnel are key factors since human resources are the source of competitive advantage and growth potential. Since systems are becoming more advanced and complex, talented employees for roles such as project managers for overall project management and system engineers are especially crucial in order to manage system quality, cost, deadlines, and profit/loss. Currently though, due to recent years’ labor shortage, it has not been able to secure enough project managers to match its business expansion. This shortage has been a bottleneck to further growth. The Company’s challenge will be to increase new recruitment as well as improving the retention rate of its current employees.

The change in the number of employees for the entire CUBE SYSTEM Group is shown in Figure 9. In line with its business expansion, the Company has been hiring about a few dozen new employees every year, mainly for system engineer positions (for new areas such as DX), and plans to continue this pace.

【Figure 9】 Change in the Number of Employees in the Group



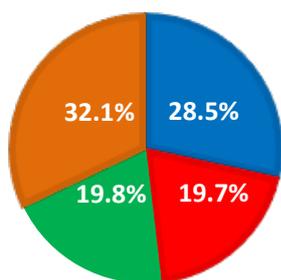
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials

(10) Agile development: an approach to project development. Unlike the conventional waterfall development, it divides a system into short phases and conducts repeated implementation (programming) and testing to cut down on development time. “Agile” means dexterous and quick.

- ◆ Sales breakdown by industry: other > finance > distribution ≒ telecommunications & transportation.
- ◆ Making progress with acquisition of new customers and diversification of industry

**【Figure 10】 Sales Breakdown by Industry in FY 2021**

■ Finance  
 ■ Distribution  
 ■ Telecommunications & Transportation  
 ■ Other



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

With regards to cost structure, labor cost and subcontracting cost paid to business partners (essentially, mostly personnel expense) account for about 90% of the cost of sales. Therefore, the Company’s skill in controlling those two costs may impact its profitability, and resource optimization and project management become crucial.

Generally, the nature of the system integration business makes it difficult to rapidly expand business through unique products and services. Additionally, although the sharing and leveraging of expertise are possible to some extent, productivity improvement through those means is limited due to the current reliance on manpower. The difficulty in improving profit margin is a characteristic of the entire industry rather than just the Company. Faced by these challenges, the Company’s plan is to improve its profit margin by carrying out various measures that do not rely heavily on manpower, such as the adoption of agile development<sup>10</sup>, use of a standard platform, organizational strengthening of project management, utilization of overseas subsidiaries (offshore development), and reviewing of contracts (negotiating and proposing to change from payment based on the number of staff and months to payment in return for services).

### ◆ Sales Composition Well-Balanced by Industry

Sales breakdown by industry is shown in Figure 10. Sales from the finance industry, which must process a massive amount of data and must be secure and reliable, had been the largest by industry type in the past. However, while the sales from finance had declined, sales from the “other industries” (industries other than the three industries of finance, distribution, and telecommunications & transportation) had grown significantly, replacing finance and rising to the top in the sales breakdown since FY 2019 (Figure 11 on page 12). After these two industry categories, the distribution and the telecommunications & transportation industries follow, both similarly at 20% of the total sales.

HIMACS (TSE First Section: 4299) and Toho System Science (TSE First Section: 4333), competitors whose business is especially similar to the Company, specialize in business for the finance industry, with sales from the finance industry constituting about 70% or 80% of the total, respectively. On the contrary, sales from finance are about 30% of the total for the Company, showing that the Company is diversifying its sales among industries by expanding its business with the non-finance industries.

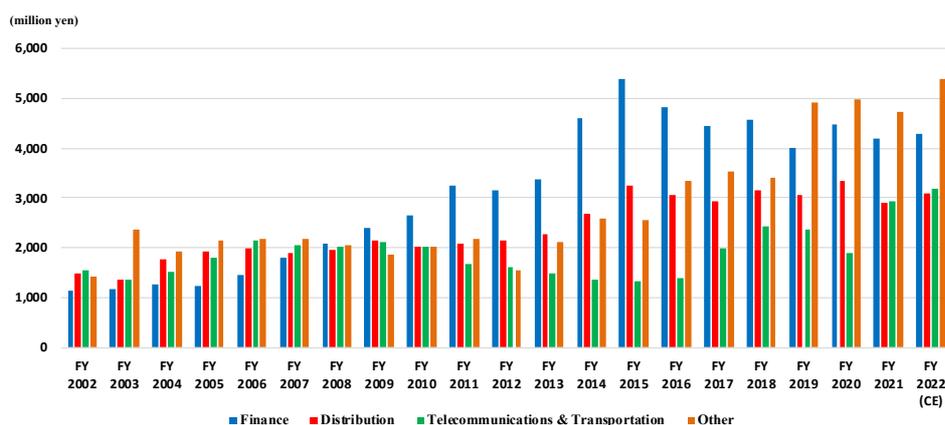
Concerning business for the finance industry, systems demand from mostly megabanks had been the Company’s financial growth driver for many years. However, this demand has leveled off due to weak earnings and the completion of consolidation and alliance phases in the finance industry. This decline, though, has started to be offset by increased demand from companies in the business of credit cards, cashless payment, insurance, and other related areas, helping the industry’s demand bottom out. Meanwhile, regarding the sales from telecommunications & transportation, business with delivery companies in the transportation industry has been expanding, although with some fluctuations due to the system investment cycle of telecom carriers, etc.

In recent years, regarding the “other industries” category, business with manufacturers, the government, energy-related industries, and cloud consulting-related industries had grown significantly thanks to the acquisition of new customers and orders received for new projects. However, with the

completion of those projects, sales temporarily declined. As a result, the Company appears to have become more balanced and diversified with regards to industry type, leading to greater business stability.

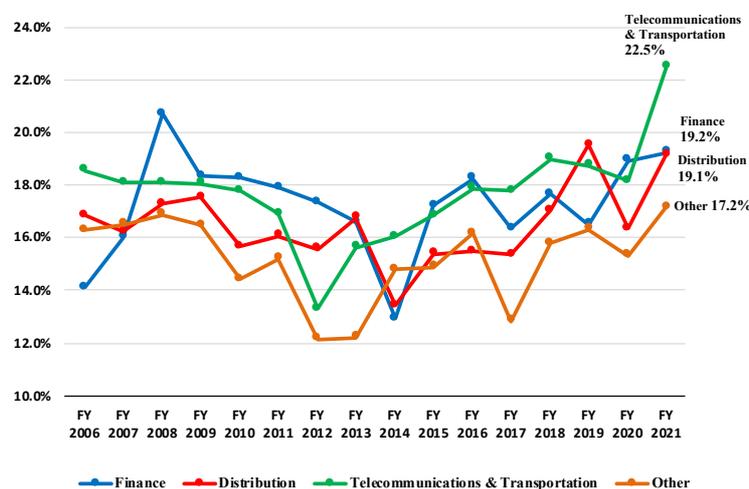
The breakdown of gross margin by industry changes somewhat every year, but we believe that this is because the differences in the profitability of each individual project, rather than the differences in the characteristics of each industry, are reflected in the gross margin. The gross margin is generally improving for all industries, but in the most recent fiscal year, the gross margin of the telecommunications & transportation industry had been somewhat high due to the posting of profitable projects (Figure 12).

【Figure 11】 Transition in Sales by Industry



(Ref) Figures 11 and 12 were prepared by Alpha-Win Research Dept. based on the financial results briefing materials and financial results briefing supplementary materials. CE: the Company's plan.

【Figure 12】 Transition in Gross Margin by Industry



### ◆ Stable Customer Base and Business with High Continuity

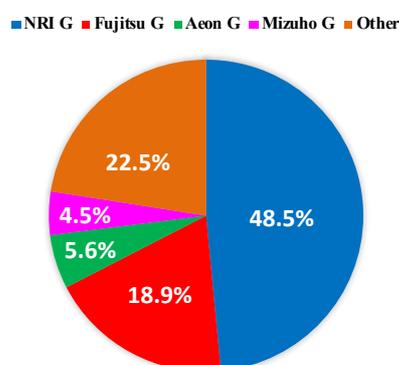
- ◆ A stable business, the majority of which consists of continued transactions with the existing customers.

Since the Company's customers and end users are Japan's leading corporate groups, and its business deals with mission-critical operations, the Company must provide proven, reliable, stable, user-friendly, secure, and sustainable solutions. Moreover, for system development and operations, accumulation

- ◆ Sales breakdown by customer shows that Nomura Research Institute is the largest, followed by Fujitsu, Aeon, and Mizuho. These four groups account for a little less than 80% of the total.

of business knowledge and know-how is necessary. Consequently, the Company has high contract continuity with its existing customers. Its prime ratio (percentage of direct contracts made with end users for system development) is 20 to 30%, and many of its projects are outsourced indirectly from major SIs.

【Figure 13】 Sales Breakdown by Customer Group in FY 2021



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

As shown by the sales breakdown by customer group in FY 2021 (Figure 13), Nomura Research Institute (hereinafter, “Nomura Res. Inst.” or “NRI”) is the largest customer, followed by Fujitsu, Aeon, and Mizuho. These four corporate groups account for a little less than 80% of the total. Thanks to the success of the “account strategy” (a strategy where marketing activities are conducted in a concentrated manner by the designated person in charge) toward the four main customer groups, total sales of the four groups have been steadily increasing: by +2.8% YoY to Y10,351 million (+Y281 million) in FY 2019, by +9.3% YoY to Y11,316 million (+Y965 million) in FY 2020, and by +1.3% YoY to Y11,463 million (+Y147 million) in FY 2021.

(11) e-e Partner: an especially close partner among all partners of NRI. Of the “e Partners” (approx. 150 companies) with highly specialized business know-how and IT skills and high-level IT security, “e-e Partners” cooperate with NRI not only in the operation of specific projects but also in the cooperative promotion of innovative activities in the Enhancement Business; in the strategic reinforcement of HR, quality, and IT security; and in the creation of a mutually prosperous business model that takes advantage of each other’s expertise. NRI has only announced three companies (the Company, HIMACS, and Toho System Science) as its e-e Partners.

Over the past ten years, the sales growth rate for customers other than the four main groups had been high, and the percentage of sales of the four groups had been gradually decreasing. However, in FY 2020 and FY 2021, the proportion of the four groups has been starting to increase again (Figure 14 on page 14).

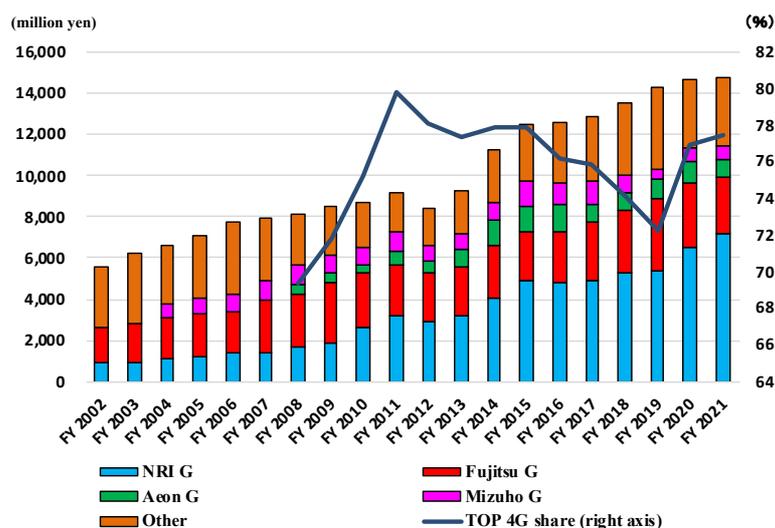
Looking at long-term changes, we can see that the sales from Nomura Res. Inst. Group had increased by approx. Y6,300 million from approx. Y900 million in FY 2002 to approx. Y7,200 million in FY 2021 thanks to the expansion of business area from the initial focus on the distribution industry to other industries such as finance. During this period, the Company’s overall sales grew by Y9.2 billion from Y5.6 billion to Y14.8 billion, with a majority of this growth owing to the NRI Group (68%). Similarly, the Fujitsu Group accounted for Y1 billion of the total sales, or 11%, thanks to increased transactions related to telecommunications, electrical power infrastructure, and the government. Having increased sales over the long term with each of the major corporate groups, the Company has earned excellent trust from its customers and has high contract continuity.

In fact, the Company is one of the few companies that are partnered with Nomura Res. Inst. (NRI) as an e-e Partner<sup>11</sup>. In this partnership, the Company is closely partnered with NRI not only in business but also in making mutual investments and exchanging employees. Looking at the Company’s

transactions with each company, we can see that NRI has also been the largest by transaction size every year, and the second largest has been Fujitsu (actual values are expected to be disclosed in the annual securities report).

In addition, in February 2019, the Company was awarded the Best Partner Award by AEON IBS, with whom the Company has been in a business relationship for 30 years. This is another proof that the Company's customer satisfaction level is high.

**【Figure 14】 Transition in Sales by Customer Group (G) and Share of the Top 4 Groups**  
(Note: information on sales of Mizuho G before FY 2003 and of Aeon G before FY 2007 is not disclosed)



◆ Focused on DX projects

◆ Upfront investment in growth areas such as cloud, blockchain, agile development, AI, and IoT

(12) DX (Digital Transformation): The transformation brought about by the penetration of IT (information technology) everywhere in the society. Not only the businesses, but the industrial structure and social infrastructure are said to also become affected. For companies, the use of digital technologies can bring reform to its business model, operation, processes, organization, and culture.

(13) Cloud solution service: a type of service where applications are used as a "service" via web browsers, etc.

(14) Blockchain: distributed network where information is synchronized, recorded, and accumulated among many computers

(15) AI: artificial intelligence

(16) IoT: Internet of things. A system that connects all devices around us by the Internet.

((Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing materials and financial results briefing supplemental materials

### ◆ Future Areas of Growth and Foundation for Next-Generation Technologies

Alongside its own R&D, the Company has been forming alliances with companies that have advanced, new technologies. It has been awarded or certified by major companies as their partners (see Figure 15 on page 15 for the past year's situation). It has been conducting investments and preparing for the development of businesses that utilize next-generation technologies. Since DX<sup>12</sup>-related IT investment of corporate users is expected to rapidly increase, the Company has set the Digitalization Business as its area of growth and plans to put company-wide efforts into actively making proposals and responding to needs.

The Company has especially been focused on technology investments in cloud solution services<sup>13</sup> including Oracle-related services; participation in social experiments of the Blockchain<sup>14</sup> Collaborative Consortium; capital and business alliances with companies with expertise in AI technology<sup>15</sup>, IoT technology<sup>16</sup>, and blockchain; and alliances in agile development and maintenance/operation services. These are aimed at acquiring and sharing expertise and information on advanced technologies, developing human resources, conducting joint development and proposals, and establishing new businesses.

Furthermore, it created the Technology Strategy Office in its organization in

2016. The Office has dedicated members as well as members who concurrently work for the sales department. The role of the Office is to catch up to leading-edge technologies and conduct R&D and business development based on the newest core technologies.

Furthermore, through an investment partnership as well as direct investments in private companies, the Company has been working on strategically collecting information on new technologies and searching for promising companies. The results of these investments had contributed positively to last fiscal year's financial results as "gain on investment" or "gain on sales" under nonoperating profit.

**【Figure 15】 Summary of Recent Alliances and Key Points (awards, exhibition of products with new technologies, acquisition of patent, etc.)**

Date of Announcement	Announced Information	Details
April 2020	Created the DX Promotion Office and Center for Future Human Resources Development	DX Promotion Office established to accelerate progress with the digitalization business. Center for Future Human Resources Development established for the enhancement of future HR value.
November 2020	New partnership formed with Kinaxis Japan Inc.	Formed a partnership with Kinaxis Japan Inc. (headquartered in Minato-ku, Tokyo, with Toshiya Kaneko as president), the Japanese subsidiary of Kinaxis Inc. (TSX: KXS). Through this partnership, Kinaxis's supply chain management (SCM) platform can be used to create efficient operation processes for solving frontline problems, as well as providing fast and optimum system development support.
December 2020	CUBE SYSTEM's teams were awarded the Company Award in the "CDLE HACKATHON 2020" sponsored by the Japan Deep Learning Association	In the "CDLE HACKATHON 2020" (an annual hackathon, or a large event for AI technology) sponsored by the Japan Deep Learning Association ("JDLA"), projects submitted by CUBE SYSTEM employees' teams were awarded in two divisions. <ul style="list-style-type: none"> <li>•Idea Division: Received the Company Award for "NEO E-learning Using Deep Learning"</li> <li>•Forecast Division: Awarded for weather forecasting based on graphics data</li> </ul>
March 2021	Participated in an exhibition at Tokyo Big Sight's "Second Blockchain EXPO Spring"	With the theme of "Smiles to all employees through digital technology," CUBE SYSTEM participated in the exhibition with the following products that support the enhancement of non-contact communication and engagement between employees in this remote work era. <ol style="list-style-type: none"> <li>1. Smile Share Product <ul style="list-style-type: none"> <li>•Thanks Connect: Service that visualizes everyday feelings of "thanks" using online communication tools</li> <li>•Cubecoin: engagement enhancement service using blockchain technology</li> <li>•Smile Cash Register: Non-contact and cashless payment settlement service using AI image recognition technology; "non-contact" payment method based on face recognition and "peace signs"</li> </ul> </li> <li>2. Be-SMART (sales support tool): joint development between DIGITAL BLOCKS Co., Ltd. and Cubecoin</li> <li>3. AIZE (face-recognition AI): joint development between Tripleize Co., Ltd. and Smile Cash Register</li> </ol>
April 2021	Obtained patent for touchless payment settlement based on AI face recognition	Obtained patent for the touchless payment settlement service based on AI face recognition that it provides in its DX Business. This patented technology is used in its original non-contact payment settlement service "Smile Cash Register" and will also be used in other new products/services.
April 2021	New certified partnership formed with ServiceNow	Formed a certified partnership with ServiceNow (parent company is ServiceNow, Inc., based in California, USA, with Bill McDermott as president and CEO; the Japanese subsidiary is ServiceNow Japan, headquartered in Minato-ku, Tokyo, with Masashi Murase as executive officer and president) for the purpose of transforming the operation/maintenance service to a new operation style. Through ServiceNow, it will create a new working style for the new normal by transforming from an operation style relying on full-time operators and operation managers at data centers to an operation style based on remote operation and a single platform allowing the streamlining of processes.

(Ref) Prepared by Alpha-Win Research Dept. based on the news release on the Company's website

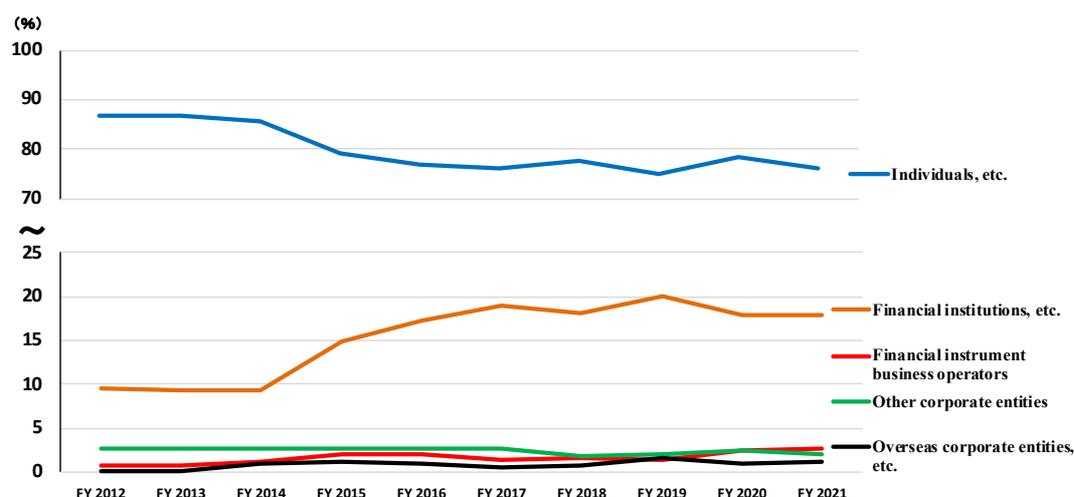
### 3. Shareholder Composition

#### ◆ Change in Composition by Type of Shareholder

- ◆ “Individuals, etc.” own slightly less than 80% of all shares.

With regards to shareholder composition by type of shareholder as of the end of March 2021 (Figure 16), “individuals, etc.” is by far the largest, owning approx. 76% of the total. Second to this is “financial institutions, etc.,” owning 18%. Together, these two types of shareholders are 94%, owning most of the outstanding shares. “Overseas corporate entities, etc.” is small, owning 1.2%. Since FY 2014, shares of “individuals, etc.” have somewhat decreased and shares of “financial institutions, etc.” have been increasing.

**【Figure 16】 Change in Shareholder Composition by Type of Shareholder (unit: %) (as of the end of each period)**



(Ref) Prepared by Alpha-Win Research Dept. based on the notice of convocation of the ordinary general meeting of shareholders and the securities report

#### ◆ Major Shareholder Composition

The Company’s major shareholder composition has been stable and has not greatly changed. The major shareholders as of the end of March 2021 are shown in Figure 17 on page 17. The following is supplemental information.

- ◆ The employee stock ownership plan and current and former directors are the most prominent among the major shareholders.

- Due to the decrease in the amount of shares owned by the Employee Stock Ownership Plan, in March 2019, its ranking among major shareholders became switched with Chairman Sakiyama (previously president), who became the largest shareholder instead. Possessing a little less than 12% of all shares as of the end of March 2021, he owns just slightly more than the Employee Stock Ownership Plan at second place. Also, President Nakanishi owns 24.5 thousand shares (0.18% of all shares).

- ◆ Increase in investments made under the name of trust banks. Incorporated in several investment funds.

- The Master Trust Bank of Japan (trust account) is at third place, but the name of its final investors and its purpose are unknown (note that Mitsubishi UFJ Trust and Banking Corporation have invested with a more than 40% stake in this trust bank).

- The Company’s stock is incorporated in the Open-End Low-Price Equity Fund managed by Nikko Asset Management (parent company: Sumitomo Mitsui Trust Bank) and Japan equity index funds managed by Sumitomo Mitsui Trust Asset Management, Mitsubishi UFJ Kokusai Asset Management,

Nomura Asset Management, Asset Management One, etc. A part of these funds is likely invested under the name of trust banks.

- ◆ Individuals in the major shareholder list are mostly those affiliated with the Company.

- The fourth largest shareholder Akemi Onuki is one of the Company's previous presidents. The sixth largest shareholder Toshio Uchida is the Company's current director.

- ◆ Nomura Research Institute, the Company's largest customer, is its tenth largest shareholder.

- The fifth largest shareholder, The Master Trust Bank of Japan, is the BIP trust account for the Company's director remuneration (stock-compensation director incentive plan).

- The eighth largest shareholder Toshikuni Sato is the Company's former executive managing director.

- The ninth largest shareholder MUFJ Bank is the Company's bank. The tenth largest shareholder, Nomura Research Institute, is one of the Company's major customers.

- Of the top ten shareholders, the Employee Stock Ownership Plan, the directors/employees (including former members), and treasury shares add up to about 40% of the total. The Company has been actively buying back its shares, and its treasury shares including the BIP trust account were 1,332 thousand as of the end of FY 2021. This essentially places the Company at third place in the shareholder ranking.

【Figure 17】 Current Major Shareholders

Shareholder Name (unit: thou. shares)	FY 2015 year-end	FY 2016 year-end	FY 2017 year-end	FY 2018 year-end	FY 2019 year-end	FY 2020 year-end	FY 2021 year-end	% of Total Shares	Ranking
Osamu Sakiyama (indiv.): CUBE SYSTEM's chairman	1,775	1,675	1,655	1,646	1,638	1,632	1,622	11.63	1
CUBE SYSTEM Employee Stock Ownership Plan	1,641	1,672	1,663	1,668	1,565	1,602	1,551	11.12	2
The Master Trust Bank of Japan, Ltd. (trust account)	-	-	-	321	394	485	456	3.27	3
Akemi Onuki (indiv.): CS's former president	401	401	401	401	401	401	401	2.88	4
The Master Trust Bank of Japan (director remuneration BIP trust: 75,824 account)	-	270	270	262	369	358	358	2.56	5
Toshio Uchida (indiv.): current director	475	415	403	393	376	369	347	2.49	6
Masatsugu Sakurai (indiv.): general individual investor	316	316	316	316	316	316	316	2.27	7
Toshikuni Sato (indiv.): CS's former exec. managing director	380	340	300	300	304	304	288	2.07	8
MUFJ Bank, Ltd.	258	258	-	-	258	258	258	1.85	9
Nomura Research Institute, Ltd.	-	-	-	-	-	-	214	1.54	10
Japan Trustee Services Bank, Ltd. (trust account 5)	-	-	348	324	-	219	-	-	-
Mizuho Bank, Ltd.	276	276	276	276	276	-	-	-	-
CUBE SYSTEM INC.	682	458	1,035	1,236	1,356	-	-	-	-
Resona Bank, Limited	241	-	-	-	-	-	-	-	-

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

(Note) “-” indicates that there were no data available on the major shareholder in the securities report, and does not necessarily mean zero. Shareholding percentages were calculated excluding the treasury shares (including the BIP trust account for director remuneration).

- ◆ Used a portion of the treasury shares as incentives for the directors

Through several occasions, the Company had issued a portion of its treasury shares to its directors as an incentive. In FY 2016, the Company terminated its previous director retirement benefit plan and instead started the stock-compensation (BIP trust) director incentive plan in which the Company's treasury shares are issued and granted according to his or her position and achievement with respect to the medium-term management goals. The plan is renewed every three fiscal years, or the span of a medium-term management plan, and vesting occurs upon a director's retirement.

- ◆ The stock compensation plan for directors was revised to further reinforce consciousness of financial results and stock price.

Also, under this new plan, it issued a portion of the treasury shares to its directors and executive officers as restricted stock compensation in September 2018 and September 2019.

Furthermore, with the review of the medium-term management plan, it also plans to submit a proposal to the ordinary general meeting of shareholders to be convened on June 23, 2021, to terminate the specified restricted stock compensation plan which had been in place since FY 2017 and instead unify

the plans under the trust-type stock compensation plan which was started in FY 2015.

Through this change, the Company aims to further link its directors' remuneration with its stock price. By sharing not only the benefits of a rising stock price but also the risks of a falling stock price with the shareholders, the directors will be more conscious about making a greater contribution to continuously improving financial performance and raising company value over the medium to long term. Since the new plan will help raise the directors' incentives with regards to management and financial performance and directionally align them with the shareholders in terms of profit, the revision and continuation of the plan will most likely be favorable to the shareholders.

- ◆ **Conducted cancellation of treasury shares equivalent to 5.1% of all outstanding shares. Currently owns 3.8% of all outstanding shares.**

On May 31, 2021, the Company conducted a stock cancellation of 779,840 treasury shares (cancellation of 5.1% of all outstanding shares) out of the total of 1,332,132 treasury shares that it had owned. This cancellation was for the purpose of returning more profit to shareholders and improving capital efficiency. The total number of outstanding share after cancellation is 14,500,000, of which 552,292 shares (3.8% of all outstanding shares) are owned as treasury stock.

The Company has not decided on how to use of the remaining treasury shares, but some possibilities include using them for stock compensation as another director incentive, stock cancellation, or a stock-swap in a tie-up or an M&A.

## 4. ESG

### ◆ Environment

- ◆ Working on continual improvement of environmental performance (energy and resource conservation)

Although the Company's business does not harm the environment, under the policy to "practice environment-friendly management through continual improvement in environmental performance (energy/resource conservation)," the Company engages in environment-friendly activities (has obtained ISO14001 certification). Specifically, the Company works on reducing electricity and paper usage, reducing waste, implementing "cool biz" and "warm biz," promoting green purchasing, and planting trees in Vietnam.

### ◆ Society

- ◆ Actively engaged in activities that support the education of next-generation talents

As a key industry necessary to the infrastructure supporting the economy and the society, the CUBE SYSTEM Group believes its mission is to contribute to the further development of the IT society and the strengthening of its customers' competitiveness. It aims to create a more prosperous and convenient society through the power of IT systems.

It supports the education of next-generation talents in Japan and overseas. In Vietnam, it started a scholarship for students enrolled in Vietnam's university of technology. It is also engaged in cleaning and beautification activities.

### ◆ Governance

- ◆ Of the 10 directors and auditors, 6 are from outside the Company.
- ◆ Also putting efforts into mental health and SDGs

As a company with auditors, the Company has set up the Nomination and Compensation Advisory Committee and the Integrated Risk Committee (which directly controls the Compliance Committee, the Internal Control Committee, the Security Committee, the Working Style Reform Committee, and other committees). The Company has also adopted the executive officer system to strengthen corporate governance.

The Company has also set up an internal hotline system for compliance-related matters. It has not adopted any anti-takeover measures.

The management team consists of seven directors (of which three are outside directors) and three auditors (all are outside auditors from Mitsubishi Corporation and have overseas working experience). Two of the directors are dedicated members, including the new chairman; three are from Nomura Research Institute, including the president (additionally, one is an outside director); and of the remaining two outside directors, one is a lawyer and one is a doctor (female doctor) (all will be candidates for reappointment according to the shareholders' meeting proposal). Since the workstyle reform will be one of its important challenges going forward, the Company has recruited an occupational health physician as its director to help the Company create specific measures through expertise in nursing care and mental health.

Also, under the health management policy, the Company is working on improving and maintaining the mental and physical health of its employees and creating a comfortable working environment (won a silver award as an Outstanding Health Management Organization in May 2018).

(17) SDGs (Sustainable Development Goals):  
International goals for the period from 2016 to 2030 described in "The 2030 Agenda for Sustainable Development" that was adopted at the UN Summit in September 2015. Consists of 17 goals and 169 targets and pledges to "leave no one (on earth) behind."

In April 2019, it newly established the Sustainability Promotion Committee, and in November 2020, it disclosed the "Sustainability Book." It is working on solving social issues to achieve the SDGs<sup>17</sup>, specifically by providing high-added-value services, promoting diversity & inclusion, etc.

## 5. History of Growth

### ◆ Company History

- ◆ Founded with the prediction that the importance and potential of computer systems will grow. Specialized in the system integration business.
- ◆ Its main customers are leading blue-chip companies of Japan.
- ◆ Changed its listing from TSE Second Section to the First Section in March 2014

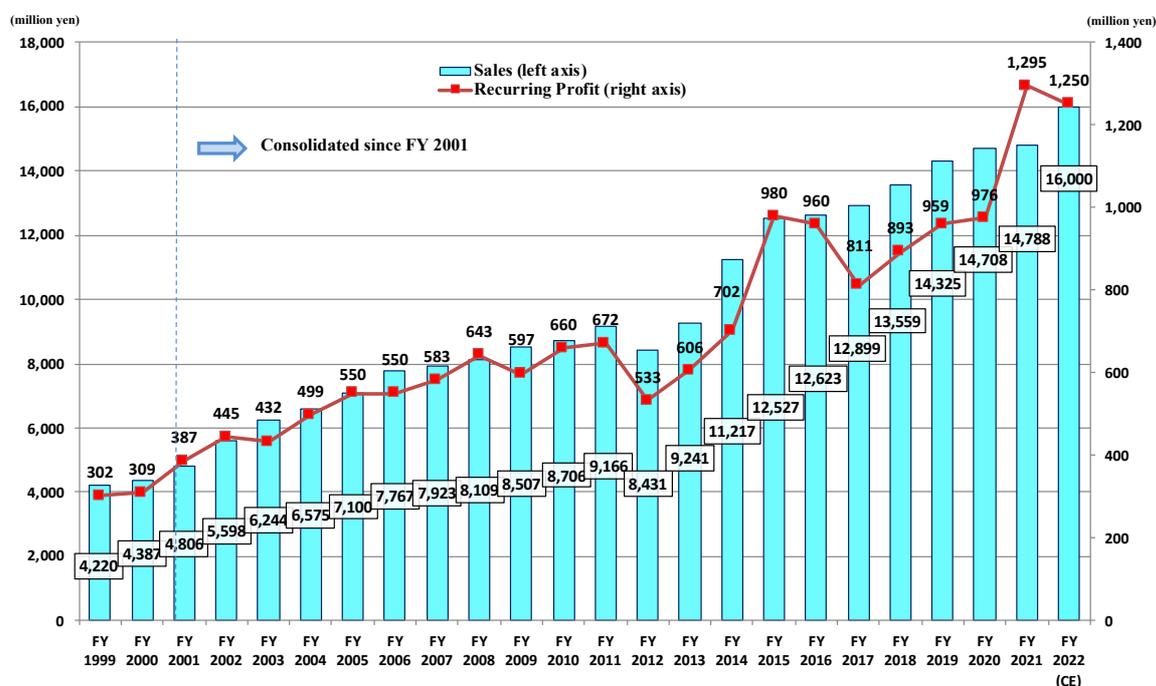
In 1972, the Company was founded as Customer Engineers Corporation by its founding members, which included the current chairman, for the purpose of software development and system operation/management (its name was changed to the current one in 1990). As computers became popular in the Japanese society, IT investments increased and the system development market grew. Amidst this trend, the Company became specialized in the system integration business and built its trust and track record. It made more and more contracts with leading Japanese companies, its current main customer groups. As those companies increased their IT investment and outsourcing of system development/operation, the Company has been able to expand its areas of business as well as business in general at a steady pace.

Regarding stock, the initial offering was made in the JASDAQ market in 2002. In 2006, the Company became listed on the Second Section of the TSE, and then became listed on the First Section on March 2014.

### ◆ Past Transition in Financial Results

Since foundation until now, the Company has been improving its financial performance as a specialist (SI) in the development and operation of systems outsourced from companies and the government. Long-term transition in financial performance is shown in Figure 18. The following are details of the financial results in chronological order.

【Figure 18】 Long-Term Transition in Financial Results



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and financial results summary. CE: the Company's estimate/forecast.

- ◆ Stable growth and sales growth trend maintained over many years. Profit margins have stayed about the same.

- ◆ Sales decreased only for 1 fiscal year during the past 20 years.

- ◆ Rate of change in financial results has been stably low.

- On a consolidated basis, with the exception of only a single fiscal year (FY 2012), the Company has been achieving an year-on-year increase in sales every fiscal year for the past 20 fiscal years. This stable growth trend is worth noting.

- During the past 20 years, the annual sales growth rate (simple average of the annual rate of increase in sales) was +6.0%, and similarly the recurring profit growth rate was +7.1%, showing how the Company has been steadily improving its financial performance over the long term.

- Although recurring profit decreased in five out of the 20 fiscal years, the largest annual drop stayed within the range of approx. -20%, and the Company has been able to maintain a net profit during each year.

- Analyzed statistically, the Company's standard deviation for the rate of change in financial result and its variation coefficient (= standard deviation / average; shows relative dispersion; also called relative standard deviation) are small, indicating that the volatility of the Company's fundamentals is low (see Figure 19 for the comparison with similar-sized competitors during the most recent 17 fiscal years).

- Furthermore, because the Company's operating margin has stably been at around 7% (Figure 20 on page 22), sales growth has been directly contributing to increases in profit, dividend, and market capitalization.

### 【Figure 19】 Analysis of Performance Volatility over the Past 17 Years (% YoY change for sales and R.P.)

Note: non-consolidated for Toho System Science; actual values for FY 2005 - FY 2021

Target of Analysis	% Change in Sales (YoY %)			% Change in Recurring Profit (YoY %)		
	Cube System	HIMACS	Toho System Science	Cube System	HIMACS	Toho System Science
FY 2005 - FY 2021	2335	4299	4333	2335	4299	4333
Market: TSE 1st Sec.	2335	4299	4333	2335	4299	4333
n=17 fiscal years	CS	HM	TS P	CS	HM	TS P
Standard deviation	5.97	7.58	17.28	14.45	31.44	314.84
Average	5.05	2.96	8.02	6.76	7.52	88.85
Coefficient of variation	1.18	2.56	2.15	2.14	4.18	3.54

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

- ◆ Increased transactions with the major 4 groups have helped the Company grow significantly.

External environmental factors, such as increasing IT investments by Japanese companies and the government, have not been insignificant to the Company's growth to date. However, much of the Company's success seems to have been brought by its efforts to gain more expertise, earn trust from its customers, and build a strong customer base to consistently achieve positive results. Although it is an independent company, it has strengthened its relationship with the four major groups NRI, Fujitsu, Aeon, and Mizuho, as described earlier. This strong relationship has enabled the Company to continue to increase the number of orders received from those groups, and has been the major growth driver.

- ◆ Even right after the Lehman shock, sales increased for 3 consecutive fiscal years.

The financial performance for the most recent 12 years or so is as follows.

- In FY 2009 when the Lehman shock occurred, the economy faced a downturn and customers became more cautious about IT investments. However, the Company was able to continue to increase its sales owing to continued business with the existing customers, mainly for systems in the finance and distribution industries, as well as due to the entry of companies into the banking business leading to projects for operation expansion.

- The economic recession continued into FY 2010 and FY 2011. System development plans continued to be postponed, cancelled, or scaled down, companies continued to hold off IT investments, and competition over price and between companies became intense. However, thanks to the business with the existing customers and the expansion of business with life insurance companies, banks, and manufacturers, the Company continued to increase its

◆ In FY 2012, due to the Great East Japan Earthquake, sales decreased for the first time since becoming listed. Operating profit decreased by 20%.

◆ Business environment improved thanks to Abenomics. Digitalization investments also increased. The Company began to increase sales again.

◆ Record highs achieved for both operating profit and recurring profit in FY 2015

◆ Sales have been hitting record highs for 9 fiscal years in a row. Profit growth had been slow due to increased cost, but hit a record high in the previous FY.

sales. With increasing sales, fluctuation in operating profit during the three fiscal years following the Lehman shock was limited to a small range.

• The Great East Japan Earthquake, though, had a large negative impact on the Company in FY 2012. Amidst the difficult situation, sales decreased by approx. 8%. Sales from finance stayed about the same, but sales from distribution and telecommunications dropped largely. This was the single instance, during the period from FY 2002 to the previous fiscal year, in which sales had decreased. Operating profit also decreased by -20.9%, the largest drop during the same period, but a net profit was maintained.

• Then, IT investments by companies and the government recovered from their previous inclination to hold off or postpone thanks to factors such as the economic recovery brought by Abenomics since December 2012, recovery of corporate performance and employment, redevelopment of IT infrastructure due to M&As, smartphone-related telecommunications infrastructure, business related to the liberalization of electrical power retail, and increased investment in areas related to social securities. With this recovery, as well as the recent trend for full-scale investment in digitalization, the Company's sales growth trend has become more definite.

• Regarding profit, in FY 2015, since sales increased due to business expansion from the development of businesses with existing customers and the acquisition of new customers, and productivity improved due to the reinforcement of project management, etc., record-high operating profit and recurring profit of Y964 million and Y980 million were posted, respectively (net profit for the year also hit a record high in the following year or FY 2016, at Y629 million).

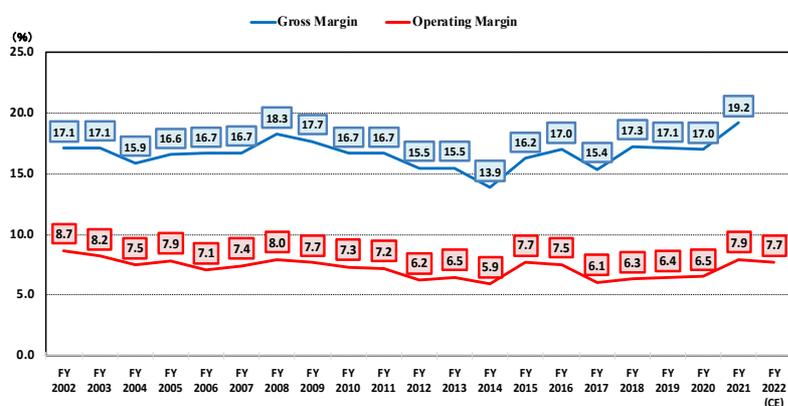
• Since then, the Company has been consecutively posting new record-high sales every fiscal year through FY 2021. However, due to the impact of COVID-19, the sales growth rate has slowed down in the past two fiscal years.

• Meanwhile, due to increased cost and intensified price competition, the Company's gross margin and operating margin have been gradually decreasing over the long term (Figure 20).

• The operating margin had decreased mainly due to the increased cost of sales (subcontracting cost and labor cost), upfront investment cost, and SG&A expenses (especially personnel expense; as a reference, the SG&A expenses ratio changed from 7.9% in FY 2014 → 8.5% in FY 2015 → 9.5% in FY 2016 → 9.3% in FY 2017 → 11.0% in FY 2018 → 10.6% in FY 2019 → 10.5% in FY 2020 → 11.3% in FY 2021), but it began to improve in FY 2018. In the previous fiscal year (FY 2021), partially due to the improvement of gross margin, each of the profits hit their record highs for the first time in five or six fiscal years.

**【Figure 20】 Long-Term Transition in the Company's Gross Margin and Operating Margin**

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. CE: the Company's estimate/forecast.



## 6. Business Environment

### ◆ Trends of Japan’s System Integration Market

◆ As the outsourcing of system development became popular, SIs grew by taking those outsourced system development jobs.

◆ COVID-19 caused a negative growth of Japan’s SI market in 2020.

◆ SI sales growth was negative for 13 months in a row (YoY), but the amount of decline has been improving.

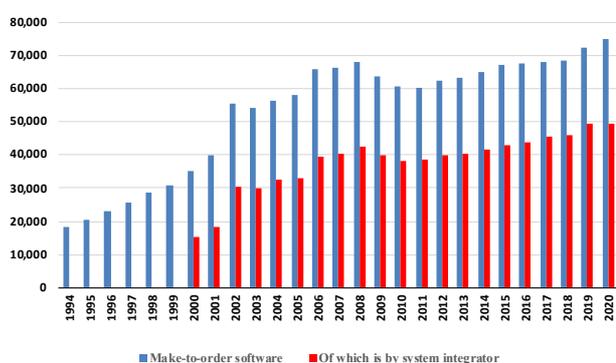
#### Survey of Selected Service Industries

Looking at “Sales by category of business for the information services industry” of the “Survey of Selected Service Industries” prepared by the Ministry of Economy, Trade, and Industry, we find that the sales of make-to-order software, as well as the sales of system integration which make up more than half of make-to-order software sales, have been increasing with the exception of the few years after the Lehman shock (Figures 21 and 22). In Japan, outsourcing of system integration has become popular, and system integrators (SIs) have steadily expanded their business as the contractor of those outsourced projects.

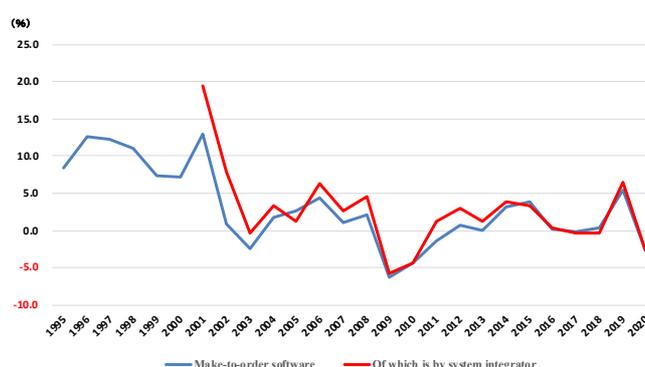
According to the same data, from 2010 to 2019, sales of system integration had increased by about 2.1% per year on a simple average. However, most recently in 2020, COVID-19 had caused a -2.7% negative growth, so that the market size stayed at a little less than 5 trillion yen.

Monthly analysis of the same data (YoY change; Figure 23) shows that growth has been negative for 13 months in a row from March 2020 to March 2021. However, the amount of decline has been improving compared to one point in time. If the COVID-19 crisis settles down with the distribution of vaccines, monthly sales may turn to positive YoY growth within this year.

【Figure 22】 Change in the System Integration Market  
(annual sales: unit = 100 million yen)

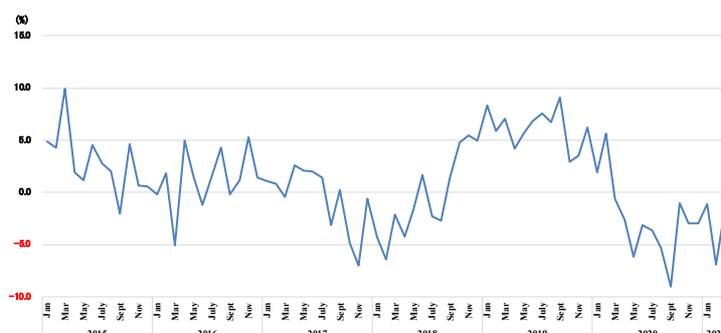


【Figure 22】 Rate of Change in the SI Market  
(rate of change in sales: %)



(Ref) Figures 21-23 were prepared and reworked by Alpha-Win Research Dept. based on data from the “April 2021 Survey of Selected Service Industry” by the Ministry of Economy, Trade, and Industry. Part of the original data used for market size (sales) in Figure 21 do not have continuity with the rest due to changes in the survey target size. However, the rate of change in Figure 22 has been adjusted so that there is continuity.

【Figure 23】 SI Market’s Monthly Sales on a YoY Comparison (unit: %)



- ◆ Signs of recovery in the current economic environment
- ◆ Companies planning to increase software investment by 7.3% in 2021
- ◆ BOJ Tankan's DI for large companies turned positive.
  
- ◆ In the JISA-DI survey too, the expected DI (outlook) for make-to-order software sales turned positive.

### **Bank of Japan (BOJ) Tankan Survey**

According to the BOJ Tankan Survey in March 2021, the amount of software investment in FY 2021 (planned) by companies of all sizes and all industries is expected to increase by +7.3% YoY, in contrast with -4.5% YoY in FY 2020.

The business sentiment of all companies of all sizes and industries improved from -15 in the December 2020 survey to -8 in March 2021 ("recent"), and "outlook" also improved from -18 to -10. The business sentiment of large companies, which are the Company's main customers, especially improved, turning positive during the same period from -8 to +2 for "recent" and -7 to +2 for "outlook." The market environment has been beginning to improve at least over the short term.

### **Data from Industry Association**

According to the JISA-DI Survey (March 2021) by the Japan Information Technology Services Industry Association, the expected DI (sales outlook) for the sales of make-to-order software had used to be largely positive, but then suddenly fell to -43.8 in April-June 2020 in its largest drop ever.

The expected DI had stayed at a double-digit negative value for a while after this, but was +8.2 in Jan-Mar 2021 and +11.8 in Apr-June 2021 and is starting to recover. With regards to major customers of the surveyed companies, too, the DI has been improving for most industries, especially for information & communication, manufacturing, government, finance, and insurance.

The employment situation index dropped from the most recent peak of 77.6 to 28.3 at one point in time, but then improved to 41.8 in April-June 2021, indicating a strong sense of labor shortage. In particular, there is a shortage of IT engineers both in number and quality, and system development staff continues to be difficult to secure.

These current data all indicate that the impact of COVID-19 seems to be becoming gradually smaller.

### **The Market's Outlook**

The structurally inherent lack of manpower, demands for improvement in operation efficiency, and IT investments by companies and the government will likely continue to steadily increase. In various industries and business areas, companies have been actively investing in strategic areas and developing technologies to raise their competitive advantage.

As systems become more advanced and the demand for DX increases, we predict that the market size will grow at about 2-3% per year once economic activities return to normal.

- ◆ Strategic IT investments are increasing.
- ◆ High demand related to DX

### ◆ CUBE SYSTEM’s Position and Comparison with Competitors

- ◆ Middle-ranking in the industry by sales, at 80th to 90th place from the top. Its share of sales in the entire system integration market is estimated to be about 0.3%.
- ◆ Its benchmark companies are HIMACS and Toho System Science. Both are Nomura Research Institute’s e-e Partners and their market positions are very similar.
- ◆ No significant difference in each profit margin in each of the three companies. The Company’s O.P. margin is slightly low, but its ROE has significantly improved and has been the highest during the past four fiscal years.

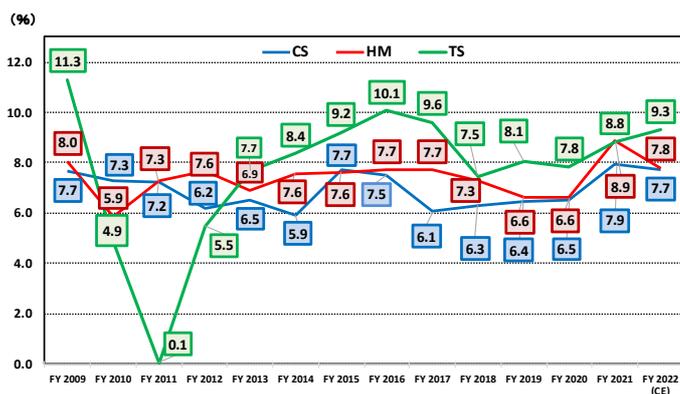
In the system integration industry, there are about 220 companies defined by general terms as a SI whose sales can be confirmed through disclosed securities reports, etc. Among them, the Company is estimated to be ranked at around 80th to 90th place from the top by sales volume. Its share in the Japanese market is estimated to be around 0.3%.

The Company’s competitors include HIMACS (TSE First Section: 4299) and Toho System Science (TSE First Section: 4333), which the Company refers to as its benchmark. They are both e-e Partners of Nomura Research Institute and have about the same size as the Company as well as very similar market positions. Several of the largest SI players in the market, such as Nomura Research Institute and Fujitsu, are cooperators and partners rather than direct competitors for the Company.

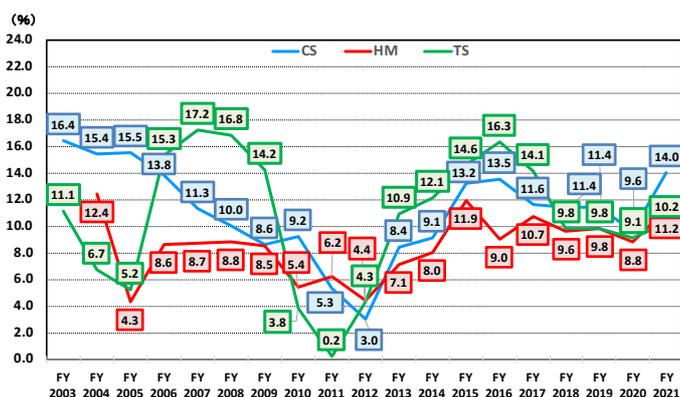
Comparison of the long-term transition in the operating margin of the three major listed companies including the Company (hereinafter, the Company is abbreviated as CS in the graphs; similarly, HM for HIMACS and TS for Toho System Science) is shown in Figure 24. Compared to the other two companies, the Company’s operating margin is slightly low, but is relatively stable and is in no way significantly inferior.

A similar comparison of the return on equity (ROE) (Figure 25) shows that the Company’s ROE has been the highest of the three companies during the past four years (same for ROA; although the profit margins are about the same as the other two companies, its total asset turnover is high). Its ROE has recovered greatly from one point in time, and since FY 2014, it has been around 9-14%. Its ROE goal over the medium term, including this fiscal year, is 13% or greater.

**【Figure 24】 Comparison of Operating Margin between Three Mid-Tier Listed Companies**



**【Figure 25】 Change in ROE of the Three Companies**



(Ref) Figures 24 and 25 were prepared by Alpha-Win Research Dept. based on the financial results summary and securities report

**[Figure 26] Company Overview and Management Indicator Comparison for Three Mid-Tier Listed Companies (the Company, HM, and TS)**

Company Name	CUBE SYSTEM (CS)	HIMACS (HM)	Toho System Science (TS)
Code	2335	4299	4333
Characteristics	Independent. Mainly sys. dev. for finance, distribution, telecom, and other industries (makers & gov. excluding the above 3 industries). Sales for finance are a little less than 30% of total sales. "Other industries" category is the largest, at a little over 30% of total sales.	Independent. 70% of sales comes from the finance industry. Sales for insurance companies are especially high - a little less than 40% of total.	Began as Toho Mutual Life Insurance Co.'s affiliate but is now indep. Specialized in software dev. for finance (insurance, securities, etc.) - 80% of total sales. Also develops software for the telecom industry.
Founded	July 1972	May 1976	June 1971
Listed Date (JASDAQ→TSE 2nd→TSE 1st)	10/2002→11/2006→03/2014	03/2001→03/2004→03/2015	06/2001→03/2007→03/2014
Sales Categories/Breakdown (FY 2021)	*System Integration 71.2% *System Outsourcing 14.7% *Professional 14.0%	*System Solution 40.0% *System Maintenance 60.0%	*Software Development 97.8% *IT System Service, etc. 2.2%
Director Composition (as of June 2020)	*Directors (7; 3 outside & 1 woman = 14.3%) *Auditors (3) *Executive officers (12; no woman)	*Directors (7; 3 outside) *Auditors (4; 2 outside) *Executive officers (11; no woman)	*Directors (5; 2 outside) *Auditors (4; 3 outside) *Executive officers (7; 1 woman = 14.3%)
Major Clients/Customers (FY 2021) (sales = million yen; % of sales = %)	1. NRI (amount/% to be disclosed in securities report) 2. Fujitsu (same as above)	1. NRI 5,392 (34.9%) IBM, Fujitsu, etc.	1. NRI 3,220 (27.0%) 2. CSCSK 1,243 (10.4%)
Sites (including consolidated subsidiaries)	*Head office: Shinagawa-ku, Tokyo *West Japan Solutions Headquarters: Osaka & Nagoya *3 subsidiaries	*Head office: Yokohama, Kanagawa *Minatomirai Office: Yokohama *1 subsidiary	*Head office: Bunkyo-ku, Tokyo
Management Goals (indicators)	<u>Medium term management plan</u> *FY 2022: sales Y16 bil, O.P. Y1.23 bil (margin 7.7%) *FY 2023: sales Y17.2 bil, O.P. Y1.34 bil (margin 7.9%) *FY 2024: sales Y18.5 bil, O.P. Y1.48 bil (margin 8.0%) *ROE: ≥13% for each year	<u>Medium term management plan, final FY: In FY 2023,</u> *Sales Y17.75 bil *O.P. margin ≥6% *ROE ≥8%	<u>Medium-term management plan, final FY: In FY 2023,</u> *Sales Y20 bil *O.P. Y2 bil *O.P. margin ≥10% *ROE ≥15%
Management Policy/Strategy (summary)	*Each employee will contribute to society through business and aim for higher corporate value *Develop a stable and sustainable business foundation based on proposal & contract-based businesses *Work on sustainable management *Development of digital solution service *Develop area of strength in "Lift & Shift" of the SI Business * Create and implement new Enhancement model * Develop management foundation by strengthening HR development, group governance, and internal control	*Contribute to the dev. of the IT society by enhancing the customers' competitiveness as their best partner *Actively work on receiving orders for DX projects for the transformation of existing business models *Continue investment for strengthening business structure *Increase development staff *Conduct M&As and create capital/business alliances to solve challenges of current plan	*A company that works together with customers to create and realize values needed by the customers *Traditional IT business (expand existing business & gain new customers) *Digital IT business (respond to DX demand) *Create-IT business (dev. a service-providing business) *Strengthen business foundation (HR, work satisfaction, internal control)
<i>Sales (million yen) CE for FY 2022</i>	16,000	16,500	13,200
<i>Sales Growth Rate, YoY (%) CE</i>	8.2	6.9	8.3
<i>Operating Profit (million yen) CE</i>	1,230	1,280	1,230
<i>O.P. Growth Rate, YoY (%) CE</i>	4.7	-6.4	14.3
<i>EPS (CE) for FY 2022, YoY (%)</i>	62.6	74.4	69.8
<i>DOE (%) Actual</i>	4.5	3.2	5.8
<i>Past 12 Years' Sales Growth Rate (FY 2021 result div. by FY 2009 result: %)</i>	173.9%	169.4%	150.3%
<i>O.P. Growth Rate (same condition as above)</i>	180.3%	186.5%	117.2%
<i>Equity Ratio (%) Actual</i>	68.6	76.8	66.6
<i># of Domestic/Overseas Employees, Actual</i>	781	869	541
<i>Est. Sales Per Employee (million yen / person)</i>	20.5	19.0	24.4
<i>Est. O.P. Per Employee (million yen / person)</i>	1.6	1.5	2.3
<i>ROE (%) Actual for FY 2021</i> A=B×C×D	14.0	11.2	10.2
<i>N.P. Margin (N.P. for the year / sales : %)</i> B	5.7	6.1	6.1
<i>Total Asset Turnover Ratio (sales / ave. total asset)</i> C	1.7	1.4	1.1
<i>Financial Leverage (ave. total asset / ave. owner's equity) D</i>	1.4	1.3	1.5
<i>ROA (R.P. / total asset : %)</i> E=F×G	14.8	12.7	10.0
<i>R.P. Margin (%) Actual</i> F	8.8	8.9	8.9
<i>Total Asset Turnover Ratio (sales / ave. total asset) G</i>	1.7	1.4	1.1

*Italics show each company's estimates/forecasts (CE) for FY 2022. Other values are actual results for FY 2021. Highest values among the three companies highlighted in yellow.*

(Ref) Prepared by Alpha-Win Research Dept. based on each company's securities report, financial results briefing materials, website, interviews, etc.

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

### ◆ Full-Year Financial Results for FY 2021 (last fiscal year) Overview

◆ Last FY's sales were below the Company's initial forecast and our forecast, but sales had increased for the ninth consecutive fiscal year and also hit a new record high.

◆ On the other hand, profit was revised upward, and consecutive growth and record highs were achieved. Both operating and recurring profit reached the Y1 billion goal for the first time.

◆ Increased annual dividend by Y2/ share

◆ Could not achieve the goal for sales since it could not receive as many orders as it had expected for new projects and enhancement projects due to the COVID-19 crisis.

◆ Helped by improved gross margin and cost control. Also with the posting of nonoperating profit, net profit increased significantly.

Consolidated results for FY 2021 (last fiscal year) were as follows: sales were Y14,788 million (+0.5% YoY), operating profit was Y1,174 million (+22.5% YoY), recurring profit was Y1,295 million (+32.7% YoY), and net profit attributable to owners of the parent was Y844 million (+60.7% YoY; hereinafter, "net profit"). Sales were 7.6% lower than the initial forecast, but operating profit and all profits below this line exceeded their initial forecast (Figure 27).

Sales hit a record high for the ninth consecutive year starting in FY 2013. For profit, a record-high was achieved for the first time in five or six fiscal years. Several times in the past, the Company had tried but failed to achieve Y1 billion or greater for both operating profit and recurring profit, but this goal was finally achieved. Annual dividend per share was raised from Y18 to Y20.

In our previous report (February 2, 2021), we had forecasted sales of Y15,300 million for last fiscal year, which was a somewhat cautious forecast compared to the Company's (Y16,000 million). However, the actual results fell below our forecast. For profits, we had forecasted an upward revision compared to the Company's forecast, but the results ended up being actually greater (in the order of Alpha-Win's forecast ⇒ actual results, operating profit was 1,150 ⇒ 1,174 million yen and net profit was 750 ⇒ 844 million yen).

Sales ended up being revised downward mostly because the Company could not receive as many orders for new projects or enhancement projects as it had expected due to COVID-19.

Operating profit was revised upward mainly because profit margins had improved more than expected due to 1) increased gross margin from the posting of highly profitable projects and 2) cost reduction (transportation and meeting costs) resulting from improved productivity and decentralized operation. Also, last fiscal year, there were no unprofitable projects like in FY 2020, and a total gain of Y94 million was posted under nonoperating profit due to the gain on sale of investment securities and gain on investments in investment partnership. As a result, net profit increased significantly by 60.7% YoY.

【Figure 27】 Comparison of Initial Forecast and Actual Result for FY 2021 (last FY)

Unit: million yen	Company Plan at Beginning of FY (Initial)	Alpha-Win's Previous Forecast	Result	Diff. from Company Plan	% of Initial Company Plan Achieved
Sales	16,000	15,300	14,788	-1,212	92.4%
Gross Profit		2,720	2,841		
Gross Margin		17.8%	19.2%		
SG&A Expenses		1,570	1,666		
SG&A Exp. Ratio		10.3%	11.3%		
Operating Profit	1,120	1,150	1,174	54	104.8%
O.P. Margin	7.0%	7.5%	7.9%	0.9%	
Recurring Profit	1,120	1,200	1,295	175	115.7%
Net Profit	700	750	844	144	120.6%
Dividend	18	18	20	2	111.1%

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

- ◆ Slight increase in both the orders received and the order backlog.

- ◆ SIS and ProS's sales and profit grew, offsetting decreased sales/profit of SOS.

### Orders Received and Order Backlog

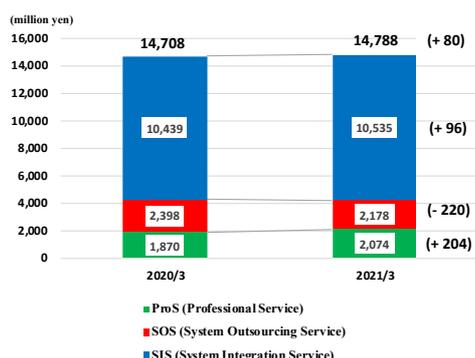
From the fiscal year before the previous → last fiscal year, the amount of orders received during the fiscal year slightly grew by Y320 million YoY (+2.2%) from Y14,741 million → Y15,062 million. The order backlog (at the end of each fiscal year) also grew by Y273 million YoY (+6.8%), from Y4,029 million → Y4,303 million.

### Sales and Profit by Service Category

The Company's overall increase in sales compared to FY 2020 was Y80 million. By service category, the two categories SIS (+Y96 million) and ProS (+Y204 million) grew, but SOS (-Y220 million) decreased (Figure 28). Similarly, gross profit of SIS and ProS increased by Y275 million and Y81 million, respectively, but SOS's gross profit decreased slightly by Y17 million (Figure 29).

The gross margin improved for all service categories, but it improved the most for SIS, whose sales account for 70% of the total. SIS's gross margin improved from 16.6%→19.1% (+2.5 percentage points). Meanwhile, SOS's gross margin improved from 16.7%→17.6% (+0.9 percentage point) and ProS's also improved from 19.6%→21.6% (+2.0 percentage points). Of the total gross profit growth of Y337 million, SIS's gross profit growth was Y275 million, or about 80% of the total.

【Figure 28】 Contribution of Each Service Category to Sales in FY 2021 (last fiscal year)



【Figure 29】 Contribution of Each Service Category to Gross Profit in FY 2021 (last fiscal year)

	Category	FY 2020	FY 2021	Diff.	% Diff.
Gross Profit (unit: million yen)	Total	2,503	2,840	337	13.5%
	SIS	1,734	2,009	275	15.9%
	SOS	401	384	-17	-4.2%
	ProS	366	447	81	22.1%
Gross Margin (unit: %)	Total	17.0%	19.2%	2.2%	
	SIS	16.6%	19.1%	2.5%	
	SOS	16.7%	17.6%	0.9%	
	ProS	19.6%	21.6%	2.0%	

(Ref) Figures 28 and 29 were prepared by Alpha-Win Research Dept. based on the financial results briefing supplemental materials

- ◆ By industry, business for telecommunications & transportation grew sharply, contributing to the sales/profit growth.

### Sales and Gross Profit by Industry

• By industry, of the total sales growth of Y80 million (compared to FY 2020), finance decreased by Y270 million (-6.0%), distribution also decreased by Y447 million (-13.3%), and the “other industries” too declined by Y245 million (-4.9%). However, these declines were offset by the significant sales growth of telecommunications & transportation, which grew by Y1,043 million (+55.5%). In the finance industry, sales declined due to downscaled system development projects for insurance companies. In the distribution industry, the completion of consumption-tax related projects had caused the decline, and in the “other industries,” completion of projects for construction machinery manufacturers led to the decreased sales. On the other hand, sales of telecommunications & transportation increased mainly due to system development projects for delivery companies (Figure 30 on page 29).

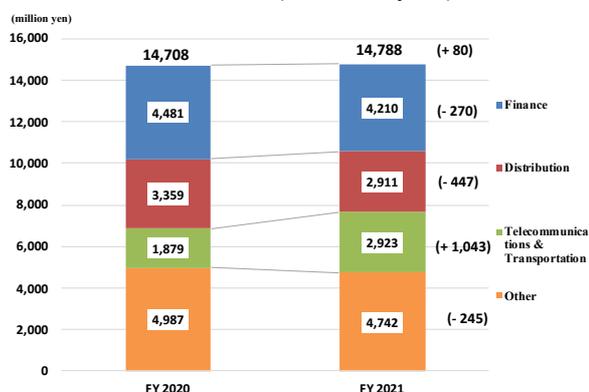
• Comparing the actual sales from each industry with their initial forecast, of the net downward revision in sales by Y1,214 million, telecommunications & transportation exceeded the target by Y958 million, while finance, distribution, and “other industries” were Y628 million, Y404 million, and

Y1,140 million lower than their forecasted values, respectively. This was because the Company did not gain as many orders as it had expected for new projects or enhancement projects (Figure 31).

- Regarding gross profit, other than finance whose gross profit decreased by Y38 million, the remaining three industries' gross profit grew (Figure 32). For telecommunications & transportation, the only industry for which sales had grown, the gross profit increased by Y316 million (+92.7%), which was 94% of the total gross profit growth of Y337 million.

- Gross margin rose for each industry. Finance rose slightly by 0.3% YoY, but telecommunications & transportation improved by 4.3 percentage points from 18.1% to 22.5%. In fiscal year (FY 2021), telecommunications & transportation had contributed the most to both sales and gross profit.

**【Figure 30】 Contribution of Each Industry to Sales in FY 2021 (last fiscal year)**



(Ref) Figures 30-32 were prepared by Alpha-Win Research Dept. based on the financial results briefing materials

**【Figure 31】 Comparison between Initial Forecast and Actual Results for Sales from Each Industry**

	FY 2021			
	Result	Initial Forecast	Diff: million yen	Diff: %
Finance	4,210	4,838	-628	-13.0%
Distribution	2,911	3,315	-404	-12.2%
Telecommunications & Transportation	2,923	1,965	958	48.8%
Other	4,742	5,882	-1,140	-19.4%
<b>Total</b>	<b>14,786</b>	<b>16,000</b>	<b>-1,214</b>	<b>-7.6%</b>

**【Figure 32】 Comparison of Gross Profit between Last FY and the Year Before (FY 2020) for Each Industry**

Gross Profit Comparison	Industry	FY 2020	FY 2021	Diff.	% Diff.
		(unit: million yen)	(unit: million yen)		
Gross Profit	Total	2,503	2,840	337	13.5%
	Finance	848	810	-38	-4.5%
	Distribution	549	557	8	1.5%
	Telecommunications & Transportation	341	657	316	92.7%
	Other	764	814	50	6.5%
Gross Margin	Total	17.0%	19.2%	2.2%	
	Finance	18.9%	19.2%	0.3%	
	Distribution	16.3%	19.1%	2.8%	
	Telecommunications & Transportation	18.1%	22.5%	4.3%	
	Other	15.3%	17.2%	1.8%	

- Operating profit grew due to sales growth, cost reduction from digitalization, and resource optimization, which had offset the increase in expenses such as personnel expenses.
- Personnel expenses rose and the SG&A expenses ratio worsened, but operating margin improved thanks to increased gross margin.

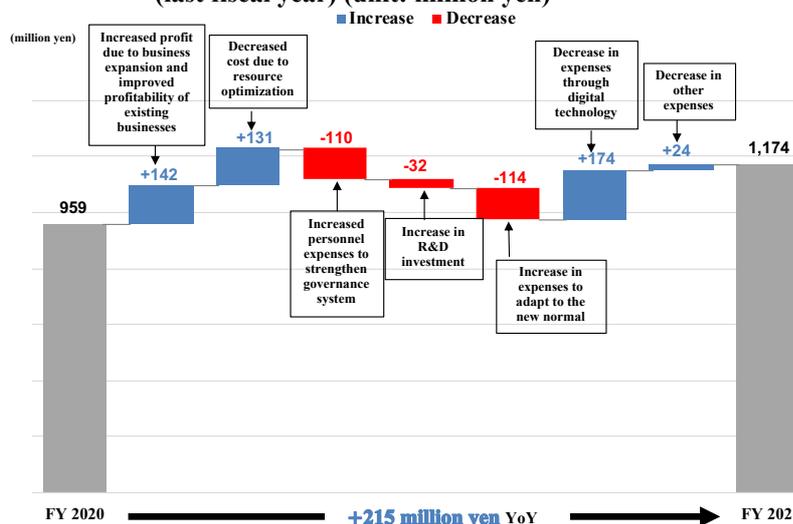
### Analysis of Factors Contributing to Increase/Decrease in Operating Profit

Figure 33 on page 30 shows an analysis of the factors that caused an increase or decrease in the overall operating profit. Operating profit increased by Y471 million owing to the following factors: +174 million yen due to decreased expenses achieved through the utilization of digital technologies, +142 million yen due to profit growth from business expansion and improved profitability of the existing businesses, and +131 million yen due to expenses reduced through resource optimization. On the other hand, operating profit decreased by a total of Y256 million due to the following factors: -114 million yen from increased expenses for adjusting to the new normal, -110 million yen from increased personnel expenses to strengthen the governance system, and -32 million yen from increased R&D expenses. In sum, the Company's overall operating profit grew by Y215 million.

SG&A expenses increased by 7.9% YoY, which was significantly greater than the sales growth rate of 0.5%. The SG&A expenses ratio rose by 0.8

percentage point from 10.5% in the fiscal year before the previous to 11.3% in the previous fiscal year. This was mainly because personnel expenses had increased by a little greater than 14% YoY and the ratio of personnel expenses to sales had risen from 4.7%→5.4%. However, since the gross margin had improved by 2.2 percentage points from 17.0% to 19.2%, the operating margin improved by 1.4 percentage points from 6.5% to 7.9%. As a result, despite a small sales growth, operating profit grew by 22.5%.

**【Figure 33】 Factors Contributing to Increased Operating Profit in FY 2021 (last fiscal year) (unit: million yen)**



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

## ◆ CUBE SYSTEM's Financial Forecast for FY 2022 (this fiscal year)

### Overview

- ◆ This FY, planning for consecutive sales/profit growth and record-high sales/profit.

This fiscal year, the Company is expecting sales of Y16,000 million (+8.2% YoY), operating profit of Y1,230 million (+4.7% YoY), recurring profit of Y1,250 million (-3.5% YoY), and net profit of Y850 million (+0.7% YoY). It plans to achieve consecutive record highs for sales and profit (for operating and net profit; excluding recurring profit) (Figure 34). It is not expecting a significant nonoperating profit/loss or extraordinary profit/loss during this fiscal year.

**【Figure 34】 The Company's Financial Forecast for FY 2022 (this fiscal year) (unit: million yen)**

Unit: million yen	Last FY's Results (FY 2021)	Company Forecast for This FY (FY 2022)	H1 FY 2021	H2 FY 2021	Plan for H1 FY 2022	% YoY Change	Plan for H2 FY 2022	% YoY Change
Sales	14,789	16,000	7,084	7,705	7,505	5.9%	8,495	10.2%
Gross Profit	2,841		1,326	1,515				
Gross Margin	19.2%		18.7%	19.7%				
SG&A Expenses	1,666		773	893				
SG&A Exp. Ratio	11.3%		10.9%	11.6%				
Operating Profit	1,174	1,230	553	621	555	0.4%	675	8.6%
O.P. Margin	7.9%	7.7%	7.8%	8.1%	7.4%		7.9%	
Recurring Profit	1,295	1,250	604	691	560	-7.2%	690	-0.2%
Net Profit	844	850	400	444	370	-7.6%	480	8.2%
Percent of full-year sales in H1 and H2			47.9%	52.1%	46.9%		53.1%	
Percent of full-year O.P. in H1 and H2			47.1%	52.9%	45.1%		54.9%	

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

- ◆ In H2, expecting sales/profit growth close to double-digit rates, under the prediction that the economy will recover.

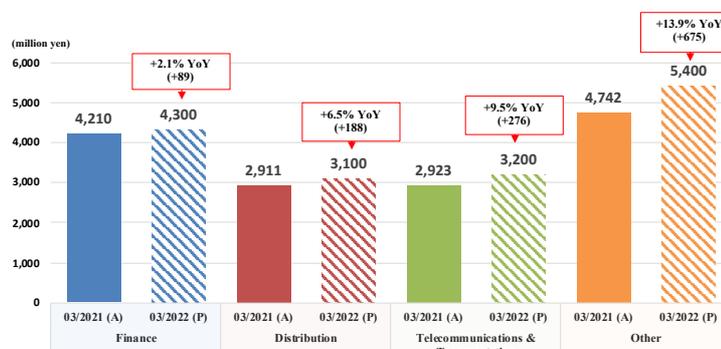
(18) Consulting collaboration model: Business model where new customers are developed in collaboration with consulting companies or business is developed by working with the consulting division of major system integrators

(19) Smile Share Product: A product which, under the theme of “Making employees smile through digital technology,” supports contactless communication and engagement among employees for the remote work era (“Thanks Connect,” “Cubecoin,” and “Smile Cash Register”).

(20) Multicloud: A way of utilizing the cloud in which multiple cloud environments are used at a single point in time (Oracle / AWS / Google / Azure, etc.). Multiple cloud services are combined to realize the optimum operation environment.

(21) Microservices: Individually developed, small services are combined and provided as a single service (cloud-based application software, etc.)

**【Figure 35】 Predicted Contributions to Sales in FY 2022 (this fiscal year) by Industry (the Company’s plan)**



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing material. A = actual value. P = planned value.

### Impact of COVID-19 and Financial Forecast for H1 and H2

The Company has prepared its financial forecast based on the assumption that the COVID-19 crisis will begin to settle down and that social and economic activities will gradually recover. Unlike the previous fiscal year, it has also announced the financial forecast for this fiscal year’s first half (H1) at the beginning of the fiscal year.

In H1, the Company plans to achieve sales of Y7,505 million (+5.9 YoY), operating profit of Y555 million (+0.4% YoY), and net profit of Y370 million (-7.6% YoY). By subtracting H1 from the full fiscal year, the Company’s forecast for the second half (H2) comes out to be Y8,495 million (+10.2% YoY), Y675 million (+8.6% YoY), and Y480 million (+8.2% YoY), in the same order as above. In H2, the Company expects operating margin to rise to 7.9% (compared to 7.4% in H1) due to sales growth from the recovery of economic activities, improvement in productivity, and seasonal variations, and result in profit growth.

### Estimates Used in Predicting Sales Growth

This fiscal year, the Company is planning to achieve sales growth due to the following measures and factors.

1. Strengthen sales efforts and securely receive orders from major accounts (clients) and in the existing business areas (Enhancement Business)
2. Based on the prediction that the economy will normalize and IT investments will increase again, the Company plans to achieve sales growth for all industries. Of the expected overall sales growth of Y1,211 million, sales of “other industries” are expected increase by Y675 million (53% of total sales growth; +13.9% YoY), and sales of telecommunications & transportation are expected to increase by Y276 million (23% of total; +9.5% YoY) (Figure 35). The COVID-19 crisis has clearly divided strongly performing industries from those who are struggling, splitting customers into two ends of the spectrum. Considering this situation, the Company plans to improve financial performance by strengthening sales and allocating resources for areas such as small-lot distribution and EC in which strategic IT investment projects can be expected.
3. By business model (the Company’s new categorization criteria), sales of the Enhancement Business are expected to temporarily decline by Y612 million (-5% YoY) (Figure 36 on page 32). On the other hand, it expects the sales of the Digitalization Business to increase by Y254 million (+285% YoY) due to the development of the consulting collaboration model<sup>18</sup> and the Smile Share Product<sup>19</sup>. In addition, by working on receiving more orders for multicloud<sup>20</sup> and microservices<sup>21</sup> projects, it plans to largely increase the sales of the SI Business by Y1,569 million (+61% YoY).

**【Figure 36】 Sales Forecast by Business Model for FY 2022 (this FY) (the Company's plan)**

Unit: million yen, %	FY 2021	FY 2022 CE	FY 2022 CE (YoY)		FY 2021 % of Total	FY 2022 % of Total, CE	FY 2027 % of Total, CE
			Diff.	% Diff.			
Digitalization Business	66	320	254	384.8%	0.4%	2.0%	10.0%
SI Business	2,561	4,130	1,569	61.3%	17.3%	25.8%	30.0%
Enhancement Business	12,162	11,550	-612	-5.0%	82.2%	72.2%	60.0%
Total	14,789	16,000	1,211	8.2%	100.0%	100.0%	100.0%

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing material. CE: the Company's forecast/estimate.

### Estimates Used in Predicting Operating Profit Growth

Gross margin is expected to improve again this fiscal year. However, since the Company plans to resume active investments for future growth, which would somewhat negatively impact the SG&A expenses ratio, the operating margin is expected to decrease by 0.2 percentage point YoY to 7.7%. With the sales growth, though, operating profit is expected to increase by 4.7% YoY (reference: actual operating margin was 6.1% in FY 2017 → 6.3% in FY 2018 → 6.4% in FY 2019 → 6.5% in FY 2020 → 7.9% in FY 2021). The Company predicts that the following factors will contribute to the operating profit growth.

◆ Increased investments for future growth are expected to decrease operating margin by 0.2 percentage point, but operating profit growth is predicted to be achieved through sales growth.

◆ Planning to improve profitability through greater cost control, improved productivity, and shifting to high added-value businesses

1. Improved operational productivity from the digitalization of the Company itself, and improved productivity from the sophistication of the Enhancement Service.
2. Creation of a development system which would allow resource optimization
3. Maintaining lean expenses, reduced through digitalization
4. Providing high added-value services (DX projects and proposal-based business)

## 8. Growth Strategy

### ◆ Review of the Medium- to Long-Term Management Vision “VISION 2020”

The Company had previously created “VISION 2020,” a medium- to long-term management vision for 2012 to 2020. Last fiscal year was the final year of the 3rd STEP (the three years from FY 2019 to FY 2021) of the vision.

The goal of the 3rd STEP was to “maximize customer value by contributing to the growth of the customers’ businesses through the expansion of service-providing and SI businesses, creation of a new service lineup, and development of the service business,” and the Company had been developing its business along this goal.

- ◆ Regarding the numerical management goals of the previous medium-term plan, only the ROE was achieved. Sales and operating margin fell below their goals.

The numerical goal for sales and operating margin could not be achieved since the Company could not expand its new businesses or acquire human resources as much as it had planned, and also because it could not win as many large-scale projects. On the other hand, the goal for ROE was achieved (Figure 37).

**【Figure 37】 Review of the Medium- to Long-Term Vision “VISION 2020”:  
Numerical Goals Vs. Actual Results of the 3rd STEP**

	A	B	C	C-B	C/B
Stage	1st STEP	3rd STEP	FY 2021 Results	Diff. from Goal	% Achieved
Sales	Y20 billion	Y18.5 billion	Y14.7 billion	-3.8 billion yen	79%
Operating Margin	10.0%	9.6%	7.9%	-1.7%	82%
ROE	13.0%		14.0%	1.00%	108%

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

### ◆ The First Medium-Term Management Plan of “VISION 2026”

The following general direction of business has already been announced for “VISION 2026,” the new medium-term management vision for the six years from FY 2022 to FY 2027 which succeeds the previous vision “VISION 2020” (Figure 38 on page 34). In addition, the Company has recently specifically described the First Medium-Term Management Plan which targets the first half, or the first three years including this fiscal year, of the VISION.

#### Direction of Business

With the impact of COVID-19, themes and workstyles are expected to change as the society makes a transition to the new normal. To proactively and flexibly respond to these changes, the Company has set the following two guidelines.

- The employees themselves will have their own vision and business-oriented mindset, and will think and act for themselves.
- Achieve business growth through the proposal-based business (a business model in which solutions developed based on the Company’s technologies and expertise in its customers’ industries are proposed to its customers/industries and the corresponding services are provided) and the contract-based business (a business model in which the Company conducts contract development of information systems as requested by its customers).

The Company has indicated its plan to shift from the conventional contract-based business to the proposal & contract based business and actively make proposals as well as starting new businesses. It also plans to develop a stable

- ◆ In the new medium-term plan V2026, it plans to actively work on developing the proposal-based business in addition to its conventional contract-based business.

- ◆ In addition to Enhancement, it plans to achieve growth by developing its SI and Digitalization businesses.

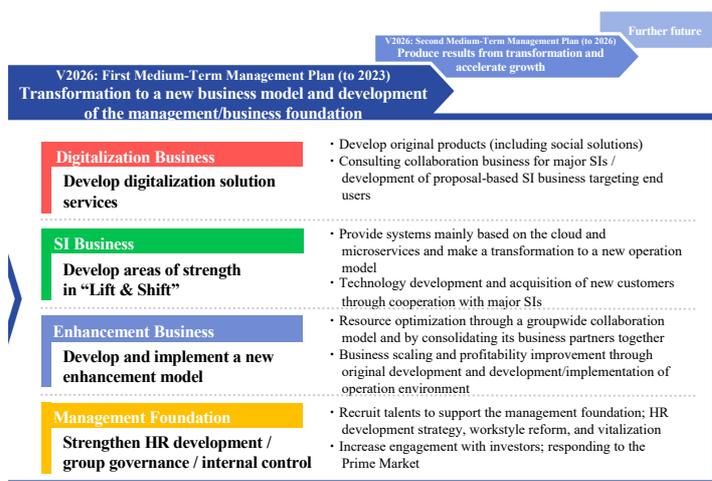
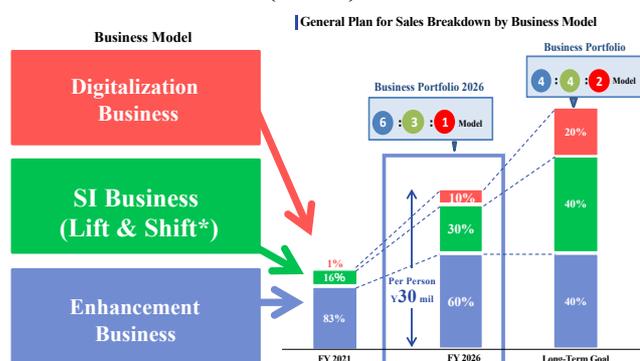
and sustainable business foundation, and make investments especially in the SI Business and the Digitalization Businesses with the Enhancement Business as their basis.

The Company also created new categories based on three types of business model: Enhancement, SI, and Digitalization. It is aiming to achieve growth through the expansion of the SI Business (cloudification and alliance with major system integrators) and the Digitalization Business (solutions) based on the Enhancement Business.

As shown in Figure 38, the proportion of each business model’s sales, in the order of “Enhancement, SI, and Digitalization,” is planned to be changed from the current “83%, 16%, and 1%” (FY 2021) to “60%, 30%, and 10%” in FY 2026, and to “40%, 40%, and 20%” over the long term (about 12 years from now).

【Figure 38】 Direction of the New Medium-Term Plan (V2026)

【Figure 39】 Priority Measures of the New Medium-Term Plan (V2026)



(Ref) Excerpt from the financial results briefing materials  
 (Note) \*Lift & Shift: Providing SI services in which the current system environment is moved to the cloud environment (“Lift”) and the cloud-based system is rebuilt (“Shift”)

- ◆ Financial and non-financial indicators defined as its KPI
- ◆ Five financial indicators: ROE, sales per person, sales breakdown (the proportions of sales), sales CAGR, and operating margin

**Priority Measures**

The three business models and their priority measures in terms of management foundation have been set out (Figure 39). The Company has defined the current period as the period for “Transformation to a new business model and development of the management/business foundation.” In the next Second Medium-Term Management Plan (FY 2025 – FY 2027), it plans to “Produce results from transformation and accelerate growth.”

**Key Performance Indicator (KPI)**

The Company has disclosed financial and non-financial indicators as a measure of its direction in the First Medium-Term Plan as well as over the medium to long term.

For financial indicators, it has defined five items: three items related to sales, and its usual indicators ROE (13% or greater) and operating margin (8%) (Figure 40 on page 35). Key points to note are the addition of sales breakdown as an indicator of business model transformation and the addition of sales growth rate (CAGR or compound annual growth rate; aiming for about 8%).

For non-financial indicators, the Company has not announced specific numerical goals, but it has defined the following three items which it plans to achieve through IT: diversity promotion, workstyle reform, and vitalization through communication. It also plans to work on sustainable management.

- ◆ Aiming for sales of Y18.5 billion and operating profit of Y1.48 billion in FY 2024

### Financial Goals of the Medium-Term Management Plan

In addition to the KPIs, the Company has recently announced its sales, operating profit, and ROE goals for each of the three fiscal years starting this fiscal year (Figure 41; CE = the Company's plan). In FY 2024 or the final year, it plans to achieve sales of Y18.5 billion (+2.5 billion yen compared to this fiscal year's company forecast), operating profit of Y1,480 million (+250 million yen), and ROE of 13% or greater (same as this fiscal year's forecast).

From FY 2022 → FY 2023 → FY 2024, YoY sales growth of +8.2% → +7.5% → +7.6% is planned, and operating profit is expected to grow YoY at increasingly faster rates, from +4.8% → +8.9% → +10.4%, due to a gradual improvement of the operating margin.

By business model, the Company expects the sales of Enhancement to temporarily decline this fiscal year, but will start to recover next fiscal year. The Digitalization and SI businesses are predicted to maintain growth. In sum, the Company predicts that overall sales will grow at a rate of +7.8% in terms of CAGR (three fiscal years).

【Figure 40】 KPIs of the First Medium-Term Management Plan of V2026

	Key Performance Indicator (KPI)	Goals of the First Medium-Term Management Plan		Medium/Long-Term Direction
Financial	Capital Efficiency	ROE (FY 2020: 14.0%)	Maintain <b>13.0%</b> or greater	
	Productivity	Sales per Person (FY 2020: ¥21 million)	<b>23 million yen</b>	<b>30 million yen</b>
	Business Model Transformation	Sales Breakdown	SI Business + <b>2.5 billion yen</b> (vs. FY 2020) Ratio of 6:3:1 for Enhancement:SI:Digitalization	Digitalization Business + <b>2 billion yen</b> (vs. FY 2023)
	Growth Potential	Sales CAGR	Approx. <b>8%</b>	Approx. <b>9%</b>
	Profit Indicator	Operating Margin (FY 2020: 7.9%)	<b>8%</b>	Approx. <b>10%</b> Implement measures to continuously improve profitability/productivity
Non-Financial Through IT	Diversity Promotion	Diversity Indicator	"Promotion of women's participation," "supporting employment of persons with disabilities," and "supporting child rearing and elderly care"	
	Workstyle Reform	Job Satisfaction Indicator	Setting indicators for job satisfaction, mental and physical health, workplace liveliness, etc., and working on their improvement	
	Vitalization through Communication	Communication Indicator	"Thank you and Like" indicator based on CUBE SYSTEM's original product "Smile Share"	

(Ref) Excerpt from the financial results briefing materials

【Figure 41】 Forecasts of Medium-Term Financial Results (the Company's plan and Alpha-Win's forecast)

Unit: million yen, %	FY 2021 A	FY 2022 CE	FY 2022 New E	FY 2022 Old E	FY 2023 CE	FY 2023 New E	FY 2023 Old E	FY 2024 CE	FY 2024 E
Sales	14,789	16,000	15,700	16,000	17,200	16,650	17,000	18,500	17,700
Digitalization	66	320			400			500	
SI	2,561	4,130			4,500			5,000	
Enhancement	12,161	11,550			12,300			13,000	
Gross Profit	2,841		3,300	2,850		3,500	3,050		3,720
Gross Margin	19.2%		21.0%	17.8%		21.0%	17.9%		21.0%
SG&A Expenses	1,666		2,100	1,670		2,210	1,770		2,320
(% over sales)	11.3%		13.4%	10.4%		13.3%	10.4%		13.1%
Operating Profit	1,175	1,230	1,200	1,180	1,340	1,290	1,280	1,480	1,400
(% over sales)	7.9%	7.7%	7.6%	7.4%	7.8%	7.7%	7.5%	8.0%	7.9%
Recurring Profit	1,295	1,250	1,220	1,180		1,310	1,280		1,420
(% over sales)	8.8%	7.8%	7.8%	7.4%		7.9%	7.5%		8.0%
Net Profit	844	850	830	735		890	800		965
(% over sales)	5.7%	5.3%	5.3%	4.6%		5.3%	4.7%		5.5%
Sales (% YOY growth)	0.5%	8.2%	6.2%		7.5%	6.1%	6.3%	7.6%	6.3%
Gross Margin (% YOY diff.)	2.2%		1.8%	Omitted since it is the comparison with FY 2021 Old E		0.0%	0.1%		0.0%
SG&A Expense (% YoY growth)	7.9%		26.1%			5.2%	6.0%		5.0%
Operating Profit (% YoY growth)	22.5%	4.7%	2.1%		8.9%	7.5%	8.5%	10.4%	8.5%
Recurring Profit (% YoY growth)	32.7%	-3.5%	-5.8%			7.4%	8.5%		8.4%
Net Profit (% YoY growth)	60.7%	0.7%	-1.7%			7.2%	8.8%		8.4%

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

## ◆ Alpha-Win Research Dept.'s Financial Forecast for FY 2022 (this fiscal year)

### Revision to the Financial Forecast

- ◆ We reviewed our previous forecast for this FY and revised sales downward and profit upward.

We reviewed our financial forecast for this fiscal year and revised sales from the previous Y16,000 million to Y15,700 million (-300 million yen compared to the Company's forecast of Y16,000 million for this fiscal year) (Figure 41 on page 35).

- ◆ Compared to the Company's sales/profit forecast, we made a somewhat more cautious forecast since the impact of COVID-19 is uncertain. However, we expect a high level to be maintained with regards to the amount of profit.

Our rationale for this somewhat more cautious forecast is that, despite the gradual recovery of the business environment, there are concerns regarding the prolongation of the COVID-19 crisis causing a stagnation of negotiations and sales activities, the risks related to the customers' IT investment trends, and the Company's ambitious plan for sales growth rate (+8.2% forecasted for this fiscal year; a simple average of +6.0% per year over the past 20 years).

We also reviewed our previous forecast for profit and changed our forecast for this fiscal year's operating profit from the previous Y1,180 million to Y1,200 million. Since the improvement in margin during the previous fiscal year had been greater than expected, with the goal being mostly achieved one year in advance (last fiscal year's operating profit: Y1,175 million), we revised the forecasted margin upward. Productivity improvement and cost reduction will likely be achieved during this fiscal year too due to digitalization and resource optimization.

- ◆ We expect the gross margin to improve, but the SG&A expenses ratio to rise too. Operating margin is predicted to stay about the same.

However, since we made a more cautious forecast of this fiscal year's sales compared to the Company's plan, we consequently also slightly revised down our forecast for operating profit and other subsequent profit items (-30 million yen compared to the Company's forecasted operating profit of Y1,230 million). As the Company resumes active investments for future growth, various costs such as personnel expenses and subcontracting costs are expected to increase. As a result, although the gross margin will likely improve, the SG&A expenses ratio is expected to rise as well. Our operating margin estimate of 7.6% for this fiscal year, though, is nearly the same as the Company's estimate of 7.7%.

- ◆ There has been a generally small deviation on average between the initial forecast and the actual results over the long term, but the Company has tended to announce somewhat ambitious forecasts.

### Financial Forecast and Track Record of Financial Results

Figure 42 shows an analysis of the past deviation between the Company's initial forecast and actual results over the long term. During this period, on a simple average, actual sales were 1.8% lower than the initial forecast, and the actual operating profit, recurring profit, and net profit were 6.0%, 3.4%, and 5.5% lower, respectively. However, neither operating nor recurring profit has ever been more than 30% lower than the initial forecast in any fiscal year. The Company has generally tended to announce targets that are ambitious but within a realistically achievable range.

**[Figure 42] Chronological Comparison of Initial Consolidated Forecast (the Company's) vs. Actual Results**

Consolidated Unit: million yen	Sales		Operating Profit		Recurring Profit		Net Profit attributable to Owners of the Parent (O.P.)		Sales	O.P.	R.P.	N.P.	Sales	O.P.	R.P.	N.P.	
	Initial Forecast	Actual	Initial Forecast	Actual	Initial Forecast	Actual	Initial Forecast	Actual									% Diff. from Initial Forecast
FY 2001	-	4,806	-	-	-	387	-	-	-	-	-	-	-	-	-	-	-
FY 2002	-	5,598	-	485	-	445	-	246	-	-	-	-	16.5%	-	15.0%	-	-
FY 2003	-	6,244	-	510	-	432	-	235	-	-	-	-	11.5%	5.2%	-2.9%	-4.4%	-
FY 2004	6,900	6,575	-	491	522	500	284	280	-4.7%	-	-3.4%	-1.5%	5.2%	-3.7%	15.7%	18.9%	-
FY 2005	7,000	7,100	-	558	532	551	287	315	1.4%	-	3.5%	9.7%	8.0%	13.6%	10.2%	12.5%	-
FY 2006	7,800	7,767	-	549	600	551	340	312	-0.4%	-	-8.2%	-8.3%	9.4%	-1.6%	0.0%	-1.0%	-
FY 2007	8,300	7,923	-	590	570	584	330	324	-4.5%	-	2.4%	-1.8%	2.0%	7.4%	5.9%	3.9%	-
FY 2008	8,300	8,109	605	645	610	643	336	342	-2.3%	6.6%	5.4%	1.9%	2.3%	9.4%	10.2%	5.7%	-
FY 2009	8,500	8,501	640	653	645	697	350	308	0.1%	-1.1%	-12.8%	-12.1%	4.9%	1.1%	-7.1%	-10.1%	-
FY 2010	8,800	8,706	660	637	670	660	350	349	-1.1%	-3.5%	-1.5%	-0.3%	2.3%	-2.3%	10.6%	13.4%	-
FY 2011	9,200	9,166	675	662	680	672	263	208	-0.4%	-1.9%	-1.2%	-20.9%	5.3%	4.0%	1.8%	-40.4%	-
FY 2012	9,300	8,431	665	524	675	533	350	118	-9.3%	-21.2%	-21.0%	-66.4%	-8.8%	-20.9%	-20.7%	-43.4%	-
FY 2013	9,900	9,242	620	601	630	606	330	338	2.7%	-3.1%	-3.8%	-3.5%	9.6%	14.8%	13.7%	186.7%	-
FY 2014	10,000	11,211	700	665	700	702	390	387	12.2%	-8.0%	0.3%	1.7%	21.4%	10.6%	15.8%	14.5%	-
FY 2015	12,000	12,527	840	964	840	981	480	594	4.4%	14.8%	16.7%	23.8%	11.7%	45.0%	39.7%	53.7%	-
FY 2016	13,000	12,623	1,000	949	1,020	960	600	629	-2.9%	-5.1%	-5.0%	-4.8%	0.8%	-1.6%	-2.1%	5.9%	-
FY 2017	14,000	12,899	920	781	940	811	450	551	-7.9%	-15.1%	-13.7%	22.4%	2.2%	-17.7%	-15.5%	-12.4%	-
FY 2018	14,300	13,559	1,060	855	1,080	893	650	567	-5.2%	-19.3%	-17.3%	-12.8%	5.1%	9.8%	10.1%	2.9%	-
FY 2019	14,700	14,325	1,010	922	1,010	960	640	597	-2.5%	-9.8%	-8.0%	-6.8%	5.7%	7.8%	7.5%	5.2%	-
FY 2020	15,500	14,708	1,090	959	1,090	976	684	525	-5.1%	-12.0%	-10.5%	-23.2%	2.7%	4.1%	1.7%	-12.0%	-
FY 2021	16,000	14,788	1,120	1,174	1,120	1,295	700	844	-7.6%	4.8%	15.6%	20.6%	0.5%	22.4%	32.7%	60.8%	-
FY 2022 CE	16,000	-	1,230	1,250	-	850	-	850	-	-	-	-	8.2%	4.8%	-3.5%	0.7%	-
Simple average of diff. (unit: %), calc. for longest period with data on both sales and profits--																	
Sales																	
Gross highlight: Yellow, and record-high value: highest																	
Number of times revised up/down from initial forecast--																	
Sales: 5:13, O.P.: 3:11, R.P.: 6:12, N.P.: 7:11																	
Simple average for each FY (incl. FY 2022 CE):																	
Sales: 6.0%, O.P.: 5.6%, R.P.: 7.1%, N.P.: 13.7%																	

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. CE: the Company's forecast.

- ◆ We revised our forecast for the medium term. Record-high sales/profit may also be achieved in the next fiscal year onwards.

- ◆ The risk factors are the macroeconomic environment and the rise in costs.

- ◆ We expect Japanese companies to increase their IT investment, enabling the Company to achieve an annual profit growth rate of 6-10% over the medium term.

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

We revised our previous medium-term forecast and prepared a forecast for the three fiscal years starting this fiscal year, with the forecast for FY 2024 newly added (Figure 41 shown previously on page 35).

For medium-term results, we made a somewhat more cautious forecast than the Company for both sales and profit, upon taking the following risk factors into account. We predict, though, that the Company may potentially achieve record-high sales and profit in the next fiscal year onwards too.

### Risk Factors

- Regarding the macroeconomic environment, the US-China trade war, tapering and increase in interest rate to control inflation, the subsequent increase in global economic uncertainties, the economic downturn after the Tokyo Olympics, and these factors' impact on the financial performance of Japanese companies are the points of concern.
- Factors such as the Company's main final users' industry trends and IT investment trends, the Company's upfront investment costs for new business area development including M&As, the increase in cost, and the recruitment situation in the future are hard to predict.

However, due to the following factors and estimates, we predict that sales and profit will continue to increase annually by about 6-10% over the medium to long term.

### Factors and Estimates for Predicting Increased Sales

- As the impact of COVID-19 becomes gradually smaller, the financial performance of companies are expected to recover and lead to increased IT investment projects. Consequently, an annual sales growth of 5-7% is expected over the medium term.
- The business with its major customers, the Digitalization Business, and the SI Business are expected to be expanded through the technological expertise and trust that it has built up over the years.
- Positive impact of the acquisition of new customers on the results
- Development of new businesses and new business areas – specifically, sales growth of business related to DX, energy, consulting, and new solutions (Smile Share Product, cloud, AI, blockchain, etc.)
- However, sales increase from large-scale M&As, etc., are not expected.

### Factors and Estimates for Predicting Increased Profit

- The gross margin is expected to rise this fiscal year due to various measures (improved productivity, reviewing subcontracting cost, etc.), and then stay flat at a high level afterwards.
- Profit growth of the new businesses is not expected to largely contribute to the results for the time being.
- Next fiscal year onwards, the SG&A expenses are expected to increase at about the same rate as the sales growth rate – by about 5-6% per year (Y110 million per year). This is because the Company is expected to strengthen its business foundation for future growth (expansion of HR, organization, and office sites), have increased personnel expense and subcontracting cost, and conduct upfront investments in new technology/business research.
- Consequently, the operating margin is estimated to improve by about 0.1-0.2 point per year starting next fiscal year.
- No significant nonoperating or extraordinary profit/loss is expected

## 9. Analyst's Views

### ◆ SWOT Analysis

The Company's SWOT analysis result is shown in Figure 43. There are no significant changes (changes are shown in red).

【Figure 43】 SWOT Analysis

(Ref) Prepared by Alpha-Win Research Dept.

Strength	<ul style="list-style-type: none"> <li>▪ Long history in the industry and extensive experience (inc. proven record in terms of past strong results, stock return, returning profit to shareholders, etc.)</li> <li>▪ Stable and excellent customer base</li> <li>▪ Technological expertise / unique know-how / staff with expertise / organization (business type / project management)</li> <li>▪ Entry barrier essentially high; business with high continuity</li> <li>▪ Firm financial standing</li> <li>▪ Management with eager attitude toward business expansion</li> <li>▪ Consulting-based sales through direct sales activity; Enhancement Business</li> <li>▪ Low-cost development system using overseas subsidiaries</li> </ul>
Weakness	<ul style="list-style-type: none"> <li>▪ Relies heavily on certain customers</li> <li>▪ Needs to secure and acquire more talented personnel</li> <li>▪ Industry structure in which profit margin is hard to improve</li> <li>▪ Takes a long time for next-generation, growth-strategy products and services to gain momentum</li> <li>▪ Project management (risk of occurrence of unprofitable projects)</li> <li>▪ Specialized in domestic demands; overseas development difficult</li> </ul>
Opportunity	<ul style="list-style-type: none"> <li>▪ Continuous growth of the market for IT systems due to HR deficit and the need to streamline operation</li> <li>▪ DX, new products, new services, and technology innovations leading to increased strategic demand for systems</li> <li>▪ Shifting to upstream processes, niche areas, large-scale dev. projects, direct-contract projects; reinforce Enhancement Business</li> <li>▪ Business expansion following the global entry of customers</li> <li>▪ M&amp;As and strengthening alliances</li> </ul>
Threat	<ul style="list-style-type: none"> <li>▪ Lost business chance due to COVID-19 prolongation</li> <li>▪ Reduced IT investment, less demand for updates, and intensified price competition during recession</li> <li>▪ Emergence of alternatives (popularization of AI or packaged business software), delayed product development, and product defects</li> <li>▪ Information management and leakage risks</li> <li>▪ Increased personnel expense and subcontracting cost</li> </ul>

- ◆ Many years' worth of trust, track record, and technological expertise are its strengths. Growth potential is large since Japanese companies are expected to increase IT investments.
- ◆ Acquisition of talented employees is the bottleneck to further growth.
- ◆ Challenges: improving margins, strengthening project management, developing new business areas, and acquiring new customers among major companies.

Describing the strengths listed in Figure 43 in more detail, the Company has an excellent customer base owing to its long years of business during which it had earned trust and built technological expertise. Its business is characterized by high business continuity, stability, and ambitiousness. Moreover, the Company's strength lies in its close position to the end users, which means that it can propose related or derivative systems to its customers and obtain new development and service projects (Enhancement). Since its users, or Japanese companies, are expected to continue to strategically increase IT and DX investments to improve business efficiency and profitability, the Company's growth potential is large.

On the other hand, looking at its weaknesses in more detail, the Company's industry in general is characterized by a tendency to have flat profit margins over the long term, so that profit does not generally increase without sales growth. New business area development and new customer acquisition are crucial to increasing sales, but the shortage of human resources and especially project managers have been the bottleneck to further growth.

The Company as well as the entire SI industry has been strengthening preventive measures and project management over many years, but some projects such as development in new areas still sometimes become unprofitable and cause a temporary decline in profit. Although the Company has been working on further improving its quality control, this should be noted as a risk factor.

◆ Shareholder Return and Shareholder Benefit Program

◆ Proactive stance with regards to returning profit to shareholders

The Company’s policy is to raise shareholder asset value by improving its financial results in order to conduct stable dividend payments and increase market capitalization. So far, it has been taking a proactive stance with regards to improving shareholder return, having conducted incremental dividend hikes, share buyback, stock splits, enhancement of shareholder benefit program, etc.

◆ Actual annual (maximum) yield including the shareholder benefit program is about 2.5%.

The Company’s consolidated dividend payout ratio was 39.4% in FY 2018, 37.0% in FY 2019, 46.5% in FY 2020, 32.2% in FY 2021, and predicted to be 32.0% in FY 2022 (the Company’s forecast), which have been close to the Company’s target of 35%. The Company raised its dividend from Y14 to Y16 per share in FY 2018, and raised it by Y2 in both FY 2020 and FY 2021 consecutively to Y18 and Y20. In FY 2022, it plans to keep dividend the same at Y20 (Figure 44). Since profit growth is expected over the medium term, we believe that incremental rises in the dividend at an interval of a few years are possible next fiscal year onwards.

◆ Has been sequentially increasing dividend at an interval of several years

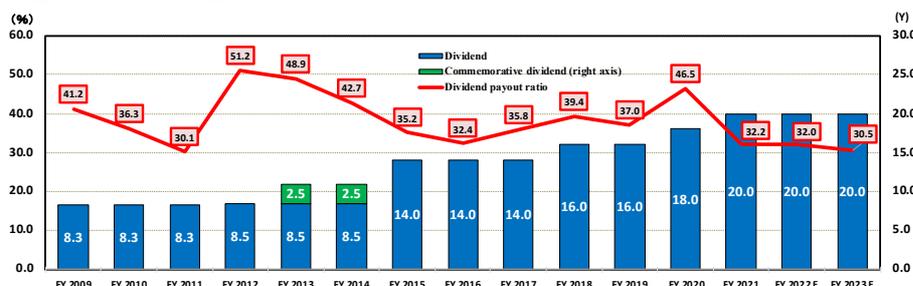
Dividend yield is 2.0% when calculated based on a stock price of Y1,017 (closing price as of the end of June 4, 2021). The Company conducts IR activities toward individual investors, one of its major types of shareholders. It has a shareholder benefit program where JCB Gift Cards are given to shareholders based on the number of shares they own (Figure 45 on page 40). When this benefit program is taken into account, the actual dividend yield increases to approx. 2.5% at maximum (for the optimum number of shares owned). The Company plans to continue to maintain its stable dividend payment and raise the EPS to enhance shareholder return.

The actual annual yields of its competitors including their shareholder benefit programs are approx. 3.7% for HIMACS and approx. 3.2% for Toho System Science. Dividend on equity ratio (= total dividend / shareholder’s equity) in FY 2021 was 4.5% for the Company, 3.2% for HIMACS, and 5.8% for Toho System Science. The Company’s DOE is in the middle range, but is high compared to the general average of 2%.

◆ Has also been actively conducting stock splits and share buybacks

Since becoming listed on the market, the Company has performed a total of six stock-splits, including a 1-to-2 split in April 2010, a 1-to-1.5 split in April 2011, and a 1-to-2 split in October 2014. It has also conducted six share buybacks, including the approx. 350,000 shares (Y300 million) bought back in February of last year. As a result, the Company acquired a total of approx. Y650 million’s worth of shares (acquisition price at the time of acquisition). Since the Company has a great financial standing and is rich in cash, depending on the level of the stock price, additional share buybacks are possible.

【Figure 44】 Change in Dividend and Dividend Payout Ratio



(Ref) Prepared by Alpha-Win Research Dept. Estimate/forecast (E) were also made by Alpha-Win.

**【Figure 45】 Shareholder Benefit Program and Actual Net Yield (shareholder benefit vesting date: end of Sept)**

Number of Shares Owned (greater than or equal to)	(less than)	Shareholder Benefit (JCB Gift Card: Y)	Dividend: Y	Actual Net Yield: %
200	400	1,000	20	2.5
400	1,000	2,000	20	2.5
1,000		3,000	20	2.3

Actual net yield\* = (dividend + benefit value) / (stock price)

\*Calculated for the min. (optimum) number of stock owned in each range

Based on stock price of ¥1,017 (closing price on June 4, 2021)

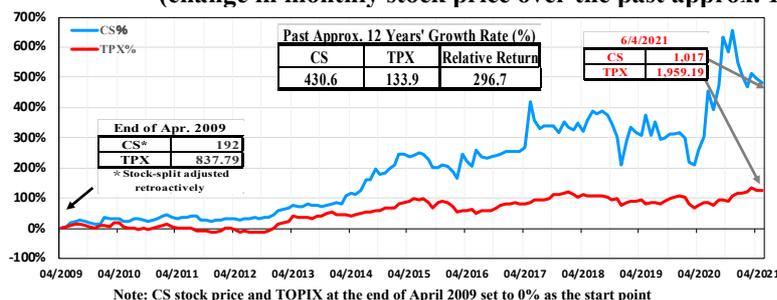
(Ref) Prepared by Alpha-Win Research Dept. based on the Company's website

- ◆ A defensive, domestic-demand-oriented growth stock. Stock price increased by approx. 4.3x over the past approx. 12 years, largely outperforming the TOPIX.
- ◆ Seems to still be an attractive investment target over the medium to long term

### ◆ Stock Characteristics/Price and Valuation Comparison

Over the past approximately 12 years, the Company's stock price rose by about 4.3 times, largely outperforming the TOPIX by 297% (calculated with stock splits taken into account; based on closing price on June 4, 2021; Figure 46). This growth seems to reflect the Company's strong fundamentals and firm financial growth over the long term.

With the general increase in strategic IT and DX investments by Japanese companies, the Company is expected to continue to increase profit at a relatively stable pace. Since the stock also has a defensive characteristic, the Company will likely be seen as a candidate for medium- to long-term investment.

**【Figure 46】 Long-Term Return on the Company's Stock (CS) and TOPIX (change in monthly stock price over the past approx. 12 years)**

(Ref) Prepared by Alpha-Win Research Dept.

- ◆ Underperforming the TOPIX over the past approx. 6 months
- ◆ Valuation is about average and stock price is at fair value.
- ◆ Going forward, points of interest are this FY and next FY's financial performance, contribution of new businesses to results, and enhancement of shareholder return.

However, this year, the Company has been underperforming the TOPIX. This is most likely in reaction to the previous significant outperformance over TOPIX in March 2020 and later, when it had been evaluated as a domestic-demand-oriented growth stock with firm financial results despite the concerning situation that the financial performance of companies may worsen due to COVID-19 and the trade war. This also seems to have been because the market favored buying large-cap, economically sensitive stocks that fit with the new normal created by COVID-19.

The Company's valuation was compared in terms of the major valuation indicators with all stocks listed on the TSE First Section as well as its competitors (HIMACS and Toho System Science). Based on this fiscal year's forecasted results, the Company's valuation is about average compared to the former, and slightly high but not expensive compared to the latter two companies. Its valuation seems to be at a premium compared to its two competitors, perhaps because its stable growth potential and high liquidity are being reflected (see "average approximate trading volume per day" in Figure 47).

Despite its solid financial performance, the Company's stock price has been largely underperforming over the past approximately six months, and seems to have come close to the fair value. When defensive, small-cap, and domestic-demand-oriented growth stocks become evaluated highly in the market again, the Company's stock price is expected to start outperforming again. Compared with its two competitors, it has the highest liquidity.

【Figure 47】 Comparison of Valuation Indicators and Liquidity of Three Competing Companies

Company Name	CUBE SYSTEM (CS: consolidated)	HIMACS (HM: consolidated)	Toho System Science (TS: non-consolidated)
Code	2335	4299	4333
Stock Price (at 6/4 closing)	1,017	1,070	928
Market Cap (million yen)	14,747	13,282	12,868
P/E (price-to-earnings ratio)	16.3	14.4	13.3
P/B (price-to-book ratio)	2.1	1.4	1.5
Dividend Yield (%)	2.0	2.8	2.7
EV/EBITDA	8.5	4.9	4.4
P/S (price-to-sales ratio)	0.9	0.8	1.0
Ave. Daily Trading Volume over the Past Approx. 6 Months (million yen)	103	32	4

Market cap = (shares outstanding) x (market share price [at 6/4/2021 closing])

The companies' planned EPS and dividend values for FY 2022 were used in all P/E and dividend yield calculations.

Actual BPS values of FY 2021 were used in P/B calculations.

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

P/S = market cap / sales [the companies' forecasts for FY 2022]

(Ref) Figures 47 and 48 were prepared by Alpha-Win Research Dept. based on the securities reports, financial results summaries, and stock data.

Relative to a universe of the leading 22 SI companies listed on the First Section of the TSE (including the Company and the two companies mentioned above; the total market cap of the 22 companies is Y11.6 trillion and their total sales are about Y7 trillion), the Company's valuation seems slightly cheap in the SI sector (Figures 48). Going forward, we believe that if the Company's operating margin continuously improves and its sales grow, in addition to the rise in EPS, its valuation (P/E, etc.) may increase sharply and its market capitalization may also rise.

【Figure 48】 Comparison of Major Stocks in the SI Sector

Code	Company Name	Market Cap.	Stock Price	Sales	O.P.	O.P. Margin	Actual ROE (%)	Est. P/E	Actual P/B	Est. Dividend Yield	Est. Dividend	Est. EPS	Actual BPS	P/S
9613	NTT DATA	2,417,910	1,724	2,360,000	180,000	7.6%	7.6	22.8	2.3	1.1%	19.00	75.58	764.99	1.0
4307	Nomura Research Institute	2,092,300	3,430	590,000	96,000	16.3%	21.8	31.4	5.9	1.1%	38.00	109.37	585.12	3.5
4684	OBIC	1,980,048	19,880	90,000	52,000	57.8%	15.1	44.2	6.6	0.9%	185.00	449.69	2,990.72	22.0
4768	Otsuka Corporation	1,109,612	5,840	865,000	58,100	6.7%	14.6	28.0	4.1	2.1%	120.00	208.60	1,415.40	1.3
4739	Itochu Techno-Solutions	792,000	3,300	520,000	48,500	9.3%	12.5	23.1	3.0	2.1%	70.00	142.83	1,102.79	1.5
3626	TIS	722,943	2,745	470,000	48,500	10.3%	10.8	21.3	2.5	1.5%	40.00	128.78	1,078.60	1.5
9719	SCSK	644,885	6,190	420,000	48,000	11.4%	15.7	18.9	2.8	2.3%	140.00	326.69	2,180.31	1.5
8056	Nihon Unisys	342,150	3,120	320,000	26,000	8.1%	13.4	17.9	2.3	2.2%	70.00	174.35	1,341.04	1.1
2327	NS Solutions	298,293	3,260	265,000	25,500	9.6%	10.3	17.4	1.7	1.7%	56.00	186.88	1,965.32	1.1
1973	NEC Networks & System Int.	260,566	1,745	320,000	26,000	8.1%	13.5	16.2	2.1	2.2%	38.00	107.43	830.47	0.8
4812	ISID	247,368	3,795	110,000	12,500	11.4%	12.9	29.8	4.1	1.4%	52.00	127.37	931.00	2.2
9759	NSD	163,726	1,773	70,000	10,000	14.3%	13.7	20.6	2.9	2.5%	45.00	86.26	613.71	2.3
9682	DTS	132,720	2,631	95,000	11,000	11.6%	13.3	15.6	2.0	2.5%	65.00	168.20	1,293.61	1.4
9749	Fujisoft	181,980	5,400	249,000	16,300	6.5%	7.4	19.0	1.4	0.9%	50.00	284.40	3,900.56	0.7
9692	CEC	53,730	1,429	50,000	5,200	10.4%	12.4	14.1	1.5	2.8%	40.00	101.45	977.55	1.1
4674	CRESCO	37,812	1,644	42,400	3,850	9.1%	14.8	12.1	1.8	2.4%	40.00	135.58	926.96	0.9
9739	NIPPON SYSTEMWARE	33,987	2,281	42,000	4,300	10.2%	12.3	11.5	1.4	1.8%	40.00	197.99	1,585.16	0.8
4725	CAC Holdings	29,764	1,449	51,000	2,600	5.1%	6.6	14.4	0.9	4.1%	60.00	100.81	1,622.01	0.6
9600	I-NET	23,129	1,424	32,500	2,330	7.2%	9.5	14.2	1.4	3.3%	47.00	100.15	1,014.82	0.7
2335	Cube System	14,747	1,017	16,000	1,230	7.7%	14.0	16.3	2.1	2.0%	20.00	62.55	476.52	0.9
4299	HIMACS	13,282	1,070	16,500	1,280	7.8%	11.2	14.4	1.4	2.8%	30.00	74.40	745.35	0.8
4333	Toho System Science	12,868	928	13,200	1,230	9.3%	10.2	13.3	1.5	2.7%	25.00	69.76	627.90	1.0
	Simple Average	527,537				11.6%	12.4	19.8	2.5	2.1%				2.2
	Simple Average (excl. OBIC)	458,370				9.4%	12.3	18.7	2.3	2.2%				1.3

Note: Units for market cap., sales, and O.P.: million yen

Units for stock price, dividend, est. EPS, and actual BPS: Y Units for P/E, P/B, and P/S: none

Sales and O.P. are generally the companies' most recent forecast values

Stock prices are closing prices on June 4, 2021

Only valid data included in the averages