

Alpha-Win Company Research Report

CUBE SYSTEM INC. (2335 TSE First Section)

Issued: 11/16/2021

Alpha-Win Capital Inc. Research Department

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

● Summary

◆ Independent, mid-tier system integrator with long-term, stable growth

- CUBE SYSTEM INC. (hereinafter, the “Company”) is an independent, mid-tier system integrator listed on the First Section of the TSE. Its main customers are the following four corporate groups: Nomura Research Institute (NRI: largest customer, contributing to more than half of the Company’s sales), Fujitsu, Aeon, and Mizuho. It develops systems and provides services mainly for the finance, distribution, transportation, and telecommunications industries. Its strengths are its excellent customer base, extensive experience, high credibility, and the skill and expertise that it has built up over the years. Founded in 1972, it has about 49 years of history.
- With the exception of one fiscal year, the Company has been continuously increasing sales YoY for the past 20 years. During this period, the annual sales growth rate (simple average of the rate of increase in sales) was +6.0% and the annual recurring profit growth rate (simple average) was +7.1%; it has been steadily expanding its business over many years and has always stayed in the black. Its recurring margin has stably been at around 7%, and the increase in sales has been contributing directly to increases in profit, dividend, and market capitalization. In FY 2021 (note that the Company’s fiscal year is March-ending, e.g., FY 2021 ended in March 2021), it achieved record-high sales and profit.
- It has developed a stable and sustainable business foundation through its proposal- and contract-based businesses, and has been focused on developing the SI Business (details described later) and the Digitalization Business based on the Enhancement Business.
- Since the Company satisfies the criteria of the Prime Market that will be newly established, it is expected to move from TSE First Section to the Prime Market.

◆ This fiscal year’s H1 results: sales grew by +13.8% YoY and operating profit grew significantly by +35.1% YoY thanks to the business structure/model reform. H1 record highs achieved for sales and each profit.

H1 Summary

- In the first half of FY 2022 (April-September 2021: hereinafter, “H1”), sales were Y8,060 million (+13.8% YoY), operating profit was Y746 million (+35.1% YoY), recurring profit was Y752 million (+24.6% YoY), and net profit attributable to owners of the parent (hereinafter, “net profit”) was Y501 million (+25.3% YoY). It achieved significant increases in sales and profit (see Figure 1 on page 2 and Figures 2-4 on page 3).
- Compared to the Company's initial plan for H1, sales were Y160 million greater (+2.0%) and operating profit was Y46 million greater (+6.6%).
- Although the Company had made a transition to the new revenue-recognition standard starting this fiscal year, its impact has stayed small (compared to the previous standard, sales were decreased by Y89 million and gross, operating, and recurring profits were each decreased by Y14 million; only impacted Q1 or April-June and no impact on Q2 or July-September), and the Company achieved record-high H1 sales and profits.
- Amidst the COVID-19 crisis, the Company has been working on improving the efficiency of its sales activity by strengthening sales activities toward its main clients, as well as responding to the polarization of its customers’ IT investment trends by prioritizing its approach toward customers who are actively working on strategic IT investments and developing new domains and areas of business. As a result, orders received in H1 reached Y7,937 million (+14.0% YoY) and the order backlog as of the end of September 2021 was Y4,181 million (+6.9% YoY), both showing steady growth.
- Profit grew significantly in H1 due to the progress made in business structure/model reform, especially with the sales growth mainly owing to the SI Business (Lift & Shift: moving the legacy environment to the cloud environment in “Lift,” and stepwise system reconstruction while optimizing for the cloud environment in “Shift”),

as well as profit growth due to the shift to high-profit projects, optimization of resources, and other positive effects of the reform.

- The gross margin increased from 19.1% and 18.4% in the previous fiscal year's Q1 and Q2 (18.7% in H1) to 21.6% and 21.0% in this fiscal year's Q1 and Q2 (21.3% in H1). On the other hand, SG&A expenses in H1 increased by 25.7% from Y773 million in the previous fiscal year's H1 to Y971 million in this fiscal year's H1, and the SG&A expenses ratio increased from 10.9% to 12.0%. In sum, the operating margin increased by 1.5 points from 7.8% to 9.3%.

H1 Results by Segment

- Overall, in H1, sales grew by Y977 million YoY and operating profit increased by Y194 million YoY (see Figure 1 for the sections below).

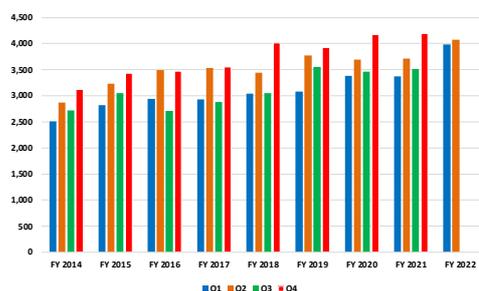
Results by Service Category (three categories)

- In the System Integration Service (SIS), which is its core business, sales grew largely by Y1,079 million (+21.6% YoY) to Y6,067 million. The increase in projects for transport companies in the transportation industry and projects for general merchandise stores and co-ops in the distribution industry had contributed to this growth. As a result of this growth, operating profit increased significantly by Y211 million (+55.8% YoY) to Y589 million (note that starting this fiscal year, each segment's profit is disclosed in terms of operating profit instead of gross profit).
- Sales of the System Outsourcing Service (SOS) decreased by Y155 million (-14.2% YoY) to Y936 million due to the completion of projects for data centers, but operating profit increased by Y10 million (+17.7% YoY) to Y68 million.
- In the Professional Service (ProS), sales increased by Y54 million (+5.3% YoY) to Y1,056 million due to the increase in system construction projects for the telecommunications industry, despite the decrease in consulting projects and system construction projects for banks set up by retailer. However, due to the decline in the profit margin, operating profit decreased by Y27 million (-23.5% YoY) to Y88 million.

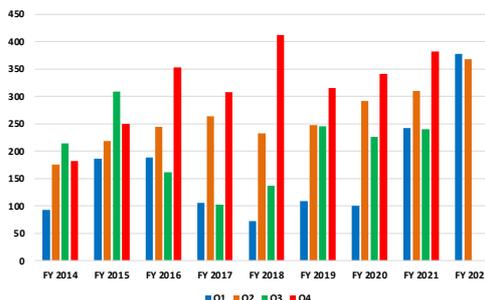
[Figure 1] Summary of Results for the First Half (Q1 and Q2)

Consolidated	Q1 & Q2 Results		Q1 FY 2021	Q1 FY 2022	Change in Amount / Diff.	Change (%)	Q2 FY 2021	Q2 FY 2022	Change in Amount / Diff.	Change (%)	H1 FY 2021	H1 FY 2022	Change in Amount / Diff.	Change (%)	% of Total Change	% of Total
	Unit: million yen		Apr-Jun 2020	Apr-Jun 2021	YoY: million yen / %	YoY: %	Jul-Sep 2020	Jul-Sep 2021	YoY: million yen / %	YoY: %	Apr-Sep 2020	Apr-Sep 2021	YoY: million yen / %	YoY: %	%	%
By Service Category	Consolidated Sales	3,373	3,987	614	18.2	3,710	4,073	364	9.8	7,083	8,060	977	13.8	100.0	100.0	
	Sales	System Integration: SIS	2,311	2,985	673	29.1	2,677	3,082	405	15.1	4,988	6,067	1,079	21.6	110.4	75.3
		System Outsourcing: SOS	506	493	-12	-2.4	585	443	-142	-24.3	1,091	936	-155	-14.2	-15.9	11.6
		Professional: ProS	555	508	-47	-8.5	447	548	101	22.6	1,002	1,056	54	5.3	5.5	13.1
	Operating Profit	System Integration: SIS	158	311	153	95.9	220	456	236	98.2	378	589	211	55.8	108.8	79.0
		System Outsourcing: SOS	-21	-37	-15	-69.3	-37	-53	-16	-43.2	-58	-68	-10	-17.7	-5.2	9.1
		Professional: ProS	61	30	-30	-49.0	55	118	63	114.5	116	88	-28	-23.5	-14.4	11.8
	Operating Margin (%)	System Integration: SIS	6.9	10.4	3.5	5.2	8.2	14.1	5.9	7.6	9.7	2.1	2.1	2.1	2.1	2.1
		System Outsourcing: SOS	4.3	7.5	3.2	7.4	6.3	12.0	5.6	5.3	7.3	2.0	2.0	2.0	2.0	2.0
		Professional: ProS	11.1	6.1	-5.0	-45.0	12.3	21.5	9.2	11.6	8.4	-3.3	-3.3	-3.3	-3.3	-3.3
By Industry	Sales	Finance	989	934	-55	-5.6	1,073	927	-146	-13.6	2,062	1,861	-201	-9.7	-20.6	55.2
		Distribution	675	815	140	20.7	729	881	152	20.9	1,404	1,696	292	20.8	29.9	50.3
		Telecommunications/Transportation	592	1,062	470	79.4	673	1,104	431	64.0	1,265	2,166	901	71.2	92.2	64.2
	Operating Profit	Manufacturing (other)	329	318	-11	-3.3	367	339	-28	-7.6	696	657	-39	-5.6	-4.0	19.5
		Government (other)	182	244	62	34.4	204	232	28	13.7	386	476	90	23.3	9.2	14.1
		Other (other)	603	610	7	1.2	664	591	-73	-11.0	1,267	1,201	-66	-5.2	-6.8	35.6
	Operating Margin (%)	Finance	72	75	3	3.9	90	67	-23	-25.6	162	142	-20	-12.3	-10.3	19.0
		Distribution	25	84	59	232.0	55	79	24	43.6	90	163	73	80.7	37.6	21.8
		Telecommunications/Transportation	84	148	63	75.0	77	137	60	77.9	161	285	124	76.8	63.9	38.2
	Operating Profit	Manufacturing (other)	16	20	4	25.0	37	14	-23	-62.2	53	34	-19	-35.4	-9.8	4.6
Government (other)		5	24	19	390.0	16	16	0	0.0	21	40	19	93.9	9.8	5.4	
Other (other)		27	24	-3	-11.3	37	56	19	51.4	64	80	16	25.4	8.2	10.7	
Operating Margin (%)	Finance	7.3	8.1	0.8	10.8	8.4	7.2	-1.3	-1.3	7.9	7.7	-0.2	-2.3	-2.3		
	Distribution	5.2	10.4	5.2	9.9	7.5	9.0	1.4	1.8	6.9	3.2	-3.7	-5.3	-5.3		
	Telecommunications/Transportation	14.3	14.0	-0.3	-2.1	11.4	12.4	1.0	8.8	13.2	0.4	3.0	22.7	17.2		
By Business Model	Sales	Manufacturing (other)	5.0	6.5	1.5	30.0	10.1	4.1	4.0	7.7	5.2	-2.5	-2.5	-2.5	-2.5	
		Government (other)	3.1	10.2	7.1	232.0	7.8	6.9	-0.9	-11.5	5.4	8.6	3.2	5.9	5.9	
		Other (other)	4.6	4.0	-0.6	-13.0	5.6	9.5	3.9	6.9	6.7	1.7	1.7	1.7	1.7	
	Operating Profit	Digitalization Business	19	64	45	231.4	13	75	62	476.9	32	139	107	332.4	10.9	1.7
		SI Business	509	1,082	573	112.4	656	1,207	551	84.0	1,165	2,289	1,124	96.4	115.0	28.4
		Enhancement Business	2,843	2,840	-3	-0.1	3,043	2,792	-251	-8.2	5,886	5,632	-254	-4.3	-26.0	69.2
	Operating Profit	Digitalization Business	0	0	0	0.0	0	0	0	0.0	0	0	0	0.0	0.0	0.0
		SI Business	33	125	92	280.0	59	169	110	186.4	92	294	202	220.0	104.1	39.4
		Enhancement Business	213	253	40	18.9	256	193	-63	-24.7	469	451	-18	-3.9	-9.3	60.5
	Operating Margin (%)	Digitalization Business	-26.3	0.0	26.3	100.0	-30.8	1.3	32.1	1.3	-28.1	0.7	28.8	0.7	28.8	0.7
SI Business		6.5	11.6	5.1	78.3	9.0	14.0	5.0	5.6	7.9	12.8	4.9	6.1	7.6		
Enhancement Business		7.5	8.9	1.4	18.6	8.4	8.4	0.0	0.0	8.0	0.0	0.0	0.0	0.0		
Consolidated	Gross Profit	643	863	220	34.2	603	856	253	42.0	1,326	1,718	392	29.6	-	-	
SG&A Expenses	Gross Margin (%)	19.1	21.6	2.5	13.1	16.3	21.0	4.7	28.8	18.7	21.3	2.6	13.9	13.9		
	SG&A Expenses Ratio (%)	11.9	12.1	0.2	1.7	10.1	11.9	1.8	18.0	12.1	10.9	12.1	1.1	1.1		
	Operating Profit	242	379	137	56.5	310	367	57	18.5	552	746	194	35.1	-	-	
Recurring Profit	Operating Margin (%)	7.2	9.5	2.3	32.0	8.4	9.7	1.3	15.5	8.2	9.3	1.1	13.3	13.3		
	Recurring Profit	240	306	66	27.5	255	366	111	43.5	603	752	149	24.6	-	-	
	Recurring Margin (%)	7.1	7.7	0.6	8.3	7.6	8.3	0.7	9.2	7.3	8.3	1.0	13.7	13.7		
Net Profit	Net Profit	165	264	99	59.0	235	238	3	1.5	400	502	102	25.3	-	-	
	Net Margin (%)	4.9	6.6	1.7	34.7	6.3	5.9	-0.5	-7.7	5.1	6.3	1.2	23.5	23.5		

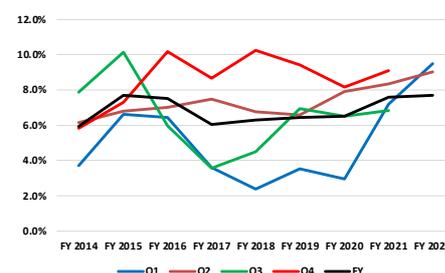
(Note) Values for H1 FY 2022 (Q1 and Q2) are actual results, while values for H2 (second half) and the full year are the Company's forecasts. Unless otherwise noted, figures have been prepared by Alpha-Win Research Dept. based on the financial results summary and financial results briefing supplemental materials. Due to processing of data such as rounding during calculations, values for the same item may slightly differ throughout this Report.

【Figure 2】 Quarterly Change in Sales
(Unit: million yen)

【Figure 3】 Quarterly Change in Operating Profit (Unit: million yen)



【Figure 4】 Quarterly Change in Operating Margin (Unit: %)

Results by Industry (four industries)

- Sales decline of business for the finance industry and industries in the “other” category was compensated by the significant sales growth from the distribution, transportation, and telecommunications industries, resulting in a double-digit increase in overall sales. Regarding operating profit, although profit was halved for the finance industry due to the decrease in system construction projects for credit card companies and other factors, profit from the remaining three industry categories all increased by more than 50%. Overall, in addition to the sales growth, cost reduction and profit improvement measures had been successful, and the profit margin improved for all industries except the finance industry.
- Businesses with the transportation and telecommunications industries, which include systems for transport companies, contributed especially significantly to the increase in sales and profit. Their sales were Y2,166 million, having increased by Y901 million YoY (+71.2%) and accounting for 92% of the overall sales growth. Similarly, their operating profit was Y285 million, at an increase of Y124 million YoY (+76.8%), accounting for 64% of the overall increase in profit as the driver of the Company’s overall performance. With the distribution industry, projects for retailers and general merchandise stores contributed to the results, resulting in a 20% increase in sales and an 80% increase in profit YoY. With the industries of the “other” category, profit increased due to the increase in projects for the government and real estate companies and the rise in profit margin of the business with the manufacturing industry and the government.

Results by Business Model (three models)

- In line with the strategies and directions set forth in its medium-term management plan, the Company began disclosing its results by business model starting this fiscal year.
- This H1, in the Enhancement Business which accounts for 70% of sales and 60% of operating profit, projects for the finance industry and the industries of the “other” category had decreased. Although the Company worked on optimizing resources, sales decreased by 4.3% and operating profit decreased by 3.9% (Y469 million in the previous H1 ⇒ Y451 million in this H1; -Y18 million YoY; equivalent to -9% of the overall profit growth in H1).
- In the SI Business (Lift & Shift: moving the legacy environment to the cloud environment in “Lift,” and stepwise system reconstruction while optimizing for the cloud environment in “Shift”), which accounts for 28% of sales and 39% of operating profit, sales doubled and operating profit increased by about 2.2 times (in the same order as above: Y92 million ⇒ Y294 million; +Y202 million YoY; equivalent to 104% of the overall profit growth in H1). This growth was due to the increase in the scale of system development projects for the transportation industry, new cloud projects (microservices*-related projects: *a software development method in which individually developed, small-scale services are provided as a collection), and co-creation with cloud vendors.
- The Digitalization Business is in the start-up phase and its sales are only 2% of the total, at Y139 million. However, its sales had grown by 4.3 times YoY and profit had also improved to about zero (-Y9 million ⇒ +Y1 million).

Sales by Customer Group

- Sales by customer are shown in Figure 5 on page 4. Sales from NRI (Nomura Research Institute) Group amounted to Y4,184 million (+21% YoY), accounting for 51.9% of the total as the largest customer. Sales from the NRI Group have been increasing year by year as a general trend. Additionally, the amount of sales growth from the NRI Group accounted for 75% of the total sales growth of Y976 million in H1. Sales from the four corporate groups of NRI, Fujitsu, Aeon, and Mizuho together accounted for about 80% of the total.

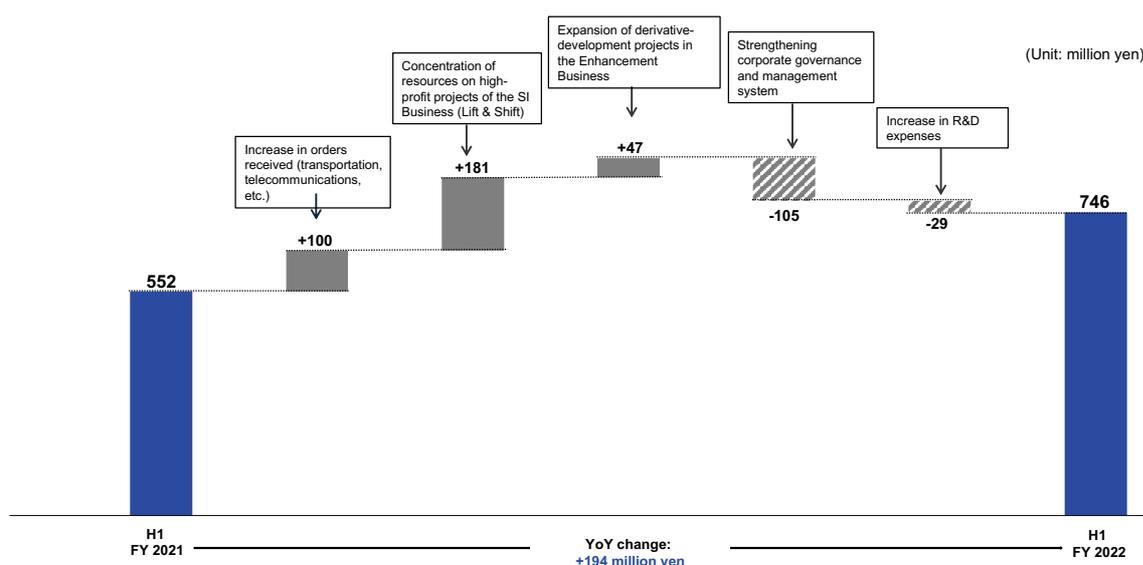
【Figure 5】 H1 Sales by Customer Group

Group	H1 FY 2021	H1 FY 2022	% of Total in H1 FY 2022	Change in Amount	Percent Change	% of Total Change
Unit	Million Yen	Million Yen	%	Million Yen	%	%
NRI	3,457	4,184	51.9	727	21.0	74.5
Fujitsu	1,325	1,539	19.1	213	16.1	21.8
Aeon	394	380	4.7	-14	-3.6	-1.4
Mizuho	268	297	3.7	28	10.4	2.9
Other	1,637	1,659	20.6	21	1.3	2.2
Total	7,083	8,060	100	976	13.8	100.0

Factors that Contributed to Profit Increase/Decrease in H1

- Figure 6 shows the factors that increased or decreased operating profit in this fiscal year's H1. Sales growth from the increase in projects received from the transportation and telecommunications industries and profit growth from the consolidation of resources to high-profit projects in the SI Business (improved operation rate through the increase in the amount of operation, reviewed employee allocation, and improved efficiency) were the significant factors. These factors offset the increase in costs from the strengthening of the governance system and increased R&D expenses, and operating profit resulted in a Y194 million increase YoY. In general, the factors that contributed to increases or decreases in profit in Q1 also continued into Q2.

【Figure 6】 Factors that Increased/Decreased Operating Profit in H1

**Progress in H1**

- Progress in H1 against the Company's new forecast for the full year (upward revision announced; details described later) was 50.4% for sales (47.9% progress in the previous H1) and 53.4% for operating profit (47.0% progress in the previous H1). One of the characteristics of the Company is that its business performance tends to fluctuate on a quarterly basis. Over the past ten years including the previous fiscal year, the progress in H1 compared to the full year was 48.6% for sales and 43.2% for operating profit on a simple average. This H1's results showed progress that is greater than the recent years' average for both sales and profit, partly due to the acquisition of strategic IT investment projects and the recording of profitable projects carried over from the previous fiscal year in Q1.

Number of Employees and Productivity

- In the Company's business model, sales growth is generally directly correlated with the number of employees. The total number of employees in Japan and overseas has been increasing from 760 in September 2019 → 791

in September 2020 (+31 employees or +4.1%) → 815 in September 2021 (+24 employees or +3.0%), and the Company's capacity has been increasing stably. However, since there is still strong potential demand for system development (DX businesses and non-face-to-face businesses such as those related to remote work, EC, and AI), the Company is somewhat short of staff. Going forward, it plans work further on strengthening mid-career recruitment too.

- Productivity is improving, with increasing sales per employee in Japan (from previous H1 ⇒ this H1: 10,033 thousand yen / person ⇒ 11,164 thousand yen / person, in an increase of +1,130 thousand yen / person) as well as operating profit per employee in Japan (in the same order, 782 thousand yen / person ⇒ 1,034 thousand yen / person, in an increase of +251 thousand yen / person).

Balance Sheet

- There has been no significant change in the balance sheet as of the end of H1 (end of September 2021). The Company has ample liquidity on hand, as cash & deposits have increased further to Y4.7 billion (3.5 months' worth of average monthly sales; essentially debtless). Its financial standing is also firm, with a current ratio of 343.9% and an equity ratio of 71.0%. Its next challenges would be to effectively utilize its excess capital for greater return of profit to shareholders and for future growth through M&As, business alliances, investments, and financing.

◆ Full-year forecast revised up, reflecting the upward revision of H1 results; dividend hike also announced.

The Company's Full-Year Forecast

- Reflecting the positive results in H1 that were above expectation, the Company revised upward the initial full-year forecast that it had announced at the beginning of the fiscal year. Although sales of Y16,000 million (+8.2% YoY) were kept the same, operating profit was raised from Y1,230 million (+4.7% YoY) ⇒ Y1,400 million (+19.2% YoY; +13.8% from the initial forecast), net profit was raised from Y850 million (+0.7% YoY) ⇒ Y950 million (+12.6% YoY; +12.8% from the initial forecast), and dividend was raised from 20 yen/share ⇒ 23 yen/share (dividend hike of +3 yen/share compared to the initial forecast). These upward revisions reflect the improvements in profit due to the progress being made in business structure/model reform. As with the previous fiscal year, the Company is expecting sales and profit growth in the current fiscal year and is planning to achieve record highs for sales and each of the profit.

H2 Forecast

- The Company's forecast for the second half (H2) of this fiscal year, which is obtained by subtracting the H1 results from the Company's upwardly revised plan for the full year, is as follows in the order of previous H2 ⇒ this H2: sales of Y7,705 million ⇒ Y7,940 million (YoY: +Y235 million or +3.0%), operating profit of Y622 million ⇒ Y654 million (YoY: +Y32 million or +5.1%), operating margin of 9.3% ⇒ 8.2%, and net profit of Y444 million ⇒ Y449 million (YoY: +Y5 million or +1.1%) (see "CE H2" in Figure A on page 8). Compared to H1's sales growth rate (+13.8% YoY), final profit growth rate (+25.3% YoY), and operating margin (12.1%), the momentum of growth is expected to decline in H2.

Alpha-Win Research Department's Full-Year Forecast

- In the previous report (issued on August 13, 2021), we had predicted sales and profit to both exceed the Company's plan since the Q1 results had been solid (sales growth and profitability improvement were greater than expected) and the Company's estimates for Q2 and H2 had been conservative (see "Old E" in Figure A on page 8; in the order of previous company forecast to our forecast, in the unit of million yen, the predictions were 16,000 and 16,100 for sales, 1,230 and 1,270 for operating profit, 850 and 877 for net profit, and the same for dividend at 20 yen per share)
- We had previously analyzed that if the impact of COVID-19 remains small and the Company continues to steadily receive orders, and if it conducts appropriate control, then the Company has the potential for further upward revisions (about 1.3 to 1.5 billion yen for operating profit for this full fiscal year), and that an increase in dividend (by about 2 yen/share) may also be possible depending on the amount of growth of the final profit. The Company's new revisions, though, came close to the values that we had expected as the best-case scenario.
- Since the Company's estimates for H2 still seem somewhat conservative, although we kept our full-year sales

forecast unchanged (kept at +Y100 million compared to the Company's forecast), we revised our previous forecasts for operating profit and subsequent items to a level close to the Company's new plan (in the order of our previous forecast \Rightarrow our new forecast: operating profit of Y1,270 million \Rightarrow Y1,425 million, which is +Y25 million compared to the Company's forecast, and net profit of Y877 million \Rightarrow Y965 million, which is +Y15 million compared to the Company's forecast). The reason for this revision is as follows.

1. Even considering the fact that a part of the sales growth in H1 had been carried over from the previous fiscal year, the momentum in receiving orders seems to be maintained. Therefore, taking into account the effect of seasonality as mentioned earlier, the estimate that sales in H2 will decrease by Y120 million or -1.5% compared to H1 seems somewhat conservative. In the initial plan, H1 sales had been expected to be Y7,900 million and H2 sales had been expected to be 8,100 million. However, since the Company did not change its full-year sales forecast even though H1 sales had exceeded the plan by Y160 million, the planned sales for H2 had to be decreased. Consequently, although the Company's new sales forecast for H2 is Y7,940 million, there currently is no particular factor that explains this sales drop compared to H1. Therefore, we believe that H2 sales have the potential to be about Y100 million higher.
2. Expecting to begin actively engaging in sales activities again and have increased upfront investment costs during this fiscal year's H2, the Company estimates the operating margin to be 7.8% in the previous H1 \Rightarrow 8.1% in the previous H2 \Rightarrow 9.3% in this H1 \Rightarrow 8.2% in this H2. This H2's margin is expected to decrease by 1.1% compared to the previous H1 and slightly increase by + 0.1% compared to the previous H2. This forecast concerning profitability, too, seems rather defensive considering the progress being made in the business structure/model reform.

Alpha-Win's Forecast of Medium-Term Financial Performance

- We revised our financial forecast and dividend forecast (assuming that the dividend payment ratio will be about 34%) for next fiscal year onwards upon considering the financial results of this H1 and assuming that IT investments will recover after the COVID-19 crisis settles down (see "New E" in Figure A on page 8). The increase in sales and improvement of profitability due to the business structure/model reform have been greater than expected, and are expected to continue to be growth factors for the Company. However, since the expenses related to sales activities and upfront investment, which have been held down so far, are expected to normalize, we estimated that the operating margin will be at a high level but remain mainly unchanged.
- As users adapt to the changes in a world coexisting with COVID-19, their IT investments are expected to increase as they develop new business models, strengthen their competitive advantage, work on solving HR shortages, streamline and speed up operations, and work on DX. Therefore, the Company's growth potential is large, and we expect that it will be able to continue to stably increase sales and profit at a rate of about 6-10% per year over the medium to long term through the expansion of the SI and the Enhancement Business, acquisition of new customers, development of new businesses, overseas expansion, and improvement of productivity through various measures.

◆ **Stock price and characteristics: domestic-demand-oriented, stable growth stock that has been significantly outperforming the TOPIX over the long term. Current valuation is about average.**

Performance

- Over the past approximately 11.5 years, there has been about a 5.3-fold increase in the Company's stock price thanks to the growing financial performance, and the stock price has been outperforming the TOPIX significantly (by about +280%). However, over the past twelve months, large-cap, economically sensitive stocks have tended to outperform the TOPIX, and the Company's stock has been underperforming due to its small-cap, defensive characteristic.

Valuation

- Currently, compared to the average valuation of TSE First Section (forecasted P/E of 15.9, actual P/B of 1.3, and simple average of forecasted dividend yield of 1.9%), the Company's valuation is mixed – about average for P/E and high for P/B and dividend yield.
- Compared to its competitors (HIMACS and Toho System Science; see Figure 7 on page 7), its valuation is somewhat high, presumably reflecting the anticipation of growth and the relative premium due to liquidity.

【Figure 7】 Comparison of Valuation with Competitors

Company Name	CUBE SYSTEM (CS: consolidated)	HIMACS (HM: consolidated)	Toho System Science (TS: non-consolidated)
Code	2335	4299	4333
Stock Price (at 11/16 closing)	1,008	1,102	1,016
Market Cap (million yen)	14,616	13,679	14,088
P/E (price-to-earnings ratio)	15.1	12.7	14.6
P/B (price-to-book ratio)	2.0	1.5	1.6
Dividend Yield (%)	2.3	2.7	3.0
EV/EBITDA	8.2	4.7	5.4
P/S (price-to-sales ratio)	0.91	0.83	1.07
Sales (this H1's results: same applies below) (million yen)	8,060	7,902	6,916
Sales Growth Rate (%)	13.8	4.2	23
Operating Profit (million yen)	746	750	686
Operating Profit Growth Rate (%)	35.1	14.5	64.9
Operating Margin (%)	9.3%	9.5%	9.9%
Sales (company forecast for this full FY: same applies below) (million yen)	16,000	16,500	13,200
Sales Growth Rate (%)	8.2	6.9	8.3
Operating Profit (million yen)	1,400	1,500	1,230
Operating Profit Growth Rate (%)	19.2	9.7	14.3
Operating Margin (%)	8.8%	9.1%	9.3%
Forecasted Dividend Payout Ratio (%)	34.5	34.4	43.0

Market cap= (shares outstanding) x (market share price [at 11/16/2021 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 H1 FY 2022 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]

(Note) Prepared by Alpha-Win Research Dept. based on each company's financial results summary.

Stock Price Outlook

- Over the short term, the Company's stock price will likely be affected by the Q3 results (quarterly change in the momentum of YoY growth in financial results and orders received) and the full-year forecast (whether there will be another upward revision). Some of the risk factors may be the outbreak and spread of the sixth wave of COVID-19, change in IT investment trends of Japanese companies (the Company's users) due to increases in costs such as resource price and personnel expenses, and the occurrence of unprofitable projects.
- Over the medium term, the following factors should also be noted: changes in sales growth rate, profit growth rate, and profit margins in the next fiscal year and beyond; development of the SI Business, the Digitalization Business, and new businesses (original products: Cubecoin, Smile Cash Register, etc.) and their contribution to results; return of profit to shareholders (dividend hikes, share buybacks, and stock splits); and the financial performance and IT investment trends (especially in DX) of Japanese companies that are its end users.
- We believe that the Company will continue to be viewed as a domestic-demand-oriented, defensive, and stable growth stock. If it can maintain close to a double-digit growth rate in profit, then its stock price may rise further in adjusting to the level of P/E and in alignment with the increase in EPS. Considering the low volatility in financial performance, as well as the growth potential over the medium term and its visibility, we believe that the Company can be a candidate for long-term investment.

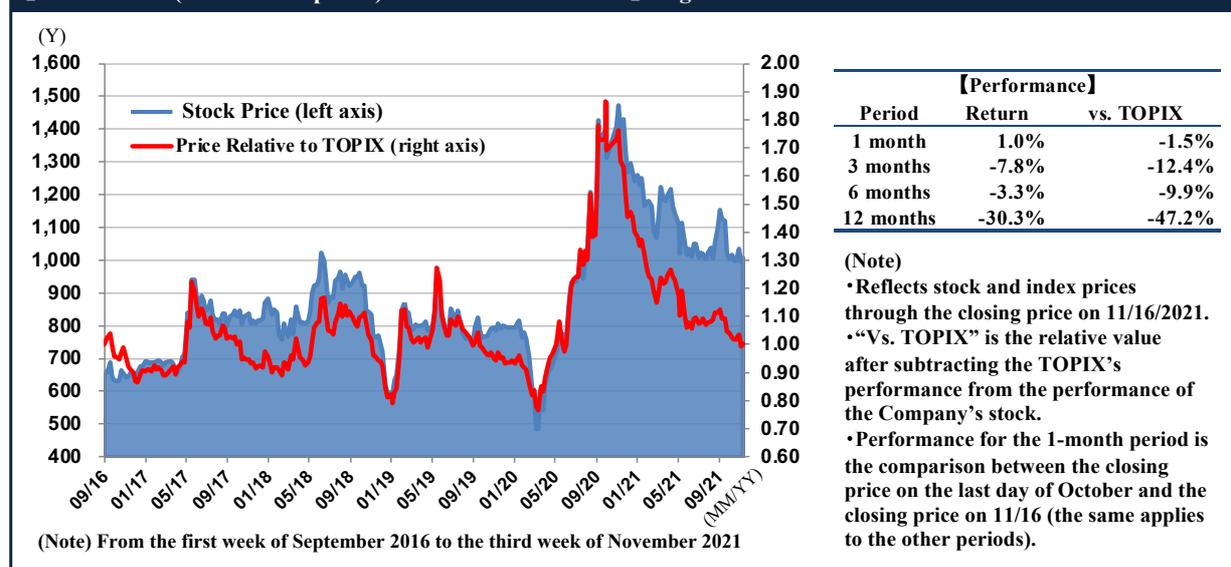
【 2335 CUBE SYSTEM Sector: Information & Communication 】 Figure A												
FY		Sales (million yen)	YoY (%)	O.P. (million yen)	YoY (%)	R.P. (million yen)	YoY (%)	N.P. (million yen)	YoY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
2018		13,559	5.1	855	9.5	892	10.0	567	2.9	40.59	372.23	16.0
2019		14,325	5.6	921	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	Old CE	16,000	8.2	1,230	4.7	1,250	-3.5	850	0.7	62.55	-	20.0
2022	New CE	16,000	8.2	1,400	19.2	1,420	9.6	950	12.6	66.69	-	23.0
2022	Old E	16,100	8.9	1,270	8.2	1,290	-0.4	877	3.9	64.96	524.68	20.0
2022	New E	16,100	8.9	1,425	21.4	1,450	12.0	965	14.3	71.48	531.20	23.0
2023	Old E	16,650	3.4	1,290	1.6	1,310	1.6	890	1.5	65.93	570.61	20.0
2023	New E	16,800	4.3	1,500	5.3	1,520	4.8	1,000	3.6	74.08	587.87	25.0
2024	Old E	17,700	6.3	1,400	8.5	1,420	8.4	965	8.4	71.48	622.09	20.0
2024	New E	17,700	5.4	1,600	6.7	1,620	6.6	1,080	8.0	80.00	648.83	27.0
2020	Q1	3,373	-0.2	242	141.3	248	130.8	165	229.3	12.17	418.69	0.0
2021	Q1	3,987	18.2	378	56.5	390	57.1	262	59.0	19.35	487.51	0.0
2020/9	Q2	3,710	0.5	310	6.5	355	22.4	235	23.0	17.30	-	8.0
2021	Q2	4,073	9.8	368	18.7	362	2.0	239	1.7	43.20	-	8.0
2020/9	H1	7,083	0.2	552	41.0	603	51.7	400	65.5	29.47	440.07	8.0
2021	H1	8,060	13.8	746	35.1	752	24.6	501	25.3	35.30	509.03	8.0
2021	H2	7,705	0.9	622	9.7	692	19.5	444	0.0	32.64		
2022	CE H2	7,940	3.0	654	5.1	668	-3.5	449	1.1	31.39		

(Note) Prepared by Alpha-Win Research Dept. based on the financial results summary. CE: the Company's forecast/estimate. E: Alpha-Win Research Dept.'s forecast/estimate. Old: previous forecast. New: Current forecast.

【 Stock Price and Valuation Indicators: 2335 CUBE SYSTEM 】 Figure B						
Item	11/16/2021	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,008	Last FY (actual)	16.2	2.1	2.0%	32.2%
Shares Outstanding (thou.)	14,500	This FY (est.)	14.1	1.9	2.3%	32.2%
Market Capitalization (million yen)	14,616	Next FY (est.)	13.6	1.7	2.5%	33.7%
Dilutive Shares (thou.)	0	Equity Ratio at H1-End	71.0%		Last FY's ROE	14.0%

(Note) Estimates have been made by Alpha-Win Research Dept.

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



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