

# Alpha-Win Company Research Report

## CUBE SYSTEM INC. (2335 TSE Prime)

Issued: 6/9/2023

### ● Summary

Alpha-Win Capital Research Department

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

#### Business Description

- CUBE SYSTEM INC. (hereinafter, the “Company”) is a mid-tier, specialized system integrator (SI) listed on the Prime Market of the Tokyo Stock Exchange. Its main customers are four major corporate groups including the Nomura Research Institute (NRI) and the Fujitsu Group. It develops systems and provides services mainly for the financial, distribution, and telecommunication industries.
- Founded in 1972, it has 51 years of history.
- In December 2022, the Company formed a capital and business alliance with NRI, a major blue-chip company in the industry, becoming NRI’s equity-method affiliate (NRI now has a stake of more than 20% and has become the largest shareholder).

#### Trends in Financial Performance

- With the exception of one fiscal year, the Company has been continuously increasing sales YoY for the past 25 years (including the period during which its results were nonconsolidated). During this period, its annual sales growth rate (simple average of the rates of increase in sales) was +5.9% and its annual recurring profit growth rate (simple average) was +7.1%; it has been steadily expanding its business and keeping its business profitable over many years. Thanks to its committed efforts in business development and management reform, the recurring margin has been stably around 6% to 9% (7.4% on average) and the increase in sales has been contributing directly to increases in profit, dividend, and market capitalization.
- In the February 2023, the Company revised down its initial financial forecast for the previous fiscal year (FY2023; note that the Company’s fiscal year is March-ending, i.e., FY2023 ended in March 2023), but the results ended up slightly exceeding this revision. Sales were Y16.3 billion, at a slight increase of +1.4% YoY. Operating profit was Y1.45 billion, at a slight increase of +2.4% YoY. Sales hit a record high for the 11th consecutive fiscal year and operating, recurring, and net profits all hit their record highs.
- This fiscal year (FY2024), the Company plans to achieve sales of Y18 billion (+10.3% YoY), operating profit of Y1.62 billion (+11.5% YoY), and net profit of Y1.08 billion (+9.1% YoY). It plans to consecutively achieve record-high sales and profits. As for the ordinary dividend, it plans to increase it by 4 yen to 30 yen/share for the year.
- The Company expects to increase its sales at a double-digit rate by receiving orders for projects (of the Digital and the SI businesses) pertaining to strategic IT investments by its clients. In addition to sales growth, it plans to grow profit by working on its own digitalization, resource optimization, and productivity improvement.
- Since IT investments related to DX have been robust, strong orders are expected. In addition, the Company’s forecast that its profit margin will slightly increase YoY seems to be a realistic plan. Therefore, Alpha-Win Research Department has evaluated that the Company’s plan for this fiscal year’s sales and profits should be generally achievable. We believe that the risk of falling short of the plan lies more in the limited human resources and the higher costs due to inflation, rather than the decline in demand or the orders received.

#### Business Strategy and Key Points Going Forward

- In May of last year, the Company announced revisions of the V2026 First Medium-Term Management Plan; it upwardly revised its goals for the consolidated results of FY2024, the final year of the plan. It revised sales from Y18.5 billion ⇒ Y19.0 billion, operating profit from Y1.48 billion ⇒ Y1.71 billion, and operating margin from 8.0% ⇒ 9.0% (the target ROE of 13% or more has not been changed). Although these are different from the financial forecast for this fiscal year, no change has been made to the medium-term plan’s goals.
- The Company has been actively developing its proposal-based business in addition to its contract-based business. It has been shifting resources to the SI Business and the Digital Business, based on the Enhancement Business, and is starting to see positive results.
- Capital raised through the capital alliance with NRI plus the Company’s own capital, which total approximately Y2 billion, will be invested over a period of four fiscal years starting in the previous fiscal year. It will invest to

strengthen its development sites and production system to achieve further growth and eliminate its bottleneck concerning human resources.

- In addition, in terms of business, the alliance is intended to enable the Company to strengthen the long-term and continuous relationship with NRI, expand business areas, and exchange talents. The alliance can therefore be viewed as a positive change, since it will contribute to the Company's medium- to long-term business expansion and stable growth.
- The Company has also been actively pursuing the in-house development and enhancement of new technologies and services, as well as joint development with other companies. It has been laying the foundation for the development of new areas of business through investments, financing, and alliances.
- In the current medium-term plan, it has declared to pursue sustainability management and has set non-financial goals ranging from diversity promotion to workstyle reform, people development, communication vitalization, and environment. It plans to work on achieving these goals, incorporating IT as well.
- Going forward, the key points will most likely be the effects of the alliance with NRI (actual contribution to business performance) that will start to be seen, recruitment/development of employees, collaboration with major system integrators, development of proposal-based businesses targeting end users, improvement of project management skills, continuous improvement of profit margins, monetization of businesses in new business areas, acquisition of new customers, M&As and alliance strategies, expansion and leveraging of overseas sites, and incorporation of new technologies.

### Forecast of Medium-Term Financial Results

- Uncertainties continue to surround the economic environment due to the global inflation, the monetary tightening to control this inflation, the situation in Ukraine, and the rebound of the COVID-19 outbreak. However, the impact on the Company is relatively small since its business is centered on domestic demand. Since the demand related to strategic investments in IT systems by its customers has been strong, the Company plans to focus on receiving such orders. On the other hand, the medium-term risks most likely include the recruitment/retaining of employees and the occurrence of unprofitable projects.
- Over the medium to long term, IT and DX investments by the Company's corporate users are expected to continue to increase. We expect that the Company will be able to stably increase both sales and profit by about 6-10% per year through the development of the new Digital Business and the SI Business, in addition to the Enhancement Business, as well as through the expansion into new business areas, the acquisition of new customers, and the improvement of productivity.

### Shareholder Return

- The Company has been returning profit to shareholders, including share buybacks, stock splits, and sequential dividend hikes. In addition to increasing its ordinary dividend, it has also paid commemorative dividends, indicating its proactive stance with regards to returning profit to shareholders. The planned dividend payout ratio for this fiscal year has been raised to 42%, meaning that it will increase the ordinary dividend for the fifth consecutive fiscal year. Its DOE (based on the most recent actual value for ordinary dividend in FY2023) is 4.5%, which is about average compared to its competitors but high compared to the market average of 2.5%. With solid financial performance and ample cash, shareholder return measures such as share buybacks and dividend hikes can be expected in the future as well.

### Stock Characteristics and Stock Price

- Over the past 14 years or so, its stock price has increased by about 5.2x and has been largely outperforming the TOPIX. Due to the rise in the stock price, its valuation has become somewhat higher than the average of all stocks listed on the TSE Prime as well as its competitors, based on this fiscal year's forecasted values. Its stock currently seems to be priced at a premium due to the stability of business performance and its future growth potential.
- 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, the key points going forward will be its progress with this fiscal year's financial performance and the IT investment trends of its customers, as well as the effects of the investments, the effects of its alliance with NRI, the contribution to results by the new and digital-related technologies/areas, and the return of profit to shareholders.

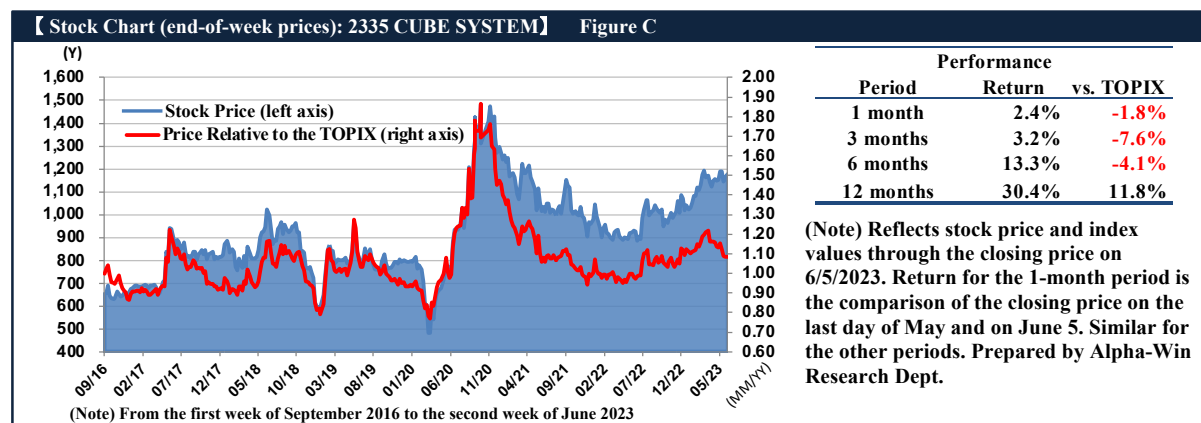
[ 2335 CUBE SYSTEM Sector: Information & Communication ] Figure A												
FY		Sales (million yen)	YoY (%)	O.P. (million yen)	YoY (%)	R.P. (million yen)	YoY (%)	N.P. (million yen)	YoY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
2020	A	14,708	2.7	959	4.1	976	1.7	525	-11.9	38.69	411.96	18.0
2021	A	14,788	0.5	1,174	22.5	1,295	32.7	844	60.7	62.11	476.52	20.0
2022	A	16,099	8.9	1,417	20.7	1,432	10.6	944	11.9	69.82	531.14	23.0
2023	A	16,325	1.4	1,452	2.4	1,480	3.3	989	4.8	70.35	634.29	50.0
2023	CE	16,200	0.6	1,420	0.1	1,445	0.9	950	0.6	67.53		50.0
2023	E	16,200	0.6	1,420	0.1	1,445	0.9	950	0.6	67.53	595.69	50.0
2024	CE	18,000	10.3	1,620	11.5	1,635	10.4	1,080	9.1	71.23		30.0
2024	E	17,800	9.0	1,600	10.2	1,615	9.1	1,065	7.7	70.25	654.50	30.0
2025	E	19,000	6.7	1,725	7.8	1,755	8.7	1,155	8.5	76.18	700.68	32.0
2026	E	20,500	7.9	1,850	7.2	1,870	6.6	1,235	6.9	81.46	750.14	34.0

(Note) A = actual results. CE = the Company's estimate/forecast. E = Alpha-Win's estimate/forecast. Note that fiscal years are March-ending.

(Note) In this Report, decimal places have generally been rounded in the calculations or in presenting the values, and therefore values may differ from those announced by the Company.

[ Stock Price and Valuation Indicators: 2335 CUBE SYSTEM ] Figure B						
Item	6/5/2023	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,179	Last FY (actual)	16.8	1.9	4.2%	71.1%
Shares Outstanding (thou.)	15,750	This FY (est.)	16.8	1.8	2.5%	42.7%
Market Capitalization (million yen)	18,569	Next FY (est.)	15.5	1.7	2.7%	42.0%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End	76.6%	Last FY's ROE		11.8%

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



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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., FY2024 ends in March 2024.

# 1. Company Overview

## ◆ Mid-Tier System Integrator

- ◆ A mid-tier and specialized system integrator with 51 years of history. Equity-method affiliate of NRI. Strong business foundation, 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) Near-shore development: outsourcing development to regional companies or offices

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

CUBE SYSTEM INC. (hereinafter, the “Company”) is a mid-tier, specialized system integrator<sup>1</sup> (a.k.a. SI). It is listed on the Prime Market of the Tokyo Stock Exchange and is an equity-method affiliate of the Nomura Research Institute (or NRI), which owns a stake of more than 20%. Often as a subcontractor for major SIs, the Company mainly develops systems for large companies in the financial, telecommunication, and distribution industries, as well as for the government. Its customer base is firm, having expanded its business toward its main customers over many years. Its main customers are the four corporate groups of NRI, Fujitsu, Aeon, and Mizuho, whose summed sales account for about 80% of the Company’s total sales. The Company also receives outsourced jobs from the Tokyo Stock Exchange, indicating its technological expertise and strong credibility.

Founded in 1972 at the outset of the software industry, the Company has 51 years of history. Osamu Sakiyama, the chairman, is one of the founding members. Masahiro Nakanishi became representative director, president, and CDO (Chief Digital Officer) in June 2020. Nakanishi previously worked as the 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 projects 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; for near-shore development<sup>2</sup> of systems and sales reinforcement in the Tohoku and Hokkaido regions. Became a wholly owned subsidiary after the Company raised its stake from 90.9% to 100% in 2022. Serves to raise the efficiency of group management.)

### 2. CUBE SYSTEM VIETNAM CO., LTD.

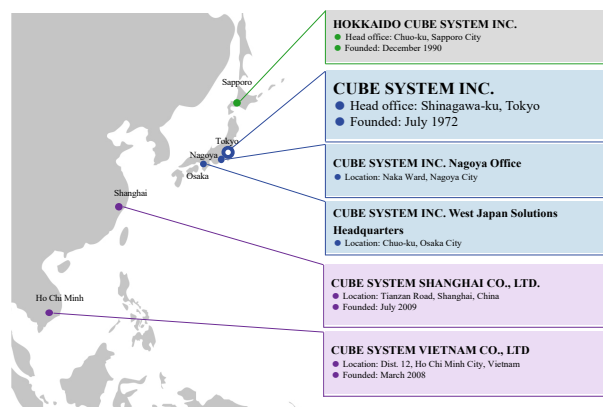
(Ho Chi Minh City, Socialist Republic of Vietnam; a wholly owned subsidiary)

### 3. CUBE SYSTEM SHANGHAI CO., LTD.

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

The Company has established its overseas subsidiaries mainly for offshore development<sup>3</sup>.

【Figure 1】 Locations of the CUBE SYSTEM Group’s Subsidiaries and Offices



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

As of May 2023

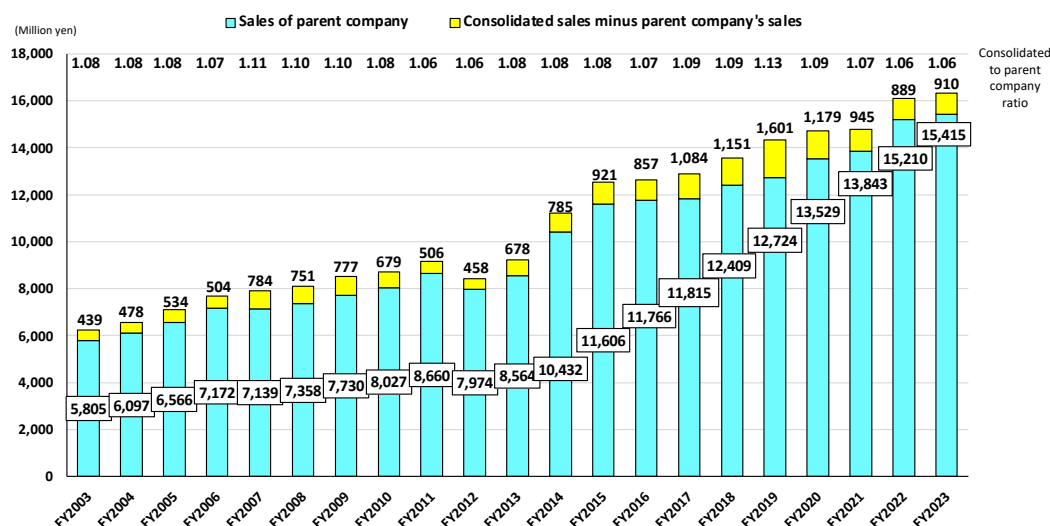


- ◆ Consolidated sales and profit have been on an increasing trend. The consolidated subsidiaries, as a total, have been stably profitable. Consolidated-to-parent-company ratios have been a little greater than 1 for both sales and profit.

The consolidated-to-parent-company sales ratio has stayed around 1.08 for the past 21 years, with the parent company's results having a large weight (Figure 2). Although each 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.

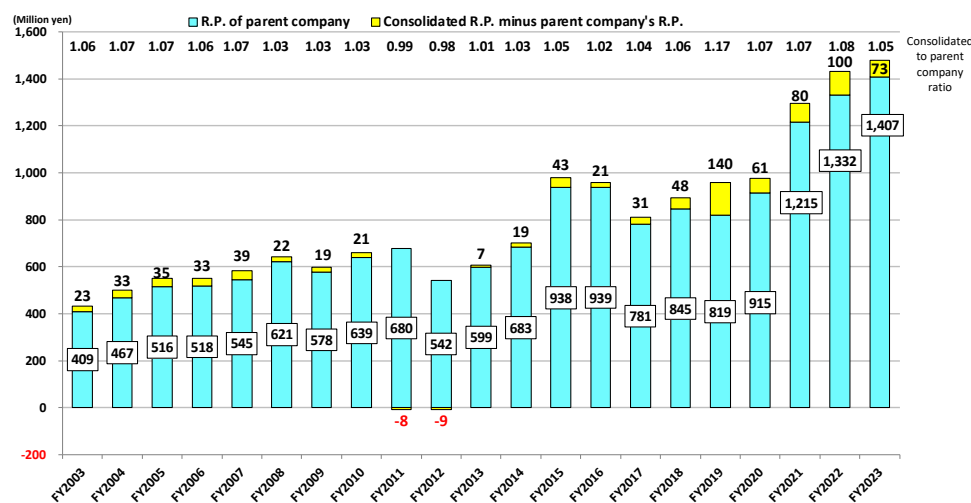
The total profit/loss of the subsidiaries, calculated by subtracting the parent company's recurring profit from the consolidated recurring profit, has been a surplus excluding the two fiscal years FY2011 and FY2012 (Figure 3). During the three fiscal years from FY2017 to FY2019, total sales and profit of the subsidiaries (consolidated minus parent company) grew, but in FY2020, their sales and profit turned to a decline due to the completion of the subsidiaries' major system development projects. However, despite being impacted by the lockdown in Shanghai due to COVID-19, business was generally solid from FY2021 to FY2023, maintaining a certain amount of profit for all subsidiaries in Japan as well as CUBE SYSTEM VIETNAM.

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



(Ref) Figures 2 and 3: Prepared by Alpha-Win Research Dept. based on the financial results summary.

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



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

The Company's financial standing is strong, continuing to have essentially no debt.

Its free cash flow (FCF) has also been stably positive, and cash and deposits have been gradually accumulating (Figure 4). In addition to approximately Y6.75 billion in cash and deposits according to its balance sheet (Y5.06 billion at the end of the fiscal year before the previous), the Company has Y1.73 billion in investment securities (stocks and bonds that most likely have high liquidity). They total to about Y8.5 billion in highly liquid assets, which is equivalent to 70% of its total assets of Y12.5 billion and about 50% of its sales of Y16.3 billion. In comparison, its debt is only Y240 million (all values are as of the end of March 2023).

Its financial ratios are also stably high, with an equity ratio of 77% (71% at the end of the fiscal year before the previous) and current ratio of 443% (similarly, previously 355%).

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

Unit: million yen	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Operating CF (①)	283	622	101	451	317	503	534	936	388	773	747	1,043	1,015	891
Investing CF (②)	-1	309	54	-321	-172	-307	25	94	28	46	25	58	-134	-304
Financing CF	-144	-173	-125	-151	-188	-439	-241	-610	-392	-531	-339	-215	-324	1,102
FCF (①+②)	282	931	155	130	145	196	559	1,030	416	819	772	1,101	881	587
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	5,016	6,703

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

(Note) "Cash and cash equivalents" are not values from the B/S but are the "Cash and cash equivalents at end of period" under the "Consolidated statement of 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, emphasis, and all employee sales.

- ◆ Shares management goals/results with all employees

(4) 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 customer interaction, will materialize the systemization needs of customers through dialogues and carry out projects with responsibility and authority under a sales goal.

## ◆ Business Philosophy and Basic Management Policy

The Company's business philosophy is as follows:

- "Companies flourish with the people's support. We must continue our business to ensure the well-being of people including our employees. The source of business continuity and development is profit, and profit is generated by our customers. Based on this philosophy, we will aim to 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.
- Emphasis: 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 ardently toward the development of our company's business with independent and business-oriented mindset (⇒ has established a unique all-employee sales system<sup>4</sup>).

The numerical goals for sales, profits, progress rate, and other items for the entire company as well as for each department are disclosed to all employees. Information is being shared in an open management system.

## 2. Business Description and Business Model

- ◆ **Business is classified into three service categories. System Integration Services are its main services.**

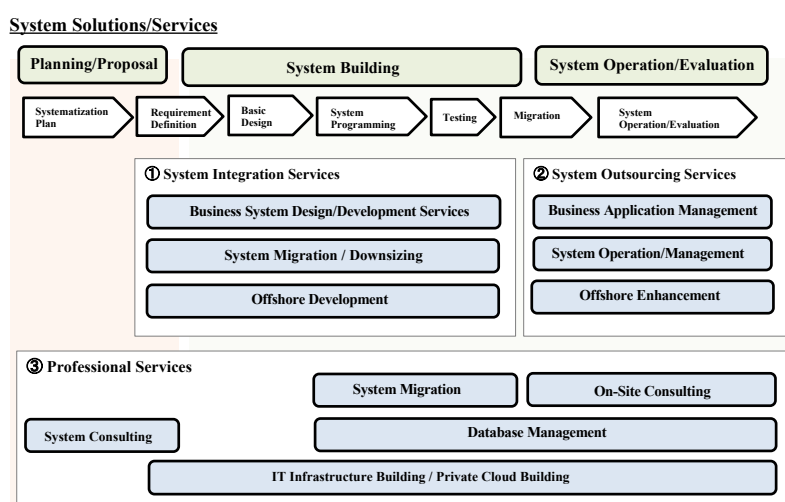
(5) System solutions: solving issues related to systems through hardware, software, and services

### ◆ Three Lines of System Services

The CUBE SYSTEM Group's business is to provide system solutions<sup>5</sup>. Specifically, the Company provides a series of services from building systems through planning/proposal, design, and manufacture (programming) to testing, operating, and evaluating systems. It provides service to companies and 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 (lines of service).

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

【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.**

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

(7) 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 (interface, 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 Services (SIS)

- The Company's main business. Develops business operation systems that meet the needs of its corporate users (end users such as companies and the government; the same applies hereinafter). Includes requirement definition<sup>6</sup>, basic design<sup>7</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 ensure that there is a necessary number of engineers, a part of the development is outsourced (subcontracted) 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 generally based on contract agreements, the SI (the Company) bears responsibility for the products



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

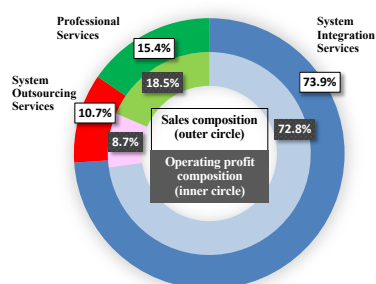
(8) Standard development framework F@CE: The Company's unique general framework for standardizing and streamlining application development. A tool for carrying out projects efficiently by preventing operation errors or omissions.

(9) Enhancement services: 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. Customer satisfaction can thus be improved. For the Company, this service essentially means continued business with the customer.

(10) 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 employees with Oracle-related certifications. Current annual sales are several hundred million yen.

◆ **SIS was the growth driver in the past, accounting for 70% of sales. Operating margin of the three categories was largest in the order of Pros> SIS>SOS.**

**【Figure 6】 Breakdown of Sales (outer circle) and Operating Profit (inner circle) by Service Category in FY2023**



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

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

- Orders for projects are often received through proposals or by bidding. Estimates are generally calculated based on [the number of staff] x [the number of months]. In building a system after receiving an order, 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>8</sup>, to reduce the risks and improve quality, profitability, and efficiency.

- Since unexpected changes in specifications, additional workload exceeding the initial estimate, and other factors can negatively impact profitability and make a project unprofitable, the Company has a specialized department to work on improving project management. It has also been focusing on providing the enhancement services<sup>9</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 Services (SOS)

- Services related to the operation and evaluation of systems. It provides two solution services: system operation & management (building, managing, and evaluating components of a system such as hardware, basic software, database, and network environment) 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 in which new challenges found and proposed during system maintenance and operation (SOS) can lead to a new enhancement project (SIS).

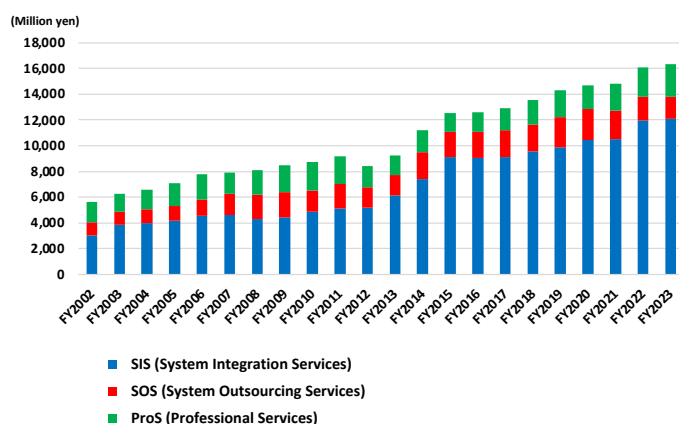
## 3. Professional Services (ProS)

- Services that utilize the Company's technologies to solve everything related to the informatization cycle, including consulting, database improvement for greater efficiency, system monitoring, management support, and informatization strategies. The Company conducts everything from planning, designing, and building infrastructure to operating/monitoring systems. High performance is enabled 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>10</sup>).

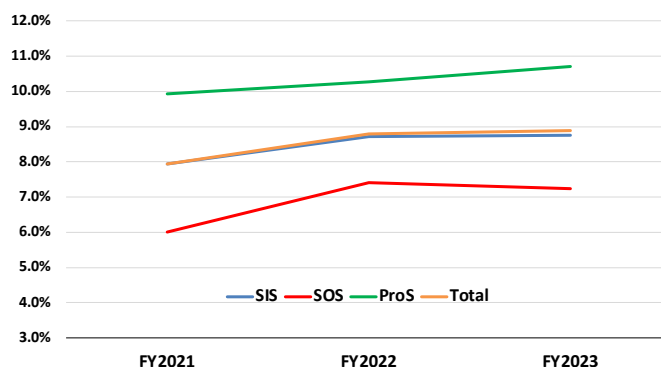
Breakdown of sales and operating profit in terms of the three categories and their transition over the years are shown in Figure 6 and Figures 7 and 8 on page 10. Regarding the sales breakdown, SIS accounts for about 70% of the total, followed by ProS and then SOS for the remaining 30% (outer circle of Figure 6). Over the past 21 years, total sales have grown by 2.9x. Specifically, the sales of SIS grew by 4.0x, SOS grew by 1.7x, and ProS grew by 1.6x; SIS had been the main driver of business growth (Figure 7 on page 10).

The breakdown of operating profit is shown in Figure 6 (inner circle). The breakdown is not largely different from that of sales. Previously, the gross margin of each category had been disclosed, but starting in FY2022, the disclosure was changed to operating margin per category (currently only disclosed for three fiscal years). Regarding the gross margin of the categories over the last 20 years, all had been within a boxed range of about 15% to 21%. However, in recent years, they have been generally improving for all categories. The operating margin of each category is also improving for all categories (see Figure 31 on page 28 for details).

【Figure 7】 Transition in Sales of Each Service Category



【Figure 8】 Transition in Operating Margin of Each Service Category



(Ref) Figures 7 and 8: Prepared by Alpha-Win Research Dept. based on the financial results materials (the financial results briefing materials and the financial results briefing supplemental materials; the same applies hereinafter).

- ◆ **Labor-intensive business.** Acquiring and training talented employees are the key to growth.

- ◆ **The number of employees has been steadily increasing. Sales and operating profit per employee in Japan have been improving.**

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

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

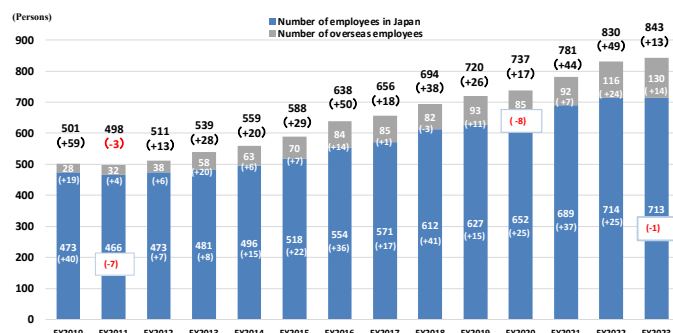
Since most of the Company's business is based on make-to-order, contract development of systems, its business is strongly characterized as a labor-based, single-product production model. Therefore, the recruitment and training of talented employees are key since they are the source of competitive edge 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 managing system quality, cost, deadlines, and profit/loss.

Currently though, due to recent years' labor shortage, the Company has not been able to hire enough project managers to match its business expansion. This shortage has been a bottleneck to further growth. One of the Company's challenges will be to increase new graduate and mid-career recruitment as well as further improving the work environment and training system to raise the retention rate of its employees (in past years, the turnover rate had been about 8% per year, which seemed to be somewhat low compared to the industry's average, but the rate is now rising due to greater job mobility).

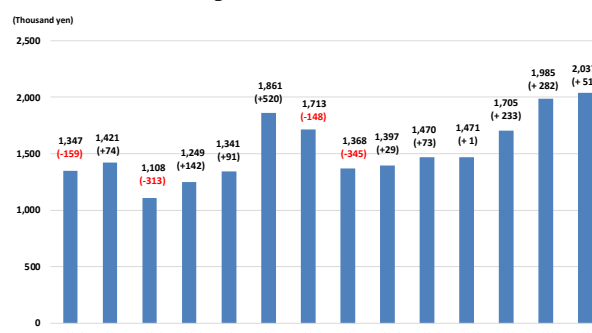
The change in the number of employees of the entire CUBE SYSTEM Group is shown in Figure 9 on page 11. In line with its business expansion, the Company has been hiring about a few dozen new employees every year, mainly for system engineer positions (for new areas such as DX<sup>11</sup>). Over the medium to long term, it is also considering expanding its group to around 1,000 employees in total. Regarding the annual sales per employee in Japan, they have gradually increased to 21-23 million yen. Annual operating profit per employee has been steadily increasing since the most recent low in FY2017 (Figure 10 on page 11).

With regards to the cost structure, the labor cost and subcontracting cost paid to its business partners (essentially, mostly personnel expenses) 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 will be crucial.

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



【Figure 10】 Change in Operating Profit per Employee in Japan



(Ref) Figures 9 and 10: Prepared by Alpha-Win Research Dept. based on the financial results materials

(12) 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.

◆ Breakdown of sales in terms of the four industries is becoming more balanced.

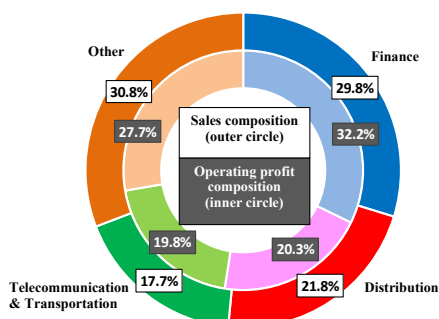
Generally, the nature of the system integration business makes it difficult to rapidly expand business through unique products and services. Additionally, although the sharing and leveraging of expertise is possible to some extent, productivity improvement through those means is limited due to the current reliance on manpower. The difficulty in improving the profit margin is a characteristic of the entire industry rather than just the Company.

In response to these challenges, the Company plans to continue to improve its profit margin by carrying out various measures such as the shift to high-profit projects, optimization of its resources, use of agile development<sup>12</sup> and standard platforms that do not rely heavily on manpower, strengthening of organizational project management, making greater use of its overseas subsidiaries, and review of contracts (negotiating and proposing to change from payment based on the number of staff and months to payment in return for services).

### ◆ Sales and Profit Composition Well-Balanced by Industry

Sales breakdown by industry is shown in Figure 11. Sales from the financial 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 telecommunication & transportation) had grown significantly, resulting in more balance between the four industries (Figure 12 on page 12).

【Figure 11】 Sales Breakdown by Industry in FY2023



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

Regarding HIMACS (TSE Prime: 4299) and Toho System Science (TSE Prime: 4333), which are competitors whose business is especially similar to the Company, their sales are highly dependent on the financial industry, which constitute about 70% of the overall sales for both. In contrast, sales from the financial industry are about 30% of the total for the Company, indicating how the Company has been diversifying its sales among industries by expanding its business with the non-financial industries.

Concerning its business with the financial industry, system development 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/alliances in the financial industry. This decline, though, has been offset by increased demand from companies related to credit cards, online banks, and insurance, and demand has been recovering.

Regarding the sales from the telecommunication & transportation industry, sales tend to somewhat fluctuate due to the system investment cycle of customers such as telecom carriers. Another factor impacting sales is whether the Company receives orders for large-scale projects, such as those for shipping companies in the transportation industry.

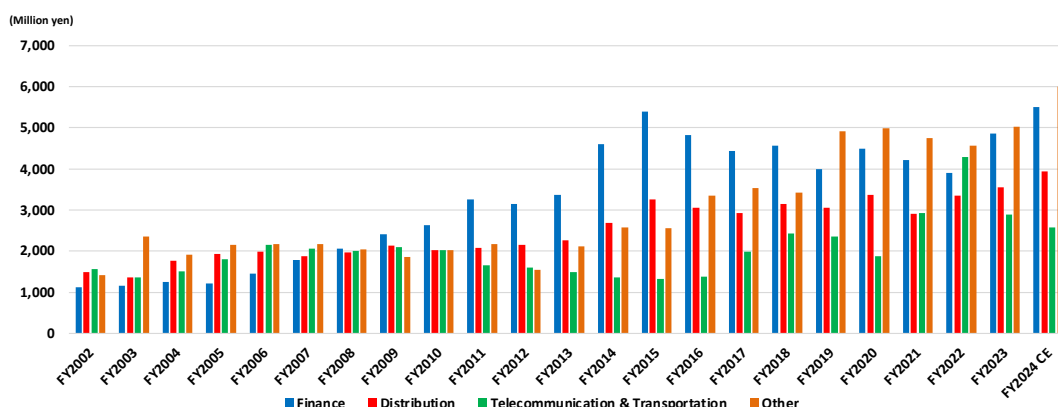
- ◆ Increasing diversification by industry through the development of new areas of business and new customers

In recent years, regarding the other industries, business with manufacturers, business with the government, energy-related businesses, and cloud consulting-related businesses have grown significantly thanks to acquiring new customers and receiving orders for new projects. As a result, the Company appears to have become more balanced and diversified with regards to industry type, resulting in greater business stability.

- ◆ Profit margins for each industry have been gradually improving.

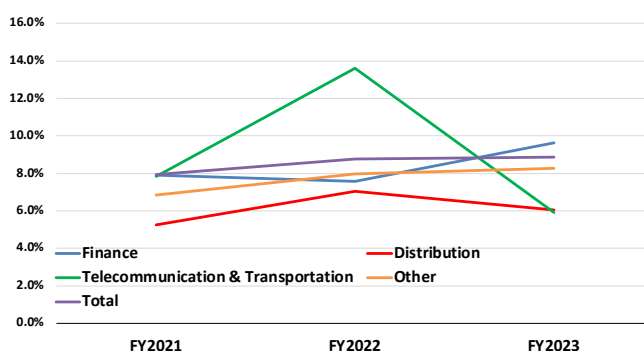
The breakdown of profit margin by industry changes somewhat every year, but we believe that this reflects the difference in the profitability of each individual project, rather than the difference in the characteristics of each industry. Gross margins had been disclosed through FY2021 and operating margins have been disclosed since then. In general, profit margins seem to be gradually improving (Figure 13).

【Figure 12】 Transition in Sales by Industry



(Ref) Figures 12-13: Prepared by Alpha-Win Research Dept. based on the financial results materials. CE: the Company's plan.

【Figure 13】 Transition in Operating Margin by Industry



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

### Stable Customer Base and Highly Maintainable Business

Since the Company's customers and end users are Japan's leading corporate groups and the nature of its business requires dealing with mission-critical operations, the Company must provide proven, reliable, stable, convenient, secure, and sustainable solutions. Moreover, for system development and

operations, accumulation of business knowledge and know-how is necessary. Consequently, the Company has high contract repeat rates and long-term relationships with its existing customers (Figure 14). Note that its prime ratio (percentage of direct contracts made with end users for system development) is about 10%, and many of its projects are outsourced indirectly through major SIs.

【Figure 14】 Number of Client Companies (end users) by Duration of Relationship

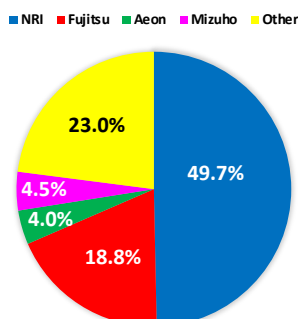
Years of Business with the End User	Number of End Users	Attributes of the End User
15 years or more	12 companies	Major retailer, bank, general merchandise store, hardware store, the government, securities company, etc.
10 to less than 15 years	10 companies	Major credit card company, telecommunication company, manufacturing company, education business company, etc.
5 to less than 10 years	19 companies	Major gas company, life insurance company, telecom carrier, etc.
Total of the above	41 companies	

(Ref) Prepared by Alpha-Win Research Dept. based on “Integrated Statement 2022” and interview.

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

As shown by the sales breakdown by customer group in FY2023 (Figure 15), NRI is the largest customer, followed by Fujitsu, Aeon, and Mizuho. These four corporate groups account for about 80% of the total (same proportion as the previous years). Thanks to the success of the account strategy (a strategy in which marketing activities are conducted in a concentrated manner by the designated person in charge) toward the four main customer groups, total sales from the four groups have been steadily increasing: by +2.8% YoY to Y10,351 million (+Y281 million) in FY2019, by +9.3% YoY to Y11,316 million (+Y965 million) in FY2020, by +1.3% YoY to Y11,463 million (+Y147 million) in FY2021, by +10.9% to Y12,718 million (+Y1,254 million) in FY2022, and by -1.1% to Y12,577 million (-Y140 million) in FY2023.

【Figure 15】 Sales Breakdown by Customer Group in FY2023



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

Previously, 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 after the peak in FY2011. However, since FY2020, the proportion of the four groups has been starting to increase again (Figure 16 on page 14).

- ◆ Increase in transactions with NRI has driven sales growth over many years

Looking at long-term changes, sales from the NRI Group had increased by approx. Y7.2 billion from approx. Y900 million in FY2002 to approx. Y8.1 billion in FY2023, partly thanks to the expansion of business area from its initial focus on the distribution industry to other industries including finance. During this period, the Company's overall sales grew by Y10.7 billion from Y5.6 billion to Y16.3 billion. The majority of this growth came from the NRI Group (67%). As a result, about half of the entire sales (49.7%) was dependent on the NRI Group in the previous fiscal year.



(13) 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 leverages each other’s expertise. NRI has only announced three companies (the Company, HIMACS, and Toho System Science) as its e-e Partners.

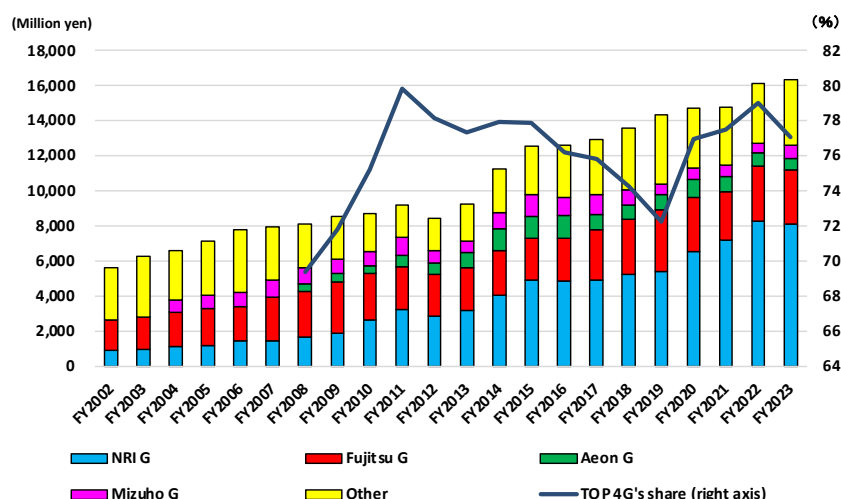
Similarly, the Fujitsu Group accounted for Y1.3 billion or 12% of the total sales growth, thanks to increased transactions related to telecommunication infrastructure, electrical power infrastructure, and the government. Having increased sales over the long term with the major corporate groups (including Aeon and Mizuho), the Company has earned excellent trust from its customers and has high contract continuity.

The Company has especially worked closely in partnership with NRI as one of the few e-e Partners<sup>13</sup>. In this partnership, the Company not only cooperates in business but also makes mutual investments and exchanges 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.

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 about 30 years. This also shows how the Company’s customer satisfaction level is high.

**【Figure 16】 Transition in Sales by Customer Group (G) and Share of the Top 4 Groups**

(Note: information on sales of Mizuho G before FY2003 and of Aeon G before FY2007 is not disclosed)



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

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

### ◆ Focused on receiving orders for projects related to new technologies and DX

Alongside its own R&D, the Company has been forming alliances with companies skilled in cutting-edge, new technologies. Also, it has received various awards and certification from major companies as their partners.

It has also been conducting investments and preparing for the development of businesses that utilize next-generation technologies. Since DX-related IT investments by corporate users are expected to rapidly increase, the Company has set the Digital Business as its area of growth and plans to put company-wide efforts into actively making proposals and responding to needs.

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

(14) Cloud solution services: a type of service where applications are used as a “service” via web browsers, etc.

(15) Blockchain: decentralized network in which information is synchronized, recorded, and accumulated among many computers

(16) AI: artificial intelligence

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

(18) Smile Share Product: A product which, under the theme of “Making employees smile through digital technology,” supports and develops contactless communication and engagement among employees. Originally developed by the Company.

◆ **Formed a capital and business alliance with NRI to strengthen their relationship.**

◆ **Will invest a total of approximately Y2 billion over four fiscal years, mainly using the raised capital. Plans to expand/strengthen the development sites and the production system.**

The Company has especially been focused on technology investments in cloud solution services<sup>14</sup> including Oracle-related services; participation in social experiments of the Blockchain<sup>15</sup> Collaborative Consortium; capital and business alliances with companies which have expertise in AI technology<sup>16</sup>, IoT technology<sup>17</sup>, and blockchain; testing the Smile Share Product<sup>18</sup> with the NRI employee union; and alliances in agile development and maintenance/operation services. These are aimed at acquiring and sharing expertise and information on cutting-edge technologies, developing employees, conducting joint development and proposals, and establishing new businesses.

Also, in 2020, it created the DX Promotion Office. 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 on leading-edge technologies and conduct R&D and business development based on the newest core technologies.

Furthermore, through 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 financial results in the past as gain on investment or gain on sales. Also, due to the public listing of the companies that it has invested, unrealized gains have increased.

◆ **Capital and Business Alliance with Nomura Research Institute (NRI)**

The Company formed a capital and business alliance with the Nomura Research Institute (NRI; securities code 4307) in December 2022 and conducted a third-party allotment of shares to NRI. NRI additionally acquired shares through off-floor trading on the stock exchange. As a result, NRI's shareholding ratio rose from 1.51% to 20.18%, making it the largest shareholder.

NRI, an SI affiliated with Nomura Securities, is listed on the Tokyo Stock Exchange's Prime Market. It is a major, blue-chip company ranked as one of the top ten companies of the industry, with a market capitalization of Y2.2 trillion and forecasted sales of Y720 billion and net profit of Y78 billion for this fiscal year (greater than the Company by 117x, 40x, and 72x, respectively). It provides both consulting and IT solutions and has top-level profitability in the industry. It also has as a strong customer base particularly in the financial industry. The Company has been in a long-term cooperative relationship with NRI, which is also its most important client.

As a result of this capital alliance, the Company raised Y1,636 million in net sum. With this raised capital, in addition to its own capital, it will have a total of Y2,180 million to invest for further growth. Over the four fiscal years starting in the previous fiscal year, it plans to invest in strengthening and expanding its development sites and production system (Figure 17 on page 16).

In terms of business, some of the Company's plans are to strengthen its long-term and ongoing relationship with NRI, expand its business domain, more fully utilize its production sites, enhance and expand its production system, and exchange talents. The investment and alliance will mostly likely contribute to the Company's business expansion and stable growth over the medium and long term.

- ♦ Will make serious efforts to expand capacity, which has been its bottleneck. The investment essential for strengthening the Company toward future sustainable growth.
- ♦ Plans to make large investments in the current and the next fiscal year.
- ♦ Investment results (significant contribution to profit) are expected to be seen starting in FY2026 or later.

At this stage, the Company has not disclosed any projections of the future investment effects (such as the amount of sales growth, contribution to profit, and the investment's payback period). However, its plan can be viewed positively; it plans to resolve its current insufficiency in capacity (human resources), which has been the biggest bottleneck to sustainable growth, and secure a budget so that it can make committed efforts toward increasing capacity.

Part of the investment will most likely be recorded as assets, but the expenses associated with this investment (that will be recorded under profit/loss) will likely reach their peak in the current or the next fiscal year, when the invested amount will be at high levels.

We also believe that there is generally a time lag of about one to two years before improvements in profit begin to be seen after the investment (after expanding capacity and recruiting/developing employees). Therefore, we estimate that the investments will begin to contribute significantly to profit starting in FY2026 or later.

【Figure 17】 How the Raised Capital Will Be Used and the Schedule (investment plan)

Fiscal Year	Units: million yen or %	FY2023	FY2024	FY2025	FY2026	Cumulative Sum	% of Entire Investment
Amount Used	Total (amount): ①=②+③	120	845	805	410	2,180	100.0%
	Percent of Entire Investment	5.5%	38.8%	36.9%	18.8%	100.0%	
Main Use of Capital	Production Facilities: Subtotal ② (breakdown shown below)	80	385	125	0	590	27.1%
	Nearshore (create new regional sites)	80	160	0	0	240	11.0%
	Nearshore (enhance existing sites)	0	100	50	0	150	6.9%
	Prepare and enhance remote work environment	0	50	0	0	50	2.3%
	Enhance offshore sites / form alliances with companies	0	50	50	0	100	4.6%
	Purchase software assets	0	25	25	0	50	2.3%
	Production System: Subtotal ③ (breakdown shown below)	40	460	680	410	1,590	72.9%
	Invest in recruitment (gain employees for production)	20	320	320	320	980	45.0%
	Invest in training (people development)	10	30	30	30	100	4.6%
	Sophistication of production/quality management	0	60	60	60	180	8.3%
	Enhance engagement (with employees)	10	50	270	0	330	15.1%

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

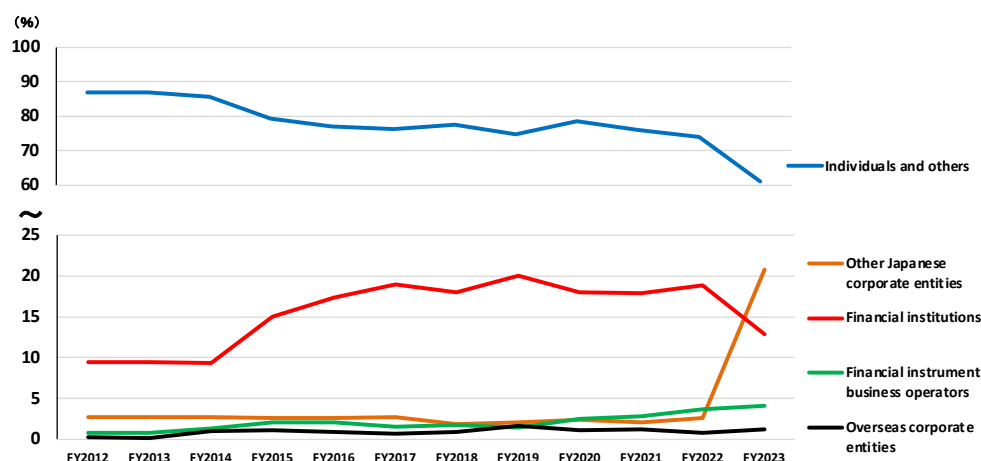
### 3. Shareholder Composition

- ◆ The proportion of shares owned by “other Japanese corporate entities” increased, while “individuals and others” decreased to 60%.

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

With regards to shareholder composition by type of shareholder as of the end of March 2023 (Figure 18), the proportion of “other Japanese corporate entities” increased significantly due to investments by NRI (page 16). As a result, the proportion of “individuals and others” declined from 74% to 61%, followed by “financial institutions” which also declined from 19% to 13%. Meanwhile, “overseas corporate entities” increased slightly from 0.8% to 1.2%.

【Figure 18】 Change in Shareholder Composition by Type of Shareholder (unit: %) (as of the end of each fiscal year)



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

- ◆ NRI became the largest shareholder.
- ◆ The employee stock ownership plan and current and former directors are the most prominent among the other major shareholders.

#### ◆ Major Shareholder Composition

The composition of major shareholders has changed due to NRI's investment. NRI's shareholding ratio rose from 1.51% to 20.18%, making it the largest shareholder.

The other major shareholders and the shareholder ranking have mostly not changed, but the shareholding ratio of each has decreased due to dilution accompanying the third-party allotment of new shares.

The major shareholders as of the end of March 2023 are shown in Figure 18 on page 19. The following is supplemental information.

- The shareholder ranking has changed; Osamu Sakiyama (chairman and previous president), who used to be the largest shareholder, dropped to third place and the Employee Stock Ownership Plan remained at second place, while both experienced a decline in the shareholding ratio.
- Masahiro Nakanishi, the Company's president, owns 15.3 thousand shares (0.1% of all shares).
- The Master Trust Bank of Japan, a trust account, is ranked at fourth place. The same bank is also ranked at fifth place as the Company's director

compensation BIP trust account (stock-based compensation as the director incentive plan).

- ♦ The total of treasury shares, stock ownership plan, and shares held by directors, employees, and other related parties account for about 26% of all outstanding shares.
- ♦ Incorporated in several Japanese investment trusts.
- ♦ Essentially owns treasury shares amounting to 3.7% of all outstanding shares.

- The sixth largest shareholder, Akemi Onuki, is one of the Company's previous presidents. The eighth largest shareholder, Toshikuni Sato, is the Company's former executive managing director. The ninth largest shareholder, Toshio Uchida, is the Company's former executive vice president (new auditor candidate).

- The Custody Bank of Japan at tenth place is a trust account.
- Of the top ten shareholders, the Employee Stock Ownership Plan, the directors and employees (including former members), and the director compensation BIP trust account add up to about 26% of the total.
- The Company's stock is incorporated in funds managed by Nomura Asset Management (Japan small cap equity fund and small cap equity open) and Japan equity index funds including those managed by Mitsubishi UFJ Kokusai Asset Management and Asset Management One. Some of these funds are likely investing under the names of trust banks that are ranked as major shareholders.

Due to the capital increase in December 2022, the total outstanding shares increased from 14,500 thousand shares to 15,750 thousand shares. Its treasury shares (which include the BIP trust account) amount to about 589 thousand shares as of the end of FY2023 (3.7% of all outstanding shares), meaning that the Company is essentially the fifth largest shareholder.

**[Figure 19] Current Major Shareholders**

Shareholder Name (unit: thousand shares)	End of Mar. 2015	End of Mar. 2016	End of Mar. 2017	End of Mar. 2018	End of Mar. 2019	End of Mar. 2020	End of Mar. 2021	End of Mar. 2022	End of Mar. 2023	Shareholding ratio (%)	Shareholder ranking
Nomura Research Institute, Ltd.	-	-	-	-	-	-	214	-	3,179	20.18	1
CUBE SYSTEM Employee Stock Ownership Plan	1,641	1,672	1,663	1,668	1,565	1,602	1,551	1,531	1,468	9.32	2
Osamu Sakiyama (indiv.): CUBE SYSTEM's chairman	1,775	1,675	1,655	1,646	1,638	1,632	1,622	1,614	1,122	7.12	3
The Master Trust Bank of Japan, Ltd. (trust account)	-	-	-	321	394	485	456	959	1,062	6.74	4
The Master Trust Bank of Japan (director compensation BIP trust: 75,824 account)	-	270	270	262	369	358	358	618	586	3.72	5
Akemi Onuki (indiv.): CS's former president	401	401	401	401	401	401	401	401	401	2.54	6
SMBC Nikko Securities Inc.	-	-	-	-	-	-	-	-	290	1.84	7
Toshikuni Sato (indiv.): CS's former exec. managing director	380	340	300	300	304	304	288	239	230	1.45	8
Toshio Uchida (indiv.): former executive vice president	475	415	403	393	376	369	347	329	221	1.40	9
Custody Bank of Japan (trust account)	-	-	-	-	-	-	-	-	202	1.28	10
Masatsugu Sakurai (indiv.): general individual investor	316	316	316	316	316	316	316	288	-	-	-
MUFJ Bank, Ltd.	258	258	-	-	258	258	258	258	-	-	-
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	-	-	-	-	-	-	-	-	-	-
(CUBE SYSTEM's Actual Treasury Shares)	682	728	1,306	1,498	1,725	1,692	1,690	1,000	589	-	-
(Proportion of Treasury Shares to All Outstanding Shares)	4.5%	4.8%	8.5%	9.8%	11.3%	11.1%	11.1%	6.9%	3.7%	-	-

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

(Note) “-” indicates that the shareholder was not among the major shareholders disclosed in the securities report and does not necessarily mean zero. Shareholding ratios were calculated after subtracting the treasury shares from all outstanding shares. The proportion of treasury shares includes the director remuneration BIP trust account.



## 4. ESG and Sustainability

### ◆ Environment

- ◆ **Working on continuous improvement of environmental performance (energy and resource conservation)**
- ◆ **Joined the TCFD and will work on mitigating and adapting to climate change and promoting appropriate information disclosure. Added nonfinancial goals on environment to its medium-term plan.**
- ◆ **Its mission is to contribute to the further development of the IT society and the strengthening of its customers' competitive edge**

- ◆ **Of the 10 directors and auditors, 6 are from outside the Company.**

(19) Health & Productivity Management Outstanding Organizations: health & productivity management outstanding organizations recognition program in which companies that worked on initiatives to solve local health issues or promote health are jointly selected and awarded by the Ministry of Economy, Trade, and Industry and the Nippon Kenko Kaigi

- ◆ **Focusing on sustainability management**

(20) 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.

Although the Company's business does not harm the environment, under its environment policy to "practice environment-friendly management through continuous improvement of environmental performance (energy/resource conservation)," the Company engages in environment-friendly initiatives (such as reducing the use of electricity, paper usage, and waste and adopting the cool biz). Also, in November 2021, it joined the Task Force on Climate-related Financial Disclosures (TCFD) and has been working on initiatives for mitigating and adapting to climate change and promoting appropriate information disclosure. It has also newly added nonfinancial goals on environment to its medium-term plan (Figure 46 on page 34).

### ◆ Society

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' competitive edge. It aims to create a more prosperous and convenient society through the power of IT systems.

### ◆ Governance

As a company with auditors, the Company has set up the Nomination and Compensation Advisory Committee and the Internal Control and Integrated Risk Management Meeting (which directly supervises various committees including the Compliance Committee, the Internal Control Committee, the Security Committee, and the Working Style Reform Committee). It has also set up an internal hotline system for compliance-related matters.

The management team consists of six directors (of which three are external directors) and four auditors (of which three are external auditors). Of the directors, the chairman is a dedicated member, and three including the president are from NRI (of which, one is an external director). Of the remaining two external directors, one is a certified public accountant and one is a doctor (female occupational physician specialized in elderly care and mental health). One of the external auditors (female) is also a certified public accountant (decided at the general meeting of shareholders).

Recognizing the enhancement of human capital and the workstyle reform as its key challenges, the Company has been working on improving and maintaining the mental and physical health of its employees and creating a comfortable working environment under its health management policy (certified as one of the Health & Productivity Management Outstanding Organizations 2023<sup>19</sup>; has received this award for the second year in a row).

### ◆ Sustainability

The Company has formulated the basic sustainability policy that is composed of eight items and has been focusing on sustainability management. To solve the society's problems and contribute to the SDGs<sup>20</sup>, it is leveraging its unique value-creation model to continuously improve corporate value and contribute to the creation of a sustainable society. It has especially been focusing on sound corporate management, contribution to the local community, environmental conservation, promotion of compliance, respect for human rights, support for the development of the next generation, and enhancement of human capital (people development and emphasis on people).

## 5. History of Growth

### ◆ Company History

- ◆ Founded with the prediction that the importance and potential of computer systems will grow in the future. 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
- ◆ Moved to the Prime Market, the new segment, in April 2022

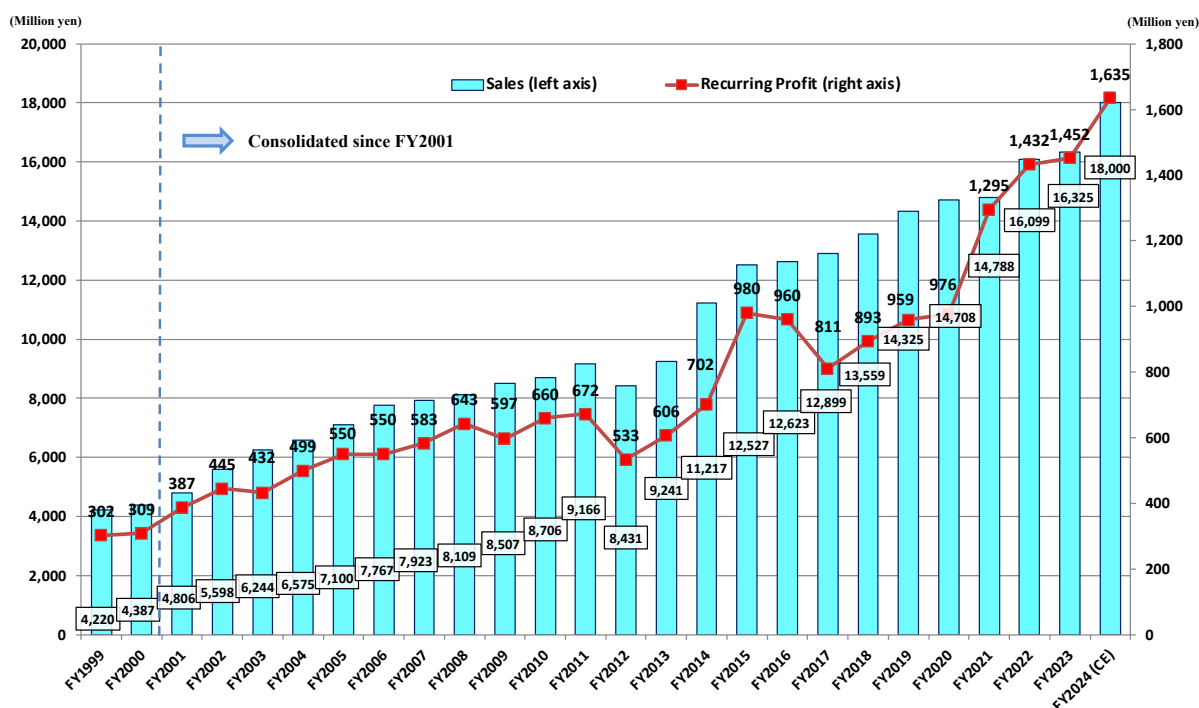
In 1972, the Company was founded as Customer Engineers Corporation by its founding members, which included the current chairman, for the purpose of software development and system operation/management (its name was changed to the current one in 1990). As computers became popular in the Japanese society,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

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. With the change in the market segments of the TSE, it moved to the TSE Prime Market in April 2022.

### ◆ 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. The long-term transition in financial performance is shown in Figure 20. The following are details of the financial results in chronological order.

【Figure 20】 Long-Term Transition in Financial Results



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

- Stable growth and sales growth trend maintained over many years. Profit margins had been about the same, but are starting to increase in recent years.

- Sales decreased only for 1 fiscal year during the past 25 years.

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

- On a consolidated basis, with the exception of only a single fiscal year (FY2012), the Company has been achieving an year-on-year increase in sales every fiscal year for the past 21 fiscal years. This stable growth trend is noteworthy.

- During the past 25 years, the annual sales growth rate (simple average of the annual rates of increase in sales) was +5.9%, and similarly the recurring profit growth rate was +7.1%, showing how the Company has been solidly improving its financial performance over the long term.

- Although recurring profit decreased in five out of the 21 fiscal years, the largest annual drop stayed within a range of approx. -20%, and the Company has been able to maintain a net profit for 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 the relative standard deviation) are small, indicating that the volatility of the Company's fundamentals is low (see Figure 21 for the comparison with similar-sized competitors during the most recent 19 fiscal years).

- Furthermore, because the Company's operating margin has stably been at around 7% (6-9%; simple average of 7.4%; Figure 22 on page 22), sales growth has been directly contributing to increases in profit, dividend, and market capitalization.

**【Figure 21】 Analysis of Performance Volatility over the Past 19 Years (% YoY change for sales and R.P.)**

Target of Analysis	% Change in Sales (YoY %)			% Change in Recurring Profit (YoY %)		
	CUBE SYSTEM	HIMACS	Toho System Science	CUBE SYSTEM	HIMACS	Toho System Science
FY2005 - FY2023	2335	4299	4333	2335	4299	4333
Market: TSE Prime	2335	4299	4333	2335	4299	4333
n = 19 fiscal years	CS (consolidated)	HM (consolidated)	TS (standalone)	CS (consolidated)	HM (consolidated)	TS (standalone)
Standard deviation	5.78	7.26	16.46	13.72	30.01	298.60
Average	5.06	3.28	8.51	6.78	8.45	81.44
Coefficient of variation	1.14	2.21	1.93	2.02	3.55	3.67

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and financial results summary. Note: non-consolidated for Toho System Science (standalone).

- The increase in 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, raise credibility, and build a strong customer base to consistently deliver positive results. As mentioned earlier, it has strengthened its relationship with the four major groups NRI, Fujitsu, Aeon, and Mizuho. This strong relationship has enabled the Company to continue to increase the number of orders received from these groups, which has been the major growth driver.

- Even right after the Lehman's collapse, sales increased for 3 consecutive fiscal years.

Financial performance during the most recent 14 years or so is as follows.

- In FY2009 when the Lehman's collapse 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 of the financial and distribution industries, as well as due to the entry of companies into the banking business giving rise to projects for operation expansion.

- The economic recession continued into FY2010 and FY2011. 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 business with the existing customers and the expansion of business with life insurance

◆ In FY2012, 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 FY2015

◆ Sales have been hitting record highs for 11 fiscal years in a row.

◆ Profit growth had been slow due to increased cost but profits have been hitting record highs consecutively for the past three fiscal years.

companies, banks, and manufacturers, it was able to continue to increase sales. With increasing sales, operating profit during the three fiscal years following the Lehman's collapse was impacted only to a small range.

• The Great East Japan Earthquake, though, had a large negative impact in FY2012. Amidst the difficult situation, sales decreased by approx. 8%. Sales from finance stayed about the same, but sales from distribution and telecommunication dropped largely. This was the single fiscal year during the past 25 years up through 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.

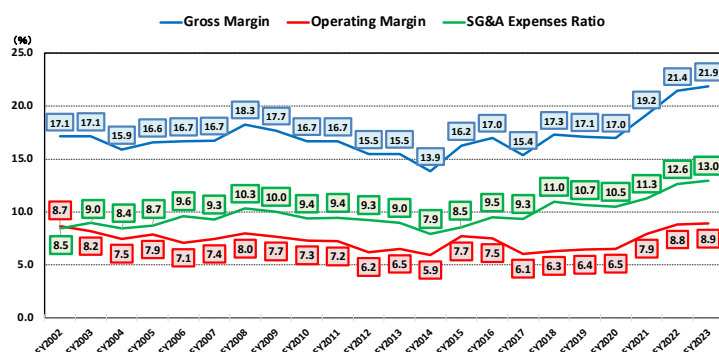
• Then, IT investments by companies and the government recovered from their previous inclination to be held off or postponed thanks to factors such as the economic recovery brought by the Abenomics since December 2012, recovery of corporate performance and employment, rebuilding of IT infrastructure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

• Regarding profit, in FY2015, 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 strengthened project management. As a result, record-high operating profit and recurring profit of Y964 million and Y980 million were posted, respectively (net profit also hit a record high in the following year or FY2016, at Y629 million). Since then, the Company has been consecutively posting new record-high sales every fiscal year through FY2023.

• Meanwhile, due to increased cost and intensified price competition, the Company's gross margin and operating margin had been gradually decreasing over the long term (Figure 22).

• The operating margin had decreased mainly due to the increased cost of sales (subcontracting cost and labor cost), upfront investments, and increased SG&A expenses (especially personnel expenses), but then began to improve starting in FY2018. In the previous fiscal year (FY2023), due to the sales growth and the improvement of the gross margin (21.4%→21.9%), each of the profits hit their record highs for the consecutive fiscal year despite the increase in the SG&A expenses ratio (12.6%→13.0%).

【Figure 22】 Long-Term Transition in the Company's Gross Margin, SG&A Expenses Ratio, 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

#### Survey of Selected Service Industries

- ◆ As the outsourcing of system development became popular, SIs grew by receiving orders for those outsourced system development projects.

- ◆ As the COVID-19 outbreak somewhat settled down, Japan's SI market recovered to growth in 2021. Growth was maintained in 2022 as well.

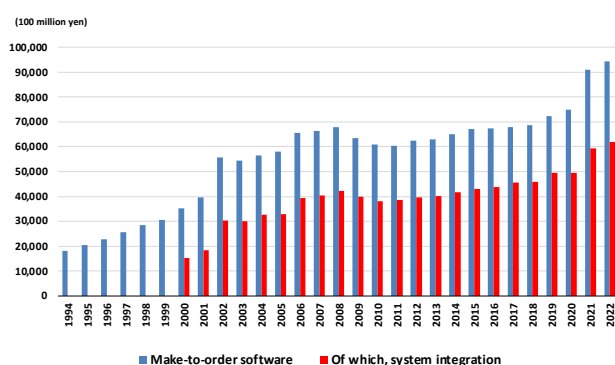
- ◆ Growth trend has been maintained for the monthly SI sales (YoY) for 12 consecutive months since April 2022.

"Sales by category of business for the information services industry" in the "Survey of Selected Service Industries" by the Ministry of Economy, Trade, and Industry shows that the sales of make-to-order software, as well as the sales of system integration (SI) which make up more than half of make-to-order software's sales, have been increasing with the exception of the few years after the Lehman's collapse (Figures 23). In Japan, the outsourcing of system development has become popular, and system integrators have stably grown as the contractor of those system development projects.

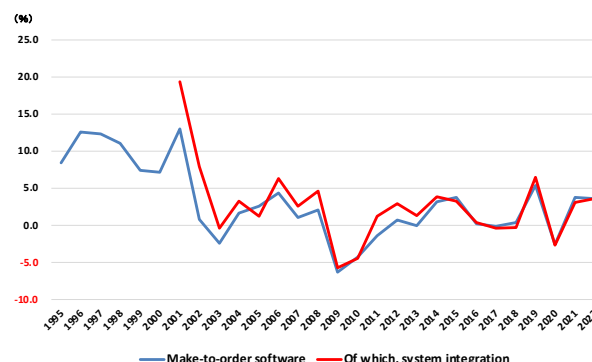
According to the same data, from 2010 to 2019, sales of system integration increased by about 2.1% per year on a simple average. In 2020, COVID-19 caused a negative growth of -2.7%, but the market's sales recovered by 3.1% in 2021 and by 3.6% in 2022 (Figure 24).

Monthly analysis of the same data (YoY change; Figure 25) shows that the YoY growth had been negative from March 2020 to February 2021. The growth then became positive for a while, but temporarily became negative again in January 2022 when the Russian invasion of Ukraine began, as well as in March. Since then, a positive growth has been stably maintained for 12 consecutive months.

【Figure 23】 Change in the Make-to-Order Software and System Integration Markets (annual sales: unit = 100 million yen)

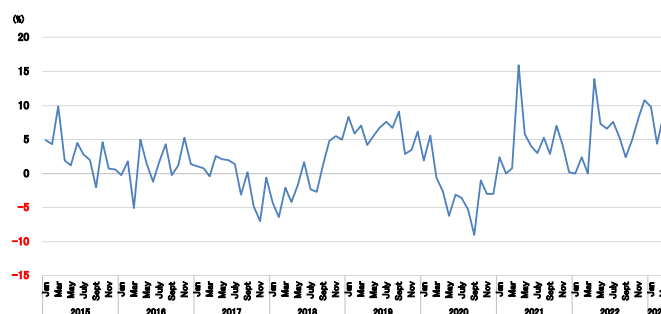


【Figure 24】 Both Market's Rate of Change (rate of YoY change in sales: %)



(Ref) Figures 23-25: Prepared and reworked by Alpha-Win Research Dept. based on data from the "March 2022 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 23 do not have continuity with the rest due to changes in the survey target size. However, the rate of change in Figure 24 has been adjusted by the Ministry to have continuity.

【Figure 25】 SI Market's Monthly Sales on a YoY Comparison (unit: %)





- ♦ Software investment is expected to increase by 4.0% (YoY) in 2023

- ♦ BOJ Tankan's DI for large companies has been solidly positive, albeit at a somewhat smaller momentum.

- ♦ In the JISA-DI survey, the DI (outlook) for expected sales of make-to-order software has remained at a double-digit, positive value.

- ♦ The DI for expected sales has been high for businesses toward the financial, insurance, and information & communication industries.

- ♦ Significant shortage of IT engineers both in number and quality

- ♦ Active strategic IT investments by both the public and the private sectors

- ♦ High demand related to DX

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

According to the BOJ Tankan Survey in March 2023, the amount of software investment in FY2023 (plan) by companies of all sizes and all industries (including financial institutions) is expected to increase by +4.0% YoY, albeit at a slower growth rate than the expected rise of 15.5% YoY in FY2022 (plan).

The business sentiment of all companies of all sizes and industries slightly declined from +6 in the December 2022 survey (recent sentiment) to +5 in March 2023, with the outlook also somewhat dwindling at +2. The business sentiment of large companies, which are the Company's main customers, changed (in the same order) from +13 to +10 for the recent sentiment and from +8 to +9 for the outlook, and has been solid compared to mid-tier or small/medium-sized companies.

### **Data from the Industry Association**

According to the JISA-DI Survey (March 2023) by the Japan Information Technology Services Industry Association, the DI for the expected sales of make-to-order software (sales outlook: the comparison between the upcoming three months and the first three months of this fiscal year = growth minus decline) had used to be a large positive value, but then suddenly fell to -43.8 in Apr-Jun 2020 in its largest drop ever.

The DI for expected sales had stayed at double-digit, negative values for a while after this, but then recovered to +8.2 in Jan-Mar 2021. The outlook then improved further, and double-digit, positive DIs have been maintained since then. Its recent peak was +40.3 in Jan-Mar 2023. In the most recent data (Apr-Jun 2023), the DI had declined to +29.6, but is nevertheless at a high level. With regards to the DI pertaining to each major customer of the IT services industry, the DI for expected sales has been strong for information & communication, the government, and especially finance and insurance.

The employment situation index (DI: employee sufficiency = shortage minus excess) has become a smaller positive value compared to the most recent peak, but is still at 74.6, indicating an extremely strong sense of labor shortage. In particular, there has been a shortage of IT engineers both in number and quality, and the recruitment of talented employees for system development continues to be difficult.

### **Market Outlook**

The structurally inherent labor shortage, demands for improvement in operation efficiency, and IT investments by companies and the government (promotion and acceleration of IT investments by the Digital Agency) will likely continue to steadily grow. In various industries and business areas, companies have been actively investing in strategic areas and developing technologies to raise their competitive edge.

Listed companies in Japan are continuing to show profit growth trends. Combined with systems becoming increasingly advanced, as well as the demand for DX, we predict that the market size will grow at a pace of about 2-5% per year once economic activities return to normal.

## ◆ 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 NRI's e-e Partners and their market positions and business contents are very similar.

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 and other sources. 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, or similar companies, are thought to be the two companies HIMACS (TSE Prime: 4299) and Toho System Science (TSE Prime: 4333), which the Company uses as its benchmark. They are both e-e Partners of NRI (Nomura Research Institute; TSE Prime 4307) and are about the same size and at very similar market positions as the Company (Figure 28 on page 26).

Several of the largest SI players in the market, such as NRI and Fujitsu, are in cooperation or partnership with the Company rather than direct competition.

We compared 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) (Figure 26).

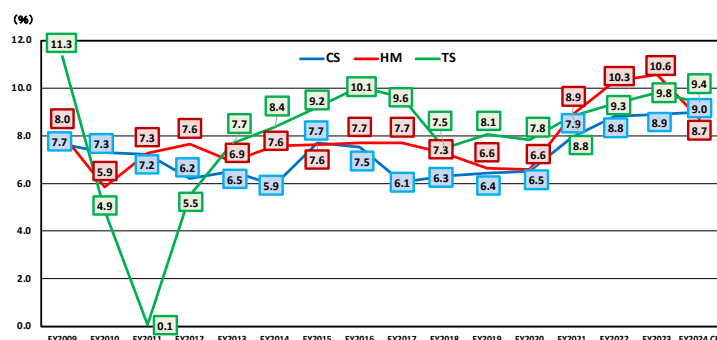
- ◆ The Company's profit margin is somewhat low compared to its two competitors.

Compared to the other two companies, the Company's gross margin is high but its SG&A expenses ratio is also high. Therefore, its operating margin is relatively low, although it has been gradually improving.

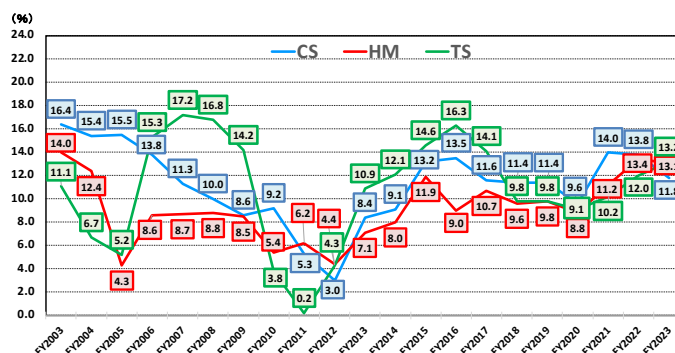
- ◆ Its ROE had improve significantly and had been the highest among the three companies in recent years, but decreased due to the capital increase.

Similarly, comparison of the return on equity (ROE) (Figure 27) shows that the Company's ROE had been the highest of the three companies over the five fiscal years from FY2018 to FY2022 (same for ROA; although the profit margins were about the same as the other two companies, its total asset turnover was high). In FY2023, though, its ROE became the lowest instead due to the capital increase in the previous fiscal year's Q3. Note that the Company's goal for ROE over the medium term is 13% or greater.

【Figure 26】 Transition in the Operating Margin between Three Mid-Tier, Listed Companies



【Figure 27】 Transition in ROE of the Three Companies



(Ref) Figures 26 and 27: Prepared by Alpha-Win Research Dept. based on the financial results summary and securities report

【Figure 28】 Company Overview and Management Indicator Comparison for the Three Mid-Tier, Listed Companies (the Company, HM, and TS) and NRI (reference)

Company Name	CUBE SYSTEM (CS)	HIMACS (HM)	Toho System Science (TS)	Reference: Nomura Research Institute (NRI)
Code	2335	4299	4333	4307
Characteristics	Independent. Mainly sys. dev. for finance, distribution, telecom, and other industries (industries excluding the above 3 industries such as makers & gov.). Sales from finance account for 30% of total sales. The "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, at a little more than 30% of total.	Began as Toho Mutual Life Insurance Co.'s affiliate but is now indep. Specialized in finance (insurance, securities, etc.) which accounts for 80% of total sales. Also develops software for the telecom industry.	Merger between Nomura Research Institute and Nomura Computer Systems in 1988; 50% of sales are from finance.
Founded	July 1972	May 1976	June 1971	April 1965
Listed Date: JASDAQ→TSE 2nd→TSE 1st→TSE Prime (April 2022)	Oct. 2002 → Nov. 2006 → Mar. 2014	Mar. 2001 → Mar. 2004 → Mar. 2015 → April 2022	June 2001 → Mar. 2007 → Mar. 2014	TSE 1st Section (Dec. 2001) → TSE Prime
Sales Categories/Breakdown (FY2023)	<ul style="list-style-type: none"> <li>System Integration 74.0%</li> <li>System Outsourcing 11.0%</li> <li>Professional 15.0%</li> </ul>	<ul style="list-style-type: none"> <li>System Solution 37.9%</li> <li>System Maintenance 62.1%</li> </ul>	<ul style="list-style-type: none"> <li>Software Development 98.1%</li> <li>IT System Services, etc. 1.9%</li> </ul>	<ul style="list-style-type: none"> <li>Consulting 6.7%</li> <li>Financial IT Solutions 47.5%</li> <li>Industrial IT Solutions 38.6%</li> <li>IT Infrastructure Services 7.3%</li> </ul>
Director Composition (as of May 2023)	<ul style="list-style-type: none"> <li>Directors (7; of which, 3 external &amp; 1 woman [14.3%])</li> <li>Auditors (3)</li> <li>Executive officers (13; no woman)</li> </ul>	<ul style="list-style-type: none"> <li>Directors (7; of which, 3 external and 1 woman)</li> <li>Auditors (4; of which, 2 external)</li> <li>Executive officers (10; no woman)</li> </ul>	<ul style="list-style-type: none"> <li>Directors (7; of which, 3 external)</li> <li>Auditors (3; of which, 2 external)</li> <li>Executive officers (5; of which, 1 woman)</li> </ul>	<ul style="list-style-type: none"> <li>Directors (9; of which, 3 external and 1 woman)</li> <li>Auditors (5; of which, 3 external and 1 woman)</li> <li>Executive officers (40; of which, 2 women)</li> </ul>
Major Clients/Customers (FY2023) (sales = million yen; % of sales = %)	<ul style="list-style-type: none"> <li>NRI Group 8,109 (49.7%)</li> <li>Fujitsu Group 3,071 (18.8%)</li> </ul>	<ul style="list-style-type: none"> <li>68% from finance (of which 33% is from insurance)</li> </ul>	<ul style="list-style-type: none"> <li>74% from finance (of which, 30% from nonlife insurance)</li> </ul>	<ul style="list-style-type: none"> <li>Securities: Nomura Securities, Mizuho Securities, etc.</li> <li>Insurance: Japan Post Insurance, Sony Life Insurance, etc.</li> <li>Banks: Seven Bank, Nomura Trust and Banking, etc.</li> <li>Other: distribution, manufacturing, services, etc.</li> </ul>
Sites (including consolidated subsidiaries)	<ul style="list-style-type: none"> <li>Main office: Shinagawa-ku, Tokyo</li> <li>West Japan Solutions Office in Osaka &amp; Nagoya</li> <li>3 subsidiaries</li> </ul>	<ul style="list-style-type: none"> <li>Main office: Yokohama, Kanagawa</li> <li>Minatomirai Office in Yokohama</li> <li>1 subsidiary</li> </ul>	<ul style="list-style-type: none"> <li>Main office: Bunkyo-ku, Tokyo</li> </ul>	<ul style="list-style-type: none"> <li>Main office: Otemachi, Chiyoda-ku, Tokyo</li> <li>92 consolidated subsidiaries (in Japan and overseas)</li> </ul>
Management Goals (indicators)	<p><u>Medium-term management plan</u></p> <ul style="list-style-type: none"> <li>FY2022: sales Y16B (result: Y16.1B), O.P. Y1.23B (result: Y1.42B), operating margin 7.7% (result: 8.8%), and ROE 13% or more (result: 13.8%)</li> <li>FY2023: sales Y17.3B (result: Y16.3B), O.P. 1.53B (result: Y1.45B), O.P. margin 8.8% (result: 8.9%), and ROE 11% (result: 11.8%)</li> <li>FY2024: sales Y18B (previously Y19B ← initially Y18.5B), O.P. Y1.61B (previously Y1.71B ← initially Y1.48B), O.P. margin 9.0% (previously 9.0% ← initially 9.0%), and ROE 11% (previously 13%)</li> </ul>	<p><u>Medium-term management plan, final FY2023:</u></p> <ul style="list-style-type: none"> <li>Sales Y17.75B (result: Y17.33B) (each FY, DX-related sales of more than 100)</li> <li>O.P. Y1.77B (result: Y1.83B), O.P. margin 10% (result: 11%)</li> <li>Maintain ROE ≥8% (result: 13.1%)</li> </ul> <p>The next medium-term management plan (3-year plan) is planned to be announced upon the announcement of Q1 FY2024 results.</p>	<p><u>New medium-term management plan, for each final FY:</u></p> <p>FY2025 (first stage):</p> <ul style="list-style-type: none"> <li>Sales Y16.5B</li> <li>O.P. Y1.58B (margin 9.6%)</li> <li>ROE 11.4%</li> </ul> <p>FY2028 (second stage):</p> <ul style="list-style-type: none"> <li>Sales Y20B</li> <li>O.P. Y2B (margin 10%)</li> <li>ROE 12.5%</li> </ul> <p>FY2031 (third stage):</p> <ul style="list-style-type: none"> <li>Sales Y25B</li> </ul>	<p><u>Medium-term management plan:</u></p> <ul style="list-style-type: none"> <li>FY2024: revenue Y720B and O.P. Y117B (margin 16.3%)</li> <li>FY2025: not disclosed</li> <li>FY2026: revenue Y810B and O.P. Y145B (margin 17.9%)</li> </ul>
Management Policy/Strategy (summary)	<ul style="list-style-type: none"> <li>Each employee will contribute to society through business and aim for higher corporate value</li> <li>Develop a stable and sustainable business foundation based on proposal &amp; contract-based business</li> <li>Work on sustainable management</li> <li>Digital Business: seamless alignment with consultations in development; provide rapid development to end users using F@CE DX</li> <li>SI Business: provide high productivity and new development services through technologies for shifting to the cloud and microservices</li> <li>Enhancement Business: strengthen the nearshore &amp; offshore (Asia) development system for stable and excellent productivity over the long term</li> <li>Management foundation: exchange information &amp; knowledge and enhance engagement. Coordinate with partners to achieve ESGs at high levels.</li> </ul>	<p><u>Basic strategy</u></p> <ul style="list-style-type: none"> <li>Expand the conventional contract-dev. business (core business)</li> <li>Actively work on receiving orders for DX projects on the transformation of its customers' business models and technology innovations</li> <li>Continue investment for strengthening business structure</li> <li>Increase development staff</li> <li>Conduct M&amp;As and form capital/business alliances to solve the challenges of this current plan</li> </ul>	<p><u>Long-Term Management Vision 2030</u></p> <ul style="list-style-type: none"> <li>Create the future with customers</li> <li>Stably expand business, solve society's issues, and create a sustainable future society</li> </ul> <p><u>Priority Strategies</u></p> <ul style="list-style-type: none"> <li>Change the business portfolio</li> <li>Focus on the digital business</li> <li>Build the service business</li> <li>Establish the DX Development Center</li> <li>Raise liquidity of shares and strengthen governance</li> </ul>	<p><u>Main Pillars of the Growth Strategy:</u></p> <ul style="list-style-type: none"> <li>Deeper development of the core businesses (greater market reach in Japan): sales growth rate (growth rate from Mar. 2023 to FY ending May 2026) for 1) the consulting business at more than +Y5B, 2) the Industrial IT Solutions at more than +Y40B, 3) the Financial IT Solutions at more than +Y40B, and 4) IT Infrastructure Services at more than +Y5B</li> <li>Evolving the core businesses (fundamental transformation of production): 1) fundamental transformation in production through modernization of the existing IT assets, renewal of the development framework, and utilization of AI in development processes, and 2) planning to invest about Y20B during the span of the current medium-term plan to improve productivity</li> </ul>
Sales (million yen) CE for FY2024	18,000	18,150	16,500	720,000
Sales Growth Rate, YoY (%) CE	10.3	4.7	6.8	4.00
Operating Profit (million yen) CE	1,620	1,580	1,550	117,000
Operating Profit Growth Rate, YoY (%) CE	11.5	-13.8	2.3	4.6
EPS (CE) for FY2024, YoY (%)	1.3	-16.6	-5.2	2.3
DOE (%) Actual	8.6	5.0	5.7	7.2
Past 14 Years' Sales Growth Rate (FY2023's result divided by FY2009's result: %)	91.9	90.2	90.4	102.8
Operating Profit Growth Rate (same condition as above)	122.8	150.1	64.9	125.0
Equity Ratio (%) Actual	76.6	80.1	68.5	47.6
Number of Domestic/Overseas Employees, Actual	843	891	641	16,512
Est. Sales Per Employee (million yen / person)	19.4	19.5	24.1	41.9
Est. Operating Profit Per Employee (million yen / person)	1.7	2.1	2.4	6.8
ROE (%) Actual for FY2023 A=B×C×D	11.8	13.1	13.2	20.7
Net Profit Margin (net profit for the year / sales : %) B	6.1	7.5	7.2	11.0
Total Asset Turnover Ratio (sales / ave. total asset) C	1.4	1.4	1.2	0.9
Financial Leverage (ave. total asset / ave. owner's equity) D	1.3	1.3	1.5	2.2
ROA (recurring profit / total asset : %) E=F×G	13.1	14.7	12.2	13.3
Recurring Profit Margin (%) Actual F	9.1	10.6	9.9	15.7
Total Asset Turnover Ratio (sales / ave. total asset) G	1.4	1.4	1.2	0.9

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

(Note) The companies' forecasts for FY2024 are italicized; the rest are actual values of FY2023. The highest values among the three companies (excluding NRI) are highlighted in yellow. In the ROA (E) and recurring profit margin (F) of NRI, net profit before tax was used instead of recurring profit.

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

### ◆ Full-Year Financial Results for FY2023 (last fiscal year)

#### Summary

The consolidated financial results for FY2023 (previous fiscal year) were as follows: sales of Y16,325 million (+1.4% YoY), operating profit of Y1,452 million (+2.4% YoY), recurring profit of Y1,480 million (+3.3% YoY), and net profit attributable to owners of the parent of Y989 million (+4.8% YoY; hereinafter, "net profit"). Sales and each of the profits reached the goals of its plan, which had been revised downward in February 2023 from the initial forecast made at the beginning of the fiscal year (Figure 29).

Sales have hit a record high for the 11th consecutive fiscal year starting in FY2013 and profits have also hit record highs for the third consecutive fiscal year. Also, the annual dividend per share was increased from the initial forecast of 26 yen to 50 yen (of which, commemorative dividend of 24 yen).

Alpha-Win Research Dept.'s forecasts for the previous fiscal year were the same in amount as the Company's revised forecasts for sales, profits, and dividend. The results came out to be mostly in line with expectations. The achievement rate in terms of the Company's plan (and our forecast) was 100.8% for sales, 102.3% for operating profit, and 104.2% for net profit.

While details will be described later, the Digital Business and the Enhancement Business performed well and had strong results. There were no unprofitable projects or extraordinary losses, and the increase in operating profit led to an increase in the net profit.

◆ Achieved the company plan, which had been revised downward from the initial plan in February 2023.

◆ Hit record sales for the 11<sup>th</sup> consecutive fiscal year and record profits for the 3<sup>rd</sup> consecutive fiscal year. Raised dividend.

◆ Mostly the same as the revised forecasts; there was no surprise

◆ The Digital and the Enhancement businesses were firm.

【Figure 29】 Comparison of Forecasts and Results for FY2023 (last FY)

Unit: million yen	Initial Company Plan	Revised Company Plan	Alpha-Win's Initial Forecast	Alpha-Win's Revised Forecast	Result	Comparison with Revised Company Plan (Diff.)	Comparison with Revised Company Plan (% Achieved)	Comparison with Alpha-Win's Revised Forecast (Diff.)	Comparison with Alpha-Win's Revised Forecast (% Achieved)
	A	B	C	D	E	F=E-B	G=F/B	H=E-D	I=H/D
Sales	17,300	16,200	17,100	16,200	16,325	125	0.8%	125	0.8%
Gross Profit					3,570				
Gross Margin					21.9%				
SG&A Expenses					2,118				
SG&A Exp. Ratio					13.0%				
Operating Profit	1,530	1,420	1,480	1,420	1,452	32	2.3%	32	2.3%
O.P. Margin	8.8%	8.8%	8.7%	8.8%	8.9%	0.1%		0.1%	
Recurring Profit	1,545	1,445	1,495	1,445	1,480	35	2.5%	35	2.5%
Net Profit	1,000	950	970	950	989	39	4.1%	39	4.2%
Dividend	26.00	50.00	26.00	50.00	50.00	0	0.0%	0	0.0%

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

◆ Both the orders received and the order backlog increased.

#### Orders Received and Order Backlog

In the order of FY2022 → FY2023, the orders received increased from Y16,072 million → Y16,620 million by Y548 million YoY (+3.4%). The order backlog (at the end of each fiscal year) also increased steadily from Y4,276 million → Y4,572 million (in the same order as above) by Y295 million YoY (+6.9%).

#### Sales and Profit by Service Category

Concerning the sales of each service category, compared to the Company's overall increase in sales (+Y225 million or +1.4% compared to FY2022),

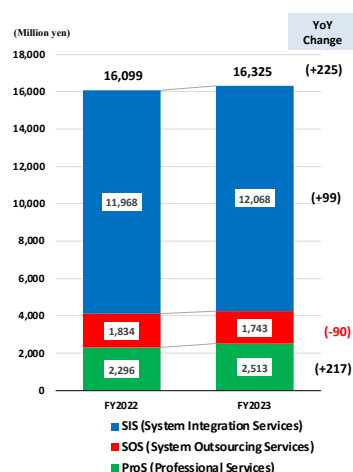
- ◆ ProS and SIS contributed to the sales growth.
- ◆ ProS contributed the most to profit.

sales grew for SIS (similarly, +Y99 million or +0.8%) and ProS (similarly, +Y217 million or +9.5%) but decreased for SOS (similarly, -Y90 million or -4.9%) (Figure 30).

Operating profit grew for all categories except SOS, whose sales had declined. SIS and ProS's profits increased by Y12 million and Y32 million, respectively, while SOS's profit decreased by Y10 million (Figure 31). ProS accounted for most of the overall increase of Y34 million in operating profit.

The Company's overall operating margin improved slightly from 8.8% → 8.9% (in the order of FY2022 → FY2023). SOS's margin decreased from 7.5% → 7.2% (-0.3 percentage point), but the margin of SIS, which accounted for 80% of the sales, increased from 8.7% → 8.8% (+0.1 percentage point) and ProS's margin improved from 10.3% → 10.7% (+0.4 percentage point).

**【Figure 30】 Comparison of the Past Two Fiscal Years' Sales (FY2022 and FY2023) by Service Category**



- ◆ By industry, sales and profits decreased for telecommunication & transportation, but both increased for the remaining three industries.

**【Figure 31】 Comparison of the Past Two Fiscal Years' Operating Profit by Service Category**

		FY2022	FY2023	Diff.	% Diff.
Operating Profit (unit: million yen)	Total	1,417	1,452	34	2.4%
	SIS	1,044	1,057	12	1.2%
	SOS	136	126	-10	-7.7%
	ProS	236	269	32	13.8%
Operating Margin (unit: %)	Total	8.8%	8.9%	0.1%	
	SIS	8.7%	8.8%	0.1%	
	SOS	7.5%	7.2%	-0.3%	
	ProS	10.3%	10.7%	0.4%	

(Ref) Figures 30 and 31: Prepared by Alpha-Win Research Dept. based on the financial results materials

### Sales and Operating Profit by Industry

- By industry, sales and profits decreased for the telecommunication & transportation industry, but both increased for the remaining three industries (especially finance) (Figure 32 on page 29).

- Of the overall increase in sales (+Y225 million YoY), sales from telecommunication & transportation declined sharply (-Y1,401 million or -32.7% YoY) and profit also decreased (-Y245 million or -46.1% YoY) in a reactionary decline from the large-scale projects in the previous fiscal year.

- On the other hand, business with the banking, insurance, and credit card companies in the financial industry performed well and was the major driver of growth, with sales growing by Y948 million (+24.3% YoY) and profit growing by Y171 million (+57.8% YoY).

- Concerning the other industries, business with the service industry and electric power retailers grew, resulting in an increase in sales of Y467 million (+10.2% YoY) and an increase in profit of Y89 million (+28.5% YoY).

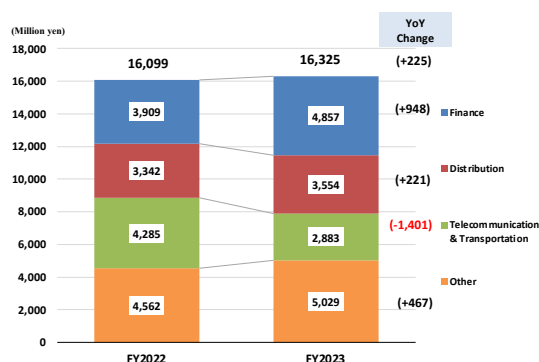
- With the distribution industry, sales from a cooperative, a retailer, and an apparel company contributed to growth, resulting in an increase in sales by Y211 million (+6.3% YoY) and an increase in profit by Y19 million (+7.1% YoY).

- Compared to the initial plan (for sales), telecommunication & transportation and the other industries fell short, while finance exceeded the plan (Figure 33 on page 29).

- Regardless of the industry, sales category, or business model, the operating margin generally showed an upward trend for the segments with sales growth and a downward trend for the segments with sales decline. The operating margin rose from 7.6% to 9.6% for finance, whose sales had increased, but fell from 12.4% to 10.0% for the transportation & telecommunication, whose sales had decreased (Figure 34 on page 29).



【Figure 32】 Comparison of the Past Two Fiscal Years' Sales by Industry



【Figure 33】 Comparison between Initial Forecasts and Results for Sales of Each Industry

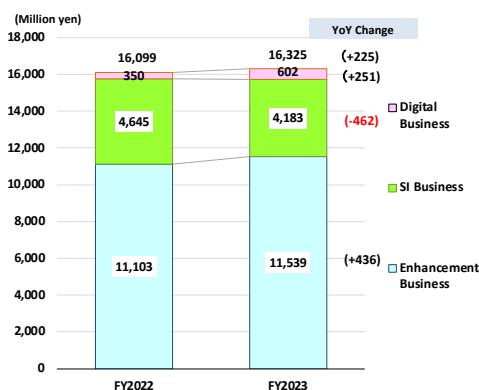
FY2023 Sales				
Industry	Result	Initial Forecast	Diff: million yen	Diff: %
Finance	4,857	4,420	437	9.9%
Distribution	3,554	3,550	4	0.1%
Telecommunication & Transportation	2,883	3,910	-1,027	-26.3%
Other	5,029	5,420	-391	-7.2%
<b>Total</b>	<b>16,325</b>	<b>17,300</b>	<b>-977</b>	<b>-5.6%</b>

【Figure 34】 Comparison of the Past Two Fiscal Years' Operating Profit and Margin by Industry

	Industry	FY2022	FY2023	Diff.	% Diff.
	Operating profit (unit: million yen)				
	Finance	296	467	171	57.8%
	Distribution	275	294	19	7.1%
	Telecommunication & Transportation	532	287	-245	-46.1%
	Other	313	402	89	28.5%
	Manufacturing	51	86	35	66.6%
	Government	70	72	2	2.2%
	Other	190	244	54	27.9%
	<b>Total</b>	<b>1,417</b>	<b>1,452</b>	<b>34</b>	<b>2.4%</b>
	Finance	7.6%	9.6%	2.0%	
	Distribution	8.2%	8.3%	0.1%	
	Telecommunication & Transportation	12.4%	10.0%	-2.4%	
	Other	6.9%	8.0%	1.1%	
	Manufacturing	4.2%	5.5%	1.3%	
	Government	7.7%	7.8%	0.1%	
	Other	7.9%	9.6%	1.7%	
	<b>Total</b>	<b>8.8%</b>	<b>8.9%</b>	<b>0.1%</b>	

(Ref) Figures 32-34 were prepared by Alpha-Win Research Dept. based on the financial results materials

【Figure 35】 Comparison of the Past Two Fiscal Years' Sales by Business Model



(Ref) Figures 35-37: Prepared by Alpha-Win Research Dept. based on the financial results materials.

- ◆ By business model, the increase in sales and profit of Enhancement compensated for the decrease in sales and profit of SI. While small in scale, the Digital Business has continued to grow rapidly.
- ◆ Greater amount of profit for the Digital Business.

### Sales and Operating Profit by Business Model

• The Company's business is categorized into three business models: Enhancement (services for improving system performance and quality), SI (system planning, design, development, and implementation services), and Digital (proposal-based business utilizing digital technologies).

• In FY2023, the Enhancement Business was by far the strongest, accounting for 71% of total sales and 75% of total operating profit. In this business, system development projects expanded for the finance industry, a retail company, and a postal service company. In addition, due to the price revision and the optimization of employee placement, profit margins increased and led to growths in sales and profits, supporting the Company's overall business (accounted for 194% of the overall increase in sales and 618% of the overall increase in profit) (Figures 35-37).

• Meanwhile, although the SI Business experienced expansion with the financial and manufacturing industries, system development projects for a shipping company and a telecommunication company became smaller. The profit margin also declined, resulting in declines in sales and profits.

• The Digital Business, while small in scale (4% of sales and 2% of operating profit), experienced rapid growth, with an increase in sales by ¥251 million YoY (+71.6%) and a doubling operating profit from ¥16 million to ¥34 million.

• While the sales of the SI Business and the Digital Business fell short of the initial forecasts, the sales of Enhancement exceeded the forecast (Figure 37).

【Figure 36】 Comparison of the Past Two Fiscal Years' Operating Profit and Margin by Business Model

Unit: million yen or %	FY2022	FY2023	Difference	% Diff.
Digital Business	16	34	17	108.0%
SI Business	522	329	-193	-37.0%
Enhancement Business	878	1,088	210	23.9%
Operating Profit (total)	1,417	1,452	34	2.4%
Digital Business	4.6%	5.6%	1.1%	
SI Business	11.2%	7.9%	-3.4%	
Enhancement Business	7.9%	9.4%	1.5%	
Operating Margin (overall average)	8.8%	8.9%	0.1%	

【Figure 37】 Comparison between Initial Forecasts and Results for Sales of Each Business Model

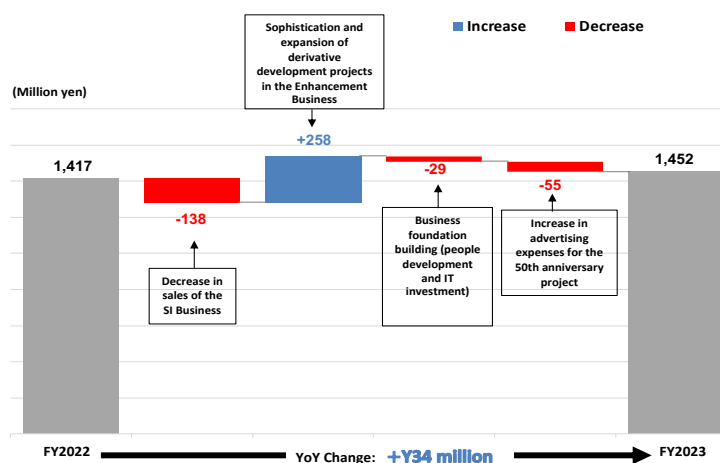
FY2023 Sales				
Business Model	Result	Initial Forecast	Diff: million yen	Diff: %
Digital	602	780	-178	-22.8%
SI	4,183	5,140	-957	-18.6%
Enhancement	11,539	11,380	159	1.4%
<b>Total</b>	<b>16,325</b>	<b>17,300</b>	<b>-976</b>	<b>-5.6%</b>

- ◆ Decreased sales of the SI Business and the increase in costs were absorbed by increased sales and improved profit margins of the Enhancement Business, resulting in a slight increase in operating profit.

### Analysis of Factors that Increased or Decreased Operating Profit

Figure 38 shows an analysis of last fiscal year's overall operating profit in terms of the factors that contributed to its increase or decrease. While the sales of the SI Business decreased for industries such as transportation & telecommunication (-Y138 million) and costs had increased for the improvement of the business foundation (people development and IT investment) and for the 50th anniversary project (advertising expenses), they were offset by the Enhancement Business' sophistication and expansion of derivative development projects (+Y258 million). As a result, company-wide operating profit increased slightly by Y34 million.

【Figure 38】 Factors Contributing to Operating Profit Growth in FY2023 (last fiscal year) (unit: million yen)



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

- ◆ The gross margin improved, absorbing the worsened SG&A expenses ratio caused by the increase in costs for strengthening the business foundation, etc. Consequently, a gradual increase in the operating margin was observed.

The SG&A expenses increased by 4.2% YoY, which is greater than the sales growth rate of 1.4%. The SG&A expenses ratio increased by 0.4 percentage point from 12.6% in FY2022 to 13.0% in FY2023. This was mainly because personnel expenses rose by more than 3% YoY (+Y33 million), causing the ratio of personnel expenses to sales to increase from 6.0% to 6.1%, and because rent and other expenses increased.

However, the gross profit margin improved by 0.5 percentage point from 21.4% to 21.9% in the same order. The operating margin also improved by 0.1 percentage point from 8.8% to 8.9%. With sales growth as well, the operating profit resulted in a 2.4% increase.

### ◆ CUBE SYSTEM's Financial Forecast for FY2024 (this fiscal year)

#### Summary

This fiscal year's results are expected to be sales of Y18,000 million (+10.3% YoY), operating profit of Y1,620 million (+11.5% YoY), recurring profit of Y1,635 million (+10.4% YoY), and net profit of Y1,080 million (+9.1% YoY). The Company is expecting a nearly double-digit increase in sales and profits, as well as consecutive record highs for sales and each profit. It does not plan to record a large amount of non-operating or extraordinary profit/loss during this fiscal year. Note that the Company plans to increase recruitment of new graduates and mid-career hires by a certain number, mainly in Japan.

- ◆ Double-digit increases in sales and operating profit are expected this fiscal year.

【Figure 39】 The Company's Financial Forecast for FY2024 (this fiscal year) (unit: million yen)

Unit: million yen	Last FY's Results FY2023	This FY's Company Plan FY2024	FY2023 First Half	FY2024 First-Half Plan	YoY Change (%)	FY2023 Second Half	FY2024 Second-Half Plan	YoY Change (%)
Sales	16,326	18,000	7,892	8,577	8.7%	8,434	9,423	11.7%
Gross Profit	3,570		1,651			1,919		
Gross Margin	21.9%		20.9%			22.8%		
SG&A Expenses	2,118		1,053			1,065		
SG&A Expenses Ratio	13.0%		13.3%			12.6%		
Operating Profit	1,452	1,620	598	700	17.0%	854	920	7.8%
O.P. Margin	8.9%	9.0%	7.6%	8.2%	0.6%	10.1%	9.8%	-0.4%
Recurring Profit	1,480	1,635	595	700	17.7%	885	935	5.6%
Net Profit	990	1,080	388	457	17.7%	602	623	3.6%

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

- ◆ Expecting nearly double-digit YoY growth for sales and operating profit in both the first and the second half.

### Financial Forecast for the First and the Second Half

In the first half, the Company plans to achieve sales of Y8,577 million (+8.7% YoY), operating profit of Y700 million (+17.0% YoY), and net profit of Y457 million (+17.7% YoY) (Figure 39). Subtracting the first half's plan from the full-year plan, the forecast for the second half is Y9,423 million (+11.7% YoY), Y920 million (+7.8% YoY), and Y623 million (+3.6% YoY), respectively.

In previous years, the operating margin in the second half has tended to rise compared to the first half due to increased sales, improved productivity, and seasonality. During this fiscal year, too, the margin is expected to increase by 1.6 percentage points from 8.2% in the first half to 9.8% in the second half (in the previous fiscal year or FY2023: 7.6% in the first half and 10.1% in the second half). Compared to the first half of this fiscal year, sales are expected to increase by 9.9% in the second half, while the operating profit is expected to rise by 31.4% (in the previous fiscal year, 6.9% growth in sales and 42.8% growth in profit).

### Estimates/Assumptions Used in Predicting Sales Growth

This fiscal year, the Company plans to increase sales through the following measures/factors.

- ◆ By business model, sales are expected to recover for SI, continue growth for Digital, and slightly decline for Enhancement.

(21) Consulting collaboration model: Business model in which new customers are developed jointly with consulting companies, or business is developed jointly with the consulting division of major SI companies.

- In terms of sales by business model, while a slight decline is expected for the sales of the Enhancement Business due to a decrease in the order backlog, it expects to achieve a high sales growth rate for the Digital/SI Business by working proactively to acquire strategic IT investment projects from its customers (Figure 40 on page 32). In the Digital Business, sales are expected to increase significantly by Y317 million (+53% YoY) due to the development of the consulting collaboration model<sup>21</sup> and the expansion of services using AI technologies.

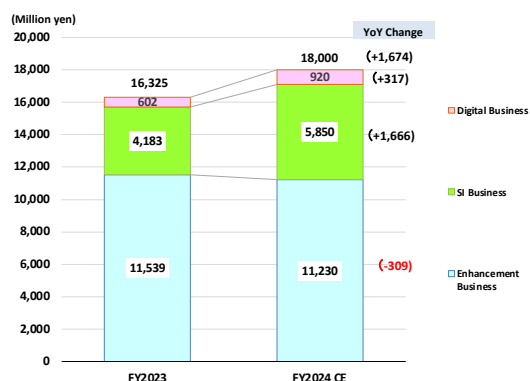
- In addition, in the SI Business, it plans to increase sales by Y1,666 million (+40% YoY) by collaborating with vendors in the cloud business, which is greatly in demand in the market, and receiving more orders by providing solutions. In the Enhancement Business, sales increased steadily in the previous fiscal year, but since much of the business is concerned with the conventional areas of business and due to limitation of resources, sales are expected to decline by Y309 million (-3% YoY).

- ◆ By industry, the other industries and finance will be the growth drivers.

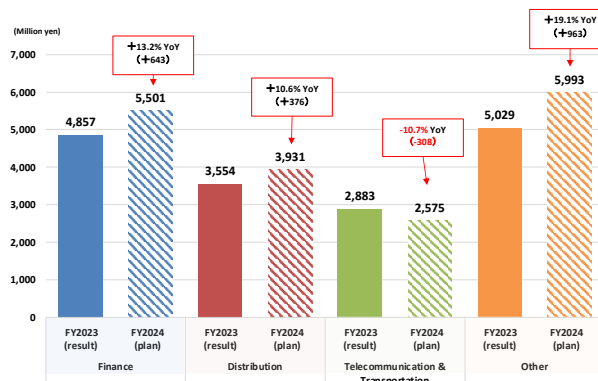
- By industry, it plans to increase sales from the three industries excluding transportation & telecommunication, in which less orders for projects are expected to be received. Of the planned overall increase in sales of Y1,674 million, sales from the other industries are expected to contribute the most, with a sales growth of Y963 million (58% of the entire sales growth; +19.1% YoY). Businesses related to manufacturing, the government, energy, AI, and

blockchain are particularly expected to grow. In addition, IT investments by financial institutions such as non-life insurance companies and banks are recovering, so sales from them are expected to increase by ¥643 million (38% of the entire sales growth; +13.2% YoY) (Figure 41).

【Figure 40】 Forecasted Sales by Business Model in FY2024 (this fiscal year) (CE: the Company's plan)



【Figure 41】 Forecasted Sales by Industry in FY2024 (this fiscal year) (the Company's plan)



(Ref) Figures 40 and 41: Prepared by Alpha-Win Research Dept. based on the financial results materials.

- ◆ Expecting to absorb the investment costs for future growth and slightly increase the operating margin. With sales growth, a double-digit increase in operating profit is expected.

- ◆ Planning to improve profitability by working on digitalization, improving productivity, and shifting to high-value-added businesses

- ◆ This fiscal year's main themes are building the alliance with NRI, executing the HR strategy, and expanding the DX business.

### Estimates/Assumptions Used in Predicting Operating Profit Growth

This fiscal year, although productivity is expected to continue to improve, it will be offset by an increase in costs due to greater investment for future growth. Consequently, the operating margin is planned to improve by only 0.1 percentage point from the previous fiscal year to 9.0%. However, the operating profit is expected to increase by ¥167 million or 11.5% YoY due to sales growth (as reference, the operating margin was 6.5% in FY2020 → 7.9% in FY2021 → 8.8% in FY2022 → 8.9% in FY2023).

The Company expects the following factors to increase profit:

- (1) Promoting in-house digitalization to improve business productivity
- (2) Continuing with measures to improve profitability through the sophistication of the enhancement services
- (3) Creating a development system that optimizes resources
- (4) Providing services with high added value (DX projects and proposal-based business)

### Themes of the Current Fiscal Year

Business development, production system expansion/enhancement, and corporate planning are the three themes of this fiscal year. It plans to especially focus on developing its alliance with NRI, executing HR strategies, and expanding DX, business, and processes (Figure 42).

【Figure 42】 Themes of FY2024 (this fiscal year)



(Ref) Financial results materials.

## 8. Growth Strategy

### ◆ VISION 2026: The First Medium-Term Management Plan

- ◆ Working on the First Medium-Term Management Plan of V2026. This fiscal year is the final year of this first medium-term plan.

As the successor to the previous VISION 2020, the Company has announced VISION 2026, the medium-term vision for the six years from FY2022 to FY2027. The Company is currently working on the First Medium-Term Management Plan which targets the first half of this VISION's span, or the three fiscal years ending in FY2024.

#### Direction of Business (No change; continuation)

With the impact of COVID-19, the society's 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 created the following two guidelines.

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

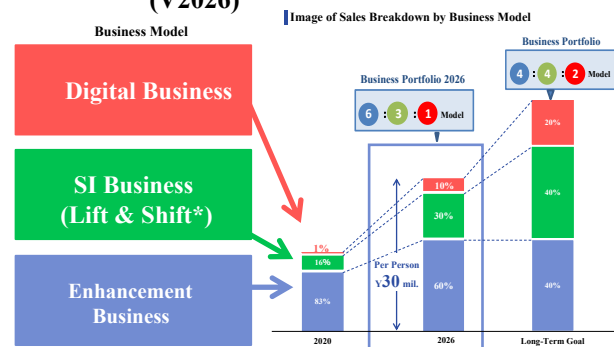
- ◆ In the medium-term plan V2026, it plans to actively work on developing the proposal-based business in addition to its conventional contract-based business.

The Company plans to achieve growth by shifting from the conventional contract-based business to the proposal & contract based business. It will actively make proposals, start new businesses, and build a stable and sustainable business foundation. It also plans to increase investment in the SI Business (cloud projects and cooperation with major SIs) and the Digital Business (solutions) based on the Enhancement Business.

- ◆ Based on Enhancement, it plans to achieve growth by focusing investment on its SI and Digital businesses.

The Company's current business is categorized into three business models: Enhancement, SI, and Digital. As shown in Figure 43, the proportion of each business model's sales in the order of Enhancement, SI, and Digital is planned to be changed from 83%, 16%, and 1% in FY2021 to 60%, 30%, and 10% in FY2027 and 40%, 40%, and 20% over the long term (about ten years from now).

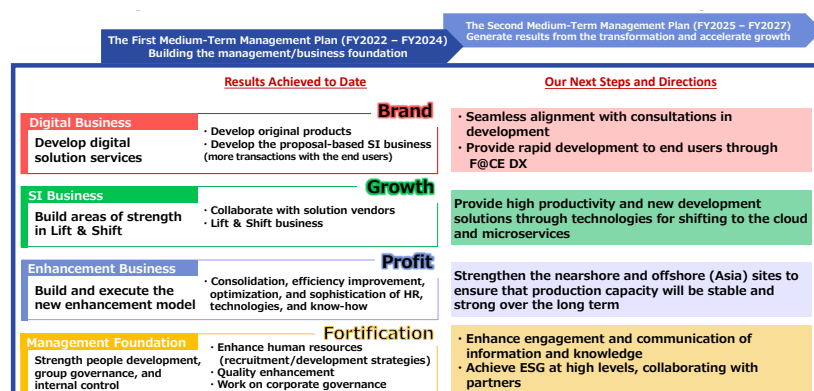
【Figure 43】 Direction of the Medium-Term Plan (V2026)



(Ref) Financial results materials

(Note) \*Lift & Shift: Providing SI services in which the conventional system environment is moved to the cloud environment ("Lift") and the cloud-based system is rebuilt ("Shift"). 2020 points to FY2021 and 2026 points to FY2027.

【Figure 44】 Progress and Next Steps of the Medium-Term Plan (V2026)



(Ref) Financial results materials



- ◆ Will focus on expanding business, improving profitability, and enhancing human capital

- ◆ Financial and non-financial indicators have been defined as its KPI

- ◆ Five items set as financial indicators: ROE, sales per person, sales breakdown, sales CAGR, and operating margin

- ◆ Added environment to its non-financial KPIs, which now consist of a total of 5 items. The breakdown of each item has been described and KPIs have been set.

### Priority Measures and Directions

The Company has set out its three business models, as well as the priority measures and directions concerning its business challenges, and has been making progress according to its plan (Figure 44 on page 33). It plans to focus on expanding business, improving profitability, and enhancing human capital for the Second Medium-Term Management Plan (FY2025 – FY2027) in which it will “generate results from the transformation and accelerate growth.”

### Key Performance Indicator (KPI)

The Company has announced the indicators for its first medium-term plan and its medium/long-term directions based on financial and non-financial approaches. Indicators are updated or added as necessary.

The financial indicators have been clearly defined as five items, which consist of ROE, operating margin, and three items related to sales (Figure 45). In May 2022, the Company announced upward revisions for three of the items of the First Medium-Term Management Plan, excluding the ROE (13% or more) and sales per employee (Y23 million). Specifically, it raised the numerical targets for the sales breakdown representing business model transformation (the SI Business' sales growth since FY2021: +Y2.5 billion ⇒ +Y3.3 billion), the sales growth rate (CAGR = compound annual growth rate: about 8% or 7.8% ⇒ 8.7%), and the operating margin (8% ⇒ 9%) (no change to the medium-term plan itself since then).

As its non-financial indicators, it had previously set the following four items that it plans to achieve through the power of IT: diversity promotion, workstyle reform, communication vitalization, and people development (previously added). It has now also added environmental goals (GHG emission goals) as another item. These items are based on the idea that the respect for the people (enhancement of human capital) and the environment is essential to sustainability management and achieving sustainable growth. The breakdown of the KPIs of each non-financial item has also been described, with numerical targets and results now clarified (Figure 46). It will work on achieving all KPI targets, focusing on increasing the percentage of female managers, correcting the gender wage gap, and improving the percentage of male employees taking childcare leave.

【Figure 45】 Medium-Term Plan (V2026): Financial and Non-Financial Goals (KPIs)

	Key Performance Indicator (KPI)	FY2023 Results		Goals of the First Medium-Term Management Plan		Medium/Long-Term Plan	
Financial	Capital Efficiency	ROE (FY2020: 14.0%)	11.8%		Maintain 13.0% or greater		
	Productivity	Sales per person (FY2020: 21M yen)	22.8M yen		23M yen		30M yen
	Business Model Transformation	Sales breakdown (Compared to FY2020)	SI Business +1.6B yen		SI Business +3.3B yen (since FY2021) Ratio 6:3:1 for Enhancement, SI, and Digital		Digital Business +2B yen (since FY2023)
	Growth Potential	Sales CAGR (Based on FY2020)	5.1%		Approx. 8%		Approx. 9%
	Profit Indicator	Operating margin (FY2020: 7.2%)	8.9%		9%		Approx. 10%
Measures to improve profitability and productivity continuously							
Non-Financial	Diversity Promotion	Percentage of female employees among section-chief positions	15.3%				
	Workstyle Reform	Paid holiday acquisition rate	64.1%				
	Communication Vitalization	Smile Share Product					
	People Development	Diverse career paths and development					
	Environment	GHG emissions goal (Scope 1, 2, and 3) (Compared to FY2020)					

【Figure 46】 Medium-Term Plan (V2026): Details of the Non-Financial Goals

	Key Performance Indicator (KPI)	FY2023 Results	FY2024 Goals
Diversity Promotion	Women's Participation	8.6%	10%
	Wage Gap	15.3%	20%
Workstyle Reform	Gender wage gap*	22.2%	25%
	Work-Life Balance		
Communication Vitalization	Hours of overtime work (monthly average)*	31 hr	25 hr
	Paid holiday acquisition rate	64.1%	70%
People Development	Men's childcare leave acquisition rate	35.7%	50%
	Health Management		
Environment	Providing health education and motivation to all employees	14.4%	10%
	Percentage of highly stressed employees	40.0%	60%
People Development	Percentage of employees with job satisfaction	60%	80%
	Utilization of the Smile Share Product among employees (% using INOPAY*)	60%	80%
Environment	IT skills training attendance rate	91%	100%
	Encouragement of certification (Applied IT / AWS / Cloud Class)*	21%/1%/2%	YOY increase 12 MD
Environment	Days of training/education (incl. self-development) per employee	2.9 MD	
	GHG emissions goal (Scope 1, 2, and 3) (Compared to FY2020)		

(Ref) Financial results materials

(Notes on items in the figure)

- \*1: Planned to be disclosed in the securities report
- \*2: Calculated based on the number of hours exceeding the scheduled working hours (7.5 hr); average of all employees.
- \*3: Utilization rate of INOPAY (cashless settlement app for the internal currency including its mini app)
- \*4: Applied information technology engineer examination / AWS certification (professional level) / Oracle certification (Oracle Cloud Infrastructure)

(Ref) Financial results materials

(Notes on items in the figure)

- \*1: Result for FY2022 is the YoY sales comparison with the sales of FY2021.
- \*2: Acquisition rate (%) = Total number of days of paid holiday acquired by all employees ÷ Total number of days of paid holiday granted to all employees × 100
- \*3: Thanks Connect: one of the Smile Share Products that visualizes people's feelings of “thank you”

- ♦ The medium-term plan's targets for this fiscal year, which is the final year of the first medium-term plan, remain unchanged (regarding this fiscal year's forecasts, there are differences between the medium-term plan and the forecast announced at the beginning of the fiscal year).
- ♦ No change to the operating margin target
- ♦ Sales forecasts by business model have been revised downward for Digital and Enhancement but revised upward for SI.

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

The Company has not changed the financial targets of its medium-term management plan (revised upward on May 11, 2022) for the current fiscal year (FY2024), which is the final year of the plan. On the other hand, at the beginning of this fiscal year, it announced lower forecasts for the same fiscal year (this fiscal year) (Figures 47 and 48).

In the order of the old forecast of the medium-term plan  $\Rightarrow$  new forecast of the medium-term plan / current forecast announced at the beginning of the fiscal year, sales are Y18.5 billion  $\Rightarrow$  Y19.0 billion / Y18.0 billion (-Y1.0 billion from medium-term plan's forecast); operating profit is Y1.48 billion  $\Rightarrow$  Y1.71 billion / Y1.62 billion (similarly, -Y90 million); and ROE is 13% or more  $\Rightarrow$  13% or more / 11%. The forecasts for this fiscal year have essentially been revised downward, but the operating margin target of 9.0% has not been changed.

Comparing the each business model's sales forecast for this fiscal year between the medium-term plan's new forecast and the forecast announced at the beginning of the fiscal year, the Digital Business was revised down by Y80 million and the Enhancement Business was revised down by Y1,070 million, both by about -8%. On the other hand, the SI Business was revised upward by Y150 million or about 3%.

As a result, the overall sales CAGR (annual rate over three fiscal years) is expected to decline from +8.7% to +6.8%.

【Figure 47】 Financial Goals of the First Medium Term Management Plan (V2026) (FY2022 – FY2024)

	FY2021	First Year		Second Year			Third Year		
		FY2022	FY2022	FY2023	FY2023	FY2023	FY2024	FY2024	FY2024
		Initial CE (medium-term plan: old)	Results	Medium-term plan: Old CE	Medium-term plan: New CE	Results	Medium-term plan: Old CE	Medium-term plan: New CE	CE at beginning of FY
Million yen	Results								
Sales	14,788	16,000	16,099	17,200	17,300	16,325	18,500	19,000	18,000
Digital Business	66	320	350	400	780	602	500	1,000	920
SI Business	2,561	4,130	4,645	4,500	5,140	4,183	5,000	5,700	5,850
Enhancement Business	12,162	11,550	11,103	12,300	11,380	11,539	13,000	12,300	11,230
Operating Profit	1,174	1,230	1,417	1,340	1,530	1,452	1,480	1,710	1,620
Operating Margin	7.9%	7.7%	8.8%	7.9%	8.8%	8.9%	8.0%	9.0%	9.0%
ROE	14.0%	13% or more	13.8%	11.0%		11.8%	13.0%		11.0%

(Ref) Excerpt from the financial results materials. "Initial CE" or the "Medium-term plan: Old CE" is the Company's forecast announced on June 11, 2021. "Medium-term plan: New CE" is the forecast announced on May 11, 2022.

【Figure 48】 Forecasts of Medium-Term Financial Results (the Company's plan and Alpha-Win's forecast)

Unit: million yen, %	FY2023 Results	FY2024 Medium-term plan: Old CE	FY2024 Medium-term plan: New CE	FY2024 CE at beginning of FY	FY2024 Old E	FY2024 New E	FY2025 Previous E	FY2025 New E	FY2026 New E
Sales	16,326	18,500	19,000	18,000	18,700	17,800	19,600	19,000	20,500
Digital Business	602	500	1,000	920	1,000	900	1,200	1,200	1,700
SI Business	4,183	5,000	5,700	5,850	5,800	5,800	6,200	6,200	6,800
Enhancement Business	11,539	13,000	12,300	11,230	11,900	11,100	12,200	11,600	12,100
Gross Profit	3,570				4,000	3,900	4,200	4,150	4,500
Gross Margin	21.9%				21.4%	21.9%	21.4%	21.8%	22.0%
SG&A Expenses	2,118				2,300	2,300	2,400	2,425	2,650
(% over sales)	13.0%				12.3%	12.9%	12.2%	12.8%	12.9%
Operating Profit	1,452	1,480	1,710	1,620	1,700	1,600	1,800	1,725	1,850
(% over sales)	8.9%	8.0%	9.0%	9.0%	9.1%	9.0%	9.2%	9.1%	9.0%
Recurring Profit	1,480			1,635	1,715	1,615	1,820	1,755	1,870
(% over sales)	9.1%			9.1%	9.2%	9.1%	9.3%	9.2%	9.1%
Net Profit	990			1,080	1,100	1,065	1,180	1,155	1,235
(% over sales)	6.1%			6.0%	5.9%	6.0%	6.0%	6.1%	6.0%
Sales (% YoY growth)	1.4%	13.3%	16.4%	10.3%	14.5%	9.0%	4.8%	6.7%	7.9%
Gross Margin (% YoY diff.)	0.4%				-0.5%	0.0%	0.0%	-0.1%	0.1%
SG&A Expenses (% YoY growth)	4.2%				8.6%	8.6%	4.3%	5.4%	9.3%
Operating Profit (% YoY growth)	2.5%	1.9%	17.7%	11.5%	17.0%	10.2%	5.9%	7.8%	7.2%
Recurring Profit (% YoY growth)	3.4%			10.4%	15.8%	9.1%	6.1%	8.7%	6.6%
Net Profit (% YoY growth)	4.8%			9.1%	11.1%	7.6%	7.3%	8.5%	6.9%

(Ref) Prepared by Alpha-Win Research Dept.

## ◆ Alpha-Win Research Dept.'s Financial Forecast for FY2024 (this fiscal year)

### Revisions of the Financial Forecast

- ◆ We reviewed our previous forecast for this FY and revised sales and profit downward to mostly the same level as the Company's plan.

- ◆ The company forecast seems to be within an achievable range, but we made a somewhat cautious forecast considering the high growth rate estimated for sales and the risk of increase in costs.

- ◆ We expect the increase in cost to be offset by the improvement in productivity, so that the operating margin will slightly increase as the Company plans.

- ◆ Over many years, there has generally been a small deviation on average between the initial forecast made at the beginning of the fiscal year and the actual results, but the Company has tended to announce somewhat ambitious forecasts.

We have reviewed our financial forecast for this fiscal year and revised sales from the previous Y18,700 million to Y17,800 million (Figure 48 on page 35). We also lowered our operating profit forecast from Y1,700 million to Y1,600 million. Compared to the Company's forecast for this fiscal year, sales and operating profits are expected to be slightly lower by -Y200 million and -Y20 million, respectively. However, we expect the operating margin to be 9%, which is the same level as the Company's forecast.

With its customers showing strong enthusiasm in making strategic IT investments, the Company has been solidly receiving orders. We believe that if the Company carries out cost control, the planned values of profit are within an achievable range. However, judging from the YoY sales growth rate, the Company's forecast seems somewhat ambitious. We therefore made a somewhat more cautious forecast, taking into account the risks to a certain amount, including the increase in costs.

The Company is expected to actively invest further toward growth, causing various costs such as personnel expenses and subcontracting costs to increase. Meanwhile, productivity is expected to improve due to digitalization and resource optimization, so we expect the operating margin to be 9.0%, rising by 0.1 percentage point from the previous fiscal year's 8.9%.

### Financial Forecast and Track Record of Financial Performance

We analyzed the past deviation between the Company's initial forecasts made at the beginning of fiscal years and the results over the long term (Figure 49).

During this period, on a simple average, the deviations have been small. Results for sales were 1.9% lower than the initial forecasts, and operating profit, recurring profit, and net profit were 3.9%, 2.5%, and 3.1% lower, respectively. Neither operating nor recurring profit has ever been more than 30% lower than the initial forecast in any fiscal year. The Company tends to announce targets that are ambitious but within a realistically achievable range.

**【Figure 49】 Comparison of (the Company's) Initial Forecast Made at the Beginning of the Fiscal Year vs. Consolidated Results over the Years**

Consolidated	Sales		Operating Profit		Recurring Profit		Net Profit Attributable to Owners of the Parent (N.P.)		Sales	O.P.	R.P.	N.P.	Sales	O.P.	R.P.	N.P.
Unit: million yen	Initial Forecast	Results	Initial Forecast	Results	Initial Forecast	Results	Initial Forecast	Results	% Diff. from Initial Forecast				% YoY Change for Actual Results			
FY2001	-	4,806	-	-	-	387	-	-	-	-	-	-	-	-	-	-
FY2002	-	5,598	-	485	-	445	-	246	-	-	-	-	16.5%	-	15.0%	-
FY2003	-	6,244	-	510	-	432	-	235	-	-	-	-	11.5%	5.2%	-2.9%	-4.4%
FY2004	6,900	6,575	-	491	522	500	284	280	-4.7%	-	-4.3%	-1.5%	5.3%	-3.7%	15.7%	18.9%
FY2005	7,000	7,100	-	558	532	551	287	315	1.4%	-	3.5%	9.7%	8.0%	13.6%	10.2%	12.5%
FY2006	7,800	7,767	-	549	600	551	340	312	-0.4%	-	-8.2%	-8.3%	9.4%	-1.6%	0.0%	-1.0%
FY2007	8,300	7,923	-	590	570	584	330	324	-4.5%	-	2.4%	-1.8%	2.0%	7.4%	5.9%	3.9%
FY2008	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%
FY2009	8,500	8,507	680	652	685	597	350	308	0.1%	-4.1%	-12.8%	-12.1%	4.9%	1.1%	-7.1%	-10.1%
FY2010	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%
FY2011	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%
FY2012	9,300	8,431	665	524	675	533	350	118	-9.3%	-21.2%	-21.0%	-66.4%	-8.0%	-20.9%	-20.7%	-43.4%
FY2013	9,000	9,242	620	601	630	606	350	338	2.7%	-3.1%	-3.8%	-3.5%	9.6%	14.8%	13.7%	186.7%
FY2014	10,000	11,217	700	665	700	702	380	387	12.2%	-5.0%	0.3%	1.7%	21.4%	10.6%	15.8%	14.5%
FY2015	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%
FY2016	13,000	12,623	1,000	949	1,020	960	600	629	-2.9%	-5.1%	-5.9%	4.8%	0.8%	-1.6%	-2.1%	5.9%
FY2017	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%
FY2018	14,300	13,559	1,060	855	1,080	893	650	567	-8.2%	-19.3%	-17.3%	-12.8%	5.1%	9.5%	10.1%	2.9%
FY2019	14,700	14,325	1,010	922	1,010	960	640	597	-2.5%	-8.8%	-5.0%	-6.8%	5.7%	7.8%	7.5%	5.2%
FY2020	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%
FY2021	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%
FY2022	16,000	16,099	1,230	1,417	1,250	1,432	850	944	0.6%	15.2%	14.6%	11.1%	8.9%	20.7%	10.6%	11.8%
FY2023	17,300	16,325	1,530	1,452	1,545	1,480	1,000	989	-5.6%	-5.1%	-4.2%	-1.1%	1.4%	2.5%	3.4%	4.8%
FY2024 CE	18,000	-	1,620	-	1,635	-	1,080	-	-	-	-	-	10.3%	11.5%	10.4%	9.1%
Simple average of diff. (unit: %), calc. for longest period with data on both sales and profits →									-1.9%	-3.9%	-2.5%	-3.1%	5.9%	6.2%	7.1%	13.2%
Number of times revised up/down from initial forecast →									6:14	4:12	7:13	8:12	↑ Simple average the FYs (excl. FY2024 CE)			

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

- ◆ We revised our medium-term forecast. We believe that sales and profit will continue to increase over the medium term, consecutively hitting their record-highs.

- ◆ The macroeconomic environment and recruitment will be the risk factors.

- ◆ We predict the medium-term profit growth rate to be about 6-10% per year.

- ◆ We expect the Company to be able to grow sales by about 5-8% per year by successfully receiving orders for projects related to strategic IT investments.

- ◆ Over the medium term, we expect the profit margin to stay flat due to costs pertaining to upfront investments. Sales growth is expected to be the main factor contributing to profit growth.

## ◆ 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 including this fiscal year, with the forecast for FY2026 newly added (Figure 48 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 considering the factors/estimates described below and the risk factors. We believe, though, that the Company may be able to continue its sales and profit growth trend in the next fiscal year onwards as well, hitting record high sales and profits consecutively.

### Risk Factors and Medium/Long-Term Profit Growth Potential

- Regarding the macroeconomic environment, there are concerns that the business performance of Japanese companies may be impacted over the medium term by the prolongation of the war in Ukraine, the depreciating yen, the price rise, interest rate rising and remaining high to control inflation, and the subsequent risk of a global recession occurring.
- Factors that are hard to predict include the earnings environment of the Company's main end users, IT investment trends, the impact of the costs pertaining to the Company's upfront investments, the increase in costs, and the recruitment situation.
- Currently, the demand for systems is strong. Therefore, based on the following factors and estimates, we predicted that sales and profit will continue to increase annually by about 6-10% over the medium to long term.

### Factors and Estimates Used in Predicting Increased Sales

- Strategic IT investment projects are expected to increase for the time being. By responding to such demand, the Company is likely to grow sales at about 5-8% per year over the medium term.
- The business with its major customers, the Digital Business, and the SI Business are expected to continue to expand through the technological expertise and credibility that it has developed over the years.
- Sales growth can be expected due to the development of new businesses and business domains, specifically the businesses related to DX, energy, consulting, and new solutions (Smile Share Product, cloud, AI, blockchain, etc.)
- Sales growth from large-scale M&As has not been factored in.

### Factors and Estimates Used in Predicting Increased Profit

- The gross margin rose last fiscal year due to various measures (productivity improvement, reviewing subcontracting cost, etc.), but we expect it to stay flat at a high level starting this fiscal year.
- The Company is expected work on upfront investments, such as strengthening its business foundation for future growth (expand and enhance its development sites and production system), increasing personnel expenses and subcontracting cost, and conducting research on new technologies and businesses. Therefore, we expect that the cost of manufacturing and the SG&A expenses will increase over the medium term.
- Consequently, we predict that the operating margin will also stay flat (at about 9%) starting in the next fiscal year and that sales growth will be the main factor contributing to profit growth.
- No significant occurrence of unprofitable projects, nonoperating profit/loss, or extraordinary profit/loss are expected.



## 9. Analyst's Views

### ◆ SWOT Analysis

The Company's SWOT analysis result is shown in Figure 50. The strengthened relationship with NRI in the capital and business alliance was added to its strengths. The expansion/enhancement of its development sites and production system and the strengthening of its development system such as agile development have been added to its opportunities (changes made in this report are shown in red).

【Figure 50】 SWOT Analysis

Strength	<ul style="list-style-type: none"> <li>• Long history in the industry, extensive experience, and strong credibility</li> <li>• Stable and excellent customer base</li> <li>• Talents and organization with technological expertise, unique know-how, and knowledge (for different industry types and project/risk management)</li> <li>• Entry barrier essentially high; highly maintainable business model</li> <li>• <b>Capital and business alliance with NRI</b></li> <li>• Cash-cow business, ample cash &amp; deposits, and firm financial standing</li> <li>• <b>Business management focused on new business development and business expansion (actively investing to strengthen and enhance its development sites and production system)</b></li> <li>• Consulting-based sales through direct sales activities</li> <li>• Quality people development and training system</li> <li>• Low-cost development system using overseas subsidiaries</li> <li>• Relies heavily on certain customers</li> </ul>
Weakness	<ul style="list-style-type: none"> <li>• IT-related labor market is tight and retaining/recruiting talented employees is difficult (bottleneck to further growth)</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 full momentum</li> <li>• Project management (inherent risk of unprofitable projects occurring)</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 labor shortage 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, and direct-contract projects; strengthen the Enhancement Business</li> <li>• <b>Improvement of productivity through agile development and AI</b></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>• Reduced IT investment by customers, less demand for version updates, and intensifying price competition due to worsening macroeconomic environment and economic downturn</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>• <b>Increased personnel expense and subcontracting cost</b></li> </ul>

(Ref) Prepared by Alpha-Win Research Dept.

- ◆ Its strengths are its credibility and track record over many years and its technological expertise. Growth potential of the Company is large since Japanese companies are expected to increase IT investments.

Describing the strengths in more detail, the Company has an excellent customer base owing to its credibility and technological expertise that it has built based on its extensive track record. The Company's strength also lies in its close position to the end users, which means that it can suggest 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.

- ◆ Acquisition of talented employees is the bottleneck to further growth.

On the other hand, looking at its weaknesses in more detail, the Company's industry in general tends to have a flat profit margin over the long term, although it is beginning to gradually improve. Therefore, profit tends to not increase without sales growth. Development of new areas of business and new customer acquisition are also crucial to increasing sales, but the shortage of employees, especially for project manager positions, has been the bottleneck to further growth.

- ◆ Focusing on strengthening project management. However, the occurrence of unprofitable projects will continue to be an inherent risk.

Also, 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 profit decline. Although it has been working on further improving its quality control and has been seeing positive results in recent years, this point should be noted as a constant risk factor.



### ◆ Shareholder Return and Shareholder Benefit Program

The Company's policy is to raise the shareholder asset value by improving its financial results to conduct stable dividend payments and increase market capitalization.

- ◆ The goal for consolidated dividend payout ratio has been raised from 35% to 40%. Plans to raise dividend (ordinary dividend) consecutively.

- ◆ Plans to increase ordinary dividend again this fiscal year by 4 yen. Dividend hikes are also possible over the medium-term.

- ◆ Actual annual (maximum) yield including the shareholder benefit program is about 3.0%.

- ◆ The DOE is at a high level.

- ◆ Proactively returning profit to shareholders.

- ◆ Rich in cash; may conduct share buybacks and stock splits in the future as well.

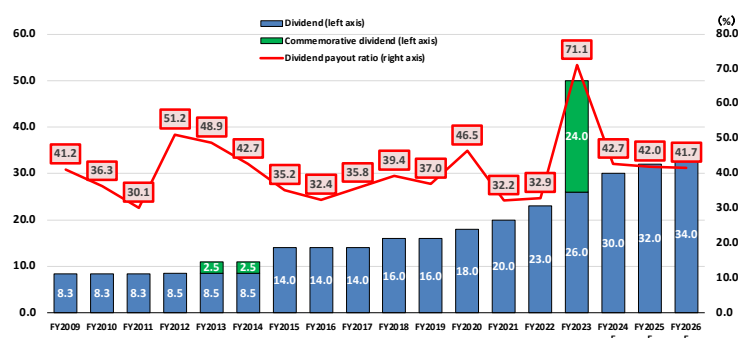
The consolidated dividend payout ratio changed from 46.5% in FY2020, 32.2% in FY2021, and 32.9% in FY2022, and then rose to 71.1% in FY2023 due to the commemorative dividend. The Company's target dividend payout ratio used to be 35%, but it has now raised this to 40%. The ratio is expected to be 42.1% based on the Company's forecast for FY2024. As a result of this change, the ordinary dividend per share has been steadily increasing from 23 yen in FY2022 to 26 yen in FY2023 and 30 yen in FY2024 (plan) (Figure 51). Since profit growth is expected over the medium term, we believe that dividend may be increased more in the next fiscal year onwards.

The dividend yield is 2.5% when calculated based on a stock price of ¥1,179 (closing price on June 5). Many of the Company's investors are individual investors; the Company also has a shareholder benefit program in which JCB gift cards are given to shareholders based on the number of shares they own (Figure 52 on page 40). When this benefit program is taken into account, the dividend yield actually increases to approx. 3.0% at maximum (based on the optimum number of shares owned). The Company plans to continue to stably pay dividend while raising the EPS to enhance the return of profit to shareholders. The actual annual yields of its competitors, including their shareholder benefit programs (both companies grant QUO cards), are 3.7% for HIMACS and 3.4% for Toho System Science. In comparison, the Company's dividend yield is somewhat low (as reference, NRI's is 1.3%).

The dividend on equity ratio (DOE = total dividend / shareholder's equity) in FY2023 was 8.6% for the Company (4.5% excluding the commemorative dividend), 5.0% for HIMACS (no commemorative dividend), 5.7% for Toho System Science (no commemorative dividend), and 7.2% for NRI (as reference; no commemorative dividend). They are all high compared to the common level.

Since becoming listed on the market, the Company has conducted several stock-splits, but none has been conducted since the 2-for-1 split in October 2014. It has also conducted several share buybacks in the past and has been returning profit to shareholders through means not limited to dividend hikes. Since the Company has a solid financial standing and is rich in cash, depending on the level of the stock price, additional share buybacks are possible in the future.

【Figure 51】 Change in Dividend and Dividend Payout Ratio (unit: yen or %)



(Ref) Prepared by Alpha-Win Research Dept. Estimates/forecasts (E) were made by Alpha-Win.

**【Figure 52】 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: ¥)	Dividend: ¥	Actual Net Yield: %
200	400	1,000	30	3.0
400	1,000	2,000	30	3.0
1,000		3,000	30	2.8

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

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

Stock price assumed to be ¥1,179 (closing price on June 5, 2023). Dividend is based on this FY's forecast.

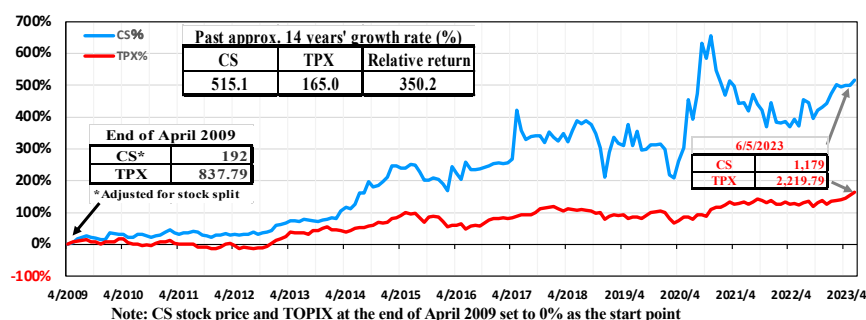
(Ref) Prepared by Alpha-Win Research Dept. based on the Company's website

- ◆ A defensive, domestic-demand-oriented growth stock. Stock price increased by approx. 5.2x over the past approx. 14 years, largely outperforming the TOPIX.
- ◆ Stable growth is expected to continue and it may be an attractive medium/long-term investment target.

### ◆ Stock Characteristics/Price and Valuation Comparison

The Company's stock is a defensive, small-cap, and domestic-demand-oriented growth stock. Over the past approximately 14 years, the Company's stock price rose by about 5.2x, largely outperforming the TOPIX by +350% (calculated with stock splits taken into account; based on the closing price on June 5, 2023; Figure 53). This rise seems to reflect the Company's strong fundamentals and firm financial growth over the long term.

With the rise in strategic IT and DX investments by Japanese companies, the Company is expected to be able to maintain a relatively stable profit growth. It may therefore be seen as a candidate for medium- to long-term investment.

**【Figure 53】 Long-Term Return of the Company's Stock (CS) and TOPIX (change in monthly stock price over the past approx. 14 years)**

(Ref) Prepared by Alpha-Win Research Dept. The most recent stock price and TOPIX price are the closing prices on June 5, 2023.

- ◆ Outperforming the TOPIX for the past 12 months.
- ◆ Due to the rise in stock price, the valuation is slightly higher than the market average and the two competitors. Stock price is priced at a premium, reflecting the Company's growth potential and stability.

Over the past 12 months, the Company's stock has outperformed the TOPIX, its two competitors (HIMACS and Toho System Science), and NRI due to its strong business performance. However, in the last six months, it has been slightly underperforming the TOPIX in a market environment favorable for large-cap stocks.

The Company's valuation was compared in terms of the major valuation indicators with all stocks listed on the TSE Prime Market as well as its competitors (and NRI as reference). Due to the rise in stock price, the Company's valuation is slightly high in comparison, but not overvalued, in terms of all major indicators and based on the values forecasted for this fiscal year (Figure 54 on page 41). It could be interpreted that the Company's stock price is priced at a premium due to its stable growth in business performance to date and the anticipation of future growth.

- ◆ We will continue to follow the Company as a defensive, domestic-demand-oriented growth stock.

When defensive, small-cap, and domestic-demand-oriented growth stocks gains attention in the market, the Company's stock price will likely start outperforming again. In addition, since its valuation does not seem overpriced, the stock price will mostly likely respond to changes in the business performance.

Note that the weekly beta relative to the TOPIX over the past five years is 1.20, which is high for a defensive business.

【Figure 54】 Comparison of Valuation and Liquidity

Company Name	CUBE SYSTEM (CS: consolidated)	HIMACS (HM: consolidated)	Toho System Science (TS: non-consolidated)	Reference: Nomura Research Institute (NRI: consolidated)	All TSE Prime Stocks (average)	24 SI Companies Listed on TSE Prime (average)
Code	2335	4299	4333	4307	-	-
Stock Price (at 6/5 closing)	1,179	1,417	1,161	3,657	1,142.32	-
Market Cap (million yen)	18,569	17,589	16,098	2,170,986	-	560,089
P/E (price-to-earnings ratio)	16.55	12.74	12.64	28.36	15.14	18.80
P/B (price-to-book ratio)	1.86	1.60	1.61	5.42	1.29	2.50
Dividend Yield (%)	2.54	3.03	3.45	1.31	2.32	2.43
EV/EBITDA	7.22	5.24	4.39	13.85	-	-
P/S (price-to-sales ratio)	1.03	0.97	0.98	3.02	-	-
Past approx. 6 Months' Average Daily Trading Value (million yen)	26	16	10	6,985	-	-
Past 5 Years' Weekly Beta (β: relative to TOPIX)	1.20	0.63	0.56	0.92	-	-

Market cap= (shares outstanding) x (market share price [at 6/5/2023 closing])

The companies' planned EPS and dividend values for FY2024 were used in all P/E and dividend yield calculations. Actual BPS values of FY2023 were used in P/B calculations.

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

Operating profit is the companies' forecasts for this FY; depreciation and intangible fixed asset amortization were estimated based on last FY's results.

\*Cash & deposits are the balance as of the end of March 2023

P/S=market cap / sales [the companies' forecasts for FY2024]

(Ref) Figures 54 and 55: Prepared by Alpha-Win Research Dept. based on the securities reports, financial results summaries, and stock data.

- ◆ Compared with the 24 companies of the same industry, its valuation is slightly low.
- ◆ Valuation (P/E, etc.) could rise to higher levels if profit margins continue to improve in addition to the sales growth.

Relative to a universe of the leading 24 SI companies listed on the TSE Prime Market (including the Company, the two competitors mentioned earlier, and NRI; the total market capitalization of the 24 companies is approx. Y13.4 trillion, their total sales are about Y9.5 trillion, total operating profit is Y945.9 billion, and operating margin is 9.5% on a simple average and 12.1% on a weighted average), the Company's valuation seems somewhat cheap (Figures 55).

Going forward, we believe that if the Company's operating margin continuously improves and its sales grow, its EPS and valuation (P/E, etc.) may rise sharply and its market capitalization may also increase.

【Figure 55】 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	Dividend Payout Ratio
9613	NTT DATA	2,864,606	2,043	4,100,000	292,000	7.1%	11.0	19.9	2.0	1.1%	23.00	102.70	1,035.93	0.7	22.4%
4684	OBIC	2,382,930	23,925	111,000	70,000	63.1%	16.1	38.9	6.5	1.1%	260.00	614.57	3,697.16	21.5	42.3%
4307	Nomura Research Institute	2,170,986	3,657	720,000	117,000	16.3%	20.7	27.7	5.4	1.3%	48.00	131.83	674.35	3.0	36.4%
4768	Otsuka Corporation	1,042,922	5,489	901,000	58,600	6.5%	13.0	25.9	3.4	2.4%	130.00	211.87	1,619.79	1.2	61.4%
3626	TIS	942,337	3,855	530,000	63,500	12.0%	18.8	22.1	3.1	1.4%	53.00	174.19	1,227.44	1.8	30.4%
4739	Itochu Techno-Solutions	898,080	3,742	625,000	58,000	9.3%	11.8	21.6	2.9	2.3%	86.00	173.10	1,292.40	1.4	49.7%
9719	SCSK	709,282	2,269	470,000	54,000	11.5%	14.4	18.6	2.6	2.5%	56.00	121.66	870.56	1.5	46.0%
2327	NS Solutions	383,389	4,190	305,000	33,500	11.0%	11.0	16.8	1.9	1.9%	80.00	249.19	2,191.60	1.3	32.1%
8056	BIPROGY	378,778	3,454	350,000	32,500	9.3%	15.0	15.8	2.5	2.6%	90.00	218.95	1,391.89	1.1	41.1%
4812	ISID	342,860	5,260	137,000	20,000	14.6%	18.1	24.4	4.6	1.7%	88.00	215.16	1,150.30	2.5	40.9%
9749	Fujisoft	303,974	9,020	300,000	20,000	6.7%	8.8	23.0	2.1	1.5%	137.00	391.61	4,322.94	1.0	35.0%
1973	NEC Networks & System Int.	293,267	1,964	340,000	24,000	7.1%	10.0	20.9	2.1	2.5%	49.00	93.99	948.23	0.9	52.1%
9759	NSD	241,860	2,780	97,000	14,000	14.4%	19.3	24.6	3.9	2.4%	68.00	113.18	711.73	2.5	60.1%
9682	DTS	171,089	3,595	115,000	12,000	10.4%	13.0	19.2	2.6	2.6%	95.00	187.10	1,408.81	1.5	50.8%
9692	CEC	56,212	1,495	51,000	5,550	10.9%	14.2	13.1	1.3	3.3%	50.00	114.40	1,111.48	1.1	43.7%
4719	ALPHA SYSTEMS	49,886	3,550	36,000	4,300	11.9%	7.5	17.0	1.3	2.0%	70.00	209.41	2,833.16	1.4	33.4%
4674	CRESCO	44,781	1,947	52,500	5,250	10.0%	14.3	11.5	1.7	2.6%	50.00	170.00	1,160.39	0.9	29.4%
9739	NIPPON SYSTEMWARE	35,820	2,404	48,500	5,600	11.5%	14.5	9.1	1.2	2.3%	55.00	265.11	2,005.37	0.7	20.7%
4725	CAC Holdings	35,290	1,718	50,000	3,300	6.6%	8.8	13.3	1.0	4.7%	80.00	129.17	1,659.07	0.7	61.9%
9600	I-NET	24,266	1,494	37,700	2,750	7.3%	7.7	11.8	1.4	3.5%	52.00	126.37	1,099.90	0.6	41.1%
2335	CUBE SYSTEM	18,569	1,179	18,000	1,620	9.0%	11.8	16.6	1.9	2.5%	30.00	71.23	634.29	1.0	42.1%
4299	HIMACS	17,589	1,417	18,150	1,580	8.7%	13.1	15.3	1.6	3.0%	43.00	92.83	886.45	1.0	46.3%
4662	Focus Systems	17,254	1,059	30,100	2,000	6.6%	10.1	11.0	1.2	3.6%	38.00	96.07	848.98	0.6	39.6%
4333	Toho System Science	16,098	1,161	16,500	1,550	9.4%	13.2	13.3	1.6	3.4%	40.00	87.23	722.29	1.0	45.9%
Simple Average		560,089				12.1%	13.2	18.8	2.5	2.4%				2.1	41.9%
Simple Average (excl. OBIC)		480,835				9.9%	13.0	17.9	2.3	2.5%				1.3	41.9%

(Note) Unit for market cap., sales, and operating profit (O.P.): million yen  
Unit for stock price, dividend, estimated EPS, and actual BPS: yen

Sales and operating profit are generally based on the companies' most recent forecasts.  
No unit for P/E, P/B, and P/S

BPS is the value from the most recent quarter.  
Stock price is based on the closing price on June 5, 2023. Only valid data used in the averages

(Ref) Prepared by Alpha-Win Research Dept. based on the securities reports, financial results summaries, and stock data.