

Alpha-Win Company Research Report

CUBE SYSTEM INC. (2335 TSE Prime)

Issued: 8/15/2023

Alpha-Win Capital Inc. Research Department

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● Summary

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

- CUBE SYSTEM INC. (hereinafter, the “Company”) is an independent, mid-tier system integrator listed on the TSE Prime Market. Its main customers include the Nomura Research Institute (hereinafter, “NRI”) and the Fujitsu Group. It develops systems and provides services mainly for the financial, distribution, transportation, telecommunication, and manufacturing industries.
- Its strengths are its excellent customer base, extensive experience, high credibility, and the technology and expertise that it has cultivated over the years. Founded in 1972, it has 51 years of history.
- With the exception of one fiscal year, the Company has been continuously increasing sales YoY for the past 25 years. During this period, the annual sales growth rate (simple average of the rate of increase in sales) was +5.9% and the annual recurring profit growth rate (simple average) was +7.1%; it has been steadily expanding its business over the long term and has always maintained a profit. Its recurring margin has stably been around 7% (simple average of 7.3%) and the increase in sales has been contributing directly to increases in profit, dividend, and market capitalization. In FY2023 (note that the Company’s fiscal year is March-ending, i.e., FY2023 ended in March 2023), it achieved record-high sales and profits. It also increased dividend for the fourth year in a row.
- In April 2022, it moved from the TSE First Section to the newly established Prime Market.
- In December 2022, the Company formed a capital and business alliance with NRI, a top-level and major blue-chip company of the industry. NRI became the Company’s largest shareholder (categorized as “other associated company”), holding 20.2% of the Company’s voting rights. The NRI Group is also the Company’s largest customer, accounting for 49.7% of its consolidated sales in FY2023.
- Adding its own cash on hand to the capital raised through the capital alliance with NRI, the Company plans to invest a total of 2.2 billion yen over the four-year period from FY2023 to FY2026. It plans to invest in strengthening and enhancing its development sites and production system to achieve further growth and solve its bottleneck of human resources.

◆ Results for the first quarter of this fiscal year: Sales increased by 12.4% YoY and operating profit increased significantly by 35.9% YoY. The SI Business contributed to results thanks to active IT investments by companies. Profitability also improved due to the consolidation of resources and the streamlining of operations.

Q1: Summary

- In the first quarter of FY2024 (April to June 2023; hereinafter, “Q1”), sales were 4,376 million yen (+12.4% year-on-year or YoY), operating profit was 369 million yen (+35.9% YoY), recurring profit was 371 million yen (+37.0% YoY), and net profit attributable to owners of the parent (hereinafter, “net profit”) was 232 million yen (+34.2% YoY) (Figure 1 on page 2).
- The Company recorded its highest quarterly sales to date. Profits were also the second highest for the first quarter, following the record highs in FY2022. Although the Company’s Q1 plan is not disclosed, both sales and profits were presumably somewhat above its expectations.
- Orders have been increasing since companies have been actively investing in IT, such as DX and the cloud, due to their strong corporate earnings. The Company was able to achieve significant growths in sales and profit by strengthening its production system, working on people development, and optimizing resources.
- Gross margin increased by 1.2 percentage points from 20.2% in the Q1 of the previous fiscal year to 21.4% in the Q1 of this fiscal year (the same order applies hereinafter). Meanwhile, SG&A expenses increased by 10.7% from 513 million yen to 568 million yen. However, this increase was less than the rate of sales growth, so the SG&A expense ratio declined by 0.2 percentage point from 13.2% to 13.0%. As a result, operating margin increased by

1.5 percentage points from 7.0% to 8.5%. These improvements of profit margins were brought by greater added value, improved efficiency, and greater streamlining.

【Figure 1】 Summary of Q1 Results

Consolidated	Q1 Results		Q1 FY2022	Q1 FY2023	Q1 FY2024	% Change	Change in Amount or Diff.	% of Total Amount of Change	% of Total	FY2024 Full-Year Company Plan	% Change	Progress in
	Unit: million yen or %		April-June 2021	April-June 2022	April-June 2023	YoY: %	YoY: million yen or %	%	%	April 2023 - March 2024	YoY: %	Q1
Category	Consolidated Sales	Service/Category Name	3,987	3,892	4,376	12.4	484	100.0	100.0	18,000	10.3	24.3%
1. By Service Category	Sales	System Integration: SIS	2,985	2,821	3,315	17.5	493	524.5	75.8			
		System Outsourcing: SOS	493	440	467	6.2	27	28.7	10.7			
		Professional: ProS	508	631	594	-5.9	-37	-39.4	13.6			
	Operating Profit	System Integration: SIS	311	172	296	72.1	124	127.8	80.2			
		System Outsourcing: SOS	37	34	40	14.6	5	5.2	10.8			
		Professional: ProS	30	64	33	-48.7	-31	-32.0	8.9			
	Operating Margin (%)	System Integration: SIS	10.4	6.1	8.9		2.8					
		System Outsourcing: SOS	7.5	7.9	8.6		0.7					
		Professional: ProS	6.1	10.3	5.6		-4.7					
2. By Industry	Sales	Finance	924	1,128	1,397	23.9	269	55.6	31.9	5,501	13.2	25.4%
		Distribution	815	785	956	21.7	170	35.1	21.8	3,931	10.6	24.3%
		Telecommunication & Transportation	1,062	826	644	-22.1	-182	-37.6	14.7	2,575	-10.7	25.0%
		Manufacturing (other)	318	344	401	16.6	57	11.8	9.2			
		Government (other)	244	206	264	28.0	58	12.0	6.0	5,993	19.1	23.0%
		Other (other)	610	601	713	18.6	112	23.1	16.3			
	Operating Profit	Finance	75	101	126	24.1	24	24.7	34.1			
		Distribution	84	49	87	77.9	38	39.2	23.6			
		Telecommunication & Transportation	148	70	40	-42.6	-29	-20.9	10.8			
		Manufacturing (other)	20	5	37	545.9	32	33.0	10.0			
		Government (other)	24	11	32	192.8	21	21.6	8.7			
		Other (other)	24	34	46	35.7	12	12.4	12.5			
	Operating Margin (%)	Finance	8.1	9.0	9.0		0.2					
		Distribution	10.4	6.3	9.1		2.8					
		Telecommunication & Transportation	14.0	8.5	6.3		-2.3					
		Manufacturing (other)	6.5	1.7	9.2		7.5					
		Government (other)	10.2	5.4	12.3		6.9					
		Other (other)	4.0	5.7	6.5		0.8					
3. By Business Model	Sales	Digital Business	64	102	126	23.6	24	5.0	2.9	920	52.8	13.7%
		SI Business	1,085	894	1,558	82.5	704	145.5	35.6	5,850	39.8	26.6%
		Enhancement Business	2,840	2,936	2,692	-8.3	-244	-50.4	61.5	11,230	-2.7	24.0%
	Operating Profit	Digital Business	0	-4	4	To profit	9	9.3	1.1			
		SI Business	125	34	155	352.2	120	123.7	42.0			
		Enhancement Business	253	-242	210	-13.3	-32	-33.0	56.9			
	Operating Margin (%)	Digital Business	0.0	-3.9	3.2		7.1					
		SI Business	11.6	4.0	9.9		6.0					
Consolidated	Gross Profit		863	785	938	19.4	153					
		Gross Margin (%)	21.4	20.2	21.4		1.2					
	SG&A Expenses		483	513	568	10.7	55					
		SG&A Expense Ratio (%)	12.1	13.2	13.0		-0.2					
	Operating Profit		379	272	369	35.9	97			1,620	11.5	22.8%
		Operating Margin (%)	9.5	7.0	8.5		1.5			9.0		
	Recurring Profit		390	271	371	37.0	100			1,635	10.4	22.7%
		Recurring Margin (%)	9.8	7.0	8.5		1.5			9.1		
	Net Profit		264	173	232	34.2	59			1,080	9.1	21.5%
		Net Margin (%)	6.6	4.5	5.3		0.8			6.0		

(Note) Actual results are shown for Q1, while the Company's forecasts are shown for the full fiscal year (FY2024). Prepared by Alpha-Win Research Dept. based on the financial results summary and the financial results briefing supplemental materials. The percent of total amount of change is the proportion of the absolute amount of change. Note that throughout this report, due to processing of data during calculations, values for the same item may slightly differ.

Q1: Results by Segment

- Overall, sales increased by 484 million yen YoY and operating profit grew by 97 million yen YoY (see Figure 1 for the description below).

1. Results by Service Category (three categories)

- The System Integration Services (SIS), its core business, accounted for about 80% of total sales and total operating profit (both for this Q1's results; the same applies hereinafter). This category's sales increased by 493 million yen (+17.5% YoY) to 3,315 million yen. System building projects for regional banks, online banks, and a megabank in the financial industry and system building projects for the central government had expanded. Operating margin rose from 6.1% in the previous fiscal year's Q1 to 8.9%. Operating profit in this fiscal year's Q1 was 296 million yen, having increased significantly by 124 million yen (+72.1% YoY).
- The System Outsourcing Services (SOS) accounted for about 10% of total sales and total operating profit. Their sales also increased by 27 million yen (+6.2% YoY) to 467 million yen and operating profit slightly increased by 5 million yen (+14.6% YoY) to 40 million yen due to the expansion of projects for a component manufacturer.
- As for the Professional Services (ProS), which accounted for about 10% of total sales and total operating profit like the SOS, sales declined by 37 million yen (-48.7% YoY) to 594 million yen and operating profit was halved from 64 million yen in the Q1 of the previous fiscal year to 33 million yen (-48.7% YOY) due to the scaling down of system building projects for a telecommunication company in the telecommunication industry.

2. Results by Industry (four categories / six categories)

- Sales and profits increased significantly for the three industries excluding the transportation & telecommunication industries. Regarding the financial industry, which accounted for 32% of total sales and 34% of total operating profit (the largest proportion by industry for both), sales increased by 269 million yen (+23.9% YoY) to 1,397 million yen due to the expansion of system building projects for banks as mentioned earlier. Operating margin in the Q1 of the current fiscal year was 9.0%, which is the same as the previous fiscal year's Q1. However, operating profit rose by 24 million yen (+24.1% YoY) to 126 million yen due to the increase in sales.
- Regarding the distribution industry, which accounted for 22% of total sales and 24% of total operating profit, sales increased by 170 million yen (+21.7% YoY) to 956 million yen due to the expansion of system building projects for an apparel company, a wholesaler, a cooperative, and a home improvement center. Operating margin also rose sharply from 6.3% to 9.1%, and operating profit rose by 38 million yen (+77.9% YoY) to 87 million yen.
- Regarding the "other industries" category, which accounted for 31% of total sales and 31% of total operating profit (the second largest proportions following the financial industry), the businesses with manufacturing companies, the central government, and other companies all posted profit growth due to increased sales and improved profit margins. Sales increased by 226 million yen (+19.7% YoY) to 1,378 million yen and operating profit doubled from 51 million yen to 115 million yen (+64 million yen or +127.3% YoY), contributing the most to the overall profit growth.
- Regarding the transportation & telecommunication industries, which accounted for 15% of total sales and 11% of total operating profit (the smallest proportions), sales fell by 182 million yen (-22.1% YoY) to 644 million yen due to the scaling down of system building projects for a telecommunication company and a shipping company, as mentioned earlier. Operating profit was also nearly halved from 70 million yen to 40 million yen (-29 million yen or -42.6% YoY).

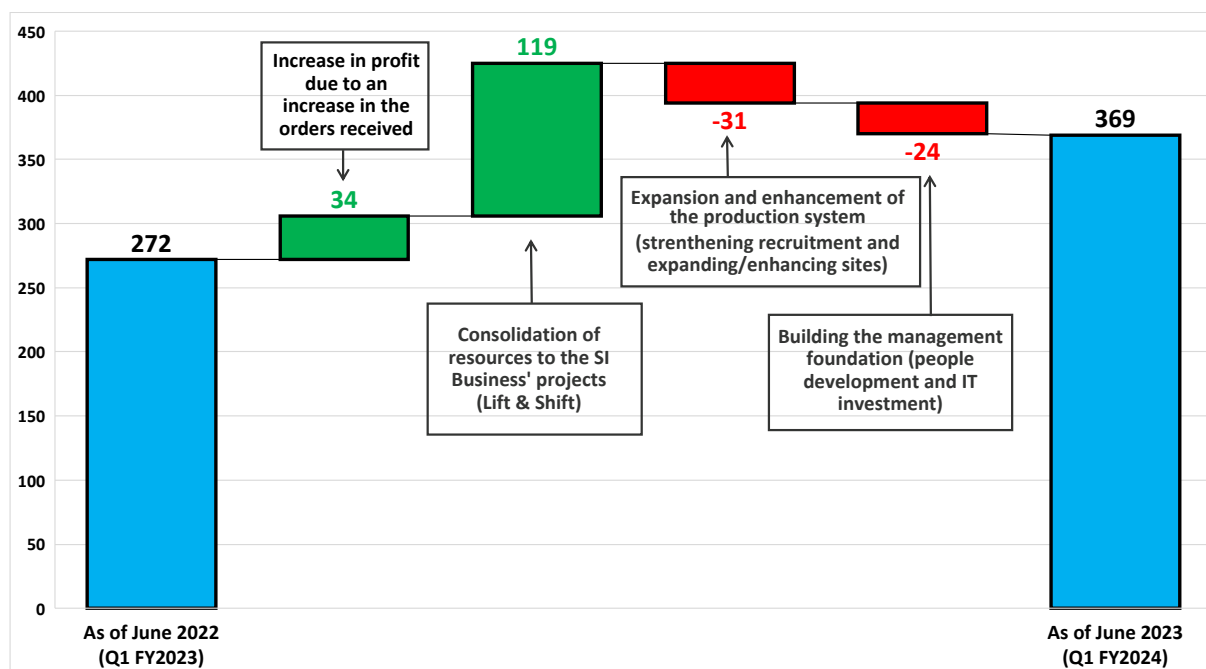
3. Results by Business Model (three models)

- The Enhancement Business accounted for 62% of total sales and 57% of total operating profit. Its sales declined by 244 million yen (-8.3% YoY) from the previous fiscal year's Q1 to 2,692 million yen due to the scaling down of projects for a telecommunication company, a general merchandise store, and a credit card company. Its operating profit decreased by 32 million yen (-13.3% YoY) to 210 million yen, and its operating margin declined from 8.2% to 7.8%.
- The SI Business (Lift & Shift: migration from the legacy environment to the cloud environment in "Lift" and stepwise system restructuring while optimizing for the cloud environment in "Shift") accounted for 36% of total sales and 42% of total operating profit. Due to the expansion of system building projects for regional banks, online banks, the central government, an education company, and an apparel company, its sales increased by 704 million yen (+82.5% YoY) to 1,558 million yen and its operating profit rose sharply by 120 million yen (+352.2% YoY) to 155 million yen. Operating margin jumped from 4.0% to 9.9%.
- The Digital Business remained small in scale, accounting for 3% of total sales and 1% of total operating profit. However, due to the expansion of DX projects for end users in the distribution and energy industries, sales were 126 million yen, having increased by 24 million yen (+23.6% YoY). An operating profit of 4 million yen was posted for this fiscal year's Q1 in a turnaround from the operating loss of 4 million yen posted in the Q1 of the previous year (profit improved by +9 million yen YoY).

Q1: Factors that Contributed to An Increase or Decrease in Profit

- The factors that increased or decreased operating profit in the Q1 of the current fiscal year are as shown in Figure 2 on page 4.
- Due to the expansion and enhancement of the production system (strengthening recruitment and expanding sites) (caused profit to decline by -31 million yen YoY) and the development of the management foundation (similarly, -24 million yen YoY), the costs had increased (similarly, a total of -55 million yen YoY). However, since the increase in the orders received helped to significantly increase profit (similarly, +34 million yen YoY) and the consolidation of resources to the SI Business' projects also largely improved profit (similarly, +119 million yen YoY), operating profit resulted in an increase of 97 million yen YoY (+35.9% YoY).
- The Company's profits were strong since some of the large orders received in the previous fiscal year were booked as sales of this fiscal year's Q1. Additionally, orders have been strong especially in the SI Business, and there were no major unprofitable projects. Investments in development sites and production expansion seem to have been conducted as planned, without delays or leftover budget.

【Figure 2】 Factors that Increased/Decreased Operating Profit in Q1 (Unit: million yen, YoY)
 (Factor that Increased Profit / Factor that Decreased Profit)

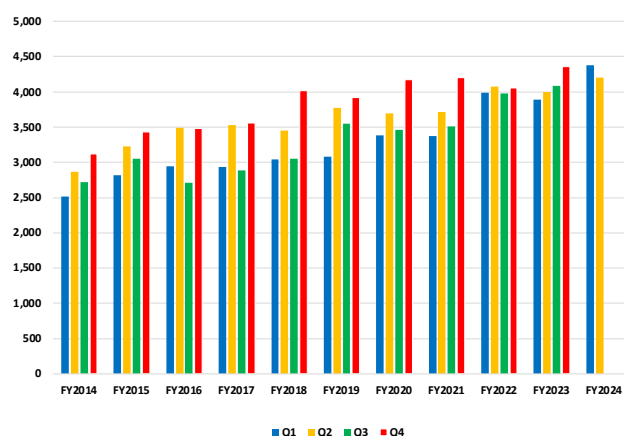


(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing supplemental materials.

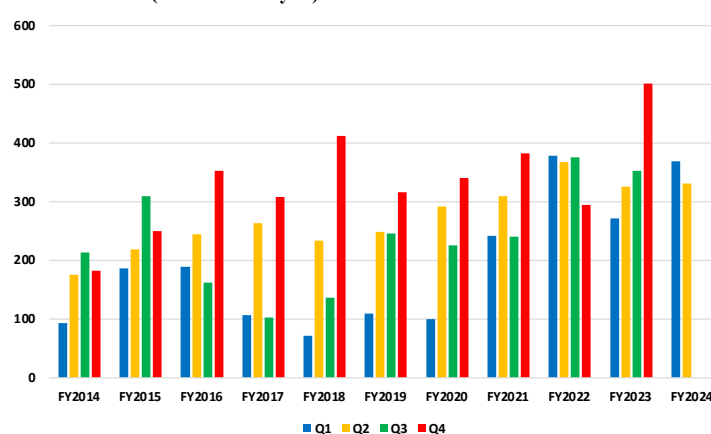
Q1: Progress and Seasonality of Quarterly Results

- Progress in Q1 in terms of achieving the Company's full-year forecast was 24.3% for sales (23.8% in the Q1 of the previous fiscal year) and 22.8% for operating profit (17.8% in the Q1 of the previous fiscal year). As reference, the simple average of the progress in Q1 over the past 10 years, including the previous fiscal year, was 22.9% for sales and 16.3% for operating profit. The progress in this fiscal year's Q1 exceeds these averages for both sales and profit.
- One of the characteristics of the Company is that its business performance and profit margins tend to fluctuate on a quarterly basis. The fourth quarter (Q4 or Jan-Mar) tends to contribute the most to the full-year results (past ten years' average: 27.6% of full-year sales and 33.6% of full-year operating profit). The next largest is the second quarter (Q2 or Jul-Sep; average of 25.8% and 26.8%, respectively), followed by the third quarter (Q3 or Oct-Dec; average of 23.7% and 23.2%, respectively). Q1 has generally been the smallest in contribution (Figures 3-5).

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

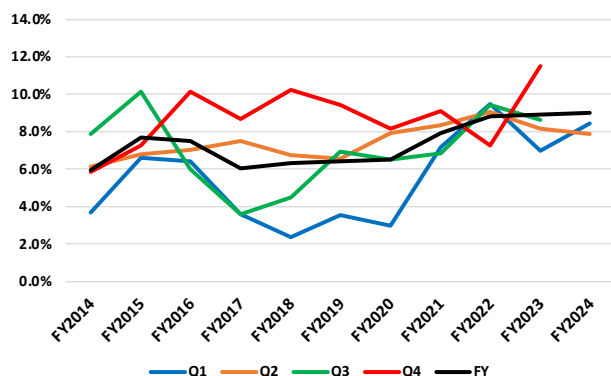


【Figure 4】 Quarterly Change in Operating Profit (Unit: million yen)



(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary. (Note) Q2 FY2024 was calculated based on the Company's forecast.

【Figure 5】 Quarterly Change in Operating Margin
(Unit: %)



【Figure 6】 Changes in Q1 Sales, Order Backlog, and Orders Received (Unit: million yen)



(Ref) Figures 5 and 6 were prepared by Alpha-Win Research Dept. based on the financial results briefing supplemental materials. (Note) Q2 FY2024 was calculated based on the Company's forecast.

Orders Received

- The overall amount of orders received increased steadily from 3,751 million yen in the same period of the previous fiscal year to 4,633 million yen (+881 million yen or +23.5% YoY). Similarly, the order backlog steadily increased from 4,135 million yen to 4,828 million yen (+692 million yen or +16.8% YoY) (Figure 6).

Orders Received: By Industry (four categories)

- Regarding both the orders received in Q1 from each industry and the order backlog, the decline in the business with the transportation & telecommunication industries has been offset mainly by the strong performance of the business with the financial industry, similar to sales.

Orders Received: By Business Model (three models)

- The decline in the orders received and the order backlog in the Enhancement Business (-147 million yen or -5.4% YoY and -66 million yen or -2.2% YoY, respectively) has been offset by their significant increase in the SI Business (Lift & Shift) (+975 million yen or +101.6% YoY and +748 million yen or +75.0% YoY, respectively).

Number of Employees and Productivity

- In the Company's business model, sales growth is generally directly correlated with the number of employees. The total number of employees in Japan and overseas has been steadily increasing from 707 in June 2017 (end of month) → 745 in June 2018 (+38 or +5.4%) → 766 in June 2019 (+21 or +2.8%) → 799 in June 2020 (+33 or +4.3%) → 829 in June 2021 (+30 or +3.8%) → 882 in June 2022 (+53 or +6.4%) → 904 in June 2023 (+22 or +2.5%). Its capacity in terms of human resources has been increasing. However, although it has been improving conditions for employees and enhancing recruitment by incorporating web interviews, the demand for system development has continued to increase and the Company is still somewhat short of talents.
- The Company has been focusing on improving productivity. Looking at its major management indicators, the quarterly sales per employee in Japan has been improving in the order of Q1 FY2021 → Q1 FY2022 → Q1 FY2023 → Q1 FY2024 from 4,737 thousand yen / person → 5,402 thousand yen / person → 5,082 thousand yen / person → 5,744 thousand yen / person. Similarly, the quarterly operating profit per employee in Japan has been improving from 339 thousand yen / person → 513 thousand yen / person → 355 thousand yen / person → 485 thousand yen / person.

Balance Sheet

- There has been no significant change in the balance sheet as of the end of Q1. The Company has ample liquidity on hand, with cash & deposits of Y6.4 billion (4.3 months' worth of the average monthly sales forecasted for this fiscal year; essentially debtless). With also a current ratio of 452.5% and an equity ratio of 76.5%, its financial standing is firm. Going forward, the key points will continue to be the enhancement of shareholder return and the effective utilization of its excess capital for future growth, such as M&As, business alliances, investments, and financing.

Short Report

5/11

This Alpha-Win Company Research Report (hereinafter "this Report") has been prepared by Alpha-Win-Capital Inc. (hereinafter "Alpha-Win") on the request of the company presented in this Report for the purpose of providing a description of the company. This Report is not to be construed as a recommendation or solicitation of investment. Contents of this Report are based on information current as of the issue date and are subject to change without notice. We do not warrant or represent that the information in this Report is accurate, reliable, complete, appropriate, or fit for any purpose and do not accept any responsibility or liability. Alpha-Win shall not be liable for any consequences including direct or indirect loss, lost profit, or damage resulting from the use of or reliance on this Report. Investors who read this report must make their own decisions on all investment matters and take full responsibility regarding their investment. Intellectual property of this Report belongs to Alpha-Win and no part of this report may be copied, photocopied, cited, or translated without our consent.

◆ No change to the first-half or full-year forecast since the beginning of the fiscal year

- The Company has not changed its forecasts for the first half or the full year since their announcement at the beginning of the fiscal year.

First Half: Company Forecast

- In the first half, the Company plans to achieve sales of 8,577 million yen (+685 million yen or +8.7% YoY), operating profit of 700 million yen (+102 million yen or +17.0% YoY), and net profit of 457 million yen (+69 million yen or +17.7% YoY). It plans to increase both sales and profit and expects to achieve record high first-half sales for the consecutive year. Regarding profit, it expects each profit to reach the second highest levels following the results of the first half of FY2022.

Full Year: Company Forecast

- The Company has maintained its initial full-year forecasts that were announced at the beginning of the fiscal year: 18,000 million yen in sales (+10.3% YoY), 1,620 million yen in operating profit (+11.5% YoY), and 1,080 million yen in net profit (+9.1% YoY). It expects to achieve sales and profit growths in the current fiscal year, as it did in the previous fiscal year, as well as achieving record-high sales and profits for the consecutive year.
- The Company plans to pay an annual dividend of 30 yen per share (15 yen for the first half and 15 yen for the end of the fiscal year). In the previous fiscal year, the Company also paid a commemorative dividend for the celebration of its 50th anniversary (total of 24 yen/share), so the annual dividend totaled 50 yen per share (ordinary dividend was 26 yen/share). This fiscal year, there will be no commemorative dividend, but the annual dividend will essentially be increased by 4 yen per share in terms of the ordinary dividend.
- The Company has been working on increasing sales activities while taking measures against COVID-19 (combination of decentralized/non-face-to-face sales activities using digital technologies and in-person sales) and strengthening its prioritized approach toward customers who are actively conducting strategic IT investments (strengthening its sales activities toward its major customers, expanding the existing businesses, and developing new domains or areas of business). Through these efforts, it plans to continue increasing its earning power and enhancing shareholder return.
- The Company has announced its policy to raise the targeted consolidated dividend payout ratio from 35% to 40% starting in FY2024.

This Fiscal Year: Alpha-Win Research Department's Forecast**Full Year**

- We maintained our previous forecasts for the current fiscal year, forecasting sales of 17,800 million yen, operating profit of 1,600 million yen, and net profit of 1,065 million yen. These are slightly lower than the Company's plan for this fiscal year by 200 million yen for sales, by 20 million yen for operating profit, and by 15 million yen for net profit. We have estimated the operating margin to be 9%, which is the same level as the Company's plan.
- The received amount of orders and the order backlog have been increasing and firm thanks to its customers' enthusiasm in strategic IT investments (Figure 6 on page 5). The Q1 results have presumably somewhat exceeded its expectations, and the Q2 forecasts seem conservative too. Therefore, we believe that if the Company conducts appropriate cost control in Q2 and the second half, the full-year profit forecasts will be within an achievable range.
- However, considering the estimated sales growth rate for the second half of this fiscal year (+11.7% YoY), the Company's plan (for the second half) seems somewhat ambitious. Therefore, taking into account the risks to a certain extent, such as the rise in subcontracting cost, personnel expenses, and various other costs, we have made a somewhat cautious forecast for this fiscal year compared to the Company's plan (see our previous report issued on June 9, 2023).
- With the inflation, the rise in domestic interest rates, and the global uncertainty, customers in Japan are generally becoming polarized regarding their IT investments. Some of the Company's customers (companies) with deteriorating business performance seem to be starting to hold down their IT investments.
- Concerning the Company, there is currently generally no sign of slowdown in negotiations or in receiving orders. The Company has been receiving orders for strategic or derivative projects from industries with strong business performance, while also shifting to high-profit projects and improving its resource efficiency. The impact of the worsening environment is therefore expected to be relatively limited.

First Half

- The Company has a large order backlog of 4,828 million yen as of the end of Q1. IT investments by companies have been strong and the supply-demand balance is tight. Also, the Company will likely continue to receive orders for system building projects from the financial and manufacturing industries with strong business performance and orders for the expanding DX investment projects. Additionally, the Company's business is centered on a stable, contract-based business model. Therefore, regarding the first half of this fiscal year, we believe that the downside risks of sales and profits will both be limited and the Company may also be able to revise its profits upward by about 10%.
- Subtracting the Q1 results from the Company's first-half forecasts, the forecasts for Q2 (Jul-Sep) come out to be 4,201 million yen for sales (+201 million yen or +5.0% YoY), 331 million yen for operating profit (+5 million yen or +1.5% YoY), and 225 million yen for net profit (+10 million yen or +4.7% YoY). In the Q2 of this fiscal year, the Company expects a slight YoY increase in sales and profits, a decline in the momentum compared to Q1 (YoY growth rates of sales and profits), and a decline in the operating margin (the margin was 7.0% in the previous fiscal year's Q1 and 8.2% in the previous fiscal year's Q2 \Rightarrow 8.5% in this fiscal year's Q1 and expected to be 7.9% in this fiscal year's Q2). These forecasts seem somewhat conservative, though (Figure 7).

Second Half

- The Company's plan for the second half (i.e., full-year forecast minus first-half forecast) is as follows: sales of 9,423 million yen (+989 million yen or +11.7% YoY), operating profit of 920 million yen (+66 million yen or +7.7% YoY), and net profit of 623 million yen (+21 million yen or +3.7% YoY). Operating margin was 10.1% in the previous fiscal year's second half but is planned to be 9.8% in this fiscal year's second half. Compared to the second half of the previous fiscal year, the Company expects a double-digit sales growth, a single-digit profit growth, and a slight decline in the profit margin. Comparing the second-half and the first-half forecasts for this fiscal year shows that the Company expects an increase in sales by 847 million yen (+9.9%), an increase in operating profit by 220 million yen (+31.4%), and an increase in operating margin (from 8.2% to 9.8%). In past years, there has been a seasonal cycle in which the effect of increasing employees usually begins to be fully seen in the second half as new employees begin their actual work. Project delivery deadlines also tend to be concentrated in Q4. Therefore, the Company's plan for sales and profit growth in the second half seems mostly reasonable, although the plan for sales is somewhat high.
- Future increases in costs, such as investment in human resources, business investment to expand development sites, investment in its own DX (improvement of operational productivity), investment in the development of its own products, and the increase in personnel expenses, seem to have been factored into the financial forecast to some extent. Therefore, there seems to be some room to accommodate for changes and cost control.

【Figure 7】 This Fiscal Year's Financial Forecasts (First Half, Second Half, Q1, and Q2)

Unit: million yen	Last Fiscal Year's Results FY2023	This Fiscal Year's Company Forecasts FY2024	FY2023 First-Half Results	FY2024 First-Half Plan	YoY Change (%)	FY2023 Second-Half Results	FY2024 Second-Half Plan	YoY Change (%)	FY2023 Q1 Results	FY2023 Q2 Results	FY2024 Q1 Results	FY2024 Q2 Forecasts	FY2024 Q1: YoY	FY2024 Q2: YoY
Sales	16,325	18,000	7,892	8,577	8.7%	8,433	9,423	11.7%	3,892	4,000	4,376	4,201	12.4	5.0
Gross Profit	3,570		1,651			1,919			785	866	938			
Gross Margin	21.9%		20.9%			22.8%			20.2%	21.6%	21.4%			
SG&A Expenses	2,118		1,053			1,065			513	539	568			
SG&A Expense Ratio	13.0%		13.3%			12.6%			13.2%	13.5%	13.0%			
Operating Profit	1,452	1,620	598	700	17.0%	854	920	7.7%	272	326	369	331	35.9	1.5
Operating Margin	8.9%	9.0%	7.6%	8.2%	0.6%	10.1%	9.8%	-0.4%	7.0%	8.2%	8.3%	7.9%	1.3%	-0.3%
Recurring Profit	1,480	1,635	594	700	17.8%	886	935	5.5%	271	323	371	329	37.0	1.9
Net Profit	989	1,080	388	457	17.7%	601	623	3.7%	173	215	232	225	34.2	4.7

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

Medium Term: Alpha-Win Research Department's Forecast

- We have not changed our medium-term forecasts of the Company's financial performance (our financial forecasts for the next fiscal year onward have been maintained; Figure 8 on page 8).
- IT investments by the Company's users (companies) are expected to keep increasing as they develop new business models, strengthen their competitive edge, work on solving employee shortages, streamline and speed up operations, work on DX, and shift to the cloud. Therefore, the Company's growth potential is large.
- With strong IT demand from companies, the Company expects to achieve top-line growth by utilizing its abundant cash on hand to increase employees and expand its development sites. We forecast that through the expansion of the Digital and the SI businesses, the effect of the alliance with NRI, the development of new customers and new areas of business, and various measures to improve productivity, the Company will be able to maintain a stable sales and profit growth trend of around 6-10% per year over the medium term.

Short Report

7/11

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【Figure 8】 Medium-Term Financial Forecasts

Unit: million yen or %	FY2023 Results	FY2024 Medium-Term Plan CE	FY2024 CE	FY2024 E	FY2025 E	FY2026 E
Sales	16,325	19,000	18,000	17,800	19,000	20,500
Digital Business	602	1,000	920	900	1,200	1,700
SI Business	4,183	5,700	5,850	5,800	6,200	6,800
Enhancement Business	11,539	12,300	11,230	11,100	11,600	12,000
Gross Profit	3,570			3,900	4,150	4,500
Gross Margin	21.9%			21.9%	21.8%	22.0%
SG&A Expenses	2,118			2,300	2,425	2,650
(Ratio to sales)	13.0%			12.9%	12.8%	12.9%
Operating Profit	1,452	1,710	1,620	1,600	1,725	1,850
(Ratio to sales)	8.9%	9.0%	9.0%	9.0%	9.1%	9.0%
Recurring Profit	1,480		1,635	1,615	1,755	1,870
(Ratio to sales)	9.1%		9.1%	9.1%	9.2%	9.1%
Net Profit	989		1,080	1,065	1,155	1,235
(Ratio to sales)	6.1%		6.0%	6.0%	6.1%	6.0%
Sales (% YoY growth)	1.4%	16.4%	10.3%	9.0%	6.7%	7.9%
Gross Margin (% YoY diff.)	0.4%			0.0%	-0.1%	0.1%
SG&A Expenses (% YoY growth)	4.2%			8.6%	5.4%	9.3%
Operating Profit (% YoY growth)	2.4%	17.7%	11.5%	10.2%	7.8%	7.2%
Recurring Profit (% YoY growth)	3.3%		10.4%	9.1%	8.7%	6.6%
Net Profit (% YoY growth)	4.8%		9.2%	7.7%	8.5%	6.9%

(Ref) Prepared by Alpha-Win Research Dept. (Note) CE: the Company's forecast/estimate. E: Alpha-Win Research Dept.'s forecast/estimate.

◆ **Stock price and characteristics: Significantly outperforming the TOPIX over the long term as a stable growth stock centered on domestic demand. The current level of valuation is about average.**

Performance

- Over the past approximately 14 years, the Company's stock price has increased by about 6.1x thanks to its solid financial performance, significantly outperforming the TOPIX (by about +340%).
- The recent stock market has been impacted by the weak yen, economic recovery, and rising interest rates, and inbound-related stocks and large-cap stocks have been strong. Although the Company is a defensive, domestic-demand-oriented, and small-cap stock, it has only slightly underperformed the TOPIX over the past 12 months (Figure C on page 11).
- Concerning its two competitors listed on the TSE Prime Market (HIMACS with securities code 4299 and Toho System Science with securities code 4333), upon their announcement of Q1 results, HIMACS announced an upward revision of its full-year financial results and Toho System Science announced an essential increase in dividend. Consequently, in the short term, the Company's stock has been slightly underperforming both companies in comparison.

Valuation

- Currently, the average valuation of all companies listed on the TSE Prime is as follows: forecasted P/E of 15.4, P/B of 1.3, and forecasted dividend yield (simple average) of 2.2% (based on the closing price of August 7, 2023).
- Compared to these, the Company's valuation is close to average (in terms of the P/E and dividend yield). Considering this fiscal year's strong financial performance and its growth potential over the medium term, its valuation does not seem expensive.
- The current stock price seems to reflect the relatively low volatility seen from its past financial results, the proven stable growth in profit, and positive expectations for the future.
- Compared to its two competitors mentioned above (HIMACS and Toho System Science), its valuation is in the middle range (second highest among the three companies) in terms of the major valuation measures excluding dividend yield (which is the lowest) (Figure 9 on page 9).

【Figure 9】 Comparison of Valuation with Competitors

Company Name	CUBE SYSTEM (CS: consolidated)	HIMACS (HM: consolidated)	Toho System Science (TS: non-consolidated)
Code	2335	4299	4333
Stock Price (closing price on 8/7)	1,173	1,412	1,727
Market Cap (million yen)	18,504	17,527	23,947
P/E (price-to-earnings ratio)	16.47	14.31	29.69
P/B (price-to-book ratio)	1.88	1.60	2.37
Dividend Yield (%)	2.56	3.05	3.47
EV/EBITDA	7.37	5.41	9.18
P/S (price-to-sales ratio)	1.03	0.97	1.45
Q1 FY2024: Sales (million yen)	4,376	4,335	3,944
Q1 FY2024: Operating Profit (million yen)	369	285	328
Q1 FY2024: YoY Sales Growth Rate (%)	12.4	-2.3	8.0
Q1 FY2024: YoY Operating Profit Growth Rate (%)	35.9	-29.1	-1.5
Q1 FY2024: Operating Margin (%)	8.5	6.6	8.3
Q1 FY2024: Progress with Sales (%)	24.3	23.9	23.9
Q1 FY2024: Progress with Operating Profit (%)	22.8	17.0	21.2
FY2024 Full-Year Company Forecast: Sales (million yen)	18,000	18,150	16,500
FY2024 Full-Year Company Forecast: Operating Profit (million yen)	1,620	1,680	1,550
FY2024 Full-Year Company Forecast: YoY Sales Growth Rate (%)	10.3	4.7	6.8
FY2024 Full-Year Company Forecast: YoY Operating Profit Growth Rate (%)	11.5	-8.3	2.3
FY2024 Full-Year Company Forecast: Operating Margin (%)	9.0	9.3	9.4

(Ref) Prepared by Alpha-Win Research Dept. based on each company's financial results summary and stock price data.

(Note) • Market cap = number of shares outstanding x stock price (closing price on 8/7/2023).

• EPS values used in P/E calculations are based on each company's forecast for FY2024.

• BPS values used in P/B calculations reflect this fiscal year's Q1 results.

• EV/EBITDA = (market cap + interest-bearing debt – cash & deposits) / (operating profit + depreciation + intangible fixed assets amortization, etc.). Interest-bearing debt and cash & deposits are based on this fiscal year's Q1 results. Operating profit is based on each company's full-year forecast for this fiscal year. Depreciation and intangible fixed assets amortization, etc., are based on the previous fiscal year's results.

• P/S = market cap ÷ sales (each company's forecast for FY2024).

• Q1: results from April to June.

• HIMACS: reflects its upward revision of results announced on July 28, 2023. Plans to move from the Prime Market to the Standard Market on October 20, 2023.

• Toho System Science: reflects the revision that essentially increases its dividend. However, the values do not reflect the 1.5-for-1 stock split that is planned to be conducted on September 1, 2023.

Stock Price Outlook

- Going forward, the Company's stock price will likely be impacted by the progress with its business performance (first-half and full-year profit levels and order trends) and changes in stock returns (whether there will be dividend hikes, share buybacks, and stock splits).
- In the medium term, the key points will be changes in the top line (sales growth rate, recruitment and retaining of employees, and the effect of the alliance with NRI) and changes in the profit margins (gross margin, operating margin, and SG&A expense ratio). Another key point is the contribution of the SI Business and the Digital Business to profit, as well as the business performance and IT investment trends of Japanese companies that are its end users (the environment surrounding the Company's reception of orders; changes in the volume of orders received and the price per contract).
- We believe that if the Company can maintain a nearly double-digit, stable profit growth rate, its stock price may rise further to adjust for the level of P/E and the increase in EPS.
- From a medium- to long-term perspective, the Company may be considered a candidate for investment as a defensive, stable growth stock centered on domestic demand.

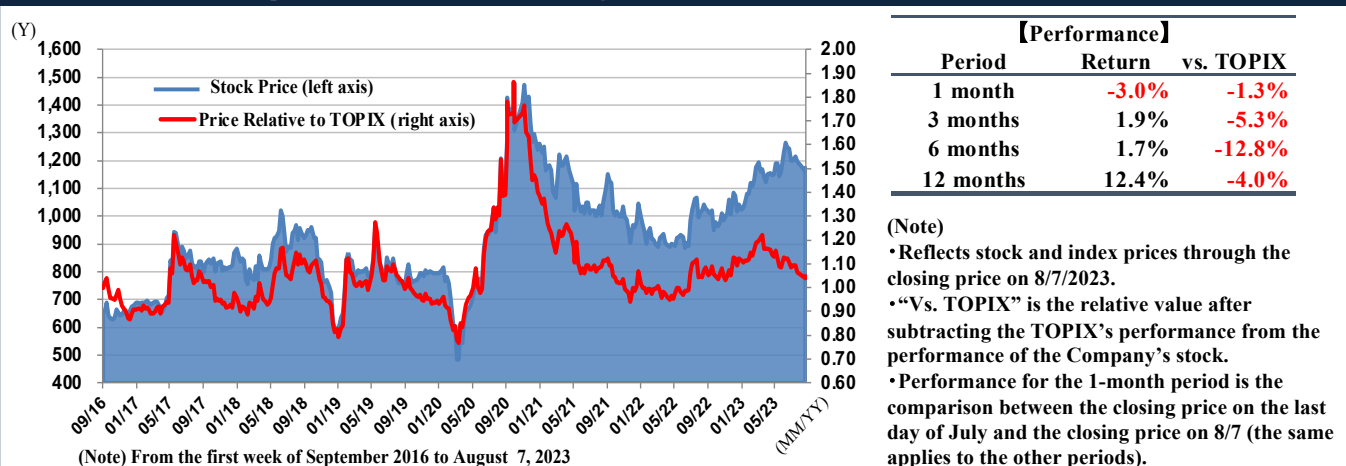
【 2335 CUBE SYSTEM Sector: Information & Communication 】 Figure A												
FY		Sales (million yen)	YoY (%)	O.P. (million yen)	YoY (%)	R.P. (million yen)	YoY (%)	N.P. (million yen)	YoY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
2020		14,708	2.7	959	4.1	976	1.7	525	-11.9	38.69	411.96	18.0
2021		14,788	0.5	1,174	22.5	1,295	32.7	844	60.7	62.11	476.52	20.0
2022		16,099	8.9	1,417	20.7	1,432	10.6	944	11.9	69.82	531.14	23.0
2023		16,325	1.4	1,452	2.4	1,480	3.3	989	4.8	70.35	634.29	50.0
2024	Revised Medium-Term Plan CE	19,000		1,710								
2024	CE	18,000	10.3	1,620	11.5	1,635	10.4	1,080	9.1	71.23	Not Disclosed	30.0
2024	E	17,800	9.0	1,600	10.2	1,615	9.1	1,065	7.7	70.25	657.02	30.0
2025	E	19,000	6.7	1,725	7.8	1,755	8.7	1,155	8.5	76.18	703.20	32.0
2026	E	20,500	7.9	1,850	7.2	1,870	6.6	1,235	6.9	81.46	752.66	34.0
2018	Q1	3,082	1.4	109	52.4	132	80.5	76	131.3	5.45	393.29	0.0
2019	Q1	3,379	9.6	100	-8.8	107	-19.0	50	-34.2	3.70	379.63	0.0
2020	Q1	3,373	-0.2	242	141.3	248	130.8	165	229.3	12.17	418.69	0.0
2021	Q1	3,987	18.2	378	56.5	390	57.1	262	59.0	19.35	487.51	0.0
2022	Q1	3,892	-2.4	272	-28.1	271	-30.5	173	-34.0	12.84	543.58	0.0
2023	Q1	4,376	12.4	369	35.9	371	37.0	232	34.2	15.36	622.93	0.0
2021	Q2	4,073	9.8	368	18.7	362	2.0	239	1.7	17.65		8.0
2022	Q2	4,000	-1.8	326	-11.4	323	-10.8	215	-10.0	15.89		23.0
2023	Q2 CE	4,201	5.0	331	1.5	329	1.9	225	4.7	14.78		15.0
2021	H1	8,060	13.8	746	35.1	752	24.6	501	25.3	37.00		8.0
2022	H1	7,892	-2.1	598	-19.9	594	-21.0	388	-22.6	28.73		23.0
2023	H1 CE	8,577	8.7	700	17.0	700	17.7	457	17.7	30.14		15.0
2022	H2	8,039	4.3	671	7.9	680	-1.7	443	-0.2	32.82		15.0
2023	H2	8,433	4.9	854	27.3	886	30.3	601	35.7	41.62		27.0
2024	H2 CE	9,423	11.7	920	7.7	935	5.5	623	3.7	41.09		15.0
2022	Q2-Q4	12,112	6.1	1,039	11.5	1,042	-0.5	682	0.4	50.47	-	23.0
2023	Q2-Q4	12,433	2.7	1,180	13.6	1,209	16.0	816	19.6	57.51	-	50.0
2024	Q2-Q4 CE	13,624	9.6	1,251	6.0	1,264	4.5	848	3.9	55.87		30.0

(Note) CE: the Company's forecast/estimate. E: Alpha-Win Research Dept.'s forecast/estimate. "Revised Medium-Term Plan CE" is the Company's forecast announced on May 11, 2022. Q1: April to June. Q2: July to September. H1 (first half): April to September. H2 (second half): October to March. Q2-Q4: July to March.

【 Stock Price and Valuation Indicators: 2335 CUBE SYSTEM 】 Figure B						
Item	8/7/2023	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,173	Last FY (actual)	16.7	1.8	4.3%	71.1%
Shares Outstanding (thou.)	15,750	This FY (est.)	16.7	1.8	2.6%	42.7%
Market Capitalization (million yen)	18,475	Next FY (est.)	15.4	1.7	2.7%	42.0%
Dilutive Shares (thou.)	0	Equity Ratio at the End of This FY's Q1	76.5%		Last FY's ROE	11.8%

(Note) Estimates for the current and the next fiscal year were made by Alpha-Win Research Dept.

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



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