

# Alpha-Win Company Research Report

## CUBE SYSTEM INC. (2335 TSE Prime)

Issued: 2/16/2024

Alpha-Win Capital Inc. Research Department

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

### ● Summary

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

##### Company Overview

- CUBE SYSTEM INC. (hereinafter, the “Company”) is an independent, mid-tier system integrator listed on the TSE Prime. Its main customers include the Nomura Research Institute (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 July 1972, it has 51 years of history. In April 2022, it moved from the TSE First Section to the newly established Prime Market.

##### Business Performance

- 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 and keeping its business profitable over many years. 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 the previous fiscal year or 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. This fiscal year, it plans to achieve record-high results again.

##### Alliance

- 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 has become 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 53.4% of its consolidated sales (in the first half of FY2024).

##### Investment Plan

- Adding its own cash on hand to the capital raised through the capital alliance with NRI, the Company plans to invest a total of approximately 2.2 billion yen over the four-year period from FY2023 to FY2026. It plans to invest in strengthening and enhancing its development bases and production system to achieve further growth and solve its bottleneck of human resources.

#### ◆ Results for the first nine months of this fiscal year: Sales increased 13.3% YoY and operating profit increased 22.1% YoY. The increase in orders in the SI Business and the consolidation of resources to this business contributed to the growth. By industry, increased orders from the financial and the other industries contributed to the growth.

##### Summary of Financial Results for the First Nine Months: Achieved record-high results

- In the first nine months of FY2024 (April to December 2023; hereinafter, “the first nine months” or “Q3 YTD”), the Company posted sales of 13,565 million yen (+13.3% YoY), operating profit of 1,161 million yen (+22.1% YoY), recurring profit of 1,169 million yen (+22.6% YoY), and net profit attributable to owners of the parent (hereinafter, “net profit”) of 758 million yen (+20.7% YoY) (Figure 1 on page 2). Record-high Q3 YTD results were achieved for sales and each of the profits.
- The Company’s initial plan for the first half (April to September 2023) was 8,577 million yen for sales (+8.7% YoY), 700 million yen for operating profit (+17.0% YoY), 700 million yen for recurring profit (+17.7% YoY), and 457 million yen for net profit (+17.7% YoY). The results had exceeded this initial plan by 438 million yen for sales (+5.1%), 94 million yen for operating profit (+13.4%), and 44 million yen for net profit (+9.6%). In Q3 (October to December 2023), too, the Company saw an increase in sales and profit as described later (page 6), maintaining

high levels of quarterly sales and profit.

- Due to inflation and the materialization of geopolitical risks, the outlook for the global economy remains uncertain. However, with the COVID-19 outbreak settling down, in addition to the depreciation of the yen, the recovery of inbound demand, and positive corporate earnings, Japanese companies (the Company's clients) have been actively investing in IT, including DX (business transformation and process reform), the shift to the cloud, and adjustments to the new invoicing system and the revised Electronic Books Preservation Act. Under these circumstances, the Company has been receiving more orders.
- To meet the strong demand, the Company has been working on increasing capacity and profitability by strengthening its production system, working on people development, optimizing and consolidating resources, and streamlining operations. Thanks to these efforts, it achieved significant increases in sales and profits.
- The gross margin increased slightly by 0.1 percentage point, from 21.5% in the previous fiscal year's first nine months to 21.6% in this fiscal year's first nine months (the same order applies hereinafter). Meanwhile, SG&A expenses increased by 9.6% from 1,617 million yen to 1,772 million, but since this increase was 3.7 percentage points below the sales growth rate, the SG&A expense ratio declined by 0.4 percentage point from 13.5% to 13.1%.
- As a result, the operating margin increased by 0.7 percentage point from 7.9% to 8.6%. This was because profitability improved due to cost control, value-adding, improved efficiency, and streamlining (consolidation of resources).

【Figure 1】 Summary of Results for the First Nine Months

Consolidated	Results for the First Nine Months		FY2023 Q3 YTD	FY2024 Q3 YTD	Change in Amount / Difference	% Change	% of Total Amount of Change	% of Total
	Units: million yen		Apr-Dec 2022	Apr-Dec 2023	YoY: million yen or %	YOY: %	%	%
Category	Consolidated Sales	Service or Industry Name	11,973	13,565	1,592	13.3	100.0	100.0
1. By Service Category	Sales	System Integration: SIS	8,781	10,530	1,748	19.9	109.8	77.6
		System Outsourcing: SOS	1,314	1,264	-50	-3.8	-3.1	9.3
		Professional: ProS	1,876	1,770	-105	-5.6	-6.6	13.0
	Operating Profit	System Integration: SIS	665	908	243	36.6	115.7	78.2
		System Outsourcing: SOS	89	86	-2	-3.3	-1.0	7.4
		Professional: ProS	196	166	-29	-15.2	-13.8	14.3
	Operating Margin (%)	System Integration: SIS	7.6	8.6	1.0			
		System Outsourcing: SOS	6.8	6.9	0.1			
		Professional: ProS	10.5	9.4	-1.1			
	2. By Industry	Sales	Finance	3,571	4,484	912	25.6	57.3
Distribution			2,561	2,804	242	9.5	15.2	20.7
Telecommunication & Transportation			2,267	1,923	-343	-15.2	-21.5	14.2
Manufacturing (other)			1,116	1,205	89	7.9	5.6	8.9
Government (other)			637	842	205	32.2	12.9	6.2
Other (other)			1,817	2,305	488	26.8	30.6	17.0
Operating Profit		Finance	310	391	81	26.0	38.6	33.7
		Distribution	194	230	36	18.1	17.1	19.8
		Telecommunication & Transportation	210	181	-29	-14.0	-13.8	15.6
		Manufacturing (other)	45	78	33	71.3	15.7	6.7
		Government (other)	34	97	63	183.6	30.0	8.4
		Other (other)	154	182	28	18.1	13.3	15.7
Operating Margin (%)		Finance	8.7	8.7	0.0			
		Distribution	7.6	8.2	0.6			
		Telecommunication & Transportation	9.3	9.4	0.1			
		Manufacturing (other)	4.1	6.5	2.4			
		Government (other)	5.4	11.6	6.2			
		Other (other)	8.5	7.9	-0.6			
3. By Business Model	Sales	Digital Business	408	398	-9	-2.2	-0.6	2.9
		SI Business	2,905	5,054	2,149	74.0	135.0	37.3
		Enhancement Business	8,659	8,111	-547	-6.3	-34.4	59.8
	Operating Profit	Digital Business	14	8	-6	-44.7	-2.9	0.7
		SI Business	174	493	318	182.8	151.4	42.5
		Enhancement Business	761	660	-101	-13.3	-48.1	56.8
	Operating Margin (%)	Digital Business	3.4	2.0	-1.4			
		SI Business	6.0	9.8	3.8			
		Enhancement Business	8.8	8.1	-0.7			
Consolidated	Gross Profit		2,568	2,934	366	14.2		
		Gross Margin (%)	21.5	21.6	0.1			
	SG&A Expenses		1,617	1,772	155	9.6		
		SG&A Expense Ratio (%)	13.5	13.1	-0.4			
	Operating Profit		951	1,161	210	22.1		
		Operating Margin (%)	7.9	8.6	0.7			
	Recurring Profit		953	1,169	216	22.6		
		Recurring Margin (%)	8.0	8.6	0.6			
	Net Profit		628	758	130	20.7		
		Net Profit Margin (%)	5.2	5.6	0.4			

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

(Note) Throughout this report, there may be differences in the figures due to the method of presentation and/or the calculation processes, such that the figures for the same item may not match the figures announced by the Company or the data in other documents.

**First Nine Months' Results by Segment: SIS and the financial industry contributed to the results**

- Overall, sales increased by 1,592 million yen YoY and operating profit grew by 210 million yen YoY.

**1. Results by Service Category (three categories)**

- The System Integration Services (SIS), its core business, accounted for 78% of both total sales and total operating profit (both are rounded figures for this first nine months; the same applies hereinafter). This category's sales increased by 1,748 million yen (+19.9% YoY) to 10,530 million yen. Of the three service categories, this was the only category whose sales had increased (Figure 1 on page 2).
- In the SIS, business with the financial industry was strong, with the expansion of system building projects for regional banks, online banks, a megabank, and securities firms as well as for an education company. Its operating margin rose to 8.6% from 7.6% in the previous fiscal year's first nine months. With sales growth as well, operating profit in this fiscal year's first nine months was 908 million yen, having increased significantly by 243 million yen (+36.6% YoY) from 665 million yen in the previous fiscal year's first nine months.
- The System Outsourcing Services (SOS) accounted for 9% of total sales and 7% of total operating profit. This category's sales were 1,264 million yen, having decreased slightly by 50 million yen (-3.8% YoY) due to the scaling down of system building projects for a stock exchange. Its operating profit was 86 million yen, also at a slight decrease of 2 million yen (-3.3% YoY).
- The Professional Services (ProS), a category which is somewhat greater in scale than the SOS, accounted for 13% of total sales and 14% of total operating profit. This category's sales declined by 105 million yen (-5.6% YoY) to 1,770 million yen and its operating profit declined by 29 million yen (-15.2% YoY) to 166 million yen due to the scaling down of system building projects for telecommunication companies in the telecommunication industry.

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

- Sales and profits increased at mostly double-digit rates for the three industries excluding the transportation & telecommunication industries. The financial industry and the "other industries" category contributed to the results.
- Regarding the financial industry, which accounted for 33% of total sales and 34% of total operating profit (the largest proportion by industry for both), sales increased by 912 million yen YoY (+25.6% YoY) to 4,484 million yen due to the expansion of system building projects for banks as mentioned earlier.
- Its operating margin for the first nine months of this fiscal year was 8.6%, which is about the same level as the previous fiscal year's first nine months. With sales growth as well, operating profit increased by 80 million yen (+26.0% YoY) to 391 million yen (Figure 1 on page 2).
- Regarding the distribution industry, which accounted for 21% of total sales and 20% of total operating profit, sales rose by 242 million yen (+9.5% YoY) to 2,804 million yen due to the expansion of system building projects for an apparel company and a wholesaler. Its operating margin also improved from 7.6% to 8.2% and its operating profit rose by 35 million yen (+18.1% YoY) to 230 million yen.
- Regarding the "other industries" category, which accounted for 32% of total sales and 31% of total operating profit (roughly the same percentages as finance), all sub-segments (manufacturing, government, and other) saw increased sales and profits. Although the profit margin of the "other" sub-segment declined, this was compensated for by sales growth. Higher sales and improved profit margins of the manufacturing and the government sub-segments contributed to the profit growth.
- Sales rose by 780 million yen (+21.9% YoY) to 4,353 million yen, and operating profit increased significantly from 235 million yen to 359 million yen (+123 million yen or +52.7% YoY). This category contributed the most to the overall profit growth during this fiscal year's first nine months (58.6% of total – the majority of growth).
- Regarding the transportation & telecommunication industries, which accounted for 14% of total sales and 16% of total operating profit (the smallest proportions), system building projects for telecommunication companies were scaled down as mentioned earlier. As a result, sales fell by 343 million yen (-15.2% YoY) to 1,923 million yen. The profit margin improved by 0.1 percentage point YoY to 9.4%, but operating profit declined from 210 million yen to 181 million yen (-29 million yen or -14.0% YoY) due to lower sales.

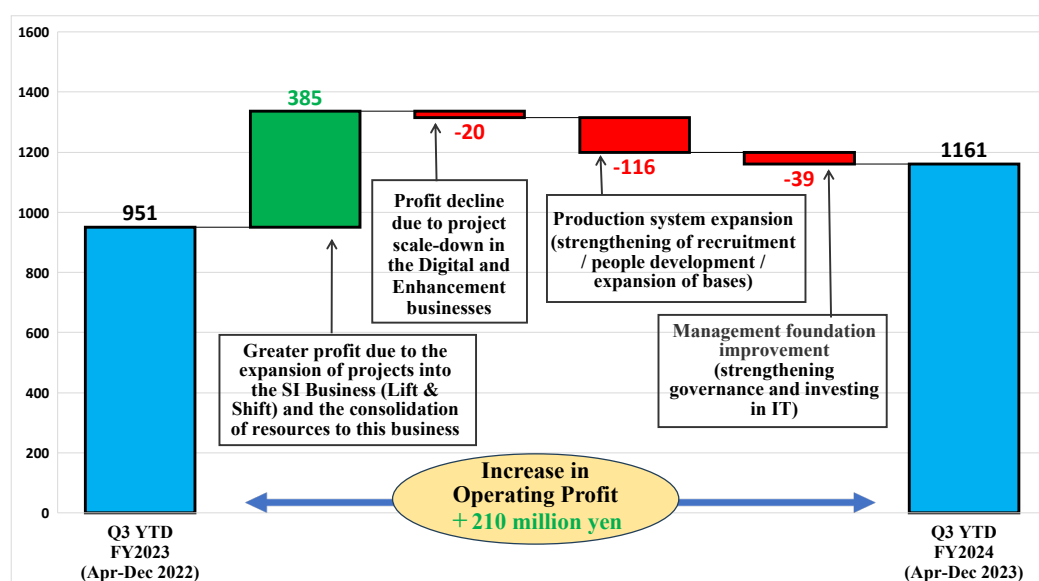
### 3. Results by Business Model (three models)

- The Enhancement Business accounted for 60% of total sales and 57% of total operating profit. Projects for telecommunication companies, insurance companies, and a cooperative were scaled down. As a result, compared to the first nine months of the previous fiscal year, sales fell by 547 million yen (-6.3% YoY) to 8,111 million yen. The operating margin decreased from 8.8% to 8.1% and operating profit also declined by 101 million yen (-13.3% YoY) to 660 million yen (Figure 1 on page 2).
- 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 37% of total sales and 43% of total operating profit. System building projects expanded for regional banks, online banks, the central government, an education company, and an apparel company. Its sales increased significantly by 2,149 million yen (+74.0% YoY) to 5,054 million yen, and its operating profit also rose sharply by 318 million yen (+182.8% YoY) to 493 million yen. Operating margin jumped from 6.0 % to 9.8%.
- The Digital Business has remained small in scale, accounting for 3% of total sales and 1% of total operating profit. While DX projects for an electricity and gas retail company have expanded, projects for a home improvement center have been scaled down. Sales fell slightly by 9 million yen (-2.2% YoY) to 398 million yen. An operating profit was maintained, although it declined from 14 million yen to 8 million yen.

### Factors that Increased or Decreased Profit in the First Nine Months: The SI business absorbed the increase in costs

- The factors that increased or decreased operating profit in the first nine months of the current fiscal year are as shown in Figure 2.
- There was an increase in costs (impact on profit: -155 million yen YoY in total) due to the expansion of the production system (strengthened recruitment and expansion of production bases) (-116 million yen YoY) and the improvement of the management foundation (-39 million yen YoY). Project scale-down in the Digital Business and the Enhancement Business also had a negative impact on profit (-20 million yen YoY). However, these were more than offset by the large profit growth (+385 million yen YoY) brought by the increase in orders and the concentration of resources in the SI Business.
- Overall, there were no significant unprofitable projects and the Company’s profits were strong.

【Figure 2】 Factors that Increased or Decreased Operating Profit in the First Nine Months  
(Units of million yen YoY; Factor that Increased Profit / Factor that Decreased Profit)



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

- In the medium-term investment plan covering four fiscal years (totaling 2,180 million yen), the current fiscal year is planned to be the largest year of investment, with an investment of 845 million yen (38.8% of the total) planned. In particular, the Company plans to strengthen its production system by focusing on the establishment, expansion, and improvement of near-shore and other development bases, as well as human resource investment to acquire personnel for production (Figure 3).
- In August 2023 of the current fiscal year, the Company created a new office in Fukuoka as a near-shore production base. In January 2024, it also expanded the office space of its subsidiary HOKKAIDO CUBE SYSTEM INC.
- Investments in development bases and for production expansion seem to be conducted as planned, with no major delays or leftover budget.

**【Figure 3】 Medium-Term 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	Development Bases: 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 news release

## **Progress in the First Nine Months and Seasonality of Quarterly Results: Strong progress**

### **1. Progress in the First Nine Months**

- Progress during the first nine months in terms of achieving the Company's full-year forecast was 75.4% for sales (73.3% in the same period of the previous fiscal year) and 71.7% for operating profit (similarly, previously 65.5%). As reference, the simple average of progress in the first nine months during the past 10 years (including the previous fiscal year) was 72.4% for sales and 66.4% for operating profit. The progress in this fiscal year's first nine months exceeded these averages for both sales and profit.
- Regarding the sales progress of each business model, the SI Business made strong progress at 86.4% (69.4% in the same period of the previous fiscal year) and the Enhancement Business was also solid at 72.2% (similarly, previously 75.0%), while the Digital Business was sluggish at 43.3% (similarly, previously 67.8%).
- Regarding the progress with sales to each industry, progress was 81.5% for the financial industry, 74.7% for the telecommunication & transportation industries, 71.3% for the distribution industry, and 72.6% for the other industries. Progress has been particularly strong for the financial industry with strong orders, presumably exceeding the Company's expectations.

### **2. Quarterly Results**

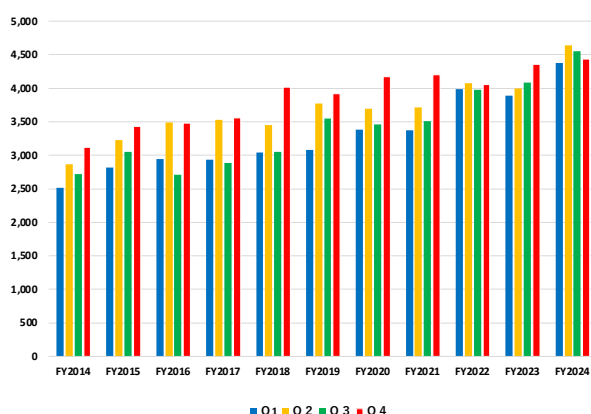
- One of the characteristics of the Company is that its business performance and profit margins tend to fluctuate on a quarterly basis. The fourth quarter (Q4 or Jan-Mar) tends to contribute the most to the full-year results, with delivery deadlines clustering in this period (past 10 years' average: 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. The operating margin also generally tends to be the largest from Q4 > Q2 > Q3 > Q1, in the same trend as sales (Figures 4 through 6 on page 6).
- In the first quarter of this fiscal year, sales were 4,376 million yen (+12.4% YoY), operating profit was 369 million yen (+35.9% YoY), recurring profit was 371 million yen (+37.0% YoY), and net profit was 232 million yen (+34.2% YoY).
- Q2 results continued to show double-digit growths in both sales and profit, with sales of 4,639 million yen (+16.0%



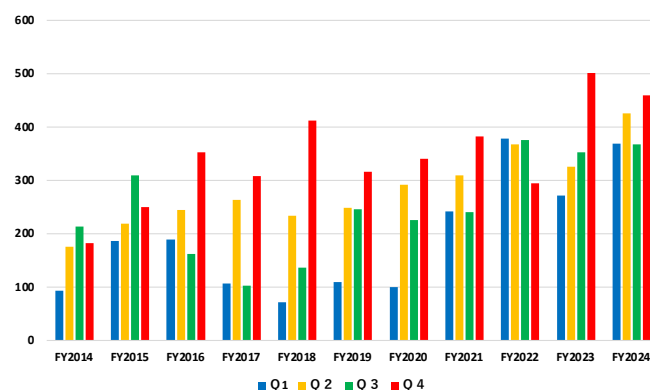
YoY), operating profit of 425 million yen (+30.4% YoY), recurring profit of 417 million yen (+29.1% YoY), and net profit of 269 million yen (+25.1% YoY). Like in Q1, the Company posted record-high quarterly sales again. Although the Company's plan for Q1 and Q2 is not disclosed, both sales and profits had most likely exceeded its plan.

- Q3 results also continued to show double-digit growth for sales, with record-high Q3 sales of 4,550 million yen (+11.5% YoY). Operating profit was 367 million yen (+4.3% YoY), recurring profit was 380 million yen (+5.8% YoY), and net profit was 257 million yen (+5.7% YoY). The growth rate of each profit slowed to around 5% due to a lower gross margin.

【Figure 4】 Quarterly Change in Sales (Units: million yen)

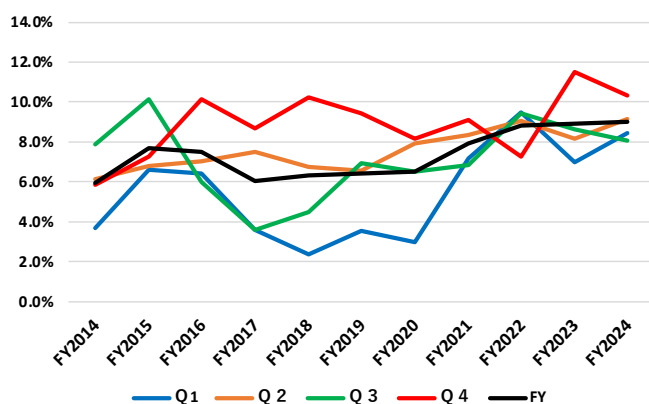


【Figure 5】 Quarterly Change in Operating Profit (Units: million yen)



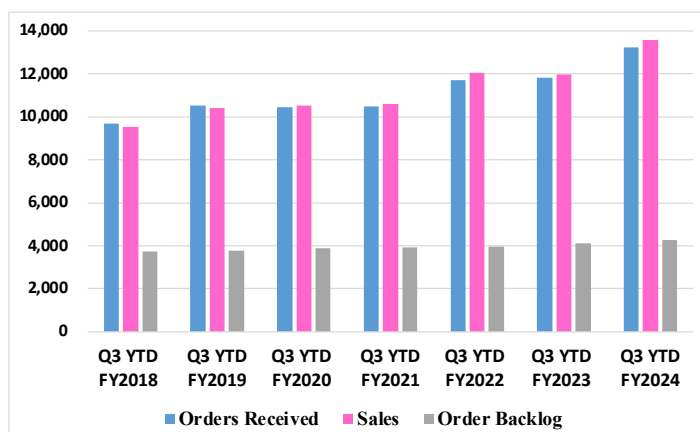
(Note) Figures 4 to 7 were prepared by Alpha-Win Research Dept. based on the financial results summary and the financial results briefing's supplemental materials.

【Figure 6】 Quarterly Change in Operating Margin (Units: %)



(Note) Full-year and Q4 figures for FY2024 are from the Company's plan.

【Figure 7】 Changes in Sales, Order Received, and Order Backlog (as of the end of the period) in the First Nine Months (Units: million yen)



- Since Q3 FY2023, the sales growth rate (YoY) for each quarter through this fiscal year's Q3 has remained at a high level, at 2.5%  $\Rightarrow$  7.3%  $\Rightarrow$  12.4%  $\Rightarrow$  16.0%  $\Rightarrow$  11.5%. The operating margin during the same period has also been stably around 8-9%, at 8.6%  $\Rightarrow$  11.5%  $\Rightarrow$  8.5%  $\Rightarrow$  9.1%  $\Rightarrow$  8.1%. The amount of improvement in the operating margin (YoY: percentage-point difference) during the same period has been shrinking from +4.2%  $\Rightarrow$  +1.4%  $\Rightarrow$  +1.0%  $\Rightarrow$  -0.5%.

### Orders Received: Increasing orders with active IT investments and strong demand

- The overall amount of orders received increased to 13,241 million yen from 11,816 million yen in the same period of the previous fiscal year (+1,425 million yen or +12.1% YoY). However, because many projects have been booked as sales for this fiscal year, the order backlog increased only slightly from 4,120 million yen to 4,248 million yen (+127 million yen or +3.1% YoY) (Figure 7).

Orders Received: By Industry (four categories)

- Regarding the amount of orders received from each industry in the first nine months, similar to sales, the decline in the transportation & telecommunication industries was offset mainly by the strong performance of the business with the financial and other industries. The order backlog increased only for the financial industry, while it decreased for the other three industry categories.

Orders Received: By Business Model (three models)

- Orders received in the Enhancement Business declined from 8,184 million yen to 7,638 million yen (-546 million yen or -6.7% YoY), and its order backlog also declined slightly from 2,721 million yen to 2,558 million yen (-162 million yen or -6.0% YoY).
- Similarly, orders received in the Digital Business declined from 431 million yen to 386 million yen (-45 million yen or -10.6% YoY), and the order backlog also declined from 213 million yen to 157 million yen (-55 million yen or -26.0% YoY).
- On the other hand, in the SI Business, the amount of orders received increased from 3,199 million yen to 5,216 million yen (+2,017 million yen or +63.0% YoY). It was also the only business whose order backlog increased significantly from 1,186 million yen to 1,531 million yen (+345 million yen or +29.1% YoY), compensating for the other businesses.

**Number of Employees and Productivity: Increasing employees and improving productivity**

- In the Company's business model, sales growth is generally directly correlated with the number of employees. Its capacity in terms of human resources has been expanding, with the total number of employees in Japan and overseas increasing from 786 as of the end of December 2020  $\Rightarrow$  815 as of the end of December 2021 (+3.7% YoY)  $\Rightarrow$  860 as of the end of December 2022 (+45 or +5.5% YoY)  $\Rightarrow$  885 as of the end of December 2023 (+25 or +2.9% YoY). However, the demand for system development has continued to increase and the Company is still somewhat short of talents despite strengthened recruitment.
- Quarterly sales per employee in Japan, which are one of its key management indicators (KPI), have changed in the order of Q3 FY2022  $\Rightarrow$  Q3 FY2023  $\Rightarrow$  Q3 FY2024 (this fiscal year) from 16,794 thousand yen/person  $\Rightarrow$  16,223 thousand yen/person  $\Rightarrow$  18,331 thousand yen/person. Similarly, operating profit per employee in Japan has changed from 1,565 thousand yen/person  $\Rightarrow$  1,288 thousand yen/person  $\Rightarrow$  1,570 thousand yen/person, significantly improving during this fiscal year. Along with the increase in personnel, productivity seems to have improved due to measures such as the consolidation of resources.

**Balance Sheet: Sound and essentially debtless**

- As of the end of this Q3, there has been no significant change in the balance sheet compared to the end of last fiscal year.
- The Company has ample liquidity on hand, with cash & deposits of 6.6 billion yen (4.4 months' worth of the average monthly sales forecasted for this fiscal year; essentially debtless with a debt of 230 million yen). In addition, it holds 2 billion yen of investment securities that are considered to be highly liquid.
- With a current ratio of 411.1%, an equity ratio of 75.3%, no goodwill, and a very small balance of intangible fixed asset of 3 million yen, the Company's financial standing is sound.
- Cash & deposits will most likely be used for greater shareholder returns and future growth, including investments to expand its development bases and production system, M&A, business alliances, investments, and loans.

**◆Full-Year Forecast: The Company has maintained its initial full-year plan. Alpha-Win expects results to be in line with the Company's plan.****Full-Year Company Forecast: Maintained initial plan**

- Although the first-half results had exceeded the initial forecasts announced at the beginning of the fiscal year, the Company has maintained the same full-year forecast since then.
- For this full fiscal year, the Company expects 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 again in the current fiscal year, as well as achieving record-high sales and profits for the consecutive fiscal year (Figure 8 on page 8).

**[Figure 8] The Company's Forecast for This Fiscal Year (full-year and Q4 forecasts and Q3 YTD results)**

Units: million yen or %		Last Fiscal Year's Results FY2023	This Fiscal Year's Company Forecast FY2024	YoY Change (Amount)	YoY Change (%)	Last Fiscal Year's Q4 Results (Jan-Mar 2023)	This Fiscal Year's Q4 Forecast (Jan-Mar 2024)	YoY Change (Amount)	YoY Change (%)	Last Fiscal Year's Q3 YTD Results (Apr-Dec 2022)	This Fiscal Year's Q3 YTD Results (Apr-Dec 2023)	YoY Change (Amount)	YoY Change (%)	Progress During Last Fiscal Year's Q3 YTD (Apr-Dec 2022)	Progress During This Fiscal Year's Q3 YTD (Apr-Dec 2023)
Sales		16,325	18,000	1,675	10.3	4,353	4,435	82	1.9%	11,972	13,565	1,593	13.3%	73.3%	75.4%
Gross Profit		3,570				1,002				2,568	2,934	366	14.3%	71.9%	-
Gross Margin		21.9%				23.0%				21.5%	21.6%	0.2%			
SG&A Expenses		2,118				501				1,617	1,772	155	9.6%		
(Ratio to sales)		13.0%				11.5%				13.5%	13.1%	-0.4%			
Operating Profit		1,452	1,620	168	11.5	501	459	-42	-8.4%	951	1,161	210	22.1%	65.5%	71.7%
(Ratio to sales)		8.9%	9.0%	0.1%		11.5%	10.3%	-1.2%		7.9%	8.6%	0.6%			
Recurring Profit		1,480	1,635	155	10.4	527	466	-61	-11.6%	953	1,169	216	22.7%	64.4%	71.5%
(Ratio to sales)		9.1%	9.1%	0.0%		12.1%	10.5%	-1.6%		8.0%	8.6%	0.7%			
Net Profit		989	1,080	91	9.1	361	322	-39	-10.8%	628	758	130	20.7%	63.5%	70.2%
(Ratio to sales)		6.1%	6.0%	-0.1%		8.3%	7.3%	-1.0%		5.2%	5.6%	0.3%			
Sales Breakdown															
By Industry	Finance	4,857	5,501	644	13.3%	1,286	1,017	-269	-20.9%	3,571	4,484	912	25.5%	73.5%	81.5%
	Distribution	3,554	3,931	377	10.6%	993	1,127	134	13%	2,561	2,804	242	9.4%	72.1%	71.3%
	Telecommunication & Transportation	2,883	2,575	-308	-10.7%	616	652	36	6%	2,267	1,923	-343	-15.1%	78.6%	74.7%
	Other	5,029	5,993	964	19.2%	1,459	1,641	182	12%	3,570	4,352	780	21.8%	71.0%	72.6%
By Business Model	Digital Business	602	920	318	52.8%	194	522	328	169%	408	398	-9	-2.2%	67.8%	43.3%
	SI Business	4,183	5,850	1,667	39.9%	1,278	796	-482	-38%	2,905	5,054	2,149	74.0%	69.4%	86.4%
	Enhancement Business	11,539	11,230	-309	-2.7%	2,880	3,119	239	8%	8,659	8,111	-547	-6.3%	75.0%	72.2%

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

- The Company has been working on strengthening its prioritized approach toward customers who are actively pursuing strategic IT investments (strengthening sales activities toward its major customers, expanding the existing businesses, and developing new domains or areas of business). It is also working expanding and optimizing its production system and resources.
- In the SI Business, the Company is focusing on expanding into cloud-related areas, as well as winning new projects and co-creating with vendors in this area.
- In the Digital Business, it is working on developing the collaboration consultation model, utilizing AI-based technologies, and strengthening its agile development system.
- In the Enhancement Business, it is implementing measures to improve profitability, improving its development system, and working on its own DX.
- Through the above measures, the Company plans to improve profitability and increase shareholder returns.
- The Company has announced a plan to increase shareholder returns by raising the targeted consolidated dividend payout ratio from 35% to 40% starting in FY2024. This fiscal year, a dividend payout ratio of 42.1% is expected, and the Company plans to pay annual dividends of 30 yen per share as initially planned (15 yen for the first half and 15 yen for the end of the fiscal year). Since there will be no commemorative dividend (of 24 yen/share) like the previous fiscal year, this fiscal year's dividend will appear to be 20 yen/share smaller. However, in terms of ordinary dividend, dividend will be increased by 4 yen per share.

### **Alpha-Win Research Department's Forecast for This Fiscal Year: Expecting mostly the same amounts as the Company's plan**

#### **1. Full-Year Forecast**

- At the time of our previous research, we had revised our forecasts for the current fiscal year upward, considering the first-half results and the order backlog as well as the business environment. In this current report, we have revised our forecasts to the same level as the Company's plan. In the order of our previous to current forecast, we have revised sales from 18,500 million yen to 18,200 million yen, operating profit from 1,700 million yen to 1,620 million yen, net profit from 1,120 million yen to 1,080 million yen, and dividend per share from 31 yen to 30 yen.
- Currently, due to its customers' strong appetite for strategic IT investments (DX investments such as business transformations and process reforms), there have been no signs of a slowdown in business negotiations or orders in general. The growth of sales to the NRI Group has also been greater than expected up through the first half (information not disclosed for Q3). Additionally, the Company has succeeded in winning orders for strategic and derivative projects from well-performing industries (mainly finance) and has been making steady progress with the shift to high-profit projects, streamlining of resources, and cost control. Therefore, we evaluate that with proper cost control in Q4, the downside risks are limited for this fiscal year's full-year financial plan.
- Since inflation and the transition to a new personnel system will cause personnel expenses, subcontracting



expenses, investment, and other costs to increase, we expect profit results to be in line with the Company's plan.

## 2. Forecast for Q4

- The Company's Q4 forecasts, calculated by subtracting the Q3 YTD results from the Company's full-year forecasts, are as follows: sales of 4,435 million yen (+82 million yen or +1.9% YoY), operating profit of 459 million yen (-42 million yen or -8.4% YoY), net profit of 322 million yen (-39 million yen or -10.8% YoY), and operating margin of 10.3% (as reference, last Q4's margin was 11.5%) (Figure 8 on page 8).
- In Q4, the Company plans for a nearly double-digit decline in profit despite a slight increase in sales YoY and a decline in operating margin (-1.2 percentage points YoY). This plan had seemed somewhat conservative considering the order backlog as of the end of Q3, the current situation, the seasonal cycle of project delivery deadlines clustering in Q4, and the fact that the positive effects of increasing employees usually begin to be fully seen in the second half, especially in Q4, as new employees begin their actual work. However, since costs are recently rising due to inflation and other factors, we have analyzed that this Q4 plan is reasonable.

## ◆Medium-Term Forecast

### Alpha-Win Research Department's Medium-Term Forecast: No change to forecast and expecting a growth trend of 6-10% per year for sales and profit

- We have not changed our medium-term forecasts of the Company's financial performance for the next fiscal year and beyond. However, we may review them again at the beginning of next fiscal year based on the business environment, the staff organization, investment costs, and the next medium-term management plan to be announced (Figure 9).
- IT investments by the Company's users (companies) are expected to keep increasing over the medium term as they develop new business models, strengthen their competitive edge, work on solving labor 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, the Company is expected to achieve top-line growth by utilizing its abundant cash on hand to hire more employees and expand its development bases. We maintain our forecast that the Company will be able to maintain a stable sales and profit growth trend of around 6-10% per year over the medium term 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.

### 【Figure 9】 Medium-Term Financial Forecast

Units: million yen or %	FY2023 Results	FY2024 Medium-Term Plan	FY2024 CE	FY2024 New E	FY2025 E	FY2026 E
Sales	16,325	19,000	18,000	18,200	19,000	20,500
Gross Profit	3,570			3,980	4,150	4,500
Gross Margin	21.9%			21.9%	21.8%	22.0%
SG&A Expenses	2,118			2,360	2,425	2,650
(Ratio to sales)	13.0%			13.0%	12.8%	12.9%
Operating Profit	1,452	1,710	1,620	1,620	1,725	1,850
(Ratio to sales)	8.9%	9.0%	9.0%	8.9%	9.1%	9.0%
Recurring Profit	1,480		1,635	1,635	1,755	1,870
(Ratio to sales)	9.1%		9.1%	9.0%	9.2%	9.1%
Net Profit	989		1,080	1,080	1,155	1,235
(Ratio to sales)	6.1%		6.0%	5.9%	6.1%	6.0%
Sales (% YoY growth)	1.4%	16.4%	10.3%	11.5%	4.4%	7.9%
Gross Margin (% YoY diff.)	0.4%			-0.0%	-0.0%	0.1%
SG&A Expenses (% YoY growth)	4.2%			11.4%	2.8%	9.3%
Operating Profit (% YoY growth)	2.4%	17.7%	11.5%	11.5%	6.5%	7.2%
Recurring Profit (% YoY growth)	3.3%		10.4%	10.4%	7.3%	6.6%
Net Profit (% YoY growth)	4.8%		9.2%	9.2%	6.9%	6.9%

(Ref) Prepared by Alpha-Win Research Dept. (Note) CE: the Company's forecast/estimate. E: Alpha-Win Research Dept.'s forecast/estimate. The medium-term plan is the Company's forecast announced on May 11, 2022.

◆ **Stock price and characteristics: Significantly outperforming the TOPIX over the long term as a stable growth stock centered on domestic demand. We believe that its valuation is currently somewhat cheap and that there is an upside potential to the stock price.**

**Performance: Outperforming over the long term, but underperforming over the past 12 months**

- Over the past approximately 15 years, the Company's stock price has increased by about 5.7x thanks to its stable profit growth, significantly outperforming the TOPIX (by about +264%).
- Stocks benefiting from the weak yen and inbound demand, as well as economically sensitive stocks, large-cap stocks, and tech stocks, have been bullish in the recent stock market. The Company's stock, which is defensive, domestic-demand-oriented, and small-cap, has been underperforming the TOPIX over the past 12 months (Figure C on page 13).
- Compared to its two competitors listed on the TSE (HIMACS with securities code 4299 and Toho System Science with securities code 4333), the Company's stock performance has been about the same as HIMACS but underperforming Toho System Science. Toho System Science had announced a stock split, a dividend increase, and an enhancement of its shareholder benefit program last July, which have caused its stock price to rise sharply since then.

**Valuation: Somewhat cheap stock price**

- Currently, the average valuation of all companies listed on the TSE Prime Market is as follows: forecasted P/E of 16.11, P/B of 1.37, and forecasted dividend yield (simple average) of 2.17% (based on the closing price on February 9, 2024).
- Compared to these averages, the Company's valuation is high for P/B, slightly low for P/E, and slightly high for dividend yield. Considering this fiscal year's strong financial performance and its growth potential over the medium term, its valuation seems generally somewhat cheap and there seems to be an upside potential to its stock price.
- Compared to its two competitors mentioned above, its valuation is in the middle range (the second highest among the three companies) in terms of the major valuation measures excluding dividend yield (which is the lowest) (Figure 10).

**【Figure 10】 Comparison of Valuation with Competitors**

Item	Company Name	CUBE SYSTEM (CS: consolidated) P	HIMACS (HM: consolidated) S	Toho System Science (TS: non-consolidated) P	All TSE Prime Stocks
Stock Price, Valuation, and Performance	Code	2335	4299	4333	
	Stock Price (closing price of 2/9/2024)	1,091	1,393	1,221	1,316.34
	Market Capitalization (million yen)	17,183	17,291	25,396	
	P/E (price-to-earnings ratio)	15.32	14.11	20.99	16.11
	P/B (price-to-book ratio)	1.71	1.53	2.47	1.37
	Dividend Yield (%)	2.75	3.12	3.28	Simple average: 2.17 Weighted average: 2.11
	EV/EBITDA	6.30	5.11	10.18	
	P/S (price-to-sales ratio)	0.95	0.95	1.54	
	Performance Since the Beginning of Last Year (comparison with the end of Dec. 2022)	4.80	-3.93	83.69	35.2
First Nine Months of This Fiscal Year (Apr. to Dec. 2023)	Sales (million yen)	13,565	13,004	12,025	
	YoY Sales Growth Rate (%)	13.3	-0.2	5.7	
	Operating Profit (million yen)	1,161	1,197	1,110	
	YoY Operating Profit Growth Rate (%)	22.1	-11.7	-5.2	
	Operating Margin (%)	8.6	9.2	9.2	
	Progress with Sales (%)	75.4	71.6	72.9	
	Progress with Operating Profit (%)	71.7	71.3	71.6	
This Full Fiscal Year (Apr. 2023 to Mar. 2024)	Company Forecast: Sales (million yen)	18,000	18,150	16,500	
	Company Forecast: YoY Sales Growth Rate (%)	10.3	4.7	6.8	
	Company Forecast: Operating Profit (million yen)	1,620	1,680	1,550	
	Company Forecast: YoY Operating Profit Growth Rate (%)	11.5	-8.3	2.3	
	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 for this first nine months and stock price data. See the next page for notes.

(Note) • Market cap = number of shares outstanding x stock price (closing price on 2/9/2024).

- EPS values used in P/E calculations are based on each company's (most recent) forecast for FY2024.
- BPS values used in P/B calculations reflect results of this fiscal year's first nine months.
- EPS values used in dividend yield calculations are based on each company's (most recent) forecast for FY2024.
- 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 results for the first nine months. Operating profit is based on each company's full-year forecast for this fiscal year. Depreciation and intangible fixed assets amortization, etc., were estimated by Alpha-Win based on the previous fiscal year's results and this fiscal year's results for the first nine months.
- P/S = market cap ÷ sales (each company's forecast for FY2024).
- Q3 YTD: results from Apr. to Dec.
- HIMACS: moved from the Prime Market to the Standard Market on October 20, 2023.
- Toho System Science: reflects the 1.5-for-1 stock split conducted on September 1, 2023.
- Progress in the first nine months is the proportion of the most recent full-year company forecast.

### **Stock Price Outlook**

- In the short term, the Company's stock price will likely be impacted by the full-year results (whether or not the full-year profit forecasts will be revised upward) and the changes in stock return (whether there will be a dividend increase, a share buyback, a stock split, or an enhancement of the shareholder benefit program).
- The contents and various numerical targets of the "VISION 2026: The Second Medium-Term Management Plan" to be announced in the next fiscal year will be key points.
- Particularly important will be the top line (sales growth rate, hiring and retaining of employees, and the effect of the alliance with NRI), the profit margins (gross margin, operating margin, and SG&A expense ratio), the securing of human resources especially in terms of the number of employees in Japan (the number hired, the turnover rate, and the number of employees), the sales or operating profit per employee in Japan (KPI: key performance indicators), and the results and outcomes of the medium-term investment plan.
- Another key point will be the business performance and IT investment trends of the Japanese companies that are its end users (the environment surrounding orders received by the Company; changes in the volume of orders received and the price per contract).
- Regarding the next medium-term management plan (numerical targets are undisclosed at this point), the Company intends to make a leap forward to achieve high profitability based on its plan of "stabilizing earnings by finding new, direct customers and enhancing technology through stronger development capabilities."
- We believe that if the Company can stably maintain a profit growth rate that is close to a double digit, then 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, we believe that the Company will continue to be a candidate for investment as a defensive and 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	New E	18,200	11.5	1,620	11.5	1,635	10.4	1,080	9.1	71.23	655.49	30.0
2024	Old E	18,500	13.3	1,700	17.1	1,715	15.9	1,120	13.2	68.57	658.12	31.0
2025	E	19,000	4.4	1,725	6.5	1,755	7.3	1,155	6.9	76.18	749.68	32.0
2026	E	20,500	7.9	1,850	7.2	1,870	6.6	1,235	6.9	81.46	799.13	34.0
2022	Q1	3,987	18.2	378	56.5	390	57.1	262	59.0	19.35	487.51	0.0
2023	Q1	3,892	-2.4	272	-28.1	271	-30.5	173	-34.0	12.84	543.58	0.0
2024	Q1	4,376	12.4	369	35.9	371	37.0	232	34.2	15.36	622.93	0.0
2022	Q2	4,073	9.8	368	18.7	362	2.0	239	1.7	17.65	453.20	8.0
2023	Q2	4,000	-1.8	326	-11.4	323	-10.8	215	-10.0	15.89	498.18	23.0
2024	Q2	4,639	16.0	425	30.4	417	29.1	269	25.1	17.71	638.69	15.0
2022	Q3	3,981	13.5	376	56.7	381	19.4	254	30.0	18.80	520.59	0.0
2023	Q3	4,080	2.5	353	-6.1	359	-5.8	240	-5.5	17.11	597.48	0.0
2024	Q3	4,550	11.5	367	4.0	381	6.1	257	7.1	16.96	639.73	0.0
2022	Q3 YTD	12,041	13.7	1,122	41.7	1,133	22.9	755	26.6	55.80	520.59	8.0
2023	Q3 YTD	11,972	-0.6	951	-15.3	953	-15.8	628	-16.8	45.84	597.48	23.0
2024	Q3 YTD	13,565	13.3	1,161	22.1	1,169	22.6	758	20.7	50.03	639.73	15.0
2022	Q4	4,058	-3.3	295	-22.8	299	-19.8	189	-23.4	14.02	531.14	15.0
2023	Q4	4,353	7.3	501	69.8	527	76.3	361	91.0	24.51	634.29	27.0
2024	Q4: CE	4,435	1.9	459	-8.4	466	-11.6	322	-10.8	21.20	-	15.0

(Ref) Prepared by Alpha-Win Research Dept.

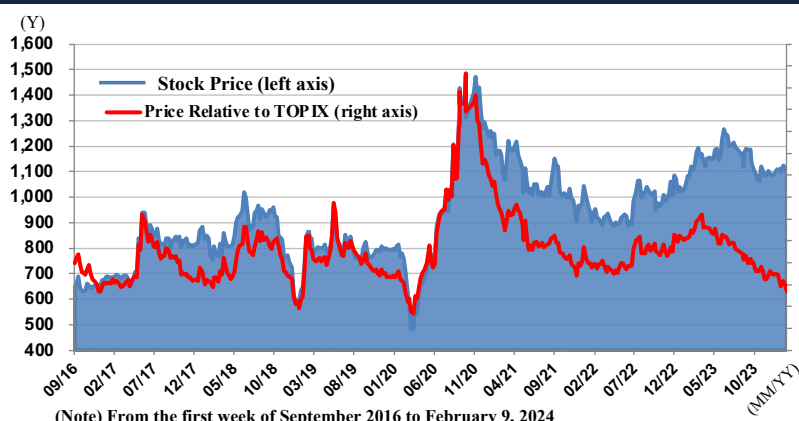
(Note) CE: the Company's forecast/estimate. E: Alpha-Win Research Dept.'s forecast/estimate. "Revised Medium-Term Plan: CE" is the Company's forecast announced on May 11, 2022. Q1: Apr.-June. Q2: July-Sept. Q3: Oct.-Dec. Q4: Jan.-Mar. Q3 YTD: Apr.-Dec.

【 Stock Price and Valuation Indicators: 2335 CUBE SYSTEM 】 Figure B						
Item	2/9/2024	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,091	Last FY's Results	15.5	1.7	4.6%	71.1%
Shares Outstanding (thou.)	15,750	Forecast for This FY	15.3	1.7	2.7%	42.1%
Market Capitalization (million yen)	17,183	Forecast for Next FY	14.3	1.5	2.9%	42.0%
Dilutive Shares (thou.)	0	Forecast for the FY After the Next	13.4	1.4	3.1%	41.7%
Equity Ratio at the End of This FY's Q3	75.3%	Last FY's DOE	8.6%	Last FY's ROE		11.8%

(Ref) Prepared by Alpha-Win Research Dept.

(Note) Estimates for this fiscal year and the following two fiscal years have been made by Alpha-Win Research Department. Valuation is based on the closing price of 1,091 yen on February 9, 2024.

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



【Performance】		
Period	Return	vs. TOPIX
1 month	-3.8%	-4.1%
3 months	-1.9%	-9.6%
6 months	-6.1%	-15.8%
12 months	-5.4%	-33.7%

(Note)

• Reflects stock and index prices through the closing price on 2/9/2024.

• “Vs. TOPIX” is the relative value after subtracting the TOPIX’s performance from the performance of the Company’s stock.

• Performance for the 1-month period is the comparison between the closing price on the last day of December and the closing price on February 9 (the same applies to the other periods).

(Ref) Prepared by Alpha-Win Research Dept.

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