Alpha-Win Company Research Report

CUBE SYSTEM INC.
(2335 TSE Prime)

Issued: 6/14/2024

● 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 52 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 year-on-year (YoY) for the past 26 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 +6.1% and its annual recurring profit growth rate (simple average) was +7.6%; 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 previous fiscal year (FY2024; note that the Company's fiscal year is March-ending, i.e., FY2024 ended in March 2024), sales increased to 18 billion yen (+10.4% YoY) and operating profit increased to 1.54 billion yen (+5.8% YoY). Sales reached a record high for the 12th consecutive year, and operating, recurring, and net profits also all hit their record highs. However, while sales reached the Company's initial forecast at the beginning of the fiscal year, profits fell somewhat short due to higher costs.

・In the current fiscal year (FY2025), the Company plans to achieve sales of 18.8 billion yen (+4.3% YoY), operating profit of 1.6 billion yen (+4.2% YoY), and net profit of 1.1 billion yen (+3.1% YoY). It plans to achieve record-high sales and profits and increase dividends for the consecutive year (+5 yen in ordinary dividend, to 40 yen per share for the full fiscal year).

・Sales are expected to increase due to new projects pertaining to strategic IT investment by customers (in the Digital and the SI businesses), as well as due to contribution from the Enhancement Business as a result of resource realignment. By industry, the Company expects an increase in sales from the financial and other industries. By business style, it expects sales growth mainly in the SI Contracting Business, but also in both the Service Providing Business and the Direct Contract Business. Despite the increase in sales, the Company expects only a slight increase in profit due to upfront investments such as strengthening the production and development systems, increasing personnel expenses, and increasing subcontracting costs.

・We, Alpha Win Research Department, expect the Company's planned sales and profits for the current fiscal year to be largely achievable. This is because DX-related IT investments have been robust and orders are expected to be strong. Also, the Company's plans for the sales growth rate, profit growth rate, and margins seem reasonable. The risks of underachievement most likely lie in higher costs due to increased investment and inflation, as well as human resource constraints, rather than lower demand or a decrease in orders. In any case, judging from the current situation, the downside risks seem to be limited.

Business Strategy and Key Points Going Forward

・The results of FY2024, the final year of the First Medium-Term Management Plan, were somewhat below the

target figures (for consolidated sales and profits). In the Second Medium-Term Management Plan (VISION 2026), which is positioned as the Company's 'second founding', it targets sales of 23 billion yen (CAGR +8.5%), operating profit of 2.41 billion yen (CAGR +16.2%), operating margin of 10.5% (+2.0 percentage points compared to FY2024), and ROE of 14% (+3.2% from FY2024) in the final fiscal year of the plan or FY2027. Along with the expansion of scale, the Company aims to increase profitability by improving productivity and shifting to high value-added projects. It plans to thereby achieve exponential growth and maximize its corporate value.

・Since FY2023, after forming a capital and business alliance with NRI, it has been investing in strengthening its development bases and production system to achieve further growth and eliminate its bottleneck concerning human resources. This alliance can be viewed as a positive change contributing to the Company's medium- to long-term business expansion and stable growth, specifically through the strengthened long-term and continuous relationship with NRI, expansion of business area, exchange of talents, and accumulation and sharing of know-how. In fact, positive effects of the alliance are already starting to be seen in business performance.

・In the Second Medium-Term Management 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 is currently working on achieving these goals.

・Going forward, the key points will most likely be the acceleration of synergies through the alliance with NRI (further contribution to business performance), recruitment and development of employees, collaboration with major system integrators, development of contract-based businesses targeting end users (gaining direct contracts), progress with the Service Providing Business that it is focused on, improvement of project management skills, continued improvement of profit margins, monetization of businesses in new business areas, acquisition of new customers, M&A and alliance strategies, expansion and leveraging of overseas sites, and incorporation of new technologies.

Forecast of Medium-Term Financial Performance

・The economic environment remains uncertain, with global inflation, monetary tightening to curb the inflation, geopolitical risks, and a weak yen. However, there should be relatively small direct or indirect impact on the Company since its business portfolio is centered on domestic demand. The business environment has been favorable for the Company, with strong demand related to strategic IT system investment by customers to increase manpower, improve operational efficiency, differentiate business, enhance responsiveness to changes, increase their competitive edge, and reduce costs. Medium-term risks, meanwhile, most likely include the recruitment and retaining of employees and the occurrence of unprofitable projects, as well as a deterioration in the performance of its corporate users.

・Over the medium to long term, IT and DX investments by the Company's corporate users are expected to continue to increase. Although human resource shortages may become a bottleneck and constrain growth, we expect a stable sales growth of around 6-8% per year and an even greater profit growth rate due to the effects of the NRI alliance, expansion into new business areas, acquisition of new customers, and improvement of productivity.

Shareholder Return

・The Company has been proactively returning profits to shareholders through share buybacks, stock splits, sequential dividend increases, and other measures.
・It plans to raise its consolidated dividend payout ratio target from 40% to 50% in the current fiscal year and to increase the annual dividend by 5 yen YoY (for the sixth consecutive fiscal year of increase for ordinary dividend) to 40 yen (forecasted dividend payout ratio of 55%).
・Its DOE (FY2024) is also high at 5.4%. With strong performance and abundant cash, shareholder return measures such as dividend hikes and share buy-backs can be expected in the future as well.

Stock Characteristics and Stock Price

・Over the past 15 years or so, its stock price has risen by about 5.8x and has been largely outperforming the TOPIX.
・Its valuation based on this fiscal year's financial forecasts (the Company's forecasts) seems slightly low compared to the average of all TSE Prime stocks in terms of the P/E, while high in terms of the dividend yield, making the Company somewhat undervalued.

- On the other hand, compared to its competitors, its valuation is mixed, but there is no sense of overvaluation.
- The current share price seems undervalued, with a P/E of 11.6, P/B of 1.4, and dividend yield of 4.5% based on Alpha-Win's forecasts for FY2027.

- Since it is a domestic-demand-oriented, defensive stock whose profit is expected to continue to stably grow, there is an upside potential to the share price and the Company can be seen as a candidate for medium- to long-term investment.
- In terms of share price, attention should be paid to the progress of financial performance against the medium-term plan, including the current fiscal year, as well as the IT investment trends of customers, the contribution of the Direct Contract and Service Providing businesses to financial performance, and shareholder return measures.

(Note) In this Report, values have generally been rounded to the nearest unit during the calculations or in presenting them, and may therefore differ from those announced by the Company.

【 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
2024	A	18,021	10.4	1,536	5.8	1,590	7.5	1,067	7.8	70.39	668.41	35.0
2024	Medium-Term Plan: Revised CE	19,000	16.4	1,710	17.8							
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	18,200	11.5	1,620	11.5	1,635	10.4	1,080	9.1	71.23	654.63	30.0
2025	CE	18,800	4.3	1,600	4.2	1,650	3.7	1,100	3.1	72.55	Not disclosed	40.0
2025	New E	18,800	4.3	1,600	4.2	1,650	3.7	1,100	3.1	72.55	705.91	40.0
2025	*Old E*	*19,000*	*5.4*	*1,725*	*12.3*	*1,755*	*10.4*	*1,155*	*8.2*	*76.18*	*709.53*	*32.0*
2026	Medium-Term Plan	20,600	9.6	1,950	21.9							
2026	New E	20,000	6.4	1,850	15.6	1,900	15.2	1,250	13.6	82.45	748.35	43.0
2026	*Old E*	*20,500*	*7.9*	*1,850*	*7.2*	*1,870*	*6.6*	*1,235*	*6.9*	*81.46*	*717.81*	*34.0*
2027	Medium-Term Plan	23,000	11.6	2,410	23.6							
2027	E	21,700	8.5	2,150	16.2	2,200	15.8	1,450	16.0	95.64	800.99	50.0

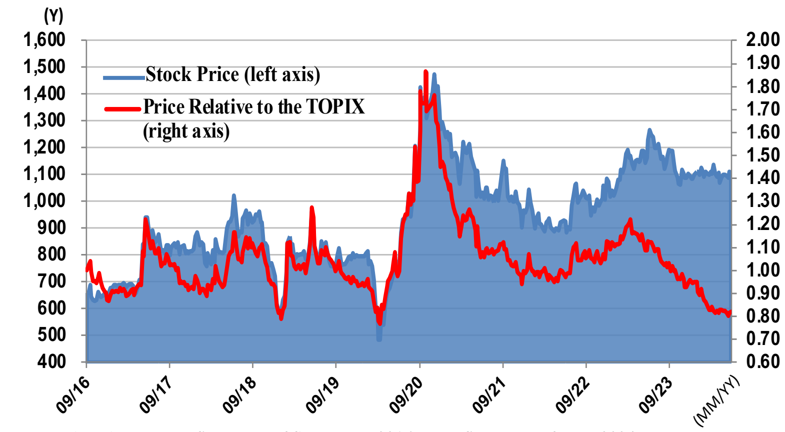
(Note) A: actual results. CE: the Company's estimate/forecast. E: Alpha-Win's estimate/forecast. Note that fiscal years are March-ending.

【 Stock Price and Valuation Indicators: 2335 CUBE SYSTEM 】 Figure B

Item	6/7/2024	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,108	Last FY (actual)	15.7	1.7	3.2%	49.7%
Shares Outstanding (thou.)	15,750	This FY (est.)	15.3	1.6	3.6%	55.1%
Market Capitalization (million yen)	17,451	Next FY (est.)	13.4	1.5	3.9%	52.2%
Dilutive Shares (thou.)	0	FY After the Next (est.)	11.6	1.4	4.5%	52.3%
Last FY's Equity Ratio	75.1	Last FY's DOE		5.4%	Last FY's ROE	10.8%

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

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



(Note) From the first week of September 2016 to the first week of June 2024

Performance		
Period	Return	vs. TOPIX
1 month	-0.1%	-0.2%
3 months	0.3%	0.0%
6 months	0.6%	-16.6%
12 months	-10.7%	-32.0%

(Note) Reflects share price and index values through the closing price on 6/7/2024. Return for the 1-month period is the comparison of the closing price on the last day of May and on June 7. Similar for the other periods. Prepared by Alpha-Win Research Dept.

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Contents

Notes: 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., FY2025 ends in March 2025.

1. Company Overview

- **A mid-tier and specialized system integrator with 52 years of history. Equity-method affiliate of NRI. Strong business foundation, with several blue-chip companies as customers.**

(1) System integrator: a company that conducts system integration. Abbreviated as "SI." 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.

◆ Mid-Tier and Specialized System Integrator

CUBE SYSTEM INC. (hereinafter, the "Company") is a mid-tier, specialized system integrator[1] (SI). It is listed on the Prime Market of the Tokyo Stock Exchange and is an equity-method affiliate of Nomura Research Institute (or NRI), which owns a stake of more than 20%. Often as a subcontractor to major SIs, the Company mainly develops systems and provides them to large companies in the financial, telecommunication, and distribution industries, as well as for the government. Its customer base is firm, having expanded business with 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 works on projects that are outsourced from the Tokyo Stock Exchange (TSE), indicating its technological expertise and strong credibility.

Founded in 1972 at the outset of the software industry, the Company has 52 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 branch 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 is made of the Company and three subsidiaries.**

(2) Near-shore development: outsourcing development to regional companies or offices

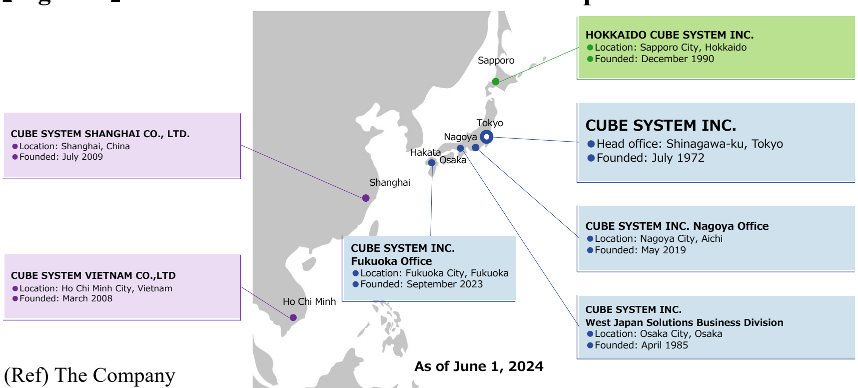
(3) Offshore development: providing services that meet customer needs, from system development to maintenance, at a low cost by utilizing overseas/offshore sites

The Company's group consists of four companies: the Company and three consolidated subsidiaries. It has five bases in Japan and two overseas bases. The consolidated subsidiaries are as follows (Figure 1).

1. HOKKAIDO CUBE SYSTEM INC.
   (Located in Sapporo, Hokkaido; for near-shore development[2] 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, 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[3].

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



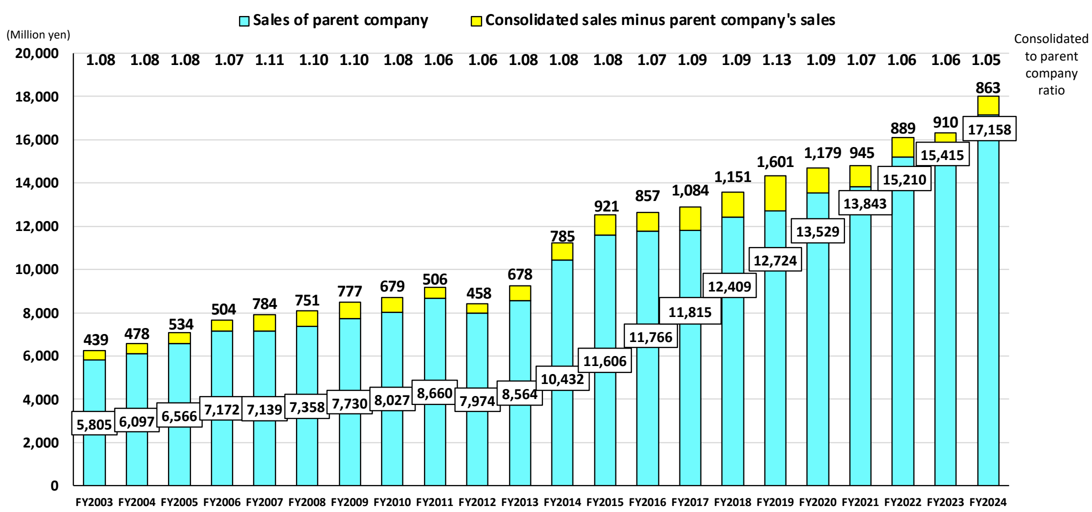
(Ref) The Company

- **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 ratio of consolidated sales to parent-company sales has stayed around 1.08 for the past 22 years, with the parent company's performance having a large weight (Figure 2). While each subsidiary's profit or loss is not disclosed, the ratio of consolidated recurring profit to the parent company's recurring profit has been around 0.98-1.17 (simple average of 1.05) during this period.

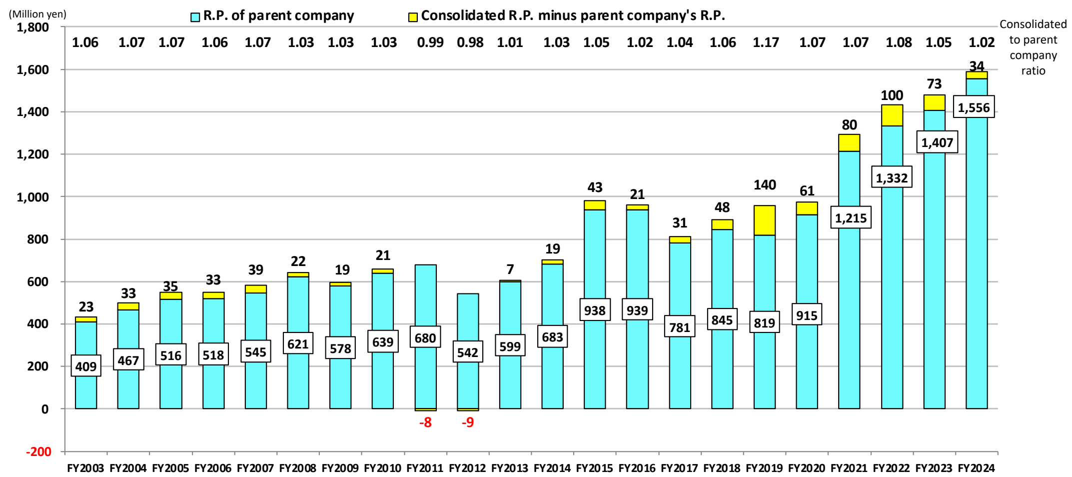
The total profit/loss of the subsidiaries, calculated by subtracting the parent company's recurring profit from the consolidated recurring profit, has been a surplus excluding the two fiscal years FY2011 and FY2012 (Figure 3). During the three fiscal years from FY2017 to FY2019, total sales and profit of the subsidiaries (consolidated minus parent company) grew, but in FY2020, their total sales and profit turned to a decline due to the completion of major system development projects at the subsidiaries. However, despite being impacted by the lockdown in Shanghai due to COVID-19, business has been generally solid from FY2021 to FY2024, maintaining a certain amount of profit at the subsidiary 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 6.84 billion yen in cash and deposits according to its balance sheet (6.75 billion yen at the end of the fiscal year before the previous), the Company has 2.07 billion yen in investment securities (stocks and bonds that most likely have high liquidity). They total to about 8.9 billion yen in highly liquid assets, which is equivalent to 66% of its total assets of 13.5 billion yen and about 49% of its sales of 18.0 billion yen. In comparison, its debt is only 230 million yen (all values are as of the end of March 2024).

Its financial ratios are also stably high, with an equity ratio of 75.1% (76.6% at the end of the fiscal year before the previous) and current ratio of 406% (similarly, previously 443%).

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

Units: million yen	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Operating CF ①	283	622	101	451	317	503	534	936	388	773	747	1,043	1,015	891	1,044
Investing CF ②	-1	309	54	-321	-172	-307	25	94	28	46	25	58	-134	-304	-259
Financing CF	-144	-173	-125	-151	-188	-439	-241	-610	-392	-531	-339	-215	-324	1,102	-672
FCF (①+②)	282	931	155	130	145	196	559	1,030	416	819	772	1,101	881	587	785
Cash and Depsits	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	6,815

(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary
(Note) "Cash and deposits" are not values from the B/S but are the "Cash and cash equivalents at end of period" under "Consolidated statement of cash flows" in the financial results summary.

◆ Business Philosophy and Basic Management Policy

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

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 basic management policies are customer first, emphasis, and all employee sales.**

◆ **Shares management goals and results with all employees**

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[4]).

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

2. Business Description and Business Model

◆ Three Lines of System Services

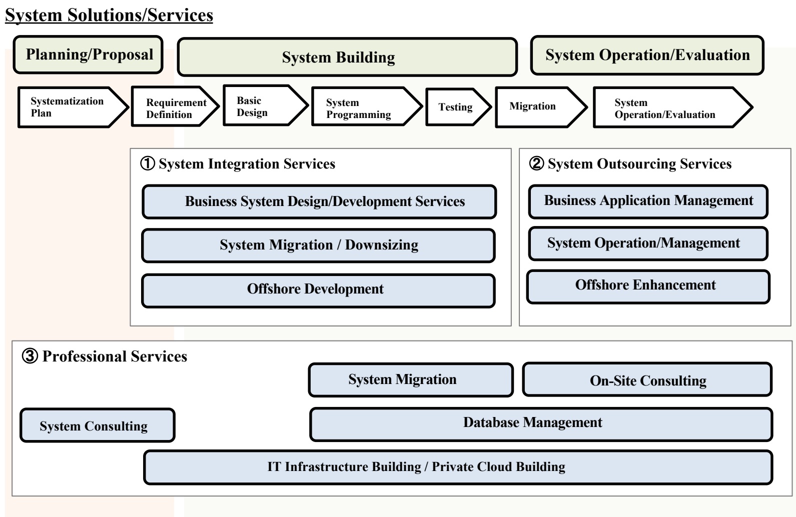
◆ **Business is classified into three service segments. System Integration Services, which mainly concern system development, are its main services.**

The CUBE SYSTEM Group's business is to provide system solutions[5]. 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 service segments (lines of service).

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

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

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



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

1. System Integration Services (SIS)

◆ **Projects are diversified.**

・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[6], basic design[7], 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 50 million yen 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 the 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

(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).

◆ **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.

◆ **The SIS, accounting for a little less than 80% of sales, was the growth driver in the past. For the three service segments, operating margins are largest in the following order: Pros＞SIS＞SOS.**

(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[8], 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 enhancement services[9], in which the Company works closely with corporate users to make various proposals that will lead to new businesses (small-scale 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).

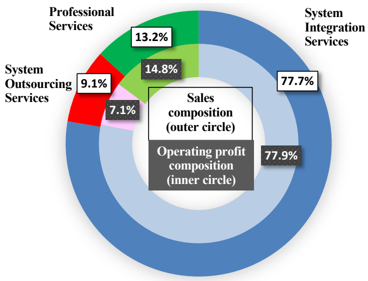
3. Professional Services (ProS)

・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 and 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 (businesses related to Oracle Cloud[10]).

Breakdown of sales and operating profit for each of the three service segments and their change over the years are shown in Figure 6. Regarding the sales breakdown, SIS accounts for a little less than 80% of the total, followed by ProS and then SOS for the remaining 20% (outer circle of Figure 6). Over the past 20 years, overall sales have grown by 3.2x. Specifically, the sales of SIS grew by 4.2x, SOS grew by 1.6x, and ProS grew by 1.5x; the SIS had been the main driver of business growth (Figure 7 on page 11).

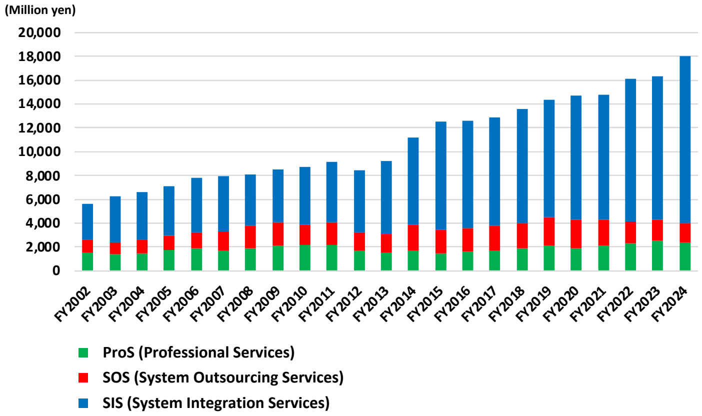
The breakdown of operating profit is shown in Figure 6 (inner circle). The breakdown is not largely different from that of sales. Previously, the gross margin of each service segment had been disclosed, but starting in FY2022, the disclosure has been changed to operating margin per service segment. For 20 years in the past, though, the gross margin of each service segment had been within a boxed range of about 15% to 21%. The operating margin of each service segment had been improving, but in the most recent fiscal year, it somewhat declined for each (see Figure 8 on page 11 and Figure 31 on page 29).

【Figure 6】 Breakdown of Sales (outer circle) and Operating Profit (inner circle) by Service Segment in FY2024

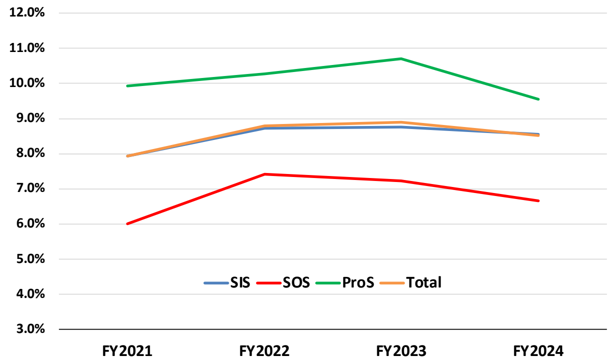


(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary

【Figure 7】Change in Sales of Each Service Segment



【Figure 8】Change in Operating Margin of Each Service Segment



(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 Model in which Human Resources Are the Key

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

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 profitability.

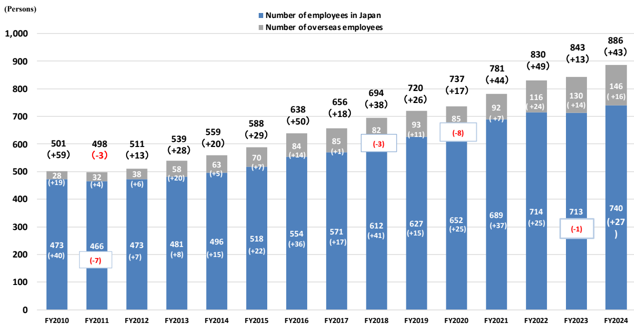
- **Employee turnover rate is declining.**
- **The number of employees has been steadily increasing. Sales and operating profit per employee in Japan have been improving.**

However, 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 continue to raise the retention rate of its employees. Recently, the turnover rate has started to decline due to the introduction of a new HR system and measures to improve engagement.

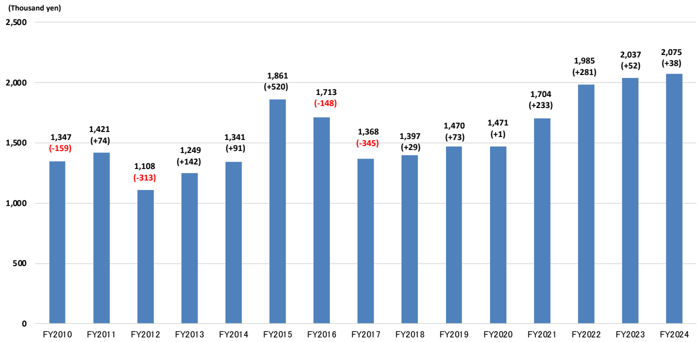
The change in the number of employees of the entire CUBE SYSTEM Group is shown in Figure 9 on page 12. Along with its business expansion, the Company has been hiring about a few dozen new employees every year, mainly for system engineer positions. The Company is eyeing an increase in the number of employees in Japan to 920 in FY2027 (from 740 in FY2024). Regarding the annual sales per employee in Japan, they have gradually increased over the past three years from 21 to 24 million yen (the goal is 25 million yen in FY2027). Similarly, the annual operating profit per employee has been increasing over the past ten years since bottoming out in FY2017 (Figure 10 on page 12).

With regards to the cost structure, 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 these two costs may impact its profitability. 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

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

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

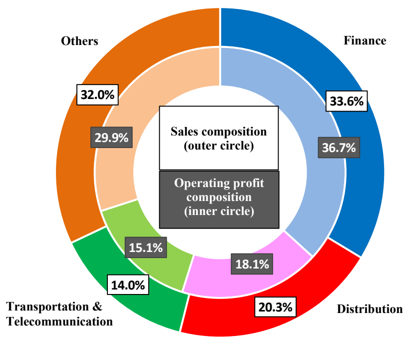
In response to these challenges, the Company plans to continue to improve its profit margin by carrying out various measures such as the shift to high-profit projects, optimization of its resources, the use of agile development[11] and standard platforms, strengthening of organizational project management, making greater use of its overseas subsidiaries, review of contracts (negotiating and proposing to change from payment based on the number of staff and months to payment in return for services), and selective order acceptance.

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

◆ Sales and Profit Composition Well-Balanced by Industry

Sales breakdown by industry is shown in Figure 11. Sales to the financial industry, which must process a massive amount of data and must be secure and reliable, still account for a large proportion of the total. Meanwhile, sales to the other industries (industries other than the three industries of finance, distribution, and transportation & telecommunication) have grown significantly, leading a greater balance in the sales to the four industry categories (Figure 12 on page 13).

【Figure 11】Sales Breakdown by Industry in FY2024



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

Regarding its competitors HIMACS (TSE Standard: 4299) and Toho System Science (TSE Prime: 4333), whose businesses are especially similar to the Company's, their sales are highly dependent on the financial industry, which constitutes about 70% to 80% of their overall sales. In contrast, sales to the financial industry are only 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. This demand then leveled off due the financial industry's slump in earnings and the completion of consolidation and alliances. However, in addition to the recovery of megabanks, there has recently been growing demand from credit card companies, online banks, and insurance-related companies. Regarding the sales to the transportation &

telecommunication industry, sales tend to somewhat fluctuate due to the system investment cycle of customers like 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.

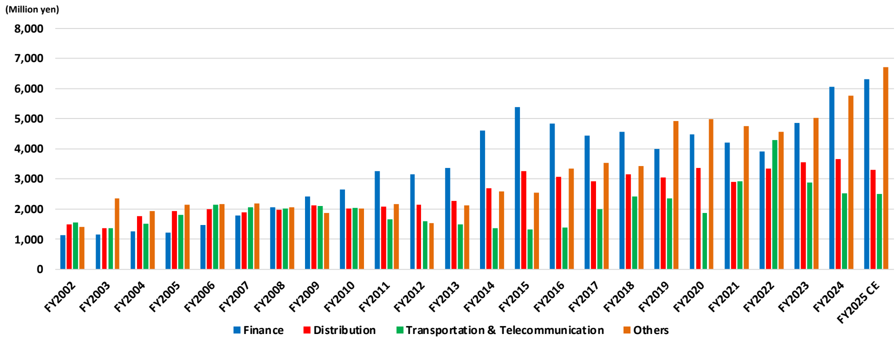
- **Increasing diversification by industry through the development of new areas of business and new customers**

Regarding the other industries, in recent years, there has been a significant growth in businesses with manufacturers, businesses with the government, energy-related businesses, and cloud-consulting-related businesses thanks to the acquisition of new customers and orders for new projects. As a result, the Company appears to have become more balanced and diversified with regards to industry type, leading to greater business stability.

- **Profit margins for each industry have been flat or gradually declining.**

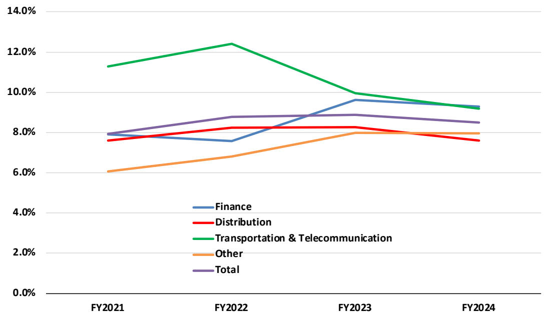
The breakdown of profit margin by industry tends to change somewhat every year, but we believe that this reflects the difference in the profitability of each individual project, rather than the difference in the characteristics of each industry. Gross margins for each industry had been disclosed through FY2021 and operating margins have been disclosed since then. In recent years, profit margins have generally remained flat or have shown a gradual decline (Figure 13).

【Figure 12】Change 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】Change in Operating Margin by Industry



◆ Stable Customer Base and Business with Long-Term Viability

- **A stable business, the majority of which consists of continued business with its current customers.**

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 operation, 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 on page 14).

Note that its prime ratio (percentage of direct contracts made with end users for system development) is about 20%. Many of its projects are outsourced indirectly through major SIs.

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

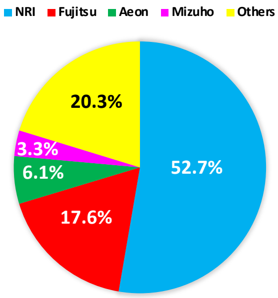
Years of Business with the End User	Number of End Users	Attributes of the End User
15 years or more	11 companies (-1)	Major retailer, bank, general merchandise store, the central government, home improvement center, securities company, etc.
10 to less than 15 years	15 companies (+5)	Major credit card company, telecommunication company, manufacturing company, education business company, etc.
5 to less than 10 years	19 companies (0)	Major gas company, life insurance company, telecom carrier, etc.
Total of the above	45 companies (+4)	

(Ref) Prepared by Alpha-Win Research Dept. based on the Company's Integrated Statement for 2022 and 2023. (Note) Numbers in parentheses are the increase or decrease in client companies compared to the previous fiscal year.

- **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 FY2024 (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 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 generally increasing; sales grew by +2.8% YoY to 10,351 million yen (+281 million yen) in FY2019, by +9.3% YoY to 11,316 million yen (+965 million yen) in FY2020, by +1.3% YoY to 11,463 million yen (+147 million yen) in FY2021, by +10.9% to 12,718 million yen (+1,254 million yen) in FY2022, and by -1.1% to 12,577 million yen (-140 million yen) in FY2023. In FY2024, sales grew significantly by 14.1% to 14,361 million yen (+1,784 million yen).

【Figure 15】Sales Breakdown by Customer Group in FY2024



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

The rate of growth in sales to customers other than the four main groups has been high. Meanwhile, the percentage of sales to 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 15).

- **The increase in transactions with NRI has driven sales growth over many years.**

Looking at the long-term changes, sales to the NRI Group have increased by approx. 8.6 billion yen from approx. 900 yen million in FY2002 to approx. 9.5 billion yen in FY2024, thanks to the expansion of business area from the initial focus on the distribution industry to other industries including finance. During this period, the Company's overall sales grew by 12.4 billion yen from 5.6 billion yen to 18 billion yen. The majority of this growth came from the NRI Group (69%). As a result, its sales were largely dependent on the NRI Group (52.7% of total sales) in the previous fiscal year.

The rate of growth (YoY) in sales to NRI in FY2024 was extremely high at 17.0%, indicating that the alliance is positively impacting performance.

(12) 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, the "e-e Partners" cooperate with NRI not only in the operation of specific projects but also in the following: cooperative promotion of innovative activities in the Enhancement Business; the strategic reinforcement of HR, quality, and IT security; and 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.

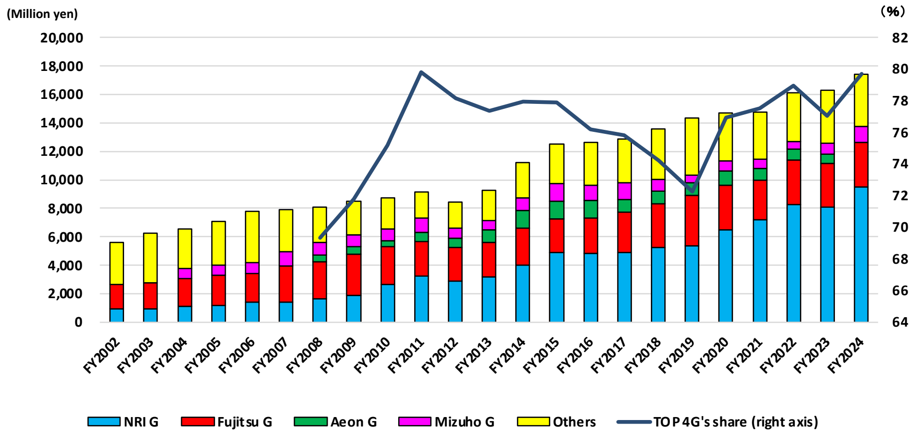
During the same period, Fujitsu Group also accounted for 1.4 billion yen or 11% of the total sales growth, thanks to increased transactions related to telecommunication infrastructure, electrical power infrastructure, and the government. The Company has also been making a certain amount of sales to the other major corporate groups (Aeon and Mizuho) over the long term, earning excellent trust from its customers with high contract continuity.

The Company has especially been in a long-term, collaborative relationship with NRI as one of the few e-e Partners[12]. Since the capital and business alliance was formed, the two companies have set up a council to promote cooperation and have further strengthened their relationship in terms of transactions, businesses, and human resource exchange. Regarding the transaction value between individual companies, NRI has been the largest and Fujitsu has been the second largest over the years.

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. It was also awarded the Customer Satisfaction Improvement Award in February 2024. These awards show how the Company's customer satisfaction level is high.

【Figure 16】Change 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

(13) 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.

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

- **Focused on receiving orders for projects related to new technologies and DX[13]**
- **Upfront investment made in growth areas such as the cloud, blockchain, agile development, AI, and IoT**

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 making investments and preparing for the development of businesses based on next-generation technologies. Since DX[13]-related IT investments by corporate users are expected to continue to increase, it has set the Digital Business as its area of growth and plans to put company-wide efforts into actively making proposals and responding to demand.

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

It has been focused on technology investments in cloud solution services[14] including Oracle-related services; participation in social experiments of the

(15) Blockchain: decentralized network in which information is synchronized, recorded, and accumulated across 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.

Blockchain[15] Collaborative Consortium; capital and business alliances with companies which have expertise in AI technology[16], IoT technology[17], and blockchain; testing the Smile Share Product[18] 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, as well as at developing employees, conducting joint development and proposals, and establishing new businesses.

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)

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

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. As a result, NRI's shareholding ratio rose from 1.51% to 20.18%. Since then, it has been the Company's largest shareholder.

- **NRI is a major blue chip company in the industry. It has built a strong customer base and is dozens of times larger than the Company in scale.**

NRI, an SI affiliated with Nomura Securities, is listed on the TSE Prime. It is a major, blue-chip company ranked as one of the top ten companies of the industry, with a market capitalization of 2.4 trillion yen and forecasted sales of 780 billion yen and net profit of 88 billion yen for this fiscal year (greater than the Company's by 138x, 41x, and 80x, respectively). Providing both consulting and IT solutions, it has the top-level profitability in the industry and also has as a strong customer base particularly in the financial and industrial sectors.

- **In its medium-term plan, NRI plans for a 5.4% annual increase in sales and a 9.0% increase in operating profit.**

In its current medium-term management plan, NRI is targeting sales of 810 billion yen and operating profit of 145 billion yen (operating margin of 17.9%) in FY2026, the final year of the plan. It plans for a sales CAGR of 5.4% and an operating profit CAGR of 9.0% compared to FY2023. NRI's high growth will be a positive factor for the Company, too, due to their alliance.

- **Due to deeper collaboration, the Company's financial performance will most likely become more linked to NRI's performance.**

The Company and NRI have been in a long-standing, collaborative relationship, and NRI is the most important business partner. This collaboration will most likely deepen in the coming years (e.g. through the introduction and sharing of projects, sharing of technologies and information, and segregation of customer segments) and the Company's performance will most likely become more linked to NRI's performance.

- **Plans to invest a total of approximately 2.2 billion yen over four fiscal years, mainly using the raised capital. Plans to strengthen the development bases and production system.**

Through this capital alliance, the Company raised 1,636 million yen. Together with its own capital, it will invest a total of 2,180 million yen over the four fiscal years starting in FY2023 to strengthen its development bases and production system for further growth (Figure 17 on page 17).
However, no updated information has been disclosed on investment performance against the (released) plans for FY2023 and FY2024, or on investment plans for the current fiscal year and beyond.

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 development organization and facilities, 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 commit to increasing capacity, which has been its bottleneck. The investment is essential for strengthening the Company toward future sustainable growth.**

At this stage, the Company has not disclosed any projections of future investment effects (such as the amount of sales growth, contribution to profit, and the investment's payback period). However, its plan is commendable in that it has secured a budget to commit to resolving its current insufficiency in capacity (human resources) and expanding the capacity, which has been the largest bottleneck to sustainable growth.

◆ **Large amounts of investment planned in the previous and the current fiscal years.**

Although part of the investment will be recorded as assets, the majority is likely to be deducted as expenses for the period. The costs to be recognized as deductible expenses associated with this investment are likely to have peaked in the previous fiscal year or will peak in the current fiscal year, when large amounts of investment are planned.

◆ **Investment results (significant contribution to profit) are expected to be seen starting in FY2026 or later.**

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 investments (after expanding capacity and recruiting and developing employees). Therefore, we expect the investment to begin to contribute significantly to profit starting in FY2026 or later (Figure 46 on page 37).

【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	Development Bases: Subtotal ② (breakdown shown below)	80	385	125	0	590	27.1%
	Nearshore (create new regional site)	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 employee engagement	10	50	270	0	330	15.1%

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

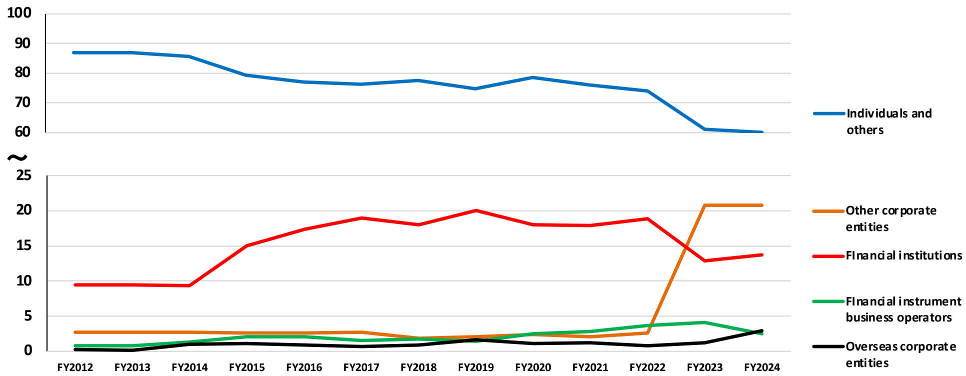
3. Shareholder Composition

◆ Change in Composition by Type of Shareholder

◆ **"Individuals and others" hold 60% of shares. Proportion of shares held by "overseas corporate entities" has been gradually increasing.**

Figure 18 shows the shareholder composition by type of shareholder as of the end of March 2024. Due to NRI's investment in FY2023, the proportion of "other Japanese corporate entities" has increased significantly to 21%. "Individuals and others" account for the majority at 60%, followed by "financial institutions" at 14%. Neither has changed significantly. On the other hand, over the past three fiscal years, "overseas corporate entities" have been gradually increasing each year from 0.8% to 1.2% to 2.9%.

【Figure 18】Change in Shareholder Composition by Type of Shareholder (units: %) (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

◆ Major Shareholder Composition

◆ **NRI is the largest shareholder.**

The composition of major shareholders is shown in Figure 19 on page 19. NRI became the largest shareholder after additional investment. Its shareholding ratio increased from 1.51% to 20.18%, which has not changed since then.

◆ **Stable with no large change to the major shareholders.**

The other major shareholders and the shareholder ranking have not largely changed. BNY GCM CLIENT ACCOUNT replaced SMBC Nikko Securities as the seventh largest shareholder, becoming ranked among the major shareholders for the first time.

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

The following is supplemental information.

・Although the Employee Stock Ownership Plan (second place) and some of the trust banks have increased their holdings, the number of shares held by the other major shareholders have remained largely unchanged.

・The major individual shareholders are all either current or former directors of the Company. Note that its representative director, Masahiro Nakanishi, holds 16.3 thousand shares (shareholding ratio of 0.1%; +1 thousand shares compared to the fiscal year before the previous).

◆ **The total of treasury shares, stock ownership plan, and shares held by directors, employees, and other parties related to the Company account for about 25% of all issued shares.**

・Of the top ten shareholders, the Employee Stock Ownership Plan, the Company's directors and employees (including former members), and the director compensation BIP trust account add up to about 25% of the total.

・The third largest shareholder, Osamu Sakiyama (chairman of the Company), submitted a change report (5% rule report) to the Ministry of Finance on May 16 and has reduced his shareholding to 6.05%.

- **Domestic investment trusts are mainly index types.**

・Regarding funds, the Company's shares are incorporated in mainly Japan equity index funds including those managed by Mitsubishi UFJ Asset Management, Sumitomo Mitsui Trust Asset Management, and Asset Management One. Some of these funds are most likely investing under the names of the trust banks that are ranked as major shareholders.

- **Essentially owns treasury shares amounting to 3.7% of all issued shares.**

・Treasury shares, which are mostly held by the BIP Trust Account (in the name of the fifth largest shareholder, The Master Trust Bank of Japan), amounted to approximately 586 thousand shares as of the end of FY2024 (3.7% of the total number of issued shares; unchanged since the end of FY2023).

【Figure 19】Current Major Shareholders

Shareholder Name (units: 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	End of Mar. 2024	Shareholding ratio (%)	Shareholder ranking	Change in number of shares
Nomura Research Institute, Ltd.	-	-	-	-	-	-	214	-	3,179	3,179	20.18	1	0
CUBE SYSTEM Employee Stock Ownership Plan	1,641	1,672	1,663	1,668	1,565	1,602	1,551	1,531	1,468	1,484	9.42	2	16
The Master Trust Bank of Japan, Ltd. (trust account)	-	-	-	321	394	485	456	959	1,062	1,168	7.41	3	106
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	1,122	7.12	4	0
The Master Trust Bank of Japan (Director compensation BIP trust: 75824 accounts)	-	270	270	262	369	358	358	618	586	586	3.72	5	0
Akemi Onuki (indiv.): CS's former president	401	401	401	401	401	401	401	401	401	401	2.54	6	0
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	-	-	-	-	-	-	-	-	-	254	1.61	7	-
Custody Bank of Japan (trust account)	-	-	-	-	-	-	-	-	202	229	1.45	8	27
Toshio Uchida (indiv.): former executive vice president	475	415	403	393	376	369	347	329	221	216	1.37	9	-5
Toshikuni Sato (indiv.): CS's former exec. managing director	380	340	300	300	304	304	288	239	230	200	1.26	10	-30
SMBC Nikko Securities Inc.	-	-	-	-	-	-	-	282	290				
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	-	-	-	-	-	-	-	-				
(Actual Number of Treasury Shares Owned by CUBE SYSTEM)	682	728	1,306	1,498	1,725	1,692	1,690	1,000	589	589			0
(Proportion of Treasury Shares to All Issued Shares)	4.5%	4.8%	8.5%	9.8%	11.3%	11.1%	11.1%	6.9%	3.7%	3.7%			0

(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 treasury shares from all issued shares. The proportion of treasury shares includes the director remuneration BIP trust account. The change in number of shares is the comparison between the end of March 2024 and the end of March 2023.

4. ESG and Sustainability

◆ Environment

- **Working on continuous improvement of environmental performance (energy and resource conservation)**

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 electricity usage, paper usage, and waste and adopting the cool biz). Also, it has 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. Environmental goals (for greenhouse gas or GHG emissions) have also been added as a non-financial goal of the new medium-term plan (Figure 44 on page 36). In addition, it received a B-score (third from the top out of eight levels) from the CDP (one of the world's leading ESG rating agencies) in the 2023 survey on climate change.

- **Has joined the TCFD and works on climate change mitigation and adaptation, as well as promoting appropriate information disclosures. Has also set environmental goals as non-financial targets of the new medium-term plan. Received a B-score from CDP.**

◆ Society

- **Its mission is to contribute to the further development of the IT society and the strengthening of its customers' competitive edge**

As part of 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

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

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 adopted an executive officer system and is working on strengthening its corporate governance functions. 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 NRI alumni (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 eldercare and mental health). One of the external auditors (female) is an attorney (appointed at the general meeting of shareholders).

Recognizing the enhancement of human capital and the workstyle reform as 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 2024[19]; has received this award for three years in a row).

(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

◆ Sustainability

- **Focusing on sustainability management**

The Company has formulated its 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[20], 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 working on sound corporate management, contribution to the local community, environmental conservation, promotion of compliance, respect for human rights, support for next generation development, and enhancement of human capital (people development and emphasis on people).

(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.

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.**

In 1972, the Company was founded as Customer Engineers Corporation by its founding members, which included the current chairman, as a company for software development, system operations, and system management (its name was changed to the current one in 1990). As Japan evolved into a computer society, IT investments increased and the system development market rapidly grew.

- **Its main customers are leading blue-chip companies of Japan.**

Amidst this trend, the Company became specialized in the system integration business, building its credibility and track record. It made new contracts one after another with leading Japanese companies, which are its current main customer groups to date. As these companies increased their IT investment and outsourcing of system development and operation, the Company steadily expanded its business areas and scale.

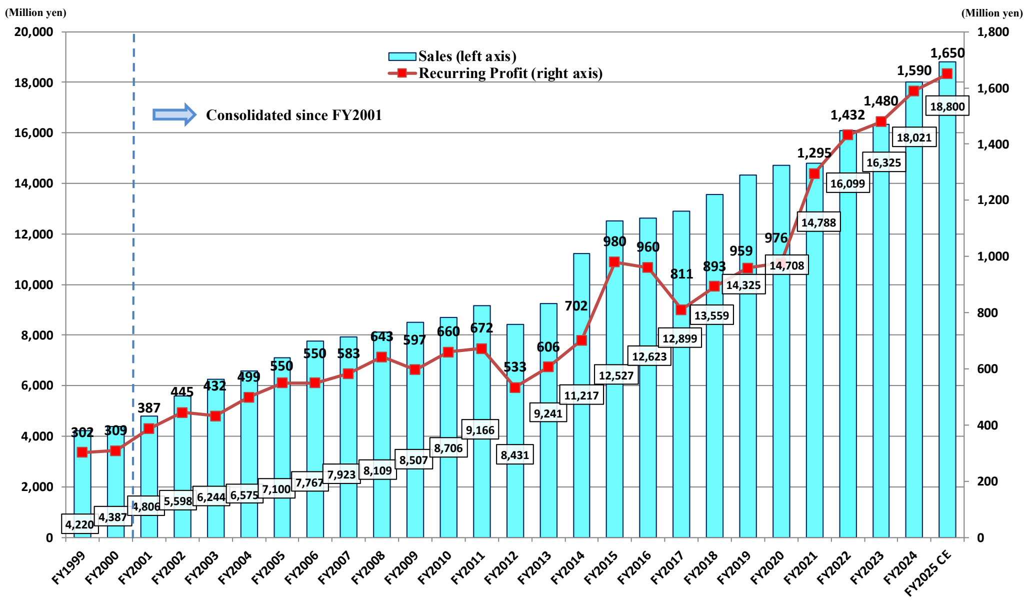
- **Changed its listing from TSE Second Section to the First Section in March 2014. Moved to the Prime Market, the new segment, in April 2022.**

Regarding its shares, 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 by companies and the government. The long-term transition in financial performance is shown in Figure 20. The following are details of its financial performance in chronological order (pages 22-23).

【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 flat but are starting to increase in recent years.**
- **Sales decreased only for 1 fiscal year during the past 26 years.**

・On a consolidated basis, with the exception of only a single fiscal year (FY2012), the Company has being achieving an year-on-year increase in sales every fiscal year for the past 22 fiscal years. This stable growth trend is noteworthy.

・During the past 26 years, the annual sales growth rate (simple average of the annual rates of increase in sales) was +6.1%. Similarly, the recurring profit growth rate was +7.6%, showing how the Company has been solidly improving its financial performance over the long term.

・Although recurring profit decreased in five out of the 22 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.

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

・Analyzed statistically, the Company has a small standard deviation for the rate of change in financial result and also a small variation coefficient (= standard deviation / average; shows relative dispersion; also called the relative standard deviation), 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 20 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 23), sales growth has been directly contributing to increases in profit, dividend, and market capitalization.

【Figure 21】Analysis of Financial Performance Volatility over the Past 20 Years (YoY rate of change in sales and recurring profit)

Target of Analysis	% Change in Sales (% YoY)			% Change in Recurring Profit (% YoY)		
FY2005 - FY2024	CUBE SYSTEM	HIMACS	Toho System Science	CUBE SYSTEM	HIMACS	Toho System Science
Market: TSE Prime	2335	4299	4333	2335	4299	4333
n = 20 fiscal years	CS (consolidated)	HM (consolidated)	TS (standalone)	CS (consolidated)	HM (consolidated)	TS (standalone)
Standard deviation	5.75	7.11	16.06	13.37	29.42	291.53
Average	5.32	3.12	8.36	6.82	7.72	77.57
Coefficient of variation	1.08	2.28	1.92	1.96	3.81	3.76

(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 described earlier (pages 14-15), 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 receive more orders from these groups, driving its growth.

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

Financial performance during the most recent 15 years or so is as follows.

・In FY2009 when the Lehman's collapse occurred, the economy faced a downturn and customers became more cautious with IT investments. However, the Company was able to continue to increase sales due 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 business 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 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 degree.

- **In FY2012, due to the Great East Japan Earthquake, sales decreased for the first time since becoming listed. Operating profit decreased by 20%.**

・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 26 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.

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

・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. Thanks to this recovery, as well as the recent trend of significantly investing in digitalization, the Company's sales growth trend became distinct.

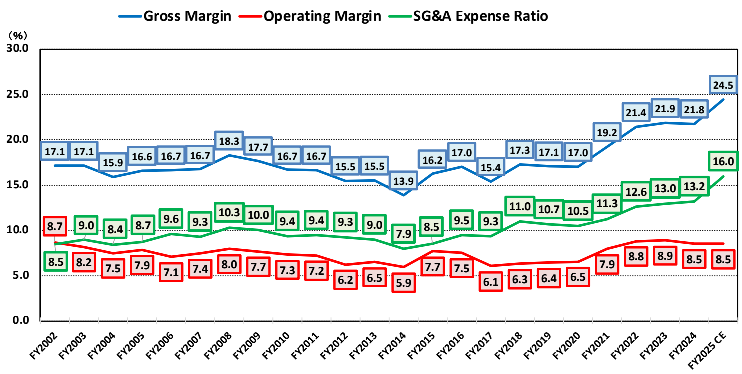
- **Hitting record-high profits for four consecutive fiscal years since FY2021.**
- **Sales have been hitting record highs for 12 fiscal years in a row.**

・Regarding profit, in FY2015, sales increased due to business expansion through the development of businesses with existing customers and the acquisition of new customers. Productivity also improved due to strengthened project management. As a result, record highs of the time were achieved for operating and recurring profits. In FY2021, record profits were again achieved. Every fiscal year since then to FY2024, it has been consecutively achieving record highs for sales (for 12 consecutive fiscal years) and profits.

- **Profit growth had been slow due to increased costs, but in the previous fiscal year, profits reached record highs for the consecutive year thanks to sales growth.**

・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).
・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 it began to improve starting in FY2018.
・Last fiscal year (FY2024), the gross margin fell (from 21.9% in FY2023 to 21.8% in FY2024; the same order applies to the rest) and the SG&A expense ratio increased (from 13.0% to 13.2%), resulting in a deterioration in the operating margin (from 8.9% to 8.5%). However, due to increased sales, it achieved record highs for each of the profits for the consecutive year.

【Figure 22】Change in the Company's Gross Margin, SG&A Expense Ratio, and Operating Margin Over the Long Term



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

6. Business Environment

◆ Trends of Japan's System Integration Market

- **As the outsourcing of system development became common, SIs grew by undertaking these outsourced system development projects.**

Survey of Selected Service Industries

"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). As outsourcing of system development became common in Japan, system integrators have stably grown by undertaking system development projects.

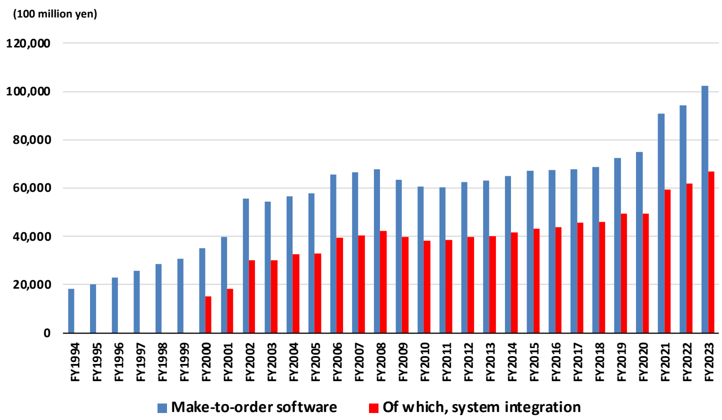
- **As the COVID-19 outbreak settled down to a certain degree, Japan's SI market recovered to a growth trend in 2021. Growth rate was accelerated in 2023.**

According to the same data, from 2011 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 at an accelerated pace from +3.1% in 2021 and +3.6% in 2022 to +9.3% in 2023 (Figure 24).

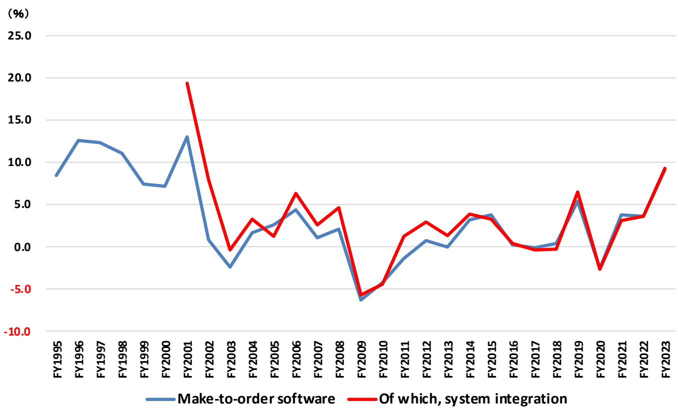
- **Growth trend has been maintained for monthly SI sales (YoY) for 24 consecutive months since April 2022.**

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, growth has been stably maintained for 24 consecutive months (+8.4% YoY on average).

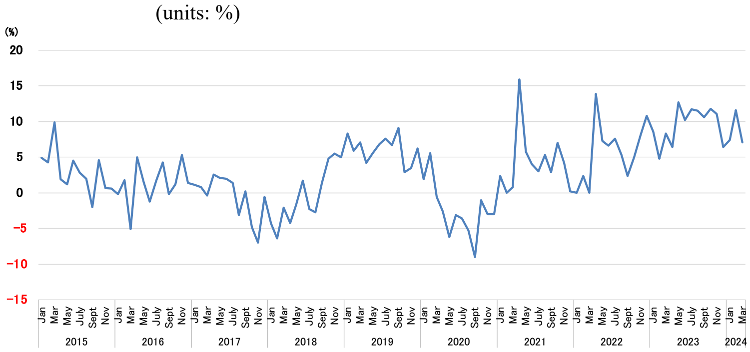
【Figure 23】Change in the Make-to-Order Software and System Integration Markets (annual sales: units = 100 million yen)



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



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



(Ref) Figures 23-25: Prepared and reworked by Alpha-Win Research Dept. based on data from the "March 2024 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 does 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.

Bank of Japan (BOJ) Tankan Survey

- **Software investment is expected to increase by 6.0% (YoY) in 2024.**

According to the BOJ Tankan Survey in March 2024, the amount of software investment in FY2024 (plan) by companies of all sizes and industries (including financial institutions) is expected to rise solidly by +6.6% YoY, albeit at a slower rate than before (the plan in 2023 was +11.0% YoY).

- **BOJ Tankan's DI for companies has mostly not changed, but is positive and solid.**

Compared to the December 2023 survey, the business sentiment (the March 2024 survey's DI) of all companies of all sizes and industries has remained largely unchanged (in December and March, the recent sentiment was +13 and +12, respectively; similarly, the future sentiment was +8 and +9).

- **Large companies expect a slight increase in sales and a slight decrease in profit in FY2024.**

The business sentiment of large companies, which are the Company's main customers, also has not largely changed. Their recent sentiment remained at +22 and the future sentiment changed from +17 to +19. The sales and earnings plan of large companies (surveyed in March 2024) forecast a slight increase of +0.9% in sales and a decrease of -3.7% in recurring profit in FY2024 (however, their plans may be on the cautious side since these forecasts were made at the beginning of the fiscal year). The employment conditions DI was -27, indicating that there is still a labor shortage.

Data from the Industry Association

- **In the JISA-DI survey, the forecast DI (outlook) for sales of make-to-order software has remained at a double-digit, positive value, although the momentum has somewhat declined.**

According to the JISA-DI Survey (March 2024) by the Japan Information Technology Services Industry Association, the forecast DI for the 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) has been largely positive, at +29.6% in April to June of 2023 and +45.5, +39.7, and +41.5 in the following quarters, respectively. However, most recently in April to June of 2024, the DI was still positive but shrunk to +21.7.

- **The forecast DI for sales to the wholesale and retail industry and the service industry is strong.**

In the information service industry as a whole, the forecast DI for major client sectors was strong for the wholesale and retail industry and the service industry, while it remained flat for the financial and insurance industry and the electricity and gas industry and was weak for information and communication, manufacturing, and the government.

- **Shortage of IT engineers in terms of both quantity and quality**

The employment conditions DI (DI: employee sufficiency = shortage minus excess) has fallen slightly from its peak of 80.3 points at the end of December 2022, but still indicates a significant employment shortage at 74.0 points as of the end of March 2024 (74.6 points in the same period of the previous fiscal year). There continues to be a shortage of IT engineers both in number and quality, making the recruitment of talented employees for system development difficult.

Market Outlook

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

IT investment by companies and the government is expected to increase solidly (the Digital Agency's promotion and acceleration of IT investment), along with increasing structural labor shortages and operational efficiency needs. In various industries and business areas, companies have been actively investing in strategic areas and developing technologies to raise their competitive edge.

- **High demand related to DX**

Also, listed companies in Japan are continuing to show growth trends for profit. 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.

◆ 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%.

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%.

- 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.

The Company's competitors, or similar companies, are thought to be the two companies HIMACS (TSE Standard: 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), with about the same size and at very similar market positions as the Company (Figure 28 on page 27).

Concerning several of the largest SI players in the market, such as NRI and Fujitsu, they 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).

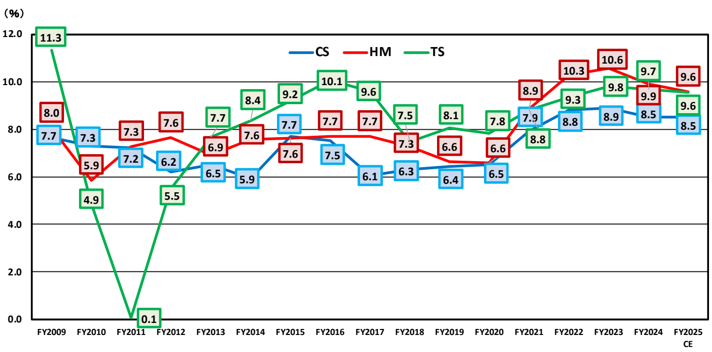
- The Company's profit margin is somewhat low compared to its two competitors.

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

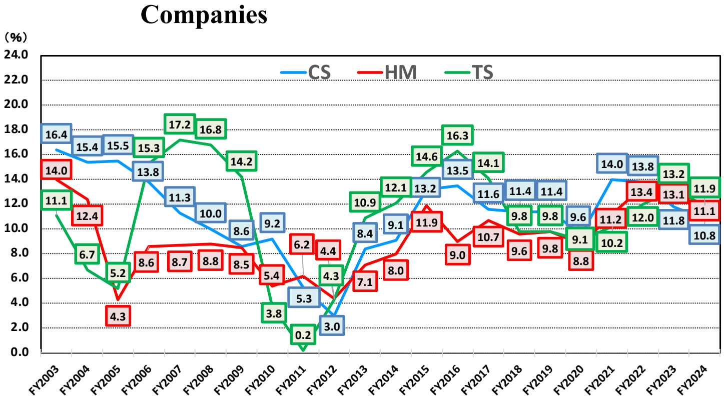
- Its ROE had improve significantly and had been the highest among the three companies in recent years, but decreased due to the capital increase.
- The Company's goal is to maintain an ROE of at least 13% and to achieve 14% in FY2027.

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). Since FY2023, though, its ROE became the lowest instead due to the capital increase in the previous fiscal year's Q3. Note that the Company is also working on improving capital efficiency and profitability, with a goal of achieving and maintaining a ROE of at least 13% (it aims to achieve 14% in FY2027, the final year of the medium-term plan).

【Figure 26】Change in Operating Margin of the Three Mid-Tier, Listed Companies



【Figure 27】Change in ROE the Three Mid-Tier, Listed 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 to finance account for 30% of total sales. Sales to the "other industries" category are the largest, at a little over 30% of total sales.	Independent. 70% of sales comes from the finance industry. Sales to insurance companies are espcially 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. Sales to finance account for 50% of the total.
Date of Founding	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 → TSE Prime	Mar. 2001 → Mar. 2004 → Mar. 2015 → Apr. 2022 → Oct. 2023 TSE Standard	June 2001 → Mar. 2007 → Mar. 2014 → TSE Prime	TSE 1st Section (Dec. 2001) → TSE Prime
Sales Categories/Breakdown (FY2024)	･System Integration 78% ・System Outsourcing 9% ・Professional 13%	･System Solutions Services 34.1% ・System Maintenance Services 65.9%	･Software Development 97.7% ・IT System Services, etc. 2.3%	･Consulting 7.1% ・Financial IT Solutions 47.5% ・Industrial IT Solutions 37.5% ・IT Infrastructure Services 7.6% ・Others 0.4%
Director Composition (as of the end of March 2024)	･Directors (6; of which, 3 external & 1 woman [14.3%]) ・Auditors (4; of which, 3 external and 1 woman [25.0%]) ・Executive officers (13; no woman)	･Directors (7; of which, 3 external and 1 woman) ・Auditors (4; of which, 2 external) ・Executive officers (11; no woman)	･Directors (7; of which, 3 external and 1 woman) ・Auditors (3; of which, 2 external) ・Executive officers (10; of which, 1 woman)	･Directors (9; of which, 3 external and 1 woman) ・Auditors (5; of which, 3 external and 1 woman) ・Executive officers (34; of which, 2 women)
Major Clients / Customer Sectors (FY2024) (sales = million yen; % of total sales = %)	・NRI Group 9,486 (52.7%) ・Fujitsu Group 3,177 (17.6%)	・66% from finance (of which 33% is from insurance)	・Nomura Research Intsitute 4,138 (25.4%)	・Nomura Holdings 9.5% ・Securities: Nomura Securities, Mizuho Securities, etc. ・Insurance: Japan Post Insurance, Sony Life Insurance, etc. ・Banks: Seven Bank, Nomura Trust and Banking, etc. ・Others: distribution, manufacturing, services, etc.
Sites (including consolidated subsidiaries)	･Main office: Shinagawa-ku, Tokyo ・West Japan Solutions Office in Osaka & Nagoya & Fukuoka ・3 subsidiaries	･Main office: Yokohama, Kanagawa ・Minatomirai Office in Yokohama ・1 subsidiary	･Main office: Bunkyo-ku, Tokyo	･Main office: Otemachi, Chiyoda-ku, Tokyo ・92 consolidated subsidiaries (in Japan and overseas)
Management Goals (indicators)	First Medium-Term Management Plan: Final year FY ended Mar. 2024: Sales of 18 billion yen (actual: 18.02 billion yen), operating profit of 1.62 billion yen (actual: 1.54 billion yen), operating margin of 9.0% (actual: 8.5%), and ROE of 11% (actual: 10.8%). Second Medium-Term Management Plan: FY2025 - FY2027 FY ending Mar. 2025: Sales of 18.8 billion yen and operating profit of 1.6 billion yen (operating margin of 8.5%). FY ending Mar. 2026: Sales of 20.6 billion yen and operating profit of 1.95 billion yen (operating margin of 9.5%). FY ending Mar. 2027: Sales of 23.0 billion yen and operating profit 2.41 billion yen (operating margin of 10.5%).	New medium-term management plan NEXT C^4 FY2024 - FY2026 FY ended Mar. 2024: Sales of 18.15 billion yen (actual: 17.36 billion yen), operating profit of 1.68 billion yen (actual: 1.72 billion yen), operating margin of 9.3% (actual: 9.9%), and ROE of 10.8%. FY ending Mar. 2025: Undisclosed. FY ending Mar. 2026: Sales of 20.6 billion yen, operating profit of 2.06 billion yen (operating margin of 10%), and ROE of 11.5%.	New medium-term management plan: plans for each final year FY ending Mar. 2025 (1st period): Sales of 16.5 billion yen, operating profit 1.58 billion yen (operating margin of 9.6%), and ROE of 11.4%. FY ending Mar. 2028 (2nd period): Sales of 20.0 billion yen, operating profit of 2.0 billion yen (operating margin of 10%), and ROE of 12.5%. FY ending Mar. 2031 (3rd period): Sales of 25 billion yen, operating profit of 2.5 billion yen or more (operating margin of 10% or more), and ROE of 15% or more.	Medium-term management plan ･FY ended Mar. 2024: Revenues of 735 billion yen (actual: 736.5 billion yen), operating profit of 120 billion yen (actual: 120.4 billion yen), and operating margin of 16.3% (actual: 16.3%). ･FY ending Mar. 2025: Revenues of 780 billion yen and operating profit of 132 billion yen (operating margin of 16.9%) ･FY ending Mar. 2026: Revenues of 810 billion yen and operating profit of 145 billion yen (operating margin of 17.9%)
Medium-Term Management Policy/Strategy (summary)	Business Foundation ･Strengthening of the production system: (1) Area expansion and (2) Quality improvement. ・Enhancement of quality: (1) Establishment of a quality management system for business model transformation, (2) Establishment of a quality management system for expansion of the production system, and (3) Qualitative improvement of the system development meetings. ・Greater collaboration: (1) Strengthening of development system, (2) Provide one-stop services, (3) Greater utilization of offshore bases, and (4) Strengthening of collaborative consultation. ・Research investment: (1) R&D and product development and (2) Production innovation. Management Foundation ・Enhancement of human capital: (1) Recruitment (quantitative expansion), training (qualitative improvement), and engagement (motivational enhancement) ・Maximise shareholder value: ROE of 14% or more and consolidated dividend payout ratio of 50%. ・Reform of corporate culture: (1) Value investment and (2) Risk response	Basic strategy ・Expand the conventional contract-dev. business (core business): maintain businesses with the nonfinancial sector and end users at 30% of the total ・Actively work on receiving orders for DX projects that are based on digital technologies: Raise the sales proportion of DX projects from 20% to 25% ・Continue investment in human capital: increase the number of DX engineers by 30%, raise the percentage of employees with DX-related certification to more than 90%, and increase the number of project leaders by 20% ・Increase the number of development staff ・Conduct M&As and form capital/business alliances for further development of business	Long-Term Management Vision 2030 ・Create the future with customers ・Stably expand business, solve society's issues, and create a sustainable future society Priority Strategies ・Change the business portfolio ・Focus on the digital business ・Build the service business ・Establish the DX Development Center ・Develop human resources, raise liquidity of shares, and strengthen governance	Main Pillars of the Growth Strategy: ・Deeper development of the core businesses (greater market reach in Japan): Sales growth rate (growth rate from FY ended Mar. 2023 to FY ending May 2026): (1) consulting business at more than +5 billion yen, (2) Industrial IT Solutions at more than +40 billion yen, (3) Financial IT Solutions at more than +40 billion yen, and (4) IT Infrastructure Services at more than +5 billion ・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 20 billion yen during the span of the current medium-term plan to improve productivity
Sales (million yen), CE for FY2025	*18,800*	*18,600*	*17,800*	*780,000*
Sales Growth Rate, YoY (%), CE	*4.3*	*7.2*	*9.3*	*5.9*
Operating Profit (million yen), CE	*1,600*	*1,780*	*1,700*	*132,000*
Operating Profit Growth Rate, YoY (%), CE	*4.2*	*3.5*	*8.0*	*9.6*
EPS (CE) for FY2025, YoY (%)	*3.1*	*3.6*	*9.5*	*11.6*
DOE (%), Actual	5.4	4.8	8.0	7.8
Past 14 Years' Sales Growth Rate (FY2024's result divided by FY2010's result: %)	107.0	125.5	122.9	117.5
Operating Profit Growth Rate (same condition as above)	141.2	281.2	343.4	200.4
Equity Ratio (%), Actual	75.1	80.5	69.5	43.3
Number of Domestic/Overseas Employees, Actual	886	930	681	16,708
Sales Per Employee (million yen / person)	20.3	18.7	23.9	44.1
Operating Profit Per Employee (million yen / person)	1.7	1.8	2.3	7.2
ROE (%), Actual for FY2024 A=B×C×D	10.8	11.1	11.9	19.9
Net Profit Margin (net profit for the year / sales : %) B	5.9	6.8	6.6	10.8
Total Asset Turnover Ratio (sales / ave. total asset) C	1.4	1.3	1.2	0.8
Financial Leverage (ave. total asset / ave. owner's equity) D	1.3	1.2	1.4	2.2
ROA (recurring profit / total asset : %) E=F×G	12.2	13.1	12.0	13.3
Recurring Profit Margin (%), Actual F	8.8	10.0	9.7	15.7
Total Asset Turnover Ratio (sales / ave. total asset) G	1.4	1.3	1.2	0.9

(Ref) Prepared by Alpha-Win Research Dept. based on each company's securities report, financial results materials, website, notice of convocation of the general meeting of shareholders, etc.
(Note) The companies' forecasts for FY2025 are italicized; the rest are actual values of FY2024. The highest values among the three companies (excluding NRI) are highlighted in yellow. The highest values among the four companies including NRI are highlighted in orange. For the ROA (E) and recurring profit margin (F) of NRI, net profit before tax was used instead of recurring profit. NRI is based on the IFRS (the other three companies are based on the Japanese GAAP).

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

◆ Full-Year Financial Results for FY2024 (last fiscal year)

Summary

- **In the previous fiscal year, the results were in line with the Company's plan that was made at the beginning of the fiscal year. No surprises.**

Consolidated results for FY2024 (previous fiscal year) were as follows: sales of 18,021 million yen (+10.4% YoY), operating profit of 1,536 million yen (+5.8% YoY), recurring profit of 1,590 million yen (+7.5% YoY), and net profit attributable to owners of the parent of 1,067 million yen (+7.8% YoY; hereinafter, "net profit"). Sales reached the target of the initial plan (+0.1% compared to the plan), while operating and net profits fell slightly short by 5.2% and 1.2%, respectively. However, the results were overall strong (Figure 29).

- **Record-high sales for the 12th consecutive year and record-high profits for the 4th consecutive year. Dividends increased.**

Sales have hit a record high for the 12th consecutive fiscal year starting in FY2013 and each of the profits has also hit a record high for the fourth consecutive fiscal year. Also, the annual dividend per share was increased from the initial forecast of 30 yen to 35 yen (announced during the fiscal year).

- **Somewhat below Alpha-Win's forecasts due to a slowdown in the rate of sales growth in Q4 and a decrease in profit caused by higher costs.**

For the previous fiscal year, we had forecasted sales of 18,200 million yen (+200 million compared to the company plan) and the same amounts of profits and dividends as the Company's forecasts. We analyze that the main reasons for the deviation from the results were the smaller increase in sales in Q4 (Jan-Mar 2024) and the decrease in profits caused by a lower gross margin and higher SG&A expenses.

There were no unprofitable projects or extraordinary losses in the previous fiscal year, so the increase in operating profit resulted in an increase in net profit.

【Figure 29】Comparison of Forecasts and Results in FY2024 (last fiscal year)

Units: 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 (% Diff.)	Comparison with Alpha-Win's Revised Forecast (Diff.)	Comparison with Alpha-Win's Revised Forecast (% Diff.)
	A	B	C	D	E	F=E-B	G=F/B	H=E-D	I=H/D
Sales	18,500	18,000	17,800	18,200	18,021	21	0.1%	-179	-1.0%
Gross Profit			3,900	3,980	3,922			-58	-1.5%
Gross Margin			21.9%	21.9%	21.8%			-0.1%	-0.5%
SG&A Expenses			2,300	2,360	2,386			26	1.1%
SG&A Exp. Ratio			12.9%	13.0%	13.2%			0.3%	
Operating Profit	1,480	1,620	1,600	1,620	1,536	-84	-5.2%	-84	-5.2%
Operating Margin	8.0%	9.0%	9.0%	8.9%	8.5%	-0.0		-0.0	
Recurring Profit		1,635	1,615	1,635	1,590	-45	-2.8%	-45	-2.8%
Net Profit		1,080	1,065	1,080	1,067	-13	-1.2%	-13.0	-1.2%
Dividend		30.00	30.00	30.00	35.00	5.00	16.7%	5.00	16.7%

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

Orders Received and Order Backlog

- **Both the orders received and the order backlog increased, but the increase in order backlog was small.**

From FY2023 to FY2024, orders received increased by 1,475 million yen (+8.9%) from 16,620 million yen to 18,096 million yen. Similarly, the order backlog (at the end of each fiscal year) was solid and increased by 75 million yen (+1.6%) from 4,572 million yen to 4,647 million yen.

- **The SI Business contributed to orders.**

By business model, orders in the SI Business were strong (resources were shifted to address this). By industry, the financial industry and others contributed to the increase in orders.

Sales and Profit by Service Segment

◆ **SIS contributed to the sales and profit growth.**

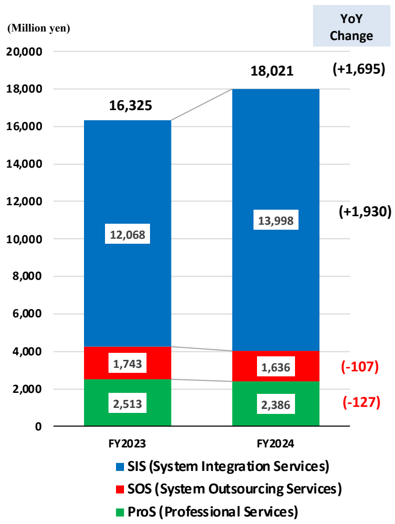
・Of the Company's overall sales growth (+1,695 million yen or +10.4% compared to FY2023; the same point of comparison applies to the rest), sales of each service segment were as follows: sales of SIS grew (+1,930 million yen or +16.0%), while sales declined for ProS (-127 million yen or -5.1%) and SOS (-107 million yen or -6.2%) (Figure 30).

◆ **The profit margin declined for each service segment.**

・The overall increase in operating profit was 83 million yen. By service segment, only the SIS, whose sales grew, saw an increase in profit (+141 million yen). This offset the decline in the profit of ProS (-41 million yen) and SOS (-16 million yen) (Figure 31).

・The Company's overall operating margin fell from 8.9% in FY2023 to 8.5% in FY2024 (-0.4 percentage point). The margin also fell for each service segment, with relatively large declines for ProS and SOS; ProS's margin fell from 10.7% to 9.6% (-1.1 percentage point) and SOS's margin fell from 7.2% to 6.7% (-0.5 percentage point). Meanwhile, in the SIS, whose sales accounted for 80% of the total, the margin declined only slightly from 8.8% to 8.6% (-0.2 percentage point).

【Figure 30】Comparison of the Past Two Fiscal Years' Sales (FY2023 and FY2024) by Service Segment



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

		FY2023	FY2024	Diff.	% Diff.
Operating Profit (units: million yen)	Total	1,452	1,536	83	5.8%
	SIS	1,057	1,198	141	13.4%
	SOS	126	109	-16	-13.2%
	ProS	269	228	-41	-15.3%
Operating Margin (units: %)	Total	8.9%	8.5%	-0.4%	
	SIS	8.8%	8.6%	-0.2%	
	SOS	7.2%	6.7%	-0.5%	
	ProS	10.7%	9.6%	-1.1%	

(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, profits declined for the transportation & telecommunication and distribution industries, but the financial industry and others contributed to results with double-digit increases in sales and profits.**

・By industry, sales and profits made from the transportation & telecommunication industry fell by double digits, while there were a small increase in sales and decline in profits for the distribution industry. In contrast, the financial industry and other industries both contributed to results with double-digit increases in sales and profits (Figure 34 on page 30).

・Compared to the overall increase in sales (+1,695 million yen YoY), sales to transportation & telecommunication fell (-354 million yen or -12.3% YoY) and profit declined (-54 million yen or -19.1% YoY) due to a reduction in systems-related projects.

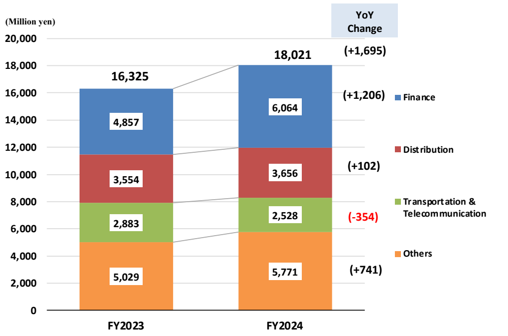
・Regarding the distribution industry, sales rose by 102 million yen (+2.9% YoY) due to projects for a wholesaler and an apparel company, but profit fell by 16 million yen (-5.4% YoY).

・On the other hand, regarding the financial industry, business toward regional banks, online banks, and a megabank was strong, partly due to the effects of the alliance with NRI. Sales to this industry increased by 1,206 million yen (+24.8% YoY) and profit increased by 96 million yen (+20.7% YoY), driving the Company's overall performance.

・Sales to others also increased by 741 million yen (+14.7% YoY) and profit rose by 57 million yen (+14.2% YoY) due to a growth in sales to the central government, the service industry, and the manufacturing industry.

・Compared to the initial plan (for sales), the financial industry exceeded the plan, while the remaining three industries fell short (Figure 33 on page 30).

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



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

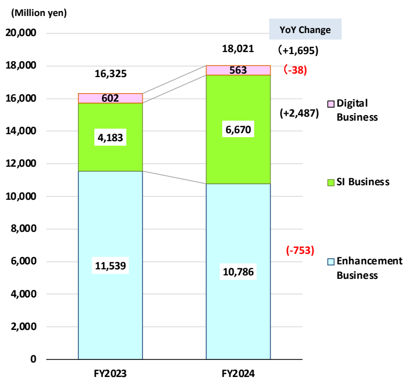
【Figure 33】Comparison between Initial Forecasts and Results for Sales of Each Industry

FY2024 Sales				
Industry	Result	Initial Forecast	Diff: million yen	Diff: %
Finance	6,064	5,501	563	9.3%
Distribution	3,656	3,931	-275	-7.5%
Transportation & Telecommunication	2,528	2,575	-47	-1.9%
Others	5,771	5,993	-222	-3.8%
Total	18,021	18,000	21	0.1%

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

	Industry	FY2023	FY2024	Diff.	% Diff.
Operating profit (units: million yen)	Finance	467	564	96	20.7%
	Distribution	294	278	-16	-5.4%
	Transportation & Telecommunication	287	232	-54	-19.1%
	Others	402	460	57	14.2%
	Manufacturing	86	107	21	24.6%
	Government	72	138	66	91.3%
	Others	244	214	-30	-12.2%
	Total	1,452	1,536	83	5.8%
Operating margin (units: %)	Finance	9.6%	9.3%	-0.3%	
	Distribution	8.3%	7.6%	-0.7%	
	Transportation & Telecommunication	10.0%	9.2%	-0.8%	
	Others	8.0%	8.0%	-0.0%	
	Manufacturing	5.5%	6.6%		
	Government	7.8%	12.3%		
	Others	9.6%	7.1%		
	Total	8.9%	8.5%		

【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, increased sales and profits of the SI Business offset the decreased sales and profits of the Enhancement and Digital businesses.**
- **Profit maintained in 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 FY2024, the Enhancement Business accounted for 60% of total sales and 59% of total operating profit, making up the majority. This business saw a 6.5% fall in sales and a 16.1% fall in profits YoY, which were due to shifting resources to the SI Business where demand is strong and large profits can be expected (Figures 35-36).

・The SI Business was extremely strong with a sales growth of 59.5% and a profit growth of 86.7%, thanks to the expansion of systems-related projects for finance, manufacturing, retailers, and the government.

・The Digital Business, which is small in scale (accounting for 3% of sales and 0.5% of operating profit), saw sales fall by 38 million yen YoY (-6.4%) due to the reduction in a project for a home improvement center. Its operating profit also fell from 34 million yen to 8 million yen (-76.6% YoY).

・Sales of the SI Business were significantly higher than initially forecasted, while sales of Enhancement and Digital fell short (Figure 37).

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

Units: million yen or %	FY2023	FY2024	Difference	% Diff.
Digital Business	34	8	-26	-76.6%
SI Business	329	614	285	86.7%
Enhancement Business	1,088	913	-175	-16.1%
Operating Profit (total)	1,452	1,536	83	5.8%
Digital Business	5.6%	1.4%	-4.2%	
SI Business	7.9%	9.2%	1.3%	
Enhancement Business	9.4%	8.5%	-1.0%	
Operating Margin (company-wide average)	8.9%	8.5%	-0.4%	

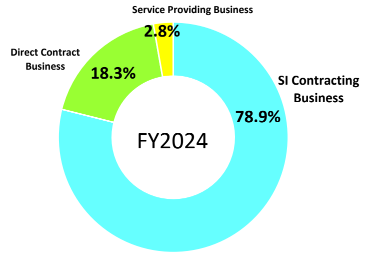
【Figure 37】Comparison between Initial Forecasts and Results for Sales of Each Business Model

Units: million yen or %	FY2023	FY2024	Difference	% Diff.
Sales	16,325	18,021	1,696	10.4%
Digital Business	602	563	-38	-6.4%
SI Business	4,183	6,670	2,487	59.5%
Enhancement Business	11,539	10,786	-753	-6.5%

FY2024 Sales				
Business Model	Result	Initial Forecast	Diff: million yen	Diff: %
Digital	563	920	-357	-38.8%
SI	6,670	5,850	820	14.0%
Enhancement	10,786	11,230	-444	-4.0%
Total	18,021	18,000	19	0.1%

◆ **First disclosure of sales by business style. SI Contracting projects accounted for around 80% of the total.**

【Figure 38】Breakdown of Sales by Business Style



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

Sales and Operating Profit by Business Style

・Since the previous fiscal year, sales have been disclosed for each of the three business styles – SI Contracting (contracts with system integrators or SIs), Direct Contract, and Service Providing (Figure 38). Note that there is no retrospective disclosure of sales or profits for past periods.

・In terms of the sales breakdown, SI Contracting projects accounted for most of the sales, at 78.9% of the total. This was followed by Direct Contract projects (direct transactions with end users) at 18.3%, in which the Company aims to expand in its areas of expertise through its accumulated technologies and know-how.

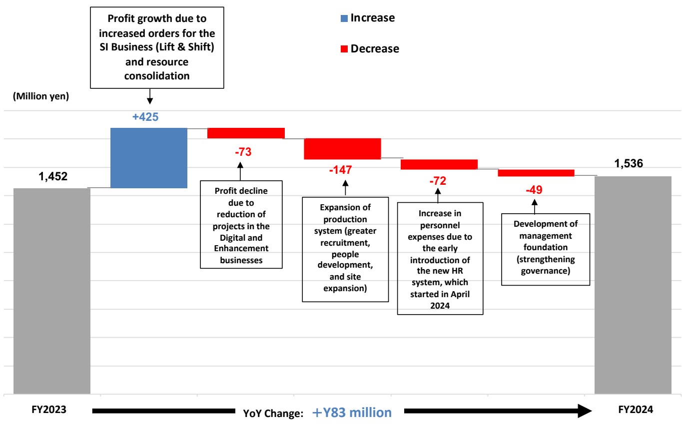
・Direct Contract projects are generally well profitable, but its profitability depends on the capability at managing projects. The weight of the Service Providing business (solutions, etc.) is currently small.

◆ **Operating profit increased slightly since sales growth of the SI Business offset the sales decline of the other businesses and the increase in various costs.**

Analysis of Factors that Increased or Decreased Operating Profit

An analysis of the factors that increased or decreased operating profit in the previous fiscal year is shown in Figure 39. The decrease in profit caused by the reduction of projects in the Digital and Enhancement businesses, as well as the increase in costs associated with the expansion of the development organization and facilities the early introduction of a new HR system, and the development of the management foundation, was offset by the increase in profit due to the SI Business' sales growth and resource consolidation. As a result, company-wide operating profit increased by 83 million yen.

【Figure 39】Factors that Contributed to Operating Profit Growth in FY2024 (last fiscal year) (units: million yen)



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

◆ **Gross margin declined slightly and the SG&A expense ratio worsened due to higher costs, including those for strengthening the management foundation. As a result, the operating margin declined.**

The gross margin fell by 0.1 percentage point from 21.9% to 21.8% (from FY2023 to FY2024; the same order applies to the rest). On the other hand, the SG&A expenses increased by 12.7% YoY and exceeded the sales growth rate of 10.4%, so the SG&A expense ratio rose by 0.2 percentage point from 13.0% to 13.2%. Personnel expenses rose by only 2.9% YoY (+29 million yen) and their ratio to sales fell from 6.1 % to 5.7 %. However, rent expense, commissions expenses (such as recruitment agent fees), and other expenses increased.

As a result, the operating margin fell by 0.4 percentage point from 8.9% to 8.5%. However, operating profit increased by 5.8% due to sales growth.

◆ CUBE SYSTEM's Financial Forecast for FY2025 (this fiscal year)

Summary

- **Single-digit sales and profit growth expected this fiscal year. The momentum will decline, but it plans to achieve record-high results.**

For this fiscal year, the Company forecasts sales of 18,800 million yen (+4.3% YoY), operating profit of 1,600 million yen (+4.2% YoY), recurring profit of 1,650 million yen (+3.7% YoY), and net profit of 1,100 million yen (+3.1% YoY). Although the momentum in sales and profit growth will slow down, the Company expects to achieve record highs for sales and each of the profits for the consecutive year.

It does not plan to record a large amount of non-operating or extraordinary profit/loss during this fiscal year either. Note that the Company plans to work significantly on increasing the recruitment of new graduates and mid-career hires, mainly in Japan.

【Figure 40】The Company's Financial Forecast for FY2025 (this fiscal year) (units: million yen)

Units: million yen	Last FY's Results FY2024	This FY's Company Plan FY2025	FY2024 First Half	FY2025 First-Half Plan	YoY Change (%)	FY2024 Second Half	FY2025 Second-Half Plan	YoY Change (%)
Sales	18,021	18,800	9,015	8,800	-2.4%	9,006	10,000	11.0%
Gross Profit	3,922		1,960			1,962		
Gross Margin	21.8%		21.7%			21.8%		
SG&A Expenses	2,386		1,166			1,220		
SG&A Expense Ratio	13.2%		12.9%			13.5%		
Operating Profit	1,536	1,600	794	600	-24.4%	742	1,000	34.8%
Operating Margin	8.5%	8.5%	8.8%	6.8%	-2.0%	8.2%	10.0%	1.8%
Recurring Profit	1,590	1,650	788	650	-17.6%	802	1,000	24.8%
Net Profit	1,067	1,100	501	440	-12.2%	566	660	16.7%

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

Financial Forecast for the First and the Second Half

- **First-half sales and profits are expected to fall YoY, while second-half sales and profits are expected to rise by double-digits.**

In the first half, the Company plans for sales of 8,800 million yen (-2.4% YoY), operating profit of 600 million yen (-24.4% YoY), and net profit of 440 million yen (-12.2% YoY) (Figure 40). Subtracting the first-half plan from the full-year plan, the second-half forecasts come out to be 10,000 million yen (+11.0% YoY), 1,000 million yen (+34.8% YoY), and 660 million yen (+16.7% YoY), respectively.

In past years, operating margins have tended to increase in the second half of the fiscal year compared to the first half due to higher sales, improved productivity, and seasonality (in the first half, recruitment costs are greater and new employees cannot engage in revenue-generating work yet, but in the second half, not only does this situation improve but also delivery dates tend to concentrate toward March).

This fiscal year, the operating margin is planned to be 6.8% in the first half, and then rise by 3.2 percentage points to 10.0% in the second half (last fiscal year or FY2024 was irregular with margins of 8.8% in the first half and 8.2% in the second half, due to increased investment in the second half). In this second half, sales and operating profit are expected to increase by 13.6% and 66.7%, respectively, compared to this first half (in the previous fiscal year, sales and operating profit decreased by 0.1% and 6.5%, respectively).

Assumptions Regarding Sales Growth

- **Regarding the sales forecasts by business model, sales are planned to increase for each business. The Enhancement Business is expected to contribute significantly to sales growth due to resource reallocation.**

The Company expects the following measures and factors to lead to sales growth for this fiscal year.

・In terms of sales by business model, sales are expected to increase in all three businesses. By realigning resources in Japan and overseas, it plans to focus on the Enhancement Business and increase its sales by 413 million yen

(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 SIs.

(53% of the planned company-wide increase in sales of +778 million yen).
・In the Digital Business, sales are expected to increase by 236 million yen (+42% YoY) due to the development of the consulting collaboration model[21] and the expansion of services based on AI technologies.

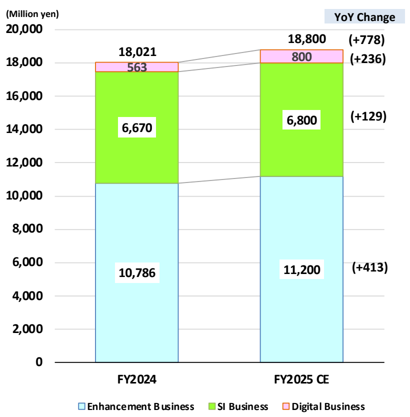
- **By business style, the amount of sales growth is expected to be large for the SI Contracting and Service Providing business.**

・In terms of business style, sales growth is expected in all three businesses. The SI Contracting Business is expected to see the largest amount of increase in sales (+379 million yen or +2.7% YoY), while the Service Providing Business (providing solutions, etc.) is expected to have the largest sales growth rate of 44.0% (+220 million yen YoY). Sales of the Direct Contract Business are also expected to grow firmly at +5.5% (+180 million yen YoY).

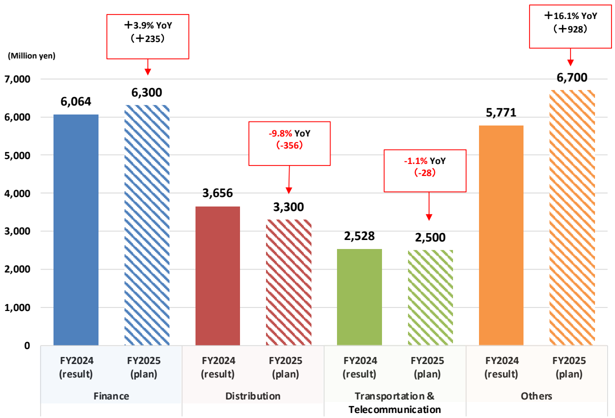
- **By industry, financial and other industries will be the growth drivers.**

・In terms of industry, based on the current state of orders, the Company expects an increase in sales to the financial and other industries and a decrease in sales to the distribution and transportation & telecommunication industry, like the previous fiscal year's trend. Of the planned increase in company-wide sales of 778 million yen, the other industries are expected to make the largest contribution with an increase in sales of 928 million yen (119% of overall sales growth; +16.1% YoY). Regarding the other industries, growth is expected from manufacturing, the government, and AI-related industries. In the financial industry, since IT investment by banks and other financial institutions is expected to be robust, an increase in sales of 235 million yen is expected (30% of overall sales growth; +3.9% YoY) (Figure 42).

【Figure 41】Sales Forecast by Business Model in FY2025 (this fiscal year) (CE: the Company's plan)



【Figure 42】Sales Forecast by Industry in FY2025 (this fiscal year) (the Company's plan)



(Ref) Figures 41 and 42: Prepared by Alpha-Win Research Dept. based on the financial results materials.

Assumptions Regarding Gross Margin and Operating Profit Growth

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

・The gross margin is expected to improve significantly (from 21.8% in the previous fiscal year to 24.5% this fiscal year) since the Company will work on digitalization, improving productivity (such as building its development system to optimize resources), and shifting to high value-added businesses.
・As the Company continues to make strategic investments to achieve exponential growth in the future, personnel expenses and other costs associated with improving employment conditions will increase. Since this is expected to offset the improvement in profitability, the operating margin is planned to remain at 8.5%, the same level as in the previous fiscal year.

- **Will continue to invest for future growth. Operating margin is expected to remain flat, while operating profit is forecasted to increase due to sales growth.**

・However, due to sales growth, operating profit is expected to rise by 64 million yen or 4.2% YoY (reference: operating margin was 6.5% in FY2020, 7.9% in FY2021, 8.8% in FY2022, 8.9% in FY2023, and 8.5% in FY2024).

8. Growth Strategy

◆ VISION 2026: The Medium-Term Management Plan

- **The First Medium-Term Management Plan of V2026 ended in the previous fiscal year.**

The Company has announced VISION 2026, a medium-term vision for the six years from FY2022 to FY2027, of which the First Medium-Term Management Plan (the first three fiscal years of the VISION that ended in FY2024) has been completed.

Results of the First Medium-Term Management Plan

- **Numerical targets for sales, operating profit, and ROE were not achieved, mainly due to insufficient production capacity.**

Figure 43 compares the numerical targets and actual results of the First Medium-Term Management Plan. The actual results for the final year (FY2024) were somewhat below the target figures (for consolidated sales and profits).

Sales (in the order of the upwardly revised target announced in May 2022 to the actual result) were 18 billion yen (result) compared to the plan of 19 billion yen, falling short by 1 billion yen (-5.3% compared to the plan). Similarly, operating profit was 1.53 billion yen compared to 1.71 billion yen (-0.18 billion yen or -10.5%), operating margin was 8.5% compared to 9.0% (-0.5 percentage point), and ROE was 10.8% compared to 13.0% or more (at least -2.2 percentage points), each falling short of the target.

The main reason for this was insufficient production capacity (as in, opportunities were lost due to staff shortages since recruitment could not keep up with the increase in demand and workload despite already having increased the number of staff).

- **A certain level of achievement made, with some of the goals achieved.**

However, the SI Business achieved its sales and per-capita sales targets. Progress was also generally made toward targets in terms of sales composition by business model, as well as in addressing the themes and challenges. A certain level of achievement seems to have been made.

【Figure 43】The Goals and Results of the First Medium-Term Management Plan (V2026): Past Three Fiscal Years' Results (FY2022 – FY2024)

	FY2021 Results	The First Medium-Term Management Plan				Difference from Target	
		FY2022	FY2023	FY2024	Numerical Targets[2]	Diff. (amount)	Diff. (%)
Sales	14.7 B yen	16.0 B yen	16.3 B yen	18.0 B yen	19.0 B yen	-1.0 B yen	-5.3%
Digital Business	0.06 B yen	0.35 B yen	0.60 B yen	0.56 B yen	1.0 B yen	-0.44 B yen	-44.0%
SI Business	2.5 B yen	4.64 B yen	4.18 B yen	6.67 B yen	5.7 B yen	0.97 B yen	17.0%
Enhancement Business	12.1 B yen	11.1 B yen	11.53 B yen	10.78 B yen	12.3 B yen	-1.52 B yen	-12.4%
Sales CAGR (since FY2020)	-	8.9%	5.3%	6.8%	8.7%	-1.9%	—%
Operating Profit	1.17 B yen	1.41 B yen	1.45 B yen	1.53 B yen	1.71 B yen	-0.18 B yen	-10.5%
Operating Margin	7.9%	8.8%	8.9%	8.5%	9.0%	-0.5%	—%
ROE	14.0%	13.8%	11.8%	10.8%	13.0% or more	At least -2.2%	—%
Sales per Person[1]	21 M yen	22.5 M yen	22.9 M yen	24.3 M yen	23 M yen	1.3 M yen	5.7%
Number of Employees (in Japan)	689	714	713	740	—	—	—
Number of Employees (Consolidated)	781	830	843	886	—	—	—

(Ref) Financial results materials
(Notes) [1] Calculated based on the number of employees (in Japan). [2] Target figures for the First Medium-Term Management Plan are those announced on May 11, 2022 ("News Regarding Revision of Financial Targets of Medium-Term Management Plan").

◆ **The Second Medium-Term Management Plan is positioned as the second founding of the Company, with the aim of achieving exponential growth and maximizing corporate value.**

◆ **Will ambitiously develop business through the proposal-based business as well as the conventional contract-based business.**

◆ **Aiming to achieve growth by focusing on investment in the SI and the Digital businesses, based on the foundation of Enhancement Business.**

Basic Strategy of the Second Medium-Term Management Plan

The Second Medium-Term Management Plan (FY2025 to FY2027) is positioned as the Company's ‘second founding’, with the basic strategy of “Staying True to the Basics and Growing by Leaps and Bounds.” It intends to “Turn Change into Success and Accelerate Growth.”

Specifically, the Company aims to achieve the following three goals.

・Maximize corporate value by achieving exponential growth while staying true to the basics
・Improve profitability as a business
・Become a rewarding company for its employees through well-being management

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

The Company has created the following two guidelines to respond proactively and flexibly to the expected shift in society toward the new normal as soceital themes and workstyles change.

・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, which are proposed to the customers/industries and then 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).

Succeeding the First Medium-Term Management Plan, the current plan aims to achieve growth by shifting to the proposal & contract based business. The Company 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 foundation of the Enhancement Business.

The Company’s current business is categorized into three business models: Enhancement, SI, and Digital. 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). As reference, in FY2024, the proportions were 60%, 37%, and 3%, respectively.

Priority Strategies and Plans

The Company plans to pursue business strategies based on the current three business models as well as the three business styles.

In addition, it has set out priority strategies and plans to solidify the four foundations of business (promoting collaboration, strengthening the production system, enhancing quality, and investing in research) and strengthen the three foundations of management (enhancing human capital, stnregthening internal control and governance, and transforming the corporate culture). It is currently working on these in line with the plan.

- **Five financial and five non-financial KPIs have been set in the medium-term plan.**
- **The KPIs of the Second Medium-Term Management Plan are the same as those of the First Medium-Term Management Plan, but with higher targets.**
- **The five financial KPIs are ROE, sales per person, sales proportion, sales CAGR, and operating margin.**
- **The non-financial KPIs are items related to people and the environment.**

Key Performance Indicator (KPI)

Like the First Medium-Term Management Plan, the Company has announced goals for the Second Medium-Term Management Plan that are based on both financial and non-financial perspectives (Figure 44; the items themselves are the same in both plans).

The Company has clearly set five items as its financial KPIs, which consist of the ROE, operating margin, and three items related to sales (sales per person, sales proportion, and sales CAGR). In the Second Medium-Term Management Plan, goals have been set to all exceed the goals of the First Medium-Term Management Plan.

Regarding non-financial indicators, the Company believes respect for the people (enhancement of human capital) and the environment is essential for achieving sustainable growth through sustainability management. Based on this idea, it has set the following five items as its KPIs: diversity promotion, workstyle reform, communication vitalization, people development, and environment (goals for the amount of GHG emissions).

【Figure 44】The Second Medium-Term Management Plan for FY2025 to FY2027 (V2026): Financial and Non-Financial Goals (KPIs)

		Key Performance Indicators (KPI)	FY2021 Results	Results of the First Medium-Term Management Plan	Goals of the Second Medium-Term Management Plan
Financial	Capital Efficiency	ROE	14.0%	10.8%	14.0%
	Productivity	Sales per person	21M yen	24M yen	25M yen
	Business Model Transformation	Sales proportion	SI Business 2.5B yen	SI Business +4.1B yen (since FY2020)	Direct Contract +1B yen[1] Service Providing +0.5B yen
	Growth Rate	Sales CAGR	–	6.8%	About 8.7%
	Profit Indicator	Operating margin	7.9%	8.5%	10.5%
Non-Financial	Diversity Promotion	Percentage of female employees among section-chief positions	18.3%	18.6%	30.0%
	Workstyle Reform	Hours of overtime work[2]	–	33.6 hours/month	25 hours/month
	Communication Vitalization	Engagement Score[3]	–	Fulfillment score: 64	71 or greater
	People Development	Days of training or education per employee	–	5.1 MD	10.0 MD
	Environment	GHG emissions goal (Scope 1, 2, and 3[4]) (Compared to FY2021)	Scope 1 & 2: 287t-CO_2 Scope 3: 4,576t-CO_2	Scope 1 & 2: 234t-CO_2 Scope 3: 5,399t-CO_2	Scope 1 & 2: 227t-CO_2 Scope 3: 4,004t-CO_2

(Ref) Financial results materials
(Footnotes for the figure)
[1] Amount of increase compared to the end of March 2024
[2] The number of hours exceeding the scheduled working hours (7.5 hours); average of all employees including those under the discretionary labor system and managers/supervisors
[3] Evaluated using Atrae's engagement analysis tool "Wevox" for all employees of CUBE SYSTEM INC. alone.
[4] Scope 3 covers category 1 (purchased goods and services).

- **The targets for the final fiscal year (FY2027) of the Second Medium-Term Management Plan are sales of 23 billion yen, operating profit of 2.41 billion yen, and ROE of 14%.**

Financial Goals of the Second Medium-Term Management Plan

The targets for FY2027, the final year of the Second Medium-Term Management Plan, are sales of 23 billion yen (CAGR +8.5% from FY2024), operating profit of 2.41 billion yen (similarly, +16.2%), operating margin of 10.5% (+2.0 percentage points compared to FY2024), and ROE of 14% (+3.2 percentage points compared to FY2024) (Figure 45 on page 37).

Judging from the Company's track record to date, the sales growth rate is a somewhat ambitious target (Figure 47 on page 38; simple-average sales growth rate of +6.1% over the past 26 years).

- **High growth of the Digital Business and stable growth of the Enhancement Business are expected.**

The Company expects a sharp increase in sales in the Digital Business (from 560 million yen in FY2024 to 2.5 billion yen in FY2027, which is a +1.94 billion yen or 4.5x growth), albeit by a small amount. It also expects growth of the Enhancement Business (from 10.78 billion yen in FY2024 to 13 billion yen in FY2027, which is a +2.22 billion yen or 1.2x growth).

- **Ambitious plan to increase operating margin from 8.5% in the previous fiscal year to 10.5% in the final fiscal year**

High targets are set for operating profit and operating margin. While the operating margin is forecasted to remain unchanged YoY at 8.5% in FY2025, it is expected to improve by 1.0 percentage point each year after that to 9.5% in FY2026 and 10.5% in FY2027. Note that the Comapny's highest operating margin since FY2002 was 8.9% in FY2023.

【Figure 45】V2026: Financial Goals of the Second Medium-Term Management Plan (FY2025 – FY2027)

	FY2024 Results	The Second Medium-Term Management Plan FY2025	FY2026	FY2027	Compared to FY2024	CAGR since FY2024
Sales	18.0B yen	18.8B yen (+4.4% YoY)	20.6B yen (+9.6% YoY)	23B yen (+11.6% YoY)	+5B yen	+8.5%
Digital Business	0.56B yen	- B yen	- B yen	2.5B yen	+1.94B yen	+64.7%
SI Business	6.67B yen	- B yen	- B yen	7.5B yen	+0.83B yen	+4.0%
Enhancement Business	10.78B yen	- B yen	- B yen	13B yen	+2.22B yen	+6.4%
SI Contracting Business	14.22B yen	- B yen	- B yen	17.5B yen	+3.28B yen	+7.2%
Direct Contract Business	3.3B yen	- B yen	- B yen	4.5B yen	+1.2B yen	+10.9%
Service Providing Business	0.5B yen	- B yen	- B yen	1B yen	+0.5B yen	+26.0%
Operating Profit	1.53B yen	1.6B yen	1.95B yen	2.41B yen	+0.88B yen	+16.2%
Operating Margin	8.5%	8.5%	9.5%	10.5%	+2.0 percentage point	—
Number of Employees (in Japan)	740	800	—	920	+180	+7.5%
Sales per Person*	24M yen	23M yen	— M yen	25M yen	+1M yen	+1.4%

*Calculated based on the number of employees in Japan

(Ref) Excerpt from the financial results materials, with partial edits and additions by Alpha-Win.

【Figure 46】Medium-Term Financial Forecasts (The Company's plan and Alpha-Win's forecasts)

Units: million yen, %	FY2024 Results	FY2025 CE	FY2025 New E	*FY2025 Old E*	FY2026 Medium-Term Plan	FY2026 New E	*FY2026 Old E*	FY2027 Medium-Term Plan	FY2027 New E
Sales	18,021	18,800	18,800	*19,000*	20,600	20,000	*20,500*	23,000	21,700
Digital Business	563	800	800	*1,200*		1,300	*1,700*	2,500	2,200
SI Business	6,670	6,800	6,800	*6,200*		7,000	*6,800*	7,500	7,200
Enhancement Business	10,786	11,200	11,200	*11,600*		11,700	*12,000*	13,000	12,300
Gross Profit	3,922	4,600	4,500	*4,150*		4,800	*4,500*		5,300
Gross Margin	21.8%	24.5%	23.9%	*21.8%*		24.0%	*22.0%*		24.4%
SG&A Expenses	2,386	3,000	2,900	*2,425*		2,950	*2,650*		3,150
(% to sales)	13.2%	16.0%	15.4%	*12.8%*		14.8%	*12.9%*		14.5%
Operating Profit	1,536	1,600	1,600	*1,725*	1,950	1,850	*1,850*	2,410	2,150
(% to sales)	8.5%	8.5%	8.5%	*9.1%*	9.5%	9.3%	*9.0%*	10.5%	9.9%
Recurring Profit	1,590	1,650	1,650	*1,755*		1,900	*1,870*		2,200
(% to sales)	8.8%	8.8%	8.8%	*9.2%*		9.5%	*9.1%*		10.1%
Net Profit	1,067	1,100	1,100	*1,155*		1,250	*1,235*		1,450
(% to sales)	5.9%	5.9%	5.9%	*6.1%*		6.3%	*6.0%*		6.7%
Sales (% YoY growth)	10.4%	4.3%	4.3%	*5.4%*	9.6%	6.4%	*7.9%*	11.6%	8.5%
Gross Margin (% YoY diff.)	-0.1%	2.7%	2.2%	*0.1%*		0.1%	*0.1%*		0.4%
SG&A Expenses (% YoY growth)	12.7%	25.7%	21.5%	*1.6%*		1.7%	*9.3%*		6.8%
Operating Profit (% YoY growth)	5.8%	4.2%	4.2%	*12.3%*	21.9%	15.6%	*7.2%*	23.6%	16.2%
Recurring Profit (% YoY growth)	7.5%	3.7%	3.8%	*10.4%*		15.2%	*6.6%*		15.8%
Net Profit (% YoY growth)	7.8%	3.1%	3.1%	*8.2%*		13.6%	*6.9%*		16.0%

(Ref) Excerpt from the financial results materials. "CE" and "Medium-Term Plan" are the Company's forecasts. "Old E" is Alpha-Win's previous forecast and "New E" is its current forecast.

◆Alpha-Win Research Dept.'s Financial Forecast for FY2025 (this fiscal year)

Revised Financial Forecasts

◆ **We reviewed our previous forecasts for this FY and revised sales and profits downward to the same level as the Company's plan.**

We have reviewed our forecasts for this fiscal year and have revised our sales forecast from the previous 19,000 million yen to 18,800 million yen (Figure 46 on page 37). We also lowered our operating profit forecast from 1,725 million yen to 1,600 million yen, which is the same as the Company's forecast.

This fiscal year's company forecast for the sales growth rate (YoY) is largely as we have expected. On the other hand, in our previous forecast, we had expected the operating margin to improve to 9.1% in the current fiscal year. We now expect the margin to remain at 8.5%, which is the same as the previous fiscal year, due to higher-than-expected costs associated with the strengthening of upfront investments for the next stage of growth. This is the main reason for the difference between our previous and current forecasts.

◆ **The Company's forecasts seem to be within an achievable range.**

Customers' appetite for strategic IT investment has been strong and the Company's orders have been firm. If investment and cost control are carried out properly, the planned profit is likely to be achievable. There are concerns about the constraints in HR capacity and about costs such as personnel expenses and subcontracting costs increasing due to further investments for growth. However, judging from their rate of increase and the profit margins, the Company's assumptions and forecasts for sales and profits seem generally reasonable and the downside risks seem to be limited. Therefore, upon also taking into account the risk factors to a certain extent, we have made forecasts of the same amount as the Company's forecasts.

Financial Forecast and Track Record of Financial Performance

◆ **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. However, the Company tends to announce somewhat ambitious forecasts.**

We have analyzed the deviations between the Company's forecasts announced at the beginning of each fiscal year and the actual results over the long term (Figure 47). The simple average of the deviation rate during this analyzed period is 1.8% for sales and 4.0%, 2.6%, and 3.0% for operating, recurring, and net profit, respectively, with the actual results being lower than the initial forecasts. However, the deviation rates are small, and neither operating nor recurring profit has ever been more than 30% lower than the initial forecast in any fiscal year. The Company generally tends to announce targets that are ambitious but within a realistically achievable range.

【Figure 47】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.
Units: 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	-5.2%	-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	*18,000*	18,021	*1,620*	1,536	*1,635*	1,590	*1,080*	1,067	0.1%	-5.2%	-2.8%	-1.2%	*10.4%*	*5.8%*	*7.5%*	*7.8%*
FY2025 CE	*18,800*		*1,600*		*1,650*		*1,100*		*FY2025 forecast vs. FY2024's result* ⇒				*4.3%*	*4.2%*	*3.7%*	*3.1%*
Reference: Simple average of the difference (%), calculated for the longest period with data available for both sales and profits (excl. FY2025 and periods with loss posted) →									-1.8%	-4.0%	-2.6%	-3.0%	6.1%	6.2%	7.1%	12.9%
Green highlight: all-time high	Pink highlight: second highest in history		Yellow highlight: third highest in history		← All excl. FY2025's forecasts	Number of times revised up:down from initial forecast →			7:14	4:13	7:14	8:13	↑ Reference: simple average of all fiscal years (excl. FY2025)			

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

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

We have revised our previous medium-term forecasts and prepared forecasts for the three fiscal years starting this fiscal year, including a new forecast for FY2027 (Figure 46 shown previously on page 37; note that our forecasts do not anticipate the occurrence of M&A or unprofitable projects, or the recording of any specific non-operating or extraordinary profit or losses).

- **We revised our medium-term forecasts. We believe that sales and profits will continue to increase over the medium term, hitting their record highs consecutively.**

We have made the following assumptions regarding the medium-term financial performance and have taken into account the risk factors. As a result, our forecasts for both sales and profits are somewhat cautious compared to the Company's medium-term targets. The Company's targets are a high hurdle, but we believe they are achievable if favorable conditions are met (such as securing employees, increasing sales through collaboration with NRI, winning direct-contract projects, improving productivity, controlling costs, and preventing unprofitable projects). In any case, we expect the Company to continue to increase sales and profits in the next fiscal year and beyond, with the potential to continuously post record-high sales and profits.

Risk Factors and Medium-Term Profit Growth

- **The risks include the securing of human resources, rise in costs, and earnings trends of companies.**

・Regarding the macroeconomic environment, there are concerns that the business performance of Japanese companies may be impacted over the medium term by rising geopolitical risks, the depreciating yen, inflation, interest rates rising and remaining high to control inflation, and the subsequent risk of a global recession.

・Factors that are hard to predict at the moment include the earnings environment of its main end users, IT investment trends, recruitment situation, the impact of its upfront investments, and the increase in costs.

- **We predict the medium-term profit growth rate to be about 10-20% per year.**

・Based on the current strong demand for systems and the following factors and assumptions, we predict that sales and profits will continue to increase annually by about 10-20% over the medium term.

Sales Growth: Factors and Assumptions

- **A high sales growth rate of 6-8% per year is expected due to new orders for strategic IT investment projects and the alliance with NRI.**

・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 6-8% per year over the medium term, especially with significant contribution from the alliance with NRI.

・The Company is expected to expand the Digital Business, the SI Contracting Business (toward its major customers), the Direct Contract Business, and the new Service Providing Business through the technological expertise and credibility that it has built over the years.

Profit Growth: Factors and Assumptions

・In the previous fiscal year, the increase in costs was offset by various measures, resulting in only a slight decline in the gross margin. We predict a gradual improvement from the next fiscal year onwards, when the upfront investment is planned to peak out.

・The Company is expected make upfront investments, such as strengthening its business foundation for future growth (will expand and strengthen its development bases 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.

- **Over the medium term, profit growth is expected due to sales growth and the improvement in profit margin.**

・However, due to a shift to high value-added projects, improvement in productivity, and a lower SG&A expense ratio due to higher sales, we expect the improvement in operating margin, in addition to sales growth, to contribute to profit growth starting in the next fiscal year or later.

9. Analyst's Views

◆ SWOT Analysis

The Company's SWOT analysis result is shown in Figure 48.

- **Its strengths are its collaboration with NRI and financial strength. It has growth opportunities in DX, direct contracts, and services.**

Major strengths of the Company lie in the strengthening of the relationship with NRI in recent years through the capital and business alliance, as well as the strengthening of the development base and production system and the financial strength to back these.

In addition, as future opportunities, we have added the growing demand for the Digital Business (DX), Direct Contract Business, Service Providing Business, and information security services for cyber-security measures.

【Figure 48】SWOT Analysis

Strength	･Long history in the industry, extensive experience, and strong credibility ･Stable and excellent customer base ･Talents and organization with technological expertise, unique know-how, and knowledge (for different industry types and project/risk management) ･Entry barrier essentially high; business model with long-term viability ･Capital and business alliance with NRI ･Cash-cow business, ample cash & deposits, and firm financial standing ･Business management focused on new business development and business expansion (actively investing to strengthen and enhance its development bases and production system) ･Consulting-based sales through direct sales activities ･Quality people development and training system ･Development system based on low-cost development by overseas subsidiaries (offshore) and development at regional bases in Japan (nearshore)
Weakness	･Relies heavily on certain customers (majority of sales are to NRI) ･IT-related labor market is tight and retaining/recruiting talented employees is difficult (bottleneck to further growth) ･Industry structure in which profit margin is hard to improve ･Takes a long time for next-generation, growth-strategy products and services to gain full momentum ･Project management (inherent risk of unprofitable projects ocurring) ･Specialized in domestic demands; overseas development difficult
Opportunity	･Continous growth of IT systems market due to labor shortage and the need to streamline operation ･Increased strategic demand for systems ･Projects for upstream processes, niche areas, and large-scale development ･Improvement of productivity through agile development and AI ･Business expansion following the global entry of customers ･Development and strengthening of the Direct Contract Business, Service Providing Business, and Digital Business ･Growing demand for information security services as a cyber security measure ･M&As and strengthening alliances
Threat	･Reduced IT investment by customers, less demand for version updates, and intensifying price competition due to worsening macroeconomic environment and economic downturn ･Emergence of alternatives (penetration by AI or packaged business software), delayed product development, and product defects ･Information management and leakage risks ･Increase in personnel expense and subcontracting cost

(Ref) Prepared by Alpha-Win Research Dept. (Note) Words in red are new additions made in this Report.

- **Challenges include improving profit margins and retaining/recruiting talents.**

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 for the Company. Further improvement of the margin will be the challenge.

Development of new areas of business and new customer acquisition are also crucial to continuous growth (increasing sales), but the shortage of employees, especially for project manager positions, has been the bottleneck to further growth.

- **Focused on strengthening project management, but the occurrence of unprofitable projects is still a potential risk.**

Also, not only the Company but the entire SI industry in general tends to experience temporary profit declines upon the occurrence of unprofitable projects, such as during the development of new areas of business, despite the strengthening of preventive measures and project management over many years. The Company has been working on further improvement of quality control and has seen positive results in recent years, but this point should still 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 make stable dividend payments and increase market capitalization.

- **The consolidated dividend payout ratio target was raised from 35% to 40%, and then raised further to 50%. It is continuing to raise dividends (ordinary dividend) consecutively.**

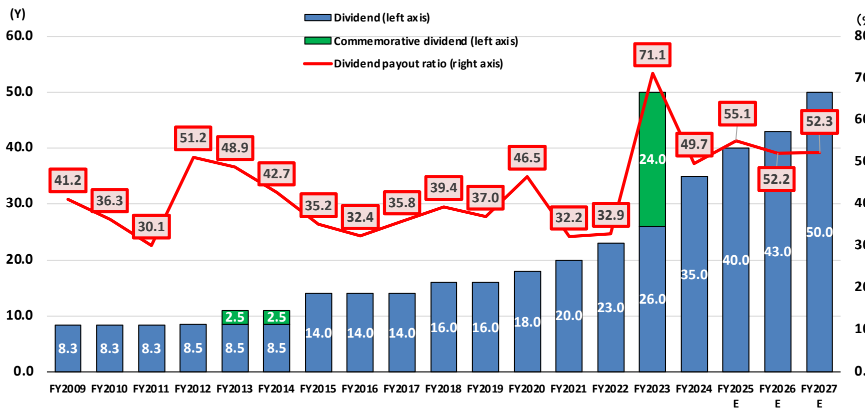
- **Plans to increase dividends again this fiscal year (ordinary dividend by +5 yen). Dividend hikes are also possible over the medium-term.**

The consolidated dividend payout ratio has changed from 46.5% in FY2020 to 32.2% in FY2021 and 32.9% in FY2022, and then rose to 71.1% in FY2023 due to commemorative dividends (37.0% for ordinary dividend alone). In FY2024, this ratio was still high at 49.7% and the dividend on equity ratio (DOE) was also adequate at 5.4%.

The Company's consolidated dividend payout ratio target was previously raised from 35% to 40%. It has raised this further to 50% starting in the current fiscal year.

Due to these changes, ordinary dividend per share has steadily risen from 23 yen in FY2022 to 26 yen in FY2023, 35 yen in FY2024, and 40 yen in FY2025 (plan; consolidated dividend payout ratio of 55.1%) (Figure 49). Since profit growth is expected over the medium term, we believe that dividends may be increased further in the next fiscal year onwards.

【Figure 49】Change in Dividend and Dividend Payout Ratio (units: yen or %)



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

- **Actual annual (maximum) yield including the shareholder benefit program is about 4.1%.**

Dividend yield is 3.6% when calculated based on a stock price of 1,108 yen (closing price on June 7). Many of the Company's investors are individual investors, for whom the Company has a shareholder benefit program where JCB gift cards are given to shareholders based on the number of shares they own (Figure 50 on page 42). When this benefit program is taken into account, the dividend yield essentially rises to 4.1% at maximum (based on the optimum number of shares owned). The Company plans to continue to stably pay dividends, while raising the EPS, to increase the return of profit to shareholders.

The actual annual yields of its competitors that include their shareholder benefit programs are around the same level as the Company, at 4.0% for HIMACS and 4.2% for Toho System Science (these two companies have a QUO Card granting program; as reference, NRI does not have a shareholder benefit program and its dividend yield is 1.4% based on dividend only).

【Figure 50】Shareholder Benefit Program and Actual Net Yield (shareholder benefit vesting date: end of Sept.)

Number of Shares Owned (greater than or equal to)	(less than)	Shareholder Benefit (JCB Gift Card: Y)	Dividend: Y	Actual Net Yield: %
200	400	1,000	40	4.1
400	1,000	2,000	40	4.1
1,000		3,000	40	3.9

Actual net yield = (dividend + shareholder benefit value) / (share price)
*Calculated for the min. (optimum) number of shares owned in each range
Share price assumed to be 1,108 yen (closing price on June 7, 2024). Dividend is based on this FY's company forecast.

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

- **Its competitors' DOE and dividend payout ratios are also high.**

Dividend on equity ratio (DOE = total dividend / shareholder's equity) in FY2024 was 5.4% for the Company, 4.8% for HIMACS, 8.0% for Toho System Science, and 7.8% for NRI (as reference and IFRS-based; ratio for dividends attributable to owners of the parent company), which are all high compared to the general level (no commemorative dividend for each).

The Comapny's dividend payout ratio based on this fiscal year's forecast is 55.1%, which is high within the industry; the ratio is 41.7% for HIMACS, 61.6% for Toho System Science, and 38.2% for NRI.

- **Proactively returning profit to shareholders.**

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.

- **Essentially debtless and rich in cash; may conduct share buybacks and stock splits in the future as well.**

The Company has a solid financial standing, being essentially debtless and rich in cash. Therefore, depending on the level of share price, additional share buybacks are possible in the future.

◆Stock Characteristics, Stock Price, and Valuation Comparison

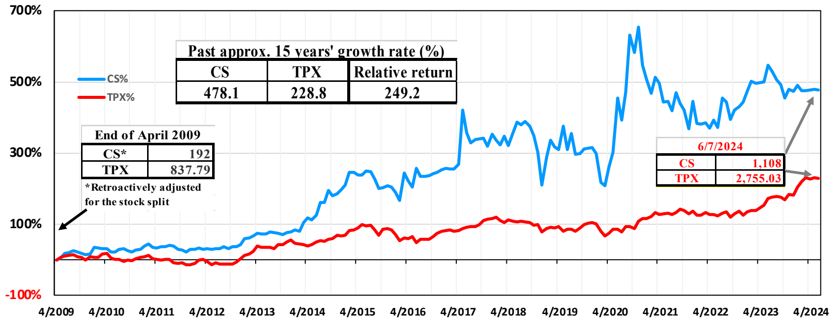
- **A defensive, domestic-demand-oriented growth stock. Share price increased by approx. 5.8x over the past approx. 15 years, largely outperforming the TOPIX.**

The Company is a defensive, small-cap, and domestic-demand-oriented growth stock. Over the past approximately 15 years, the Company's share price has risen by about 5.8x, largely outperforming the TOPIX by +250% (calculated with stock splits taken into account; based on the closing price on June 7, 2024; Figure 51). This rise most likely reflects the Company's strong fundamentals and firm financial growth over the long term.

- **Stable growth is expected to continue. It may be seen as an attractive candidate for medium/long-term investment.**

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 51】Long-Term Return of the Company's Shares (CS) and TOPIX (change in monthly share price over the past approx. 15 years)



(Ref) Prepared by Alpha-Win Research Dept. The most recent share price and TOPIX price are the closing prices on June 7, 2024.

- **Underperforming the TOPIX and its competitors over the past 12 months.**

Over the past 12 months, the Company has underperformed TOPIX as well as its two competitors (HIMACS and Toho System Science) and NRI, partly because the point of comparison is when share prices had risen in response to strong performance. The main reason for this underperformance, though, seems to the relatively small fluctuation in the financial performance of defensive and domestic-demand-oriented stocks like the Company compared to the current market environment dominated by economically sensitive, large-cap, and high-tech stocks.

- **Regarding valuation, it is somewhat undervalued compared to the TSE Prime's average and in the middle range compared to the two competitors. Valuation does not seem expensive.**

Based on the key valuation measures, we have made a comparison of all stocks listed on the TSE Prime, the two competitors, and the Company (NRI is for reference only). The Company seems somewhat undervalued compared to all TSE Prime stocks based on the current fiscal year's forecasts (excluding P/B), with a slightly low P/E and a high dividend yield. Compared to its two competitors, it is generally in the middle range (Figure 52 on page 44).

- **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 gain attention in the market, the Company's share price will likely start outperforming the indices again. Also, since its valuation does not seem expensive, the share price will most likely be generally linked to financial performance.

Note that the Company's historical weekly beta to TOPIX over the past five years is 1.18, which is relatively high for a defensive business and in comparison with its competitors.

【Figure 52】Comparison of Valuation and Liquidity

Company Name	CUBE SYSTEM (CS: consolidated)	HIMACS (HM: consolidated)	Toho System Science (TS: non-consolidated)	Refernce: Nomura Research Institute	All TSE Prime Stocks (average)	25 SI Companies Listed on TSE Prime (average)
Code	2335	4299 S	4333	4307	-	-
Stock Price (at 6/7 closing)	1,108	1,343	1,424	4,158	1,418.11	-
Market Cap (million yen)	17,451	16,671	29,618	2,414,954	-	593,555
P/E (price-to-earnings ratio)	15.27	12.73	21.92	27.23	16.14	20.10
P/B (price-to-book ratio)	1.66	1.42	2.77	6.00	1.38	2.70
Dividend Yield (%)	3.61	3.28	2.81	1.39	2.31	2.54
EV/EBITDA	6.60	3.75	11.42	13.92	-	-
P/S (price-to-sales ratio)	0.93	0.90	1.66	3.10	-	-
prox. 6 Months' Average Daily Trading Value (milli	16	12	29	5,779	-	-
Past 5 Years' Weekly Beta (β: relative to TOPIX)	1.18	0.57	0.64	0.84	-	-

Market cap= (shares outstanding) x (market share price [at 6/7/2024 closing])
The companies' planned EPS and dividend values for FY2025 were used in all P/E and dividend yield calculations. Actual BPS values of FY2024 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 2024
P/S=market cap / sales [the companies' forecasts for FY2025]

(Ref) Figures 52 and 53: Prepared by Alpha-Win Research Dept. based on each company's securities report, financial results summary, and stock data.

- **Compared to the 25 companies of the same industry, its valuation is somewhat low.**

The total market capitalization of the leading 25 system integration companies listed on the TSE Prime (including the Company, the two competitors mentioned earlier, and NRI) is approx. 14.8 trillion yen, their total sales are about 9.8 trillion yen, total operating profit is 952.3 billion yen, and operating margin is 12.6% on a simple average and 10.0% on a weighted average.

Comparing to this universe (Figure 53; as reference, the universe's simple average of P/E is 20.1, P/B is 2.7, dividend yield is 2.5%, and P/S is 2.1 and the weighted average of P/S is 1.6), the Company seems slightly undervalued.

- **Valuation (P/E, etc.) could rise sharply if profit margins continue to improve in addition to the sales growth.**

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

【Figure 53】Comparison of Major Stocks in the SI Sector

Code	Company Name	Market Cap.	Share Price	Sales	Operating Profit	Operating 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	3,309,199	2,360	4,430,000	336,000	7.6%	8.4	24.1	1.9	1.1%	25.00	97.72	1,226.23	0.7	25.6%
4307	Nomura Research Institute	2,414,954	4,158	780,000	132,000	16.9%	19.9	27.2	6.0	1.4%	58.00	152.71	693.33	3.1	38.2%
4684	OBIC	2,011,920	20,200	122,800	78,000	63.5%	16.0	28.2	4.5	1.6%	320.00	716.12	4,531.90	16.4	44.7%
4716	Oracle Japan	1,465,075	11,420	233,721	Not disclosed	Not disclosed	37.0	27.7	8.3	-	Not determined	412.00	1,375.86	6.3	Not determined
4768	Otsuka Corporation	1,087,952	2,863	1,026,000	68,500	6.7%	14.3	22.8	3.3	2.4%	70.00	125.71	868.62	1.1	55.7%
9719	SCSK	958,055	3,063	510,000	62,000	12.2%	14.1	21.5	3.2	2.2%	68.00	142.42	967.36	1.9	47.7%
3626	TIS	704,212	2,981	555,000	66,500	12.0%	16.0	15.5	2.2	2.3%	68.00	192.55	1,333.32	1.3	35.3%
8056	BIPROGY	469,031	4,277	385,000	35,500	9.2%	11.5	17.5	2.6	2.3%	100.00	243.72	1,654.93	1.2	41.0%
2327	NS Solutions	463,910	5,070	330,000	36,000	10.9%	11.1	37.9	2.0	1.3%	67.00	133.89	2,588.51	1.4	50.0%
9749	Fujisoft	448,210	6,650	315,000	22,000	7.0%	9.2	19.9	3.3	1.3%	84.00	333.80	2,014.30	1.4	25.2%
4812	ISID	340,253	5,220	153,000	22,500	14.7%	18.7	21.6	4.1	2.1%	108.00	241.28	1,284.67	2.2	44.8%
1973	NEC Networks & System Int.	327,163	2,191	365,000	29,000	7.9%	10.4	18.1	2.1	2.6%	56.00	120.83	1,024.09	0.9	46.3%
9759	NSD	258,430	3,005	107,000	15,800	14.8%	17.5	22.2	3.7	2.5%	74.00	135.27	811.26	2.4	54.7%
9682	DTS	185,889	4,210	125,000	13,300	10.6%	14.2	19.3	2.8	2.6%	110.00	217.67	1,489.17	1.5	50.5%
9692	CEC	67,342	1,791	56,500	6,280	11.1%	11.6	14.0	1.5	3.1%	55.00	127.91	1,212.54	1.2	43.0%
4674	CRESCO	50,490	2,295	58,500	5,900	10.1%	14.3	23.6	1.7	1.7%	38.00	97.09	1,343.78	0.9	39.1%
9739	NIPPON SYSTEMWARE	46,563	3,125	52,000	6,000	11.5%	13.6	11.2	1.4	2.7%	85.00	280.21	2,226.53	0.9	30.3%
4719	ALPHA SYSTEMS	42,368	3,015	37,500	4,400	11.7%	7.5	13.9	1.0	3.3%	100.00	217.25	2,981.81	1.1	46.0%
4725	CAC Holdings	39,789	1,937	51,500	Not disclosed	Not disclosed	8.2	-	1.0	4.1%	80.00	Not disclosed	1,937.15	0.8	Not disclosed
9600	I-NET	36,675	2,258	40,420	3,250	8.0%	11.7	13.7	1.8	2.5%	56.00	164.22	1,257.26	0.9	34.1%
9640	Saison Technology	29,646	1,830	25,500	2,200	8.6%	4.2	19.8	2.1	4.9%	90.00	92.60	877.85	1.2	97.2%
4333	Toho System Science	29,618	1,424	17,800	1,700	9.6%	11.9	21.9	2.8	2.8%	40.00	64.95	513.18	1.7	61.6%
4662	Focus Systems	18,020	1,106	32,500	2,100	6.5%	10.7	11.7	1.2	3.4%	38.00	94.66	888.09	0.6	40.1%
2335	CUBE SYSTEM	17,451	1,108	18,800	1,600	8.5%	10.8	15.3	1.7	3.6%	40.00	72.55	668.41	0.9	55.1%
4299	HIMACS	16,671	1,343	18,600	1,780	9.6%	11.1	12.7	1.4	3.3%	44.00	105.51	945.72	0.9	41.7%
Simple Average		593,555				12.6%	13.4	20.1	2.7	2.5%				2.1	45.6%