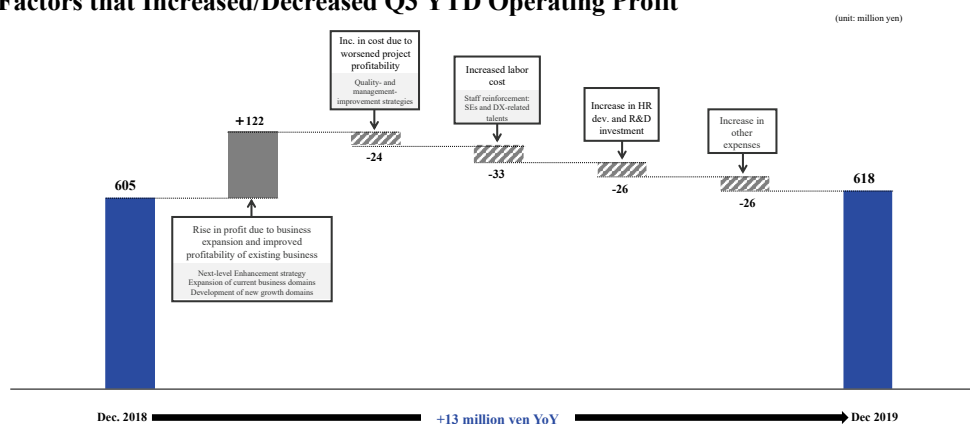


- Overall, a sales growth of Y131 million and a gross profit growth of Y51 million were achieved in Q3 YTD.
- By service category (three categories), sales of the System Integration Service (SIS) increased by Y227 million YoY (+3.2%), which is greater than the overall sales growth. System development projects for home furniture services in the distribution industry, credit card companies in the finance industry, paper-processing companies, and education-business companies grew and contributed to the sales growth. The gross margin of SIS rose from 15.6% in the previous Q3 YTD to 17.0% in the current Q3 YTD and its gross profit increased by Y135 million (+12.1% YoY), helping support the Company's overall profit.
- Regarding the System Outsourcing Service (SOS), sales increased by Y112 million (+6.6% YoY) thanks to the expansion of outsourcing services for the distribution industry. However, the gross margin slightly decreased, causing the gross profit to increase only by Y7 million (+2.2% YoY). With the Professional Service (ProS), sales decreased by Y207 million (-13.4% YoY) and profit decreased by Y91 million (-27.9% YoY) due to the completion of system developments for telecom carriers.
- By industry (six industries), the results were split into two patterns: both sales and profit declined for the telecommunications, manufacturing (other), and government-related industries due to the changeover period of large-scaled projects, while both sales and profit increased for the finance, distribution, and other industries. The finance industry was especially strong, serving as the driver of overall growth in sales and profit (refers to gross profit; the same applies below), thanks to the firm recovery and expansion of system development projects for credit card companies, banks, and insurance companies. The distribution industry also contributed to the sales growth with projects related to the consumption tax revision and the expansion of new projects in growth domains (digitalization support, etc.), but only limitedly contributed to profit due to the decline in gross margin. On the other hand, with the telecommunications industry, sales and profit declined at a double-digit rate due to the reason described above. Both sales and profit decreased YoY for the other industries due to a decrease in the gross margin as the project for construction machinery was finished and some of the projects had turned unprofitable.
- Thanks to improved performance of the SIS (by service category) and the finance industry (by industry), the overall gross margin slightly improved from the previous Q3 YTD's 16.8% to 17.1% for the current Q3 YTD and the operating margin also improved by a small amount from 5.8% to 5.9% (in the same order). The factors that caused the current Q3 YTD's operating profit to increase or decrease (a net increase of Y13 million) are described in Figure 2. Sales growth from the strengthening of the Enhancement business and the increase in the number of orders received for the derivative projects, as well as cost reduction and efficiency improvement, helped compensate for the rise in cost, resulting in a profit growth. The improvement in profitability of some of the unprofitable projects also had a positive effect.

[Figure 2] Factors that Increased/Decreased Q3 YTD Operating Profit

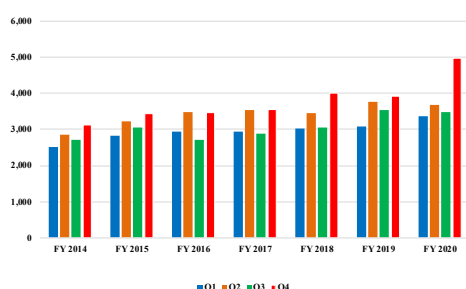


Factors that increased/decreased operating profit, YoY (unit: million yen)	Q2 FY 2020 YTD	Q3 FY 2020 YTD	Diff.
Increase in profit from business expansion & improved profitability of existing business	118	122	4
Increase in cost due to worsened profitability of projects	-42	-24	18
Increase in labor cost	-8	-33	-25
Increase in HR development and R&D investments	-25	-26	-1
Increase in other expenses	-8	-26	-18
Total (net YoY change)	34	13	-21

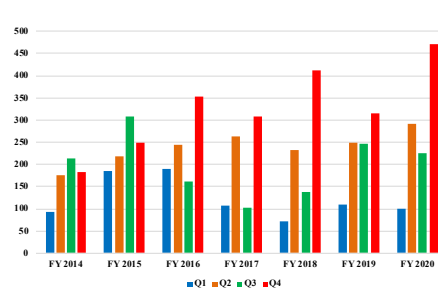
(Note) Prepared by Alpha-Win Research Dept. based on the financial results summary and financial results briefing supplemental materials

- Due to the nature of the Company's business model, sales growth largely depends on the number of employees. The number of domestic and overseas employees has increased from 698 in Dec. 2017 (at month-end) → 739 in Dec. 2018 (+41; +5.9%) → 745 in Dec. 2019 (+6; +0.8%). Although the number of employees is still somewhat short of the potential demand for systems, the productivity of each person such as sales and operating profit per person has been gradually improving. The Company plans to continue to focus on productivity improvement and employee recruitment and training, which are the key points in top-line and profit growth.
- The balance sheet at the end of Q3 does not show any significant change. The Company is essentially debt-less and has ample liquidity at hand, with cash and deposits of ¥3.3 billion. Its financial standing is also firm, with an equity ratio of 68.5%.
- Quarterly transition in financial performance is described in Figures 3-5. In Q3 (Oct-Dec 2019), sales were ¥3,463 million, having decreased by about 2% YoY. Decreased profitability of business with the distribution, telecommunications, and other (manufacturing) industries caused operating profit to decrease by about 9% YoY to ¥225 million.

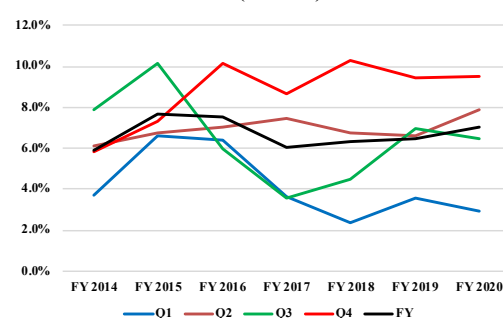
[Figure 3] Quarterly Change in Sales
(unit: million yen)



[Figure 4] Quarterly Change in O.P.
(unit: million yen)



[Figure 5] Quarterly Change in O.P. Margin
(unit: %)



(Note) Prepared by Alpha-Win Research Dept. based on the financial results summary and supplemental briefing materials. In Figures 3-5, Q1 to Q3 of FY 2020 are actual results and Q4 and full-year values are based on the Company's forecast.

◆ No change to the initial full-year forecast

- The Company has not changed its initial forecast on sales, profits, and dividend announced at the beginning of the fiscal year. It expects sales to increase by 8.2% YoY to ¥15,500 million and a double-digit growth for operating, recurring, and net profit. Dividend is planned to be raised by ¥2 annually. Like the previous fiscal year, the Company plans to increase sales and profits during this fiscal year and hit a record high in sales for consecutive fiscal years, as well as achieving a record high in profit. The Company will also aim again to raise operating profit and recurring profit so that they each exceed ¥1 billion for the first time (this challenge had been attempted during last fiscal year but could not be achieved).
- Q3 YTD's progress rate in terms of the full-year company forecast was 68% for sales and 57% for operating profit. The simple average of Q3 YTD progress rates over the past six years, including the previous fiscal year, is 72% for sales and 65% for operating profit; this Q3 YTD's progress rate is below the average progress rate.
- When the Q3 YTD results are subtracted from the Company's full-year forecast, we can see that in the fourth quarter (Jan-Mar; hereinafter, "Q4") the Company plans to achieve sales of ¥4,965 million (+26.6% YoY) and an operating profit of ¥472 million (+49.4% YoY) – it plans for a double-digit YoY sales growth, a significant improvement in profit, and an improvement in the operating margin (from last Q4 → this Q4: 8.1% → 9.5%). The Company has been experiencing seasonal variability on a quarterly basis such that, in recent years, Q4 has been generally contributing the most to the full-year results. At the moment, achievement of the Company's full-year targets seems somewhat difficult. However, with improved operation situation and cost reduction in Q4, a small increase in sales and profit can also be expected for the full fiscal year.
- As for the Q3 YTD results (Apr-Sept 2019) of the Company's competitors, HIMACS experienced an approx. 3% sales growth but an approx. 15% decline in operating profit (some projects had turned unprofitable) and Toho System Science posted a sales decline of approx. 7% and an operating profit decline of approx. 15%. Both companies are also expecting a profit decline of nearly 20% for the full year. While the Company's Q3 YTD progress rate is smaller than the competitors, the Company has been maintaining a growth in sales and operating profit up through Q3. If the Company could achieve a sales and profit growth again during this full fiscal year in

line with its plan, then its relative solidness in financial performance will become apparent. In Q4, the Company expects a large sales growth for the distribution, telecommunications, and other industries, excluding the finance industry, although the situation with receiving orders for the telecommunications industry is somewhat difficult.

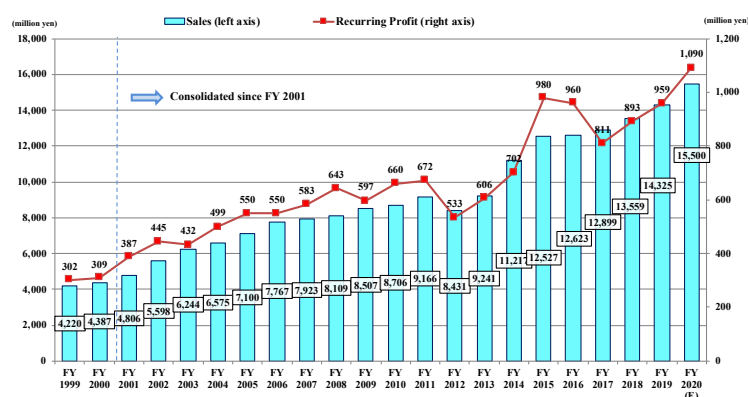
- In the previous report (Dec 2019), Alpha-Win Research Department revised the full-year forecast upon taking into account the occurrence of unprofitable projects and their effect on the actual results for H1 sales and profit (previous → current forecast made by our research department: sales of Y15.4 billion → Y15.2 billion, operating profit of Y1,080 million → Y1,070 million, and no change to recurring profit and other items that follow). However, this time, we did not make any revision and kept the previous forecast. Although the rise in various expenses such as labor costs in the Q3 YTD results is a concern, we noted that costs of some of the unprofitable projects are improving (compared to Q2) due to various measures implemented by the Company (the effect on profit/loss per quarter in the order of last Q4 → this Q1 → Q2 → Q3 in units of million yen: -52 → -15 → -27 → +18).
- The Company has been strengthening sales toward its main accounts (clients), expanding existing businesses, and developing business in new domains and areas. The number of orders received in Q3 YTD and the order backlog at the end of the same period have stayed mostly the same, having decreased by 0.8% YoY or increased by 3.4% YoY, respectively. Although the actual situation will depend on the timing of delivery and of the posting of sales, the Company is securing about 80% of the expected sales as order backlog.
- Going forward, the Company plans to prevent projects from becoming unprofitable by enhancing communication with customers, accumulating and utilizing know-how, and implementing thorough quality control. The effects of these measures are key points to watch.
- Over the medium to long term, the Company's users are expected to continue increasing their IT investments in order to develop new business models, strengthen their competitive advantage, deal with the labor shortage, streamline and speed up operation, and promote DX. Consequently, the Company's growth potential is large. We expect that the Company's profit and sales will grow stably at a rate of 8-10% per year by expanding its Enhancement business, acquiring new customers, developing new and overseas businesses, and improving its productivity through various measures.

◆ Stock price and characteristics: domestic-demand-related, stable growth stock where the current and next fiscal year's financial performance are the key points to watch

- The Company's stock is a domestic-demand-related, defensive, stable growth stock that is little affected by international affairs (the new coronavirus, economic fluctuations, trade wars, and foreign exchange). However, the volatility of stock price has recently been increasing.
- In the past ten years or so, thanks to its positive financial performance over the long term (Figure 6), the Company's stock price had increased by about three times and has been significantly outperforming the TOPIX (the TOPIX increased by about two times during the same period). Over the short term, this full fiscal year's achievements with regards to financial performance and the next fiscal year's financial forecast (percent change in profit) are expected to become the major factors affecting stock price. Other points of interest include the contents of the next medium-term business plan, development of and achievements in new technologies and business domains, shareholder return (dividend hike, share buyback, and stock splits), and the financial performance and IT investment trends of the Company's end users (Japanese companies).

[Figure 6] Long-Term Transition in Financial Performance

(Note) Prepared by Alpha-Win Research Dept. based on the financial results summary and financial results briefing supplemental materials. Estimates/forecasts (E) were made by the Company.



- Compared to the average of the First Section of the TSE (based on the closing price on 1/31/2020: P/E of 15.8, P/B of 1.2, and simple average of dividend yield of 1.9%) and its competitors (HIMACS and Toho System Science; Figure 7), the Company's valuation is about average. Going forward, we believed that if the Company could maintain a stable, double-digit profit growth, then its stock price could potentially rise.

[Figure 7] Comparison of Financial Performance and Valuation Indicators with Competitors

Company Name	CUBE SYSTEM (CS: consolidated)	HIMACS (HM: consolidated)	Toho System Science (TS: non-consolidated)
Code	2335	4299	4333
Stock Price (at 1/31 closing)	765	1,960	904
Market Cap (million yen)	11,689	12,165	12,535
P/E (price-to-earnings ratio)	15.4	17.8	19.2
P/B (price-to-book ratio)	1.9	1.2	1.6
Dividend Yield (%)	2.4	2.6	2.8
EV/EBITDA	8.7	6.8	5.1
P/S (price-to-sales ratio)	0.8	0.8	1.1
Q3 FY 2020 YTD: Sales (million yen)	10,535	11,368	8,695
YoY Change (%)	1.3	2.9	-7.2
Operating Profit (million yen)	618	641	599
YoY Change (%)	2.1	-15.2	-14.8
Operating Margin (%)	5.9	5.6	6.9
FY 2020 Forecast: Sales (million yen)	15,500	15,000	11,600
YoY Change (%)	8.2	1.1	-9.4
Operating Profit (million yen)	1,090	800	830
YoY Change (%)	18.3	-18.9	-19.5
Operating Margin (%)	7.0	5.3	7.2
Sales Progress Rate in Q3 against Full-Year Target	68%	76%	75%
O.P. Progress Rate in Q3 against Full-Year Target	57%	80%	72%

Market cap= (shares outstanding) x (market share price [at 1/31/2020 closing])

The companies' planned EPS and dividend values for FY 2020 were used in all P/E and dividend yield calculations.

Actual BPS values of Q3 FY 2020 were used in P/B calculations.

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

*Values for interest-bearing debt and cash & deposits are actual Q3 values.

P/S=market cap / sales [the companies' forecasts for FY 2020]

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

[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)
2017		12,899	2.2	781	-17.7	811	-15.5	551	-12.3	39.15	346.47	14.0
2018		13,559	5.1	855	9.5	892	10.0	567	2.9	40.59	372.23	16.0
2019		14,325	5.6	921	7.8	959	7.5	596	5.1	43.25	393.29	16.0
2020	CE	15,500	8.2	1,090	18.3	1,090	13.6	684	14.6	49.58	—	18.0
2020	E	15,200	6.1	1,070	16.2	1,080	12.6	680	14.1	50.04	426.38	18.0
2021	E	16,500	8.6	1,200	12.1	1,200	11.1	750	10.3	55.20	463.58	18.0
2022	E	17,800	7.9	1,320	10.0	1,320	10.0	825	10.0	60.72	506.29	20.0
2019	Q1	3,082	1.4	109	52.4	132	80.5	76	131.3	5.45	357.23	0.0
2020	Q1	3,379	9.6	100	-8.8	107	-19.0	50	-34.2	3.70	379.63	0.0
2019	Q2	3,770	9.4	248	6.4	243	4.8	149	43.3	5.96	381.80	0.0
2020	Q2	3,691	-2.1	291	17.3	290	19.3	191	28.2	7.41	397.59	8.0
2019	Q3	3,552	16.3	247	80.3	256	77.8	158	102.6	11.41	393.29	0.00
2020	Q3	3,464	-2.5	226	-8.5	231	-9.8	151	-4.4	11.11	4.3.77	0.00
2019	Q4	3,921	-2.4	316	-23.5	327	-26.0	213	-31.1	15.51	1,789.76	16.00
2020	Q4 CE	4,965	26.6	472	49.4	462	41.3	292	37.1	20.64	—	10.00
2019	Q3 YTD	10,404	9.0	605	36.6	632	40.4	383	48.4	27.74	393.29	0.00
2020	Q3 YTD	10,535	1.3	618	2.1	628	-0.6	392	2.3	28.94	403.77	8.00

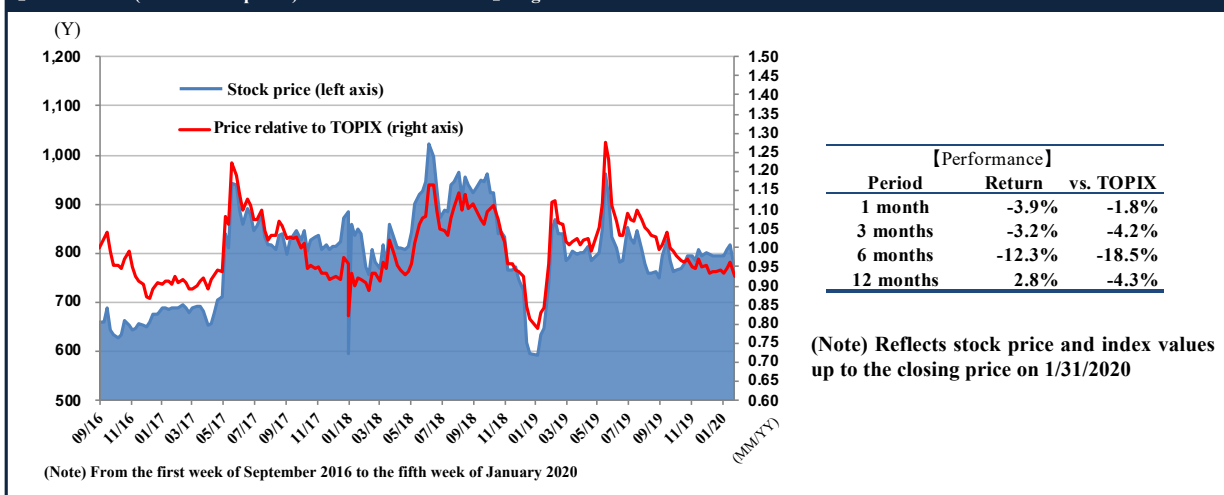
(Note) CE: the Company's estimate/forecast. E: Alpha-Win Research Dept.'s estimate/forecast. Q1 (first quarter): Apr-June. Q2 (second quarter): July-Sept. Q3 (third quarter): Oct-Dec. Q4 (fourth quarter): Jan-Mar. Q3 YTD: Apr-Dec.

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

Item	1/31/2020	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	765	Last FY (actual)	17.7	1.9	2.1%	37.0%
Shares Outstanding (thou.)	15,280	This FY (est.)	15.3	1.8	2.4%	36.0%
Market Capitalization (million yen)	11,689	Next FY (est.)	13.9	1.7	2.4%	32.6%
Dilutive Shares (thou.)	0	Equity Ratio at This Q3-End	68.5%		Last FY's ROE	11.4%

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

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



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