Alpha-Win Company Research Report

CUBE SYSTEM INC.

(2335 TSE First Section)

Issued: 2/7/2022

Alpha-Win Capital Inc. Research Department

http://www.awincap.com/

● Summary

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

・CUBE SYSTEM INC. (hereinafter, the "Company") is an independent, mid-tier system integrator listed on the First Section of the TSE. It is expected to move to the Prime Market under the new market segments of the Tokyo Stock Exchange.

・Its main customers are the following corporate groups: Nomura Research Institute, Fujitsu, Aeon, and Mizuho. It develops systems and provides services mainly for the financial, distribution, transportation, and telecommunication industries. Its strengths are its excellent customer base, extensive experience, high credibility, and the technology and expertise that it has built up over the years. Founded in 1972, it has about 49 years of history.

・With the exception of one fiscal year, the Company has been continuously increasing sales YoY for the past 20 years. During this period, the annual sales growth rate (simple average of the rate of increase in sales) was +6.0% and the annual recurring profit growth rate (simple average) was +7.1%; it has been steadily expanding its business over many years. Its recurring margin has stably been at around 7% and it has always remained in profit. Its increase in sales has been contributing directly to increases in profit, dividend, and market capitalization.

・It has been focusing on the SI Business and Digital Business to expand them over the medium to long term.

◆ Consolidated results for the first nine months of this fiscal year: thanks to sales growth as well as improved gross margin and reduced SG&A expenses, operating profit grew significantly by 41.7% YoY.

Consolidated Results for the First Nine Months

Overview

・Consolidated results for the first nine months of FY 2022 ("Q3 YTD" or April-Dec 2021; note that the Company's fiscal year is March-ending, i.e., FY 2022 ends in March 2022) were as follows: sales of Y12,041 million (+13.7% year-on-year or YoY), operating profit of Y1,122 million (+41.7% YoY), recurring profit of Y1,133 million (+22.9% YoY), and net profit attributable to owners of the parent (hereinafter, "net profit") of Y755 million (+26.6% YoY) (Figure 1 on page 2 and Figure A on page 7). Sales as well as operating, recurring, and net profits all reached their record highs for the first nine months.

・Double-digit sales growth was achieved due to increased IT investment by companies, mainly in DX. In addition, costs were reduced during the COVID-19 crisis and operational efficiency was improved, resulting in a significant increase in profit. The gross margin increased by 2.7 percentage points from 18.7% in the previous fiscal year's first nine months to 21.4% in the current fiscal year's first nine months (numbers in this Report has generally been rounded to the first decimal place). The SG&A expenses ratio rose by 0.9 percentage point from 11.2% to 12.1% over the same period, but the operating margin rose about 1.8 percentage points from 7.5% to 9.3% (see Figure 1 on page 2 for the descriptions below).

Segments

・Overall sales for the first nine months increased by Y1,450 million (+13.7%) YoY. The profit margin also improved, and operating profit resulted in a significant increase of Y330 million (+41.7%).

Results by Service Category (three categories)

・Sales of the System Integration Services (SIS; percent of entire sales for this fiscal year's first nine months was 75%), which is the Company's core business segment, had increased by Y1,547 million (+20.7% YoY) to Y9,019 million. The increase in system building projects for shipping companies in the transportation industry and for retailers and general merchandise stores in the distribution industry had contributed significantly to the result. In addition to the increase in sales, the operating margin also improved (last fiscal year's first nine months ⇒ this fiscal year's first nine months: 7.3% ⇒ 9.4%), resulting in an increase in operating profit by Y306 million YoY

(+56.5% YoY) to Y849 million. This accounts for about 93% of the total increase in profit.

・Sales of the System Outsourcing Services (SOS; 12% of total sales during this fiscal year's first nine months) decreased by Y227 million (-14.0% YoY) to Y1,396 million due to the decrease in system building projects for credit card companies in the financial industry and the completion of projects for data centers. On the other hand, the operating margin improved from 5.7% to 7.9%, and operating profit increased by Y18 million (+20.0% YoY) to Y110 million.

・In the Professional Services (ProS; 13% of entire sales during this fiscal year's first nine months), sales increased by Y130 million (+8.7% YoY) to Y1,624 million due to the increase in system building projects for telecommunications companies, despite the decrease in consulting projects. Although the operating margin fell from 10.5% to 10.0%, operating profit slightly increased by Y5 million (+3.3% YoY) to Y162 million.

【Figure 1】Quarterly Change in Financial Results

Consolidated	Q1, Q2, and Q3 Results		Q1 FY 2021	Q1 FY 2022	Change in Amount / Diff.	Change (%)	Q2 FY 2021	Q2 FY 2022	Change in Amount / Diff.	Change (%)	Q3 FY 2021	Q3 FY 2022	Change in Amount / Diff.	Change (%)	First Nine Months FY 2021	First Nine Months FY 2022	Change in Amount / Diff.	Change (%)	% of Total Amount of Change	% of Total
	Unit: million yen		Apr-Jun 2020	Apr-Jun 2021	YoY: million yen / %	YoY: %	Jul-Sep 2020	Jul-Sep 2021	YoY: million yen / %	YoY: %	Oct-Dec 2020	Oct-Dec 2021	YoY: million yen / %	YoY: %	Apr-Dec 2020	Apr-Dec 2021	YoY: million yen / %	YoY: %	%	%
Category	Consolidated Sales	Service/Category Name	3,373	3,987	614	18.2	3,710	4,073	364	9.8	3,508	3,981	473	13.8	10,591	12,041	1,450	13.7	100.0	100.0
By Service Category	Sales	System Integration: SIS	2,311	2,985	673	29.1	2,677	3,082	405	15.1	2,484	2,952	468	18.8	7,472	9,019	1,547	20.7	106.7	74.9
		System Outsourcing: SOS	506	493	-12	-2.4	585	443	-142	-24.3	533	460	-73	-13.7	1,624	1,396	-227	-14.0	-15.7	11.6
		Professional: ProS	555	508	-47	-8.5	447	548	101	22.6	492	568	76	15.4	1,494	1,624	130	8.7	9.0	13.5
	Operating Profit	System Integration: SIS	158	311	153	95.9	220	278	58	26.4	164	260	96	58.5	542	849	306	56.5	92.8	75.7
		System Outsourcing: SOS	21	37	15	69.9	37	31	-6	-16.2	34	42	8	23.5	92	110	18	20.0	5.5	9.8
		Professional: ProS	61	30	-30	-50.0	55	58	3	5.5	40	74	34	85.0	156	162	5	3.3	1.5	14.4
	Operating Margin (%)	System Integration: SIS	6.9	10.4	3.5		8.2	9.0	0.8		6.6	8.8	2.2		7.3	9.4	2.1			
		System Outsourcing: SOS	4.3	7.5	3.2		6.3	7.0	0.7		6.4	9.1	2.8		5.7	7.9	2.2			
		Professional: ProS	11.1	6.1	-5.0		12.3	10.6	-1.7		8.1	13.0	4.9		10.5	10.0	-0.5			
By Industry	Sales	Finance	989	934	-55	-5.6	1,073	927	-146	-13.6	904	987	83	9.2	2,966	2,848	-118	-4.0	-8.1	23.7
		Distribution	675	815	140	20.7	729	881	152	20.9	680	808	128	18.8	2,084	2,504	419	20.1	28.9	20.8
		Telecommunication & Transportation	592	1,062	470	79.4	673	1,104	431	64.0	751	1,100	349	46.5	2,016	3,266	1,250	62.0	86.2	27.1
		Manufacturing (other)	329	318	-11	-3.3	367	339	-28	-7.6	308	273	-35	-11.4	1,004	930	-74	-7.4	-5.1	7.7
		Government (other)	182	244	62	34.4	204	232	28	13.7	230	203	-27	-11.7	616	679	63	10.2	4.3	5.6
		Other (other)	603	610	7	1.2	664	591	-73	-11.0	636	611	-25	-3.9	1,903	1,812	-91	-4.8	-6.3	15.0
	Operating Profit	Finance	72	75	3	3.9	90	67	-23	-25.6	43	67	24	55.8	205	209	4	2.0	1.2	18.6
		Distribution	35	84	49	142.3	55	79	24	43.6	56	61	5	8.9	146	224	77	52.7	23.3	20.0
		Telecommunication & Transportation	84	148	63	75.4	77	137	60	77.9	77	158	81	105.2	238	443	205	86.1	62.1	39.5
		Manufacturing (other)	16	20	4	25.0	37	14	-23	-62.2	10	11	1	10.0	63	45	-18	-28.6	-5.5	4.0
		Government (other)	5	24	19	339.0	16	16	0	0.0	18	13	-5	-27.8	39	53	14	35.9	4.2	4.7
		Other (other)	27	24	-3	-11.3	37	56	19	51.4	35	66	31	88.6	99	146	47	47.5	14.2	13.0
	Operating Margin (%)	Finance	7.3	8.1	0.8		8.4	7.2	-1.2		4.8	6.8	2.0		6.9	7.4	0.5			
		Distribution	5.2	10.4	5.2		7.5	9.0	1.4		8.2	7.5	-0.7		7.0	9.0	2.0			
		Telecommunication & Transportation	14.3	14.0	-0.3		11.4	12.4	1.0		10.3	14.4	4.1		11.8	13.6	1.8			
		Manufacturing (other)	5.0	6.5	1.5		10.1	4.1	-6.0		3.2	4.0	0.8		6.3	4.8	-1.5			
		Government (other)	3.1	10.2	7.1		7.8	6.9	-0.9		7.8	6.4	-1.4		6.4	7.9	1.5			
		Other (other)	4.6	4.0	-0.6		5.6	9.5	3.9		5.5	10.8	5.3		5.2	8.1	2.9			
By Business Model	Sales	Digital Business	19	64	45	231.4	13	75	62	476.9	16	87	71	443.8	48	226	178	363.8	12.3	1.9
		SI Business	509	1,082	573	112.4	656	1,207	551	84.0	598	1,227	629	105.2	1,763	3,516	1,753	99.4	120.9	29.2
		Enhancement Business	2,843	2,840	-3	-0.1	3,043	2,792	-251	-8.2	2,893	2,667	-226	-7.8	8,779	8,299	-480	-5.5	-33.1	68.9
	Operating Profit	Digital Business	-5	0	5	95.9	-4	1	5	-	-3	9	12	-	-12	10	23	To profit	7.0	0.9
		SI Business	33	125	92	69.9	59	169	110	186.4	36	140	104	288.9	128	434	306	239.1	92.8	38.7
		Enhancement Business	213	253	40	18.9	256	198	-58	-22.7	207	226	19	9.2	676	677	1	0.3	0.3	60.3
	Operating Margin (%)	Digital Business	-26.3	0.0	26.3		-30.8	1.3	32.1		-18.8	10.3	29.1		-25.0	4.4	29.4			
		SI Business	6.5	11.6	5.1		9.0	14.0	5.0		6.0	11.4	5.4		7.3	12.3	5.1			
		Enhancement Business	7.5	8.9	1.4		8.4	7.1	-1.3		7.2	8.5	1.3		7.7	8.2	0.5			
Consolidated	Gross Profit		643	863	220	34.2	683	856	173	25.3	653	862	209	32.0	1,979	2,581	601	30.4		
		Gross Margin (%)	19.1	21.6	2.5		18.4	21.0	2.6		18.6	21.7	3.1		18.7	21.4	2.7			
	SG&A Expenses		400	483	83	20.8	373	488	115	30.9	414	487	73	17.5	1,187	1,458	271	22.8		
		SG&A Expenses Ratio (%)	11.9	12.1	0.2		10.1	12.0	1.9		11.8	12.2	0.4		11.2	12.1	0.9			
	Operating Profit		242	379	137	56.5	310	367	57	18.5	240	375	135	56.9	792	1,122	330	41.7		
		Operating Margin (%)	7.2	9.5	2.3		8.4	9.0	0.7		6.8	9.4	2.6		7.5	9.3	1.8			
	Recurring Profit		248	390	142	57.1	355	362	8	2.2	319	380	61	19.5	922	1,133	211	22.9		
		Recurring Margin (%)	7.4	9.8	2.4		9.6	8.9	-0.7		9.1	9.5	0.4		8.7	9.4	0.7			
	Net Profit		165	264	98	59.0	235	238	3	1.5	196	253	57	29.1	596	755	159	26.6		
		Net Margin (%)	4.9	6.6	1.7		6.3	5.8	-0.5		5.6	6.4	0.8		5.6	6.3	0.7			

(Note) Prepared by Alpha-Win Research Dept. based on the financial results summary and financial results briefing supplemental materials. Due to processing of data during calculations, values for the same item may slightly differ throughout this Report in its words and figures. The same applies to the rest of this Report.

Results by Industry (six industries)

・In terms of sales by industry (six industries), sales from the financial industry and other industries (manufacturing, etc.) decreased, but business with the distribution industry and the telecommunication & transportation industry contributed significantly to the increase in sales and profit as the drivers of overall business performance. Regarding the distribution industry, sales increased by Y419 million and operating profit increased by Y77 million YoY. As for the telecommunication & transportation industry, sales increased by Y1,250 million and operating profit grew by Y205 million YoY. Together, the two industry categories accounted for about 115% of the Company's overall increase in sales and about 85% of the overall increase in operating profit. The operating margin increased for the five industries excluding the manufacturing industry in the other industries category.

Results by business model (three business models)

・In the Enhancement Business, which accounted for 69% of sales and 60% of operating profit, projects for the financial industry and the other industries decreased. However, due to the increase in high-profit, additional development projects for the existing markets, sales resulted in Y8,299 million, having only decreased by 5.5% YoY. Operating profit, though, was maintained at Y677 million, which is about the same level as the same period of the previous fiscal year (+0.3% YoY).

・In the SI Business (Lift & Shift: moving the legacy environment to the cloud environment in "Lift," and stepwise system restructuring while optimizing for the cloud environment in "Shift"), which accounted for 29% of sales and 39% of operating profit, sales doubled and operating profit increased by about a little over 3x due to the increase in the scale of system development projects for shipping companies, new cloud projects (microservices*-related projects: *a software development method in which individually developed, small-scale services are provided as a collection), and co-creation with cloud vendors.

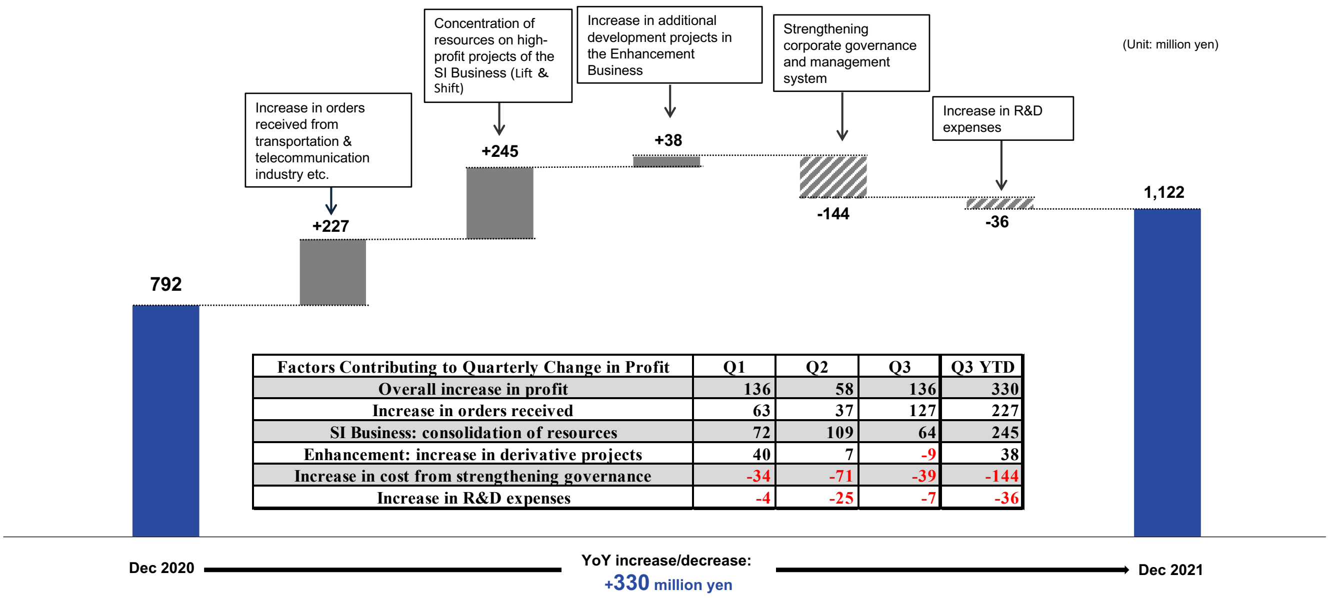
・The Digital Business is in the start-up phase and its sales are small, at only about 2% of the total. However, its sales increased by +363.8% YoY from Y48 million in the previous fiscal year's first nine months to Y226 million in the current fiscal year's first nine months. With the increase in sales, its profit/loss also improved by Y23 million from a loss of -Y12 million to a profit of +Y10 million.

Factors that Contributed to Profit Increase/Decrease in the First Nine Months

・Figure 2 shows the factors that increased or decreased operating profit in this fiscal year's first nine months. Although there was an increase in cost from the strengthening of the governance system and increased R&D expenses, they were absorbed by the positive effects from the concentration of resources to high-profit projects in the SI Business (improved operation rate through the increase in the work volume, reviewed employee allocation, and improved efficiency), in addition to the increase in projects received from the transportation & telecommunication industry and increase in additional projects in the Enhancement Business. As a result, operating profit increased by Y330 million (+41.7%) YoY.

・Regarding non-operating profit/loss, +Y130 million was recorded in the same period of the previous fiscal year due to a gain on investment in investment partnership and gain on sale of investment securities, but +Y11 million was recorded this fiscal year since there was no significant factor. As a result, the growth rates (YoY) of both the recurring profit and the net profit were lower than the operating profit growth rate, but they were still high at over +20%.

【Figure 2】Factors that Increased/Decreased Operating Profit in the First Nine Months (Unit: million yen)



Factors Contributing to Quarterly Change in Profit	Q1	Q2	Q3	Q3 YTD
Overall increase in profit	136	58	136	330
Increase in orders received	63	37	127	227
SI Business: consolidation of resources	72	109	64	245
Enhancement: increase in derivative projects	40	7	-9	38
Increase in cost from strengthening governance	-34	-71	-39	-144
Increase in R&D expenses	-4	-25	-7	-36

(Note) Financial results briefing supplemental materials, partially added and revised.

Number of Employees and Productivity

・In the Company's current business model, sales growth is generally directly correlated with the number of employees. The total number of employees in Japan and overseas has been increasing from 739 in December 2018 (end of month; same applies to the rest) → 745 in December 2019 (+6 employees or +0.8% YoY) → 786 in December 2020 (+41 employees or +5.5% YoY) → 815 in December 2021 (+29 employees or +3.9% YoY). Sales per employee in Japan had stayed about the same, but operating profit per employee in Japan improved significantly (operating profit per person during the first nine months, in the same order as above: 938 ⇒ 949 ⇒ 1,136 ⇒ 1,565 thousand yen per person).

・Even amidst the COVID-19 crisis, there has still been strong demand for system development (DX businesses and non-face-to-face businesses such as those related to remote work, EC, and AI). The Company has been somewhat short of staff for system development, but it has been working on improving productivity and efficiency by optimizing the allocation of employees and shifting to high-profit projects.

Change in Orders Received and Order Backlog

・Orders received during the first nine months had increased steadily from Y10,490 million in the same period of the previous fiscal year to Y11,707 million, in a +Y1,217 million increase (+11.6% YoY). The order backlog at the end of Q3 had also increased slightly by +Y41 million (+1.0% YoY) from Y3,928 million to Y3,969 million.

・By industry, both the orders received and the order backlog decreased for the financial industry and other industries, but this decrease was compensated by the increase from the distribution industry and transportation & telecommunication industry. Similarly, by business model, the decrease in the Enhancement Business was compensated by the increase in the SI Business and the Digital Business.

Balance Sheet

・There has been no significant change in the balance sheet as of the end of Q3 (end of December 2021). The Company has ample liquidity on hand, as cash & deposits have increased further to Y4.9 billion (essentially debtless). Its financial standing is also firm, with a current ratio of 372.5% and an equity ratio that has increased further to 72.2%.

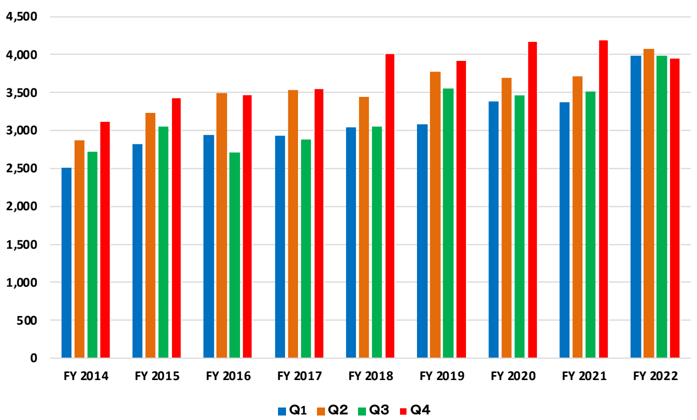
Consolidated Results for the Third Quarter (three-month period)

・In the third quarter (Oct-Dec 2021: hereinafter, "Q3"), sales were Y3,981 million (+13.8% YoY), operating profit was Y375 million (+56.9% YoY), recurring profit was Y380 million (+19.5% YoY), and net profit was Y253 million (+29.1%YoY) (Figures 1 and 3-4 on page 2 and Figure 5 on page 4). As with Q1 and Q2, sales and profit had continued to grow in Q3. On a quarterly basis (three-month period), gross margin improved by 3.1 percentage points from 18.6% in the previous Q3 to 21.7% in the current fiscal year's Q3, and the operating margin also increased by 2.6 percentage points from 6.8% to 9.4% despite an increase in the SG&A expenses ratio.

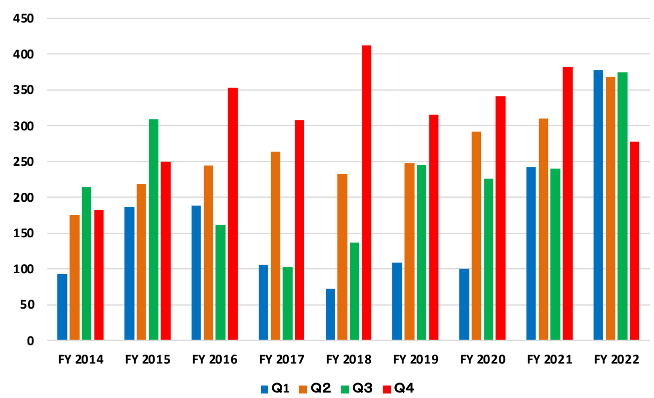
・Normally, there are seasonal variations in sales and profits (Q4> Q2> Q3> Q1: Q1 is April to June, Q2 is July to September, and Q4 is January to March), but this fiscal year, sales had been flat but maintained high at around Y4 billion due to projects carried over from the previous fiscal year in Q1; quarterly sales were Y3,987 million (+18.2% YoY) in Q1 ⇒ Y4,073 million (+9.8% YoY) in Q2 ⇒ Y3,981 million (+13.8% YoY) in Q3 (Figure 3). Similarly, from Q1 to Q3, the gross margin had stayed around 21%, the SG&A expenses ratio was also around 12%, and the operating margin was around 9% (Figure 5 on page 5). As a result, the amount of operating profit was also maintained at about the same level.

・Compared to Q2, results in Q3 were mostly flat with a 2.3% decrease in sales and a 1.9% decrease in operating profit. The YoY growth in operating profit had changed from +Y136 million in Q1 to +Y58 million in Q2 and +Y136 million in Q3, but the operating profit for each quarter was Y378 million ⇒ Y368 million ⇒ Y375 million (in the same order), maintained stably at around Y370 million (Figure 4).

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

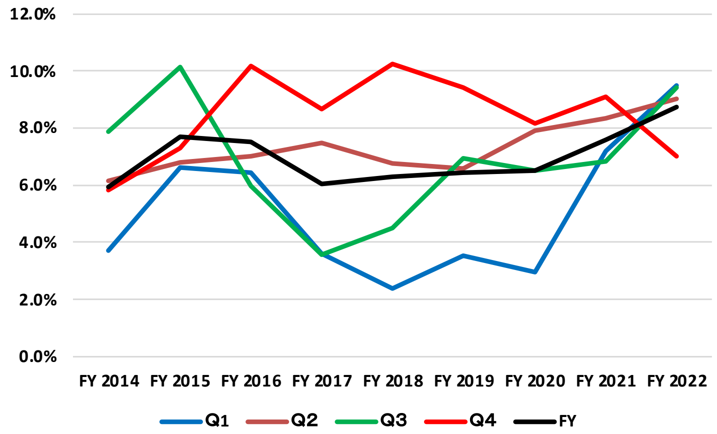


【Figure 4】Quarterly Change in Operating Profit (Unit: million yen)



(Note) Figures 3-5 were prepared by Alpha-Win Research Dept. based on the financial results summary and the financial results briefing supplemental materials. FY 2022's Q1, Q2, and Q3 are actual results, while Q4 and full year (FY) values are the Company's forecasts.

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



◆ No change in the full-year financial plan that has been previously upwardly revised and record-high sales and profits are expected

The Company's Full-Year Forecast

・The Company has not made changes to the full-year sales of Y16,000 million (+8.2% YoY) that it announced at the beginning of the fiscal year, but in November 2021, it revised the profits and dividend upward to an operating profit of Y1,440 million (+19.2% YoY), net profit of Y950 million (+12.6% YoY), and annual dividend per share of 23 yen. Since then, it has not changed its forecasts.

・It expects sales to increase for the tenth consecutive fiscal year and operating and recurring profits to increase for the fifth consecutive fiscal year. It plans to achieve consecutive record highs in sales and profits.

Progress and Q4 Forecast

・Progress in the first nine months against the full-year company forecast was solid, at 75.3% for sales (71.6% in the same period of the previous fiscal year), 80.2% for operating profit (previously, 67.6%), and 79.5% for net profit (previously, 70.6%). Compared to the full-year plan to increase sales by +8.2% YoY, the actual sales growth rate in the first nine months was +13.7%. Similarly, while the profit growth rate in terms of net profit is planned to be +12.6%, the growth rate in the first nine months was +26.6%. Both sales and profit growth rates have exceeded the plan.

・When the results for the first nine months are subtracted from the full-year forecast announced by the Company, the planned Q4 results (January-March 2022) come out to be sales of Y3,959 million (-5.7% YoY), operating profit of Y278 million (-27.2% YoY), and net profit of Y195 million (-21.1%YoY). Sales and profit declines are expected. The Company is expecting operating margin to decrease from 9.1% in the previous Q4, 9.5% in this fiscal year's Q1, 9.0% in Q2, and 9.4% in Q3 to 7.0% in Q4, which seems to be a somewhat conservative forecast.

Alpha-Win Research Department's Forecast

・Corporate clients with solid business performance have been becoming increasingly active in making strategic IT investments, leading to strong progress of the Company's sales. In addition, there has been greater-than-expected improvement in profitability thanks to measures such as shifting to high-profit projects, optimizing resources, and improving operational efficiency. Considering the conservative estimates for Q4, we believe that compared to the Company's full-year plan, sales could be about 100 to 200 million yen greater and operating profit could be 25 to 100 million yen greater (Alpha-Win's forecasts in figures such as Figure A on page 7 are based on the lowest values of these ranges).

・We have not revised our medium-term financial forecasts for the next fiscal year onward. We believe that the Company has the potential to stably maintain sales and profit growth at an annual rate of around 8% (in normal conditions) over the medium to long term due to the large growth potential of the IT- and DX-related investment market, growth of SI Business and the Digital Business, expansion of the Enhancement Business toward its major clients, development of new projects and new customers, and improvement of productivity through various measures.

◆The Company's Recent Situation (response to COVID-19, restructuring of organization, and industry trends)

Response to COVID-19

・Toward the post-COVID-19 world and the new normal, the Company has been utilizing digital technology and remote work (combination of decentralized/non-face-to-face activities with in-person sales) and encouraging workstyles in which each employee incorporates both work at home and at offices according to their job characteristics and abilities.

・Although sales activities had been temporarily stagnant for some period due to COVID-19, the Company currently incorporates online methods and there has been no major issue with customer interaction and business negotiations. Looking at the orders received and the level of sales and profits, the impact of COVID-19 seems to be limited.

Restructuring of Organization

・Toward achieving the next medium- to long-term vision "VISION 2026," the Company plans to focus on developing the DX business and, starting in April 2022, establish a partner promotion office and IR conference and partially restructure its organization. It will also work on strengthening sustainability and governance.

Industry Trends

・According to the "Survey of Selected Service Industries" (finalized report on November 2021), sales of system integration of make-to-order software had been showing negative growth YoY, but since April 2021, there have been many months in which sales exceeded the previous year, indicating a general trend of recovery (simple average of the monthly YoY growth rates in April-November 2021: +3.1%).

・Since the sales increase/decrease rates (YoY) of the Company and its competitors HIMACS (TSE First Section 4299; hereinafter, "HM") and Toho System Science (TSE First Section 4333; hereinafter, "TS") during the first nine months include the sales increase/decrease rate for December, a simple comparison cannot be made with the data of the "Survey of Selected Service Industries." However, the sales growth rate was +13.7% for the Company, +6.9% for HM, and +21.1% for TS, each exceeding the average growth rate of the industry and making solid progress. Similarly, the operating profit increase/decrease rates (YoY) (first nine months) were +41.7%, +29.0%, and +44.8%, respectively, each greatly exceeding the sales growth rates. In addition to increased sales, the rise in operating margin due to the improvement of the gross margin or the decrease in the SG&A expenses ratio has been the common factor contributing to their high profit growth rates. For the current full fiscal year, all three companies have announced upward revisions to their profits and dividend during the fiscal year.

◆ Stock price and characteristics: domestic-demand-oriented, stable growth stock

Performance

・The Company's stock is seen as a defensive and stable growth stock. Thanks to solid financial performance, over the past approximately 12 years and nine months, its stock price has increased by about 5x and has been outperforming the TOPIX by about 260%. However, over the past twelve months, small-cap stocks have tended to underperform and the Company's stock price had also fallen in reaction to a previous rise in stock price for some period, causing the Company's stock to underperform the TOPIX and its two competitors (HM and TS).

Valuation

・Due to the relatively low volatility of business performance and high liquidity, the Company valuation seems to be slightly at a premium compared to its two competitors concerning the major valuation indicators (Figure 6 on page 7). On the other hand, compared to the average of the TSE First Section, valuation indicators are at somewhat underpriced levels except for the P/B (TSE First Section's average vs. the Company's values: this fiscal year's expected P/E of 14.4 vs. 13.4, simple average of dividend yield of 2.1% vs. 2.4%, and actual P/B of 1.2 vs. 1.8).

・Key points concerning the Company's future stock price will be the upward revision of profits for the current fiscal year, next fiscal year's forecast at the beginning of the fiscal year, quarterly amount of orders received, and quarterly financial results. Over the medium term, key points that should continue to be watched are the progress with customer development, expansion into new technologies and fields such as DX and their contribution to business performance, overall sales growth rate, changes in operating margin and profit growth rate, return of profit to shareholders (dividend hike, share buyback, and stock splits), and the business performance and IT investment trends of Japanese companies that are its final users (the Company's target customers).

・We believe that if stable profit growth (EPS) close to a double-digit rate per year can be maintained in the future, the rise in EPS and the correction of the level of P/E will lead to stock return over the medium to long term.

【Figure 6】Comparison of Valuation with Competitors

Company Name	CUBE SYSTEM (CS: consolidated)	HIMACS (HM: consolidated)	Toho System Science (TS: non-consolidated)
Code	2335	4299	4333
Stock Price (at 2/4 closing)	941	1,176	914
Market Cap (million yen)	13,645	14,598	12,674
P/E (price-to-earnings ratio)	13.4	11.9	12.1
P/B (price-to-book ratio)	1.8	1.6	1.4
Dividend Yield (%)	2.4	3.4	3.3
EV/EBITDA	6.1	4.5	3.3
P/S (price-to-sales ratio)	0.85	0.88	0.91
Sales (this Q3's results: same applies below) (million yen)	12,041	12,199	10,525
Sales Growth Rate (%)	13.8	6.9	21.1
Operating Profit (million yen)	1,122	1,314	1,058
Operating Profit Growth Rate (%)	35.1	29.0	44.8
Operating Margin (%)	9.3%	10.8%	10.1%
Sales (company forecast for this full FY: same applies below) (million yen)	16,000	16,500	14,000
Sales Growth Rate (%)	8.2	6.9	14.9
Operating Profit (million yen)	1,400	1,700	1,340
Operating Profit Growth Rate (%)	19.2	9.7	24.5
Operating Margin (%)	8.8%	10.3%	9.6%
Forecasted Dividend Payout Ratio (%)	32.8	40.3	39.6

Market cap= (shares outstanding) x (market share price [at 2/4/2022 closing])
The companies' planned EPS and dividend values for FY 2022 were used in all P/E and dividend yield calculations.
Actual BPS values of Q3 FY 2022 were used in P/B calculations.
EV/EBITDA = (market cap + interest bearing debt - cash&deposits)/(operating profit + depreciation + intangible fixed asset amortization)
Interest bearing debt and cash & deposits are actual values of Q3 FY 2022. Operating profit is the companies' forecast for FY 2022.
Depreciation and intagible fixed asset amortization are actual values of FY 2021.
P/S=market cap / sales [the companies' forecasts for FY 2022]

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

【 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)
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		14,708	2.7	959	4.1	976	1.7	525	-11.9	38.69	411.96	18.0
2021		14,788	0.5	1,174	22.5	1,295	32.7	844	60.7	62.11	476.52	20.0
2022	CE	16,000	8.2	1,400	19.2	1,420	9.6	950	12.6	70.16	-	23.0
2022	E	16,100	8.9	1,425	21.4	1,450	12.0	965	14.3	71.48	531.20	23.0
2023	E	16,800	4.3	1,500	5.3	1,520	4.8	1,000	3.6	74.08	587.87	25.0
2024	E	17,700	5.4	1,600	6.7	1,620	6.6	1,080	8.0	80.00	648.83	27.0
2021	Q1	3,373	-0.2	242	141.3	248	130.8	165	229.3	12.17	418.69	0.0
2022	Q1	3,987	18.2	378	56.5	390	57.1	262	59.0	19.35	487.51	0.0
2021	Q2	3,710	0.5	310	6.5	355	22.4	235	23.2	17.30	476.52	8.0
2022	Q2	4,073	9.8	368	18.7	362	2.0	238	1.1	43.20	509.03	8.0
2021	Q3	3,508	1.3	239	6.2	319	38.1	196	29.6	15.34	449.26	0.0
2022	Q3	3,981	13.8	375	56.9	380	19.5	253	29.1	21.76	-	0.0
2021	Q4	4,197	0.6	382	12.0	373	7.2	247	86.9	18.22	-	12.0
2022	Q4 CE	3,959	-5.7	278	-27.2	287	-23.0	195	-21.1	14.39	-	15.0
2021	Q3 YTD	10,592	0.5	792	28.2	922	46.8	596	51.8	43.89	-	8.0
2022	Q3 YTD	12,041	13.7	1,122	41.7	1,133	22.9	755	26.6	55.77	-	8.0

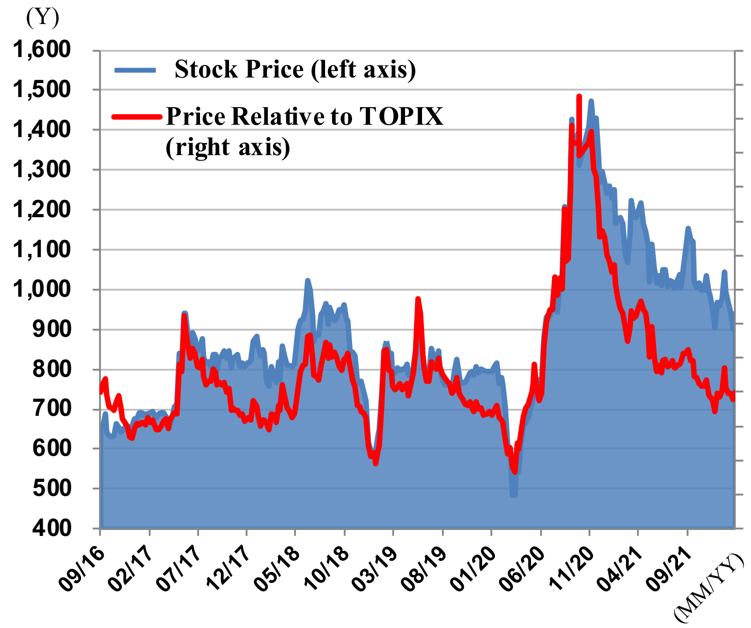
(Note) CE: the Company's forecast/estimate. E: Alpha-Win Research Dept.'s forecast/estimate. Q1: April-June. Q2: July-September. Q3: October-December. Q4: January-March. Q3 YTD: April-December.

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

Item	2/4/2022	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	941	Last FY (actual)	15.2	2.0	2.1%	32.2%
Shares Outstanding (thou.)	14,500	This FY (est.)	13.2	1.8	2.4%	32.2%
Market Capitalizatoin (million yen)	13,645	Next FY (est.)	12.7	1.6	2.7%	33.7%
Dilutive Shares (thou.)	0	Equity Ratio at End of This FY's Q3		72.2%	Last FY's ROE	14.0%

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

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



【Performance】

Period	Return	vs. TOPIX
1 month	1.7%	-0.1%
3 months	4.8%	4.7%
6 months	-13.9%	-12.4%
12 months	-13.6%	-17.1%

(Note) Reflects stock and index prices through the closing price on 2/4/2021. Performance for each period is the comparison between values of 2/4 and the last day of the month of each corresponding period. For example, performance for the 1-month period is the comparison between the closing price on the last day of the previous month or January and the closing price on 2/4.

(Note) From the first week of September 2016 to the first week of February 2022

* *

Disclaimers

This Alpha-Win Company Research Report (hereinafter "this Report") has been prepared by Alpha-Win-Capital Inc. (hereinafter "Alpha-Win") on the request of the company presented in this Report.

This Report is not to be construed as a recommendation or solicitation of investment. Alpha-Win shall not be liable for any consequences including direct or indirect loss, lost profit, or damage resulting from the use of or reliance on this Report. Investors who read this Report must make their own decisions on all investment matters and take full responsibility regarding their investment.

This Report has been prepared with a focus on objectivity and neutrality based on the analysis of generally accessible public information and supplemental information including interview(s) by the analyst. Alpha-Win, the writer, and/or other persons involved in the publication of this Report may already hold, or buy and sell in the future, the stock of the company presented in this Report.

Contents of this Report are based on information current as of the issue date and are subject to change without notice. For the latest (updated) report, please see our website (http://www.awincap.com/). We also do not warrant or represent that the information in this Report is accurate, reliable, complete, appropriate, or fit for any purpose and do not accept any responsibility or liability.

 For inquiries regarding this Report, please send us an e-mail to info@awincap.com. However, Alpha-Win and the writer of this Report do not have any obligation to reply to inquiries.

SV2022-0207-2100