

Alpha-Win Company Research Report

CUBE SYSTEM INC. (2335 TSE Prime)

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Alpha-Win Capital Research Department

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● Summary

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

- CUBE SYSTEM INC. (hereinafter, the “Company”) is an independent, mid-tier system integrator listed on the TSE Prime. Its main customers include the Nomura Research Institute (NRI) and the Fujitsu Group. It develops systems and provides services mainly for the financial, distribution, transportation, telecommunication, and manufacturing industries.
- Its strengths are its excellent customer base, extensive experience, high credibility, and the technology and expertise that it has built over the years. Founded in July 1972, it has 52 years of history.
- With the exception of one fiscal year, the Company has been continuously increasing sales year over year (YoY) for the past 26 years. During this period, the annual growth rate for net sales (simple average of the rate of increase in net sales) was +6.1% and the annual growth rate for ordinary profit (simple average) was +7.6%; it has been steadily expanding its business and keeping its business profitable over many years. Its ordinary profit margin has stably been around 7% (simple average of 7.4%) and the increase in sales has been contributing directly to increases in profits, dividends, and market capitalization. In FY2024 (note that the Company’s fiscal year is March-ending, i.e., FY2024 ended in March 2024), it achieved record-high net sales and profits and also increased dividends for the fifth fiscal year in a row.
- In April 2022, it moved from the TSE First Section to the newly established Prime Market.
- In December 2022, the Company formed a capital and business alliance with NRI, a top-level and major blue-chip company of the industry. NRI has become the Company’s largest shareholder, holding 20.2% of the Company’s voting rights. The NRI Group is also the Company’s largest customer, accounting for 52.7% of its consolidated net sales in FY2024.
- Adding its own cash on hand to the capital raised through the capital alliance with NRI, the Company plans to invest a total of approximately 2.2 billion yen over the four-year period from FY2023 to FY2026. It plans to invest in strengthening and enhancing its development bases, as well as development organization and facilities, to achieve further growth and solve its bottleneck of human resources.

◆ This fiscal year’s Q1 results: Sales increased slightly and profit decreased significantly due to upfront investments, but were in line with the Company’s plan.

Q1: Summary

- In the first quarter of FY2025 (April-June 2024; hereinafter, “Q1”), net sales were 4,411 million yen (+0.8% YoY), operating profit was 220 million yen (-40.3% YoY), ordinary profit was 226 million yen (-38.9% YoY), and net profit attributable to owners of parent (hereinafter, “net profit”) was 157 million yen (-32.3% YoY). Sales increased slightly but profit decreased significantly (Figure 1 on page 2).
- It achieved its highest net sales for the first quarter. Although the Company’s Q1 plan was not disclosed, both sales and profits seem to have been mostly in line with its plan.
- The Company has been receiving an increasing amount of orders thanks to its customers’ strong appetite for IT investments in areas such as DX and the cloud due to their strong business performance. Meanwhile, the Company has been making upfront investments, mainly in strengthening its development organization and facilities and in human resources (greater personnel expenses due to an increase in the number of employees and the introduction of a new HR system), which caused profit to result in a significant decline despite a slight increase in sales.
- The gross profit margin fell by 1.3 percentage points from 21.4% in Q1 FY2024 to 20.1% in Q1 FY2025 (the same order applies below). SG&A expenses increased by 17.1% from 568 million yen to 665 million yen, largely exceeding the rate of sales growth. Consequently, the SG&A expense ratio increased by 2.1 percentage points from 13.0% to 15.1%. As a result, the operating profit margin declined by 3.4 percentage points from 8.5% to 5.1%.

【Figure 1】 Summary of Results in the First Quarter

Consolidated	Results for the First Quarter		Q1 FY2024	Q1 FY2025	% Change	Change in Amount / Difference	% of Total Amount of Change	% of Total	FY2025 Full-Year Company Plan	Change in Amount / Difference	% Change	Progress in Q1 (%)
Category	Unit: million yen or %		Apr-Jun 2023	Apr-Jun 2024	YoY %	YoY: million yen or %	%	%	Apr 2024 - Mar 2025	YoY: million yen or %	YoY %	
1. By Business Style	Consolidated Sales		4,376	4,411	0.8	35	100.0	100.0	18,800	779	4.3	23.5%
	Sales	SIer Business	3,437	3,429	-0.2	-8	-22.9	77.8	14,600	379	2.7	23.5%
		End-User Business	865	804	-7.0	-61	-174.3	18.2	3,480	180	5.5	23.1%
		Service Providing Business	74	177	139.7	103	294.3	4.0	720	220	44.0	24.6%
	Operating Profit	SIer Business	294	167	-43.1	-127	-85.2	75.9				
		End-User Business	75	54	-27.6	-21	-143.1	24.5				
		Service Providing Business	0	54	To less	-1	-4.7	-4.5				
	Operating Profit Margin (%)	SIer Business	8.6	4.9		-3.7						
		End-User Business	8.8	6.8		-2.0						
		Service Providing Business	0.2	-0.8		-1.0						
2. By Industry	Sales	Finance	1,397	1,527	9.3	130	371.4	34.6	6,300	235	3.9	24.2%
		Distribution	956	731	-23.5	-225	-642.9	16.6	3,300	-356	-9.8	22.2%
		Transportation & Telecommunication	644	577	-10.4	-67	-191.4	13.1	2,500	-28	-1.1	23.1%
		Manufacturing (others)	401	419	4.5	18	51.4	9.5				
		Government (others)	264	367	39.1	103	294.3	8.3	6,700	928	16.1	23.5%
		Others (others)	713	788	10.5	75	214.3	17.9				
	Operating Profit	Finance	126	87	-30.3	-39	-26.2	39.5				
		Distribution	87	17	-79.9	-70	-47.0	7.7				
		Transportation & Telecommunication	40	45	13.4	5	3.4	20.5				
		Manufacturing (others)	37	23	-36.5	-14	-9.4	10.5				
		Government (others)	32	28	-13.4	-4	-2.7	12.7				
		Others (others)	46	17	-61.8	-29	-19.5	7.7				
	Operating Profit Margin (%)	Finance	9.0	5.8		-3.2						
		Distribution	9.1	2.4		-6.7						
		Transportation & Telecommunication	6.3	7.9		1.6						
		Manufacturing (others)	9.2	5.6		-3.6						
		Government (others)	12.3	7.7		-4.6						
		Others (others)	6.5	2.2		-4.3						
3. By Business Model	Sales	Digital Business	126	201	59.5	75	214.3	4.6	800	236	41.9	25.1%
		SI Business	1,558	1,501	-3.7	-57	-162.9	34.0	6,800	129	1.9	22.1%
		Enhancement Business	2,692	2,708	0.6	16	45.7	61.4	11,200	413	3.8	24.2%
	Operating Profit	Digital Business	4	10	154.3	6	4.0	4.5				
		SI Business	155	105	-32.0	-50	-33.6	47.7				
		Enhancement Business	210	104	-50.3	-106	-71.1	47.3				
	Operating Profit Margin (%)	Digital Business	3.2	5.2		2.0						
		SI Business	9.9	7.0		-3.0						
		Enhancement Business	7.8	3.9		-3.9						
New Revenue-Recognition Standard	Consolidated	Gross Profit	938	886	-5.5	-52						
		Gross Profit Margin (%)	21.4	20.1		-1.3						
	SG&A Expenses		568	665	17.1	97						
		SG&A Expense Ratio (%)	13.0	15.1		2.1						
	Operating Profit		369	220	-40.3	-149			1,600		4.2	13.8%
		Operating Profit Margin (%)	8.5	5.0		-3.5			8.5			
	Ordinary Profit		371	245	-38.9	-126			1,650		3.7	14.8%
		Ordinary Profit Margin (%)	8.5	5.1		-3.4			8.8			
	Net Profit		332	157	-52.3	-175			1,100		3.1	14.3%
		Net Profit Margin (%)	5.3	3.6		-1.7			5.9			

(Reference and Notes) Q1 values are results, while the full-year values for FY2025 are the Company's forecasts. Prepared by Alpha-Win Research Dept. based on the financial results summary and the financial results briefing's supplemental materials. The percent of the total amount of change is the proportion relative to the absolute net amount of change. Note that throughout this Report, there may be differences in the figures due to processing during calculations.

Q1: Results by Segment

- Companywide sales increased slightly by 35 million yen (+0.8% YoY) and operating profit decreased by 149 million yen (-40.3% YoY) (see Figure 1 for the following sections).

1. Results by Business Style (three categories)

- The SIer Business (system integrator, abbreviated as "SIer," is a company that conducts system integration; it is 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) accounted for about 80% of net sales and overall operating profit (based on this Q1's results; the same applies hereinafter). This business was generally firm, with sales of 3,429 million yen (-8 million yen or -0.2% YoY) thanks to the acquisition of ongoing projects and various new projects.
- Sales of the End-User Business declined to 804 million yen (-61 million yen or -7.0% YoY) due to insufficiency of the development organization and facilities despite strong demand.
- Only the sales of the Service Providing Business increased, albeit by a small amount (+103 million yen or +139.7%), to 177 million yen due to the expansion of consulting services in collaboration with solution vendors. This increase offset the decline in sales in the other two businesses.
- Operating profit declined since profit margins worsened in all businesses.

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

- Sales declined for the distribution industry due to a reduction in projects for a major general merchandise store, and also declined for the transportation & telecommunication industries due to a reduction in projects for a major logistics company and telecommunications carriers. On the other hand, sales increased for the financial industry, which saw an increase in projects for regional banks, online banks, and a stock exchange, and for the other industries, which saw an increase in projects for electricity companies and the central government.

- Profit margins declined for all industry categories except for the transportation & telecommunication industries, resulting in a decline in profit.

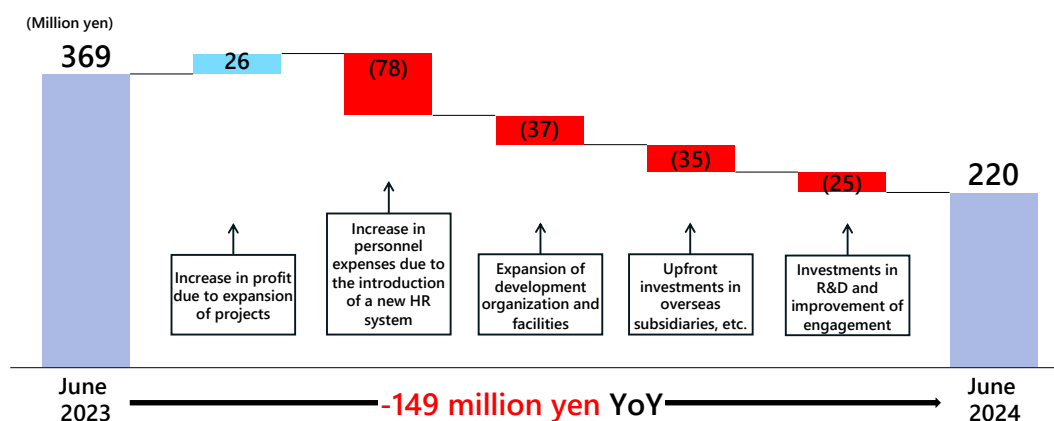
3. Results by Business Model (three models)

- The Enhancement Business, which accounted for 61% of net sales and 47% of overall operating profit, saw sales increase slightly by 16 million yen (+0.6% YoY) to 2,708 million yen as orders were received as planned. However, the profit margin was halved, resulting in a halving of profit (from 210 million yen to 104 million yen).
- In the SI Business, sales fell by 57 million yen (-3.7% YoY) to 1,501 million yen and operating profit declined by 50 million yen (-32.0% YoY) to 105 million yen due to the completion of a large-scale, cloud solution project.
- In the Digital Business, sales increased by 75 million yen (+59.5% YoY) to 201 million yen and operating profit rose by 6 million yen (+154.3% YoY) to 10 million yen due to the Company's participation in an IoT infrastructure building project in the energy industry. Although the sales growth rate was high, its contribution in amount was limited due to the small scale of business (4.6% of net sales).

Q1: Factors that Increased or Decreased Profit

- The factors that increased or decreased operating profit in the first quarter of the current fiscal year are as shown in Figure 2.
- Profit increased due to the expansion of projects in the Digital and Enhancement businesses (+26 million yen YoY to profit). On the other hand, there was a large increase in costs due to the personnel expenses accompanying the introduction of a new HR system (-78 million yen YoY to profit), expansion of the development organization and facilities (strengthened hiring and expansion of bases; -37 million yen YoY to profit), and upfront investments in overseas subsidiaries (increased training and hiring; -35 million yen YoY to profit). As a result, operating profit declined by 149 million yen YoY.
- Investments to strengthen development bases, as well as development organization and facilities, are being made as planned, with no major delays or leftover budget in Q1.

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



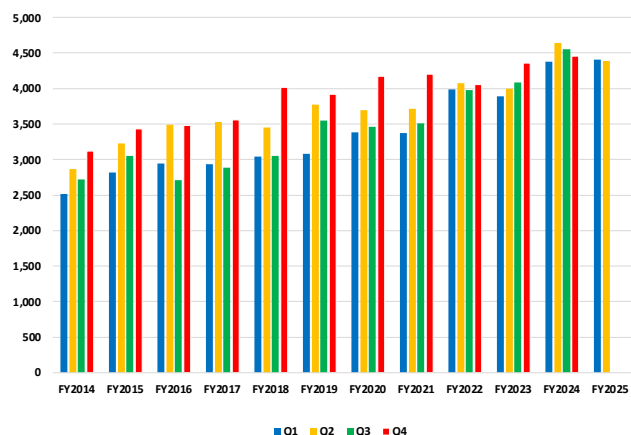
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing's supplemental materials.

Progress in the First Quarter and Seasonality of Quarterly Results

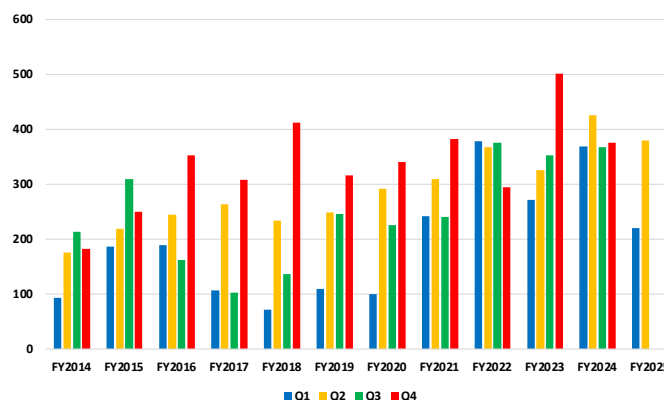
- Progress during Q1 in terms of achieving the Company's full-year forecast was 23.5% for net sales (24.3% in the Q1 of the previous fiscal year) and 13.8% for operating profit (similarly, previously 22.8%).
- As reference, the simple average of progress in Q1 during the past 11 years (including the previous fiscal year) was 23.1% for net sales and 17.0% for operating profit. The progress in this fiscal year's Q1 somewhat exceeded this average for sales, but it fell short of the average for operating profit.
- The Company's business performance and profit margins tend to fluctuate on a quarterly basis. The fourth quarter

(Q4 or Jan-Mar) tends to contribute the most to the full-year results (past 11 years' average: 27.3% of full-year net sales and 32.8% of full-year operating profit), followed by the second quarter (Q2 or Jul-Sep; average of 25.8% and 26.9%, respectively) and the third quarter (Q3 or Oct-Dec; average of 23.8% and 23.3%, respectively). Q1 has generally been the smallest in contribution (Figures 3-5).

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



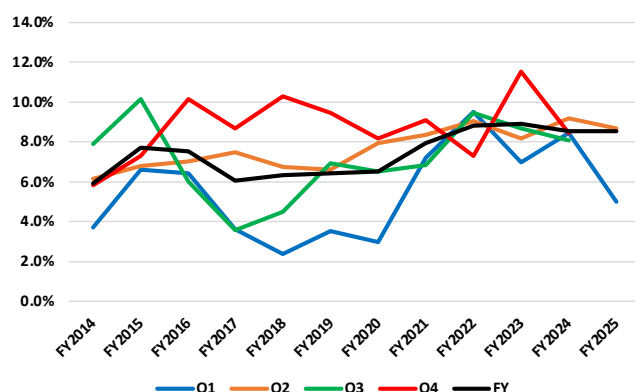
【Figure 4】 Quarterly Change in Operating Profit (Unit: million yen)



(Ref) Figures 3 to 6 were prepared by Alpha-Win Research Dept. based on the financial results briefing's supplemental materials.

(Note) Values for this fiscal year's Q2 have been calculated based on the Company's forecast.

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



【Figure 6】 Change in Orders Received, Order Backlog, and Net Sales in the First Quarter (Unit: million yen)



Orders Received

- The overall amount of orders received increased steadily from 4,633 million yen in the same period of the previous fiscal year to 4,789 million yen (+156 million yen or +3.4% YoY), and the order backlog has increased from 4,828 million yen to 5,025 million yen (+197 million yen or +4.1% YoY) (Figure 6).

Orders Received: By Industry (four categories)

- Regarding the amount of orders received and the order backlog in Q1 by industry, like sales, the decline in the business with the transportation & telecommunication industries was offset mainly by strong performance in the business with the financial and other industries (especially the government).

Orders Received: By Business Model (three models)

- The amount of orders received and the order backlog in the Enhancement Business have remained flat, while they have increased for the Digital Business (+105 million yen or +91.2% YoY and +85 million yen or +53.2% YoY, respectively) and the SI Business (Lift & Shift; +61 million yen or +3.2% YoY and +88 million yen or +5.1% YoY, respectively).

Orders Received: By Business Style (three models)

- The amount of orders received increased for all three businesses. The order backlog increased in both the Sler and Service Providing businesses, although it declined slightly in the End User Business. While small in scale, the Service Providing Business had a high rate of increase regarding the amount of orders received and the order backlog.

Number of Employees, Productivity, and Profitability

- In the Company's main business model, sales growth is generally directly correlated with the number of employees. Its capacity in terms of human resources has been expanding, with the total number of employees in Japan and overseas increasing steadily (Figure 7). However, while the Company has worked on improving the work environment and compensation, as well as strengthening engagement and mid-career hiring, the demand for systems has continued to grow and the Company is still short of employees.
- Quarterly net sales and operating profit per employee in Japan, which are its key management indicators, had been improving. However, this fiscal year, they have decreased temporarily due to greater investment in human resources.

【Figure 7】 Number of Employees and Change in Net Sales and Operating Profit Per Capita

% Change	Total Number of Employees in Japan and Overseas			Quarterly Net Sales Per Employee in Japan			Quarterly Operating Profit Per Employee in Japan		
	Number of Persons	Change in Number: YoY	% Change: YoY	Thousand Yen	Change in Amount: YoY	% Change: YoY	Thousand Yen	Change in Amount: YoY	% Change: YoY
End of June 2020	799	33	4.3	4,737	-	-	339	-	-
End of June 2021	829	30	3.8	5,402	665	14.0	513	174	51.3
End of June 2022	882	53	6.4	5,082	-320	-5.9	355	-158	-30.8
End of June 2023	904	22	2.5	5,744	662	13.0	485	130	36.6
End of June 2024	951	47	5.2	5,479	-265	-4.6	274	-211	-43.5

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

Balance Sheet

- As of the end of this Q1, there has been no significant change in the balance sheet. The Company has ample liquidity on hand, with cash & deposits of 6.4 billion yen (4.1 months' worth of the average monthly sales forecasted for this fiscal year; essentially debtless). With a current ratio of 443.9% and an equity ratio of 76.2%, its financial standing is firm. Effective use of its surplus capital for growth, including the improvement of shareholder returns, M&As, business alliances, investments, and loans, will continue to be a key point.

◆No change to the first-half or full-year forecasts from the beginning of the fiscal year

- The Company has not changed its first-half or full-year forecasts since their announcement at the beginning of the fiscal year (Figure 8 on page 6).

This Fiscal Year (first half): Company Forecast

- For the first half, the Company plans for net sales of 8,800 million yen (-215 million yen or -2.4% YoY), operating profit of 600 million yen (-194 million yen or -24.4% YoY), and net profit of 440 million yen (-61 million yen or -12.2% YoY). It plans for declines in both sales and profits. It expects to achieve the second highest level of net sales for the first half, following the record high of the previous fiscal year, and also high levels of profit (the third highest in its history) despite the profit decline due to increased costs.

This Fiscal Year (full year): Company Forecast

- The Company has maintained its full-year forecasts of 18,800 million yen in net sales (+4.3% YoY), 1,600 million yen in operating profit (+4.2% YoY), and 1,100 million yen in net profit (+3.1% YoY), which were announced at the beginning of the fiscal year. Like the previous fiscal year, it expects sales and profits to increase again in the current fiscal year. It also plans to achieve record-high net sales and profits for the consecutive fiscal year.
- It plans to raise its dividend per share by 5 yen, from 35 yen in the previous fiscal year (15 yen for the first half and 20 yen for the end of the fiscal year) to 40 yen (20 yen for the first half and 20 yen for the end of the fiscal year). The consolidated dividend payout ratio is expected to be 55.1%, exceeding the target of 50%.
- The Company has been working on expanding its development organization and facilities, investing in human resources, and strengthening its prioritized approach toward customers who are actively pursuing strategic IT investments (strengthening sales activities toward its major customers, expanding the existing businesses, and developing new domains or areas of business). Through these measures, the Company plans to continue to improve its capacity and profitability and increase shareholder returns.

This Fiscal Year (full year): Alpha-Win's Forecast

- Alpha-Win Research Department forecasts the same amounts (of net sales, profits, and dividends) as the Company for this fiscal year's financial results.
- The sales growth rate of +0.8% in Q1 is somewhat above the -2.4% sales decline rate that the Company has planned for the first half. Although the rate of decrease in profit is worse than the first-half plan, the Q1 profit results seem to be generally in line with the plan.
- For this second half (full-year plan minus first-half plan), the Company expects net sales of 10,000 million yen (+11.0% YoY), operating profit of 1,000 million yen (+34.8% YoY), operating profit margin of 10%, and net profit of 660 million yen (+16.6% YoY). The Company's plan for this second half's sales growth rate and operating profit margin appears to be somewhat ambitious compared to the levels achieved up through the previous fiscal year and the rate of increase in the order backlog.
- Given factors such as the shift to a stronger yen, rising prices, increasing domestic interest rates, and global uncertainty, it is expected that some of the Company's corporate customers with deteriorating performance may start to restrain their IT investments, leading to potential changes in their IT investment strategies.
- However, customers' enthusiasm for strategic IT investments remains strong, and there are no signs of changes in the Company's current orders, business negotiations, or price per contract, which continue to be solid.
- In addition to the positive effects of the alliance with NRI, the Company has succeeded in receiving orders for strategic projects in well-performing industries and projects in newly developed areas. Also, since it has been making progress with the shift to high-profit projects and the streamlining of resources, the impact of deterioration in the environment is expected to be relatively limited. Therefore, we evaluate that with proper cost control in Q2 and the second half, the downside risks are limited regarding this fiscal year's full-year plan for profit.

[Figure 8] This Fiscal Year's Financial Performance (Q1 results and forecasts for Q2, the first half, and the second half)

Unit: million yen	Last Fiscal Year's Results FY2024	This Fiscal Year's Company Forecast FY2025	FY2024 First-Half Results	FY2025 First-Half Plan	YoY Change (%)	FY2024 Second-Half Results	FY2025 Second-Half Plan	YoY Change (%)	Q1 FY2024 Results	Q2 FY2024 Results	Q1 FY2025 Results	Q2 FY2025 Forecasts	Q1 FY2025 YoY %	Q2 FY2025 YoY %	Q1 FY2025 YoY Diff.	Q2 FY2025 YoY Diff.
Net Sales	18,021	18,800	9,015	8,800	-2.4%	9,006	10,000	11.0%	4,376	4,639	4,411	4,389	0.8	-5.4	35	-250
Gross Profit	3,922		1,960			1,962			938	1,022	886		-5.5		-52	
Gross Profit Margin	21.8%		21.7%			21.8%			21.4%	22.0%	20.1%				-1.3%	
SG&A Expenses	2,386		1,166			1,220			568	598	665		17.1		97	
SG&A Expense Ratio	13.2%		12.9%			13.5%			13.0%	12.9%	15.1%		16.1		2.1%	
Operating Profit	1,536	1,600	794	600	-24.4%	742	1,000	7.7%	369	425	220	380	-40.3	-10.6	-149	-45
Operating Margin	8.5%	8.5%	8.8%	6.8%	-2.0%	8.2%	10.0%	1.8%	8.5%	9.2%	5.0%	8.7%			-3.5%	-0.5%
Ordinary Profit	1,590	1,650	788	650	-17.6%	802	1,000	24.7%	371	417	226	424	-38.9	1.7	-145	7
Net Profit	1,067	1,100	501	440	-12.2%	566	660	16.6%	232	269	157	283	-32.3	5.2	-75	14

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

(Note) Q2 FY2025 has been calculated by first-half company plan minus Q1 result.

Medium-Term Financial Outlook: The Company's Medium-Term Plan and Alpha-Win's Forecast

- In the Second Medium-Term Management Plan (V2026), which is positioned as the Company's "second founding," it plans to improve profitability and achieve net sales of 23 billion yen and operating profit of 2.41 billion yen in FY2027, the final year of the plan (see our research report issued in June 2024 for details).
- We have not changed our forecasts of the Company's medium-term financial performance since our previous report (Figure 9).
- IT investments by the Company's users (companies) are expected to keep increasing as they develop new business models, strengthen their competitive edge, work on solving labor shortages, streamline and speed up operations, work on DX, and shift to the cloud. Therefore, the Company's growth potential is large.
- With strong IT demand, the Company is expected to achieve top-line growth by utilizing its abundant cash on hand to hire more employees and expand its development bases. Since the high level of investment in FY2024 and FY2025 will be halved in FY2026, the rate of cost increase is expected to slow down and the investments results are expected to contribute to profits.
- We forecast that the Company will be able to maintain a stable increase in sales, profits, and dividends over the medium term through the expansion of the Digital and the SI businesses, the effect of the alliance with NRI, the development of new customers and new areas of business, and various measures to improve productivity.

【Figure 9】 Medium-Term Financial Forecast

Unit: million yen or %	FY2024 Results	FY2025 CE	FY2025 E	FY2026 Medium-Term Plan	FY2026 E	FY2027 Medium-Term Plan	FY2027 E
Net Sales	18,021	18,800	18,800	20,600	20,000	23,000	21,700
Digital Business	563	800	800		1,300	2,500	2,200
SI Business	6,670	6,800	6,800		7,000	7,500	7,200
Enhancement Business	10,786	11,200	11,200		11,700	13,000	12,300
Gross Profit	3,922	4,600	4,500		4,800		5,300
Gross Profit Margin	21.8%	24.5%	23.9%		24.0%		24.4%
SG&A Expenses	2,386	3,000	2,900		2,950		3,150
(Ratio to sales)	13.2%	16.0%	15.4%		14.8%		14.5%
Operating Profit	1,536	1,600	1,600	1,950	1,850	2,410	2,150
(Ratio to sales)	8.5%	8.5%	8.5%	9.5%	9.3%	10.5%	9.9%
Ordinary Profit	1,590	1,650	1,650		1,900		2,200
(Ratio to sales)	8.8%	8.8%	8.8%		9.5%		10.1%
Net Profit	1,067	1,100	1,100		1,250		1,450
(Ratio to sales)	5.9%	5.9%	5.9%		6.3%		6.7%
Net Sales (% YoY growth)	10.4%	4.3%	4.3%	9.6%	6.4%	11.6%	8.5%
Gross Profit Margin (% YoY diff.)	-0.1%	2.7%	2.2%		0.1%		0.4%
SG&A Expenses (% YoY growth)	12.7%	25.7%	21.5%		1.7%		6.8%
Operating Profit (% YoY growth)	5.8%	4.2%	4.2%	21.9%	15.6%	23.6%	16.2%
Ordinary Profit (% YoY growth)	7.5%	3.7%	3.8%		15.2%		15.8%
Net Profit (% YoY growth)	7.8%	3.1%	3.1%		13.6%		16.0%

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

◆ Share price and characteristics: Significantly outperforming the TOPIX over the long term as a stable growth stock centered on domestic demand. Shares do not seem overvalued, and dividend yield is high.

Performance

- Over the past approximately 15 years, the Company's share price has increased by about 5.1x thanks to its strong business performance, significantly outperforming the TOPIX (by about +213%).
- The Company is a defensive, domestic-demand-oriented stock with low volatility in past business performance. The coefficient of variation (standard deviation divided by the average) for the YoY rate of change in net sales and ordinary profit over the past 20 years is about half that of its two competitors* listed on the TSE Prime Market (HIMACS* with securities code 4299 and Toho System Science* with securities code 4333), indicating that the Company's business performance is relatively stable.
- However, in the recently volatile stock market, the Company has underperformed the TOPIX over the 12 months (Figure C on page 10). This may be due to the Company's high historical beta (weekly beta for the past five years: 1.14), the fact that it is a small-cap stock with low liquidity, and the fact that the Company's expected full-year profit growth rate and Q1's progress toward achieving the full-year profit plan have been low.

- Similarly, a comparison of the performance over the past 12 months with its two competitors* shows that its performance has been about the same level as HIMACS. On the other hand, it has underperformed Toho System Science, which is highly dependent on the financial industry such as banks and insurance companies that benefit from lower interest rates.
- Regarding the rates of change (YoY) in the operating profit and net profit in Q1, HIMACS and Toho System Science posted single-digit growth rates of +5.7% and +5.7% (HIMACS) and +1.2% and +1.1% (Toho System Science), respectively, while the Company posted sharp declines of -40.3% and -32.3% due to upfront investments. In contrast, the average net profit of about 1,000 companies listed on the TSE Prime Market in Q1 (April-June) was +10%, partly due to the weaker yen.

Valuation

- Currently, the average valuation of all companies listed on the TSE Prime Market is as follows: forecasted P/E ratio of 14.38, actual P/B ratio of 1.21, and forecasted dividend yield (simple average) of 2.56% (based on the closing price on August 9, 2024).
- Compared to these averages of the TSE Prime, the Company's valuation is somewhat low in terms of its P/E ratio of 13.47, while it is high in terms of its P/B ratio of 1.49. Although the growth rate of each profit for this fiscal year is around +3% to +4%, which might seem modest, this is due to upfront investments. Considering the medium-term growth potential and the relatively high forecasted dividend yield for this fiscal year (4.09%), the stock appears somewhat undervalued.
- Compared to its two competitors mentioned above*, its valuation is in the middle range (the second highest among the three companies) in terms of the major valuation measures (P/E, P/B, and EV/EBITDA) excluding dividend yield (which is the highest) (Figure 10).

【Figure 10】 Comparison of Valuation with Competitors

Company Name	CUBE SYSTEM (CS: consolidated)	HIMACS (HM: consolidated)	Toho System Science (TS: non-consolidated)	Reference: Nomura Research Institute (NRI: consolidated)	All TSE Prime Stocks (average)
Code	2335 P	4299 S	4333	4307	-
Stock Price (at 8/9 closing)	977	1,279	1,611	4,606	1,278.03
Market Capitalization (million yen)	15,388	15,876	33,507	2,675,151	-
P/E (price-to-earnings ratio)	13.47	12.14	24.80	30.13	14.38
P/B (price-to-book ratio)	1.49	1.36	3.18	6.64	1.21
Dividend Yield (%)	4.09	3.44	2.48	1.26	2.56
EV/EBITDA	5.34	3.50	13.60	15.44	-
P/S (price-to-sales ratio)	0.82	0.85	1.88	3.43	-
Weekly Beta (β) against TOPIX for the Past 5 Years	1.14	0.57	0.59	0.82	-

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

(Notes) Market capitalization = shares outstanding x stock price (at 8/9/2024 closing)

EPS values used in P/E calculations are the companies' forecasts for FY2025.

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

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

Interest bearing debt and cash & deposits reflect this fiscal year's Q1 results.

Operating profit is the companies' full-year forecasts for this fiscal year.

Depreciation and intangible fixed asset amortization are last fiscal year's results.

P/S = market cap / sales (the companies' forecast for FY2025)

P: TSE Prime Market. S: TSE Standard Market.

Stock Price Outlook

- The Company's stock price will likely be impacted by the progress of its business performance (profit levels of the first half and the full fiscal year, order trends, and the rate of increase or decrease in profit planned for the next fiscal year) and the changes in stock return (whether there will be a dividend hike, a share buyback, or a stock split).
- Over the medium term, the key points are the changes in the top line (sales growth rate, hiring and retaining of employees, and the effect of the alliance with NRI) and the profit margins (gross profit margin, operating profit margin, and SG&A expense ratio). We should also keep note of the contribution of the SI and the Digital businesses to earnings, as well as the business performance and IT investment trends of the Japanese companies that are its end users (the environment surrounding orders received by the Company; changes in the volume of orders received and the price per contract).

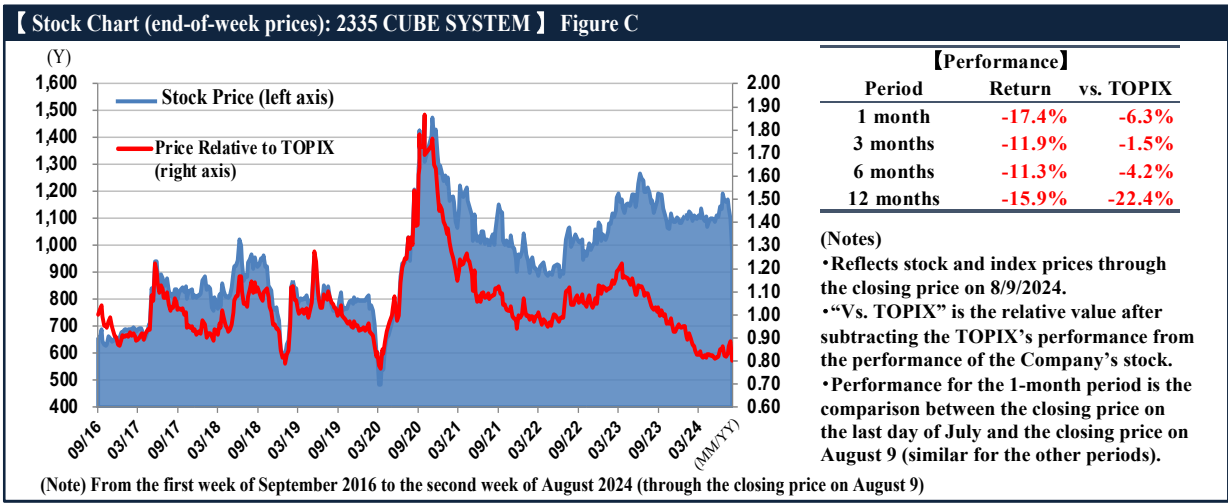
- We believe that if the Company can stably maintain a profit growth rate that is close to a double digit, then its share price may rise due to adjustment for the level of the P/E ratio and the increase in EPS.
- From a medium- to long-term perspective, we believe that the Company will be a candidate for investment as a defensive and stable growth stock centered on domestic demand.

【 2335 CUBE SYSTEM Sector: Information & Communication 】 Figure A												
FY		Net Sales (million yen)	YoY (%)	Operating Profit (million yen)	YoY (%)	Ordinary Profit (million yen)	YoY (%)	Net Profit (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
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	E	18,800	4.3	1,600	4.2	1,650	3.7	1,100	3.1	72.55	705.91	40.0
2026	Medium-Term Plan	20,600	9.6	1,950	21.9							
2026	E	20,000	6.4	1,850	15.6	1,900	15.2	1,250	13.6	82.45	748.35	43.0
2027	Medium-Term Plan	23,000	11.7	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
2022	Q1	3,987	18.2	378	56.5	390	57.1	262	59.0	19.35	487.51	0.0
2023	Q1	3,892	-2.4	272	-28.1	271	-30.5	173	-34.0	12.84	543.58	0.0
2024	Q1	4,376	12.4	369	35.9	371	37.0	232	34.2	15.36	622.93	0.0
2025	Q1	4,411	0.8	220	-40.3	226	-38.9	157	-32.3	10.47	657.73	0.0
2022	Q2	4,073	9.8	368	18.7	362	2.0	239	1.7	17.65		8.0
2023	Q2	4,000	-1.8	326	-11.4	323	-10.8	215	-10.0	15.89		23.0
2024	Q2	4,639	16.0	425	30.4	417	29.1	269	25.1	17.71		15.0
2025	Q2 CE	4,389	-5.4	380	-10.6	424	1.7	283	5.2	18.55		20.0
2022	H1	8,060	13.8	746	35.1	752	24.6	501	25.3	37.00		8.0
2023	H1	7,892	-2.1	598	-19.9	594	-21.0	388	-22.6	28.73		23.0
2024	H1	9,015	14.2	794	32.7	788	32.6	501	29.1	33.07		15.0
2025	H1 CE	8,800	-2.4	600	-24.4	650	-17.6	440	-12.2	29.02		20.0
2022	H2	8,039	-13.0	671	-25.4	680	-22.5	443	-24.8	32.82		15.0
2023	H2	8,433	4.9	854	27.3	886	30.3	601	35.7	41.62		27.0
2024	H2	9,006	6.8	742	-13.1	802	-9.5	566	-5.8	37.32		20.0
2025	H2 CE	10,000	11.0	1,000	34.8	1,000	24.7	660	16.6	43.53		20.0

(Notes) CE: the Company's forecast/estimate. E: Alpha-Win Research Dept.'s forecast/estimate. Q1: Apr-June. Q2: July-Sept.
H1 (first half): Apr-Sept. H2 (second half): Oct-Mar.

【 Stock Price and Valuation Indicators: 2335 CUBE SYSTEM 】 Figure B						
Item	8/9/2024	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	977	Last FY's Results	13.9	1.5	3.6%	49.7%
Shares Outstanding (thou.)	15,750	Forecast for This FY	13.5	1.4	4.1%	55.1%
Market Capitalization (million yen)	15,388	Forecast for Next FY	11.8	1.3	4.4%	52.2%
Dilutive Shares (thou.)	0	Forecast for the FY After the Next	10.2	1.2	5.1%	52.3%
Equity Ratio for This FY's Q1	76.2	Last FY's DOE	5.4%	Last FY's ROE		10.8%

(Note) Estimates for this fiscal year and the following two fiscal years have been made by Alpha-Win Research Department.



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