

Alpha-Win Company Research Report

CUBE SYSTEM INC. (2335 TSE Prime)

Issued: 11/15/2024

Alpha-Win Capital Research Department

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

● Summary

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

Company Overview

- CUBE SYSTEM INC. (hereinafter, the “Company”) is an independent, mid-tier system integrator listed on the TSE Prime. Its main customers include the Nomura Research Institute (NRI) and the Fujitsu Group. It develops systems and provides services mainly for the financial, distribution, transportation, telecommunication, and manufacturing industries.
- Its strengths are its excellent customer base, extensive experience, high credibility, and the technology and expertise that it has built over the years. Founded in July 1972, it has 52 years of history. It is currently listed on the Prime Market of the Tokyo Stock Exchange (TSE).

Business Performance

- 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 7.3%) 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. It plans to achieve record-high results again this fiscal year.

Alliance

- In December 2022, the Company formed a capital and business alliance with NRI, a top-tier 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.

Investment Plan

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

◆ This fiscal year’s first-half results: Sales increased slightly, but profit decreased significantly due to upfront investments.

First Half: Summary

- In the first half of FY2025 (April to September 2024; hereinafter also referred to as “H1”), the Company posted net sales of 9,022 million yen (+0.1% year-on year or YoY), operating profit of 533 million yen (-32.8% YoY), ordinary profit of 528 million yen (-33.0% YoY), and net profit attributable to owners of parent (hereinafter, “net profit”) for the first half of 662 million yen (+32.1% YoY) (Figure 1 on page 2).
- Net sales exceeded the plan by 222 million yen (+2.5% compared to the plan), a slight increase over the previous fiscal year’s first half. This is the highest net sales for the first half in the Company’s history.
- On the other hand, operating and ordinary profits for this fiscal year’s first half were lower than planned (-67 million yen or -11.2% compared to the plan, and -122 million yen or -18.7% compared to the plan, respectively), resulting in significant declines in profits. However, net profit exceeded the plan (by +222 million yen or +50.5%) due to a gain on revision of retirement benefit plan (+359 million yen) recorded under extraordinary income.

- The Company has been steadily receiving orders as companies continue to make IT investments in areas such as DX and the cloud, backed by strong business performances. However, the Company's profits declined significantly despite a slight increase in sales, since it has continued to make upfront investments, primarily in human resources (headcount increase, implementation of a new human resources system, and human resources development) and in strengthening its development organization and facilities.
- The Q1 gross profit margin declined by 1.3 percentage points from 21.4% in FY2024 to 20.1% in FY2025 (the same order applies hereinafter). Similarly, the Q2 margin declined by 0.7 percentage point from 22.0% to 21.3%. As a result, in the first half, the gross profit margin decreased by 1.0 percentage point from 21.7% to 20.7%.
- In Q1, SG&A expenses increased by 97 million yen (+17.1% YoY) from 568 million yen to 665 million yen, and the SG&A expense ratio rose from 13.0% to 15.1%. In Q2, too, SG&A expenses increased by 73 million yen (+12.2% YoY) from 597 million yen to 670 million yen. In both quarters, the rate of increase in SG&A expenses exceeded the rate of increase in net sales.
- As a result, in the first half, the SG&A expense ratio increased by 1.9 percentage points from 12.9% to 14.8%, and the operating profit margin decreased by 2.9 percentage points from 8.8% to 5.9%.

【Figure 1】 Summary of Results for the First Half

Consolidated	Results		III FY2024		III FY 2025		% Change		Change in Amount		% of Total		Q1 FY2024		Q1 FY 2025		% Change		Change in Amount		% of Total		Q2 FY2024		Q2 FY 2025		% Change		Change in Amount		% of Total		FY2025 Full-Year Company Plan		Change in Amount		% of Total		FY2025 Full-Year Company Plan		Change in Amount		% of Total		Progress in H1 Relative to Full-Year Plan (%)	
	Unit: million yen or %	Apr-Sep 2024	Apr-Sep 2025	YoY %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %	Unit: million yen or %	YoY %									
Categories	Consolidated Sales	9,015	9,027	0.1	75	100.0	4,411	4,416	0.8	385	100.0	4,620	4,611	0.6	20	100.0	18,800	18,800	0.0	270	100.0	18,800	18,800	0.0	270	100.0	18,800	18,800	0.0	270	100.0	18,800	18,800	0.0	270	100.0	18,800	18,800	0.0	270						
1. By Business Style	Sales	7,102	6,938	-2.3	-164	76.9	3,437	3,429	-0.2	-8	77.8	3,665	3,589	-4.3	156	76.1	14,600	14,600	0.0	379	76.1	14,600	14,600	0.0	379	76.1	14,600	14,600	0.0	379	76.1	14,600	14,600	0.0	379											
	End-User Business	1,745	1,762	-2.5	-43	18.9	865	894	-2.0	-41	18.2	880	898	2.0	18	19.5	3,480	3,480	0.0	180	19.5	3,480	3,480	0.0	180	19.5	3,480	3,480	0.0	180	19.5	3,480	3,480	0.0	180											
	Operating Profit	645	582	-10.4	-63	7.1	294	167	-45.1	-223	7.5	351	215	-38.7	130	6.8	6,700	6,700	0.0	220	6.8	6,700	6,700	0.0	220	6.8	6,700	6,700	0.0	220	6.8	6,700	6,700	0.0	220											
	Operating Profit Margin (%)	9.1	5.5	-3.6	-8.6	8.6	9.6	6.1	-3.4	-3.7	9.6	6.1	3.4	0.0	0.0	11	12	2.1	3.8	11	12	2.1	3.8	11	12	2.1	3.8	11	12	2.1	3.8	11	12	2.1	3.8											
	Operating Profit Margin (%)	9.1	5.5	-3.6	-8.6	8.6	9.6	6.1	-3.4	-3.7	9.6	6.1	3.4	0.0	0.0	11	12	2.1	3.8	11	12	2.1	3.8	11	12	2.1	3.8	11	12	2.1	3.8	11	12	2.1	3.8											
2. By Industry	Sales	1,111	1,111	0.0	0.0	2.1	0	-11	-11	-11	0.0	11	11	0.0	0.0	11	11	0.0	0.0	11	11	0.0	0.0	11	11	0.0	0.0	11	11	0.0	0.0	11	11	0.0	0.0											
	Operating Profit	120	112	-6.5	-8	10.8	644	577	-10.4	-67	13.1	649	608	-6.3	-41	13.2	2,500	2,500	0.0	28	13.2	2,500	2,500	0.0	28	13.2	2,500	2,500	0.0	28	13.2	2,500	2,500	0.0	28											
	Operating Profit Margin (%)	9.8	8.2	-1.6	-8.8	8.8	9.5	9.5	0.0	0.0	9.5	9.5	0.0	0.0	0.0	12	2.5	-0.8	-2.0	6.9	9.5	2.5	0.0	12	2.5	0.0	0.0	12	2.5	0.0	0.0	12	2.5	0.0	0.0											
	Operating Profit Margin (%)	9.8	8.2	-1.6	-8.8	8.8	9.5	9.5	0.0	0.0	9.5	9.5	0.0	0.0	0.0	12	2.5	-0.8	-2.0	6.9	9.5	2.5	0.0	12	2.5	0.0	0.0	12	2.5	0.0	0.0	12	2.5	0.0	0.0											
3. By Business Model	Sales	2,891	3,048	5.4	156	33.8	1,397	1,527	9.3	138	34.4	1,495	1,521	1.7	26	33.0	6,300	6,300	0.0	235	33.0	6,300	6,300	0.0	235	33.0	6,300	6,300	0.0	235	33.0	6,300	6,300	0.0	235											
	Operating Profit	1,951	1,466	-24.6	-478	16.3	956	731	-23.5	-235	16.6	980	735	-25.7	-254	15.9	3,300	3,300	0.0	356	15.9	3,300	3,300	0.0	356	15.9	3,300	3,300	0.0	356	15.9	3,300	3,300	0.0	356											
	Operating Profit Margin (%)	9.8	8.2	-1.6	-8.8	8.8	9.5	9.5	0.0	0.0	9.5	9.5	0.0	0.0	0.0	12	2.5	-0.8	-2.0	6.9	9.5	2.5	0.0	12	2.5	0.0	0.0	12	2.5	0.0	0.0	12	2.5	0.0	0.0											
	Operating Profit Margin (%)	9.8	8.2	-1.6	-8.8	8.8	9.5	9.5	0.0	0.0	9.5	9.5	0.0	0.0	0.0	12	2.5	-0.8	-2.0	6.9	9.5	2.5	0.0	12	2.5	0.0	0.0	12	2.5	0.0	0.0	12	2.5	0.0	0.0											
	Consolidated	1,959	1,869	-4.6	-98	9.3	886	856	-5.5	-53	9.5	1,021	983	-3.7	-38	9.8	800	800	0.0	236	9.8	800	800	0.0	236	9.8	800	800	0.0	236	9.8	800	800	0.0	236											
	Gross Profit Margin (%)	21.7	20.7	-1.0	-10	21.4	20.1	-1.3	-13	-1.3	21.4	20.1	-1.3	-13	-1.3	22.0	21.3	-0.7	-7	21.3	20.1	-1.3	-13	21.3	20.1	-1.3	-13	21.3	20.1	-1.3	-13	21.3	20.1	-1.3	-13											
	SG&A Expenses	1,165	1,336	14.7	171	568	665	17.1	97	597	670	12.2	73	12.2	73	12.2	73	12.2	73	12.2	73	12.2	73	12.2	73	12.2	73	12.2	73	12.2	73	12.2	73	12.2	73	12.2	73	12.2	73							
	Operating Profit	12.9	14.0	1.1	128	13.0	15.1	2.1	2.1	12.5	14.5	1.5	1.5	1.5	1.5	1.5	12.5	14.5	1.5	1.5	12.5	14.5	1.5	1.5	12.5	14.5	1.5	1.5	12.5	14.5	1.5	1.5	12.5	14.5	1.5	1.5	12.5	14.5	1.5	1.5						
	Operating Profit Margin (%)	5.8	5.9	0.1	1	5.8	5.8	0.0	0.0	0.0	5.8	5.8	0.0	0.0	0.0	5.8	5.8	0.0	0.0	5.8	5.8	0.0	0.0	5.8	5.8	0.0	0.0	5.8	5.8	0.0	0.0	5.8	5.8	0.0	0.0	5.8	5.8	0.0	0.0							
	Ordinary Profit	788	528	-33.0	-269	371	226	-38.3	-145	-145	412	301	-27.6	-116	-116	1,650	1,650	0.0	35	41.0	1,650	1,650	0.0	35	41.0	1,650	1,650	0.0	35	41.0	1,650	1,650	0.0	35	41.0	1,650	1,650	0.0	35							
	Ordinary Profit Margin (%)	6.7	5.9	-0.8	-2.8	6.5	5.1	-3.4	-3.4	-3.4	6.5	5.1	-3.4	-3.4	-3.4	6.5	5.1	-3.4	-3.4	6.5	5.1	-3.4	-3.4	6.5	5.1	-3.4	-3.4	6.5	5.1	-3.4	-3.4	6.5	5.1	-3.4	-3.4	6.5	5.1	-3.4	-3.4							
	Net Profit	501	662	32.1	161	232	157	32.3	78	78	269	504	87.4	235	235	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1	8.1			
	Net Profit Margin (%)	3.8	7.3	1.5	1	3.8	3.8	-1.7	-1.7	-1.7	3.8	3.8	-1.7	-1.7	-1.7	3.8	3.8	-1.7	-1.7	3.8	3.8	-1.7	-1.7	3.8	3.8	-1.7	-1.7	3.8	3.8	-1.7	-1.7	3.8	3.8	-1.7	-1.7	3.8	3.8	-1.7	-1.7	3.8	3.8	-1.7	-1.7			

(Reference and Notes) Q1 and Q2 are actual results. 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. Note that throughout this Report, due to rounding and processing of data during calculations, discrepancies or differences in values may occur.

First Half: Results by Segment

- Companywide, sales increased slightly by 7 million yen (+0.1% YoY) and operating profit declined by 261 million yen (-32.8% YoY) (please refer to Figure 1 for the description below).

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 77% of net sales and 72% of operating profit (based on this first half's results; the same applies hereinafter). This business posted sales of 6,938 million yen at a slight decline (-164 million yen or -2.3% YoY) due to a reduction in individual projects, although sales to major system integrators showed an upward trend.
- In the End-User Business, orders for large projects decreased, but were offset by other projects, resulting in a slight decrease in sales (-43 million yen or -2.5% YoY) to 1,702 million yen.
- Only the sales of the Service Providing Business increased, albeit by a small amount (+214 million yen or +128.1%

YoY) to 380 million yen, due to an increase in orders, including those for consulting services in collaboration with solution vendors. This growth offset the decline in sales in the other two businesses.

- Operating profit increased slightly in the End-User Business (+3 million yen or +2.0% YoY) due to improved profit margins. However, in the other two businesses, profit margins declined, resulting in lower profits.

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

- Sales declined for the distribution industry due to a reduction in projects with a general merchandise store and an apparel company, as well as for the transportation & telecommunication industries due to a reduction in projects with a logistics company. On the other hand, sales increased for the financial industry (the largest industry category in terms of both sales and operating profit) due to an increase in projects with a securities firm, regional banks, and online banks. Sales also increased for the other industries due to an increase in projects with the government and energy-related companies.
- However, profit margins declined for almost all industries due to higher subcontracting costs and personnel expenses, resulting in lower profits.

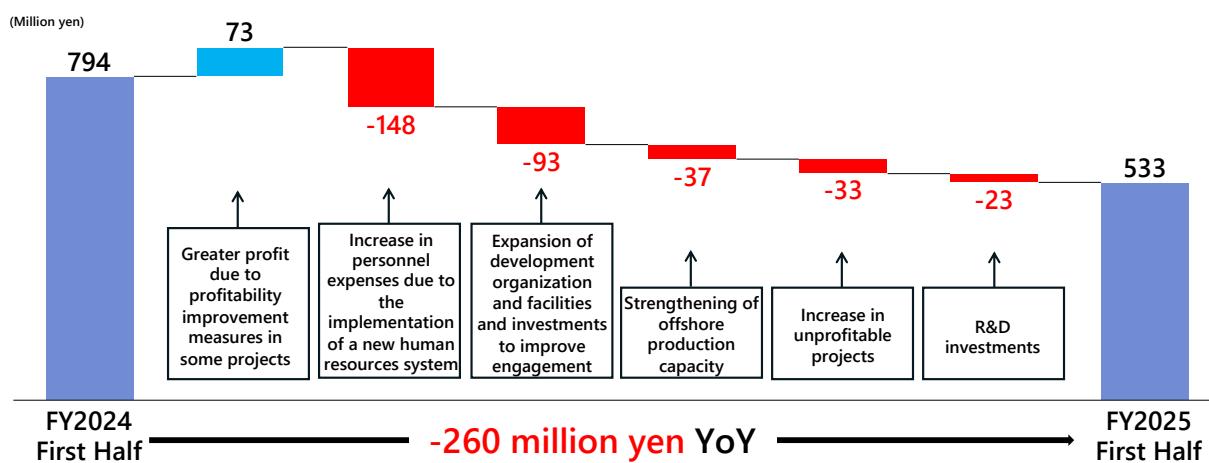
3. Results by Business Model (three categories)

- The System Enhancement Business, which accounted for 61% of net sales and 55% of operating profit, saw sales increase slightly by 114 million yen from the previous first half (+2.1% YoY) to 5,528 million yen, as orders were received in line with initial plans. However, since the profit margin declined by 2.4 percentage points, the amount of profit also decreased (from 417 million yen to 294 million yen; -123 million yen or -29.3% YoY).
- In the SI Business, which accounted for 34% of net sales and 43% of operating profit, sales fell by 237 million yen (-7.1% YoY) to 3,095 million yen and operating profit declined by 140 million yen (-37.9% YoY) to 228 million yen due to the scale-down of several cloud-solution projects.
- The Digital Business accounted for 4% of net sales and 2% of operating profit. Its sales increased by 130 million yen (+48.3% YoY) to 398 million yen and operating profit rose slightly by 1 million yen (+20.4% YoY) to 9 million yen due to the Company's new participation in an IoT infrastructure building project of the energy industry. Although the sales growth rate was high, the amount of contribution to the overall performance was limited due to its small scale.

First Half: Factors that Increased or Decreased Profit

- The factors that increased or decreased operating profit (YoY) in the first half of the current fiscal year are as shown in Figure 2.

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



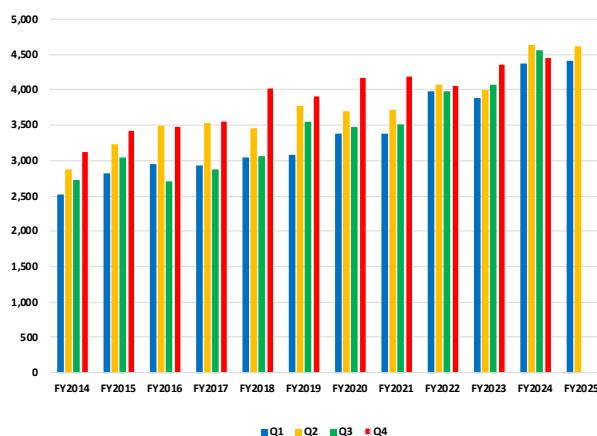
(Ref) Prepared by Alpha-Win Research Dept. based on the financial results briefing's supplemental materials.

- In some projects, profitability improvement measures helped increase profit (+73 million yen YoY to profit). On the other hand, there was a large increase in costs due to personnel expenses accompanying the implementation of a new human resources system (-148 million yen YoY to profit), investments in the expansion of the development organization and facilities (strengthened hiring and expansion of bases) and in engagement improvement measures (-93 million yen YoY to profit in total), and the strengthening of offshore production capacity (-37 million yen YoY to profit). In addition, there were unprofitable projects (-33 million yen YoY to profit), resulting in an overall decline of 260 million yen YoY in operating profit.
- Investments to strengthen development bases, as well as the development organization and facilities, are expected to continue actively in the second half as well.

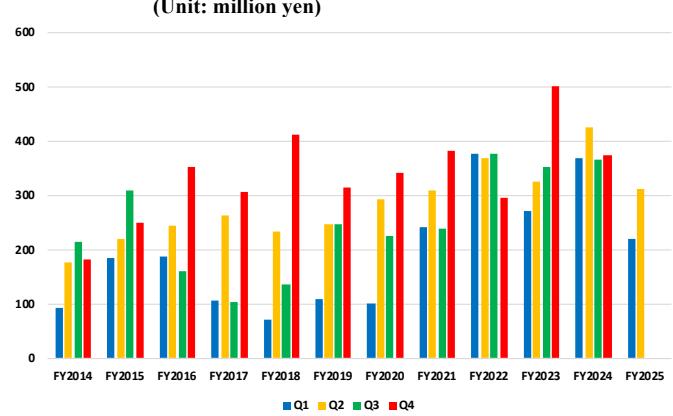
Progress in the First Half and Seasonality of Quarterly Results

- Progress in the first half toward achieving the Company's full-year forecast was low, at 48.0% for net sales (50.0% in the first half of the previous fiscal year) and 33.4% for operating profit (similarly, previously 51.7%).
- As reference, the simple average of progress in the first half over the past 23 years (including the previous fiscal year) was 48.3% for net sales and 44.9% for operating profit. Compared to these, progress in this fiscal year's first half was about average for sales, but largely below 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 performance (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 and 4, and Figure 5 on page 5).
- Also, profit margins tend to be the highest in Q4, which includes March when delivery dates are generally concentrated, and the lowest in Q1.

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



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



(Ref) Figures 3 and 4 were prepared by Alpha-Win Research Dept. based on the financial results briefing's supplemental materials.

Orders Received

- The overall amount of orders received has steadily increased from 9,484 million yen to 9,545 million yen (+61 million yen or +0.6% YoY), and the order backlog has also increased from 5,041 million yen to 5,171 million yen (+130 million yen or +2.6% YoY) (Figure 6 on page 5).

1. Orders Received: By Business Style (three categories)

- The amount of orders received and the order backlog decreased in the Sier Business, but this was offset by the increase in the End-User Business and the Service Providing Business. Although small in scale, the Service-

Providing Business was the highest in terms of the rate of increase in the amount of orders received and the order backlog.

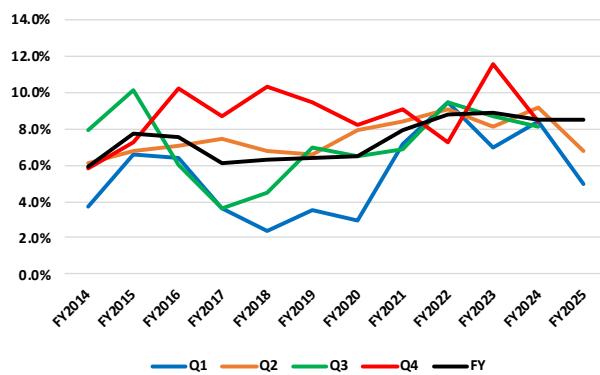
2. Orders Received: By Industry (four categories / six categories)

- Regarding the amount of orders received and the order backlog in the first half by industry, the decline in the financial, distribution, and transportation & telecommunication industries was offset mainly by the other industries (especially the government and other).

3. Orders Received: By Business Model (three categories)

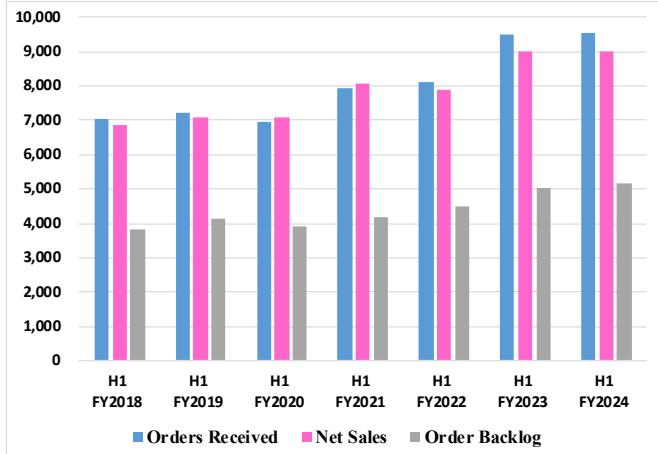
- The amount of orders received and the order backlog increased for the Digital Business and the System Enhancement Business, compensating for the decline in the SI Business.

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



(Ref) Figures 5 and 6 were prepared by Alpha-Win Research Dept. based on the financial results briefing's supplemental materials. FY2025 is the full-year forecast by the Company.

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



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 been working on improving the work environment and compensation, as well as strengthening engagement and mid-career hiring, systems demand by companies has continued to grow and the Company is still somewhat short of talents.
- First-half net sales and operating profit per employee in Japan, which are the Company's key management indicators, are both generally improving. However, this fiscal year, both have decreased temporarily due to greater investment in human resources. Changes in productivity and profitability in the next fiscal year and beyond will be key points to watch.

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

Change in Number: Persons	Total Number of Employees in Japan and Overseas			Net Sales Per Employee in Japan in the First Half			Operating Profit Per Employee in Japan in the First Half		
	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
% Change: %									
End of September 2020	791	31	4.0	10,033	-616	-5.8	791	31	4.1
End of September 2021	815	24	3.0	11,164	1,131	11.3	815	24	3.0
End of September 2022	869	54	6.6	10,494	-670	-6.0	795	-20	-2.5
End of September 2023	894	25	2.9	11,956	1,462	13.9	1053	258	32.5
End of September 2024	944	50	5.6	11,334	-622	-5.2	670	-382	-36.3

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

Balance Sheet

- As of the end of this first half, 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; it has 230 million yen in debt and is essentially debtless).
- With a current ratio of 413.8% and an equity ratio of 76.2%, its financial standing is firm.
- The key points will continue to be the effective use of its surplus capital for growth and the investment efficiency, including the expansion of its development organization and facilities, investments in human resources, enhancement of shareholder returns, M&As, business alliances, investments, and loans.

◆ Essentially no change to the full-year forecasts from the beginning of the fiscal year

- Aside from net profit, which reflects the posting of an extraordinary income, the Company has made no changes to its full-year forecasts since their announcement at the beginning of the fiscal year (Figure 8).

【Figure 8】 This Fiscal Year's Financial Performance (results for the first half including Q1 and Q2 and forecasts for the second half and the full fiscal year)

Unit: million yen	Last Fiscal Year's Results FY2024	This Fiscal Year's Most Recent Company Forecast FY2025	H1 FY2024 Results	H1 FY2025 Plan (previous)	H1 FY2025 Results	YoY Change (%)	H1 FY2025 Difference between Results and Plan	H1 FY2025 % Difference between Results and Plan	H2 FY2024 Results	H2 FY2025 Previous Plan	H2 FY2025 New Plan	YoY Change (%)	Q1 FY2024 Results	Q2 FY2024 Results	Q1 FY2025 Forecasts	Q2 FY2025 Forecasts	Q2 FY2025 Results	Q1 FY2025 YoY Change (amount)	Q2 FY2025 YoY Change (amount)	Q1 FY2025 YoY Change (%)	Q2 FY2025 YoY Change (%)
Net Sales	18,021	18,800	9,015	8,800	9,022	0.1%	223	2.5%	9,006	10,000	9,778	8.6%	4,376	4,639	4,411	4,389	4,611	35	-28	0.8%	-0.6
Gross Profit	3,922		1,960		1,869				1,962			938	1,022	886		983	-52	-39	-5.5%	-3.8	
Gross Profit Margin	21.8%		21.7%		20.7%				21.8%			21.4%	22.0%	20.1%		21.3%	-1.3%	-0.7%	-0.7%	-0.7%	
SG&A Expenses	2,386		1,166		1,336				1,220			568	598	665		671	97	73.0	17.1%	12.2	
SG&A Expense Ratio	13.2%		12.9%		14.8%				13.5%			13.0%	12.9%	15.1%		14.6%	2.1%	1.7%			
Operating Profit	1,536	1,600	794	600	533	-32.8%	-67	-11.2%	742	1,000	1,067	43.8%	369	425	220	380	313	-149	-112	-40.4%	-26.4
Operating Profit Margin	8.5%	8.5%	8.8%	6.8%	5.9%	-2.9%	-0.9%	-0.9%	8.2%	10.0%	10.9%	0.9%	8.5%	9.2%	5.0%	8.7%	6.8%	-3.5%	-2.4%		
Ordinary Profit	1,590	1,650	788	650	528	-33.0%	-122	-18.8%	802	1,000	1,122	39.9%	371	417	226	424	302	-145	-115	-38.9%	-27.6
Net Profit	1,067	1,260	501	440	662	32.1%	223	50.5%	566	660	598	5.7%	232	269	157	283	505	-75	236	-32.3%	87.7

(Ref) Prepared by Alpha-Win Research Dept. based on the results and the Company's forecasts. Forecasts for the second half were calculated by subtracting the first half's results from the Company's full-year forecasts. H1 = first half. H2 = second half.

This Fiscal Year (second half): Company Forecast**Financial Forecast for the Second Half**

- In the first half, operating and ordinary profits fell short of their initial forecasts made at the beginning of the fiscal year. However, the Company did not revise its full-year forecasts, meaning that the net sales forecast for the second half (full-year forecast minus first-half result) has essentially been revised downward by 222 million yen (-2.2% compared to the plan) from 10,000 million yen (+11.0% YoY) to 9,778 million yen (+8.6% YoY).
- Similarly, operating profit for this second half has essentially been revised upward by 67 million yen (+6.7% compared to the plan) from 1,000 million yen (+34.8% YoY) to 1,067 million yen (+43.8% YoY). The operating profit margin has also essentially been revised upward by 0.9 percentage point from 10% to 10.9%.
- On the other hand, net profit has been revised downward by 62 million yen (-9.4%), from 660 million yen (+16.6% YoY) to 598 million yen (+5.7% YoY).

Plans for the Second Half

- The Company has stated that "FY2025 will be a year for strengthening our foundation to prepare for rapid and significant growth starting in the next fiscal year (FY2026)."
- In the second half of this fiscal year, the Company plans to focus on the following areas: promoting collaboration (expanding the scope of collaboration with major system integrators and expanding into highly profitable areas), strengthening its development organization and facilities (hiring more highly skilled personnel and developing business partners), improving quality (eliminating unprofitable projects), and enhancing human capital (investing to strengthen engineering skills and implementing measures to improve employee retention rates).

This Fiscal Year (full year): Company Forecast**Financial Outlook**

- The Company has not changed the following full-year forecasts that were announced at the beginning of the fiscal year: net sales of 18,800 million yen (+4.3% YoY), operating profit of 1,600 million yen (+4.2% YoY), and ordinary profit of 1,650 million yen (+3.7% YoY).

- However, it has revised its retirement benefit plan (transferred a portion of its defined benefit corporate pension plan to a defined contribution pension plan) and posted an extraordinary income of 160 million yen in the first half. This extraordinary income was added to the initial net profit forecast of 1,100 million yen (+3.1% YoY), resulting in an upward revision of net profit to 1,260 million yen (+18.1% YoY).
- In any case, since the beginning of this fiscal year, the Company has expected sales and profits to continue to increase this fiscal year. It also plans to achieve record-high net sales and profits for the consecutive fiscal year.
- It plans to raise 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). This dividend forecast has not been changed, despite the upward revision of net profit.
- Consequently, the consolidated dividend payout ratio is expected to be 47.8% (55.1% before the upward revision), which is below the target of 50%.

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

- For this fiscal year's financial results, Alpha-Win Research Department had forecasted the same amounts (of net sales, profits, and dividends) as the Company.
- However, in line with the Company's upward revision of its net profit forecast, we have also revised our forecast by the same amount to 1,260 million yen.
- The Company expects business performance to sharply recover in the second half of the current fiscal year. In the second half, new hires will begin contributing to operations, and projects are expected to increase due to strengthened cooperation with major system integrators and expansion into highly profitable areas. In addition, more efficient resource utilization and cost control are likely to lead to improvements. However, the Company's assumptions for the sales growth rate, profit growth rate, and operating profit margin in the second half seem ambitious considering their level through the first half and the rate of increase in the order backlog. Further management efforts will likely be needed to achieve its full-year forecasts, particularly in terms of profits.
- However, at present, its customers' appetite for strategic IT investments is strong, and the Company's current orders, business negotiations, and price per contract remain firm with no signs of change. Therefore, we believe that if the Company controls costs appropriately in the second half, the downside risk to its business performance in the current fiscal year should be limited.

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," the Company 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 medium-term financial performance (for FY2026 and FY2027) since our previous report (Figure 9).
- The Company's users (companies) will likely continue to increase IT investments, as long as their business performance remains strong, driven by needs to develop new business models, strengthen their competitive edge, address labor shortages, streamline and speed up operations, digitalize, 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 as it continues to use its abundant cash on hand to hire more employees and expand its development bases. Since the high level of investment in FY2024 and FY2025 is planned to be halved in FY2026, the rate of cost increase is expected to slow down and investments results are expected to begin contributing to profits.
- In addition, the Company plans to focus on and expand its solution services, such as the **H·CUBiC Service** (a service for the holistic support of human capital management) and the **Oracle Cloud HCM Implementation Support Service**. Business development in these areas will be another key point to watch.
- 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.

- However, given factors such as inflation, rising domestic interest rates, and the global uncertainty, some of the Company's corporate customers with deteriorating business performance may start to curb their IT investments in the future, leading to potential changes in customers' approaches to IT investment.
- In addition, we should be aware of risks including further increases in procurement costs and personnel expenses, bottlenecks caused by a shortage of human resources due to a greater mobility of human resources and difficulties in hiring new employees, and the occurrence of unprofitable projects.

【Figure 9】 Medium-Term Financial Forecasts

Unit: million yen or %	FY2024 Results	FY2025 New CE	FY2025 New 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	6,500		7,000	7,500	7,200
Enhancement Business	10,786	11,200	11,500		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	1,260	1,260		1,250		1,450
(Ratio to sales)	5.9%	6.7%	6.7%		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%	18.1%		-0.8%		16.0%

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

◆ Stock price and characteristics: Significantly outperforming the TOPIX over the long term as a stable growth stock centered on domestic demand. The Company's stock seems somewhat undervalued.

Performance

- Over the past approximately 15 years, the Company's stock price increased by about 5.3x thanks to its strong business performance, significantly outperforming the TOPIX (by about +206%).
- However, over the past 12 months, the Company's stock has been underperforming the TOPIX (Figure C on page 10). This is most likely due to strong performance of financial stocks, resource stocks, foreign-demand-oriented stocks benefitting from the weak yen, and stocks with announcements of upward earnings revisions and share buybacks, which are outperforming the TOPIX. In contrast, the Company is a small-cap, domestic-demand-oriented stock with low liquidity, low forecasted profit growth rates for the full fiscal year (including operating profit), and slow progress in the first half toward achieving the full-year profit targets.
- The Company's stock is characterized as being defensive and domestic-demand-oriented, 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 market (HIMACS* with securities code 4299 and Toho System Science* with securities code 4333), indicating that the Company's business performance is relatively stable.
- On the other hand, the historical beta (weekly) of the Company's stock over the past five years is high, at approximately 1.5x that of its two competitors.

Valuation

- Currently, the average valuation of all companies listed on the TSE Prime Market is as follows: forecasted P/E ratio of 15.94, actual P/B ratio of 1.36, and forecasted dividend yield (simple average) of 2.44% (based on the closing price on November 8, 2024).

Short Report

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- Compared to these averages of the TSE Prime, the Company's valuation is somewhat low in terms of its P/E ratio of 12.21 (14.10 based on profit excluding the extraordinary income), while it is high in terms of its P/B ratio of 1.47.
- Although each profit's actual growth rate (YoY) for this fiscal year is modest, at around +3% to +4%, this is due to higher costs from inflation and the Company's strategic upfront investments. Considering its medium-term growth potential and the relatively high forecasted dividend yield for this fiscal year (3.91%), the Company's stock seems somewhat undervalued.
- Compared to its two competitors* mentioned earlier, the Company's valuation is in the middle range (the second highest among the three companies) in terms of the major valuation measures (actual P/E, P/B, and EV/EBITDA) excluding P/S and dividend yield (which are the highest among the three companies) (Figure 10).

【Figure 10】 Comparison of Valuation with Competitors

Item	Company Name	CUBE SYSTEM (CS: consolidated)	HIMACS (HM: consolidated)	Toho System Science (TS: non-consolidated)	Reference: Nomura Research Institute (NRI: consolidated and based on the IFRS)	All TSE Prime Stocks (average)
Stock Price Information	Code	2335 P	4299 S	4333 P	4307 P	-
	Stock Price (closing price on 11/8/2024)	1,023	1,404	1,464	4,735	1,411.21
	Market Capitalization (million yen)	16,112	17,428	30,450	2,750,073	-
Valuation	P/E (price-to-earnings ratio)	12.21	13.33	22.54	30.92	15.94
	P/B (price-to-book ratio)	1.47	1.44	2.76	6.62	1.36
	Dividend Yield (%)	3.91	3.13	2.73	1.22	2.44
	EV/EBITDA	6.03	4.25	11.77	15.76	-
	P/S (price-to-sales ratio)	0.86	0.94	1.71	3.53	-
Volatility	Weekly Beta (β) against TOPIX Over the Past 5 Years	1.10	0.58	0.58	0.83	-
	Coefficient of Variation of the Sales Growth Rate Over the Past 20 Years	1.08	2.28	1.92	-	-
	Coefficient of Variation of the Operating Profit Growth Rate Over the Past 20 Years	1.96	3.81	3.76	-	-
Results for the First Half of This Fiscal Year (Apr - Sep 2024)	Sales (million yen)	9,023	8,816	8,783	376,778	-
	YoY Sales Growth Rate (%)	0.1	1.7	9.8	4.1	-
	Operating Profit (million yen)	533	804	750	65,635	-
	YoY Operating Profit Growth Rate (%)	-32.8	14.3	8.5	11.5	-
	Operating Profit Margin (%)	5.9	9.1	8.5	17.4	-
	H1 Sales Progress Relative to Full-Year Plan (%)	48.0	47.4	49.3	48.3	-
	H1 Operating Profit Progress Relative to Full-Year Plan (%)	33.3	45.2	44.1	49.7	-
This Fiscal Year's Forecasts (full-year forecasts by each company)	Sales (million yen)	18,800	18,600	17,800	780,000	-
	YoY Sales Growth Rate (%)	4.3	7.2	9.3	5.9	-
	Operating Profit (million yen)	1,600	1,780	1,700	132,000	-
	YoY Operating Profit Growth Rate (%)	4.2	3.5	4.2	9.6	-
	Operating Profit Margin (%)	8.5	9.6	9.6	16.9	-

(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 11/8/2024 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 H1.

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

Interest bearing debt and cash & deposits reflect this fiscal year's H1 results.

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

Depreciation and intangible fixed asset amortization, etc., are calculated to be double that of this fiscal year's H1.

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 its business performance progress (achievement of full-year profit goals and the level of profit planned for the next fiscal year) and changes in its stock return (whether there will be a dividend hike, a share buyback, or a stock split).
- Over the medium term, the key points will be changes in the top line (sales growth rate, hiring and retaining of employees, and the effect of the alliance with NRI) and changes in the profit margins (gross profit margin, operating profit margin, and SG&A expense ratio). We should also keep note of 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 stock price may rise due to adjustment for the level of 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.

Alpha-Win Company Research Report

CUBE SYSTEM INC. (2335 TSE Prime)

Issued: 11/15/2024

[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	Old 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 CE	18,800	4.3	1,600	4.2	1,650	3.7	1,260	18.1	83.76	Not disclosed	40.0
2025	Old E	18,800	4.3	1,600	4.2	1,650	3.7	1,100	3.1	72.55	705.91	40.0
2025	New E	18,800	4.3	1,600	4.2	1,650	3.7	1,260	18.1	83.68	717.49	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	-0.8	83.02	759.01	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	96.30	808.81	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	4,611	-0.6	313	-26.4	302	-27.6	505	87.7	33.54		20.0
2025	Q2: Old 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	9,022	0.1	533	-32.8	528	-33.0	662	32.1	44.01		20.0
2025	H1: Initial 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	9,778	8.6	1,067	43.8	1,122	39.9	598	5.7	39.70		20.0
2025	H2: Initial CE	10,000	11.0	1,000	34.8	1,000	24.7	660	16.6	43.53		20.0

(Ref) Prepared by Alpha-Win Research Dept.

(Notes) CE: the Company's forecast/estimate. E: Alpha-Win Research Dept.'s forecast/estimate. Q1: April to June. Q2: July to September.

H1 (first half): April to September. H2 (second half): October to March.

[Stock Price and Valuation Indicators: 2335 CUBE SYSTEM] Figure B											
Item	11/8/2024	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio					
Stock Price (Y)	1,023	Last FY (actual)	14.5	1.5	3.4%	49.7%					
Shares Outstanding (thou.)	15,750	This FY (forecast)	12.2	1.4	3.9%	47.8%					
Market Capitalizatoin (million yen)	16,112	Next FY (forecast)	12.2	1.3	4.2%	51.4%					
Dilutive Shares (thou.)	0	FY After the Next (forecast)	10.6	1.3	4.9%	51.9%					
Equity Ratio at the End of This FY's First Half	76.2 %	Last FY's DOE		5.4%	Last FY's ROE	10.8%					

(Ref) Prepared by Alpha-Win Research Dept.

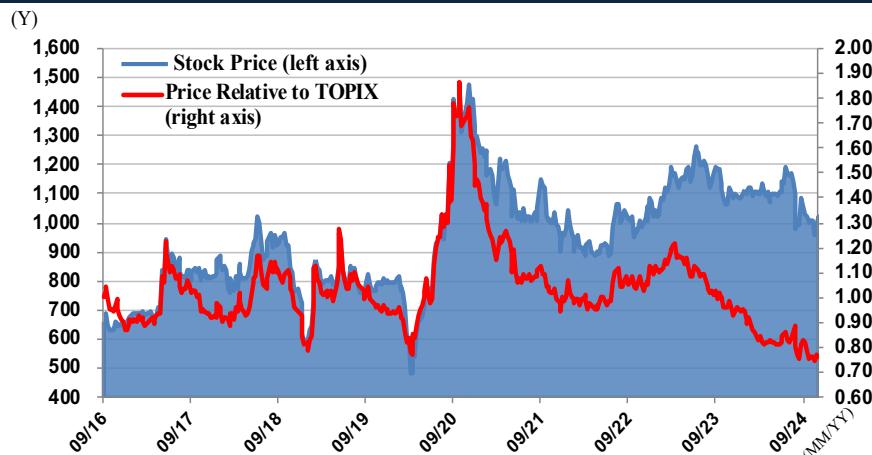
(Note) Estimates for this fiscal year and the following two fiscal years have been made by Alpha-Win Research Dept.

Short Report

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



[Performance]		
Period	Return	vs. TOPIX
1 month	2.1%	0.4%
3 months	-5.5%	-6.6%
6 months	-7.8%	-6.7%
12 months	-8.0%	-23.5%

(Notes)

- Reflects stock and index prices through the closing price on November 8, 2024.
- “Vs. TOPIX” is the relative value after subtracting the TOPIX’s performance from the performance of the Company’s stock.
- Performance for the 1-month period is the comparison between the closing price on the last day of October and the closing price on November 8 (similar for the other periods).

(Note) From the first week of September 2016 to the second week of November 2024 (through the closing price on November 8, 2024)

(Ref) Prepared by Alpha-Win Research Dept.

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