

# Alpha-Win Company Research Report

## CUBE SYSTEM INC. (2335 TSE Prime)

Issued: 2/17/2025

### ● Summary

Alpha-Win Capital Research Department  
<https://www.awincap.com/>

#### ◆ 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 Prime Market of the Tokyo Stock Exchange (TSE). Its main customers include Nomura Research Institute (NRI) and 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 1972, it has 52 years of history.

#### Business Performance Trends

- 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 of net sales (simple average of the rate of increase in net sales) was 6.1% and the annual growth rate of 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. This fiscal year, it plans to achieve record-high net sales and net profit again, along with a consecutive dividend increase.

#### 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 (current progress is mostly in line with the plan).

#### ◆ Results for the first nine months of this fiscal year: Sales increased slightly, but operating profit decreased significantly due to upfront investments.

#### Q3 YTD: Summary

- Results for the first nine months of FY2025 (April-December 2024; hereinafter, “Q3 YTD”) were as follows: net sales of 13,652 million yen (+0.6% year-over-year or YoY), operating profit of 890 million yen (-23.4% YoY), ordinary profit of 894 million yen (-23.5% YoY), and profit attributable to owners of parent (hereinafter, “net profit”) of 904 million yen (+19.3% YoY) (Figure 1 on page 2).
- Net sales reached a record high for the Q3 YTD period. Operating and ordinary profits did not reach new highs, but net profit reached a record high due to a gain on revision of the retirement benefit plan (+359 million yen) recorded as an extraordinary income.
- IT investments are trending upward as companies continue to make investments in areas such as DX and the cloud, backed by strong business performances. Despite this trend, the Company experienced a decrease in orders from

Short Report

1/14

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the distribution and transportation & telecommunication industries, by industry, as well as in the SI Business, by business model, and in 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), by business style. Sales also declined in these areas. However, due to growth in other areas, orders and sales slightly increased for the Company as a whole.

- Profit declined significantly despite this increase in sales, since the Company has continued to make upfront investments, primarily in strengthening its development organization and facilities, as well as in human resources (headcount increase, implementation of a new human resources system, and human resources development). In addition, various costs increased due to inflation and several unprofitable projects occurred.

### **Q3 YTD: Progress**

- Progress during this fiscal year’s Q3 YTD in terms of achieving the Company’s full-year forecast (the new, revised forecast) was 74.6% for net sales (75.3% in the previous fiscal year’s Q3 YTD) and 68.5% for operating profit (similarly, previously 75.6%). Progress was somewhat lower than the previous fiscal year for both.
- For reference, the simple average of the Q3 YTD progress over the past ten years, including the previous fiscal year, is 72.7% for net sales and 66.7% for operating profit. Compared to these averages, this fiscal year’s Q3 YTD progress is approximately 2 percentage points higher for both net sales and operating profit.

**【Figure 1】 Summary of Q3 YTD Results**

Consolidated	Results		FY2024 Q3 YTD	FY2025 Q3 YTD	% Change	Change in Amount / Difference	% of Total
	Unit: million yen or %		Apr-Dec 2023	Apr-Dec 2024	YoY: %	YoY: million yen or %	%
Category	Consolidated Sales	Service or Industry Name	13,565	13,652	0.6	87	100.0
1. By Business Style	Sales	SIer Business	10,532	10,404	-1.2	-128	76.2
		End-User Business	2,632	2,663	1.2	31	19.5
		Service Providing Business	399	583	45.9	184	4.3
	Operating Profit	SIer Business	878	681	-22.4	-197	76.5
		End-User Business	247	172	-30.3	-75	19.3
		Service Providing Business	35	36	0.7	1	4.0
	Operating Profit Margin (%)	SIer Business	8.3	6.5	-1.8	-	-
		End-User Business	9.4	6.5	-2.9	-	-
		Service Providing Business	9.0	6.2	-2.8	-	-
2. By Industry	Sales	Finance	4,484	4,579	2.1	95	33.5
		Distribution	2,804	2,312	-17.5	-492	17.0
		Telecommunication & Transportation	1,923	1,768	-8.1	-155	13.0
		Manufacturing (other)	1,205	1,308	8.6	103	9.6
		Government (other)	842	1,355	60.8	513	9.9
		Other (other)	2,305	2,327	1.0	22	17.0
	Operating Profit	Finance	391	342	-12.6	-49	38.4
		Distribution	230	97	-57.5	-133	10.9
		Telecommunication & Transportation	181	209	15.5	28	23.5
		Manufacturing (other)	78	85	8.4	7	9.6
		Government (other)	97	125	29.2	28	14.0
		Other (other)	182	29	-83.7	-153	3.3
	Operating Profit Margin (%)	Finance	8.7	7.5	-1.2	-	-
		Distribution	8.2	4.2	-4.0	-	-
		Telecommunication & Transportation	9.4	11.8	2.4	-	-
		Manufacturing (other)	6.5	6.5	0.0	-	-
		Government (other)	11.6	9.3	-2.3	-	-
		Other (other)	7.9	1.3	-6.6	-	-
3. By Business Model	Sales	Digital Business	398	606	52.1	208	4.4
		SI Business	5,054	4,682	-7.4	-372	34.3
		System Enhancement Business	8,111	8,363	3.1	252	61.3
	Operating Profit	Digital Business	8	19	129.2	11	2.1
		SI Business	493	322	-34.6	-171	36.2
		System Enhancement Business	660	548	-16.9	-112	61.6
	Operating Profit Margin (%)	Digital Business	2.1	3.1	1.0	-	-
		SI Business	9.8	6.9	-2.9	-	-
		System Enhancement Business	8.1	6.6	-1.5	-	-
Consolidated	Gross Profit		2,934	2,881	-1.8	-53	-
	Gross Profit Margin (%)		21.6	21.1	-0.5	-	-
	SG&A Expenses		1,772	1,994	12.5	222	-
	SG&A Expense Ratio (%)		13.1	14.6	1.5	-	-
	Operating Profit		1,161	890	-23.4	-271	-
	Operating Profit Margin (%)		8.6	6.5	-2.1	-	-
	Ordinary Profit		1,169	894	-23.5	-275	-
	Ordinary Profit Margin (%)		8.6	6.5	-2.1	-	-
	Net Profit		758	904	19.3	146	-
	Net Profit Margin (%)		5.6	6.6	1.0	-	-

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

### **Quarterly Financial Performance: Summary**

- Trends in quarterly results are described in Figure 2 on page 3.
- Net sales were 4,411 million yen in Q1 (+0.8% YoY), 4,610 million yen in Q2 (-0.6% YoY), and 4,630 million yen in Q3 (+1.8% YoY), all of which were largely flat YoY.

Short Report

2/14

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- Operating profit was 220 million yen in Q1 (-40.4% YoY), 312 million yen in Q2 (-26.4% YoY), and 356 million yen in Q3 (-3.0% YoY); it declined YoY but the rate of decline is slowing. On a quarter-over-quarter (QoQ) basis, operating profit is on an upward trend.
- From the previous fiscal year to this fiscal year (the same order applies hereinafter), the gross profit margin declined by 1.3 percentage points in Q1, from 21.4% to 20.1%, and by 0.7 percentage point in Q2, from 22.0% to 21.3%. On the other hand, in Q3, it rose by 0.5 percentage point, from 21.4% to 21.9%. In sum, the Q3 YTD gross profit margin declined by 0.5 percentage point, from 21.6% to 21.1%.
- Meanwhile, SG&A expenses increased by 97 million yen in Q1 (+17.1% YoY), from 568 million yen to 665 million yen, and by 73 million yen in Q2 (+12.2% YoY), from 597 million yen to 670 million yen. Similarly, in Q3, they increased by 51 million yen (+8.4% YoY), from 606 million yen to 657 million yen. Both the amount and rate of increase have narrowed compared to the same period of last fiscal year. However, in each quarter, the rate of increase in SG&A expenses exceeded the rate of increase in sales, leading to an increase in the SG&A expense ratio.
- For Q3 YTD, SG&A expenses increased by 222 million yen (+12.5% YoY), rising from 1,772 million yen in the previous fiscal year's Q3 YTD to 1,994 million yen. The SG&A expenses ratio rose by 1.5 percentage points, from 13.1% to 14.6%.
- As a result, the operating profit margin for Q3 YTD declined by 2.1 percentage points, from 8.6% to 6.5%.

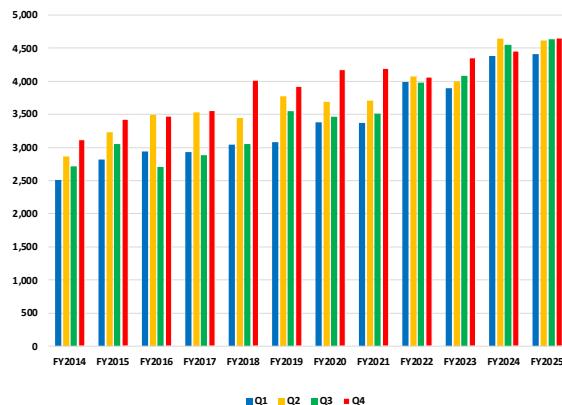
【Figure 2】 This Fiscal Year's Quarterly Results (results from Q1 to Q3 and the Company's forecast)

(Source and Notes) Q1, Q2, and Q3 are actual results. Q4 and 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, discrepancies or differences in values may occur due to rounding and processing of data during calculations.

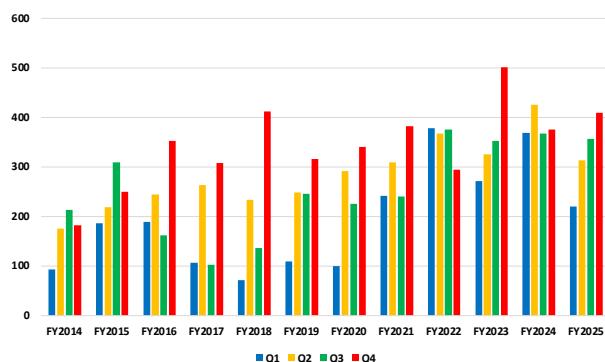
## Quarterly Financial Performance: Volatility

- As a characteristic of the Company and of its industry in general, financial performance and profit margins tend to fluctuate on a quarterly basis. Generally, profit margins tend to be the highest in Q4, which includes March when delivery dates are concentrated, and the lowest in Q1 (Figures 3, 4, and 5 on page 4).
- For the Company, the fourth quarter (Q4 or Jan-Mar) tends to contribute the most to its full-year performance (past ten years' average for the Company: 27.3% of full-year net sales and 33.3% 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 22.4%, respectively). Q1 has generally been the smallest in contribution (Q1 or Apr-Jun; average of 23.1% and 17.4%, respectively).

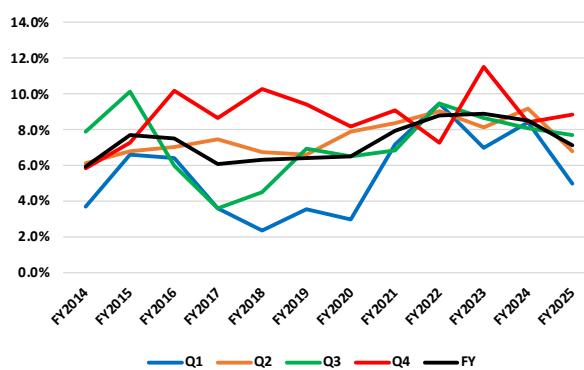
**【Figure 3】 Quarterly Change in Net Sales**  
(Unit: million yen)



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



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



(Source) Figures 3-5 were prepared by Alpha-Win Research Dept. based on the financial results briefing's supplemental materials. Q4 and full-year values for FY2025 are the Company's plan.

## Q3 YTD: Results by Segment

- Companywide, net sales increased slightly by 87 million yen YoY (+0.6% YoY) and operating profit declined by 271 million yen (-23.4% YoY) (please refer to Figure 1 on page 2 for the description below).

### 1. Results by Business Style (three categories)

- The SIer Business accounted for approximately 76% of both the companywide net sales and operating profit (based on this fiscal year's Q3 YTD results; the same applies hereinafter). Although business with some system integrators has been on an expansionary trend, this segment's sales decreased slightly to 10,404 million yen (-128 million yen or -1.2% YoY) due to the contraction of certain individual projects. In addition, unprofitable projects occurred, resulting in a segment operating profit (hereinafter referred to as "profit") of 681 million yen, a decrease of 197 million yen or 22.4% YoY.
- In the End-User Business, orders for large projects decreased, but were offset by small and medium-sized projects, resulting in a slight increase in sales to 2,663 million yen (+31 million yen or +1.2% YoY). Since unprofitable projects occurred in this business as well, profit declined to 172 million yen (-75 million yen or -30.3% YoY) despite sales growth. This business accounted for approximately 19% of both the companywide net sales and operating profit.
- Sales of the Service Providing Business were 583 million yen, posting an increase, albeit on a small scale (+184 million yen or +45.9% YoY). This was because orders increased significantly, including those for consulting services in collaboration with solution vendors. This business' growth offset the decline in the SIer Business' sales. Profit was mostly flat YoY, at 36 million yen (+1 million yen or +0.7% YoY). This business accounted for

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approximately 4% of both the companywide net sales and operating profit.

- Operating profit margins of all three businesses declined by approximately 2 to 3 percentage points YoY due to increased costs and other factors. The only business to post a slight increase in profit was the Service Providing Business, whose sales increased significantly. The SIer Business and End-User Business were unable to offset their decline in profit margins, resulting in double-digit declines in profit.

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

- Regarding the financial industry (the largest industry category accounting for 33.5% of companywide net sales and 38.4% of companywide profit), projects for a stock exchange and a housing finance increased. This industry category saw a slight increase in sales from 4,484 million yen last fiscal year to 4,579 million yen this fiscal year (+95 million yen or +2.1% YoY), but a decrease in profit from 391 million yen to 342 million yen (-49 million yen or -12.6% YoY).
- Regarding the distribution industry (17.0% of companywide net sales and 10.9% of companywide profit), sales fell from 2,804 million yen to 2,312 million yen (-492 million yen or -17.5% YoY) due to a decrease in projects for a major GMS and an apparel company. Profit was halved from 230 million yen to 97 million yen (-133 million yen or -57.5% YoY). Note that its partner NRI and competitor HIMACS\* also posted YoY declines in sales to the distribution industry in Q3 YTD (double-digit sales declines).

(\*Please refer to page 11)

- Due to a decrease in projects for logistics companies, sales to the transportation & telecommunication industries declined from 1,923 million yen to 1,768 million yen (-155 million yen or -8.1% YoY). However, profit increased from 181 million yen to 209 million yen (+28 million yen or +15.5% YoY) due to profit margin improvement. Sales to the transportation & telecommunication industries accounted for 13.0% of companywide net sales and 23.5% of companywide profit.
- On the other hand, sales to other industries increased thanks to an increase in projects for the government (received an order for a large, DX-promotion-related project for the central government), the manufacturing industry, and energy-related companies (sales increased from 4,352 million yen to 4,990 million yen; +638 million yen or +14.7% YoY). However, profit declined from 357 million yen to 239 million yen (-118 million yen or -33.1% YoY) due to a lower profit margin (declined from 8.2% to 4.8%). Other industries accounted for 36.6% of companywide net sales and 26.9% of companywide profit.

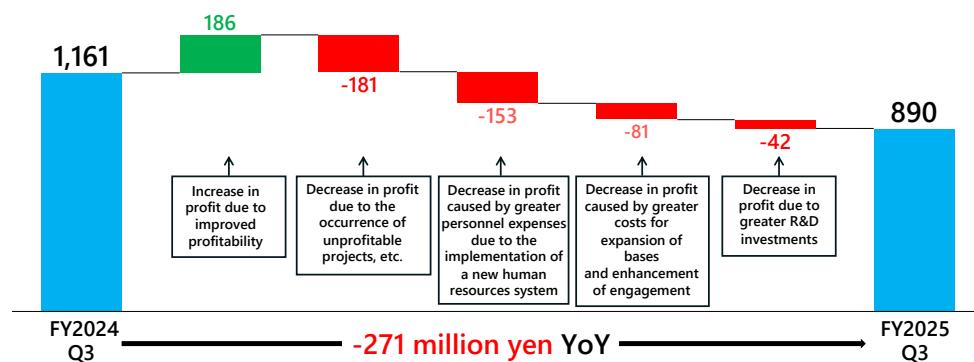
## 3. Results by Business Model (three categories)

- The System Enhancement Business, which accounted for 61% of companywide net sales and 62% of companywide operating profit, posted sales of 8,363 million yen due to solid orders in existing business areas, particularly from the government. Sales increased slightly (+252 million yen or +3.1% YoY), but the profit margin declined by 1.5 percentage points from 8.1% to 6.6%, resulting in a decrease in profit from 660 million yen to 548 million yen (-112 million yen or -16.9% YoY).
- The SI Business, which accounted for 34% of companywide net sales and 36% of companywide operating profit, saw a decline in demand in certain areas (presumably the distribution and transportation industries). Consequently, sales decreased by 372 million yen (-7.4% YoY) to 4,682 million yen. The profit margin also decreased from 9.8% to 6.9% (-2.9% YoY), resulting in a decrease in operating profit by 171 million yen (-34.6% YoY) to 322 million yen.
- The Digital Business, which accounted for 4% of companywide net sales and 2% of companywide operating profit, saw sales increase by 208 million yen (+52.1% YoY) to 606 million yen and operating profit increase by 11 million yen (+129.2% YoY) to 19 million yen thanks to the strategic acquisition of projects (presumably IoT infrastructure building projects in the energy sector). Although the business' contribution to companywide profit was limited due to its small scale, it is a high-growth segment whose progress we should continue to monitor.

**Q3 YTD: Factors that Increased or Decreased Profit**

- The factors that increased or decreased operating profit (YoY) in the current fiscal year's Q3 YTD are as shown in Figure 6.
- Measures to improve profitability (such as increasing productivity through the use of tools and training, price revisions, and increasing orders through its one-stop service) contributed to increasing profit (impact on profit: +186 million yen YoY).
- On the other hand, there was a large increase in costs due to the occurrence of unprofitable projects (impact on profit: -181 million yen), increased personnel expenses for the introduction of a new human resources system (impact on profit: -153 million yen), investments in the expansion of bases and measures to enhance engagement (total impact on profit: -81 million yen), and R&D investments (impact on profit: -42 million yen). As a result, operating profit decreased from 1,161 million yen to 890 million yen (-271 million yen).

**【Figure 6】 Factors that Increased or Decreased Operating Profit in Q3 YTD**  
(Unit of million yen; YoY; **factors that increased profit** and **factors that decreased profit**)



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

**Orders Received**

- The total amount of orders received increased from 13,241 million yen in the previous fiscal year's Q3 YTD to 13,394 million yen (+153 million yen or +1.2% YoY), and the order backlog increased from 4,248 million yen to 4,389 million yen (+141 million yen or +3.3% YoY), showing a steady increase, albeit at a low rate (Figure 7).

**【Figure 7】 Change in Orders Received, Net Sales, and Order Backlog in Q3 YTD (Unit: million yen)**



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

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

- Although the amount of orders received somewhat decreased for the mainstay SIer Business (-268 million yen or -2.5% YoY), this was offset by the increase in the End-User Business and the Service Providing Business (+213 million yen or +9.4% YoY and +206 million yen or +73.2% YoY, respectively). Although the scale of the Service Providing Business is small, its rate of increase in orders received was high. Order backlogs increased for all business styles.

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

- By industry, the amount of orders received decreased for the financial, distribution, and transportation & telecommunication industries (by 150 million yen, 359 million yen, and 232 million yen, respectively). However, this was offset by the other industries (particularly orders from the government, which increased by 539 million yen). The same was true for the orders backlog by industry.

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

- The amount of orders received increased in the Digital Business and the System Enhancement Business (by 206 million yen and 403 million yen, respectively) and their order backlogs also increased (by 53 million yen and 203 million yen, respectively). These offset the decrease in orders in the SI Business (the amount of orders received decreased by 458 million yen and the order backlog decreased by 116 million yen).

**Number of Employees, Productivity, and Profitability**

- In the Company's core business model (contract-based development services), 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 8).
- 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 short of talents (especially for DX).
- Q3 YTD net sales and operating profit per employee in Japan, which are the Company's key management indicators, have both shown an improving trend over the medium to long term. However, they tend to be impacted by changes in the amount of orders received and the price per contract, as well as the amount of investment in human resources (number of hires, employee turnover rate, and changes in personnel expenses). We will continue to monitor changes in productivity and profitability in the next fiscal year and beyond.

**【Figure 8】 Number of Employees and Change in Net Sales and Operating Profit Per Capita in Q3 YTD**

Change in Number: Persons	Total Number of Employees in Japan and Overseas			Net Sales Per Employee in Japan in Q3 YTD			Operating Profit Per Employee in Japan in Q3 YTD		
	% Change: %	Number of Persons	Change in Number: YoY	% Change: YoY	Thousand Yen	Change in Amount: YoY	% Change: YoY	Thousand Yen	Change in Amount: YoY
End of December 2020	786	41	5.5	15,196	-987	-6.1	1,136	187	19.7
End of December 2021	815	29	3.7	16,794	1,598	10.5	1,565	429	37.8
End of December 2022	860	45	5.5	16,223	-571	-3.4	1,288	-277	-17.7
End of December 2023	885	25	2.9	18,331	2,108	13.0	1,570	282	21.9
End of December 2024	934	49	5.5	17,281	-1,050	-5.7	1,126	-443	-28.2

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

**Balance Sheet**

- Comparing the balance sheets at the end of the previous fiscal year and the end of Q3, cash and deposits decreased by 1 billion yen to 5.8 billion yen. However, liquidity remains ample, with cash and deposits equivalent to 3.8 months of the Company's forecasted average monthly sales for this fiscal year (borrowings stand at 230 million yen, effectively making the Company debt-free). The decline in cash and deposits is likely due to investments and higher working capital needs driven by business expansion; *accounts receivable - trade and contract assets* and *retirement benefit assets* have each increased by approximately 300 million yen.
- With a current ratio of 435.7% and an equity ratio of 76.6%, its financial standing is firm.
- The Company is expected to continue utilizing its surplus capital for growth, including the expansion of its development organization and facilities, investments in human resources, enhancement of shareholder returns, M&As, business alliances, and investments and financing. Going forward, the key points will be investment outcomes (contribution to earnings) and investment efficiency.

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◆Full-year forecast revised downward

- The Company revised the full-year financial forecast downward (Figure 9).

【Figure 9】 Forecast of Financial Performance over the Medium Term

Unit: million yen or %	FY2024 Results	FY2025 Old CE	FY2025 Old E	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	18,300	18,300	20,600	20,000	23,000	21,700
Digital Business	563	800	800		850		1,300	2,500	2,200
SI Business	6,670	6,800	6,500		6,250		7,000	7,500	7,200
System Enhancement Business	10,786	11,200	11,500		11,200		11,700	13,000	12,300
Gross Profit	3,922	4,600	4,500		3,900		4,800		5,300
Gross Profit Margin	21.8%	24.5%	23.9%		21.3%		24.0%		24.4%
SG&A Expenses	2,386	3,000	2,900		2,600		2,950		3,150
(Ratio to sales)	13.2%	16.0%	15.4%		14.2%		14.8%		14.5%
Operating Profit	1,536	1,600	1,600	1,300	1,300	1,950	1,850	2,410	2,150
(Ratio to sales)	8.5%	8.5%	8.5%	7.1%	7.1%	9.5%	9.3%	10.5%	9.9%
Ordinary Profit	1,590	1,650	1,650	1,310	1,310		1,900		2,200
(Ratio to sales)	8.8%	8.8%	8.8%	7.2%	7.2%		9.5%		10.1%
Net Profit	1,067	1,260	1,260	1,210	1,210		1,250		1,450
(Ratio to sales)	5.9%	6.7%	6.7%	6.6%	6.6%		6.3%		6.7%
Net Sales (% YoY growth)	10.4%	4.5%	4.5%	1.5%	1.5%	12.6%	9.3%	11.6%	8.5%
Gross Profit Margin (% YoY diff.)	-0.1%	2.7%	2.2%		-0.5%		2.7%		0.4%
SG&A Expenses (% YoY growth)	12.7%	25.7%	21.5%		9.0%		13.5%		6.8%
Operating Profit (% YoY growth)	5.8%	4.2%	4.2%	-15.4%	-15.4%	50.0%	42.3%	23.6%	16.2%
Ordinary Profit (% YoY growth)	7.5%	3.7%	3.8%	-17.7%	-17.7%		45.0%		15.8%
Net Profit (% YoY growth)	7.8%	3.1%	18.1%	13.4%	13.4%		3.3%		16.0%

(Source) Prepared by Alpha-Win Research Dept. CE: the Company's plan (the revised plan for this fiscal year and the medium-term plan for the next fiscal year and beyond). E: Alpha-Win's forecast. Old: previous forecast. New: current forecast.

**This Fiscal Year (full year): The Company's Forecast**

**Financial Outlook: Both sales and profits have been revised downward, but the annual dividend remains unchanged (40 yen).**

- On October 9, 2024, the Company upwardly revised the full-year financial forecast that it had announced at the beginning of the fiscal year. Due to its revision of the retirement benefit plan, in which a portion of its defined benefit corporate pension plan was transferred to the defined contribution pension plan, an extraordinary income of 160 million yen was recorded in the first half. In line with this, it revised its full-year net profit forecast upwards from 1,100 million yen (+3.1% YoY) to 1,260 million yen (+18.1% YoY).
- However, on February 5, 2025 (the day of the Q3 results announcement), the Company revised its sales and profit forecasts downward.
- From the previous forecast to the revised forecast, it revised net sales downward by 500 million yen (-2.7%), from 18,800 million yen (+4.3% YoY) to 18,300 million yen (+1.5% YoY). This reflects the fact that even though the Digital Business and the System Enhancement Business have been performing well, orders have declined in certain areas of the SI Business. However, net sales are still expected to exceed the previous fiscal year's level and reach a new record high for a consecutive year.
- The Company revised its operating profit forecast downward by 300 million yen (-18.8%), from 1,600 million yen (+4.2% YoY) to 1,300 million yen (-15.4% YoY), due to a decrease in high-profit projects and the occurrence of unprofitable projects. Similarly, ordinary profit was revised downward by 340 million yen (-20.6%), from 1,650 million yen (+3.7% YoY) to 1,310 million yen (-17.7% YoY). Although the Company had planned an increase in profit at the beginning of the fiscal year, it now expects a decrease in both profits.
- The Company also revised its net profit forecast downward by 50 million yen (-4.0%), from 1,260 million yen (+18.1% YoY) to 1,210 million yen (+13.4% YoY). Due to the posting of extraordinary income, it still expects net profit to increase and reach a record high, surpassing the previous record of 1,067 million yen achieved in FY2024.
- Its plan for annual dividend per share remains unchanged at 40 yen per share (an increase of 5 yen per share compared to the previous fiscal year).
- As a result, the consolidated dividend payout ratio is expected to be 49.8%, which is mostly the same level as the target of 50%.
- 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)."
- Therefore, in the fourth quarter of this fiscal year and beyond, the Company plans to continue 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 talent 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): Alpha-Win's Forecast

- For this fiscal year, we had previously forecasted the same amounts (of net sales, profits, and dividends) as the Company's forecast before the revision.
- However, considering the current situation and the Company's downward revision of its full-year forecast, we have also revised our forecast downward to the same amounts as the Company's new forecast.
- In our previous research report (issued on November 15, 2024), our analysis was as follows:

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.

- We believe that the following three points are the key differences between the underlying assumptions of our previous forecast and the Company's new forecast.
  1. Occurrence of Unprofitable Projects: Despite the Company's efforts to strengthen quality and risk management, unprofitable projects occurred in the SIer Business and the End-User Business, resulting in higher-than-expected losses. Losses from unprofitable projects (-181 million yen) accounted for 60% the total amount of downward revision to operating profit (-300 million yen).
  2. Decrease in Orders: Projects were downsized, particularly for the distribution and transportation & telecommunication industries. Sales activities to secure new orders also stagnated as personnel were allocated to manage the unprofitable projects.
  3. Continued Upfront Investments: Despite the slowdown in business performance, the Company prioritized future growth and did not restrict investments as a means of cost or profit control.
- The Company's forecasts for this fiscal year's Q4 (i.e., full-year forecasts for the current fiscal year minus the Q3 YTD results) are as follows: 4,648 million yen in net sales (+4.3% YoY), 410 million yen in operating profit (+9.3% YoY), and 306 million yen in net profit (-1.0% YoY) (right-hand columns of Figure 2 on page 3). It plans to improve the operating profit margin by 0.4 percentage point, from 8.4% to 8.8%.
- Business performance in Q4 is expected to largely align with the plan, given the strong current demand for strategic IT investment among customers, as well as the Company's trends regarding its order backlog and price per contract. Therefore, the Company's new forecast for this fiscal year appears to be largely achievable.
- As reference, the business performance of its partner NRI (Nomura Research Institute; securities code 4307), as well as its two competitors\*\* listed on the Tokyo Stock Exchange (\*HIMACS with securities code 4299 and \*Toho System Science with securities code 4333), has been relatively strong compared to Cube System this fiscal year. This difference in performance this fiscal year is most likely largely due to one-time factors unique to the Company (system investment trends of the Company's end users) (Figure 10 on page 11: results and forecasts).

## 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 (Figure 9 on page 8; please refer to our research report issued in June 2024 for details).
- Although the Company revised its financial forecast downward for the current fiscal year, the revision reflects temporary factors such as the occurrence of unprofitable projects and decrease in orders in certain areas, as well as strategic factors such as the increase in costs due to continued upfront investments. We have consequently not changed our forecasts of the medium-term financial performance (FY2026 and FY2027) that were prepared at the time of our previous research (Figure 9 on page 8). However, our forecasts are more conservative than the Company's plan for each year, taking into account the risks discussed later.
- 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 medium- to long-term 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 outcomes 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 going forward.
- 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 SI businesses, the effect of the alliance with NRI, the development of new customers and new areas of business, various measures to improve productivity, and expansion of production capacity.
- However, given factors such as inflation, corrections in the weak yen, rising domestic interest rates, and global uncertainty (particularly trade friction caused by increased tariffs imposed by the U.S. on other countries), as well as labor shortages, 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 greater HR mobility and difficulties in hiring new employees, and the reoccurrence of unprofitable projects.

## ◆ Stock price and characteristics: A stable growth stock centered on domestic demand. Outperforms TOPIX over the long term, but has underperformed over the past 12 months. Does not appear undervalued in terms of the effective P/E ratio and the P/B ratio, but its high dividend yield is attractive.

### Performance

- Over the past approximately 16 years, the Company's stock price increased by about 4.3x thanks to its strong business performance, significantly outperforming the TOPIX (approximately +204%).
- However, over the past approximately 12 months (since the end of December 2023), the Company's stock has been underperforming the TOPIX, NRI, and its two competitors\*\* (Figure C on page 14 and Figure 10 on page 11). This is most likely due to the strong performance of AI-related stocks, financial stocks, resource stocks, and foreign-demand-oriented stocks benefitting from the weak yen, as well as stocks with announcements of upward

earnings revisions and share buybacks, all of which are outperforming. In contrast, the Company is a small-cap, domestic-demand-oriented stock with low liquidity, and its forecasted sales and operating profit growth rates for the full fiscal year are lower than the market average and its competitors\*\*.

- Although the stock price declined after the Q3 results and the downward revision of the full-year forecast, it now appears to be stabilizing with limited downside, supported by the high dividend yield. Having raised its consolidated dividend payout ratio target from 40% to 50% starting this fiscal year, the Company is demonstrating a proactive stance on shareholder returns.
- 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 (\*HIMACS and \*Toho System Science), 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 1.8x 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 15.12, actual P/B ratio of 1.34, and forecasted dividend yield (simple average) of 2.54% (based on the closing price on February 14, 2025).
- In contrast, the Company's valuation is somewhat high compared to the TSE Prime's average, with a P/E ratio of 12.72 (or an effective P/E ratio of 18.08, based on net profit calculated assuming that the corporate tax rate is 32%, excluding extraordinary income) and a P/B ratio of 1.50.
- This fiscal year, the Company forecasts operating and ordinary profits to decline by double digits (YoY), making them relatively unattractive. However, this is attributed to the occurrence of unprofitable projects, temporary decreases in demand in certain areas, and increased costs due to the Company's strategic upfront investments. Considering the medium-term growth potential and relatively high expected dividend yields (3.9% this fiscal year, 4.2% next fiscal year, and 4.9% in the fiscal year after the next, all based on Alpha-Win's estimates; Figure B on page 14), the stock price appears somewhat undervalued.
- Compared to its two competitors\*\* mentioned earlier, the Company's valuation is in the middle (the second highest among the three companies) in terms of the key valuation measures (effective P/E ratio, actual P/B ratio, and this fiscal year's forecasted EV/EBITDA), excluding the P/S ratio and dividend yield (which are the best 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 2/14/2025)	1,023	1,361	1,228	5,355	1,420.23
	Market Capitalization (million yen)	16,112	16,894	25,541	3,110,167	-
Valuation	P/E (price-to-earnings ratio)	12.72	12.92	18.90	34.97	15.12
	P/B (price-to-book ratio)	1.50	1.39	2.31	7.24	1.34
	Dividend Yield (%)	3.91	3.23	3.26	1.18	2.54
	EV/EBITDA	7.78	3.98	9.00	17.58	-
	P/S (price-to-sales ratio)	0.88	0.91	1.43	3.99	-
Volatility	Weekly Beta (β) against TOPIX over the Past 5 Years	1.09	0.59	0.60	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 This Fiscal Year's Q3 YTD (ended Dec. 2024)	Net Sales (million yen)	13,652	13,326	13,105	568,245	-
	YoY Net Sales Growth Rate (%)	0.6	2.5	9.0	3.3	-
	Operating Profit (million yen)	890	1,311	1,173	102,587	-
	YoY Operating Profit Growth Rate (%)	23.4	9.5	5.7	12.2	-
	Operating Profit Margin (%)	6.5	9.8	9.0	18.1	-
	This Fiscal Year's Q3 YTD: Sales Progress Relative to Full-Year Plan (%)	74.0	71.6	73.6	73.8	-
	This Fiscal Year's Q3 YTD: Operating Profit Progress Relative to Full-Year Plan (%)	68.5	73.7	69.0	76.6	-
This Fiscal Year's Forecast (full-year forecast by each company)	Net Sales (million yen)	18,300	18,600	17,800	770,000	-
	YoY Net Sales Growth Rate (%)	1.5	7.2	9.3	4.5	-
	Operating Profit (million yen)	1,300	1,780	1,700	134,000	-
	YoY Operating Profit Growth Rate (%)	15.4	3.5	8.0	11.3	-
	Operating Profit Margin (%)	7.1	9.6	9.6	17.4	-
Performance	Return over the Past Approximately 13 and a Half Months (since the end of December 2023: %)	-7.1	-5.2	-1.4	30.6	16.6
	Return since the Company's announcement of Q3 results (since 2/5/2025: %)	-2.9	-0.1	-3.4	-1.0	0.5

(Source for Figure 10 on page 11) 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 2/14/2025 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 Q3.

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 Q3 results.

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

Depreciation and intangible fixed asset amortization, etc., are calculated for the full year based on this fiscal year's Q3 YTD results.

P/S = market cap / net 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 (results of this full fiscal year, the planned level of profit that will be announced at the beginning of the next fiscal year, and progress toward achieving the medium-term plan) 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 Company's order environment; impact on and changes in the volume of orders received and price per contract).
- In recent years, the Company's stock price has been relatively sluggish. However, we maintain our view that if the likelihood of the Company achieving sustained, double-digit profit growth increases in the future, the 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.

[ 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	1,260	18.1	83.76	Not disclosed	40.0
2025	New CE	18,300	1.5	1,300	-15.4	1,310	-17.7	1,210	13.4	80.40	Not disclosed	40.0
2025	Old E	18,800	4.3	1,600	4.2	1,650	3.7	1,260	18.1	83.76	716.46	40.0
2025	New E	18,300	1.5	1,300	-15.4	1,310	-17.7	1,210	13.4	80.36	717.49	40.0
2026	Medium-Term Plan	20,600	12.6	1,950	50.0							
2026	E	20,000	9.3	1,850	42.3	1,900	45.0	1,250	3.3	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	4,610	-0.6	312	-26.4	302	-27.6	505	87.7	33.54		20.0
2022	Q3	3,981	13.5	376	56.7	381	19.4	254	30.0	18.80	520.59	0.0
2023	Q3	4,080	2.5	353	-6.1	359	-5.8	240	-5.5	17.11	597.48	0.0
2024	Q3	4,550	11.5	367	4.0	381	6.1	257	7.1	16.96	639.73	0.0
2025	Q3	4,630	1.8	356	-3.0	365	-4.2	242	-5.8	16.12	639.73	0.0
2022	Q3 YTD	12,041	13.7	1,122	41.7	1,133	22.9	755	26.6	55.80	520.59	8.0
2023	Q3 YTD	11,972	-0.6	951	-15.3	953	-15.8	628	-16.8	45.84	597.48	23.0
2024	Q3 YTD	13,565	13.3	1,161	22.1	1,169	22.6	758	20.7	50.03	639.73	15.0
2025	Q3 YTD	13,652	0.6	890	-23.4	894	-23.5	904	19.3	60.13	691.30	20.0
2022	Q4	4,058	-3.3	295	-22.8	299	-19.8	189	-23.4	14.02		15.0
2023	Q4	4,353	7.3	501	69.8	527	76.3	361	91.0	24.51		27.0
2024	Q4	4,456	2.4	375	-25.1	421	-20.1	309	-14.4	20.36		20.0
2025	Q4: New CE	4,648	4.3	410	9.3	416	-1.2	306	-1.0	20.27	-	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: New CE	9,278	3.0	767	3.4	782	-2.5	548	-3.2	36.39		20.0
2025	H2: Initial CE	10,000	11.0	1,000	34.8	1,000	24.7	820	44.9	54.74		20.0

(Source) Prepared by Alpha-Win Research Dept.

(Notes) CE: the Company's forecast/estimate. E: Alpha-Win Research Dept.'s forecast/estimate. Old: previous forecast. New: current forecast. Q1: results for April to June. Q2: results for July to September. Q3: results for October to December. Q4: results for January to March. Q3 YTD: results for April to December. H1 (first half): results for April to September. H2 (second half): results for October to March.

# Alpha-Win Company Research Report

CUBE SYSTEM INC. (2335 TSE Prime)

Issued: 2/17/2025

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

Item	2/14/2025	Item	P/E Ratio	P/B Ratio	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	1,023	Last FY (result)	14.5	1.5	3.4%	49.7%
Total Issued Shares (thou.)	15,750	This FY (forecast)	12.7	1.4	3.9%	49.8%
Market Capitalizatoin (million yen)	16,112	Next FY (forecast)	12.3	1.3	4.2%	51.8%
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 Q3	76.6 %	Last FY's Dividend on Equity Ratio (DOE)	5.4%	Last FY's ROE	10.8%	

(Source) Figures B and C were both prepared by Alpha-Win Research Dept.

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

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



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