Alpha-Win Company Research Report

CUBE SYSTEM INC.
(2335 TSE Prime)

Issued: 6/13/2025

● Summary

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

Business Description

・CUBE SYSTEM INC. (hereinafter, the "Company") is a mid-tier, specialized system integrator (SI) listed on the Prime Market of the Tokyo Stock Exchange. Its main clients are four major corporate groups including the Nomura Research Institute (NRI) and the Fujitsu Group. It develops systems and provides services mainly for the financial, distribution, transportation, and telecommunication industries and the central government.

・Founded in 1972, it has 53 years of history.

・In December 2022, the Company formed a capital and business alliance with NRI, a leading and highly reputable company in the industry. As a result, the Company became an equity-method affiliate of NRI, which acquired over 20% its shares and became its largest shareholder.

Trends in Financial Performance

・With the exception of one fiscal year, the Company has continuously increased net sales year-on-year (YoY) for the past 24 years (on a consolidated basis). During this period, its annual net sales growth rate (simple average of the rate of increase in net sales) was 5.9% and its annual ordinary profit growth rate (simple average) was 6.3%; it has been steadily expanding its business and keeping its business profitable over many years. Thanks to its committed efforts to business development and management reform, ordinary profit margin has been stably around 6% to 9% (7.3% on average), and the increase in net sales has been contributing directly to increases in profits, dividends, and market capitalization.

・In the previous fiscal year (FY2025; note that the Company's fiscal year is March-ending, i.e., FY2025 ended in March 2025), the Company posted net sales of 18,351 million yen (+1.8% YoY) and operating profit of 1,380 million yen (−10.1% YoY), resulting in higher sales but lower profits. While the results fell short of the Company's initial forecasts, they slightly exceeded the revised forecasts. Net sales hit a record high for the 13th consecutive year, and net profit also hit a record high for the fifth consecutive year, driven by the posting of extraordinary income. As initially planned, the Company paid an annual dividend of 40 yen per share, an increase of 5 yen YoY.

・For this fiscal year (FY2026), the Company plans to achieve net sales of 19,500 million yen (+6.3% YoY) and operating profit of 1,750 million yen (+26.7% YoY), which would be record-high net sales and operating profit. However, net profit is forecast to decrease slightly to 1,220 million yen (–3.3% YoY), due to the absence of the extraordinary income recorded in the previous fiscal year. The Company plans to increase its annual dividend by 2 yen to 42 yen, marking a consecutive year of dividend increase.

・The Company expects to increase net sales mainly in the SIer Business by expanding its business areas through one-stop services and by strengthening collaborations. In the Service Providing Business, too, it aims to drive net sales growth through enhanced collaboration with cloud vendors and the creation of new services to acquire new clients. Alongside this projected net sales growth, the Company also plans to significantly increase operating profit by improving profit margins through further improvement of productivity and the elimination of unprofitable projects via quality improvement.

・IT investment related to digital transformation remains strong, and strong orders are expected. However, the assumptions regarding the net sales growth rate, profit growth rates, and profit margins in the second half of the year appear somewhat ambitious. While full-year profit forecasts for this fiscal year may still be attainable depending on the level of cost control, Alpha-Win Research Department (hereinafter, "Alpha-Win") views the forecasts as representing the upper limit of the achievable range. Risks to the Company's performance include the possibility of lower-than-planned net sales if orders received fall below expectations, rising costs due to increased investment or inflation, constraints related to human resources, and the occurrence of unprofitable projects. That said, based on the current outlook, downside risk appears to be limited.

・The Company's initial forecasts for the current fiscal year are slightly lower than both its own medium-term plan and Alpha-Win's previous forecasts.

Business Strategy and Key Points Going Forward

・In the Second Medium-Term Management Plan (VISION 2026), which is positioned as the Company's second founding, it aims to achieve the following for the final fiscal year of the plan or FY2027: net sales of 23 billion yen (CAGR since FY2024: +8.5%), operating profit of 2.41 billion yen (CAGR since FY2024: +16.2%), operating profit margin of 10.5% (+3.0 percentage points compared to FY2025), and ROE of 14% (+2.0 percentage points compared to FY2025). There have been no changes to the medium-term plan targets.

・Along with the expansion of scale, the Company aims to increase profitability by improving productivity and shifting to higher value-added projects. It plans to thereby drive dramatic growth and maximize corporate value.

・Since forming a capital and business alliance with NRI in FY2023, it has been investing in strengthening its development bases, as well as development organization and facilities, to achieve further growth and eliminate its bottleneck concerning human resources. This alliance can be seen as a positive factor supporting the Company's medium- to long-term business expansion and stable growth, specifically in terms of strengthening the long-term and continuous relationship with NRI, expanding business areas, exchanging talents, and accumulating and sharing know-how. In fact, positive effects of the alliance have already started to materialize.

・For the Second Medium-Term Management Plan, it has declared to pursue sustainability management and has set non-financial goals ranging from diversity promotion to workstyle reform, people development, communication vitalization, and environment. It is currently working on achieving these targets.

・Going forward, the key points will most likely be the acceleration of synergies through the alliance with NRI (contribution to business performance), recruitment and development of talents, collaboration with major system integrators, expansion of the contract-based business targeting end users (End-User Business), development of the Service Providing Business that it focuses on, improvement of project management capabilities, continued improvement of profit margins, monetization of businesses in new business areas, acquisition of new clients, M&A and alliance strategies, expansion and leveraging of overseas bases, and adoption of new technologies.

Forecast of Medium-Term Financial Performance

・Alpha-Win revised its forecast for the next fiscal year and newly prepared a forecast for the fiscal year after the next (FY2028). While the momentum of earnings growth (growth rate) is expected to slow, continued growth in both sales and profits is anticipated, along with higher dividends. Despite ongoing uncertainty in the macroeconomic environment—such as global inflation, the effects of tariff policies on the economy, monetary policy, geopolitical risks, and foreign exchange fluctuations—the Company is expected to remain relatively insulated from these factors due to the domestic demand-oriented nature of its business portfolio.

・For the time being, strategic IT system investment by clients is expected to remain robust, based on the assumption that companies will continue to pursue solutions aimed at addressing labor shortages, improving operational efficiency, differentiating their services, enhancing responsiveness, strengthening competitiveness, and reducing costs. On the other hand, medium-term risks include challenges in securing skilled personnel such as engineers, the potential occurrence of unprofitable projects, rising costs, and a possible deterioration in the business performance of corporate users.

・Over the medium to long term, IT investments by the Company's corporate users are expected to continue to increase. Although human resource shortages may become a bottleneck and constrain growth, Alpha-Win expects a stable net sales growth of around 6-8% per year and an even greater profit growth rate due to the effects of the NRI alliance, expansion into new business areas, acquisition of new clients, and improvement of productivity.

Shareholder Returns

・The Company has been proactively returning profits to shareholders through share buybacks, stock splits, sequential dividend increases, and other measures.

・In the previous fiscal year, the Company raised its target consolidated dividend payout ratio from 40% to 50%. For the current fiscal year, it plans to increase the annual dividend by 2 yen from the previous fiscal year to 42 yen, marking the seventh consecutive year of ordinary dividend increases (forecasted dividend payout ratio of 52.4%).

・In addition, the dividend on equity ratio (DOE) has been trending upward in recent years, reaching a high level of 6.0% in FY2025. Backed by strong business performance and ample cash reserves, further shareholder return measures such as dividend increases and share buybacks are anticipated going forward.

Share Price and Characteristics

- Over the past 16 years or so, its share price has risen by about 5.5x and has been significantly outperforming the TOPIX.
- Based on the Company's own forecast for the current fiscal year, the Company appears somewhat undervalued: while its price-to-book ratio (P/B) slightly exceeds the average of all TSE Prime-listed stocks, its price-to-earnings ratio (P/E) is lower, and its dividend yield is relatively high.
- Compared to its competitors, the Company's valuation varies, with some indicators high and others low, but there is no clear sense of overvaluation.
- Based on Alpha-Win's forecast for FY2027 (the next fiscal year), the Company's P/E ratio is 11.8, P/B ratio is 1.3, and dividend yield is 4.3%, suggesting that the current share price is undervalued.
- The Company is a domestic demand-oriented, defensive stock with prospects for continued stable profit growth. As such, its share price has upside potential, and it is considered a viable candidate for medium- to long-term investment.
- From a share price perspective, attention should be paid to quarterly trends in performance—such as orders received, net sales, and profit margins—as well as the Company's progress toward and eventual achievement of its full-year targets for this fiscal year, the business performance of its clients, trends in IT investment, and shareholder return measures.

(Notes) In this Report, values have generally been rounded to the nearest unit during the calculations or in presenting them and may therefore differ from those announced by the Company. Negative figures in this Report may be represented by "–" or in parentheses.

【 2335 CUBE SYSTEM Sector: Information & Communication 】 Figure A

FY		Net Sales (Millions of yen)	YoY (%)	Operating Profit (Millions of yen)	YoY (%)	Ordinary Profit (Millions of yen)	YoY (%)	Net Profit (Millions of yen)	YoY (%)	EPS (Yen)	BPS (Yen)	Dividend (Yen)
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	A	18,351	1.8	1,380	-10.1	1,393	-12.4	1,261	18.2	83.81	722.27	40.0
2025	Revised CE	18,300	1.5	1,300	-15.4	1,310	-17.7	1,210	13.4	80.40	Not disclosed	40.0
2025	Revised E	18,300	1.5	1,300	-15.4	1,310	-17.7	1,210	13.4	80.36	718.12	40.0
2025	*Initial CE*	*18,800*	*4.3*	*1,600*	*4.2*	*1,650*	*3.7*	*1,100*	*3.1*	*72.55*	*710.81*	*40.0*
2026	Medium-Term Plan	20,600	12.3	1,950	41.3							
2026	CE	19,500	6.3	1,750	26.7	1,760	26.3	1,220	-3.3	80.13	Not disclosed	42.0
2026	New E	19,200	4.6	1,700	23.2	1,710	22.8	1,185	-6.0	78.70	756.82	42.0
2026	*Old E*	*20,000*	*9.0*	*1,850*	*34.1*	*1,900*	*36.4*	*1,250*	*-0.9*	*83.02*	*761.14*	*43.0*
2027	Medium-Term Plan	23,000	11.6	2,410	23.6							
2027	New E	21,000	9.4	2,000	17.6	2,010	17.5	1,360	14.8	90.33	805.15	46.0
2027	*Old E*	21,700	8.5	2,150	16.2	2,200	15.8	1,450	16.0	96.30	814.45	50.0
2028	E	22,500	7.1	2,200	10.0	2,210	10.0	1,480	8.8	98.30	857.45	50.0

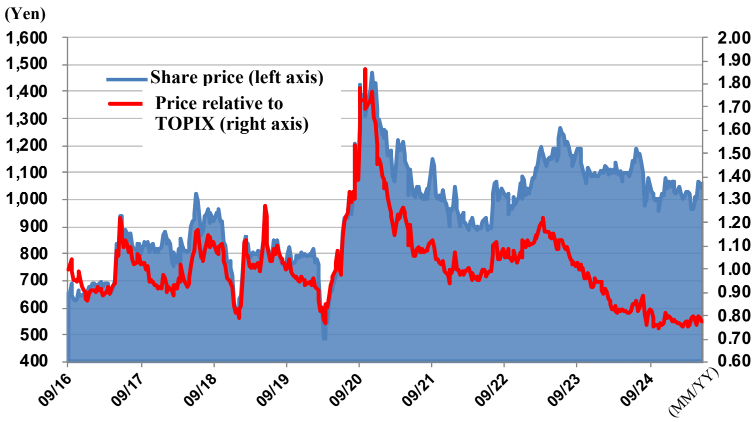
(Notes) A: actual results. CE: the Company's estimate/forecast. E: Alpha-Win's estimate/forecast. Revised CE and E are both forecasts announced in February 2025 (the previous forecasts). New E is the current forecast. Note that fiscal years are March-ending.

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

Item	5/30/2025	Item	P/E Ratio	P/B Ratio	Dividend Yield	Dividend Payout Ratio
Stock Price (Yen)	1,062	Last Fiscal Year (Actual)	12.7	1.5	3.8%	47.7%
Issued Shares (Thousands)	15,750	This Fiscal Year (Estimate)	13.5	1.4	4.0%	53.4%
Market Capitalization (Millions of Yen)	16,727	Next Fiscal Year (Estimate)	11.8	1.3	4.3%	50.9%
Dilutive Shares (Thousands)	0	Fiscal Year After the Next (Estimate)	10.8	1.2	4.7%	50.9%
Last Fiscal Year's Equity Ratio	75.7	Last Fiscal Year's Dividend on Equity Ratio		6.0%	Last Fiscal Year's ROE	12.0%

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

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



Performance		
Period	Return	Relative to TOPIX
1 month	5.4%	0.3%
3 months	5.5%	1.0%
6 months	2.1%	-2.4%
12 months	-4.2%	-5.3%

(Notes) Reflects share price and index through the closing price as of 5/30/2025. Return for the 1-month period is the comparison of the closing price as of the last day of April and as of May 30. Similar for the other periods. Prepared by Alpha-Win Research Dept.

(Note) From the first week of September 2016 to the fifth week of May 2025 (closing price on May 30, 2025)

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Notes: 1) Upon translating to English, when the page numbers differed from the Japanese original, they were adjusted to those of the English version of this Report. 2) The Company's fiscal year is March-ending, i.e., FY2026 ends in March 2026.

1. Company Overview

◆ Mid-Tier and Specialized System Integrator

◆ **A mid-tier and specialized system integrator with 53 years of history. Equity-method affiliate of NRI. Strong business foundation, supported by several top-tier client companies.**

CUBE SYSTEM INC. (hereinafter, the "Company") is a mid-tier, specialized system integrator[1] (SI, or "SIer" in Japanese). It is listed on the Prime Market of the Tokyo Stock Exchange and is an equity-method affiliate of Nomura Research Institute (NRI), which owns a stake of more than 20%.

Often as a subcontractor to major SIs, the Company mainly develops systems for large companies in the financial, telecommunication, and distribution industries, as well as for the central government. Its client base is firm, with its core clients consisting of four major corporate groups: NRI, Fujitsu, Aeon, and Mizuho. Combined net sales to these four groups are estimated to account for about 80% of the total (no disclosure since FY2025; note that the Company's fiscal years are March-ending, i.e., FY2025 ended in March 2025).

Founded in 1972, the Company has 53 years of history. Masahiro Nakanishi was appointed Representative Director, President, and CDO (Chief Digital Officer) in June 2020. Nakanishi previously worked as the vice branch manager of Nomura Research Institute's Chubu Branch before joining the Company in 2017. He also has experience working for a consulting company. At the Company, he is directly involved in sales activities for digital and other projects.

(1) System integrator: A company that conducts system integration. Abbreviated as "SI," or "SIer" in Japanese. A general term for companies that plan, design, develop, operate, and provide other solutions for the IT operation systems of clients including companies and the government.

◆ **The Company's group is composed of the Company and three subsidiaries.**

The Company's group consists of four companies: the Company and its three consolidated subsidiaries. It has five bases in Japan and two overseas bases. The consolidated subsidiaries are listed below (Figure 1).

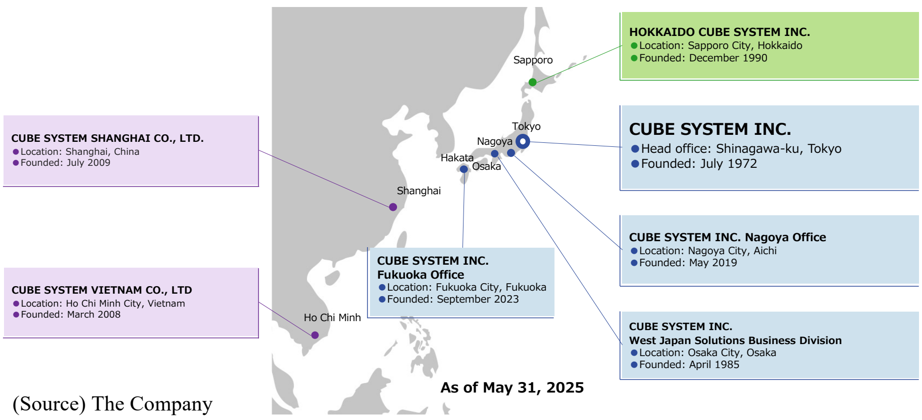
1. HOKKAIDO CUBE SYSTEM INC.
   (Located in Sapporo, Hokkaido; for near-shore development[2] of systems and sales reinforcement in the Tohoku and Hokkaido regions. Became a wholly owned subsidiary in 2022.)
2. CUBE SYSTEM VIETNAM CO., LTD.
   (Ho Chi Minh City, Vietnam; a wholly owned subsidiary)
3. CUBE SYSTEM SHANGHAI CO., LTD.
   (Shanghai, China; originally established as a joint company, then fully acquired by the Company in 2017)

Note that the Company has established the overseas subsidiaries mainly for the purpose of offshore development[3].

(2) Near-shore development: Outsourcing of development to regional companies or offices

(3) Offshore development: Providing services that meet client needs, from system development to maintenance, at a low cost by utilizing overseas/offshore sites

【Figure 1】Locations of the CUBE SYSTEM Group's Subsidiaries and Offices



(Source) The Company

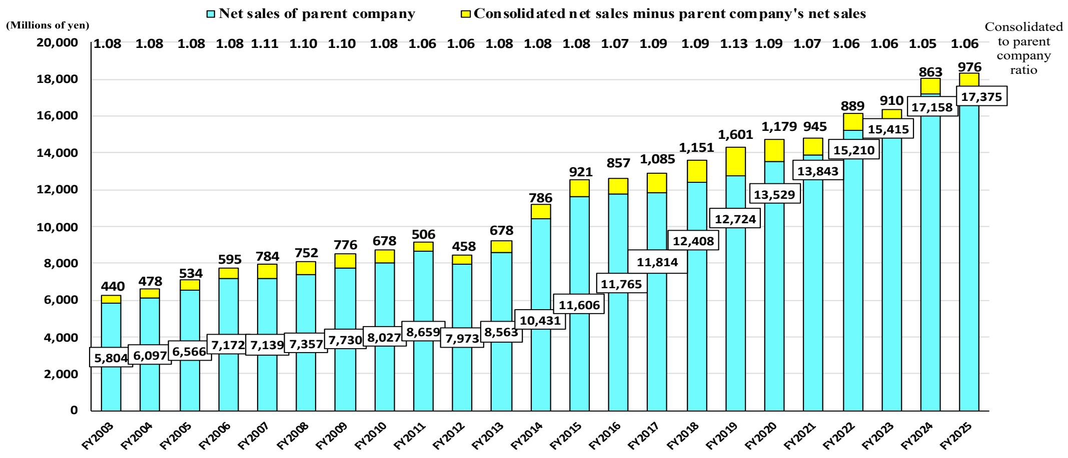
- **Consolidated net sales and profit have been on an increasing trend. The consolidated subsidiaries, as a total, have been stably profitable. Consolidated-to-parent-company ratios have been a little greater than 1 for both net sales and profit.**

The ratio of consolidated net sales to the parent company's net sales has stayed around 1.08 for the past 23 years, indicating significant weight of the parent company's performance (Figure 2). While each subsidiary's profit or loss is not disclosed, the ratio of consolidated ordinary profit to the parent company's ordinary profit has been around 0.98-1.17 (simple average of 1.05) during this period.

Combined profit of the subsidiaries, calculated by subtracting the parent company's ordinary profit from consolidated ordinary profit, has been a surplus excluding the two fiscal years FY2011 and FY2012 (Figure 3). During the three fiscal years from FY2017 to FY2019, combined performance of the subsidiaries (calculated as consolidated minus parent-company results) showed increases in both net sales and profit, but in FY2020, both turned to a decline due to the completion of major system development projects at the subsidiaries.

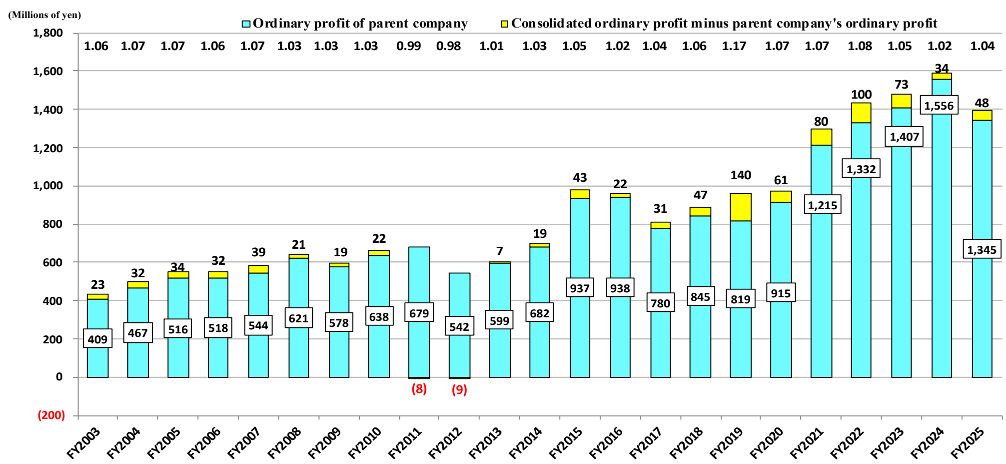
From FY2021 to FY2025, both the local subsidiary in Vietnam and the domestic subsidiary maintained a certain level of profit, and steady performance was maintained despite COVID-related impacts including the lockdown in Shanghai.

【Figure 2】Ratio of Consolidated to Parent Company's Net Sales (Ratios shown on upper portion of graph)



(Source) Figures 2 and 3 were prepared by Alpha-Win Research Dept. based on the financial results summary.

【Figure 3】Ratio of Consolidated to Parent Company's Ordinary Profit (Ratios shown on upper portion of graph)



- **Essentially debt-less and rich in cash. Financially solid.**

The Company's financial standing continues to be strong, with essentially no debt.

Its free cash flow (FCF) has also been stably positive (Figure 4). Cash and deposits on the balance sheet is 6.23 billion yen (approximately 3.8 months' worth of average monthly net sales). In comparison, its debt is only 230 million yen (all values are as of the end of March 2025).

Its financial ratios are also stably high, with an equity ratio of 75.7% (75.1% at the end of the fiscal year before the previous) and current ratio of 410.8% (similarly, previously 405.8%).

【Figure 4】Change in Cash Flow (CF) **(Note: FCF = free cash flow. Unit: million yen)**

Unit: million yen	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Operating CF ①	283	622	101	451	317	503	527	936	388	773	747	1,043	1,015	891	1,044	255
Investing CF ②	-1	309	54	-321	-172	-307	33	94	28	46	25	58	-134	-304	-259	-68
Financing CF	-144	-173	-125	-151	-188	-439	-241	-610	-392	-531	-339	-215	-324	1,102	-672	-780
FCF (①+②)	282	931	155	130	145	196	560	1,030	416	819	772	1,101	881	587	785	187
Cash and Depsits	1,618	2,375	2,405	2,382	2,338	2,098	2,407	2,822	2,845	3,130	3,557	4,447	5,015	6,703	6,815	6,213

(Source) Prepared by Alpha-Win Research Dept. based on the financial results summary
(Note) "Cash and deposits" are not values from the balance sheet but are the "Cash and cash equivalents at end of period" under "Consolidated statement of cash flows" in the financial results summary.

◆ Management Philosophy and Basic Management Policy

- **The management philosophy or goal is to "create a world-class company."**

- **The basic management policies are customer first, clear prioritization, and company-wide sales-minded approach.**

- **Shares management targets and results with all employees**

The Company has declared its management philosophy as follows:
・Companies thrive through the support of various people.
・Our business must continue in order to ensure people's happiness, including our employees.
・The source of business continuation and development is profit, and profit is generated by our customers.
・Based on this philosophy, we aim to create a world-class company.

The following are the Company's three basic management policies:
・Customer first: We base all decisions on our customers' values and we are committed to thinking from the customers' perspective.
・Clear prioritization: The four core elements of a company are people, assets, money, and time. To maximize their use, we will concentrate our business resources on the highest priorities that have been determined by our customer-first policy.
・Company-wide sales-minded approach: To provide user-oriented services, each employee will work ardently toward the development of our company's business with an independent and business-oriented mindset (based on a unique, company-wide sales-minded system[4]).

(4) Company-wide sales-minded system: A system where there is no dedicated department for sales but instead each project is managed as a whole from receiving an order to delivering the product and confirming payment. The system engineer is responsible for customer interaction, materializing the systemization needs of customers through dialogues as well as carrying out projects with responsibility and authority under a sales goal.

2. Business Description and Business Model

◆ Three Lines of System Services

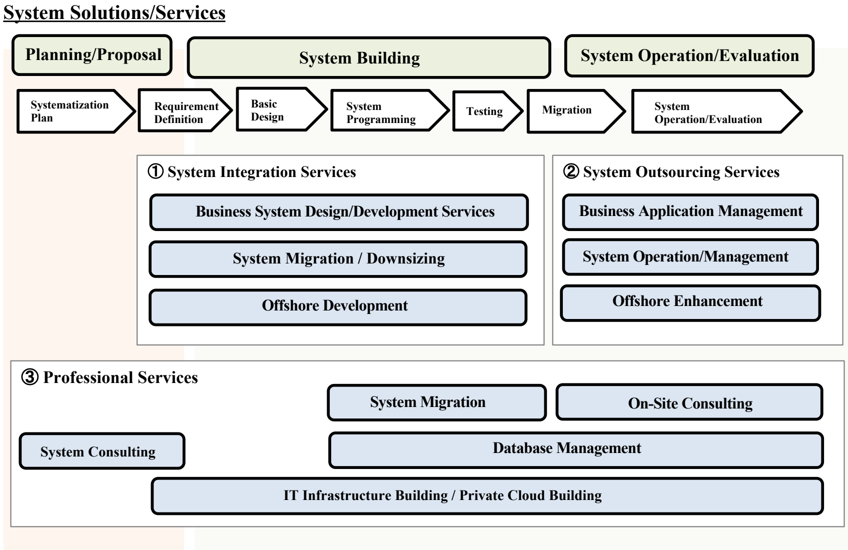
- **Business is categorized into three service segments. System Integration Services, which primarily concern system development, are its main line of service.**

(5) System solutions: Solving issues related to systems through hardware, software, and services

The CUBE SYSTEM Group's business centers on providing system solutions[5]. Specifically, it offers a series of services spanning from system building (planning, proposal, design, and development/programming) to testing, operation, and evaluation. These services are provided to both corporate clients and the central government. Since the Company operates a single business, it further classifies its business into three service segments (lines of service) according to the informatization cycle of its clients.

1. System Integration Services (SIS)
2. System Outsourcing Services (SOS)
3. Professional Services (ProS)

【Figure 5】Overview Diagram of the Processes of Each Service



(Source) Prepared and reworked by Alpha-Win Research Dept. based on the securities report for FY2024

- **Projects are diversified.**

(6) Requirement definition: The process of clarifying the scope of the system and the specific business operations to be covered.

(7) Basic design: Part of the upstream development phase, also referred to as external design, in which the overall functional requirements of the system are designed from the user's perspective—this includes screens, user interfaces, security, and more. The typical flow proceeds from basic design to internal design, then detailed design, followed by development (also referred to as programming or implementation).

1. System Integration Services (SIS)

・SIS is the Company's main business—developing business operation systems tailored to the needs of its corporate users (end users such as companies and the central government; hereinafter the same). This includes requirement definition[6], basic design[7], development, and testing (Figure 5).

・While the time it takes from receiving an order to delivering the product can range from a few months at the shortest to about three years, many of the projects are completed in the order of a few months. Most orders are received and delivered during the same fiscal year. The price can range from several million yen to several hundred million yen. However, projects priced at less than 50 million yen are the vast majority.

・In general, engineers are stationed at the corporate user's site, where they form teams and develop systems on a project-by-project basis. However, to cut down on cost and ensure the necessary number of engineers, a part of the development is outsourced (subcontracted) to subsidiaries in Japan and overseas, or other companies in the same business, under supervision of the Company's project manager.

◆ **System Integration Services are based on contracts. Project management is important in controlling risks and profitability.**

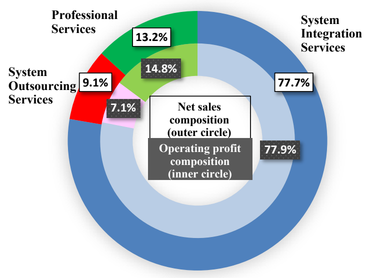
(8) Standard development framework F@CE: The Company's unique overall framework for standardizing and streamlining application development. A tool for carrying out projects efficiently while preventing errors or omissions.

(9) System enhancement services: Providing not just system maintenance, management, and development services but also improving system performance and quality to increase the value of the system. Or proposing ideas for new businesses. Client satisfaction can thus be improved. For the Company, these essentially mean continued business with the client.

(10) Oracle Cloud-related business: Cloud-related services and proposals based on Oracle's database. The Company plans to continue to strengthen this business by increasing employees with Oracle-related certifications. Current annual net sales are several hundred million yen.

◆ **The SIS, accounting for a little less than 80% of net sales, has been the growth driver. Comparing the three service segments, operating profit margin is largest in the order of Pros ＞ SIS ＞ SOS.**

【Figure 6】Breakdown of Net Sales and Operating Profit by Service Segment in FY2024



(Source) Prepared by Alpha-Win Research Dept. based on the financial results summary

・Since the system development business is generally based on contract agreements, the SI (the Company) bears responsibility for the products (systems) as the contractor. Therefore, managing project and product risks, as well as their profitability, is crucial.

・Projects are often proposal-based and awarded through a bidding process. Estimates are generally calculated using a person-month basis. In building systems after receiving an order, the Company leverages its accumulated knowledge, expertise, and fundamental technologies specific to various industries, companies, and operations, along with its standard development framework F@CE[8], to reduce risks and improve quality, profitability, and efficiency.

・Since unexpected changes in specifications, additional work beyond the initial estimate, and other factors may negatively impact profitability and result in unprofitable projects, the Company has established a dedicated department to strengthen its project management capabilities. It has also focused on providing system enhancement services[9], working closely with corporate users to make various proposals that support the development of new businesses (small-scale system development).

2. System Outsourcing Services (SOS)

・These are services related to the operation and evaluation of systems. The Company offers two solution services: system operation & management (building, managing, and evaluating components of a system such as hardware, basic software, database, and network environment) and business application management (maintenance, management, and upgrading of business applications, as well as the evaluation of management processes). The Company has also established a seamlessly integrated service structure in which new challenges identified and proposed during system maintenance and operation (SOS) can lead to a new system enhancement project (SIS).

3. Professional Services (ProS)

・These services leverage the Company's technologies to address all aspects of the informatization cycle, including consulting, database optimization for greater efficiency, system monitoring, management support, and informatization strategies. The Company handles the entire process, from system planning and design to infrastructure building, operation, and monitoring. It achieves high performance by leveraging development tools and the expertise of certified professionals. It is especially strong in database technologies, for which it has expert engineers (Oracle Cloud-related business[10]).

Breakdown of net sales and operating profit by service segment in FY2024 is shown in Figure 6 (no disclosure starting in FY2025). Regarding the net sales breakdown, SIS accounted for just under 80% of the total, followed by ProS and then SOS for the remaining 20% (outer circle of Figure 6). Over the past 20 years, overall net sales have grown by 3.2x, with SIS growing by 4.2x, SOS by 1.6x, and ProS by 1.5x; SIS has been the main driver of business growth.

The breakdown of operating profit is shown in Figure 6 (inner circle) and is generally similar to that of net sales. In recent years, operating profit margin by service segment has shown that ProS maintained the highest margin at around 9% to 11%, followed by SIS at approximately 8% to 9% (roughly the same level as the Company's overall operating profit margin due to SIS's large share of net sales) and SOS at around 6% to 8%.

◆ Labor-Intensive Business Model in which Human Resources Play a Key Role

- **Labor-intensive business. Acquiring and developing talented employees are essential to growth.**

Since the majority of the Company's business consists of make-to-order, contract-based system development, it is strongly characterized by a labor-based, single-product production model. Therefore, recruiting and developing talented employees are essential, as they are the foundation of competitive edge and growth potential. Since systems are becoming more advanced and complex, talents for roles such as project managers (overall project management) and system engineers are especially crucial in managing system quality, cost, delivery, and profitability.

- **Employee turnover rate is declining.**

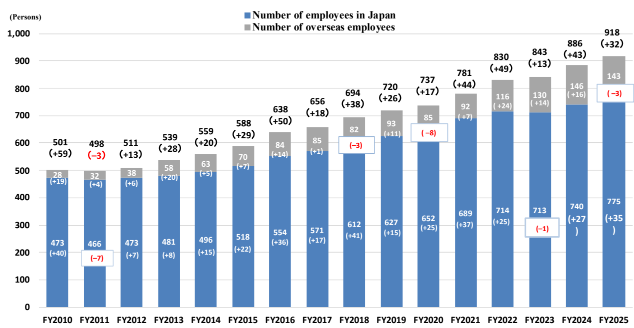
However, due to recent years' labor shortage, the Company has not been able to hire enough project managers to align with its business expansion. This shortage has been a bottleneck to further growth. The Company's challenges include increasing new graduate and mid-career hires, as well as further improving the work environment and training system to continue to raise employee retention. Recently, the turnover rate has started to decline due to the introduction of a new human resources system and measures to strengthen employee engagement.

- **The number of employees has been steadily increasing. Net sales and operating profit per employee in Japan had been improving, but this growth has recently leveled off.**

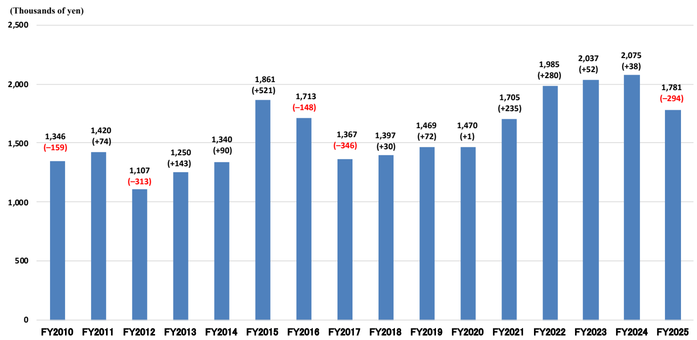
The change in the number of employees of the entire CUBE SYSTEM Group is shown in Figure 7. Along with business expansion, the Company has been hiring about a few dozen new employees every year, mainly for system engineer positions. It is eyeing an increase in the number of employees in Japan to 920 in FY2027 (from 740 in at the end of FY2024 and 775 at the end of FY2025). Over the past three years, annual net sales per employee in Japan have ranged between 21 million yen to 24 million yen (target of 25 million yen for FY2027). Similarly, annual operating profit per employee has been around 2 million yen (Figure 8).

With regards to the cost structure, labor cost and subcontracting cost paid to business partners (essentially, mostly personnel expenses) account for about 90% of the cost of sales. Therefore, the Company's skill in controlling these two costs may impact its profitability. Resource optimization and project management will be crucial.

【Figure 7】Change in the Number of Employees in the Group



【Figure 8】Change in Operating Profit Per Employee in Japan



(Source) Figures 7 and 8 were prepared by Alpha-Win Research Dept. based on the financial results materials

Generally, the nature of the system integration business makes it difficult to rapidly expand business through unique products and services. Additionally, although the sharing and leveraging of expertise can be effective to some extent, productivity gains through these means remain limited due to the current reliance on manpower. Profit margin is also difficult to significantly improve through means other than price revisions, which is a characteristic not unique to the Company but inherent to the nature of the industry itself.

In response to these challenges, the Company has carried out various measures including shifting to more profitable projects, optimizing resources, using agile development[11] and standard platforms, strengthening organizational project management, expanding the use of overseas subsidiaries, reviewing contracts (proposing and negotiating a shift from person-month-based pricing to service-based pricing), and selectively receiving orders. It plans to continue improving its profit margin through these measures.

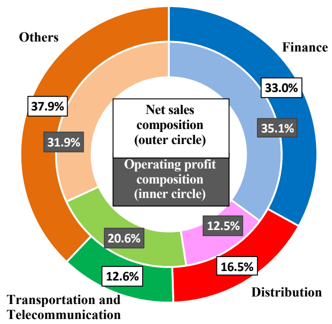
(11) Agile development: An approach to project development. Unlike the conventional waterfall development, a system is divided into short phases, in which implementation (programming) and testing are repeated to cut down on development time. "Agile" means dexterous and quick.

◆ Sales and Profit Composition Well-Balanced by Industry

- **Net sales composition across the four industry segments has become more balanced, with Finance and Others each accounting for over 30% of the total.**

Net sales breakdown by industry is shown in Figure 9. Net sales to Finance, an industry requiring massive processing of data as well as security and reliability, still account for a large proportion of the total. However, net sales of the Others segment (the segment consisting of the central government, the manufacturing industry, and all other industries not included among the following three industry segments: Finance, Distribution, and Transportation and Telecommunication) have grown significantly, leading to a greater balance in net sales to the four industry segments (Figure 10-A on page 13).

【Figure 9】Breakdown of Net Sales and Operating Profit by Industry in FY2025



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

Regarding its competitors HIMACS (TSE Standard: 4299) and Toho System Science (TSE Prime: 4333), whose businesses are especially similar to the Company's, their sales are highly reliant on the financial industry, which constitutes about 70% to 80% of their overall sales. In contrast, net sales to Finance are only about 30% of the total for the Company, showing how the Company has been diversifying sales among industries by expanding its business with the non-financial industries.

Concerning Finance, system development demand from mostly megabanks had been the Company's performance growth driver for many years. This demand then leveled off due the financial industry's slump in earnings and the completion of consolidation and alliances. However, the rise in interest rates has led to an improvement in the earnings environment, leading to increasing investment by megabanks, as well as increasing demand from credit card companies, online banks, and insurance-related sectors.

Regarding net sales to Transportation and Telecommunication, they tend to somewhat fluctuate due to the system investment cycle of clients such as telecom carriers. Another factor impacting net sales is whether the Company receives orders for large-scale projects, such as those for shipping companies in the transportation industry.

- **Increasing diversification by industry through the development of new areas of business and new clients**

Regarding the Others segment, in recent years, there has been a significant growth in projects for the manufacturing industry and the central government, energy-related projects, and cloud consulting-related projects thanks to the acquisition of new clients and orders for new projects. As a result, the Company appears to have become more balanced and diversified by industry, leading to greater business stability.

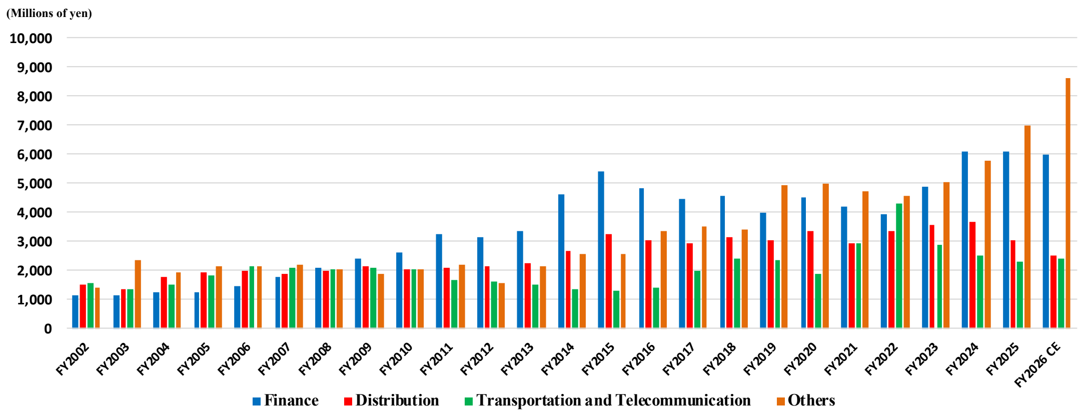
- **Rapid growth of business targeting the central government**

Business targeting the central government (Central Government subsegment within the Others segment) has especially been strong, with significant increases in both net sales and profits since FY2024, driven by a rise in projects for central government agencies and an administration office, along with a substantial improvement in profit margins (Figure 10-B on page 13).

- **Profit margins by industry fluctuate depending on the fiscal year.**

Overall, operating profit margin has remained around 8%, although operating profit margins by industry have shown some year-to-year fluctuations. Alpha-Win sees this fluctuation as reflecting the difference in the profitability of each individual project, rather than differences due to the characteristics of each industry (Figure 11).

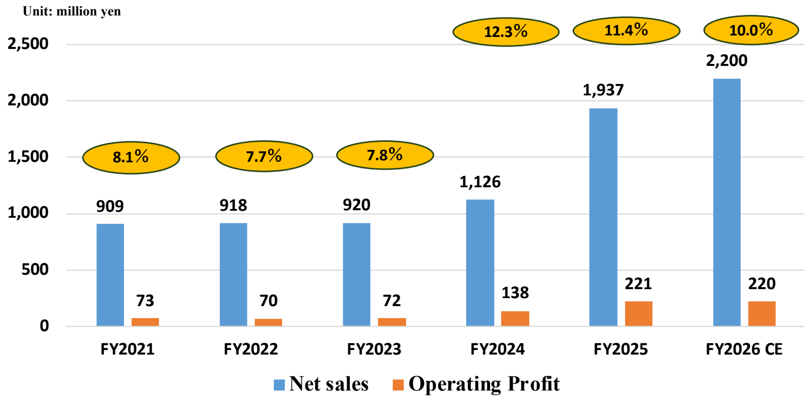
【Figure 10-A】Change in Net Sales by Industry



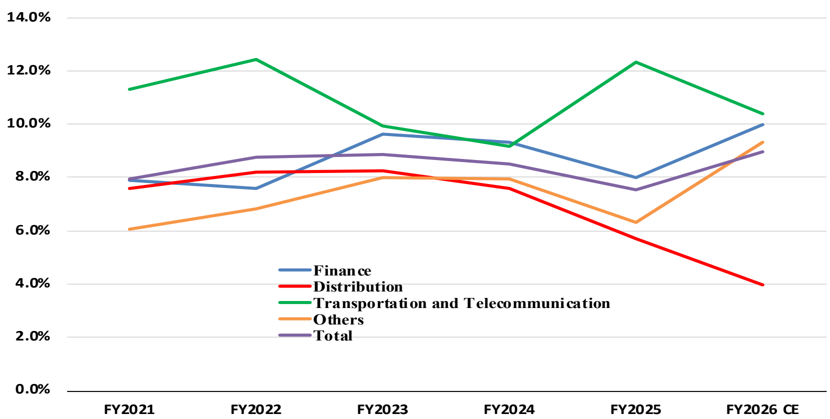
(Source) Figures 10A, 10B, and 11 were prepared by Alpha-Win Research Dept. based on the financial results materials. CE: the Company's plan. Others = Central Government + Manufacturing + Other Industries.

【Figure 10-B】Change in Net Sales and Operating Profit of Business Targeting the Central Government

(Percentages above represent operating profit margin)



【Figure 11】Change in Operating Profit Margin by Industry



- **A stable business, the majority of which consists of continued business with existing clients.**

◆Stable Client Base and Business with Long-Term Viability

Since the Company's clients and end users include some of Japan's leading corporate groups, and its business involves mission-critical operations, it must deliver solutions that are proven, reliable, stable, user-friendly, secure, and sustainable. Moreover, for system development and operation, accumulation of operational expertise and know-how is essential. Consequently, the Company has high contract continuity and maintains long-standing relationships with its existing clients (Figure 12).

Note that its prime ratio (the proportion of direct orders from end users in system development) is around 20%. Many of its projects are received indirectly via major SIs.

【Figure 12】Number of Client Companies (End Users) by Length of Business Relationship

Length of Business Relationship with the End User	Number	End-User Sectors
15 years or more	18 companies (+7)	Major retailer, bank, general merchandise store, the central government, home improvement center, securities firm, etc.
10 to less than 15 years	11 companies (–4)	Major credit card company, food company, telecommunication company, education business company, life insurance company, etc.
5 to less than 10 years	14 companies (–5)	Major electricity company, major gas company, etc.
Total of the above	43 companies (–2)	
Total number of cilents (approx.)	More than 50 companies	

(Source) Prepared by Alpha-Win Research Dept. based on the Company's Integrated Statement 2024.
(Note) Numbers in parentheses indicate the increase or decrease in client companies compared to the previous fiscal year.

- **Net sales breakdown by client group shows that NRI is the largest, followed by Fujitsu, Aeon, and Mizuho. These four groups are presumed to account for about 80% of the total.**
- **The increase in transactions with NRI has driven net sales growth over many years.**

As shown in the net sales breakdown by client group in FY2024 (Figure 13), NRI is the largest client, followed by Fujitsu, Aeon, and Mizuho. These four corporate groups account for about 80% of the total.

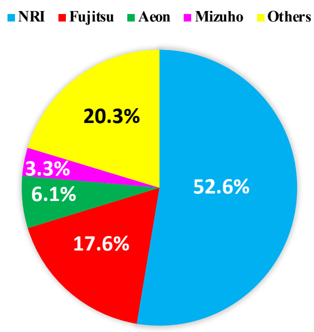
Thanks to the success of the Company's account strategy toward the four core client groups (assigning dedicated representatives and focusing sales efforts), combined net sales to the four groups have been generally increasing. In FY2024, the combined net sales grew significantly by 14.1% to 14,361 million yen (+1,784 million yen YoY).

However, as of FY2025, net sales by client group are no longer disclosed. While the proportion attributable to the NRI Group appears to have declined and that of the Fujitsu Group to have increased in FY2025, the overall composition is presumed to have remained largely unchanged.

Looking at the long-term changes, net sales to the NRI Group have increased by approx. 8.6 billion yen from approx. 900 million yen in FY2002 to approx. 9.5 billion yen in FY2024, supported by the expansion of business area from the initial focus on distribution to other industries including finance.

During this period, the Company's overall net sales grew by 12.4 billion yen from 5.6 billion yen to 18 billion yen. The majority of this growth came from the NRI Group (69%). As a result, net sales were largely reliant on the NRI Group in FY2024, at 52.7% of the total.

【Figure 13】Net Sales Breakdown by Client Group in FY2024 (Fiscal year before the previous)



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

In addition, the Company has consistently recorded a certain level of net sales to other major groups, such as AEON and Mizuho, over many years, indicating strong client trust and continuity of business relationships (for details, please refer to Alpha-Win's report published in June 2024).

The Company has especially been in a long-standing, collaborative relationship with NRI as one of the few e-e Partners[12]. Since the capital and business alliance, the two companies have established a council to further promote collaboration and strengthen their relationship in terms of transactions, businesses, and talent exchange.

In terms of transaction volume with each corporate client, NRI (as a standalone entity) has consistently ranked first, recording 7,511 million yen in FY2024 and 6,886 million yen in FY2025—a YoY decline, but still accounting for 37.5% of overall net sales. Fujitsu ranked second, with 2,900 million yen in FY2024, while the figure for FY2025 has not yet been disclosed.

Notably, the Company received the Customer Satisfaction Excellence Award from AEON Smart Technology Co., Ltd., of the Aeon Group, a major client for over 30 years, as part of the FY2024 Outsourcing Awards. In addition, it was honored with the Solutions Award, a special recognition in the JISA Digital Innovation Challenge hosted by the Japan Information Technology Services Industry Association (JISA), reflecting a high level of customer satisfaction.

(12) e-e Partner: An especially close partner among all partners of NRI. Of the "e Partners" (approx. 150 companies) with highly specialized business know-how and IT skills and high-level IT security, the "e-e Partners" collaborate with NRI not only in the operation of specific projects but also in the following: cooperative promotion of innovative activities in the system enhancement business; the strategic reinforcement of HR, quality, and IT security; and the development of a mutually benefitting business model that leverages each other's expertise. NRI has only announced three companies (the Company, HIMACS, and Toho System Science) as its e-e Partners.

(13) DX (Digital Transformation): The transformation brought by the penetration of IT (information technology) throughout society.

◆ Foundation for Future Areas of Growth and Next-Generation Technologies

- **Focused on receiving orders for projects related to new technologies and DX[13]**
- **Upfront investments in growth areas such as the cloud, blockchain, agile development, AI, and IoT**

Alongside its own R&D, the Company has been forming alliances with companies that possess innovative, new technologies. It has also received various awards and certification from major companies as their partners.

The Company has also been investing and preparing for the development of businesses based on next-generation technologies. Since DX[13]-related IT investments by corporate users are expected to continue growing, it has designated the Digital Business as a key growth area and plans to mobilize company-wide efforts to proactively make proposals and respond to demand.

It has especially been focused on (1) technology investments in cloud solution services[14] including Oracle-related services; (2) participation in social experiments of the Blockchain[15] Collaborative Consortium; (3) capital and business alliances with companies that have expertise in AI[16], IoT[17], and blockchain; (4) trial of the Smile Share Product[18] with the NRI employee union; and (5) alliances in agile development and maintenance/operation services. In recent years, the Company has been preparing to launch its proprietary service H・CUBiC, which provides multifaceted support for human capital management.

These initiatives are aimed at acquiring and sharing expertise and information on innovative technologies, as well as developing talents, conducting joint development and proposals, and establishing new businesses. Furthermore, through investment partnership as well as direct investments in private companies, the Company has been working on strategically accumulating information on new technologies and searching for promising companies.

(14) Cloud solution services: A type of service where applications are used as a 'service' via web browsers, etc.

(15) Blockchain: Synchronizing, recording, and accumulation of information across many computers through a decentralized network

(16) AI: Artificial intelligence

(17) IoT: Internet of things. A system in which all devices around us are connected via the Internet.

(18) Smile Share Product: An in-house developed product by the Company, designed to support and foster contactless communication and employee engagement in the era of remote work, under the theme of "Making employees smile through digital technology."

◆ Capital and Business Alliance with Nomura Research Institute (NRI)

- **Formed a capital and business alliance with NRI to strengthen the business relationship.**

The Company formed a capital and business alliance with the Nomura Research Institute (NRI; securities code 4307) in December 2022 and conducted a third-party allotment of shares to NRI. As a result, NRI's shareholding ratio rose from 1.51% to 20.18%, becoming the Company's largest shareholder.

- **NRI is a leading and highly regarded company in the industry, with a strong client base. It boasts a market capitalization 194 times larger than that of the Company and net sales 42 times greater in scale.**

NRI, an SI affiliated with Nomura Securities, is listed on the TSE Prime. It is a leading and highly regarded company, ranked as one of the top ten companies of the industry. Its market capitalization is 3.2 trillion yen and this fiscal year's forecasts are 810 billion yen in net sales and 104 billion yen in net profit (greater than the Company's by 194x, 42x, and 85x, respectively). Providing both consulting and IT solutions, it has top-level profitability in the industry and also has as a strong client base particularly in the financial and industrial sectors.

- **NRI is also experiencing strong growth. Over the most recent three-year period through the current fiscal year (forecast), it is expected to achieve an annual growth rate of 5.4% in net sales and 10.3% in operating profit.**

In its current medium-term management plan, NRI has set targets for the final year, FY2026, of 810 billion yen in net sales (same as NRI's year-beginning forecast), 145 billion yen in operating profit (year-beginning forecast is 5 billion yen greater at 150 billion yen), and an operating profit margin of 17.9% (year-beginning forecast is 18.5%). Based on FY2023 as the starting point, NRI anticipates a compound annual growth rate (CAGR) of 5.4% in net sales and 10.3% in operating profit over the three-year period through the current fiscal year (forecast). NRI's strong growth trajectory is a positive factor for the Company, given their collaborative relationship.

- **As collaboration between the Company and NRI deepens, the correlation between their business performance will most likely strengthen.**

With a long-standing, collaborative relationship, NRI is the Company's most important business partner. This collaboration will most likely deepen in the coming years (e.g. through the introduction and sharing of projects, sharing of technologies and information, and segregation of client segments) and correlation between the Company and NRI's performance will most strengthen.

- **The Company plans to invest a total of approx. 2.2 billion yen over a four-year period, with ongoing efforts to strengthen its development bases as well as development organization and facilities.**

To support further growth, the Company is carrying out a plan to invest a total of approximately 2.2 billion yen over the four-year period from FY2023 to FY2026 in enhancing its development bases as well as development organization and facilities. While no updates have been disclosed regarding actual investment results or investment plans for the current fiscal year and beyond, the plan is presumably being implemented largely as scheduled.

- **Continuing high levels of investment. Committed to increasing its capacity, which has been the bottleneck. These investments are essential for strengthening the Company toward future sustained growth.**

In particular, the Company has been actively allocating budget and increasing headcount to address the shortage of capacity—specifically in terms of personnel—which had been the most significant bottleneck to sustained growth. The number of domestic employees rose by 35, from 740 in FY2024 to 775 in FY2025. However, this figure fell short of the plan by 25 employees.

- **Investment outcomes (significant contribution to earnings) are expected to materialize from the current fiscal year onward.**

In terms of business, the Company plans to strengthen its long-standing and ongoing relationship with NRI, expand its business area, expand the use of its development bases, enhance and expand its development organization and facilities, and exchange talents. The investment and alliance will mostly likely contribute to the Company's business expansion and stable growth over the medium and long term. However, following investments such as the expansion of capacity and the recruitment and development of personnel, there is generally a time lag of around one to two years before these efforts fully contribute to earnings. As such, Alpha-Win anticipates that substantial contribution to earnings will materialize from the current fiscal year onward.

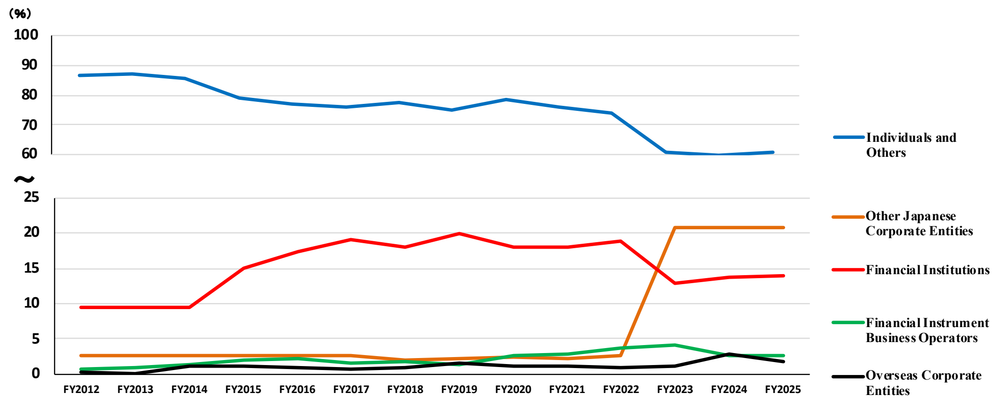
3. Shareholder Composition

◆ **"Individuals and Others" hold 60% of shares.**

◆ Change in Composition by Type of Shareholder

Figure 14 shows the shareholder composition by type of shareholder as of the end of March 2025. The proportion of "Individuals and Others" has been on a declining trend but still represents the majority at 61.1%. This is followed by "Other Japanese Corporate Entities," which has risen to 20.8% due to NRI's capital investment. "Financial Institutions" hold 13.9%, showing little change. Meanwhile, "Overseas Corporate Entities" remains low at 1.7%.

【Figure 14】Change in Shareholder Composition by Type of Shareholder (Unit: %) (As of the end of each fiscal year)



(Source) Prepared by Alpha-Win Research Dept. based on the notice of convocation of the ordinary general meeting of shareholders and the securities report

◆ **NRI is the largest shareholder.**

◆ Major Shareholder Composition

The composition of major shareholders is shown in Figure 15 on page 18. NRI became the largest shareholder after additional investment, with its shareholding ratio rising from 1.51% to 20.18%.

◆ **Stable, with no large change in the major shareholders.**

There were no significant changes in the composition or ranking of the Company's major shareholders, except for the fact that BNY GCM CLIENT ACCOUNT, which was the seventh-largest shareholder at the end of FY2024, is no longer listed among the major shareholders. The following provides additional details on the major shareholders.

◆ **The Employee Stock Ownership Plan and current and former directors are the most prominent among the other major shareholders.**

・Although the Employee Stock Ownership Plan (second place) and some of the trust banks have increased their holdings, the number of shares held by each major shareholder in general have not significantly changed since the end of FY2024.

・The major individual shareholders are all either current directors of the Company or those related to a former director. The Company's president, Masahiro Nakanishi, holds 32.7 thousand shares (shareholding ratio of 0.2%: +16.4 thousand shares compared to the fiscal year before the previous).

◆ **Treasury shares, the Employee Stock Ownership Plan, and directors and other individuals related to the Company collectively account for about 26% of all issued shares.**

・Among the top ten shareholders, the combined holdings of the Employee Stock Ownership Plan and directors (including current directors, former directors, and their relatives), along with the Executive Remuneration BIP Trust and the Stock Grant ESOP Trust, account for 26% of total issued shares.

・Osamu Sakiyama, the Company's chairman and fourth-largest shareholder, reduced his ownership stake to 6.00%.

◆ **Domestic investment trusts are mainly index-type.**

・Regarding funds, the Company's shares are incorporated in mainly Japan equity index funds including those managed by Mitsubishi UFJ Asset Management, Sumitomo Mitsui Trust Asset Management, and Asset Management One. Some of these funds are most likely investing under the names of the trust banks that are ranked as major shareholders.

◆ **The Company essentially owns treasury shares amounting to 4.4% of all issued shares.**

・Treasury shares—primarily held under the names of The Master Trust Bank of Japan as trustee for the BIP Trust and the Stock Grant ESOP Trust (the fifth- and ninth-largest shareholders, respectively)—totaled approximately 694,000 shares as of the end of FY2025. This represents 4.4% of the total number of shares issued, marking an increase of about 105,000 shares from the end of FY2024.

【Figure 15】Current Major Shareholders

Shareholder (Unit: thousand shares)	End of Mar. 2015	End of Mar. 2016	End of Mar. 2017	End of Mar. 2018	End of Mar. 2019	End of Mar. 2020	End of Mar. 2021	End of Mar. 2022	End of Mar. 2023	End of Mar. 2024	End of Mar. 2025	Shareholding Ratio (%)	Shareholder Ranking	Change in the Number of Shares Held
Nomura Research Institute, Ltd.	-	-	-	-	-	-	214	-	3,179	3,179	3,179	20.18	1	0
CUBE SYSTEM Employee Stock Ownership Plan	1,641	1,672	1,663	1,668	1,565	1,602	1,551	1,531	1,468	1,484	1,463	9.28	2	-21
The Master Trust Bank of Japan, Ltd. (trust account)	-	-	-	321	394	485	456	959	1,062	1,168	1,203	7.63	3	35
Osamu Sakiyama (indiv.): Chairman of CUBE SYSTEM	1,775	1,675	1,655	1,646	1,638	1,632	1,622	1,614	1,122	1,122	947	6.00	4	-175
The Master Trust Bank of Japan (Executive Remuneration BIP Trust Account: 75824 units)	-	270	270	262	369	358	358	618	586	586	522	3.31	5	-64
Akemi Onuki (indivdual): CUBE SYSTEM's former president	401	401	401	401	401	401	401	401	401	401	401	2.54	6	0
Toshio Uchida (individual): Director of CUBE SYSTEM	475	415	403	393	376	369	347	329	221	216	207	1.31	7	-9
Toshikuni Sato (individual): Former executive managing director of CUBE SYSTEM	380	340	300	300	304	304	288	239	230	200	199	1.26	8	-1
The Master Trust Bank of Japan, Ltd. (Stock Grant ESOP Trust Account: 80049 units)	-	-	-	-	-	-	-	-	-	-	169	1.07	9	-
Mika Sakiyama (individual)	-	-	-	-	-	-	-	-	-	-	151	0.96	10	-
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	-	-	-	-	-	-	-	-	-	254				
Custody Bank of Japan (trust account)	-	-	-	-	-	-	-	-	202	229				
SMBC Nikko Securities Inc.	-	-	-	-	-	-	-	282	290	-				
Masatsugu Sakurai (individual): General individual investor	316	316	316	316	316	316	316	288	-	-				
MUFJ Bank, Ltd.	258	258	-	-	258	258	258	258	-	-				
Japan Trustee Services Bank, Ltd. (5 trust accounts)	-	-	348	324	-	219	-	-	-	-				
Mizuho Bank, Ltd.	276	276	276	276	276	-	-	-	-	-				
CUBE SYSTEM INC.	682	458	1,035	1,236	1,356	-	-	-	-	-				
Resona Bank, Limited	241	-	-	-	-	-	-	-	-	-				
(Number of treasury shares essentially owned by CUBE SYSTEM)	682	728	1,306	1,498	1,725	1,692	1,690	1,000	589	589	694			105
(Proportion of treasury shares to all issued shares)	4.5%	4.8%	8.5%	9.8%	11.3%	11.1%	11.1%	6.9%	3.7%	3.7%	4.4%			0.7%

(Source) Prepared by Alpha-Win Research Dept. based on the notice of convocation of the ordinary general meeting of shareholders and the securities report.
(Note) "-" indicates that the shareholder was not among the major shareholders disclosed in the securities report and does not necessarily mean zero. Shareholding ratios were calculated after subtracting treasury shares from all issued shares. The treasury shares and the corresponding ownership ratio include shares held under the Executive Remuneration BIP Trust and the Stock Grant ESOP Trust. The change in the number of shares held is a comparison between the end of March 2025 and the end of March 2024.

4. ESG and Sustainability

◆ Environment

- **Working on continuous improvement of environmental performance (energy and resource conservation)**

- **Supports the TCFD and works on climate change mitigation and adaptation, as well as promoting appropriate information disclosure. Non-financial targets of the new medium-term plan include an environmental target. Received a B-score from the CDP.**

Although the Company's business operations are not inherently harmful to the environment, it has established an environmental policy to "practice environmentally friendly management through business activities and contribute to the reduction of environmental impact and the realization of a sustainable society." In line with this, it undertakes various environmentally conscious initiatives, such as reducing electricity and paper usage, minimizing waste, and implementing Cool Biz practices. The Company has also expressed its support for the Task Force on Climate-related Financial Disclosures (TCFD) and is actively working on both mitigating and adapting to climate change, while promoting the appropriate disclosure of related information. Environmental target for greenhouse gas or GHG emissions have also been added as a non-financial target of the new medium-term plan (Figure 37 on page 35). In addition, it received a B-score (third from the top out of eight levels) from the CDP, one of the world's leading ESG rating agencies, in the 2024 survey on climate change.

◆ Society

- **It sees its mission as contributing to the enhancement of client competitiveness and further development of the information society.**

As a core industry supporting the economic and social infrastructure, the CUBE SYSTEM Group sees its mission as contributing to the enhancement of client competitiveness and further development of the information society. Through the power of IT systems, it aims to help build a more prosperous and convenient society.

◆ Governance

- **One director was added to the board. Of the 11 total members of the management team, three are women, representing a female ratio of 27%, and six members are from outside the Company.**

As a company with auditors, the Company has set up the Nomination and Compensation Advisory Committee and the Internal Control and Integrated Risk Management Meeting. It has adopted an executive officer system and is working on strengthening its corporate governance functions.

The Company has expanded its number of directors by one, bringing the total to seven, including three external directors. It has four auditors, three of whom are external auditors. Among the directors, the chairman is a longtime internal member of the Company, while three—including the president—previously worked at NRI, one of whom serves as an external director. Of the remaining two external directors, one is a certified public accountant and the other is a medical doctor (a woman with expertise in occupational health, particularly in eldercare and mental health). Among the external auditors, one is a certified public accountant and the other a lawyer, both of whom are women (as of the resolution at the general meeting of shareholders).

Recognizing human capital enhancement and workstyle reform as priorities, it has established a health management policy and is committed to maintaining and improving the physical and mental health of its employees, as well as fostering a comfortable working environment (certified as a Health & Productivity Management Outstanding Organization[19] in 2024 for the third year in a row).

(19) Health & Productivity Management Outstanding Organizations: In the Health & Productivity Management Outstanding Organizations Recognition Program, companies that worked on initiatives to solve local health issues or promote health are jointly selected and awarded by the Ministry of Economy, Trade, and Industry and the Nippon Kenko Kaigi

◆ Sustainability

- **Emphasizing sustainability management**

The Company has established a basic sustainability policy composed of eight items and is advancing sustainability management. To solve social issues and contribute to the SDGs[20], it is leveraging its unique value-creation model to continuously improve corporate value and contribute to the realization of a sustainable society. Key initiatives include sound corporate management, promoting compliance, respecting human rights, encouraging fair business practices, delivering sustainable services, creating a rewarding work environment, contributing to local communities, and protecting the environment.

(20) SDGs (Sustainable Development Goals): International goals for the period from 2016 to 2030 described in "The 2030 Agenda for Sustainable Development" that was adopted at the UN Summit in September 2015.

5. History of Growth

- **Founded with foresight into the importance and future potential of computer systems**

◆ Company History

In 1972, the Company was founded as Customer Engineers Corporation by its founding members, which included the current chairman, as a company for software development, system operations, and system management (its name was changed to the current one in 1990). As Japan evolved into a computer society, IT investments increased and the system development market rapidly grew.

- **Specialized in the system integration business**
- **Its core clients are some of Japan's leading and most reputable enterprises.**

Amid this trend, the Company became specialized in the system integration business, building a strong track record and credibility. It secured new contracts one after another with leading Japanese companies, which remain its core client groups today. As these clients expanded their IT investment and outsourced more of their system development and operations, the Company steadily grew its business scope and scale.

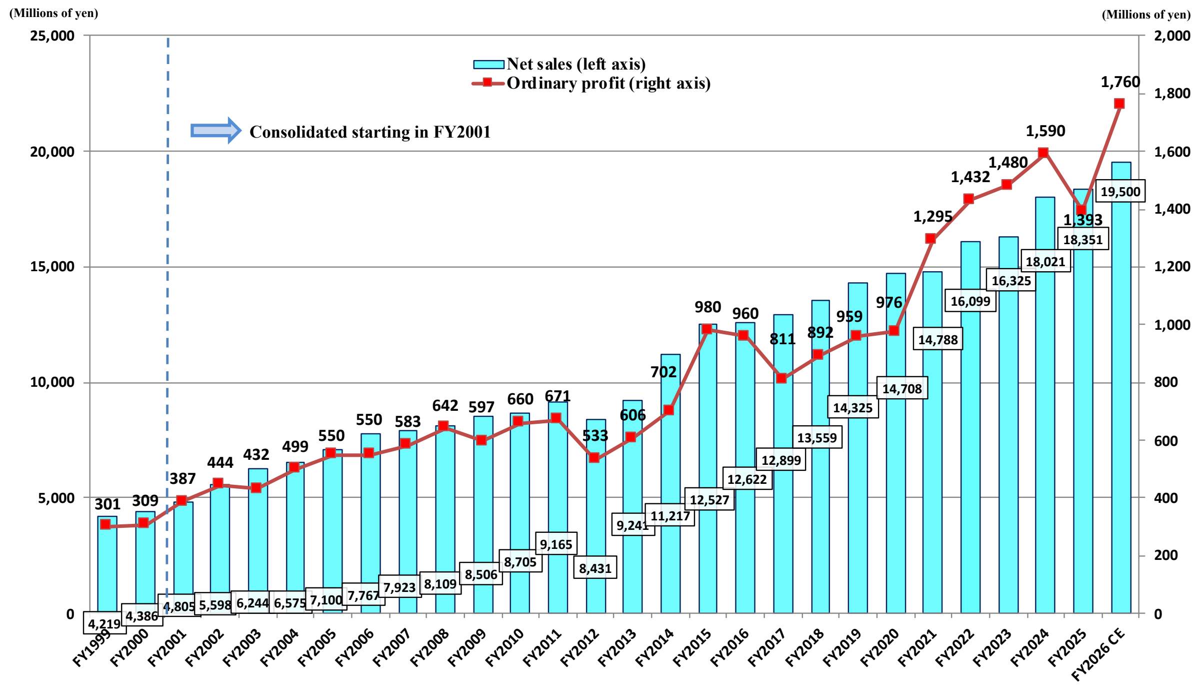
- **Changed its listing from TSE Second Section to the First Section in March 2014. Transitioned to the newly established Prime Market in April 2022.**

Regarding its shares, the initial offering was made in the JASDAQ market in 2002. In 2006, the Company became listed on the Second Section of the TSE, and in March 2014, it became listed on the First Section. With the change in the market segments of the TSE, it transitioned to the TSE Prime Market in April 2022.

◆ Past Transition in Financial Performance

Since foundation until today, the Company has improved its financial performance as a specialist (SI) in the development and operation of systems outsourced by companies and the central government. The long-term transition in financial performance is shown in Figure 16. The following are details of its financial performance in chronological order (pages 21-22).

【Figure 16】Long-Term Transition in Financial Performance



(Source) Prepared by Alpha-Win Research Dept. based on the financial results summary. CE: the Company's estimate/forecast.

- **Stable growth, with a net sales growth trend maintained over many years. Profit margins are mostly flat but increasing in recent years.**

・On a consolidated basis, with the exception of only a single fiscal year (FY2012), the Company has being achieving an year-on-year increase in net sales every fiscal year for the past 24 fiscal years. This consistent track record underscores its remarkable stability in growth.
・Over the past 24 years on a consolidated basis, it has achieved steady performance growth, with an annual net sales growth rate (simple average) of 5.9% and an annual ordinary profit growth rate (simple average) of 7.4%.

- **Net sales decreased only for 1 fiscal year during the past 24 years.**

・During the same period, there were six fiscal years in which ordinary profit declined, but the largest YoY decrease was limited to approximately 20%. The Company has also remained consistently profitable at the net profit level.

- **Performance volatility has been low, demonstrating a high level of stability.**

・Even in statistical analyses, the Company's low volatility in fundamentals is evident, as shown by the low standard deviation of its performance change rates and its coefficient of variation (standard deviation divided by the mean, also known as the relative standard deviation, which indicates relative variability) (see Figure 17 for comparison with competitors of similar scale over the most recent 21 fiscal years).
・Furthermore, because the Company's operating profit margin has stably been at around 7% during this period (6-9%; simple average of 7.3%; Figure 18 on page 22), net sales growth has been directly contributing to increases in profits, dividends, and market capitalization.

【Figure 17】Analysis of Financial Performance Volatility over the Past 21 Years (YoY rates of change in net sales and ordinary profit)

Scope of Analysis	% Change in Net Sales (% YoY)			% Change in Ordinary Profit (% YoY)		
FY2005 - FY2025	CUBE SYSTEM	HIMACS	Toho System Science	CUBE SYSTEM	HIMACS	Toho System Science
Market: TSE Prime	2335	4299	4333	2335	4299	4333
n = 21 fiscal years	CS (consolidated)	HM (consolidated)	TS (standalone)	CS (consolidated)	HM (consolidated)	TS (standalone)
Standard deviation	5.66	6.95	15.68	13.68	28.72	284.94
Average	5.16	3.17	8.27	5.89	7.61	74.01
Coefficient of variation	1.10	2.19	1.90	2.32	3.77	3.85

(Source) Prepared by Alpha-Win Research Dept. based on the securities report and financial results summary. Note that figures are non-consolidated for Toho System Science (standalone).

- **Expansion of business with the four core client groups has been a key driver of growth.**

External environmental factors, such as increasing IT investments by Japanese companies and the central government, have not been insignificant to the Company's growth to date. However, much of the Company's success can be attributed to its efforts to build a strong track record by deepening its expertise, enhancing its credibility, and establishing a solid client base. As noted earlier (pages 14-15), the Company has strengthened its relationship with its four core client groups—NRI, Fujitsu, Aeon, and Mizuho—enabling continued expansion in orders from them and driving growth.

- **Even in the immediate aftermath of the 2008 financial crisis, net sales increased for 3 consecutive fiscal years.**

Financial performance during the most recent 16 years or so is as follows.
・In FY2009, when the 2008 financial crisis occurred, the economy stagnated and clients became more cautious about IT investments. However, the Company was able to maintain net sales growth due to continued business with existing clients, mainly for systems of the financial and distribution industries, as well as due to business expansion projects related to non-financial companies entering the banking sector.
・The economic downturn continued into FY2010 and FY2011. System development plans continued to be postponed, cancelled, or scaled down. Companies held off on IT investments, and competition over price and between companies intensified. However, thanks to business with existing clients and the expansion of business with life insurance companies, banks, and manufacturers, the Company was able to maintain net sales growth. As net sales increased, operating profit during the three fiscal years following the 2008 financial crisis was impacted only to a small degree.

◆ **In FY2012, due to the Great East Japan Earthquake, net sales decreased for the first time since becoming listed. Operating profit decreased by 20%.**

・The Great East Japan Earthquake, however, had a significant negative impact in FY2012. Amid the difficult situation, net sales decreased by approx. 8%. Net sales from finance stayed flat, but dropped significantly for distribution and telecommunication. This was the single fiscal year during the 24 years up through the previous fiscal year in which net sales had decreased. Operating profit also decreased by 20.9%, the largest drop during this period, but a net profit was maintained.

◆ **Business environment improved thanks to Abenomics. Digitalization investments also increased. Net sales began increasing again.**

・Then, IT investments by companies and the central government recovered from their previous inclination to be held off or postponed due to factors including the economic recovery brought by the launch of Abenomics in December 2012, recovery of corporate performance and employment, rebuilding of IT infrastructure driven by M&A, and increased investment in areas such as smartphone-related telecommunications infrastructure, electricity market liberalization, and social security. Thanks to this recovery, as well as significant digitalization investments in recent years, the Company's net sales growth trend has become distinct.

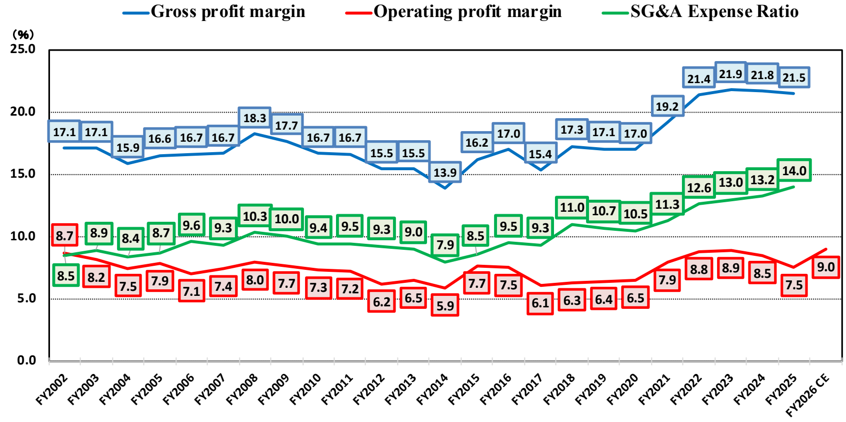
・In terms of profit, the Company recorded its then-highest operating and ordinary profit in FY2015, driven by net sales growth from business expansion through deeper engagement with existing clients and acquisition of new clients, as well as productivity improvements through enhanced project management. In FY2021, record profits were again achieved.

・Meanwhile, due to increased cost and intensified price competition, the Company's gross profit margin and operating profit margin had been gradually decreasing for many years (Figure 18).
・Operating profit margin had decreased mainly due to increased cost of sales (subcontracting cost and labor cost), upfront investments, and increased SG&A expenses (especially personnel expenses), but it began to improve starting in FY2018.
・In FY2024, while the gross profit margin remained nearly flat, the SG&A expense ratio increased, leading to a decline in the operating profit margin. Nevertheless, due to net sales growth, both profits reached record highs for the second consecutive year.

◆ **In the previous fiscal year, it achieved record-high net sales for the 13th consecutive year and record-high net profit for the 5th consecutive year.**

・In the previous fiscal year (FY2025), although operating profit declined due to increased personnel expenses, the occurrence of unprofitable projects, and investments including those in R&D as well as the development organization and facilities, Company achieved record-high net sales for the 13th consecutive year and record-high net profit for the 5th consecutive year, supported by the posting of extraordinary income (see pages 28–31).

【Figure 18】Change in the Company's Gross Profit Margin, SG&A Expense Ratio, and Operating Profit Margin Over the Long Term



(Source) Prepared by Alpha-Win Research Dept. based on the financial results summary. (Note) CE: the Company's estimate/forecast.

6. Business Environment

◆ Trends of Japan's System Integration Market

Survey of Selected Service Industries

- **As the outsourcing of system development became more common, system integrators grew by undertaking these system development projects.**

According to the "Sales by category of business for the information services industry" in the "Survey of Selected Service Industries" by the Ministry of Economy, Trade, and Industry, sales in the make-to-order software category—and particularly in system integration (SI), which accounts for more than half of those sales—have generally increased, with the exception of the few years after the 2008 financial crisis (Figure 19).

As outsourcing of system development became more common in Japan, system integrators have achieved stable growth by undertaking system development projects.

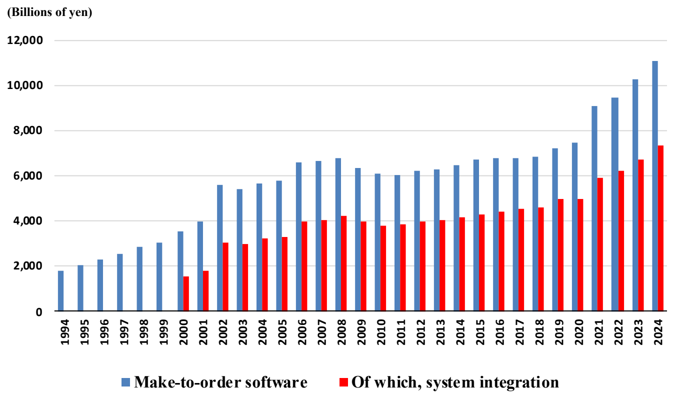
- **As the COVID-19 outbreak settled down to a certain degree, Japan's SI market recovered to a growth trend in 2021. A high growth rate was maintained in 2023 as well as 2024.**

According to the same data, from 2011 to 2019, system integration sales increased at a simple average annual rate of approximately 2.1%. Although sales declined by 2.7% in 2020 due to the impact of COVID-19, they rebounded with a 3.1% increase in 2021, followed by a 3.6% increase in 2022, a 9.3% increase in 2023, and a 9.7% increase in 2024 (after annual adjustment), continuing a positive growth trend (Figure 20).

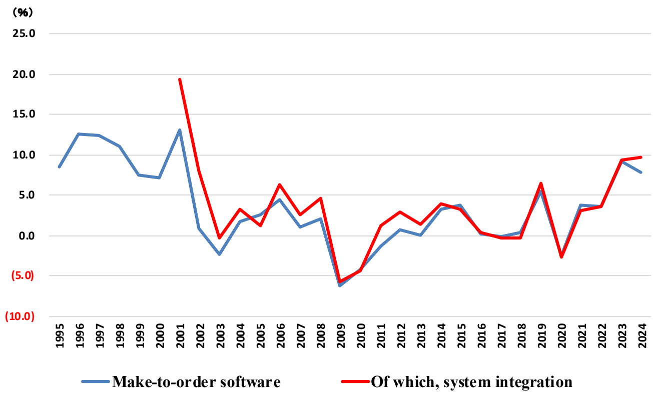
- **Monthly sales of the information services sector continued to show YoY growth from January to March 2025 but are on a gradually declining trend.**

The above survey has been discontinued in December 2024, however, and as of January 2025, it has been replaced by the "Monthly Business Survey of Services" conducted by the Ministry of Internal Affairs and Communications. According to the new monthly data on sales in the information services industry—which includes a broad range of information-related services, including custom software—the sector continued to show positive YoY growth: 15.4% in January 2025, 12.2% in February, and 3.8% in March. However, a gradually declining trend is observable.

【Figure 19】Change in the Make-to-Order Software and System Integration Markets (Annual sales in billions of yen)



【Figure 20】Both Market's Rate of Change (Rate of YoY change in sales: %)



(Source) Figures 19 and 20 were prepared and reworked by Alpha-Win Research Dept. based on data from the "December 2024 Survey of Selected Service Industry" by the Ministry of Economy, Trade, and Industry. Part of the original data used for market size (sales) in Figure 19 does not have continuity with the rest due to changes in the survey target size. However, the rate of change in Figure 20 has been adjusted by the Ministry to have continuity.

Bank of Japan Tankan Survey

- **Software investment is planned to increase by 5.9% (YoY) in 2025.**

According to the Bank of Japan's March 2025 Tankan survey, software investment planned for FY2025 by all industries and companies of all sizes (including financial institutions) is expected to remain solid, with a year-on-year increase of 5.9%, although at a lower growth rate (7.8% YoY increase planned in FY2024).

◆ **The corporate DI in the Bank of Japan's Tankan survey is flat but positive, indicating stable business sentiments.**

Compared to the December 2024 survey, the March 2025 Tankan survey showed that business sentiment (business conditions diffusion index or DI) among all industries and companies of all sizes remained unchanged. The DI for "current conditions" stayed at +15, and the DI for "outlook" also remained flat at +10.

Among large corporations, which are the Company's primary clients, business sentiment followed a similar trend. The DI for "current conditions" stayed at +23, while the DI for "outlook" remained unchanged at +20.

◆ **Large companies expect a slight increase in sales and a slight decrease in profit in FY2025. Labor shortage continues.**

Regarding sales and profit plans by large companies, according to the March 2025 survey, they are projecting modest growth in sales of 3.3% for FY2024 and 0.9% for FY2025, while ordinary profit is expected to rise by 1.1% in FY2024 but decline by 0.4% in FY2025. These figures indicate a somewhat cautious outlook.

As for employment conditions among large companies in the March 2025 survey, the employment conditions DI (calculated as "excessive" minus "insufficient," in percentage points) stood at −28 for "current conditions" and −30 for "outlook," suggesting that labor shortages remain persistent.

Industry Association Data

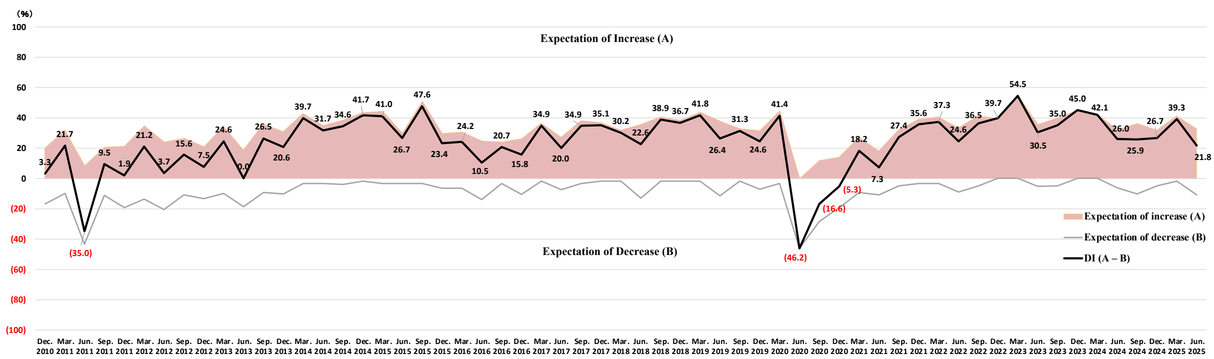
◆ **In the JISA-DI survey, the DI for sales outlook of make-to-order software remains at double-digit, positive values, although the momentum has somewhat declined.**

According to the March 2025 JISA-DI survey by the Japan Information Technology Services Industry Association (JISA), the DI for sales outlook of make-to-order software—representing expectations for sales over the next three months compared to the current three-month period (calculated as the percentage of respondents expecting an increase minus those expecting a decrease)—stood at +21.7 for April–June 2024. The DI then rose to +28.3, +25.4, and +36.5 in the subsequent quarters, and stood at +22.9 for the most recent period of April–June 2025. While the DI remains solidly positive, the margin of increase has been narrowing compared to two years ago.

◆ **The DI for outlook is high for sales to the financial and service sectors.**

The information services industry's overall trend in DI for sales is as shown in Figure 21. When broken down by key client industries, the DI tends to be relatively low for the manufacturing and wholesale/retail industries, and high for finance/insurance, services, and construction/real estate.

【Figure 21】DI for the Information Services Industry: Sales Outlook — Comparison of the Next Three Months with the Current Three Months (Unit: %)



(Source) Prepared by Alpha-Win Research Dept. based on data from the Japan Information Technology Services Industry Association.

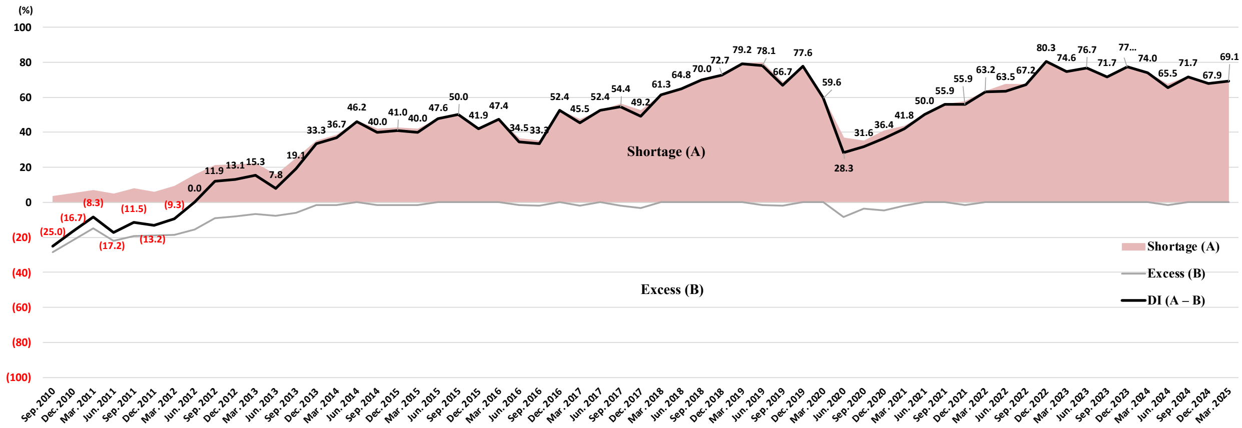
- **The employment sentiment DI indicates a strong sense of labor shortage.**

Although the employment sentiment DI, which reflects the sense of employee adequacy (calculated as shortage minus excess), has declined from its peak of 80.3 percentage points at the end of December 2022, it remained high at 69.1 percentage points as of the end of March 2025 (compared to 74.0 percentage points in the same period of the previous year), indicating a continued strong sense of labor shortage (Figure 22).

- **Significant shortage of IT engineers in terms of both quantity and quality**

The shortage of IT personnel remains significant in both quality and quantity, and it continues to be difficult to secure highly skilled system development engineers.

【Figure 22】 DI for the Information Services Industry: Employment Condition — Sense of Employee Adequacy (Unit: %)



(Source) Prepared by Alpha-Win Research Dept. based on data from the Japan Information Technology Services Industry Association.

<u>Market Outlook</u>

- **Strong DX-related demand**
- **Active strategic IT investments by both the public and the private sectors**

Despite uncertainties in the macroeconomic environment—such as the adverse effects of the Trump-era tariffs—IT investment by companies, the central government, and other organizations is expected to remain firm and continue growing, driven by the need for system sophistication and DX, particularly in response to labor shortages and the demand for greater operational efficiency.

Looking ahead, active investment in strategic areas and ongoing technological development are expected to continue across a wide range of industries and sectors as organizations strive to enhance their competitive advantage.

◆ CUBE SYSTEM's Position and Comparison with Competitors

◆ **Middle ranking in the industry in terms of sales, at 80th to 90th place from the top. Its share of sales in the entire system integration market is estimated to be about 0.3%.**

In the system integration industry, approximately 220 companies are broadly classified as system integrators, with sales data available through securities filings and other sources. Among them, the Company is estimated to rank around 80th to 90th place from the top in terms of sales volume, with a market share of roughly 0.3% in Japan.

◆ **Its benchmark companies are HIMACS and Toho System Science. Both are NRI's e-e Partners and their market positions and businesses are highly similar.**

The Company's competitors or comparable companies are considered to be HIMACS (TSE Standard: 4299) and Toho System Science (TSE Prime: 4333), the two companies which the Company uses as its benchmark. Both are e-e Partners of NRI (Nomura Research Institute; TSE Prime 4307), with about the same size and highly similar market positions as the Company (Figure 25 on page 27).

Among top-tier system integrators, companies such as NRI and Fujitsu are not direct competitors of the Company, but rather serve as its business partners or clients.

◆ **The Company's profit margin had been somewhat low compared to the two competitors, but it plans to improve the profit margin to a comparable level through investment outcomes and productivity enhancement initiatives.**

Alpha-Win compared the long-term transition in the operating profit margin of the three major listed companies including the Company (Figure 23) (hereinafter, the Company is abbreviated as CS in the graphs; similarly, HM for HIMACS and TS for Toho System Science).

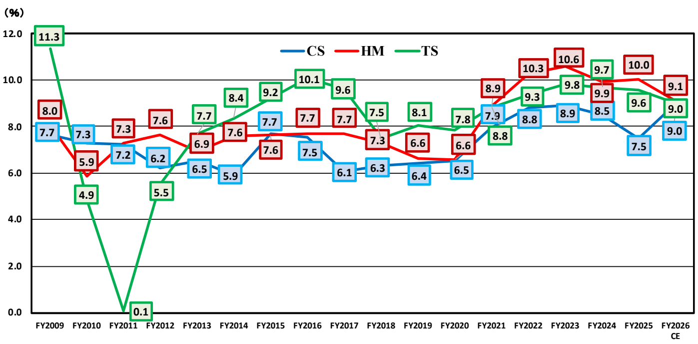
Compared to the other two companies, the Company's gross profit margin had been high, but its SG&A expense ratio had also been high, resulting in a relatively low operating profit margin. However, due to improvements in productivity and other factors, the margin has been on an upward trend. The forecast for the current fiscal year is around 9%, bringing it nearly on par with the other two companies.

◆ **Its ROE had improved significantly and had been the highest among the three companies in recent years, but has decreased temporarily due to the capital increase.**

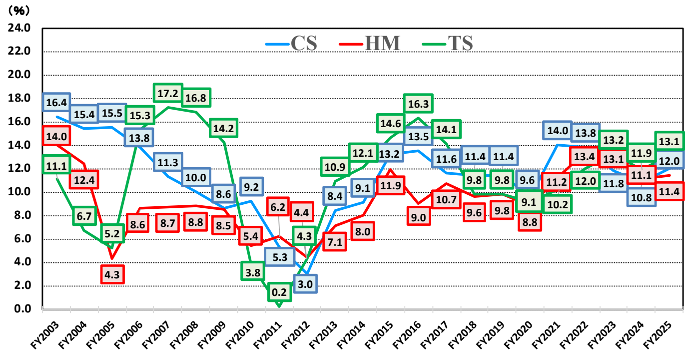
◆ **The Company's target is to maintain an ROE of at least 13% and reach 14% in FY2027.**

Similarly, comparison of the return on equity (ROE) (Figure 24) shows that the Company's ROE had been the highest of the three companies over the five fiscal years from FY2018 to FY2022 (same for ROA; although profit margins were about the same as the other two companies, the Company's total asset turnover was high). In FY2023 and FY2024, however, its ROE became the lowest due to the capital increase in the December 2022. The Company is working on improving capital efficiency and profitability, aiming to achieve and maintain an ROE of at least 13% (target of 14% in FY2027, the final year of the medium-term plan).

【Figure 23】Change in Operating Profit Margin of the Three Mid-Tier, Listed Companies



【Figure 24】Change in ROE of the Three Mid-Tier, Listed Companies



(Source) Figures 23 and 24 were prepared by Alpha-Win Research Dept. based on the financial results summaries and securities reports

【Figure 25】Company Overview and Management Indicator Comparison for the Three Mid-Tier, Listed Companies (the Company, HM, and TS) and NRI (Reference)

Company name	CUBE SYSTEM (CS)	HIMACS (HM)	Toho System Science (TS)	Reference: Nomura Research Institute (NRI)
Code	2335	4299	4333	4307
Characteristics	Mid-tier. Capital and business alliance with NRI. Mainly system development. Sales diverified by industry.	Independent and mid-tier. Mainly system development for the financial industry.	Mid-tier. Former affiliate of Toho Mutual Life Insurance Co. Capital and business alliance with NS Solutions Corporation. Primary focus on the financial industry but also strengthening its presence in non-financial fields.	An SI affiliated with Nomura Securities. A leading and reputable company in the industry. Primary focus on the financial industry. Integrated services that span consulting, system development, and operations.
Date of founding	July 1972	May 1976	June 1971	April 1965
Listed date: JASDAQ→TSE 2nd→TSE 1st→TSE Prime (April 2022)	Oct. 2002 → Nov. 2006 → Mar. 2014 → TSE Prime	Mar. 2001 → Mar. 2004 → Mar. 2015 → Apr. 2022 → Oct. 2023 TSE Standard	June 2001 → Mar. 2007 → Mar. 2014 → TSE Prime	TSE 1st Section (Dec. 2001) → TSE Prime
Sales segments/breakdown (FY2025)	▪System Enhancement Business 61.6% ▪SI Business 34.0% ▪Digital Business 4.4%	▪System Solutions Services 37.8% ▪System Maintenance Services 62.2%	▪Software Development 98.0% ▪IT System Services, etc. 2.0%	▪Consulting 8.0% ▪Financial IT Solutions 48.6% ▪Industrial IT Solutions 33.7% ▪IT Infrastructure Services 9.2% ▪Others 0.4%
Director and officer composition (as of the end of March 2025)	▪Directors (6; of which, 3 external & 1 woman [14.3%]) ▪Auditors (4; of which, 3 external and 2 women [50.0%]) ▪Executive officers (13; no woman)	▪Directors (8; of which, 3 external and 2 women) ▪Auditors (4; of which, 3 external) ▪Executive officers (14; no woman)	▪Directors (7; of which, 3 external and 1 woman) ▪Auditors (3; of which, 2 external) ▪Executive officers (10; of which, 1 woman)	▪Directors (9; of which, 3 external and 2 women) ▪Auditors (5; of which, 3 external and 1 woman) ▪Executive officers (31; of which, 2 women)
FY2025 Major customer industries and their precentage of total sales Sales (millions of yen) to major customers (and % of total sales)	▪Finance 33%, Distribution 17%, Transportation and Telecommunication 13%, and Others 38% (Manufacturing, Central Government, etc.) ▪NRI 6,886 million yen (37.5%) ▪Other major customers: Fujitsu Group, Mizuho Group, and Aeon Group	▪Finance 67% (of which 32% is from insurance) ▪NRI 6,667 million yen (36.9%) ▪Other major customers: IBM and Fujitsu	▪Finance 71% (of which 38% is from insurance) ▪NRI 4,684 million yen (27.0%)	▪Finance 48% (of which 19% is from securities firms)
Location (including consolidated subsidiaries)	▪Main office: Shinagawa-ku, Tokyo ▪West Japan Solutions Office in Osaka & Nagoya & Fukuoka ▪3 subsidiaries	▪Main office: Yokohama, Kanagawa ▪Minatomirai Office in Yokohama ▪1 subsidiary	▪Main office: Bunkyo-ku, Tokyo	▪Main office: Otemachi, Chiyoda-ku, Tokyo ▪92 consolidated subsidiaries (in Japan and overseas)
Medium-term management targets (indicators)	First Medium-Term Management Plan: Final year ・FY ended Mar. 2024: Net sales of 18B yen (actual: 18.02B yen), operating profit of 1.62B yen (actual: 1.54B yen), operating profit margin of 9.0% (actual: 8.5%), and ROE of 11% (actual: 10.8%). Second Medium-Term Management Plan: FY2025 - FY2027 ・FY ended Mar. 2025: Net sales of 18.8B yen (actual: 18.35B yen), operating profit of 1.6B yen (actual: 1.38B yen), and operating profit margin of 8.5% (actual: 7.5%). ・FY ending Mar. 2026: Net sales of 19.5B yen (initially 20.6B yen, at medium-term plan announcement), operating profit of 1.75B yen (initially 1.95B yen), and operating profit margin of 9.0% (initially 9.5%). ・FY ending Mar. 2027: Net sales of 23.0B yen and operating profit of 2.41B yen (operating profit margin of 10.5%).	New medium-term management plan NEXT C⁴ FY2024 - FY2026 ・FY ended Mar. 2024: Sales of 18.15B yen (actual: 17.36B yen), operating profit of 1.68B yen (actual: 1.72B yen), operating profit margin of 9.3% (actual: 9.9%), and ROE of 10.8% (actual 11.1%) ・FY ended Mar. 2025: Plan not disclosed. Results were sales of 18.1B yen, operating profit of 1.8B yen, operating profit margin of 10.0%, and ROE of 11.4%. ・FY ending Mar. 2026: Forecasts at the beginning of the fiscal year were sales of 20.0B yen (initially 20.63B yen for the medium-term plan), operating profit of 1.82B yen (initially 2.06B yen), operating profit margin of 9.1% (initially 10%), and ROE of 10.3% (initially 11.5%).	New medium-term management plan: plans for each final year ・FY ended Mar. 2025 (1st period): Sales of 16.5B yen (actual: 17.3B yen), operating profit of 1.58B yen (actual: 1.66B yen), operating profit margin of 9.6% (actual: 9.6%), and ROE of 11.4% (actual: 13.1%). ・FY ending Mar. 2028 (2nd period): Sales of 20.0B yen, operating profit of 2.0B yen (operating profit margin of 10%), and ROE of 12.5%. ・FY ending Mar. 2031 (3rd period): Sales of 50B yen, operating profit of 6B yen (operating profit margin of 12%), and ROE of 20%	Medium-term management plan ▪FY ended Mar. 2024: Revenues of 720B yen (actual: 736.5B yen), operating profit of 117B yen (actual: 120.4B yen), and operating profit margin of 16.3% (actual: 16.3%). ▪FY ended Mar. 2025: Revenues of 780B yen (actual: 764.8B yen), operating profit of 132B yen (actual: 134.9B yen), and operating profit margin of 16.9% (actual: 17.6%) ▪FY ending Mar. 2026: Revenues of 810B yen, operating profit of 145B yen, and operating profit margin of 17.9%. Plan at the beginning of the FY: revenues of 810B yen and operating profit of 150B yen (operating profit margin of 18.5%)
Medium-term management policy/strategy (summary)	V2026 The Second Medium-Term Management Plan Basic Policy Second Founding: Solid Fundamentals for Dramatic Growth Basic Business Foundation ▪Three business models: Digital Business, SI Business (Lift & Shift), and System Enhancement Business ▪Business styles: SIer Business (contract-based), End-User Business (contract-based), and Service Providing Business (proposal-based) Priority Measures I. Business Foundation ▪R&D: (1) Establishment of the H•CUBiC service to build a new revenue model; (2) Collaborative R&D with major SIs; (3) R&D utilizing intellectual property. ▪Collaboration Initiatives: (1) Establishment of one-stop services; (2) Market expansion through the development of collaboration themes; (3) Collaborations directly addressing social issues. ▪Strengthening of Development Organization and Facilities: (1) Reinforcement of production innovation; (2) Expansion of orders to subsidiaries; (3) Development of new partner companies and strengthening of relationships with existing partners. ▪Enhancement of Quality: (1) Thorough adherence to basic quality management principles; (2) Strengthening of risk management on a per-project basis; (3) Review of organizational support systems; (4) Enhanced response protocols in the event of issues. II. Management Foundation ▪Enhancement of Human Capital: (1) Further strengthening of new graduate hiring, and reinforced hiring of mid-career professionals at the leader level; (2) Enhanced development of leaders and specialists; (3) Skill enhancement for managers and leader-class personnel. ▪Internal Controls / Governance: Strengthening of measures to prevent overwork and reinforcing care systems. ▪Corporate Culture Reform: (1) Development and continuity of a healthy organizational culture; (2) Improvements and streamlining of internal systems, operations, and procedures.	Basic strategy ▪Expand the conventional contract-dev. business (core business): Maintain businesses with the nonfinancial sector and end users at 30% of the total ▪Actively work on receiving orders for DX projects that are based on digital technologies: Raise the sales proportion of DX projects from 20% to 25% ▪Continue investment in human capital: Increase the number of DX engineers by 30%, raise the percentage of employees with DX-related certification to more than 90%, increase the number of project leaders by 20%, and increase the number of development staff ▪Conduct M&A and form capital/business alliances for further development of business	Long-Term Management Vision 2030 ▪Create the future with customers ▪Stably expand business, solve society's issues, and create a sustainable future society Priority Strategies ▪Change the business portfolio ▪Focus on the digital business ▪Build the service business ▪Establish the DX Development Center ▪Develop human resources, raise liquidity of shares, and strengthen governance	Main Pillars of the Growth Strategy: ▪Deeper development of the core businesses (greater market reach in Japan): Sales growth rate (growth rate from FY ended Mar. 2023 to FY ending May 2026): (1) consulting business at more than +5B yen (2) Industrial IT Solutions at more than +40B yen (3) Financial IT Solutions at more than +40B yen (4) IT Infrastructure Services at more than +5B yen ▪Evolving the core businesses (fundamental transformation of production): (1) Fundamental transformation in production through modernization of the existing IT assets, renewal of the development framework, and utilization of AI in development processes (2) Planning to invest about 20B yen during the span of the current medium-term plan to improve productivity
Sales (millions of yen): CE for FY2026	*19,500*	*20,000*	*19,000*	*810,000*
Sales growth rate, YoY (%): CE	*6.3*	*10.7*	*9.6*	*5.9*
Operating profit (millions of yen): CE	*1,750*	*1,820*	*1,710*	*150,000*
Operating profit growth rate, YoY (%): CE	*26.7*	*0.7*	*3.1*	*11.2*
EPS (CE) for FY2026, YoY (%)	*-4.4*	*-3.8*	*5.5*	*11.1*
Dividend on equity ratio (%): Actual	6.0	4.6	8.8	8.7
Past 15 years' sales growth rate (FY2025 result divided by FY2010 result: %)	110.8	134.7	137.5	125.9
Operating profit growth rate (same condition as above)	116.7	300.7	367.0	236.6
Equity ratio (%): Actual	75.7	81.6	68.0	46.7
Number of domestic and overseas employees: Actual	918	944	681	16,679
Sales per employee (millions of yen per person)	20.0	19.1	25.5	45.9
Operating profit per employee (millions of yen per person)	1.5	1.9	2.4	8.1
ROE (%): Actual for FY2025 A=B×C×D	12.0	11.4	13.1	22.5
Net profit margin (net profit for the year / sales : %) B	6.9	7.2	6.9	12.3
Total asset turnover ratio (sales / ave. total assets) C	1.3	1.3	1.3	0.8
Financial leverage (ave. total assets / ave. equity) D	1.3	1.2	1.5	2.2
ROA (ordinary profit / total assets : %) E=F×G	10.0	13.0	12.3	14.5
Ordinary profit margin (%): Actual F	7.6	10.1	9.4	17.5
Total asset turnover ratio (sales / ave. total asset) G	1.3	1.3	1.3	0.8

(Source) Prepared by Alpha-Win Research Dept. based on information including each company's securities report, financial results materials, website, and notice of convocation of the general meeting of shareholders.
(Note) The companies' forecasts for FY2026 are italicized; the rest are actual values of FY2025. The highest values among the three companies (excluding NRI) are highlighted in yellow. The highest values among the four companies including NRI are highlighted in orange. For the ROA (E) and ordinary profit margin (F) of NRI, profit before tax was used instead of ordinary profit. NRI is based on the IFRS (the other three companies are based on the Japanese GAAP).

7. Last Fiscal Year's Results and This Fiscal Year's Company Forecast

◆Full-Year Financial Results for FY2025 (Last Fiscal Year)

- **Net sales and operating profit for the previous fiscal year fell short of the Company's initial plan but slightly exceeded the most recent forecast. No surprises.**
- **Achieved record-high net sales for the 13th consecutive year and record-high net profit for the 5th consecutive year. Dividends were increased as planned.**
- **Due to solid net sales growth and cost reductions in Q4, which led to profit growth, the actual results for the previous fiscal year slightly exceeded Alpha Win's forecast.**

Summary

In FY2025 (last fiscal year) on a consolidated basis, the Company posted net sales of 18,351 million yen (+1.8% YoY), operating profit of 1,380 million yen (–10.1% YoY), ordinary profit of 1,393 million yen (–12.4% YoY), and profit attributable to owners of parent of 1,067 million yen (+18.2% YoY; hereinafter, "net profit"). Net sales, operating profit, and ordinary profit all fell short of the initial plan made at the beginning of the fiscal year, but the posting of extraordinary income resulted in net profit exceeding the initial plan. The results also somewhat exceeded the revised forecasts announced by the Company in February 2025 (Figure 26).

Net sales reached a record high for the 13th consecutive year since FY2013, while net profit also marked a record high for the fifth straight year. The annual dividend per share was increased by 5 yen from the previous fiscal year to 40 yen, in line with the initial plan.

Alpha-Win had projected the Company's net sales, profits, and dividend for the previous fiscal year to be in line with the Company's forecast. The positive deviation from expectations is attributed to strong net sales in Q4 (January–March 2025), as well as a rise in gross profit margin and a reduction in SG&A expenses, which led to a YoY increase in Q4 operating profit from 374 million yen to 490 million yen (+116 million yen or +31.0% YoY).

It is presumed that the main factors behind the shortfall relative to the initial forecast were the loss of order opportunities due to unprofitable projects in the previous fiscal year, as well as the recording of losses due to additional costs incurred in resolving those issues.

【Figure 26】Comparison of Forecasts and Results in FY2025 (Last Fiscal Year)

Unit: million yen	Initial Company Plan	Revised Company Plan	Alpha-Win's Forecast	Result	Comparison with Revised Company Plan (Diff.)	Comparison with Revised Company Plan (% Diff.)	Comparison with Alpha-Win's Revised Forecast (Diff.)	Comparison with Alpha-Win's Revised Forecast (% Diff.)
	A	B	C	D	E=D-B	F=E/B	G=D-C	H=G/C
Net Sales	18,800	18,300	18,300	18,351	51	0.3%	51	0.3%
Gross Profit			3,900	3,947			47	1.2%
Gross Profit Margin			21.3%	21.5%			0.2%	
SG&A Expenses			2,600	2,566			-34	-1.3%
SG&A Expense Ratio			14.2%	14.0%			-0.2%	
Operating Profit	1,600	1,300	1,300	1,380	80	6.2%	80	6.2%
Operating Profit Margin	8.5%	7.1%	7.1%	7.5%	0.4%		0.4%	
Ordinary Profit	1,650	1,310	1,310	1,393	83	6.3%	83	6.3%
Net Profit	1,100	1,210	1,210	1,261	51	4.2%	51	4.2%
Dividend	40.00	40.00	40.00	40.00	0.00	0.0%	0.00	0.0%

(Source) Prepared by Alpha-Win Research Dept. based on the financial results summary. The revised company plan was announced on February 5, 2025.

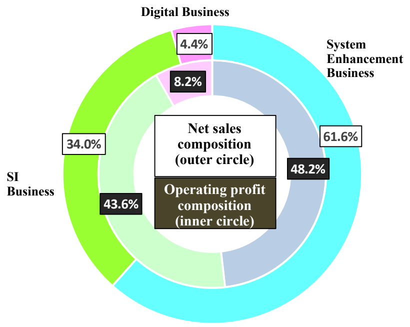
- **Both orders received and the order backlog slightly increased.**
- **Orders were strong in the Digital Business, business with the central government, and the Service Providing Business.**

Orders Received and Order Backlog

The amount of orders received has increased from 16,620 million yen in FY2023 to 18,096 million yen in FY2024, and further to 18,493 million yen in FY2025 (+393 million yen or +2.2% YoY). Order backlog at the end of each fiscal year also rose steadily, from 4,572 million yen to 4,647 million yen, and then to 4,789 million yen (+142 million yen or +3.1% YoY), in the same order.

By business model, orders in the Digital Business were strong. By industry, orders increased for the Central Government and Manufacturing (subsegments of the Others segment). By business style, the increase in orders in the Service Providing Business contributed to overall performance.

【Figure 27】Breakdown of Net Sales and Operating Profit by Business Model in FY2025



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

Net Sales and Profit by Business Model (Breakdown: Figure 27)

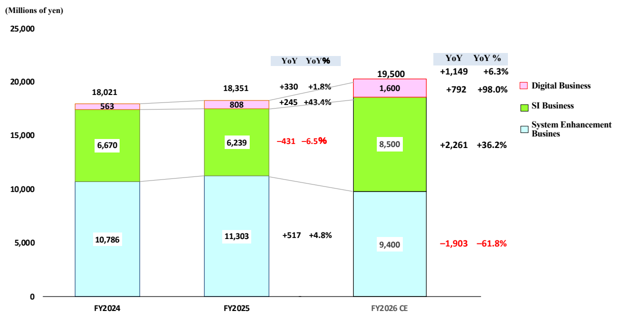
・The Company's business is categorized into three business models: System Enhancement, SI (system integration: system planning, design, development, and implementation services), and Digital (proposal-based business using digital technologies).

・Compared to FY2024, the Company recorded an overall increase in net sales of 330 million yen (+1.8%). By business model, net sales in the SI Business declined (–431 million yen or –6.5% YoY) due to a decrease in orders. On the other hand, the System Enhancement Business saw an increase in net sales (+517 million yen or +4.8% YoY) driven by the acquisition of derivative development projects in existing areas, and the Digital Business also posted an increase in net sales (+245 million yen or +43.4% YoY) due to expanded orders for consulting and other projects, thereby offsetting the decline (Figure 28).

- **Although still small in scale, the Digital Business recorded an increase in net sales and profit.**
- **Both the SI Business and the System Enhancement Business saw a decline in profit due to lower profit margins.**

・Operating profit declined by 155 million yen overall. Among the segments, only the Digital Business achieved a slight increase in profit (+7 million yen or +88.1% YoY), supported by improved profit margins and an increase in net sales. However, this was not enough to offset the decline in the SI Business (–117 million yen or –19.1% YoY) and the System Enhancement Business (–46 million yen or –5.0% YoY), both of which saw lower profit margins (Figure 29).

【Figure 28】Change in Net Sales by Business Model (Results and FY2026 Forecasts)



【Figure 29】Change in Profit by Business Model (Results and FY2026 Forecasts)

Unit: million yen or %	FY2024	FY2025	Difference	% Diff.	FY2026 CE	Difference	% Diff.
Digital Business	8	15	7	88.1%	70	55	366.7%
SI Business	614	497	-117	-19.1%	850	353	71.0%
System Enhancement Business	913	867	-46	-5.0%	830	-37	-4.3%
Operating Profit (Total)	1,536	1,380	-155	-10.1%	1,750	370	26.8%
Digital Business	1.4%	1.9%	0.4%		4.4%		2.5%
SI Business	9.2%	8.0%	-1.2%		10.0%		2.0%
System Enhancement Business	8.5%	7.7%	-0.8%		8.8%		1.2%
Operating Profit Margin (Company-Wide Average)	8.5%	7.5%	-1.0%		9.0%		1.5%

(Source) Figures 28 and 29 were prepared by Alpha-Win Research Dept. based on the financial results materials. CE: the Company's estimate/forecast.

Net Sales and Operating Profit by Industry (Breakdown: Figure 9 on page 12)

・Industry-specific data is disclosed for up to six industries. Sales and profit performance varied by industry (Figures 30 and 31 on page 30).

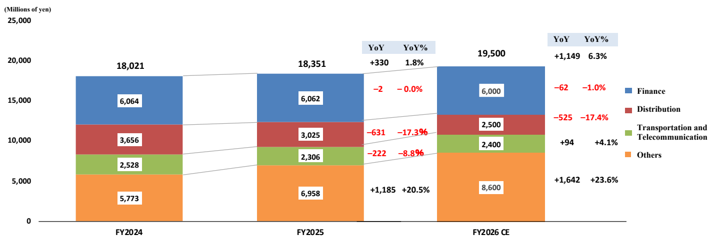
- **By industry, profit declined for Distribution and Finance, while the Central Government and Manufacturing subsegments (within the Others segment) contributed with double-digit increases in both net sales and profit.**

Net sales and profit for Distribution declined significantly due to a decrease in projects for a general merchandise store and an apparel company. Net sales to Transportation and Telecommunication also declined due to fewer projects from logistics companies; however, profit increased thanks to improved profit margins.

In the Others segment, projects for central government agencies increased in the Central Government subsegment, as well as for energy-related industries and a food company in the Manufacturing subsegment. Double-digit increases in net sales and profit were recorded in both subsegments, contributing to overall performance. The Other Industries subsegment saw a significant decline in profit despite an increase in sales due to profitability deterioration.

Meanwhile, Finance—which accounts for a large share of net sales—remained flat in terms of net sales. Although there was an increase in projects for a securities firm and a bank, it was offset by a decrease in projects for other financial firms, such as an insurance company. Profit declined by double digits due to a drop in profit margin.

【Figure 30】Change in Net Sales by Industry (Results and FY2026 Forecasts)



【Figure 31】Change in Profit by Industry (Results and FY2026 Forecasts)

	Industry	FY2024	FY2025	Diff.	% Diff.	FY2026 CE	Diff.	% Diff.
Operating Profit (Unit: million yen)	Finance	564	484	-80	-14.3%	600	116	24.0%
	Distribution	278	172	-106	-38.3%	100	-72	-41.9%
	Transportation and Telecommunication	232	284	52	22.3%	250	-34	-12.0%
	Others	459	439	-20	-4.4%	800	361	82.2%
	Central Government	138	221	83	60.4%	220	-1	-0.5%
	Manufacturing	107	133	26	23.4%	180	47	35.3%
	Other Industries	214	85	-129	-59.9%	400	315	370.6%
	Total	1,536	1,380	-155	-10.1%	1,750	370	26.8%
Operating Profit Margin (Unit: %)	Finance	9.3%	8.0%		-1.3%	10.0%		2.0%
	Distribution	7.6%	5.7%		-1.9%	4.0%		-1.7%
	Transportation and Telecommunication	9.2%	12.3%		3.1%	10.4%		-1.9%
	Others	8.0%	6.3%		-1.6%	9.3%		3.0%
	Central Government	12.3%	11.4%		-0.9%	10.0%		-1.4%
	Manufacturing	6.7%	7.4%		0.7%	9.0%		1.6%
	Other Industries	7.1%	2.7%		-4.4%	9.1%		6.4%
	Total	8.5%	7.5%	8.5%	7.5%	9.0%		1.5%

(Source) Figures 30 and 31 were prepared by Alpha-Win Research Dept. based on the financial results materials.
(Note) The Others segment = Central Government + Manufacturing + Other Industries

- **Operating profit margins declined across all three business styles, resulting in a decrease in operating profit.**
- **In terms of both net sales and profit by business style, the SIer Business accounted for approximately 76%.**

<u>Net Sales and Operating Profit by Business Style</u> (Breakdown: Figure 32)

・Net sales and profit are disclosed by three business styles: 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 clients including companies and the central government), End-User Business, and Service Providing Business (Figures 33 and 34 on page 31).

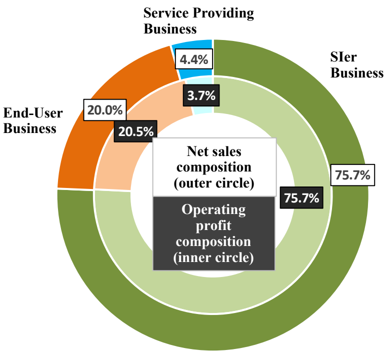
・ While net sales were generally solid across all three business styles, operating profit declined due to lower operating profit margins.

・ In terms of both net sales and profit composition, the SIer Business accounted for the majority at 75.7% of the total. Due to the reduction of individual projects, it posted slight growth in net sales but a decline in profit.

・The End-User Business (direct transactions with end users), which aims to expand in specialized areas by leveraging accumulated technologies and expertise, accounted for 20.0% of the total as the second largest among the three business styles. Although it maintained steady net sales due to the development of themes in existing areas, it recorded a decrease in profit. In general, end-user projects are highly profitable, but their profitability depends heavily on project management capabilities.

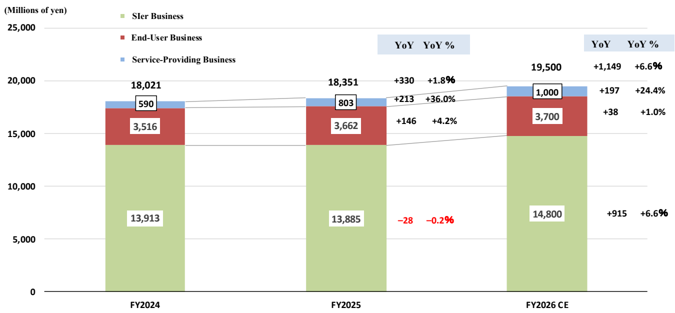
・The Service Providing Business (including solutions) currently represents a small share at 4.4% of the total, but its growth rate was by far the highest among the three business styles. However, due to increased costs, it posted a decline in profit.

【Figure 32】Breakdown of Net Sales and Operating Profit by Business Style in FY2025



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

【Figure 33】Change in Net Sales by Business Style (Results and FY2026 Forecasts)



【Figure 34】Change in Profit by Business Style (Results and FY2026 Forecasts)

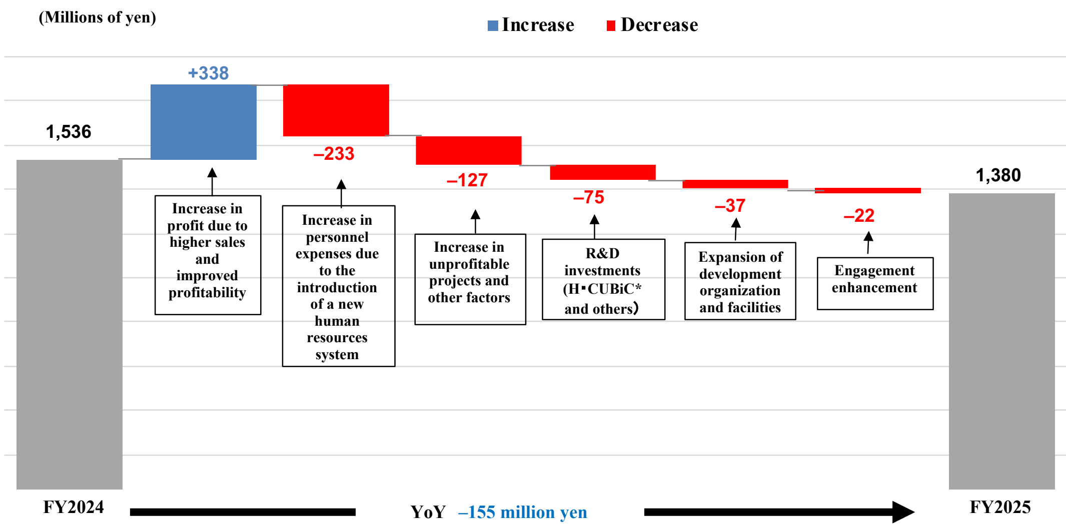
	Business Style	FY2024	FY2025	Diff.	% Diff.	FY2026 CE	Diff	% Diff.
Operating Profit (Unit: million yen)	SIer Business	1,116	1,045	-71	-6.3%	1,367	322	30.8%
	End-User Business	348	283	-65	-18.6%	350	67	23.7%
	Service Providing Business	70	51	-19	-27.8%	33	-18	-35.3%
	Total	1,536	1,380	-155	-10.1%	1,750	370	26.7%
Operating Profit Margin (Unit: %)	SIer Business	8.0%	7.5%	-0.5%		9.2%	1.7%	
	End-User Business	9.9%	7.8%	-2.1%		9.5%	1.7%	
	Service Providing Business	12.0%	6.4%	-5.6%		3.3%	-3.1%	
	Total	8.5%	7.5%	-1.0%		9.0%	1.5%	

(Source) Figures 33 and 34 were prepared by Alpha-Win Research Dept. based on the financial results materials.

Analysis of Factors that Increased or Decreased Operating Profit

The breakdown of factors that impacted operating profit in the previous fiscal year is shown in Figure 35. While there were positive contributions from the increase in net sales and improved profitability (+338 million yen to profit), these gains were outweighed by higher personnel expenses (–233 million yen to profit), the occurrence of unprofitable projects (–127 million yen to profit), and an increase in upfront investments such as R&D expenses and the expansion of the development organization and facilities. As a result, company-wide operating profit declined by 155 million yen.

【Figure 35】Factors that Impacted Operating Profit in FY2025 (Last fiscal year) (Unit: million yen)



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

- **The gross profit margin declined slightly, and the increase in costs associated with strengthening the management foundation led to a deterioration in the SG&A expense ratio, resulting in a lower operating profit margin.**

The gross profit margin declined by 0.3 percentage points, from 21.8% in FY2024 to 21.5% in FY2025. Meanwhile, SG&A expenses increased by 7.5% YoY, outpacing the 1.8% increase in net sales, resulting in a rise in the SG&A expense ratio from 13.2% to 14.0%—an increase of 0.8 percentage point.

As a result, the operating profit margin fell by 1.0 percentage point, from 8.5% to 7.5%, resulting in a 10.1% decrease in operating profit.

◆ CUBE SYSTEM's Financial Forecast for FY2026 (This Fiscal Year)

- **For the current fiscal year, the Company expects a 6.3% increase in net sales and a 26.7% increase in operating profit, planning to achieve record highs in both net sales and operating profit.**

Summary

This fiscal year, the Company plans for net sales of 19,500 million yen (+6.3% YoY), operating profit of 1,750 million yen (+26.7% YoY), ordinary profit of 1,760 million yen (+26.3% YoY), and net profit of 1,220 million yen (–3.3% YoY). It forecasts record-high net sales and operating profit.

With a firm order environment, work volume is expected to rise. Combined with revisions to the price per contract, productivity enhancement measures, and the absence of both direct losses and opportunity loss from unprofitable projects recorded in the previous fiscal year, operating profit margin is expected to improve significantly, resulting in a substantial increase in profit.

Although net profit is expected to decline slightly due to the absence of the extraordinary income posted in the previous fiscal year, the Company plans to raise the annual dividend by 2 yen YoY to 42 yen. It also plans to strengthen its development organization and facilities by proactively increasing headcount through both new graduate and mid-career hiring, mainly in Japan.

【Figure 36】The Company's Financial Forecast for FY2026 (This Fiscal Year)

Unit: million yen	Last FY's Results FY2025	This FY's Company Plan FY2026	FY2025 First Half	FY2026 First-Half Plan	YoY Change (%)	FY2025 Second Half	FY2026 Second-Half Plan	YoY Change (%)
Net Sales	18,351	19,500	9,022	9,300	3.1%	9,329	10,200	9.3%
Gross Profit	3,947		1,869			2,078		
Gross Profit Margin	21.5%		20.7%			22.3%		
SG&A Expenses	2,566		1,336			1,230		
SG&A Expense Ratio	14.0%		14.8%			13.2%		
Operating Profit	1,380	1,750	533	540	1.2%	847	1,210	42.9%
Operating Profit Margin	7.5%	9.0%	5.9%	5.8%	-0.1%	9.1%	11.9%	2.8%
Ordinary Profit	1,393	1,760	528	550	4.1%	865	1,210	39.9%
Net Profit	1,261	1,220	662	460	-30.5%	599	760	26.9%

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

- **In the first half, the Company expects a modest increase in net sales and a slight increase in operating profit compared to the same period of the previous fiscal year. In the second half, it forecasts a significant increase in net sales and improved profit margins, resulting in an operating profit increase of over 40%.**

Financial Forecast for the First and the Second Half

For the first half of the fiscal year, the Company plans to achieve net sales of 9,300 million yen (+3.1% YoY), operating profit of 540 million yen (+1.2% YoY), and net profit of 460 million yen (–30.5% YoY) (Figure 36). Subtracting these first-half figures from the full-year forecast indicates that for the second half, the Company expects net sales of 10,200 million yen (+9.3% YoY), operating profit of 1,210 million yen (+42.9% YoY), and net profit of 760 million yen (+26.9% YoY), resulting in significant growth.

In past years, operating profit margins have tended to rise in the second half of the fiscal year compared to the first half due to higher net sales, improved productivity, and seasonality (in the first half, recruitment costs are greater and new employees do not engage in revenue-generating work, but in the second half, not only does this situation improve but also delivery dates tend to concentrate toward March). Additionally, losses from unprofitable projects recorded in the previous second half are not expected this time.

For the current fiscal year, the Company plans to raise its operating profit margin from 5.8% in the first half to 11.9% in the second half—a 6.1 percentage point improvement (FY2025: 5.9% in the first half and 9.1% in the second half, a 3.2 percentage point improvement). The Company expects a 9.7% increase in net sales and a 124.1% increase in operating profit in the second half compared to the first half (in FY2025, the increases were 3.4% and 58.9%, respectively).

Assumptions for Segment Performance

The following outlines the segment-based breakdown of the Company's net sales and profits that form the basis of its current fiscal year forecast, along with associated strategies and contributing factors:

(21) Consulting collaboration model: Business model in which new clients are developed jointly with consulting companies, or business is developed jointly with the consulting division of major system integrators.

- **By reallocating resources among business models, the Company expects the SI and Digital Business to contribute to net sales and profit growth.**

・**By Business Model** (Figures 28 and 29 on page 29): While the System Enhancement Business is expected to post a decrease in both net sales and profits, both the SI Business and the Digital Business are projected to record substantial increases in both. These increases are expected to result from the expansion of the consulting collaboration model[21] and collaboration with cloud vendors, as well as the expansion of the development organization and facilities, which will enable the handling of larger-scale and newly acquired projects. Specifically, the Digital Business' net sales are expected to double, accounting for an increase of 792 million yen (69% of the Company's total projected increase of 1,149 million yen). The SI Business is expected to contribute a profit increase of 353 million yen (95% of the Company's total projected profit increase of 370 million yen), driving overall performance.

- **By industry, Finance and Others are expected to drive profit growth.**

・**By Industry** (Figures 30 and 31 on page 30): In the Others segment, the Central Government and Manufacturing subsegments are expected to remain strong. The Other Industries subsegment is projected to achieve a 37% net sales growth and a sharp improvement in profitability, with profit rising significantly from 85 million yen to 400 million yen (+315 million yen, accounting for 85% of total profit growth), driving overall performance. For Finance, flat net sales but higher profits are expected due to improved margins. For Distribution, continued declines in both net sales and profit are expected, while the Transportation and Telecommunication segment is projected to post higher net sales but lower profits due to declining margins.

- **In terms of business style, improved profit margins are expected to support growths in net sales and profit in the SIer Business, contributing to overall performance.**

・**By Business Style** (Figures 33 and 34 on page 31): All three business styles are expected to post an increase in net sales. The SIer Business will contribute the most, with a substantial net sales increase of 915 million yen (+6.6% YoY), driven by the expansion of areas through one-stop services. This business is also expected to contribute most significantly to operating profit growth with an increase of 322 million yen (87% of the Company's total projected increase of 370 million yen) due to improved margins. The End-User Business is expected to show flat net sales (+38 million yen or +1.0% YoY), but profit growth of 67 million yen (+23.7% YoY) is anticipated due to improved margins. Meanwhile, the Service Providing Business is projected to achieve a high net sales growth rate of 24.4% (+197 million yen YoY) through strengthened collaboration, but operating profit is expected to decline (–18 million yen or –35.3% YoY) due to lower margins.

Assumptions for Gross Profit Margin and Operating Profit Growth

- **The Company aims to enhance profitability by improving quality, boosting productivity, and shifting toward higher value-added projects**
- **It will continue to invest for future growth.**
- **The anticipated improvement in gross profit margin is expected to absorb the increase in SG&A expenses, leading to an improved operating profit margin. Combined with the increase in net sales, the Company forecasts an increase in operating profit.**

・The Company is expected to improve its gross profit margin by enhancing quality, boosting productivity, and shifting toward higher value-added business (gross profit margin is presumably planned to be raised from 21.5% in the previous fiscal year to around 25.4% in the current fiscal year).

・Although the Company will continue making strategic investments this fiscal year to support future significant growth—including increased personnel and development expenses—the impact of improved profitability is projected to outweigh these costs. As a result, the operating profit margin is planned to rise from 7.5% in FY2025 to 9.0% in FY2026, an improvement of 1.5 percentage points.

・Net sales growth is estimated to contribute 86 million yen to profit growth in the current fiscal year, while the improvement in profit margin will contribute 284 million yen. The success of margin improvement will play a major role in determining overall profit.

8. Growth Strategy

◆ VISION 2026: The Medium-Term Management Plan

◆ **The Second Medium-Term Management Plan began in FY2025.**

The Company has announced VISION 2026, its medium-term vision covering the six-year period from FY2022 to FY2027. The First Medium-Term Management Plan (FY2022-FY2024), which comprised the first three fiscal years of VISION 2026, has concluded, and the Company is now in the Second Medium-Term Management Plan (FY2025-FY2027).

◆ **The Second Medium-Term Management Plan is positioned as the second founding of the Company, with the aim of achieving dramatic growth and maximizing corporate value.**

Basic Strategy of the Second Medium-Term Management Plan

The Second Medium-Term Management Plan (FY2025-FY2027) is positioned as the Company's "second founding," with the basic strategy of "Solid Fundamentals for Dramatic Growth." It aims to "Produce Results from Transformation and Accelerate Growth."

Specifically, the Company aims to achieve the following three targets.

・Maximize corporate value through business activities with solid fundamentals and the achievement of dramatic growth.
・Improve profitability as a business
・Become a rewarding company for its employees through well-being management

◆ **The Company aims to ambitiously develop business through the proposal-based business as well as the conventional contract-based business.**

Direction of Business (No change; continuation)

The Company has established the following two guidelines to respond proactively and flexibly to the anticipated societal shift toward a new normal, amid changing social priorities and workstyles.

・Employees will develop their own vision and a business-oriented mindset, thinking and acting on their own initiatives.
・Achieve business growth through the proposal-based business (a business model in which solutions are developed based on the Company's technologies and expertise in its clients' industries, which are proposed to the clients/industries and then provided as services) and the contract-based business (a business model in which the Company conducts contract development of information systems as requested by its clients).

◆ **It aims to achieve growth by focusing on investment in the SI and the Digital Business, based on the foundation of the System Enhancement Business.**

Succeeding the First Medium-Term Management Plan, the current plan aims to achieve growth by shifting to the proposal & contract based business. The Company will actively make proposals, start new businesses, and build a stable and sustainable business foundation. It also plans to increase investment in the SI Business (cloud projects and cooperation with major system integrators) and the Digital Business (solutions) based on the foundation of the System Enhancement Business.

The Company's current business is categorized into three business models: System Enhancement, SI, and Digital. The proportion of each business model's net sales to the total in the order of System Enhancement, SI, and Digital is planned to be changed from 83%, 16%, and 1% in FY2021 to 60%, 30%, and 10% in FY2027, and then to 40%, 40%, and 20% over the long term (about ten years from now). As reference, the proportions were 60%, 37%, and 3% in FY2024, and 62%, 34%, and 4% in FY2025.

- **Five financial and five non-financial KPIs have been set for the medium-term plan.**
- **The KPIs of the Second Medium-Term Management Plan are the same as those of the First Medium-Term Management Plan, but with higher targets.**
- **The five financial KPIs are ROE, net sales per capita, net sales proportion, net sales CAGR, and operating profit margin.**
- **The non-financial KPIs are items related to people and the environment.**

Priority Strategies and Plans

The Company plans to pursue business strategies based on the current three business models and three business styles.

It has outlined priority strategies and plans to solidify its four business foundations (promoting collaboration, strengthening the development organization and facilities, enhancing quality, and investing in research) and to strengthen its three management foundations (enhancing human capital, stregthening internal controls and governance, and transforming corporate culture). These initiatives are progressing in line with the plan.

Key Performance Indicator (KPI)

As with the First Medium-Term Management Plan, the Second Medium-Term Management Plan also discloses key performance indicators (KPIs) from both financial and non-financial perspectives (Figure 37: while the KPIs remain the same as those in the first plan, the second plan sets higher target values across all of them). Although some of the actual results in the previous fiscal year fell short of expectations, overall performance appears to be broadly in line with the plan.

The Company has clearly defined five items as its financial KPIs—ROE, operating profit margin, and three items related to net sales (net sales per capita [net sales per employee], net sales proportion, and net sales CAGR).

Regarding non-financial KPIs, the Company believes that respect for people (enhancement of human capital) and the environment is essential in achieving sustainable growth through sustainability management. Based on this view, it has set the following five items as its KPIs: diversity promotion, workstyle reform, engagement, people development, and environment (GHG emission amount targets).

【Figure 37】The Second Medium-Term Management Plan (V2026) from FY2025 to FY2027: Financial and Non-Financial Targets (KPIs)

		Key Performance Indicator (KPI)	Results of the First Medium-Term Management Plan	FY2025 Results	The Second Medium-Term Management Plan Targets
Financial	Capital Efficiency	ROE	10.8%	12.0%	14.0%
	Productivity	Net sales per capita	24M yen	23.6M yen	25M yen
	Business Model Transformation	Net sales proportion	SI Business +4.1B yen (since FY2021)	End-User +0.14B yen Service Providing +0.21B yen	End User Business: +1.2B yen Service Providing Business: +0.5B yen[1]
	Growth Rate	Net sales CAGR	6.8%	–	Around 8.5%
	Profit Indicator	Operating profit margin	8.5%	7.5%	10.5%
Non-Financial	Diversity Promotion	Percentage of female employees among section-chief positions	18.6%	20.0%	30.0%
	Workstyle Reform	Hours of overtime work[2]	33.6 hours/month	30.4 hours/month	25 hours/month
	Engagement	Percentage of employees who feel fulfilled at work (Wevox score[3])	Fulfillment: 64	Fulfillment: 61	Fulfillment: 71
	People Development	Days of training or education per employee	5.5 days	12 days	10.0 days
	Environment	GHG emission goals (Scope 1, 2, and 3[4]) (Compared to FY2022)	Scope 1 & 2: 237 t-CO_2 Scope 3: 5,398 t-CO_2	Scope 1 & 2: 118 t-CO_2 Scope 3: 3,963 t-CO_2	Scope 1 & 2: 227 t-CO_2 Scope 3: 4,004 t-CO_2

(Source) Financial results materials

(Footnotes for the figure) 1. Amount of increase compared to the end of March 2024; 2. The average number of hours exceeding the scheduled working hours (7.5 hours) among all employees including those under the discretionary labor system and managers/supervisors; 3. Evaluated using Atrae's engagement analysis tool "Wevox" for all employees of CUBE SYSTEM INC. alone; 4. Scope 3 covers category 1 (purchased goods and services).

- **The targets for the final fiscal year (FY2027) of the Second Medium-Term Management Plan are net sales of 23 billion yen, operating profit of 2.41 billion yen, and ROE of 14%.**

Financial Targets of the Second Medium-Term Management Plan

(No change)

The targets for FY2027, the final year of the Second Medium-Term Management Plan, are net sales of 23 billion yen (CAGR of +8.5% since FY2024), operating profit of 2.41 billion yen (similarly, +16.2%), operating profit margin of 10.5% (+2.0 percentage points compared to FY2024), and ROE of 14% (+3.2 percentage points compared to FY2024) (Figure 38).

Based on past performance, the net sales growth rate target is somewhat ambitious (Figure 40 on page 37; simple average growth rate of 6.0% for net sales over the past 24 years and similarly 6.1% for operating profit).

- **High growth of the Digital Business and stable growth of the System Enhancement Business are expected.**

By business model, the Company expects a sharp increase in net sales in the Digital Business, albeit by a small amount (from 560 million yen in FY2024 to 2.5 billion yen in FY2027; +1.94 billion yen or 4.5x). It also expects net sales growth in the System Enhancement Business (from 10.78 billion yen in FY2024 to 13 billion yen in FY2027; +2.22 billion yen or 1.2x). By business style, the SIer Business is expected to grow.

- **Ambitious plan to increase operating profit margin from 7.5% in the previous fiscal year to 10.5% in the final fiscal year of the plan.**

The targets for operating profit and operating profit growth rate are also set at high levels. While the operating profit margin was 7.5% in FY2025 and is projected at 9.0% in the initial forecast for FY2026 (9.5% for the same fiscal year in the medium-term plan), the Company aims to improve it further to 10.5% in FY2027. Note that the Company's highest operating profit margin since FY2002 was 8.9% in FY2023.

【Figure 38】V2026: Financial Targets and Results of the Second Medium-Term Management Plan (FY2025 – FY2027)

	FY2024 Results	The Second Medium-Term Management Plan						
		FY2025	Results	FY2026	Initial Forecast	FY2027	Compared to FY2024	CAGR since FY2024
Net Sales	18.02 B yen	18.8 B yen	18.35 B yen	20.6 B yen	19.5 B yen	23.0 B yen (+11.6% YoY)	+5.0 B yen (+11.6% YoY)	+8.5%
Digital Business	0.56 B yen	- B yen	0.80 B yen	- B yen	1.6 B yen	2.5 B yen	+1.94 B yen	+64.7%
SI Business	6.67 B yen	- B yen	6.23 B yen	- B yen	8.5 B yen	7.5 B yen	+0.83 B yen	+4.0%
System Enhancement Business	10.78 B yen	- B yen	11.30 B yen	- B yen	9.4 B yen	13.0 B yen	+2.22 B yen	+6.4%
SIer Business	13.91 B yen	- B yen	13.88 B yen	- B yen	14.8 B yen	17.25 B yen	+3.34 B yen	+7.2%
End-User Business	3.51 B yen	- B yen	3.66 B yen	- B yen	3.7 B yen	4.5 B yen	+0.99 B yen	+10.9%
Service Providing Business	0.59 B yen	- B yen	0.80 B yen	- B yen	1.0 B yen	1.25 B yen	+0.66 B yen	+26.0%
Operating Profit	1.53 B yen	1.60 B yen	1.38 B yen	1.95 B yen	1.75 B yen	2.41 B yen	+0.88 B yen	+16.2%
Operating Profit Margin	8.5%	8.5%	7.5%	9.5%	9.0%	10.5%	+200 bps	–
Number of Employees (in Japan)	740	800	775	–	815	920	+180	+7.5%
Net Sales Per Capita*	24 M yen	23 M yen	23 M yen	– M yen	24 M yen	25 M yen	+1 M yen	+1.4%

(Source) Excerpt from the financial results materials, with partial edits and additions by Alpha-Win.
(Note) Net sales per capita, or net sales per employee, was calculated based on the number of employees in Japan.

【Figure 39】Medium-Term Financial Forecasts (The Company's Plan and Alpha-Win's Forecasts)

Unit: million yen, %	FY2025 Results	FY2026 Medium-Term Plan	FY2026 CE	FY2026 New E	*FY2026 Old E*	FY2027 Medium-Term Plan	FY2027 New E	*FY2027 Old E*	FY2028 New E
Net Sales	18,351	20,600	19,500	19,200	20,000	23,000	21,000	21,700	22,500
Digital Business	808		1,600	1,600	1,300	2,500	2,500	2,200	3,000
SI Business	6,239		8,500	8,300	7,000	7,500	8,500	7,200	9,000
System Enhancement Business	11,303		9,400	9,400	11,700	13,000	10,000	12,300	10,500
Gross Profit	3,947			4,800	4,800		5,400	5,300	5,800
Gross Profit Margin	21.5%			25.0%	24.0%		25.7%	24.4%	25.8%
SG&A Expenses	2,566			3,100	2,950		3,400	3,150	3,600
(% to sales)	14.0%			16.1%	14.8%		16.2%	14.5%	16.0%
Operating Profit	1,380	1,950	1,750	1,700	1,850	2,410	2,000	2,150	2,200
(% to sales)	7.5%	9.5%	9.0%	8.9%	9.3%	10.5%	9.5%	9.9%	9.8%
Ordinary Profit	1,393		1,760	1,710	1,900		2,010	2,200	2,210
(% to sales)	7.6%		9.0%	8.9%	9.5%		9.6%	10.1%	9.8%
Net Profit	1,261		1,220	1,185	1,250		1,360	1,450	1,480
(% to sales)	6.9%		6.3%	6.2%	6.3%		6.5%	6.7%	6.6%
Net Sales (% YoY growth)	1.8%	12.3%	6.3%	4.6%	*9.0%*	11.6%	9.4%	8.5%	7.1%
Gross Profit Margin (% YoY diff.)	-0.3%			3.5%	*2.5%*		0.7%	0.4%	0.1%
SG&A Expenses (% YoY growth)	7.5%			20.8%	*15.0%*		9.7%	6.8%	5.9%
Operating Profit (% YoY growth)	-10.1%	41.3%	26.7%	23.2%	*34.1%*	23.6%	17.6%	16.2%	10.0%
Ordinary Profit (% YoY growth)	-12.4%		26.3%	22.8%	*36.4%*		17.5%	15.8%	10.0%
Net Profit (% YoY growth)	18.2%		-3.3%	-6.0%	*-0.9%*		14.8%	16.0%	8.8%

(Source) Excerpt from the financial results materials. "CE" and "Medium-Term Plan" are the Company's forecasts. "Old E" is Alpha-Win's previous forecast and "New E" is its current forecast.

◆Alpha-Win Research Department's Financial Forecast for FY2026 (This Fiscal Year)

Revisions to the Financial Forecast

- **Alpha-Win conservatively revised its forecasts for both net sales and profit for the current fiscal year, adjusting them slightly below the Company's plan in consideration of potential risks.**

Alpha-Win has revised its financial forecast for the current fiscal year, lowering the projected net sales from the previous estimate of 20,000 million yen to 19,200 million yen (300 million yen below the Company's forecast) (Figure 39 on page 36). The operating profit forecast was also revised downward by 150 million yen, from 1,850 million yen to 1,700 million yen (50 million yen below the Company's forecast). While the Company assumes an operating profit margin of 9.0%, Alpha-Win projects a margin of 8.9%.

Considering the orders received at the end of the previous fiscal year (+2.2% YoY) and the order backlog (+3.1% YoY), along with the current order trends, the first-half forecast appears reasonable. However, the YoY growth rate assumptions for net sales and profits in the second half, as well as the profit margin expectations, seem somewhat ambitious—even with the absence of the unprofitable projects that occurred in the previous second half.

- **However, the Company's profit targets appear achievable depending on the effectiveness of cost control. The downside risk is considered limited.**

Alpha-Win adopted a conservative approach to its full-year forecast for the following reasons: potential negative impacts on corporate earnings and IT investment from the Trump tariffs, bottlenecks caused by human resource capacity constraints, the risk of unprofitable projects occurring, and rising costs—including personnel expenses, subcontracting cost, and development expenses—due to inflation and ongoing active investment for growth. These may cause profit to fall short of plan. That said, given that client appetite for strategic IT investment remains strong, the downside risk to profit is considered limited if the Company secures orders as expected and appropriately manages operations, investment, and costs.

Financial Forecast and Track Record of Financial Performance

- **In the past, there has generally been a small deviation on average between the initial forecast made at the beginning of the fiscal year and the actual results. However, the Company tends to announce somewhat ambitious initial forecasts.**

Alpha-Win analyzed the long-term deviations between the Company's initial, year-beginning forecasts and actual results (Figure 40). During the analysis period, the simple average deviation was 1.8% for net sales and 4.5%, 3.1%, and 2.2% for operating, ordinary, and net profit, respectively, with actual results falling below initial forecasts. However, the deviations were modest, and neither operating nor ordinary profit ever fell more than 30% short of the initial forecast in any fiscal year. The targets that the Company announces at the beginning of each fiscal year tend to be ambitious but remain within a realistically achievable range.

【Figure 40】Comparison of (the Company's) Initial Forecast Made at the Beginning of the Fiscal Year and Consolidated Results

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

Consolidated	Net Sales		Operating Profit		Ordinary Profit		Profit Attributable to Owners of Parent (Net Profit)		Net Sales	Operating Profit	Ordinary Profit	Net Profit	Net Sales	Operating Profit	Ordinary Profit	Net Profit
Unit: million yen	*Initial Forecast*	Results	*Initial Forecast*	Results	*Initial Forecast*	Results	Initial Forecast	Results	% Diff. from Initial Forecast				% YoY Change for Actual Results			
FY2001	-	4,806	-	-	-	387	-	-	-	-	-	-	-	-	-	-
FY2002	-	5,598	-	485	-	444	-	245	-	-	-	-	16.5%	-	15.0%	-
FY2003	-	6,244	-	510	-	432	-	235	-	-	-	-	11.5%	5.4%	-2.9%	-4.2%
FY2004	*6,900*	6,575	-	491	*522*	499	*284*	279	-4.7%	-	-4.4%	-1.8%	5.3%	-3.8%	15.7%	18.9%
FY2005	*7,000*	7,100	-	558	*532*	550	*287*	314	1.4%	-	3.4%	9.4%	8.0%	13.6%	10.2%	12.5%
FY2006	*7,800*	7,767	-	549	*600*	550	*340*	311	-0.4%	-	-8.3%	-8.5%	9.4%	-1.6%	0.0%	-1.0%
FY2007	*8,300*	7,923	-	589	*570*	583	*330*	323	-4.5%	-	2.3%	-2.1%	2.0%	7.3%	5.9%	3.9%
FY2008	*8,300*	8,109	*605*	644	*610*	642	*336*	342	-2.3%	6.4%	5.2%	1.8%	2.3%	9.3%	10.2%	5.6%
FY2009	*8,500*	8,507	*680*	651	*685*	597	*350*	307	0.1%	-4.3%	-12.8%	-12.3%	4.9%	1.1%	-7.1%	-10.1%
FY2010	*8,800*	8,706	*660*	636	*670*	660	*350*	348	-1.1%	-3.6%	-1.5%	-0.6%	2.3%	-2.3%	10.5%	13.4%
FY2011	*9,200*	9,165	*675*	662	*680*	671	*263*	208	-0.4%	-1.9%	-1.3%	-20.9%	5.3%	4.1%	1.8%	-40.4%
FY2012	*9,300*	8,431	*665*	523	*675*	533	*350*	117	-9.3%	-21.4%	-21.0%	-66.6%	-8.0%	-21.0%	-20.6%	-43.4%
FY2013	*9,000*	9,242	*620*	601	*630*	606	*350*	337	2.7%	-3.1%	-3.8%	-3.7%	9.6%	14.9%	13.7%	186.7%
FY2014	*10,000*	11,217	*700*	664	*700*	701	*380*	386	12.2%	-5.1%	0.1%	1.6%	21.4%	10.5%	15.7%	14.5%
FY2015	*12,000*	12,527	*840*	964	*840*	980	*480*	594	4.4%	14.8%	16.7%	23.8%	11.7%	45.1%	39.8%	53.7%
FY2016	*13,000*	12,622	*1,000*	949	*1,020*	960	*600*	628	-2.9%	-5.1%	-5.9%	4.7%	0.8%	-1.5%	-2.0%	5.8%
FY2017	*14,000*	12,899	*920*	781	*940*	811	*450*	551	-7.9%	-15.1%	-13.7%	22.4%	2.2%	-17.7%	-15.5%	-12.3%
FY2018	*14,300*	13,559	*1,060*	855	*1,080*	892	*650*	567	-5.2%	-19.3%	-17.4%	-12.8%	5.1%	9.5%	10.0%	2.9%
FY2019	*14,700*	14,325	*1,010*	921	*1,010*	959	*640*	596	-2.5%	-8.8%	-5.0%	-6.9%	5.6%	7.7%	7.5%	5.1%
FY2020	*15,500*	14,708	*1,090*	959	*1,090*	976	*684*	525	-5.1%	-12.0%	-10.5%	-23.2%	2.7%	4.1%	1.7%	-11.9%
FY2021	*16,000*	14,788	*1,120*	1,174	*1,120*	1,295	*700*	844	-7.6%	4.8%	15.6%	20.6%	0.5%	22.5%	32.7%	60.7%
FY2022	*16,000*	16,099	*1,230*	1,417	*1,250*	1,432	*850*	944	0.6%	15.2%	14.6%	11.1%	8.9%	20.7%	10.6%	11.9%
FY2023	*17,300*	16,325	*1,530*	1,452	*1,545*	1,480	*1,000*	989	-5.6%	-5.1%	-4.2%	-1.1%	1.4%	2.4%	3.3%	4.8%
FY2024	*18,000*	18,021	*1,620*	1,536	*1,635*	1,590	*1,080*	1,067	0.1%	-5.2%	-2.8%	-1.2%	10.4%	5.8%	7.5%	7.8%
FY2025	*18,800*	18,351	*1,600*	1,380	*1,650*	1,393	*1,100*	1,261	-2.4%	-13.8%	-15.6%	14.6%	1.8%	-10.1%	-12.4%	18.2%
FY2026 Company Forecast	*19,500*		*1,750*		*1,760*		*1,220*		*FY2026 forecast vs. FY2025 result ⇒*				*6.3%*	*26.7%*	*26.3%*	*-3.3%*
Reference: Simple average of the difference (%), calculated for the longest period with data available for both net sales and profits (excl. FY2026 and periods with loss posted) →									-1.8%	-4.6%	-3.2%	-2.4%	5.9%	5.5%	6.3%	13.2%
Green highlight: All-time high	Pink highlight: Second highest in history		Yellow highlight: Third highest in history		← All excl. FY2026 forecasts	Number of times revised up/down from initial forecast →			7 / 15	4 / 14	7 / 15	9 / 13	↑ Reference: simple average of all fiscal years (excl. FY2026)			

◆ Alpha-Win Research Department's Forecast of Medium-Term Financial Performance

- **Alpha-Win revised its medium-term financial forecast somewhat downward.**

Alpha-Win revised its previous medium-term forecasts slightly downward and prepared forecasts for the three fiscal years starting this fiscal year, including a new forecast for FY2028 (Figure 39 shown previously on page 36; note that the forecasts do not anticipate M&A or unprofitable projects, or the recording of any specific non-operating or extraordinary income or losses).

- **Alpha-Win expects the trend of increase in net sales and profit to continue over the medium term, with record-high net sales and profits being updated consecutively.**

Alpha-Win's forecast of medium-term financial performance is based on the assumptions and risk factors described below. Its forecasts for both net sales and profits are consequently somewhat cautious compared to the Company's medium-term targets. The Company's targets are a high hurdle, but appear achievable if favorable conditions are met (such as securing employees, increasing net sales through collaboration with NRI, winning direct contract with end users, improving productivity, controlling costs, and preventing unprofitable projects). In any case, Alpha-Win expects the Company to continue to increase net sales and profits in the next fiscal year and beyond, with the potential to continuously post record-high net sales and profits.

Risk Factors and Medium-Term Profit Growth Potential

・In the macroeconomic environment, concerns remain over the potential medium-term impact on domestic corporate performance due to several factors: the adverse effects of Trump tariffs on the global economy, rising geopolitical risks, inflation, domestic interest rate hikes or sustained high levels to curb inflation, and the resulting stagnation in consumer spending and restrained capital investment.

・Factors that are difficult to predict at the moment include the earnings environment of its main end users, IT investment trends, recruitment situation, the impact of its upfront investments, and the increase in costs.

- **Alpha-Win predicts the profit growth rate to be around 5-10% per year over the medium term.**

・Based on the current strong demand for systems and the following factors and assumptions, Alpha-Win predicts that net sales and profits will continue to increase annually by about 5-10% over the medium term.

Net Sales Growth: Contributing Factors and Assumptions

- **Alpha-Win anticipates an annual net sales growth rate of approximately 6–8%, as the Company captures strategic IT investment projects and leverages the continued benefits of the alliance with NRI going forward.**

・Strategic IT investment projects are expected to increase for the time being. Alpha-Win predicts that, by responding to such demand, the Company is likely to continue growing net sales at about 6-8% per year over the medium term, especially with the NRI alliance.

・The Company is expected to expand the Digital Business, SIer Business (with its core clients), End-User Business, and the new Service Providing Business, leveraging its accumulated technological expertise and credibility.

Profit Growth: Contributing Factors and Assumptions

・To make upfront investments for future growth, inculding the strengthening of business foundation for future growth (expansion and enhancement of development bases, as well as development organization and facilities), higher personnel expenses and subcontracting cost, and research on new technologies and businesses, an increase in manufacturing costs and SG&A expenses is also expected over the medium term.

- **Over the medium term, profit growth is expected due to net sales growth and the improvement in profit margins.**

・While upfront investments are expected to continue beyond the next fiscal year, the pace of cost increases is likely to slow due to the completion of the investment cycle outlined in the medium-term plan.

・Meanwhile, performance growth is expected due to net sales growth, as well as measures to increase headcount, improve productivity, and strategically shift toward higher value-added projects. These factors, along with a relative decline in the SG&A expense ratio, are anticipated to contribute to improving the operating profit margin, driving profit growth.

9. Analyst's View

◆ SWOT Analysis

The Company's SWOT analysis result is shown in Figure 41.

◆ **Its strengths are its collaboration with NRI and financial strength. It has growth opportunities in DX, the End-User Business, and the Service Providing Business.**

Major strengths of the Company lie in the strengthening of the relationship with NRI through the capital and business alliance. Another major strength lies in its strengthening of development bases as well as development organization and facilities, and the financial strength to back these. In addition, as future opportunities, increasing demand is anticipated for the Digital Business (DX), End-User Business, Service Providing Business, and information security services for cyber-security measures.

【Figure 41】SWOT Analysis

Strength	･Long history in the industry, extensive experience, and strong credibility ･Stable and excellent customer base ･Talents and organization with strong technological development capabilities, unique know-how, and expertise (for different industries and projects, as well as risk management) ･Entry barrier essentially high; business model with long-term viability ･Capital and business alliance with NRI ･Cash-cow business, ample cash & deposits (financial strength to sustain upfront investments), and firm financial standing ･Management approach focused on new business development and business expansion (actively investing to strengthen and enhance its development bases, as well as development organization and facilities) ･Consulting-based sales strength based on direct sales activities ･Quality people development and training system ･Capable of leveraging regional bases in Japan (nearshore) and low-cost development at overseas subsidiaries (offshore)
Weakness	･Relies heavily on certain customers (majority of sales are to the NRI Group) ･IT-related labor market is tight and retaining/recruiting talented employees is a challenge (bottleneck to further growth) ･Industry structure in which profit margin is hard to improve ･Requires a long time for next-generation, growth-strategy products and services to gain full momentum ･Project management (inherent risk of unprofitable projects ocurring) ･Specialized in domestic demand; overseas market entry difficult
Opportunity	･Continous growth of IT systems market due to labor shortage and operation streamlining demand ･Increased strategic demand for systems ･Potential for upward revision of price per contract reflecting the tight supply-demand balance in system development, and review of contract structures ･Projects for upstream processes, niche areas, and large-scale development ･Improvement of productivity through agile development and AI ･Business expansion following the global entry of customers ･Development and strengthening of the End-User Business (potential for new customer acquisition), Service Providing Business, and Digital Business (new business) ･Growing demand for information security services as a cyber security measure ･M&A and strengthening alliances
Threat	･Reduced IT investment by customers, less demand for version updates, and intensifying price competition due to worsening macroeconomic environment and economic downturn ･Emergence of alternatives (market penetration by AI or packaged business software), delayed product development, and product defects ･Information management and leakage risks ･Increase in personnel expenses, subcontracting cost, and development expenses

(Source) Prepared by Alpha-Win Research Dept. (Note) Words in red indicate new additions made in this Report.

◆ **Challenges include improving profit margins and retaining/recruiting talents.**

On the other hand, looking at its weaknesses in more detail, the Company's industry in general tends to have a flat profit margin over the long term, although it is beginning to gradually improve for the Company. Further improvement of the margin will be the challenge.

Development of new areas of business and new client acquisition are also crucial to continuous growth (net sales growth), but the shortage of employees, especially for project manager positions, has been the bottleneck to further growth. This remains a key factor in unlocking further growth.

◆ **Despite its focus on strengthening project management, unprofitable projects remain a potential risk.**

In addition, across the SI industry as a whole—not limited to the Company—unprofitable projects occasionally occur in areas such as new business area development, causing temporary declines in profit, despite long-standing efforts to strengthen recurrence prevention and project management. While the Company is working to further enhance quality control, such projects remain a potential risk that should continue to be recognized going forward.

◆ Shareholder Returns and Shareholder Benefit Program

The Company aims to enhance shareholder value by improving its business performance to deliver stable dividends and increase its market capitalization.

The consolidated dividend payout ratio was 46.5% in FY2020, 32.2% in FY2021, and 32.9% in FY2022, and then rose to 71.1% in FY2023 due to commemorative dividends (37.0% for ordinary dividend alone). This ratio was also high in FY2024 and FY2025, at 49.7% and 47.7%, respectively. The dividend on equity ratio (DOE) was also high at 5.4% and 6.0%, respectively.

- **The consolidated dividend payout ratio target was raised to 50%. It is continuing to raise dividends (ordinary dividend) consecutively.**

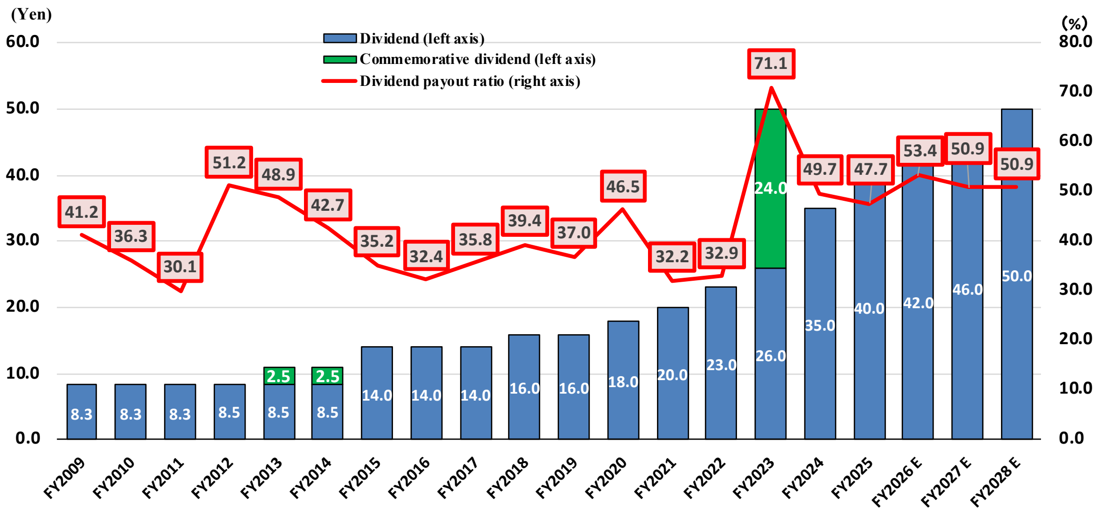
The Company's consolidated dividend payout ratio target was previously raised from 35% to 40%. It raised this further to 50% in the previous fiscal year (according to the Company's forecast, its targets 52.4% this fiscal year).

- **Plans to increase dividends again by 2 yen per share this fiscal year (ordinary dividends). Dividend increases are also possible over the medium-term.**

As a result, ordinary dividend per share has steadily risen from 23 yen in FY2022 to 26 yen in FY2023, 35 yen in FY2024, and 40 yen in FY2025. The Company plans to raise this by 2 yen in FY2026 to 42 yen (same for Alpha-Win's forecast) (Figure 42).

With profit growth expected over the medium term and a proactive approach to shareholder returns, there appears to be room for further dividend increases from the next fiscal year onward.

【Figure 42】Change in Dividend and Dividend Payout Ratio (Unit: yen or %)



(Source) Prepared by Alpha-Win Research Dept. Estimates/forecasts (E) were made by Alpha-Win.

- **Actual annual (maximum) yield including the shareholder benefit program is about 4.4%.**

Dividend yield is 4.0% when calculated based on a share price of 1,062 yen (closing price as of May 30). Many of the Company's shareholders are individual investors, for whom the Company has a shareholder benefit program in which JCB gift cards are granted to shareholders based on the number of shares they hold (Figure 43 on page 41). When this benefit program is taken into account, dividend yield essentially rises to 4.4% at maximum (based on the optimum number of shares owned).

Actual annual yields of its competitors, including their shareholder benefit programs (QUO card granting program), are 4.8% for HIMACS and 5.3% for Toho System Science, both higher than the Company (as reference, NRI does not have a shareholder benefit program and its dividend yield is 1.3% based on dividend only).

【Figure 43】 Shareholder Benefit Program and Actual Net Yield (Shareholder benefit vesting date: End of Sept.)

Number of Shares Owned (greater than or equal to)	(less than)	Shareholder Benefit (JCB Gift Card: Y)	Dividend: Yen	Actual Net Yield: %
200	400	1,000	42	4.4
400	1,000	2,000	42	4.4
1,000		3,000	42	4.2

Actual net yield = (Dividend + Shareholder benefit value) / (Share price)
*Calculated for the min. (optimum) number of shares owned in each range
Share price assumed to be 1,062 yen (closing price on May 30, 2025). Dividend is based on this FY's company forecast.

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

- **Its competitors' DOE and dividend payout ratios are also high.**

Dividend on equity ratio (DOE = total dividends / net assets) in FY2025 was 6.0% for the Company, 4.6% for HIMACS, 8.8% for Toho System Science, and 8.7% for NRI (ratio of dividends to equity attributable to owners of parent; based on the IFRS and as reference only), which are all somewhat high compared to the general level.

The Comapny's dividend payout ratio based on this fiscal year's forecast is 52.4%, which is relatively high compared to 42.8% for HIMACS, 65.3% for Toho System Science, and 40.8% for NRI.

- **Proactively returning profits to shareholders.**

Since becoming listed, the Company has conducted several stock splits, but none has been conducted since the 2-for-1 split in October 2014. It has also carried out several share buybacks in the past, returning profits to shareholders through methods not limited to dividend increases.

- **Essentially debtless and rich in cash; potential for share buybacks and stock splits in the future**

The Company has a solid financial standing, essentially debtless and rich in cash. Therefore, depending on the level of share price, additional share buybacks and stock splits are possible in the future.

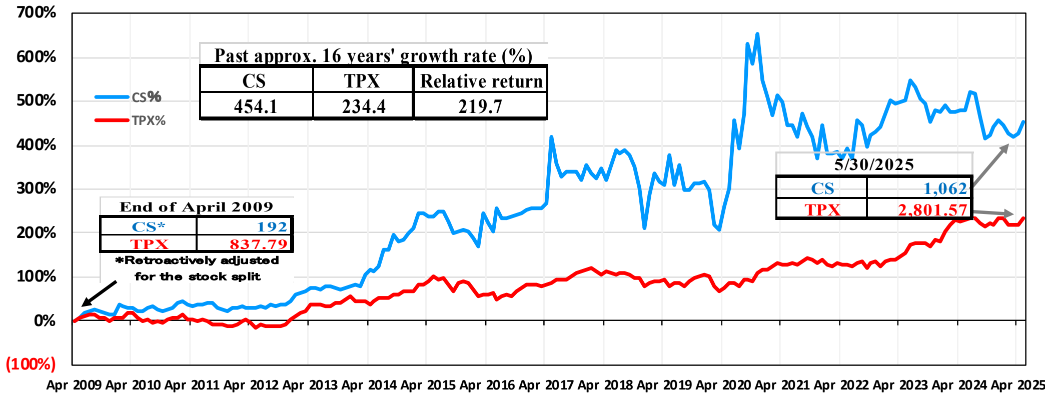
- **A defensive, domestic demand-oriented growth stock. Share price increased by approx. 5.5x over the past approx. 16 years, largely outperforming the TOPIX.**
- **Stable growth is expected to continue. Appears to be an attractive candidate for medium/long-term investment.**

◆Share Price, Characteristics, and Valuation Comparison

The Company is a defensive, small-cap, and domestic demand-oriented growth stock. Over the past approximately 16 years, its share price has risen by about 5.5x, largely outperforming the TOPIX by about 220% (reflecting the stock split and based on the closing price as of May 30, 2025; Figure 44). This rise most likely reflects the Company's strong fundamentals and firm financial growth over the long term.

With the rise in strategic IT and DX investments by Japanese companies, the Company is expected to maintain a relatively stable profit growth. It therefore appears to be a candidate for medium- to long-term investment.

【Figure 44】Long-Term Return of the Company's Shares (CS) and TOPIX (Change in monthly share price over the past approx. 16 years)



Note: The share price of CS and the TOPIX are indexed to 0% based on their levels at the end of April 2009.

(Source) Prepared by Alpha-Win Research Dept. The most recent share price and TOPIX values are based on the closing prices as of May 30, 2025.

- **Underperforming the TOPIX and NRI, while outperforming its two competitors over the past 12 months.**
- **The Company is somewhat undervalued compared to the TSE Prime's average and in the middle range compared to the two competitors. No sense of overvaluation.**
- **Alpha-Win will continue to follow the Company as a defensive, domestic demand-oriented growth stock.**

Over the past 12 months, the Company has underperformed the TOPIX and NRI, but has outperformed two competitors—HIMACS and Toho System Science—likely reflecting its relatively high projected profit growth rate and dividend increase for the current fiscal year.

A comparison of the Company, all TSE Prime-listed stocks, and the two competitors (with NRI as a reference) was conducted using key valuation indicators. Based on the current fiscal year's forecasts, the Company appears somewhat undervalued compared to all TSE Prime stocks, with a slightly higher P/B ratio, but lower P/E ratio and higher dividend yield. Compared with the two competitors, its key valuation indicators are mixed (in the middle range), with no significant differences and no clear sense of overvaluation (Figure 45 on page 43).

When defensive, small-cap, and domestic demand-oriented growth stocks attract market attention, the Company's share price is likely to start outperforming the indices again. Additionally, since the Company does not appear overvalued, its share price will most likely be generally correlated with financial performance (profits and dividends).

The historical beta relative to the TOPIX over the past five years on a weekly basis is 0.84, reflecting a defensive business nature. Its two competitors also have betas below 1.0. Additionally, all three companies have relatively low trading values, indicating somewhat limited liquidity.

【Figure 45】Comparison of Valuation and Liquidity

Company Name	CUBE SYSTEM (CS: Consolidated)	HIMACS (HM: Consolidated)	Toho System Science (TS: Non-consolidated)	Refernce: Nomura Research Institute (NRI: Consolidated)	All TSE Prime Stocks (Average)	23 SI Companies Listed on TSE Prime (Average)
Code	2335	4299 S	4333	4307	-	-
Share price (at 5/30 closing)	1,062	1,178	1,219	5,578	1,441.88	-
Market capitalization (millions of yen)	16,727	14,623	25,354	3,242,165	-	866,152
P/E ratio (price-to-earnings ratio)	13.25	10.97	17.69	30.69	15.46	20.40
P/B ratio (price-to-book ratio)	1.47	1.16	2.38	7.35	1.36	3.40
Dividend yield (%)	3.95	3.90	3.69	1.33	2.72	2.95
EV/EBITDA	5.93	2.48	9.24	16.69	-	-
P/S ratio (price-to-sales ratio)	0.86	0.73	1.33	4.00	-	-
Past approx. 6 months' average daily trading value (millions of yen)	13	16	13	7,817	-	-
Past 5 years' weekly beta (β: relative to TOPIX)	0.84	0.60	0.63	0.62	-	-

Market capitalization = (Shares outstanding) x (Market share price [at 5/30/2025 closing])
The companies' planned EPS and dividend values for FY2026 were used in all P/E ratio and dividend yield calculations. Actual BPS values of FY2025 were used in the P/B ratio calculations.
EV/EBITDA=(Market cap + Interest bearing debt* - Cash & deposits*)/(Operating profit + Depreciation + Intangible fixed asset amortization)
Operating profit is the companies' forecast for this FY. Depreciation and intangible fixed asset amortization were estimated based on last FY's results.
*Interest bearing debt and cash & deposits (including long-term deposits) are the balance as of the end of March 2025.
P/S ratio = Market capitalization / Net sales [the companies' forecasts for FY2026]

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

The total market capitalization of the leading 23 SI companies listed on the TSE Prime (including the Company, the two competitors mentioned earlier, and NRI) is approx. 20 trillion yen, their combined sales are approx. 10.3 trillion yen, combined operating profit is 1.2 trillion yen, operating profit margin is 13.4% on a simple average, and ROE is 14.2% (based on aggregation or calculation of valid data only; the same applies hereinafter).

- **Compared to the 23 companies of the same industry, the Company is somewhat undervalued.**

Compared to this universe (for reference, the universe's simple averages are as follows: P/E ratio 20.4, P/B ratio 3.4, dividend yield 2.9%, and P/S ratio 2.5; the weighted average P/S ratio is 1.9), the Company appears somewhat undervalued (Figure 46).

- **Valuation metrics (such as the P/E ratio) could rise sharply if profit margins continue to improve in addition to increasing net sales.**

Alpha-Win believes that if the Company continues to grow its net sales and achieve sustained improvement in its operating profit margin, an increase in EPS is expected, along with a potential sharp rise in valuation metrics such as the P/E ratio. As a result, there is potential for further growth in its market capitalization.

【Figure 46】Comparison of Major Stocks in the SI Sector

Code	Company Name	Market Capitalization	Share Price	Net Sales	Operating Profit	Operating Profit Margin	Actual ROE (%)	P/E Ratio Forecast	Actual P/B Ratio	Dividend Yield Forecast	Dividend Forecast	EPS Forecast	Actual BPS	P/S Ratio	Dividend Payout Ratio
9613	NTT DATA	5,595,975	3,990	4,936,725	522,037	10.6%	8.0	28.0	3.1	-	Undetermined	142.67	1,305.53	1.1	-
4307	Nomura Research Institute	3,242,165	5,578	810,000	150,000	18.5%	22.5	30.7	7.4	1.3%	74.00	181.78	758.67	4.0	40.7%
4684	OBIC	2,622,966	5,267	133,400	86,200	64.6%	15.5	33.1	5.3	1.4%	74.00	159.13	986.26	19.7	46.5%
4716	Oracle Japan	2,167,694	16,895	261,660	Not disclosed	Not disclosed	32.0	37.3	14.7	-	Undetermined	452.50	1,150.04	8.3	Undetermined
9719	SCSK	1,373,835	4,391	790,000	85,000	10.8%	15.2	23.8	4.7	2.1%	94.00	184.29	932.41	1.7	51.0%
4768	Otsuka Corporation	1,126,903	2,966	1,213,000	82,300	6.8%	15.0	20.4	3.2	2.9%	85.00	145.04	939.70	0.9	58.6%
3626	TIS	1,121,636	4,748	582,000	73,000	12.5%	15.3	21.9	3.2	1.6%	76.00	216.86	1,477.61	1.9	35.0%
2327	NS Solutions	708,218	3,870	357,000	43,000	12.0%	10.9	24.2	2.7	2.1%	80.00	159.59	1,427.38	2.0	50.1%
8056	BIPROGY	587,472	5,836	420,000	42,600	10.1%	16.1	19.5	3.4	2.1%	120.00	298.66	1,721.81	1.4	40.2%
4812	Dentsu Soken	443,893	6,810	170,000	23,000	13.5%	17.4	27.7	4.9	1.7%	116.00	245.87	1,401.39	2.6	47.2%
9759	NSD	306,332	3,562	113,200	17,100	15.1%	18.2	22.7	4.0	2.5%	89.00	156.94	881.67	2.7	56.7%
9682	DTS	205,623	4,955	135,000	15,500	11.5%	17.7	18.1	3.4	2.8%	140.00	274.07	1,440.87	1.5	51.1%
9692	CEC	83,189	2,307	60,500	6,780	11.2%	10.0	15.1	1.8	2.8%	65.00	152.76	1,258.46	1.4	42.6%
4674	CRESCO	69,426	1,653	64,000	7,000	10.9%	15.1	13.9	2.2	3.5%	58.00	118.82	747.27	1.1	48.8%
4719	ALPHA SYSTEMS	47,567	3,385	40,000	4,800	12.0%	7.5	14.4	1.1	3.7%	125.00	235.06	3,096.62	1.2	53.2%
4725	CAC Holdings	42,480	2,068	58,000	Not disclosed	Not disclosed	8.9	-	0.9	4.8%	100.00	Not disclosed	2,187.80	0.7	Undetermined
9739	NSW	38,829	2,606	51,000	5,100	10.0%	10.7	11.0	1.1	3.3%	85.00	237.59	2,376.92	0.8	35.8%
9640	Saison Technology	29,306	1,809	23,400	2,300	9.8%	10.6	18.3	2.1	5.0%	90.00	98.77	878.75	1.3	91.1%
9600	I-NET	29,001	1,874	42,250	2,750	6.5%	11.5	15.5	1.5	3.1%	58.00	121.25	1,265.76	0.7	47.8%
4333	Toho System Science	25,354	1,219	19,000	1,710	9.0%	13.1	17.7	2.4	3.7%	45.00	68.92	509.15	1.3	65.3%
4662	Focus Systems	22,272	1,367	33,250	2,660	8.0%	11.4	11.0	1.5	3.7%	50.00	124.29	929.15	0.7	40.2%
2335	CUBE SYSTEM	16,727	1,062	19,500	1,750	9.0%	12.0	13.3	1.5	4.0%	42.00	80.13	722.27	0.9	52.4%
4299	HIMACS	14,623	1,178	20,000	1,820	9.1%	11.4	11.0	1.2	3.9%	46.00	107.40	1,016.35	0.7	42.8%
	Simple Average	866,152	3,887	450,125	56,019	13.4%	14.2	20.4	3.4	2.9%				2.5	49.9%

(Notes) Unit for market capitalization, net sales, and operating profit: million yen
Unit for share price, dividend, EPS forecast, and actual BPS: yen
Only valid data used in the averages
Net sales and operating profit are generally based on the companies' most recent forecasts.
No unit for P/E, P/B, and P/S ratios
Share price is based on the closing price on May 30, 2025.

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