Alpha-Win Company Research Report

Cube System Inc.

(2335 TSE First Section) Issued: 12/12/2018

Research Dept., Alpha-Win Capital Inc.
http://www.awincap.com/

● Summary

Business Description

・Cube System Inc. (the Company, hereinafter) is an independent, mid-tier system integrator (SI) listed in the first section of the TSE. Its main customers include Nomura Research Institute and Fujitsu Group. It provides services and develops systems mainly for the finance, distribution, and telecommunications industries. Founded in 1972, it has 46 years of history in the industry.

Current Financial Results

・With the exception of one fiscal year, the Company has been continuously increasing sales YOY for the past 17 years. During this period, its sales growth rate (simple average increase in sales) was +6.5% per year and its recurring profit growth rate (average) was +5.9% per year; the Company has been steadily expanding its business and keeping its business in the black over the long term. The recurring margin has been stable at around 7%, and the increase in sales has been contributing directly to increases in profit, dividend, and market capitalization.

・This FY, the Company plans to increase and achieve record-highs for its sales and profits. The business environment has been great, and profit for H1 slightly exceeded the target value. Alpha-Win Research Department predicts the financial results to come out to be about the same as the Company's plan.

Competitiveness

・Its strengths are its excellent customer base, extensive experience and high reliability that it has cultivated over the years, and its accumulated skill and know-how. Along with business expansion, the Company has been improving its capacity to meet the needs of more projects, thus becoming more competitive.

Business Strategy

・The Company has established a medium- to long-term management vision. With the "expansion of service lineup" as its goal, the Company currently aims for management target values of Y18.5 bil in sales, 9.6% in O.P. margin, and 13% in ROE by FY 2021. Also, it focuses on new business fields such as blockchain, Cloud, AI, and IoT, as well as steadily laying out the foundation for future business expansion through alliances, etc. Going forward, the continual improvement of profitability, development of new business domains, acquisition of new customers, securing and training of employees, M&A and alliance strategies, globalization, and adaptation to new technologies should become the key factors.

Forecast on Medium-Term Financial Results

・The Company's business is affected by the financial results and system investment trends of its domestic corporate customers. However, Alpha-Win Research Department judges that, over the medium to long term, the Company will continue to steadily increase sales and profits by about 10% per year thanks to the expected growth of the enhancement business, acquisition of new customers, development of new and overseas businesses, and productivity improvement by various measures.

Shareholder Return

・The Company has been buying back its shares, performing stock splits, and raising dividend in stages. When benefits from the shareholder benefit plan are added to dividend, the actual dividend yield is about 2.7% max. Over the medium term, business is expected to fare well, allowing for dividend hikes.

Stock Characteristics and Stock Price

・The Company's stock is a domestically-oriented, stable growth stock, relatively low in volatility and defensive. Its valuation in its industry is about average. Over the past ten years or so, its stock price has

increased by greater than 4 times and has been largely outperforming the TOPIX. Regarding stock price, we should keep note of the Company's development of new technologies and businesses and its shareholder return (share buyback, dividend raise, and shareholder benefit plan enhancement) in addition to its financial performance.

【2335 Cube System Sector: Information & Communication】 Figure A

FY		Sales (Y mil)	YOY (%)	O.P. (Y mil)	YOY (%)	R.P. (Y mil)	YOY (%)	N.P. (Y mil)	YOY (%)	EPS (Y)	BPS (Y)	Dividend (Y)
2016		12,622	0.8	949	-1.5	960	-2.1	628	5.8	43.22	322.76	14.0
2017		12,899	2.2	781	-17.7	811	-15.5	551	-12.3	39.15	346.47	14.0
2018		13,559	5.1	855	9.5	892	10.0	567	2.9	40.59	372.23	16.0
2019	CE	14,700	8.4	1,010	18.1	1,010	13.1	640	12.9	45.80		16.0
2019	E	14,600	7.7	1,000	17.0	1,000	12.1	635	12.0	46.07	402.66	16.0
2020	E	15,800	8.2	1,150	15.0	1,150	15.0	730	15.0	52.97	438.63	17.0
2021	E	17,300	9.5	1,340	16.5	1,340	16.5	851	16.6	61.75	482.38	18.0

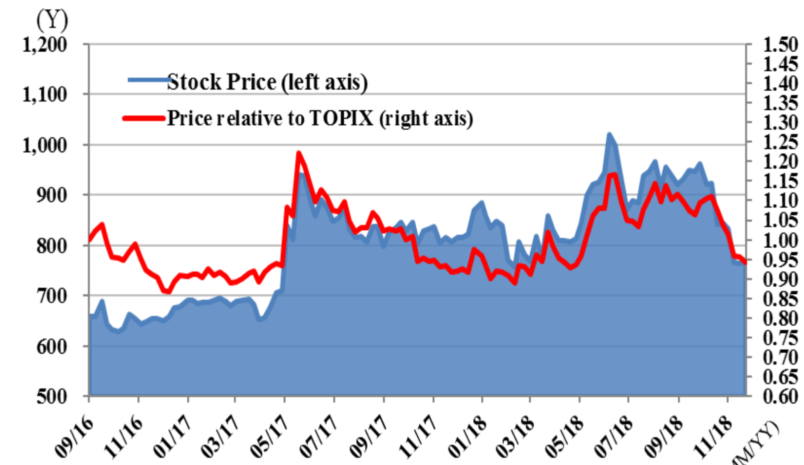
(Note) CE = the Company's estimate; E = estimate by Alpha-Win Research Dept. All fiscal years discussed in this document are March-ending.

【Stock Price and Valuation Indicators: 2335 Cube System】 Figure B

Item	as of 11/30/2018	Item	P/E	P/B	Dividend Yield	Dividend Payout Ratio
Stock Price (Y)	771	Last FY (actual)	19.0	2.1	2.1%	39.4%
Shares Outstanding (thou.)	15,280	This FY (est.)	16.7	1.9	2.1%	34.7%
Market Capitalizatoin (Y mil)	11,781	Next FY (est.)	14.6	1.8	2.2%	32.1%
Dilutive Shares (thou.)	0	Equity Ratio at Last FY-End	68.1%	Last FY's ROE		11.4%

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

【Stock Chart (end-of-week prices): 2335 Cube System】 Figure C



(Note) From the first week of Sept. 2016 to the fifth week of Nov. 2018

【Performance】

Period	Return	vs. TOPIX
1 month	-10.5%	-11.6%
3 months	-17.8%	-14.5%
6 months	-11.9%	-7.7%
12 months	-4.0%	3.2%

(Note) Stock prices and index values are as of the end of Nov. 2018.

Contents

1. Company Overview

◆ Independent, Mid-Tier System Integrator

◆ **An independent system integrator with 46 years of history in the industry. Specialized and mid-tier. Stable customer base with several blue-chip companies among its customers.**

Cube System Inc. (the Company, hereinafter) is an independent system integrator[1] (a.k.a. SI). It is listed in the first section of the TSE and is a mid-tier player in the system integration industry. Often as a subcontractor of major SIs, the Company mainly develops the systems of large companies in the finance, telecommunications, and distribution industries, as well as of the government. Its customer base is firm, having expanded its business with its main customers over many years. The Company has technological expertise and high reliability, with the four corporate groups Nomura Research Institute, Fujitsu, Aeon, and Mizuho being its main customers and receiving outsourced jobs from the Tokyo Stock Exchange.

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

Founded in 1972 at the outset of the software industry, the Company has 46 years of practice in the industry. The current president is one of the founding members.

◆ **The Company’s group is made of the Company and three subsidiaries. Consolidated-to-parent-company sales ratio has stayed around 1.1. Total profit/loss of the three consolidated subsidiaries has also stably been a surplus.**

The Company’s group is made of four companies: the Company and three consolidated subsidiaries. The consolidated subsidiaries are the following.

・Hokkaido Cube System Inc.

(Located in Sapporo, Hokkaido; founded in 1990 by the Company, which owns 90.9% of the shares, for system development and sales reinforcement in the Tohoku and Hokkaido regions)

・CUBE SYSTEM VIETNAM CO., LTD.

(Ho Chi Minh City, Socialist Republic of Vietnam; founded by the Company in 2008 as a 100% owned subsidiary)

・Cube System Shanghai Co., Ltd.

(Shanghai, China; the Company established Cube Shenya System Shanghai Co., Ltd., as a joint company in 2009, and then acquired all shares in Dec. 2017 and changed the name to the current one.)

The overseas subsidiaries were founded mainly to cut down on cost, acquire human resources, and function as system development sites (offshore development[2]).

(2) Offshore development: providing services that meet the customers’ needs, from system development to maintenance, at a low cost using overseas/offshore sites

The consolidated-to-parent-company sales ratio has stayed around 1.1 for the past 16 years, indicating that a greater weight is placed on the parent company’s financial result (Figure 1). Although the subsidiaries’ profits and losses are not disclosed, the consolidated-to-parent-company recurring profit ratio has been around 0.98 to 1.07 during the same period. Moreover, the total profit/loss of the three subsidiaries, calculated by subtracting the parent company recurring profit from the consolidated recurring profit, has been a surplus with the exception of the two periods FY 2011 and FY 2012 (Figure 2).

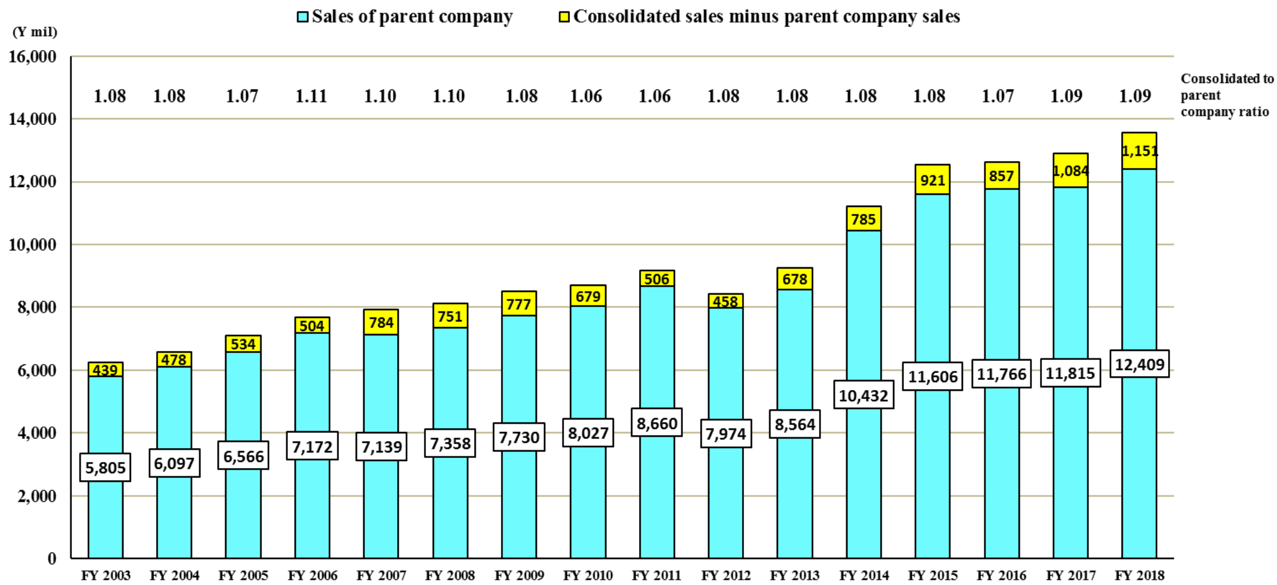
◆ **The Company’s wish is embedded in its name.**

The company name CUBE comes from the first letters of “CU=Customer (customer first as the motto),” “B=Brain (exert high-level intellect and knowledge),” and “E=Emotional mind (solutions that move the heart). Also, CUBE also has the meaning of a geometrical cube – it reflects the wish to grow as a company with cube-like multi-dimensionality (the six faces are innovation, humanity, vitality, internationality, technology, and youthfulness).

◆ **Debtless, firm management**

The Company’s finance is strong with essentially no debt. While the Company has approx. Y2.9 billion in cash and deposits in addition to more than Y800 million total in high-liquidity stocks and foreign bonds, its debt is Y300 million (total assets = Y7.5 billion, market capitalization = Y13.1 billion, and sales = Y13.6 billion). Its financial ratios such as its equity ratio and current ratio are also stably high at 68% and 316%, respectively (all values are as of the end of March 2018).

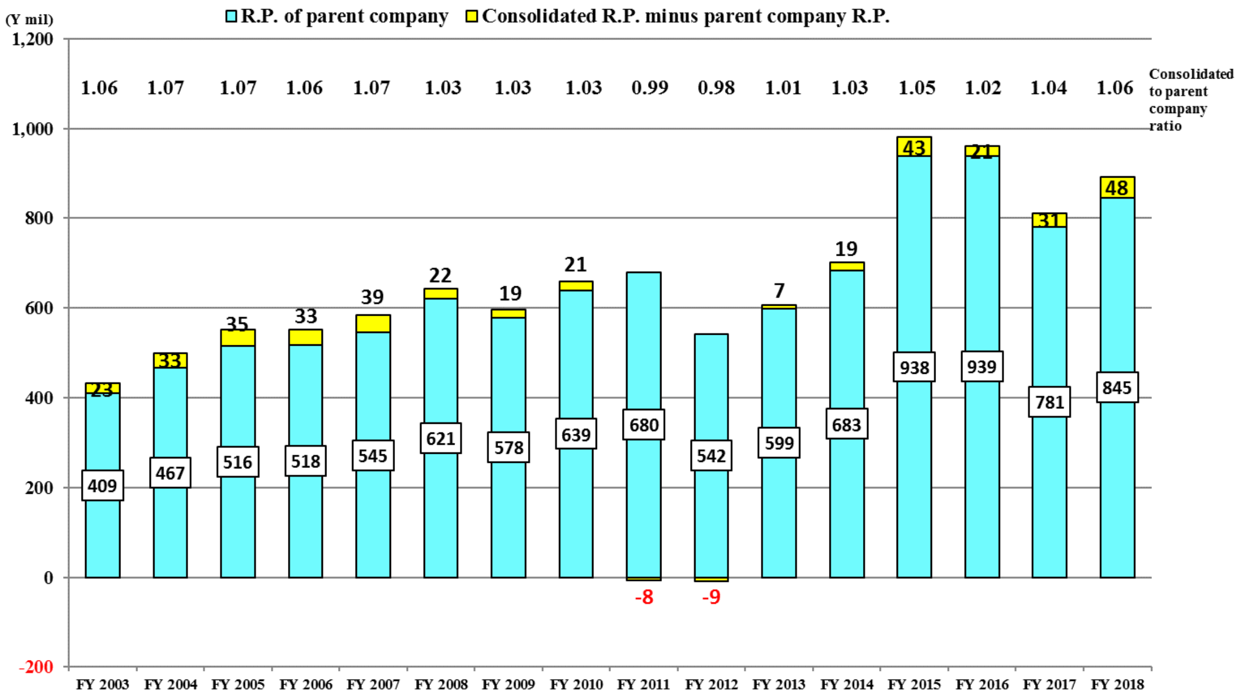
[Figure 1] Ratio of Consolidated to Parent Company Sales (ratios shown on upper portion of graph)



(Ref) Both Figures 1 and 2 were prepared by Alpha-Win Research Dept. based on the securities report and financial results summary.

(Note) The estimates, unless otherwise noted, are the Company's planned/target values. Decimal places have been rounded by our Res. Dept. and therefore the values may slightly differ from the Company's official disclosed values, etc. These apply to the rest of this document.

[Figure 2] Ratio of Consolidated to Parent Company Recurring Profit
(ratios shown on upper portion of graph)



◆ Business Philosophy and Basic Management Policy

- **The business philosophy / goal is to "create a world-class company."**

The Company's business philosophy is as follows:
・A company flourishes with people's support. We must continue to exist to promise the well-being of people including our employees. Continuity and development are born from profit, and profit is brought by customers. Under this philosophy, we will "create a world-class company."

- **The basic management policies are "Customer First," "Focus," and "All-Employee Sales."**

The following are the Company's three basic management policies:
・Customer First: All decisions are based on our customers' values and it is our standard to think from our customers' perspectives.
・Focus: The four main elements of a company are its people, assets, money and time. In order maximally utilize these elements, we will focus our management resources on the most important matters decided based on our customer-first policy.
・All-Employee Sales: In order to provide user-oriented services, each employee will work toward the development of the Company's business as independent business persons. (⇒has established a unique all-employee sales system[3])

(3) All-employee sales 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 the payment. The system engineer, who is in charge of responding to customers, will materialize the systemization needs of customers through dialogues and carry out projects with responsibility, authority, and a sales goal.

- **Management goals and results are shared among all employees.**

Moreover, for the entire company as well as for each department, numbers such as sales, profits, and progress rate toward a goal are disclosed to all employees. Thus, information is being shared in an open management system.

2. Business Description and Business Model

◆ Three Lines of System Service

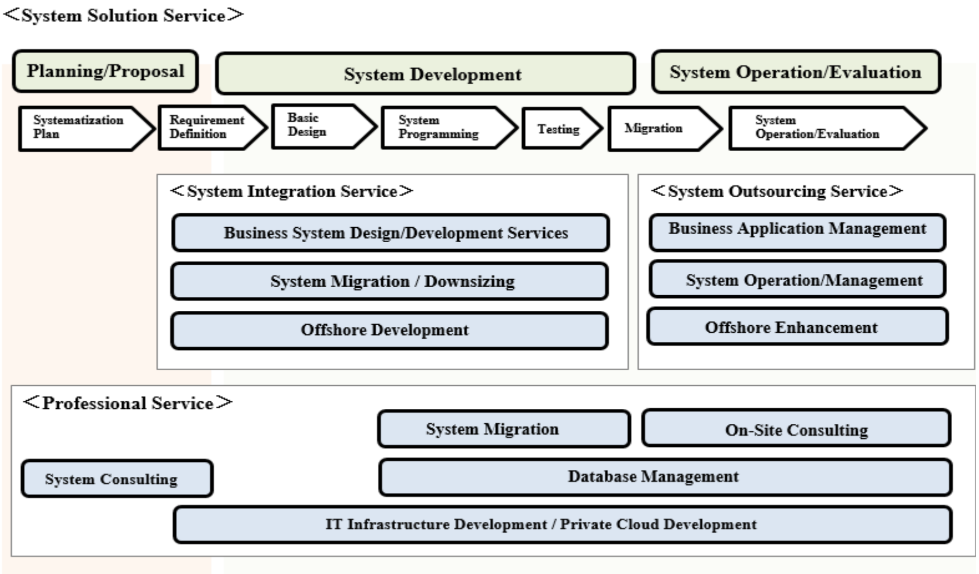
- **Business is classified into three categories. The System Integration Service, which is mainly system development, accounts for 70% of sales. Profit margins of the three categories are about the same.**

As its business, the Company's group provides system solutions[4]. Specifically, the Company provides a series of services dealing with the planning/proposal, design, manufacture (by programming), testing, operation, and evaluation of systems for other companies or the government. Since this is the Company's single business, the business is classified by the informatization cycle of the customer into the following three categories (services lines).

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

(4) System solution: solving issues related to systems through hardware, software, and services

[Figure 3] Overview Diagram of the Processes in Each Service



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report

(5) Requirement definition: defining the scope and target of systemization

(6) Basic design: also called external design, a part of the upstream process where the basics of the functions necessary for a system from the user's perspective are designed (screen, method of operation, security, etc.). The workflow is as follows: basic design → internal design → detailed design → manufacture (also called programming or implementation).

1. System Integration Service (SIS)

・The Company's main business. Responds to the needs of corporate and other users (defined as end users such as other companies and the government) and develops systems for business use. Includes requirement definition[5], basic design[6], programming, and testing.

- **Projects are diversified.**

・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, most projects are completed in the order of several months. Most orders are received and delivered during the same fiscal year. The price can also range from several million yens to several hundred million yens, but projects with a price of less than Y50 million are by far the most common.

・In general, engineers are stationed at the corporate and other user's site and conduct system development for each project in teams. However, to cut down on cost and secure the necessary number of staff, a part of the development is outsourced to domestic and overseas subsidiaries or other companies in the same business under supervision of the Company's project manager.

- **System Integration Services are based on contracts. Project management of the risks and the profit/loss is important.**

・Since the system development business is, as a general principle, based on contract agreements, the SI (the Company), who is the contractor, bears responsibility for the products (systems). Therefore, management of the risks and the profit/loss of projects and products is important.

・Projects are often obtained through proposals or by bidding. Estimates are generally calculated based on [number of staff] x [number of months]. After receiving an order, in developing the system, the Company employs knowledge, know-how, and fundamental technologies pertaining to various industries, companies, and businesses that it has accumulated over the years, as well as its standard development framework F@CE[7], to reduce risk and improve quality, profitability, and efficiency.

・Since unexpected changes in specifications, additional work exceeding the initial estimate, etc., would negatively affect profitability and may make the project unprofitable, the Company is especially keen on improving its project management skills. The Company is also actively engaged in the Enhancement Service[8], where the Company works closely with corporate and other users to make various proposals that will lead to new businesses (compact system development).

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

(8) Enhancement Service: 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. Improves customer satisfaction through these means.

2. System Outsourcing Service (SOS)

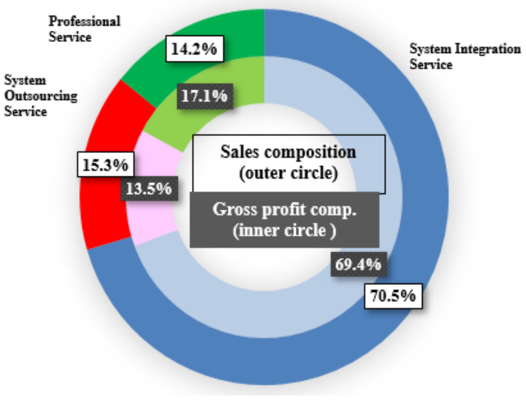
・Services related to the operation and evaluation of systems. It provides two solution services: System Operation & Management (development, management, and evaluation of components of a system such as hardware, basic software, database, network environment, etc.) and Business Application Management (maintenance, management, and improvement of business applications and evaluation of management processes). The Company also has a seamlessly linked service structure where new challenges found and proposed during system maintenance and operation (SOS) can lead to a new Enhancement Service project (SIS).

3. Professional Service (ProS)

・Services that utilize the Company's technologies to solve everything related to the informatization cycle from planning, designing, and developing infrastructure to operating/monitoring systems, such as consulting, database improvement for greater efficiency, system monitoring, management support, and IT strategies. High performance is realized by development tools and skills of certified experts. The Company is especially strong in database technologies, for which it has expert engineers (business related to Oracle Cloud[9]).

(9) Business related to Oracle Cloud: Cloud-related services and proposals based on Oracle's database. The Company plans to continue to strengthen this business by increasing the number of certified staff.

[Figure 4] Composition of Sales (outer circle) and Gross Profit (inner circle) by Category for FY 2018

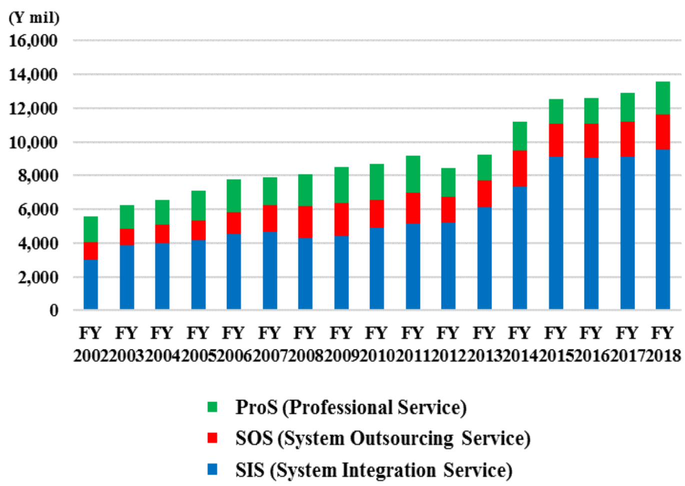


(Ref) Prepared by Alpha-Win Research Dept. based on the financial results summary

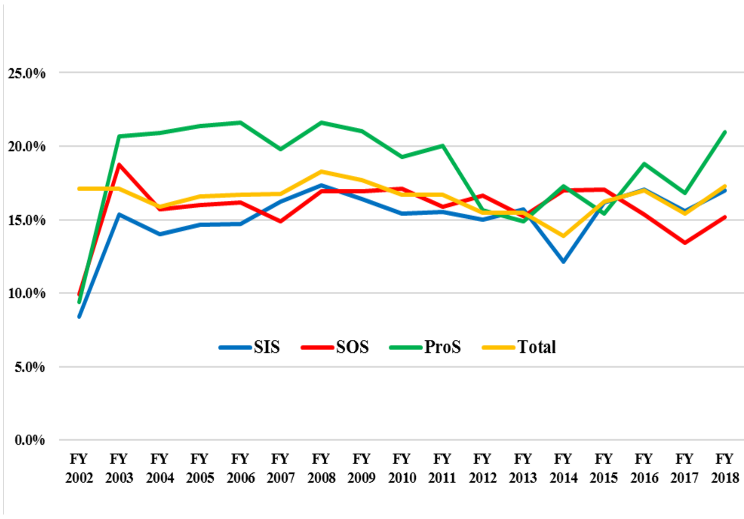
Breakdown of sales and gross profit by each of the three categories and their transition over the years are shown on Figures 4-6. The sales breakdown shows that SIS accounts for about 70% of the total, and SOS and ProS almost equally share the remaining 30% (outer circle of Figure 4). Over the past 15 years, sales grew by 3.2 times for SIS, 2 times for SOS, and 1.2 times for ProS; SIS has been the main driver of business growth (Figure 5).

Breakdown of gross profit is shown on Figure 4 (inner circle). The breakdown is not very different from that of sales. Also, as indicated by the transition in gross margin shown on Figure 6, although some years were marked by a 5% difference at maximum, each category has generally stayed within the range of 15% to 17%. However, the gross margin of ProS, which creates high added-value, is two to three points higher than the other two categories. The overall gross margin, though, depends on the gross margin of SIS since SIS accounts for an extremely large percentage of sales (Figure 6).

[Figure 5] Sales by Category



[Figure 6] Transition in Gross Margin for Each Category



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and financial results summary

- **Labor-intensive business. Acquisition of talented personnel is the key to growth.**

◆ Labor-Intensive Business Model where Human Resources Are the Key

Since most of the Company's business is order-made system development contracts, its business is strongly characterized as a labor-based, one-product production model. Therefore, the securing and training of talented personnel are the key factors since human resources are the source of competitive advantage and growth potential. Especially since systems are becoming more advanced and complex, talented employees for roles such as project managers in charge of overall project management and system engineers are crucial in order to manage system quality, cost, deadlines, and profit/loss. Currently, the Company has about 260 project managers, but this number is somewhat short and is a bottleneck to further growth. Furthermore, due to the nature of business, it is not rare for project managers to have to face troubles related to specifications changes requested by customers and miscommunications; project managers must consequently be equipped with knowledge, proposal skills, technological expertise, and communications skills.

With regards to cost structure, labor cost and subcontracting cost paid to business partners (mostly personnel expense in essence) account for over 90% of the cost of sales (for the parent company only, 30.3% and 62.9%, respectively). Therefore, the Company's skill in controlling these two costs may have an effect on profitability.

Generally, the system integration business is one where rapid expansion by unique products and services is difficult. Additionally, although the sharing and utilization of know-how is possible to some extent, there is a limit to improving productivity due to the reliance on manpower. This difficulty with profit margin improvement is a characteristic of the industry rather than just the Company. Faced by this challenge, the Company plans to continue to improve its profit margin by taking various measures that do not rely heavily on manpower such as adoption of agile development[10], use of a

(10) Agile development: an approach to project development. Unlike the conventional waterfall development, it divides a system into short phases and conducts repeated implementation (programming) and testing to cut down on development time. "Agile" means dexterous and quick.

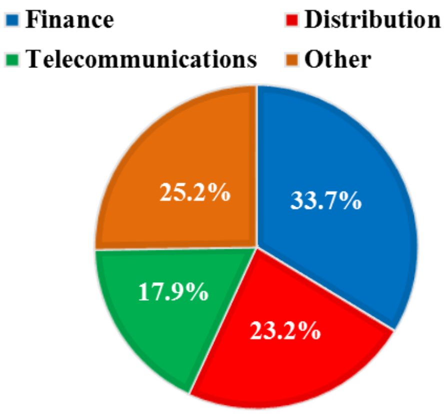
standard platform, project management reinforcement by the entire organization, utilization of overseas subsidiaries, and reviewing of contracts (negotiating and proposing to change from payment based on the number of staff and months to payment in return for services).

- **Sales breakdown by industry shows that the top three industries are finance > distribution > telecommunications, which account for about 70% in total.**
- **Diversification of industry is steadily in progress.**

◆ Sales Composition Well-Balanced by Industry

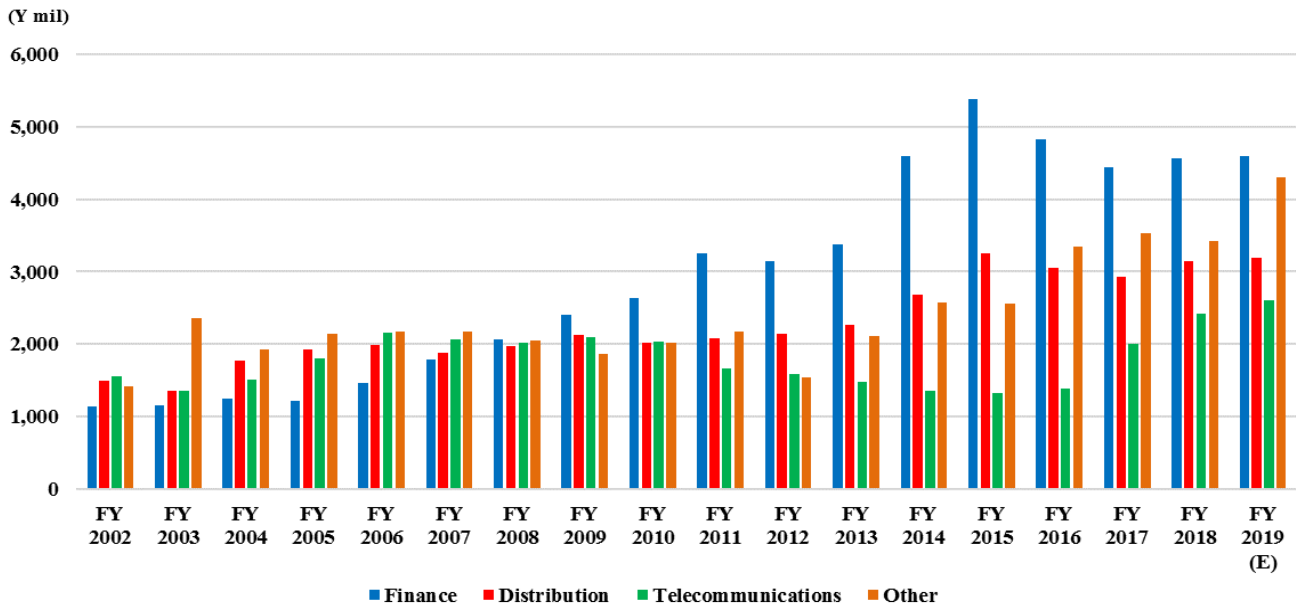
Sales breakdown by industry is shown below (Figure 7). Sales for the finance industry are the largest, at 33.7% of the total (FY 2018; same for the rest). This industry must process a massive amount of data and is required to be secure and reliable. Second to finance is the distribution industry at 23.2% and then the telecommunications industry at 17.9% of total sales. These three industries account for 70% of the total, but compared to other companies, this composition is generally seen as diversified to some degree (Figure 23; the competitor HIMACS's sales for the finance industry is greater than 70% of total).

[Figure 7] Sales Breakdown by Industry for FY 2018



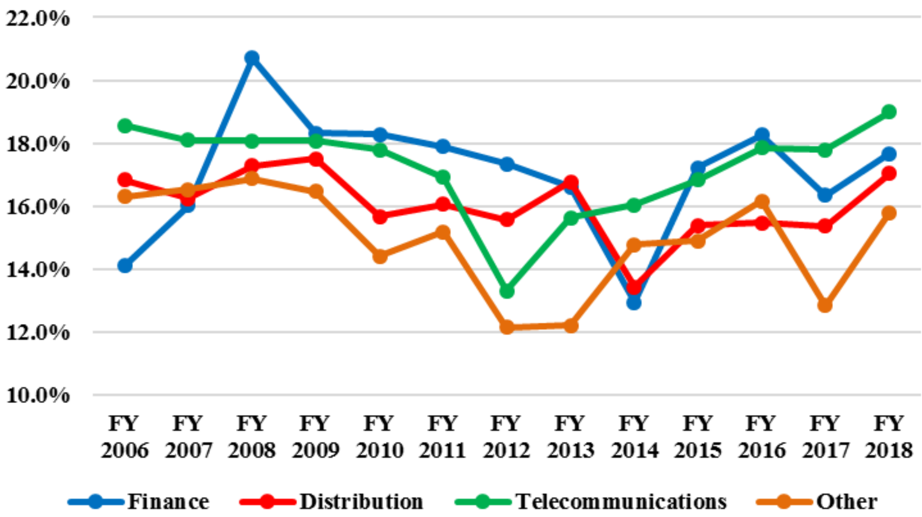
The Company's total sales have been increasing over the long term, with the finance industry as a significant growth driver industry-wise. Sales toward the telecommunications industry, although somewhat unstable, are also generally increasing in line with the system investment cycle of telecommunications carriers, etc. In recent years, sales for the industries categorized as "other" – manufacturing, government, and energy-related industries – are also growing and beginning to contribute to the diversification by industry (Figure 8). The breakdown of gross margin by industry changes somewhat every year, and there is no significant trend or difference in margin (Figure 9). Alpha-Win Research Department believes this phenomenon is due to the fact that differences in the profitability of each individual project, rather than differences in the characteristics of each industry, are being reflected in the gross margin.

[Figure 8] Transition in Sales for Each Industry



(Ref) Figures 7 and 8 were prepared by Alpha-Win Research Dept. based on the securities report, financial results summary, and financial results briefing materials

[Figure 9] Transition in Gross Margin by Industry



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report, financial results summary, and financial results briefing materials

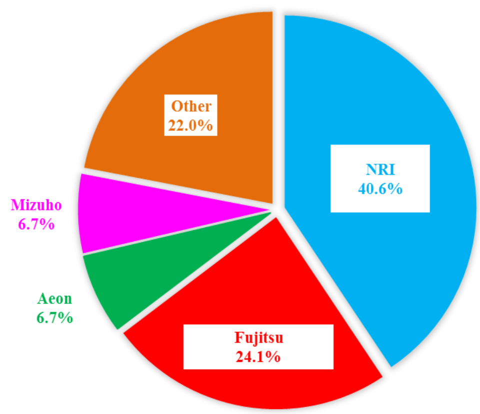
- **Stable business with very many repeated businesses with existing customers**

◆ Stable Customer Base and Business with High Continuity

Since the Company's customers and users are Japan's leading corporate groups and its business deals with mission-critical operations, the Company must be reliable, stable, user-friendly, secure, and continuous. Moreover, the accumulation of business knowledge and know-how is a must for system development and operations. Consequently, the Company has high contract continuity with its existing customers. The prime ratio (percentage of direct contracts made with end users for system development) is 20 to 30% and many projects are outsourced from major SIs.

- **Sales breakdown by customer shows that Nomura Research Institute is the largest, and together with Fujitsu, Aeon, and Mizuho, these four groups account for greater than 70% of the total.**

[Figure 10] Sales Breakdown by Customer Group for FY 2018



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and financial results summary

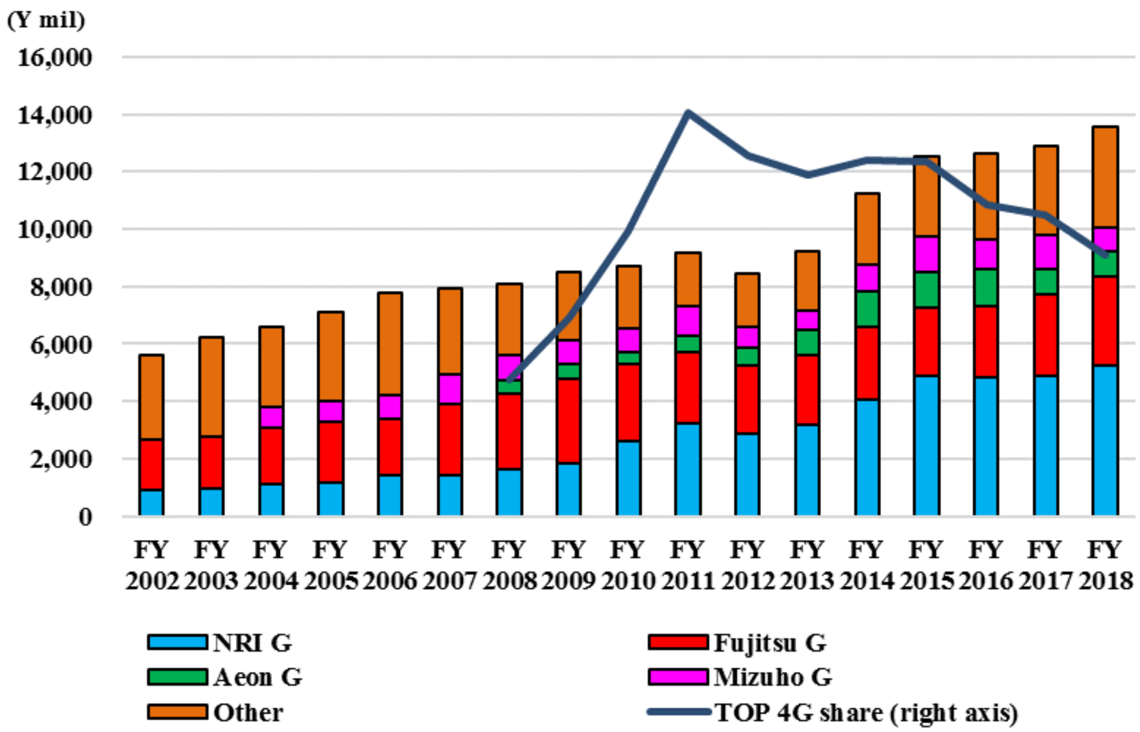
As shown by the transition in sales breakdown by customer group (Figures 10 and 11), Nomura Research Institute (Nomura Res. Inst. or NRI, hereinafter) is the largest customer, followed by Fujitsu, Aeon, and Mizuho. These four corporate groups account for greater than 70% of the total. This percentage is gradually declining but still remains high. In fact, sales for the Nomura Res. Inst. Group increased by approx. Y4.3 billion from approx. Y900 million in FY 2002 to approx. Y5.2 billion in FY 2018 thanks to the expansion of business field from the initially focused distribution industry to other industries such as finance. The Company's overall sales during this period grew by approx. Y8 billion from approx. Y5.6 billion to approx. Y13.6 billion mostly owing to the NRI Group. Similarly, Fujitsu Group contributed slightly less than Y1.4 billion to sales, which is 24% of total, thanks to its expansion of telecommunications, electrical power infrastructure, and government-related businesses. Having raised sales over the long term for each of the major corporate groups, the Company can be judged as having excellent trust from customers and great contract continuity.

In fact, the Company is one of the few companies that are partnered with Nomura Res. Inst. (NRI) as an e-e Partner[11]. In this partnership, the Company is in a close relationship with NRI, partnered not only in business but also making mutual investments and exchanging human resources with NRI. (Looking at transaction with each company, we can see that NRI is the largest at 31.3% of the total. Second largest is Fujitsu at 18.8%.)

(11) 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, e-e Partners cooperate with NRI not only in the operation of specific projects but also in the cooperative promotion of innovative activities in the enhancement business; in the strategic reinforcement of HR, quality, and IT security; and in the creation of a mutually prosperous business model that takes advantage of each other's expertise. NRI has only announced three companies (the Company, HIMACS, and Toho System) as being its e-e Partners.

[Figure 11] Transition in Sales by Customer Group (G) and Shares of the Top 4 Groups

(Note: information on sales of Mizuho G before FY 2003 and of Aeon G before FY 2007 is not available)



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report, financial results summary, and financial results briefing materials

- **Invests in growth areas of focus such as blockchain, Cloud, agile development, AI, and IoT**

(12) Cloud solution service: a type of service where applications are used as a "service" via web browsers, etc.

(13) Blockchain: distributed network where information is synchronized, recorded, and accumulated among many computers

(14) AI: artificial intelligence

(15) IoT: Internet of things. System that connects all devices around us by the Internet.

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

Alongside its own R&D activities, the Company has been forming alliances with companies with advanced, new technologies (Figure 12). Thus, the Company is steadily building the foundation for developing businesses that use next-generation technologies. The total R&D cost in FY 2018 was Y83 million, which may appear small since it is only approx. 0.6% of sales. However, the R&D cost is also actually separately recorded as "personnel expense for developers" under "periodic profit and loss."

The Company is especially focused on technology investment for Cloud solution services[12] including Oracle-related services; participation in proof experiments of the Blockchain[13] Collaborative Consortium; capital and business alliances with companies with know-how on AI technology[14], IoT technology[15], and blockchain; alliance in agile development; development of a corporate currency platform using blockchain technology; and creation of new solutions.

Furthermore, the Company created the Technology Strategy Office for its organization in 2016. Members of the Office are both dedicated members and members who also work for the sales offices. The role of the Office is to catch up to advanced technologies and conduct R&D and business development based on the newest core technologies. Although it may take several years for these technologies and new businesses to begin to make substantial contribution to financial result, their progress should be followed.

[Figure 12] Summary of News Release Related to Recent New Technologies, Alliances, and Emphasized Businesses

Announced Date	Announced Item	Details
May 2018	Agile development with CA Technologies Japan	Formed an alliance with CA Technologies Japan, the Japan subsidiary of CA Technologies (NASDAQ: CA) of USA, and began agile development using the products and services of the CA Group. Will thus establish a more high-speed and high-quality software development method and create a new service model.
Jul 2018	Capital and business alliance with Tripleize Co., Ltd.	Cooperation in proposal activities making use of know-how and techniquqes related to AI, IoT, and blockchain, etc. Through third party allotment, the Company acquired 4.7% of Tripleize's shares.
Aug 2018	Service related to Oracle Cloud	The Company achieved 1st place in the "Oracle Cloud Platform (PaaS/IaaS) Certification" section of the 2018 Oracle Cloud Certification Award which acknowledges companies that made great efforts to acquire Cloud certifications. In addition, for the monitoring of the Oracle Cloud system, the Company began providing monitoring system development services using Zabbix.

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

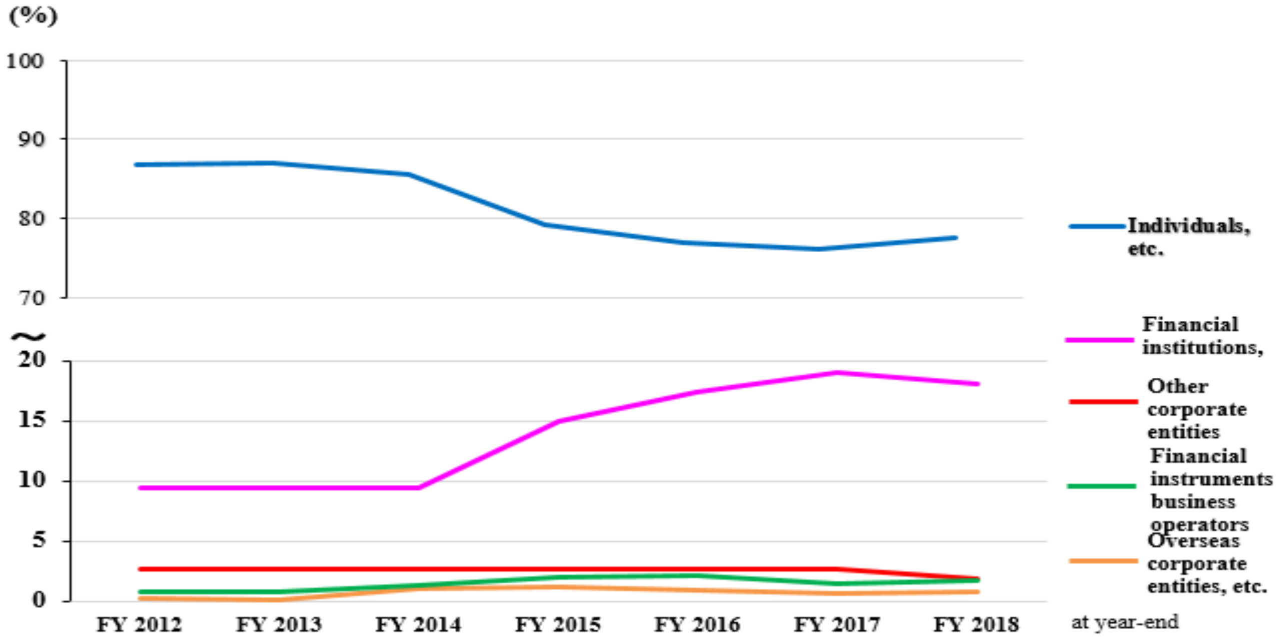
3. Shareholder Composition

◆ Change in Composition by Type of Shareholder

◆ **"Individuals, etc." owns slightly less than 80% of shares.**

With regards to shareholder composition by type of shareholder as of the end of March 2018 (Figure 13), "Individuals, etc." is by far the largest, owning approx. 77% of the total. Second to this is "Financial Institutions, etc.," owning 18%. Together, these two types of shareholders own 95% – most of the outstanding shares. "Foreign corporate entities, etc." is low, owning 0.9%. Over the years, shares of "Individuals, etc." have somewhat decreased and shares of "Financial Institutions, etc." have increased.

[Figure 13] Change in Shareholder Composition by Type of Shareholder (unit: %)



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and financial results summary

◆ Major Shareholder Composition

◆ **The major shareholders are mainly the employee stock ownership plan and current and former directors.**

The Company's major shareholder composition has been stable and has not greatly changed. The major shareholders as of the end of September 2018 are shown on Figure 14. The following are supplemental information.

- The largest shareholder is the Company's employee stock ownership plan, owning somewhat less than 12%. This slightly exceeds the amount of shares owned by the second largest shareholder President Sakiyama.
- The third largest shareholder Ms. Onuki is the Company's previous president. The fourth largest shareholder Mr. Uchida is the Company's current director.
- The fifth largest shareholder The Master Trust Bank of Japan is the BIP trust account for the Company's director remuneration (stock-remuneration-type director incentive plan).
- The sixth largest shareholder is most likely a general, individual shareholder.
- The seventh largest shareholder is the Company's former senior vice president Mr. Sato.
- The eighth largest shareholder Mizuho Bank probably owns shares for the purpose of cross-shareholding.

・The ninth largest shareholder MUFJ Bank is a correspondent financial institution.

・The identity and purpose of the shareholder who actually owns the shares in the name of the trust bank at tenth from the top are unknown.

◆ **Share buyback raised the percentage of treasury shares to approx. 9%.**

・Of the top ten shareholders, the employee stock ownership plan and the directors (including former members), plus the treasury shares, add up to about 40% of the total. This sum has increased over the years since the Company has conducted six share buybacks in the past. Treasury shares, including the BIP trust accounts, are approx. 9.2% of the total as of the end of September 2018.

[Figure 14] Major Shareholders' Status

Shareholder Name (unit: thou. shares)	FY 2015 year-end	FY 2016 year-end	FY 2017 year-end	FY 2018 year-end	End of Sept. 2018	% of Total Shares	Ranking
Cube System Employee Stock Ownership Plan	1,641	1,672	1,663	1,668	1,666	11.68	1
Osamu Sakiyama (indiv.)･･･Cube System's president	1,775	1,675	1,655	1,646	1,638	11.48	2
Akemi Onuki (indiv.)･･･CS's former president	401	401	401	401	401	2.81	3
Toshio Uchida (indiv.)･･･current director	475	415	403	393	385	2.70	4
The Master Trust Bank of Japan (director remuneration BIP trust: 75,824 account)	-	270	270	262	369	2.58	5
Masatsugu Sakurai (indiv.)･･･general individual investor	316	316	316	316	316	2.21	6
Toshikuni Sato (indiv)･･･CS's former senior vice president	380	340	300	300	304	2.13	7
Mizuho Bank, Ltd.	276	276	276	276	276	1.93	8
MUFJ Bank, Ltd.	258	258	-	-	258	1.80	9
Japan Trustee Services Bank, Ltd.（trust account 5）	-	-	348	324	221	1.55	10
Cube System Inc.	682	458	1,035	1,236	1,008	-	-
The Master Trust Bank of Japan, Ltd.（trust account）	-	-	-	321	-	-	-
Resona Bank, Limited	241	-	-	-	-	-	-
(Cube System's Actual Treasury Shares)	682	728	1,306	1,498	1,377		
(Percentage of Treasury Shares)	4.5%	4.8%	8.5%	9.8%	9.2%		

Note: "-" indicates that there were no data available on the major shareholder in the securities report, and does not necessarily mean zero.
: (Cube System's Actual Treasury Shares) includes the BIP trust account for director renumeration.

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and financial results summary

◆ **Uses a portion of treasury shares as an incentive for directors**

The Company has issued a portion of its treasury shares to its directors in two batches as an incentive. In FY 2016, the Company terminated its old director retirement benefit plan and instead started the stock-remuneration type (BIP trust) director incentive plan where the Company's treasury shares are issued and granted according to position and achievement rate with respect to the medium-term management goals. The plan is renewed every three fiscal years, or the span of a medium-term management plan, and the actual right to the shares is granted upon a director's retirement. Also, in September 2018, when the Company made the transition to a new step in the medium-term management plan, it issued another portion of the treasury shares to its directors as limited-transfer stock-based remuneration as part of the new system. Prior to this, the direct ownership of shares by most of the current management team members was limited. Therefore, this new stock remuneration system should be effective in raising the incentives of directors with regards to management and financial results and aligning the directions of shareholders and profit.

The Company has not decided on how to make use of the remaining treasury shares, but some possibilities including using them for stock remuneration as another director incentive, for stock cancellation, or for a stock-swap in a tie-up or an M&A.

4. ESG

◆ Environment

- **Works on continual improvement of environmental performance (energy and resource conservation)**

Although the Company's business does not harm the environment, under the policy of "Practicing environment-friendly management through continual improvements in environmental performance (energy / resource conservation)," the Company engages in environment-friendly activities (obtained ISO14001 certification in 2005). Specifically, the Company works on reducing electricity and paper usage, reducing waste, implementing "cool biz" and "warm biz," promoting green purchasing, and planting trees in Vietnam.

◆ Society

As a key industry necessary for the infrastructure supporting the economy and the society, the Company's group believes its mission is to contribute to the further development of the IT society and the strengthening of its customers' competitiveness. It aims to create a more prosperous and convenient society through the power of IT systems.

- **Actively engaged in activities that support the development of the next generation of human resources**

In order to support the development of the next generation, the Company holds the "Donated Seminar on Local Region, IT, and Energy" (Toyo University) to support the development of individuals with problem-solving skills who can contribute to globalization and the local region. The Company also holds the "Family Day" as an opportunity for its employees' family members to learn about companies and careers. Additionally, the Company supports cleanup and beautification activities and activities where children of the local region can visit the workplace to nurture ideas about the meaning of work and their future careers.

◆ Governance

As a company with auditors, the Company has set up the Nomination and Compensation Advisory Committee and the Integrated Risk Committee (which directly controls the Compliance Committee, the Internal Control Committee, the Security Committee, and the Working Style Reform Committee). The Company has also adopted the executive officer system and makes efforts to reinforce corporate governance. To deliberate on important matters related to the general management of the Company, a management meeting participated by the President, executive officers, and directors who represent the subsidiaries is held twice a month. The deliberated matters are communicated to each department via the Corporate Planning Office.

- **Of the 10 directors and auditors, 5 are from outside the Company.**

The management team is made up of seven directors (of which two are outside directors) and three auditors (all are outside auditors from Mitsubishi Corporation and concurrently serve as auditors for each of the overseas subsidiaries). Four of the directors are dedicated members, two are from Nomura Research Institute, and one is a lawyer. All directors as well as executive officers are men, with no member who is female or has foreign nationality. Going forward, the Company plans to create opportunities for women and assign appropriate roles to appropriate individuals based on their skills and abilities.

Also, the Company values health as part of its management policy and works on improving and maintaining the mental and physical health of its employees and creating a comfortable working environment. As a result, the turnover rate for the most recent period was approx. 5%, a low value that is about a half to a third of the industrial average; employee retention rate is relatively high (as a reference, the turnover rate of its competitor HIMACS for the most recent period was also about 5%).

The Company does not have anti-takeover measures.

5. History of Growth

- **Founded in anticipation of the growing importance and potential of computer systems. Specialized in the system integration business.**
- **Its main customers are leading blue-chip companies of Japan.**

◆ Company History

In 1972, the Company was founded as Customer Engineers Corporation by its founding members, which included the current president, for the purpose of software development and system operation/management (changed its name to the current one in 1990). As computers became popular in the Japanese society, IT investments increased and the system development market grew. The Company has been specializing in the system integration business and has been building its trust and track record. It has gradually increased the number of contracts with leading Japanese companies – its current main customer group. As these companies increased their IT investment and outsourcing of system development/operation, the Company expanded its business domain as well as business in general at a steady pace.

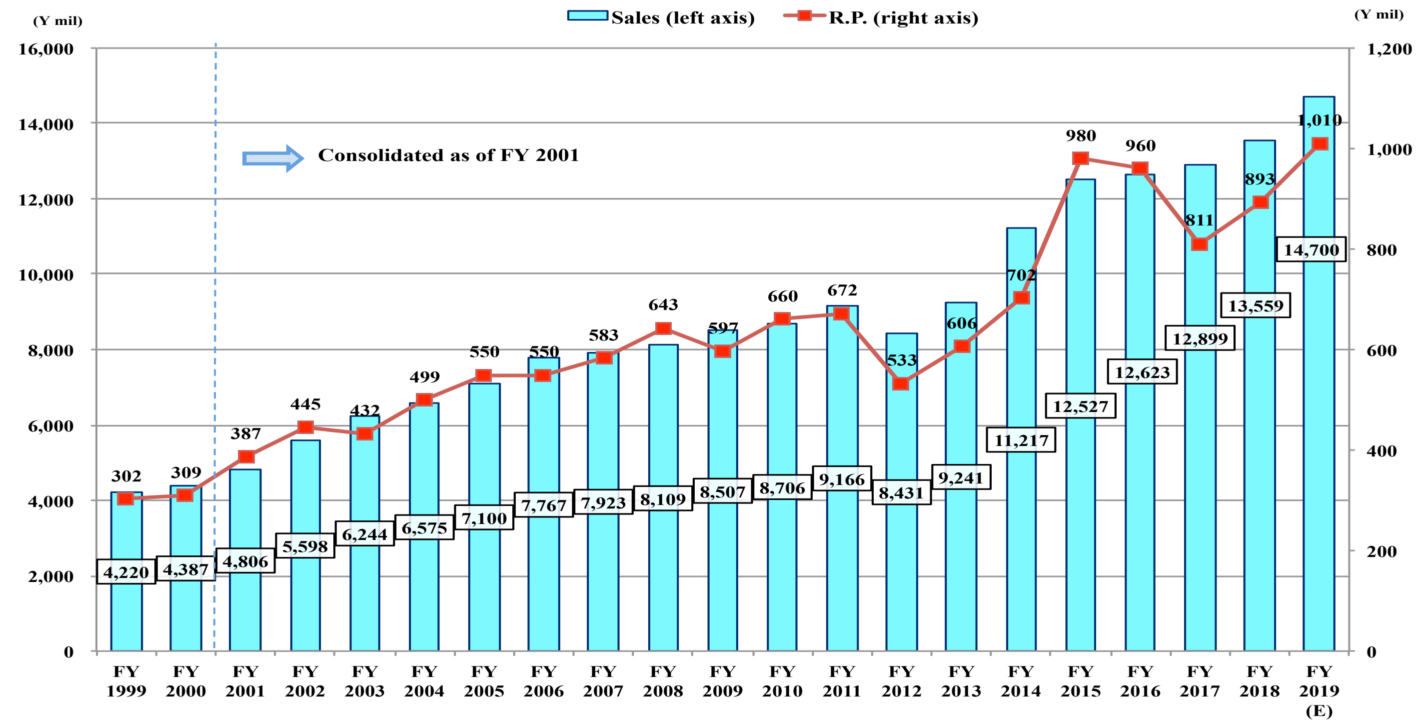
- **Changed its listing from TSE second section to the first section in March 2014**

Regarding stock, the initial offering was made in the JASDAQ market in 2002. In 2006, the Company became listed in the second section of the TSE, and then became listed in the first section on March 2014.

◆ Transition in Past Financial Performance

From foundation until now, the Company has been improving its financial performance as a specialist (SI) for the development and operation of systems outsourced from other companies and the government. Long-term transition in financial performance is shown on Figure 15. Details on the financial performance are described below in chronological order.

[Figure 15] Long-Term Transition in Financial Performance



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and financial results summary. E = the Company's estimate.

◆ **Has been growing steadily and continuing to increase sales over many years. Profit margins have stayed about the same.**

◆ **Sales decreased only for one fiscal year during the past 17 years.**

◆ **Rate of change in financial result is stably low.**

On a consolidated basis, with the exception of only one fiscal year (FY 2012), the Company has achieved an year-on-year increase in sales every fiscal year for the past 17 fiscal years. This stable growth trend is noteworthy. During this period, the annual sales growth rate (annual simple-average rate of increase in sales) was +6.5% and similarly the recurring profit growth rate was +5.9%, showing how the Company has been steadily improving its performance over the long term. Although recurring profit decreased in five out of the 17 fiscal years, the largest annual drop stayed within the range of approx. -20%, and the Company has been able to always stay in the black with regards to net profit for the year. Statistically, the Company's standard deviation for the rate of change in financial result and variation coefficient (= standard deviation / average; shows relative dispersion; also called relative standard deviation) are low, indicating that the volatility of the Company's fundamentals is low (see Figure 16 for the comparison with similar-sized competitors for the most recent 15 fiscal years). Furthermore, because the Company's operating margin has been stable at around 7% (Figure 17), sales increase has been directly correlated with increases in profit, dividend, and market capitalization.

[Figure 16] Performance Volatility Analysis for the Most Recent 15 Years (% YOY change for sales and R.P.)

Note: non-consolidated basis for Toho System only, FY 2005 - FY 2019
(company estimate used for the most recent period in FY 2019)

Target of Analysis	% Change in Sales (YOY %)			% Change in Recurring Profit (YOY %)		
FY 2005 - FY 2019	Cube	HIMACS	Toho System	Cube	HIMACS	Toho System
Market: TSE 1st sec.	2335	4299	4333	2335	4299	4333
n = 15 fiscal years	CS	HM	TS P	CS	HM	TS P
Standard deviation	6.25	8.00	17.88	13.84	32.66	333.54
Average	5.69	3.03	9.11	5.72	6.13	100.02
Coefficient of variation	1.10	2.64	1.96	2.42	5.33	3.33

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and financial results summary

◆ **Increased transaction with the major four groups has been the growth driver.**

External environmental factors, such as active IT investments by Japanese companies and the government, were not small with regard to their effects on the Company's growth to date. However, much of the Company's success is thought to have been brought by its efforts to improve its skill and trust and make steady progress in building a strong cusomter base. Although it is an independent company, it has strengthened its relationship with the four major groups NRI, Fujitsu, Aeon, and Mizuho and thus succeeded in developing long-term business relationships; this success was its major growth driver.

◆ **Even after the Lehman shock, sales increase was achieved for three consecutive fiscal years.**

Business performance for the most recent ten years or so is as follows.

・In FY 2009 when the Lehman shock occurred, the economy was sluggish and customers became more cautious about IT investments. However, the Company was able to continue to increase sales owing to continued business with existing customers mainly for systems in the finance and distribution industries, as well as the entry of companies into the bank business leading to projects for operation expansion.

・The economic recession continued into FY 2010 and FY 2011; system development plans continued to be postponed, terminated, or shrunk, companies continued to hold off on IT investments, and competition over price and between companies became intense. However, thanks to business with existing customers and the expansion of business with life insurance companies, banks, and manufacturers, the Company continued to increase its sales. With increased sales, fluctuation in operating profit for the three fiscal years following the Lehman shock stayed within a small range.

◆ **In FY 2012, due to the Great East Japan Earthquake, sales decreased for the first time since becoming listed. Operating profit decreased by 20%.**

・On the other hand, the Great East Japan Earthquake had a large negative impact on the Company in FY 2012. Amidst the difficult situation, sales decreased by approx. 8%. Sales for the finance industry did not change but sales for the distribution and telecommunications industries dropped hugely. This was the single instance in which sales had decreased in the history of the Company from FY 2002 to this fiscal year. Similarly, a historical drop rate of -20.9% was recorded for operating profit, but a surplus was maintained for the net profit for the year.

◆ **Business environment improved thanks to Abenomics and the Company began to increase sales again.**

・Then, as IT investments by companies and the government recovered from their previous inclination to hold off or postpone thanks to factors such as economic recovery brought by Abenomics since December 2012, recovery of company employment and performance, redevelopment of IT infrastructure due to M&As, smartphone-related telecommunications infrastructure, business related to the liberalization of electrical power retail, and increased investment in the field of social securities, the Company became assured that it can continue to increase sales again.

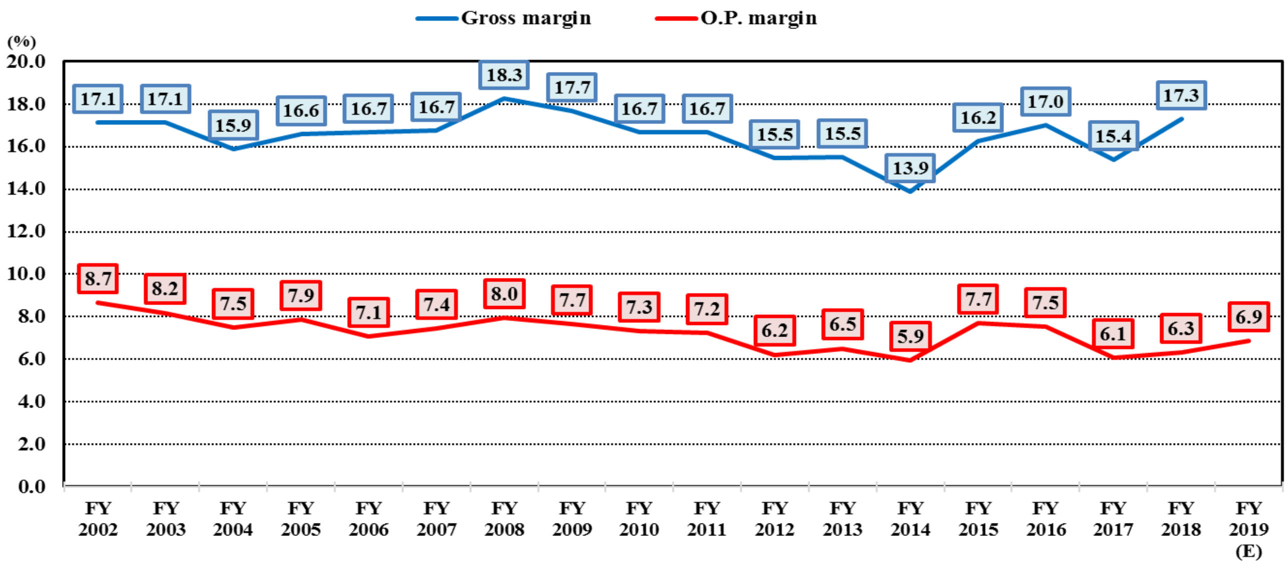
◆ **Record-highs achieved for both operating profit and recurring profit in FY 2015**

・Regarding profit, in FY 2015, since sales increased due to the development of businesses with existing customers and the acquisition of new customers, and productivity improved due to the reinforcement of project management, etc., record-high operating profit and recurring profit of Y964 million and Y980 million were recorded, respectively (net profit for the year also hit a record-high next year in FY 2016, at Y629 million). Since then, the Company has been consecutively posting new record-high sales every fiscal year. However, a new record-high has not been achieved for profit since then (as of last year, FY 2018) because of increased cost of sales (subcontracting cost and labor cost), upfront investment, and SG&A expense (especially personnel expense; ratio of SG&A expense to sales changed from 7.9% in FY 2014→8.5% in FY 2015→9.5% in FY 2016→9.3% in FY 2017→11.0% in FY 2018).

◆ **Sales have been hitting record-highs for six fiscal years in a row, but profit has been fluctuating inside a boxed range due to increased cost.**

・The Company's gross margin and operating margin have been gradually decreasing over the long term due to increased cost and intensified price competition with greater competition among companies (Figure 17). The Company has been having trouble improving its profit margins beyond a boxed range even when the economy is improving.

[Figure 17] Long-Term Transition in the Company's Gross Margin and Operating Margin



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and financial results summary. E = the Company's estimate.

6. Business Environment

◆ History of the System Integration Business

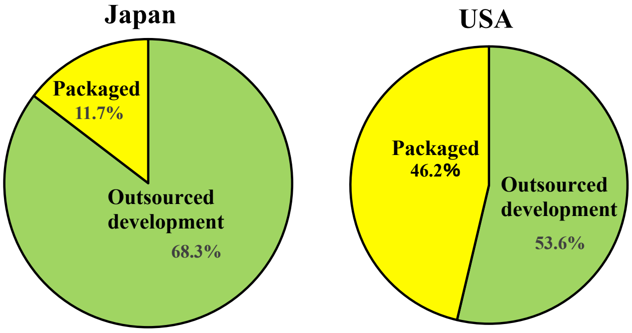
- **Order-made system development is popular in Japan.**

The system integration business is said to have began in the 1960s when the US military industry outsourced its system development. In the US, companies tended to use packaged software or, when they needed to develop their own systems, do everything from system development to operation in-house (Figure 18). Meanwhile, the system integration business began in Japan when Nippon Telegraph and Telephone Public Corporation DATA Communications Bureau (now known as NTT DATA) was founded in 1967 and conducted system development for the Regional Bank Association of Japan, large-scale system development projects for the government, etc.

- **As system development outsourcing became popular, the SIs grew in business as contractors for the outsourced system development.**

Previously, the IT system department in each company was in charge of system integration. However, as systems became more advanced and were required to be more efficient and rational, their in-house operation and management became difficult. Consequently, more companies started to outsource all or a part of the planning, development, management, and operation of systems. As a result, system integration outsourcing became popular and, as the contractor, system integrators (SIs) expanded their business.

[Figure 18] Ratio of Software Type in Japan and the USA



(Source) Ministry of Internal Affairs and Communications: "Report on Current Status of Japan's ICT"

◆ Structure of the System Integration Industry

- **The industry is in a mild oligopoly. Entry barrier is relatively high.**

Japan's system integration industry has no monopolistic player but is instead often described as being in a mild oligopoly (the top five sellers account for about 40% of the total shares). This situation is probably due to the fact that since this business deals with order-made system development, unlike the manufacturing and sales of products (general-purpose, mass-produced goods), one cannot meet the requirements for a monopoly such as technology protection and differentiation by means of patents and expansion of shares through mass production. Additionally, because of the language barrier and the uniqueness of business, entry of foreign companies into the Japanese market has been limited. On the flip side, aside from offshore development, full-scale entry of Japanese companies into foreign markets is also difficult. While competition is intense, there should not be large changes in the shares since the demands for system reliability and continuity make the entry barrier relatively high.

◆ **The system integration industry has a vertically layered structure.**

This industry has a vertically layered structure where its players often share work, cooperate in work, and take contractor- or subcontractor-like roles among themselves. The players are mostly able to exist alongside one another by taking strong positions in niches differentiated by industry, size, and corporate group of the users including companies and the government, or by the business function of the system. Due to this structure, profitability tends to increase for direct contracts with end customers (prime contract) or as one moves further upstream in the development process.

Japanese companies (corporate and other users) prefer IT systems that are order-made for them, and tend to outsource system development to other companies. Generally, the role of Japanese SI companies is to develop systems based on the requirements set by corporate and other users. Consequently, ownership of the intellectual property related to the system developed by outsourcing belongs to the corporate user; productivity cannot be easily boosted by selling the system to other customers or reusing it. Moreover, as described above, since the industry has a layered structure and is labor-intensive, profitability and global competitiveness are generally not high.

As a growth strategy, SIs may choose to secure human resources and expand business by means of M&As, capital and business tie-ups, and M&A following a carve-out of the systems division of clients. Indeed, alliances and mergers are increasing.

◆ **SIs can be categorized into three types: independent (the Company belongs here), manufacturer, and user.**

System integrators (SIs) can be mainly categorized into the following three types.

1. Independent: Founded as a system integrator. A fully independent company. If it is a mid-tier player or smaller, it often takes on development works, etc., as a subcontractor for other SIs in addition to its own business with end customers. The Company belongs to this type. Whether or not it can develop a firm relationship with growing blue-chip customers is crucial to success (company examples: TIS, Fujisoft, Otsuka Corporation, NSD, etc.).
2. Manufacturer: Manufacturer in the business of producing and selling hardware such as computers, or a company that was previously such manufacturer’s systems division or software development division but had been separated. Or a company belonging to a manufacturer’s corporate group (e.g. Fujitsu, NEC, Hitachi, IBM Japan, their IT-specialized subsidiaries, etc.).
3. User: Founded as a system integrator by major corporate players in industries such as finance, telecommunications, and trading. Or the IT systems subsidiary of such major company that was previously that major company’s IT systems division before it become independent. Sells mostly to capitally tied companies within the corporate group (e.g. Nomura Res. Inst., NTT DATA, NS Solutions, SCSK, etc.).

(Reference) Other: category for those that do not fit into the above.

・Trading company: Started out as an equipment distributer, etc. Sells mostly to companies within the corporate group (e.g. Itochu Techno-Solutions, etc.).

・Telecommunications company: (e.g. NTT Communications, etc.)

・Accounting auditor or consulting company: (e.g. Accenture, etc.)

◆ **Although slowly, the system integration market is growing in size. Meanwhile, company elimination and consolidation are in progress.**

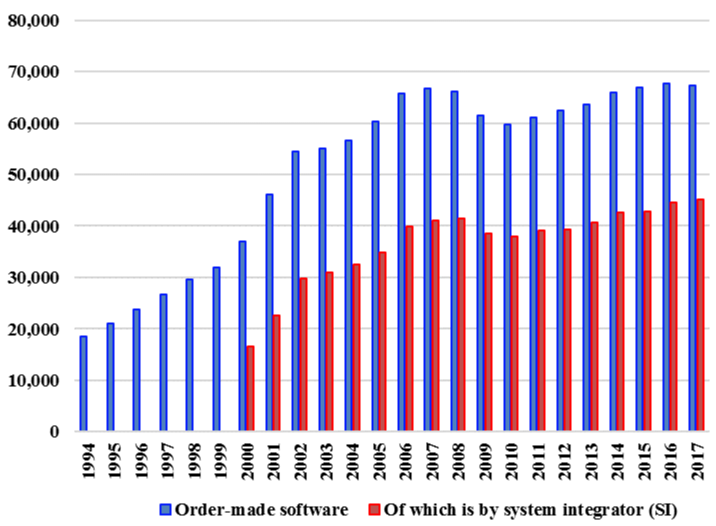
(16) Survey of Selected Service Industries: Nation-wide survey of companies on the current activity and business management status of industries in the service industry sector with high needs for statistics from both govt. and economic perspectives. Includes the IT services industry, which further divides into software dev. (includes SI), assigned system management, etc.

◆ Trends in Japan's System Integration Market

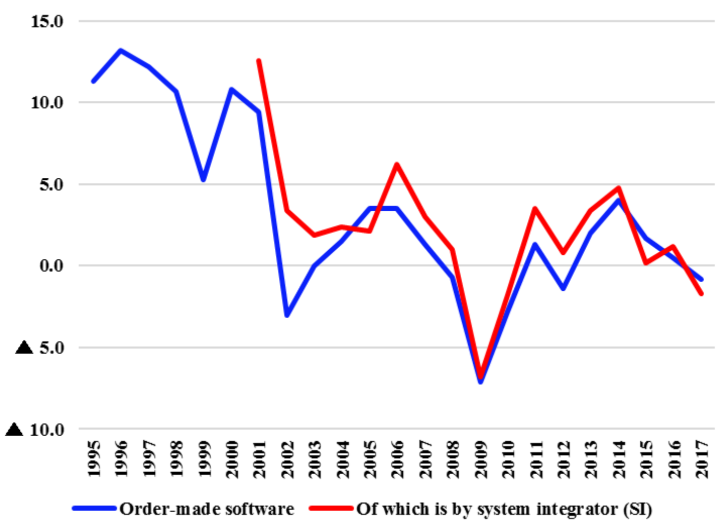
Looking at "Sales by category of business, number of establishments, and number of permanent employees for the information services industry," the survey result from the "Survey of Selected Service Industries"[16] by the Ministry of Economy, Trade, and Industry, we find that sales of order-made software, as well as sales of system integration which makes up more than half of order-made software, have been increasing with the exception of the few years after the Lehman shock (Figures 19 and 20).

According to the same data, during FY 2010 to FY 2017, sales growth rate for system integration had increased at about 2.1% per year (simple average). The current market size is about Y4.5 trillion. The number of establishments (mostly synonymous with the number of companies) in the IT services business has been gradually decreasing every year since FY 2003 (simple average of approx. -1.2% per year). In contrast, the number of permanent employees has been increasing with the exception of FY 2010 to FY 2012 (from 144 thousand in FY 1998 → 333 thousand in FY 2017), indicating that the elimination and expansion of companies are the industrial trend (the number of employees per establishment: 107.2 in FY 1998 → 135.5 in FY 2017).

[Figure 19] Changes in the System Integration Market
(annual sales: Y100 mil)



[Figure 20] Rate of Change in the SI Market
(rate of change in sales: %)



(Ref) Prepared by Alpha-Win Research Dept. based on data from 2017 Survey of Selected Service Industry by the Ministry of Economy, Trade and Industry

Since large-scale projects in system development (such as business combinations by megabanks) have reached their peak and are beginning to decline, cost control is becoming a prominent issue and competition is starting to intensify. However, IT investments by companies and the government should continue to steadily increase due to the structurally inherent lack of manpower, demands for improvement in operation efficiency, and great business conditions. Alpha-Win Research Department predicts that the market size should grow at about 2 to 3% per year as companies strategically develop new businesses and technologies in various industries and fields in order to increase their competitiveness while the needs for system advancement and development increase.

◆ Cube System's Market Position and Comparison with Competitors

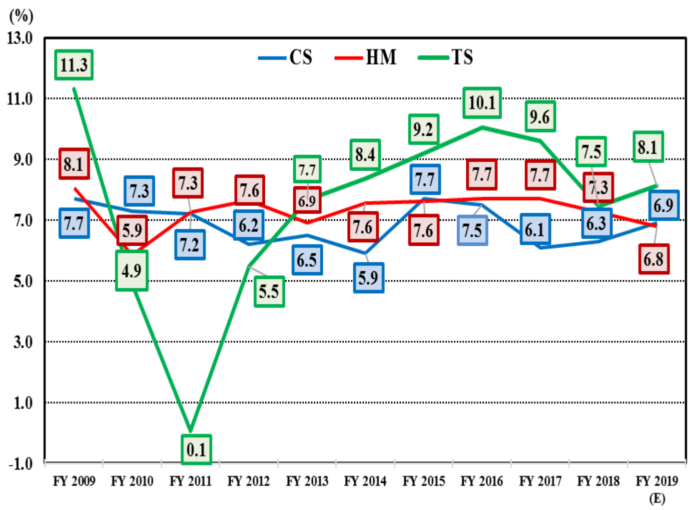
- **Middle-ranking in the industry by sales, at 80th to 90th from the top. Its share of sales in the entire system integration market is estimated to be about 0.3%.**
- **Its benchmark companies are HIMACS and Toho System. Both are Nomura Research Institute's e-e Partners and their market positions are very similar.**
- **No significant difference in each of the profit margins for the three companies. The Company's O.P. margin has not changed, but its ROE has greatly improved.**

In the system integration industry, there are about 220 companies defined by general terms as a SI whose sales can be confirmed through disclosed securities reports, etc. Among them, the Company is estimated to rank at around 80 to 90th place from the top by sales volume. Additionally, the Company's share in the Japanese market is estimated to be approx. 0.3%.

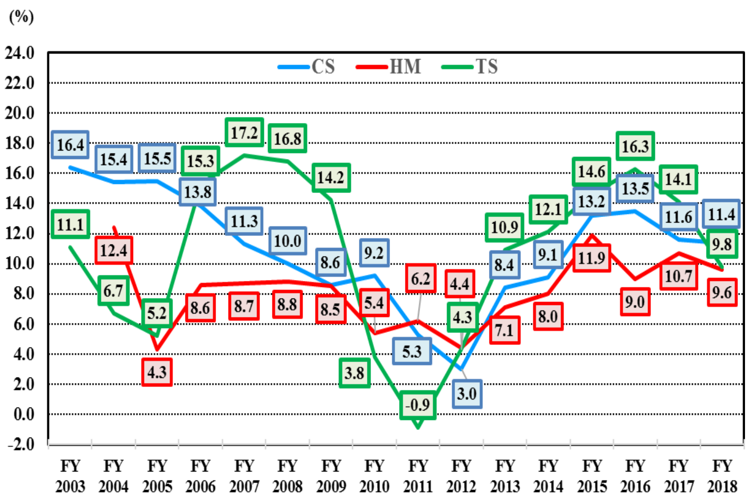
Some of the Company's competitors are HIMACS (TSE first section; 4299) and Toho System (TSE first section; 4333), which are similar in size and which the Company uses as its benchmark. They are both e-e Partners of Nomura Research Institute and are similar in market position and size as the Company. Meanwhile, several of the largest SI players such as Nomura Research Institute and Fujitsu are the Company's partners and alliances rather than direct competitors.

Comparison of the long-term transition in the operating margin of the three major listed companies including the Company (the Company is abbreviated as CS in the graphs, hereinafter; similarly, HM for HIMACS and TS for Toho System) is shown on Figure 21. Compared to the other two companies, the Company's operating margin is stable and is not significantly different. Similarly, comparison of ROE (Figure 22) shows that the Company's ROE is around the average of the three companies, having recovered greatly from one point in time to an ROE of greater than 10%.

[Figure 21] Comparison of O.P. Margin for Three Mid-Tier Listed Companies (the Company, HM, and TS)



[Figure 22] Change in ROE for the Three Companies



(Ref) Prepared by Alpha-Win Research Dept. based on each company's securities report and financial results summary. E = estimate by each company.

[Figure 23] Company Overview and Management Indicator Comparison for Three Mid-Tier Listed Companies (the Company, HM, and TS)

Company Name	Cube System (CS)	HIMACS (HM)	Toho System Science (TS)
Code	2335	4299	4333
Characteristics	Independent; mainly system dev. for finance, distribution, and telecom industries.	Independent; 70% of sales comes from the finance industry. Sales for insurance companies are espcially high - greater than 40%.	Began as Toho Mutual Life Insurance Co.'s affiliate but is now indep. Mainly dev. software for finance (insurance / securities) and telecom industries.
Founded	Jul 1972	May 1976	Jun 1971
Listed Date (JASDAQ→TSE 2nd→TSE 1st)	10/2002→11/2006→03/2014	03/2001→03/2004→03/2015	06/2001→03/2007→03/2014
Sales Categories/Breakdown (FY 2018)	・System Integration 70.5% ・System Outsourcing 15.3% ・Professional 14.2%	・System Solution 60.1% ・System Maintenance 39.9%	・Software Development 97.4% ・IT System Service, etc. 2.6%
Director Composition	・Directors (7; 2 outside) ・Auditors (3; all outside) ・Executive officers (13; no woman = 0%)	・Directors (7; 3 outside) ・Auditors (3; 2 outside) ・Executive officers (8; 1 woman = 12.5%)	・Directors (7; 2 outside) ・Auditors (4; 2 outside) ・Executive officers (15; 1 woman = 6.7%)
Major Clients/Customers (Y mil, % of sales)	1. NRI 4,242 (31.3%)	1. NRI 5,382 (39.9%)	1. NRI 2,740 (22.9%)
	2. Fujitsu 2,549 (18.8%)	-	2. SCSK 1,347 (11.2%)
Sites (including consolidated subsidiaries)	・Head office: Shinagawa-ku, Tokyo ・West Japan System Office: Osaka ・3 subsidiaries	・Head office: Yokohama, Kanagawa ・Minatomirai Office: Yokohama ・1 subsidiary	・Head office: Bunkyo-ku, Tokyo
Management Goals (indicators)	・ROE: ≥10% ・Consolidated O.P. margin: ≥10.0% ・Consolidated. sales per domestic employee: ≥Y25 mil ・O.P. (same as above): ≥Y2.5 mil Mid-term goal: Sales Y18.5 bil, O.P. margin 9.6%, ROE 13% in FY 2021	Medium term management plan, final FY: In FY 2023, ・Sales Y2.2 bil ・O.P. margin ≥10% ・ROE≥10%	・Gross margin 20% ・R.P. margin 10% ・ROE 15%
Management Policy/Strategy (summary)	・Realization of "A company acknowledged by customers as their best partner" & "Creation of a business environment where the employees and the company can grow together and share prosperity and happiness" ・Domestic/overseas business dev. ・New business/technology investment ・Reinforcement of management system encouraging growth	・Develop and expand business with major customers and the 6 major industries ・More transactions with end users ・Expansion of new business and overseas business ・Perform capital tie-up and M&A	・"Independent SIer" truly trusted and chosen by customer ・Expand business, improve company value ・Inc. direct contracts with end users ・Develop stronger customer base ・Raise quality by employee encouragement ・Improve product development skill ・Est. new business domain and model
Sales (Y mil) CE for FY 2019	*14,700*	*14,700*	*12,300*
Gross Margin (%) Actual for FY 2018	17.3	16.7	17.6
Operating Profit (Y mil) Est.	*1,010*	*1,000*	*1,000*
Operating Margin (%) Est.	*6.9*	*6.8*	*8.1*
EPS (CE) FY 2019, YOY (%)	*12.8*	*2.3*	*12.2*
DOE (%) Actual	4.5	3.2	3.9
Past 10 Years' Sales Growth Rate (FY 2018 result div. by FY 2008 result: %)	84.3	48.1	54.7
O.P. Growth Rate (same condition as above)	38.0	34.4	-0.7
Equity Ratio (%) Actual	68.1	75.1	65.2
# of Domestic/Overseas Full-Time Employees, Actual	694	790	538
Sales Per Full-Time Employee (Y mil / person)	21.2	18.6	22.9
O.P. Per Full-Time Employee (Y mil / person)	1.5	1.3	1.9
ROE (%) Actual for FY 2018 A=B×C×D	11.4	9.6	9.8
N.P. Margin (N.P. for the year / sales : %) B	4.2	4.9	5.1
Total Asset Turnover Ratio (sales / ave. total asset) C	1.8	1.5	1.3
Financial Leverage (ave. total asset / ave. owner's equity) D	1.5	1.3	1.5
ROA (R.P. / total asset : %) E=F×G	12.0	10.8	9.5
R.P. Margin (%) Actual F	6.6	7.3	7.5
Total Asset Turnover Ratio (sales / ave. total asset) G	1.8	1.5	1.3

Italics show each company's estimates (CE) for FY 2019. Others are actual values for FY 2018.

(Ref) Prepared by Alpha-Win's Research Dept. based on each company's securities report, financial results briefing and briefing materials, HP, and interviews

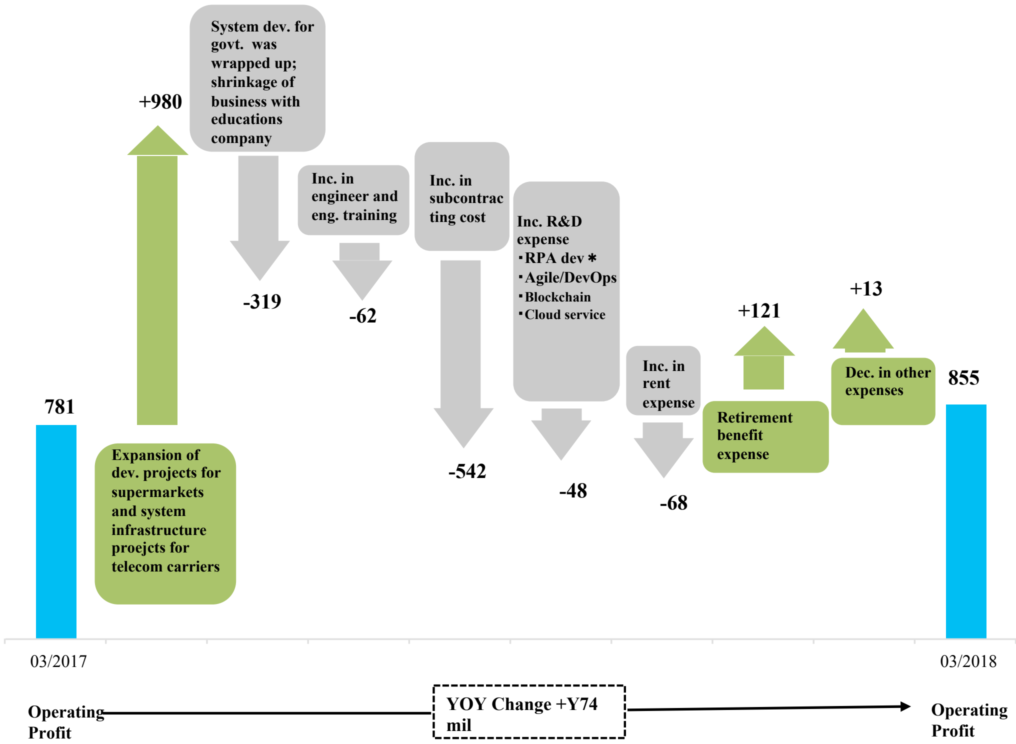
7. Last Fiscal Year's Results and This Fiscal Year's Forecast by the Company

◆ **Last fiscal year, the initial targets for financial results were not achieved, but sales increased for the sixth consecutive fiscal year, as well as hitting consecutive record-highs. Profit also increased.**

◆ Full-Year Financial Results for FY 2018 (last fiscal year)

Consolidated results for FY 2018 (last fiscal year, hereinafter) were excellent, with Y13,559 million in sales, (+5.1% YOY), Y855 million in operating profit (+9.5% YOY), Y892 million in recurring profit (+10.0% YOY), and Y567 million in net profit attributable to owners of the parent (+2.9% YOY; net profit, hereinafter). Although sales were 5.2% below the targets set forth in the initial plan and each of the profits described above were more than 10% lower than the target, sales and profits had increased nevertheless. Sales especially grew, hitting record-highs for six fiscal years in a row since FY 2013. In addition to increased sales, improved gross margin across all industries contributed to increases in operating profit and all subsequent profit figures. Although not as great as FY 2015 or FY 2016, this achievement in profit is the third greatest in the Company's history. Sales toward supermarkets and telecommunications carriers were great, offsetting the rise in costs such as subcontracting costs (+Y542 million YOY) and SG&A expenses (+Y284 million or +23.6% YOY; ratio of SG&A expenses to sales rose from 9.4% in FY 2017 to 11.0% in FY 2018) (analysis of factors that negatively and positively affected operating profit is shown on Figure 24).

[Figure 24] Reasons for Increased Profit in FY 2018 (last fiscal year) (unit: Y mil)



＊RPA : Robotic Process Automation - backoffice (indirect) division's operations

(Ref) Prepared by Alpha-Win Research Dept. based on the FY 2018 financial result supplemental material

◆ **Medium-term management plan's target values for neither sales nor profits were achieved.**

During FY 2018, the final year of the medium-term management plan "V2020 2nd STEP" (FY 2015 – 2017), the Company achieved Y13.5 billion in sales, Y1.5 billion less than its target of Y15.0 billion. Similarly, it achieved an operating margin of 6.3% compared to its target of 9.0% (-2.7pts) and ROE of 11.4% compared to its target of 13.0% (-1.6 pts). The target value for sales could not be achieved due to below-expectation progress in new customer acquisition and new business development, and the target value for operating profit could not be achieved because of the failure to improve the profitability of existing projects and increased upfront investment activities such as R&D and engineer training to start projects in new business domains.

- **Systems business toward supermarkets, banks, and telecom carriers has been great.**

・Examining why sales increased by Y660 million compared to two fiscal years ago (FY 2017) by looking at each of the three service categories, we can see that although sales for SOS (System Outsourcing Service) had slightly decreased by Y7 million (-0.3% YOY) due to the shrinkage of projects toward convenience stores in the distribution industry, the other two service categories (SIS and ProS) pushed up sales and offset this decline. Sales for SIS (System Integration Service) were the greatest contributor, having increased by Y457 million (+5.0% YOY). Although system development projects for the government had ended, core system development projects for supermarkets in the distribution industry and system development projects for banks in the finance industry had expanded. Sales for ProS (Professional Service) increased by Y209 million (+12.3% YOY) thanks to increased infrastructure development projects for telecom carriers in the telecommunications industry (Figure 25).

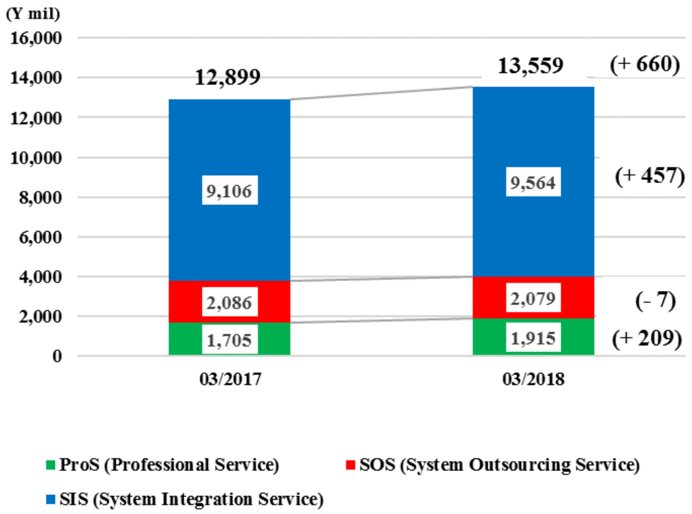
・Meanwhile, overall gross profit increased by Y358 milion (+18.0% YOY) thanks to contribution by all three service categories SIS, SOS, and ProS. Specifically, gross profit increased by Y208 million (+14.7% YOY, 58.1% contribution; same order for the rest) thanks to SIS, by Y114 million (40.1%, 31.8%) due to ProS, and by Y35 million (12.7%, 9.8%) owing to SOS. Although sales of SOS slightly decreased, a double-digit growth was achieved for its profit due to the expansion of highly profitable projects for securities exchanges in the finance industry.

Sales and gross profit results by industry type are shown on Figures 8 and 9 on previous pages. Last fiscal year's sales breakdown by industry type shows that, aside from industries in the "other" category, sales increased for all three major industry types – finance, distribution, and telecommunications (Figure 26). By industry type (of the end user), both sales and gross profit for the finance industry account for the greatest percentage of the total (33.7% and 34.4%, respectively). However, distribution, telecommunications, and the other industries are also growing to close levels such that industrial distribution is becoming more diversified.

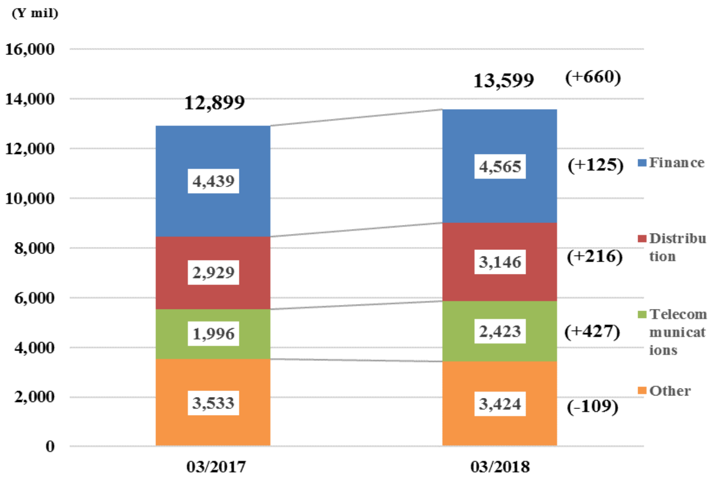
- **Sales for the finance industry decreased, especially for Mizuho G, but were offset by increased sales for its largest customer NRI G, its second major customer Fujitsu G, and industries in the "other" category.**

・Information on sales by customer group has been disclosed (Figure 10 on a previous page). The greatest contributor to last fiscal year's sales increase is NRI Group, which contributed Y344 million to the increase with its distribution system projects, and second is Fujitsu Group, which contributed Y251 million to the sales increase with its projects for telecom carriers. Meanwhile, sales stayed about the same for the Aeon Group, supported by development projects and the enhancement business. Sales decreased (by Y307 million) for Mizuho Group following a decline in the system infrastructure projects.

[Figure 25] Contribution of Each Service Category to Sales Increase in FY 2018 (last fiscal year)



[Figure 26] Contribution of Each Industry to Sales Increase in FY 2018 (last fiscal year)



(Ref) Prepared by Alpha-Win Research Dept. based on the FY 2019 financial results briefing material

◆ Cube System's Financial Results Forecast for FY 2019 (this fiscal year)

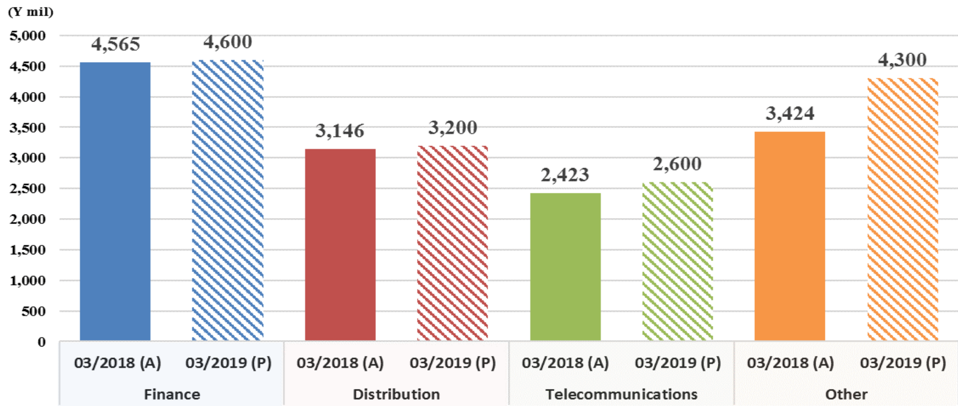
- **This FY, the Company plans to achieve consecutive increases and record-highs in both sales and profits. Will try again to attain Y1 bil in both O.P. and R.P.**

The Company expects its financial results for this fiscal year to be as follows: Y14,700 million for sales (+8.4% YOY), Y1,010 million for operating profit (+18.1% YOY), Y1,010 million for recurring profit (+13.1% YOY), and Y640 million for net profit (+12.9% YOY). No change has been made to the initial forecast made at the beginning of the fiscal year.

The Company plans to increase sales in all industry types and achieve an increase in net sales for the seventh consecutive fiscal year as well as record-high net sales (Y1,141 million increase planned). Rate of increase in sales is expected to accelerate from 0.8% in FY 2016→2.2% in FY 2017→5.1% in FY 2018→8.4% in FY 2019 (expected). The basis of this prediction lies in the successful expansion of existing businesses due to the "account strategy" toward the four major customer groups (strategy where certain staff members are chosen to be in charge of focused sales activity), as well as in the successful acquisition of new customers and large-scale projects as a result of its continued sales efforts. As for sales forecast by industry type, business toward the finance industry was more difficult than expected at the beginning of the fiscal year since the bank consolidation projects, etc., had been wrapped up, so the forecast was revised down by Y250 million from Y4,850 million to Y4,600 million (+0.8% YOY). On the other hand, since business with the manufacturing industry was great, sales for the "other" category was revised up by the same amount from Y4,050 million to Y4,300 million (+25.6% YOY). In sum, the overall forecast for sales has not changed (Figure 27).

The profits (operating, recurring, and net) are expected to increase again and hit record-highs. The Company aims to achieve greater than Y1 billion in both operating and recurring profit for the first time. Profit margins and profits are expected to improve due to increased sales as well as improved productivity and the gradual shift from a business model based on staff-times-month calculation per project to a service-providing business model (switching to contracts paid as service fee, expansion of the consulting business, etc.).

[Figure 27] Predicted Contributions to Sales Increase in FY 2019 (this fiscal year) (the Company's plan) (unit: Y100 mil)



(Ref) Prepared by Alpha-Win Research Dept. based on an excerpt from the FY 2018 Q2 financial results briefing material. A = actual value. P = planned value.

- **In H1 of this FY, sales were mostly as planned at the beginning of the FY, and profit slightly exceeded the plan.**

In the first half (H1) of FY 2019, sales were Y6,852 million (+5.6% YOY), operating profit was Y358 million (+17.3% YOY), recurring profit was Y376 million (+23.0% YOY), and net profit was Y225 million (+24.8% YOY). Compared to the initial targets set at the beginning of the fiscal year, sales were slightly lower by Y20 million (-0.3% compared to the plan), but each of the profits exceeded their targets by Y52 million (+17.1%), Y71 million (+23.2%), and Y30 million (+15.6%), respectively. Overall, these results indicate that performance in H1 was great (Figure 28). By industry type, sales toward the finance industry decreased by 11.4% YOY due to the shrinkage of business toward banks and life insurance companies, and sales for the distribution industry also decreased by 8.1% YOY with reduced business for supermarkets. These decreases were offset by the 42.7% YOY increase in sales for the "other" industries, boosted by success in the Cloud consulting business and business toward manufacturers (construction machinery, food manufacture, etc.). Overall gross profit also increased by Y68 million YOY, as the Y93 million drop caused by the finance industry was offset by the Y142 million rise for the "other" industries. Gross margin stayed about the same – 16.4% in H1 of last fiscal year to 16.5% in H1 of this fiscal year – due to increased productivity. During the same period, SG&A expenses slightly decreased from 11.7% to 11.3%, and operating margin improved by 0.5 point from 4.7% to 5.2%.

- **To achieve the full-year targets, sales must increase by 11.0% YOY and O.P. must increase by 18.6% YOY in H2.**

In order to achieve the full-year target for financial results, the Company must attain Y7,847 million in sales (+11.0% YOY), Y652 million in operating profit (+18.6% YOY), Y633 million in recurring profit (+7.9% YOY), and Y415 million in net profit (+7.2% YOY) during the second half (H2).

On a consolidated basis, over the past 17 years, the average ratio of the Company's results in H1 to H2 had been 48.2-to-51.8 for sales and 44.7-to-55.3 for operating profit. Similarly, the average operating margin for the same period had been 6.7% for H1 and 7.7% for H2, with the H2 being about one point higher (see Figure 29 for recent transitions in half-year operating margins). This may be explained by the fact that many projects are completed in March, such that H2 sales is on average 7.7% greater than H1; H2 is more profitable. In addition to this seasonal factor in sales, H1 bears more cost such as recruitment expense and upfront investments including R&D expenses. Due to this early incurrence of cost, H2 tends to contribute more toward the full-year profit. The reliance on H2 is especially high for this fiscal year, as the H1-to-H2 balance is 46.6-to-53.4 for sales and 35.5-to-64.5 for operating profit. The Company plans to increase H2 sales by 14.5% compared to H1 and increase H2 operating margin to 8.3% from 5.2% in H1 (4.7% and 7.8% for last fiscal year's H1 and H2, respectively). It plans to strengthen the enhancement business, benefit from new service businesses and large-scale projects, and improve productivity.

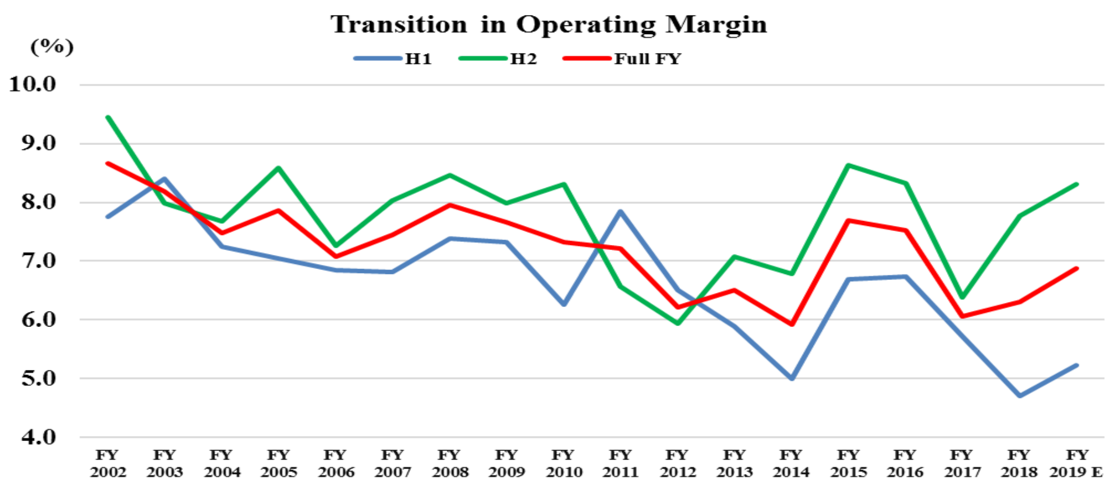
As for the order backlog, the value as of the end of September 2018 was Y3,833 million, Y162 million higher (+4.5%) than last year. The Company seems to be expecting more contracts and product deliveries during the rest of the fiscal year.

[Figure 28] Comparison of Performance in H1 and H2 (this FY's H2 values are the Company's planned values)

Last Full FY (FY2018)	Last FY's H1	Last FY's H2	Unit: Y mil	This FY's H1: initial plan	This FY's H1: Actual	Diff.	% Diff.	YOY Change, %	Progress Rate (vs. init. plan), %	H2 Target	YOY Change, %	Full FY Est. (FY2019)
13,559	6,487	7,072	Sales	6,873	6,853	-20	-0.3%	5.6	46.6%	7,847	11.0	14,700
2,344	1,063	1,281	Gross Profit		1,131							
17.3%	16.4%	18.1%	Gross Margin		16.5%			0.1pt				
1,489	757	732	SG&A Expense		773							
11.0%	11.7%	10.4%	SG&A/sales ratio		11.3%			-0.4pt				
855	306	549	O.P.	306	358	52	17.1%	17.3	35.5%	652	18.6	1,010
6.3%	4.7%	7.8%	O.P. Margin	4.5%	5.2%		0.7 pt	0.5 pt		8.3%	0.5 pt	6.9%
893	306	587	R.P.	306	377	71	23.2%	23.0	37.3%	633	7.9	1,010
567	181	387	N.P.	195	225	30	15.6%	24.8	35.2%	415	7.2	640
Sales ratio: H2/H1		9.0%						Sales ratio: H2/H1		14.5%		

(Ref) Figures 28 and 29 were prepared by Alpha-Win Research Dept. based on the financial results briefing materials, and financial results summary

[Figure 29] Half-Year Transitions in Operating Profit (this FY's H2 values are the Company's planned values) (unit: %)



8. Growth Strategy

◆ Medium- to Long-Term Management Vision "VISION 2020"

◆ **Declared to expand its service lineup in the medium-term management plan**

The Company has established the medium- to long-term management vision "VISION 2020" for FY 2012 to 2020 (Figure 30). This target span is divided into three strategy steps. The Company is currently in the final stage – the 3rd STEP (the three years from FY 2019 to FY 2021). The 1st STEP focused on the enhancement of "Strength," and the 2nd STEP pushed forward the creation of new SI businesses. The goal of the 3rd STEP is to "maximize customer value by contributing to the growth of the customers' businesses through the expansion of service-type and SI business, creation of a new service lineup, and development of service businesses" (details are shown on Figure 30).

[Figure 30] Summary of the Medium- to Long-Term Management Vision "VISION 2020": Contents of the 3rd STEP

1. Domestic Business / Overseas Business

Stronger Earnings Base with a new business model
Business development in **Growth Fields** using its advantages
Global business development focused around Asia

2. New Businesses Dev. / Technology Investment

Active Engagement in **Technology Investment** to **Create Services** that are optiumum - unique, innovative, and high in added-value

3. Business Foundation

Raise customer satisfaction through **Innovation in Business Processes**
Promote growth through **Improvement of Governance System**

(Ref) Prepared by Alpha-Win Research Dept. based on an excerpt from the financial results briefing material

◆ Management Indicator Goals and Areas of Focus

◆ **Of the four management indicator goals, the one for ROE has been achieved.**

The following are the Company's long-term management indicator goals for the entire group. Currently, all but the ROE has not yet been achieved. The Company plans to improve its productivity and profitability by streamlining its operation and reinforcing training/education.

- ROE: greater than or equal to 10% (was approx. 11.4% in FY 2018)
- Consolidated operating margin: greater than or equal to 10% (6.3% in FY 2018)
- Consolidated sales per domestic employee (excluding employees of overseas subsidiaries): greater than or equal to Y25 million (Y22 million in FY 2018; achievement rate = 88.6%)
- Consolidated operating profit for the same condition as above: Y2.5 million (Y1.4 million in FY 2018; achievement rate = 55.9%)

The Company has disclosed its forecast for medium-term financial results up to FY 2021. As its goals, the Company aims to increase sales by approx. 10% per year and largely increase profit by 30% per year (Figure 31, 32). The Company has also disclosed its sales goals for each of its three business segments – existing businesses, growth field, and new businesses. Sales of its existing businesses are expected to annually increase by 9.8%; its growth field is expected to increase sales by 6% YOY in FY 2020 and 20% YOY in FY 2021; and sales for the new businesses are expected to annually increase by about 30%. Operating profit is predicted to increase by at least one point every year, eventually rising to about 10%, the Company's current goal, by the final year of the plan.

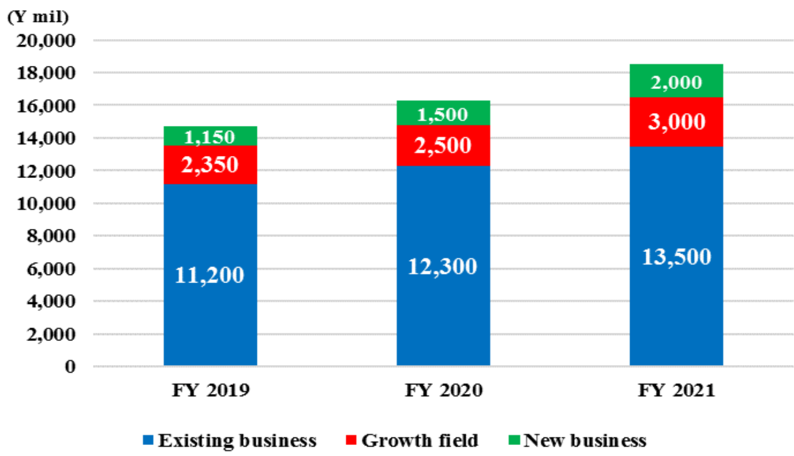
- **In the medium-term plan, the Company aims for consecutive increases in sales and profits, new record-highs, and sales of Y18.5 bil, O.P. margin of 9.6%, and ROE of 13% by FY 2021, the final fiscal year of the plan.**

[Figure 31] Medium-Term Plan from FY 2019 (this fiscal year) Onward

	FY 2018	FY 2019	FY 2020	FY 2021
Unit: Y mil, %	Actual	Plan	Plan	Plan
Sales	13,559	14,700	16,300	18,500
Growth Rate	5.1%	8.4%	10.9%	13.5%
Operating Profit	855	1,010	1,323	1,776
O.P. Margin	6.3%	6.9%	8.1%	9.6%
ROE	11.4%	12.0%	13.0%	13.0%

(Ref) Prepared by Alpha-Win Research Dept. based financial results briefing material

[Figure 32] Sales Breakdown in the Medium-Term (Company) Plan



(Ref) Prepared by Alpha-Win Research Dept. based on the FY 2019 Q3 financial results briefing material

◆ Alpha-Win Research Dept.'s Financial Results Forecast for FY 2019 (this fiscal year)

Alpha-Win Research Department has prepared a comprehensive forecast for the Company's financial results, shown on Figure 33. We made a slightly more conservative prediction for this fiscal year's sales (Y14,600 million) compared to the Company's prediction (Y14,700 million), but our predictions for operating profit and all earnings figures that follow are mostly similar to the Company's.

- **This fiscal year, the reliance on H2 is high. The plan is somewhat aggressive, but should be within an achievable range with regards to the goals for increasing sales/profits and achieving record-high profits for the full year.**

The Company's forecast for sales and profits of H2 of FY 2019 (this fiscal year) seems to be on the somewhat high side. However, the full-year goals should be mostly achievable when taken into consideration the improved profit margins in H1 and expectations for more orders and product deliveries and increased productivity in H2. While delivery schedules and overall project management may affect the result, we currently believe that the actual profits should not end up being too far below the target values unless the Company experiences an unexpected large deficit in a project.

We have made evaluation that increases and record-highs in sales and profits may be achievable, although they may not be entirely on the mark.

We believe that the Company will keep its dividend at Y16, as the Company predicts, since there is not much room for revision for the EPS prediction and since the Company has a stable dividend policy with a target dividend level.

[Figure 33] Alpha-Win's Forecast on Financial Results for This Fiscal Year and Over the Medium Term

Unit: Y mil, %	FY 2018 Actual	FY 2018 CE	FY 2019 E	FY 2020 E	FY 2021 E
Sales	13,559	14,700	*14,600*	*15,800*	*17,300*
Gross Profit	2,344		*2,540*	*2,800*	*3,100*
Gross Margin	17.3%		*17.4%*	*17.7%*	*17.9%*
SG&A Expense	1,489		*1,540*	*1,650*	*1,760*
(% of sales)	11.0%		*10.5%*	*10.4%*	*10.2%*
Operating Profit	855	1,010	*1,000*	*1,150*	*1,340*
(% of sales)	6.3%	6.9%	*6.8%*	*7.3%*	*7.7%*
Recurring Profit	893	1,010	*1,000*	*1,150*	*1,340*
(% of sales)	6.6%	6.9%	*6.8%*	*7.3%*	*7.7%*
Net Profit	567	640	*635*	*730*	*851*
(% of sales)	4.2%	4.4%	*4.3%*	*4.6%*	*4.9%*

Sales (% YOY growth)	5.1%	8.4%	*7.7%*	*8.2%*	*9.5%*
Gross Margin (% YOY diff.)	1.9%		*0.1%*	*0.3%*	*0.2%*
SG&A Expense (% growth)	23.6%		*3.4%*	*7.1%*	*6.7%*
Operating Profit (% growth)	9.5%	18.1%	*17.0%*	*15.0%*	*16.5%*
Recurring Profit (% growth)	10.0%	13.1%	*12.1%*	*15.0%*	*16.5%*
Net Profit (% growth)	2.8%	12.9%	*12.0%*	*15.0%*	*16.5%*

(Ref) Figures 33 and 34 were prepared by Alpha-Win Research Dept. based on the securities report, financial results summary, and financial results briefing materials

[Figure 34] Historical Comparison of Initial Forecast (the Company's) with Actual Result for Consolidated Financial Results

Consolidated	Sales		Operating Profit		Recurring Profit		Net Profit Attributable to Owners of the Parent (N.P.)		Sales	O.P.	R.P.	N.P.	Sales	O.P.	R.P.	N.P.
Unit: Y mil	*Initial Forecast*	Actual	*Initial Forecast*	Actual	*Initial Forecast*	Actual	*Initial Forecast*	Actual	% Diff. from Initial Forecast				Actual YOY % Change			
FY 2001	-	4,806	-	-	-	387	-	-	-	-	-	-	-	-	-	-
FY 2002	-	5,598	-	485	-	445	-	246	-	-	-	-	16.5%	-	15.0%	-
FY 2003	-	6,244	-	511	-	432	-	235	-	-	-	-	11.5%	5.4%	-2.9%	-4.4%
FY 2004	*6,900*	6,575	-	491	*522*	500	*284*	280	-4.7%	-	-4.3%	-1.5%	5.3%	-3.9%	15.7%	18.9%
FY 2005	*7,000*	7,100	-	558	*532*	551	*287*	315	1.4%	-	3.5%	9.7%	8.0%	13.6%	10.2%	12.5%
FY 2006	*7,800*	7,767	-	549	*600*	551	*340*	312	-0.4%	-	-8.2%	-8.3%	9.4%	-1.6%	0.0%	-1.0%
FY 2007	*8,300*	7,923	-	590	*570*	584	*330*	324	-4.5%	-	2.4%	-1.8%	2.0%	7.4%	5.9%	3.9%
FY 2008	*8,300*	8,109	*605*	645	*610*	643	*336*	342	-2.3%	6.6%	5.4%	1.9%	2.3%	9.4%	10.2%	5.7%
FY 2009	*8,500*	8,507	*680*	652	*685*	597	*350*	308	0.1%	-4.1%	-12.8%	-12.1%	4.9%	1.1%	-7.1%	-10.1%
FY 2010	*8,800*	8,706	*660*	637	*670*	660	*350*	349	-1.1%	-3.5%	-1.5%	-0.3%	2.3%	-2.3%	10.6%	13.4%
FY 2011	*9,200*	9,166	*675*	662	*680*	672	*263*	208	-0.4%	-1.9%	-1.2%	-20.9%	5.3%	4.0%	1.8%	-40.4%
FY 2012	*9,300*	8,431	*665*	524	*675*	533	*350*	118	-9.3%	-21.2%	-21.0%	-66.4%	-8.0%	-20.9%	-20.7%	-43.4%
FY 2013	*9,000*	9,242	*620*	601	*630*	606	*350*	338	2.7%	-3.1%	-3.8%	-3.5%	9.6%	14.8%	13.7%	186.7%
FY 2014	*10,000*	11,217	*700*	665	*700*	702	*380*	387	12.2%	-5.0%	0.3%	1.7%	21.4%	10.6%	15.8%	14.5%
FY 2015	*12,000*	12,527	*840*	964	*840*	981	*480*	594	4.4%	14.8%	16.7%	23.8%	11.7%	45.0%	39.7%	53.7%
FY 2016	*13,000*	12,623	*1,000*	949	*1,020*	960	*600*	629	-2.9%	-5.1%	-5.9%	4.8%	0.8%	-1.6%	-2.1%	5.9%
FY 2017	*14,000*	12,899	*920*	781	*940*	811	*450*	551	-7.9%	-15.1%	-13.7%	22.4%	2.2%	-17.7%	-15.5%	-12.4%
FY 2018	*14,300*	13,559	*1,060*	855	*1,080*	893	*650*	567	-5.2%	-19.3%	-17.3%	-12.8%	5.1%	9.5%	10.1%	2.9%
Simple ave. % diff. (unit: %), calc. from longest period with data on both sales and profits→									-1.2%	-5.2%	-4.1%	-4.2%	6.5%	4.5%	5.9%	12.9%
Green highlight: record-high value		Number of times revised up:down from init. forecast →							5 :10	2 :9	5 :10	6 :9	↑ Simple average for each FY			

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

◆ **Average differences between the past 15 years' initial forecasts and actual results are generally small.**

As a reference, the differences between the Company's initial forecast and the actual results for the past 15 years have been analyzed and are shown on Figure 34. Regarding the simple-average values during this period, actual sales were 1.2% below the initial forecast and both operating and recurring profits were 4 to 5% below the forecast. However, neither profit was ever more than 30% lower than the forecast. This company normally announces generally realistic forecast values, so the forecast and the actual result should not greatly diverge from one another unless there is a drastic change in the business environment.

◆ Alpha-Win Research Dept.'s Financial Results Forecast for the Medium Term

◆ **Alpha-Win Research Dept. predicts that in addition to the existing businesses, the new businesses will make a contribution to growth, such that the annual profit growth rate over the medium term will be about 10%.**

Alpha-Win Research Department has made a prediction on the financial results for the three fiscal years up to FY 2021 (Figure 33 shown on a previous page). We predict that, for the mean time, sales and profits may increase by about 10% per year due to the following reasons.

Factors and assumptions for predicting increased sales

・Development of the enhancement business with the major customers based on the technological expertise and trust that the Company has built up over the years

・Strengthening and development of the capacity to complete large-scale projects

・Acquisition of new customers (acquire customers in the "other" industries such as manufacturers)

・Development of new businesses and new business fields – specifically, energy-related, consulting, and new solutions (Cloud, blockchain, etc.) businesses

・Overseas development (mainly toward overseas Japanese companies)

Factors and assumptions for predicting increased profit

・Gross margin is expected to gradually improve due to various measures (transition to service-based contracts, improved productivity, reviewing subcontracting cost, etc.)

・General and administrative expenses predicted to annually increase at a somewhat high rate (6 to 7%) due to continued upfront investments for future growth such as reinforcement of business foundation (HR and organization), new technology research, and business research

・Final annual operating margin expected to improve by 0.4 to 0.5 point

・No expectation for extraordinary profit or loss

Compared to the Company's medium-term target values, our predictions are conservative. We have made this prediction in consideration of the risk factors below. However, although the Company's planned target values are high, we believe that if its measures are carried out and the conditions are just right, they are within an achievable range.

・For the macroeconomic environment, we anticipate an economic downturn and decline in the performance of companies after the consumption tax rate is raised as planned in Oct. 2019 and after the Tokyo Olympics in July to August of 2020.

・Currently, we cannot expect what will happen to technological advancements, conditions and trends of the Company's main users' industries, M&A strategy, cost increase rate, recruitment, etc., in the future.

9. Analyst's View

◆ SWOT Analysis

The Company's SWOT analysis result is shown on Figure 35.

[Figure 35] SWOT Analysis

Strength	.Long history in the industry and extensive experience .Stable and excellent customer base .Technological expertise / unique know-how / knowledgeable staff / organization (business type / project management) .Entry barrier actually high; business with high continuity .Firm financial standing .Consulting-based sales through direct sales activity; enhancement .Low-cost development system using overseas subsidiaries
Weakness	.Relies heavily on certain customers .Needs to secure and acquire more talented personnel .Industry structure where profit margin is hard to improve .Takes a long time for next-generation growth products and services to gain momentum .Domestically oriented; overseas development difficult
Opportunity	.Increased demand for systems due to HR deficit and the need to streamline operation .New products, new services, and technology innovations leading to increased demand for systems .Upstream processes, niche areas, and shifting to large-scale dev. projects; reinforce enhancement business .Business expansion following the global entry of customers .Strengthening of alliance
Threat	.Reduced IT investment, less demand for renewed contract, and intensified price competition during recession .Emergence of alternatives (popularization of AI or packaged software for business use), lagged product development, and product defects .Risk of loss in project management .Information management and leakage risks .Increased personnel expense and subcontracting cost

(Ref) Prepared by Alpha-Win Research Dept.

- **Many years' worth of trust, track record, and technological expertise are its strengths. Acquisition of talented employees is the bottleneck to further growth.**

Describing the strengths listed in Figure 35 in more detail, the Company has high business continuity and stability because of its excellent customer base owing to its long years of business during which it had built its trust and technological expertise. Moreover, the Company's strength lies in the fact that it is in a market position close to the end user, such that it can propose related or derived systems to customers and obtain new development and service jobs (enhancement).

On the other hand, looking at its weaknesses in more detail, for the Company's industry sector in general, profit margins do not change or slightly decrease over the long term, and profits tend to not increase without an increase in sales. New business domain development and new customer acquisition are necessary to raise sales, but HR deficit especially for project managers is creating a bottleneck to further growth. Due to the nature of the system integration business, since there are only limited ways to improve productivity or largely reduce cost, fundamental improvements in the profit margins would take a long time.

◆ Shareholder Return and Shareholder Benefit Program

◆ **Actual annual (maximum) yield including the shareholder benefit plan is about 2.7%.**

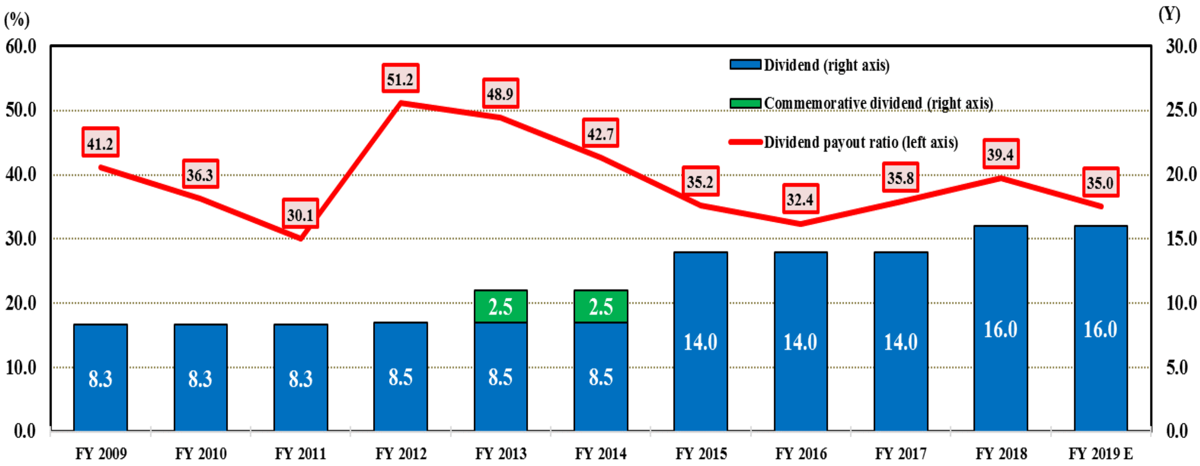
The Company believes that it can raise shareholder asset value by improving its financial results in order to conduct stable dividend payments and increase market capitalization. So far, it has been actively engaged in improving shareholder return through incremental dividend raises, share buyback, stock splits, shareholder benefit plan, etc.

While the Company's goal for consolidated dividend payout ratio is 35%, the actual ratio in FY 2018 was 39.4% and the ratio for FY 2019 is expected (by the Company) to be 34.9%, both exceeding the goal. The Company has just raised its dividend from Y14 to Y16 in FY 2018, so it will likely keep the dividend at Y16 per year as planned for this fiscal year (Figure 36). Over the medium term, since a double-digit growth in profit is expected, an incremental rise in dividend should be possible.

Dividend yield is 2.1% when calculated based on a stock price of Y771 (closing price as of the end of Nov. 2018). The Company conducts IR activities toward individual investors, one of its major types of shareholders. It also has a shareholder benefit plan where JCB Gift Cards are given to shareholders based on the number of shares that they own (Figure 37). When this benefit plan is taken into account, the actual dividend yield increases to approx. 2.7% max (for the optimum amount of shares owned). The Company plans to continue to maintain its stable dividend payment and raise the EPS to enhance shareholder return. Under the same conditions, the actual annual yields of its competitors are approx. 2.8% for HIMACS (no shareholder benefit plan) and approx. 2.8% for Toho System (shareholder benefit plan taken into account).

Since becoming listed on the market, the Company has performed a total of six stock-splits, including a 1-to-2 split in April 2010, a 1-to-1.5 split in April 2011, and a 1-to-2 split in October 2014. It has also conducted five share buybacks, acquiring approx. Y350 million of shares in total (acquisition price at the time of acquisition). Since the Company has a great financial standing and has essentially not debt, we should also keep an eye out for additional share buybacks in the future.

[Figure 36] Change in Dividend and Dividend Payout Ratio



(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and financial results briefing materials

[Figure 37] Shareholder Benefit Program and Net Yield

Number of Shares Owned (greater than or equal to)	(less than)	Shareholder Benefit (JCB Gift Card: Y)	Dividend: Y	Net Yield: %
200	400	1,000	16	2.7
400	1,000	2,000	16	2.7
1,000		3,000	16	2.5

Actual net yield = (dividend + benefit value) / (stock price) : calc. for the min. amount of stock owned in each range
Stock price assumed to be at: Y771 (as of the end of Nov. 2018)

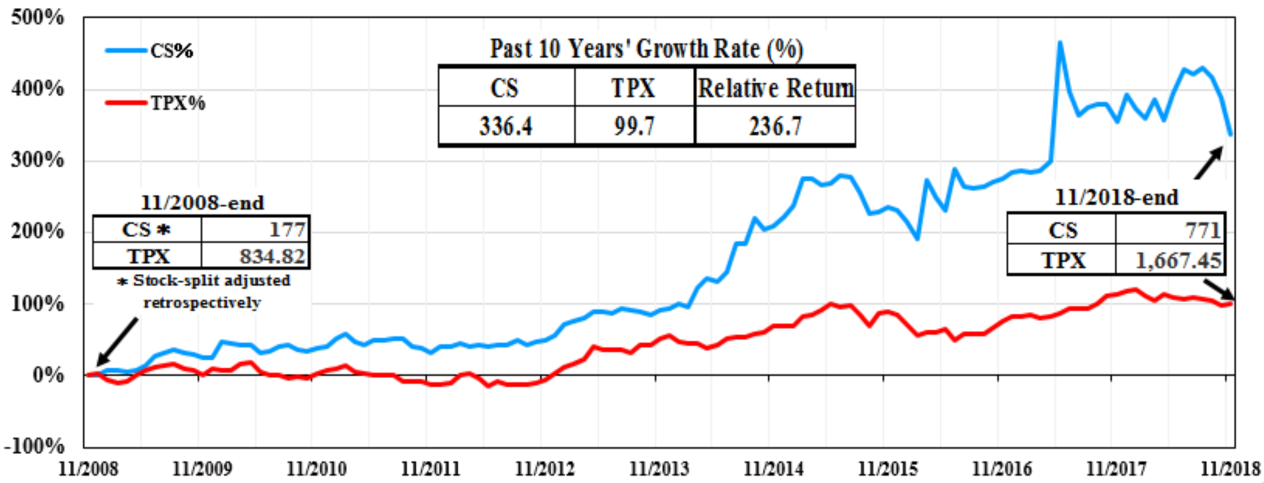
(Ref) Prepared by Alpha-Win Research Dept. based on the Company's website

◆ Stock Characteristics/Price and Factors that May Affect Stock Price

◆ **A defensive, domestically oriented growth stock. Stock price increased by approx. 4.4 times over the past ten years, largely outperforming the TOPIX.**

Over the past ten years, the Company's stock increased in value by approx. 4.4 times, largely outperforming the TOPIX by approx. 237% (stock splits taken into account; as of the end of Nov. 2018; Figure 38). This growth reflects the Company's strong fundamentals and firm growth in financial results over the long term. The Company is outperforming TOPIX this fiscal year as well; this may be reflecting how the Company is receiving appropriate recognition as a domestically oriented growth stock with firm financial results amidst the rising consumption tax, exchange rate fluctuations, trade war, and anticipation of a downturn in company performance leading to an increasingly volatile stock market.

[Figure 38] Long-Term Return on the Company's Stock (CS) and TOPIX (change in the past ten years' monthly stock prices)



Note: CS stock price and TOPIX at end of Nov. 2008 set at 0% as the start point

(Ref) Prepared by Alpha-Win Research Dept.

◆ **A low-beta stock that tends to have low volatility in financial results and stock price**

The Company's stock is characterized as defensive, being relatively low in volatility with respect to both financial results and stock price. Relative to TOPIX, its weekly β (beta) value for about the past three years has been low at approx. 0.74 (note, however, that since March 2017 the weekly β for the year has been increasing). This attribute of the Company may become highly regarded after consumption is raised or in the post-Olympic economic downturn.

◆ **Valuation is on the high side relative to the average of the 1st section of the TSE, but about average within its industry.**

The major valuation indicators of the Company were compared to the averages of the first section of TSE and the indicators of its competitors also listed in the first section. The Company's dividend yield is 2.1%, which is about average for the first section (the simple average is 1.8% and the weighted average is 2.2%). For P/E, the Company's P/E is approx. 16.8 (based on the Company's predicted EPS for FY 2019) while the section's average is approx. 14.1. The Company's P/B, which is 2.1, is also greater than the average, which is 1.2.

◆ **Based on valuation, the appropriate evaluation is reflected in the stock price. Going forward, we should keep an eye out for the rate of increase in sales and profits and development of new businesses.**

Compared to its competitors (4299 HIMACS and 4333 Toho System), the Company excels in most indicators and receives appropriate market evaluation (Figure 39). On the other hand, relative to a universe of the leading 22 SI companies listed in the first section of the TSE (including the Company), the Company's valuation is about average within the SI sector (Figures 40, 41, and 42). In fact, since premiums tend to be added to P/E, etc., for large companies (large by sales volume and market capitalization) in this sector (Figure 42), compared to major SI players, the Company's valuation is low. Alpha-Win Research Department predicts that if the Company's financial results improve and lead to higher market capitalization in the future, the valuation may jump up.

Going forward, we should keep note of the following factors or events that may affect stock price.

・Achievement rate of targets for this fiscal year (FY 2019) and business progress in next fiscal year (FY 2020) (sales growth rate, profit growth rate, and profit margins)

・Progress of growth strategy including expansion of business domain, M&A, and tie-ups

・Progress in increasing new customers

・Fully committed start of new-technology businesses such as blockchain, Cloud, AI, IoT, and agile development that are currently in the R&D or investment phase. The contribution of these businesses to sales and profit.

・Share buyback, dividend raise, stock split, and enhancement of shareholder benefit plan

[Figure 39] Comparison of Valuation Indicators, Beta, and Liquidity of Three Same-Business Companies

(Ref) Prepared by Alpha-Win Research Dept. based on the securities report and the financial results summary

Company Name	Cube System (CS: consolidated)	HIMACS (HM: consolidated)	Toho System Science (TS: non-consolidated)
Code	2335	4299	4333
Stock Price (at 11/30 closing)	771	1,811	905
Market Cap (Y mil)	11,781	11,240	12,549
P/E (price-to-earnings ratio)	16.8	13.0	16.0
P/B (price-to-book ratio)	2.1	1.2	1.7
Dividend Yield (%)	2.1	2.8	2.2
EV/EBITDA	9.8	6.5	6.3
P/S (price-to-sales ratio)	0.8	0.8	1.0
Weekly Beta for the Past 3 Years (β: vs.TOPIX)	0.74	0.77	0.70
Ave. Daily Traded Amount in Past 6 Months (Y mil)	46.5	8.3	9.9

Market cap= (shares outstanding) x (market share price [at 11/30/2018 closing])
EV/EBITDA=(market cap + interest bearing debt - cash&deposits)/(O.P. + depreciation + intangible fixed asset amortization)
PSR=market cap / sales [the Company's estimate for FY 2019]
The companies' planned EPS and dividend values for FY 2019 were used in all P/E and dividend yield calculations.

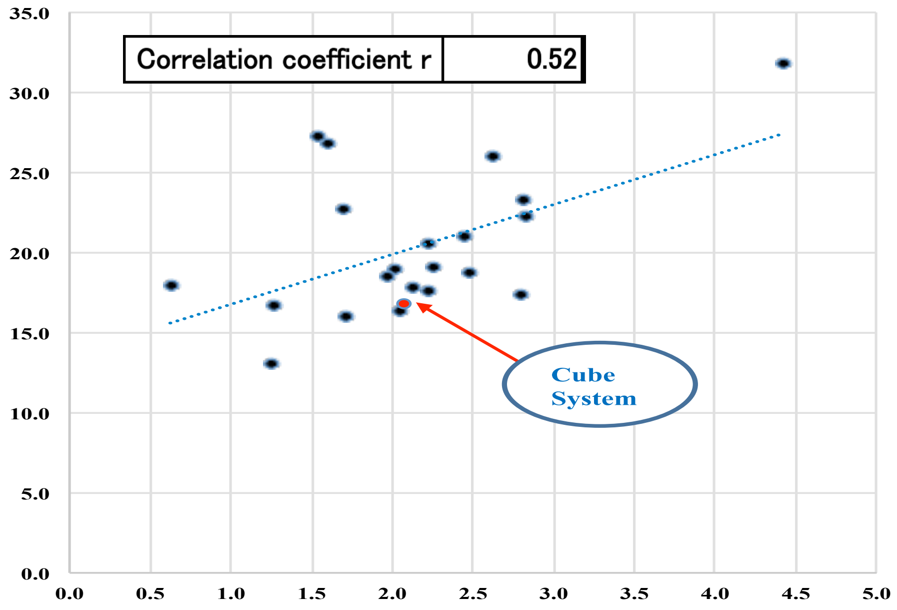
[Figure 40] Comparison of Valuation Indicators for Major Stocks in the Same Sector (major stocks whose performance forecast for this FY has been disclosed)

Code	Company Name	Market Cap.	Stock Price	Sales	O.P.	O.P. Margin	Actual ROE (%)	Est. P/E	Actual P/B	Est. Dividend Yield	Dividend	Est. EPS	Actual BPS	P/S
9613	NTT DATA	1,851,300	1,320	2,100,000	142,000	6.8%	7.1	20.6	2.2	1.3%	17.00	64.17	594.55	0.9
4307	Nomura Research Institute	1,252,531	4,985	510,000	70,000	13.7%	12.9	22.3	2.8	1.8%	90.00	223.77	1,760.58	2.5
4684	OBIC	977,076	9,810	71,000	35,000	49.3%	14.0	31.8	4.4	1.2%	115.00	308.04	2,219.15	13.8
4768	Otsuka Corporation	725,808	3,820	720,000	47,300	6.6%	15.7	22.7	1.7	1.9%	72.50	168.14	2,245.73	1.0
4739	Itochu Techno-Solutions	525,360	2,189	450,000	35,000	7.8%	11.8	21.1	2.4	2.2%	48.00	103.88	894.13	1.2
9719	SCSK	469,340	4,505	345,000	37,000	10.7%	18.2	18.7	2.5	2.2%	100.00	240.80	1,822.54	1.4
3626	TIS	460,014	5,240	414,000	35,000	8.5%	9.9	18.9	2.0	1.1%	60.00	276.56	2,602.07	1.1
2327	NS Solutions	317,477	2,895	295,000	18,000	6.1%	12.4	23.2	2.8	1.7%	50.00	124.60	1,026.72	1.1
8056	Nihon Unisys	307,318	3,245	258,000	24,000	9.3%	11.6	19.1	2.3	1.7%	55.00	169.63	1,441.29	1.2
9749	Fujisoft	173,218	5,140	187,000	10,000	5.3%	5.8	27.3	1.5	0.7%	36.00	188.53	3,340.35	0.9
4812	ISID	125,829	2,528	280,000	11,500	4.1%	7.6	16.7	1.3	3.0%	76.00	151.10	2,004.04	0.4
1973	NEC Networks & System Int.	125,149	3,840	88,000	7,000	8.0%	9.6	26.0	2.6	1.5%	56.00	147.56	1,466.16	1.4
9759	NSD	112,835	2,392	61,300	8,440	13.8%	12.1	17.6	2.2	2.4%	57.00	135.70	1,074.17	1.8
9682	DTS	103,158	4,090	87,000	8,700	10.0%	12.9	16.3	2.0	2.0%	80.00	250.73	2,003.23	1.2
9692	CEC	92,308	2,455	49,200	4,700	9.6%	10.2	26.8	1.6	1.6%	40.00	91.63	1,527.33	1.9
4674	CRESCO	46,200	3,850	35,500	3,280	9.2%	15.2	17.4	2.8	1.7%	64.00	220.84	1,379.38	1.3
9739	NIPPON SYSTEMWARE	36,863	2,474	35,000	3,000	8.6%	12.6	17.8	2.1	1.0%	25.00	138.96	1,161.97	1.1
9600	I-NET	27,108	1,669	26,700	2,190	8.2%	10.4	18.6	2.0	2.4%	40.00	89.94	849.55	1.0
4725	CAC Holdings	23,135	1,074	54,000	1,600	3.0%	3.8	18.0	0.6	3.5%	38.00	59.67	1,720.38	0.4
2335	Cube System	11,781	771	14,700	1,010	6.9%	11.4	16.8	2.1	2.1%	16.00	45.80	372.23	0.8
4333	Toho System	12,549	905	12,300	1,000	8.1%	9.8	16.0	1.7	2.2%	20.00	56.46	529.82	1.0
4299	HIMACS	11,239	1,811	14,700	1,000	6.8%	9.6	13.0	1.2	2.8%	50.00	138.93	1,455.14	0.8
Simple Average		362,110				10.0%	11.1	20.3	2.1	1.9%				1.7
Simple Average (excl. OBIC)						8.1%	11.0	19.8	2.0	1.9%				1.0

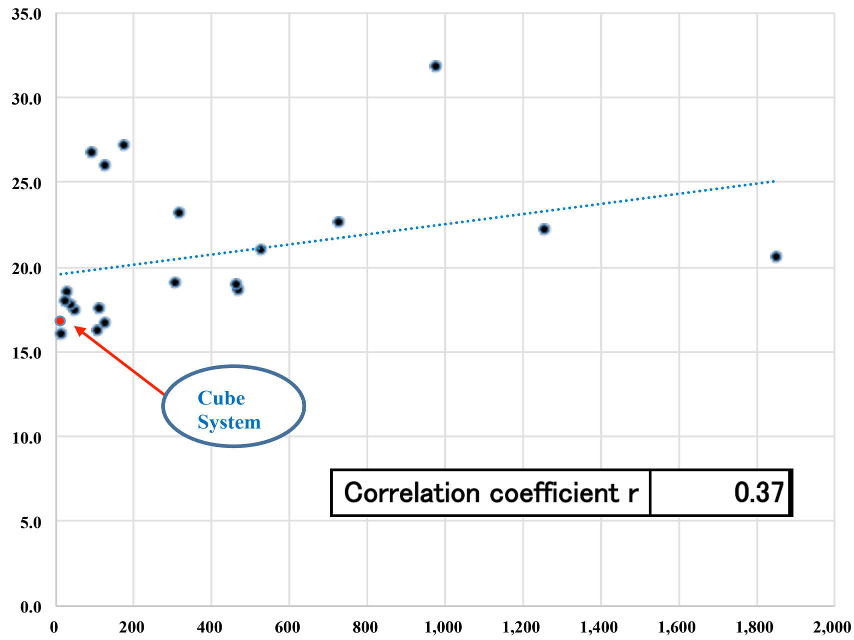
Note: Units for market cap., sales, and O.P.: Y mil
Units for stock price, dividend, est. EPS, and actual BPS: Y Units for P/E, P/B, and P/S: none
Stocks whose company disclosed estimates this FY and has no large extraordinary profit/loss this FY or last FY
Stock price is closing price of Nov. 30, 2018

(Ref) Figures 40 to 42 were prepared by Alpha-Win Research Dept. based on the securities report and financial results summary

[Figure 41] Valuation of Major Stocks in the Same Sector: Actual P/B (x-axis) vs. Predicted P/E (y-axis)



[Figure 42] Market Cap (x-axis: unit = Y bil) vs. Predicted P/E (y-axis) for Major Stocks in the Same Sector



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