

CyberStep, Inc.

Tokyo Stock Exchange Standard Market code:3810

2024/4/30

**Even primary schools students with no programming knowledge can create games. Aiming for 100 million MAU<sup>1</sup> with an innovative online game. Target stock price of JPY 914 as of July 2025.**

1: MAU (Monthly Active Users) stands for the number of monthly active users.

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J-Phoenix Research (JPR) that emphasizes three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Corporate value.

**There is a possibility of renewing the highest market capitalization**

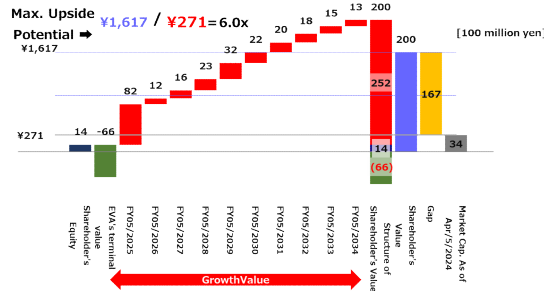
CyberStep, Inc. (CS) has been committed to "Creating things that do not exist in the world", focusing on (1) Innovation, (2) Accessibility, and (3) Community formation in gaming. The first success "GetAmped", released in 2002, which adopted a Free-to-play (F2P) model. By incorporating an innovative model of item sales into online games, CS acquired 20 million users worldwide and surpassed a market capitalization of JPY 18 billion in 2006. The second is the crane game app "Toreba", released in 2010, which can be enjoyed fully 24/7 from anywhere. CS exceeded a market capitalization of 50 billion yen in 2017. The third is the sandbox game "TERAVIT", released in 2023, which allows even elementary school students without programming knowledge to create games. Global sandbox games have achieved over 100 million MAU. Roblox (<https://finance.yahoo.co.jp/quote/RBLX>), has a market capitalization of JPY 3 trillion. CS aims to achieve 100 million MAU in the long term.

**CyberStep, Inc. realizes sustainable growth in sales, profit, and stock prices**

CS faces challenges with the sustainability of profitability. CS could not achieve growth equivalent to the created market size in terms of sales and profits due to the entry of similar products and the pursuit of expanding immature businesses. CS promotes the following measures to overcome these challenges: (1) CS will advance business alliances aimed at expanding Toreba's domestic and overseas markets and enhance procurement of prizes to improve profits. (2) CS will increase user numbers through collaborations with broadcasters/streamers on TERAVIT. (3) By forming business alliances with partners who have promising content IPs, CS will enrich Toreba's prizes and conduct content sales. Additionally, our hearings have led to the expectation of benefits: (1) A significant reduction in personnel costs, outsourcing fees, and warehouse rents of approximately 100 million yen per quarter. (2) An expansion of Toreba sales through exclusive limited prizes supported by partner companies. (3) An increase in sales from the sale of original games collaborated with broadcasters. (4) Digitalization of tourist areas in collaboration with Japan's leading tourist associations within the TERAVIT game space. (5) Conclusion of large contracts with overseas partner companies. (6) The NASDAQ listing of its subsidiary BloomZ Inc. We can expect a sudden move to profitability on a monthly basis and possibly for the full term. In addition, CS is considering enhancing the system for creating value in intellectual property and strengthening IR system.

**The stock price incorporating the growth value in five years is JPY 914.**

The following chart shows the structure of shareholder value calculated backwards based on the assumption that 40% of the company's record market capitalization of 20 billion yen will be achieved through various short-term measures, long-term recovery of Toreba sales, and the success of TERAVIT. Assuming that the assumptions described in the Investment Summary are realized, shareholder value was estimated using the "excess profit method" (see "Appendix 2.") based on the GCC Management™ framework. As a result, after taking into account the dilution from the third-party allotment, the share price was estimated to be 914 yen for a 5-year growth value and 1,617 yen for a 10-year growth value. 914 yen is targeted around mid-July 2025, when the full-year results from the five measures are available.



[Based on the data from FactSet, Nikkei Needs. Company Disclosure. At the end of Apr./05,2024]

**Basic Report**

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**Company Overview**

Location of Head Office	Suginami-ku, Tokyo
Representative	Rui Sato
Date of Establishment	2000/4/1
Paid-in Capital	3,451 million JPY
Date of Listing	2006/7/5
URL	<a href="https://corp.cyberstep.com/">https://corp.cyberstep.com/</a>
Type of Business	Information and Communications

**Key Indicators As of April 16, 2024**

Stock Price	252 JPY
52-Week High	934 JPY
52-Week Low	238 JPY
Number of Shares Outstanding	12,381,482 stocks
Trading Unit	100 stocks
Market Capitalization	3,120 million JPY
Company Projected Dividend	Not Published
Estimated Net Income Base EPS	Not Published
Forecast PER	-
Actual BPS (May 31, 2023)	216.66 JPY
Actual PBR	1.16 Times

1: Value obtained by adding the number of shares to be issued on /27-29 to the TSE Feb 2024 data. 2: Calculated as 1 value x share price.

Performance Trends	Sales (JPY 1 mil)	YoY %	Operating Income (JPY 1 mil)	YoY %	Ordinary Income (JPY 1 mil)	YoY %	Net Income (JPY 1 mil)	YoY %	EPS (JPY)	Stock Price	
										High Price	Low Price
Results for FY 5 2020	12,997	12.5	639	252.4	589	596.3	526	-	68.81	2,466	791
Results for FY 5 2021	12,193	-6.2	-812	-	-923	-	-1,156	-	-147.00	1,487	664
Results for FY 5 2022	7,416	-39.2	-1,353	-	-1,488	-	-2,097	-	-258.98	768	325
Results for FY 5 2023	4,057	-45.2	-1,158	-	-1,255	-	-1,380	-	-126.98	1,257	440
Results for 3Q FY 5, 2023	3,066	-47.6	-853	-	-868	-	-936	-	-87.10	1,257	440
Results for 3Q FY 5, 2024	2,252	-26.6	-1,221	-	-1,250	-	-1,179	-	-100.93	574	238
Plans for FY 5 2024	-	-	-	-	-	-	-	-	-	-	-

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# 1. Investment Summary

## Shareholder value analysis

### Estimation using the excess profit method

Share price of 914 yen to 1,617 yen with sustainable sales and profits.

CS's corporate value is analyzed from the perspective of "GCC Management™," which emphasizes the three elements of Growth (sales growth), Connection (improved connections between people and business = higher return on capital), and Confidence (improved trust = lower business risk). JPR believes that if the measures described on the top page are realized and the company's valuation improves, the share price will reach 914-1,617 yen. The estimate was calculated using the "excess profit method" (see "Appendix 2"). The following chart and the chart on the next page visualize the framework of the qualitative and quantitative story and the results of the estimation. Assumptions are explained on the following pages.

### Shareholder Value Analysis(Unit: JPY 100 million)

## Qualitative Story Outline

**Growth: Create markets through innovative technology → Toward 100 Million MAU**

**Connection : Refine innovation → Strengthen management resources → Increase ROIC**

**Confidence : Sustainability + eliminating war from the world → WACC decline**

Creating markets with innovative technologies to "Creating things that do not exist in the world"



Overcoming Sustainability Growth Challenges by Leveraging External Management Resources



Innovative sandbox game for release in 2023



Collaboration with business companies and influencers with customer base, fans, and content



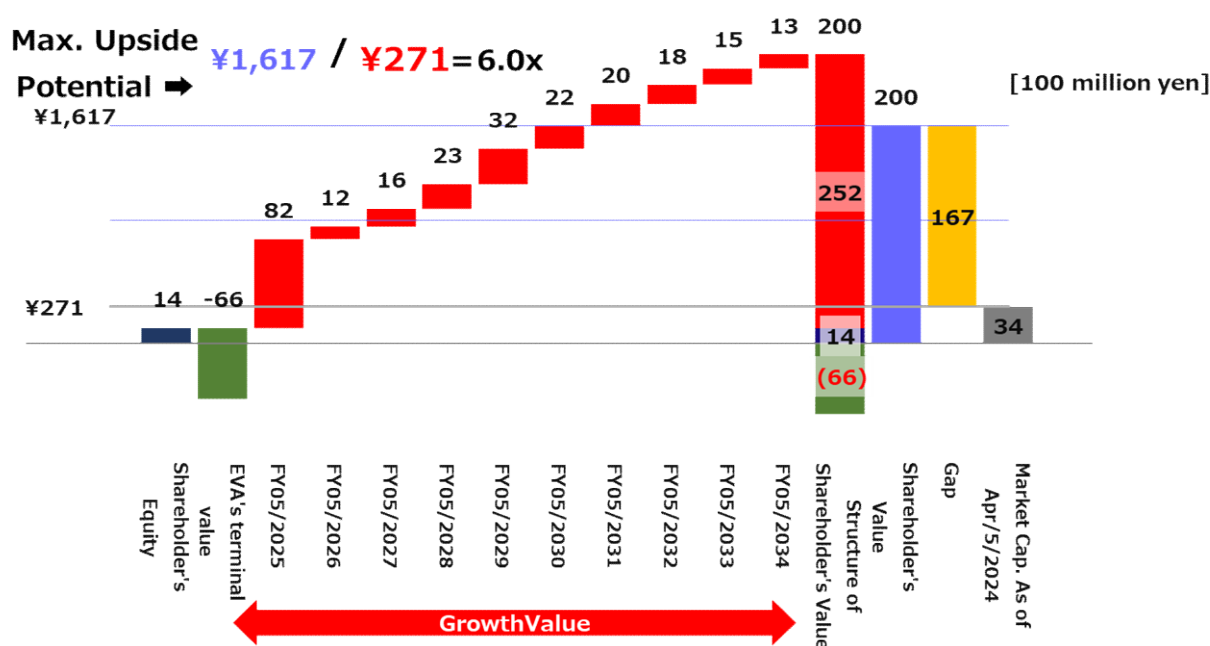
Expands to a diverse user base because anyone can produce



Aiming for sustainable development and 100 million MAUs in the long term

Source: Prepared by JPR based on company data.

## Excess value valuation of Quantum Solutions.



[Based on the data from FactSet, Nikkei Needs, Company Disclosure, At the end of Apr,05,2024]

[¥100mn]	Current Year	1 year later	2 years later	3 years later	4 years later	5 years later	6 years later	7 years later	8 years later	9 years later	10 years later
	2024.05	2025.05	2026.05	2027.05	2028.05	2029.05	2030.05	2031.05	2032.05	2033.05	2034.05
Sales	50.0	49.4	65.0	85.5	112.5	148.1	185.5	223.1	259.1	292.7	323.0
Operating income	-5.0	5.4	7.9	11.5	16.7	24.3	30.4	36.6	42.5	48.0	53.0
Operating margin	-10.0%	11.0%	12.2%	13.4%	14.9%	16.4%	16.4%	16.4%	16.4%	16.4%	16.4%
Sales growth rate	23.2%	-1.3%	31.6%	31.6%	31.6%	31.6%	25.3%	20.2%	16.2%	12.9%	10.4%
NOPAT margin	-6.9%	7.6%	8.4%	9.3%	10.3%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%
Invested capital turnover ratio	46.7%	46.7%	46.7%	46.7%	46.7%	46.7%	46.7%	46.7%	46.7%	46.7%	46.7%
WACC	8.2%	8.16259%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%
ROIC = NOPAT margin ÷ invested capital net sales ratio	-14.8%	16.3%	18.0%	19.9%	21.9%	24.2%	24.2%	24.2%	24.2%	24.2%	24.2%
ROIC / WACC (value created with the original hand of 1 ye	(¥1.8)	¥2.0	¥2.2	¥2.4	¥2.7	¥3.0	¥3.0	¥3.0	¥3.0	¥3.0	¥3.0
NOPAT	-3.45	3.75	5.46	7.93	11.53	16.77	21.01	25.26	29.34	33.14	36.57
Invested capital × WACC	1.91	1.88	2.48	3.26	4.29	5.65	7.07	8.51	9.88	11.16	12.32
EVA	-5.36	1.87	2.9798	4.67	7.24	11.12	13.93	16.75	19.46	21.98	24.26
EVA = NOPAT - invested capital × WACC	-5.36	1.87	2.98	4.67	7.24	11.12	13.93	16.75	19.46	21.98	24.26
Value created in each year	-66	89	14	21	31	48	34	35	33	31	28
Discount Rate	100%	92%	85%	79%	73%	68%	62%	58%	53%	49%	46%
Present value of EVA	-66	82	12	16	23	32	22	20	18	15	13
Invested capital ① Origin	23										
Over profit value (Permanent value of EVA of this term)	-66										
Growth value (Present value of increase in EVA) ③	252										
Non-business asset value ④	17										
Corporate value = ① + ② + ③ + ④	227										
Interest-bearing debt, etc.	-18										
Incremental stockholders' equity book value at the end of the immediately preceding quarter and at the end of the fiscal year	-8										
Shareholder value	200										

Source: Prepared by JPR based on company data.

**Three assumptions for qualitative information set for shareholder value estimation<sup>1</sup>**

**Growth: Create markets through innovative technology → Toward 100 Million MAU**

Values and Worldviews	Value provided Growth Potential	Sales
<p><b>"Creating things that do not exist in the world"</b></p> <p>CS aims to eliminate war from the world and focuses on connecting people through interactive, real-time entertainment using innovative technology. CS's management policy is to focus on developing core technologies in-house and to continually innovate. CS also offers an open game world, creating an environment in which users can freely participate and contribute.</p>	<p><b>Contributing to the development of the gaming field</b></p> <p>CS focuses on developing games that are enjoyable for a broad audience, aligning with the president's principle of accessibility. CS's approach involves creating sustainable revenue models for developers and enhancing the gaming experience for players, which contributes to higher game quality. CS aims to attract 100 million monthly active users (MAUs) through innovative sandbox games.</p>	<p><b>Expected f 5% CAGR</b></p> <p>2024.5      2034.5</p> <p><b>5.0 Billion Yen</b> ▶ <b>32.3 Billion Yen</b></p> <p>For growth aiming for 100 million MAU</p> <p><b>Total growth value over 10 years</b></p> <p><b>25.2 Billion Yen</b></p>

**Connection : Refine innovation → Strengthen management resources → Increase ROIC**

Strategy	Business Model	ROIC
<p><b>Overcoming Challenges to Large-Scale Expansion</b></p> <p>CS has experienced initial success in launching new services but has encountered difficulties in scaling up. To address this, it plans to develop a strategy for sustainable growth by enhancing its sales team, forming stronger business alliances, and maintaining close relationships with funding partners. Additionally, CS aims to bolster its intellectual property efforts to protect its unique technology and content, thereby increasing its competitiveness.</p>	<p><b>Creating the game platform itself</b></p> <p>Creating games by anyone without programming knowledge will generate numerous contents, and pursuing the possibility of rapid expansion through double game growth, collaboration with companies and influencers with solid customer bases and contents, and word-of-mouth. In addition, CS aims for growth with sustainable ROIC improvement by strengthening intellectual property strategy, management with awareness of cost of capital, and IR.</p>	<p><b>Turned profitable and improvement expected</b></p> <p>2024.5      2034.5</p> <p><b>-14.8 %</b> ▶ <b>24.2 %</b></p> <p>Profitability increased due to the effect of scale expansion</p> <p><b>Excess profit value for this period</b></p> <p><b>-6.6 Billion Yen</b></p>

**Confidence : Sustainability + eliminating war from the world → WACC decline**

Financial Stability	+	Social Contribution	=	WACC
<p><b>Maximizing and Stabilizing the Value of Main Businesses</b></p> <p>CS has successfully created new markets but has struggled to enhance its market value, impacting sales and stock prices. To combat these challenges, CS has formulated a growth strategy focused on increasing scale and expanding its intellectual property through partnerships that offer promising content and a solid customer base. Additionally, CS has reinforced its governance by enhancing the roles of outside directors and advisors to effectively implement this strategy.</p>		<p><b>Contributing to Society through Games</b></p> <p>CS aims to connect people around the world and eliminate war from the world through innovative digital entertainment. In particular, CS focuses on real-time and interactive entertainment development, providing shared experiences that transcend cultural and language barriers, and pursuing social contribution and customer satisfaction. As a result, the company is also committed to environmental protection by going paperless and reducing electricity consumption.</p>		<p><b>Maintain the status quo</b></p> <p><b>8.2 %</b></p> <p>Consider stabilizing scale expansion</p> <p><b>Shareholders' equity<sup>2</sup></b></p> <p><b>1.4 Billion Yen</b></p>

<sup>1</sup>Estimates are independently forecasted by JPR based on the company plan subsequent to the company hearing. <sup>2</sup>The figures as of the end of November 2023 include the scheduled fundraising amount from the stock issuance on February 27-29.

## Overview

### Overview

Company Name	CyberStep, Inc.
Date of Establishment	2000/4/1
Representative Director	Rui Sato
Head office location	Asahi Seimei Daitabashi Building 4F, 1-22-19 Izumi, Suginami-ku, Tokyo
Capital	3,451,206,403 yen (May 2023)
Employees	342 persons
Fiscal Year End	May
Main Business	Development of network entertainment software
Date of Listing	2006/7/5
Stock Exchange	Tokyo Stock Exchange Standard Market

Source: Prepared by JPR based on company data.

### Main consolidated subsidiaries and group companies

Business lines	Company	Business outline	Capital stock	Investment ratio
Online Game Business	CyberStep Communications, Inc.	Management of online games developed by CyberStep, Inc.	510 thousand USD	100%
	CyberStep Digital, Inc.	Management of online games developed by CyberStep Inc.	3,500 thousand TWD	100%
Entertainment Business	BloomZ Inc.	Operation of music production company and voice actor production company	242 million yen	40%

Source: Prepared by JPR based on company data.

## ■ Major business and capital alliances

Year	Mon	Company	Purpose
2022	Apr	Netch Co., Ltd.	The establishment of a superior operating structure and expansion of profit-earning opportunities by strengthening the customer base through the effective utilization of the experience, technical capabilities, and operational know-how that both companies have cultivated to date.
2023	Jan	Badge, Co., Ltd.	Accelerate the development and evolution of entertainment and business and promote the creation of new markets by maximizing the use of our know-how and structure.
2023	Jan	TechnoBlood eSports Inc.	Utilize TechnoBlood eSports's know-how to develop new business by converting entertainment/services already offered into eSports and organizing competitions in Japan and abroad.
2024	Feb	GENDA Inc.	Collaboration in crane game applications and online game services, and consideration and joint implementation of new businesses.
2024	Feb	PEANUTS CLUB CO.,Ltd	Collaboration in crane game applications and online game services, and consideration and joint implementation of new businesses.
2024	Feb	SMILE BASE Inc.	Collaboration in the joint development of pop-up stores, collaboration cafes, etc. at TERAVID / Toreba, as well as consideration and joint implementation of new services.
2024	Feb	Smile Tank Corp.	Collaboration in the Metaverse business related to TERAVID, and consideration and joint implementation of new services.
2024	Feb	Maruka Corporation	Collaboration in online game services, as well as the study and joint implementation of new businesses.
2024	Feb	HIKARI Terrace,Inc.	Joint development of product planning and production, etc. through the online store within TERAVID / Toreba.

Source: Prepared by JPR based on company data.

### 3. Value Creation Stories through the GCC Management™ Framework

## Growth

**Progress of maintenance: 50%**

**Difficulties with sustainability**

**Maintenance progress: 50%**

**Expect to see more work done on sustainability. But full implementation is still to come.**

**Maintenance progress: 10%**

#### Concept - A world without war through games

#### Fostering a sense of community that transcends national borders and eliminating wars caused by differences in understanding

CS aims to eliminate war from the world through entertainment, and advocates the development of a sense of community that transcends national borders and eliminates wars caused by differences in understanding. To this end, CS focuses on using innovative technology to bring people together through interactive entertainment and to form communities that transcend cultures. CS's basic philosophy is to "do what no one else is doing" and "Creating things that do not exist in the world", which is why it has created an in-house core To this end, CS has adopted a management policy of continuing to create its own innovations by making full use of its core technologies, which are produced in-house. In addition, CS aims to create an open gaming world that users can freely access, participate in, and contribute to, providing a platform that encourages the formation of communities. These efforts are supported by the promotion of innovation, accessibility, and community building, which form the gaming worldview that CS aspires to. The challenge is sustainability. CS creates a market, but then tends to grow at a lower rate than the growth of the market it created, due to the entry of similar companies. There is room for improvement in intellectual property strategy and business deepening and expansion strategy. The focus of attention will be on whether CS can overcome these issues.

#### Implementation design: towards an innovative future-oriented sandbox game.

CS revolutionized the entertainment market with the release of GetAmped, an innovative F2P game in 2002, and the crane game application Toreba in 2010. CS's efforts also encouraged other companies to enter the market created by CS, helping to expand the market. And CS continued to develop innovative games, releasing the massive sandbox game TERAVIT in 2023. The game features a high degree of freedom and a "Create to Earn" game model that encourages long-term player engagement and further growth. Compared to games that have achieved 100 million MAUs, which will be discussed later, TERAVIT is attractive enough. As already mentioned, for longer-term market expansion, it is important to collaborate with operating companies that have a solid customer base, with influencers who have established a strong fan base, and with operating companies that have attractive content. Since CSs have a strong intention to strengthen these issues, the potential for future development is expected to be highly sustainable.

#### Results: Profit in a single month through various measures, expected to be in the black for the full fiscal year ending May 2025

As will be explained in more detail in the next section, JPR believes that CS is on track to achieve a single month of profitability in the current fiscal year, as sales are increasing through collaboration with business partners and various cost-cutting measures are underway. In addition, JPR believes that CS may be profitable for the full fiscal year ending May 31, 2025. However, since the implementation of the move has yet to show results, CS's rating is 10%.

## Connection

Maintenance  
progress: 50%

Maintenance  
progress: 70%

Maintenance  
progress: 10%

**Collaboration with diverse partners to strengthen the linkage of management resources**

**Conceptual design: sustainable growth strategy and competitive advantage**

CS has so far achieved successful growth in individual services from planning to the initial stages of product development (0 to 1) and market introduction of those products (1 to 10), but has faced challenges in subsequent large-scale expansion (10 to 100). Going forward, CS plans to adopt a strategy of sustainably expanding its business model by strengthening its sales force and business alliances and working closely with its funding partners. It also plans to strengthen its intellectual property initiatives, which is expected to protect the uniqueness of its technology and content and further enhance its competitiveness. Furthermore, CS's strength lies in R&D, where all employees have the ability to create products. As for advertising costs, CS plans to reduce costs by utilizing influencers to have their products featured spontaneously, since the unit cost of advertising is rising.

**Implementation Design: New Partnerships for Competitiveness**

CS is positioned as a company that aims for sustainable growth by skillfully integrating internal resources with the external environment. In the past, CS has invented innovative business models such as online game item sales and crane game applications, and its success is attributed to its unique technological superiority. CS has a high ratio of overseas sales for a Japanese venture company. CS is a rare company in Japan that offers online entertainment that is uniquely Japanese and targets 8 billion people worldwide. CS develops its own software and hardware, starting with the basic technology, and focuses on creating a gaming experience that cannot be imitated by any other company.

CS emphasizes business alliances with companies with specific strengths in its business alliance strategy, and through its partnerships with HADOW, a company with expertise in the Web3 area, and Badge, a provider of online salon services, CS is planning and developing original Web3 games and accelerating its digital transformation. CS aims to accelerate its digital transformation. In its capital and business alliance strategy, CS has adopted a licensing model for its online game business as a business model to secure competitive advantage by creating synergies by leveraging mutual strengths through capital increases with other companies in the same industry and business partners such as GENDA, Maruca, and Peanut Club.

**Results**

The evaluation shall be the same as for "Growth".



## Confidence

**Maintenance  
progress: 20%**

**Maintenance  
progress: 90%**

**Maintenance  
progress: 10%**

**Contribution to society is high. Financial stability is an issue to be addressed in the future**

### Financial stability: Potential for rapid improvement in the future

CS has continued to create new markets based on its proprietary technological developments, but has faced challenges in expanding its value in those markets, which has affected its sales and stock price volatility. To address this challenge, CS has adopted a growth strategy of maximizing business value through expansion of the size of its markets and the scope of its intellectual property. Under this strategy, CS is developing two major measures. First, by strengthening its outside directors and advisors, CS aims to enhance its sales force and realize multifaceted strategic decision-making. Second, through the enhancement of its intellectual property strategy, CS is working to strengthen its competitiveness in the area of intellectual property, reduce the risk of imitation, and promote value creation. These measures aim to support the sustainable growth of CS and accelerate the creation of new value.

### Social Contribution: Innovative entertainment and sustainable society

CS aims to create a world without war by connecting people around the world through the creation of innovative online entertainment. Its core philosophy is to "do what no one else is doing" and "create something that doesn't exist in the world," reducing its dependence on outside parties and pursuing innovation of its own. In particular, CS focuses on real-time, interactive game development, providing shared experiences that transcend cultural and language barriers, and pursuing social contribution and customer satisfaction.

### Dialogue with investors

CS's shareholder return strategy is uncertain at this time, but confidence in and expectation of content supports its financial health and is expected to strengthen its financial strategy in the future. The communication strategy with investors focuses on dialogue with strategic investors, while enhanced communication with individual investors is planned, with the goal of increasing transparency and credibility through these efforts. In addition, the current high cost of capital reflects past risks, and if CS's strategy is realized, the cost of capital could decrease over time.

## Growth: Growth story

### Values and worldview

**Invention of "Things that don't exist in the world" with a focus on in-house production**

**Common patterns of game development**

**Innovation to create a market from scratch**

#### Shareholder Value Analysis

##### CS values as drivers of growth

##### Fostering a sense of community across borders and eliminating war

CS focuses on games as the forefront of interactive entertainment to create new forms of entertainment through the convergence of networking, entertainment, and communication. Games, which are enjoyed enthusiastically by all thanks to innovative technology, bring people around the world together, fostering a sense of community and mutual understanding that transcends borders and cultures. As a result, CS aims to contribute to the realization of a world without war. In realizing such a world, CS's basic philosophy "Creating things that do not exist in the world" is a core idea. Based on this idea, CS has clearly stated its management policy of continuing to create its own innovations by producing its core technologies in-house, without relying on external contracting or subcontracting.

#### Shareholder value analysis

**(1) Innovation, (2) Accessibility, and (3) Community building are keys to success.**

##### CS's vision of the game world

CS aims to create an open game world that users can freely access, participate in, and contribute to. CS games aim to contribute to society and create new value by integrating technology and creativity, and by continuing to propose new forms of entertainment. CS's vision is to create new value by contributing to society through the integration of technology and creativity. This vision is realized through the adoption of innovative game mechanics, the provision of accessible platforms, and the formation of strong communities among users. Therefore, the three common patterns observed throughout the history of CS game development are (1) innovation, (2) accessibility, and (3) promotion of community building. Structured around these elements, the worldview of games that CS aims to achieve can be summarized as follows.

##### **Three common patterns seen throughout the history of CS game development**

<b>(1) Innovation</b>	CS pursues innovation through the free-to-play (F2P) model of GetAmped, the remote-controlled crane game application Toreba, and the game platform TERAVIT, which allows anyone to create games.
<b>(2) Accessibility</b>	Accessible from anywhere in the world, easy-to-use and low-cost, the game play stimulates players' creativity, providing a smooth and accessible experience.
<b>(3) Promotion of community building</b>	Provides a place for cross-cultural community among users. With user-generated content (UGC), TERAVIT promotes interaction by encouraging free game creation and sharing.

## Value provided

**Customer Experience  
Innovation: Driving empathy and engagement without borders**

**Pioneering global success of the F2P model: online competitive action with 30 million users and approximately 8 billion yen in revenue**

**Contributed to the international diffusion of the F2P model by attracting a wide range of players**

### **Providing value by realizing "Creating something that doesn't exist in the world"**

#### **Creating never-before-experienced empathetic experiences through games**

Based on the value of "Creating something that doesn't exist in the world", CS has created a number of games that provide innovative value. Through interactive online games, people around the world are connected in real time to provide shared experiences that transcend national borders. This approach brings new value to customers' lives and contributes to providing a superior customer experience. Through these efforts, CS aims to establish customer loyalty and a competitive advantage in the market. 3 of CS's most popular games, GetAmped, Toreba, and TERAVID, will be discussed, including historical perspectives.

### **History of Innovative Game Development in CS 1: Market creation of the free-to-play model**

#### **Market creation of free-to-play model**

In 2002, at a time when packaged games and monthly fees were the norm, CS released GetAmped, an innovative free-to-play "F2P" model game that offered basic gameplay for free. It is an online competitive action game featuring customizable avatars and a wide variety of combat styles. F2P is a business model in which the basic game content is offered for free and additional content, features, and virtual items are sold as chargeable items. The game was offered worldwide, especially in South Korea, where it was extremely popular, and in 2006, it succeeded in creating the only domestically produced online game with 20 million players worldwide. The total number of registered players worldwide has reached 30 million. Cumulative real money sales have reached approximately 75 million units, which, even if calculated at approximately \$1 per unit, is an estimate of over 7.5 billion yen. As the world's best online action game, CS aims to reach 1 billion people in 200 countries around the world.

Source:Aiming for world domination - GetAmped2 production press conference

<https://nlab.itmedia.co.jp/games/articles/0810/21/news125.html>

Source: We believe in enthusiasm more than the market. Interview with the developers of GetAmped Mobile, the 3D action game for smartphones that 30 million fans worldwide have

<https://www.4gamer.net/games/368/G036830/20170216071/>

#### **Innovation and market expansion**

CS continued to expand its game portfolio, developing F2P online games with unique characters and high customizability, such as "CosmicBreak". This attracted a wide range of players. And technology development and global expansion: CS contributed to the international diffusion of the F2P model by providing high-quality game experiences through proprietary technology and actively expanding into overseas markets.

Delivery of new trend-acquired products to your home

Market size is approximately 30 billion yen worldwide 10 years after introduction.

## History of innovative game development at CS 2: Creation of the crane game application market

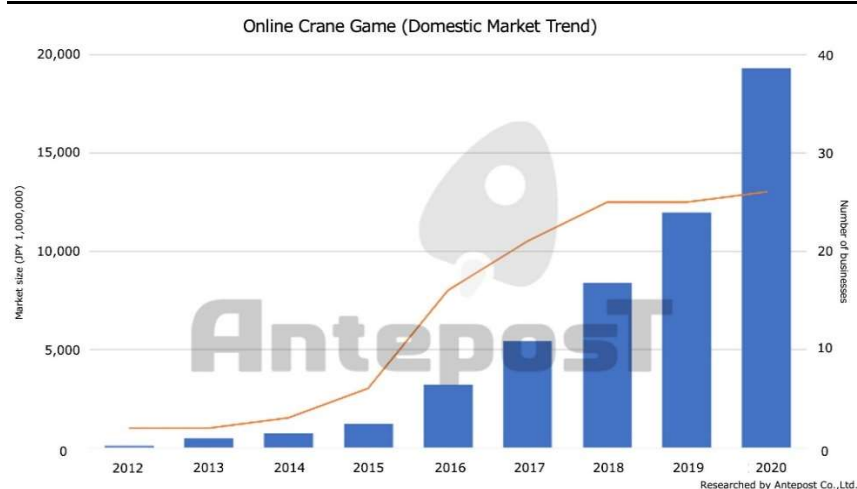
### 2010 Release of Toreba, a crane game application that offers real fun 24 hours a day without going to a game center

In 2010, CS created a new form of crane game application called Toreba. This service allows users to remotely control a real crane game in real time from a browser or smartphone application via the Internet, with play fees ranging from ¥150 to ¥250, 24-hour participation, and delivery of acquired items to the user's home. With this service, CS has created a new industry, the crane game application market. This service revolutionized the way people enjoy games and created a new trend in the entertainment industry by providing a real crane game experience online 24 hours a day, without having to go to a game center.

### A new form of entertainment has taken root around the world

Unlike the amusement facility (game center and operator) market, which is shrinking, the growing crane game application market is expected to continue to expand with the advent of mobile terminals and smartphones. Due to its convenience, the crane game application market is rapidly expanding, and 10 years after its introduction, the market size in Japan is currently estimated to be approximately 20 billion yen, or approximately 30 billion yen if overseas markets are included.

### Crane game application market in Japan



Source: ANTEPOST Co., LTD. <https://cpshub.am/about/>

**Innovation in creation and revenue: Sandboxes that return revenue to creators**

**Future history of innovative games in CS: TERAVID aiming for 100 million MAUs**

**Massive multiplayer sandbox game to be released in 2023**

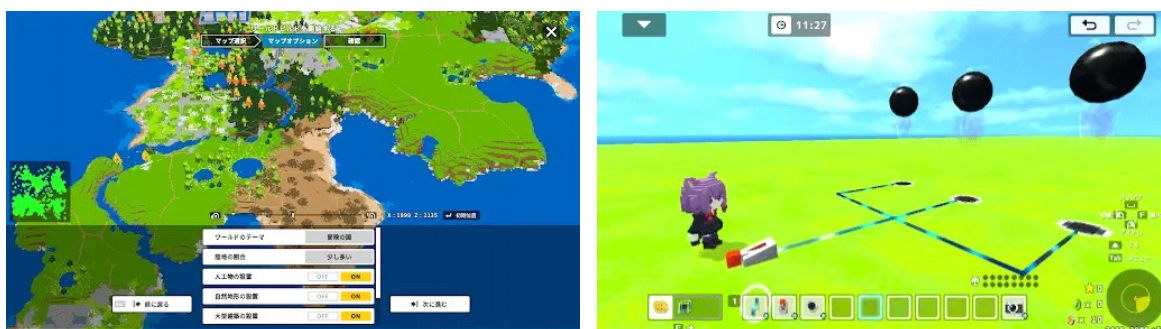
TERAVIT is a multiplayer sandbox game that was launched in April 2023. The game is characterized by a high degree of freedom. The basic content of the game is free, and the main payment elements are gacha, which are skins and weapons, and jewels that can be used to trade with other players. Players can explore the world, battle monsters, collect resources, and create their own world using hundreds of different blocks. They can also join other players' worlds, which are like plazas for athletics and chatting. Another key feature is the "Create to Earn" game model. The game is expected to enhance the player's gaming experience and increase long-term engagement with the game, In addition to PC, iOS, and Android, CS is expanding its player base with the release of a Nintendo Switch version in November 2023.

**TERAVIT Features**

GCC Perspectives	Description
Characteristics of Value Offered	A highly flexible sandbox game with a "Create to Earn" model. This monetization mechanism encourages player creativity and enriches the in-game economy. Expansion to a variety of platforms is expected to increase the player base and long-term engagement.
Characteristics of Combination of Management Resources	The combination of technological innovation and the power of community is opening up new possibilities in the gaming industry. In particular, collaborations with companies and influencers to host events and recreate in-game spaces that reflect the real world provide a venue for cultural and economic activities that go beyond games. These efforts have enabled TERAVID to go beyond a mere game and function as a platform for cultural and economic activities, demonstrating its unlimited potential through the connection of management resources.
Characteristics of Financial Stability and Social Contribution	The user-friendly design allows anyone to create games, and has great educational potential. This high level of accessibility, combined with its value as a social contribution, distinguishes it from other game creation platforms. By expanding to a variety of platforms, CS is promoting access to a wider user base and sustainable growth.

Source: Prepared by JPR based on company data.

**TERAVIT game screen**



Source: TERAVID Website <https://TERAVIT.app/>

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**Gaming experience  
with freedom to  
explore**

**Promotes learning  
and creativity**

**Target MAU: 100  
million**

### **What is a Sandbox Game?**

A sandbox game is a type of video game form in which players are encouraged to explore and interact in a virtual environment. The goal of a sandbox game is for players to learn the game's features, mechanics, and limitations through trial and error. Sandbox games are generally open-ended and characterized by the following elements (1) Players are free to explore the game and work on game elements in any order they wish. (2) Players are encouraged to experiment and discover different ways to interact with the game world. (3) There is no clear endpoint or victory condition, and the emphasis is on interaction.

### **Benefits and Types of Sandbox Games**

Sandbox games offer benefits beyond entertainment and are effective in making the learning process engaging. Gamified learning is more memorable than traditional methods. This is because retention of information is enhanced when learners are actively engaged in fun activities that stimulate interest and challenge their abilities. The following types of sandbox games are particularly popular in student education and employee training (1) Collaborative sandbox: In this format, players must work with each other as one community to progress through the game, fostering a spirit of cohesion and collaboration. (2) Simulation sandbox: This format allows players to design virtual twins that mimic real-world people, places, and objects, providing a venue for recreating real environments and envisioning new scenarios. (iii) Role-playing sandbox: Users can test their creativity and story composition skills through the development of stories and characters created by themselves. Creative Sandbox: Provides players with opportunities for self-expression through digital art and music production by utilizing artificial intelligence (AI) tools.

Source: Sandbox Game <https://www.techopedia.com/definition/3952/sandbox-gaming>

### **Pioneering sandbox game that can be developed by anyone and requires no programming at all, worldwide.**

TERAVIT is characterized as a platform that allows elementary school students to enjoy creating games without programming knowledge. CS has set a goal of 100 million monthly active users (MAU) for TERAVIT. Sandbox games with more than 100 million monthly active users include Minecraft, Fortnite, and ROBLOX. As far as market research shows, TERAVIT is the first game in the world with such a concept, and through the TERAVIT project, CS aims to create the world's only game that will provide new forms of communication and entertainment that transcend national borders, thereby realizing the goal of eliminating war from the world.

**Four Conditions for Sandbox Games to Exceed 100 Million MAU Games and the Potential of TERA VIT**

Conditions to become 100 million MAU game		Significance of conditions
Major Items	feature	Possibility of TERA VIT
(1) Accessibility	Multi-platform	Available on any OS and gaming platform.
		TERA VIT is available on any online or offline OS, smartphone, or gaming hardware. Accessibility is an advantage compared to the preceding 100 million MAU games.
(2) Sustainable development of user-involved content	Creativity and freedom	There is creativity, including users creating their own games.
		TERA VIT is easy for anyone without programming knowledge to create games, so any person can creatively create games. It is estimated that it is easier for anyone to program than the preceding 100 million MAU games.
	Battle Royale and Renewability	There is a constantly updated, last man standing battle experience.
		TERA VIT can fulfill this point well, as anyone can develop a game that pursues and updates new experiences.
User Generated (UGC) Content	Creative UGC can be freely created and shared.	
	TERA VIT can fully fulfill this.	
(3) Education and learning	Education and Learning	You can learn programming.
		TERA VIT can be expected to have an educational effect by first creating games and then learning how programming is implemented behind the scenes.
(4) Sustainable community & economic system building	Community and Multiplayer	Play with as many people in the community as you like.
		TERA VIT is fully capable of achieving this.
	Collaboration and Cultural Impact	Collaboration with other content and influencers.
		TERA VIT is a platform where anyone can create a game and users who share their world can participate. It offers the possibility for companies and individuals of all types of content to increase their communities, expand the world they aim to create, and increase their revenues through collaboration.
Economic Systems	Participating stakeholders will benefit economically.	
	Everyone can create games, and everyone can pursue financial success on a platform where users who share the same world can participate. Synergy between real and digital worlds, such as the sale of real goods within the game, will be realized, bringing the potential for increased revenue to participating stakeholders around the world.	

Source: Summarized by JPR based on information at the following URL. Minecraft: <https://www.demandsage.com/minecraft-statistics/>, Fortnite: <https://www.businessofapps.com/data/fortnite-statistics/> <https://www.demandsage.com/fortnite-statistics/> <https://www.dexerto.com/fortnite/how-many-people-play-fortnite-1954801/>, ROBLOX: <https://backlinko.com/roblox-users> <https://www.businessofapps.com/data/roblox-statistics/>

## Target market

**Growth trajectory from over 21 trillion yen in 2023 to 24 trillion yen forecast in 2026**

**100 Million MAU Goal: TERAVID's ambition to take on Minecraft and other giants and expand into the Metaverse**

## Target market

### Global gaming market

#### Revenue

The target market for CS is the overall global gaming market. In 2023, the global gaming market is projected to generate revenues of approximately 21.24 trillion yen (\$187.7 billion), a year-on-year growth rate of about 2.6%. The number of players worldwide is expected to reach 3.38 billion, with the increase in players, especially from emerging regions, driving this figure. The market will continue to expand and is projected to reach annual revenues of approximately 23.94 trillion yen (\$212.4 billion) by 2026.

#### Number of users

CS's goal of 100 million monthly active users is an extremely ambitious achievement in today's global gaming market. Games that reach 100 million MAUs (monthly active users) are highly anticipated as platforms that have the potential to surpass even the existing Web2 era giants. For example, Minecraft, a sandbox game similar to TERAVID, has sold 238 million units of its PC version as of January 2023, and its mobile version has sold an epic 130 million units. 40 million monthly users in 2016, and in 2019, the new coronavirus infection reached 90 million before the global pandemic, and more recently increased to 170 million in 2022, more than quadrupling in just six years. This staggering growth rate indicates that Minecraft has evolved beyond a mere game to become a cultural phenomenon, and even a social phenomenon. In this context, the potential that TERAVID represents is remarkable.



## Net sales and profit

Expected increase in market capitalization of CS due to BloomZ' listing in the U.S.

Sales recovery and cost reductions expected by the end of May

Expectations for large license agreements

Outstanding contribution to sales from TERAVID-related businesses

### Short-term and 10-year outlook for sales and profits

List of measures to be implemented during the fiscal year ending May 2024

#### Listing of subsidiary BloomZ on NASDAQ

BloomZ Inc. ("BloomZ"), a subsidiary in which CS owns a 40% stake, is currently in the process of filing with the SEC/NASDAQ in preparation for a NASDAQ listing. If the NASDAQ listing is achieved, Blooms' market capitalization is expected to be approximately 7.5 billion yen (about \$50M) (\*tentative figure multiplied by 4\$ for the shares offered and outstanding under F-1/A in the December 27, 2023 filing), and CS holds 40% of that amount, so CS's diluted market capitalization will still be about 3 billion yen.

Source: BloomZ Inc. (BLMZ) IPO - NASDAQ.com  
<https://www.nasdaq.com/market-activity/ipos/overview?dealId=1275264-108086>

#### Toreba's Sales Recovery and Cost Reduction

According to company interviews, Toreba's sales bottomed out at the end of last year and are now recovering, and CS has identified the procurement of prizes and improvement of attractiveness as areas for improvement, which are expected to lead to an ongoing recovery in sales. CS is already collaborating with partners with whom it has entered into capital and business alliances, some of which appear to be achieving profitability. In addition, CS appears to have reduced personnel, subcontracting, and rent expenses by about 30 million yen in a single month starting in February. CS expects to reduce costs by 80-90 million yen in the fourth quarter, equivalent to 400 million yen for the year.

#### Sales and profits increase through licensing agreements for Get Amplified

According to company interviews, CS is currently in the process of signing a large license agreement for the development and operation of the PC and smartphone versions of Get Amplified with a major company in China. There is a possibility that the agreement will be concluded during this fiscal year. If realized, the contract is expected to generate several hundred million yen in revenue this fiscal year.

### The upside of TERAVID

According to company interviews, TERAVID's measures with influencers, mainly game players, have been successful, and sales of in-game digital and real goods have remained strong, with sales growth several times that of the previous month. Going forward, CS expects to achieve sales of tens of millions of yen per month by continuing to implement measures that expand on these initiatives. In addition, a number of business alliances are in progress with TERAVID, and a variety of projects are underway to create online infrastructure for collaborative cafes, pop-up stores, live venues, large-scale commercial facilities, and the Akihabara area itself.

**Digitization project with promising downtown environment enhancement**

According to company interviews, a project is underway to recreate the town within Terravit in partnership with the Tourism Council of Akihabara, one of Japan's most prominent cities. This initiative includes partnerships with maid cafes, etc., in addition to general stores, and aims to realize O2O by enabling online visits to iconic locations in that downtown area and sending customers from TERAVIT to the actual stores. CS is also planning to make figures of the characters in the game and to use the game as a crane game and gacha-gacha, in which real prizes can be won from all over the world, with the aim of releasing the game during Golden Week.

**Pop-up store**

CS is promoting the sale of goods through an online pop-up store for TV programs produced and broadcast by CS, as well as the sale of digital items through TERAVIT. By continuing this activity, sales of several tens of millions of yen per month can generally be expected. In addition, CS is in the process of concluding numerous collaborations with popular game players.

**Exploring new revenue opportunities through collaborative events**

CS plans to hold a collaboration event on TERAVIT with a group of singers with over 200,000 registered YouTube users during this fiscal year. The event will include the sale of merchandise for fans, which will enhance the appeal of the event as a user-participation type event and contribute to the creation of new revenue sources in the future.

**Value of measures to be provided during the period ending May 2024 (JPR projection based on company interviews)**

Period	Measure details	Subject	Aiming to provide value
Feb~Mar	Listing of subsidiary BloomZ on NASDAQ	Entire Company	Based on various data, JPR concluded that BloomZ Inc. could have an enterprise value of approximately 7.5 billion yen.
Feb	Sales recovery and cost reduction at Toreba	Crane game application Toreba	Sales recovery due to improved premiums with the cooperation of business partners, and based on interviews, there is a possibility of reducing costs by about 80 million yen per quarter.
Feb~Mar	Expansion of sales and profits through licensing agreement with Get Amplified	GetAmped	PC version license agreement in China, sales and profit increase
Apr~	Digitalization project in Akihabara: creation of a new market in the virtual world	TERAVIT	Reproduction of Akihabara, a representative of Japan, in the virtual world to enable virtual visits to iconic places. Golden Week release expected.
Apr~	Pop-up stores	TERAVIT	Based on company interviews, JPR estimates monthly sales of 10 million yen from real goods sales. Many collaborations with game players.
Apr~	Exploration of new revenue opportunities through collaborative events	TERAVIT	Based on company hearings, merchandise sales to fans, 10,000 visitors expected, sales of several million to several tens of millions of yen expected. Contributing to the creation of a new revenue source.

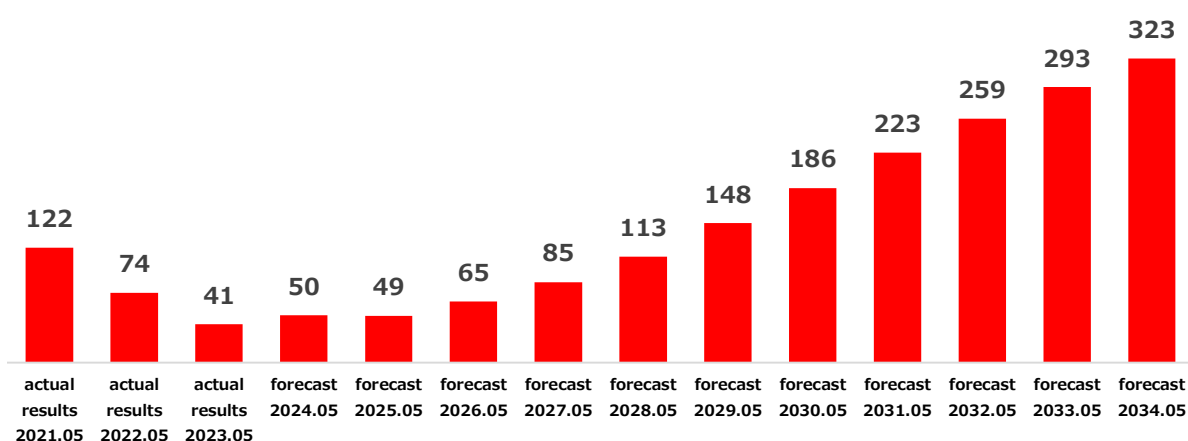
Source: Prepared by JPR based on company data.

### Long-Term outlook for sales and profit forecast

**Projected sales and profit growth based on the assumption of achieving a market capitalization of 20 billion yen**

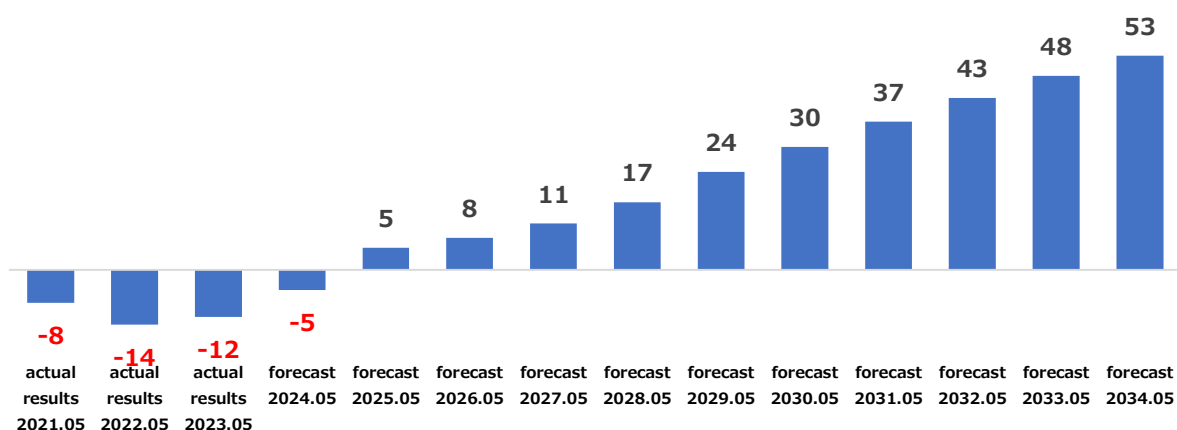
CS is a company that continues to pursue innovation and growth in the digital entertainment industry. The success of GetAmped and Toreba, a crane game application that employs a "Free To Play" model, have set new trends in the industry and have led to significant increases in sales and market capitalization. However, it is extremely difficult to predict. Therefore, we calculated backwards the growth in sales and profits that would achieve the highest market capitalization in the past. The results are shown below.

#### Sales growth to achieve a market capitalization of 20 billion yen (billion yen)



Source: Prepared by JPR based on company data.

#### Operating income growth to achieve a market capitalization of 20 billion yen (Unit: 100 million yen)



Source: Prepared by JPR based on company data.

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## 5.Connection: Connection story of management resources

Values and world view of how management resources are connected

Establish continuous innovation and growth strategies

Market expansion through multi-platform support

Strategic shift to sustainable business expansion

Further enhance competitiveness by strengthening intellectual property strategy

Influencers promote themselves

Values and world view of how management resources are connected

CS's management resource characteristics and advantages  
Strategy for innovation and sustainable growth by leveraging management resources

Innovation and sustainable growth strategies that leverage management resources

At the root of CS's success is the unique technological advantage it offers: many of its engineers have strengths in 0→1. As a new strategy for the future, according to interviews, CS is planning to expand its board members, which are expected to include professionals with many years of experience in game-related companies.

CS's technological advantage: multi-platform

CS has a notable advantage in the development of multi-platform networked games, and is actively pursuing R&D for the development of such games for a wide range of platforms, from PCs and other home game consoles to consumer electronics and mobile devices.

Source: Uniqueness of CyberStep | CyberStep  
<https://corp.cyberstep.com/company>

Future strategies

Turning point for sustainable growth

CS has been successful in growing individual services from planning to the initial stages of product development (0 to 1) and market introduction of the product (1 to 10), but has faced challenges in subsequent large-scale expansion (10 to 100). CS plans to adopt a strategy of sustainably expanding its business model by strengthening its sales force and business alliances, as well as by working closely with its funding partners.

Through these strategic initiatives, CS aims to further solidify its position as a leader in the digital entertainment industry. By enhancing its board membership and intellectual property strategy, CS expects to drive innovation and establish a competitive advantage in a highly competitive market.

Intellectual property initiatives

In addition, CS plans to strengthen its intellectual property efforts, a strategy that will protect the uniqueness of CS's technology and content and further enhance its competitiveness. CS is currently considering the addition of an IP specialist, and this measure will enable the development of an effective IP strategy and maximize innovation results.

How to reduce advertising costs

With regard to advertising costs, the cost-per-advertisement is currently skyrocketing, and cost-effectiveness is declining. However, TERAVID's project can reduce advertising costs if influencers voluntarily take up the product.

**Business and capital tie-ups**

**Effective utilization of business alliance strategies**

**Pursue synergies through capital and business alliances**

**Business and capital tie-ups**

**Business alliance strategy**

CS has focused on business alliances with companies with specific strengths as a strategy to provide sustainable benefits to its stakeholders. A prominent example of this approach is the alliance with HADOW, a company with expertise in the Web3 domain. Through this alliance, CS and HADOW are jointly planning and developing original Web3 games and launching services. Meanwhile, the alliance with Badge, a provider of online salon services, aims to accelerate digital transformation and create new communication methods.

**Capital and Business Alliance Strategy**

The capital increase through third-party allotment in February 2024 is another example that embodies CS's commitment to maximizing the interests of its stakeholders. The capital increase was accompanied by capital and business alliances with other companies in the same industry and long-time business partners, such as GENDA, Maruca, and Peanut Club, which are expected to generate synergies by leveraging their mutual strengths in the field of crane game application services. These alliances are a strategy to create synergies by leveraging the strengths of each company and contribute to innovation and improved customer service in the industry as a whole.

**Combination of value provided and management resources aimed at by major business and capital alliances**

Year	Mon	Company	Management resources to be aimed for
2023	Jan	Badge, Co., Ltd.	With the innovative communication method of "fan.salon" for badges, CS is contributing to the digital transformation of the entertainment and business worlds, creating new market value.
2023	Jan	TechnoBlood eSports Inc.	Through the capital and business alliance with TechnoBlood eSports, CS aims to expand the eSports market and convert CS's services into eSports, and develop new events and competitions.
2024	Feb	GENDA Inc.	CS and GENDA's "LIFTLE" and aims to establish market leadership through a business alliance with Toreba, a crane game application, by installing a new prize offering cabinet to provide users with a new experience.
2024	Feb	PEANUTS CLUB CO.,Ltd	Through the capital and business alliance with Peanut Club, the company aims to enhance the purchase of prizes for the crane game application Toreba and increase its corporate value over the medium to long term through cooperation in product planning and sales promotion.
2024	Feb	SMILE BASE Inc.	Through a business alliance agreement with SMILE BASE, the company aims to jointly develop pop-up stores and collaborative cafes in TERAVIT/Toreba and jointly implement new services.
2024	Feb	Smile Tank Corp.	Through a business alliance with Smile Tank Corporation, the company aims to jointly develop TERAVIT's Metaverse business and new services, and create new user experiences.
2024	Feb	Maruka Corporation	Strengthening Toreba's prize procurement through the conclusion of a capital and business alliance agreement with MARUCA, a toy and sundry goods planning and sales company. The company aims to improve mutual competitiveness and strengthen business transactions through joint product planning, sales promotion cooperation, and consideration of new business opportunities.
2024	Feb	HIKARI Terrace,Inc.	Business alliance with Hikari Terasu to plan and produce joint products for TERAVIT and Toreba's online store, aiming to expand digital contents business.

Source: Prepared by JPR based on company data.

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**Business model and logic of profit generation**

**Securing recurring revenue through licensing**

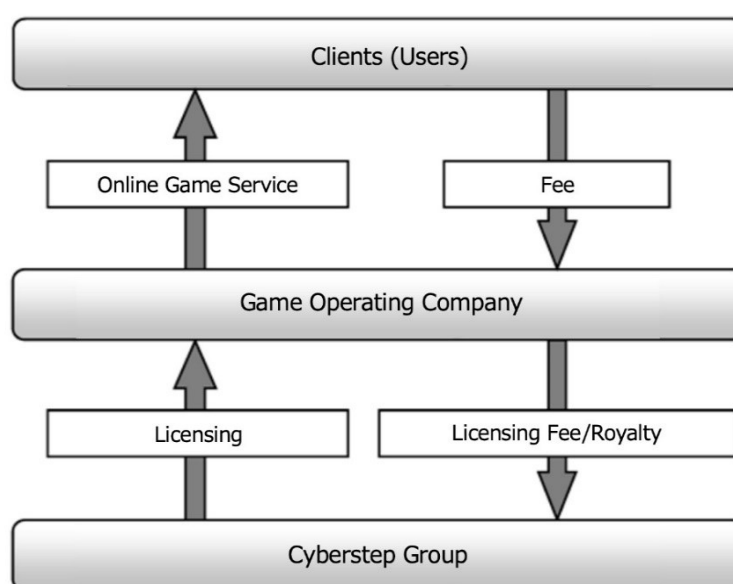
**Business models and the logic behind profit generation**

**Business models to ensure competitive advantage**

CS has two main business models for innovative projects and interactive experiences in the digital entertainment industry.

**Online gaming business Licensing model**

The online game business consists of two main business models. First, under the "licensing" model, CS provides the rights to operate online games developed in-house to overseas online game operators based on licensing agreements, and earns contract fees (license fees) and royalties after the game services are launched.

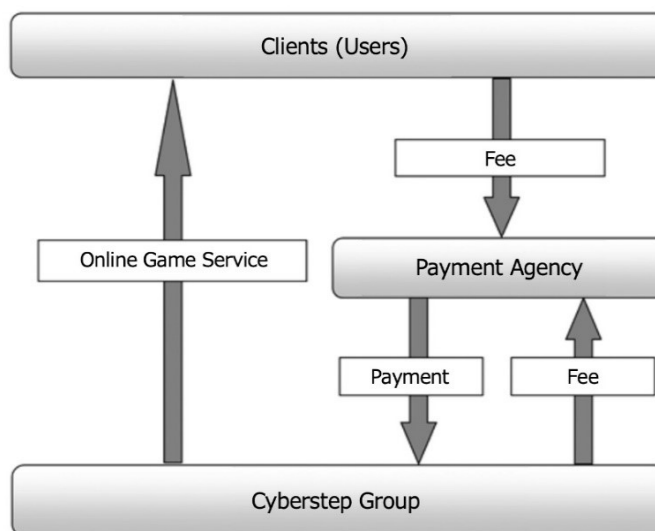


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Maximize direct revenues from company-operated services

**Online game business In-house operation service model**

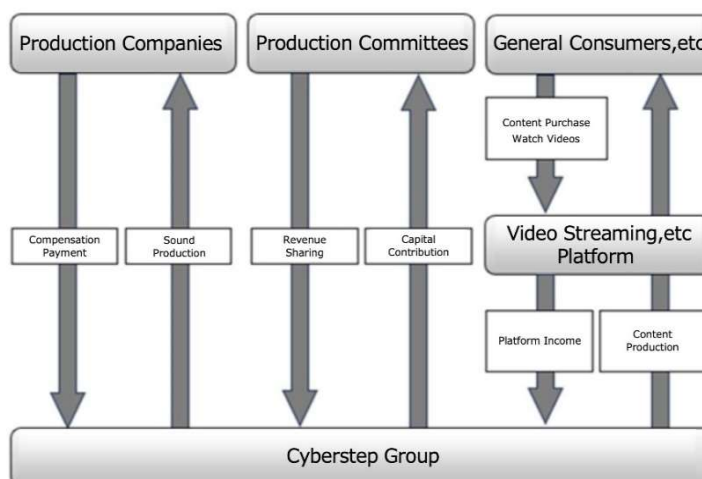
Second, in the "in-house operation service" model, CS provides online game services directly to users by preparing its own group of servers. This model employs an item-based fee system and maintains user interest through the introduction of new items and regular updates.



Diversification of entertainment business

**Entertainment Business**

In the entertainment business, CS earns revenue through sound production of video works, investment in production committees, and operation and management of voice talent productions. In addition, with the spread of SNS, CS is focusing on supporting activities as a VTuber on YouTube and other video distribution platforms and creating content using character IP, with advertising revenue as a source of income.



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## 6. Confidence: Sustainability Story

### Financial sustainability

Two measures to support sustainable growth

Strengthening strategic responsiveness by expanding management diversity

Aggressive intellectual property strategy

### Financial sustainability

#### Current challenges and future strategies for CS

CS has played a pioneering role in creating new markets from scratch, but has had issues in the process of continuously expanding its value in the markets it has created. This has been one of the factors causing fluctuations in sales and stock prices. Based on this background, CS is currently adopting a growth strategy to maximize the value of its business by expanding the scale of its markets and the scope of its intellectual rights. Based on this strategy, CS is implementing two major measures. First, CS is strengthening its outside directors and advisors. Second, CS is enhancing its intellectual property strategy.

#### Measure 1: Strengthening outside directors and advisors

Strengthening outside directors and advisors is one of CS's key measures. This measure is aimed at building relationships with other companies and organizations and enabling multifaceted strategic decision-making. We have already identified candidates for advisors and outside directors with strong sales capabilities, and as a concrete result, we have succeeded in building relationships with several companies and organizations, including those in the Akihabara tourism industry. This has enabled CS to strengthen its sales force and expand its outsourcing activities, and these are positioned as ongoing internal activities. In addition, CS is actively engaged in investor relations. CS is currently working with an IR specialist to strengthen IR, and is considering integrating the specialist more deeply into management in the future.

#### Second measure: Enhancement of intellectual property strategy

The second important measure is the enhancement of the intellectual property strategy. The objective of this measure is to strengthen competitiveness in the intellectual property area. Specifically, CS will work with a team of patent attorneys who are experienced in providing services to major Japanese companies to enhance their IP strategy and competitiveness. Through this initiative, CS aims to reduce the risk of imitation and increase its ability to create value and adapt to changes in the market environment, with a focus on intellectual property. This is a measure that will further accelerate CS's strength in "Creating new value," a measure that will aid sustainable growth.



### Effects of business and capital alliances

The table below summarizes the effects of business and capital alliances on financial stability and social contribution. These alliances are expected to significantly improve the financial stability of CS in particular in the future.

### Potential for improving the financial stability and social contribution of business and capital alliances

Perspectives	Contents
Financial Stability	The partner has a solid customer base and unique content. By turning this content into games, CS will be able to generate stable sales to existing customers, which will contribute to financial stability. In addition, the partners have the ability to expand sales of a wide variety of content, which should contribute to the continued expansion of the market they have created.
Social Contribution	Social relational capital will increase due to strengthened ties among customers.
Protection of the Natural Environment	Contribution to environmental preservation, as it expands the possibilities of selling digital services that do not involve the consumption of physical resources.

Source: Prepared by JPR based on company data.

## Significant events regarding premise of a going concern

Signs of strategic shift and progress

Innovation of revenue model based on Toreba and TERAVID

Rigorous cost-cutting measures

Selective and focused business strategy with an eye on future earnings

Initiatives to raise funds and strengthen the financial base to support continued growth

## Significant events regarding premise of a going concern

### Summary and measures

CS has posted significant operating losses for two consecutive fiscal years through the previous fiscal year, and in the current fiscal year, CS posted an operating loss of 1,158 million yen. In light of this situation that raises significant doubts about CS's ability to continue as a going concern, CS is implementing the following multiple measures to stabilize its financial base and improve its situation. Through the implementation of these measures, it has been determined that there are no significant uncertainties regarding the premise of a going concern, and CS is aiming for future growth based on a stable management foundation.

#### **(1) Improvement of profitability**

CS is striving to improve existing titles and release new titles as soon as possible while promoting the development of new titles. In particular, CS has entered into a business alliance with the aim of recovering sales of the crane game application Toreba and entering the Chinese market, and is developing TERAVID for multi-platform development.

#### **(2) Cost Reduction**

CS is effectively reducing costs by downsizing its sales offices to a size commensurate with its operational and administrative structure, reviewing personnel assignments, cutting outsourcing costs, and reducing executive compensation. According to company interviews, the following measures are being implemented to drastically reduce costs.

Reduced personnel and subcontracting costs by approximately 25 million yen starting in February. Annual cost reductions of 300 million yen are expected. CS expects to be able to sublease a warehouse in Ibaraki Prefecture, which will reduce costs by approximately 8 million yen in a single month and by a total of approximately 20 million yen from March to May. On an annual basis, CS expects to reduce costs by about 100 million yen.

#### **(3) Concentration of management resources**

Selecting businesses and subsidiaries that are expected to be profitable in the future, CS is closing subsidiaries to reduce costs and concentrate management resources.

#### **(4) Strengthening of financial base**

CS has raised funds through the issuance of new shares and unsecured convertible bonds with stock acquisition rights, and has secured working capital until the end of the next consolidated fiscal year with a cash and deposits balance of 2,280 million yen at the end of the current consolidated fiscal year.

## Cost of capital

Strengthen financial base through new financing

Explore return strategies to maximize shareholder value

Strengthen investor relations in cooperation with experts

Optimize the cost of capital from a long-term perspective

### Current status and future outlook

#### Going concern assumption

CS has recorded significant operating losses for the past two fiscal years, and is in a situation that calls into question CS's ability to continue as a going concern. In order to get out of this difficult situation, CS has been improving the quality of new and existing game titles and issuing new shares to strengthen its financial base. CS expects profitability to improve significantly if sales of Crane Game App Toreba recover, and if it can secure earnings as planned by entering the Chinese market and accelerating development of TERAVID. Furthermore, CS is working to further strengthen its financial base by raising funds through the issuance of new shares and unsecured convertible bonds with stock acquisition rights.

#### Shareholder return policy

At present, due to the uncertainty of future growth potential, it is difficult to state specific shareholder return policies. However, CS's high credibility and expectations for the content it provides has enabled it to raise funds from many investors, which in turn supports its financial soundness. Going forward, CS is expected to move forward with efforts to strengthen its financial strategy, including the specific implementation of shareholder return policies.

#### Communication strategy with investors

In terms of its communication strategy with investors, at this stage CS is focusing on dialogue with strategic investors. This effort will be further deepened through strategic IR measures that will be developed in collaboration with IR experts. In addition, CS plans to strengthen communication with individual investors, which includes an active engagement in investor relations activities. Currently, CS is working with IR specialists to strengthen IR, and is considering integrating IR specialists within management in the future. Through these measures, CS intends to achieve transparent and effective communication with investors and build and maintain a relationship of trust.

#### Maintenance and decline of WACC

Currently, the cost of capital is estimated to be high, reflecting the risks in the past. However, if CS's strategy is realized, the cost of capital is expected to decline over time due to the prospect of sustainable growth.

## Governance

Shareholder and stakeholder trust through improved management transparency

Considering electronic exercise of voting rights, etc. in the future

Effectiveness is assured

Application of the CS Charter of Fair Behavior

Improve internal controls and strengthen cooperation with auditing firms

Consider the balance between profit return and investment

### Basic policy on corporate governance

#### Compliance with the Corporate Governance Code

##### Basic approach

Aim to enhance corporate value through sound and transparent management, and strive to earn the trust of all stakeholders and enhance information disclosure. Nomination and compensation policies are decided at the general meeting of shareholders, and the selection of directors and corporate auditors is based on their personalities and abilities. Provision of English-language information and formulation of a medium-term management plan will be considered in the future.

##### Reasons for not implementing each principle of the Corporate Governance Code

CS does not implement electronic exercise of voting rights or provide English translations at this time, but is considering doing so in the future. CS does not have an asset owner function for corporate pension plans, and information disclosure is explained at the general meeting of shareholders.

#### Corporate Governance Structure

##### Board of directors

The Board of Directors, led by the President and comprising six members including two outside directors, is responsible for making key management decisions. These decisions are made during regular monthly meetings and additional extraordinary meetings as needed, with corporate auditors in attendance. It also oversees the propriety of business operations, taking into account reports from corporate auditors and considering improvement plans suggested by the auditing firm.

##### Board of auditors

CS's governance structure includes a Board of Auditors with one full-time and two part-time members, two of whom are external. The company also consults attorneys for legal advice and adheres to the CS Charter, which mandates that all directors and employees conduct themselves fairly and ethically, respecting human rights and complying with laws. This charter underpins CS's approach to corporate governance.

##### Internal control system

CS carries out internal audits in accordance with its "Basic Policy for the Development of Internal Control Systems" to ensure operational propriety. Audit results are reported to the President and Representative Director, who then direct necessary improvements. To enhance the internal control system, auditors collaborate closely with the Internal Audit Office and auditing firms, focusing on key issues.

### Profit distribution and reinvestment policy

#### Dividend policy

CS places importance on returning profits to shareholders and recognizes that dividend policy is one of the most important management issues. CS's basic policy is to link dividend payments to business performance while maintaining a balance between retained earnings and investments in plant and equipment.

## 7. Summary of financial results for the third quarter of the fiscal year ending May 31, 2024

### Profit and loss summary

Initiatives to strengthen profitability

Promotion of asset efficiency

Decrease

Transition to stable operations

Investment for the future

### Profit and loss summary

#### Corporate results

#### Background of business results

CS had been developing several new titles in the third quarter, but due to the extended development period and increased competition, sales were sluggish and profits did not increase, making it a period to focus on improving the profitability of existing titles. In particular, Toreba focuses on Japanese culture and aims to expand overseas, including the Chinese market. For the new title TERAVID development is underway to provide attractive content through collaborations with influencers and other means so that users can enjoy the game for a long time. CS is also working to improve the quality of other titles through promotion and content expansion, aiming to stabilize and secure profitability in the online game business.

#### Assets

Total assets decreased 1,340 million yen from the end of the previous fiscal year to 1,998 million yen. This was mainly due to a decrease of 1,166 million yen in cash and deposits. Total liabilities decreased 304 million yen to 712 million yen. This was mainly due to decreases of 105 million yen in current portion of long-term loans payable, 102 million yen in accounts payable-other and 100 million yen in convertible bond-type bonds with subscription rights to shares. Total net assets decreased by 1,036 million yen from the end of the previous fiscal year to 1,285 million yen. This was mainly due to a decrease in retained earnings of 1,179 million yen resulting from the net loss attributable to parent company shareholders.

#### Net sales

Net sales for the third quarter totaled 2,252 million yen, down 26.6% from the same period of the previous year.

#### Profit and loss

Operating loss for the third quarter was 1,221 million yen, up from a loss of 853 million yen in the same period of the previous year.

#### Net Income Attributable to Owners of the Parent

The loss for the period was 1,179 million yen, up from a loss of 936 million yen in the same period of the previous year.

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## Reference 1. For those new to JPR reports

### GCC Management™ Analysis

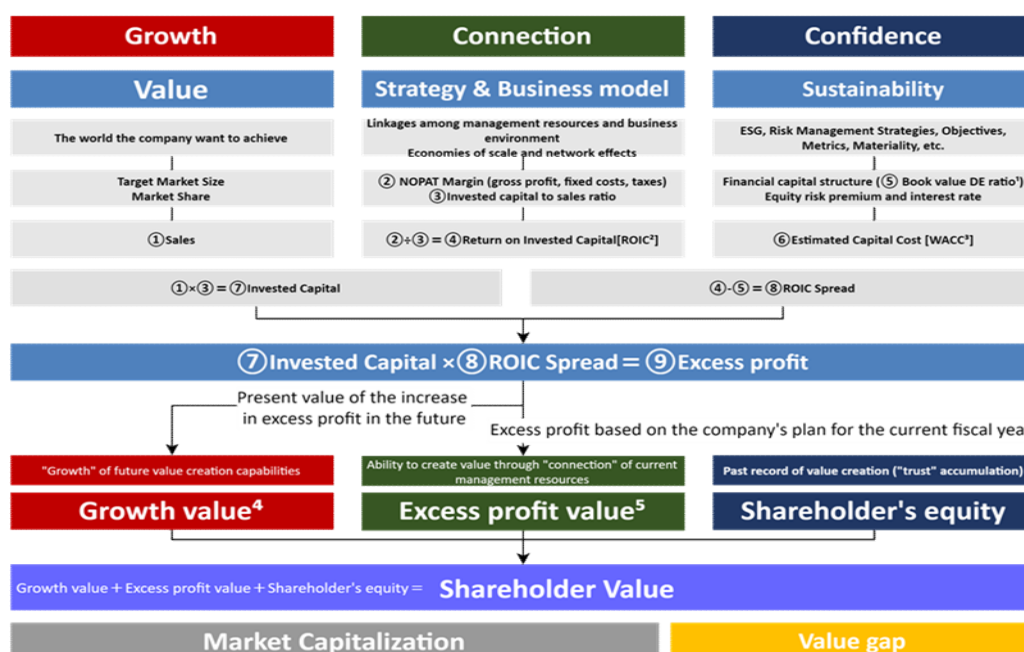
Visualize the value gap between theoretical shareholder value and market capitalization

Analyze by the three elements of Growth, Connection, and Confidence.

A framework for directly linking qualitative stories to shareholder value

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J-Phoenix Research Corporation ("JPR"), emphasizing three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Confidence (improved trust = lower business risk). The following chart shows the overall picture of the GCC Management™ framework. The following diagram shows the overall picture. The qualitative future story is linked to financial indicators, which are finally integrated to estimate shareholder value. Using the excess profit method (see "Appendix 3. Basis of Calculation" at the end of this report), JPR estimates the final theoretical shareholder value and visualize the value gap by comparing it with the market capitalization.

### GCC Management™ Analysis Framework



[Source: JPR] [Notes] 1. Book value DE ratio: Ratio of interest-bearing debt to shareholders' equity. 2. ROIC: Return on Invested Capital. See "Appendix 3." at the end of this document. 3. WACC: Weighted Cost of Capital, see "Appendix 3." at the end of this document. 4. growth value = cumulative present value of the perpetuity value of the excess profit increment through year X. The perpetuity value is calculated as the excess profit increment divided by WACC. The present value of that amount is discounted by the WACC. Cumulative future value up to year X as assumed by the growth scenario. 5. Excess profit value = the perpetual value of excess profit based on the current year's company plan. The excess profit value is estimated by dividing the excess profit calculated from the current year's company plan and the invested capital at the beginning of the period by the WACC.

Source: JPR

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**GCC Management™ Evaluation System**

Evaluate the feasibility of the Growth and Connection story of the value creation process from three perspectives

## Evaluation of Growth and Connection

Evaluate the feasibility of qualitative stories from three perspectives

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: conceptual design, implementation design, and actual performance. "Conceptual design" is defined as "conceptualizing the concept of the value creation process" and "implementation design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process. Value creation becomes an "achievement" only when "conceptual design" becomes "implementation design. JPR conducts subjective evaluations of "conceptual design," "implementation design," and "performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

### "Conceptual Design", "Implementation Design", and "Performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
<b>Conceptual design</b>	Conceptual design is very logically organized	Conceptual design is approximately logically organized	Conceptual design is about halfway organized	Conceptual design is organized to a certain degree	Conceptual design is organized to a certain degree
<b>Implementation design</b>	Conceptual design is almost implemented	Conceptual design is almost implemented	Conceptual design is about half implemented	Conceptual design is implemented to a certain degree	Conceptual design has been implemented, albeit marginally.
<b>Performance</b>	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results almost exactly as intended by the conceptual design	Targeted outcomes are observed as actual results as intended by the conceptual design about half way through	Targeted outcomes are observed as actual results to a certain degree, as intended by the design	Targeted outcomes are observed as achievements, albeit slight, as intended by the conceptual design

Source: JPR

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## Evaluation of Confidence

### Evaluation of financial stability and social contribution

#### Credibility of the value creation process

JPR evaluates the feasibility of the value creation process based on GCC analysis from three perspectives: "Conceptual Design", "Implementation Design", and "Actual Performance." "Conceptual Design" is defined as "conceptualizing the concept of the value creation process" and "Implementation Design" is defined as "creating and operating a system to systematize and implement the management resources necessary to realize the concept of the value creation process." Value creation becomes an "Actual Performance" only when "Conceptual Design" becomes "Implementation Design." JPR conducts subjective evaluations of "Conceptual Design," "Implementation Design," and "Actual Performance," which are then rated in an easy-to-understand manner at 90%, 70%, 50%, 30%, and 10%. Specifics are described below.

### "Conceptual Design," "Implementation Design," and "Actual performance" Evaluation Framework

% indication	90%	70%	50%	30%	10%
<b>Financial Stability</b> The evaluation is based on a five-point scale from the viewpoint of sufficient experience in the value creation process, differentiated value creation capabilities that are difficult to imitate, low risk of fluctuations such as economic and seasonal fluctuations due to stockholding, and an optimized capital-liability structure.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable
<b>Social Contribution</b> The social issues addressed are generally of great importance to society, the path to their solution is not yet clear, and they are tackling a challenging task that requires both the creation of a new concept and the systematic creation of the optimal governance structure for its implementation.	Very Highly commendable	Highly commendable	Can be evaluated as a listed company on average	Can be commendable to a certain degree	Partially commendable

Source: JPR

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## Reference 1. Basis of Calculation

Corporate value estimated by use of ROIC and excess return

### Excess return analysis framework

Excess profit or economic value added is globally used as an indicator to estimate corporate value, evidenced by its adoption by Kao Corporation, a Grand Prix winner of the Tokyo Stock Exchange Fifth Corporate Value Improvement Award (FY2016). In the calculation of excess return, corporate value can be broken down into four elements: invested capital, excess return value, growth value, and non-business assets. This facilitates a better understanding of the structure that creates corporate value. A company might be overvalued or undervalued when its market cap is higher or is lower than its theoretical corporate value, respectively. The contribution of each year's corporate value can be visualized in the following figure, wherein shareholders' equity is simply represented as a sum of invested capital and non-business asset, subtracting interest-bearing debts. The figure below allows us to estimate how many years of growth might be incorporated into the stock price.

### Breakdown of corporate value using excess return



[source] JPR

Estimated excess return is profit that exceeds investors' return expectations against invested capital. Its present value is "excess return value," while a potentially growing portion of excess return is "growth value." Moreover, assets not used in business are added as non-business asset value in estimating a theoretical corporate value. Theoretically, the estimated corporate value using excess return should be the same as the value estimated using the discount cash flow (DCF) model. This report calculates excess return by using the following figures in a simplified manner.

- Excess return = NOPAT – Invested capital X WACC
- Net Operating Profit After Tax (NOPAT) = Operating profit X (1 - Effective tax rate)
- Invested capital = Total assets – Non-business assets – Current liabilities excluding Interest-bearing debt
- Non-business assets = Cash and deposits exceeding 10% of sales + Short-term investment securities + Investment securities + Deferred gains or losses on hedges + Land revaluation difference + Foreign currency translation adjustments
- Weighted average cost of capital (WACC) = After-tax interest rate of interest-bearing debt X (D/ (E+D)) + Cost of shareholders' equity X (E/D+E)
- Cost of shareholders' equity = 0.5% + 5% X β
- β = Slope of a linear regression line of five-year daily returns of TOPIX and the stock price of the target company.

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