

Up to approximately 2.8 times market cap upside, per GCC Management™ analysis

Capturing growing demand due to structural changes in the IT systems market with two hybrid supply strategies

This report will analyze corporate value from the perspective of "GCC Management™," a framework developed by J Phoenix Research ("JPR") that 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). Corporate value analysis from the perspective of GCC Management™, which emphasizes the three elements of social capital, human capital, and financial capital.

Growth opportunities brought about by structural changes in the IT market → plenty of demand

Cube System Inc. (CS) is an IT company with advanced technological capabilities developed through partnerships as a leading business partner of Nomura Research Institute (NRI) and Fujitsu Limited. Their expertise spans numerous industries, and their industry knowledge is creating new business opportunities aligned with structural changes in the IT systems market, particularly as IT departments become centralized in headquarters' strategy. The company's experience in developing financial systems with NRI and distribution systems with Fujitsu has earned high recognition, leading major companies to increasingly approach CS for IT system construction projects, as major IT firms alone cannot handle the scale and risks involved. President Nakanishi has announced a policy to proactively leverage these structural changes, positioning this as a period of second founding and promoting reform through the implementation of the mid-term management plan. CS's system engineering expertise, developed through transactions with major Sier companies, has led to business with the AEON Group, and the expansion of dealings with Mizuho Financial Group has been a significant positive factor. This trend is expected to continue growing. The company aims to maintain and strengthen its sophisticated know-how and stable cash generation through relationships with major IT companies while expanding into direct transactions and proprietary products in response to market demand.

Two Hybrid Supply Strategies to Seize Demand and Achieve Sustainable Growth

The two notable supply strategies of CS are "(1) Hybrid Development Strategy (utilization of development base in Vietnam)" and "(2) Hybrid Human Resources Strategy (technical capabilities & industry knowledge)". For the first strategy, CS utilizes both Japanese and Vietnamese bases, with over 100 engineers in Ho Chi Minh City to achieve advanced development capabilities and competitive costs. This base handles AI and cloud technology R&D, strengthens ties with major Sier companies, develops proposal-based business through direct transactions with end-users, and creates proprietary products. For the second strategy, CS has established an organizational structure with deep client business knowledge and high technological capabilities. The company focuses on developing "hybrid-type human resources" who are experts across multiple specialized fields. Through practical training and collaboration with the Vietnamese subsidiary, employees acquire advanced skills. CS aims to improve the turnover rate (currently 10%) through competitive compensation and motivation, targeting ESG management supported by higher sales per capita and sustainable growth. CS plans to leverage these two hybrid supply strategies to ensure accelerated growth in response to market demand.

Significant short-term upside is possible if growth value is factored into the stock price

With the strategies explained above, CS growth was estimated based on the assumption of long-term acceleration, with an expected 10-year CAGR of 10.3% through FY2035; ROIC was projected to increase from 23.6% in FY2024 on a company-planned basis to 38.8% in FY2034. WACC was assumed to remain constant at 8.8%. Based on this assumption, the estimated share price would be 41.63 billion yen if the 10-year growth value is factored in, and the share price would be 2,643 yen, approximately 2.8 times (rounded to 2.753 times) the closing price on October 25, 2012. Since the growth opportunity is judged to be largely unfunded in the stock price, significant short-term upside is expected if this growth value is reflected in the stock price. We look forward to IR activities that give investors such a perception.

Basic Report

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Company Profile

Location	Shinagawa-ku, Tokyo
Representative	Masahiro Nakanishi
Date of Establishment	1972/7/5
Paid-in Capital	1,400 million yen
Date of Listing	2002/10/30
URL	https://www.cubesystem.co.jp/
Industry	Information & Telecommunications

Key Indicators As of Dec. 13, 2024

Stock price	1,069Yen
52-week high	1,200Yen
52-week low	951Yen
Number of shares issued	15,750,000Stock
Trading unit	100Stock
Market capitalization	16,837Mil yen
Forecasted dividends	27Yen
Forecasted net income	83.7Yen
Forecasted PER	12.77times
Actual BPS (As of March 2024)	697.82Yen

Performance Trends	Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net Profit	YoY	EPS	Stock Prices	
	(Mil of Yen)	%	(Mil of Yen)	%	(Mil of Yen)	%	(Mil of Yen)	%	(Yen)	High (Yen)	Low (Yen)
FY2022 Results	16,099	8.9%	1,417	33.3%	1,432	10.6%	989	4.8%	69.82	1,257	860
FY2023 Results	16,325	1.4%	1,452	2.4%	1,480	3.3%	989	4.8%	70.35	1,235	875
FY2024 Results	18,021	10.4%	1,536	7.5%	1,590	7.5%	1,067	7.8%	70.39	1,288	1,024
FY2024 2Q Results	9,015	14.2%	794	32.7%	788	32.6%	788	-38.9%	33.07	1,288	1,116
FY2025 2Q Results	9,022	0.1%	533	-32.9%	528	-33.0%	906	15.0%	44.01	1,143	958
FY2025 Plans	18,800	4.3%	1,600	4.2%	1,650	3.7%	1,260	3.1%	83.70	-	-

*Dividend is 0 yen during the period.

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1. Investment Summary

Shareholder Value Analysis

Estimates based on the excess profit method

Growth Scenario with High Probability of Realization

Based on the future potential of CS's business development, JPR estimated shareholder value using the "excess profit method" (see Reference Basis of Calculation) based on the GCC Management™ framework. The following chart visualizes the framework of the qualitative and quantitative story. The quantitative upside will be clarified qualitatively and quantitatively in the following pages.

Qualitative Story Outline

Growth	Pioneering the future with technology and creativity to create new value for society
Connection	Aiming to be a company that continues to take on the challenge of creating social value by integrating human resources and technology
Confidence	Supporting Society and the Future through Sustainable Value Creation

Movement of major companies to shift their IT functions to their headquarters, revolutionizing the multilayered vertical subcontracting structure of IT.



**Increased opportunities for IT companies with advanced and strategic proposals
Increase in direct inquiries to major SIer.**



Companies that focus on our status as a leading partner of a major SIer and our know-how cultivated through transactions with the AEON Group and Mizuho Financial Group approach CS directly.



To strategically strengthen direct transactions and in-house product development in addition to the non-transactional base with major SIer companies.



Strengthening human resource development, reducing turnover, and strengthening development bases in Vietnam realizing our strategy by strengthening human capital management.



To the power to create a sustainable future together with all stakeholders.

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[100 million]

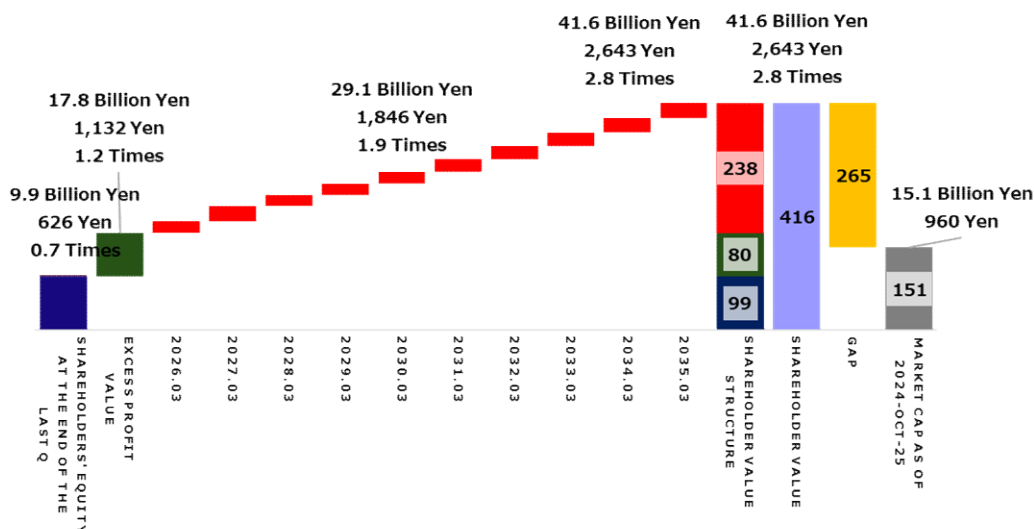
Growth Value	+	Excess Profit Value	+	Book Value of Shareholders' Equity
238.0		79.6		98.7

Shareholder Value
Shareholder value reflecting a 10-year scenario analysis
416.3

10-Year Shareholder Value Projection Model Estimation based on present value of future cash flows

	2025.03	2026.03	2027.03	2028.03	2029.03	2030.03	2031.03	2032.03	2033.03	2034.03	2035.03		
Sales	188	206	230	257	287	320	357	399	446	497	555		
Sales Growth Rate	15.2%	10%	12%	12%	12%	12%	12%	12%	12%	12%	12%		
Sales Change	25	18	24	27	30	33	37	42	46	52	58		
Operating Profit	16.0	19.5	24.5	28.6	33.2	38.5	44.5	51.3	59.0	67.7	77.5		
Operating Profit Margin	8.51%	9.47%	10.65%	11.13%	11.59%	12.03%	12.45%	12.85%	13.24%	13.60%	13.96%		
NOPAT	11.1	13.6	17.0	19.9	23.1	26.8	30.9	35.7	41.0	47.1	53.9		
NOPAT Margin	5.9%	6.6%	7.4%	7.7%	8.1%	8.4%	8.7%	8.9%	9.2%	9.5%	9.7%		
Sales to Beginning Invested Capital Ratio	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%		
ROIC	23.6%	26.3%	29.6%	30.9%	32.2%	33.4%	34.6%	35.7%	36.8%	37.8%	38.8%		
WACC	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%		
ROIC-WACC	14.9%	17.5%	20.8%	22.1%	23.4%	24.6%	25.8%	26.9%	28.0%	29.0%	30.0%		
Beginning Invested Capital	47.1	51.6	57.6	64.3	71.8	80.1	89.4	99.9	111.5	124.5	139.0		
Perpetual Value of Changes in Excess Profit	79.6	23.2	33.6	25.6	29.3	33.4	38.1	43.3	49.2	55.9	63.4		
Present Value Factor	1.00	0.92	0.85	0.78	0.71	0.66	0.60	0.55	0.51	0.47	0.43		
Present Value of Perpetual Value of Changes in Excess Profit	79.6	21.3	28.4	19.9	20.9	21.9	23.0	24.0	25.1	26.2	27.3		
Cumulative Shareholder Value	178.3	199.6	228.0	247.9	268.8	290.7	313.7	337.7	362.8	389.0	416.3		
Estimated Stock Price (Per share)	¥ 1,132	¥ 1,267	¥ 1,447	¥ 1,574	¥ 1,707	¥ 1,846	¥ 1,992	¥ 2,144	¥ 2,303	¥ 2,470	¥ 2,643		
Comparison to Current Stock Price (Multiple)	1.18	1.32	1.51	1.64	1.78	1.92	2.07	2.23	2.40	2.57	2.75		
Stock Price Closing as of 2024-Oct-25	¥ 960												
Excess Profit Value [100 Million Yen]	80		}					Shareholder Value		Market Cap as of 2024-Oct-25		15.1 Billion Yen	
Growth Value [100 Million Yen]	238							41.6 Billion Yen		2024-Oct-25		960 Yen	
Shareholders' Equity [100 Million Yen]	99							Stock Price Conversion		2,643 Yen		Closing Stock Price	

How many years into the future is the stock price looking?
Visualization graph of the 10-year shareholder value projection model - a graph showing the accumulation of the present value of shareholder value created in the future.



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Growth  **Pioneering the future with technology and creativity to create new value for society**

Growth Stories of Employees and the Company
Values and Worldviews Aimed at

A group of engineers who create the future

CS aims to realize a sustainable future society through digitalization and DX promotion. With a customer-first approach, the company leverages its technological capabilities to solve social issues. Targeting sales of 23 billion yen and a 10.5% operating margin by 2026, CS will accelerate growth through three core pillars: digital business, prime business, and Sierra Leone operations. The company fosters autonomous employee growth and creates value through both technological and creative capabilities. Additionally, CS promotes global business development through partnerships with NRI and Fujitsu, utilizing its Vietnam base, while contributing to sustainability through IT infrastructure services.

Growth Story of the Real Market
Value Offered and Future Market Size

Supporting Change through Technology

CS delivers value to industries like finance, distribution, and manufacturing through DX solutions using cloud and AI technologies. The IT services market has a TAM of about 27 trillion yen, a SAM of 3 trillion yen for DX services, and an SOM of 300 billion yen. Through strategic partnerships and proprietary solutions, CS targets 23 billion yen in sales by FY2026. The prime business strengthens ties with key clients, the digital business drives differentiation with unique products, and the SIer-oriented business ensures stable revenue and growth. Optimizing these structures will enable CS to achieve profitability and sustainable growth.

Financial Market Growth Story Metrics
10-year outlook for sales

10-year CAGR of 10.3% expected.

2025 Mar 2035 Mar

Net sales [100 million yen]

188.0 ▶ **555.4**

Growth pattern up to target FY


fixed growth degree **9**

Growth pattern after target FY

zero growth degree **10**

Growth value [100 million yen]

238.0

Connection  **Aiming to be a company that continues to take on the challenge of creating social value by integrating human resources and technology**

Connection Stories within Employees and Companies
Management Resource Connection Strategies

The joy of growing together

CS's strength stems from its skilled workforce and extensive industry expertise. The company enhances technical capabilities through initiatives like in-house hackathons, while building valuable technological assets, including AI facial recognition payment patents and its proprietary "F@CE" framework. With established partnerships with industry leaders like Nomura Research Institute and Fujitsu, the company maintains long-term client relationships. Moving forward, CS aims to strengthen its digital technology capabilities and leverage its Vietnam base for global expansion, while focusing on continuous human resource development.

Connection story of business resources in the real market
Business Model Dynamics

Paving the way to the future with technology

CS achieves high productivity and profitability by organically integrating internal and external management resources. Through its specialized organizational structure, the company effectively supports clients' DX initiatives by developing "hybrid talent" who expand their expertise beyond their core strengths. CS enhances cost competitiveness through optimized development with its Vietnam base and collaboration with cloud vendors. By balancing variable and fixed costs, the company improves profitability with revenue growth. Along with enhanced capital turnover and working capital efficiency, CS aims to achieve ROE of over 14% by FY2026.

Metrics for Evaluating Financial Market
Resource Connectivity Stories
10-Year Outlook for ROIC

ROIC from 23.9% to 39.1%.

Operating profit ratio

8.5% ▶ **14.0%**

Ratio of invested capital to sales


24.8% ▶ **24.8%**

ROIC

23.86% ▶ **39.13%**

Excess profit value [100 million yen]

79.6

Confidence  **Supporting Society and the Future through Sustainable Value Creation**

Trust story among employees and within the company
Profitability and financial stability

Growing with the power of bonds

CS's revenue is built on long-term trust with its clients. Around 60% of revenue comes from stable SIer contracts centered on system maintenance and operations, providing a reliable income stream. Strong partnerships with NRI and Fujitsu allow the company to consistently secure projects requiring advanced technical expertise. CS is also expanding its direct client base, including Mizuho Financial Group and AEON Group. Financially, it maintains a robust equity ratio of 75.1%, 6.8 billion yen in cash reserves, and a stable ROE of 10.8%, balancing growth investments and shareholder returns.

Trust Stories in the Real Market
Social Contribution & Governance

Growing with Society

CS supports clients' environmental initiatives through cloud migration and DX solutions. They've committed to environmental responsibility by supporting TCFD recommendations and achieving a CDP Climate Change Survey B score. Their social initiatives focus on hiring people with disabilities and advancing women's roles, targeting 15% female managers by FY2026. For governance, they maintain transparency through board evaluations and a Nomination and Compensation Advisory Committee, while strengthening risk and information security management.

Assessment Indicators of the Financial Market
Confidence Story
10-Year Outlook for WACC

8.78%

$\beta = VI \times COR$

0.88 Risk Premium

E[100 mil yen] D[100 mil yen]

151.2 **2.3**

COE COD

8.9% **0.0%**

Book value of shareholders' equity
[100 million yen]

98.7

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2. Overview

Company Profile

Company Name	CUBE SYSTEM INC. (Japanese notation: 株式会社キューブシステム)
Establishment	1972/7/5
Representative	Masahiro Nakanishi
Head Office Location	Osaki Wiz Tower, 2-11-1 Osaki, Shinagawa-ku, Tokyo
Capital	1.4 billion yen
Number of Employees	952 (2024/4/1, consolidated)
Fiscal Year End	Mar.
Business	Provide system solution services
Date of Listing	2002/10/30
Stock Exchange Listing	Tokyo Stock Exchange Prime [Securities Code: 2335]

Source: Compiled by JPR based on company data.

History

Year	Mon	Contents
1972	Jul.	Customer Engineers Inc. was established in Shinagawa, Tokyo, for software development and system management.
1985	Apr.	Opened Osaka Sales Office (currently West Japan Solution Division) in Higashi-ku, Osaka.
1988	Mar.	Signed a basic contract with Nomura Research Institute, Ltd. for a system development service, and started system integration services and system outsourcing services.
1990	Oct.	Changed the company name to "CUBE SYSTEM INC." to clarify business areas and management philosophy, and to further develop the company.
	Dec.	HOKKAIDO CUBE SYSTEM INC. (currently a consolidated subsidiary) is established to strengthen sales in the Tohoku and Hokkaido regions.
1994	Mar.	Head office relocated to Nishi-Gotanda, Shinagawa-ku, Tokyo.
1995	May.	Swap Management System, a financial derivatives trading management tool, developed and launched.
2001	Mar.	Obtained ISO 9001 certification, an international quality standard.
2002	Oct.	Listed on JASDAQ (OTC).
2003	Feb.	Became "e-Partner" with Nomura Research Institute, Ltd. to strengthen alliance in system solution business.
	Dec.	Acquired "Information Security Management System (ISMS) Conformity Assessment System" and "BS7799" certification.
2005	Mar.	Head office relocated to Higashi-Gotanda, Shinagawa-ku, Tokyo.
	Jul.	Acquired ISO 14001 certification (international standard for environmental management systems).
2006	Feb.	Obtained ISO/IEC27001 (Information Security Management System) certification.
	Nov.	Listed on the Second Section of the Tokyo Stock Exchange.
2008	Mar.	Established CUBE SYSTEM VIETNAM CO., LTD. in Ho Chi Minh City, Socialist Republic of Vietnam.

Source: Compiled by JPR based on company data.

History (continued)

Year	Mon	Contents
2008	May.	Becomes an "e-e-Partner" with Nomura Research Institute, Ltd. to Further Strengthen Collaboration in the System Solutions Business.
2009	Jul.	CUBE SHENYA SYSTEM SHANGHAI CO.,LTD. was established in Shanghai, People's Republic of China.
2014	Mar.	Listed on the First Section of the Tokyo Stock Exchange.
2015	Jul.	Head office relocated to Osaki, Shinagawa-ku, Tokyo.
2017	Dec.	With the acquisition of all shares of the consolidated subsidiary CUBE SHENYA SYSTEM SHANGHAI CO.,LTD. the company name was changed to CUBE SYSTEM SHANGHAI CO., LTD.
2019	May.	Opened Nagoya Office in Naka-ku, Nagoya-shi.
2021	Apr.	Acquired patent rights for AI facial recognition touchless payment service in DX business.
2022	Apr.	Acquired additional shares of a consolidated subsidiary (Hokkaido Cube System Inc.), making it a wholly owned subsidiary.
	Apr.	Moved from the First Section of the Tokyo Stock Exchange to the Prime Market due to a revision of the Tokyo Stock Exchange's market classification.
	Dec.	Entered into a capital and business alliance agreement with Nomura Research Institute, Ltd.
2023	Sep.	Opened Fukuoka Office in Hakata-ku, Fukuoka-shi.

Source: Compiled by JPR based on company data.

Major Consolidated Subsidiaries and Group Companies

Company name	Buisness outline	Capital	Investment Ratio
HOKKAIDO CUBE SYSTEM INC.	System Solution Services	53 Mil Yen	100.0%
CUBE SYSTEM VIETNAM CO., LTD.	System Solution Services	600k U.S. dollars	100.0%
CUBE SYSTEM SHANGHAI CO.,LTD.	System Solution Services	6,500k Chinese yuan	100.0%

Source: Compiled by JPR based on company data.

Major Business and Capital Alliances

Year	Mon	Company	Purpose
2018	Aug.	TRIPLEIZE CO., LTD.	Collaboration with TRIPLEIZE CO., LTD. in its areas of expertise, "AI and IoT technologies," will aim to create new businesses and expand orders. After the capital alliance, CS's shareholding ratio will be 5.2%.
2022	Dec.	Nomura Research Institute, Ltd.	Strengthening of long-term, ongoing relationships related to outsourcing, as well as expansion of business areas and development organization and facilities.NRI's stake in CS is 20.20%.

Source: Compiled by JPR based on company data.

3. Growth Story and Assessment through the GCC Management™ Framework

Growth

Values and worldview are clear

Creating social value and expanding business opportunities through DX promotion

From Contract-type to Planning type

Seize the opportunity of increased demand for structural changes in the market

Achieve business growth through planning-type and contract-type business

Worldview background: Leading the way in value innovation

Japan's IT industry is undergoing a change in its traditional multiple subcontractor structure. CS holds a unique position in this transformation, leveraging its advanced technological capabilities developed through 50 years of collaboration with major SIer firms and its diverse industry client base, while pursuing innovation for the new era. Direct transactions with Mizuho Financial Group and Aeon Group exemplify this transformation. Rather than merely pursuing direct transactions, CS aims to build "co-creation" relationships where they collaborate with clients on IT strategy development and implementation. The company provides employees with clear guidance to "think and act independently," fostering a corporate culture that challenges traditional industry boundaries. CS particularly focuses on developing "hybrid talent" combining advanced software engineering skills with deep business knowledge. This approach has enhanced relationships with major SIer firms, creating a virtuous cycle leading to more sophisticated projects, direct transactions, and proprietary product development.

The power to lead change

CS is pursuing three growth engines: "SIer Business" through fiduciary strategic partnerships, "End-User Business" through direct transactions, and "Service Providing Business" to develop in-house products by leveraging its unique strengths. It is noteworthy that these are positioned not as simple revenue sources but as mutually reinforcing growth platforms. For example, the knowledge in the financial and distribution fields gained through collaboration with a major SIer firm will lead to expanded transactions with Mizuho Bank and the AEON Group. CS is not simply competing for market share, but is taking an aggressive stance to promote the evolution of the market itself. The global development system centered on the Vietnamese subsidiary is also functioning as a foundation for providing high-value-added services, rather than price competition.

Second founding: Business restructuring through three growth engines

CS is advancing a bold transformation from a conventional contract-type model to a planning type approach as part of its "second founding." Its growth strategy is built on three pillars.

First, in its SIer business, the company is evolving from simple staffing services to a "one-stop model," undertaking all processes from specific stages onward, while enhancing competitiveness through collaboration with its Vietnamese subsidiary. Second, in its End-User business, CS leverages industry expertise gained through its SIer business to expand direct transactions.

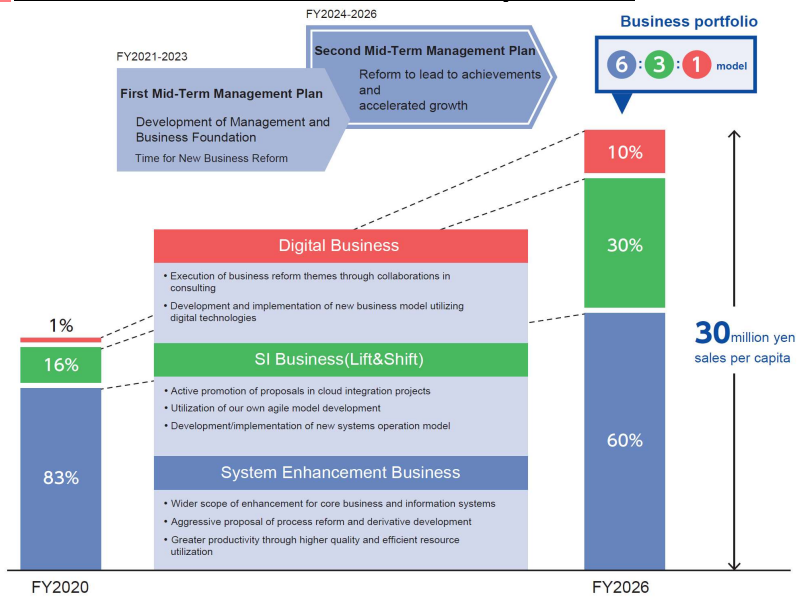
Third, in its service providing business, the company is utilizing abundant financial resources to promote the development of its own services. Through this tri-pronged strategy, CS aims to transition to a high-profit business structure. Additionally, the company is fostering a mindset shift among its employees from "following instructions" to "thinking independently and proposing solutions."

Business Model Transformation for Autonomous Growth

Ten-Year Outlook for Sales

The long-term plan is underpinned by a meticulous strategy, with the core focus on optimizing the business portfolio to stay ahead of industry structural reforms. The System Enhancement business will maintain stable growth, while the Digital business and SI business are expected to achieve higher growth rates. By doing so, the proportion of the SIer business, which accounted for 83% in 2020, will be reduced to 60% by 2026, achieving a more balanced business portfolio. This will establish a stronger revenue base, significantly improve operating profit margins, and is expected to expand market capitalization. Ample cash reserves will be strategically allocated to investments and shareholder returns to maximize capital efficiency and corporate value. Moreover, the company incorporates ESG and SDGs perspectives to build a growth model that balances social value with economic value.

Forecast to 2026 and business portfolio



High market growth expectations

TAM/SAM/SOM: Japan's Renewable Energy Market

In terms of TAM (total market size), SAM (serviceable market), and SOM (actually serviceable market), the overall IT services market in Japan is estimated to be about 20 trillion yen, the IT services sector where CS can provide services is about 5 trillion yen, and the market where it can gain market share at present is about 1 trillion yen. 10-year scenario In addition, the company also has a specific sales expansion strategy based on building up the number of customers and unit price, against a backdrop of rapidly growing demand for cloud migration and DX services.

VISION 2026: Long-term growth strategy to double sales by promoting DX

CS's sales are currently about 18 billion yen, and future growth depends heavily on digitalization and technological innovation. Under its mid- to long-term management plan, VISION 2026, the company aims to achieve annual growth of 10% or more through DX promotion, and plans to significantly increase sales over the next 10 years by expanding cloud migration services, optimizing business processes, and increasing cost reduction needs. Strengthening sales activities and expanding the customer base will be essential to this growth, and increasing the number of customers and cost per customer will be key. Increasing customer satisfaction through pre-marketing and customer feedback will increase the achievability of sales, and increasing customer loyalty to enhance corporate value is a key focus in the long-term growth of the company.

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Connection

Establish a growth image by increasing supply capacity to meet increasing demand

Business model evolution and ROIC improvement by improving the quality of human capital

Human resource strategy and business structure reform

Improve efficiency by improving human resource retention rate and utilizing intellectual assets

Two Hybrid Supply Strategies

The Joy of Growing Together

The core of CS's supply strategy consists of "(1) Hybrid development strategy (utilizing Vietnam base)" and "(2) Hybrid human resource strategy (technical capabilities & industry knowledge)". The company's success in collaborating with large Sier led to delays in contract-type business, company restructuring, and employee awareness changes, resulting in higher turnover among those seeking innovation. This increased costs and supply shortage risks. To address this, their Vietnam base employs over 100 engineers in Ho Chi Minh City, achieving advanced development capabilities and competitive costs. This base conducts AI and cloud technology R&D, developing strategic partnerships with major Sier firms and planning-type business with end users. The company focuses on developing "hybrid human resources" with both technical skills and business knowledge, improving capabilities through practical training and Vietnamese subsidiary collaboration. Through these initiatives, CS aims for sustainable growth by encouraging proactive employee participation, improving per-capita sales, and promoting ESG management.

New value created by people

Qualitative improvement in human capital is directly linked to the evolution of the business model, and the shift from traditional contracting to high value-added areas has led to a steady improvement in sales per employee. In end-user projects, the ratio of upstream processes has increased, contributing to higher profit margins. The company's improved employee retention rate has allowed it to accumulate intellectual assets, and its industry-specific solutions and expertise in AI and cloud computing technologies have become a source of competitive advantage. Furthermore, through optimal role-sharing with the Vietnamese subsidiary, profitability has improved, and ROIC is expected to improve as a result of these synergistic effects.

Strategic Measures to improve ROIC

High profitability to be realized through both human resource evolution and business structure reform

CS is promoting ROIC improvement from both human resource strategies and business structure reforms. In terms of human resources, CS will reduce the turnover rate from 10% to 5% by developing advanced skills and offering attractive projects, thereby improving productivity per worker. In terms of business structure, the company plans to increase the ratio of end-user projects and service providing business. At the same time, the company will increase the efficiency of its invested capital by improving development efficiency through the use of its Vietnamese subsidiary and promoting the reuse of intellectual assets. Through these measures, the company aims to improve ROIC as shown below and achieve industry-leading capital efficiency.

10-year outlook for ROIC

The company aims to significantly improve ROIC by reforming its profit structure based on the evolution of its human resource strategy. The operating margin is expected to improve from the current 8% to more than 12% through an increase in high value-added projects and higher sales per capita. Furthermore, the company expects to maintain the current ratio of sales to invested capital by improving productivity through better retention of human resources and the utilization of intellectual assets. As a result, JPR forecasts that ROIC will be around 30% in 10 years. The plan seems highly feasible if supply capacity is increased through two hybrid strategies against the backdrop of abundant demand.

Confidence

Profitability stability through a hybrid business structure between Japan and Vietnam

Social contribution and diversity strategies to support DX promotion and sustainability in Asia

Sustainable growth strategy with ESG management at its core

Improvement of capital efficiency through expansion of Vietnam business and improvement of profitability

Ensuring future value creation through the power of Asia

Growing with the power of bonds

Expanding challenges to the world

At the core of CS's profit stability is a hybrid business structure that leverages both Japan and Vietnam. The development base in Ho Chi Minh City employs over 100 highly skilled engineers, providing advanced development capabilities and a competitive cost structure. Of particular note is the fact that it is not merely an offshore development base, but also serves as an R&D function for AI and cloud technologies. This structure has enabled the company to strengthen long-term partnerships with major S1er companies in the system enhancement business, and to provide high-value-added solutions in the SI business through direct transactions with the AEON Group and Mizuho Financial Group. Furthermore, the Vietnamese market itself is experiencing rapid growth, and the company has begun to develop services for local companies. The company is expected to become a new source of revenue in the Asian market. Financially, the company is well positioned to take advantage of its financial strength to further globalize its operations and make strategic investments.

Growing with Asia

On the social contribution side, in addition to supporting DX promotion by Japanese companies, the company is also focusing on IT human resource development in Vietnam. The company is focusing on recruiting new graduates and hiring the next generation of IT personnel through its internship program. This also contributes to improving the digital competitiveness of Asia as a whole. In terms of diversity management, the company has created opportunities for Vietnamese engineers to work in Japan, and has realized the utilization of human resources from a global perspective. In governance, regular strategy meetings are held by the Japanese and Vietnamese management teams to promote integrated group-wide management.

ESG Strategy: Creating social value through Japan-Vietnam collaboration

CS has positioned ESG management as central to its growth strategy. Environmentally, they reduce CO2 emissions through green buildings at Vietnamese facilities and remote development systems. On the social front, they strengthen industrial competitiveness through DX support for Japanese companies while focusing on IT talent development in Vietnam, contributing to digital skill development across Asia. For governance, they maintain transparency through regular strategy meetings between Japanese and Vietnamese management teams. Their certification as an excellent health management corporation further demonstrates their commitment to sustainable growth.

10-year outlook of WACC, an indicator for evaluating the financial market's trust story

The growth strategy in Asia and a strong financial base are likely to lower CS's cost of capital. WACC, currently around 8.8%, is expected to decrease within 10 years, driven by Vietnam operations and profitability improvements. Strengthening its presence in Asian markets will enhance investor confidence, while proactive ESG initiatives attract sustainability-focused investments, further reducing financing costs. These projections are well-supported by CS's track record and growth potential in Asia.

4. Summary of Financial Results for the Second Quarter of the FY March 2025

Profit and Loss Summary

Increase in sales driven by the digital field

48% increase due to IoT projects

Steady sales to financial and government sectors

Decrease of 7% due to downsizing of some projects

Profit and loss summary

Corporate results

Summary of sales and operating results

In Q2 FY03/2025, CS posted a slight increase in sales to 9,022 million yen (+0.1% YoY). By business model, the digital business posted sales of 398 million yen (+48.3% YoY), thanks to the acquisition of an IoT infrastructure construction project in the energy sector, while the SI business posted sales of 3,095 million yen (-7.1% YoY) due to the reduction of large cloud solution projects for an education company, a wholesale distributor, and others. In the core system enhancement business, orders for projects for a financial institution and central government ministries and agencies were in line with initial plans, resulting in sales of 5,528 million yen (+2.1% YoY).

Profit and loss

Gross profit was 1,869 million yen (down from 1,959 million yen YoY), and cost of sales was 7,152 million yen (up from 7,055 million yen YoY). Selling, general, and administrative (SG&A) expenses totaled 1,336 million yen (up from 1,165 million yen YoY), resulting in an operating profit of 533 million yen (down 32.8% YoY). Non-operating income was 11 million yen due to interest income of 2 million yen, dividend income of 5 million yen, etc. Non-operating expenses were 16 million yen due to foreign exchange losses of 6 million yen, loss on investment partnership management of 7 million yen, etc. Ordinary income was 528 million yen (down 33.0% YoY). Extraordinary gains of 359 million yen on the revision of retirement benefit plans and 52 million yen on the sale of investment securities resulted in interim net income attributable to parent company shareholders of 662 million yen (+32.1% YoY).

Digital business

New participation in an IoT infrastructure construction project in the energy sector resulted in sales of 398 million yen (+48.3% YoY). CS aims to create new businesses through approaches such as consulting services, in-house products and solutions, and IP (intellectual property) creation.

System enhancement business

Sales were 5,528 million yen (+2.1% YoY), thanks to orders from a financial institution and central government agencies as initially planned. This has been the company's strongest business model, providing services to improve system performance and quality and enhance system value in response to changes in customers' business environments and the evolution of new technologies.

SI business

Sales were 3,095 million yen (-7.1% YoY) due to a contraction of large cloud solution projects, including those for an education company and a wholesaler.

Appendix 1. Details of Financial Model

Detailed financial model of actual results, company plan and JPR forecast 10-year forecast

(Unit: Million JPY)		Company Plan JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast
FY		2025.3	2026.3	2027.3	2028.3	2029.3	2030.3	2031.3	2032.3	2033.3	2034.3	2035.3
PL	Sales	18,800	20,600	23,000	25,680	28,671	32,012	35,741	39,905	44,554	49,745	55,541
	Cost of Sales	14,708	16,117	17,994	20,091	22,432	25,045	27,963	31,221	34,858	38,919	43,453
	SGA	2,492	2,533	2,555	2,730	2,917	3,116	3,329	3,557	3,800	4,059	4,337
	EBITDA	1,651	2,006	2,513	2,929	3,402	3,938	4,547	5,237	6,019	6,903	7,894
	Total Depreciation	51	56	63	70	78	87	97	109	122	136	143
	Operating Profit	1,600	1,950	2,450	2,859	3,323	3,851	4,450	5,128	5,897	6,767	7,751
	Interest Expenses	1	0	0	0	0	0	0	0	0	0	0
	Other Non-operating Income	51	0	0	0	0	0	0	0	0	0	0
	Ordinary Profit	1,650	1,950	2,450	2,859	3,323	3,851	4,450	5,128	5,897	6,767	7,751
	Extraordinary Gains/Losses	0	0	0	0	0	0	0	0	0	0	0
	Corporate Taxes, etc.	423	500	628	733	852	987	1,140	1,314	1,511	1,734	1,987
	Comprehensive Income Attributable to Parent Shareholders	1,227	1,450	1,822	2,126	2,472	2,864	3,309	3,814	4,386	5,033	5,764
	Shares Outstanding at Beginning of Period (Thousand Shares)	15,750	15,750	15,750	15,750	15,750	15,750	15,750	15,750	15,750	15,750	15,750
	Shares Issued (Thousand Shares)	0	0	0	0	0	0	0	0	0	0	0
	Shares Outstanding at End of Period (Thousand Shares)	15,750	15,750	15,750	15,750	15,750	15,750	15,750	15,750	15,750	15,750	15,750
	EPS (JPY)	77.91	92.09	115.70	134.99	156.92	181.83	210.10	242.15	278.45	319.52	365.98
	Dividend	40	47	59	69	81	93	108	124	143	164	188
	Total Dividend Payment	630	740	929	1,087	1,276	1,465	1,701	1,953	2,252	2,583	2,961
	Retained Earnings	597	710	893	1,039	1,196	1,399	1,608	1,861	2,133	2,450	2,803
BS	Liquidity on Hand	2,575	2,875	3,210	3,584	4,001	4,468	4,988	5,569	6,218	6,943	7,751
	Working Capital	3,444	3,845	4,293	4,793	5,352	5,975	6,671	7,449	8,316	9,285	10,354
	Depreciable Tangible Fixed Assets	175	196	219	244	272	304	340	379	423	473	529
	Investment Securities	2,068	2,068	2,068	2,068	2,068	2,068	2,068	2,068	2,068	2,068	2,068
	Other Assets	1,404	1,567	1,750	1,954	2,181	2,435	2,719	3,036	3,390	3,784	4,216
	Total Assets	14,067	15,062	16,273	17,667	19,259	21,100	23,202	25,614	28,363	31,499	34,302
	Non-interest-bearing Current Liabilities	2,442	2,727	3,045	3,399	3,795	4,238	4,731	5,283	5,898	6,585	7,343
	Short-term Borrowings	0	0	0	0	0	0	0	0	0	0	0
	Long-term Borrowings	0	0	0	0	0	0	0	0	0	0	0
	Other Fixed Liabilities	895	895	895	895	895	895	895	895	895	895	895
	Capital Stock, etc.	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891	2,891
	Retained Earnings, etc.	7,839	8,549	9,442	10,482	11,677	13,076	14,685	16,545	18,679	21,128	23,931
	Net Assets & Liabilities	14,067	15,062	16,273	17,667	19,259	21,100	23,202	25,614	28,363	31,499	34,302
CF	Liquidity on Hand	▲ 225	▲ 300	▲ 335	▲ 374	▲ 418	▲ 466	▲ 521	▲ 581	▲ 649	▲ 724	0
	Working Capital	▲ 301	▲ 401	▲ 448	▲ 500	▲ 558	▲ 624	▲ 696	▲ 777	▲ 868	▲ 969	0
	Non-interest-bearing Current Liabilities	213	285	318	355	396	442	494	551	615	687	0
	Tangible Fixed Asset Investment	▲ 66	▲ 77	▲ 86	▲ 95	▲ 107	▲ 119	▲ 133	▲ 148	▲ 166	▲ 185	▲ 143
	Tangible Fixed Asset Depreciation	51	56	63	70	78	87	97	109	122	136	143
	Short-term Marketable Securities	0	0	0	0	0	0	0	0	0	0	0
	Investment Securities	0	0	0	0	0	0	0	0	0	0	0
	Other Assets	▲ 123	▲ 164	▲ 183	▲ 204	▲ 228	▲ 254	▲ 284	▲ 317	▲ 354	▲ 395	0
	Retained Earnings, etc.	597	710	893	1,039	1,196	1,399	1,608	1,861	2,133	2,450	2,803
	Operating Cash Flow	147	110	222	291	360	466	566	697	834	999	2,803
	Short-term Borrowings	▲ 230	0	0	0	0	0	0	0	0	0	0
	Long-term Borrowings	0	0	0	0	0	0	0	0	0	0	0
	Other Fixed Liabilities	0	0	0	0	0	0	0	0	0	0	0
	Equity Financing	0	0	0	0	0	0	0	0	0	0	0
	Financing Cash Flow	▲ 230	0	0	0	0	0	0	0	0	0	0
	Net Cash Surplus Increase/Decrease	▲ 83	110	222	291	360	466	566	697	834	999	2,803
(Unit: Million JPY)		Company Plan JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast
FY		2025.3	2026.3	2027.3	2028.3	2029.3	2030.3	2031.3	2032.3	2033.3	2034.3	2035.3
KPI	Beginning Capital Turnover Ratio	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
	Beginning Invested Capital	4,705	5,155	5,756	6,427	7,175	8,011	8,945	9,987	11,150	12,450	13,900
	Sales Growth Rate	0.0%	9.6%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%
	NOPAT	1,190	1,450	1,822	2,126	2,472	2,864	3,309	3,814	4,386	5,033	5,764
	ROIC	25.3%	28.1%	31.7%	33.1%	34.4%	35.7%	37.0%	38.2%	39.3%	40.4%	41.5%
	Days Working Capital Ratio	61	61	61	61	61	61	61	61	61	61	61
	Cost of Sales Ratio	78.24%	78.24%	78.24%	78.24%	78.24%	78.24%	78.24%	78.24%	78.24%	78.24%	78.24%
	SG&A Ratio	13.25%	12.30%	11.11%	10.63%	10.17%	9.73%	9.31%	8.91%	8.53%	8.16%	7.81%
	Operating Profit Margin	8.51%	9.47%	10.65%	11.13%	11.59%	12.03%	12.45%	12.85%	13.24%	13.60%	13.96%
	Days Non-interest-bearing Current Liabilities Ratio	43	43	43	43	43	43	43	43	43	43	43
	Liquidity on Hand to Monthly Sales Ratio (Months)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
	Short-term Borrowing Rate	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%
	Long-term Borrowing Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	Effective Tax Rate	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%	25.6%
	Dividend Payout Ratio	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%	51.3%
	Gross DE Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Net DE Ratio	-65.0%	-64.6%	-64.4%	-64.4%	-64.4%	-64.6%	-64.9%	-65.2%	-65.7%	-66.2%	-69.7%
	Tangible Fixed Asset Depreciation Rate	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%	26.3%
	WACC	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%	8.8%

Source: Compiled by JPR based on company data.

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Appendix 2. WACC calculation procedure

■ WACC calculation process

Beta = VI (volatility index) x COR (correlation coefficient), where VI is the standard deviation of individual stock returns divided by the standard deviation of TOPIX returns and COR is the standard deviation of individual stock returns divided by the correlation coefficient of TOPIX returns. For each, a weighted average of the individual stock and industry is used from a statistical perspective. The weighted averages in this document can be found in the table below. Calculated on a daily basis over the past five years in this document. β is all debt-free β . RP: risk premium, RFR: risk-free rate (10-year government bond yield, source: Ministry of Finance), leverage: estimated risk-increasing effect of borrowing, calculated as $1 + (1 - \text{TaxRate}) \times D/E$. Leveraged $\beta = \text{Leverage} \times \text{Debt-free } \beta$, where D is debt outstanding in the previous quarter, E is market capitalization on the calculation date, COE: Cost of Equity = $\beta \times \text{Leverage} \times \text{RP} + \text{RFR}$. Stock prices are based on daily data for the past 5 years. The WACC calculation method used in this document is described in detail below.

β Builder 1: calculation for the entire company									
Volatility Index (VI) × Correlation Coefficient (COR) = β relationship calculation (debt-free)									
Select the weight (0-9) of the VI and COR you want to use to calculate the applicable β.									
VI*	Company adjustment	1.786	1	50%	COR	Company COR	0.493	1	50%
	Industry VI	2.114	1	50%		Industry COR	0.414	1	50%
	Reference: Industry/Other Companies, VI, Selection →		0	0%		0.422_54_GMS, Department Stores, Supermarkets	0	0	0%
			0	0%			0	0	0%
			0	0%			0	0	0%
			0	0%			0	0	0%
Applicable VI	1.950				Applicable COR	0.454			
VI* suggested that VI adjusted differs from the original VI									
Applicable β1									
0.88464									

β Builder 2: Calculation for New Business				WACC calculation process				
Weighting based on β of similar industries to the new business				β used for calculation				
β2	Company β2	0.898	1	50%	β1	0.8846		
	Industry β2	0.875	1	50%	E: Market Cap (100 mil yen)	D: Interest-bearing debt (100 mil yen)	TaxRate	
	Reference: Industry/Other Companies, β2, Selection →		0	0%	158.4	2.3	30.5%	
			0	0%	RP	RFR(2024-07-31)	Leverage	
			0	0%	8.863%	1.07%	1.010	
			0	0%	COE	Historical interest paid	COD	
Applicable β2	0.89				8.99%	0.00%	0.00%	
				D/(D+E)	E/(D+E)	D/E		
				1.43%	98.6%	1.5%		
The formula for β is $\beta = VI \times COR$. VI (Volatility Index) is the standard deviation of individual stock returns divided by the standard deviation of TOPIX returns, and COR (correlation coefficient) is the correlation coefficient of individual stock returns divided by the standard deviation of TOPIX returns. Calculations are based on daily data from the past five years, and all β values are unleveraged. RP refers to the Risk Premium, and RFR is the Risk-Free Rate, represented by the 10-year government bond yield (source: Ministry of Finance). Leverage, which estimates the risk amplification effect of borrowing, is calculated as $1 + (1 - \text{TaxRate}) \times D/E$, where D is the interest-bearing debt balance for the latest quarter and E is the market capitalization on the calculation date. Leveraged β is obtained by multiplying Leverage by Unleveraged β. COE, or Cost of Equity, is calculated as $\beta \times \text{Leverage} \times \text{RP} + \text{RFR}$. Stock prices are based on daily data from the past five years.								
$\text{COE} \times E / (E+D) + \text{COD} \times D / (E+D) =$								
WACC								
8.86%								

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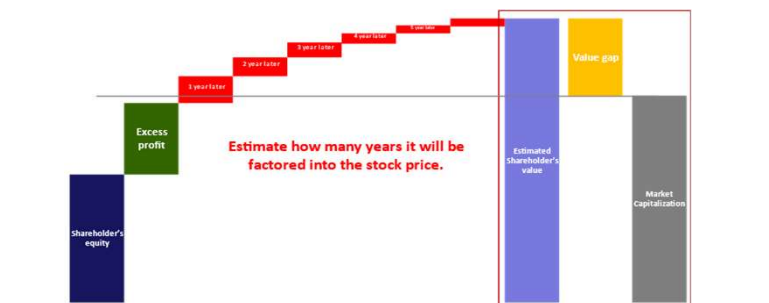
Reference. Basis of Calculation

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+E)) + 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
- E = Market cap at the time of calculation
- D = Short-term interest-bearing debt + Long-term liabilities + Minority interests in the latest financial statements at the time of calculation

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