

V-cube, Inc.

3681

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<http://www.fisco.co.jp>

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■ Summary

Focused on improving operations in FY12/17, targeting a V-shaped recovery from FY12/18

V-cube, Inc. <3681> (hereafter, also “the Company”) is a provider of visual communication services that connect people in different locations by video and voice and realize communications only possible by traveling and meeting directly in the past. It gives businesses an environment to handle all of their communications with a rich service lineup equipped with functions that address a variety of needs from the user's perspective. It promotes workstyle reforms that assist companies in realizing a new way of conducting work.

1. Business overview

The company has deployed V-CUBE for Web conferencing and Web seminars at a total of more than 5,000 users, including Japanese and non-Japanese corporations, education entities, and ministries and agencies, thus far and established a sold No.1 share in the domestic market for Web conferencing services (SaaS). It is also the No.2 firm, after Cisco Systems (US), in Asia. Since going public in 2013, V-cube is aiming to become Asia's No.1 Visual Communication Platform and has been pursuing its business strategies through aggressive M&As and strategic alliances.

2. Recent results

The 2016 Midterm Strategy (Next stage for accelerating growth), the first midterm plan as a group announced in February 2016, retains the existing core policy of “aiming to be Asia's No.1 visual communications platform and calls for implementation of three priority measures from FY12/16 – 1) cultivating the work-style change market, 2) providing social infrastructure platforms, and 3) expanding overseas business further with a focus on Asia. Plan goals for FY12/18 are ¥13,900mn in consolidated net sales and ¥3,000mn in operating income. V-Cube also seeks over the longer term to become the de facto standard in Asia, achieve at 30% operating income margin and 20% ROE, and attain a 40% overseas sales ratio by developing business primarily in China, Singapore, and India.

Consolidated results in FY12/16, the first fiscal year of the midterm plan, were ¥7,239mn in sales (up 19.0% YoY), ¥36mn in operating income (down 89.5%), and a ¥527mn net loss attributable to owners of parent (vs. a ¥93mn net profit in the previous year). V-Cube booked sharply lower operating income and a net loss despite a double-digit rise in sales, and both sales and earnings missed period-start targets. In Japan, top-line sales stalled on mismatch between investments targeting business expansion and sales growth, delayed promotion of version replacement, and sluggish sales momentum. Post-M&A PMI (business integration) was inadequate at group companies. In overseas business, V-Cube continued to make investments in unprofitable sites and incurred forex losses due to sharp fluctuation in rates. These factors resulted in V-Cube missing plan targets.

The Midterm Strategy announced on February 15, 2016 presented FY12/18 consolidated goals of ¥13,900mn in sales (rising about 2.3-fold versus FY12/15) and ¥3,000mn in operating income (8.6-fold). Following the weaker FY12/16 results, however, V-Cube intends to carry out structural reforms in FY12/17 and revise its goals in light of subsequent results.

Summary

3. Results outlook

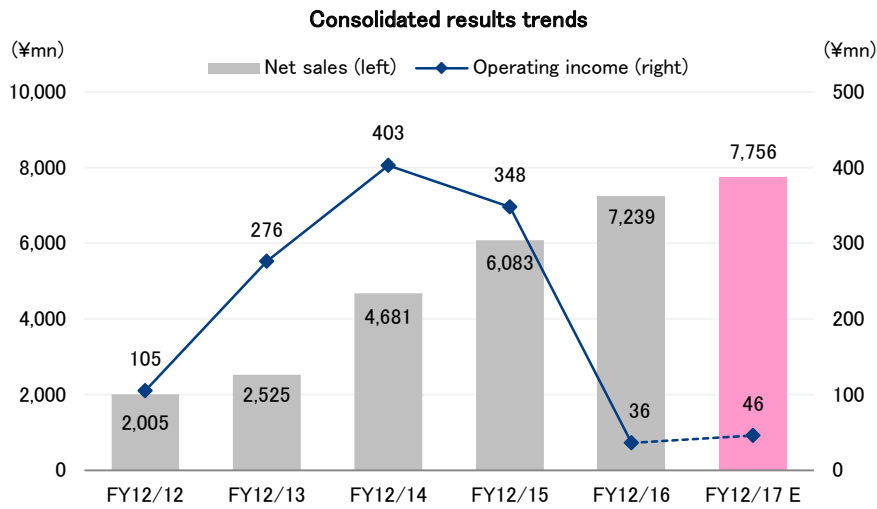
The FY12/17 plan targets ¥7,756mn in sales (up 7.1% YoY), ¥46mn in operating income (up 26.6%), and a ¥539mn net loss attributable to owners of parent (vs. a ¥527mn loss). V-Cube plans to conduct structural reforms and sharply reduce fixed costs in 1H FY12/17, taking into account issues identified in FY12/16, and aim for a V-shaped recovery in FY12/18.

4. Dividends

V-cube did not pay dividends through FY12/16 on the basis that bolstering retained profits to strengthen corporate standing and prepare for aggressive business initiatives and using resources to enhance financial standing and invest in growth is the best way of redeeming profits to shareholders. It indicated at the FY12/16 results announcement on February 13, 2017 that it will not pay a dividend in FY12/17.

Key Points

- Booked sharply lower operating income and a net loss, despite a double-digit rise in sales, in FY12/16
- Focused on cost reductions and structural reforms and establishing lean operations in FY12/17
- Intends to revise the midterm plan from FY12/18 in light of FY12/17 results



Source: Prepared by FISCO from the Company's results briefing materials

■ Company profile

Leading Japanese company for Web conferencing systems that Aiming to become Asia's No.1 suppliers

1. Company profile

V-cube handles planning, development, sales, operation, and maintenance of visual communication tools and supplies cloud-based visual communication services to Japanese and non-Japanese corporations, educational entities, ministries and agencies, and other customers. V-cube developed its own Web conferencing systems* in 2004, the advent of visual communications, and entered the market after enhancements. It has held a No.1 share for none straight years in the Web conferencing market for ASP (cloud) and ASP (cloud) plus SI (on-premise) business aided by high-quality service that offers many detailed features from a user perspective and favorable response to the product line-up and 24-hour, 365-day support operations. The company has a track record of installations at over 5,000 users primarily for mainstay V-CUBE Meeting, a Web conferencing service, and controls an unchallenged top position in Japan. It also acquired a No.1 share in the SI (on-premise) Web conferencing area by acquiring Pioneer Solutions (now, Pioneer VC (PVC)) as a subsidiary in 2014. It holds No.1 shares in all segments of the domestic Web conferencing market and is the leading firm in Japan.

* This system facilitates communication with a person in a remote location using video and voice, similar to video conferencing. However, it does not require an expensive dedicated system as in traditional video conference (video conferencing system). It can be used anywhere in the world with an Internet connection environment, PC or mobile device (smartphone or tablet), and a camera and microphone.

V-cube strives to make contributions to a seamless communications society, bring about changes in people's lifestyles and business styles, and build a richer social environment under a corporate philosophy of "Our aim is to help improve modern human society by creating new values through the use of information technology."

V-cube aims to become Asia's No.1 Visual Communication Platform, going beyond the Japanese market, and is aggressively pursuing business in the Asian region with robust growth opportunities*. It holds a No.2 share in Asia after Cisco Systems, Inc. (US). It listed shares on the Tokyo Stock Exchange's (TSE) Mothers market in December 2013 with goals of raising name recognition and awareness and procuring funds to expand the business, and it transferred to the TSE-1 market in July 2015.

* V-cube selected Asia because of likely robust demand for Web conferencing systems in light of the large potential user population and a culture that emphasizes "face to face" visual communication as well as inadequate transportation infrastructure in some locations. It also sees sales opportunities in countries that are difficult for full-fledged initiatives by Cisco Systems and other major US firms (countries with less English knowledge or less affinity with American culture). It is focusing on local companies where the rival major US firm does not have traction in overseas business.

The V-cube Group consisted of the Company and 15 companies as of end-December 2016 with 13 overseas companies and 2 domestic subsidiaries. It has 534 directors and employees (312 in Japan and 222 at overseas entities) with 195 in sales and marketing, 261 engineers, and 78 in administrative sections. The personnel structure incorporates technology and sales capabilities. V-cube operates 15 offices worldwide (six sites in Japan, nine overseas sites) and has data centers globally, including Japan, the United States (Eastern and Western areas), China, Hong Kong, Singapore, Malaysia, Indonesia, and India.

Company profile

Major group companies

Company	Location	Main business	Ratio of voting rights
<i>Consolidated subsidiary</i>			
PioneerVC, corporation	Japan	Planning, development, sales, maintenance of industrial and business-use system	85.05%
iStudy Co., Ltd.	Japan	Development and sales of e-learning study software and learning management system	61.50%
V-cube USA, Inc.	USA	Provision of visual communication services	100.00%
V-cube Malaysia Sdn. Bhd.	Malaysia	Provision of visual communication services	100.00%
V-cube Global Services Pte. Ltd.	Singapore	R&D center, Asian holding company	100.00%
PT. V-CUBE INDONESIA	Indonesia	Provision of visual communication services	95.00%
V-cube Global Operations Pte. Ltd.	Singapore	Management of data centers and tele communication lines	100.00%
V-cube Singapore Pte.Ltd.	Singapore	Provision of visual communication services	100.00%
V-cube (Thailand) Co., Ltd.	Thailand	Provision of visual communication services	49.00%
BRAV International Limited	Hong Kong	Provision of visual communication services	100.00%
V-cube Tianjin Technology Co., Ltd.	Tianjin, China	Provision of visual communication services	100.00%
Wizlearn Technologies Pte. Ltd.	Singapore	Provision of educational platform	100.00%

Source: Prepared by FISCO from the securities report

Integrated business through focus and selectivity after the Lehman's collapse, accelerating business expansion with aggressive acquisitions since going public

2. History

Representative director and president and founder Naoaki Mashita started predecessor V-cube Internet, Ltd. in October 1998 when he was a student at Keio University, as a company to provide web solutions such as making Web sites and developing apps. He reorganized to a stockholding company as the business ramped up and changed the name to V-cube, Inc.* in January 2001. The company subsequently formed a capital alliance with Keio University, a first in Japan, in March 2002, and supplied Web and mobile solutions and pursued new business based on joint research with the university and others.

| * Roots in the three Vs of the corporate slogan of "V-cube provides Visual Communication Vehicle" |

It established V-cube USA, Inc. in Los Angeles (US) in April 2003, entering the mobile app business in North America. It launched V-cube Broad Communications in Japan in January 2004 to build and sell infrastructure for visual communications provided over the rapidly development broadband infrastructure and began sales of "nice to meet you" (now, V-CUBE) after making improvements to a Web conferencing system developed on its own as a tool for efficient communications with US employees*. It converted former V-cube to a subsidiary in September 2005 and decided to specialize in visual communication service business and shrink other existing businesses in 2006. It absorbed former V-cube in March 2006 and changed the company name to V-cube, Inc. in April 2006.

| * The catalyst was its inability to buy an expensive video conferencing system. |

V-cube suspended preparations for going public, which had reached the final stage, due to the impact of the Lehman's collapse that occurred in September 2008. The company decided to focus on visual communication services as the only business following an upturn in demand for these services triggered by the Lehman's collapse and a change in user understanding of and usage stance toward cloud-based services. It revised the service name from "nice to meet you" to "V-CUBE" in May 2010.

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Company profile

Besides these domestic initiatives, the company procured funds from Intel Capital and others and began development of Asian business, including its opening of a liaison office to gather information in Malaysia (Kuala Lumpur;*1) in August 2009 and establishment of V-cube Malaysia Sdn. Bhd. in December 2009. It also established V-cube Singapore R&D Centre Pte. Ltd. in Singapore in January 2012 (name changed to V-cube Global Services Pte. Ltd.*2 in December 2012; below, V-cube Global Services), with the aim of reinforcing its technology development capabilities, and founded PT. V-CUBE INDONESIA in July 2012. It acquired BRAV International Limited (below, BRAV) and its subsidiary Tianjin Brav Technologies Co., Ltd (now known as V-cube Tianjin Technology Co., Ltd) as consolidated subsidiaries in order to fully enter the Chinese market, and also It established V-cube Singapore Pte. Ltd., a sales site in Singapore, in August 2013. In September 2016, it established V-cube (Thailand) Co., Ltd. as a sales unit in Thailand. In this way, V-cube has aggressively established and expanded sites in Asia.

*1 It selected Malaysia as the first target because of strong latent growth potential and lower entry costs than Singapore.
 *2 It utilizes Singapore as not only an R&D center, but also added capabilities as a regional management firm to roll out service in Asia. President Mashita moved to Singapore to promote globalization of the company.

V-cube listed shares on the Tokyo Stock Exchange's (TSE) Mothers market in December 2013 with goals of raising name recognition and awareness and procuring funds to expand the business. It has been implementing a strategy of business expansion led by aggressive acquisitions in Japan and other countries since then. It concluded a joint venture contract for a visual communication platform in the medical field with M3 <2413>, which operates the m3.com medical information site, in February 2014 and established M-cube in March 2014 (V-Cube sold its stake to M3 and terminated the joint venture contract in November 2016). It also acquired PVC, a Pioneer <6773> subsidiary that supplies electronic smart board and web conferencing services, as a consolidated subsidiary in May 2014. It purchased Wizlearn Technologies Pte. Ltd. (below, Wizlearn), Singapore's largest provider of education platforms, with the aim of strengthening education and training areas as a consolidated subsidiary in October 2015, and it acquired System Technology I <2345> (renamed iStudy in April 2016) as a consolidated subsidiary via a TOB in December 2015.

History

October 1998	V-cube Internet established as a private limited company providing web solutions
January 2001	V-cube Internet incorporated and changed its name to V-cube Internet, Inc.
March 2002	Capital alliance formed with Keio University
December 2002	Changed name to V-cube, Inc.
April 2003	V-cube USA, Inc. established in Los Angeles, California to penetrate the US market
May 2004	Established V-cube Broad Communication to develop visual communication tools and supply services
December 2009	V-cube Malaysia Sdn. Bhd. established in Kuala Lumpur to develop and expand business in Southeast Asia
May 2010	Renamed the main service from "nice to meet you" to V-CUBE
January 2012	Established V-cube Global Services Pte. Ltd. (formerly V-cube Singapore R&D Centre Pte. Ltd.) to strengthen R&D
July 2012	PT. V-CUBE INDONESIA established in Jakarta
May 2013	V-cube Global Operations Pte. Ltd. established to lay the infrastructure for V-cube to provide its services worldwide
August 2013	To facilitate business expansion in China, BRAV International Ltd., together with its subsidiary, Tianjin Brav Technologies Co., Ltd. (now V-cube Tianjin Technology Co., Ltd), were made consolidated subsidiaries
August 2013	V-cube Singapore Pte. Ltd. (now a consolidated subsidiary) established as a sales unit
December 2013	IPO. V-cube's shares listed on the Tokyo Stock Exchange Mothers market
February 2014	Established M-cube, Inc. after concluding a contract about visual communication platform in the medical field
May 2014	Pioneer Solutions, Inc. (now Pioneer VC, Inc.) made a consolidated subsidiary
July 2015	Shares listed on the Tokyo Stock Exchange First Section
October 2015	Established V-cube Robotics Japan Co., Ltd. to improve sales to the robot industry
October 2015	Asian holding company V-cube Global Services Pte. Ltd. bought Wizlearn Technologies Pte. Ltd., the provider of the largest education platform in Singapore, and made it a consolidated subsidiary to improve services in the areas of education and training
December 2015	Acquired iStudy Co. Ltd. (formerly System Technology i, Inc.) and made it a consolidated subsidiary to improve services in the areas of education and training
January 2016	Established V-cube Technical Works, Inc. to strengthen development
September 2016	V-cube (Thailand) Co., Ltd. (now a consolidated subsidiary) established as a sales unit in Thailand

Source: Prepared by FISCO from the Company's website

* Currently the joint venture contract has been terminated.

We encourage readers to review our complete legal statement on "Disclaimer" page.

President Mashita is the top shareholder with just over 26% including indirect holdings

3. Major shareholders

Mr. Mashita, the founder and current representative director and president, is the Company's top shareholder with 4,518,800 shares (23.33% stake) and Tommy Consulting, his asset management firm, owns 680,000 shares (3.51%) and is the fourth largest shareholder according to major shareholder data from the end of December 2016. Mr. Mashita holds a total of 5,198,800 shares (26.84%), including the indirect portion.

The other major shareholder related to the company is Masaya Takada, representative director and vice president, with 300,000 shares (1.55%), the seventh largest. Additionally, business partner Mirait owns 240,000 shares (1.24%), ranking ninth.

Major shareholders (as of December 31, 2016)

Order	Name	Shares owned	Ownership ratio	Comment
1	Naoaki Mashita	4,518,800	23.33%	V-cube Representative Director and President
2	Japan Trustee Services Bank, Ltd. (Trust account)	1,843,900	9.52%	
3	The Master Trust Bank of Japan, Ltd. (Trust account)	1,024,200	5.29%	
4	Tommy Consulting, Inc.	680,000	3.51%	Naoaki Mashita's asset management firm
5	SBI SECURITIES Co., Ltd.	501,200	2.59%	
6	M3, Inc.	363,600	1.88%	
7	Masaya Takada	300,000	1.55%	V-cube Representative Director and Vice President
8	Rakuten Securities, Inc.	245,300	1.27%	
9	MIRAIT Corporation	240,000	1.24%	Business partner
10	Ryota Iwamoto	227,000	1.17%	
Total for the top 10 shareholders		9,944,000	51.33%	
Outstanding share volume		19,370,800	-	

Source: Prepared by FISCO from the securities report

V-cube has a stock options program for directors and employees and it issued subscription rights to shares to Merrill Lynch Japan Securities (below, Merrill Lynch) in April 2016. These measures put dilutive share volume at 4,961,400 shares, which is 25.6% of outstanding share volume, as of March 29, 2017.

Business overview

Emphasis on cloud-based services with recurring revenue

Visual communication services provided by the V-cube Group cover Web conferencing service for meetings with counterparts at a remote location while seeing each other's faces and sharing materials and communication services, such as online seminars, that utilize not only words and voice, but also video over the Internet from user PCs or smartphones, tablets, or other mobile devices based on a concept of accessibility "anytime, anywhere, and anyone."

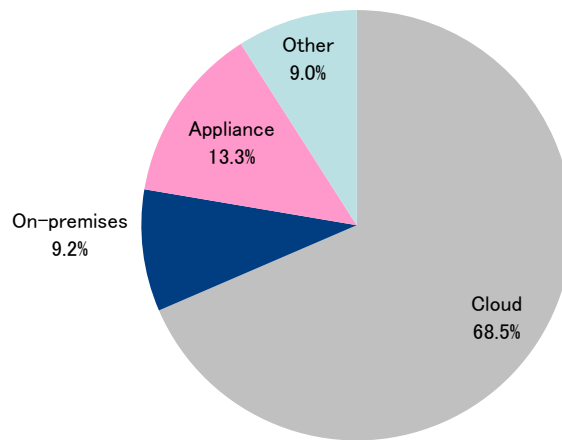
Business overview

V-cube does not give segment disclosure because it only has one segment - visual communication services. Yet it discloses sales of products and services by the four categories of cloud*1, on-premise*2, appliance, and others and three regions of Japan, China, and overseas (besides China). Sales ratios were cloud at 68.5%, on-premise at 9.2%, appliance at 13.3%, and others at 9.0% by category and Japan at 74.6%, China at 11.4%, Singapore at 12.3%, and overseas (besides China) at 1.7% in FY12/16.

*1 Service provided over the Internet using an application; no need for the customer to purchase expensive hardware

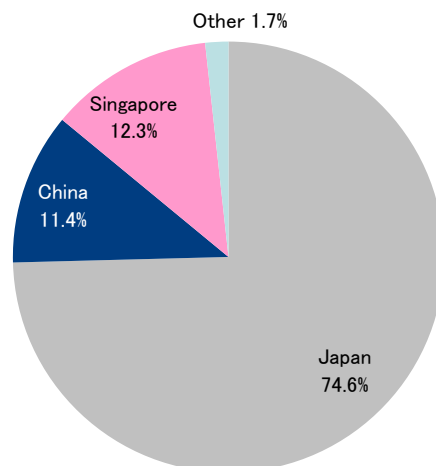
*2 Service customized to the customer's needs and installed as a system in the customer Intranet

Sales breakdown by business model (FY12/16)



Source: Prepared by FISCO from the Company's results briefing materials

Sales breakdown by geographic region (FY12/16)



Source: Prepared by FISCO from the Company's financial results

1. Business models

a) Cloud-based service

This format involves accessing servers managed by the group that are located globally over the Internet and using the necessary amount of service and at the necessary timing. Customers do not have to prepare or manage servers and hence do not incur server management costs or system maintenance costs and only pay a flat monthly usage rate or other service fees.

b) On-premises service

This format involves the sale of a license per service and usage whereby the customer manages and operates the servers. V-cube sells licenses to the system deployed as a cloud-type service in a customized manner to meet the needs of customers who want to build their own dedicated web conferencing systems and cannot utilize cloud-based service due to access control and other security policy impacts (specifically, educational entities, ministries and agencies, and financial entities).

c) Appliance

V-cube sells electronic smart board systems mainly to educational entities, discussion tables primarily to ministries and agencies and companies, and video conferencing systems (V-CUBE Box) mainly to companies. It delivers a combined hardware and software product. PVC primarily handles electronic smart board systems and discussion tables, while the entire group sells video conferencing systems.

d) Other

V-cube sells hardware related to visual communications (Web cameras, headsets, echo-canceller microphones, large LCD panels, and others).

2. Sales channels

V-cube sells cloud-based and on-premises formats on a direct sales basis as well as through sales agents and OEM (service provision in another company's brand name). Looking at domestic sales, net-contract ratios handled by sales agents are roughly 40% for cloud-based service and about 70% for on-premises service. Electronic smart boards handled by PVC are almost entirely sold through sales agents.

Key sales agents in Japan are Otsuka Shokai <4768>, Canon Marketing Japan <8060>, NTT East, NTT docomo <9437>, and other NTT Group firms, Softbank Commerce & Service, Hitachi Systems, Conexio <9422>, Nihon Unisys <8056>, and Uchida Yoko <8057>. Major system integrators, telecom carrier group firms, IT vendors, and others sell V-cube's services.

3. Customer base

V-cube Group's customers broadly cover from smaller companies to listed large companies, ministries and agencies, educational entities, and various organizations and are not skewed to a particular industry. V-cube has a track record of installations at over 5,000 users thus far. Additionally, iStudy acquired in 2015 has over 400 existing customers such as major financial institutions, including megabanks, and sells e-learning products to individuals. Overseas customers, meanwhile, are primarily local companies and local governments, and local business accounts for over 90%.

4. Business method

a) Cumulative-type business model

Cloud-based service, the Company's main offering at two-thirds of overall sales, fundamentally using a monthly billing format, and annual sales work out to contract volume (number of contracted ports*) x the unit price (monthly fee per port) x 12 months. This business model leverages a cumulative effect as net additions to contracts, assuming no cancellations, boost the overall user stock.

* Port refers to the service usage unit. V-Cube introduced the port-based billing framework with the release of V-CUBE One in September 2014. It previously used a room format (contract format based on the number of rooms used at the same time), but the port framework gives users flexibility for room volume and sets an upper limit on the number of simultaneous connections. The fee is ¥11,000 per port a month and the basic contract starts at 10 ports.

While monthly fees differ depending on the scale of usage (ranging widely from ¥5,000 to a few million yen), steady increases in contract volume and lifts in usage fees per customer contract (contract ports x contract port unit price) drive higher sales for V-cube. Few companies terminate service once they sign up because of high switching costs, and most hence become long-term users that continue existing contracts. V-cube reports having churn of about 15% annually for the previous version of V-CUBE Meeting and expects lower churn thanks to favorable effects from rolling out V-CUBE Meeting 5, the latest version with significantly improved connectivity and image and voice quality, and the V-CUBE One package service*.

* Aims to lift the usage rate, increase contract renewal (lower churn), and boost contract port volume through various service experiences

On-premises service charges a fee comparable to about three years' worth of cloud-based service, and customers subscribe to maintenance contracts, so additions to the number of customers steadily expands sales. V-cube also books sales from appliance products that integrate hardware and software such as electronic smart boards and V-CUBE Box video conferencing systems.

b) Cost structure

The group's main costs are server costs, communication line (dedicated line) fees, software development expenses, and operating costs. It uses external data centers for servers, though some of the servers are its own dedicated servers. An increase in customers (usage amount) requires server reinforcement to some extent, and this results in higher server-related fees. However, the ratio of server fees to net sales decreases as the net sales increase further. The situation is similar with communication line costs, which expand with the increase in net sales, but at a slower rate. Both cloud-based and on-premises services have very high marginal profit ratios of about 90%.

With cloud-based service, earnings weaken during the phase of upfront spending when the company increases salespeople in order to recruit new users because it recoups software investment costs and sales expenses over a lengthy period.

For appliances, meanwhile, it is important to realize that cost of sales expand proportionately to rising sales for electronic smart boards because of the company's procurement of large LCD panels.

5. Content of major services

Core services supplied by the V-cube group are V-CUBE, subsidiary PVC's xSync, subsidiary iStudy's iStudy, and Singapore-based subsidiary Wizlearn's ASKnLearn.

Business overview

a) V-CUBE

V-CUBE is the general name for visual communication services, and these services can run on PCs and smart-phones, tablets, and other mobile devices.

List of core services in V-CUBE

Service name	Service overview and features
V-CUBE Meeting	High-quality service for hosting web conferences on the Internet (can be accessed readily using PCs, mobile devices, or other devices) that supports high-definition video and provides excellent connectivity. Participants can easily hold web conferences with people anywhere in the world if they have an Internet environment. Besides seeing the other people, the system also supports sharing of materials and PC screens by all participants, recording to make a record of the conference and retain it as a proceedings archive, and collaborating with video conferencing systems.
V-CUBE Seminar	Service for hosting webinars that can be access on the Internet. Both lecturer and participant can participate in webcasts from anywhere in the world, without the need to travel to venues or convention centers if they have an Internet environment. Seminars can be held simply and inexpensively and have a global scope. Key features include sharing materials and PC screens, chat that allows for submission of questions to the lecturer in writing, real-time questionnaire data collection, and participant comments submitted by video. The system handles participation by up to 10,000 people.
V-CUBE Sales & Support	Service that enables one-on-one business negotiation or call center support between people in different locations via a PC or tablet. Sessions can be arranged without requiring the other person to install any special software or incur a significant procedural burden, and this enables sales staff to communicate 'face-to-face' with potential clients and share sales documents. It is useful for face-to-face sales, information centers, customer support, counseling and other uses.
V-CUBE Document	A paperless meeting system that allows all participants to view documents and write on a shared interactive whiteboard using an Android tablet or iPad.
V-CUBE Gate	A free text/chat service for corporations with robust security that is safe and simple to use. Can be used seamlessly in conjunction with other V-CUBE services. Also available in a paid plan that supports detailed management, including device sessions, and provides additional security.
V-CUBE Box	A low-cost video conferencing system that can be readily expanded. It is installed in meeting rooms and operated with a remote control. V-CUBE Box is cheaper than ordinary video conferencing systems and realizes high video and voice quality that is on par with or better than other systems.

Note: Shaded items are V-CUBE One services.
 Source: Prepared by FISCO from the securities report and the Company's website

V-cube started offering V-CUBE One service, a package service that gives users access to five services (V-CUBE Meeting, V-CUBE Seminar, V-CUBE Sales & Support, V-CUBE Document, and V-CUBE Gate) with a single license, in September 2014 with the aim of broadening usage scenes for its visual communication tools.

It implemented a full-fledged version upgrade of V-CUBE Meeting, the main Web conferencing service, for the first time in nine years in September 2015. V-CUBE Meeting 5, the enhanced version, realizes robust connectivity, high image quality, and high voice quality by newly adopting industry top-level video signal compression technology and voice transmission technology.

V-cube launched V-CUBE Box, a low-priced meeting room video conferencing system, at the end of 2015 in order to enter and make headway in the video conferencing market. V-CUBE Box has a simple remote controller for easy operation even by people who lack familiarity with operating equipment and includes cameras and microphone speakers as a package. Yet it also delivers high quality with HD-compliant video and auto-adjusted clear voice and is capable of connecting over 100 sites without using an expensive MCU. It supports interoperability with video conferencing systems made by other firms too and costs just about one-third of the price for video conferencing systems from other firms, including running costs.

* Abbreviation of Multipoint Control Unit; Networking device for transmission of video conferencing video and voice data to another site that offers robust cost performance by lowering costs and time (required for travel).

V-CUBE provides solutions services for insurance agent, banking, education, housing, manufacturing, and retail industries.

Business overview

b) xSync

This is a general name for visual collaboration services delivered by PVC, which V-cube acquired as a subsidiary in May 2014. Core services are xSync (service using a collaborative learning assistance system that links the xSync Board, an electronic smart board, and tablets) and xSync Prime Collaboration (a Web conferencing service that reproduces a PC desktop screen with high precision for real-time sharing in addition to video and voice).

c) iStudy

iStudy is a general name for services delivered as corporate educational and training infrastructure, mainly to large financial entities, by iStudy, which V-cube acquired as a subsidiary in December 2015. The service includes iStudy LMS, a comprehensive learning management system that offers packages for functions vital to human resource training, such as group training management, e-learning activities, study results management, and course information.

d) ASKLearn

This is a learning and management system equipped with e-learning tools and management features from Wizlearn, Singapore's largest provider of educational platforms acquired as a subsidiary by V-cube in October 2015, which is mainly supplied to Singaporean schools. It has an extensive track record of service delivery for 16 years in Singapore, a global pioneer in education ICT, and installations at just over 50% of Singapore's public schools.

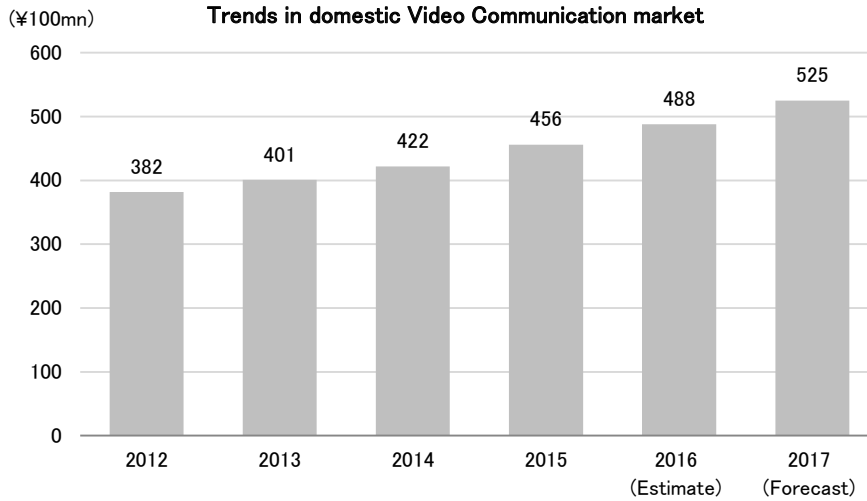
Market environment, rivals, strengths and weaknesses, and business and other risks

Estimated potential market of the mainstay Web conferencing system market in the ¥100bn range

1. Market size

The video communication market (covering the visual communication market for existing video (TV) conferences, Web conferences, and voice conferences and the new unified communication market) in Japan, which emerged in the early 2000s, continues to expand at a moderate pace with help from growing utilization of smartphones, tablets, and cloud services. Seed Planning, a market research and consulting firm, estimates that this market grew from ¥38.2bn in 2012 to ¥48.8bn in 2016, for a stable growth rate of 6.3% per year.

Market environment, rivals, strengths and weaknesses, and business and other risks



Source: Seed Planning "2017 Latest Market Trends for Video Conferencing and Web Conferencing, and Video Communication (VC) related business Trends"

It estimates that the market for Web conference systems, which are V-cube's main business, expanded to ¥13bn in 2016 in this environment, and the 6.5% average growth rate during 2012-16 achieved. We attribute the faster pace to Web conferencing systems not using high-priced equipment required for video conferencing systems and easy access that allows for utilization anywhere in the world with an Internet connection, PC or mobile device (smartphone or tablet), and camera and microphone. While less attractive video and voice quality than video conferencing had been a problem, technology advances have overcome these issues and we think the ability to provide quality on par with video conferencing is serving as a growth driver.

It is possible to realize the same level of communications as video conferencing, Web conferencing, and other formats using functionality provided by apps in PCs, tablets, smartphones, and other devices, and we expect steady growth by the video communication market, including free communication software. Given this context, we project growth by the Web conferencing market through tapping into the high-priced video conferencing market and recent fast-growing free communication software market because of corporate need for an effective balance of quality and costs and security considerations. We believe that Web conferencing still has a large potential market and forecast growth by the domestic Web conferencing system market to the ¥100bn level accompanying a workstyle revolution.

Major foreign-capital firm is a rival for share expansion

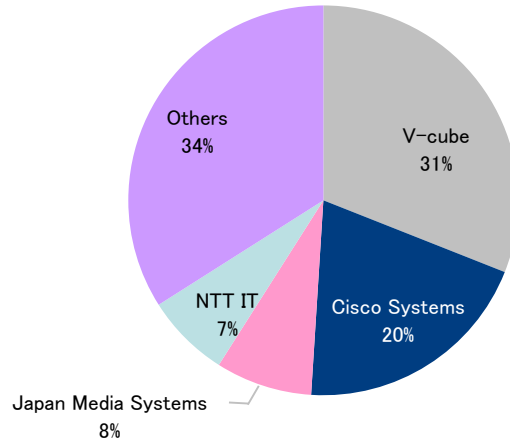
2. Rivals

Web conferencing service itself is a software product and does not require special advanced technologies. This aspect results in a relatively low barrier to market entry and many rivals and thereby creates a difficult market for continuously generating profits. Cisco Systems (WebEX brand) holds the No.2 share in the market, Japan Media Systems Corp. (LiveOn) ranks third, and NTT IT Corporation (MeetingPlaza) ranks fourth. Other rivals include Anet, Inc. (Fresh Voice), which specializes in Web conferencing systems and major electric equipment and machinery firms such as Brother Industries <6448> (OmniJoin) and Fujitsu <6702> (JoinMeeting easy).

We encourage readers to review our complete legal statement on "Disclaimer" page.

Market environment, rivals, strengths and weaknesses, and business and other risks

Web conferencing system (ASP + SI) market shares (2016; value basis)



Source: Seed Planning “2017 Latest Market Trends for Video Conferencing and Web Conferencing, and Video Communication (VC) related business Trends”

Main rivals for video conferencing systems that V-cube started providing are Polycom, Inc., the top global supplier of video conferencing systems, Cisco Systems, and other foreign-capital firms as well as Sony <6758>, Panasonic, and other major Japanese manufacturers.

Way ahead of rivals in Web conferencing system business size and realizes differentiation with economics of scale

3. Strengths and weaknesses

V-cube’s strength in the visual communication market is supplying cheap Web conferencing systems that can be used anytime and anywhere, in contrast to high-priced video conferencing systems that require dedicated hardware. It has established differentiation in the Web conferencing system market, where it faces many rivals, through its provision of a wide range of high-quality, easy-to-use services, which are based on development efforts that factor in user needs and utilize excellent technologies, as well as robust support* operations. V-cube leveraged these capabilities to acquire a top share in the Web conferencing system market from the early days of the market, and development of a larger Web conferencing system business than peers has enabled it to lower cost per user. Its much more extensive development capabilities and infrastructure resources than at rivals serve to provide further differentiation and give it deep-rooted advantages.

* 24-hour, 365-day support after system installation. Covers from questions about usage to rapid response to unexpected trouble.

We think V-cube’s service provision capabilities in Asia is a strength too. It has developed service capabilities that connect overseas data centers in a dedicated network, which is provided in 15 countries centered mainly on Asia (Japan, US (Eastern and Western US), China, Hong Kong, Singapore, Malaysia, Indonesia, India, Vietnam, Thailand, Philippines, UK, Australia, and Brazil). The Company also provides multi-language localization of its cloud-based services (Japanese, English, Chinese (simplified and traditional), French, Indonesian, Thai, and Korean), along with an enhanced English-language support center and other measures for global expansion. Having this infrastructure is important group strength.

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Market environment, rivals, strengths and weaknesses, and business and other risks

In Asia especially, even if the respective countries have relatively strong internal telecommunication networks, their inter-country communication environments (international communication lines) are often unstable, causing frequent disruptions of video conferences and other such communications between countries. V-cube possesses a major source of differentiation through its use of dedicated inter-country lines to provide a stable communication environment, even between countries.

A weakness, meanwhile, is V-cube's relatively low name recognition as a company, though it has improved from where it stood prior to going public, in comparison to Cisco Systems and other major foreign-capital firms and group companies of leading domestic telecom carriers and manufacturers that are its rivals. V-cube plans to review investments in advertising aimed at raising name recognition, based on a cost-effect assessment, as the visual communication market expands, in order to resolve this issue.

Timeline of market growth as the market developer is the biggest risk

4. Business and other risks

Business and other risks include risk related to the timeline of growth by the visual communication market, risk from selling group products to local government entities, risk related to securing human resources and managing group companies, and risk from covenants on financial standing. Another risk, albeit not directly related to the business, is dilution from exercise of subscription rights to shares.

a) Risk from the timeline of market growth

We think the visual communication market, which is V-cube's main business, has extensive growth room, as explained above. V-cube is making upfront investments such as multiple company acquisitions, continuous investment in software, and reinforcement of sales activities in anticipation of future market gains. It aims to realize sustainable growth that stays with the pace of market expansion.

Specifically, it needs to significantly alter approaches and trends as the industry leader in order to achieve its goals of deeper changes in workstyle and establishment of visual communication as social infrastructure. V-cube might not recover upfront investments within the anticipated period and this could prevent the earnings growth it imagines unless changes driven by these efforts advance at the pace envisioned by V-cube and the market grows.

b) Risk from selling group products to local government entities

Electronic smart boards supplied by PVC currently account for a majority of sales under appliances, which is one of V-cube's sales format segments, and PVC mainly delivers these products to public schools in Japan with local government entities as final customers. Changes in Japan's national budget, budget allocations to local government entities, and the extent of budget utilization by local government entities hence could strongly affect appliances sales because of the nature of final customers for electronic smart boards.

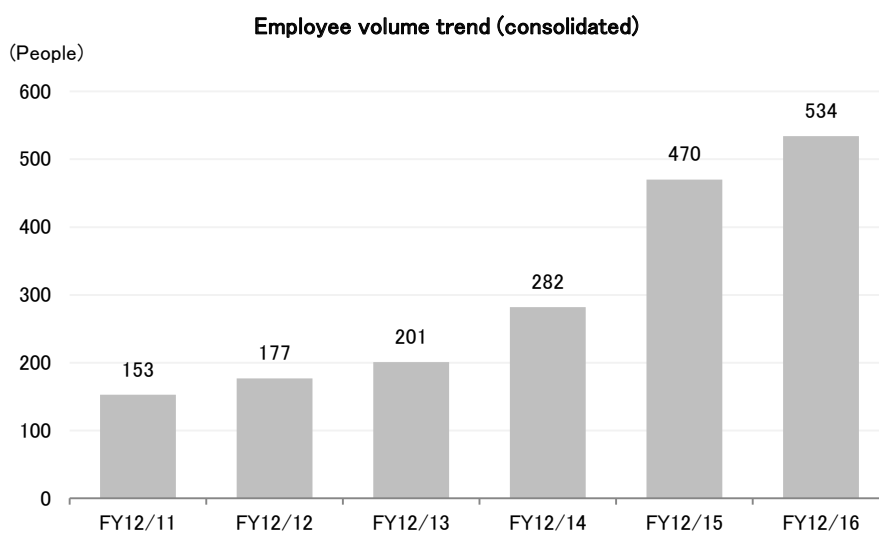
c) Risks related to securing and cultivating personnel and managing group companies and employees

V-cube requires high-quality human resources, mainly in sales and system development, in order to grow, and has developed programs for hiring new university graduates and mid-career individuals and cultivating human resources. It intends to continue aggressive investments, including corporate acquisitions, and plans to expand business scale and regional coverage. V-cube might face reduced competitiveness and constraints on business expansion that have adverse impacts on its business and earnings if it is unable to smoothly recruit human and train resources to accommodate this business scale and regional expansion and this interferes with suitable human resource deployment.

Market environment, rivals, strengths and weaknesses, and business and other risks

Additionally, recent aggressive corporate purchases have rapidly increased the number of consolidated subsidiaries* and group employees to 534 directors and employees (312 in Japan and 222 at overseas entities) and 15 consolidated subsidiaries (13 overseas companies and 2 domestic companies) as of end of December 2016, and V-cube needs to strengthen management capabilities for handling group companies and employees at group companies. We think establishing and reinforcing management capabilities, including budget management, at the Chinese subsidiary is particularly important.

* Consolidated subsidiaries expanded from 8 companies at the end of FY12/13 right after going public on the Mothers market to 15 companies at the end of December 2016



Source: Prepared by FISCO from the Company's results briefing materials

d) Risk of dilution from exercise of subscription rights to shares

Another risk, though not directly related to business, is dilution from the exercise of subscription rights to shares. V-cube grants stock options to group directors and employees with the aim of raising their motivation and morale to improve earnings, and it also issued stock acquisition rights to Merrill Lynch as part of its effort to secure funds for business expansion over the longer term. These measures put dilutive share volume at 4,961,400 shares, which is 25.6% of the Company's outstanding share volume of 19,381,600 shares, as of March 29, 2017. It allocated 2,560,000 shares, which is 13.2%, to Merrill Lynch.

V-cube has dilutive share allocations of 2,401,400 shares, which is 12.4%, to directors and employees. The 13th subscription rights issue (698,800 shares) will be cancelled on April 30, 2017. Note that V-cube's earnings are a condition for exercising rights* in the case of 14th subscription rights issue (1,005,000 shares).

* Exercise condition for the 14th subscription rights was all rights of operating income prior to goodwill costs exceed ¥3bn in any period during FY12/16-18.

e) Risk from covenants on financial standing

Some of V-Cube's loan contracts with financial institutions apply covenants on financial standing. If V-Cube violated the covenants and needed to repay the loans in full, it might incur impacts on group fiscal conditions, business results, and cash flow.

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Business performance

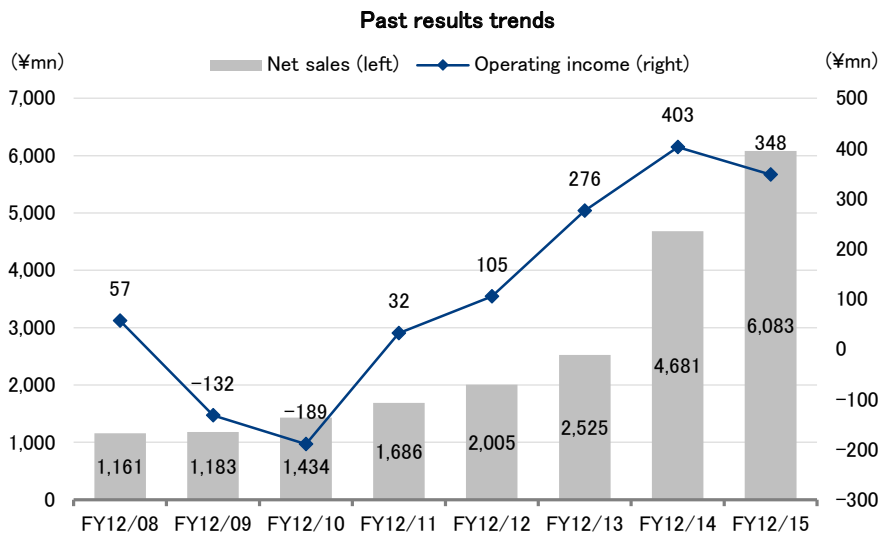
V-Cube sustained sales and earnings growth from 2011 thanks to healthy expansion of cloud-based business and extensive M&A, profit dropped on higher sales in FY12/15

1. Past business performance

a) Results trends (FY12/08 to FY12/15)

A review of income trends in data disclosed from FY12/08 shows healthy advances in sales of cloud-based services from FY12/09, after the decision to narrow business scope and focus on visual communication service and amid aggressive promotion of cloud-type sales, accompanying growing user cost sensitivity. The growth pace accelerated further from FY12/13 after ramping up M&As.

Profits, meanwhile, struggled in FY12/09 and FY12/10 with temporary setbacks to operating losses due to an inability to fully absorb operating costs, mainly upfront outlays in personnel expenses, amid changes in the sales mix of growing cloud-based revenue and shrinking on-premises sale as V-cube shifted from one-time payment on-premises services to monthly-fee cloud-based services. However, the situation changed from FY12/11 when sales moved above the breakeven point and V-cube switched to a trend of profit growth in step with rising sales and acceleration of the pace. In FY12/15, however, operating income fell even with sharply higher sales and consolidated results were ¥6,083mn in sales (up 30.0% YoY), ¥348mn in operating income (down 13.7%), and ¥93mn in net income (down 64.2%).



Note: Consolidated since FY11/12. Parent values prior to then
 Source: Prepared by FISCO from the securities report

Business performance

Overview of FY12/15 consolidated results

	FY12/14		FY12/15		YOY
	Results	% of sales	Results	% of sales	
Net sales	4,681	-	6,083	-	30.0%
Cost of sales	1,980	42.3%	2,729	44.9%	37.8%
Gross profit	2,701	57.7%	3,354	55.1%	24.2%
SG&A expenses	2,297	49.1%	3,006	49.4%	30.8%
Operating income	403	8.6%	348	5.7%	-13.7%
Ordinary income	594	12.7%	179	3.0%	-69.8%
Profit attributable to owners of parent	261	5.6%	93	1.5%	-64.2%

Source: Prepared by FISCO from the Company's results briefing materials

Key drivers of the sharp rise in sales were 1) healthy expansion of cloud-type services in Japan and steady advances in appliances business at PVC and 2) overseas boosts from growing Chinese business and the acquisition of Wizlearn (Singapore). Operating income slipped, despite the favorable sales trend, because of a rise in cost of sales related to higher appliance sales, upward pressure on cost of sales from strengthening services (products), and higher SG&A expenses to bolster sales operations. Gross profit margin was down from 57.7% in FY12/14 to 55.1% due to ¥184mn in software depreciation costs associated with improvements in service, ¥54mn in extra costs for infrastructure related to expansion, and other items. A ¥708mn YoY rise in SG&A expenses from higher expenses with long-term investment recovery periods, such as ¥430mn in sales personnel costs to bolster sales operations, ¥43mn in sales strategy costs, and ¥164mn in additional rent related to the increase in sales personnel, weighed on earnings too. These higher outlays reduced operating income margin by 2.9pp from 8.6% to 5.7%.

2. Financial standing and business indicators (FY12/08 to FY12/15)

Looking at financial conditions, meanwhile, V-cube's net assets dropped to ¥58mn and the capital ratio slipped to 3.6% at the end of FY12/10 because of the losses booked in FY12/09 and FY12/10. V-cube implemented private placement capital increases with Todentsu (*; March 2011), Premiere Global Services s.a.r.l. (June 2011), and Global Capital Partners (Globis Fund III, L.P. and Globis Fund III (B), L.P.; July 2011) aimed at improving financial health. It subsequently raised the capital ratio to 74.7% by the end of FY12/13, through accumulated of earnings accompanying profit recovery and expansion and funds raised from going public on the TSE Mothers market, and thereby significantly enhanced financial standing.

* Todentsu combined operations with Daimai and Commuture and established Mirait Holdings <1417> as a joint holding company. It is now Mirait, a wholly-owned subsidiary.

Following the IPO, the capital adequacy ratio declined to 42.2% at the end of FY12/15 because of increases in interest-bearing debt from the impact of acquiring PVC in FY12/14 and Wizlearn and iStudy in FY12/15.

Business performance

Financial standing and business indicators

	FY12/08	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15
	(¥mn)							
Total assets	1,169	1,560	1,623	1,717	2,095	5,030	6,257	10,156
Total liabilities	649	1,297	1,565	1,156	1,421	1,273	1,857	5,554
Net assets	520	262	58	561	674	3,757	4,400	4,601
Total liabilities and net assets	1,169	1,560	1,623	1,717	2,095	5,030	6,257	10,156
Consolidated employees (people)	-	-	-	153	177	201	282	470
Parent employees (people)	114	115	132	139	154	160	178	186
Ordinary income to net sales ratio	4.4%	-11.0%	-16.7%	0.8%	5.3%	10.5%	12.7%	3.0%
Capital adequacy ratio	44.5%	16.8%	3.6%	32.7%	32.2%	74.7%	65.5%	42.2%

Note: Consolidated since FY11/12. Parent values prior to then
 Source: Prepared by FISCO from the securities report

Aiming to become Asia's No1 Visual Communication Platform

3. Growth strategy

(1) Overview of V-cube's growth strategy after going public

V-cube aims to become Asia's No.1 Visual Communication Platform by developing and supplying products, mainly for Web conferencing service and Web seminar service, based on a concept of visual communication services that can be used anytime, anywhere, and by anyone. It has expanded business through aggressive acquisitions as part of a growth strategy with three main initiatives - 1) expand domestic market share and develop potential markets, 2) expand overseas business mainly in Asia, and 3) deploy a B2B2C-type platform model.

It broadened the customer base and industry-specific solutions and expanded service areas, particularly in China and Singapore, by aggressively acquiring companies, including BRAV and its subsidiary in China (2013) and Wizlearn and its subsidiary in Singapore (2015) for overseas business and PVC (2014) and iStudy (2015) in Japan.

(2) Medium-term direction

Adhering to its existing core policy of aiming to be "Asia's No.1 visual communication platform," V-cube will maximize group synergies and strive to become the de facto standard in Asia through adoption in work-style reforms and as societal infrastructure in Asian countries. It is targeting 40% in overseas sales over the longer term through business initiatives mainly in China, Singapore, and India.

V-cube plans to expand sales and profits by implementing three priority measures - a) cultivating the work-style change market by increasing market share in Web conferencing and video conferencing areas, broadening usage scenes, accelerating inroads and realizing regular usage, and maximizing group synergies, b) providing social infrastructure platforms, and c) expanding overseas business further with a focus on Asia. Below we review the content of the three priority measures.

a) Deepening the workstyle change market

V-cube has been making efforts to deepen the work-style change market since 2004. It promotes work-style changes using visual communication and wider use of cloud services by increasing market share in Web conferencing and video conferencing areas, broadening usage scenes, accelerating inroads and realizing regular usage, and maximizing group synergies.

Business performance

• Increase of market share in Web conference & video conference

V-cube seeks to increase market share for Web conferencing, a platform for work-style changes, with future potential for expansion to a market worth ¥100bn. It also launched V-CUBE Box and entered the video conferencing market at the end of 2015. V-cube aims to expand market share further through provision of these two products.

• Expand use scenes

V-cube released V-CUBE One as a package of multiple services, and this offering is gaining traction. V-cube is bolstering differentiation from rival products through provision of visual communication solutions that support from simple Web conferencing to a wide range of usage scenes.

• Accelerate penetration and increase regular use

V-cube hopes to accelerate penetration by visual communication through collaboration in cloud-based field with Microsoft that delivers products with extensive corporate use (V-cube will adopt Microsoft Japan's basic computer system, Azure, enabling the seamless use of both companies' cloud services with a single service sign-on). It also seeks to broaden use of visual communication by promoting installations of V-CUBE Gate*, a corporate free text chat service.

* This application collaborates with its Web conferencing and allows for entry into and use of other services with a single click. It is called V-CUBE Gate due to serving as an entryway to other major services.

• Maximize group synergy

V-cube aims to maximize group synergies in the educational area that it strengthened with acquisitions of Wizlearn and iStudy in 2015. By integrating e-learning, which is mainly provided on demand, with the real-time services of V-CUBE, the Company aims to expand sales through increased cross-selling of its services and further differentiation from competitors. In the case of iStudy, V-cube seeks to differentiate itself by controlling corporate meeting and training infrastructure and boost sales via cross-selling by adding iStudy's educational supervision system and other services to the line-up for V-cube group's more than 5,000 existing customers and by offering V-CUBE services to iStudy's existing 400 customers.

b) Become social infrastructure

V-cube intends to promote the use of Web conferencing, video conferencing, and other visual communication in many areas of daily life, not only corporate environments, as a type of social infrastructure. It is focusing on education, medicine, financial services, and robotics as usage scenes with significant expansion room through deregulation, tougher regulation, and national policies. V-cube plans to cultivate these markets and acquire market shares. Its business model seeks to build operations that share profits with partner firms as infrastructure usage fees, rather than system utilization fees, through collaboration with a variety of services.

• Education (EduTech)

V-cube targets use of visual communication in the education field as a core component of its growth strategy. It is developing solutions for the education industry and has acquired PVC, Wizlearn, and iStudy as subsidiaries. It has built group operations that cover education ICT, remote learning, online training, e-learning, and other applications.

Japan's educational market is projected to reach to ¥256.8bn in 2020 with active learning, centering on the use of electronic smart boards, at ¥12.0bn, distance learning and e-learning for schools at ¥53.3bn, systems digitalization and school administration support at ¥18.5bn, and the educational services market (comprised of private tutorial schools, correspondence education, etc.) at ¥173.0bn.

Business performance

• **Medical (MedTech)**

This business provides solutions for the medical health field, mainly through web lecture services to pharmaceutical companies. It intends to develop and supply highly convenient visual communications services to the medical health field, including remote medicine, remote care, and remote prescriptions.

• **Financial services (FinTech)**

Use of V-cube's Web conferencing, online seminars, and other services as FinTech communication infrastructure is growing, and further expansion is likely. Key opportunities include omni-channel activities at Japan's megabanks, regional banks, shinkin banks, trust banks, other financial institutions, and FinTech operators (making counter transactions remotely, advising about fund investment or asset inheritance, supporting the work of bank employees in the field, introducing products through remote seminars, and promoting remote sales) and IT-based explanation of important property details and customer contacts in the real estate industry.

V-cube has formed an alliance with Escrow Agent Japan <6093> to supply a platform to regional banks, credit unions, and other financial institutions for specialized operations required by non-face to face transactions of financial products. It also uses alliances to deliver services such as remote loan contract conclusion and internal auditing for multi-firm insurance agents. Furthermore, V-cube started supplying the FinTech Adapter, a service for provision of visual communication API*1 and SDK*2 to financial entities that supports incorporation of online face-to-face communication in FinTech services, in order to support the needs of these financial entities and FinTech operators.

*1 Application Programming Interface. This is a standard that allows for control of certain functions and data acquisition/ registration and other access after conducting a procedure to gain certification. It is generally available for web services and other software services. The API facilitates service collaboration among multiple different systems.

*2 Software Development Kit. This is the general name for developer tool kits that software vendors supply to promote development of services that collaborate with their products. Users utilize existing program packages contained in the SDK and can readily develop software that incorporates basic technologies and features provided by the vendor.

• **Robotics**

V-cube is focusing on robotics, particularly drones, as a priority area. It established V-cube Robotics Japan (*; below, VRJ) in October 2015 to speed up decisions related to provision of hardware solutions utilizing robotics and service development as well as boost dynamism and flexibility and to achieve further group growth. It is engaged in research and development of remote monitoring solutions using cloud-based drones together with VRJ.

* In May 2016, VRJ conducted a private placement capital increase with Globis Capital Partners and Tsuneishi Capital with the aim of enhancing its autonomy and realizing business expansion by proactively offering solutions to growing market and making investments.

It is estimated that the commercial drone market could expand to ¥100bn in the future, including use in disaster situations by local government entities, utilization by police and fire agencies, and applications to bridge, dam, and other infrastructure inspections and maintenance of plants and large-scale facilities.

The combination of V-cube's visual communication service and drones allows for confirmation of high-quality video in real time on the V-CUBE system. We think V-cube is likely to dominate services that incorporate drone use into Web conferences and expect substantial growth in demand for these services.

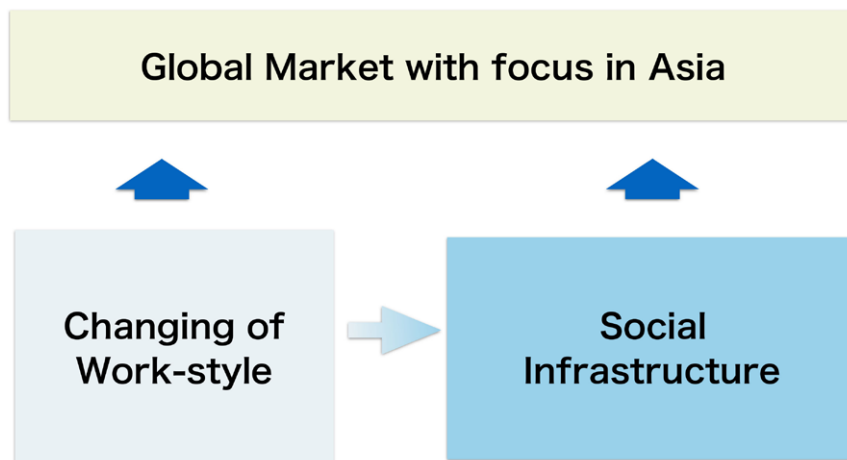
Business performance

c) Overseas business expansion mainly in Asia

V-cube has set a goal of raising the overseas sales ratio (25% in FY12/16 result) to 40% as soon as possible by promote work-style changes and adoption as social infrastructure in the Asian market too, not only Japan. It mainly offers services in China, Southeast Asia, and India and expects businesses in China, Singapore, and India to be the primary growth drivers.

V-cube believes that India's visual communication market could expand from about ¥20bn now to roughly ¥300bn in the future. It intends to focus on developing this market as the one with the largest potential in Asia.

Priority measures initiative



Source: Prepared by FISCO from the Company materials

FY12/16 targeted the first round of returns from investments

4. Initiatives in FY12/16

(1) Initiatives in FY12/16

Below we list major press releases covering the company's activities in 2016, and many cover provision of various services and strategic alliances in line with the growth strategy. We think the content indicates that V-cube is steadily implementing measures to accelerate its business initiatives.

List of press releases issued by V-cube and group companies V-cube

Month	Content
1	Established V-cube Technical Works and opened a development site in Sendai
1	Providing V-CUBE as video communication infrastructure for online lessons in an English language correspondence course business for children and elementary students offered by Benesse Corporation
1	Providing "Web internal audit service for insurance agents" with Escrow Agent Japan
2	Collaborating and cooperating with Microsoft Japan related to cloud services from the two companies aimed at promoting work-style changes in visual communication
2	Added medical interpretation (English, Chinese, and Korean) by mediPhone medical interpretation staff as an area supported by V-CUBE Translator multi-language interpretation service
3	Selected by Nishi-Nippon City Bank for a loan contract scheme covering a "Financial Institution Platform Service" that conducts specialty operations required by non-face to face sales of various financial products using Web conferencing along with Escrow Agent Japan
3	Partnering with top Indian firm INTELLISYS in the visual communication field
3	Started supplying FinTech Adaptor that adds online face-to-face communication to FinTech services for financial entities and FinTech service providers
3	Started collaboration between iStudy's learning management system and V-CUBE Seminar
4	Cooperating with the Digital Hollywood Fukuoka School, an IT-related and digital contents human resource training school, to assist at-home work by child-rearing mothers
5	Started supplying V-CUBE as communication infrastructure to Gakken Medical Shujunsha for an e-learning business targeting doctors and dentists in Indonesia
6	Formed a partner alliance with Logitech International to promote global sales expansion of visual communication services
6	Concluded an exclusive sales contract with SoundFun for Mirai Speaker, a speaker for people with hearing difficulties, for use in Web conferencing service
9	Formed a strategic partner alliance with Qumu Corporation in the enterprise video field
9	Century 21 started web seminars for member stores utilizing V-CUBE
9	Ain Holdings deploys 30 video conferencing system V-CUBE Box units, covering all group firms
9	Provided WebRTC compliance in Web meeting service V-CUBE Meeting
9	Kochi Bank, Nextremer, and V-cube begin a real-world test of a dialogue system using AI for bank reception
10	V-cube established a local entity in Thailand, strengthening service rollout in ASEAN
10	Resona Holdings realizes remote counter consultation at about 600 branches with V-CUBE
10	Iyo Bank holds web seminars on asset management for individuals utilizing V-CUBE
11	V-cube adds a real-time translation feature using voice recognition technology to Web meeting service V-CUBE Meeting
11	Collaboration between V-cube and Lenovo Japan, begin provision of video conferencing systems

Source: Prepared by FISCO from the Company's website

Business performance

List of press releases issued by V-cube and group companies
 Group companies

Month	Content
1	iStudy, formed a business alliance with Fliplearn Education Private Limited to supply its education platform in India
2	iStudy, started providing an on-demand learning contents creation service using Studio Octo, a dedicated studio for holding and distributing webinars owned by V-cube
3	iStudy, started selling package products with contents for specific industries and contents for specific applications to users who adopt iStudy Enterprise Server (learning management system)
3	iStudy, started joint sales with Nihon Unisys <8056> of Nihon Unisys' SASTIK USB memory authentication key and iStudy Enterprise Server (learning management system)
3	iStudy, started provision of a service for cloud collaboration between Microsoft's Office365 and iStudy Enterprise Server (learning management system)
3	iStudy, adopted IBM Japan's SoftLayer enterprise public cloud as a system foundation for iStudy Enterprise Server (learning management system); placed in the "internal training profile" of IBM Japan's SoftLayer industry profile and supplying iStudy Enterprise Server to users as an IBM business partner
3	iStudy, launching a product that links PVC's xSync, electronic smart board and xSync collaborative learning software and iStudy LMS Academic Edition (learning management system for education) in the education market
3	iStudy, started development of a next-generation human resource training foundation system and VR training using IBM's Watson artificial intelligence product
4	M-cube, started providing a "Clinical trial Learning Site Package" to support information sharing and communication in clinical trial and clinical research
5	PVC, adopted i-FILTER Browser & Cloud from Digital Arts <2326> in xSync for remote education and collaborative education
5	PVC, started provision of a collaborative service that links xSync for collaborative learning and Microsoft's Office365 OneDrive for Business cloud storage
6	iStudy, started providing IBM Bluemix training service for system developers
12	V-cube Robotics concludes a comprehensive agreement on revitalization of local areas using drones with Mie Prefecture
12	West Japan Railway Wakayama Office adopts the drone solution from V-cube Robotics that achieves real-time video sharing from a distance to speed up front-line responses
12	iStudy starts provision of the iStudy LMS Skill Management System, an education management system that clarifies the skills of new employees, to Bank of Tokyo-Mitsubishi UFJ

Source: Prepared by FISCO from the Company's website

We review strategic alliances formed thus far in 2016.

1. Business alliance between subsidiary iStudy and India-based EduTech firm Fliplearn (January 2016)
 Subsidiary iStudy formed a business alliance with Fliplearn Education Private Limited* (below, Fliplearn (headquarters in India)), which supplies an educational platform in India, and started business in the Indian market. The alliance combines Fliplearn's learning management system (LMS) and mainly on-demand contents with iStudy Live (Fliplearn obtained exclusive supply rights), which integrates iStudy provided by iStudy and V-CUBE Meeting and V-CUBE Seminar from V-cube. It offers services that supplement each other and improves the educational effect through adding a real-time, bidirectional class environment.

* Fliplearn service grew to a platform used by about 2,000 schools and 400,000 students and guardians in the first seven months (users are now at 1mn people).

The business model consists of Fliplearn collecting class fees from students using its service and paying a portion to iStudy as the usage fee for iStudy Live.

2. Collaboration with Microsoft Japan in the cloud field (February 2016)
 V-cube and Microsoft Japan have linked their cloud services and are cooperating in the cloud field with the aim of promoting work-style changes using visual communication. They developed a collaborative solution for V-cube's V-CUBE visual communication service and Microsoft Japan's Office365 and began supplying it in February. The alliance involves promotion of V-cube's Web conferencing service to Microsoft customers and targets wider sales of its products and services by Office365 agents.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Business performance

Specific content consists of the transfer of V-CUBE's system infrastructure from Amazon Web Services to Microsoft Azure to facilitate development of V-CUBE solutions that make maximum use of the latest Office365 features and provision of V-CUBE and Office365 collaborative solutions (single sign-on from Office365 to V-CUBE and automated schedule synchronization in Office365's Outlook based on reservation information for Web conferences and web seminars using V-CUBE). The initiative also aims to utilize Microsoft's advanced analysis technology to deliver multi-language communication via automated translation and machine-learning technology solutions. The two companies intend to development and supply V-CUBE applications for Windows10 too.

Additionally, subsidiary iStudy began provision of a collaborative service with Office365 from May.

3. Alliance in the visual communication field with India's largest Web conferencing services firm INTELLISYS (March 2016)

V-cube and India's largest Web conferencing services firm INTELLISYS Technologies & Research Pvt. Ltd. (below, INTELLISYS; headquarters in India) formed an alliance in the visual communication field. The alliance consists of providing V-CUBE service in India and technology interaction aimed at provision of easy-to-use services in Asia. This alliance aims to enhance competitive advantages in the Asia region, not only India, and thereby expand the visual communication market.

Through the alliance, INTELLISYS aims to increase income and grow the visual communication market in India by supplying its own Vennfer* service and V-CUBE as required by customers. It also plans to enter the video conferencing market in India by selling V-CUBE Box. V-cube, meanwhile, hopes to accelerate its business inroads in Asia by deepening technology exchanges between Vennfer and V-CUBE and developing visual communication service that can be comfortably utilized even in regions with unstable Internet environments.

* Web conferencing service supplied by INTELLISYS. It possesses robust technologies for smooth transmission and reception of video and voice in narrowband (128kbps) and multicast for realizing simultaneous distribution to multiple sites. Large-scale distribution is a strength.

Additionally, V-cube and INTELLISYS jointly reached an agreement with Bidhannagar Municipal Corporation, a satellite city in the Kolkata metro area, which includes West Bengal's Kolkata, in June to cooperate with the smart city mission being promoted by the city government.

4. Partner alliance with Logitech International to promote expansion of visual communication service sales globally (June 2016)

V-cube formed an alliance with Logitech International (below, Logitech; headquarters in Switzerland), a leading global company in the business devices market, to sell its products and services of both companies and robustly promote R&D as partners. The alliance consists of three main efforts - V-cube's adoption of the Logicool conference camera as the video and audio device in its video conferencing system, sales expansion globally of V-cube's V-CUBE Box video conferencing system, and joint development of products and services that enhance convenience for customers of both companies.

Logitech designated V-cube as the first APAC partner in the Logitech Collaboration program* implemented worldwide.

* Supports partner expansion of sales and marketing opportunities with a complete video conferencing solution.

Business performance

While a wide range of companies are adopting Web conferencing and other visual communication services to improve business efficiency and enhance productivity, demand is growing for low-priced, high-quality systems. In fact, the market has reacted favorably to V-CUBE Box released in 2015 because it can be used at about one-third of the cost of conventional video conferencing systems. We expect further advances in raising the added value of this product by combining products and services of the two companies. The alliance should also contribute to stable supply by ensuring reliable access to parts. V-cube intends to focus on acquiring latent demand, mainly in Asia with large market expansion potential, by bolstering its business initiative capabilities.

5. Strategic partner alliance with US-based Qumu Corporation in the enterprise video contents management field for Japan and the Asia-Pacific region (September 2016)

V-cube has formed a strategic partner alliance in the enterprise video contents management field for Japan and the Asia-Pacific region with Qumu Corporation (below, Qumu; headquarters in Minneapolis, Minnesota), a global leading company in the enterprise video segment. The alliance focuses on sales expansion for Qumu's video contents management solution and development of collaborative solutions.

V-cube will participate in operation of Qumu Japan, which is Qumu's local entity in Japan, and will also begin supplying Qumu's video contents management solution in Asia, particularly Japan. Solutions supplied by Qumu meet high-level enterprise needs for security and internal compliance support, and companies with global business operations are rolling out this solution to improve their competitiveness through information sharing that utilizes video. V-cube's visual communication field and the enterprise video contents management field are likely to become increasingly integrated, and V-cube can curtail costs by adopting Qumu's solution, which has a track record and is competitive, rather than developing a solution on its own. V-cube plans to localize the solution for Japan and Asian countries and supply service for internal corporate communications, such as seminars, training, and information sharing.

V-cube can lower costs and substantially reduce risk versus development on its own. Additionally, it is building operations that benefit from yen strength through expansion of the import model using its domestic sales channels.

V-cube will absorb all of Qumu Japan's existing customers and distributors and almost exclusive handle Qumu business in Japan and Asia. It will gain accesses Qumu deals that come globally as well. We expect a large effect from the positive assessment by Gartner and hence see a possibility of increased contacts with companies that V-cube was unable to reach before and broad expansion of the sales channel.

6. Collaboration with Lenovo Japan, started provision of a video conferencing system (November)

V-cube and Lenovo Japan Corporation (headquarters in Chiyoda-ku (Tokyo), President Masanobu Todome; Lenovo) are collaborating to sell joint solutions in the work-style reforms field. The first initiative is selling the V-CUBE Box video conferencing system to corporate customers.

Lenovo is working jointly with V-cube on product development to enhance V-CUBE Box convenience. The two companies will propose solutions for all types of communication scenes in business, including training and education, sales activities with customers, online job interviews, monitoring through connections between frontline operations and headquarters, and telework, utilizing PCs, tablets, and smartphones supplied by Lenovo and V-CUBE Box services.

Hardware-supplier Lenovo and software-firm V-cube plan to jointly sell solutions that combine their products and services and alleviate costs and operating burden by providing continuous support of an environment conducive to work without constraints on location.

Business performance

(2) Topics**a) Education**

Subsidiary Pioneer VC started supplying xSync visual collaboration service as a framework for realizing remote collaborative learning that utilizes electronic smart boards and tablets based on interlinking six elementary and junior high schools in Nanto City (Toyama Prefecture), which is participating in a “demonstration project for maintaining and enhancing education quality by utilizing ICT in societies with shrinking populations” promoted by the Ministry of Education, Culture, Sports, Science and Technology in May 2016. The Nanto Board of Education appears to be impressed with this service’s simple operability that is easily understood by teachers and children and students and robust stability that allows for smooth classes even when multiple sites are connected. Some media sources are reporting that the Ministry of Internal Affairs and Communications plans to install wireless LAN (Wi-Fi) at all elementary, junior, and high schools nationwide by 2020, and we see room for a favorable impact on the V-cube Group’s services from this type of policy assistance. Company materials project significant growth with remote education and e-learning at schools alone expanding to a market worth ¥53.3bn in 2020. It is also estimated that the visual communication market for domestic education could expand to about ¥256.8bn in 2020.

xSync also added Web filtering from June to improve safeness of the learning environment utilizing this system. It uses the i-FILTER Browser and Cloud from Digital Arts that allows for safe utilization of the Internet by children and students for out-of-school learning and at-home learning on tablets. Many schools with well-established ICT environments in classrooms had been requesting safety measures that “provide a mechanism for preventing access to web sites that are not appropriate in education.” Adoption of i-FILTER Browser and Cloud lets teachers flexibly control the web site browsing scope. This change, which resolves an outstanding issue, might support wider demand for xSync.

Additionally, the company has started collaborative service for xSync with Office365’s OneDrive for Business cloud storage supplied by Microsoft Japan. This service enables xSync use of class materials stored on OneDrive for Business through the teacher’s normal Office365 account and automated storage of learning data submitted by children and students via xSync on OneDrive for Business.

This format improves the usability of at-home studying utilizing data being covered in class by lightening the teacher’s burden through removal of the need to store class materials and transfer learning data from xSync and simplifying distribution of learning data to children and students. V-cube is also moving forward on collaboration with iStudy LMS Academic Edition, the learning management system supplied by group firm iStudy and plans to develop a mechanism for easy management of learning records for children and students utilizing learning data stored on OneDrive for Business.

b) V-CUBE and drones for disasters and emergency measures

The Wakayama Prefecture Office used V-CUBE in a business continuity plan (BCP) initiative following the Kumamoto Earthquake. Wakayama sent just over 10 prefecture employees to Kumamoto Prefecture and Mashiki Town to provide assistance after the Kumamoto Earthquake and wanted to share accurate information on damages that varied by location and rubble cleanup efforts between people on the ground and those still in Wakayama and thereby achieve effective assistance. It utilized V-CUBE in this effort.

V-CUBE delivered clear video and smooth voice and sent live local video and images over mobile devices. These capabilities enabled web conferencing for simultaneously sharing by all related parties in different locations and thus supported prompt decisions based on an accurate understanding of changing local needs and related reporting, according to Wakayama Prefecture.

Business performance

Additionally, V-cube is making progress on provision of a service that uses commercial drones to smoothly confirm conditions and facilitate suitable measures for disasters and other emergency situations. The Wakayama office of West Japan Railway Company has adopted VRJ's drone solution to speed up front-line responses to disasters and other situations and achieves real-time video sharing from a distance.

In this way, V-cube might establish itself as a provider of services for dealing with disasters.

c) Raised funds with the 15th subscription rights issue

V-cube raised funds through the 15th subscription rights issue (private placement) with an exercise price adjustment provision from Merrill Lynch on 15 April 2016 for the purpose of investment in developing technologies and new-feature software for the future required for promotion of visual communication as a social infrastructure in line with Midterm Strategy and use in business alliances, including acquisitions, to gain access to technologies and businesses that it does not possess and accelerate growth.

The content includes 30,000 subscription rights, a price of ¥634 per right (¥19.02mn in total issuance value), an exercise period of 18 April 2016 to 17 April 2018, 3,000,000 dilutive shares, and ¥4,494.02mn in funding.

There is no maximum exercise price for the 3,000,000 dilutive shares, and the minimum exercise price is ¥1,196*. Dilution from exercising the rights works out to 15.90% (percentage of total outstanding share volume on the day of passing the issuance resolution) because latent shares are fixed at 3,000,000 even at the minimum exercise price. Rights were exercised for 440,000 shares through the end of March 2017 at an average exercise price of ¥1,212, and V-cube has raised ¥533.4mn thus far.

* The initial exercise price is ¥1,494. However, the exercise price is revised to a value that it is 91% of the closing price for the Company's ordinary shares on the trading day prior to the day when subscription rights can be exercised. If the value is below the minimum exercise price, the minimum exercise price is adjusted to the revised exercise price.

Sharply lower operating income and net loss in FY12/16 despite double-digit sales growth

5. Consolidated results in FY12/16

(1) Overview

Consolidated results in FY12/16 were ¥7,239mn in sales (up 19.0% YoY), ¥36mn in operating income (down 89.5%), and a ¥527mn net loss attributable to parent shareholders (vs. a ¥93mn net profit in the previous year). V-cube booked sharply lower operating income and a net loss on a double-digit rise in sales, and both sales and earnings missed period-start targets.

Sales increased 19.0% YoY, despite lower appliance sales, mainly on the decline in electronic board sales related to difficulty obtaining budgets from local governments, and weaker Chinese sales after conversion to yen because of the stronger yen, thanks to growth in cloud sales led by existing cloud business and corporate acquisitions.

Business performance

Gross profit only climbed by a modest 8.0%, versus the sales increase, even with advances in cloud and on-premise sales, because of higher software depreciation costs tied to continuous development investments and upturn in fixed production costs due to corporate acquisitions. Operating income fell to ¥36mn as a result of lagging top-line growth and aggressive sales activity investments and development investments through FY12/16. Ordinary income posted a ¥197mn loss under pressure from the ¥185mn forex loss related to forex valuation change in loans to overseas subsidiaries. Profit attributable to owners of parent had a ¥527mn loss with setbacks from software impairment losses related to service selectivity and focus (¥174mn) and other extraordinary losses as well as the ordinary loss.

(2) Sales by business model

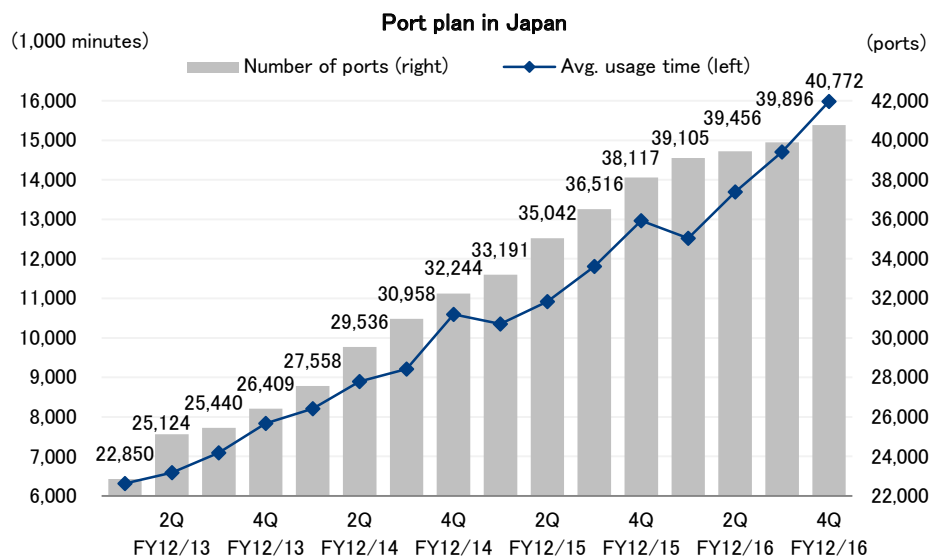
Cloud sales rose 25.7% YoY to ¥4,960mn thanks to new customer acquisitions in Japan and domestic and overseas acquisitions. On-premise sales were up 31.4% YoY to ¥662mn, though momentum seemed sluggish to some extent because of delays in certain projects. Appliances only sold 326 Box systems, but the pipeline expanded. Additionally, electronic board sales dropped sharply to ¥961mn (down 21.1%) because of impacts from local government budget allocations and other factors. Overall sales rose 19.0% YoY to ¥7,239mn, but missed period-start guidance with fulfillment at just 85.2%.

Sales by business model

	FY12/15		FY12/16		
	Results	Plan	Results	YoY	% of plan
Cloud	3,947	5,690	4,960	25.7%	-12.8%
On-premise	504	710	662	31.4%	-6.8%
Appliance	1,218	1,776	961	-21.1%	-45.8%
Others	413	323	654	58.5%	102.7%
Total	6,083	8,500	7,239	19.0%	-14.8%

Source: Prepared by FISCO from the Company's results briefing materials

Looking at domestic contract port volume, which V-cube views as a KPI, average monthly usage time modestly declined in 1Q, but has been steadily rising since then.



Note: Average monthly usage time reflects live usage time for V-CUBE meetings, seminars, and sales support.
 Source: Prepared by FISCO from the Company's results briefing materials

Business performance

(3) Sales by geographic regions

In Japan, sales grew 12.9% YoY to ¥5,400mn due to advances in cloud and on-premise businesses. In China, sales climbed on a local-currency basis, but were officially lower because of heavy impact from the forex rate. Yen-based sales dropped by a slight 1.4% YoY to ¥824mn. In other overseas business, sales increased 118.8%, despite a setback from the postponement of a major deal in Indonesia, on a large Wizlearn contribution.

Sales by geographic regions (FY12/16)

	FY12/15		FY12/16		
	Results	Plan	Results	YoY	% of plan
Japan	4,783	6,284	5,400	12.9%	-14.1%
China	836	1,127	824	-1.4%	-26.8%
(CYNmn)	43	-	50	15.7%	-
Other overseas	463	1,087	1,014	118.8%	-6.6%
Total	6,083	8,500	7,239	19.0%	-14.8%

Source: Prepared by FISCO from the Company's results briefing materials

Aiming to sustain a 40% capital ratio even with corporate acquisitions

6. Financial conditions

a) Balance sheet

Financial data at the end of FY12/16 indicate that total assets grew by ¥346mn YoY to ¥10,502mn. Current assets were down by ¥608mn, mainly on declines of ¥217mn in securities and ¥205mn in notes and accounts receivable. In contrast, fixed assets increased by ¥955mn on additions of ¥582mn in intangible assets and ¥360mn in investments and other assets.

Liabilities climbed by ¥968mn YoY to ¥6,523mn. Current liabilities fell by ¥1,002mn, despite a ¥388mn rise in current portion of long-term loans payable, because of a ¥1,459mn decline in short-term loans payable. Non-current liabilities, meanwhile, expanded ¥1,970mn mainly due to a ¥1,973mn rise in long-term loans payable. Interest-bearing debt increased by ¥901mn, versus the end of the previous fiscal year, to ¥5,085mn because of the expansion of loans from financial entities to prepare for future dynamic business initiatives.

Net assets, meanwhile, were down by ¥622mn to ¥3,979mn. The drop in net assets, despite a ¥275mn addition to capital from financing with stock issuance related to the exercise of options and other positive factors, stemmed from a decline of ¥349mn in capital surplus from acquiring more shares in subsidiary BRAV, a ¥527mn decline in retained earnings, and an ¥83mn decline in the forex conversion adjustment account.

b) Cash flow statements

Cash and cash equivalents at the end of FY12/16 was up ¥6mn from the end of the previous fiscal year at ¥1,999mn.

Specific trends were an increase of ¥717mn YoY in cash flow for operating activities to ¥1,300mn in net inflow, a rise of ¥895mn in cash flow for investing activities to ¥2,142mn in net outflow, and a ¥2,554mn decline in cash flow from financing activities to ¥867mn in net inflow.

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c) Business indicators

For business indicators, V-cube's capital ratio, which measures its soundness, is 41.9%, reflecting the impact of higher loans and other trends but also maintaining a stable level. While V-cube might actively acquire companies to expand business, it hopes to keep the capital ratio at 40%.

Balance sheet, cash flow statements, and business indicators

Balance Sheet				(¥mn)
	End-FY12/15	End-FY12/16	YoY	Main change factors
Current assets	4,453	3,845	-608	cash and deposits +200, securities -217, notes and accounts receivable -205, advance payments - trade -286
Non-current assets	5,702	6,657	955	investments and other assets +360, intangible assets +582, (software in progress +853, goodwill -322, software +54)
Total assets	10,156	10,502	346	
Current liabilities	4,345	3,342	-1,002	current portion of long-term loans payable +388, short-term loans payable -1,459
Non-current liabilities	1,209	3,180	1,970	long-term loans payable +1,973
Total liabilities	5,554	6,523	968	
(Interest-bearing debt)	4,183	5,085	901	
(Net cash)	-2,167	-3,086	-918	
Net assets	4,601	3,979	-622	capital stock +275, non-controlling interests +24, capital surplus -349, retained earnings -527
Total liabilities and net assets	10,156	10,502	346	

Source: Prepared by FISCO from the Company's results briefing materials

Cash Flow Statements			(¥mn)
	FY12/15	FY12/16	
Cash flows from operating activities	582	1,300	
Cash flows from investing activities	-3,037	-2,142	
Cash flows from financing activities	3,422	867	
Cash and cash equivalents	1,992	1,999	

Source: Prepared by FISCO from the Company's results briefing materials

Business Indicators			(%)
<Health>	FY12/15	FY12/16	
Liquidity ratio	102.5%	115.0%	
Capital adequacy ratio	42.2%	34.4%	
<Profitability>	FY12/15	FY12/16	
ROE	2.2%	-13.4%	
Return on assets	1.8%	-1.9%	
Operating income ratio	5.7%	0.5%	

Source: Prepared by FISCO from the Company's financial results

■ Business outlook

Focused on cost reductions and structural reforms and establishing lean operations in FY12/17

1. FY12/16 analysis and measures for FY12/17

V-cube analyzed reasons for weaker income in FY12/16 in terms of domestic business, group companies, and overseas business and is reviewing measures for FY12/17 as explained below.

a) Domestic business

In Japan, top-line sales faced pressure from mismatch between investments targeting business expansion and sales growth, delayed promotion of version replacement, and sluggish sales momentum. V-cube hopes to improve conditions in FY12/17 with rigorous cost reductions, promotion of business efficiency across the domestic group, and other measures.

b) Group companies

Group companies missed plan targets because of low budget-level precision and inadequate post-M&A PMI (business integration). V-cube intends to make fundamental changes in FY12/17, such as revising the budget proposal process and promoting synergies through office integration.

c) Overseas business

In overseas business, V-cube continued to make investments in unprofitable sites and incurred forex losses and lower profits due to sharp fluctuation in rates. It plans to close or significantly shrink sites with losses and take other measures in 1H FY12/17.

2. FY12/17 outlook

Based on lessons from FY12/16 results, V-cube's messages in FY12/17 policy are "aiming for a V-shaped recovery in FY12/18 by thoroughly dealing with problems identified in 2016 via measures in 1H 2017," "establishing rigorous governance for subsidiaries and deepening operations through PMI management," and "restoring a steady growth trajectory through the combination of existing businesses and growth strategy."

V-cube advocates the following three measures related to cost savings and sales expansion based on this overarching policy.

- Implement steep fixed-cost cuts across the group (with a goal of just over ¥700mn in annual savings in 2018)
- Enhance competitiveness and profitability through concentrated promotion of strategic products (V-CUBE Box, V-CUBE One) and lowering the churn rate at existing users of V-CUBE Meeting from the switch to the new version (Ver.5)
- Expand cross-selling and other synergies by promoting PMI, including integration of offices and some common organizations at domestic group companies

V-cube intends to conduct group wide structural reforms in 1H and thereby lower fixed costs based on this policy. While it still expects to book a net loss for the full year because of large extraordinary losses (impairment losses) mainly in 1H related to consolidating services, software depreciation costs should fall sharply from 2H. V-cube hopes to create leaner operations through its reforms, rather than expanding scale.

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Results outlook in FY12/17

	FY12/16			FY12/17					
	1H	2H	Full year	1H	YoY	2H	YoY	Full year	YoY
Net sales	3,397	3,842	7,239	3,311	-2.5%	4,445	15.7%	7,756	7.1%
Operating income	3	32	36	-454	-	500	1436.2%	46	26.6%
Ordinary income	-412	215	-197	-457	-	497	131.3%	40	-
	(foreign exchange loss 185)								
Profit attributable to owners of parent	-420	-107	-527	-886	-	346	-	-539	-
			(extraordinary loss 214)	(extraordinary loss 436)		(extraordinary loss 46)		(extraordinary loss 482)	

Source: Prepared by FISCO from the Company's results briefing materials

V-cube guides for FY12/17 consolidated results of ¥7,756mn in sales (up 7.1% YoY), ¥46mn in operating income (up 26.6%), ¥40mn in ordinary income (vs. a ¥197mn loss in FY12/16), and a net loss attributable to owners of parent of ¥539mn (vs. a ¥527mn loss).

Comparison of 1H and 2H operating income targets in FY12/17 shows a major improvement of about ¥950mn HoH with the following breakdown.

- ¥330mn: Cost reduction measures, mainly for fixed costs, in 2H
- ¥250mn: Increase in SGM sales in China
- ¥180mn: Sales increase due to the busy period for electronic boards coming in 2H
- ¥200mn: Increase in profits from cloud and on-premise sales growth

V-cube plans to implement recovery measures to halt setbacks in 1H and then strive to boost earnings in 2H.

Key measures are reviewed below.

(1) Sales plan

a) Sales guidance by business model

V-cube anticipates temporary decline in cloud sales by 6.4% YoY during 1H FY12/17 due to SGM service replacement in China (¥263mn setback), though a recovery to a roughly unchanged level for the full year. It envisions a steep rise in appliance sales on the prospect of sharply higher electronic board sales in 2H.

Sales plan for FY12/17 (by business model)

	FY12/16 (results)			FY12/17 (plan)					
	1H	2H	Full year	1H	YoY	2H	YoY	Full year	YoY
Cloud	2,521	2,439	4,960	2,359	-6.4%	2,629	7.8%	4,989	0.6%
On-premise	197	465	662	309	56.9%	522	12.3%	831	25.5%
Appliance	427	533	961	374	-12.4%	901	69.0%	1,276	32.8%
Others	250	404	654	268	7.2%	391	-3.2%	660	0.9%
Total	3,397	3,842	7,239	3,311	-2.5%	4,445	15.7%	7,756	7.1%

Source: Prepared by FISCO from the Company's results briefing materials

Business outlook

b) Sales guidance by geographic regions

In Japan, V-cube expects healthy growth in cloud business and steep gains in appliance business. In China, it projects a steep decline in FY12/17, due to replacement of SGM service, but rebound advances in FY12/18. In other overseas business, it forecasts income growth, mainly driven by Wizlearn, though also might consider closing or drastically downsizing sites without the prospect of achieving profitability.

Sales plan for FY12/17 (by geographic regions)

	FY12/16 (results)			FY12/17 (plan)					
	1H	2H	Full year	1H	YoY	2H	YoY	Full year	YoY
Japan	2,544	2,855	5,400	2,700	6.1%	3,529	23.6%	6,230	15.4%
China	358	466	824	110	-69.3%	369	-20.8%	480	-41.7%
Other overseas	494	520	1,014	500	1.2%	545	4.8%	1,045	3.1%
Total	3,397	3,842	7,239	3,311	-2.5%	4,445	15.7%	7,756	7.1%

Source: Prepared by FISCO from the Company's results briefing materials

(2) Cost reduction measures

V-cube factors in savings from lower production costs, cutbacks in SG&A expenses, and overseas reforms. Continuation of cost reductions from 2H FY12/17 implies a decline of ¥712mn, versus the FY12/16 level, in FY12/18.

Cost reduction plan

	FY12/17 (plan)			FY12/18 (plan)
	1H	2H	Full year	
Lowering production cost	42	136	178	313
Data center streamlining	4	24	28	48
Reduction of management and development processes by lessening product volume	22	43	65	86
Cutting depreciation costs by lessening product volume (impairment losses)	-4	35	31	103
Restricting increases in depreciation costs with cutbacks in development investments (¥280mn)	14	24	38	56
Bringing outsourcing costs in-house	6	10	16	20
Reduction of SG&A expenses	33	177	210	354
Director compensation cutbacks, personnel reductions (curtailing additions), etc.	4	108	112	216
Office consolidation and streamlining	0	15	15	30
Cutbacks in other SG&A expenses	29	54	83	108
Overseas reforms	0	22	22	45
Elimination and reduction of unprofitable sites	0	22	22	45
Total	75	335	410	712

Source: Prepared by FISCO from the Company's results briefing materials

Business outlook

The plan assumes yen appreciation versus current market levels in 2017 for major currencies related to overseas business.

Forex rate results and guidance for key currencies

Rate	Average rate			Quarter/year end rate			Original forecast rate	Revised view	Original forecast rate
	FY12/15	3Q FY12/16	FY12/16	End-Dec. 2015	End-Sept. 2016	End-Dec. 2016			
Japanese yen							FY12/16	2H FY12/16	FY12/17
Chinese yuan	19.22	16.50	16.37	18.34	15.15	16.76	18.00	15.00	15.00
Singapore dollar	88.11	79.19	78.77	85.35	74.03	80.62	81.00	75.00	75.00
US dollar	121.05	108.71	108.87	120.54	101.12	116.53	117.00	102.00	102.00

Source: Prepared by FISCO from the Company's results briefing materials

Intends to revise the midterm plan from FY12/18 in light of FY12/17 results

3. Outlook from FY12/18

V-cube intends to rework the Midterm Plan from FY12/18 after carrying out the 2017 plan and reflecting policy implementation conditions and results.

Shareholder return policy

Maintaining the no-dividend stance in FY12/17

V-cube views shareholder returns as an important management indicator, though did not pay dividends through FY12/16 on the basis that bolstering retained profits to strengthen corporate standing and prepare for aggressive business initiatives and using resources to enhance financial standing and invest in growth is the best way of redeeming profits to shareholders. It does not intend to pay a dividend again in FY12/17.



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