

# V-cube, Inc.

**3681**

Tokyo Stock Exchange First Section

29-Sept.-2017

FISCO Ltd. Analyst

**Takayuki Uchiyama**



FISCO Ltd.

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

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## ■ Summary

### Making advances in improvements to realize leaner operations via restructuring aimed at earnings 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. The movement for workstyle reform is expected to provide new opportunities for the Company as the teleworking culture takes hold.

#### 1. Business overview

The Company has deployed V-CUBE for web conferencing and web seminars at a total of more than 5,000 organizations, including Japanese and non-Japanese corporations, education entities, and ministries and agencies, thus far and established a solid 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. 2Q FY12/17 results

V-cube is pursuing improvements to realize leaner operations with focus on cost reductions and restructuring reforms in FY12/17 after earnings fell sharply in FY12/16. While production costs and SG&A expenses remain high, V-cube's reform efforts are making progress, as seen in the increased ratio of sales from projects with less revenue but larger margins and faster cutbacks in production costs and SG&A expenses than planned. In 2Q FY12/17 results, net sales trailed forecast and the previous year at ¥3,067mn (missing forecast by ¥244mn and dropping ¥329mn YoY), but earnings results were generally on track at a ¥427mn operating loss (¥26mn above forecast, deteriorating ¥431mn YoY), a ¥420mn ordinary loss (¥36mn above, deteriorating ¥8mn), and an ¥837mn net loss attributable to owners of parent (¥48mn above, deteriorating ¥416mn).

Work style reforms have been a theme in recent years, including events such as Telework Day\* held on July 24, 2017. This is a positive environment for V-cube. While V-cube had already been addressing social issue solutions, such as education ICT and remote medicine, it shifted policy to concentrating Group resources in work style reforms in light of this tailwind. It announced TELECUBE, a communications booth, in August 2017 and also launched a consortium that includes Microsoft Japan Co., Ltd. and other web conferencing market rivals. These are new initiatives that seek to move beyond reliance on the fiercely competitive teleconferencing market.

\* This is a national campaign prompted by the Tokyo Olympics and Paralympics in 2020 that is being led by the Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare, Cabinet Office, and other administrative entities in collaboration with the city of Tokyo and business community. It designates July 24, which is the day on which the opening ceremony of the Tokyo Olympics will be held in 2020, as Telework Day. In an effort to avoid congestion during the Olympics and Paralympics period, the campaign encourages companies, organizations, and government ministries and agencies to utilize work-at-home and other telework options during the high traffic congestion period before 10:30 am. This event will take place annually from 2017 to 2020.

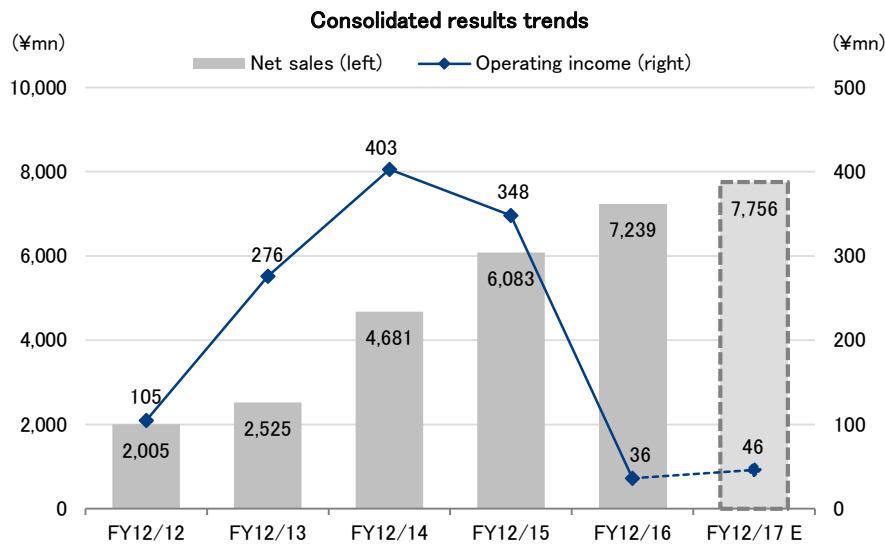
#### 3. Plan for FY12/18 and beyond

V-cube is promoting reforms aimed at earnings recovery from FY12/18 and will prepare a medium-term business plan from FY12/18 after seeing results of restructuring reforms in FY12/17.

Summary

Key Points

- Sales missed forecast in 2Q FY12/17, but earnings were on track with targets thanks to increase in high-profit projects and restructuring reform benefits
- Focusing on cost reductions and other structural reforms to establish lean operations in FY12/17
- Intends to prepare a medium-term business plan from FY12/18 based on FY12/17 results



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

## Company profile

### The leading company in Japan for web conferencing systems, aiming to become Asia's No.1 supplier

#### 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 10 straight years in the web conferencing market for ASP (cloud) and ASP (cloud) plus SI (on-premises). This position is aided by high-quality service that offers many detailed features from a user perspective, as well as a 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-premises) 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.

Company profile

The V-cube Group consisted of 19 companies as of June 30, 2017 with 14 overseas companies and 5 domestic subsidiaries. It has 527 executives and employees (318 in Japan and 209 at overseas entities) with 183 in sales and marketing, 254 engineers, and 90 in administrative sections. The personnel structure incorporates technology and sales capabilities. V-cube operates 14 offices worldwide (5 sites in Japan, 9 overseas sites) and has 15 data centers globally, including Japan, the United States (Eastern and Western areas), China, Hong Kong, Singapore, Malaysia, Indonesia, and India.

**Major group companies (End FY 12/16)**

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

## Narrowed down to a single business through focus and selectivity after the Global Financial Crisis, accelerating business expansion with aggressive acquisitions since going public

### 2. History

Representative director, 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 websites 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.

V-cube entered the US market in 2003 and began sales of the “nice to meet you” (now, V-CUBE) web conferencing system, its core product, in 2004. It operated multiple businesses at that time. After the global financial crisis that started in September 2008, the Company decided to concentrate on only the visual communications service. This decision reflected heightened demand for visual communications services and changes in user understanding and attitudes toward cloud-based services. It also switched the service name from “nice to meet you” to “V-CUBE” in May 2010.

V-cube entered the Malaysian market in 2009 and then started business in Singapore and Indonesia in 2012 and China in 2013. It entered the Thai market too in September 2016 and mainly offers services in Southeast Asia.

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Company profile

**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
September 2016	V-cube (Thailand) Co., Ltd. established as a sales unit in Thailand
March 2017	Held a No.1 share for 10 straight years in Japan's web conferencing "ASP type" and "SI type + ASP type" categories in Seed Planning, Inc.'s "2017 Latest Market Trends for Video Conferencing and Web Conferencing, and Video Communication (VC) Related Business"

Source: Prepared by FISCO from the Company's website

\* Currently the joint venture contract has been terminated.

## 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 4,368,800 shares (22.54% stake) and Tommy Consulting, Inc., his asset management firm, owns 680,000 shares (3.51%), making it the fourth-largest shareholder according to major shareholder data as of June 30, 2017. Mr. Mashita holds a total of 5,048,000 shares (26.05%), 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 Corporation owns 240,000 shares (1.24%), ranking ninth.

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Company profile

**Major shareholders (as of June 30, 2017)**

Rank	Name	Shares owned	Ownership ratio	Comment
1	Naoaki Mashita	4,368,800	22.54%	V-cube Representative Director and President
2	Japan Trustee Services Bank, Ltd. (Trust account)	1,676,200	8.65%	
3	The Master Trust Bank of Japan, Ltd. (Trust account)	1,141,000	5.89%	
4	Tommy Consulting, Inc.	680,000	3.51%	Naoaki Mashita's asset management firm
5	M3, Inc.	363,600	1.88%	
6	Rakuten Securities, Inc.	320,200	1.65%	
7	Masaya Takada	300,000	1.55%	V-cube Representative Director and Vice President
8	Ryota Iwamoto	247,000	1.27%	
9	MIRAIT Corporation	240,000	1.24%	Business partner
10	V-cube Employee Shareholding Association	216,100	1.11%	
<b>Total</b>		<b>9,552,900</b>	<b>49.29%</b>	

Source: Prepared by FISCO from the Company's quarterly report

V-cube announced a private placement of new shares to be purchased by the Hifumi Investment Trust Mother Fund operated by Rheos Capital Works on September 6, 2017. Through this, the Company procured ¥995mn, which it will use to maintain and enhance the quality of V-CUBE Meeting 5 and V-CUBE Seminar. In the private placement, the Company issued 1.71mn shares, putting dilution at 8.82%.

## Business overview

### Emphasis on cloud-based services with recurring revenue

Visual communication services provided by the V-cube Group are based on a concept of accessibility “anytime, anywhere, and anyone,” aiming to enable people at remote locations to speak face-to-face or share materials using a PC or mobile device such as a smartphone or tablet. The typical communication services include web conferencing services and online seminar-style communication services that include video as well as written and voice communication.

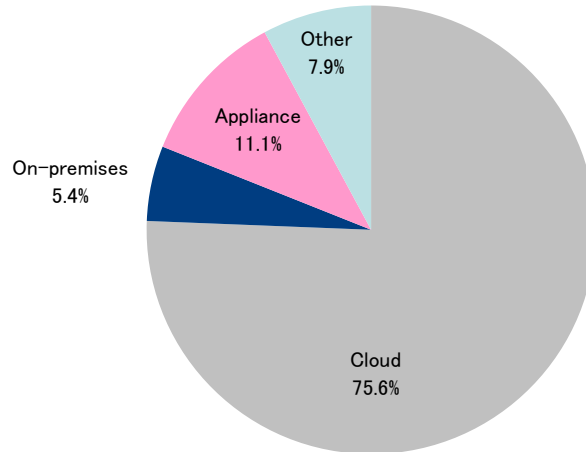
V-cube does not give segment disclosure because it only has one segment - visual communication services. It discloses sales of products and services by the four sales formats of cloud\*<sup>1</sup>, on-premises\*<sup>2</sup>, appliance, and other, as well as by the two regions of Japan and overseas. Sales ratios in 2Q FY12/17 by category were cloud at 75.6%, on-premises at 5.4%, appliance at 11.1%, and other at 7.9%, while sales by region were Japan at 82.0% and overseas at 18.0%.

\*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

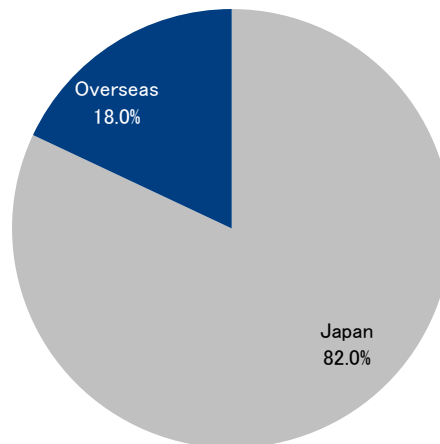
Business overview

**Sales breakdown by sales format (2Q FY12/17)**



Source: The Company's results briefing materials

**Sales breakdown by geographic region (2Q FY12/17)**



Source: The Company's results briefing materials

**1. Sales format**

**(1) Cloud-based service**

This format involves users accessing servers managed by the Group in locations around the world over the Internet and using the necessary amount of service as needed. Customers do not have to prepare or manage servers and hence do not incur server management or system maintenance costs, only paying a flat monthly usage rate or other service fees.



## Business overview

**(2) On-premises service**

This format involves the sale of a license per server, whereby the customer uses the service as well as managing and operating 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 are reluctant to utilize cloud-based service due to access control and other security policy impacts (specifically, educational institutions, ministries and agencies, and financial entities).

**(3) 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.

**(4) 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, sales agents handle roughly 40% of new contracts for cloud-based services and about 70% for on-premises services. Electronic smart boards handled by PVC are almost entirely sold through sales agents.

Key sales agents in Japan are major system integrators, telecom carrier group companies, IT vendors, and others, including OTSUKA CORPORATION <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>.

**3. Customer base**

V-cube Group's has a broad customer base ranging from smaller companies to listed large companies, ministries and agencies, educational entities, and various organizations. The customer base is 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, meanwhile, over 90% of customers are local, primarily local companies and governments.

**4. Business model****(1) Subscription-type business model**

Cloud-based service, the Company's main offering at two-thirds of overall sales, fundamentally uses a monthly billing format, and annual sales can be estimated by the number of contracts (number of contracted ports\*) × the unit price (monthly fee per port) × 12 months. This business model is a subscription-type model where net additions to contracts, assuming no cancellations, represent an increase in net sales.

\* Port refers to the service usage unit. For example, a 10-port contract supports simultaneous connections for conferences with three locations in two rooms (six ports) and four locations in one room (four ports).

#### Business overview

While monthly fees differ depending on the scale of usage (ranging widely from ¥5,000 to a few million yen), steady increases in the number of contracts and lifts in usage fees per customer contract (contract ports × 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 renew their existing contracts. V-cube reports having a churn rate of about 15% annually for the previous version of V-CUBE Meeting. The Company expects a lower churn rate thanks to favorable effects from rolling out V-CUBE Meeting 5, which is the latest version with significantly improved connectivity and image and voice quality, as well as the V-CUBE One package service\*.

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

On-premises service charges fees that amount to about three-year's worth of cloud-type service. Customer volume build-up also drives sales growth due to continuation of maintenance contracts. Additionally, it employs hardware and software as an integrated service and this generates appliance sales, including electronic boards and V-CUBE Box teleconferencing systems.

#### (2) 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 fees, 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.

#### (1) V-CUBE

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

Business overview

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 Translator	A cloud-based service that provides access to an interpreter from anywhere via an Internet connection. Available in multiple languages including English and Chinese, and also supports medical interpretation and text interpretation.
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.
TELECUBE	This is a soundproof communications booth that can be installed almost anywhere. It is equipped with a table, chair, and PC for web conferencing and offers a secure and quiet environment.

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

With the aim of broadening usage scenarios for its visual communication tools, in September 2014 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.

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 and voice data for video conferencing to another site. MCU's offer 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

**(2) 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), and xSync Classroom (software for realization of group learning, collaborative learning, and remote learning, able to be used with existing large display equipment in ordinary classrooms).

**(3) 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.

**(4) ASKnLearn**

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 17 years in Singapore, a global pioneer in education ICT, and installations at just over 50% of Singapore's public schools.

## Major foreign-capital firm is a rival for share expansion

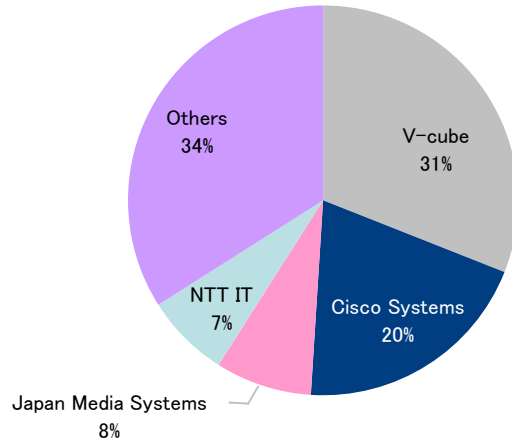
### 6. Rivals

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).

\* April 1, 2017: The company changed its name to NTT TechnoCross Corporation.

Business overview

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”

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.

## Focusing on provision of unique value such as the V-CUBE One package service

### 7. 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. Further factors contributing to differentiation include much more extensive development capabilities and infrastructure resources than its rivals, and its focus on providing unique value, an example being sales of V-CUBE One, which combines services not supplied by competitors. These factors give the Company deep-rooted advantages.

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

#### Business overview

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, Netherlands, UK, Australia, and Brazil). The Company also provides multi-language localization (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.

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.

#### 8. 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.

## Business performance

### Sales missed forecast in 2Q FY12/17, but earnings were on track with targets thanks to increase in high-profit projects and restructuring reform benefits

#### 1. Overview of results

V-cube explains that following a steep profit decline in FY12/16, its top theme in FY12/17 is implementing cost reduction to realize a lean company as the basis for V-shaped recovery in FY12/18 and beyond.

Sales missed forecast in 2Q FY12/17 because of a late start to a new service for automakers in China and sluggishness in non-cloud services in Japan. Furthermore, V-cube faced difficult conditions with expenses because of high production costs and SG&A expenses related to its expansion of Group scale through FY12/16. However, earnings were roughly on track with forecast, despite the sales shortfall, owing to a decline in low-margin projects and higher sales ratio of cloud business with less revenue but larger margins and cutbacks in SG&A expenses. V-cube appears to be steadily realizing benefits from its restructuring reforms.

**V-cube, Inc.** | 29-Sept.-2017  
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Business performance

**Overview of 2Q FY12/17 consolidated results**

	2Q FY12/16 results	2Q FY12/17				(¥mn)
		Forecast	Results	Vs forecast	YoY	
Net sales	3,397	3,311	3,067	-244	-329	
Cost of sales	1,629	-	1,675	-	46	
Gross profit	1,767	-	1,391	-	-376	
SG&A expenses	1,764	-	1,819	-	55	
Operating income	3	-454	-427	26	-431	
Ordinary income	-412	-457	-420	36	-8	
Profit attributable to owners of parent	-420	-886	-837	48	-416	

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

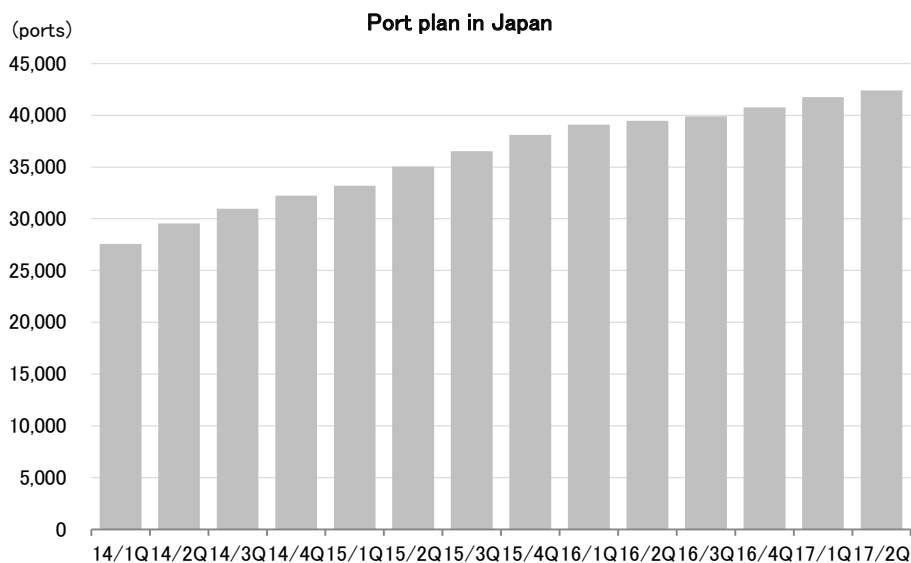
Cloud sales are growing at a healthy pace, including support from work style reforms, according to a review of sales trends by format. On-premises sales, meanwhile, stalled partly due to heightened customer preference for cloud services. Wizlearn (Singapore), which has robust business with corporate customers, exhibited upbeat momentum in the regional sales breakdown. China sales substantially missed the outlook, however, because of a delay in the start of a new service to the end of FY12/17.

**Breakdown of 2Q FY12/17 sales by sales format and region**

	FY12/16 results			FY12/17		(¥mn)
	1H	2H	Full year	1H (results)	Full year	YoY
Cloud	2,521	2,439	4,960	2,318	4,989	0.6%
On-premises	197	465	662	166	831	25.5%
Appliance	427	533	961	340	1,276	32.8%
Other	250	404	654	241	660	0.9%
<b>Total</b>	<b>3,397</b>	<b>3,842</b>	<b>7,239</b>	<b>3,067</b>	<b>7,756</b>	<b>7.1%</b>

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

Domestic contracted ports, which V-cube monitors as a KPI, is steadily growing and the average port price is trending upward.



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

Business performance

## 2. Financial condition

Looking at assets at end-2Q FY12/17, current assets dropped ¥332mn from the previous fiscal year-end to ¥3,512mn, mainly on declines of ¥241mn in cash and deposits and ¥49mn in notes and accounts receivable - trade. Non-current assets fell ¥309mn to ¥6,347mn, primarily on a ¥231mn decline in the software in progress. Total assets thus declined ¥642mn to ¥9,860mn.

Looking at liabilities, current liabilities increased ¥551mn to ¥3,894mn, mainly on a ¥617mn rise in short-term loans payable. Non-current liabilities dropped ¥325mn to ¥2,854mn, primarily due to a ¥355mn decline in long-term loans payable. Overall liabilities thus totaled ¥6,748mn, an increase of ¥225mn.

Net assets fell ¥867mn to ¥3,111mn, mainly because of an ¥837mn drop in retained earnings.

### Balance sheet and business indicators

	(¥mn)		
	FY12/16	2Q FY12/17	Change
<b>Current assets</b>	3,845	3,512	-332
<b>(Cash and deposits)</b>	1,999	1,757	-241
<b>Non-current assets</b>	6,657	6,347	-309
<b>Total assets</b>	10,502	9,860	-642
<b>Current liabilities</b>	3,342	3,894	551
<b>Non-current liabilities</b>	3,180	2,854	-325
<b>(Interest-bearing debt)</b>	5,085	5,334	249
<b>Total liabilities</b>	6,523	6,748	225
<b>Net assets</b>	3,979	3,111	-867
<b>Total liabilities and net assets</b>	10,502	9,860	-642
<b>(Stability)</b>			
Liquidity ratio	115.0%	90.2%	-24.8pt
Capital adequacy ratio	34.4%	28.0%	-6.3pt
D/E ratio	140.8%	192.9%	52.1pt

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

## Focusing on cost reductions and other structural reforms to establish lean operations in FY12/17

### 3. FY12/17 outlook

V-cube aims to realize the FY12/17 forecast with help from growing interest in the telework and web conferencing market driven by work style reforms and through its efforts in differentiation by providing unique value with service combinations and other initiatives.

#### FY12/17 forecast

	(¥mn)			
	FY12/16 Results	FY12/17		
		1H results	Forecast	Progress (vs full-year forecast)
<b>Net sales</b>	7,239	3,067	7,756	39.5%
<b>Operating income</b>	36	-427	46	-
<b>Ordinary income</b>	-197	-420	40	-
<b>Profit attributable to owners of parent</b>	-527	-837	-539	-

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



Business performance

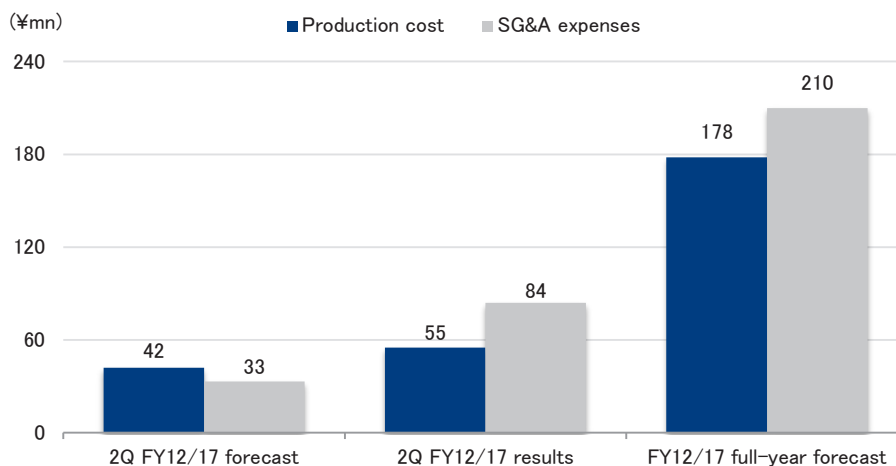
We compare results from 2Q FY12/17 and period-end forecasts by sales format. Issues in 2Q included weaker cloud sales due to the impact of a delayed switch in Chinese service, lower on-premises sales because of customer preference for cloud service, and lower appliance sales owing to a decline in projects with higher revenue but narrow margins. A key point in 2H FY12/17 is the extent to which domestic cloud market enthusiasm and TELECUBE (explained below) strengthen sales.

V-cube is implementing structural reforms in FY12/17 that seek to lower fixed costs and cultivate operations that generate profits more easily. Cost cutbacks were ahead of the plan as of 2Q FY12/17. V-cube is currently promoting efforts in the following two areas.

- (1) Reduced production costs: Data center streamlining, development process cutbacks by reducing products, depreciation cost reduction by scaling back products (recording impairment losses), curtailment of depreciation cost increases by cutting development investments, and bringing outsourced operations in-house.
- (2) Lower SG&A expenses: Cutting directors' compensation, personnel reductions (limiting increase), office consolidation and streamlining, and other cutbacks in SG&A expenses

V-cube outpaced the plan in cost cutbacks as of 2Q and aims to realize FY12/17 goals by continuing initiatives in 2H. As this activity demonstrates, it is focusing on restructuring reforms, mainly cost cutbacks, in FY12/17 in order to establish leaner operations. While V-cube had intended to eliminate money-losing overseas sites, it now plans to shrink these operations without elimination because of the prospect of achieving profitability in 2H just by scaling back.

Cost reduction plan and actual results



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

Business performance

4. Initiatives in FY12/17

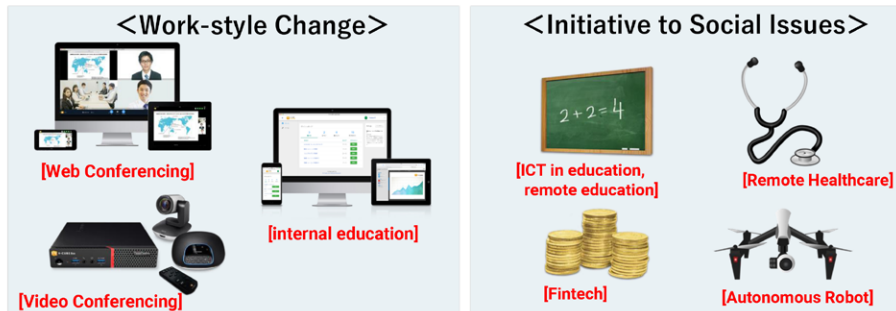
Work style reforms have been a theme in recent years, including events such as Telework Day held on July 24, 2017. This is a positive environment for V-cube. While V-cube had already been addressing social issue solutions, such as education ICT and remote medicine, it shifted policy to concentrating group resources in work style reforms in light of this tailwind.

V-cube's focus areas

V-cube as a promoter of Telework

No.1 share Japanese web conferencing market in past 10 consecutive years  
 Elected as a "100 Telework Innovators Ministry of Internal Affairs and Communications Prize (November, 2016)

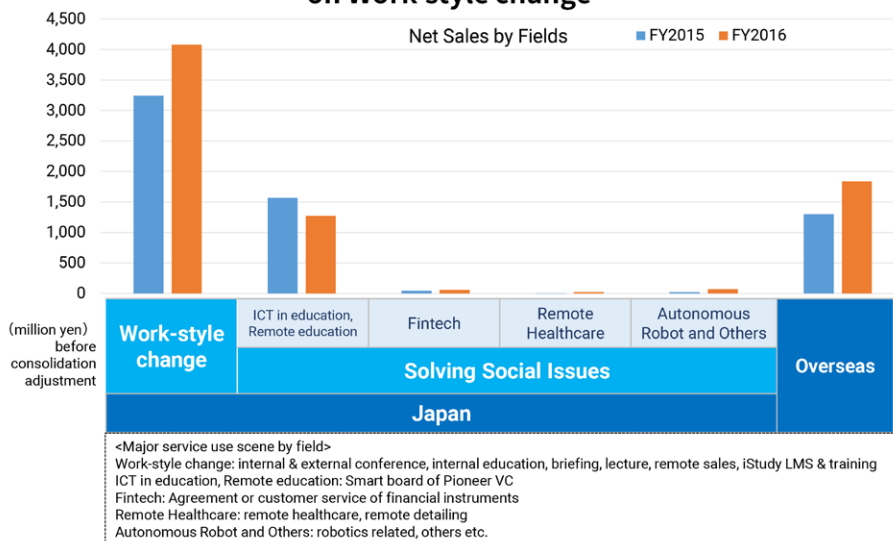
We aim to contribute to solve social issues in Japan which is "Developed" country in terms of social issues, in the field of communication



Source: The Company's results briefing materials

Net sales by field

According to follow wind, concentrate Group's resource on Work-style change



Source: The Company's results briefing materials

Business performance

V-cube announced TELECUBE, a communications booth, in August 2017. This is a soundproof communications booth that can be installed almost anywhere. It is equipped with a table, chair, and PC for web conferencing and offers a secure and quiet environment. It supports phone calls, web conferencing, and personal PC tasks. Telework can be realized by anyone at anytime if this type of booth is installed at offices and other indoor sites as well as train stations, airports, and commercial facilities. V-cube wants to promote work style reforms in Japanese society.

TELECUBE



Source: The Company's results briefing materials

V-cube also launched a consortium that includes Microsoft Japan Co., Ltd. and other web conferencing market rivals. These are efforts that seek to move beyond reliance on the fiercely competitive teleconferencing market.

List of companies participating in the TELECUBE Consortium



**Membership**

- ITX Co., Ltd.
- I-O DATA DEVICE, INC.
- Infoteria Corporation
- NTT DOCOMO, INC.
- OKAMURA CORPORATION
- KIRAKU
- Cybozu, Inc.
- SOHGO SECURITY SERVICES CO.,LTD.
- Dai Nippon Printing Co., Ltd.
- Tokyo Electric Power Company Holdings, Inc.
- Japan Telework Association
- Microsoft Japan Co., Ltd.
- Nojima Corporation
- Pasona Group Inc.
- V-cube, Inc.
- PLUS CORPORATION
- Platinum Society Network
- Mori Building Co., Ltd.
- Lenovo Japan Corporation
- Recruit Holdings Co.,Ltd.
- Ricoh Company, Ltd.

Source: The Company's results briefing materials

## ■ Business outlook

### Intends to prepare a medium-term business plan in 2018 based on FY12/17 results

V-cube announced a medium-term business plan in February 2016, but is currently reassessing the plan after steep shortfalls in FY12/16, the first year of the plan period. It explains that careful review will be given to the medium-term plan from FY12/18 after seeing FY12/17 results and progress in structural reforms that are currently being implemented. It is likely to announce the plan in February 2018 or later.

## ■ Shareholder return policy

### Maintaining the no-dividend stance in FY12/17

V-cube views shareholder returns as an important management indicator. However, the Company did not pay dividends through FY12/16, as it considers 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 returning profits to shareholders. It does not intend to pay a dividend in FY12/17 either.



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