

V-cube, Inc.
3681 TSE Mothers

31-Mar.-15

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■ Aiming to Become the No. 1 Visual Communication Company in Asia

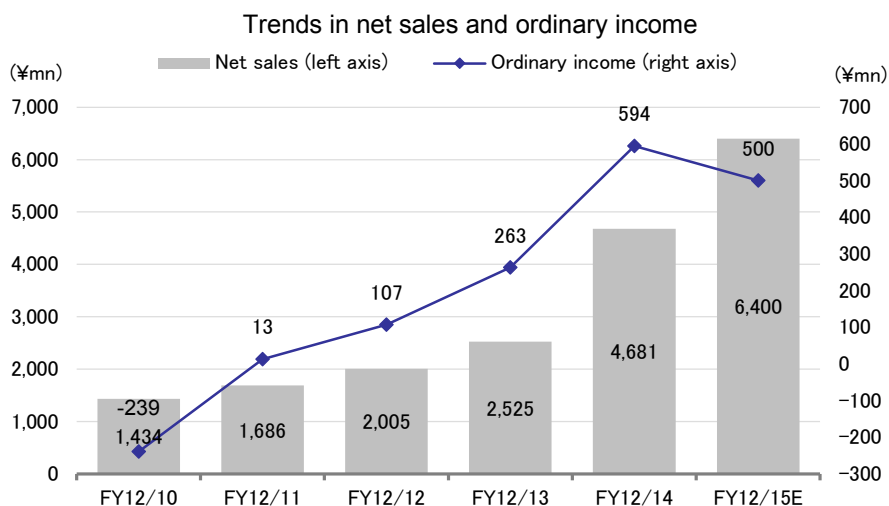
V-cube, Inc.'s <3681> core business is visual communication, primarily web conference services using a cloud platform. The business has been growing rapidly in Japan and Asia. The company has a distinctively wide range of product lines to meet users' needs, including not only web conferencing, but also webinar, online sales, and distant learning.

In the fiscal year ended December 2014, i.e. FY12/14, the company set a new record for earnings with consolidated net sales of ¥4,681mn, up 85.4% year on year (YOY), operating income of ¥403mn, up 45.9%, ordinary income of ¥594mn, up 125.4%, and net income of ¥261mn, up 13.7%. For FY12/15, the company is projecting consolidated net sales of ¥6,400mn, up 36.7% YOY, operating income of ¥502mn, up 24.5%, ordinary income of ¥500mn, down 16.0%, and net income of ¥267mn, up 2.0%. However, the company has positioned FY12/15 as a phase for accelerating business expansion and will therefore be focusing on expanding sales more than profits, in an effort to hasten expansion of its markets and market share. The company therefore expects to record zero profits for the first half, with profits concentrated the second half. Since the company's services are based on cloud computing, as long as it can secure net sales, it should be able to achieve profits.

The company's core medium-term growth strategies are 1) Expand our existing share and explore potential, 2) Asia-based overseas expansion, and 3) Development of a B to B to C platform model. There is still ample room for development in both the Japanese and overseas markets, and the company's progress on these strategies will be watched by many.

■ Check Point

- Maintained top market share in the Japanese web conference market for a seventh consecutive year, with a share of over 30%
- Achieved major increase in sales and profits in FY12/14 with contribution from PioneerVC acquisition
- Room to develop potential markets, strengthening of partner strategy and industry-specific services



*Results are non-consolidated for FY12/10 and consolidated from FY12/11 onwards.

■ Corporate Overview

Shifting from the core web solutions business to web conferencing

(1) History

Representative director and president Naoaki Mashita started V-cube Internet, Ltd. when he was a student at Keio University, as a company to provide web solutions. This company was the predecessor to V-cube, Inc., subsequently receiving an investment from Keio University and changing its business line and name to reach its current form. Today, the company's mainstay business is visual communications centered on web conferencing. The company is expanding its operations with the goal of becoming No. 1 in Asia in this business. The company's stock was listed on the Tokyo Stock Exchange Mothers market in December 2013.

Cloud-based services such as web conferencing for corporate customers are an earnings pillar

(2) Business Overview

The company's business can be described briefly as "provision of visual communication services via the Internet," typically web conference services and webinars. The company's main business is provision of visual communication services in a Software as a Service (SaaS) format (monthly fee) using a cloud computing platform. The company's sale format is described below.

●Special characteristics of web conferencing

Services such as telephone and TV conferencing have been widely used by corporations for some time. However, the services require special equipment which could only be used at the site of installation. By contrast, the company's web conferencing service is provided via the Internet and is therefore available for use at any location with an Internet connection. Moreover, the service does not require dedicated equipment or terminals; users can simply use ordinary devices such as PCs, smartphones, or tablets. In other words, the special characteristic and strength of web conferencing is that it can be used anytime, anywhere, and by anyone.

●Special characteristics of cloud-based businesses

The company is developing primarily a cloud-based business. With such businesses, barring the case of a large scale contract cancellation, the net sales of a given upcoming fiscal year tend to be the amount of sales in final month of the previous fiscal year (in this case, December) \times 12 plus the amount of newly acquired customers. Since the business is a cloud-based business, there are few variable costs and a large portion of added net sales can usually be added to profit. The special characteristic of cloud-based businesses is that once the sales exceed break-even point, the profitability increases sharply.

●Revenue sources

The company provides its services to corporate clients. It does not have transactions with individuals. The clients cover a wide range from SMEs to large-scale listed companies, and are not biased toward a particular industry. The monthly fee differs depending on the maximum number of conference participants in a wide range from ¥5,000 to several hundred thousand yen, with most customers paying between ¥50,000 and ¥80,000. Therefore, increasing (building up) the number of subscribing companies and the amount of fees per company increases the company's net sales (increases earnings).

The company does not disclose the number of customers, however few companies cancel their subscriptions once they have subscribed, and most subscriptions appear to be continuing.

Cloud-based services (monthly fees) currently account for 60% of the company's net sales; however, there are also some customers who are constrained from using cloud-based services due to security aspects, and the company provides them with an on-premises-type solution using a dedicated server, which is a one-time sale type of service. The price for the on-premises-type solution is apparently equivalent to around three years' worth of cloud-based fees. Despite being an on-premises-type solution, it includes an ongoing maintenance agreement, and it is therefore important for the company to build up the numbers of this kind of customer too.

Furthermore, in addition to the above, the company also sells appliances, including electronic smart board systems that bundle hardware and software together as a package. The company's consolidated subsidiary PioneerVC Corporation (PVC) handles these.

●Main costs

The company's main costs are server and communication line (dedicated line) fees, software development expenses, operating costs, and the like. It uses external data centers for servers, however some of the servers are its own dedicated servers. An increase in customers (usage amount) entails an increase in server fees to a certain degree; 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 increase with the increase in net sales, but at a slower rate. In other words, as the company's net sales increase past the breakeven point, it will become more profitable.

On the other hand, software development, operating costs, and so forth are up-front investment components, and may not always change in proportion to net sales. They can therefore weigh on profitability improvement depending on the business plan. At present these costs are on a rising trend since the company is currently in an upfront investment phase.

In appliances sales, the cost of sales rises proportionately to the increase in net sales. For example, in the case of electronic smart board systems, the company procures large-size LCD displays and sells them.

Maintained top market share in the Japanese web conference market for a seventh consecutive year, with a share of over 30%

(3) Industry share, special characteristics, and strengths

Web conferencing services themselves do not require special technological capabilities, and the market is relatively easy to enter. In such a market, the company's special characteristics and strengths are in the following areas.

● Strong service lineup

In addition to its main line in web conference services, the company has a wide range of other services to meet other needs such as webinars, online sales, distant learning, tele-healthcare and Counseling, video distribution, and online support. The fundamental technologies underpinning these services are the same as for web conferencing, however the company provides good usability in each field, which has earned it a strong reputation among the users in each field. Through continuous R&D, the company is gradually winning the advantage over its competitors.

Moreover, the company made PVC a subsidiary in May 2014, as mentioned above. PVC's main products are electronic smart boards. In addition to selling electronic smart boards and related solutions, it will now also be able to provide solutions that combine the electronic smart boards with V-cube's web conferencing and webinar expertise.

Furthermore, from October 2014, PVC integrated its visual collaboration services under the new xSync ("by-sync") brand, and commenced provision of xSync Prime Collaboration. xSync Prime Collaboration is a service designed to meet the need to have meetings with overseas bases such as offshore production plants just as with domestic plants. It realizes high quality visual collaboration between countries.

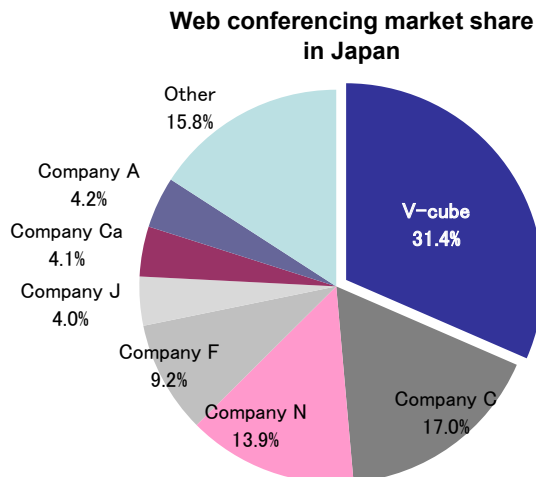
● Overseas (Asia) expansion capability

The company's services extend beyond Japan. They have developed a service for connecting overseas data centers in a dedicated network, which is provided in 11 countries centered mainly on Asia (Japan, China, Singapore, Malaysia, Indonesia, Thailand, Vietnam, Philippines, India, US, and UK). 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 already established (ahead of competitors) is one of the company's strengths.

In Asia especially, even if the respective countries have relatively strong internal telecommunication networks, their inter-country communication environment (international communication lines) are often unstable, causing frequent disruptions with TV conferences and other such communications between countries. The company's services solve this issue by using dedicated lines to provide a stable communication environment, even between countries, enabling users to use the company's web conferencing service with confidence.

● **Market share and competition**

The company's share of the Japanese web conferencing market is estimated at around 31.4%, and it has held the top position for seven consecutive years. Its main competitors are Company C, (a US communications major, share 17.0%), Company N (a Japanese communications major, share 13.9%), and Company F (a Japanese communications major, share 9.2%).



Source: Prepared by FISCO based on V-cube's materials.

Moreover, in the Asia-Pacific (APAC) region, the company's share is estimated at 17.7%, making it second to US company C (32.3%).

● **Providing services as a specialist company**

As mentioned above, the company's main competitors are a foreign-owned company and subsidiaries of major Japanese companies. It stands to reason that they may not necessarily be providing services that meet users' needs. Foreign-owned companies often relocate the services and standards of their own countries without adapting them, and do not always meet the needs of Japanese users. Moreover, most major Japanese corporations do not have web conferencing as their main business, and in many cases are not aggressively investing cash, personnel, and other resources in this field. It is therefore difficult to see how they could be fully meeting customer needs.

Here, as a specialist in visual communication services centered on web conferencing services, the company differentiates itself from other companies in the industry because it can continuously make new investments, usability improvements, and so forth to meet customers' needs.

■ Business Trends

Achieved major increase in sales and profits in FY12/14 with contribution from PioneerVC acquisition

(1) Business trends in FY12/14

● Profit and loss

For FY12/14 the company's consolidated net sales rose 85.4% YOY to ¥4,681mn, operating income rose 45.9% to ¥403mn, ordinary income rose 125.4% to ¥594mn, and net income rose 13.7% to ¥261mn.

Net sales and profit and loss by region (FY12/14 results)

	FY12/13		FY12/14		YOY Change	
	Amount	Share	Amount	Share	Amount	%
Net sales	2,525	100.0%	4,681	100.0%	2,156	85.4%
Japan	2,285	90.5%	3,993	85.3%	1,707	74.7%
Cloud	1,943	77.0%	2,324	49.6%	381	19.6%
On-premises	244	9.7%	596	12.7%	352	143.7%
Appliances	-	-	852	18.2%	852	-
Other	97	3.8%	219	4.7%	122	125.6%
China	145	5.7%	590	12.6%	445	306.5%
Overseas (excl. China)	94	3.7%	97	2.1%	3	3.6%
Operating income	276	10.9%	403	8.6%	127	45.9%
Ordinary income	263	10.4%	594	12.7%	331	125.4%
Net income	230	9.1%	261	5.6%	32	13.7%

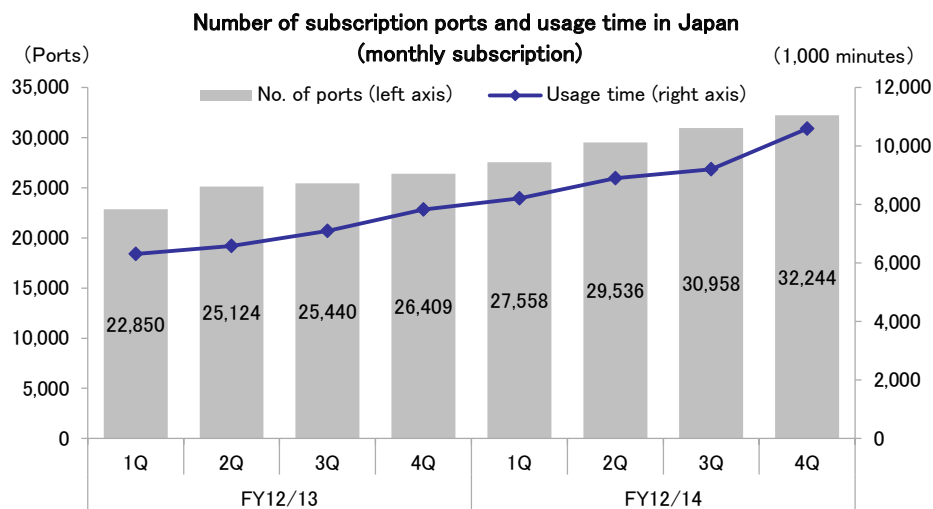
Net sales increased dramatically from the previous fiscal year, mainly due to the acquisition of PVC, however they were 0.5% lower than originally forecast. Operating income also rose sharply over the previous fiscal year but achieved only 76.5% of the original forecast of ¥527mn. The main reason for operating income falling below forecast was lower-than-expected cloud-service sales, described below, but the result was not a poor one by any standard.

Meanwhile, ordinary income rose 125.4%, mainly reflecting the recording of a foreign exchange gain of ¥171mn (compared to ¥46mn in FY12/13) in non-operating income. Nevertheless, net income increased only 13.7% YOY, due to recording ¥21mn as a loss on valuation of treasury subscription rights to shares (extraordinary loss), non-controlling interests in loss of ¥93mn due to growth in income of consolidated subsidiaries, and a tax obligation of ¥220mn due to elimination of accumulated losses.

By region, net sales were ¥3,993mn in Japan (up 74.7% YOY), ¥590mn in China (up 306.5%), and ¥97mn in other countries (up 3.6%). Sales in Japan increased dramatically, mainly due to the acquisition of PVC. Overseas, the subsidiary established in China in 2013 began operations smoothly and contributed to consolidated net sales. In particular, a large-scale project for a Shanghai General Motors Company Ltd. has made good progress, presenting opportunities for lateral development in the future. In other overseas developments, geopolitical unrest in Thailand suppressed sales growth there. As a result, the ratio of overseas sales increased from 9.5% in FY12/13 to 14.7%.

In net sales in Japan by sale format, the company recorded net sales of ¥2,324mn for the mainstay cloud format (up 19.6% YOY) and ¥596mn for the on-premises format (up 143.7%). Furthermore, the company recorded sales of ¥852mn (no sales in FY12/13) in appliances, a new sale format (primarily PVC's electronic smart board sales) that was added from FY12/14, and ¥219mn (up 125.6%) in other sales.

Net sales have expanded steadily, but sales in cloud services, which have high profitability, were below plan, while sales in on-premises and appliances, which have relatively low profit margins, expanded. As a result, the gross profit margin fell to 57.7% (66.7% in FY12/13). Cloud sales were below plan because long-term contracts (recorded as approximately 80% of net sales at once) declined, resulting in a slow-down in sales for the present. However, the key index for cloud-based services, the number of subscription ports (subscription unit), expanded steadily along with the usage time. Moreover, the company has developed V-CUBE One, a new concept for a fee system in which multiple V-CUBE services are used as a single package. As a result, from 3Q to 4Q FY12/14, the port unit price increased from ¥4,005 to ¥4,451, which is by no means a poor performance.



Source: Prepared by FISCO based on V-cube's investor meeting presentation materials.

Operating income reflected the following factors. The cost of sales increased by ¥1,138mn YOY (of ¥838mn for purchasing costs, ¥542mn was for an increase in purchasing in appliances), software amortization expenses increased by ¥73mn, other outsourcing expenses increased by ¥227mn, selling, general, and administrative expenses increased by ¥891mn (personnel and related expenses increased by ¥409mn, commission payments increased by ¥114mn, sales strategy expenses increased by ¥111mn, amortization of goodwill increased by ¥63mn, and other expenses increased by ¥191mn). However, net sales rose ¥2,156mn, absorbing the increase in costs, so that operating income increased by ¥127mn.

● **Financial condition**

The company's financial condition at the end of FY12/14 was as shown in the table. Current assets stood at ¥2,987mn (¥3,391mn at the end of FY12/13), however this was mainly due to the use of cash for investments and so forth after it had increased in FY12/13 due to the issuing of new shares and other factors. Noncurrent assets increased to ¥3,270mn (¥1,638mn at the end of FY12/13), mainly reflecting an increase in software to ¥1,806mn from ¥1,224mn at the end of FY12/13, and an increase in goodwill to ¥833mn (¥145mn at the end of FY12/13) in association with the acquisition of PVC and other factors. As a result, total assets were ¥6,257mn (up ¥1,227mn from the end of FY12/13).

Current liabilities increased to ¥1,350mn (¥951mn at the end of FY12/13), mainly reflecting an increase in notes and accounts payable-trade of ¥185mn and a decrease in short-term loans payable of ¥118mn. Moreover, net assets increased to ¥4,400mn (¥3,757mn at the end of FY12/13), mainly as a result of an increase in non-controlling interests of ¥308mn associated with the consolidation of PVC, while capital surplus increased by ¥262mn due to the recording of net income.



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Balance sheet

	(¥mn)		
	End of FY12/13	End of FY12/14	Change
Current assets	3,391	2,987	-404
Cash and deposits and securities	2,805	1,286	-1,519
Noncurrent assets	1,638	3,270	1,631
Software	1,224	1,806	582
Goodwill	145	833	668
Total assets	5,030	6,257	1,277
Current liabilities	951	1,350	398
Notes and accounts payable-trade	39	224	184
Short-term loans payable	435	317	-118
Noncurrent liabilities	321	506	185
Net assets	3,757	4,400	642

For FY12/15, focusing on cloud and appliances in Japan, and growth in China

(2) Forecast for FY12/15

For FY12/15 the company is forecasting consolidated net sales of ¥6,400mn, up 36.7% YOY, operating income of ¥502mn, up 24.5%, ordinary income of ¥500mn, down 16.0%, and net income of ¥267mn, up 2.0%. The decline in ordinary income is mainly due to the impact of the significant foreign exchange gains that were generated in FY12/14 as discussed above. Moreover, net income is expected to grow at a slower pace as in FY12/14 due to the impact of taxes and non-controlling interests.

Net sales are expected to be concentrated in the second half of the year, as non-consolidated net sales tend to be mainly in the second half and the sales peak at PVC for appliances in Japan (mainly electronic smart boards) tends to occur during 3Q. Net sales for 1H FY12/15 are projected to be ¥2,700mn (up 55.8% YOY). However, operating expenses of PVC will apply for the full year from FY12/15, and personnel expenses will increase in line with an increase in sales staff from FY12/14, along with sales expenses for acquiring customers for the future. These and other expense increases are expected to bring all profit levels to zero. The company expects 1H FY12/15 to be a period for particularly intense investment activity, the effects of which are not planned to emerge until FY12/16 onward. The deterioration in profit during FY12/15 is therefore not considered problematic.

Business performance forecast for FY12/15

	FY12/14		FY12/15E		YOY Change	
	Amount	Share	Amount	Share	Amount	%
Net sales	4,681	100.0%	6,400	100.0%	1,719	36.7%
By sale format						
Cloud	2,822	60.3%	3,516	54.9%	694	24.6%
On-premises	771	16.5%	841	13.2%	71	9.1%
Appliances	852	18.2%	1,582	24.7%	730	85.6%
Other	234	5.0%	459	7.2%	225	95.7%
By region						
Japan	3,993	85.3%	5,359	83.7%	1,366	34.2%
China	590	12.6%	811	12.7%	221	37.4%
Overseas (excl. China)	97	2.1%	229	3.6%	131	134.5%
Operating income	403	8.6%	502	7.8%	99	24.5%
Ordinary income	594	12.7%	500	7.8%	-94	-16.0%
Net income	261	5.6%	267	4.2%	6	2.0%

By region, the company is projecting consolidated net sales as follows: Japan ¥5,359mn (up 34.2% YOY), China ¥811mn (up 37.4%), other overseas ¥229mn (up 134.5%). Moreover, from FY12/14 the company has disclosed consolidated net sales by sale format. Projections for FY12/15 are as follows: cloud ¥3,516mn (up 24.6% YOY), on-premises ¥841mn (up 9.1%), appliances ¥1,582mn (up 85.6%) and other ¥459mn (up 95.7%).

Clearly, the company's sales growth drivers in terms of sale format are cloud and appliances, and in terms of regions, China. The company is also planning to expand sales in other overseas by actively opening up new markets.

On the expenses front, the company is forecasting the following increases for FY12/15: purchasing ¥561mn (of which appliances in Japan are ¥390mn), outsourcing expenses ¥217mn, amortization of software ¥167mn. In addition, the company is projecting that personnel expenses will increase by ¥470mn due to the consolidation of PVC (full-year burden) and an increase in sales and development personnel, while amortization of goodwill increases by ¥76mn, and sales strategy expenses by ¥41mn, among others. Since these kinds of upfront-investment style expenses will continue to increase, the company is projecting zero profit for 1H FY12/15, and full-year profit growth as outlined above.

■ Medium- to Long-Term Strategy

Room to develop in potential markets, strengthening of partner strategy and industry-specific services

The company has a vision of becoming "The No. 1 Visual Communication Platform in Asia." It has mainly been promoting the following three business strategies designed for medium- to long-term growth.

(1) Expand Existing Market Share and Explore Potential

The company still has untapped potential markets to explore in Japan. We believe that by opening new markets while increasing its share it can grow its sales in Japan further.

According to Ministry of Internal Affairs and Communications statistics, there are approximately 4,213,000 companies in Japan (12,000 large companies, 536,000 mid-sized companies, and 3,665,000 small companies). The top 550,000 or so of these companies are targets for the V-cube's business. Currently, only about 10,000 of these 550,000 companies are thought to have introduced web conferencing, and the number of these that have introduced the technology across the board is even fewer. The web conferencing market therefore appears to have plenty of room left for further growth by accelerating full company-wide introduction and increasing the number of user companies.

Furthermore, many are using TV conferencing (high end) and PC-based video-chat, Skype, or other platforms (low-end) as communication tools, however they each have the following weaknesses.

TV conferencing

- Extremely expensive (especially when the number of locations is increased)
- Can only be used in a predetermined location
- Paucity of functions outside of video, such as functions for sharing of files and other materials
- Hardware faults and deterioration are a prominent issue

Free video chat, etc.

- Security is uncertain
- Communications lack stability
- No functions for business use
- Support not available

Using the company's web conference service enables companies to cover all of these weaknesses, so it seems to have the potential to capture market share from TV conferencing and free video chat and the like. The company is expanding its market in Japan through the following specific strategies, and intends to increase its market share within that market.

● **Industry reorganization-type M&A and OEM**

The company aims to expand its market share through industry reorganization such as forming capital alliances with competitors, undertaking OEM, and other strategies. With regard to OEM in particular, many of the company's competitors are companies affiliated with major electronics manufacturers as noted above, and while these companies have brand power, they often lack a sufficient product line up. There are strong possibilities for mutual benefits if the company provides OEM products (services) to such companies. Meanwhile, in the case of companies that have distinctive products or technologies, such as PVC, the company intends to actively investigate options for acquisition.

● **Strengthen partner strategy**

Up until now the company has grown its sales primarily through a direct sales strategy. Looking ahead, however, it aims to increase its sales in Japan a step further by strengthening its links with partner companies to increase its market share. In particular, the company's policy is to focus its efforts on invigorating its sales agency network in addition to partnerships with telecommunications carriers and links with SaaS service companies. The company's sale format is based on monthly fees, and it is expected to induce many companies to participate in sales as agencies by returning part of these revenues to them as an incentive.

Currently, over 200 large, mid-sized, and small companies, including telecommunication carriers and systems integration companies, are engaged as the company's sales partners. However, with many of these partners, the internal sales evaluation is based on the single month sales method (evaluation based on the sales over the period of a month). This appears to be a factor making it difficult to expand sales of cloud-based products such as those of the company (monthly sales are small amounts, but continue over a long term). The company therefore plans to strengthen the incentive to sell its products, while aggressively appealing the benefits to the sales partners in the case where they sell a cloud-based product.

● **Solution provision-type services**

To differentiate itself from others in the industry, the company will expand its industry-specific solutions in addition to ordinary web conferencing. In this way, it will accelerate its evolution from a simple web conferencing company to a provider of visual communication solutions. The following ongoing projects are specific examples of this change.

▲ **Solutions for financial institutions**

Specialized teams are developing sales of usage models for financial institutions such as banks, securities companies, insurance companies, and lease companies, including conferences between offices, training, seminars for customers, remote visits to customers, BCP, and more.



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▲Solutions for healthcare

The company established M-cube, Inc. as a strategic subsidiary with M3, Inc. <2413> (V-cube equity stake 49.0%) in March 2014. Among other services, this subsidiary carries out the web lectures that are currently offered by M3. Moreover, using these as a starting point, the company plans to accept commissions for services from clients other than M3, and to establish the de-facto standard for web lectures in the medical and healthcare field, centered on M-cube.

In April 2015 the company will begin full-scale provision of pkgQ (Package Q), a web lecture service for pharmaceutical companies that has been newly developed by M-cube. In the pharmaceutical industry, over 100,000 lectures are held each year to communicate with doctors and other medical professionals. However, many representatives at pharmaceutical corporations say that they want to have enhanced communication with doctors throughout Japan, while doctors say that they want to use their time efficiently to gather insights and information relating to pharmaceuticals and new treatment case studies. pkgQ not only provides live distribution of web lectures, but also links with Japan's largest healthcare portal website, m3.com, which is operated by M3. This link enables users to easily gather together visitors from all over Japan, a task that was previously difficult, and enables them to grasp the individual needs of doctors attending the lectures in order to assist the smooth provision of pharmaceutical product information and support activities.

▲Solutions for the education market

Another major potential market for the company is the education market, which is to say, the market serving various kinds of schools. There is already a national policy in place with a four year plan to prepare an environment for incorporation of IT in education (FY2014-2017), with a total planned budget of ¥671.2 billion. One of the elements in this environment to be prepared is "the cost of providing for a 400,000-unit shortfall in electronic smart boards and the renewal of 10,000 existing units." As mentioned above, the recently acquired PVC is a major supplier of electronic smart boards and a top manufacturer with a record of supplying 20,000 units to schools in Japan. This national policy is therefore a positive tailwind for PVC, and can be expected to contribute significantly to the company's financial results.

▲Robotics-related business centered on devices such as drones

The company invested in Rapyuta Robotics Co., Ltd., a developer of technologies related to commercial use of drones (miniature unmanned aircraft), and started up a new robotics-related business. Drones can be controlled remotely from a cloud system to visit a location in place of a person and transmit images and other information in real time. Now the company is combining V-cube's visual communication services and Ryaputa's technologies to enable images captured by a drone to be recognized in real time on V-CUBE services. This will lead to the joint development of services for use in various scenarios, such as infrastructure inspections of bridges and tunnels where aging has presented challenges, maintenance at plants with tall structures or chimneys, assessment of damage in disaster zones, and security measures for large-scale facilities like power stations. In FY12/15, the company will take part in verification tests using drones with the goal of achieving profitable services from FY12/16.

●Key products for the company's growth strategies

To expand its business, the company needs to "increase the number of customers" and "increase the sales amount per customer." To achieve this, the company has prepared the following line up of strategic key products. The company will use them from FY12/15 to expand its business further.

▲V-CUBE One

As explained above, the company has prepared products that involve provision of various services. Since September 2014 it has provided V-CUBE One, a fee system based on a new concept of using multiple services (web conferencing, webinars, online sales, etc.) bundled in a single package. There had already been strong demand from users who wished to use multiple services, but the previous model required the customers to subscribe separately for each service. This made the price (monthly subscription fee) for using multiple services somewhat high, causing many users to hesitate. The introduction of V-CUBE One meant that users who subscribe to the product can now use multiple services for a lower price than before. Meanwhile, the company can expect to benefit from a higher average price per subscription port (monthly subscription amount).

▲V-CUBE Gate

V-CUBE Gate was released in November 2014. This is a free text-chat service especially for corporations, which can be set up to enable anyone within a subscribing company to use the service for free.

The goal of introducing this service is to get many people using it so that they will also learn about the company's other services. V-CUBE Gate is linked with the company's web conference services, so users can go into a web conference and use the web conference service with single click. The product has therefore been called "V-CUBE Gate" because it acts as a conduit to its main service.

Since it is a free service, it does not generate profit initially. However, making the service free is intended to encourage its use on more occasions and contribute to profit through the seamless link to the V-CUBE service. At any rate, it is important to increase the number of users of the service at first, and the initial target is set at 1 million users. The company plans to begin full-scale promotion of the product from FY12/15, and to see the effects emerge from the second half of that fiscal year.

▲New version of V-CUBE Meeting, "V5"

The technology underpinning V-CUBE Meeting has been upgraded. With an improved environment and more comfortable user experience, the company intends to increase the number of subscribers and reduce the number of subscription cancellations.

Using some of most advanced component technologies in the world

The company has used some of the most advanced component technologies in the world to dramatically enhance connectivity, image quality, and audio quality. These improvements have enabled the company to significantly reduce the time needed to prepare the customer-side environment before the subscription. This will support improved subscription rates and shorten lead times for signing up new subscribers. Moreover, since the new version provides solutions for connectivity, image quality, and audio quality, which account for nearly half of the factors driving cancellations, it will greatly reduce churn rates.

Mobile-first design

Designs predicated on use with a mobile device have expanded usage scenarios. Moreover, the company is also aiming to drive sales expansion in overseas markets where use with mobile devices is common.

Strengthen global infrastructure

By establishing infrastructure (dedicated lines) overseas, the company has opened the way for clients to use the services in emerging countries, including China. The company has also improved the user experience in regions where it had been poor, such as South America and Europe, with the goal of expanding its customer base.

Overseas expansion by entering new regions and strengthening of sales systems in existing markets

(2) Step up overseas expansion centered on Asia

●Expansion into new countries

To expand overseas sales, it is important not only to expand sales in its existing markets, but also to follow a strategy of expanding into new countries. In this respect, the company plans to expand its locations while also aggressively developing partnerships with other companies. The company has already started sales in South Korea, and is preparing to formalize its operations in Taiwan and Vietnam. The company also plans to close on rapidly expanding sales negotiations in Malaysia, and to further expand prospects in Indonesia.

●Investing sales resources

In existing markets, the company plans to aggressively invest sales resources. Sales costs in existing overseas markets are much lower than in Japan, but IT product prices (including the company's prices) are almost the same. In other words, overseas companies offer high cost effectiveness. The company plans to increase earnings by investing sales resources on a large scale, particularly in Malaysia and China, where marketability has been confirmed through direct sales.

●Lateral development of successful case examples

The company will expand sales through lateral development of successful case examples in overseas markets. Specifically, it will develop the successful case example of services for Shanghai General Motors Company Ltd. for other automobile companies, sell the example of its crisis management solution for government organizations in Thailand and China to the governments of other countries, and expand sales of the distant learning system delivered to universities in emerging countries to other universities. Regrettably, the political instability surrounding the Thai government put a complete stop to projects there in FY12/14; however, the project itself has not ceased to exist. By continuing sales activities, the company appears confident that it will be able to revive the project to some extent in FY12/15.

Accelerate provision of services as a platform to drive rapid business expansion

(3) Development of a B-to-B-to-C Platform Model

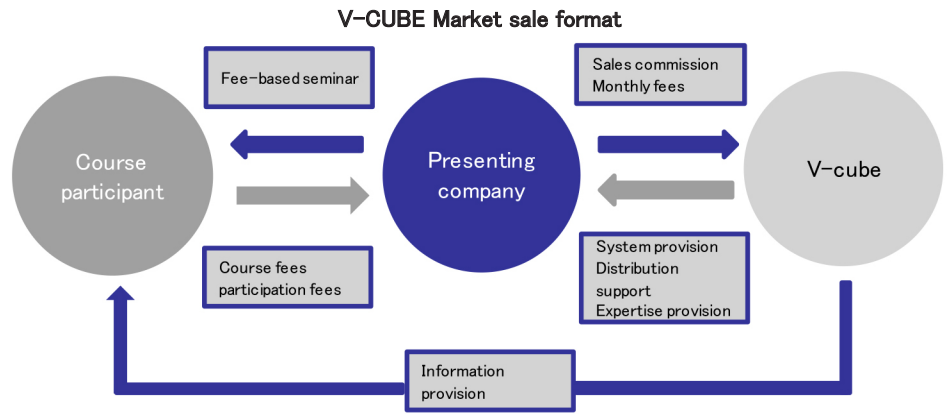
The company is developing two models as follows.

(a) Joint operations in various fields, such as education and healthcare

The company will establish ties with industry leaders in content and service provision, such as cram schools and correspondence education operators, training service providers, and nursing care service operators, and establish a revenue model in which customers of these businesses pay for a set product including provision of the contents and services. For example the company has established ties with companies such as Recruit Holdings Co., Ltd. <6098>, Gakken Holdings Co., Ltd. <9470>, YARUKI Switch Group Holdings Co., Ltd., and Escrow Agent Japan, Inc. <6093>.

(b) Incorporate the long-tail market using V-CUBE Market

The company will not only supply tools such as web conference services, but also offer the V-CUBE Market fee-based live distribution service platform using web conferences and web seminars, which it has developed. Anybody will be able to use the V-CUBE Market provided by the company to distribute lectures, seminars, and other material with ease.



The company is currently pursuing the above medium- to long-term strategies with the goal of becoming the “No.1 Visual Communications Platform in Asia.”

There is still ample room for further development of markets in Japan and overseas for the company’s web conferencing service. Many investors will be watching its progress going forward.

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