

V-cube, Inc.3681 Tokyo Stock Exchange First
Section

1-Oct.-15

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at the end of this document.FISCO Ltd. Analyst
Noboru Terashima

■ Aggressive Investment in Sales Activity Drives Expansion in Cloud Services, Significant Increase in Profits

V-cube, Inc.'s <3681> core business is visual communication, primarily web conference services and web seminars (webinars) using cloud platforms. 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 online sales and remote learning. With a particular emphasis on product development and provision, the company is following a growth strategy aimed at becoming "The No. 1 Visual Communication Platform in Asia."

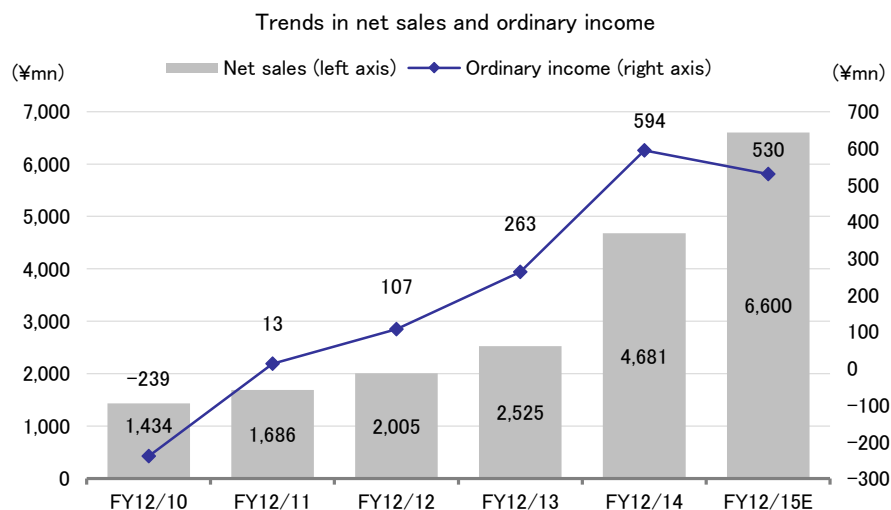
In the first two quarters of the fiscal year ending December 2015, i.e. Q2 FY12/15, the company recorded consolidated net sales of ¥2,699mn, up 55.8% year on year (YOY), operating income of ¥194mn, up 81.0%, ordinary income of ¥200mn, up 139.2%, and net income of ¥68mn, up 114.5%. Aggressive investment in sales activities since FY12/14 drove expansion in sales of highly profitable cloud services, which was a factor in the significant increase in profits.

For FY12/15, the year in progress, the company is forecasting full-year consolidated net sales of ¥6,600mn, up 41.0% YOY, operating income of ¥502mn, up 24.5%, ordinary income of ¥530mn, down 10.9%, and net income of ¥267mn, up 2.0%. However, since the company has positioned this year as a phase for accelerating business expansion, it is focusing on expanding sales more than profits in order to speed the growth of the market and its market share. The profit forecast is weighted heavily towards the second half of the year. However, given the second-half weighting of the appliances business, and the fact that the company's core business is cloud based, these targets seem well within its reach.

The company's core medium-term 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. The government's "regional revitalization" and "work life balance promotion" policies are also likely to work in the company's favor.

■ Check Point

- Mainstay cloud service business expanding steadily, driving increases in sales and profits
- Room to develop potential markets, strengthening of partner strategy and industry specific services
- Accelerating provision of services as a platform to drive rapid business expansion



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

■ Corporate Overview

Listed on TSE mothers in December 2013, designated on TSE First Section in July 2015

(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 services. 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, and subsequently changed to Tokyo Stock Exchange First Section in July 2015.

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 business model is outlined below.

●Special characteristics of web conferencing

Telephone and TV conferencing have been widely used for some time, mainly by major corporations. However, the services require special equipment that can only be used at the site of installation, and the cost of use is relatively high. 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 of web conferencing, and its advantage over TV conferencing, is that it can be used at a relatively low price anytime, anywhere, and by anyone.



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●Special characteristics of cloud-based businesses

The company is developing primarily cloud-based services. Basically, 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) × 12 plus the amount of newly acquired customers. Generally, 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 services 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 major listed companies, government organizations, educational facilities, and various other organizations, and are not biased toward a particular industry. The monthly fee differs depending on the scale of use (for example, in a wide range from ¥5,000 to several hundred thousand yen). Therefore, increasing the number of subscribers and the amount of subscription fees per company (number of subscription ports × subscription port price) increases the company's net sales (increases earnings). User charges range from ¥11,000 per port per month.

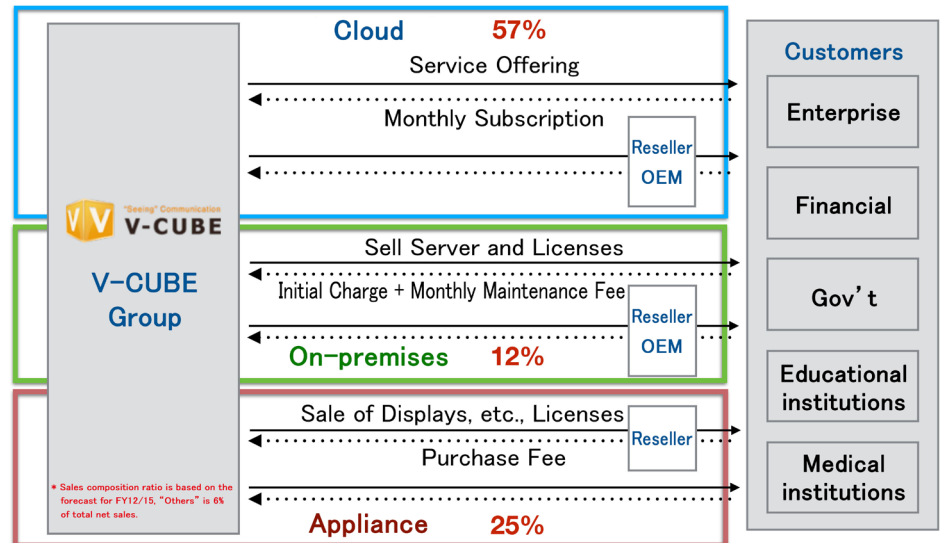
The range of monthly user charges is wide, and the impact from additions of companies that pay small user charges is only slight. The company does not disclose the number of customers, however few companies cancel their subscriptions once they have subscribed, and most subscriptions appear to be continuing.

In the forecast for FY12/15, cloud-based services (monthly fees) currently account for 57% of the company's net sales; however, there are also some customers such as financial institutions who are constrained from using cloud-based services due to security aspects, and the company provides these customers with an on-premises-type solution using a dedicated server installed within the customers' premises, 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. These sales are mainly handled by the company's consolidated subsidiary PioneerVC Corporation (PVC).

V-cube business model

Business development of cloud services mainly for corporate customers



Source: Materials published by V-cube

●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 an eighth 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, distance learning, telehealthcare 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. Its special characteristic is that it is able to provide visual communication solutions ("VC solutions") that go beyond the scope of a simple web conferencing provider.

Moreover, the company made PVC a subsidiary in May 2014, as mentioned above. PVC's main products are electronic smart board systems. In addition to selling electronic smart board systems and related solutions, it will now also be able to provide solutions that combine the electronic smart board systems with V-cube's web conferencing and webinar expertise. Through these offerings, V-cube can be expected to develop in distance learning and other services based on the incorporation of ICT in education, which is expected to expand going forward.

Furthermore, from October 2014, PVC integrated its visual collaboration services under the new xSync ("by-sync") brand, and now provides 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 12 countries centered mainly on Asia (Japan, China, Singapore, Malaysia, Indonesia, Thailand, Vietnam, Philippines, India, Australia, 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.



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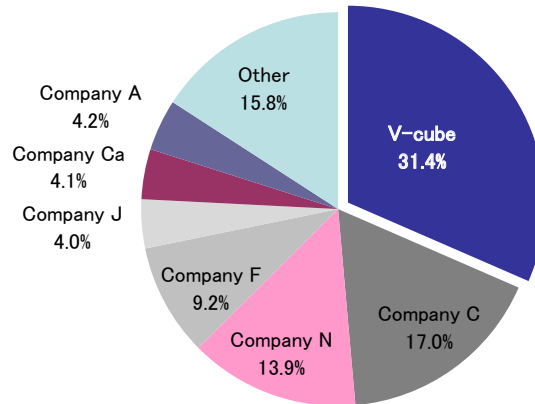
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In Asia especially, even if the respective countries have relatively strong internal telecommunication networks, their inter-country communication environments (international communication lines) are often unstable, causing frequent disruptions with TV conferences and other such communications between countries. The company's services solve this issue by using dedicated inter-country 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 eight 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%).

Web conferencing market share in Japan



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 services 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 invest in development, make usability improvements, and so forth to meet customers' needs.

Business Trends

Mainstay cloud expanded steadily, driving higher sales and profits

(1) Business trends in Q2 FY12/15

●Profit and loss

For Q2 FY12/15 the company's consolidated net sales rose 55.8% YOY to ¥2,699mn, operating income rose 81.0% to ¥194mn, ordinary income rose 139.2% to ¥200mn, and net income rose 114.5% to ¥68mn.

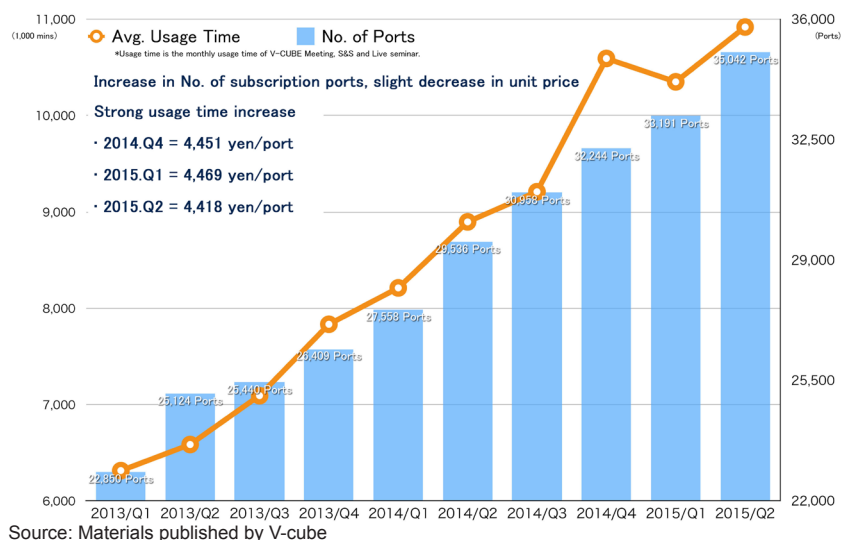
Net sales and profit and loss by region

	Q2 FY12/14		Q2 FY12/15		YOY Change	
	Amount	Share	Amount	Share	Amount	%
Net sales	1,733	100.0%	2,699	100.0%	+966	55.8%
Japan	1,544	89.1%	2,182	80.8%	+638	41.3%
China	144	8.3%	450	16.7%	+306	211.4%
Other overseas	43	2.5%	66	2.4%	+23	51.9%
Cloud	1,368	78.9%	1,909	70.7%	+541	39.5%
On-premises	197	11.4%	267	9.9%	+70	35.3%
Appliances	51	2.9%	383	14.2%	+332	638.3%
Other	115	6.6%	139	5.1%	+24	21.4%
Operating income	107	2.3%	194	2.9%	+86	81.0%
Ordinary income	83	1.8%	200	3.0%	+116	139.2%
Net income	31	0.7%	68	1.0%	+36	114.5%

By sale format, sales of the mainstay cloud services increased steadily by 39.5% YOY to ¥1,909mn, partly due to the effects of investment in sales activities from FY12/14. The service has a high marginal rate of return, so that the sales increase contributed directly and significantly to profit increase. Furthermore, the number of subscription ports (subscription unit) and average usage time, both key indicators for cloud-based services, have increased steadily. The customer base, which will contribute to sales increases in the future, is gradually expanding.

On-premises service sales had a lower absolute amount at ¥267mn, up 35.3%, but have strongly rooted demand due to customers' security policies. Appliance sales (mainly sales related to electronic smart board systems at PVC) increased significantly by 638.3% to ¥383mn, reflecting the fully consolidated accounting of PVC.

KPI - Growth trend of subscription port plan (JP-monthly)





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By region, net sales were ¥2,182mn in Japan, up 41.3% YOY; ¥450mn in China, up 211.4%; and ¥66mn in other countries up 51.9%. Sales in Japan increased dramatically, due to the growth in cloud services and partly due to the contribution from PVC. Overseas, the subsidiary established in China in 2013 began operations smoothly and contributed significantly to consolidated net sales. In other overseas developments, geopolitical unrest in Thailand suppressed sales growth there. As a result, the ratio of overseas sales increased from 11% in FY12/14 to 19%.

The gross profit margin declined to 61.8% from 64.1% in FY12/14, reflecting the significant contribution from appliance sales, which have a relatively low profit margin. However, gross profit increased significantly by 50.1% YOY to ¥1,667mn in line with the increase in net sales. Meanwhile, selling, general and administrative (SG&A) expenses also increased significantly, rising 46.8% to ¥1,473mn, partly due to aggressive investment in sales activities. Nevertheless, this increase was absorbed by the increase in the gross profit, resulting in a significant increase in operating income, which rose 81.0% to ¥194mn. Moreover, ordinary income also increased, rising 139.2% to ¥200mn, partly due to recording foreign exchange gains of ¥8mn under non-operating income (loss of ¥19mn in FY12/14). Net income rose 114.5% to ¥68mn, reflecting the tax burden and other factors.

●Financial condition

The company's financial condition at the end of Q2 FY12/15 was as shown in the table. Current assets stood at ¥3,105mn (¥2,987mn at the end of FY12/14), mainly reflecting an increase in advance payments—trade of ¥222mn. Noncurrent assets increased to ¥3,693mn (¥3,270mn at the end of FY12/14), mainly reflecting an increase of ¥250mn in software (including software in progress) and ¥79mn in goodwill) associated with aggressive investment. As a result, total assets were ¥6,798mn (up ¥541mn from the end of FY12/14).

Current liabilities increased to ¥1,674mn (¥1,350mn at the end of FY12/14), mainly reflecting an increase in short-term loans payable of ¥119mn and increase in advances received of ¥104mn. Moreover, net assets increased to ¥4,481mn (¥4,400mn at the end of FY12/14), as a result of an increase in capital stock of ¥55mn and an increase in capital surplus of ¥55mn, as well as an increase in retained earnings of ¥68mn due to the recording of net income, and a decrease of ¥123mn in non-controlling interests.

Balance sheet

	End of FY12/14	End of Q2 FY12/15	(Change)	(¥mn)
Current assets	2,987	3,105	+118	
Cash and deposits and securities	835	498	-337	
Noncurrent assets	3,270	3,693	+423	
Software	1,806	2,057	+250	
Goodwill	833	912	+79	
Total assets	6,257	6,798	+541	
Current liabilities	1,350	1,674	+324	
Noncurrent liabilities	506	642	+135	
Net assets	4,400	4,481	+81	

Growth drivers by format are cloud and appliances

(2) Forecast for FY12/15

For FY12/15 the company is forecasting consolidated net sales of ¥6,600mn, up 41.0% YOY, operating income of ¥502mn, up 24.5%, ordinary income of ¥530mn, down 10.9%, and net income of ¥267mn, up 2.0%. Operating income and net income forecasts are unchanged from the previous forecast, however net sales has been revised upward by ¥200mn and ordinary income by ¥30mn (announced August 13, 2015). The forecast for ordinary income to decline YOY reflects the unlikelihood of a repeat of the foreign exchange gains of ¥171mn that was recorded in FY12/14. Net income is also expected to grow at a slower pace, weighed down by an increase in the tax burden.

Business performance forecast for FY12/15

	FY12/14		FY12/15E		YOY Change	
	Amount	Share	Amount	Share	Amount	%
Net sales	4,681	100.0%	6,600	100.0%	+1,918	41.0%
Japan	3,993	85.3%	5,480	83.0%	+1,487	37.2%
China	590	12.6%	900	13.6%	+310	52.4%
Other overseas	97	2.1%	220	3.3%	+123	125.3%
Cloud	2,822	60.3%	3,750	56.8%	+928	32.8%
On-premises	771	16.5%	780	11.8%	+9	1.1%
Appliances	852	18.2%	1,630	24.7%	+778	91.2%
Other	234	5.0%	440	6.7%	+206	87.6%
Operating income	403	8.6%	502	7.6%	+98	24.5%
Ordinary income	594	12.7%	530	8.0%	-64	-10.9%
Net income	261	5.6%	267	4.0%	+5	2.0%

By region, the company is projecting consolidated net sales as follows: Japan ¥5,480mn, up 37.2% YOY; China ¥900mn (up 52.4%), other overseas ¥220mn (up 125.3%). Projected sales by format on a consolidated basis are as follows: cloud ¥3,750mn (up 32.8% YOY), on-premises ¥780mn (up 1.1%), appliances ¥1,630mn (up 91.2%) and other ¥440mn (up 87.6%).

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 markets by actively cultivating new customers.

On the expenses front, the company is forecasting the following increases for FY12/15: purchasing up ¥676mn (of which appliances are ¥512mn), amortization of software up ¥183mn, other outsourcing expenses up ¥147mn. In addition, the company is projecting that personnel expenses will increase by ¥480mn due to the consolidation of PVC (full-year burden) and an increase in sales and development personnel, while sales strategy expenses increase by ¥107mn, rents, etc. increase by ¥171mn, and goodwill amortization increase by ¥57mn, among others. While these kinds of upfront-investment style expenses will continue to increase, the company expects them to be absorbed by an increase in sales, mainly in cloud and appliances, for an increase in profits for the year.

■ Medium- to Long-Term Strategy

Scope to develop potential markets, strengthening industry-specific services and drone use

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

We believe that by opening new potential markets while increasing its share, the company can grow its sales in Japan further. To realize this, the company's policy is to carry out the following key measures.

- Expand market share by leveraging M&As and OEM
- Measures to increase the number of subscription ports and price per subscription port
- Widen target environments and increase usability through technological innovation => accelerate new subscriptions and reduce cancellations
- Establish industry-specific services and usage models
- Robotics-related business centered on devices such as drones

● 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. It intends to actively investigate options for acquisition of companies that have distinctive products or technologies, such as PVC. With regard to OEM, many of the company's competitors are companies affiliated with major electronics manufacturers as noted above, and while these companies have advantages in customers and 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.

● **Key products for the company's growth strategies**

To expand its business, the company has prepared the following line up of strategic key products. It will use them from H2 FY12/15 to expand its business further.

▲ **New version of V-CUBE Meeting, "V5"**

The new version has significantly improved technology from the previous version. With an improved environment and more comfortable user experience, the company intends to shorten lead times for signing up new subscribers and reduce the subscription churn rate. The new version has the following special characteristics.

Using the highest quality component technologies in the world

Using the highest quality component technologies in the world dramatically enhances connectivity, image quality, and audio quality. These improvements have enabled the company to significantly reduce the preparations required on 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.

The company investigated its own internal use of V5 and found that within three months of starting use, the number of meetings increased 140%, the total number of users increased 176%, and the total amount of meeting time increased 135%, with average meeting time length decreasing 17%. These results point to a significant increase in convenience of web conferences, which is promising for future development.

▲ **V-CUBE One**

The company provides various services. Since September 2014 it has provided V-CUBE One, a fee system based on a 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.

▲ **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 text-chat service itself has a high level of recognition, and is probably easier to sell than the web conference service.

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 other services and use them with a single click. The product has therefore been called "V-CUBE Gate" because it acts as a conduit to its main service.

V-CUBE Gate alone can contribute to earnings by providing some management functions for a fee. However, since the general functions are available for free, the company plans to use the free provision to drive rapid introduction of the service while also making aggressive use of resellers. In this way, the company aims to promote wider adoption of its mainstay web conference service (fee-based). The company is targeting 1 million users. During H2, it plans to carry out a full-scale promotion of this product, the effects of which can be expected to emerge from Q4 onward.

● **Establish industry-specific services and usage models**

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 break away from being a simple web conferencing company to become a provider of VC solutions. The following ongoing projects are specific examples of this change.

▲ Solutions for the real estate industry

The Ministry of Land, Infrastructure, Transport and Tourism is investigating options for allowing an online explanation of important matters between transacting parties when making a real estate contract, a process which is conducted face-to-face by real estate transaction specialists under the Building Lots and Buildings Transaction Business Act. It has decided to conduct a social experiment for the two years starting from August 31, 2015. The use of the company's web conference service by major real estate information service companies participating in this social experiment is expected to contribute significantly to the company's earnings.

▲ 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.

▲ Solutions for the education market

One of the biggest potential markets 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." PVC is a major supplier of electronic smart board systems and an industry leader 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.

▲ Solutions for healthcare

The company established M-cube, Inc. as a joint venture with M3, Inc. <2413> (V-cube equity stake 49%) in March 2014. M-cube is currently conducting web lectures, mainly for pharmaceutical companies. Using this as a starting point, the company aims to create the de facto standard in the medical healthcare field, including telehealthcare and remote prescriptions, centered on M-cube. As a specific example, in June 2015 M-cube started developing an online face-to-face prescription medicine sales service.

Furthermore, in July 2015 the company launched an overseas web lecture services for pharmaceutical companies, enabling research presentations and case study reports by internationally active overseas doctors, as well as academic conference reports and commentary videos to be viewed in Japan. The service achieves web lectures of the same quality as those held inside Japan at approximately half the price of conventional web lectures provided from overseas. This has enabled pharmaceutical companies to increase the frequency of web lectures, making it easier to meet demand from doctors. M-cube has already confirmed three web lectures for this year's academic conference season.

● Robotics-related business centered on devices such as drones

The company has also 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. For example, drones could capture images in places where humans may not be able to enter (plants, steel towers, bridges, mountainous areas, etc.), and the images could be observed simultaneously by government organizations, police, fire services, operating companies and so forth using the company's web systems, enabling them to discuss measures or responses to situations.

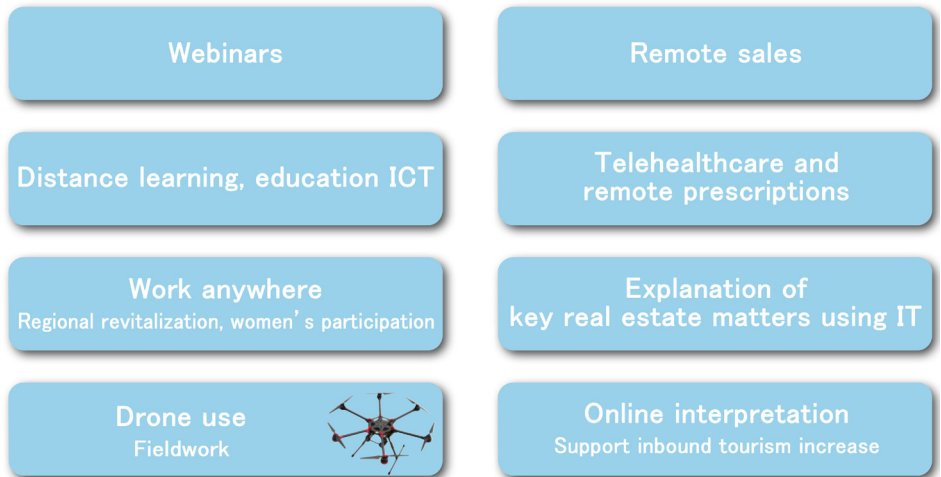
The company is currently conducting various kinds of trial test using drones and real-time images. For example, the company carried out investigations for practical applications in equipment inspection and information gathering inside a facility in an experiment conducted with Tsuneishi Holdings Corporation (Fukuyama City, Hiroshima), and for disaster readiness and infrastructure inspection in an experiment conducted with the NPO, the Research Institute of Information Security (Tanabe City, Wakayama Prefecture). The initiative is still in the trial and testing stage, so it is not expected to contribute to the company's earnings in FY12/15; however, the company aims to make it profitable from FY12/16 onward.

● **Various ways for using the company’s services incorporated into business and personal life**

Another major potential boost to the company is changes in government policy. The current Abe administration has cited “regional revitalization” and “promotion of work-life balance” as core policies, and these include “remote sales,” “telehealthcare and remote prescriptions,” “distance learning and education ICT,” and “use of IT in explaining key real estate matters.” In these areas, there is a strong possibility that company’s VC solutions will find increasing application. Moreover, cloud-based interpreting services to support rapidly increasing in-bound tourism are being developed with “V-CUBE translator,” which is expected to find application in various scenarios. Demand has mainly been focused on web conferencing to this point, with the assumption of use in business scenarios. Looking ahead, however, there is potential for increasing use in personal scenarios.

Not just web conference, various applications everywhere

**Various uses in personal and business settings.
Use as a key to regional revitalization**



Source: Materials published by V-cube

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 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, formalized its operations in Taiwan in May, and continues preparations to enter Vietnam. The company also plans to close on rapidly expanding business pipelines in Malaysia, and to further expand its business pipelines in Indonesia.

Moreover, by establishing infrastructure (dedicated inter-country 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.

● **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 services) 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 risk management solution cases for Japanese and Southeast Asian government organizations to national and local government organizations in other countries, and expand sales of the remote education system delivered to universities in emerging countries to other universities.

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

(3) Development of a B-to-B-to-C platform model

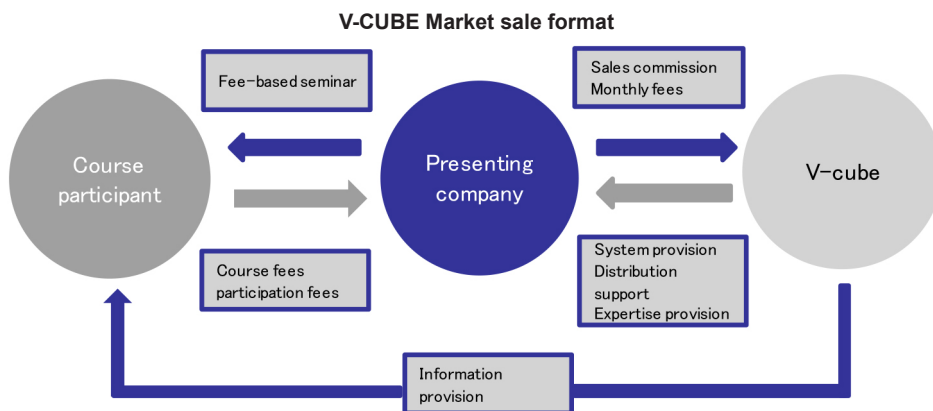
The company is developing two models as follows.

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

The company’s business model is to 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 then charge customers of these businesses for a set product including provision of the content 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 going forward will also offer the V-CUBE Market fee-based live distribution service platform using web conferences and webinars, which it has developed. That is to say, anybody will be able to use the V-CUBE Market provided by the company to distribute lectures, seminars, and other material with ease. A schematic diagram of the V-CUBE Market is shown below.



The company is currently vigorously pursuing the above medium-term growth strategies with the goal of quickly 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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