

## V-cube, Inc.

3681 Tokyo Stock Exchange First Section

11-May-16

Important disclosures and disclaimers appear at the end of this document.

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\* The company initially announced its FY12/15 results on February 12, 2016. It announced partially amended results on February 24. The figures in this report are the amended results.

## ■ Sales of Cloud Services to Grow About 40% YOY, Greatly Expanding Profits

V-cube, Inc. <3681> offers visual communication services, primarily web conferences and web seminars (webinars) using cloud platforms. Addressing the market derived from a change in work-styles, the company has provided a wide range of product lines to meet user's needs, including for online sales support and distance learning, and other functions. Its business in Japan and other Asian countries has grown rapidly. To achieve further growth, the company aims to penetrate the social infrastructure market.

In the fiscal year through December 2015, i.e., in FY12/15, the company's consolidated net sales increased 30.0% year on year (YOY) to ¥6,083mn, its operating income declined 13.7% to ¥348mn, its ordinary income fell 69.8% to ¥179mn, and its net income dropped 64.2% to ¥93mn. Cloud services and appliances led sales growth, but the cost of sales increased, due mainly to larger purchases of appliances. Furthermore, SG&A expenses expanded YOY due to aggressive investment in sales activity. These cost increases led to the decline in operating income. In the non-operating income account, the company suffered foreign exchange valuation losses, mainly on loans extended to its consolidated subsidiaries overseas. These losses, combined with the fall in operating income, resulted in the drop in ordinary income. However, the company had planned the increased investment in sales activity from the start of the year, and it foresees foreign exchange gains or losses hereafter due to significant changes in exchange rates.

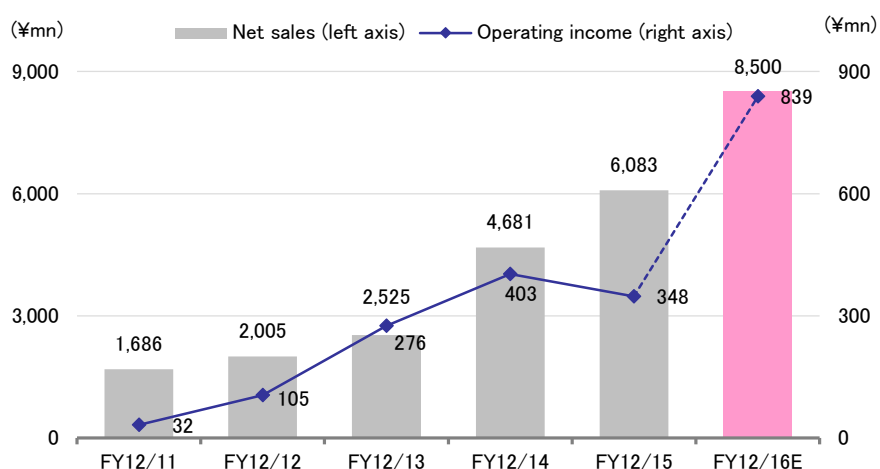
For FY12/16, the company projects a 39.7% YOY rise in net sales to ¥8,500mn, a 141.2% upturn in operating income to ¥839mn, a 329.5% jump in ordinary income to ¥771mn, and a 594.2% surge in net profit attributable to owners of parent. It expects these growth rates to result from its heavy investment in sales activity through FY12/15. It foresees particularly large income growth in the second half of the fiscal year, which seems plausible, as sales of appliances are concentrated in the second half and the company's core business is cloud based.

The company has announced the first Midterm Strategy for the growth of its group of companies. This plan is intended to achieve the company's basic goal of becoming the No. 1 Visual Communication Platform in Asia, and it adds three other objectives: deepening influence in change of work-style, providing social infrastructure, and further overseas business expansion with a focus on Asia. 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 services 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

Trends in net sales and operating income



## ■ 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. 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.

#### 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.
December 2009	V-cube Malaysia Sdn. Bhd. established in Kuala Lumpur to develop and expand business in Southeast Asia
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, V-cube Tianjin Information Technology Co., Ltd. (formerly Tianjin BRAV World Information 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.
May 2014	PioneerVC Corp. (formerly Pioneer Solutions Corp.) made a consolidated subsidiary.
July 2015	Shares listed on the Tokyo Stock Exchange First Section.
October 2015	Established V-cube Robotics Japan Inc. 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, Co., Ltd.) and made it a consolidated subsidiary to improve services in the areas of education and training
January 2016	Established V-cube Technical Works, Inc. to strengthen development



V-cube, Inc.

3681 Tokyo Stock Exchange First  
Section

11-May-16

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

### (2) Business overview

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

#### ●Special characteristics of web conferencing

Telephone and video 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 V-cube group's web conferencing service is provided via the internet, so it can be used wherever an internet connection can be made. 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 video conferencing, is that it can be used at a relatively low price anytime, anywhere, and by anyone.

#### ●Special characteristics of cloud-based businesses

The V-cube group 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

Almost all the services provided by the V-cube group are for corporate customers. The only service for individual customers is an e learning program offered by iStudy (formerly System Technology-i Co., Ltd), which was made a consolidated subsidiary in December 2015. The group's web conference service is used by small and medium-sized enterprises, large, listed companies, government organizations, educational facilities, and customers 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 fixed charges range from ¥11,000 per port per month.

The range of monthly subscription 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 FY12/15 result, cloud-based services (monthly fees) account for 64.9% 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-off transactions 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.

In addition to electronic smart boards for educational facilities, the group sells discussion tables for corporations and government organizations and the V-CUBE Box video conferencing system for corporations. Electronic smart boards and discussion tables are sold mainly by consolidated subsidiary PioneerVC Corporation (PVC). The V-CUBE Box is sold by all members of the group.

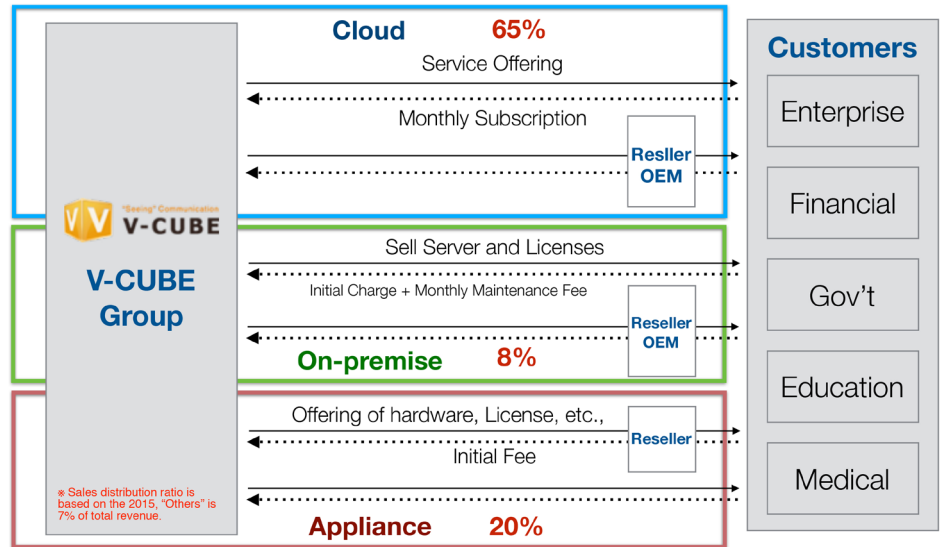


V-cube, Inc.  
3681 Tokyo Stock Exchange First Section

11-May-16

V-cube Business Model

Focused business development of cloud services to enterprise customers



Source: Materials published by V-cube

●Main costs

The group'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) requires server enhancement and 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 temporarily weigh on profitability improvement depending on the business plan.

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.

The group intends to pursue mergers and acquisitions aggressively. In fact, through FY12/15, it bought some companies and took non-controlling equity stakes in others. Further M&A will depend on circumstances but will represent another cost for the group.

**Maintained top market share in the Japanese web conference market for a ninth consecutive year, with a share of about 30%**

(3) Industry share, special characteristics, and strengths

Web conferencing service is a software service that does not require advanced technology, so it is fairly easy to enter this market. However, it is difficult to continually increase profits in this business. The special characteristics and strengths of the V-cube group in this business as described hereafter.

●Strong service lineup

In addition to web conferencing, the group provides online seminars, online support, distance learning, remote medical diagnosis, online interpretation, and similar services. 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.



V-cube, Inc.

3681 Tokyo Stock Exchange First Section

11-May-16

PVC, which became a consolidated subsidiary of V-cube in May 2014, sells electronic smart board systems. Hereafter, this subsidiary can combine its electronic smart board systems with the group's knowhow in web conferencing and online seminars to provide solution services. For example, it is offering visual collaboration services. The newest of these services is called xSync Prime Collaboration, under the xSync (By-sync) brand. This service enables high-quality conferences between overseas facilities, such as plants, similar to the conferences in Japan.

In October 2015, the V-cube group acquired Wizlearn Technologies Ptd. Ltd. (Wizlearn), which operates the largest online educational platform in Singapore, and made the company a consolidated subsidiary. Wizlearn offers systems to supervise education and online educational material. It provides these services in Singapore, which leads the world in education through information and communications technology for 16 years. More than half of the public schools in Singapore are introducing the company's services. These services are highly reliable, so they can be used in the computer systems of government organizations. They are also convenient to use because they connect with business applications that are being adopted worldwide. Therefore, in recent years, they have been adopted by companies, as well as schools.

In December 2015, the V-cube group made iStudy a consolidated subsidiary. This company offers its own brand of systems for supervising education to promote corporate education and training, primarily for large financial institutions. Its main product is a system called iStudy Enterprise Server for the comprehensive support of personnel development, from skill recognition to the planning and presentation of training programs and the management of attendance at these programs. This system is being used increasingly in Japan.

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.

#### ●Overseas (Asia) expansion capability

The V-cube group's services extend beyond Japan. They have developed a service for connecting overseas data centers in a dedicated network, which is provided in 14 countries centered mainly on Asia (Japan, China, Singapore, Malaysia, Indonesia, Thailand, Vietnam, Philippines, India, Australia, US, UK, the Netherlands, and Brazil). The company also provides multi-language localization of its cloud-based services (Japanese, English, Chinese (simplified and traditional), French, Indonesian, Thai, and Korean), along with an enhanced English-language support center and other measures for global expansion. Having this infrastructure already established (ahead of competitors) is one of the group's strengths.

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 group's web conferencing service with confidence.

The group is also extending its range of services in Asia. The acquisition of Wizlearn contributed to this goal, raising the group's presence in Asia and helping it to penetrate the market for education services or social infrastructure.

#### ●Market share and competition

According to a private market research firm in Japan, the V-cube group has led Japan's market for web conferencing for the past nine years and its current market share is about 30%. The group's main competitors are Company C (a large US manufacturer of communications equipment), Company N (the subsidiary of a large Japanese telecommunications company), and Company J (an independent Japanese manufacturer of communications equipment).

#### ●Providing services as a specialist company

As mentioned above, the group'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.

Furthermore, the group is combining its technology for web conferencing with other technology and knowhow to develop services other than web conferencing in a range of fields. As detailed in the company's Midterm Strategy, described below, these new services address not only markets derived from a change in work-styles, but they have also recently been directed to the social infrastructure market. The group appears to be on the leading edge of services for the social infrastructure market.

V-cube, Inc.

3681 Tokyo Stock Exchange First Section

11-May-16

## ■ Business Trends

### Mainstay cloud expanded steadily, driving higher sales and profits

#### (1) FY12/15 Results

##### ●Profit and loss

For FY12/15, total consolidated net sales grew 30.0% YOY to ¥6,083mn, but operating income weakened by 13.7% to ¥348mn, ordinary income fell 69.8% to ¥179mn, and net income dropped 64.2% to ¥93mn.

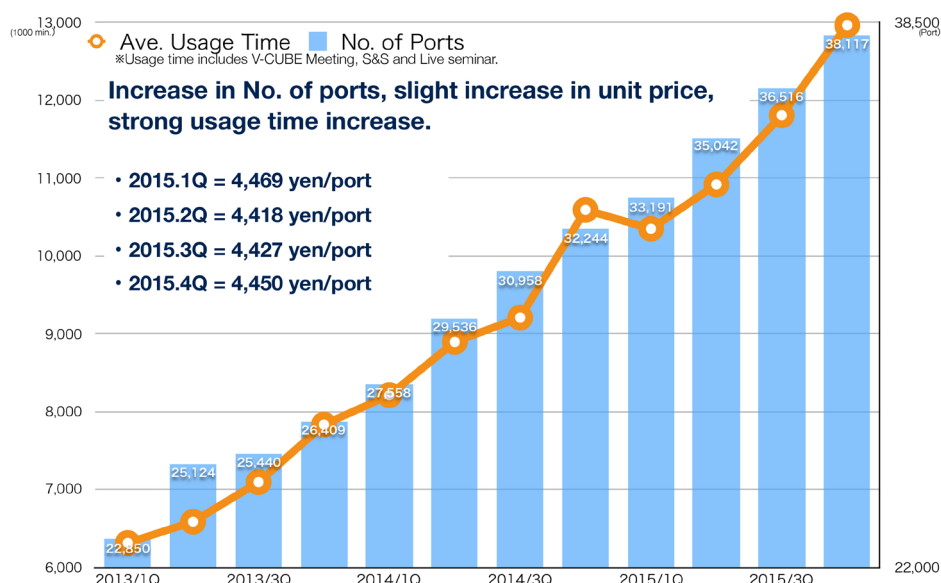
#### Breakdown of consolidated net sales and profit and loss by region and by sale form

	FY12/14		FY12/15		Amount	
	Share	YOY Change	Share	YOY Change	Share	%
Net sales	4,681	100.0	6,083	100.0	1,402	30.0
Japan	3,993	85.3	4,783	78.6	790	19.8
China	590	12.6	836	13.7	246	41.6
Other overseas	97	2.1	463	7.6	366	374.8
Cloud	2,822	60.3	3,947	64.9	1,125	39.8
On-premises	771	16.5	504	8.3	-267	-34.6
Appliances	852	18.2	1,218	20.0	366	42.9
Other	234	5.0	413	6.8	179	76.1
Gross profit	2,701	57.7	3,354	55.1	653	24.2
SG&A expenses	2,297	49.1	3,006	49.4	708	30.8
Operating income	403	8.6	348	5.7	-55	-13.7
Ordinary income	594	12.7	179	3.0	-415	-69.8
Net income	261	5.6	93	1.5	-168	-64.2

By sale format, sales of mainstay cloud services increased 39.8% YOY to ¥3,947mn in FY12/15, reflecting effect of investment in sales activities since FY12/14 and the initial consolidation of Wizlearn. 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.

Sales of on-premises services weakened YOY, mainly because of a delay in closing contracts with Japanese financial institutions and with overseas customers, but they are expected to recover when these contracts are finalized. Sales of appliances, mainly sales of electronic smart board systems by PVC, rose 42.9% YOY to ¥1,218mn.

**KPI – Number of contracted ports and average monthly usage time in Japan by quarter, FY12/13–FY12/15; average port charge by quarter, FY12/15**



Source: Materials published by V-cube

By region, net sales in Japan climbed 19.8% YOY to ¥4,783mn, China sales rose 41.6% to ¥836mn, and other overseas sales surged 374.8% to ¥463mn. The sales growth in Japan reflected the increase in sales of cloud services and the contribution of PVC. Overseas, supplementing the strong rise in sales in China, sales in Thailand recovered from the impact of political turmoil in that country, and sales in Singapore and Indonesia expanded strongly, as these nations maintained growth paths. Sales in Singapore were complemented by the contribution of a new acquisition. As a result, the company's overseas sales ratio climbed from 14.7% in FY12/14 to 21.4% in FY12/15.

The gross profit margin declined to 55.1% in FY12/15 from 57.5% in FY12/14 because of the large increase in sales of appliances, which are less profitable than the group's services. However, overall sales growth lifted gross profit by 24.2% YOY to ¥3,354mn in FY12/15. On the other hand, SG&A expenses increased significantly by 30.8% YOY to ¥3,006mn in FY12/15, reflecting strong investment in sales activities. Consequently, operating income declined by 13.7% to ¥348mn in FY12/15. Of the ¥708mn YOY increase in SG&A expenses, ¥430mn was a rise in personnel costs accompanying group expansion, ¥164mn was an increase in rents, and ¥71mn was a goodwill amortization resulting from the acquisition of subsidiaries.

The company suffered foreign exchange losses of ¥170mn under non-operating income/loss in FY12/15, reversing a foreign exchange gains of ¥171mn in FY12/14. This led to a 69.8% YOY drop in ordinary income to ¥179mn and a 64.2% fall in net income to ¥93mn in FY12/15.

**Financial condition**

The company's financial condition at the end of FY12/15 was as shown in the table. Current assets stood at ¥4,453mn, up from ¥2,987mn a year earlier. This increase in current assets stemmed mainly from a ¥962mn rise in cash and deposits a ¥235mn upturn in notes and accounts receivable-trade. Non-current assets expanded from ¥3,270mn at the end of FY12/14 to ¥5,702mn at the end of FY12/15, primarily because of a ¥551mn rise in software, including software under development, due to aggressive investment in software, and a ¥1,616mn increase in goodwill. As a result, total assets surged from ¥3,898mn at the end of FY12/14 to ¥10,156mn at the end of FY12/15.

Current liabilities increased from ¥1,350mn at the end of FY12/14 to ¥4,345mn at the end of FY12/15, mainly because short-term loans payable, including the current portion of long-term loans payable, expanded by ¥2,662mn and advances received grew by ¥212mn. Net assets increased from ¥4,400mn at the end of FY12/14 to ¥4,601mn at the end of FY12/15, reflecting primarily a ¥61mn rise in capital stock, a ¥61mn increase in capital surplus, and a ¥93mn rise in retained earnings.

## Consolidated Balance Sheet

	End of 12/14	End of 12/15	Change
(¥mn)			
Current assets	2,987	4,453	+1,466
Cash and deposits and securities	1,286	2,015	+729
Non-current assets	3,270	5,702	+2,432
Software	1,806	2,358	+551
Goodwill	833	2,449	+1,616
Total assets	6,257	10,156	+3,898
Current liabilities	1,350	4,345	+2,994
Short-term loans payable *	317	2,979	+2,662
Non-current liabilities	506	1,209	+702
Net assets	4,400	4,601	+201

\* includes the current portion of long-term loans payable

## Growth drivers by sales format are cloud and appliances

## (2) Company forecasts for FY12/16

For FY12/16, the company projects a 39.7% YOY rise in consolidated sales to ¥8,500mn, a 141.2% increase in operating income to ¥839mn, a 329.5% jump in ordinary income to ¥771mn, and a 594.2% surge in net profit attributable to owners of parent to ¥650mn. The sales growth is expected to result from the company's previous investments in business development, including to strengthen the sales function and to buy promising subsidiaries. On the other hand, operating costs should grow more slowly than in FY12/15. These factors should lift operating income notably. The company forecasts no impact of foreign exchange fluctuations on its non-operating account in FY12/16. Thus, it foresees large increases in ordinary and net incomes.

## Business performance forecasts for FY12/16 (Consolidated)

	FY12/15		FY12/16 E		Amount	
	Share	YOY Change	Share	YOY Change	Share	%
Net sales	6,083	100.0	8,500	100.0	2,417	39.7
Japan	4,783	78.6	6,284	73.9	1,501	31.4
China	836	13.7	1,127	13.3	291	34.8
Other overseas	463	7.6	1,087	12.8	624	134.6
Cloud	3,947	64.9	5,690	66.9	1,743	44.1
On-premises	504	8.3	710	8.4	206	40.9
Appliances	1,218	20.0	1,776	20.9	558	45.8
Other	413	6.8	323	3.8	-90	-21.7
Operating income	348	5.7	839	9.9	491	141.2
Ordinary income	179	3.0	771	9.1	592	329.5
Net income*	93	1.5	650	7.6	557	594.2

\* attributable to owners of parent

By region, the company forecasts a 31.4% YoY rise in consolidated sales in Japan to ¥6,284mn, a 34.8% upturn in China to ¥1,127mn, and a 134.6% increase in other overseas, to ¥1,087mn. The company's investments in sales activities over the past fiscal years should underpin sales growth in Japan. The SGM project and other large projects in China, as well as progress in the education business, are likely to support sales growth in China. Sales in Thailand are seen expanding in FY12/16, primarily sales of on-premises services. Furthermore, the full-year contribution of Wizlearn to consolidated results should boost sales from areas other than Japan and China. The company sees the overseas sales ratio reaching 26.0% in FY12/16. It forecasts a 44.1% rise in sales of cloud services to ¥5,690mn, a 40.9% increase in sales of on-premises services to ¥710mn, a 45.8% upturn in sales of appliances to ¥1,776mn, and a 21.7% decline in sales of other products to ¥323mn.

Clearly the company's sales growth drivers in terms of sale format are cloud services, but in FY12/16, it also foresees strong sales growth for on-premises services and appliances. While it projects sales growth in all geographical markets in FY12/16, growth in Malaysia and Indonesia has been somewhat slower than planned, and it may be difficult to accelerate sales growth in these countries soon.



The company foresees a YOY rise in its cost of sales in FY12/16, primarily because of a ¥471mn increase in its purchased goods, of which, ¥431mn would be for appliances, a ¥190mn rise in its software amortization, and a ¥382mn upturn in outsourcing expenses. As the company continues to hire more people for sales and product development, it sees personnel expenses rising by ¥571mn YOY in FY12/16. It also forecasts a ¥26mn rise in its sales strategy expenses, a ¥198mn increase in its rents, and a ¥88mn upturn in its amortization of goodwill. It does not plan to invest as much as it has in the previous fiscal years, and it expects to see the effects of its previous investment from the second half of FY12/16, when it forecasts especially large profit increases.

In January 2016, the company opened a new product development center in Sendai, Japan. This center should attract and train outstanding engineers living near Sendai who want to remain in the area while developing services for global clients in an ideal working environment. The company has sales offices in Tokyo, Osaka, Nagoya, and Fukuoka and product development centers in Tokyo and Singapore. The Sendai product development center is its third such center.

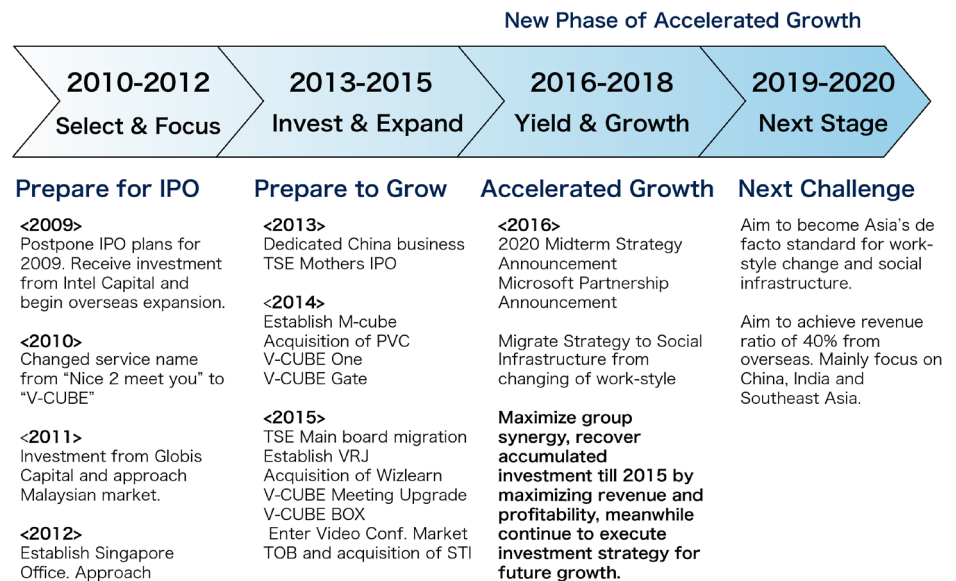
## ■ Medium-to-long-term Strategy (2016 Midterm Strategy)

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

V-cube recently announced a plan of operations for FY12/16–FY12/18. The company’s main vision or objective remains to become the No. 1 visual communication platform in Asia.

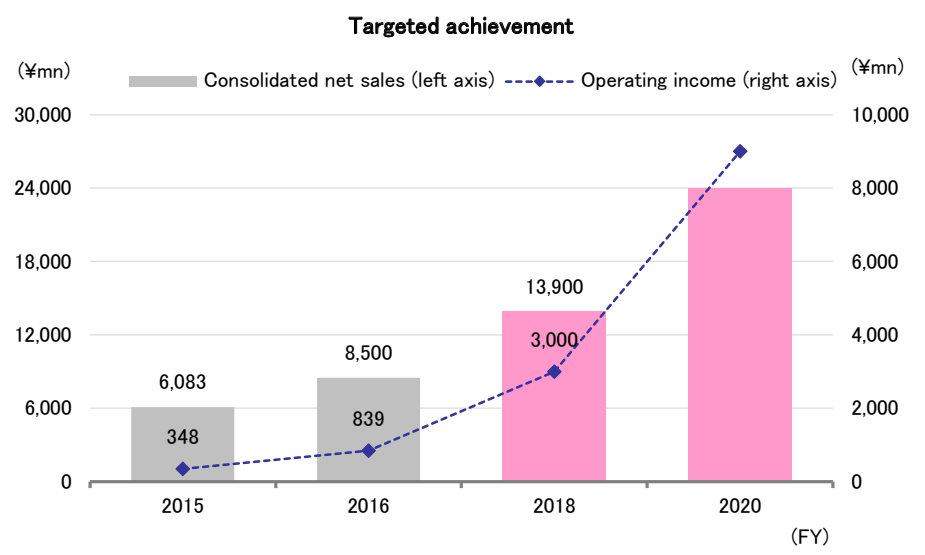
#### (1) Positions, target, policies

The new Midterm Strategy is the third of four stages of new growth envisioned in the company’s long-term strategy. The plan is positioned to jump to accelerated growth: yield & growth.

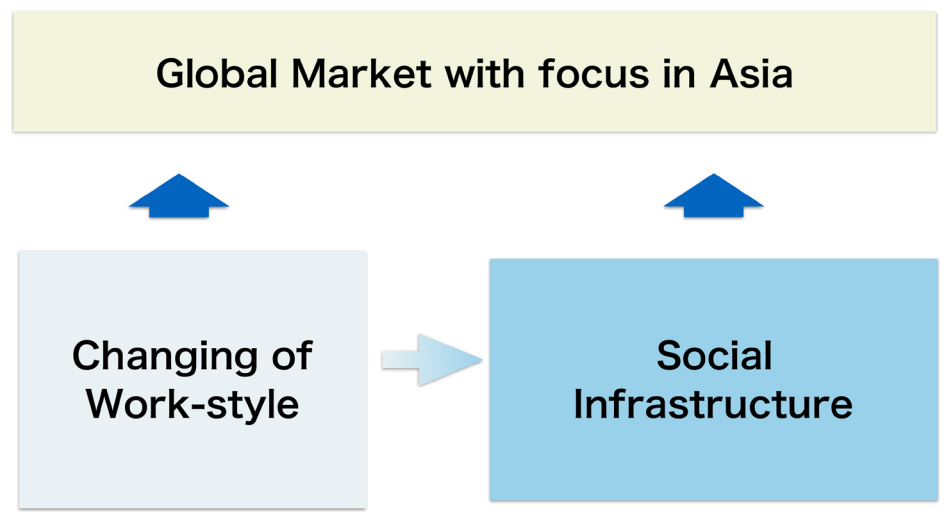


Source: Materials published by V-cube

The business plan for FY12/16-FY12/18 targets ¥13.9bn in consolidated net sales and ¥3.0bn in consolidated operating income for FY12/18. The company has not announced targets for FY12/20, but its presentation materials suggest targets of ¥24.0bn for net sales and ¥9.0bn for operating income.



The company has cited three main focus objectives: deepening influence in change of work-style, to contribute to social infrastructure, and further overseas business expansion with focus on Asia in its Midterm Strategy.



Source: Materials published by V-cube

**(2) Policies to further change of work-styles**

**●Increase of market share in web conference & video conference**

In 2004, V-cube began offering web conferencing as a platform to change work styles. The company aims to increase its share of the Japanese market for web conferencing, which is currently about ¥12.0bn per year but is projected to grow to ¥100.0bn. At the end of FY12/15, the company entered Japan's video conferencing market by launching its V-CUBE Box service. Web conferencing and video conferencing are forms of visual communication that enable new work styles.

**●Expand use cases**

The company aims to increase the applications of its remote conferencing services, thereby further differentiating its services from those of competitors. For example, its video conferencing service could be used for sales meetings and for training employees in all offices in Japan. Web conferencing could be used to support sales to and support for customers in remote areas. Either service could be used for regular maintenance inspections, for conferences between business offices, to offer seminars to partners, and to enable telework and field work.

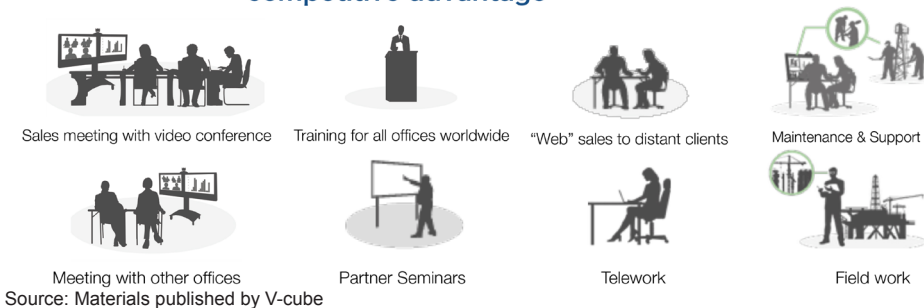


V-cube, Inc.

3681 Tokyo Stock Exchange First Section

11-May-16

**V-CUBE ONE** Support wide range of use cases. Increase competitive advantage



Source: Materials published by V-cube

Provide VC solution services combining services such as V-CUBE Meeting, V-CUBE Document, V-CUBE Seminar, V-CUBE Sales & Support, V-CUBE Portal, and V-CUBE Gate.

**From "Simple Web Conference" to "VC Solution"**



Source: Materials published by V-cube

●Accelerate penetration and increase regular use

To hasten the penetration of V-cube services throughout the Japanese market, the company recently reached an accord with Microsoft Japan to cooperate in cloud services. Based on this agreement, V-cube will adopt Microsoft Japan's basic computer system, Azure, enabling the seamless use of both companies' cloud services with a single service sign-on. This agreement will also facilitate V-cube's sales of services overseas.

In November 2014, V-cube launched its V-CUBE Gate text charting service, which operates at a variety of settings and is free for the company's corporate clients. Text charting is well recognized in the business community, so it is probably easier to sell than a web conferencing service. However, V-CUBE Gate is connected to the company's web conferencing service. With the click of a button, a customer using V-CUBE Gate can access the web conferencing service and other group's main services. Hence, the name of the text charting service – it acts as a gate to the other main services offered by V-cube.

●Maximize group synergy

By integrating V-cube's ability to offer e training, mainly on demand, with its real-time services, the company aims to increase the cross-selling of its services and to further differentiate itself from competitors. The V-cube group has more than 5,000 corporate customers, and by integrating the educational supervision system and other services offered by iStudy, it plans to meet the potential training needs of the group's large customers. iStudy has about 400 corporate customers, including large financial institutions. By integrating V-cube services, iStudy should be able to provide services for corporate infrastructure, as well as offering training services.

Integration On-demand e-learning solution with V-cube's real-time service to improve competitive advantage and revenue through cross-selling



- More than 5,000 existing enterprise customers
- Support training needs for large customers
- 400 existing enterprise customers
- Large customer potential in financial sector
- Become enterprise infrastructure

**Internal Education and Training Platform**

**Japan Internal Training Market Size: JPY 510B**

Source: Materials published by V-cube

### (3) Contribute to social infrastructure

The company intends to promote the use of its web conferencing and video conferencing services in many areas of daily life, including education, medicine, finance and robotics. In other words, it aims to contribute to social infrastructure.

#### ●Policy change, business model

Deregulation in some industries, stricter regulation in others, and government policies are likely to support the increased use of visual communication services. For example, the government is promoting the regional revitalization of Japan and the formation of a social structure in which a population of 100 million people can remain active. The realization of these goals a further diversification of work styles, such as telework. Many changes are occurring in Japan's education. The government has recently abolished a previous prohibition on distance learning for high school students. The government has begun to construct schools for private operators. School administration requires more information. Information communication technology is being used more for education in Japan. Exams to enter Japanese universities have been revised. All of these changes offer opportunities for the use of visual communication services. Similar changes are taking place in the practice of medicine in Japan. Tele-medicine now allowed. Some pharmaceuticals can be prescribed online. Japanese self-governed pharmaceutical companies, and mental health services are now required. The financial industry has been deregulated, the terms of real estate contracts can now be explained online, and insurance laws have been revised. The robotics field in Japan has been affected by recent restrictions on the use of drones and by amendments of Aviation Law or Radio Law. These changes, too, offer growth opportunities for V-cubes services.

The company also plans to change its business model from the current one, in which it simply charges fees for its services. It could form partnerships with companies operating in the areas of society it aims to penetrate, provide services to consumers, and split the resulting profits with its partners. Through this partnership model serving consumers, it could obtain part of the fees charged to consumers for tuition, training, medical care, nursing care at home, contracts, and intermediation.

#### ●Education

In addition to V-cube, iStudy, Wizlearn, and PVC cover solutions in ICT of education, distance learning, online training, e learning, and other services. By 2020, Japan's market for active learning, centering on the use of electronic smart boards, is projected to reach ¥12.0bn. The market for distance learning for schools and for e learning is forecast at ¥53.3bn. The market for systems digitalization to support school administration is seen at ¥18.5bn, and the educational services market, comprised of private tutorial schools, correspondence education, etc., is forecast at ¥173.0bn.

To develop its business in Indian market for education, iStudy has formed a business relationship with Fliplearn Education Private Limited (Fliplearn), headquartered in New Delhi.

#### ●Medicine

M-cube, Inc., a joint venture between V-cube and M3, Inc. handles the group's healthcare services. V-cube foresees increasing demand for visual communication services in healthcare, e.g., for the tele-medicine, tele-healthcare, and remote prescription as well as marketing in pharmaceuticals companies.

#### ●Finance

The company also anticipates opportunities to provide visual communication services for finance. These services could be used by Japan's megabanks, regional banks, shinkin banks, trust banks and other financial institutions for many purposes: making personal transactions remotely, advising about fund investment or asset inheritance, supporting the work of bank employees in the field, and, through remote seminars, introducing products and promoting remote sales. They could also be used to conclude consumer finance contracts remotely and for internal audits for agencies selling different kinds of insurance. These services could be used in the real estate industry to contact clients and to explain the details about a property.

● **Robotics**

V-cube believes that its services could be used in robotics, mainly for the use of drones. Commercial drones could be used by local governments for disaster relief and police and fire department work. They could also be used to inspect infrastructure, such as bridges and dams, and to maintain plants and other large facilities. The company estimates the size of Japan's market for commercial drones will reach ¥100.0bn.

In October 2015, V-cube founded V-cube Robotics, which is developing cloud-based software solutions for drones that allow the drones to monitor sites remotely. V-cube expects this business to grow briskly from FY12/18.

● **Big data**

The company foresees an increase in the gathering, processing, analysis and use of large amounts of data, including text data, voice data, video data, and data on the history of human behavior. It believes that its visual communication services could play an important role in gathering this data. Therefore, it is getting involved in the market for big data, although it is not currently involved enough to directly affect its profits.

**(4) Asia focused overseas business**

There are opportunities to facilitate changes in work-style and to contribute to social infrastructure in Asian countries other than Japan. Therefore, V-cube plans to continue to expand its business in these countries, aiming to lift its overseas sales ratio to 26% in FY12/16 and to 40% as soon as possible. It expects most of its growth in China and India, but it also intends to expand its business in Singapore, Thailand, Malaysia, Indonesia, and Taiwan.

From FY12/16, V-cube intends to concentrate on expanding its business in India. As mentioned above, subsidiary iStudy has formed a business tie-up with Fliplearn, of India, to participate in the Indian market for educational services. V-cube has also formed a business relationship with INTELLISYS Technologies & Research Pvt. Ltd. (INTELLISYS), India's largest provider of web conferencing, to cooperate in visual communication services. INTELLISYS will begin selling the V-CUBE web conferencing service in India to satisfy market needs that the company has been unable to meet with its Vennfer web conferencing service. These business developments in India may not affect V-cubes sales and profits much in FY12/16, but they could in future years since India is a promising market.

**Funds raised by issuing stock acquisition rights with variable exercise price**

The company raised funds by issuing stock acquisition rights on April 15, 2016. The rights allocator was Merrill Lynch Japan. Details are below.

Rights issued: 30,000 units (100 shares/unit)

Issuing price: ¥634/unit (proceeds: ¥19,020,000)

Potential dilution: 3,000,000 shares, equal to 15.9% of the number of shares outstanding at the end of 2015. Exercise price upper limit: none; lower limit: ¥1,196/share.

Funds to be procured: ¥4,494,020,000

Initial exercise price and conditions for amendment: The initial exercise price was ¥1,494 per share. This exercise price shall be adjusted to equal 91% of the closing price for the company's common shares on the day before a right is exercised. However, it cannot be lower than ¥1,196 per share.

Exercise period: April 18, 2016 through April 17, 2018

Allocator: Merrill Lynch Japan

Other: (conditions)

The company retained the right to decide the number of rights to be sold and the timing of their sale until the date of sale.

The company can control the supply of its shares to rights holders to prevent a sudden, large drop in its share price.

The company can designate periods during which rights may not be exercised, based on such factors as share price trends

The company stated that this procurement of funds would increase the probability of procuring the amount targeted in its midterm strategy for FY12/16–FY12/18.

## ■ Shareholder return policy

### **Considering starting dividend payments from FY12/16 based on a dividend payout ratio of 20%**

V-cube has never paid dividends, and it has not announced plans to pay them. However, when it announced its 2016 midterm strategy, it stated that it was considering paying dividends from FY12/16 based on a dividend payout ratio of 20%. Based on the company's forecast of earnings per share for FY12/16, this payout ratio implies dividends of ¥7.0 per share for FY12/16. The company's dividend policy as well as future trend of its earnings should be monitored.

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