

## V-cube, Inc.

3681 Tokyo Stock Exchange First  
 Section

18-Oct.-16

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FISCO Ltd. Analyst  
 Nobumasa Morimoto

## ■ Aiming to Become Asia's No.1 Visual Communication Platform

V-cube, Inc. <3681> is a leading domestic company in the visual communication market. It aims to become Asia's No.1 Visual Communications Platform by deepening the work-style changes markets in Japan and other countries and developing social infrastructure.

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

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

V-cube set goals in the 2016 Midterm Strategy (Next stage for accelerating growth), its first midterm strategy as a group, in February 2016 of ¥13.9bn in net sales and ¥3bn in operating income by FY12/18 and longer-term attainment of at least 30% operating income ratio and 20% ROE and a 40% overseas sales ratio through business rollouts, mainly in China, Singapore, and India, as the de-facto standard for the Asian region by adhering to a core policy of aiming to become Asia's No.1 Visual Communication Platform and implementing the three priority measures of 1) cultivating the work-style change market, 2) providing social infrastructure platforms, and 3) expanding overseas business further with a focus on Asia. We will be closely monitoring V-cube's implementation of these priority measures in light of large development room for visual communications in domestic and overseas markets.

Consolidated results for 1H (Jan-Jun 2016) of FY12/16, the first fiscal year of the midterm strategy, were ¥3,397mn in net sales, up25.8% YoY, ¥4mn in operating income, down 98.0%, and a ¥420mn loss attributable to owners of parent (vs. a ¥68mn net profit a year earlier). Operating income fell sharply and net income slipped to a loss despite double-digit sales growth, and both sales and profits missed period-start guidance. Main negatives were the impact of sharp yen appreciation related to the United Kingdom's exit from the EU, delay in billing for online education services in China, and a shortfall in on-premises sales because of delays in decision-making mainly at domestic financial entities.

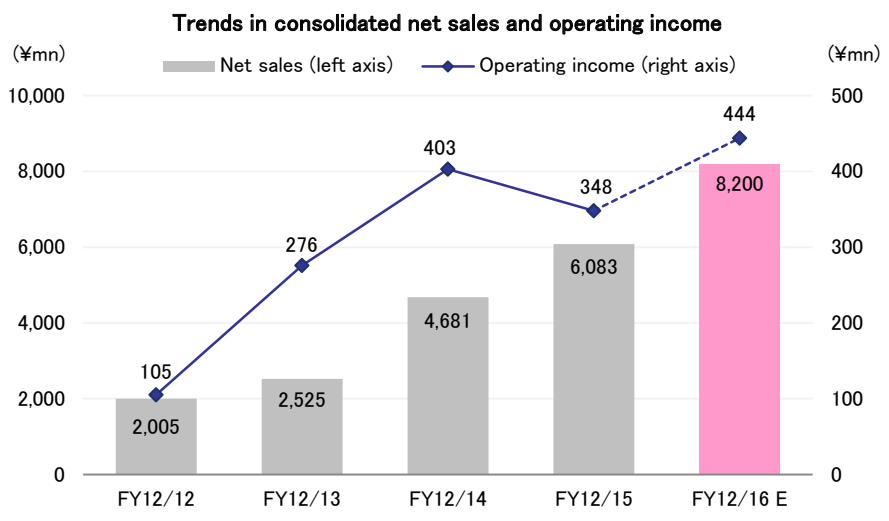
V-cube lowered FY12/16 guidance for sales and earnings to ¥8,200mn in net sales, up 34% YoY, ¥444mn in operating income, up 27.6%, and a ¥183mn net loss attributable to owners of parent (vs. a ¥93mn net profit in the previous year) due to factoring in the 1H shortfalls as well as negative 2H factors such as delay in online education-related billing in China and downward pressure on yen-based consolidated sales and operating income from yen appreciation. However, it still expects double-digit YoY growth in net sales and operating income and the income expansion trend has not significantly changed.

We think lowered FY12/16 guidance has reduced risk of further earnings shortfall because V-cube removed Chinese online education sales, which contributed to the 2Q miss, from the FY12/16 outlook and adjusted the foreign exchange rate assumption to yen appreciation beyond the result from 2Q. We will closely monitor the following sales trends as the basis for assessing whether FY12/16 targets are attainable – electronic smart board sales concentrated in 3Q (Jul-Sep), V-CUBE Box appliance sales after having found technology issue solutions, and sales in the on-premises business with a growing pipeline mainly from domestic financial entities.

V-cube did not pay dividends through FY12/15 on the basis that bolstering retained profits to strengthen corporate standing and prepare for aggressive business initiatives and using resources to enhance financial standing and invest in growth is the best way of redeeming profits to shareholders. While V-cube announced in the Midterm Strategy disclosed on 15 February 2016 that it is considering a start of dividends with a 20% target for the payment ratio due to having completed investments recently and entering a period of reaping benefits, its dividend outlook remained at not paying a dividend as of 10 August 2016.

### Check Point

- Posted a double-digit sales increase in 1H FY12/16 consolidated result, but missed sales and earnings guidance because of a delay in billing for online education in China and shortfalls in on- premises and appliance businesses
- Lowered FY12/16 consolidated guidance from period-start levels, but still projects double-digit gains in net sales and operating income and new all-time high values
- Possesses a healthy pipeline for V-CUBE Box, an important product for further increase in market share, and steadily growing on-premises business mainly at financial institutions



Source: Prepared by FISCO from the company's financial results briefing document

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

#### (1) Company summary

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

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

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

The V-cube Group consisted of 19 companies as of end-June 2016 with 13 overseas companies and six domestic companies. It has 529 directors and employees (306 in Japan and 223 at overseas entities) with 192 in sales and marketing, 263 engineers, and 74 in administrative sections. The personnel structure incorporates technology and sales capabilities. V-cube operates 15 offices worldwide (seven sites in Japan, eight overseas sites) and has data centers in 15 locations globally, including Japan, the United States (Eastern and Western areas), China, Hong Kong, Singapore, Malaysia, Indonesia, and India.

#### Main group companies

Company	Location	Main business	Ratio of voting rights
Consolidated subsidiary			
PioneerVC, corporation	Japan	Planning, development, sales, maintenance of industrial and business-use system	85.05%
iStudy Co., Ltd.	Japan	Development and sales of e-learning study software and learning management system	67.51%
V-cube USA, Inc.	USA	Provision of visual communication services	100.00%
V-cube Malaysia Sdn. Bhd.	Malaysia	Provision of visual communication services	100.00%
V-cube Global Services Pte. Ltd.	Singapore	R&D center, Asian holding company	100.00%
PT. V-CUBE INDONESIA	Indonesia	Provision of visual communication services	95.00%
V-cube Global Operations Pte. Ltd.	Singapore	Management of data centers and tele communication lines	100.00%
V-cube Singapore Pte.Ltd.	Singapore	Provision of visual communication services	100.00%
BRAV International Limited	Hong Kong	Provision of visual communication services	100.00%
V-cube Tianjin Technology Co., Ltd.	Tianjin, China	Provision of visual communication services	100.00%
Wizlearn Technologies Pte. Ltd.	Singapore	Provision of educational platform	100.00%
Equity-method affiliate			
M-cube, Inc.	Japan	Provision of visual communication services	49.00%

Source: Prepared by FISCO from company's annual securities report

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\*1 This system facilitates communication with a person in a remote location using video and voice, similar to video conferencing. However, it does not require an expensive dedicated system as in traditional video conference (video conferencing system). It can be used anywhere in the world with an Internet connection environment, PC or mobile device (smartphone or tablet), and a camera and microphone.

\*2 V-cube selected Asia because of likely robust demand for Web conferencing systems in light of the large potential user population and a culture that emphasizes "face to face" visual communication as well as inadequate transportation infrastructure in some locations. It also sees sales opportunities in countries that are difficult for full-fledged initiatives by Cisco Systems and other major US firms (countries with less English knowledge or less affinity with American culture). It is focusing on local companies where the rival major US firm does not have traction in overseas business.



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\*1 Roots in the three Vs of the corporate slogan of "V-cube provides Visual Communication Vehicle"

\*2 The catalyst was its inability to buy an expensive video conferencing system.

\*3 It selected Malaysia as the first target because of strong latent growth potential and lower entry costs than Singapore.

\*4 It utilizes Singapore as not only an R&D center, but also added capabilities as a regional management firm to roll out service in Asia. President Mashita moved to Singapore to promote globalization of the company.

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

### (2) History

Representative director and president and founder Naoaki Mashita started predecessor V-cube Internet, Ltd. in October 1998 when he was a student at Keio University, as a company to provide web solutions such as making Web sites and developing apps. He reorganized to a stockholding company as the business ramped up and changed the name to V-cube, Inc.\*1 in January 2001. The company subsequently formed a capital alliance with Keio University, a first in Japan, in March 2002, and supplied Web and mobile solutions and pursued new business based on joint research with the university and others.

It established V-cube USA, Inc. in Los Angeles (US) in April 2003, entering the mobile app business in North America. It launched V-cube Broad Communications in Japan in January 2004 to build and sell infrastructure for visual communications provided over the rapidly development broadband infrastructure and began sales of "nice to meet you" (now, V-CUBE) after making improvements to a Web conferencing system developed on its own as a tool for efficient communications with US employees\*2. It converted former V-cube to a subsidiary in September 2005 and decided to specialize in visual communication service business and shrink other existing businesses in 2006. It absorbed former V-cube in March 2006 and changed the company name to V-cube, Inc. in April 2006.

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

Besides these domestic initiatives, the company procured funds from Intel Capital and others and began development of Asian business, including its opening of a liaison office to gather information in Malaysia (Kuala Lumpur;\*3) in August 2009 and establishment of V-cube Malaysia Sdn. Bhd. in December 2009. It also established V-cube Singapore R&D Centre Pte. Ltd. in Singapore in January 2012 (name changed to V-cube Global Services Pte. Ltd.\*4 in December 2012; below, V-cube Global Services), with the aim of reinforcing its technology development capabilities, and founded PT. V-CUBE INDONESIA in July 2012. It acquired BRAV International Limited (below, BRAV) and its subsidiary Tianjin Brav Technologies Co., Ltd (now known as V-cube Tianjin Technology Co., Ltd) as consolidated subsidiaries in August 2013 in order to fully enter the Chinese market. It established V-cube Singapore Pte. Ltd., a sales site in Singapore, at the same time. V-cube has aggressively established and expanded sites in Asia.

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



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### History

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

Source: Prepared by FISCO from the company's homepage

## President Mashita is the top shareholder with just over 25% including indirect holdings

### (3) Major shareholders

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

The other major shareholder related to the company is Masaya Takada, representative director and vice president, with 300,000 shares (1.55%), the eighth largest. Additionally, M3, the joint investor in affiliate M-Cube, holds 363,000 shares (1.88%), ranking seventh, and business partner Mirait owns 240,000 shares (1.24%), ranking tenth.

### Major Shareholders(as of end-June 2016)

Order	Name	Shares owned	Ownership ratio	Comment
1	Naoaki Mashita	4,518,800	23.33%	V-cube Representative Director and President
2	Japan Trustee Services Bank, Ltd. (Trust account)	2,075,700	10.72%	
3	The Master Trust Bank of Japan, Ltd. (Trust account)	1,174,200	6.06%	
4	Tommy Consulting, Inc.	680,000	3.51%	Naoaki Mashita's asset management firm
5	Japan Trustee Services Bank, Ltd. (Trust account 9)	472,200	2.44%	
6	SBI SECURITIES Co., Ltd.	384,800	1.99%	
7	M3, Inc.	363,600	1.88%	Business alliance partner
8	Masaya Takada	300,000	1.55%	V-cube Representative Director and Vice President
9	Trust & Custody Services Bank, Ltd. (securities investment trust account)	267,400	1.38%	
10	MIRAIT Corporation	240,000	1.24%	Business partner
Total for the top 10 shareholders		10,476,700	54.09%	
Outstanding share volume		19,368,000	-	
Number of dilutive shares		5,005,400	25.8%	

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

V-cube has a stock options program for directors and employees and it issued subscription rights to shares to Merrill Lynch Japan Securities (below, Merrill Lynch) in April 2016. These measures put dilutive share volume at 5,005,400 shares, which is 25.8% of outstanding share volume, at the end of June 2016.

## Interview with the President



**Naoaki Mashita**

V-cube, Inc.  
CEO

### **Q1. Please explain your thoughts as the person who cultivated the visual communication services business.**

**President Mashita:**

We originally started the business because it was something we wanted to use ourselves. It was envisioned and created out of need. Wider use of our services can make things more convenient for people around the world. Improvements in work quality and lifestyle quality lead to better quality societies. This makes sense a key point in our corporate philosophy of “improving modern human society by creating new values through the use of information and communication technology.”

We just happened to run across visual communications, but believe it is important enough as a contribution to the world to create a new culture.

Ten years have passed since we started focusing exclusively on visual communications, though it seems as if things are really just picking up. Society has finally begun moving such as country-level initiatives to promote work at home.

It has taken 10 years to reach this point. We hope to make it available for general use in society and expect this to happen. We intend to promote this service for use by housewives, students, and other ordinary people, not just companies.

### **Q2. While this question might be somewhat early, please explain your vision after becoming the No.1 firm in Asia.**

**President Mashita:**

Yes, it's still a bit early. We are currently No.2 in Asia so it should not be that difficult to reach the No.1 spot. However, it does not mean much to be the No.1 firm in a small market, and I believe it is important to promote wider use in Asia and thereby foster a large market. Visual communications runs deep, and its use can spur creation of various peripheral businesses. Regionally, we intend to remain focusing primarily on Asia. This is a market that will be growing, in contrast to developed countries. We will target opportunities mainly in medicine, education, and financial services. Shortages exist for doctors and teachers in medical and educational areas, and this is a serious issue for society. There are also many other uses such as remote response for administrative reception counters.

### **Q3. Please give a message to stock market participants.**

**President Mashita:**

We intend to disclose both good and bad news, as should be expected, and will engage in dialogue with investors utilizing visual communications. We hope that other listed companies will also steadily use this technology and adopt online systems.

We also ask investors to make assessments with a long-term view because of the long-term nature of our business as something that is changing the world.

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

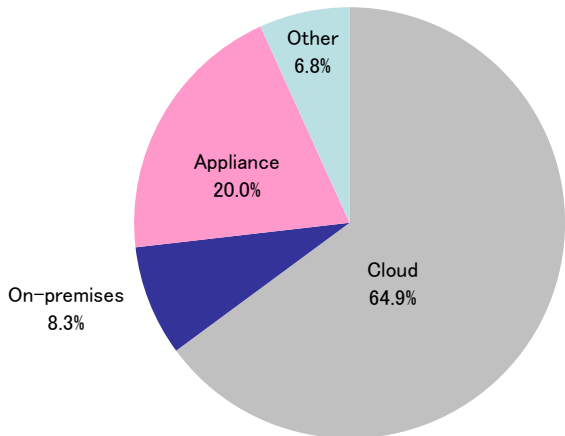
\*2 Service customized to the customer's needs and installed as a system in the customer Intranet

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

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

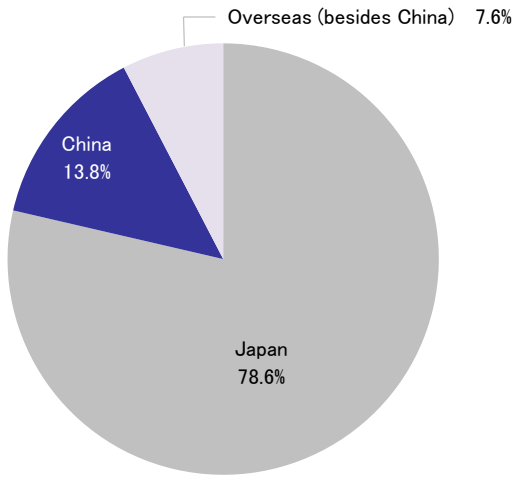
V-cube does not give segment disclosure because it only has one segment – visual communication services. Yet it discloses sales of products and services by the four categories of cloud\*1, on-premise\*2, appliance, and others and three regions of Japan, China, and overseas (besides China). Sales ratios were cloud at 64.9%, on-premise at 8.3%, appliance at 20.0%, and others at 6.8% by category and Japan at 78.6%, China at 13.8%, and overseas (besides China) at 7.6% in FY12/15.

**Sales breakdown by business model (FY12/15)**



Source: Prepared by FISCO from the company's financial results briefing document

**Sales breakdown by geographic region (FY12/15)**



Source: Prepared by FISCO from the company's financial results briefing document





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## (1) Business models

### a) Cloud-based service

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

### b) On-premises service

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

### c) Appliance

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

### d) Other

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

## (2) Sales channels

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

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

## (3) Customer base

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

## (4) Business method

### a) Cumulative-type business model

Cloud-based service, the company's main offering at two-thirds of overall sales, fundamentally using a monthly billing format, and annual sales work out to contract volume (number of contracted ports\*1) x the unit price (monthly fee per port) x 12 months. This business model leverages a cumulative effect as net additions to contracts, assuming no cancellations, boost the overall user stock.

While monthly fees differ depending on the scale of usage (ranging widely from ¥5,000 to a few million yen), steady increases in contract volume and lifts in usage fees per customer contract (contract ports x contract port unit price) drive higher sales for V-cube. Few companies terminate service once they sign up because of high switching costs, and most hence become long-term users that continue existing contracts. V-cube reports having churn of about 10% annually for the previous version of V-CUBE Meeting and expects lower churn thanks to favorable effects from rolling out V-CUBE Meeting 5, the latest version with significantly improved connectivity and image and voice quality, and the V-CUBE One package service\*2.

\*1Port refers to the service usage unit. V-cube introduced the port-based billing framework with the release of V-CUBE One in September 2014. It previously used a room format (contract format based on the number of rooms used at the same time), but the port framework gives users flexibility for room volume and sets an upper limit on the number of simultaneous connections. The fee is ¥11,000 per port a month and the basic contract starts at 10 ports.

\*2Aims to lift the usage rate, increase contract renewal (lower churn), and boost contract port volume through various service experiences



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

### b) Cost structure

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

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

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

### (5) Content of major services

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

#### a) V-CUBE

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

#### List of core services in V-CUBE

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

Note: Shaded items are V-CUBE One services.

Source: Prepared by FISCO from the company's annual securities report and company's homepage

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



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

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

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

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

### b) xSync

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

### c) iStudy

iStudy is a general name for services delivered as corporate educational and training infrastructure, mainly to large financial entities, by iStudy, which V-cube acquired as a subsidiary in December 2015. The services it supplies include mainstay iStudy Enterprise Server (intranet-type comprehensive learning management system for companies to give broad support ranging from skill diagnosis to learning management), iStudy Cloud (cloud-based e-learning management system delivered over an Internet for learning and management of e-learning contents anytime and anywhere), and iStudy Creator (contents creation tool that converts documents prepared in Microsoft's Office Application to e-learning contents).

### d) ASKnLearn

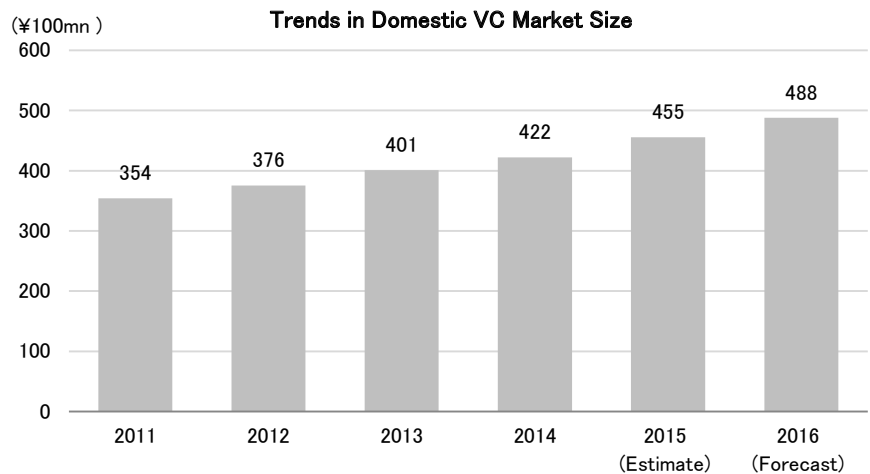
This is a learning and management system equipped with e-learning tools and management features from Wizlearn, Singapore's largest provider of educational platforms acquired as a subsidiary by V-cube in October 2015, which is mainly supplied to Singaporean schools. It has an extensive track record of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

## ■ Market Environment, Rivals, Strengths and Weaknesses, and Business and Other Risks

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

#### (1) Market size

The video communication market (covering the visual communication market for existing video (TV) conferences, Web conferences, and voice conferences and the new unified communication market) in Japan, which emerged in the early 2000s, continues to expand at a moderate pace with help from growing utilization of smartphones, tablets, and cloud services. Seed Planning, a market research and consulting firm, estimates that this market grew from ¥35.4bn in 2011 to ¥45.5bn in 2015, for a stable growth rate of 6.5% per year.



Source: Seed Planning “2016 Latest Market Trends for Video Conferencing, Web Conferencing, Voice Conferencing, and UC-related Products – Video Communication (VC) and Unified Communication (UC) Trends”

It estimates that the market for Web conference systems, which are V-cube’s main business, expanded to ¥12bn in 2015 in this environment, and the 7.1% average growth rate during 2011-15 outpaced the video communication market. We attribute the faster pace to Web conferencing systems not using high-priced equipment required for video conferencing systems and easy access that allows for utilization anywhere in the world with an Internet connection, PC or mobile device (smartphone or tablet), and camera and microphone. While less attractive video and voice quality than video conferencing had been a problem, technology advances have overcome these issues and we think the ability to provide quality on par with video conferencing is serving as a growth driver.

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



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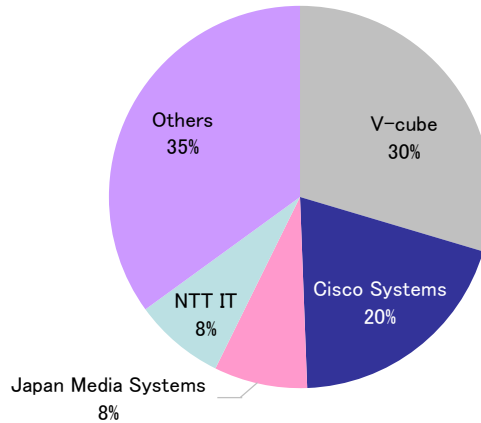
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## Major foreign-capital firm is a rival for share expansion

### (2) Rivals

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

**Web Conferencing System (ASP + SI) Market Shares (2015; value basis)**



Source: Seed Planning “2016 Latest Market Trends for Video Conferencing, Web Conferencing, Voice Conferencing, and UC-related Products – Video Communication (VC) and Unified Communication (UC) Trends”

V-cube started providing video conferencing systems at the end of 2015. Polycom, Inc., is the top global supplier of video conferencing systems and other rivals in this segment include Cisco Systems and other foreign-capital firms as well as Sony <6758>, Panasonic, and other major Japanese manufacturers.

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

### (3) Strengths and weaknesses

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

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

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

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

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

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

### (4) Business and other risks

Business and other risks include risk related to the timeline of growth by the visual communication market, risk from selling group products to local government entities, risk related to securing human resources and managing group companies, and risk from foreign exchange fluctuation (yen appreciation). Another risk, albeit not directly related to the business, is dilution from exercise of subscription rights to shares.

#### a) Risk from the timeline of market growth

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

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

#### b) Risk from selling group products to local government entities

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

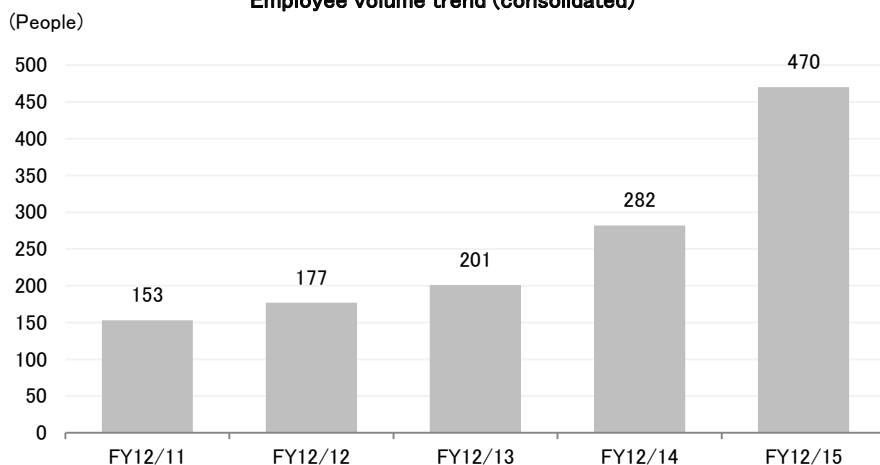
#### c) Risks related to securing and cultivating personnel and managing group companies and employees

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

Additionally, recent aggressive corporate purchases have rapidly increased the number of group companies\* and group employees to 529 directors and employees (306 in Japan and 223 at overseas entities) and 19 companies (13 overseas companies and six domestic companies) as of end-June 2016, and V-cube needs to strengthen management capabilities for handling group companies and employees at group companies. We think establishing and reinforcing management capabilities, including budget management, at the Chinese subsidiary is particularly important in light of V-cube's missing 1H FY12/16 targets and downward revision of FY12/16 guidance.

\* Consolidated subsidiaries expanded from eight companies at end-FY12/13 right after going public on the Mothers market to 14 companies at end-December 2015

### Employee volume trend (consolidated)



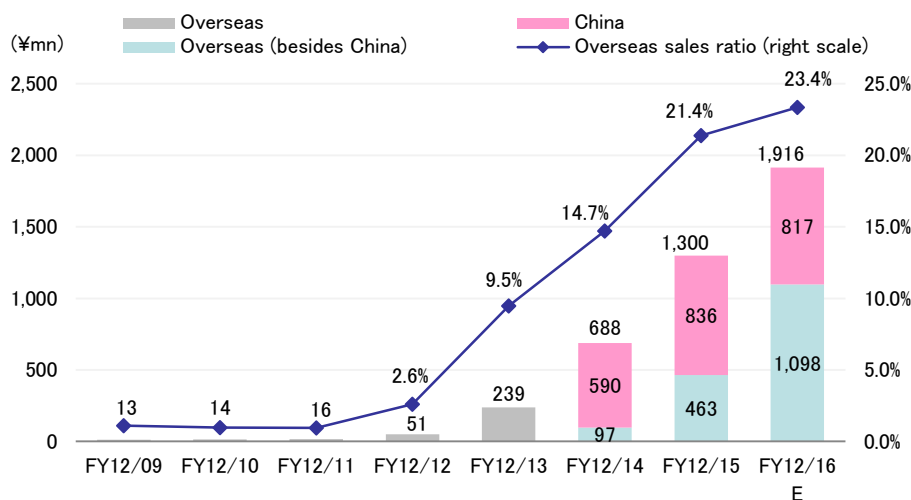
Source: Prepared by FISCO from the company's annual securities report

#### d) Risk from foreign exchange fluctuations (yen appreciation)

V-cube is increasingly confronting risk of earnings shortfall linked to foreign exchange fluctuations (yen appreciation) due to its expansion of overseas business. Specific impacts are 1) reduction of overseas sales and operating income values in consolidated results (mainly due to impacts from the Chinese yuan and Singapore dollar) and 2) non-operating losses related to revaluation of foreign-currency assets (mainly loans to overseas subsidiaries; V-cube had about ¥2.8bn in yen-converted asset value at the end of June primarily denominated in Singapore dollars). In 1H FY12/16 results, reductions of sales and operating income values\* by yen appreciation were ¥22mn for sales and ¥14mn for operating income, while the impact of asset revaluation came to ¥385mn. Asset revaluation had a larger impact on earnings.

\* Overseas sales ratio in 1H FY12/16 at 25.1% (China at 10.5%, others at 14.6%).

### Overseas Sales and Overseas Sales Ratio Trends



V-cube is expanding its business in Asia with the aim of becoming "Asia's No.1 Visual Communications Platform" and seeks to raise the overseas sales ratio to 40% over the longer term. We thus expect the impact of foreign exchange fluctuations (yen appreciation) to continue growing. V-cube places emphasis on operating income as an indicator of business progress, but is also looking at hedges with exchange forward contract due to the large impact on foreign-currency assets.



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\* Exercise condition for the 13th subscription rights was up to 50% of allocation subscription rights for FY12/16 operating income prior to goodwill amortization (operating income plus amortization costs) over ¥1.3bn and all subscription rights at over ¥1.5bn. Exercise condition for the 14th subscription rights was all rights of operating income prior to goodwill costs exceed ¥3bn in any period during FY12/16-18.

**e) Risk of dilution from exercise of subscription rights to shares**

Another risk, though not directly related to business, is dilution from the exercise of subscription rights to shares. V-cube grants stock options to group directors and employees with the aim of raising their motivation and morale to improve earnings, and it also issued stock acquisition rights to Merrill Lynch as part of its effort to secure funds for business expansion over the longer term. These measures put dilutive share volume at 5,005,400 shares, which is 25.8% of the company's outstanding share volume of 19,368,000 shares, at the end of June 2016. It allocated 2,560,000 shares, which is 13.2%, to Merrill Lynch.

V-cube has dilutive share allocations of 2,445,400 shares, which is 12.6%, to directors and employees. Note that V-cube's earnings are a condition for exercising rights\* in the case of the 13th subscription rights issue (702,800 shares) and 14th subscription rights issue (1,005,000 shares).

■ **Business Performance**

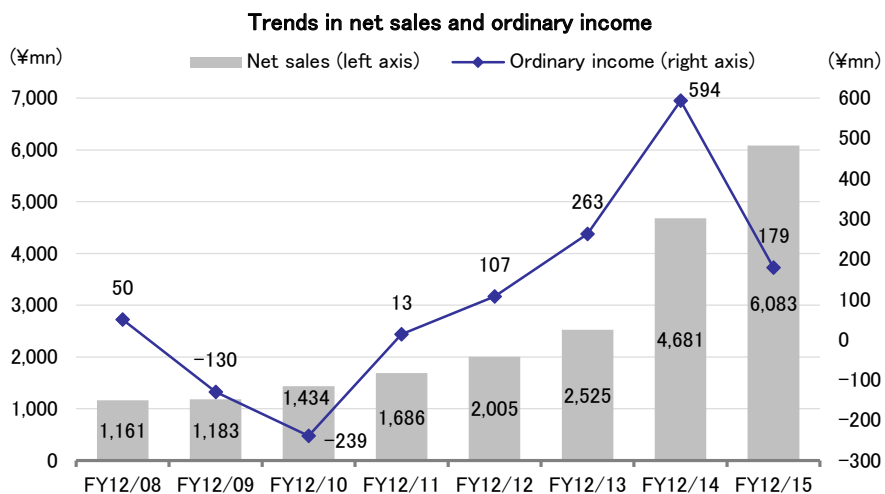
**Posting sales and earnings growth since 2011 thanks to healthy advances by cloud-based service and aggressive M&As**

**(1) Past business performance**

**a) FY12/08 to FY12/14**

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

Profits, meanwhile, struggled in FY12/09 and FY12/10 with temporary setbacks to ordinary losses due to an inability to fully absorb operating costs, mainly upfront outlays in personnel expenses, amid changes in the sales mix of growing cloud-based revenue and shrinking on-premises sale as V-cube shifted from one-time payment on-premises services to monthly-fee cloud-based services. However, the situation changed from FY12/11 when sales moved above the breakeven point and V-cube switched to a trend of profit growth in step with rising sales and acceleration of the pace.



Note: Consolidated since FY11/12. Parent values prior to then

Source: Prepared by FISCO from the company's annual securities report





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**b) Review of FY12/15 consolidated results**

For FY12/15, total consolidated net sales grew 30.0% YoY to ¥6,083mn, operating income fell 13.7% to ¥348mn, and net profit dropped 64.2% to ¥93mn. While sales increased sharply, operating income declined.

**Review of FY12/15 Consolidated Results**

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

Source: Prepared by FISCO from the company's financial results briefing document

Key drivers of the sharp rise in sales were 1) healthy expansion of cloud-type services in Japan and steady advances in appliances business at PVC and 2) overseas boosts from growing Chinese business and the acquisition of Wizlearn (Singapore).

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

**c) Financial conditions (FY12/08 to FY12/15)**

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

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

**Trends in Financial Standing and Business Indicators**

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

Note: Consolidated since FY11/12. Parent values prior to then

Source: Prepared by FISCO from the company's annual securities report

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



## Aiming to become Asia’s No1 Visual Communication Platform

### (2) Growth strategy

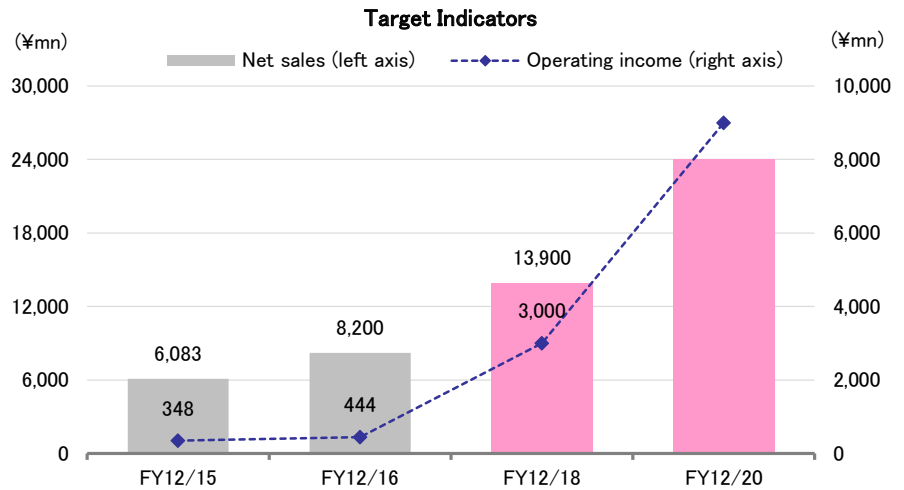
#### a) Overview of V-cube’s growth strategy after going public

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

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

#### b) 2016 Midterm Strategy

V-cube set goals in the 2016 Midterm Strategy (Next stage for accelerating growth), its first midterm strategy as a group, announced in February 2016 of maximizing group synergies during 2016-18 and maximizing sales and profits through recouping investments made from when it went public through to 2015 in the context of a fundamental policy of aiming to become Asia’s No.1 Visual Communications Platform. It also intends to continue proactive investments for the future. V-cube positions these years as a period of reaping benefits and growth. It views 2019-20 as a period of trying to establish a de-facto standard in the Asian region by broadening work-style changes and adoption as social infrastructure to Asian countries. V-cube expects these policies to support attainment of ¥13.9bn in sales and ¥3bn in operating income in FY12/18 and at least 30% operating income margin, at least 20% ROE, and a 40% overseas sales ratio driven by business initiatives mainly in China, Singapore, and India over the longer term.



Source: Prepared by FISCO from the company’s financial results briefing document

V-cube plans to expand sales and profits from FY12/16 toward realization of these Midterm Strategy goals by implementing three priority measures – 1) cultivating the work-style change market by increasing market share in Web conferencing and video conferencing areas, broadening usage scenes, accelerating inroads and realizing regular usage, and maximizing group synergies, 2) providing social infrastructure platforms, and 3) expanding overseas business further with a focus on Asia. Below we review the content of the three priority measures.

#### 1) Deepening the workstyle change market

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

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

### ○ Increase of market share in Web conference & video conference

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

### ○ Expand use scenes

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

### ○ Accelerate penetration and increase regular use

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

### ○ Maximize group synergy

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

## 2) Become social infrastructure

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

### ○ Education (EduTech)

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

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

### ○ Medical (MedTech)

M-cube, a joint venture between V-cube and medical-related services provider M3, supplies a visual communication platform for medical professionals, digital marketing assistance for pharmaceutical companies, and other solutions that specialize in the medical health field.

In 2015, V-cube started working with M-cube to develop visual communication service for online face-to-face sales of prescription medicines involving a doctor, pharmacist, and patient using Web conferencing service and smartphones or other devices. It planned to develop and supply visual communication services that enhance convenience in the medical health field, such as remote medicine, remote care, and remote prescriptions, by working with M-cube. However, it is reviewing changes to the joint venture initiative after missing plan targets in 1H FY12/16.



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

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

\*3 In May 2016, VRJ conducted a private placement capital increase with Globis Capital Partners and Tsuneishi Capital with the aim of enhancing its autonomy and realizing business expansion by proactively offering solutions to growing market and making investments.

○ Financial services (FinTech)

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

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

○ Robotics

V-cube is focusing on robotics, particularly drones, as a priority area. It invested in Rapyuta Robotics and is pursuing real-world tests and other activities aimed at provision of services that combine visual communications and drones. It established V-cube Robotics Japan\*3 (below, VRJ) in October 2015 to speed up decisions related to provision of hardware solutions utilizing robotics and service development as well as boost dynamism and flexibility and to achieve further group growth. VRJ provides remote monitoring solutions using cloud-type drones.

It is estimated that the commercial drone market could expand to ¥100bn in the future, including use in disaster situations by local government entities, utilization by police and fire agencies, and applications to bridge, dam, and other infrastructure inspections and maintenance of plants and large-scale facilities. VRJ expects this market to ramp up from 2018.

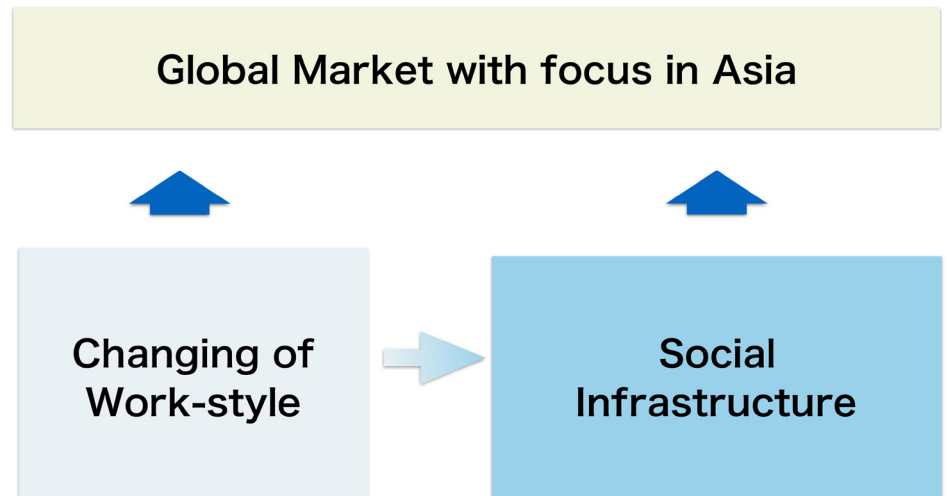
The combination of V-cube's visual communication service and drones allows for confirmation of high-quality video in real time on the V-CUBE system. We think V-cube is likely to dominate services that incorporate drone use into Web conferences and expect substantial growth in demand for these services.

3) Overseas business expansion mainly in Asia

V-cube has set a goal of raising the overseas sales ratio (23% in updated FY12/16 guidance) to 40% as soon as possible by promote work-style changes and adoption as social infrastructure in the Asian market too, not only Japan. It mainly offers services in China, Southeast Asia, and India and expects businesses in China, Singapore, and India to be the primary growth drivers.

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

Priority Measures Initiative



Source: Company material



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## First phase of reaping past investment benefits in FY12/16, the initial fiscal year of the Midterm Strategy

### (3) Period-start FY12/16 guidance and initiatives in 2016

#### a) Overview of period-start FY12/16 guidance (disclosed on 12 February 2016)

Period-start guidance for FY12/16, the first year of V-cube's Midterm Strategy, called for ¥8,500mn in net sales, up 39.7% YoY, ¥839mn in operating income, up 141.2%, and ¥650mn in profit attributed to owners of parent, up 594.2%. V-cube aimed to leverage past business investments to expand sales and achieve steep profit increases.

#### Review of FY12/16 Period-Start Guidance

	FY12/15			FY12/16		
	Actual	% of sales	Change ratio	Plan	% of sales	YOY
Net sales	6,083	-	30.0%	8,500	-	39.7%
Cost of sales	2,729	44.9%	37.8%	3,772	44.4%	38.2%
Gross profit	3,354	55.1%	24.2%	4,728	55.6%	40.9%
SG&A expenses	3,006	49.4%	30.8%	3,889	45.8%	29.4%
Operating income	348	5.7%	-13.7%	839	9.9%	141.2%
Ordinary income	179	3.0%	-69.8%	771	9.1%	329.5%
Profit attributable to owners of parent	93	1.5%	-64.2%	650	7.6%	594.2%

Source: Prepared by FISCO from the company's financial results briefing document

The outlook for a sales gain of about 40% YoY factored in healthy growth in cloud-based service, on-premises service, and appliance businesses. While V-cube expects upbeat momentum in all regions, it targeted a 1.7-fold increase in overseas sales and 26% of sales from overseas business based on a strong advance by online educational service for education business operators in China and the Wizlearn consolidation effect and an upbeat rise in sales to other countries, led by Thailand, in overseas markets besides China.

For operating income, meanwhile, it projected a 2.4-fold YoY gain, despite the continuation of proactive investments, including the addition of just over 50 people to support further growth from FY12/17, owing to an anticipated first wave of benefits from past investments given the income model with a high marginal profit ratio whereby sales increases fuel steep profit additions.

#### b) Initiatives in 2016

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

#### List of Press Releases Issued by V-cube and Group Companies

##### V-cube

Month	Content
1	Established V-cube Technical Works and opened a development site in Sendai
1	Providing V-CUBE as video communication infrastructure for online lessons in an English language correspondence course business for children and elementary students offered by Benesse Corporation
1	Providing "Web internal audit service for insurance agents" with Escrow Agent Japan
2	Collaborating and cooperating with Microsoft Japan related to cloud services from the two companies aimed at promoting work-style changes in visual communication
2	Added medical interpretation (English, Chinese, and Korean) by mediPhone medical interpretation staff as an area supported by V-CUBE Translator multi-language interpretation service
3	Selected by Nishi-Nippon City Bank for a loan contract scheme covering a "Financial Institution Platform Service" that conducts specialty operations required by non-face to face sales of various financial products using Web conferencing along with Escrow Agent Japan
3	Partnering with top Indian firm INTELLISYS in the visual communication field
3	Started supplying FinTech Adaptor that adds online face-to-face communication to FinTech services for financial entities and FinTech service providers
3	Started collaboration between iStudy's learning management system and V-CUBE Seminar
4	Cooperating with the Digital Hollywood Fukuoka School, an IT-related and digital contents human resource training school, to assist at-home work by child-rearing mothers
5	Started supplying V-CUBE as communication infrastructure to Gakken Medical Shujunsha for an e-learning business targeting doctors and dentists in Indonesia
6	Formed a partner alliance with Logitech International to promote global sales expansion of visual communication services
6	Concluded an exclusive sales contract with SoundFun for Mirai Speaker, a speaker for people with hearing difficulties, for use in Web conferencing service
9	Formed a strategic partner alliance with Qumu Corporation in the enterprise video field



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Group Companies

Month	Content
1	iStudy, formed a business alliance with Fliplearn Education Private Limited to supply its education platform in India
2	iStudy, started providing an on-demand learning contents creation service using Studio Octo, a dedicated studio for holding and distributing webinars owned by V-cube
3	iStudy, started selling package products with contents for specific industries and contents for specific applications to users who adopt iStudy Enterprise Server (learning management system)
3	iStudy, started joint sales with Nihon Unisys <8056> of Nihon Unisys' SASTIK USB memory authentication key and iStudy Enterprise Server (learning management system)
3	iStudy, started provision of a service for cloud collaboration between Microsoft's Office365 and iStudy Enterprise Server (learning management system)
3	iStudy, adopted IBM Japan's SoftLayer enterprise public cloud as a system foundation for iStudy Enterprise Server (learning management system); placed in the "internal training profile" of IBM Japan's SoftLayer industry profile and supplying iStudy Enterprise Server to users as an IBM business partner
3	iStudy, launching a product that links PVC's xSync, electronic smart board and xSync collaborative learning software and iStudy LMS Academic Edition (learning management system for education) in the education market
3	iStudy, started development of a next-generation human resource training foundation system and VR training using IBM's Watson artificial intelligence product, aiming to provide in FY3/17
4	M-cube, started providing a "Clinical trial Learning Site Package" to support information sharing and communication in clinical trial and clinical research
5	PVC, adopted i-FILTER Browser & Cloud from Digital Arts <2326> in xSync for remote education and collaborative education
5	PVC, started provision of a collaborative service that links xSync for collaborative learning and Microsoft's Office365 OneDrive for Business cloud storage
6	iStudy, started providing IBM Bluemix training service for system developers

Source: Prepared by FISCO from the company's homepage

We review strategic alliances formed thus far in 2016.

**1) Business alliance between subsidiary iStudy and India-based EduTech firm Fliplearn (January 2016)**

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

The business model consists of Fliplearn collecting class fees from students using its service and paying a portion to iStudy as the usage fee for iStudy Live. Fliplearn plans to begin supplying the service during 2016.

**2) Collaboration with Microsoft Japan in the cloud field (February 2016)**

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

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

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

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



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\*1Web conferencing service supplied by INTELLISYS. It possesses robust technologies for smooth transmission and reception of video and voice in narrowband (128kbps) and multicast for realizing simultaneous distribution to multiple sites. Large-scale distribution is a strength.

\*2Supports partner expansion of sales and marketing opportunities with a complete video conferencing solution.

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

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

Through the alliance, INTELLISYS aims to increase income and grow the visual communication market in India by supplying its own Vennfer\*1 service and V-CUBE as required by customers. It also plans to enter the video conferencing market in India by selling V-CUBE Box. V-cube, meanwhile, hopes to accelerate its business inroads in Asia by deepening technology exchanges between Vennfer and V-CUBE and developing visual communication service that can be comfortably utilized even in regions with unstable Internet environments.

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

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

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

Logitech designated V-cube as the first APAC partner in the Logitech Collaboration program\*2 implemented worldwide.

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

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

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

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

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



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

### c) Topics

#### 1) Education

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

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

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

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

#### 2) Adoption as an e-learning infrastructure for medical professionals in Indonesia

Gakken Medical Shujunsha selected V-CUBE as the video communication infrastructure for its e-learning business targeting doctors and dentists in Indonesia. V-cube will supply a framework that contributes to improvement in Indonesia's medical environment with its global development and support capabilities.

The framework will provide online education for about half of the required training course points for license renewals in Indonesia where the system dictates that doctors and dentists renew their licenses once every five years. Gakken Medical Shujunsha decided to use V-CUBE for its new online education business in Indonesia based on V-CUBE's track record in the online education business, its ability to supply visual communication that facilitates stable use in Indonesian, and its service capabilities that can handle customized development and local-language support.





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

**3) V-CUBE and drones for disasters and emergency measures**

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

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

Additionally, V-cube is making progress on provision of a service that uses commercial drones to smoothly confirm conditions and facilitate suitable measures for disasters and other emergency situations. We think this might steadily establish V-cube as a provider of services for dealing with disasters.

**d) Raised funds with the 15th subscription rights issue**

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

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

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

**Maintained robust sales growth with a double-digit gain, though missed guidance**

**(4) Review of 1H FY12/16 results (disclosed on 10 August 2016)**

**a) Review of 1H FY12/16 results**

V-cube reported 1H FY12/16 consolidated results (Jan-Jun 2016) with ¥3,397mn in net sales, up 25.8% YoY, ¥3mn in operating income, down 98.0%, and a ¥420mn net loss attributable to owners of parent (vs. a ¥68mn net income in the previous year). While sales increased at a double-digit pace, operating income fell sharply and net income dropped to a loss.

**Review of 1H FY12/16 Results**

	1H FY12/15		Period-start plan	1H FY12/16			Plan fulfillment rate	Difference with the plan
	Actual	% of sales		Actual	% of sales	YoY		
Net sales	2,699	-	3,644	3,397	-	25.8%	25.8%	-247
Cost of sales	1,032	38.2%	-	1,629	48.0%	57.9%	-	-
Gross profit	1,667	61.8%	-	1,767	52.0%	6.0%	-	-
SG&A	1,473	54.6%	-	1,764	51.9%	19.7%	-	-
Operating income (loss)	194	7.2%	148	3	0.1%	-98.0%	-98.0%	-144
Ordinary income	200	7.4%	105	-412	-	-	-	-517
Income (loss) before income taxes and minority interests	200	7.4%	-	-446	-	-	-	-
Profit (loss) attributable to owners of parent	62	2.3%	-	-437	-	-	-	-
Net profit (loss)	68	2.5%	112	-420	-	-	-	-532

Source: Prepared by FISCO from the company's financial results briefing document

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\* Following confirmation of end-June forex rates, V-cube lowered 1H consolidated targets on 1 July to ¥3,405mn in net sales, a ¥34mn operating loss, a ¥439mn ordinary loss, and a ¥444mn loss attributed to owners of parent.

Net sales expanded by double digits, despite a negative impact from the strong yen on yen-converted overseas sales, thanks to expansion of cloud-based services and contributions from two companies acquired in the previous fiscal year. Cost of sales climbed 57.9% YoY to ¥1,629mn, rising a faster pace than sales, because of higher depreciation costs driven by sustained development investments and increases in manufacturing-related personnel expenses and outsourcing costs accompanying the acquisitions. Gross profit margin hence fell by 9.8pp from 61.8% in the previous year to 52.0%, including a negative impact from change in sales composition due to sales decline for Chinese cloud and on-premises sales with high profit margins. SG&A expenses rose to ¥1,764mn because of aggressive sales activities and development investments through the previous fiscal year. Operating income thus only reached ¥3mn. The ¥385mn foreign exchange valuation loss on V-cube's loans to overseas subsidiaries was the primary sources of the setback to a net loss at ¥420mn.

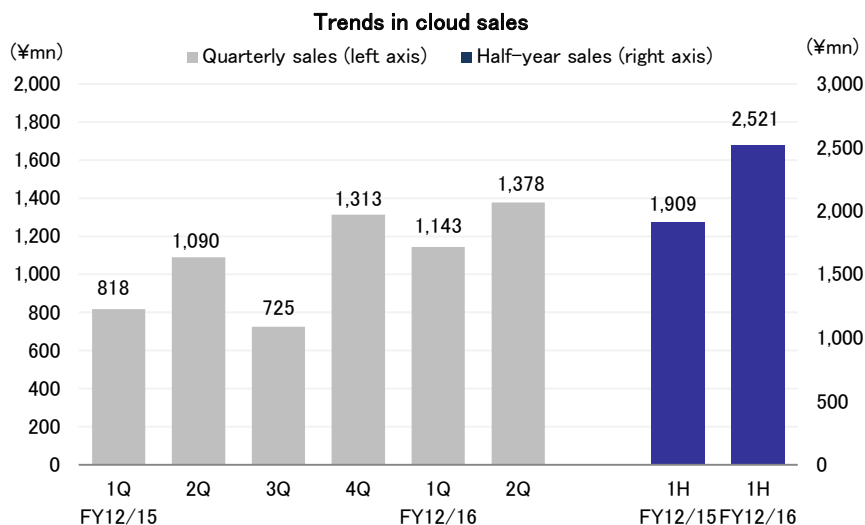
V-cube missed its period-start guidance (¥3,644mn in sales, ¥148mn in operating income, and ¥105mn in ordinary income)\* by ¥247mn for sales, ¥144mn for operating income, and ¥517mn for ordinary income. We explain specific shortfall factors below. Key items, which weighed on both sales and operating income, were 1) shortfall in on-premises sales, 2) shortfall in appliance sales, 3) delay in the start of billing for online educational services in China, and 4) M-cube's sales shortfall. Also, higher education-related outsourcing and procurement costs and distribution personnel costs adversely affected operating income.

Main drivers of the shortfalls in ordinary income and net profit attributable to owners of parent were weaker operating income than expected and forex valuation losses on foreign-currency loans to overseas subsidiaries due to the strong yen. The forex valuation loss does not involve cash outlay.

**b) Trends by business model**

**1) Cloud-based services**

Sales rose 32.1% YoY to ¥2,521mn with support from adding subsidiaries Wizlearn and iStudy acquired in the previous fiscal year and upbeat V-CUBE customer recruitment in Japan. In particular, the average contract price increased substantially in 2Q (Apr-Jun) due to the switch by multiple large customers to V-CUBE One.



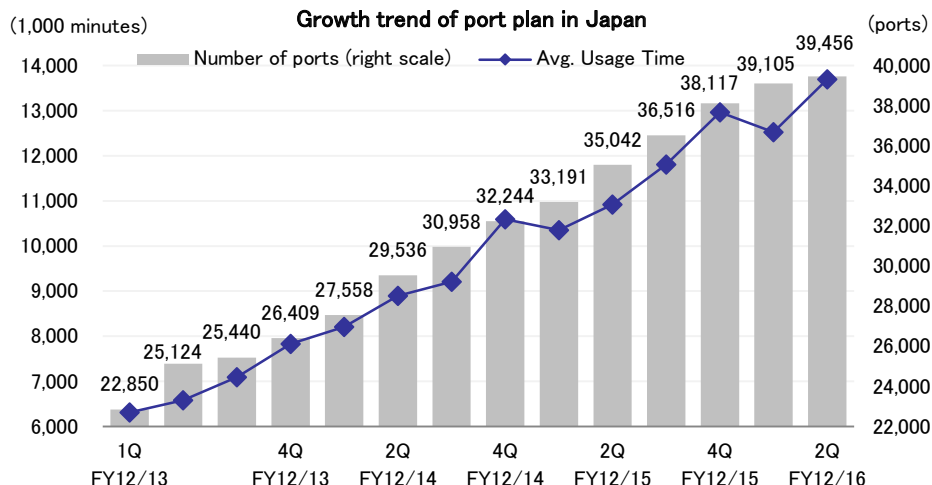
Source: Prepared by FISCO from the company's financial results briefing document

Looking at the trend in domestic contract ports, a key performance indicator, while number of ports only slightly increased by 0.9% QoQ in 2Q, the unit price improved sharply from ¥4,465 in 1Q (Jan-Mar) to ¥4,622. V-cube attributes the upswing to a shift by large users to V-CUBE One at the beginning of 2Q, which is the start of a new fiscal year for the customers. Assuming no change in the unit price versus 1Q, port volume was up by 1,732 ports, the largest increase over the past year, and thus does not present an issue.

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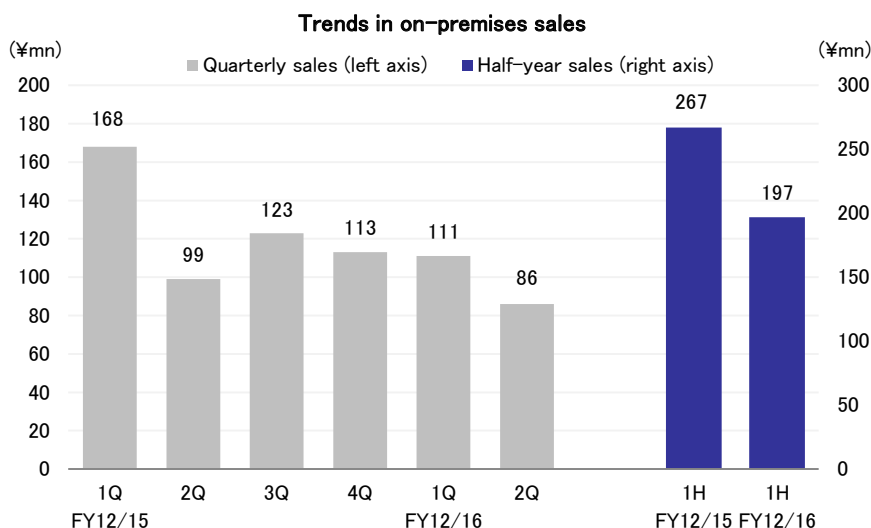


Note: Average monthly usage time reflects live usage time for V-CUBE meetings, seminars, and sales support.

Source: Prepared by FISCO from the company's financial results briefing document

2) On-premises services

Sales dropped 26.2% YoY to ¥197mn. Sales continue to weaken because of the shift to cloud-based service. The pipeline is steadily growing, mainly at financial entities, but user decisions take time and we think this aspect played a role in the continuation of double-digit sales decline.



Source: Prepared by FISCO from the company's financial results briefing document



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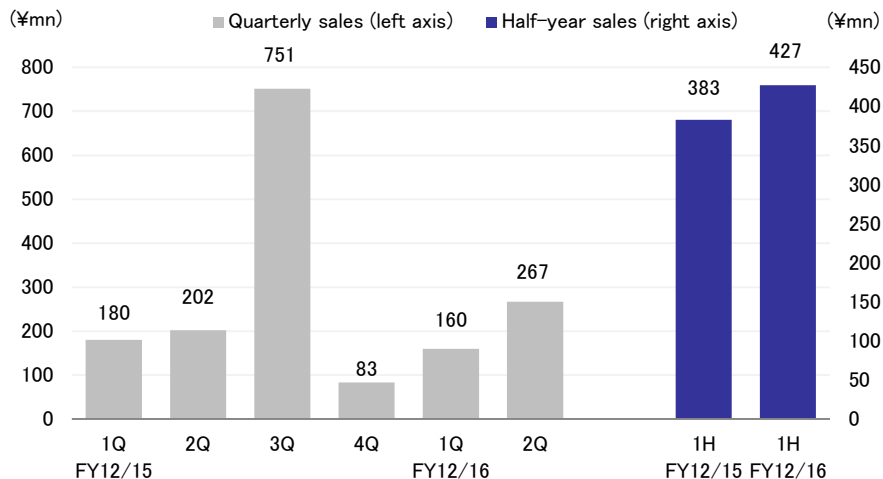
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### 3) Appliances

Sales increased 11.6% YoY to ¥427mn. This segment sells electronic smart boards mainly to educational entities, discussion tables mainly to ministries and agencies and companies, and V-CUBE Box video conferencing systems mainly to companies. While it was unable to book some sales of electronic smart board due to the impact from the Kumamoto Earthquake and other factors, the V-CUBE Box pipeline is healthy. V-CUBE Box sales totaled 152 systems in 1H even with delivery delays because of technology issues related to system environments at some companies considering installations.

Trends in appliance sales



Source: Prepared by FISCO from the company's financial results briefing document

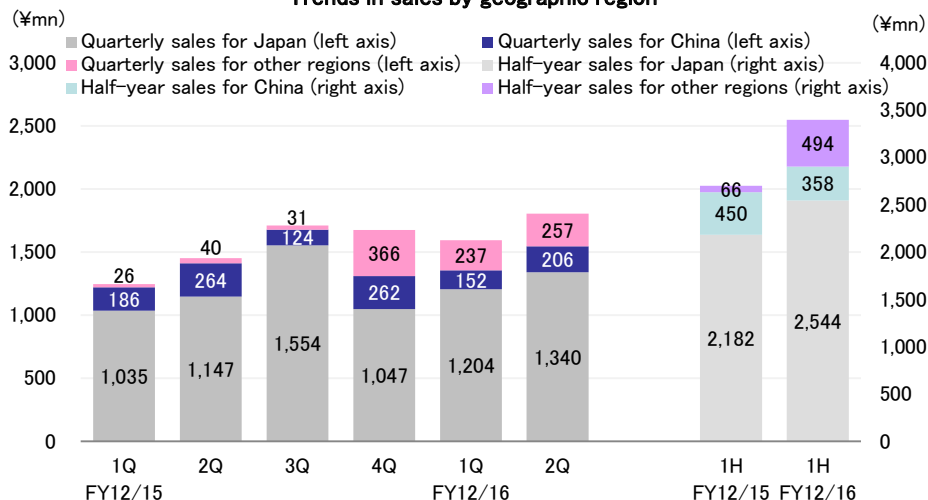
### 4) Others

Sales rose 79.0% YOY to ¥250mn. Hardware sales were upbeat, and the iStudy acquisition provided a boost too.

### c) Trends by geographic region

Sales in Japan expanded 16.6% YoY to ¥2,544mn driven by growth in the cloud business. Chinese sales, meanwhile, dropped 20.4% YoY to ¥358mn due to forex impact and a change in the automotive-related annual sales balance. In contrast, overseas sales besides China expanded 7.4-fold to ¥494mn thanks to the sales boost from adding Wizlearn to consolidated results. The overseas sales ratio hence increased from 19.2% to 25.1%.

Trends in sales by geographic region



Source: Prepared by FISCO from the company's financial results briefing document



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

### (5) Financial conditions

#### a) Balance sheet

We review financial conditions at the end of June 2016. Total assets dropped by ¥247mn from the end of the previous fiscal year to ¥9,908mn. Current assets declined by ¥447mn, including a ¥217mn drop in negotiable securities and a ¥166mn decline in notes and accounts receivable. Non-current assets, meanwhile, rose by ¥200mn, despite a ¥206mn decline in intangible assets, mainly owing to a ¥375mn increase in investments and other assets.

Liabilities climbed by ¥403mn YoY to ¥5,957mn. Current liabilities fell by ¥1,357mn, despite a ¥319mn rise in current portion of long-term loans payable, because of a ¥1,687mn decline in short-term loans payable. Non-current liabilities, meanwhile, expanded ¥1,761mn mainly due to a ¥1,763mn rise in long-term loans payable. Interest-bearing debt increased by ¥395mn, versus the end of the previous fiscal year, to ¥4,578mn because of the expansion of loans from financial entities to prepare for future dynamic business initiatives.

Net assets, on the other hand, dropped by ¥650mn to ¥3,950mn. The decline in net assets, even with increases in capital stock and capital surplus of ¥274mn each because of fund-raising through stock issuance accompanying the exercise of subscription rights, reflects setbacks from a ¥653mn decline in capital surplus from additional acquisition of shares in new subsidiary BRAV, a ¥420mn drop in retained earnings, and a ¥202mn decline in the foreign currency translation adjustment.

#### b) Cash flow statements

Cash and cash equivalents at end-1H was down ¥156mn from the end of the previous fiscal year at ¥1,836mn.

We review cash flow trends. Operating cash flow had a surplus of ¥510mn. While V-cube booked a ¥446mn loss before income taxes and minority interests, it recorded ¥418mn in depreciation and amortization and ¥293mn in foreign exchange losses, ¥167mn in increase in notes and accounts payable-trade, and advances received climbed by ¥105mn. Investment cash flow, meanwhile, had a deficit of ¥881mn, largely due to ¥676mn in purchase of intangible assets, ¥83mn in purchase of property, plant and equipment, and ¥46mn in payments for lease and guarantee deposits. Financial cash flow recorded a surplus of ¥347mn, despite negative impacts of ¥1,687mn in repayments of short-term loans payable, ¥287mn in repayments of long-term loans payable, and ¥884mn in payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation, because of ¥2,352mn in proceeds from long-term loans payable, ¥548mn in proceeds from issuance of common shares, and ¥209mn in proceeds from share issuance to non-controlling shareholders.

**c) Business indicators**

Looking at business indicators, V-cube's capital adequacy ratio, which reflects health, dropped from 44.2% at the end of the previous fiscal year to 36.2% due to a rise in loans and other factors. V-cube aims to sustain a 40% capital adequacy ratio even with the possibility of further aggressive corporate acquisitions in order to expand business.

**Balance Sheet, Cash Flow Statements, and Business Indicators**

Balance Sheet					(¥mn)
	End-FY12/14	End-FY12/15	End-2Q FY12/16	YoY change	Main change factors
Current assets	2,987	4,453	4,006	-447	cash and deposits +64, securities -217, notes and accounts receivable -166
Non-current assets	3,270	5,702	5,902	200	investments and other assets +375, intangible assets -206, (software in progress +290, goodwill -341, software -153
Total assets	6,257	10,156	9,908	-247	
Current liabilities	1,350	4,345	2,987	-1,357	current portion of long-term loans payable +319, short-term loans payable -1,687
Non-current liabilities	506	1,209	2,970	1,761	long-term loans payable +1,763
Total liabilities	1,857	5,554	5,957	403	
(Interest-bearing debt)	805	4,183	4,578	395	
(Net cash)	480	-2,167	-2,715	-547	
Net assets	4,400	4,601	3,950	-650	capital stock +274, non-controlling interests +24, capital surplus -350, retained earnings -420
Total liabilities and net assets	6,257	10,156	9,908	-247	

**Cash Flow Statements**

	End-FY12/14	End-FY12/15	End-2Q FY12/16	YoY change
Cash flows from operating activities	-307	582	510	
Cash flows from investing activities	-1,508	-3,037	-881	
Cash flows from financing activities	69	3,422	347	
Cash and cash equivalents	1,068	1,992	1,836	-156

**Business Indicators**

<Health>			
Liquidity ratio	221.2%	102.5%	134.1%
Capital adequacy ratio	65.5%	42.2%	36.2%
<Profitability>			
ROE	6.7%	2.2%	-
Return on assets	10.5%	2.2%	-
Operating income ratio	8.6%	5.7%	0.1%

Source: Prepared by FISCO from the company's annual securities report

## Lowered full-year guidance, but still expects double-digit growth YoY

### (6) Updates to FY12/16 guidance and outlook

V-cube upbeat FY12/16 guidance (period-start targets were ¥8,500mn in sales, ¥839mn in operating income, and ¥650mn in net profit attributed to owners of parent) with reductions of both sales and earnings to ¥8,200mn in net sales, up 34.8% YoY, ¥444mn in operating income, up 27.6%, and an ¥183mn net loss attributable to owners of parent (vs. a ¥93mn net profit in the previous fiscal year). However, it still expects double-digit YoY growth in sales and operating income, continuing an earnings expansion trend.

### Overview of Revised FY12/16 Guidance

	FY12/15		FY12/16				Difference with the plan	
	Actual	% of sales	Period-start plan	Revised plan	% of sales	YoY		% of period-start plan
Net sales	6,083	-	8,500	8,200	-	34.8%	96.5%	-300
Cost of sales	2,729	44.9%	3,772	4,141	50.5%	51.7%	109.8%	369
Gross profit	3,354	55.1%	4,728	4,059	49.5%	21.0%	85.9%	-669
SG&A expenses	3,006	49.4%	3,889	3,614	44.1%	20.2%	92.9%	-275
Operating income	348	5.7%	839	444	5.4%	27.6%	52.9%	-395
Ordinary income	179	3.0%	771	7	0.1%	-95.6%	0.9%	-763
Profit attributable to owners of parent	93	1.5%	650	-183	-	-	-	-834

Source: Prepared by FISCO from the company's financial results briefing document

The projected robust 34.8% YoY rise in net sales envisions high growth rates of at least 30% in cloud service, on-premises service, and appliance businesses. While V-cube expects cost of sales to expand 51.7% to ¥4,141mn because of higher manufacturing-related personnel expenses and outsourcing costs and rising software depreciation costs from ongoing investments in lucrative areas, it also projects a 21.0% gain in gross profit to ¥4,059mn thanks to higher sales of cloud and on-premises services. It factors in a 45.6pp YoY drop in gross profit margin to 49.5% because of a change in sales mix from a higher weight of appliances business, which includes hardware. V-cube expects SG&A expenses to rise 20.2% YoY to ¥3,614mn due to higher personnel costs related to sales activity investments. V-cube forecasts a 27.6% YoY gain in operating income, but a decline of 0.3pp by operating income margin from the previous fiscal year's 5.7% to 5.4%.

#### a) Sales and operating income revisions (vs. period-start guidance)

Next, we review specific factors responsible for revisions of sales and operating income versus the period-start plan. V-cube lowered the sales target by ¥300mn, despite positives from on-premises business upside (+¥76mn) and domestic cloud business upside (+¥64mn), because of likely negative impacts from delayed billing for online education in China (-¥176mn), setback in yen-based consolidated sales from the strong yen (-¥145mn), shortfall in appliances business (-¥75mn), and shortfall in medical joint-venture M-cube business (-¥46mn).

Main sources of the downward revision of operating income (by ¥395mn) are delayed billing for online education in China (-¥176mn), higher education outsourcing and procurement costs and distribution personnel expenses (-¥106mn), decline in yen-based operating income due to the strong yen (-¥60mn), shortfall in M-cube sales (-¥46mn), and shortfall in appliance sales (-¥23mn). Leading downward revisions in ordinary income (-¥763mn) are shortfall in operating income (-¥395mn) and 1H valuation losses on foreign-currency loans to overseas subsidiaries (-¥385mn).

#### b) Sales outlook by business model

While V-cube lowered its target for cloud sales by ¥297mn from the initial level to ¥5,206mn due to reducing the Chinese sales outlook, it still projects a robust 31.9% YoY gain thanks to healthy trends in Japan and Singapore.

For on-premises business, meanwhile, it raised the sales target by ¥83mn from the period-target level, to ¥794mn, a 57.6% YoY gain. While V-cube faced negative pressure from the reality of domestic financial institutions needing time to make their decisions through 2Q, it factors in upbeat sales to financial institutions based on the accumulated pipeline and projects growth in Thailand.

V-cube lowered the appliances sales target by ¥72mn from the period-start view to ¥1,704mn, but forecasts strong 39.9% YoY growth due to likely expansion of electronic smart board sales, which are concentrated in 3Q (Jul-Sep), and the prospect of selling 400 V-CUBE Box systems, following removal of technology issues, in 2H.

### Sales guidance by business model

(¥mn)

Sales by business model	FY12/15	FY12/16				
	Actual	Period-start plan (a)	YoY change	Revised plan (b)	YoY change	Revision value (b) – (a)
Cloud	3,947	5,504	39.4%	5,206	31.9%	-297
On-remise	504	710	40.9%	794	57.6%	83
Appliances	1,218	1,776	45.8%	1,704	39.9%	-72
Others	413	509	23.2%	494	19.7%	-14
Total	6,083	8,500	39.7%	8,200	34.8%	-300

Source: Prepared by FISCO from the company's financial results briefing document

### c) Sales outlook by geographic regions

V-cube projects a 31.4% YoY rise in domestic sales to ¥6,284mn, on par with the period-start plan, driven by upbeat cloud sales, gains by on-premises business mainly at financial institutions, and appliances business growth led by rising sales of electronic smart boards and V-CUBE Box.

However, it reduced the Chinese sales target by ¥310mn from the period-start view to ¥817mn, a 2.3% YoY decline, because of a setback in yen-converted sales owing to the strong yen and postponement of the start in billing for online education to FY12/17. In contrast, V-cube raised the sales target for overseas sales besides China by ¥10mn from the period-start view to ¥1,098mn, a 137.0% YoY gain. This healthy outlook factored in higher sales in Singapore with the Wizlearn consolidation effect and upbeat sales growth in Thailand led by on-premises business. V-cube forecasts a 1.5-fold YoY rise increase in overseas sales to ¥1,916mn and a 23.0% overseas sales ratio.

### Sales guidance by geographic regions

(¥mn)

Sales by geographic regions	FY12/15	FY12/16				
	Actual	Period-start plan (a)	YoY change	Revised plan (b)	YoY change	Revision value (b) – (a)
Japanese sales	4,783	6,284	31.4%	6,284	31.4%	0
Chinese sales	836	1,127	34.8%	817	-2.3%	-310
Overseas sales (besides China)	463	1,087	134.6%	1,098	137.0%	10
Total	6,083	8,500	39.7%	8,200	34.8%	-300

Source: Prepared by FISCO from the company's financial results briefing document

### d) FY12/16 outlook

We do not see much risk of a further slump in results from the lowered FY12/16 plan because V-cube already removed sales from online education business in China, a major source of the 2Q shortfall, and adjusted forex rate assumptions to strong-yen levels beyond results through 2Q. To assess V-cube's prospects for attaining full-year guidance, we will be focusing on sales trends for appliances, including electronic smart boards with heavy sales in 3Q (Jul-Sep) and V-CUBE Box after resolution of technology issues, and on-premises business with pipeline build-up mainly for financial institutions.

Additionally, fluctuations by the Chinese yuan and Singapore dollar affect overseas sales. Singapore dollar movements account for almost all valuation income on foreign-currency assets, though the US dollar has some impact too.

### Forex Rate Results and Guidance for Key Currencies

Rate	Average Rate			Quarter / Year End Rate			Original Forecast Rate	Revised view
	1H FY12/15	FY12/15	1H FY12/16	End-June 2015	End-December 2015	End-June 2016		
Japanese yen							FY12/16	2H FY12/16
Chinese yuan	19.32	19.22	17.08	19.74	18.34	15.46	18.00	15.00
Singapore dollar	89.08	88.11	80.92	91.04	85.35	76.43	81.00	75.00
US dollar	120.24	121.05	111.85	122.48	120.54	102.96	117.00	102.00

Source: From the company's financial results briefing document

V-cube, Inc.

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18-Oct.-16



## ■ Shareholder Returns

### **Beginning a review of paying dividends at a consolidated payout ratio of 20%**

V-cube views shareholder returns as an important management indicator, though did not pay dividends through FY12/15 on the basis that bolstering retained profits to strengthen corporate standing and prepare for aggressive business initiatives and using resources to enhance financial standing and invest in growth is the best way of redeeming profits to shareholders.

While V-cube announced in the Midterm Strategy disclosed on 15 February 2016 that it is considering a start of dividends in FY12/16 with a 20% target for the payout ratio due to having completed investments recently and entering a period of reaping benefits, its FY12/16 dividend outlook remained at not paying a dividend as of 10 August 2016.

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