



Consolidated Financial Results for the Nine Months Ended March 31, 2022 [Japanese GAAP]

May 10, 2022

Company name: i³ Systems, Inc.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 4495
 URL: <https://www.i3-systems.com/>
 Representative: Tsutomu Sasaki, President and CEO
 Contact: Takashi Ono, Manager, Accounting and Finance Department
 Phone: +81-92-552-4358
 Scheduled date of filing quarterly securities report: May 10, 2022
 Scheduled date of commencing dividend payments: —
 Availability of supplementary explanatory materials on quarterly financial results: Yes
 Schedule of quarterly financial results briefing session: None

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Nine Months Ended March 31, 2022 (July 1, 2021 - March 31, 2022)

(1) Consolidated Operating Results (cumulative) (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended March 31, 2022	1,821	—	665	—	666	—	460	—
March 31, 2021	—	—	—	—	—	—	—	—

(Note) Comprehensive income:

Nine months ended March 31, 2022: ¥460 million (— %)

Nine months ended March 31, 2021: — million (— %)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended March 31, 2022	87.71	86.09
March 31, 2021	—	—

(Note) The Company did not begin preparing quarterly consolidated financial statements until the second quarter of the fiscal year ending June 30, 2022, and therefore the figures for the nine months ended March 31, 2021 and year-on-year changes are not presented.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of March 31, 2022	2,857	2,137	74.7
As of June 30, 2021	—	—	—

(Reference) Shareholders' equity: As of March 31, 2022: ¥2,135 million

As of June 30, 2021: — million

(Note) The Company did not begin preparing quarterly consolidated financial statements until the second quarter of the fiscal year ending June 30, 2022, and therefore the figures for the fiscal year ended June 30, 2021 are not presented.

2. Dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2021	—	0.00	—	10.00	10.00
Fiscal year ending June 30, 2022	—	0.00	—		
Fiscal year ending June 30, 2022 (Forecast)				20.00	20.00

(Note) Revision to the forecast for dividends announced most recently: Yes

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2022 (July 1, 2021 – June 30, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	2,569	-	732	-	734	-	469	-	89.60

(Notes) 1. Revision to the financial results forecast announced most recently: None

2. The Company did not begin preparing quarterly consolidated financial statements until the second quarter of the fiscal year ending June 30, 2022, and therefore year-on-year changes are not presented.

*** Notes:**

(1) Changes in significant subsidiaries during the period: Yes

(Changes in specified subsidiaries resulting in changes in scope of consolidation)

Newly added: 1 company i3-1 Investment Limited Partnership

Excluded: – companies

(2) Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting estimates: None

4) Retrospective restatement: None

(4) Total number of issued and outstanding shares (common shares)

1) Total number of issued and outstanding shares at the end of the period (including treasury shares):

March 31, 2022:	5,263,450 shares
June 30, 2021:	5,238,350 shares

2) Total number of treasury shares at the end of the period:

March 31, 2022:	121 shares
June 30, 2021:	121 shares

3) Average number of shares outstanding during the period:

Nine months ended March 31, 2022:	5,250,574 shares
Nine months ended March 31, 2021:	5,192,690 shares

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or an audit firm.

* Explanation of the proper use of financial results forecast and other notes

The financial results forecasts and other forward-looking statements herein are based on information currently available and certain assumptions considered to be reasonable, and the Company does not in any way guarantee the achievement of the projections. Actual results may differ significantly from these forecasts due to a wide range of factors. For assumptions underlying the financial results forecasts and notes on their use, please refer to “(3) Explanation of consolidated Financial Results Forecast and Other Forward-looking Information in 1. Qualitative Information on Quarterly Financial Results” on page 4 of the attached material.

Table of Contents - Attachments

1. Qualitative Information on Quarterly Financial Results	2
(1) Explanation of Operating Results	2
(2) Explanation of Financial Position	4
(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information	4
2. Quarterly Consolidated Financial Statements and Principal Notes	5
(1) Quarterly Consolidated Balance Sheets	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements.....	8
(Notes on going concern assumption)	8
(Notes in case of significant changes in shareholders' equity)	8
(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)	8
(Changes in accounting policies)	8
(Segment information, etc.).....	8
(Significant subsequent events).....	9

1. Qualitative Information on Quarterly Financial Results

The Company did not begin preparing quarterly consolidated financial statements until the second quarter of the fiscal year ending June 30, 2022, and therefore analytical comparisons with the same period of the previous fiscal year and the end of the previous fiscal year have not been performed.

(1) Explanation of Operating Results

During the nine months ended March 31, 2022, despite progress with vaccination the emergence of new variants of COVID-19 led once again to declarations of priority preventative measures in some regions, while concerns about the recent and increasingly serious situation in Ukraine have deepened, resulting in continued uncertainty regarding the outlook for the economic environment.

Based on its mission of “Making IT More Accessible,” the i3 Group’s vision is that of “A Solution Company that Brings Smiles.” Driven by these concepts, the Company builds services that transform corporate activity by utilizing the best technology and the highest level of engineering available. Our goal is to continue to take on the challenge of creating chains of innovative services that enrich people’s lives.

In the nine months ended March 31, 2022, the Company continued to strengthen its workforce in preparation for continuous growth in the business going forward, and took proactive steps to recruit human resources, mainly in the Product Development, Sales, and Customer Success divisions. The Company was recently recognized for the second consecutive year by the Great Place to Work® Institute Japan, which performs awareness surveys of employees in accordance with global standards, and which scored i3 Systems highly in the 2022 edition of the Best Workplaces rankings. We are continuing to make positive changes to the working environment to facilitate the acquisition and retention of outstanding human resources. Furthermore, 20% of the new graduates that were hired in April 2022 were of foreign nationality, showing that our efforts to create a diverse organization are making progress.

In addition, we are aggressively working on initiatives to generate additional sources of revenue through new products, new services, M&A, and CVC (corporate venture capital), with the objective of achieving sustainable growth for the i3 Group. During the second quarter of the fiscal year ending June 30, 2022, we established a new division specializing in the field of investments, and which has already begun investment activities. Investments will mainly target mobile, SaaS, security, and other areas closely related to the Company’s business domain. We may also invest in companies involved in resolving societal issues and in local companies operating in Kyushu, where the Company is headquartered. By doing so we seek to generate chains of innovation and contribute to the creation of new value, thus making IT more accessible.

As a result of such initiatives, consolidated net sales in the nine months ended March 31, 2022, were ¥1,821,880 thousand, operating profit was ¥665,905 thousand, ordinary profit came to ¥666,800 thousand, and profit attributable to owners of parent was ¥460,524 thousand.

Operating performance by segment was as follows.

In the second quarter of the fiscal year ending June 30, 2022, the Company changed from reporting the previous single segment to classifying its figures into two segments: the “CLOMO Business” and the “Investment Business.”

(i) CLOMO Business

In the CLOMO Business we offer subscription-based B-to-B SaaS using the cloud, mainly the CLOMO MDM mobile device management service, which we first began providing in 2010, and the CLOMO SECURED APPs service for mobile devices. In December 2021, it was announced that we had achieved the No.1 share of the MDM market (own brand) for the 11th consecutive year since FY 2011 (Note 1).

During the nine months ended March 31, 2022, in addition to preparing for the opening of a new sales office in Hiroshima prefecture, we work on initiatives to accelerate cooperation with our sales partners and to expand our sales area, in parallel with remote sales efforts that made use of the web conferencing system. We also worked to promote deeper understanding of the quality of CLOMO services and how they can be used, proactively releasing case studies on deploying our services to meet new demand for MDM that has arisen from social changes. These include mobile device management at elementary and secondary schools, which are shifting towards digital learning under the GIGA School Concept (Note 2), and at medical institutions where efforts to improve operational efficiency, including responding to COVID-19, and digitalization initiatives are accelerating, as well as management of IT assets for remote working, and management of dedicated terminals used to promote digital transformation (DX) in manufacturing and transportation industries. In addition, we took steps to open up relationships with new distributors who have particular strengths in our field.

Furthermore, we launched CLOMO Operation Service, a new service to provide support for MDM operations. In recent years, the importance of DX has received a good deal of attention, and IT managers in companies and elsewhere have become responsible for transforming businesses, operations, and workstyles that utilize digital technology. On the other hand, due in part to the impact of COVID-19, the volume of their work has increased, which has tended to make it difficult to devote the originally intended resources in this transformation. By utilizing CLOMO Operation Service, part of the management using mobile devices can be outsourced, reducing the workload of the IT manager and contributing to the transformation of businesses, operations, and work styles.

In customer success activities, in addition to conducting meetings on a regular basis to deepen relationships with customers, we work to maintain our high retention rates through such initiatives as “CLOMO Step-up Seminars” held several times a month, where users can study everything from basic usage of CLOMO MDM to more effective ways of utilizing the system.

As for development, the Company continued to focus its efforts on improving functions to address customer needs, in addition to enhancing functions required for CLOMO services to gain market share in PC management. Furthermore, we continue to utilize new technologies such as Azure Kubernetes Service (Note 3) and Xamarin (Note 4), and are moving forward with the outsourcing of certain development operations. In addition to concentrating internal development resources on high value-added development operations, we aim to reduce costs and enhance product value by improving the efficiency of product development and service operations through improvements in productivity achieved by the use of the latest technology.

As a result of these initiatives, the number of corporations deploying our services rose to 3,780, an increase of 389 (11.5%) from the end of the previous fiscal year.

Regarding the impact of the spread of COVID-19 on our business, the effect on operating results and on management indicators targeted by the Company (the increase in the number of corporations deploying CLOMO, and the license retention rate) was minimal during the nine months ended March 31, 2022. Conversely, in the same period difficulties in procuring mobile devices caused by the shortage of semiconductors continued to result in some customers postponing the commencement of contracts for the use of our services.

In the CLOMO Business, our policy is to actively seek capital alliances and M&A deals where the target business offers synergies with our own CLOMO services. We aim to accelerate our growth strategy through such measures as expanding sales routes, discovering opportunities for cross-selling, and developing new functions through open innovation.

As a result, net sales were ¥1,821,880 thousand and operating profit was ¥669,356 thousand.

The breakdown of net sales by service is as follows:

CLOMO MDM: ¥1,666,952 thousand

SECURED APPs: ¥134,527 thousand

Others: ¥20,400 thousand

(ii) Investment Business

The Investment Business is a new area that commenced operations in the second consolidated quarter of the fiscal year ending June 30, 2022. i3 Ventures, Inc. was established as a venture capital subsidiary in November 2021. Through this subsidiary we established i3-1 Investment Limited Partnership in January 2022, in order to become involved in the investment business.

This resulted in an operating loss of ¥3,450 thousand.

- (Notes) 1. Source: Deloitte Tohmatsu MIC Research Institute Co., Ltd. “Market Outlook of Collaboration/Contents & Mobile Management Packaged Software” 2011-2019 editions, “MIC IT Report Dec 2021 issue” Actual shipment value in FY 2020 and predicted shipment value in FY 2021.
2. An initiative launched by the Ministry of Education, Culture, Sports, Science and Technology in December 2019 that aims to further enrich learning activities and improve classes from the perspective of proactive, interactive and immersive learning by ensuring one device for every student, using a high-speed network for schools.
 3. A Microsoft containerization technology. The Company is working to improve reliability while reducing operational workload and costs by making the CLOMO system container-based.
 4. A platform for application development provided by Microsoft. The Company is working to improve development speed and save labor by sharing source code for CLOMO applications running in different environments such as iOS, Android, and Windows.

(2) Explanation of Financial Position

The financial position as of March 31, 2022 is as follows:

(Assets)

Total assets amounted to ¥2,857,871 thousand. This included cash and deposits of ¥2,063,409 thousand, accounts receivable - trade of ¥222,065 thousand, other current assets of ¥210,205 thousand, software in progress of ¥132,745 thousand and investments and other assets of ¥151,103 thousand.

(Liabilities)

Total liabilities amounted to ¥720,179 thousand. The main components of this were income taxes payable of ¥100,266 thousand and contract liabilities of ¥433,660 thousand.

(Net assets)

Total net assets amounted to ¥2,137,692 thousand. The main components of this were share capital of ¥401,682 thousand, capital surplus of ¥301,682 thousand, and retained earnings of ¥1,432,872 thousand. Accordingly, the equity ratio stood at 74.7%.

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The financial results forecast for the fiscal year ending June 30, 2022 remains unchanged from the financial forecast announced on February 8, 2022.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

As of March 31, 2022	
Assets	
Current assets	
Cash and deposits	2,063,409
Accounts receivable - trade	222,065
Other	210,205
Total current assets	2,495,680
Non-current assets	
Property, plant and equipment	33,272
Intangible assets	
Software	45,069
Software in progress	132,745
Total intangible assets	177,815
Investments and other assets	151,103
Total non-current assets	362,190
Total assets	2,857,871
Liabilities	
Current liabilities	
Accounts payable - trade	40,264
Income taxes payable	100,266
Contract liabilities	433,660
Provision for bonuses	26,752
Other	119,235
Total current liabilities	720,179
Total liabilities	720,179
Net assets	
Shareholders' equity	
Share capital	401,682
Capital surplus	301,682
Retained earnings	1,432,872
Treasury shares	(661)
Total shareholders' equity	2,135,574
Share acquisition rights	2,117
Total net assets	2,137,692
Total liabilities and net assets	2,857,871

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Nine Months Ended March 31

(Thousands of yen)

	For the nine months ended March 31, 2022
Net sales	1,821,880
Cost of sales	265,549
Gross profit	1,556,330
Selling, general and administrative expenses	890,425
Operating profit	665,905
Non-operating income	
Interest income	42
Dividend income	739
Other	433
Total non-operating income	1,215
Non-operating expenses	
Other	320
Total non-operating expenses	320
Ordinary profit	666,800
Profit before income tax	666,800
Income taxes	206,276
Profit	460,524
Net income attributable to owners of parent	460,524

Quarterly Consolidated Statement of Comprehensive Income

Nine Months Ended March 31

(Thousands of yen)

	For the nine months ended March 31, 2022
Net income	460,524
Comprehensive income	460,524
Total comprehensive income attributable to:	
Owners of the parent	460,524
Non-controlling interests	—

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

(Notes in case of significant changes in shareholders' equity)

As a result of 10,000 new shares being issued through a transfer restricted stock compensation plan with a payment date of November 11, 2021, both share capital and capital reserve increased by ¥18,950 thousand.

In addition, during the period from July 1, 2021 to March 31, 2022, the exercise of share acquisition rights resulted in the number of shares issued increasing by 15,100, and share capital and capital reserve each increasing by ¥4,227 thousand.

As a result, at the end of the third quarter of the fiscal year ending June 30, 2022, share capital was ¥401,682 thousand and capital surplus was ¥301,682 thousand.

(Accounting methods adopted particularly for the preparation of quarterly consolidated financial statements)

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after applying tax effect accounting to profit before income taxes for the consolidated fiscal year, which includes the third quarter of the fiscal year ending June 30, 2022, and multiplying the profit before income taxes by this estimated effective tax rate.

(Changes in accounting policies)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), etc. since the beginning of the current period. This application has no impact on profit, loss, or retained earnings at the beginning of period.

(Segment information, etc.)

[Segment Information]

Nine months ended March 31, 2022 (July 1, 2021 to March 31, 2022)

1. Information on net sales and profit (loss) by reportable segment

(Thousands of yen)

	Reportable segments			Consolidated (Note)
	CLOMO Business	Investment Business	Total	
Net sales				
Net sales to external customers	1,821,880	—	1,821,880	1,821,880
Inter-segment net sales or transfers	—	—	—	—
Total	1,821,880	—	1,821,880	1,821,880
Segment profit (loss)	669,356	(3,450)	665,905	665,905

(Note) Segment profit (loss) matches operating profit in the quarterly consolidated statements of income.

2. Change in reportable segments

(Change in name of reportable segment)

In the consolidated second quarter of the fiscal year, the name of the reportable segment previously referred to as "License Sales Business" was changed to "CLOMO Business" to better match its substance.

The change in name of the reportable segment had no impact on segment information.

(Change in classification of reportable segment)

Following the establishing of i3 Ventures, Inc. in November 2021, the i3 Group revised the way it classifies business segments with the aim of disclosing management information in a way that more closely matches the reality of its corporate activities. The result is that, beginning in the consolidated second quarter of the fiscal year ending June 30, 2022, instead of the previous single reportable segment, there are now two reportable segments: the “CLOMO Business” and the “Investment Business.”

(Significant subsequent events)

Not applicable.