Explanatory Material on Financial Statements

August 19, 2020

i3 Systems, Inc.

TSE Mothers: 4495

Company profile

Company name	i3 Systems, Inc.
Headquarters	4th Floor, Dai-ichi Myojo Building, Tenjin 4-1-37, Chuo-ku, Fukuoka-shi, Fukuoka
Representative	President and CEO Tsutomu Sasaki
Founded in	September 2001
Capital	315,280,000 yen (As of July 31, 2020)
Number of employees	73 (As of June 30, 2020)
Business description	Develop businesses focusing on the provision of management services (management and operation services) for smartphones, tablets, computers, and other mobile devices
Location	Fukuoka HQ: Dai-ichi Myojo Building, Tenjin 4-1-37, Chuo-ku, Fukuoka-shi, Fukuoka Tokyo Office: Hamamatsucho DS Building, Hamamatsucho 1-27-16, Minato-ku, Tokyo Osaka Office: Servcorp Umeda Hilton Plaza West, 19th Floor, Hilton Plaza West Office Tower, Umeda 2-2-2, Kita-ku, Osaka-shi, Osaka (Started operating on March 2, 2020)

Mission and Vision

Mission　Making IT More Accessible

With the founding concept of "Cube Innovation," i3 Systems continues to create services that lead to a chain of innovations.

Our services aim at bringing innovation to corporate activities, enriching people's lives, and making IT even more accessible.

Vision　A Solution Company that Brings Smiles

People smile when they are happy, having fun, feeling fulfilled, and filled with appreciation.
We contribute to the creation of new values for a better society and a future filled with smiles.
i3 Systems engages in sound and healthy services through the best technology and the highest level of engineering to provide solutions that bring smiles to everyone - our customers, our employees, and their families.

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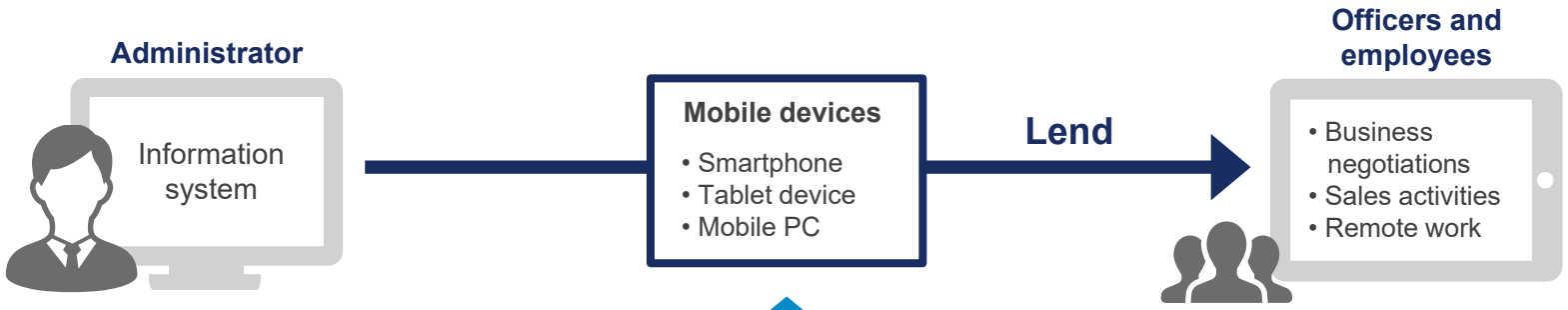
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1. Business Summary

Overview of the CLOMO Business

Two product lines to support user management and utilization

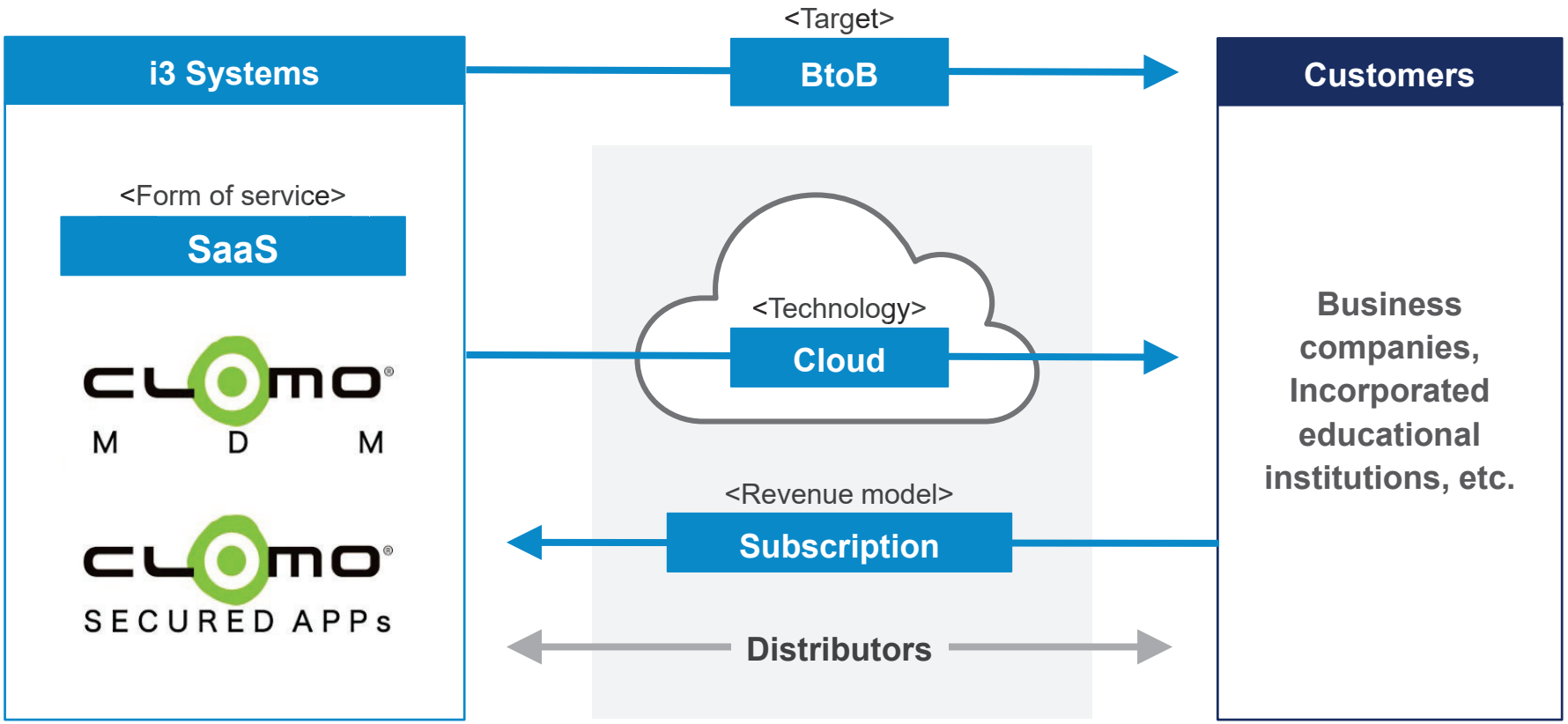


		Visualization of utilization status "Status monitoring"	Function restrictions and settings "Application of utilization rules"	Security measures "Measures for preventing information leakage"
Management	**Basic functions for smooth management** CLOMO MDM	Remotely assess the utilization status in real time	Properly set and restrict functions	Device lock and data erasure when the device is lost or stolen
Utilization	**In combination with MDM, ensure both safety and convenience** CLOMO SECURED APPs	Efficiently assess the utilization status	Efficiently use business software	Provide apps that meet security requirements
		Browser/Mailer/Calendar/Contacts/Docs		

Characteristics as a business platform

Use cloud to provide BtoB SaaS in the form of a subscription

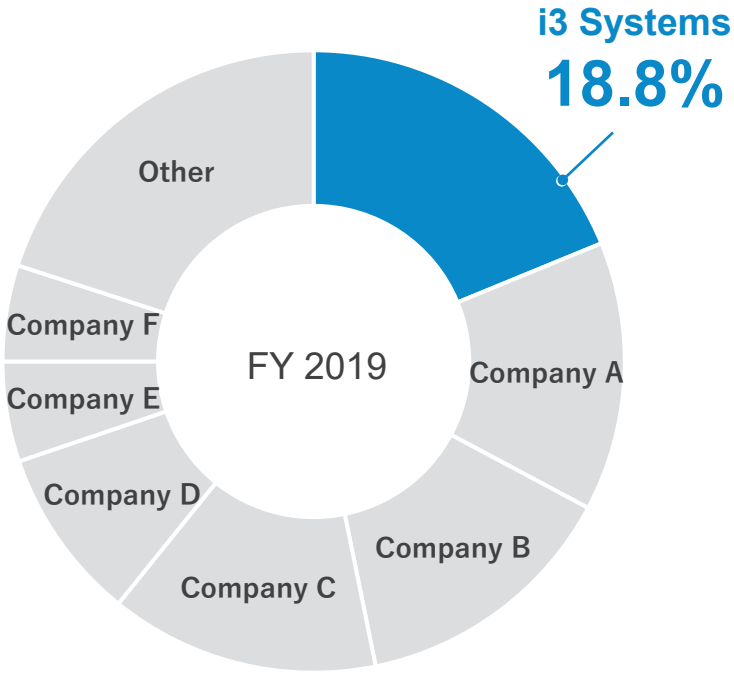
Sell services to customers (users) mainly through distributors



Market share and customer base

- In-house brand shipments gained the top market share.
- Our major clients are large companies with more than 500 employees in Japan.

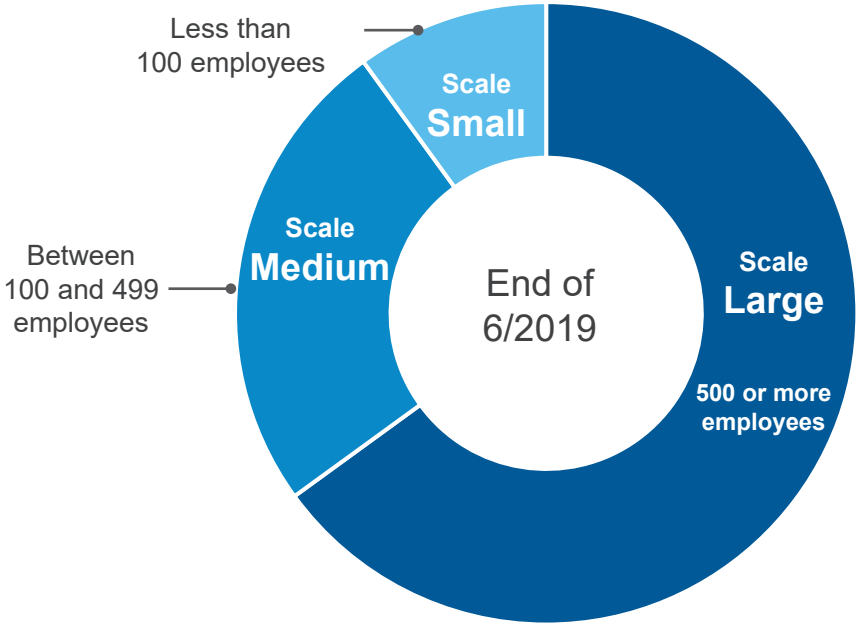
Proportion of MDM in-house brand shipments



Source: MIC Research Institute Ltd. "MDM in-house brand market 2019"

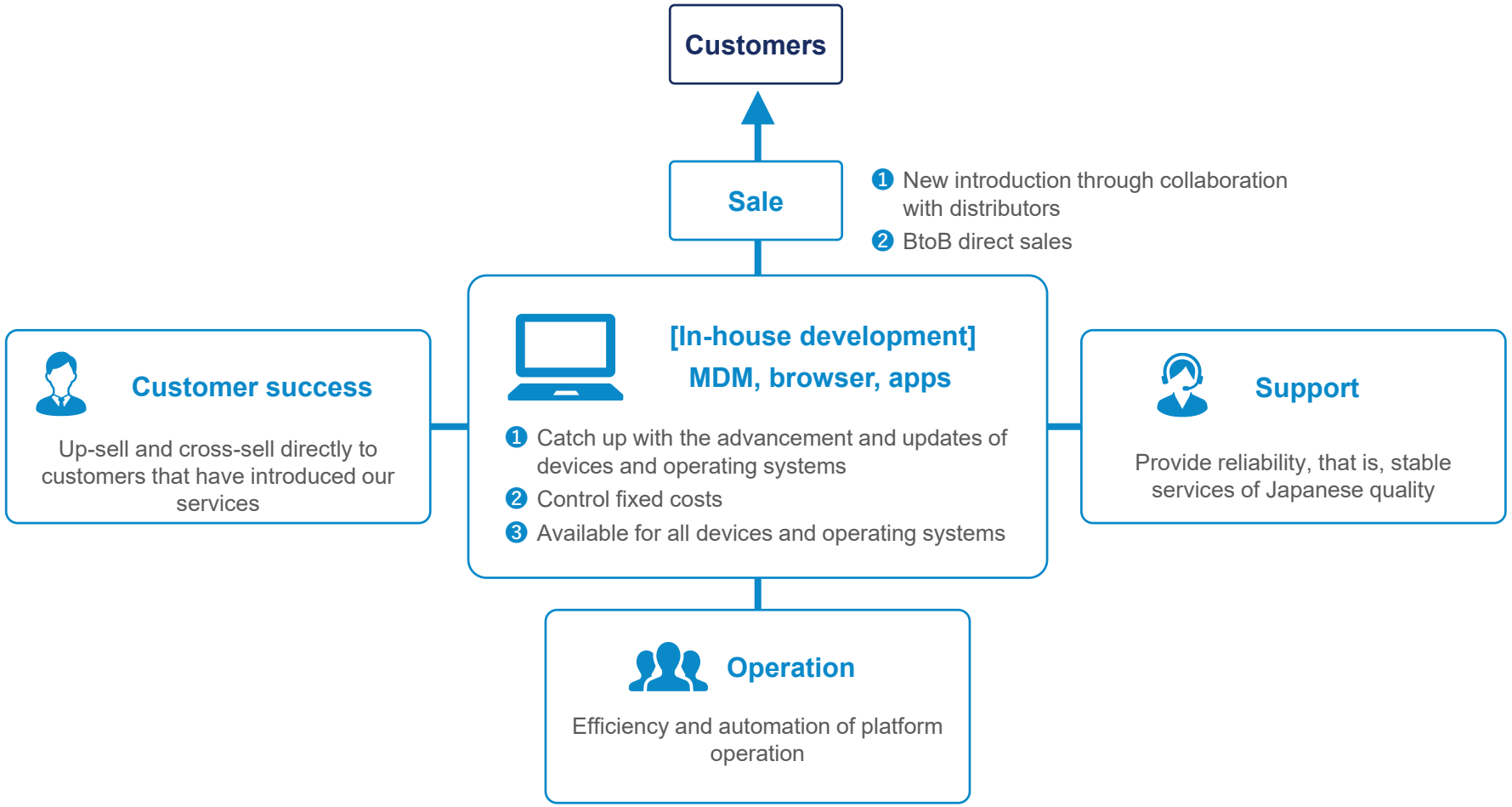
Composition of sales by customer scale (Number of employees)

About 20% of the Nikkei 225 constituents use our services.



Source of competitiveness

In-house development of MDM, browser and apps is a decisive differentiator.



Partnership with OS developers and high evaluation

As one of the 10 global companies that have acquired Android Enterprise Recommended in the EMM field, we have cleared four high hurdles.

i3 Systems

1 Advanced functions

Validate the advanced functions of the Android Enterprise management set

2 Technological innovation backed by achievements

Standardized product console as the primary method to set up Android device management

3 Enterprise-level support

Established support system with Google.
Documentation guide for setup and migration

4 Introduction capability based on achievements

With a wealth of experience and expertise on relevant services and technologies, provide support to the customer engagement team

Nine other companies that acquired Android Enterprise Recommended

SPPM / BlackBerry / Google Cloud Identity / IBM MaaS360 with Watson / Microsoft / mobileiron /

Business Concierge Device Management SoftBank Corp./ SOTI / VMware Workspace ONE

Source: Website of Android Enterprise Recommended (https://www.android.com/intl/ja_jp/enterprise/)

2. Summary of Financial Results for Fiscal Year Ended June 30, 2020

External impact of COVID-19

The impact in the fiscal year ended June 30, 2020 is shown below. In the medium term, however, new ways of working, such as remote work, are expected to accelerate, and demand for the CLOMO business is expected to expand.

❶ Delays in the production of iPhone and other mobile devices

Production was temporarily delayed. However, production has been gradually recovering in China and other countries since May. There was no major impact except for large-scale projects for a few companies. Since the delayed projects are scheduled to resume with a delay of several months, the impact on our business performance was minimal.

❷ Impact of the declaration of a state of emergency and voluntary restraint on distributors' activities

Since the declaration of a state of emergency, door-to-door sales activities have been voluntarily suspended. However, since distributors' sales activities have been shifted from door-to-door sales to those using a teleconference system, the impact on sales activities was minimal.

❸ Lack of opportunities to expand sales of our services due to economic stagnation and recession

Although there was an impact on activities for the restaurant and apparel industries, which involve the operation of brick-and-mortar stores, overall sales opportunities have increased owing to increased demand for remote work.

We have a great opportunity to appeal to companies, especially mid-sized companies, that we have not yet reached. This has led to increased sales and stable prices of our services.

Internal response to COVID-19

We continue working remotely to find new ways of working in the "with corona" era.

❶ Promoting online sales

In line with the spread of COVID-19, we have conducted online business negotiations with customers and distributors in principle.

In particular, we have held online study sessions for distributors, with more than 1,200 participants, to expand sales through new methods.

As online sessions are not restricted by travel time and distance, we will explore new markets more than ever.

❷ Full-scale remote development, operation, and support

We have carried out development, operation and customer support operations remotely on a full scale.

We have also trained our new employees remotely.

By utilizing remote operations, we will acquire excellent human resources regardless of the location (Tokyo/Fukuoka/Osaka).

❸ Promoting telework for core systems

We have promoted remote work such as introducing cloud systems for back office (accounting and human resources) operations.

Except for stamping documents for external use and receiving goods, we have implemented work-at-home initiatives in administrative divisions as well.

❹ Establishment of a support system for working at home and review of the evaluation system

For implementing work-at-home initiatives on a long-term and regular basis, we have established and reviewed support systems, including the shift to a full flextime system without core time, the establishment of work-at-home allowances, and the partial revision of the target management evaluation system to job-based evaluation.

Business highlights

We are making steady progress even in the "with corona" era.

❶ Significant increase in transactions with NTT DOCOMO, INC.

Net sales from NTT DOCOMO, INC. increased significantly from 252 million yen in the fiscal year ended June 30, 2019 to 461 million yen in the fiscal year ended June 30, 2020 (83% increase from the previous year).

❷ Establishment of Osaka Office

In response to requests to expand sales channels in the Kansai region, we established our Osaka Office in March 2020.

❸ Downsizing other businesses (Contracted development and maintenance services)

The contracted software development and maintenance services were ended in the fiscal year ended June 30, 2020, and all resources have been utilized in the CLOMO business.

❹ Promoting transition to CI/CD platform

We have significantly streamlined our software development and infrastructure operations, including deploying Azure Kubernetes Service (AKS) and expanding test automation.

❺ Promoting offshore development

Aiming to strengthen our development capabilities, we have expanded collaboration with the largest IT company in Southeast Asia and Vietnam.

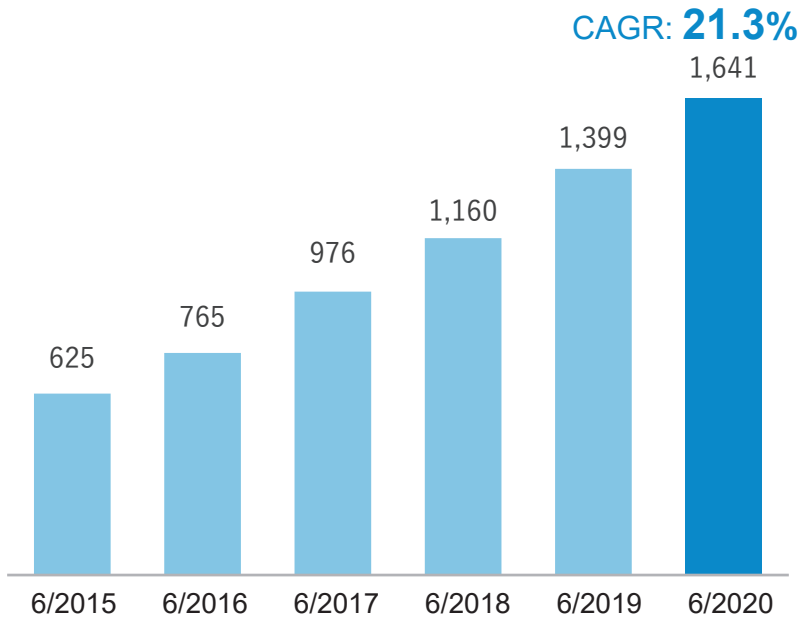
❻ Promoting diversity

We have promoted diversity by appointing women to management positions, including Yuko Uchida, who was appointed as an outside director.

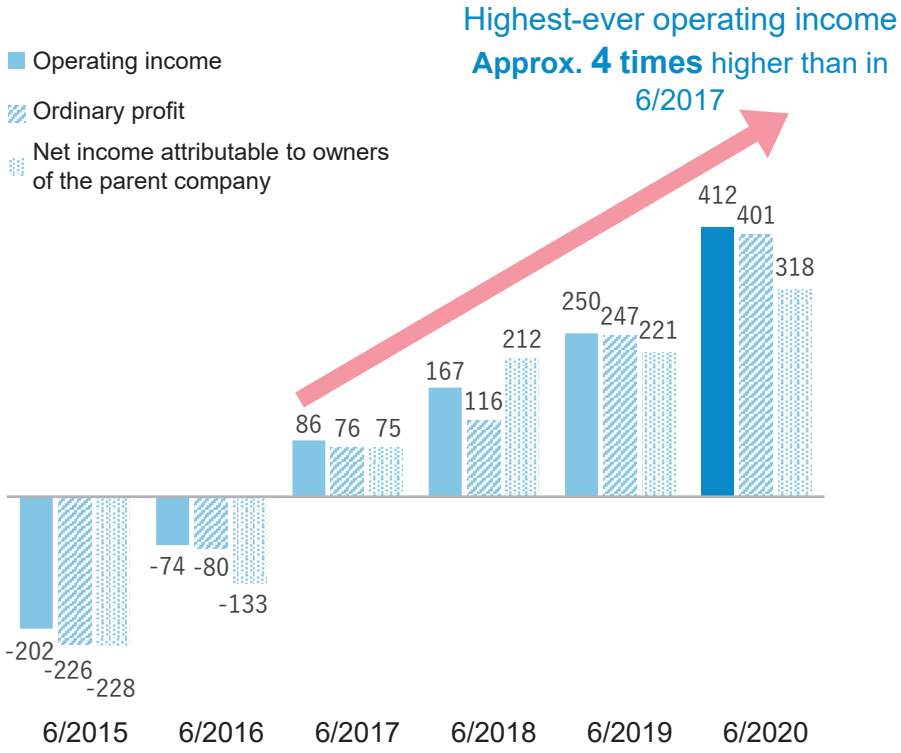
Performance Trend

After moving into the black in 6/2017, profits increased about fourfold in 6/2020 compared with 6/2017.

Change in net sales (millions of yen)



Change in profit (millions of yen)



Income statement for fiscal year ended June 30, 2020

(Unit: millions of yen)	6/2019 (Composition rate)		6/2020 (Composition rate)		Change (Increase-decrease rate)	
Net sales	**1,399**	(100.0%)	**1,641**	(100.0%)	**+ 242**	(+ 17.3%)
CLOMO business	**1,056**	(75.5%)	❶ **1,369**	(83.4%)	**+ 313**	(+ 29.7%)
Other businesses	**131**	(9.4%)	❷ **46**	(2.8%)	**- 84**	(- 64.4%)
Cost of sales	**423**	(30.3%)	❸ **342**	(20.9%)	**- 80**	(- 19.0%)
Gross profit	**975**	(69.7%)	**1,298**	(79.1%)	**+ 322**	(+ 33.0%)
Selling, general and administrative expenses	**725**	(51.8%)	**886**	(54.0%)	**+ 161**	(+ 22.2%)
Operating income	**250**	(17.9%)	**412**	(25.1%)	**+ 161**	(+ 64.3%)
Ordinary profit	**247**	(17.7%)	**401**	(24.5%)	**+ 154**	(+ 62.5%)
Net income attributable to owners of the parent company	**221**	(15.8%)	**318**	(19.4%)	**+ 96**	(+ 43.8%)

❶ Sales in the CLOMO business, our core business, increased by nearly 30%.
❷ The decrease in other businesses was attributable to the downsizing of contracted development and maintenance services.
❸ The decrease in cost of sales was attributable to a decrease in purchases accompanying the downsizing of other businesses (contracted development, etc.) and a decrease in depreciation expenses due to differences in the release status of software products in each fiscal year.

Balance sheet for fiscal year ended June 30, 2020

(Unit: millions of yen)	6/2019	6/2020	Change
Current assets	**844**	**1,091**	**+ 246**
Non-current assets	**238**	**244**	**+ 6**
Total assets	**1,083**	**1,336**	**+ 253**
Current liabilities	**583**	**618**	**+ 35**
Unearned revenue	**342**	❶ **358**	**+ 15**
Non-current liabilities	**113**	**13**	**- 100**
Long-term unearned revenue	**12**	❷ **13**	**0**
Total liabilities	**696**	**631**	**- 64**
Net assets	**386**	**704**	**+ 318**
Total liabilities and net assets	**1,083**	**1,336**	**+ 253**

❶❷ Since some of our license agreements are made annually, considerations we received in advance by the end of current fiscal year for services to be provided in the following fiscal year or thereafter are recorded as "unearned revenue (current liabilities)" and "long-term unearned revenue (non-current liabilities)."

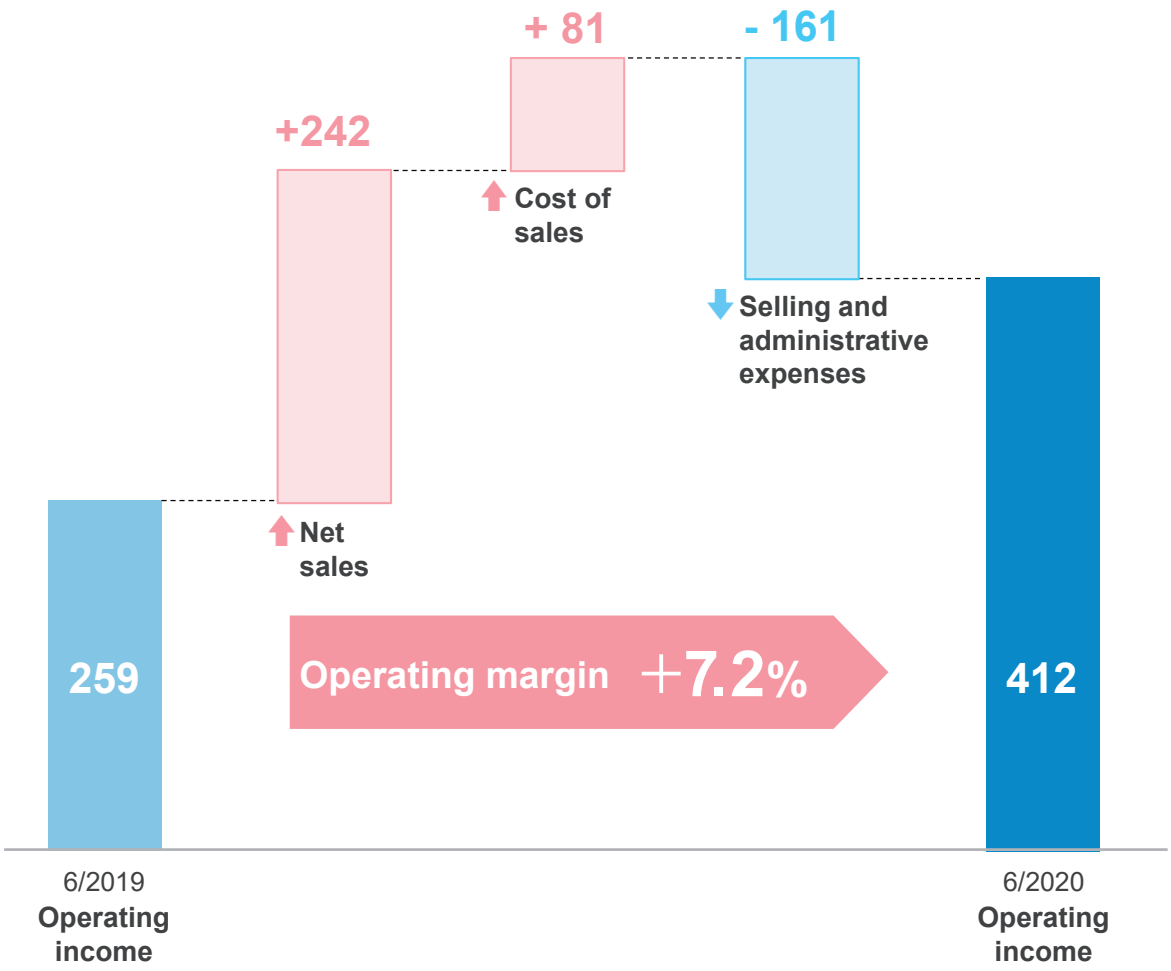
Cash flow statement for fiscal year ended June 30, 2020

(Unit: millions of yen)	6/2019	6/2020	Change
Operating CF	**337**	**429**	**+ 92**
Investment CF	**- 136**	**- 133**	**+ 2**
Financial CF	**- 303**	**- 80**	**+ 223**
Borrowings (Short-term and long-term) Repayments	**- 294**	**- 80**	**+ 214**
Free CF	**- 103**	❶ **214**	**+ 318**

❶ In the fiscal year ended June 30, 2019, the repayment of borrowings (294 million yen) had a negative impact on the financial CF and free CF for the same period.
In the fiscal year ended June 30, 2020, as a result of the repayment of borrowings (80 million yen), the balance of borrowings as of the end of the same period was zero.

Factors behind changes in operating income

Year-on-year comparison of operating income (millions of yen)



Increase in net sales (+ 242)

Expansion of the CLOMO business

Downsizing other businesses (contracted development, etc.)

Decrease in cost of sales (+ 81)

Reduction in cost of manufacturing

Decrease in purchases of products

Increase in selling and administrative expenses (- 161)

Increase in personnel expenses

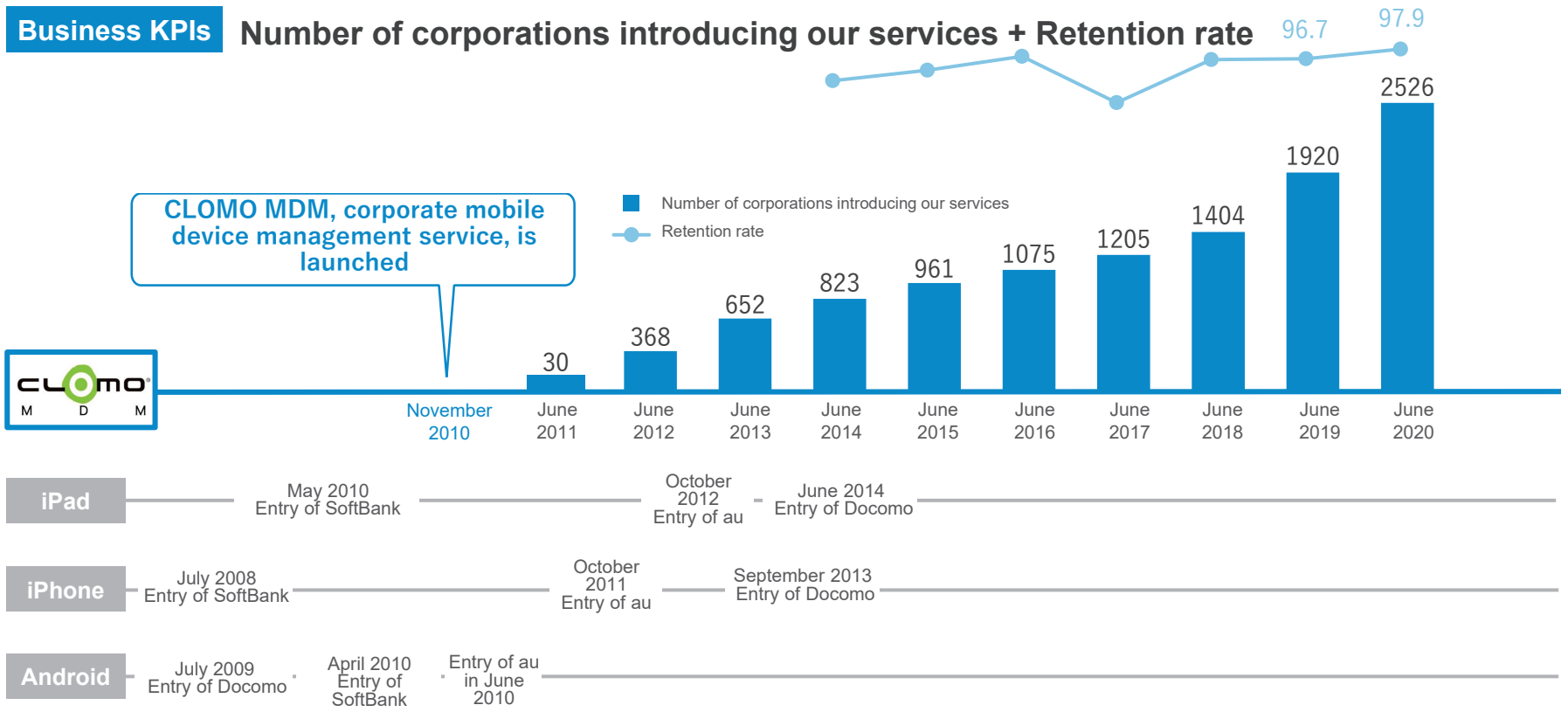
Increase in advertising expenses

Key indicators

The number of corporations introducing our services and the retention rate are set as KPIs.

Delivered value Increase in user productivity and security

Business KPIs Number of corporations introducing our services + Retention rate



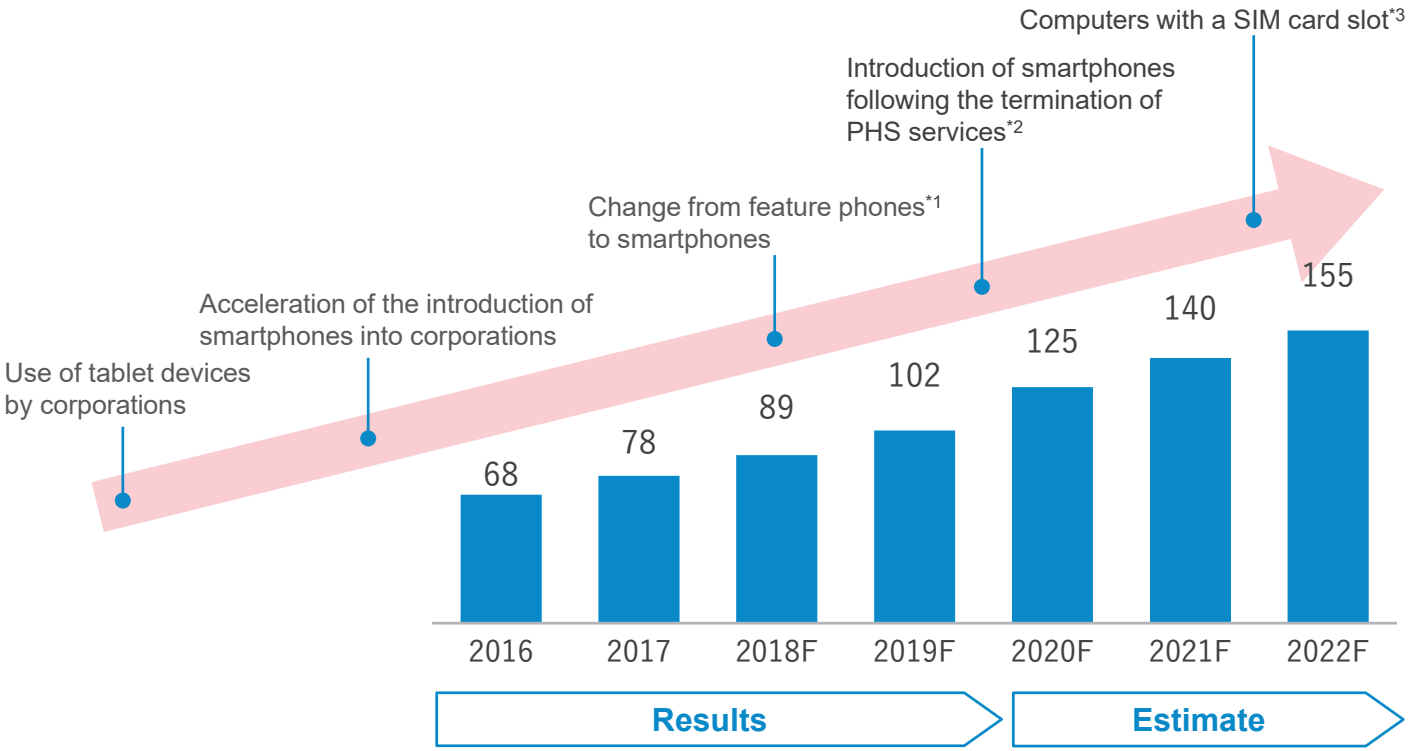
*The retention rate is calculated by subtracting the number of cancellations in the last 12 months from the number of licenses at the end of the same month of the previous year and dividing it by the number of licenses at the end of the same month of the previous year.

3. Forecast of Financial Results for Fiscal Year Ending June 30, 2021

Business environment

The scale of the mobile management market is expected to nearly double in 2022 compared with 2017.

Scale of the mobile management market (100 millions of yen)



Through the use of mobile devices,

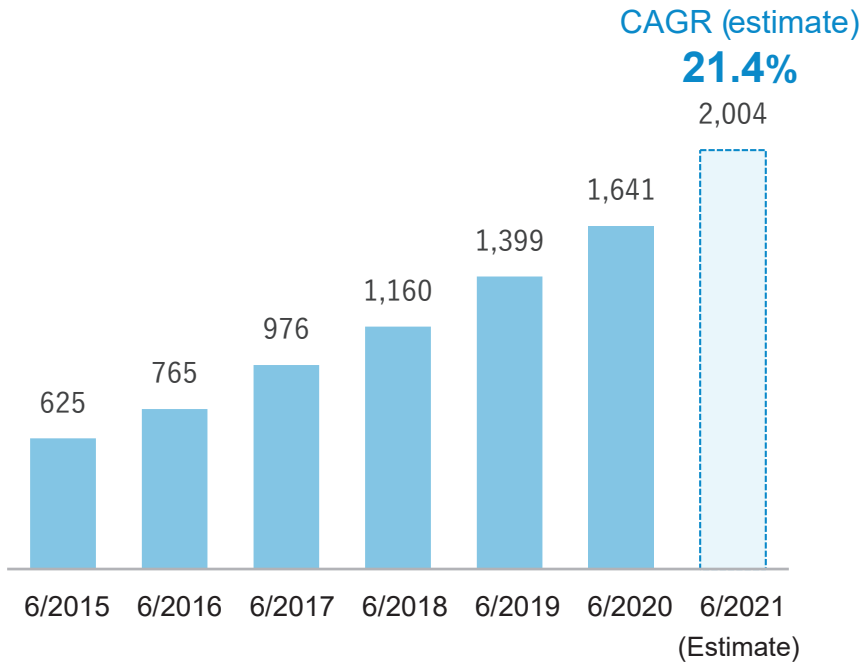
- **Increased needs for management and operational efficiency**
- **Strengthening security in the IoT market**

*1) Conventional mobile phones
*2) End of July 2020
*3) Enable always-on connections

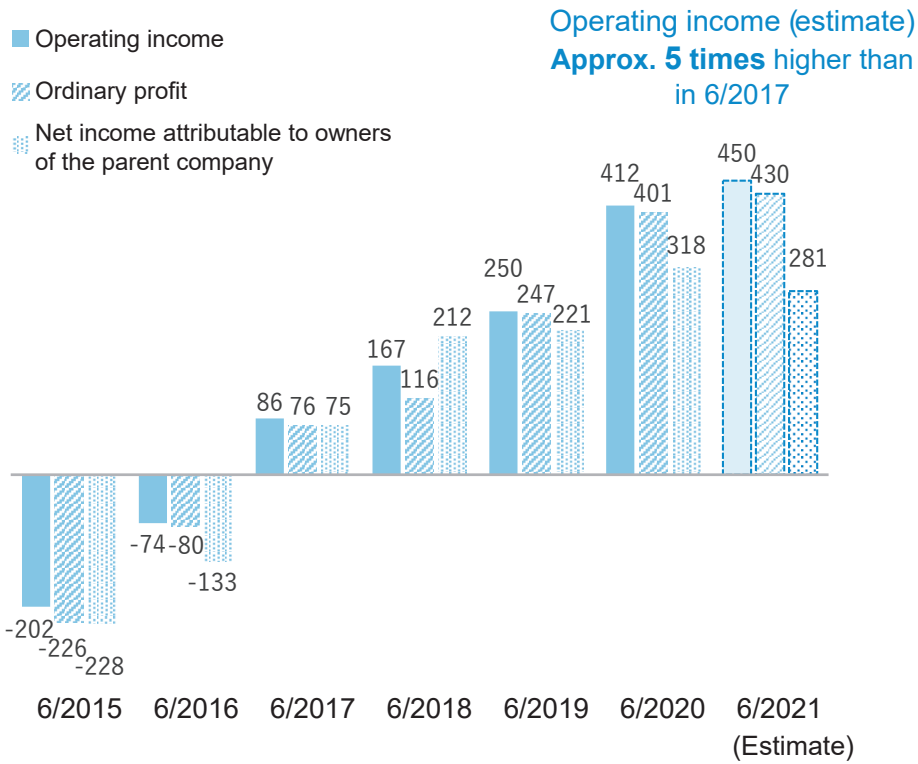
Source: Techno Systems Research Co., Ltd. "2017-2018 Endpoint Management Market Marketing Analysis"

Forecast of financial results for fiscal year ending June 30, 2021

Change in net sales (millions of yen)



Change in profit (millions of yen)



Forecast of financial results for fiscal year ending June 30, 2021

(Unit: millions of yen)	6/2020 results (Composition rate)		6/2021 estimate (Composition rate)		Change (Increase-decrease rate)	
Net sales	**1,641**	(100.0%)	**2,004**	(100.0%)	**+ 362**	(+ 22.1%)
CLOMO business	**1,369**	(83.4%)	**1,759**	(87.8%)	**+ 389**	(+ 28.4%)
Other businesses	**46**	(2.8%)	**0**	(0.0%)	**- 45**	(- 97.9%)
Cost of sales	**342**	(20.9%)	❶ **469**	(23.4%)	**+ 126**	(+ 36.8%)
Gross profit	**1,298**	(79.1%)	**1,535**	(76.6%)	**+ 236**	(+ 18.2%)
Selling, general and administrative expenses	**886**	(54.0%)	**1,084**	(54.1%)	**+ 198**	(+ 22.3%)
Operating income	**412**	(25.1%)	**450**	(22.5%)	**+ 38**	(+ 9.3%)
Ordinary profit	**401**	(24.5%)	**430**	(21.5%)	**+ 29**	(+ 7.2%)
Net income attributable to owners of the parent company	**318**	(19.4%)	❷ **281**	(14.1%)	**- 36**	(- 11.4%)

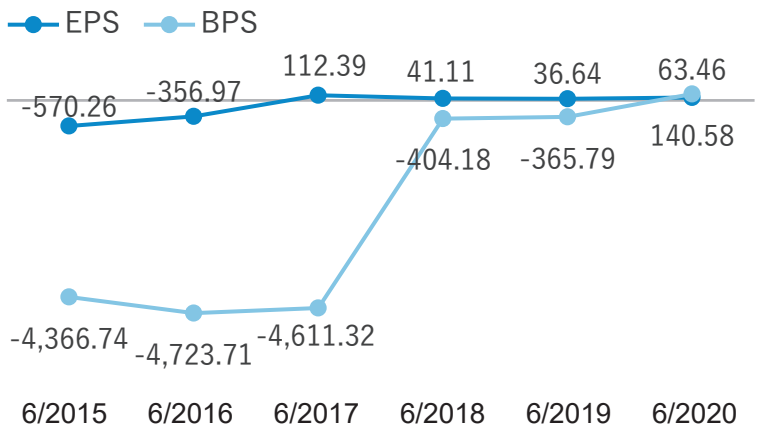
❶ The increase in cost of sales was attributable to an outlook for an increase in depreciation expenses due to differences in the release status of software products in each fiscal year.

❷ With regard to the decrease in net income attributable to owners of the parent company, corporate income taxes decreased significantly compared to those calculated at the effective tax rate owing to a loss carried forward to deferred tax assets that was fully deducted in the fiscal year ended June 30, 2020. However, in the fiscal year ending June 30, 2021, there will be no loss carried forward, and the effective tax rate will be normal.

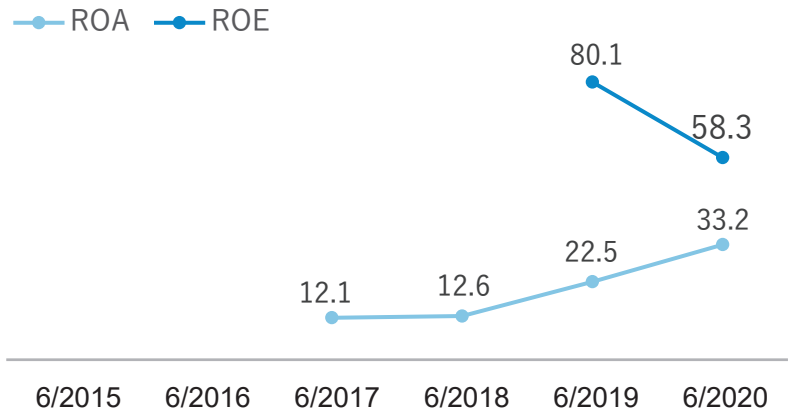
4. Reference Materials

Financial highlights

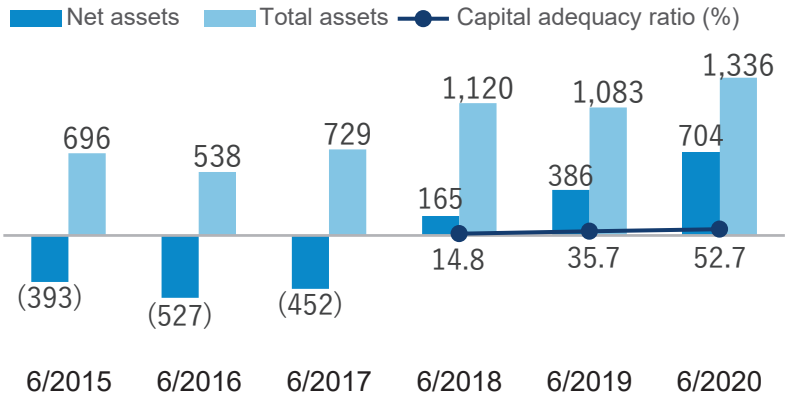
EPS and BPS (yen)



ROE and ROA (%)

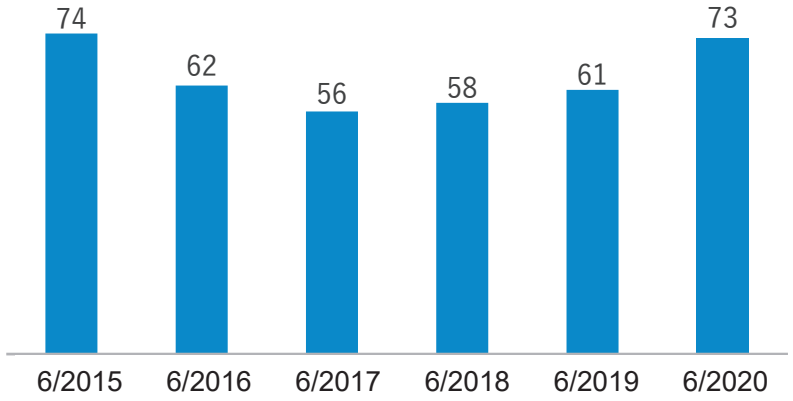


Total assets and net assets (millions of yen), capital adequacy ratio (%)



*The capital adequacy ratio for the period from 6/2015 to 6/2017 is not provided as it was negative.

Number of employees (people)



*As of June 30, 2020 for 6/2020

Handling of this document

- This document contains outlooks, future plans, and management objectives related to the Company. These outlooks are based on current assumptions on future events and trends, and there is no guarantee that these assumptions are accurate.
  Owing to various factors, actual results may differ materially from those indicated in this document.

- Unless otherwise stated, the financial data provided in this document is presented in accordance with generally accepted accounting principles in Japan.

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- Information about other companies is based on publicly known information.

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