Consolidated Financial Results for the Six Months Ended December 31, 2021 [Japanese GAAP]

February 8, 2022

Company name: i³ Systems, Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 4495
URL: https://www.i3-systems.com/
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Scheduled date of filing quarterly securities report: February 8, 2022
Scheduled date of commencing dividend payments: —
Availability of supplementary explanatory materials on quarterly financial results: Yes
Schedule of quarterly financial results briefing session: Yes (for institutional investors, analysts and individual investors)

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

1. Consolidated Financial Results for the Six Months Ended December 31, 2021 (July 1, 2021 - December 31, 2021)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2021	1,205	－	453	－	453	－	314	－
December 31, 2020	－	－	－	－	－	－	－	－

(Note) Comprehensive income:
Six months ended December 31, 2021: ¥314 million (－ %)
Six months ended December 31, 2020: － million (－ %)

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2021	59.88	58.72
December 31, 2020	－	－

(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 six months ended December 31, 2020 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 December 31, 2021	2,890	1,988	68.7
As of June 30, 2021	－	－	－

(Reference) Shareholders' equity: As of December 31, 2021: ¥1,987 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 six months ended December 31, 2020 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)			–	10.00	10.00

(Note) Revision to the forecast for dividends announced most recently: None

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

(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 year-on-year changes are not presented.

*** Notes:**

(1) Changes in significant subsidiaries during the period: None
(Changes in specified subsidiaries resulting in changes in scope of consolidation)
Newly added: – companies
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):

December 31, 2021:	5,259,450 shares
June 30, 2021:	5,238,350 shares

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

December 31, 2021:	121 shares
June 30, 2021:	121 shares

3) Average number of shares outstanding during the period:

Six months ended December 31, 2021:	5,244,767 shares
Six months ended December 31, 2020:	5,182,697 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.

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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 six months ended December 31, 2021, the lifting of the state of emergency following a decline in the number of those infected with COVID-19 raised expectations for a recovery in economic activity, but with the emergence of new variants of the virus and concerns about the impact on the economy of soaring prices for commodities such as crude oil, the outlook for the economic environment remained unclear.

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 six months ended December 31, 2021, 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. Moreover, 20% of new graduates who are set to join the Company in April 2022 are foreign nationals, which represents the Company's commitment to building a diverse organization.

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 six months ended December 31, 2021, were ¥1,205,418 thousand, operating profit was ¥453,591 thousand, ordinary profit came to ¥453,767 thousand, and profit attributable to owners of parent was ¥314,034 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).

In the six months ended December 31, 2021, we continued to utilize remote sales over web conferencing systems with the aim of expanding the number of corporations deploying our products. We are working to promote a better understanding of how to use CLOMO services, and an appreciation of their quality, by proactively releasing case studies on deploying our services to meet a new demand for MDM that has arisen from social changes such as mobile device management at elementary and secondary schools through the GIGA

School Concept (Note 2), management of IT assets for remote working, and management of dedicated terminals used to promote digital transformation (DX) in manufacturing and transportation industries.

In terms of customer success activities, as well as conducting interviews to strengthen relationships with customers, we held the 5th CLOMO User Meeting remotely, in which we demonstrated new CLOMO functions and introduced case studies from other users. This event was attended primarily by those responsible for information systems departments.

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) to enhance product value and reduce costs by improving efficiency in product development and service operation.

As a result of these initiatives, the number of corporations deploying our services rose to 3,688, an increase of 297 (8.8%) 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 six months ended December 31, 2021. Conversely, in the same period difficulties in procuring mobile devices caused by the shortage of semiconductors resulted 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 ¥1,205,418 thousand and operating profit was ¥454,266 thousand.

The breakdown of net sales by service is as follows:

CLOMO MDM: ¥1,100,162 thousand
SECURED APPs: ¥91,875thousand
Others: ¥13,380 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, and began full-fledged investment operations in December 2021.

This resulted in an operating loss of ¥674 thousand.

(Notes)
1. Source: Deloitte Tohmatsu MIC Research Institute Co., Ltd. “Market Outlook of Collaboration/Contents & Mobile Management Packaged Software” 2011-2018 editions, “MIC IT Report Dec 2021 issue” Actual shipment value in FY 2019-2020 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

(i) Assets, liabilities and net assets

The financial position as of December 31, 2021 is as follows:

(Assets)

Total assets amounted to ¥2,890,587 thousand. This included cash and deposits of ¥1,120,705 thousand, accounts receivable - trade of ¥222,351 thousand, securities of ¥1,000,000 thousand, other current assets of ¥214,269 thousand, software in progress of ¥127,266 thousand and investments and other assets of ¥148,504 thousand.

(Liabilities)

Total liabilities amounted to ¥902,023 thousand. The main components of this were income taxes payable of ¥150,668 thousand and contract liabilities of ¥535,517 thousand.

(Net assets)

Total net assets amounted to ¥1,988,563 thousand. The main components of this were share capital of ¥400,642 thousand, capital surplus of ¥300,642 thousand, and retained earnings of ¥1,286,382 thousand.

Accordingly, the equity ratio stood at 68.7%.

(ii) Cash flows

Cash and cash equivalents ("cash") at the end of the six months ended December 31, 2021 came to ¥1,120,705 thousand.

Cash flows and their major components for the six months ended December 31, 2021 were as follows.

(Cash flows from operating activities)

Net cash used in operating activities was ¥55,586 thousand. The main components of this were profit before income taxes of ¥453,767 thousand, an increase in contract liabilities of ¥535,517 thousand, a decrease in unearned revenue of ¥547,718 thousand, a decrease in long-term unearned revenue of ¥100,056 thousand, increase in operational investment securities of ¥149,992 thousand, and income taxes paid of ¥234,644 thousand.

(Cash flows from investing activities)

Net cash used in investing activities was ¥1,084,290 thousand. The main components of this were purchase of securities of ¥1,000,000 thousand, purchase of intangible assets of ¥82,635 thousand.

(Cash flows from financing activities)

Net cash used in financing activities was ¥45,902 thousand. The main component of this was dividends paid of ¥52,277 thousand.

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

Following the establishing of a subsidiary in November 2021, the Company transitioned to consolidated settlement of accounts, beginning with the second quarter of the fiscal year ending June 30, 2022. For details of consolidated earnings forecasts for the fiscal year ending June 30, 2022, please see "Notice regarding Consolidated Earnings Forecasts Following Transition to Consolidated Settlement of Accounts," released today, February 8, 2022.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of December 31, 2021
Assets	
Current assets	
Cash and deposits	1,120,705
Accounts receivable - trade	222,351
Securities	1,000,000
Other	214,269
Total current assets	2,557,326
Non-current assets	
Property, plant and equipment	34,239
Intangible assets	
Software	23,249
Software in progress	127,266
Total intangible assets	150,515
Investments and other assets	148,504
Total non-current assets	333,260
Total assets	2,890,587
Liabilities	
Current liabilities	
Accounts payable - trade	34,756
Income taxes payable	150,668
Contract liabilities	535,517
Provision for bonuses	47,325
Other	133,755
Total current liabilities	902,023
Total liabilities	902,023
Net assets	
Shareholders' equity	
Share capital	400,642
Capital surplus	300,642
Retained earnings	1,286,382
Treasury shares	(661)
Total shareholders' equity	1,987,004
Share acquisition rights	1,559
Total net assets	1,988,563
Total liabilities and net assets	2,890,587

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Six Months Ended December 31

(Thousands of yen)

	For the six months ended December 31, 2021
Net sales	1,205,418
Cost of sales	169,149
Gross profit	1,036,268
Selling, general and administrative expenses	582,677
Operating profit	453,591
Non-operating income	
Interest income	28
Other	270
Total non-operating income	299
Non-operating expenses	
Other	123
Total non-operating expenses	123
Ordinary profit	453,767
Profit before income tax	453,767
Income taxes	139,733
Profit	314,034
Net income attributable to owners of parent	314,034

Quarterly Consolidated Statement of Comprehensive Income

Six Months Ended December 31

(Thousands of yen)

	For the six months ended December 31, 2021
Net income	314,034
Comprehensive income	314,034
Total comprehensive income attributable to:	
Owners of the parent	314,034
Non-controlling interests	—

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	For the six months ended December 31, 2021
Cash flows from operating activities	
Profit before income tax	453,767
Depreciation	22,527
Increase (decrease) in provision for bonuses	(1,181)
Interest income	(28)
Decrease (increase) in trade receivables	(25,451)
Increase (decrease) in trade payables	2,691
Increase (decrease) in unearned revenue	(547,718)
Increase (decrease) in long-term unearned revenue	(100,056)
Increase (decrease) in contract liabilities	535,517
Decrease (increase) in operational investment securities	(149,992)
Other	(11,044)
Subtotal	179,028
Interest and dividends received	28
Income taxes paid	(234,644)
Cash flows from operating activities	55,586
Cash flows from investing activities	
Purchase of securities	(1,000,000)
Purchase of intangible assets	(82,635)
Other	(1,655)
Cash flows from investing activities	(1,084,290)
Cash flows from financing activities	
Proceeds from issuance of shares resulting from exercise of share acquisition rights	6,375
Dividends paid	(52,277)
Cash flows from financing activities	(45,902)
Effect of exchange rate change on cash and cash equivalents	—
Net increase (decrease) in cash and cash equivalents	(1,185,780)
Cash and cash equivalents at beginning of period	2,306,485
Cash and cash equivalents at end of period	1,120,705

(4) 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 December 31, 2021, the exercise of share acquisition rights resulted in the number of shares issued increasing by 11,100, and share capital and capital reserve each increasing by ¥3,187 thousand.

As a result, at the end of the second quarter of the fiscal year ending June 30, 2022, share capital was ¥400,642 thousand and capital surplus was ¥300,642 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 second 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]

Six months ended December 31, 2021 (July 1, 2021 to December 31, 2021)

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	1,205,418	—	1,205,418	1,205,418
Inter-segment net sales or transfers	—	—	—	—
Total	1,205,418	—	1,205,418	1,205,418
Segment profit (loss)	454,266	(674)	453,591	453,591

(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)

(Establishment of consolidated subsidiary)

At a meeting of the Board of Directors of the Company held on January 12, 2022, it was resolved that i3-1 Investment Limited Partnership ("the Fund") would be established with the Company's consolidated subsidiary i3 Ventures, Inc. and i3-1 Partner Limited Liability Partnership becoming unlimited liability partners, and the Company becoming a limited partner by investing in the Fund.

1. Background/purpose of establishing the Fund

In November 2021, the Company established a wholly owned subsidiary, i3 Ventures, Inc., and commenced corporate venture capital activities. The Fund was established as a consolidated subsidiary to enable prompt decision-making and a flexible investment structure, as well as to accumulate investment partnership management know-how for use in expanding the scale of the business going forward.

2. Overview of the Fund

(1) Name	i3-1 Investment Limited Partnership
(2) Location	Tenjin 4-1-37, Chuo-ku, Fukuoka-shi, Fukuoka
(3) Basis for establishment	Limited Partnership Act for Investment
(4) Purpose of formation	Investments in and growth support for companies in areas closely related to the Company's business domain, companies involved in resolving societal issues and companies headquartered in Kyushu

(5) Date of formation	January 26, 2022	
(6) Total investment amount	Approximately ¥1,000 million	
(7) Investors/ Capital contribution ratio	i3 Systems, Inc. Capital contribution ratio: 98% i3 Ventures, Inc. Capital contribution ratio: 1% i3-1 Partner Limited Liability Partnership Capital contribution ratio: 1%	
(8) Overview of unlimited liability partners (1)	Name	i3 Ventures, Inc.
	Location	Tenjin 4-1-37, Chuo-ku, Fukuoka-shi, Fukuoka
	Representative	Representative Director Nobuyoshi Yamagata
	Nature of business	Investment business, management of investment partnership, support of investee companies, etc.
	Capital	¥10 million
(9) Overview of unlimited liability partners (2)	Name	i3-1 Partner Limited Liability Partnership
	Location	Tenjin 4-1-37, Chuo-ku, Fukuoka-shi, Fukuoka
	Representative	Partner Nobuyoshi Yamagata
	Nature of business	Investment business, etc.
	Investment amount	¥5 million
(10) Relationship between the listed company and the Fund	Capital ties	The Company has funded the Fund.
	Related through personnel	The Company is a limited partner of the Fund.
	Transactional relationship	N/A

3. Impact on consolidated earnings for the current fiscal year

The impact on the Company's consolidated earnings for the current fiscal year is expected to be negligible, but if a matter requiring disclosure occurs, it will be disclosed promptly.