Third Quarter of Fiscal Year ending June 30, 2022 Supplementary Material on Financial Statements

May 10, 2022

i³ Systems, Inc.

TSE Growth：4495

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1. Summary

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Summary of 3Q of FY6/22

Progress towards the full-year net sales forecast was 70.9% (71.5% in the same period of the previous year [1]), maintaining the same level despite the continuing impact of the semiconductor shortage.[2]

Net sales	Operating income	Number of corporations introducing our services
1,821 million yen	665 million yen	3,780 corporations
YoY: +25.5% ↑	YoY: +70.3% ↑	+11.5% ↑ from the end of the previous period

1. Progress in the same period of the previous year was calculated by dividing actual net sales for the nine months ended March 31, 2021, by actual net sales for the fiscal year ended June 30, 2021.
2. Some customers postponed commencement of contracts due to the semiconductor shortage causing delays in the procurement of mobile devices

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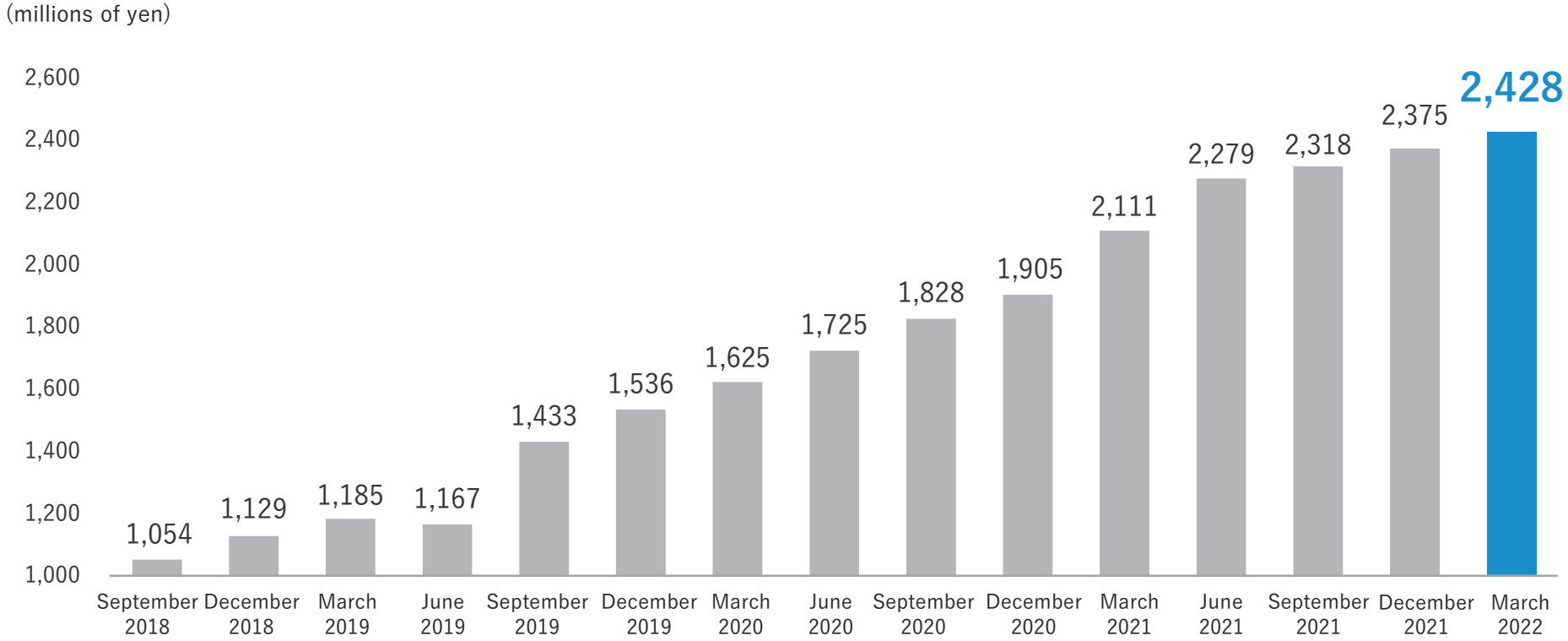
Trend of ARR

ARR[1], which is the main KPI used for the subscription business, was 2,428 million yen (up 15.0% YoY).

ARR trends as of the end of each quarter



1. ARR: Annual Recurring Revenue. Calculated by multiplying the MRR for each month by 12, where MRR is the the sum of the monthly fees for corporations deploying our services as of the end of the targeted month, excluding temporary costs.

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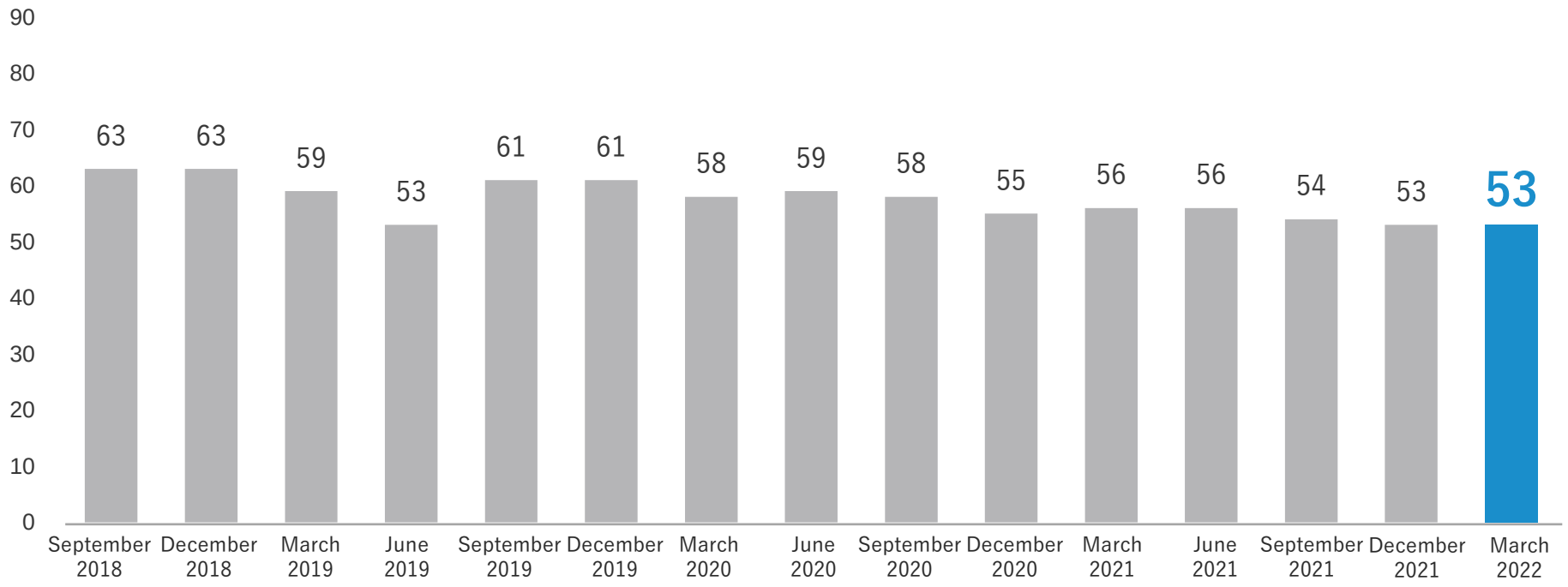
Trend of ARPU

Although ARPU(1) had been on a gradual downward trend due to the increase in the number of new corporations introducing our services, it has remained at a certain level due to the introduction of additional licenses by existing customers.

ARPU trends as of the end of each quarter

(thousands of yen)



1. ARPU: Average Revenue per User. Average monthly fees for corporations deploying our services. Calculated by dividing 1/12 of ARR for each month by the number of corporations that had introduced our services as of the end of the month in question.

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2. Financial Results for 3rd Quarter of Fiscal Year ending June 30, 2022

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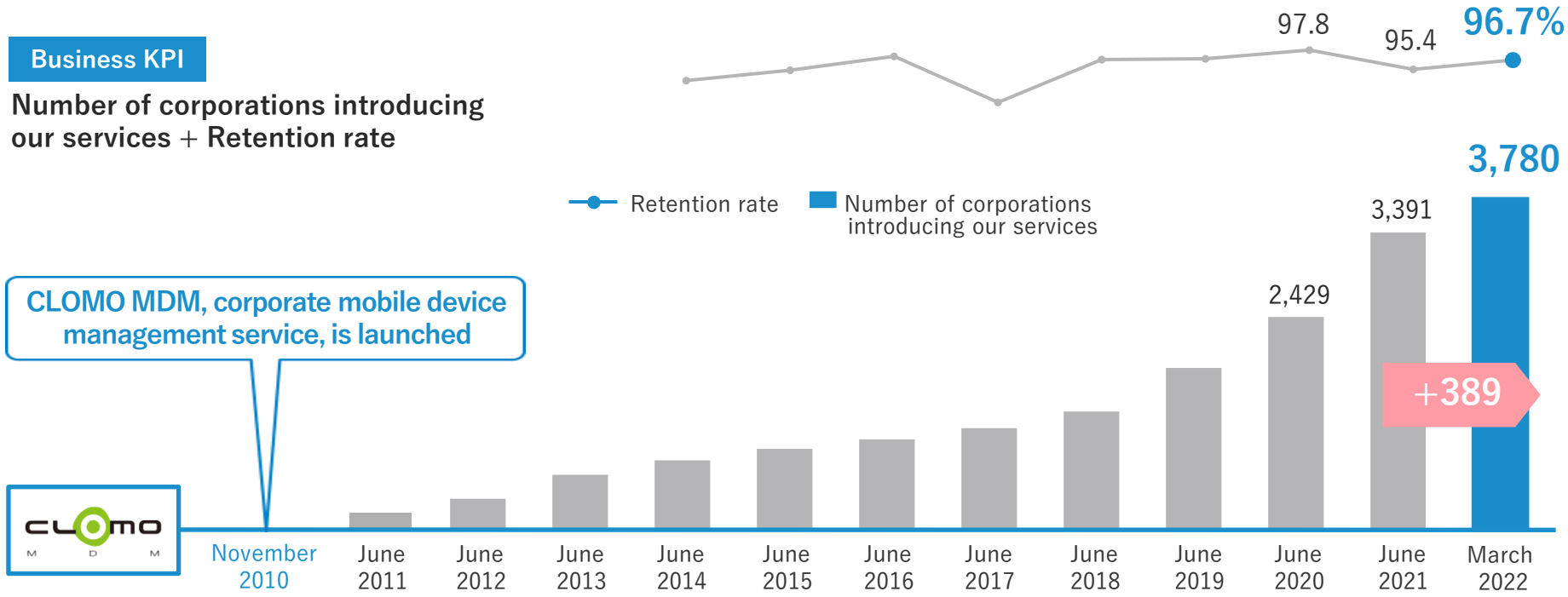
Number of corporations introducing our services/ Retention rate

Net increase in the number of corporations introducing our services(1) in 3rd quarter was 389 companies, and the number of corporations introducing our services as of the end of the 3rd quarter was 3,780 companies. The retention rate(2)(3) was 96.7% (up 1.3 points from the end of the previous quarter)

Business KPI

Number of corporations introducing our services + Retention rate



1. We changed the counting method for the number of corporations introducing our services in July 2020, and changed the timing of when our products are introduced to end users from the order-acceptance month to the billing-start month. The number of corporations introducing our services in June 2020 became 2,429 based on these changes.
2. 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. To disclose the trends in CLOMO service, we changed the method of calculating the retention rate in FY6/21, and changed from the use of the number of all licenses of CLOMO services to the use of the number of licenses of only CLOMO MDM (the main service). Consequently, the retention rate in FY6/20 became 97.8%.

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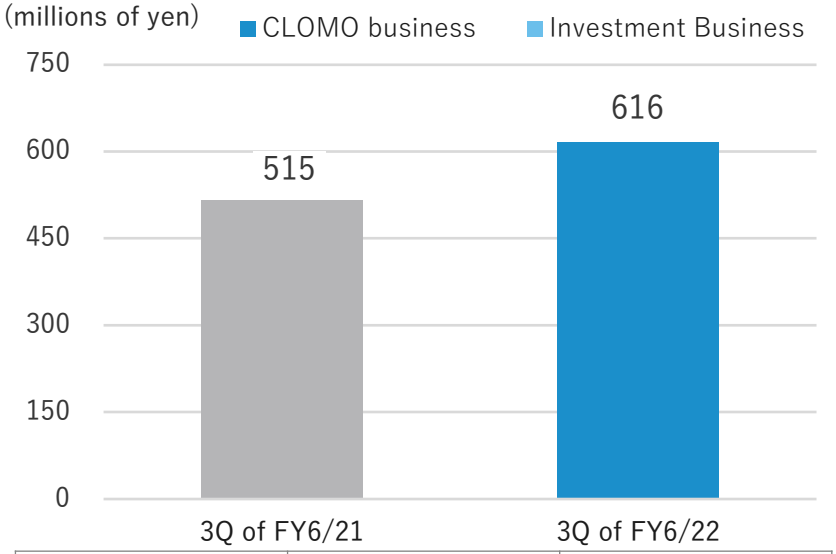
Net sales and operating income for 3rd quarter of FY6/22

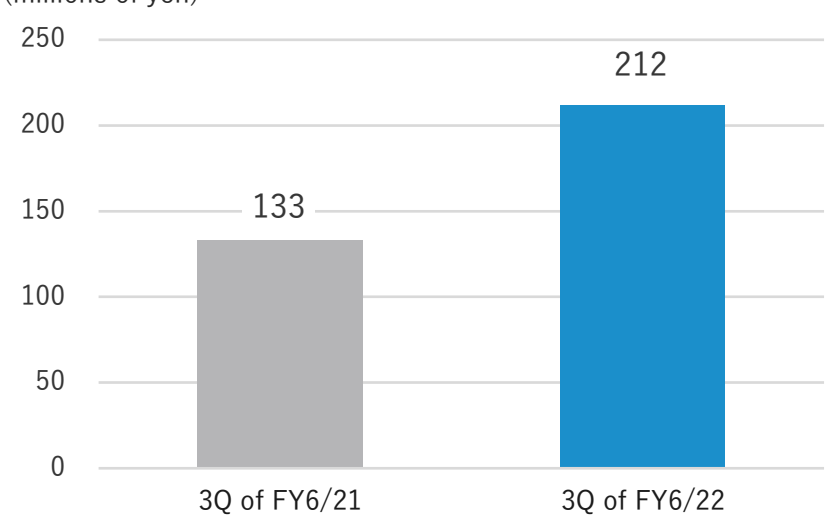
Regarding results for 3rd quarter (January-March), net sales were 616 million yen (+19.7% YoY) and operating income was 212 million yen (+58.9% YoY).

Net sales



3Q of FY6/21	3Q of FY6/22	Year on year
515 million yen	616 million yen	119.7% (+101 million yen)

Operating income



3Q of FY6/21	3Q of FY6/22	Year on year
133 million yen	212 million yen	158.9% (+78 million yen)

*Because the Company transitioned to consolidated settlement of accounts beginning with the three months ended December 31, 2021, non-consolidated accounts are presented for the three months ended March 31, 2021, and consolidated accounts for the three months ended March 31, 2022.

*Following the change in segments, sales previously associated with the CLOMO Business that were reported as “Other Business” are now included in CLOMO Business. (The same applies to results for previous fiscal years)

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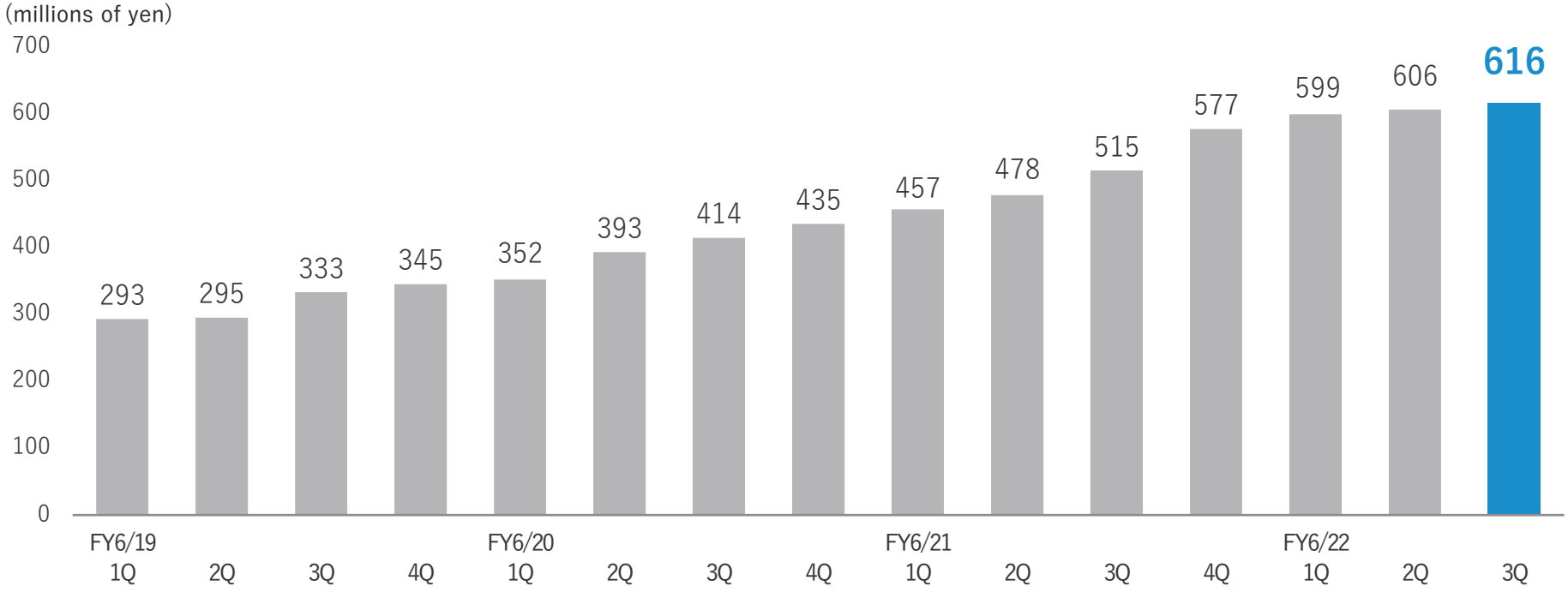
Quarterly trend in CLOMO Business net sales

Net sales in the mainstay CLOMO Business continue to grow steadily each quarter (CAGR 22.8%)

CLOMO Business net sales (quarterly total)



*Because the Company transitioned to consolidated settlement of accounts beginning with the three months ended December 31, 2021, figures for the three months ended September 30, 2021, are for the non-consolidated accounts, and figures for the three months ended December 31, 2021, and onward are for the consolidated accounts.

*Following the change in segments, sales previously associated with the CLOMO Business that were reported as “Other Business” are now included in CLOMO Business. (The same applies to results for previous fiscal years)

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Income statement for 3rd quarter of FY6/22

In the CLOMO Business, net sales were 616 million yen (up 19.7% YoY), operating income was 212 million yen (up 58.9% YoY), and the operating margin was 34.4% (up 8.5 points YoY)

(millions of yen)	3Q of FY6/21 (Composition rate)	3Q of FY6/22 (Composition rate)	Rate of change
Net sales	**515** (100.0%)	**616** (100.0%)	**+19.7%**
CLOMO Business	**515** (100.0%)	**616** (100.0%)	**+19.7%**
Investment Business	— (–%)	— (–%)	**–%**
Cost of sales	**122** (23.8%)	**96** (15.6%)	**-21.4%**
Depreciation expenses	**36** (7.0%)	**18** (3.0%)	**-48.7%**
Manufacturing costs	**70** (13.7%)	**59** (9.6%)	**-15.7%**
Others	**15** (3.1%)	**18** (3.0%)	**+15.2%**
Gross profit	**392** (76.2%)	**520** (84.4%)	**+32.5%**
Selling, general and administrative expenses	**258** (50.3%)	**307** (49.9%)	**+18.8%**
Labor expenses, etc.	**172** (33.5%)	**204** (33.2%)	**+18.6%**
Others	**86** (16.7%)	**102** (16.7%)	**+19.3%**
Operating income	**133** (25.9%)	**212** (34.4%)	**+58.9%**
Ordinary profit	**133** (25.9%)	**213** (34.6%)	**+59.5%**
Corporate income taxes	**40** (8.0%)	**66** (10.8%)	**+62.5%**
Profit	**92** (18.0%)	**146** (23.8%)	**+58.2%**

*Because the Company transitioned to consolidated settlement of accounts beginning with the three months ended December 31, 2021, non-consolidated accounts are presented for the three months ended March 31, 2021, and consolidated accounts for the three months ended March 31, 2022.

*Following the change in segments, sales previously associated with the CLOMO Business that were reported as “Other Business” are now included in CLOMO Business. (The same applies to results for previous fiscal years)

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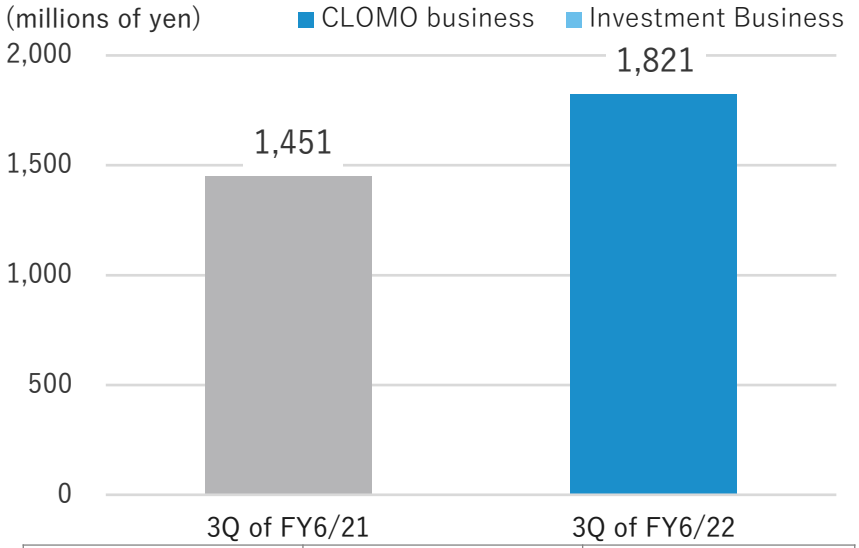
Cumulative net sales/operating income for 3rd quarter of FY6/22

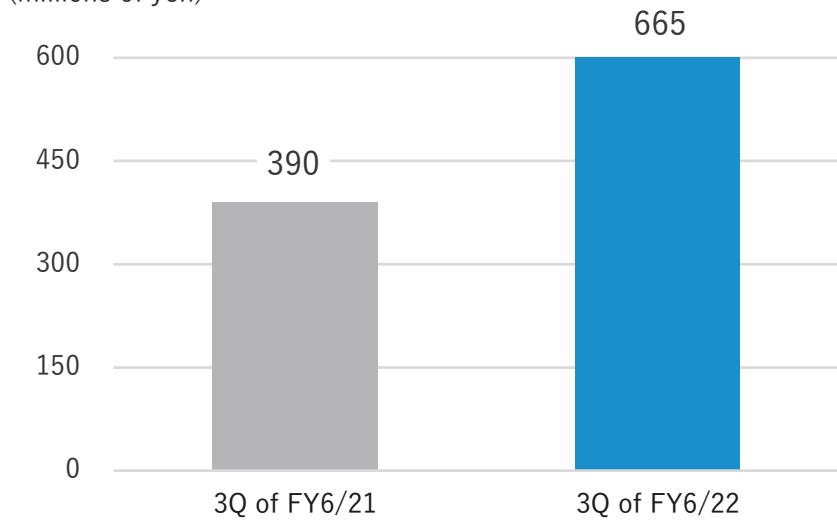
Cumulative net sales for 3rd quarter (July-March) were 1,821 million yen (up 25.5% YoY) and operating income was 665 million yen (up 70.3% YoY)

Net sales



3Q of FY6/21	3Q of FY6/22	Year on year
1,451 million yen	1,821 million yen	125.5% (+370 million yen)

Operating income



3Q of FY6/21	3Q of FY6/22	Year on year
390 million yen	665 million yen	170.3% (+274 million yen)

*Because the Company transitioned to consolidated settlement of accounts beginning with the three months ended December 31, 2021, non-consolidated accounts are presented for the nine months ended March 31, 2021, and consolidated accounts for the nine months ended March 31, 2022.

*Following the change in segments, sales previously associated with the CLOMO Business that were reported as “Other Business” are now included in CLOMO Business. (The same applies to results for previous fiscal years)

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Cumulative income statement for 3rd quarter of FY6/22

In the CLOMO Business, net sales were 1,821 million yen (up 25.5% YoY), operating income was 665 million yen (up 70.3% YoY), and the operating margin was 36.6% (up 9.7 points YoY)

(millions of yen)	3Q of FY6/21 (Composition rate)	3Q of FY6/22 (Composition rate)	Rate of change
Net sales	**1,451** (100.0%)	**1,821** (100.0%)	**+25.5%**
CLOMO Business	**1,451** (100.0%)	**1,821** (100.0%)	**+25.5%**
Investment Business	— (–%)	— (–%)	–%
Cost of sales	**350** (24.1%)	**265** (14.6%)	**-24.2%**
Depreciation expenses	**115** (7.9%)	**37** (2.1%)	**-67.1%**
Manufacturing costs	**189** (13.0%)	**171** (9.4%)	**-9.1%**
Others	**46** (3.2%)	**55** (3.1%)	**+20.5%**
Gross profit	**1,101** (75.9%)	**1,556** (85.4%)	**+41.4%**
Selling, general and administrative expenses	**710** (48.9%)	**890** (48.9%)	**+25.4%**
Labor expenses, etc.	**479** (33.0%)	**605** (33.2%)	**+26.4%**
Others	**231** (15.9%)	**285** (15.6%)	**+23.4%**
Operating income	**390** (26.9%)	**665** (36.6%)	**+70.3%**
Ordinary profit	**380** (26.2%)	**666** (36.6%)	**+75.1%**
Corporate income taxes	**116** (8.0%)	**206** (11.3%)	**+76.6%**
Profit	**264** (18.2%)	**460** (25.3%)	**+74.4%**

*Because the Company transitioned to consolidated settlement of accounts beginning with the three months ended December 31, 2021, non-consolidated accounts are presented for the nine months ended March 31, 2021, and consolidated accounts for the nine months ended March 31, 2022.
*Following the change in segments, sales previously associated with the CLOMO Business that were reported as “Other Business” are now included in CLOMO Business. (The same applies to results for previous fiscal years)

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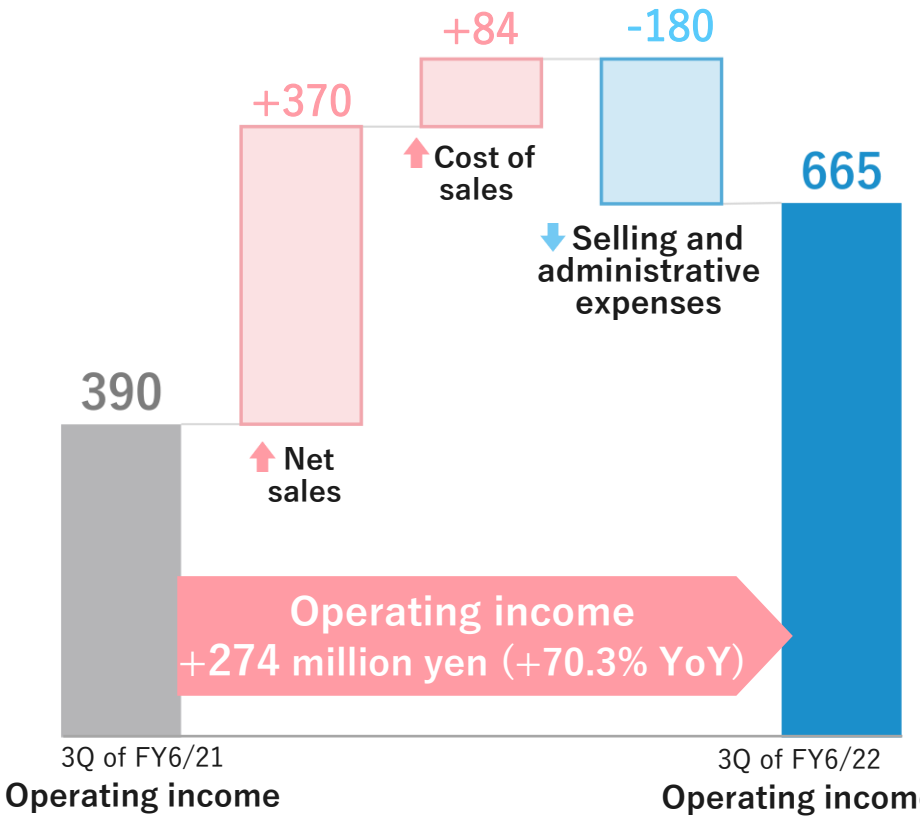
Factors behind changes in operating income

Operating income increased by 274 million yen year on year due to steady increase in net sales and decrease in cost of sales, while promoting investment for business expansion, mainly in personnel reinforcement and system improvement.



Increase in net sales (+370)

- CLOMO business expansion

Decrease in cost of sales (+84)

- Decrease in depreciation expenses due to the ending of the depreciation period (12 months) for a major software product released in 4Q of FY6/20

Increase in selling and administrative expenses (-180)

- Investment in human resources centered on Sales/ Customer Success divisions
- System related investment to improve internal infrastructure to expand the business scale

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Balance sheet for 3rd quarter of FY6/22

Equity ratio was 74.7% (up 15.3 points from the end of the previous period)
Balance of cash and deposits exceeded 2,000 million yen, enabling us to maintain a stable financial base while moving forward with investments in growth.

(millions of yen)	FY6/21	3Q of FY6/22	Change
Current assets	**2,560**	**2,495**	**-65**
Cash and deposits	**2,306**	**2,063**	**-243**
Receivables	**196**	**222**	**+26**
Fixed assets	**270**	**362**	**+92**
Total assets	**2,830**	**2,857**	**+27**
Current Liabilities	**1,049**	**720**	**-329**
Unearned revenue(1)	**547**	**-**	**-547**
Contact liabilities(2)	**-**	**433**	**+433**
Fixed liabilities	**100**	**-**	**-100**
Total liabilities	**1,149**	**720**	**-429**
Total net assets	**1,681**	**2,137**	**+456**
Total liabilities and net assets	**2,830**	**2,857**	**+27**

*As the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. have been applied from the beginning of the 1st quarter accounting period, “unearned revenue,” which was presented as “current liabilities” in the balance sheet for the previous fiscal year, and “long-term unearned revenue,” which was presented as “fixed liabilities,” have been reclassified and shown as “contract liabilities” in “current liabilities” from this 1st quarter accounting period.
* Because the Company transitioned to consolidated settlement of accounts in the nine months ended March 31, 2022, non-consolidated accounts are presented for the end of the fiscal year ended June 30, 2021, and consolidated accounts are presented for the end of the nine months ended March 31, 2022.

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3. Reference Materials

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Company Profile

Company Name	i³ Systems, Inc.
Locations	Headquarters : 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 : Hilton Plaza West Office Tower, Umeda 2-2-2, Kita-ku, Osaka-shi, Osaka Hiroshima Office: Hiroshima High Building 21, Ginzancho 3-1, naka-ku, Hiroshima-shi, Hiroshima
Capital	401,682,000 yen (As of March 31, 2022)
Founded in	September 2001
Representative	President and CEO Tsutomu Sasaki
Main Business	Development and sale of cloud-based mobile device management services for corporations Development and sale of applications for businesses
Partner	Apple Consultants Network Google Android Enterprise Recommended Microsoft Partner Network Gold Competency

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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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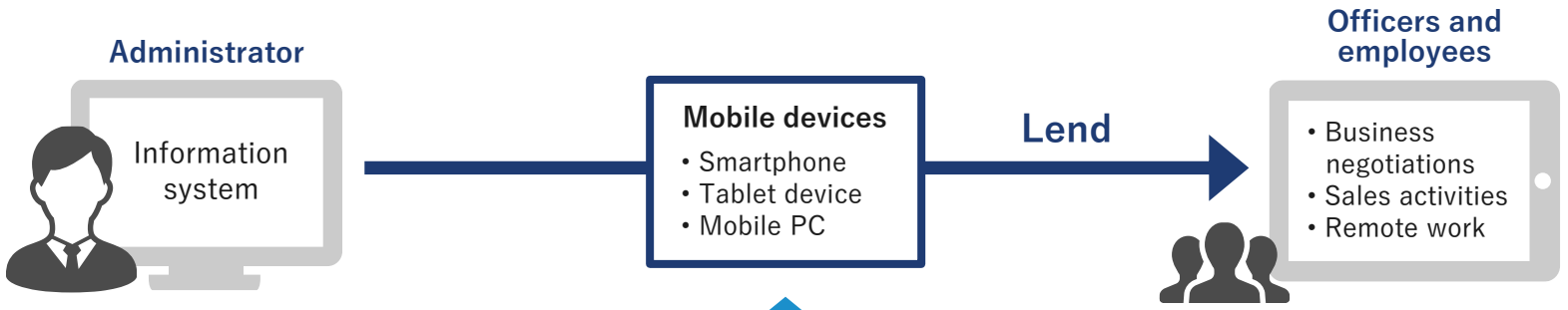
Overview of the CLOMO Business

Two product lines to support management and utilization of mobile devices.



		Visualization of utilization status “Status monitoring”	Function restrictions And settings “Application of utilization rules”	Security measures “Measures for preventing information leakage”
Manage-ment	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		

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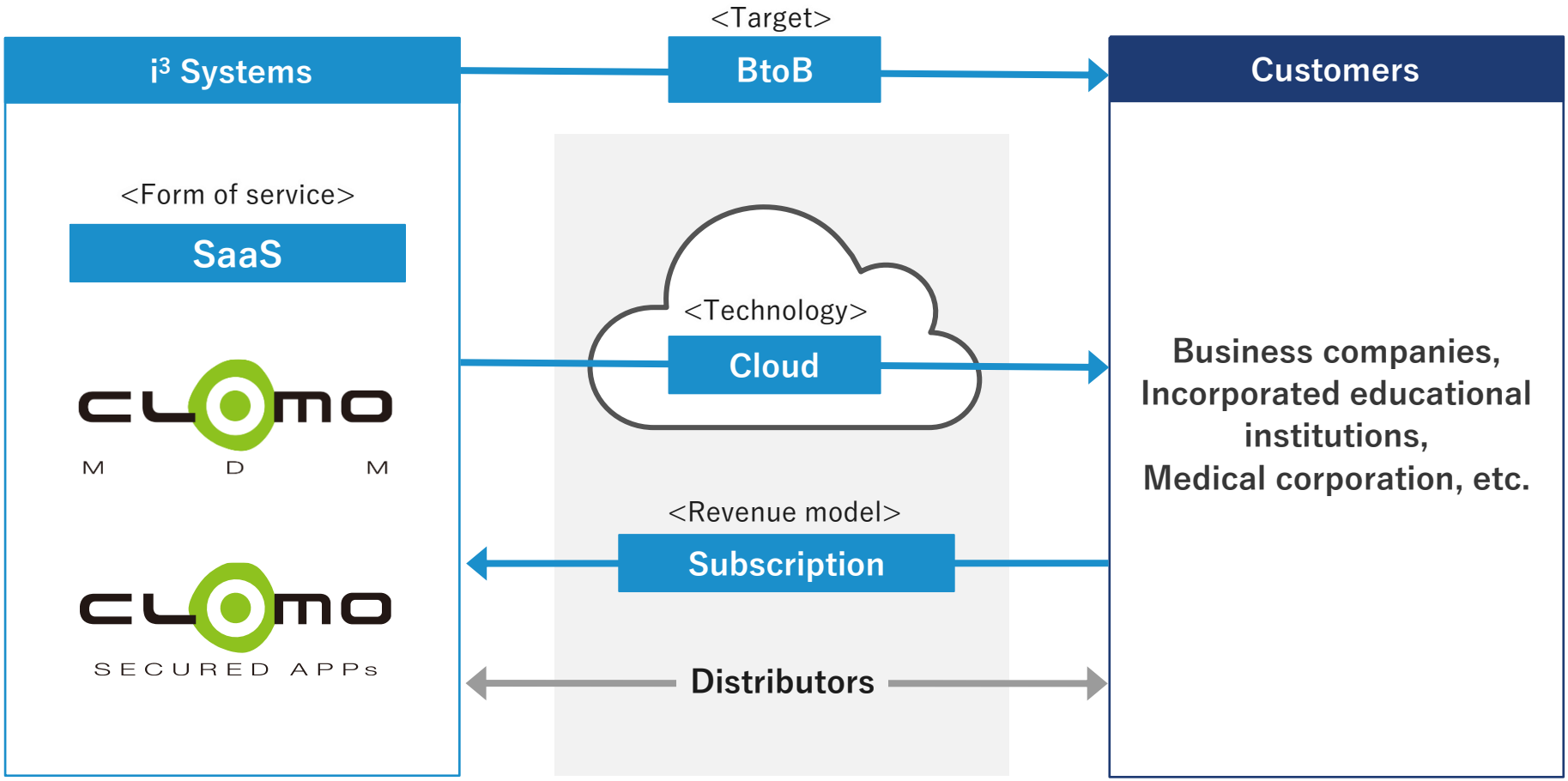
Characteristics as a business platform

Use cloud to provide BtoB SaaS in the form of a subscription
Sell services to customers (users) mainly through distributors



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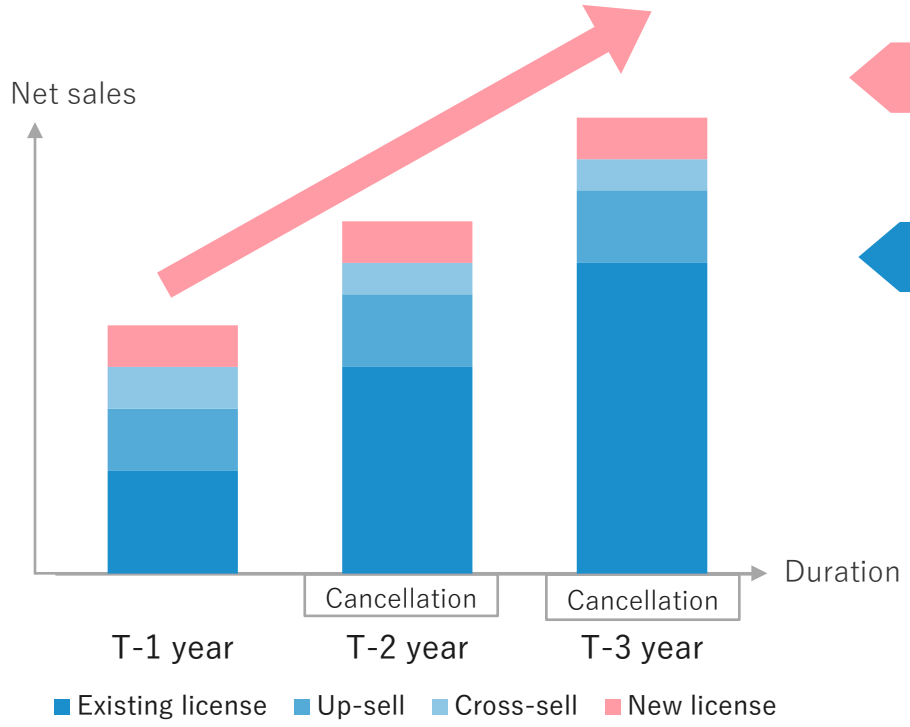
Stable revenue base with subscription model

Stock business through accumulation of new orders
Profits stably acquired through prospect of continuous sales

Subscription model



New customer acquisition — **Distributors**

Collaborate with distributors to increase the number of new customers

Customer success — **Our company**

Promote up-sell and cross-sell through direct approach

Holding user meetings	Holding seminars
- Once to twice a year, with the participation of more than 100 users - Google, Microsoft, and other large enterprises give lectures as users	- Twice to three times a month, with the participation of administrators and system personnel - In depth discussions of technologies and services

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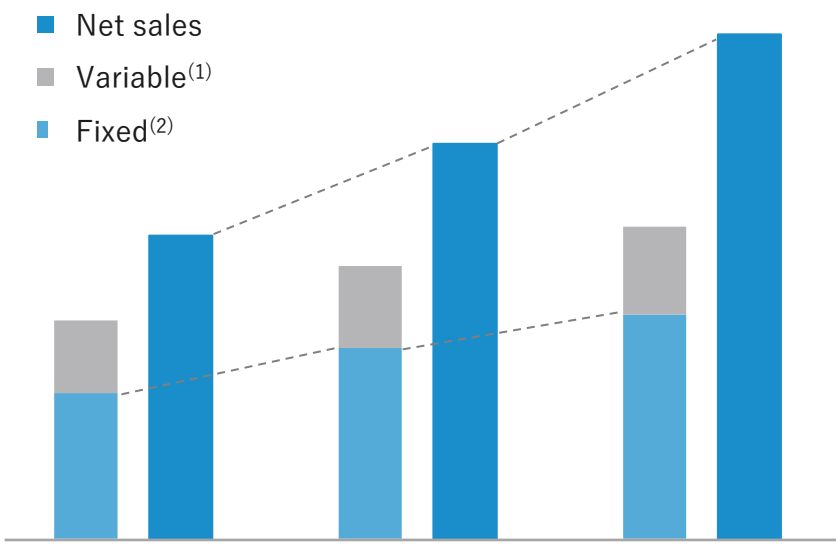
Cost structure that generates economies of scale

In a cloud-based SaaS business, the rise in costs is controlled when the size of the business increases/net sales rise
Going forward, we will work to establish a highly profitable structure through further growth and economies of scale

Breakdown of costs versus net sales



Concept drawing of changes over medium to long term

Characteristics of the cost structure

Variable costs

- Utilizing new technology to control increases in operating costs, such as a rise in the number of servers, caused by the expansion of the business (number of deployed customers/licenses)
- Due to its nature of B-to-B business, huge expenses on mass media advertising are not required

Fixed costs

- Software development expenses do not scale linearly with the business
- By putting distributors at the center of marketing activities, we utilize external resources to acquire customers (we control the increase in sales personnel/expenses)
- The increase in back-office staff is controlled relative to the expansion of the business
- By putting distributors at the center of marketing activities, we can focus on opening locations in core areas

Note:
1. Calculated as “other expenses (cost of sales) + advertising expenses (SG&A expenses) + R&D expenses (SG&A expenses) + other expenses (SG&A expenses)”
2. Calculated as “depreciation expenses (cost of sales) of in-house product software + manufacturing cost (cost of sales) related to product development and operations + personnel cost (SG&A expenses) + property cost (SG&A expenses)”

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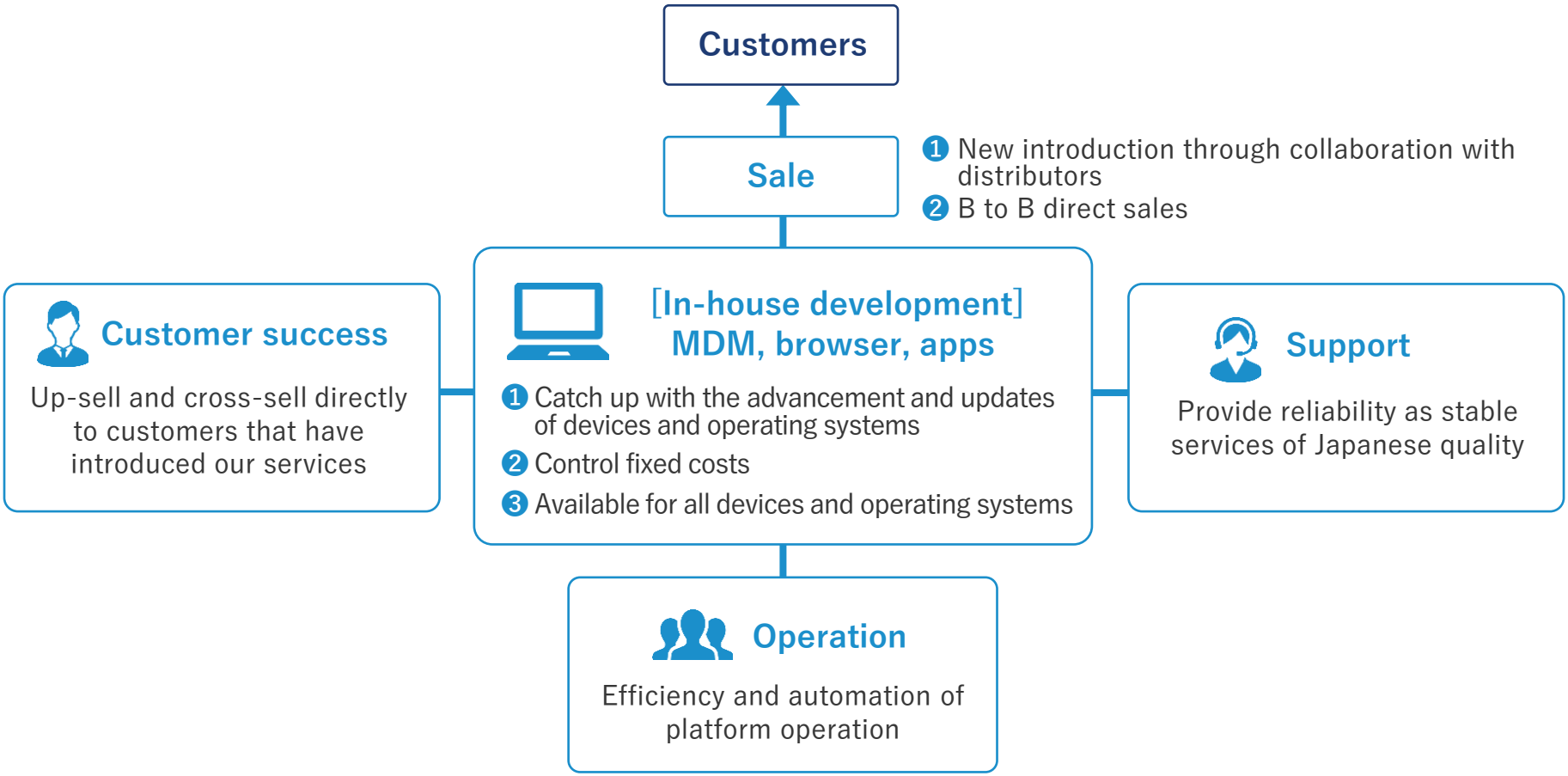
Source of competitiveness

In-house development of MDM, browser and apps is a decisive differentiator
In contrast to our competitors, we have direct contact with more than 3,600 customers



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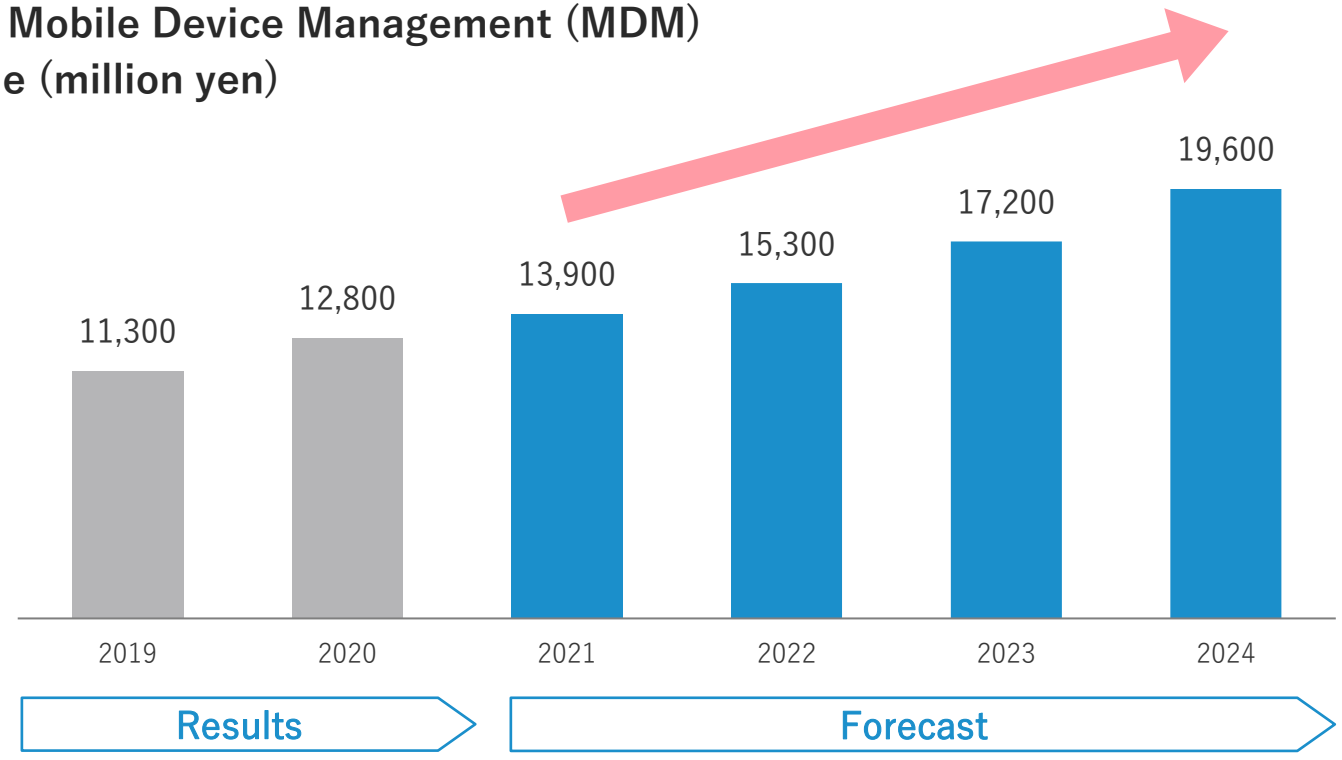
Business Environment

Mobile Device Management (MDM) market is expected to grow to the scale of 19.6 billion yen through 2024.
Aim to expand share in the fields of mobile PCs and terminals for business where needs for device management are expected to increase.

Forecast of Mobile Device Management (MDM) market scale (million yen)



Source) Deloitte Tohmatsu MIC Research Institute Co., Ltd. “Market Outlook of Collaboration/Contents & Mobile Management Packaged Software” 2020 edition

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Medium- to Long-term Goals

In a business environment where the mobile device management market has seen continuous growth, we endeavor to achieve growth in net sales and high profitability in the CLOMO business by FY6/24

Net sales

To gain dominant share in the MDM market in Japan

To achieve continuous growth of over 125% every year

Operating margin

Establishing a highly profitable system in the CLOMO business

To aim to achieve 40%

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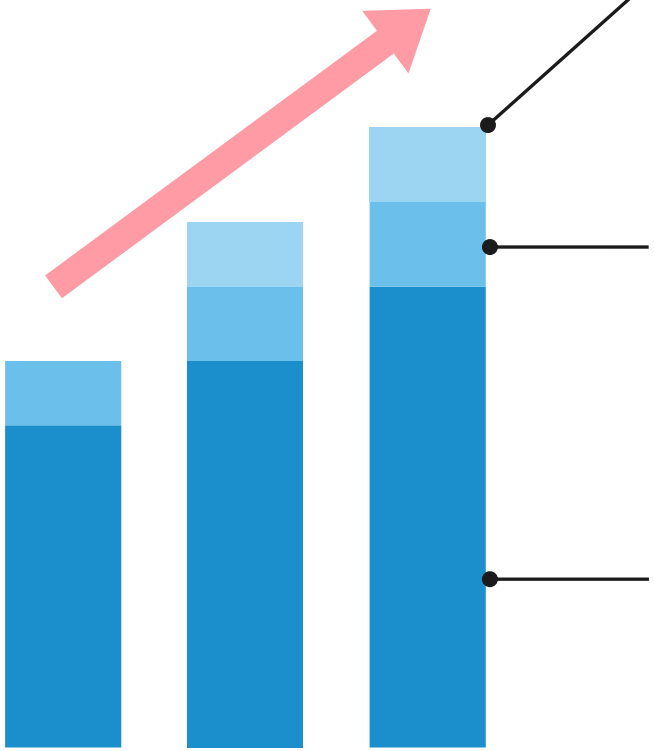
Medium- to Long-term Growth Prospect

Continuous growth of the CLOMO service taking advantage of the subscription-based revenue model and creation of new revenue sources



※This graph is for illustrative purposes only

Creation of new revenue sources

- Development of new business, new products and new services
- M&A focusing on synergy with the CLOMO service
- Establishment of CVC to promote open innovation with other enterprises

Acquisition of corporations newly introducing our services

- Demand caused by the transition from feature phone/PHS to smartphones is expected to continue until around 2026
- Expansion of introduction targets to new management terminals such as mobile PCs and terminals for business
- Expansion of sales area through online sales activities in tandem with increasing sales offices

Construction of stable revenue base

- Promote product utilization and customer retention by providing customer success activities and achieve a high retention rate
- Measures to improve ARPU through up-selling and cross-selling
- Reduction of platform operation costs per device through economies of scale resulting a highly profitable system

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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.

■ The Company does not necessarily revise any statements on future outlooks which have already been made, regardless of future events, except as required by the Disclosure Rules.

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

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