Consolidated Financial Results for the Three Months Ended September 30, 2022 [Japanese GAAP]

November 9, 2022

Company name: i Cubed 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: November 9, 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 Three Months Ended September 30, 2022 (July 1, 2022 - September 30, 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	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2022	657	－	165	－	165	－	112	－
September 30, 2021	－	－	－	－	－	－	－	－

(Note) Comprehensive income:
Three Months ended September 30, 2022: ¥112 million (－ %)
Three Months ended September 30, 2021: － million (－ %)

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
September 30, 2022	21.30	21.03
September 30, 2021	－	－

(Note) The Company did not begin preparing quarterly consolidated financial statements until the second quarter of the fiscal year ended June 30, 2022, and therefore the figures for the three months ended September 30, 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 September 30, 2022	3,159	2,232	70.5
As of June 30, 2022	3,202	2,223	69.3

(Reference) Shareholders' equity: As of September 30, 2022: ¥2,228 million
As of June 30, 2022: ¥2,220 million

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, 2022	–	0.00	—	20.00	20.00
Fiscal year ending June 30, 2023	–				
Fiscal year ending June 30, 2023 (Forecast)		0.00	—	20.00	20.00

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

3. Consolidated Financial Results Forecast for the Fiscal Year Ending June 30, 2023 (July 1, 2022 – June 30, 2023)

(% 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	2,734	11.4	657	(20.5)	658	(19.5)	452	(16.2)	85.76

(Note) Revision to the financial results forecast announced most recently: None

*** 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: None
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):

September 30, 2022:	5,276,850 shares
June 30, 2022:	5,274,850 shares

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

September 30, 2022:	168 shares
June 30, 2022:	121 shares

3) Average number of shares outstanding during the period:

Three months ended September 30, 2022:	5,276,702 shares
Three months ended September 30, 2021:	5,238,937 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 5 of the attached material.

* This document has been translated from the Japanese original for reference purposes only, In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

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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 ended June 30, 2022, and therefore analytical comparisons with the same period of the previous fiscal year have not been performed.

(1) Explanation of Operating Results

During the three months ended September 30, 2022, the economic environment was characterized by moves to balance social economic activity with measures to prevent the spread of COVID-19. On the other hand, the prolongation of concerns about the increasingly serious situation in Ukraine, soaring prices for crude oil and other resources, and trends in the monetary policies of various countries and other issues, has led to a continuation of uncertainty regarding the future.

In this market environment, the i Cubed Group, which has designated the period since it was listed in July 2020 as the third phase of its founding, implemented a renewal of the corporate brand in June 2022. We have redefined our purpose as "Become the matrix for realizing unknown ideas that lead to smiles," and our value proposition as "Using the power of design and engineering to support those who take on challenges," while adopting "Enjoy challenges" as our brand slogan. By fostering a culture that thrives on challenge, we aim to become a company that uses IT as the basis for actively taking on new challenges.

In the three months ended September 30, 2022, we 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.

In addition, the Company was recently recognized for the third consecutive year by the Great Place to Work® Institute Japan, which performs awareness surveys of employees in accordance with global standards, and which scored i Cubed Systems highly in the 2023 edition of the Best Workplaces rankings. The Company promotes flexible work styles, which includes a company-wide remote working system and flextime that does not specify core hours. The Company seeks to build a diverse organization through recruitment that does not emphasize gender, nationality, or place of residence. By providing growth support such as training for human resources development and other initiatives, we work to foster a culture that actively takes on new challenges.

The i Cubed Group has developed its operations around the CLOMO Business, but it is actively engaged in initiatives to enter new areas of the market and generate additional sources of revenue through new products, new services, M&A, and CVC (corporate venture capital). To achieve these initiatives, we launched the Investment Business in the previous fiscal year, and have taken up the challenge of accelerating corporate growth by making maximum use of management resources.

As a result of such initiatives, consolidated net sales in the three months ended September 30, 2022 were ¥657,885 thousand, operating profit was ¥165,963 thousand, ordinary profit came to ¥165,280 thousand, and profit attributable to owners of parent was ¥112,416 thousand.

Operating performance by segment was as follows.

(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 ("CLOMO Services"). 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 three months ended September 30, 2022, we established new sales offices in Hokkaido and Aichi prefecture, and we continue to work on expanding our sales area while conducting marketing using both remote sales via web conferencing systems in parallel with face-to-face sales. Furthermore, we began providing CLOMO MDM on an OEM basis to NTT Docomo, Inc., our main sales partner for CLOMO Services, for its newly launched "Anshin Manager NEXT" (Note 2). By expanding our sales area and accelerating cooperation with our sales partners, we are taking proactive steps to expand sales of CLOMO Services.

In addition, we launched the CLOMO Kitting Service, whereby the work of initial setup and other tasks when

deploying mobile devices is outsourced to the Company. The Company provides other services such as Support Ticket, which provides assistance with initial setup of CLOMO MDM, and CLOMO Operation Service, which performs operations on behalf of customers. Through services such as these that provide a wide range of support from deployment to operation of mobile devices, we not only help to reduce the operational workload of MDM operations managers of the customer companies but also improve customer retention rates and ARPU.

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 medical institutions where efforts to improve operational efficiency and digitalization initiatives are progressing, as well as management of IT assets for remote working, and management of dedicated terminals used to promote digital transformation (DX) in the 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 are also taking an active approach to advertising activities aimed at raising brand awareness, as represented by the launch of "Narumo" owned media on the theme of utilizing mobile devices.

In customer success activities, in addition to conducting meetings on a regular basis to deepen relationships with customers, we offer "CLOMO Step-up Seminars" held several times a month, at which users can study everything from basic usage of CLOMO MDM to more effective ways of utilizing the system. A total of more than 570 MDM operations managers participated in these during the three months ended September 30, 2022. In this way, we maintain regular contact with a large number of customers, promoting the use of CLOMO Services in order to preserve high retention rates.

As for development, we continued to focus our efforts on improving functions to address customer needs, including enhancing Windows functions required for CLOMO Services to gain market share in PC asset management, and cooperating with endpoint security products from other companies. We continue to utilize new technologies such as Azure Kubernetes Service (AKS) (Note 3) and Xamarin (Note 4), and to work on raising productivity. Furthermore, in order to concentrate our internal development resources on high value-added development operations, we are also moving forward with the cultivation of relationships with outsourcing companies, and going forward we will work on enhancing product value and reducing costs through product development and improved service efficiency.

As a result of these efforts, the number of corporations introducing our services reached 4,053, an increase of 138 (up 3.5%) compared to the end of the previous fiscal year.

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 products for cross-selling, and developing new functions through open innovation.

Regarding the impact of the spread of COVID-19 on our business, the direct impact on consolidated operating results and on management indicators targeted by the Group (the increase in the number of corporations deploying CLOMO Services, and the license retention rate) was minimal during the three months ended September 30, 2022. Conversely, in an extension of the situation of the previous fiscal year, difficulties in procuring mobile devices during the three months ended September 30, 2022, caused by the shortage of semiconductors, continued to result in some customers postponing the commencement of contracts for the use of services.

As a result, net sales were ¥657,885 thousand and operating profit was ¥170,232 thousand. The breakdown of net sales by service is as follows:

CLOMO MDM: ¥595,555 thousand
SECURED APPs: ¥40,820 thousand
Others: ¥21,510 thousand

(ii) Investment Business

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

Investments will mainly target mobile, SaaS, security, and other areas closely related to the Company's business domain, as well as companies involved in resolving societal issues and companies active in Kyushu, where the i Cubed Group has its headquarters.

In addition to CVC, we are taking a proactive approach to developing new businesses through M&A in order to enter new areas of the market and generate additional sources of revenue.

This resulted in an operating loss of ¥4,269 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. A mobile device management service provided by NTT Docomo, Inc. It consists mainly of lock/initialization functions that are effective when a device loaned to employees or students has been lost or stolen, security functions that include controlling the use of the camera or restricting the apps that can be used, and distribution of apps and other functions to enhance the efficiency of device management.
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 September 30, 2022 is as follows:

(Assets)

Total assets amounted to ¥3,159,320 thousand, a decrease of ¥43,435 thousand compared to the end of the previous fiscal year. This was mainly due to a decrease in cash and deposits of ¥170,921 thousand, partially offset by increases in accounts receivable-trade of ¥20,208 thousand, other current assets of ¥31,900 thousand, software of ¥20,639 thousand, and software in progress of ¥42,002 thousand.

(Liabilities)

Liabilities amounted to ¥926,728 thousand, a decrease of ¥52,098 thousand compared to the end of the previous fiscal year. This was mainly due to decreases in income taxes payable of ¥127,099 thousand and other current liabilities of ¥32,897 thousand, partially offset by an increase in contract liabilities of ¥117,420 thousand.

(Net assets)

Net assets amounted to ¥2,232,592 thousand, an increase of ¥8,663 thousand compared to the end of the previous fiscal year. This was mainly due to an increase in retained earnings of ¥112,416 thousand resulting from the recording of profit attributable to owners of parent, and a decrease in retained earnings of ¥105,494 thousand resulting from distribution of surplus. Accordingly, the equity ratio stood at 70.5% (69.3% as of the end of the previous fiscal year).

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

The financial results forecast for the fiscal year ending June 30, 2023 remains unchanged from the financial forecast announced on August 9, 2022.

2. Quarterly Consolidated Financial Statements and Principal Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	As of June 30, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	2,337,409	2,166,487
Accounts receivable - trade	234,349	254,557
Operational investment securities	149,992	149,992
Other	58,597	90,498
Total current assets	2,780,348	2,661,536
Non-current assets		
Property, plant and equipment	31,901	33,511
Intangible assets		
Software	51,537	72,177
Software in progress	169,222	211,225
Other	6,083	8,690
Total intangible assets	226,843	292,092
Investments and other assets	163,662	172,179
Total non-current assets	422,406	497,783
Total assets	3,202,755	3,159,320
Liabilities		
Current liabilities		
Accounts payable - trade	59,190	64,002
Income taxes payable	185,677	58,578
Contract liabilities	496,925	614,346
Provision for bonuses	49,866	35,532
Other	187,166	154,268
Total current liabilities	978,826	926,728
Total liabilities	978,826	926,728
Net assets		
Shareholders' equity		
Share capital	404,412	405,044
Capital surplus	304,412	305,044
Retained earnings	1,511,877	1,518,799
Treasury shares	(661)	(774)
Total shareholders' equity	2,220,039	2,228,114
Share acquisition rights	1,950	2,605
Non-controlling interests	1,938	1,872
Total net assets	2,223,929	2,232,592
Total liabilities and net assets	3,202,755	3,159,320

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

Three Months Ended September 30

(Thousands of yen)

	For the three months ended September 30, 2022
Net sales	657,885
Cost of sales	123,614
Gross profit	534,271
Selling, general and administrative expenses	368,308
Operating profit	165,963
Non-operating income	
Interest income	15
Other	92
Total non-operating income	108
Non-operating expenses	
Other	790
Total non-operating expenses	790
Ordinary profit	165,280
Profit before income tax	165,280
Income taxes	52,930
Profit	112,349
Profit (loss) attributable to non-controlling interests	(66)
Net income attributable to owners of parent	112,416

Quarterly Consolidated Statement of Comprehensive Income

Three Months Ended September 30

(Thousands of yen)

	For the three months ended September 30, 2022
Net income	112,349
Comprehensive income	112,349
Total comprehensive income attributable to:	
Owners of the parent	112,416
Non-controlling interests	(66)

(3) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

Not applicable.

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

Not applicable.

(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 first quarter of the fiscal year ending June 30, 2023, and multiplying the profit before income taxes by this estimated effective tax rate.

(Segment information, etc.)

[Segment Information]

Three months ended September 30, 2022 (July 1, 2022 to September 30, 2022)

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	657,885	—	657,885	657,885
Inter-segment net sales or transfers	—	—	—	—
Total	657,885	—	657,885	657,885
Segment profit (loss)	170,232	(4,269)	165,963	165,963

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

(Significant subsequent events)

(Issuance of new shares as restricted stock compensation)

The Board of Directors meeting, held on October 25, 2022, passed a resolution to issue new shares as restricted stock compensation, with November 24, 2022 as the payment date. The outline is as follows:

1. Overview of issuance

Payment date	November 24, 2022
Class and number of shares to be issued	3,200 shares of the common stock of the Company
Issue price	¥1,666 per share
Total value of issuance	¥5,331,200
Amount to be incorporated into the stated capital	¥833 per share
Total amount to be incorporated into the stated capital	¥2,665,600
Method of offering or allotment	Allotment of specified restricted stock
Method of contribution	In-kind contribution of monetary compensation receivables
Persons who will receive the allotment of shares, number of such persons, and number of such shares	2 Directors of the Company (excluding Outside Directors and Directors who are Audit & Supervisory Committee Members) 1,200 shares 3 Executive Officers of the Company who do not serve concurrently as Directors 2,000 shares
Transfer restriction period	November 24, 2022 through November 23, 2052

2. Purposes of and reasons for issuance

At the 21st Annual General Meeting of Shareholders held on September 28, 2022, the Company obtained approval, amongst other matters, for delivering monetary compensation receivables of no more than ¥100 million per year, with said monetary compensation receivables to be used as contributions in kind for the granting of restricted stock amounting to no more than 10,000 shares per year, and for setting the transfer restriction period for such restricted stock to a period to be determined by the Board of Directors of the Company of between 3 and 30 years, based on a new restricted stock compensation plan (“the Plan”) introduced for the purposes of providing mid- and long-term incentives for Directors of the Company (excluding Outside Directors and Directors who are Audit & Supervisory Board Members) and to share shareholder value.

In addition, the Company has introduced a similar plan for the Executive Officers of the Company.

Accordingly, this issuance of shares is being implemented for eligible Directors and Executive Officers as part of these plans.