Consolidated Financial Results for the Six Months Ended December 31, 2022 [Japanese GAAP]

February 9, 2023

Company name: i Cubed Systems, Inc.
Stock exchange listing: Tokyo Stock Exchange
Code number: 4495
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Scheduled date of filing quarterly securities report: February 9, 2023
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, 2022 (July 1, 2022 - December 31, 2022)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2022	1,314	9.1	312	(31.1)	311	(31.3)	211	(32.5)
December 31, 2021	1,205	－	453	－	453	－	314	－

(Note) Comprehensive income:
Six months ended December 31, 2022: ¥211 million [(32.6%)]
Six months ended December 31, 2021: ¥314 million [－ %]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2022	40.15	39.65
December 31, 2021	59.88	58.72

(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 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, 2022	3,246	2,338	71.9
As of June 30, 2022	3,202	2,223	69.3

(Reference) Shareholders' equity: As of December 31, 2022: ¥2,333 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	–	0.00			
Fiscal year ending June 30, 2023 (Forecast)			–	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):

December 31, 2022:	5,281,350 shares
June 30, 2022:	5,274,850 shares

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

December 31, 2022:	168 shares
June 30, 2022:	121 shares

3) Average number of shares outstanding during the period:

Six months ended December 31, 2022:	5,277,737 shares
Six months ended December 31, 2021:	5,244,767 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

(1) Explanation of Operating Results

During the six months ended December 31, 2022, the economic environment was characterized by the relaxation on restrictions on foreign tourists entering Japan, and the resumption of economic activity. 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 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.

In the six months ended December 31, 2022, the number of companies deploying our services increased steadily despite the impact of the external environment in the form of continuing delays in the procurement of smartphones and other factors, resulting in growth in net sales. With the objective of strengthening our product development capabilities, we took proactive steps to invest in development in partnership with outsourcing companies with which we have recently cultivated relationships, leading to increases in releases of software products and resulting in a year-on-year rise in the cost of sales, which includes depreciation. Selling, general and administrative expenses were affected by investments aimed at augmenting personnel following the increase in the number of sales offices and those aimed at strengthening our information security structure, and we also made investments in human capital by raising base salaries for employees following a review of salary structure and evaluation systems.

As a result of such initiatives, consolidated net sales in the six months ended December 31, 2022 were ¥1,314,745 thousand (up 9.1% year on year), operating profit was ¥312,559 thousand (down 31.1% year on year), ordinary profit came to ¥311,512 thousand (down 31.3% year on year), and profit attributable to owners of parent was ¥211,893 thousand (down 32.5% year on year).

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 2022, it was announced that we had achieved the No.1 share of the MDM market (own brand) for the 12th consecutive year since FY 2011 (Note 1).

In the six months ended December 31, 2022, we established new sales offices in Hokkaido, Miyagi and Aichi prefectures. We completed our planned rollout of new sales offices in the current fiscal year, and strengthened our support structure for customers nationwide. 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 terms of functionality, we are promoting CLOMO Services in conjunction with endpoint security solutions

to protect mobile devices from a variety of threats, such as cyber attacks, thus enabling customers to use their mobile devices safely and securely. Accordingly, in October 2022 we began offering "CLOMO MDM Endpoint Security secured by Deep Instinct," which combines CLOMO MDM with the "Deep Instinct" platform (Note 3) developed and provided by Deep Instinct.

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 engaged in educational activities aimed at raising brand awareness and increasing the rate of MDM deployment by providing an ongoing series of informational articles about utilizing mobile devices via the "Narumo" owned media that we launched in September 2022.

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 1,200 MDM operations managers participated in these during the six months ended December 31, 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 4) and Xamarin (Note 5), and to work on raising productivity. As we have made progress in strengthening our development capabilities by cultivating relationships with outsourcing companies to outsource some product development, we are also investing resources in researching new technology and in development activities aimed at future enhancements to product value.

As a result of these initiatives, the number of corporations deploying our services rose to 4,201, an increase of 286 (up 7.3%) from the end of the previous fiscal year.

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 six months ended December 31, 2022. Conversely, in an extension of the situation of the previous fiscal year, difficulties in procuring smartphones for corporations during the six months ended December 31, 2022 resulted in some customers postponing the commencement of contracts for the use of services.

As a result, net sales were ¥1,314,745 thousand (up 9.1% year on year) and operating profit was ¥320,280 thousand (down 29.5% year on year).

The breakdown of net sales by service is as follows:

CLOMO MDM:	¥1,196,896 thousand
SECURED APPs:	¥80,984 thousand
Others:	¥36,865 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, which began investment activities as a CVC (corporate venture capital) fund in January 2022. In October and December 2022, we made investments in two additional companies (Note 6), bringing the total to four companies.

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.

We are also 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 ¥7,721 thousand (operating loss of ¥674 thousand in the same period of the previous fiscal year).

(Notes)

1. Source: Deloitte Tohmatsu MIC Research Institute Co., Ltd. "Market Outlook of Collaboration/Contents & Mobile Management Packaged Software" 2011-2020 editions, "MIC IT Report Dec 2022 issue" Actual shipment value in FY 2021 and predicted shipment value in FY 2022.
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. An endpoint security solution developed in-house by Deep Instinct that uses the world's first deep learning model built specifically for cyber security (source: research by Deep Instinct, December 2020), and which predicts malware, zero-day attacks, and other unknown threats that could occur in future to prevent infiltration of mobile devices, PCs, and other equipment before it occurs.
4. A Microsoft containerization technology. The Company is working to improve reliability while reducing operational workload and costs by making the CLOMO system container-based.
5. 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.
6. The accounts of i Cubed-1 Investment Limited Partnership are settled on a different date to that on which the consolidated accounts are settled, and the consolidated accounts for the six months ended December 31, 2022, therefore incorporate the financial statements of the Partnership for the quarterly period ended September 30, 2022. For that reason, these investments are not reflected in the consolidated financial statements for the three months ended December 31, 2022.

(2) Explanation of Financial Position

(i) Assets, liabilities and net assets

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

(Assets)

Total assets amounted to ¥3,246,553 thousand, an increase of ¥43,797 thousand compared to the end of the previous fiscal year. This was mainly due to increases in accounts receivable - trade of ¥9,563 thousand, other current assets of ¥43,207 thousand, software of ¥59,749 thousand, software in progress of ¥45,535 thousand, and investments and other assets of ¥83,197 thousand, partially offset by a decrease in cash and deposits of ¥202,564 thousand.

(Liabilities)

Liabilities amounted to ¥907,916 thousand, a decrease of ¥70,910 thousand compared to the end of the previous fiscal year. This was mainly due to decreases in income taxes payable of ¥74,627 thousand and other current liabilities of ¥63,714 thousand, partially offset by increases in contract liabilities of ¥35,405 thousand and provision for bonuses of ¥29,074 thousand.

(Net assets)

Net assets amounted to ¥2,338,637 thousand, an increase of ¥114,708 thousand compared to the end of the previous fiscal year. This was mainly due to an increase in retained earnings of ¥211,893 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 71.9% (69.3% as of the end of the previous fiscal year).

(ii) Cash flows

Cash and cash equivalents ("cash") at the end of the six months ended December 31, 2022 came to ¥2,134,844 thousand, a decrease of ¥202,564 thousand compared to the end of the previous fiscal year.

Cash flows and their major components for the six months ended December 31, 2022 were as follows.

(Cash flows from operating activities)

Net cash provided in operating activities was ¥166,299 thousand (net cash used in operating activities was ¥55,586 thousand in the same period of the previous fiscal year). The main components of this were profit before income tax of ¥311,512 thousand, depreciation of ¥69,806 thousand, an increase in provision for bonuses of ¥29,074 thousand, an increase in contract liabilities of ¥35,405 thousand, a decrease in other operating activities of ¥87,156 thousand, and income taxes paid of ¥185,677 thousand.

(Cash flows from investing activities)

Net cash used in investing activities was ¥265,280 thousand (net cash used in investing activities was ¥1,084,290 thousand in the same period of the previous fiscal year). The main components of this were purchase of intangible assets of ¥180,976 thousand, and other outflows in investing activities of ¥81,171 thousand.

(Cash flows from financing activities)

Net cash used in financing activities was ¥103,584 thousand (net cash used in financing activities was ¥45,902 thousand in the same period of the previous fiscal year). The main component of this was dividends paid of ¥105,377 thousand.

(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 December 31, 2022
Assets		
Current assets		
Cash and deposits	2,337,409	2,134,844
Accounts receivable - trade	234,349	243,912
Operational investment securities	149,992	149,992
Other	58,597	101,805
Total current assets	2,780,348	2,630,555
Non-current assets		
Property, plant and equipment	31,901	34,403
Intangible assets		
Software	51,537	111,287
Software in progress	169,222	214,758
Other	6,083	8,690
Total intangible assets	226,843	334,735
Investments and other assets	163,662	246,859
Total non-current assets	422,406	615,998
Total assets	3,202,755	3,246,553
Liabilities		
Current liabilities		
Accounts payable - trade	59,190	62,141
Income taxes payable	185,677	111,050
Contract liabilities	496,925	532,331
Provision for bonuses	49,866	78,940
Other	187,166	123,451
Total current liabilities	978,826	907,916
Total liabilities	978,826	907,916
Net assets		
Shareholders' equity		
Share capital	404,412	408,030
Capital surplus	304,412	308,030
Retained earnings	1,511,877	1,618,276
Treasury shares	(661)	(774)
Total shareholders' equity	2,220,039	2,333,562
Share acquisition rights	1,950	3,260
Non-controlling interests	1,938	1,814
Total net assets	2,223,929	2,338,637
Total liabilities and net assets	3,202,755	3,246,553

(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	For the six months ended December 31, 2022
Net sales	1,205,418	1,314,745
Cost of sales	169,149	279,692
Gross profit	1,036,268	1,035,052
Selling, general and administrative expenses	582,677	722,493
Operating profit	453,591	312,559
Non-operating income		
Interest income	28	19
Other	270	126
Total non-operating income	299	146
Non-operating expenses		
Other	123	1,192
Total non-operating expenses	123	1,192
Ordinary profit	453,767	311,512
Profit before income tax	453,767	311,512
Income taxes	139,733	99,743
Profit	314,034	211,769
Profit (loss) attributable to non-controlling interests	—	(124)
Net income attributable to owners of parent	314,034	211,893

Quarterly Consolidated Statement of Comprehensive Income

Six Months Ended December 31

(Thousands of yen)

	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Net income	314,034	211,769
Comprehensive income	314,034	211,769
Total comprehensive income attributable to:		
Owners of the parent	314,034	211,893
Non-controlling interests	—	(124)

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	For the six months ended December 31, 2021	For the six months ended December 31, 2022
Cash flows from operating activities		
Profit before income tax	453,767	311,512
Depreciation	22,527	69,806
Increase (decrease) in provision for bonuses	(1,181)	29,074
Interest income	(28)	(19)
Decrease (increase) in trade receivables	(25,451)	(9,563)
Increase (decrease) in trade payables	2,691	2,897
Increase (decrease) in unearned revenue	(547,718)	—
Increase (decrease) in long-term unearned revenue	(100,056)	—
Increase (decrease) in contract liabilities	535,517	35,405
Decrease (increase) in operational investment securities	(149,992)	—
Other	(11,044)	(87,156)
Subtotal	179,028	351,958
Interest and dividends received	28	19
Income taxes paid	(234,644)	(185,677)
Net cash provided by (used in) operating activities	(55,586)	166,299
Cash flows from investing activities		
Purchase of securities	(1,000,000)	—
Purchase of property, plant and equipment	—	(3,133)
Purchase of intangible assets	(82,635)	(180,976)
Other	(1,655)	(81,171)
Net cash provided by (used in) investing activities	(1,084,290)	(265,280)
Cash flows from financing activities		
Proceeds from issuance of shares resulting from exercise of share acquisition rights	6,375	1,905
Dividends paid	(52,277)	(105,377)
Purchase of treasury shares	—	(112)
Net cash provided by (used in) financing activities	(45,902)	(103,584)
Effect of exchange rate change on cash and cash equivalents	—	—
Net increase (decrease) in cash and cash equivalents	(1,185,780)	(202,564)
Cash and cash equivalents at beginning of period	2,306,485	2,337,409
Cash and cash equivalents at end of period	1,120,705	2,134,844

(4) 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 second 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]
Six months ended December 31, 2021 (July 1, 2021 to December 31, 2021)
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.

Six months ended December 31, 2022 (July 1, 2022 to December 31, 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	1,314,745	—	1,314,745	1,314,745
Inter-segment net sales or transfers	—	—	—	—
Total	1,314,745	—	1,314,745	1,314,745
Segment profit (loss)	320,280	(7,721)	312,559	312,559

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

(Significant subsequent events)

Not applicable.