

# i Cubed Systems, Inc.

TSE Growth code:4495

2024/7/2

## Target share price: 4,156 yen to 6,292 yen possible at the end of August 2025

This report will analyze corporate value from the perspective of "GCC Management™," a framework developed by J-Phoenix Research, Inc. ("JPR") that emphasizes the three elements of Growth (sales growth), Connection (improved connections between people and business = higher return on capital), and Confidence (improved trust = lower business risk). This report analyzes corporate value from the perspective of GCC Management™, which emphasizes the three elements of GCC Management™. This report is based on JPR's own projections based on disclosed materials, not on interviews with the company.

### No. 1 MDM market share for 13 consecutive years, innovation will be cubed

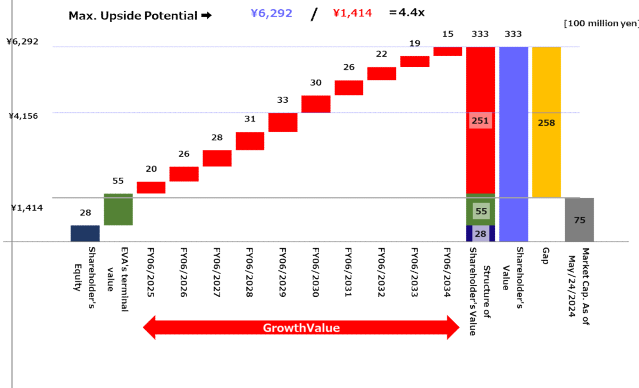
i3 Systems, Inc. ("i3") is a software platform provider that enables the maximum utilization of enterprise cloud and smart devices. i3's mission is to solve the information security and device management issues of corporate smart devices through CLOMO i3's mission is to solve the issues of information security and device management for corporate smart devices through "CLOMO," which provides a comprehensive environment necessary for the introduction and use of corporate smart devices. CLOMO was launched as Japan's first\* MDM service for iOS, and has since grown into a multi-device, carrier-free MDM service that remotely monitors devices, restricts functions, limits Wi-Fi connections to prevent data leaks, and remotely deletes and locks data in an emergency. In case of emergency, data can be deleted and locked remotely. The company's easy-to-use UI, robust security features, and 24/7/365 support by manned operators have earned it the No. 1 market share in the MDM market for 13 consecutive years (source will be noted in the main text). i3 is named after the idea of "Innovation (i) Squared (Cube)," and its services created by using the best technologies will reduce risks associated with DX in all industries, bring about innovation, and enrich people's lives. We will continue to use the best technology to create services that reduce the risks associated with DX in all industries, bring about innovation, and lead people's lives in a more affluent direction. \*Based on a survey conducted by i3 as of November 18, 2010.

### The key point is the outlook for achieving sales of 5 billion yen in the fiscal year ending June 2026, which is scheduled to be disclosed in August 2025

The key to i3's share price is the certainty that the company will achieve its sales target of 5 billion yen for the fiscal year ending June 30, 2026, and Q3 FY6/2024 shows that the company is on track to achieve this target. The company has been strengthening ties with NTT DOCOMO, INC. ("NTT DOCOMO"), its main sales partner, and the start of OEM provision of the MDM service "Anshin Manager NEXT" via NTT DOCOMO is accelerating the expansion of its customer base. The number of new customers acquired more than doubled to 1,225 from 546 in Q1 FY03/12. The number of corporate subscribers to NTT DOCOMO is said to be 600,000 according to a Nikkei article, and i3's market share has only penetrated 1% of these companies. The company's CAGR of 29% over FY6/2024 is required to achieve sales of 5 billion yen in FY6/2026, but the number of new customers acquired has doubled year-on-year, so there is a good chance of achieving this goal. If the company's sales target of 5 billion yen for FY6/2026 is achieved in August 2025, the possibility of long-term high growth will increase. Even if growth slows to zero in FY6/2034, the 10-year CAGR would be about 17%. The stock price of OPTIM Corporation (Securities Code: 3694, "OPTIM"), a similar company with strong ties to KDDI Corporation ("KDDI"), is priced with a 10-year CAGR of 15% (see Appendix1). The stock price is realistic enough to factor in a 10-year CAGR of around 17% for i3, which is linked to NTT DOCOMO, which has a stronger customer base than KDDI. In 2021, the company will begin its investment business, investing in seven companies in mobile, SaaS, and other fields that have a high affinity with the CLOMO business. If the company can clearly see the results of these investments leading to sales growth by around August 2025, further growth in shareholder value can be expected.

### Target share price: 4,156 yen to 6,292 yen at the end of August 2025

Under the above scenario, shareholder value was estimated using the "excess profit method" (see Appendix 2) based on the GCC Management™ framework, and if 10 years of growth value is factored in, shareholder value is estimated to be 33.3 billion yen, approximately 4.4 times the market capitalization based on the closing price on May 24, 2024, or 6,292 yen per share. However, this level is to be achieved over the long term, over a 3-5 year period. More realistically, shareholder value through FY6/2029 = shareholders' equity of 28.0 + excess profit value of 5.5 billion yen in FY6/2024 + growth value of 138 from FY6/2025 to FY6/2027, for a total of 22.0 billion yen, or 4,156 yen in terms of share price, is the target share price as of August 2025, when the company's forecast for FY6/2026 is announced. The share price may reach 6,292 yen when 10-year growth is factored in. i3's ROIC, excluding excess cash and cash equivalents, is over 80%, which is a very high value creation capability. This is potentially a positive factor for share price appreciation.



\*:August 17, 2020 WEB Article: <https://www.nikkei.com/article/DGXMZ062717530X10C20A8X13000/>

Performance Trends	Sales (JPY 1 mil.)	YoY %	Operating income (JPY 1 mil.)	YoY %	Ordinary income (JPY 1 mil.)	YoY %	net income (JPY 1 mil.)	YoY %	EPS (JPY)	Stock price	
										High price (JPY)	Low price (JPY)
FY06/2021 Results	2,029	23.6	569	38.2	559	39.3	420	32.1	80.79	9,490	3,980
FY06/2022 Results	2,454	-	826	-	817	-	539	-	102.67	4,950	1,874
FY06/2023 Results	2,665	8.6	618	-25.2	609	-25.4	440	-18.4	83.33	2,534	1,274
FY06/2023 3Q Results	1,986	9.0	489	-26.4	488	-26.8	332	-27.8	62.98	1,515	1,283
FY06/2024 3Q Results	2,173	9.4	530	8.3	513	5.1	340	2.4	64.28	1,661	1,254
FY06/2024 Plan	3,002	12.7	649	5.0	649	6.5	443	0.7	83.75	-	-

※Since consolidated financial statements are prepared from the fiscal year ended June 30, 2022, the percentage change from the previous fiscal year for the fiscal year ended June 30, 2022 is not shown.

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### Basic Report

Edited and written by  
J-Phoenix Research, Inc.  
[www.j-phoenix.com](http://www.j-phoenix.com)  
Osamu Miyashita

### Company Profile

Location of Head Office	Fukuoka City, Fukuoka Prefecture
Representative	Tsutomu Sasaki
Date of Establishment	Sep, 2001
Paid-in Capital	JPY411million
Date of Listing	July15,2020
URL	<a href="https://www.i3-systems.com/">https://www.i3-systems.com/</a>
Industry	Information and communication industry

### Key Indicators As of June18,2024

Stock Price	JPY1,428
52-Week High	JPY1,661
52-Week Low	JPY1,254
Number of Shares Outstanding	5,296,150stocks
Trading Units	100stocks
Market Capitalization	JPY7,562million
Company Projected Dividend	JPY32
Estimated EPS based on net income	JPY83.68
Forecast PER	17.07times
Actual BPS (Mar. 30, 2023)	JPY519.32
Actual PBR	2.75times

# 1. Investment summary

## Shareholder value analysis

Maximum upside in market capitalization estimated at 33.3 billion yen

### Estimation using the excess profit method

#### Maximum upside of 4.4 times depending on the realization of growth scenario

Based on the future potential of i3's business development, JPR estimated shareholder value using the "excess profit method" (see Appendix 2) based on the GCC Management™ framework. The following chart visualizes the framework of the qualitative and quantitative stories and the results of the estimation. Assumptions are explained on the next page and beyond. Maximum Upside in Market Capitalization Estimated at 4.4x depending on the realization of the growth scenario.

### Qualitative story framework and corporate value creation cycle

#### Outline of the qualitative story

**Growth: Capturing the ever-growing demand for MDM, No. 1 market share for 13 consecutive years**

**Connection: High profit margins achieved through stock-based earnings and an integrated system**

**Confidence: Contribute to improving the safety and convenience of social infrastructure through MDM**

Expanding customer base with NTT DOCOMO partners



From about 6,000 customers to 600,000 NTT DOCOMO customers



Increase ARPU by expanding optional services



Targeting a wide range of business areas, including IT, to develop new businesses

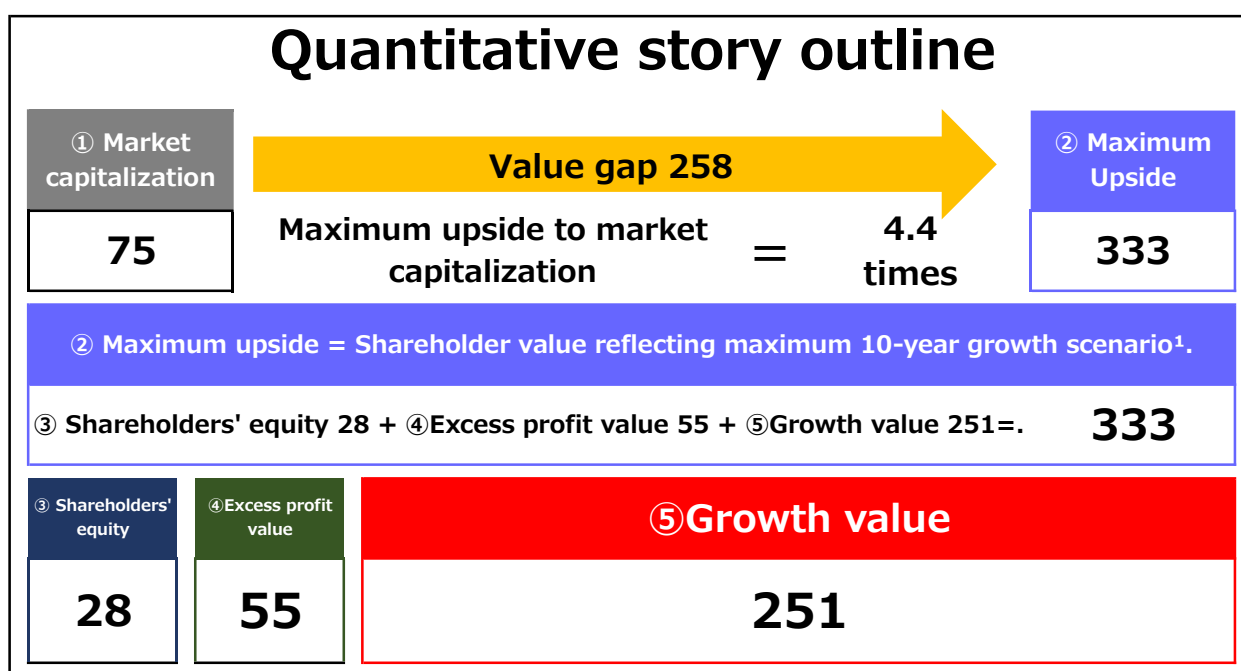


Investment in peripheral businesses will produce positive results.



Expansion to new management terminals & growth of peripheral businesses = 17% CAGR in 10 years

## Shareholder Value Analysis (100 million yen)



Source: Compiled by JPR. Market capitalization is based on closing price on February 8, 2024.

1: Fractions do not match due to rounding.

Source: JPR.

### Shareholder Value Structure and Value Gap Analysis Based on the Excess Profit Method (Details)

[¥100mn]	Current Year	1 year later	2 years later	3 years later	4 years later	5 years later	6 years later	7 years later	8 years later	9 years later	10 years later
	2024.06	2025.06	2026.06	2027.06	2028.06	2029.06	2030.06	2031.06	2032.06	2033.06	2034.06
Sales	30	39	50	63	77	92	107	121	133	144	153
Operating income	6	9	12	16	21	27	32	37	41	46	49
Operating margin	21.6%	23.2%	24.9%	26.3%	27.6%	28.8%	29.8%	30.6%	31.2%	31.7%	32.1%
Sales growth rate	12.6%	29.1%	29.1%	25.0%	23.0%	20.0%	16.0%	12.8%	10.2%	8.2%	6.6%
NOPAT margin	14.9%	16.0%	17.2%	18.2%	19.1%	19.9%	20.6%	21.1%	21.5%	21.8%	22.1%
Invested capital turnover ratio	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%
WACC	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
ROIC = NOPAT margin ÷ invested capital net sales ratio	85.5%	91.8%	98.6%	104.1%	109.4%	114.1%	117.8%	120.9%	123.3%	125.2%	126.8%
ROIC / WACC (value created with the original hand of 1 ye	¥11.4	¥12.3	¥13.2	¥13.9	¥14.6	¥15.3	¥15.8	¥16.2	¥16.5	¥16.7	¥17.0
NOPAT	4.48	6.21	8.60	11.35	14.67	18.36	22.00	25.45	28.60	31.43	33.94
Invested capital × WACC	0.39	0.51	0.65	0.82	1.00	1.20	1.40	1.57	1.73	1.88	2.00
EVA	4.09	5.70	7.9470	10.54	13.66	17.15	20.60	23.88	26.87	29.56	31.94
EVA = NOPAT - invested capital × WACC	4.09	5.70	7.95	10.54	13.66	17.15	20.60	23.88	26.87	29.56	31.94
Value created in each year	55	22	30	35	42	47	46	44	40	36	32
Discount Rate	100%	93%	87%	81%	75%	70%	65%	60%	56%	52%	49%
<b>Present value of EVA</b>	55	20	26	28	31	33	30	26	22	19	15
Invested capital ① Origin	5										
Over profit value (Permanent value of EVA of this term)	55										
<b>Growth value (Present value of increase in EVA) ③</b>	251										
Non-business asset value ④	21										
<b>Corporate value = ① + ② + ③ + ④</b>	331.40										
Interest-bearing debt, etc.	-0										
Incremental stockholders' equity book value at the end of the immediately preceding quarter and at the end of the fiscal year	2										
<b>Shareholder value</b>	333										

Source: JPR

A more detailed assumed financial model is provided in the "5. Financial model" chapter.

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**Assumptions for qualitative and quantitative information for shareholder value estimation\*1 (Unitless figures are 100 million yen)**

**Growth: Capturing the ever-growing demand for MDM, No. 1 market share for 13 consecutive years**

Values and worldview	Value and growth potential	Net sales				
<b>Enjoy the challenge.</b>	<b>No. 1 share in the MDM market</b>	<b>CAGR 17.7% expected</b>				
i3's brand slogan is "Enjoy the challenge." as its brand slogan, i3 aims to embody new ideas in the field of mobile device management (MDM) to improve its customers' businesses and lives. This slogan focuses on providing value to support challenges by leveraging the power of design and engineering, and is realized mainly through the CLOMO business, which provides management and security maintenance for smartphones and tablet devices.	The CLOMO business provides MDM services that address mobile management issues, especially security issues, associated with the digitalization of enterprises. It supports data protection and security enhancement with functions such as device monitoring, usage restrictions, and emergency countermeasures. With its user-friendly UI, strong security, and around-the-clock support, the company has maintained the No. 1 market share in the MDM market for 13 consecutive years (source noted later).	<table border="1"> <tr> <td>FY2024.06</td> <td>FY2034.06</td> </tr> <tr> <td><b>30</b></td> <td><b>153</b></td> </tr> </table>	FY2024.06	FY2034.06	<b>30</b>	<b>153</b>
FY2024.06	FY2034.06					
<b>30</b>	<b>153</b>					
		Enjoy high growth				
		<b>Growth value</b>				
		<b>251</b>				

**Connection: High profit margins achieved through stock-based earnings and an integrated system**

Strategy	Business model	ROIC				
<b>In-house development to quickly respond to OS updates</b>	<b>Partnerships with OS developers and NTT DOCOMO</b>	<b>Expected to improve by 41.3 points</b>				
The CLOMO business employs a subscription model and enjoys stable sales and economies of scale. i3 provides the convenience of MDM services with fine-tuned integration with iOS, Android, and other operating systems. i3's core business is in-house development that quickly responds to OS updates.	In the MDM business, partnerships with OS developers are extremely important, and CLOMO has built trust and a proven track record by working with major OSes such as iOS, Android, and Windows. CLOMO uses a subscription model, which allows for stable sales, while at the same time enhancing customer satisfaction by developing and operating all of its services in-house.	<table border="1"> <tr> <td>FY2024.06</td> <td>FY2034.06</td> </tr> <tr> <td><b>85.5 %</b></td> <td><b>126.8 %</b></td> </tr> </table>	FY2024.06	FY2034.06	<b>85.5 %</b>	<b>126.8 %</b>
FY2024.06	FY2034.06					
<b>85.5 %</b>	<b>126.8 %</b>					
		To a very high level				
		<b>Excess profit value</b>				
		<b>55</b>				

**Confidence: Contribute to improving the safety and convenience of social infrastructure through MDM**

Financial sustainability	Contributing to the sustainability of society	WACC		
<b>Strong financial base</b>	<b>CLOMO MDM's contribution to society and reliability</b>	<b>Status quo</b>		
i3's cash and deposits at the end of the previous fiscal year exceeded 2 billion yen, and the equity ratio was 75.5%. Financial stability is extremely high. In addition, the CLOMO business is a subscription business, and most of its sales are stock-based revenues. Sales are easily predictable, allowing the company to invest effectively in business expansion.	i3's CLOMO MDM service contributes to the improvement of security of terminal usage for corporations, and also reduces the workload for companies that are facing a shortage of human resources, such as "one-person affairs" systems. In the medical field, CLOMO MDM enhances the safety of patient information by ensuring security and improving the efficiency of device management. In the education field, the introduction of CLOMO MDM has promoted the digitalization of the learning environment and contributed to the improvement of education quality by providing equal learning opportunities to all students.	<table border="1"> <tr> <td><b>7.5</b></td> <td><b>%</b></td> </tr> </table>	<b>7.5</b>	<b>%</b>
<b>7.5</b>	<b>%</b>			
		Status quo		
		<b>Shareholders' equity</b>		
		<b>28</b>		

\*1Compiled by JPR based on company disclosures and its own estimates of post-company plan estimates. JPR did not interview the company.

## 2. Overview

### Company profile

Company Name	i Cubed System, Inc. In Japanese : 株式会社アイキューブドシステムズ
Establishment	Sep, 2001
Representative	Tsutomu Sasaki
Head Office	Fukuoka Head Office: 1st Meisei Bldg. 4F, 4-1-37 Tenjin, Chuo-ku, Fukuoka City,
Capital	410.2 million yen (as of March 31, 2024)
Number of Employees	123 (as of June 30, 2023)
Fiscal Year End	Jun.
Business	Information, telecommunications business
Date of Listing	Jul. 15, 2020
Stock Exchange Listing	Tokyo Stock Exchange Growth

Source: Compiled by JPR based on company data.

### History

Year	Mon	Contents
2001	Jan.	Established by private establishment.
	Sep.	Limited liability company established in Fukuoka Prefecture.
2004	Feb.	Reorganized as a joint-stock company due to business expansion.
2007	May	Started providing CMS service "Nyokki".
	Jun.	Launched SEO service "SEOnote".
2008	Apr.	Launched "iSHAREOne", a business communication activation service .
	Jul.	Became a Google Enterprise Professional for Search partner .
	Sep.	Started providing WBS management service "9Arrows" and open source version.
	Oct.	Became a Google Enterprise Professional for Apps partner.
2009	Nov.	Started providing Google Apps utilization support service "EasyPIM for Jpmobile".
	Jan.	Launched "EasyPack for Google Apps", a Google Apps function extension service
2010	Feb.	Began collaboration with Oracle Corporation Japan for Oracle CRM On Demand integration service.
	Mar.	Began providing iOS-compatible version of "Yubizo Engine", a mobile app development support service.
	Jul.	Opened Tokyo Office in Minato-ku, Tokyo.
	Oct.	Launched HTML5 content creation and distribution service "Coopa! (beta version) ". Received Google Enterprise Japan Partner Award 2010 Solution Award.
	Nov.	Launched Japan's first mobile device management service "CLOMO MDM" for iOS. Launched SaaS-type CRM iPad application jointly with Oracle Corporation Japan.
2011	Mar.	Begins collaboration with Symantec Website Security G.K. in the mobile device market.
	May	Began providing an Android-compatible version of the "CLOMO MDM" mobile device management service.
	Jul.	Launched the iOS-compatible version of the "CLOMO SECURED APPS" mobile app series.
	Sep.	Became an AWS Solution Provider: Certified as an ISV.

Source: Compiled by JPR based on company data.

## History

Year	Mon	Contents
2011	Oct.	Recognized as an Apple Consultants Network Member.
		Won the AWS Partner Award in the Enterprise category for the first half of 2012.
2012	Oct.	Began cooperation with Digital Arts Inc. in the mobile device market.
2013	Jan.	Launched the mobile app series "CLOMO SECUREED APPS" for Android.
		Began cooperation with McAfee, LLC in the mobile device market.
	Jan.	Launched the Kindle Fire-compatible version of the mobile device management service "CLOMO MDM", the first of its kind in Japan.
2014	Jan.	Launched Windows-compatible version of mobile device management service "CLOMO MDM".
2015	Mar.	Received patent for "Sensor Data Management Mechanism" to enhance mobile and IoT security.
	Mar.	Begins collaboration with Microsoft Japan K.K. in the mobile device/IoT market.
	Oct.	Mobile receives patent for "Function Restriction Linked to Location Information" to enhance IoT security.
2016	Aug.	CLOMO MDM" MDM service certified as a Google EMM product.
2017	May	Launched "CLOMO MDM" "Work Smart".
2019	Jan.	"CLOMO MDM" MDM service receives "Android Enterprise Recommended" certification.
	Apr.	Head office relocated to Chuo-ku, Fukuoka City, Fukuoka Prefecture.
2020	Mar.	Osaka office is newly established in Kita-ku, Osaka City, Osaka Prefecture, to expand business sales channels.
	Jul.	Listed on the Tokyo Stock Exchange Mothers market.
2021	Nov.	Established i Cubed Ventures Inc. (currently a consolidated subsidiary) in Chuo-ku, Fukuoka City, Fukuoka Prefecture.
2022	Jan.	Established i Cubed No. 1 Investment Limited Liability Partnership (currently a consolidated subsidiary) in Chuo-ku, Fukuoka City, Fukuoka Prefecture.
	Apr.	Established Hiroshima Office in Naka-ku, Hiroshima City, Hiroshima Prefecture to expand business sales channels.
	Apr.	Moved from the Mothers market to the Growth market of the Tokyo Stock Exchange due to a review of the market classification of the Tokyo Stock Exchange.
	Jul.	Established Nagoya Office in Nakamura-ku, Nagoya City, Aichi Prefecture to expand business sales channels.
	Jul.	Newly established Sapporo office in Kita-ku, Sapporo, Hokkaido to expand business sales channels.
	Nov.	Newly established Sendai Office in Aoba-ku, Sendai City, Miyagi Prefecture to expand business sales channels.

Source: Compiled by JPR based on company data.

## Major consolidated subsidiaries and group companies

Business line	Company name	Business Outline	Capital	Shareholding Ratio
VC, Business company	icube Ventures, Inc.	Investment business in companies such as Mobile and SaaS	10 million yen	100%
Offshore development, lab-based development	10KN COMPANY LIMITED	System development business for Japanese companies based in Hanoi, Vietnam	2,774 thousand yen	100%

Source: Compiled by JPR based on company data.

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### 3. Growth Story and Assessment through the GCC Management™ Framework

#### Growth

**Capturing the ever-growing demand for MDM, No. 1 market share for 13 consecutive years**

**Supporting customers to utilize the latest technology for their business**

**Currently, CLOMO business providing MDM is the mainstay of the company's business**

i3 is a software platform provider that develops and owns technologies to maximize the use of enterprise cloud and smart devices. The company's core business is the CLOMO business, which provides mobile device management ("MDM"), a SaaS (Software as a Service) software service for the centralized management and operation of mobile devices such as smartphones and tablets, which are increasingly used in the corporate, education, and medical fields. The company's mainstay business is the CLOMO Business.

**Purpose: Providing values that "support challenges with the power of design and engineering" based on the concept of "being the mother of ideas that lead to smiles and the realization of ideas that have not yet been seen.**

i3 defines its corporate purpose as "to be the mother of ideas that bring smiles to people's faces and help them realize ideas they have not yet seen," and its value as "supporting challenges with the power of design and engineering. The company is actively pursuing various IT-based challenges by fostering a challenging culture under the brand slogan, "Enjoy the challenge. i3 is working to become a frontrunner in realizing a next-generation IT environment that integrates cloud computing, smart devices, and applications. i3 will continue to support our clients to utilize the latest technologies such as cloud, mobile, social, and IoT for their business.

**Issues that MDM can solve**

The use of mobile terminals in diverse industries is rapidly advancing in line with the DX and paperless office environment in the wake of the COVID-19 pandemic. The main purpose of MDM is security, and it is possible to set policies such as password length, how to unlock the lock screen, and which apps can be installed, all in one place on employees' mobile devices. The main purpose of MDM is security, and it is possible to set policies such as password length, how to unlock the lock screen, and which apps can be installed on an employee's mobile device at once. Since MDM is designed to manage mobile devices, it can also be used to manage devices outside of the office, enabling centralized management to prevent information leakage and misuse if an employee's mobile device is lost or stolen.

**Supporting Challenges in Various Industries through MDM**



**More than 6,000 companies have introduced the system.**

**Collaboration with NTT DOCOMO accelerates growth in the number of corporate clients**

## **No. 1 market share in a growing market\*.**

With CLOMO installed on a terminal, users can remotely observe the terminal, limit its functions, prevent data leakage by limiting Wi-Fi connections, and remotely delete and lock data in an emergency. The system has been highly evaluated for its easy-to-use UI, robust security features, and attentive support by manned operators 24 hours a day, 365 days a year, and has held the No. 1 market share in the MDM market for 13 consecutive years. With more than 6,000 companies using the service, the company has built a solid customer base centered on large-scale companies in a wide range of industries. In recent years, the company has also been introduced to small and medium-sized companies, promoting corporate growth.

\*Source: Deloitte Tohmatsu MIC Research Institute Co., Ltd. "Collaboration/Content Mobile Management Package Software Market Outlook (<https://mic-r.co.jp/mr/00755/>)," FY2011-2013 shipment value, "MDM Own Brand Market (MIC IT Report December: (<https://mic-r.co.jp/micit/2023/>)" FY2014-2022 shipment value and FY20123 shipment value forecast.

## **Steady growth in key KPIs**

In FY6/2023, the number of net increase in the number of installed clients was 1,014, which is the highest ever. In addition to sales as an own-brand product, the company is also working to develop OEM products, and has made progress in acquiring new customers. The retention rate\*2 remained high at 97.4%, and the company was able to promote customer retention through customer success activities. ARR\*3 (annual recurring revenue), a key indicator for the subscription business, reached 2,624 million yen in the fiscal year ending June 30, 2023, growing 1.5 times over the past four years. On the other hand, ARPU (average revenue per user\*4), which represents the unit price per corporation, has been on a downward trend. This is because, although the introduction of MDM has been progressing among relatively large companies in the past, the need for MDM is now being recognized among small and medium-sized companies as a result of heightened awareness of information security, etc., and the introduction of MDM is progressing. As the customer base has expanded and the number of small- and medium-sized corporate customers has increased, the number of contracted licenses per company has declined moderately, leading to a decline in ARPU, but this is a positive trend for long-term growth as it indicates the expansion of the customer base.

1 : Mobile device management service provided by NTT DOCOMO, INC. 1 : Mobile device management service provided by NTT DOCOMO, INC. mainly includes a "lock/initialize" function for devices loaned to employees and students in case of loss or theft, security functions such as "camera control" and "limitation of available applications," and device management work efficiency functions such as "application distribution. \*2 : The persistence rate is calculated by subtracting the number of churns 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. It is also called "annual ordinary income" or "annual recurring revenue. 4 : ARPU is an abbreviation for AverageRevenuePerUser, and is the average monthly unit price per person per month for the number of people introduced to the company.



**Registered with the Security Assessment System for Government Information Systems (ISMAP) to meet high security standards**

**Average annual growth of 30% expected with the increase in the adoption rate of smartphones in offices**

### **Registration for the security evaluation system for government information systems**

In February 2024, the CLOMO service was registered with the “Security Evaluation System for Government Information Systems (ISMAP)\*” and recognized as a service that meets the high security standards required by the government. This will lead to improved reliability of the CLOMO service for government and administrative agencies as well as other customers, and is expected to contribute to the acquisition of new customers.

\*The purpose of this system is to ensure the security level in government cloud service procurement by evaluating and registering cloud services that meet the security requirements of the government in advance, and to facilitate smooth introduction of cloud services.

### **The Ever-Expanding MDM Market and i3's Growth Projections**

The MDM market is estimated to be worth 17.8 billion yen as of 2023, and is projected to expand to 25 billion yen by 2026, representing an annual growth rate of approximately 10%. The main reasons for this market acceleration are: in addition to an increase in management needs due to the promotion of remote work after the COVID-19 pandemic, the switchover to corporate smartphones will accelerate due to the cessation of 3G signal use, the introduction of mobile terminals in the medical, manufacturing, and transportation industries due to DX, and a significant increase in the number of terminals to be managed from the previous in-house PCs. The introduction of mobile terminals in the medical and manufacturing/transportation industries is expected to lead to a significant increase in the number of devices to be managed, from the previous in-house PCs.

The MDM market is also characterized by the difficulty for new entrants. This is because the level of difficulty in developing services is increasing year by year, which further strengthens i3's competitive advantage.

### **Aiming for sales of 5 billion yen in the fiscal year ending June 2026**

i3's growth target is 5 billion yen in sales for the fiscal year ending June 30, 2026. If achieved, the three-year average annual growth rate will be 29%. Until now, tablets have been the main target for MDM, but smartphones are currently driving market growth. 3G outages will make it impossible to use cell phones, and the NTT DOCOMO Group has scheduled this to occur in March 2026. Therefore, demand for switching to smartphones is expected to increase, which will provide a tailwind for sales expansion.

## Connection

**Sales, development, operation, and support are all performed by in-house divisions to achieve high profit margins**

**Collaboration with world-class companies greatly enhances the scope of utilization**

**Providing cyber solutions to over 100,000 organizations worldwide**

### **High profit margins achieved through stock-based earnings and an integrated system**

#### **Various factors leading to high profit margins**

The CLOMO business is based on a subscription model, which makes it easy to forecast future sales and enjoys the economies of scale of lower fixed costs associated with business expansion. i3's sales, development, operation, and support are all handled by its own divisions, and each function is reinforced and complemented by the other, resulting in high profit margins. Since the MDM service is linked to operating systems such as iOS and Android, it is important to quickly respond to OS version upgrades each year, so i3 operates its business with in-house development at its core. Therefore, i3 operates its business with in-house development at its core.

### **Further service expansion through alliances with other companies**

#### **TeamViewer**

In collaboration with TeamViewer Japan, the company began offering TeamViewer, a remote access tool used in more than 2.5 billion devices worldwide, as a cross-selling proposition to meet the needs of customers who wish to improve the efficiency of their operations according to their applications. The company began offering TeamViewer, a remote access tool that is used by more than 2.5 billion devices worldwide. This enables management of unattended devices and response to IT problems that occur remotely, greatly expanding the scope of CLOMO's use.

#### **Harmony Mobile**

In collaboration with Check Point, a global development company with extensive experience in providing cyber solutions to more than 100,000 organizations worldwide, the company has launched "Harmony Mobile," which protects terminals from various perspectives, including OS/devices, networks, applications, and files that may be the target of cyber attacks. Since MDM is only intended to manage mobile devices, it can be used in combination with security solutions to realize safer and more secure use of mobile devices.

## Initiatives to strengthen competitiveness

### Collaboration and M&A to strengthen development capabilities

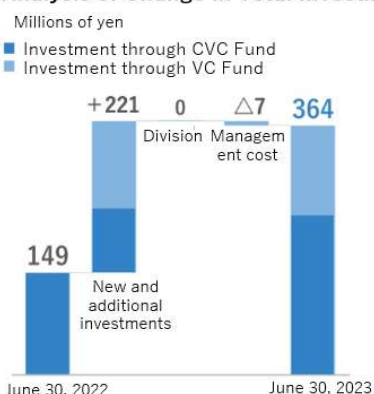
Since MDM is an OS-linked function, partnerships with OS developers are extremely important, and CLOMO supports iOS, Android, and Windows, and is expanding its business by working with any OS vendor. In particular, the company has been awarded Google's Android Enterprise Recommended every year continuously since 2019. This is an important indicator that Android meets high reliability and security standards for business use. Furthermore, in October 2022, in order to cope with the shortage of engineers, the company conducted M&A of 10KN JOINT STOCK COMPANY, a development company in Vietnam. This M&A, the first of its kind for the group, is intended to strengthen the development structure over the medium to long term and to actively utilize overseas human resources.

### Expansion of business scope through investment business

i3 has established a venture capital subsidiary and a CVC fund, and is starting investment operations in 2021. While the focus area of investment is mobile and SaaS, which have high affinity with CLOMO business, i3 invests in a wide range of areas without narrowing down the industry, believing that helping startup companies create new businesses will lead to the expansion and continuous development of i3's business areas.

M&A and venture investments to strengthen competitiveness

#### Analysis of Change in Total Investment



Source:i3 company presentation for individual investors, October 26, 2023.

#### Previous Investments



## Confidence

**Financial stability rated 70%.**

**Social contribution rated 70%.**

**Human capital utilization rated 70%.**

### **Contributing to improving the safety and convenience of social infrastructures through MDM**

#### **i3's solid financial base and growth strategy for CLOMO business**

i3's cash and deposits at the end of the previous fiscal year exceeded 2 billion yen, and its equity ratio was 75.5%. Financial stability is extremely high. In addition, the CLOMO business is a subscription business, and most of its sales are stock-based revenues. Sales are easily predictable, allowing the company to invest effectively in business expansion.

### **Technology paves the way for the future of healthcare and education**

i3's CLOMO business contributes to the improvement of social infrastructure in fields related to basic human rights, such as healthcare and education. In the medical field, CLOMO improves the quality of patient services by enhancing the safety of medical information through ensuring security and streamlining device management. Strict management of patient information serves as a foundation for the provision of highly reliable medical services, and as a result, contributes to the improvement of the level of health of society as a whole. In the field of education, the introduction of CLOMO has accelerated the digitalization of the learning environment and contributed to improving the quality of education by providing students with equal learning opportunities. By centralizing the management of devices, teachers can easily perform educational DX, such as distributing educational content and managing learning progress, and can tailor instruction to each student. Such personalized education enables the development of human resources who can maximize students' abilities and create new value for society.

### **Creating a work environment that emphasizes diversity and flexibility**

With a 6:4 male to female employee ratio and a 10% foreign nationality employee ratio, the company promotes the utilization of its richly diverse human capital. The company has also introduced remote work throughout the company, enabling flexible work styles with no core hours, thereby reducing working hours and improving productivity, with overtime hours averaging 5.1 hours/month. Furthermore, all employees are supported to balance work and family life, with 100% of employees taking childcare leave. In fostering a culture of challenge, the company has created an environment for growth by actively recruiting foreign engineers, both new graduates and mid-career workers, supporting their immigration to Japan, participating in overseas conferences, and providing training to develop core personnel, among other initiatives. As a result of these activities and systems that take into consideration all employees, the company has been certified by the Great Place to Work® Institute Japan in its 2024 "Best Companies to Work For" ranking for four consecutive years, and has established various systems that support diverse work styles.

## 4. 3rd Quarter of fiscal year ending June 30, 2024

### Financial summary

Significant growth in core businesses

Strengthened cooperation with NTT DOCOMO  
24.9% increase in the number of introduced methods due to customer success activities

Expanding customer base to small and medium-sized companies

## Steady growth in CLOMO business

### Companywide results

#### Sales increased 9.4% YoY and operating income 8.3% YoY

Growth in the CLOMO business was steady, and this growth was the main factor behind i3's consolidated sales growth of 9.4% y-o-y to 2,173 million yen, operating income up 8.3% to 530 million yen, ordinary income up 5.1% to 513 million yen, and net income attributable to shareholders of the parent company up 2.4% to 340 million yen, Comprehensive income increased 2.6% to 341 million yen.

#### Initiatives for customer expansion

In the CLOMO business, the promotion of various initiatives and the start of OEM provision of CLOMO MDM to the MDM service "Anshin Manager NEXT" through the company by strengthening cooperation with NTT DOCOMO, a major sales partner, led to an expansion of the customer base. The number of new customers acquired more than doubled to 1,225 from 546 in Q1 FY03/12. As a result, the number of installed legal entities reached 6,154 companies, up 24.9% from the end of the previous fiscal year. ARR, a key KPI for the subscription business, stood at 2,888 million yen at the end of Q3, maintaining growth (+11.2% YoY) on the back of a solid customer base expansion.

As a result of the successful implementation of the strategy to expand the customer base, centered on the deployment of OEM products, the introduction of services is accelerating even among small- and medium-sized companies, and ARPU\* continues to trend downward. However, as already mentioned, this is a desirable long-term trend, as it indicates that service provision is expanding even to smaller companies.

\*Average Revenue Per User (ARPU) is calculated by dividing 1/12 of the ARR as of the end of each month by the number of clients as of the end of the month.

## Segment information

### CLOMO business

As a result of the "Initiatives for customer expansion" described on the previous page, sales were 2,173 million yen (+9.4% YoY), and operating profit was 566 million yen (+13.1% YoY). Sales by service were 1.9 billion yen for CLOMO MDM, 114 million yen for SECURED APPs, and 67 million yen for Others (+5.1% YoY). Operating profit increased 13.1% YoY from 500 million yen to 566 million yen this quarter. Cost of sales also increased YoY due to higher depreciation expenses from enhanced product development and new releases. Despite the hiring of new graduates and M&A-related expenses, overall profitability was maintained through efficient cost management.

Both sales and profits increased

### Investment business

i3 continues to develop investment targets by utilizing a wide range of information sources. i3 invested in one new company in January 2024, bringing the cumulative number of companies invested in through the Group's CVC funds to seven. Operating loss was 35,901 thousand yen (vs. an operating loss of 11,191 thousand yen in the same period of the previous year)\*.

Investments in 7 companies

\*The closing date of the icubed No. 1 Investment Limited Partnership differs from the consolidated closing date, and the financial statements of the partnership for the nine months ended December 31, 2023, were consolidated during the third quarter of the current fiscal year. Therefore, such investments are not reflected in the quarterly consolidated financial statements for the third quarter of the current fiscal year.

## 5. Financial model

Millions of yen	Corporate											
	Plan JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast	JPR Forecast
FY	2024.06	2025.06	2026.06	2027.06	2028.06	2029.06	2030.06	2031.06	2032.06	2033.06	2034.06	
PL												
Sales	3,002	3,874	5,000	6,250	7,688	9,225	10,701	12,071	13,302	14,393	15,343	
Cost of sales	743	947	1,201	1,482	1,798	2,128	2,440	2,727	2,983	3,208	3,402	
Selling, general and administrative expenses	1,610	2,028	2,552	3,122	3,764	4,437	5,073	5,656	6,174	6,629	7,023	
EBITDA	901	1,225	1,659	2,157	2,746	3,392	4,024	4,620	5,162	5,647	6,073	
Total Depreciation and Amortization	252	326	413	512	621	732	836	932	1,017	1,092	1,155	
Depreciation and amortization ratio (%)	8.4%	8.4%	8.3%	8.2%	8.1%	7.9%	7.8%	7.7%	7.6%	7.6%	7.5%	
Portion included in cost of sales	237	306	388	480	583	686	784	874	954	1,024	1,084	
of which included in SG&A expenses	16	20	26	32	38	45	52	58	63	67	71	
Operating income	649	900	1,246	1,646	2,125	2,660	3,188	3,688	4,145	4,556	4,918	
Interest expenses	0	0	0	0	0	0	0	0	0	0	0	
Other non-operating income	0	0	0	0	0	0	0	0	0	0	0	
Ordinary income	649	900	1,246	1,646	2,125	2,660	3,188	3,688	4,145	4,556	4,918	
Extraordinary gains/losses	0	0	0	0	0	0	0	0	0	0	0	
Income taxes	206	275	381	504	650	814	976	1,129	1,268	1,394	1,505	
Comprehensive income attributable to owners of the parent	443	624	865	1,142	1,475	1,846	2,212	2,560	2,877	3,162	3,413	
Number of shares issued at beginning of period (thousand shares)	5,296	5,296	5,296	5,296	5,296	5,296	5,296	5,296	5,296	5,296	5,296	
Number of shares issued (thousand shares)	0	0	0	0	0	0	0	0	0	0	0	
Number of shares issued at end of period (thousand shares)	5,296	5,296	5,296	5,296	5,296	5,296	5,296	5,296	5,296	5,296	5,296	
EPS (yen)	83.75	117.87	163.31	215.63	278.51	348.61	417.75	483.32	543.21	596.95	644.48	
Dividends	32	45	62	82	106	133	160	185	208	228	246	
Dividends paid	169	238	328	434	561	704	847	980	1,102	1,208	1,303	
Retained earnings	274	386	537	708	914	1,142	1,365	1,580	1,775	1,954	2,110	
BS												
Liquidity on hand	484	625	781	961	1,153	1,338	1,509	1,663	1,799	1,918	2,014	
Operating capital	451	582	727	895	1,074	1,246	1,405	1,548	1,675	1,786	1,875	
Property, plant and equipment subject to depreciation	551	711	889	1,094	1,313	1,523	1,718	1,893	2,048	2,183	2,292	
Investment securities	130	130	130	130	130	130	130	130	130	130	130	
Other assets	254	328	410	504	605	702	792	872	944	1,006	1,056	
Total assets	3,914	4,610	5,490	6,592	7,929	9,476	11,218	13,136	15,211	17,426	19,747	
Current liabilities other than interest-bearing debt	1,065	1,374	1,718	2,113	2,535	2,941	3,317	3,656	3,955	4,216	4,427	
Short-term debt	0	0	0	0	0	0	0	0	0	0	0	
Long-term debt	0	0	0	0	0	0	0	0	0	0	0	
Other long-term liabilities	1	1	1	1	1	1	1	1	1	1	1	
Capital stock, etc.	720	720	720	720	720	720	720	720	720	720	720	
Retained earnings, etc.	2,129	2,514	3,051	3,759	4,672	5,814	7,179	8,759	10,535	12,489	14,599	
Net Assets and Liabilities	3,914	4,610	5,490	6,592	7,929	9,476	11,218	13,136	15,211	17,426	19,747	
CF												
Liquidity on hand	▲ 109	▲ 141	▲ 156	▲ 180	▲ 192	▲ 185	▲ 171	▲ 154	▲ 136	▲ 119	▲ 96	
Working capital	▲ 102	▲ 131	▲ 145	▲ 167	▲ 179	▲ 172	▲ 159	▲ 143	▲ 127	▲ 111	▲ 89	
Current liabilities other than interest-bearing debt	240	309	344	395	423	406	376	338	300	261	211	
Investment in property, plant and equipment	▲ 377	▲ 486	▲ 591	▲ 716	▲ 840	▲ 942	▲ 1,031	▲ 1,107	▲ 1,172	▲ 1,227	▲ 1,264	
Depreciation of property, plant and equipment	252	326	413	512	621	732	836	932	1,017	1,092	1,155	
Short-term marketable securities	0	0	0	0	0	0	0	0	0	0	0	
Investment securities	0	0	0	0	0	0	0	0	0	0	0	
Other assets	▲ 57	▲ 74	▲ 82	▲ 94	▲ 101	▲ 97	▲ 90	▲ 81	▲ 72	▲ 62	▲ 50	
Retained earnings, etc.	274	386	537	708	914	1,142	1,365	1,580	1,775	1,954	2,110	
Operating CF	121	190	318	457	645	884	1,126	1,365	1,585	1,788	1,977	
Short-term debt	0	0	0	0	0	0	0	0	0	0	0	
Long-term debt	0	0	0	0	0	0	0	0	0	0	0	
Other Long-term Liabilities	0	0	0	0	0	0	0	0	0	0	0	
Equity financing	2	0	0	0	0	0	0	0	0	0	0	
Financing CF	2	0	0	0	0	0	0	0	0	0	0	
Surplus Cash and Deposits	123	190	318	457	645	884	1,126	1,365	1,585	1,788	1,977	
KPI												
Higher rate of capital sales for the first investment of the period	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	17.4%	
First-invested capital	524	676	872	1,090	1,341	1,609	1,867	2,106	2,320	2,511	2,676	
Sales Growth Rate	12.6%	29.1%	29.1%	25.0%	23.0%	20.0%	16.0%	12.8%	10.2%	8.2%	6.6%	
NOPAT	450	624	865	1,142	1,475	1,846	2,212	2,560	2,877	3,162	3,413	
ROIC	86.0%	92.4%	99.2%	104.8%	110.0%	114.7%	118.5%	121.6%	124.0%	125.9%	127.5%	
Ratio of working capital to daily sales (days)	42	42	42	42	42	42	42	42	42	42	42	
Cost of Sales Ratio	24.74%	24.45%	24.03%	23.72%	23.39%	23.06%	22.80%	22.59%	22.42%	22.29%	22.17%	
SG&A to sales ratio	53.64%	52.33%	51.05%	49.96%	48.96%	48.10%	47.41%	46.85%	46.41%	46.06%	45.77%	
Operating Income Ratio (%)	21.62%	23.22%	24.92%	26.33%	27.65%	28.84%	29.79%	30.56%	31.16%	31.65%	32.06%	
Current liabilities other than interest-bearing debt to daily sales (days)	100	100	100	100	100	100	100	100	100	100	100	
Liquidity on hand monthly ratio (months)	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	
Short-term debt interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Long-term debt interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Effective tax rate	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%	
Dividend payout ratio	38.2%	38.2%	38.2%	38.2%	38.2%	38.2%	38.2%	38.2%	38.2%	38.2%	38.2%	
Gross DE ratio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net DE ratio	-80.3%	-80.9%	-82.0%	-83.3%	-84.7%	-86.2%	-87.8%	-89.2%	-90.4%	-91.5%	-92.4%	
Depreciation ratio of tangible fixed assets	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%	

Source: JPR

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## Appendix 1. Comparable Companies Analysis

### Comparable company analysis

### OPTiM Corporation

#### Company profile

Company name	OPTiM Corporation (Securities Code 3694)
Established	2000/6/8
Head office location	Tokyo Headquarters Shiodome Building 18F, 1-2-20, Kaigan, Minato-ku, Tokyo
Capital	444 million yen (as of April 1, 2024)
Number of employees	406 (as of April 1, 2024)
Business activities	Information, telecommunications business
Stock exchange listing	Tokyo Stock Exchange Prime

Source: Compiled by JPR from company data.

Complete comparable companies

Growth expectations for OPTiM are high

OPTiM's management philosophy is "To engage in business with the aim of creating universal technologies, services, and business models that will have a significant positive impact on people around the world".

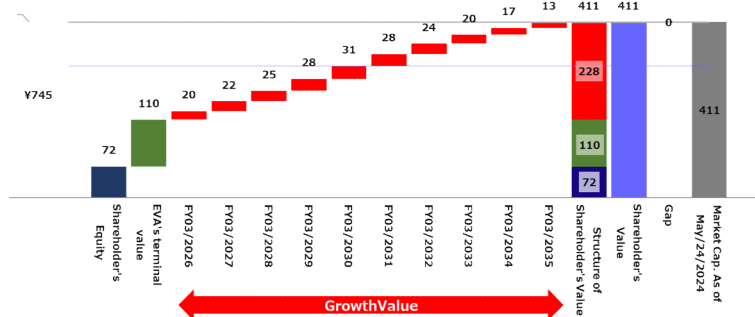
Like i3, OPTiM's main business is providing the MDM service "Optimal Biz". The functions implemented by the two companies are similar, and they can be considered completely similar companies.

In FY03/2024, the company posted record sales of 10.2 billion yen (10.4% YoY) and operating profit of 1.94 billion yen (10.9% YoY). Estimating the growth rate at the stock price, the 10-year CAGR was estimated to be 15.3%.

#### Explaining Market Capitalization through Shareholder Value Structure: 10-Year CAGR of 15.3%.

Unit: 100 million yen

	FY03/2025	FY03/2035
Sales	113.0	467.6
Average annual growth rate of net sales	15.3%	
Operating income	19.4	79.9
Operating margin	17.3%	17.1%
NOPAT margin	11.9%	11.8%
Invested capital/sales	61.4%	61.4%
ROIC	19.4%	19.2%
WACC	7.5%	7.5%
ROIC-WACC	11.9%	11.7%
ROIC/WACC	2.59	2.56



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## Appendix 2. Industry structure analysis

### MDM market outlook

#### Why does the MDM market exist?

##### What is MDM?

Mobile Device Management (MDM) is a generic term for technologies and services that allow organizations to remotely manage and secure mobile devices (smartphones, tablets, laptops, etc.). It enforces device security policies, sets password policies, applies encryption, etc. To prevent unauthorized access and data leakage, they manage applications, lock devices, and erase data.

##### Increasing MDM Needs

##### **Company-provided smartphones are used by 19.2% of employees**

The number of smartphone subscriptions at the end of March 2023 is estimated to be 116.63 million, of which 13.57 million are corporate subscriptions (corporate ratio 11.6%). Compared to the end of March 2017, the ratio of corporate customers to the total number of smartphone subscriptions increased by 1.5 percentage points.

When users who use smartphones for work were asked what they are careful about in terms of security, "Do not open unknown e-mails, messages, attached files, or URLs" was the most common response at 32.6%. This was followed by "setting IDs and passwords" and "updating to the latest OS, firmware, and browser. The percentage of respondents who were "not particularly conscious" was also high at 31.5%, suggesting that more than 30% of respondents are not taking security measures.

According to a survey conducted by the Information-technology Promotion Agency of Japan (IPSA), cyber-attacks and information leakage due to internal fraud were the top and second most feared information security threats, respectively, indicating that management is aware of the need for MDM.

##### **Reachable potential market is JPY48.8 billion**

Based on the aforementioned 13.57 million corporate smartphone subscriptions and CLOMO MDM's monthly price of 300 yen (the fixed price offered to customers), the potential market is estimated to be 13.57 million units x 300 yen per month x 12 months, or 48.8 billion yen, leaving significant room for sales growth.

### Factors contributing to market oligopoly: Increased customer responsiveness and specialization

In the late 2000s, there were approximately 50 MDM solution providers. However, over time, the market has gradually become oligopolistic, and today there are only about three major providers that are working with mobile carriers to expand sales.

This oligopoly is due to their high level of customer responsiveness and expertise. All three surviving providers have been able to understand the needs of their customers through close communication and have been able to promptly reflect these needs in their products. They have also earned the trust of corporate clients by providing advanced security measures and operational efficiency functions based on their long years of experience and know-how. Another barrier to entry into the market is the need to speedily improve MDM functions in line with annual OS upgrades.

### Future market outlook: continued growth and new possibilities

#### **By 2026, DOCOMO's feature phones will become smartphones**

NTT DOCOMO plans to shut down its 3G signal at the end of March 2026. This means that feature phones (so-called "gara-kei") will no longer be available; au and Softbank have already shut down their services, and almost all feature phones in use today are on DOCOMO carriers.

According to the "2024 Corporate Mobile Phone Usage Survey" conducted from January 18 to January 22, 2024 by MMD Research Institute, which conducts research on the cell phone market, feature phones account for 13.7% of company cell phone usage. Although many companies have yet to switch to smartphones in the company-use scene, it is expected that all of these companies will switch to smartphones by 2026, and demand for MDM is expected to increase further.

## Reference 1. For those new to JPR reports

### GCC Management™ Analysis

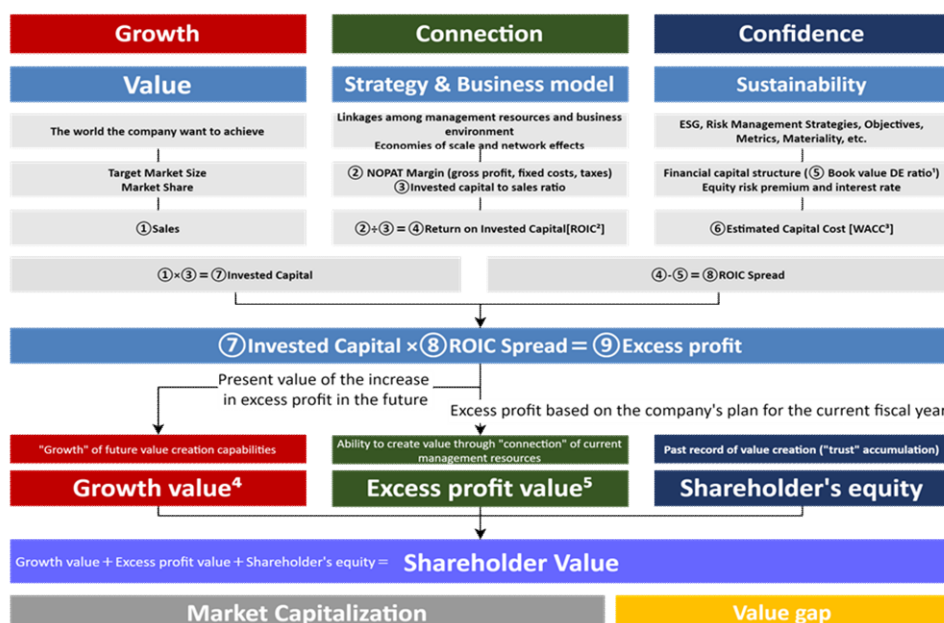
Visualize the value gap between theoretical shareholder value and market capitalization

Analyze by the three elements of Growth, Connection, and Confidence.

A framework for directly linking qualitative stories to shareholder value

This report analyzes corporate value from the perspective of GCC Management™, a framework developed by J-Phoenix Research Corporation ("JPR"), emphasizing three elements: Growth (sales growth), Connection (improved human and business connections = higher return on capital), and Confidence (improved trust = lower business risk). The following chart shows the overall picture of the GCC Management™ framework. The following diagram shows the overall picture. The qualitative future story is linked to financial indicators, which are finally integrated to estimate shareholder value. Using the excess profit method (see "Appendix 3. Basis of Calculation" at the end of this report), JPR estimates the final theoretical shareholder value and visualize the value gap by comparing it with the market capitalization.

### GCC Management™ Analysis Framework



[Source: JPR] [Notes] 1. Book value DE ratio: Ratio of interest-bearing debt to shareholders' equity.  
 2. ROIC: Return on Invested Capital. See "Appendix 3." at the end of this document. 3. WACC: Weighted Cost of Capital, see "Appendix 3." at the end of this document. 4. growth value = cumulative present value of the perpetuity value of the excess profit increment through year X. The perpetuity value is calculated as the excess profit increment divided by WACC. The present value of that amount is discounted by the WACC. Cumulative future value up to year X as assumed by the growth scenario. 5. Excess profit value = the perpetual value of excess profit based on the current year's company plan. The excess profit value is estimated by dividing the excess profit calculated from the current year's company plan and the invested capital at the beginning of the period by the WACC.

Source: JPR

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## Reference 1. Basis of Calculation

Corporate value estimated by use of ROIC and excess return

### Excess return analysis framework

Excess profit or economic value added is globally used as an indicator to estimate corporate value, evidenced by its adoption by Kao Corporation, a Grand Prix winner of the Tokyo Stock Exchange Fifth Corporate Value Improvement Award (FY2016). In the calculation of excess return, corporate value can be broken down into four elements: invested capital, excess return value, growth value, and non-business assets. This facilitates a better understanding of the structure that creates corporate value. A company might be overvalued or undervalued when its market cap is higher or is lower than its theoretical corporate value, respectively. The contribution of each year's corporate value can be visualized in the following figure, wherein shareholders' equity is simply represented as a sum of invested capital and non-business asset, subtracting interest-bearing debts. The figure below allows us to estimate how many years of growth might be incorporated into the stock price.

### Breakdown of corporate value using excess return



[source] JPR

Estimated excess return is profit that exceeds investors' return expectations against invested capital. Its present value is "excess return value," while a potentially growing portion of excess return is "growth value." Moreover, assets not used in business are added as non-business asset value in estimating a theoretical corporate value. Theoretically, the estimated corporate value using excess return should be the same as the value estimated using the discount cash flow (DCF) model. This report calculates excess return by using the following figures in a simplified manner.

- Excess return = NOPAT – Invested capital X WACC
- Net Operating Profit After Tax (NOPAT) = Operating profit X (1 - Effective tax rate)
- Invested capital = Total assets – Non-business assets – Current liabilities excluding Interest-bearing debt
- Non-business assets = Cash and deposits exceeding 10% of sales + Short-term investment securities + Investment securities + Deferred gains or losses on hedges + Land revaluation difference + Foreign currency translation adjustments
- Weighted average cost of capital (WACC) = After-tax interest rate of interest-bearing debt X(D/(E+D))+Cost of shareholders' equity X(E/D+E)
- Cost of shareholders' equity=0.5%+5%×β
- β = Slope of a linear regression line of five-year daily returns of TOPIX and the stock price of the target company
- E = Market cap at the time of calculation
- D = Short-term interest-bearing debt + Long-term liabilities + Minority interests in the latest financial statements at the time of calculation

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