
Quarterly Securities Report

The First Quarter of the 38th Business term,
from July 1, 2020 to September 30, 2020

This document is the translation of the original Japanese document except for the independent auditors' reports.

This document is prepared for reference purposes.

In the event of any discrepancy between this document and the Japanese original, the original shall prevail.

INTELLIGENT WAVE INC.

I Company Overview

1. Selected Financial Data

JGAAP

		1 st quarter ended September 30, 2019	1 st quarter ended September 30, 2020	Fiscal year ended June 30, 2020
Fiscal Term		From July 1 to September 30, 2019	From July 1 to September 30, 2020	From July 1, 2019 to June 30, 2020
Net sales	Thousands of yen	2,417,395	2,298,911	10,920,848
Ordinary income	Thousands of yen	140,956	128,507	1,074,827
Net income	Thousands of yen	91,157	83,588	762,053
Investment income under the equity method	Thousands of yen	(696)	142	8,880
Capital stock	Thousands of yen	843,750	843,750	843,750
Number of shares issued		26,340,000	26,340,000	26,340,000
Net assets	Thousands of yen	6,313,862	6,819,397	6,983,469
Total assets	Thousands of yen	9,710,244	9,996,680	10,552,011
Earnings per share	Yen	3.47	3.18	29.00
Fully diluted earnings per share	Yen	—	—	—
Dividends per share	Yen	—	—	10
Shareholders' equity ratio	%	65.0	68.2	66.2

(Note)

1. Net sales do not include consumption taxes.
2. Fully diluted earnings per share is not stated because the company did not have any potentially dilutive shares.

2 【Status of Business】

Significant changes in the business of the group companies (INTELLIGENT WAVE INC, a parent company and the one affiliate company) are not applicable in the first quarter of the FY06/2021.

The Business Segment information is omitted because the company consolidated two different business segments, Financial Systems Solutions and Product Solutions, to the single business segment.

Section 2【Status of Business】

1 【Business Risks】

In the first quarter of the FY06/2021, there have been no significant changes in the status of business, accounting, other matters stated in this Quarterly Securities Report that may have a significant impact on the judgment of investors, and the "Business Risks" stated in the Annual Securities Report for the previous fiscal year. There are no significant events existing.

2 【Management's discussion and analysis of financial position, operating results and cash flows】

Matters regarding the future stated in this document are based on the assumption of the Company as of the day of the submission of this Quarterly Securities Report.

(1) Report of operating results

The Japanese economy in the first quarter of the FY06/2021, from July to September 2020, was in a tough spot from the effects of the new coronavirus infection. But, with economic activity gradually resuming, the economy is seemingly picking up, although consumer spending on services such as food, beverage and lodging is at a low level, overall consumer spending is believed to be picking up.

Major credit card companies' billings since March 2020 has remained below the previous year's results, but monthly results are improving year over year.

The trend of increasing credit card shopping is expected to continue with the execution of government's stimulus policies. Meanwhile, if business condition of each credit card companies shrinks their CAPEX, which may affect to the earnings forecast and mid-term business plan of ours.

The Company, which is responsible for developing and operating systems that provide indispensable functions for credit card payment, properly recognizes its social mission and promotes its business with improving the facilities and systems necessary to continue business.

To prevent the spread of infection, we have taken measures such as assessing the health status of employees and staffs, implementing telework and staggered working hours, and limiting domestic and international business trips.

The financial results for the first quarter of the FY06/2021 has not been effected by new corona virus infection.

The company recorded the net sales of 2,298 million yen (down 4.9%, YoY), operating income of 134 million yen (down 4.8%, YoY), ordinary income of 128 million yen (down 8.8%, YoY) and net income of 83 million yen (down 8.3%, YoY).

The net sales were lower than the results of the previous fiscal year. The booking of sales for some system development projects were moved to the second quarter of this fiscal year and the system development sales were lower than initial plan, which were also lower than the previous fiscal year results.

Sales in other categories were generally in line with the initial plan. The decline of the sales of hardware resulted as the plan, too.

The company is mainly engaged in the development of FEP (Front End Processing) systems that provide the functions for network-gateway and authorization required to complete credit card payment processing.

For example, in the newly development project of FEP system, net sales are recorded in each sales category as follows. The sales of NET+1 (In-house products), which forms as the core of the FEP system, the sales of engineering work (System development) for customizing the NET+1 software package to meet the functional requirements from customers, the sales of servers (Hardware) deployed the FEP system developed by us and the sales of maintenance service (Maintenance) for the system consisting software and hardware. And we are engaged sales of In-house product to prevent enterprises from an internal information leakage and the third party products for cyber-security.

(Reference) Sales by categories

(Million yen)

Category	Previous Q1	Current Q1	Stock / Flow
System Development	1,251	1,113	Flow
Maintenance	301	315	Stock
In-house products	97	144	Flow
Cloud service	178	224	Stock
Hardware	353	208	Flow
Third party products	61	110	Flow
Security products	173	181	Flow
Total	2,417	2,298	

(Note) Categories with contracts that allow us to record sales of a fixed amount on a regular basis are shown as "stock". Otherwise, categories with contracts that are not stationary in terms of the amount and timing are shown as "Flow".

Operating income was lower than the previous fiscal year result by the sales reduction of the System Development and the temporary cost for recovering the system trouble in our cloud service business.

Although both net sales and operating income for the first quarter of the FY06/2021 were lower than the previous results, orders of hardware sales grew as initially planned and orders of system development topped year over year for the first quarter, our sales activities have performed steadily. Orders on hand as of the end of the first quarter have increased to the end of the FY06/2020 and year over year.

Our business remains steady and we have no revision to the financial forecasts for the first half of this fiscal year.

(2) Report of Financial Position

(Assets)

The balance of assets at the end of the first quarter of this fiscal year decreased by 555 million yen from the end of the previous fiscal year to 9,996 million yen. Current assets decreased by 482 million yen from the end of the previous fiscal year to 5,898 million yen. This was mainly due to the increase of 232 million yen in cash and deposits and the increase of 116 million yen in inventories, and the decrease of 845 million yen in notes and accounts receivable.

Non-current assets decreased 72 million yen from the end of the previous fiscal year to 4,098 million yen. This was mainly due to the decrease of 24 million yen in property, plant and equipment and the decrease of 52 million yen in software.

(Liabilities)

The balance of liabilities at the end of the first quarter of this fiscal year decreased by 391 million yen from the end of the previous fiscal year to 3,177 million yen. This was mainly due to the increase of 99 million yen in provision for bonuses, the decrease of 340 in notes and accounts payable and the decrease of 53 million yen in advances received.

(Net Assets)

Net assets at the end of the first quarter of this fiscal year decreased 164 million yen from the end of the previous fiscal year to 6,819 million yen. This was mainly due to the decrease of 179 million yen in retained earnings.

(3) Business and Financial Tasks to be addressed

There has been no significant change in the task to be addressed by the Group's business in the first quarter of the FY06/2021.

(4) Research and development activities

R&D expenditures in the first quarter of the FY06/2021 totaled 8 million yen.

The company executed the proving test for the scoring accuracy by the next generation fraud detection product, a research for the sharing service of the Front End Processing System.

3 【Important agreements for business】

There have been no critical business contracts in the first quarter of the FY06/2021.

Section 3 【Status of the company】

1 【Shares】

(1) 【Total number of shares】

【Total number of shares】

Class	The number of shares authorized to be issued
Common stock	105,360,000
Total	105,360,000

【Issued shares】

Class	Number of shares issued as of September 30, 2020	Number of shares issued at the filing date, November 6, 2020	Stock Exchange on which the Company is Listed	Description
Common stock	26,340,000	26,340,000	Tokyo Stock Exchange 1st Section	The number of shares per one unit of shares is 100 shares
Total	26,340,000	26,340,000	—	—

(2) 【Status of Share acquisition rights】

【Stock Options】 Not applicable

【Status of other share acquisition rights】 Not applicable

(3) 【Moving strike convertible bonds】 Not applicable

(4) 【Changes in the total number of issued shares, the amount of common stock, and other】

Date	Changes in the total number of issued shares	Balance of the total number of issued shares	Changes in capital stock (Thousands of yen)	Balance of capital stock (Thousands of yen)	Change in capital reserve (Thousands of yen)	Balance of capital reserve (Thousands of yen)
From July 1 to September 30, 2020	—	26,340,000	—	843,750	—	559,622

(5) 【Major Shareholders】

There are no items in this section in the first quarter of the FY06/2021.

(6) 【Voting rights】

The number of voting rights by the shareholder registry based on the record date, June 30, 2020 was as indicated below.

【Issued shares】

As of June 30, 2020

Classification	Number of shares	Number of voting rights	description
Shares without voting rights	—	—	—
Shares with restricted voting rights (treasury stock, etc.)	—	—	—
Shares with restricted voting rights (others)	—	—	—
Shares with full voting rights (treasury stock, etc.)	(Treasury stock) Common stock 41,600	—	—
Shares with full voting rights (others)	Common stock 26,271,900	262,719	—
Shares representing less than one unit	Common stock 26,500	—	—
Number of issued shares	26,340,000	—	—
Total number of voting rights	—	262,719	—

(Note) Shares with full voting rights (others) include 700 shares (seven voting rights) held in the name of the Japan Securities Depository Center.

【Treasury stock】

As of June 30, 2020

Name of shareholder	Address	Number of shares held under own name	Number of shares held under the names of others	Total shares held	Ownership percentage to the total number of issued shares
(Treasury stock) INTELLIGENT WAVE INC.	1-21-2 Shinkawa Chuo-ku, Tokyo	41,600	—	41,600	0.16
Total	—	41,600	—	41,600	0.16

2 【Executives of the company】

There has been no change of executives of the company after the submission of the Annual Securities Report for the previous fiscal year, FY06/2020.

Section 4 【Financial Status】

1. Preparation of Quarterly Financial Statements

Our quarterly financial statements have been prepared in accordance with the "Ordinance on the Terminology, Forms, and Preparation Methods of Quarterly Financial Statements" (Cabinet Office Ordinance No. 63 of 2007).

2. Audit Certification

In accordance with Article 193-2(1) of the Financial Instruments and Exchange Act, we have undergone a quarterly review of the quarterly financial statements for the first quarter (from July 1, 2020 to September 30, 2020) and for the cumulative period of the first quarter (from July 1, 2020 to September 30, 2020) by BDO Sanyu & Co..

3. Quarterly Consolidated Financial Statements

The company has not prepared the consolidated financial statements, as the company has no subsidiaries.

1. Financial Statements

(1) Balance Sheet

	Thousands of yen	
	Previous term end (as of June 30,2020)	Current term end (as of September 30,2020)
Assets		
Current assets		
Cash and deposits	3,641,864	3,874,048
Notes and accounts receivable	1,720,318	874,750
Inventories	413,482	530,455
Others	605,574	619,032
Total current assets	<u>6,381,239</u>	<u>5,898,287</u>
Non-current assets		
Property, plant and equipment	537,972	513,086
Intangible assets		
Software	1,262,416	1,210,170
Others	202,895	194,693
Total intangible assets	<u>1,465,312</u>	<u>1,404,863</u>
Investments and other assets		
Investment securities	1,359,193	1,381,743
Others	808,293	798,699
Total investments and other assets	<u>2,167,487</u>	<u>2,180,443</u>
Total non-current assets	<u>4,170,771</u>	<u>4,098,393</u>
Total assets	<u>10,552,011</u>	<u>9,996,680</u>
Liabilities		
Current liabilities		
Notes and accounts payable	627,020	286,939
Income taxes payable	61,971	78,020
Advances received	1,381,890	1,328,562
Provision for bonuses	295,182	395,088
Provision for bonuses for directors	42,682	8,625
Others	541,881	458,804
Total current liabilities	<u>2,950,627</u>	<u>2,556,040</u>
Non-current liabilities		
Provision for retirement benefits	490,430	506,818
Provision for retirement benefits for Directors	30,052	19,121
Asset retirement obligations	87,421	87,437
Others	10,010	7,865
Total non-current liabilities	<u>617,914</u>	<u>621,242</u>
Total liabilities	<u>3,568,542</u>	<u>3,177,283</u>

	Thousands of yen	
	Previous term end (as of June 30,2020)	Current term end (as of September 30,2020)
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus	573,099	573,099
Retained earnings	5,043,372	4,863,977
Treasury stock	(26,712)	(26,712)
Total shareholders' equity	6,433,508	6,254,113
Valuation and translation adjustment		
Valuation difference on available-for-sale Securities	549,960	565,283
Total valuation and translation Adjustments	549,960	565,283
Total net assets	6,983,469	6,819,397
Total liabilities and net assets	10,552,011	9,996,680

(2) Income Statement

Thousands of yen

	Previous term (from July 1 to September 30, 2019)	Current term (from July 1 to September 30, 2020)
Net sales	2,417,395	2,298,911
Cost of sales	1,795,894	1,709,661
Gross income	621,500	589,250
Selling, general and administrative expenses	480,273	454,844
Operating income	141,227	134,405
Non-operating income		
Interest income	103	179
Dividend income	450	562
Subsidy income	-	450
Others	434	364
Total non-operating income	987	1,556
Non-operating expenses		
Interest expenses	29	12
Commitment fee	1,180	1,498
Compensation expenses	-	5,000
Others	47	942
Total non-current expenses	1,258	7,453
Ordinary income	140,956	128,507
Extraordinary income	-	-
Extraordinary losses	-	-
Income before income taxes	140,956	128,507
Income taxes - current	34,135	66,036
Income taxes - deferred	15,663	(21,117)
Total income taxes	49,798	44,919
Net income	91,157	83,588
Net sales	2,417,395	2,298,911

【Notes on Financial Statements】

(Balance Sheet)

Previous term (as of June 30, 2020)

The company has executed an overdraft agreement and a loan commitment agreement with 3 correspondent banks and 1 life insurance company for the purpose of efficient procurement of operating capital.

The balance of unused loans under these agreements as of the end of the period was 4,200,000 thousand yen.

Current term (as of September 30, 2020)

The company has executed an overdraft agreement and a loan commitment agreement with 3 correspondent banks and 1 life insurance company for the purpose of efficient procurement of operating capital.

The balance of unused loans under these agreements as of the end of the period was 4,200,000 thousand yen.

(Cash Flow Statement)

The quarterly cash flow statement for the first quarter of the current fiscal year has not been prepared.

Depreciation expenses (including amortization expenses related to intangible fixed assets) for the first quarter of the FY06/2021 are as follows.

(Thousands of yen)

	Previous term (From July 1 to September 30, 2019)	Current term (From July 1 to September 30, 2020)
Depreciation	145,136	181,741

(Shareholders' equity)

Previous term (from July 1 to September 30, 2019)

Cash dividends paid

Resolution	Class	Dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date	Source of dividends
Annual shareholders meeting at September 26 2019	Common stock	236,772	9	June 30, 2019	September 27, 2019	Retained earnings

Current term (From July 1 to September 30, 2020)

Cash dividends paid

Resolution	Class	Dividends (Thousands of yen)	Dividends per share (Yen)	Record date	Effective date	Source of dividends
Annual shareholders meeting at September 25 2020	Common stock	262,983	10	June 30, 2020	September 28, 2020	Retained earnings

(Business Segment Information)

【Business Segment】

The Business Segment information is omitted because the company consolidated two different business segments, Financial Systems Solutions and Product Solutions, to the single business segment.

Reason for the change

The company has managed and administrated the business by two reporting segments, the Financial Systems Solutions business and the Product Solutions business, so far.

In the Financial Systems Solutions business segment, the company has engaged the business of providing system development and related services indispensable for credit card payment for our main customers, credit card companies.

In the Product Solutions business segment, we have operated the distributing information security and cyber-security products to general enterprises.

The policy of the company is to promote the growth by reinforcing organizations for sales and product development that belong to two business segments. Sharing informational properties of our customers administrated by both segments separately reinforces sales operations, and enhancing the organizations for the security products development promotes the launching new services and new products.

Our reporting segments were changed according to the revision of the organizations and management administration at July 1 2020.

(Investment income under the equity method)

	Thousands of yen	
	Previous term (as of June 30, 2020)	Current term (as of September 30, 2020)
Investment to affiliates	24,680	24,680
Investment under the equity method	125,953	120,910

	Thousands of yen	
	Previous term (from July 1 to September 30, 2019)	Current term (from July 1 to September 30, 2020)
Investment income under the equity method	(696)	142

(Earnings per share)

The amounts of net income per share with the respective bases of calculation are as follows.

Items	Previous term (from July 1 to September 30, 2019)	Current term (from July 1 to September 30, 2020)
Net income per share (Yen)	3.47	3.18
Bases of calculation		
Net income (Thousands of yen)	91,157	83,588
Non attributable to common shareholders	—	—
Net income attributes to common stocks (Thousands of yen)	91,157	83,588
Weighted-average number of common stocks outstanding for the period	26,306,055	26,297,533

(Note) Fully diluted earnings per share is not stated because the company did not have any potentially dilutive shares.

(Significant subsequent events)

There is no applicable item.

2 【Others】

Not applicable

Chapter 2 【Information on the guarantor of the company】

Not applicable