

November 6, 2020



**Financial Results for Q1 FY06/21  
(July 1 to September 30, 2020)  
[Non-Consolidated]**

# Introducing New CEO

# Introduction



**Kunimitsu Sato,  
Chief Executive Officer,  
Representative Director,  
Born in Dec. 1959, age 60.**

- |                           |  |
|---------------------------|--|
| <b>April 2018</b>         | <b>Director of C&amp;I Center,<br/>Information Innovation<br/>Business Section of the<br/>company, Dai Nippon Printing<br/>Co., Ltd.</b> |
| <b>September<br/>2019</b> | <b>Director of IWI</b>   |
| <b>April 2020</b>         | <b>Vice chief of Information<br/>Innovation Business<br/>Section of Dai Nippon<br/>Printing</b>  |
| <b>September<br/>2020</b> | <b>Representative director and<br/>president of the company<br/>(current)</b>  |



**Accelerate growth by  
building a successful  
new business**

# To accelerate growth

(Medium to long term target)

**Net sales JPY15bn, Operating margin 15%**



(Policy to reach the target)

**Transform flow business model to stock business model.**

(Strategies)

① **Strengthen profitability of Cloud service business.**

**Plan developing advanced solution with global business and Eco system**

② **Entry to new market, AI application, Zero trust security and Synergy with DNP**

# **Financial and Operating Results**

## **Q1 FY06/21**

# Q1 FY06/21

## Overview of results, YoY comparison



### Decrease in sales and income

	Q1 FY06/20	Q1 FY06/21	Change	Percentage change
Net sales	2,417	2,298	(119)	(4.9%)
Operating income	141	134	(7)	(5.0%)
Ordinary income	140	128	(12)	(8.6%)
Net income	91	83	(8)	(8.8%)

# Top three clients, by sales



	Q1 FY06/20 Sales	Q1 FY06/21 Sales	Change	Main projects
<b>1 . DNP</b>	<b>603</b>	<b>423</b>	<b>(180)</b>	TSP system (Smartphone payment) , System operations(24/365), Payment Platform
<b>2 . System development company</b>	<b>51</b>	<b>297</b>	<b>246</b>	FEP system for credit card business of telecom company, Fraud detection
<b>3 . Credit card company</b>	<b>58</b>	<b>191</b>	<b>133</b>	Development and hardware sales for FEP replacement

Million yen

# Q1 FY06/21

## Sales by categories



- (△) Sales of some system development projects moved to Q2.  
Hardware sales decline, but as initial planned.
- (+) Other categories were generally in line with the initial plan.

	Q1 FY06/20	Q1 FY06/21	Million yen Change
Net sales	2,417	2,298	(119)
System Development	1,251	1,113	(138)
Hardware	353	208	(145)
Cloud service	178	224	46
Security products	173	181	8
Others	462	572	110

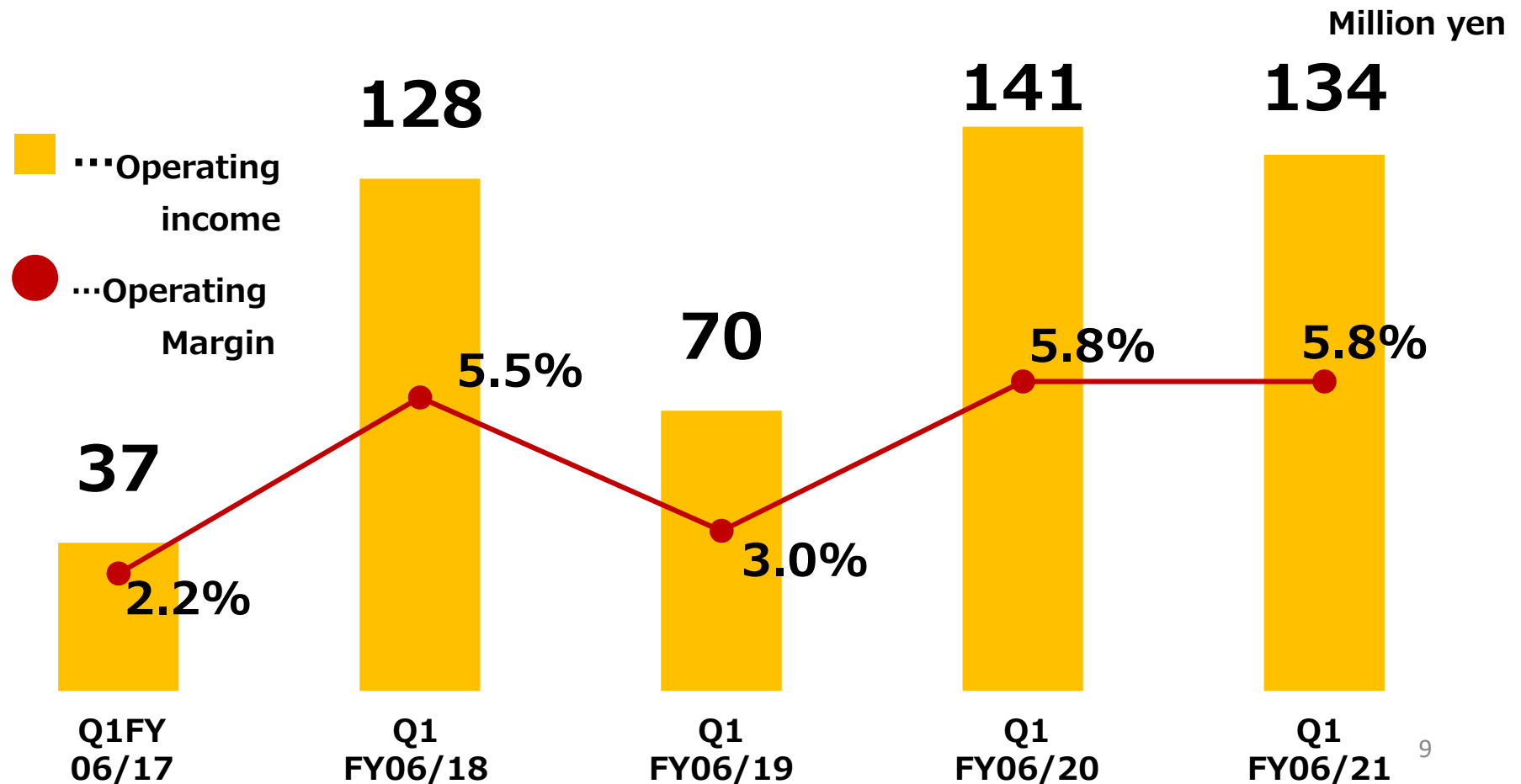


# Q1 FY06/21 Operating income



Decreased YoY by net sales decline and temporary costs of Cloud service recorded.

Maintained operating margin as the previous FY.



# Forecast for 1H FY06/21

# 1H FY06/21: Forecast



**No revision for 1H forecasts, increasing sales and income YoY.**

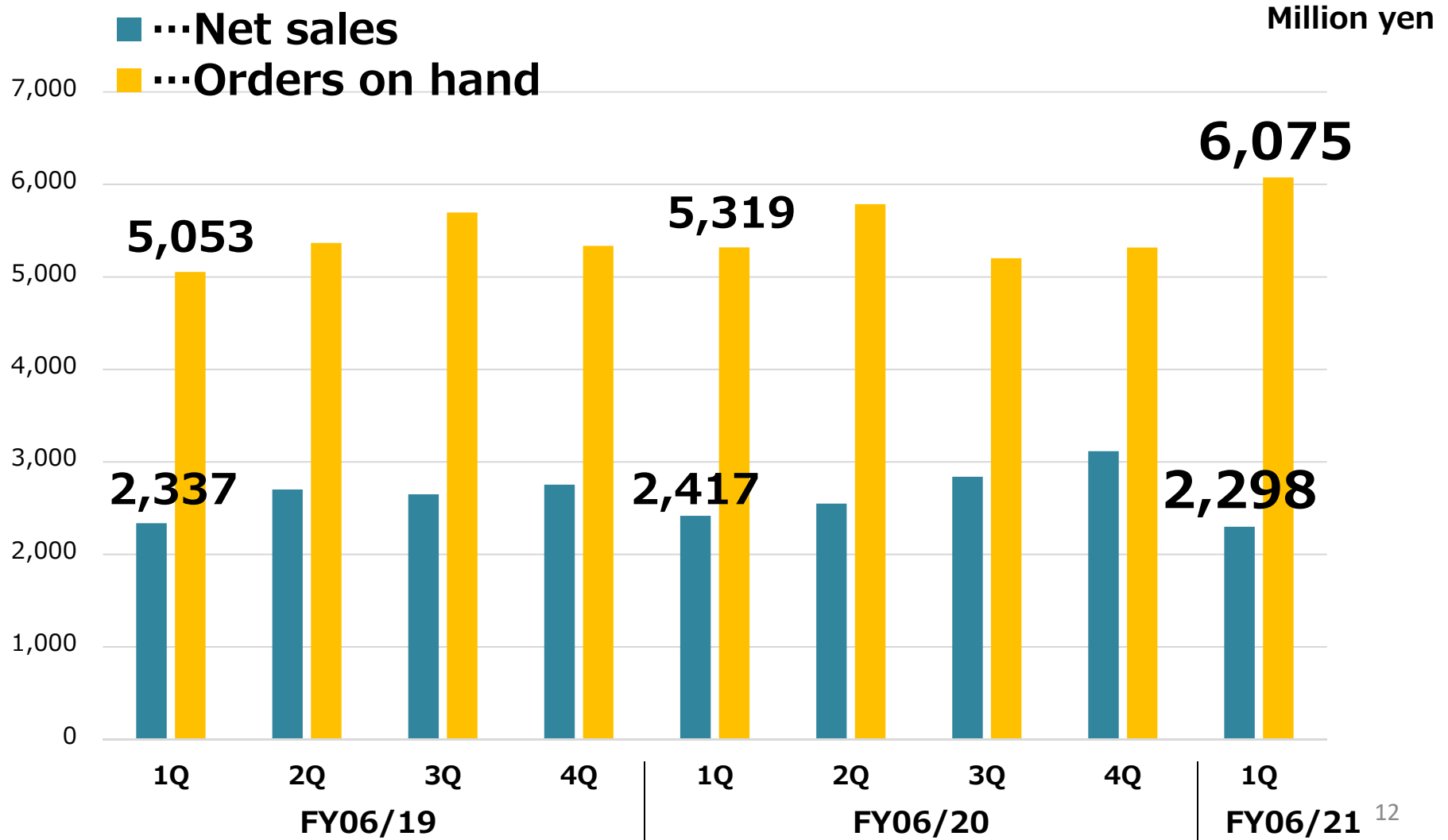
Million yen

	FY06/20 actual			FY06/21 forecast		
	Q1	Q2	1H	Q1 actual	Q2 (difference)	1H
Net sales	2,417	2,550	4,967	2,298	2,702	5,000
Operating income (OM)	141 (5.8%)	227 (8.9%)	368 (7.4%)	134 (5.8%)	246 (9.1%)	380 (7.6%)
Ordinary income (OM)	140 (5.8%)	220 (8.6%)	360 (7.2%)	128 (5.6%)	272 (10.1%)	400 (8.0%)
Net income (NM)	91 (3.8%)	146 (5.7%)	237 (4.8%)	83 (3.6%)	197 (7.3%)	280 (5.6%)

# Orders on hand



## Keeps higher level.



# Impact of the COVID-19 pandemic



## (Impact on business)

- 1H forecasts : limited impact
- 2H forecasts : Slightly uncertainty  
(Depends on customers' circumstances,  
under unchanged major trend)

## (Response to date)

### Basic policy: Continue operations

- Established telework environment for all employees
- Setting out to **establish new working style**
- No employee has tested positive for the virus to date

# Key initiatives in FY06/21

# Medium-term business plan



**FY06/23 targets:**

**Net sales of JPY13.5bn, operating income of JPY1.5bn.**

**Aiming 15% Operating Margin in longer term.**

Million yen

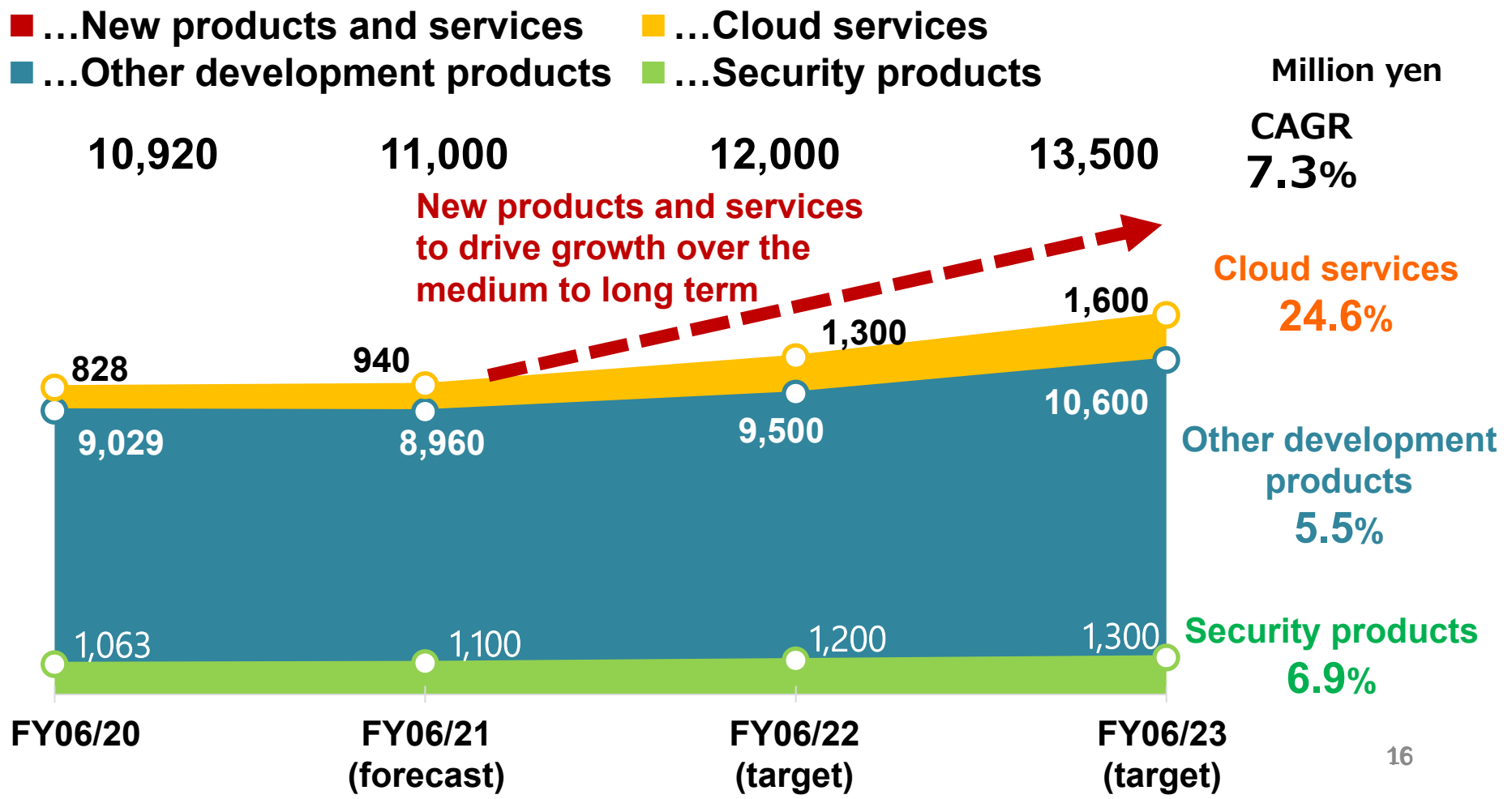
	<b>FY06/20 (actual)</b>	<b>FY06/21 (Forecast)</b>	<b>FY06/22 (target)</b>	<b>FY06/23 (target)</b>	<b>CAGR</b>
<b>Net sales</b>	<b>10,920</b>	<b>11,000</b>	<b>12,000</b>	<b>13,500</b>	<b>7.3%</b>
<b>Operating income [OM]</b>	<b>1,036 [9.5%]</b>	<b>1,150 [10.5%]</b>	<b>1,250 [10.4%]</b>	<b>1,500 [11.1%]</b>	<b>13.1%</b>

# Medium-term business plan



## Net sales

### Cloud service, new products and services to drive expansion





# FY06/21 Cloud service business Services and customers



INTELLIGENT WAVE INC.

**FY06/21  
(Forecast)  
JPY940mn**

FY06/20  
**Sales JPY828mn**



	FY17	FY18	FY19	FY20	FY06/21
1 <sup>st</sup> Customer for <b>IPRETS</b>					Sales contribution from Q2
4 <sup>th</sup> customer for <b>IGATES</b>					Sales contribution From 2H
3 <sup>rd</sup> customer for <b>IGATES</b>					
2 customers for <b>IGATES</b>					
3 customers for <b>IFINDS</b>					
5 customers for <b>IOASIS</b>					
			Started in Q2→		Full-year contribution to sales

**IPRETS (Point system): Started in October**

**IGATES (Switching gateway): Offer customers as an option for FEP system**

# New product and service



## Front system sharing

- Planning **Sharing type Front system** with strong track-record of FEP system development
- Planning a service via hardware we own

## FARIS Next generation fraud detection

- Improving capacity and precision with AI technology
- Contract by **subscription**
- **Started operation in September**

# Improving corporate governance



## 1. Nomination and Compensation Committee,

an advisory committee to the Board of Directors

**(Outside directors in majority)**

- The adoption of an executive officer system, nomination of director candidates and executives, and a review of the compensation system for full-time directors were discussed and debated on as major topics in FY06/20.

## 2. Functional enhancement of Board of Directors

- Reviewed the composition of the Board of Directors and introduced an executive officer system to clarify management oversight and responsibility.
- Executive officer: 6 members including 2 directors
- Board of Directors: 6 members including 2 independent outside directors  
**(A third of members of Board of directors are independent outside directors)**

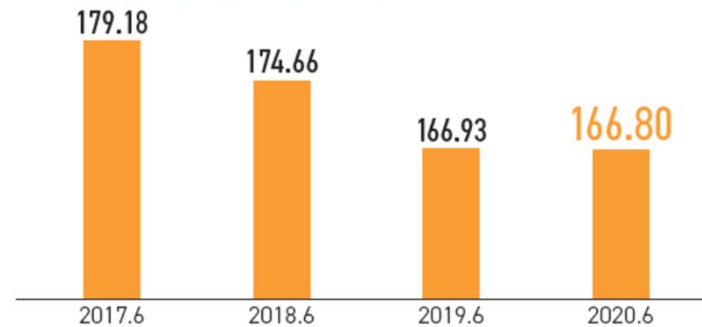
# Released "Sustainability Report"



## Introduce activities for solving ESG issues.

Reduced labor hours per employee

Variation in monthly average working hours per employees [hours]



Childcare leave exceeded national average

In-company atmosphere where employees can take a childcare leave casually



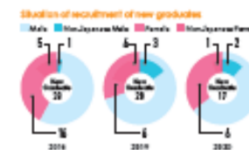
\* As for our company, the information in fiscal 2019 is indicated. As for the national averages, the information in fiscal 2018 is indicated. Source: "Basic Survey of Gender Equality in Employment Management in FY2019" by the Ministry of Health, Labour and Welfare

### Our activities regarding human capital and social capital

#### To strengthen human capital

##### 1. Diversity - Utilization of Diversity

Our main task is to develop systems for financial institutions, and about 75% of our employees engage in the development. In order to offer high-quality systems and services to clients, it is important to manage the working hours of employees meticulously, and develop a comfortable working environment and system. As our business scale has expanded, the number of employees has increased about 1.5 times from 5 years ago. Under our recruitment policy of employing personnel who possess diverse values regardless of gender or nationality, the ratios of female employees and non-Japanese employees have recently increased. For mid/long-term growth, it is essential to develop a working environment and systems suited for such diversifying employees.



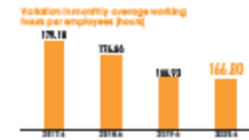
##### Reform of workstyles

Our company aims to secure excellent personnel and improve our mid/long-term business performance by reducing the total working hours of employees and improving their work-life balance through the reform of workstyles. To do so, we have intensified the monitoring of employees' working hours and provided employees with various options for workstyles. Employees can reform their ways of working by flexibly choosing from diverse workstyles according to their personal circumstances. In our company, the CEO himself is leading the reform of workstyles in an enthusiastic manner. To spread the reform of workstyles throughout the company, he repeatedly mentions "the importance of reducing overtime work and creating non-business time" at companywide conferences, such as the "Conference for Creating Time".

##### Conference for Creating Time

It is a monthly meeting organized by the CEO, involving all managers. The superiors of employees whose working hours were prolonged in the previous month give a presentation about improvement measures, and the CEO checks the measures and provides guidance if necessary. This conference can be characterized by the involvement of the top executive himself in the creation of prolonged work. Since the inauguration of the conference in February 2017, working hours have steadily decreased companywide. The monthly average of working hours has dropped by about 7% between 2017 and 2020. Under the recognition that the reduction of working hours is the fruit of employee efforts, our company pays "Allowance for Creating Time" to employees.

according to how much they have reduced working hours. We will keep managing working hours and developing an environment that helps employees increase their productivity.



[https://www.iwi.co.jp/files/topics/498\\_ext\\_03\\_0.pdf](https://www.iwi.co.jp/files/topics/498_ext_03_0.pdf)

# Reference

# FY06/21 Forecasts



Million yen

	FY06/20 actual			FY06/21			YoY (full year)
	1H	2H	Full year	1H	2H	Full year	
<b>Net sales</b>	<b>4,967</b>	<b>5,953</b>	<b>10,920</b>	<b>5,000</b>	<b>6,000</b>	<b>11,000</b>	<b>+0.7%</b>
<b>Operating income [OM]</b>	<b>368</b> [7.4%]	<b>668</b> [11.2%]	<b>1,036</b> [9.5%]	<b>380</b> [7.6%]	<b>770</b> [12.8%]	<b>1,150</b> [10.5%]	<b>+11.0%</b>
<b>Ordinary income [OM]</b>	<b>360</b> [7.2%]	<b>714</b> [12.0%]	<b>1,074</b> [9.8%]	<b>400</b> [8.0%]	<b>790</b> [13.2%]	<b>1,190</b> [10.8%]	<b>+10.8%</b>
<b>Net income [NM]</b>	<b>237</b> [4.8%]	<b>525</b> [8.8%]	<b>762</b> [7.0%]	<b>280</b> [5.6%]	<b>540</b> [9.0%]	<b>820</b> [7.5%]	<b>+7.6%</b>

# FY06/21: Forecasts

## Sales by segment category



	FY06/20	FY06/21		Million yen
	Actual	Forecast	Q1 actual	Stock/ Flow
<b>Net sales</b>	<b>10,920</b>	<b>11,000</b>	<b>2,298</b>	
System development	5,791	5,362	1,113	Flow
Maintenance	1,246	1,284	315	Stock
In-house products	244	397	144	Flow
Cloud services	828	940	224	Stock
Hardware	1,526	1,494	208	Flow
Third-party products	220	423	110	Flow
Security products	1,063	1,100	181	Flow
<b>Operating income</b>	<b>1,036</b>	<b>1,150</b>	<b>134</b>	

※ 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".

# Historical net sales (Stock/Flow)



Million yen

	FY06/17	FY06/18	FY06/19	FY06/20	FY06/21 (Forecast)
<b>Stock</b>	<b>1,098</b>	<b>1,427</b>	<b>1,761</b>	<b>2,075</b>	<b>2,224</b>
<b>(YoY)</b>		<b>30.0%</b>	<b>23.4%</b>	<b>17.8%</b>	<b>7.2%</b>
<b>Flow</b>	<b>7,370</b>	<b>9,157</b>	<b>8,658</b>	<b>8,826</b>	<b>8,776</b>
<b>(YoY)</b>		<b>24.2%</b>	<b>(5.4%)</b>	<b>1.9%</b>	<b>(0.6%)</b>
<b>Rate of Stock</b>	<b>13.0%</b>	<b>13.5%</b>	<b>16.9%</b>	<b>19.0%</b>	<b>20.2%</b>



# Cloud service



Initial FY06/21 forecast for sales of cloud services  
(service charge)

Million yen

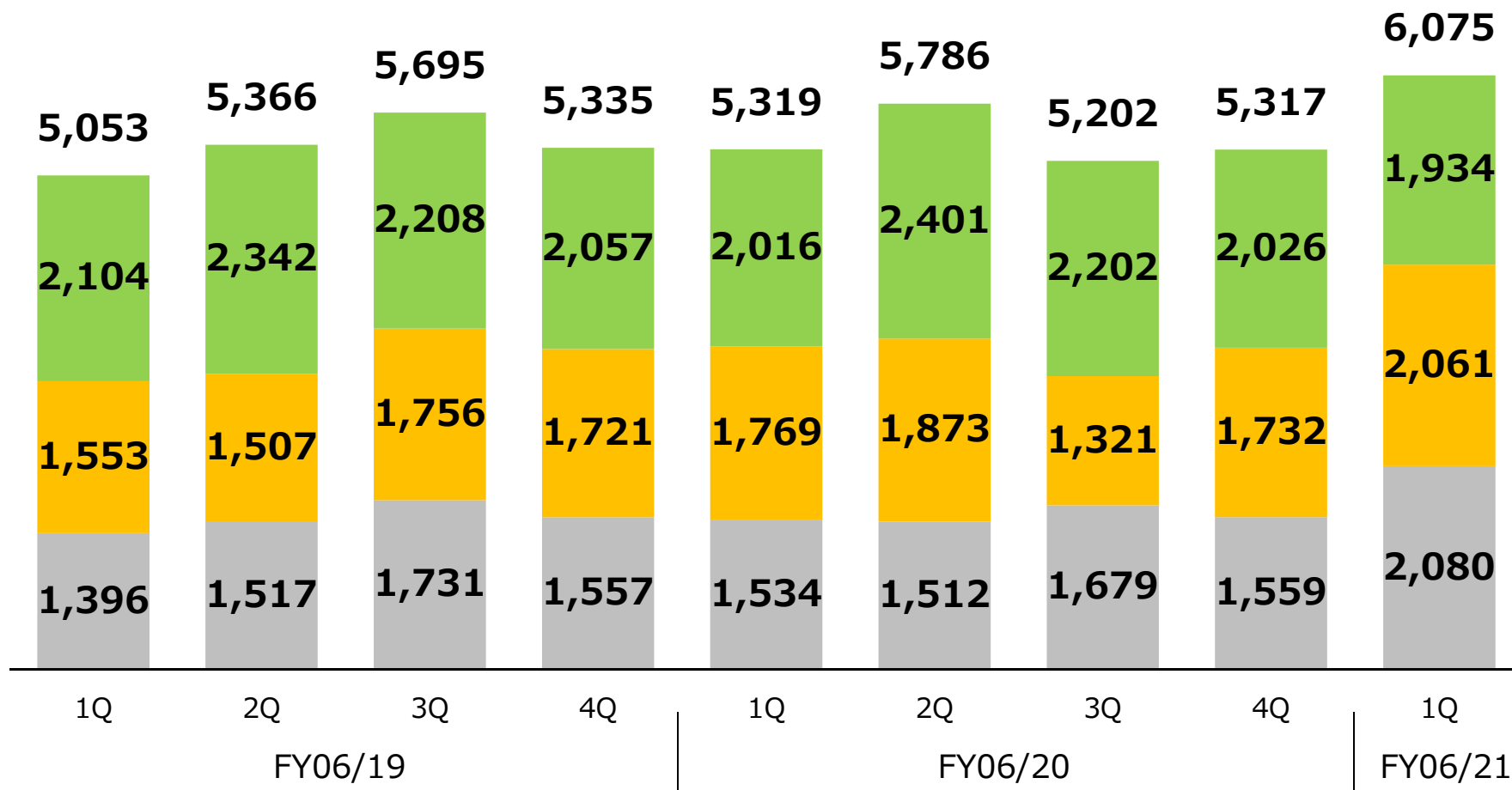
		FY06/20	FY06/21				
		Full-year	Q1	Q2	Q3	Q4	Full-year
Net sales	Initial plan		224	235	235	246	940
	Actual	828	224				
Gross profit	Initial plan		(14)	(10)	(29)	(22)	(75)
	Actual	(24)	(37)	Q1: increased costs temporary by system trouble recovery			
導入社数	■ IPRETS	0	0	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
	■ IGATES	2	2	2	<u>4</u>	<u>4</u>	<u>4</u>
	■ IFINDS	3	3	3	3	3	3
	■ IOASIS	5	5	5	5	5	5

# Orders on hand



- ...Cloud service business
- ...Software development
- ...Other

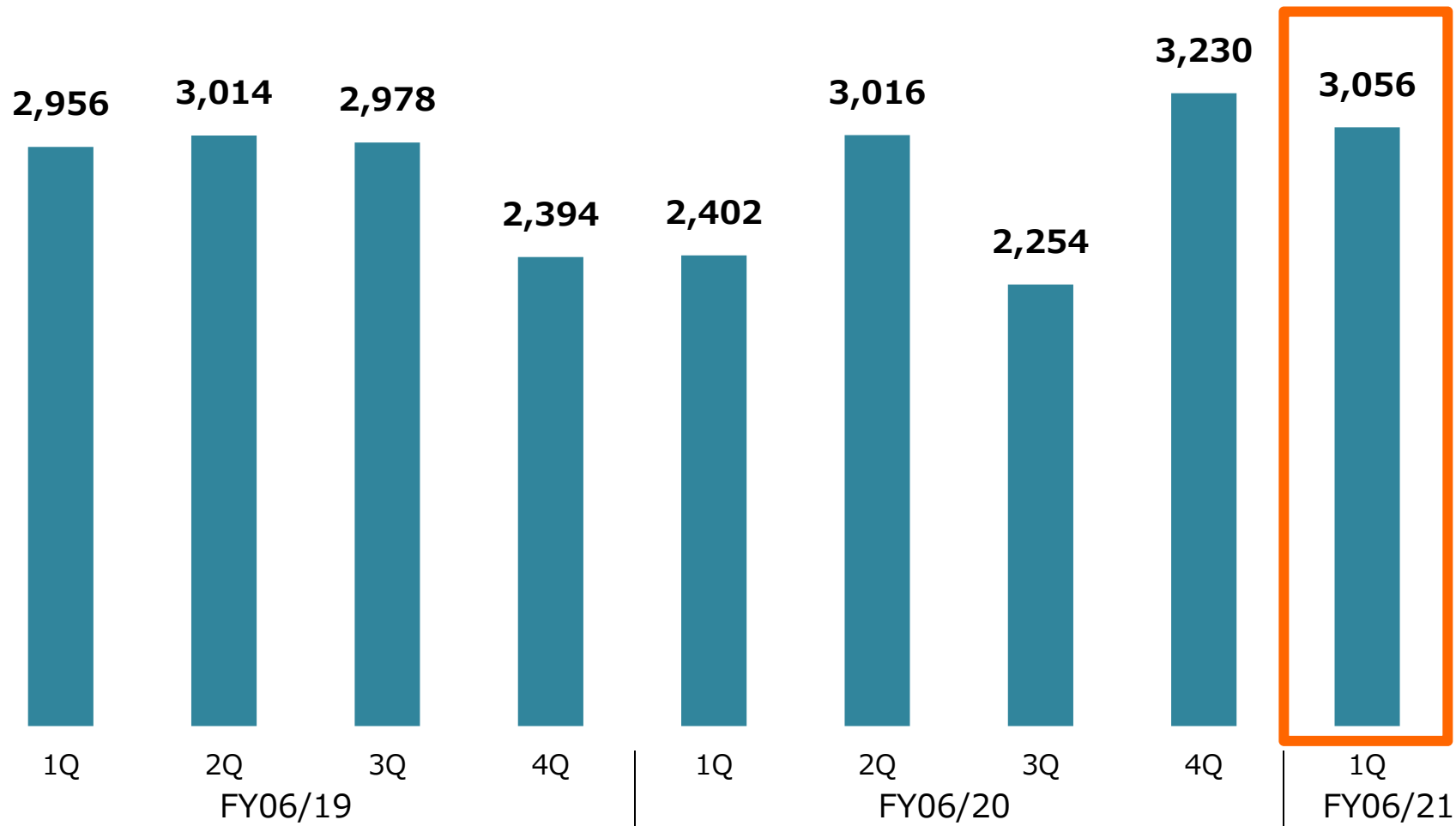
Million yen



# Amount of orders



Million yen



# Q1 FY06/21

## Sales by categories



- (△) Sales of some system development projects moved to Q2.  
Hardware sales decline, but as initial planned.
- (+) Other categories were generally in line with the initial plan.

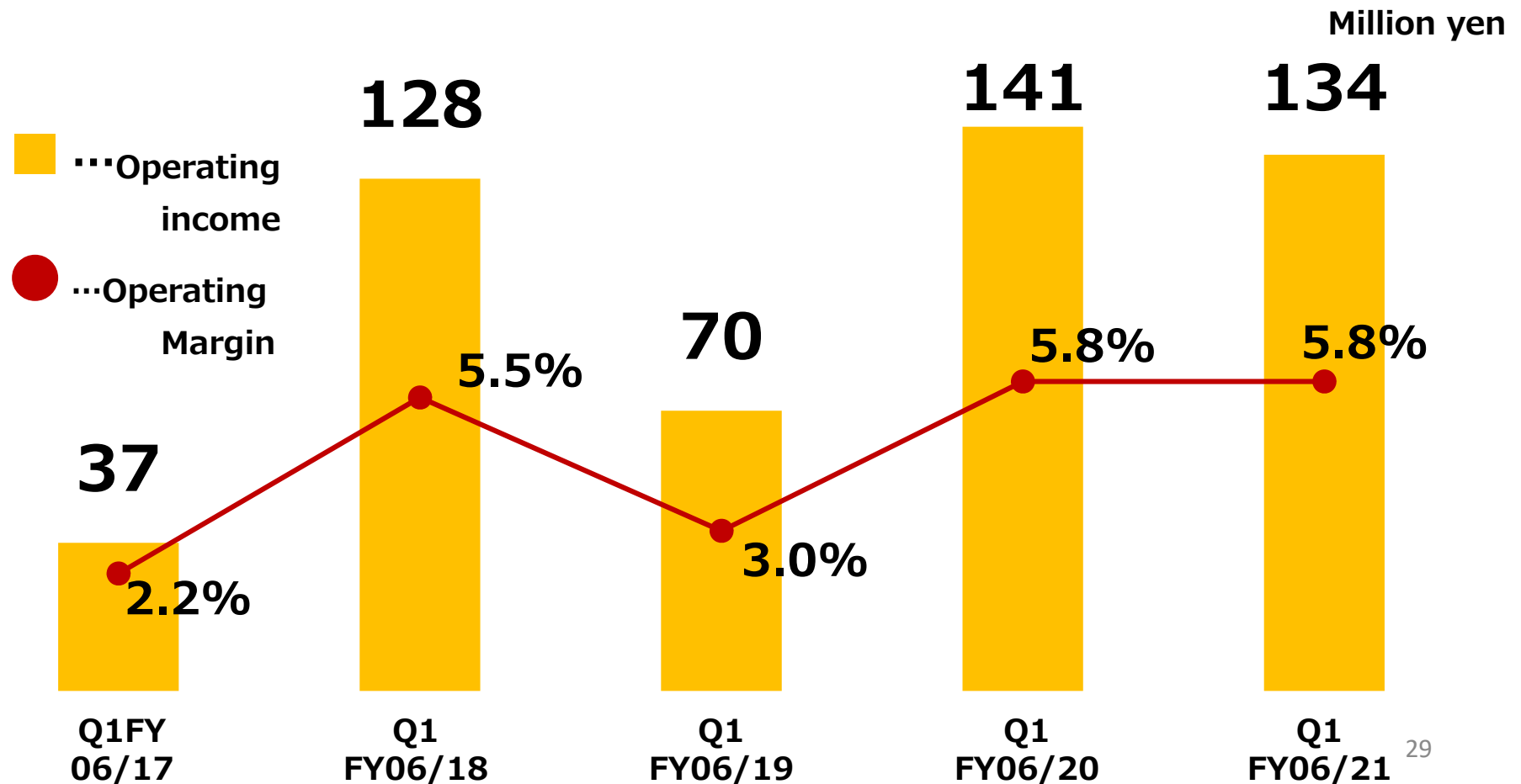
	Q1 FY06/20	Q1 FY06/21	Million yen Change
Net sales	2,417	2,298	(119)
System Development	1,251	1,113	(138)
Maintenance	301	315	14
In-house products	97	144	47
Cloud service	178	224	46
Hardware	353	208	(145)
Third party products	61	110	49
Security products	173	181	8
<b>Operating income</b>	<b>141</b>	<b>134</b>	<b>(7)</b>

# Q1 FY06/21 Operating income



Decreased YoY by net sales decline and temporary costs of Cloud service recorded.

Maintained operating margin as the previous FY.



# FY06/21 production costs



Thousands of yen

	FY06/20				FY06/21
	1Q	2Q	3Q	4Q	1Q
Materials cost	13,473	15,597	10,163	4,078	4,890
Labor cost	669,478	677,925	676,878	705,015	708,202
Expenses	322,071	324,894	324,855	333,834	363,448
Subcontracting cost	636,415	679,101	640,094	603,288	581,894
Total manufacturing cost	1,641,439	1,697,518	1,651,991	1,646,216	1,658,435
Work in progress (beginning of period)	626,309	741,783	839,812	460,178	381,557
Work in progress (end of period)	741,783	839,812	460,178	381,557	515,004
Transfer to other accounts	166,499	136,522	150,296	142,737	100,020
Cost of sales	1,359,465	1,462,967	1,881,328	1,582,100	1,424,967

# FY06/21 SG&A expenses



Thousands of yen

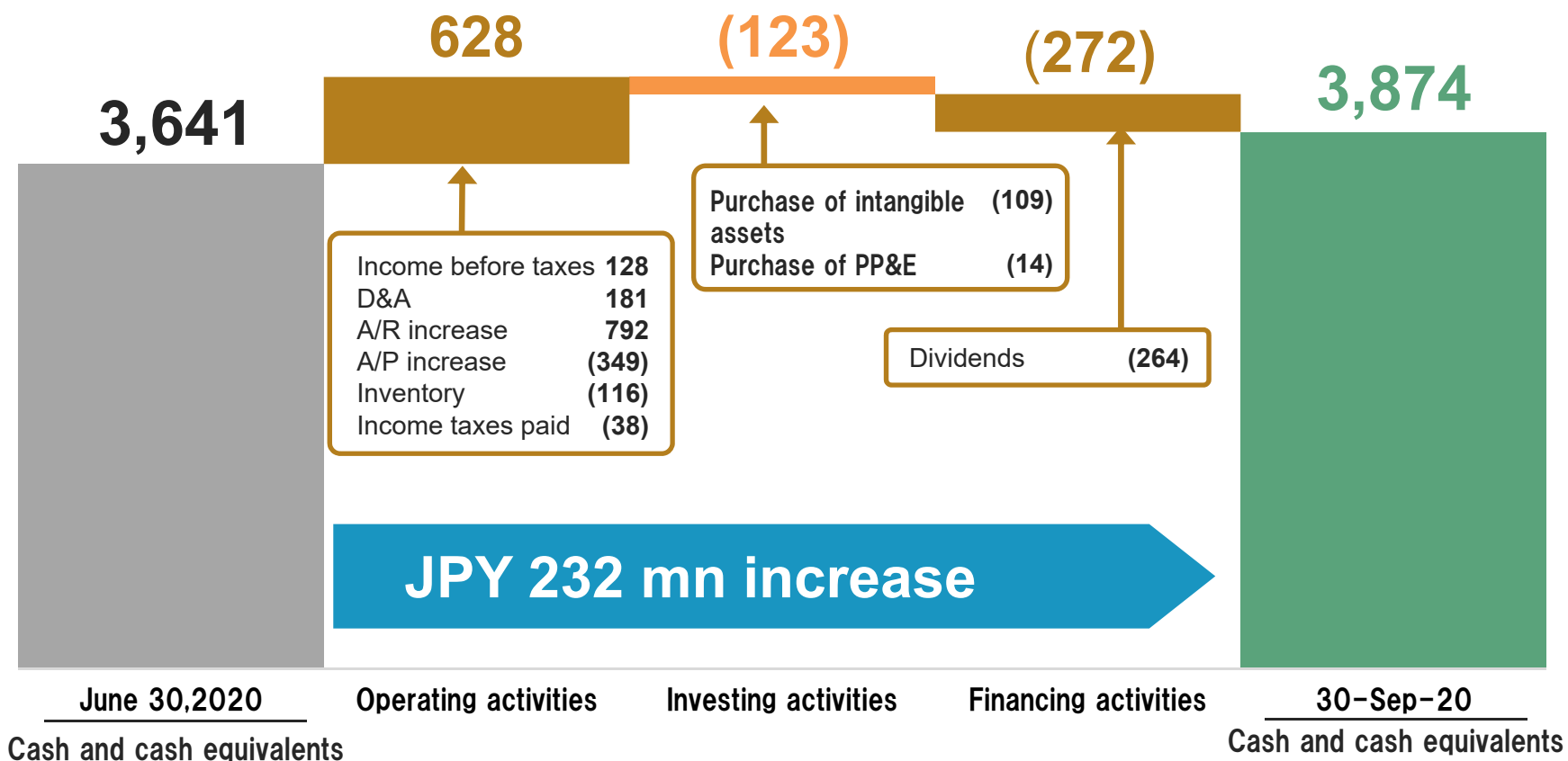
	FY06/20				FY06/21
	Q1	Q2	Q3	Q4	Q1
Salaries	302,437	294,538	295,482	342,620	287,425
Training and recruiting	13,243	18,471	18,739	6,860	5,321
Rent	21,204	17,334	17,849	18,116	17,621
Advertising	9,917	8,219	2,088	1,463	1,586
R&D	4,914	6,344	13,371	7,179	8,723
Depreciation and amortization	8,826	9,148	9,969	11,010	9,457

	Q1 FY06/20	Q1 FY06/21	Change	Million yen
<b>SG&amp;A expenses</b>	480	454	(26)	
(Breakdown)				
		Increase in salaries	(15)	
		Training and recruiting	(8)	
		Advertising	(8)	
		Research and development	+4	
		Others	+1	

# FY06/21: Cash flows



Million yen





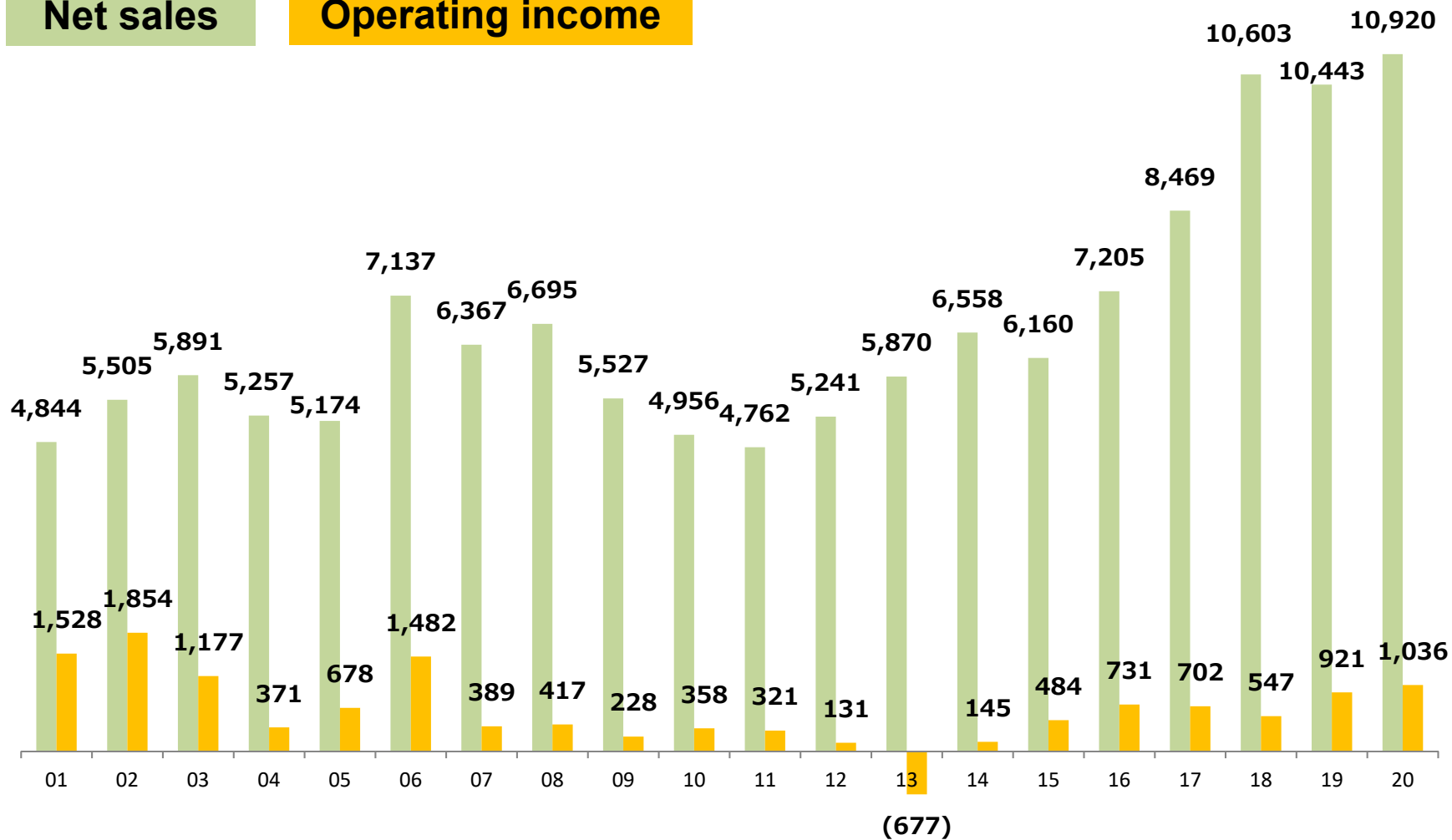
# Historical performance



Million yen

Net sales

Operating income



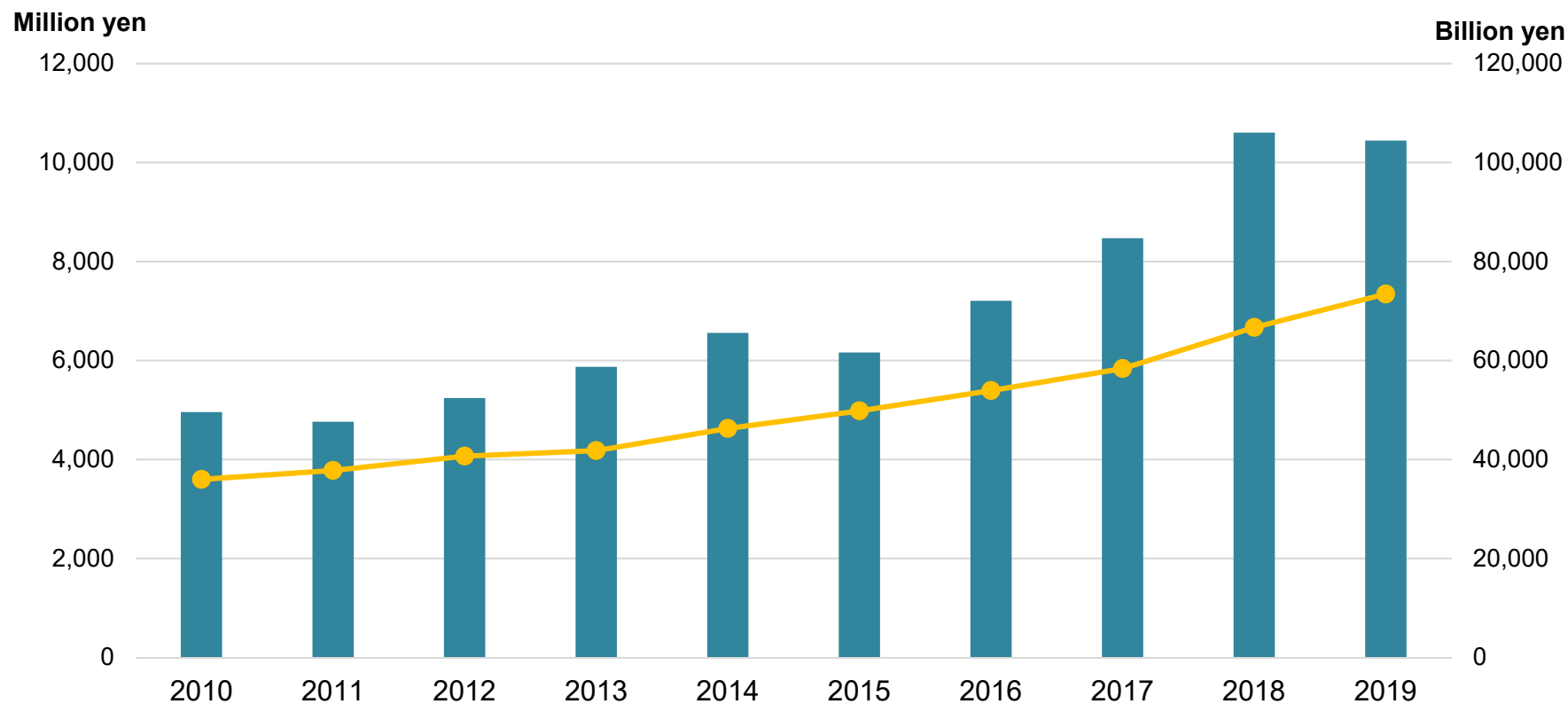
Note: Consolidated results are shown through FY06/15.

# (Reference) Relationship between company performance and credit card use



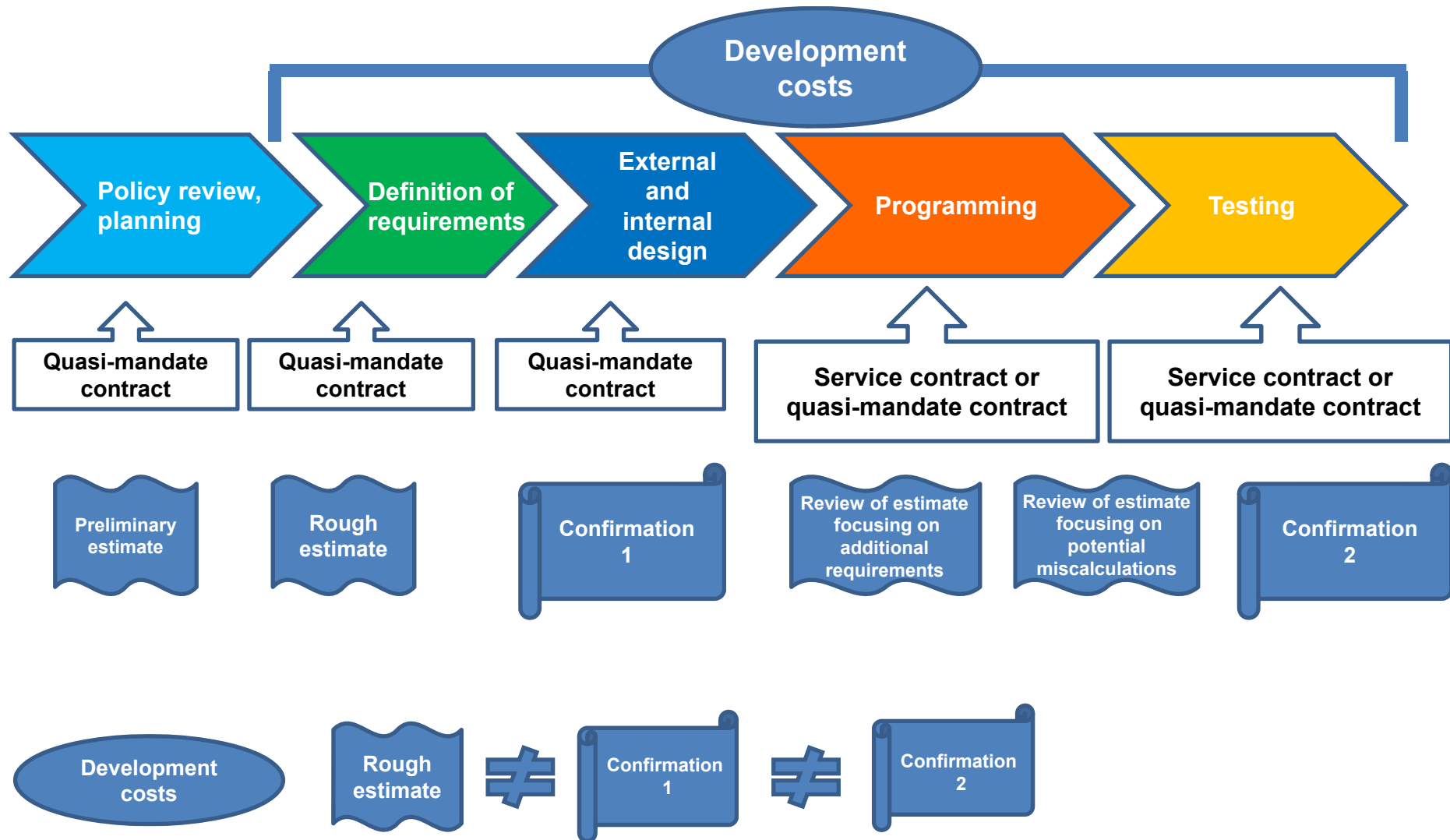
■ Net sales (left-hand scale): CAGR of 8.6%

● Expenditure on credit card shopping (right-hand scale): CAGR of 8.2%



Source: Compiled from "Credit Statistics of Japan (2019)," Japan Consumer Credit Association  
Consolidated results are shown for the company's net sales through FY06/15.

# (Reference) System development process, contract types, and accuracy of estimates



# Company overview



(As of June 30, 2020)

Established	December 27, 1984
Location	Kayabacho Tower, 1-21-2 Shinkawa, Chuo-ku, Tokyo
Employees	435
Parent company	Dai Nippon Printing Co., Ltd. (50.61%)
Capital stock	JPY843.75mn
Shares outstanding	26,340,000
	Shareholders 10,738

	Ownership (%)		% of shareholders
Individuals, others	36.61%	Individuals, others	98.54%
Japanese financial institutions	6.61%	Japanese financial institutions	0.14%
Other Japanese corporations	51.07%	Other Japanese corporations	0.41%
Foreign corporations	4.84%	Foreign corporations	0.65%
Japanese securities firms	0.71%	Japanese securities firms	0.25%
Treasury stock	0.16%	Treasury stock	0.01%

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