

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.**

**April 2018**

**Director of C&I Center,  
Information Innovation  
Business Section of the  
company, Dai Nippon Printing  
Co., Ltd.**

**September  
2019**

**Director of IWI**

**April 2020**

**Vice chief of Information  
Innovation Business  
Section of Dai Nippon  
Printing**

**September  
2020**

**Representative director and  
president of the company  
(current)**



**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	Million yen	Percentage change
<b>Net sales</b>	2,417	2,298	(119)	(4.9%)	
<b>Operating income</b>	141	134	(7)	(5.0%)	
<b>Ordinary income</b>	140	128	(12)	(8.6%)	
<b>Net income</b>	91	83	(8)	(8.8%)	

# Top three clients, by sales



	Q1 FY06/20	Sales	Q1 FY06/21	Sales	Change	Million yen
						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

# Q1 FY06/21

## Sales by categories



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

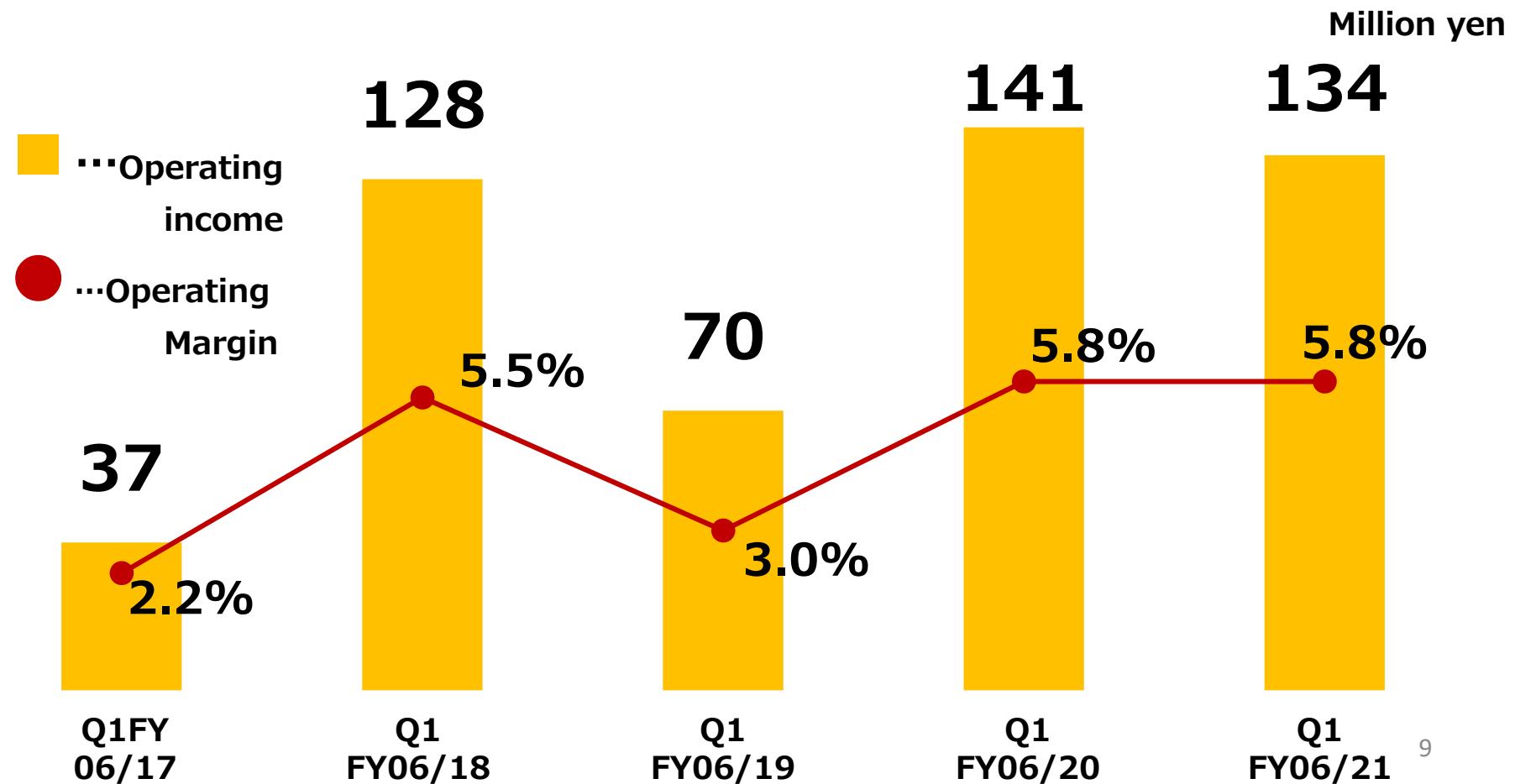
	Q1 FY06/20	Q1 FY06/21	Million yen Change
<b>Net sales</b>	<b>2,417</b>	<b>2,298</b>	<b>(119)</b>
<b>System Development</b>	<b>1,251</b>	<b>1,113</b>	<b>(138)</b>
<b>Hardware</b>	<b>353</b>	<b>208</b>	<b>(145)</b>
<b>Cloud service</b>	<b>178</b>	<b>224</b>	<b>46</b>
<b>Security products</b>	<b>173</b>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



# Forecast for 1H FY06/21

# 1H FY06/21: Forecast



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

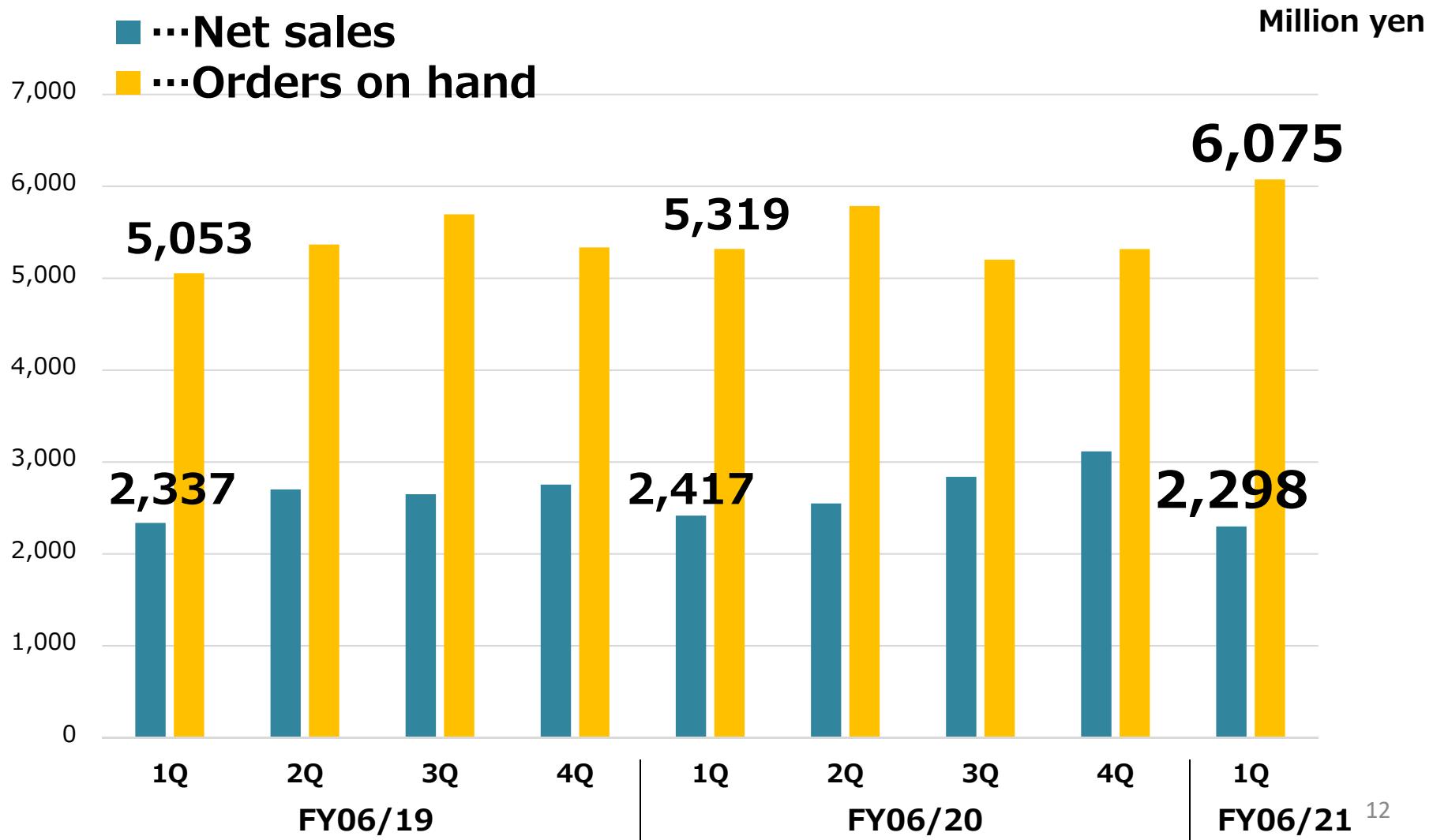
Million yen

	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.**

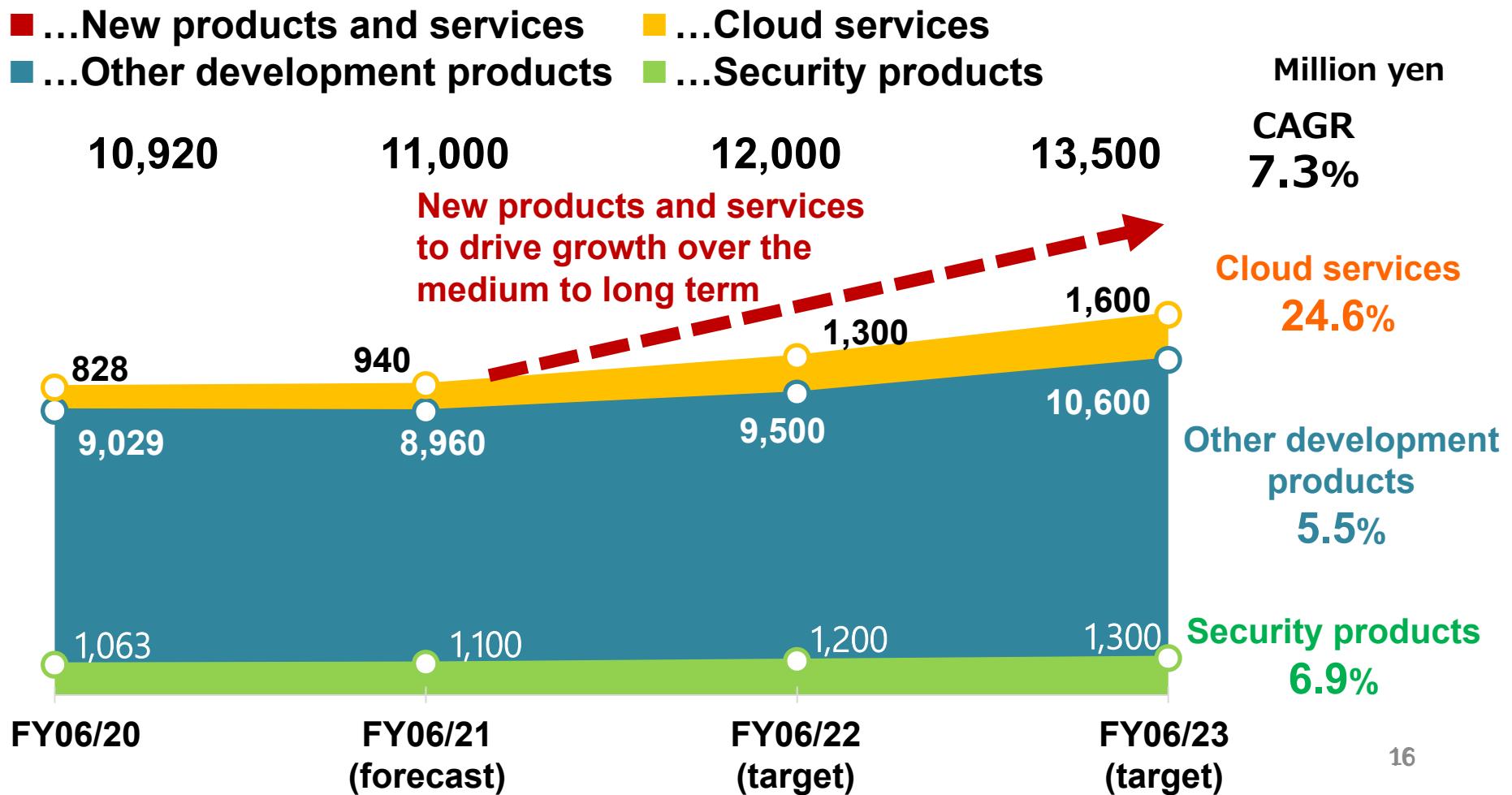
					Million yen
	FY06/20 (actual)	FY06/21 (Forecast)	FY06/22 (target)	FY06/23 (target)	CAGR
Net sales	10,920	11,000	12,000	13,500	7.3%
Operating income [OM]	1,036 [9.5%]	1,150 [10.5%]	1,250 [10.4%]	1,500 [11.1%]	13.1%

# Medium-term business plan



## Net sales

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



# FY06/21

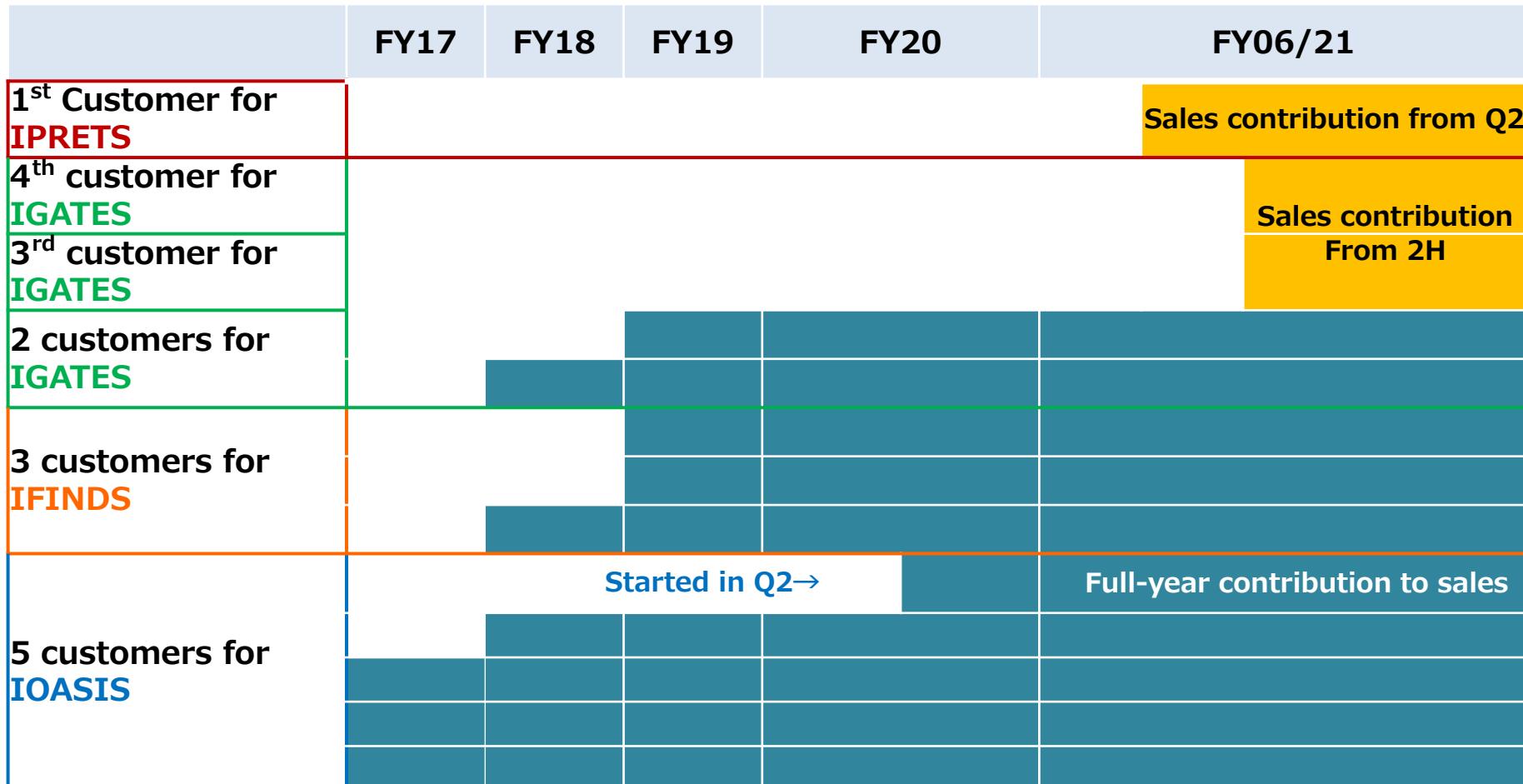
## Cloud service business

### Services and customers

FY06/20  
Sales JPY828mn



**INTELLIGENT WAVE INC.**  
FY06/21  
(Forecast)  
JPY940mn



**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**



**Childcare leave exceeded national average**

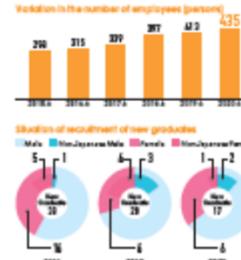


### Our activities regarding human capital and social capital

#### 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 ratio 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 each diversifying employees.



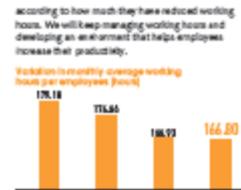
#### Reform of workstyles

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 purpose of employees whose working hours are frequently long is to discuss workstyle reform and improvement measures, and the CEO checks the measures and provide 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 surely decreased. For example, 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 first of employee efforts, our company pays "Allowance for Creating Time" to employees



[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>
(YoY)		30.0%	23.4%	17.8%	7.2%
<b>Flow</b>	<b>7,370</b>	<b>9,157</b>	<b>8,658</b>	<b>8,826</b>	<b>8,776</b>
(YoY)		24.2%	(5.4%)	1.9%	(0.6%)
<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

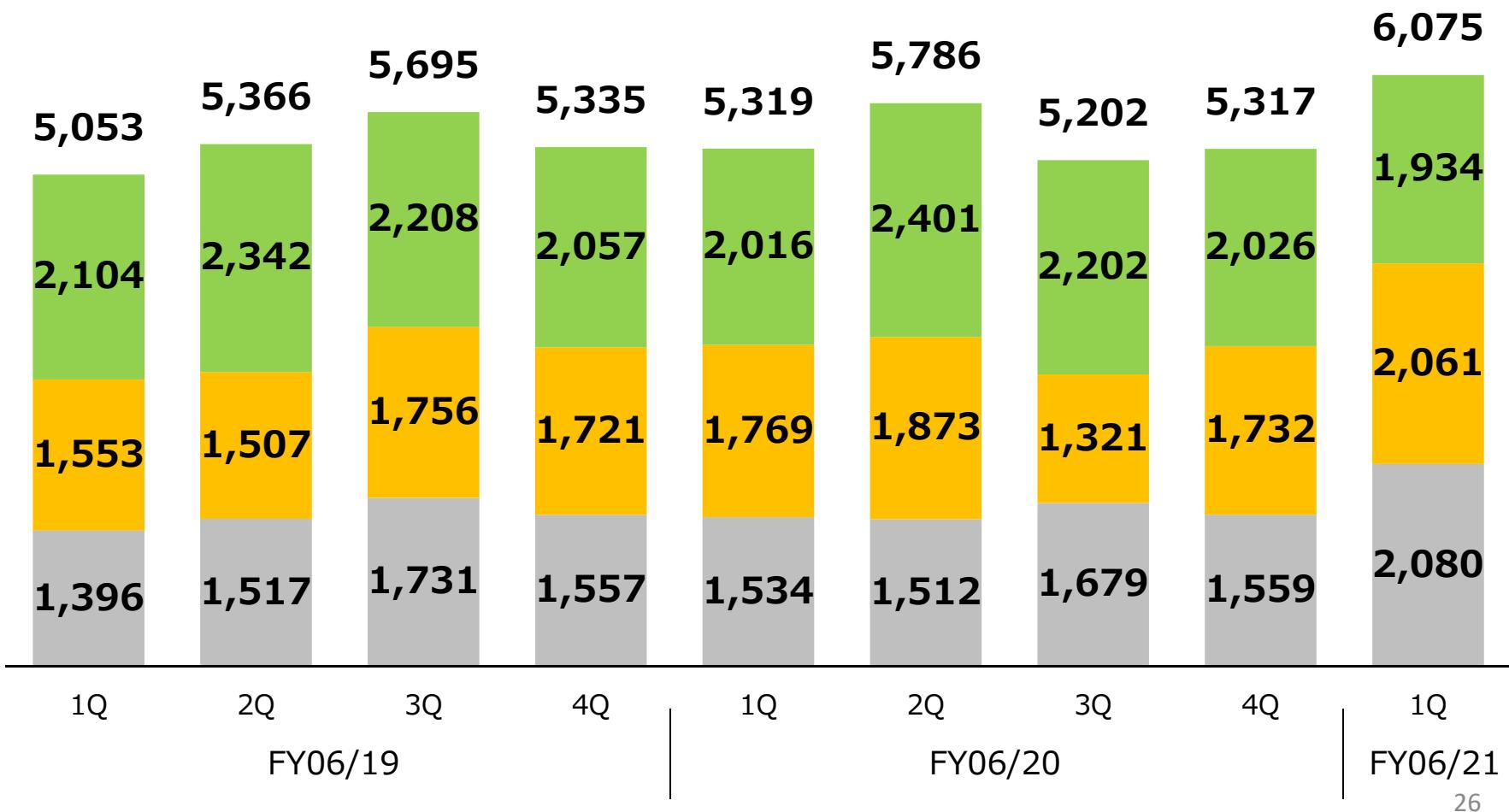
		FY06/20				FY06/21			
		Full-year	Q1	Q2	Q3	Q4	Full-year		
Net sales	Initial plan		224	235	235	246	940		
	Actual	828	224						
Gross profit	Initial plan		(14)	(10)	(29)	(22)	(75)		
	Actual	(24)	(37)	Q1: increased costs temporary by system trouble recovery					
導入社数		■ IPRETS	0	0	1	1	1	1	
		■ IGATES	2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

# Orders on hand

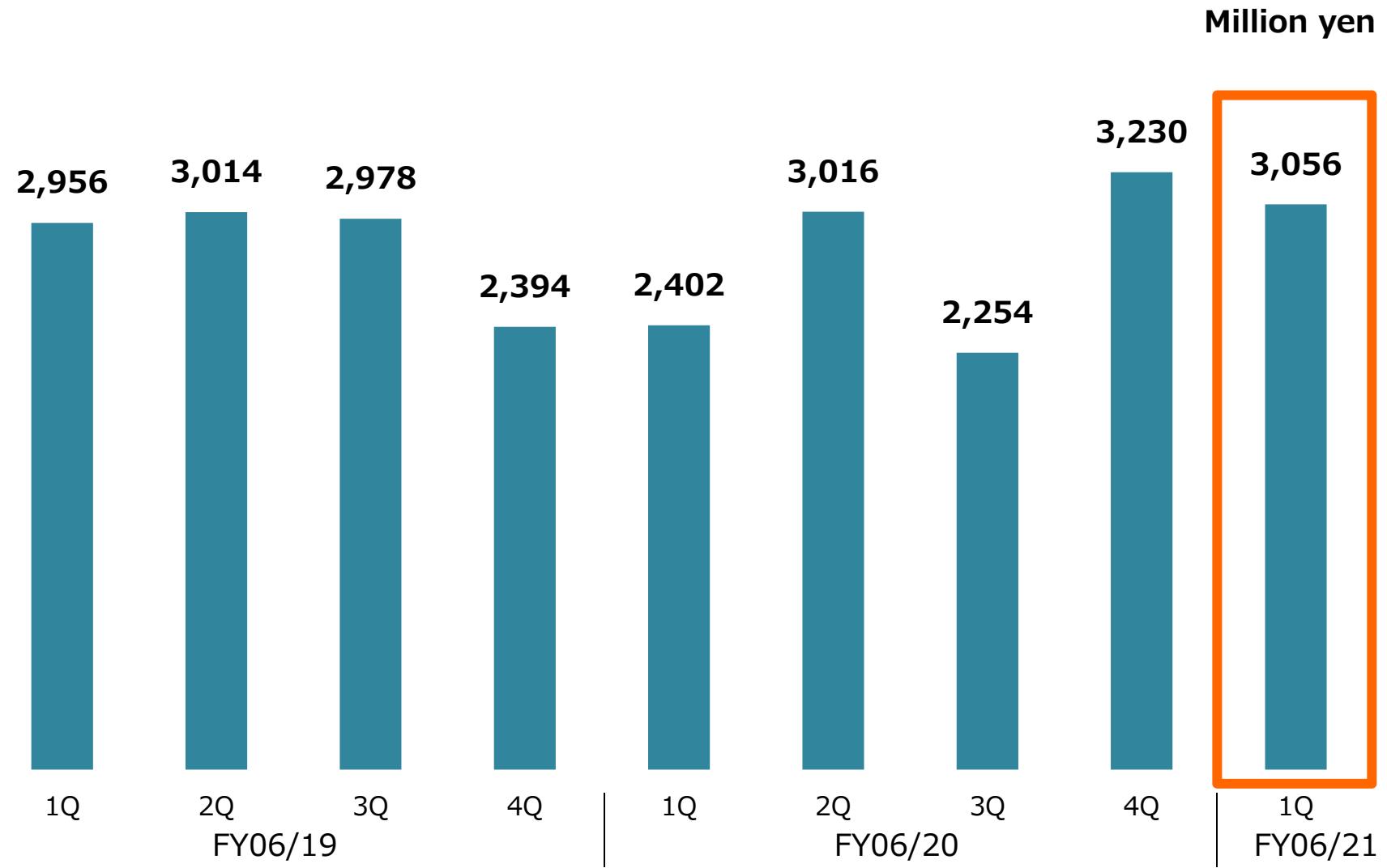


- ...Cloud service business
- ...Software development
- ...Other

Million yen



# Amount of orders



# Q1 FY06/21

## Sales by categories



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

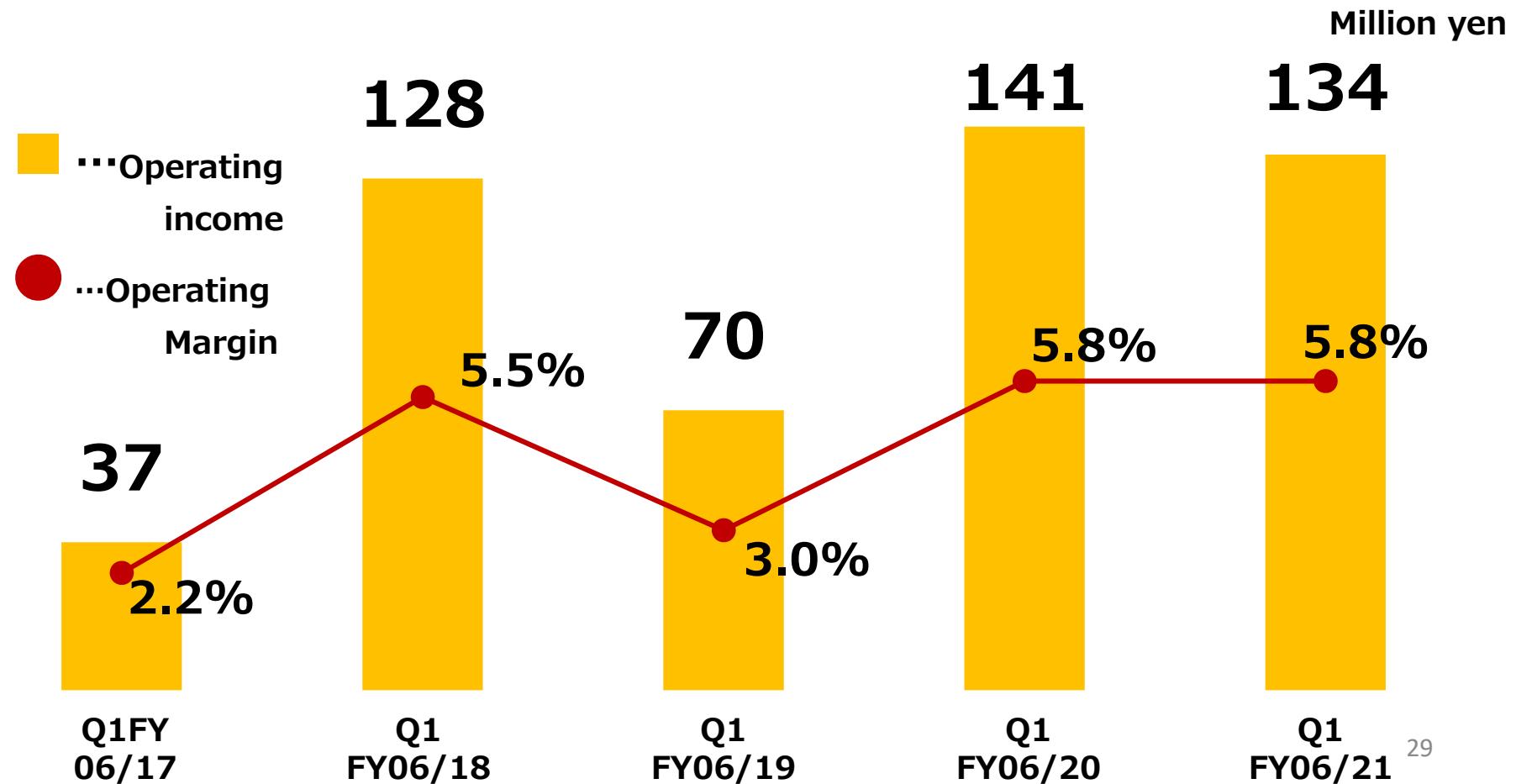
	Q1 FY06/20	Q1 FY06/21	Million yen
			Change
Net sales	2,417	2,298	(119)
System Development	1,251	1,113	(138)
Maintenance	301	315	14
In-house products	97	144	47
Cloud service	178	224	46
Hardware	353	208	(145)
Third party products	61	110	49
Security products	173	181	8
<hr/> Operating income	<hr/> 141	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

# 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

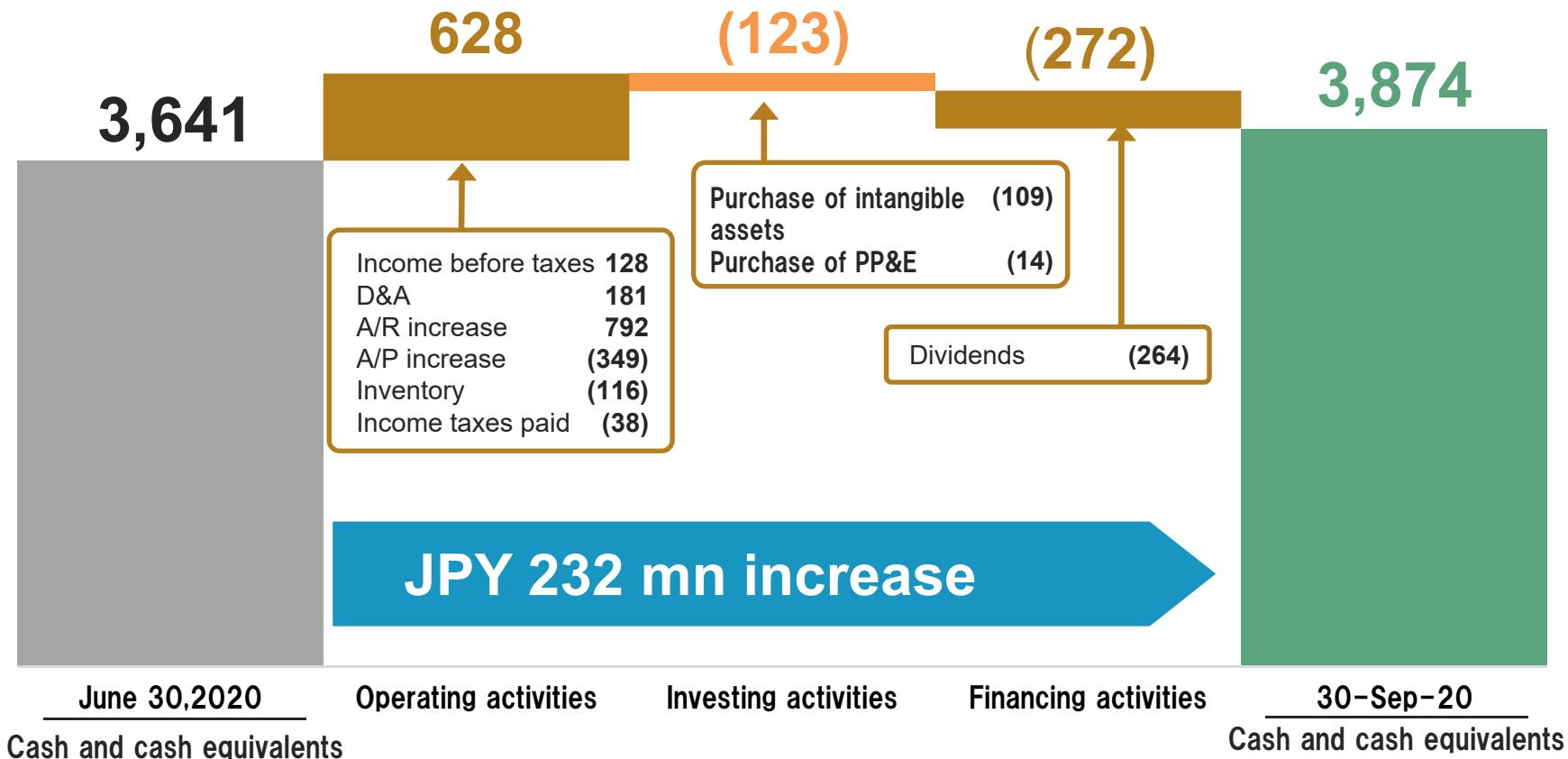
Q1 FY06/20 Q1 FY06/21 Change Million yen

SG&A expenses	480	454	(26)
(Breakdown)			
Increase in salaries		(15)	
Training and recruiting		(8)	
Advertising		(8)	
Research and development		+4	
Others		+1	

# FY06/21: Cash flows

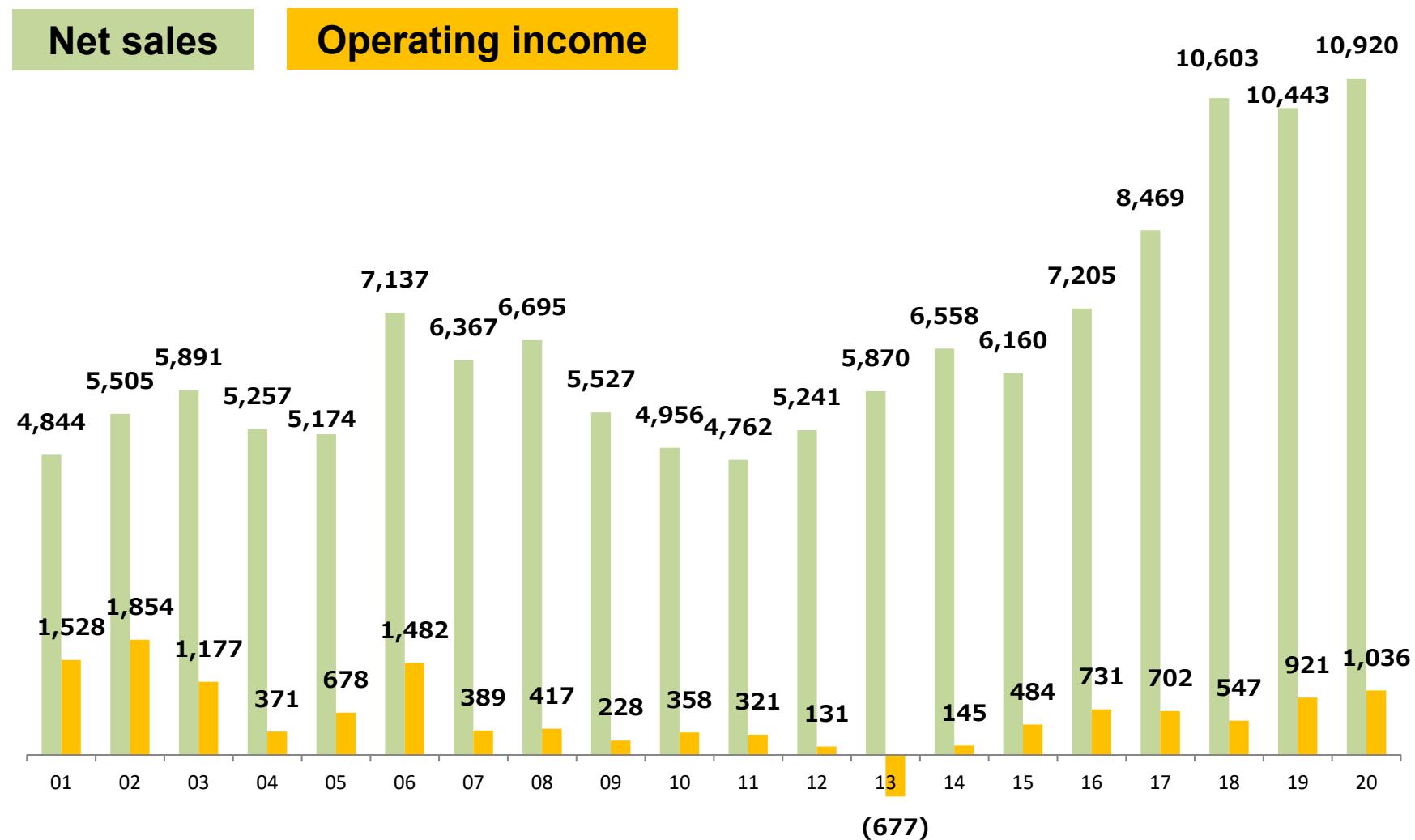


Million yen



# Historical performance

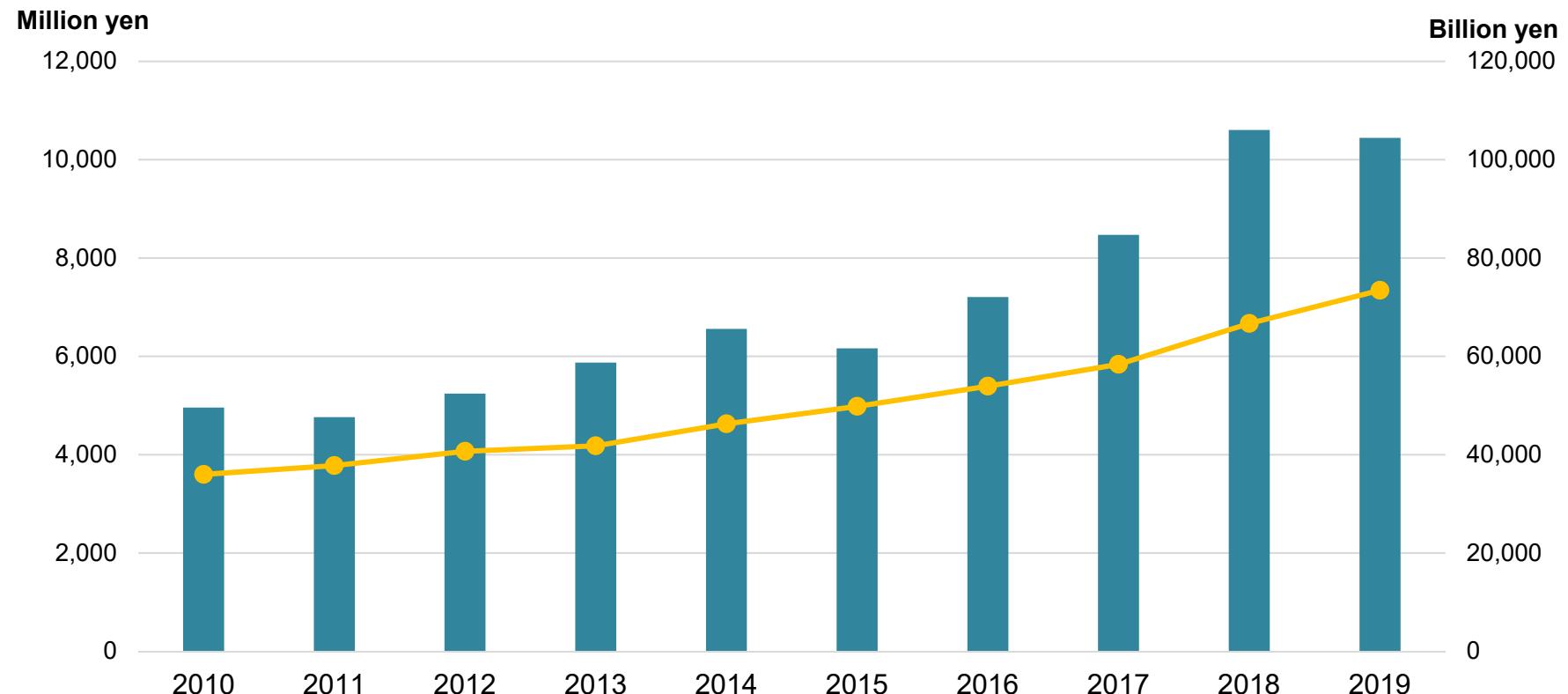
Million yen



Note: Consolidated results are shown through FY06/15.

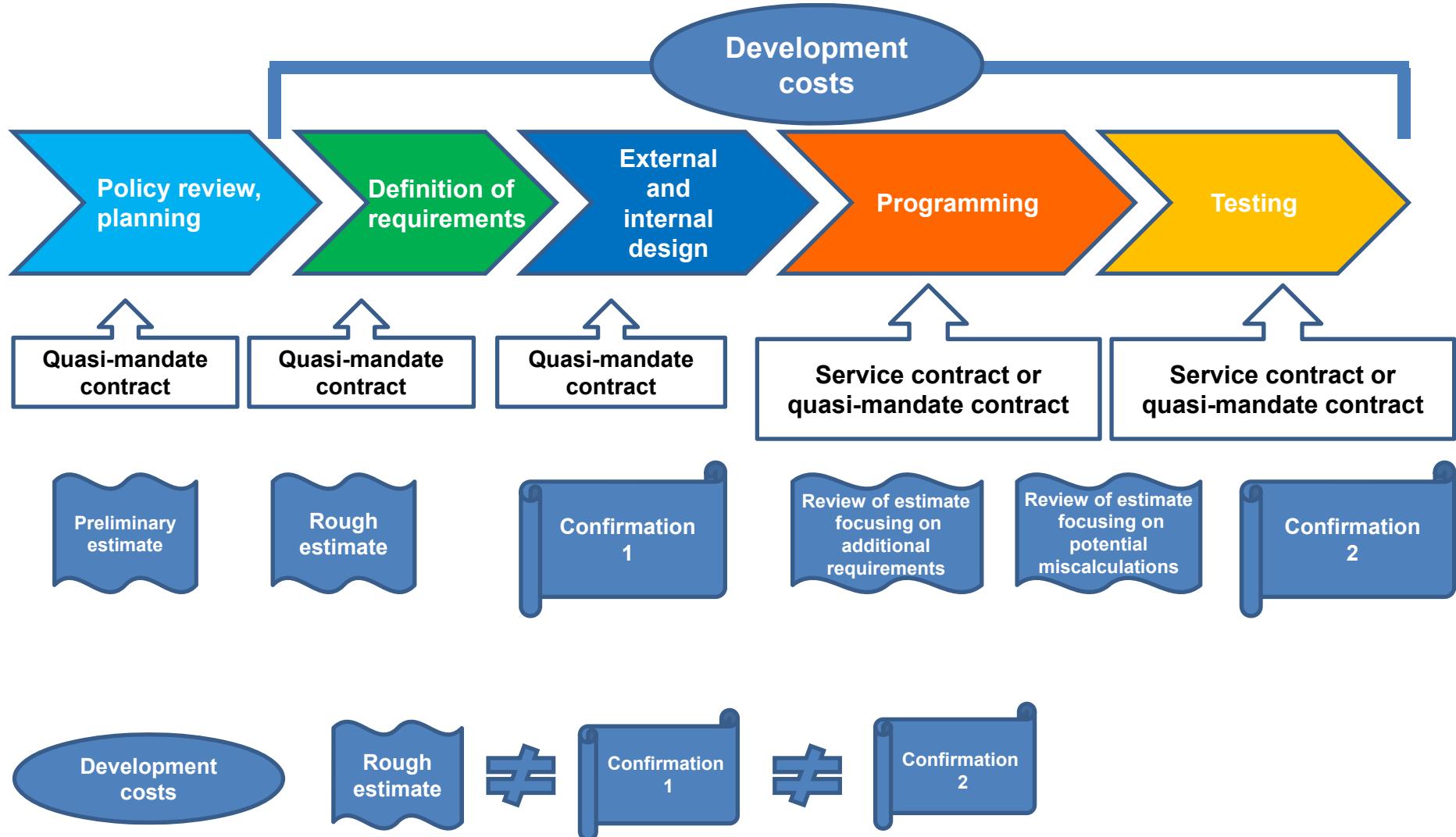
# (Reference) Relationship between company performance and credit card use

- 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%	98.54%
Japanese financial institutions	6.61%	0.14%
Other Japanese corporations	51.07%	0.41%
Foreign corporations	4.84%	0.65%
Japanese securities firms	0.71%	0.25%
Treasury stock	0.16%	0.01%



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**Intelligent Wave Inc.**

**Management Planning Office   E-mail: [ir\\_info@iwi.co.jp](mailto:ir_info@iwi.co.jp)**