
Quarterly Securities Report

The 1st half of the 38th Business term,
from July 1, 2020 to December 31, 2020

INTELLIGENT WAVE INC.

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.

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Chapter 1 【Company Overview】

Section 1 【General Information】

1 【Selected financial data】 JGAAP

	1st half ended December 31, 2019	1st half ended December 31, 2020	Fiscal year ended June 30, 2020
	From July 1, 2019 To December 31, 2019	From July 1, 2020 To December 31, 2020	From July 1, 2019 To June 30, 2020
Net sales	Thousands of yen	4,967,041	5,247,940
Ordinary income	Thousands of yen	360,053	421,100
Net income	Thousands of yen	237,106	285,628
Investment income under the equity method	Thousands of yen	509	3,658
Capital stock	Thousands of yen	843,750	843,750
Number of shares issued		26,340,000	26,340,000
Net assets	Thousands of yen	6,542,795	7,073,419
Total assets	Thousands of yen	9,814,513	10,430,736
Earnings per share	Yen	9.03	10.86
Fully diluted earnings per share	Yen	—	—
Dividends per share	Yen	—	—
Shareholders' equity ratio	(%)	66.7	67.8
Net cash provided by operating activities	Thousands of yen	38,373	574,730
Net cash provided by investing activities	Thousands of yen	(405,776)	(195,513)
Net cash provided by operating activities	Thousands of yen	(389,803)	(278,914)
Cash and cash equivalents at end of period	Thousands of yen	2,498,122	3,741,171
			3,641,864

	2nd quarter for FY06/2020	2nd quarter for FY06/2021
	From October 1, 2019 to December 31, 2019	From October 1, 2020 to December 31, 2020
Earnings per share	Yen	5.57
		7.68

(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 for the first half of the current fiscal year.

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 half of the current fiscal year, 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) Overview of operating results

The Japanese economy in the first half of the FY06/2021, from July to December 2020, was in a difficult environment due to the effects of COVID-19. Consumer spending is presumably coming to pick up overall, although consumption of services such as eating-out and accommodation were at a low level. The volumes of credit card shopping of major credit card companies since September 2020 have remained below the previous year's results, but monthly results are improving year over year.

Although, the company's business and results have remained stable without significant bad effect by far, if business condition of each credit card companies, our key business domain, would make the capex plan of each revised, then may affect to our earnings forecasts and mid-term business plan.

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.*

* As we disclosed at January 8, 12 and February 1, 2021, one of our subcontractor's employees and two employees of ours had been infected with COVID-19.

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.

In addition, we are engaged sales of In-house product to prevent enterprises from an internal information leakage and the third party products for cyber-security.

The financial results for the first half of the FY06/2021 has not been effected by COVID-19.

The company recorded the net sales of 5,247 million yen (increased 5.7%, YoY), operating income of 405 million yen (increased 10.0%, YoY), ordinary income of 421 million yen (increased 17.0%, YoY) and net income of 285 million yen (increased 20.5%, YoY).

Both net sales and operating income exceeded the initial forecasts and previous year results.

Regarding financial industry business, we had engaged system development projects to replace FEP system and fraud detection system and to add functions to system in operation, and hardware sales.

The hardware sales exceeded the previous fiscal year result by the sales of servers applying to system development projects we engaged, and the projects replacing specific model servers. The sales of the third party products for the new customers' development projects have exceeded the previous fiscal year results, too. In addition, cloud service business has grown from the previous fiscal year as initially planned.

Although the sales of system development has declined from the previous fiscal year results, it was in-line with the initial plan.

Meanwhile, information security business lost momentum of the third party products sales and lowered the previous fiscal year results.

(Reference) Sales by categories		(Million yen)	
Category	First half for FY06/20	First half for FY06/21	Stock / Flow
System Development	2,574	2,437	Flow
Maintenance	606	647	Stock
In-house products	179	209	Flow
Cloud service	390	470	Stock
Hardware	680	872	Flow
Third party products	95	240	Flow
Security products	440	369	Flow
Total	4,967	5,247	

(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 has exceeded the initial forecast and previous fiscal year result.

We executed system development projects as initially planned and have had no unprofitable project. Operating income exceeded year over year because the sales both hardware and third party products increased from previous fiscal year.

Information security business missed the net sales in previous fiscal year, but the gross loss declined from the previous fiscal year by the reduction of expense.

We received a comparatively large new order in cloud service business in previous second quarter FY06/2020, new additional order was not booked in the business this second quarter FY06/2021. As a result, amount of orders lowered the previous fiscal year. Also orders on hand slightly declined from the previous year, but the backlog of orders from system development projects and hardware sales, which are expected to be recorded as sales in the second half of the current fiscal year, exceeds the previous fiscal year's results, and our business remains strong. There is no change in the forecast for the end of the current fiscal year ending June 30, 2021.

Although we may have a project in progress, which the timing of sales recorded will be postponed in the second half of this fiscal year, we project no major effect to the full-year forecasts under COVID-19.

(2) Report of Financial Position

(Assets)

The balance of assets at the end of the first half of this fiscal year decreased by 121 million yen from the end of the previous fiscal year to 10,430 million yen. Current assets increased by 75 million yen from the end of the previous fiscal year to 6,456 million yen. This was mainly due to the decrease of 133 million yen in notes and accounts receivable, increase of 99 million yen in cash and deposits and the increase of 108 million yen in inventories.

Non-current assets decreased 196 million yen from the end of the previous fiscal year to 3,974 million yen. This was mainly due to the decrease of 29 million yen in property, plant and equipment and the decrease of 146 million yen in software, and increase of 97 in investment securities.

(Liabilities)

The balance of liabilities at the end of the first half of this fiscal year decreased by 211 million yen from the end of the previous fiscal year to 3,357 million yen. This was mainly due to the decrease of 29 million yen in provision for bonuses and the decrease of 243 in advance received, and the increase of 52 million yen in income tax payable.

(Net Assets)

Net assets at the end of the first half of this fiscal year increased 89 million yen from the end of the previous fiscal year to 7,073 million yen. This was mainly due to the increase of 22 million yen in retained earnings and increase of 67 million yen in valuation difference on available-for-sale securities.

(Report of Cash Flows)

The balance of cash and deposits at the end of first half of the current fiscal year was ended 3,741 million yen (2,498 million yen at the end of the previous fiscal year).

(Cash flows from operating activities)

Net cash provided by operating activities in the first half of the current fiscal year amounted to 574 million yen (net cash amounted in the previous fiscal year was 38 million yen). This was mainly attributable to the fact that income before taxes amounted 421 million yen and depreciation amounted 357 million yen, and notes and accounts receivable increased 110 million yen, and inventories increased 108 million yen by the production cost of system development works in progress.

(Cash flows from investing activities)

Net cash used in investing activities in the first half of the current fiscal year was 195 million yen (compared with 405 million yen used in the previous fiscal year). This was mainly due to the purchase of intangible fixed assets by the development works of the software for sales purposes and the internal use by 164 million yen.

(Cash flows from financing activities)

Net cash used in financing activities in the first half of the current fiscal year was 278 million yen (389 million yen used in the previous fiscal year). This was mainly due to cash dividends paid of 262 million yen.

(3) Statement for the Future Forecast such as Business Forecast

There is no revision to the business forecast announced on August 5, 2020, "Summary of Non-consolidated Financial Results for the Fiscal Year Ended June 2020".

(4) Business and Financial Tasks to be addressed

There have been no significant change in the task to be addressed by the Group's business for the first half of the current fiscal year.

(5) Research and development activities

R&D expenditures for the first half of the current fiscal year totaled 30 million yen.

The company executed proving test for scoring function of in-house product, next generation fraud detection system "FARIS", and research project for sharing front system.

3 【Important agreements for business】

There have been no critical business contracts in the first half of the current fiscal year

Section 3 【Status of the company】

1 【Shares】

(1) 【Total number of shares】

① 【Total number of shares】

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

② 【Issued Shares】

Class	Number of shares issued as of December 31,2020	Number of shares issued at the filing date (February 5, 2021)	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】

① 【Stock Options】

Not applicable

② 【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	Balance of capital stock	Change in capital reserve	Balance of capital reserve
October 1, 2020～December 31, 2020	—	26,340,000	—	843,750	—	559,622

(5) 【Major Shareholders】

As of December 31, 2021

Name of shareholder	Address	Number of shares held	Ownership percentage to the issued shares (%)
Dai Nippon Printing Co., Ltd.	1-1-1, Ichigaya-Kagacho Shinjuku-ku, Tokyo	13,330,700	50.70
Kazuhiko Adachi	Konan-ku, Yokohama Kanagawa pref.	2,382,900	9.06
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	747,700	2.84
Custody Bank of Japan, Ltd.	Harumi Island Triton Square Tower Z 8-12, Harumi 1-Chome, Chuo-ku, Tokyo	557,600	2.12
INTELLIGENT WAVE Employee Shareholders Association	1-21-2 Shinkawa Chuo-ku, Tokyo	538,900	2.05
Motoichi Mizota	Chiyoda-ku, Tokyo	301,000	1.14
BNYM AS AGT/CLTS NON TREATY JASDEC (Standing proxy: MUFG Bank, Ltd.)	240 GREENWICH STREET, NEW YORK, NEW YORK 10286 U.S.A (2-7-1 Marunouchi Chiyoda-ku, Tokyo)	223,951	0.85
Hideki Nishino	Midori-ku, Yokohama Kanagawa pref.	209,000	0.79
MUFG Bank, Ltd.	2-7-1 Marunouchi Chiyoda-ku, Tokyo	200,000	0.76
Hirotsugu Kobayashi	Yachiyo, Chiba pref.	191,600	0.73
Total	—	18,683,351	71.05

(6) 【Voting Rights】

① 【Issued shares】

As of December 31, 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 45,600	—	—
Shares with full voting rights (others)	Common stock 26,274,700	262,747	—
Shares representing less than one unit	Common stock 19,700	—	—
Number of issued shares	26,340,000	—	—
Total number of voting rights	—	262,747	—

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

② 【Treasury stock】

As of December 31, 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 Chuoku, Tokyo	45,600	—	45,600	0.17
Total	—	45,600	—	45,600	0.17

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 second quarter (from October 1, 2020 to December 31, 2020) and for the first half (from July 1, 2020 to December 31, 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 December 31,2020)
Assets		
Current assets		
Cash and deposits	3,641,864	3,741,171
Notes and accounts receivable	1,720,318	1,586,894
Inventories	*1	413,482
Other	605,574	522,183
Total current assets	6,381,239	6,456,466
Non-current assets		
Property, plant and equipment	537,972	508,757
Intangible assets		
Software	1,262,416	1,218,995
Other	202,895	100,260
Total intangible assets	1,465,312	1,319,255
Investments and other assets		
Investment securities	1,359,193	1,457,124
Other	808,293	689,133
Total investments and other assets	2,167,487	2,146,257
Total non-current assets	4,170,771	3,974,270
Total assets	10,552,011	10,430,736
Liabilities		
Current liabilities		
Notes and accounts payable	627,020	623,767
Income taxes payable	61,971	114,692
Advances received	1,381,890	1,138,462
Provision for bonuses	295,182	265,388
Provision for bonuses for directors	42,682	17,173
Other	541,881	566,058
Total current liabilities	2,950,627	2,725,543
Non-current liabilities		
Provision for retirement benefits	490,430	518,348
Provision for retirement benefits for Directors	30,052	20,250
Asset retirement obligations	87,421	87,454
Other	10,010	5,720
Total non-current liabilities	617,914	631,773
Total liabilities	3,568,542	3,357,317

	Thousands of yen	
	Previous term end (as of June 30,2020)	Current term end (as of December 31,2020)
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus	573,099	573,099
Retained earnings	5,043,372	5,066,017
Treasury stock	(26,712)	(26,712)
Total shareholders' equity	<hr/> 6,433,508	6,456,153
Valuation and translation adjustments		
Valuation difference on available-for-sale	549,960	617,265
Securities	<hr/>	
Total valuation and translation	549,960	617,265
Adjustments	<hr/>	
Total net assets	<hr/> 6,983,469	7,073,419
Total liabilities and net assets	<hr/> 10,552,011	10,430,736

(2) Income Statement

	Thousands of yen	
	Previous term (from July 1, 2019 to December 31, 2019)	Current term (from July 1, 2020 to December 31, 2020)
Net sales	4,967,041	5,247,940
Cost of sales	3,633,129	3,858,124
Gross income	1,333,911	1,389,816
Selling, general and administrative expenses	*1 965,130	984,228
Operating income	368,781	405,587
Non-operating income		
Interest income	305	344
Dividend income	20,735	20,887
Other	2,366	3,805
Total non-operating income	23,408	25,036
Non-operating expenses		
Interest expenses	55	21
Commitment fee	2,113	2,758
Compensation expenses	29,618	5,000
Other	348	1,744
Total non-current expenses	32,135	9,524
Ordinary income	360,053	421,100
Extraordinary income	—	—
Extraordinary losses	—	—
Income before income taxes	360,053	421,100
Income taxes - current	65,785	92,125
Income taxes - deferred	57,161	43,345
Total income taxes	122,947	135,471
Net income	237,106	285,628

(3) Cash Flow Statement

	Previous term (from July 1,2019 to December 31, 2019)	Current term (from July 1,2020 to December 31, 2020)	Thousands of yen
Cash flows from operating activities			
Income before income taxes	360,053	421,100	
Depreciation	291,632	357,515	
Share-based remuneration expenses	24,282	38,787	
Increase (decrease) in provision for bonuses	(46,380)	(29,794)	
Increase (decrease) in provision for bonuses for directors (and other officers)	(25,005)	(25,508)	
Increase (decrease) in provision for retirement benefits	22,868	27,918	
Increase (decrease) in provision for retirement benefits for directors (and other officers)	3,057	(9,802)	
Interest and dividend income	(21,041)	(21,231)	
Interest expenses	55	21	
Compensation expenses	29,618	5,000	
Commitment fee	2,113	2,758	
Decrease (increase) in notes and accounts receivable	(85,257)	(110,002)	
Decrease (increase) in inventories	(206,849)	(108,700)	
Increase (decrease) in notes and accounts payable	100,471	(11,150)	
Other	(100,209)	60,782	
Subtotal	349,408	597,692	
Interest and dividend income received	21,099	21,226	
Interest expenses paid	(47)	(19)	
Commitment fee paid	(2,215)	(2,443)	
Income taxes paid	(329,871)	(41,726)	
Net cash provided by (used in) operating activities	38,373	574,730	
Cash flows from investing activities			
Purchase of property, plant and equipment	(119,233)	(29,044)	
Purchase of intangible assets	(295,949)	(164,866)	
Purchase of investment securities	(1,043)	(1,218)	
Other	10,450	(384)	
Net cash provided by (used in) investing activities	(405,776)	(195,513)	

	Thousands of yen	
	Previous term (from July 1,2019 to December 31, 2019)	Current term (from July 1,2020 to December 31, 2020)
Cash flows from financing activities		
Repayments of lease obligations	(17,781)	(16,704)
Purchase of treasury stock	(136,100)	—
Cash dividends paid	(235,921)	(262,209)
Net cash provided by (used in) financing activities	(389,803)	(278,914)
Effect of exchange rate change on cash and cash equivalents	414	(994)
Net increase (decrease) in cash and cash equivalents	(756,791)	99,307
Cash and cash equivalents at beginning of period	3,254,913	3,641,864
Cash and cash equivalents at end of period	*1 2,498,122	*1 3,741,171

【Notes to Financial Statement】

(Balance Sheet)

*1 Inventories	(Thousand yen)	
	Previous term (June 30, 2020)	Current term (December 31, 2020)
Merchandise and finished Goods	26,675	14,912
Work in progress	381,557	503,982
Raw materials and supplies	5,249	3,288

2 Previous term (as of June 30, 2020)

The company has executed an overdraft agreement and a loan commitment agreement with 4 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 December 31, 2020)

The company has executed an overdraft agreement and a loan commitment agreement with 4 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.

(Income Statement)

*1 Selling, general and administrative expenses	(Thousand yen)	
	Previous term (from July 1, 2019 to December 31, 2019)	Current term (from July 1, 2020 to December 31, 2020)
Salaries and allowances	348,185	335,253
Research and development expenses	11,259	30,977
Provision for bonuses	57,334	76,080
Provision for directors' retirement benefits	3,057	2,677
Retirement benefit expenses	23,935	13,365
Provision for directors' bonuses	15,169	17,173

(Cash Flow Statement)

*1 "Cash and Cash Equivalents" at the end of the period on the Cash Flow statement reconciles to "Cash and deposits" on the Balance Sheet as follows;

	Previous term (from July 1, 2019 to December 31, 2019)	Current term (from July 1, 2020 to December 31, 2020)
Cash and deposits	2,498,122	3,741,171
Time deposits exceeding 3 months	—	—
Cash and Cash Equivalents	2,498,122	3,741,171

(Shareholders' equity)

Previous term (from July 1, 2019 to December 31, 2019)

Cash dividends paid

Resolution	Class	Dividends (Thousand 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, 2020 to December 31, 2020)

Cash dividends paid

Resolution	Class	Dividends (Thousand yen)	Dividends per share (Yen)	Record date	Effective date	Source of dividends
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 in the first quarter of current fiscal year.

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)		(Thousand yen)
	Previous term (as of June 30, 2020)	Current term (as of December 31, 2020)
Investment to affiliates	24,680	24,680
Investment under the equity method	125,953	124,143
	Previous term (from July 1, 2019 to December 31, 2019)	Current term (from July 1, 2020 to December 31, 2020)
Investment income under the equity method	509	3,658

(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, 2019 to December 31, 2019)	Current term (from July 1, 2020 to December 31, 2020)
Net income per share (Yen)	9.03	10.86
Bases of calculation		
Net income (Thousand yen)	237,106	285,628
Non attributable to common shareholders	—	—
Net income attributes to common stocks (Thousand yen)	237,106	285,628
Weighted-average number of common stocks outstanding for the period	26,246,126	26,296,117

(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