
Quarterly Securities Report

The Third Quarter of the 38th Business term,
from July 1, 2020 to March 31, 2021

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

		3 rd quarter ended March 31, 2020	3 rd quarter ended March 31, 2021	Fiscal year ended June 30, 2020
Fiscal Term		From July 1, 2019 To March 31, 2020	From July 1, 2020 To March 31, 2021	From July 1, 2019 To June 30, 2020
Net sales	Thousands of yen	7,805,470	8,067,013	10,920,848
Ordinary income	Thousands of yen	601,010	696,434	1,074,827
Net income	Thousands of yen	398,418	470,631	762,053
Investment income under the equity method	Thousands of yen	5,782	1,686	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	6,475,210	7,217,748	6,983,469
Total assets	Thousands of yen	9,703,558	10,673,369	10,552,011
Earnings per share	Yen	15.17	17.90	29.00
Fully diluted earnings per share	Yen	—	—	—
Dividends per share	Yen	—	—	10
Shareholders' equity ratio	(%)	66.7	67.6	66.2

		3 rd quarter for FY06/2020	3 rd quarter for FY06/2021
Fiscal Term		From January 1, 2020 To March 31, 2020	From January 1, 2021 To March 31, 2021
Earnings per share	Yen	6.13	7.04

- (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 third quarter 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 third quarter 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) Report of Operating Results

The Japanese economy in the third quarter of the FY06/2021, from January 2021 to March 2021, was in a difficult environment due to the effects of COVID-19. While it is said that the economy as a whole is presumably coming to pick up overall, its speed is very slow that uncertainty remains in growth forecast of enterprise and household expense.

Face-to-face consumption in consumer spending has shrunk and the credit card shopping transactions of major credit card companies have remained below the previous year's result.

Although the company's business and results have remained stable with no 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.

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 the In-house product to prevent enterprises from an internal information leakage and the third-party products for cyber-security.

The company recorded the net sales of 8,067 million yen (increased 3.4 %, YoY), operating income of 678 million yen (increased 15.9 %, YoY), ordinary income of 696 million yen (increased 15.9 %, YoY) and net income of 470 million yen (increased 18.1 %, YoY). Both net sales and operating income exceeded the previous fiscal year results.

In 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 results by the sales of hardware 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 have declined from the previous fiscal year results, the growth of sales of products such as hardware, offsets the decline.

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

(Reference) Sales by categories

(Million yen)

Category	Q3 for FY06/20	Q3 for FY06/21	Stock / Flow
System Development	4,382	3,710	Flow
Maintenance	926	992	Stock
In-house products	207	267	Flow
Cloud service	609	702	Stock
Hardware	869	1,339	Flow
Third-party products	148	431	Flow
Security products	661	622	Flow
Total	7,805	8,067	

(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 previous fiscal year result.

Financial industry business recorded the net sales of 7,444 million yen (increased 4.2 %, YoY), exceeded the previous fiscal year results. Although the sales of both Hardware and Third-party products surpassed the previous fiscal year results, System Development result declined. As a result, operating income was 740 million yen (increased 1.1 %, YoY) remained at the same level as the previous fiscal year. The operating income of the information security business improved from the previous fiscal year by the reduction of expenses despite lower sales results.

Orders on hand of our Cloud service business was diminishing due to little amount of new order in this quarter. Orders on hand of our information security business declined from the previous fiscal year, as well. However, Orders on hand of Hardware sales, Third-party product sales and System Development increased from the previous fiscal year results. As a result, orders on hand of the company surpassed the previous year results. There is no change in the forecast for the end of the current fiscal year ending June 30, 2021.

Although the influence of COVID-19 may postpone the timing of sales recorded in system development in the fourth quarter of this fiscal year, it would not have significant impact on the full-year forecasts.

(2) Report of Financial Position

(Assets)

The balance of assets at the end of the third quarter of this fiscal year increased by 121 million yen from the end of the previous fiscal year to 10,673 million yen. Current assets increased by 292 million yen from the end of the previous fiscal year to 6,673 million yen. This was mainly due to the decrease of 381 million yen in notes and accounts receivable, increase of 533 million yen in cash and deposits, and the increase of 139 million yen in inventories. Non-current assets decreased by 170 million yen from the end of the previous fiscal year to 3,999 million yen. This was mainly due to the increase of 39 million yen in investment securities and the decrease of 147 million yen in software.

(Liabilities)

The balance of liabilities at the end of the third quarter of this fiscal year decreased by 112 million yen from the end of the previous fiscal year to 3,455 million yen. This was mainly due to the increase of 69 million yen in income tax payable, the increase of 178 million yen in provision for bonuses, the decrease of 57 million yen in Notes and accounts payable, and the decrease of 223 million yen in advance received.

(Net Assets)

Net assets at the end of the third quarter of this fiscal year increased by 234 million yen from the end of the previous fiscal year to 7,217 million yen. This was mainly due to the increase of 207 million yen in retained earnings and the increase of 26 million yen in valuation difference on available-for-sale securities.

(3) Business and Financial Task to be addressed

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

(4) Research and development activities

R&D expenditures for the third quarter of the current fiscal year totaled 50 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 third quarter 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 March 31, 2021	Number of shares issued at the filing date, May 10, 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 others】

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 January 1, 2021 To March 31, 2021	—	26,340,000	—	843,750	—	559,622

(5) 【Major Shareholders】

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

(6) 【Voting rights】

The number of voting rights by the shareholder registry based on the record date, December 31, 2020 was as indicated below.

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 Chuo-ku, 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 third quarter (from January 1, 2021 to March 31, 2021) and for the cumulative period of the third quarter (from July 1, 2020 to March 31, 2021) by BDO Sanyu & Co..

3. Quarterly Consolidated Financial Statements

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

2. Financial Statements

(1) Balance Sheet

	Thousands of yen	
	Previous term end (as of June 30,2020)	Current term end (as of March 31,2021)
Assets		
Current assets		
Cash and deposits	3,641,864	4,175,031
Notes and accounts receivable	1,720,318	1,338,380
Inventories	413,482	553,004
Other	605,574	607,105
Total current assets	6,381,239	6,673,522
Non-current assets		
Property, plant and equipment	537,972	524,054
Intangible assets		
Software	1,262,416	1,177,008
Other	202,895	141,031
Total intangible assets	1,465,312	1,318,039
Investments and other assets		
Investment securities	1,359,193	1,398,685
Other	808,293	759,067
Total investments and other assets	2,167,487	2,157,752
Total non-current assets	4,170,771	3,999,846
Total assets	10,552,011	10,673,369
Liabilities		
Current liabilities		
Notes and accounts payable	627,020	569,597
Income taxes payable	61,971	131,408
Advances received	1,381,890	1,158,179
Provision for bonuses	295,182	473,879
Provision for bonuses for directors	42,682	28,735
Other	541,881	451,337
Total current liabilities	2,950,627	2,813,138
Non-current liabilities		
Provision for retirement benefits	490,430	530,024
Provision for retirement benefits for directors	30,052	21,411
Asset retirement obligations	87,421	87,471
Other	10,010	3,575
Total non-current liabilities	617,914	642,482
Total liabilities	3,568,542	3,455,620

Thousands of yen

	Previous term end (as of June 30,2020)	Current term end (as of March 31,2021)
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus	573,099	573,099
Retained earnings	5,043,372	5,251,019
Treasury stock	(26,712)	(26,712)
Total shareholders' equity	6,433,508	6,641,156
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	549,960	576,592
Total valuation and translation adjustments	549,960	576,592
Total net assets	6,983,469	7,217,748
Total liabilities and net assets	10,552,011	10,673,369

(2) Income Statement

Thousands of yen

	Previous term (from July 1,2019 to March 31,2020	Current term (from July 1,2020 to March 31,2021
Net sales	7,805,470	8,067,013
Cost of sales	5,782,816	5,911,349
Gross income	2,022,654	2,155,664
Selling, general and administrative expenses	1,436,913	1,477,002
Operating income	585,740	678,661
Non-operating income		
Interest income	487	514
Dividend income	20,735	20,887
Insurance claim income	28,028	—
Other	3,196	5,097
Total non-operating income	52,448	26,499
Non-operating expenses		
Interest expenses	76	25
Commitment fee	3,048	3,991
Compensation expenses	33,679	3,613
Other	373	1,095
Total non-current expenses	37,178	8,726
Ordinary income	601,010	696,434
Extraordinary income	—	—
Extraordinary losses		
Loss on retirement of non-current assets	—	4,713
Total extraordinary losses	—	4,713
Profit before income taxes	601,010	691,721
Income taxes - current	191,563	234,526
Income taxes - deferred	11,027	(13,437)
Total income taxes	202,591	221,089
Net income	398,418	470,631

【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 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 March 31, 2021)

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.

(Cash Flow Statement)

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

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

			(Thousands of yen)	
			Previous term (From July 1, 2019 To March 31, 2020)	Current term (From July 1, 2020 To March 31, 2021)
Depreciation			439,063	546,824

(Shareholders' equity)

Previous term (from July 1, 2019 to March 31, 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 26 2019	Common stock	236,772	9	June 30, 2019	September 27, 2019	Retained earnings

Current term (from July 1, 2020 to March 31, 2021)

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 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 product 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 March 31, 2021)
Investment to affiliates	24,680	24,680
Investment under the equity method	125,953	123,977

	Thousands of yen	
	Previous term (From July 1, 2019 To March 31, 2020)	Current term (From July 1, 2020 To March 31, 2021)
Investment income under the equity method	5,782	1,686

(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 March 31, 2020)	Current term (from July 1, 2020 To March 31, 2021)
Net income per share (Yen)	15.17	17.90
Bases of calculation		
Net income (Thousands of yen)	398,418	470,631
Non attributable to common shareholders	—	—
Net income attributes to common stocks (Thousands of yen)	398,418	470,631
Weighted-average number of common stocks outstanding for the period	26,264,403	26,295,363

(Note) Fully diluted earnings per share is not stated because the company does 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