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## Quarterly Securities Report

The First Quarter of the 39th Business term,  
from July 1, 2021 to September 30, 2021

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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

	1 <sup>st</sup> quarter ended September 30, 2020	1 <sup>st</sup> quarter ended September 30, 2021	Fiscal year ended June 30, 2021	
Fiscal Term	From July 1, 2020 To September 30, 2020	From July 1, 2021 To September 30, 2021	From July 1, 2020 To June 30, 2021	
Net sales	Thousands of yen	2,298,911	2,251,961	11,187,679
Ordinary income	Thousands of yen	128,507	124,912	1,171,233
Net income	Thousands of yen	83,588	82,862	840,970
Investment income under the equity method	Thousands of yen	142	(466)	5,565
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	6,819,397	7,143,518	7,567,656
Total assets	Thousands of yen	9,996,680	10,548,764	11,140,135
Earnings per share	Yen	3.18	3.15	31.98
Fully diluted earnings per share	Yen	—	—	—
Dividends per share	Yen	—	—	13
Shareholders' equity ratio	(%)	68.2	67.7	67.9

(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 quarter of the current fiscal year.

## Section 2 【Status of Business】

### 1 【Business Risks】

In the first 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 first quarter of the FY06/2022, from July to September 2021, was in a tough spot from the effects of the new coronavirus infection and consumer spending was at a low level, but economic activity is gradually resuming with the progress of the vaccination.

Card shopping transaction volume of major credit card companies has also been higher than the previous year results since April 2021.

The Company aims to achieve "15 ALL" (Fifteen All) as a mid-term business goal, net sales of 15 billion yen and an operating income margin of 15% for the fiscal year ending June 30, 2024.

Based on our strength, the system development business related to payment operations, we are enhancing our profitability by the growth of our cloud service business and expanding our business domain by providing IT infrastructure that contributes to "DX", Digital Transformation, for customers in industries other than finance. Operating income for the fiscal year ending June 30, 2024 is planned to be 2.25 billion yen, almost double the 1.13 billion yen achieved in the fiscal year ended June 30, 2021.

The cloud service business, which is the main driving force behind our mid-term business plan, is planned to generate sales of 1.13 billion yen for the current fiscal year (ending June 30, 2022), and is expected to post a profit for the full-year for the first time since the business started.

In addition, orders are expanding on the active business negotiations with new customers. In the first quarter of this fiscal year, we won 1.0 billion yen in new orders, and the order backlog in the cloud service business grew from 1.85 billion yen at the end of the previous fiscal year to 2.61 billion yen at the end of the first quarter of this fiscal year. We are going to acquire new additional orders in the second quarter of this fiscal year. These orders are expected to contribute to sales in the next fiscal year (ending June 30, 2023) and sales for the next fiscal year (ending June 30, 2023) are expected to grow significantly to 2.0 billion yen.

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 coronavirus 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 FY06/2022 has not been

affected by new corona virus infection.

For the first quarter of the current fiscal year, we recorded net sales of 2,251 million yen (down by 2.0% year-on-year), operating income of 126 million yen (down by 5.7% year-on-year), ordinary income of 124 million yen (down by 2.8% year-on-year), and net income of 82 million yen (down by 0.9% year-on-year). Net sales were slightly lower than the previous fiscal year's results. Compared to the previous fiscal year, sales of servers for new development projects and sales of third-party hardware decreased.

Operating income was slightly lower than the previous year's results. Although net sales decreased from the previous fiscal year and SG&A expenses increased, the results were almost the same as the previous year because of steady operations in system development projects and improved profitability from maintenance and cloud services.

As mentioned above, orders in the cloud service business, which is the driving force for our mid-term business plan, grew significantly during this first quarter.

This was due to orders from companies other than financial industry that are newly launching the acquiring business. New orders from business companies outside the financial industry and credit card companies are also expected in the second quarter of this fiscal year. Our cloud service has become one of the most promising options not only for existing financial companies but also for companies newly starting up their own card and payment businesses.

Our business is progressing as initially planned, and there is no change in the forecast for the first half of the current fiscal year.

We engage the development of FEP (Front End Processing) system for our customers, credit card companies mainly, which include functions such as network connection and card transaction authorization necessary to complete credit card payment processing.

For example, when we develop a new FEP system for customer, we record sales from the sale of NET+1 (In-house product), which constitutes the core of the FEP system, sales from development work (System Development), in which our engineers customize the package to meet the functional requirements of the customer, sales from the sale of servers (Hardware), in which the developed software is installed, and sales from maintenance work (Maintenance) are recorded.

Also, we engage the business of selling our products, which are a prevention tool from internal information leakage in corporate organizations and third-party products for cyber-security measures.

Trends in sales by categories are as follows.

(Chart 1) Sales by categories (Million yen)

Category	FY09/2020	FY09/2021
System Development	1,113	1,170
Maintenance	315	360
In-house products	144	131
Cloud service	224	243
Hardware	208	79
Third-party products	110	69
Security products	181	198
Total	2,298	2,251

From this fiscal year, the category classification in (Chart 1) has been subdivided and categories have been redefined in operation.

We have revised categories to show the classification of sales based on the so-called "stock" and "flow" type in more precise than before. Judged from the type of contract and the actual status of the services, we have classified projects and contracts that can generate a certain amount of sales on a regular basis as "stock" and the rest of those as "flow".

Typical examples of "stock" type sales are fees for the use of systems and system operations related to the cloud service business, or fees for maintenance service for our products or third-party products. Cloud service fees are categorized as "Own Services". Typical "flow" type sales include fees for contracted development work and sales of the In-house products and third-party products. Results for this quarter are as follows.

(Chart 2) Categories by Stock and Flow (Million yen)

Category	FY09/2021	Ratio (%)
Software Development	888	39.4
In-house products	128	5.7
System Service	8	0.4
Third-party products	29	1.3
Sum of "Flow" type sales	1,055	46.9
Maintenance	624	27.7
Maintenance of third-party products	142	6.3
Own Services	308	13.7
Other Services	120	5.3
Sum of "Stock" type sales	1,196	53.1
Total	2,251	100.0

July 9, 2021, the Company received the notice from Tokyo Stock Exchange, Inc. that the Company's tradable

share market cap did not reach to 10 billion yen under the criteria of TSE's listing requirement. The tradable share market cap was 8.3 billion yen as of the date. Ratio of tradable shares was 47.2% and compiled to the requirement. And other listing requirements were compiled as well.

After the receipt of the notice, on July 28, the Company announced that we had decided as a guideline to choose to be listed in the Prime market segment in "Notice regarding the judge on the adaptation for the listing requirements on new market segments, TSE, and the policy of the company."

The policies of the Company are to work for the steady execution of "15 ALL", our mid-term business plan, improving corporate governance and enhancing shareholder return. We are going to adapt to listing requirements for Prime market by these actions.

## (2) Report of Financial Position

### (Assets)

The balance of assets at the first quarter of this fiscal year was 10,548 million yen, decreased by 591 million yen from the end of the previous fiscal year. Current assets amounted to 6,349 million yen by the decrease of 626 million yen from the end of the previous fiscal year. This was mainly due to the decrease in cash and deposits of 208 million yen and the decrease in accounts receivable and contract assets of 569 million yen. Non-current assets totaled 4,199 million yen by the increase of 35 million yen from the end of the previous fiscal year. This was mainly due to the decrease of 42 million yen in investment securities and the increase of 58 million yen in intangible assets.

### (Liabilities)

The balance of liabilities at the first quarter of this fiscal year was 3,405 million yen by the decrease of 167 million yen from the end of the previous fiscal year. This was mainly due to the increase in advance received of 276 million yen, the increase in provision for bonuses of 70 million yen, the decrease in notes and accounts payable of 155 million yen and the decrease in taxes payable of 210 million yen.

### (Net Assets)

The balance of net assets at the first quarter of this fiscal year was 7,143 million yen by the decrease of 424 million yen from the end of the previous fiscal year. This was mainly due to the decrease of 394 million yen in retained earnings and the decrease of 29 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 first quarter of FY06/2022.

## (4) Research and development activities

R&D expenditures for the first quarter of the current fiscal year totaled 9 million yen. The company executed proving test for score-sharing model and research and development activities on next generation fraud detection system.

### 3 【Important agreements for business】

There have been no critical business contracts in the first 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 September 30, 2021	Number of shares issued at the filling date, November 8, 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 July 1 to September 30, 2021	—	26,340,000	—	843,750	—	559,622

##### (5) 【Major Shareholders】

There are no items in this section in the first quarter of the FY06/2022.

(6) **【Voting rights】**

The number of voting rights by the shareholder registry based on the record date, June 30, 2021 was as indicated below.

① **【Issued shares】**

As of June 30, 2021

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 50,000	—	—
Shares with full voting rights (others)	Common stock 26,271,700	262,710	—
Shares representing less than one unit	Common stock 19,000	—	—
Number of issued shares	26,340,000	—	—
Total number of voting rights	—	262,710	—

(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 June 30, 2021

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	50,000	—	50,000	0.19
Total	—	50,000	—	50,000	0.19

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, FY06/2021.

## 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, 2021 to September 30, 2021) and for the cumulative period of the first quarter (from July 1, 2021 to September 30, 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 30,2021)	Current term end (as of September 30,2021)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	4,307,699	4,099,540
Notes and accounts receivable	1,698,475	—
Notes and accounts receivable, and contract assets	—	1,129,022
Inventories	371,178	309,743
Other	598,409	810,917
<b>Total current assets</b>	<b>6,975,762</b>	<b>6,349,223</b>
<b>Non-current assets</b>		
Property, plant and equipment	733,004	696,262
Intangible assets		
Software	1,124,857	977,891
Other	192,821	398,695
<b>Total intangible assets</b>	<b>1,317,679</b>	<b>1,376,587</b>
Investments and other assets		
Investment securities	1,369,810	1,327,131
Other	743,878	799,558
<b>Total investments and other assets</b>	<b>2,113,688</b>	<b>2,126,689</b>
<b>Total non-current assets</b>	<b>4,164,372</b>	<b>4,199,540</b>
<b>Total assets</b>	<b>11,140,135</b>	<b>10,548,764</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable	430,770	275,140
Income taxes payable	243,271	32,416
Advances received	1,233,216	1,509,761
Provision for bonuses	348,470	419,276
Provision for bonuses for directors	43,362	4,757
Other	612,457	509,419
<b>Total current liabilities</b>	<b>2,911,547</b>	<b>2,750,772</b>
<b>Non-current liabilities</b>		
Provision for retirement benefits	544,834	543,399
Provision for retirement benefits for directors	22,550	19,242
Asset retirement obligations	87,487	87,504
Other	6,058	4,326
<b>Total non-current liabilities</b>	<b>660,930</b>	<b>654,473</b>
<b>Total liabilities</b>	<b>3,572,478</b>	<b>3,405,246</b>

	Thousands of yen	
	Current term end	Previous term end (as of September (as of June 30,2021)
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus	573,099	573,099
Retained earnings	5,621,359	5,226,957
Treasury stock	(26,712)	(26,712)
Total shareholders' equity	7,011,496	6,617,094
Valuation and translation adjustment		
Valuation difference on available-for-sale securities	556,160	526,424
Total valuation and translation adjustments	556,160	526,424
Total net assets	7,567,656	7,143,518
Total liabilities and net assets	11,140,135	10,548,764

(2) Income Statement

Thousands of yen

	Previous term (from July 1,2020 to September 30,2020)	Current term (from July 1,2021 to September 30,2021)
Net sales	2,298,911	2,251,961
Cost of sales	1,709,661	1,631,887
Gross income	589,250	620,073
Selling, general and administrative expenses	454,844	493,388
Operating income	134,405	126,685
Non-operating income		
Interest income	179	190
Dividend income	562	—
Subsidy income	450	—
Gain on insurance cancellation	—	669
Other	364	520
Total non-operating income	1,556	1,379
Non-operating expenses		
Interest expenses	12	—
Commitment fee	1,498	1,867
Compensation expenses	5,000	—
Other	942	1,285
Total non-operating expenses	7,453	3,152
Ordinary income	128,507	124,912
Extraordinary income	—	—
Extraordinary losses	—	—
Profit before income taxes	128,507	124,912
Income taxes - current	66,036	21,739
Income taxes - deferred	(21,117)	20,310
Total income taxes	44,919	42,049
Net income	83,588	82,862

## 【Notes on Financial Statements】

(Revision to the Accounting Policy)

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Company started applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020), etc. at the beginning of the first quarter of the current accounting period. When the ownership of goods or services has been transferred to a client as promised, we recognize the amount to be received in exchange for said goods or services as revenues. Some revenues for software development had been recognized at the time of acceptance inspection, but through the application of the Accounting Standard for Revenue Recognition, we started recognizing revenues for a certain period of time when clients receive benefits as performance obligations are fulfilled. For some maintenance contracts, etc., revenues had been recognized at a specific point in time in accordance with the contracts, but we started recognizing revenues for a certain period of time. For some revenues from sale of security products, the total amount of remunerations received from clients had been recognized as revenues, but for transactions in which our company serves as an agent for offering goods or services to clients, we recognize the net amount obtained by subtracting the expenses paid to suppliers, etc. from the total amount of remunerations received from clients as revenues.

The application of the Accounting Standard for Revenue Recognition, etc. follows the transitional handling specified in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retroactive application of the new accounting policy to the period before the first quarter of the current term is reflected in the retained earnings as of the beginning of the first quarter of the current term, and the new accounting policy has been applied from the balance at the beginning of the current term. In addition, the method set forth in the proviso (1) of Paragraph 86 of the Accounting Standard for Revenue Recognition was applied, and the accounting process was carried out based on the conditions of the contracts updated before the first quarter of the current term, and the cumulative effect was reflected in the retained earnings as of the beginning of the first quarter of the current term.

As a result, the sales in the first quarter of the current term increased to 236,428 thousand yen, the cost of sales rose to 156,171 thousand yen, and the gross profit, operating income, and net income before taxes and other adjustments increased to 80,256 thousand yen each. In addition, the balance of retained earnings at the beginning of the current term decreased to 135,495 thousand yen.

Since the Accounting Standard for Revenue Recognition, etc. were applied, "Notes and accounts receivable" shown in the section of current assets in the balance sheet for the previous accounting year has been included in "Notes and accounts receivable, and contract assets" from the first quarter of the current accounting period. In accordance with the transitional handling set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the new indication method was not applied to the previous accounting year. Furthermore, in accordance with the transitional handling set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12; March 31, 2020), we did not write the breakdown of revenues from contracts with clients in the first quarter of the previous cumulative accounting period.

### (Additional information)

There has been no significant change in the assumptions, including the future spread of the new coronavirus infection and the timing of its containment, described in the section (Additional information) of the Annual Securities Report for the previous fiscal year.

(Balance Sheet)

Previous term (as of June 30, 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.

Current term (as of September 30, 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 term 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 FY06/2022 are as follows.

	(Thousands of yen)	
	Previous term (From July 1, 2020 To September 30, 2021)	Current term (From July 1, 2021 To September 30, 2021)
Depreciation	181,741	224,302

(Shareholders' equity)

Previous term (from July 1, 2020 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

Current term (from July 1, 2021 to September 30, 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 29 2021	Common stock	341,769	13	June 30, 2021	September 30, 2021	Retained earnings

(Business Segment Information)

【Business Segment】

The Business Segment information is omitted because the reportable segment is the single one.

(Investment income under the equity method)

	Thousands of yen	
	Previous term (as of June 30, 2021)	Current term (as of September 30, 2021)
Investment to affiliates	24,680	24,680
Investment under the equity method	125,428	128,735
		Thousands of yen
	Previous term (From July 1, 2020 To September 30, 2020)	Current term (From July 1, 2021 To September 30, 2021)
Investment income under the equity method	142	(466)

(Revenue recognition)

Categorized information on revenue from contracts with customers

	Thousands of yen
	1 <sup>st</sup> quarter of FY06/22 (cumulative) (from July 1, 2021 to September 30, 2021)
Net sales	
Software Development	888,453
In-house products	128,427
System Service	8,800
Third-party products	29,813
Maintenance	624,995
Maintenance of third-party products	142,524
Own services	308,881
Other services	120,066
Total	2,251,961
Timing of revenue recognition	
Goods and services transferred at a point in time	619,571
Goods and services transferred at a period of time	1,632,390
Total	2,251,961

(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, 2020 To September 30, 2020)	Current term (from July 1, 2021 To September 2021)
Net income per share (Yen)	3.18	3.15
Bases of calculation		
Net income (Thousands of yen)	83,588	82,862
Non attributable to common shareholders	—	—
Net income attributes to common stocks (Thousands of yen)	83,588	82,862
Weighted-average number of common stocks outstanding for the period	26,297,533	26,289,149

(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