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## Quarterly Securities Report

The Third Quarter of the 39th Business term,  
from July 1, 2021 to March 31, 2022

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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

	3 <sup>rd</sup> quarter ended March 31, 2021	3 <sup>rd</sup> quarter ended March 31, 2022	Fiscal year ended June 30, 2021
Fiscal Term	From July 1, 2020 To March 31, 2021	From July 1, 2021 To March 31, 2022	From July 1, 2020 To June 30, 2021
Net sales	Thousands of yen	8,067,013	7,834,650
Ordinary income	Thousands of yen	696,434	964,837
Net income	Thousands of yen	470,631	658,658
Investment income under the equity method	Thousands of yen	1,686	3,410
Capital stock	Thousands of yen	843,750	843,750
Number of shares issued		26,340,000	26,340,000
Net assets	Thousands of yen	7,217,748	7,692,116
Total assets	Thousands of yen	10,673,369	11,303,933
Earnings per share	Yen	17.90	25.06
Fully diluted earnings per share	Yen	—	—
Dividends per share	Yen	—	—
Shareholders' equity ratio	(%)	67.6	68.0
			67.9

	3 <sup>rd</sup> quarter for FY06/2021	3 <sup>rd</sup> quarter for FY06/2022
Fiscal Term	From January 1, 2021 To March 31, 2021	From January 1, 2022 To March 31, 2022
Earnings per share	Yen	7.04
		12.20

#### (Note)

1. Fully diluted earnings per share is not stated because the company did not have any potentially dilutive shares.
2. 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. Therefore, selected financial data in the first half of the current fiscal year abides by the standard.

## 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.

## 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 trend of Japanese economy in the third quarter of the FY06/2022, from January to March 2022, was picking up even under the effects of the new coronavirus infection. Corporate earnings and business foresight overall have been considered to be continuing to improve. On the other hand, rising energy and raw material costs are foreseen to increase upward pressure on prices, and the domestic economy is increasing uncertainty due to the situation in Ukraine.

In the credit card industry, our primal business domain, major credit card companies have processed the larger amount of the shopping transaction than the previous year and are recovering steadily from the pandemic.

In addition, So-called Fintech services are being popular with not only major financial enterprises and credit card companies but also companies providing financial and payment services to individuals and small and medium-sized businesses and companies providing system services to such businesses. These social changes bring us a business opportunity.

We aim 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 result of 1.13 billion yen achieved in the fiscal year ended June 30, 2021.

For the cumulative third quarter of the FY06/2022, from July 2021 to March 2022, we recorded net sales of 7,834 million yen (down 2.9% YoY), operating income of 943 million yen (up 39.1% YoY), ordinary income of 964 million yen (up 38.5% YoY), and net income of 658 million yen (up 40.0% YoY).

Net sales were slightly lower than the previous fiscal year, but we recorded significant growth rate of 39.1% for operating income, which outpaced the growth rate of 18.0% for the first half of the FY06/2022.

For the third quarter of the FY06/2022, from January to March 2022, we recorded net sales of 2,947 million yen, which surpassed that of 2,819 million yen of the previous year, but the net sales for the cumulative third quarter were below the previous year results. Hardware and Third-party products sales were lower, but System Development and Maintenance service were higher than the previous fiscal year.

Although, the sales of larger sized servers were comparatively lower than the previous year and Hardware sales decreased, we plan to exceed the hardware sales for the full-year of the previous year, because we are going to book the larger sized hardware sales in the fourth quarter of the current fiscal year.

System development sales for projects for both new and existing customers surpassed the previous year results. We have executed development jobs steadily and the quality control works have sophisticated our profitability. Cloud service business is going favorably with the growing sales by adding new customer.

Operating income has significantly grown over the previous year result. Operating income for the third quarter of the FY06/2022 increased by 70.3% year-over-year (273 million yen for the previous year, 464 million yen for the current year). This income growth was achieved by not only the improved profitability of the system development jobs, maintenance work and cloud service business, but also some of high profitable

hardware sales. The growth rate of operating income for the cumulative third quarter was 39.1% (678 million yen for the previous year, 943 million yen for the current year).

Cloud service business is favorably growing the profitability by the increasing sales and efficiency. Our cloud service has become one of the most favorable options not only for existing financial enterprises but also for companies starting up their own card and payment businesses.

We have received orders of 1,000 million yen for the first quarter, 1,876 million yen for the second and 273 million yen for the third. Some larger sized orders are booked consecutively for the first half of the current year and the record has grown significantly. As a result, amount of orders for the business for the cumulative third quarter was 3,150 million yen, and order backlog was 4,210 million yen.

These orders will turn to net sales from the beginning of the FY06/2023, and we expect net sales of 2,000 million yen for the FY06/2023 and 2,500 million yen for the FY06/2024.

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 third quarter of the FY06/2022 has not been affected by new corona virus infection.

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 customers, 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 customers, sales from the sale of servers (Hardware), in which the developed software is installed, and sales from maintenance work (Maintenance) are recorded.

In addition, we engage the business of selling our product, which prevents 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	FY03/2021	FY03/2022
System Development	3,710	3,859
Maintenance	992	1,111
In-house products	267	319
Cloud service	702	793
Hardware	1,339	829
Third-party products	431	237
Security products	622	683
Total	8,067	7,834

From this fiscal year, the categories (Chart 1) have been classified into subdivisions and redefined.

We have revised categories to show the classification of sales based on the so-called "stock" and "flow" type in more precise than before. Judging 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	3 <sup>rd</sup> quarter of FY06/22	Ratio (%)
Software Development	3,046	38.9
In-house products	338	4.3
System Service	30	0.4
Third-party products	656	8.4
Sum of "Flow" type sales	4,072	52.0
Maintenance	1,951	24.9
Maintenance of third-party products	457	5.8
Own Services	989	12.6
Other Services	363	4.6
Sum of "Stock" type sales	3,762	48.0
Total	7,834	100.0

## (2) Report of Financial Position

### (Assets)

The balance of assets at the end of the third quarter of this fiscal year increased by 163 million yen from the end of the previous fiscal year to 11,303 million yen. Current assets decreased by 115 million yen from the end of the previous fiscal year to 6,860 million yen. This was mainly due to the increase of 152 million yen in notes and accounts receivable and contract assets, increase of 200 million yen in securities, and the decrease of 704 million yen in cash and deposits.

Non-current assets increased by 279 million yen from the end of the previous fiscal year to 4,443 million yen. This was mainly due to the decrease of 281 million yen in investment securities and the increase of 566 million yen in intangible assets.

### (Liabilities)

The balance of liabilities at the end of the third quarter of this fiscal year increased by 39 million yen from the end of the previous fiscal year to 3,611 million yen. This was mainly due to the decrease of 145 million yen in income tax payable, the increase of 173 million yen in Notes and accounts payable, and the increase of 182 million yen in advance received.

(Net Assets)

Net assets at the end of the third quarter of this fiscal year increased by 124 million yen from the end of the previous fiscal year to 7,692 million yen. This was mainly due to the increase of 181 million yen in retained earnings and the increase of 56 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 FY06/2022.

(4) Research and development activities

R&D expenditures for the third quarter of the current fiscal year totaled 16 million yen.

The company executed proving test for scoring function of in-house product, next generation fraud detection system "FARIS", and developing a software prototype utilizing FPGA for accelerating open source database.

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, 2022	Number of shares issued at the filling date, May 10, 2022	Stock Exchange on which the Company is Listed	Description
Common stock	26,340,000	26,340,000	Tokyo Stock Exchange 1st Section (As of the end of the 3 <sup>rd</sup> quarter of FY0622) Prime market (As of the date of submission)	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, 2022 To March 31, 2022	—	26,340,000	—	843,750	—	559,622

##### (5) 【Major Shareholders】

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

(6) **【Voting rights】**

The number of voting rights by the shareholder registry based on the record date, December 31, 2021 was as indicated below.

① **【Issued shares】**

As of December 31, 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 52,800	—	—
Shares with full voting rights (others)	Common stock 26,267,800	262,678	—
Shares representing less than one unit	Common stock 19,400	—	—
Number of issued shares	26,340,000	—	—
Total number of voting rights	—	262,678	—

(Note)

- Shares with full voting rights (others) include 700 shares (seven voting rights) held in the name of the Japan Securities Depository Center.
- Common stock in Shares representing less than one unit includes 51 shares of Treasury stock.

② **【Treasury stock】**

As of December 31, 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	52,800	—	52,800	0.20
Total	—	52,800	—	52,800	0.20

(Note) Number of shares held under own name stated above excludes 51 shares representing less than one unit.

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 third quarter (from January 1, 2022 to March 31, 2022) and for the cumulative period of the third quarter (from July 1, 2021 to March 31, 2022) 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 March 31, 2022)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	4,307,699	3,602,895
Notes and accounts receivable	1,698,475	—
Notes and accounts receivable, and contract assets	—	1,850,675
Securities	—	200,325
Inventories	371,178	343,178
Other	598,409	863,282
<b>Total current assets</b>	<b>6,975,762</b>	<b>6,860,358</b>
<b>Non-current assets</b>		
Property, plant and equipment	733,004	718,355
Intangible assets		
Software	1,124,857	1,069,879
Other	192,821	814,193
<b>Total intangible assets</b>	<b>1,317,679</b>	<b>1,884,072</b>
Investments and other assets		
Investment securities	1,369,810	1,088,486
Other	743,878	752,660
<b>Total investments and other assets</b>	<b>2,113,688</b>	<b>1,841,146</b>
<b>Total non-current assets</b>	<b>4,164,372</b>	<b>4,443,575</b>
<b>Total assets</b>	<b>11,140,135</b>	<b>11,303,933</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable	430,770	604,555
Income taxes payable	243,271	98,047
Advances received	1,233,216	1,415,402
Provision for bonuses	348,470	478,900
Provision for bonuses for directors	43,362	35,318
Other	612,457	314,964
<b>Total current liabilities</b>	<b>2,911,547</b>	<b>2,947,188</b>
<b>Non-current liabilities</b>		
Provision for retirement benefits	544,834	551,913
Provision for retirement benefits for directors	22,550	21,453
Asset retirement obligations	87,487	87,538
Other	6,058	3,722
<b>Total non-current liabilities</b>	<b>660,930</b>	<b>664,628</b>
<b>Total liabilities</b>	<b>3,572,478</b>	<b>3,611,816</b>

Thousands of yen

	Previous term end (as of June 30, 2021)	Current term end (as of March 31, 2022)
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus	573,099	573,099
Retained earnings	5,621,359	5,802,752
Treasury shares	(26,712)	(26,712)
Total shareholders' equity	7,011,496	7,192,889
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	556,160	499,227
Total valuation and translation adjustments	556,160	499,227
Total net assets	7,567,656	7,692,116
Total liabilities and net assets	11,140,135	11,303,933

(2) Income Statement

Thousands of yen

	Previous term (from July 1, 2020 to March 31, 2021)	Current term (from July 1, 2021 to March 31, 2022)
Net sales	8,067,013	7,834,650
Cost of sales	5,911,349	5,321,896
Gross profit	2,155,664	2,512,753
Selling, general and administrative expenses	1,477,002	1,569,046
Operating income	678,661	943,707
Non-operating income		
Interest income	514	531
Dividend income	20,887	23,107
Other	5,097	4,491
Total non-operating income	26,499	28,130
Non-operating expenses		
Interest expenses	25	—
Commitment fee	3,991	4,484
Compensation expenses	3,613	—
Other	1,095	2,515
Total non-operating expenses	8,726	7,000
Ordinary income	696,434	964,837
Extraordinary income	—	—
Extraordinary losses		
Loss on retirement of non-current assets	4,713	—
Total extraordinary losses	4,713	—
Profit before income taxes	691,721	964,837
Income taxes - current	234,526	252,368
Income taxes - deferred	(13,437)	53,810
Total income taxes	221,089	306,179
Net income	470,631	658,658

## 【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. 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 third quarter of the current term increased by 310,682 thousand yen, the cost of sales raised by 131,697 thousand yen, and the gross profit, operating income, and net income before taxes and other adjustments increased by 178,984 thousand yen each. In addition, the balance of retained earnings at the beginning of the current term decreased by 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 third 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 March 31, 2022)

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, 2020 To March 31, 2021)	Current term (From July 1, 2021 To March 31, 2022)
Depreciation	546,824	580,699

(Shareholders' equity)

Previous 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 26 2020	Common stock	262,983	10	June 30, 2020	September 28, 2020	Retained earnings

Current term (from July 1, 2021 to March 31, 2022)

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 March 31, 2022)
Investment to affiliates	24,680	24,680
Investment under the equity method	129,428	133,349

	Thousands of yen	
	Previous term (From July 1, 2020 To March 31, 2021)	Current term (From July 1, 2021 To March 31, 2022)
Investment income under the equity method	1,686	3,410

(Revenue recognition)

Categorized information on revenue from contracts with customers

	Thousands of yen
	3 <sup>rd</sup> quarter of FY06/22 (cumulative) (from July 1, 2021 to March 31, 2022)
Net sales	
Software Development	3,046,325
In-house products	338,622
System Service	30,700
Third-party products	656,873
Maintenance	1,951,787
Maintenance of third-party products	457,329
Own services	989,626
Other services	363,384
Total	7,834,650
Timing of revenue recognition	
Goods and services transferred at a point in time	2,469,017
Goods and services transferred at a period of time	5,365,632
Total	7,834,650

(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 March 31, 2021)	Current term (from July 1, 2021 To March 31, 2022)
Net income per share (Yen)	17.90	25.06
Bases of calculation		
Net income (Thousands of yen)	470,631	658,658
Non attributable to common shareholders	—	—
Net income attributes to common stocks (Thousands of yen)	470,631	658,658
Weighted-average number of common stocks outstanding for the period	26,295,363	26,287,254

(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