



Financial Results for Q1 FY06/24

(July 1 to September 30, 2023)
[Non-Consolidated]

Intelligent Wave Inc.

Announced on November 6, 2023

Financial Results for Q1 FY06/24

Forecast for FY06/24

Key initiatives in FY06/24

Reference

Overview

Both sales and profits declined from the previous fiscal year due to large-scale hardware upgrade in the previous fiscal year. Excluding the impact of this upgrade, however, both sales and profits were up year on year. The amount of orders increased 36.0% year on year, and orders on hand increased 33.4% year on year, making steady progress against 1H forecast.

Million yen

	Q1 FY06/23		Q1 FY06/24		Change (YoY)	
	Results	Sales composition ratio	Results	Sales composition ratio		
Net sales	3,646	-	3,158	-	(488)	(13.4%)
Gross profit	1,134	31.1%	955	30.2%	(179)	(15.8%)
SG&A expenses	651	17.9%	691	21.9%	+40	+6.1%
Operating income	483	13.2%	263	8.3%	(220)	(45.5%)
Ordinary income	480	13.2%	259	8.2%	(221)	(46.0%)
Net income	324	8.9%	175	5.5%	(149)	(46.0%)
Amount of orders	3,130	-	4,257	-	+1,127	+36.0%
Orders on hand	9,047	-	12,073	-	+3,026	+33.4%

Sales by Category

System development and cloud services grew significantly YoY. Third-party products and services fell sharply YoY due to large-scale hardware sales in the previous fiscal year. Security increased YoY due to efficient sales activities focused on core products.

Million yen

	Q1 FY06/23	Q1 FY06/24	Change(YoY)	
Net sales	3,646	3,158	(488)	(13.4%)
Payment and finance	2,972	2,246	(726)	(24.4%)
System development	1,278	1,596	+ 318	+ 24.9%
Maintenance	395	397	+ 2	+ 0.5%
In-house products and services	136	60	(76)	(55.9%)
Third-party products and services (hardware, etc.)	1,162	191	(971)	(83.6%)
Cloud services	434	592	+ 158	+ 36.4%
Security	239	319	+ 80	+ 33.5%

Sales by Business Domain

Payment systems, etc., grew YoY due to large-scale projects for credit card companies. FEP sales fell sharply YoY due to large-scale hardware upgrade in the previous fiscal year. Cloud services grew YoY. Security increased YoY due to efficient sales activities focused on core products.

Million yen

	Q1 FY06/23	Q1 FY06/24	Change(YoY)	
Net sales	3,646	3,158	(488)	(13.4%)
Payment and finance	2,972	2,246	(726)	(24.4%)
FEP* and fraud detection	2,086	1,230	(856)	(41.0%)
Payment systems, etc.	678	855	+177	+26.1%
Finance and others	207	160	(47)	(22.7%)
Cloud services	434	592	+158	+36.4%
Security	239	319	+80	+33.5%

* Front-end processor (FEP) system: Hardware and software with network connectivity, card usage authentication, and other functions required for credit card payment processing

Top Three Clients by Sales

System integrator increased YoY due to large-scale project for credit card company. Credit card company increased YoY due to an expanded scale of system development in multiple areas. As for DNP, security-related sales are expected to increase from Q2 onward.

Million yen

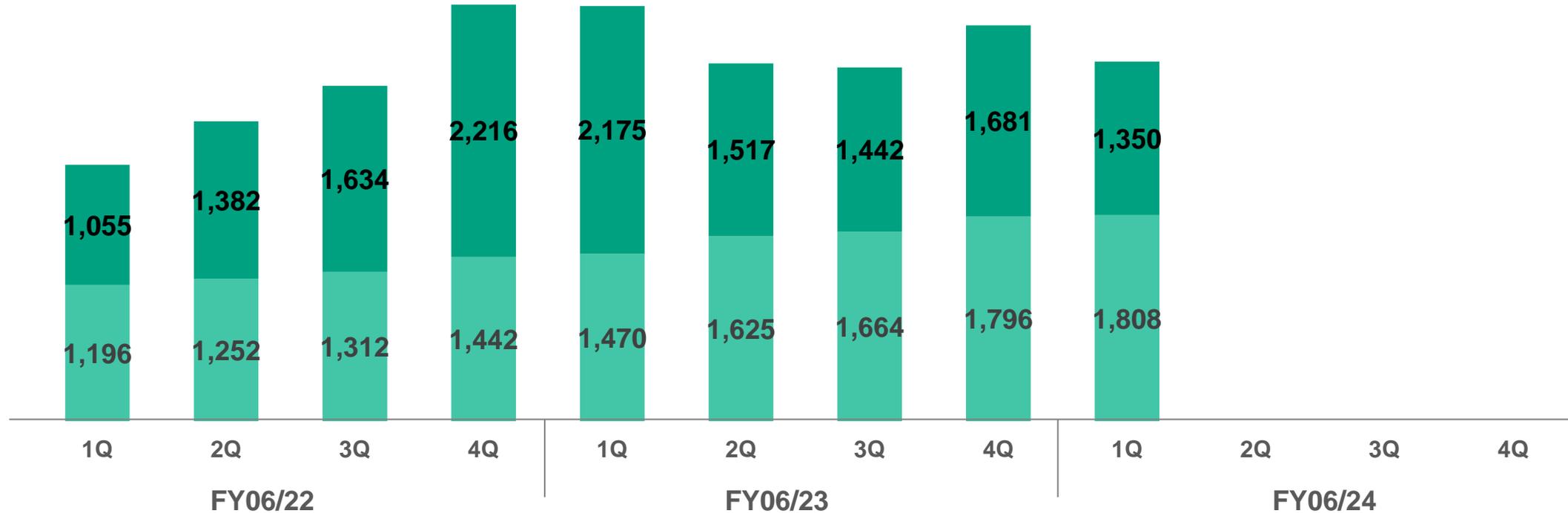
				Q1 FY06/23	Q1 FY06/24	Change (YoY)	Main projects
1.	D	N	P	445	426	(18)	Tokenization service system (for smartphone payment transaction), payment platform, system operations (24/7)
2.	System Integrator			217	349	+ 132	System development for credit card company
3.	Credit card company			118	226	+ 107	System development in multiple areas (FEP, fraud detection, Digital transformation of payments)

Sales by Type (Recurring and Spot)

Recurring revenue is increasing steadily due to higher sales of cloud services and maintenance.

■ Spot ■ Recurring

Million yen

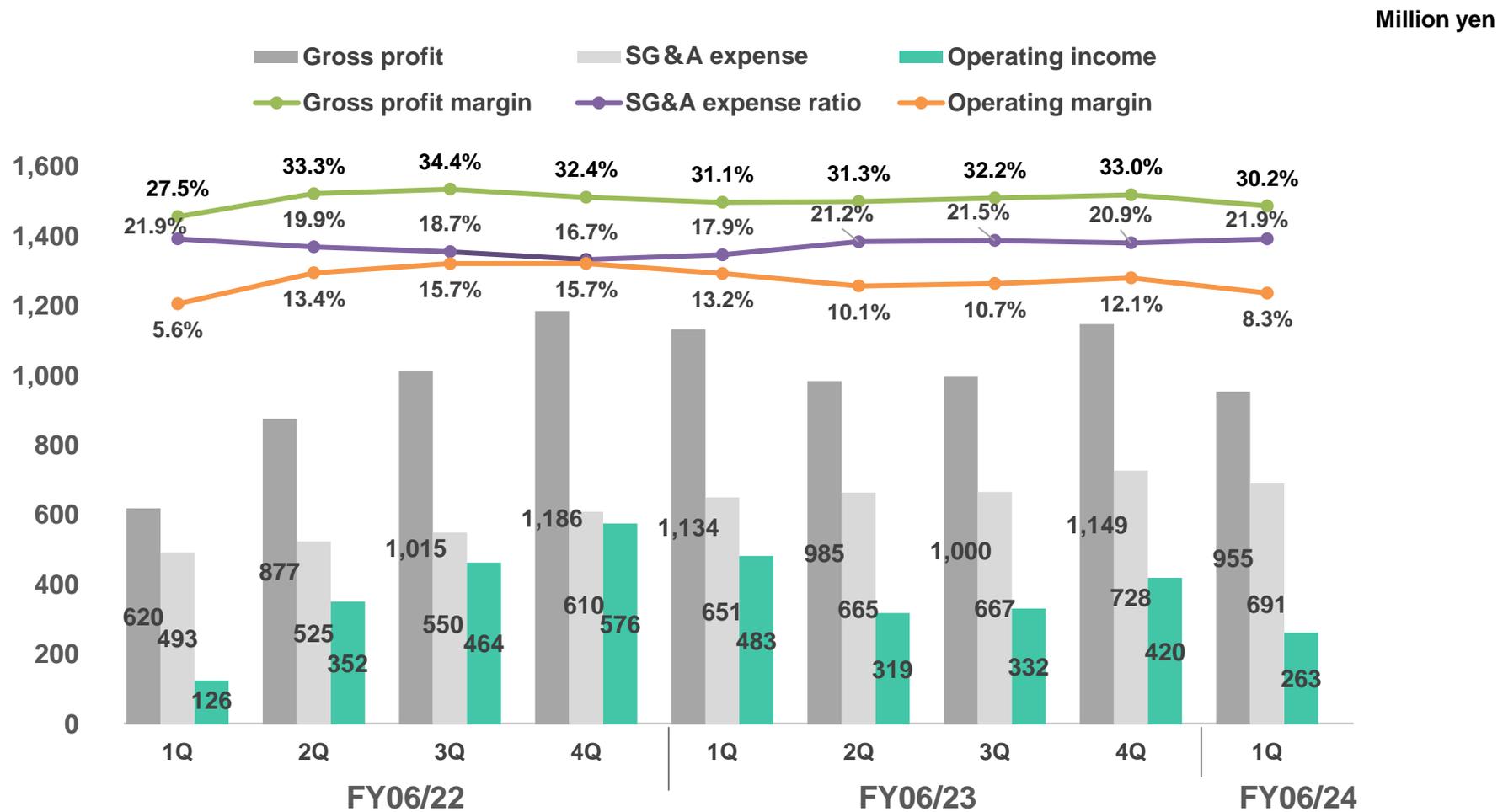
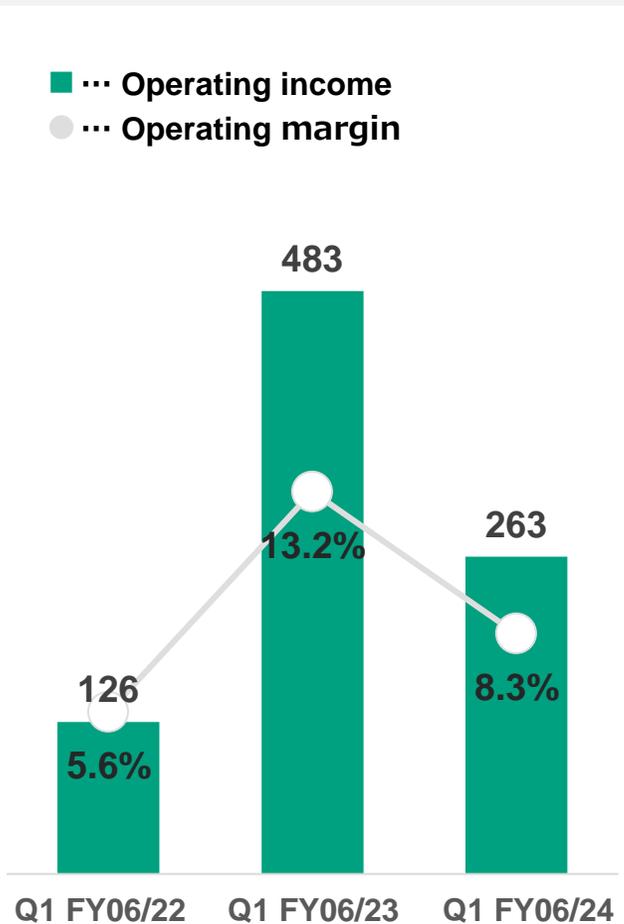


Spot: Categories with contracts that are not fixed in terms of amount or timing

Recurring: Categories with contracts that allow us to record sales of a fixed amount on a regular basis

Operating income

Gross profit decreased YoY due to high-margin large-scale hardware upgrade in the previous fiscal year, but gross profit on system development and cloud services increased YoY due to higher sales and improved profit margins. SG&A expenses increased from the second half of the previous fiscal year due to investments in human capital and improvements to the office environment. However, SG&A expenses were in line with plans for the full fiscal year.



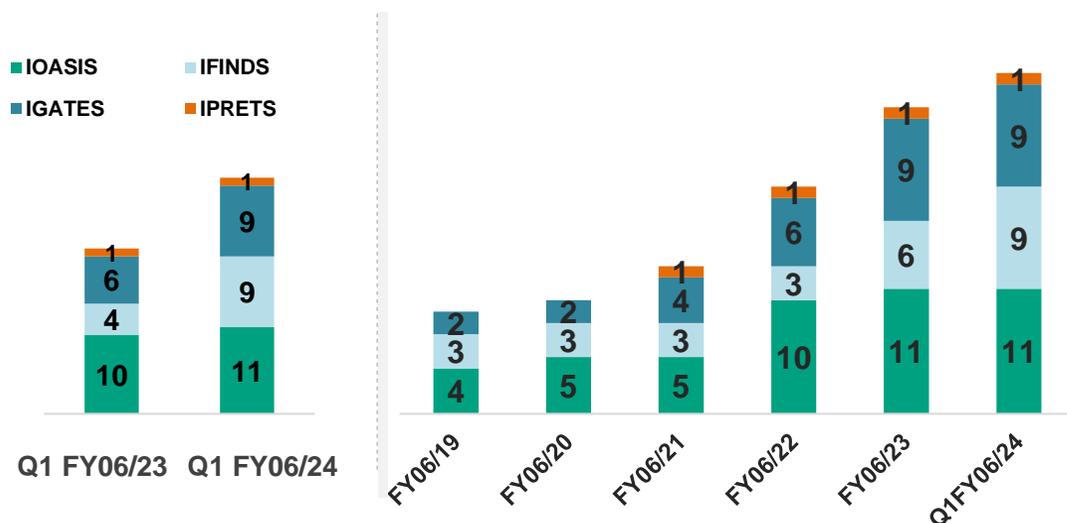
Cloud Service Business

Net sales increased YoY due to an increase in the number of users (nine companies in total), mainly due to IFINDS, a fraud detection service. Profit is improving due to changes in the service composition ratio and stabilization of the operation system.

Million yen

	FY06/23				FY06/24			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Amount of orders	507	822	2,794	297	614			
Net sales	434	447	469	515	592			
Orders on hand	4,214	4,589	6,913	6,695	6,717			
Gross profit	(4)	29	44	71	96			

Number of customers



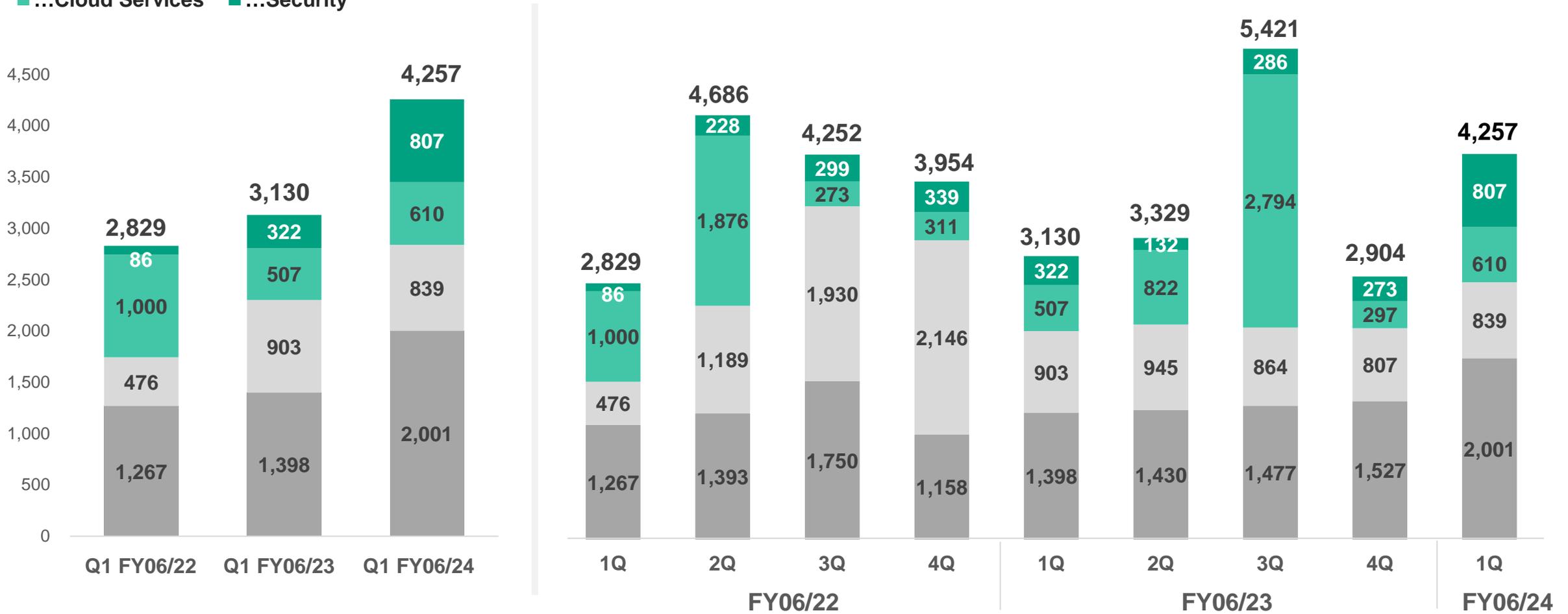
Overview

Service	Overview
IOASIS	Demand for additional functionality from existing customers increased. Inquiries from local banks increased.
IFINDS	The number of customers is steadily increasing due to the addition of new services such as fraud detection by AI-scoring and sharing of fraudulent data among issuers. We are promoting cross-industry fraud countermeasures.
IGATES	We received a large-scale project for the development of a multi-user platform. (The platform is scheduled to begin operating in June 2024.)

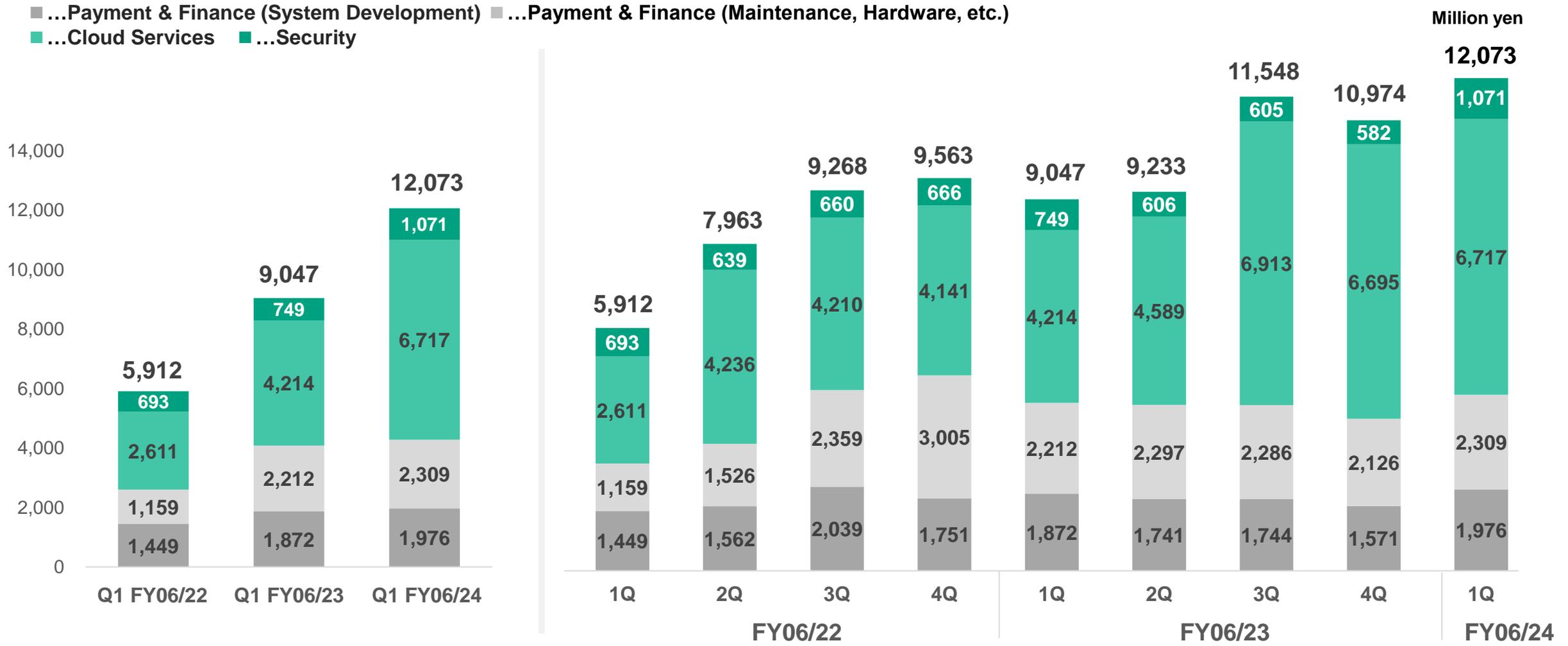
Amount of orders

■ ...Payment & Finance (System Development)
 ■ ...Payment & Finance (Maintenance, Hardware, etc.)
■ ...Cloud Services
 ■ ...Security

Million yen



Orders on Hand



Financial Results for Q1 FY06/24

Forecast for FY06/24

Key Initiatives in FY06/24

Reference

FY06/24 Full-year Forecasts

Million yen

	FY06/23 actual			FY06/24 forecast			Change (full year)
	1H	2H	Full year	1H	2H	Full year	
Net sales	6,789	6,585	13,374	7,000	8,000	15,000	+ 12.2%
Payment and finance	5,393	5,015	10,408	5,160	5,840	11,000	+ 5.7%
Cloud services	881	985	1,867	1,190	1,310	2,500	+ 33.9%
Security	514	583	1,098	650	850	1,500	+ 36.6%
Operating income [OM]	803 [11.8%]	753 [11.4%]	1,556 [11.6%]	850 [12.1%]	1,400 [17.5%]	2,250 [15.0%]	+ 44.6%
Ordinary income [OM]	824 [12.1%]	778 [11.8%]	1,603 [12.0%]	870 [12.4%]	1,420 [17.8%]	2,290 [15.3%]	+ 42.9%
Net income [NM]	558 [8.2%]	607 [9.2%]	1,165 [8.7%]	600 [8.6%]	990 [12.4%]	1,590 [10.6%]	+ 36.5%

FY06/24 Forecasts

Sales progressed steadily against the 1H forecast. In Q2, we expect even higher profit, as systems development and maintenance pushes up the gross profit margin. We anticipate sales of in-house products and hardware in Q2, raising gross profit overall.

Million yen

	FY06/23(actual)			FY06/24(forecast)			YoY (1H)
	Q1	Q2	1H	Q1 (actual)	Q2 (1H forecast - Q1 actual)	1H (forecast)	
Net sales	3,646	3,143	6,789	3,158	3,842	7,000	+ 3.1%
Payment and finance	2,972	2,420	5,393	2,246	2,914	5,160	(4.3%)
System development	1,278	1,562	2,840	1,596	1,904	3,500	+ 23.2%
Maintenance	395	421	816	397	433	830	+ 1.7%
In-house products and services	136	81	218	60	100	160	(22.0%)
Third-party products and services (hardware, etc.)	1,162	355	1,517	191	469	660	(56.5%)
Cloud services	434	447	881	592	598	1,190	+ 35.1%
Security	239	275	514	319	331	650	+ 26.5%
Operating income [OM]	483 [13.2%]	319 [10.1%]	803 [11.8%]	263 [8.3%]	587 [15.2%]	850 [12.1%]	+ 5.9%

Financial Results Q1 FY06/24

Forecast for FY06/24

Key Initiatives in FY06/24

Reference

Status of Strategies by Business Domain

Payment and finance

- Received orders for large-scale infrastructure construction and operation
- Expanding scale of system development in multiple areas at a major credit card company
- Started collaboration with Cacco Inc. on measures against card fraud

Cloud services

- Strengthen management structure to improve profitability
- Increasing inquiries for fraud detection services in line with expansion of damage caused by card fraud
- Migrating some services to the public cloud to reduce operating costs

Security

- Focus on core products and strengthen sales promotion activities
- Promoting the expansion of the security business through synergies with DNP
- In line with the accelerated need for information leak countermeasures in Southeast Asia, strengthen sales promotion activities for CWAT, in-house product designed to prevent internal information leaks

New business

- AI Japanese-language proofreading tools were verified by several companies and will soon be released in its official version.
- EoM, a solution for the broadcasting industry, has begun verification at several companies in Europe.
- AIMD, a media data-analytics solution, has been adopted to save labor at a store.

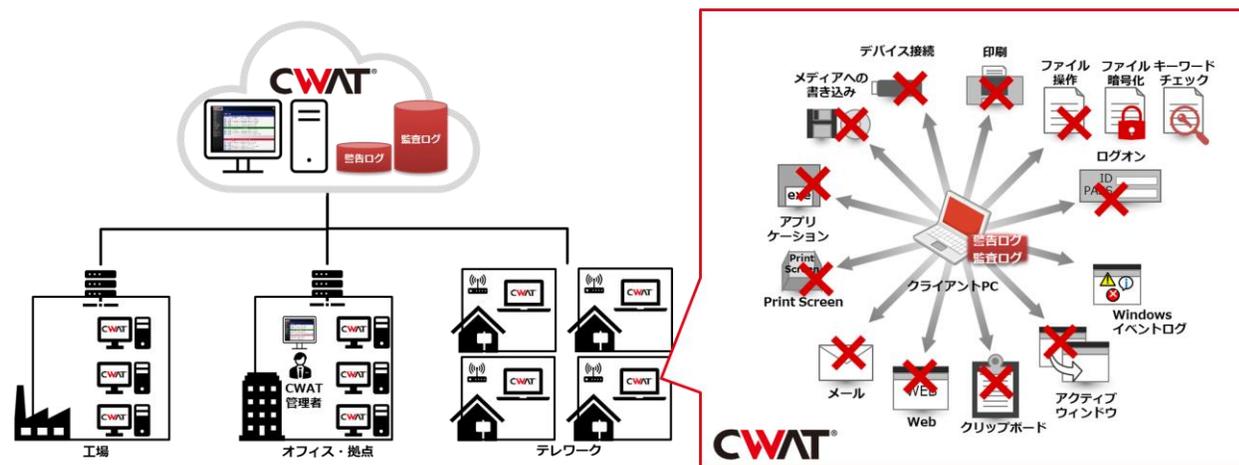
Expansion in the Security Business/Synergy with DNP

We are promoting sales of our in-house products, the internal information leakage prevention solutions, CWAT and CWAT Cloud. We are also strengthening synergies with DNP.

Introduction of CWAT Cloud to DNP

In October 2023, DNP introduced CWAT Cloud to strengthen its measures to counter internal information leaks. This will enable DNP to control suspicious operations and conduct investigations more efficiently.

Boost sales expansion with DNP



Based on the case study of DNP's implementation, we plan to work with DNP to expand sales of CWAT and CWAT Cloud. We will promote sales to energy-related companies, manufacturing companies, and pharmaceutical companies, and aim for cumulative sales of ¥2 billion by fiscal 2025 (as announced by DNP*).

* Press release by DNP (announced at October 5, 2023) https://www.dnp.co.jp/news/detail/20169853_1587.html (Japanese only)

In addition, together with DNP we will promote the endpoint security solution, Cortex (from Palo Alto Networks - US), to counter cyber attacks.

Strengthening synergies with DNP and promoting expansion of the security business

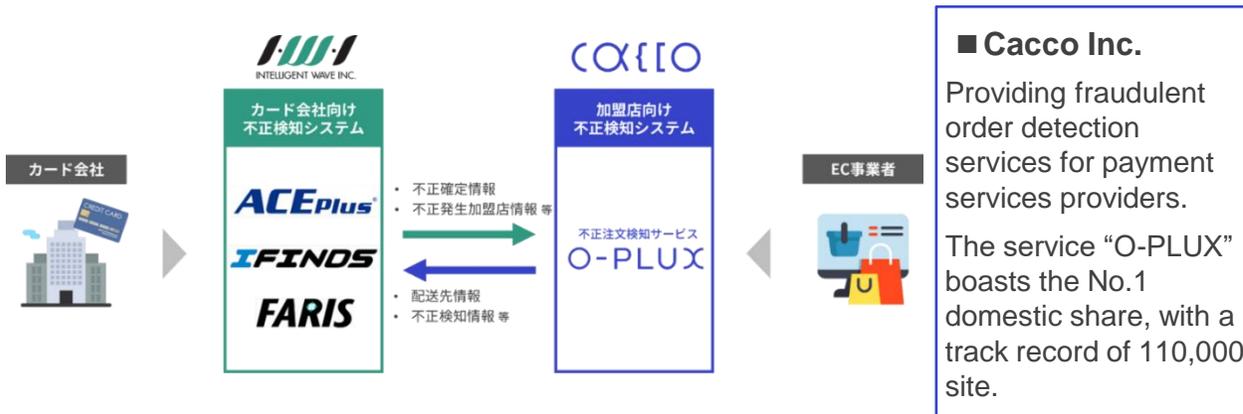
Card Fraud Detection Service/Cutting-Edge Initiatives

We have been rolling out new services following the announcement of our next-generation fraud prevention project, “FARIS.” We aim to establish a cross-industry fraud prevention scheme that encompasses merchants and payment service providers.

Collaboration with Cacco Inc. (the top vendor of fraudulent detection system for merchants/e-commerce sites)

As the top vendor of fraudulent detection systems for credit card companies, we have initiated a collaboration with Cacco, the top vendor of fraudulent detection systems for merchants/e-commerce sites.

We aim to achieve a higher level of anti-fraud measures by sharing information on card fraud between our two companies.



Our service was named “fraud prevention solution of the year” at the Asia Risk Awards 2023 in recognition of our efforts towards fraudulent detection

Our service was named “fraud prevention solution of the year” at the Asia Risk Awards 2023, which is operated by the international financial specialty media Risk.net (UK).

Our track record of working to combat the fraudulent use of credit cards in Japan for about 25 years* and our recent cross-industry initiatives against card fraud received the highest mark.

* We started to provide fraud detection systems in 1999.



Fraud prevention solution of the year
Intelligent Wave

Contributing to Innovation Promotion and Regional Revitalization

We aim to create a safe and prosperous future society through innovation, one of our material issues. We offer state-of-the-art IT and security-related technologies to the public, nurture future-creating human resources, and contribute to regional revitalization.

Concluded a collaboration agreement with Hakodate Technical College for information-related education

Our engineers participate in some information-related classes. We help motivate students to learn and enrich educational content.



Sponsorship of "Student Hackathon" at Future University Hakodate and Hokkaido Information University

We help create opportunities for students to experience the latest technologies and development methods.



Saving labor at a store that makes use of local specialties

EBRI STORE, a store opened in August 2023 in Ebetsu, Hokkaido, introduced a labor-saving payment method using locally produced bricks.

Shopping Flow



Take bricks as product samples



Put the brick in front of the camera at the cash register



Receipt of goods



Payment

Image analysis using our AIMD solution links brick types with product information.

With AIMD, there is no longer any need to display actual products on store shelves.

This reduces the burden on store staff and addresses the problem of labor shortages.

The initiative was introduced through 10 media channels (including television) in Hokkaido.

Many customers visited the store after it opened. In this way, we contributed to regional revitalization.

Financial Results Q1 for FY06/24

Forecast for FY06/24

Key initiatives in FY06/24

Reference

Cost of manufacturing

Million yen

	FY06/23				FY06/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Materials cost	21	6	13	9	10			
Labor cost	731	737	696	721	745			
Expenses	486	517	512	519	569			
Subcontracting cost	892	911	929	1,047	1,085			
Total manufacturing cost	2,132	2,173	2,152	2,298	2,411			
Work in progress (beginning of period)	257	317	262	276	216			
Work in progress (end of period)	317	262	276	216	269			
Transfer to other accounts	337	382	380	378	434			
Cost of sales	1,734	1,846	1,758	1,979	1,923			

SG&A expenses

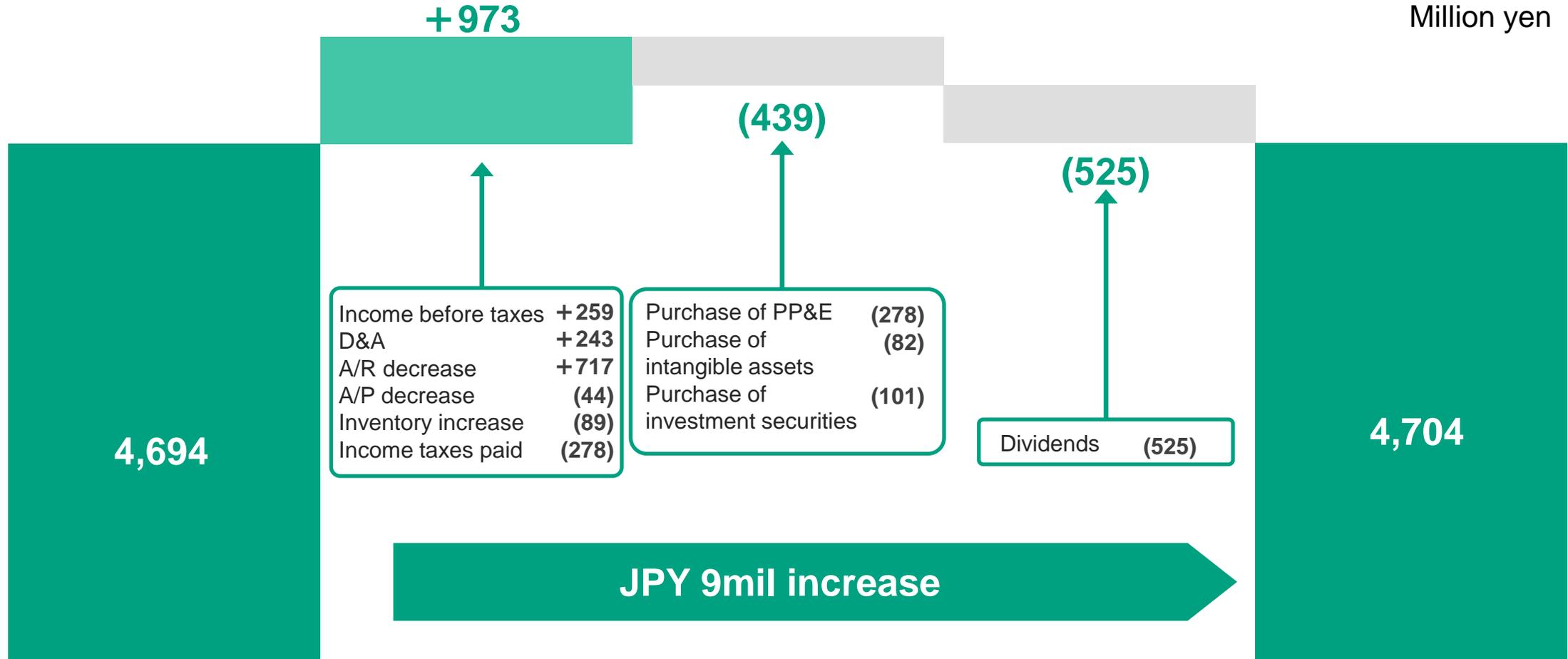
Million yen

	FY06/23				FY06/24			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Salaries	384	388	372	417	387			
Training and recruiting	14	22	18	23	24			
Equipment and maintenance, etc.	120	118	125	133	127			
Advertising	9	13	20	17	14			
Others	124	124	132	139	140			
Total	651	665	667	728	691			

	Q1 FY06/23	Q1 FY06/24	Change
SG&A	651	691	+40
		Salaries	+3
		Training and recruiting	+10
		Equipment and maintenance, etc.	+7
		Advertising	+5
		Others	+15

Cash Flows

Million yen



30-Jun-23

Operating activities

Investing activities

Financing activities

30-Sep-24

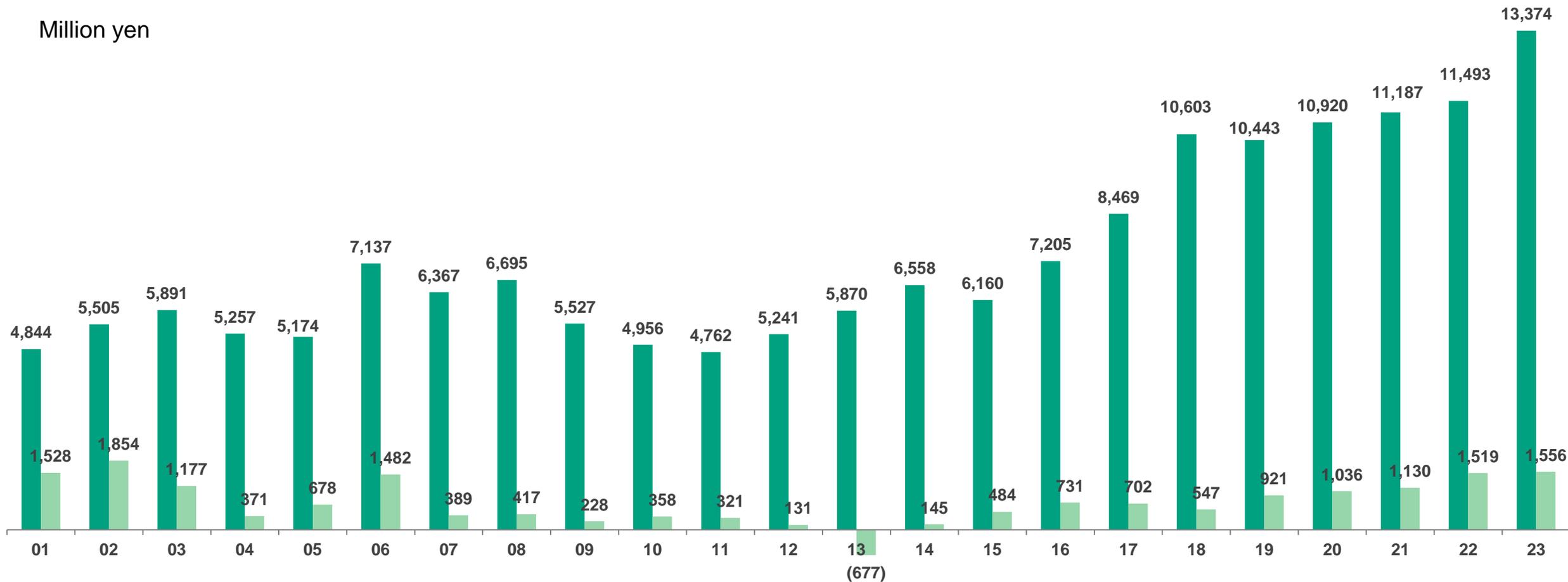
Cash and cash equivalents

Cash and cash equivalents

Historical performance

■ Net sales ■ Operating income

Million yen



Note: Consolidated results are shown through FY06/15.

Company overview



As of June 30,2023

Established	December 27, 1984		
Location	Kayabacho Tower, 1-21-2 Shinkawa, Chuo-ku, Tokyo		
Employees	476		
Parent company	Dai Nippon Printing Co., Ltd. (50.73%)		
Capital stock	JPY843.75k		
Shares outstanding	26,340,000	Shareholders	9,406

	Ownership (%)		% of shareholders
Individuals, others	36.93%	Individuals, others	98.07%
Japanese financial institutions	6.42%	Japanese financial institutions	0.11%
Other Japanese corporations	51.06%	Other Japanese corporations	0.50%
Foreign corporations	4.49%	Foreign corporations	1.06%
Japanese securities firms	0.88%	Japanese securities firms	0.26%
Treasury stock	0.23%	Treasury stock	0.01%

Reference) Our Cloud Services

IOASIS™

- SaaS product for providing operation system and supporting customers to launch acquiring business
- Offer 24/7 system operation

IPRETS

- Point management system that grants points at the time of payment, etc.

IGATES

- Provides 24/7 non-stop switching operation for payment network transaction internationally.
- SaaS product derived from NET+1, in-house product enjoying the overwhelming domestic market share.

IFINDS

- Credit card fraud detection solution
- SaaS product derived from ACEPlus, in-house product with the highest market share.

FARIS

- Next generation fraud detection service
- Utilizing AI with advanced algorithm

Rule-based method

IFINDS automatically detects frauds by referencing the record of frauds cases.

AI scoring method

Generates score of the fraudulent rating of the transaction automatically. Detecting the unknown frauds methods.



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The opinions, forecasts, and other forward-looking statements in these materials are based on the company's judgment at the time they were produced, and Intelligent Wave Inc. makes no guarantees concerning the accuracy and completeness of the information contained herein. Please be aware that this information may also be revised without prior notice in the future.

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