

Financial Results for Q1 FY06/20 (July 1 to September 30, 2019) [Non-Consolidated]

Financial and Operating Results

Q1 FY06/20

Q1 FY06/20: Overview of results, YoY comparison



Increases in sales and income

Million yen

	Q1 FY06/19	Q1 FY06/20	Change	Percentage change
Net sales	2,337	2,417	80	+3.4%
Operating income	70	141	71	+101.4%
Ordinary income	78	140	62	+79.5%
Net income	48	91	43	+89.6%

Top three clients, by sales

Million yen

	Q1 FY06/19	Q1 FY06/20		
	Sales	Sales	Change	Main projects
1 . DNP	417	603	186	Smartphone payment, payment platform
2 . System development company	39	451	412	Network gateway
3 . Credit card issuer	93	120	27	QR code payment system, support for consumption tax hike

Q1 FY06/20: Segment summary



Million yen

Financial Systems Solutions

	Q1 FY06/19		Q1 FY06/20		Change	Percentage change
Net sales	2,140		2,243		103	+4.8%
Operating income [OM]	104	[4.9%]	207	[9.2%]	103	+99.0%

Product Solutions

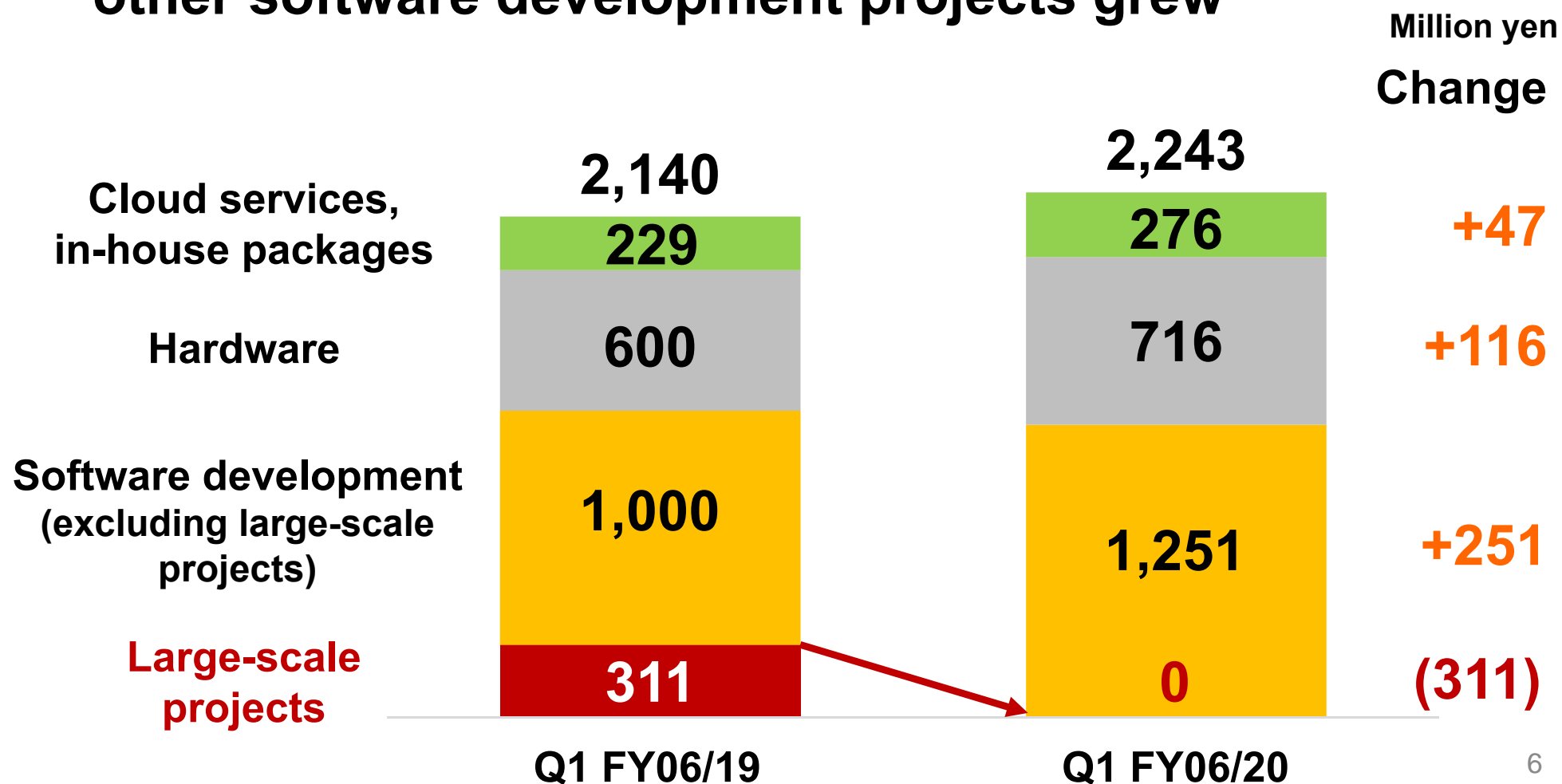
	Q1 FY06/19		Q1 FY06/20		Change	Percentage change
Net sales	197		173		(24)	(12.2)%
Operating income [OM]	(34)	[(17.3%)]	(66)	[(38.2%)]	(32)	—

Note: “OM” refers to the operating margin.

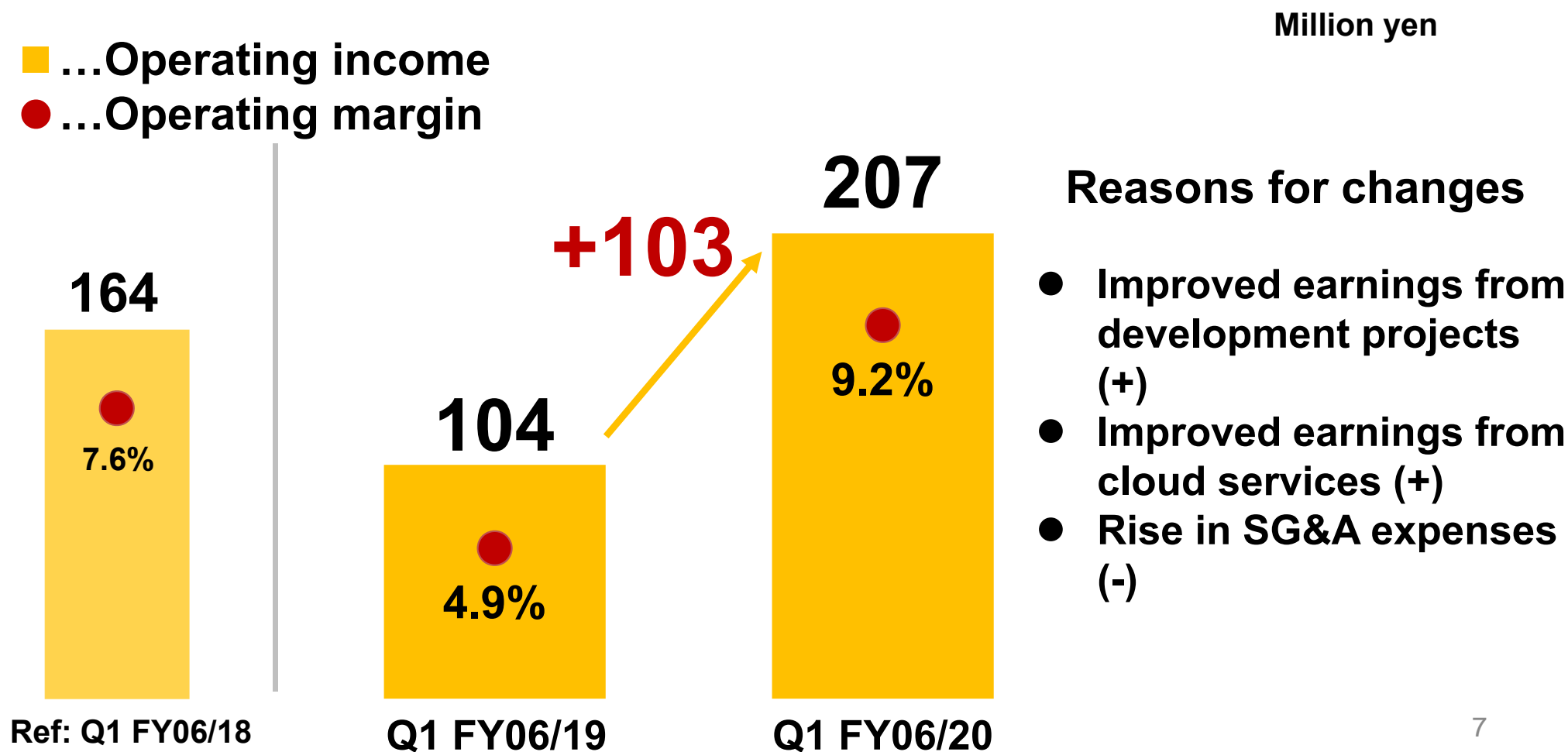
Q1 FY06/20

Financial Systems Solutions: Sales

- Sales of cloud services and hardware increased
- Although large-scale projects ended, the number of other software development projects grew






- Earnings from software development improved
- Cloud services progressed according to plan



Q1 FY06/20

Product Solutions: Sales

Sales of third-party product fell

	Million yen		
	Q1 FY06/19	Q1 FY06/20	Change
Net sales	197	173	(24)
In-house product CWAT [®]	81	72	(9)
Third-party products Traps   SECBI 	116	101	(15)
Operating income	(34)	(66)	(32)

Forecast for 1H FY06/20

1H FY06/20: Forecast

Q1 performance in line with 1H forecast

Million yen

	FY06/19 actual			FY06/20 forecast		
	Q1	Q2	1H	Q1 actual	Q2 (difference)	1H
Net sales	2,337	2,702	5,039	2,417	2,583	5,000
Operating income [OM]	70 [3.0%]	199 [7.4%]	269 [5.3%]	141 [5.8%]	199 [7.7%]	340 [6.8%]
Ordinary income [OM]	78 [3.3%]	203 [7.5%]	281 [5.6%]	140 [5.8%]	220 [8.5%]	360 [7.2%]
Net income [NM]	48 [2.1%]	156 [5.8%]	204 [4.0%]	91 [3.8%]	159 [6.2%]	250 [5.0%]



Note: “OM” refers to the operating margin or ordinary margin. “NM” is the net margin.

1H FY06/20: Forecast by segment



No change in forecast

Million yen

Financial Systems Solutions

	Q1 actual		Q2 forecast (difference)		1H forecast		Outlook
Net sales	2,243		2,257		4,500		
Operating income [OM]	207	[9.2%]	223	[9.9%]	430	[9.6%]	

Product Solutions

	Q1 actual		Q2 forecast (difference)		1H forecast		Outlook
Net sales	173		327		500		
Operating income [OM]	(66)	[(38.2%)]	(24)	[(7.3%)]	(90)	[(18.0%)]	

Note: "OM" refers to the operating margin.

Key initiatives in FY06/20

Medium-term business plan

Continue to deliver net sales of more than JPY10.0bn
Target an operating margin of 10% in FY06/22

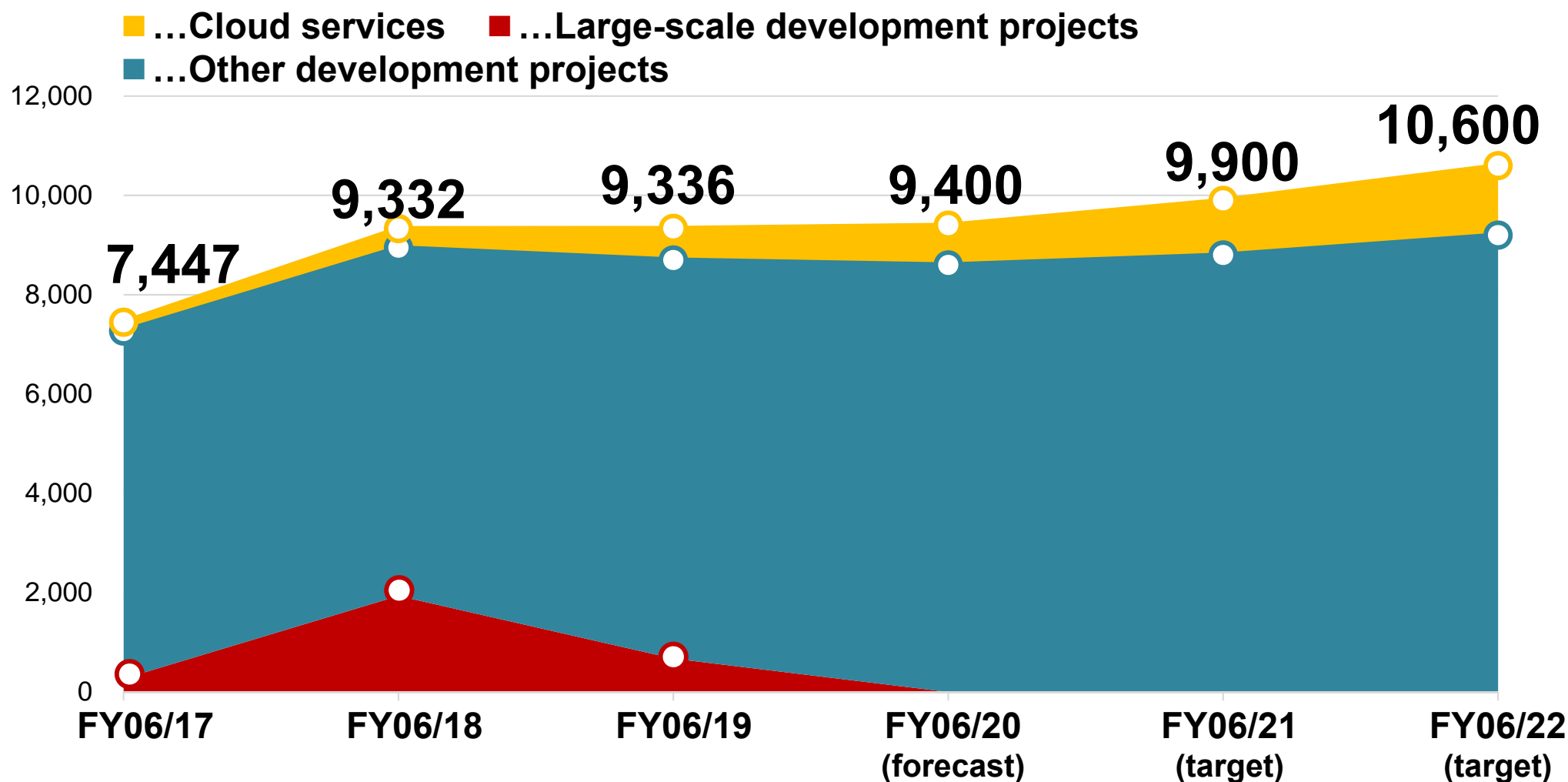
		Million yen			
	FY06/19 (actual)	FY06/20 (forecast)	FY06/21 (target)	FY06/22 (target)	CAGR
Net sales	10,443	10,600	11,200	12,000	4.7%
Financial Systems Solutions	9,336	9,400	9,900	10,600	4.3%
Product Solutions	1,106	1,200	1,300	1,400	8.2%
Operating income [OM]	921 (8.8%)	1,000 (9.4%)	1,080 (9.6%)	1,200 (10.0%)	9.2%

Note: “OM” refers to the operating margin.

Medium-term business plan: Financial Systems Solutions

Cloud services and other development projects
expected to grow after large-scale development
projects are completed

Million yen



Financial Systems Solutions

Cloud service business



Services and customers

FY06/19
Sales: **JPY637_{mn}** → **FY06/20 (forecast)**
JPY800_{mn}

	FY06/18	FY06/19	FY06/20			
			Q1	Q2	Q3	Q4
2nd customer for IGATES						
1st customer for IGATES						
3rd customer for IFINDS						
2nd customer for IFINDS						
1st customer for IFINDS						
5th customer for IOASIS				Starting in Q2		
4 customers for IOASIS						

5th customer for IOASIS starting in October

Financial Systems Solutions

New products

Next- generation NET+1

- Provide diverse network connections to capture **demand from companies entering the market**
- Sales underway to attract orders




FARIS

Next- generation fraud detection

- **Respond to growing e-commerce payments** by leveraging AI to boost capacity and detection accuracy
- PoC projects underway with two card issuers
- PoC projects being proposed to four card issuers

FY06/20

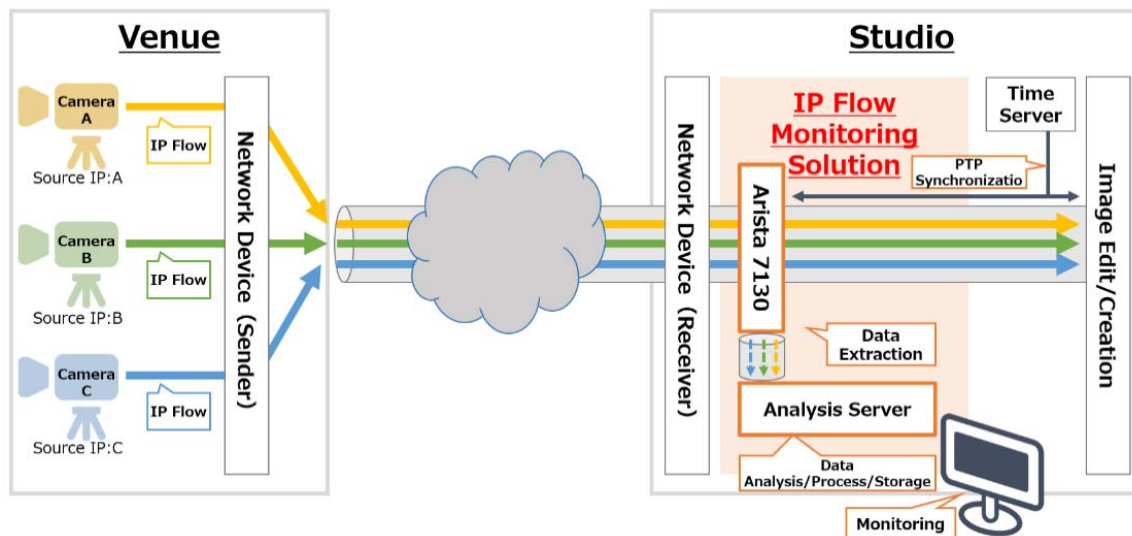
Product Solutions: Sales

	FY06/19	FY06/20 Q1	FY06/20 (full-year forecast)	Million yen Change (full year)
Net sales	1,106	173	1,200	94
In-house product CWAT [®]	488	72	430	(58)
Third-party products Traps  illusive  ayehu 	617	101	770	153
Operating income	31	(66)	40	9

New product for the broadcasting industry

EoM

- IP flow monitoring solution
- Supports switch to IP-based broadcasting systems for the 4K and 8K era
- Exhibited in September at **IBC (Amsterdam)**, and in October at the **NAB Show (New York)**



Disposed of treasury stock as restricted stock compensation

- **As an incentive under the medium-term business plan, allocate 167,200 shares of treasury stock to directors and employees**
- **Conducted second allocation, following on from 2017**

- **Allottees: Directors and employees* (418)**
- **No sales/transfers for three years**
(Period of medium-term business plan)

* Seven directors (excludes external and part-time directors)
Employee figures include contract employees

Reference

FY06/20: Forecast

Million yen

	FY06/19 actual			FY06/20			
	1H	2H	Full year	1H	2H	Full year	YoY (full year)
Net sales	5,039	5,404	10,443	5,000	5,600	10,600	1.5%
Operating income [OM]	269 [5.3%]	652 [12.1%]	921 [8.8%]	340 [6.8%]	660 [11.8%]	1,000 [9.4%]	8.6%
Ordinary income [OM]	281 [5.6%]	672 [12.4%]	953 [9.1%]	360 [7.2%]	680 [12.1%]	1,040 [9.8%]	9.1%
Net income [NM]	204 [4.0%]	479 [8.9%]	683 [6.5%]	250 [5.0%]	470 [8.4%]	720 [6.8%]	5.4%

Note: “OM” refers to the operating margin or ordinary margin. “NM” is the net margin.

FY06/20

Full-year forecast, by segment



Million yen

Financial Systems Solutions

	FY06/19 actual			FY06/20			YoY (full year)
	1H	2H	Full year	1H	2H	Full year	
Net sales	4,614	4,722	9,336	4,500	4,900	9,400	0.7%
Operating income [OM]	317 [6.9%]	573 [12.1%]	890 [9.5%]	430 [9.6%]	530 [10.8%]	960 [10.2%]	7.9%

Product Solutions

	FY06/19 actual			FY06/20			YoY (full year)
	1H	2H	Full year	1H	2H	Full year	
Net sales	424	681	1,106	500	700	1,200	8.5%
Operating income [OM]	(48) [(11.3%)]	79 [11.6%]	31 [2.8%]	(90) [(18.0%)]	130 [18.6%]	40 [3.3%]	29.0%

Note: "OM" refers to the operating margin.

FY06/20

Financial Systems Solutions

Full-year forecast

Million yen							
	FY06/19 actual			FY06/20			
	1H	2H	Full year	1H	2H	Full year	Q1 actual (reference)
Net sales	4,614	4,722	9,336	4,500	4,900	9,400	2,243
Software development	2,791	2,876	5,668	2,649	3,311	5,960	1,251
Maintenance	541	583	1,124	588	632	1,220	301
Hardware	750	390	1,140	611	259	870	353
In-house packages	140	371	512	179	61	240	98
Cloud services	285	352	637	385	415	800	178
Third-party packages	105	148	254	87	223	310	61
Operating income	317	573	890	430	530	960	207

Financial Systems Solutions

Cloud service business

Initial forecast for FY06/20

(Service charges)

Million yen

		FY06/19	FY06/20				
		Full year	Q1	Q2	Q3	Q4	Full year
Sales	Forecast		180	205	205	210	800
	Actual	637	178				
Gross profit	Forecast		(15)	(4)	(4)	(2)	(25)
	Actual	(105)	(8)				

Number of customers	IGATES	2	2	2	2	2	2
	IFINDS	3	3	3	3	3	3
	IOASIS	4	4	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

FY06/20

Product Solutions

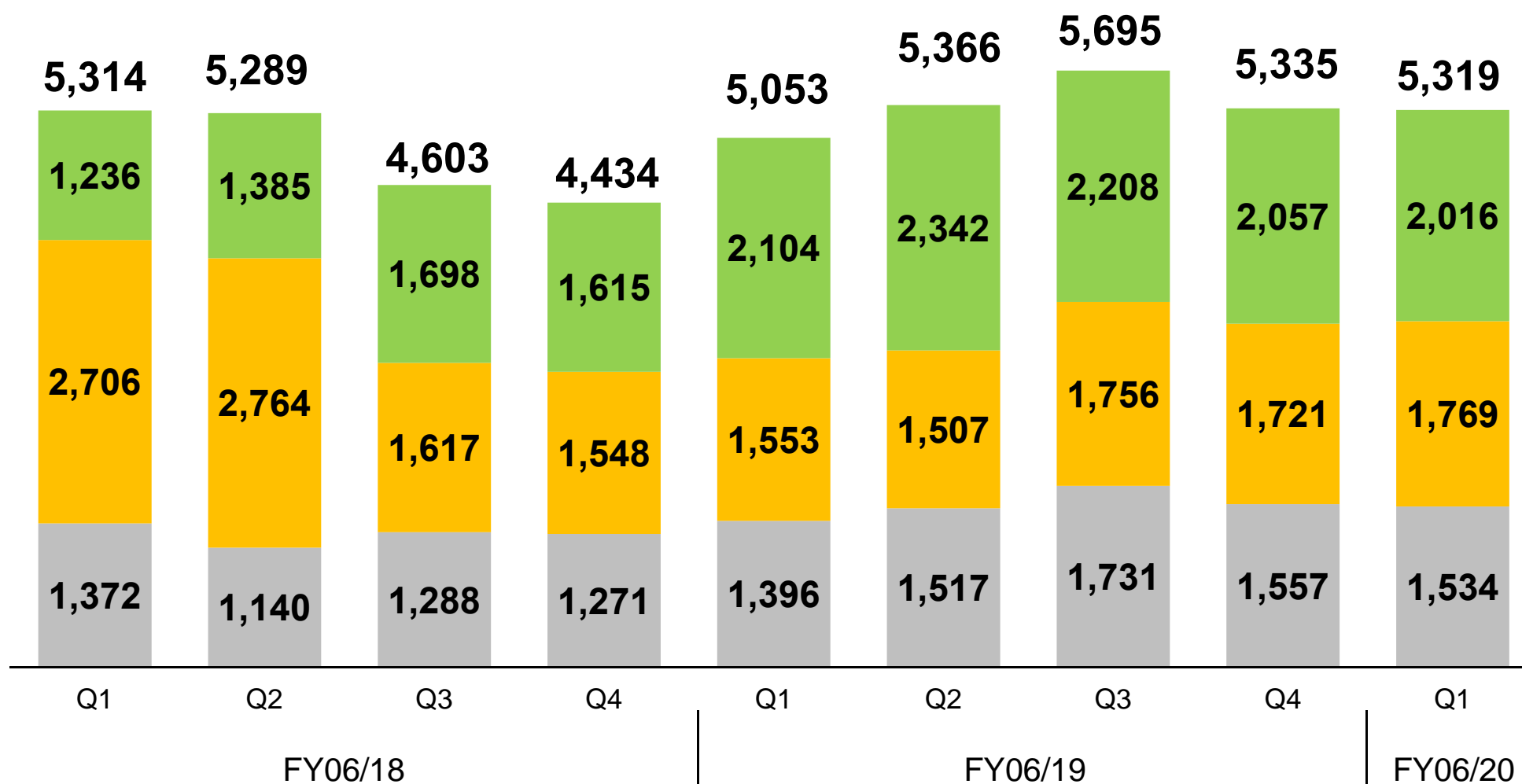
Full-year forecast

	FY06/19 actual			FY06/20			
	1H	2H	Full year	1H	2H	Full year	Q1 actual (reference)
Net sales	424	681	1,106	500	700	1,200	173
Software development	29	43	72	7	53	60	5
Maintenance	48	234	282	45	245	290	17
Hardware	2	80	82	1	39	40	1
In-house packages	113	19	133	50	30	80	49
Third-party packages	230	304	534	398	332	730	100
Operating income	(48)	79	31	(90)	130	40	(66)

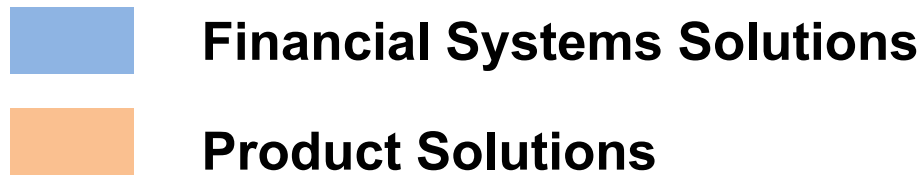
Orders on hand

- ...Cloud service business
- ...Software development
- ...Other

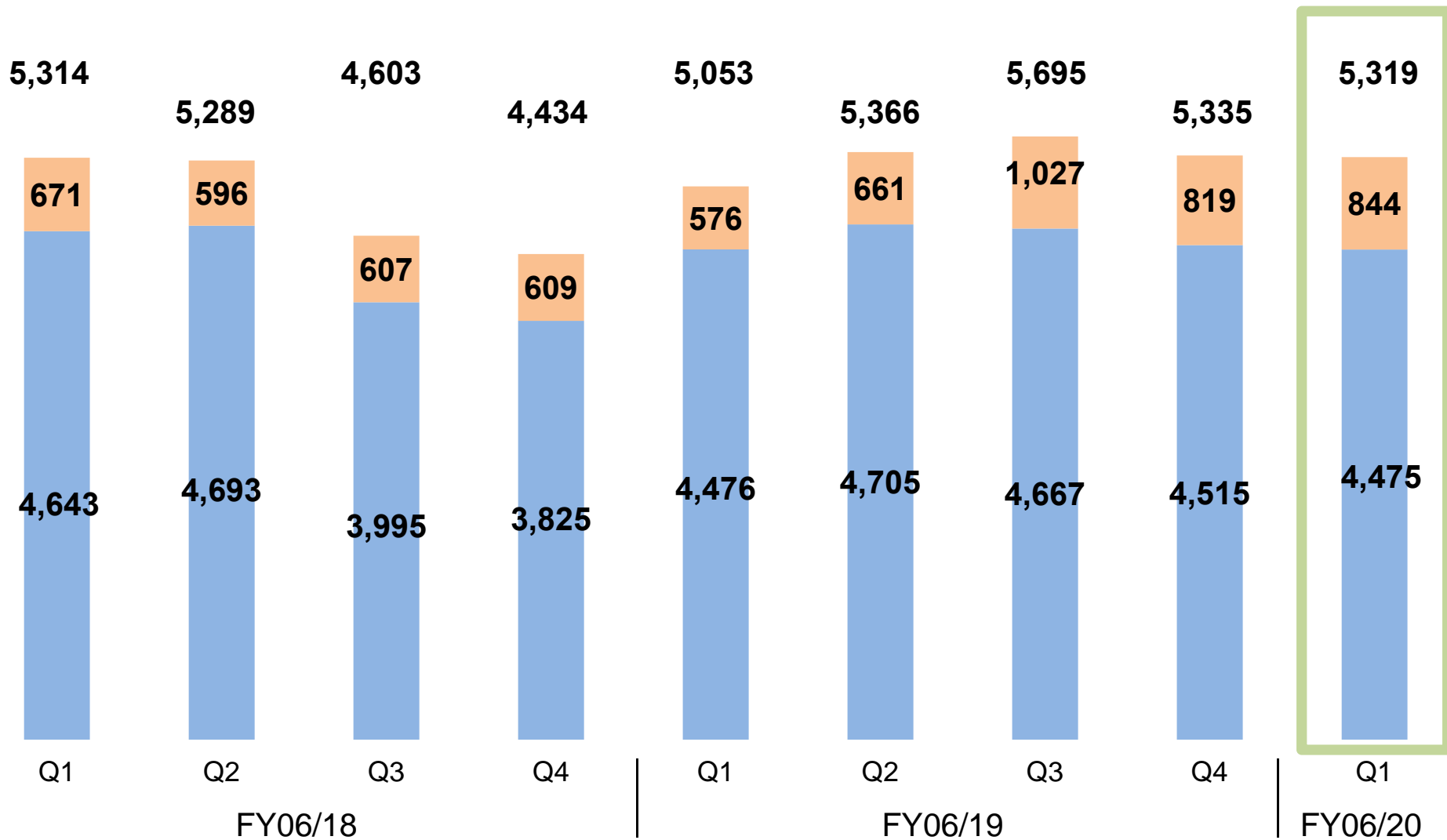
Million yen



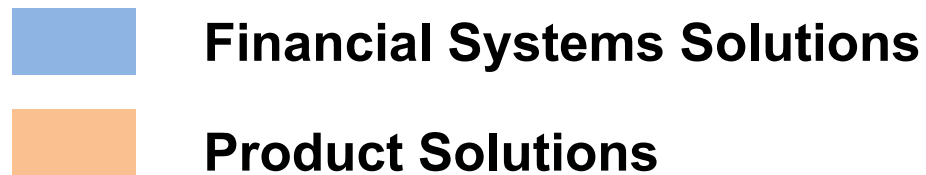
Orders on hand, by segment



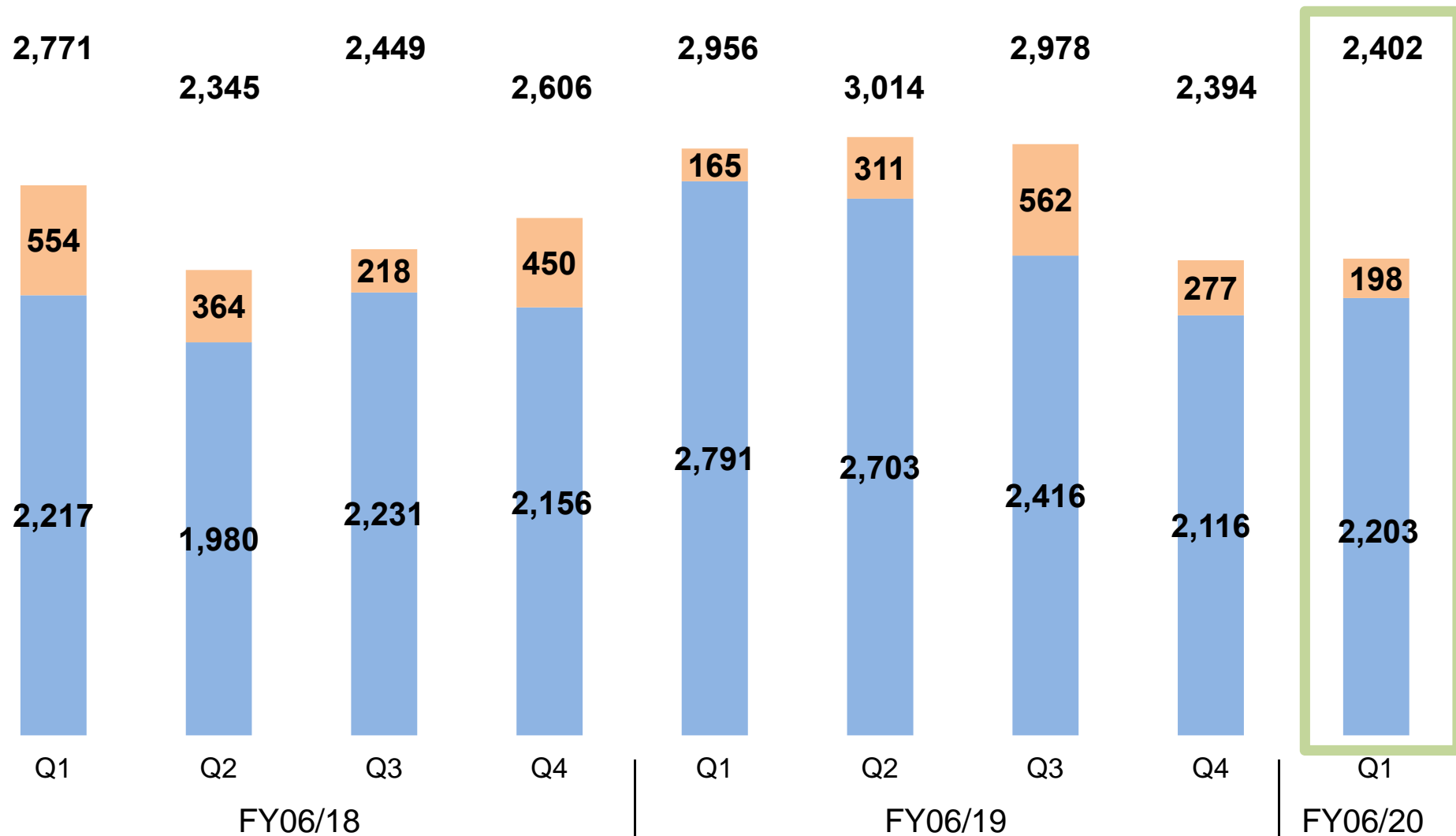
Million yen



Amount of orders, by segment



Million yen



Q1 FY06/20

Financial Systems Solutions

YoY comparison

Performance in cloud services improved

	Q1 FY06/19	Q1 FY06/20	Change
Million yen			
Net sales	2,140	2,243	103
Software development	1,311	1,251	(60)
Maintenance	268	301	33
Hardware	265	353	88
In-house packages	103	98	(5)
Cloud services	126	178	52
Third-party packages	64	61	(3)
Operating income	104	207	103

Q1 FY06/20

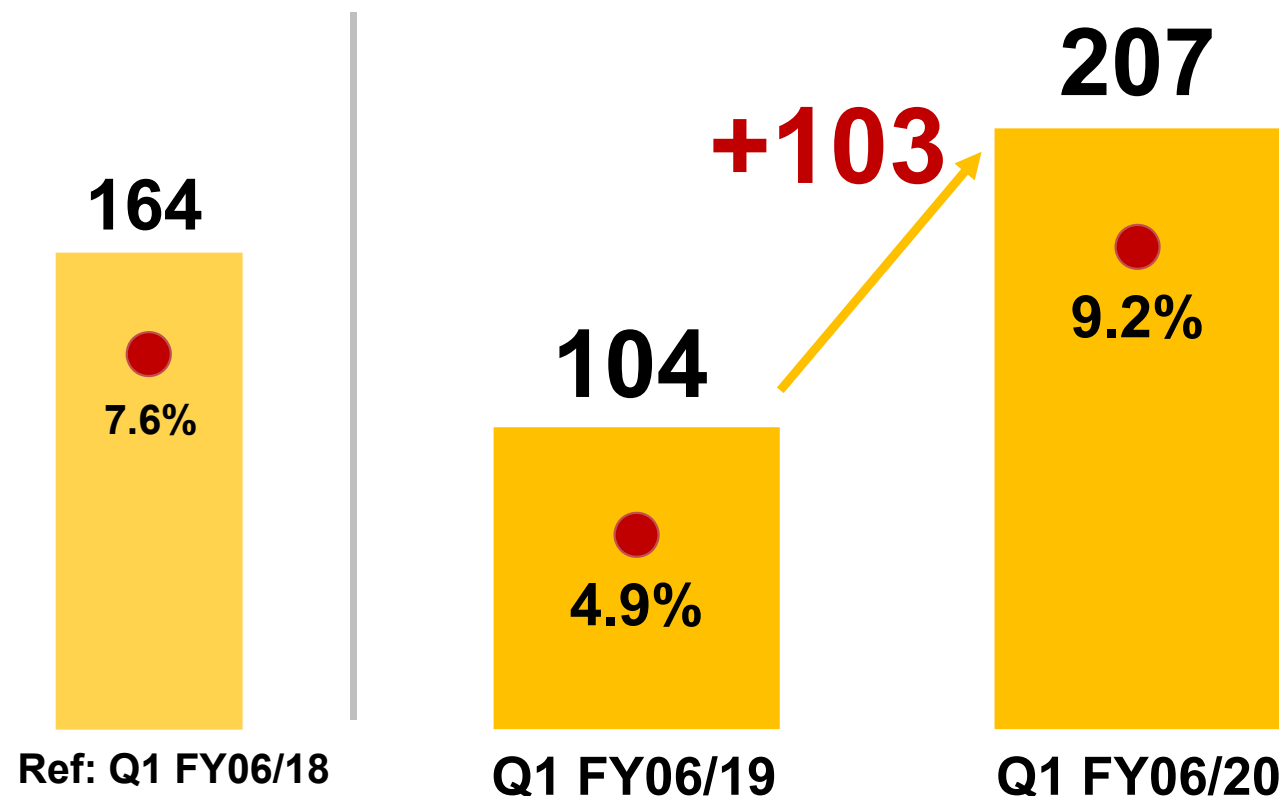
Financial Systems Solutions

Operating income

Performance in development projects and cloud services progressed according to plan

- ...Operating income
- ...Operating margin

Million yen



Reasons for changes

- Improved earnings from development projects (+)
- Improved earnings from cloud services (+)
- Rise in SG&A expenses (-)

Q1 FY06/20

Product Solutions

YoY comparison

Third-party packages decreased

	Q1 FY06/19	Q1 FY06/20	Change
Million yen			
Net sales	197	173	(24)
Software development	15	5	(10)
Maintenance	23	17	(6)
Hardware	1	1	0
In-house packages	42	49	7
Third-party packages	115	100	(15)
Operating income	(34)	(66)	(32)

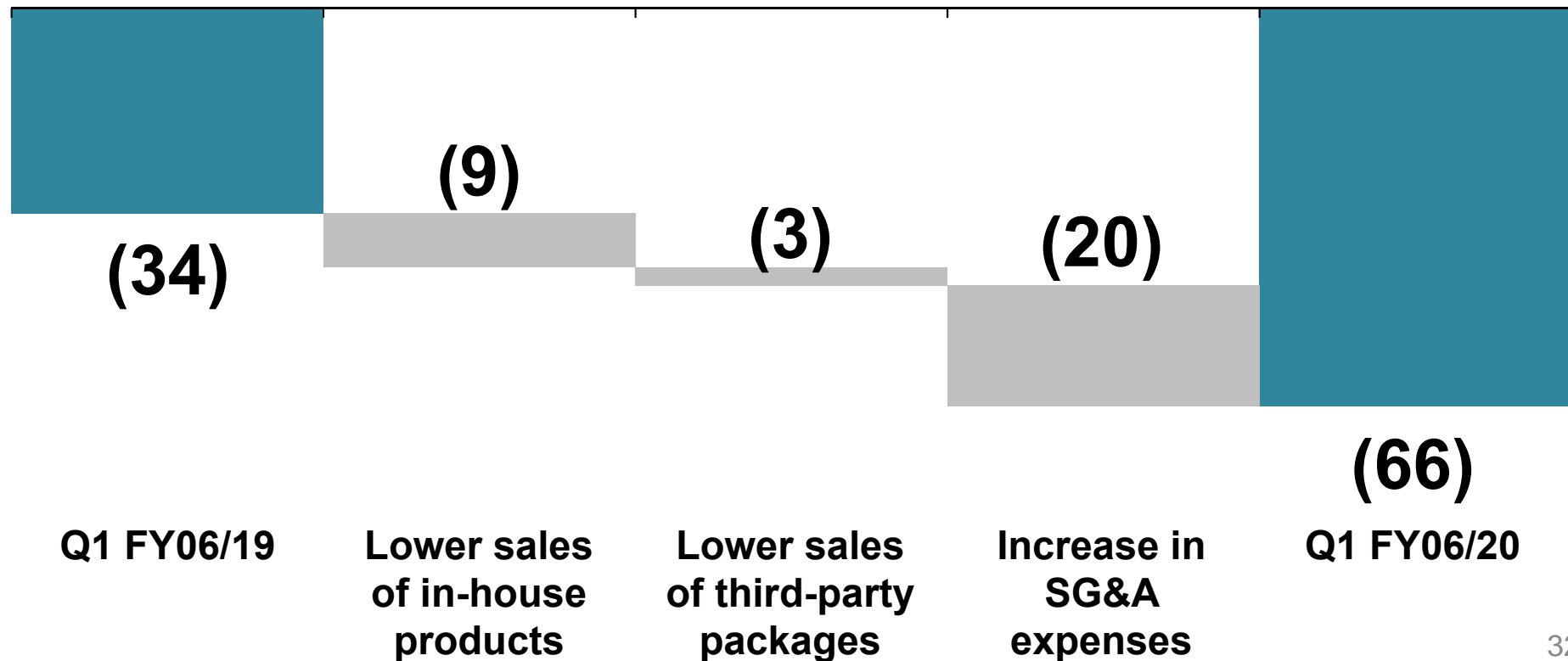
Q1 FY06/20

Product Solutions

Operating income

Million yen

Income fell due to lower sales of in-house products and higher SG&A expenses



Quarterly results, by segment

Million yen

	FY06/19				FY06/20
	Q1	Q2	Q3	Q4	Q1
Net sales	2,337	2,701	2,649	2,754	2,417
Financial Systems Solutions	2,140	2,474	2,453	2,268	2,243
Product Solutions	197	227	196	485	173
Operating income	70	198	406	246	141
Financial Systems Solutions	104	212	431	141	207
Product Solutions	(34)	(14)	(24)	104	(66)
Operating margin	3.0%	7.3%	15.3%	8.9%	5.8
Financial Systems Solutions	4.9%	8.6%	17.6%	6.2%	9.2
Product Solutions	(17.3)%	(6.2)%	(12.2)%	21.4%	(38.2)

Quarterly sales, by segment category

Million yen

	FY06/19				FY06/20
	Q1	Q2	Q3	Q4	Q1
Financial System Solutions	2,140	2,474	2,453	2,268	2,243
Software development	1,311	1,479	1,354	1,522	1,251
Maintenance	268	273	287	295	301
Hardware	265	484	239	150	353
In-house packages	103	38	342	29	98
Cloud services	126	158	174	178	178
Third-party packages	64	41	56	92	61
Product Solutions	197	227	196	485	173
Software development	15	14	8	34	5
Maintenance	23	25	84	150	17
Hardware	1	0	0	80	1
In-house packages	42	71	1	17	49
Third-party packages	115	115	102	201	100

Q1 FY06/20: Production costs



INTELLIGENT WAVE INC.

Thousand yen

	FY06/19				FY06/20
	Q1	Q2	Q3	Q4	Q1
Materials cost	7,516	5,501	5,497	4,711	13,473
Labor cost	616,769	609,232	619,518	656,916	669,478
Expenses	291,097	311,326	386,922	374,934	322,071
Subcontracting cost	816,921	768,881	624,305	604,941	636,415
Total manufacturing cost	1,732,305	1,694,941	1,636,244	1,641,504	1,641,439
Work in progress (beginning of period)	518,826	627,821	677,435	747,638	626,309
Work in progress (end of period)	627,821	677,435	747,638	626,309	741,783
Transfer to other accounts	117,406	91,812	69,272	111,394	166,499
Provision for loss on order received	—	—	—	—	—
Provision for reserve for product warranties	(14,580)	—	—	—	—
Cost of sales	1,491,322	1,553,514	1,496,769	1,651,439	1,359,465

Q1 FY06/20: SG&A expenses

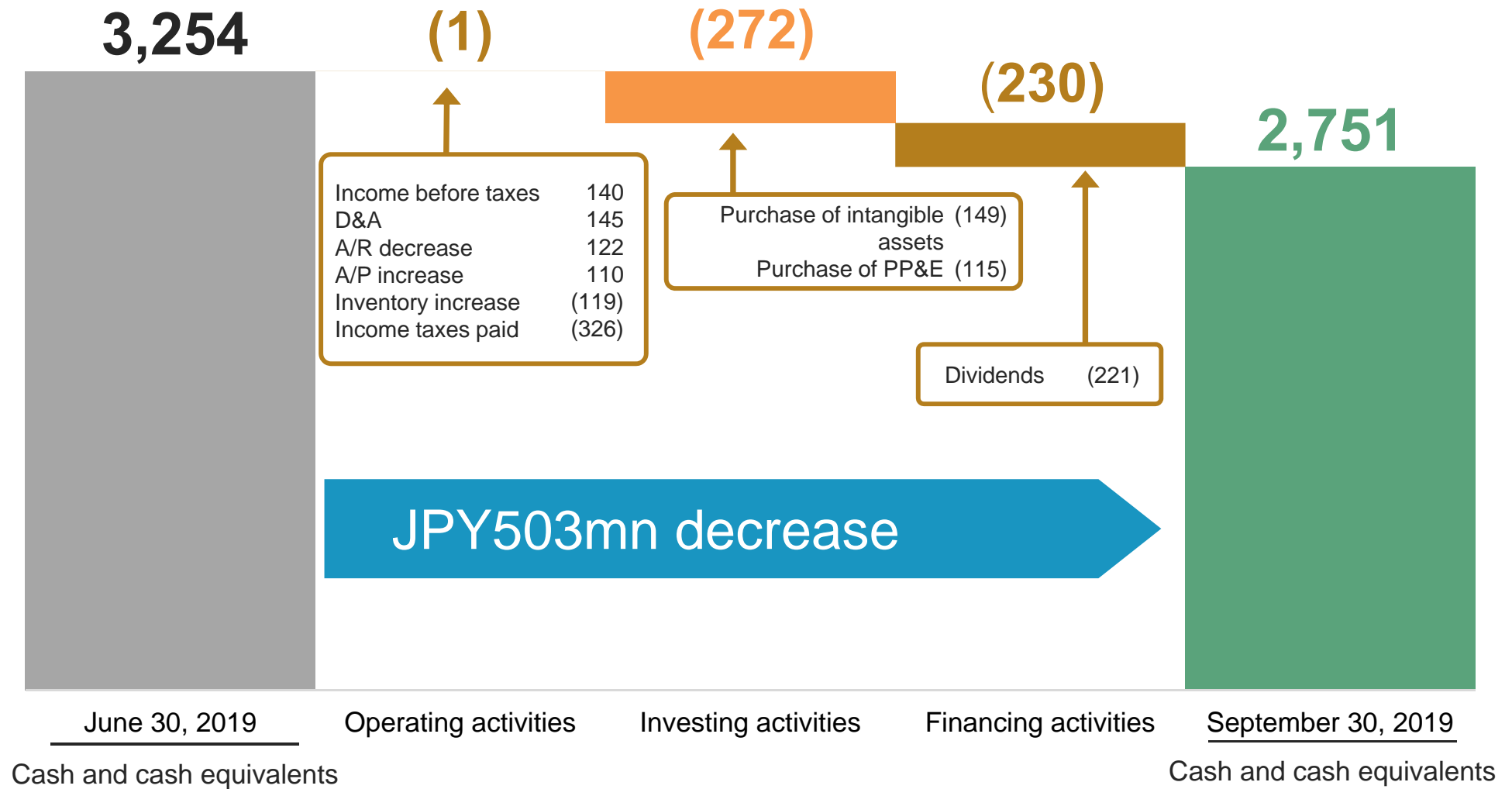
Thousand yen

	FY06/19				FY06/20
	Q1	Q2	Q3	Q4	Q1
Salaries	278,760	282,336	313,790	289,932	302,437
Recruiting and training	8,152	7,760	12,931	20,165	13,243
Rent	16,485	18,007	18,042	26,436	21,204
Advertising	7,614	11,962	4,710	4,840	9,917
R&D	11,902	12,471	4,025	3,849	4,914
Depreciation and amortization	7,472	7,863	14,428	1,972	8,826

	Q1 FY06/19	Q1 FY06/20	Change	Million yen
SG&A expenses	454	480	26	
(Breakdown)				
		Increase in salaries	23	
		Increase in recruiting and training	5	
		Increase in advertising	2	
		Decrease in R&D	(7)	
		Others	3	

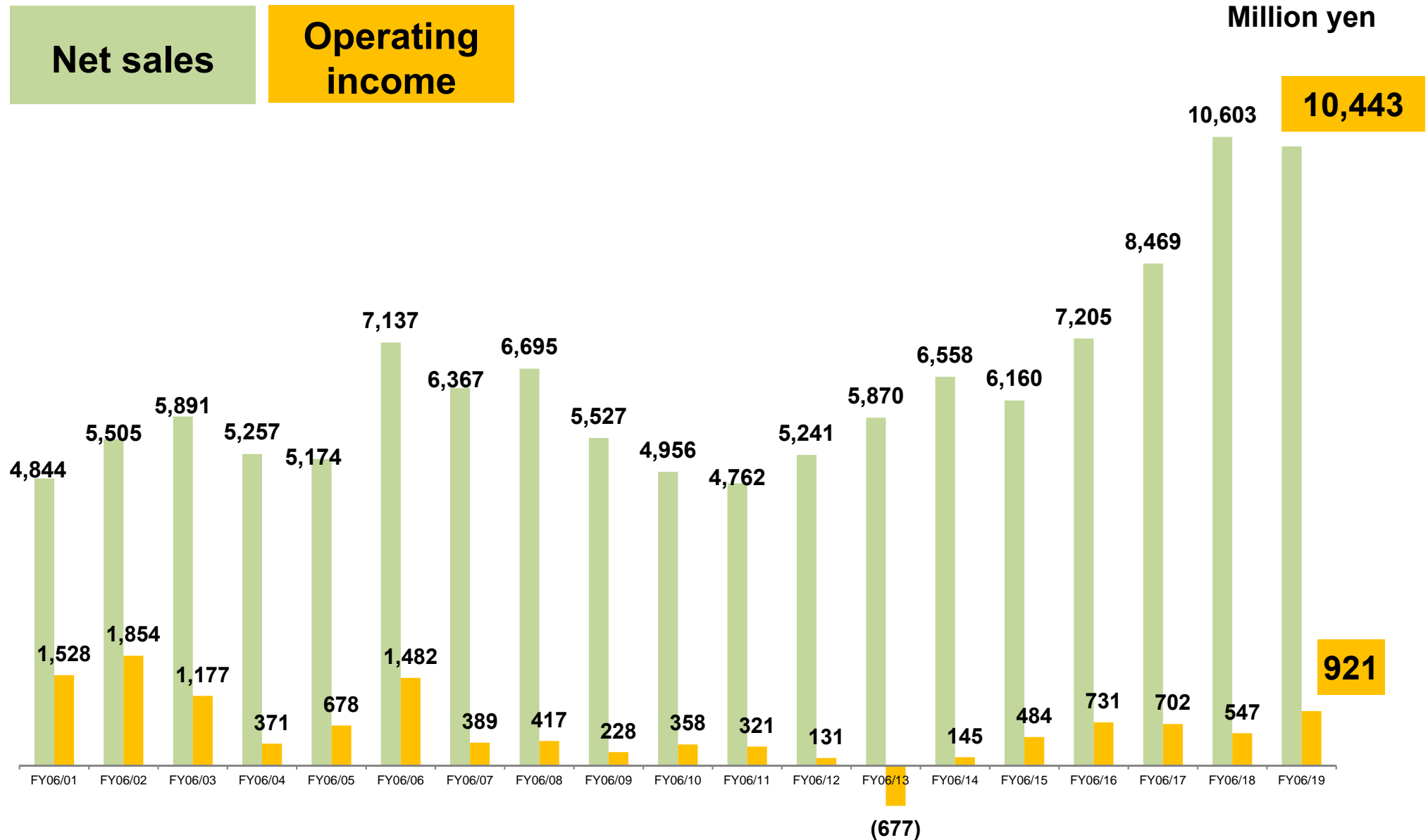
Q1 FY06/20: Cash flows

Million yen



Historical performance

Million yen



Note: Consolidated results are shown through FY06/15.

Company overview



(As of June 30, 2019)

Established	December 27, 1984
Location	Kayabacho Tower, 1-21-2 Shinkawa, Chuo-ku, Tokyo
Employees	413
Parent company	Dai Nippon Printing Co., Ltd. (50.61%)
Capital stock	JPY843.75mn
Shares outstanding	26,340,000
Shareholders	13,241

	Ownership (%)		% of Shareholders
Individuals, others	40.23%	Individuals, others	98.74%
Japanese financial institutions	4.80%	Japanese financial institutions	0.11%
Other Japanese corporations	51.05%	Other Japanese corporations	0.36%
Foreign corporations	2.55%	Foreign corporations	0.52%
Japanese securities firms	1.25%	Japanese securities firms	0.26%
Treasury stock	0.12%	Treasury stock	0.01%