

Financial Results for 1H FY06/20 (July 1 to December 31, 2019) [Non-Consolidated]

Financial and Operating Results

1H FY06/20

1H FY06/20: Overview of results

1H results

Steady performance in line with initial forecast

- **Financial Systems Solutions:**
Operating income exceeded initial forecast
- **Product Solutions**
Operating income decreased due to a decline in in-house product sales

Q3 outlook

Projected drop in income YoY due to lower in-house package sales

Full-year forecast (operating income)

Aim to achieve full-year targets by accumulating development projects and acquiring hardware renewal projects

1H FY06/20: Overview of results

YoY comparison

	Million yen			
	1H FY06/19	1H FY06/20	Change	Percentage change
Net sales	5,039	4,967	(72)	(1.4%)
Operating income	269	368	99	+36.8%
Ordinary income	281	360	79	+28.1%
Net income	204	237	33	+16.2%

1H FY06/20: Overview of results Vs. forecast



	Million yen			
	1H FY06/20 initial forecast	1H FY06/20 actual	Change	Difference vs. forecast
Net sales	5,000	4,967	(33)	(0.7%)
Operating income	340	368	28	+8.2%
Ordinary income	360	360	0	0.0%
Net income	250	237	(13)	(5.2%)

Top three clients, by sales Vs. 1H FY06/19

Million yen

	1H FY06/19 Sales	1H FY06/20 Sales	Change	Main projects
1. DNP	937	1,114	177	Smartphone payments, payment platforms
2. System development company	164	596	432	Network gateway
3. Credit card issuer	169	236	67	QR code payment system, support for consumption tax hike

1H FY06/20: Segment summary

Million yen

Financial Systems Solutions

	1H FY06/19		1H FY06/20		Change	Percentage change
Net sales	4,614		4,527		(87)	(1.9%)
Operating income [OM]	317	[6.9%]	493	[10.9%]	176	+55.5%

Product Solutions

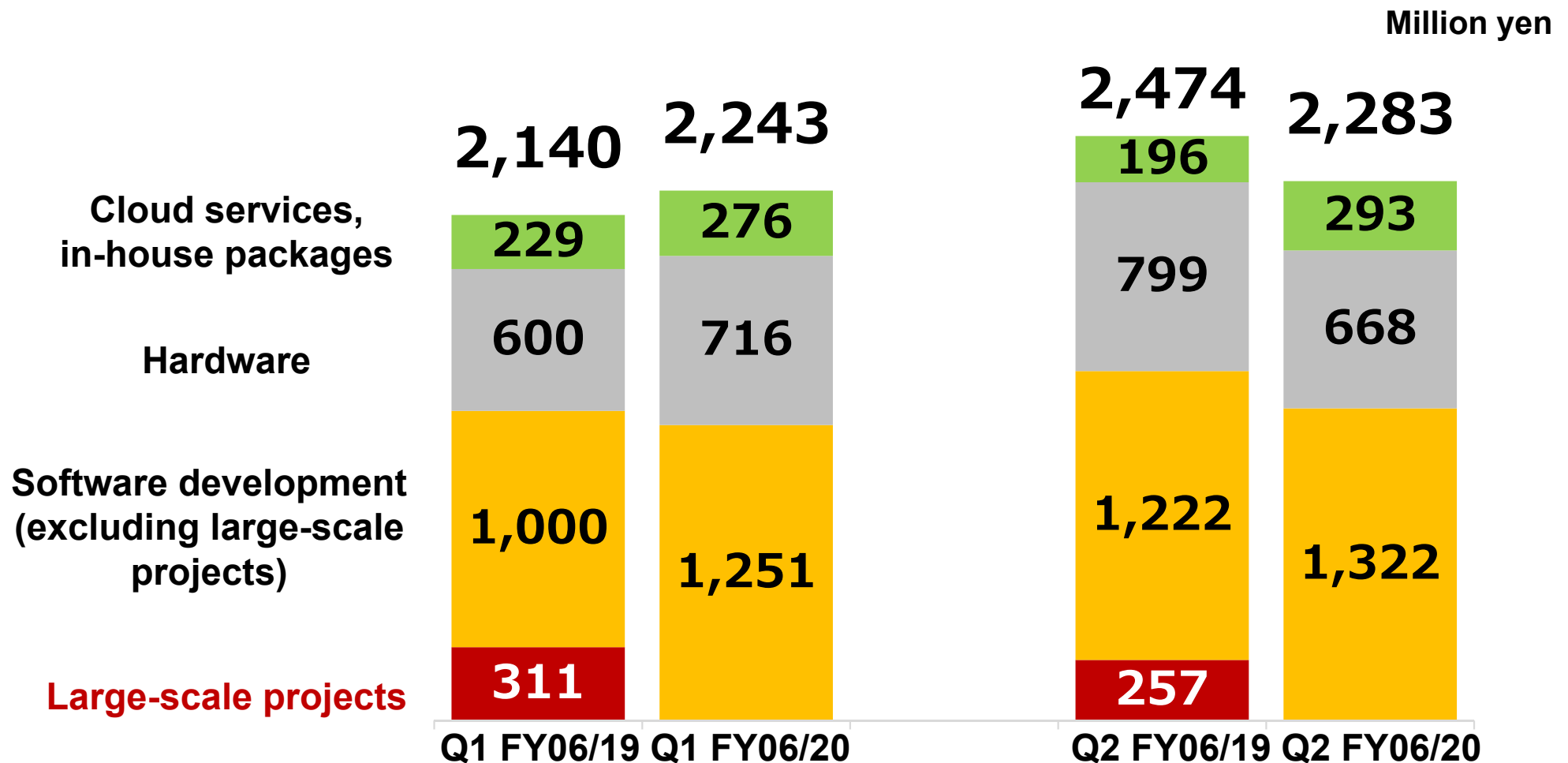
	1H FY06/19		1H FY06/20		Change	Percentage change
Net sales	424		440		16	+3.8%
Operating income [OM]	(48)	[(11.3%)]	(125)	[(28.4%)]	(77)	—

Note: “OM” refers to the operating margin.

1H FY06/20

Financial Systems Solutions: Sales

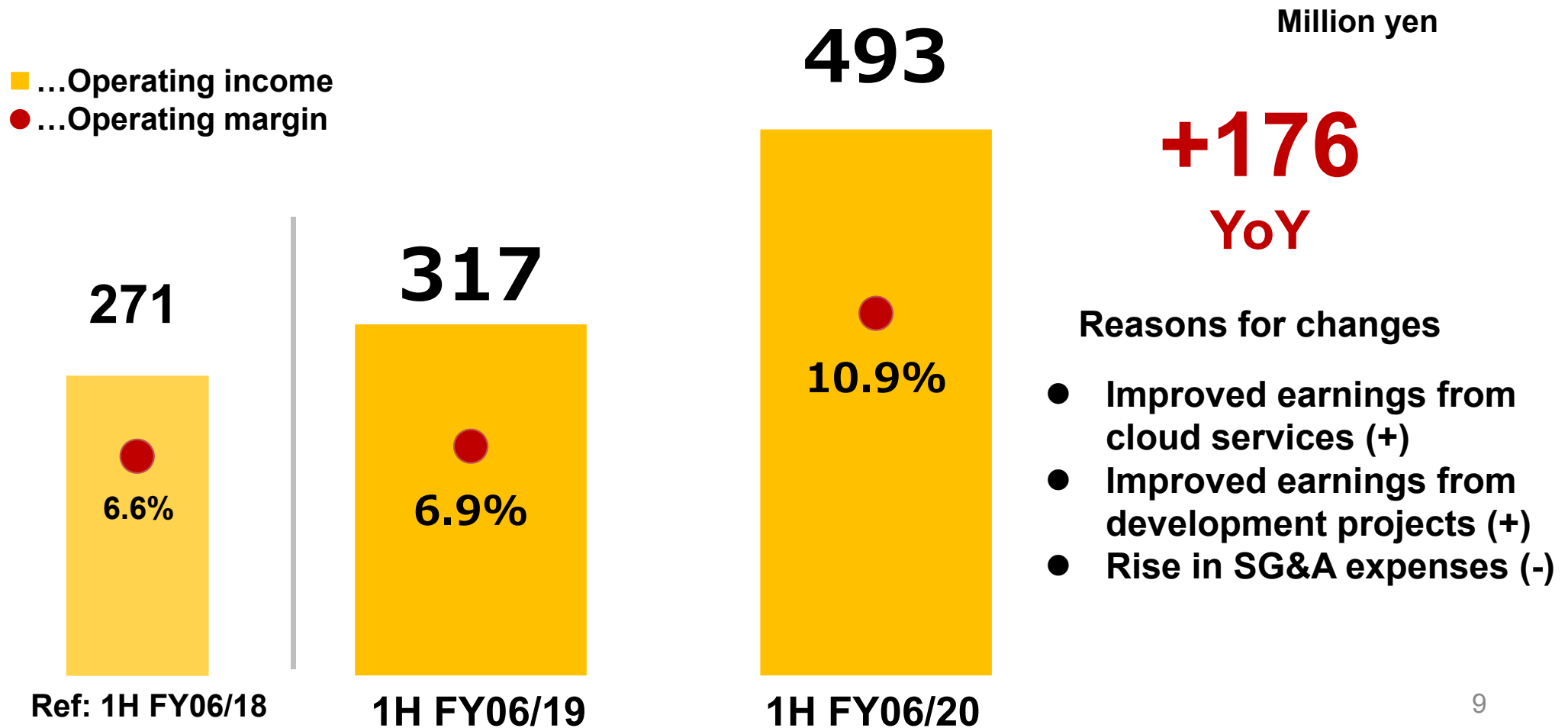
Rise in non-large-scale software development projects
Increase in in-house packages and cloud services



1H FY06/20

Financial Systems Solutions: Operating income




- Earnings improved thanks to higher sales in cloud services
- Smooth performance in software development operations (no unprofitable projects)



1H FY06/20

Product Solutions: Sales

Sales of third-party products rose,
but sales of high-margin in-house product fell

	1H FY06/19	1H FY06/20	Change
Net sales	424	440	16
In-house product CWAT [®]	192	135	(57)
Third-party products Traps  illusive  ayehu  SECBI	232	304	72
Operating income	(48)	(125)	(77)

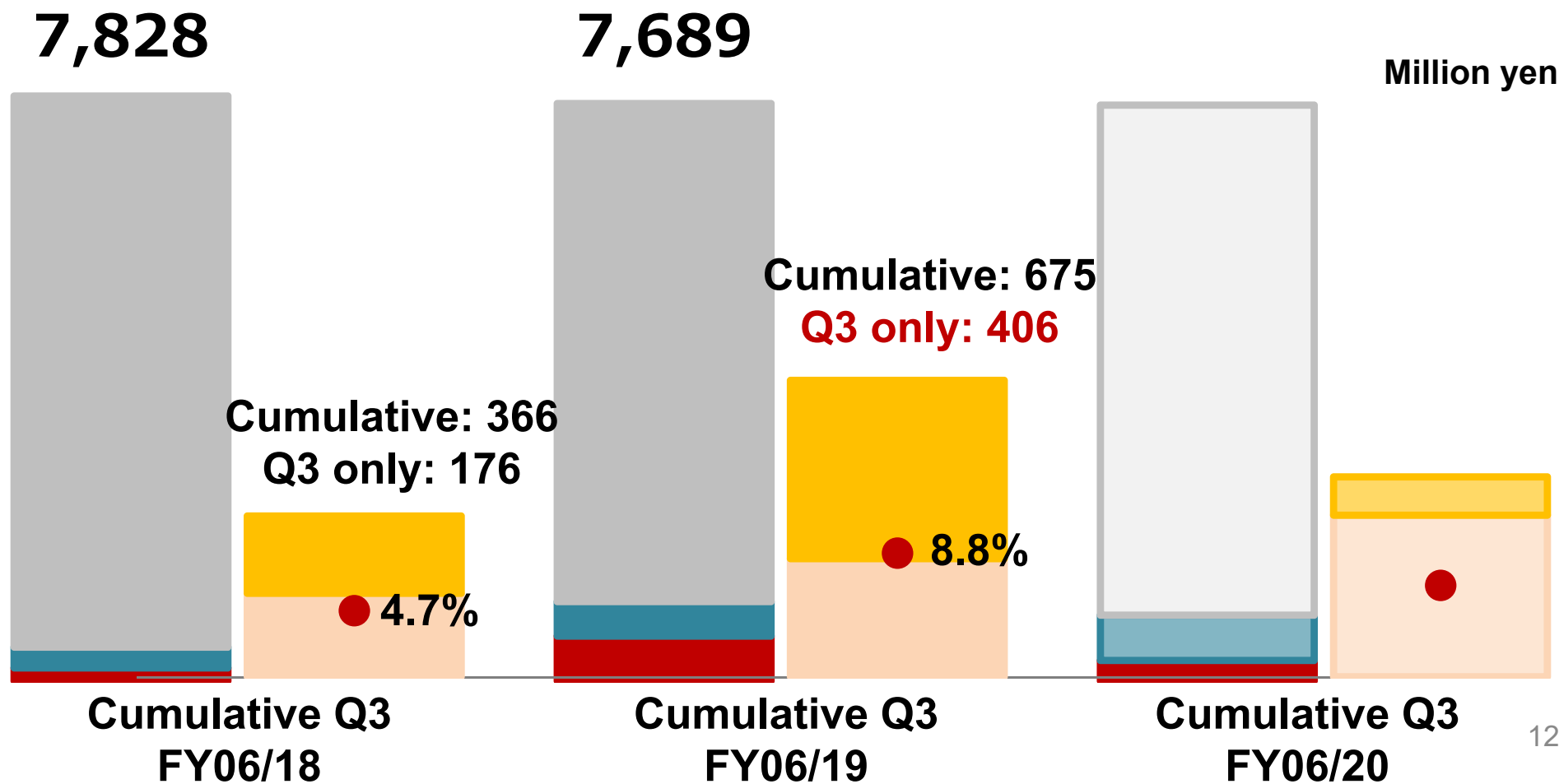
Forecast for 1H FY06/20

Q3 FY06/20: Outlook

Operating income projected to drop YoY

1. Lower in-house package sales
2. Some impact from projects with lower-than-projected margins

■ ...Net sales (■ ...Cloud services ■ In-house packages)
■ ...1H operating income ■ ...Q3 operating income
● ...Operating margin (cumulative Q3)



FY06/20: Forecasts

No changes to full-year forecast

Million yen

	FY06/19 actual			FY06/20			
	1H	2H	Full year	1H actual	2H forecast (difference)	Full-year forecast	YoY (full year)
Net sales	5,039	5,404	10,443	4,967	5,633	10,600	+1.5%
Operating income [OM]	269 [5.3%]	652 [12.1%]	921 [8.8%]	368 [7.4%]	632 [11.2%]	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%]	237 [4.8%]	483 [8.6%]	720 [6.8%]	+5.4%





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

2H FY06/20: Forecasts, by segment

Financial Systems Solutions:

Sales expected to exceed projections due to an increase in development projects

Million yen

Financial Systems Solutions							
	1H actual		2H forecast (difference)		Full-year forecast		Outlook
Sales	4,527		4,873		9,400		
Operating income [OM]	493	[10.9%]	467	[9.6%]	960	[10.2%]	
Product Solutions							
	1H actual		2H forecast (difference)		Full-year forecast		Outlook
Sales	440		760		1,200		
Operating income [OM]	(125)	[(28.4%)]	165	[21.7%]	40	[3.3%]	

Note: "OM" refers to the operating.

Key Initiatives In FY06/20

Financial Systems Solutions

2H Activities

Hardware renewal

- End support for some hardware devices for FEPs in 2021–2022
- In accordance with the shift to succession machines, start sales of hardware to some customers in FY06/20
- Forecasting orders for development projects associated with the shift

Cloud services

- Increase in inquiries, especially for IOASIS (acquiring business)

New projects

- FARIS (next-generation fraud detection) : Aim to acquire multiple projects

Financial Systems Solutions

Cloud service business

Services and
customers

Sales

FY06/19
637mn



FY06/20 (forecast)
800mn

	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				Operations started in Q2		
1st to 4th customer for IOASIS						

IOASIS: Received inquiries from **multiple regional banks, etc.** (orders to be received in FY06/21 or later)

Full-year sales expected to exceed ¥800 million

FARIS

**Next-
generation
fraud
detection**

- Respond to growing e-commerce payments by leveraging AI to boost capacity and detection accuracy
- Planning to utilize multi-year usage fee based contracts (subscriptions)

Status of PoC projects

- Completed: One company→Aiming to **receive the order in Q3**
- Underway (or planned) : Two companies
- Currently being proposed: One company

Product Solutions

2H Activities

Expansion of new product sales

- Enhancing sales activities to receive orders in FY06/20, our 37th year



Marketing activities

- Exhibited and delivered lecture at Cybertech Tokyo (November 2019)




Aim for expanded new customer acquisition



Product Solutions

Sales for FY06/20

Aim to meet projected targets by strengthening sales of Israeli-made cybersecurity products

	FY06/19	FY06/20 1H	FY06/20 (full-year forecast)	Million yen Change (full-year)
Sales	1,106	440	1,200	94
In-house product CWAT [®]	488	135	430	(58)
Third-party products Traps  illusive  ayehu  SEC3, etc.	617	304	770	153
Operating income	31	(125)	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
- Displayed at several exhibitions in Japan and overseas

2019

Sep: IBC (Amsterdam)

Oct: NAB Show (New York)

Nov: Inter BEE 2019 (Makuhari)

2020

Jan: Arista Event (Las Vegas)

Apr: NAB Show (Las Vegas)

- Plan to conduct PoC projects at several companies in Japan and overseas in the future (national broadcasting overseas, sports clubs, etc.)



Reference

Medium-term business plan

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

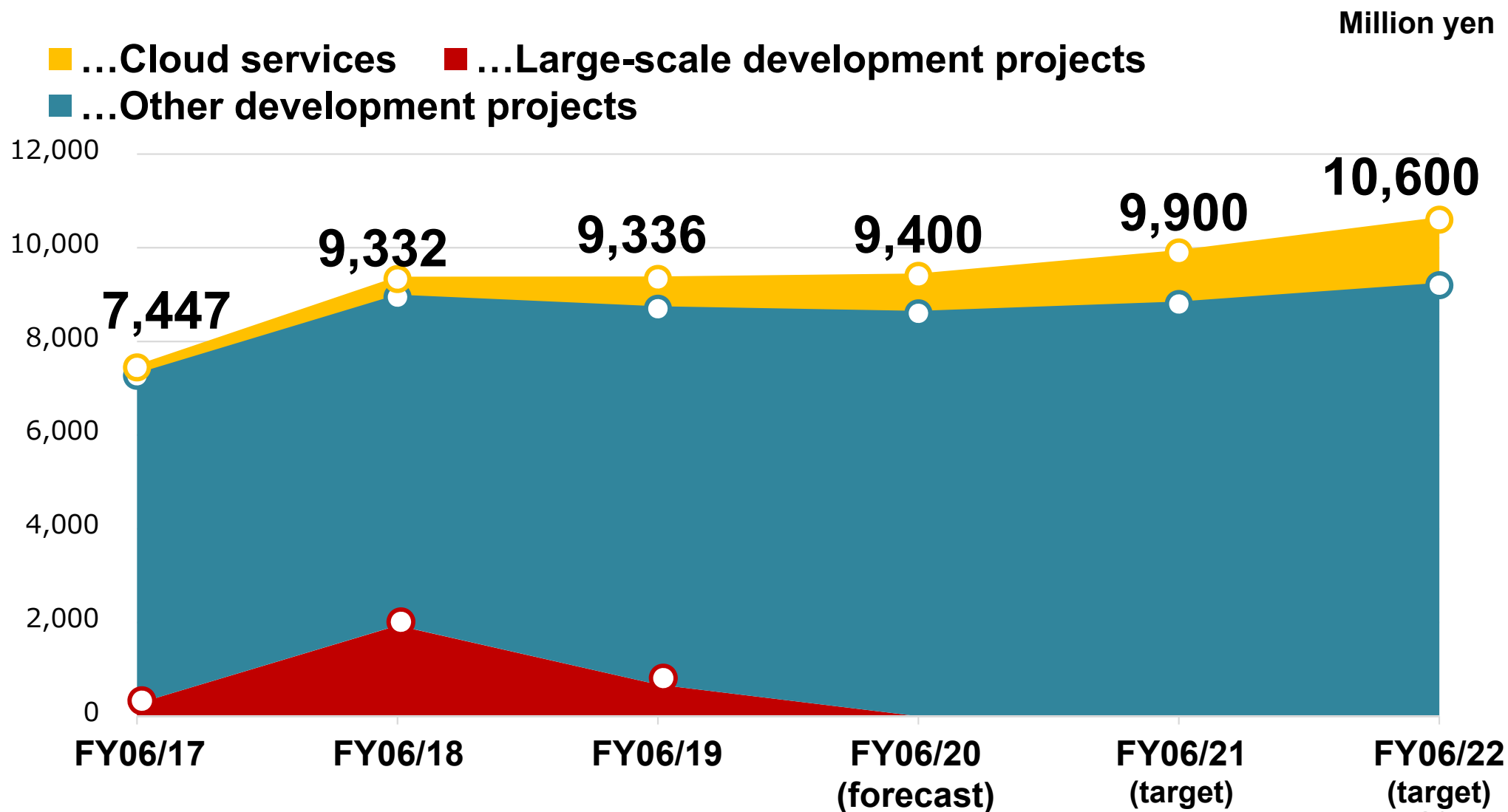
		Million yen			
	FY06/19 (actual)	FY06/20 (forecast)	FY06/212 (target)	FY06/22 (target)	CAGR
Net sales	10,443	10,600	11,200	12,000	4.7%
Financial Systems Solutions	9,336	9,400	9,900	10,600	4.3%
Product Solutions	1,106	1,200	1,300	1,400	8.2%
Operating income [OM]	921 [8.8%]	1,000 [9.4%]	1,080 [9.6%]	1,200 [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



FY06/20: Forecasts

							Million yen
	FY06/19 actual			FY06/20			YoY (full year)
	1H	2H	Full year	1H actual	2H forecast (difference)	Full-year forecast	
Net sales	5,039	5,404	10,443	4,967	5,633	10,600	+1.5%
Operating income [OM]	269 [5.3%]	652 [12.1%]	921 [8.8%]	368 [7.4%]	632 [11.2%]	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%]	237 [4.8%]	483 [8.6%]	720 [6.8%]	+5.4%

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

FY06/20

Financial Systems Solutions

Full-year forecast

	FY06/19 actual			FY06/20		
	1H	2H	Full year	1H actual	2H forecast (difference)	Full year
Sales	4,614	4,722	9,336	4,527	4,873	9,400
Software development	2,791	2,876	5,668	2,574	3,386	5,960
Maintenance	541	583	1,124	606	614	1,220
Hardware	750	390	1,140	680	190	870
In-house packages	140	371	512	179	61	240
Cloud services	285	352	637	390	410	800
Third-party packages	105	148	254	95	215	310
Operating income	317	573	890	493	467	960

Financial Systems Solutions Cloud Services

FY06/20: Initial targets and actual results

		Million yen				
		Q1	Q2	Q3	Q4	Full year
Sales	FY06/19 results	126	158	174	178	637
	Forecast	180	205	205	210	800
	FY06/20 results	178	211			
Gross profit	FY06/19 results	(59)	(33)	(9)	(2)	(105)
	Forecast	(15)	(4)	(4)	(2)	(25)
	FY06/20 results	(8)	(0.4)			

FY06/20

Product Solutions

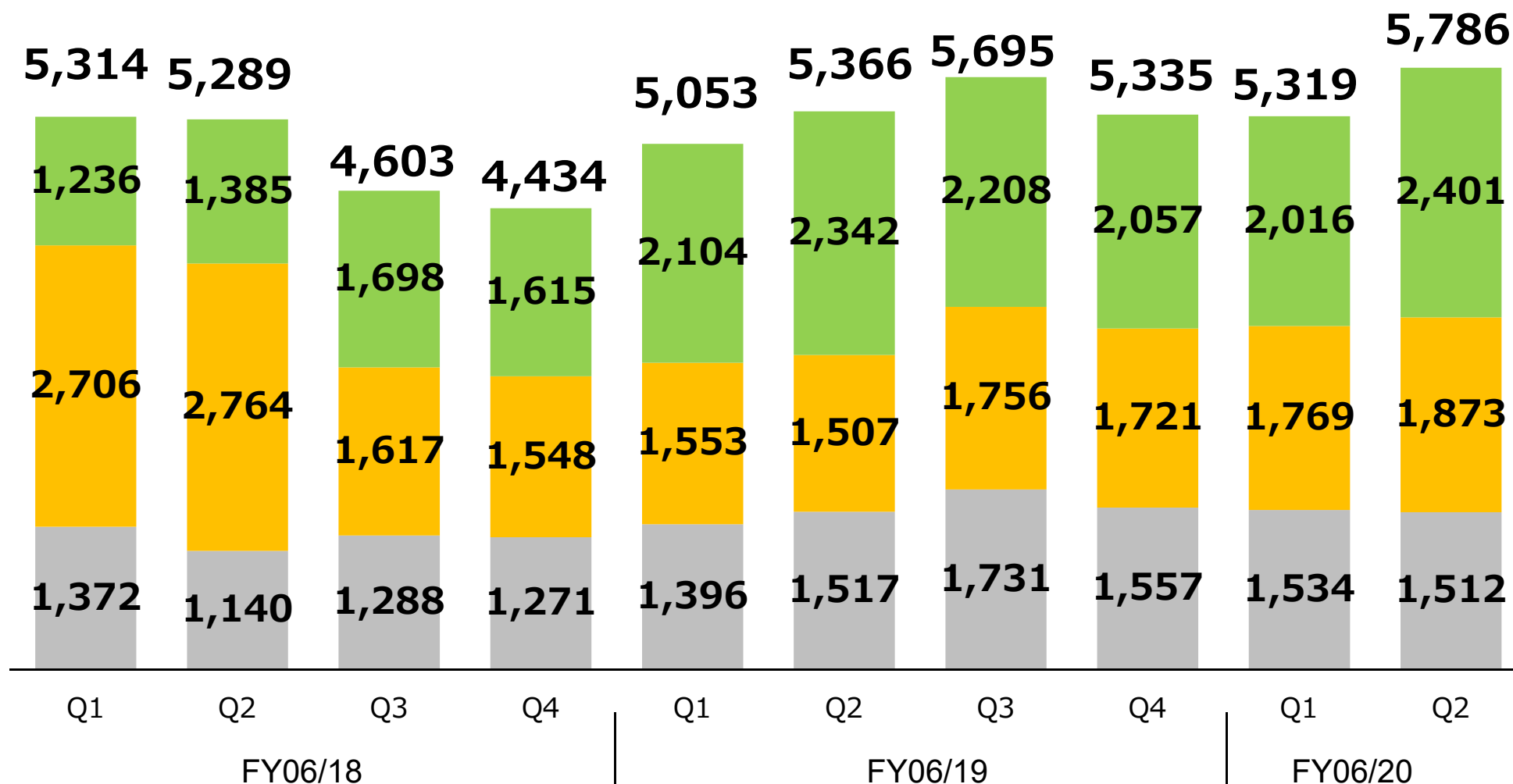
Full-year forecast

	FY06/19 actual			FY06/20		
	1H	2H	Full year	1H actual	2H forecast (difference)	Full year
Sales	424	681	1,106	440	760	1,200
Software development	29	43	72	28	32	60
Maintenance	48	234	282	44	246	290
Hardware	2	80	82	1	39	40
In-house packages	113	19	133	62	18	80
Third-party packages	230	304	534	302	428	730
Operating income	(48)	79	31	(125)	165	40

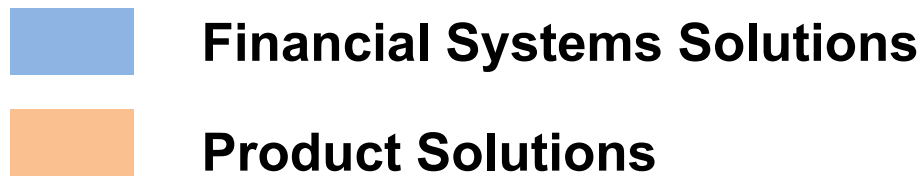
Orders on hand

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

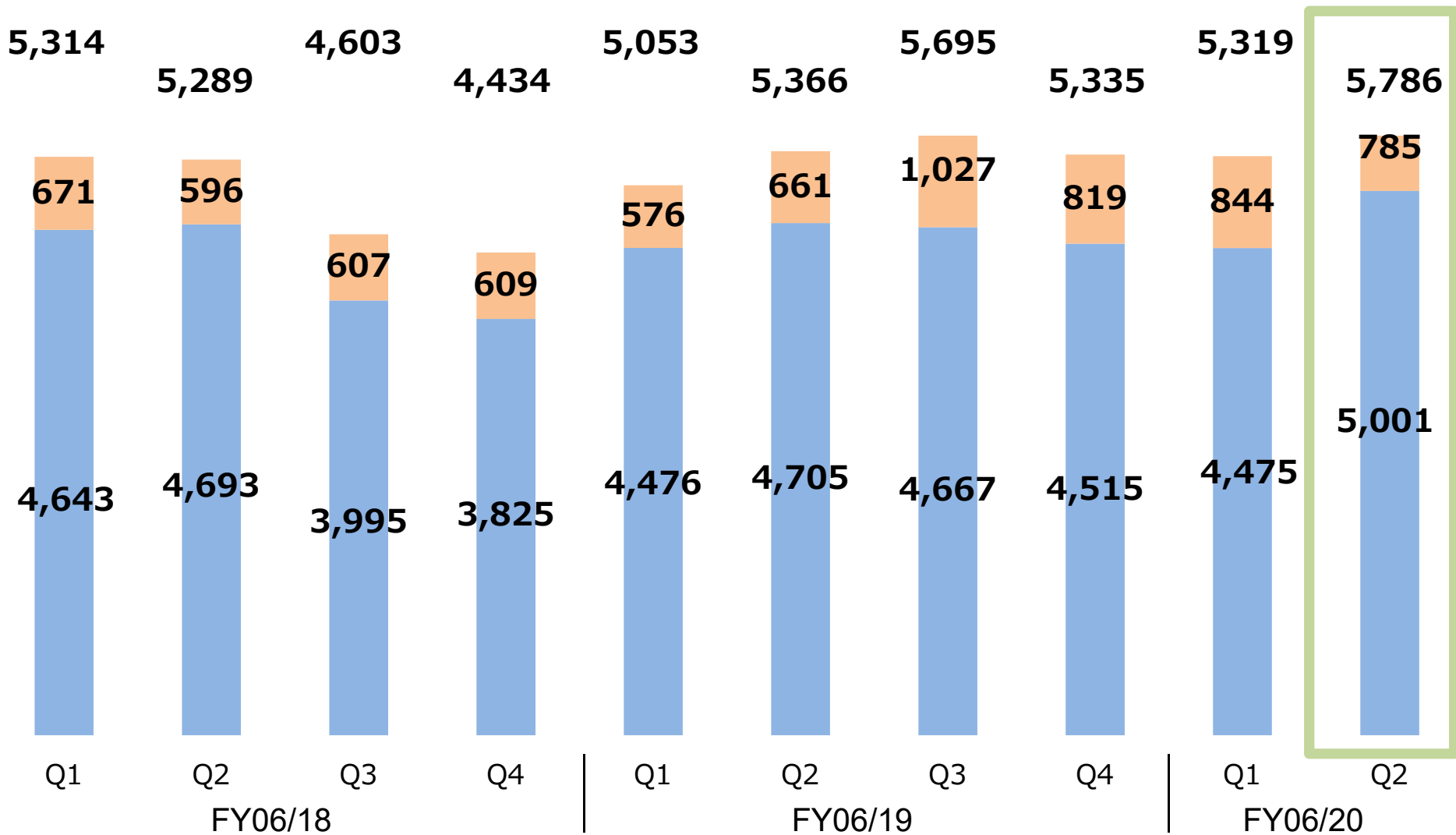
Million yen



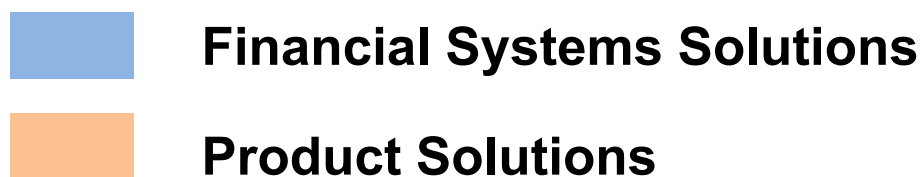
Orders on hand, by segment



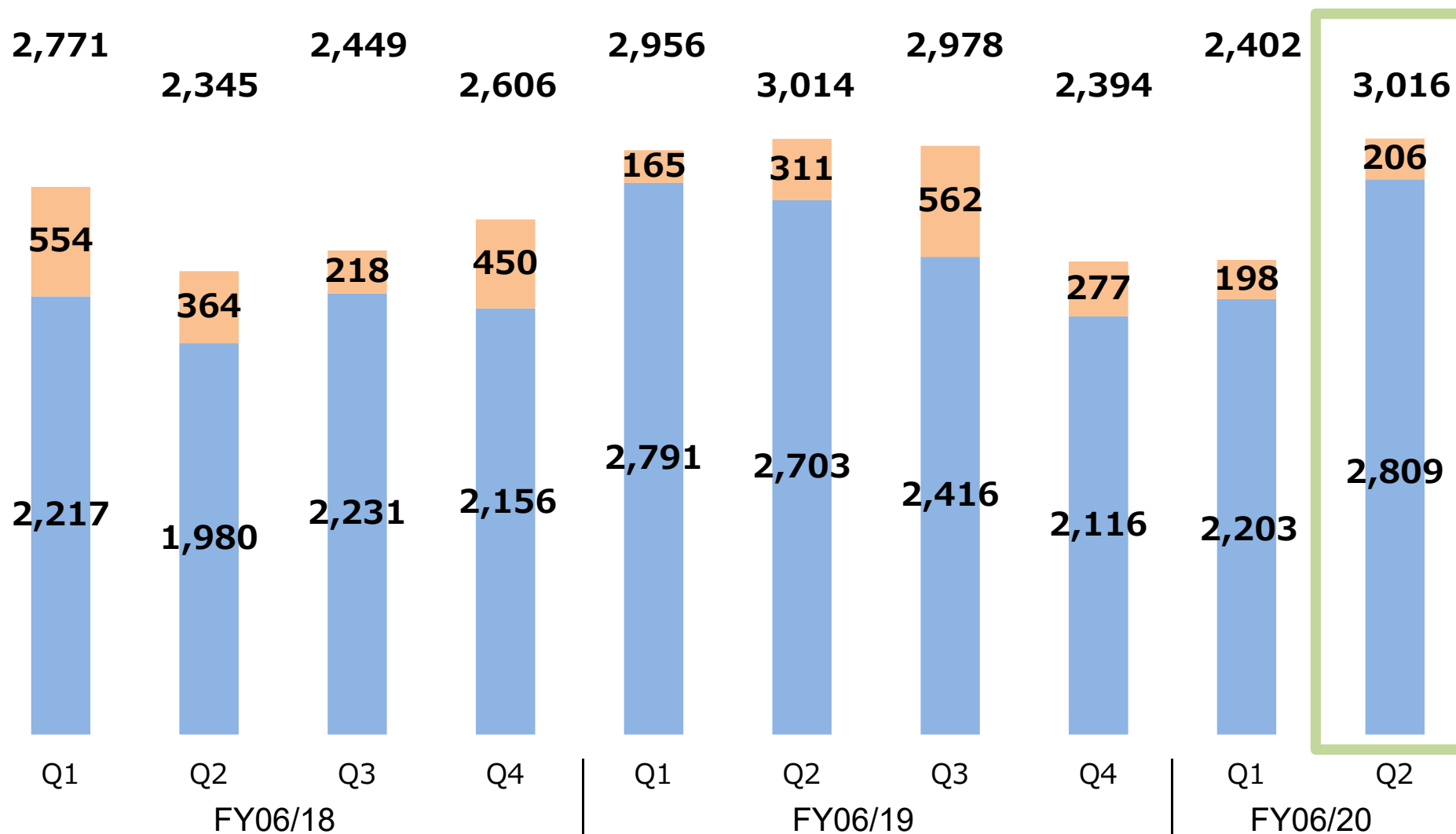
Million yen



Amount of orders, by segment



Million yen



1H FY06/20: Overview of results

YoY comparison

	Million yen			
	1H FY06/19	1H FY06/20	Change	Percentage change
Net sales	5,039	4,967	(72)	(1.4%)
Operating income	269	368	99	+36.8%
Ordinary income	281	360	79	+28.1%
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1H FY06/20: Overview of results Vs. forecast

	Million yen			
	1H FY06/20 initial forecast	1H FY06/20 actual	Change	Difference vs. forecast
Net sales	5,000	4,967	(33)	(0.7%)
Operating income	340	368	28	+8.2%
Ordinary income	360	360	0	0.0%
Net income	250	237	(13)	(5.2%)

1H FY06/20

Financial Systems Solutions: YoY comparison



Increase in cloud services sales

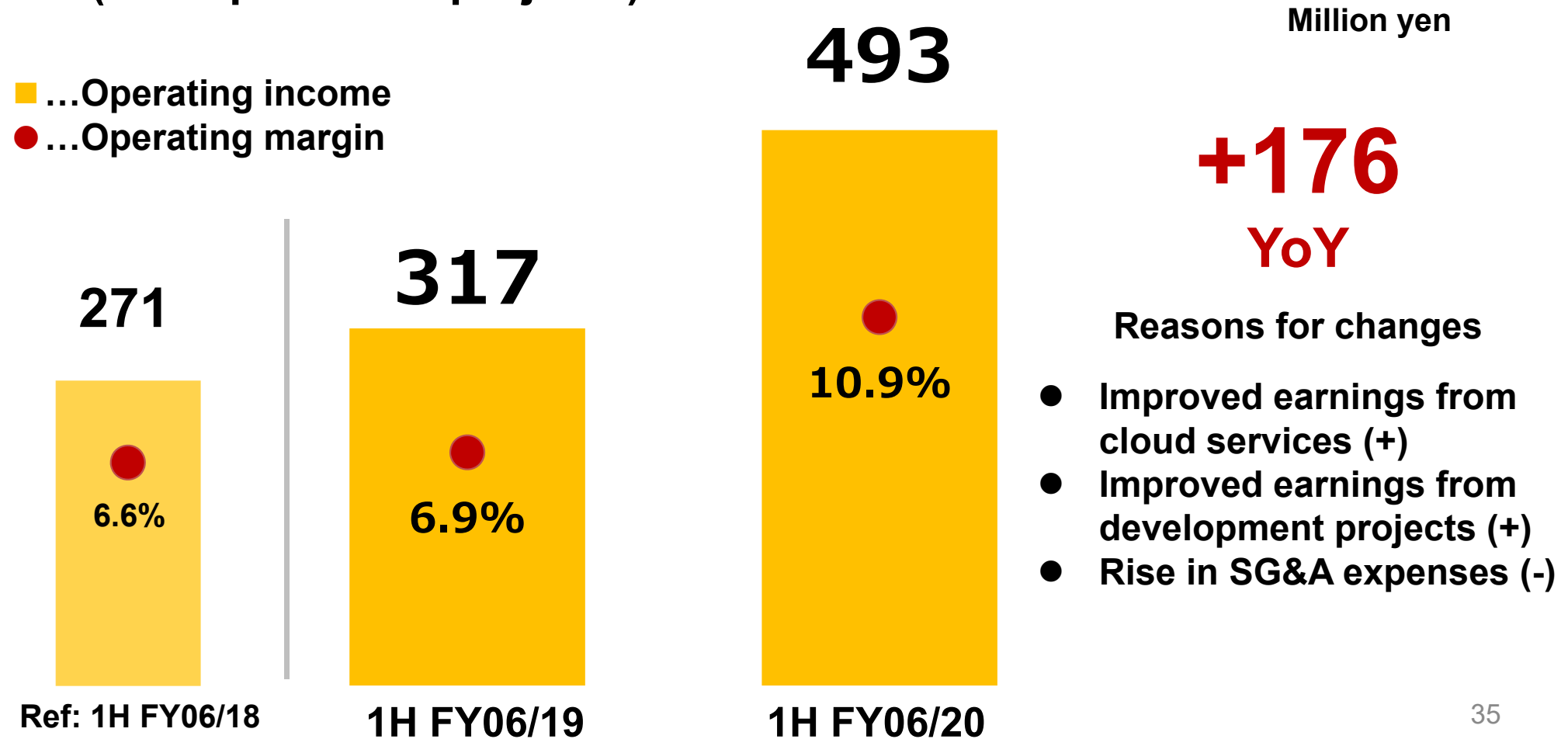
			Million yen
	1H FY06/19	1H FY06/20	Change
Sales	4,614	4,527	(87)
Software development	2,791	2,574	(217)
Maintenance	541	606	65
Hardware	750	680	(70)
In-house packages	140	179	39
Cloud services	285	390	105
Third-party packages	105	95	(10)
Operating income	317	493	176

1H FY06/20

Financial Systems Solutions

Operating income

- Improvement in earnings thanks to increased sales in cloud services
- Smooth performance in software development operations (no unprofitable projects)



1H FY06/20

Financial Systems Solutions: Vs. forecast

	1H FY06/20 initial forecast	1H FY06/20 actual	Change
Million yen			
Sales	4,500	4,527	27
Software development	2,649	2,574	(75)
Maintenance	588	606	18
Hardware	611	680	69
In-house packages	179	179	0
Cloud services	385	390	5
Third-party packages	87	95	8
Operating income	430	493	63

1H FY06/20

Product Solutions: YoY comparison

Sales of third-party products rose, but sales of high-margin in-house products fell

	1H FY06/19	1H FY06/20	Change
Million yen			
Sales	424	440	16
Software development	29	28	(1)
Maintenance	48	44	(4)
Hardware	2	1	(1)
In-house packages	113	62	(51)
Third-party packages	230	302	72
Operating income	(48)	(125)	(77)

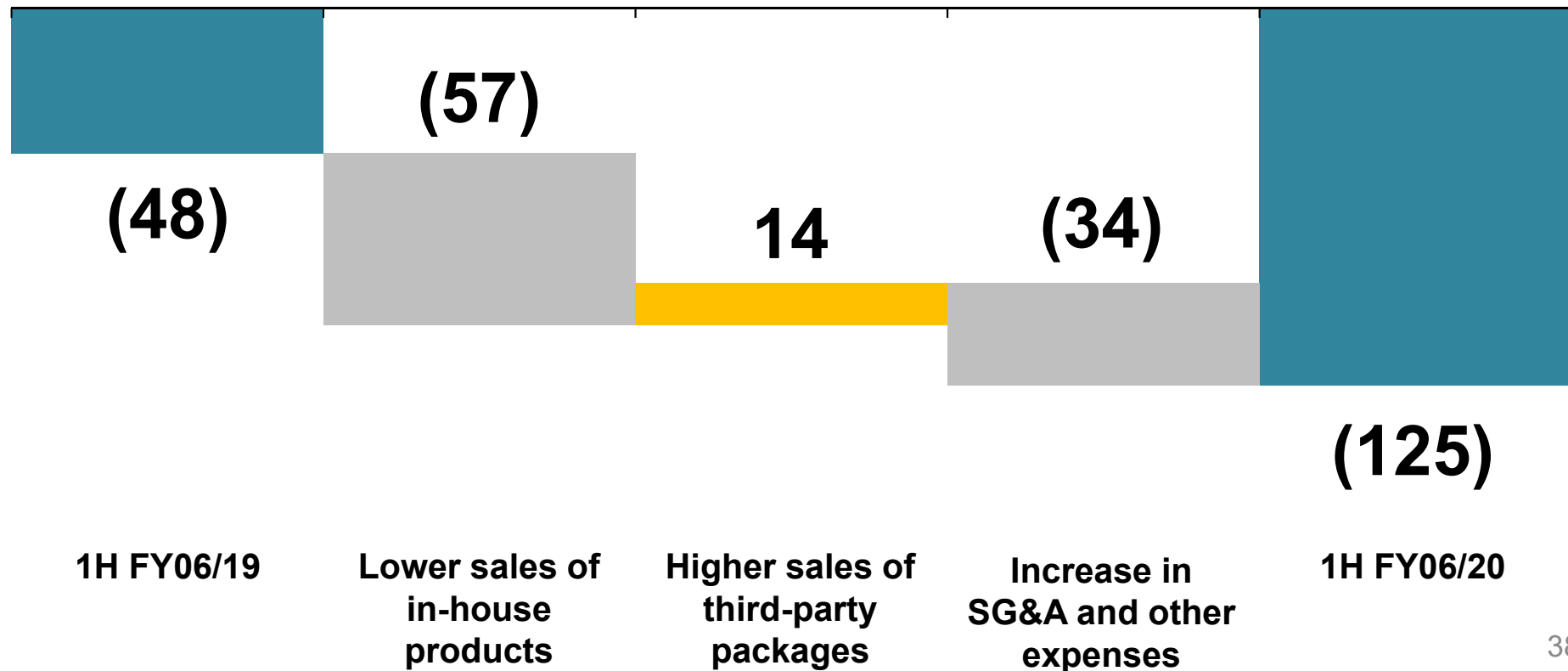
1H FY06/20

Product Solutions

Operating income

Million yen

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



1H FY06/20

Product Solutions: Vs. forecast

	1H FY06/20 initial forecast	1H FY06/20 actual	Change
			Million yen
Sales	500	440	(60)
Software development	7	28	21
Maintenance	45	44	(1)
Hardware	1	1	0
In-house packages	50	62	12
Third-party packages	398	302	(96)
Operating income	(90)	(125)	(35)

Quarterly results, by segment

Million yen

	FY06/19				FY06/20	
	Q1	Q2	Q3	Q4	Q1	Q2
Net sales	2,337	2,701	2,649	2,754	2,417	2,549
Financial Systems Solutions	2,140	2,474	2,453	2,268	2,243	2,283
Product Solutions	197	227	196	485	173	266
Operating income	70	198	406	246	141	227
Financial Systems Solutions	104	212	431	141	207	286
Product Solutions	(34)	(14)	(24)	104	(66)	(58)
Operating margin	3.0%	7.3%	15.3%	8.9%	5.8%	8.9%
Financial Systems Solutions	4.9%	8.6%	17.6%	6.2%	9.2%	12.5%
Product Solutions	(17.3%)	(6.2%)	(12.2%)	21.4%	(38.2%)	(21.8%)

Quarterly sales, by segment category

Million yen

	FY06/19				FY06/20	
	Q1	Q2	Q3	Q4	Q1	Q2
Financial Systems Solutions	2,140	2,474	2,453	2,268	2,243	2,283
Software development	1,311	1,479	1,354	1,522	1,251	1,322
Maintenance	268	273	287	295	301	305
Hardware	265	484	239	150	353	327
In-house packages	103	38	342	29	98	82
Cloud services	126	158	174	178	178	211
Third-party packages	64	41	56	92	61	34
Product Solutions	197	227	196	485	173	266
Software development	15	14	8	34	5	23
Maintenance	23	25	84	150	17	26
Hardware	1	0	0	80	1	0
In-house packages	42	71	1	17	49	12
Third-party packages	115	115	102	201	100	202

Q2 FY06/20: Production costs



INTELLIGENT WAVE INC.

Thousand yen

	FY06/19				FY06/20	
	Q1	Q2	Q3	Q4	Q1	Q2
Materials cost	7,516	5,501	5,497	4,711	13,473	15,597
Labor cost	616,769	609,232	619,518	656,916	669,478	677,925
Expenses	291,097	311,326	386,922	374,934	322,071	324,894
Subcontracting cost	816,921	768,881	624,305	604,941	636,415	679,101
Total manufacturing cost	1,732,305	1,694,941	1,636,244	1,641,504	1,641,439	1,697,518
Work in progress (beginning of period)	518,826	627,821	677,435	747,638	626,309	741,783
Work in progress (end of period)	627,821	677,435	747,638	626,309	741,783	839,812
Transfer to other accounts	117,406	91,812	69,272	111,394	166,499	136,522
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	1,462,967

Q2 FY06/20: SG&A expenses

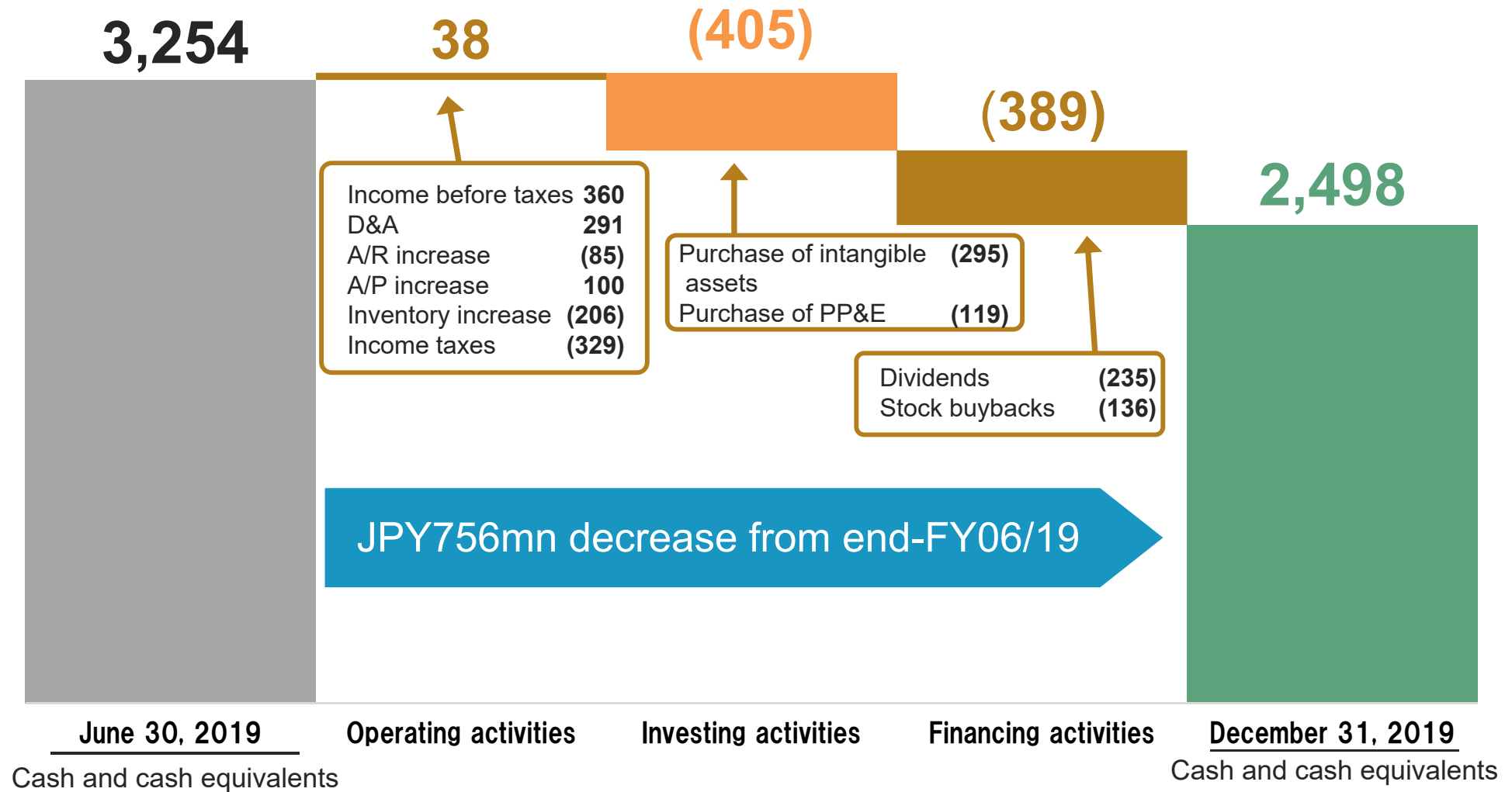
Thousand yen

	FY06/19				FY06/20	
	Q1	Q2	Q3	Q4	Q1	Q2
Salaries	278,760	282,336	313,790	289,932	302,437	294,538
Recruiting and training	8,152	7,760	12,931	20,165	13,243	18,471
Rent	16,485	18,007	18,042	26,436	21,204	17,334
Advertising	7,614	11,962	4,710	4,840	9,917	8,219
R&D	11,902	12,471	4,025	3,849	4,914	6,344
Depreciation and amortization	7,472	7,863	14,428	1,972	8,826	9,148

	1H FY06/19	1H FY06/20	Change	Million yen
SG&A expenses	928	965	37	
(Breakdown)		Salaries	35	
		Recruiting and training	16	
		Advertising	(1)	
		R&D	(13)	

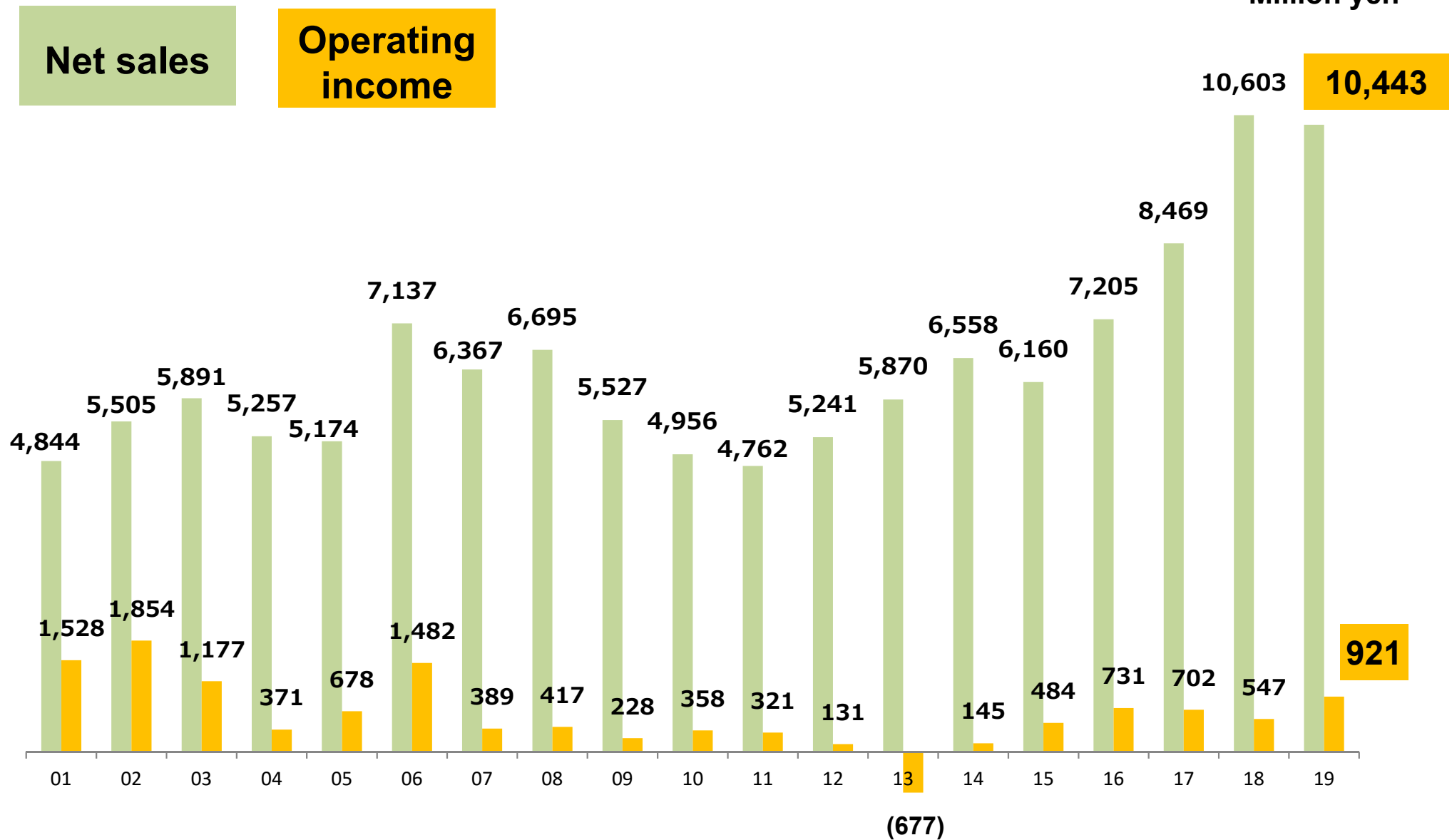
Q2 FY06/20: Cash flows

Million yen



Historical performance

Million yen



Note: Consolidated results are shown through FY06/15

Company overview



(As of December 31, 2019)

Established	December 27, 1984
Location	Kayabacho Tower, 1-21-2 Shinkawa, Chuo-ku, Tokyo
Employees	414
Parent company	Dai Nippon Printing Co., Ltd. (50.61%)
Capital stock	JPY843.75mn
Shares outstanding	26,340,000
Shareholders	12,375

Ownership (%)		% of shareholders	
Individuals, others	39.39%	Individuals, others	98.56%
Japanese financial institutions	5.08%	Japanese financial institutions	0.12%
Other Japanese corporations	51.13%	Other Japanese corporations	0.38%
Foreign corporations	2.24%	Foreign corporations	0.61%
Japanese securities firms	2.02%	Japanese securities firms	0.32%
Treasury stock	0.14%	Treasury stock	0.01%

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Intelligent Wave Inc.

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